

## MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



**October 2018**

**Review of economic developments till end of September 2018**

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## A. Executive Summary and Review

### Executive Summary

The key highlights are:

1. **GDP growth** – Saudi Arabia's GDP in Q2 2018 rose 1.6% YoY to SAR 639.2 bn (Refer Figure 1, Page 6). Oil sector, which contributed 43.7% of the total GDP, grew by 1.3% YoY; while non-oil sector GDP growth came in at 2.4% YoY (Refer Figure 3, Page 6).
2. **Oil production** – Saudi Arabia increased oil production 1.3% MoM to 10.53 million barrels of oil per day (mbpd) in September 2018, after producing 10.39 mbpd in August (Refer Figure 1, Page 12).
3. **Inflation** – Saudi Arabia's inflation rose 2.2% YoY in August 2018, about the same growth as of previous month. (Refer Figure 5, Page 6). The rise is attributed to increase in costs of Food and Beverages (+6.5% YoY) and Transportation (+10.5% YoY), offsetting a decline in housing, water, electricity, gas and other fuels (down 1.3%). On MoM basis, inflation decreased 0.2%, due to a fall in prices of housing, water, electricity and fuels.
4. **Non-oil private sector growth** – Growth in Saudi Arabia's non-oil private sector reached a four-month low in September 2018, with PMI down to 53.4, from 55.1 recorded in August (Refer Figure 7, Page 6). Output growth declined to 56.7 from 59.7, while growth in new orders slowed to 55.1 from 59.0. Employment growth slowed to a 10-month low of 50.7 from 51.0, with 97% of the firms surveyed reporting no change in staffing.
5. **Bank Credit** – Overall bank credit continued to grow in August 2018 (+0.8% YoY) for the fourth month in a row (Refer Figure 20, Page 8), mainly due to credit to private sector increasing 1.0% YoY. However, credit to public sector declined 3.7% YoY in August.
6. **Consumer Spending** –PoS Transactions rose 13.5% YoY to SAR 19.2 bn (Refer Figure 38, Page 10); while ATM withdrawals fell 6.7% YoY to SAR 63.2 bn (Refer Figure 33, Page 10).

### Data Releases

Indicator	Data
Inflation (August 2018)	2.2%
PMI (September 2018)	53.4
SAMA Reserve Assets Growth MoM (August 2018)	1.7%
Bank Credit Growth YoY (August 2018)	0.8%
Bank Deposit Growth YoY (August 2018)	-0.6%
Loan to Deposit Ratio (August 2018)	0.88
Money Supply Growth YoY (August 2018)	-0.0%
3M SAIBOR (September 2018)	2.73%
ATM Withdrawals Growth YoY (August 2018)	-6.7%
PoS Transactions Growth YoY (August 2018)	13.5%
Saudi Oil Production (September 2018)	10.5 mbpd
Saudi Oil Export (July 2018)	7.1 mbpd
OPEC Production (September 2018)	32.8 mbpd
Global Oil Supply – Demand (August 2018)	-0.2 mbpd
US Rig Count (September 2018)	863

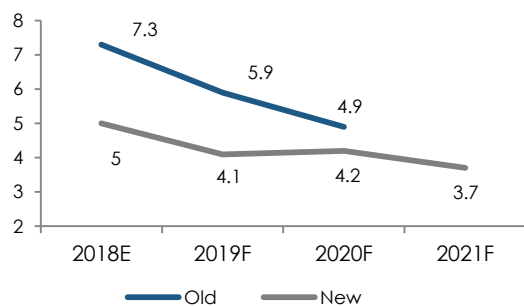
## Saudi Arabia releases 2019 pre-budget statement, lowers 2018 fiscal deficit target to 5.0% of GDP

Saudi Arabia's Ministry of Finance recently issued its first ever preliminary statement for the general budget for FY 2019. This pre-budget statement included key fiscal and economic developments for past few years and estimates and forecasts of key macroeconomic indicators over the medium term.

One of the major highlights of the pre-budget statement was the reduction in fiscal deficit targets in the medium term. The fiscal deficit estimate for FY 2018 is reduced to SAR 148 bn, or 5.0% of the GDP, from the initial target of SAR 195 bn (7.3% of the GDP). The fiscal deficit is forecasted to reduce further to 4.1%, 4.3% and 3.7% of the GDP in 2019, 2020 and 2021 respectively. Partly due to favorable oil prices, total revenue for FY 2018 is estimated to be SAR 882 bn, 13% higher than the initial estimates. Reforms in fuel and electricity prices have also contributed to the additional growth in revenues. Revenues are forecasted to grow 11% YoY to reach SAR 978 bn in 2019, continue to grow to reach SAR 1045 bn in 2021, with a CAGR of 6% over 2018—21.

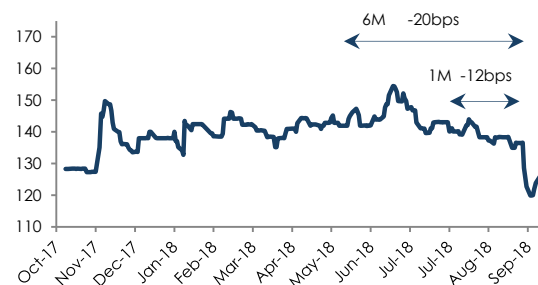
Real GDP growth rate estimate for FY 2018 has been revised down to 2.1% from 2.7% estimated earlier. This is more in line with the GDP growth estimates by the IMF (1.9%) and the World Bank (1.8%). Annual inflation for 2018 is estimated 2.8%, which is on relatively higher side considering the average inflation during first 8 months of 2018 was 2.5%. The inflation is forecasted to gradually decline to 2.1% by 2020.

Figure 1: Pre-budget statement: Changes in fiscal deficit targets (% of GDP)



Source: Ministry of Finance

Figure 2: Saudi Arabia 10 yr CDS (bps)



Source: Reuters Eikon

## Saudi Arabia's 10-year CDS falls to 2-year low on improved investor perception

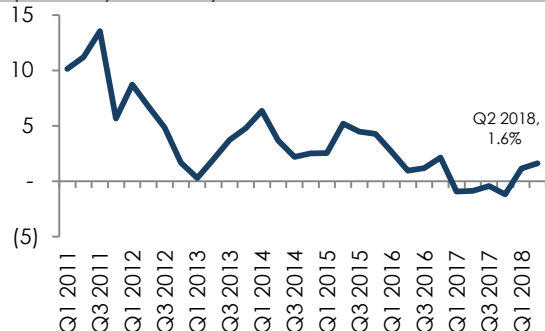
The cost of insuring exposure to Saudi Arabia's sovereign debt reached its lowest since August 2015, as 10-year credit default swaps (CDS) for Saudi Arabia reduced by about 20 basis points (bps) since the start of the year 2018 to reach 119.90 on October 01. The 10-year CDS moved up to 125.71 bps by the end of October 09, however. CDS, expressed in terms of basis points spread, signifies the cost of insurance against the credit risk. Higher the spread, higher is the perceived risk.

Part of the reason for this improved investor confidence in Saudi economy is the reduction in fiscal deficit targets, along with higher expected oil revenue due to sustained high oil prices. Saudi Arabia's economy started to recover during the first half of 2018, after declining for the first time in eight years in 2017. GDP in constant prices grew 1.6% YoY to SAR 639.2 bn in Q2

2018, after clocking 1.2% YoY growth during Q1 2018. Saudi Arabia's current account surplus during Q2 2018, reached 11.8% of the GDP, the highest level since Q2 2014.

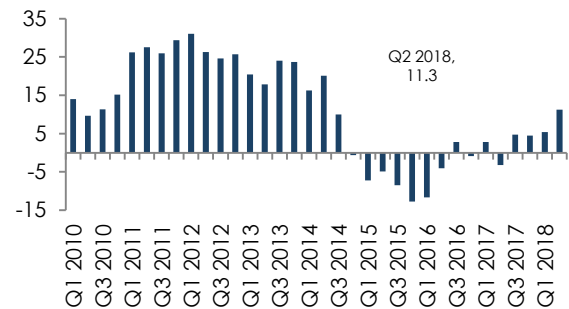
During the first week of October, global rating agency S&P affirmed Saudi Arabia's sovereign credit rating of 'A-/A-2' with a stable outlook, on expectations of continued moderate economic growth till 2021. S&P estimates the Saudi economy to grow at an average of just above 2% over 2019–21. "Higher-than-expected fiscal revenues have been met with higher expenditures, but we do not expect a material deviation from official fiscal targets," S&P said.

Figure 3: GDP (Constant prices) growth (quarterly -% YoY)



Source: General Authority of Statistics

Figure 4: Current account balance - quarterly (% of GDP)



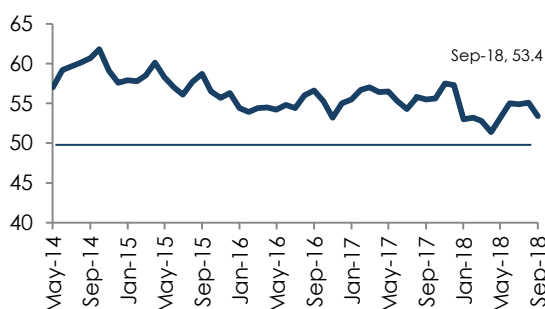
Source: SAMA

### Private sector growth slows in September, while inflation in August at 2.2% YoY

Growth in Saudi Arabia's non-oil private sector reached a four-month low in September 2018, with PMI down to 53.4, from 55.1 recorded in August. Output growth declined to 56.7 from 59.7, while growth in new orders slowed to 55.1 from 59.0. Employment growth slowed to a 10-month low of 50.7 from 51.0, with 97% of the firms surveyed reporting no change in staffing.

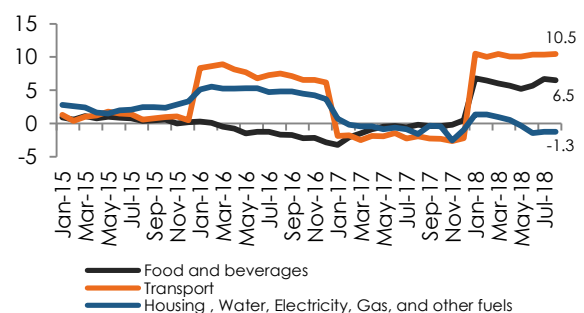
Saudi Arabia's inflation rose 2.2% YoY in August 2018, about the same growth as of previous month. The rise is attributed to increase in costs of Food and Beverages (+6.5% YoY) and Transportation (+10.5% YoY), offsetting a decline in housing, water, electricity, gas and other fuels (down 1.3%). On month-on-month basis, inflation decreased 0.2%, due to a fall in prices of housing, water, electricity and fuels.

Figure 5: PMI Index



Source: Bloomberg

Figure 6: Inflation YoY%: major sub-indices

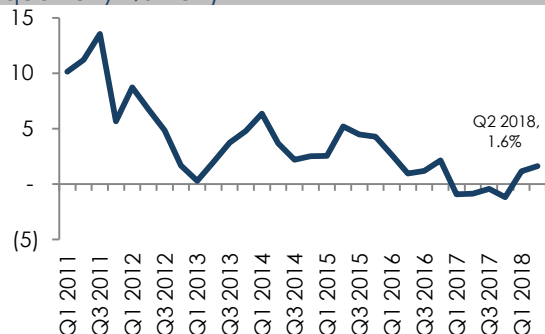


Source: SAMA

## Chart Pack

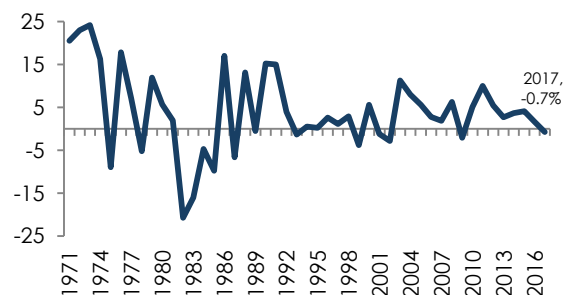
### I. Macroeconomic Indicators

Figure 1: GDP (Constant prices) growth (quarterly - % YoY)



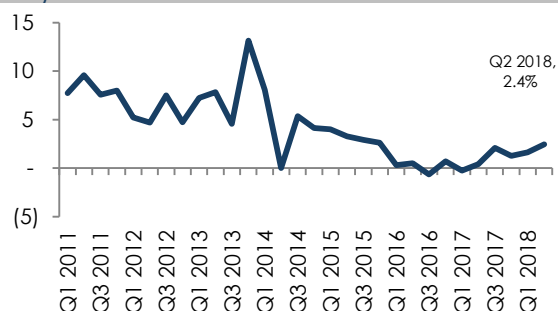
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



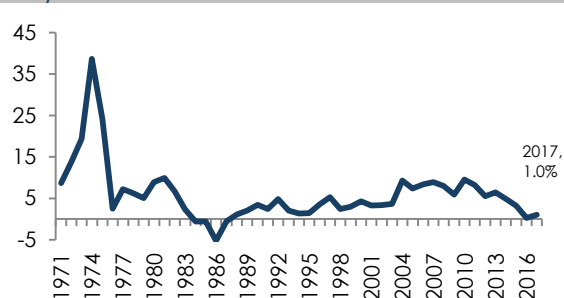
Source: General Authority of Statistics

Figure 3: Non-oil GDP growth (quarterly - % YoY)



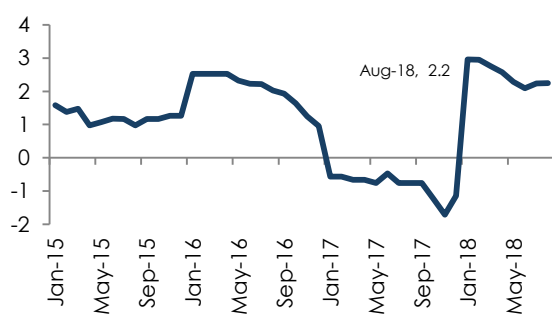
Source: General Authority of Statistics

Figure 4: Non-oil GDP growth (annual - % YoY)



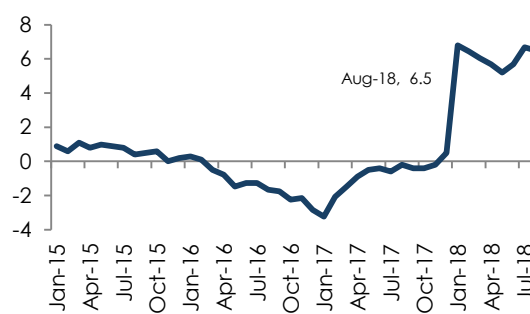
Source: General Authority of Statistics

Figure 5: Inflation (% YoY)



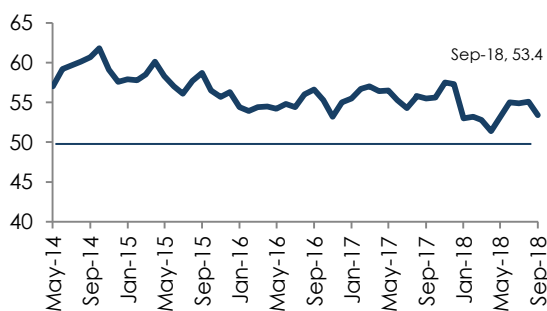
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



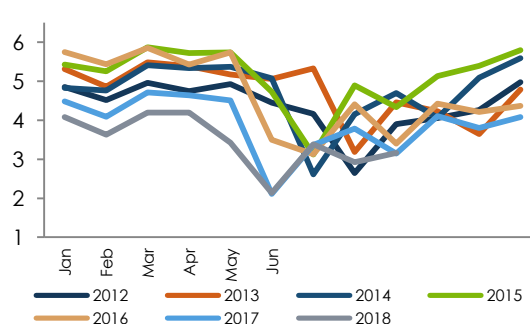
Source: SAMA

Figure 7: PMI index



Source: Bloomberg

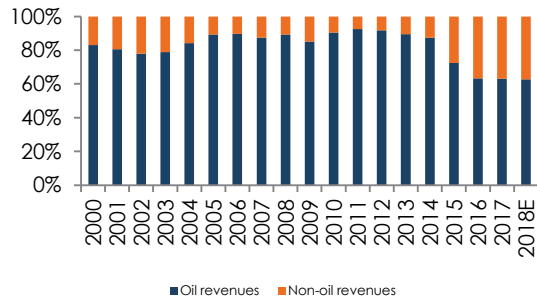
Figure 8: Cement Sales (Mn tons)



Source: Yamama Cement

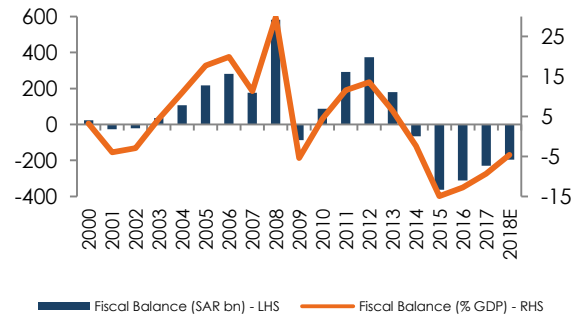


Figure 9: Oil vs Non-oil revenues (% share)



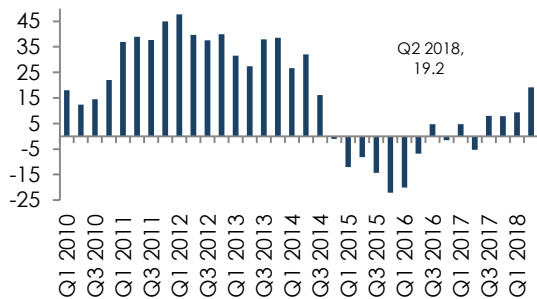
Source: Saudi Arabia Finance Ministry, E-Estimate

Figure 10: Annual fiscal balance (SAR bn)



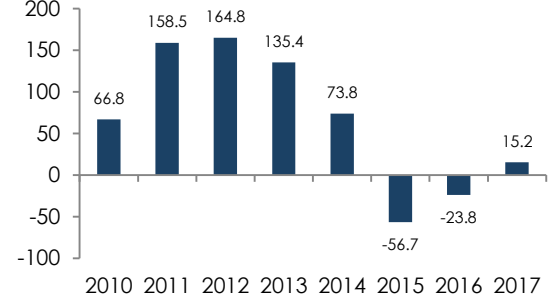
Source: Saudi Arabia Finance Ministry, E-Estimate

Figure 11: Current account balance - quarter (USD bn)



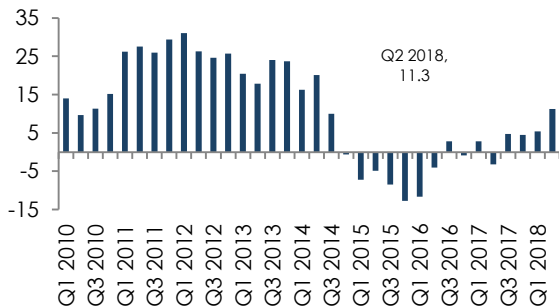
Source: SAMA

Figure 12: Current account balance -yearly (USD bn)



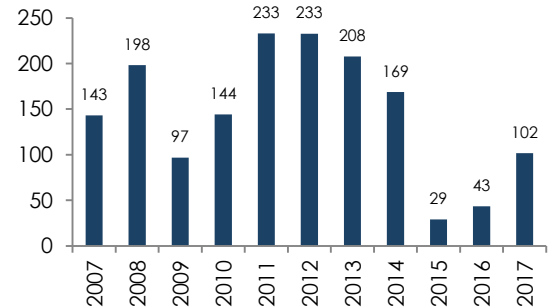
Source: SAMA

Figure 13: Current Account Balance (%GDP)



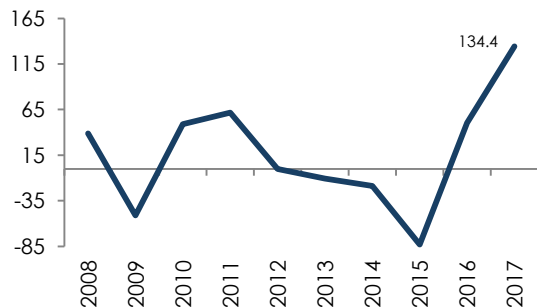
Source: SAMA

Figure 14: Trade balance (USD bn)



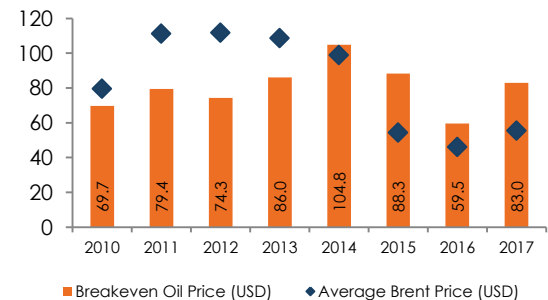
Source: SAMA

Figure 15: Trade balance change (% YoY)



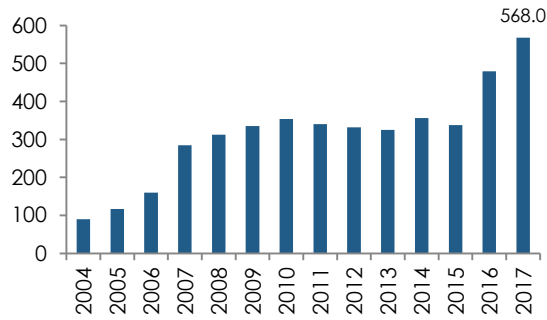
Source: SAMA

Figure 16: KSA breakeven oil price (USD/bbl)



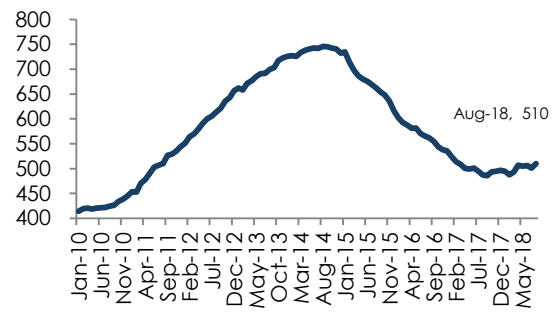
Source: Ministry of Finance, Thomson Reuters

Figure 17: Total External Debt (SAR bn)



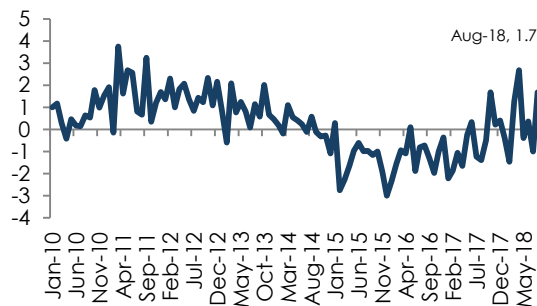
Source: SAMA

Figure 18: SAMA Reserve Assets\* (USD bn)



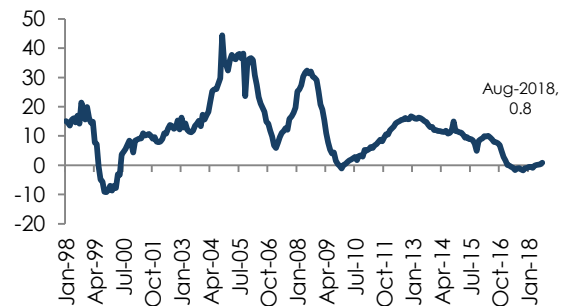
Source: SAMA, \*- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



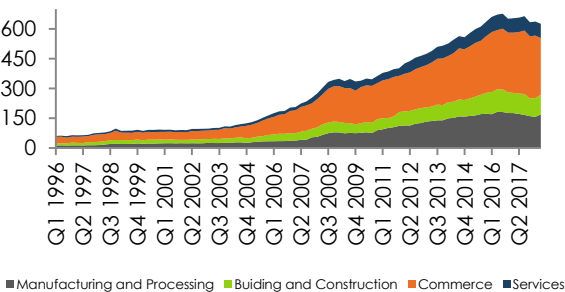
Source: SAMA

Figure 20: Bank credit growth (% YoY)



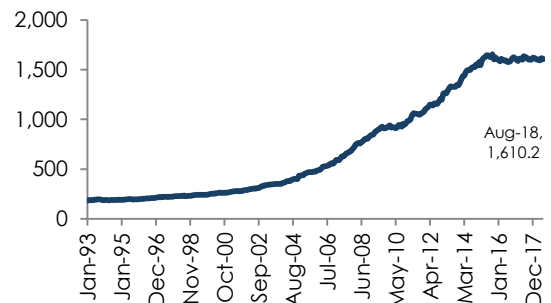
Source: SAMA

Figure 21: Bank credit across major sectors (SAR bn)



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



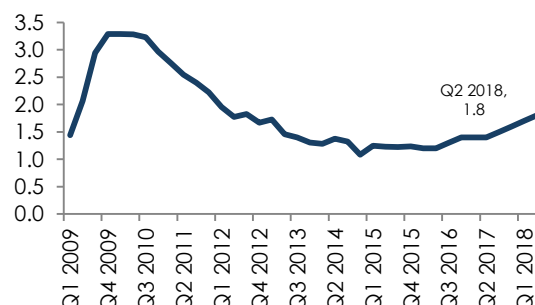
Source: SAMA

Figure 23: Loan-to-Deposit Ratio (%)



Source: SAMA

Figure 24: NPL-to-Total Loans (%)



Source: SAMA

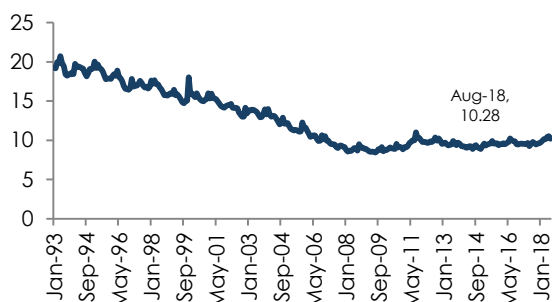


Figure 25: Money Supply/M3 growth (% YoY)



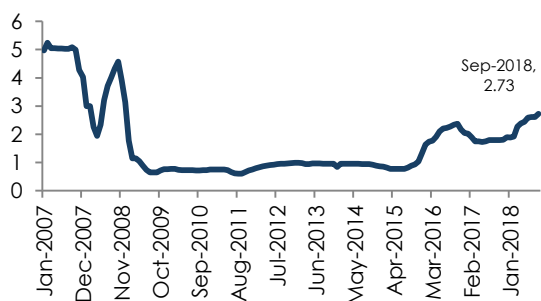
Source: SAMA

Figure 27: Currency Outside Banks (% share of M3)



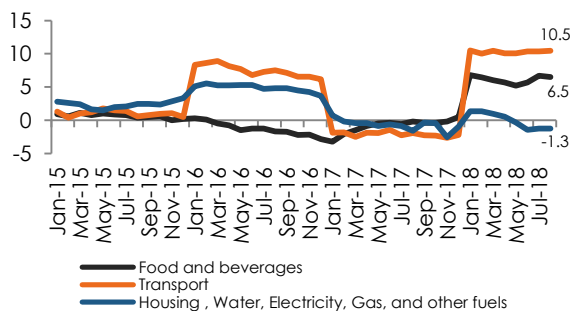
Source: SAMA

Figure 29: 3M SIBOR (%)



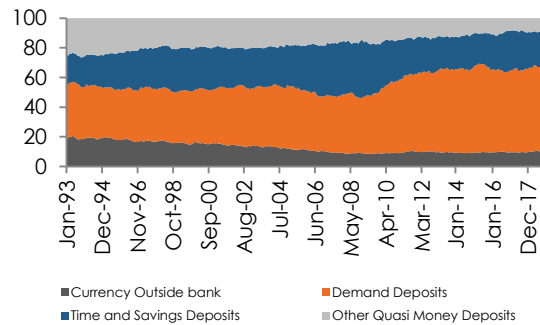
Source: SAMA

Figure 31: Inflation YoY% (major sub-indices)



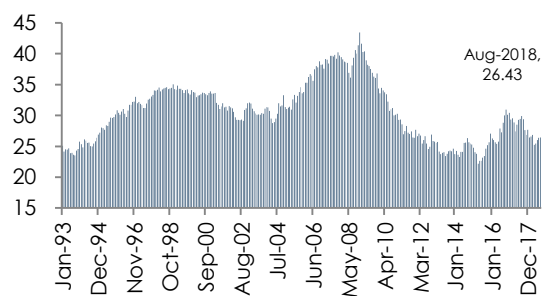
Source: SAMA

Figure 26: Composition of M3 money supply (% share)



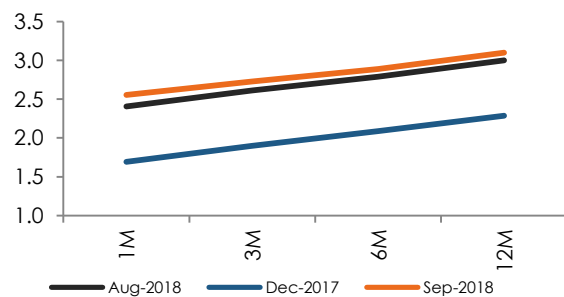
Source: SAMA

Figure 28: Time & Savings Deposits/Total Deposits (%)



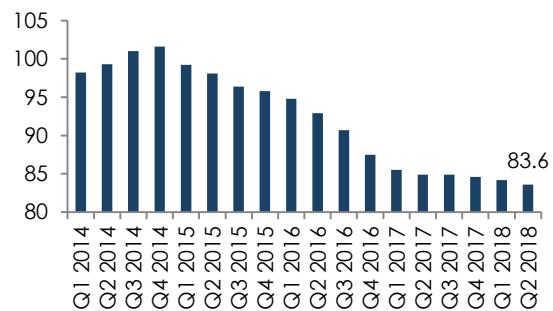
Source: SAMA

Figure 30: Short term interest rate curve (1w to 52 w)



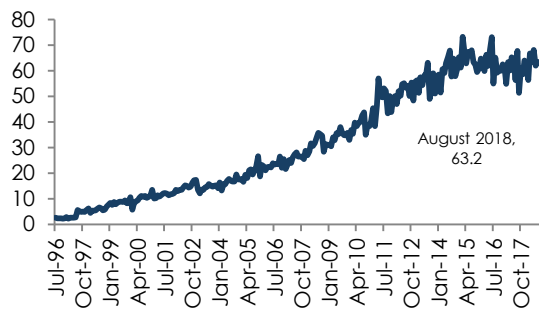
Source: SAMA

Figure 32: Real Estate Price Index (100=2013)



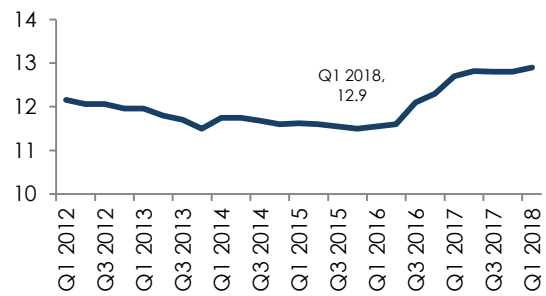
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



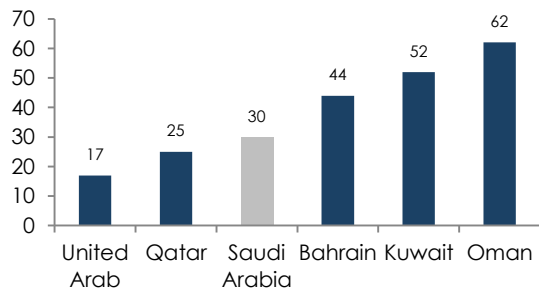
Source: SAMA

Figure 34: Saudi unemployment rate (%)



Source: General Authority for Statistics

Figure 35: Competitiveness ranking/indicator



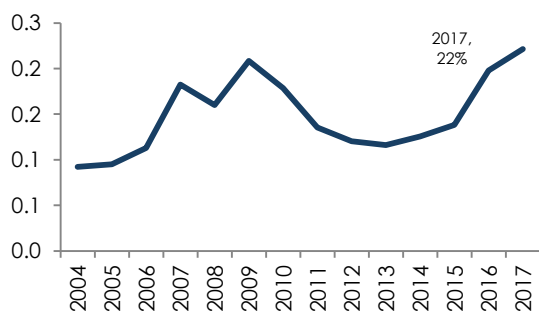
Source: World Economic Forum (2017-2018)

Figure 36: FDI (accumulated, SAR billions)



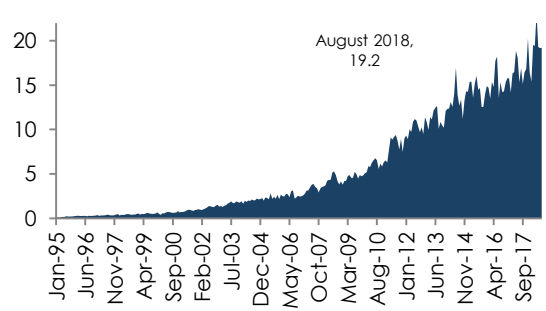
Source: SAMA

Figure 37: External debt-to-GDP (%)



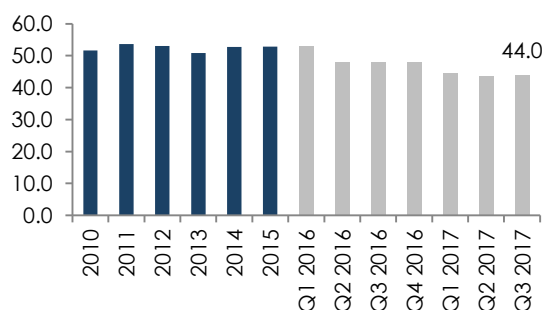
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



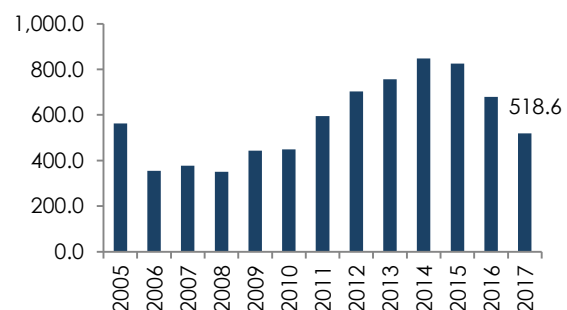
Source: SAMA

Figure 39: Mobile/Telecom Subscribers (mn)



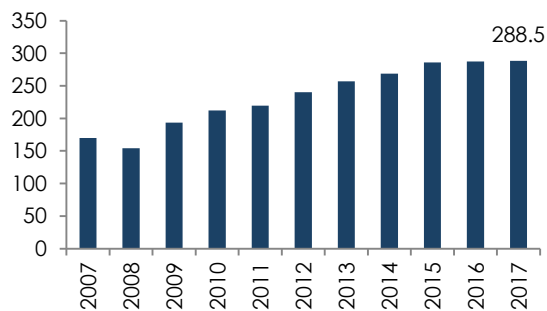
Source: Ministry of Communication and IT, Q3 2016 taken as average of Q2 and Q4 2016

Figure 40: Automobile Sales ('000s)



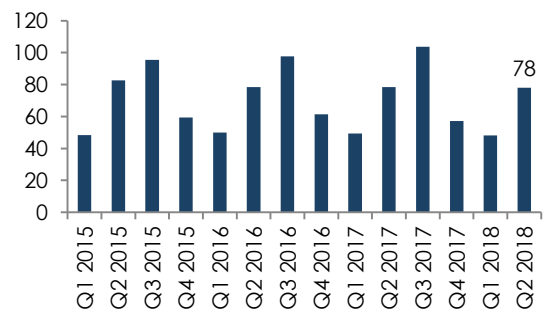
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



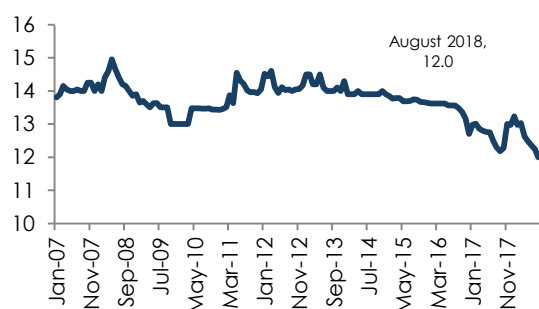
Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



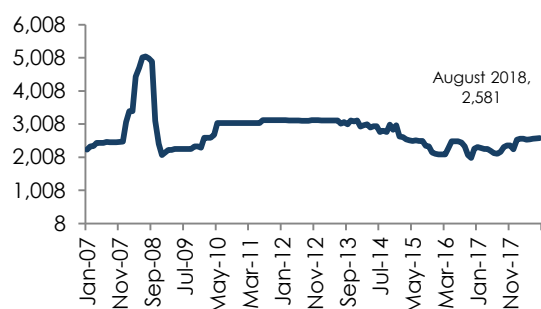
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



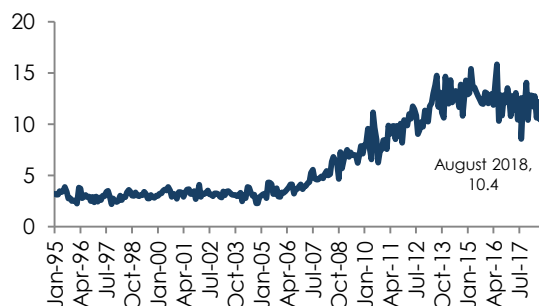
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



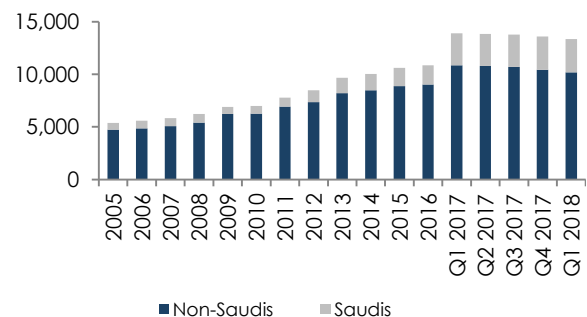
Source: General Authority of Statistics

Figure 45: Expat Remittances (SAR bn)



Source: SAMA

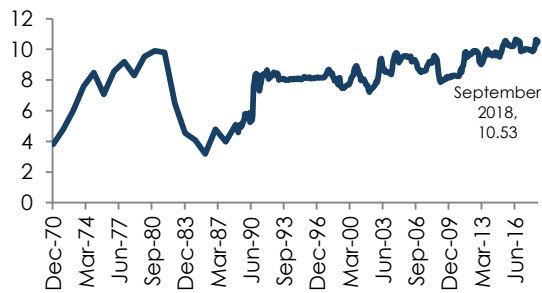
Figure 46: Labor Force Breakdown ('000)



Source: Ministry of Labor, Quarterly data displayed for 2017 onwards

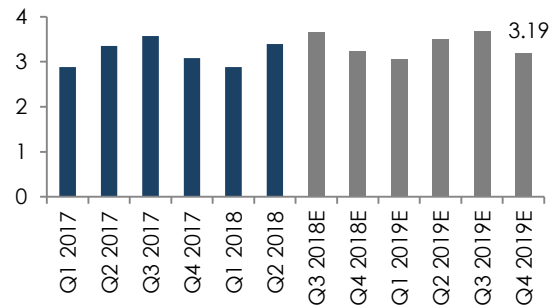
## II. Oil Indicators

Figure 1: Saudi Oil Production (mbpd)



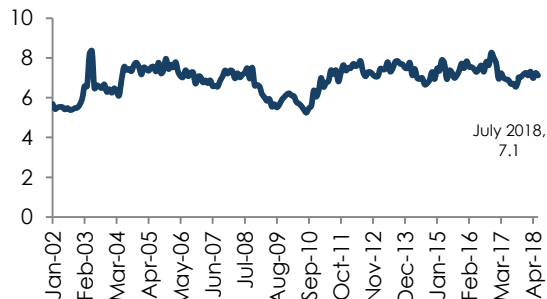
Source: Bloomberg

Figure 2: Saudi Domestic Oil Demand (mbpd)



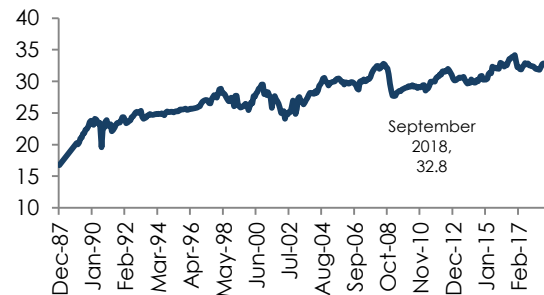
Source: IEA

Figure 3: Saudi Oil Export (mbpd)



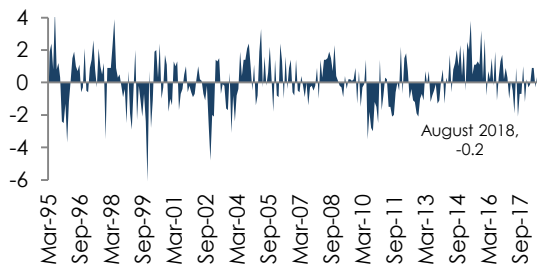
Source: Ministry of Petroleum, JODI

Figure 4: OPEC Oil Production (mbpd)



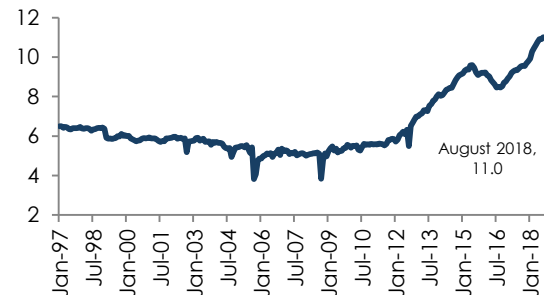
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



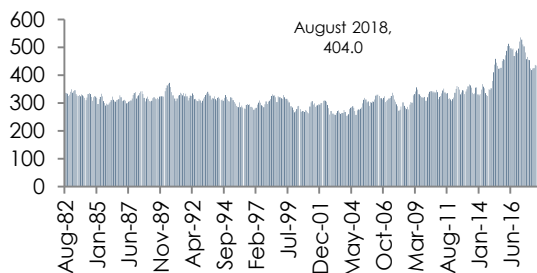
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



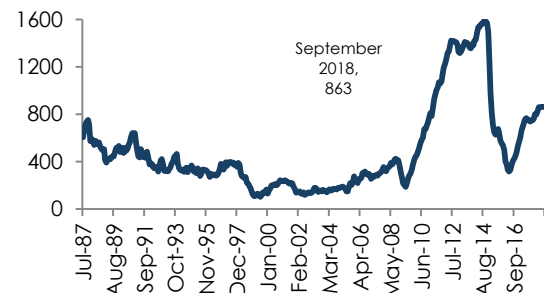
Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

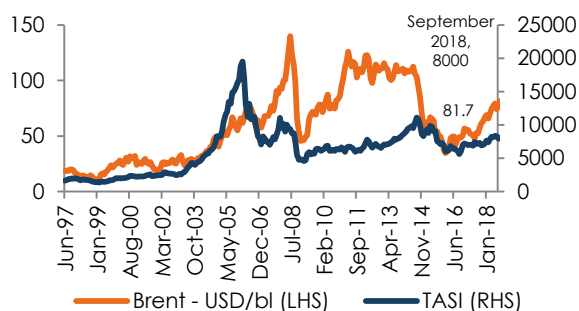
Figure 8: US Rig Count



Source: Bloomberg

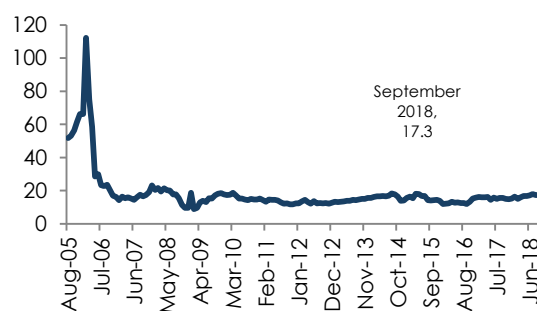
### III. Stock Market Indicators

Figure 1: TASI and Oil



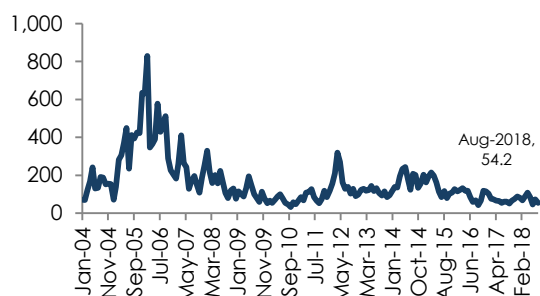
Source: Bloomberg

Figure 2: TASI Price-to-Earnings Ratio (x)



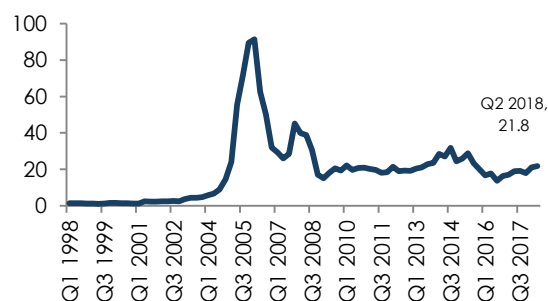
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



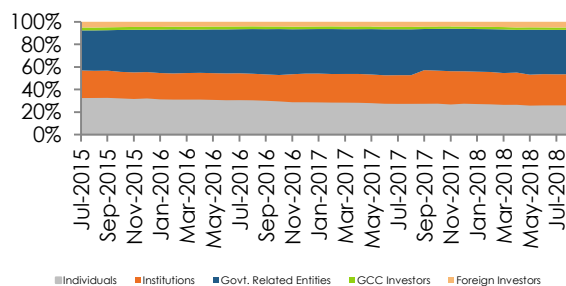
Source: Tadawul, SAMA

Figure 4: Domestic Shares held by Domestic Investment Funds (SAR bn)



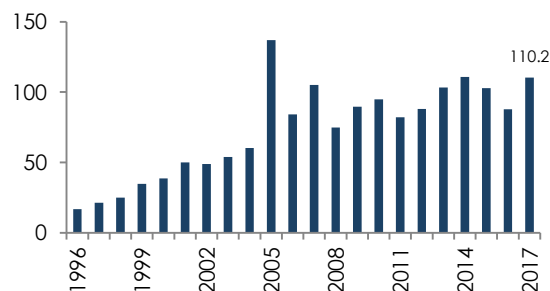
Source: SAMA

Figure 5: Share Ownership Status



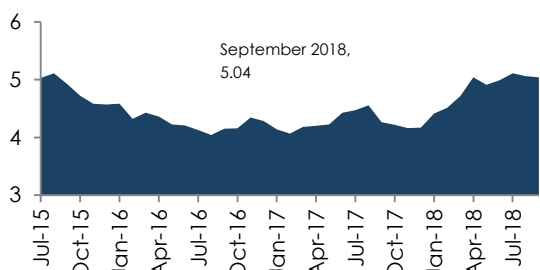
Source: SAMA

Figure 6: Total Assets of Investment funds (SAR bn)



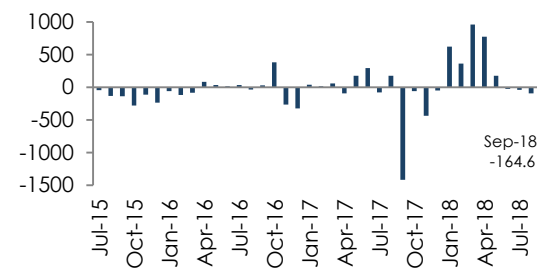
Source: SAMA

Figure 7: Foreign Ownership %



Source: Tadawul

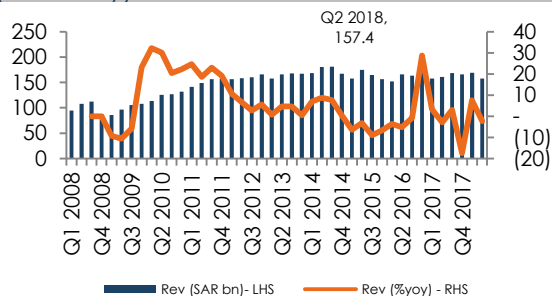
Figure 8: Net Foreign Inflows (USD mn)



Source: Tadawul

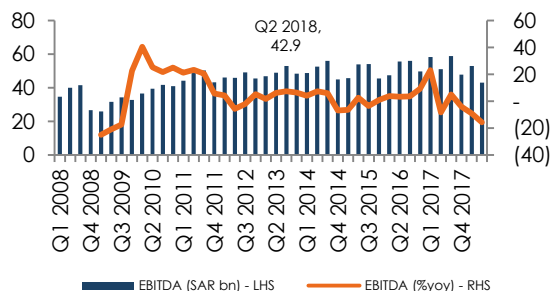
#### IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



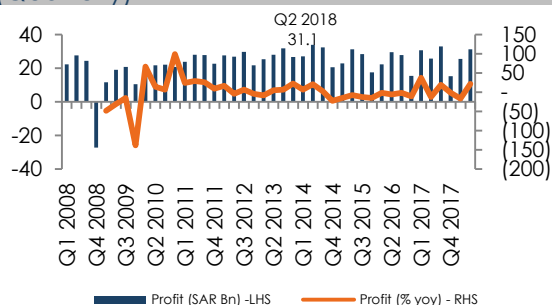
Source: Reuters Eikon

Figure 3: TASI EBITDA and YoY growth (Quarterly)



Source: Reuters Eikon

Figure 5: TASI PAT and YoY growth (Quarterly)



Source: Reuters Eikon

Figure 7: TASI EBITDA and PAT margin (%) - Quarterly

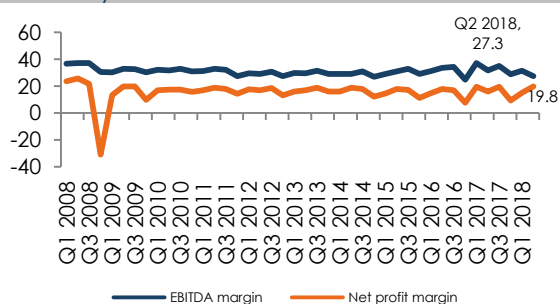
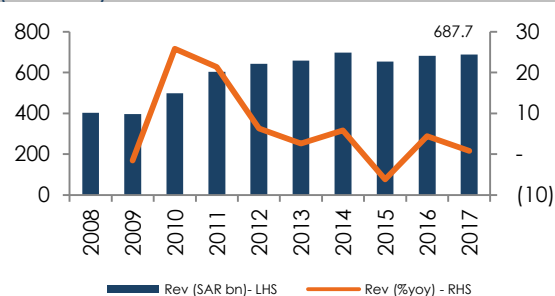
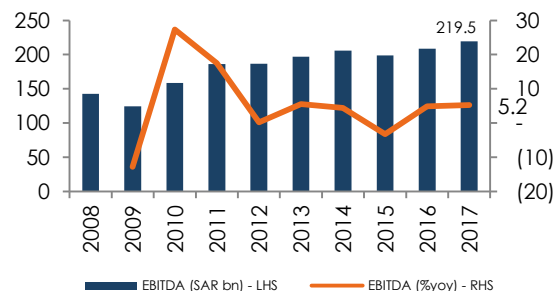


Figure 2: TASI Revenue and YoY growth (Annual)



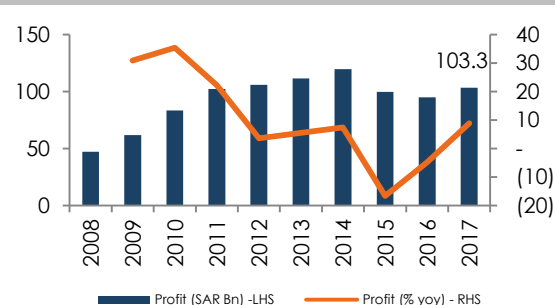
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



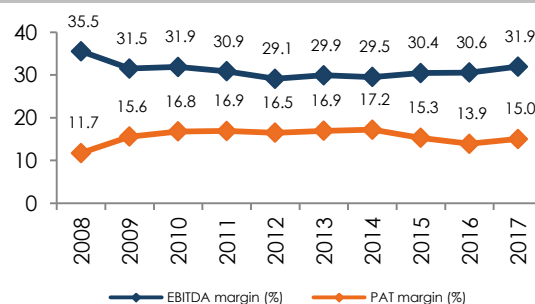
Source: Reuters Eikon

Figure 6: TASI PAT and YoY growth (Annual)



Source: Reuters Eikon

Figure 8: TASI EBITDA and PAT margin (%) - Annual



## V. Tadawul Sector Earnings Performance

Earnings (SAR mn)	Market Cap (SAR mn)	Q2 2018	Q2 2017	Q1 2018	% YoY	% QoQ
Materials	628,512	11,084.6	6,076.8	10,420.4	82.4	6.4
Banks	568,995	12,654.7	11,319.6	12,578.3	11.8	0.6
Telecommunication Services	179,330	2,327.4	2,174.9	2,417.1	7.0	-3.7
Real Estate	81,996	30.4	113.8	311.8	-73.3	-90.2
Food & Beverages	76,914	908.7	950.2	280.4	-4.4	224.1
Utilities	73,206	1,878.8	2,269.8	-1,175.2	-17.2	259.9
Energy	35,237	438.1	487.2	442.5	-10.1	-1.0
Diversified Financials	34,348	242.9	227.2	160.6	6.9	51.3
Insurance	31,568	451.0	352.9	135.7	27.8	232.3
Retailing	26,850	451.7	449.2	68.0	0.5	564.3
Health Care	23,562	190.2	212.0	306.1	-10.3	-37.9
Transportation	12,752	137.7	233.5	146.5	-41.0	-6.0
Consumer Services	11,432	132.3	318.9	153.4	-58.5	-13.7
Capital Goods	8,498	-169.7	105.3	-49.2	-261.1	-244.6
Commercial Services	8,225	118.1	119.3	103.2	-1.0	14.4
Media	8,204	86.5	8.3	10.1	941.8	752.8
Food & Staples Retailing	7,214	65.1	82.4	71.9	-21.0	-9.5
Pharma & Biotech	3,732	35.5	53.4	55.8	-33.6	-36.4
Consumer Durables & Apparel	2,905	59.9	57.0	35.6	5.1	68.0
<b>Total</b>	<b>1,823,479</b>	<b>31,124</b>	<b>25,612</b>	<b>26,473</b>	<b>21.5</b>	<b>17.6</b>

Source: Bloomberg, MCap and results as of September 06, 2018



## B. Saudi Arabia Key Statistics

Data	2011	2012	2013	2014	2015	2016	2017	2018E
<b>Economic Output</b>								
Nominal GDP (USD bn)	669.5	734.0	744.3	753.8	653.2	646.4	678.5	782.4
Nominal GDP YoY (%)	27.1	9.6	1.4	1.3	-13.3	-2.1	5.0	13.9
Real GDP YoY (%)	10.0	5.4	2.7	3.6	3.4	1.2	-0.7	1.9
<b>Budget</b>								
Revenue (SAR bn)	1117.8	1247.4	1156.4	1044.4	615.9	519.0	696.0	882.0
Oil Revenue (SAR bn)	1034.4	1144.8	1035.0	913.3	446.4	329.0	440.0	492.0
Non-oil Revenue (SAR bn)	83.4	102.6	121.3	131.0	169.5	190.0	256.0	291.0
Expenditure (SAR bn)	826.7	873.3	976.0	1109.9	978.1	830.0	926.0	1030.0
Surplus/(Deficit) (SAR bn)	291.1	374.1	180.3	-65.5	-362.2	-311.0	-230.0	-148.0
Surplus/(Deficit) (% GDP)	11.6	13.6	6.5	-2.3	-15.0	-12.8	-8.9	-5.0
Gross Public Debt (SAR bn)	135.5	83.8	60.1	44.3	142.3	316.5	438.0	576.0
Gross Public Debt (% GDP)	5.4	3.0	2.2	1.6	5.9	12.3	17.0	20.0
<b>Oil statistics</b>								
Production (mbpd)	9.3	9.8	9.6	9.7	10.2	10.2	10.0	10.0
Exports (mb)	2634.6	2783.8	2763.3	2611.0	2614.5	2799.0	2540.4	3051.6
Domestic consumption (mb)	1321.4	1408.6	1423.8	1516.8	1586.5	1535.1	1583.2	1609.1
<b>Trade &amp; External sector</b>								
Exports (US\$ bn)	364.7	388.4	375.9	342.4	203.6	183.6	239.8	242.2
Oil Exports (US\$ bn)	317.6	337.5	321.9	284.6	152.9	136.2	136.3	147.3
Imports (US\$ bn)	131.6	155.6	168.2	173.8	174.7	140.2	204.3	208.1
Trade surplus/(deficit) (US\$ bn)	233.1	232.8	207.7	168.6	28.9	43.4	35.5	34.1
Current Account (US\$ bn)	158.5	164.8	135.4	73.8	-56.7	-24.9	10.8	15.1
Current Account (% GDP)	23.7	22.4	18.2	9.8	-8.7	-3.9	1.5	2.0
SAMA forex reserves (US\$ bn)	544.0	656.6	725.7	732.4	616.4	535.8	496.4	NA
<b>Inflation (%)</b>								
	3.7	2.9	3.5	2.7	2.2	2.1	-0.8	2.8
<b>Demographics</b>								
Population (mn)	28.4	29.2	30.0	30.8	31.4	31.7	32.7	33.3
Saudi unemployment rate (% population)	12.4	12.1	11.7	11.7	11.5	12.3	12.8	12.9

Source: SAMA, General Authority of Statistics, Reuters, IMF, MEFIC Research

## Notes

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