



# MENA ECONOMICS UPDATE

## Saudi set for bumper GDP growth this year

- Saudi Arabia's economy grew at its fastest pace in a decade in Q1 and we think this strength will carry on over the rest of this year. The combination of rising oil output and the increasing likelihood of looser fiscal policy underpin our above-consensus forecast for the Kingdom's economy to grow by 10% in 2022.
- The [flash estimate for Q1 GDP](#) released earlier this month showed that the economy grew by 2.2% q/q in seasonally adjusted terms, which translated into year-on-year growth of 9.6% y/y, the fastest pace of growth since 2011. (See Chart 1.) This was largely driven by a 2.9% q/q increase in oil GDP as Saudi continued to raise oil output in line with the OPEC+ deal. Meanwhile, the non-oil private sector expanded by 2.5% q/q.
- Data for April suggest that the non-oil sector may have lost some steam in Q2. The [S&P Global Composite PMI](#) dropped back from 56.8 in March to 55.7. On past form at least, this would be consistent with non-oil GDP growth of around 3% y/y, a touch weaker than the 3.7% y/y outturn in Q1. (See Chart 2.)
- **High frequency data for May paint a slightly more positive picture.** Growth in point of sales transactions accelerated from 7.1% 3m/3m on a seasonally adjusted basis in April to 12.6% over the first fortnight of May, the fastest pace recorded since September 2020. And after a slight dip at the start of May coinciding with Eid-al-Fitr celebrations, mobility has rebounded. (See Chart 3.)
- In the oil sector, oil production rose by just over 0.1mn bpd to 10.35mn bpd in April, which translated into a year-on-year increase of 27.4%, the fastest pace recorded since March 2003. (See Chart 4.) Saudi Arabia is still producing below its OPEC+ quota but is one of the groups few members that is raising output significantly. **With other members struggling to meet quotas and Russian output set to fall sharply, we think Saudi will raise oil production faster than is currently envisaged under the OPEC+ deal.**
- At the same time, high oil prices are likely to prompt policymakers to loosen fiscal policy, supporting growth in the non-oil sector. Previous comments from officials suggest a cut to the VAT rate would be the first step. **All told, we forecast GDP growth of 10.0% this year, which is much stronger than 7.2% expected by the consensus and would be the strongest performance in over a decade.**

Chart 1: GDP

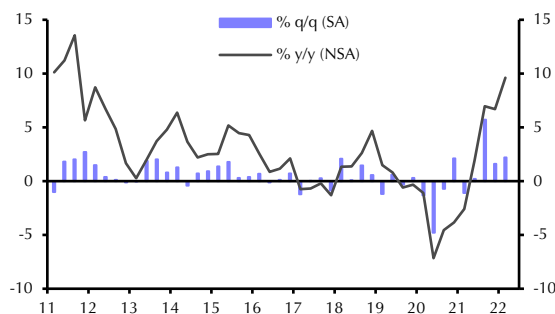


Chart 2: S&P Global Saudi Arabia Composite PMI & Non-Hydrocarbon GDP

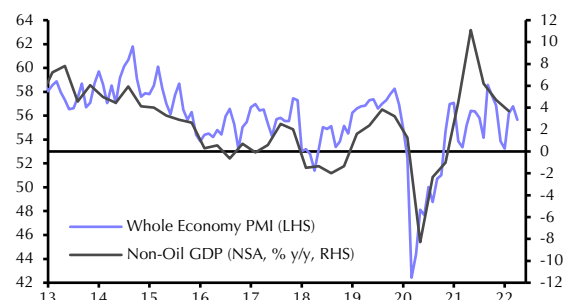


Chart 3: Google Saudi COVID Mobility Tracker\*

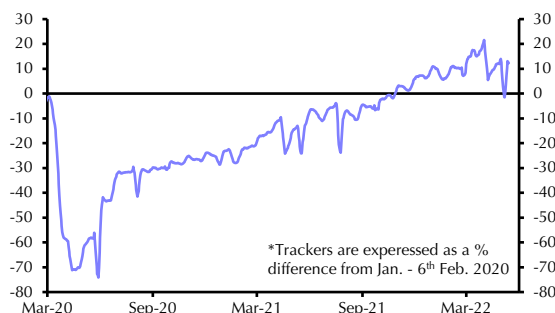
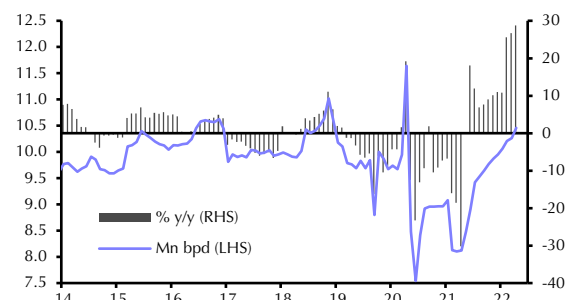


Chart 4: Oil Production



Sources: S&P Global, CEIC, Capital Economics



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