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IN THIS EDITION ...

The kingdom is set to propel its digital transformation forward with the establishment of an artificial intelligence (AI) academy in collaboration with the Saudi Data and Artificial Intelligence Authority (SDAIA) and AI tech giant Nvidia.

The Industrial Artificial Intelligence Academy underscores the critical need to cultivate qualified national talents, enabling them to compete globally and achieve ambitious objectives. The academy aims to empower a new generation proficient in leveraging industrial AI to revolutionise smart spaces and operations. Additionally, it seeks to foster partnerships with leading technical entities to drive the development of advanced technologies, thereby significantly advancing industrial AI in Saudi Arabia.

The initiative reflects the kingdom's aspirations to play an active role on the global stage and harness AI for the improvement of humanity. The academy's inauguration is part of SDAIA's ongoing efforts as the national authority for data and AI, highlighting the importance of nurturing skilled national talents and enhancing global competitiveness through the integration of AI in smart cities. Ultimately, the initiative aims to position the kingdom as a global leader in cutting-edge technologies and AI-related advancements.

The strategic partnership with Nvidia will support and strengthen the region's digital economy, with a particular focus on Saudi Arabia, which is recognised as the largest market for technical innovation in the Middle East and North Africa (MENA) region. The two parties have also explored the potential of generative AI in supporting digital transformation and investment opportunities, including fostering innovation in deep technologies and maximising the social and economic benefits of implementing generative AI techniques in the digital sector.

An International Center for AI Research and Ethics (ICAIRE) is also being established in Riyadh, along with UNESCO's approval of it as an international Category 2 centre. The vision includes positioning the kingdom as a leader in ethical AI globally by providing support for research and development in the field of AI, increasing awareness of the ethics of AI, providing advisory support in AI policies, and supporting capacity-building in AI.

The initiatives are part of Saudi Arabia's efforts to become a top AI tech hub in the region and beyond.

ECONOMY

The kingdom has reasons to be cheerful about its economy despite the oil sector hitting the brakes, as other macro fundamentals remain strong.

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MANUFACTURING

Saudi and its partners are investing heavily in advancing initiatives that will help meet their sustainable development goals.

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OIL MARKET

Oil will continue to occupy a dominant spot in the global energy mix, at least in the foreseeable future, as post-pandemic recovery influences consumption trends.

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PETROCHEMICALS

Increasing need for diverse petrochemical products, including green chemicals, has opened a new world of opportunities for regional manufacturers.

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SME

Through funding and training programmes, authorities have created a fertile ground for start-ups and entrepreneurs to thrive in the kingdom.

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HIGH GROWTH AND LOW INFLATION FUEL OPTIMISM IN SAUDI

Saudi Arabia's real GDP for 2023 decreased by 0.9% compared to 2022, according to the General Authority for Statistics (GASTAT). The decline has been attributed to a 9.2% slowdown in oil activities despite the robust non-oil and government activities, which grew by 4.6% and 2.1%, respectively.

Real GDP fell 3.7% in Q4/2023 compared to Q4/2022, due to the 16.4% decrease in oil activities, while non-oil activities and government activities grew by 4.3% and 3.1%, respectively, on an annual basis.

Seasonally adjusted real GDP recorded a growth of 0.4% in Q4/2023, compared to the previous quarter (Q3/2023). This was due to a 2.6% increase in non-oil activities. Government activities rose by 1.1%, while oil activities recorded a decrease of 2.7%.

Meanwhile, net flow of foreign direct investment (FDI) in the kingdom reached more than SAR 11 billion in the third quarter of 2023, compared to almost SAR 13 billion in the second quarter, a 10% drop. But when compared with the SAR 9 billion recorded in the first quarter of 2023, the Q3 figure was 26% higher.

GASTAT also noted in its quarterly report that FDI inflows reached about SAR 17 billion during the third quarter of 2023, compared to SAR 19 billion in the second quarter, while outflows stood at about SAR 5 billion in Q3, as against SAR 7 billion in the second quarter.

KEEPING A LID ON INFLATION

Inflation, which has been a key source of pain for consumers and businesses in many countries, remains contained in Saudi Arabia. The consumer price index (CPI) rose 1.5% in December versus the same period in 2022, and down from 1.7% in November.

Business conditions continued to improve in January, but the pace is slowing, according to the latest S&P Global purchasing managers' index (PMI). The upturn remained strong overall and widespread across the wider economy.

"Activity continued to increase due to a rise in new business intakes, however the rate of sales growth eased considerably to a five-month low. Several businesses reported a slowing of demand momentum amid competitive pressures," S&P Global reported.

The International Monetary Fund (IMF) also revised upwards its expectations of the kingdom's economic growth to 5.5% in 2025, an increase from its previous estimate of 4.5% issued in October 2023. Saudi GDP is expected to rise 2.7% in 2024, 1.3 percentage points lower than the previous outlook.

Regionally, growth in the Middle East and Central Asia is seen rising from an estimated 2% in 2023 to 2.9% in 2024, and 4.2% in 2025.

The IMF also forecasts the global economy to achieve a growth rate of 3.1% in 2024 and 3.2% in 2025.

"With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced," according to IMF. "On the upside, faster disinflation could lead to further easing of financial conditions."

'STABLE OUTLOOK'

Fitch Ratings recently reaffirmed Saudi Arabia's A+ rating with a stable outlook, emphasising the country's strong budgetary and external financial position.

The ratings agency underscored the kingdom's strong fiscal and external balance sheets, with government debt/GDP and sovereign net foreign assets (SNFA) considerably stronger than both the 'A' and 'AA' medians. Fitch also notes the presence of substantial safety margins in the form of deposits and other public sector assets, which enhance financial resilience.

In addition, Saudi Arabia boasts one of the highest reserve coverage ratios among Fitch-rated sovereigns, at 16.5 months of current external payments. Despite a decline in foreign reserves, Fitch predicts that SNFA will remain above 50% of GDP in 2024-2025.

While gross government debt/GDP increased in 2023, it remained low compared to the 'A' median. Predictions forecast further increases in government debt/GDP, but it is expected to remain manageable.

Meanwhile, the 2024 budget estimates fiscal deficits over the medium term, marking a shift from previous surpluses, which reflects the authorities' decision to utilise fiscal space to support non-oil economic growth and advance Vision 2030 goals.

Public sector investments and reforms have boosted the non-oil economy, with projected growth in the sector supported by various factors including business environment reform and employment gains, Fitch concluded.

MANUFACTURING SHIFTS UP A GEAR WITH EV AND INDUSTRIAL PROJECTS

Saudi Arabia seeks to emerge as a formidable contender in the global race for electric vehicle (EV) manufacturing.

Late last year, US-based Lucid Motors inaugurated an EV manufacturing plant in King Abdullah Economic City (KAEC), located in the Rabigh governorate. The move underscores the kingdom's commitment to foster a flexible, competitive, and sustainable industrial economy, as outlined in its National Industrial Strategy (NIS).

The NIS views the EV industry as one of 12 strategic sectors aimed at propelling industry growth across Saudi Arabia. The objective extends beyond mere establishment of manufacturing facilities, and aims to invest in future technology and innovation, thus transforming Saudi Arabia into a global player in the EV and related products landscape.

The inauguration of Lucid Motors' plant also signals the kingdom's dedication to clean energy and the green economy, reinforcing its role as a regional leader in sustainable development.

Lucid Group aims to direct 85% of its production to global export markets, which bolsters Saudi Arabia's industrial capabilities, but also aligns with its broader vision of attracting foreign investment and expanding its presence in the international market.

In a complementary move, the Public Investment Fund (PIF) and South Korea's Hyundai Motor Company announced a joint venture agreement to establish a highly automated vehicle manufacturing plant in Saudi Arabia. The strategic partnership aims to bolster the kingdom's automotive industry by manufacturing 50,000 vehicles annually, including both internal combustion engine (ICE) and electric vehicles.

PIF's majority stake in the joint venture underscores its commitment to transform the automotive sector and elevate Saudi Arabia's manufacturing capabilities.

The Hyundai-PIF joint venture signifies a major milestone in Saudi Arabia's automotive ecosystem. With Hyundai acting as a strategic technology partner, the venture aims to leverage the Korean firm's technical capabilities to develop a cutting-edge manufacturing plant.

This initiative is part of PIF's broader strategy to create national champions, localise automotive supply chains, and attract pioneering technology to Saudi Arabia. The partnership with Hyundai reinforces Saudi Arabia's commitment to innovation, environmental progress, and sustainable development in the automotive sector.

KAEC INDUSTRY HUB

The Saudi Electricity Company (SEC) and its subsidiary National Electricity Transmission (NET) have inked two pivotal agreements with Emaar, The Economic City (EEC), the primary developer of King Abdullah Economic City (KAEC).

These agreements signify the robust growth of the Saudi economy and the rapid industrial and developmental progress witnessed by the kingdom, in line with the objectives laid out for Vision 2030 projects.

The first agreement aims to establish electrical connectivity between the main substation in KAEC and the general electrical system network of the NET Company, while the second agreement focuses on delivering electrical services to support ongoing projects.

Notably, these projects include the burgeoning international industrial sector, particularly the manufacturing of EV in the third phase of the Industrial Valley of KAEC, housing the Saudi Ceer factory and the Lucid electric car facilities.

PIF also recently launched Alat, a national champion to propel Saudi Arabia into a global hub for sustainable technology manufacturing, with a focus on advanced technologies and electronics.

Alat's strategic focus encompasses seven key business units: advanced industries, semiconductors, smart appliances, smart health, smart devices, smart buildings, and next-generation infrastructure. The company seeks to bolster the capabilities of the Saudi technology sector, augment local content contribution, enhance the nation's attractiveness, and foster investment opportunities.

Alat will also facilitate the private sector through strategic partnerships with leading international players in manufacturing and technology, thereby enriching the economic ecosystem locally and regionally.

Furthermore, Alat endeavours to transform the global industrial sector by providing sustainable solutions based on clean energy sources, thus meeting commercial demand and advancing manufacturing capabilities in Saudi Arabia.

By manufacturing over 30 product categories serving vital sectors, including robotic systems, communication systems, advanced computers, digital entertainment products, and heavy machinery for construction and mining, Alat aims to stimulate innovation, research and development, and talent localisation within the industrial and electronics sectors. The company anticipates creating 39,000 direct jobs in Saudi Arabia by 2030 and contributing a direct non-oil GDP of USD 9.3 billion by the same year.

In its pursuit of sustainable manufacturing solutions, Alat plans to leverage clean energy resources in Saudi Arabia to achieve carbon neutrality by 2060, aligning with PIF's goal of carbon neutrality by 2050. Additionally, Alat aims to enable global industrial companies to capitalise on the competitive advantages offered by the Saudi economy, its strategic geographical location, and its investments in the technology sector.

PEAK GLOBAL OIL DEMAND REMAINS WITHIN SIGHT

Oil demand surged by a notable 2.5 million barrels per day (bpd) in 2023, largely propelled by robust economic momentum in non-OECD nations, and spearheaded by a vigorous recovery in China following COVID-19-induced lockdowns.

That was the prognosis of the Organization of Petroleum Exporting Countries (OPEC) in its February 2024 report. For this year, the group expects global oil demand growth to sustain its robust pace, estimated at a healthy 2.2 million bpd, with consumption forecast for the third quarter at 104.4 million bpd, and 105.47 million bpd in the fourth quarter. The upswing mirrors the anticipated sturdy economic expansion for the year.

Within OECD countries, oil demand for 2024 is envisaged to ascend by approximately 0.3 million bpd. Among the OECD regions, the Americas are seen leading the charge in oil demand growth for 2024, escalating by 0.2 million bpd year on year (y-o-y). Meanwhile, Europe and Asia Pacific are poised to advance by roughly 60,000 bpd and 20,000 bpd, y-o-y, respectively, marking an improvement from the contraction witnessed in 2023.

In the non-OECD arena, oil demand for 2024 is expected to rise by approximately 2 million bpd, y-o-y, having surpassed pre-pandemic levels as early as 2022. The impetus behind this surge is primarily attributed to China, with an anticipated robust growth of 0.6 million bpd y-o-y, further buoyed by the Middle East with an approximate increase of 0.4 million bpd, y-o-y. Other Asian nations are anticipated to surge by 0.3 million bpd, y-o-y, while India is set to expand by over 0.2 million bpd, y-o-y.

In terms of product demand, transportation fuels are slated to be the principal drivers of global oil demand. Consumption of jet/kerosene and gasoline is expected to soar by 0.7 million bpd and 0.6 million bpd, y-o-y, respectively. Gasoline consumption is anticipated to surpass pre-pandemic levels significantly, while jet/kerosene consumption is projected to hover just below the levels witnessed in 2019.

AIR TRAVEL AND MOBILITY BUOY DEMAND

Diesel consumption is forecasted to grow by 0.3 million bpd, y-o-y, surpassing pre-pandemic levels for the second consecutive year, supported by robust economic activity. Heavy distillates are projected to expand by 0.2 million bpd, whereas light distillates are anticipated to increase by 0.5 million bpd, propelled by healthy petrochemical sector requisites.

Demand in non-OECD regions, growth is expected to be led by y-o-y increments in jet/kerosene consumption of approximately 0.5 million bpd, with total regional volumes nearly reaching 2019 levels. Gasoline consumption is also anticipated to surge by almost 0.5 million bpd, y-o-y, with the total volume surpassing pre-pandemic levels by around 10%. Gasoil/diesel in the region is projected to grow by over 0.3 million bpd, y-o-y, having already exceeded pre-pandemic levels back in 2021.

"Continued robust economic activity in China, global air travel recovery and expected healthy petrochemical feedstock requirements will be key for oil demand growth in 2024," according to OPEC. "However, inflation levels, monetary tightening measures and sovereign debt levels could weigh on global oil demand prospects in the current year."

Looking ahead, world oil demand in 2025 is expected to expand by a healthy 1.8 million bpd, y-o-y, reaching 106.2 million bpd. Within the regions, the OECD is anticipated to grow by 0.1 million bpd, y-o-y, while the non-OECD will likely increase by 1.7 million bpd.

"Given current market circumstances, ongoing efforts by (OPEC countries and its allies) participating in the Declaration of Cooperation (DoC) remain critical to achieving a balanced and stable oil market for the benefit of producers, consumers and global economy," according to OPEC.

NEW TIGHT GAS PRODUCTION

Saudi Aramco successfully produced the first unconventional tight gas from its South Ghawar operational area two months ahead of schedule. The development supports Aramco's strategy to increase gas production by more than half, over 2021 levels, through 2030, subject to domestic demand.

The commissioned facilities at South Ghawar currently boast a processing capacity of 300 million standard cubic feet per day (scfd) for raw gas and 38,000 barrels per day (bpd) for condensate. In response to the escalating demand for gas, the company is steadfastly pursuing efforts to more than double the overall processing capacity, aligning with South Ghawar's strategic objective of delivering 750 million scfd of raw gas in the near term.

The successful production of tight sand gas at South Ghawar marks Aramco's second foray into unconventional gas streams, following the commencement of production at the North Arabia field in 2018, which delivered 240 million scfd to customers in Wa'ad Al-Shamal. Concurrently, endeavours are underway at the colossal Jafurah unconventional gas field, recognised as the largest liquid-rich shale gas play in the Middle East region.

Separately, Aramco said in January that it received directives from the Ministry of Energy to maintain its maximum sustainable capacity at 12 million bpd.

SAUDI CASTS WIDE NET TO MEET RISING DEMAND FOR PETROCHEMICALS

SABIC, a major global player in diversified chemicals, is proceeding with a final investment decision (FID) for the SABIC Fujian Petrochemical Complex (Sino-Saudi Gulei Ethylene Complex Project) in China's Fujian province. The decision underscores the deepening energy ties between China and Saudi Arabia.

The petrochemical complex, a 51:49 joint venture between SABIC Industrial Investment Company (a wholly-owned subsidiary of SABIC) and Fujian Fuhua Gulei Petrochemical Co., Ltd. (held by Fujian Energy and Petrochemical Group), is slated to be constructed in Fujian's Gulei Industrial Park. With an estimated total investment of USD 6.4 billion, it represents the largest foreign investment in Fujian to date and a significant addition to SABIC's investment portfolio in China.

The complex will feature a mixed feed steam cracker with an expected annual ethylene capacity of up to 1.8 million tonnes, alongside a suite of world-class downstream facilities including ethylene glycol, polyethylene, polypropylene, polycarbonate, and other units. Construction of the project is scheduled for completion in 2026.

The project will support SABIC's goal of diversifying its feedstock sources and establishing a petrochemical manufacturing presence in Asia for a wide range of products. The facility will leverage nine of SABIC's leading technologies to meet evolving market demands for high-end chemical products in sectors such as electrical and electronics, artificial intelligence, smartphones, telecommunications, healthcare, automobiles, and advanced materials.

The FID represents a significant milestone in SABIC's joint ventures, following the commencement of commercial operations for a new polycarbonate plant at the Sinopec SABIC Tianjin Petrochemical Co. Ltd. (SSTPC) joint venture in 2023. The Saudi company intends to capitalise on the progress made through these joint ventures, leveraging its technology and innovation to deliver market-facing products, while contributing to the economic development of the petrochemical industry.

OIL PRICES' IMPACT ON PETROCHEMICALS

The Gulf region saw chemical production reached an estimated 159 million tonnes in 2021, marking a 2% increase in production capacity compared to the previous year, according to the Gulf Petrochemicals & Chemicals Association's (GPCA) latest report. The industry contributes 5% to regional GDP, according to the association.

However, the GCC experienced a 2.8% decline in total oil sector activities in 2023, which was attributed to sequential oil production cuts by OPEC+. Given OPEC+'s substantial global share, accounting for roughly 40% of total global crude oil production, reduced output led to higher oil prices, particularly noticeable between the third and fourth quarters of 2023.

"As crude oil and its derivatives serve as feedstocks for petrochemicals, the marginal increase in prices in 2024 could impact the production, investment, and financial decisions of chemical producers," according to GPCA. "However, for GCC specific producers, a rebound in chemical demand in Asian markets (4.2% in China and 6.3% in India), and the announcement of the loosening of OPEC+ oil production quotas show promise for the growth of the regional chemical industry in 2024."

Growth is driven by sustainability, which has emerged as a key trend in the sector.

"The changing regional dynamics in the olefins and polyolefins industry, particularly highlighted by China's… expansion of petrochemical projects in 2023, are closely linked to sustainability and economic diversification projects in the GCC," GPCA noted.

GREEN CHEMICAL GROWTH

The Gulf region's petrochemical industry is responding to demand for "green chemicals" or chemicals primarily produced via sustainable processes, such as green ammonia or hydrogen. This can increase regional producers' market competitiveness in the coming year.

The Asia-Pacific region makes up around 40% of the demand for global green chemicals, which the GCC industry can leverage, particularly fertilisers, where the industry exhibits a defensive stronghold.

In addition, the implementation of Europe's Carbon Border Adjustment Mechanism (CBAM) by mid-2025 may impact GCC chemical producers' exports that are not sustainably produced.

"GCC chemical producers and governments are embracing economic diversification projects, particularly those involving CCUS (carbon capture, utilisation and storage)," GPCA noted. "This is advantageous as changing regulations under CBAM may lead to products produced via CCUS practices being exempt from carbon tax."

Artificial intelligence (AI) is also playing a part with major producers, such as SABIC, Aramco, and UAE's Adnoc, among others, paving the way for AI programmes to accelerate research and development for sustainable products.

The GCC's efforts to adapt to changing global conditions, as well as the development of sustainable projects, digital practices, and the fostering of international collaboration via trade agreements are opening new opportunities for the chemical industry.

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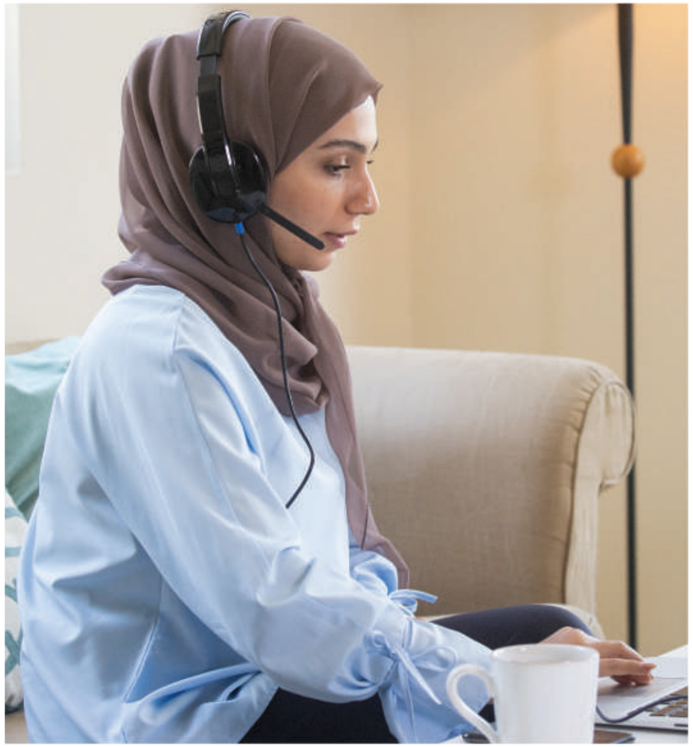
SAUDI LAYS GROUNDWORK FOR SMES' SUSTAINABLE FUTURE

Benefiting from robust public backing, substantial venture capital investments, and sustained private sector engagement, Saudi Arabia witnessed a significant expansion in its small and medium-sized enterprises (SMEs), reaching nearly 1.27 million in the third quarter of 2023, according to Monsha'at, the Small and Medium Enterprises General Authority.

Riyadh served as a vibrant hub, accommodating 43.3% of these SMEs and driving the surge in entrepreneurial activities. With a remarkable quarterly growth of 3.5% in Q3 2023, SMEs contributed to the kingdom's non-oil economy, which expanded by 3.6% year on year in the same quarter. These entrepreneurial strides underscore the tangible outcomes of the country's ambitious diversification agenda.

Monsha'at saw more than 100,000 SMEs availing themselves of various upskilling, training, empowerment, funding, franchise, or expansion programmes and platforms in the third quarter, according to latest available data. In addition, over 67,000 trainees have enrolled in Monsha'at Academy and other related platforms during the quarter.



Private sector credit facilities extended to SMEs surged by 18.8% year on year, escalating from USD 58.9 billion in Q2 2022 to USD 70 billion in Q2 2023, according to Monsha'at.

"This notable increase underscores the growing confidence of the financial sector in the country's SME landscape. Among SMEs, medium-sized enterprises with 50-249 employees emerged as the primary recipients, securing 59.3% of total lending in Q2 2023."

All told, there were 1.27 million SMEs in the kingdom by the end of the third quarter, a rise of 3.5% from the second quarter of 2023. Of these, 1.1 million were micro-sized companies, around 151,000 small-sized companies, and more than 18,000 medium-sized companies.

PRIVATE FIUNDING

SME financing by banks grew 19.3% in the third quarter compared to the second quarter, with medium sized businesses securing USD 39.8 billion, small businesses receiving USD 20.2 billion, and microbusinesses attracting USD 5.4 billion.

Meanwhile SME financing provided by financial companies rose 12.5% during the period to USD 4.6 billion, with small businesses securing USD 2.2 billion, medium businesses getting USD 1.7 billion, and the rest by micro companies.

During Q3 2023, Saudi Arabia's venture capital sector experienced a resurgence, witnessing a substantial investment of USD 87 million, nearly tripling the funding compared to Q2. Deal activity also saw an uptick, rising from 19 to 22 deals over the quarter.

Despite a year-on-year decline in both funding and deals, Saudi Arabia outperformed the broader MENA region, which experienced a year-on-year decline of over 40%, according to Magnitt, which tracks venture capital activity in the region.

"In the first nine months of 2023, the kingdom topped the funding leaderboard in the region, attracting investment of USD 536 million, largely partially driven by the Halan and Floward mega deals in Q1. The largest deal closed in Q3 was for retail inventory platform management firm Rewaa, at USD 27 million," according to Magnitt.

There had also been significant government-led developments to improve business regulations , as well as notable fund announcements from key players like the PIF-powered JADA Fund of Funds, King Abdullah University of Science and Technology (KAUST), and Saudi Venture Capital (SVC).

MANUFACTURING FOCUS

SMEs also have an important role to play in advancing the kingdom's manufacturing sector through the National Industrial Development and Logistics Program (NIDLP), a cornerstone of the Vision 2030 agenda aimed at expanding energy, mining, logistics, and industry sectors. In 2021, NIDLP launched the Made in Saudi programme to bolster local manufacturing, particularly for SMEs.

The kingdom had 11,110 operational factories by mid-2023, a year-on-year increase of 3.8%.

To bolster the local manufacturing landscape, Saudi Arabia has forged agreements with global industrial leaders in areas such as electric vehicles (EVs), petrochemicals, defence equipment, mining assets, carbon-negative concrete, and renewable energy. These initiatives signal promising opportunities for SMEs to tap into emerging markets.

As the manufacturing sector matures, the kingdom is actively nurturing SME growth within the industry. This is facilitated by the strategic objectives outlined in the National Industrial Strategy (NIS), which include the adoption of Fourth Industrial Revolution (4IR) technologies, increased access to finance for industrial SMEs, development of new infrastructure, and robust supply chains.

The NIS, launched in 2022 by the Ministry of Industry and Mineral Resources, aims to catalyse investment in 12 industrial sub-sectors and advanced manufacturing, with the target of doubling industrial exports and tripling industrial output by 2030. Spearheaded by the Supreme Council of Industry, the NIS seeks to establish an integrated governance model supportive of the kingdom's industrial localisation efforts.

Under the NIS framework, Saudi Arabia is expanding its industrial business base and fostering local production by fostering an entrepreneurial ethos and implementing financing programmes tailored to meet the operational requirements of industrial start-ups and SMEs. These initiatives are designed to elevate SME participation within the sector, propelling Saudi Arabia closer to its industrial development goals.

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