Macroeconomy

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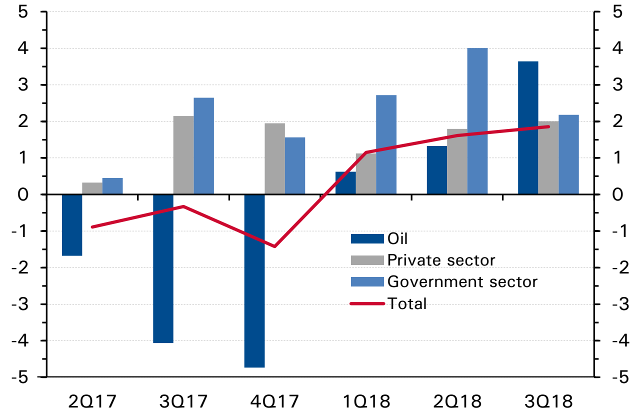
Business activity increasing, but credit growth remains subdued; fiscal deficit halves in 2018

- Economic growth accelerated in 3Q to 1.9% y/y on higher oil output and government spending.
- Retail POS acitivity has improved (+32% y/y in January), while the PMI points to increasing business output.
- Saudi unemployment fell slightly to 10.8%, and expatriate employment continues to shrink.
- Inflation fell by 2.0% y/y in January due to base effects and continued deflation in the CPI housing component.
- The fiscal deficit likely halved in 2018 to 4.6% of GDP thanks largely to a 39% y/y increase in oil revenues.
- With deficit financing via debt issuance continuing, public debt reached an estimated 19.1% of GDP in 2018.
- Private sector credit growth remains low at 2.4% y/y and deposit growth slowed to 0.9% y/y in January.
- TASI is the GCC's best performing index so far in 2019 (8.3%), boosted by forthcoming FTSE/MSCI inclusion.

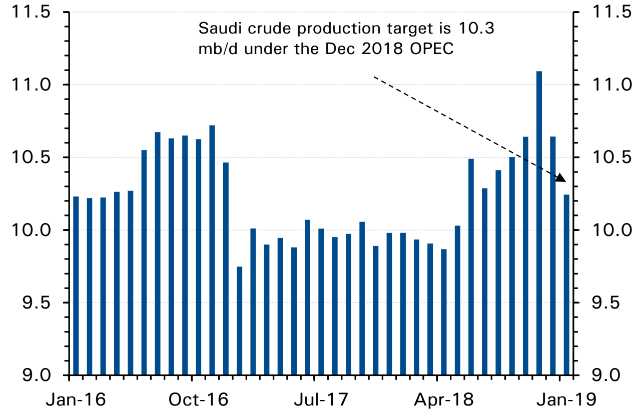
Chart 1: Real GDP
(% y/y)



Growth accelerated to 1.9% y/y in 3Q18 thanks to a resurgent oil sector (3.6% y/y) and government spending (2.2% y/y).

Source: General Authority for Statistics (GASTAT)

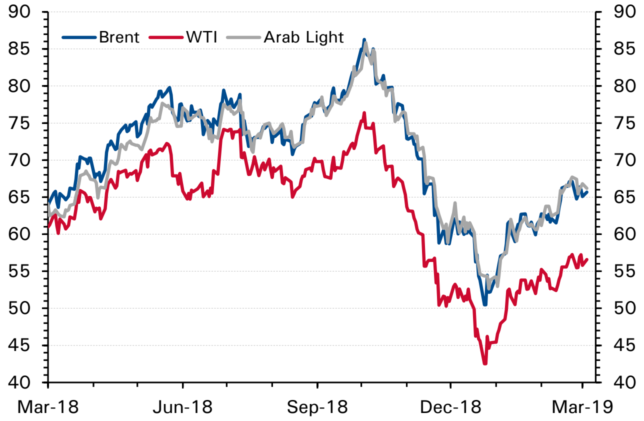
Chart 2: Crude oil production
(mb/d)



Saudi crude output dropped to 10.2 mb/d in Jan, well below the OPEC target, and scored a compliance rate of 130%.

Source: JODI, OPEC secondary sources

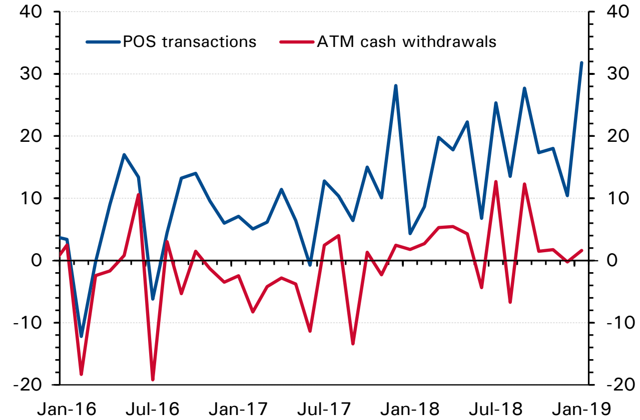
Chart 3: Benchmark crude oil prices
($/bbl)



Oil prices have rallied on OPEC+ supply cuts, which are leading to a tighter physical crude market.

Source: Thomson Reuters Datastream, Bloomberg

Chart 4: Point of sale (POS) and ATM transactions
(% y/y, value of)

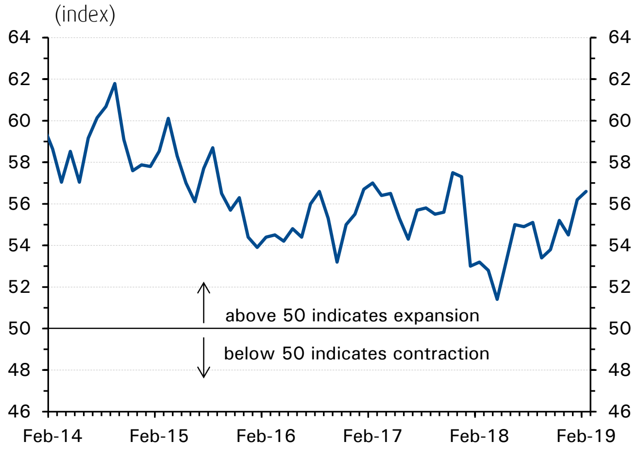


Indicators of consumer spending have shown improvmenent, with the value of POS transactions up by 32% y/y in Jan.

Source: SAMA

Chart 5: Purchasing Managers' Index (PMI)

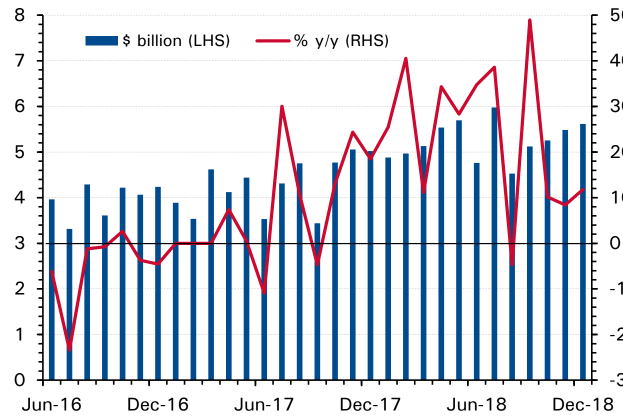
(index)



The PMI rose to a 14-month high of 56.6 in February on increased domestic business (new orders and output).

Source: Emirates NBD/Markit

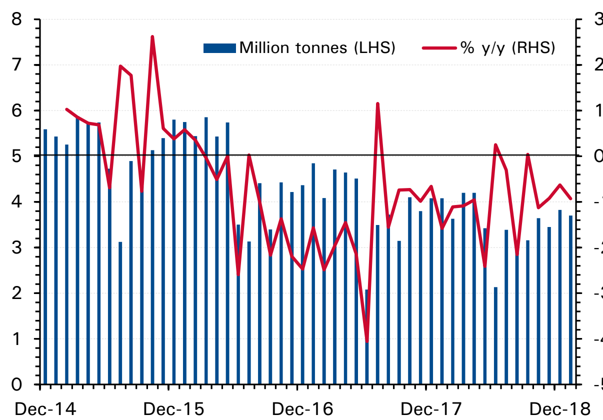
Chart 6: Non-oil exports



Non-oil exports had increased for 4 consecutive months by December 2018 (11.8% y/y), driven by chemical products.

Source: GASTAT

Chart 7: Cement sales

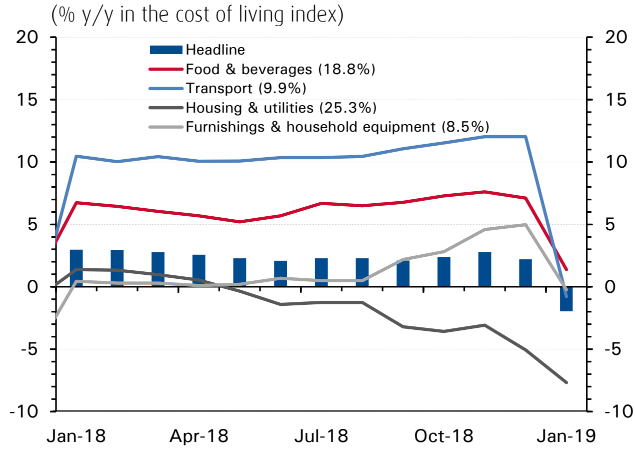


However, sales of cement remain down compared to previous years (-9.3% y/y in December).

Source: ARGAAM

Chart 8: Inflation

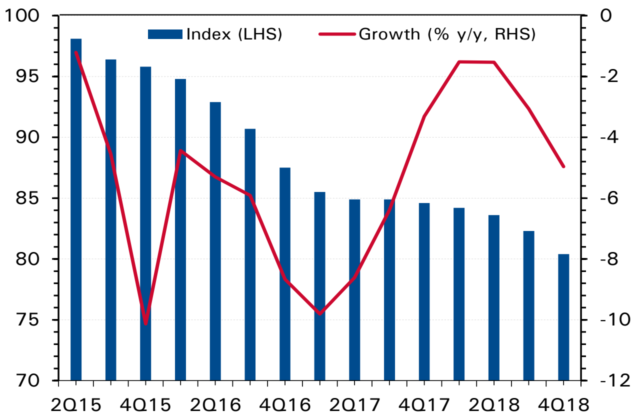
(% y/y in the cost of living index)



Inflation fell by 2.0% y/y in Jan, thanks to deflation in housing and the base effect of last Jan's VAT introduction.

Source: GASTAT

Chart 9: Real estate price index (REPI)

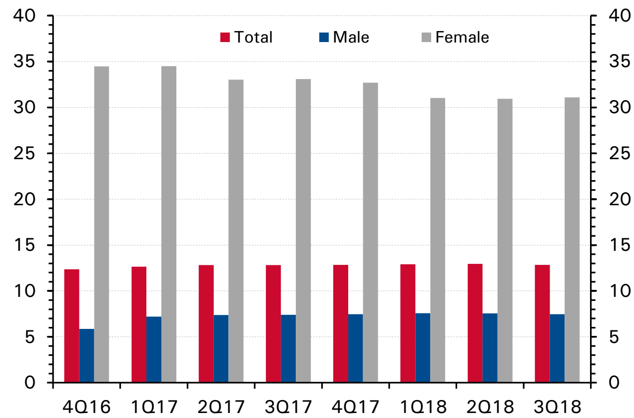


Real estate prices continue to drop due to weak demand; deflation reached 5% y/y in 4Q18.

Source: GASTAT

Chart 10: Saudi unemployment

(% of Saudi labor force)

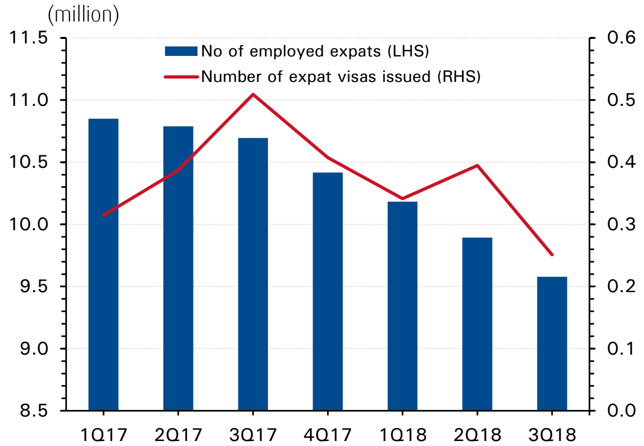


The Saudi unemployment rate fell marginally to 12.8% in 3Q18 from 12.9% in 4Q18.

Source: SAMA

Chart 11: Expat employment/work visa issuances

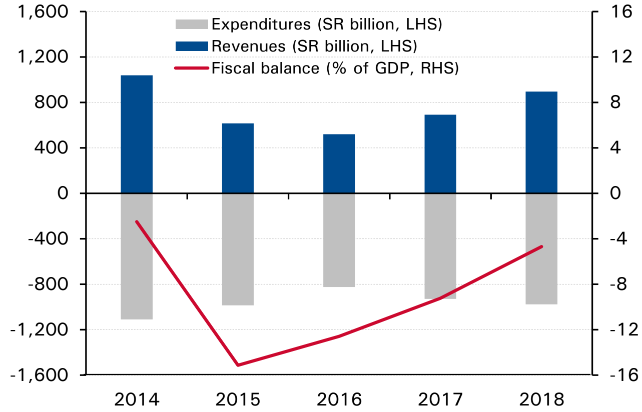
(million)



Since 1Q17, the no. of employed expats has fallen by 1.3m to 9.6m in 3Q18; work visa issuances have also declined.

Source: GASTAT

Chart 12: Fiscal balance

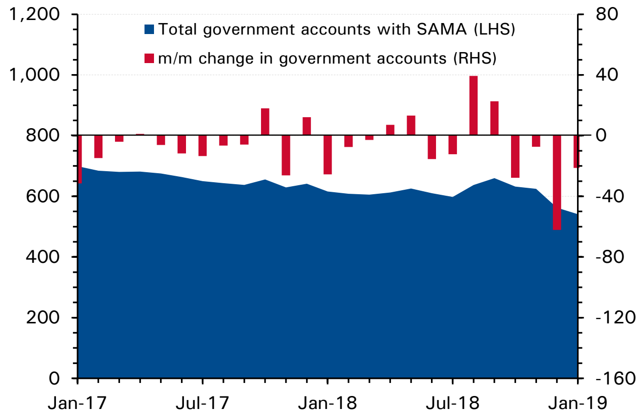


The deficit halved in 2018 to SR136bn (4.6% of GDP) due to an increase in oil (39% y/y) and non-oil (12% y/y) revenues.

Source: Saudi Ministry of Finance

Chart 13: Government accounts with SAMA

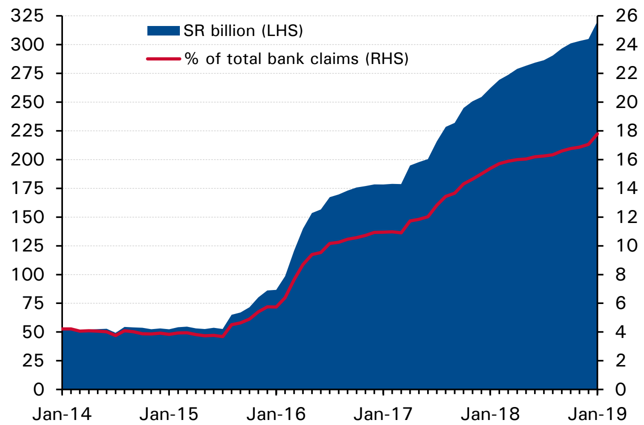
(SR billion)



The balance of the government's account at SAMA fell for the fifth consecutive month in Jan, by SR21bn m/m to SR541bn.

Source: SAMA

Chart 14: Bank holdings of government debt

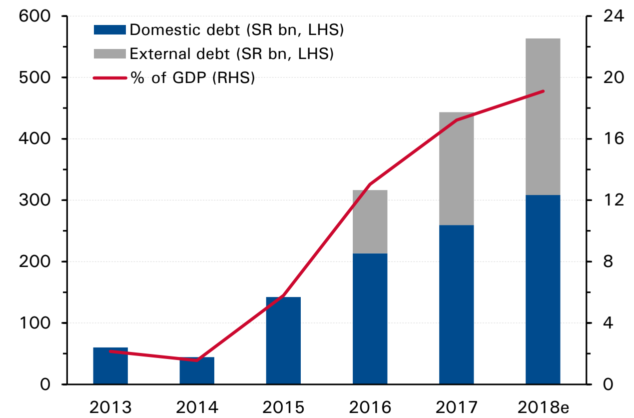


Bank holdings of gov. bonds rose to SR320bn in Jan (22% y/y; 15% of bank claims) on further sukuk/int.bond issuance.

Source: SAMA

Chart 15: Public debt

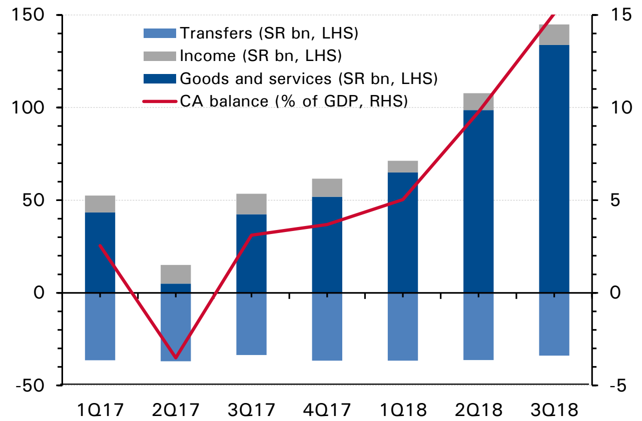
(Outstanding)



Public debt is estimated to have reached SR560bn (19.1% of GDP) in total by the end of 2018.

Source: Ministry of Finance

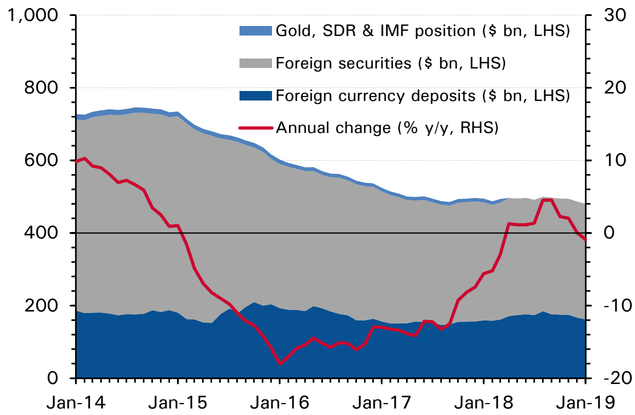
Chart 16: Current account balance



The CA surplus increased to SR110bn (15% of GDP) in 3Q18 on the back of higher exports and lower remittences.

Source: GASTAT

Chart 17: Official foreign reserve assets

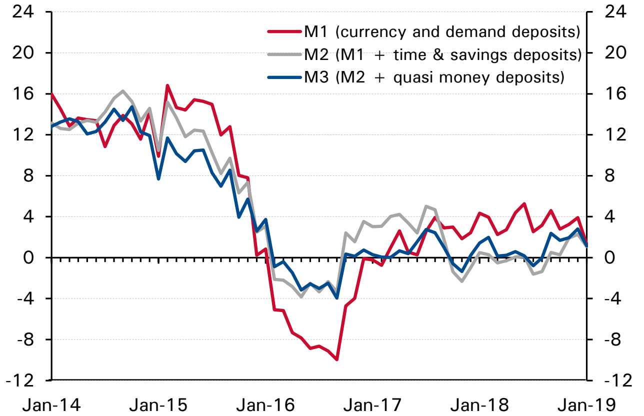


Foreign reserves continue to draw down, falling for 5 consecutive months to $490bn in January (-0.9% y/y).

Source: SAMA

Chart 18: Money supply growth

(% y/y)

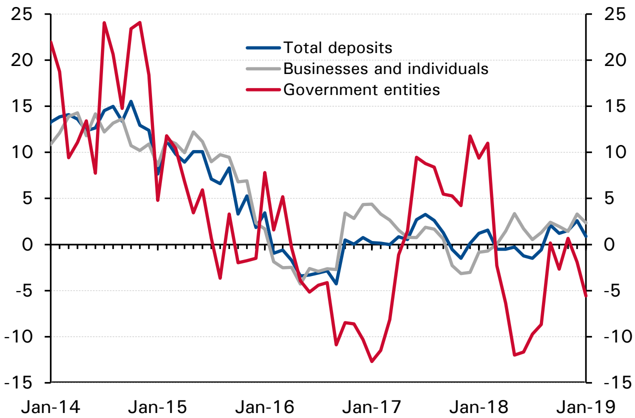


M3 growth slowed in Jan to 1.1% y/y, largely due to a decline in quasi deposits*.

Source: SAMA; *resident fx deposits, marginal deposits for LCs, remittences etc.

Chart 19: Deposit growth

(% y/y)

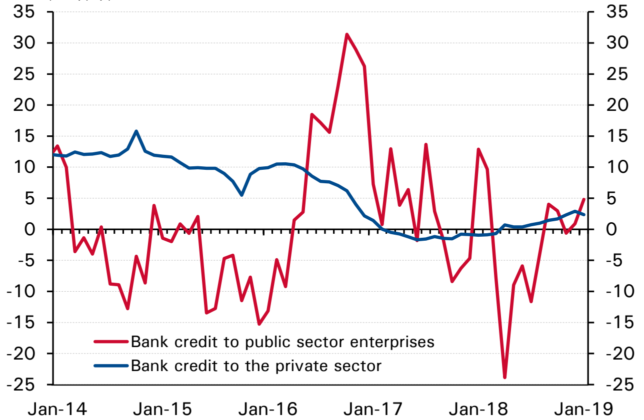


Slowing deposit growth (0.9% y/y in Jan) was due to a decline in demand (gov.) and time & savings deposits (bus.).

Source: SAMA

Chart 20: Credit growth

(% y/y)

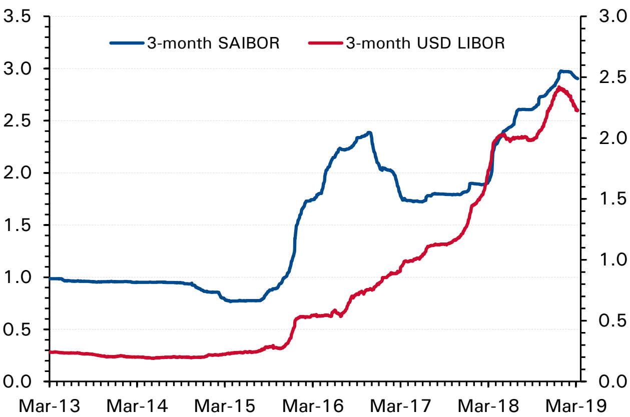


Credit growth continues to be weak; credit to the private sector increased by only 2.4% y/y in January.

Source: SAMA

Chart 21: Interbank rates

(%)

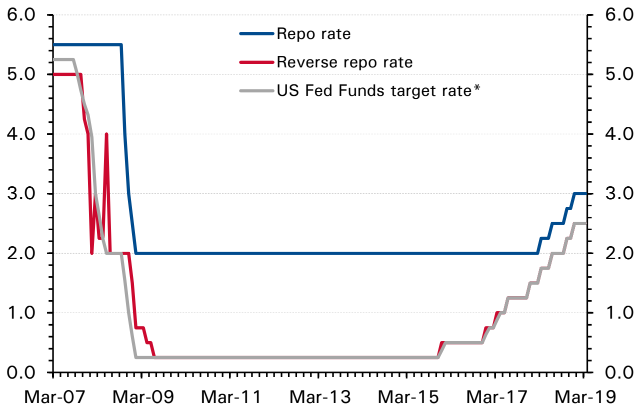


Rates have trended upwards, and the SAIBOR/LIBOR spread has once again widened to around +30 bps.

Source: Thomson Reuters Datastream

Chart 22: Key interest rates

(% y/y)

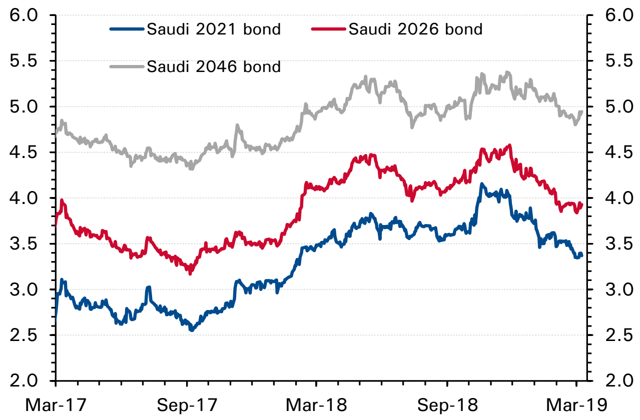


SAMA followed the US fed in Dec and raised its key repo and reverse repo rates by 25 bps to 3.0% and 2.5%, respectively.

Source: Thomson Reuters Datastream

Chart 23: Saudi international bond yields

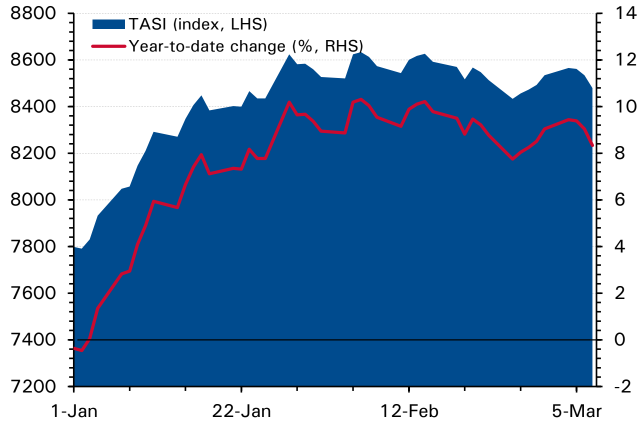
(%)



Yields on 5-yr, 10-yr and 30-yr sovereign bonds are down so far in 2019 by 35 bps, 31 bps and 23 bps, respectively.

Source: Thomson Reuters Datastream

Chart 24: Saudi stock market (Tadawul)



TASI has outperformed GCC indices in 2019 (+8.3%), buoyed by inclusion in FTSE (March) & MSCI (June) EM indices.

Source: Thomson Reuters Datastream

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