



# Saudi Arabian Economy

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## Saudi economy: Consumption maintains uptrend

*Saudi Arabia's economy especially on the consumer spending front seems to be relatively stable amidst weak global data points. POS transactions continued its robust rise in July (+18.7% y-o-y; +9.8% m-o-m), driven by the 'Restaurants and Hotels', 'Food & Beverages' and 'Clothing & Footwear' segments; whereas ATM withdrawals recorded a drop (-0.4% y-o-y; +16.1% m-o-m) in July. Money supply increased by 4.7% y-o-y in July. Remittances from Saudi nationals rose for the fourth month in a row (+20.1% y-o-y) in July, whereas transfers from non-Saudi nationals declined (-5.9% y-o-y) in the same month. Meanwhile, the cost of living index continued to be in the deflation territory in July (-1.3% y-o-y; +0.1% m-o-m), owing to a decline in the 'Housing, Water, Electricity, Gas' sector which constitutes around a quarter of the index.*

*Saudi Arabian lending continued its upward journey in July helped by mortgage loan growth. Further, deposits also increased (+3.7% y-o-y; -0.7% m-o-m) in July. SAMA foreign reserves grew, although at a slower pace (+0.5% y-o-y; -1.8% m-o-m) in July; as recent debt issuances by the government has curbed its need to tap foreign reserves in order to plug the fiscal deficit. Moody's believes that Saudi Arabia will drive global sukuk issuance in 2019. With low debt to GDP ratio (~19% in 2018; Source: IMF), Saudi Arabia has enough buffer to raise additional debt to support its fiscal spending. Overall, we continue to believe that the Saudi Arabian economy will remain on the recovery path, amid higher oil revenues and the government's commitment to support the non-oil sector.*

### More details:

**Credit to the private sector** increased by 3.4% y-o-y (+0.5% m-o-m) in July, while bank claims on public sector rose by 26.4% y-o-y (+4.7% m-o-m) in the same month. Meanwhile, **deposits** rose 3.7% y-o-y (-0.7% m-o-m) in July (Figure 10 & 11).

**SAMA foreign reserves** on an annual basis rose by 0.5% in July 2019 versus a rise of 1.2% y-o-y in June. On a monthly basis, reserves slipped by 1.8% in July (-0.8% m-o-m in June) (Figure 8 & 9). Meanwhile, government reserves with SAMA stood at SAR 561.9bn (including government current account) as of July, registering a monthly fall of 6.0%.

**Saudi Arabia's Q2 2019 fiscal deficit** came in at SAR 33.5bn, with total revenue at SAR 260.7bn (-5% y-o-y) and total expenditure at SAR 294.2bn (+5% y-o-y). Our detailed analysis of the Kingdom's Q2 2019 fiscal position can be accessed [here](#).

**The number of Hajj pilgrims** registered a rise of 5% y-o-y in 2019 (+0.8% y-o-y in 2018) to 2.49mn, with 0.63mn (+3.5% y-o-y) of domestic pilgrims and 1.85mn (+5.5% y-o-y) of foreign pilgrims (Figure 2 & 3).



**Kingdom raised SAR 2.3bn** via its SAR-denominated Sukuk program. The government sold SAR 1.415bn of bonds which mature in 2024, SAR 258mn of bonds which matures in 2028 and SAR 588mn maturing in 2034.

**Banking sector profits** rose 5.6% y-o-y to stand at SAR 4,500mn in July (-53.3% y-o-y in June). The cumulative banking sector profits for the year (till July 2019) climbed by 1.9% y-o-y in July to stand at SAR 29,343mn (Figure 15).

**Money Supply (M3)** climbed in July (+3.9% y-o-y) to stand at SAR 1,872bn, driven by rise in M1. As per the weekly money supply data by SAMA, M3 may witness a rise in August (Figure 12).

**Point-of-sale (POS) transactions** increased by 18.7% y-o-y in July 2019 (+ 7.4% y-o-y in June), whereas the ATM cash withdrawals dropped at a slower pace of 0.4% y-o-y in July (-12.2% y-o-y in June). POS transactions growth can be attributed to the rise in 'Restaurants and Hotels' (+41.2% y-o-y), 'Food & Beverages' (+25.3% y-o-y) and 'Clothing & Footwear' (+10.9% y-o-y) segments (Figure 5, 6 & 7).

**Remittances (Personal Transfers)** by Saudi nationals grew for the fourth month in a row by 20.1% y-o-y in July, as against the rise of 2.2% y-o-y in June, whereas remittances by non-Saudi nationals dropped by 5.9% y-o-y in the same month (-17.9% y-o-y in June) (Figure 4).

**Cost of living index** continued to be in the deflation territory in July. The index fell at a slower pace of 1.3% y-o-y in July, versus the fall of 1.4% y-o-y in June. The 'Housing, Water, Electricity & Gas' sector (accounting ~25.4% of the index) dropped 6.7% y-o-y in July (-7.2% y-o-y in June), while the 'Food and Beverages' sector (constituting ~18.9% of the index) rose 0.1% y-o-y in July (+1.3% y-o-y last month). On a monthly basis, the cost of living index rose for the third straight month by 0.1% in July (+0.2% m-o-m in June) (Figure 16 & 17).

**Crude oil prices** (Brent October futures contract) declined 7.0% MTD in August 2019, due to escalating trade war between the US and China. Further, investor concerns over slowing global growth also weighed on the prices. Meanwhile, the Saudi Arabian crude oil production rose 0.5% m-o-m, to 9.9mbpd in July, as against the monthly fall of 0.1% in June (Figure 18 & 19).

**Crude price outlook:** The US Energy Information Administration (EIA) in its August 2019 report estimated Brent crude oil prices to average US\$64/barrel for 2019 and US\$65/barrel for 2020.

**Figure 1 Key macro indicators**

Variable	Aug-19	Jul-19	Jun-19	2018	2017
Inflation Rate (2007=100) %	-	-1.3%	-1.4%	2.5%	-0.8%
	Aug-19	Jul-19	Jun-19	2018	2017
Average Oil Price (Arab Light) (US\$/Barrel)	58.2	65.6	63.5	70.6	52.5
	Aug-19	Jul-19	Jun-19	2018	2017
Money Supply (M3) %	-	3.9%	3.6%	2.7%	0.3%
Total Banking Sector Claims	-	6.9	6.3	5.3	3.7
Interbank Interest Rate (3 Month) %	2.421	2.680	2.756	2.451	1.812
Repo Rate %	2.75	2.75	3.00	3.00	2.00
Reverse Repo Rate %	2.25	2.25	2.50	2.50	1.5
		Q1 2019*	Q4 2018*	2018*	2017
GDP Rate at Constant Prices (2010=100) %	-	1.7%	4.3%	2.4%	-0.7%
		Q1 2019*	Q4 2018*	2018*	2017*
Current Account to GDP Ratio (current prices) %	-	6.0%	7.9%	9.0%	1.5%
Total Imports (fob) to GDP Ratio (current prices)%	-	16.6%	15.2%	16.0%	17.9%
Non-oil Exports to GDP Ratio (current prices) %	-	8.0%	7.9%	8.0%	7.5%

Source: SAMA, Bloomberg \* Provisional. Arab Light and Interbank interest rate data is as on 28<sup>th</sup> August 2019.

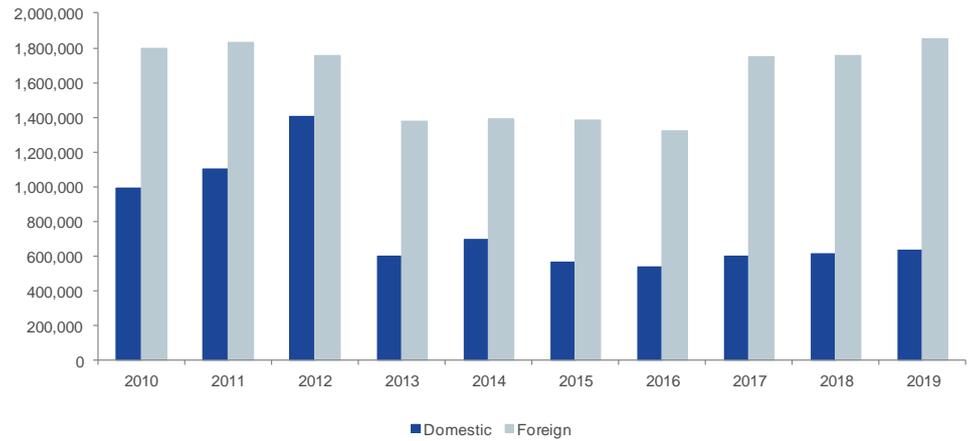


The number of Hajj pilgrims rose in 2019

## Hajj Statistics

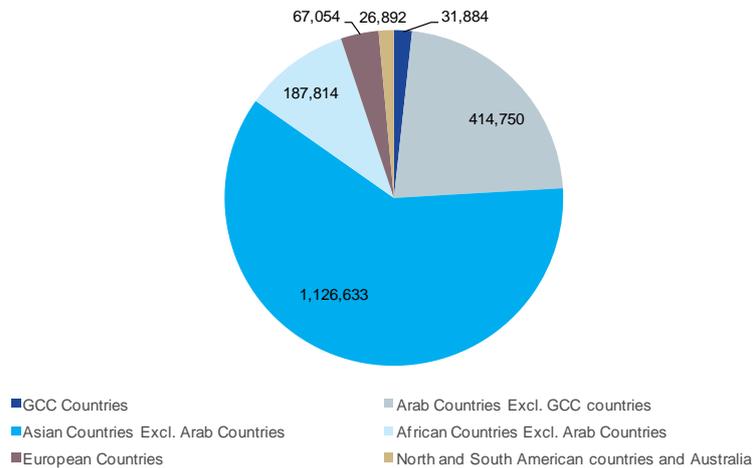
The number of Hajj pilgrims increased by 5% y-o-y in 2019 (+0.8% y-o-y in 2018) to 2.49mn, with 0.63mn (+3.5% y-o-y) of domestic pilgrims and 1.85mn (+5.5% y-o-y) of foreign pilgrims. The highest number of foreign pilgrims was from Asian countries excluding Arab countries (~61% of the total foreign pilgrims) followed by Arab countries excluding GCC countries (~22%).

Figure 2 Number of Hajj Pilgrims



Source: GAS, Al Rajhi Capital

Figure 3 Foreign Pilgrims break-up for 2019



Source: GAS, Al Rajhi Capital

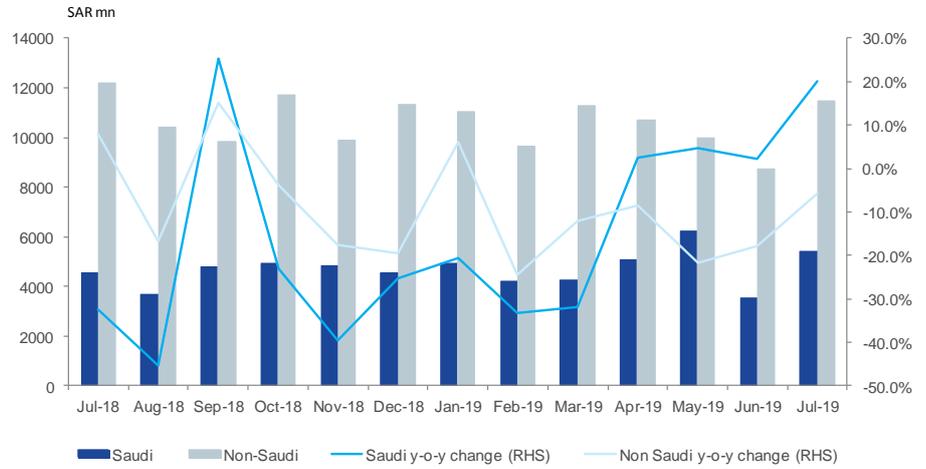
Remittances by Saudi nationals rose in July

## Remittance

Remittances (Personal Transfers) from Saudi nationals increased by 20.1% y-o-y (+2.2% y-o-y in June) to ~SAR 5.4bn in July 2019, whereas remittances from non-Saudi nationals declined by 5.9% y-o-y (-17.9% y-o-y in June) to stand at ~SAR 11.5bn.



Figure 4 Remittances



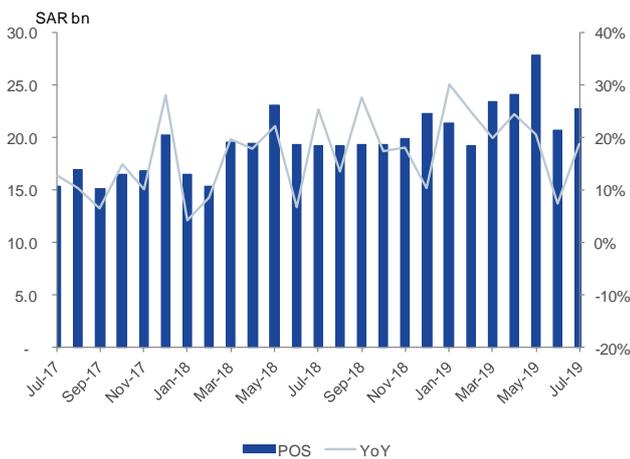
Source: SAMA, Al Rajhi Capital

### Consumer spending indicators

#### POS transactions increased in July

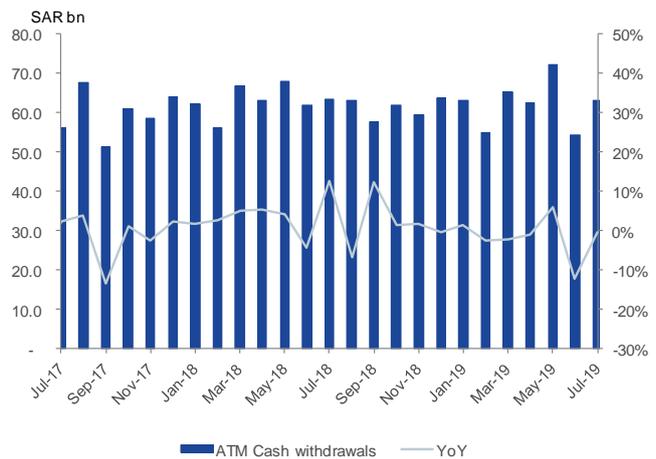
POS transactions rose by 18.7% y-o-y in July 2019 as against the annual rise of 7.4% in June, whereas the ATM cash withdrawals declined at a slower pace of 0.4% y-o-y in July, versus the fall of 12.2% y-o-y in June. POS transactions growth can be primarily attributed to the rise in 'Restaurants and Hotels' (+41.2% y-o-y), 'Food & Beverages' (+25.3% y-o-y) and 'Clothing & Footwear' (+10.9% y-o-y) segments.

Figure 5 Point-of-sale transactions (POS) trend



Source: SAMA, Al Rajhi Capital

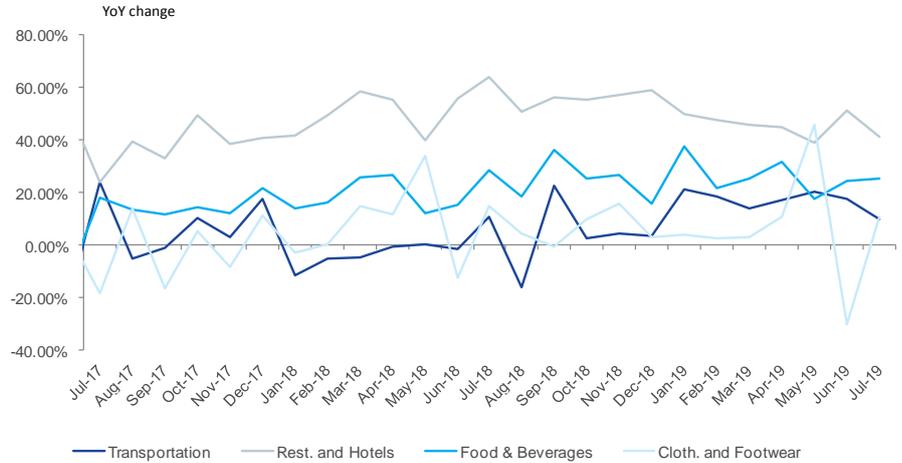
Figure 6 ATM cash withdrawals trend



Source: SAMA, Al Rajhi Capital



Figure 7 Points-of-sale transactions trend by sectors



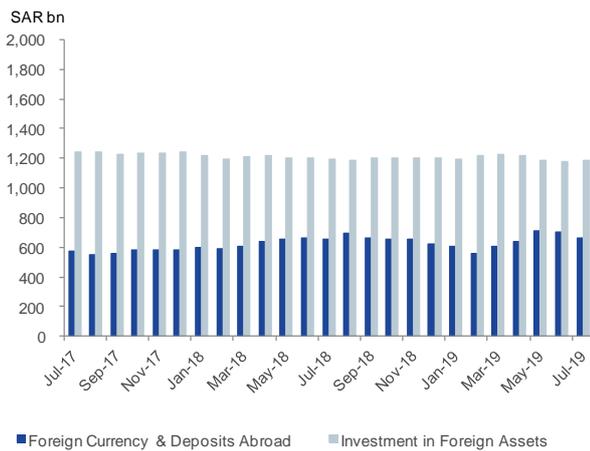
Source: SAMA, Al Rajhi Capital

SAMA reserves grew at a slower pace in July

SAMA Foreign Exchange Reserves

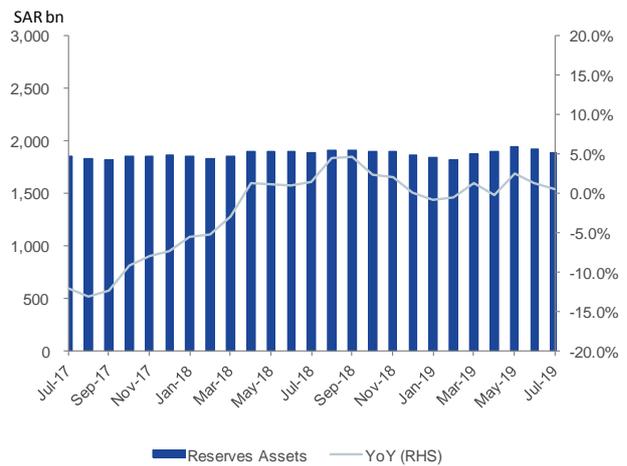
SAMA Foreign Exchange reserves increased in July for the third straight month (+0.5% y-o-y Vs +1.2% y-o-y in June) to stand at SAR 1,888bn (US\$ 503.4bn). On a monthly basis, reserves declined for the second consecutive month by 1.8% m-o-m in July as against a fall of 0.8% m-o-m in June. Meanwhile, foreign currency and deposits abroad dropped 5.3% m-o-m in July (-1.8% m-o-m in June); whereas investment in foreign securities rose by 0.1% m-o-m in the same month (-0.3% m-o-m in June).

Figure 8 Reserves assets



Source: SAMA, Al Rajhi Capital

Figure 9 Major components of foreign assets



Source: SAMA, Al Rajhi Capital

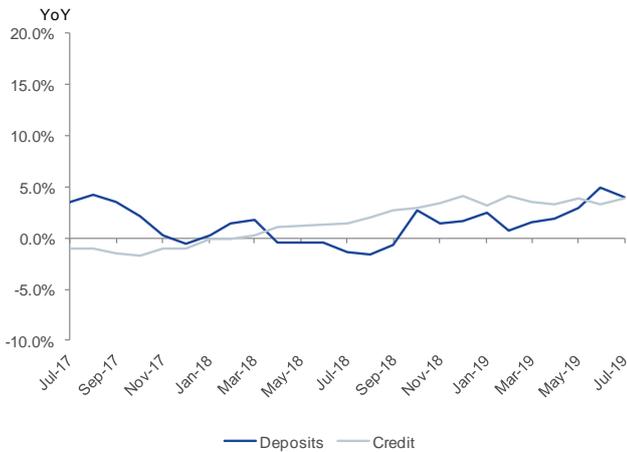


## Credit and deposit growth

Private sector credit continued its robust rise in July

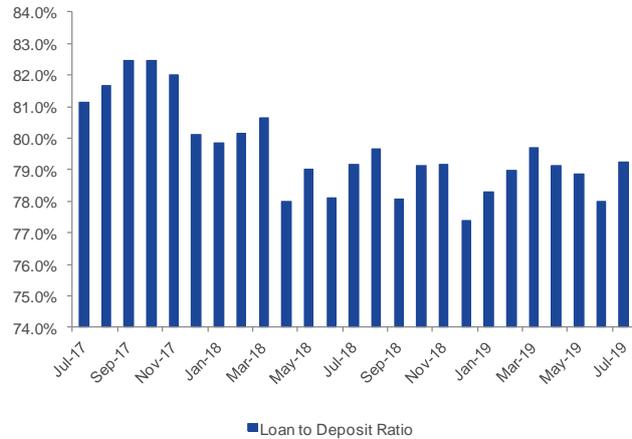
Banking sector credit to the private sector rose for the 16<sup>th</sup> consecutive month by 3.4% y-o-y in July (+0.5% m-o-m), as against the rise of 3.1% y-o-y (-0.7% m-o-m) in June. Claims on the public sector increased by 26.4% y-o-y (+4.7% m-o-m) in July, compared to the rise of 21.8% y-o-y (+0.2% m-o-m) in June. Meanwhile, deposits grew by 3.7% y-o-y in July (-0.7% m-o-m), versus the rise of 4.0% y-o-y (+0.3% m-o-m) in June. ‘Business and Individual’ deposits, which constitute ~73% of the total deposit base, grew by 6.4% y-o-y (-0.5% m-o-m), whereas ‘Government Entities’ deposits fell by 4.3% y-o-y (+1.8% m-o-m).

Figure 10 Credit and deposit growth



Source: SAMA, Al Rajhi Capital

Figure 11 Loans to Deposits



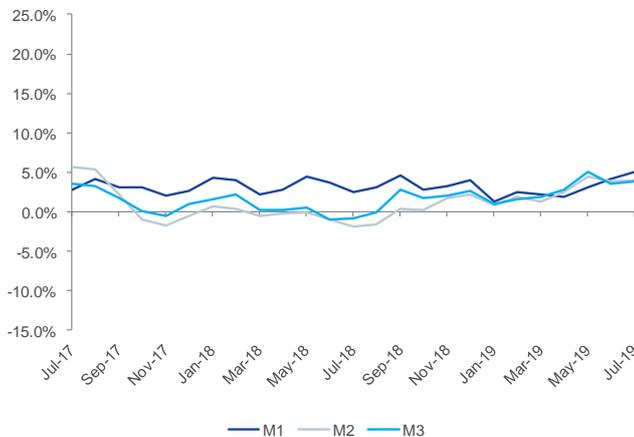
Source: SAMA, Al Rajhi Capital

## Money supply

M3 rose in July

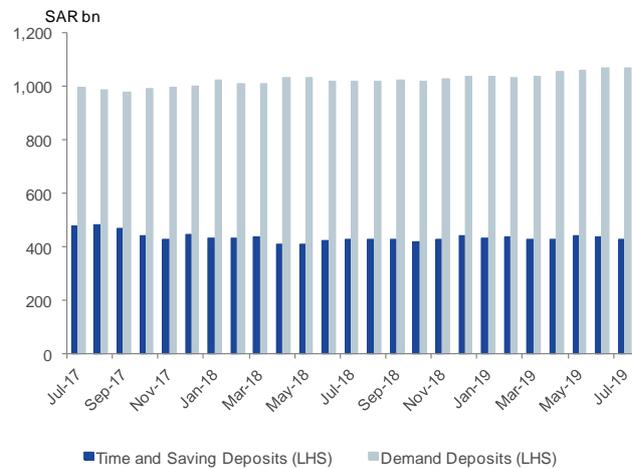
Broader money supply (M3) grew in July (+3.9% y-o-y) to stand at SAR 1,872bn, versus the rise of 3.6% in June. M1 recorded a rise of 5.1% y-o-y (+4.2% y-o-y in June); while M2 increased by 3.9% y-o-y in July, same as that in the previous month. On a monthly basis, the M3 fell 0.6% in July (-0.1% m-o-m in June). As per the weekly money supply data by SAMA, M3 may witness a rise in August.

Figure 12 Money supply growth (y-o-y)



Source: SAMA, Al Rajhi Capital

Figure 13 Deposits break-up



Source: SAMA, Al Rajhi Capital

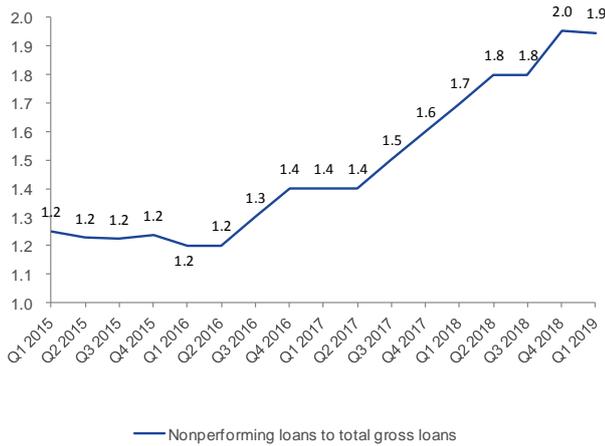


## Banking Sector

### Banking sector profits fell in July

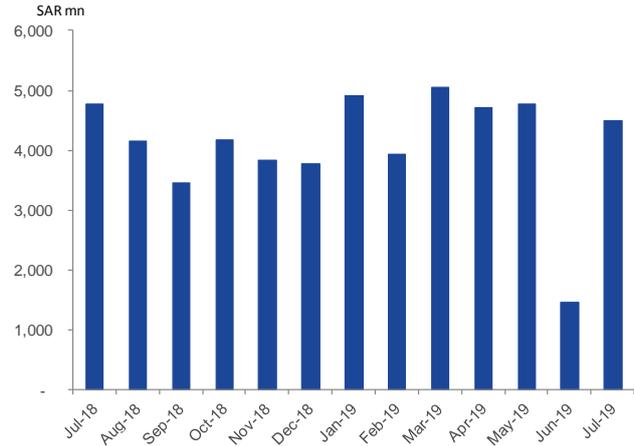
Banking sector profits fell by 5.6% y-o-y in July, to stand at SAR 4,500mn. On a monthly basis, profits rose by 210.8% in July, versus the fall of 69.7% m-o-m in June. The cumulative banking sector profits for the year (till July 2019) climbed 1.9% y-o-y in July to stand at SAR 29,343mn.

Figure 14 Non-performing loans (%)



Source: SAMA, Al Rajhi Capital. Q2 2019 data not released yet.

Figure 15 Net Profit for Banks



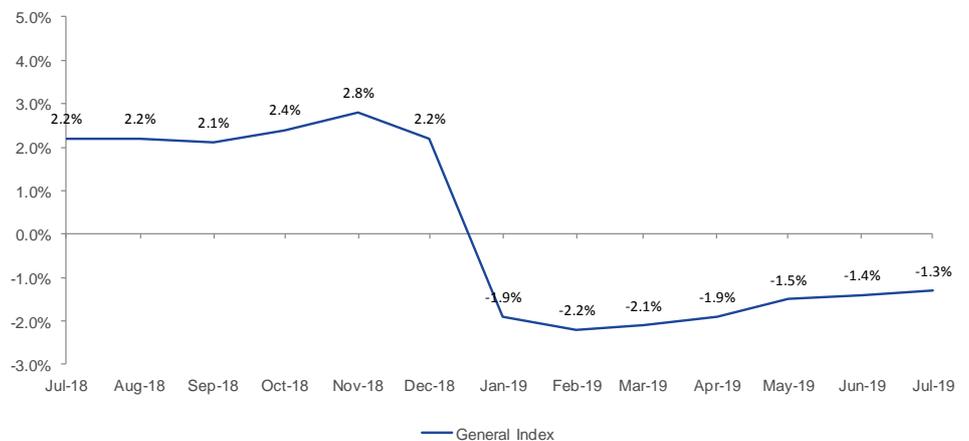
Source: SAMA, Al Rajhi Capital

## Inflation dynamics

### Deflation in the Kingdom continued to ease in July

Cost of living index registered a drop in July. The index declined at a slower pace of 1.3% y-o-y in July, compared to the fall of 1.4% y-o-y in June. The 'Housing, Water, Electricity & Gas' sector (accounting ~25.4% of the index) fell 6.7% y-o-y in July (-7.2% y-o-y in June), while the 'Food and Beverages' sector (constituting ~18.9% of the index) rose 0.1% y-o-y in July (+1.3% y-o-y last month). On a monthly basis, the cost of living index rose for the third consecutive month by 0.1% in July (+0.2% m-o-m in June).

Figure 16 Inflation trend (y-o-y)



Source: GAS, Al Rajhi Capital



Figure 17 Inflation Segments

	Weights	Jul-19	Jul-18	Change (y-o-y)
General Index	100.0%	106	107.5	-1.3%
Food & Beverages	18.9%	106.9	106.9	0.1%
Tobacco	0.7%	192.2	192	0.1%
Clothing & Footwear	6.2%	92.6	93	-0.3%
Housing, Water, Electricity and Gas	25.4%	102.8	110.2	-6.7%
Furnishings and Household Equipments	8.6%	103.5	102.6	0.8%
Health	2.4%	111.6	110.5	1.0%
Transport	10.0%	121.3	119.3	1.6%
Communication	8.5%	99.7	100.3	-0.6%
Recreation & Culture	3.4%	97.1	97.5	-0.4%
Education	4.2%	111.4	110	1.3%
Restaurants and Hotels	6.1%	113.4	111.7	1.5%
Miscellaneous Goods & Services	5.8%	104.7	103.3	1.4%

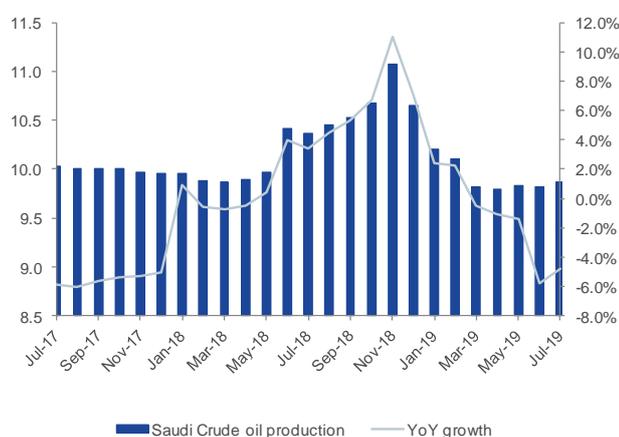
Source: GAS, Al Rajhi Capital

## Crude oil dynamics

Crude oil prices fell on a MTD basis in August

Crude oil prices (Brent October futures contract) dropped 7.0% MTD in August 2019, owing to escalating trade war between the US and China. Further, investor concerns over slowing global growth also weighed on the prices. Meanwhile, the Saudi Arabian crude oil production increased 0.5% m-o-m, to 9.9mbpd in July, as against the monthly fall of 0.1% in June. On an annual basis, the Saudi Arabian crude oil production dropped 4.8% in July compared to the fall of 5.8% in the previous month.

Figure 18 Saudi crude oil production trend (mbpd)



Source: Bloomberg, Al Rajhi Capital

Figure 19 Crude oil prices trend (US\$/bbl)



Source: Bloomberg, Al Rajhi Capital

## Non-oil foreign trade

Non-oil exports fell at a slower pace in June

Kingdom's non-oil exports dropped at a slower pace in June 2019, by 4.7% y-o-y, compared to the fall of 19.9% y-o-y in May. The fall can be primarily attributed to the drop in plastic & rubbers (-13.2% y-o-y) and ordinary metals (-36.5% y-o-y), together constituting ~39.6% of total exports. However, non-oil imports rose for the first time in five months by 1.3% y-o-y in June, as against the fall of 11.2% in May. The rise was owing to increase in imports of transport equipments (+50.0% y-o-y) and chemical products (+7.7% y-o-y) together accounting ~33% of the total imports. Meanwhile, UAE was the top export destination and China was the largest import country in June.



Figure 20 Non-Oil Exports

Commodities (SAR mn)	Apr-19	May-19	Jun-19	% y-o-y	% m-o-m
Plastics & Rubbers	5,721	6,178	5,682	-13.2%	-8.0%
Chemical Products	5,758	5,764	5,795	0.6%	0.5%
Ordinary Metals	1,410	1,385	1,074	-36.5%	-22.5%
Transport Equipments	1,363	1,147	1,672	67.9%	45.8%
Others	3,379	3,150	2,821	-2.5%	-10.4%
Total	17,631	17,624	17,044	-4.7%	-3.3%

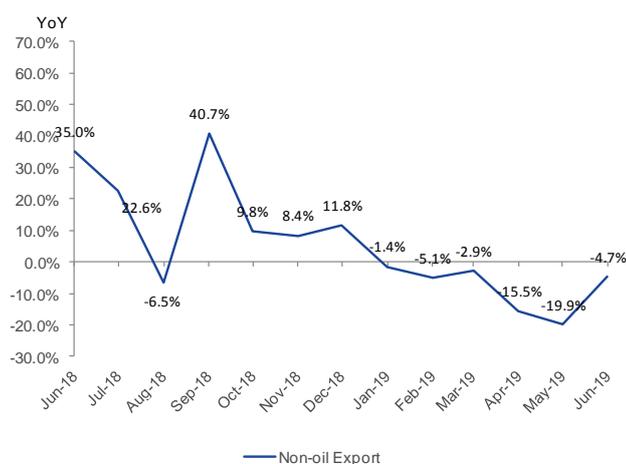
Source: GAS, Al Rajhi Capital

Figure 21 Non-Oil Imports

Commodities (SAR mn)	Apr-19	May-19	Jun-19	% y-o-y	% m-o-m
Machinery & Electricals	7,852	10,075	7,797	-3.3%	-22.6%
Transport Equipments	7,059	6,257	8,596	50.0%	37.4%
Ordinary Metals	3,413	3,851	3,266	-1.1%	-15.2%
Chemical Products	3,561	4,219	3,882	7.7%	-8.0%
Others	17,427	18,697	14,195	-14.3%	-24.1%
Total	39,312	43,099	37,736	1.3%	-12.4%

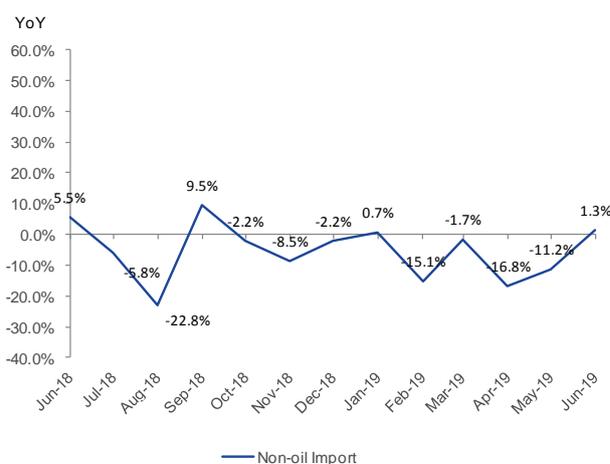
Source: GAS, Al Rajhi Capital

Figure 22 Non-oil export trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 23 Non-oil import trend (y-o-y)



Source: GAS, Al Rajhi Capital

Figure 24 Impact of currencies on Weighted-average Saudi imports (m-o-m) \*

	December	January	February	March	April	May	June
<b>FX movement (USD/Unit)</b>							
EUR	1.3%	-0.2%	-0.6%	-1.3%	0.0%	-2.2%	1.8%
YUAN	1.2%	2.7%	-0.3%	-0.3%	-0.3%	-0.7%	0.6%
YEN	3.5%	0.7%	-0.7%	0.5%	-0.5%	-0.2%	0.4%
<b>FX impact on weighted average imports</b>							
Germany	0.1%	0.0%	0.0%	-0.1%	0.0%	-0.1%	0.1%
China	0.2%	0.5%	-0.1%	-0.1%	-0.1%	-0.1%	0.1%
Japan	NA	NA	NA	NA	NA	NA	NA

Source: Bloomberg, GASTAT, Al Rajhi Capital

\* Out of the 5 top-ranked countries of import, currency of UAE is pegged and so would its variance with the USD and therefore it has been ignored. USD itself is the currency of comparison and so US has also not been taken. Currency movement of Germany, China and Japan has been taken up for analysis. For calculation of weights of the countries of import, data from June has been chosen and assumed constant for preceding period, as consistent data sets is not available for all the countries chosen for analysis. For June 2019, the weights are China (19.7%), Germany (4.5%) and Japan (NA). Japan data not given in June.

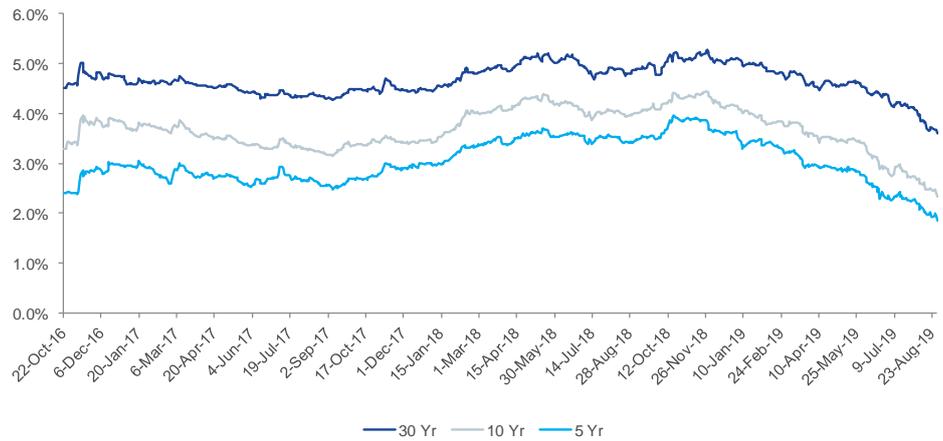


Saudi International bond yields fell on a MTD basis in August

**Saudi international bond yields**

Saudi international bond yields with 5 year and 10 year maturity declined by 41.7bps and 41.4bps MTD, respectively to 1.851% and 2.322% in August 2019. Meanwhile, bond yields with 30 year maturity declined by 53.7bps to 3.546%.

**Figure 25 International Bond Yields**



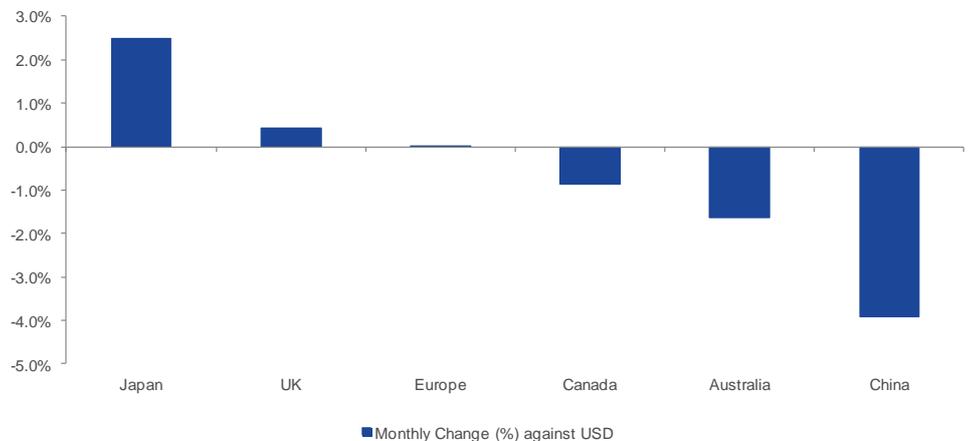
Source: Bloomberg, Al Rajhi Capital

JPY, GBP and the EUR rose on a MTD basis against the USD

**Exchange Rates**

On the forex front, the Japanese Yen, the British Pound and the Euro rose against the US Dollar on a MTD basis in August, whereas the Chinese Yuan, Australian Dollar and the Canadian Dollar fell against the US Dollar.

**Figure 26 Monthly Change (%) against the US Dollar**



Source: Bloomberg, Al Rajhi Capital

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