

SAUDI ARABIA Q2 2018 GDP FLASH REPORT



October 2018

Flash Report: Q2 2018 GDP Release – Reading Between the Lines

Executive Summary and Review

Executive Summary

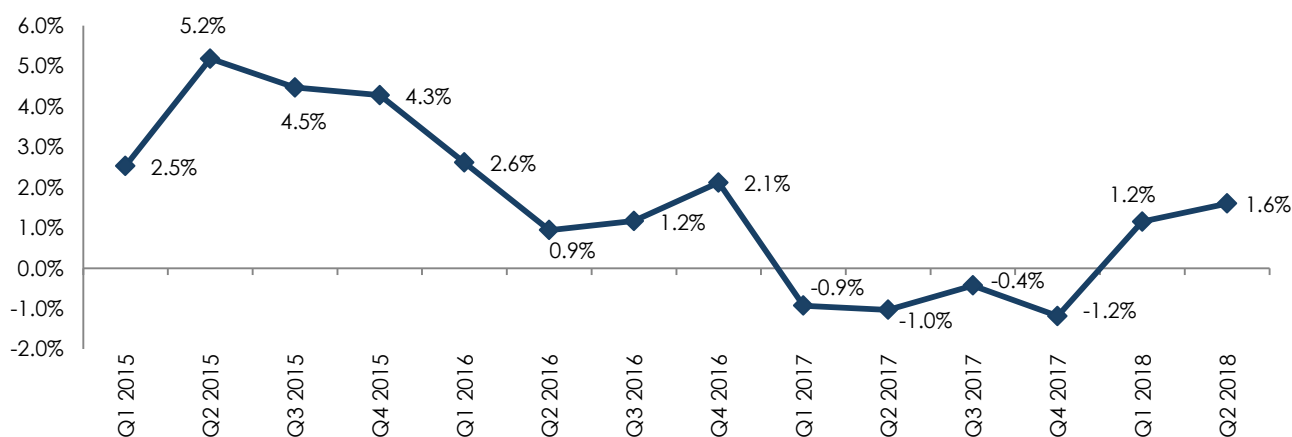
The key highlights of the Q2 2018 GDP are:

- The KSA Q2 2018 GDP rose 1.6% YoY to SAR 639.2 bn compared to SAR 629.1 bn in Q2 2017. On a sequential basis (compared to Q1 2018), the GDP declined 1.3%.
- Oil sector GDP increased 1.3% YoY to SAR 279.0 bn. The sector contributed around 43.7% to the total GDP in Q2 2018, slightly down from 43.8% in Q2 2017, but higher than 42.2% in Q1 2018.
- The non-oil sector GDP came in at SAR 356.9 bn, up 2.4% YoY.
- Sectors including Government Services (+4.8% YoY), Finance, Insurance, Real Estate & Business Services (+4.3% YoY) and Manufacturing (+3.2% YoY) experienced strong growth during the second quarter.
- However, the Construction and Retail & Hospitality sectors contracted 3.2% and 0.5%, respectively.

Q2 2018 GDP Review

Saudi Arabia's economy has recovered during the first half of 2018. This is after witnessing a decline in 2017, the first such decline witnessed over a period of eight years. The decline in 2017 was induced by low oil prices and controlled production. GDP in constant prices grew 1.6% YoY to SAR 639.2 bn in Q2 2018, after clocking 1.2% YoY growth during Q1 2018. Oil revenue has continued to rise after Saudi Arabia completed the required cuts in output as decided by OPEC agreement by the start of 2018. Steadily rising oil prices in 2018 also supported the growth in oil revenue, resulting in 1.3% YoY GDP growth from the oil sector in Q2 2018 (Q2 2017: down 1.5% YoY). Brent crude prices averaged USD 77.1 per barrel in Q2 2018, compared to USD 68.4 in Q1 2018 and USD 50.1 during the year-earlier period. The non-oil sector, which accounted of 55.8% of GDP in Q2, grew 2.4% YoY to SAR 356.9 bn (+0.4% YoY in Q2 2017), supported by higher government expenditure. Government expenditure rose 33.5% YoY and 40.1% QoQ during Q2 2018. Strong growth in government services (+4.8% YoY), finance, insurance, real estate & business services (+4.3% YoY) and manufacturing (+3.2% YoY) sectors also contributed to the growth of the non-oil sector.

Figure 1: Quarterly GDP growth (in %)



Source: General Authority for Statistics

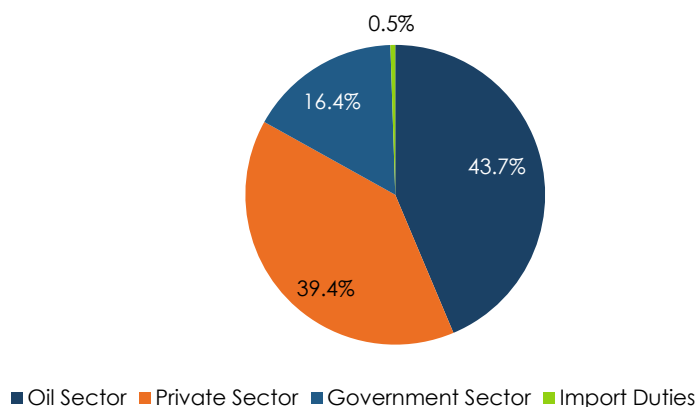
Oil sector GDP rises 1.3% YoY

GDP contributed by the oil sector amounted to SAR 279.0 bn in Q2 2018, up 1.3% YoY, compared to SAR 275.4 bn in Q2 2017. Saudi Arabia's dependence on the oil sector declined marginally as the sector contributed around 43.7% to the total GDP in Q2 2018, down from 43.8% in Q2 2017. Continued improvement in oil prices and output supported Saudi Arabia's oil sector in Q2 2018. Brent Crude prices averaged USD 77.1 per barrel in Q2 2018, compared to USD 68.4 in Q1 2018 and USD 50.1 during the year-earlier period. Saudi Arabia's oil production averaged 10.07 million barrels per day (mbpd) in Q2 2018, compared to 9.90 mbpd in Q1 2018 and 9.97 mbpd in Q2 2017.

Non-oil sector GDP increases 2.4% YoY

The non-oil sector, which accounted of 55.8% of GDP in Q2, grew 2.4% YoY to SAR 356.9 bn (+0.4% YoY in Q2 2017), supported by higher government expenditure. Government expenditure rose 33.5% YoY and 40.1% QoQ during Q2 2018. The growth in non-oil sector is attributed more to the boost in spending by government sector. The government sector grew by 4.0% YoY to SAR 104.9 bn vis-à-vis SAR 100.8 bn in Q2 2017. Meanwhile, the private sector grew 1.8% YoY to SAR 252.0 bn as compared to SAR 247.6 bn in Q2 2017. Increase in taxes due to imposition of Value Added Tax (VAT) as well as increased costs of fuel and electricity weighed down on relatively slower growth in the private sector.

Figure 2: Sector-wise contribution in Q2 2018 (constant prices)

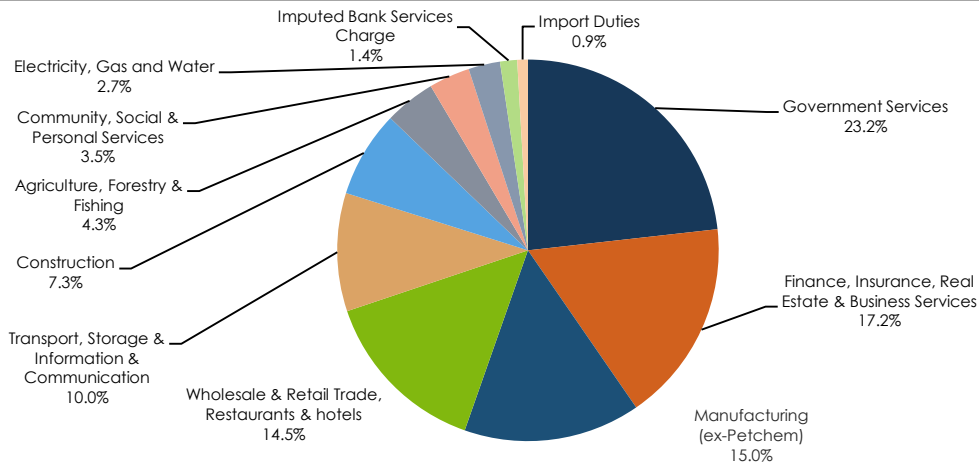


Source: General Authority for Statistics

Sector-wise performance

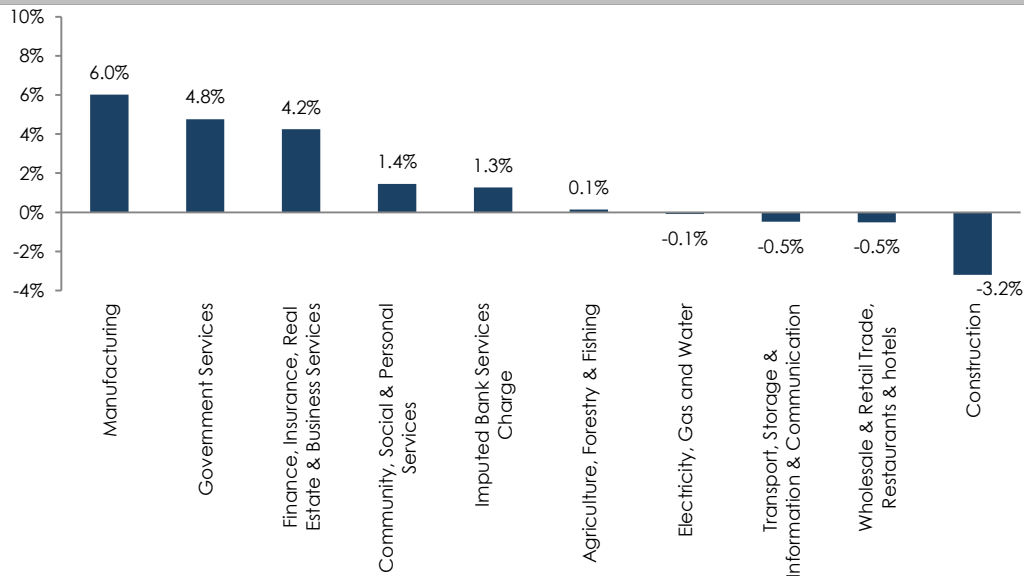
The growth in the Q2 2018 GDP can be attributed to advancement mainly in Government Services (+4.8% YoY), Finance, Insurance, Real Estate & Business Services (+4.3% YoY) and Manufacturing (+3.2% YoY), followed by Mining & Quarrying (+1.7% YoY) sectors. However, Construction (down 3.2% YoY), Retail & Hospitality (down 0.5% YoY) and Transport & Communication (down 0.5% YoY) registered negative growth in Q2 2018. The Construction sector suffered a decline for the tenth straight quarter, affected by lower government spending on infrastructure and slowdown in real estate activity. Transport sector was affected by lower government spending as well as rise in fuel costs. Infrastructure & Transportation remain the most underspent sectors as per H1 2018 budget figures, with only 22% of the total annual budgeted expenditure for the sector utilized so far. Implementation of the VAT regime impacted the retail and hospitality sectors that contracted 0.5% during the quarter, compared to 0.4% growth in Q2 2017.

Figure 3: Non-oil sector GDP components



Source: General Authority for Statistics

Figure 4: Growth in non-oil sector GDP components



Source: General Authority for Statistics

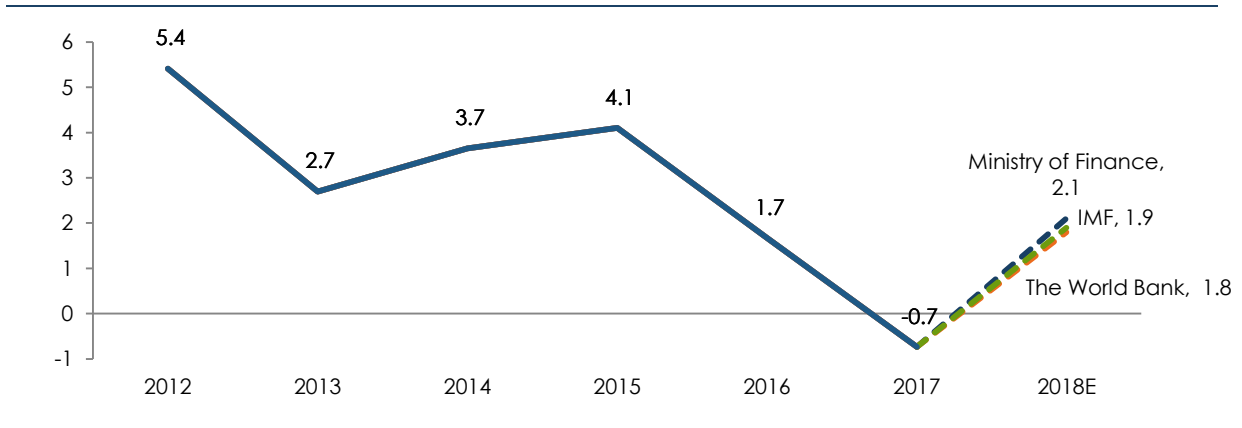
2018 GDP Outlook

Saudi Arabia witnessed its worst slowdown since the global financial crisis of 2008-09 in the year 2017. In 2018, there has been a marked recovery led by rising crude oil prices, higher oil production and an expansionary fiscal budget. The completion of necessary cuts in oil output as per OPEC-led agreement also has meant an increasing Saudi oil output. The IMF expects Saudi oil production to average 10.3 mbpd in 2018. Moreover, global oil prices recently touched four-year high with Brent Crude reaching USD 82.2 per barrel, due to tightening supply conditions owing to US sanctions against major crude exporter Iran, which are set to come into effect from November 2018. This would further support the growth in oil revenue.

Non-oil GDP growth is supported mainly by the government sector, with private sector recovering slowly from the effect of higher fuel and electricity prices and imposition of VAT. Construction sector is witnessing a prolonged decline, marred by lower government

spending on infrastructure and slowdown in real estate activity. However, construction activity is expected to get some boost as the new work starts in USD 500 billion NEOM Mega City project. Nevertheless, the overall positive economic outlook is reflected in the upward growth estimate revisions by IMF and The World Bank. The IMF has raised Saudi Arabia's GDP growth projections twice in 2018 so far, first to 1.7% from 1.6% in during April, and then to 1.9% in July. The World Bank also revised its Saudi GDP growth to 1.8% (previous: 1.2%) in April.

Figure 5: Saudi Arabia Annual GDP growth (%)



Source: General Authority for Statistics, The World Bank, IMF

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