Macroeconomy

Saudi Arabia: Economy contracts in Q1, but fiscal position shows yearly improvement in Q2

- The Saudi economy contracted in 1Q17 (-0.5% y/y) after oil production was cut as per the OPEC accord.
- PMI figures continue to suggest an improvement in private sector activity, but POS data point to seasonal falls.
- Deflation eased in July (-0.3% y/y) on a rise in food prices (after earlier sugary drinks/tobacco taxes imposed).
- The fiscal deficit narrowed y/y in 2Q17 as a result of higher oil revenues and lower capital expenditures.
- The current account recorded a surplus of 3.6% of GDP in 1Q17, thanks to higher exports and lower imports/remittances.
- Private sector credit growth weakened in June (-1.7% y/y); foreign reserves up for the first time in 13 months.
- Following the US Fed, SAMA raised its benchmark reverse repo rate by another 25 bps to 1.25% in June.
- TASI moved into positive territory in August ahead of the likely FTSE EM upgrade in September.

Chart 1: Real GDP

The economy contracted in 1Q17 (-0.5% y/y) after oil output was cut as per the OPEC accord; business activity picked up.

Source: General Authority for Statistics (GASTAT)

Chart 2: Crude oil production

Output was >10 mb/d for the second month in a row in July as the kingdom responded to peak summer power demand.

Source: OPEC, Joint Organizations Data Initiative (JODI)

Chart 3: Oil prices

After rising by almost 10% in July, prices have retreated in August on oversupply/OPEC compliance concerns.

Source: Thomson Reuters Datastream

Chart 4: ATM and point of sale (POS) transactions

POS/ATM activity declined in June due to the Eid holiday.

Source: SAMA
Non-oil private sector activity appeared to improve in July; the PMI rose to 55.7 on the back of higher output and new orders.

Source: Markit/Emirates NBD

The Saudi unemployment rate rose to a high of 12.7% in 1Q17; the NTP aims to reduce this to 9% by 2020.

Source: GASTAT, SAMA

Deflation eased in July (-0.3% y/y) on an uptick in food prices; in June, a tobacco/sugary drinks tax came into effect.

Source: GASTAT

Real estate prices remain down by 8.8% y/y, despite a slight month-on-month uptick in residential home prices.

Source: GASTAT

The deficit narrowed y/y to SR 46.5 bn in 2Q17 mainly as a result of higher oil revenues and lower capital expenditures.

Source: Ministry of Finance

The government continues to draw down funds from its accounts at SAMA (net SR -67 bn in 2017, -31% y/y).

Source: SAMA
Reserves increased in June (+0.3% m/m) to $500 bn, for the first time since May 2016, due to a rise in foreign securities.

Source: SAMA

With international bond issuances increasing, public debt increased by 25% y/y to reach SR 341 bn by end-June.

Source: Ministry of Finance

The CA moved back into surplus (3.6% of GDP) in 1Q17, thanks to higher exports, lower imports and lower remittances.

Source: SAMA

Private sector credit growth has been negative since March, with credit for building & manufacturing especially weak.

Source: SAMA

Deposit growth rebounded in June (2.7% y/y), thanks to an increase in both government and private sector deposits.

Source: SAMA

Banks’ reserves at SAMA are up 42% y/y (10.5% of total assets), but holdings of SAMA bills have fallen (-75% y/y).

Source: SAMA
Banks continue to add government bonds to their balance sheets; bonds’ share of total bank claims rose to 12% in June.

Source: SAMA

Money supply (M3) expanded by 1.5% y/y in June on the back of a rise in time, savings and quasi deposits.

Source: SAMA

Rates appear to have stabilized since June; liquidity has improved since last October’s, pre-sovereign bond, peak.

Source: Thomson Reuters Datastream

The Saudi reverse repo rate moved up by another 25 bps in June to 1.25% after the US Fed raised its benchmark rate.

Source: Thomson Reuters Datastream

At 7,238, TASI is up 2% in August (0.39% ytd); sentiment is up after solid earnings and ahead of the FTSE EM index inclusion.

Source: Thomson Reuters Datastream