Macroeconomy

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 activity 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.

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**Chart 1: Real GDP**

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)

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**Chart 2: Crude oil production**

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

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**Chart 3: Benchmark crude oil prices**

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

Source: Thomson Reuters Datastream, Bloomberg

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**Chart 4: Point of sale (POS) and ATM transactions**

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

Source: SAMA
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

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

Source: GASTAT

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

Source: ARGAAM

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

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

Source: SAMA
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

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

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

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

Source: SAMA

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

Source: Ministry of Finance

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

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

Source: SAMA

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

Source: SAMA

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

Source: SAMA

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

Source: Thomson Reuters Datastream

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
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

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

Source: Thomson Reuters Datastream