Report Series

February 2019

Saudi Arabia:

Macroeconomic Forecast 2019-23

Executive Summary

- Global **financial markets** have regained some poise following a tumultuous end to 2018. Heavy selloffs meant that all major equity indices posted losses for the year, while credit spreads widened sharply. The proximate cause was growing anxiety about US-Sino trade tensions, and how these might affect both China's economy and US corporate margins. Other concerns included rising interest rates, the impact of the US Fed's balance sheet unwind, the prospect of a "no-deal" Brexit and Italy's expansionist fiscal plans.

- Calm has since been restored by a Fed statement indicating that it would be "patient" with its interest rate policy—wording that markets have taken to mean that the hiking cycle is over. The Fed statement also implied a flexible approach to its balance sheet reduction. With some signs of progress in US-China talks, and with bond markets keeping the Italian government's populist instincts at bay, most of the end-2018 clouds have receded. Risk markets have generally rallied in response.

- Despite the revival of animal spirits, the US-China trade dispute will not be easily resolved. China's economy is slowing sharply and this will have spillovers, not just for other EMs, but the Eurozone as well.

- The China outlook is also weighing on **oil prices**. Supply growth has been partly restricted by OPEC and Russia, but US shale producers appear more resilient to lower prices than during 2015-16. We still expect the market to tighten somewhat as OPEC reductions begin to bite, and there should be some uplift in prices. However, upside is limited and we expect an average price for Brent this year of **$65/b**, edging up to **$67/b** in 2020 as a weaker USD helps to support demand.

- The medium term economic outlook for **Saudi Arabia** remains positive. Structural reforms are continuing, albeit in less high-profile ways, and the fiscal outlook is manageable given multiple financing options and a low debt stock. Importantly, the current account is set to remain in surplus, which removes the spectre of the "twin deficits". The financial account is more problematic, but it should be supported by increased capital inflows (both direct and portfolio) this year and beyond.

- Despite this, domestic activity remains weak. The local private sector is gradually adapting to the withdrawal of state largesse, but it has not been easy and investment is still subdued. The departure of an estimated 1.7 million expatriates has also meant significant hits to both the demand and supply sides of the economy. Real nonoil growth seems unlikely to exceed **2.5 percent** this year, though firmer growth is likely in the medium term as the Vision 2030 project spurs a better allocation of capital and gradual productivity gains.

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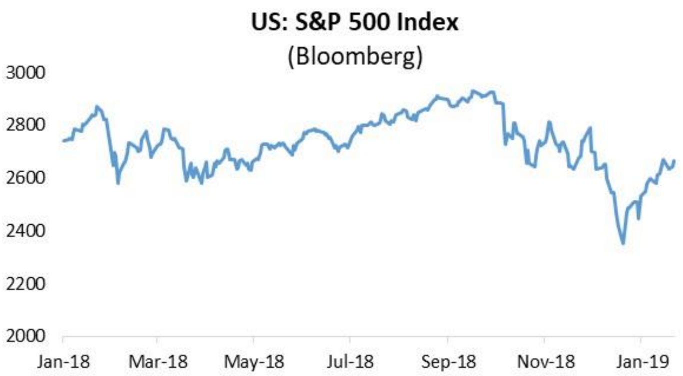
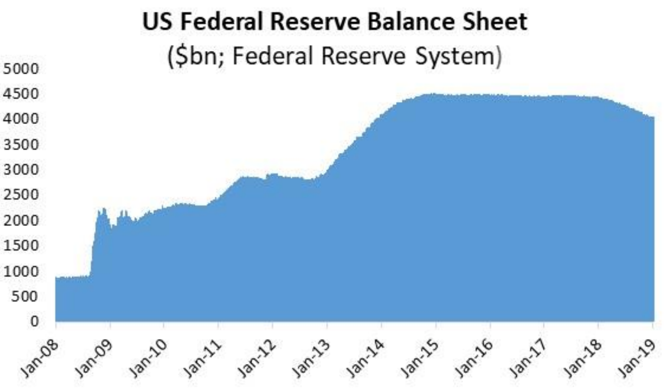
The Global Economic Backdrop

World Economic Outlook					
	2016	**2017**	**2018**	**2019f**	**2020f**
Real GDP (percent change, PPP)					
World	3.2	3.7	3.6	3.1	2.9
US	1.6	2.3	2.9	1.9	1.5
Japan	1.5	1.7	1.1	1.0	0.8
Euro area	1.8	2.4	2.0	1.5	1.1
China	6.8	6.8	6.6	6.1	6.0
Emerging Markets	4.4	5.0	4.5	4.1	4.0
Saudi Arabia	1.7	-0.7	2.3	0.3	2.4
Official policy rate (end period)					
US (FFTR)	0.75	1.50	2.50	2.50	2.00
Japan (UOCR)	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area (refi rate)	0.00	0.00	0.00	0.00	0.25
USD/EUR (end period)	1.04	1.20	1.14	1.17	1.22
Oil Price ($/b avg.)					
Brent	43	54	71	65	67
Bloomberg; Samba estimates and forecasts					





A pause for breath after a difficult year

Global markets have stabilised after a volatile final quarter of 2018. All developed equities markets ended the year in negative territory, while credit markets also saw spreads widen sharply on both investment grade and high-yield paper. A number of factors have been in play, the chief of which is worries that the trade dispute between China and the US is likely to erode US corporate earnings and global trade more generally. Economic confidence in China has been badly hit by the trade dispute, and that has had implications for the Eurozone, which is a major exporter: the German economy actually contracted in the third quarter, as did Japan's. Concerns that the UK will exit the EU in a disorderly fashion, and worries about Italy's fiscal policies have also kept markets on edge.

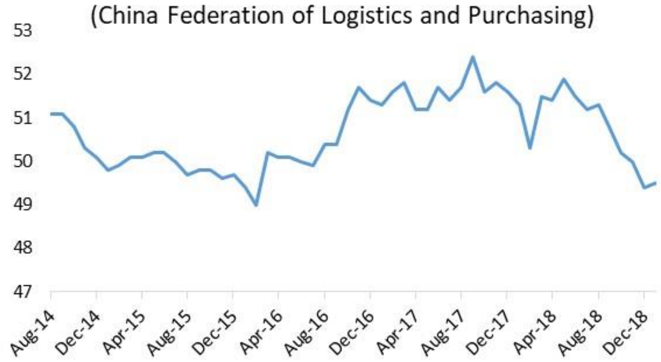
Markets have regained some poise since the turmoil of November and December. A statement by the US Fed that it would be "patient" with monetary tightening has led many to assume that the central bank is at the end of its rate-hiking cycle. We agree, and now expect rates to begin to be cut again in 2020 as the US economy slows. Markets will also be watching closely to see if the Fed slows the pace of its balance sheet unwind. This process, which involves offloading billions of dollars-worth of Treasuries and mortgage backed securities, is likely to be negative for risk assets, such as equities. After all, the original balance sheet expansion was designed to push investors away from safe assets towards the riskier end of the spectrum.

An early resolution of the US-China trade dispute seems unlikely

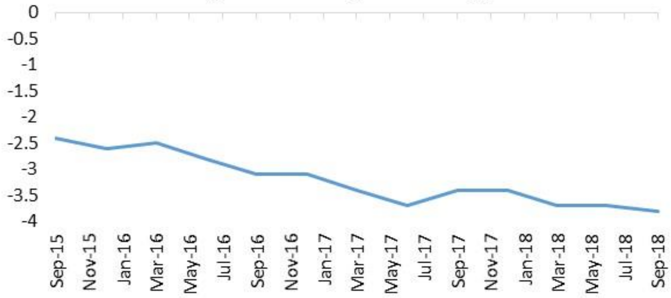
There is also cautious optimism that the Sino-US trade dispute might not be escalated any further. A three-month truce is in place, providing a window to hammer out a lasting agreement. We are less optimistic here, noting that the dispute is more about China's alleged theft of intellectual property and forced technology transfer than trade balances. We doubt that such complex and intractable issues can be settled during the truce period (which ends in March). After all, there have been plenty of unproductive rounds of talks on these issues in the past. To provide meaningful concessions, China would have to reform its state-interventionist business model.

The trade dispute might therefore be contained, but it is unlikely to be resolved, and will remain a cause of anxiety for global markets. China is deploying some domestic stimulus in a bid to restore confidence, but the authorities must tread carefully. Simply directing state-owned banks to lend more to

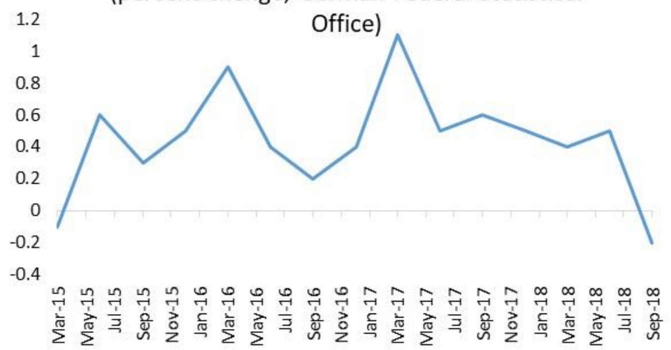
China: Manufacturing PMI
(China Federation of Logistics and Purchasing)



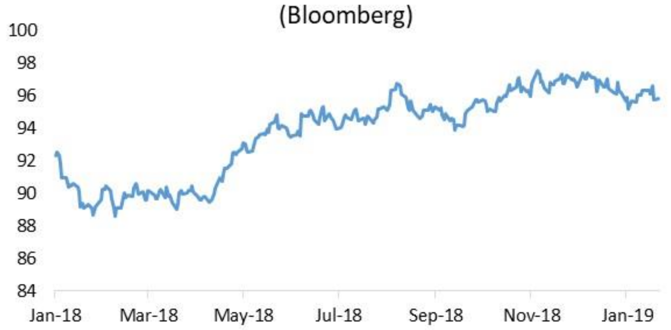
US: Budget Balance
(percent GDP; Bloomberg)



Germany: Quarterly Real GDP
(percent change; German Federal Statistical Office)



USD Index
(Bloomberg)



state-owned firms will exacerbate the mis-allocation of capital (and associated debt pile up) that has been a feature of the past decade, and will do little to bolster consumer confidence. A broader fiscal stimulus is a possibility, but it might need to be substantial to tempt households to start spending again.

The US remains in comparatively good shape, with high levels of employment, consumption, and investment. But the investment surge was largely a product of tax breaks, which will not be repeated this year, and indeed will mean an outsized fiscal deficit. Market interest rates remain contained, but the investment environment is likely to become more challenging, and consumer confidence could well be eroded as well. We expect the US to avoid a recession, but growth is set to slow to below 2 percent.

Other pressure points seem likely to diminish in importance. We think a "hard Brexit" will be avoided, and Brexit itself could be delayed, while the markets will help to impose discipline on the Italian authorities. However, the Eurozone is set for another year of underwhelming growth, thanks mainly to the impact of China's slowdown on export demand, the withdrawal of monetary stimulus (though the ECB is unlikely to actually raise interest rates), and long-standing structural issues. We expect the zone to record growth of around 1.5 percent.

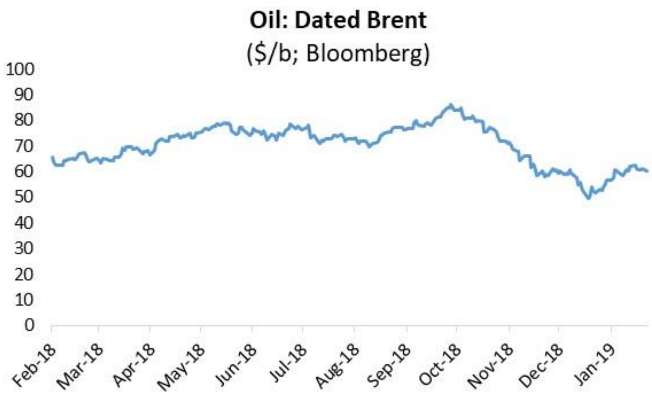
EMs will suffer from the US-China dispute, but will find some solace in a stronger USD

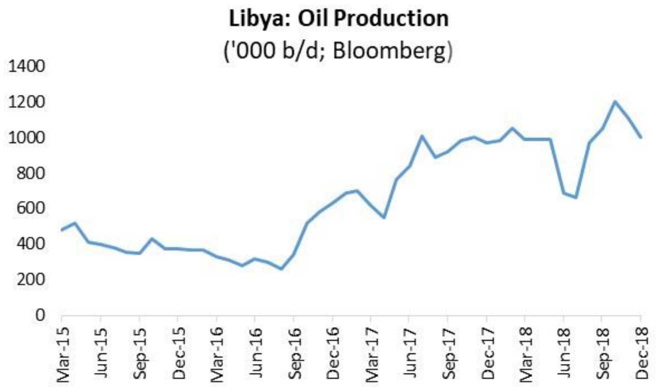
Many **Emerging Markets** will be affected by weaker Chinese demand and the trade dispute will weigh on broader East Asian activity. Some Asian economies will likely benefit from the re-ordering of US-China supply chains, but on balance activity is likely to slow. Yet a weaker dollar should provide some support to commodity demand and overall EM performance: there is a reasonably strong correlation between the US fiscal deficit and USD weakness, and almost everyone expects the fiscal position to weaken this year given the unfunded nature of the 2017 tax cuts. A softer dollar should also bring some relief to highly leveraged EMs, such as Turkey and Argentina. That said, if a general "risk off" environment takes hold then the dollar might see enhanced safe haven flows.

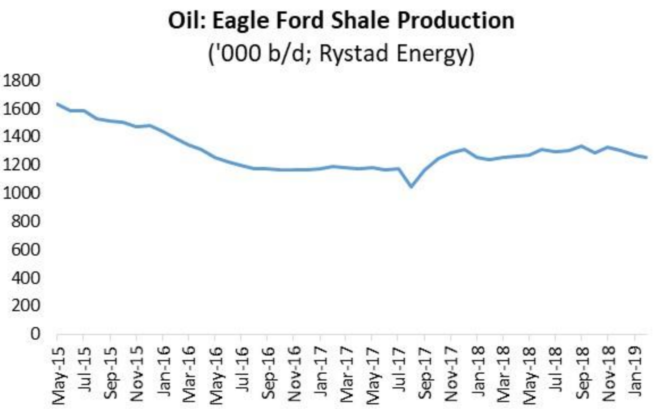
Weighing these various factors, we think global GDP growth will slow to **3.1 percent** this year. With weaker US activity and China's gradual shift to a consumption-oriented economy, growth seems likely to slow to **below 3 percent** in 2020.

A weaker dollar should also help oil prices, though there is limited upside

Oil prices had a rocky end to 2018, pulled lower by concerns of oversupply in a context of faltering demand. OPEC's decision







to cut output sharply has helped to stabilise the situation, as have signs of a slowdown in US shale output. Shale production has been dented by softening capital expenditure during the final few months of 2018 as oil prices fell, and by higher steel, labour and even sand costs. The number of drilling rigs in operation fell to the lowest in eight months in early February.

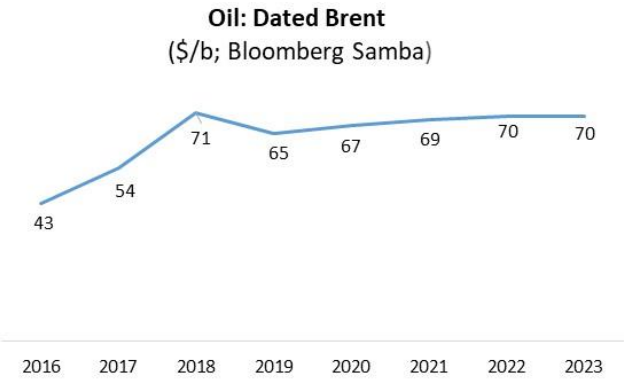
However, we still expect significant growth in US shale production this year. Prices have picked up again, which should spur some revival in investment, while pipeline constraints are likely to be largely resolved in the next few months. Meanwhile, the number of drilled-but-uncompleted wells grew by 30 percent in 2018. These are wells that are ready to pump as soon as the pipeline issues are fixed. Lastly, it is notable that US drillers Hess, Chevron and ConocoPhillips have all said that they will maintain or increase spending in 2019, indicating that they are unfazed by lower prices. The technological firepower that larger players bring to the US shale space suggests that producers will be able to weather lower prices more easily than they did in 2016 (when shale output fell).

Other countries are also well placed to boost supply this year, notably Iraqi Kurdistan, Brazil and Libya. While the latter is typically volatile it is on a broadly upward path.

For all this, we do still expect some uplift to prices from where we are now. The US waivers on imports from Iran are set to be withdrawn in May. OPEC has proved it is disciplined enough to keep meaningful amounts of supply off the market. And Venezuelan oil supply seems to be in something of a death spiral as the economy implodes and investment in the sector dries up. Most importantly a weakening US dollar will make oil cheaper for most consumers, helping to support demand. We therefore think that Brent will average **$65/barrel** in 2019. Cuts to US interest rates should mean further USD weakness in 2020 when we expect Brent to average **$67b.**

Medium term outlook depends partly on technology advances in the shale sector

The outlook for prices beyond 2020 is much hazier. Output from some of the more mature US shale plays, such as Eagle Ford, already appears to be well past its peak, and even productivity in the prolific Permian basin is slowing. But this might be to overlook the technology that big players will bring to the Permian in the years ahead, which could well boost productivity once more. On the demand side, the key issues are the extent to which the Paris



Postponing the Aramco IPO does not signal that the reform agenda has stalled.

The reform agenda seeks to restructure the Saudi economy so that productivity growth becomes the driver of income gains, rather than the simple accumulation of (cheap) labour and capital. Naturally, such a fundamental shift will be difficult for many firms, and the government is adjusting the pace of reform accordingly

climate goals are actively enforced, and the speed with which Chinese consumers embrace electric (or possibly hydrogen-fuelled) cars. But note that even if Chinese take up of EVs is strong, oil demand is not about to fall away: it will still be a vital ingredient for aviation, trucking and heating. While acknowledging a great deal of uncertainty, we expect a gradual increase in oil prices over the medium term, but capped at around **$70/b**.

The Outlook for Saudi Arabia

Reform agenda still on track, but adjusting to economic realities

Saudi Arabia's economic reform programme has continued, though there were fewer outward signs of progress in 2018 than anticipated. For many, the decision to delay the totemic part-privatisation of Saudi Aramco was symptomatic of a general drift in the reform agenda. We think this view is mistaken. First, the Aramco sale would have been more important as a financial enabler for the Public Investment Fund (PIF), than as an end in itself. Granted, selling a stake in Aramco would have been an important signal of intent, but the PIF has been designated as the main agent of state-sponsored change in the Kingdom. In the meantime the PIF has proved itself able to raise funds in international markets, and it will be able to raise more through the proposed sale of its stake in Sabic. Second, the reform push is continuing with less eye-catching legal and business environment initiatives which are likely to be more important in the long run than the sale of 5 percent of Saudi Aramco.

More broadly, the government has adjusted the pace of reform in response to the disruptions caused by the Vision 2030 transformation. But this does not signal a retreat so much as a pragmatic response to new challenges that are emerging (and an approach that has been advocated by the IMF). A transformation of this size and scope that did not have an element of flexibility would be unlikely to succeed in the long run.

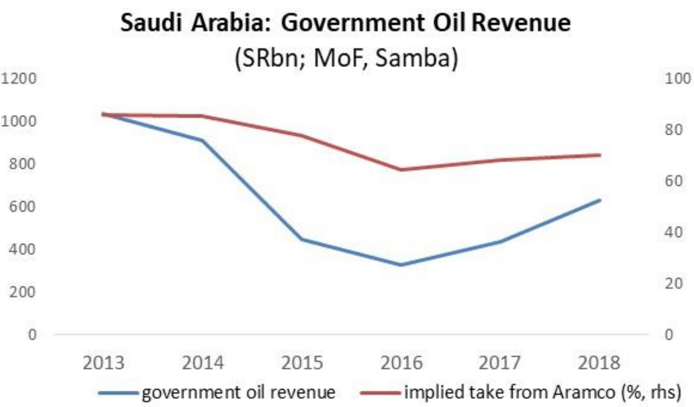
Fiscal achievements should not be overlooked

It is sometimes forgotten that **a key element of the transformation was putting the fiscal position on a sustainable footing**. This is still a work in progress, but the degree of accountability, oversight and transparency that has been achieved over the past few years has been considerable. During

Saudi Arabia: Fiscal Developments and the 2019 Budget

(SR bn)	2017	2018	2019
Total Revenues	**691**	**894**	**974**
% change	*33.2*	*29.4*	*8.9*
Taxes:	87	166	183
income & capital gains	14	16	16
goods & services	39	113	132
international trade	19	16	17
other	15	20	17
Grants	0	0	1
Other Revenue	604	729	791
of which, oil *	436	611	673
Total Expenditure	**930**	**1032**	**1106**
% change	*11.7*	*11.0*	*7.2*
Current	722	827	860
employees' comp.	420	474	456
goods & services	136	140	175
financing	9	17	21
subsidies	5	12	32
grants	6	3	3
social benefits	48	75	73
other expenses	98	106	100
Capital	208	205	246
Balance	**-239**	**-138**	**-132**
% GDP **	**-9.3**	**-4.6**	**-4.2**

* Samba estimate
** Govt. estimate of GDP
Sources: Ministry of Finance; Samba



the oil price boom there was little meaningful budgetary oversight, and spending was often unaudited and wasteful. Since 2016 spending has been rationalised and agencies must account for their disbursements. Meanwhile, the revenue base is being diversified, though oil revenue is still the mainstay of the budget. Subsidies on petrol have also been reduced, helping to reverse the tide of domestic consumption growth and free up more oil for export.

The fiscal position improved markedly in 2018. Data released by the Ministry of Finance (MoF) alongside the 2019 budget suggest a deficit of 5.2 percent of our estimate of 2018 GDP (4.6 percent of the government's GDP estimate). The deficit was some SR100bn smaller than that recorded in 2017.

Unsurprisingly, oil revenue played a key role, growing by 40 percent. This reflects both the increase in prices and production, and a slightly higher take from Saudi Aramco (we estimate 70 percent compared with 68 percent in 2017). The latter appears to reflect a new tariff structure that sees the government's marginal royalty rate increase whenever oil prices breach $70/barrel (and the scope broadened to capture condensate production). This device helped to offset the impact of a reduced overall tax on Aramco—50 percent from 85 percent. The measure is pro-cyclical in that higher oil prices will generate a larger ratio for the government, though our own oil price forecast suggests that prices will not breach $70/barrel (in annual average terms).

Nonoil revenue surged last year

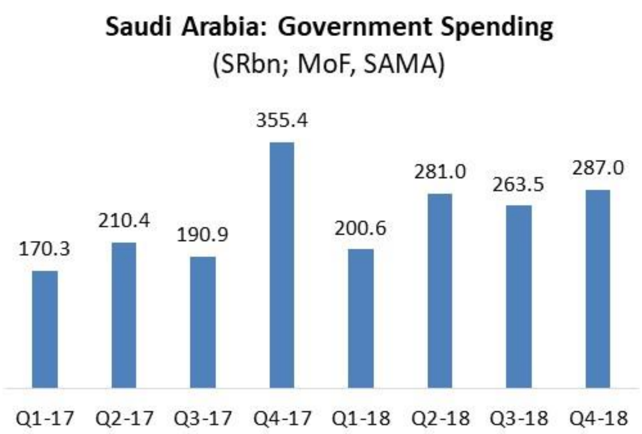
The most striking feature of the fiscal results was the **big increase in tax revenue**, which almost doubled to SR166bn, or 19 percent of the total. This is still below the Vision 2030 target for the year (SR450bn) but it is nevertheless a welcome rise from less than 10 percent of the total in the early part of this decade. The drivers were VAT, which accounted for a much-better-than-expected SR45bn; the expat levy (SR28bn); and excise duties (SR12bn). These taxes have economic consequences (see below) but their fiscal value is clearly high.

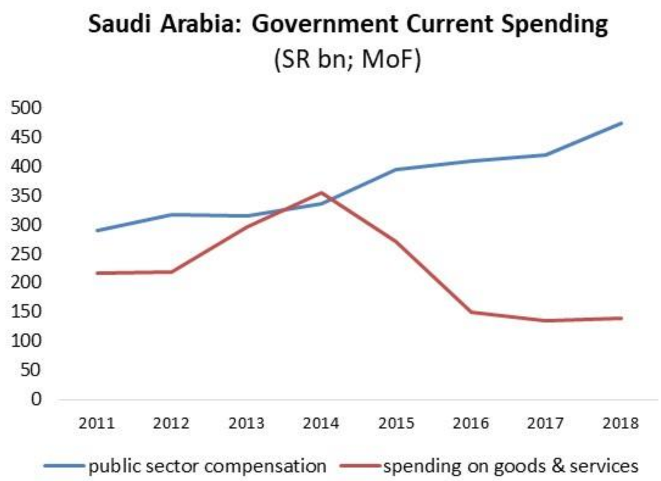
The largest category of revenue is labelled simply "other revenue" and would appear to include oil earnings, though we have stripped out our estimate of these. The remainder presumably includes the proceeds from the **energy and electricity price reforms**. The IMF estimates that the removal of subsidies will have generated SR30bn in 2018, and will rise to more than SR50bn in 2019. Additional elements of the "other revenue"

Fuel and Electriciy Price Reforms: Estimated Fiscal Savings
(SRbn)

By Customer	2018	2019	2020	2021	2022	2023
Households	23	31	32	32	33	35
Non-Households	7	23	45	61	69	77
Total	30	54	77	93	102	112
By Product						
Fuel products	23	45	68	85	93	102
Electricity	7	8	9	9	9	9
Total	30	53	77	94	102	111

Source: IMF





account are likely to include fees and charges levied by government agencies for various services, and possibly investment returns from SAMA, the PIF, and the Human Resources Development Fund. PIF, for example, has plans to raise its total assets to SR1.5trn ($400bn) by 2020 and to offer total shareholder returns of 4-5 percent. These targets could be judged optimistic, but even if returns were, say, 3 percent from SR1trn, this would give the government a useful SR30bn a year.

Current spending grew sharply

Current spending saw a sharp 15 percent increase last year (also well above budget), driven by **13 percent growth in compensation for public sector employees**. This reflects the Royal Order of January 2018, intended to offset the impact of inflation on public sector salaries (an initiative that was also rolled out in most large private sector firms). The order provides a SR1,000/month payment to public sector employees (regardless of salary), a reduced amount for public sector pensioners, and bonus payments for military personnel serving on the Yemen border. The precise cost of these measures has not been revealed. Given that the Order was unveiled after the budget was published, and given that the difference between budgeted and actual spending on public sector remuneration was SR36bn, it presumably cost around this mark.

The government has declared that the order will remain in place for 2019 despite the fact that inflationary pressures are set to subside (see below). This is contrary to the advice of the IMF, which worries that outlays of this type can become embedded and difficult to unwind in the event of a fall in oil prices.

Procurement spending rose for first time since 2014

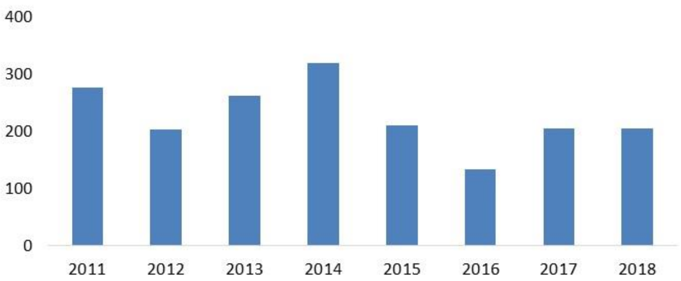
One area of spending which is much easier to unwind is procurement. While below budget, this item did actually increase year-on-year for the first time since 2014. That said, spending on this category was just SR140bn—some 60 percent below the 2014 figure (and lower still in real terms). Procurement spending is (or was) one of the key ways by which the government distributes oil revenue throughout society. In that sense it was a cornerstone of the "old" Saudi economic model, which encouraged Saudi firms to provide goods and services to the government for large margins—thanks in part to abundant cheap labour—but with little value added. The Vision 2030 project aims to replace this model with one that puts productivity at the heart of private sector development. The change is fundamental and has meant difficult adjustments for many private sector firms (see below).

Keeping procurement and capital spending in check has been the main method of controlling overall spending

Capital spending to be driven increasingly by SOEs

Capital spending has also been compressed in recent years, and was flat in 2017 at SR205bn, some 15 percent below the ten-year average. **Nevertheless, capital spending is set to increase over the medium term.** The authorities recently unveiled plans to overhaul infrastructure and to develop certain industries in partnership with the private sector. The authorities say that some $425bn will be spent on these endeavours by 2030, though it is not clear how much of this will be government money (see below).

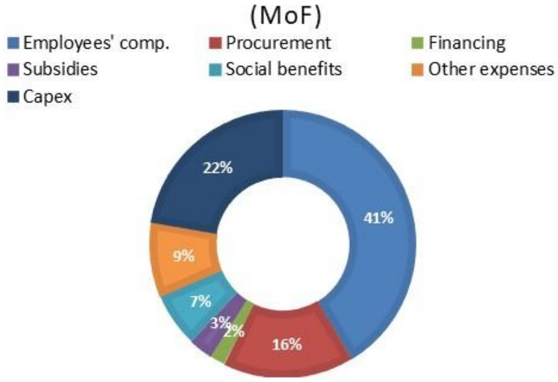
Saudi Arabia: Government Capital Spending
(SR bn; MoF)



In addition, the central government is in the process of recapitalizing a number of government funding bodies, which will in turn support capex through lending. These include support to small and medium-sized enterprises (SMEs), export financing, subsidized housing loans, a "broadband stimulus" fund, and measures to support (selected) companies that are struggling to adjust to the higher-cost environment. This is essentially indirect capital spending, and will take time to feed through. From a fiscal accounting perspective this spending will need to be as transparent as possible.

There are also large infrastructure projects (so-called giga projects) that are planned, such as the Neom city development, the Red Sea tourism development, and the Qiddiya entertainment city project. Sceptics might point to the "economic cities" programme of the late 2000s, much of which failed to materialise; however we feel that considerable political capital has been invested in the above projects and they are likely to proceed, albeit on a fairly flexible time horizon.

Saudi Arabia: 2019 Budget Allocations
(MoF)



2019 budget shows slight tightening, and an optimistic oil price assumption

Turning to the **2019 budget** itself, the government's stance is set to tighten somewhat with a 7 percent increase in projected spending—to SR1106bn—versus the 11 percent actual increase in 2018. Revenue is assumed to increase by 9 percent (to SR974bn), and the deficit is projected to narrow slightly to SR132bn, or 4.2 percent of the government's GDP projection.

The 2019 budget revenue assumption appears to rest on an oil price of around $80/b

The main element of revenue remains oil, though this is not explicit and is again subsumed in "other revenue". If one assumes that there is no change in the nonoil element of this category (our estimate was SR118bn for last year), then oil revenue would appear to have been projected at SR673bn. Assuming an oil production cut of 3 percent for the year, and the same ratio from Aramco as last year, this would point to an average oil price of around **$80/barrel** (Brent), which is some way above our projection of $65/barrel (this can only be a guesstimate because of the assumptions made).

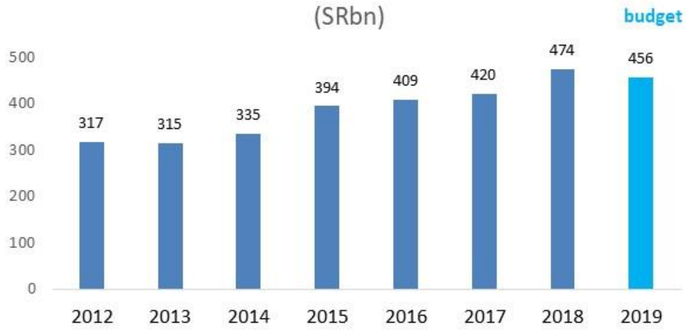
The budget also projects a sharp (10 percent) increase in tax revenue from goods and services. This reflects some lowering of the VAT threshold and an increase in the rate that expatriates must pay on their dependents. Projections for the latter are hazardous given the ongoing exodus of expatriates (see below).

Budgeted cuts to public sector remuneration might be tricky to achieve

Public sector remuneration budgeted to decline

Spending is dominated by public sector remuneration, which is scheduled to decline by almost 4 percent compared with last year's actual. This might be challenging: we assume that the rollover of the cost of living allowance is incorporated in the budget, since both were announced on the same day, and we also note that public sector bonuses are being reinstated this year.

Saudi Arabia: Government Spendng on Public Sector Salaries
(SRbn)



Procurement is budgeted to increase by 25 percent, which may be an implicit acknowledgement of the difficulties many businesses have experienced in adjusting to the reduction in these outlays over the past few years. Finally, capital spending also receives a hefty boost, growing by a projected 20 percent, which will be welcome news to the beleaguered contracting sector.

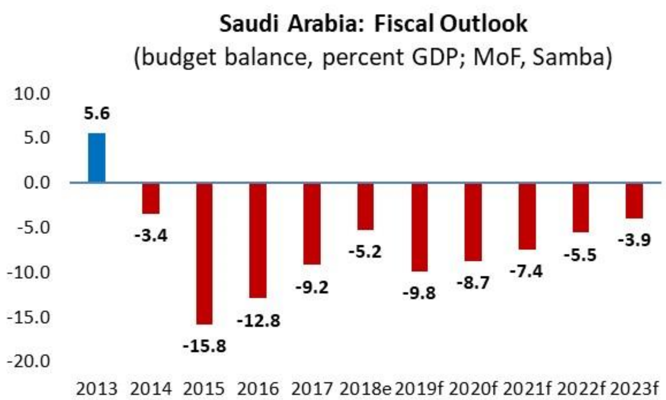
If oil revenue does not increase as projected, or if public sector pay is more difficult to rein in than planned, then this might lead the authorities to cut capital and/or procurement spending in a bid to contain the deficit. However, our sense is that spending growth will continue—though at a slightly softer pace than budgeted—and **the authorities will be prepared to accept a higher budget deficit if necessary**. Based on our oil revenue assumption and GDP projection (which is weaker than the government's) and assuming also that spending is dialled back slightly, we anticipate a budget deficit of around **SR261bn or 9.8 percent of GDP**.

We see the fiscal deficit widening to almost 10 percent of GDP this year. But this counter-cyclical stance appears appropriate, and fiscal financing options are in any case plentiful

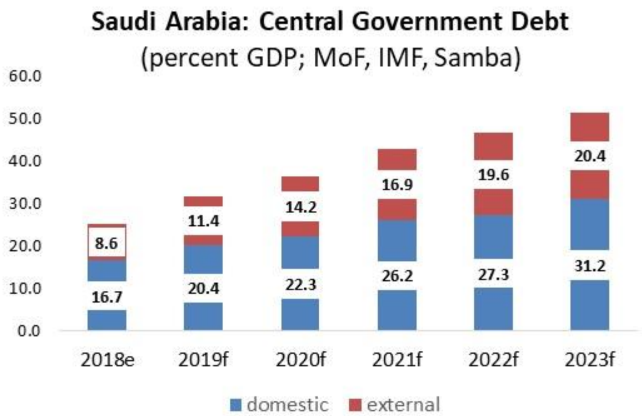
This would be unwelcome, but far from disastrous: recall that the deficit was 9.2 percent of GDP in 2017 and almost 16 percent in 2015. Moreover, the government has multiple financing options including local banks, autonomous government institutions, and foreign markets, while the current debt load itself is a modest 25 percent of GDP. In any case, the fiscal expansion appears warranted to ease the burden on the local private sector as the economy gradually transforms.

Longer term spending projections also raise questions, though fiscal financing should not be a problem

Looking at the medium term, the authorities expect the fiscal position to be in balance by 2023. Their revenue assumptions



The longer term fiscal financing outlook is still comfortable in our view



appear conservative, at least in 2022-23, but their spending plans might be difficult to achieve. The authorities project *cuts* to spending in both 2022 and 2023, based on the premise that a well-entrenched privatisation programme will have reduced pressure on both operating and capital expenditure. However, we note that the UK, which had the most extensive privatisation programme in the 1980s, still saw government spending increase during that decade. It is certainly plausible that spending will slow, and indeed shrink as a share of GDP as the private sector becomes more important as both an employer and engine of growth, but outright cuts to government spending seem unlikely.

Saudi Arabia: Fiscal Outlook

(SR bn)	2018	2019f	2020f	2021f	2022f	2023f
Revenue	895.0	836.2	906.1	975.8	1061.7	1144.2
% change	29.3	-6.6	8.4	7.7	8.8	7.8
Expenditure	1032.0	1097.0	1147.4	1189.4	1225.8	1263.9
% change	11.3	6.3	4.6	3.7	3.1	3.1
Balance	**-137.0**	**-260.8**	**-241.3**	**-213.6**	**-164.1**	**-119.8**
% GDP	**-5.2***	**-9.8**	**-8.7**	**-7.4**	**-5.5**	**-3.9**

*Samba estimate

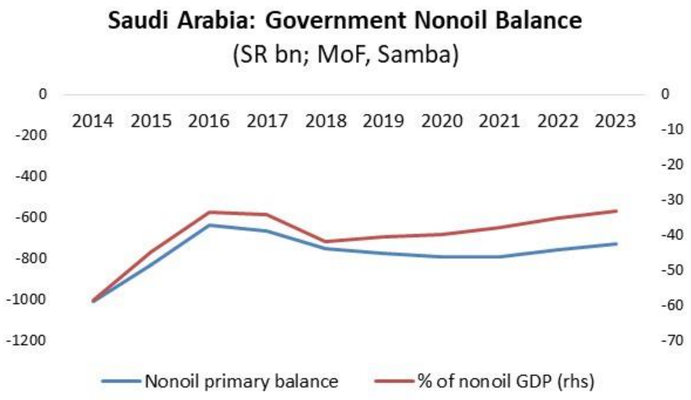
Source: Samba

Instead, we expect spending growth to continue, averaging around 4 percent a year, albeit on a narrowing path. By 2023 we forecast that the deficit will be worth around SR120bn or 3.9 percent of GDP. We are not unduly troubled by this: governments are able to run persistent deficits with a lot less debt "headroom" than Saudi Arabia, and a deficit of 4 percent of GDP is in any case comfortable. Based on this fiscal projection **we see total government debt rising to 52 percent of GDP by 2023**, a sharp increase from virtually nothing in 2013, but still within bounds, and effectively collateralised by the world's second largest and cheapest-to-extract crude oil reserves (note that we have excluded revenue stemming from the anti-corruption drive from our calculations).

Saudi Arabia: Fiscal Financing Outlook

(SRbn)	2018	2019f	2020f	2021f	2022f	2023f
Fiscal financing requirement	**137**	**261**	**241**	**214**	**164**	**120**
Financed by:						
Domestic debt issuance	56	102	121	98	122	88
External debt issuance	71	94	113	113	113	113
Total issuance	**127**	**196**	**233**	**211**	**234**	**201**
Amortization	3	2	44	27	89	91
Implied change in government deposits	**-13**	**-67**	**-52**	**-30**	**-19**	**-10**
memoranda:						
Central Govt domestic debt	437	540	618	754	810	951
% GDP	16.7	20.4	22.3	26.2	27.3	31.2
Central Govt external debt	226	301	395	486	582	623
% GDP	8.6	11.4	14.2	16.9	19.6	20.4

Sources: MOF, SAMA, Samba



The pressure on Saudi Arabia to bring the nonoil fiscal deficit under control is less intense than in other oil producers because of the sheer size of the Kingdom's reserves. That said, the nonoil deficit is many times bigger than that of Norway and Russia, for example

With pressure on the balance of payments, Saudi interest rates will follow US equivalents closely. Rates should begin to move lower in 2020, which will be a relief for local businesses

Box 1: Nonoil fiscal deficit very large, but narrowing

Taking a step back, it is worth considering the nonoil fiscal position. In the days of $100/b oil, the notion of the nonoil fiscal deficit seemed a largely academic pre-occupation. But with the downturn in oil prices and the authorities' stated objective to "wean the country off oil" it can be seen as a **useful gauge of fiscal sustainability and vulnerability** (the nonoil balance excludes interest payments on debt since these payments can be said to be pre-determined by previous deficits). Saudi Arabia's nonoil primary fiscal deficit in 2018 was large, at just under **41 percent of nonoil GDP**. This compares with Norway at around 5 percent and Russia at around 8 percent of nonoil GDP. But Saudi Arabia has the advantage of having much larger oil reserves than these countries, which allows it greater scope to run such a deficit. And, importantly, the nonoil deficit should now be on a downward path: based on our government spending assumptions we see the deficit narrowing to **33 percent of nonoil GDP by 2023**.

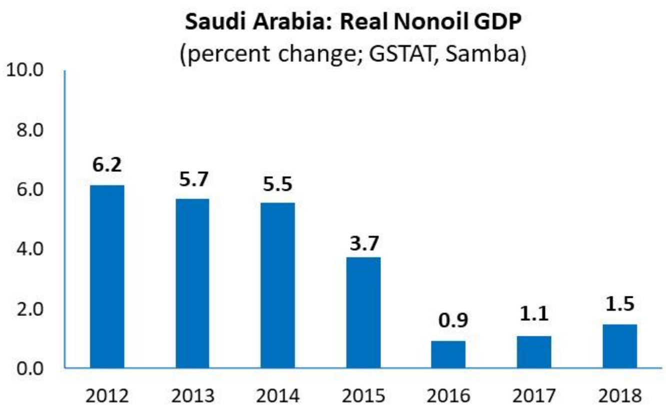
Meanwhile, government spending is set to continue to claim a large share of the nonoil economy, with a projected ratio of 57 percent of nonoil GDP (excluding interest payments) in 2023, down only slightly from the 2018 ratio. This reflects our belief that the transition from the state-centred system of economic expansion towards a more private driven model will be a gradual process. However, we are encouraged by the "direction of travel" and note that primary spending accounted for almost 63 percent of nonoil GDP during the 2011-13 oil boom years, when government spending was largely unfettered.

Exchange rate peg offers little room for manoeuvre

Monetary policy will continue to be governed by the exchange rate peg, meaning that policy interest rates (primarily the reverse repo) will need to move in tandem with the Fed Funds Target Rate. Clearly, the US and Saudi economies are at very different stages of the cycle, and the rise in Saudi rates has been unwarranted on domestic economic grounds. But our assumptions about Fed policy suggest that the next moves will be downwards, with **the Reverse Repo likely to fall back to 2 percent by end-2020.**

SAMA has other tools to influence domestic liquidity, such as adjusting banks' reserve requirements, but the central bank will be mindful of the need to ensure that market interest rates remain attractive enough to keep capital in the country (see also balance of payments, below).

There was a mild rebound in nonoil GDP growth last year. The recovery should gather pace in 2019, though growth will remain well below potential



GDP growth was weak in 2018

The nonoil economy expanded in 2018, but activity was generally subdued. The Ministry of Finance posted a provisional estimate of 2.6 percent growth for the economy as a whole, with the nonoil sector growing by 2 percent. This would have meant a very sharp increase in activity in the fourth quarter, given that GDP in the first nine months was just 1.4 percent higher. PMI data do not indicate that there was any such expansion and for the moment we are sticking with our estimate of 1.5 percent nonoil growth. GSTAT will release full year data in the next few months.

Disappearing expatriates hit demand and supply

For most of 2018 **the private sector remained cautious** in the face of higher costs, persistent—albeit moderating—payment delays, higher interest rates, and the ongoing exodus of expatriates. A strong USD has been an accessory to the downturn by increasing competition from cheap imports in some sectors. More helpful has been the flipside of the strong dollar: a general slide in global commodities prices, which has softened input costs in many sectors.

The mass departure of expatiates in the face of higher fees and Saudiisation initiatives is probably the strongest headwind affecting both the supply and demand sides of the economy (though many would say a necessary one). Some 1.3m non-Saudi workers left the Kingdom in the six quarters to Q3-18. If one includes non-documented workers and the families of (mainly white collar) expatriates, then the total exodus is probably in the region of 1.7 million people. Granted, expatriates tend to consume much less than nationals, but the disappearance of so many people will clearly have taken its toll on Retail, Construction, and Transport in particular.

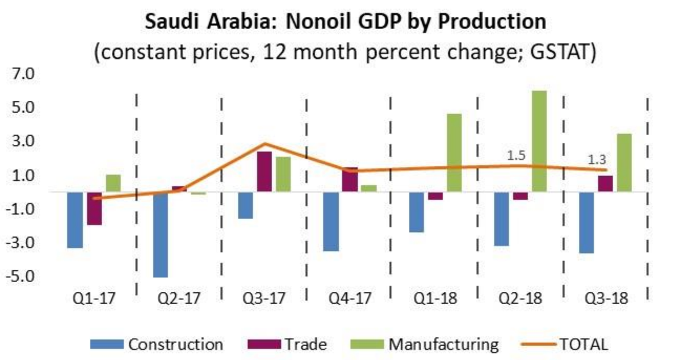
Looking at the supply side of the equation, the data show that Saudi nationals have not filled the gaps left by departing foreigners. There was a net gain of just 71,000 in Saudi employment during those six quarters, and a net decline in the most recent three. The main positive of 2017 was the rise in female Saudi employment, with a net 93,000 Saudi women finding work, mainly in retail. However, this trend appears to have reversed in 2018, with a net loss of 17,000.

Competition fierce in Retail sector

But there is circularity here given that the retail sector has been hardest hit on the demand side by the expatriate exodus. Consumer staples have borne the brunt of the downturn, since these are products that expatriates need as much as Saudi

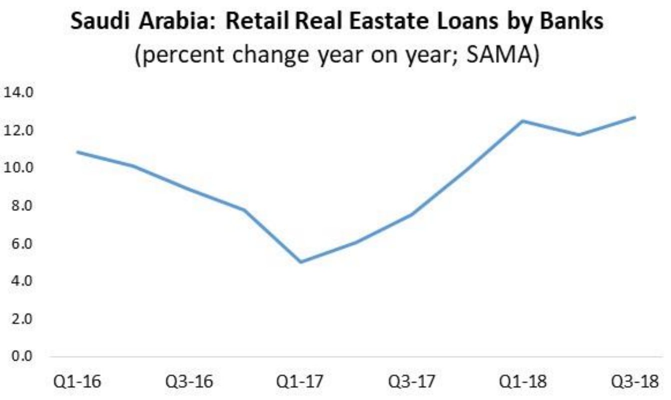
Intense discounting in the retail sector has eased somewhat, but competition remains fierce

nationals. The cut-throat price-cutting that was a feature of mid-year appears to have moderated, but consumers (both Saudis and expats) are still very price sensitive and heavy discounting remains the norm; indeed, a number of firms have introduced lower-priced "value" ranges to tempt consumers. In other retail segments, such as consumer electronics, hardware, branded clothing, home and office supplies, which are less directly affected by the expat decline, there is more optimism. Many retailers believe that Saudi consumers have adjusted to VAT and the removal of subsidies (helped by benefit payments from the government) and expect a **gentle upturn in sales this year**. It is notable that Wholesale and Retail Trade registered a near 1 percent year-on-year expansion in the third quarter following two consecutive quarterly declines.



Construction still struggling to adjust to new realities

One sector where optimism is in short supply is **Construction**. This expatriate-heavy sector has declined every quarter since the beginning of 2016, weighed down by charges for expatriate workers (and their subsequent scarcity) and higher transport costs. The sector is in the midst of a major shakeout, with a number of smaller and mid-range players disappearing. The pickup in government investment spending appears not to have benefitted the medium and small segments, possibly because larger firms are keen to keep more of the contract "in house" rather than pushing it out to subcontractors. It is also true that there are considerable time-lags between public spending commitments and the breaking of ground.

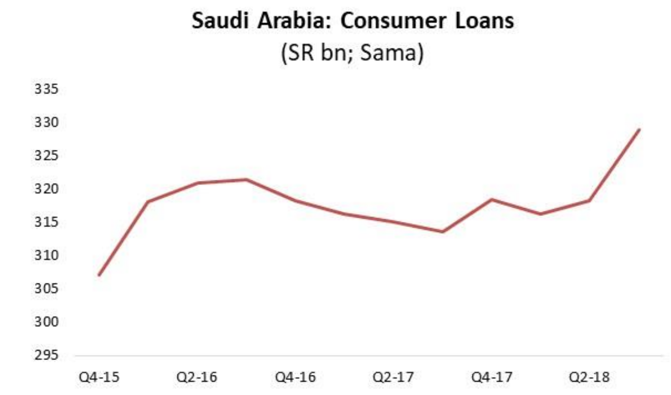


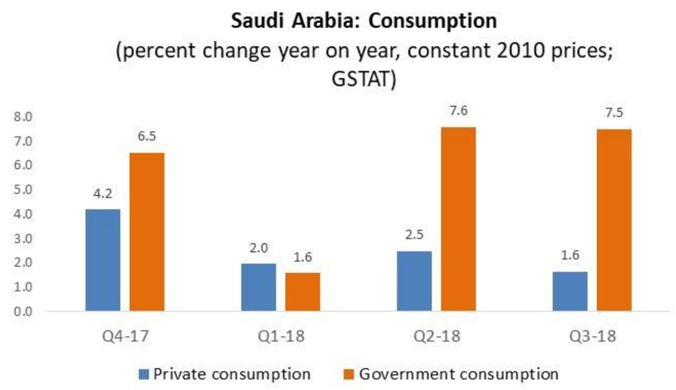
Manufacturing, which is driven mainly by petrochemicals exports to East Asia, had a few quarters of robust growth (averaging 5.3 percent in H1-18), but this eased to 3.4 percent in the third quarter. This is still decent, but the slowdown may well reflect the gloomier outlook for global trade and the travails of EMs generally in the second half of last year.

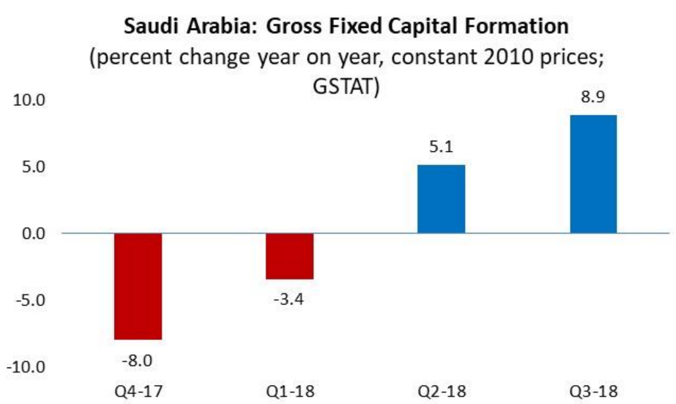
Finance and Insurance is one sector that has fared well during the downturn, helped by a rising interest rate environment and decent returns from government bonds. While the overall corporate outlook remains muted, retail prospects look promising given the **strong growth in mortgage lending**. Auto lending also has good potential given growing female demand, though a lack of female driving schools is a constraint.

Public consumption has been the motor of growth

Looking at the economy from the expenditure side, we see a somewhat soft (but still growing) private consumption picture, contrasted with much firmer public consumption. Private







consumption was robust in the fourth quarter of 2017, prior to the introduction of VAT, as consumers front-loaded purchases, but has since been much more hesitant, easing to just 1.6 percent annual growth in real terms in the third quarter. Real incomes have been squeezed by higher prices, and there has been a **notable uptick in consumer loan growth**.

By contrast, public consumption has picked up markedly in the past two quarters as the government ramped up spending on social transfers and—after years of retrenchment—procurement. The private/public dichotomy can be seen in import data. Import spending grew by 7.2 percent in real terms in the third quarter, according to the GDP data. Yet monthly letter of credit data show private sector imports sliding by 8 percent in the third quarter.

Meanwhile, **investment** (gross fixed capital formation) grew by a solid 8.9 percent in the third quarter, year-on-year. This is not split into public and private, but the engine was undoubtedly the public sector. There was a 48 percent year-on-year increase in government capital spending in the second quarter which, given lags, would have begun to show up in the third quarter.

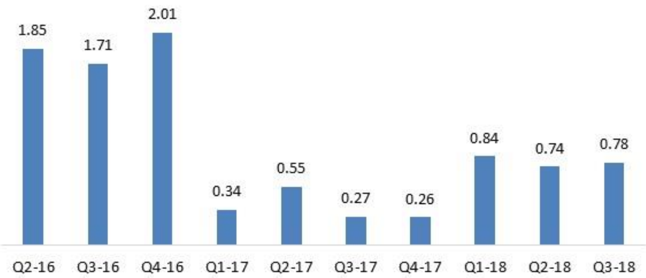
There are a number of positives for the 2019 outlook, but lower oil price backdrop will also weigh

Given the above, the outlook for 2019 appears mixed. Oil prices have shifted lower and while we think that the government will stick with its spending plans (more or less) lower prices are still likely to cloud household and business spending plans. The scheduled rise in expat fees will add to business costs, though the government has hinted these might be adjusted. The expatriate exodus should slow this year with overall numbers possibly stabilizing, which will be a relief to a number of sectors. The rollover of the inflation allowance should also support consumption, particularly as there is no further increase in VAT (for this year at least). Meanwhile, the burgeoning home-ownership market will be an important long-term driver for certain consumption segments. Public investment should remain reasonably firm, and the lagged impact from 2018 should begin to show up more clearly in 2019. Whether this is enough to pull the construction sector out of the doldrums remains to be seen.

The full inclusion of the Tadawul in the MSCI EM index will attract both passive and active inflows (how much of each is moot), which should provide a fillip to Saudi consumption through the wealth effect. If sustained, these flows could also have a long term transformative effect by helping to make the Saudi stock market—which is already deep and liquid—the primary place for firms to raise capital.

GDP growth will be supported by the rollover of the inflation allowance, and a pickup in public investment; however, the lower oil price environment and higher expat fees will keep a lid on activity

Saudi Arabia: Financial Account FDI Inflows
($bn; SAMA)



The authorities are gearing up for a big push on infrastructure and industrial development

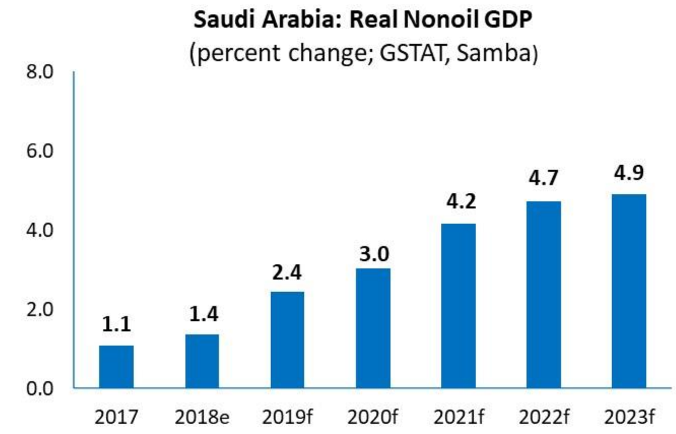
FDI inflows will be partly governed by the privatisation programme, which is facing obstacles

Foreign direct investment inflows are likely to be modest in the face of a gradual tightening in global iquidity and the slow rollout of the Saudi privatization programme. The authorities plan to sell four flour milling companies and Saudia Medical Services Facilities this year, in what will be a good test of investor perceptions of the local business environment. The privatisation programme has faced hurdles including gaps in the legal framework (which are being addressed), the lack of corporate structures and balance sheets in the public sector, and hazy revenue projections in some target companies. There are also clear challenges and trade-offs regarding the retention of workers. For these reasons, the privatisation programme is likely to progress slowly, though as the legal underpinning is expanded and refined, and as the entities earmarked for sale are corporatized, so the programme should become a magnet for significant FDI inflows in the years ahead.

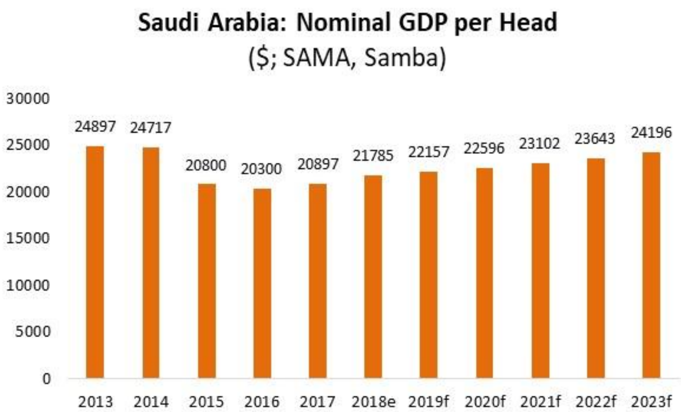
Of course, FDI inflows can accelerate without a privatisation programme. Much of the Vision 2030 blueprint rests on FDI being channelled into energy, mining, manufacturing (such as defence equipment), logistics and transport, and other sectors. Some of these sectors, such as power, will require restructuring—and if not privatisation then at least corporatisation—but others, such as defence manufacturing are effectively virgin territory.

In late January Saudi officials unveiled plans for $425bn of total investment by 2030, known as the **National Industrial Development and Logistics Programme**. At a ceremony to launch the programme, government officials announced deals worth SR204bn ($54bn), including agreements with the US defence firm, Boeing, and the French equivalent, Thales, as well as plans for a petrochemicals plant with Pan-Asia, the Chinese chemicals company. Funding and other details were not immediately available.

Overall, these are ambitious plans, and will require not just substantial foreign capital but careful sequencing and co-ordination across government agencies.



Medium term growth prospects are still largely dependent on the fiscal stance, but foreign investment will play an increasingly important role



Nonoil growth is expected to gather pace, but will remain subdued

Weighing these various factors, **we expect nonoil growth of 2.3 percent this year,** a moderate acceleration on our estimate of 1.5 percent growth in 2018. This rate is still below the economy's long-term potential and points to significant spare capacity. Overall GDP growth is likely to be only just positive given the Kingdom's commitments to OPEC. **We think risks are balanced, with the potential for lower-than-expected oil prices offset by the potential impact of higher-than-expected portfolio inflows.**

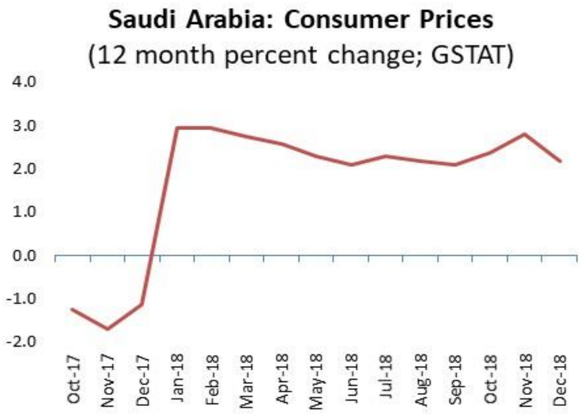
The longer term outlook is still determined primarily by the fiscal stance. The government is having to balance its plans for fiscal adjustment (a narrowing fiscal deficit path) with the need to soften the adjustment process for the local population. We have noted above that we think that this will require a slightly more accommodative stance than that projected by the Ministry of Finance, though not materially so. We also expect that **towards the end of the forecast period (2022-23) foreign investment inflows will be helping to galvanise private sector activity**, allowing government spending growth to moderate. A gradual increase in oil prices will help the overall mood, while lower interest rates from 2020 onwards will be welcome. It is difficult to predict how the global trade environment might evolve, but on a cyclical basis it should be providing support to nonoil export demand by 2020, particularly if the dollar weakens in line with the worsening US fiscal position.

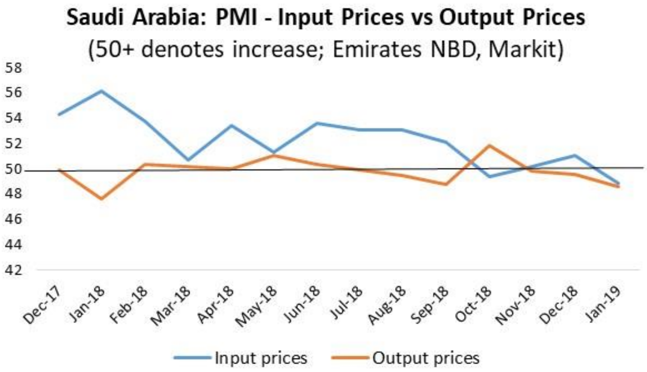
Overall, we expect the Saudi nonoil economy to gather pace gradually, reaching **just under 5 percent growth by 2023**. This is the rate that is needed to make a significant dent in unemployment. Saudi oil production growth is likely to remain constrained by US shale output and the gradual structural shift away from oil consumption, meaning that overall GDP growth will be slower, reaching around 3.7 percent by 2023.

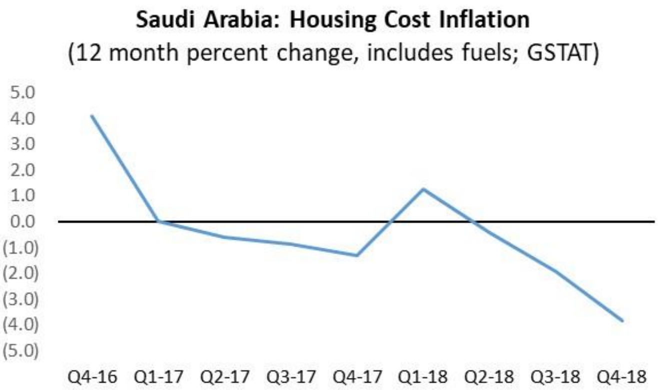
Saudi Arabia: GDP

(percent change)	2017	2018e	2019f	2020f	2021f	2022f	2023f
Real GDP	-0.7	2.3	0.3	2.4	3.0	3.5	3.7
Real Nonoil GDP	1.1	1.5	2.3	3.0	4.2	4.7	4.9

Sources: General Authority for Statistics, Samba







The current account's return to surplus is important for the overall balance of payments outlook

Prices set to fall

Consumer price inflation averaged 2.5 percent in 2018, much lower than expectations at the beginning of the year. The introduction of VAT in January 2018 had a one-off impact on the consumer price index, pushing inflation that month up to 3 percent (from deflation in December 2017). Since then, however, price pressures have moderated, and **the second half of 2018 saw monthly declines in the CPI**. The second-round effects of the VAT increase have been contained because of most firms' desire to maintain market share at the expense of tighter margins. The PMI shows that firms' output prices have been reduced in all but one of the past seven months. More recently, firms have themselves been helped by weaker commodity prices, which has taken some pressure off margins, while the strong dollar has also helped to reduce the price of many imported consumer products. Finally, rents have eased in a weak property market.

Looking ahead, **there is no reason to think that price pressures are likely to revive any time soon**. In fact, the base effect from VAT means that there are likely to be sharp declines in year-on-year inflation in the first part of 2019. These base effects will weigh heavily on the average CPI and for 2019 as a whole we now expect ***deflation* of -0.3 percent**, and even that assumes that there is a return to month-on-month increases in the CPI, which is far from certain. Price growth should resume in 2020 as the impact of VAT falls out of the comparison (note that we do not expect any further increases to VAT for the forecast period) and we expect inflation of around **2.5 percent** that year, boosted also by a weaker USD. Inflation is expected to be around 3 percent by 2023 as the economy strengthens.

Saudi Arabia: Consumer Prices

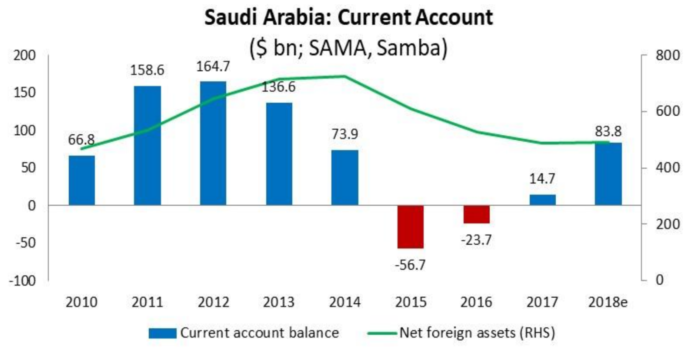
(percent change)	2018	2019f	2020f	2021f	2022f	2023f
General index (2007=100)	107.3	106.9	109.6	112.9	116.4	120.0
percent change	2.5	-0.3	2.5	3.0	3.1	3.1

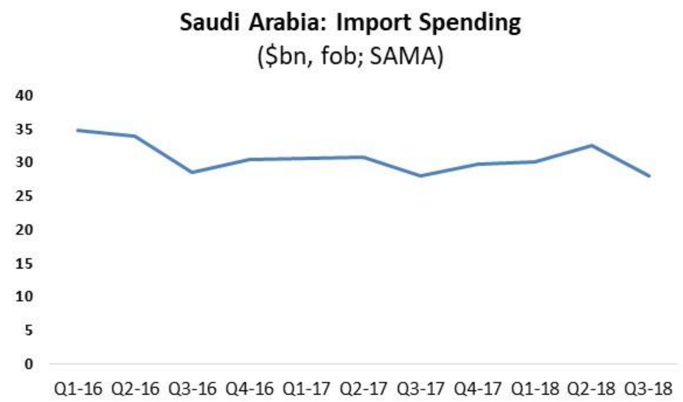
Sources: SAMA, Samba.

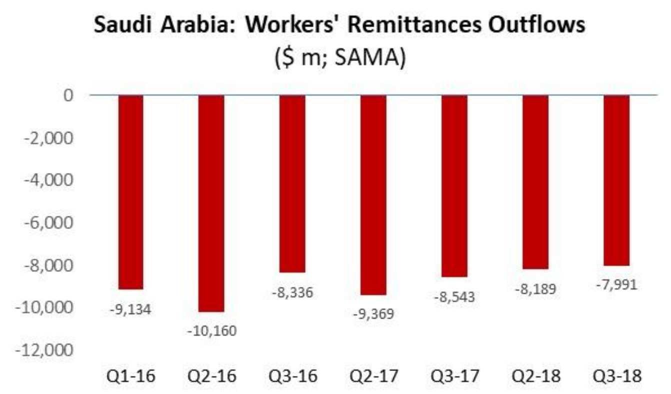
Current account will help to support the balance of payments

Saudi Arabia's balance of payments remains an important issue, **but the focus is on the financial account** (see below). The current account moved back into surplus in 2017 and the position strengthened in 2018, reaching $84bn or 12 percent of GDP according to our calculations. This is a major relief since the "twin deficits" on the fiscal and current accounts in 2015-16 alerted short-sellers to the vulnerability of the Kingdom's financial position and put sustained downward pressure on the currency.

2018 was an up-and-down year for oil prices, but the average price was some 30 percent higher than 2017. This combined







with a 3 percent gain for oil production pushed oil earnings up to $233bn according to our estimates—the highest since 2014. This estimate assumes that domestic consumption declined by 2 percent in line with rising petrol prices, which freed up a bit more crude for export. This is a trend that we expect to continue for the forecast period. Nonoil exports, which are mainly comprised of petrochemicals, are assumed to have reached $58bn, powered mainly by decent demand from East Asia for most of the year. This seems unlikely to be sustained in 2019, however.

Import growth is mainly a product of government spending

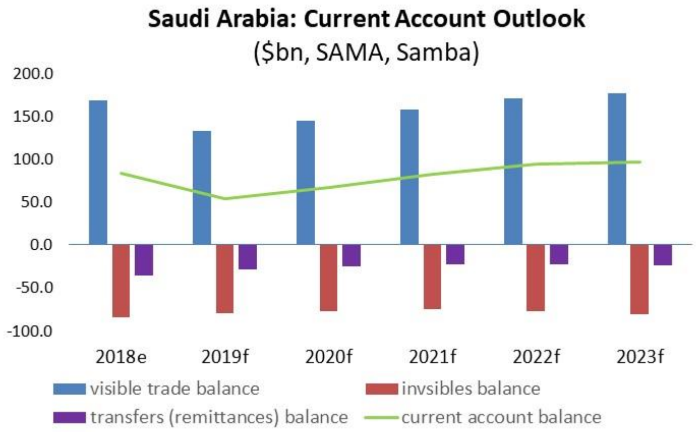
Import spending was choppy last year, but is likely to have come in at about $123bn, just 3 percent higher than 2017. As noted elsewhere**, the main impulse was government spending**; private sector import demand appears to have diminished. Private spending should edge up this year, but is unlikely to grow significantly in the current oil price environment.

The invisibles account is always in deficit, a product of heavy services and remittances outflows. Services debits are largely tied to import costs such as shipping and insurance, but should become more discrete over time as businesses import more services from abroad. Offsetting that is the **promising trend in tourism receipts**. Currently, these are fairly minor, but they should provide a good inflow as religious tourism infrastructure is improved and expanded.

Income receipts are also set to be an important element of the current account, reflecting the **burgeoning role of the PIF** as it becomes more like a sovereign wealth fund, albeit with an important domestic investment role too. Projecting returns from the PIF's activities is hazardous, but for the current account as a whole income inflows are likely to outweigh income outflows associated with sovereign debt servicing (though these are also set to increase).

Remittances outflows set to ease, though not disappear

Remittances have been a big outflow on the Saudi current account. They have remained quite high despite the disappearance of so many expatriates, but this is probably the impact of departing expatriates taking all their remaining savings with them as they leave the country. Thus, while we estimate remittance outflows in excess of $30bn in 2018, they are likely to diminish quite quickly as we move through 2019. However, **the economy is always likely to require a certain number of expatriates** and remittances outflows are likely to stabilize at around $20bn by the end of the forecast period.



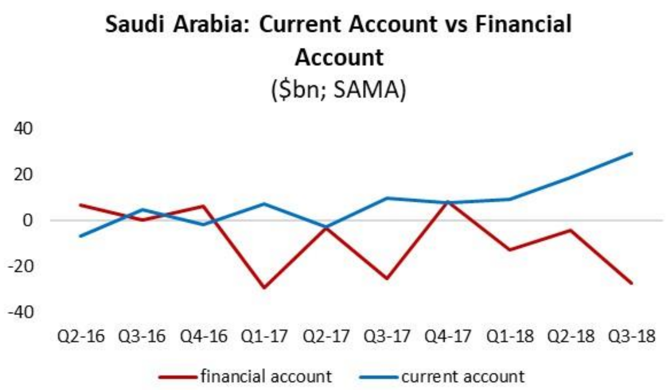
Current account surplus will shrink in 2019, but remain comfortable

For 2019 the current account surplus is likely to dip to around $53bn, or 7.5 percent of GDP, mainly on account of the downturn in oil prices. Assuming our oil price forecast is broadly accurate, then the current account will start to return larger surpluses from 2020 onwards, particularly as remittances outflows become less of a drag. By 2023 the current account surplus should be pushing $100bn or 11 percent of GDP.

Saudi Arabia: Current Account

($ billion)	2018e	2019f	2020f	2021f	2022f	2023f
Trade balance	**167.7**	**132.3**	**144.1**	**157.1**	**170.6**	**176.7**
Exports	290.6	260.3	278.0	297.3	319.4	337.8
percent change	31.8	-10.4	6.8	7.0	7.4	5.8
of which,						
oil	232.7	204.2	220.7	231.5	241.7	248.5
nonoil	57.8	56.1	57.2	65.8	77.7	89.3
Imports	-122.9	-128.0	-133.9	-140.2	-148.8	-161.1
percent change	3.0	4.2	4.6	4.7	6.1	8.3
Invisibles balance	**-83.9**	**-79.0**	**-76.9**	**-74.6**	**-76.6**	**-80.3**
Services credit	18.5	19.7	22.2	25.5	29.9	35.9
Services debit	-79.1	-82.4	-86.2	-90.2	-95.8	-103.7
Services balance	-60.6	-62.7	-64.0	-64.7	-65.9	-67.9
Income credit	18.4	20.2	23.2	26.7	29.9	33.5
Income debit	-6.3	-8.2	-10.7	-13.7	-17.5	-22.4
Income balance	12.0	12.0	12.5	13.0	12.4	11.1
Transfers balance	-35.3	-28.3	-25.4	-22.9	-23.1	-23.6
of which,						
workers' remittances	-32.1	-25.7	-23.1	-20.8	-21.0	-21.4
Current account balance	**83.8**	**53.3**	**67.2**	**82.6**	**93.9**	**96.4**
percent GDP	12.0	7.5	9.1	10.6	11.5	11.3

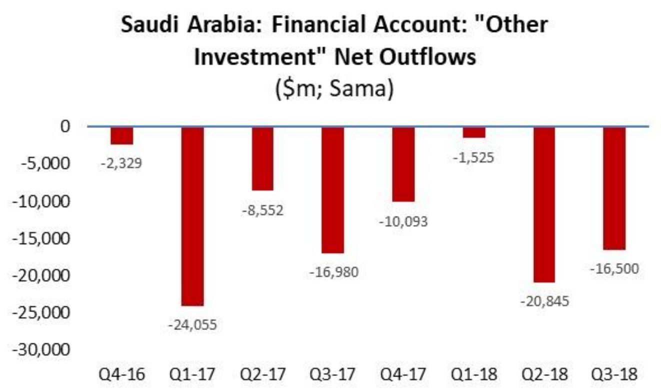
Sources: SAMA, IMF, Samba

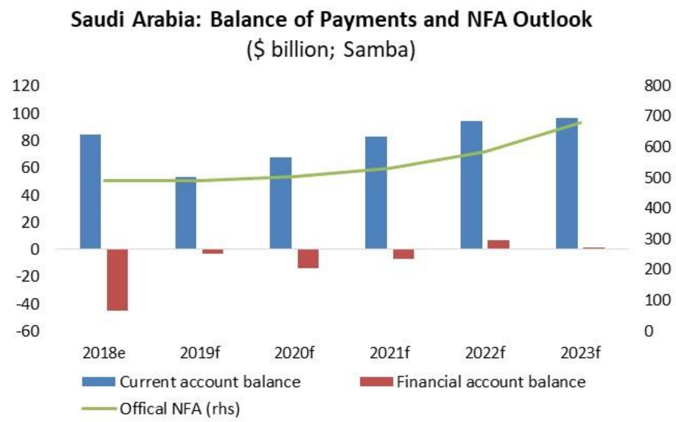


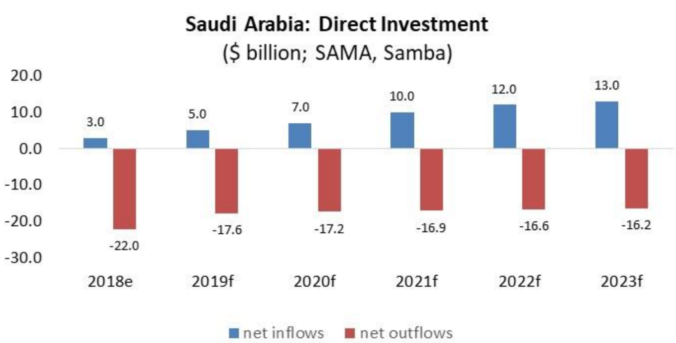
Financial account flows have been volatile

The country's financial account has come under the spotlight over the past year or so, and rightly so. Prior to the oil price slump in 2014 outflows on the financial account were often sizeable, but were of little macro-economic consequence because of the large surpluses on the current account. However, more attention was paid to the financial account as oil prices fell and the current account slipped into deficit. With deficits on both the current and financial accounts, official net foreign assets were steadily drawn down: from a high of $739bn in August 2014 official NFA fell to $478bn in September 2017, a loss of $261bn.

The situation has since stabilised and indeed NFA have begun to edge up again, reaching just under $490bn at end-2018. However, **without sovereign and quasi-sovereign (PIF) debt inflows, the NFA position would have continued to deteriorate.**







The financial account has been in deficit, but there is little clarity on nature of flows

The financial account therefore warrants close inspection. However, analysis is hampered by a lack of detail on the different flows (SAMA's balance of payments layout follows the IMF template, but is not disaggregated beyond the basic divisions).

Three quarters of official data show that the financial account recorded a cumulative deficit of $44bn. Given that the deficit was a hefty $27bn in the third quarter alone, it could well be that the full-year deficit will eclipse that of 2017, though full year net foreign asset data point to stabilisation in the fourth quarter. Most of the outflows have been through the "other investment" channel, though net errors and omissions are likely to have been around $38bn for the full year.

Saudi Arabia: Balance of Payments

($ billion)	2018e	2019f	2020f	2021f	2022f	2023f
Current account balance	**83.8**	**53.3**	**67.2**	**82.6**	**93.9**	**96.4**
Direct investment	-19.0	-12.6	-10.2	-6.9	-4.6	-3.2
Abroad (net)	-22.0	-17.6	-17.2	-16.9	-16.6	-16.2
in KSA (net)	3.0	5.0	7.0	10.0	12.0	13.0
Portfolio investment	2.0	43.3	23.7	27.4	32.8	21.7
Abroad (net)	-13.0	-11.7	-11.3	-11.0	-10.7	-10.4
in KSA (net)*	15.0	55.0	35.0	38.4	43.5	32.1
Other investment	-28.0	-33.7	-27.3	-27.4	-21.8	-17.0
Abroad (net)	-45.0	-43.7	-39.3	-35.4	-31.8	-27.0
in KSA (net)	17.0	10.0	12.0	8.0	10.0	10.0
Financial account balance	**-45.0**	**-3.0**	**-13.9**	**-6.9**	**6.4**	**1.4**
Net errors and omissions**	**-38.1**	**-34.5**	**-26.3**	**-22.1**	**-7.4**	**-8.6**
Overall balance	**0.7**	**15.8**	**27.0**	**53.6**	**93.0**	**89.2**
Change in reserves (- = increase)	-0.7	-15.8	-27.0	-53.6	-93.0	-89.2
Official NFA	**489.6**	**505.4**	**532.4**	**586.0**	**678.9**	**768.2**
percent GDP	70.1	71.6	72.0	75.4	83.3	89.7
import cover (months)	47.8	47.4	47.7	50.2	54.8	57.2

* includes sov debt inflows

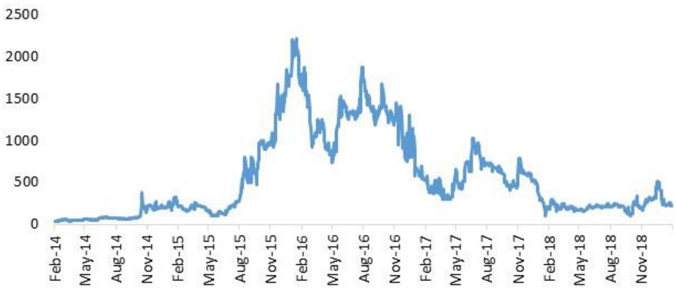
** includes capital account, which is minor

Sources: SAMA, IMF, Samba

That said, there are reasons for optimism in the longer run

Prima facie, therefore, the financial account remains a problem; but there are a number of caveats that suggest that the situation is not as troubling as first seems. **First, the current account is in surplus** and is likely to remain there for the next five years and beyond. This removes the spectre of the "twin deficits" and provides the momentum for NFA accumulation. **Second, the Tadawul's full inclusion in the MSCI EM and FTSE Russell global indices will see substantial portfolio inflows,** this year at least. **Third, PIF activity is likely to mean "short term pain for long term gain"**. Thus, we see that foreign direct investment outflows were a cumulative $17bn in the first three quarters of 2018, presumably most of which was PIF-related. All being well, these investments will yield significant inflows (captured on the current account) in due course. Related to this, one would also expect

Saudi Arabia: SAR/USD Two Year Forward
(points; Bloomberg)



investment by foreign firms in the Kingdom to grow in the years ahead.

Fourth, the gradual improvement in the fiscal account will have an impact on the balance of payments, since domestic deficit financing often leads to outflows either on the current account or financial account. For example, once a domestic creditor is paid by the government, he or she may well spend at least some of the money on imports or invest it abroad. This syndrome is likely to become less of an issue as the budget position improves with time. **Fifth, and closely related to this, private outflows should diminish as confidence improves and the domestic economy offers more investment opportunities**. This is not assured, but even if only some of the Vision 2030 agenda is enacted then more capital is likely to stay at home. One could also add the fact that the authorities have demonstrated that they can tap external capital markets, which will provide supportive inflows to the balance of payments, though obviously these do generate outflows on the current account and add to the external debt stock.

While risks persist, we do expect NFA accumulation to continue (and the exchange rate peg to remain in place)

Assuming the financial account outflows remain contained, and the current account remains firmly in surplus, as we expect it to, then official NFA should continue to be accumulated. By 2023 we expect SAMA's NFA to be approaching $770bn, or 90 percent of GDP. Given this, it should be clear that we expect the exchange rate peg to the dollar to remain in place.

Saudi Arabia: Baseline Macroeconomic Forecast	2017	2018	2019f	2020f	2021f	2022f	2023f
Nominal GDP ($ bn)	684	698	706	740	777	816	856
GDP per capita ($ '000)	20,897	21,844	22,159	22,598	23,104	23,645	24,198
Real GDP (% change)	-0.7	2.3	0.3	2.4	3.0	3.5	3.7
Hydrocarbon GDP	-4.3	3.5	-2.7	1.5	1.0	1.5	1.5
Non-hydrocarbon GDP	1.1	1.5	2.3	3.0	4.2	4.7	4.9
Money supply, M2 (SR bn)	1791	1841	1951	2049	2192	2390	2605
% change	9.5	2.8	6.0	5.0	7.0	9.0	9.0
Commercial bank loans to private sector (SR bn)	1327	1366	1429	1514	1651	1849	2108
% change	-0.7	2.9	4.6	6.0	9.0	12.0	14.0
3 month interbank rate (end year, percent)	1.9	3.0	3.0	2.5	2.3	2.2	2.4
CPI inflation (% change, average)	-0.8	2.5	-0.3	2.5	3.0	3.1	3.1
Hydrocarbon exports ($ bn)	170.2	232.7	204.2	220.7	231.5	241.7	248.5
% change	25.0	36.7	-12.3	8.1	4.9	4.4	2.8
Current account balance ($ bn)	14.7	83.8	53.3	67.2	82.6	93.9	96.4
(% GDP)	2.1	12.0	7.5	9.1	10.6	11.5	11.3
Fiscal revenue (SR bn)	692.0	895.0	836.2	906.1	975.8	1061.7	1136.6
(% change)	33.2	29.3	-6.6	8.4	7.7	8.8	7.1
Fiscal spending (SR bn)	927.0	1032.0	1097.0	1147.4	1189.4	1225.8	1263.9
(% change)	11.7	11.3	6.3	4.6	3.7	3.1	3.1
of which, capital	205.0	205.0	221.4	230.3	239.5	249.0	261.5
(% change)	53.0	0.0	8.0	4.0	4.0	4.0	5.0
current	722.0	827.0	875.6	917.1	949.9	976.7	1002.4
(% change)	3.7	14.5	5.9	4.7	3.6	2.8	2.6
Fiscal balance (SR bn)	-235.0	-137.0	-260.8	-241.3	-213.6	-164.1	-127.3
(% GDP)	-9.2	-5.2	-9.8	-8.7	-7.4	-5.5	-4.2
Public sector gross deposits with banking system (SR bn)	737.7	724.8	658.0	613.6	574.8	544.6	519.3
(% GDP)	28.8	27.7	24.8	22.1	19.9	18.3	17.0
Public sector gross domestic debt (SR bn)	435.2	487.4	590.2	676.1	803.0	846.9	978.9
(% GDP)	17.0	18.6	22.3	24.4	27.8	28.5	32.1
Other public sector domestic deposits (SR bn)	1147.0	1250.0	1250.0	1250.0	1250.0	1250.0	1250.0
(% GDP)	44.7	47.7	47.2	45.1	43.4	42.1	41.0
Total public sector net deposits with banking system (SR bn)	1449.6	1487.3	1317.8	1187.5	1021.8	947.7	790.4
(% GDP)	56.5	56.8	49.8	42.8	35.4	31.9	25.9
Memoranda:							
Oil price (Brent; $/barrel)	54.0	71.0	64.5	67.3	69.0	70.0	70.0
Crude oil production ('000 b/d)	9,968	10,318	10,004	10,150	10,252	10,405	10,561
SAMA's net Foreign Assets ($ bn)	488.9	489.6	505.4	532.4	586.0	678.9	768.2
(% GDP)	71.5	70.1	71.6	72.0	75.4	83.3	89.7
Central government external debt ($ bn)	47.2	60.2	80.2	105.2	129.6	155.1	166.1
(% GDP)	6.9	8.6	11.4	14.2	16.7	19.0	19.4

Sources: SAMA; Ministry of Finance; General Statistics Authority; IMF; Samba.

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