

MINISTRY OF ECONOMY & PLANNING

Quarterly Report

Q3 2022

وزارة الاقتصاد والتنمية
MINISTRY OF ECONOMY & PLANNING



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01

Introduction

01 Introduction

Global economic performance in Q3 of 2022 continued to show evidence of a challenging year ahead. In October, the IMF lowered its global real GDP outlook to 3.2% for 2022 and to 2.7% for 2023 by 0.4 percentage points and 1.1 percentage points respectively. In 2022, six key factors shaped the trajectory of global economies:

1. In early 2022, the disruption of supply chains and lack of supply of basic commodities and materials, and the government stimulus packages, led to high inflation rates to unprecedented levels across the world. This affected consumption behaviors and weakened the purchasing power of consumers leading to slower pace of global economic growth.
2. Global inflation persistently increased, prompting further tightening of monetary policies. Interest rate hikes by the Federal Reserve and central banks to contain inflation has contributed, with other factors, to capital flight from emerging markets, depreciation of currencies against the US Dollar and a slump in equity markets globally.
3. China's slower rate of growth compared to historical averages, is a result of several factors, including the effects of the COVID-19 lockdown on the real estate, and industrial sectors. Due to China's trade relations with most nations, this slowdown could have impact on its trading partners in Europe and Asia and Europe.
4. Higher food prices combined with supply shortages have created food insecurity, eroded real incomes and worsened poverty in lower-income countries. The FAO food price index dropped to 138 in August 2022 compared to 159.7 in March 2022 but remained elevated.
5. Labor markets continued to tighten. According to the International Labor Organization (ILO), in Q2 2022 the number of hours worked by the labor force reduced compared to Q1 2021 and labor market tightness increased by 31%, with gaps remaining between demand for labor market skills and supply with geographical imbalances in labor pools.
6. Supply chain disruptions impacted the production and trade of semiconductor chips and their consumer base including automotive and precision instruments. This disruption has affected the full value chain.
7. Energy supply shocks hiked the price of oil and natural gas impacting countries dependent on energy imports with spill-over effects in the transportation and manufacturing sectors, further impacting food prices.

01 Introduction

Against the backdrop of this global environment and slowing economic growth, in Q3 2022, the Kingdom of Saudi Arabia registered a real GDP YoY growth rate of 8.6% while maintaining inflation at 2.9%. Some of the Kingdom's key performance metrics in Q3 2022 are highlighted below (YoY quarterly unless otherwise stated). Additional details are presented in the KSA economic performance section of this report.

Real GDP and Components

- Real non-oil economic activity GDP grew 5.6% in Q3 2022
- Oil GDP growth reached 14.5% in Q3 2022

Monetary and Fiscal Policies

- Total government revenues increased by 24% in Q3 2022 to SAR301.8 Bn, compared to SAR243.4 Bn in the same period in 2021.
- The budget recorded a surplus of SAR14 Bn in Q3 2022, compared to a surplus of SAR77 Bn in the previous quarter.

Diversification

- The PMI reached 56.6 in September 2022, indicating that the non-oil private sector improved for the 25th consecutive month.
- The industrial production index increased by 16.8% in August 2022 compared to the same month in 2021.

Investments and Trade

- Foreign direct investments reached SAR7.8 Bn
- The trade balance surplus amounted to SAR72.7 Bn in August 2022, with a growth rate of 87% YoY.

Labor Markets

- Saudi unemployment continued to trend down, in nine consecutive quarters to reach 9.7%
- Saudi women participation in the labor force continued to increase to hit 35.6%.

Markets and Business

- TASI lost 1% in Q3 2022, while it has gained 1.1% since the beginning of this year.
- An increase in the real estate price index for Q3 2022 by 1.5% compared to the same quarter of last year.

02

Global Economic Update

02 Global Economic Update

The global economy is facing one of the most challenging periods in recent history, barring the pandemic years.

The volatility of the global macroeconomic landscape is evident from the downward revisions by the IMF in their last three quarterly projections, the last of which was published in July 2022. The likelihood of a global recession has increased, signaled by the downward revisions in key economic regions including the US, UK, EU, and China. The World Bank recently revised its forecast for China lower to 2.8%, with its projected growth set to be lower than its Asia Pacific neighbors for the first time in 30 years.

The reasons for the slowdown in each of these regions vary. They include aggressive monetary tightening in the US, policy credibility and fiscal constraints in the UK, energy instability in the EU, and closures of some areas in China due to COVID-19 lockdowns.

Inflation also remains a major threat to the growth of the global economy. The key contributors to inflation were rising energy and food costs, as oil prices surged during the year's first half. In addition, supply shocks from the geopolitical crisis were caused by the Ukraine-Russia conflict which has further exacerbated the surge in energy and food costs.

In 2022, inflation has prompted higher and more sustained price increases across the world. Commodities prices, particularly for agriculture, metals and minerals, reached multi-year highs in Q2 2022. Many of the staple food items including wheat, barley and poultry saw significant spikes in prices resulting in reduced real income for households.

Central banks are attempting to balance price surges through a series of rate hikes. The Federal Reserve's recent rate hikes demonstrate its resolve to stay on a course of monetary tightening until it reaches its target of 2% inflation. Inflation in the Eurozone is currently at 10% and is likely to attract more hawkish action from the European Central Bank (ECB).

According to IMF forecasts, the global Consumer Price Index (CPI) is expected to peak at 9% in Q3 2022 and slow down to 4.1% by Q4 2023. Core inflation is expected to peak at 6.6% in Q3 2022 and reduce to 3.7% by Q4 2023.

The US Dollar Index has performed strongly with a market return of 13.9 YTD¹ while other currencies have continued to depreciate against the US Dollar. Global recessionary fears have made the US Dollar a safe haven for investors who are reducing their exposure in emerging economies and capital markets.

02 Global Economic Update

Yet a strong dollar is not favorable for US exports and is a challenge for emerging economies, particularly those with substantial debt denominated in US Dollars. Global debt in 2021 reached \$303 trillion with a debt-to-GDP ratio of 351%. To meet debt repayments, several countries will have to reduce spending to meet their loan repayment obligations, which is expected to trigger a further economic slowdown.

Countries with higher debt, weaker currencies against the US Dollar, and those that depend on imports for their energy and food supplies will have to make tough choices on economic development given the following three prominent risks to global growth in the short to medium term.

1. Food and agriculture production remain a concern as the conflict between Russia and Ukraine may adversely affect the plantation of the next year's crops in a major wheat-exporting region. In addition, climatic events during the year, including heat waves in China, Europe and floods in Pakistan, may diminish the global production of major crops creating deeper food security issues.

2. The natural gas index grew from 137 in M12021 to 315 in M52022. Meanwhile, the coal index went from 93 to 379. The crude oil index rose from 92 to 189 in the same period. Oil prices have declined from the highs of June this year, triggered by fears of recessions and slowing global demand. Natural gas prices have behaved similarly, with geopolitical tensions in Europe resulting in a seven-fold increase in natural gas prices across the continent. Countries face tough trade-offs between immediate energy security, sustainability and the acceleration of renewable energy generation.

3. Labor market tightness increased by an average of 32% in 39 countries surveyed (mainly advanced countries) and the number of hours worked in the world deteriorated by 3.8% in Q1 2022 when compared to Q4 2019. That is equivalent to a deficit of 112 Mn full-time jobs.

Global unemployment in advanced economies in 2022 is estimated at 4.7%. G20 countries such as Brazil and Turkey are expected to reach unemployment rates of 13.7% and 11.3% respectively in 2022. The multitude of economic challenges has increased complexity for policymakers, who are currently focused primarily on controlling inflation. The only exceptions among the G20 economies are Saudi Arabia and Indonesia, which by being resource-rich economies have merited a positive outlook. The IMF projects Saudi Arabia to be the highest growth economy in 2022 at 7.6%, compared with a global outlook of 3.2% and a G20 projection of 2.5%.

Overall Economic Summary of G20 Countries

| G20 Countries | R. GDP Growth (constant prices; %) ¹ | Annual GDP (USD Bn) End 2021 ² | Trade Balance 2021 (% of GDP) ³ | Foreign Exchange Reserves Q1'22 (% of GDP) ⁴ | FDI inflows flows 2021 (% of GDP) ⁵ | Inflation (%) CPI Q2 2022 ⁶ | Monetary Policy rate (%) Latest ⁷ | Debt % of GDP 2020 ⁸ | Equity Market Return (Main Index Last 12 months) ⁹ | IPI (%) July 2022 ¹⁰ | PMI August 2022 ¹¹ | Unempl (%) Q2 2022 ¹² |
|----------------|---|---|--|--|--|---|---|------------------------------------|--|------------------------------------|----------------------------------|-------------------------------------|
| United States | 5.7 | 22,998 | 23 | 0.2% | 1.8 | 8.6 | 3.25 | 128 | -13.8 | 3.7 | 51.5 | 3.6 |
| China | 8.1 | 17,734 | 37 | 8.4% | 2.0 | 2.3 | 3.65 | 71.5 | -14.3 | 4.2 | 49.5 | 5.4 |
| Italy | 6.6 | 4,937 | 63 | 2.4% | 0.4 | 6.9 | 1.25 | 150.8 | -15.6 | -1.4 | 48 | 8.1 |
| France | 7.0 | 4,226 | 62 | 1.8% | 0.9 | 5.3 | 1.25 | 112.6 | -11.3 | -1.2 | 50.6 | 7.6 |
| United Kingdom | 7.4 | 3,188 | 55 | 4.3% | 80.0 | 7.9 | 1.75 | 95.3 | -3 | 1.1 | 47.3 | 3.8 |
| Germany | 2.9 | 3,178 | 89 | 0.9% | 0.7 | 7.6 | 1.25 | 69.6 | -20 | -1.1 | 49.1 | 2.9 |
| European Union | 5.4 | 17,165 | 93 | 2.2% | 0.8 | 8.8 | 1.25 | 89.8 | -10.4 | -2.4 | 49.6 | 6.1 |
| Indonesia | 3.7 | 2,101 | 40 | 5.0% | 1.7 | 3.8 | 3.75 | 41.1 | 18.2 | 0.04 | 51.7 | 5.8 |
| Canada | 4.6 | 1,991 | 61 | 3.7% | 3.0 | 7.5 | 3.25 | 112.8 | -6 | 4.2 | 48.7 | 5.1 |
| Japan | 1.6 | 1,799 | 31 | 0.8% | 0.5 | 2.5 | -0.1 | 262.5 | -13.4 | -2 | 51.5 | 2.6 |
| Russia | 4.8 | 1,776 | 52 | 7.3%* | 2.3 | 16.9 | 7.5 | 17 | -45.5 | -0.5 | 51.7 | 3.9 |
| Australia | 1.5 | 1,633 | 40 | 2.2% | 1.8 | 6.1 | 2.35 | 58.4 | -8.9 | 0.4 | 49.3 | 3.8 |
| Brazil | 4.5 | 1,608 | 39 | 19.3% | 3.1 | 11.9 | 13.75 | 93.1 | -0.83 | -0.5 | 51.9 | 9.3 |
| Mexico | 4.8 | 1,295 | 82 | 13.8% | 2.5 | 7.8 | 8.5 | 57.6 | -8.9 | 2.6 | 48.5 | 3.3 |
| India | 8.9 | 1,186 | 44 | 4.5% | 1.5 | 6.5 | 5.4 | 84.2 | 1.3 | 2.4 | 56.2 | 7.8 |
| Saudi Arabia | 3.2 | 834 | 59 | 47.6% | 2.3 | 2.3 | 3 | 30.1 | 1.7 | 17.7 | 57.7 | 10.1/6 |
| Turkey | 11.0 | 807 | 71 | 7.0% | 1.6 | 74.1 | 13 | 41.8 | 133.4 | 2.4 | 47.4 | 10.7 |
| South Korea | 4.0 | 627 | 80 | 7.0% | 0.9 | 5.4 | 2.5 | 51.3 | -28.2 | 1.5 | 47.6 | 2.8 |
| Argentina | 10.3 | 489 | 33 | 6.4% | 1.5 | 61 | 69.5 | 80.9 | 96.63 | 5.1 | NA | 6.9 |
| South Africa | 4.9 | 418 | 56 | 10.2% | 9.8 | 6.7 | 5.5 | 69 | 3.9 | 3.7 | 52.1 | 33.9 |

1. Growth (%), 2021

2. USD Mn Q1 – 2022

3. USD Mn Q2 – 2022

4. USD Mn Inward flows Q1 2022

5. Q2 -2022

6. Latest

7. 2020

8. Main Index Last 12 months

9. July 2022

10. August 2022

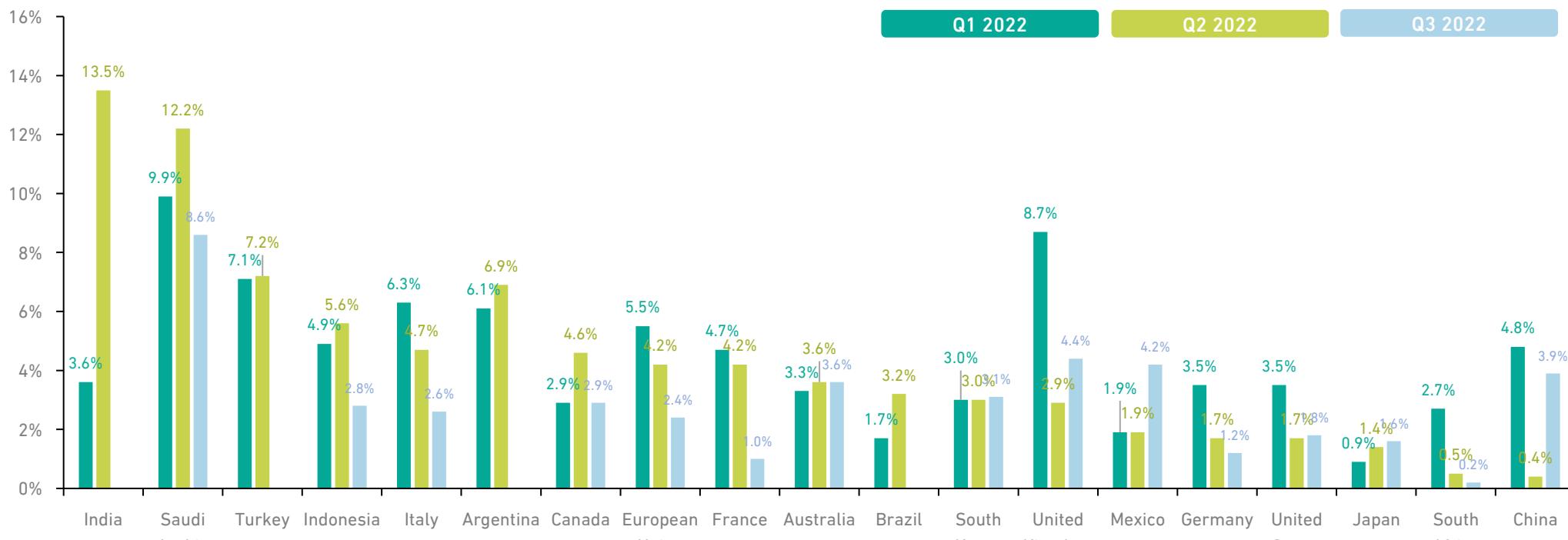
11. Q1 – 2022 and represents total unemployment %

Source: IMF, OECD, World Bank

Real GDP Growth of G20 countries in Q1 2022, Q2 2022 and Q3 2022

Chart 2-1: Real GDP growth in Q1 2022, Q2 2022 and Q3 2022

%; YoY



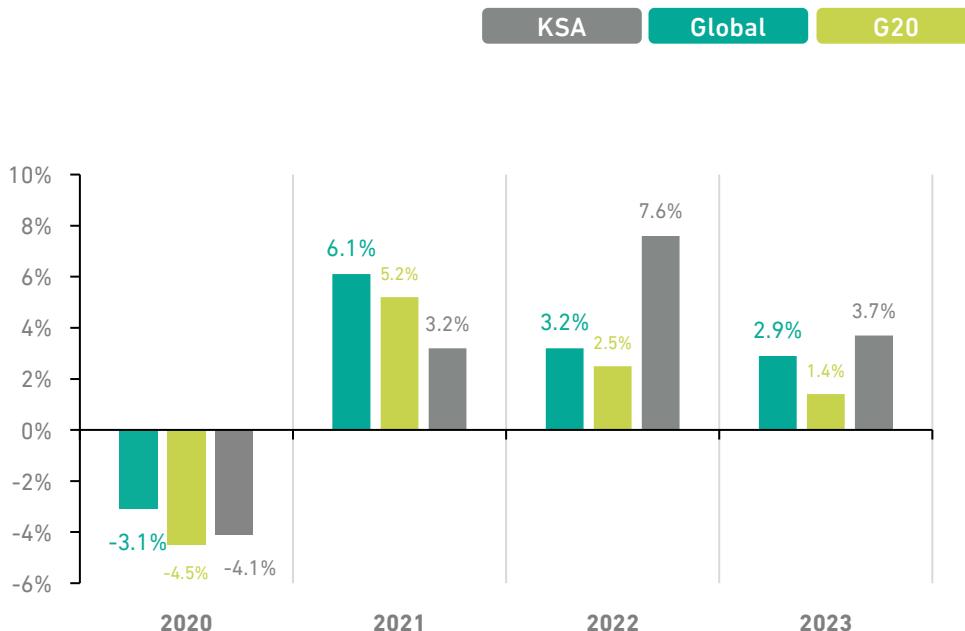
Source: Bloomberg

Saudi Arabia's Q3 2022 real GDP growth was at 8.6%, the highest among G20 countries, so far. According to the October 2022 IMF WEO, Saudi Arabia is expected to grow at 7.6% on 2022 and 3.7% in 2023. IMF WEOs continue to be revised or updated on a quarterly basis.

Real GDP Global Growth Forecast for G20 Countries, Saudi Arabia and Global Inflation Forecasts

Chart 2-2: Real GDP growth projections

%; YoY



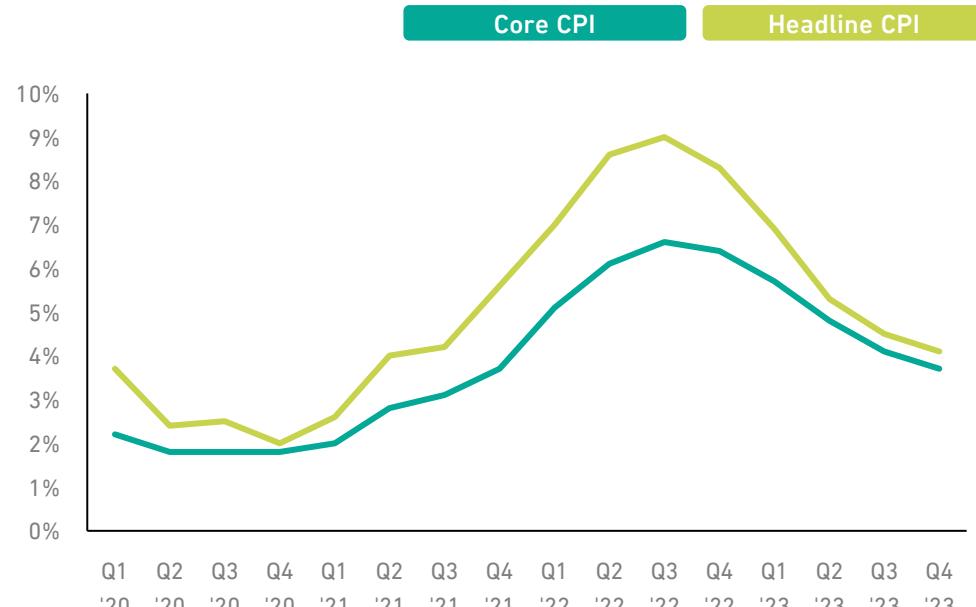
Source: IMF WEO October 2022

IMF's revised real GDP growth forecast for the world is 3.2% and 2.9% for 2022 and 2023. For Advanced Economies, the revised forecast is 2.5% and 1.4%. The forecast for Saudi Arabia stands at 7.6% and 3.7%

1. Headline inflation is the raw inflation reported through the CPI and is tied to cost of living. Core inflation removes the CPI components that can exhibit large amounts of volatility (food and energy prices) from month to month.

Chart 2-3: Global Headline and Core Inflation Forecasts¹

% CPI inflation



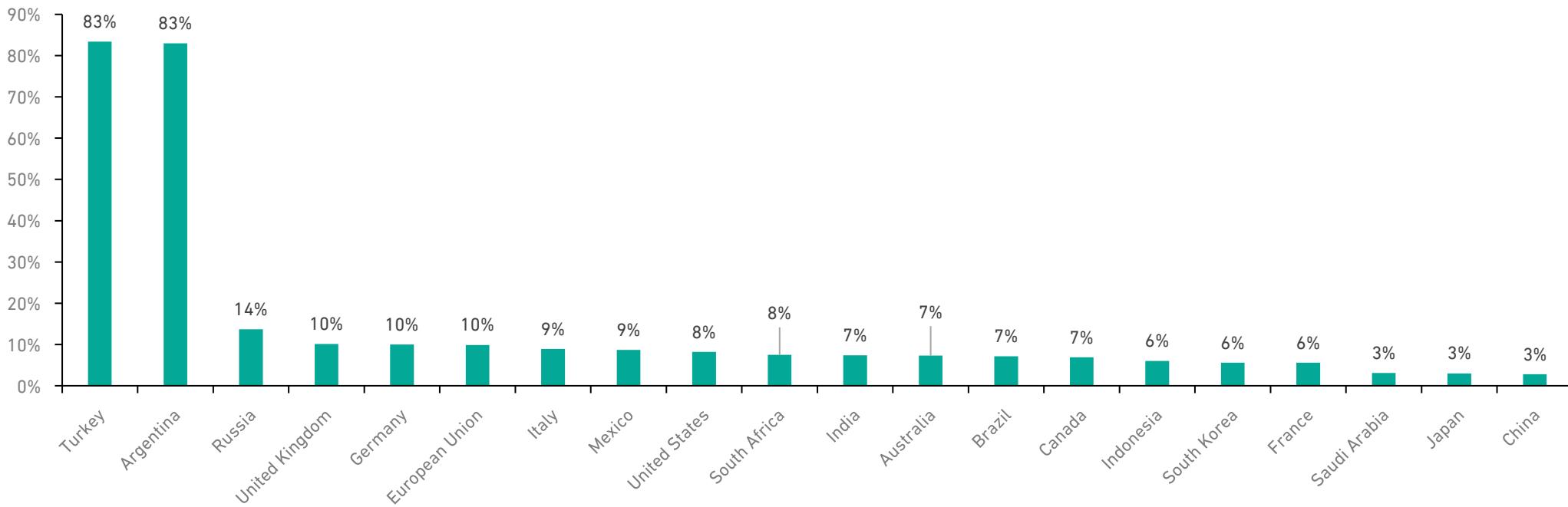
Source: IMF WEO October 2022

According to IMF forecasts, global headline CPI is expected to peak at 9.0% in Q3 2022 and slow down to 4.1% by Q4 2023. Core inflation is expected to peak at 6.6% on Q3 2022 and reduce to 3.7% by Q4 2023

Inflation for G20 countries (CPI in September 2022)

Chart 2-4: CPI Inflation in September 2022

CPI %



SOURCE: OECD

Inflation (CPI %) continued to grow for G20 countries. In September 2022, Turkey and Argentina peaked at 83%. Saudi Arabia's inflation was one of the lowest at 3%. The IMF has revised global inflation upwards with an expectation to reach 6.6% in advanced economies and 9.5% in emerging market and developing economies in 2022.

Food and Beverage and select Commodity Price Indexes

Chart 2-5: Food and Beverage Price Index
2016 is 100

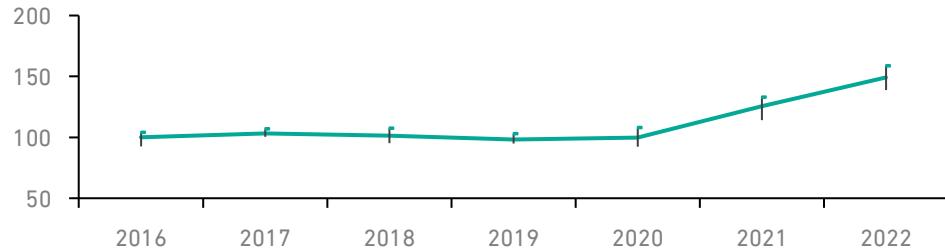


Chart 2-6: Base Metals Price Index
2016 is 100, Includes Aluminium, Cobalt, Copper, Iron Ore, Lead, Nickel, Tin

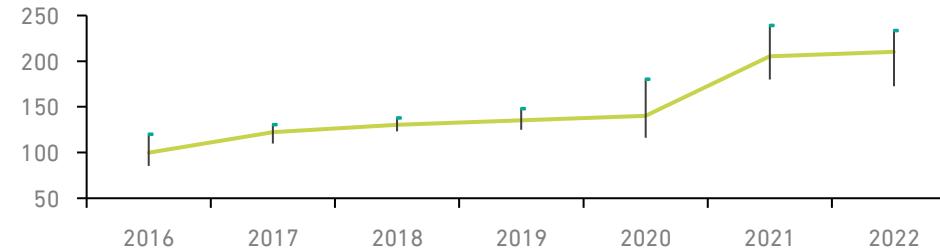


Chart 2-7: Agriculture Raw Material Index
2016 is 100, Timber, Cotton, Wool, Rubber

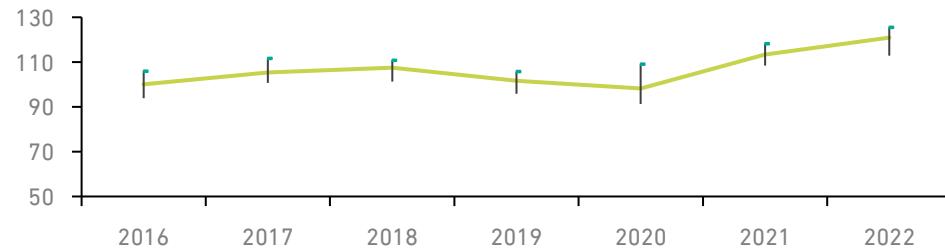
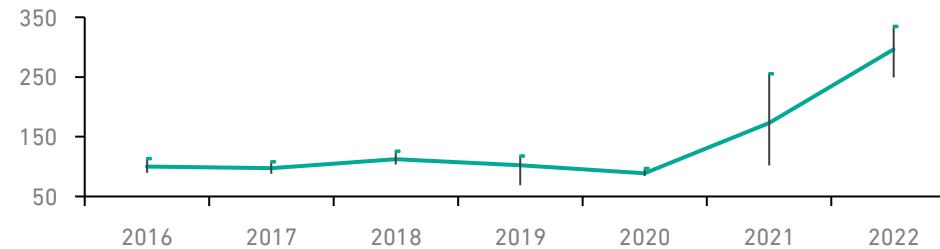


Chart 2-8: Fertilizer Index
2016 is 100, DAP, Potash, UREA

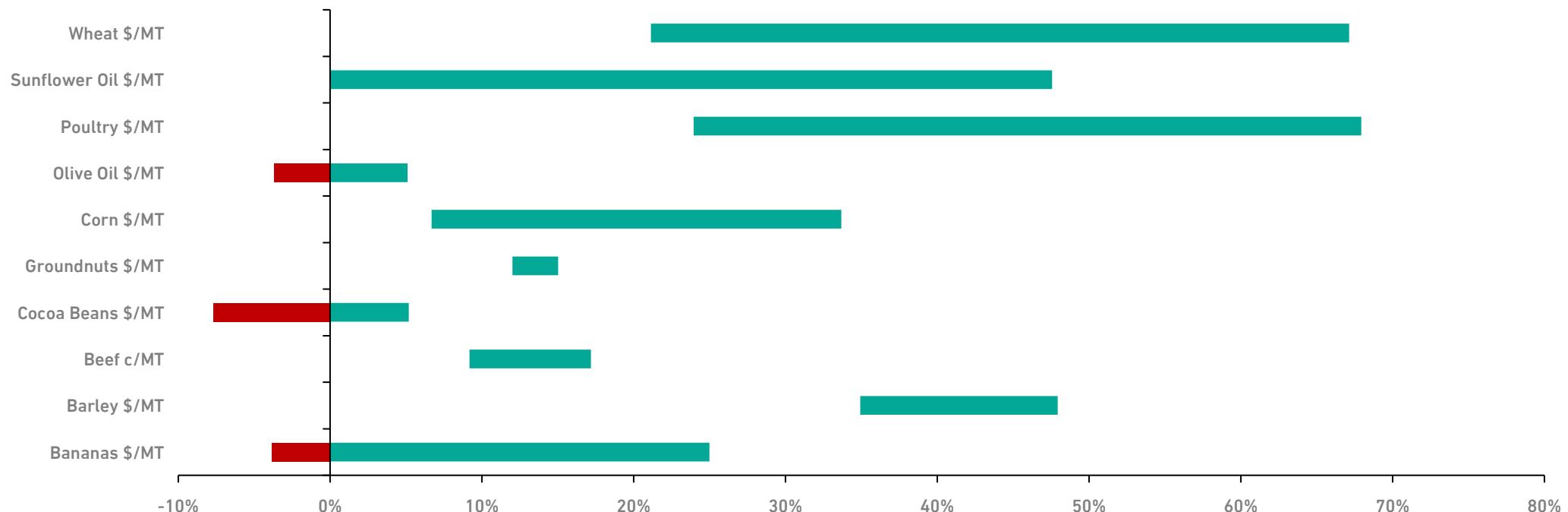


Source: IMF WEO October 2022

Global inflation forecasts have continued to be revised due to increase in food and industrial commodity prices as well as lingering supply-demand imbalances. The price indexes of food and beverages, base metals, agricultural raw materials and fertilizers have seen significant increases in 2022. The price range each year for these indexes have also been volatile with fertilizers being the most since 2021. Energy supply shocks have contributed to the price increases.

Global Changes in Food Prices between 2021 and 2022

Chart 2-9: % Change in Price of food commodities relevant to current global trends, from 2021 to 2022
% Change from 2021 Average Price to 2022 Min and Max Prices

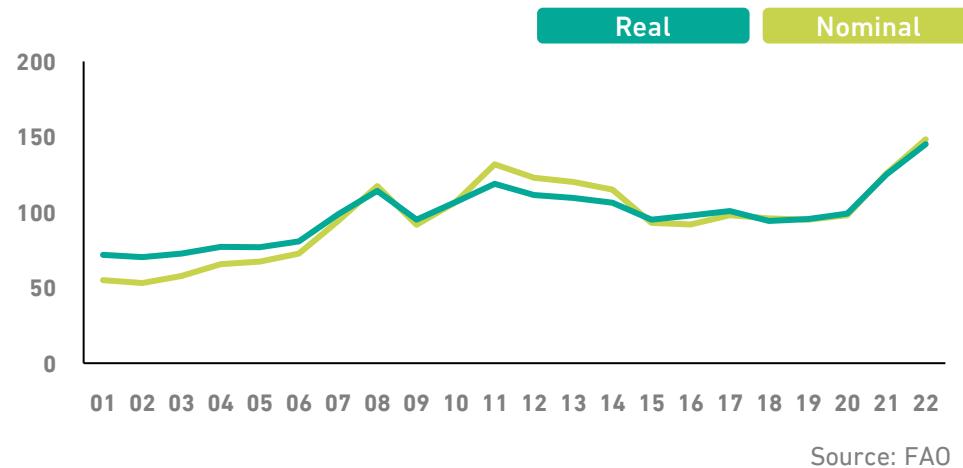


Source: IMF WEO October 2022

Prices of wheat have seen the most increase in 2022 from 2021 ranging from 21% to 67%. Poultry has a similar increase between 24% and 68%. The combination of fertilizer price increases, energy price spikes, supply shocks from producing countries and logistics bottlenecks have contributed to significant spikes in food commodities such as wheat, barley, sunflower oil and others.

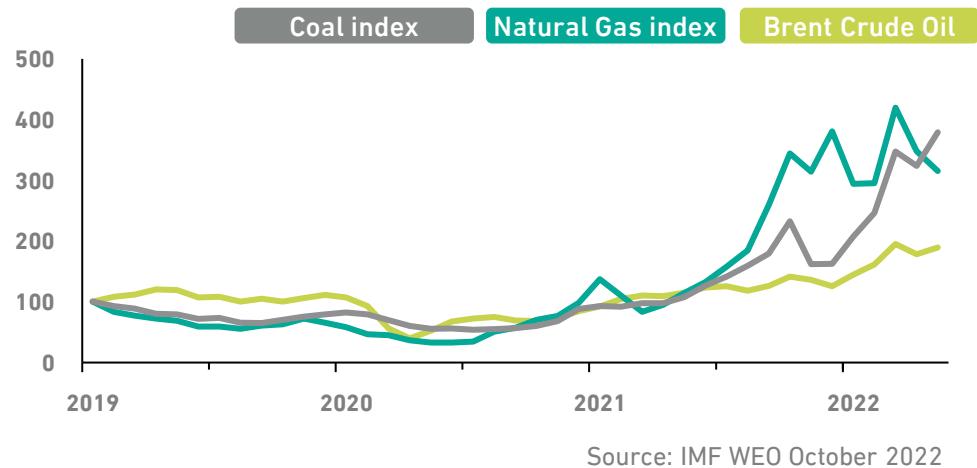
FAO Food Price Index / Fossil Fuel Index

Chart 2-10: Nominal and Real Food Price Index globally
2014-2016 Index = 100



The nominal and real food price indexes mainly remained flat between the years 2015 and 2020. However, the real food price index globally increased by 46% between 2020 and 2022 YTD.

Chart 2-11: Fossil Fuel Index
Index 2019 M1 is 100



The fossil fuel indexes for coal and natural gas have increased exponentially. The natural gas index grew from 137 in M1 2021 to 315 in M5 2022, the coal index went from 93 in M1 2021 to 379 in M5 2022 while the crude oil index rose from 92 to 189 in the same period. Increases in the price of fossil fuels have impacted the transport and production sectors leading to higher food prices.

Oil prices have tumbled from their highs of June this year, triggered by fears of a global recession and slowing global demand. The prices for natural gas have behaved in a similar fashion and geopolitical tensions in Europe have resulted in an up to 7-fold increase in natural gas prices across the continent.

Global Change in Capital Markets and Currencies

Table 2-1: Change in capital markets and currencies (October 30, 2022)

| Equity Markets | YTD % Change | 10Y Govt. Bond | Current Yield % | YTD Change (bps) | Currency | Performance YTD |
|----------------|--------------|----------------|-----------------|------------------|-----------------|-----------------|
| United States | -16.0 | United States | 3.28 | +177 | Dollar Index | 15.3 |
| United Kingdom | -12.0 | United Kingdom | 3.09 | +212 | British Pound | -14.4 |
| Japan | -22.9 | Japan | 0.26 | +26 | Japanese Yen | -22 |
| Italy | -27.3 | Italy | 4.01 | +284 | Euro | -12.4 |
| Germany | -31.5 | Germany | 1.69 | +187 | Swiss Franc | -11.6 |
| France | -22.7 | France | 2.26 | +206 | Canadian Dollar | -3.1 |
| Brazil | +15.2 | Brazil | 11.82 | +98 | Brazilian Real | 8.2 |
| China | -22.8 | China | 2.64 | -14 | China Renminbi | -9.2 |
| India | -3.5 | India | 7.11 | +66 | Indian Rupee | -6.4 |

Source: The World Bank Treasury, IDRD, IDA – Data ending September 8th 2022

Capital markets have continued to react to interest rate hikes by the Federal Reserve and key central banks. Capital markets around the world have suffered decades-high losses due to the change in the direction of the Federal Reserve's policies, followed by fears of a hard landing in the US and a global economic slowdown. The losses are widespread among all asset classes and sectors. Equity market indexes in most countries declined as shown in the YTD % change. Yields on US Treasuries have moved in tandem with the rate hikes. As of May 2022, the US Dollar index has risen to a 20 year high while the currencies of most G20 countries depreciated against the dollar. The rising probability of a hard landing is pushing investors to the US Dollar as a safe haven. The US Dollar has performed strongly against all major currencies creating problems for many countries. The World Bank Treasury report from September 23rd 2022 indicates that markets continued to be impacted by major central bank's historically large rate hikes including a 75bps hike by the Federal Reserve and a 50bps hike by the Bank of England.

03

KSA Economic Performance

03 KSA Economic Performance

The KSA economic dashboard comprises eight categories which are designed to ensure a comprehensive overview of the economy and communicate Saudi Arabia's ongoing progress on Saudi Vision 2030. They include:

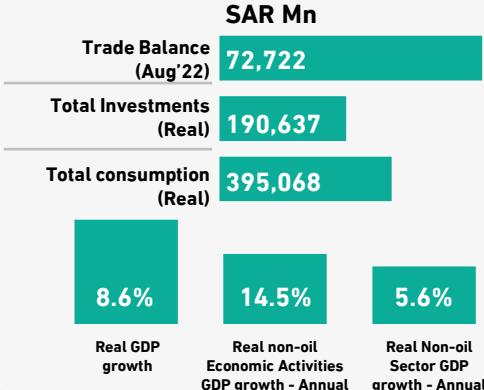
- Real GDP and its components
- Monetary Policy
- Fiscal Policy
- Markets and Business
- Diversification
- Households (Prices)
- Investment and Trade
- Labor Markets

The dashboard will evolve over time. In this new edition of the MEP quarterly report, the eight categories are analyzed on five metrics each based on the availability of longer-term, high-frequency data and their relevance to the category. Individual sections for Monetary and Fiscal Policy have also been merged.

KSA Economic Performance - Dashboard

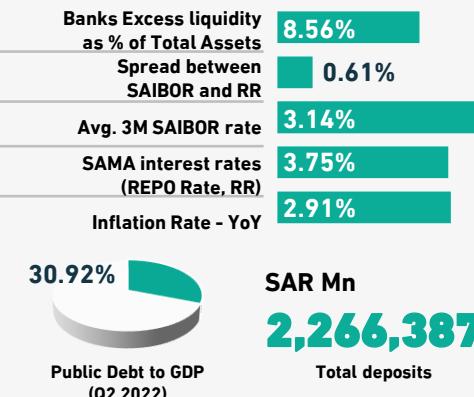
ECONOMY

Q3 2022



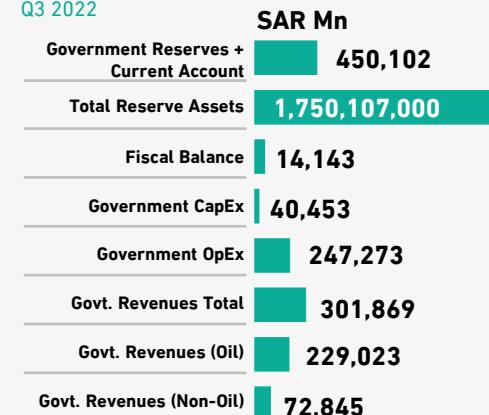
MONETARY

Q3 2022



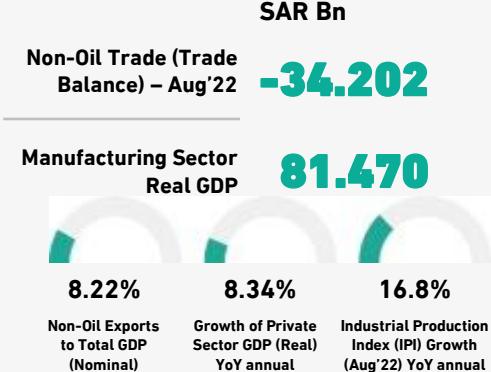
FISCAL

Q3 2022



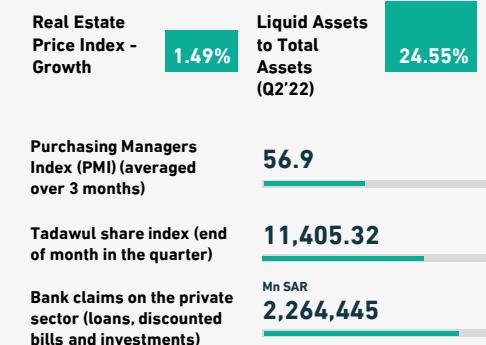
DIVERSIFICATION

Q2 2022



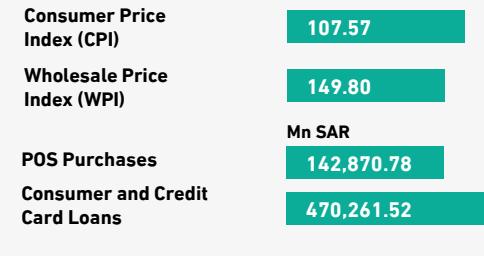
MARKETS & BUSINESS

Q3 2022



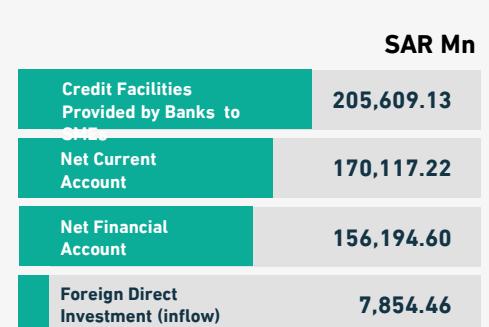
HOUSEHOLDS

Q3 2022



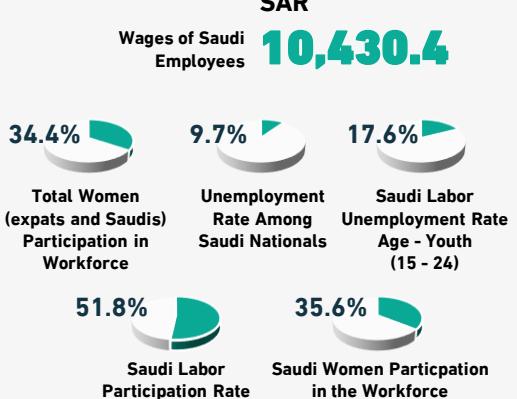
INVESTMENTS & TRADE

Q2 2022



LABOR MARKET

Q2 2022



Source: MoF, SAMA, GASTAAT

04

GDP and Components

04 GDP and Components

The Saudi economy continued its positive performance for the sixth consecutive quarter, as the real GDP increased by 8.6% YoY in Q3 2022, according to the flash estimates published by the General Authority for Statistics.

This economic growth is mainly due to the significant increase achieved by oil activities since the beginning of the year, which reached 14.5% YoY in Q3 2022, as a result of the Kingdom's increase in oil production.

The performance of real non-oil GDP also exceeded pre-pandemic levels by achieving positive growth in all non-oil economic activities at a rate of 5.6% in Q3 2022, compared to the same period in 2021, supported by stimulus measures and fiscal reforms.

Despite the rise in global inflation rates to record levels, a large part of this increase was contained in the Kingdom, where the consumer price index rose only by 2.9% in Q3 2022, which is one of the lowest rate recorded in the G20 countries.

In August, the Kingdom's trade balance achieved a surplus for the 26th consecutive month, at about SAR72.7 billion, an increase of 87% YoY, driven by a significant increase in oil exports, which have benefited since the beginning of this year from high oil prices.

According to the United States Energy Information Administration's (EIA) outlook, oil prices have declined from the highs of early 2022 but are likely to remain elevated in 2022 and 2023 at around \$90 per barrel for Brent crude. This will further drive the Kingdom's revenues in oil-based activities.

04 GDP and Components

The Kingdom's strong fiscal framework is expected to ensure continued and prudent spending which deliver growth and accelerate the country's diversification in non-oil sectors to achieve the objectives of Saudi Vision 2030. Some of the Vision Realization Programs (VRPs) that continue to deliver Saudi Vision 2030 include:

- Finance sector development programs to strengthen financial institutions and support the private sector.
- Fiscal sustainability programs to adopt policies on fiscal balance and budgets to achieve the Kingdom's medium- and long-term fiscal objectives.
- The Health Sector Transformation program that adopts value-based care to create a comprehensive system for individuals and society.
- The Housing program to enable ownership among Saudi families including under-privileged segments of society.
- The Human Capability Development program to accelerate the development of basic and future skills, values, and building a workforce ready for the digital economy.
- The National Industrial Development and Logistics program to emphasize the building of local content and the implementation of 4th Industrial revolution technologies.
- Privatization programs which continue to enhance the role of the private sector across 16 categories through legislative and regulatory reform.

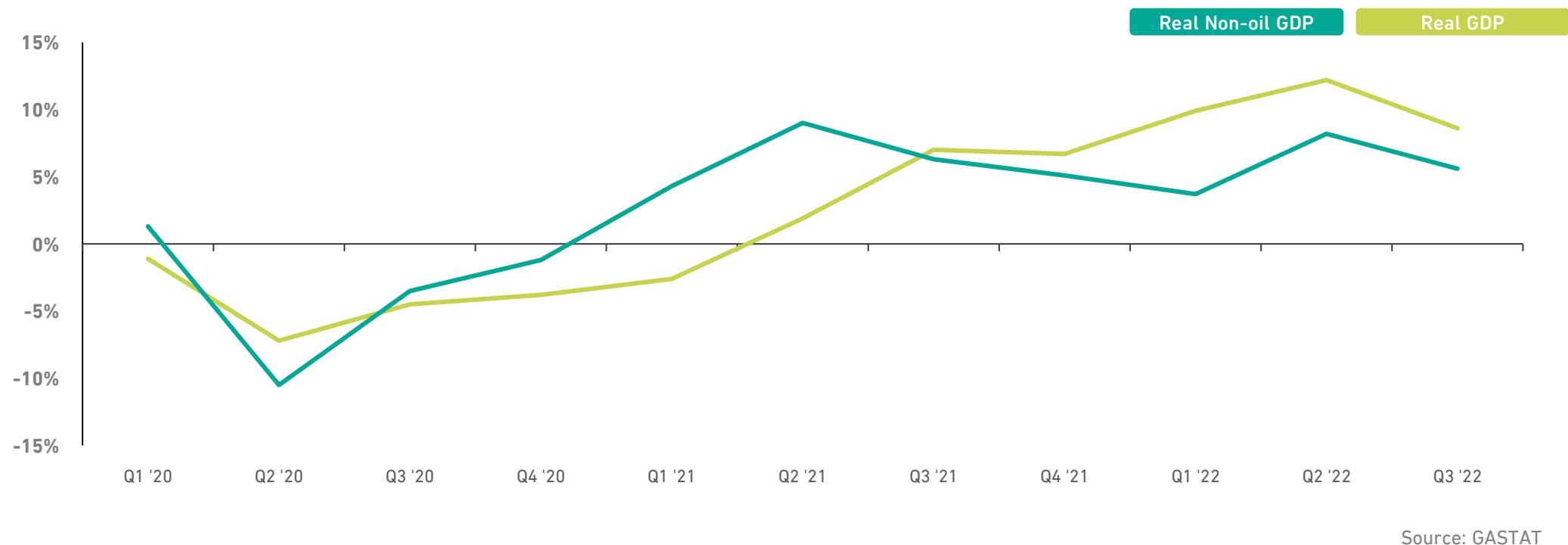
- The National Transformation Program to develop infrastructure, enhance social development, and ensure the sustainability of vital resources.
- The Pilgrim Experience program to enrich religious and cultural activities in the Islamic faith.

The Kingdom of Saudi Arabia is unwavering in its commitment to building economic resilience through growth and diversification, delivering on its sustainability goals to improve social wellbeing and accelerating structural reforms to attract new investments.

Real GDP Growth Rate

Chart 4-1: Real overall and Non-Oil GDP Growth Rates

% YoY growth rate



Source: GASTAT

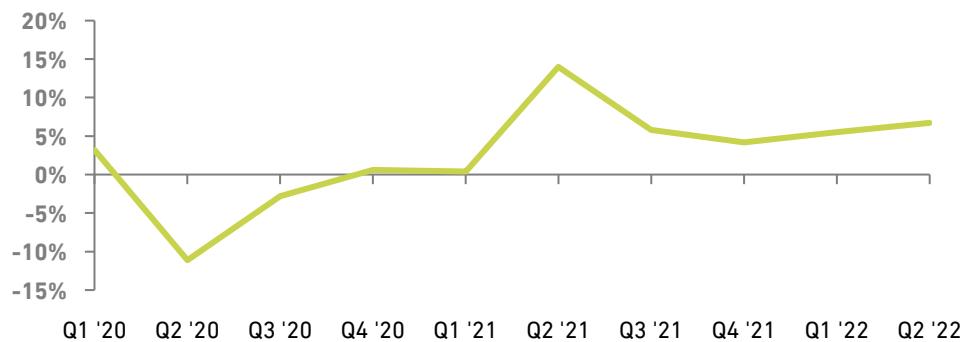
The Saudi economy recorded a strong growth rate of 8.6% YoY in Q3 2022, according to the flash estimates published by the General Authority for Statistics. This growth reflects the significant increase in oil activities, which grew by 14.5% YoY in Q3 2022, in addition to the growth of non-oil activities at a rate of 5.6% YoY in the same quarter.

Consumption and Exports components of Real GDP

Real Private Consumption grew by 5.5% in Q2 2022

Chart 4-2: Growth of Real Domestic Consumption

%; YoY



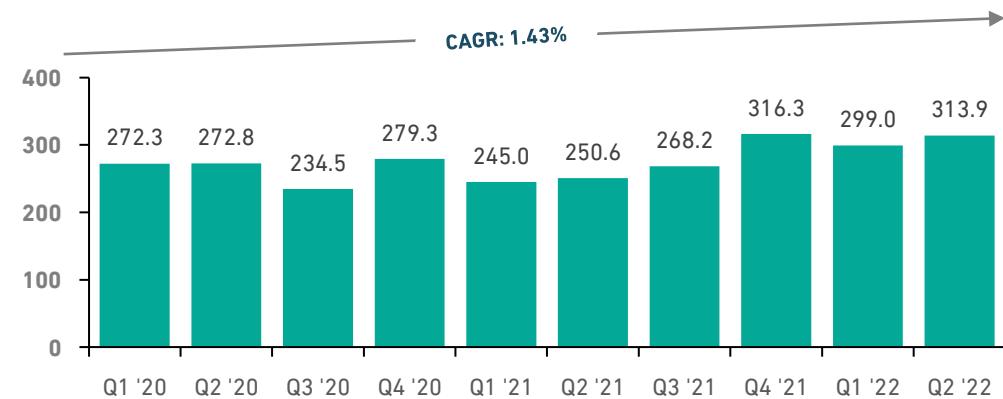
Source: GASTAT

Real consumption grew 6.7% YoY in Q2 2022. Consumption started a positive growth trajectory Q4 of 2020 following 2 quarters of negative growth, a dip from pre-COVID surges. Starting in Q3 of 2021, consumption has shown a steady growth trend.

Total Exports reached SAR313.9 Bn in Q2 2022

Chart 4-3: Real Exports

Value in Bn SAR



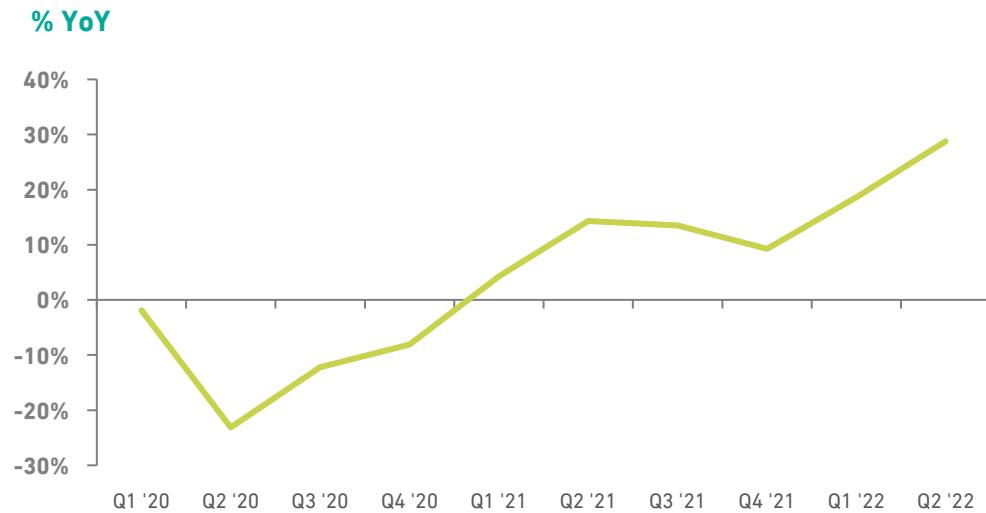
Source: GASTAT

Exports of goods and services grew at 25.2% YoY to reach SAR313.9 Bn, registering four quarters of double-digit positive growth.

Total Investments and real GDP by Economic Activity

Total investments grew by 28.8% in Q2 2022, highest growth registered during the period

Chart 4-4: Growth of Real Total Investments Value



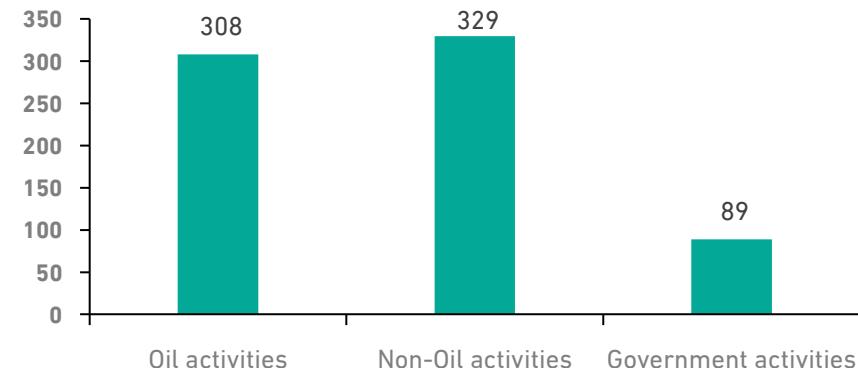
Source: GASTAT

Driven by government expenditure on major economic projects, total investments have shown a double-digit growth figure YoY of 28.8% in Q2 2022.

Oil activities contributed 42% of total Real GDP

Chart 4-5: Q3 2022 GDP contributions and GDP growth rates

Bn SAR



Source: GASTAT

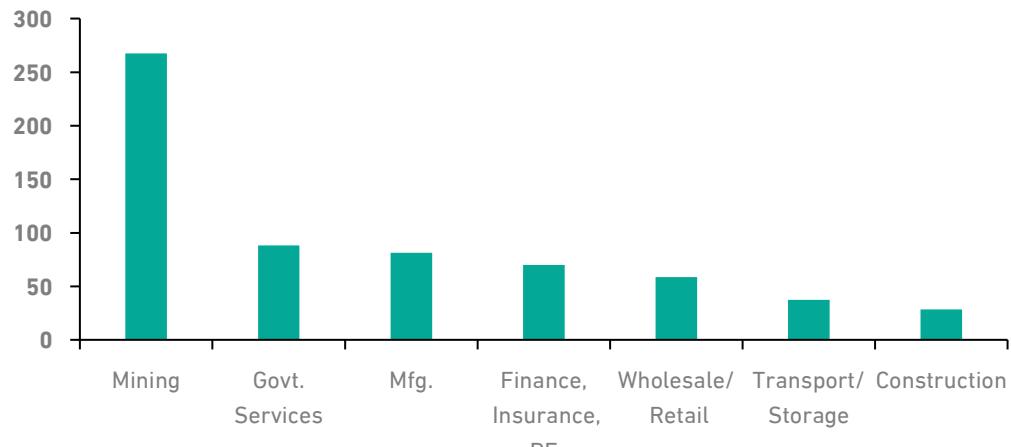
Oil activities grew YoY at 14.5%, while non-oil activities grew at 5.6%.

The GDP contributions of the three main economic activities have remained in a relatively narrow overall range since Q1 2019. Oil activities contributed within a range of 39.8%-43.9%, non-oil activities within a range of 41.4%-46.4%, and government activities within a range of 13.3%-16.6%.

Real GDP contribution by Sector

Chart 4-6: Q2 2022 GDP main contributions and growth rates by sector

Bn SAR



Source: GASTAT

| | | | | | | | |
|---------------|-------|------|-------|------|-------|------|------|
| % of Real GDP | 39% | 13% | 12% | 10% | 9% | 5% | 4% |
| GDP growth % | 23.3% | 2.4% | 13.4% | 2.0% | 16.4% | 7.8% | 8.8% |

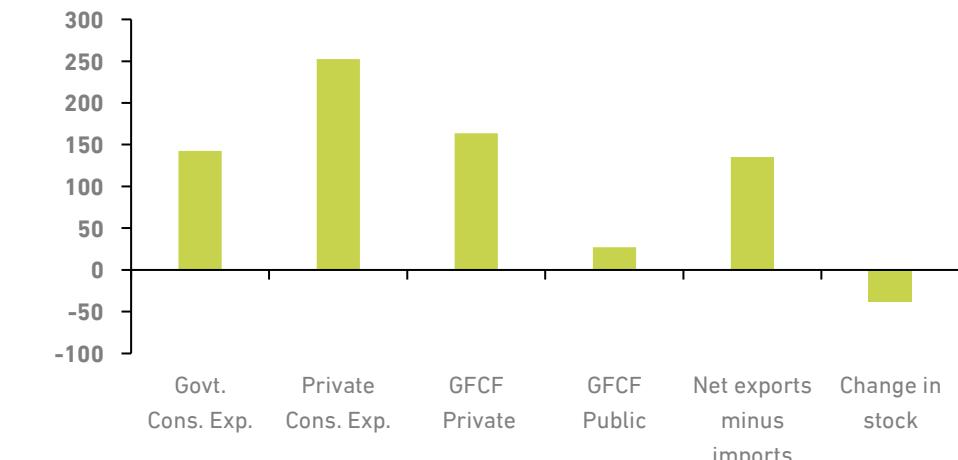
Mining, government services and manufacturing are the top three contributors to GDP. Agriculture, forestry, fishing at 2%, community, social and personal services at 2% and electricity, gas, water at 1% comprise the last 5% of contributions to GDP. The manufacturing sector grew at 13.4%, after mining and quarrying at 23.3% in Q2 2022

*does not include imputed bank services charges and net taxes

Real GDP contribution by Expenditure segment

Chart 4-7: Q2 2022 GDP main contributions and growth rates by expenditure

Bn SAR



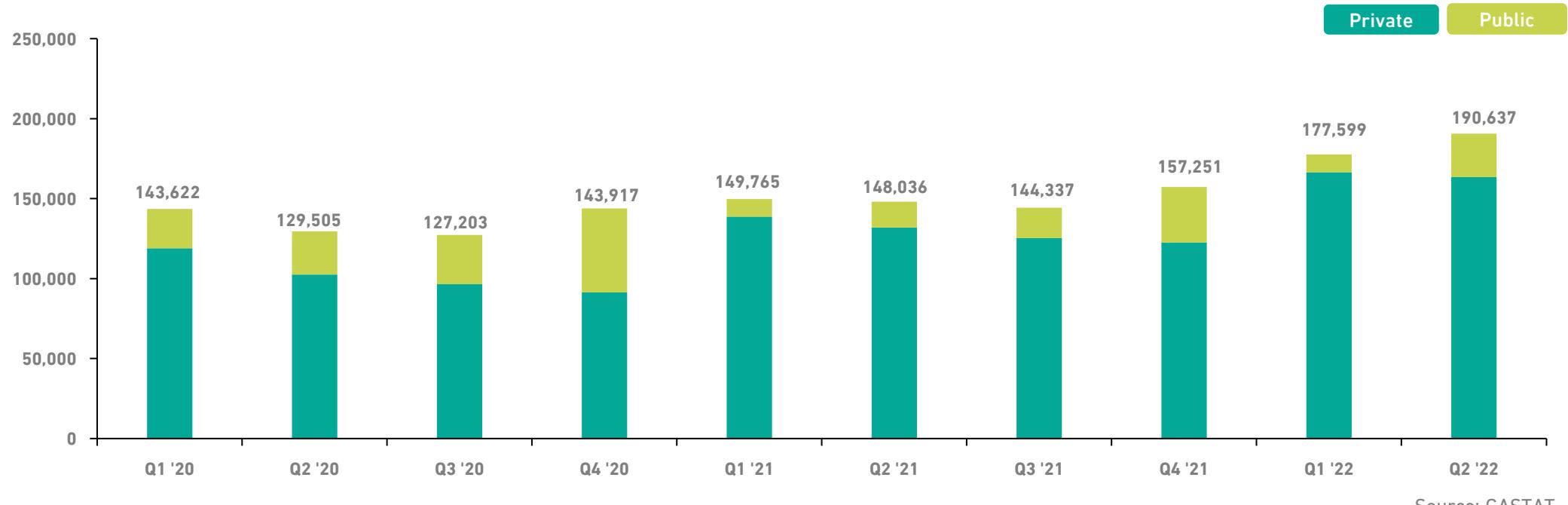
Source: GASTAT

| | | | | | | |
|-------------------|-----|------|-----|-------|--------------------|-----|
| % of Real GDP | 21% | 37% | 24% | 4% | 20% | -6% |
| Real GDP growth % | 9% | 5.5% | 24% | 68.1% | E: 25.2%, I: 18.3% | NA |

Private consumption expenditure was the largest contributor to real GDP at 37%, followed by gross fixed capital formation at 24% indicating stimulus for economic growth. Net exports comprised 20% of GDP. In terms of growth, Gross Fixed Capital Formation in the public sectors was the highest at 68.1%, followed by exports at 25.2% and gross fixed capital formation in the private sector at 24%.

Gross Fixed Capital Formation

Chart 4-8: Private and public components of gross fixed capital formation
Mn SAR



Source: GASTAT

| GFCF Growth % | -2% | -23% | -12% | -8% | 4% | 14% | 13% | 9% | 19% | 29% |
|-----------------------|------|------|------|------|------|------|------|------|-----|-----|
| Private GCFC Growth % | 0% | -12% | -16% | -20% | 17% | 29% | 30% | 34% | 20% | 24% |
| Public GCFC Growth % | -10% | -48% | 4% | 25% | -55% | -40% | -38% | -34% | 1% | 68% |

Total real Gross Fixed Capital Formation grew by 29% YoY in Q2 2022 reaching SAR190.6 Bn. This increase was supported by a 24% YoY growth in private capital formation, which accounted for 86% of the total value recorded for the period.

05

Monetary and Fiscal Policies

05 Monetary Policies

The Saudi Central Bank (SAMA) has moved in step with the US Federal Reserve in raising its policy rates. By the end of Q3 2022, the SAMA had raised policy rates following moves by the Federal Reserve, increasing the policy rate from 1% to 3.75%. The SAMA increased repurchase rates by 75 basis points in September, immediately after the Federal Reserve's actions.

Inflation in Saudi Arabia was contained at 2.9% at the end of Q3 2022. This containment was made possible through fiscal and monetary measures covering energy price reforms and effective monitoring of demand and supply imbalances of commodities. Currently, inflation stands at 3% based on August's CPI reading, mainly driven by increased prices for food and beverages and transport. Despite this uptick, Saudi Arabia's inflation is among the lowest among G20 countries.

The spread between policy rates and the Saudi Arabian Interbank Offered Rate (SAIBOR) increased from -0.2% in Q2 2021 to +0.46% by end of Q2 2022. This reflects a tighter interbank market as reflected in the decline in excess liquidity in the banking system from 3.47% to 1.87% of banking assets. Healthy credit demand from firms and mortgages contributed to excess liquidity utilization.

The Saudi Central Bank's (SAMA) reserves regained their healthy position this year as the balance increased by SAR65 Bn during the first half of 2022, from SAR385 Bn at the end of 2021 to SAR450 Bn by June 30, 2022.

05 Fiscal Policies

Saudi Arabia registered robust growth in its fiscal revenues in Q3 2022, posting a 24% YoY increase over revenues in Q3 2021. Strong growth in oil prices and robust activity during this period in non-oil sectors enabled growth in the Kingdom's fiscal revenues. In Q3 2022, due to robust non-oil activity and the healthy performance of the oil sector, total revenues rose to SAR301.8 Bn, compared to aggregate non-oil and oil revenues of SAR452 Bn in Q3 2021.

As a result, the contribution of oil revenues was SAR229 Bn in Q3 2022 compared to SAR147.9 Bn for the same period last year, representing an increase of 55%. Non-oil revenues grew by SAR72.8 Bn.

Total spending, including government capital expenditures and operating expenses, totaled SAR287.7 Bn in Q3 2022, compared to SAR292.4 Bn in the Q2 2022.

Government spending on operating expenses (OpEx) declined by 3.6% while capital expenditures (CapEx) increased by 12.4%. Due to robust revenue growth and prudent spending, Saudi's fiscal balance reached SAR14.1 Bn in Q3 2022 compared to SAR77.9 Bn in Q2 2022.

As per the principles and rules of Saudi Arabia's Fiscal Sustainability Program (FSP), the windfall surplus from the combined revenues is being kept in reserve for medium-term spending priorities. FSP's long-term macro-fiscal framework and economic priorities will determine Saudi Arabia's medium-term spending mix and next year's budgetary allocations.

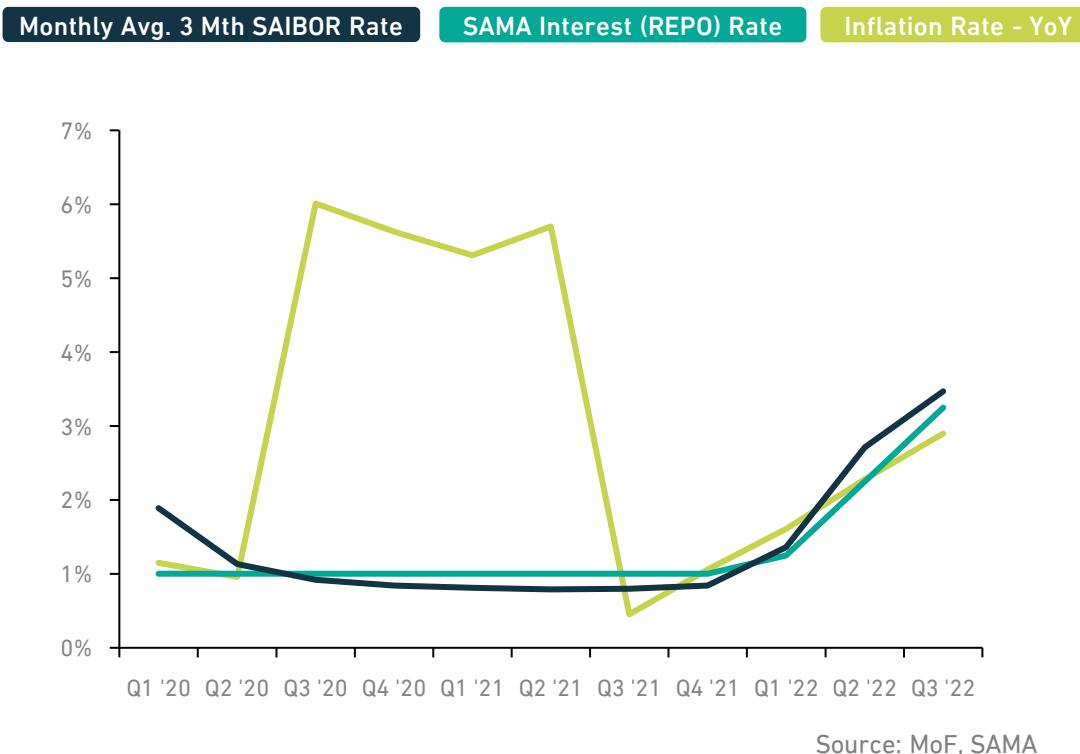
The public debt to GDP ratio edged higher to 31% at the end of Q3 2022, compared to 29.5% a year ago. Meanwhile, the debt to GDP ratio has hovered around 30%, a self-imposed debt ceiling target.

According to the pre-budget statement by the Ministry of Finance, revenues for 2022 are expected to reach 1.2 trillion riyals and expenditures to reach 1.1 trillion riyals, leading to a projected surplus of 90 billion riyals in 2022.

Inflation in KSA and Monetary actions and Total Reserve Assets to GDP

Inflation is on the rise, although remains below 2021 figures

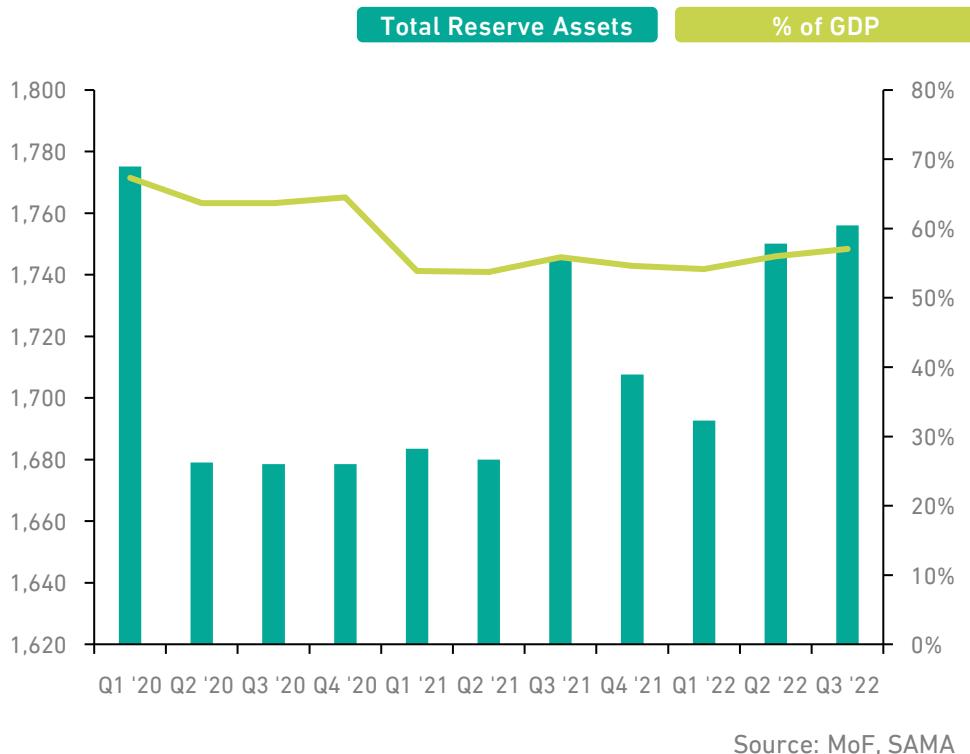
Chart 5-1: Inflation Rate YoY % Q3 2022



In March and May, SAMA increased its key interest rates twice by an overall 75 bps, following corresponding moves by the US Federal Reserve. This had an impact on SAR interest rates, with SAIBOR jumping by more than 200 bps since the start of the year.

Total reserve assets to GDP

Chart 5-2: Total reserve assets and its % of GDP Bn SAR, Q3 2022



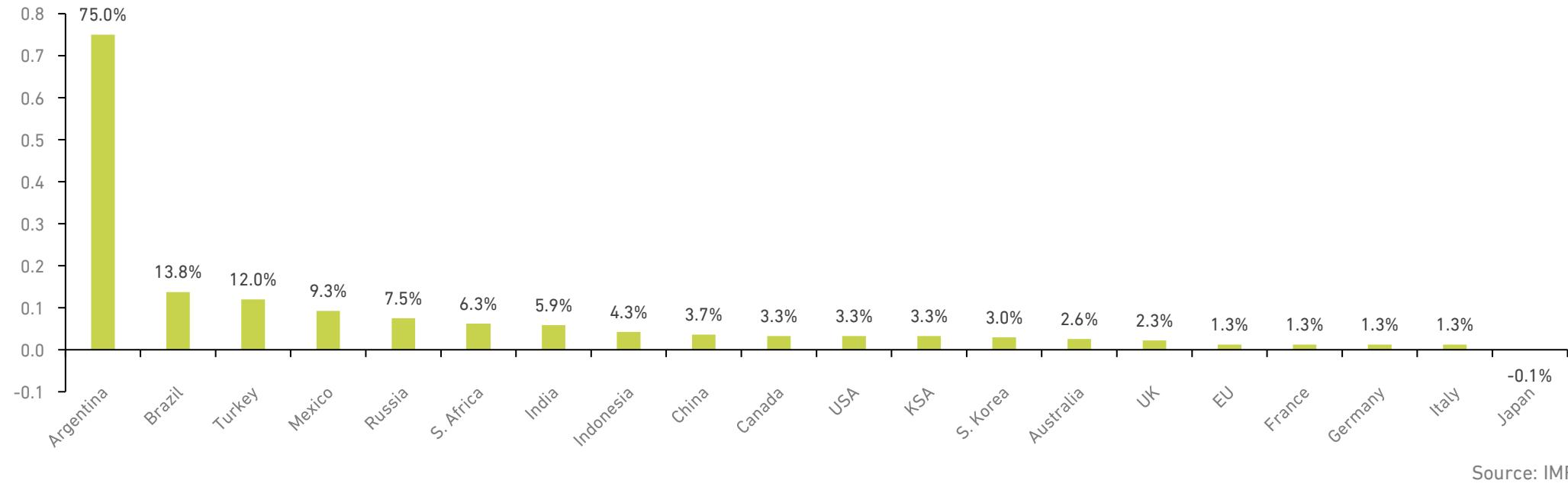
In Q3 2022, the total reserves grew to SAR1,750 Bn nearing pre-pandemic levels, though they stand at 56% of the GDP compared to 67% in Q1 2020.

Interest Rates in G20 Countries as of September 2022

Recent interest rates September 2022

Chart 5-3: Interest rates by country

%



Source: IMF

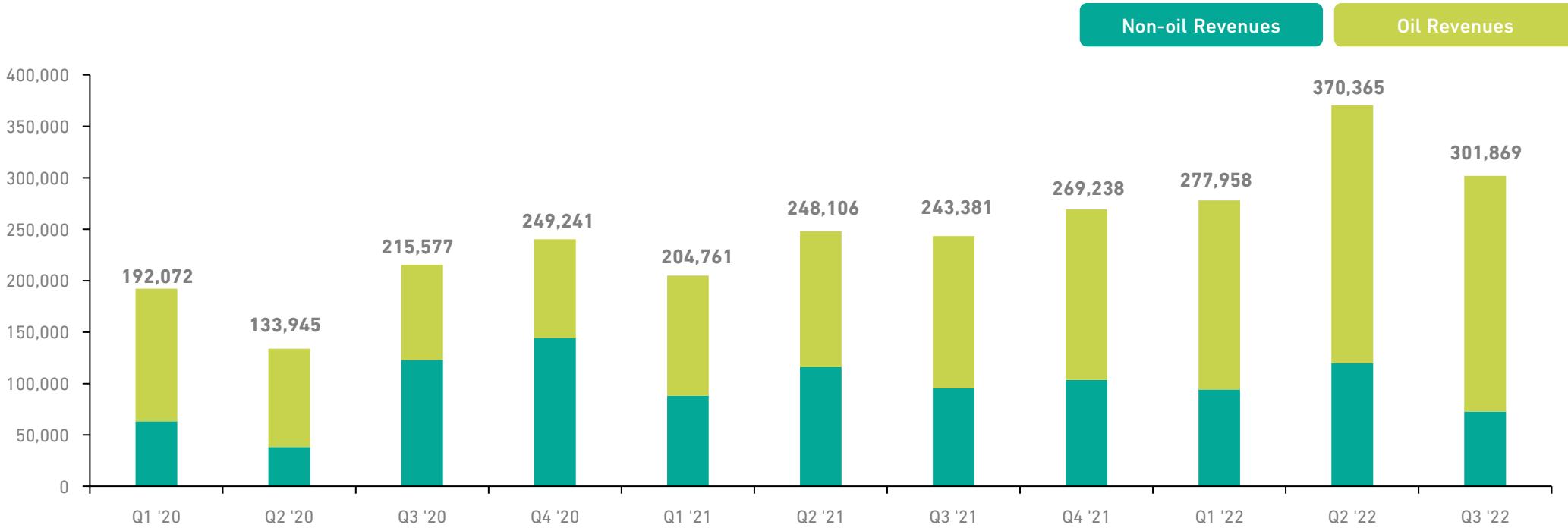
The leading central banks are acting in unison to hike interest rates to arrest the rise in inflation. Key exceptions among the leading economies are China and Japan. The UK and South Korea were the first countries to change the direction of their monetary policies with respective hikes in July and August 2021. The dispersion and the quantum of hikes reflects the individual approaches of each of the central banks. The US took time to pivot, and its hikes from March progressively became more aggressive as inflation data poured in. The rate hike path for the US is paved with further planned increases until reaching the target inflation of 2%. Turkey is a significant exception as the central bank is pursuing massive cuts – totaling six percentage points over the last 12 months – despite immense inflationary pressures and a weakening currency. The interest rate cuts are intended to maintain growth momentum while the government is providing fiscal support to mitigate the domestic effects of the depreciation of the Turkish lira and inflationary pressures.

Total Government Revenue

Total government revenues rose to SAR301.8 Bn in Q3 2022

Chart 5-4: Government revenues (oil and non-oil)

Mn SAR



Source: MoF, SAMA

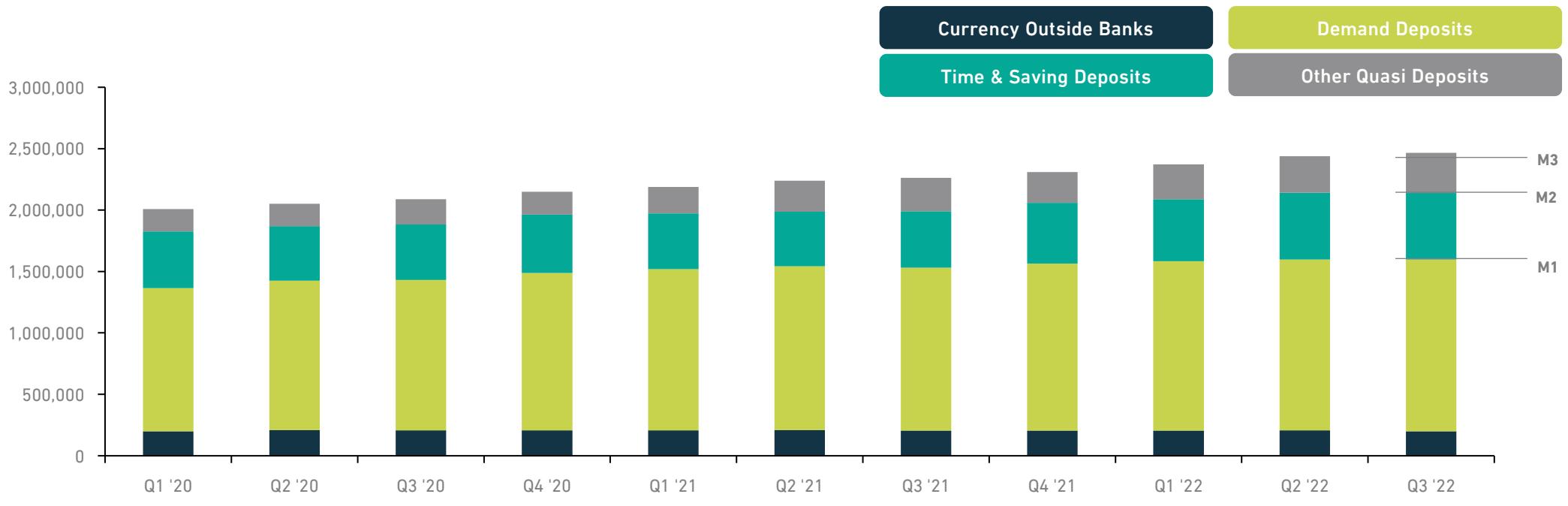
Total government revenues have increased to SAR301.8 Bn in Q3 2022 given a significant rise in oil-based revenues at a YoY growth of 24%.

M1, M2 and M3 Money Supply

Total M3 money supply grew YoY in Q3 2022 by 9% reaching SAR246 Bn

Chart 5-5: M1, M2 and M3 money supply by quarter

Mn SAR



Source: SAMA

Total M3 money supply reached SAR246 Bn in Q3 2022, of which currency outside banks comprised 8%, demand deposits 57%, time and savings deposits 22% and other quasi deposits 12%. The M3 money supply increased by 9% YoY on a quarterly basis. Time and savings deposits grew 22% and other quasi deposits grew 19%.

Capital Account, Financial Account and Current Account

The current account recorded a surplus of SAR170 Bn in Q2 2022

Chart 5-6: Current, financial*, capital account, and FX reserves by quarter
Bn SAR



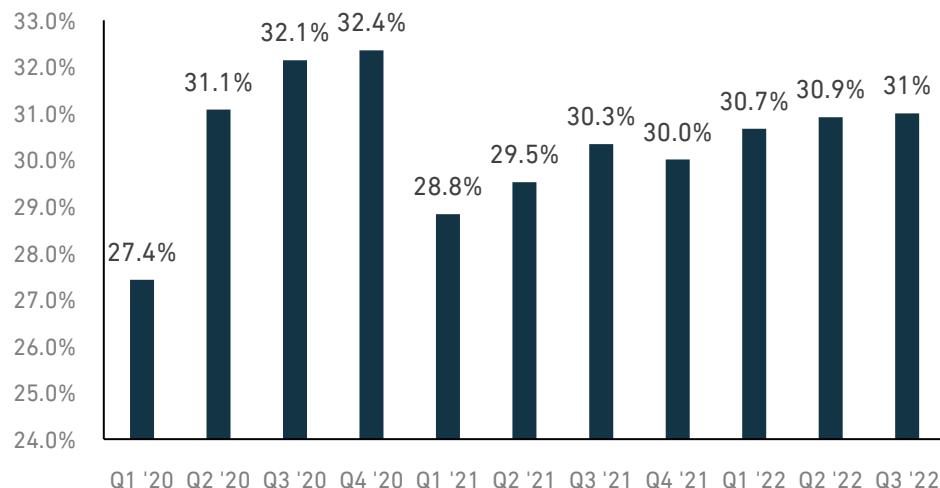
Current account increased to 170Bn SAR surplus from oil related exports of SAR344 Bn. Financial account reached SAR156 Bn supported by a FDI inflow of about SAR7.9Bn during this period. Higher oil prices and increased oil exports resulted in an improved current account balance throughout the year 2022, causing the current account surplus of SAR170 Bn, an increase of SAR144 Bn compared to same quarter previous year. The financial account balance (excluding changes in official reserves), witnessed a reduced outflow amounting SAR98.7 Bn in Q2' 22 as compared to an outflow of SAR148.6 Bn in Q1'22. As a result, official foreign reserves substantially rose in Q2 2022 by SAR57.5 Bn. The value of foreign currency reserves, which represents about 95 percent of foreign total assets, increased by 3.8 percent compared to previous quarter, reaching to SAR1,657 Bn.

Public Debt as a % of GDP and Banks Excess Liquidity as a % of Total Assets

Saudi Arabia's Public Debt as a % of GDP reached 31% in Q3 2022

Chart 5-7: % of public debt to GDP

%



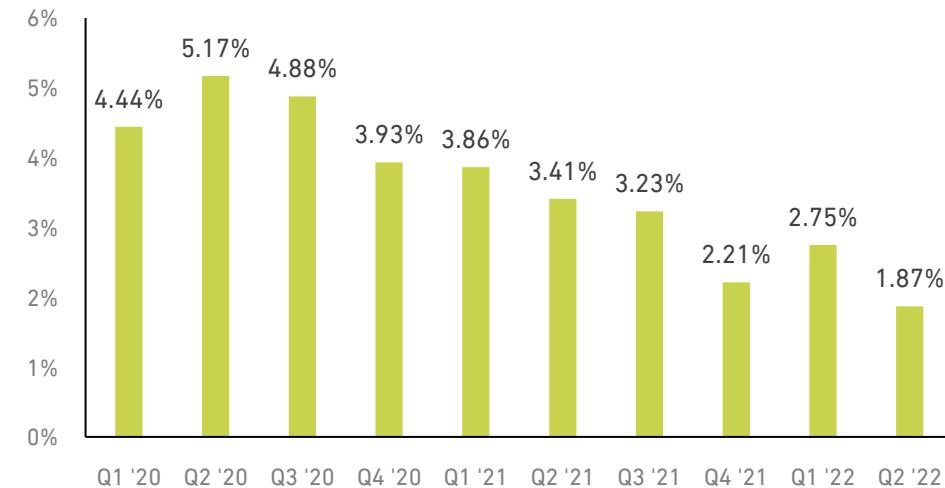
Source: MoF, SAMA

Public debt as a % of GDP reached 31% in Q3 2022. (total 2021 GDP used as proxy). Public debt as a % of GDP has typically hovered around 30%, a self-imposed marker for the Kingdom of Saudi Arabia. Given the importance of debt in current times, Saudi Arabia's debt is much lower compared to other G20 countries.

Banks Excess Liquidity as a % of Total Assets reached 1.87% in Q2 2022

Chart 5-8: Banks excess liquidity as % of total assets

%



Source: MoF, SAMA

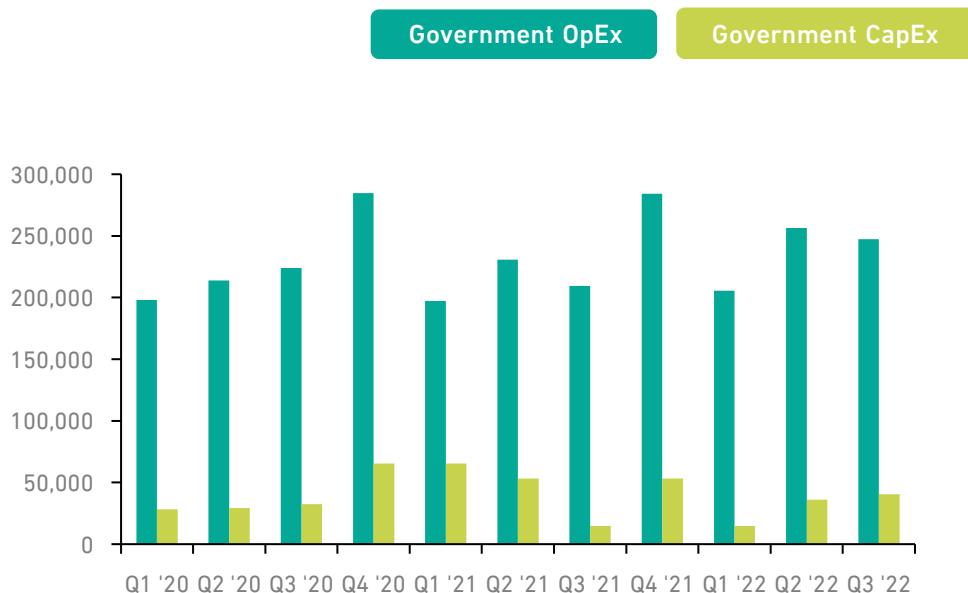
Bank excess liquidity is calculated by summing the bank's net foreign assets (assets minus liabilities), SAMA bills and cash available in the vault from the consolidated balance sheet of commercial banks. The bank's excess liquidity has maintained a down trend from 5.17% in Q2 2022 to 1.87%.

Government Spending and Fiscal Balance

Government CapEx and OpEx spend

Chart 5-9: Government CapEx and OpEx by quarter

Mn SAR



Government CapEx

Government OpEx

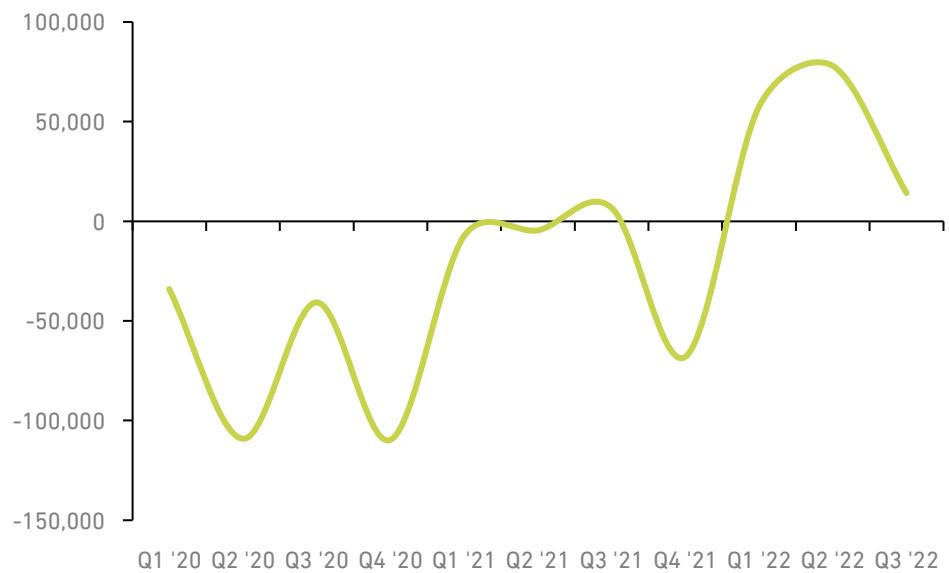
Source: MoF

Government spending on operating expenses (OpEx) declined by 3.6% while capital expenditures (CapEx) increased by 12.4%. Due to robust revenue growth and prudent spending.

Government fiscal balance reached SAR14 Bn in Q3 2022

Chart 5-10: Government fiscal balance by quarter

Mn SAR



Source: MoF

Saudi's fiscal balance reached SAR14.1 Bn in Q3 2022 compared to SAR77.9 Bn in Q2 2022.



06

Markets and Business

06 Markets and Business

The Tadawul All Share Index (TASI) market index ended Q3 2022 at 11,405 declined by 0.8% growth from 11,496 in Q3 2021.

Given the downward trend across capital markets globally, the Tadawul was no exception. The Q3 2022 index fell 1% compared to the previous quarter.

The upward trend since the start of 2021 had produced six consecutive quarters of growth.

Since a growth of 52.3% in Q1 2021, growth has declined. Q3 2022 performance is not surprising given the performance of other global equity markets during this period. Major global indices including the S&P 500, Euro Stoxx 50, and MSCI EM Index were down 16.72%, 11.84%, and 12.66%, respectively during the same period.

Another factor impacting overall performance and market sentiment has been the United States' Federal Reserve fund-tightening cycle, which began towards the end of the Q1 2022 and continued throughout Q2 2022. This was coupled with profit-taking from investors given the general outperformance of the TASI index.

Seven sectors reported positive performance, topped by utilities with a 20% rise, followed by energy at 18% growth. Meanwhile, 14 market sectors ended H1 2022 lower, led by pharmaceuticals with a fall of 34%, consumer durables and apparel 31%, capital goods 21%, and materials 6%.

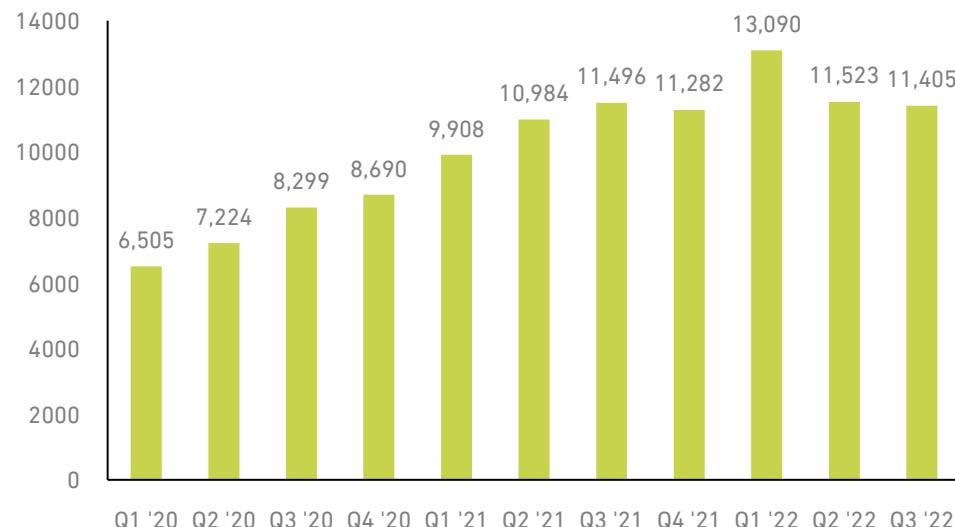
The Real Estate Price Index (RPI) increased by 0.7% YoY during Q2 2022. The RPI increase was due to downward trends of both the commercial and agricultural components of the index. Despite prices rising during the Q2 2022, overall residential transaction volumes fell by 19.9% during Q2, compared to the same period last year Q2 2021.

Credit facilities provided by banks continued to grow during Q2 2022, increasing by 3.38% compared to Q1 2022. Expectations of continued growth in the local economy will have a positive impact on credit to the private sector.

Tadawul All Share Index and Real Estate Share Index

Tadawul All Share Index was at 11405 at the end of Q3 2022

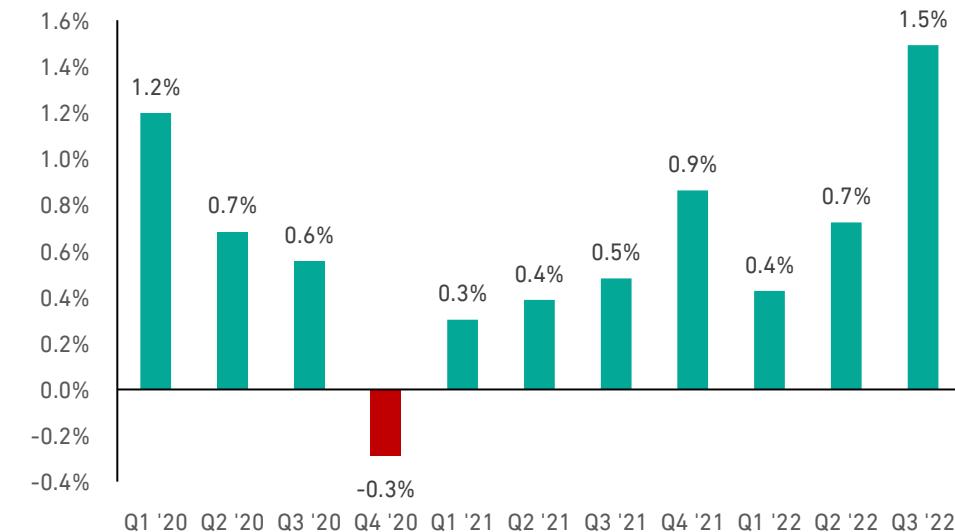
Chart 6-1: Tadawul All Share index Index



Source: Tadawul

Real estate price index grow to 1.5% in Q3 2022

Chart 6-2: Real estate price index growth %



Source: GASTAT

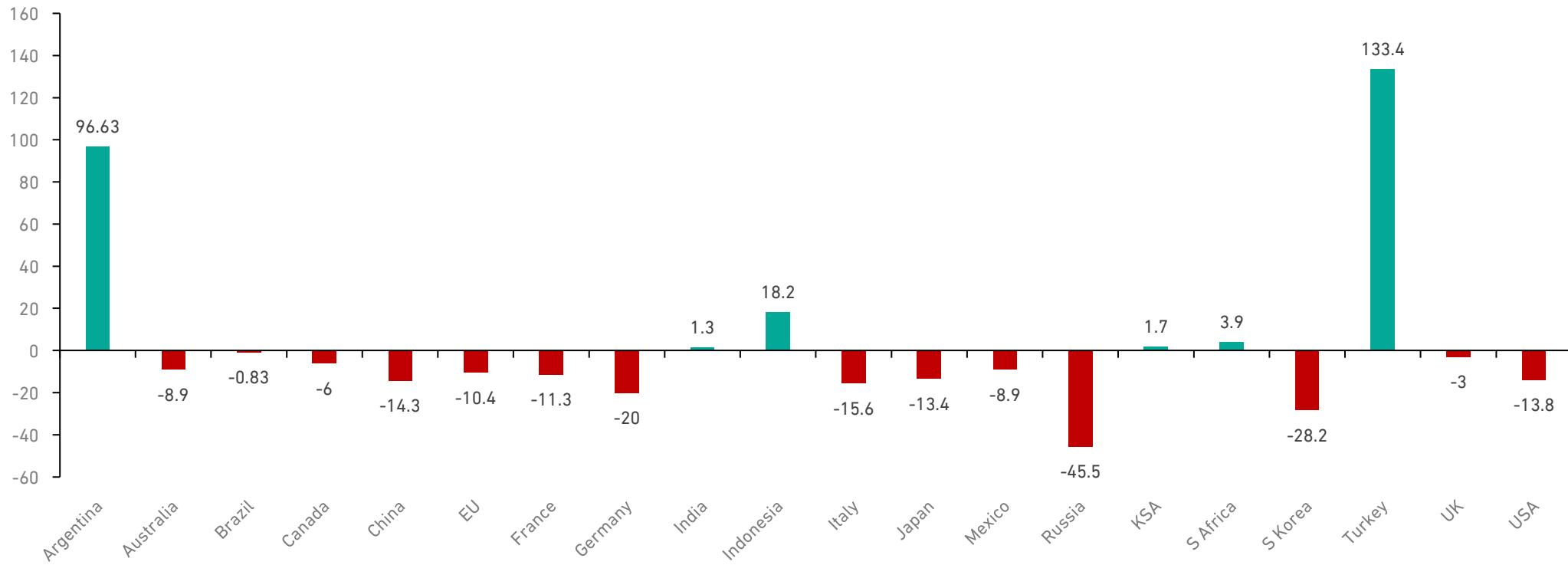
The global stock markets continued to recover during 2021 and TASI followed the global trend. The markets started reversing their gains from the last quarter of last year as the Federal Reserve and other leading central banks signalled the onset of monetary tightening. The year 2022 has been quite challenging as the effect of monetary tightening and prospects of an economic slowdown continue to weigh down on performance of capital markets. Although some of the leading indices are down up to 30% this year, TASI has performed relatively better due to healthy performance of the oil sector. Saudi Arabia and other regional markets have seen a strong flow of new offerings too. The real estate sector also saw a consistent rise in property prices during the last six quarters.

Global Equity Market Performance (last 12 months)

Equity market index in select countries

Chart 6-3: Main index performance (last 12 months)

Index



Source: The World Bank Treasury, IDRD, IDA

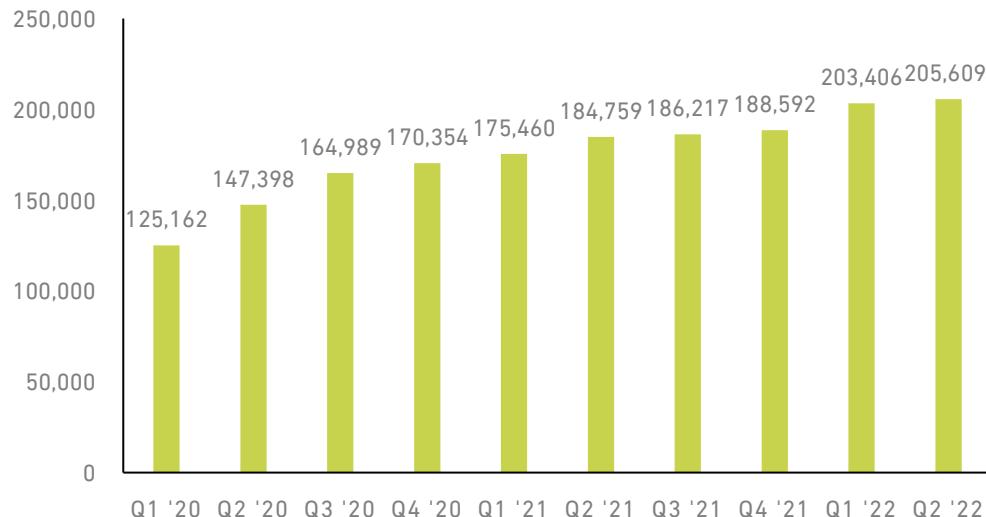
The global stock markets have generally performed poorly in the last twelve months with only a few exceptions. Monetary tightening by the central banks, geopolitical uncertainties and a fear of decline in corporate revenues and profits due to a global economic slowdown are moving equity valuations down. Argentina and Turkey are major exceptions.

Credit Facilities and Liquid Assets to Total Assets

Credit facilities provided by banks for SMEs reached SAR205 Bn at a CAGR of 6.3% since Q2 2020

Chart 6-4: Credit facility by Banks

Mn SAR

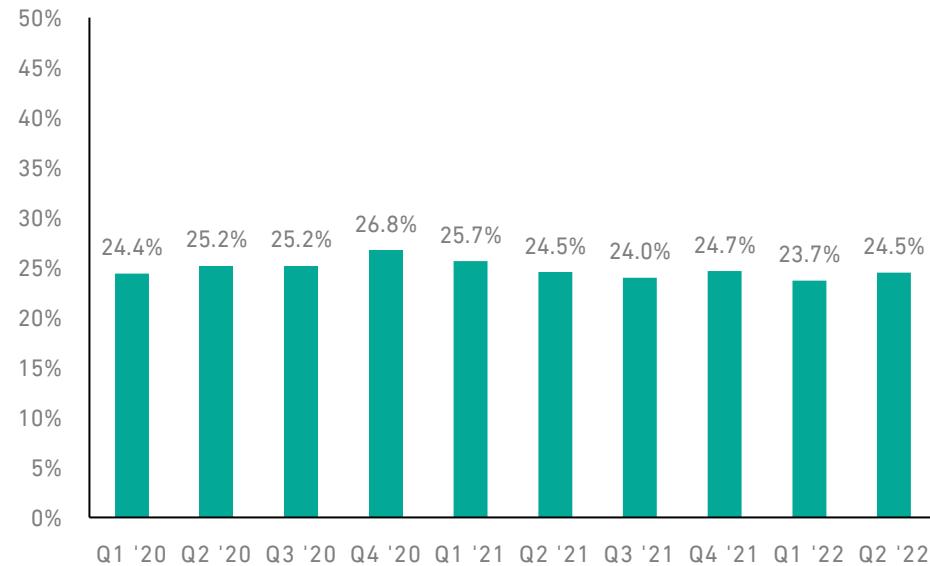


Source: SAMA

Liquid assets to total assets reached 24.5% in Q2 2022

Chart 6-5: Liquid assets as a % of total assets

%



Source: SAMA

06 Markets and Business: Households and Prices

In Q3 2022, the CPI reached 107.6 registering an increase of 2.9% YoY, while the WPI reached 149.8 in Q3 2022 with a 5.6% increase YoY. All sub-indices recorded relatively high growth rates, with two recording double-digit inflation, namely agriculture and fishery products, and other transportable goods.

August's WPI figures show a 5.6% increase compared to the previous year. The real estate price index recorded an increase of 1.5% in Q3 of 2022 compared to the same period in the previous year, attributed to a relative increase in residential real estate, which has the largest weight in the index at 65.4%.

POS purchases continue to grow in accordance with rising inflation and improving economic conditions, as well as continued integration of digital payment schemes by the Kingdom. Consumer and credit card loans have also experienced a similar pattern. POS purchases as well as consumer and credit card loans have decelerated in growth YoY, reflecting balancing effects between inflation and improved economic conditions.

Total bank loans have increased at a CAGR of 3.14% over the last 10 quarters, with an average growth of rate 14.6% YoY.

Consumer Price Index (CPI) and Wholesale Price Index (WPI)

CPI reached 106.7 in Q2 2022

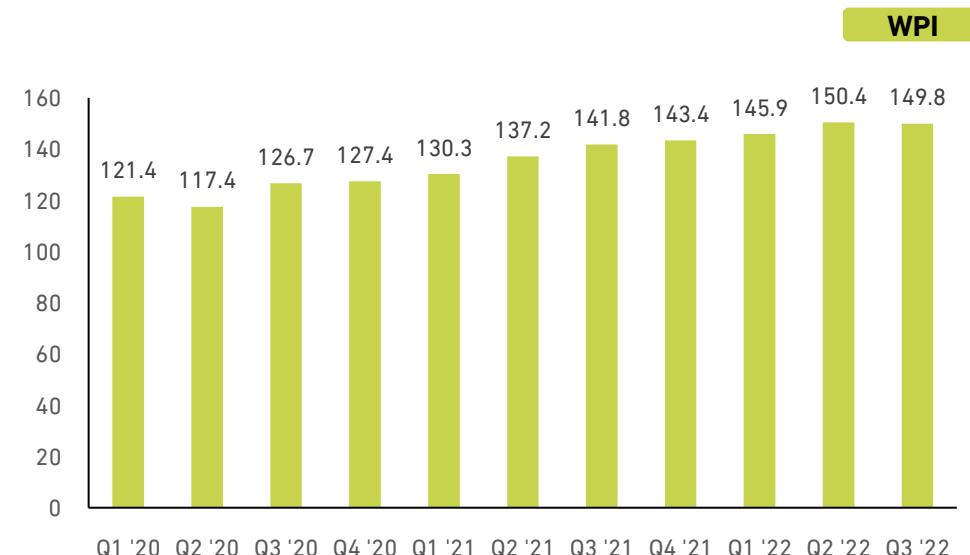
Chart 6-6: Consumer Price Index



Source: GASTAT

WPI reached 150.4 in Q2 2022

Chart 6-7: Wholesale Price Index



Source: GASTAT

Quarterly CPI registered an increase of 2.9% YoY, and 1% QoQ, as relative inflationary effects were not observed to be severe compared with the rest of the world. This effect is expected to dampen over the next two years as suggested by IMF forecasts, amid continuous improvement to economic conditions in the Kingdom. Pandemic-related impacts experienced across the globe resulted in double-digit inflation across certain sectors such as transport. WPI recorded a 5.6% increase YoY and -0.4% QoQ. All sub-indices recorded relatively high growth rates, with two recording double-digit inflation, namely agriculture and fishery products, and other transportable goods, except metal products, machinery and equipment, given their connection to ramifications of the war in Ukraine.

Wholesale Price Index

Table 6-1 Wholesale Price Index (2014 = 100): Summary Statistics

September 2022

| Description | Weight (%) | Index Numbers | | | Percent Change in September 2022 from | |
|---|------------|---------------|----------|----------|---------------------------------------|----------|
| | | Sep 2021 | Aug 2022 | Sep 2022 | Sep 2021 | Aug 2022 |
| General Index | 100.00 | 142.53 | 149.76 | 149.09 | 4.61 | -0.44 |
| Agriculture and fishery products | 8.67 | 125.19 | 142.10 | 140.80 | 12.47 | -0.91 |
| Ores and Minerals | 0.59 | 110.92 | 117.08 | 116.70 | 5.21 | -0.32 |
| Food products, beverages and tobacco and textiles | 17.31 | 122.05 | 132.53 | 132.57 | 8.62 | 0.03 |
| Other transportable goods, except metal products, machinery and equipment | 33.72 | 168.46 | 175.56 | 175.50 | 4.18 | -0.04 |
| Metal products, machinery and equipment | 39.71 | 133.69 | 137.51 | 136.16 | 1.85 | -0.98 |

Source: GASTAT

September's WPI figures show the dampening effects of inflation – a return to one-digit results that initially started in June 2022. MoM inflation figures deflated over the last 2 months in a sign of pressures caused by halts in global trade on the Kingdom lifting. Agriculture and fishery products led to persistent pressures on WPI results amid mounting tensions from the Russia/Ukraine conflict, and a double-digit pull-effect observed in YoY results dampened starting in August MoM.

Consumer Price Index

Table 6-2: Consumer Price Index (2018 = 100): Summary

September 2022

| Expenditure category | Weight (%) | Index Numbers | | | Percent Change in September 2022 from | |
|--|------------|----------------|-------------|----------------|---------------------------------------|-------------|
| | | September 2021 | August 2022 | September 2022 | September 2021 | August 2022 |
| General Index | 100.00 | 104.69 | 107.61 | 107.90 | 3.07 | 0.27 |
| Food and beverages | 18.78 | 119.09 | 123.04 | 124.26 | 4.34 | 0.99 |
| Tobacco | 0.60 | 114.61 | 114.89 | 114.99 | 0.33 | 0.09 |
| Clothing and footwear | 4.20 | 103.10 | 102.89 | 102.08 | -0.99 | -0.79 |
| Housing, water, electricity, gas and other fuels | 25.50 | 88.14 | 90.03 | 90.97 | 3.21 | 1.04 |
| Metal products, machinery and equipment | 6.74 | 108.51 | 110.25 | 109.77 | 1.16 | -0.44 |
| Furnishings, household equipment | 1.43 | 103.02 | 103.70 | 103.70 | 0.66 | 0.00 |
| Health | 13.05 | 114.38 | 118.70 | 118.77 | 3.84 | 0.06 |
| Transport | 5.62 | 110.96 | 111.36 | 111.13 | 0.15 | -0.21 |
| Communication | 3.06 | 103.58 | 108.29 | 107.18 | 3.48 | -1.03 |
| Recreation and culture | 2.87 | 95.29 | 100.68 | 100.68 | 5.66 | 0.00 |
| Education | 5.60 | 112.26 | 120.53 | 120.72 | 7.54 | 0.16 |
| Restaurants and hotels | 12.57 | 106.33 | 108.87 | 108.00 | 1.57 | -0.80 |

Source: GASTAT

August's CPI results was registered at 3% YoY and 0.38% MoM. Inflation results remain well below records from the pandemic highs for the period (Jul 20-Jun 21), which averaged 5.7%. This is compared with figures during the war in Ukraine, which began in March of 2022, averaging 2.3% up to August. The transport sector has decelerated steadily in CPI figures since Jul 21, while F&B, restaurants and hotels, recreation and culture, and education are observed to have driven inflation upwards over the course of 2022 YoY.

Real Estate Price Index by Sector and type of Real Estate

Chart 6-8: Real Estate Price Index by Sector & Type of Real Estate, Q3 2022

(YoY, %)



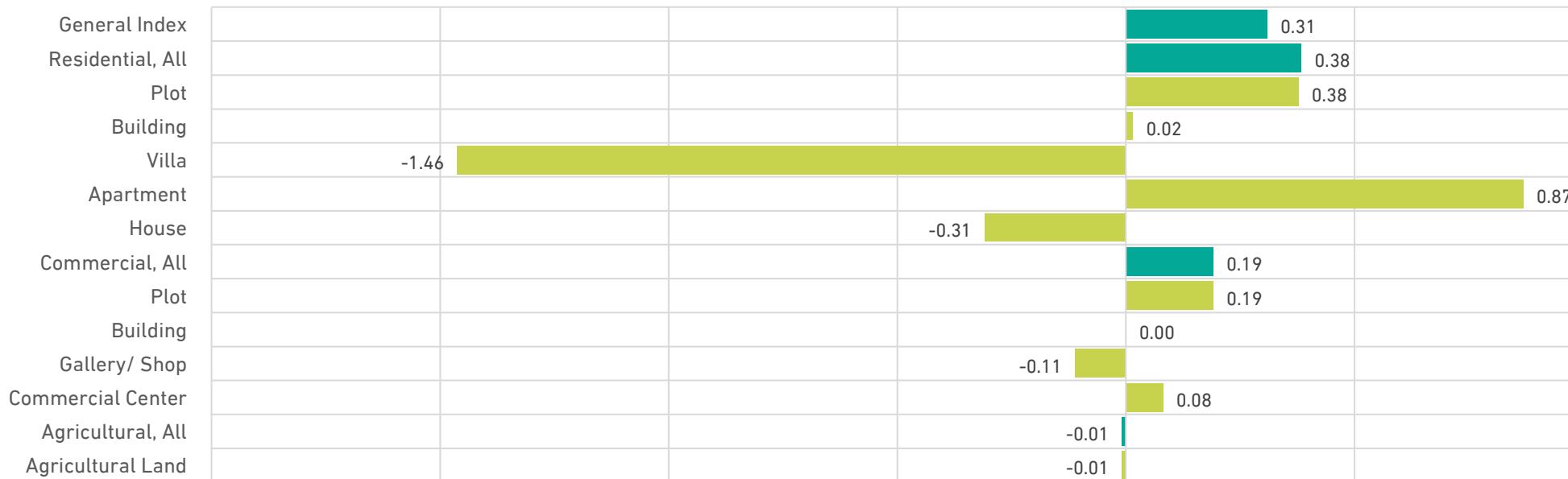
Source: GASTAT

The real estate price index recorded an increase of 1.5% in Q3 of 2022 compared to the same period in the previous year. This increase is attributed to a relative increase in residential real estate, which has the largest weight in the index, at 65.4%, followed by commercial real estate at 31%. Riyadh city recorded the highest increase in residential prices with an increase of 3%, while most other cities experienced a relative decline in residential housing prices YoY.

Real Estate Price Index by Sector and type of Real Estate

Chart 6-9: Real Estate Price Index by Sector & Type of Real Estate, Q3 2022

(QoQ, %)



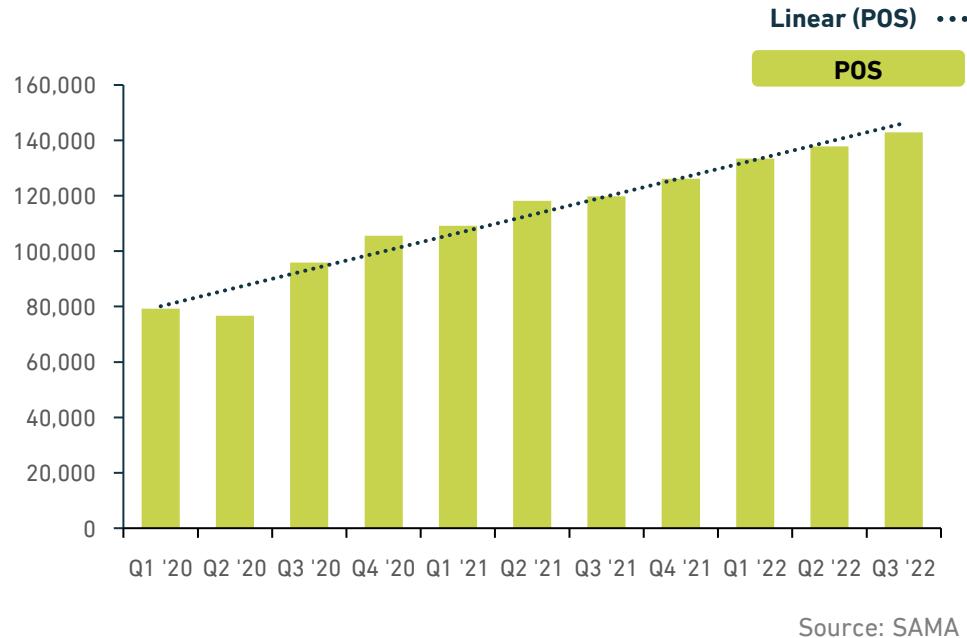
Source: GASTAT

Changes in QoQ growth figures in Q3 experienced similar patterns as the trajectory remained on course. Residential real estate grew by 0.38% while agricultural real estate saw a decline. Supply and demand dynamics are expected to result in excess demand as targets of Vision 2030 – namely Saudi housing ownership of 70%, population growth aspirations lead to an increase in residential real estate. Of commercial and agricultural real estate, the only growth figure registered is 'commercial center', due to an increase of 0.13% in the Makkah region. Villas in Riyadh city registered the highest growth figure of 3.1%, followed by apartments at 1.2%.

POS Purchases and Consumer Credit and Loans

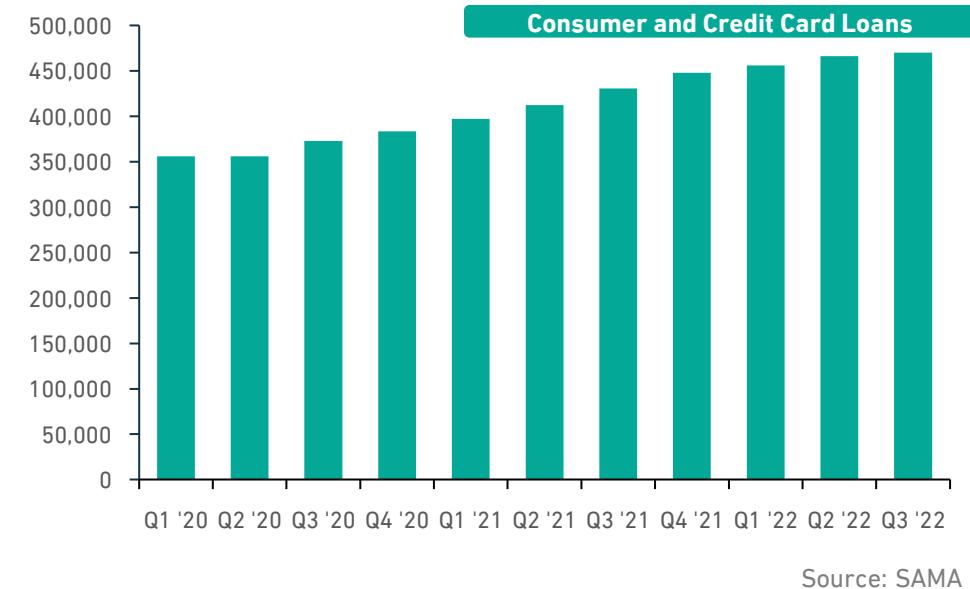
POS purchases reached SAR143 Bn in Q3 2022 growing at 6.3% CAGR since Q1 2021

Chart 6-10: POS purchases by quarter
Mn SAR



Consumer credit and loans continued to increase at 3.0% CAGR reaching SAR470 Bn in Q3 2022

Chart 6-11: Consumer and credit card loans by quarter
Mn SAR



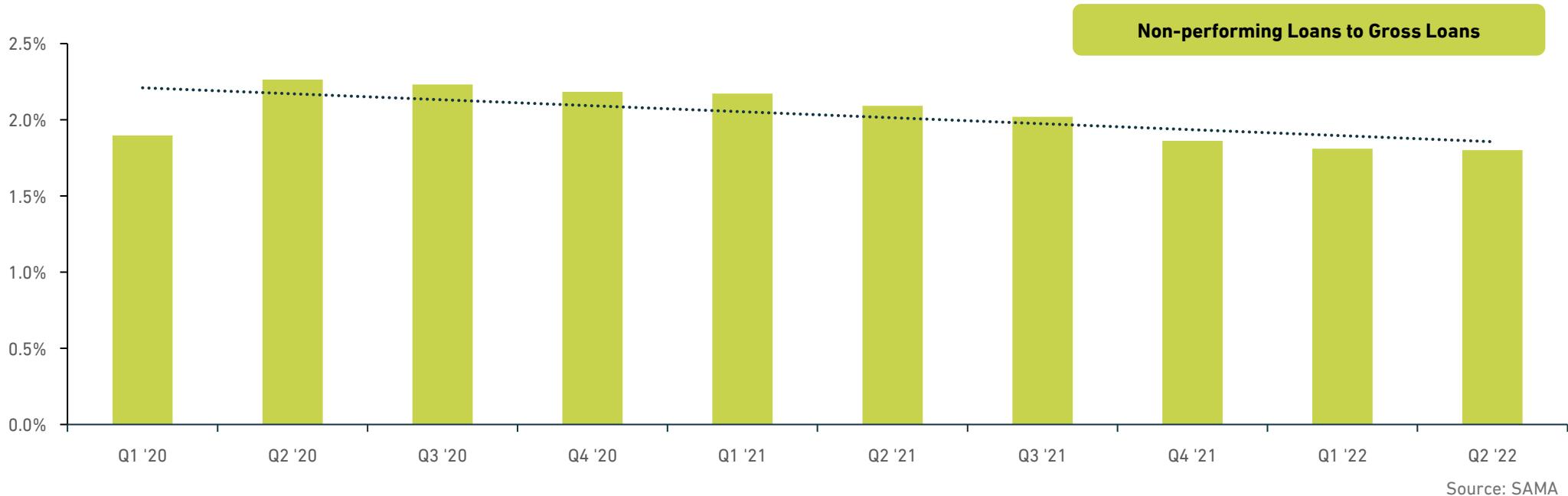
POS purchases continued to grow in accordance with rising inflation and improving economic conditions, as well as continued integration of digital payment schemes by the Kingdom. Consumer and credit card loans have experienced a similar pattern. Although growth is evident in the above graphs, both data series have similarly decelerated in YoY growth, reflecting balancing effects between inflation and improved economic conditions.

Non-performing Loans to Gross Loans

The % of non-performing loans to gross loans showed a downward trajectory reaching 1.8% in Q2 2022

Chart 6-12: % of non-performing loans to gross loans

%



Source: SAMA

Share NPL to gross loans increased slightly in Q2 2022, ending a 7-quarter steady decline trend. The decline of the NPL-to-GL ratio is attributed to strengthened economic conditions. total bank loans have increased at a CAGR of 3.14% over the last 10 quarters, with an average growth rate of 14.6% YoY.

06 Markets and Business: Diversification

Despite negative economic prospects globally, in Q3 2022 Saudi Arabia's real GDP of non-oil economic activities – an important indicator for diversification – reached a growth rate of 5.6%.

Saudi Arabia's positive economic performance accounted for 23.5% in real GDP growth. The manufacturing sector grew at 13.4%, excluding petroleum refining, in addition to growth in the construction and transport sectors of 8.8%, and 7.8% respectively during Q2 2022. Gross Fixed Capital Formation, (GFCF), seen as an important indicator of economic growth, registered six quarters of positive growth, with private capital formation registering double-digit growth in the same period.

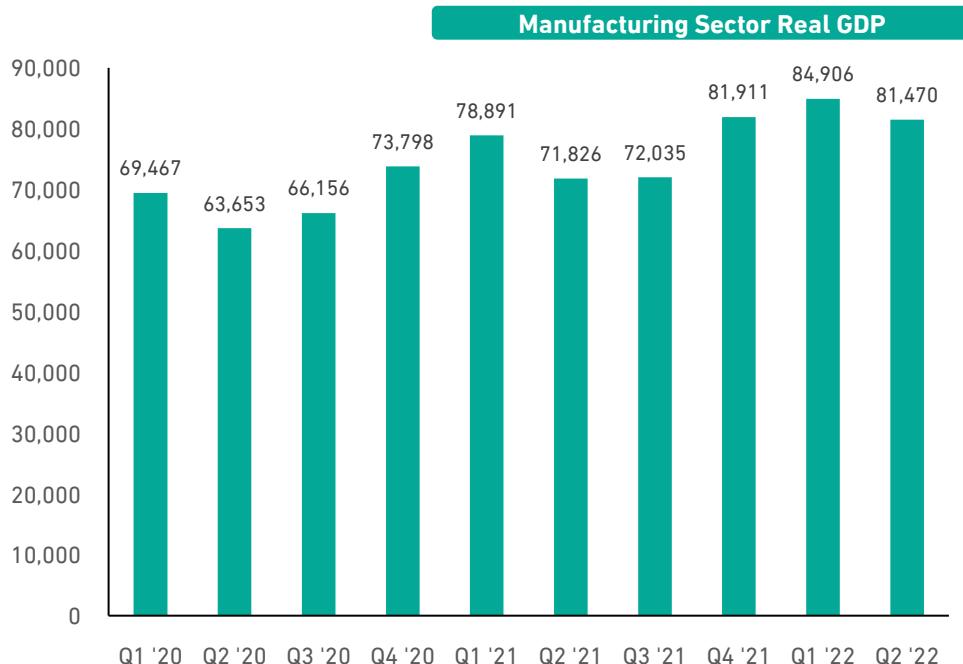
As a leading indicator, Industrial Production Index (IPI) YoY growth hit 23.8% in Q2 2022, continuing four quarters of incremental positive growth. In August 2022, KSA had the highest IPI of 16.8% amongst G20 nations. The Purchasing Managers Index (PMI) – an indicator of the economic direction of the manufacturing sector – for Saudi Arabia in Q3 2022 was 56.9, and more recently, in September 2022, the PMI for Saudi Arabia was the highest among G20 countries at 56.6. India came a close second at 56.2.

Saudi Arabia has continued to industrialize and diversify its economy through the transformation of its non-oil tradeable sector. Several actions are being taken to incentivize existing firms to expand and acquire new capabilities in addition to the adoption of new technologies.

Innovation leapfrogging is another critical tenet of Saudi Arabia's economic diversification strategy. This includes the Shareek and National Industrial Development and Logistics (NIDLP) programs, in addition to the National Investment and Local Content Strategies. Public-private partnerships are being pursued by Saudi Arabia to build and expand the Kingdom's industrial and services capabilities in order to support the export-led economic diversification drive.

Manufacturing Sector real GDP and Industrial Production Index

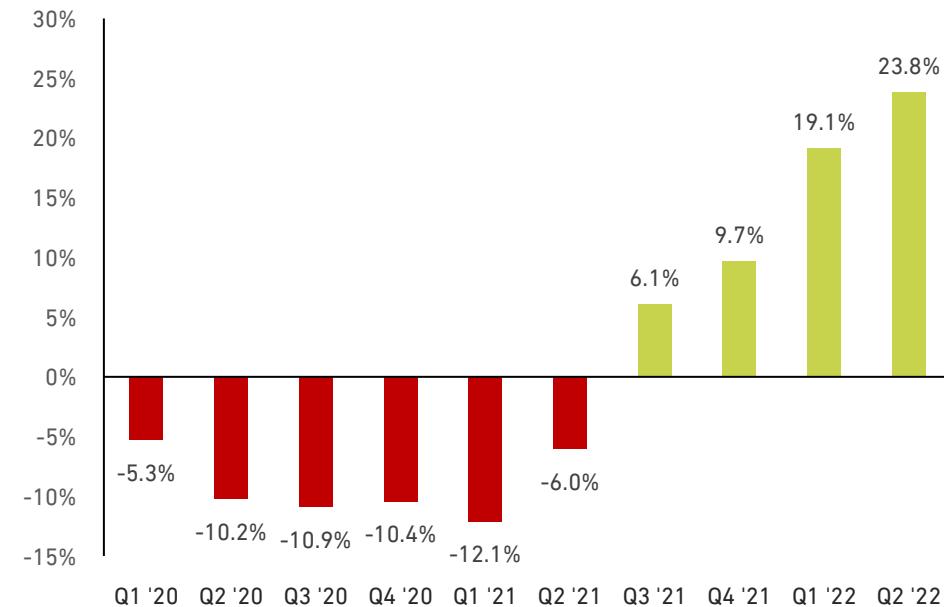
Chart 6-13: Manufacturing real GDP
Mn SAR



Source: GASTAT

Manufacturing sector real GDP grew to SAR81,470 Mn in Q2 2022 at 1.8% CAGR since Q1 2020.

Chart 6-14: Quarter YoY Industrial Production Index
Index %



Source: GASTAT

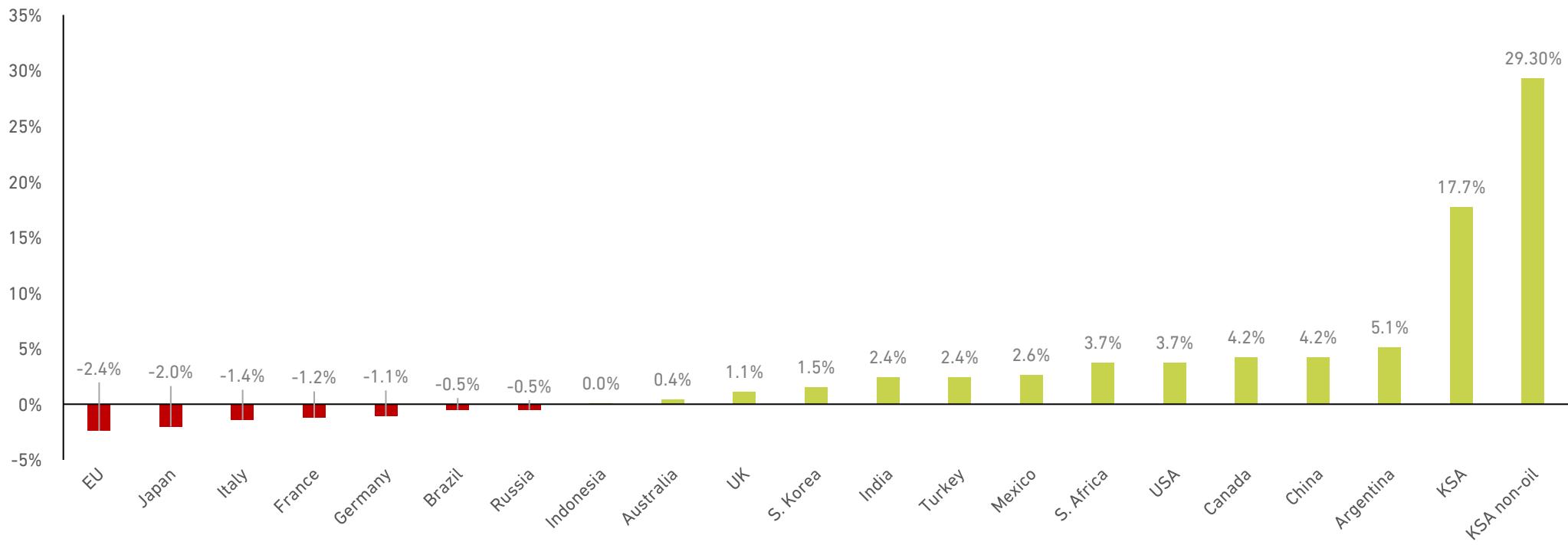
The industrial activity in the Kingdom has recorded increasing growth during the last four quarters.

Industrial Production Index across G20 Countries

Globally, in July 2022, KSA had the highest IPI of 17.7% amongst G20 nations

Chart 6-15: IPI of G20 nations, July 2022

%



Source: Bloomberg

Industrial activity in Saudi Arabia registered the highest increase in the month of July among the G20 countries. The rise in IPI represents robust economic activity in the manufacturing sector, consistent with growth in the non-oil sector and non-oil exports.

Purchasing Managers Index across G20 Countries

Globally, PMI in September 2022 is estimated to be the highest for KSA at 56.6 when compared to G20 countries

Chart 6-16: PMI for G20 nations, September 2022

Index



Source: S&P Global

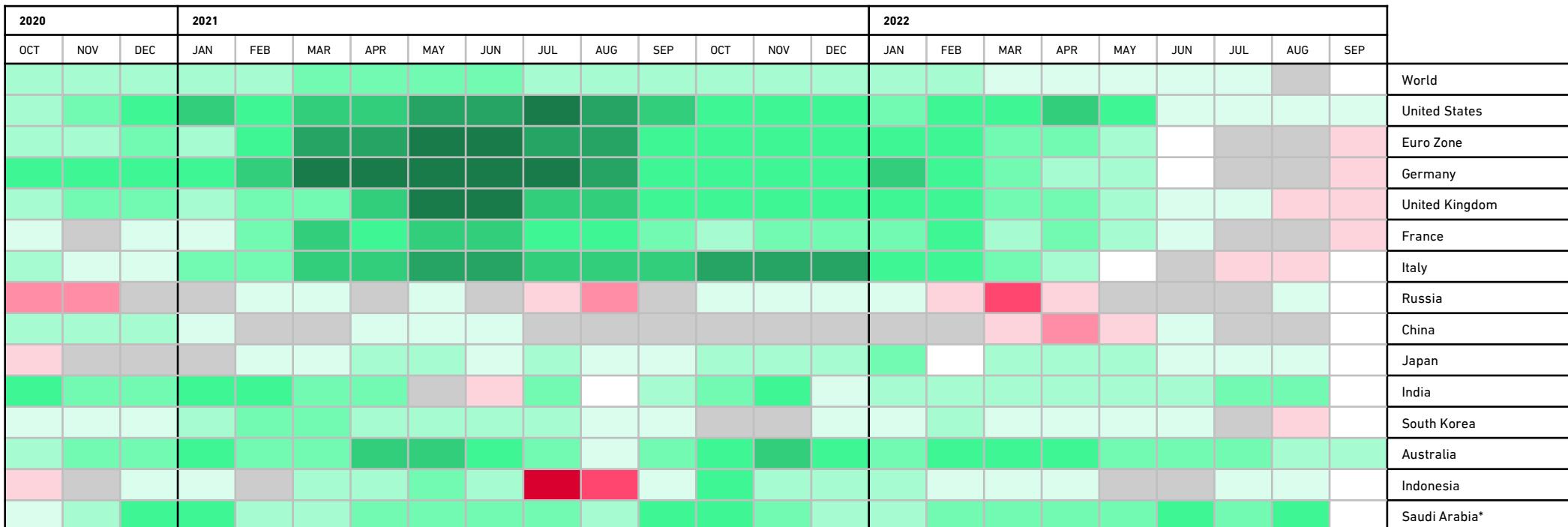
Saudi Arabia is among the G20 countries where purchasing managers expressed confidence about economic prospects. The recent PMI release is a further boost, demonstrating growing confidence in the economy. Saudi Arabia can be favorably compared to other countries with the PMI standing highest among peer nations.

Evolution of Global Purchasing Managers Index across Select G20 Countries

The Purchasing Managers Index is showing a cooling down of manufacturing activities through the year – a reversal from the trend in earlier months this year. This change in outlook can portend a hard landing.

Chart 6-17: PMI for G20 nations, September 2022

Index Change



Source: Bloomberg/S&P Global

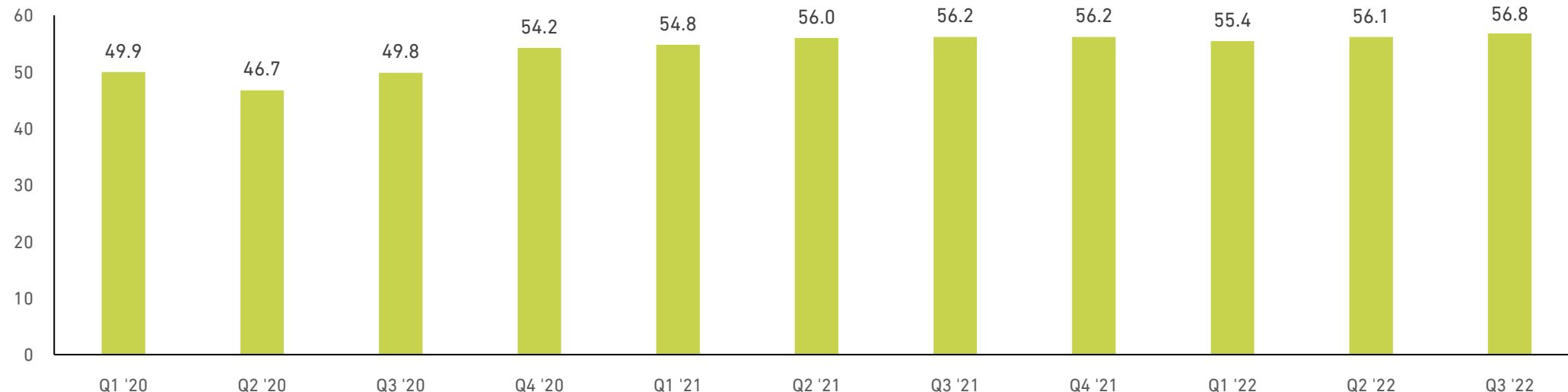
The Purchasing Managers Index is showing a cooling down of manufacturing activities across the globe, showing a reversal from the trend earlier this year. For Europe, geopolitical tensions combined with high energy costs paint an uncertain outlook. Some regions are better placed, including resource-rich countries like Saudi Arabia, the UAE, Australia, and Indonesia, although these nations may not be entirely immune to the bleak global outlook in the coming months. PMI is a leading indicator, and the trend reversal can portend a hard landing for the global economy, in the absence of a significant turnaround in the current policy course by governments and central banks.

Purchasing Managers Index trend in Saudi Arabia

Purchasing Managers Index has continued to rise steadily for the Kingdom reaching 56.9 in Q3 2022, up from 49.9 in Q1 2020.

Chart 6-17: PMI in Saudi Arabia

Index



Source: S&P Global

The PMI for Saudi Arabia shows that the Saudi economy has been robustly active and expanding since the beginning of 2021 and is maintaining a steady level around 56 through the last five quarters.

07

Investments and Trade

07 Investments and Trade

Saudi Arabia continued to attract Foreign Direct Investment (FDI) in Q2 2022 with investments of SAR7.9 Bn, an increase of 8% YoY taking the total for H1 2022 to SAR15.2 Bn. Saudi Arabia's Ministry of Investment recorded 49 deals worth \$925 Mn, with the capital of newly licensed factories exceeding \$1.7 Bn (SAR6.2 Bn) in Q2 2022.

Continued efforts to promote FDI in the Kingdom resulted in the issuance of 4,455 investment licenses in Q2 2022, a 673% increase over the 576 licenses issued in Q2 2021. The retail and e-commerce industry led with 2,700 licenses issued in the Q2 2022. The construction sector was second with 528 licenses issued and the manufacturing industry was granted 349 licenses.

The country's stock exchange, Tadawul, continued to attract portfolio investments from local and foreign investors. The stock of investments owned by Qualified Foreign Investors (QFI) stood at \$75.7 Bn at the end of Q2 2022, a 31% YoY growth.

From Q3 2022, the Saudi Stock Exchange will introduce Single Stock Futures Contracts for local and international investors. This new product will allow investors to manage portfolio risks more effectively and hedge their portfolio positions. The product will also diversify products available for trading in the market.

During the quarter, Saudi Arabia continued to introduce structural reforms to attract investors. For example, a new draft investment law was presented to allow local and global investors to be treated equally.

In addition, the Council of Ministers passed a new Companies Law with a specific focus on enhancing the Kingdom's investment environment and building a legislative framework that meets the requirements of investors.

For domestic investors, credit facilities issued by banks in the Kingdom reached SAR205 Bn, reflecting a YoY growth rate of 112% and recording double-digit growth for 6 consecutive quarters.

On trade, G20 merchandise growth slowed in value terms in Q2 2022, despite reaching a record \$7.7 trillion during Q1 2022. Energy, metals and chemicals drove most of this growth. Merchandise and service exports and imports are expected to grow but slow down during the remainder of the year, being negatively affected by tightening policies, geo-political tensions, weaker currencies against the dollar and inward-looking policies that promote regionalization.

07 Investments and Trade

Saudi Arabia continues to maintain strong relationships with its trade partners, reaching a trade balance of SAR258 Bn in Q2 2022 supported by 80% oil exports, 16.7% of non-oil exports and 3.3% re-exports. Q2 2022 YoY exports to China, Japan and the United States increased, with India and South Korea doubling their purchases between Q1 2021 and Q1 2022. Exports to Poland increased significantly from SAR1,890 Mn in Q1 2021 to SAR9,320 Mn in Q2 2022.

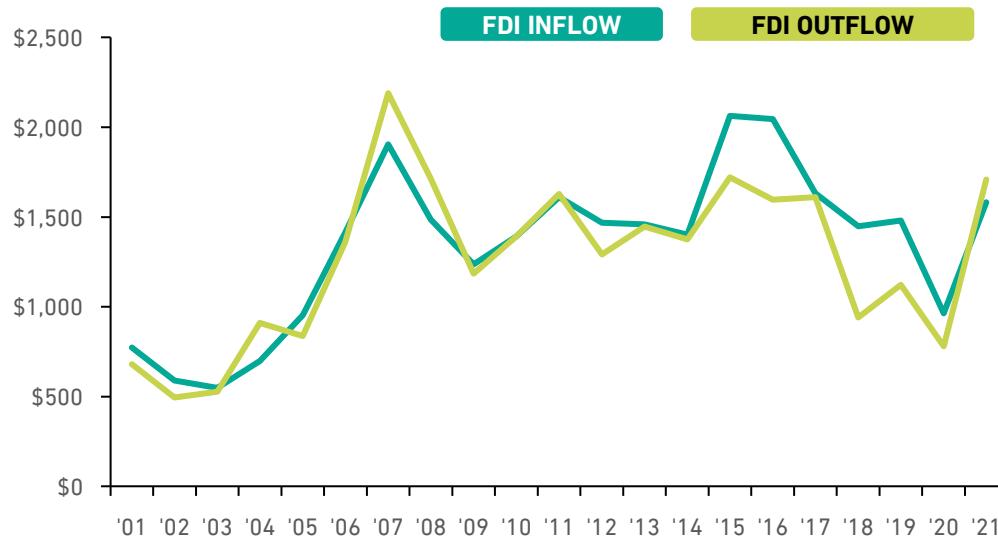
96% of non-oil exports included chemical, plastics and rubber products, with base metals and equipment strengthening the manufacturing sector in the Kingdom. In terms of trade, non-oil exports as a % of nominal GDP grew at 8.2%

Imports grew by nearly 22% YoY – a change of SAR30.5 Bn from Q2 of the previous year. Imports also grew 8.5% from Q1 2022, with a change in value of 13.4 Bn SAR. China was the largest import partner in Q2 2022, with a 20% share of total imports, followed by the USA and UAE, who accounted for 9% and 7% respectively. Machinery equipment accounted for 12.8% of total imports, with transport equipment at 13%.

The Kingdom is continuing to form stronger relationships with partners, with bilateral agreements and commitments for investments and trade across sectors. For example, Saudi Arabia and Egypt recently signed deals worth \$8 Bn across 14 sectors during the visit of HRH the Crown Prince to the country's capital Cairo.

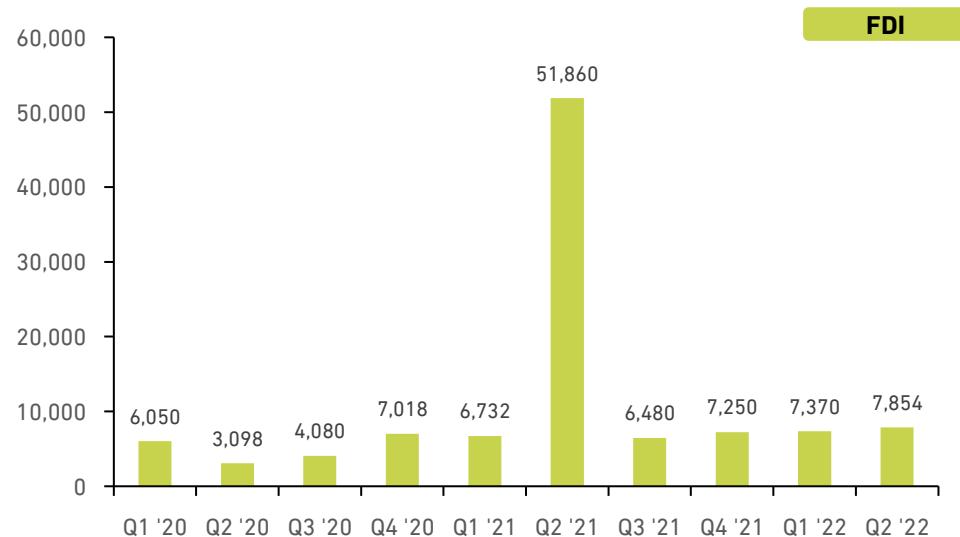
Global FDI and FDI into the Kingdom

Chart 7-1: Global FDI Inflow and Outflows by year
\$ Bn



Source: UNCTAD, World Investment Report 2022

Chart 7-2: FDI Inflow into Saudi Arabia by quarter
Mn SAR



Source: GASTAT, SAMA

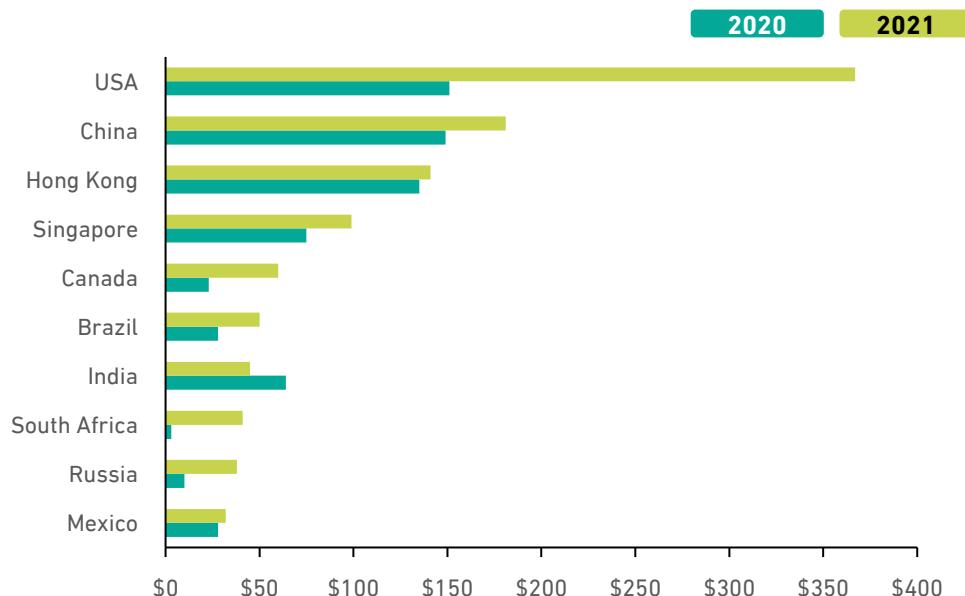
Saudi Arabia continued to attract Foreign Direct Investment during the second quarter of this year with recorded investments of SAR7.9 Bn, an increase of 8% over quarter one and taking the total FDI in the first half to SAR15.2 Bn.

Global FDI Inflow and Outflow

Global FDI inflows – top 10 host countries

Chart 7-3: Global FDI Inflow 2020 and 2021

\$Bn



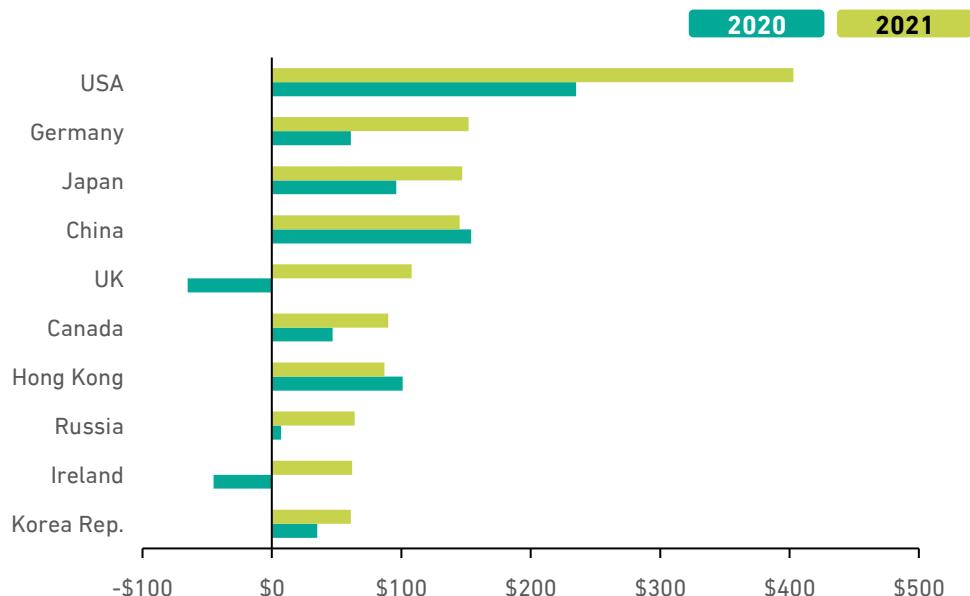
Source: UNCTAD, World Investment Report 2022

Global FDI inflows saw clear signs of recovery during 2021 compared with a pandemic-induced recession, with a growth rate of up to 88% from 2020, and 37% from pre-pandemic levels. This trend was at its highest in OECD countries, followed by G20 countries at 67%, then non-OECD countries at 47%. The USA experienced a 133% rise in FDI inflows, with a \$218 Bn increase in value.

Global FDI outflows – top 10 host countries

Chart 7-4: Global FDI Inflow 2020 and 2021

\$Bn



Source: UNCTAD, World Investment Report 2022

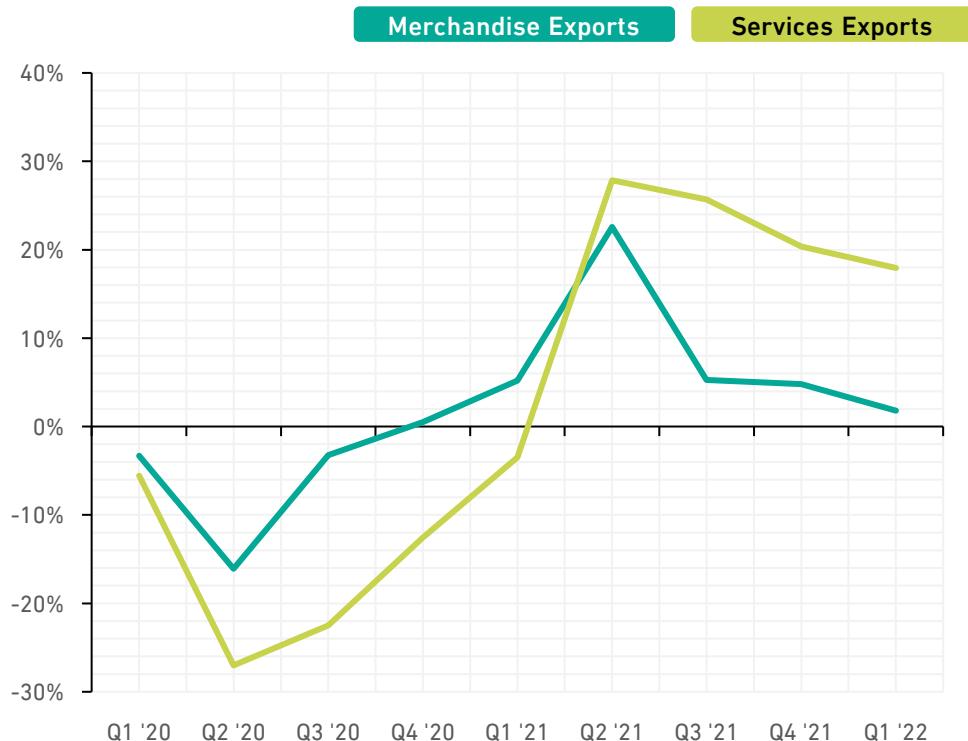
FDI outflows from OECD countries have surged almost three-fold from 2020 levels, and 74% from pre-pandemic levels, with the USA accounting for the largest share of this growth followed by Germany. FDI outflows from OECD G20 economies grew at 86% from 2020 levels, while FDI in non-OECD G20 economies grew by nearly 50%.

Global Exports and Imports

Export growth declining for merchandise and services

Chart 7-5: YoY growth rates for merchandise and service exports

% YoY

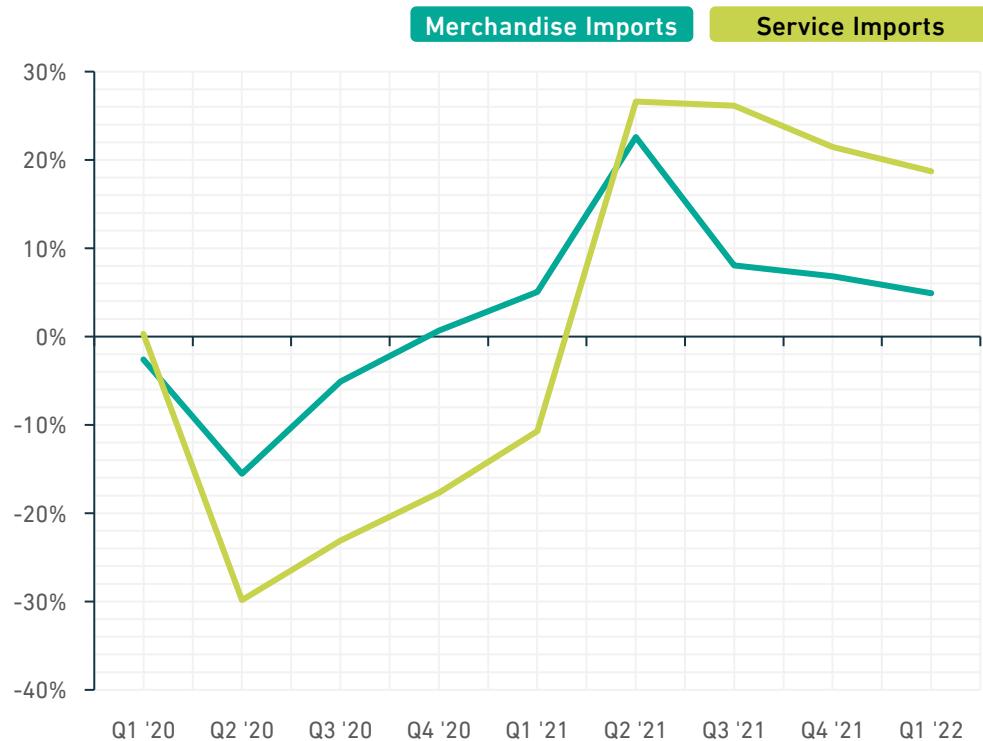


Source: UNCTAD

Import growth declining for merchandise and services

Chart 7-6: YoY growth rates for merchandise and service imports

% YoY



Source: UNCTAD

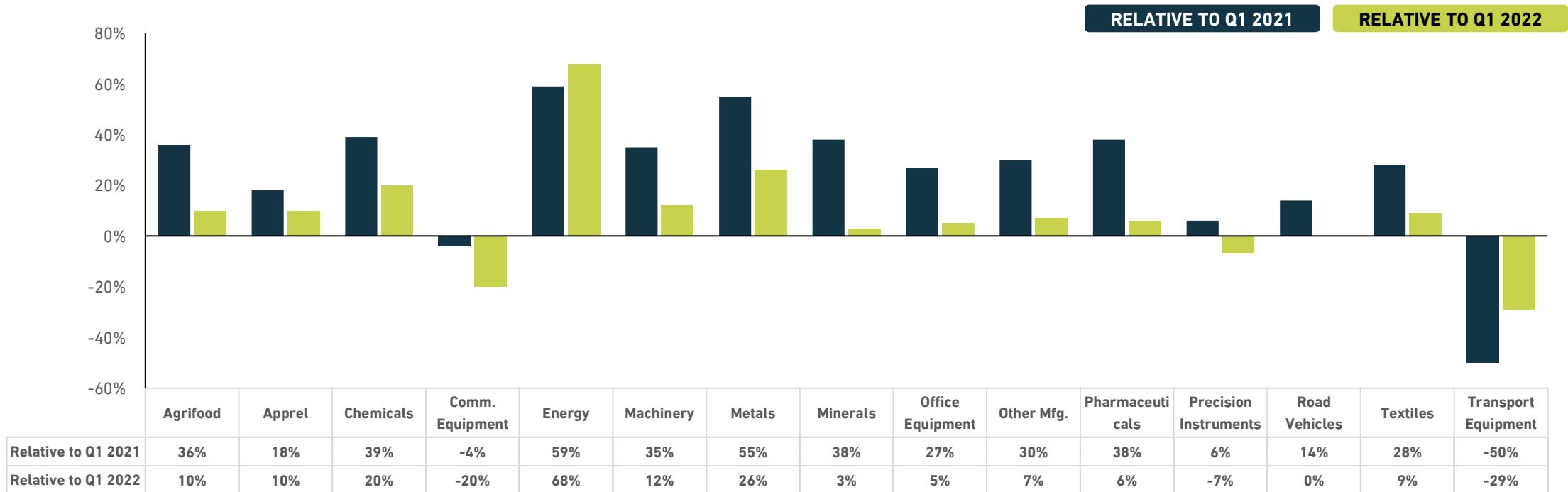


Global Trade by Sector

Energy, metals and chemicals main growth drivers of trade by sector in Q1 2022

Chart 7-7: Changes relative to Q1 2019 and Q1 2020 to Q1 2022

% YoY



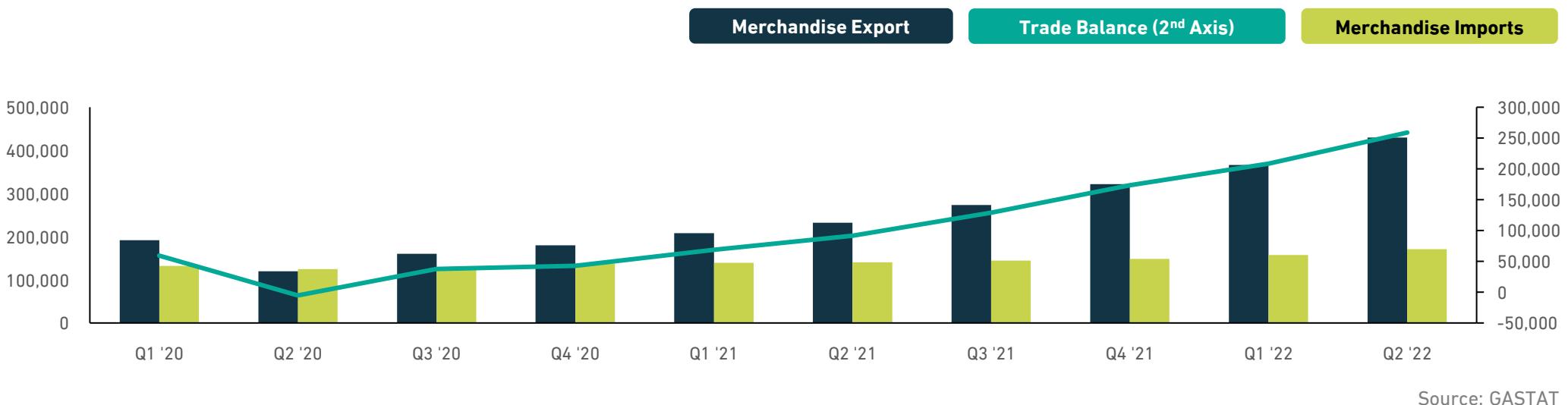
Source: UNCTAD, World Trade Report July 2022

KSA Trade Balance with Export Contribution by Oil and Non-Oil Exports

Trade balance for merchandise reached SAR259 Bn in Q2 2022

Chart 7-8: Merchandise exports, imports and trade balance

Mn SAR



Source: GASTAT

| | | | | | | | | | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Oil exports | 74.6% | 63.9% | 66.4% | 67.5% | 71.1% | 71.7% | 74.6% | 74.4% | 78.5% | 80.0% |
| Non-oil exports | 21.1% | 29.8% | 28.5% | 26.1% | 23.6% | 24.7% | 21.5% | 20.5% | 18.3% | 16.7% |
| Re-exports | 4.2% | 6.3% | 5.1% | 6.4% | 5.3% | 3.6% | 3.9% | 5.0% | 3.2% | 3.3% |

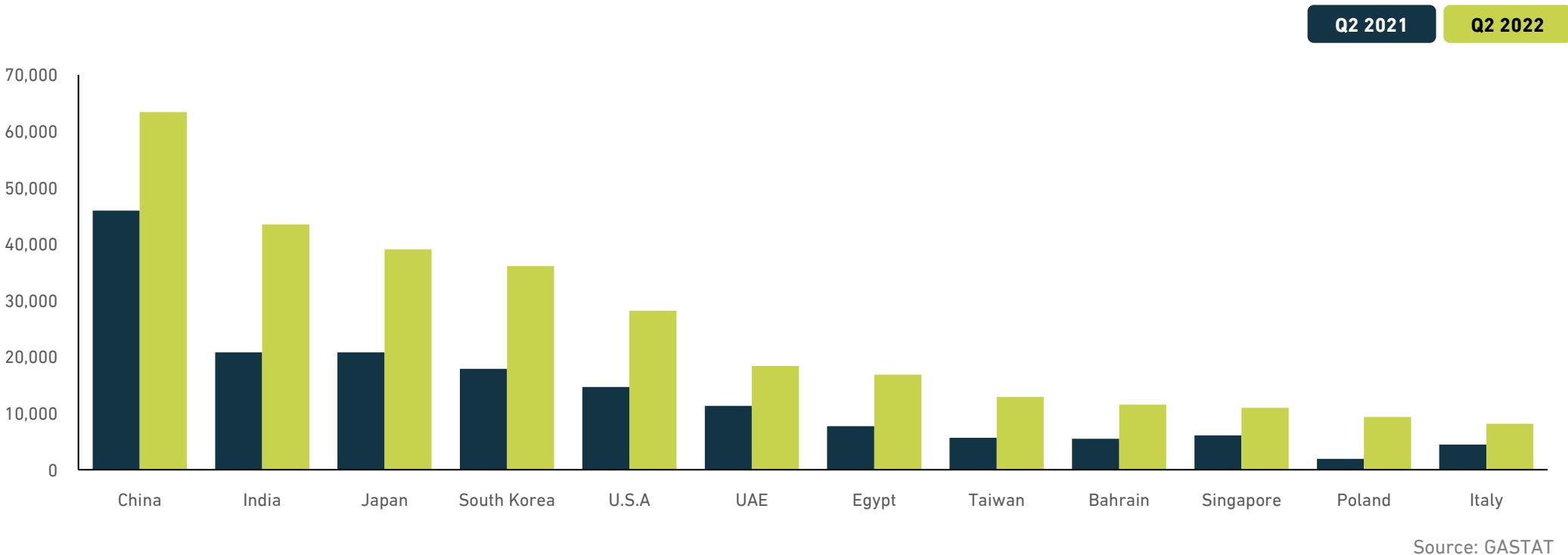
Trade volume has continued to increase over the past 10 quarters from SAR324 Bn in Q1 2020 to SAR600 Bn in Q2 2022. During the same period, merchandise exports grew at a CAGR of 9% resulting in a trade balance growth at 18% CAGR. Exports grew significantly while imports remained nearly unchanged, contributing to continuous improvement in the trade balance over the past 9 quarters.

KSA Trade: Exports

Top export countries (oil and non-oil)

Chart 7-9: Total exports to countries

Mn SAR



Source: GASTAT

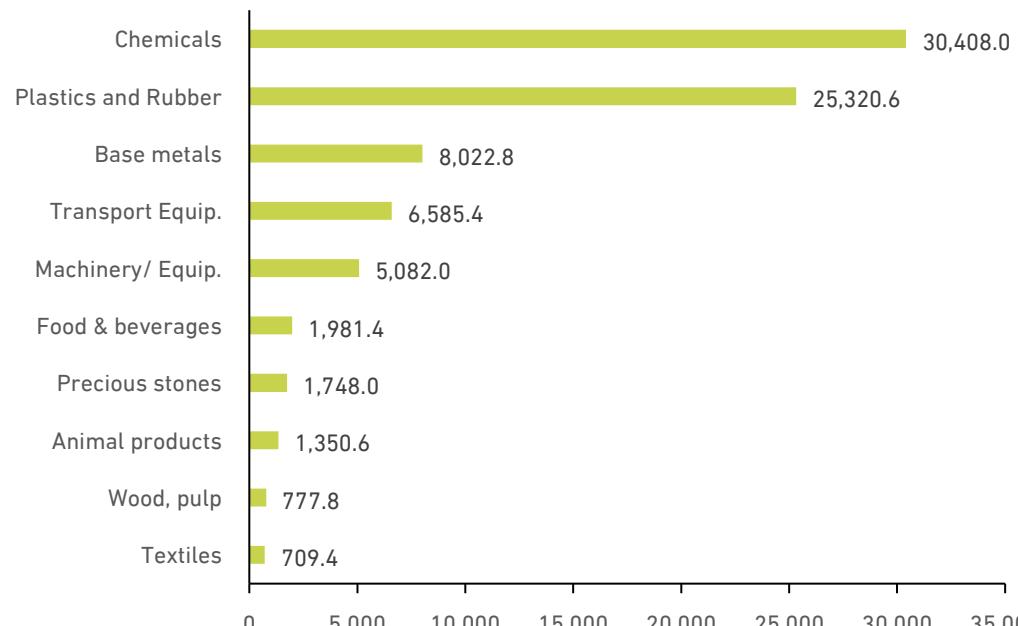
Q2 2022 YoY exports to the top countries increased, with India and South Korea doubling their purchases between Q1 2021 and Q1 2022. Exports to Poland increased significantly from SAR1,890 Mn in Q1 2021 to SAR9,320 Mn in Q2 2022.

KSA Trade: Exports

Top 10 categories accounted for 96% of non-oil exports in Q2 2022

Chart 7-10: Non-oil exports by HS section

Mn SAR

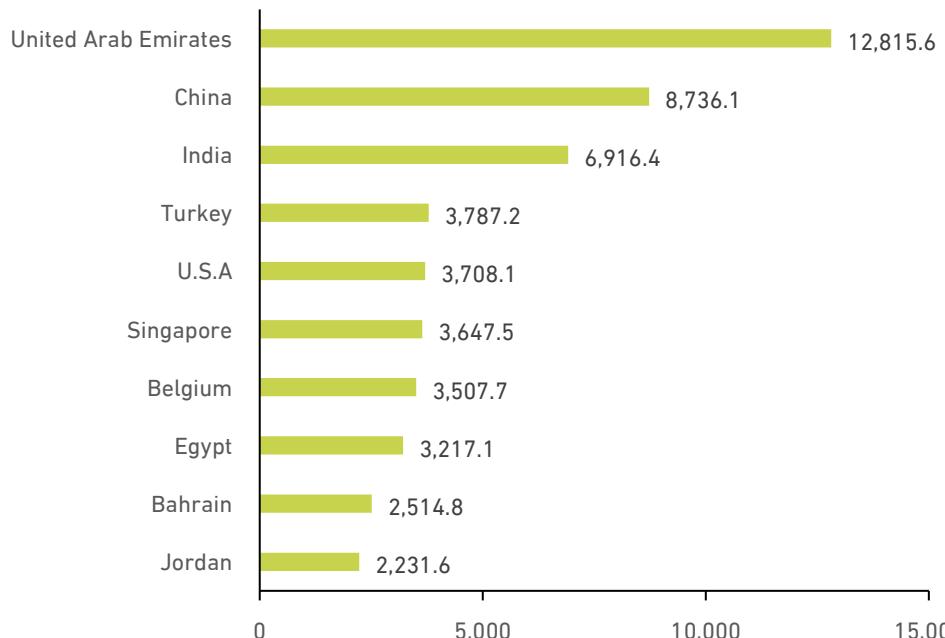


Source: GASTAT

Top 10 countries accounted for 59% of non-oil exports in Q2 2022

Chart 7-11: Non-oil exports by country

Mn SAR



Source: GASTAT

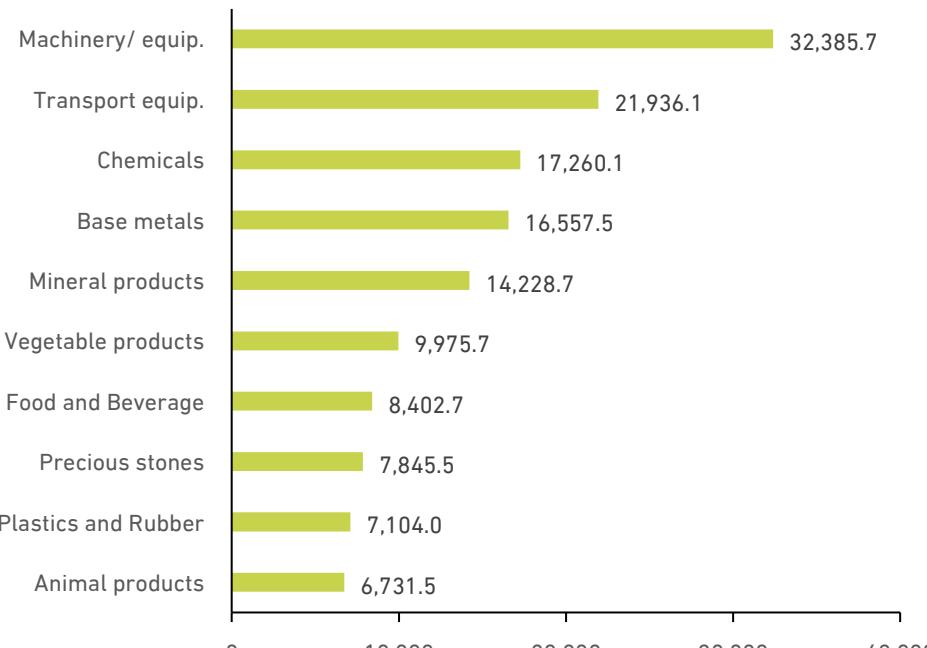
The ratio of non-oil exports to imports has consistently increased over the past 10 quarters from 36.5% to 50.4% resulting in a CAGR growth rate of non-oil exports of 7%, surpassing imports of 3%. Over the last decade, non-oil exports have grown at 5% CAGR from 2011 to 2021, with imports at 2%.

KSA Trade: Imports

Top 10 HS sections accounted for 83% of all imports in Q2 2022

Chart 7-12: All imports by HS section

Mn SAR

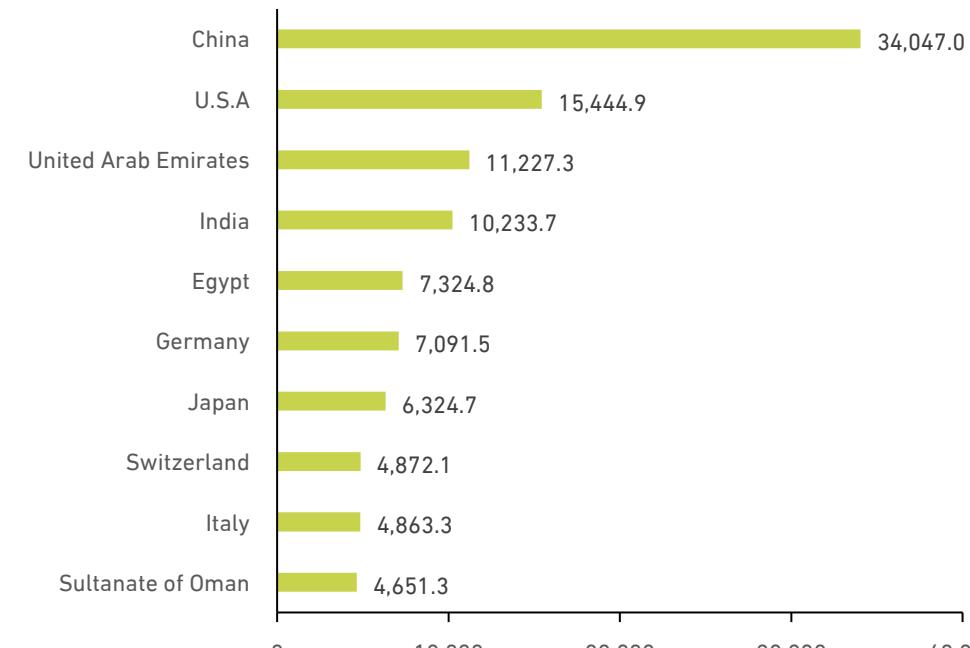


Source: GASTAT

Top 10 countries accounted for 62% of all imports in Q2 2022

Chart 7-13: All imports from countries

Mn SAR



Source: GASTAT

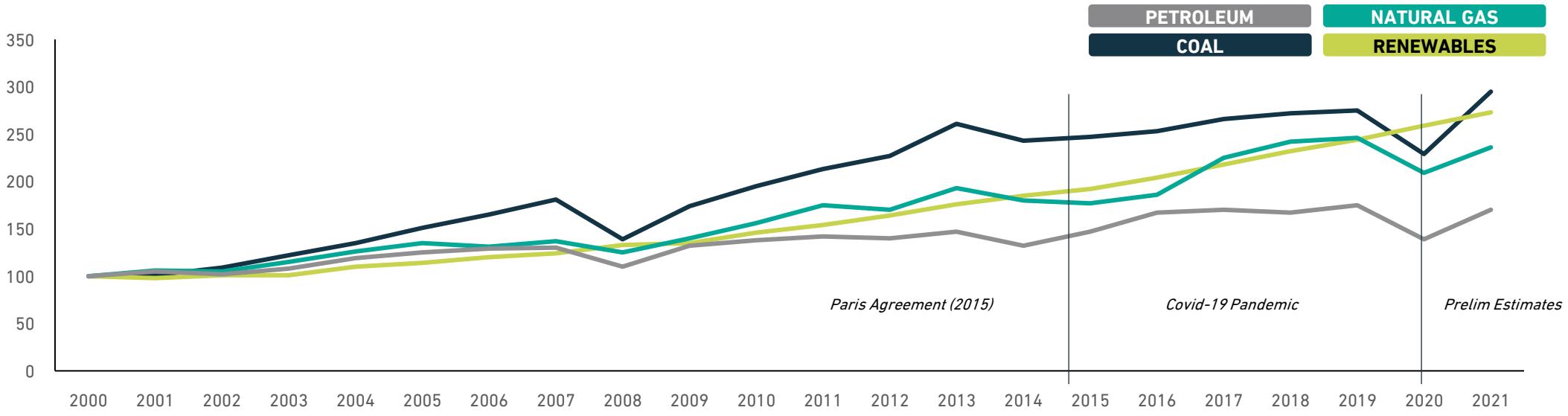
Imports grew by nearly 22% YoY, a change of SAR30.5 Bn from Q2 of the previous year. Imports have also grown by 8.5% since Q1 2022, with a change of SAR13.4 Bn in value. China is the largest import partner in the Q2 2022, with a share of 20% total imports, followed by the USA and UAE, which accounted for 9% and 7% respectively. Machinery equipment accounted for 12.8% of total imports, while transport equipment accounted for 13%.

Global Trade in Coal, Natural Gas, Petroleum and Renewables

Global Trade in Coal has continued to increase between 2000 and 2011 putting at risk an accelerated path to mitigate Climate Change

Chart 7-14: Indexed Global Trade in Energy 2000 to 2021

2000 Index = 100



Source: UNCTAD

The global trade index for coal and renewables increased by 2.9 and 2.7 times in 2021 compared to 2000. However, the trade index for renewable energy and natural gas has seen a greater increase compared to coal and petroleum since 2015. The continued increase in coal in trade statistics causes concerns given risks to global climate change.

The global trade of fossil fuels declined in 2020 during the pandemic but the current ongoing energy crisis may stimulate additional demand for coal in the near future given its abundance, ease of transport and lower cost. In this context, stronger multilateral commitments will be necessary to increase trading of low-carbon fuels and green energy along with progressive policies to address subsidies and pricing. Providing security through multilateral support to countries dependent on energy imports for growth will be necessary.

08

Labor Market

08 Labor Market

Global unemployment in advanced economies in 2022 is estimated to hit 4.7%, down from 6.6% in 2020. The forecast is for the trend to continue stably until 2025 at 4.7%. Countries such as Brazil and Turkey in the G20 are expected to have unemployment rates at 13.7% and 11.3% in 2022. Other countries such as United States, Canada, Argentina and Australia are estimated to reach unemployment rates of 3.5%, 5.9%, 9.2% and 4% respectively.

In Saudi Arabia, in Q2 2022, the overall unemployment rate dropped to 5.8%, down 0.2 percentage points from Q1 2022.

The unemployment rate of Saudi nationals has been trending down from a high of 15.4% in Q2 2020 to 9.67% in Q2 2022, falling to its lowest level since 2002.

Saudi labor force participation increased to 51.8%, rising 1.7 percentage points from Q1 2022. The participation of women has continued to show a strong upward trend, increasing from 25.9% in Q1 2020 to 35.6% in this quarter. Overall, female participation in the labor force has almost doubled in the last 5 years.

In Q2 2022, unemployment among Saudi men dropped by 0.4% to 4.7%, and unemployment among Saudi women decreased by 0.9% to 19.3%.

For non-Saudis, the public and private sector comprises 73% of total employment.

For Saudi men, employment in the public sector has continued to drop from 61.4% in Q1 2022 to 58.7% in the current quarter. Male employment in the private sector increased 1.1% from the previous quarter to hit 40.9% in Q2 2022. However, for Saudi women, the percentage employed in the private sector has increased significantly from 44.4% in Q1 2020 to 61.4% in Q2 2022, declining correspondingly in the public sector.

In terms of hours worked, the average hours worked for both Saudi national and non-Saudi nationals Q2 2022 saw an increase of 5.5% in Q2 2022 from pre-pandemic levels in Q4 2019, against a global decline of about 3.8% in Q1 2022.

Based on current estimates, wage growth for Saudi nationals was up by 6.3% in Q2 2022. The average wage for Saudi men and women rose 3.4% and 15.1% respectively QoQ.

Labor market tightness is being monitored with efforts continuing to reduce unemployment and increase labor force participation, creating new inclusive opportunities for the future of work.

Saudi National and Total Unemployment

Saudi and total unemployment reached 9.7% and 5.8% in Q2 2022

Chart 8-1: Unemployment rate for Saudi nationals and total

%



Source: GASTAT

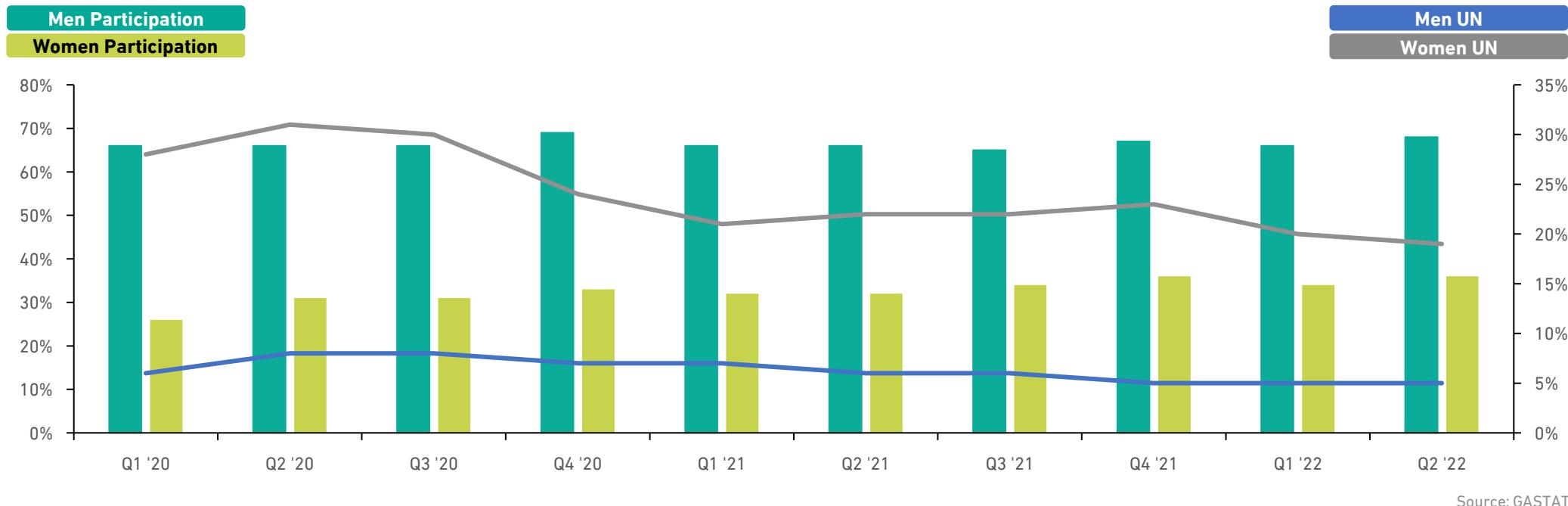
Total and Saudi national unemployment rates increased at the onset of the COVID-19 pandemic in the early part of 2020 but have continued to decline. From a high of 9% and 15.4% in Q2 2020, the unemployment rate has continued to decline to 5.8% and 9.67% in Q2 of 2022 for the all and for Saudi nationals, respectively.

Workforce Participation and Unemployment Rates for Saudi Nationals by Gender

Saudi national workforce participation for women steadily rising with a decline in unemployment rates

Chart 8-2: Unemployment rate for men and women

%



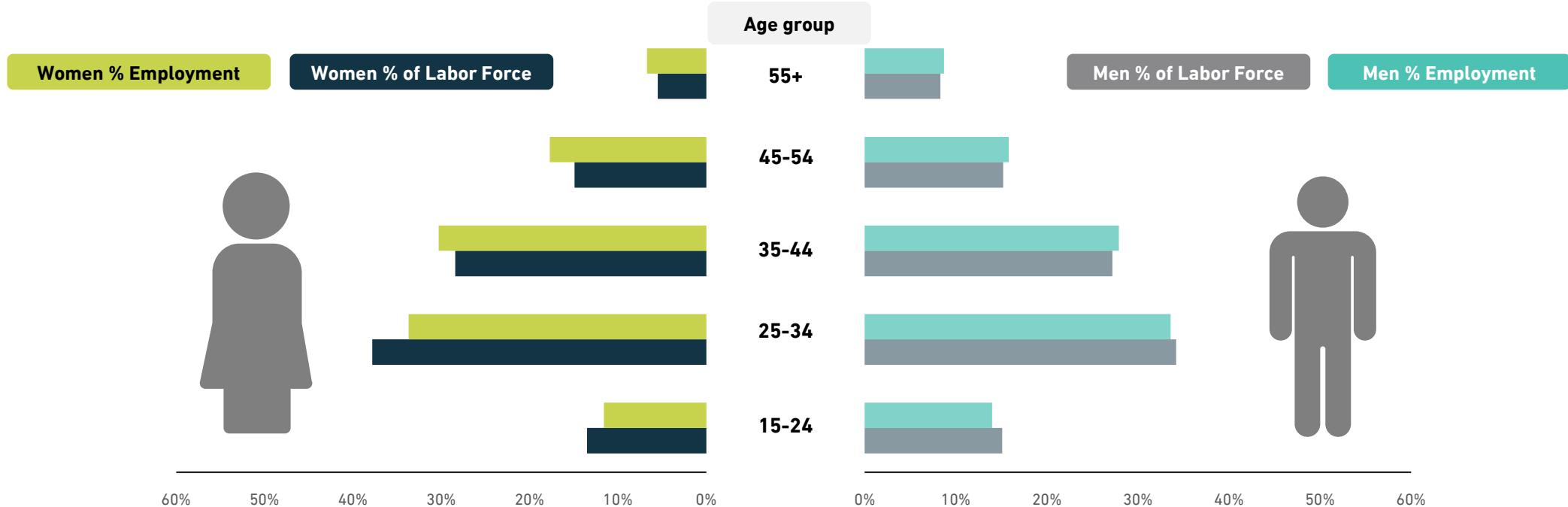
Source: GASTAT

The total Saudi workforce participation rate has increased to 51.8% in Q2 2022 compared to 49.4% in the same quarter last year. Men's participation has increased from 65.8% to 67.5% between Q1 2020 and Q1 2022. Women's participation has continued to show a strong upward trend, increasing from 25.9% to 35.6% during the same period. Historically, women's participation has continued to rise steadily and has almost doubled in the last 5 years from 17.4% in Q1 2017 to the current quarter.

Unemployment among Saudi men and women reduced to 4.7% and 19.3% respectively in Q2 2022, continuing a downward trend that started in Q3 2020 – reaching 2.8% for men, 15.8% for women and 5.8% overall in Q2 2022.

Saudi National Workforce Participation and Employment by Gender and Age Group

Chart 8-3: Saudi participation and employment % by gender and age group
%

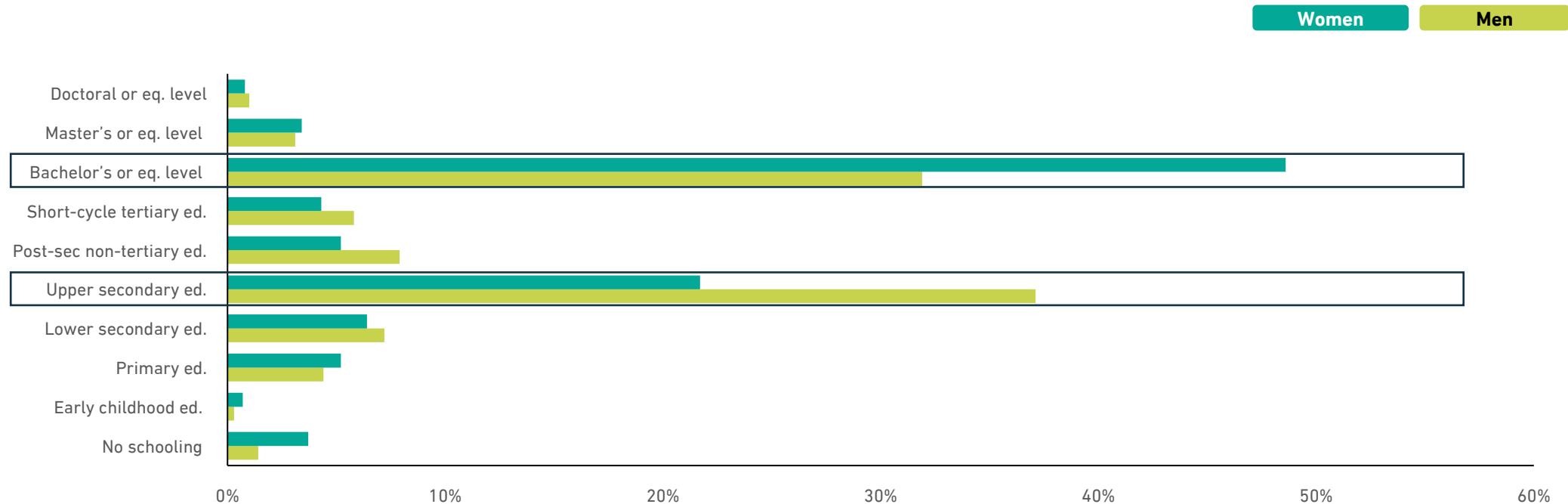


Source: GASTAT

Saudi's largest participation in the labor force is in the 25-34 range for both men and women followed by the 35-44 age group.

Saudi National Unemployment by Education Levels and Gender

Chart 8-4: Saudi unemployment % by education level and gender



Source: GASTAT

Among Saudi unemployed nationals, 48.6% of the unemployed females have a bachelor's or equivalent degree, followed by 21.7% with an upper-secondary education. For men, 37.1% of those unemployed have an upper-secondary education followed by 31.9% with a bachelor's or equivalent degree.



Saudi National Employment by Public and Private Sector

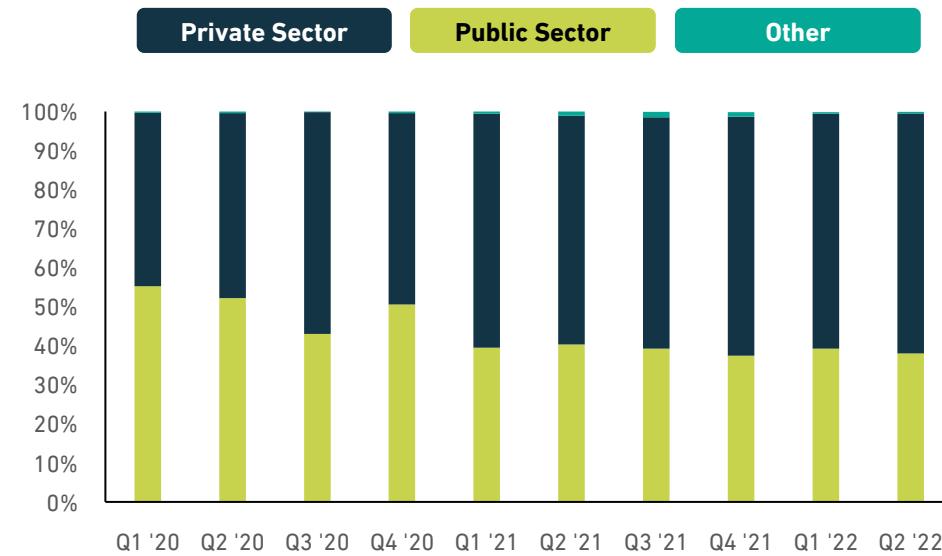
Saudi men employment % in the public sector has shown a slight decline

Chart 8-5: Men employment % by sector %



Saudi women employment % has continued to increase significantly in the private sector

Chart 8-6: Women employment % by sector %



Source: GASTAT

The public sector, private sector are major employers of Saudi nationals in the Kingdom accounting for almost 99.6% in Q2 2022. On the other hand, for non-Saudis, these two sectors account for about 73% of total employment. The remaining 27% being employed by other, undefined sectors. For Saudi men, employment in the public sector has continued to drop from 61.4% in Q1 2022 to 58.7% in the current quarter rising instead in the private sector. Men employment in the private sector increased 1.1% from the previous quarter to hit 40.9% in Q2 2022. However, for Saudi women, % employed in the private sector has increased significantly from 44.4% in Q1 2020 to 61.4% in Q2 2022 declining correspondingly in the public sector.

09

Forecasts and Risks

09 Forecasts and Risks

The IMF's World Economic Outlook from October 2022 suggests a real GDP growth rate of 3.2% and 2.7% in 2022 and 2023. For Saudi Arabia, the IMF projected growth rate is 7.6% and 3.7% for 2022 and 2023 with an inflation forecast of 2.8% for 2022. Given the current economic conditions and geo-political frictions, the IMF revised its global forecasts down from July 2022.

According to the IMF's long-term forecasts, real global GDP growth will be 3.26% through to 2027. During the same timeframe, advanced economies are projected to grow at 1.57%, with India set for stable growth of 6.1%, China recovering to 4.8%, and the Middle East and Central Asia growing at 3.7%.

The Kingdom's growth prospects remain strong with an emphasis on growing non-oil real GDP, building on export performance and continuing to attract global investments. In addition, the Kingdom continues to strengthen its investments in the broader energy sector including renewables, blue and green hydrogen and in low carbon fuels with carbon capture technologies along with research and development efforts to build circular economy ecosystems across sectors.

As the economy slows down globally, it is important to understand and consider the global risks that may influence the progress of Saudi Arabia's economy.

High inflation and the duration of its impact will continue to place stresses on economic growth. The IMF's global inflation forecast suggests headline CPI is expected to peak at 9.0% in Q3 2022, falling to 4.1% by Q4 2023.

Central banks around the world are continuing to raise interest rates to contain inflation and rising prices. However, this will impact loan repayments on debt. According to IIF, in 2021, global debt reached a record \$303 trillion jumping from \$226 trillion in 2020 as reported by the IMF. The global debt-to-GDP ratio in 2021 stood at 351%. To meet debt repayments, more than 100 countries will have to reduce spending and any default could cause panic in financial markets, triggering further economic slow down.

G20 merchandise trade growth slowed in value terms in Q2 2022, despite reaching a record \$7.7 trillion during Q1 2022. Merchandise exports and imports increased by 2.1% and 2.6% respectively in Q2 2022 compared to 4.8% and 6.2% in the previous quarter. G20 service exports and imports also slowed growth of 1.08% and 2.17%, respectively in Q2 2022 against 2.14% and 2.08% the previous quarter. According to UNCTAD, tightening policies and geopolitical tensions are expected to negatively affect global trade in 2022.

Global Foreign Direct Investment flows reached \$1.58 trillion in 2021, a significant recovery from 2020. However, the ongoing conflict between Russia and Ukraine, its spillover effects and the looming recession has rattled investor confidence. Equity market performance slowed down with investors looking for better yields in the bond markets. With global debt distress, global uncertainty has increased investor nervousness reducing their appetite for risk.

09 Forecasts and Risks

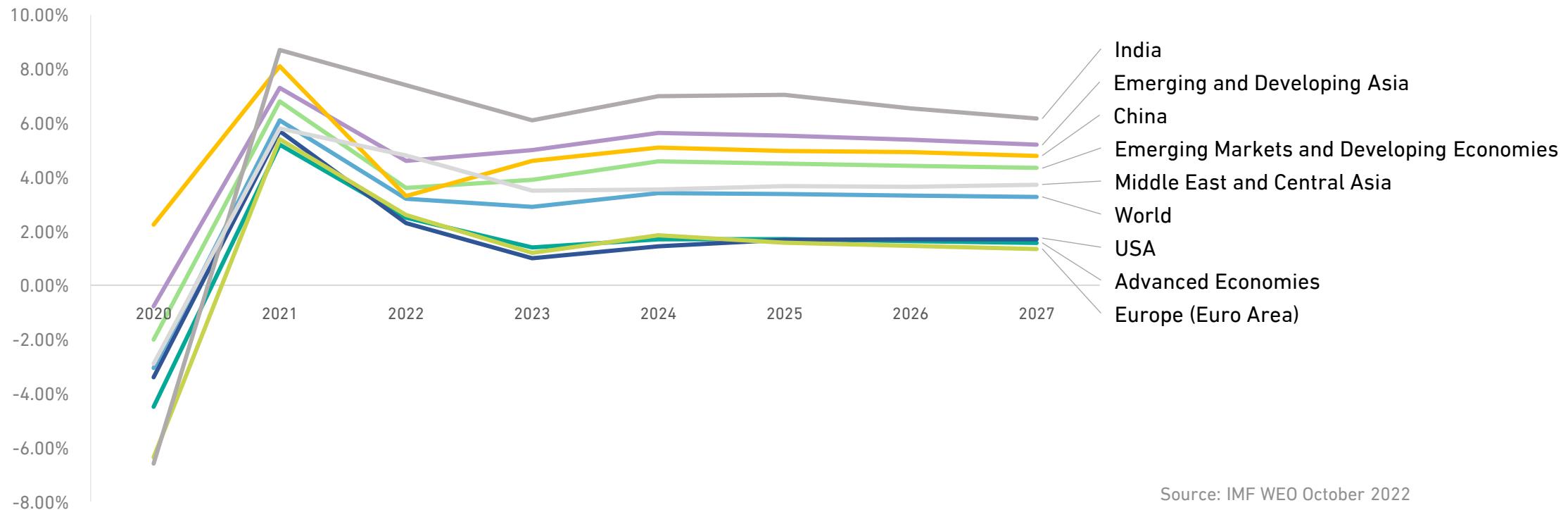
Finally, even though some of the early 2022 energy price hikes may stabilize, EIA's September 2022 forecast projects a Brent crude oil spot price of \$98 per barrel in Q4 2022 and \$97 per barrel in 2023. For WTI crude, the oil price is projected to be \$98 per barrel in 2022 and \$90 per barrel in 2023. However, most energy importing countries – particularly in Europe – will have to find reliable alternate sources to meet their economic development needs. Already some countries have delayed the retirement of coal plants while others are considering coal for greater reliability in power generation. While necessary, such actions may delay global actions to mitigate climate change.

The factors driving the global economic slowdown are important considerations as the Kingdom continues to pursue economic resilience in the longer term and build a sustainable future.

Real GDP Growth Forecast 2022 to 2027 for select Countries and Regions

Chart 9-1: Real GDP growth projections for Select Countries from IMF

% Real GDP Growth



IMF WEO projections from October 2022 suggest real GDP growth for the world will hit 3.3% with India and China growing at 6.2% and 4.8% in 2027. Emerging and Developing Asian markets and the Middle East and Central Asia are projected to grow at 5.2% and 3.7% respectively. These projections are subject to change based on the prolonged impact of current factors affecting global socio-economic development.

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