



The Saudi Economy in 2022

- Saudi Arabia's economy will exhibit strong levels of growth in 2022, as pandemic related uncertainty and volatility seen over the last couple of years diminishes. More specifically, we see overall GDP expanding by 7.7 percent in 2022.
- With respect to the oil sector, a continued recovery in the global oil market is expected to push oil demand to record highs in 2022. This combined with the Kingdom's commitment to raise oil output by circa 100 thousand barrels per day (tbpd) each month under the current OPEC+ Declaration of Cooperation (DoC) means we expect oil sector GDP to rise by 15.5 percent year-on-year.
- Despite a moderation in yearly non-oil growth (largely as a result of a higher base in 2021), the economy will be driven forward by the continued implementation of the Vision 2030, which will be guided by a set of five year commitments (till 2025) under various Vision Realization Programs (VRPs). Indeed, the year ahead will mark a critical phase in the Kingdom's efforts to continue on the path towards more sustainable economic growth which is tied to diversifying its non-oil economic base.
- Overall, we anticipate all sectors of the non-oil economy to expand during the year. Thus, whilst a further reversal in restrictions around social distancing (in-line with the roll-out of booster shots) helps sustain growth in the 'Wholesale & Retail, Restaurants & Hotels' sector, an acceleration in digitization, especially so in the higher adoption of digital payments, together with a yearly rise in Umrah and Hajj pilgrims will drive growth in the 'Transport, Storage & Communication' sector. Meanwhile, although the 'Construction' sector may face some labor and supply chain issues, the large value of Public Investment Fund (PIF) and central government projects that are currently in execution stage should nonetheless help boost growth in this segment.

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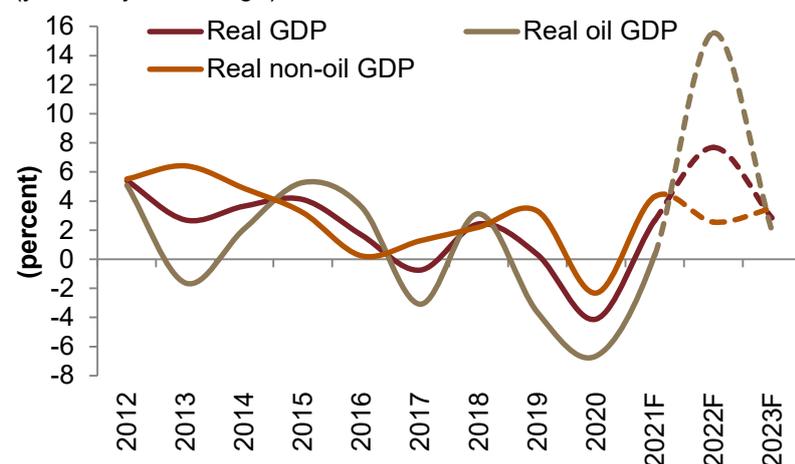
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Figure 1: Real economic growth
(year-on-year change)





We see overall GDP expanding by 7.7 percent in 2022...

...oil sector GDP rising by 15.5 percent year-on-year...

...and the non-oil sector registering a rise of 3.4 percent year-on-year.

We also expect a fiscal surplus of SR120 billion, equivalent to 3.4 percent of GDP...

...and the 3 month SAIBOR rate to rise to 2 percent by the end of the year...

... and inflation rising by 1.7 percent year-on-year.

- Other notable contributions to non-oil growth will come from the 'Manufacturing' sector, as further improvements in global trade coupled with investment in domestic industrial programs helps push non-oil exports even higher than record levels seen last year. At the same time, we expect the 'Finance, Insurance, and Business services' sector to see healthy levels of growth due, in part, to further rises in credit to the private sector, but also because of a continued flow of initial public offerings (IPOs) on both the main and parallel markets. Moreover, some of the smaller economic sectors will benefit from a targeted roll-out of programs to support growth. For example, the 'Community, Social & Personal Services' sector will benefit from the implementation of a National Sports Strategy, and the 'Electricity, Gas, and Water' sector will benefit from an ambitious National Renewable Energy Program (NREP), which aims for renewables to make up 50 percent of total electricity generation by 2030. Overall, we see the non-oil sector registering a rise of 3.4 percent year-on-year in 2022.
- On the fiscal front, our revised estimates around yearly oil prices (at \$76 per barrel) and crude oil production of 10.5 mbpd means we now expect government oil revenue to total SR710 billion, which, combined with non-oil revenue of around SR365 billion, will result in total government revenue of SR1.075 trillion in 2022. With expenditure expected to decline by 6 percent year-on-year to SR955 billion, as per the recent budget statement, we therefore expect to see a fiscal surplus of SR120 billion, equivalent to 3.4 percent of GDP.
- As the Saudi Central Bank (SAMA) raises interest rates in lockstep with the US Federal Reserves (Fed) during the year, this will translate to higher domestic borrowing costs. That said, whilst higher policy rates will push SAIBOR (the price of lending between banks for Riyals) higher, other factors such as higher demand for credit, declining private sector deposits and expiration of SAMA's Deferral Payment Program will also add some upward pressure. Overall, we expect the 3 month SAIBOR rate to rise to 2 percent by the end of the year, versus just over 1 percent currently.
- We also expect to see prices rising by 1.7 percent year-on-year, as higher levels of inflation seen in many developed economies does not fully transmit into the local economy. This is because, on the one hand, a large portion of the Kingdom's imports are from countries that are not expected to see significant rises in inflation (such as China), but also because, on the other hand, as the Fed raises US interest rates the value of the dollar (and therefore the Saudi riyal) is expected to rise, which should help limit imported inflation during the year.
- It is worth noting that Saudi Arabia has administered more than 59 million Covid-19 vaccine doses so far, and close to 24 million (circa 70 percent) of the population have been fully vaccinated. It is for this reason that the current Omicron induced rise in daily cases has resulted in an extremely low number of deaths. It is also the reason why we remain confident that pandemic related disruptions, such as suspension of recreational activities seen early last year, are unlikely to occur again. As a result, we see Covid-19 presenting limited risks to the Saudi economy going forward.



IMF expects the global economy to continue exhibiting strong levels of growth in 2022, by 4.4 percent...

...and then by 3.8 percent in 2023, year-on-year.

Advanced economies' growth is expected to average 3.9 percent for 2022...

...whilst emerging markets are expected to rise by 4.8 percent.

Global Economic Outlook

According to the International Monetary Fund (IMF), the global economy is expected to have grown by 5.9 percent year-on-year in 2021, a significant turnaround compared to the steep decline in global output seen back in full year 2020 (by -3.1 percent). Looking ahead, despite downgrading growth in its latest (January 2022) edition of the world economic outlook (WEO), the IMF expects the global economy to continue exhibiting strong levels of growth in 2022, by 4.4 percent, and then by 3.8 percent in 2023, year-on-year (Table 1, Figure 2). Advanced economies' (AEs) growth will continue rising, but at a slower pace than their emerging market (EMs) counterparts. AE growth is expected to average 3.9 percent for 2022 (versus 5 percent in 2021). More specifically, revised assumptions around fiscal policy, withdrawal of monetary accommodation, and continued supply chain disruptions will mean the world's largest economy, the US, is set for weaker growth than initially expected. Meanwhile, growth in EMs is expected to rise by 4.8 percent, (versus 6.5 percent in 2021), with the world's second largest economy, China, posing downside risks to this segment. More specifically, the Chinese government has implemented a zero tolerance of Covid-19 cases which has resulted in severe lockdowns in regions where a very small number of cases have emerged. If this policy persists with Omicron (which is generally believed to have higher rates of transmission), it may negatively impact China's 2022 GDP growth, which the IMF expects to rise by 4.8 percent.

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

	2020	2021E		2022F		2023F	
	IMF	IMF	Con-sensus	IMF	Con-sensus	IMF	Con-sensus
Global	-3.1	5.9	5.7	4.4	4.2	3.8	3.3
US	-3.4	5.6	5.7	4.0	3.8	2.6	2.5
UK	-9.4	7.2	7.0	4.7	4.6	2.3	2.3
Canada	-5.2	4.7	4.7	4.1	4.0	2.8	3.0
Euro zone	-6.4	5.2	5.1	3.9	4.0	2.5	2.5
Japan	-4.5	1.6	1.8	3.3	2.8	1.8	1.5
China	2.3	8.1	8.1	4.8	5.1	5.2	5.2
Russia	-2.7	4.5	4.2	2.8	2.6	2.1	2.2
Brazil	-3.9	4.7	4.7	0.3	0.9	1.6	1.8
India	-7.3	9.0	8.8	9.0	8.0	7.1	6.4

Note: Consensus forecasts are those of FocusEconomics.

Figure 2: Global economy expected to grow by 4.4 percent in 2022

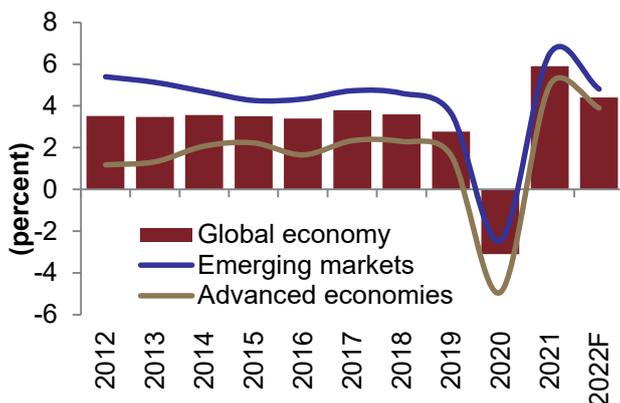
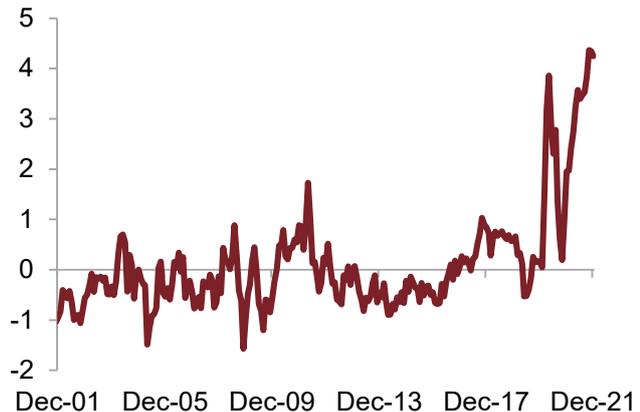


Figure 3: New York Federal Reserve's Global Supply Chain Pressure Index still at record highs





Overall, whilst the global economy is in better shape than a year ago...
is in better shape than a year ago...

...the current proliferation of Omicron, still presents headwinds to a smooth uplift in growth.

An improving global economy, and with it, increased mobility and a loosening of pandemic related measures...

...is expected to help push yearly oil demand up 4 percent year-on-year to all time highs of 100.8 mbpd.

Overall, whilst the global economy is in better shape than a year ago, the persistence of Covid-19 variants, with the current proliferation of Omicron, still presents headwinds to a smooth uplift in growth. This is made even more apparent by the fact that currently just over half of the world's population is fully vaccinated against the virus. Having said that, the specter of rapidly rising broad-based inflation also presents some near-term bumps in the road to recovery. A mixture of supply disruptions (Figure 3), labor shortages and higher energy prices has resulted in a consistent upward trend in inflation in recent months, particularly in AEs, which sets the scene for interest rates rises in the year ahead. As such, there will be knock-on effects for global financial stability (which are already playing out), but there will also be more specific implications for EMs capital flows, currencies, fiscal balances and debt. At the same, rising geopolitical tensions could also emerge as a significant headwind for the global economy, with an uptick in the number of significant geopolitical events recently, most notably with a steady build-up of tensions around the Crimea Peninsula, along the Russian-Ukrainian border.

The Oil Market in 2022

OPEC data showed global oil demand grew by a healthy 6 percent year-on-year, or 5.7 million barrels per day (mbpd), in full year 2021, to an average of 96.7 mbpd. Even more encouragingly, Q4 2021 average oil demand had recovered to 99.8 mbpd, more or less in-line with pre-pandemic levels. Looking ahead, an improving global economy, and with it, increased mobility and a loosening of pandemic related measures, is expected to help push yearly oil demand up 4 percent year-on-year to all time highs of 100.8 mbpd (Figure 4). More specifically, the traditional centers of oil demand (US, China, Other Asia and India) are expected to make up 62 percent of the total yearly growth this year. Comparatively speaking, OPEC annual oil demand growth estimates for 2022 (of 3.2 mbpd) are the least optimistic of the three major oil agencies, with the International Energy Agency (IEA) expecting annual rises of 3.3 mbpd, and the US's Energy Information Administration (EIA) 3.6 mbpd.

That said, it will not be a smooth upward trajectory for oil demand growth on a quarterly basis, with the spread of the Omicron variant around the world posing mild near-term headwinds. This is demonstrated by the fact that since the identification of Omicron towards the latter half of November last year, daily commercial flights have declined 10 percent from recent highs. In-line with this, OPEC

Figure 4: Global oil demand expected to increase by 4 percent year-on-year in 2022

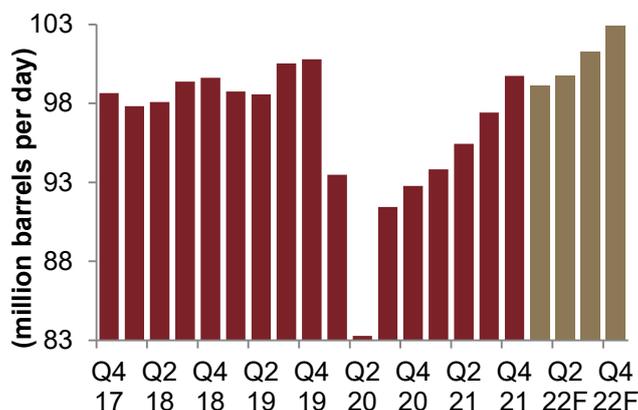
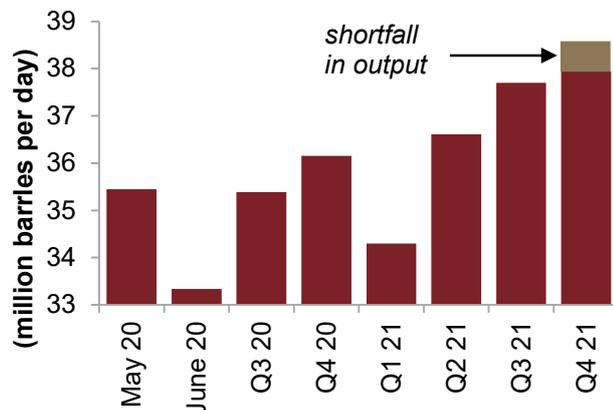


Figure 5: OPEC+ not able to deliver full increase in supply in Q4 2021





Q4 2021 data shows that OPEC+ was only able to muster a quarter-on-quarter rise of 240 tbpd...

...way below an expected average of 800 tbpd.

Looking ahead, the difficulties in sustaining output at stated OPEC+ levels is likely to continue...

...since lower output from some members is not a transient issue, but a structural one.

For 2022, it seems that the EIA does not expect a sizable rise in oil prices to have a major impact on US oil output.

Looking ahead, dwindling OPEC+ spare oil capacity and declining levels of commercial oil inventory...

... will, in our view, sustain oil prices over the course of 2022.

expects oil demand to decline slightly, quarter-on-quarter, in Q1 2022, before rising in the next three quarters.

Since April 2020, when the current declaration of cooperation (DoC) between OPEC and partners (OPEC+) was agreed, the focus of attention had been on each member country's ability to stay within stated output targets. However, since August of last year, when OPEC+ began unwinding supply by around 400 thousand barrels per day (tbpd) each month (or by an average of 800 tbpd over a quarter), the focus has shifted to whether all members can actually achieve stated monthly output targets. Whilst initially (in Q3) OPEC+ was able to add the stated output, Q4 2021 data shows that the alliance was only able to muster a quarter-on-quarter rise of 240 tbpd, way below an expected average of 800 tbpd (Figure 5). A breakdown of output during the quarter shows that steepest level of under compliance came from a trio of African countries (Eq. Guinea, Angola and Nigeria) and Malaysia.

Looking ahead, the difficulties in sustaining output at stated OPEC+ levels is likely to continue since lower output from the above three African members and Malaysia is not a transient issue, but a structural one. For example, in the case of Malaysia, the national oil company (NOC), Petronas, consistently reduced its capital expenditure over the course of the last decade, with full year 2021 investment half of 2012's total. In-line with this, crude oil output also followed a downward trajectory, with output in 2021 declining 35 percent over highs seen back in 2010.

According to EIA data, US oil output declined by 1 percent year-on-year in 2021, to an average of 11.2 mbpd. For 2022, it seems that the EIA does not expect a sizable rise in oil prices to have a major impact on US oil output. This is highlighted by the fact that although the agency's current full year 2022 forecast for West Texas Intermediate (WTI) is \$21 pb higher than a year ago (at an average of \$71 pb), it has only revised US oil output up by 300 tbpd over the same period, to an average of 11.8 mbpd. Overall, US supply growth is not likely to be as aggressive as in the past; because i) many shale operators are expected to maintain capital discipline and ii) the sector is unlikely to get much support from the current US government, which is keen on accelerating a clean energy transition. Indeed, some recently proposed reforms (such as raising on and off shore oil royalty rates and introducing methane emission charges) will, if implemented, raise US oil companies' operating costs.

Brent oil prices climbed 72 percent year-on-year in 2021, to an average of \$71 pb. Since the turn of the year, prices have rallied further and are currently trading above \$90 pb, at seven year highs. Whilst part of this uplift is related to receding fears over Omicron's impact on global oil demand, it is also partly related to a number of significant geopolitical events in key oil producing countries. Besides domestic upheaval in Kazakhstan a few weeks ago, tensions have been rising in the Arabian Gulf, with a string of maritime incidents, and a recent suspected drone attack on an oil terminal in the UAE. In addition to this, there has been steady build-up of tensions around the Crimea Peninsula, along the Russian-Ukrainian border, with potentially broader implications for oil and gas supplies into mainland Europe.

Looking ahead, despite a slight lull in oil demand growth in Q1, the outlook for the rest of the year is very promising, with all three major energy agencies (OPEC, EIA, IEA) expecting global oil demand to reach record levels by Q4 2022. At the same time, with no sizable rises in US oil supply expected in the near term, OPEC+'s spare capacity is likely to garner more attention over the next few months



As a result, we have raised our full year 2022 Brent oil forecast to \$76 pb (versus \$71 pb previously).

Provisional full year GDP data for 2021 showed that the economy expanded by 3.3 percent.

Looking ahead, we see overall GDP in 2022 rising by 7.7 percent...

...as oil sector GDP sees sizable rises of 15.5 percent...

...and the non-oil sector registers a rise of 3.4 percent, year-on-year.

Overall, dwindling spare oil capacity and declining levels of commercial oil inventories (which recently dropped below their ten year average) (Figure 6), will, in our view, sustain oil prices over the course of 2022. We note that whilst a break-through in negotiations between Iran and a number of countries could well lead to 1 mbpd of oil hitting the market at some point during the year, such a deal remains elusive. Taking all the above into account, we expect full year 2022 Brent oil prices to average \$76 pb, with all risks currently skewed to the upside (Figure 7).

Saudi Economic Growth

Provisional full year GDP data for 2021 showed that the economy expanded by 3.3 percent, with a vast majority of this uplift coming from the non-oil sector, (which expanded by 6.6 percent year-on-year), as the oil sector rose by a nominal 0.2 percent year-on-year. Saudi crude oil output averaged 9.1 mbpd last year, only fractionally (1 percent) lower than the same period in 2020, which, in turn, kept a lid on oil sector GDP growth.

On a sectorial basis, whilst all sectors saw positive yearly rises in the year-to-Q3 2021 (latest available data), two of the worst hit sectors back in 2020 ('Non-oil Manufacturing', and 'Wholesale & Retail, Restaurants & Hotels') rebounded strongly, with growth of circa 10 percent each. Conversely, 'Construction' and 'Transport, Storage & Communication' showed more tepid growth of 1.5 and 2.6 percent year-on-year, respectively.

Looking ahead, we see overall GDP in 2022 rising by 7.7 percent, as oil sector GDP sees sizable rises of 15.5 percent. Despite a moderation in year-on-year non-oil growth (largely as a result of a higher base in 2021), the economy will be driven forward by the continued implementation of the Vision 2030, which will be guided by a set of five year commitments (till 2025) under various Vision Realization Programs (VRPs). As such, we expect the non-oil sector to register a rise of 3.4 percent, year-on-year (Box 1).

Box 1: Change in National Account Classifications

The General Authority for Statistics (GaStat) recently made some minor tweaks to the way national accounts data is reported. Previously there were four main classifications of economic activity: 'oil' and 'non-oil', with 'non-oil' being the sum of two further classifications; 'non-oil private' and 'government' GDP.

Figure 6: OECD commercial crude oil stocks

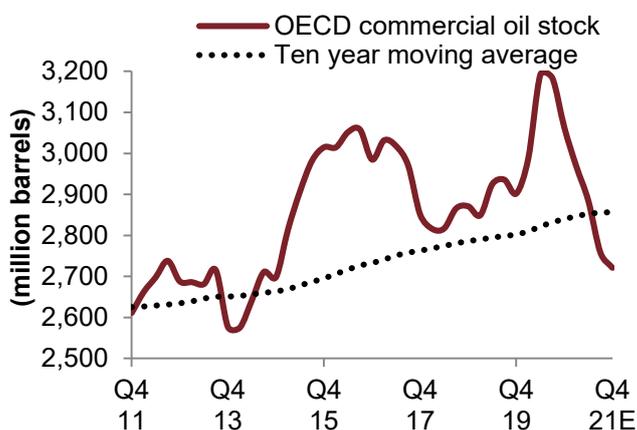
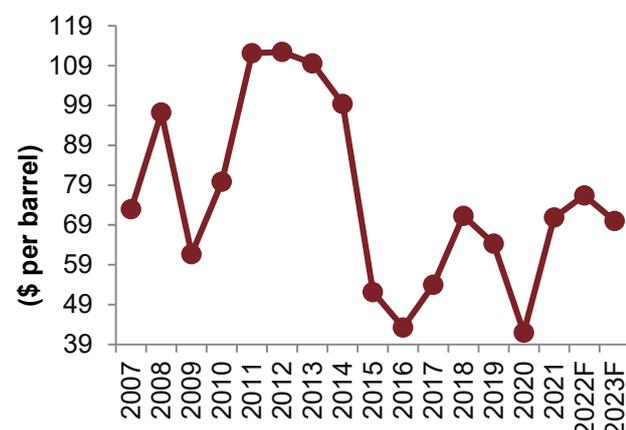


Figure 7: Annual average Brent oil prices





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There are now only three classifications...

...with the major change being the discontinuation of 'non-oil private sector GDP'.

There are now only three classifications, with the major change being the discontinuation of 'non-oil private sector GDP'. Along with 'oil', GaStat has set-out two other distinct classifications; 'non-oil activities' and 'government' activities, with no aggregation of these two sectors. With respect to 'government activities' we note a change of the previous sub-category of 'import duties' to 'net taxes on products', which likely accounts the application of VAT, since the main upward revision in this category is apparent from 2018 onwards, when VAT was first applied in Saudi Arabia.

Overall, we anticipate all sectors of the non-oil economy to expand during the year. Thus, whilst a further reversal in restrictions around social distancing (in-line with the roll-out of booster shots) helps sustain growth in 'Wholesale & Retail, Restaurants & Hotels' sector, an acceleration in digitization, especially so in the higher adoption of digital payments, together with a yearly rise in Umrah and Hajj pilgrims will drive growth in the 'Transport, Storage & Communication' sector. Meanwhile, although the 'Construction' sector may face some labor and supply chain issues, the large value of Public Investment Fund (PIF) and central government projects that are currently in execution stage should boost growth in this segment. Moreover, some of the smaller sectors will benefit from a targeted roll-out of programs to support growth, such as the National Sports Strategy in relation to the 'Community, Social & Personal Services' sector and the National Renewable Energy Program's (NREP) impact on the 'Electricity, Gas, and Water' sector.

Table 2: Real GDP shares and growth rates

2020	2019 2020 2021E 2022F				
	% year-on-year				
% Share of:					
Overall GDP	0.3	-4.1	3.3	7.7	
Oil sector	-3.3	-6.7	0.2	15.5	
Non-oil activities	3.2	-3.4	6.6	3.4	
Govt. activities	1.5	0.2	1.5	1.0	
Non-oil GDP by sector	100	% year-on-year			
Agriculture	4.2	1.2	-1.7	2.7	2.5
Non-oil mining	0.8	4.8	0.8	4.9	5.0
Non-oil manufacturing	13.6	1.0	-7.1	9.9	5.0
Electricity, gas and water	2.0	-1.4	-4.1	0.8	3.5
Construction	7.9	2.7	1.9	1.5	4.0
Wholesale & retail trade	15.4	6.1	-6.8	10.7	5.0
Transport & communication	10.3	5.1	-6.3	2.6	4.5
Real estate activities	9.9	3.1	0.9	6.6	3.1
Finance, insurance, & bus.	6.9	4.1	6.1	6.8	5.0
Community & social services	3.1	-2.1	-7.4	7.2	8.0
Producers of govt. services	26.1	1.5	0.2	1.2	1.0

Note: Non-oil GDP by sector for 2021 is the year-to-Q3 2021 average

Oil sector:

Saudi crude oil output averaged 9.1 mbpd last year, only fractionally (1 percent) lower than the same period in 2020, which, in turn, kept a lid on oil sector GDP growth (at 0.2 percent) over the course of 2021. It is worth noting that had the Kingdom stuck to its oil output under the OPEC+ Declaration of Cooperation (DoC), oil sector GDP would have likely been higher (Box 2). As it transpired, unilateral voluntary reductions by Saudi Arabia during H1 2021 (as oil markets were still recovering from the aftermath of Covid-19) actually pushed the Kingdom's oil GDP lower, but, at the same time, helped accelerate the recovery in global oil markets (Figure 8).

Saudi crude oil output averaged 9.1 mbpd last year, only fractionally (1 percent) lower than the same period in 2020...



...which, in turn, kept a lid on oil sector GDP growth (at 0.2 percent) over the course of 2021.

For full year 2022, we expect the oil sector GDP to rise by a sizable 15.5 percent year-on-year

Wholesale & Retail, Restaurants & Hotels sector was up by 10.7 percent in the year-to-Q3 2021...

...as full year consumer spending rose 10 percent year-on-year to a total of SR1.12 trillion.

Looking out into 2022, Saudi crude oil production will trend upwards, in-line with yearly rises in global oil demand. More specifically, a continued recovery in the global economy and higher vaccination rates, should, according to OPEC data, push oil demand 4 percent higher year-on-year (to 100.8 mbpd) in 2022. This combined with the Kingdom's commitment to raise oil output by circa 100 tbpd per month under the current OPEC+ DoC means we now see Saudi crude oil production averaging of 10.5 mbpd for full year 2022 (versus 10.3 mbpd previously), which, in turn, is expected to push oil sector GDP up by a sizable 15.5 percent year-on-year (Figure 9).

Box 2: Oil Sector GDP

We believe that the OPEC+ DoC (and voluntary reductions) likely resulted in lower associated natural gas (and ethane) supply, despite the Kingdom's gas processing capacity rising in recent years. This also explains the higher use of crude oil burn for electricity generation last year (3 percent higher year-on-year, year-to-November). Looking ahead, as Saudi Arabia continues raising oil output (in-line with the OPEC+ DoC), associated gas should help raise overall gas output during 2022, thus contributing to lifting oil sector GDP marginally. Oil sector GDP will also be helped along by higher refinery output (which was up 17 percent in the year-to-November 2021, year-on-year), in-line with higher global oil demand, but also as the 400 tbpd Jazan refinery obtains full commercial status during 2022.

Wholesale & Retail, Restaurants & Hotels sector (15.4 percent of non-oil GDP) was up by 10.7 percent in the year-to-Q3 2021, year-on-year, representing a sizable rebound versus the year before, when the sector declined by 7 percent. The uplift was primarily a result of a relaxation in a number of social distancing measures (in-line with higher vaccination rates) as full year consumer spending (POS, e-commerce & ATM cash withdrawals) rose 10 percent year-on-year to a total of SR1.12 trillion, higher than pre-pandemic levels. When looking at the sectorial breakdown of spending (via POS only), we can see that spending on 'hotels' rose by 51 percent year-on-year, and 'restaurants and coffee shops' rose by a sizable 56 percent (spending on both segments was higher than pre-pandemic levels), whilst 'food & beverages' rose by a decent 17 percent year-on-year (Figure 10).

Looking ahead, we expect to see continued growth in this sector as spending is diverted towards services rather than to goods (a trend that emerged in the latter half of last year), which will likely be

Figure 8: Voluntary reduction in Saudi oil output in H1 21 aided global oil market recovery

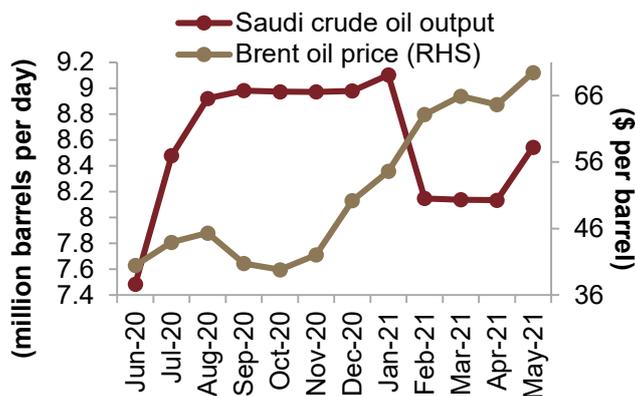
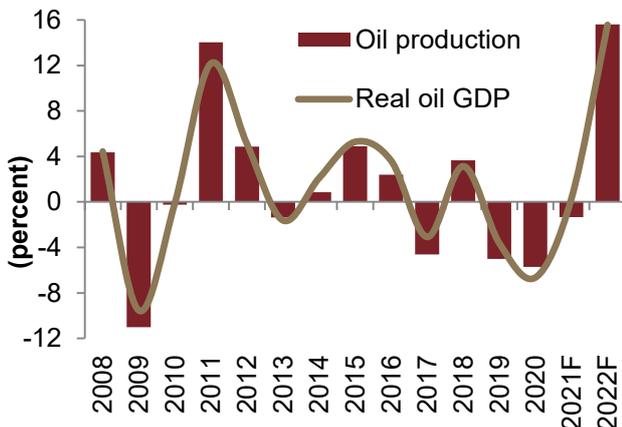


Figure 9: Oil sector GDP poised to rebound (annual change)





Looking ahead, we expect to see continued growth in this sector...

...supported by a further reversal in restrictions around social distancing (in-line with the roll-out of booster shots).

Non-oil manufacturing rose in all three quarters of last year, on a year-on-year basis, averaging 9.9 percent in the year-to-Q3 2021...

...as data showed that full year 2021 non-oil exports hit all-time record highs.

Looking ahead, Saudi non-oil exports will continue benefitting from an improvement in global trade volumes.

supported by a further reversal in restrictions around social distancing (in-line with the roll-out of booster shots) and the number of entertainment and leisure events continue to be expanded. Additionally, yearly rises in Hajj and Umrah numbers and growth in general tourism activities (54 million tourist visits were recorded in the Kingdom last year) should help support the 'hotels' segment (Table 3).

Table 3: Tourism targets under the Quality of Life VRP

Pillar	Base year 2018	Target 2023
Increase tourist visits	41 mn	56.8 mn
Raise share of tourism in GDP	3.6 pct	4.5 pct
Raise tourism spending	SR128 bn	SR173 bn
Number of hotel rooms	590k (2019)	756k

Non-oil manufacturing (13.6 percent of non-oil GDP) rose in all three quarters of last year, on a year-on-year basis, averaging 9.9 percent in the year-to-Q3 2021. The rebound in activity is, in part, associated with a general recovery in global manufacturing and trade, and, more specifically, due to the launch of various industrial programs in the Kingdom last year (such as the 'Made in Saudi' program). In fact, data shows that full year 2021 non-oil exports hit all-time record highs, even with December totals not being published yet (Figure 11). In line with this, the non-oil manufacturing segment of the 'Industrial Production Index' (IPI) moved into positive territory in August of last year, indicating a rise in both local and global demand.

Looking ahead, Saudi non-oil exports will continue benefitting from an improvement in global trade volumes. More specifically, according to the World Trade Organization (WTO), whilst supply-side issues (such as port backlogs) may strain supply chains and weigh on trade in particular areas, it will not be enough to dent overall global trade. The WTO thus expects global trade to rise by 4.7 percent year-on-year in 2022 (versus 10.8 percent in 2021), in-line with pre-pandemic long term trends. In addition, the continued roll-out of initiatives under the National Industrial Development and Logistic Program (NIDLP) through various channels should also contribute to growth in this sector, including via the Saudi Industrial Development Fund (SIDF), which is expected to extend SR11 billion worth of financial initiatives and support throughout 2022 (versus SR10 billion in 2021).

Figure 10: POS spending by sector (year-on-year change)

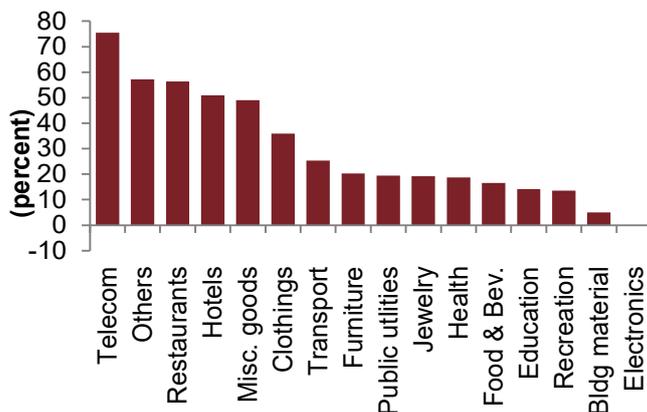
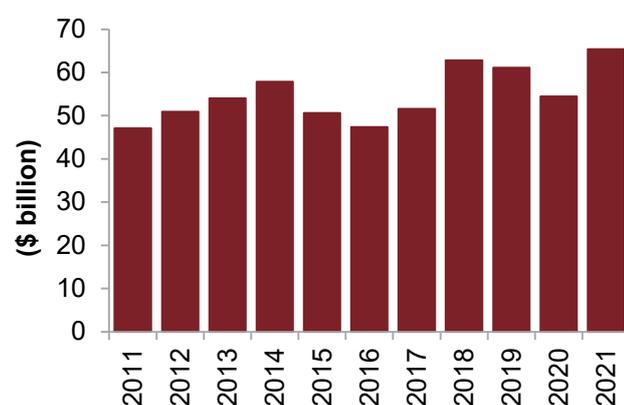


Figure 11: Annual non-oil exports hit record highs in 2021*



*till November 2021



The Transport, Storage & Communication sector saw a moderate level of recovery in the year-to-Q3 2021...

...growing by 2.6 percent over the same period in 2020.

During 2022, SR41 billion worth of transport projects are expected to come on-line, which should translate into sizable growth in this segment.

Separately, whilst we expect a yearly rise in Umrah and Hajj pilgrims...

...total numbers are still expected to be sizably lower than pre-pandemic levels.

The **Transport, Storage & Communication** (10.3 percent of non-oil GDP) sector saw a moderate level of recovery in the year-to-Q3 2021, growing by 2.6 percent over the same period in 2020. Whilst the sector recorded a yearly decline in Q1 2021 (likely reflecting ongoing travel and temporary recreational activity restrictions), there was a visible improvement in subsequent quarters as travel restrictions were gradually unwound (in-line with higher vaccination rates), which included e-visas for international visitors reopening. At the same time, there was a progressive lifting of restrictions for international Umrah pilgrims during the course of the year, and a higher yearly number of Hajj permits (at 60,000), but still considerably lower than pre-pandemic levels (Figure 12). Meanwhile, the combined profitability of listed telecom companies rose 8 percent year-on-year in the year-to-Q3 2021 (latest available data), reflecting growth in business related to enterprises (partly as a result of acceleration in digitization in both the public and private sectors), and in the consumer segment, as demonstrated by e-commerce transactions growing by 91 percent year-on-year in full year 2021.

During 2022, SR41 billion worth of transport projects are expected to come on-line, which should translate into sizable growth in this segment. This includes the Riyadh metro project, which was reportedly 98 percent complete by end of 2021, with experimental operations of trains at an advanced stage. Meanwhile, the communications sub-sector will be helped by an acceleration in digitization, with higher adoption of digital payments (by both consumers and businesses) being one area of notable growth. Indeed, a recent report by 'Saudi Fintech' noted that venture capital (VC) investments witnessed a 20 fold increase in the year-to-August 2021, year-on-year (to SR600 million), with 93 percent of this being channeled into the payments segment. Separately, whilst we expect a yearly rise in Umrah and Hajj pilgrims, total numbers are still expected to be sizably lower than pre-pandemic levels, primarily as a result of low rates of vaccinations amongst some large Muslim populated countries (for example Pakistan has 40 percent of the population fully vaccinated against Covid-19, Bangladesh 36 percent and Nigeria 3 percent).

Real Estate Activities (9.9 percent of non-oil GDP) saw an impressive level of growth, at 6.6 percent, in the year-to-Q3 2021, year-on-year. The performance of this sector stands out even more so when considering that 2020's growth was not seriously affected (when the sector saw growth of 0.9 percent). As has been the case for the last few years, part of the uplift in 2021 was likely due to the

Figure 12: Annual Hajj numbers considerably lower than pre-pandemic levels

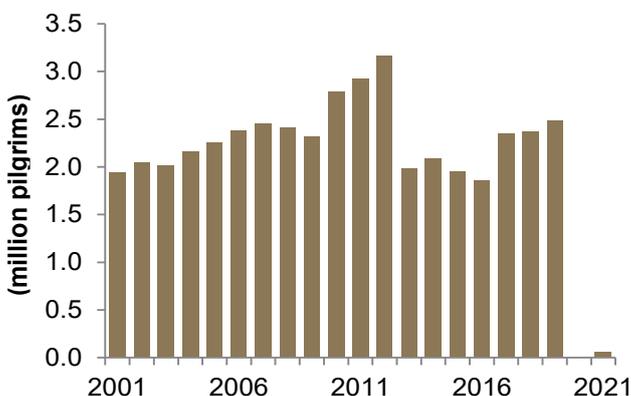
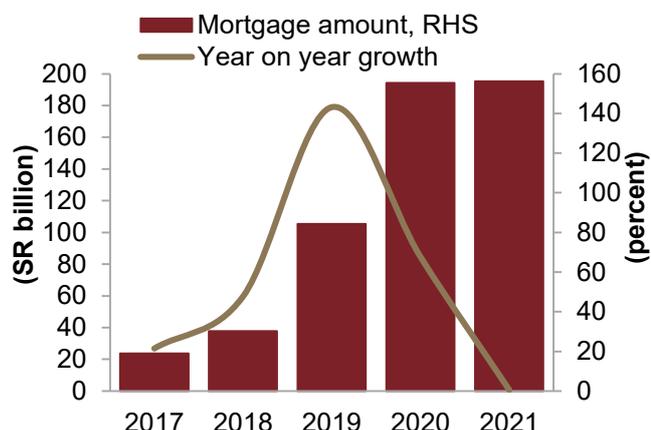


Figure 13: Mortgage loan growth seems to have peaked





Real Estate Activities saw an impressive level of growth, at 6.6 percent, in the year-to-Q3 2021, year-on-year...

...with the sector benefiting from better performance of publicly listed Real Estate Investment Trusts (REITs).

For 2022, whilst we expect home ownership levels to continue rising...

...this will not necessarily translate to yearly rises in mortgage loans.

The Construction sector recorded growth of 1.5 percent in the year-to-Q3 2021, year-on-year.

The sector, like in many parts of the world, will have been affected by labor shortages and supply chain issues.

continuous provision of varied housing products to citizens (which totaled 225 thousand in 2021 as a whole) under the Ministry of Housing's (MoH) Sakani program. In addition, the sector will have also benefitted from better performance of publicly listed Real Estate Investment Trusts (REITs), which rose by 8 percent in 2021. That said, new residential mortgages provided by banks and finance companies showed only nominal rises year-on-year in 2021. Recently revised SAMA data shows that mortgage lending totaled SR156 billion last year, only 1 percent higher than 2020 (Figure 13).

For 2022, we see continued growth in this sector being supported by the ongoing provision of housing products in relation to MoH's 'Sakani' program. At the same time, whilst we expect home ownership levels to continue rising (with home ownership amongst Saudis targeted at 70 percent by 2030), this will not necessarily translate to yearly rises in mortgage loans. This is because we expect demand for apartments to outstrip demand for (higher priced) villas in the next few years, with growth in mortgage loans in the former being almost ten times higher than in the latter. Also, more broadly speaking, with population levels expected to rise in major cities of the Kingdom (Riyadh's population is expected to double, at minimum, to 15 million by the end of the decade), this will drive up property prices, likely making the traditional preference of detached and semi-detached villas more expensive. Lastly, we expect the waning threat of Covid-19 to be accompanied by a roll-back in precautionary measures (such as social distancing) and continued growth in the non-oil economy as a whole to lend support to commercial real estate segment, which has suffered consistently over the last few years (Figure 14).

The **Construction** (7.9 percent of non-oil GDP) sector recorded growth of 1.5 percent in the year-to-Q3 2021, year-on-year. This modest rise came despite a sizable SR60 billion worth of construction projects being executed in Saudi Arabia during 2021. The sector, like in many parts of the world, will have been affected by labor shortages and supply chain issues. Indeed, a slow roll-out of vaccines in countries such as India, Pakistan and Bangladesh (which make up a bulk of construction sector workers), together with tightened entry approvals into the Kingdom, likely hampered recruitment efforts last year. In-line with this, latest available data shows that the construction sector saw a net decline of 132 thousand expat workers in the year to Q3 2021 (versus a rise in three thousand Saudis). At the same time, global supply chain issues sent construction material prices around the world soaring, with similarly higher prices of raw materials seen within the Kingdom (Figure 15).

Figure 14: Commercial real estate prices have fared badly over the last few years

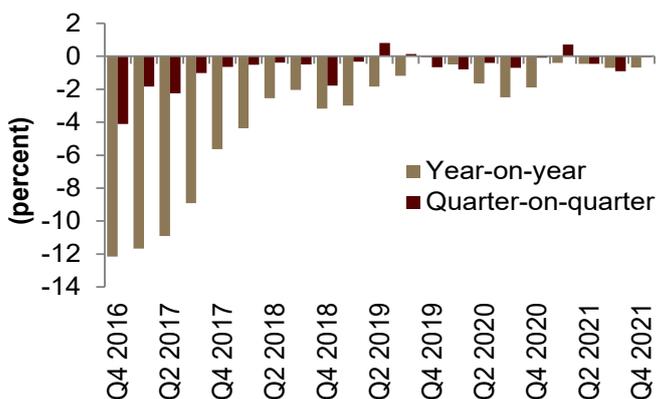
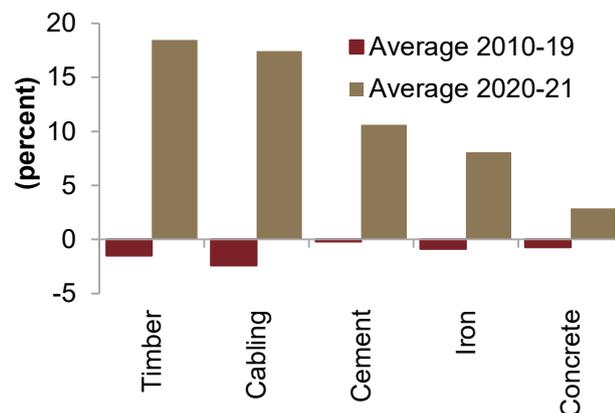


Figure 15: Annual average price change for construction products in Saudi Arabia





Looking ahead, the sector will continue to benefit from SR92 billion in government capital expenditure.

Agriculture rose by 2.7 percent in the year-to-Q3 2021, year-on-year.

Looking ahead, an ongoing drive towards agricultural self-sufficiency should help lift sectorial growth...

...with a new agricultural law expected to facilitate inward investment.

Finance, Insurance, and Business services showed a strong level of growth at 6.8 percent in the year-to-Q3 2021...

...with a multitude of areas contributing to the rebound.

Looking ahead, we expect to see healthy levels of growth, in part, to further rises in credit to the private sector...

Looking ahead, growth in this sector will be determined by how much of the current SR2.7 trillion worth of projects in design phase move into construction phase during the year (a majority of these projects relate to PIF mega-projects, namely NEOM). That said, the sector will continue to benefit from SR92 billion in government capital expenditure which will focus on a roll-out of the Sakani program (with 180 housing products targeted for 2022), as well as infrastructure projects, residential cities, highway projects, and water plants (as highlighted in the recent fiscal budget statement).

Agriculture (4.2 percent of non-oil GDP) rose by 2.7 percent in the year-to-Q3 2021, year-on-year, which is a reasonable rebound considering the sector was not too badly affected by the pandemic (registering a decline of 1.7 percent in 2020). During 2021, the sector benefitted from i) rising demand and ii) higher self-sufficiency in many agriculture products, as the Agricultural Development Fund (ADF) approved circa SR2.6 billion to support different projects during the year, including raising the Kingdom's wheat storage capacity to the highest in the MENA region, at 3.5 million tons.

Looking ahead, an ongoing drive towards self-sufficiency should help lift sectorial growth, with both in-and-outbound investment (in order to enhance the Kingdom's level of food security), gathering pace recently. For example, a new agricultural law was approved early last year, which is expected to facilitate inward investment into areas targeted for 100 percent self-sufficiency (such as poultry production). It is also worth noting that the Ministry of Environment Water and Agriculture's (MEWA) plans to enhance self-sufficiency includes investing into modern agricultural technologies, with a recent allocation of SR100 million to develop and localize vertical-farming technologies being one example. Meanwhile, a rising proportion of the Kingdom's outbound investment is being led by the Saudi Agricultural and Livestock Investment Company (SALIC), a wholly-owned subsidiary of the PIF. According to the PIF Program (2021-25), SALIC has, in the past, invested in agriculture and trade in grains, rice, and meat in Ukraine, Canada, India, Brazil, Australia, and the UK. Moving forward, the PIF portfolio company is expected to play a central role in cementing Saudi Arabia's position as a hub for the halal food industry in the global packaged food market.

Finance, Insurance, and Business services (6.9 percent of non-oil GDP) showed a strong level of growth at 6.8 percent in the year-to-Q3 2021, year-on-year, with a multitude of areas contributing to the rebound. Financial services saw another sizable yearly rise in lending to the private sector (up 15 percent in 2021), whilst growth was also helped by positive developments in the capital markets, as a total of 15 initial public offerings (IPOs) were completed on the main and parallel markets. More notably, the main market, the Tadawul All Share Index (TASI), saw nine IPOs during last year, which helped the index record its best performance in a decade (Figure 16). The TASI's rise, together with six IPOs in the parallel (Nomu) market, helped raise market capitalization by 10 percent year-on-year, to just under SR10 trillion (equivalent to 311 percent of GDP). Meanwhile, the sector's growth was negatively affected by a decline in the number of privately insured persons, down by a total of 1 percent (or 125 thousand) beneficiaries during 2021, and despite a rise of 128 thousand Saudi beneficiaries.

Looking ahead, we expect the Finance, Insurance, and Business services sector to see healthy levels of growth in 2022 due, in part, to further rises in credit to the private sector, in-line with non-oil GDP growth (see Monetary and Financial Development section below). Additionally, we also expect IPOs on both the main and parallel markets to continue adding to growth, with the Saudi Stock Exchange (Tadawul) recently stating it had received 50 applications



...as a result of IPOs on both the main and parallel markets to continue adding to growth...

...and as health insurance policies rise.

Community, Social & Personal Services recovered sharply in the year-to-Q3 2021, rising by 7.2 percent year-on-year.

Whilst the Community, Social & Personal Services sector currently only makes up a small portion of non-oil GDP...

...we expect the QoL VRP to help expand this sector's contribution over the coming years.

for listings in 2022 (with the Capital Market Authority's Strategic Plan targeting 24 such listings this year). Lastly, we also see a yearly rise in health insurance beneficiaries to add to growth in this segment, especially as a result of a larger number of Saudi beneficiaries (Box 3).

Box 3: Private Health Insurance

In-line with the broad non-oil economic recovery during 2022, we expect Saudi unemployment to hit multi-year lows (*outlined in our previous [Labor update](#)*). Thus, as more and more Saudis seek out employment in the private sector (labor force participation rose from 40 percent in Q2 2017 to 49 percent in Q3 2021), we not only expect the number of Saudi health insurance policies to rise, but also the quality and breadth of coverage of such policies to drastically improve as well. In addition, a number of government entities are in the process of developing private health insurance coverage for their employees, which is also likely to push up the number of health insurance policies and demand on private sector healthcare services (*please refer to our [Healthcare](#) for more on this*).

Community, Social & Personal Services (3.1 percent of non-oil GDP) recovered sharply in the year-to-Q3 2021, rising by 7.2 percent year-on-year. The rebound is likely similar to reasons for the recovery in the 'Wholesale & Retail' sector, since this economic sector includes activities (such as arts, amusement, and sports) which will have benefitted from looser pandemic related restrictions last year. Looking ahead, the sector is expected to see higher rates of growth this year, not only because of further easing of restrictions and continued roll-out of entertainment and leisure events, but also because of developments under the Quality of Life (QoL) VRP (Box 4).

Box 4: Quality of Life VRP's Impact on Non-Oil GDP

Whilst the Community, Social & Personal Services sector currently only makes up a small portion of non-oil GDP, we expect the QoL VRP to help expand this sector's contribution over the coming years. Launched in 2018, the QoL program aims to raise the level of participation in cultural, sports and entertainment activities. To this effect, a number of targets have been set-out under different sectors, with arguably the most ambitious being related to sports. The Ministry of Sports, a key stakeholders in the QoL program, is expected to set out a National Sports Strategy (NSS) during 2022, which will detail how the sports sector will raise its share of non-oil GDP to 1 percent by 2030 (compared to 0.1 percent in 2017). Separately, the NSS is also expected to highlight how various projects (such as the Sports Boulevard in Riyadh) will help raise the percentage of people practicing sports on a weekly basis from 31 percent in 2017, to 40 percent by the end of the decade. Besides sports, the QoL sets out a number of targets for culture & heritage (such as percentage of consumer consumption of cultural shows), and entertainment & hobbies (including family spending on entertainment), all of which, if attained, should contribute to lifting growth in this economic sector over the medium term.



Electricity, Gas, and Water saw a year-on-year rise of 0.8 percent in the year-to-Q3 2021...

...as electricity demand rebounded post-Covid-19.

Looking ahead, growth in this segment will be spurred by the start-up of a 300 megawatt (MW) solar photovoltaic project...

...and 400MW wind farm, both commissioned by the Renewable Energy Project Development Office (REPDO).

Non-oil Mining and Quarrying grew by 4.9 percent in the period to Q3 2021, year-on-year.

Electricity, Gas, and Water (2 percent of non-oil GDP) saw a year-on-year rise of 0.8 percent in the year-to-Q3 2021, as electricity demand rebounded post-Covid-19. In-line with this, Saudi Electricity Company (SEC) reported electric power volumes rose 6.5 percent in the year-to-Q3 2021, year-on-year, with a bounce back in demand amongst all segments (commercial, government, industrial and residential). Separately, the SEC also reported its generation capacity grew 2.1 percent in the year to Q3 2021 to 54.4 gigawatts (GW), whilst transmission and distribution networks lines grew 2.4 percent and 3.4 percent, respectively, over the same period. Looking ahead, growth in this segment will be spurred by the expected commissioning of a 1.8GW oil & gas fueled power plant, but also as a result of start-up of a 300 megawatt (MW) solar photovoltaic (PV) project, and 400MW wind farm, both commissioned by the Renewable Energy Project Development Office (REPDO) (Box 5).

Box 5: Renewable Energy

As part of a recently launched Saudi Green Initiative, a number of proposals were detailed to help the Kingdom confront global climate change and set it on a path to reach net zero carbon emissions by 2060. As part of this, an ambitious National Renewable Energy Program (NREP) has been rolled-out which aims for renewables to make up 50 percent of total electricity generation by 2030 (versus less than 1 percent in 2019), with natural gas making up the other half. Accordingly, the REPDO has been tasked with implementing the NREP in coordination with other key stakeholders. Part of REPDO's remit is to tender 27.3 GW of renewable energy by 2024 and a total of 58.7 GW by 2030 (Figure 17) (the Kingdom's electricity generation capacity totaled 85.1GW in 2019). As of end 2021, REPDO had awarded circa 3.7GW of renewable energy projects, including the 300 MW Sakaka solar PV power plant which became operational in Q2 2021. Looking ahead therefore, the remaining 55GW of renewable energy projects will have to be awarded between 2022-30, equating to an average 6GW of renewable power contracts every single year through to the end of the decade.

Non-oil Mining and Quarrying (0.8 percent of non-oil GDP) grew by 4.9 percent in the period to Q3 2021, year-on-year. We see this growth coming about as a result of efforts to encourage investment in the sector, with nine mining permits worth more than SR30 billion as well as 157 licenses for metal exploration being issued since the Ministry of Industry and Mineral Resources (MIMR) began implementing the new 'Mining law' from June 2020 onwards.

Figure 16: TASI recorded its best performance in a decade in 2021

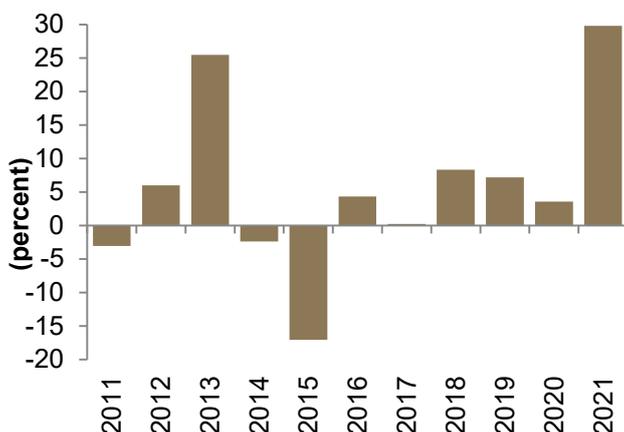
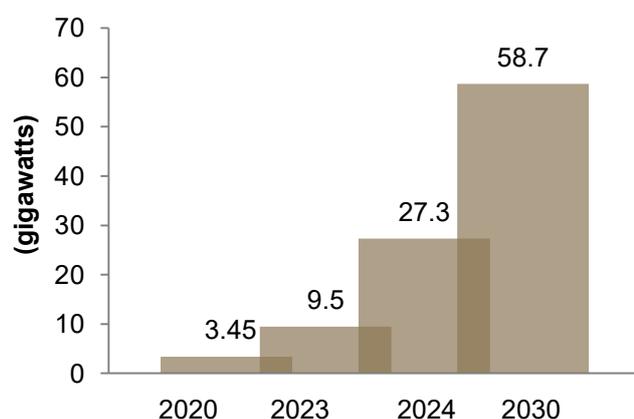


Figure 17: NREP aims for renewables to make up 50 percent of total electricity generation by 2030





We see this growth coming about as a result of efforts to encourage investment in the sector.

Looking ahead, the sector will benefit from a push to unlock the exploitation of an estimated SR4.9 trillion in reserves of various minerals.

Total expenditure for 2022 remained unchanged versus the preliminary budget, at SR955 billion...

...meaning it is expected to be 3.5 and 6 percent lower than 2021 budgeted and actual expenditure, respectively.

Looking ahead, the sector will benefit from a push to unlock the full potential of the mining sector as the MIMR (alongside the SIDF and PIF) looks to encourage the exploitation of an estimated SR4.9 trillion in reserves of phosphates, gold, copper and zinc, amongst other minerals. Additionally, the sector is expected to be one of the major beneficiaries from a number of initiatives outlined under the NIDLP, which includes a three phase program to i) determine the Kingdom's full range of mineral quantities ii) setting up refining and smelting processes to manufacture raw materials and iii) begin the production of semi-finished and final products. In-line with this, the Saudi National Geological Database (NGD) is currently being created to allow investors to find the locations of mineral deposits, with the Saudi Geological Survey recently announcing 54 locations for exploration. Overall, such initiatives will be growth enhancing for the sector, and despite its relatively small contribution to non-oil GDP, we expect sizable growth in this sector in the years to come.

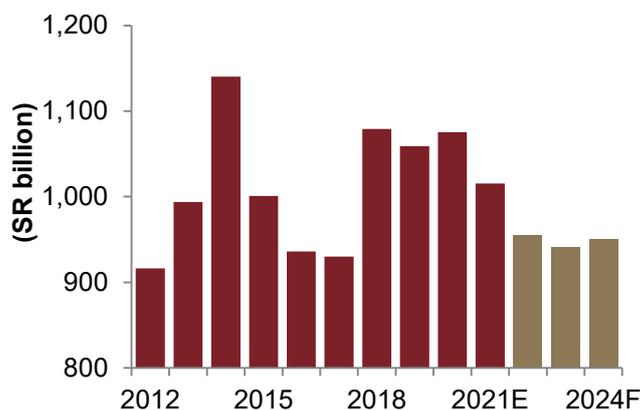
Fiscal Policy

Saudi Arabia's 2022 [fiscal budget](#) (published at the end of last year) presented some changes compared to the [preliminary budget](#) released a couple of months earlier. Overall in 2022, budgeted government expenditure is expected to total SR955 billion in 2022, meaning it is expected to be 3.5 and 6 percent lower than 2021 budgeted (SR990 billion) and actual (SR1.02 trillion) expenditure, respectively. Concurrently, with the baseline scenario of budgeted revenue expected to total SR1.05 trillion according to the Ministry of Finance (MoF) is expecting a fiscal surplus of SR90 billion (2.5 percent of GDP) in 2022, its first fiscal surplus since 2013.

Expenditure:

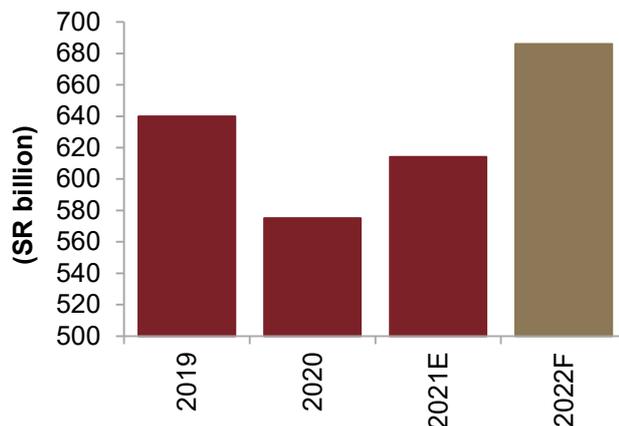
Total expenditure for 2022 remained unchanged versus the [preliminary budget](#), at SR955 billion, meaning it is expected to be 3.5 and 6 percent lower than 2021 budgeted (SR990 billion) and actual (SR1.02 trillion) expenditure, respectively (Figure 18). In-line with the observed medium term trend, budgeted government capital expenditure (capex) will continue declining in 2022 year-on-year. The statement highlighted that SR92 billion (or 10 percent of total spending) will be allocated to capex, equating to an 18 percent yearly decline over 2021's actual sum of SR112 billion. Despite this, and as highlighted by the recently announced National Investment Strategy (NIS), total domestic investment (including government capex, PIF, 'Shareek' and NDF investments) will rise by 12 percent year-on-year in 2022, to SR686 billion (Figure 19).

Figure 18: Government expenditure*



*actual till 2021, budgeted 2022-2024

Figure 19: Under the NIS, domestic investment is expected to rise 12 percent year-on-year in 2022





Despite this, and as highlighted by the recently announced National Investment Strategy (NIS)...

...total domestic investment (including government capex, PIF, 'Shareek' and NDF investments)...

...will rise by 12 percent year-on-year in 2022, to SR686 billion.

Meanwhile, current spending is expected to decline by 4 percent year-on-year...

...to a budgeted total of SR863 billion.

Only 'general items' (which includes contribution to pension funds and social insurance, amongst other things)...

Meanwhile, current spending (the more rigid part of expenditure) is expected to decline by 4 percent, year-on-year, to a budgeted total of SR863 billion. The largest component of this segment (compensation of employees) is expected to remain virtually unchanged versus last year's actual total (of SR497 billion), but because of lower yearly total expenditure, its proportion will rise to 52 percent of total expenditure, compared to 49 percent in 2021. Looking at the budget from a sectorial level, 'education' (down 3 percent yearly) and 'general items' (up a sizable 39 percent on a yearly basis) are the largest portion of budgeted expenditure, both making up 19 percent of the total each. Meanwhile, 'military' expenditure (down 10 percent) makes up 18 percent of the total, whilst 'health & social development' (down 28 percent) makes up 14 percent of budgeted expenditure. Overall only 'general items' (which includes contribution to pension funds and social insurance, amongst other things) and 'security and regional administration' are expected to show yearly rises between actual 2021 and budgeted 2022 expenditure (Figure 20).

Revenue:

The baseline scenario of budgeted government revenue for 2022 is expected to total SR1.05 trillion according to the statement. In-line with the MoF's practice of not disclosing government oil revenue since the listing of Aramco, this segment is now aggregated into 'Other revenues', which is expected to rise by 19 percent year-on-year in 2022, to SR763 billion. Due to the number of miscellaneous items included within 'Other revenues' (such as investment income, confiscations, and collection of fines & penalties), the calculation of budget oil price is now a much more convoluted process. Having said that, however, we estimate that a Brent oil price of around \$70-75 per barrel (pb) would represent a reasonable range for the budgeted oil price in the 2022 baseline revenue scenario.

The statement expects SR283 billion in tax revenue in 2022, showing a decline of 4 percent over 2021's expected total of SR296 billion. The main decline comes from a drop in 'taxes on goods and services' by 4 percent year-on-year, which, according to the statement, is a reflective of amendments in VAT collection from government contractors (Figure 21).

According to the fiscal budget statement, the Kingdom is expected to register its first fiscal surplus since 2013. Based on budgeted government revenue of SR1.05 trillion (16 percent higher than

Figure 20: Yearly change in spending by sector (actual 2021 versus budgeted 2022)

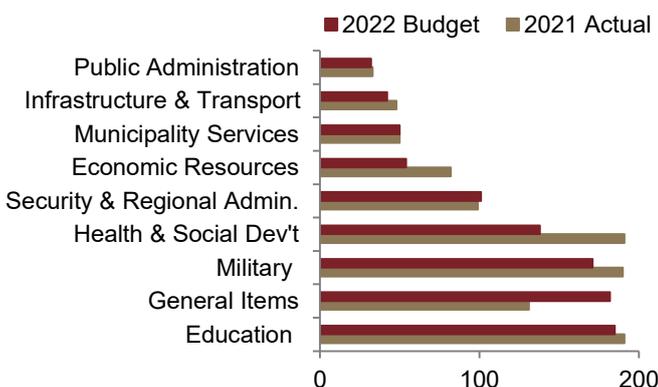
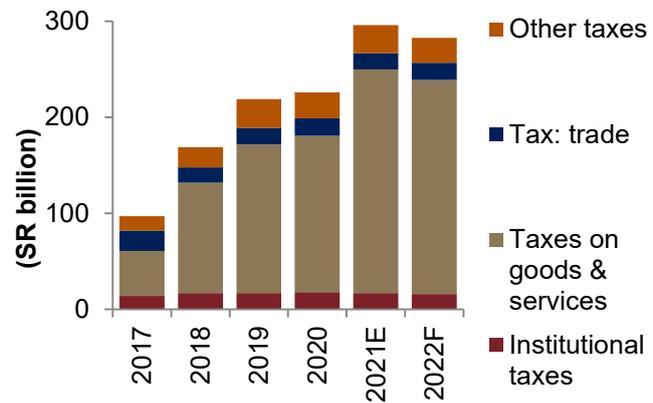


Figure 21: Non-oil tax revenue by type



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



...and 'security and regional administration' are expected to show yearly rises between actual 2021 and budgeted 2022 expenditure.

We expect to see a fiscal surplus of SR120 billion, equivalent to 3.4 percent of GDP.

In 2021, the broad measure of money supply (M3) rose by 7.4 percent as demand deposits rose by 6 percent on a yearly basis.

Concurrently, time & saving deposits (which make up 21 percent of M3) rose by 5 percent year-on-year.

structural revenues scenario of SR903 billion initially used in the preliminary budget) the Kingdom will see a fiscal surplus of SR90 billion (2.5 percent of GDP) in 2022 (Box 6).

Due to expectations of a fiscal surplus, total government debt is not expected to change and, as such, is set to decline as a proportion of GDP to 26.4 percent by end 2022 (Figure 22). That said, the National Debt Management Center (NDMC) recently highlighted in its annual borrowing plan for that the funding requirement in 2022 would mainly focus on refinancing SR43 billion of debt, although it would remain opportunistic by exploring additional debt raising activities, depending on market conditions.

Box 6: Jadwa's fiscal projections

With crude oil production of 10.5 mbpd and Brent oil prices of \$76 pb, we forecast government oil revenue to total around SR710 billion and non-oil revenue to total SR365 billion. (Our model assumes 94.2 percent of Aramco's dividend flowing to the MoF, thereby incorporating the recent transfer of 4 percent of shares to PIF, alongside 1.8 percent already resting with individual investors). As a result, a total of SR1.075 trillion in government revenue, less government expenditure of SR955 billion, means we expect the Kingdom to record a fiscal surplus of SR120 billion (3.4 percent of GDP) in 2022 (Figure 23).

Monetary and Financial Developments

In 2021, the broad measure of money supply (M3) rose by 7.4 percent as demand deposits (constituting 60 percent of M3), rose by 6 percent on a yearly basis. When looking at the breakdown of demand deposits growth, we can see this rise came primarily from private sector demand deposits (88 percent of demand deposits), which grew by 5 percent year-on-year. Meanwhile, the smaller constituent of demand deposits, government demand deposits, were up 15 percent year-on-year. Concurrently, time & saving deposits (which make up 21 percent of M3) rose by 5 percent year-on-year. That said, we note that whilst government time & saving deposits (48 percent of total time & saving deposits) were up 11 percent in 2021, private time & saving deposits (53 percent of total time & saving deposits) declined by 1 percent during the same period. As we noted in our [Monetary update](#), the decline in private time & saving deposits may partly reflect increased appetite by local investors in channeling their savings towards higher yielding investment opportunities.

Figure 22: No rise in government debt expected in the next few years

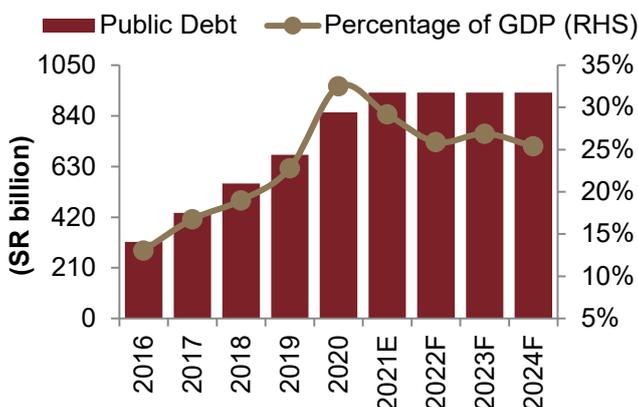
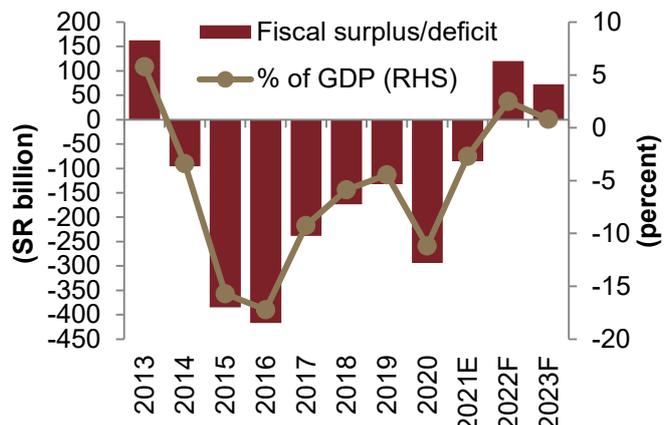


Figure 23: We expect a fiscal surplus of SR120 billion (3.4 percent of GDP) in 2022





Total bank claims rose by 14.5 percent year-on-year in 2021, supported by an increase in credit to the private sector.

The share of SME loans in total bank credit reached 8.3 percent by the end of Q3 2021.

Data on the banking sector (till Q3 2021) showed that NPLs as a share of total loans actually improved slightly, to 2 percent, versus 2.2 percent at the end of 2020.

Looking ahead, the continued improvement in the local economy during 2022 will have a positive impact on credit to the private sector.

More specifically, we expect long-term credit to continue rising...

..., with this type of credit usually indicating longer term economic confidence.

Bank claims

Total bank claims rose by 14.5 percent year-on-year in 2021, supported by an increase in credit to the private sector (75 percent of total bank claims) by 15 percent year-on-year, and also supported by a rise in claims to the public sector, by 20 percent over the same period. When looking at breakdown by sector, “Government and quasi government” saw the largest yearly rise in credit in percentage terms (up 30 percent). Meanwhile, “Commerce” saw the largest rise in value terms, at SR95 billion in new credit (or 9 percent of total new credit for the year), which reflects the fact that the sector was still recovering from Covid-19 related lockdowns and a drop in activity in most of last year.

Looking at latest data on banks’ lending to small and medium enterprises (SMEs), the share of SME loans in total bank credit reached 8.3 percent by the end of Q3 2021 (down marginally from 8.4 percent in Q4 2020), with a significant rise in lending seen towards micro size enterprises (up 43 percent in the year-to-Q3 2021).

Financial soundness indicators

Data on the banking sector (till Q3 2021) showed that non-performing loans (NPLs) as a share of total loans actually improved slightly, to 2 percent, versus 2.2 percent at the end of 2020. That said, NPL ratios may be somewhat distorted by SAMA’s Deferral Payment Program, which was recently extended until the end of the first quarter of 2022, and, as such, the ratio could increase when the unwinding of these deferral measures takes place. Meanwhile, a combination of growth in the banking sector’s loan book, marginally higher lending rates, and a pick-up in business activity, meant other indicators, such as return on equity (at 10.9 percent) and return on assets (at 1.9 percent), also improved during last year despite remaining below pre-pandemic levels.

Outlook

Looking ahead, the continued improvement in the local economy during 2022 will have a positive impact on credit to the private sector. More specifically, we expect long-term credit (which was the fastest growing segment by maturity in 2021) to continue rising, with this type of credit usually indicating longer term economic confidence (and is generally related to more business-oriented activity and investment loans). At the same time, however, we expect credit to the public sector to slow dramatically during the year as the Kingdom registers its first fiscal surplus in eight years. In-line with this, the NDMC recently stated that the sovereign funding requirement in 2022 will mainly focus on refinancing SR43 billion debt, rather than new issuances. With respects to private sector deposits, as restrictions around social distancing are relaxed further, in-line with a larger number of booster shots being administered, more spending opportunities for households are likely to arise, especially in relation to services. In fact, we note that credit card loans rose 6 percent year-on-year in full year 2021, but only because of a sharp rebound in Q4 2021, when there was a wider lifting of pandemic related restrictions and a sizable roll-out of tourism and entertainment activities.

As SAMA raises interest rates in lockstep with the Fed during the year (Box 7), this will translate to higher domestic borrowing costs. That said, whilst higher policy rates will push SAIBOR (the price of lending between banks for Riyals) higher, other factors such as



We expect the 3 month SAIBOR rate to rise to 2 percent by the end of the year, versus just over 1 percent currently...

...as we expect anywhere between three or four hikes in US interest rates during the year.

Despite inflationary pressure seen in many parts of the world...

...prices in the Kingdom were not adversely affected last year, with inflation averaging 3.1 percent...

...broadly in-line with our forecast of 3.2 percent.

higher demand for credit, declining private sector deposits and expiration of SAMA's Deferral Payment Program will also add some upward pressure. Overall, we expect the 3 month SAIBOR rate to rise to 2 percent by the end of the year, versus just over 1 percent currently (Figure 24).

Box 7: US Interest Rates

A mixture of supply disruptions, labor shortages and higher energy prices has seen a consistent upward trend in inflation in recent months in the US. All of this combined raises concerns that the US economy is currently in a period of sustained price rises, which in turn, has moved the US Federal Reserve (Fed) to begin reversing its loose monetary policy stance. In its latest meeting in January 2022, whilst the Fed kept the Federal Fund Rate (FFR) steady at a range between 0 to 0.25 percent, it strongly hinted that it would raise the FFR at its mid-March meeting, whilst also suggesting that rate rises could be larger than 25 basis points (bps). Bearing this in mind, we expect anywhere between three or four hikes in US interest rates during the year.

Slowing pace of inflation:

Despite inflationary pressure seen in many parts of the world, prices in the Kingdom were not adversely affected last year, with inflation averaging 3.1 percent (broadly in-line with our forecast of 3.2 percent). One of the main reasons for the relatively elevated levels of inflation were of course the effects of a rise in VAT (from 5 to 15 percent) in mid-2020, which led to prices trending 5.5 percent higher year-on-year in H1 2021. However, in the second half of the year, prices were mostly steady, and declined significantly to an average of 0.75 percent, year-on-year. On a sectorial level, full year prices in 'transport' and 'communication' saw the largest annual rises, at 10.5 percent and 7.7 percent year-on-year, respectively. Meanwhile, prices in 'education' declined for a second consecutive year as primary schools remained on-line, whilst another yearly decline in the 'housing for rentals' sub-segment saw 'housing and utilities' prices drop.

In 2022, we expect to see prices rising by 1.7 percent year-on-year (Figure 25), with this being driven by a recovery in demand in the 'hotels and restaurants', 'recreation and culture' segment as spending is diverted towards services rather than goods, which will likely be supported by a further reversal in restrictions around social distancing and as a number of entertainment and leisure events

Figure 24: Interest rates trending upwards during the year

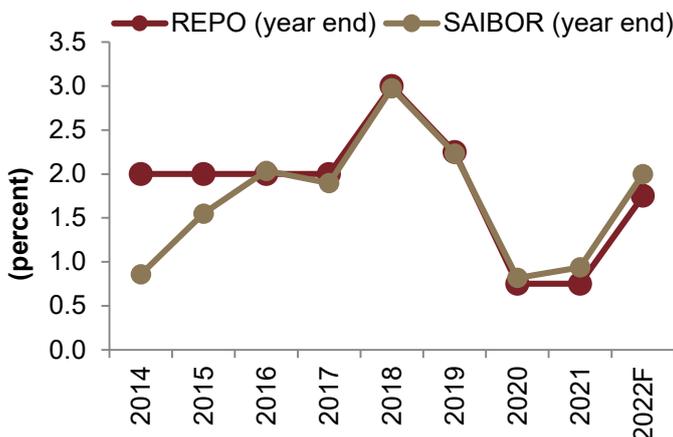
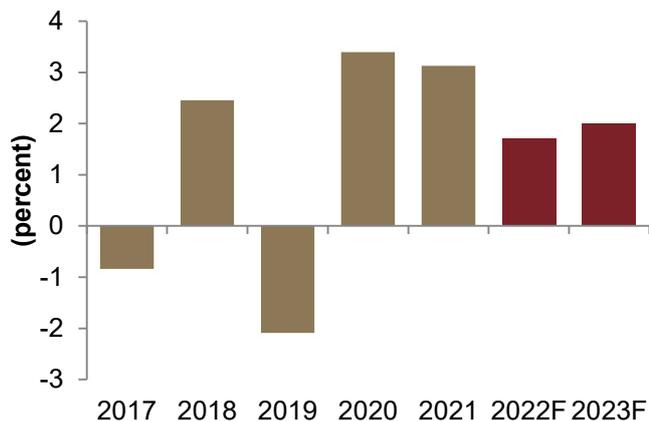


Figure 25: We expect inflation to average 1.7 percent in 2022





In 2022, we expect to see prices rising by 1.7 percent year-on-year...

...and we do not expect inflationary pressure seen in many economies around the world to be transmitted into the local economy.

Looking out into 2023, we expect the Saudi economy to grow by 3.1 percent, as oil GDP shows more modest rises of 2 percent year-on-year.

continue to be expanded. We also expect the ‘education’ segment to show a strong rebound in prices, in-line with schools for all age groups returning fully to in-person classes at the turn of this year. That said, we do not expect inflationary pressure seen in many economies around the world (as a result of global supply chain issues and higher transport costs) to be transmitted into the local economy (Box 8).

Box 8: Dollar Strength to Limit Imported Inflation

In 2021, many economies around the world faced higher prices and a spike in inflation rates. According to the IMF, supply shocks lowered world output by 0.5 percentage points and raised global inflation by 1 percentage point in 2021. Looking ahead, in 2022, the IMF expects inflation to decrease gradually, as supply-demand imbalances wane and monetary policy in most major economies is tightened.

In the Kingdom, we see a number of reasons behind the limited impact of global inflation on local prices. On the one hand, most of the Kingdom’s imports are from countries that are not expected to see significant rises in inflation, with China, for example, which represents around 20 percent of the Kingdom’s imports, inflation is expected to rise by 1.8 percent in 2022, according to IMF forecasts. Lastly, as the Fed raises US interest rates, we expect the value of the dollar (and therefore the Saudi riyal) to rise, which should help insulate the Kingdom’s import costs somewhat during the year (Figure 26).

The Outlook for 2023

Looking out into 2023, we expect the Saudi economy to grow by 3.1 percent, as oil GDP shows more modest rises of 2 percent year-on-year. As we highlighted in last year’s [Saudi Economy](#) report, multi-year underinvestment in hydrocarbon exploration and production investment (Figure 27) will mean that many oil producers will likely see declining output, which will translate into higher demand for Saudi crude oil in spite of mild yearly declines in overall global oil demand next year.

On the non-oil side, the continued roll-out of initiatives under the Vision 2030, or more specifically under various VRP delivery plans, will help drive growth in 2023. Thus, under the PIF program, we expect further growth in the construction sector as a result of progress on mega-projects, but also through the fund’s emphasis on

Figure 26: Trade weighted dollar has been steadily rising over the last year

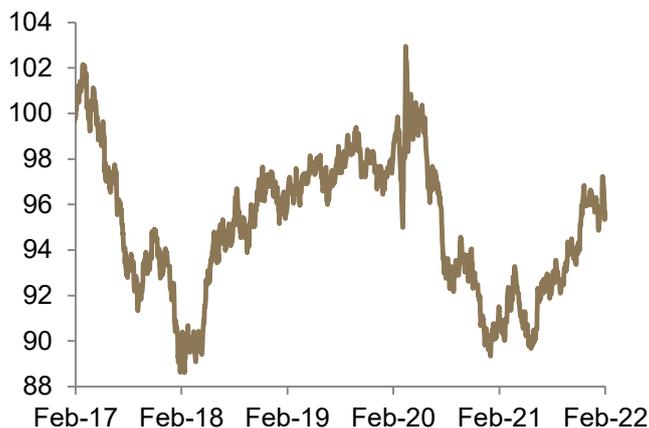
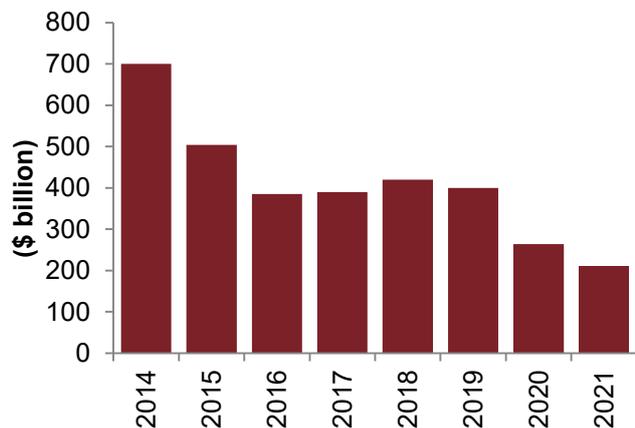


Figure 27: Global upstream oil & gas investment hit a multi year low in 2021





On the non-oil side, the continued roll-out of initiatives under the Vision 2030, or more specifically under various VRP delivery plans, will help drive growth in 2023.

Overall, we expect the non-oil sector to record a sizable growth of 4.8 percent year-on-year in 2023.

supporting national development via capital injections of SR150 billion annually. At the same time, guided by the Financial Sector Development Program, growth in finance will be driven by continued growth in credit, but also as a result of further anticipated initial public offerings (IPOs) on the main and parallel markets. Meanwhile, the QoL VRP will help sustain growth in wholesale & retail trade, especially so as there is further expansion in touristic, entertainment and sporting events. Additionally, non-oil manufacturing and mining growth will be dictated by a reconfigured five year delivery plan under the NIDL. Separately, the Doyof Al Rahman VRP, will aim to facilitate a larger number of hajj and umrah pilgrims from abroad as the majority of Muslim nations see higher vaccination rates. Also, the execution of high-priority initiatives under the national transport and logistics strategy will continue to positively impact the transport and communication sector. Overall, we expect the non-oil sector to record a sizable growth of 4.8 percent year-on-year in 2023.

On the fiscal front, we expect total revenue to be around SR1.01 trillion in 2023 with oil revenue making up SR633 billion, or 63 percent of the total. With expenditure expected to decline 1.5 percent year-on-year to SR941 billion (as per the recent fiscal budget), we see the fiscal surplus narrowing to SR73 billion or 2 percent of GDP next year. At the same time, no additional debt issuances will push debt-to-GDP ratio down to 26.3 percent at the end of 2023.



Key Data

	2015	2016	2017	2018	2019	2020	2021E	2022F	2023F
Nominal GDP									
(SR billion)	2,454	2,419	2,582	3,062	3,014	2,638	3,207	3,555	3,573
(\$ billion)	654	645	689	817	804	703	855	948	953
(% change)	-13.5	-1.4	6.8	18.6	-1.6	-12.5	21.6	10.9	0.5
Real GDP (% change)									
Oil	5.3	3.6	-3.1	2.3	-3.3	-6.7	0.2	15.5	2.0
Non-oil activities	3.5	0.3	1.6	-3.2	3.2	-3.4	6.6	3.4	4.8
Government activities	2.3	0.2	0.3	3.5	1.5	0.2	1.5	1.0	1.0
Total	4.1	1.7	-0.7	2.5	0.3	-4.1	3.3	7.7	3.1
Oil indicators (average)									
Brent (\$/b)	52	43	54	71	66	42	71	76	70
Production (million b/d)	10.2	10.4	10.0	10.3	9.8	9.2	9.1	10.5	10.7
Budgetary indicators (SR billion)									
Government revenue	616	519	692	906	926	782	930	1075	1014
Government expenditure*	1,001	936	930	1,079	1,059	1,076	1,015	955	941
Budget balance	-385	-417	-238	-173	-133	-294	-85	120	73
(% GDP)	-15.7	-17.2	-9.2	-5.7	-4.4	-11.1	-2.7	3.4	2.0
Gross public debt	142	317	443	560	678	854	937	938	938
(% GDP)	5.8	13.1	17.1	18.3	22.5	32.4	29.2	26.4	26.3
Monetary indicators (average)									
Inflation (% change)	1.2	2.1	-0.8	2.5	-2.1	3.4	3.1	1.7	2.0
SAMA base lending rate (% end year)	2.0	2.0	2.0	3.0	2.25	0.75	0.75	1.75	2.25
External trade indicators (\$ billion)									
Oil export revenues	153	137	171	232	201	122	200	255	242
Total export revenues	204	184	222	294	262	174	265	325	317
Imports	159	128	123	126	140	126	143	154	157
Trade balance	44	56	98	169	121	48	122	171	159
Current account balance	-57	-24	10	72	38	-20	42	72	63
(% GDP)	-8.7	-3.7	1.5	8.8	4.8	-2.8	5.0	7.6	6.6
Official reserve assets	616	536	496	497	500	454	455	509	546
Social and demographic indicators									
Population (million)	31.0	31.7	32.6	33.4	34.2	35.0	35.4	35.8	36.3
Saudi Unemployment (15+, %)	11.5	12.5	12.8	12.7	12.0	12.6	10.5	10.3	10.0
GDP per capita (\$)	21,095	20,318	21,114	24,438	23,485	20,089	24,170	26,487	26,267

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



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