

SAUDI GROSS DOMESTIC PRODUCT REVIEW 2002 – FORECAST 2003

After recording a growth of 17.1% during 2000 and marginal losses of 1.2% & 0.5% in 2001 & 2002 respectively, the nominal GDP is expected to post a gain of 1.89% assuming an average Arab Light price of \$23/b for 2003 - CCFI forecast.

GDP is the backbone for measuring Economic Development. GDP is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. We provide our readers a historical trend with growth rates in the GDP and its components. The last part of the report deals with GDP projections for 2003.

Saudi GDP for the last 18 years is listed below:

Year	GDP (Nominal)		GDP (Real)	
	GDP	Growth	GDP	Growth
1985	313,941	27.0%	44,936	-4%
1986	271,091	-13.6%	47,511	6%
1987	275,453	1.6%	46,830	-1%
1988	285,144	3.5%	49,923	7%
1989	310,823	9.0%	50,167	0%
1990	391,993	26.1%	55,565	11%
1991	442,037	12.8%	60,284	8%
1992	461,398	4.4%	61,917	3%
1993	443,842	-3.8%	61,511	-1%
1994	450,025	1.4%	61,841	1%
1995	478,651	6.4%	62,005	0%
1996	590,748	23.4%	567,846	na
1997	617,902	4.6%	582,845	3%
1998	546,647	-11.5%	598,508	3%
1999	603,590	10.4%	593,956	-1%
2000	706,657	17.1%	623,193	5%
2001	698,403	-1.2%	632,343	1%
2002	695,000	-0.49%	644,000	1.8%

Source : CCFI Database

Saudi GDP in nominal terms has witnessed 4.79% compounded growth over the last 18 years. In order to understand the growth in the GDP, we use the GDP breakdown provided in the SAMA report namely the Sectoral Break-down i.e. Oil, Non-oil (Government) and Non-oil (Private) and GDP by Type Of Economic Activity. However, before viewing other components of GDP we discuss the contribution of oil to the total GDP of Saudi Arabia.

Oil GDP

The Saudi economy is dominated by the oil sector, which, since the end of the Gulf war in 1991, has contributed an average of 35% of nominal GDP, around 75% of government revenue and 85% of export receipts. The industrial sectors' development is based on the ample availability of hydrocarbons resources, and is strongly influenced by developments in the oil industry.

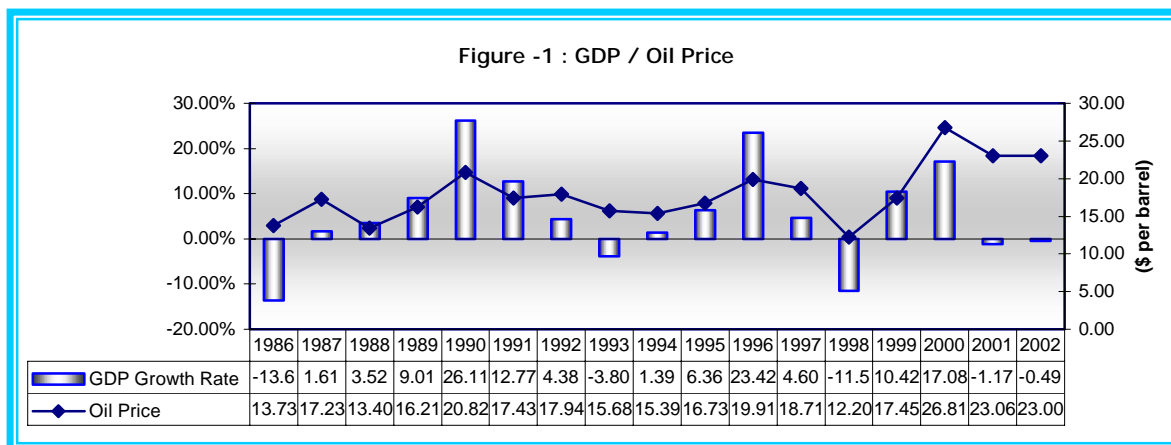
Over the years from 1985 to 2002 the oil sector GDP has shown fluctuations in nominal terms. Incorporating the effect of production and the over-all price, the trend is skewed upwards. Three sharp down turns can be noticed in 1986, 1993, 1998, when the oil prices hit the lowest level during those periods in 2002 where production dropped. However, the movement in constant terms is steady through out the review period showing that the oil sector performance is steady over the number of years.

During the 18 years of study, the share of oil sector GDP ranged from a low of 24% (1988) to a high of 41% (2000). Inter period volatility was observed whenever oil prices showed zigzag movement. While the inter- period volatility was high at nominal prices, the same was true even for real prices due to fluctuating production trends.

Table -2 : OIL GDP			
Years	Nominal (SR Million)	Growth	Proportion of Oil GDP
1985	96958	27%	31%
1986	67461	-30.42%	25%
1987	70443	4.42%	26%
1988	69115	-1.89%	24%
1989	90749	31.30%	29%
1990	146460	61.39%	37%
1991	167525	14.38%	38%
1992	186524	11.34%	40%
1993	158364	-15.10%	36%
1994	157722	-0.41%	35%
1995	175201	11.08%	37%
1996	228525	30.44%	39%
1997	230403	0.82%	37%
1998	155173	-32.65%	28%
1999	201474	29.84%	33%
2000	291803	44.83%	41%
2001	270393	-7.34%	39%
2002*	229,350	-15.18%	33%

Source : CCFI Database *CCFI estimates

Historical trend of the GDP since 1985 reveals wide variations in the growth rates. This can be attributed to the dependency of the Saudi economy on the oil revenues and particularly on oil prices. An historical analysis from the periods 1985 to 2002 reveals certain interesting highlights. The period 1982 to 1987 experienced both real & nominal GDP falling considerably due to fall in production and price of crude. The economy then entered a high growth period from 1988 to 1992. Since then, the GDP was mostly on the upward path except for very few years (1993, 1998, 2001 & 2002).



Source : CCFI Database



SECTORAL ANALYSIS

Saudi GDP can broadly be grouped under three heads i.e. Oil, Non-oil (Government) and Non-oil (Private). In 1985, the proportion of oil sector was 31% including the petrochemical portion of manufacturing while non-oil sector accounted for the remaining share. The proportion touched a high of 41% in 2000 when the oil prices rocketed to \$26.81, but is expected to have come down to 33% in 2002. The private sector growth has been the fastest compared to the other sector at 5.4% per annum (CAGR 1985-2002). This reinforces the increasing role the private sector plays in reshaping the GDP.

Major portion of the GDP is dominated by oil sector and oil sector GDP has been more volatile driving the shape of overall GDP. Oil sector GDP has shown firm growth over the last 17 years except 1998, when this sector was badly hit by oil crises. The year 2001 and 2002 saw drop due to the production drop initiated over OPEC policy. The GDP growth has been at 4.79% per annum (CARG) during the period 1985-2002 but for the year 2003-as per our estimates, it is likely to fall by 1.89% on the basis of base case scenario (refer to section on GDP forecast) where the oil price is expected to be at \$ 23 /b and production to be 7.5 mbpd. The non-oil sector has been steady both for private and government sector and the overall compound growth has been at 5.4% & 3.1% respectively.

Table -3 : GDP BY INSTITUTIONAL SECTORS - NOMINAL			
(SR Millions)	2000*	2001*	2002#
Oil Sector GDP	291803	270393	229,350
Non-oil -Private Sector	271,936	281,509	319,700
Non-oil Govt. Sector	133,268	138,424	139,000
GDP without import duties	697,007	690,326	688,050
Import duties	9,650	8,077	8,077
GDP	706,657	698,403	695,000
Oil Sector GDP/Total GDP	41%	39%	33%
Non-oil sector-Private/GDP	38%	40%	46%
Non-oil sector - govt/GDP	19%	20%	20%

Source: Central Department of Statistics *Preliminary Estimates # CCFI Estimates

GDP COMPOSITION - Economic Sector

In terms of economic sectors, the revised GDP figures published by SAMA show that all the other sectors gained in share for 2001. The notable increase has been in Mining and quarrying where its share jumped from 28.7% to 34.53% and manufacturing (from 7.8% to 10.04%) and the share of construction dropped from 12.34% to 6.16%.

Manufacturing sector has followed almost the same pattern as the oil sector GDP because of the fact that this sector is dominated by petrochemicals, which is directly linked with the oil sector GDP. This is also obvious as in 1998, when oil-exporting countries incurred huge losses due to lower prices, the manufacturing sector GDP also showed negative growth.

Agricultural sector GDP also showed healthy growth of 6.1% per annum (CAGR 1985-2001). Before 1991, this sector had the blessing of large government subsidies and indirect benefits, which gave high boost to this sector.

The growth in this sector has been marginal during the last 5 years. Rest of the sectors comprising transport, wholesale / retail trade, electricity, finance and community sector GDP are following a steady pattern with no volatile growth in these sectors.

In summary we can observe the following:

- Mining & quarrying share in GDP is up from 28.7% in 1985 to 34.53% in 2001.
- Non-oil Private sector share increased to 46% in 2002 from 42% in 1985.
- Manufacturing increases from 7.8% (1985) to 10.04% (2001), thanks to petrochemicals.
- Construction shrunk from 12.34% (1985) to 6.16% (2001).

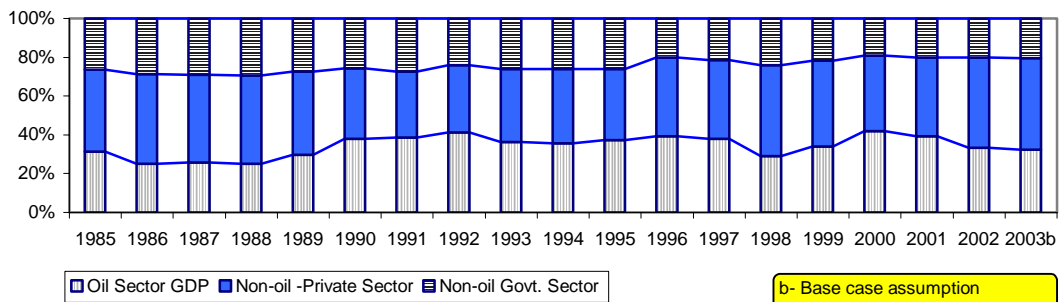


Table - 4 : GDP BY ECONOMIC ACTIVITY- CURRENT PRICES

	2000*	2001*	Growth 2001	CARG (1985-2001)
Agriculture, Forestry and Fishing	34,973	35,708	2%	6.1%
Mining and quarrying	262,399	241,142	-8%	6.3%
Crude, petroleum and NG	259,847	238,492	-8%	6.4%
Others	2,552	2,650	4%	2.4%
Manufacturing	68,290	70,096	3%	6.8%
Petroleum Refining	21,084	20,671	-2%	4.5%
Others	47,206	49,425	5%	8.1%
Electricity, Gas & water	3,015	3,152	5%	15.8%
Construction	41,724	43,018	3%	0.7%
Wholesale & retail trade, restaurants & hotels	47,832	49,506	3%	3.1%
Transport, storage & comm.	29,103	30,500	5%	1.6%
Finance, insurance, real estate & business services	76,129	78,297	3%	6.8%
Ownership of dwellings	43,056	43,835	2%	9.2%
Others	33,073	34,462	4%	4.7%
Community, social and personal services	22,176	23,130	4%	4.7%
Less: imputed bank service charges	7,758	7,976	3%	3.6%
Subtotal	577,883	566,573	-2%	5.1%
Govt services	119,123	123,753	4%	5.2%
Total except import duties	697,006	690,326	-1%	5.1%
Import duties	9,650	8,077	-16%	4.6%
GDP	706,656	698,403	-1%	5.1%

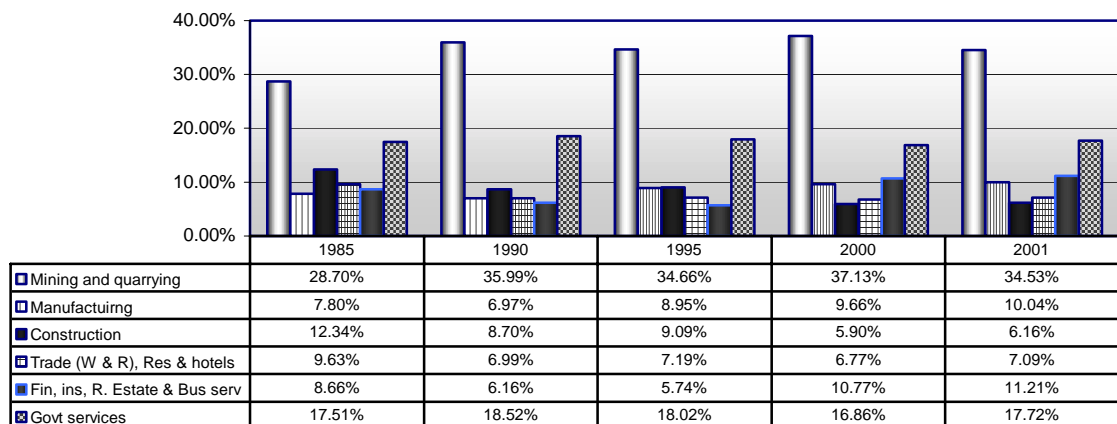
Source: Central Department of Statistics *Preliminary Estimates

Figure -3 : Institutional Sectors - GDP



Source : CCFI Database

Figure - 4 : STRUCTURE - GDP-NOMINAL



Source : CCFI Database



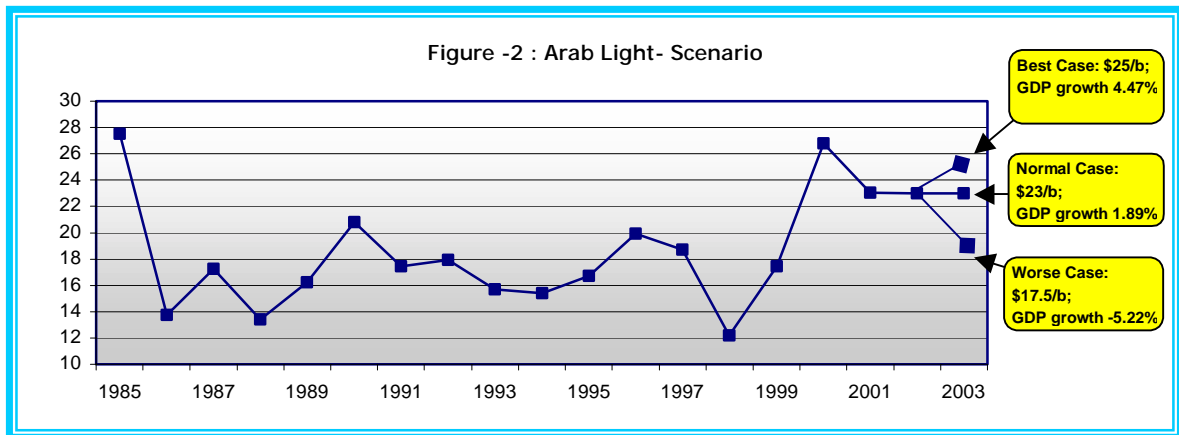
Forecast - 2003

As per an official press release- GDP for 2002, dropped by a marginal 0.49% in nominal terms with the oil sector GDP showing a sharp drop of 15.2% for the year due to lower production owing to OPEC's price manipulation mechanism. The forecast for 2003 GDP is related to oil price movements and the possible war impact. So far during 2003, the average for Brent is \$31.87/b & Arab oil is \$27.79/b (till Feb end) and the Futures - March delivery is still quoted higher at \$ 32 per barrel for Brent.

The volatility in the current political scenario coupled with uncertainty looming over the oil price we present our forecast based on scenario analysis the assumptions are stated below:

Assumptions for the forecast:

1. The 2003 forecast is based on our in-house model whereby we ran a correlation between oil prices movement (Arab oil) and movement in Oil GDP of Saudi Arabia since 1985. The correlation factor was 92%. Using this correlation factor as well as scenario analysis, we attempted to forecast the GDP for the year 2003.
2. We have assumed a steady production of 7.5mbpd for all the three scenarios for our forecast for 2003.



Source : CCFI Database

Scenario Analysis:

We have considered three scenarios: Base Case (Normal Case), Worse Case (Pessimistic) and Best Case (Optimistic). Base case or normal case assumes Arab oil to average \$23/b. Worse case assumes Arab oil average is expected to slip to \$17.5/b and Best case average is expected to be \$25/b. If Arab Light averages \$17.5/b, Saudi nominal GDP is likely to fall by 5.22%. If Arab Light averages \$25/b, the nominal GDP will increase by 4.47%. We have assumed a steady production of 7.5mbpd for all the three scenarios.

The projected growth in GDP for 2003 is around 1.89%. Saudi GDP, which skyrocketed to SR 706 billion in 2000, due to higher oil prices from its low of SR 547 billion in 1998 had been falling down in the past two years primarily due to the lower oil production. The year 2003 GDP is expected to touch SR 708 billion.

Table - 5 : NOMINAL GDP GROWTH FORECAST – SCENARIOS			
Oil Price	Worse Case –	Base Case	Best Case -
	\$17.5b	\$23/b	\$25/b
GDP Sector –Growth	2003	2003	2003
Oil Sector	-23%	-1.69%	6.14%
Private	4%	3.97%	3.97%
Government	2%	2.29%	2.29%
Total	-5.22%	1.89%	4.47%

Source : CCFI Database



Table – 6 : FORECAST-GDP BY INSTITUTIONAL SECTORS (SR Millions)				
	2002	2003		
		Worse Case	Base Case	Best Case
Oil Sector GDP	229350	176104	225482	243440
Non-oil -Private Sector	319,700	332,395	332,395	332,395
Non-oil Govt. Sector	139,000	142,180	142,180	142,180
GDP without import duties	688,050	650,678	700,056	718,014
Import duties	8,077	8,077	8,077	8,077
GDP	695,000	658,755	708,133	726,091
growth		-5.22%	1.89%	4.47%
Oil Sector GDP/Total GDP	33%	27%	32%	34%
Non-oil sector-Private/GDP	46%	50%	47%	46%
Non-oil sector - govt/GDP	20%	22%	20%	20%

Source : CCFI Database

CONCLUSION

Oil prices will continue to play key role during 2003 in terms of economic growth for the Saudi economy. This year will be different from the previous year as the war jitters continue in all the markets and Oil is currently having a premium of \$2-\$3 per barrel. US oil has touched a high of \$39.99 close to the 1990 gulf war high. While it is highly difficult to predict the price of Oil post-war, considering the situation where US would have complete control of Iraq post war, would bring down the prices to less than \$20 per barrel, which is harmful for the Kingdom's economy.

Even if the oil prices were to average \$ 23/b, Saudi GDP is expected to register a growth of 1.89% in current prices. In terms of sectoral composition, the dependence on oil sector GDP continues to influence the fortunes of the overall economic activity though the share is only 33%. This is due to the impact of oil sector on other sectors, especially manufacturing. Saudi economy is in dire need of diversification to reduce the volatile state of growth. This diversification process should be meaningfully accelerated through inviting foreign investments in other areas of manufacturing and services ■