Macroeconomy

**Saudi Arabia:** Growth slowed on subdued non-oil activity but liquidity improving

- Real GDP growth slowed to 0.9% y/y in 3Q16 as the non-oil economy slipped into recession.
- Negative POS data (-5.9% y/y) and the slowest credit growth in 6 years (2.9%) in December confirm the slowdown in non-oil activity, although January PMI data point to a return to private sector expansion.
- Saudi unemployment rose to a 4-yr high of 12.1% in 3Q16, while employment growth slowed to 0.9% y/y.
- Inflation eased to a decade-low of 1.7% y/y in December thanks to lower global food prices.
- The deficit narrowed to -12.2% of GDP in 2016 on spending cuts and higher non-oil revenues.
- In a sign of improving liquidity, interbank rates recently fell below the 2.0% repo rate.
- Weaker earnings continue to weigh on market sentiment, though a rally sparked by talk of inclusion in the MSCI-EM index pushed TASI up to 7,100 (-1.9% ytd).

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**Chart 1: Real GDP**

Growth slowed to 0.9% y/y in 3Q16 as the non-oil economy slipped into recession and despite continued oil sector gains.

- **Source:** General Authority for Statistics

**Chart 2: Crude oil production**

Oil production hit another record in Nov, reaching 10.7 mb/d, but compliance with OPEC cuts meant that output fell in Dec.

- **Source:** OPEC, Joint Organizations Data Initiative (JODI)

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**Chart 3: Crude oil production, exports and consumption**

As production has ramped up and direct burn reduced, more crude has been freed up for exports and refining.

- **Source:** JODI

**Chart 4: Oil prices**

Brent has been trading at around $55/bbl in Jan as markets await data confirmation of OPEC/non-OPEC production cuts.

- **Source:** Thomson Reuters Datastream
ATM/POS activity posted negative growth for the second month in a row in Dec as consumer held off on purchases.

Source: SAMA

But January’s PMI showed an improvement in the non-oil economy, rising to its highest level (56.7) since August 2015.

Source: Markit/Emirates NBD

Saudi unemployment rose to a 4-year high of 12.1% in 2016; employment growth slowed to 0.9%.

Source: General Authority for Statistics; *as of 3Q 2016

Greater participation by Saudis and a fall in the working age population were behind the record high participation rate.

Source: General Authority for Statistics; *as of 3Q 2016

Inflation eased to 1.7% in Dec, its slowest rate in more than a decade, thanks to lower global food prices.

Source: SAMA

The deficit narrowed to -12.2% of GDP in 2016 on cuts to spending and higher non-oil revenues.

Source: Ministry of Finance; *excludes $21bn in expenses accrued in 2015
Vision 2030 aims to radically restructure the Saudi economy and boost fiscal sustainability, diversification and productivity.

Source: Saudi Vision 2030, Institute of International Finance (IIF)

By Dec 2016, government deposits at SAMA had fallen by 49% to SR 750bn since oil prices began declining in mid-2014.

Source: SAMA

The rate of NFA drawdowns slowed in 2016 (to $568bn in Dec) as the authorities cut spending/ramped up bond sales.

Source: SAMA

Non-oil merchandise exports were relatively steady in 2016, but imports declined on the back of a stronger riyal.

Source: General Authority for Statistics

Bank credit grew by the slowest rate in 6 years in December (2.9% y/y) on the back of a decline in private sector lending.

Source: SAMA
A rise in private deposits in Dec (4.3% y/y) pushed total deposits up by 0.8% y/y—the fastest pace in 11 months.

Source: SAMA

Accelerating purchases of government bonds by banks have seen their holdings rise by 107% y/y to SR178 bn.

Source: SAMA

With deposit growth edging up, money supply (M3) also posted its highest rate of growth (0.7% y/y) since Jan 2016.

Source: SAMA

Rates recently fell below the 2.0% repo rate for the first time since April 2016 in a further sign of improving liquidity.

Source: Thomson Reuters Datastream

But borrowing costs are rising after SAMA, following the US Fed, raised its key reverse repo rate by 25bps to 0.75% in Dec.

Source: Thomson Reuters Datastream
The US dollar/riyal 1-yr forward rate has been falling lately as markets are less bearish about Saudi economic prospects.

Source: Thomson Reuters Datastream

Weak earnings weigh on sentiment, but a rally sparked by MSCI EM inclusion talk pushed TASI up to 7,100 (-1.9% ytd).

Source: Thomson Reuters Datastream
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