

Macroeconomy

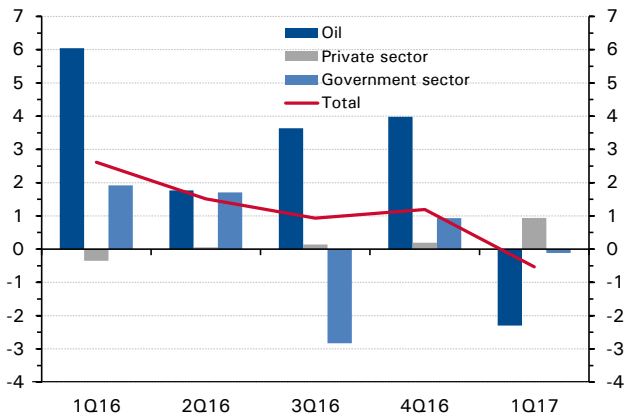
Saudi Arabia: Economy contracts in Q1, but fiscal position shows yearly improvement in Q2

> Omar Al-Nakib
Senior Economist
+965 2259 5360,
omarnakib@nbk.com

- 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

(% y/y)

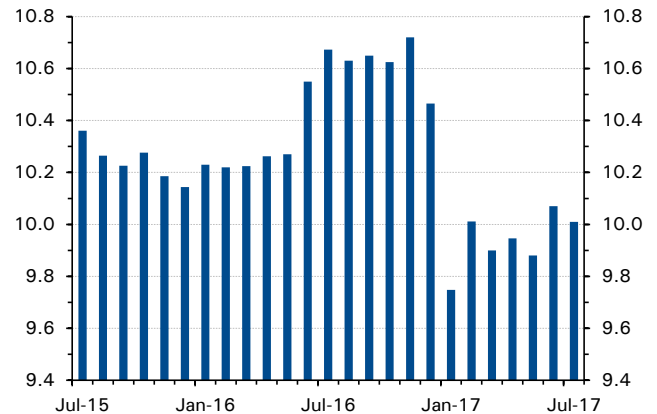


The economy contracted in 1Q17 (-0.5% y/y) after oil output was cut as per the OPEC accord; business activity picked up.

Source: General Authority for Statistics (GASTAT)

Chart 2: Crude oil production

(mb/d)

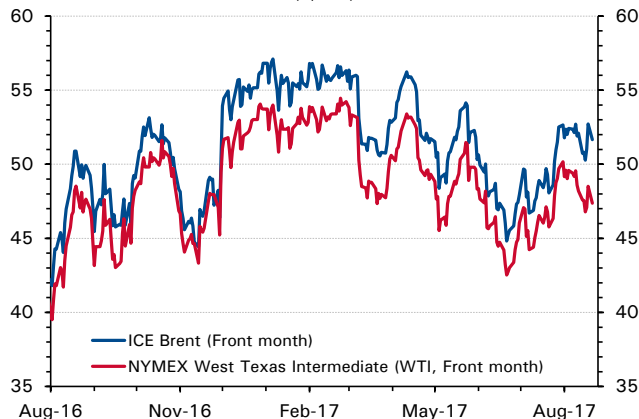


Output was >10 mb/d for the second month in a row in July as the kingdom responded to peak summer power demand.

Source: OPEC, Joint Organizations Data Initiative (JODI)

Chart 3: Oil prices

(\$/bbl)

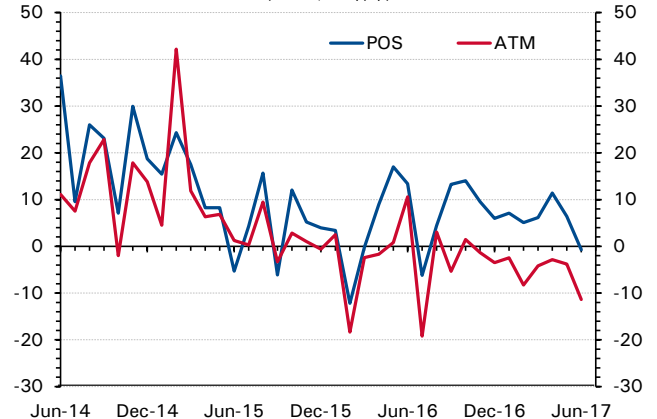


After rising by almost 10% in July, prices have retreated in August on oversupply/OPEC compliance concerns.

Source: Thomson Reuters Datastream

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

(value, % y/y)

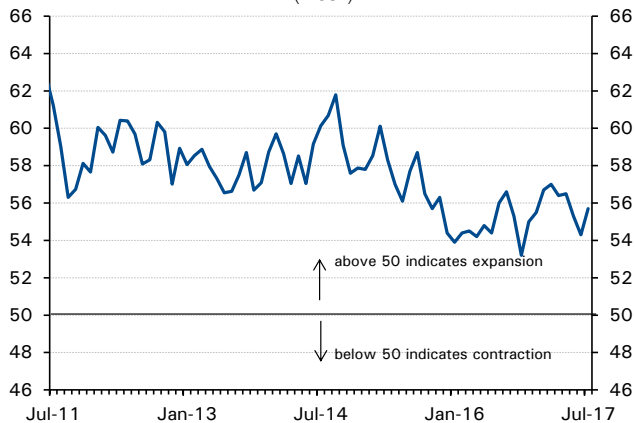


POS/ATM activity declined in June due to the Eid holiday.

Source: SAMA

Chart 5: Purchasing Managers' Index (PMI)

(index)

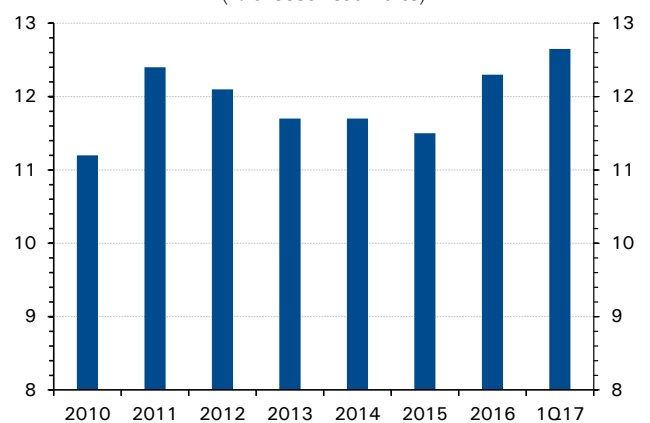


Non-oil private sector activity appeared to improve in July; the PMI rose to 55.7 on the back of higher output and new orders.

Source: Markit/Emirates NBD

Chart 6: Saudi unemployment rate

(% of Saudi labor force)

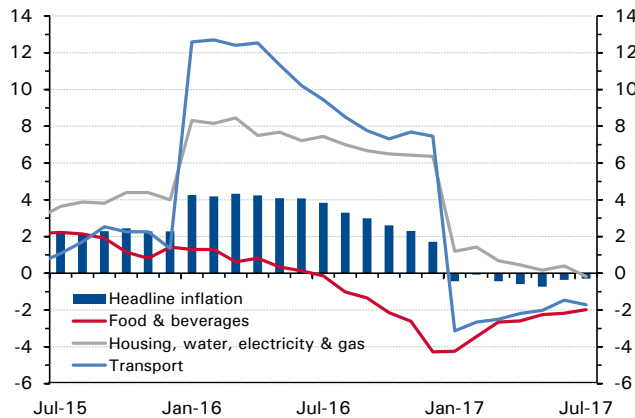


The Saudi unemployment rate rose to a high of 12.7% in 1Q17; the NTP aims to reduce this to 9% by 2020.

Source: GASTAT, SAMA

Chart 7: Inflation

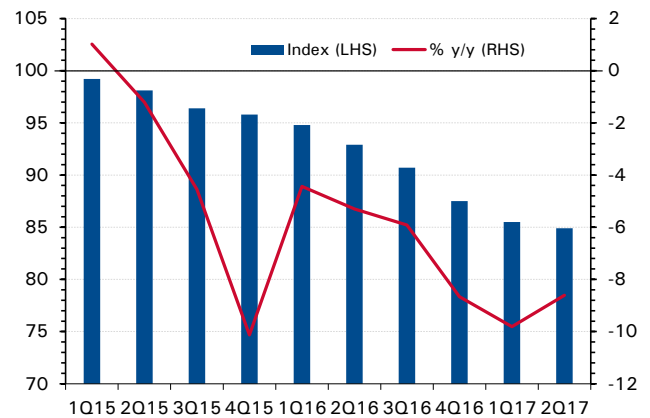
(% y/y)



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

Chart 8: Real estate price index

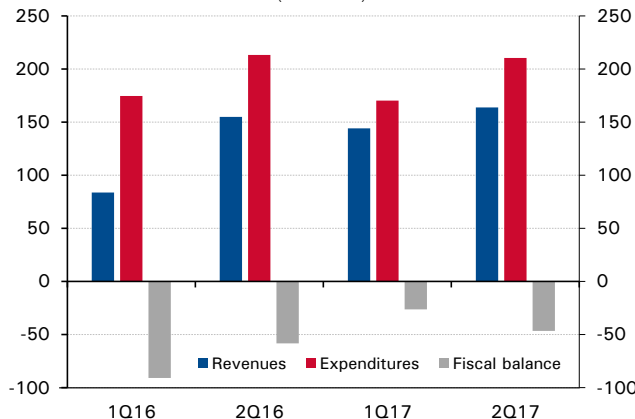


Real estate prices remain down by 8.8% y/y, despite a slight month-on-month uptick in residential home prices.

Source: GASTAT

Chart 9: Fiscal balance

(SR billion)

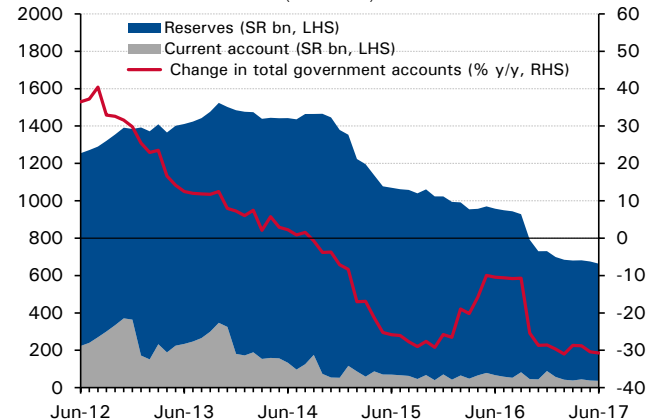


The deficit narrowed y/y to SR 46.5 bn in 2Q17 mainly as a result of higher oil revenues and lower capital expenditures.

Source: Ministry of Finance

Chart 10: Government accounts at SAMA

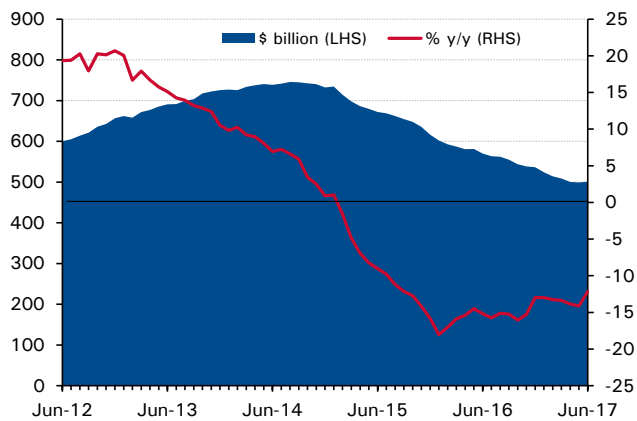
(SR billion)



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

Source: SAMA

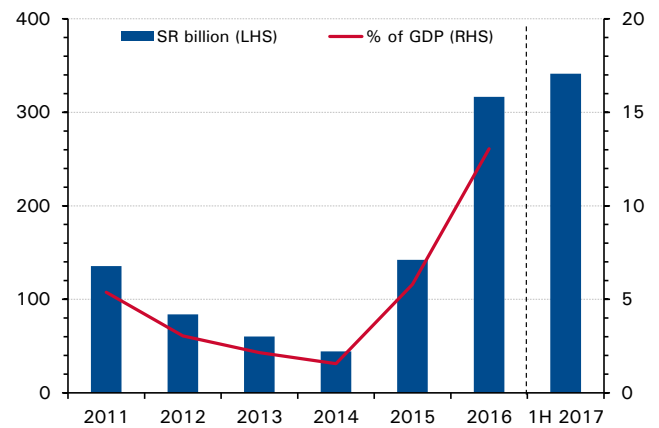
Chart 11: Official foreign reserves



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

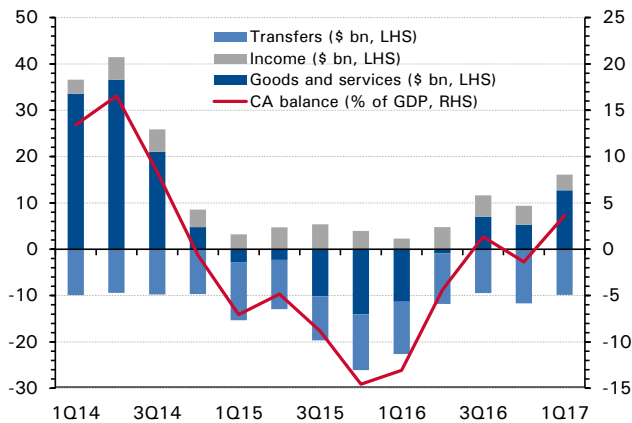
Chart 12: Public debt



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

Source: Ministry of Finance

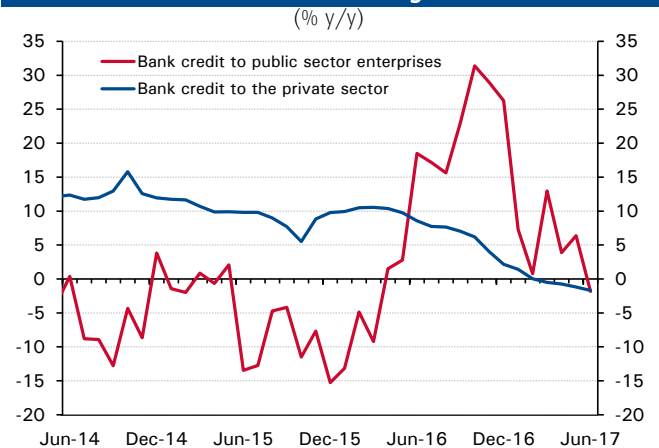
Chart 13: Current account (CA)



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

Source: SAMA

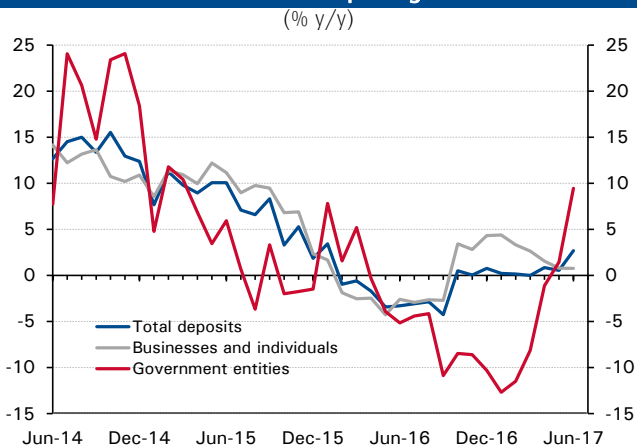
Chart 14: Bank credit growth



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

Source: SAMA

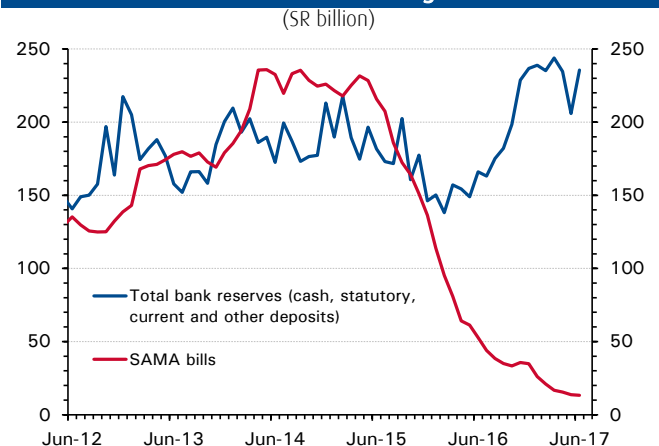
Chart 15: Bank deposit growth



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

Source: SAMA

Chart 16: Bank reserves & holdings of SAMA bills

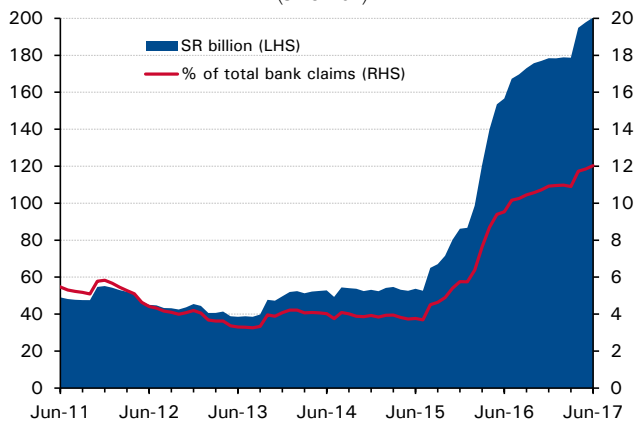


Banks' reserves at SAMA are up 42% y/y (10.5% of total assets), but holdings of SAMA bills have fallen (-75% y/y).

Source: SAMA

Chart 17: Bank holdings of government bonds

(SR billion)

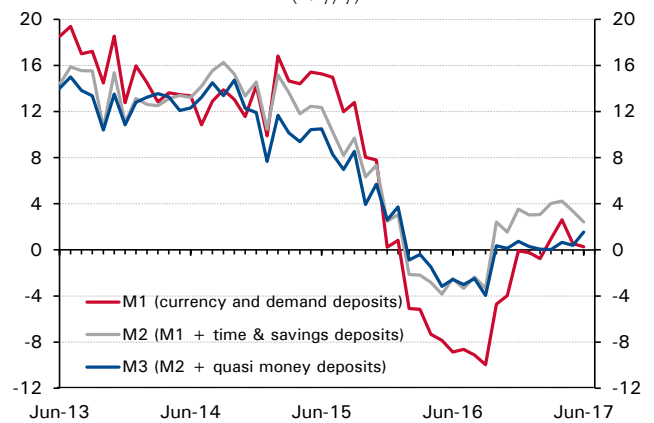


Banks continue to add government bonds to their balance sheets; bonds' share of total bank claims rose to 12% in June.

Source: SAMA

Chart 18: Money supply growth

(% y/y)



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

Chart 19: Interbank rates

(%, 3-month SAIBOR)

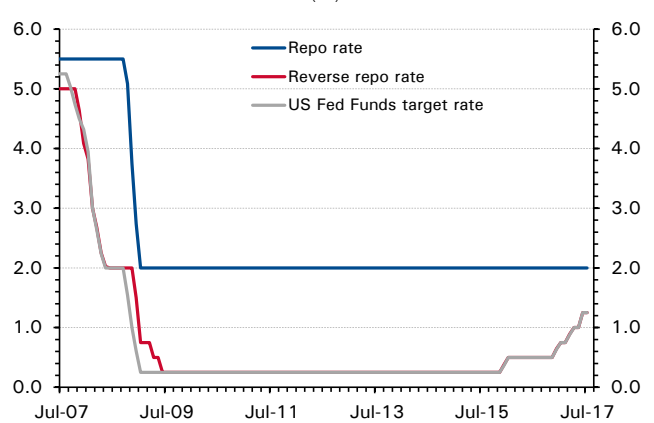


Rates appear to have stabilized since June; liquidity has improved since last October's, pre-sovereign bond, peak.

Source: Thomson Reuters Datastream

Chart 20: Key interest rates

(%)



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

Chart 21: Stock market

(Tadawul All-Share Index, TASI)



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

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353