

Macroeconomy

Higher oil prices positive for Saudi economy but non-oil activity yet to fully rebound

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- The economy contracted in 4Q17 (-0.5% y/y) due to the oil output cuts; compliance reached 137% in April.
- Retail activity (POS) dipped 0.7% month-on-month in April, but the PMI showed that private sector activity weakened to a 9-year low on slower output and exports growth.
- Inflation moderated to 2.6% y/y in April on softer housing and transportation costs.
- The fiscal deficit widened in 1Q18 to SR34.3bn mainly on higher expenditures .
- But higher oil prices have helped the Saudi current account record a surplus of 4.7% of GDP in 4Q17 and push official foreign reserves above \$500bn in April for the first time since June 2017.
- Private sector credit growth (+0.7% y/y) and overall deposit growth (-0.55 y/y) in April remain lackluster.
- The Saudi stock index (TASI) is up 13% ytd on higher oil prices, corporate profitability and FTSE/MSCI inclusion.

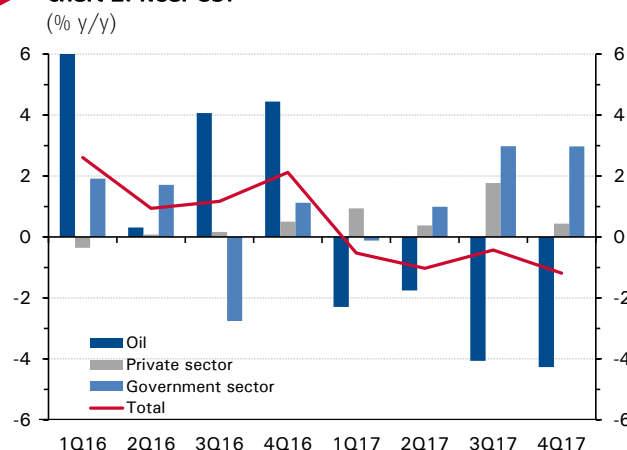
▶ Chart 1: Saudi Vision 2030 targets

		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

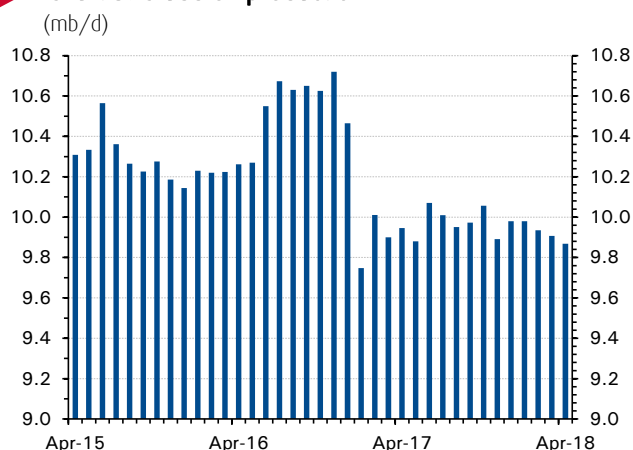
▶ Chart 2: Real GDP (% y/y)



Growth slowed to -1.2% y/y in 4Q17 due to the oil output cuts; non-oil activity rose by 1.3% y/y on public spending.

Source: General Authority for Statistics (GASTAT)

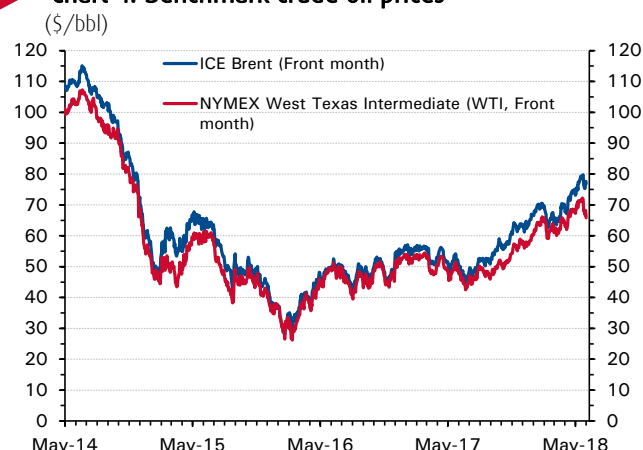
▶ Chart 3: Crude oil production (mb/d)



Saudi output fell to 9.87 mb/d in April—0.18 mb/d below the agreed quota level, bringing compliance up to 137%...

Source: OPEC, Joint Organizations Data Initiative (JODI)

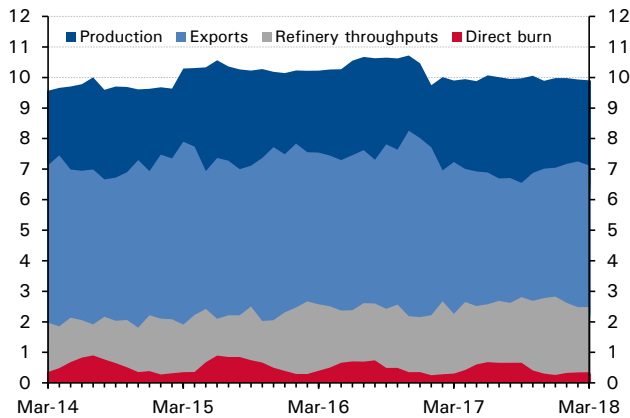
▶ Chart 4: Benchmark crude oil prices (\$/bbl)



...but oil prices reversed some of their recent gains after Saudi Arabia & Russia indicated that they could raise output in 2H18.

Source: JODI

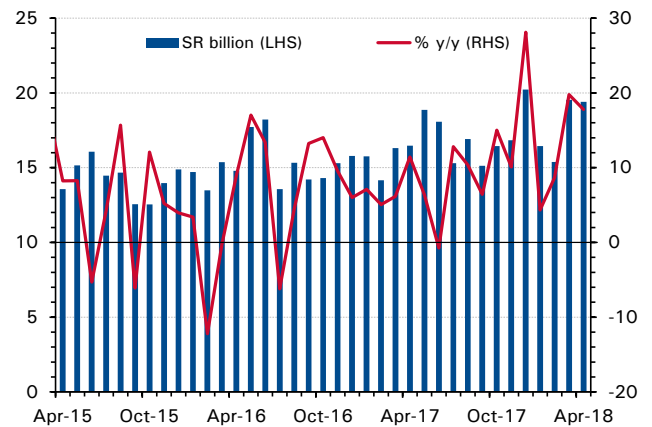
Chart 5: Production, exports, refining and demand
(mb/d)



With crude production capped and exports reduced, a greater share of output is being refined and exported.

Source: JODI

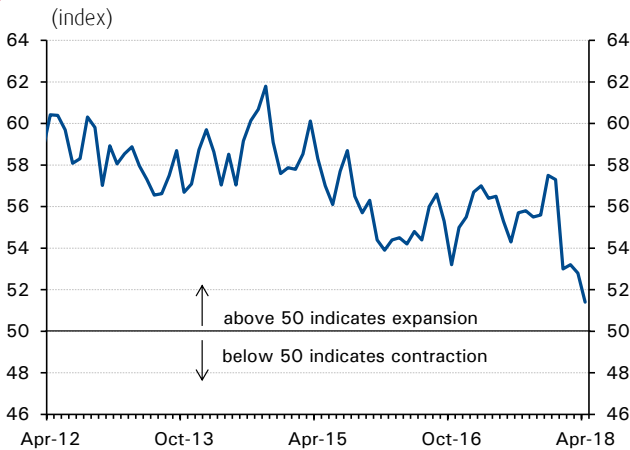
Point of sale (POS) transactions (by value)



Retail activity dipped by -0.7% m/m in April, but was still comfortably higher than last year, by 18%.

Source: JODI

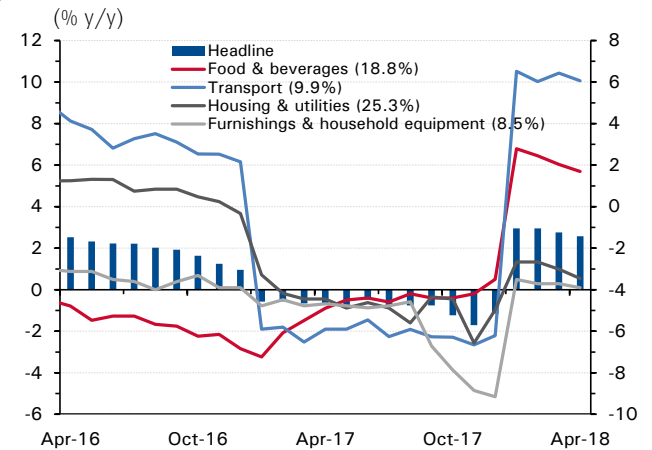
Chart 7: Purchasing Managers' Index (PMI)



Private sector activity decelerated to a 9-year low in April (51.4) on slowing output growth and falling new exports.

Source: Markit/Emirates NBD

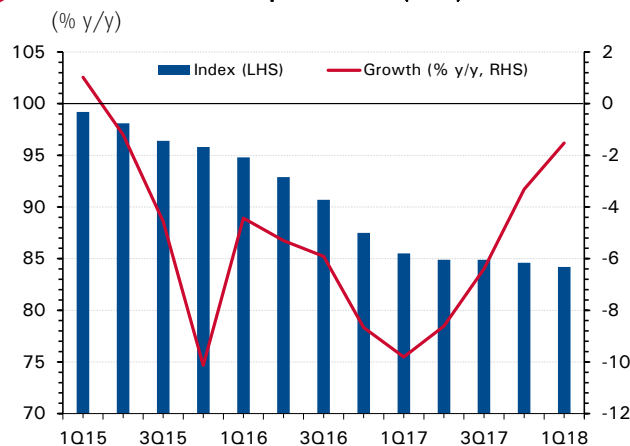
Chart 8: Inflation



Inflation moderated 2.6% y/y in April, with housing and transport particular sources of softness.

Source: GASTAT

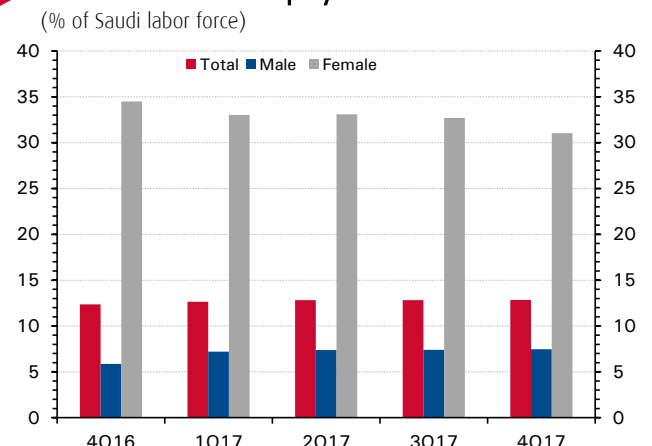
Chart 9: Real estate price index (REPI)



The index continues to trend lower, although the rate of decline is easing slightly, reaching -1.5% y/y in 1Q18.

Source: GASTAT

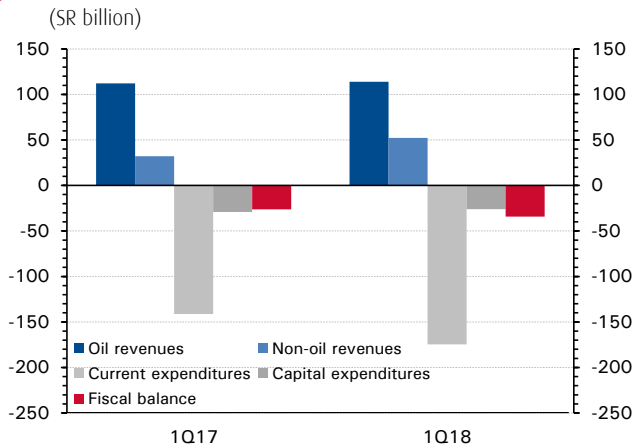
Chart 10: Saudi unemployment



Unemployment has crept upwards—12.8% as of end-4Q17; female unemployment, though high at 33%, fell slightly.

Source: SAMA

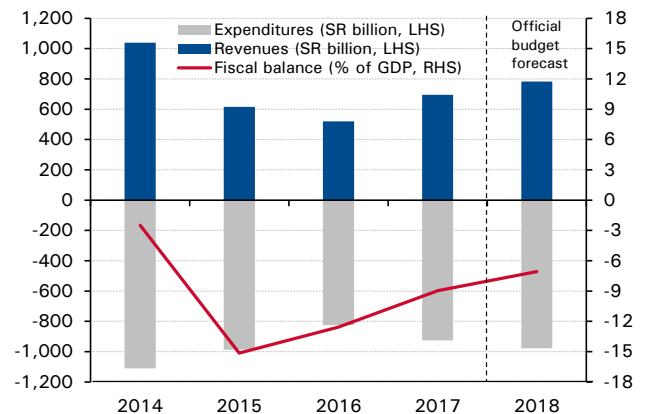
▶ **Chart 11: Fiscal outcomes (quarterly)**



The budget deficit widened y/y to SR34.3 bn in 1Q18 due to higher expenditures and lower-than-expected oil revenues.

Source: Saudi Ministry of Finance

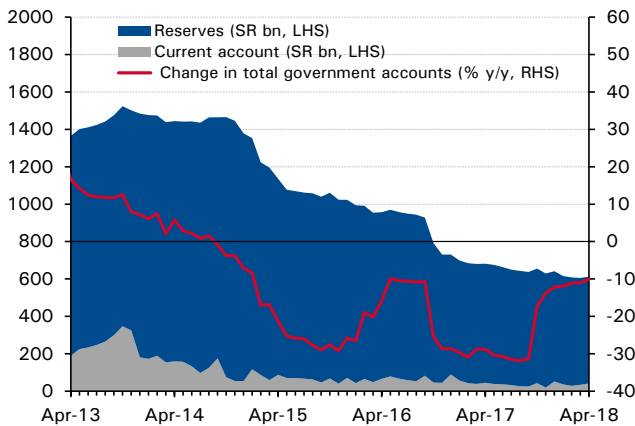
▶ **Chart 12: fiscal outcomes (annual) & 2018 budget**



The 2018 budget envisions near record spending (excl. PIF/NDF outlays) and a narrower deficit of around 7% of GDP.

Source: Saudi Ministry of Finance

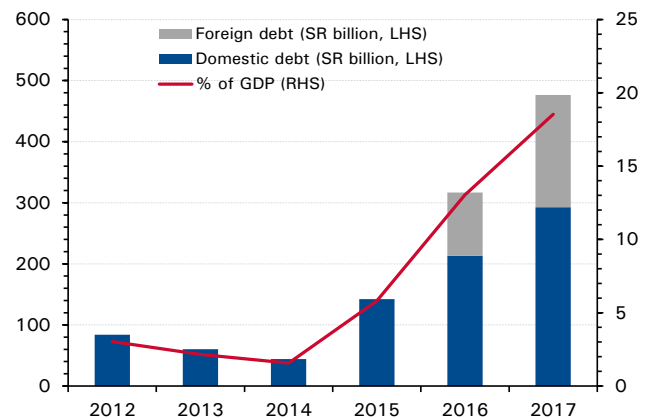
▶ **Chart 13: Government accounts with SAMA**



Higher oil revenues helped the government add to its deposit account at SAMA...

Source: SAMA

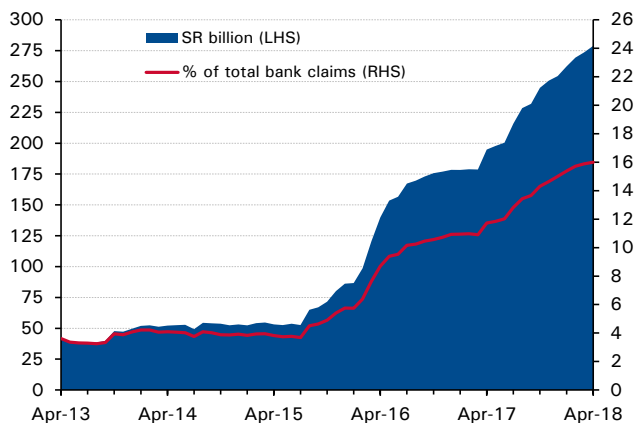
▶ **Chart 14: Central government debt**



...but thanks to increasing sovereign bond & sukuk issuance (SR171bn in 2017) public debt reached 18.5% of GDP in 2017.

Source: Ministry of Finance

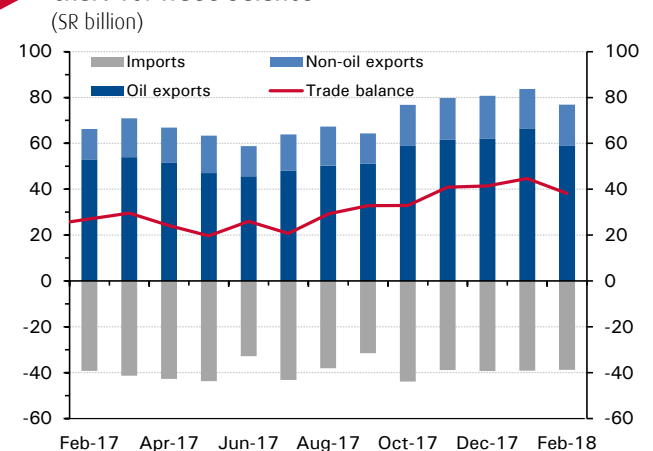
▶ **Chart 15: Bank claims on government**



Banks held SR280bn worth of government bonds in April, around 16% of total banks' claims.

Source: SAMA

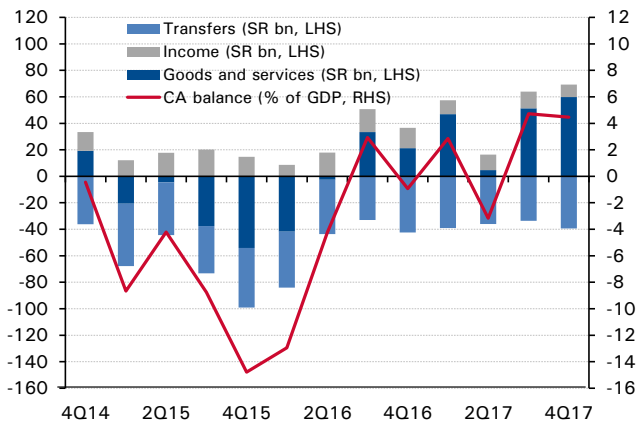
▶ **Chart 16: Trade balance**



The trade surplus fell to SR38bn in Feb (-14.5%) on lower oil exports; non-oil exports rose while imports fell slightly.

Source: GASTAT

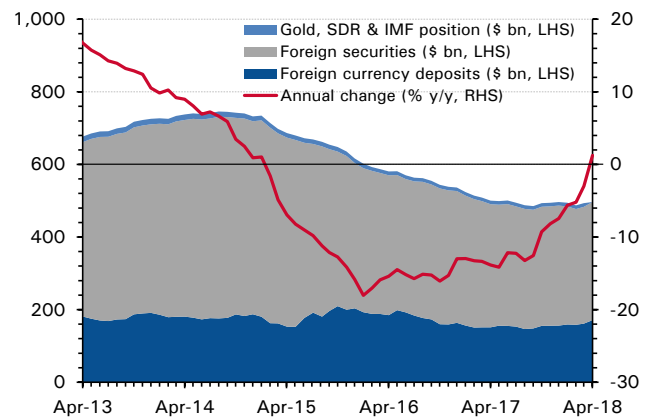
▶ **Chart 17: Current account balance**



The CA surplus (4.5% of GDP in 4Q17) is due to higher oil exports; income receipts are down while remittances are up.

Source: SAMA

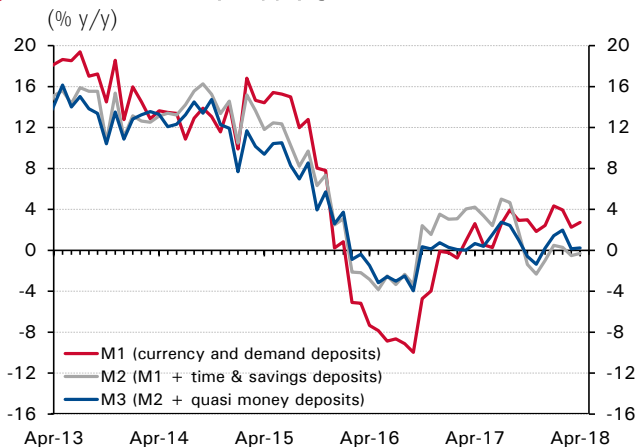
▶ **Chart 18: Foreign reserve assets**



Reserves were back above \$500 bn in April and rising, by 1.3% y/y, for the first time in more than 3 years.

Source: SAMA

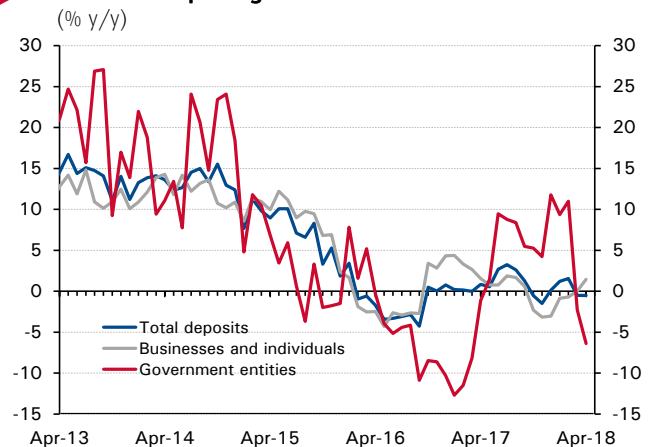
▶ **Chart 19: Money supply growth**



M3 growth is slow at 0.2% y/y in April, with demand deposit growth weak and time & savings deposits still in decline.

Source: SAMA

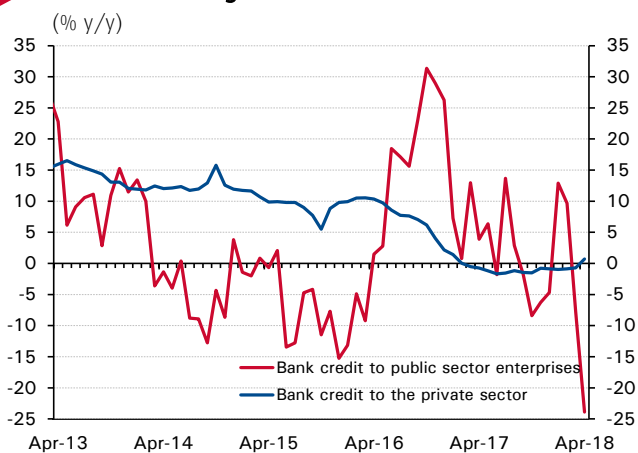
▶ **Chart 20: Deposit growth**



Deposit growth remains in negative territory, at -0.5% y/y in April; lacklustre private sector deposit growth is a concern.

Source: SAMA

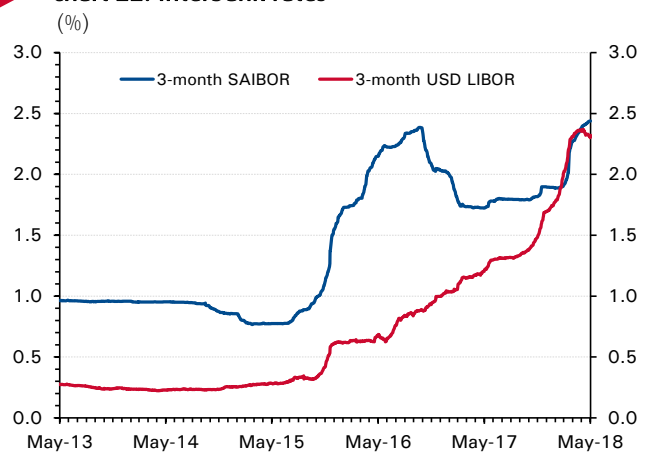
▶ **Chart 21: Credit growth**



Private sector credit growth remains lackluster at 0.7% y/y in April; public borrowing dropped in the month (-24% y/y).

Source: Thomson Reuters Datastream

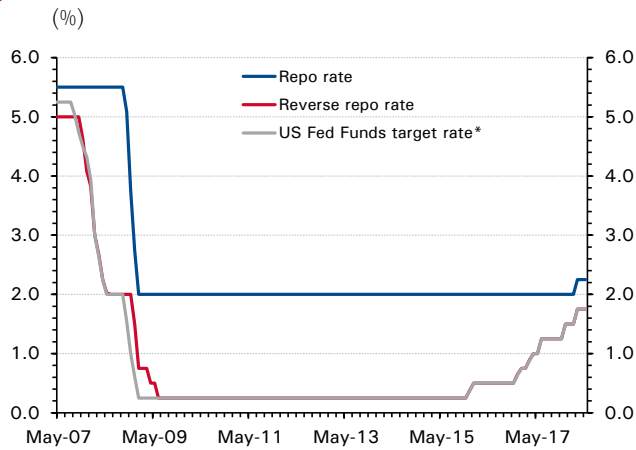
▶ **Chart 22: Interbank rates**



The differential between SAIBOR and LIBOR has slowly widened (+12 bps) since late April when it was negative...

Source: Thomson Reuters Datastream

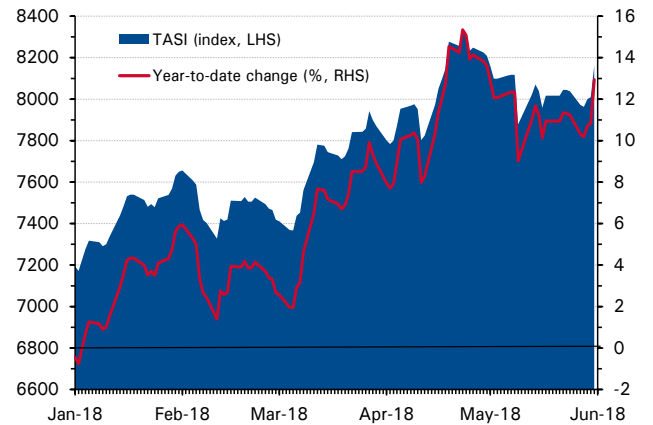
▶ Chart 23: Key interest rates



...which prompted SAMA to raise both its repo and reverse repo rates by 25 bps ahead of the US Fed's rate rise.

Source: Thomson Reuters Datastream

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



TASI is up 13% ytd, buoyed by better-than-expected corporate profits and inclusion in FTSE and likely MSCI EM indices.

Source: Thomson Reuters Datastream

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