

MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



February 2019

Review of economic developments till end of January 2019

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A. Executive Summary and Review

Executive Summary

The key highlights are:

1. **GDP Growth** – Annual GDP growth amounted to 2.2% YoY in 2018, from contraction of 0.7% in 2017. (Refer Figure 2, Page 7). Oil and non-oil sectors grow 2.9% YoY and 2.1% YoY respectively.
2. **Oil production** – As per OPEC agreement to cut oil output from the start of 2019, Saudi Arabia reduced oil production 4.2% MoM to 10.2 million barrels of oil per day (mbpd) in January 2019 (Refer Figure 3, Page 13).
3. **Oil exports** – KSA's oil exports during the month of November 2018 rose to the record high of 8.2 mbpd (Refer Figure 1, Page 13).
4. **Inflation** – Saudi Arabia's inflation rate slowed to 2.2% YoY in December 2018, compared to 2.8% in the previous month (Refer Figure 5, Page 7). Overall, inflation rate averaged 2.5% for the year 2018.
5. **Non-oil private sector growth** – Growth in Saudi Arabia's non-oil private sector rose to a 13-month high in January, with the PMI index rising to 56.2 from 54.5 in December 2018 (Refer Figure 7, Page 7).
6. **Bank Credit** – Overall bank credit rose 2.8% YoY by the end of December 2018, the fastest rate of growth in two years, largely due to the growth of 2.9% YoY in the credit to private sector (Refer Figure 20, Page 9).
7. **Consumer Spending** – PoS Transactions rose 10.4% YoY to SAR 22.3 bn (Refer Figure 38, Page 11); while ATM withdrawals fell 0.2% YoY to SAR 63.9 bn (Refer Figure 33, Page 11).

Our View

Overall, 2019 has started on a positive note for Saudi Arabia, with non-oil private sector growth as measured by PMI index reaching 13-month high. Bank credit growth continued to accelerate in December 2018, as per the data released by SAMA. With the increased capital spending and extension of citizen allowances by the government expected to boost non-oil growth and consumption respectively, we remain positive on the macroeconomic outlook, although volatility in oil prices remains a key concern.

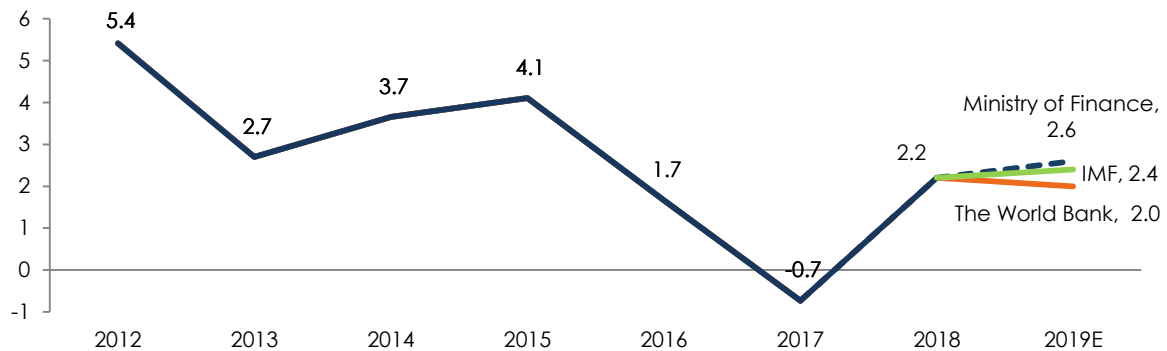
Data Releases

Indicator	Data
Inflation (December 2018)	2.2%
PMI (January 2019)	56.2
SAMA Reserve Assets Growth MoM (December 2018)	-1.54%
Bank Credit Growth YoY (December 2018)	2.8%
Bank Deposit Growth YoY (December 2018)	2.6%
Loan to Deposit Ratio (December 2018)	0.86
Money Supply Growth YoY (December 2018)	2.8%
3M SAIBOR (January 2019)	2.97%
ATM Withdrawals Growth YoY (December 2018)	-0.2%
PoS Transactions Growth YoY (December 2018)	10.4%
Saudi Oil Production (January 2019)	10.2 mbpd
Saudi Oil Export (November 2018)	8.2 mbpd
OPEC Production (January 2019)	31.0 mbpd
Global Oil Supply – Demand (December 2018)	0.7 mbpd
US Rig Count (January 2019)	854

Saudi GDP grows 2.2% YoY in 2018

Saudi Arabia's GDP growth revived in 2018, after a contraction of 0.7% YoY in 2017. According to General Authority of Statistics, real GDP grew 2.2% YoY in 2018 to SAR 2,625.5 bn, little short of 2.3% growth that the Saudi government had estimated earlier. The Saudi government expects the GDP growth to increase to 2.6% YoY in 2019, driven by the expansionary budget for 2019 and private sector reforms. The IMF and the World Bank, on the other hand, estimate KSA's 2019 GDP growth at 2.4% and 2% respectively.

Figure 1: KSA's annual GDP growth (YoY %)



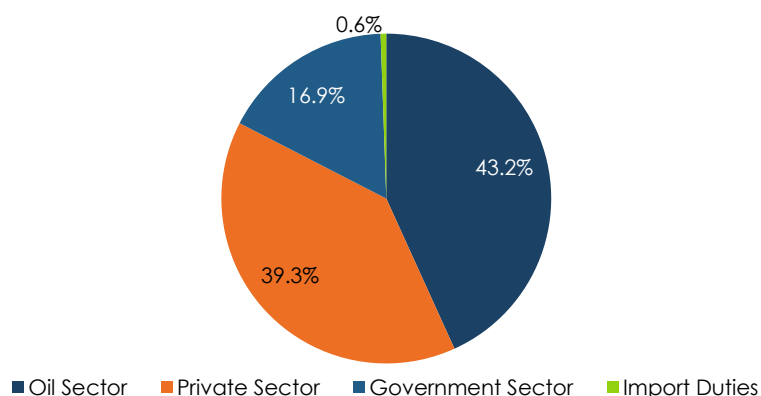
Source: General Authority for Statistics

Oil and non-oil sectors grow 2.9% YoY and 2.1% YoY respectively in 2018

Oil sector, which accounted for 43.3% of the total GDP in 2018, grew 2.9% YoY during the year, compared to the contraction of 3.1% in 2017. The growth in oil sector GDP was mainly driven by higher oil prices, as well as increased oil production and exports. . Brent Crude prices averaged USD 71.5 per barrel in 2018, compared to USD 55.7 in 2017. Saudi Arabia's oil production averaged 10.32 mbpd in 2018, compared to 9.97 mbpd in 2017; while the Kingdom's oil exports rose to an average of 7.3 mbpd in 2018, compared to 7 mbpd in 2017.

At 2.1% YoY, non-oil sector grew somewhat lower than the oil sector in 2018, but still higher than the growth of 1.3% achieved during 2017. Non-oil sector accounted for 56.2% of the total GDP in 2018. Within the non-oil sector, private sector growth amounted to 1.7% YoY (2017: 1.5%) while government sector growth accelerated to 2.8% YoY from 0.7% recorded during the year-earlier period. The introduction of Value Added Tax (VAT) and reforms in fuel and electricity prices introduced during the start of the year impacted the growth in non-oil private sector.

Figure 2: Institutional Sector-wise contribution to GDP 2018 (constant prices)

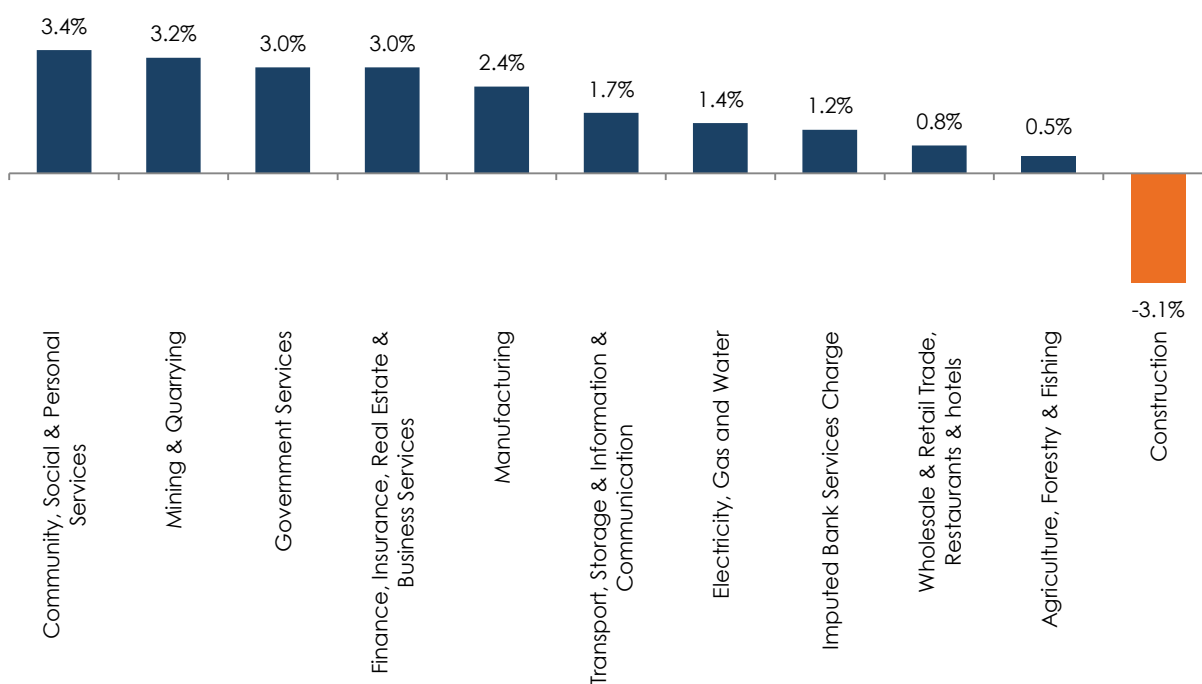


Source: General Authority for Statistics

Sector wise Performance

All major economic sectors except Construction (down 3.1% YoY) achieved positive growth in 2018. The growth in the 2018 GDP can be attributed to advancement mainly in Mining & Quarrying (+3.2% YoY), Finance, Insurance, Real Estate & Business Services (+3.0% YoY) and Manufacturing (+2.4% YoY) sectors. Mining & quarrying sector experienced a major turnaround compared to 2017 (down 3.5%) and contributed 39.3% to the total GDP, most of which (38.9%) is from oil and gas. The construction sector suffered a decline for the third straight year, having contracted by 3.3% and 3.2% in 2017 and 2016 respectively. The construction sector is affected by prolonged slowdown in construction activity and real estate market.

Figure 3: Sector-wise GDP growth in 2018 (% YoY)



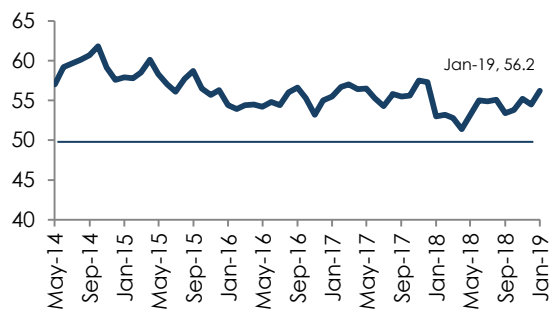
Source: General Authority for Statistics

Non-oil private sector growth at 13-month high in January 2019

Growth in Saudi Arabia's non-oil private sector rose to a 13-month high in January, with the PMI index rising to 56.2 in January 2019 from 54.5 in December 2018, reaching its highest level since December 2017. The increase was mainly driven by growth in new orders, with the new orders sub-index rising to 62.8 in January from 58.4 a month earlier.

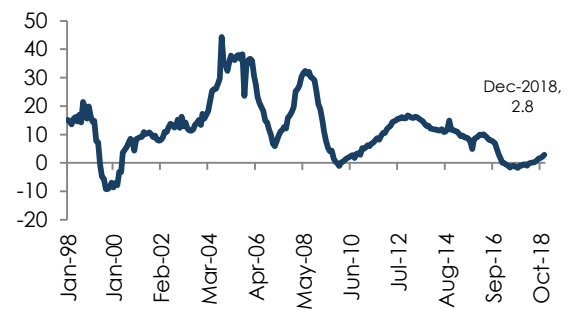
Part of the growth was likely due to price discounts, as output prices continued to drop for the sixth time in the past seven months. The output sub-index increased only slightly, to 58.6 from 58.2. Employment growth rose slightly to 51 from December's 20-month low, as 2.5% of the firms surveyed reported increase in hiring.

Figure 4: PMI Index



Source: Bloomberg

Figure 5: Bank Credit Growth (% YoY)



Source: SAMA

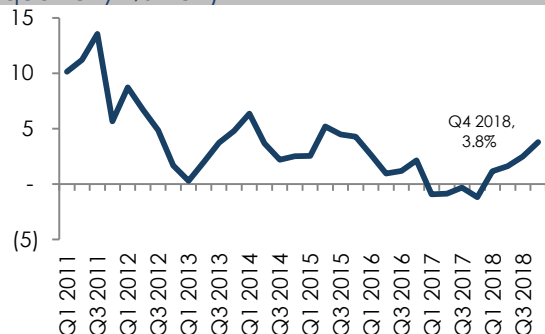
Bank credit growth continues strong in December 2018

Overall bank credit rose 2.8% YoY by the end of December 2018, the fastest rate of growth in two years, largely due to the growth of 2.9% YoY in the credit to private sector, while public sector credit rose 0.9% YoY. The overall bank credit continued to register growth for the ninth straight month. The credit growth at the end of December 2018 was strongly contributed by the growth in long term credit (more than 3 years), which increased 15.3% YoY. On the other hand, short term lending (less than 1 year) rose 2.1% YoY; while the medium term credit (1 to 3 years) fell 15.4% YoY during the same period.

Chart Pack

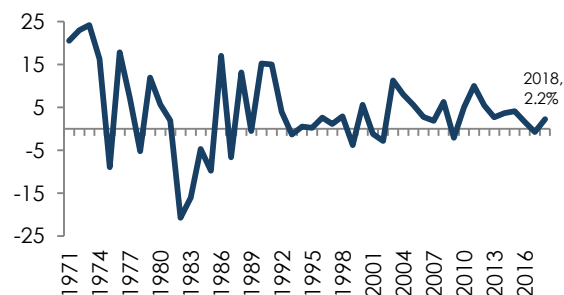
I. Macroeconomic Indicators

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



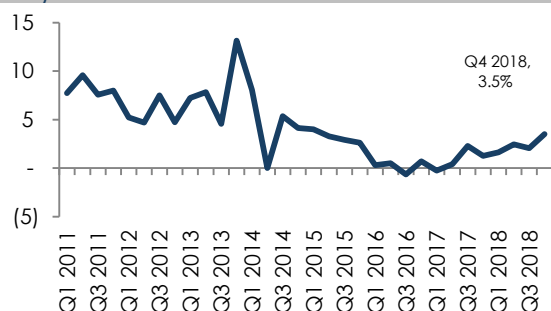
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



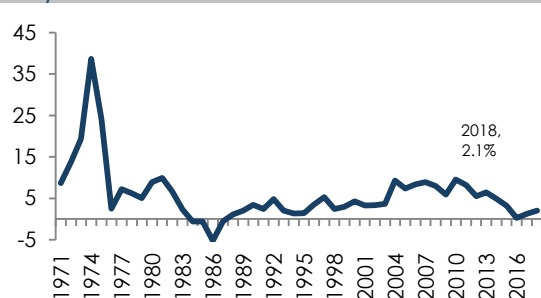
Source: General Authority of Statistics

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)



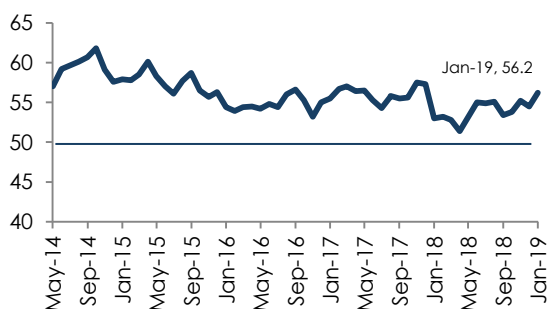
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



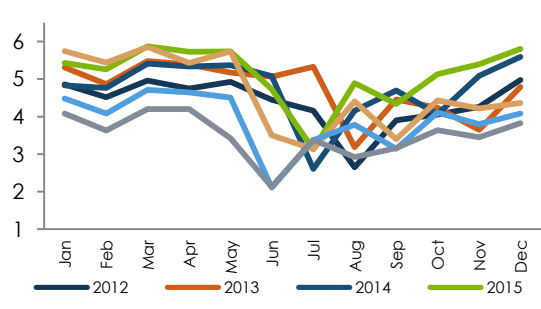
Source: SAMA

Figure 7: PMI index



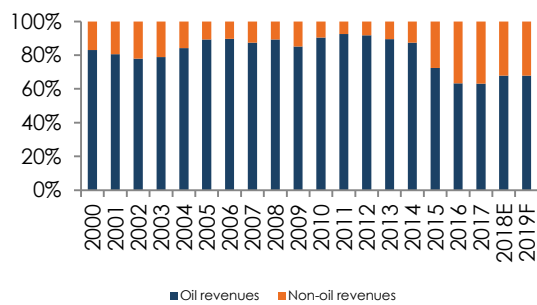
Source: Bloomberg

Figure 8: Cement Sales (Mn tons)



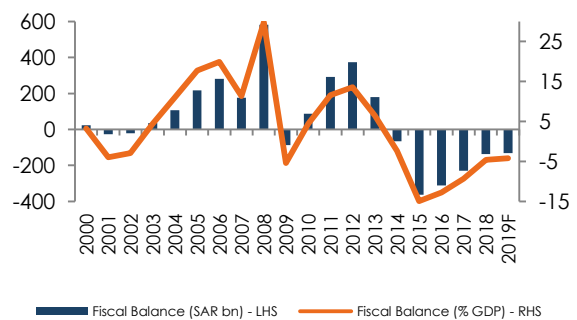
Source: Yamama Cement

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



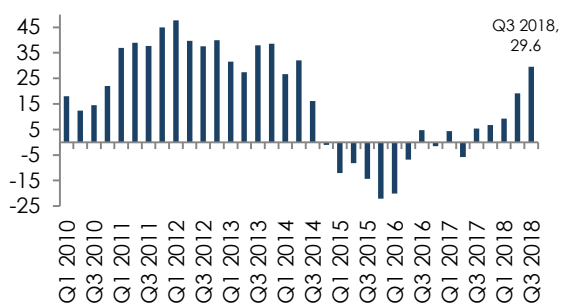
Source: Saudi Arabia Finance Ministry, E- Estimate

Figure 10: Annual fiscal balance (SAR bn)



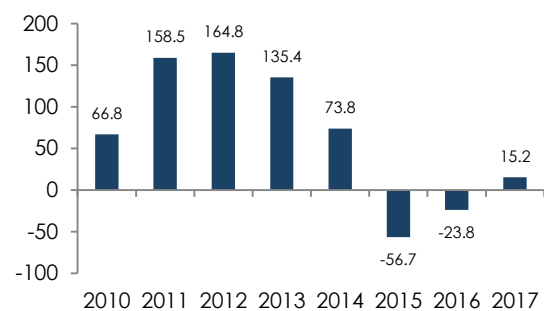
Source: Saudi Arabia Finance Ministry, F-Forecast

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



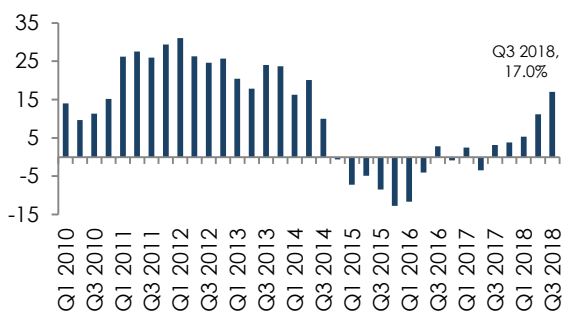
Source: SAMA

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



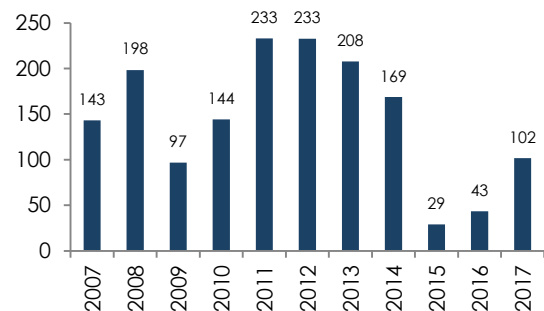
Source: SAMA

Figure 13: Current Account Balance (%GDP)



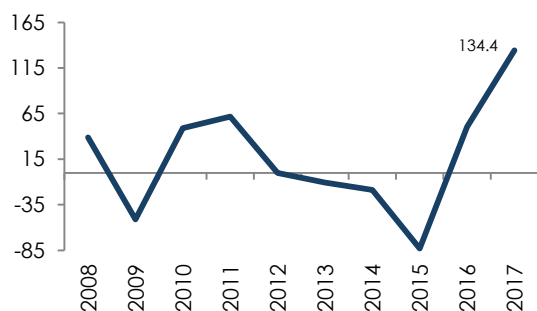
Source: SAMA

Figure 14: Trade balance (USD bn)



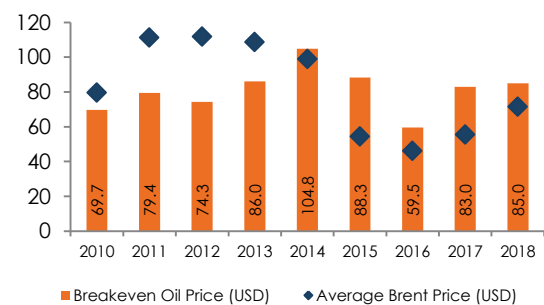
Source: SAMA

Figure 15: Trade balance change (% YoY)



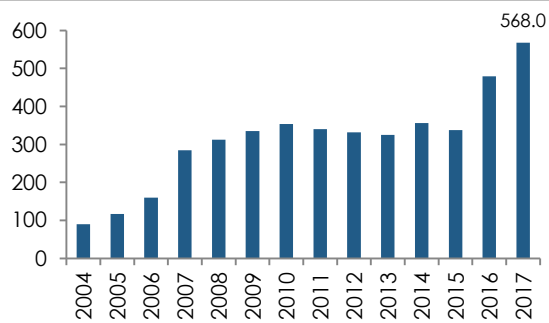
Source: SAMA

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



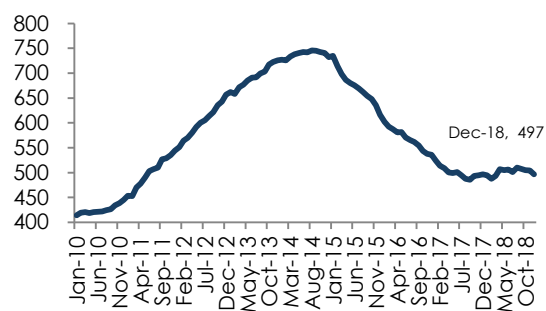
Source: News Reports, Thomson Reuters

Figure 17: Total External Debt (SAR bn)



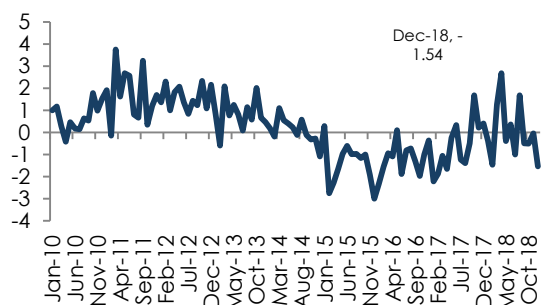
Source: SAMA

Figure 18: SAMA Reserve Assets* (USD bn)



Source: SAMA, *- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



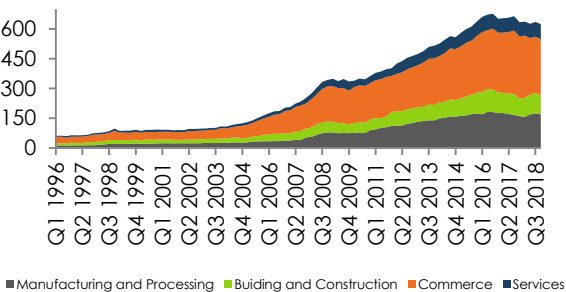
Source: SAMA

Figure 20: Bank credit growth (% YoY)



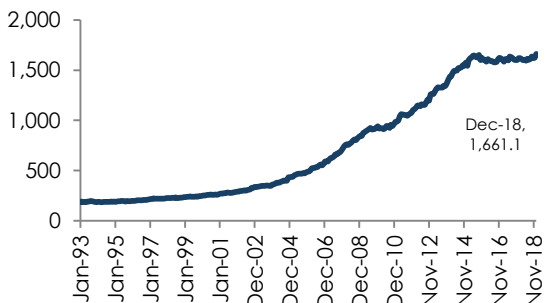
Source: SAMA

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



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



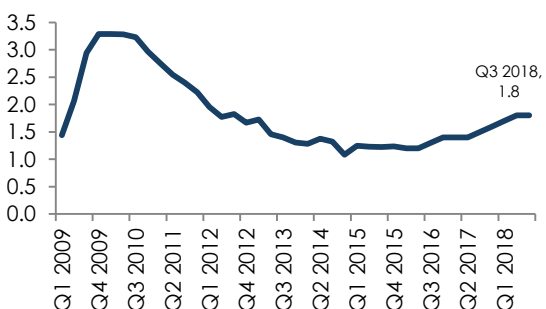
Source: SAMA

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



Source: SAMA

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



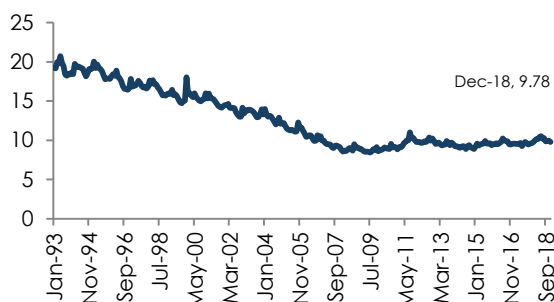
Source: SAMA

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



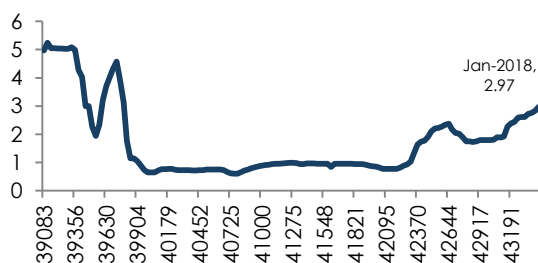
Source: SAMA

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



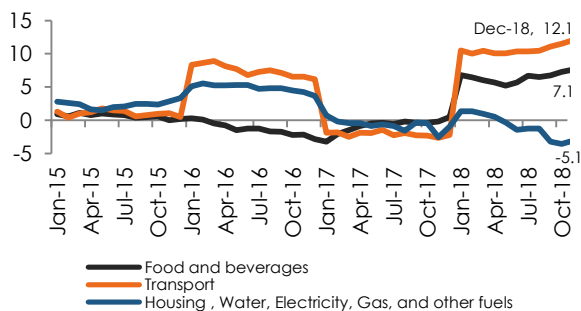
Source: SAMA

Figure 29: 3M SIBOR (%)



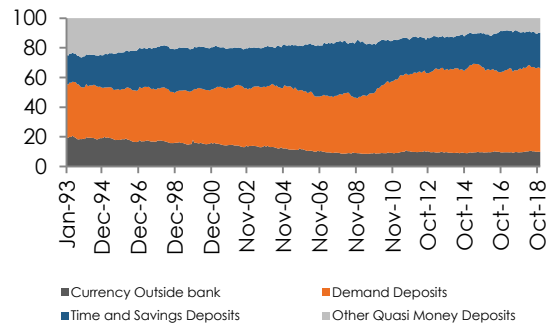
Source: SAMA

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



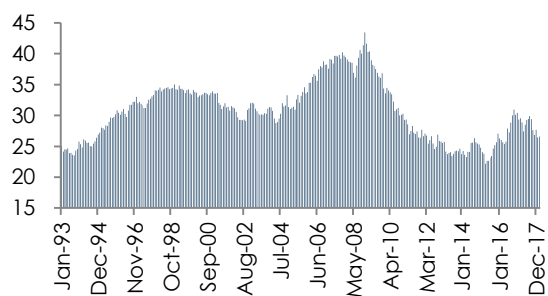
Source: SAMA

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



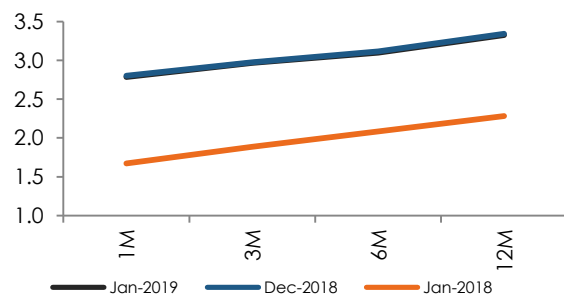
Source: SAMA

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



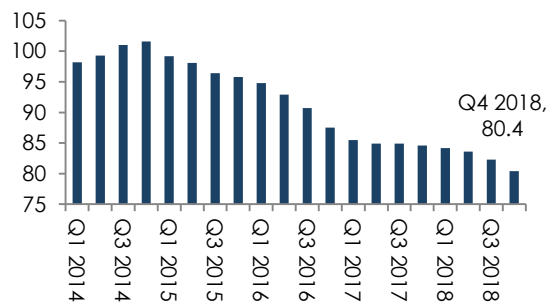
Source: SAMA

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



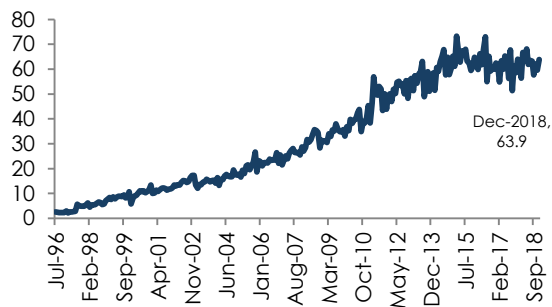
Source: SAMA

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



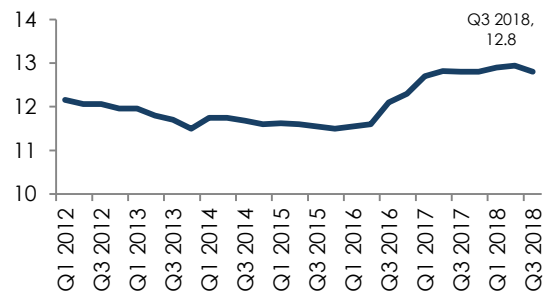
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



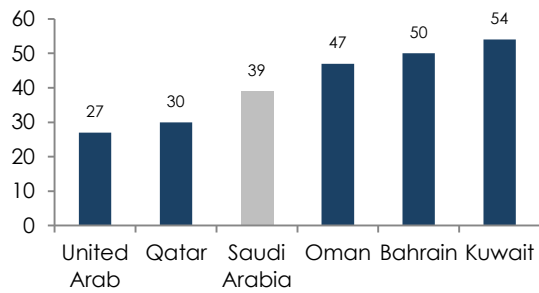
Source: SAMA

Figure 34: Saudi unemployment rate (%)



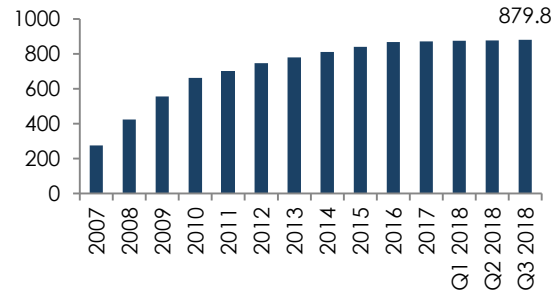
Source: General Authority for Statistics

Figure 35: Competitiveness ranking/indicator



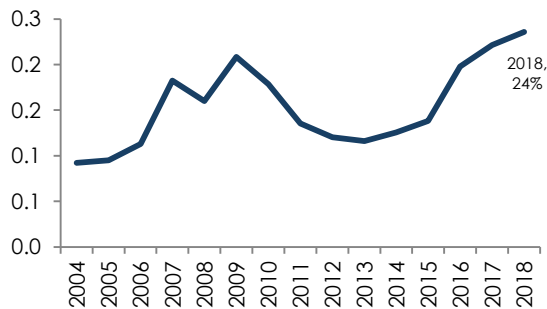
Source: World Economic Forum (2018 report)

Figure 36: FDI (accumulated, SAR billions)



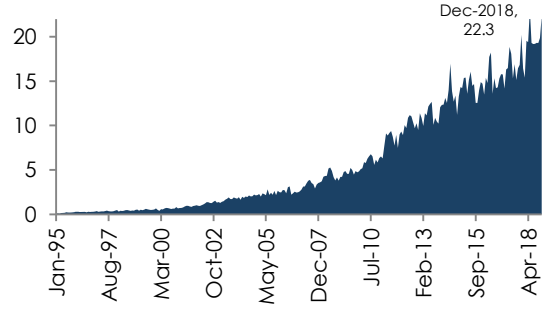
Source: SAMA

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



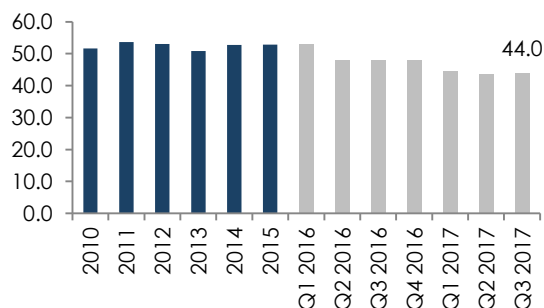
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



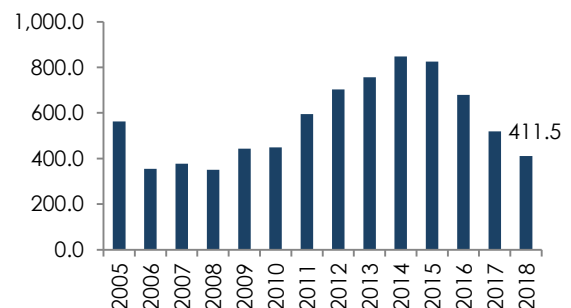
Source: SAMA

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)



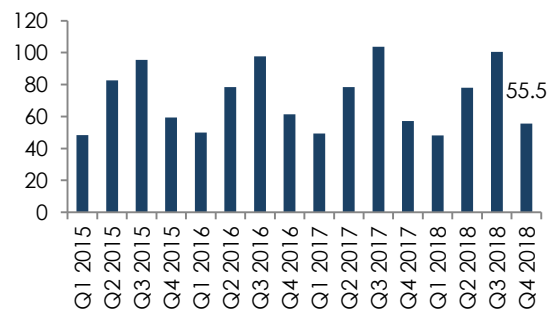
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



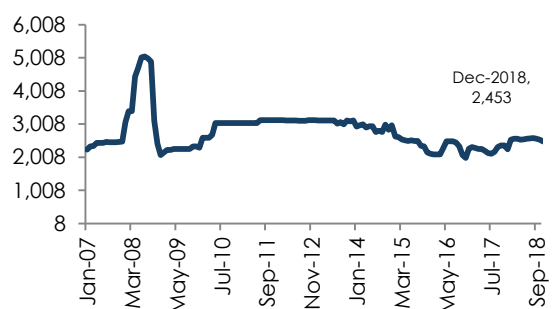
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



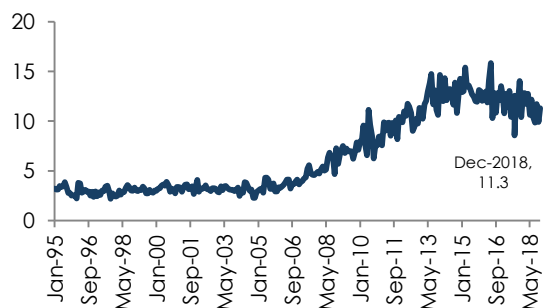
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



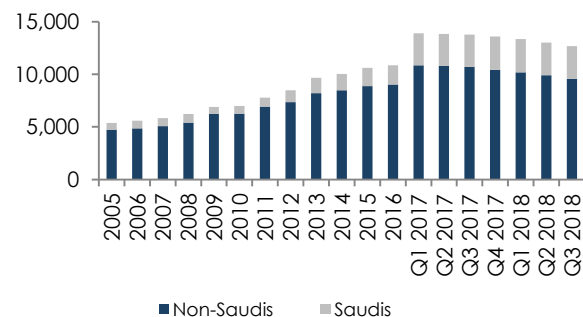
Source: General Authority of Statistics

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)



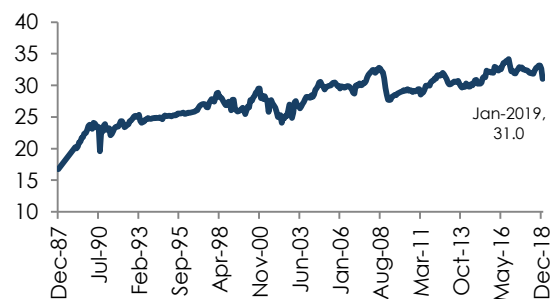
Source: IEA

Figure 3: Saudi Oil Export (mbpd)



Source: Ministry of Petroleum, JODI

Figure 4: OPEC Oil Production (mbpd)



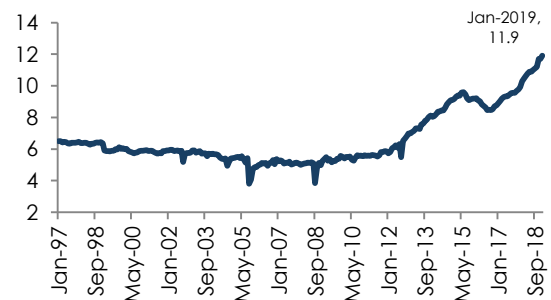
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



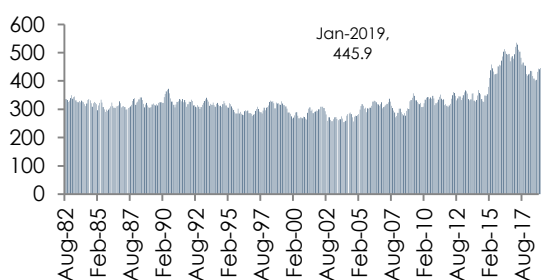
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

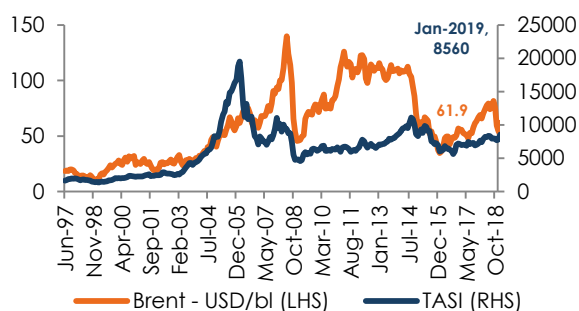
Figure 8: US Rig Count



Source: Bloomberg

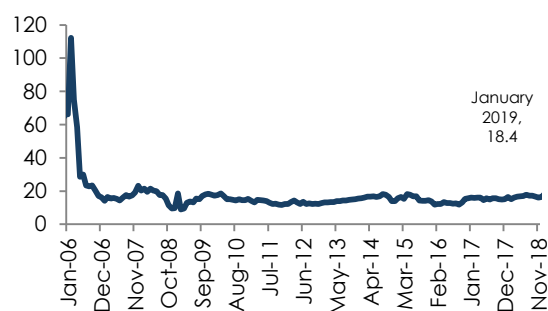
III. Stock Market Indicators

Figure 1: TASI and Oil



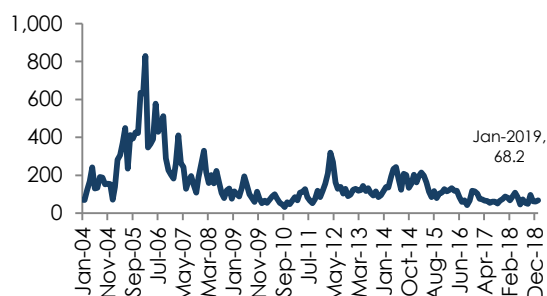
Source: Bloomberg

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



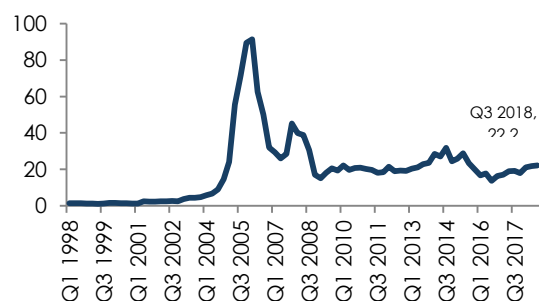
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



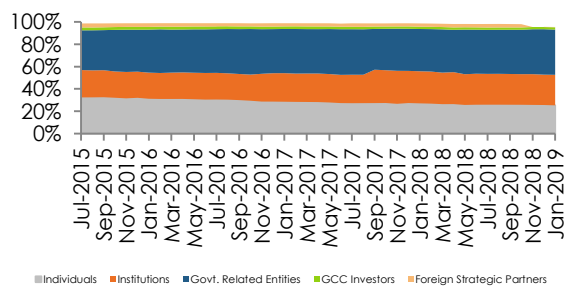
Source: Tadawul, SAMA

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



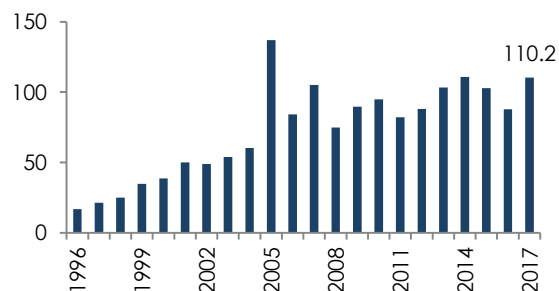
Source: SAMA

Figure 5: Share Ownership Status



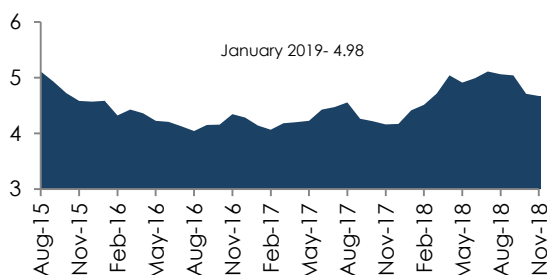
Source: SAMA

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



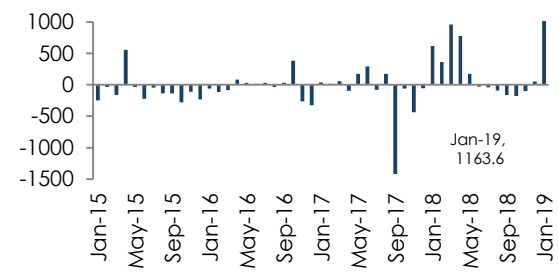
Source: SAMA

Figure 7: Foreign Ownership %



Source: Tadawul

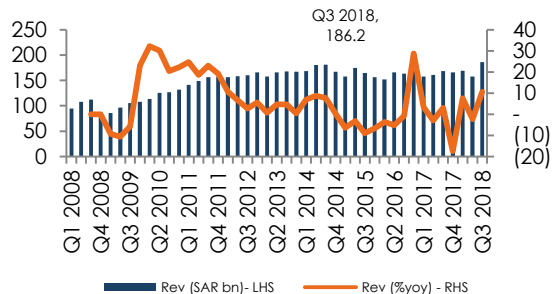
Figure 8: Net Foreign Inflows (USD mn)



Source: Tadawul

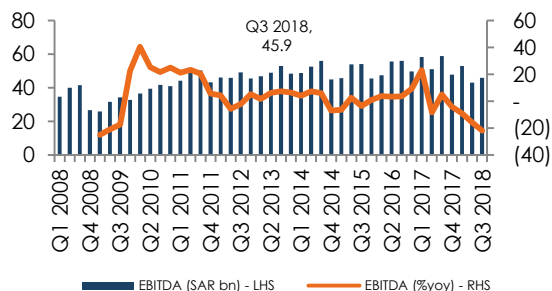
IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



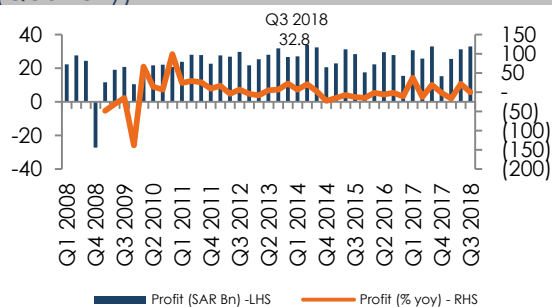
Source: Reuters Eikon

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

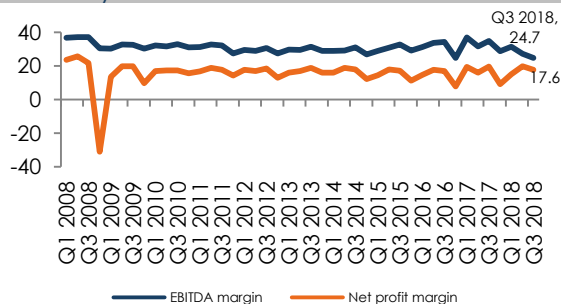
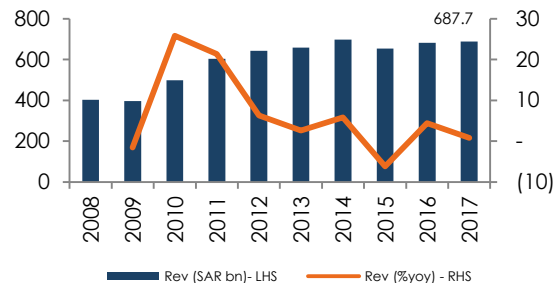
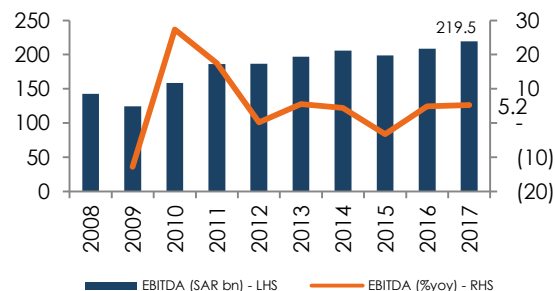


Figure 2: TASI Revenue and YoY growth (Annual)



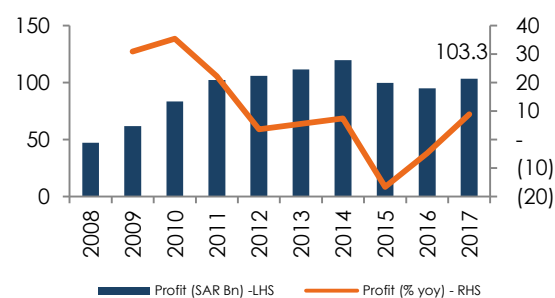
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



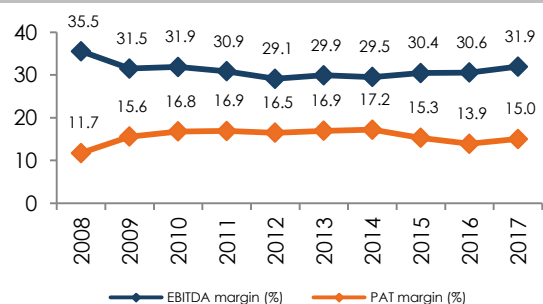
Source: Reuters Eikon

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.	Q3 2018	Q3 2017	Q2 2018	YoY	QoQ
Banks	619,679	12,589.2	11,374.2	12,648.0	10.7	-0.5
Materials	597,718	9,789.3	8,722.4	11,184.0	12.2	-12.5
Telecommunication Services	207,752	2,660.1	2,397.5	2,327.4	11.0	14.3
Real Estate	75,235	457.2	-304.5	26.0	NA	NA
Food & Beverages	73,592	691.1	1,592.1	909.7	-56.6	-24.0
Utilities	65,610	4,960.6	5,300.7	1,878.8	-6.4	164.0
Insurance	35,967	352.2	759.0	462.5	-53.6	-23.8
Energy	32,081	350.0	784.4	438.1	-55.4	-20.1
Diversified Financials	30,915	256.7	261.5	179.9	-1.8	42.6
Retailing	29,869	316.4	241.7	448.5	30.9	-29.5
Health Care	21,435	179.8	296.8	208.9	-39.4	-13.9
Consumer Services	15,018	-207.9	276.4	201.4	-175.2	-203.3
Transportation	11,466	246.0	286.7	137.7	-14.2	78.6
Capital Goods	8,624	-37.1	28.4	-133.4	-230.8	72.2
Commercial Services	7,626	130.8	125.8	117.2	3.9	11.5
Food & Staples Retailing	7,574	54.7	150.5	64.4	-63.6	-15.0
Media	6,993	37.5	27.7	86.5	35.3	-56.7
Pharma & Biotech	3,600	-3.4	-16.7	35.5	80.0	-109.4
Consumer Durables & Apparel	2,846	-20.1	-53.8	20.9	62.6	-196.1
Total	1,853,600	32,803	32,251	31,242	1.7	5.0

Source: Bloomberg, MCap and results as of January 08, 2019

B. Saudi Arabia Key Statistics

Data	2012	2013	2014	2015	2016	2017	2018E	2019F
Economic Output								
Nominal GDP (USD bn)	734.0	744.3	753.8	653.2	646.4	686.7	769.9	795.6
Nominal GDP YoY (%)	9.6	1.4	1.3	-13.3	-1.0	6.2	12.1	3.3
Real GDP YoY (%)	5.4	2.7	3.6	3.4	1.2	-0.7	2.2	2.4
Budget								
Revenue (SAR bn)	1247.4	1156.4	1044.4	615.9	519.0	696.0	895.0	975.0
Oil Revenue (SAR bn)	1144.8	1035.0	913.3	446.4	329.0	440.0	608.0	662.0
Non-oil Revenue (SAR bn)	102.6	121.3	131.0	169.5	190.0	256.0	287.0	313.0
Expenditure (SAR bn)	873.3	976.0	1109.9	978.1	830.0	926.0	1030.0	1106.0
Surplus/(Deficit) (SAR bn)	374.1	180.3	-65.5	-362.2	-311.0	-230.0	-136	-131
Surplus/(Deficit) (% GDP)	13.6	6.5	-2.3	-15.0	-12.8	-8.9	-4.6	-4.2
Gross Public Debt (SAR bn)	83.8	60.1	44.3	142.3	316.5	438.0	560	678
Gross Public Debt (% GDP)	3.0	2.2	1.6	5.9	12.3	17.0	19.1	21.7
Oil statistics								
Production (mbpd)	9.8	9.6	9.7	10.2	10.2	10.0	10.3	10.2
Exports (mb)	2783.8	2763.3	2611.0	2614.5	2799.0	2540.4	3051.6	2664.5
Trade & External sector								
Exports (US\$ bn)	388.4	375.9	342.4	203.6	183.6	239.8	242.2	NA
Oil Exports (US\$ bn)	337.5	321.9	284.6	152.9	136.2	136.3	147.3	NA
Imports (US\$ bn)	155.6	168.2	173.8	174.7	140.2	204.3	208.1	NA
Trade surplus/(deficit) (US\$ bn)	232.8	207.7	168.6	28.9	43.4	35.5	34.1	NA
Current Account (US\$ bn)	164.8	135.4	73.8	-56.7	-24.9	10.8	15.1	NA
Current Account (% GDP)	22.4	18.2	9.8	-8.7	-3.9	1.5	2.0	NA
SAMA forex reserves (US\$ bn)	656.6	725.7	732.4	616.4	535.8	496.4	496.6*	NA
Inflation (%)								
	2.9	3.5	2.7	2.2	2.1	-0.8	2.6	2.3
Demographics								
Population (mn)	29.2	30.0	30.8	31.4	31.7	32.7	33.3	NA
Saudi unemployment rate (% population)	12.1	11.7	11.7	11.5	12.3	12.8	12.9	NA

Source: SAMA, General Authority of Statistics, Reuters, IMF, MEFIC Research; NA – Not available (awaiting 2019 estimates from SAMA and IMF); * – As of December 2018

Notes

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