

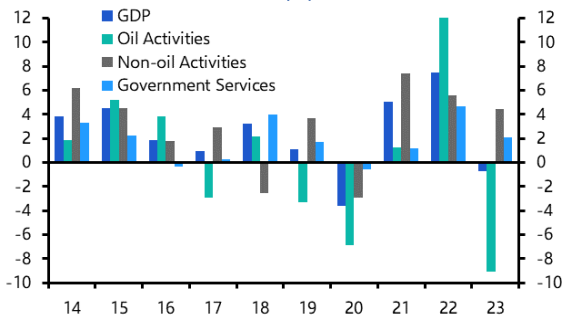


MENA ECONOMICS UPDATE

Saudi Arabia's non-oil economy to drive the recovery

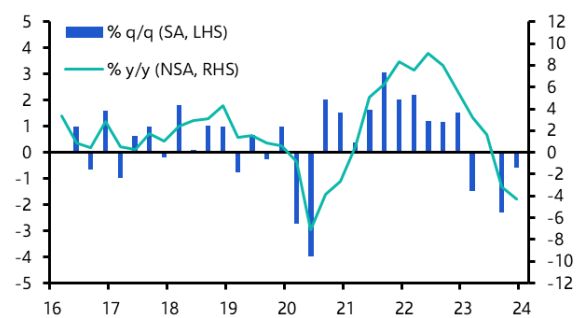
- After a very weak 2023, Saudi Arabia's economy should see a modest recovery this year as the Kingdom's non-oil economy sustains its strong momentum and more than offsets the drag from the extended oil output cuts.
- Last month, the General Authority for Statistics (GAS) published the full national accounts for 2023 and confirmed that the Saudi economy contracted by 0.8%. The breakdown, which has been revamped under a [new methodology](#), showed that oil activities contracted by 9.0% which more than offset a 2.1% and 4.4% expansion of government and non-oil activities, respectively. (See Chart 1.)
- Meanwhile, the revisions to data now show that rather than posting an 0.4% q/q expansion in the final quarter of last year – as the [previous flash estimate had shown](#), the Saudi economy instead *contracted* by 0.6% q/q in Q4 and puts the Kingdom in a technical recession. (See Chart 2.)

Chart 1: Saudi Arabia GDP by Main Economic Activity (% y/y)



Sources: General Authority for Statistics, CEIC

Chart 2: Saudi Arabia GDP



Sources: General Authority for Statistics, CEIC

- OPEC+'s decision to roll over current levels of oil production until end-Q2, which includes the Kingdom's own additional voluntary 1mn bpd cut, will mean that the Kingdom's oil sector remains a drag on GDP growth over the first half of this year. **We expect that, despite Aramco also suspending plans to increase its overall production capacity from 12mn bpd to 13mn bpd, actual output will be raised from the middle of this year.** (See Chart 3.) In turn, oil GDP start to have a positive contribution Q3 and into next year.
- Meanwhile, despite the bump in oil prices so far this year, to \$89pb at the time of writing, this is still below our estimate of the Kingdom's fiscal breakeven oil price (\$93pb). That said, even if oil prices slide back, as we expect, the increased performance-linked dividend payouts from Aramco and ease with which the government has (and will continue to) issued debt will continue to support the loose fiscal stance.
- **More timely data suggest the Kingdom's government and non-oil activities will continue to support GDP growth over the first half of this year.** Manufacturing output growth accelerated from 3.1% on a 3m/3m seasonally adjusted basis in December to 3.7% in January, which was the fastest pace in a year. (See Chart 4.) At the same time, private sector credit expanded by 10.8% y/y in January despite the high interest rate environment. That said, mortgage lending in the Kingdom remains very weak. (See Chart 5.)
- Consumer spending in the Kingdom has strengthened over the past couple of months too. Our aggregate measure of consumer spending (that is the sum of point of sale transactions, ATM withdrawals, and Mada card spending) grew by 6.7% on a 3m/3m seasonally adjusted basis in January, which was the fastest pace since August. And weekly point of sale transaction data shows an acceleration from 6.4% 3m/3m in February to 6.8% 3m/3m in the first three weeks of March – an 18-month high. (See Chart 6.)



Chart 3: Saudi Arabia Oil Production

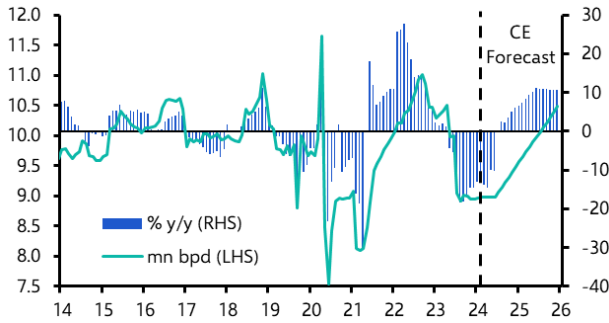


Chart 4: Saudi Arabia Manufacturing Production (% 3m/3m, Seasonally Adjusted)

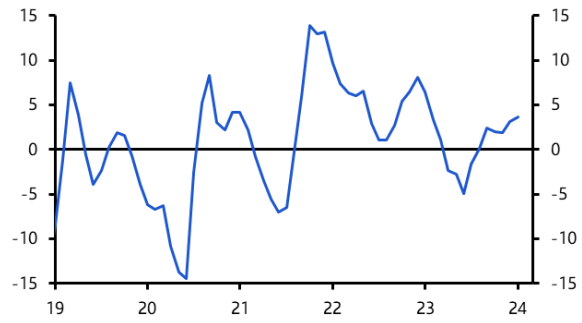


Chart 5: Saudi Arabia Bank Lending (% y/y)

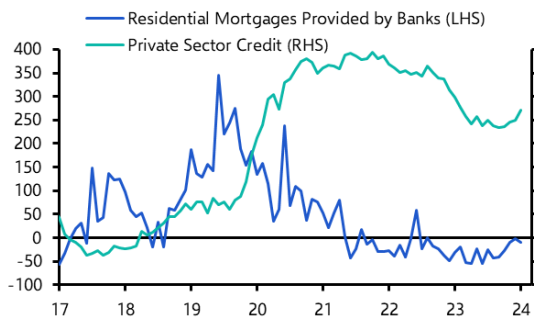
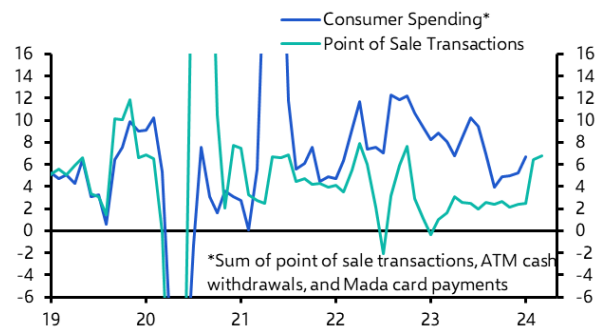


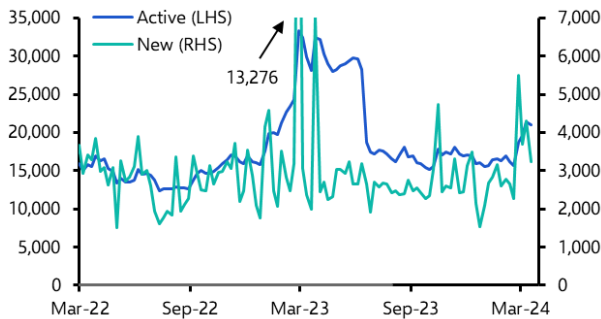
Chart 6: Saudi Arabia Consumer Spending* & Point of Sale Transactions (% 3m/3m, Seasonally Adjusted)



Sources: General Authority for Statistics, SAMA, OPEC, CEIC

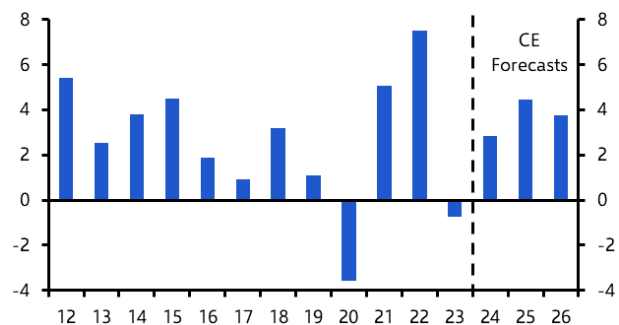
- **The strength of the Kingdom’s non-oil sector has been reflected in the labour market too.** Recently released figures showed that the unemployment rate declined to 4.4% in Q4 2023, down from 4.8% a year before and the lowest reading since 1999. High frequency job postings figures have shown a pick-up so far this year in the number of active roles to their highest since last June. (See Chart 7.)
- Putting all of this together, even with the ramp up in production over the second half of this year, we expect Saudi’s oil economy to contract by 4.5% over this year as a whole. However, this will be more than offset by the continued stronger performance of the non-oil economy. **All told, we expect GDP to expand by 2.8% this year. Over 2025-26, we think the economy will grow by 3.6-4.8% as oil production continues to increase and fiscal policy remains accommodative.** (See Chart 8.)

Chart 7: Saudi Arabia Weekly Job Postings



Source: CEIC

Chart 8: Saudi Arabia GDP (% y/y)



Sources: General Authority for Statistics, CEIC, Capital Economics



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