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Saudi Economic Chartbook

Third Quarter 2021

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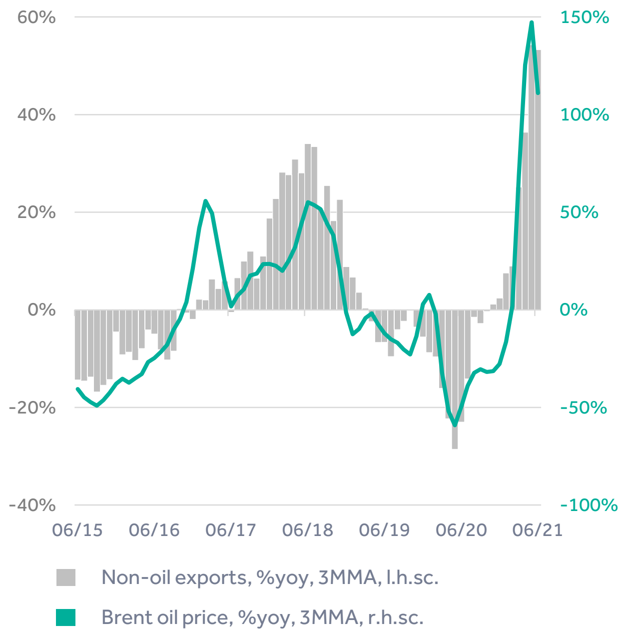
Positive Quarterly GDP Growth for First Time Since Q2 2019

- GDP flash estimates for Q2 2021 show that year-on-year growth of the Saudi economy has turned positive for the first time since Q2 2019. This can be explained by the strong recovery of the Non-oil economy in Q2 2021, while the oil sector rebound is still lagging.
- The Saudi economy is benefiting from the robust recovery of global economic demand which caused a surge in Saudi non-oil exports and a sharp rise in oil prices at the same time (see graphic below).
- The strong rebound of the Saudi non-oil economy is broad based and expected to carry over to the second half of the year. At the same time, there are indications that growth momentum has generally reached a peak by mid of the year.
- The fiscal deficit has considerably narrowed in H1 2021. This is the result of massively higher oil and non-oil revenues on the one hand and a disciplined spending policy with a focus on fiscal consolidation on the other.
- Saudi crude oil production has started to pick up since its temporary low in Spring. Based on the new OPEC+ output expansion plan, a further production increase may be expected until yearend, albeit most probably at a slower pace in view of renewed pandemic related global growth uncertainties.
- The Saudi equity market rallied to levels last seen in 2008. From a fundamental perspective, 2021 is characterized by a substantial corporate earnings recovery for TASI. As a consequence, valuation metrics have gradually eased but remain still elevated in a historical comparison.

Non-Oil Exports Surging Alongside Oil Prices



source: GASTAT

The strong global economic recovery has triggered a surge in Saudi non-oil exports and a massive jump in oil prices at the same time. Besides, substantially higher oil prices also positively affected petrochemical exports which constitute about 2/3 of total non-oil exports

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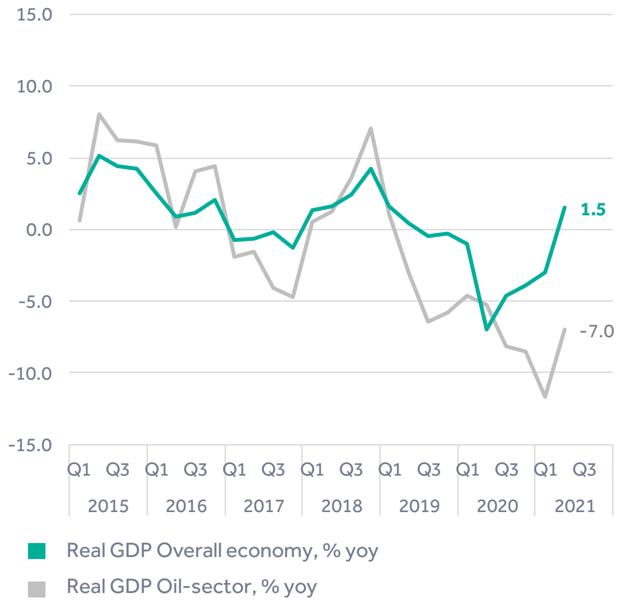
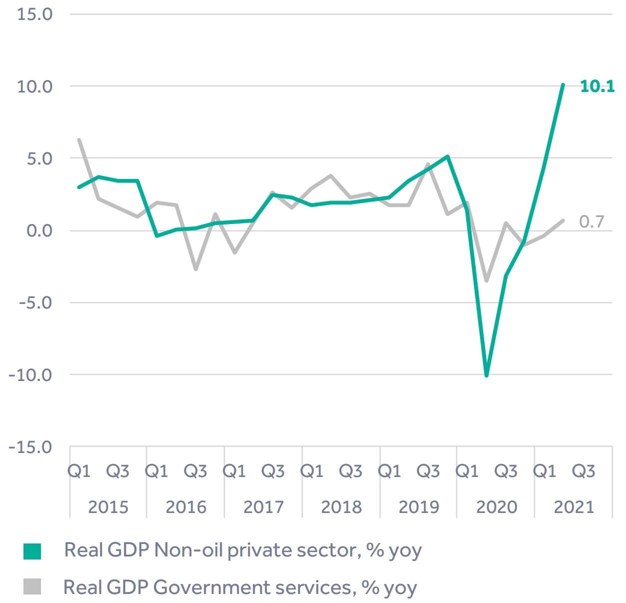
GDP YoY: Overall Economy and Oil Sector



(Q2 2021 flash estimate)

source: GASTAT

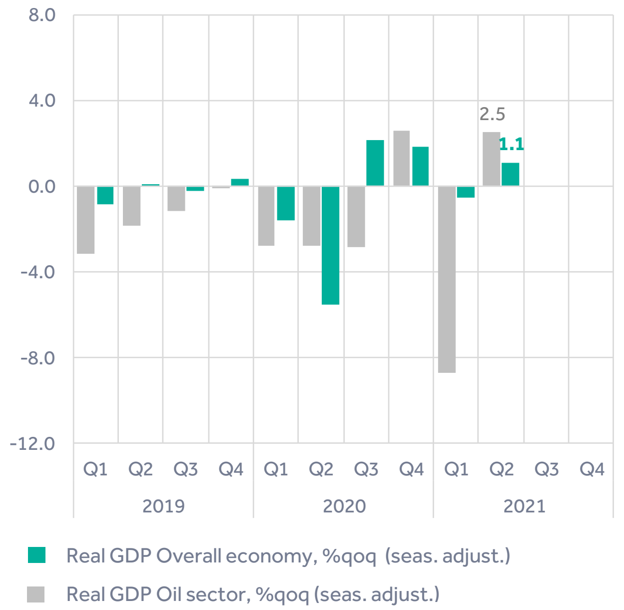
Figure 2:
GDP YoY: Non-Oil Private Sector and Government Services



(Q2 2021 flash estimate)

source: GASTAT

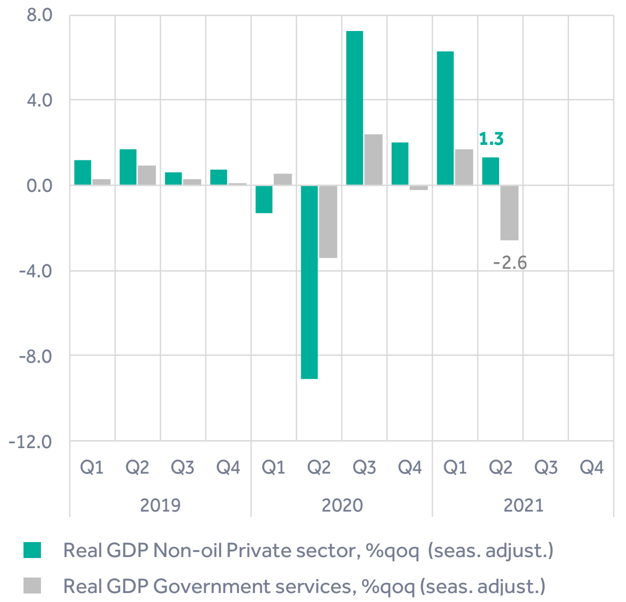
Figure 3:
GDP QoQ: Overall Economy and Oil Sector



(Q2 2021 Flash estimate)

source: GASTAT

Figure 4:
GDP QoQ: Non-Oil Private Sector and Government Services



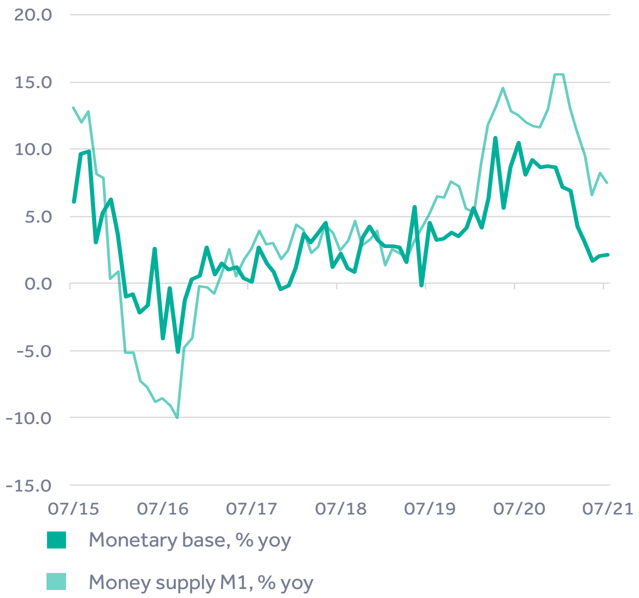
(Q2 2021 Flash estimate)

source: GASTAT

Flash estimates for Q2 2021 indicate that the Saudi yoy real GDP growth turned positive (+1.5%) for the first time since Q2 2019. This is primarily the result of a strong recovery of the Non-oil private sector economy with +10.1% yoy in Q2. The growth contribution by the oil sector continues to be negative with –7.0% yoy in Q2 due to a disciplined implementation of last year's OPEC+ output cut agreement.

Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



source: SAMA

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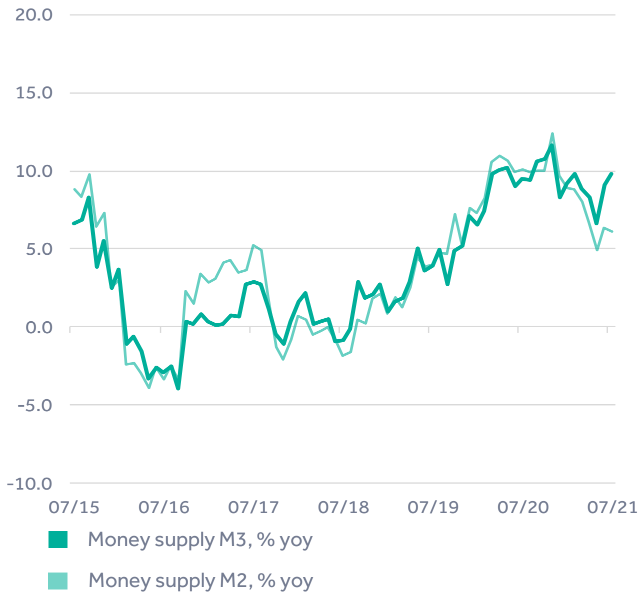

source: SAMA

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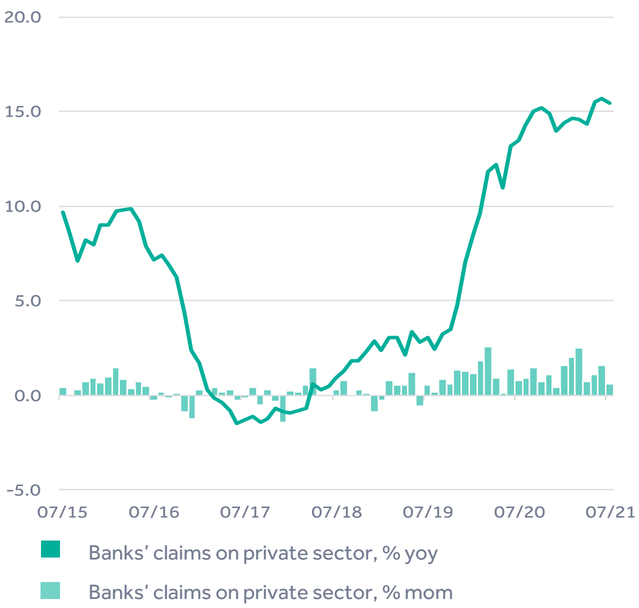
Growth of Credit to the Private Sector



source: SAMA

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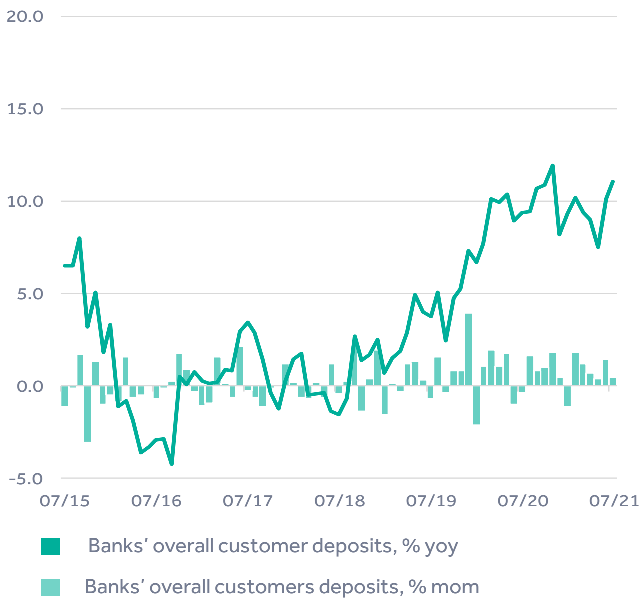
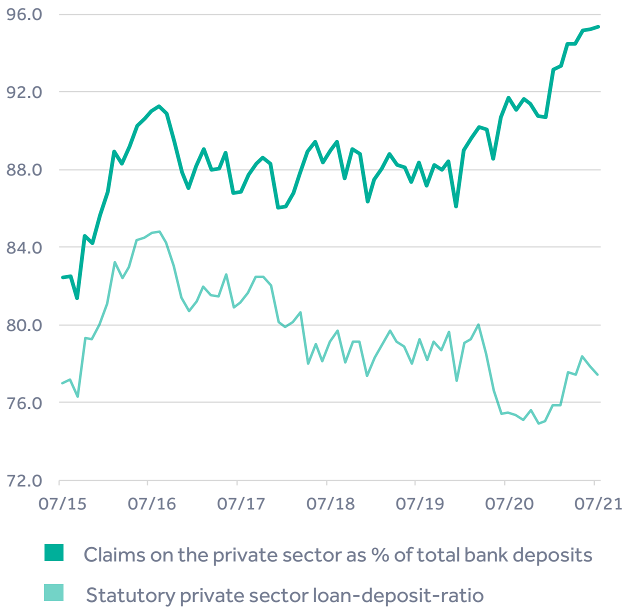


source: SAMA

Banks customer deposits and accordingly broad money supply aggregates continue to grow distinctly below bank loans extended to the private sector. In July 2021, customer deposits rose by 11.1% yoy, money supply M3 by 9.8% yoy. On the other hand, credit to the private sector expanded by 15.7% yoy, still mainly driven by residential mortgage loans, albeit at a slower pace in Q2 2021.

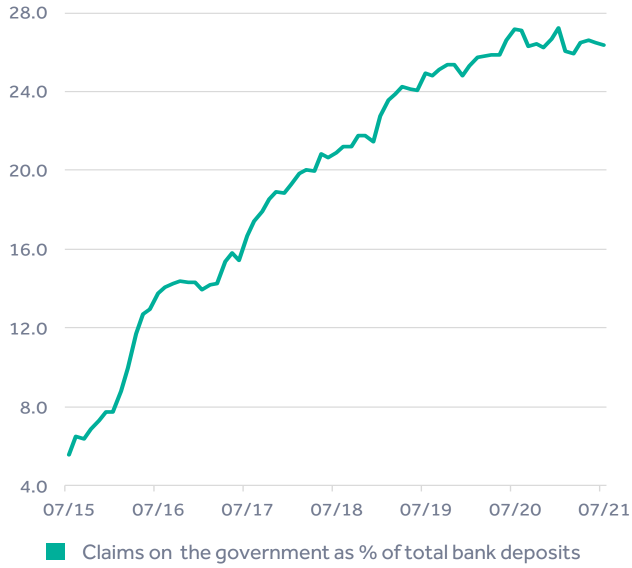
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



source: SAMA

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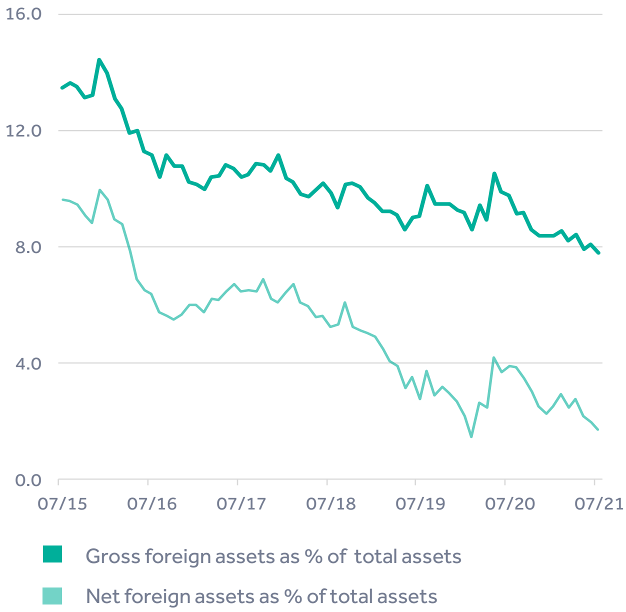
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
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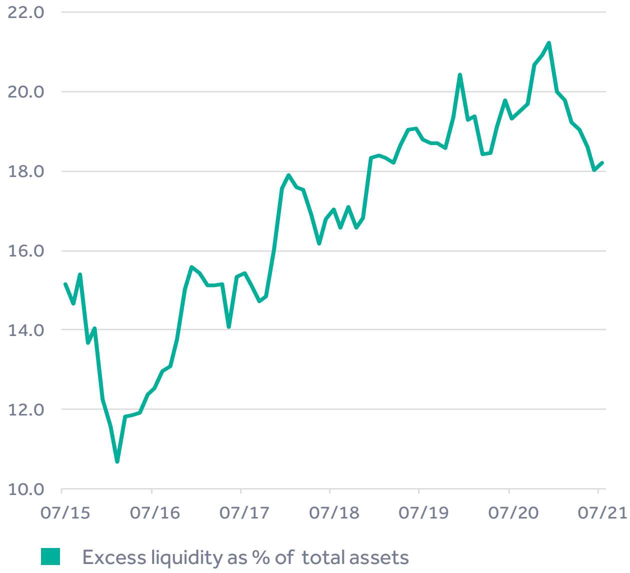
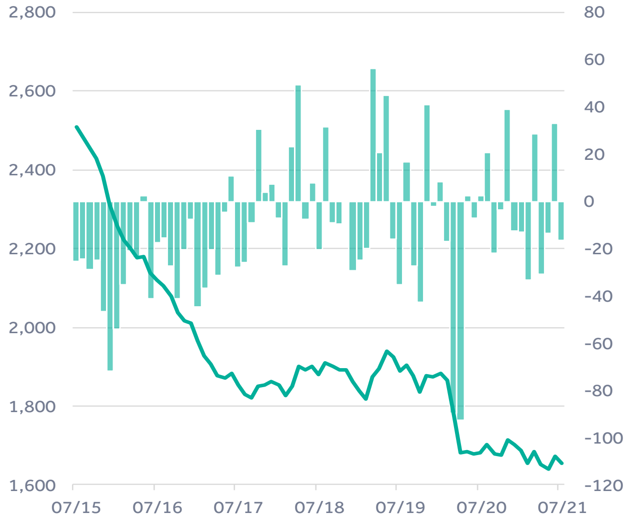


source: SAMA

As a consequence of credit growth to the private sector outpacing the rise in bank deposits since the beginning of the year, the private sector LDR has started to climb most recently. This indicates gradually less ample liquidity in the banking sector by mid-2021. This observation is confirmed by the decline of the banks' excess liquidity to total assets ratio from 21.3% in December to 18.2% in July.

SAMA Balance Sheet and Government Deposits

Figure 1:
Foreign Currency Reserves at SAMA

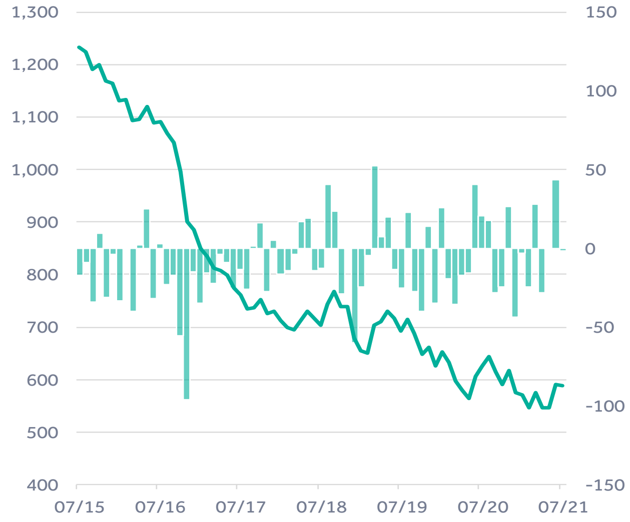


Total foreign currency reserves at SAMA, in bln SAR, l.h.sc.

Monthly change in foreign currency reserves at SAMA, in bln SAR, r.h.sc.

source: SAMA

Figure 2:
Government Deposits at SAMA



Total government deposits at SAMA, in bln SAR, l.h.sc.

Monthly change in total government deposits at SAMA, in bln SAR, r.h.sc.

source: SAMA

Figure 3:
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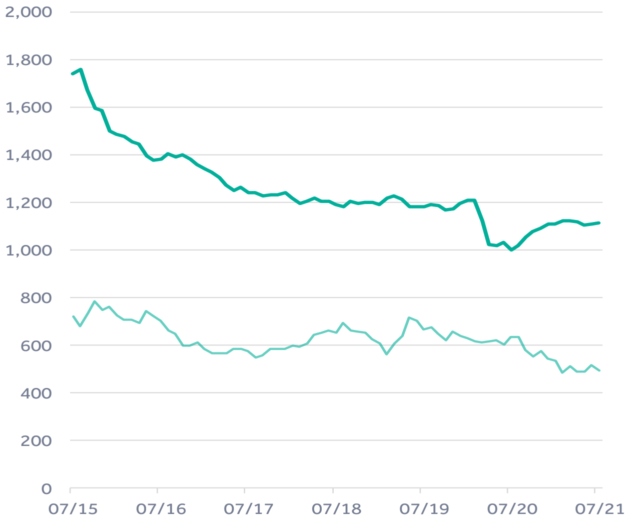
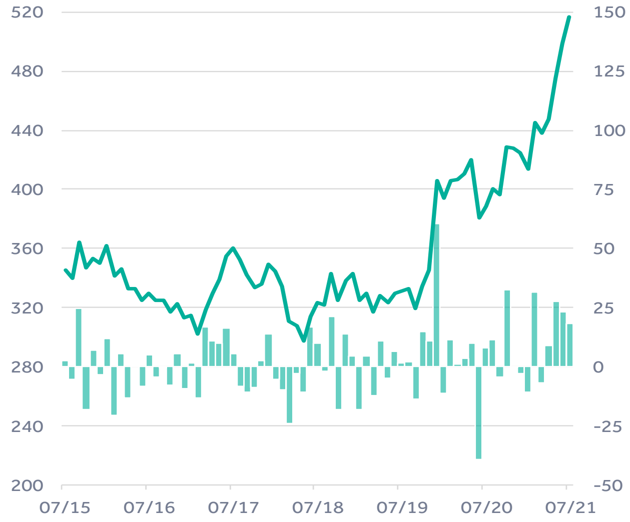


Investments in foreign securities, in bln SAR

Foreign currencies & deposits abroad, in bln SAR

source: SAMA

Figure 4:
Government Deposits at Commercial Banks



Government and gov. institutions deposits at commercial banks, in bln SAR, l.h.sc.

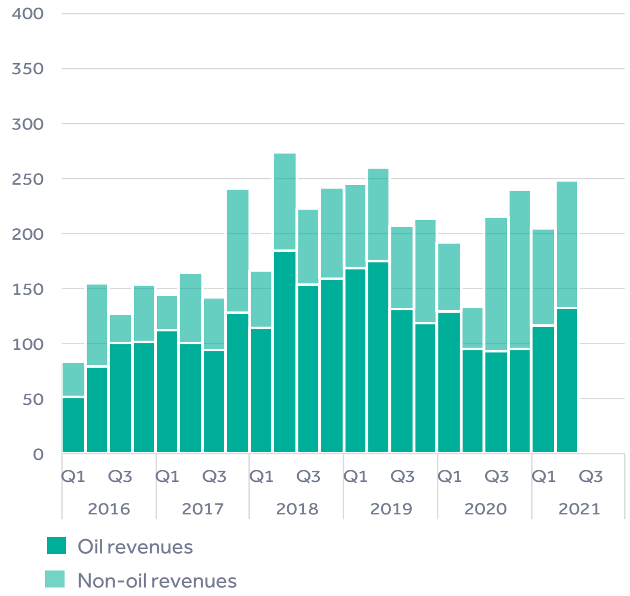
Monthly change in governmental deposits at commercial banks, in bln SAR, r.h.sc.

source: SAMA

In the first seven months of 2021, SAMA official foreign reserves declined by 46bln SAR, most likely as a result of a net capital outflow since the current account balance is expected to show a surplus over this period. Public sector deposits with SAMA and commercial banks edged up by a combined 106bln SAR since end of 2020 due to fiscal borrowing clearly exceeding the small deficit so far in 2021.

Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



source: MoF

Figure 2:
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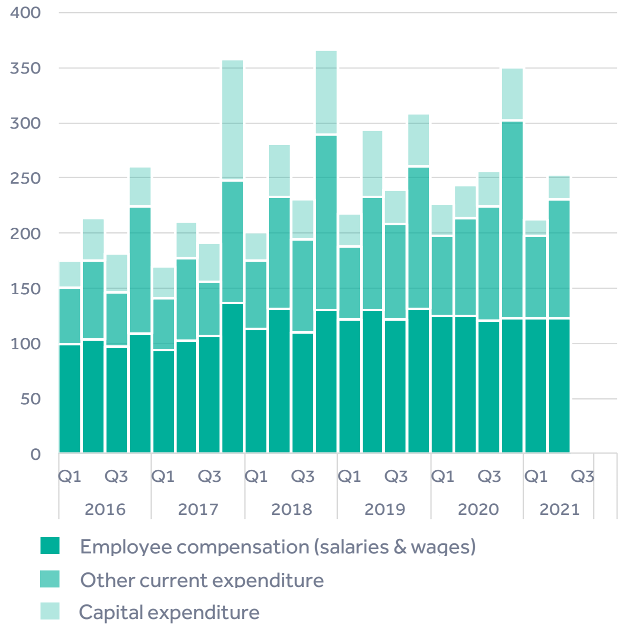

source: MoF

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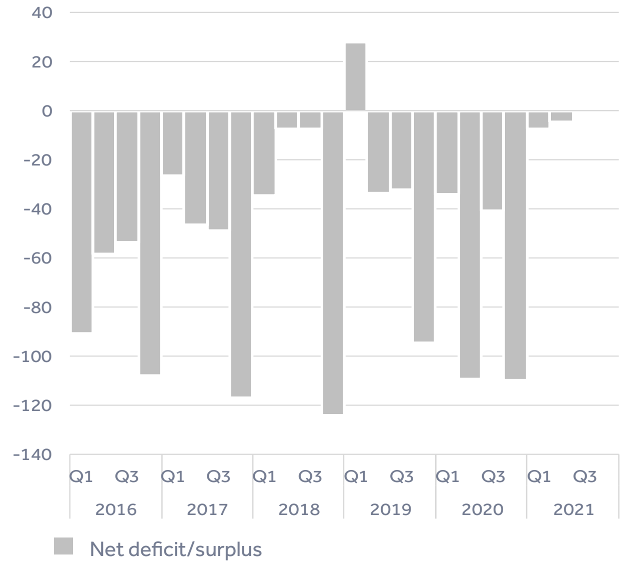
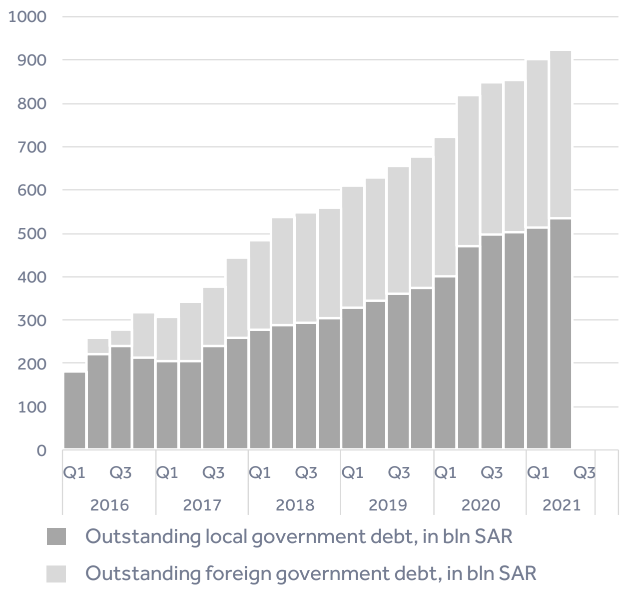


source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)

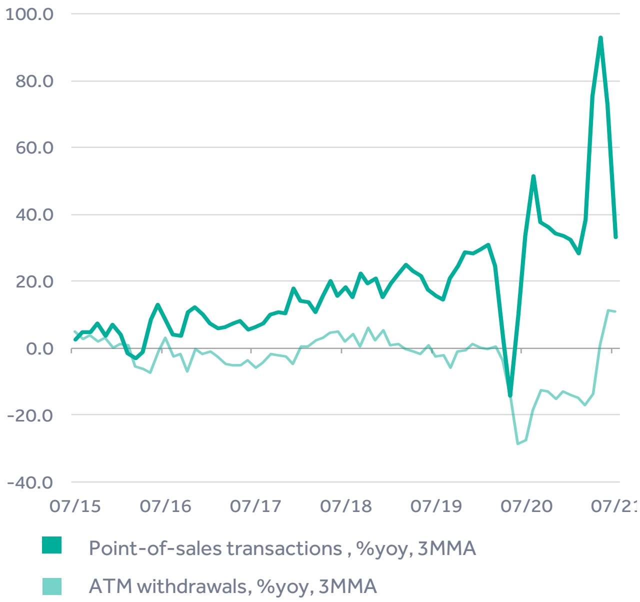


source: MoF

In Q2 2021, the fiscal deficit further shrunk to –4.6 bln SAR after an already sharp reduction to –7.4 bln SAR in the first quarter o the year. This was primarily the result of substantially higher fiscal revenues in Q2 which jumped by 85.2% vs. the previous year and 21.2% vs. the previous quarter. Meanwhile, fiscal spending grew by a marginal 3.9% vs. last year and a moderate 19.1% vs. the previous quarter.

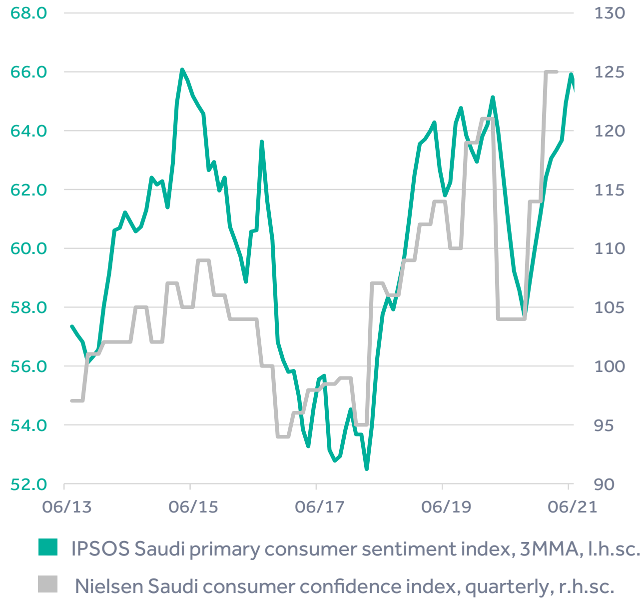
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions and ATM Withdrawals



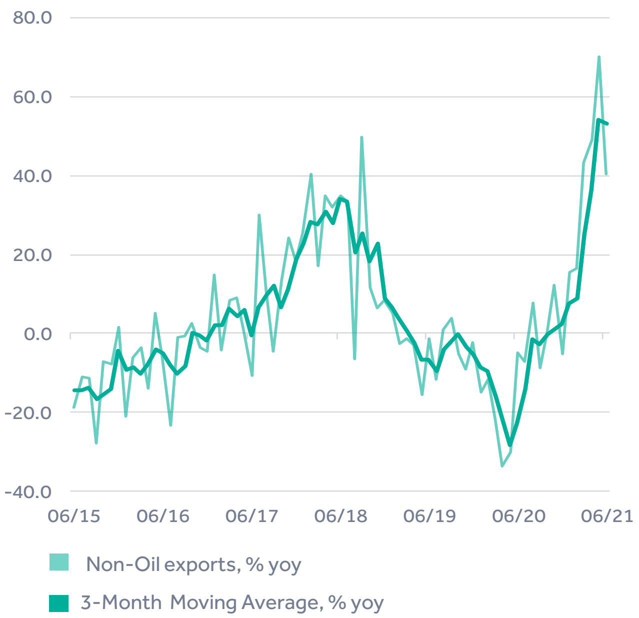
source: SAMA

Figure 2:
Consumer Sentiment



source: Refinitiv, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

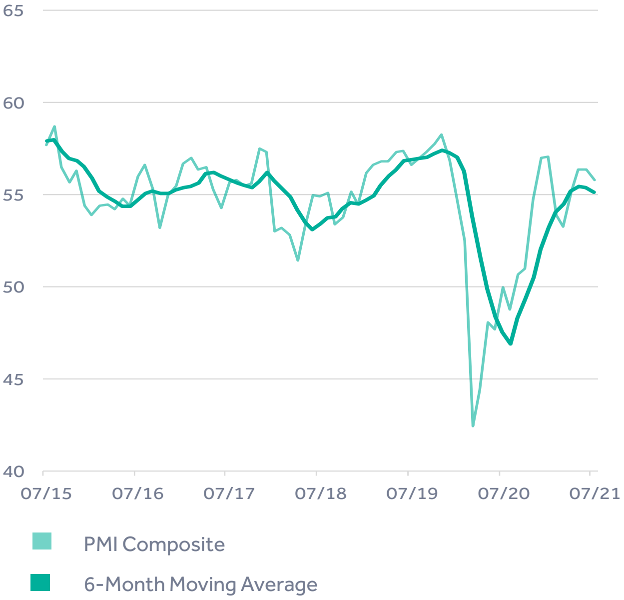
Figure 4:
Growth of Imports

source: GASTAT

Indicators of private consumption witnessed a massive recovery in Q2 2021 on the back of a distinct upturn of consumer confidence over the last 12 months. Most recent data are signalling that growth momentum of private consumption has most probably peaked by mid of the year. Meanwhile, the strong rebound of non-oil exports illustrate the strength of the global economic recovery in 2021.

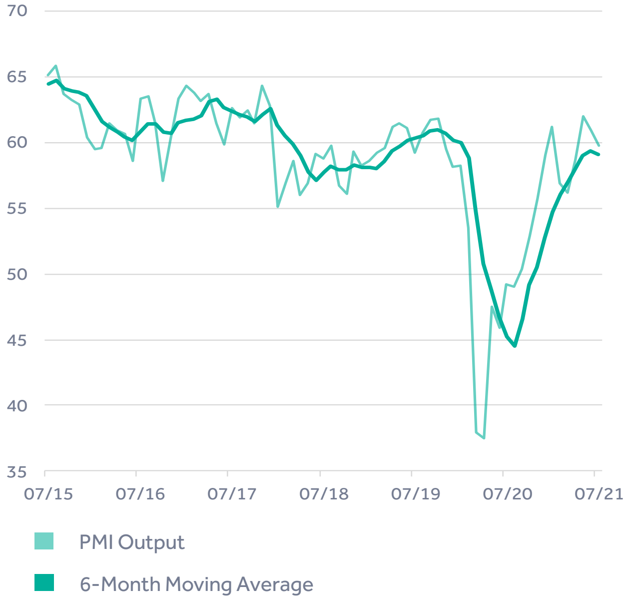
Non-Oil Private Sector Business Climate Indicators

Figure 1:
Purchasing Manager Index Composite



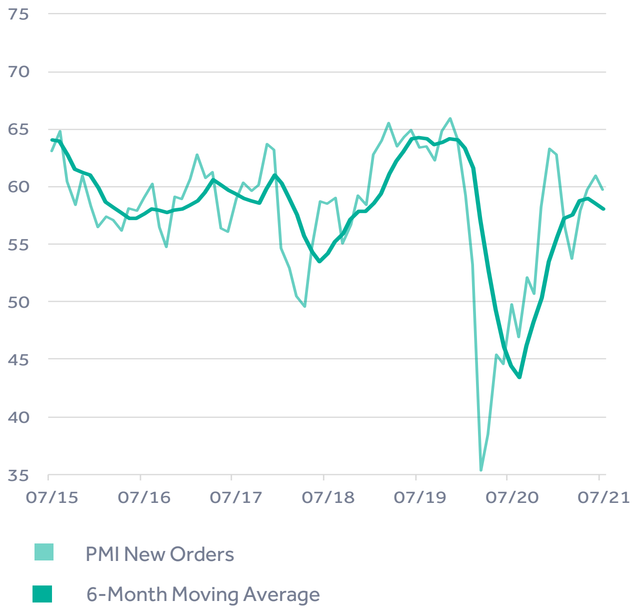
source: IHS Markit

Figure 2:
Purchasing Manager Index Output



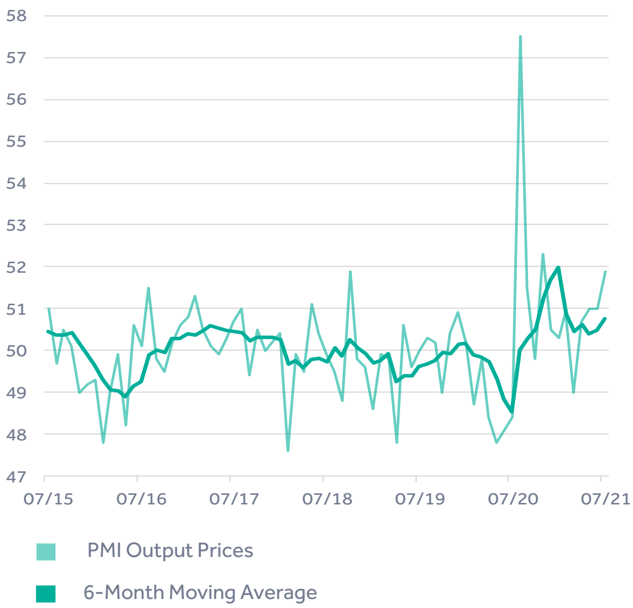
source: IHS Markit

Figure 3:
Purchasing Manager Index New Orders



source: IHS Markit

Figure 4:
Purchasing Manager Index Output Prices



source: IHS Markit

The Saudi Purchasing Manager Indices (PMI) as business climate indicators of the non-oil economy are overall levelling off at elevated levels by mid-2021. This is another indication that the growth momentum of the non-oil economy has most probably reached its peak by mid of the year. Meanwhile, the rise of the PMI Output prices signals some underlying inflationary pressure beyond the VAT impact.

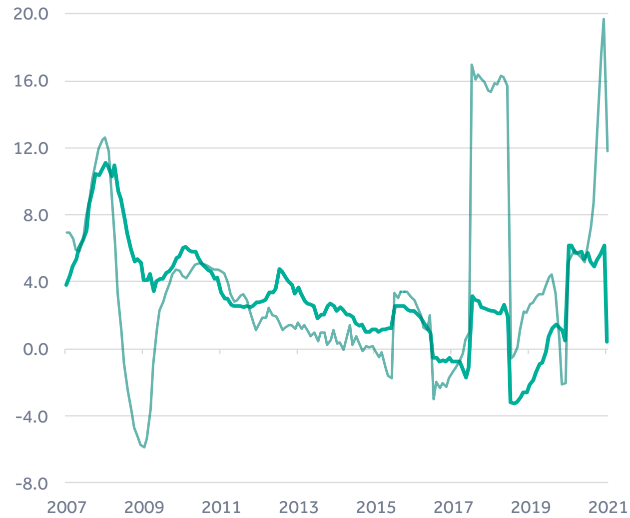
Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items

CPI inflation, % yoy

source: GASTAT

Figure 2:
Consumer Price and Wholesale Price Inflation



CPI inflation, % yoy

WPI inflation, % yoy

source: GASTAT

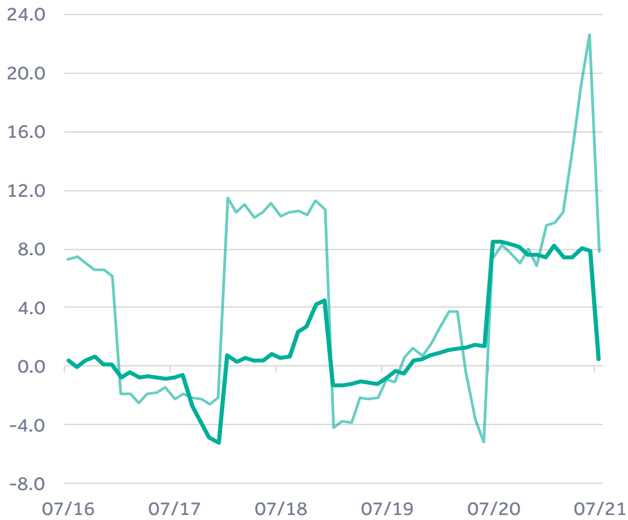
Figure 3:
CPI Inflation Food & Housing

CPI inflation, sub-index Food and beverages, % yoy

CPI inflation, sub-index Housing, water, electricity, gas and other fuels, % yoy

source: GASTAT

Figure 4:
CPI Inflation Furnishings & Transportation



CPI inflation, sub-index Furnishings, household equipment & maintenance, % yoy

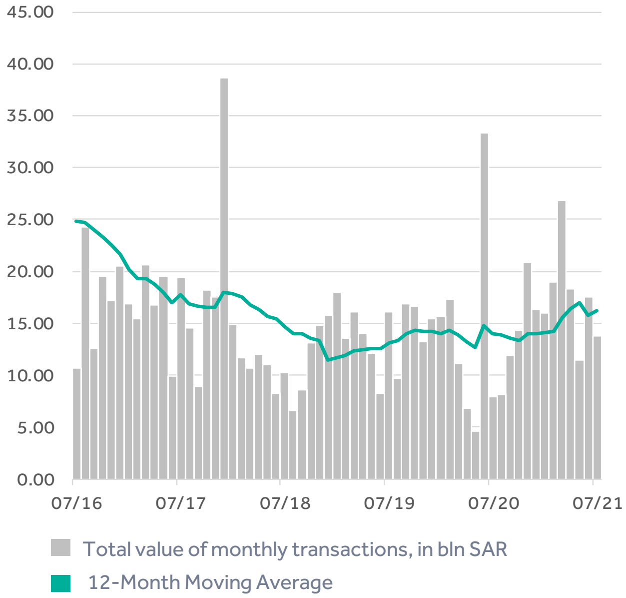
CPI inflation, sub-index Transport, % yoy

source: GASTAT

CPI inflation dropped substantially in July 2021 from 6.2% to 0.4% due to the impact of the VAT increase in July 2020 falling out of the calculation period. The same observation can be made for the large majority of CPI category indices. As an exception, the CPI Housing, water&electricity index only marginally dropped by –1.3% in July due to housing rents as its largest single item being exempt from VAT.

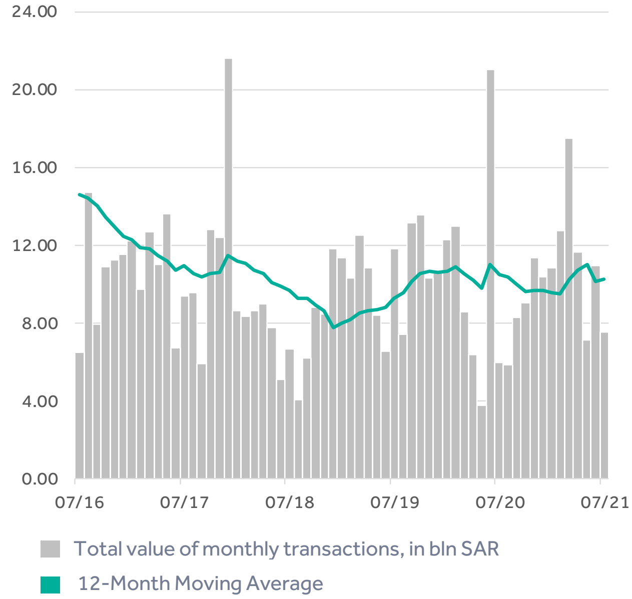
Real Estate Market: Transaction Activity

Figure 1:
Monthly Real Estate Transactions Overall Country



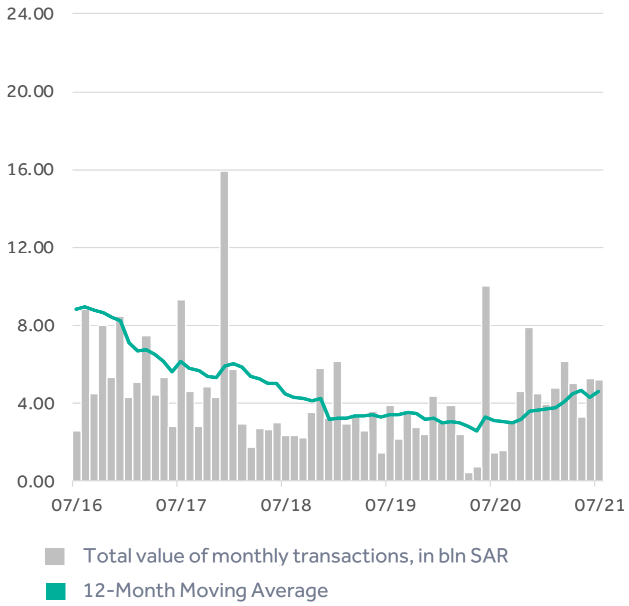
source: MOJ, RC

Figure 2:
Monthly Residential Real Estate Transactions



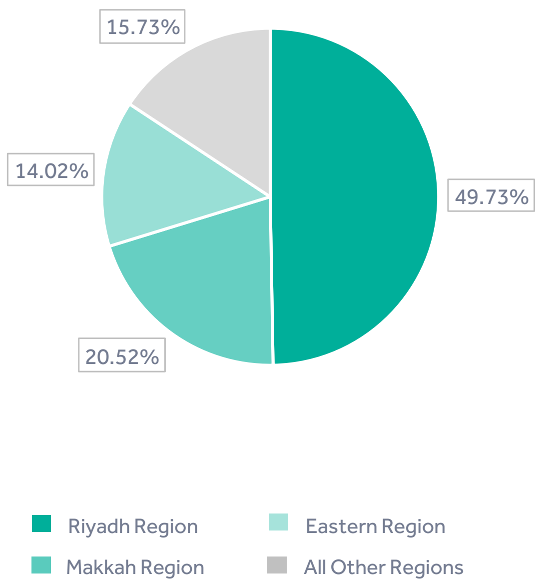
source: MOJ, RC

Figure 3:
Monthly Commercial Real Estate Transactions



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q2 2021)

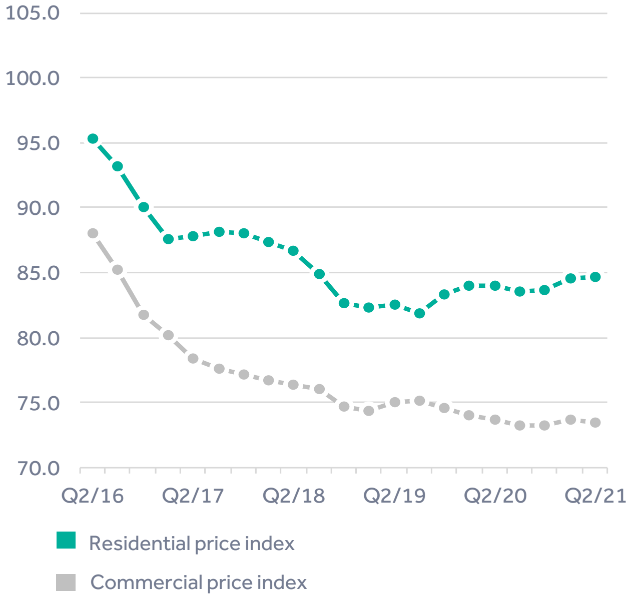


source: MOJ, RC

After a strong recovery of real estate transaction activities since Q3 2020, a temporary slowdown could be witnessed during the summer months 2021 which corresponds to a typical seasonal pattern observed in the real estate market over the last couple of years. This sesonality is generally more pronounced in the case of residential real estate transactions as opposed to commercial activity.

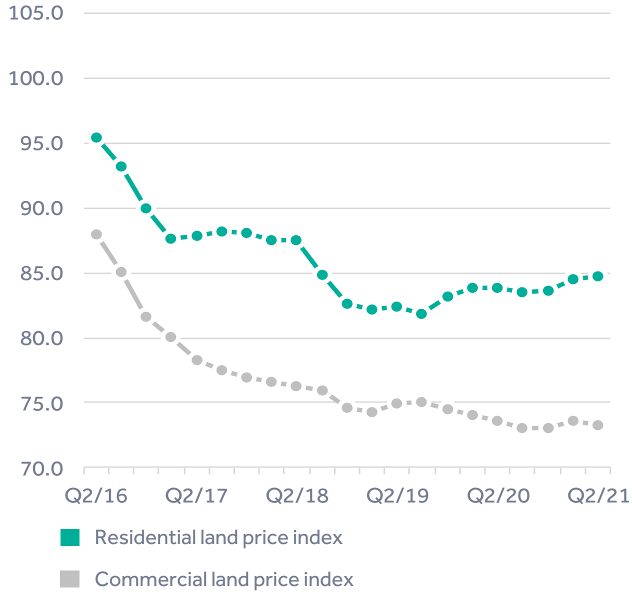
Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices



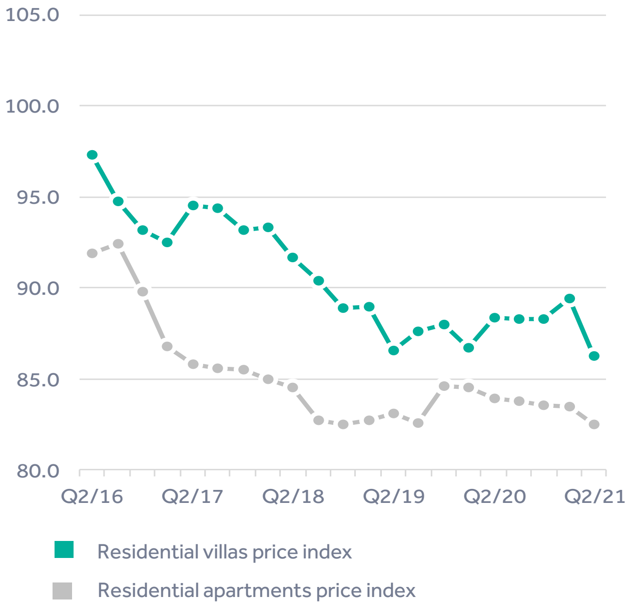
source: GASTAT

Figure 2:
Residential and Commercial Land Price Indices



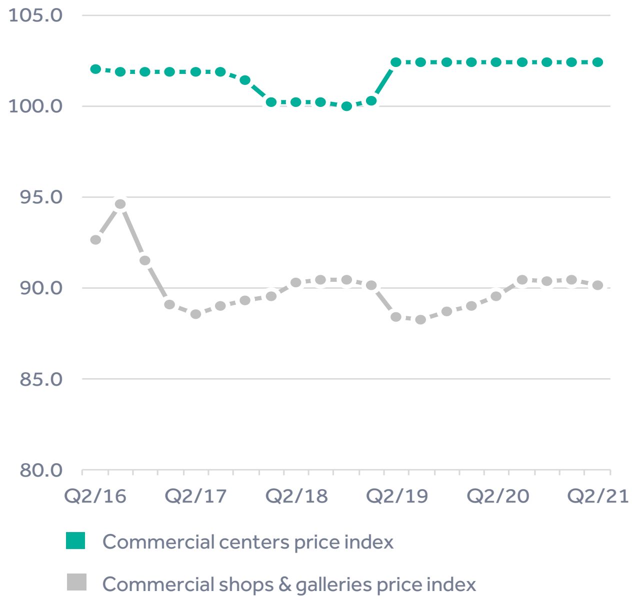
source: GASTAT

Figure 3:
Residential Villas and Apartments Price Indices



source: GASTAT

Figure 4:
Commercial Shops and Centers Price Indices

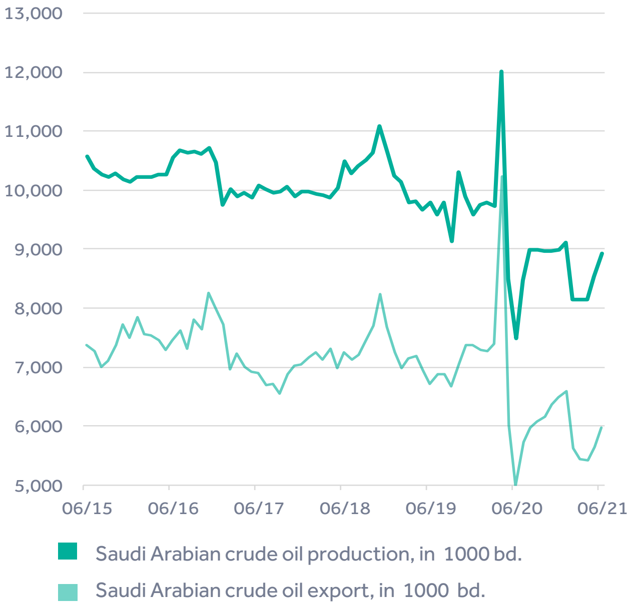


source: GASTAT

Real estate prices generally consolidated in Q2 2021 with the residential price index expanding by a marginal 0.3% to the previous quarter and the commercial index slightly declining by –0.6%. This reflects in the first place the trend in land prices which constitute more than 90% of the real estate indices while residential villa and apartment prices declined by –3.5% resp. –1.2% over the same period.

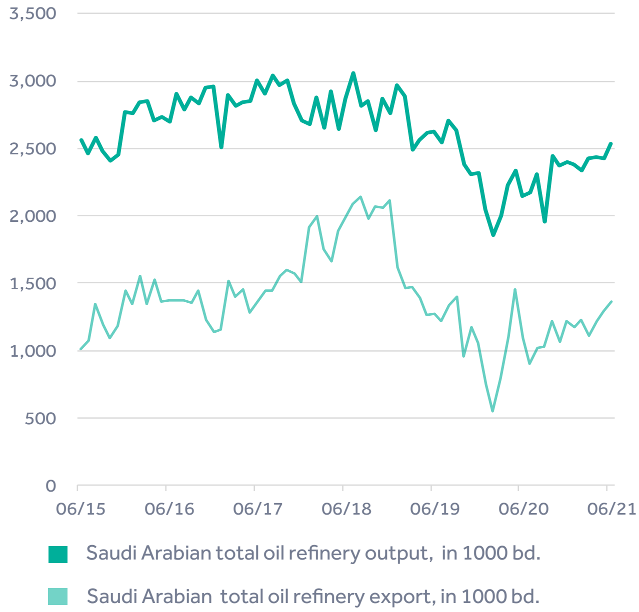
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
Saudi Crude Oil Production and Exports



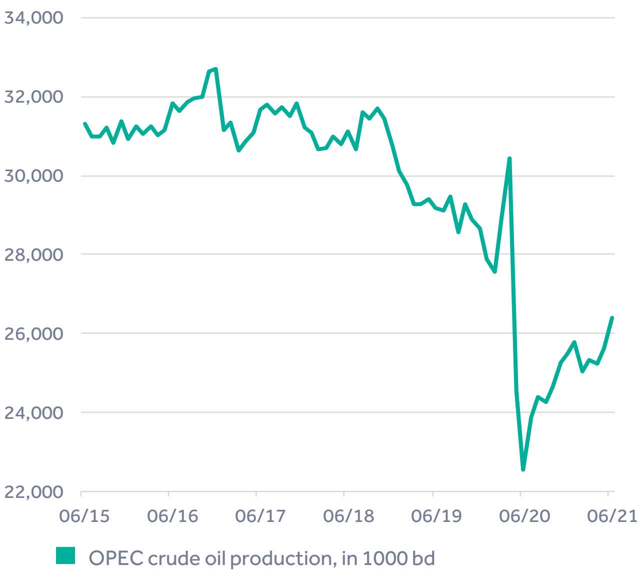
source: JODI, Bloomberg

Figure 2:
Saudi Crude Refinery Output and Exports



source: JODI

Figure 3:
OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
Oil Prices

source: Bloomberg

Saudi Arabia increased its crude production from 8.1 mbd in April to 8.9 mbd in June and according to preliminary estimates to 9.4 mbd in July. The new OPEC+ output expansion plan would even allow a further extension to 10.0 mbd by December. This, however, may be an ambitious target on the back of renewed global growth uncertainties which caused a notable oil price correction in August.

Foreign Exchange and KSA Credit Spread

Figure 1:
12-Months Forward Exchange Rate USD/SAR

12-month forward exchange rate USD/SAR

source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate

SAR Real (CPI-adjusted) trade-weighted exchange rate index

SAR Nominal trade-weighted exchange rate index

source: Bloomberg, JP Morgan

Figure 3:
KSA USD Bond Yield Spread to US Treasuries

5Y KSA USD bond yield spread to US Treasuries, in bp

source: Bloomberg

Figure 4:
KSA CDS Spread

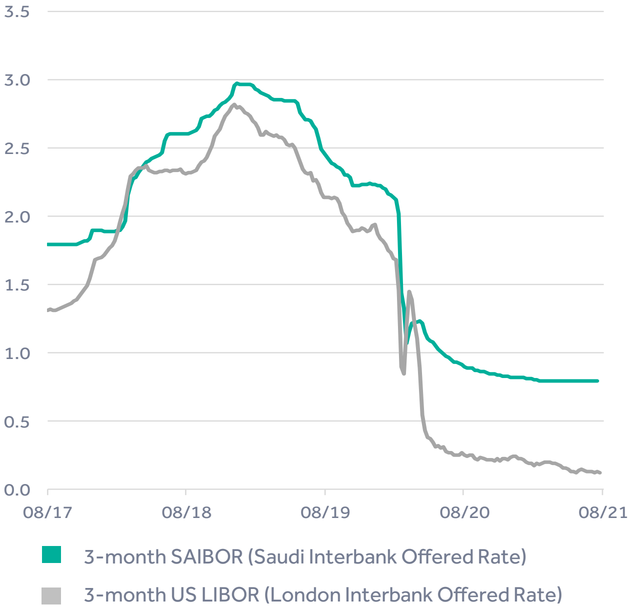
5Y KSA USD Credit Default Swap spread, in bp

source: Bloomberg,

The 12M USD/SAR forward premium widened by about 50 pips from mid-June to end of August. In contrast, the sovereign 5Y USD yield spread was generally stable over this period while the 5Y CDS spread even narrowed by about 20 bp. After a pronounced weakness in the second half of last year the real and nominal SAR exchange rate have been broadly range-bound since the beginning of 2021.

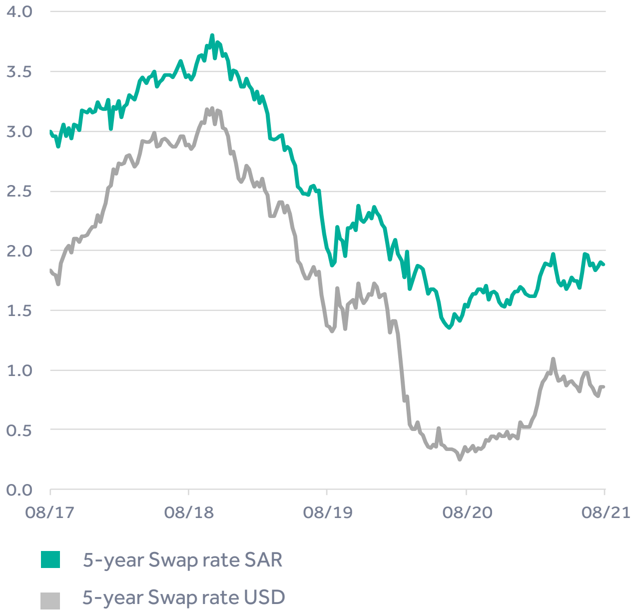
Short-term, Long-term and Official Interest Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR



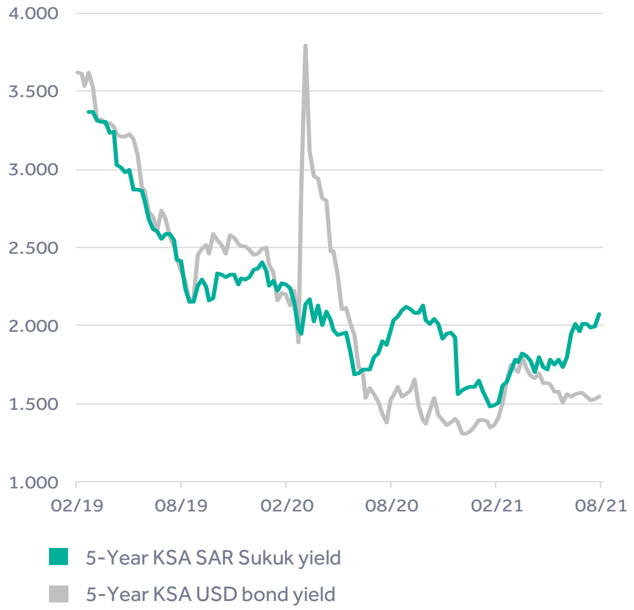
source: Bloomberg

Figure 2:
5-Year Swap Rate SAR vs. USD



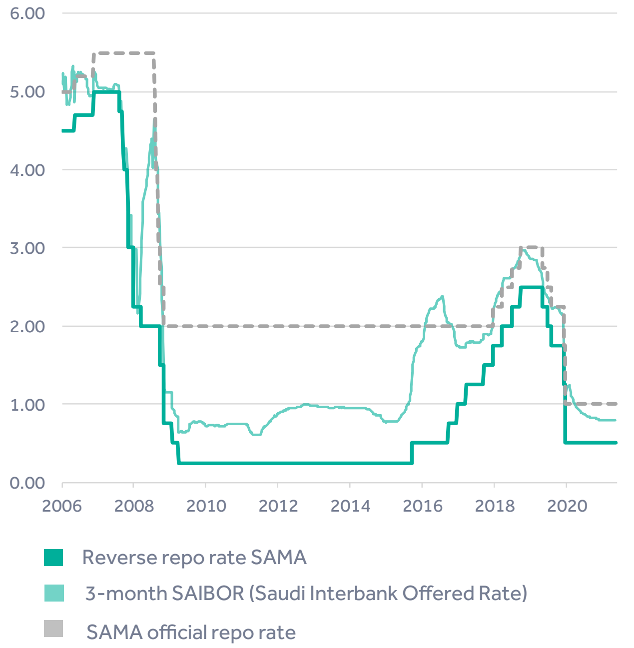
source: Bloomberg

Figure 3:
5-Year KSA SAR Sukuk vs. USD Bond Yield



source: Bloomberg

Figure 4:
Central Bank Rate and 3-Months SAIBOR

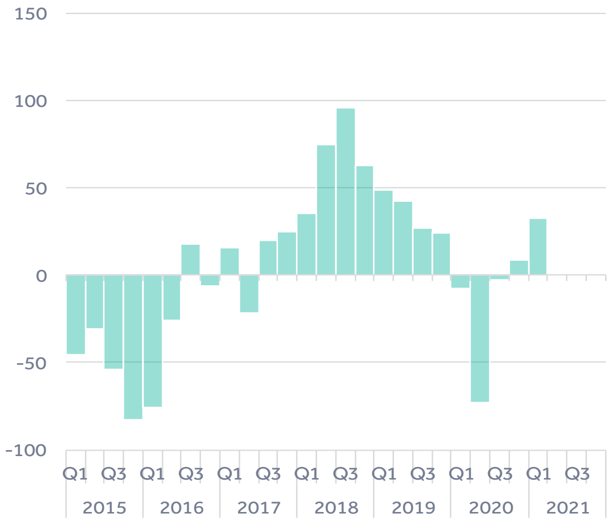


source: Bloomberg

3M SAIBOR has stabilized at 0.79% since March while 3M LIBOR gradually further declined to 0.13% which caused the spread to widen by about 6 bp. SAR-USD interest rate spread widening has been more pronounced at the longer end of the yield curve. In particular, the spread between local 5Y SAR government Sukuk and USD denominated KSA bonds expanded from 0 to 53 bp over this period.

Saudi Balance of Payments

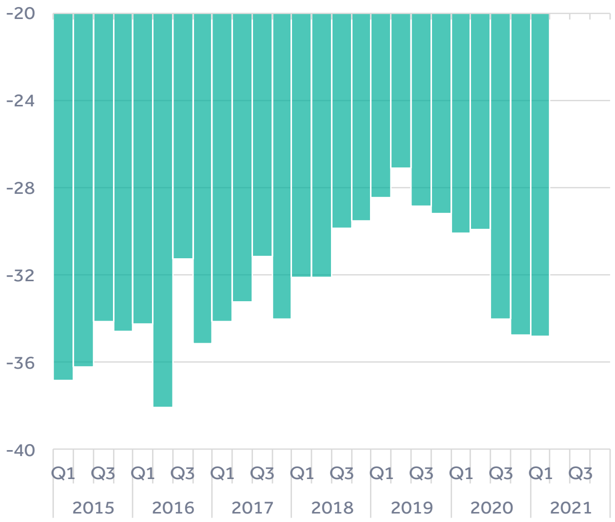
Figure 1:
Current Account Balance



Current account balance, quarterly, in bln SAR

source: SAMA

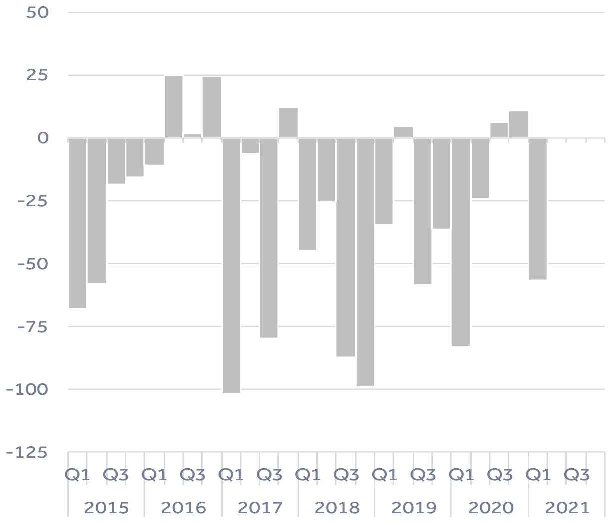
Figure 2:
Foreign Workers' Remittances



Foreign workers' remittances, quarterly, in bln SAR
(remittances outflow as part of Current account balance)

source: SAMA

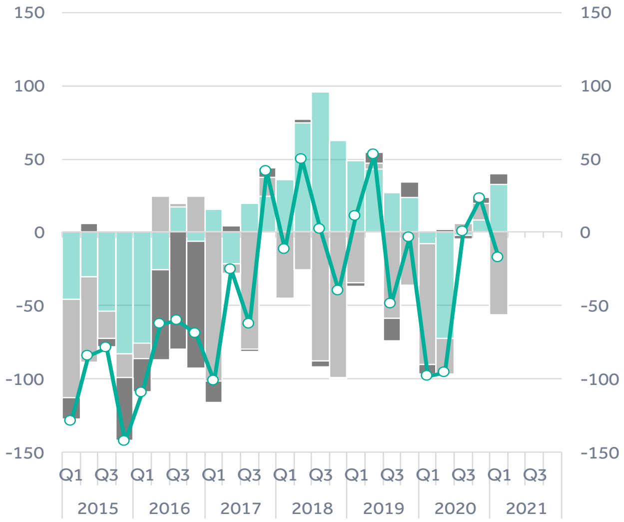
Figure 3:
Financial Account Balance



Financial account balance (excluding changes in foreign reserve assets), quarterly, in bln SAR
(+ capital inflows, - capital outflows)

source: SAMA

Figure 4:
Contribution to Balance of Payments (in bln SAR)



Current account balance
Financial account balance
Errors & omissions
Net change in foreign reserve assets

source: SAMA

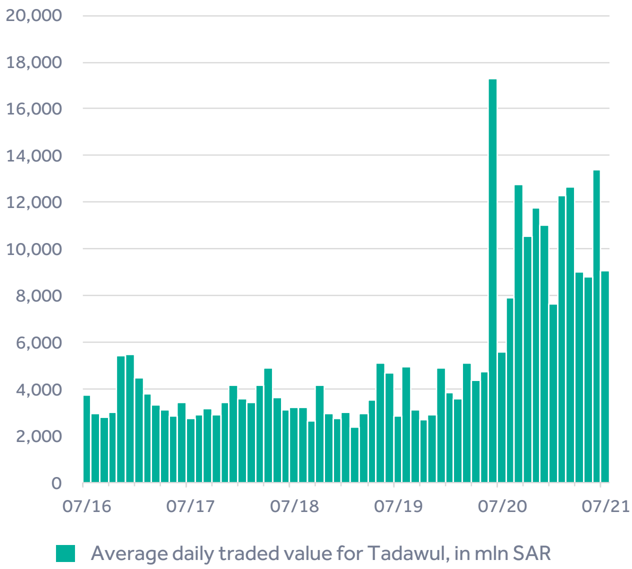
On the back of the global economic recovery and higher oil prices, the Saudi current account balance substantially improved since its trough in Q2 2020. In Q1 2021, the current account balance recorded a surplus of 33 bln SAR. At the same time, the private financial account balance showed a deficit of 57 bln SAR which overall caused SAMA official foreign reserve assets to gradually decline in Q1 2021.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index

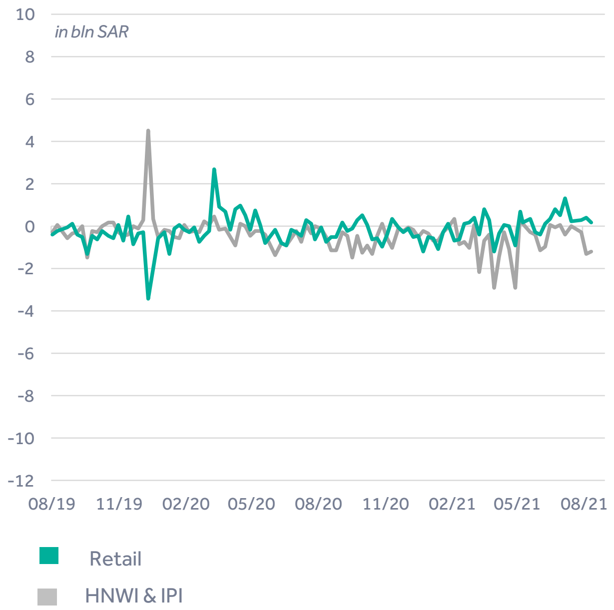
source: Bloomberg

Figure 2:
Tadawul Average Daily Traded Value



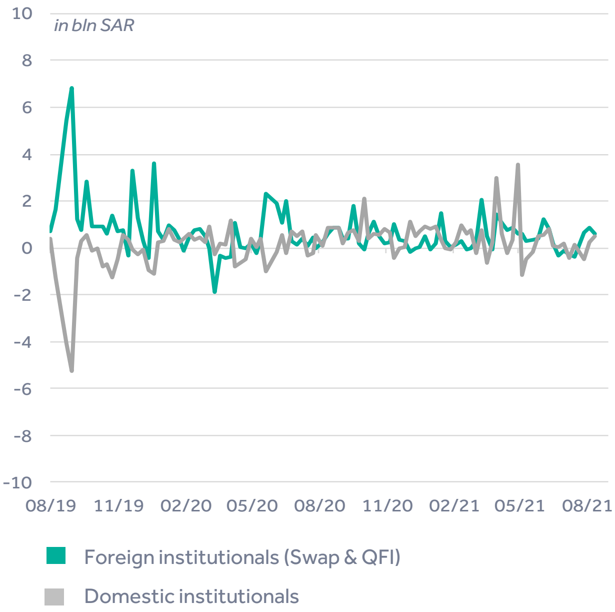
source: Tadawul

Figure 3:
Weekly Net Purchase by Ownersip (in bln SAR)



source: Tadawul

Figure 4:
Weekly Net Purchase by Ownersip (in bln SAR)

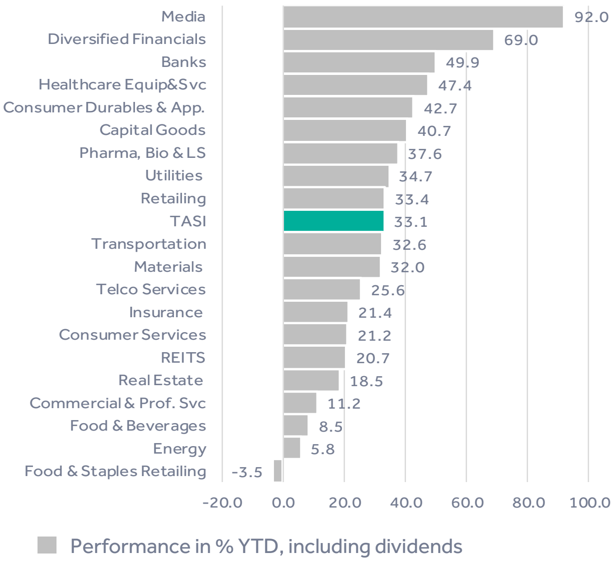


source: Tadawul

The Saudi equity market continued its impressive rally during the summer months with TASI reaching 11'300 in August - a level last seen back in 2008. Turnover remained generally elevated with ADTV at 10.4 bln SAR for the period from May to July 2021. Retail investors as well as domestic and foreign institutions turned out to be net buyers whereas HNWI and IPI were net sellers over this period.

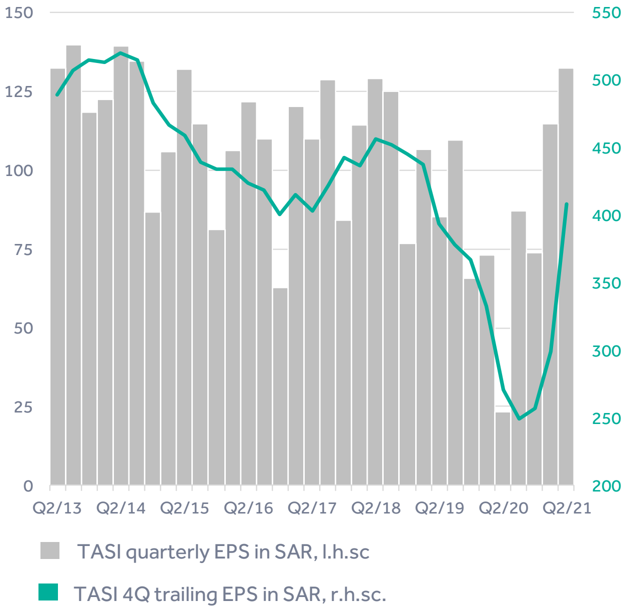
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors August 2021YTD



source: Bloomberg

Figure 2:
Quarterly Earnings TASI



source: Bloomberg

Figure 3:
Valuation TASI: PE-Ratio Trailing

source: Bloomberg

Figure 4:
Valuation TASI: PE-Ratio Forward

source: Bloomberg

The sector performance analysis 2021YTD shows notable divergences with the two most important sectors, banks and materials, both outperforming the market index. From a fundamental perspective, 2021 is characterized by a substantial corporate earnings recovery for TASI. As a consequence, valuation metrics have gradually eased but remain still elevated in a historical comparison.

Saudi Economic Outlook

In 2021, the Saudi economy is generally in recovery mode with the non-oil sector economy being the primary driving force.

For the non-oil economy, we forecast a strong rebound in 2021 after last year's contraction. The non-oil private sector is projected to grow by 4.0% in 2021 and a still solid 3.6% in 2022.

This is based on the assumption that the pandemic related impact on the economy will continue to fade in the course of this year which supports the scenario of a broad based economic rebound.

We expect a gradual crude output expansion in H2. Yet, the forecasted average of 9.0 mbd for the full year 2021 will still be lower than last year. This will translate into another year of negative growth contribution by the oil sector of –1.3% in 2021.

However, in 2022, the expected normalization of the Saudi oil production to pre-crisis levels will lead to a massive oil sector recovery close to 10%.

As a result, overall economic growth will be 1.4% in 2021 and accelerate to 5.6% in 2022.

The fiscal deficit is projected to shrink to –3.4% of GDP in 2021 and to –1.2% in 2022. This can be explained by considerably higher oil- and non-oil revenues as well as consolidating fiscal expenditure over this period.

Due to substantially higher oil export revenues, the current account balance is expected to turn positive again in 2021 with 4.5% of GDP and to further expand to 5.5% in 2022.

CPI inflation has dropped to 0.4% in July. In the medium term, we expect inflation to gradually pick up again and forecast an average rate of 3.3% for the full year 2021. For 2022, we expect CPI inflation to average at 2.2%.

In our baseline scenario, we forecast the US Federal Reserve to keep interest rates unchanged until the end of 2022. We, therefore, expect SAMA to also leave its repo and reverse repo rate at current levels.

With a view on the sustained economic recovery and less ample liquidity in the market, we believe that 3M SAIBOR has passed its lows and forecast a slight increase to 0.90% by the end of next year.

Facts and Forecasts at a Glance

	2019	2020	2021f	2022f
Real GDP Growth				
Overall economy	0.3	-4.1	1.4	5.6
Non-oil Private sector	3.8	-3.1	4.0	3.6
Government sector	2.2	-0.5	1.5	1.1
Oil sector	-3.6	-6.7	-1.3	9.6
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-133	-294	-105	-40
Fiscal Balance in % GDP	-4.5	-11.2	-3.4	-1.2
Government debt in bln SAR	678	854	924	964
Government debt as % GDP	22.8	34.3	30.3	29.3
Trade and Current Account Balance				
Trade Balance in bln SAR	455	180	439	480
Trade Balance in % GDP	15.3	6.9	14.4	14.6
Current Account in bln SAR	143	-74	138	181
Current Account in % GDP	4.8	-2.8	4.5	5.5

source: GASTAT, SAMA, RC

	2019	2020	2021f	2022f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	64.1	43.3	68.0	72.0
WTI price (USD pb)	57.0	39.4	65.0	70.0
OPEC Basket price (USD pb)	64.0	41.7	67.0	71.0
KSA oil production (mln bd)	9.8	9.2	9.0	9.9
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	-2.09	3.44	3.30	2.10
3M SAIBOR SAR	2.23	0.82	0.80	0.90
Reverse Repo Rate	1.75	0.50	0.50	0.50
Official Repo Rate	2.25	1.00	1.00	1.00
Labor Market (yearly average)				
Unemployment rate total in %	5.6	7.7	5.8	5.1
Unemployment rate Saudi in %	12.2	13.7	11.5	10.6
Labor force part. total in %	57.9	59.5	61.5	62.1
Labor force part. Saudi in %	44.9	48.8	52.1	53.1

source: GASTAT, SAMA, Bloomberg, RC

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