

### Macroeconomy

> Omar Al-Nakib  
Senior Economist  
+965 2259 5360,  
omarnakib@nbk.com

# Business activity at 2018-high in August; fiscal deficit narrows on higher oil and non-oil revenues

- Economic growth improved in 1Q18 to 1.2% y/y on expanding oil and private sector output.
- While retail POS activity slowed in July, business activity (PMI) improved to a 2018-high in August.
- Inflation rose by 2.3% y/y in July but continues to be constrained by falling real estate/rental prices.
- The fiscal deficit narrowed to SR41bn (3% of GDP) in 1H18, thanks to higher oil and non-oil revenues.
- The deficit continues to be financed via reserve drawdowns and debt issuance: reserves fell in July by \$5.1bn to \$501bn while the authorities sold \$3bn of international sukuk and the PIF secured \$11bn in bank loans.
- Both private sector credit and deposit growth remain weak at 0.7% y/y and 0.5% y/y in July, respectively.
- TASI has recovered somewhat in recent days (7.5% ytd) on improved sentiment and firmer oil prices.

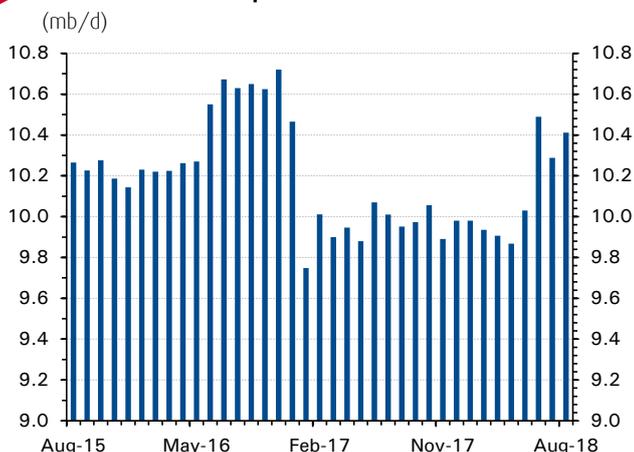
▶ Chart 1: Saudi Vision 2030 targets

		2015	2030
Private sector	% of GDP	40.0	65.0
Small & medium-sized enterprises (SME)	% of GDP	20.0	35.0
Non-oil exports	% of non-oil GDP	16.0	50.0
Non-oil revenue	% of GDP	6.7	16.8
Domestic oil & gas production	%	40.0	75.0
Domestic procurement of defense equipment	%	2.0	>50.0
Public Investment Fund (PIF) AUM	\$ billion	160	1,866
Foreign direct investment (FDI)	% of GDP	3.8	5.7
Global Competitiveness Index	Rank	25	10
Unemployment rate	%	11.6	7.0
Female labor force participation	%	22.0	30.0
Pilgrim tourist arrivals	Million	8.0	30.0
Social Capital Index	Rank	26	10
Household savings rate	%	6.0	10.0

The Saudi Vision 2030 is the government's blueprint for development and diversification.

Source: Saudi Vision 2030

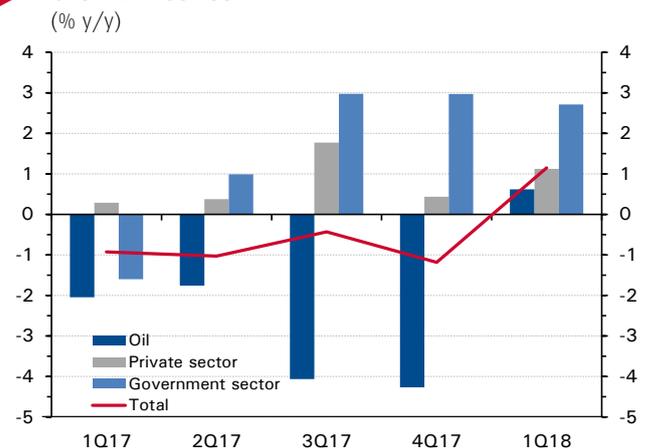
▶ Chart 3: Crude oil production



Output rose by 124 kb/d in Aug to 10.4 mb/d as Saudi Arabia looked to offset falling Iranian and Venezuelan supplies.

Source: OPEC, Joint Organizations Data Initiative (JODI)

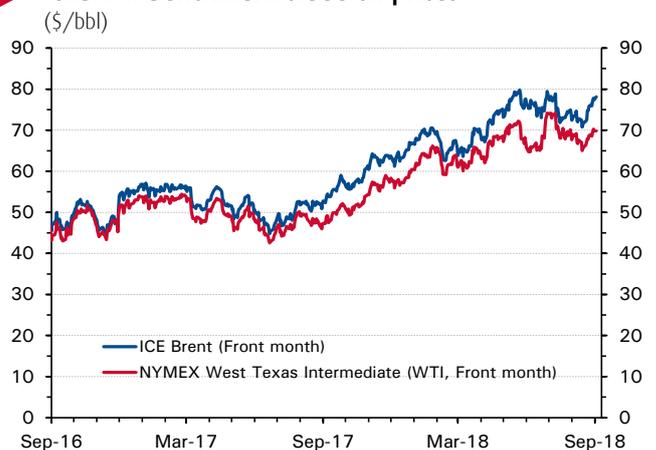
▶ Chart 2: Real GDP



GDP expanded by 1.2% y/y in 1Q18 on improving private sector (1.1% y/y) and oil sector activity (0.6% y/y).

Source: General Authority for Statistics (GASTAT)

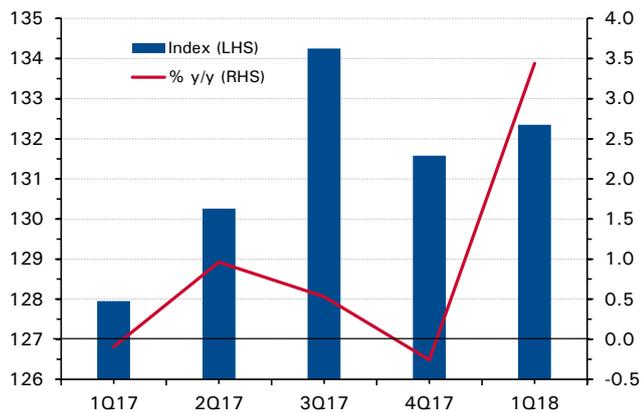
▶ Chart 4: Benchmark crude oil prices



Oil prices have firmed recently as concerns over a sanctioned Iran oil supply shortfall offset fears of a US-China trade war.

Source: JODI

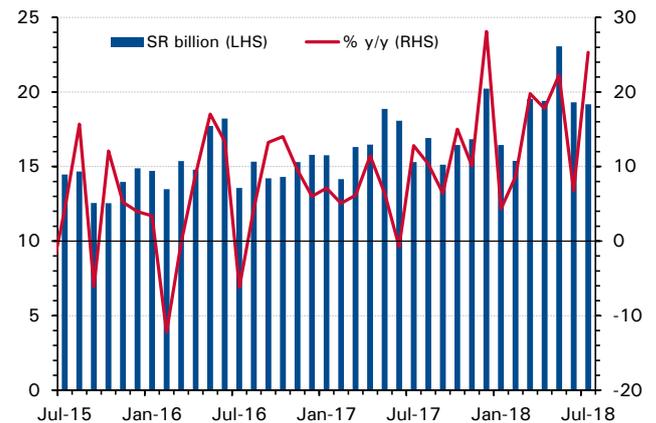
▶ **Chart 5: Industrial production (IP)**



IP increased in 1Q18 (3.4% y/y) as manufacturing output expanded (due to 2% y/y gains in mining/quarrying).

Source: GASTAT

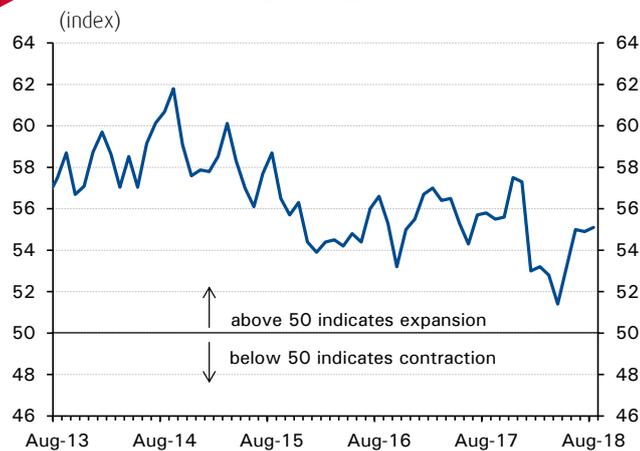
▶ **Point of sale (POS) transactions (by value)**



Retail activity slowed down during the summer months in line with seasonal trends (-0.6% m/m, +25% y/y in July).

Source: SAMA

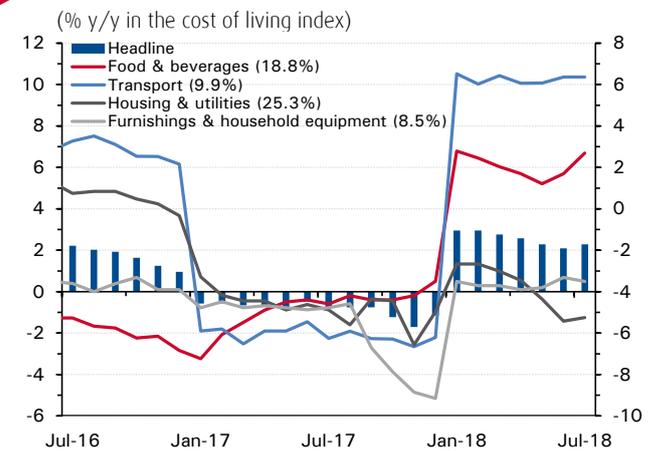
▶ **Chart 7: Purchasing Managers' Index (PMI)**



New orders and output reached a year-high in August, lifting the headline PMI to 55.1 from 54.9 in July.

Source: Markit/Emirates NBD

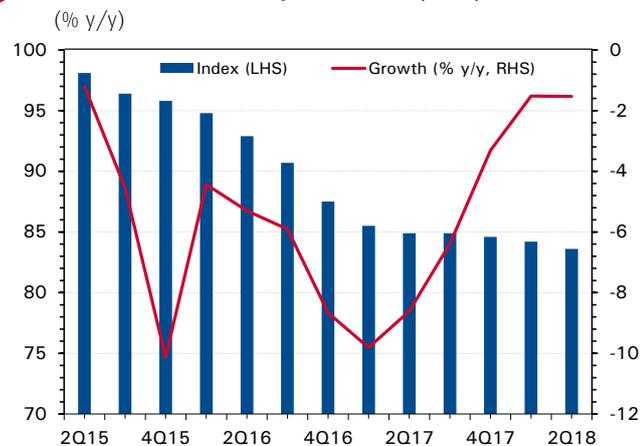
▶ **Chart 8: Inflation**



Inflation rose to 2.3% y/y in July on higher food costs; housing/utility costs continued to fall (-1.3% y/y in July).

Source: GASTAT

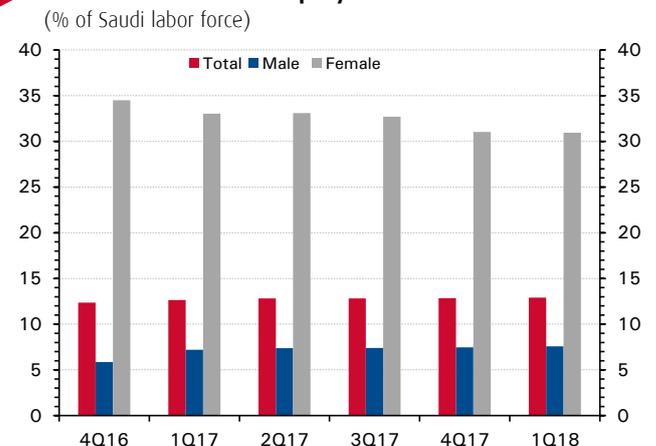
▶ **Chart 9: Real estate price index (REPI)**



While deflation continues to beset the real estate market, the rate of price declines steadied over 1H18 at -1.5% y/y.

Source: GASTAT

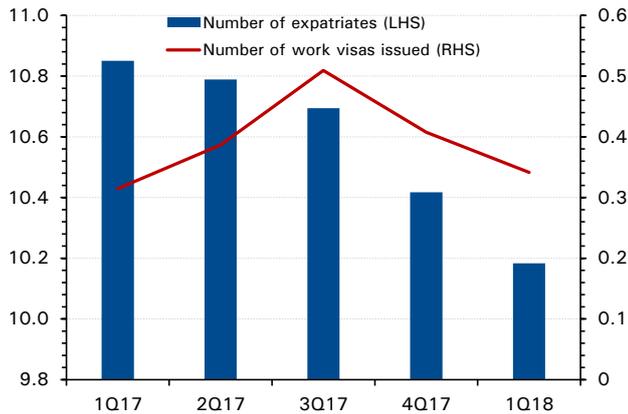
▶ **Chart 10: Saudi unemployment**



The Saudi unemployment rate continues to rise slowly, reaching 12.9% in 1Q18.

Source: SAMA

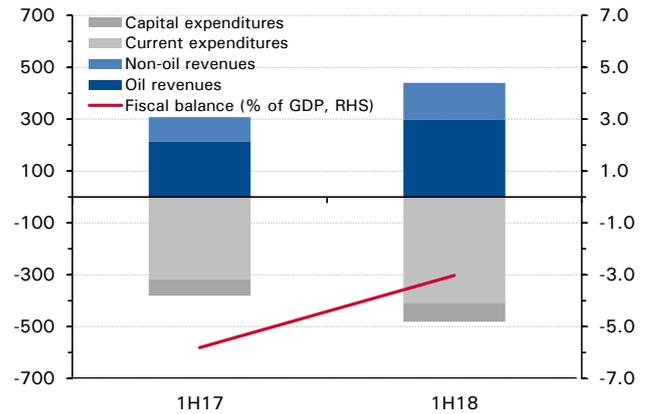
**Chart 11: Expat employment/work visa issuances**  
(million)



The no. of employed expats has been consistently falling, to 10.1m in 1Q18, while work visa issuances have also declined.

Source: GASTAT

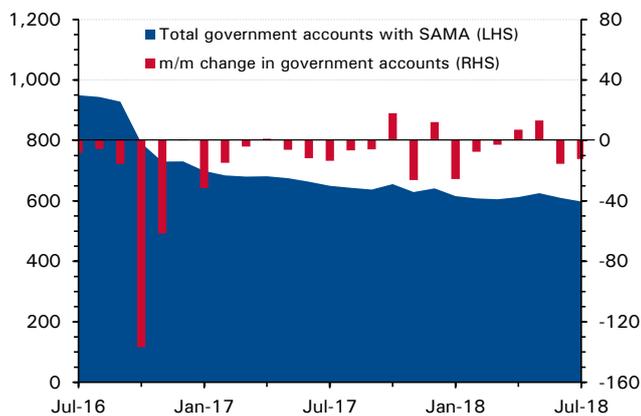
**Chart 12: Fiscal outcomes (biannual)**  
(SR billion on LHS axis; % of GDP on RHS axis)



The fiscal deficit narrowed to SR41.7bn (-3% of GDP\*) in 1H18 thanks to a sizeable increase in both oil and non-oil revenues.

Source: Saudi Ministry of Finance; note: on 1Q18 GDP pro-rata basis

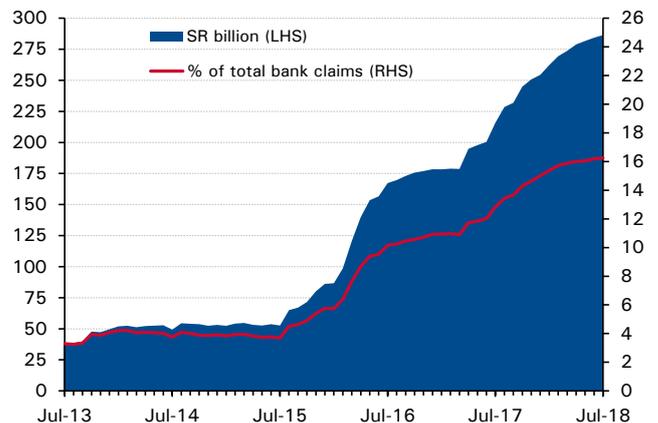
**Chart 13: Government accounts with SAMA**  
(SR billion)



Deposits and reserves of the central government fell for the second consecutive month in July, by SR-12.3bn (-8% y/y).

Source: SAMA

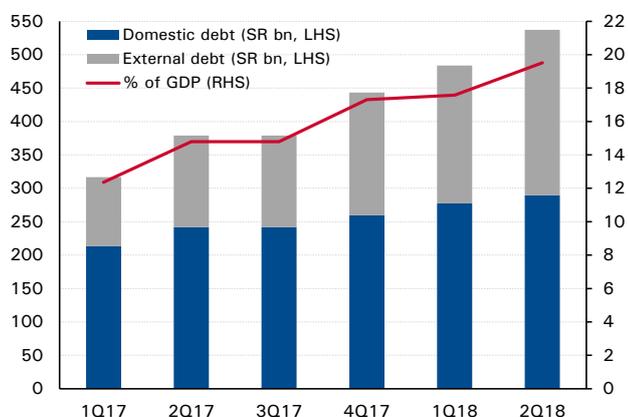
**Chart 14: Bank holdings of government debt**



As the gov. issues debt to finance the deficit, banks' holdings of gov. bonds has risen to SR286bn (16% of claims)...

Source: SAMA

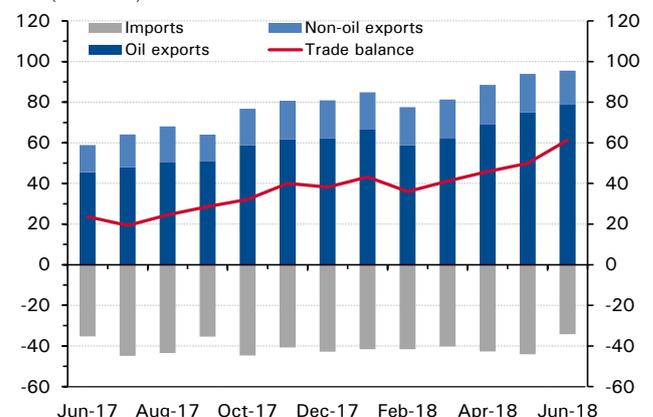
**Chart 14: Public debt (outstanding)**



...leading to further rises in public debt; by end-2Q18, total debt (domestic & external) reached SR537bn (19.5% of GDP).

Source: Ministry of Finance

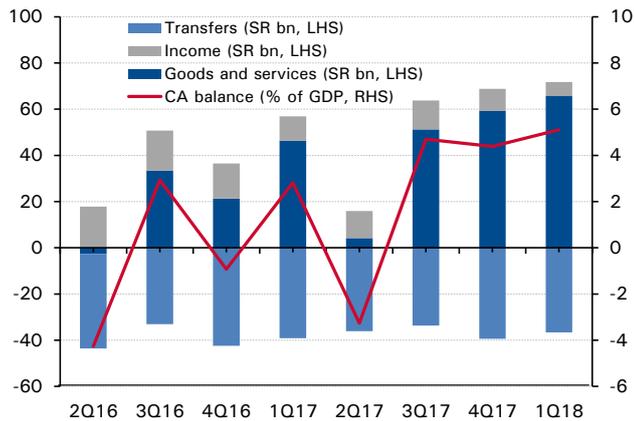
**Chart 15: Trade balance**  
(SR billion)



The trade surplus has risen in line with higher oil exports; Neither non-oil exports nor imports have changed much.

Source: GASTAT

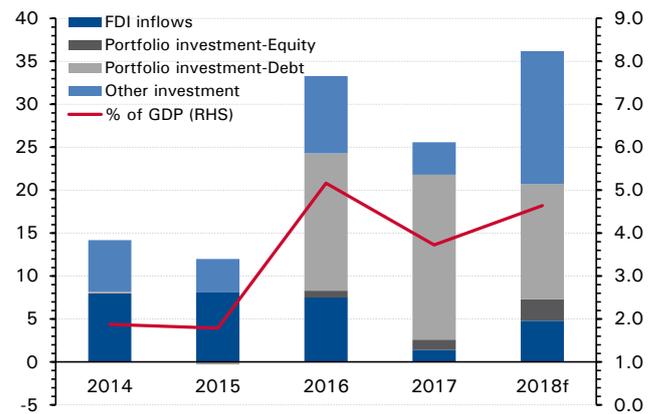
▶ **Chart 16: Current account balance**



The CA surplus increased to SR35bn (5.1% of GDP) in 1Q18 on the back of higher exports and lower remittences.

Source: GASTAT

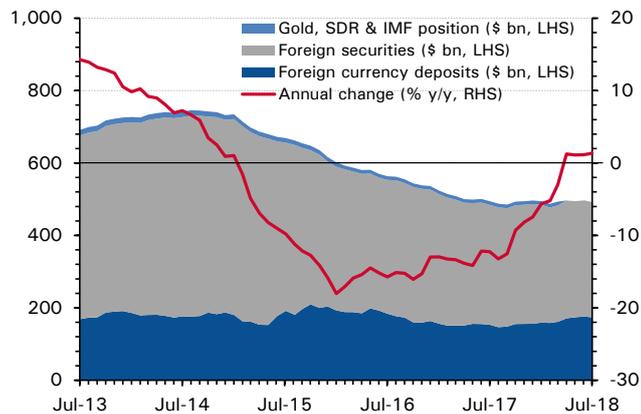
▶ **Chart 16: Non-resident capital inflows**



Foreign capital flows to Saudi Arabia are rising on increasing direct (FDI), portfolio (equity, debt) and other investments.

Source: IIF

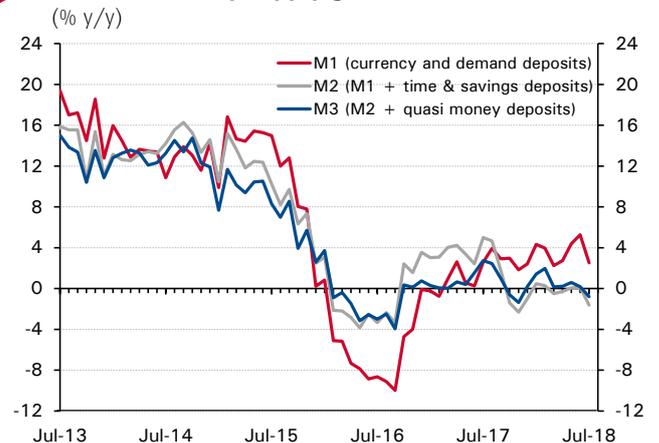
▶ **Chart 17: Official foreign reserve assets**



Foreign reserves fell \$5.1bn in July to \$501bn after the gov. drew down both overseas deposits and investments.

Source: SAMA

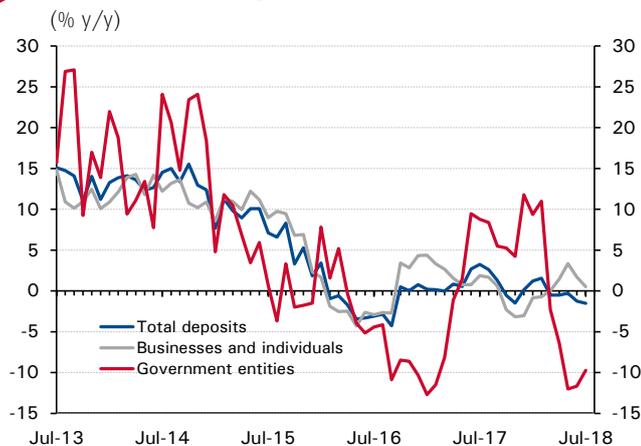
▶ **Chart 18: Money supply growth**



M3 growth decelerated to -0.8% y/y mainly on a fall in M1 (demand deposits and currency outside of banks).

Source: SAMA

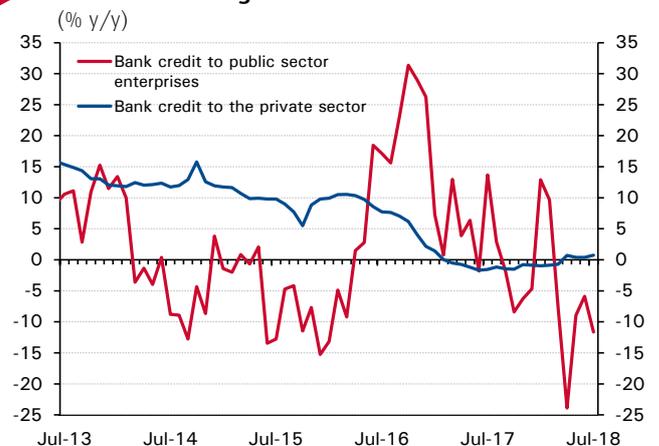
▶ **Chart 19: Deposit growth**



Bank deposits fell by 1.5% y/y in July due to a drop in businesses/personal deposits & savings (0.5% y/y).

Source: SAMA

▶ **Chart 20: Credit growth**



Credit growth has been slowly picking up pace, rising to 0.3% y/y in July, spurred on by private credit growth (0.7% y/y).

Source: SAMA

### Chart 21: Interbank rates

(3-month interbank rates, %)

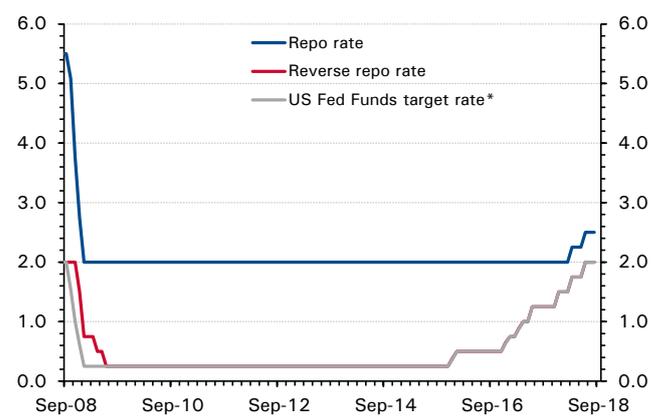


The SAIBOR/LIBOR spread has widened to +28 bps; it had been negative in March, raising fears of capital outflows...

Source: Thomson Reuters Datastream

### Chart 22: Key interest rates

(%)

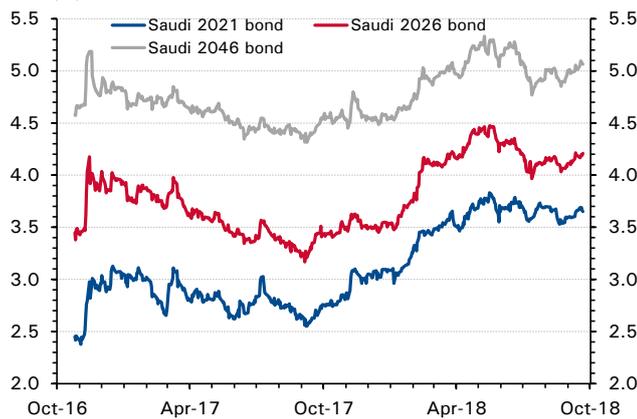


...until SAMA raised its repo/reverse repo rates by 25 bps in March just before the US Fed raised its federal funds rate.

Source: Thomson Reuters Datastream

### Chart 23: Saudi international bond yields

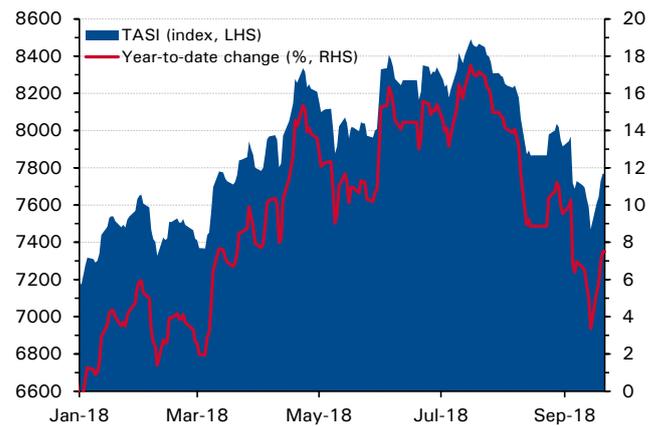
(%)



Bond yields have slowly risen across the board, and are up over 50 bps so far this year.

Source: Thomson Reuters Datastream

### Chart 24: Stock market (Tadawul All-Share Index)



TASI has recovered slightly (+7.5% ytd) from August's drop, posting gains on improving sentiment and firmer oil prices.

Source: Thomson Reuters Datastream

## Head Office

**Kuwait**  
National Bank of Kuwait SAKP  
Abdullah Al-Ahmed Street  
P.O. Box 95, Safat 13001  
Kuwait City, Kuwait  
Tel: +965 2242 2011  
Fax: +965 2259 5804  
Telex: 22043-22451 NATBANK  
www.nbk.com

## International Network

**Bahrain**  
National Bank of Kuwait SAKP  
Zain Branch  
Zain Tower, Building 401, Road 2806  
Seef Area 428, P. O. Box 5290, Manama  
Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

National Bank of Kuwait SAKP  
Bahrain Head Office  
GB Corp Tower  
Block 346, Road 4626  
Building 1411  
P.O. Box 5290, Manama  
Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

**United Arab Emirates**  
National Bank of Kuwait SAKP  
Dubai Branch  
Latifa Tower, Sheikh Zayed Road  
Next to Crown Plaza  
P.O.Box 9293, Dubai, U.A.E  
Tel: +971 4 3161600  
Fax: +971 4 3888588

National Bank of Kuwait SAKP  
Abu Dhabi Branch  
Sheikh Rashed Bin Saeed  
Al Maktoom, (Old Airport Road)  
P.O.Box 113567, Abu Dhabi, U.A.E  
Tel: +971 2 4199 555  
Fax: +971 2 2222 477

**Saudi Arabia**  
National Bank of Kuwait SAKP  
Jeddah Branch  
Al Khalidiah District,  
Al Mukmal Tower, Jeddah  
P.O Box: 15385 Jeddah 21444  
Kingdom of Saudi Arabia  
Tel: +966 2 603 6300  
Fax: +966 2 603 6318

**Jordan**  
National Bank of Kuwait SAKP  
Amman Branch  
Shareef Abdul Hamid Sharaf St  
P.O. Box 941297, Shmeisani,  
Amman 11194, Jordan  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

**Lebanon**  
National Bank of Kuwait  
(Lebanon) SAL  
BAC Building, Justinien Street, Sanayeh  
P.O. Box 11-5727, Riad El-Solh  
Beirut 1107 2200, Lebanon  
Tel: +961 1 759700  
Fax: +961 1 747866

**Iraq**  
Credit Bank of Iraq  
Street 9, Building 187  
Sadoon Street, District 102  
P.O. Box 3420, Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+964 1 7188406/7171673  
Fax: +964 1 7170156

**Egypt**  
National Bank of Kuwait - Egypt  
Plot 155, City Center, First Sector  
5th Settlement, New Cairo  
Egypt  
Tel: +20 2 26149300  
Fax: +20 2 26133978

**United States of America**  
National Bank of Kuwait SAKP  
New York Branch  
299 Park Avenue  
New York, NY 10171  
USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

**United Kingdom**  
National Bank of Kuwait  
(International) Plc  
Head Office  
13 George Street  
London W1U 3QJ  
UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

National Bank of Kuwait  
(International) Plc  
Portman Square Branch  
7 Portman Square  
London W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

**France**  
National Bank of Kuwait  
(International) Plc  
Paris Branch  
90 Avenue des Champs-Elysees  
75008 Paris  
France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

**Singapore**  
National Bank of Kuwait SAKP  
Singapore Branch  
9 Raffles Place # 44-01  
Republic Plaza  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

**China**  
National Bank of Kuwait SAKP  
Shanghai Office  
Suite 1003, 10th Floor, Azia Center  
1233 Lujiazui Ring Road  
Shanghai 200120, China  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

## NBK Capital

**Kuwait**  
NBK Capital  
38th Floor, Arraya II Building, Block 6  
Shuhada'a street, Sharq  
PO Box 4950, Safat, 13050  
Kuwait  
Tel: +965 2224 6900  
Fax: +965 2224 6904 / 5

**United Arab Emirates**  
NBK Capital Limited - UAE  
Precinct Building 3, Office 404  
Dubai International Financial Center  
Sheikh Zayed Road  
P.O. Box 506506, Dubai  
UAE  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805

## Associates

**Turkey**  
Turkish Bank  
Valikonagl CAD. 7  
Nisantasi, P.O. Box. 34371  
Istanbul, Turkey  
Tel: +90 212 373 6373  
Fax: +90 212 225 0353