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SAUDI ECONOMY: All is well, But Risks Remain!

The Saudi economy is on-track to record a very strong level of growth this year, and we expect this to continue into next year. More specifically, we see the Kingdom's economy growing by 7 percent year-on-year in 2022 as a result of sizably higher oil sector growth and robust levels of non-oil growth.

With respect to the oil sector, we see growth driven by higher Saudi crude oil production, in-line with yearly rises in global oil demand. We note that circa 40 percent of OPEC+'s spare capacity resides with Saudi Arabia, and thus any uplift in demand will likely be met with proportionally higher oil supply from the Kingdom.

On the non-oil side, despite a moderation in year-on-year non-oil private sector growth (largely as a result of the high base of 2021), the economy will be driven forward by the continued implementation of the Vision 2030. Indeed, the year ahead will mark a critical phase in the Kingdom's efforts towards diversifying its non-oil economic base, which will be guided by a set of recently unveiled five year commitments (till 2025) under various Vision Realization Programs (VRPs).

At the same time, the Saudi economy will be supported by another sizable outlay in government expenditure, which, despite declining on a yearly basis in 2022, is still set to total just under SR1 trillion. Additionally, both the Public Investment Fund (PIF) and the National Development Fund (NDF) will be the engines of capital deployment and economic development in the Kingdom, as detailed in the recently unveiled National Investment Strategy (NIS).

The main risk to our forecast is related to the disruptive nature of Covid-19, or, more specifically, to global developments related to the 'Omicron' variant seen in the last few days. As it stands, it is too early to gauge the full impact of the variant on the Saudi economy, especially so without knowing to what extent, if any, the variant poses a threat to the current crop of Covid-19 vaccines' effectiveness. ■

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