



MENA ECONOMICS UPDATE

Saudi emerges from recession, recovery to gather pace

- **Saudi Arabia's economy pulled out of recession in Q1 and we expect the recovery to gain momentum over the coming quarters, supported by fiscal stimulus and a jump in oil output.**
- Data released on Sunday showed that Saudi Arabia's economy grew by 1.2% y/y in Q1, compared with a contraction of 1.2% y/y in Q4 of last year and a decline in GDP of 0.7% over 2017 as a whole. The performance in Q1 was a touch weaker than that suggested by our GDP Tracker. (See Chart 1.)
- **The sectoral breakdown of the data showed that the pick-up in headline growth was mainly a result of a fading drag from the oil sector, following last year's OPEC-agreed oil output cuts.** Having contracted by 4.3% in Q4 2017, the oil sector expanded by 0.6% y/y in Q1.
- **Meanwhile, there were some positive signs from the non-oil sector, which expanded by 1.6% y/y in Q1 – its second-fastest pace in nine quarters.** That was up from 1.3% y/y in Q4 of last year and was supported by stronger growth in the non-oil private sector.
- The production breakdown suggests that the pick-up in growth in the non-oil private sector was supported by stronger growth in manufacturing (excluding oil refining). (See Chart 3.) This more than offset renewed weakness in consumer-facing sectors – such as wholesale and retail trade – which struggled in the face of a sharp rise in inflation following the introduction of a new value-added tax and administered price hikes at the start of this year. The construction sector also remained in the doldrums.
- **Looking ahead, the Saudi economic recovery will gather pace over the coming quarters.** Fiscal stimulus should support a further pick-up in growth in the non-oil economy. Meanwhile, the revised OPEC agreement is likely to result in a sharp jump in Saudi oil output in the coming months. By our estimates, this will directly boost year-on-year GDP growth by around 2.0%-pts. (See Chart 4.) We will formally revise up our GDP growth forecasts for Saudi Arabia in our forthcoming *MENA Economic Outlook*.

Chart 1: GDP & CE GDP Tracker (% y/y)

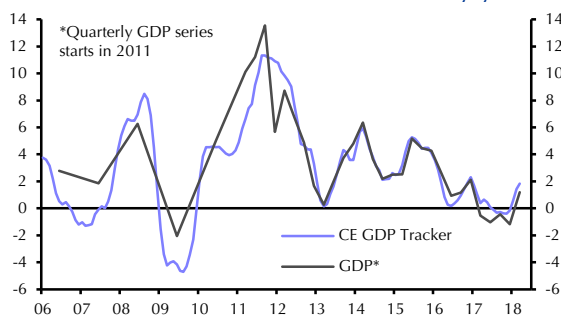


Chart 2: GDP by Sector (% y/y)

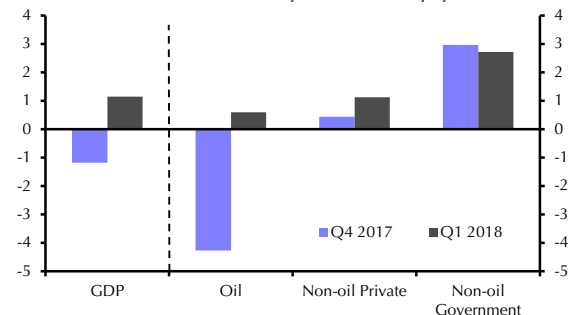


Chart 3: Manufacturing (excl. oil refining) & Wholesale, Retail, Hotels and Restaurants Value Added (% y/y)

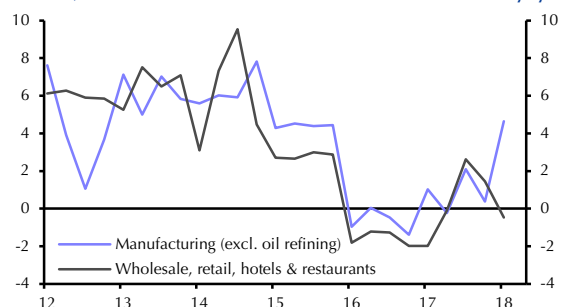
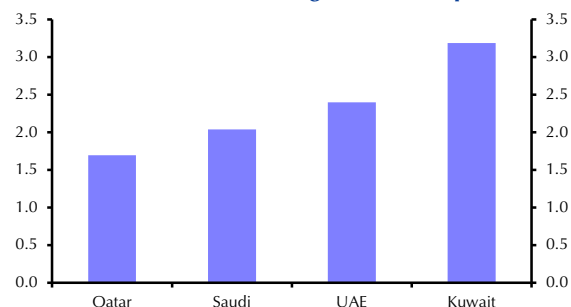


Chart 4: Direct Boost to Year-on-Year GDP Growth from Revisions to OPEC Agreement (%-pts)



Sources: CEIC, Thomson Reuters, Capital Economics



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