

Macroeconomy

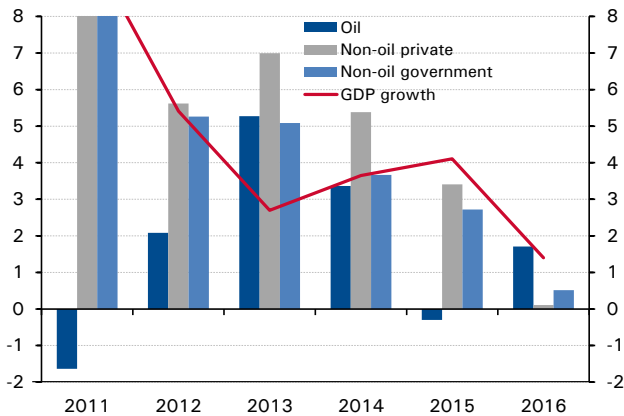
Saudi Arabia: Non-oil activity subdued but improving; foreign assets continue to decline

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- Real GDP growth slowed to 1.4% y/y in 2016 on lower private and government sector activity; oil sector activity expanded in line with increased oil and gas production.
- POS activity rose to a 9-month high in April, while May's PMI data still points to an expanding private sector.
- Inflation continued to trend lower, with April's -0.6%, the fourth consecutive deflationary month.
- The fiscal deficit narrowed in 1Q17 thanks to higher oil revenues and continued fiscal restraint.
- Net foreign assets continue to decline, with April showing a fall of \$8 billion despite the \$9 billion sukuk sale.
- Private sector credit growth slowed to -0.8% y/y in April, which is the weakest rate in years.
- SAMA raised its benchmark reverse repo by 25 bps to 1% in March, but interbank rates have trended lower.
- Weak sentiment linked to soft oil prices continues to affect equities, with TASI down by more than 3% ytd.

Chart 1: Real GDP

(% y/y)

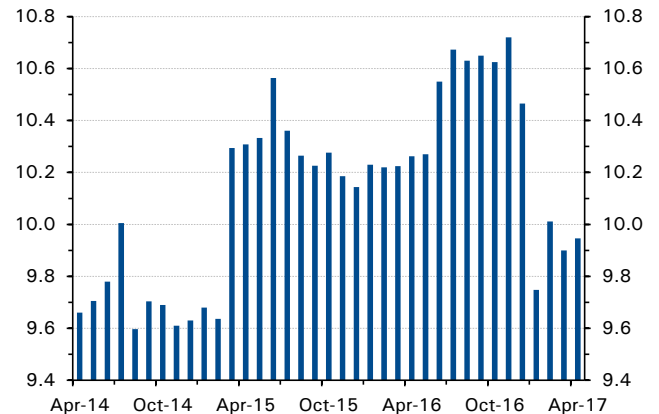


Growth slowed to 1.4% in 2016 as private and government sector activity moderated; oil GDP expanded by 3.4%.

Source: General Authority for Statistics (GASTAT)

Chart 2: Crude oil production

(million barrels per day, mb/d)

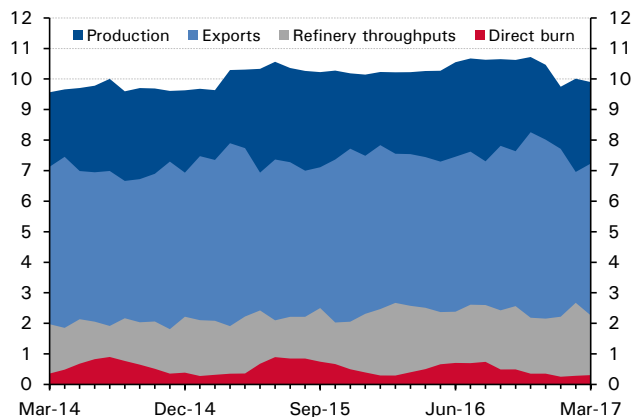


By April, the kingdom had cut output by 5% (0.52 mb/d) in 2017 to 9.95 mb/d, in compliance with the OPEC agreement.

Source: OPEC, Joint Organizations Data Initiative (JODI)

Chart 3: Crude oil production, exports and consumption

(mb/d)

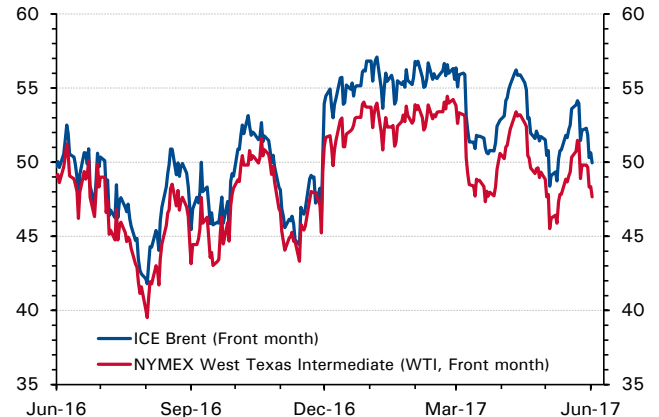


Exports up in March after falling to a 2-yr low in Feb; refinery intake is higher after 2016's refinery capacity expansion.

Source: JODI

Chart 4: Oil prices

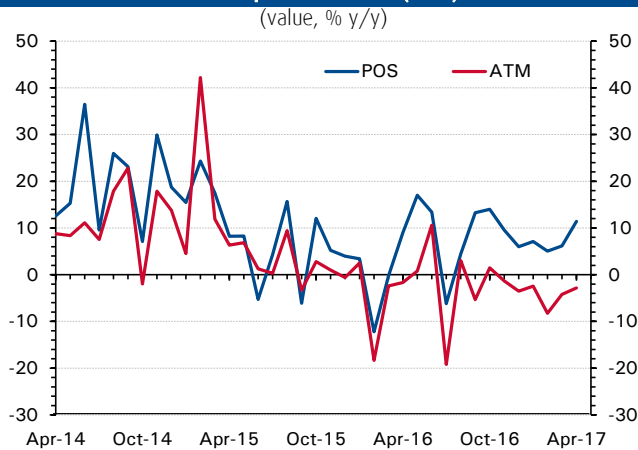
(dollars per barrel, \$/bbl)



OPEC's 9-month output extension failed to lift prices; Brent crude dipped under \$50 pb.

Source: Thomson Reuters Datastream

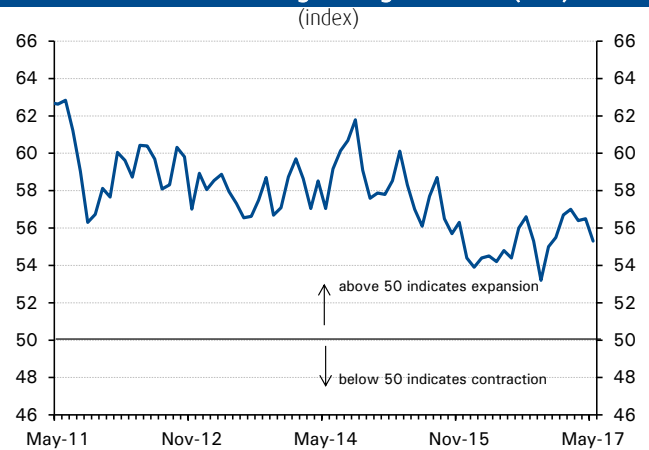
Chart 5: ATM and point of sale (POS) transactions



POS activity rose to a 9-month high of 11.4% y/y in April.

Source: SAMA

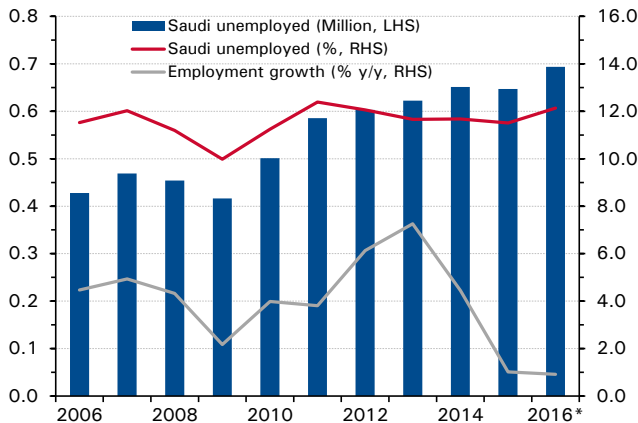
Chart 6: Purchasing Managers' Index (PMI)



May's PMI, while still showing a private sector in expansion mode, eased slightly on slowing exports/new orders growth.

Source: Markit/Emirates NBD

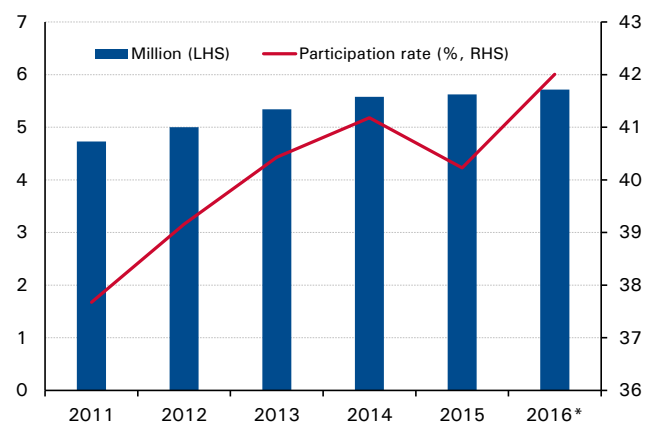
Chart 7: Saudi unemployed



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

Source: GASTAT; *as of 3Q 2016

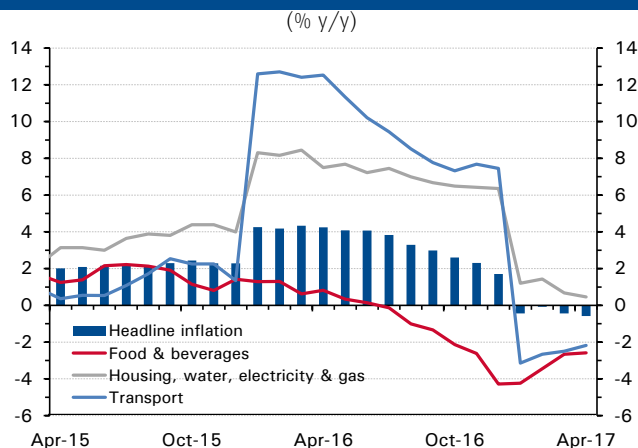
Chart 8: Saudi labor force and participation rate



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

Source: GASTAT; *as of 3Q 2016

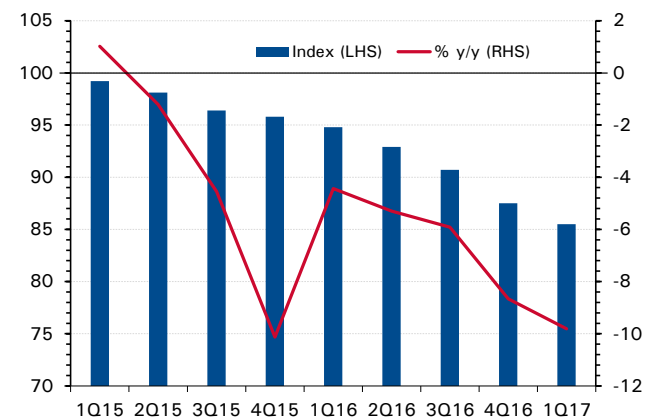
Chart 9: Inflation



April's -0.6% was the 4th consecutive deflationary month, food and housing negatively weigh on the headline rate.

Source: GASTAT

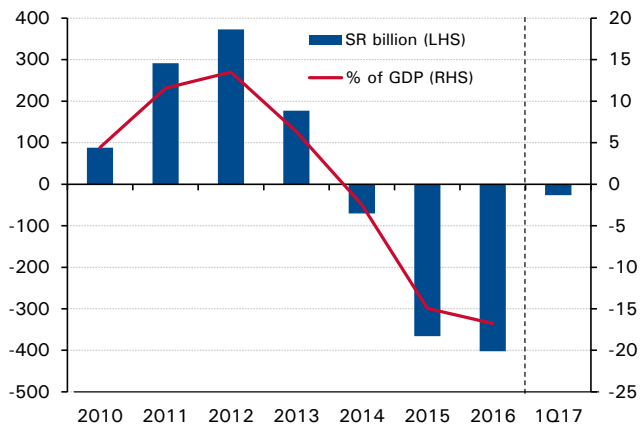
Chart 10: Real estate price index



Real estate prices fell by 9.8% y/y in 1Q17; cuts to state allowances and the white lands tax have dampened appetite.

Source: GASTAT

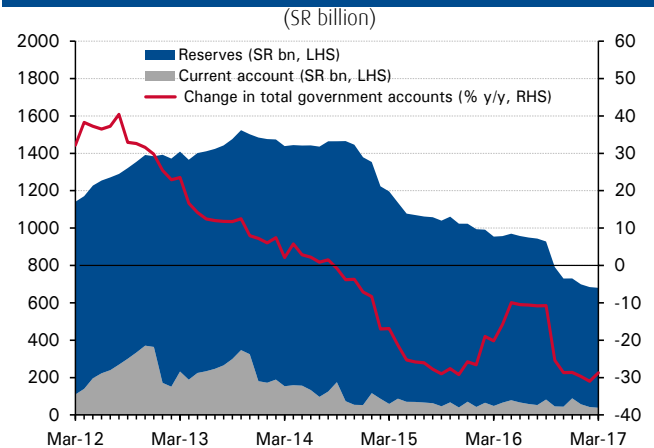
Chart 11: Fiscal balance



The deficit widened to SR 402 bn (-16.8% of GDP) in 2016; it narrowed in 1Q17 on higher oil revenues/lower expenditures.

Source: Ministry of Finance

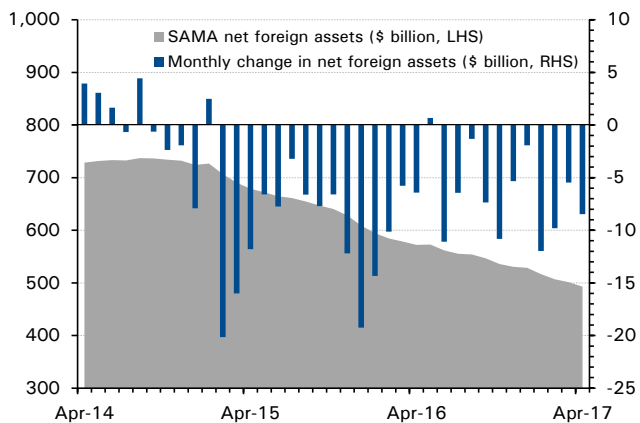
Chart 12: Government accounts at SAMA



The government continues to draw down its funds at SAMA (down by 28% y/y in April) to finance its spending.

Source: SAMA

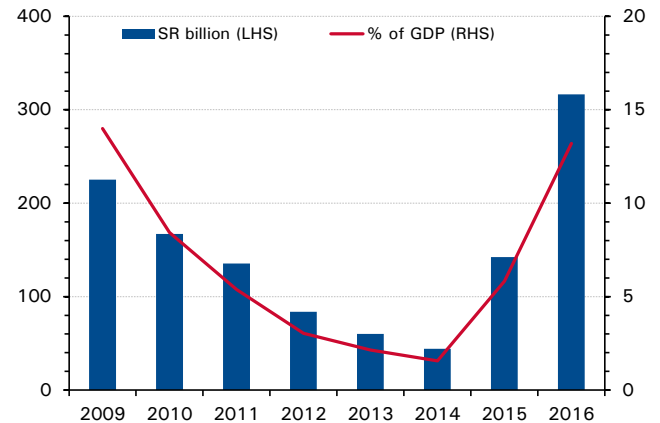
Chart 13: Net foreign assets (NFA)



NFA's declined by \$8bn in April to \$493 bn despite the \$9 bn sukuk sale; off-budget spending could be part of the reason.

Source: SAMA

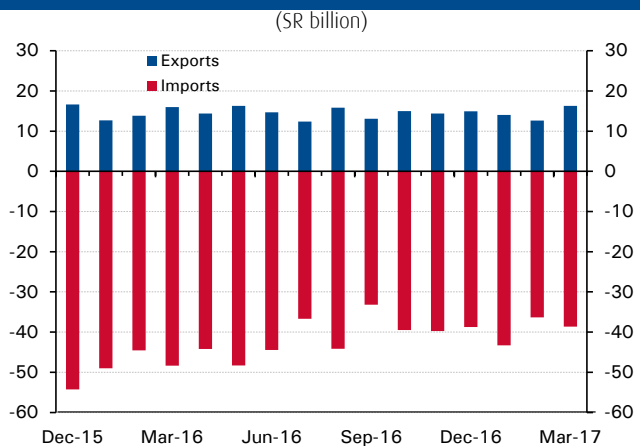
Chart 14: Public debt



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

Source: SAMA

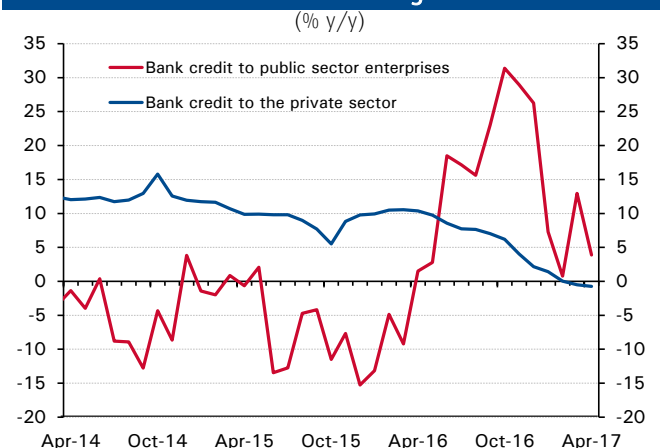
Chart 15: Non-oil merchandise trade balance



Non-oil merchandise exports picked up in March, helping to narrow the non-oil trade deficit to -SR 22.4 billion.

Source: GASTAT

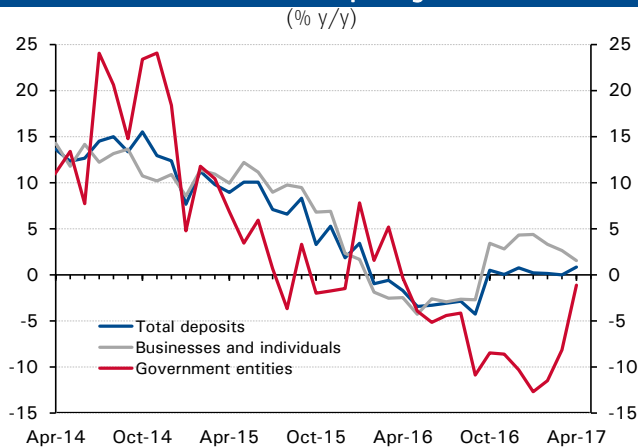
Chart 16: Bank credit growth



Private sector credit growth (-0.8% y/y) and retail loan growth (-0.3% y/y) in April were the weakest in years.

Source: SAMA

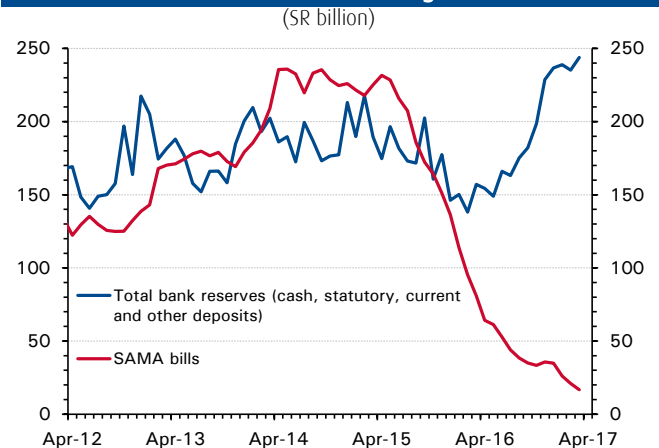
Chart 17: Bank deposit growth



Private and public sector deposits are slowly picking up, pushing total deposit growth to a 16-month high of 0.9% y/y.

Source: SAMA

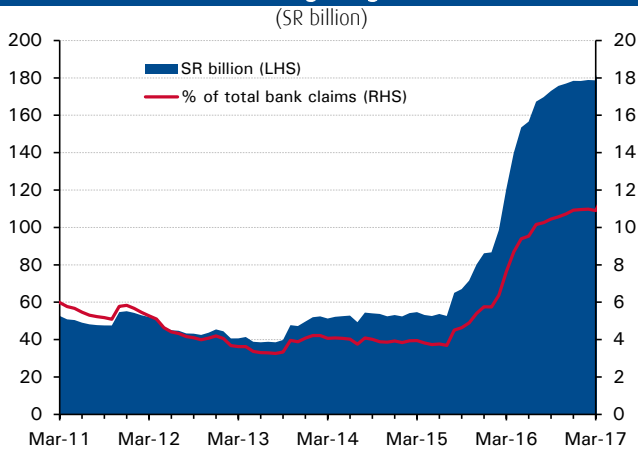
Chart 18: Bank reserves & holdings of SAMA bills



Banks' reserves at SAMA are up 52% y/y while their holdings of SAMA bills have plummeted by 76% to SR 15 billion.

Source: SAMA

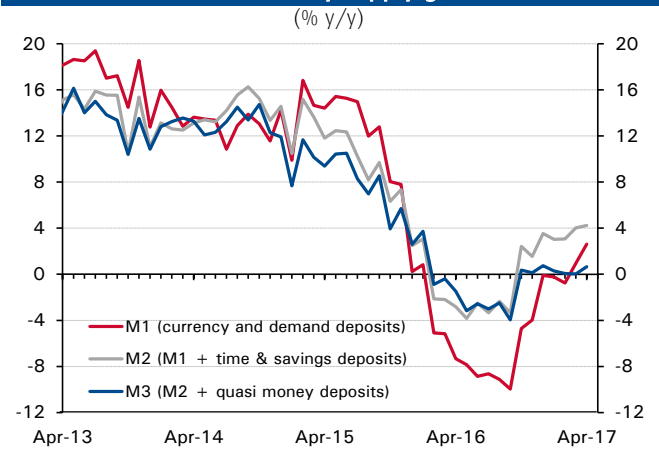
Chart 19: Bank holdings of government bonds



Government debt has been eagerly snapped up by banks; bond holdings reached SR 195 bn in April.

Source: SAMA

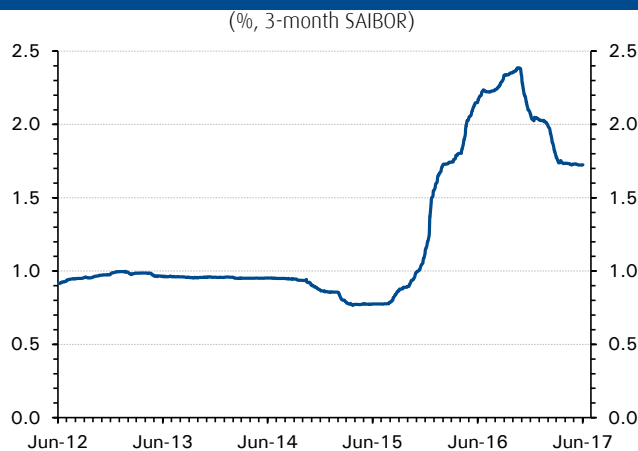
Chart 20: Money supply growth



Money supply (M3) edged up by 0.7% y/y in April, mainly due to growth in demand deposits (M1).

Source: SAMA

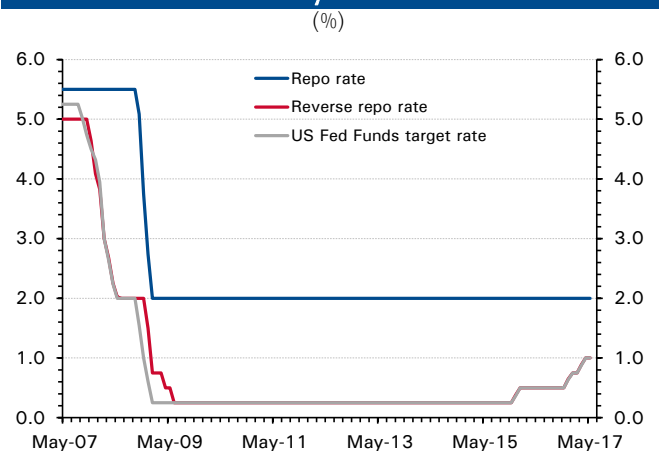
Chart 21: Interbank rates



Rates have fallen significantly since last October's high, as banking sector liquidity has improved.

Source: Thomson Reuters Datastream

Chart 22: Key interest rates

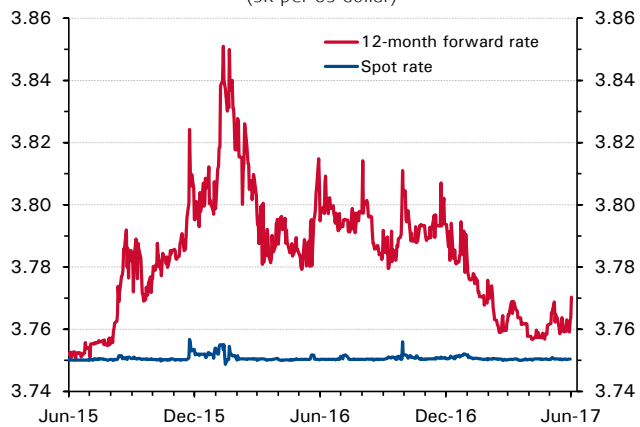


Borrowing costs have risen after SAMA, tracking the US Fed, raised its key reverse repo rate by 25 bps to 1% in March.

Source: Thomson Reuters Datastream

Chart 23: forward exchange rate

(SR per US dollar)



Pressure on the riyal has largely eased as markets are less anxious about the kingdom's finances and prospects.

Source: Thomson Reuters Datastream

Chart 24: Stock market

(Tadawul All-Share Index, TASI)



TASI is still below 7,000, down 3.4% ytd on weak market sentiment linked to soft oil prices.

Source: Thomson Reuters Datastream

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