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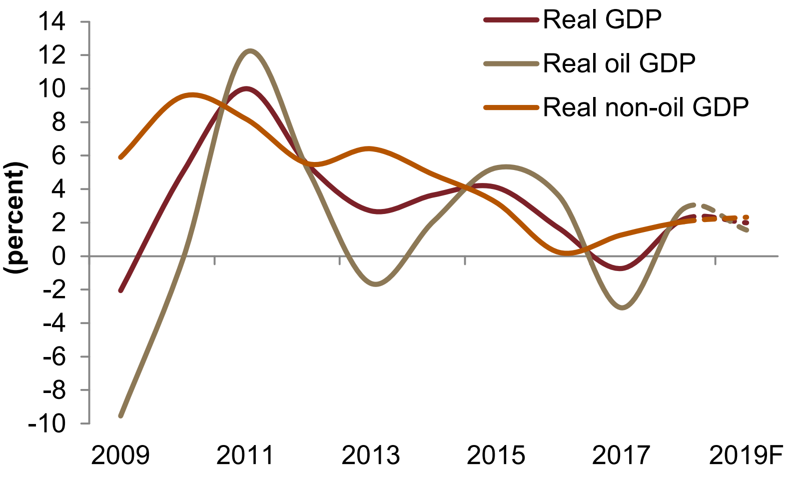
The Saudi Economy in 2019

The year ahead will be marked by a continued improvement in the health and direction of the Saudi economy. During 2019, we expect to see a 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). This effort will be aided by the largest ever budgeted expenditure, for the second successive year, of SR1.1 trillion, which not only includes a 20 percent yearly rise in capital expenditure, but also a number of targeted support measures.

Whilst economic reform is still currently under way, latest full year GDP data for 2018 shows that the economy was able to absorb most of the disruptive effects of necessary economic reform enacted last year. Looking ahead, as comparably limited major reform is scheduled to take place during 2019, this should clear the way for a pick up in momentum for the Saudi economy. Overall, whilst the oil sector's output will be partially trimmed by Saudi Arabia's commitment to the OPEC and partners (OPEC+) agreement, we do see the non-oil sector exhibiting marginally higher year-on-year growth.

According to our forecasts, Saudi Arabia's economy will grow by 2 percent in 2019, compared to 2.2 percent in 2018. The mild decline in yearly growth is entirely due to lower oil sector GDP as the Kingdom complies with the OPEC+ production agreement. That said, we still see oil sector growth being helped along by a rise in gas output and the opening of the Jazan refinery. Meanwhile, the non-oil sector will continue to benefit from an expansionary fiscal policy. Aside from a 20 percent rise in capital expenditure, a distinct set of targeted measures should help maintain some level of growth in domestic consumption. Specifically, payments under the Citizen's Account will be continued, annual allowances for public sector workers will be reinstated and there will be a rolling over of inflation allowances, as per a Royal decree. In addition, a recently approved scheme will allocate SR11.5 billion to help eligible private sector companies with expat fees. All these measures combined will

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



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During 2019, we expect to see a consolidation of the efforts in striving towards the goals of the Vision 2030 (Vision)…

...as well as the targets set under the National Transformation Program (NTP).

According to our forecasts, Saudi Arabia's economy will grow by 2 percent in 2019, compared to 2.2 percent in 2018…

...non-oil growth rise to 2.3 percent this year, up from 2.1 percent.

contribute to raising non-oil growth to 2.3 percent, up from 2.1 percent in 2018.

Within the non-oil private sector, we expect sizable contributions to growth from both the 'Finance, insurance, and business services', and 'non-oil manufacturing' sectors. Aside from rises in credit to the private sector, growth in the 'Finance, insurance, and business services' will be aided through the inclusion of the Tadawul All Share Index (TASI) into both the MSCI and FTSE EM indices. Additionally, growth will be supported through efforts to attain targets outlined under the Financial Sector Development Program (FSDP). 'Non-oil manufacturing' growth, on the other hand, will be facilitated by the recently launched National Industrial Development and Logistic Program (NIDLP). More specifically, NIDLP, which seeks to attract SR1.6 trillion ($427 billion) of investments into manufacturing, mining, energy and logistics, will see SR100 billion being spent in 2019, and 2020, in order to kick-start the program. Lastly, the combination of numerous projects signed by the King in a recent regional trip, together with notable progress in various Public Investment Fund (PIF) giga-projects, will help bring about positive growth in the construction sector for the first time in four years.

Although overall export revenue in the Kingdom is expected to decline slightly in 2019, a healthy current account surplus, at 7.9 percent of GDP, versus 9.1 percent in 2018, will be maintained. Despite this improvement, we do not expect a significant build in FX reserve during the year as sizable net outflows continue under the non-reserve financial account. Specifically, as latest available balance of payments data shows, there were outflows to tune of $39 billion in 'Other' investments in the year-to-Q3 2018. We believe this was driven, in part, by the PIF, and by other independent government entities, such as pension funds, channeling sizable investments internationally, in a bid to push towards economic diversity under the Vision. Looking ahead, we expect similar levels of outflows in the next few years, which will result in slower accumulation in FX reserves.

That said, global economic developments, especially so with regards to the US and Chinese trade dispute, plus the potential for lower oil prices, stand out as the main exogenous risks to our forecast for the Saudi economy. In addition, uncertainty still remains with respect to global financing conditions, especially in relation to market expectations of future US interest rate hikes. Lastly, on the domestic front, we see continued rises in both the expat levy and dependency fees, and the potentially negative effect to aggregate demand, as being the most prominent risk to the Saudi economy during the year.

Table 1: Global GDP growth
(percent; IMF and consensus projections)

	2017	2018E		2019F		2020F	
	IMF	IMF	Consensus	IMF	Consensus	IMF	Consensus
Global	3.8	3.7	3.3	3.5	3.0	3.6	2.9
US	2.2	2.9	2.9	2.5	2.4	1.8	1.7
UK	1.8	1.4	1.3	1.5	1.4	1.6	1.5
Canada	3.0	2.1	2.1	1.9	1.9	1.9	1.8
Euro zone	2.4	1.8	1.9	1.6	1.5	1.7	1.5
Japan	1.9	0.9	0.8	1.1	1.0	0.5	0.6
China	6.9	6.6	6.6	6.2	6.2	6.2	6.0
Russia	1.5	1.7	1.7	1.6	1.5	1.7	1.7
Brazil	1.1	1.3	1.3	2.5	2.4	2.2	2.5
India	6.7	7.3	7.3	7.5	7.3	7.7	7.3

Note: Consensus forecasts are those of FocusEconomics.

Global Economic Outlook

According to the IMF, most major advanced economies are not expected to see higher yearly growth in 2019…

...which means advanced market growth, as a whole, will slow to 2 percent in 2019…

...compared to 2.3 percent in 2018 and 2.4 percent in 2017.

Emerging market (EM) growth is also expected to decline slightly in 2019, at 4.5 percent...

...although the largest EM economy, China, will slow markedly.

In the most recent World Economic Outlook (WEO) report, the International Monetary Fund (IMF) expects US GDP growth to outstrip growth in other advanced economies. The effects of the fiscal stimulus, implemented at the beginning of 2018, are expected to push up US growth to 2.5 percent in 2019, significantly higher than 1.9 percent the WEO was forecasting a year ago. Despite this, lower expected year-on-year growth in the US in 2019 will put some pressure on global growth, pushing global GDP growth to 3.5 percent in 2019, down slightly from 3.7 percent in 2018. In fact most major advanced economies are not expected to see higher yearly growth in 2019, which means advanced market growth, as a whole, will slow to 2 percent in 2019, compared to 2.3 percent in 2018 and 2.4 percent in 2017. Emerging market (EM) growth is also expected to decline slightly in 2019, at 4.5 percent. Although the largest EM economy, China, will slow markedly, higher growth from India and a sizable improvement from Brazil, plus improving conditions for many African economies, should keep overall EM growth stable (Table 1 & Figure 2).

We expect 2019 to be a tumultuous year, as a number of economic developments have the potential to derail economic growth and add to already volatile and uneven output. Chief amongst this is the risk related to continuation of a trade dispute between two of the largest economies in the world, US and China. Whilst some positives in trade talks between the US and China have been reported recently, this has yet to be officially confirmed. A pause in mutual increases of new tariffs back in December is set to expire in March, and any resolution before then could be a boon for the global economy, whilst a continued deadlock in negotiations could have the opposite effect. Moreover, despite a recent softening in the tone in respect to interest rate hikes from the US Federal Reserve (Fed), capital flows to EMs could still face further challenging circumstances in 2019 as if global interest rates are hiked again during the year. Lastly, the Brexit saga should become more clearer during the year, with the likelihood of a ‘hard’ UK exit from the European Union (EU) increasing, all of which could have a destabilizing effect on growth for both UK and major European economies.

Figure 2: Global GDP growth
(year-on-year change)

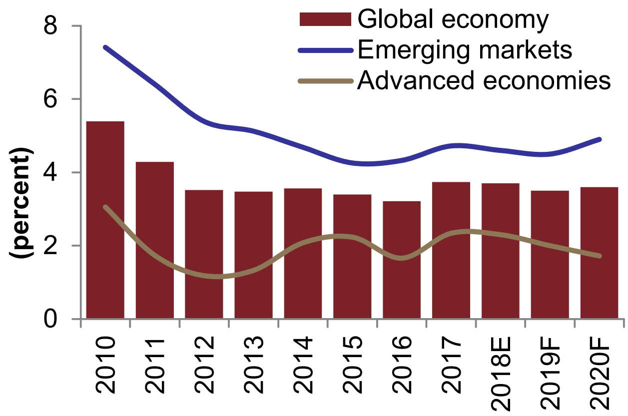
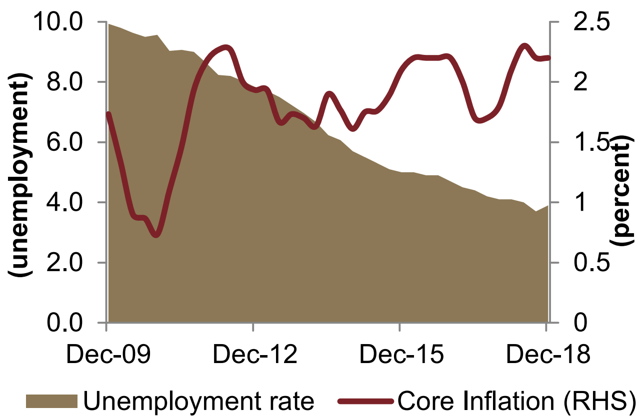


Figure 3: US unemployment and core inflation



US economy:

Overall, the US economy looks to be in good shape…

The IMF's WEO January 2019 report expects US growth to hit the highest level in almost 15 years in 2018, at 2.9 percent. According to latest available data, the US economy grew by 3.3 percent, on average, in year up until Q3 2018, with a sizable 4.2 percent rise seen in Q2 2018. Although 2019 is likely to see an easing of growth, the world's largest economy is still expected to register growth of 2.5 percent. Overall, the US economy looks to be in good shape, further evidenced by unemployment being at the lowest level in almost half a century, and inflation beginning to move in line with the US Federal Reserve's (Fed) target of 2 percent (Figure 3).

...further evidenced by unemployment being at the lowest level in almost half a century…

At the end of 2018, US unemployment stood at 3.9 percent, the lowest in almost half a century. Such unprecedented levels of unemployment have contributed to pushing up wages in recent months. In fact, the US employment cost index, which measures total cost of hiring employees, has been accelerating to levels comparable to pre-crisis times (Figure 4). As unemployment continues to fall, a tightening labor market will most likely push up labor costs even further, and as businesses seek to attract and keep employees, this will add upward pressure to employment costs. As such, inflationary pressure is expected to continue rising in the year ahead, and despite a recent softening in the Fed's tone towards further interest rate rises, the risk of further hikes still remain.

...and inflation beginning to move in line with the US Federal Reserve's (Fed) target of 2 percent

During 2018, encouraged by a tightening labor market and a strengthening economy, the US Fed increased interest rates four times. Overall, higher interest rates have raised borrowing costs for individuals and households, and pose headwinds for future growth. More specifically, Fed hikes have pushed up mortgage and auto-financing rates, leading to slower growth in housing and car sales. In 2018, domestic car sales as well as both new and existing home sales followed a downward trend (Figure 5). Concurrent to rising borrowing costs, the yearly effects of one-off boost to personal incomes, provided through last years tax cuts, will likely begin to fade in 2019, also contributing to slowing consumption growth.

That said, headwinds for US economic growth are present through the continued trade dispute between US and China.

Further headwinds for US economic growth are present through the continued trade dispute between US and China. In June 2018, the US government imposed tariffs on Chinese imports worth $34 billion, which was swiftly countered by China imposing higher duties on some US goods. A second round of US tariffs on Chinese products

Figure 4: US employment costs
(average change in index per year)

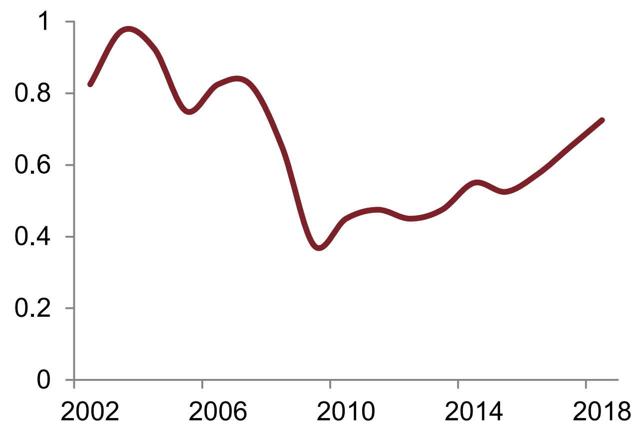
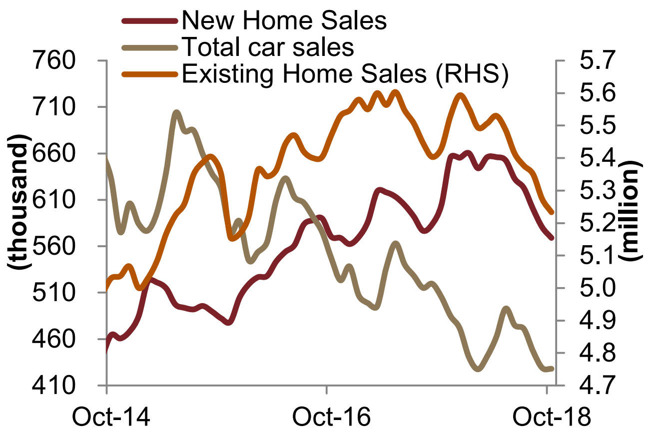


Figure 5: US new, existing home and car sales
(3 month moving average)



Whilst some positive steps in recent trade talks between the US and China have been reported…

….this has yet to be officially confirmed. The ongoing concern is that this stand-off could evolve into a much more serious trade dispute.

The IMF sees unspectacular growth in the Eurozone in 2019, as rising consumption and falling unemployment drives the region forward.

According to the IMF, in 2019, Germany will see slower growth at 1.3 percent and France will exhibit solid growth at 1.5 percent, similar to 2018 levels…

...Italy, on the other hand, is expected to register disappointing growth of 0.6 percent…

worth $16 billion came into effect in late August with most recent round of tariffs on $200 billion worth of imports from China was implemented in September. Further, the US government stated that if China retaliated to the latest round of measures, tariffs could be imposed on an additional $267 billion of imports. Since then, a pause in mutual increases in new tariffs was agreed back in December, which is set to expire in March. Whilst some positive steps in recent trade talks between the US and China have been reported, this has yet to be officially confirmed. The ongoing concern is that this stand-off could evolve into a much more serious trade dispute, which would significantly impact some sectors in the US more than others, particularly the technology sector. In fact, the current US administration holds the view that China uses a variety predatory and unfair methods to expropriate US intellectual property. As a result, the US is a considering to put export controls on a wide range of emerging technologies including artificial intelligence and robotics. If such export controls are implemented, this would undoubtedly have negative effects on a sector that directly accounts for circa 6 percent of US GDP, with further ripple effects being felt through employment and investment.

Eurozone economy:

The IMF sees unspectacular growth in the Eurozone in 2019, as rising consumption and falling unemployment drives the region forward. GDP in the Eurozone expanded by 0.4 percent in Q1 & Q2 2018 and a paltry 0.2 percent in Q3 2018 compared to growth of 0.7 percent in each of three quarters in 2017. The IMF’s most recent forecast has Eurozone growth forecasts for 2018 at 1.8 percent, down from 2 percent previously, with the organization expecting growth of 1.6 percent in 2019. When looking at country level forecasts, according to the IMF, Germany will see slower growth at 1.3 percent and France will exhibit solid growth at 1.5 percent, similar to 2018 levels. Italy, on the other hand, is expected to register disappointing growth of 0.6 percent. Meanwhile, the Spanish economy will continue to exhibit sturdy growth of above 2 percent for the fifth year in a row (Figure 6). Despite this, there are numerous challenges for the Eurozone to face up to in the year ahead. Aside from the uncertainties related to trade tensions between the US and China, the formation of a new Italian government and accompanying policy uncertainty presents a challenge to the EU, and of course there is the long shadow of Brexit looming in the background.

During 2018, thirteen consecutive quarters of positive German GDP growth ended as the economy contracted by 0.2 percent. The decline, due to new car emissions standards and a temporary effect on production, is seen as a blip, but provisional full year data indicates growth in 2018 could end up being the weakest in five years. Meanwhile, the French economy, whilst facing up to tighter fiscal spending, is expected to see mild improvement in unemployment and a lift in exports as a result of large orders in aviation and shipbuilding, although ongoing civil strife could dent growth forecasts. One of the main proponents of growth in the Spanish economy in the last few years has been domestic demand and whilst this has slowed somewhat in 2018, as result rising inflation, it is still expected to help the economy to grow of 2.7 percent during the year. Meanwhile, Italy's GDP was flat in the third quarter of 2018, and its growth has fall further behind the Eurozone. Overall, the Eurozone has seen improvement in many areas, despite

...meanwhile, the Spanish economy will continue to exhibit sturdy growth of above 2 percent for the fifth year in a row.

One of the most significant risks to the EU is still related to Brexit…

...with recent developments in the UK having increased the likelihood of hard Brexit…

...and if such a scenario transpires, this will have a destabilizing effect on both the UK and EU.

The IMF sees Japan's growth at 0.9 percent for 2018, and a rise in 2019 to 1.1 percent, compared to 1.9 percent in 2017.

the slowdown expected in 2019. For example, the main driver of growth during the 2018 had been private consumption, which has risen consistently in the last few years and now stands at record levels. This has, no doubt, been helped by more employment opportunities and raise real wages. In fact, unemployment has been declining since mid-2013, and currently stands at post-financial crisis low. Meanwhile, the European Central Bank (ECB) ended quantitative easing in December 2018, despite a slow down in EU growth. In its most recent meeting, the ECB acknowledged that whilst global economy is set to slow in 2019 and stabilize thereafter, the bank is nevertheless expecting some inflationary pressures within the EU during the year, which raises the possibility of a interest rate hike, most likely in the second half of 2019.

Despite these developments, one of the most significant risks to the EU is still related to Brexit. During 2019, the process of UK's departure from the EU should become clearer. Recent developments in the UK have increased the likelihood of hard Brexit, and if such a scenario transpires, this will have a destabilizing effect on both the UK and EU. The UK economy is already showing some weakness, with the IMF expecting full year 2018 GDP at 1.4 percent, representing the slowest level of growth since 2012. One key positive for the UK has been a consistent decline in unemployment since late 2016, although, at the same time, private fixed investment has not fared so well, and is expected to show only 0.2 percent growth in 2018, compared to an average of 4 percent between 2014-17. Looking ahead, investment growth is likely to remain subdued until there is greater clarity on the political process related to Brexit. In 2019, therefore, the IMF sees growth improving marginally, to 1.5 percent, but the Brexit process makes these forecasts subject to a high degree of risk.

Japanese economy:

The IMF sees Japan's growth at 0.9 percent for 2018, and a rise in 2019 to 1.1 percent, compared to 1.9 percent in 2017. Whilst economic growth was around 1.2 and 1.4 percent in Q1 & Q2 2018, the Japanese economy suffered under strong typhoons and a powerful earthquake, which pushed growth to zero in the third quarter. Looking into 2019, the main risks are; one, a decline in private consumption as a hike in Value Added Tax (VAT) is implemented in October, and, two, potentially higher trade

Figure 6: EU GDP growth rates

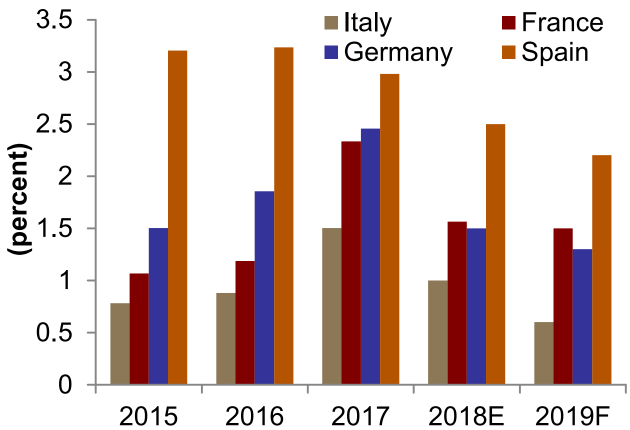
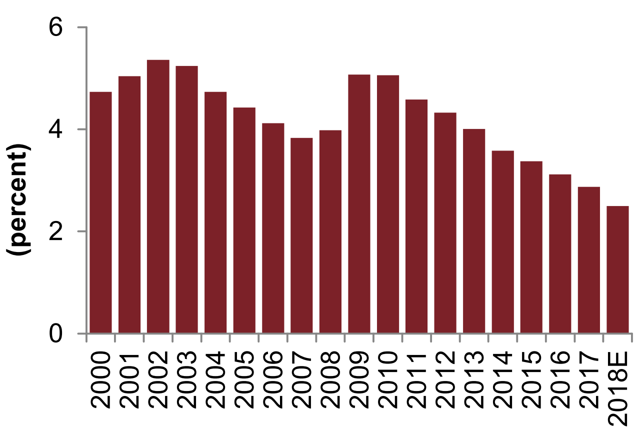


Figure 7: Japanese unemployment



Meanwhile, the lack of wage growth has prevented a rise to the Bank of Japan's (BoJ's) projected 2 percent inflation target…

...which will ensure the BoJ continues with its quantitative easing program in the year ahead.

Latest IMF forecasts show a slight decline in the rate of EM growth in 2019, to 4.5 percent…

….slightly lower than expected growth rate of 4.6 percent in 2018.

Whilst growth in the largest EM economy, China, is expected to decline to 6.2 percent versus 6.6 percent in 2018...

protectionism resulting in lower Japanese exports. On the positive side, unemployment is expected to continue declining as construction works related to the 2020 Tokyo Olympics continues throughout the year. That said, and going against conventional economic theory, a decline in unemployment rates have not brought about a rise in wages (Figure 7). This is due partly to a culture of 'lifetime employment', which encourages companies to ignore short-term cyclical trends and bases wages of full-time workers on long-term growth. As a result, whilst inflation has picked up mildly in recent months, the lack of wage growth has prevented a rise to the Bank of Japan's (BoJ's) projected 2 percent inflation target, which will ensure the BoJ continues with its quantitative easing program in the year ahead.

Emerging markets:

Latest IMF forecasts show a slight decline in the rate of EM growth in 2019, to 4.5 percent, slightly lower than expected growth rate of 4.6 percent in 2018. Whilst growth in the largest EM economy, China, is expected to decline to 6.2 percent versus 6.6 percent in 2018, India, Sub-Saharan Africa and, most notably, Brazil will see higher growth during the year. Although this represents a solid level of growth for EMs, a number of risks do remain, chief amongst these being a continuation of a trade dispute between US and China. So far, the fallout has been apparent but not alarming, but any deterioration will inevitably have negative effects on global growth and the lingering fear is that this spat could continue to evolve into a more frenzied tit for tat trade dispute.

EM debt levels:

Total debt of 30 EM countries rose to $71 trillion across all sectors by mid-2018, equivalent of 212 percent of GDP for all 30 countries. In fact, debt had risen by more than three times compared to 2008's $23 trillion total. Despite the recent rise in level of global interest rates, debt accumulation in EMs has accelerated in the last few years. In fact, EM debt has increased by $17.8 trillion in the two and half year period since the US Fed began raising rates in December 2015. In comparison, EM debt increased by $8.1 billion in the two and half year period prior to December 2015. Whilst China makes up a large amount of non-financial corporate sector debt on an absolute level, Turkey, Philippines and Egypt have seen the largest rises in

Figure 8: Selected EM debt by economic sector
(percentage points, change since end-2015)

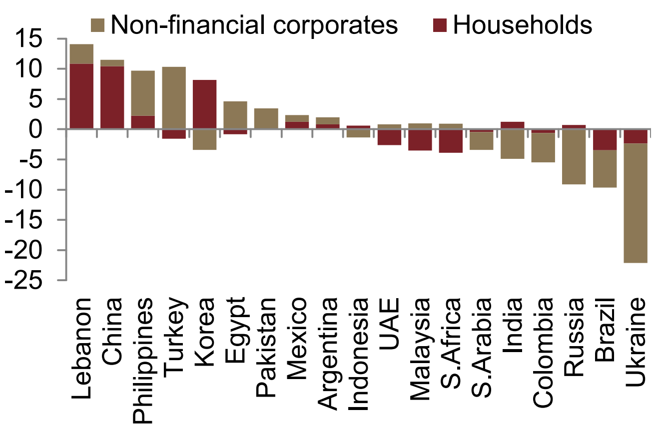
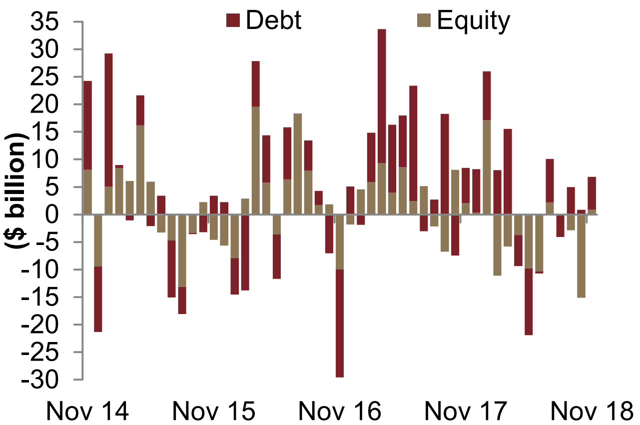


Figure 9: EM capital flows



...India, Sub-Saharan Africa and, most notably, Brazil will see higher growth during the year.

Despite the recent rise in level of global interest rates, debt accumulation in EMs has accelerated in the last few years...

...and any rise in global interest would add to financing costs for both EM households and corporates.

The IMF sees growth in China slowing to 6.6 percent in 2018, compared to 6.9 percent in 2017.

Lower year-on-year growth in 2018 is expected to be driven by the effects of the ongoing trade dispute with the US...

percentage terms since 2015, whilst the rise in household debt ratios have been the sharpest in China, Lebanon and Korea (Figure 8).

Whilst the Fed took a softer tone towards future interest rate hikes in its most recent meeting, the risk of additional hikes still remains, which, if implemented, would add to financing costs for both EM households and corporates. More specifically, higher US interest rates could make debt, especially dollar denominated debt, more difficult to service, with such increased costs putting more pressure on corporates, with knock-on effects on both local debt and equity markets. Additionally, higher US interest rates would also push US Treasury yields back up to recent highs, which, in turn, could result in more outflow of capital from EMs and into the US. During 2018, the yields on US Treasury securities rose to a three year high, as expectations over inflation picked up after the passing of the US tax bill. At one point during last year, the yield on 10-year US Treasury bills moved above 3 percent, before retreating to around 2.6 percent at the end of the year. Also during 2018, EMs (excluding China) saw $8.8 billion in both equity and debt outflow (Figure 9). Thus, in this context, higher US interest rates would necessitate equally higher levels of interest rates by EMs countries too, so to prevent further sizable capital outflows.

<u>China's slowing growth:</u>

The IMF sees growth in China slowing to 6.6 percent in 2018, compared to 6.9 percent in 2017. Lower year-on-year growth in 2018 is expected to be driven by the effects of the ongoing trade dispute with the US. In fact, recent survey results of China's manufacturing sector show factory activity contracting after 19 months of expansion. In January 2019, China's Manufacturing Purchasing Managers' index (PMI), contracted for the second consecutive month to 48.3, down from 49.4 in December (Figure 10). That said, even prior to the trade dispute, the Chinese economy had been showing some signs of weakness as efforts were made to cut out excessive lending by the informal banking sector. Slower consumption has been particularly apparent in the sale of automobiles, which have exhibited a consistent decline in yearly sales since at least mid-2018 (Figure 11).

For 2019, the IMF projects lower growth at 6.2 percent and, according to the organization, this reflects the diminishing effects of China's credit and fiscal growth. That said, the continued effects of the stand-off with US, if left unresolved, could actually see the

Figure 10: China's Manufacturing Purchasing Managers' index (PMI)

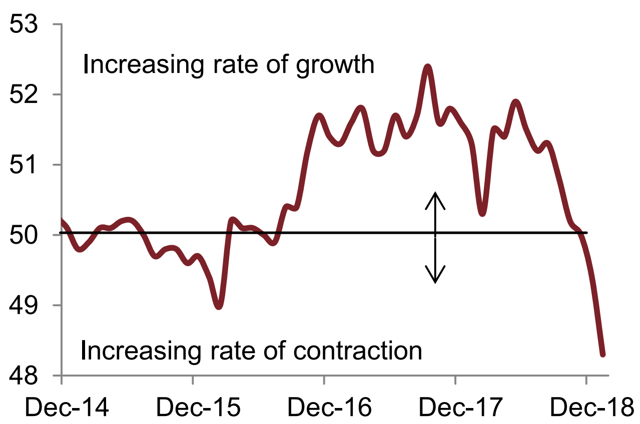
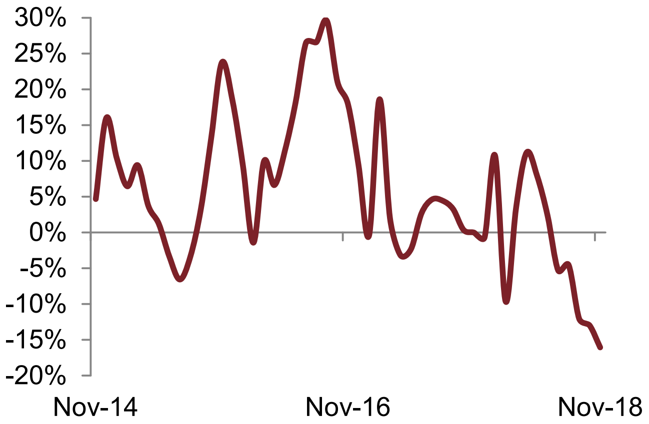


Figure 11: Chinese domestic passenger car sales (yearly change)



In fact, recent survey results of China's manufacturing sector show factory activity contracting after 19 months of expansion.

implementation of some short-to-medium term fiscal stimulus measures in order to stem any deeper slowdown in the economy. In particular, a reduction in both the corporate tax rate as well as VAT combined with infrastructure investment is possible, which would represent an about-turn in current policy related to reducing debt and risky lending *(for more on this please refer to the our Saudi Economy in 2018 report published February 2018).*

The Oil Market in 2019

Solid global oil demand growth and the re-imposition of US sanctions on Iranian oil, helped push up prices during 2018. In fact, full year Brent oil prices averaged $71 per barrel (pb) last year, in-line with our forecasts, and 31 percent higher year-on-year (Figure 12). More recently, after Brent dipped to around $50 pb in December 2018, hopes of some progress over the US-China trade dispute and another agreement between OPEC and partners (OPEC+) has helped push prices to around $60 pb.

According to the latest OPEC monthly report, global oil demand will grow by 1.29 million barrels per day (mbpd) in 2019…

According to the latest OPEC monthly report, global oil demand will grow by 1.29 million barrels per day (mbpd) in 2019, down 14 percent, or 21 thousand barrels per day (tbpd) compared to 2018, and the lowest rate of growth since 2013 (Figure 13). Lower demand is attributable to weaker yearly growth from China, as a result of a slowing economy. Overall, OPEC expects US, China and India to be the main contributors to yearly oil demand growth during 2019, at a combined 59 percent.

...the lowest rate of growth since 2013.

Lower demand is attributable to weaker yearly growth from China, as a result of a slowing economy.

Latest data from the Energy Information Administration (EIA) shows that overall US liquid consumption is expected to rise by 2 percent year-on-year in 2019. Meanwhile, Chinese oil demand is expected to slow marginally to around 2.7 percent in 2019, slightly lower than growth in 2018 as a whole, at 3.2 percent, and will be driven by demand from industrial sectors. Indian oil imports rose by a sizable 7 percent in 2018 as a whole and OPEC expects overall oil consumption to rise by 4 percent year-on-year in 2019, lifted by higher refined product consumption, especially by increased residential consumption of LPGs.

Overall, OPEC expects US, China and India to be the main contributors to yearly oil demand growth during 2019, at a combined 59 percent.

Meanwhile, latest EIA monthly report shows that US oil supply has been accelerating in recent months, with production averaging around 11.7 mbpd in Q4 2018, up 18 percent year-on-year. It comes

Figure 12: Yearly Brent oil price average

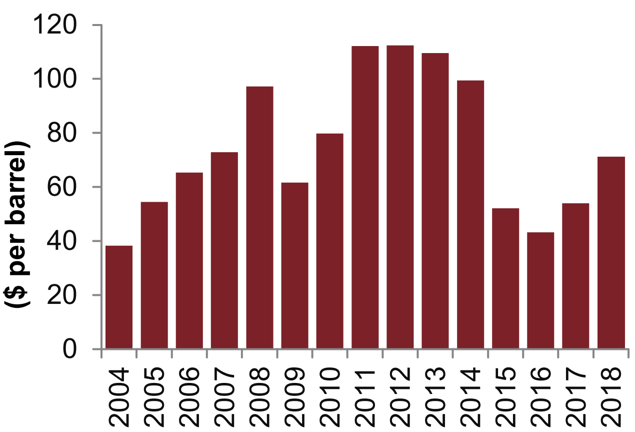
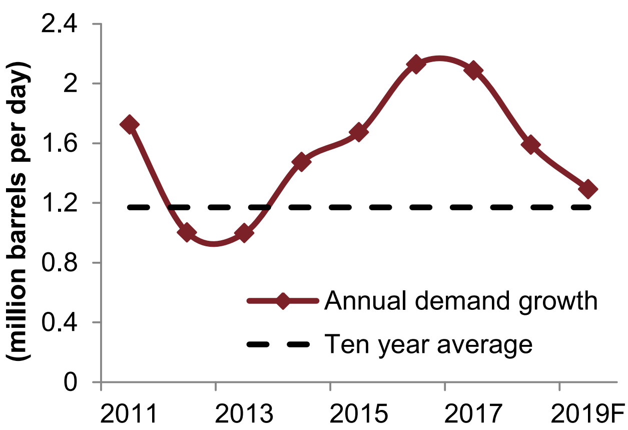


Figure 13: Global oil demand growth



On the supply-side, the EIA expects total US oil output to rise by 1.1 mbpd or, 10 percent, year-on-year, to 12 mbpd.

as no surprise that unconventional (or shale oil) has been behind the rise in US crude oil production. In fact, the Permian shale oil play has contributed 55 percent of growth in total US oil output alone in 2018. Looking into 2019 as a whole, the EIA expects total US oil output to rise by 1.1 mbpd or, 10 percent, year-on-year, to 12 mbpd, with Permian expected to constitute an even larger portion of this growth, at around 70 percent.

That said, OPEC and its partners (OPEC+) recently agreed to reduce oil production by 1.2 mbpd compared to October 2018 levels.

OPEC and its partners (OPEC+) recently agreed to reduce oil production by 1.2 mbpd compared to October 2018 levels, for an initial period of six months, commencing January 2019. Of this total, OPEC agreed to lower output by 800 tbpd, with Iran, Venezuela and Libya exempt from any reductions. Meanwhile, non-OPEC partners agreed to reduce by a total of 400 tbpd, with Russia making up 57 percent, or 228 tbpd, of this decline. Latest OPEC data shows that whilst Q4 2018 oil output was flat quarter-on-quarter, there was a sizable decline in output in December, by 750 tbpd month-on-month. Russia, on the other hand, saw crude oil production hit post soviet highs in Q4 2018, but the Russian oil minister did state that oil production would decrease by 50 tbpd month-on-month in January 2019. That said, there is doubt over Russia's ability to achieve reductions over the next six months, given publicly stated growth ambitions of the privately-owned oil companies.

Assuming OPEC+ countries revert to their October 2018 production levels after the current deal expires in June…

...global oil surpluses would balloon to an average of 1.5 mbpd in H2 2019, compared to mild surplus of 500 tbpd in H1.

Holding all other factors constant, and assuming OPEC+ countries revert to their October 2018 production levels after the current deal expires in June, global oil surpluses would balloon to an average of 1.5 mbpd in H2 2019, compared to mild surplus of 500 tbpd in H1 (Figure 14). That said, with the US recently signaling there will be no further waivers for countries importing oil from Iran, after the waivers expire in May, this could tighten markets by Q2 2019. By the end of last year, China and India remained the only major buyers of Iranian oil, resulting in exports dropping circa 1 mbpd year-on-year, to 800 tbpd (Figure 15). Once the waivers expire, and if Iranian oil imports are reduced to zero, as per US's intentions, OPEC would not technically need to roll-over the agreement into H2 2019.

Overall, we expect markets to remain fairly balanced due to a combination of waivers expiring for importers of Iranian oil…

Looking at the oil market as a whole in 2019, we expect a gradual lift in prices in the months ahead as OPEC data confirms compliance to the agreement and OECD oil stocks begin fall to lower than the five year average. Later in the year, we expect markets to remain fairly balanced due to a combination of waivers expiring for importers of

Figure 14: Large global oil surplus in H2 2019 if OPEC+ agreement is not rolled over

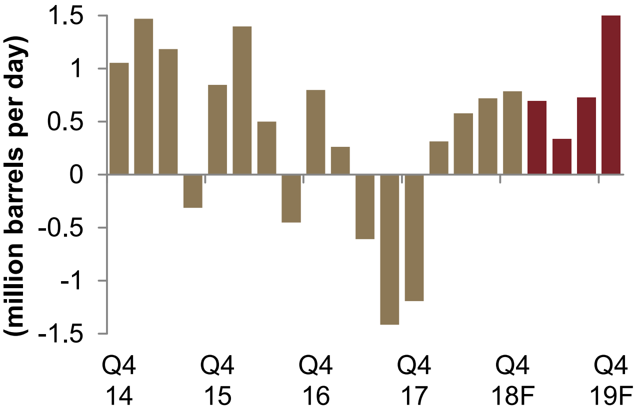
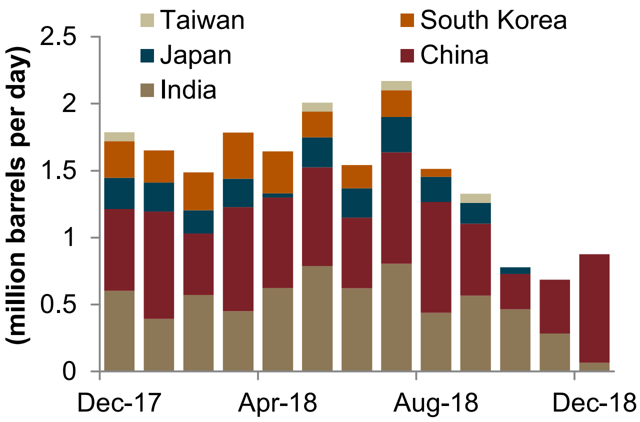


Figure 15: Many countries have reduced Iranian oil imports to zero



...and because of a roll-over of the OPEC+ agreement into H2 2019. All in all, we see Brent oil prices averaging $66 pb for 2019.

Iranian oil, and because of a roll-over of the OPEC+ agreement into H2 2019. All in all, we see Brent oil prices averaging $66 pb for 2019.

Saudi Economic Growth

According to GaStat, the Saudi economy grew by 2.2 percent in 2018 compared to a contraction of 0.7 percent in 2017.

According to provisional full year data published by the General Authority for Statistics (GaStat), the Saudi economy grew by 2.2 percent in 2018 compared to a contraction of 0.7 percent year-on-year in 2017. As we expected in our macroeconomic update, GDP was lifted by both the oil and non-oil sector. Saudi Arabia's higher oil output, especially in the latter half of the last year, resulted in oil sector GDP rising by 2.8 percent in 2018 as Saudi oil production rose 3.7 percent year-on-year, to an average of 10.3 mbpd in 2018, in-line with our forecasts (Table 2).

Saudi Arabia's higher oil output, especially in the latter half of the last year, resulted in oil sector GDP rising by 2.8 percent in 2018.

Table 2: Real GDP shares and growth rates

	2018 % Share of: Total GDP	Non-oil GDP	2017	2018E	2019F
			% year-on-year		
Overall GDP	**100**		**-0.7**	**2.2**	**2.0**
of which:					
Oil sector	43.5		-3.1	2.8	1.6
Non-oil sector	56.5	100	1.3	2.1	2.3
of which:					
Non-oil government sector		30.0	0.7	2.8	3.0
Non-oil private sector		70.0	1.5	1.7	2.0
Non-oil GDP by kind of activity		**100**			
Agriculture		4.1	0.5	0.5	1.0
Non-oil mining		0.7	4.4	2.7	4.5
Non-oil manufacturing		15.2	1.0	4.0	3.5
Electricity, gas and water		2.4	1.3	1.4	1.7
Construction		7.7	-3.3	-3.1	0.7
Wholesale & retail trade		15.7	0.6	0.8	0.2
Transport & communication		10.5	2.2	1.7	2.5
Ownership of dwellings		9.4	5.7	2.2	2.7
Finance, insurance, & bus.		6.7	4.9	3.8	3.7
Community & social services		3.5	1.4	3.4	2.0
Producers of government services		24.4	0.3	3.0	3.0

On the non-oil side, growth climbed to 2.1 percent during 2018…

Meanwhile, non-oil sector growth climbed to 2.1 percent during 2018, with this improved level of growth being achieved despite rising costs related to expat levies, higher commercial electricity prices, and the introduction of VAT. We see the combination of a 12 percent year-on-year rise in capital expenditure, in addition to capital injections worth SR133 billion through the Public Investment Fund (PIF) and the National Development Fund (NDF) plus support through the private sector stimulus, having helped boost growth.

...with this improved level of growth being achieved despite rising costs related to expat levies, higher commercial electricity prices, and the introduction of VAT.

On a sectorial basis, the 'mining', 'finance' and 'transportation' sectors were the stand out performers (see below), with only the construction sector exhibiting negative yearly growth. It is worth noting that non-oil government GDP, which makes up 17 percent of overall GDP, saw the highest level of growth since 2014, at 2.8 percent.

Looking ahead, the non-oil sector will continue to benefit from an

Looking ahead, the non-oil sector will continue to benefit from an expansionary fiscal policy…

expansionary fiscal policy, with budgeted government spending set to hit record highs for a second successive year (See Fiscal Policy section), which should help maintain some level of growth in domestic consumption. Specifically, aside from the decision to continue payments under the Citizen's Account, the decision to reinstate annual allowances for public sector workers, whilst a recent Royal decree stated a roll over of inflation allowances for another year, are all indicative of the level of support offered by government.

...with budgeted government spending set to hit record highs for a second successive year…

That said, we expect a rise in both the expat levy and dependency fees in 2019 providing some headwind to the economy. Also, as ever, global economic and regional political developments plus the potential for lower oil prices, continue to be the main exogenous risks. In addition, uncertainty still remains in relation to global financing conditions, especially in relation to market expectations of future US interest rate hikes.

...which should help maintain some level of growth in domestic consumption.

Taking the above into consideration, we see government expenditure in 2019, with a 20 percent budgeted yearly rise in the more growth enhancing capital expenditure and abovementioned supportive measures, as being sufficient to maintain growth in the non-oil sector. Overall, 2019 will likely see a consolidation of efforts to push towards the goals of the Vision 2030 (Vision) as well as the targets set under the National Transformation Program (NTP). Whilst reform is still under way, the economy has absorbed most of the effects from major economic measures enacted in recent years, such as VAT and energy price reform, and comparably major reforms are not scheduled to take place during 2019. As such we expect the non-oil sector to grow by 2.3 percent in 2019. More specifically, we expect the pick-up in non-oil private growth to continue into this year, with growth of around 2 percent during the year. Meanwhile, we expect non-oil government sector GDP to rise to 3 percent (Figure 18).

Overall we expect the non-oil sector to grow by 2.3 percent in 2019.

More specifically, we expect the non-oil private growth to rise to around 2 percent during the year.

Oil sector:

The largest sector in the economy, the oil sector, which accounted for 44 percent of GDP in real terms at the end of 2018 (Table 2), is forecasted to grow by 1.6 percent, resulting in overall GDP growth of 2 percent in 2019 (Figure 19). Whilst we expect Saudi crude oil production to remain unchanged on a yearly basis in 2019, partly as a result of compliance to OPEC+ agreement (see Box 1), oil GDP will be boosted by a rise in gas output and the opening of the Jazan

The largest sector in the economy, the oil sector is forecasted to grow by 1.6 percent…

Figure 16: Yearly change in Saudi crude oil production and oil GDP

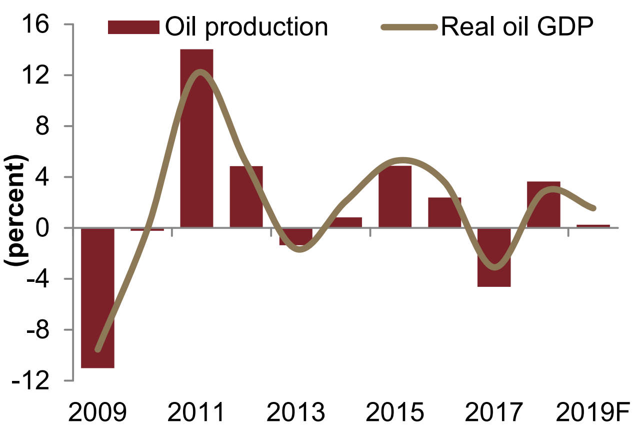
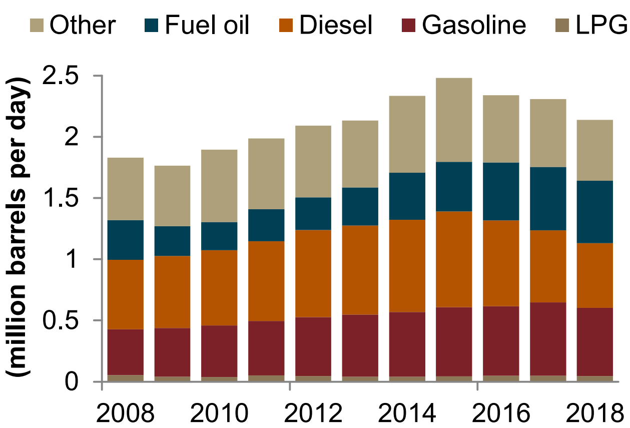


Figure 17: Saudi domestic oil and refined product demand*



*2018: year-to-November average

...resulting in overall GDP growth of 2 percent in 2019.

refinery. We had previously expected the refinery to partially start operations in 2018, but it now seems the startup of the 400 tbpd refinery will take place over the course of 2019. 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 in 2019 as a result of the start up of the Jazan refinery. In addition, we see the start-up of the Fadhili gas complex during 2019 contributing to oil sector growth as well.

Whilst we expect Saudi crude oil production to remain unchanged on a yearly basis in 2019…

Box 1. Saudi Crude Oil Production

OPEC and its partners (OPEC+) recently agreed to reduce oil production by 1.2 million barrels per day compared to October 2018 levels, for an initial period of six months, commencing January 2019. Of this total, OPEC agreed to lower output by 800 thousand barrels per day (tbpd), with Iran, Venezuela and Libya exempt from any reductions. Meanwhile, non-OPEC partners agreed to reduce by a total of 400 tbpd, with Russia making up 57 percent, or 228 tbpd, of this decline.

….partly as a result of compliance to OPEC+ agreement…

Saudi crude oil production totaled 10.6 mbpd in October 2018, meaning compliance to OPEC+ agreement would see oil output decline to 10.3 mbpd in the first half of 2019. Besides the OPEC+ agreement, two other factors will help keep production levels at 10.3 mbpd throughout 2019 (Figure 16). Firstly, latest available data shows that Saudi domestic oil and refined products consumption is expected to decline by around 8 percent year-on-year, or 185 tbpd, in 2018 (Figure 17). This decline is directly a result of energy price reform implemented at the start of last year, and frees up more oil for export going forward (*for more on this please see our Outlook on Crude Oil Refining report published March 2018*). Secondly, whilst domestic consumption is expected to rise in 2019, as a result of higher refinery intake related to the start up of the Jazan mega refinery (*for more on this please refer to our macroeconomic update published November 2018*), the rise should be mitigated by higher gas output. Specifically, the Fadhili gas complex, which will process 2.5 billion cubic feet per day (bcf/d) of raw gas from onshore and offshore fields, is expected to come on-line during 2019. Since most Saudi petrochemical companies' gas allocations have already been finalized, we believe the additional gas from Fadhili will be used in generating electricity, hence freeing up even more oil.

….oil GDP will be boosted by a rise in gas output and the opening of the Jazan refinery.

Figure 18: Contribution to non-oil GDP growth

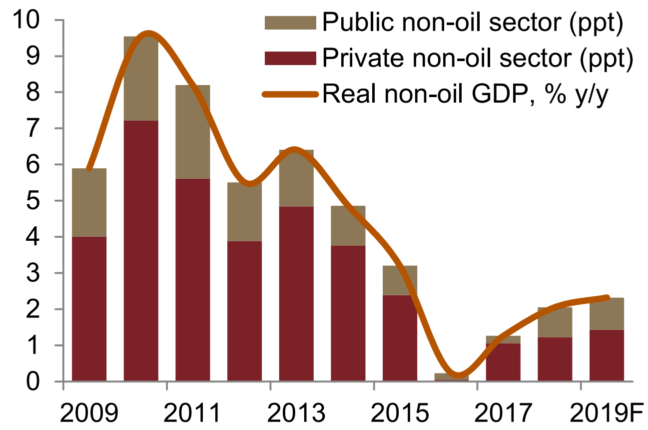
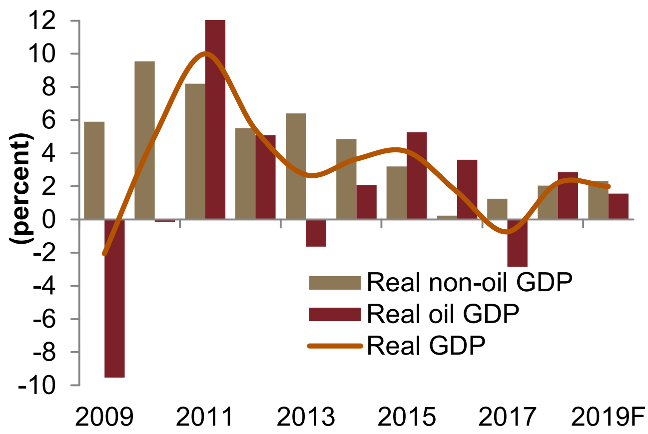


Figure 19: Contribution to overall GDP growth



Wholesale and retail sector recorded growth of 0.8 percent in 2018.

The improved level of growth in 2018 was achieved despite the introduction of VAT and rising costs related to expat levies.

Looking ahead, as both the expat levy and dependency fees are raised in 2019…

….we expect to see higher wage earners, and their dependents, leaving the Kingdom…

...which will not only hurt consumer staples, but will be more acutely felt in consumer discretionary spending as well.

That said, the decline in consumer spending will be mitigated by a number of supportive measures taken by government…

Wholesale and retail sector (16 percent of non-oil GDP) recorded growth of 0.8 percent in 2018, slightly better than the 0.6 percent registered in 2017. The improved level of growth in 2018 was achieved despite the introduction of VAT and rising costs related to expat levies. Latest GaSat figures show that 1.4 million expats workers have left the Kingdom in the 21 months to Q3 2018 (Figure 20), which will have negatively impacted consumption during the last year. That said, General Organization for Social Insurance (GOSI) data shows that the expat departures, to date, have been concentrated amongst lower-paid workers (earning SR1500 or less a month), which is more likely to have affected spending on consumer staples (such as food, beverages, tobacco and household item).

Looking ahead, as both the expat levy and dependency fees are raised in 2019, as outlined by the Fiscal Balance Program (FBP), we expect to see higher wage earners, and their dependents, leaving the Kingdom, which will not only hurt consumer staples, but will be more acutely felt in consumer discretionary (non-essential) spending as well. That said, the decline in consumer spending will be mitigated by a number of supportive measures taken by government. Aside from continued efforts in Saudization (See Box 5), payments under the Citizen's Account, the reinstatement of annual allowances and rolling over of inflation allowances for public sector workers, should all help lift disposable income of Saudi households.

Another positive development for the sector has been the continued decline in commercial property prices, which, according to the latest real estate pricing index published by GaStat, were down by 5 percent year-on-year in Q4 2018 (Figure 21). Lower real estate prices will help lower rental costs, which is likely to be a key consideration in the expansion plans of retailers, especially so for operators of cinemas. Since the re-launching of cinemas in the Kingdom last year, a number of operators have announced major expansion plans over the next few years *(for more on this please refer to our report on Tourism and Entertainment, published in April 2018),* which should have positive spillovers effects on the entertainment sub sectors, as well as advertising and food retail sub sectors.

Lastly, the entertainment sector will also be lifted by an ambitious program of events planned during the year ahead, as outlined by General Entertainment Authority (GEA). According to Saudi Arabian General Investment Authority (SAGIA), the sector saw around 500

Figure 20: 1.4 m foreigners have left the Saudi labor market since the start of 2017

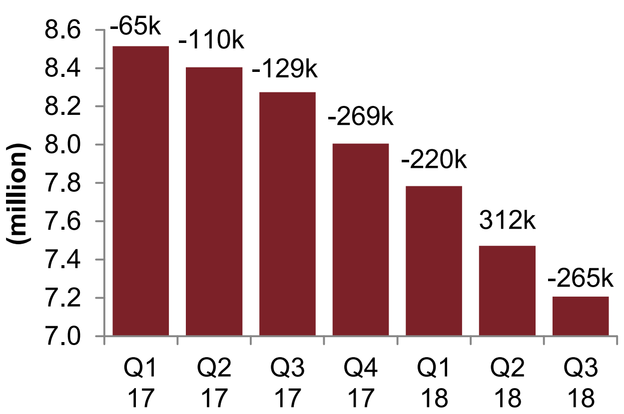
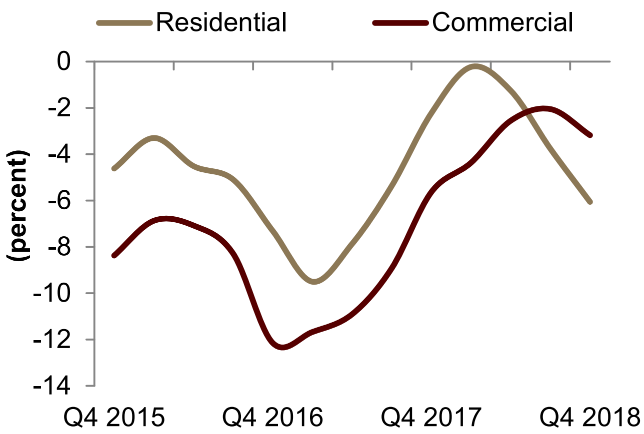


Figure 21: Real estate price index



...including payments under the Citizen's Account, the reinstatement of annual allowances and rolling over of inflation allowances.

new entertainment companies, with entertainment events having served more than 19 million customers around the Kingdom last year. In 2019, the GEA has negotiated long-term contracts with more than 100 local and international partners to roll-out a roster of concerts, theater shows and Islamic competitions in order to significantly raise the level of entertainment and leisure activities available in the Kingdom.

Non-oil manufacturing saw growth of 4 percent in 2018 as several major projects entered the operational phase during the year.

Non-oil manufacturing (15.2 percent of non-oil GDP) saw growth of 4 percent in 2018 as several major manufacturing projects entered the operational phase during the year. This included the Petro Rabigh II petrochemical complex, and two major acrylates plants in Jubail. Additionally, the $20 billion Jubail-based Sadara Chemical Company, which was fully commissioned in August 2017, will have also boosted growth.

For 2019, we see the recently launched National Industrial Development and Logistic Program (NIDLP) being the main driver of growth.

For 2019, we see the recently launched National Industrial Development and Logistic Program (NIDLP) being the main driver of growth in non-oil manufacturing (Figure 22, Box 2). More specifically, the NIDLP will see SR100 billion being spent in 2019, and 2020, in order to kick-start the program. Included within the NDILP is a series of enablement packages that will be launched during the year. Thus, the Financial Enablement Package will, amongst other things, support project financing up to 75 percent of the capital invested, whilst part of the Export Enablement Package will provide interim financing solutions via the Saudi Arabia Export-Import (EXIM) bank. Additionally, the Saudi Authorized Economic Operator (Saudi AEO) program will be rolled-out to simplify and speed-up border processing for larger importers. All-in-all we see these measures vastly improving the outlook of the non-oil manufacturing sector, not only 2019, but for many years after.

More specifically, the NIDLP will see SR100 billion being spent in 2019, and 2020, in order to kick-start the program.

Box 2. National Industrial Dev. and Logistics Program

The Ministry of Energy, Industry and Mineral Resources (MEIM recently unveiled the NIDLP, which is one of the largest Vision Realization Programs (VRP) in terms of scale and ambition, so far. The program seeks to attract SR1.6 trillion ($427 billion) in investments into the Kingdom by 2030 through four main sectors: manufacturing, mining, energy and logistics. The NIDLP outlines more than 300 initiatives which are expected to contribute SR1.2 trillion to GDP by 2030, by raising the combined share of the above

Figure 22: Sectors under the National Industrial Development and Logistics Program (NIDLP)

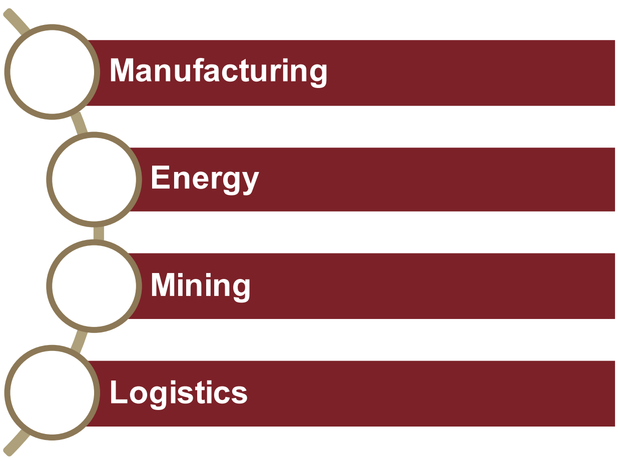
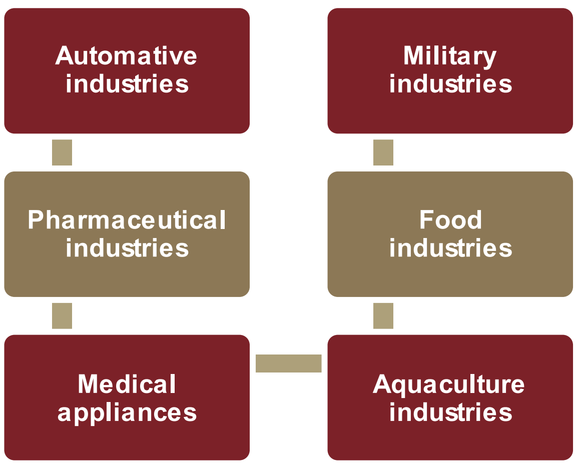


Figure 23: NIDLP's main manufacturing industries



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Thus, the Financial Enablement Package will, amongst other things, support project financing up to 75 percent of the capital invested…

….whilst part of the Export Enablement Package will provide interim financing solutions via the Saudi Arabia Export-Import (EXIM) bank.

The transport and communication sector grew by 1.7 percent as…

...the high-speed Haramain train connecting Makkah, Madinah and Jeddah was inaugurated…

four sectors from 17 percent of GDP in 2016 to around 33 percent in 2030, versus 10 percent back in 1990.

Within manufacturing, the NIDLP's focus is mainly towards a number of industries that provide comparative advantages and create jobs for locals, such as automotive industries, military industries, pharmaceuticals, food and beverages, medical appliances and aquaculture (Figure 23). Meanwhile, the mining sector is expected to make up the third pillar of the Saudi economy, alongside oil and petrochemicals, with aspirations of tripling the sector's GDP contribution to SR300 billion by 2030.

Moreover, the NIDLP aims to transform the Kingdom into a competitive global logistics hub through developing the required infrastructure and transport networks, and raising the logistics sector contribution to GDP to SR200 billion by 2030. The program has a target to place the Kingdom into the top 25 ranking in the World Bank's Logistics Performance Report, up from its current ranking of 55th in 2018.

The NIDLP seeks to diversify the energy sector by raising the share of renewable energy for generating electricity through numerous projects across the Kingdom. Additionally, the program seeks to promote numerous future technologies that could raise productivity and reduce operational costs.

Lastly, as is the case with other Vision programs, the NIDLP is seen as contributing significantly in the creation of 1.6 million jobs, in total, in the local market by 2030.

That said, the main risks facing the sector in 2019 relate to the scheduled rise in expat levies, which will raise the cost of expat labor, and hence the final unit cost. This is especially critical for the manufacturing sector since it currently exhibits low levels of Saudization, at around 22 percent.

The **transport and communication (10.5 percent of non-oil GDP)** sector grew by 1.7 percent as a number of new projects came online during 2018. Aside from the Ministry of Transport (MoT) opening 823 km of new roads during 2018, the high-speed Haramain train connecting Makkah, Madinah and Jeddah was inaugurated in September 2018, whilst phase one of Jeddah's King Abdul Aziz

Figure 24: Hajj statistics

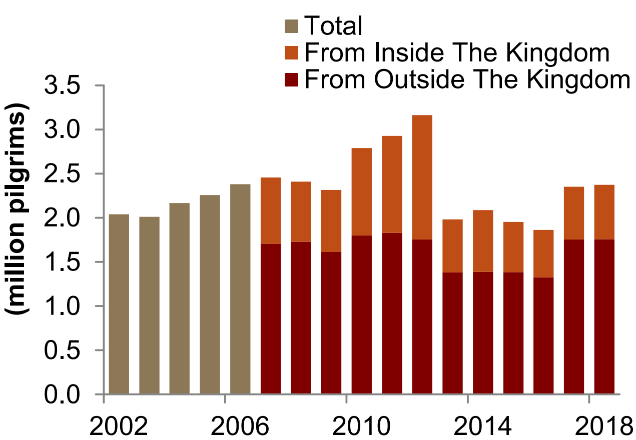
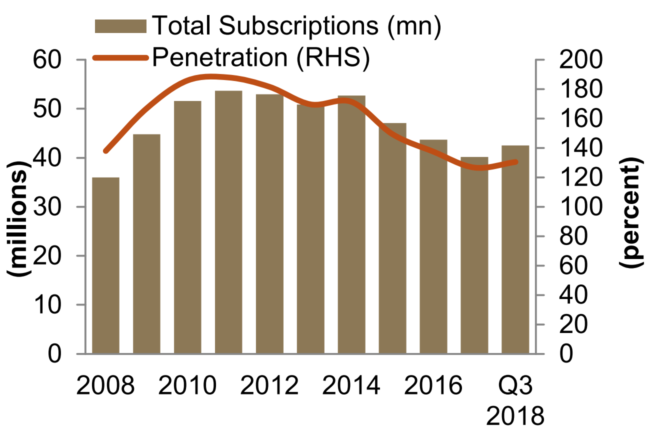


Figure 25: Mobile service subscriptions



...whilst phase one of Jeddah's King Abdul Aziz International Airport expansion was also completed.

International Airport expansion was also completed. In fact, the expansion in the airport helped raised the total number of Hajj pilgrims in 1439H (2018) to 2.37 million, up by 0.8 percent year-on-year (Figure 24).

For 2019, we see a number of projects coming on-line that will raise growth…

...as work the King Salman International Complex for Maritime Industries and Services is set to continue.

For 2019, we see a number of projects coming on-line that will raise growth. Work on the King Salman International Complex for Maritime Industries and Services is set to continue, with parts of the complex opening in stages until 2022 *(for more on this please refer to the our Saudi Economy in 2018*). We also expect to see the full year effects from the Haramain train adding to growth, especially as the service is expanded during the year. Whilst total pilgrims from outside the Kingdom reached 1.76 million pilgrims during Hajj 2018, we expect sizable growth in this respect, especially due to the start-up of the Haramain train and the expansion in Jeddah's airport capacity.

Telecoms are expected to continue add to growth too, especially as fifth generation (5G) network is rolled out by mid-2019.

Telecoms are expected to continue benefiting from growth in overall number of subscriptions, especially in mobile data usage, as the Communications and Information Technology Commission (CITC) commercially launches the fifth generation (5G) network by mid-2019 (Figure 25). Once rolled out, the Kingdom will be one of the first countries in the world to see such technology, with 5G commercial operations not expected to be launched on a global scale until 2020.

Growth in real estate activities saw 2.2 percent growth in 2018, lifted by the Ministry of Housing's (MoH) 'Sakani' program.

Growth in **real estate activities (9.4 percent of non-oil GDP)** saw 2.2 percent growth in 2018, lifted by the Ministry of Housing's (MoH) 'Sakani' program. The program, which aims to provide a number of varied housing products on a monthly basis to citizens, delivered a total of 313 thousand units during 2018, with the program having provided 583 thousand units since its inception back in February 2017 (Figure 26).

For 2019, the MoH has announced a list of 200 thousand citizens eligible for 'Sakani' housing units during the year…

For 2019, the MoH has announced a list of 200 thousand citizens eligible for 'Sakani' housing products during the year, and we expect the ministry will be looking to accelerate the transfer of units in order to reach the NTP targeted ownership ratio of 60 percent by 2020. In addition, the MoH is continuing to register undeveloped urban land plots eligible for white land tax, in line with a royal decree in 2016. As of December 2018, the MoH had issued tax payment orders for a total area of 400 million square meters of undeveloped land, whilst SR450 million of white land tax payments had been used in financing housing projects in a number of cities around the Kingdom.

Figure 26: Number of housing units under Sakani

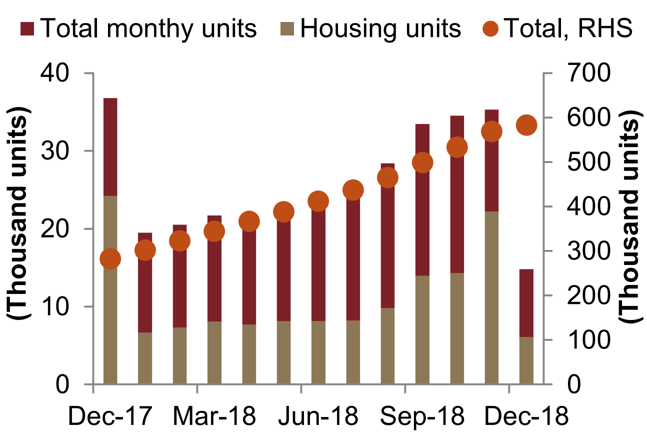
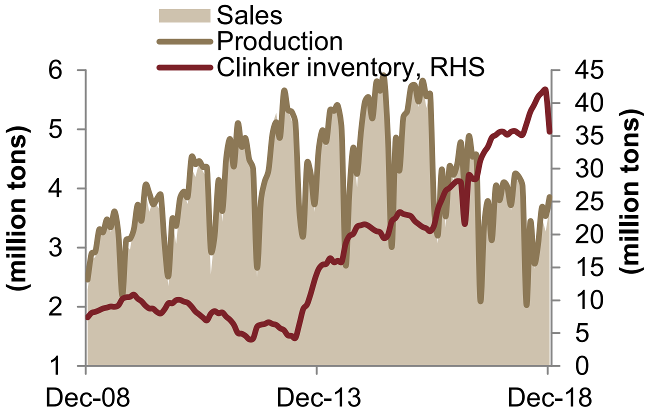


Figure 27: Cement sales and clinker inventory



...and we expect the ministry will be looking to accelerate the transfer of units in order to reach the NTP targeted ownership ratio of 60 percent by 2020.

Moreover, the Real Estate Development Fund (REDF) recently announced a list of 100 thousand citizens eligible for mortgages provided by the fund in 2019, which is double the number of citizens eligible under the same program last year. Overall, we anticipate better performance in the ownership of dwellings sector primarily as a result of both the MoH and REDF programs, but also because of targets relating to the *Financial Sector Development Program*, which sets out a target of a 21 percent yearly rise in the level of outstanding real estate mortgages, equivalent to a total of SR368 billion, in 2019.

The construction sector contracted by 3.1 percent in 2018, after declining 3.3 percent in 2017.

The **construction (7.7 percent of non-oil GDP)** sector contracted by 3.1 percent in 2018, after declining 3.3 percent in 2017. Cement and steel production, a gauge of construction sector activity, were both down in 2018, by 10 percent and 6 percent year-on-year respectively.

In 2019 the combination of numerous projects signed by the King in a recent regional trip…

...together with notable progress in various PIF giga-projects, will help bring about positive growth in the construction sector for the first time in four years.

That said, we expect this sector to see better performance in 2019, as the continued roll-out of REDF and MoH's programs combined with a 20 percent rise in yearly government capital spending provides a lift. More specifically, the recent regional trip by the King included signing numerous projects through the construction of schools, housing units and infrastructure facilities. In addition, the PIF giga-projects are beginning to show notable progress with the Qiddiyah entertainment city moving to phase four, from planning to building, during 2019, whilst phase one of Neom City Project and the Amala project will commence in Q1 2019.

Taking all this together, we expect a mild rebound into positive territory for the sector in 2019, at 0.7 percent, although the sector will continue facing challenges from rising expat levies and inventory overhang in 2019 (Figure 27).

Agriculture saw modest growth of 0.5 percent in 2018…

...and 2019 will see some lift in growth due to help from the Sustainable Agriculture Rural Development Program.

Agriculture (4.1 percent of non-oil GDP) saw modest growth of 0.5 percent in 2018 as the sector felt the effects of expat levies. As for 2019, we see some lift in growth as a result of the recent unveiling of the Ministry of Agriculture's (MoA) Sustainable Agriculture Rural Development Program. The aim of the program is to support and develop farmers and agricultural activities through a total investment of SR12 billion, part of which will be received from the Agriculture Development Fund. The program is expected to support agricultural activities and production, which we see raising the sector's growth to 1 percent in 2019.

Finance, insurance, and business services showed strong performance of 3.8 percent in 2018, supported by higher growth coming from financial services sub-sector.

Finance, insurance, and business services (**6.7 percent of non-oil GDP)** showed strong performance of 3.8 percent in 2018, supported by higher growth coming from financial services sub-sector. Specifically, growth was lifted by a rise in bank claims on the private sector, by 3 percent year-on-year, supported by an increase in credit to the private sector, up 3 percent (Figure 28). Growth was also due to developments within capital markets, most notably with the announcement of Tadawul All Share Index's (TASI) inclusion into both the MSCI EM and FTSE EM indices during the year.

Looking ahead, one of the key developments which is expected to maintain the pace of growth in the sector during 2019 will be the inclusion of Tadawul All Share Index (TASI) into the above mentioned indices. According to MSCI's Modern Index Strategy, there were over $1.9 trillion in assets benchmarked globally to its EM

Looking ahead, growth in the sector will be aided through the inclusion of TASI into both the MSCI and FTSE EM indices…

…with the combination of both inclusions expected to bring in a minimum of $15 billion in passive inflows by the end of 2019

Additionally, growth will be supported through efforts to attain targets outlined under the Financial Sector Development Program (FSDP).

As with the other VRPs launched to date, the FSDP charter goes about setting definitive and measurable sector specific targets.

index, of which, according to the CEO of the Saudi Stock Exchange, roughly 25 to 30 percent are passive investors. As such, Saudi Arabia should expect to see a guaranteed inflow of passive funds totaling at least $10 billion through MSCI EM between May and August 2019. Added to this is expected passive inflows associated with Saudi Arabia's inclusion into the FTSE EM index. Based on FTSE EM index's current market capitalization of around $4.7 trillion, and with the FTSE Saudi Arabia All Cap index market capitalization of circa $133 billion, Saudi Arabia's weighting is calculated to be around 2.7 percent of the EM index. According to FTSE Russell, an estimated $200 billion of passive assets is currently tracking the FTSE EM index, which would mean Saudi Arabia's inclusion, upon completion in December 2019, would attract around $5 billion in passive inflows. The FTSE EM upgrade is scheduled to be implemented over five tranches, with the first tranche commencing in March 2019, and the final in December 2019. The combination of both FTSE and MSCI EM inclusion is therefore expected to bring in a minimum of $15 billion in passive inflows by the end of 2019 (Figure 29). That said, considering around 70-75 percent of investors benchmarked to the MSCI EM index are active investors, we would expect up to $35 billion in active inflows as well *(for more on this please see our Stock Market update published July 2018)*.

We see growth in finance, insurance, and business services sector also being pushed by various targets outlined under the Financial Sector Development Program (FSDP). The plan was launched back in April 2018, as part of the ongoing implementation and planning towards the Vision. More specifically, the FSDP charter details a number of measurable sector specific targets for five 2020 commitments (Box 3).

Box 3. Financial Sector Development Plan

As with the other VRPs launched to date, the FSDP charter goes about setting definitive and measurable sector specific targets. The charter also provides further details and clarity on the FSDP, and highlights the governance system driving the implementation of the program. Specifically, a list of targets, or commitments, are detailed for 2020;

2020 commitments

i) increasing the total size of financial assets to GDP from 192

Figure 28: Bank claims on the private sector

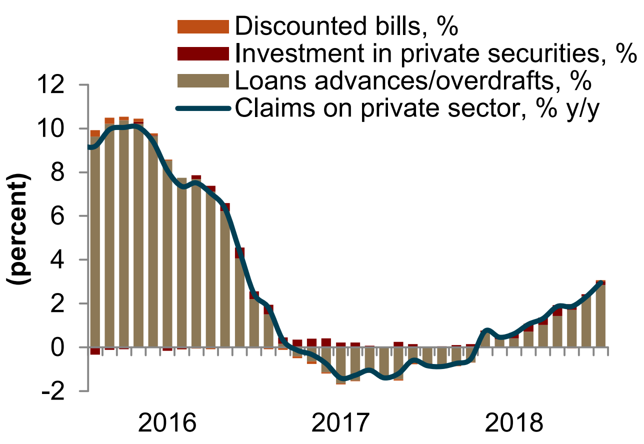
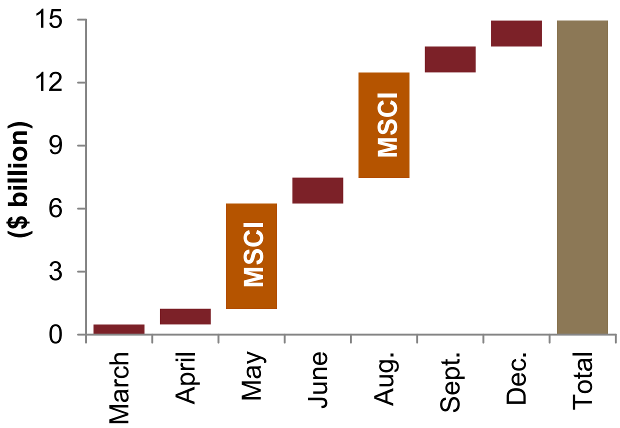


Figure 29: $15 billion in passive inflows expected from MSCI EM and FTSE EM during 2019



The charter also provides further details and clarity on the FSDP…

...and specifies a list of targets, or commitments, to 2020.

percent in 2016 to 201 percent by 2020
ii) raising capital markets assets registered on the exchange from 41 percent in 2016 to 45 percent by 2020 as well as introducing at least three financial technology players into the market
iii) raising the share of SME financing from 2 to 5 percent by 2020 and share of mortgages financing from 7 to 16 percent by 2020
iv) increasing the share of non-cash transactions from 18 to 28 percent by 2020
v) maintaining financial stability, through compliance with international standards

For more on this please refer to our FSDP report published July 2018

Electricity, gas, and water saw a year-on-year rise of 1.4 percent during 2018…

...similar levels of growth expected in the year ahead.

Electricity, gas, and water (2.4 percent of non-oil GDP) saw a year-on-year rise of 1.4 percent during 2018, with growth driven by five power plants with a total capacity of 7 gigawatts (GW) coming on-line during the year. In 2019, we expect to see similar levels of growth as a result of a number of power projects, with the most prominent being the 4 GW Jazan integrated power plant and a 1.26 GW power plant in Uqair. Additionally, growth will be aided by investment in sewage water transmission as well as electricity networks around the Kingdom. According to latest available report from the Electricity and Cogeneration Regulatory Authority (ECRA), Saudi Arabia's installed electricity generating capacity amounted to 80 gigawatts (GW) at the end of 2017, which was around 18 GW, or 29 percent more than the peak load requirement. The NTP specifically states that reserve electricity generation capacity should equal 12 percent by 2020, meaning the electricity sector is expected to greatly exceed the NTP target.

Non-oil mining and quarrying saw growth of 2.7 percent in 2018.

The non-oil mining and quarrying (0.7 percent of non-oil GDP) saw growth of 2.7 percent in 2018, with a sizable portion of this growth coming from the full year effects of phase one of the SR30 billion Waad Alshamal project, which came on-line in late 2017.

In 2019, the sector will benefit from MEIM's SR33 billion budget allocation…

... and a number of efforts have been made to encourage investment in the sector under NIDLP.

The non-oil mining sector is forecasted to post a year of significant growth in 2019, at 4.5 percent, as the sector benefits from MEIM's SR33 billion budget allocation. Mining is one of the key sectors earmarked for expansion under the NIDLP (See Box 2), and a number of efforts have been made to encourage investment in the sector. For example, during last year, a mining investment system designed to incentivize private investors was finalized. Additionally, the sector is expected to be one of the major beneficiaries from the SR30 billion export bank launched by the MEIM in 2017, whilst it will also be aided by some of SR15 billion earmarked for new lending by the Saudi Industrial Development Fund (SIDF). Overall, such initiatives will be growth enhancing for the sector, and despite its relatively small contribution to GDP, we expect sizable growth in this sector in the years to come.

Fiscal Policy

The government will support the economy through the largest ever budgeted expenditure of SR1.1 trillion in 2019.
Based on revenues of SR975

In line with the preliminary budget outlined in September, the 2019 fiscal budget disclosed record high budgeted expenditure at SR1.1 trillion, up by SR76 billion year-on-year. As has been the theme in recent budgets, part of the 2019 budget will be channeled towards Vision 2030 programs that directly contribute to economic growth *billion, the government is budgeting for a slightly lower year-on-year deficit at SR131 billion, compared to SR136 billion in 2018.*

The government has budgeted for non-oil revenue to reach SR313 billion in 2019, showing a strong growth of 9 percent over 2018's actual figure.

According to the statement, budgeted capital spending, will amount to SR246 billion in 2019, compared to SR205 billion in 2018.

Whilst oil revenues are expected to total SR662 billion in 2019, it is important to note that this segment contains revenue from domestic energy price reform.

We expect oil revenue equal to

and job opportunities for citizens. At the same time, the most economically vulnerable households will continue to benefit directly from necessary support under initiatives such as the Citizen's Account, but also indirectly through spending on educational, healthcare and social infrastructure.

Total expenditure is budgeted at SR1.1 trillion in 2019, up 9 percent from the 2018 budgeted expenditure and represents the largest ever budgeted amount to date, surpassing the previous record announced last year (Figure 30). Additionally, as part of a broader set of measures outlined along with the budget, the private sector will be supported by various initiatives under a four year SR200 billion private sector stimulus plan. The stimulus, which was initiated in 2017, is expected to target specific sectors within the private sector in order to aid growth (for more on this please see our Saudi Economy in 2018 report published February 2018).

According to the statement, budgeted capital spending, will amount to SR246 billion in 2019, compared to SR205 billion in 2018. This is a clear sign that there has been a particular effort to raise the level of the growth aspect of government expenditure in order to support development and lift the overall investment profile of the private sector. This type of expenditure can have positive implications over the growth in the non-oil private sector, since capital spending normally leads to higher demand for services from some of the largest sectors in the private economy, including construction, transport, and utilities.

Current spending (the more rigid part of expenditure) is expected to increase by 4 percent, year-on-year, to a budgeted total of SR860 billion. Within this, the wage bill is expected to decrease to SR456 billion, down 4 percent year-on-year in 2019. Continued payments under the Citizens Account program will also contribute to current expenditure in 2019. In 2018, 'Social Benefits' saw large yearly rises of 47 percent due to SR27 billion allocated under the Citizen's Account program, which will continue in the year ahead.

Total revenue is budgeted at SR975 billion with 68 percent, or SR662 billion coming from oil revenue, up 9 percent year-on-year. It is important to note that this segment contains revenue from domestic energy price reform enacted up to 2018 (Box 4).

Figure 30: Budgeted expenditure

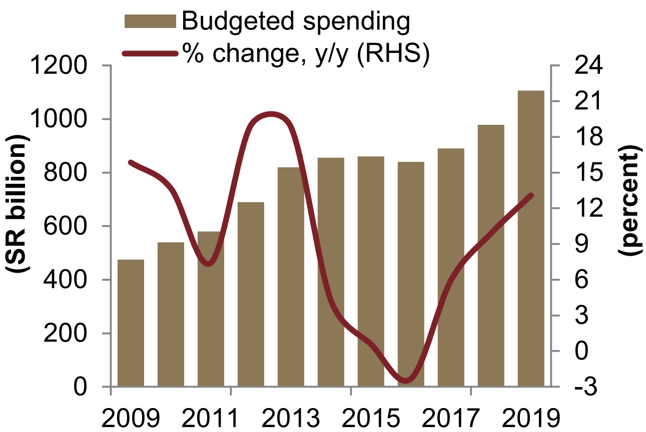
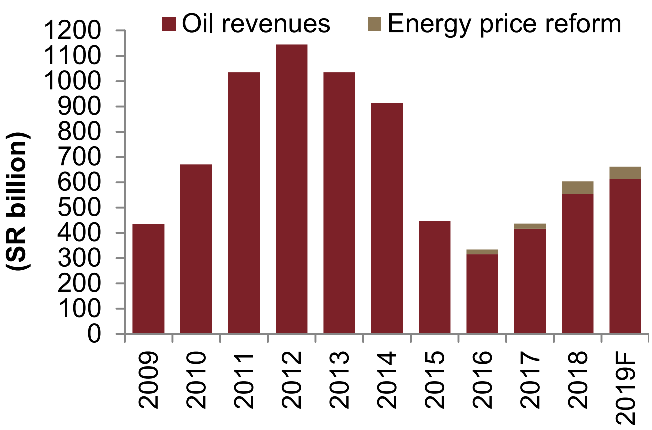


Figure 31: Government oil revenue by type



Box 4. Oil Revenue

Government budgeted oil revenue is expected to rise by 9 percent year-on-year, to SR662 billion, in 2019. It is important to note that this segment contains revenue from domestic energy price reform enacted at the turn of 2018 (Figure 31). Additionally, it is unclear whether part of 2019's oil revenue includes transfers from 2018's oil revenue, in line with the Ministry of Finance (MoF) switch to quarterly dividends. All the above makes the calculation for Saudi export price more complicated and less accurate. Taking this into consideration, we calculate that the Saudi export price pertaining to oil export revenues is at $70 pb.

As highlighted in our Quarterly Oil Market update *(published January 2019),* we expect Brent oil prices to average $66 pb, and Saudi crude oil production to average 10.3 mbpd in 2019, resulting in oil revenue equal to SR625 billion, or SR37 billion less than the government's budgeted revenue of SR662 billion. On the non-oil revenue side, we expect to see a figure equal to the budgeted figure of SR313 billion. As a result, we forecast a slightly higher budget deficit of SR168 billion, equivalent to 5.5 percent of forecasted GDP in 2019. It is important to note that budgeted revenues outlined in the 2019 fiscal budget do not include anticipated windfalls from privatization, or indeed proceeds from the corruption probe. It is therefore plausible that such funds could be used to ensure deficit targets are adhered to. Recent statements from the Attorney General point to settlements under the corruption probe totaling more than SR400 billion, whilst up to SR40 billion is expected to be raised from privatization over the next two years (please refer to our Privatization report for more detail).

Meanwhile, efforts to raise non-oil revenue will also continue into next year, as this segment is budgeted to also rise by 9 percent year-on-year. Accordingly, the budget outlines an increase in overall budgeted revenues by 9 percent year-on-year. The government has budgeted for non-oil revenue to reach SR313 billion in 2019, showing strong growth of 9 percent over 2018's actual figure. Rises in non-oil revenue will come from a number of areas, including rises in expat levies, a reduction in VAT threshold, which will result in a larger number of enterprises eligible to processing VAT. Whilst other revenue (including investment income) is expected to improve by 7 percent year-on-year, this will mainly come from improvements

SR625 billion, or SR37 billion less than the government's budgeted revenue of SR662 billion.

As a result, we forecast a slightly higher budget deficit of SR168 billion, equivalent to 5.5 percent of forecasted GDP in 2019.

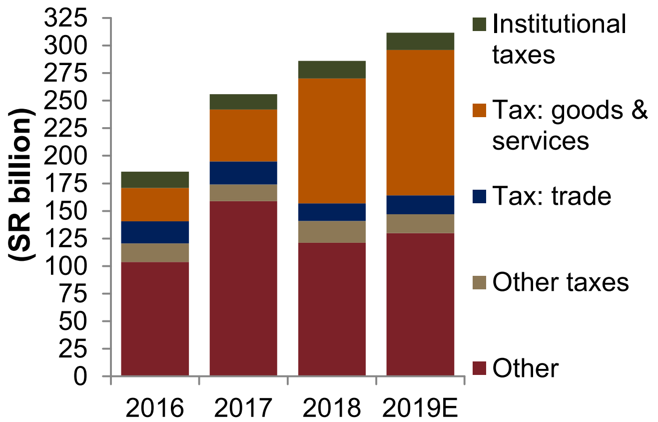
It is important to note that budgeted revenues outlined in the 2019 fiscal budget do not include anticipated windfalls from privatization…

or indeed proceeds from the corruption probe.

It is therefore plausible that such funds could be used to ensure deficit targets are adhered to.

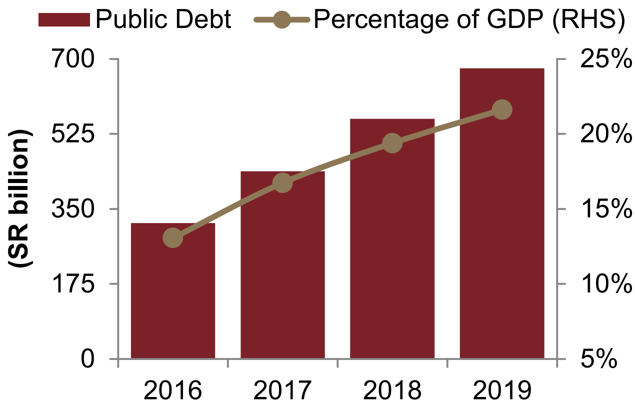
Any proceeds from the above two sources could raise the level of non-oil, non-tax (Other) income in 2019.

Figure 32: Non-oil revenue by type



Institutional taxes = 'Taxes on income, profits and capital gains'
Tax: trade = 'Taxes on trade and transactions (customs duties)'
Other taxes = 'Other Taxes (including Zakat)'
Other = 'Other revenues (including returns from SAMA and PIF)'

Figure 33: Public debt



The government's financing requirement is expected to total around SR118 billion…

arising from growth in the Saudi Arabian Monetary Authority's (SAMA) foreign exchange (FX) reserves and not from dividends received from the PIF. According to the MoF, the PIF did not contribute to government revenue in 2018 and is not expected to contribute in 2019 as well. That said, any proceeds from proposed privatization of assets in five different sectors (water, energy, education, health, and municipality) by Q1 2019, could raise the level of non-oil, non-tax (Other) income in 2019 (Figure 32).

...with the Kingdom's debt expected to reach SR678 billion (22 percent of GDP) at the end of 2019.

Due to a higher rate of projected revenue rises vis-a-vis expenditure, the fiscal deficit will be marginally lower year-on-year in 2019. Thus, the deficit is expected to improve slightly to SR131 billion (4.2 percent of GDP) compared to SR136 billion (or 4.6 percent of GDP) in 2018. This is in line with the preliminary budget published earlier this year, which maps out a gradual improvement in deficit over the next few years, all the while seeing rises in government expenditure (*for more detail please refer our 2019 Preliminary Budget Statement report, published October 2018*).

We expect the risks of higher funding costs, through rises in the Saudi repo rate to be mitigated by a set of expansionary measures.

The government's financing requirement is expected to total around SR118 billion in 2019, and therefore, when assuming no repayments during the year, the Kingdom's debt is expected to reach SR678 billion (22 percent of GDP), compared to SR560 billion (19 percent of GDP) at the end of 2018. Already in 2019, the MoF announced the issuance of $7.5 billion (SR28 billion) international bond, and we expect another SR30 billion or so in international issuances during the rest of the year. Besides the issuance of debt, this year's fiscal deficit will also be financed from the drawing down from the stock of government deposits held at SAMA (Figure 33).

Monetary and Financial Developments

Despite the Fed recently softening the outlook on interest rate, we still expect at least one interest rate hike by SAMA in 2019.

Whilst the US Fed has recently softened its tone over future interest rate hikes, the outlook is by no means certain. As such, the risks of higher funding costs, through rises in the Saudi repo rate, in the year ahead, still remain. That said, we do expect this risk to be mitigated by a set of expansionary measures, especially so through targeted assistance to SMEs as per the private sector stimulus package (Box 5). Additionally, the continued issuance of international bonds, such as the recently announced $7.5 billion (SR28 billion) international bond, will maintain liquidity in the domestic banking system.

Box 5. SMEs and the Vision 2030

The Vision emphasized the role of SMEs in the local economy through a number of major reforms and initiatives.

In line with Vision targets, a number of major reforms and initiatives have been implemented to support the development of SMEs in the Kingdom, many of these are part of the SR200 billion four-year stimulus package announced in December 2017, and include:

1. Reimbursing government fees paid during the SMEs' first three years of operation for enterprises registered between 2016 and 2021. The budget allocated for this initiative is SR7 billion and will reimburse fees including the issuance and renewal of commercial register; Chamber of Commerce registration; Saudi national domain registration; municipality licensing and other commercial activities.

2. Indirect funding, with SR1.6 billion put aside to provide different funding channels to investment institutions, other than banks, in order to provide lower cost funding to SMEs.

3. Raising the capital of Kafalah: A SIDF backed initiative to promote the participation of commercial banks in SME lending. A budget of SR800 million was dedicated to this initiative, targeting enterprises in 11 different sectors.

4. Venture capital fund targeting startups, aiming to bridge the investment gap and spurring more SME investments. The initiative has a budget of SR2.8 billion.

M3 increased by 3 percent year-on-year in 2018…

In 2018, SAMA increased the reverse repo and repo rates by 25 basis points (bps) on four occasions (Figure 34). The rises came in-line with the US Fed's interest rate hikes during the year. Looking ahead, despite the Fed recently softening the outlook on interest rate, we still expect at least one hike during the year. As a result, we expect to see SAMA following the Fed's decision, with repo rates moving to 3.25 percent, and the reverse repo to 2.75 percent, by the end of 2019.

...and credit to the private sector was up 3 percent year-on-year in 2018.

A number of domestic sukuk issuances during 2018 resulted in pushing up bank claims on the public sector to 20 percent of total claims at the end of 2018, compared to 18 percent at the end of 2017. Meanwhile, the broad measure of money supply (M3) increased by 3 percent year-on-year in 2018 (Figure 35). At the same time, bank claims on the private sector (80 percent of total bank claims) rose by 3 percent year-on-year, supported by an increase in credit to the private sector, which was up 3 percent, compared to a decline by 0.8 percent in 2017. In addition, bank deposits rose by 2.6 percent year-on-year in 2018, up from a flat performance in 2017, mainly due to demand deposits, which were up by 4 percent. Private deposits saw a significant rise by 3.3 percent year-on-year, affected by a rise in private time and saving deposits, which was up by 10 percent. The improvement in bank deposits resulted in a slight decline in the loan-to-deposit ratio to 77.4 percent by the end of 2018, well below SAMA's regulatory limit of 90 percent.

New corporate credit was higher for a number of sectors in 2018, especially for manufacturing, mining and construction.

Meanwhile, credit to commerce declined in 2018, reflecting a slowdown in the wholesale and retail trade.

Latest available data shows that year-on-year new corporate credit was higher for a number of sectors (Figure 36). In particular, credit to manufacturing and mining sectors was up 6 percent and 30 percent year-on-year respectively, as both sectors were targeted by the private sector stimulus package in 2018 *(for more on this please*

Figure 34: Market rates in Saudi Arabia

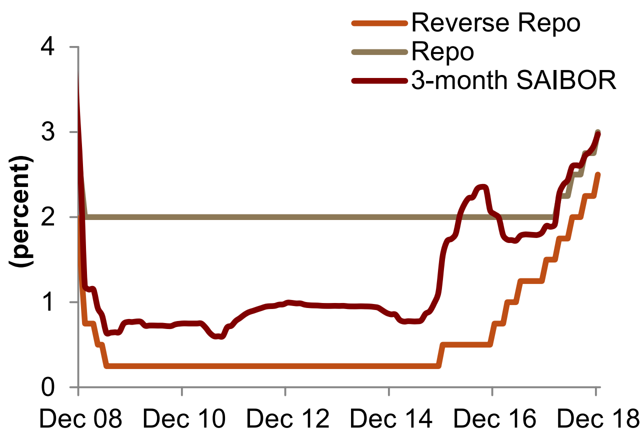
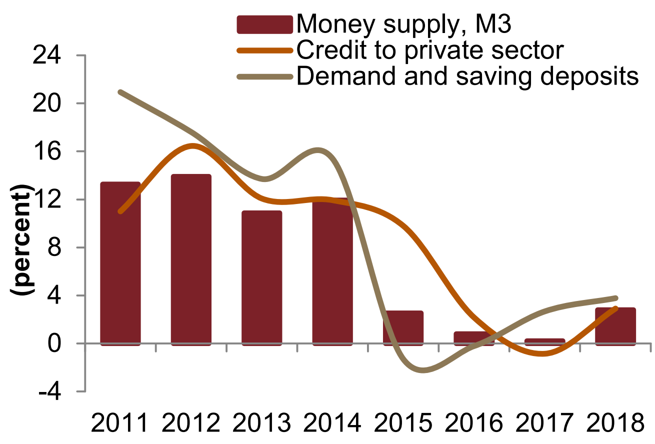


Figure 35: Money supply
(year-on-year change)



refer to the our [Saudi Economy in 2018] report published February 2018). Moreover, credit to construction also showed a significant rise by 9 percent in year-on-year, supported by new housing programs offered by the Ministry of Housing (MoH), and higher demand for mortgage loans. Meanwhile, commerce saw a significant decline of 10 percent year-on-year, reflecting a slowdown in the wholesale and retail trade.

Looking forward, we see higher credit growth into non-oil manufacturing and non-oil mining.

Looking forward, we see a number of elements weighing on credit to the private sector, especially so in the wholesale and retail sector, which occupies the largest share of credit to the private sector (at 20 percent). In particular, we expect consumer spending to be affected by continued departure of expats from the labor market and as the latest wave of Saudization is implemented (Box 6). At the same time, we expect to see a pickup in bank credit to a number of other sectors, such as non-oil manufacturing and non-oil mining, in line with higher growth of these sectors as the NIDLP is rolled out. More generally, a rise in budgeted government capital spending by 20 percent year-on-year, to SR246 billion, is expected to lift corporate sentiment and raise bank credit growth, especially so in the more growth enhancing long term credit segment.

Box 6. New Labor Market Initiatives

The NTP update introduced a new target for female labor force participation by 2020.

In an updated release, the NTP introduced an execution plan for a number of targets over the next two years. Amongst the major labor market updated goals is lowering the proportion of Saudi females in the labor force to 24 percent, from 28 percent previously, by 2020. In addition, the NTP update did not include any targets for the unemployment rate, although the Minister of Labor did recently state that the unemployment would be targeted for 10.5 percent by 2022.

The MLSD announced 68 new initiatives to stimulate Saudization in the private sector and started a new wave of Saudization in the retail sector.

In October 2018, the Ministry of Labor and Social Development (MLSD) announced 68 new initiatives to stimulate Saudization in the private sector, with a significant number of these initiatives aimed towards increasing female labor force participation. This came after the MLSD's reduction of Saudization in twelve retail sectors from the previously announced 100 percent to 70 percent, as we outlined in our *Saudi Labor Market Update - Q1 2018* (published in July 2018).

As of September 2018, the MLSD decided to limit twelve retail jobs to Saudi nationals, through three gradual stages up to January 2019. Accordingly, to support this structural change in the wholesale and retail sector, MLSD is offering a number of training programs, and subsidizing up to 30 percent of total salaries during the first three years, with additional supporting measures for hiring females. Moreover, the support will also target SMEs and enterprises in small cities and villages.

Also, the MLSD announced a plan to offer jobs for Saudis in three main sectors: health, real estate and IT.

In addition, MLSD announced a plan to nationalize and create jobs for Saudis in three main sectors during 2019-2020, with 80 thousand jobs in real estate and construction and 40 thousand jobs in health, and 15 thousand jobs in IT.

Inflation slowing:

Inflation in 2018 was affected by the introduction of VAT and energy and utility price reform.

Inflation in 2018 was up by 2.5 percent year-on-year, compared to an average of -0.8 percent in 2017. The sharp rise in yearly prices was a result of the introduction of VAT and energy and utility price reform enacted at the turn of the last year. Despite the rise in yearly inflation

'Transport', 'restaurants & hotels' and 'food & beverages' saw the largest price increases in 2018.

The deflationary trend in 'housing & utilities' was due to the declining prices in 'rentals for housing'.

In 2019, we expect inflation rates to average around 1.1 percent.

Economic growth will continue improving in 2020 on the back of record budgeted expenditure of SR1.14 trillion, up 3 percent year-on-year.

With respect to Saudi crude oil

rates, we believe that the payments of the Citizen's Account, which totaled SR27.5 billion in 2018, plus the inflation allowance to public sector employees, helped citizens cope with inflationary pressures over the course of year.

On a sectorial basis, 'transport', 'restaurants and hotels' and 'food and beverages' saw the largest price increases during the year, by 11 percent, 8 percent and 7 percent year-on-year, respectively. On the other hand, two sectors witnessed a decline in prices; 'clothing and footwear', down 8 percent, and 'housing and utilities', down 1 percent, year-on-year. Within 'housing and utilities', the deflationary trend was due to 'rentals for housing' being down 3.2 percent despite a rise in electricity tariffs during 2018 which pushed the 'electricity and fuels' sub-item up 24.3 percent. We see the decline in this segment being related to the lower number of foreigners working in Kingdom, with 1.4 million foreigners leaving the Kingdom in the 21 months to Q3 2018, which negatively impacted demand for housing rentals. We also see the decline as partially related to the provision of more affordable homes under the MoH's programs such as Sakani.

In 2019, we expect inflation rates to average around 1.1 percent, due to the higher base effects from last year (Figure 37). On a monthly basis, we expect a mild rise in prices in January 2019, due to a reduction in VAT threshold, but a decline in month-on-month prices thereafter. Overall, we believe that the Citizen's Account, and the recent royal decree ordering the rolling over of the inflation allowance to public sector employees, should continue to aid citizens in coping with inflationary pressures over the course of year.

The Outlook for 2020

Economic growth will continue improving in 2020 on the back of record budgeted expenditure of SR1.14 trillion, up 3 percent year-on-year. Whilst oil prices remain volatile, forecasts for some oil agencies generally point to oil balances being tighter in 2020, albeit in mild surplus. With respect to Saudi crude oil production, we expect to see a rise to 10.5 mbpd next year, primarily as a result of the Jazan refinery running at full capacity, all of which will push up oil sector GDP to 2.1 percent in 2020. Meanwhile, we expect non-oil GDP growth to maintain growth of around 2.3 percent, as further rises in

Figure 36: New corporate credit
(year-on-year change)

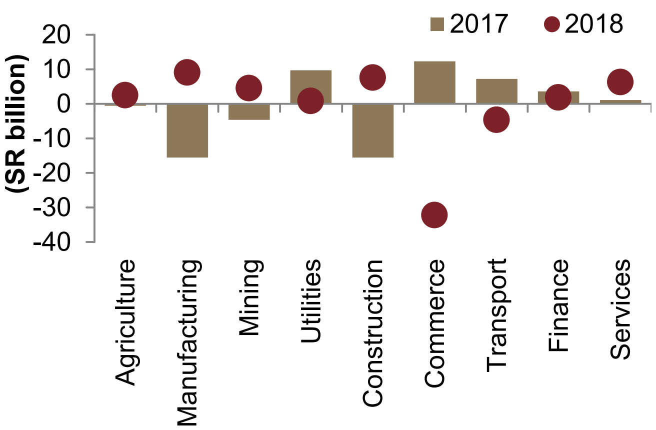
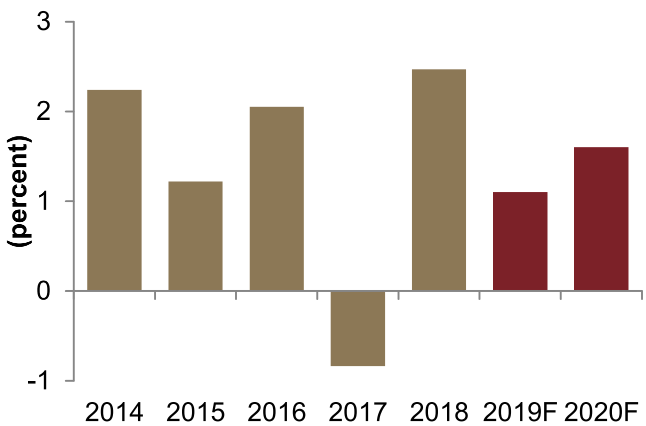


Figure 37: Inflation



capital expenditure are budgeted (Figure 37). That said, the economy will see expat levies rise to peak levels during the year and, as such, the private sector will face up to even higher operating costs.

One major development in 2020 will be the continued implementation of energy price reform, as detailed in the original FBP document and reiterated in subsequent updates. According to the FBP schedule, natural gas/ethane and LPG prices will see a gradual transition to a yet-to-be determined reference price next year. Natural gas price reform represents a priority, especially due to pressure on gas demand from both the petrochemical and electricity sectors *(for more details please see our report on Natural Gas and the Vision 2030 published October 2016)*. Whilst there have been reports of a possible support program being established for the industrial sector, any sizable changes in the price of natural gas/ ethane would nevertheless have implications for petrochemical companies. That said, with the recent launch of NIDLP, which earmarked SR100 billion in investment during 2019 & 2020 in energy, industry, mining, and logistics, will ensure strong growth in non-oil manufacturing as a whole.

Aside from non-oil manufacturing, we see construction and transport as being the stand out sectors in 2020. On the construction side, the sector should continue benefitting from work on a number of PIF's giga-projects (NEOM, Qiddiyah, Red Sea Project) but also from the developments related to the Saudi Entertainment Ventures Company's (Seven), which aims to build a 100 thousand square meters of entertainment complexes in Riyadh. On the transport side, the much anticipated SR82 billion Riyadh metro is expected to become fully operational during 2020, whilst continued phased openings of the King Salman International Complex will also help lift the sector.

On the fiscal front, according to the updated FBP, the government expects total revenue to be around SR1 trillion in 2020, but expenditure will rise to just over SR1.14 trillion. Accordingly, the fiscal deficit will be unchanged year-on-year at 4.2 percent, or SR138 billion. Based on crude oil production of 10.5 mbpd and Brent oil prices at $68 pb, we estimate that oil revenue will make up SR635 billion, or 65 percent of total revenue. As detailed in the 2019 fiscal budget, non-oil revenue is projected to rise to SR338 billion in 2020, representing a rise of 8 percent over 2019's budgeted total. Meanwhile, the government expects to issue additional debt to the equivalent of SR76 billion, pushing total public debt to SR754 billion, with debt-to-GDP at 23 percent at the end of 2020.

We expect to see a yearly increase in both oil and non-oil export revenue which, in turn, will help improve the current account mildly, to 8.2 percent of GDP in 2020. Also, we expect similar levels of outflows in the next few years which will result in slower accumulation in FX reserves.

In 2020, we see the inflation rate rising to 1.6 percent primarily due to a scheduled rise in natural gas/ethane and LPG prices. That said, the forecast does not include the impact of any potential rise in electricity tariffs and gasoline prices which could also, but not necessarily, take place next year.

production, we expect to see a rise to 10.5 mbpd next year…

...plus Jazan refinery running at full capacity, will push up oil sector GDP to 2.1 percent in 2020.

Non-oil GDP growth to maintain its growth of around 2.3 percent, as further rises to capital expenditure are budgeted.

One major development in 2020 will be the continued implementation of energy price reform…

...as detailed in the original FBP document and reiterated in subsequent updates.

According to the FBP schedule, natural gas/ethane and LPG prices will see a gradual transition to a yet -to-be determined reference price next year

Key Data

	2012	2013	2014	2015	2016	2017	2018E	2019F	2020F
Nominal GDP									
(SR billion)	2,760	2,800	2,836	2,454	2,419	2,582	2,934	3,065	3,258
($ billion)	736	747	756	654	645	689	782	817	869
(% change)	9.6	1.5	1.3	-13.5	-1.4	6.8	13.6	4.5	6.3
Real GDP (% change)									
Oil	5.1	-1.6	2.1	5.3	3.6	-3.1	2.8	1.6	2.1
Non-oil private sector	5.6	7.0	5.4	3.4	0.1	1.5	1.7	2.0	2.4
Non-oil government	5.3	5.1	3.7	2.7	0.6	0.7	2.8	3.0	2.3
Total	5.4	2.7	3.7	4.1	1.7	-0.7	2.2	2.0	2.2
Oil indicators (average)									
Brent ($/b)	112	110	99	52	43	54	71	66	68
Saudi ($/b)	106	104	96	49	41	51	69	65	67
Production (million b/d)	9.8	9.6	9.7	10.2	10.4	10.0	10.3	10.3	10.5
Budgetary indicators (SR billion)									
Government revenue	1,247	1,156	1,044	616	519	692	895	938	973
Government expenditure*	916	994	1,140	1,001	936	930	1,030	1,106	1,143
Budget balance	331	162	-96	-385	-417	-238	-136	-168	-170
(% GDP)	12.0	5.8	-3.4	-15.7	-17.2	-9.2	-4.6	-5.5	-5.2
Gross public debt	99	60	44	142	317	443	560	678	754
(% GDP)	3.6	2.1	1.6	5.8	13.1	17.1	19.1	22.1	23.1
Monetary indicators (average)									
Inflation (% change)	2.9	3.5	2.2	1.2	2.1	-0.8	2.5	1.1	1.6
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	2.0	3.0	3.25	3.25
External trade indicators ($ billion)									
Oil export revenues	337	322	285	153	137	170	231	223	227
Total export revenues	388	376	342	204	184	222	284	281	287
Imports	142	153	158	159	128	123	126	129	134
Trade balance	247	223	184	44	56	98	158	151	153
Current account balance	165	135	74	-57	-24	10	72	65	72
(% GDP)	22.4	18.1	9.8	-8.7	-3.7	1.5	9.1	7.9	8.3
Official reserve assets	657	726	732	616	536	496	497	508	516
Social and demographic indicators									
Population (million)	28.9	29.6	30.3	31.0	31.7	32.7	32.5	32.6	33.0
Saudi Unemployment (15+, %)	12.1	11.7	11.7	11.5	12.5	12.8	12.9	12.4	12.1
GDP per capita ($)	25,471	25,223	24,962	21,095	20,318	21,048	24,065	25,065	26,291

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

Sources: Jadwa Investment forecasts for 2018 to 2019. 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.

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The data contained in this Research is sourced from Reuters, Bloomberg, GaStat, SAMA, IMF, FocusEconomics, Tadawul, IIF, FBP, 2019 budget, Vision 2030 VRPs, CITC, OPEC, EIA and national statistical sources unless otherwise stated.

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