جدوى للإستثمار
Jadwa Investment

February 2018

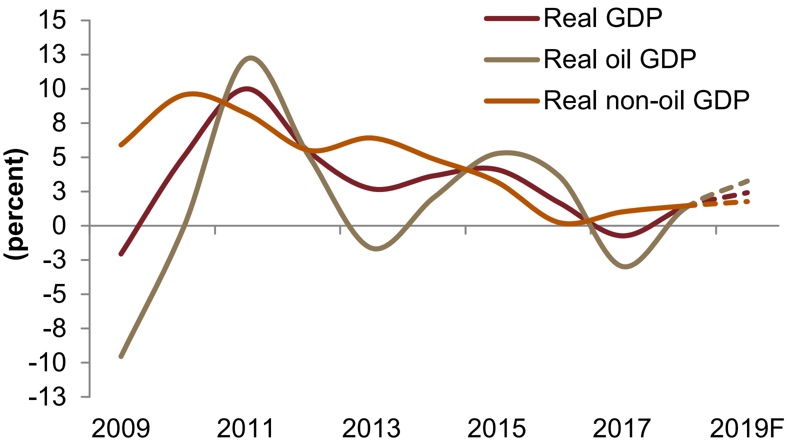
The Saudi Economy in 2018

We expect an improvement in the Saudi economy in the year ahead, supported by both the oil and non-oil sector. Oil sector GDP is expected to improve, in part, due to rises in oil production as OPEC and non-OPEC countries gradually exit from cuts at some point during the year. Growth in the non-oil sector is forecasted to improve as an expansionary budget, with a specific set of stimulus packages, lifts activity.

According to our forecasts, economic growth will improve to 1.5 percent in 2018, up from -0.7 percent in 2017. The oil sector will see the largest improvement in the year ahead, rising to 1.5 percent in 2018, compared to a decline of 3 percent in 2017. The recovery in oil sector will be driven by a modest rise in Saudi oil production and the start-up of the Jizan refinery during the year. Meanwhile, the largest ever budgeted government expenditure, including a rise in capital expenditure by 14 percent year-on-year, will continue supporting positive growth in the non-oil sector. Separately, a total of SR133 billion will be expended by the Public Investment Fund (PIF) and the National Development Fund (NDF) in Saudi Arabia during the year, which will significantly boost the level of capital injections in the Kingdom. In addition, a targeted stimulus package focusing on SMEs, housing, construction and export growth, amongst other things, will particularly be growth-enhancing to the private sector. Accordingly, we expect growth in the non-oil private sector to improve from 0.7 percent in 2017, to 1.1 percent in 2018.

Within the non-oil private sector, we see 'transport and communications' as one of the stand out sectors in 2018. Besides PIF investing SR14 billion in railroads (and infrastructure) projects, the King Salman International Complex for Maritime Industries and Services is expected to commence major production operations during the year. The complex, which will be the largest maritime industries complex in the region, underlines the Kingdom's efforts in diversifying the economy's sources of income, as set out under the Vision 2030.

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



For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Asad Khan
Director
rkhan@jadwa.com

Nouf N. Alsharif
Economist
nalsharif@jadwa.com

Head office:

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

Released: February-04-2018, 9:30 UTC+3

We expect an improvement in the economy in the year ahead, supported by the oil and non-oil sector.

According to our forecasts, economic growth will improve to 1.5 percent in 2018, up from -0.7 percent in 2017.

The oil sector will see the largest improvement in the year ahead, rising by 1.5 percent in 2018 compared with a sizable decline of 3 percent in 2017.

Within the non-oil private sector, we see transport and communication as one of the stand out sectors during the year.

According to IMF data, global GDP growth is expected to reach 3.7 percent in 2017, improving mildly to 3.9 percent in 2018…

In fact, the largest ever budgeted expenditure, announced in this year's fiscal budget, continues to support the overarching goals of the Vision 2030. The focus of spending remains on economic diversification, but also aims to shield economically vulnerable households from necessary energy price reform. Moreover, 2018 will be a defining year for non-oil revenue, as a raft of different measures, such as energy price reform, Value Added Tax (VAT), expat levies and white land tax, will contribute to pushing this increasingly important revenue segment to its largest ever total of SR291 billion. Conversely, these same measures present the biggest risks to growth in the year ahead. Whilst consumer spending could be affected by the implementation of VAT, energy price reform will impact the running costs of private companies and discretionary income of a number of more affluent households. That said, we see the set of expansionary measures, implemented via the private sector stimulus package, as well payments received under the Citizen's Account plus the recently announced cost of living allowances, as being sufficient to bring about solid growth in the non-oil sector in 2018.

Meanwhile, with respects to the external sector, improvements in both oil and non-oil export revenue will help push the current account balance to 3.8 percent of GDP in 2018, compared to an expected 1.2 percent in 2017. An improvement in export revenue will also be one of the main contributing factors to a slowdown in net FX reserve withdrawals during the year. Additionally, the financial account may benefit from a higher level of portfolio investment inflows if the Saudi Stock Exchange (Tadawul) is included into the MSCI emerging market (MSCI EM) index during 2018, and a portion of Saudi Aramco's shares are listed on the Tadawul All-Share Index (TASI). Overall, we expect a further slowdown in the pace of FX reserve withdrawals in 2018. According to our estimates, net FX reserves will decline by $22 billion during 2018, to a total of $474 billion.

Aside from the risks to growth outlined above, the other risks to the Saudi economy, and indeed most other economies, is encapsulated through the effects of interest rate hikes by the US Federal Reserve's (Fed) and further deterioration in geopolitical developments. Regional political tensions continued rising during 2017, and any further deterioration in this respect, is likely to dent investor sentiment more acutely, which would negatively affect business confidence and investment decisions. Additionally, lower than anticipated oil prices, through either a sharp rebound in US shale oil or a disorderly exit from OPEC cuts, would most likely result in lower than budgeted expenditure or a higher-than-forecasted fiscal deficit in 2018.

Global Economic Outlook

According to International Monetary Fund (IMF) data, global GDP growth averaged 3.3 percent year-on-year between 2015 and 2016, and is expected to reach 3.7 percent in 2017, improving to 3.9 percent in 2018. The IMF's World Economic Outlook (WEO) January 2018 report still maintains that the US will be the best performing economy amongst the advanced economies, which had been underlined by strong performance in the world's largest economy in 2017. In fact, the US economy grew by more than 3 percent for two consecutive quarters (Q2 & Q3) during 2017, which was last achieved back in 2014. Meanwhile, emerging market (EM) growth is expected to improve from 4.4 percent in 2016, to 4.7 percent in 2017

...although risks to the global economy in 2018 include higher interest rate rises than expected, and a continued elevation in global geopolitical tensions.

and then to 4.9 percent in 2018. This is largely the result of a notable recovery from Brazil, Argentina, Turkey and Russia, as well as improving conditions for commodity exporters (Table 1 & Figure 2).

In our opinion, the two biggest risks to the global economy in 2018 are; firstly, global monetary tightening, in the form of higher than anticipated rises in interest rates, with implications for highly leveraged governments and corporates, and, secondly, a continued elevation in global geopolitical tensions, and their potentially disruptive impact on investor sentiment as well as the real economy.

US economy:

The IMF still maintains that US will be the best performing economy amongst the advanced economies.

The IMF's WEO January report revised US growth up by 0.1 percent, to 2.3 percent for 2017, with a sizable rise to 2.7 percent in 2018. According to latest available data, the US economy grew by more than 3 percent for two consecutive quarters in Q2 & Q3 2017, which was last achieved back in 2014, although Q4 2017 GDP growth was weaker than expected, at 2.6 percent year-on-year. Overall a stronger business investment and consumer spending were the main drivers of growth during 2017.

According to latest available data, the US economy grew by more than 3 percent for two consecutive quarters, in Q2 & Q3 2017, which was last achieved back in 2014…

One of the main reasons for a rise in US consumer spending has been due to the persistent decline in unemployment since 2009. At the end of Q3 2017, US unemployment stood at its lowest level for at least 16 years, at 4.2 percent. Whilst such multi-year lows are welcome boost for US citizens, it does have implications for inflation going forward. Overall, if unemployment continues to fall, a tightening labor market will most likely push up labor costs, as businesses seek to attract and keep employees, and this will add upward pressure to overall prices. In addition, the US administration's passing of a major tax bill at the end of 2017, which reduces both corporate and personal tax rates, could also add to inflationary trends in the year ahead.

...and US unemployment stood at its lowest level for at least 16 years, at 4.2 percent…

The Fed increased interest rates three times during 2017, encouraged by a tightening labor market and a strengthening economy, and has forecasted more hikes in 2018. According to the latest survey by Reuters, investors see a 75 percent chance of additional 25 basis points (bps) rate hike in March 2018, a 42 percent chance of second (25 bps) hike in September 2018, and 27 percent chance of a third (25 bps) hike by December 2018.

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

	2016	2017E		2018F		2019F	
	IMF	IMF	Consensus	IMF	Consensus	IMF	Consensus
Global	3.2	3.7	3.2	3.9	3.3	3.9	3.1
US	1.5	2.3	2.2	2.7	2.1	2.5	1.8
UK	1.9	1.7	1.5	1.5	1.3	1.5	1.4
Canada	1.4	3.0	3.0	2.3	2.2	2.0	1.8
Euro zone	1.8	2.4	2.3	2.2	2.1	2.0	1.8
Japan	1.0	1.8	1.7	1.2	1.2	0.9	1
China	6.7	6.8	6.8	6.6	6.4	6.4	6.2
Russia	-0.2	1.8	1.7	1.7	1.9	1.5	1.8
Brazil	-3.6	1.1	0.8	1.9	2.4	2	2.5
India	7.1	6.7	6.6	7.4	7.4	7.8	7.5

Note: Consensus forecasts are those of FocusEconomics.

...that said, core inflation moderated during 2017, and is currently trending below the Fed's 2 percent target, at 1.7 percent.

Any excessive monetary tightening, more than currently expected, would run the risk of raising borrowing costs for corporates and households, and potentially nullify any gains from recently implemented tax reform. In the case of households, according to the Federal Reserve Bank of New York data, total household debt reached a new peak in the Q3 2017, rising to $12.96 trillion, $280 billion higher than the previous peak in Q3 2008. According to the same data, 4.9 percent of outstanding debt was delinquent in Q3 2017, and whilst late-payment rates on the whole declined, delinquency rates for credit-card and auto debt have seen an upward trend in recent months. Although total household debt-to-GDP is still much lower than during the financial crisis, at 66 percent in Q3 2017 versus around 87 percent in early 2009, the recent rise in credit-card and auto debt delinquencies shows that some US households are vulnerable to rising financial stress, which could be exacerbated with higher interest rates.

The main risk is that excessive monetary tightening could increase borrowing costs for corporates in the US

Excessive monetary tightening would also increase borrowing costs for corporates, especially those engaged in borrowing heavily from the high-yield debt market, which saw issuances rising sharply during 2017, by 15 percent year-on-year (Figure 3). In fact, recent tax reforms, implemented at the end of 2017, limited the deductibility of interest expense to 30 percent of earnings before interest, taxes, depreciation for corporates, adding another layer of risk for highly indebted companies.

Eurozone economy:

The IMF's revised growth upwards for the Eurozone as the economy expanded faster than expected during 2017, so far.

The IMF revised growth upwards for the Eurozone as the economy expanded faster than expected in 2017, whilst unemployment rate fell to near eight-year lows. GDP in the Eurozone expanded by 2.1 percent in Q2 2017 and 2.5 percent in Q3 2017, the fastest growth since 2011. The IMF now expects Eurozone growth to equal 2.4 percent in 2017 and 2.2 percent in 2018, compared to 2.1 percent and 1.9 percent previously.

Italy, Germany and France are all expected to exhibit the strongest growth since at least 2012…

According to IMF forecasts, in 2017, Italy, Germany and France are all expected to exhibit the strongest growth since at least 2012, whilst Spain is expected to register growth above 3 percent for the third year in a row (Figure 4). During 2017, Germany saw growth in the external sector as exporters benefitted from improving global trade. Strong growth in exports also lifted economic growth in Italy. Meanwhile, the French economy was driven by an improved

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

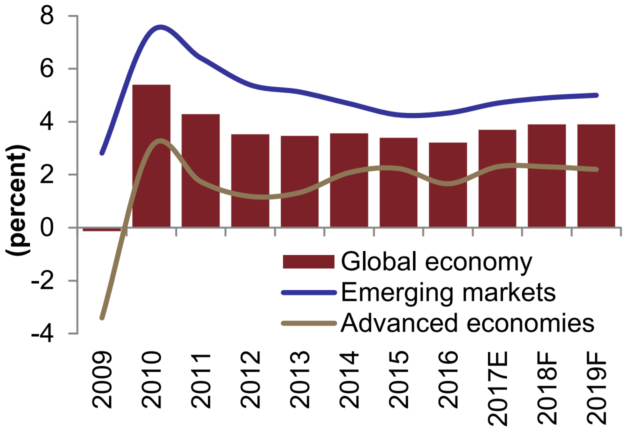
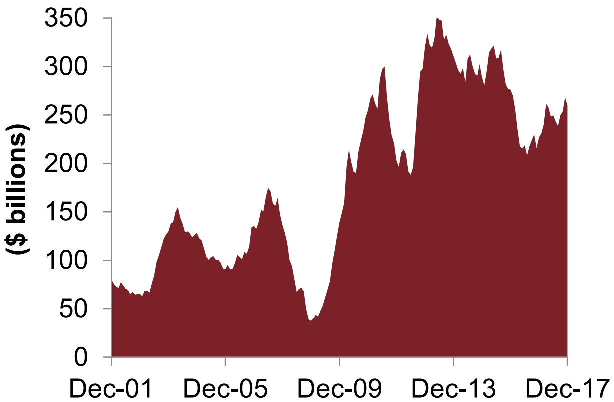


Figure 3: US high-yield debt issuance
(12-month moving average)



...whilst Spain is expected to register growth above 3 percent for the third year in a row.

business climate. Although the three of the four major Eurozone economies, Spain, Italy, and Germany, are expected to show mildly slower growth, year-on-year, in 2018, the economic union is expected to see continued declines in unemployment during the year (Figure 5).

Meanwhile, the Eurozone is expected to continue fighting deflationary pressures.

Meanwhile, the Eurozone is expected to continue fighting deflationary pressures. Average consumer prices rose 1.4 percent year on year in December, down from 1.5 percent in November, but are still below the European Central Bank's (ECB) targeted 2 percent. Meanwhile, core inflation remained around 1 percent during 2017, and despite increasing signs of a tightening labor market, wage growth fell in the Q3 2017. As a result, the ECB will continue with its bond-buying program into 2018, albeit at a lower rate of 36 billion euros per month compared to 2017's purchase of 60 billion euros per month. The ECB is likely to continue with bond purchases until a sustained rise in inflation is seen, with tighter labor markets in 2018 expected to contribute to such rises.

UK growth has been affected by 'Brexit', with the IMF expecting full year 2017 GDP at 1.7 percent, which would represent the slowest level of growth since 2012...

Despite these positive developments, the economic bloc could still be negatively affected from UK's exit from the EU, although it has shown no ill effects from the 'Brexit' process so far. UK growth, on the other hand, has been affected, with the IMF expecting full year 2017 GDP at 1.7 percent, which would represent the slowest level of growth since 2012. The expected decline seems partly due to a weaker pound, which raised the cost of imports and pushed inflation to five-year highs, to around 3 percent in Q3 2017. As a result, back in November 2017, the Bank of England (BoE) raised interest rates for the first time in ten years, by 25 bps, to 0.5 percent, in order to help curb this inflationary trend.

...whilst higher import prices are squeezing household income, UK household savings ratio hitting 5.2 percent in Q3 2017, the second lowest level in 20 years.

According to the IMF, the UK will see one of the weakest levels of growth amongst developed countries in 2018. Whilst the manufacturing sector is expected to see continued expansion in exports, due to a weaker UK pound and an upswing in global trade, higher import prices will squeeze household income. In fact, in its quarterly national accounts, the UK's Office for National Statistics (ONS) reported a fall in the aggregate UK household savings ratio to 5.2 percent in Q3 2017, the second lowest level in 20 years (Figure 6). Meanwhile, investment growth is likely to suffer as businesses wait on the final trading arrangements based on ongoing 'Brexit' negotiations. Overall, whilst there is likely to be limited direct

Figure 4: GDP growth for the four major European economies

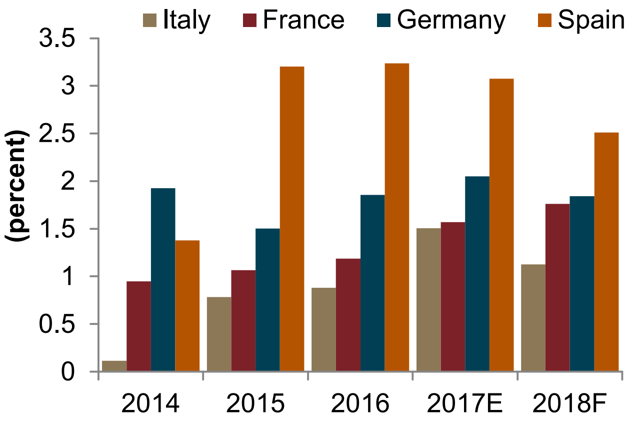
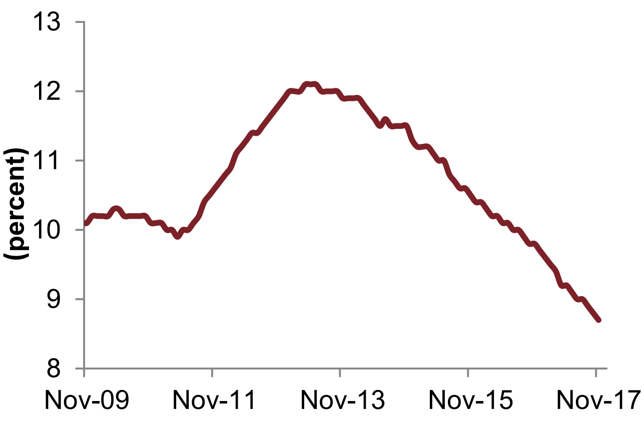


Figure 5: Eurozone unemployment rate



The IMF revised Japan's growth rates upwards from 1.5 to 1.8 percent for 2017, with an even higher amendment for 2018, at 1.2 percent versus 0.7 percent previously.

The main problem with the Japanese economy relates to consistent rises in private consumption.

Latest IMF WEO forecasts show expectations of a pick up in pace of EM growth in 2018, with a rise to 4.9 percent, compared with 4.7 percent in 2017.

This is largely a result of a notable recovery from Brazil, Argentina, Turkey and Russia as well as improving conditions for commodity exporters.

economic repercussions from 'Brexit' negotiations for the Eurozone, the indirect impact, especially through a deterioration of political cooperation between both sides, could have some harmful effects.

Japanese economy:

The IMF revised Japan's growth rates upwards from 1.5 to 1.8 percent for 2017, with an even higher amendment for 2018, at 1.2 percent versus 0.7 percent previously. Whilst private consumption, investment, and exports supported growth and led to 2.2 percent growth year-on-year in Q1 2017, Q2 2017 GDP rose by 4 percent year-on-year on the back of a strong pickup in domestic demand. That said, rises in private consumption are not expected to persist (Figure 7) as wage growth remains an ongoing problem. Whilst Japanese corporates have seen improved profits, as a result of a weaker yen caused by Bank of Japan's (BoJ) quantitative easing program, there is reluctance to increase wages or shift non-regular employees into full-time jobs. This combined with continued deflationary effects related to lower oil and gas prices, in a country which imports all of its energy, has resulted in expected timeline of BoJ's projected 2 percent inflation target being pushed back, with overall inflation up just 1 percent in November.

Emerging markets:

Latest IMF forecasts show expectations of a pick-up in pace of EM growth in 2018, with a rise to 4.9 percent, compared with 4.7 percent in 2017 and 4.4 percent in 2016. This is largely a result of a notable recovery from Brazil, Argentina, Turkey and Russia as well as improving conditions for commodity exporters. Although this represents an evident improvement for EMs, a number of risks remain which could pull down overall growth. Besides continued rises in EM debt levels, in the back drop of expected rises in US interest rates, a rise in geopolitical tensions related to the international pariah, North Korea, could have undesirable economic effects, especially so for Asian economies.

As we highlighted in our *Saudi Economy in 2017* report, EM debt has grown rapidly since 2010. The concern we highlighted back then was that whilst the rate of EM GDP growth had moderated since 2010, from 7.4 percent in 2010 to an expected 4.6 percent in 2017, total external debt had not. Total external debt of 41 EM countries rose

Figure 6: UK household savings ratio declining (percent)

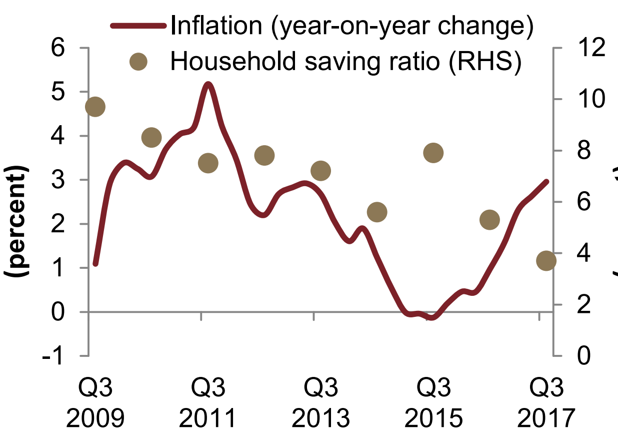
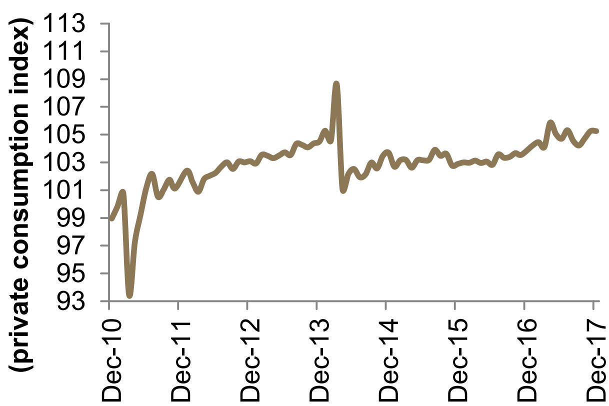


Figure 7: Key challenge for Japanese government remains trying to increase private consumption



Note: rebased to 100 in December 2010

from \$4.5 trillion in 2008 to \$6.3 trillion at the end of 2016, and this rise has continued during 2017, reaching \$7 trillion. Also during 2017, uncertainty related to the passing of the US fiscal stimulus plan resulted in a less steeper rise in US interest rates than previously anticipated. This in turn resulted in the US dollar losing value during the year. Lower than expected interest rate rises during 2017 led to EMs actually seeing a rebound in capital flows during 2017, following large outflows in 2016. Looking ahead, capital flows to EMs are likely to face more challenging circumstances in 2018, especially as the Fed starts unwinding its balance sheet and implements further interest rate hikes. Added to this, any escalation in regional geopolitical tension, especially related to North Korea, would likely accelerate the rate of capital outflows. In this context, interest rates hikes from most EM economies would be inevitable in order to stem large capital outflows, which would lead to higher borrowing costs across all sectors, and disrupt current forecasted growth.

Capital flows to EMs are likely to face more challenging circumstances in 2018…

...especially as the Fed starts unwinding its balance sheet and implements further interest rate hikes.

China's 'critical battles':

The IMF's growth projections for China remained unchanged, at 6.8 percent for 2017, compared to 6.7 percent in 2016. Higher year-on-year growth in 2017 expected to be driven by stronger than expected quarterly results reflecting previous policy easing and supply-side reforms. GDP expanded by around 6.9 percent in Q3 2017, following similar growth in Q1 & Q2 2017. The recent round of data releases does confirm that the Chinese economy is ticking along in line with expectations, with industrial output, retail sales and fixed-asset investment showing steady growth during 2017.

The IMF's growth projections for China remained unchanged, at 6.8 percent for 2017.

Higher year-on-year growth has been driven by stronger than expected quarterly results reflecting previous policy easing and supply-side reforms.

For 2018, the IMF projects lower growth at 6.6 percent, which reflects China's continued efforts to shift its economy away from traditional manufacturing to a more service based economy. Specifically, 2018 is expected to see the start of what Chinese policy makers have called 'critical battles' against, firstly, high levels of domestic debt and, secondly, excessive pollution. In addition, there are plans to continue with deeper structural supply side reform, with an emphasis on reducing excess capacity. All these developments mean that China's manufacturing and construction sectors are likely to suffer the most. For example, under current reform plans, there has been a targeted shutdown of the most inefficient and polluting steel and coal mills, resulting in steel capacity being cut by around 4 percent and coal capacity by 12 percent in 2017. Furthermore, seasonal restrictions on a range of industries and large construction projects have also been implemented in a bid to reduce air pollution.

2018 is expected to see the start of what Chinese policy makers have called 'critical battles' against, firstly, high levels of domestic debt and, secondly, excessive pollution.

According to IMF estimates, China's total non-financial sector debt-to-GDP is expected to reach 251 percent in 2017, which will continue rising to almost 300 percent by 2022 (Figure 8). The rapid rise in debt levels have, by in large, been caused by excessive lending by the informal banking sector, or shadow banks. In many cases, loans have been taken out by local or regional government entities in order to achieve very strict and ambitious central government growth targets. Since such loans are subject to less stringent vetting and are suspected to be hugely underreported on balance sheets, the belief is that the true level of debt exposure by various financial entities is actually much higher than official figures suggest. There are signs that the government is slowly trying to rein in these undesirable practices by restricting money supply in the economy. In fact, data

According to IMF estimates, China's total non-financial sector debt to GDP is expected to reach 251 percent in 2017…

...whilst the IMF also forecasts a rise to almost 300 percent by 2022.

A greater willingness by the Chinese government to tackle debt, overcapacity and pollution in 2018 may lead to lower growth.

on the only publicly available measure of China's money supply, M2, hit a record low growth of around 9 percent in November, against the yearly target of 12 percent, and compared to 11.3 percent in 2016, and 13.3 percent in 2015 (Figure 9).

All in all, a greater willingness by the Chinese government to tackle debt, overcapacity and pollution in 2018 may have to be achieved at the expense of growth. That said, the above measures are expected to be implemented in balanced manner so not to jeopardies a separate target related to doubling 2010's real GDP by 2020.

The Oil Market in 2018

Full year Brent oil prices in 2017 averaged $54 pb, compared with our forecast of $52 pb.

Full year Brent oil prices averaged $54 per barrel (pb) in 2017, compared with our forecast of $52 pb, resulting in a 25 percent rise year-on-year (Figure 10). Improving sentiment over global oil demand and OPEC, and other major producers, adherence to cuts during the year helped push up prices. More recently, oil prices broke through the $70 pb for the first time since 2014, as signs that OPEC and non-OPEC production cuts, which were recently extended until the end of 2018, are creating a more tighter oil market.

Despite the current optimism over price, the oil market faces a number of challenges in the year ahead.

Despite the current optimism over price, the oil market faces a number of challenges in the year ahead. Firstly, there are issues related to OPEC and non-OPEC cuts, and whether they will indeed be maintained until the end of the year. Secondly, of course, is the prospect of a continued rebound in US shale oil production.

Firstly, there are issues related to OPEC and non-OPEC cuts, and whether they will indeed be maintained until the end of the year.

In its latest monthly oil report, OPEC raised global oil demand up for the fifth consecutive month, underlining the bullish tone towards oil prices in recent months. Back in July 2017, OPEC's monthly oil report forecasted global oil demand would rise by around 1.26 million barrels per day (mbpd) year-on-year in 2018, but this was raised to 1.53 mbpd in its December report. Three countries alone are expected to contribute half of the yearly rises in demand in 2018, with China contributing 28 percent, and US and India both 12 percent each, year-on-year.

Crude oil imports in China are expected to keep growing, with higher refinery intake, additional crude oil for strategic storage purposes, and continued lower domestic crude oil production, all supporting growth in 2018. India is also expected to see continued rises in

Figure 8: Chinese non-financial sector debt

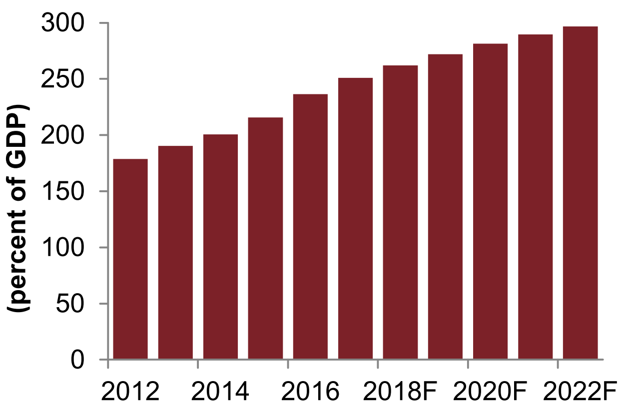
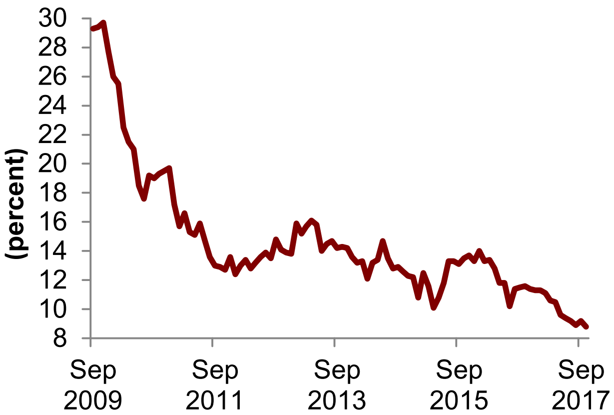


Figure 9: Chinese money supply
(year-on-year change)



Secondly, of course, is the prospect of continued rebound in US shale oil production.

imports, with overall oil consumption expected to rise by 4 percent year-on-year in 2018. In the US, according to Energy Information Administration's (EIA) forecasts, total US liquid consumption will rise by 2 percent, year-on-year in 2018, compared to an average of 0.8 percent in both 2016 & 2017.

US oil production is expected to rise by 11 percent year-on-year in 2017 (to 9.7 mbpd), and 5 percent in 2018 (to 10.1 mbpd).

Meanwhile, latest forecasts from the EIA show sizable rises in total US crude oil production in both 2017 and 2018 (Figure 11). US oil production is expected to rise by 11 percent year-on-year in 2017 (to 9.7 mbpd), and 5 percent in 2018 (to 10.1 mbpd), much slower than average of 14 percent between 2012-15, but a rebound after decline in yearly production in 2016 (at 8.8 mbpd). The rebound, seen since the start of 2017, has come entirely from unconventional (or shale) oil sources and has been encouraged by a recovery in oil prices following an agreement between OPEC and certain non-OPEC countries. After hitting peak production back in February 2015 (at 5.5 mbpd), US shale oil began to decline, as persistent global over supply, helped by record OPEC output, pushed prices downwards. After OPEC cuts and a subsequent oil price increase, from November 2016 onwards, there seems to have been an influx of renewed investment among US shale producers. As a result, US shale oil is expected to achieve an all-time record high of 6 mbpd at the end of 2018 (*for more on this please see our report Shale Oil 2.0 published September 2017*).

Whilst OPEC and some non-OPEC producers agreed to extending cuts until the end of 2018…

...but if an exit from cuts were to take place earlier…

...it is unknown how this would unfold.

Whilst OPEC and some non-OPEC producers agreed to extending cuts until the end of 2018, a decision to exit cuts could take place sooner. The decision will likely depend on whether countries involved in cuts believe that oil balances will fall into sharp deficit or not. Under current projections, when holding all other factors constant, the oil market would likely fall into steep deficit in H2 2018, at -1.6 mbpd, compared to virtually flat oil balances in H1 2018 (Figure 12). Therefore, a major unknown in oil markets in the year ahead is related to possible exiting from OPEC and non-OPEC cuts, despite some members pushing for an extension to the agreement into 2019. Specifically, if an exit from cuts were to take place in 2018, how would it play out? Ultimately, any sort of exit strategy would require OPEC and non-OPEC members to agree on individual output levels again, which opens up risks of disagreement, and the possibility of disorderly exit, whereby all producers begin to accelerate output. Whilst we see the latter option as least likely, since it benefits no one, it still represents a risk.

Figure 10: Brent oil prices

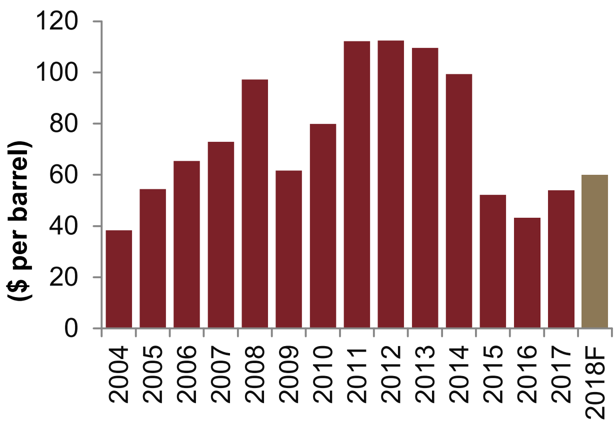
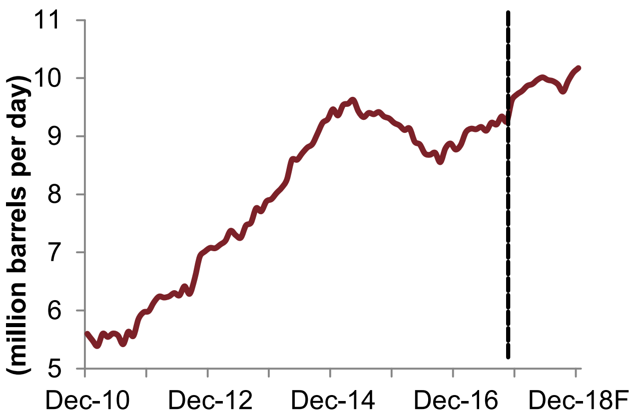


Figure 11: US crude oil production



Despite the current elevated level of prices, we expect full year Brent oil prices to average $60 pb in 2018, up from our previous forecast of $56 pb.

Looking at the oil market as a whole in 2018, we see downward risks to prices attached to expanding US output and possible OPEC and non-OPEC exit from cuts. Therefore, despite the current elevated level of prices, we expect full year Brent oil prices to average $60 pb in 2018, up from our previous forecast of $56 pb.

Saudi Economic Growth

According to provisional full year data published by GaStat, the Saudi economy contracted by 0.7 percent in 2017.

According to provisional full year data published by General Authority for Statistics (GaStat), the Saudi economy contracted by 0.7 percent in 2017 compared to growth of 1.7 percent year-on-year in 2016. As we had predicted, GDP was dragged down by a sizable decline in the oil sector. Saudi Arabia's strict adherence to crude oil production cuts, as part of an agreement with other OPEC members, meant oil sector GDP declined by -3 percent in 2017. Saudi oil production declined by 5 percent year-on-year, to an average of 10 mbpd in 2017 (in-line with our forecasts), down from 10.4 mbpd in 2016.

Growth was dragged down by a sizable decline in the oil sector but non-oil sector growth rebounded to 1 percent during 2017.

Meanwhile, non-oil sector growth rebounded to 1 percent during 2017. We see this rise as a result of more focused and effective use of capital spending by the government during the year, and solid growth in the non-oil private sector especially in 'transport and communications' and 'ownership of dwellings' sector. Non-oil government GDP, which rose to highest level since 2015, at 1.7 percent, also contributed to growth.

Looking ahead, we believe the combination of rise in budgeted capital expenditure, plus SR133 billion capital expenditure by PIF and NDF…

….and private sector stimulus, will boost growth.

Looking ahead, we believe the combination of a 13 percent year-on-year rise in budgeted capital expenditure, combined with SR133 billion capital expenditure through PIF and the NDF (Figure 13) plus a private sector stimulus, will boost growth. That said, there are still a number of downside risks (See Fiscal Policy section below).

That said, a number of downside risks to growth are present…

Consumer spending could be affected after the implementation of VAT, although this is likely be mitigated by payments received under the Citizen's Account and the cost of living allowance announced through a royal decree in January 2018. Meanwhile, a rise in expat dependency fees, and the implementation of expat levies, will further squeeze expat households, whilst the private sector will also see rising costs related to the implementation of expat levies.

Figure 12: Global oil balances assuming cuts hold until end 2018

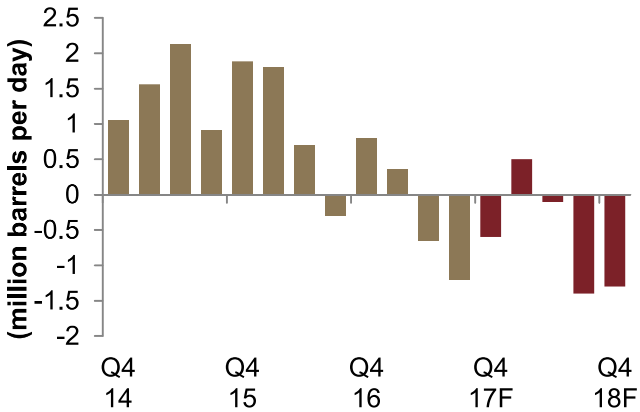
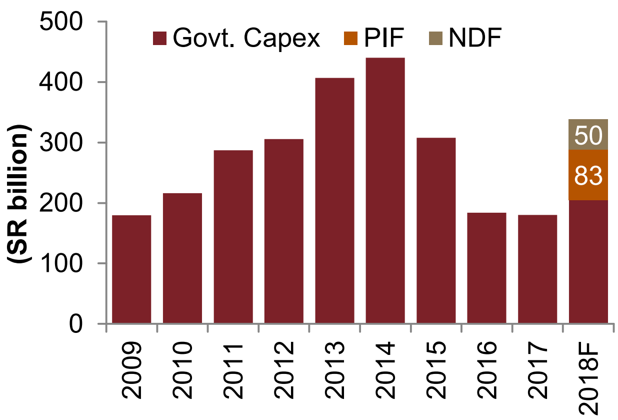


Figure 13: Total capital injection equal to SR338 billion in 2018



...but taking risks into consideration, we see government expenditure for 2018 as being sufficient to continue supporting positive growth in the non-oil sector.

The oil sector growth is forecasted to rise to 1.5 percent, as higher oil production results in a rebound in 2018.

Furthermore, the announced rise in electricity tariffs, along with the price of gasoline as well as diesel prices for manufacturing and utilities (Box 1), will impact running costs of private companies and discretionary income of a number of households. Additionally, another key risk relates to future expected hikes in US interest rates, and the potential impact on the cost of funding and domestic liquidity in the Kingdom (see Monetary and Financial section below).

Table 2: Real GDP shares and growth rates

	2017 % Share of: Total GDP	Non-oil GDP	2016	2017E	2018F
			% year-on-year		
Overall GDP	**100**		**1.7**	**-0.7**	**1.5**
of which:					
Oil sector	43.4		3.6	-3.0	1.5
Non-oil sector	56.6	100	0.2	1.0	1.4
of which:					
Non-oil government sector		30.2	0.6	1.7	2.2
Non-oil private sector		69.8	0.1	0.7	1.1
Non-oil GDP by kind of activity		**100**			
Agriculture		4.2	0.6	0.4	0.4
Non-oil mining		0.7	-1.8	4.3	3.5
Non-oil manufacturing		15.0	-0.7	0.8	1.0
Electricity, gas and water		2.4	2.3	1.3	1.3
Construction		8.1	-3.2	-3.4	0.5
Wholesale & retail trade		16.0	-1.6	0.6	0.2
Transport & communication		10.5	2.7	1.9	2.1
Ownership of dwellings		9.0	3.0	2.2	2.1
Finance, insurance, & bus.		6.4	2.4	2.2	2.0
Community & social services		3.5	1.7	1.2	1.0
Producers of government services		24.6	0.2	1.7	2.2

Taking the above risks into consideration, we see government expenditure in 2018, as per the fiscal budget, and the private sector stimulus plan as being sufficient to continue supporting positive growth in the non-oil sector. As such we expect non-oil sector to grow by 1.4 percent in 2018. More specifically, the set of recent expansionary measures will be particularly growth-enhancing to the private sector, and will help push non-oil private growth to 1.1 percent during the year. Meanwhile, we expect non-oil government sector GDP to rise by 2.2 percent. Overall, we see record budgeted government expenditure in 2018 being more than enough in cushioning the economy from the disruptive effects of contractionary policies.

We expect a rebound in oil sector growth in 2018, partially aided by small rises in crude oil production but also due to refinery expansion

The largest sector in the economy, the oil sector, which accounted for 43 percent in real terms at the end of 2017 (Table 2), is forecasted to grow by 1.5 percent, as result of marginally higher oil production in 2018 (Figure 14). According to latest available data, Saudi crude oil production averaged 10 mbpd in 2017. Looking ahead, we see Saudi oil production rising only marginally, by around 100 thousand barrels per day (tbpd), to an average of 10.1 mbpd during 2018. Saudi Arabia is currently engaged in a production agreement with OPEC and some non-OPEC members. Due to a

We see Saudi production rising only marginally, to an average of 10.1 mbpd during 2018.

recent extension in this agreement, we see Saudi Arabia continuing with stable levels of oil production, even if an earlier than scheduled exit from the OPEC agreement takes place during 2018.

Oil sector GDP is also likely to be boosted by the opening of the export oriented Jizan refinery in 2018.

Oil sector GDP is also likely to be boosted by the opening of the export oriented Jizan refinery in 2018, with Saudi Aramco reporting that it had been 55 percent complete at the end of 2017. The refinery itself is expected to be pre-commissioned in mid-2018, with full commissioning expected shortly after that. The full startup of the 400 tbpd refinery is therefore likely to be staggered over 2018-19, as was the case with similar sized recently opened refineries such as Satorp and Yasref. After the startup of both Satorp and Yasref, oil refining GDP growth, which sits under manufacturing sector, jumped by double digits between 2014-16, and we expect similar rises in 2018 and 2019 as result of the Jizan refinery.

Box 1. Energy Price Reform

Latest available data shows Saudi Arabia's domestic demand is expected to decline by 1 percent year-on-year in 2017.

A number of energy products saw a hike in price for 2018, in line with the government's energy reform plan timeline outlined under the Fiscal Balance Program (Box 4). Prior to the 2018 budget, the Saudi Cabinet approved a rise in electricity tariffs for residential, commercial, agricultural, healthcare, private education and charitable institutions. According to our calculations, based on 2016 electricity consumption data, the residential segment saw the highest rise, by 145 percent, in average electricity tariffs. Prior to the 2018 hike, we calculate that residential users, on average, paid the lowest rate, at one halalas per kilowatt hour (kWh), of electricity, but will now pay 21 halalas per kWh (Figure 15). In addition to electricity, the price of standard and premium gasoline was also raised. Premium gasoline prices rose by 127 percent, whilst standard gasoline rose by 83 percent, inclusive of VAT, which also came into effect in the new year (Figure 16). Separately, diesel for manufacturing and utilities was up 15 percent, but there was no change in price for transportation diesel.

We expect a decline in domestic energy consumption in some fuel types following another round of energy price reform in the Kingdom…

…including a rise in electricity tariffs for residential, commercial, agricultural, healthcare, private education and charitable institutions…

Going forward, we expect a decline in domestic energy consumption in some fuel types following the recent round of energy price reform in the Kingdom. Although, the above price rises should contribute in lowering domestic demand for some fuel types, a number of large manufacturing projects (see non-oil manufacturing sector below), and no major gas supply rises during the year, will, in our view, likely result in flat growth in total energy consumption, rather than a

Figure 14: Oil sector GDP rebounding in line with Saudi crude oil production

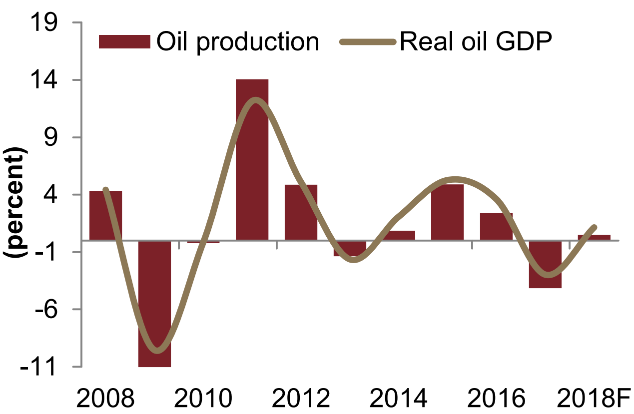
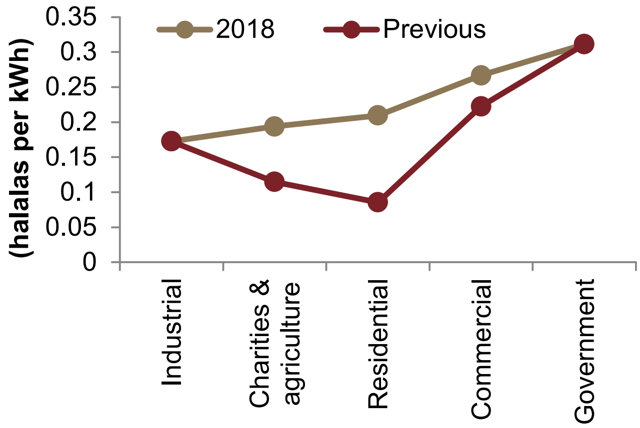


Figure 15: We estimate a 145 percent rise in blended average residential electricity tariffs



...and a price rise for standard and premium gasoline as well as diesel for manufacturing and utilities.

decline in 2018.

Despite this, we see result in flat growth in total energy consumption, rather than a decline, in 2018.

Looking at domestic demand growth in 2017, latest available data shows Saudi Arabia's domestic demand is expected to decline by 1 percent year-on-year in 2017 (Figure 17). A notable fall in consumption was seen in diesel, which is expected to have declined by 14 percent year-on-year, perhaps reflecting a substitution effect and/or subdued activity in the transportation and construction sectors. Despite direct crude oil burn expected to be down marginally, by 1 percent year-on-year, other oil products consumption (which includes crude oil) rose by 7 percent. We see this rise coming from higher usage of naphtha. During Q3 2017, the Sadara Chemical complex became fully operational, with the complex using naphtha as feedstock. Meanwhile, a 4 percent year-on-year rise in consumption is expected to be recorded for gasoline and, more notably, a 10 percent rise in fuel oil, with its use rising due to a substitution effect for more expensive products, such as diesel and/or crude oil.

Wholesale and retail sector grew by 0.6 percent in 2017, after a decline of 1.6 percent in 2016.

Wholesale and retail sector (16 percent of non-oil GDP) growth increased by 0.6 percent in 2017, compared to a contraction of 1.6 percent in 2016. The pick-up in activity in 2017 can be partially attributed to a rise in consumer spending during the year. We see the reinstatement of public sector allowances, following a royal decree in April 2017, and a deflationary trend in food prices, as helping to push up spending during the year. This rise was reflected in higher year-on-year point of sales transactions, which increased by 10 percent, year-on-year in 2017 (Figure 18).

Looking at the year ahead, the sector will be challenged with rising costs related to expat levies, higher commercial electricity prices, and VAT.

Looking at the year ahead, whilst the sector will be challenged with rising costs related to expat levies, higher commercial electricity prices, and through the introduction of VAT, there are some notable upsides. One positive development for the sector has been the decline in commercial property prices, which, according to the latest real estate pricing index published by GaStat, were down by 5.6 percent year-on-year in Q4 2017 (Figure 19). Lower real estate prices will help lower rental costs, which is likely to be a key consideration in the expansion plans of retailers. In fact, a number of electronic retailers and supermarket chains have announced modest expansion plans during 2018. Added to this, some major international retail brands are currently exploring how to set out operations in the Kingdom, and, if this is accomplished during the year, it should help push up growth in the sector.

Figure 16: Gasoline prices rose for the second time in two years

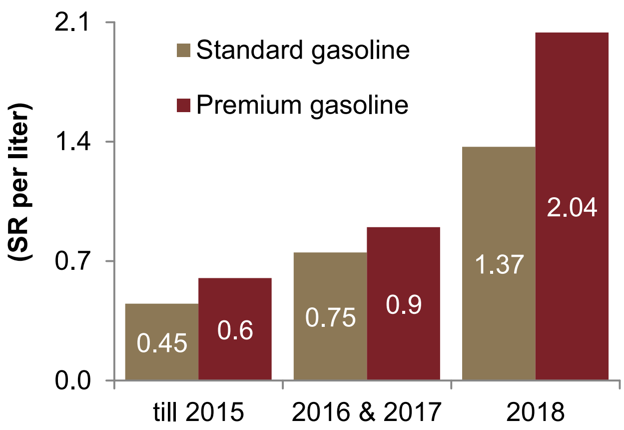
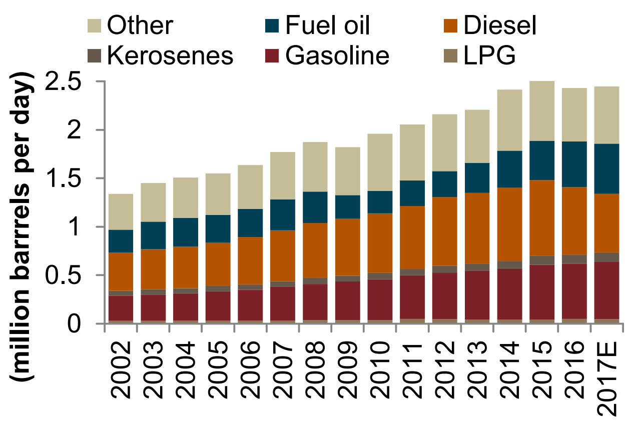


Figure 17: Saudi domestic demand expected to be 1 percent lower year-on-year in 2017



The fast emerging entertainment sub-sector will also affect growth.

Developments related to the fast emerging entertainment sub-sector, which we expect to feature as a sub-sector with the wholesale and retail sector GDP, could also add to growth. A number of strides have been made in the entertainment sector in the last few years. This has included PIF's announcement around the development of an entertainment company, with an initial capitalization of SR10 billion, which will invest in the Kingdom's entertainment sector. Furthermore, with cinemas set to be re-launched in the Kingdom during 2018, the outlook for entertainment sub-sector is likely to be further enhanced. Indeed, other sectors are also expected to benefit from spillovers effects of the latter development, especially advertising and food retail.

Lastly, we expect the commencement of payments under the Citizen's Account to improve the level of disposable income of some lower income households, with this additional income likely to be directed towards consumption of retail goods and services.

Non-oil manufacturing is forecasted to grow by 1 percent in 2018…

Non-oil manufacturing (15 percent of non-oil GDP) saw growth of 0.8 percent in 2017. We see growth during the year being hampered by a number of issues related to the largest sub-sector, petrochemicals, which accounts for around 44 percent of total non-oil manufacturing GDP. Specifically, the petrochemical sector was affected by, firstly, reports of feedstock constraint issues affecting operations at some plants, and, secondly, a power outage in Jubail in May 2017. All these factors are likely to have affected petrochemical sector output, therefore contributing to a lower value of exports, by 2 percent year-on-year, in the year-to-October 2017 (Figure 20).

...with a SR30 billion export bank should support the sale of industrial and mining products…

Looking ahead, several major manufacturing projects, which contribute to our forecasted growth of 5.2 percent for the sector, will enter the operational phase in 2018. These include the Petro Rabigh II, planned to go on-line in Q1 2018, and the SR4.5 billion joint venture between Sabic and Mitsubishi Rayon Company, which will bring two acrylates plants on-line in Jubail in Q2 2018. Additionally, the $20 billion Jubail-based Sadara Chemical Company, which was fully commissioned in August 2017, will improve full year data.

Additionally, the Minister of Energy, Industry and Mineral Resources (MEIM) announced the establishment of an export bank, with capital of SR30 billion, to support the sale of industrial and mining products

Figure 18: Indicators of consumer spending
(year-on-year change)

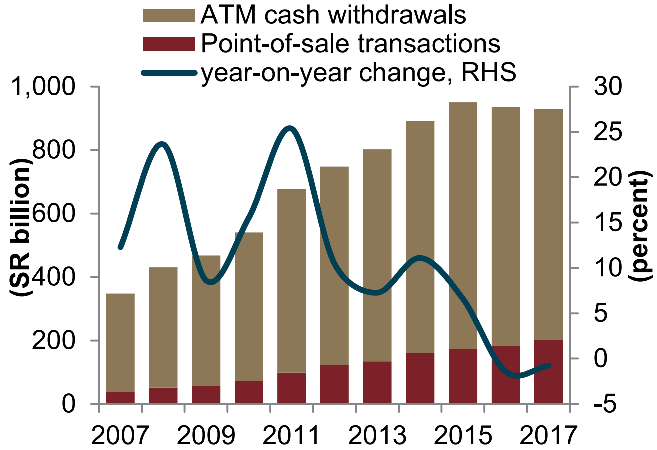
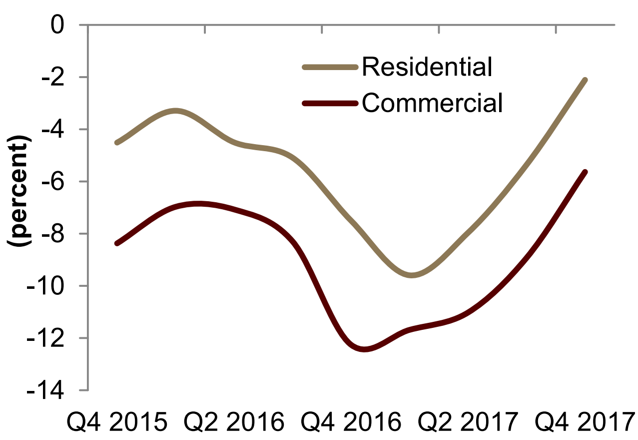


Figure 19: Real estate price index



...but we see two main challenges facing the non-oil manufacturing sector in 2018: expat levies, and the possibility of a stronger US dollar.

We expect transport and communication to see higher growth rates in 2018…

...as a number major projects, including;…

internationally, with the first installment totaling SR5 billion having already been allocated during 2017. In addition, exports will also be supported by a new SR5 billion initiative announced by the Ministry of Commerce and Investment (MOCI) in December 2017, which aims to facilitate export financing. These measures should improve the outlook of the non-oil manufacturing sector in 2018 and beyond, as the Kingdom aims to expand the share of non-oil GDP in the economy, as set out under the Vision 2030.

Furthermore, despite fuel and energy price reform commencing in January 2018, the industrial sector is exempted from direct energy reforms during 2018, in a step that aims to enhance the sector's growth and competitiveness. Added to this, the Minister of Energy indicated that a program similar to the Citizen's Account may be established to support the industrial sector as planned energy price reform takes place in the coming years.

That said, we see two main risks facing the sector in 2018. The first relates to the commencement of 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 exhibits low levels of Saudization, at 20 percent in Q3 2017. The second relates to any excessive monetary tightening by the US Fed, at a level higher than currently expected, which could result in a sharp recovery in the US dollar, and therefore the Saudi riyal, thereby decreasing the level of competitiveness of Saudi exports.

According to the Ministry of Transport (MOT), Saudi Arabia saw SR4 billion worth of transport projects in the kingdom in 2017, which contributed to pushing **transport and communication (10.5 percent of non-oil GDP)** sector's growth by 1.9 percent in 2017. The MOT project's included 108 kilometers (km) of highways, 907km of double roads, 659km of single roads, 809km of agricultural roads, 35 upper intersections, and one tunnel, as of October 2017. Additionally, a large section of a 2,750 km railway line linking Riyadh with the northern city of Al-Gurayat came on-line during the year. Also, a rise in the total number of hajj pilgrims, by 26.3 percent year-on-year, was also seen during 2017, with a higher proportion of pilgrims coming from aboard (Figure 21). This is expected to have contributed to pushing up demand for both transport and communication services for the year.

Figure 20: Petrochemical exports

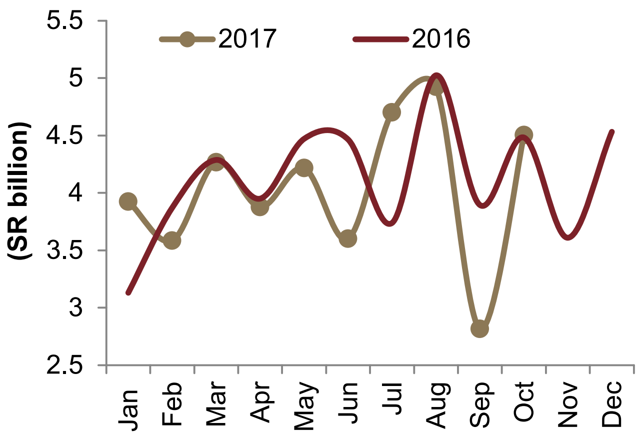
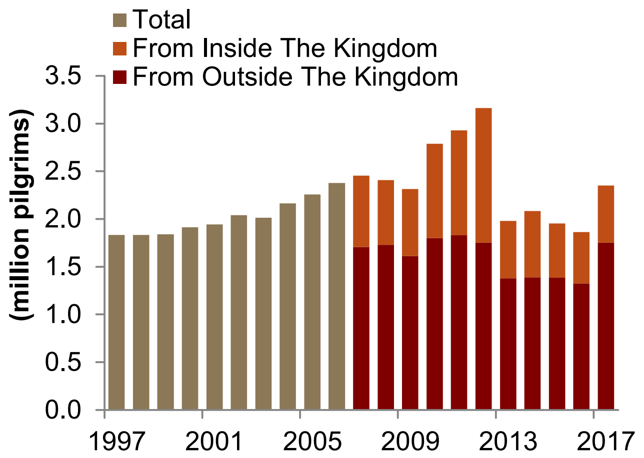


Figure 21: Number of pilgrims performing Hajj



...the King Salman International Complex for Maritime Industries and Services,…

Looking at the year ahead, a number of projects are planned to come on-line that will significantly boost growth in the sector and make it, in our forecasts, the largest contributor to non-oil private growth during the year. One of the main projects in the sector will no doubt be the King Salman International Complex for Maritime Industries and Services. The complex is a joint venture between National Shipping Company of Saudi Arabia (Bahri), Hyundai Heavy Industries, and Lamprell. The main port of the maritime complex is expected to be operational in 2018, but the completion of the complex will be achieved in 2022. According to Saudi Aramco, the entire project is designed to contribute circa SR64 billion to the Kingdom's GDP, boost import substitution for maritime products and services by around SR45 billion, and create more than 80,000 direct and indirect jobs by 2030. The integrated maritime yard is expected to be the largest in the region, in terms of both production capacity and scale.

...high-speed Haramain train…

Another notable project coming on-line during the year includes the high-speed Haramain train connecting Makkah, Madinah and Jeddah, which will further facilitate transportation in the region. Meanwhile, phase one of Jeddah's King Abdul Aziz International Airport expansion is expected to be completed before the Hajj season of 2018, and should push capacity to a maximum of 35 million passengers, compared to over 30.1 million passengers during 2015 (latest available data from the General Authority of Civil Aviation). The second phase -due for completion in three/four years- will result in capacity rising to 65 million passengers, with the third phase pushing capacity up to 90 million, in 2030. Along with the Haramain train, the expansion in Jeddah's airport capacity is aimed at accommodating a larger number of pilgrim traffic, especially during the peak religious seasons of Ramadan and Hajj.

...and Jeddah's airport capacity all come on-line during the year.

Growth in **the ownership of dwellings (9 percent of non-oil GDP)** saw 2.2 percent growth in 2017, lifted by the Ministry of Housing's (MOH) 'Sakani' program, which aims to provide a number of varied housing products on a monthly basis to citizens. By the end of 2017, the number of units provided totaled 282.7 thousand, slightly exceeding the targeted 280 thousand units for the year.

Ownership of dwellings is likely to contribute more significantly towards private sector growth in 2018 and beyond…

For 2018, the MOH is set to raise the annual target to 350 thousand units, with 110 thousand to be allocated in Q1 2018. In addition, the MOH has continued to register eligible plots following the royal decree regarding the annual tax on undeveloped urban land. The government began the first phase of levying a 2.5 percent land tax on undeveloped urban land in March 2017, which should increase land supply in the short term. The increased availability of land will allow more affordable access to plots, which should lead to a rise in land transactions and contribute to lifting the value added generated by real estate services. This should ultimately lead to higher growth in ownership of dwellings. As of November 2017, the MOH had issued tax payment orders for a total area of 400 million square meters of undeveloped land plots. This presents a significant opportunity in real estate development since these empty land plots constitute more than 50 percent of urban boundaries in most of the regions, including Riyadh and the Eastern Province, the two regions with large populations and most dynamic economic activity.

...driven by major initiatives of the MOH.

Overall, we anticipate better performance in housing sector primarily as a result of more residential units supplied by MOH programs. Moreover, with around a third of the SR72 private sector stimulus being allocated for residential real estate loans, this should also help improve the ownership of dwelling sector's output during 2018 and beyond (Box 2).

Box 2: Private Sector Stimulus Package

The government announced a SR72 billon program to stimulate private sector growth…

The government announced a SR72 billon program to stimulate private sector growth, as part of a four year package, with SR24 billion of this being expended in 2018. The package includes 16 initiatives directed towards a number of sectors, such as housing, exports and manufacturing.

The package aims to boost growth in the private sector, especially after a relative slowdown in the local economy in the past two years. A considerable portion of the SR72 stimulus package is allocated to the real estate sector; SR21 billion for residential housing loans, and SR14 billion for efficient building technologies projects. The two initiatives together account for about 48 percent of total stimulus package, thereby showing significant support to the housing and construction sectors.

.as part of a 4-year stimulus package.

The stimulus package also includes SR10 billion for mega private sector projects, SR5 billion for an export bank, SR5 billion for an investment program and SR2.8 billion for Small and Medium-sized Enterprises (SMEs) venture capital projects. An important initiative to the SMEs is reimbursement of government fees paid by SMEs for the first three years of the start-up with an allocated package of SR7 billion, for companies launched from 2016 onwards. The repayment also covers 80 percent of SMEs expat levies for three years, thereby helping such enterprises cope with costs in the initial years of transition under current economic reform plans.

The package includes 16 initiatives directed towards a number of sectors, such as housing, exports and manufacturing.

The stimulus package is a clear sign that particular effort is being made by government to enhance competiveness and attract investments in the private sector. The package is expected to enhance growth in the private sector through encouraging investment and providing support to the key growth enablers in the economy, such as SMEs.

The construction sector continued its decline in 2017, dropping by 3.4 percent, after a significant drop by 3.2 percent in 2016.

The **construction (8.1 percent of non-oil GDP)** sector contracted by 3.4 percent in 2017, after declining 3.2 percent in 2016. Cement and steel production, a gauge of construction sector activity, were both down in 2017. Cement production was down 16 percent year-on-year, whilst steel was down by 13 percent year-on-year in 2017 (Figure 22). Meanwhile, credit to the building & construction sector was down 10 percent year-on-year in 2017.

The construction sector is forecasted to pick up in 2018, driven by MOH housing programs...

That said, we expect this sector to see better performance in 2018, as the roll-out of MOH's programs combined with capital spending from government, PIF and NDF, amounting to SR338 billion, lifts the sector. Specifically, the PIF is planning to invest a total of SR42 billion (out of SR83 billion) on 'new' projects in 2018. We expect this to include PIF's giga-project, the Qiddiyah entertainment city, which will move to phase four, from planning to building, during 2018. Additionally, phase one of the Red Sea Project will commence, with this phase continuing through to 2022. Taking all this together, we expect a slight rebound in the sector in 2018, at 0.5 percent.

…and a number of giga-projects announced by the PIF around the

Finance, insurance, and business services (6.4 percent of non-oil GDP) showed strong performance of 2.2 percent in 2017, *Kingdom.*

Finance, insurance, and business services showed strong performance in 2017, by 2.2 percent.

Looking ahead, a number of key developments are expected to accelerate the pace of growth in the sector during 2018...

...particularly in capital markets.

Measures taken by the CMA in 2017 and more recently in early 2018…

...do raise the possibility of the Saudi Stock Exchange being included in MSCI emerging market index.

If this does transpire, we would expect to see a sizable inflow of funds between the announcement

supported by higher growth coming from financial services sub-sector. Despite the slowdown in bank claims on the private sector (Figure 23), growth was stimulated by continued developments within capital markets. More specifically, the Saudi Stock Exchange (Tadawul) saw the introduction of a new operating model in April 2017, which included the introduction of a T+2 settlement system (*for more on this please see our Recent CMA announcements related to Tadawul report published May 2016*). Additionally, International Financial Reporting Standards (IFRS) for listed companies were also adopted. Moreover, TASI was included on a watch-list for inclusion in the MSCI EM and FTSE Russell indices. Furthermore, Tadawul launched the parallel market (Nomu) in February 2017, with lighter listing requirements compared to the main market, encouraging more companies to go public.

Looking ahead, a number of key developments are expected to maintain the pace of growth in the sector during 2018, with the most anticipated initiatives being expected within capital markets. In recent weeks, the Capital Market Authority (CMA) announced measures to further ease restrictions for foreign investors. Specifically, in the amendments announced in January 2018, the CMA reduced the minimum requirement for assets under management of qualified foreign investors (QFI) for buying publicly-traded companies, to US$500 million from $1 billion previously. Further, the CMA streamlined the registration process for QFIs with the CMA and updating the Independent Custody Model (ICM) to enhance QFI access to the market.

A statement released by the MSCI, shortly after the above announcements, conveyed an overwhelmingly positive message and highlighted that there were no issues with respect to the new operating model in Tadawul, which has been in place since April 2017. Although the MSCI did highlight that some more time may be needed to fully assess the new model, the above developments do raise the possibility of the Saudi Stock Exchange being included in MSCI EM index, with the final decision expected in June 2018. If this does transpire, we would expect to see a sizable inflow of funds between the announcement of the inclusion and the actual inclusion. Furthermore, an even larger amount of portfolio inflows is likely to materialize once a part of Saudi Aramco's initial public offering (IPO), planned for the second half of 2018, takes place on Tadawul, in addition to a yet to be disclosed international stock exchange(s).

Figure 22: Steel and cement production
(year-on-year change)

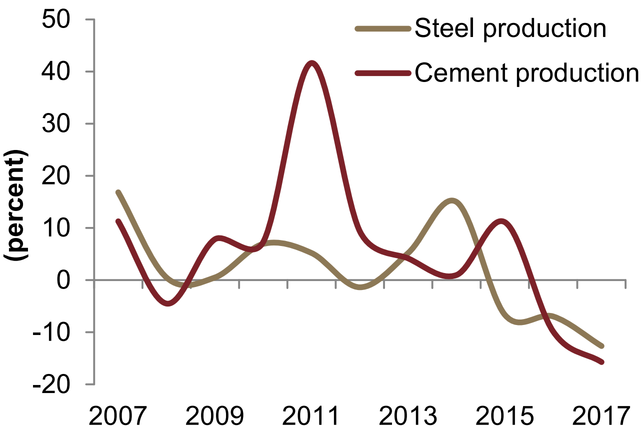
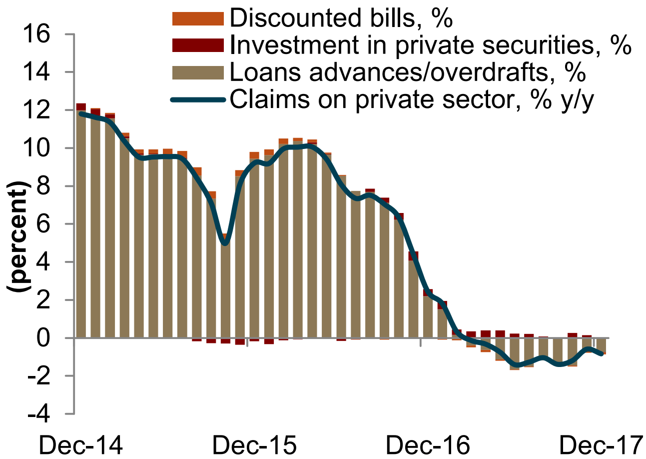


Figure 23: Bank claims on the private sector



of the inclusion and the actual inclusion.

Electricity, gas, and water (2.4 percent of non-oil GDP) saw a year-on-year rise of 1.3 percent during 2017. In 2018, we see the sector's growth rate at similar levels, at 1.3 percent, as an increase in electricity tariffs encourages more efficient electricity consumption. According to Electricity and Cogeneration Regulatory Authority's (ECRA) data, following the previous round of energy price reform, back in 2016, peak loads (maximum level of electricity demand over a 24 hour period) declined by 2 percent year-on-year, to 60 thousand gigawatt hours (GWh) in 2016. Looking ahead, we expect an even sharper decline in peak demand following a more hefty rise in tariffs in 2018. That said, the Kingdom is still likely to see growth in overall demand for power, as a result of population growth, and improved levels of access to electricity following investment in transmission and electricity networks in the last few years. As a result, two power projects are expected to come on-line during 2018 to accommodate rising demand. This will include the Duba 2 and the Ras Al Zour power plants, which will add a total of 4 GW, or 6 percent, of additional generation capacity.

In 2018, we see the electricity, gas, and water sector's growth rate at 1.3 percent.

The non-oil mining and quarrying (0.7 percent of non-oil GDP) saw notable growth by 4.3 percent in 2017, mainly as a result of the SR30 billion Waad Alshamal project coming on-line in H2 2017. The project includes 10 production facilities, making it one of the world's largest integrated phosphate complexes.

The non-oil mining and quarrying sector is forecasted to post another year of significant growth in 2018, after a notable growth by 4.3 percent in 2017.

The non-oil mining sector is forecasted to post another year of significant growth in 2018, at 3.5 percent, with the sector expected to be one of the major benefactors from the SR30 billion export bank launched by the MEIM in December 2017. The bank aims to boost the Kingdom's exports from various manufacturing sectors through financing new projects and companies. In addition, the Saudi Industrial Development Fund (SIDF) saw a substantial rise in its capital, by SR25 billion, to a total of SR65 billion, in 2017. In line with Vision 2030, the rise was specifically directed at strengthening the Kingdom's industrial strategy towards a number of new industries, including mining. Overall, such initiatives will be growth enhancing for the sector during the year, and despite its relatively small contribution to GDP currently, we expect sizable growth in this sector in the years to come.

In 2018, the non-oil mining sector will also be one of the major benefactors of SR30 billion export bank.

Fiscal Policy

The 2018 budget disclosed the largest ever budgeted expenditure at SR978 billion, up by SR88 billion or 10 percent year-on-year (Figure 25). This year's budget continues to support the overarching goals of the Vision 2030, with a strong focus on supporting economic diversification, shielding economically vulnerable households from necessary energy price reforms, and spending on key physical and social infrastructure. Also, SR72 billion worth of measures to stimulate growth in the private sector, as per a royal decree, were announced before the budget. These measures are part of a stimulus package that will be extended over four years.

The 2018 budget disclosed the largest ever budgeted expenditure at SR978 billion...

According to the statement, budgeted capital spending will rise by 14 percent year-on-year, to SR205 billion in 2018. This compares to SR180 billion in 2017. This type of expenditure can have positive implications on growth in the non-oil private sector, since capital spending normally leads to higher demand for services from some of

...with larger capital spending showing renewed emphasis by

government to support growth in the private sector.

In total, capital spending from government, PIF and NDF will amount to SR338 billion in 2018.

Meanwhile, current spending (the more rigid part of expenditure) is expected to increase by 4 percent, year-on-year, to a budgeted total of SR773 billion…

...although a recent royal decree which, amongst other things, included a monthly payment of SR1,000 for civil servants over the next year…

...may lead to higher than

the largest sectors in the private economy, including construction, transport, and utilities. As such, the larger capital spending in 2018 shows a renewed emphasis by government to support growth in the private sector and help realize the objectives highlighted under the Vision 2030.

Separately, a total of SR133 billion will be expended by the PIF and the NDF during the year, although this amount will not be funded through the 2018 budget. PIF will spend SR83 billion, whilst the NDF will spend SR50 billion, in specific projects in Saudi Arabia, which will significantly boost the level of capital expenditure in the Kingdom. In total, capital spending from government, PIF and NDF will amount to SR338 billion in 2018.

Meanwhile, current spending, the more rigid part of expenditure, is expected to increase by 4 percent, year-on-year, to a budgeted total of SR773 billion (Box 3). Payments under the Citizen's Account program, which commenced on 21st December 2017, will also raise current expenditures in 2018, and beyond. The program will initially provide monthly payments to protect the most vulnerable households from energy price reform, but will eventually include all types of welfare payments. According to the budget statement, around SR2.5 billion per month, or SR30 billion annually, was earmarked for the Citizen's Account program in 2018.

Box 3. Rise in Allowances

A recent royal decree which, amongst other things, included a monthly payment of SR1,000 for civil servants over the next year to compensate for higher living costs, may lead to higher than budgeted current spending. According to the MOCI, the total cost for the package of allowances will be around SR50 billion during 2018. It is currently unclear whether or not this amount was budgeted for in the 2018 fiscal budget. If it is an additional expense then we would expect either budgeted capital expenditure to decline to cover the rise in allowances, or a higher level of debt being issued than currently planned during 2018. In the case of the former, any decline in budgeted capital expenditure would have implications for non-oil private growth. Conversely, in the case of the latter, assuming this led more domestic debt to be issued than currently planned (circa SR47 billion), then this would have implications on domestic liquidity levels.

Figure 24: Budgeted expenditure

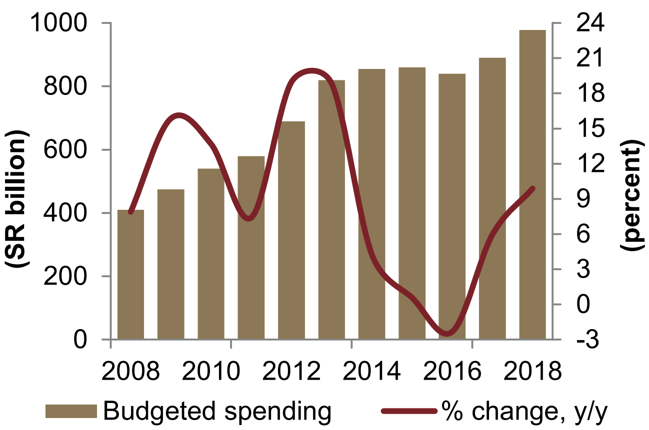
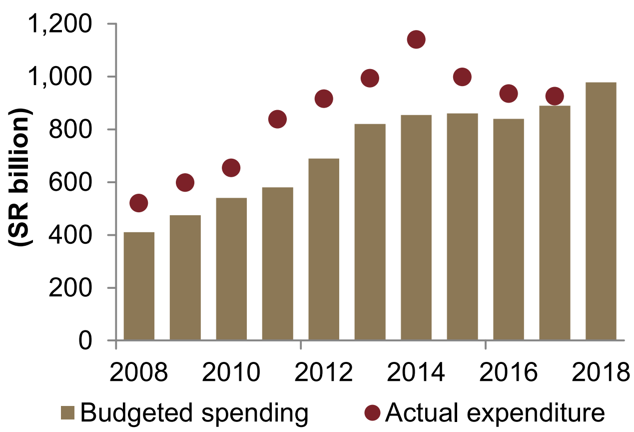


Figure 25: Actual and budgeted spending



budgeted current spending.

As per the trend in the last couple of years, with the level of overspending (actual versus budgeted spending) narrowing, we expect 2018 actual expenditure to be very close to the budgeted total of SR978 billion (Figure 25). This is in line with initiatives outlined in the FBP and implemented under the recently established Spending Efficiency and Realization Centre (SERC) and Strategic Procurement Unit (SPU). This point has been reiterated under the update FBP, which states that the SERC and SPU will help achieve cumulative savings of SR220 billion by 2023, with a total saving of SR56 billion being realized in 2017.

We expect 2018 actual expenditure to be very close to the budgeted total of SR978 billion.

On the assumption that all of oil revenue is derived from oil export revenue, we calculate that a Saudi export price of $58 pb (around $60 pb for Brent) (Figure 26) and crude oil production of 10.1 mbpd in 2018 are consistent with the oil revenue projections contained in the 2018 budget. Whilst we expect Brent oil prices to average $60 pb, and crude oil production to be 10.1 mbpd, in 2018, our budgeted oil revenues is equal to SR466 billion, or SR26 billion less than the government's budgeted revenue of SR492 billion. The difference in oil revenue may be due to additional revenue from domestic energy price reform, which was announced at the start of 2018. On the non-oil revenue side, we expect to see this figure equal to the budgeted figure of SR291 billion. As a result, we forecast a slightly higher budget deficit of SR220 billion in 2018, equivalent to 7.6 percent of estimated GDP.

We calculate that a Saudi export price of $58 pb (around $60 pb for Brent) and…

Brent oil prices improved 25 percent year-on-year in 2017, and are currently around three year highs of $70 pb. Recent improvements in global oil markets have no doubt led to budgeted government oil revenue rising by 32 percent year-on-year. There has also been an emphasis on increasing non-oil revenue (Figure 27) with the government budgeting for SR291 billion in non-oil revenue in 2018, showing a strong growth of 37 percent and 14 percent over 2017's budgeted and actual figures, respectively. Rises in non-oil revenue will come from a number of areas, including rises in expat dependent fees and the introduction of expat levies, the introduction of VAT, receipts from white land tax, and from improvements in investment income due to PIF's more active approach in managing sovereign wealth.

...crude oil production of 10.1 mbpd in 2018, are consistent with the revenue projections contained in the budget.

Another area where revenue will be improved is through rises in domestic energy prices.

Another area where revenue will be improved is through rises in domestic energy prices. Prior to the budget, the Saudi Cabinet approved a rise in electricity tariffs, which is expected to raise

Figure 26: We estimate budgeted Brent oil price to be $60 pb in 2018

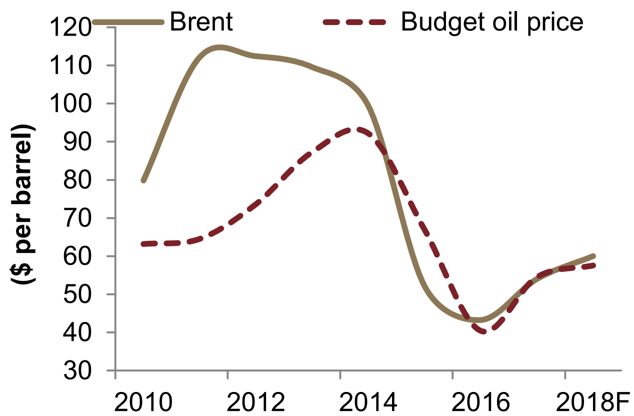
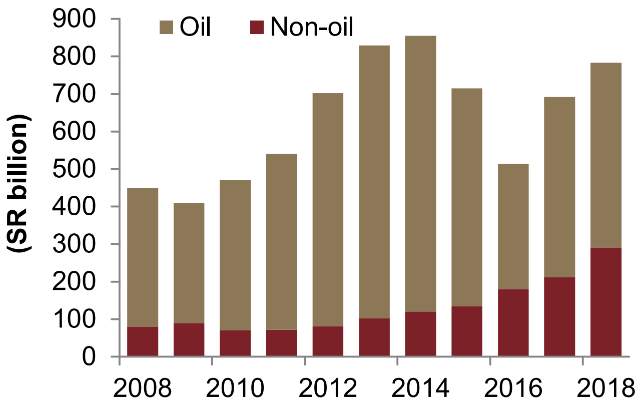


Figure 27: Budgeted revenue



government revenue by SR14 billion during 2018. In addition to electricity price hikes, the price of standard and premium gasoline was also raised and so too was diesel for manufacturing and utilities, although there was no change in the price of transportation diesel.

The Kingdom is budgeting for a fourth consecutive, but shrinking, fiscal deficit of SR195 billion in 2018.

The Kingdom is budgeting for a fourth consecutive, but shrinking, fiscal deficit of SR195 billion in 2018, compared with SR230 billion in 2017 and SR416 billion in 2016. This is in line with the expected easing of previous targets which aimed to balance the budget by 2020. There now seems to be a longer timeline attached to balancing the budget (Box 4), which is designed to avoid excessively slowing economic growth.

We expect debt issuances not to exceed SR117 billion in 2018, which would put 2018 year-end public debt at SR560 billion.

We expect debt issuances not to exceed SR117 billion in 2018, which, assuming no repayments, would put 2018 year-end public debt at SR560 billion (19 percent of GDP), compared to SR443 billion at the end of 2017. Besides the issuance of debt, the 2018 deficit will also be financed from drawing down SR78 billion from the stock of government deposits/FX reserves during the year. According to latest data available, net foreign assets at the Saudi Arabian Monetary Authority (SAMA) stood at $496 billion (SR1,861 billion), at the end of 2017, and we see these declining to $474 billion by the end of 2018.

Monetary and Financial Developments

The private sector in the Kingdom is seen to be challenged by a potential rise in the repo rate.

The private sector in the Kingdom is likely to be challenged by a potential rise in the cost of funding during 2018, resulting from expected rises in the repo rate in line with hikes in US interest rates. As such, we expect this risk to be mitigated by the announced set of expansionary measures, such as the private sector stimulus package, which would potentially help funding the private sector. Meanwhile, we expect that the issuance of international bonds will continue to help improve liquidity in the banking system.

A rise in interest rates in December by the US Fed saw SAMA mirroring this rise…

In December 2017, a rise in interest rates by the US Fed saw SAMA mirroring this rise by increasing its reverse repo policy rate (RRR) by 25 bps to 1.5 percent. SAMA's key policy repo rate, however, was unchanged at 2 percent, resulting in a break in an 8-year old 100 bps spread between the RRR and repo rate in Saudi Arabia (Figure 28). We see this as part of SAMA's continuous measures to ensure suitable levels of liquidity in the domestic financial system, especially so in the context of subdued economic growth and rising funding costs.

...by increasing its reverse repo policy rate by 25 basis points to 1.5 percent.

The Governor of SAMA had previously indicated that a number of tools could be used to manage liquidity in the local market. These could include deposit placements and swap arrangements, both of which have been used in the Kingdom previously, with serious consideration also being paid to the use of open market operations. Despite this, as the Fed continues to tighten interest rates in 2018, and as the gap between SAMA's repo and reverse repo rate shrinks, we expect to see a rise in the repo rate, to 2.5 percent, by the end of 2018.

A number of domestic sukuk issuances during 2017 resulted in pushing up bank claims on the public sector to 17.8 percent of total claims by December 2017, compared to 13.9 percent in December 2016. Bank claims on the private sector, which represent 83 percent

In 2017, the broad measure of money supply (M3) marginally increased by 0.2 percent year-on-year…

...and had been positive for most part of the year.

Liquidity pressures and interbank interest rates have eased, with 3-month SAIBOR falling to 1.9 percent in December 2017 vs. 2 a year earlier.

Looking ahead, higher government capital spending in 2018, and a non-oil private sector should support adequate growth in bank deposits.

We expect inflation rates to rise in January 2018, affected by the implementation of VAT...

...although the impact of the tax varies among the CPI basket segments.

of total bank claims (including credit and other investments), declined by 0.6 percent in 2017, with negative growth observed for ten consecutive months until December 2017.

The broad measure of money supply (M3) marginally increased by 0.2 percent year-on-year in 2017, and had been positive for the most part of the year (Figure 29). Added to this, liquidity pressures and interbank interest rates have eased, with 3-month SAIBOR falling to 1.9 percent in December 2017 versus 2 percent in December 2016. We see this being a result of a number of factors, including a reinstatement of public sector allowances (announced in April 2017, but backdated to the beginning of the 2017), the government maintaining elevated levels of spending during 2017 and a total of SR81 billion in international sovereign bond and sukuk being issued during the year (Figure 30). Accordingly, an improvement level of point of sales transactions was also seen, by 10 percent year-on-year in 2017.

The loan-to-deposit ratio stood at 80 percent in December 2017, unchanged from its level a year ago and well below SAMA's regulatory limit of 90 percent. Meanwhile, loans to the private sector declined by 0.8 percent year-on-year in 2017, and deposits saw flat growth over the same period (Figure 31).

Looking ahead, higher government capital spending in 2018, and a subsequent pick-up in non-oil private sector, should support adequate growth in bank deposits in the year ahead, although the extent to which may be limited by continued government issuance of local sukuk to a total of around SR47 billion in 2018.

Pick-up in inflation in 2018:

The latest GaStat release for full year 2017 shows that prices were marginally down by 0.3 percent year-on-year, largely affected by declines in 'food & beverages', 'recreation & culture' and 'transport' segments. We expect inflation to rise in January 2018, largely as a result of the implementation of VAT and utility price reform. Within the CPI basket, the impact of the 5 percent tax increase is expected to vary among segments. For example, 'food & beverages', 'clothing & footwear' and 'communication' are expected to reflect fully the 5 percent VAT rise, since none of these items are exempt. That said, there are a number of segments within the CPI basket that could see

Figure 28: Interest rates

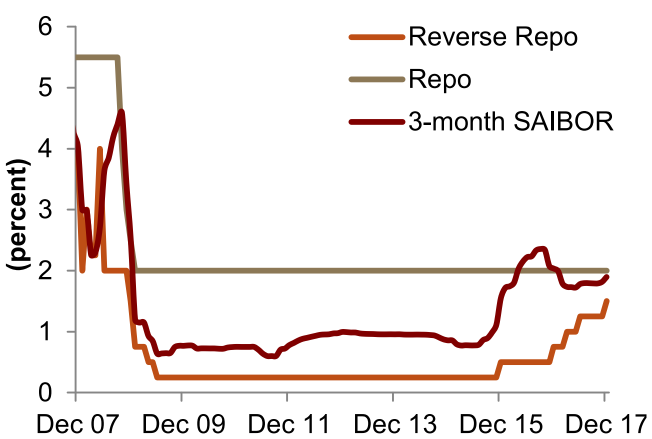
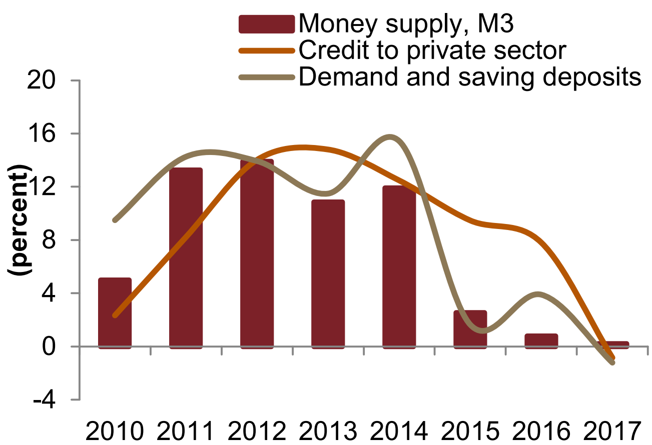


Figure 29: Growth in money supply (M3)
(year-on-year change)



Prices are expected to marginally decline after a spike in January, making our 2018 full year inflation forecast to average around 5.2 percent.

The newer gradual approach of the FBP and the Citizen's Account would help easing the anticipated inflationary pressures in the coming years.

marginal impact of VAT. For example, we expect the 'transport' segment to show a proportionally lower rise in inflation since international transport, a component in the 'transport services' sub-group, is exempt from VAT.

In addition, we expect prices to marginally decline after a spike in January, driven by an anticipated weaker demand, especially on goods and services with an elastic demand. As inflation in 2018 is caused by increasing prices in final goods and services through the one-off shocks coming from VAT and utility price reforms, and not driven by higher demand, it is seen to be cost-push inflation. Accordingly, suppliers are expected to adjust prices thereafter to meet weaker local demand, resulting in declining inflation rates. That said, we expect inflation rate for the full year of 2018 to average around 5.2 percent (Figure 32).

We believe the commencement of the Citizen's Account, and the recent royal decree ordering a monthly payment of SR1000 to public sector employees during 2018, should help citizens cope with inflationary pressures over the course of year.

The Outlook for 2019

We expect economic growth to continue improving in 2019 helped by another record level of budgeted government expenditure, as outlined in the updated FBP .

We see the construction, non-oil manufacturing and transport sector as being the stand out sectors in 2019.

We expect economic growth to continue improving in 2019, on the back of another record level in budgeted government expenditure, at SR1 trillion, as outlined in the updated FBP (Box 4). As global oil balances fall into a deficit, most likely in H2 2018, and OPEC exits its cut deal, this will allow Saudi Arabia to expand production, to 10.3 mbpd, which, in turn, will help to raise oil sector GDP to 3.3 percent in 2019. Meanwhile, we expect non-oil GDP growth to pick up to its highest level since 2015, as the economy absorbs the potentially disruptive effects of VAT and energy price reform enacted in 2018. Continued expansions in budgeted capital expenditure by 6 percent year-on-year, and minimal scheduled energy reform during the year (Table 3), should see non-private sector growth rise to 1.8 percent. That said, the continued rise in expat levies during the year will add to operating costs of corporates, which is likely to affect profitability and so will any additional unscheduled rises in electricity, especially for the industrial segment, which did not see any price rises in the recent hike.

Figure 30: Excess liquidity

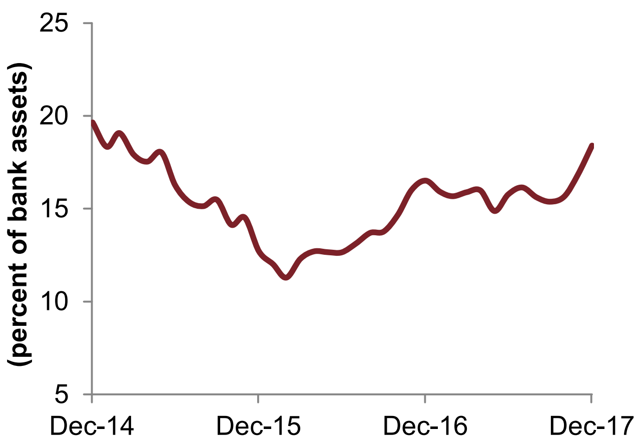
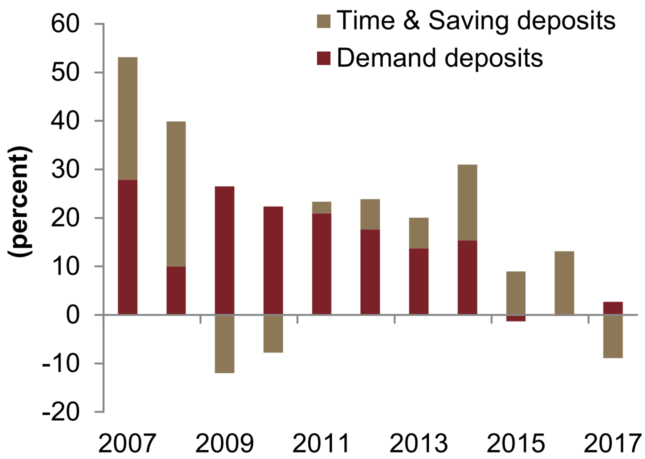


Figure 31: Private sector deposits
(year-on-year change)



The government expects total revenue to be around SR843 billion in 2019, but expenditure will rise to just over SR1 trillion.

Accordingly, the fiscal deficit will continue to shrink, by 7.3 percent year on year, to SR163 billion.

Improvements in both oil and non-oil export revenue will help push the current account balance up more significantly in 2019, to 5.4 percent of GDP.

With the higher base of VAT from 2018 and fewer scheduled energy price hikes, we expect minimal inflationary pressures in the Kingdom in 2019.

Continued expansions in budgeted capital expenditure by 6 percent year-on-year…

...and minimal scheduled energy

We see the construction, non-oil manufacturing and transport sectors as being the stand out sectors in 2019. On the construction side, the sector should show strong growth in 2019, especially so as a number of PIF's giga-projects begin to take shape to boost the sector. Aside from the continued development of the Red Sea project, the main pillars of the giga-project, Neom, will also be laid out and Qiddiyah will continue to see construction during 2019. Meanwhile, non-oil manufacturing will continue to benefit from initiatives to boost exports as the Kingdom aspires to expand its share of non-oil GDP, as stated in Vision 2030. The much anticipated SR82 billion Riyadh metro is also expected to come on-line during 2019, which will result in lifting the transport sector.

On the fiscal front, according to the updated FBP, the government expects total revenue to be around SR843 billion in 2019, but expenditure will rise to just over SR1 trillion. Accordingly, the fiscal deficit will continue to shrink, by 7.3 percent year-on-year, to SR163 billion. Based on crude oil production of 10.3 mbpd and Brent oil prices at $65 pb, with a transfer ratio of 69 percent, we estimate that oil revenue will make up SR513 billion, or 61 percent of total revenue. Based on our calculation, this implies non-oil revenue would have to equal SR330 billion in 2019, representing a rise of 13 percent over 2018's budgeted total of SR 291 billion. Meanwhile, the government expects to issue additional debt to the equivalent of SR118 billion, pushing total public debt to SR673 billion, which, according to our calculations, would result in a debt-to-GDP ratio of 21 percent at the end of 2019.

Improvements in both oil and non-oil export revenue will help push the current account balance up more significantly in 2019, to 5.4 percent of GDP. An improvement in export revenue will be one of the main contributing factors to slowdown in net FX reserve withdrawals during the year. According to our estimates, net FX reserves withdrawals will slow to their lowest annual decline since 2014, to $16 billion, compared to expected annual average decline of $67 billion between 2015-18. That said, we see a rise in both FDI and portfolio investment inflows also playing a role in slowing down the pace of FX reserve withdrawals and supporting a positive current account balance.

Assuming no rises in the rate of VAT in 2019, or an adjustment in the number of exemptions/zero tax items, the higher base effects of VAT

Figure 32: Inflation

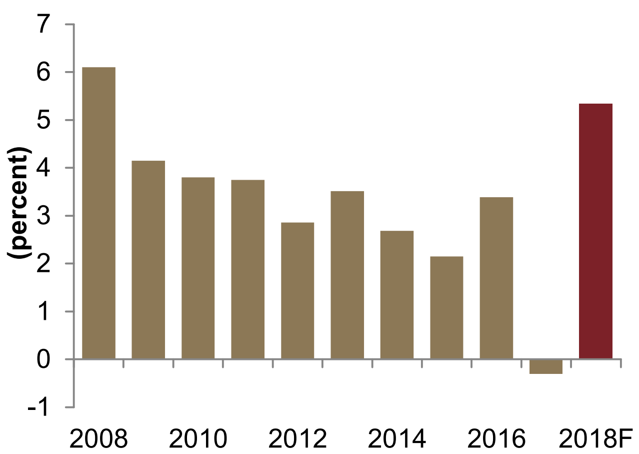
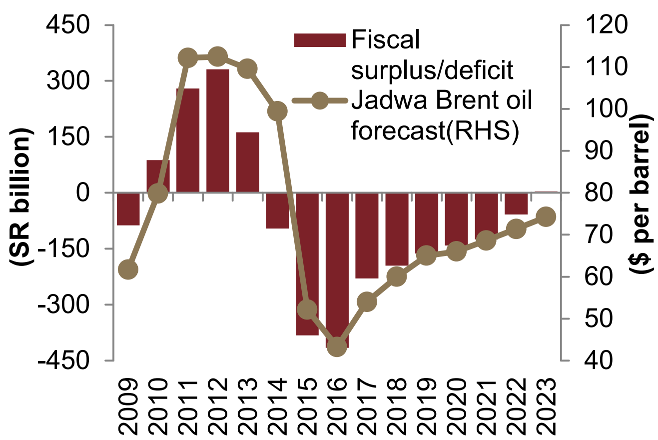


Figure 33: Fiscal deficit to 2023
(Jadwa forecasts for Brent oil)



reform during the year, should see non-private sector growth rise to 1.8 percent.

from 2018 and fewer scheduled energy price hikes (Table 3) is likely to result in limited inflationary pressures in the Kingdom in 2019.

Box 4. Fiscal Balance Program 2023

According to our estimates, oil revenue will make up slightly higher proportion of total revenue in 2023, at 64 percent, compared to 63 percent in 2017.

The updated FBP discloses revenue and expense projections to 2023, with a balanced budget now being pushed back to 2023 (Figure 33), compared to 2020 previously. Total revenue is expected to rise to SR1.38 trillion in 2023. Based on our forecasts, we expect oil revenue to make up a slightly higher proportion of total revenue in 2023, at 64 percent or SR730 billion, compared to 63 percent or SR440 billion in 2017. Accordingly, we estimate that non-oil revenue will have to rise to SR408 billion in 2023, which is 60 percent higher than the level of actual non-oil revenue in 2017, at SR256 billion (Figure 34).

On the expenditure side, the Kingdom is expected to see an expansionary budget stance until 2023…

...with an average annual increase in budgeted spending by 3 percent between 2018-2023, reaching SR1.34 trillion in spending come 2023.

On the expenditure side, the Kingdom is expected to see an expansionary budget stance until 2023, with an average annual increase in budgeted spending by 3 percent between 2018-2023, to total SR1.34 trillion in 2023 (Figure 35). Whilst the FBP only provides a breakdown in expenditure until 2020, we expect the largest component of spending, the 'wage bill', to decline to 41 percent of total spending in 2023, versus 48 percent in 2017. Meanwhile, the two fastest growing expenditure components, between 2018 and 2020, are 'financing costs' and 'social benefits'. The rise in financing cost relates to rising levels of public debt. The FBP projects public debt rising to SR749 billion, or 26 percent of GDP in 2020, and SR854 billion by 2023, which, according to our estimates, puts the debt-to-GDP ratio at 25 percent. Meanwhile, payments under the Citizen's Account program, which commenced in December 2017, are likely to account for the steep rise in social benefit costs through to 2023. This is because although program will initially provide monthly payments to protect the most vulnerable households from energy price reform, it will eventually include all types of welfare payments.

Figure 34: Government revenue to 2023
(Jadwa estimates for oil & non-oil revenue)

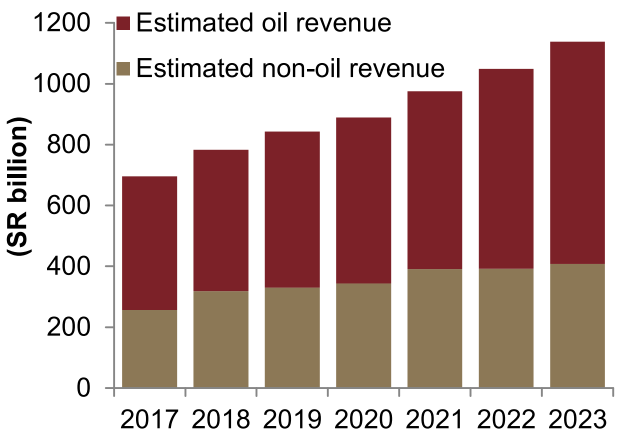


Figure 35: Government expenditure to 2023

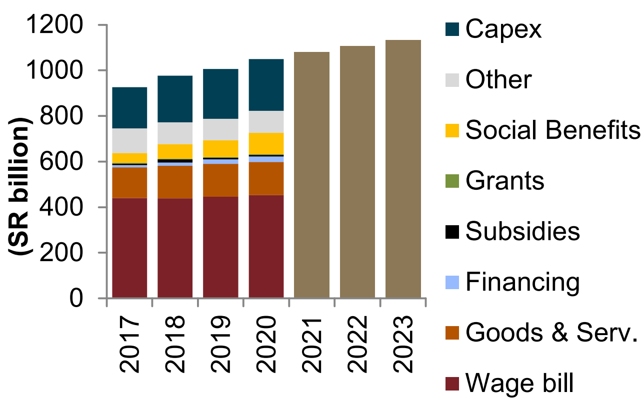


Table 3: Timeline of energy price reform

	2018	2019	2020	2021	2022	2023	2024	2025
Gasoline	Linkage of fuel to reference price will be implemented gradually between 2018 and 2025							
Diesel	Linkage of diesel to reference price will be implemented gradually between 2018 and 2025							
Jet Fuel	Reference price in 2018							
Natural Gas & Ethane			Link to reference price between 2020 & 2021 and subject to price ceiling					
LPG & Kerosene (retail sector)		Linkage to reference price in 2019						
Asphalt		Linkage to reference price between 2019 and 2021						
NGLs (propane, butane, nat. gasoline)			Linkage to reference price will be implemented in 2020					
Other Liquid Fuel Products		Linkage to reference price implemented gradually between 2019 and 2025						
Electricity	Price reflects production cost based on the energy products prices assuming the ideal efficiency							

Key Data

	2011	2012	2013	2014	2015	2016	2017E	2018F	2019F
Nominal GDP									
(SR billion)	2,517	2,760	2,800	2,836	2,454	2,419	2,564	2,817	3,052
($ billion)	671	736	747	756	654	645	684	751	814
(% change)	27.1	9.6	1.5	1.3	-13.5	-1.4	6.0	9.8	8.4
Real GDP (% change)									
Oil	12.2	5.1	-1.6	2.1	5.3	3.6	-3.0	1.5	3.3
Non-oil private sector	8.1	5.6	7.0	5.4	3.4	0.1	0.7	1.1	1.8
Non-oil government	8.4	5.3	5.1	3.7	2.7	0.6	1.7	2.2	1.7
Total	10.0	5.4	2.7	3.7	4.1	1.7	-0.7	1.5	2.4
Oil indicators (average)									
Brent ($/b)	112	112	110	99	52	43	54	60	65
Saudi ($/b)	104	106	104	96	49	41	51	58	61
Production (million b/d)	9.3	9.8	9.6	9.7	10.2	10.4	10.0	10.1	10.3
Budgetary indicators (SR billion)									
Government revenue	1,118	1,247	1,156	1,044	616	519	696	755	843
Government expenditure*	838	916	994	1,140	999	935	926	978	1,006
Budget balance	280	331	162	-96	-383	-416	-230	-223	-163
(% GDP)	11.1	12.0	5.8	-3.4	-15.6	-17.2	-9.0	-7.9	-5.3
Gross public debt	135	99	60	44	142	317	443	560	673
(% GDP)	5.4	3.6	2.1	1.6	5.8	13.1	17.3	19.9	22.0
Monetary indicators (average)									
Inflation (% change)	3.7	2.9	3.5	2.7	2.2	3.4	-0.3	5.2	0.2
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	3.0
External trade indicators ($ billion)									
Oil export revenues	318	337	322	285	153	137	159	180	199
Total export revenues	365	388	376	342	204	184	210	232	255
Imports	120	142	153	158	159	128	117	120	127
Trade balance	245	247	223	184	44	56	93	112	128
Current account balance	159	165	135	74	-57	-28	9	28	44
(% GDP)	23.6	22.4	18.1	9.8	-8.7	-4.3	1.2	3.8	5.5
Official reserve assets	544	657	726	732	616	534	496	474	458
Social and demographic indicators									
Population (million)	28.2	28.9	29.6	30.3	31.0	31.7	32.6	33.3	33.9
Saudi Unemployment (15+, %)	12.4	12.1	11.7	11.7	11.5	12.5	12.8	11.8	11.0
GDP per capita ($)	23,827	25,471	25,223	24,962	21,095	20,318	20,968	22,585	24,027

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.

Disclaimer of Liability

The data contained in this Research is sourced from Reuters, Bloomberg, GaStat, SAMA, IMF, FocusEconomics, Tadawul, IIF, FBP, 2018 budget, OPEC, EIA and national statistical sources unless otherwise stated.

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