

Macroeconomy

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

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- 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.
- Government bank deposits have risen, but private sector credit growth remains anemic (-1% y/y).
- 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.

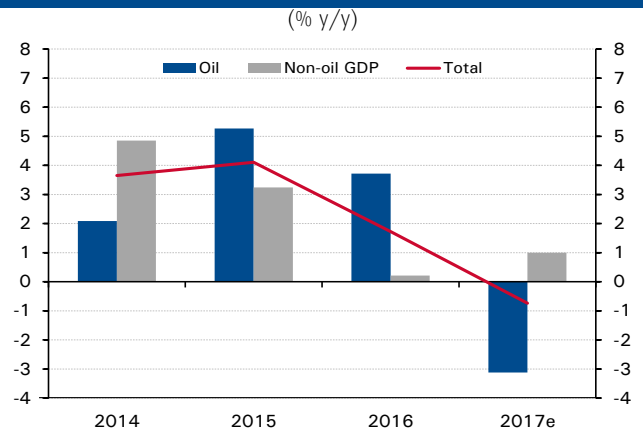
Chart 1: Saudi Vision 2030 targets

		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

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

Source: Saudi Vision 2030

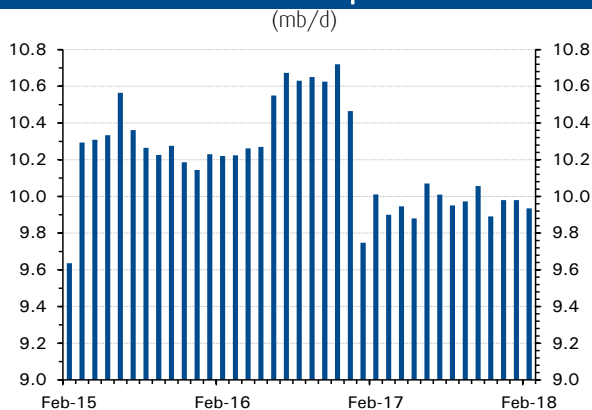
Chart 2: Real GDP



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)

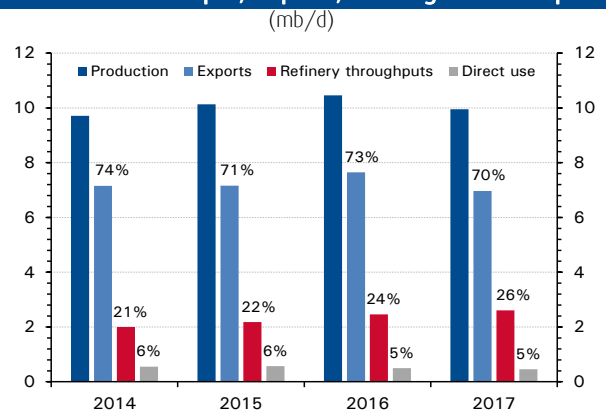
Chart 3: Crude oil production



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

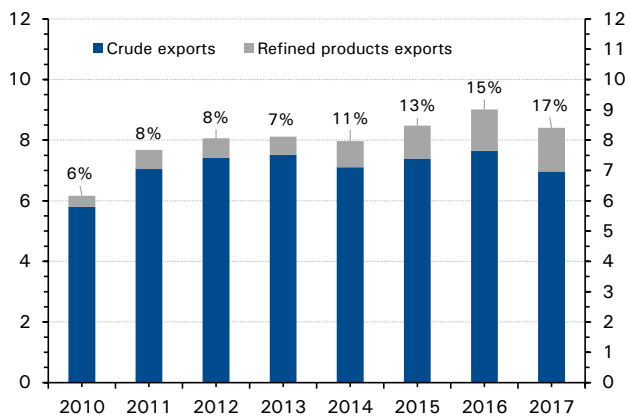


With crude production/exports limited by the OPEC production cut agreement, a greater share of crude is being refined...

Source: JODI

Chart 5: Refined petroleum product exports

(mb/d)

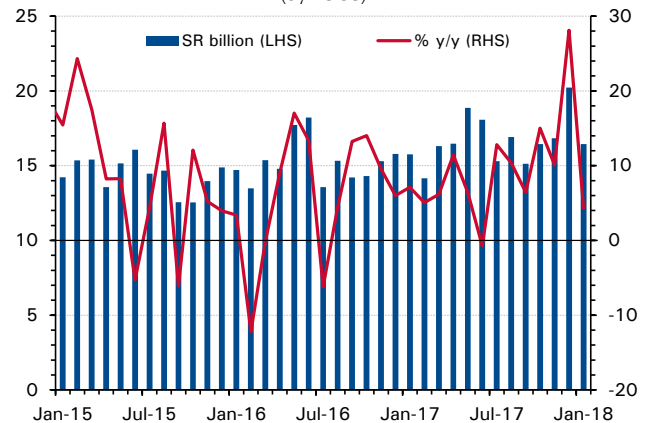


...leading to greater exports of higher value refined products—a record share 17% of total petroleum exports in 2017.

Source: JODI

Chart 6: Point of sale (POS) transactions

(by value)

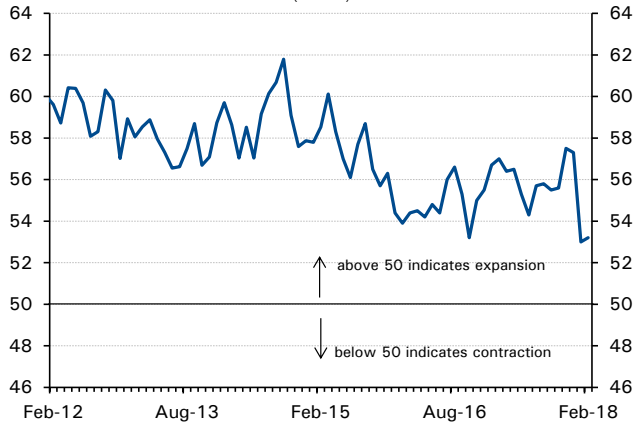


Retail activity normalized in Jan after the anticipated pre-VAT buying rush of the previous month; sales were up 4.3% y/y.

Source: SAMA

Chart 7: Purchasing Managers' Index (PMI)

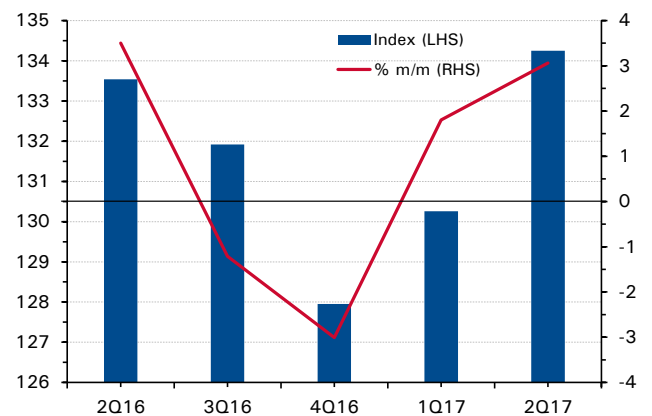
(index)



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

Chart 8: Industrial production (IP)

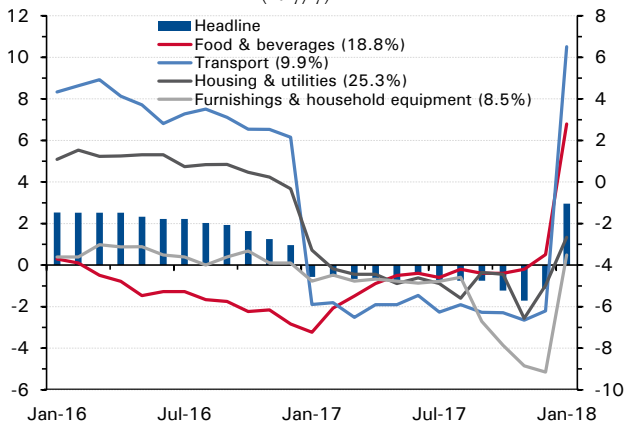


Industrial production trended higher in 2017, driven by rising output from the mining & quarrying sectors (73% weight).

Source: GASTAT

Chart 9: Inflation

(% y/y)

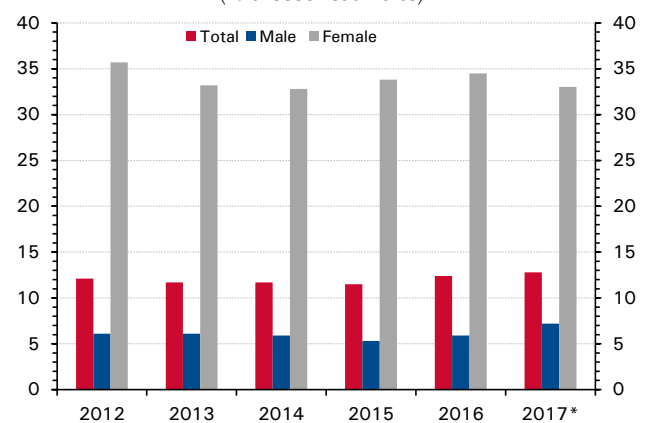


Inflation, according to the rebased/reweighted CPI index, rose to 3% in Jan after VAT and energy price hikes were instituted.

Source: GASTAT

Chart 10: Saudi unemployment

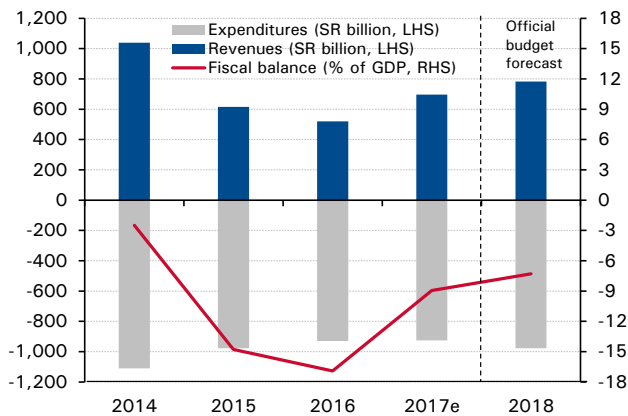
(% of Saudi labor force)



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

Source: SAMA

Chart 11: Fiscal outcomes and 2018 budget

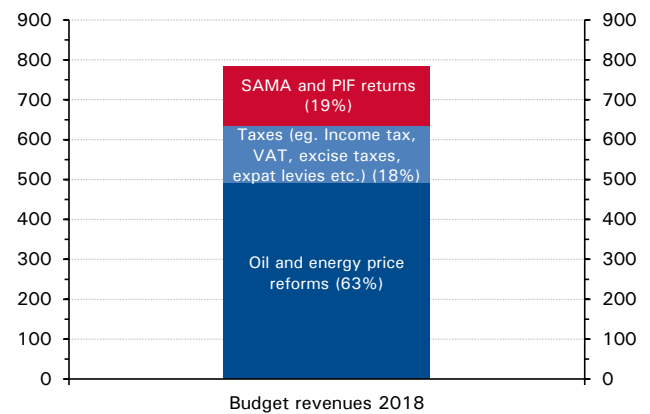


The budget deficit narrowed to 8.9% of GDP in 2017, thanks to some cost-cutting but mainly higher oil & non-oil revenues.

Source: Saudi Ministry of Finance

Chart 12: Budget revenue projections 2018

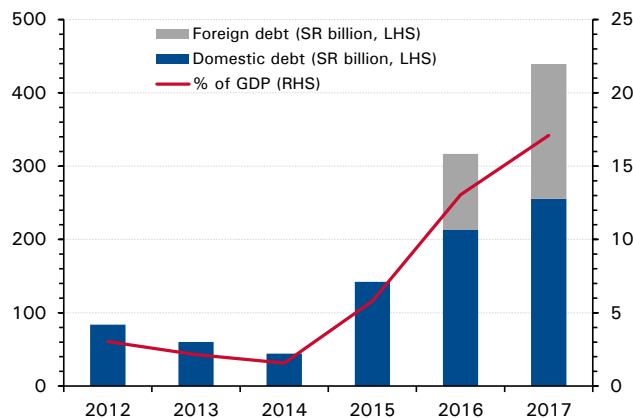
(SR billion, % share of total revenues in brackets)



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

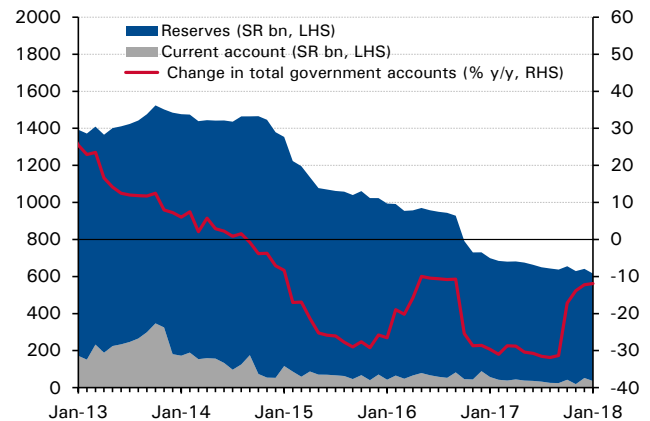
Chart 13: Government debt



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

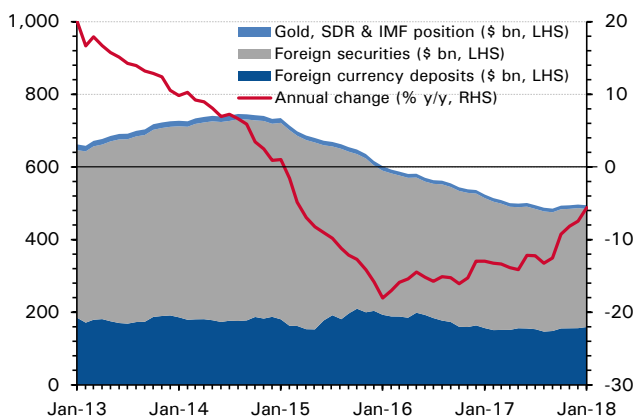
Chart 14: Government accounts with SAMA



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

Chart 15: SAMA foreign reserve assets

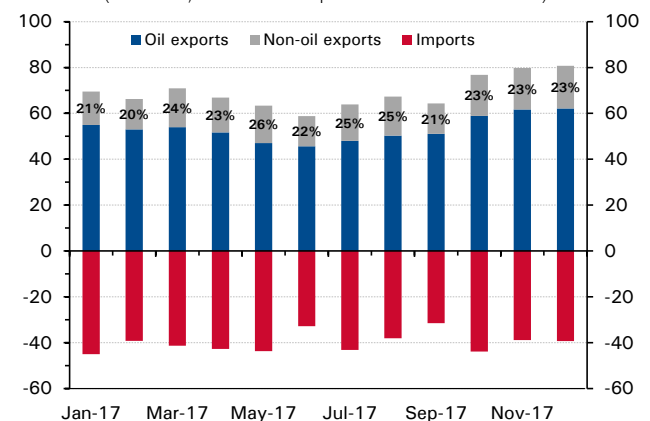


A fall in Saudi foreign investments in Jan brought to an end a 3-consecutive month run of foreign reserve increases.

Source: SAMA

Chart 16: Saudi foreign trade

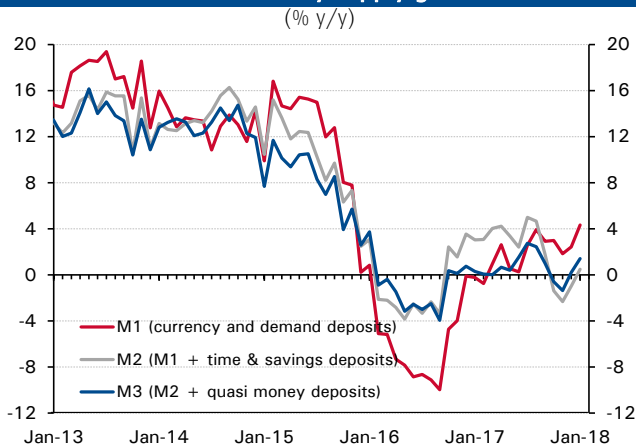
(SR billion, % share of exports denoted within bars)



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

Source: GASTAT

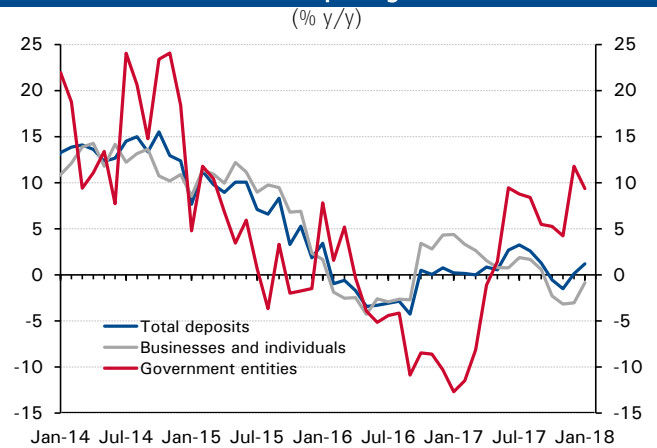
Chart 17: Money supply growth



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

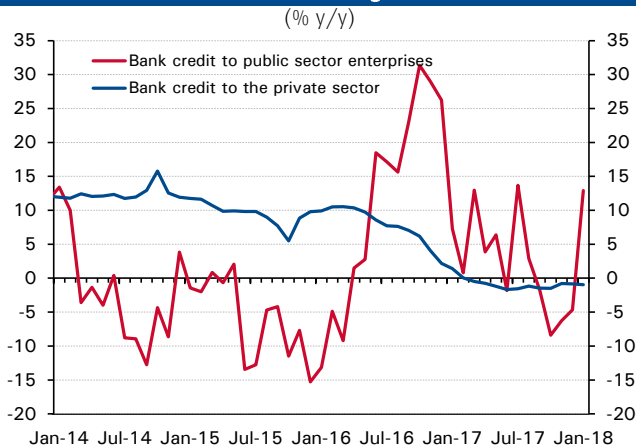
Chart 18: Deposit growth



...driven by a resurgence in government deposits (+9.8% y/y); private deposit growth remains weak, though at -0.8% y/y.

Source: SAMA

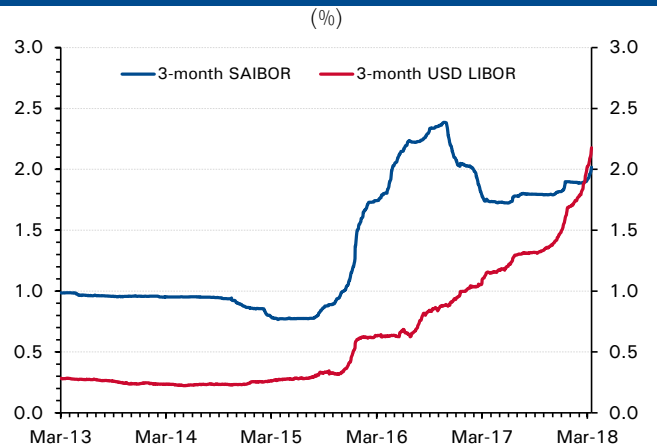
Chart 19: Credit growth



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

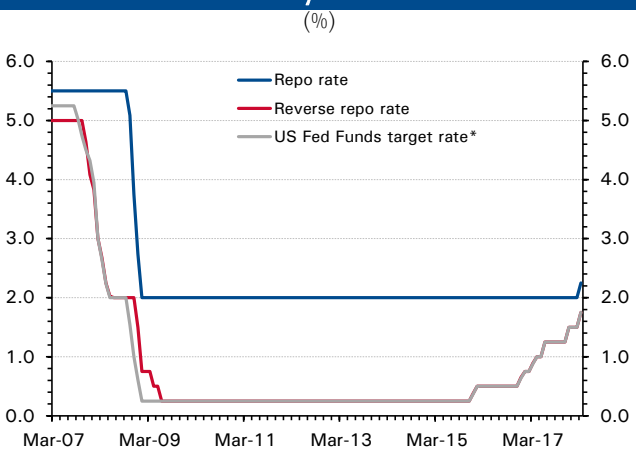
Chart 20: Interbank rates



Saudi interbank rates fell below their USD Libor equivalent last week; the differential reached -16 bps...

Source: Thomson Reuters Datastream

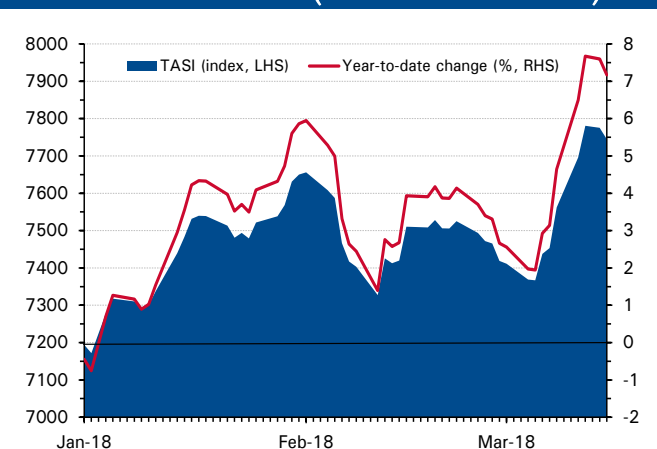
Chart 21: Key interest rates



...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

Chart 21: Stock market (Tadawul All-Share Index)



TASI is up around 7% ytd, driven higher recently by investor expectations of potential inclusion in the FTSE/MSCI EM indices.

Source: Thomson Reuters Datastream

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