



Saudi Economic Chartbook

First Quarter 2020

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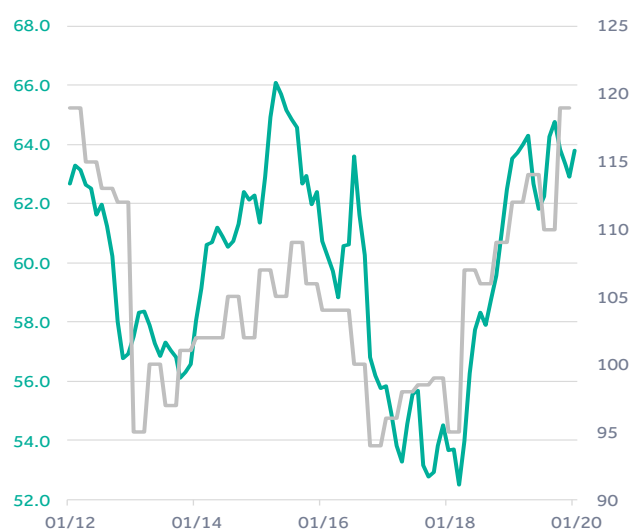
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High Consumer Confidence Implies Strong Consumption in 2020

- The Saudi economy experienced a temporary growth slowdown in the course of 2019 which can be explained by the reduced oil production on the back of the OPEC output cut agreement at the end of 2018.
- Meanwhile, the Saudi non-oil private sector economy witnessed a substantial growth acceleration in the course of 2019, expanding by 4.2%yoy in Q3 2019, a growth level last seen in 2014.
- The unprecedented size of the Aramco IPO in December affected the monetary sector of the Saudi economy with growth of the credit to the private sector and money supply M3 climbing to 7.0% respectively 7.1% year-over-year by end of 2019.
- Consumer confidence strongly recovered since 2018 and reached extraordinarily high levels by historical standards (see figure below). Combined with the sustained improvement in the Saudi labor market, this points towards a further acceleration of private consumption growth in 2020.
- Oil prices rebounded in Q4 2019 on the back of a more balanced global oil market. However, by end of January 2020, they came under pressure due to the new coronavirus disease and its potential impact on global oil demand.
- Transaction turnover on the Saudi equity market jumped in December as a result of the Aramco IPO. After a strong performance during Q4 2019, TASI started the year 2020 on a gradually weaker note.

High Consumer Confidence in Saudi Arabia



Consumer confidence has significantly improved since the lows at the beginning of 2018 and has reached levels last seen during the period of strong growth in the first half of the decade.

- IPSOS Saudi primary consumer sentiment index, 3MMA, l.h.s.c.
- Nielsen Saudi consumer confidence index, quarterly, r.h.s.c.

source: Refinitiv, Nielsen

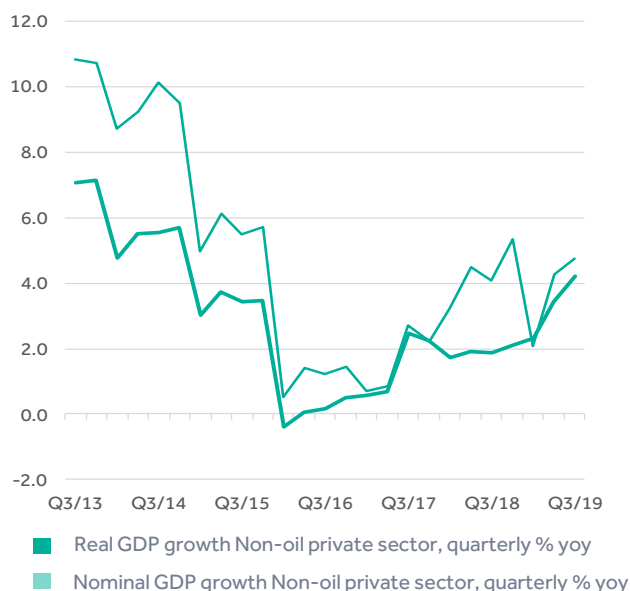
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



source: GASTAT

Figure 2:
Nominal and Real GDP Non-Oil Private Sector



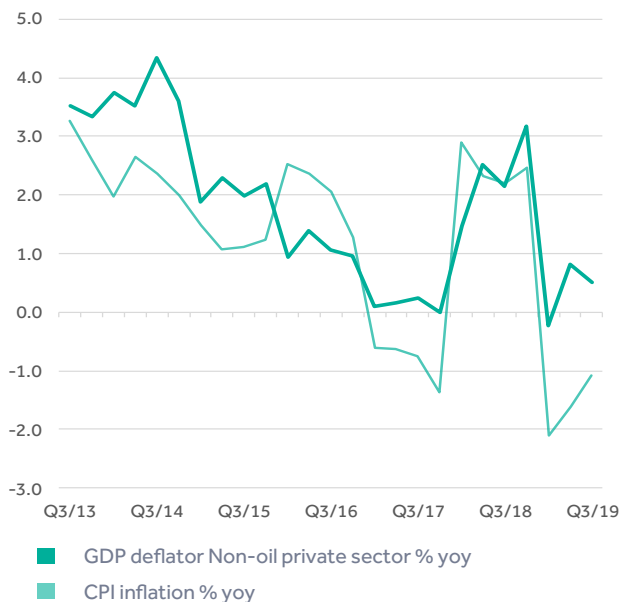
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



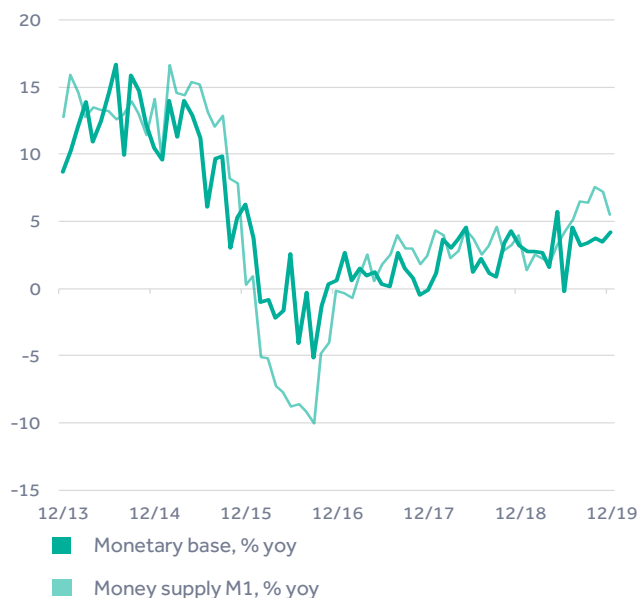
source: GASTAT

GDP growth of the overall economy declined from 4.3% in Q3 2018 to -0.5% in Q3 2019 and our GDP tracker model indicates that growth continued to be negative in the 4th quarter. This growth slowdown is

entirely the result of an oil output reduction in 2019. On the other hand, the non-oil private sector economy experienced an acceleration of real growth to 4.2% in Q3 2019, a growth rate last seen in 2014.

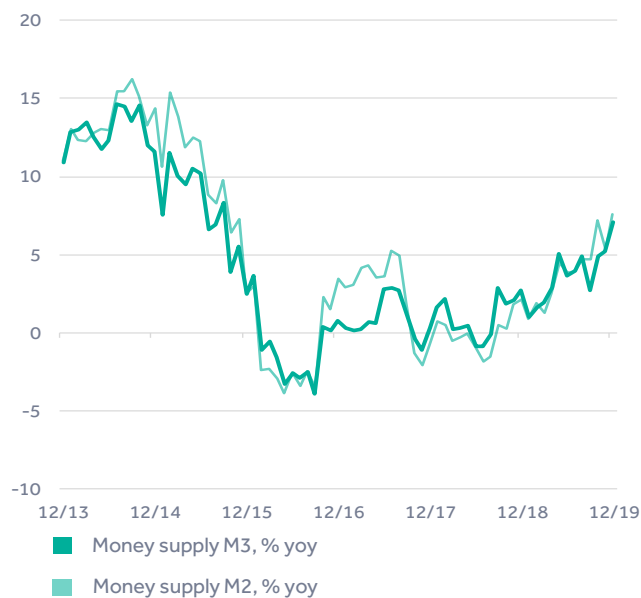
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



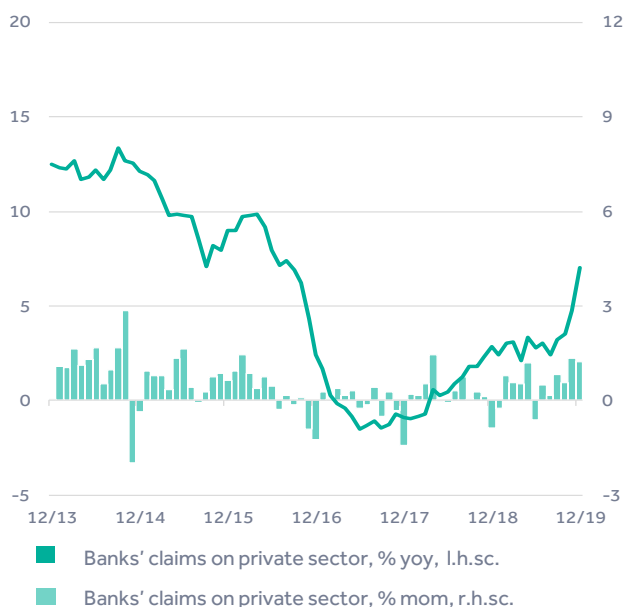
source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3



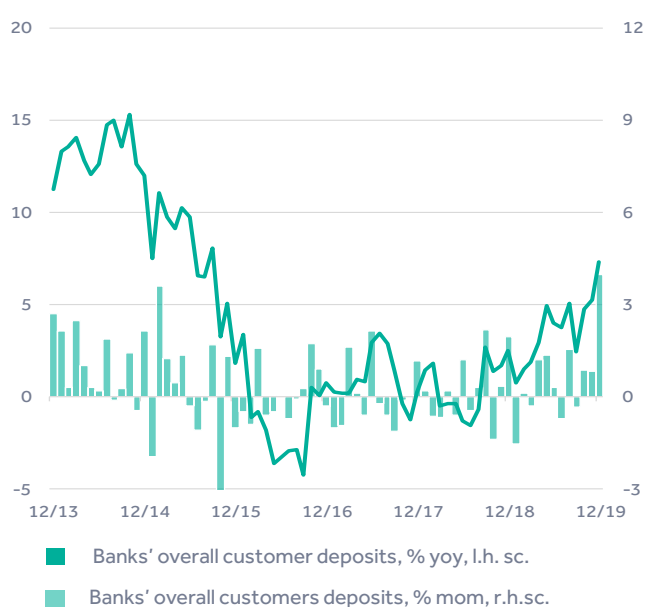
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



source: SAMA

Liquidity in the Saudi economy continued to improve with broad money supply M3 growing 7.1% yoy by the end of last year. The growth pick-up in December can be explained by the proceeds of the

Aramco IPO which PIF as a government institution put to a large part on commercial banks' deposits. Credit growth to the private sector also accelerated by end of the year due to the Aramco IPO to 7.0%.

Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio

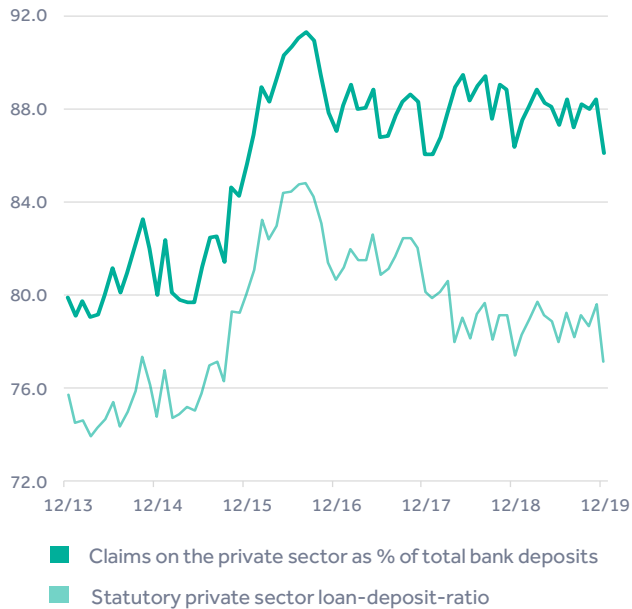


Figure 2:
Government Sector Loan-Deposit-Ratio

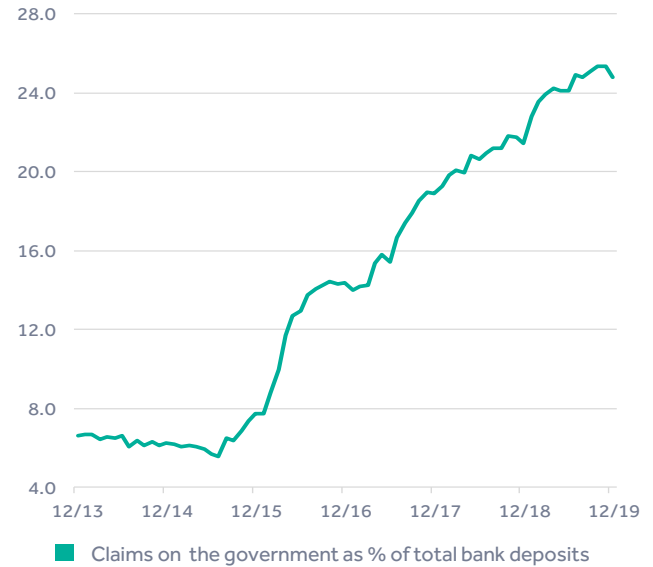


Figure 3:
Foreign Assets to Total Assets Ratio

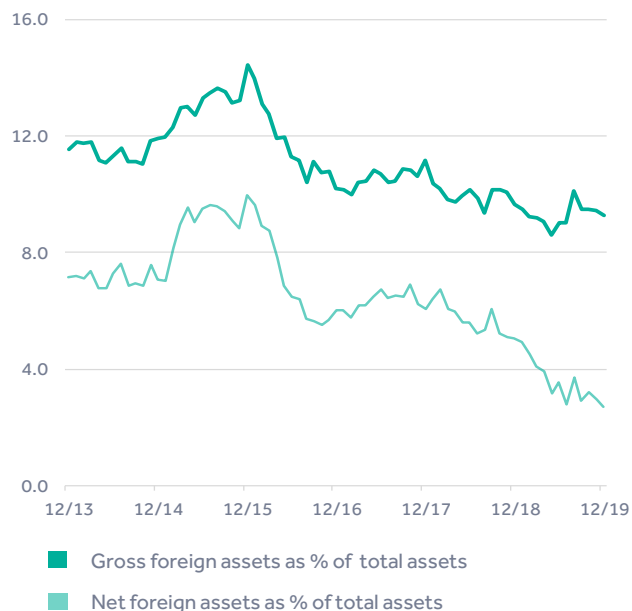
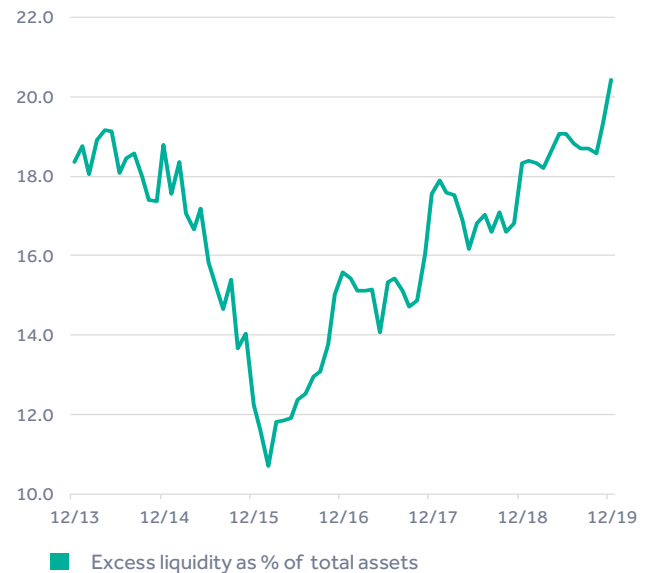


Figure 4:
Excess Liquidity to Total Assets Ratio



The liquidity of the banking sector was also positively affected by the Aramco IPO in December 2019. With the corresponding increase in customer deposits due to government institutions (PIF) the

statutory private sector loan-deposit ratio dropped to 77.1, a low level last seen in 2015. Meanwhile, excess liquidity as % of total banks' assets climbed to 20.4, a level of liquidity last seen back in 2011.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

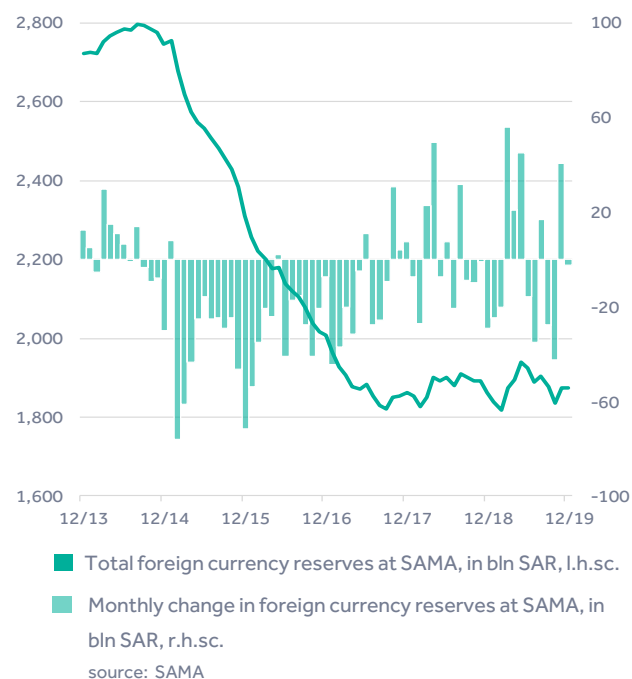


Figure 2:
Government Deposits at SAMA

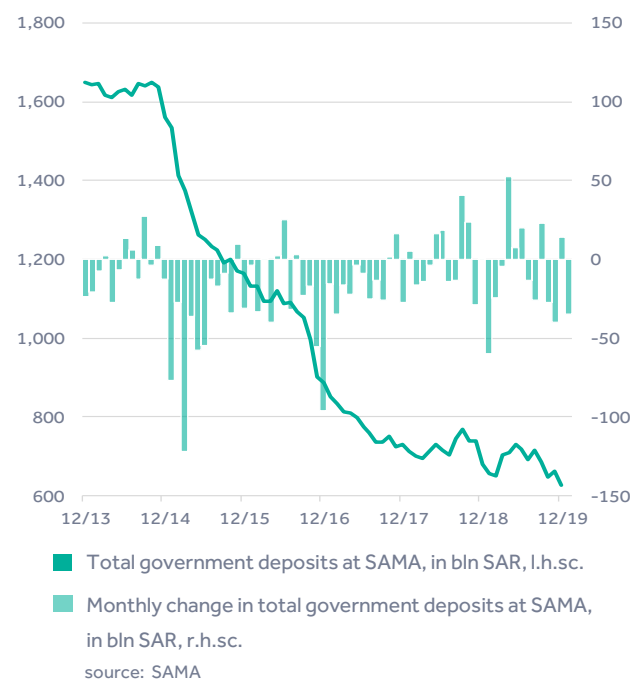


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

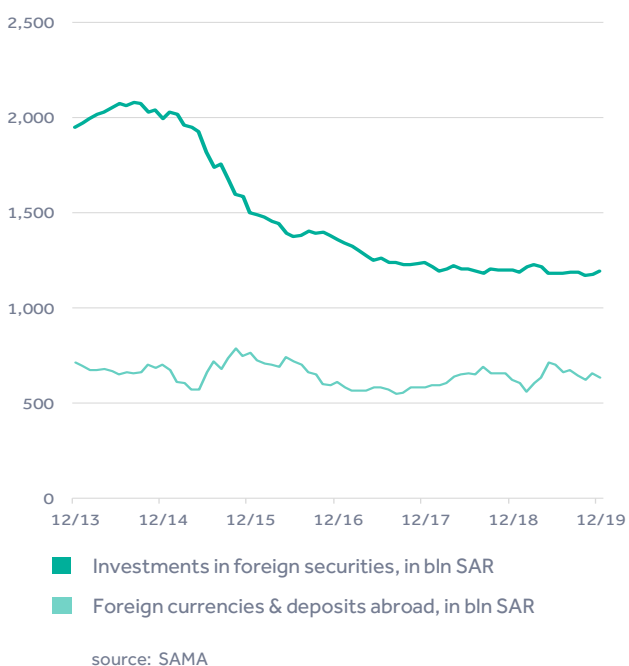
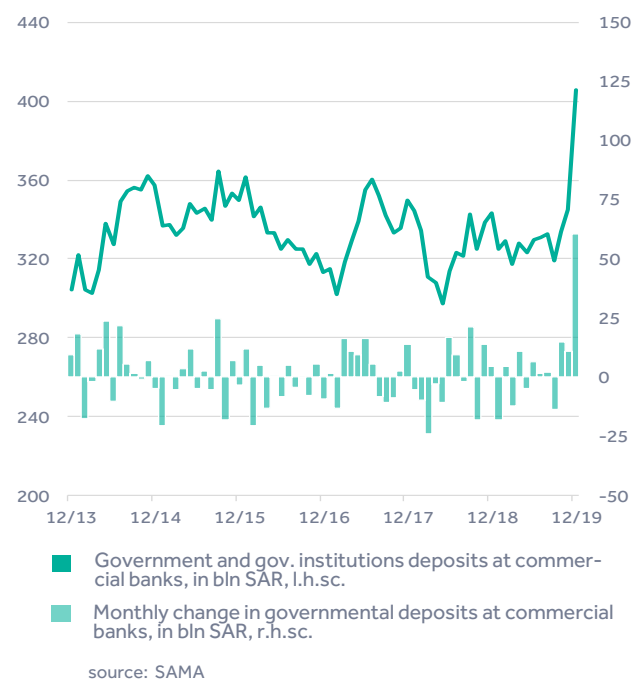


Figure 4:
Government Deposits at Commercial Banks

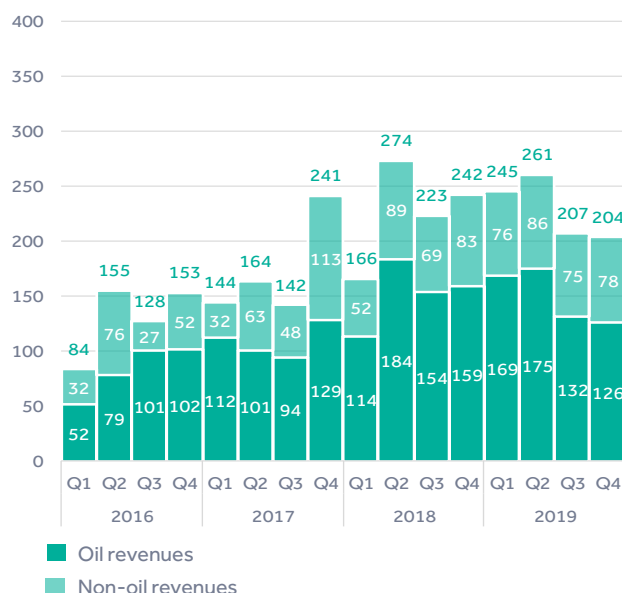


SAMA foreign currency reserves have stabilized since 2017. While in 2018 they were broadly unchanged, 2019 recorded an increase of 11.1 bln SAR. Government deposits at SAMA experienced a de-

cline by 78 bln SAR in 2019 as a result of the fiscal deficit. The sharp increase of government institutions' deposits at commercial banks in December 2019 can be explained by the Aramco IPO proceeds.

Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



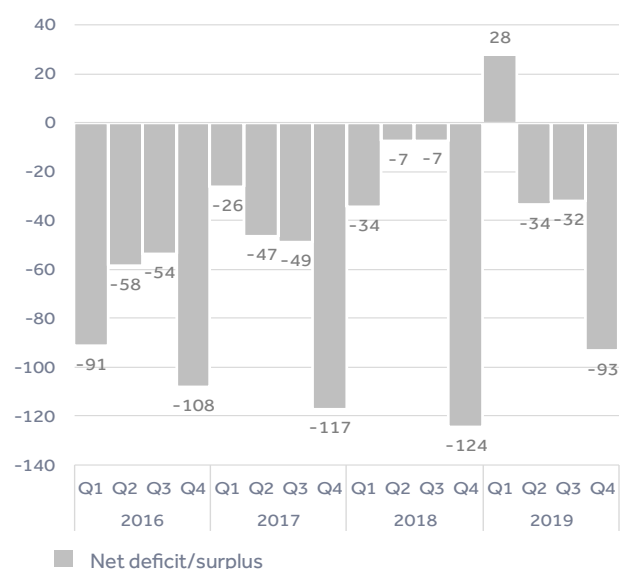
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



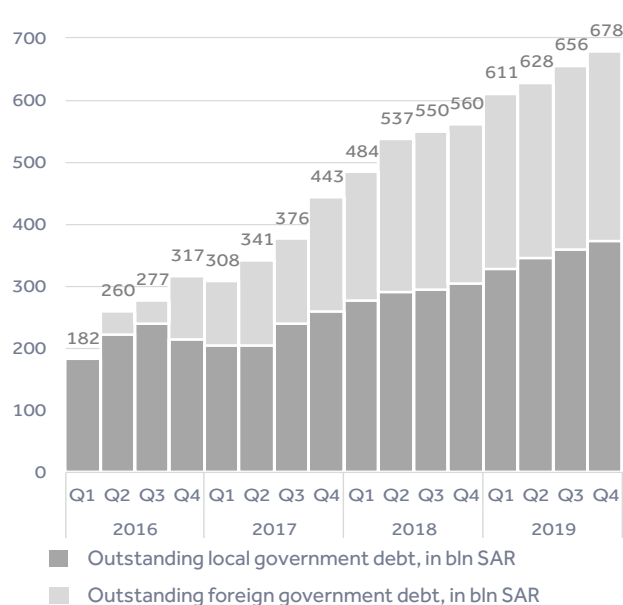
source: MoF

Figure 3:
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



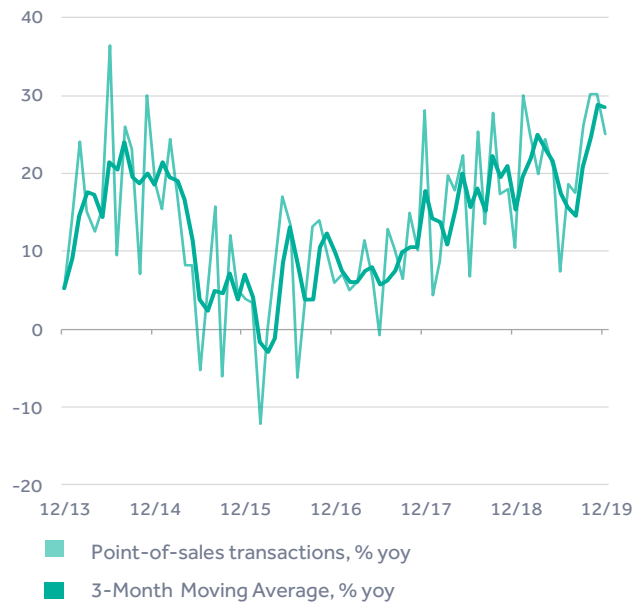
source: MoF

Fiscal revenues in Q4 2019 declined by 16% compared to Q4 2018, primarily due to lower oil revenues. Meanwhile, quarterly fiscal expenditure was 19% lower versus the previous year. As a result,

the fiscal deficit in Q4 2019 was cut by 25% (from –124 bln to –93 bln SAR). For the full year 2019, the fiscal deficit amounted to –131 bln SAR, a reduction of 25% compared to the previous year.

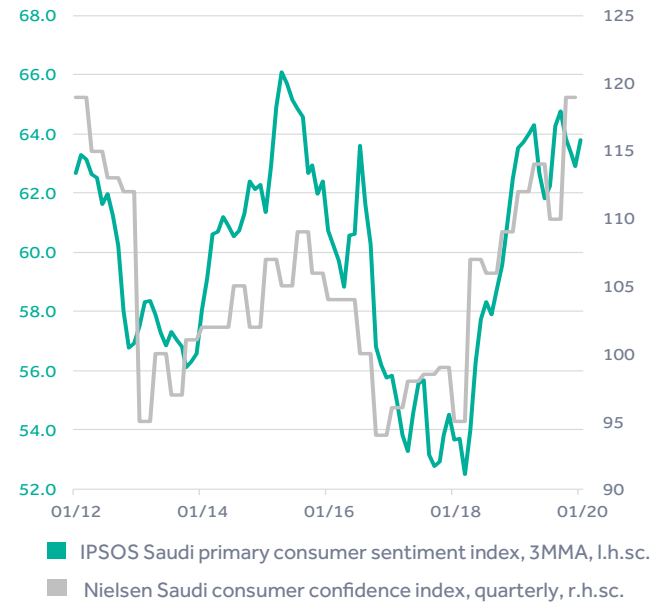
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



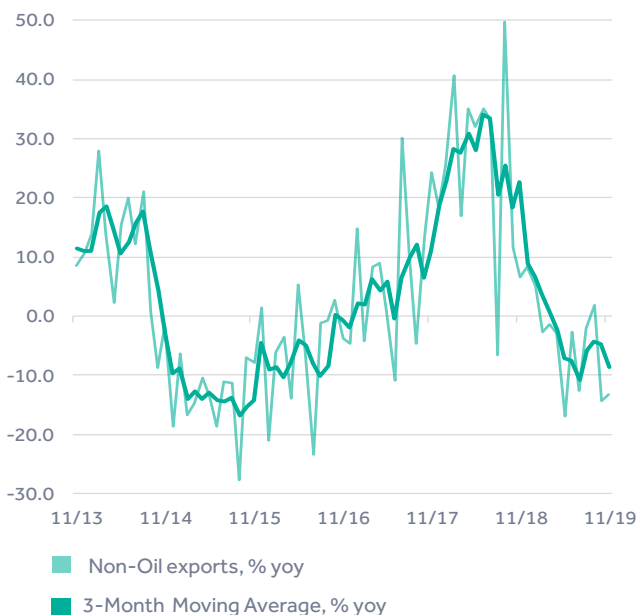
source: SAMA

Figure 2:
Consumer Sentiment



source: Refinitiv, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



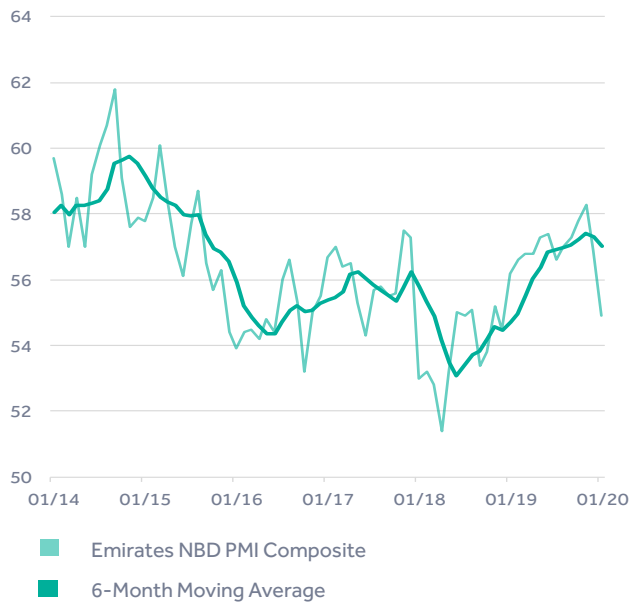
source: GASTAT

Point-of-Sales transactions accelerated in H2 2019, reaching 28%yoy growth in Q4, after a temporary growth weakness by mid of the year. Besides, consumer sentiment has significantly recuperated

since the lows at the beginning of 2018. Combined with the notable improvement in the domestic labor market (see page 18), this points towards a further acceleration of private consumption in 2020.

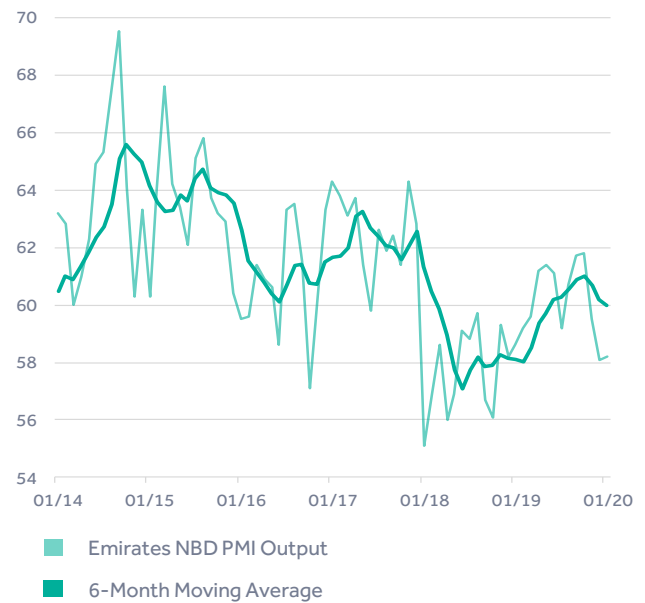
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



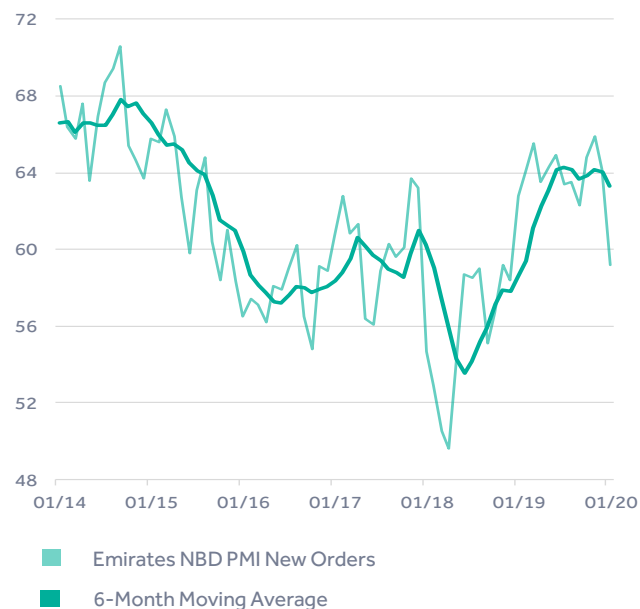
source: Markit

Figure 2:
Purchasing Manager Index Output



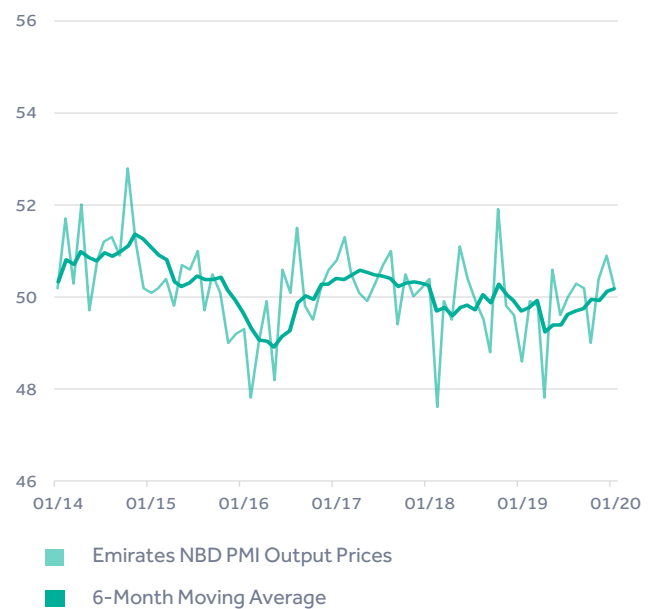
source: Markit

Figure 3:
Purchasing Manager Index New Orders



source: Markit

Figure 4:
Purchasing Manager Index Output Prices



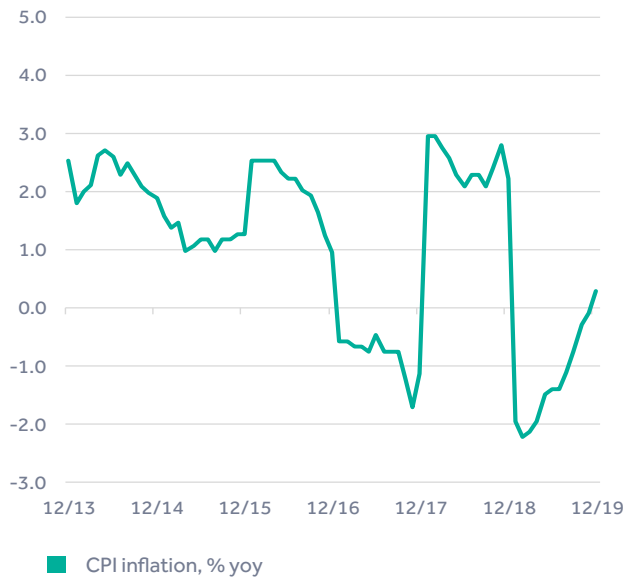
source: Markit

In November 2019, the PMI Composite index as the main business climate indicator of the Saudi non-oil economy reached 58.3, a peak level last seen back in 2015. January 2020 showed a gradual cooling with a

reading of 54.9. A similar picture can be seen in the case of the important PMI New Orders which peaked at a multi-year high of 65.9 in November 2019, in order to decline to 59.2 in January 2020.

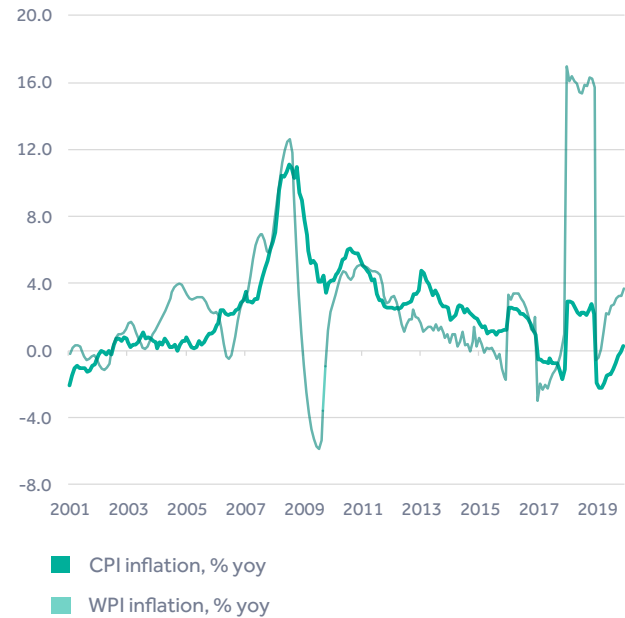
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



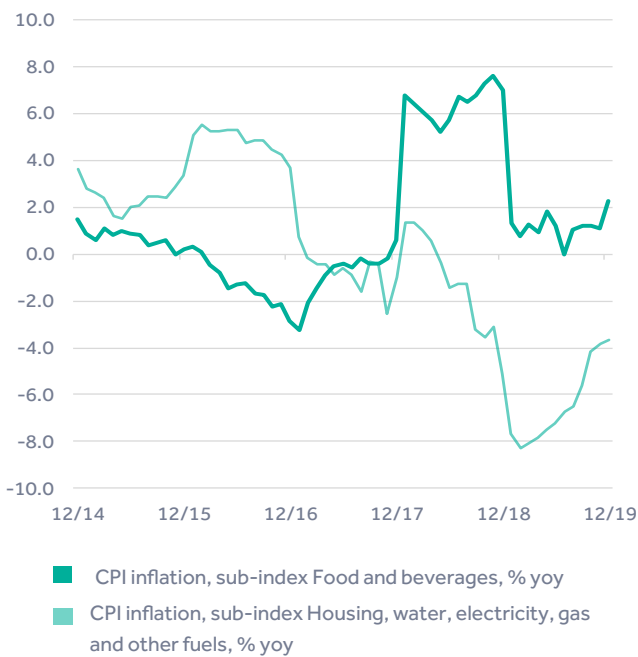
source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



source: GASTAT

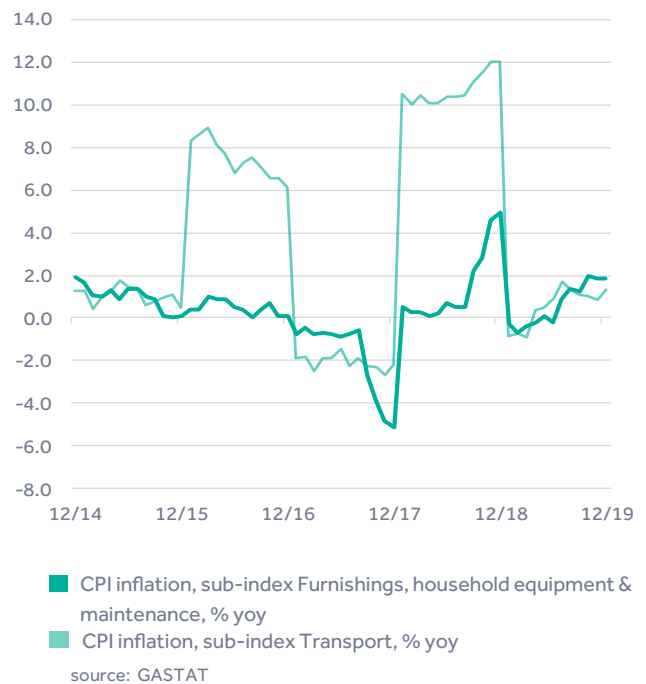
Figure 3:
CPI Inflation Food & Housing



source: GASTAT

CPI inflation turned positive in December 2019 with +0.3%yoy, ending a period of deflation since the beginning of the year. 10 out of 12 sub-indices showed positive inflation in December. The most

Figure 4:
CPI Inflation Furnishings & Transportation



source: GASTAT

prominent drag on the CPI inflation are still housing rents as the dominating item within the sub-index Housing, Water&Electricity. However, the most recent readings show that rents are finally stabilizing.

Real Estate Market: Transaction Activity

Figure 1:
Quarterly Real Estate Transactions Overall Country

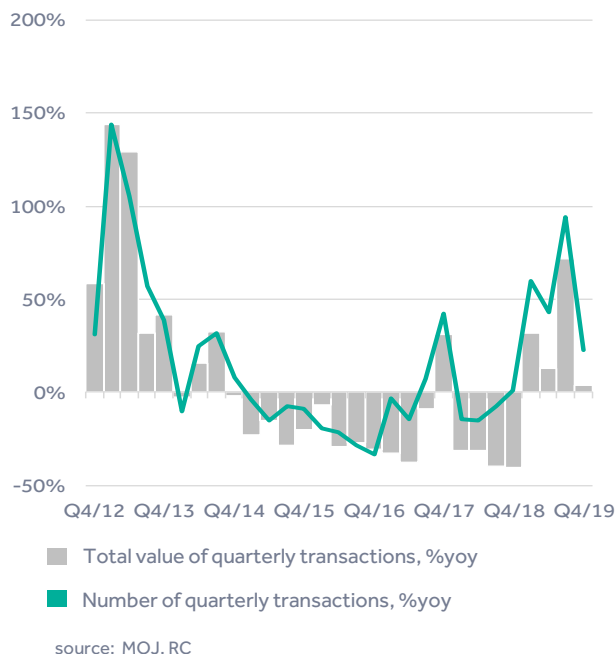


Figure 2:
Quarterly Residential Real Estate Transactions

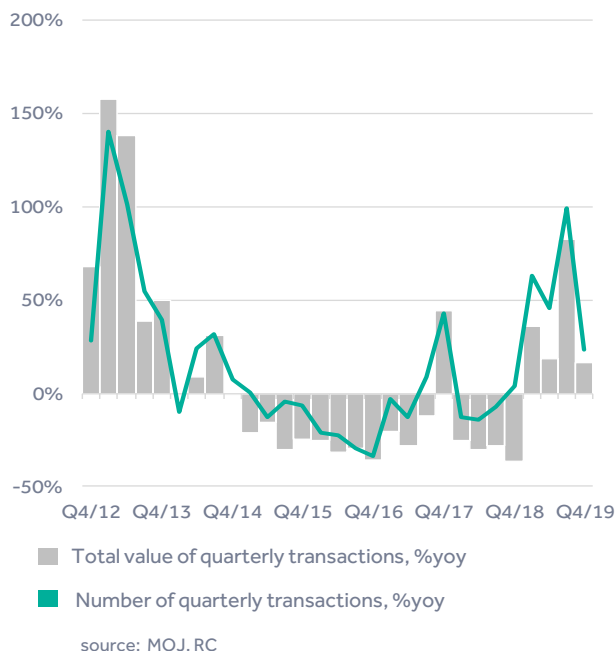


Figure 3:
Quarterly Commercial Real Estate Transactions

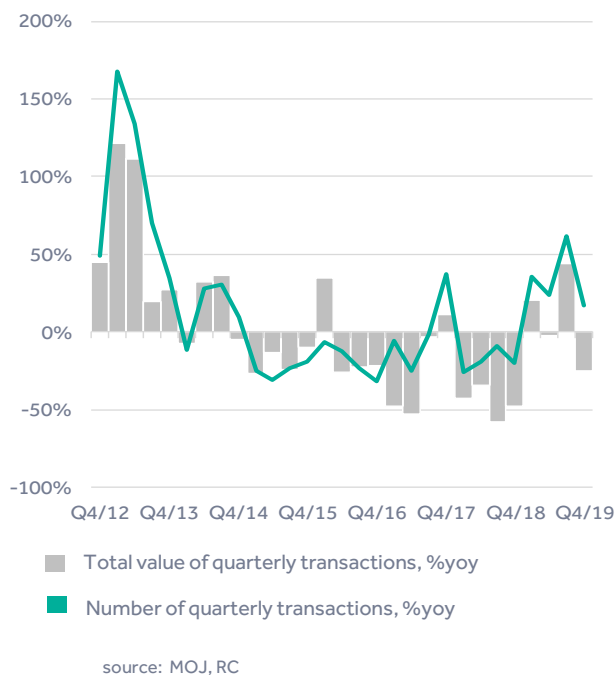
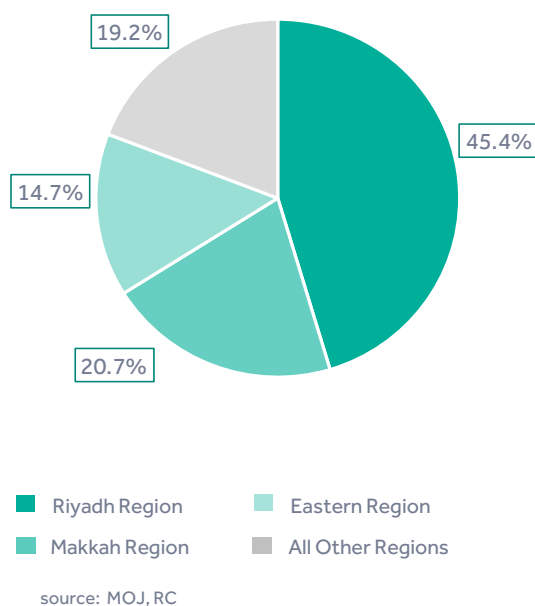


Figure 4:
Breakdown of Transaction Value by Regions (Q4 2019)



Growth of real estate transactions notably slowed in Q4 2019 after a very strong third quarter. Total transaction turnover expanded by 4%yoy in Q4 after 72%yoy in Q3, while the number of transactions

grew by 23% in Q4 after 94% in Q3 2019. For the full year 2019, an increase in transaction turnover of 26% was recorded. The number of transactions climbed by 51% compared to the previous year.

Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices

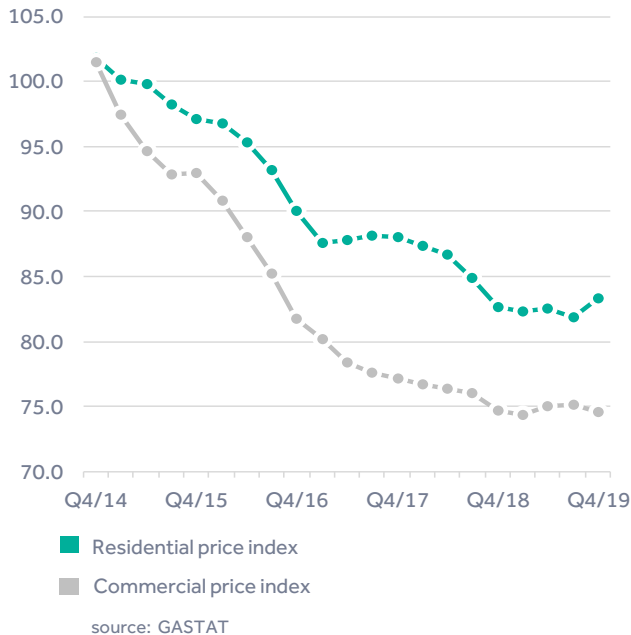


Figure 2:
Residential and Commercial Land Price Indices

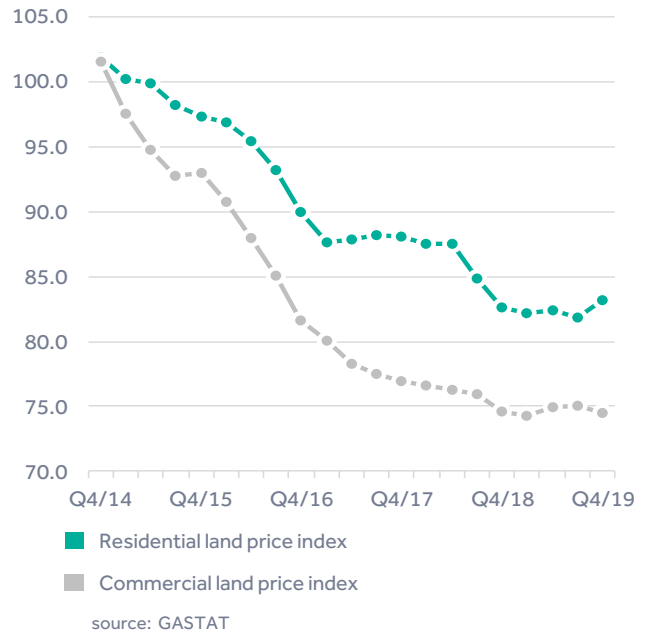


Figure 3:
Residential Villas and Apartments Price Indices

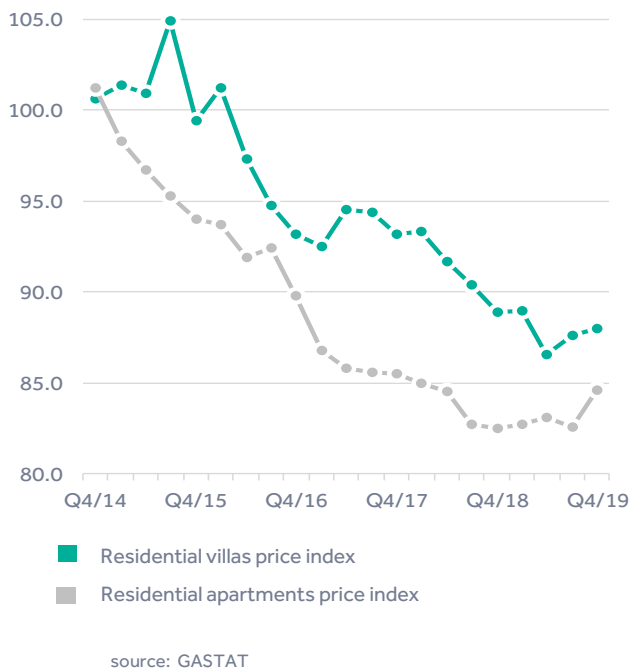
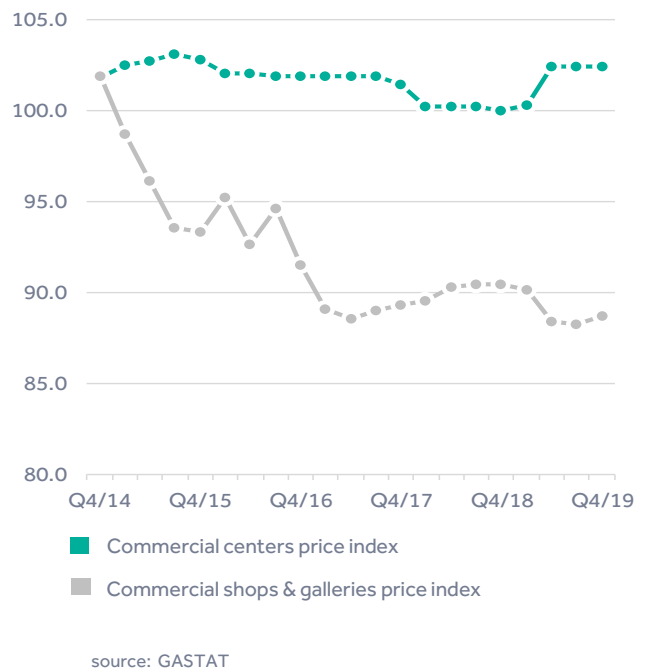


Figure 4:
Commercial Shops and Centers Price Indices

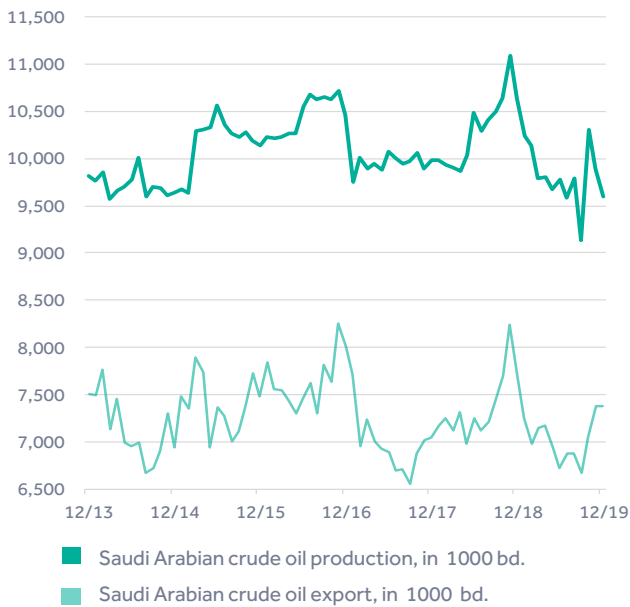


Real estate sales price data for Q4 2019 confirm that the Saudi real estate market is stabilizing after the protracted decline since 2014. Residential prices gradually picked up in Q4 by 1.7% vs. the previ-

ous quarter and by 0.7% vs. the previous year. Commercial real estate prices marginally declined by -0.7% vs. Q3 and by -0.1% vs. Q4 2018. These data also reflect the trend in land price indices.

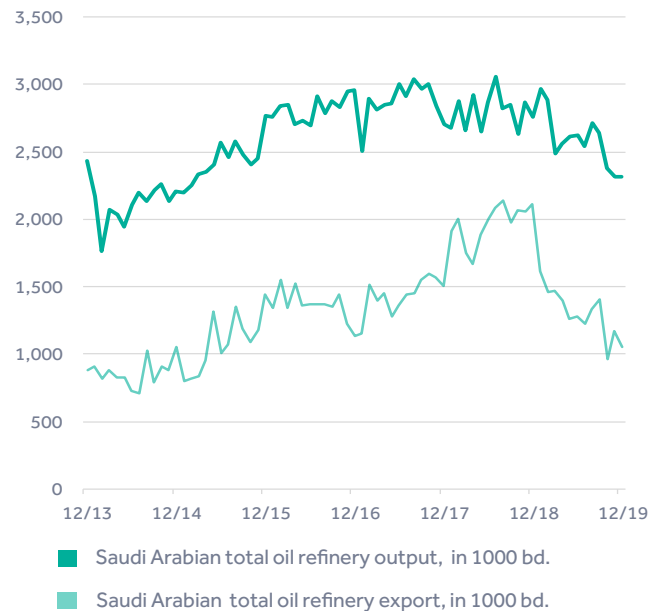
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



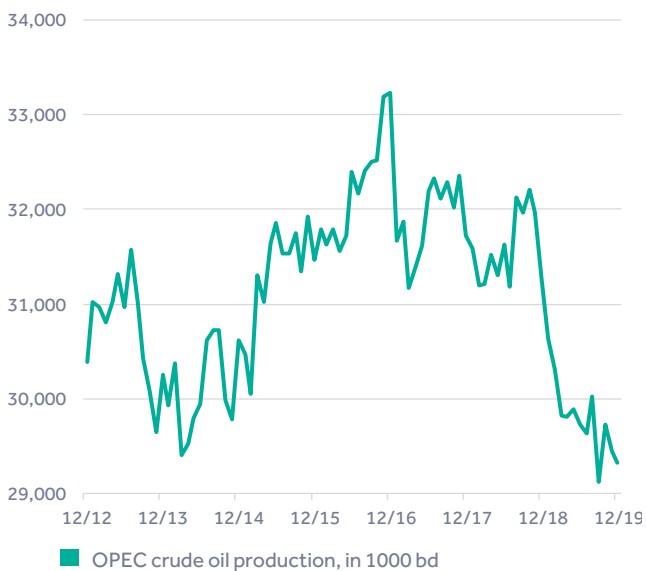
source: JODI

Figure 2:
Saudi Crude Refinery Output and Exports



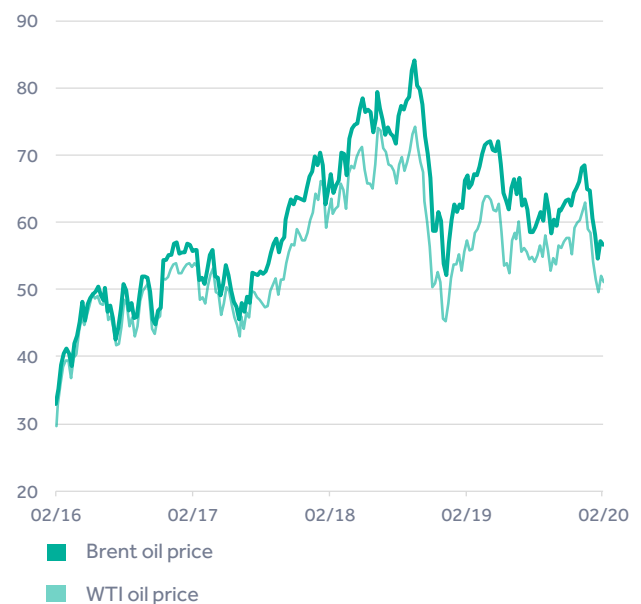
source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices



source: Bloomberg

Saudi crude oil production recovered from its low in September of 9.1 mbd and ended the year 2019 with a monthly average output of 9.6 mbd in December. Meanwhile, OPEC crude production amounted to

29.3 mbd in December, a reduction of 2.9 mbd since a temporary high in October 2018. Oil prices most recently declined due to the expected impact of the Chinese coronavirus on global oil demand.

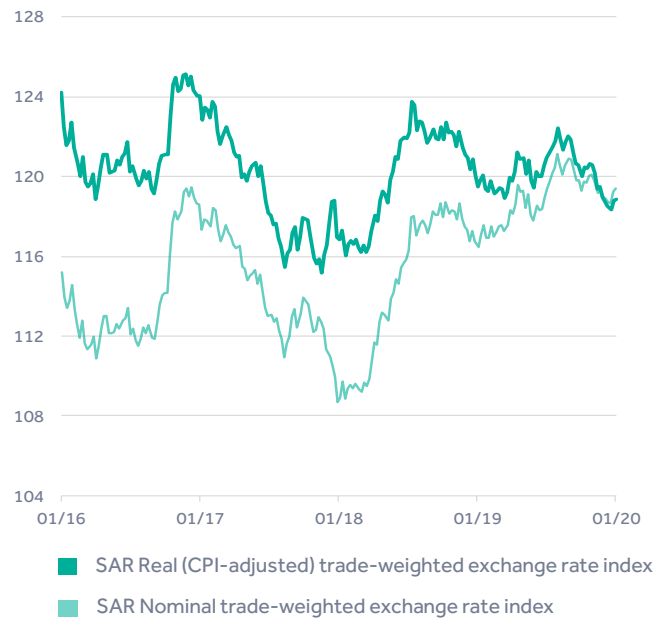
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

Figure 1:
12-Months Forward Exchange Rate SAR/USD



source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



source: Bloomberg, JP Morgan

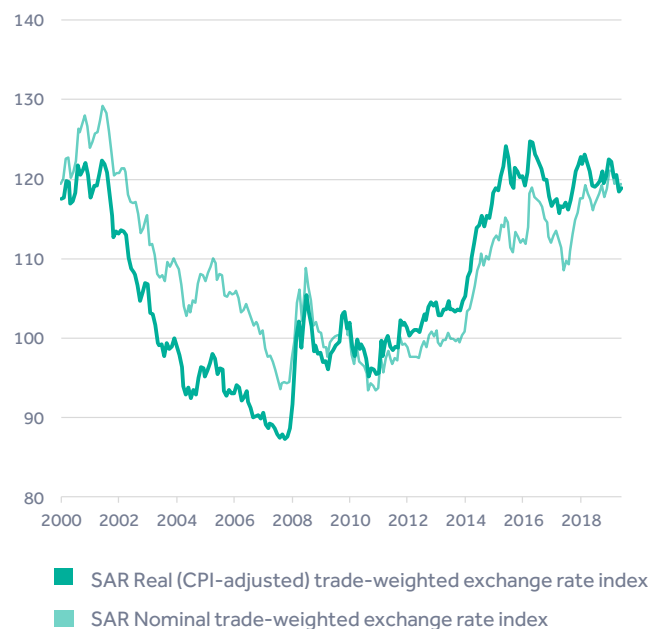
Figure 3:
12-Months Forward Exchange Rate SAR/USD in the Long Term



source: Bloomberg

The FX-forward premium for USD/SAR continues to trade at historically low levels, illustrating the stable macro framework of the Saudi economy at this juncture. Meanwhile, the SAR effective exchange

Figure 4:
SAR Nominal and Real Effective Exchange Rate in the Long Term



source: Bloomberg, JPMorgan

rate gradually weakened from August 2019 to mid-January 2020 by -3.6% in nominal terms and -2.4% in real terms. In February, a slight recovery could be observed on the back of a stronger US dollar

Interest Rates: Money Market, Capital Market and Central Bank Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR

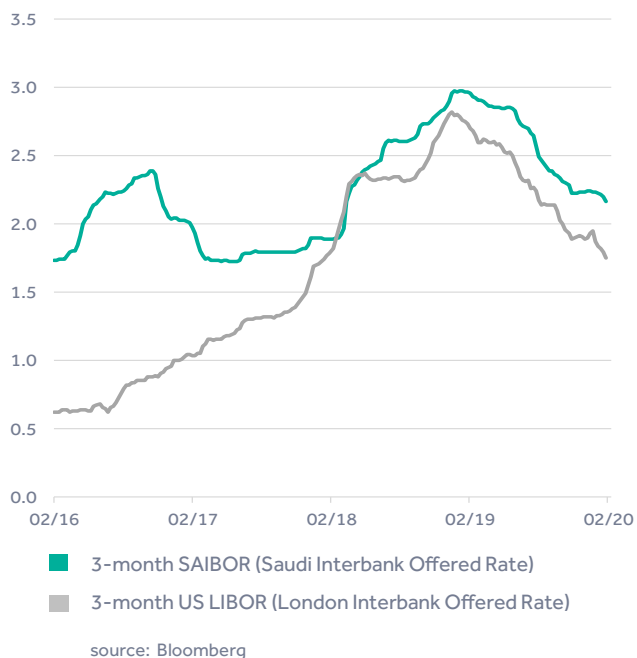
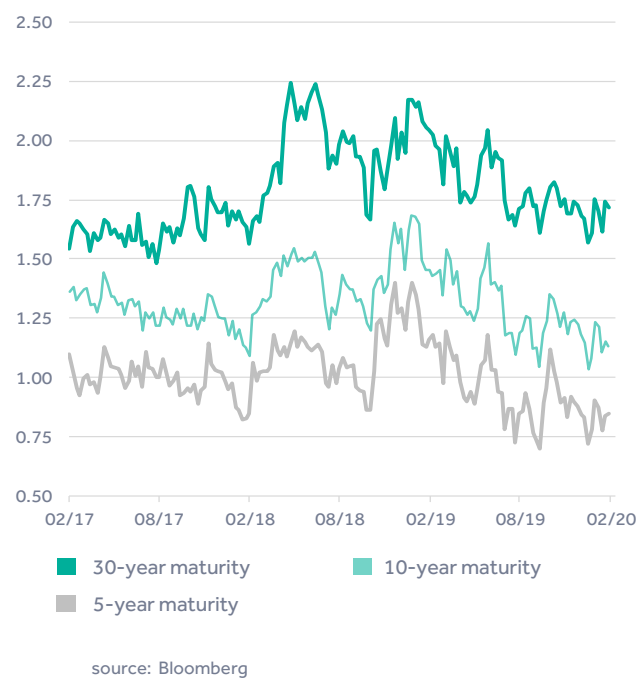


Figure 2:
5-Year Swap Rate SAR vs. USD

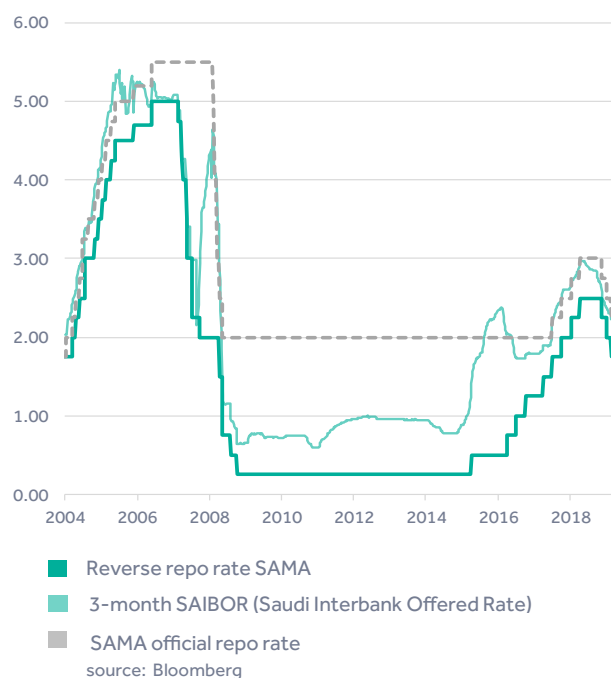


Figure 3:
KSA USD-Bonds Yield Spread to US Treasuries



Since the end of last year, the 3M SAIBOR-LIBOR spread widened from 28 bp to 44 bp as US money market rates declined stronger than SAR short-term rates. However, this spread widening cannot

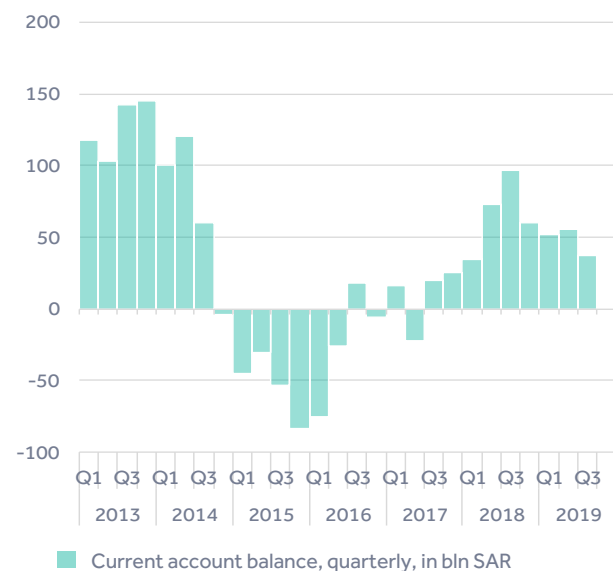
Figure 4:
Central Bank Rate and 3-Months SAIBOR



be observed at the longer-end of the yield curve with 5-year SAR and USD swap rates declining in parallel most recently. Yield spreads of USD KSA bonds to US treasuries are broadly stable since mid-2019.

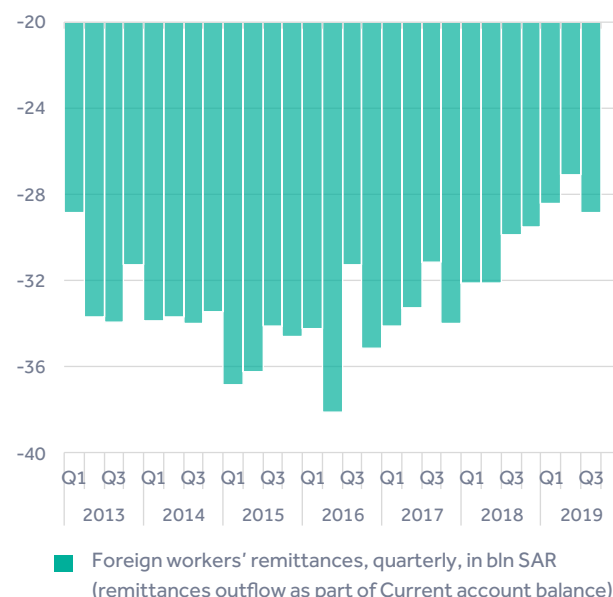
Saudi Balance of Payments

Figure 1:
Current Account Balance



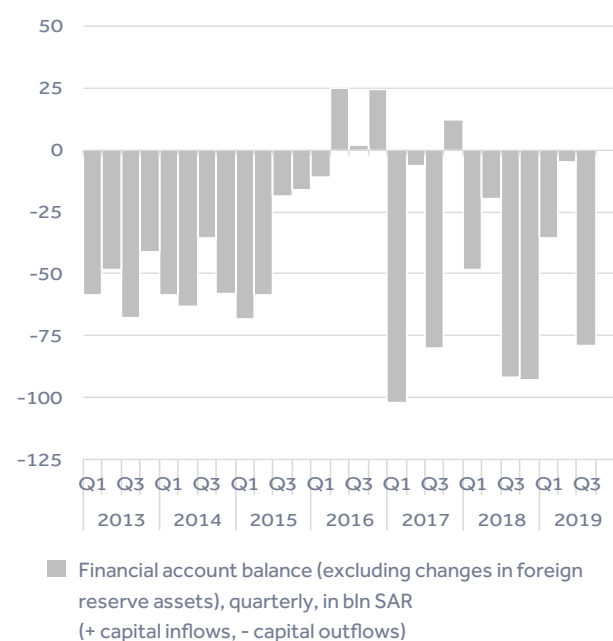
source: SAMA

Figure 2:
Foreign Workers' Remittances



source: SAMA

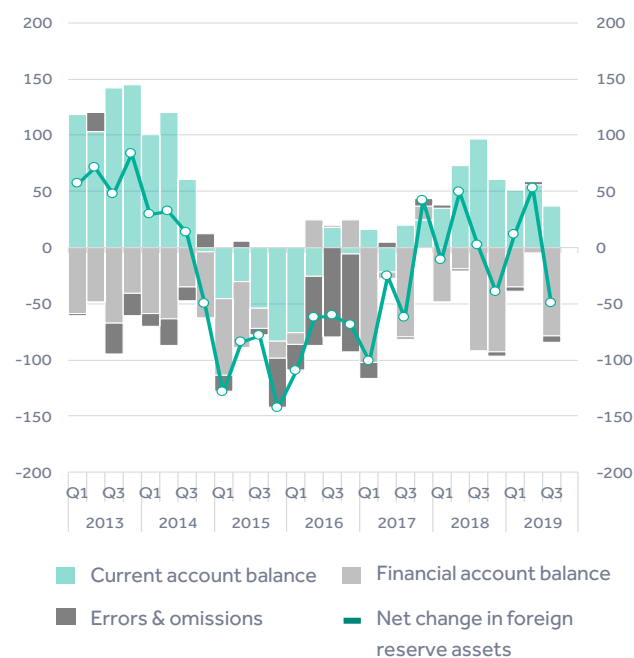
Figure 3:
Financial Account Balance



source: SAMA

The current account surplus gradually receded from 55.9 bln SAR in Q2 to 36.9 bln SAR in Q3 2019. This can primarily be explained by lower oil revenues. Meanwhile, the financial account deficit widened to

Figure 4:
Contribution to Balance of Payments (in bln SAR)



source: SAMA

-78.9 bln SAR in Q3 2019. Including errors & omissions, official reserve assets, as a consequence, declined by -49.2 bln in Q3 after having accumulated by a total of 64.2 bln SAR in the first half of 2019.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index



Figure 2:
Tadawul Average Daily Traded Value

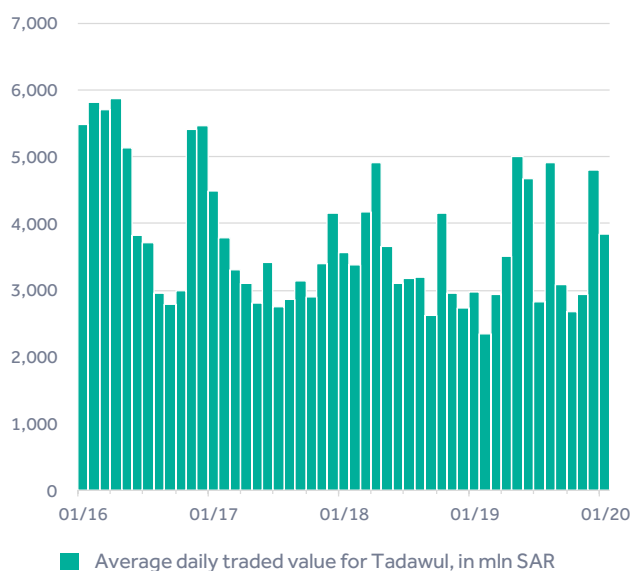


Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)

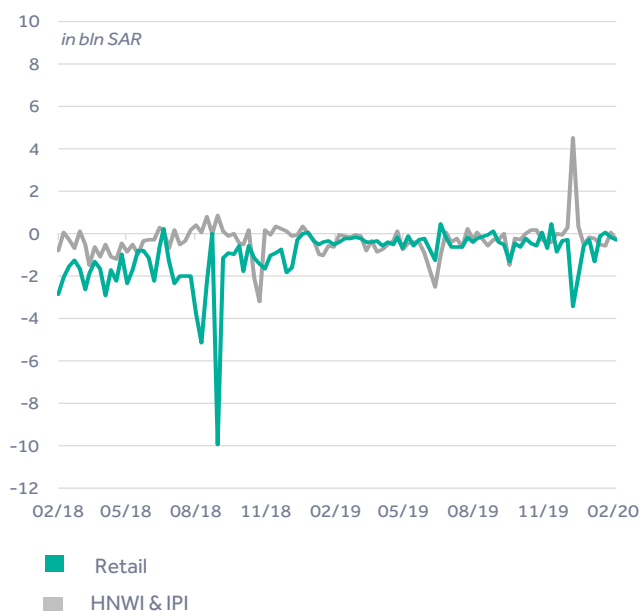
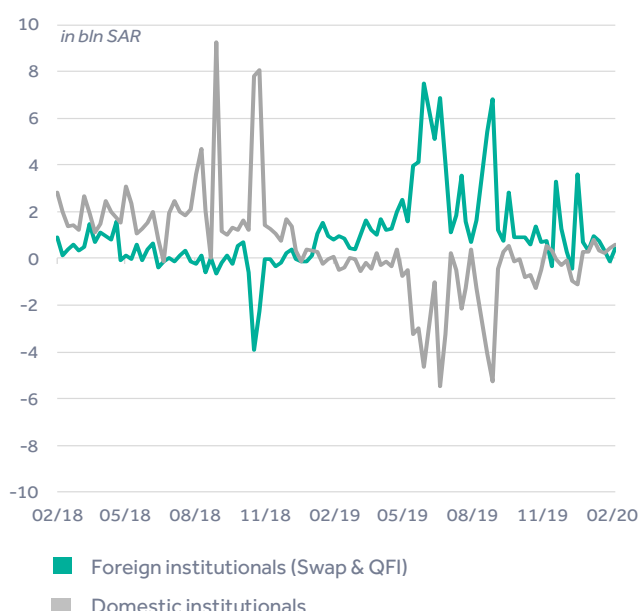


Figure 4:
Weekly Net Purchase by Ownership (in bln SAR)

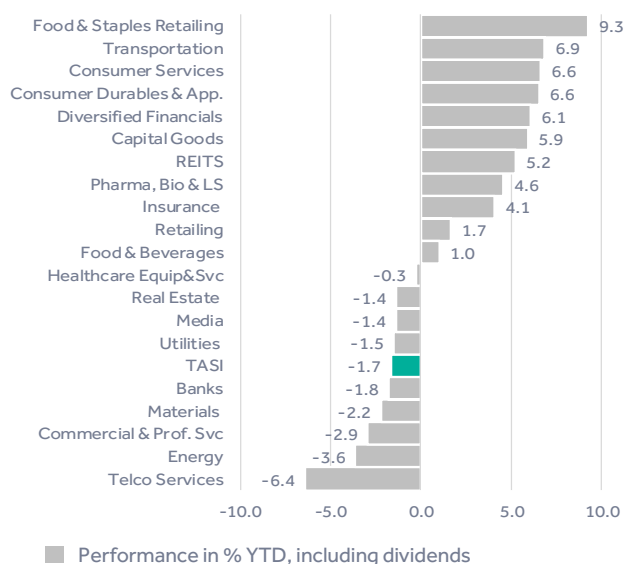


Since the beginning of 2020, the Saudi equity market showed some weakness after a strong Q4 2019. Trading volumes picked up in December and partly in January, primarily due to the Aramco IPO in mid-

December which caused significant trading activity in the company's shares. In particular, foreign investors bought the shares as they were included in major indices already within two weeks after the IPO.

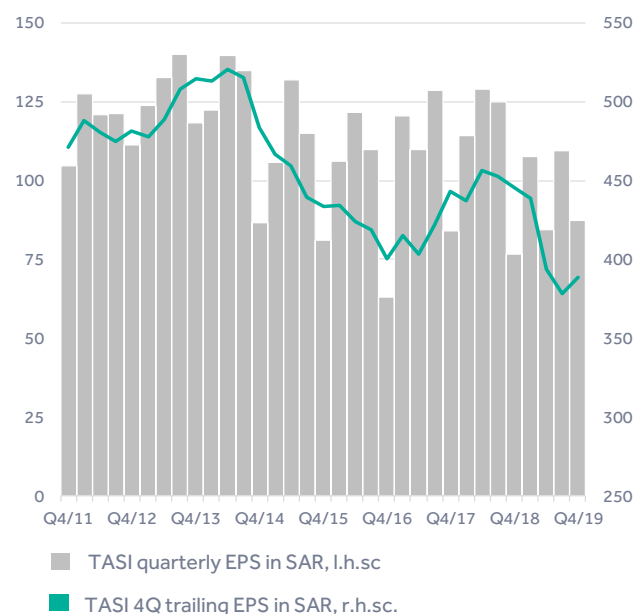
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors January 2020YTD



source: Bloomberg

Figure 2:
Quarterly Earnings TASI



source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing



source: Bloomberg

In January 2020, TASI declined by -1.7%, by mid-February the loss accumulated to -6.0%. For the first time since Q2 2018, TASI recorded positive year-on-year earnings growth with +5% in Q4 2019.

Figure 4:
Valuation TASI: PE-Ratio Forward



source: Bloomberg

However, despite the recent market correction, the market valuation is historically still elevated with trailing and forward PE-ratios of 21.8 and 15.9 versus a long-term average of 17.6 respectively 13.0.

Saudi Economic Outlook

We expect the Saudi economy to rebound in 2020 after a temporary growth slowdown in 2019 which can be explained by OPEC's oil output reduction in order to rebalance the global oil market.

The non-oil private sector economy already experienced a substantial growth acceleration last year which reached 4.2% in Q3 2019, a growth rate last time seen in 2014. For the full year 2019, we expect real growth to be at 3.5%. We forecast continued solid growth of 3.3% for the private sector economy in 2020.

On the other hand, oil sector real GDP growth is expected to turn positive again this year with a forecasted growth rate of 1.6% after a contraction of estimated -3.4% in 2019.

As a result, the overall economy is expected to rebound to 2.4% this year after an estimated growth rate of 0.3% in 2019.

The fiscal deficit is forecasted at -6.4% of GDP in 2020 after -4.6% of GDP in 2019. Beyond this year, the government's medium-term fiscal plan projects the fiscal deficit to decline to 2.9% of GDP in 2022.

We expect some weakness in oil prices to persist during H1 2020 on the back of a looming supply overhang. However, for H2 we anticipate a recovery caused by a more balanced global oil market.

CPI inflation averaged at -1.20% in 2019. For 2020, we expect the Saudi inflation to rebound and forecast an average inflation rate of 1.4% for the full year.

In particular, we expect the decline of housing rents as the main driver for last year's CPI deflation to fade in 2020 against the background of an anticipated stabilization of the Saudi residential real estate market.

After three rate cuts in 2019, we expect the FED to keep its key interest rates unchanged throughout this year. As a consequence, SAMA will also leave its key rates at current levels.

We forecast the unemployment rate for Saudi nationals to decline to 11.7% in 2020. Combined with an expected increase of the Saudi labor force participation rate to 45.9%, this implies that the Saudi economy will create approximately 250-300k new jobs for Saudis in the year 2020.

Facts and Forecasts at a Glance

	2017	2018	2019f	2020f
Real GDP Growth				
Overall economy	-0.7	2.4	0.3	2.4
Non-oil Private sector	1.5	1.9	3.5	3.3
Government sector	0.7	2.9	2.7	2.1
Oil sector	-3.1	3.1	-3.4	1.6
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-238	-174	-131	-187
Fiscal Balance in % GDP	-9.2	-5.9	-4.6	-6.4
Government debt in bln SAR	443	560	678	765
Government debt as % GDP	17.2	19.0	23.9	26.3
Trade and Current Account				
Trade Balance in bln SAR	369	633	478	462
Trade Balance in % GDP	14.3	21.5	16.9	15.9
Current Account in bln SAR	39	271	179	147
Current Account in % GDP	1.5	9.2	6.3	5.0

source: GASTAT, SAMA, RC

	2017	2018	2019f	2020f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	54.8	71.7	64.2	64.0
WTI price (USD pb)	50.9	64.9	57.0	57.0
OPEC Basket price (USD pb)	52.4	69.8	64.0	63.5
KSA oil production (mln bd)	9.9	10.3	9.8	9.9
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	-0.84	2.47	-1.20	1.40
3M SAIBOR SAR	1.90	2.98	2.23	2.15
Reverse Repo Rate	1.50	2.50	1.75	1.75
Official Repo Rate	2.00	3.00	2.25	2.25
Labor Market (yearly average)				
Unemployment rate total in %	5.9	6.0	5.6	5.3
Unemployment rate Saudi in %	12.8	12.8	12.2	11.7
Labor force part. total in %	54.9	56.0	57.6	59.1
Labor force part. Saudi in %	40.8	42.0	44.3	45.9

source: GASTAT, SAMA, Bloomberg, RC

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