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Business Insight
November 2018 Issue 9. Vol. 4

IN THIS EDITION ...

The early results of Saudi Arabia's transformational reforms are coming in, and they are looking good. Reports by the International Monetary Fund, Institute of International Finance and ratings agencies S&P Global Ratings and Moody's Investors Service all point to strong economic prospects for the kingdom.

Indeed, Moody's raised its outlook for the Saudi economy and now expects growth to expand by 2.5% this year and 2.7% in 2019, up from 2017.

"Although government spending has increased during 2018, we expect a degree of fiscal restraint will continue over the coming years and project average annual real GDP growth of 2.4% over 2018 to 2021," Moody's said in its twice-yearly research update for the kingdom.

Similarly, S&P Global Ratings reaffirmed its strong ratings on Saudi Arabia, noting that the country was supported by its strong external and fiscal stock position, which is expected to be maintained despite ongoing central government deficits.

The agency lauded the government's reforms, which include social measures aimed at increasing labour participation, improving levels of educational attainment, and raising the private sector's role in the economy, while achieving a balanced budget by 2023.

While the wider emerging markets are in a state of flux, relatively higher oil prices, the riyal's peg to the US dollar, large public foreign assets, and low public debt are expected to make Saudi Arabia less prone to emerging market contagion.

The fiscal situation is also now on a firmer footing. The kingdom has implemented substantial fiscal adjustments in recent years, which focused mostly on cuts to capital expenditure.

In addition, higher oil prices, combined with additional non-oil government revenue – as evidenced by the Ministry of Finance's estimates for the third quarter – and cuts in fuel subsidies, should help offset an increase in government spending and narrow the fiscal deficit.

ECONOMIC TRENDS

Impressive performances from the oil and non-oil sectors further strengthened the kingdom's fiscal foundation for the year.

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OIL & GAS

Major crude oil producers are said to be considering their options in limiting output again to avoid the risk of flooding the market and dampening prices.

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HEALTHCARE

Business-friendly reforms, rising populations and a growing demand for social infrastructure are attracting regional and foreign financiers to the kingdom.

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REAL ESTATE

Residential projects are being developed across the country, as the government looks to tackle an increasing demand for homes.

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SME

Latest government-led survey highlights the small and medium businesses' optimism, while also highlighting issues to be addressed to empower the sector.

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CURRENCY

Political, trade, and financial risks are dragging down the world's major legal tenders, undermining global economic recovery.

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SAUDI ECONOMY BOLSTERED BY POSITIVE Q3 DATA

The Saudi economy impressed in the third quarter, with oil and non-oil revenues both showing impressive expansion.

Total revenues in Q3 rose 57% to SAR 223.26 billion, with oil revenues rising 63% to SAR 153.95 billion and non-oil revenues also expanding a hefty 45% to SAR 69.31 billion, according to the kingdom's Ministry of Finance.

Total expenses during the period reached SAR 230.549 billion, an increase of 21% quarter on quarter. The budget deficit for Q3 was SAR 7.287 billion, and the total budget deficit by the end of Q3 2018 amounted to SAR 48.977 billion, compared to SAR 121.458 billion for 2017.

"The improvement in fiscal performance is reflected by the decrease in the deficit with positive oil and non-oil growth, compared to the same period in 2017 and the planned budget," according to finance minister Mohammed Abdullah Al Jadaan.

"This has been the case despite the increase in spending on various social initiatives, such as the Citizen Account, living allowances, and capital expenses on infrastructure. We are determined to continue our economic reforms to achieve the Fiscal Balance Programme's objectives, by raising revenues, improving government spending efficiency, and stimulating economic growth," he added.

Total revenues in the first nine months of the year rose 47% to SAR 663.11 billion. Public debt increased from SAR 443.253 billion at the end of 2017 to SAR 549.516 billion at the end of Q3 2018.

Meanwhile, third quarter report of the Saudi Arabian General Investment Authority (SAGIA) has shown a 90% surge in the number of licenses granted to foreign and domestic companies investing in the kingdom to 499, compared to the same period in 2017.

The Purchasing Managers Index (PMI) also suggests Saudi corporations are bullish about economic activity, according to Markit, which tracks global business sentiment.

Business optimism about future output increased markedly in October, with nearly half of all firms surveyed expecting their output to be higher in a year's time, while the other half expected current levels of output to be sustained, Markit said.

"The rise in Brent oil prices to over USD 80 per barrel on average last month – the highest level since October 2014 – likely contributed to improved business sentiment, and the government also signalled increased budget spending in 2019 in its pre-budget statement released in October."

'NUMBERS ARE TALKING'

The government has been moving quickly to restructure the economy despite higher oil prices.

"The numbers are talking and changing every day for the better. When we look at figures in the last two or three years, for example, non-oil revenues are almost tripled, and we find that the current budget is the largest budget, in the history of Saudi Arabia," said Mohammed bin Salman bin Abdulaziz, crown prince, vice president of the Council of Ministers, and minister of defence, who is also chairman of the board of directors of the Public Investment Fund, at an investment event in Riyadh.

For 2019, budget will exceed the SAR 1 trillion barrier for the first time, and salaries expenditure will fall to 45%.

"We believe that the unemployment figures will improve next year until we reach 2030," the crown prince said. "The size of the public investment fund, for example, was three years standing at USD 150 billion and this year reached USD 300 billion."

Ratings agencies have also backed the country's promising economic growth trajectory. S&P Global Ratings affirmed Saudi Arabia's A-A2 rating, with a stable outlook, on the back of higher-than-expected revenues.

"The stable outlook is based on our expectation that moderate economic growth will continue through 2021, supported by rising government investment," said S&P in its October report.

"At the same time, we expect that the Saudi authorities will continue to take steps to consolidate public finances over the next two years, while maintaining the government's large stocks of liquid external assets. We could raise the ratings if Saudi Arabia's economic growth prospects improved markedly beyond our current assumptions."

Similarly, Moody's Investor Service raised Saudi Arabia's GDP growth forecasts for the period 2018 and 2019 to 2.5% and 2.7%, respectively, instead of its previous expectations of 1.3% and 1.5% for the same period, as reported in April this year.

The government's reform programme, including the plans to balance the fiscal budget by 2023, could over time offer a route back to a higher rating level.

"In addition to the moderate funding requirements, the government is able to access ample sources of liquidity, from both domestic or international capital markets and financial reserves. It is unlikely to face problems in financing the fiscal deficit," the ratings agency said.

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OPEC LOOKS TO BALANCE OIL DEMAND-SUPPLY DYNAMICS

After a promising start this year, crude oil prices have plunged 19% over the past month, compelling oil producers to consider output cuts to balance the market.

The latest meeting of the Organisation of the Petroleum Exporting Countries (OPEC) and its non-member allies noted that the current oil supply and demand fundamentals, as well as prospects for 2019, point to higher supply growth than global requirements, taking also into account current uncertainties.

The OPEC-Non-OPEC Joint Ministerial Monitoring Committee also believes "that the dampening of global economic growth prospects, in addition to associated uncertainties, could have repercussions for global oil demand in 2019 – and could lead to widening the gap between supply and demand," the countries said in a statement after a meeting in Abu Dhabi.

The oil trading organization is now making the case for production cuts to balance markets, noting that the oil inventories are piling up once again after a period of equilibrium in markets. OPEC cuts its projections for global oil demand growth by 70,000 barrels per day (bpd) to 1.29 million bpd, according to its November forecast.

"Although the oil market has reached a balance now, the forecasts for 2019 for non-OPEC supply growth indicate higher volumes outpacing the expansion in world oil demand, leading to widening excess supply in the market. The recent downward revision to the global economic growth forecast and associated uncertainties confirms the emerging pressure on oil demand observed in recent months," OPEC said in its latest report.

MORE INVESTMENTS NEEDED

Meanwhile, non-OPEC oil supply growth forecast for the new year was raised by 0.12 million bpd to stand at 2.23 million bpd, taking it to 62.09 million bpd.

"The US, Brazil, Canada and the UK are expected to be the main growth drivers, while Mexico, Norway, Indonesia and Vietnam are projected to see the largest declines," said OPEC. "There are many challenges and uncertainties with regard to the 2019 non-OPEC supply forecast, including oil transport infrastructure constraints in the US and Canada."

The OPEC report comes as the International Energy Agency (IEA) suggests greater investments in the oil sector is required to meet rising demand.

The IEA forecasts oil consumption to grow in coming decades, due to rising petrochemicals, trucking and aviation demand.

"But meeting this growth in the near term means that approvals of conventional oil projects need to double from their current low levels," the IEA said in its latest World Energy Report.

"Without such a pick-up in investment, US shale production, which has already been expanding at record pace, would have to add more than 10 million bpd from today to 2025, the equivalent of adding another Russia to global supply in seven years – which would be an historically unprecedented feat."

ARAMCO PROJECTS

Shrugging off the short-term oil price volatility, Aramco is pursuing an ambitious path to become a major industrial company. In October, the state-owned oil company signed 15 memoranda of understanding (MoU), with a total value of USD 34 billion, with 15 international partners.

The MoU included an agreement with French energy company Total SA to launch engineering studies to build petrochemical complex in Jubail, while another MoU will focus on the potential creation of a retail service station network in the kingdom.

Aramco also signed an MOU with South Korea's Hyundai Heavy Industries regarding potential investments in King Salman International Maritime Complex for Industries and Services at Ras Al Khair.

Other MOUs were with oilfield services companies Baker Hughes GE, Schlumberger Ltd., Halliburton Co., Oilfield Supply Center Ltd.

The spate of agreements also included an understanding with Flex-Steel Industries Inc. to invest in RTP reinforced thermoplastic pipe facility, and with UAE's National Petroleum Construction Company to invest in a fully integrated fabrication yard and marine base.

An MoU with South Korea's SeAH Changwon Integrated Specialty Steel Co. Limited was signed to invest in the localisation of engineering steel. In addition, Aramco signed an MoU with India's GumPro Drilling Fluids Pvt. Ltd to invest in drilling chemicals facility.

Saudi Arabia's ACWA Power and US Air Products & Chemicals are also in discussions with Aramco to develop gasification power project in Jazan Refinery, while Japan's Sumitomo Corp. is considering a potential

investment to upgrade PetroRabigh Refinery.

Chinese defence conglomerate China North Industries Group Corp is also mulling potential investments in refining and chemicals projects, while US National Oilwell Varco Inc. is eyeing investments in manufacturing and repair of onshore rigs and equipment.

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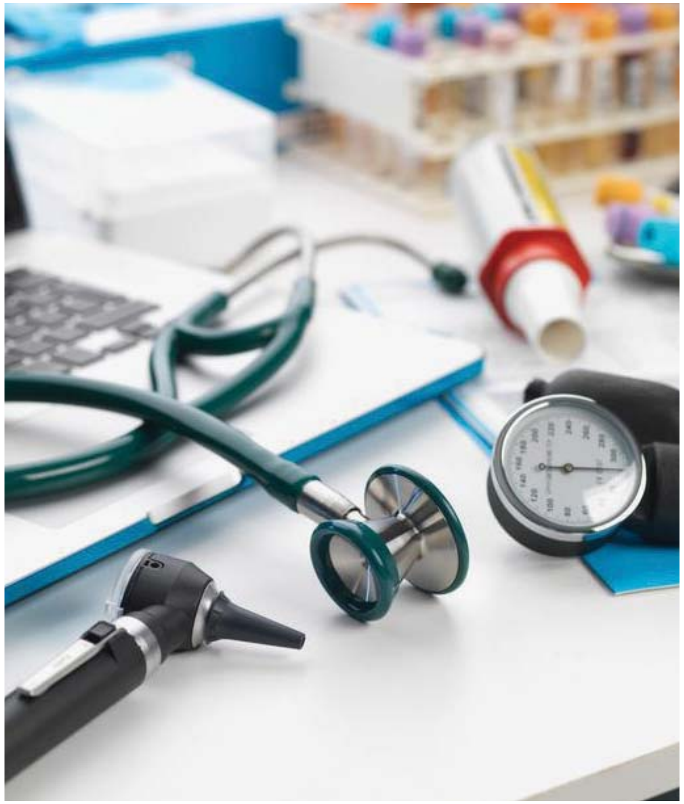
INVESTORS SEE OPPORTUNITY IN SAUDI HEALTHCARE

The healthcare sector of Saudi Arabia continues to expand, as international and regional investors find eye-catching opportunities.

NMC Health (NMC), a London-listed international private healthcare operator with presence across 17 countries, and Hassana Investment Company (Hassana), the investment arm of the General Organisation for Social Insurance (GOSI) of Saudi Arabia, signed a memorandum of understanding (MoU) to study the formation of a joint venture to acquire and develop a pan-Saudi Arabia network of world-class healthcare facilities, with a capacity of up to 3,000 beds.

"This MoU targets a total investments value of up to SAR 6 billion over the next five years and to employ up to 10,000 employees, including full- and part- time positions. At inception, the proposed JV will become one of the largest private healthcare operators in Saudi Arabia with a



combined capacity of 1,489 beds (664 beds contributed by five NMC facilities and 825 beds by two National Medical Care facilities," the companies said in October.

Prasanth Manghat, chief executive of NMC, added in the statement: "The Saudi government's forward-looking and investor-friendly policies make the kingdom one of the most attractive destinations in the region for investment in the healthcare sector."

Saudi authorities are also looking to collaborate with world-class international health facilities.

In October, the King Faisal Specialist Hospital and Research Centre (KFSH&RC) signed an MoU with Great Ormond Street Hospital for Children in London (GOSH) to build and foster clinical, educational, and research collaboration that enhances the development and delivery of paediatric services in diagnosis and therapy of rare medical conditions.

"This collaboration fits in the context of the strategic plans to build partnerships with the international medical institutions to develop world class research and specialised medical services," said Dr Rashed Alhamid, assistant chief executive officer for hospital operations at KFSH&RC.

"It will help KFSH&RC to continue achieving its mission of becoming one of the regional and international leading institution in specialised healthcare taking into consideration the main hospital in Riyadh, Jeddah branch and the 300-bed new Meeqat Hospital in Al Madinah Al Munawwarah that was converted, upon the directives of the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud recently, to KFSH&RC as a new branch."

The two healthcare institutes aim to work closely to boost cardiology, radiology and haematology services. They will also pursue joint education initiatives, such as the GOSH International Fellowship Programme, to train postgraduate medical students from Saudi.

GROWTH OPPORTUNITIES

Healthcare companies are drawn to Saudi Arabia as it looks to upgrade its infrastructure. Rising populations, affluent lifestyles and the desire to seek domestic medical assistance, rather than go abroad, are driving expansion of the healthcare sector in the kingdom.

Another key driver is the roll out of the mandatory private health insurance programme. The Ministry of Health has also set out a number of goals in relation to the Saudi Vision 2030.

These include raising private healthcare expenditure from 25% to 35% of total healthcare expenditure, raising the number of licensed medical facilities from 40 to 100, enhancing the number of internationally accredited hospitals, and doubling the number of primary healthcare visits per capita from two to four.

As part of that effort, the National Centre for Privatisation unveiled plans to privatise the health sector in line with the Supervisory Committee's approved plan to privatise 10 sectors earlier this year.

The Supervisory Committee has established a government-owned holding company and five regional companies to facilitate the transformation and restructuring of the health sector.

The committee has identified nine areas for private sector participation, which include healthcare centres, operating hospitals, medical cities, and radiology clinics, as well as rehabilitative treatment, extended care, home care, laboratories, pharmacies and supplies.

The study also covered the corporatisation of the General Organisation for King Faisal Specialist Hospital and Research Centre to become a commercially operated non-profit company with the objective of upgrading healthcare services provided to patients.

"Privatisation will result in the modernisation and establishment of new health care centres, the enhancement of efficiency and quality, the establishment of a competitive market to provide healthcare services to meet the growing needs in the sector, and the establishment and maintenance of an efficient logistics system serving the sector in the kingdom. It will also provide sustainable employment opportunities for the citizens in strategic sectors," according to a statement by Saudi Press Agency.

NEOM USHERS IN SPATE OF PROPERTY DEVELOPMENTS IN SAUDI

A new residential development – coupled with a state-of-the-art lifestyle and a tourist destination for citizens and visitors – is emerging in Saudi Arabia, which is expected to generate strong flow of foreign direct investment.

In October, the government announced that it will begin first phase of development of the USD 500 billion NEOM smart city project, after preparation works to develop the infrastructure of the first residential area accelerated.

"Work on the first airport in NEOM is expected to be completed before the end of 2018 with bi-weekly flights operating to and from NEOM scheduled at the start of 2019," according to the Saudi Press Agency. "This comes as part of a general plan to establish a network of airports in NEOM that will include an international airport with world-class standards."

Launched in 2017, the smart city development is spearheaded by the Public Investment Fund, the kingdom's sovereign wealth fund, and will also feature a variety of local and international investors.

Located in the strategically important north-west region of the country, straddling the Middle East and Africa, and at the crossroads of Asia and Europe, the city will be spread over an area of 26,500 square kilometres – slightly smaller than Belgium.

Its location on the Gulf of Aqaba will ensure that residents enjoy an uninterrupted coastline stretching over 468 kilometres, with a dramatic mountain backdrop rising to 2,500 metres to the east.

The site will also become the gateway to the King Salman Bridge, connecting Asia and Africa, further elevating the economic zone's significance.

"NEOM's land mass will extend across the Egyptian and Jordanian borders, rendering NEOM the first private zone to span three countries," according to the company.

The government has identified 16 economic sectors to create a sustainable economy, which are expected to generate an annual income of USD 100 billion.

"We are aware of the challenges we face in developing a mega project such as NEOM as it will be the largest international special zone in the world in terms of size and scale of investments," said Nadhmi Al-Nasr, chief executive officer of NEOM.

"However, our capabilities, backed with strong political, financial and logistical support, will enable us to achieve what we plan for, especially that we are dealing with a greenfield project in an untouched land."

NEW PROJECTS

While the government is keen to build a brand new residential city with the latest amenities, it is also proceeding with a number of projects in main metropolises to address Saudi's housing shortage.

In October, the Ministry of Housing's Eskan Programme signed two agreements and a memorandum of understanding (MoU) to boost investment in the country's housing sector. The investment included a co-operation deal between US-based Katerra and the Eskan Programme to build 50,000 housing units annually and six to eight plants specialised in modern construction technologies, which will create 15,000 jobs.

A separate MoU focuses on a residential real estate development in the Al Asfar project valued at USD 2.7 billion with PowerChina International Group and National Housing Company to build 17,000 housing units over the next six years. The development will create 4,000 jobs in the sector.

Another USD 1.2 billion agreement was sealed with Alameriah and Sany (a Saudi-Chinese Partnership) for the construction of three housing projects featuring 9,500 units in Dammam and Jeddah.

In addition, the Ministry of Housing is developing the first phase of 'East Gate' project, in conjunction with Hamad and Ahmed Mohammed Al-Mozaini Real Estate Company.

Phase 1 is expected to be completed in 36 months and will feature 2,129 affordable villas at a cost of SAR 1.4 billion.

East Gate is considered one of the largest fully integrated affordable housing projects in the kingdom, extending across 6.5 million square metres of land and providing almost 6,000 residential villas in total.

The government is also looking at new technologies to boost housing requirements. The National Housing and Industrial Development and Logistics Programme recently announced that it had succeeded in the first home building experience using 3D printing technology, considered a breakthrough fourth-generation building technology.

While new real estate projects are springing up, the sector is still in a stage of flux. The country's Real Estate Price Index, which measures the performance of the real estate market, remains muted, in a sign that prices remain at the lower end.

The Real Estate Price Index moderated 2.1% for the residential sector in the third quarter compared to the same period last year. Villa prices eased 1.4%, while apartments fell 2% during the period, according to the General Authority for Statistics.

Compared to the third quarter of last year, prices have fallen 3.8% in the third quarter of 2018.

REFORMS AND VISION 2030 GIVE HOPE TO SAUDI SMEs

Easy licensing, deployment of electronic services and Vision 2030 are seen as key drivers of growth by Saudi's small and medium enterprises (SMEs).

The kingdom's General Authority for Statistics' latest survey on SMEs underscores a strong sector that is also a job creator with the potential to be a major economic contributor.

The Saudi government has made great strides in creating a business environment conducive to the growth of SMEs. The SME 2017 survey by GSTAT shows that there were 977,535 SMEs established in the country, with 852,268 considered micro entities with one to five employees, 117,461 small enterprises with six to 49 employees, and 7,806 medium-sized companies with 50 to 250 employees.

Close to half, or 462,293, of the businesses are focused on wholesale and retail trade, repair of motor vehicles and motorcycles. Manufacturing accounted for 106,788 businesses in total, while accommodation and food services activities made up 104,525 of the total number.

Other major areas of economic activity are agriculture, which accounted for 93,923 establishments, and other services, which made up 69,581 of the total.

The SME sector employed 4.48 million people in the country at the end of last year, according to the survey. Of these, 1.14 million or 25.5% were Saudi nationals, while the remaining 3.37 million were non-Saudi employees.

Wholesale and retail employed 348,716 Saudis, followed by manufacturing with 108,874 and education services which created 93,732 jobs for Saudis.

For non-Saudis, wholesale and retail was the biggest source of employment, accounting for 1.17 million, followed by 520,597 jobs in manufacturing and accommodation and food services, which has created 416,601 jobs.

GROWTH DRIVERS

The GSTAT survey shows that 45% of micro businesses consider ease of licensing application as their biggest contributor to growth. Around 18% of micro-enterprises also believe the use of electronic services will help them boost their business, while 14% say Saudi Vision 2030 will offer them great opportunities to expand their operations.

For 36% of small enterprises, the deployment of electronic services tis considered the major driver, with 29% focused on ease of licensing, and 15% on Vison 2030.

As much as 67% of medium-sized enterprises believe electronic services is going to be the biggest contributor, while 32% think government support and loans will help build their business and 18% believe ease of licensing is an important factor.

The importance of electronic services is evident in the respondents' use of digital devices to market their products and services. As many as 58% of companies involved in financial and insurance activities deploy electronic services to attract customers, 56% in information and communications services, 49% in water supply services, 44% in education, and 42% in electricity and air conditioning services.

For now, SMEs are primarily relying on the private sector to boost growth, with public establishments not seen as key customers for most businesses.

The survey shows that information and communications services has the highest percentage of government customers, at around 18% (for companies with 50 to 250 employees). However, most other sectors have low patronage from government entities.

The Saudi government is looking to address the issue with major public sector companies and institutions creating programmes to outsource some of their requirements to the SME sector.

KEY CHALLENGES

The survey also highlights the major obstacles facing SMEs as they look to start their services. Micro enterprises pointed out electricity prices as their major issues, with 30% believing it to be the biggest obstacle, 16% cited lack of availability of skilled labour as an issue, while 15% said government procedures and bureaucracy was among their big impediments.

For small enterprises, lack of skilled labour and labour laws and regulations were equally vital issues, representing 19% each, while 17% considered land and rents as major impediments. Around 16% said government procedures and bureaucracy was an issue for them.

For medium-sized enterprises, 23% cited availability of skilled labour as an issue, another 23% see labour laws and regulations as an obstacle and 16% believe government procedures and bureaucracy were obstacles during creation and start-up.

For established companies, the challenges were different. 25% of micro-enterprises felt availability of finance was a challenge, and 13% focused on low demand as an issue. Among small enterprises, 14% thought availability of finance, and another 14% pointed to local competition as their main challenges.

And for medium-sized companies, 21% pointed to availability and skills of labour as their most vital issue, while 13% each considered availability of finance, local competition, machinery equipment and technology and foreign competition as one of their key challenges.

The SME survey underscores the sector's strengths and weaknesses, but it is clear that there is a strong foundation to build on.

CURRENCIES ON SHAKY GROUND AS GLOBAL JITTERS MOUNT

Volatility in the global economy is impacting currencies.

In the United States, the recent midterm elections has the makings of gridlock in Congress, while the US-China trade spat looks unlikely to be resolved anytime soon. Across the pond, the UK is bracing for a less-than-advantageous Brexit with the European Union, while Italy is facing a fiscal crisis.

Meanwhile, emerging markets are routed due to a combination of low growth, trade protectionism concerns and volatile oil prices.

Amidst these challenges, the American dollar appears to be the biggest beneficiary. The greenback has surged 5.8% year to date against a basket of currencies in tandem with the US economy, which is outpacing growth in the developed world.

US real gross domestic product (GDP) increased at an annual rate of 3.5% in the third quarter of 2018, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.2%.

But even that may not last as there are concerns that the US fiscal stimulus package is tapering off and the economy is left with a mounting deficit amid more political deadlock.

In fiscal year 2018, the US budget deficit reached USD 779 billion – USD 113 billion more than the shortfall recorded in 2017, according to the Congressional Budget Office. "Measured as a share of GDP, the deficit increased to 3.8% in 2018, up from 3.5% in 2017 and 3.2% in 2016."

YUAN WEAKENS SLIGHTLY

And despite tariffs imposed by the US, China is defying the odds, for now. Chinese exports grew in October. While shipments to the US were maintained, exports to wider world grew even faster, suggesting that global demand is more resilient than expected.

A weaker Chinese yuan also helps the country's exporters. Imports also beat expectations, powering ahead at 21.4% year on year in US dollar terms.

The US dollar has grown just over 7% against the Chinese yuan year to date. Beijing is expected to take measures to keep the yuan competitive.

To mitigate impact from escalating trade tensions, People's Bank of China (PBoC) has announced further cut in required reserve ratio by 1%,

effectively injecting RMB 750 billion liquidity.

RMB has slightly weakened against USD amidst still heightened trade tensions and on-track rate hike cycle in the US. However, defying expectations, export growth rose in October. While shipments to the US held up well, those to other parts of the world grew even faster, suggesting that global demand is more resilient than expected.

"More importantly, exports to the US are only one-fifth of China's total exports and they actually lagged those to the other parts of the world," according to Oxford Economics. "This suggests that global demand may be holding up better than feared, while a weaker Chinese yuan is also helping the country's exporters – the currency has weakened on a trade-weighted basis as well as against the US dollar."

EURO FACES RISKS

Europe is also going through a rough patch after posting strong growth. The continent's economy continued to expand in the first half of 2018, although at a slower-than-expected pace, specifically in its advanced region, according to the International Monetary Fund (IMF).

"Driven by domestic demand, economic activity continued to expand in the first half of 2018," the IMF said in its latest health check of Europe's economy. "But the outlook is less favourable, with several forces likely to hamper economic growth."

The IMF also noted that high oil prices has dampened income, while manufacturing growth cycle is maturing amid a lacklustre global economy.

Meanwhile, Italy's new ruling coalition government is facing some challenges after its proposed spending plans intended to boost near-term growth was rejected by the European Union.

The American dollar has fallen 6.5% against the euro, but the currency may be fast losing steam. All these challenges in Europe mean risk to the economic outlook have increased.

"In the short term, escalating trade tensions and a sharp tightening in global financial conditions could undermine investment and weigh on growth," said the IMF. "In the medium term, risks stem from delayed fiscal adjustment and structural reforms, demographic challenges, rising inequality, and declining trust in mainstream policies."

The European Central Bank is expected to signal that it will hold rates until 2019, especially given the latest GDP contraction in Germany, which suggests a slowdown across the Eurozone is imminent.

However, ECB president Mario Draghi's speech in November struck a positive tone as he characterised the eurozone economy as "resilient" and insisted that risks remain "balanced". He essentially confirmed the end of the ECB's asset purchases in December. Yet he also warned that a more uncertain economic outlook could impact firms' margins, leading to a slower convergence towards its inflation target.

In the UK, prime minister Theresa May and European Union (EU) officials have agreed the draft text on Brexit withdrawal deal, putting the country a step closer to making an orderly departure from the EU in March 2019. But May now faces a tough job in securing parliamentary approval for the deal.

The UK sterling is down 4.9% against the US dollar, but up 1.71% against the euro.

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