

جدوى للاستثمار
Jadwa Investment



Quarterly GDP update

Q2 2026



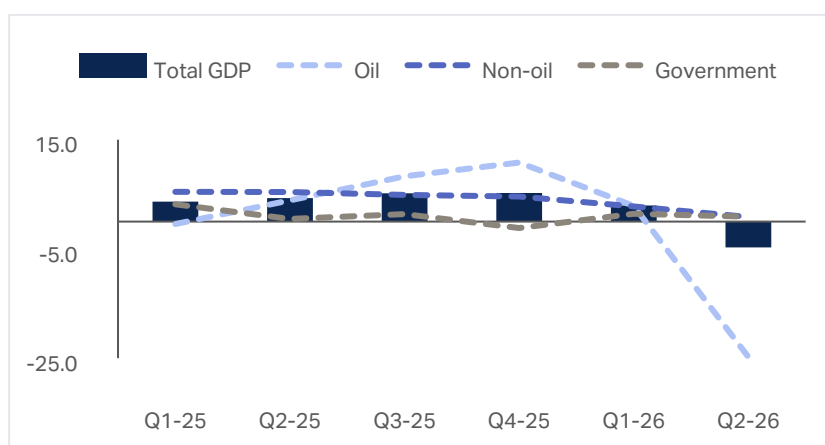
Domestic demand holds up, trade remains down

Summary

- Real GDP declined by 4.7% in Q2-26 compared with Q2-25 as the US-Iran war led to lower oil output and exports (chart 1).
- While lower oil production is negative for the real GDP numbers, higher oil prices have so far outweighed the lower oil export volumes.
- We see higher nominal GDP, higher oil export revenue and higher oil revenue in the government budget.
- With respect to the non-oil economy, real GDP growth remained positive, at 0.8%, slowing from 2.8% in Q1-26. This was in line with expectations given a bigger conflict impact in Q2.
- By sector, the slowdown was more pronounced in sectors more exposed to trade, supply chain and travel disruptions (Table 1).
- The biggest sectoral contributor to growth was the finance, insurance and business services sector.
- Oil GDP will remain depressed in the near term and drive another decline in headline GDP in Q3.
- However, if we look through the headline number to focus on non-oil activity, there are signs of stabilisation and perhaps some improvement.
- A fuller recovery is contingent on an easing of constraints on trade which continue to drag on economic performance.

Chart 1: Real GDP growth

(% year on year)



Source: Gastat

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Oil GDP drives Q2 decline and will contract again in Q3

Real GDP declined by 4.7% in Q2-26 compared with Q2-25. The sharp fall in oil production and exports due to the US-Iran war was the main driver of this year-on-year decline. Crude oil production averaged 6.7mbpd in Q2-26 versus 9.2mbpd a year earlier. Consequently, Oil GDP was down by 24.8%.

Oil GDP in Q3 will remain depressed and drive another decline in headline GDP. While oil production picked up in July, it fell in August and remains under pressure in September.

Table 1: Real GDP growth

(% change, year-on-year)

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Total GDP	3.6	4.3	5.2	5.2	3.0	-4.7
By main economic activities						
Oil activities	-0.4	3.9	8.3	10.8	2.9	-24.8
Non-oil activities	5.4	5.4	4.9	4.6	2.8	0.8
Government activities	3.2	0.5	1.4	-1.2	1.4	0.9
Selected non-oil sectors						
Non-oil manufacturing	5.9	5.3	5.6	5.5	0.7	0.9
Construction	4.2	4.3	2.3	3.9	2.3	0.7
Wholesale/Retail trade/ Restaurants/Hotels	7.3	6.4	6.1	6.1	4.2	-2.0
Transport/Storage/Communication	5.3	3.4	2.3	3.3	2.6	0.9
Real Estate	3.4	2.9	4.9	4.1	2.8	1.6
Finance/Insurance/Business services	7.3	8.7	6.0	4.6	5.4	3.3

Source: Gastat

Oil production picked up in July to 8.2mbpd as the memorandum of understanding (MOU) between the US and Iran allowed for stronger oil exports. In August, however, oil production (as reported to OPEC) dropped back sharply, to 6.2mbpd due to constraints to exports through the Bab al-Mandeb (Chart 2).

In August and September Saudi Arabia's oil exports have been dented by attacks from the Houthis and from militia in Iraq. These hindered Saudi exports through the Bab al-Mandeb and then, following drone attacks on September 10th, forced the closure of the East-West pipeline.

The threats to shipping through the Bab al-Mandeb diverted Saudi's west coast oil exports through the Suez Canal or SUMED pipeline. This reduced export volumes and increased costs for exports from Yanbu to Asia given the increased days shipping on the route around Africa.



The pipeline closure is much more significant, as it reduces west coast exports to zero once inventory has been shipped. Inventory at Yanbu and at Sidi Kerir was reported to be around 7-10 days of exports.

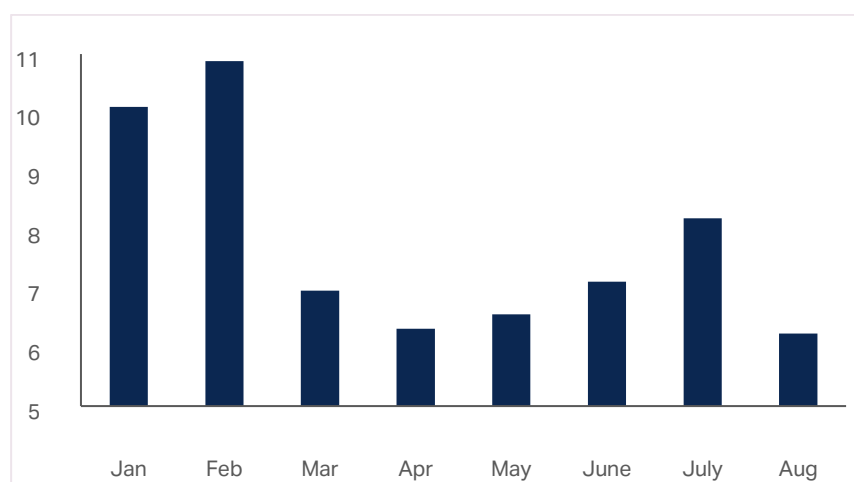
It is unclear how long it will take to repair fully the pumping stations that have been damaged along the pipeline. A working assumption is around 4-6 weeks, although partial re-opening of the pipeline is reported to be underway or imminent.

In the meantime, it seems that Saudi Arabia is managing to increase significantly exports through the Strait of Hormuz using ship-to-ship transfers. If sustained, these could offset the lost exports from the west coast. A scheduled meeting between Gulf officials and Iran to agree on management of transit through the Strait was postponed, but points to the potential for an agreement.

In sum, oil GDP in Q3 will remain depressed given the pressure on production in August and September. Production averaged 9.7mbpd in Q3-25.

Chart 2: Saudi crude oil production

(mbpd)



Source: OPEC, direct communication (production)

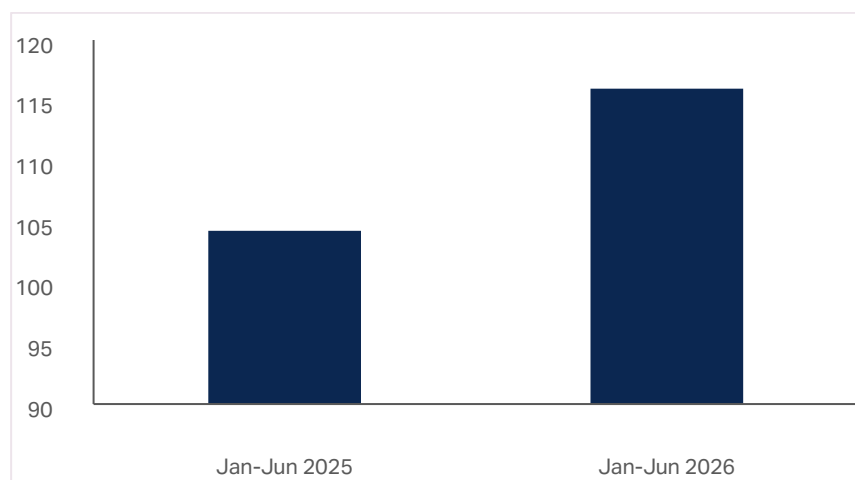
The silver lining: Higher oil revenue despite lower oil volumes

It is important to remember that while lower oil production is negative for real GDP numbers, higher oil prices have so far outweighed the lower oil export volumes. In short, we see higher nominal GDP, higher oil export revenue and higher oil revenue in the government budget. In H1-26 oil export revenue was 11% higher compared to H1-25 (chart 3); H1-26 budget oil revenue was 9% higher.



Chart 3: Oil export revenue (crude and refined products)

(SAR b)



Source: Gastat

Non-oil GDP growth slowed in Q2 but remained positive

In Q2-26 real non-oil GDP, excluding government activities, grew by 0.8% compared with Q2-25. This was slower than growth of 2.8% in Q1-26 and was in line with our expectations for the second quarter to be the most difficult quarter in terms of negative impact from the US-Iran conflict.

The good news is that domestic demand is holding up to a degree. Looking across 'GDP by expenditure' components, both consumption (private and government) and investment (gross fixed capital formation) registered growth year on year, although private consumption growth weakened.

In July a proxy indicator for consumer spending (POS, e-commerce and ATM withdrawals) was 7.8% higher year on year in nominal terms. For H1-26 this consumer indicator was 8% higher year-on-year. This is a slowdown from 12% growth in H2-25.

The main drag on overall GDP came from sharply weaker net exports which mostly relates to lower oil exports, although non-oil exports have also taken a hit.

Indeed, looking at non-oil GDP by sector, the slowdown is broad-based but more pronounced in sectors more exposed to trade, supply chain and travel disruptions emanating from the conflict (chart 4).



Chart 4: GDP growth, selected non-oil sectors

(%, year on year)



Source: Gastat

'Wholesale, retail, accommodation and restaurants', which has been the key driver of non-oil growth in recent years, registered a 2% contraction year-on-year. While domestic consumer demand is showing some resilience, both wholesale and retail businesses have been impacted operationally by supply chain disruptions and logistics costs.

The quarterly GDP numbers do not break down the 'Wholesale, retail, accommodation and restaurants' sector into its constituent parts (see Box 1). Gastat's short-term business statistics provide some breakdowns for wholesale and retail trade and indicate a slowdown in operating revenue growth in Q2-26, as well as flat automobile sales. Meanwhile, operating revenue growth for accommodation and food

Box 1: Breakdown of 'Wholesale, retail, accommodation and restaurants'

The quarterly GDP numbers do not break down the broader sector into its constituent parts, but annual numbers provide nominal breakdowns, most recently for 2024. These nominal breakdowns show that wholesale and retail trade is close to 60% of the sector, sale and repair of vehicles just over 20% and hotels and restaurants just over 20%.

Table 2:

	Nominal GDP 2024 (SAR b)	% of total
Broad sector total	543.8	100
Retail trade	193.8	36
Wholesale trade	126.4	23
Sale & repair of motor vehicles	113.5	21
Accommodation	57.1	11
Food & beverage service activities	53.0	10

Source: Gastat, Jadwa Investment



services remained robust, at close to 7%, perhaps supported by Hajj and domestic tourism.

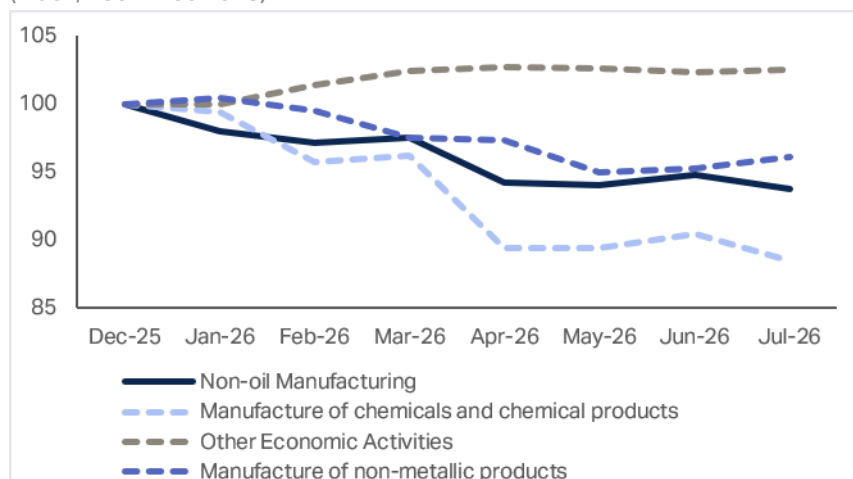
Of the other key non-oil sectors, non-oil manufacturing saw growth of 0.9% in Q2, slightly better than 0.7% in Q1. Non-oil manufacturing includes the petrochemicals sector, in which some production has been impacted by disruption to inputs and export routes. In the Industrial Production Index, the petrochemicals subcomponent, which accounts for more than a third of the non-oil manufacturing index, was down 2.4% year-on-year in Q2-26.

Other segments of non-oil manufacturing have therefore fared better in terms of output (chart 5). The ongoing effort to localise supply chains will continue to support these non-oil manufacturing segments to supply products for the domestic market. The conflict will reinforce these localisation efforts.

Construction growth slowed but remained positive at 0.7%. The construction sector has experienced slower growth over the last couple of years, due to softening in segments of the real estate market and headwinds to project activity. On top of these factors, the conflict has impacted supply of construction inputs, causing delays and adding to costs.

Chart 5: Industrial Production Index: non-oil manufacturing and selected components

(Index, 100 = Dec 2025)



Source: Gastat, Jadwa Investment

The main positive contributor to non-oil growth in Q2-26 was the finance, insurance and business services sector which grew by 3.3%. Banking and insurance corporate results help make sense of this contribution:

- Aggregate net profit across Saudi Arabia's listed banks rose by around 8% year on year in both Q1-26 and Q2-26, helped by net interest income growth and ongoing expansion of loan books.
- Aggregate profits of Saudi listed insurers grew by 20% in Q2 year-on-year, following growth of 27% in Q1. Strong



performance was helped by growth in health and motor insurance premiums, and growth in investment income.

Outlook—fuller recovery contingent on improving trade

Oil GDP will remain depressed in the near term and drive another decline in headline GDP in Q3.

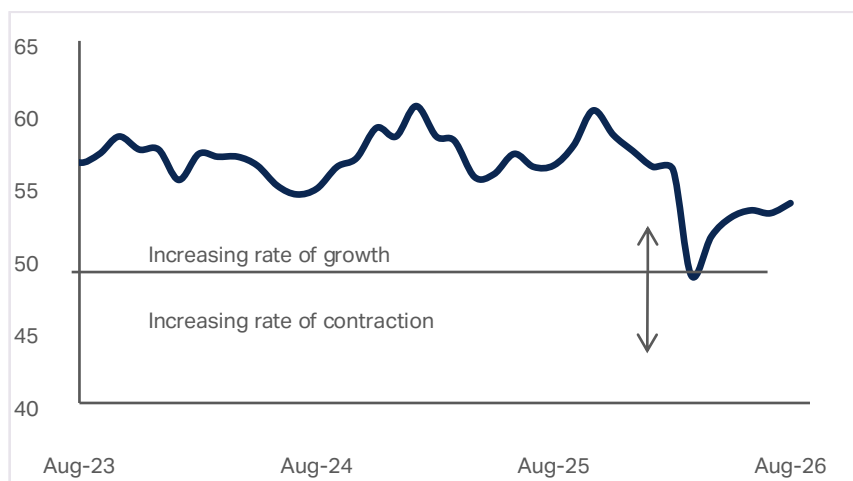
However, if we look through the headline number to focus on non-oil activity, there are signs of stabilisation and perhaps some improvement.

In July-August the non-oil PMI averaged 53.5, slightly up on Q2. This level is well above the 50 point threshold for expansion but lags pre-conflict levels of more than 56 (chart 6).

A fuller recovery is contingent on an easing of constraints on trade. These constraints continue to drag on economic performance. External trade which plunged in March, remains significantly down.

Chart 6: Non-oil PMI

(50 = threshold for expansion/contraction)



Source: Riyadh Bank

Imports by air have broadly been recovering, but imports by sea remain well down—12.5% lower year on year in Q2 in value terms, according to Gastat. The same is true for non-oil exports, which were 7% lower year on year in Q2 in value terms. Trade remained at relatively low levels in July (chart 7).

The slowdown in credit growth is also worth noting. Credit expansion averaged 13% in 2020-2025 and was running hot, at 16% year on year, in H1-25. Some slowdown was needed. By August 2026, total credit growth has steadied to 6.8% and credit growth to the private sector was lower at 5.8% year on year.

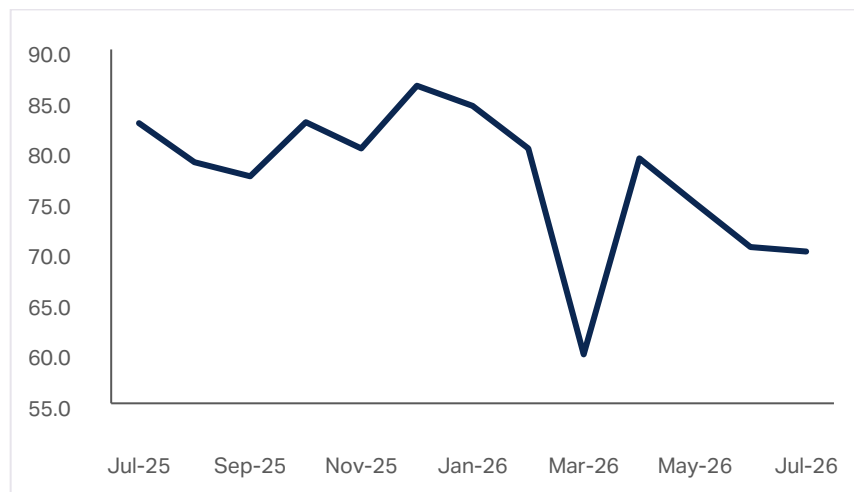
The policy interest rate has been notched up by 25bps, following the Fed move higher on 16 September. The Fed's unanimous decision to raise the policy rate and firm emphasis on its 2% inflation target suggest



another raise unless the domestic economy weakens. Indeed, market-implied rates point to three further 25bp increases by the end of 2027. However, a lot can happen between now and then. If there is a significant shift up in rates this could weigh on credit dynamics and drag on economic activity. Nonetheless, we expect that non-oil growth will recover in 2027 following the conflict-related dent to activity in 2026 and assuming an improvement in trading conditions.

Chart 7: Monthly imports

(SAR b)



Source: Gastat



Table 3: Real GDP growth

(% change, year-on-year)

	Q2 2025	Q2 2026
Overall GDP	4.5	-4.7
By main economic activities		
Oil activities	3.9	-24.8
Non-oil activities	5.4	0.9
Government activities	0.5	0.9
By kind of economic activity		
Agriculture, Forestry & Fishing	2.5	2.6
Mining & Quarrying	4.2	-27.7
a) Crude Petroleum & Natural Gas	4.2	-28.4
b) Other Mining & Quarrying	3.4	1.1
Manufacturing	4.5	-3.0
a) Petroleum Refining	2.7	-12.7
b) Manufacturing excluding petroleum refining	5.3	0.9
Electricity, Gas & Water	10.6	-0.6
Construction	4.3	0.7
Wholesale & Retail Trade, Restaurants & Hotels	6.5	-2.0
Transport, Storage & Communication	3.4	0.9
Finance, Insurance, Real Estate & Business Services	6.1	2.6
a) Real Estate	2.9	1.6
b) Finance, Insurance & Business Services	8.7	3.3
Community, Social & Personal Services	4.8	4.1
Producers of Government Services	0.5	0.9

Source: Gastat

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