

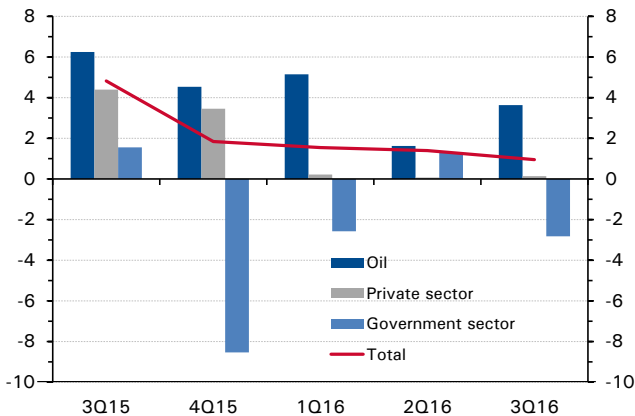
Macroeconomy

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).

Chart 1: Real GDP

(% y/y)



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

(million barrels per day, mb/d)

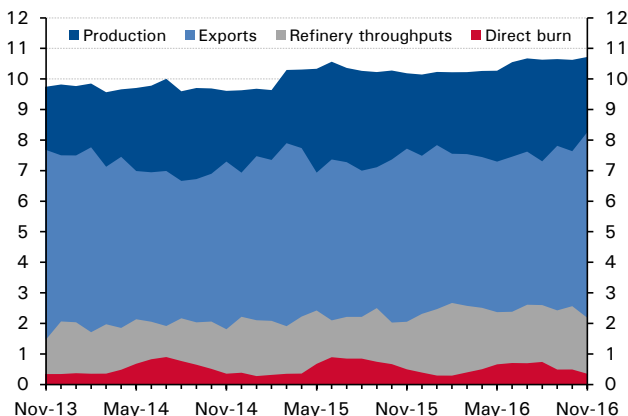


Oil production hit another record in Nov, reaching 10.7 mb/d, but compliance with OPEC cuts meant that output fell in Dec.

Source: OPEC, Joint Organizations Data Initiative (JODI)

Chart 3: Crude oil production, exports and consumption

(mb/d)

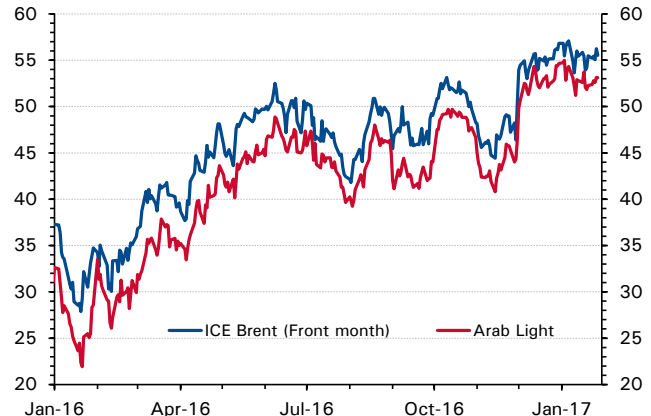


As production has ramped up and direct burn reduced, more crude has been freed up for exports and refining.

Source: JODI

Chart 4: Oil prices

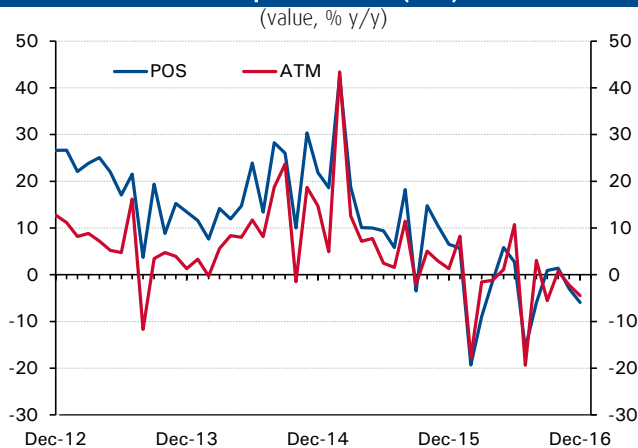
(dollars per barrel, \$/bbl)



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

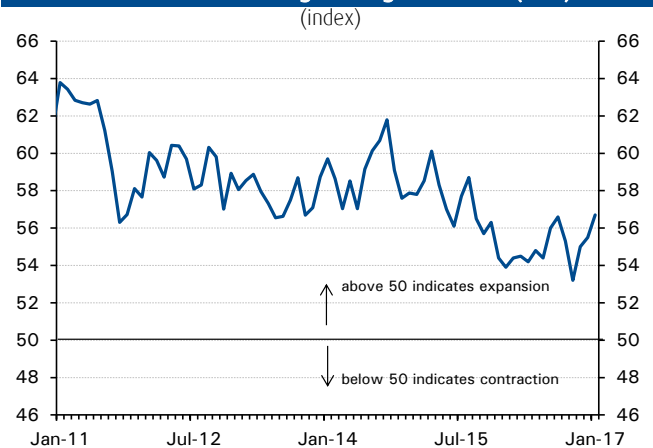
Chart 5: ATM and point of sale (POS) transactions



ATM/POS activity posted negative growth for the second month in a row in Dec as consumer held off on purchases.

Source: SAMA

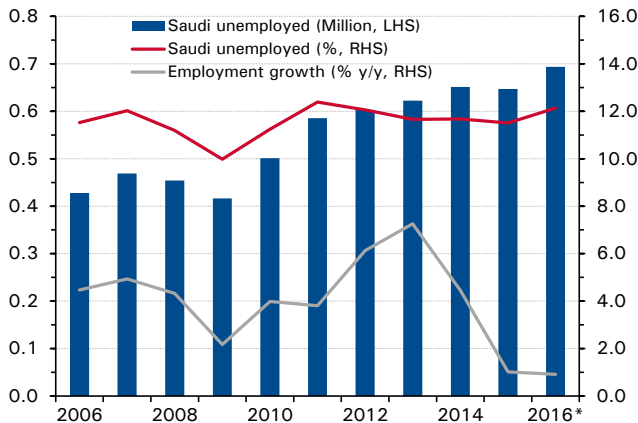
Chart 6: Purchasing Managers' Index (PMI)



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

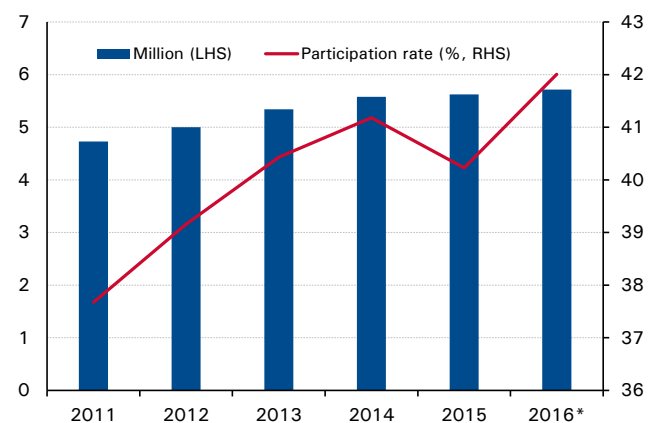
Chart 7: Saudi unemployed



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

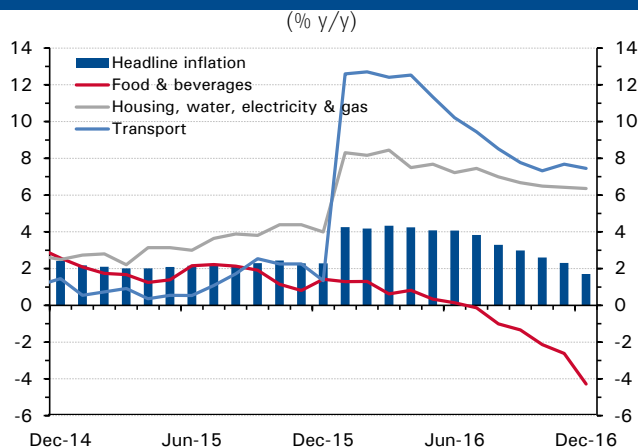
Chart 8: Saudi labor force and participation rate



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

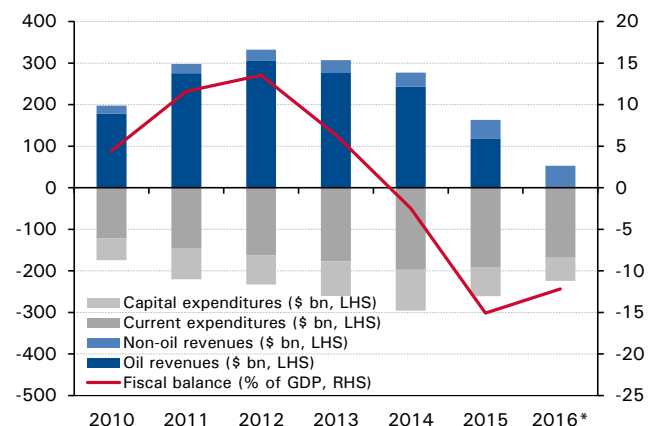
Chart 9: Inflation



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

Source: SAMA

Chart 10: Fiscal balance



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

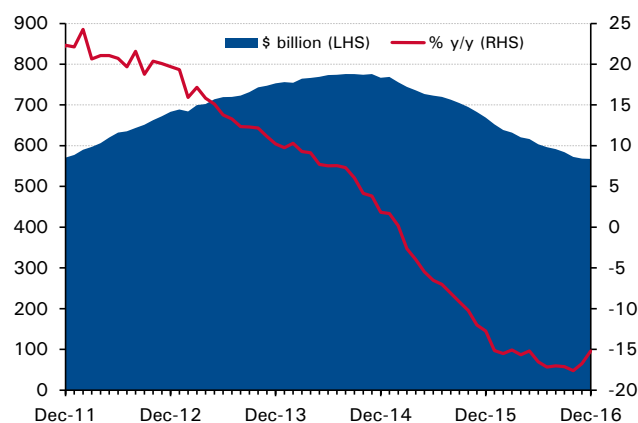
Chart 11: Vision 2030 – key measures/objectives

- Reduce subsidies on fuel, electricity and water
- Sell <5% (\$100 billion) of Aramco shares by 2018
- Turn the Public Investment Fund (PIF) into a swf with assets of \$2 trillion
- Reform the labor market and educational system to raise labor productivity and participation rate
- Reduce national unemployment from 11.6% to 7%
- Raise SME's contribution from 20% in 2015 to 70% of GDP by 2030
- Raise the share of non-oil exports from 16% to 50% of non-oil GDP
- Raise non-oil revenues four-fold to 20% of GDP by 2020
- Narrow the fiscal deficit from 16% of GDP in 2015 to balance by 2020
- Increase Umrah visitors from 8 to 30 million a year by 2030
- Double GDP by 2030 to remain one of the world's 20 largest economies

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)

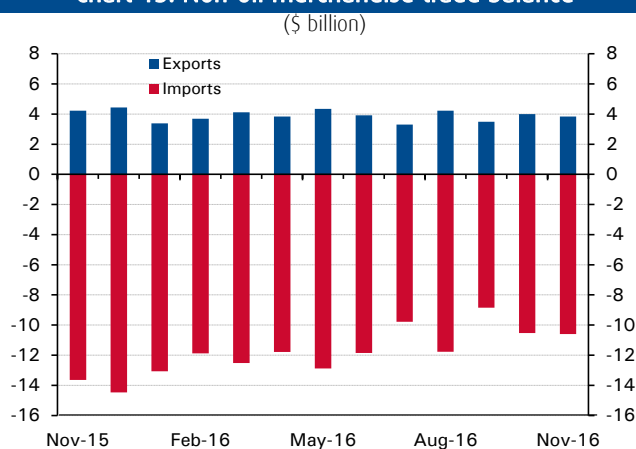
Chart 13: Net foreign assets (NFA)



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

Source: SAMA

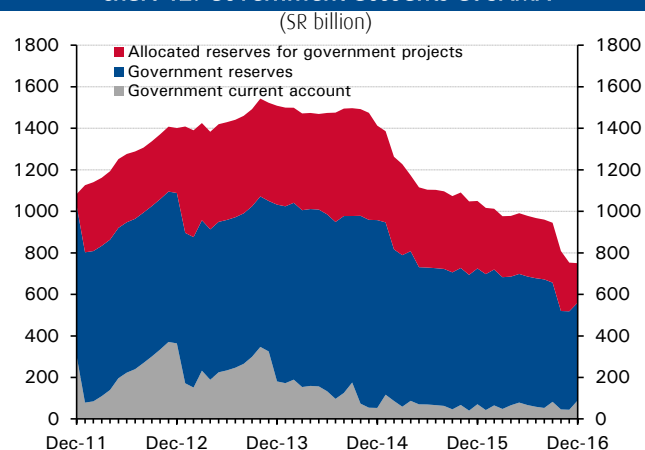
Chart 15: Non-oil merchandise trade balance



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

Source: General Authority for Statistics

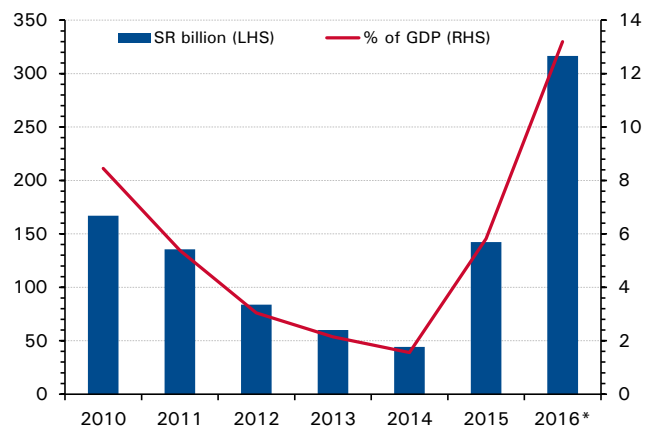
Chart 12: Government accounts at SAMA



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

Source: SAMA

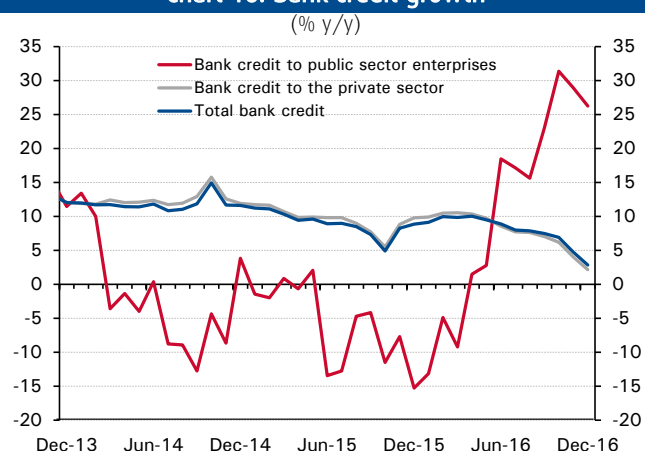
Chart 14: Public debt



Public debt rose to 13.2% of GDP in 2016 on the back of increasing domestic and international bond issuance.

Source: SAMA

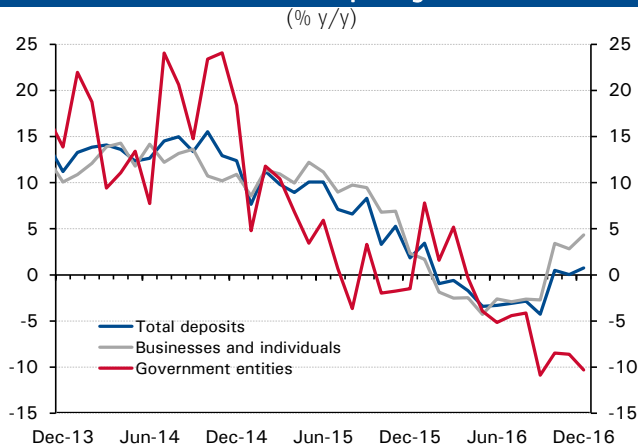
Chart 16: Bank credit growth



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

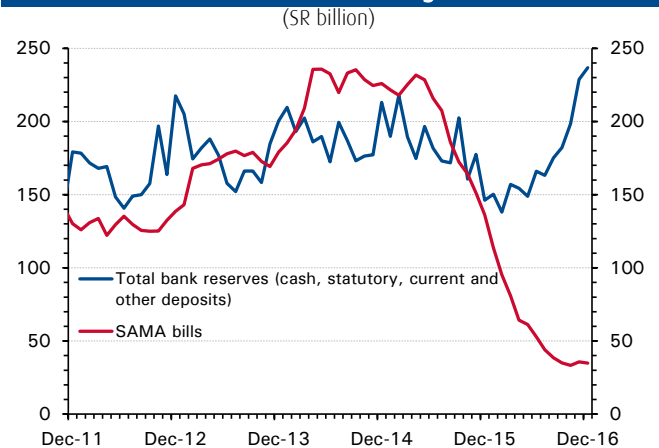
Chart 17: Bank deposit growth



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

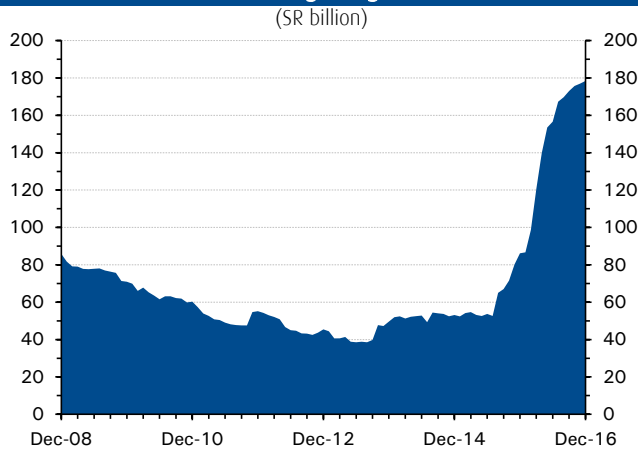
Chart 18: Bank reserves & holdings of SAMA bills



While banks' holdings of SAMA bills have continued to decline, deposits at SAMA have increased by almost 70% y/y.

Source: SAMA

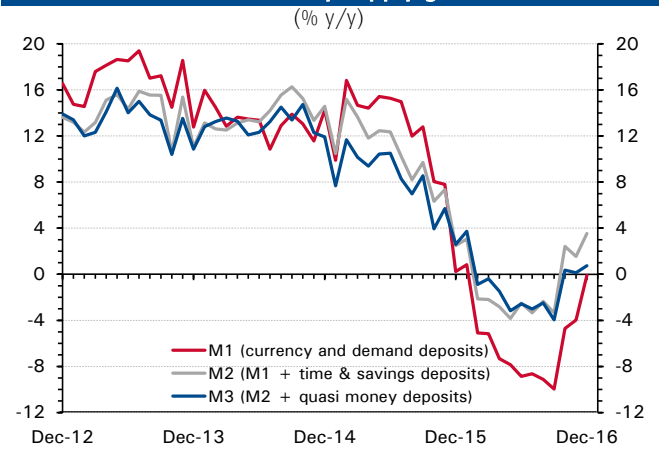
Chart 19: Bank holdings of government bonds



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

Source: SAMA

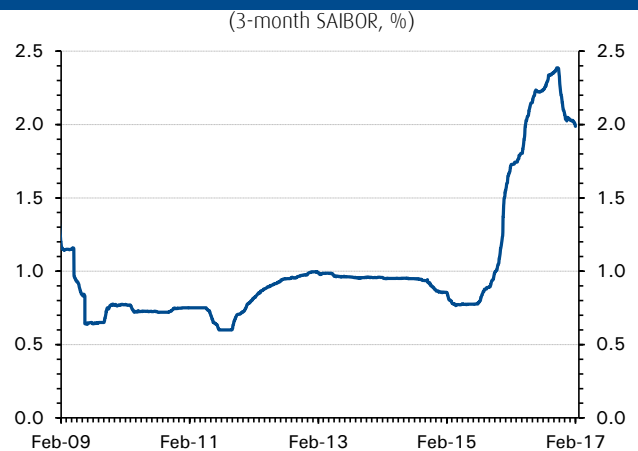
Chart 20: Money supply growth



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

Source: SAMA

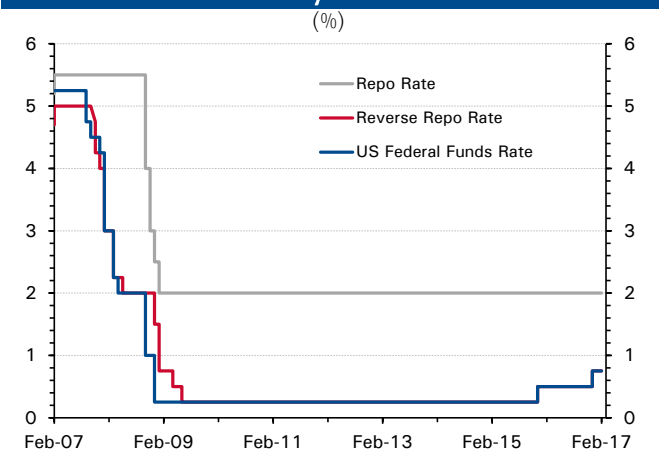
Chart 21: Interbank rates



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

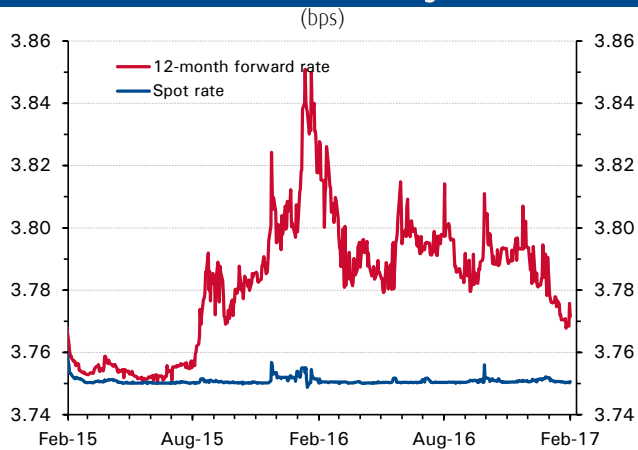
Chart 22: Key interest rates



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

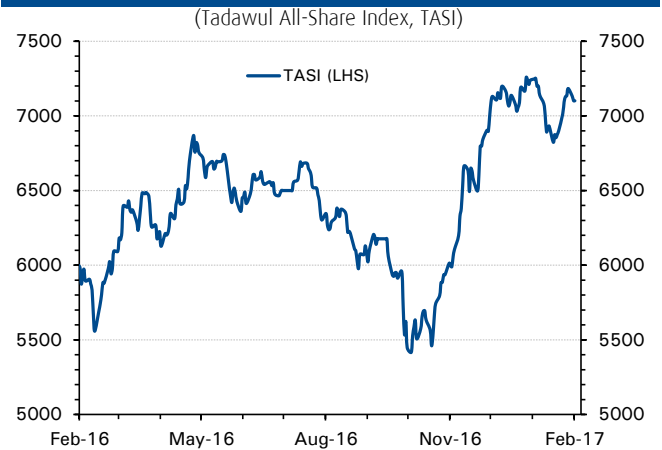
Chart 23: forward exchange rate



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

Chart 24: Stock market



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

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

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