Macroeconomy

Saudi Arabia: Non-oil activity improving amid record public spending, but credit growth still weak

- Overall economic growth retreated to -0.7% in 2017, mainly on the back of OPEC production cuts, but non-oil economy fared better, accelerating by 1%.
- Retail POS activity, business confidence and PMI surveys confirm the recovery in the private sector.
- Inflation spiked in January (+3%) on account of VAT introduction and energy price hikes.
- The fiscal deficit narrowed in 2017 (8.9% of GDP) thanks to cost-cutting but mainly higher oil/non-oil revenues.
- Public debt reached 17% of GDP last year due to the issuance of bonds/sukuk to finance the deficit.
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- Pre-empting the US fed, SAMA just raised its repo & reverse repo rates by 25 bps to 2.25% and 1.75%, respectively.
- TASI is up around 7% ytd, and there is hope that the bourse will be included soon in the FTSE/MSCI EM indices.

**Chart 1: Saudi Vision 2030 targets**

<table>
<thead>
<tr>
<th>Private sector</th>
<th>% of GDP</th>
<th>2015</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; medium-sized enterprises (SME)</td>
<td>% of GDP</td>
<td>20.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Non-oil exports</td>
<td>% of non-oil GDP</td>
<td>16.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Non-oil revenue</td>
<td>% of GDP</td>
<td>4.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Domestic oil &amp; gas production</td>
<td>% of GDP</td>
<td>2.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Domestic procurement of defense equipment</td>
<td>% of GDP</td>
<td>2.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Public Investment Fund (PIF) AUM</td>
<td>$ billion</td>
<td>160</td>
<td>1,866</td>
</tr>
<tr>
<td>Foreign direct investment (FDI)</td>
<td>% of GDP</td>
<td>3.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Global Competitiveness Index Rank</td>
<td>Rank</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>% of GDP</td>
<td>11.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Female labor force participation</td>
<td>% of GDP</td>
<td>22.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Pilgrim tourist arrivals</td>
<td>Million</td>
<td>8.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Social Capital Index</td>
<td>Rank</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>Household savings rate</td>
<td>% of GDP</td>
<td>6.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

**Chart 2: Real GDP (% y/y)**

Growth fell to -0.7% in 2017 after oil sector output contracted due to the OPEC cuts (-3.0%), but non-oil activity rose by 1%.

Source: General Authority for Statistics (GASTAT)

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

Production has been hovering below 10 mb/d, achieving an OPEC agreement compliance rate of 140% on average.

Source: OPEC, Joint Organizations Data Initiative (JODI)

**Chart 4: Crude output, exports, refining & consumption (mb/d)**

With crude production/exports limited by the OPEC production cut agreement, a greater share of crude is being refined...

Source: JODI

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Vision 2030 is the kingdom’s strategic roadmap to progress to a diversified and private sector-led non-oil economy.

Source: Saudi Vision 2030
...leading to greater exports of higher value refined products—a record share 17% of total petroleum exports in 2017.

Source: JODI

Retail activity normalized in Jan after the anticipated pre-VAT buying rush of the previous month; sales were up 4.3% y/y.

Source: SAMA

Private sector activity showed marginal improvement in Feb (53.2); output was up but new orders fell to a survey-low.

Source: Markit/Emirates NBD

Industrial production trended higher in 2017, driven by rising output from the mining & quarrying sectors (73% weight).

Source: GASTAT

Inflation, according to the rebased/reweighted CPI index, rose to 3% in Jan after VAT and energy price hikes were instituted.

Source: GASTAT

Unemployment has drifted upwards—12.8% in 2017; female unemployment, though high at 33%, fell slightly last year.

Source: SAMA
The budget deficit narrowed to 8.9% of GDP in 2017, thanks to some cost-cutting but mainly higher oil & non-oil revenues. Source: Saudi Ministry of Finance.

Government debt reached 17% of GDP last year, with SR134 bn in sovereign bonds and sukuk issued to finance the deficit. Source: Saudi Ministry of Finance.

A fall in Saudi foreign investments in Jan brought to an end a 3-consecutive month run of foreign reserve increases. Source: SAMA.

The total balance of government deposits/reserves held by SAMA was still down by -12% y/y in Jan at SR616 bn. Source: SAMA, Saudi Ministry of Finance.

Non-oil revenues such as taxes (VAT, expat levy, income tax etc.) and returns from PIF/SAMA assume greater importance in 2018. Source: Saudi Ministry of Finance.

Non-oil exports (e.g. plastics) increased (and as a % of total exports) while imports declined during the oil-price downturn. Source: GASTAT.

**Chart 11: Fiscal outcomes and 2018 budget**

**Chart 12: Budget revenue projections 2018**

**Chart 13: Government debt**

**Chart 14: Government accounts with SAMA**

**Chart 15: SAMA foreign reserve assets**

**Chart 16: Saudi foreign trade**
M3 increased by the fastest pace in five months in Jan (+1.4% y/y) thanks to a rise in demand deposits (M1)…

Source: SAMA

Credit to the private sector remains anemic at -1% y/y in Jan, but the rate of government borrowing rises to 13% y/y.

Source: Thomson Reuters Datastream

…prompting SAMA to raise both its repo and reverse repo rates by 25 bps ahead of this month’s expected US fed’s rate rise.

Source: Thomson Reuters Datastream, * expected Fed rate rise of 25 bps in March
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