Saudi Arabia

The non-oil economy maintained its momentum in the latter part of 2021 to expand by 4.9% for the full year, more than recouping all the lost output in 2020. We expect the strong momentum to continue this year and several indicators are indeed reflecting that. We forecast non-oil growth at 3.5% in 2022, while higher oil production should push oil GDP to expand by around 14% leading to a projected 7.5% overall growth. We forecast budget surpluses throughout the forecast horizon given elevated oil prices, higher oil production, further increases in non-oil revenues, and the government's commitment for spending rationalization in line with Vision 2030. The high volatility in oil prices (and less visibility on the outlook) in the context of the Russia-Ukraine war and a weakening global economic backdrop is a main downside risk. In contrast, higher-than-forecast non-oil growth, supported in part by the elevated oil prices and the expected recording of budget surpluses for example, is a main upside risk.

Solid non-oil growth momentum to be sustained

The non-oil economy maintained its momentum in the latter part of 2021 to expand by 4.9% for the full year, more than recouping all the lost output in 2020 given the Covid-induced contraction (-2.5%) that year. The recovery was driven by the private sector (+6.2% in 2021), while the less-pandemic-impacted government sector was up by 1.9%. KSA was ranked among the best countries globally in terms of dealing with the virus, including rolling out a successful vaccination campaign, which supported the fast economic recovery. Manufacturing saw the highest growth rate of 9.5% in 2021 helped by several initiatives taken to develop that sector, in line with Vision 2030.

We expect the strong momentum to continue this year and several indicators are indeed reflecting that. Consumer spending remains solid with the value of POS transactions up around 20% y/y through mid-April. New letters of credit opened for building material and machinery (a proxy for private-sector capital spending) have soared by more than 50% y/y in Jan-Feb, though from a depressed level last year. Credit growth continues to be robust, running at around 15% y/y as higher growth in personal non-mortgage credit is compensating the softer growth in mortgage lending. The latter, while beyond peak-growth, is still expanding at very high rates with the latest numbers indicating around 37% y/y growth through February. PMI levels remain robust (latest at 56.8), with the output index at 62.4, the highest in more than four years. Given all that, we forecast non-oil growth to average around 3.5% in 2022-23. Effective policymaking and the ongoing reforms continue to underpin this robust growth outlook. Reflecting that, the stock market continues to make new highs, up around 20% YTD (benefiting from higher oil prices given the Russia-Ukraine war), following a 30% gain in 2021.

As for the oil sector, KSA continues to play a leading role within OPEC+ to rebalance the global market, and much of the success in terms of that can be attributed to the Kingdom's effective strategy. In all cases, oil production should increase sharply in 2022, pushing oil GDP to grow by around 14% this year, before normalizing to 2.3% in 2023. All in all, total GDP is expected to grow by 2.9% in 2023, after a much sharper 7.5% projected expansion this year, fueled by the oil sector.

Inflation to edge up; unemployment lowest in 12 years

After bottoming out in August 2021 at 0.3% y/y, inflation has crept higher to stand at 2% in March and is projected to average 2.5% in 2022 given elevated energy and food prices (food/beverages have a nearly 19% weight in the CPI basket) and expected incremental price pressures in housing rentals. Things are more favorable in terms of the unemployment rate among Saudis, which dropped to 11% in 4Q2021 (and will likely continue decreasing), the lowest rate in around 12 years on the back of solid non-oil growth and steady Saudization initiatives.

Budget surpluses are expected over the forecast horizon

Following the pandemic-induced deterioration in 2020, the fiscal position improved sharply in 2021 on increasing non-oil revenues, higher oil prices, and lower spending. Revenues increased by 23% in 2021 as oil revenues surged 36%, while non-oil revenues grew by 9% on higher tax receipts. In contrast, expenditures decreased by 3% as capital spending was cut by 24% and current spending was flat. The fiscal deficit dropped to 2.3% of GDP, down from 11.1% in 2020. Looking ahead, given elevated oil prices, higher oil production, an ongoing increase in non-oil revenues given solid non-oil growth, and the government's commitment for spending rationalization in line with Vision 2030, we forecast budget surpluses in the forecast horizon, standing at around 6% in 2022 and softening to around 4.5% in 2023. We think surpluses will be mostly used to beef up government deposits at SAMA rather than reduce debt levels, and accordingly we forecast the debt/GDP ratio to stabilize at around a relatively low 25%, down from 30% in 2021.

Current account to be comfortably in positive territory

After a slight dip in to the red in 2020 (-3.2% of GDP), the current account returned to surplus (6.7%) in 2021 on a sharp rebound in non-oil exports and higher oil prices. The former soared by 35% in 2021 (mainly driven by chemical and plastic products) to reach the highest annual level on record. We project the current account to remain comfortably in surplus over the forecast horizon on elevated oil prices and increasing non-oil exports. The high volatility in oil prices, in the context of the Russia-Ukraine war and a weakening global economic backdrop, is a main downside risk. In contrast, higher-than-forecast non-oil growth, supported in part by elevated oil prices and the recording of budget surpluses for example, is a main upside risk.

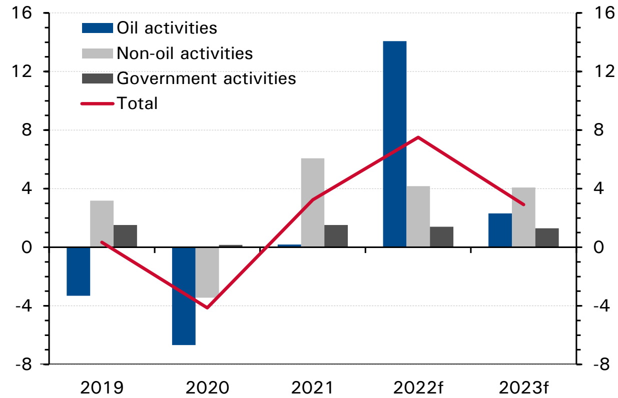
Table 1: Key economic indicators

		2020	2021	2022f	2023f
Nominal GDP	($ bn)	703	834	1,018	1,000
Real GDP	(% y/y)	-4.1	3.2	7.5	2.9
- Oil	(% y/y)	-6.7	0.2	14.1	2.3
- Non-oil	(% y/y)	-2.5	4.9	3.5	3.4
Inflation (average)	(% y/y)	3.4	3.1	2.5	2.3
Fiscal balance	(% of GDP)	-11.1	-2.3	6.1	4.4
Government debt	(% of GDP)	32.4	30.0	24.6	25.0
Current account	(% of GDP)	-3.2	6.7	15.2	10.7

Source: National authorities, NBK forecasts

Chart 1: Real GDP

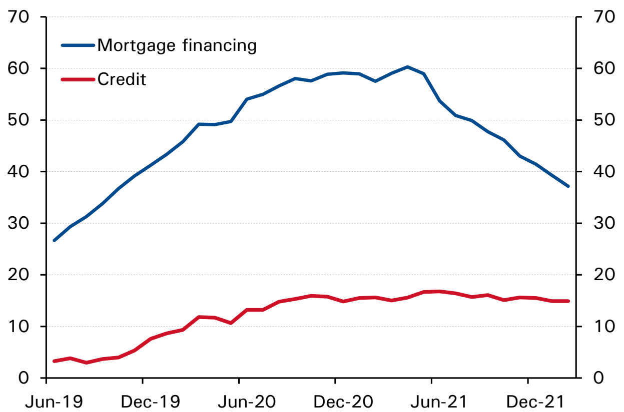
(% y/y)



Source: General Authority for Statistics (GASTAT), NBK forecasts

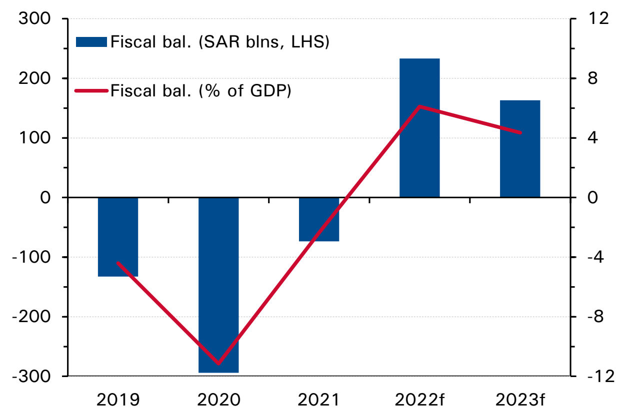
Chart 2: Credit growth

(% y/y)



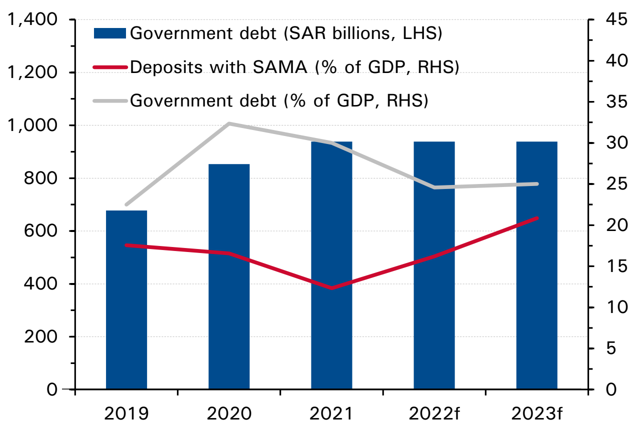
Source: SAMA

Chart 3: Fiscal balance



Source: Ministry of Finance, NBK forecasts

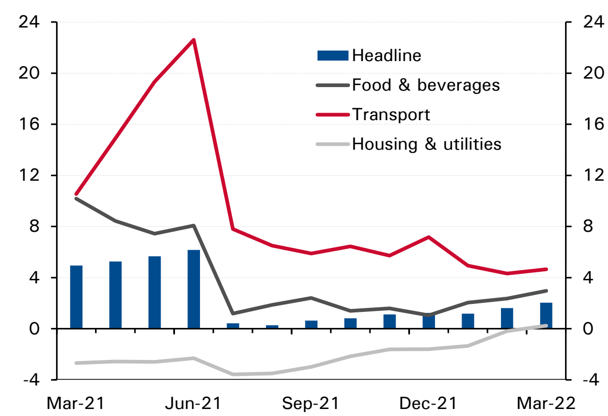
Chart 4: Government debt and deposits with SAMA



Source: GASTAT, Ministry of Finance, SAMA, NBK forecasts

Chart 5: CPI inflation

(% y/y)



Source: GASTAT