



# Saudi Economic Chartbook

Third Quarter 2020

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### Weak Economic Growth but Ample Liquidity

- The Saudi economy witnessed a distinct economic slowdown in the course of H1 2020. However, there are more coincident indicators, such as the PMI business climate gauge, which point towards a recovery of non-oil economic activity into H2 2020.
- The increase of the VAT rate on 1st July impacted the short-term pattern of private consumption with a spending surge in June (and a corresponding drop expected for July). Moreover, CPI inflation climbed from 0.5%yoy in June to 6.1%yoy in July.
- Contrary to 2016, the Saudi economy is underpinned by ample liquidity which is reflected in strong money supply growth rates. This is also due to substantial liquidity injections by SAMA, aimed at supporting the banking system to extend credit to the private sector (see chart below).
- Based on the OPEC+ output agreement, Saudi crude oil production was significantly cut back between April and June. With a view on the projected Saudi target quota, a gradual increase can be expected in H2 2020.
- As part of a global trend, Saudi interest rates have also notably declined since March of this year. We expect SAIBOR-USD LIBOR spread to narrow which implies that Saudi rates will continue to ease in the foreseeable future.
- The Saudi equity market witnessed a sustainable rebound after its lows in March. The driving force in this market recovery were domestic retail investors as net buyers in an initial phase, followed by foreign institutional investors in the recent months.

#### Ample Liquidity for Credit Creation



Contrary to 2016, when the Saudi economy witnessed a liquidity crunch during a period of weak economic growth, liquidity is ample in 2020. This is also due to substantial injections by SAMA supporting the commercial banks to extend credit to the private sector.

source: SAMA

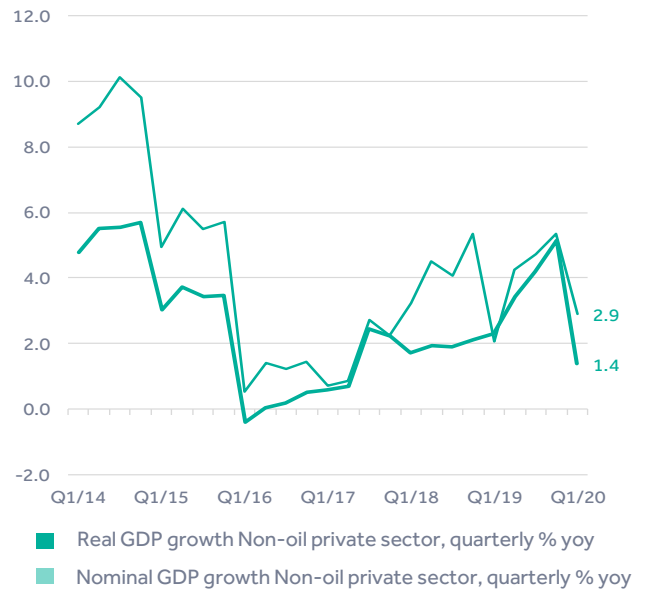
## Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

**Figure 1:**  
Real GDP Overall Economy and Oil Sector



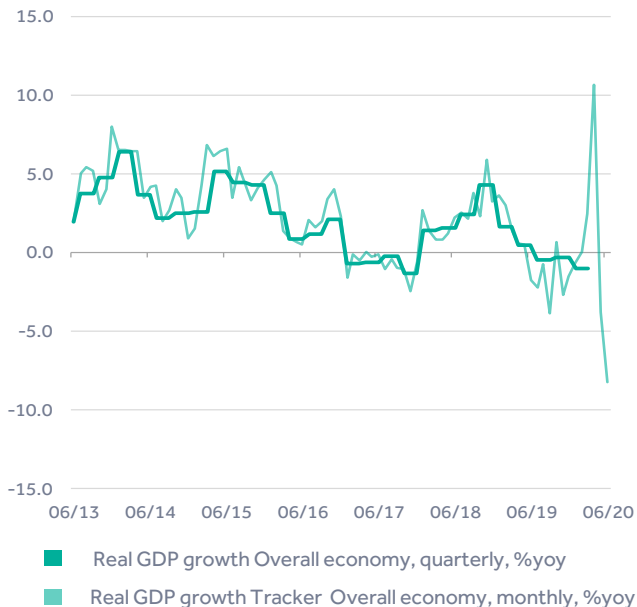
source: GASTAT

**Figure 2:**  
Nominal and Real GDP Non-Oil Private Sector



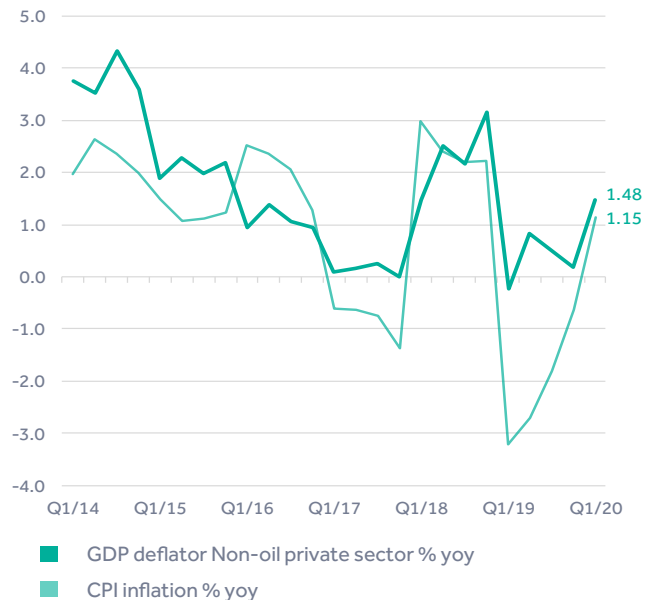
source: GASTAT

**Figure 3:**  
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

**Figure 4:**  
GDP Deflator and CPI Inflation



source: GASTAT

Real GDP growth of the overall economy slowed in Q1 2020 to -1.0%, primarily due to a notable growth reduction of the non-oil private sector from a peak growth of 5.2% in Q4 2019 to 1.4% in Q1 2020. The

strong growth amplitude of the GDP tracker model in Q2 2020 is essentially the result of the massive variation in the Saudi oil production during the period from April (12.0mbd) to June (7.5mbd).

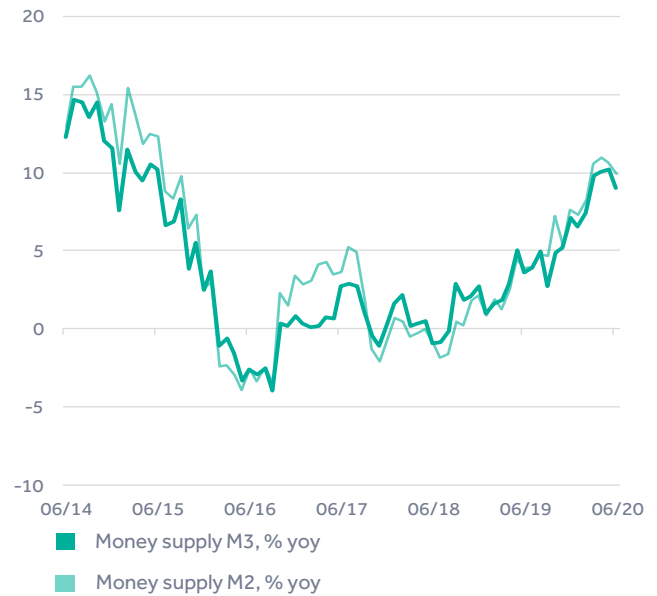
## Monetary Aggregates, Credit and Commercial Banks' Deposits

**Figure 1:**  
Growth Rate Monetary Base and Money Supply M1



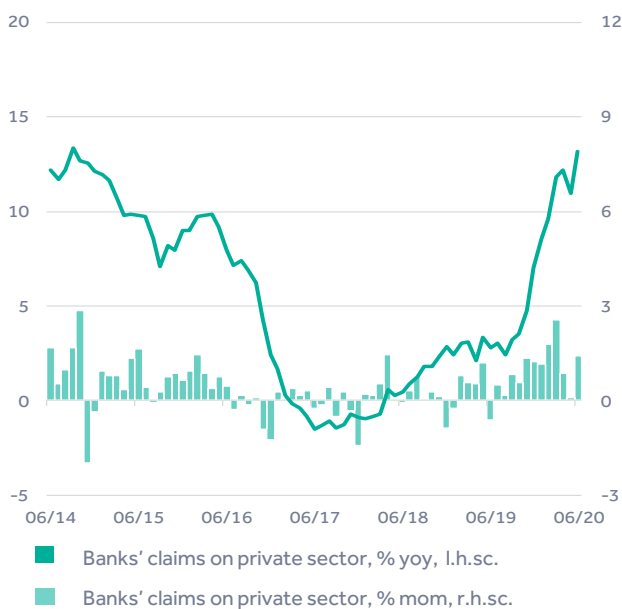
source: SAMA

**Figure 2:**  
Growth Rate Money Supply M2 and M3



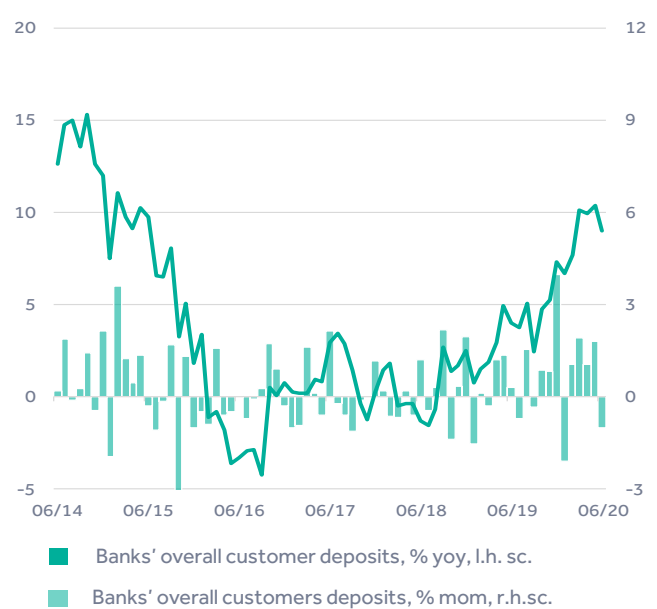
source: SAMA

**Figure 3:**  
Growth of Credit to the Private Sector



source: SAMA

**Figure 4:**  
Growth of Commercial Banks' Deposits



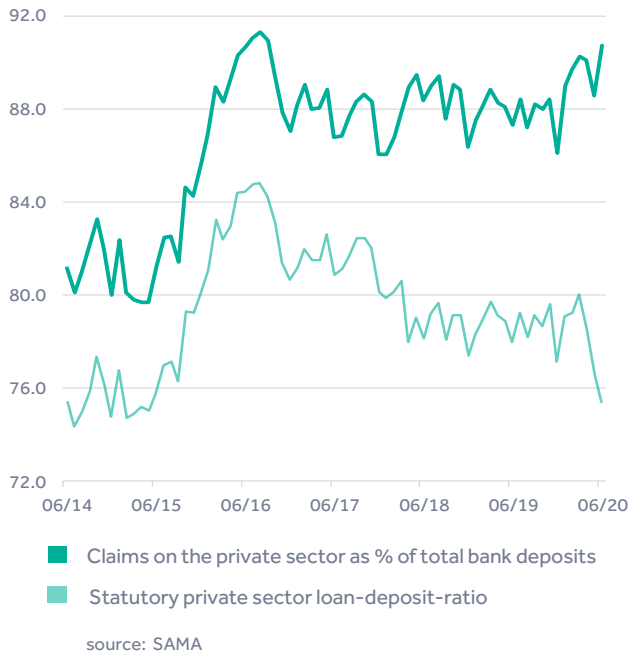
source: SAMA

Contrary to 2016, when the Saudi economy witnessed a liquidity crunch during a period of weak growth, liquidity is ample in 2020. This is reflected in strong money supply growth rates by mid-year.

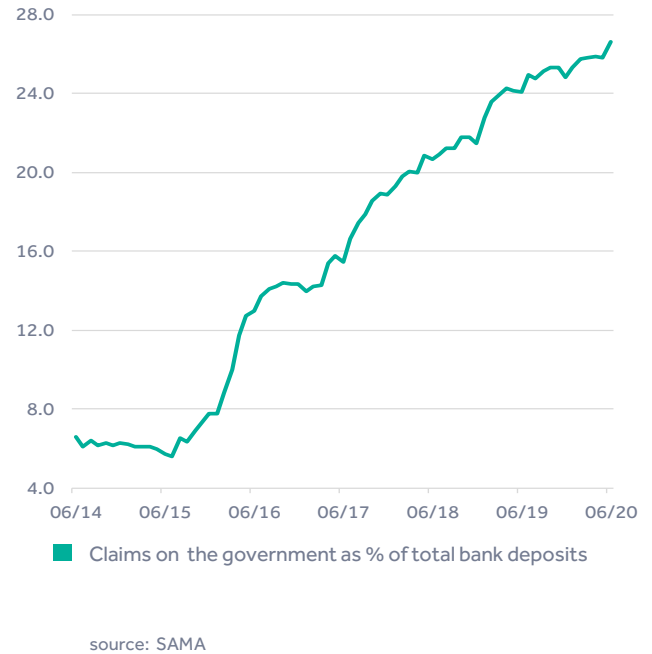
SAMA liquidity injections during Q2 2020 of overall 100bn SAR have been a major factor in this context. Sufficient liquidity has enabled banks to adequately fund the strong credit growth so far in 2020.

### Commercial Banks Key Ratios

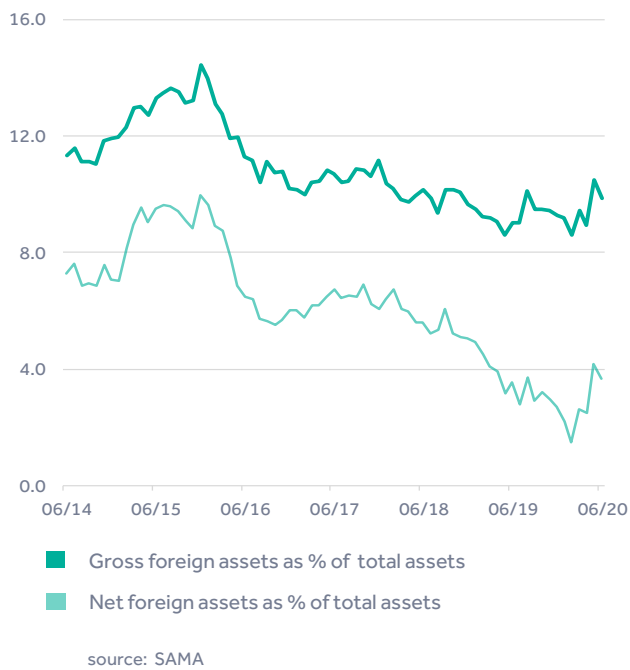
**Figure 1:**  
Private Sector Loan-Deposit-Ratio



**Figure 2:**  
Government Sector Loan-Deposit-Ratio



**Figure 3:**  
Foreign Assets to Total Assets Ratio



**Figure 4:**  
Excess Liquidity to Total Assets Ratio

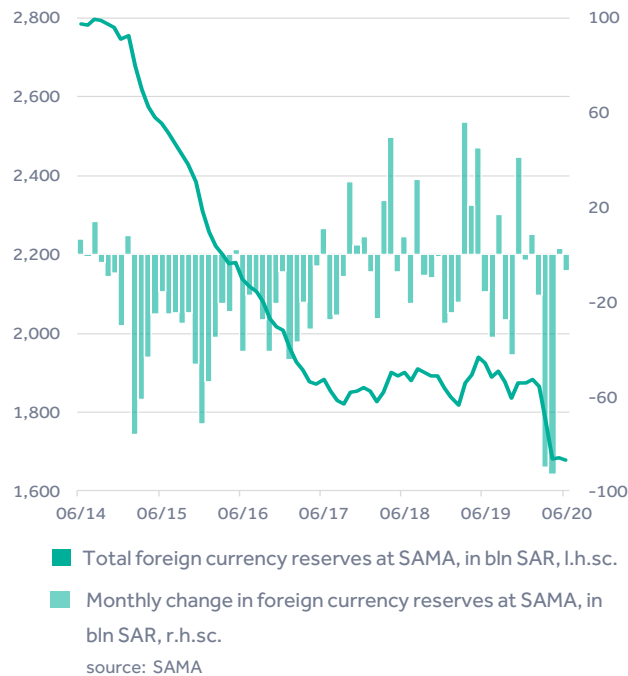


The new SAMA deposits provided to the banking sector in Q2 2020 to support the real economy through adequate credit extension are not part of the official banks' customer deposit data and,

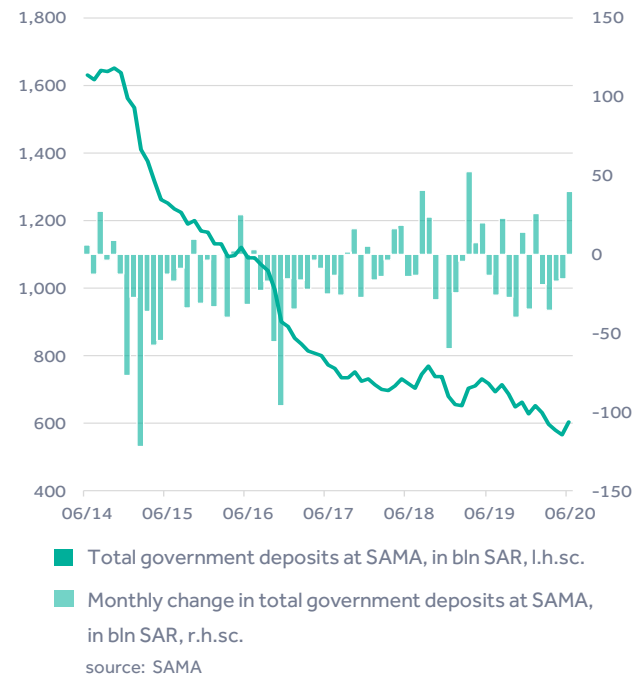
hence, are not included in the simple loan-deposit ratio (LDR). However, they are counted in the statutory LDR which explains the most recent divergence between these two LDR statistics.

## SAMA Balance Sheet: Key Elements of Assets and Liabilities

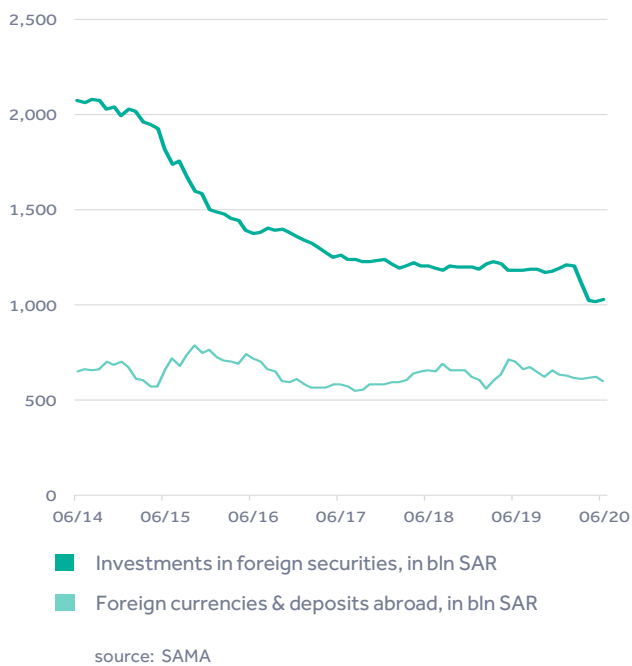
**Figure 1:**  
Foreign Currency Reserves at SAMA



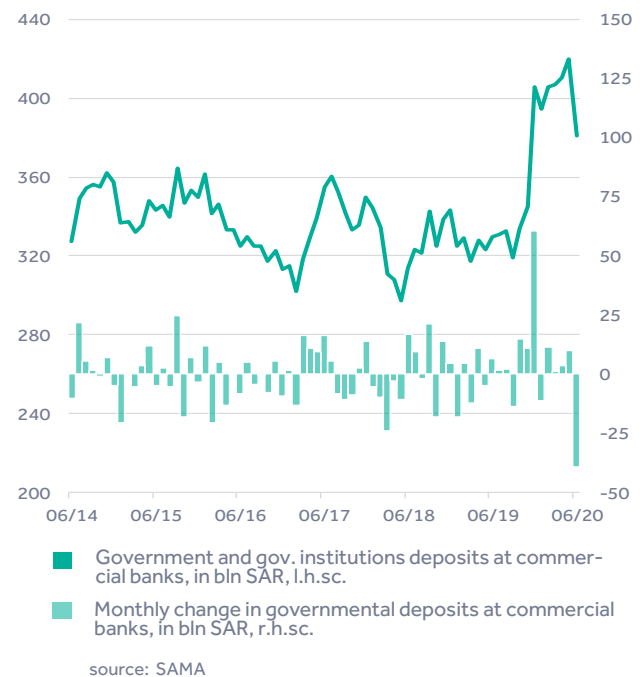
**Figure 2:**  
Government Deposits at SAMA



**Figure 3:**  
Breakdown of Foreign Currency Reserves at SAMA



**Figure 4:**  
Government Deposits at Commercial Banks

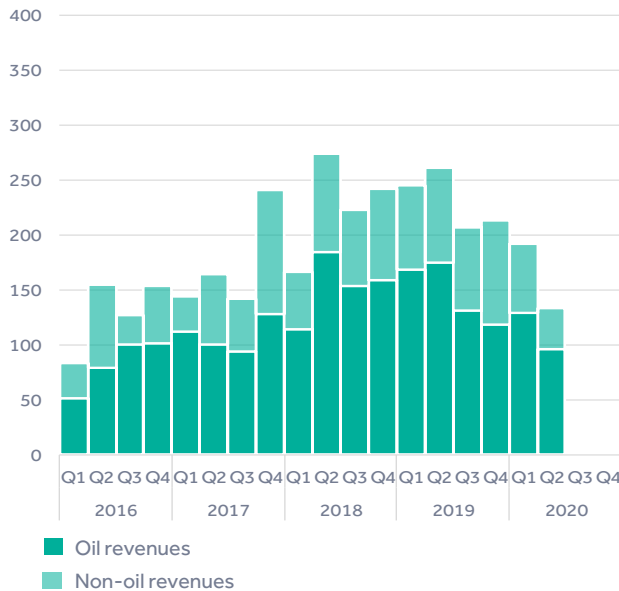


After the record outflow from SAMA official reserves in March and April which can largely be explained by an extraordinary asset transfer from SAMA to PIF, foreign currency reserves stabilized in

May and June. Meanwhile, deposits of government institutions at commercial banks declined by 40bln SAR in June. At the same time, governmental deposits at SAMA increased by the same amount.

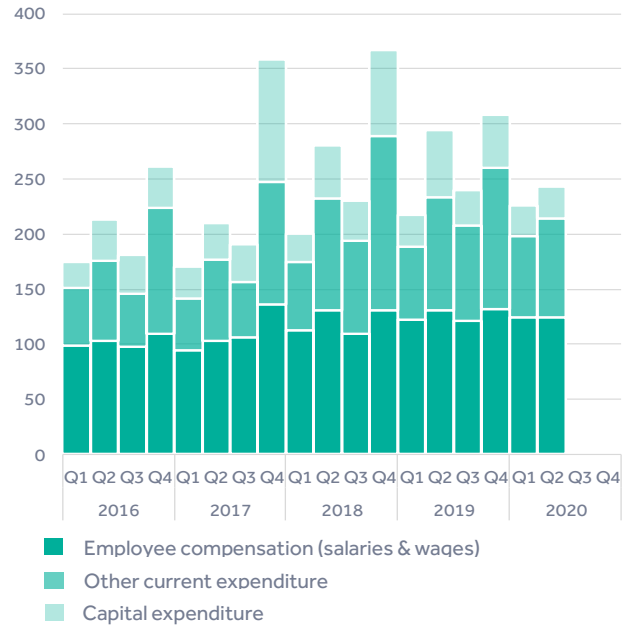
## Quarterly Fiscal Balance and Outstanding Government Debt

**Figure 1:**  
Quarterly Fiscal Revenues (in bln SAR)



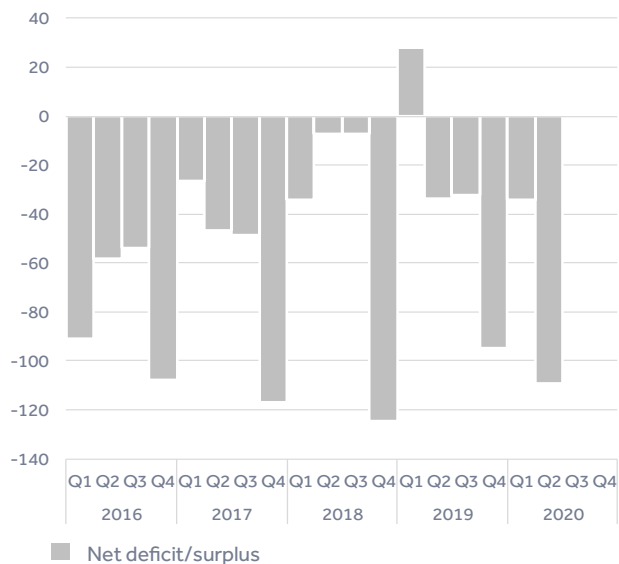
source: MoF

**Figure 2:**  
Quarterly Fiscal Expenditure (in bln SAR)



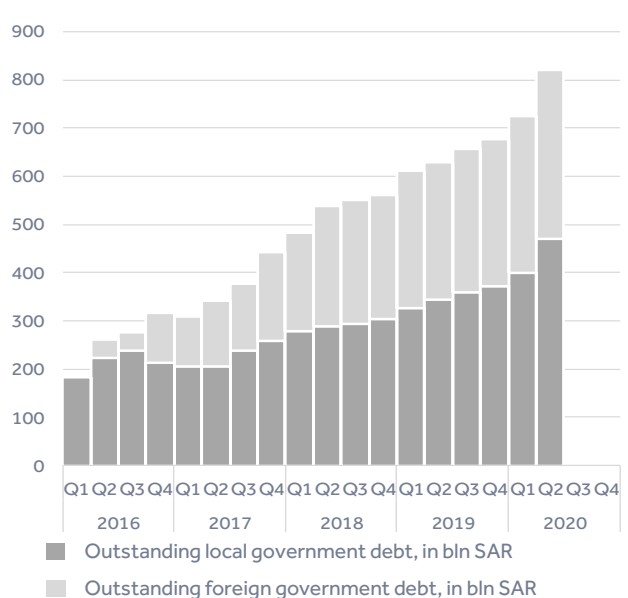
source: MoF

**Figure 3:**  
Quarterly Fiscal Deficit/Surplus (in bln SAR)



source: MoF

**Figure 4:**  
Outstanding Government Debt (End of Quarter)



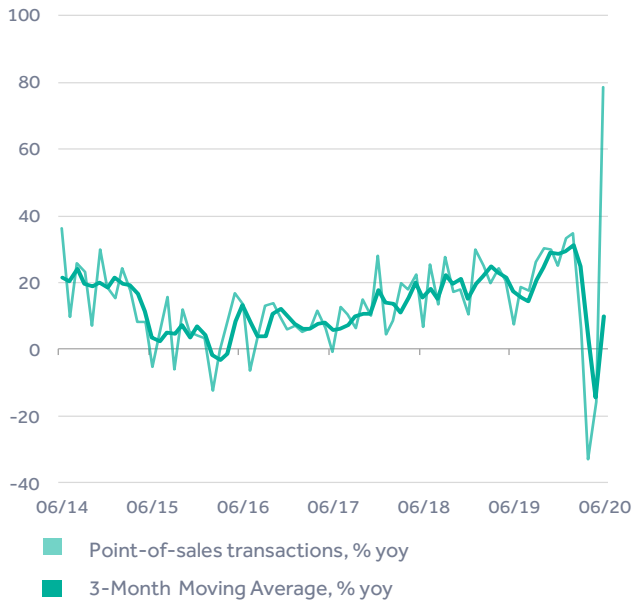
source: MoF

Fiscal revenues in Q2 2020 declined by 30% to the previous quarter and by 49% to Q2 2019. Oil revenues were impacted by low oil prices and non-oil revenues were affected by tax deferrals and lower

tax revenues due to weak economic activity. Meanwhile, expenditure turned out to be 8% higher than Q1 2020 and 17% lower than Q2 2019. The fiscal deficit for H1 2020 amounted to 143 bln SAR.

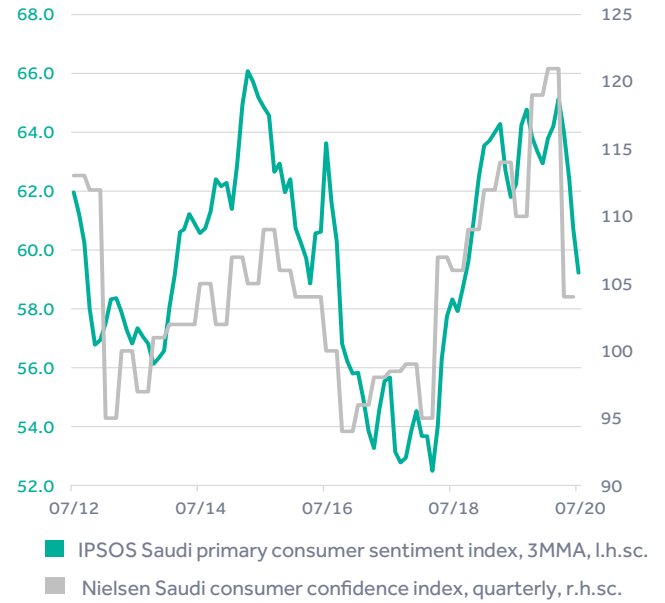
## Private Spending Indicators and Non-Oil Foreign Trade

**Figure 1:**  
Point-of-Sales Transactions



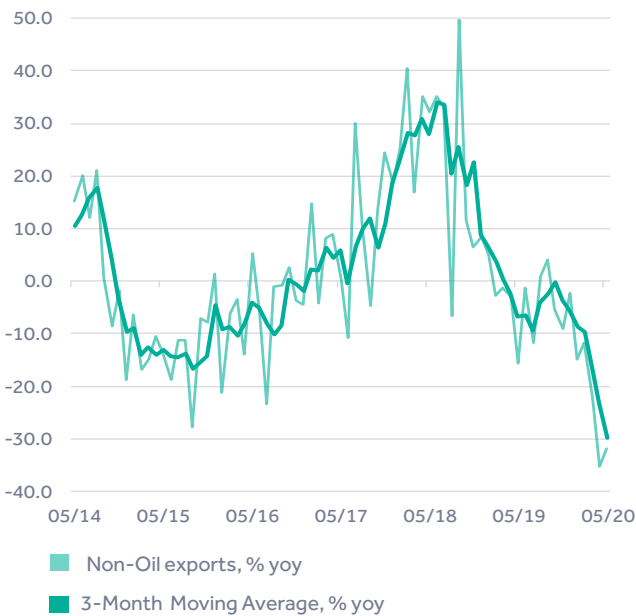
source: SAMA

**Figure 2:**  
Consumer Sentiment



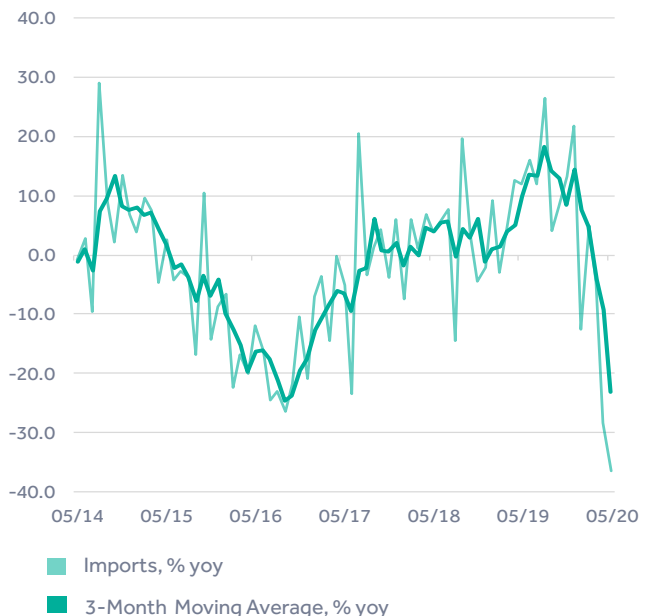
source: Refinitiv, Nielsen

**Figure 3:**  
Growth of Non-Oil Exports



source: GASTAT

**Figure 4:**  
Growth of Imports



source: GASTAT

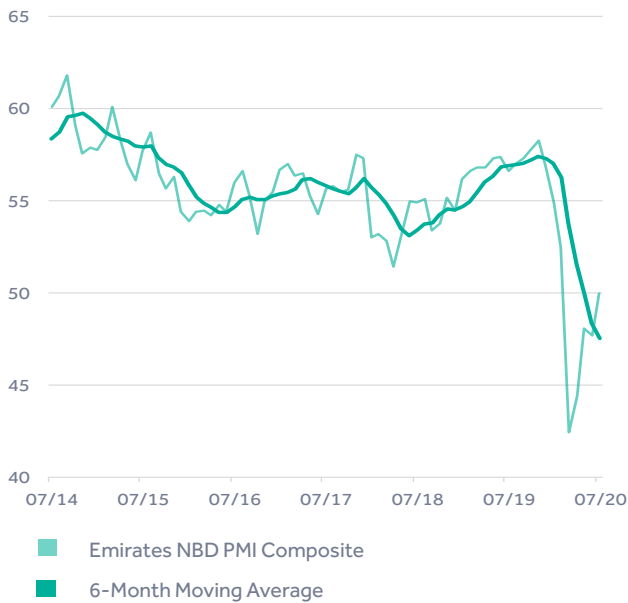
Point-of-sales transactions soared by 78% in June, primarily in anticipation of the VAT rate increase on 1st July. Meanwhile, consumer confidence softened notably in the last few months on the back of the

weaker economy. The global recession also affected Saudi non-oil exports which dropped by -32% yoy in June, while a weaker domestic economy led to a corresponding decline of imports (-37%yoy).



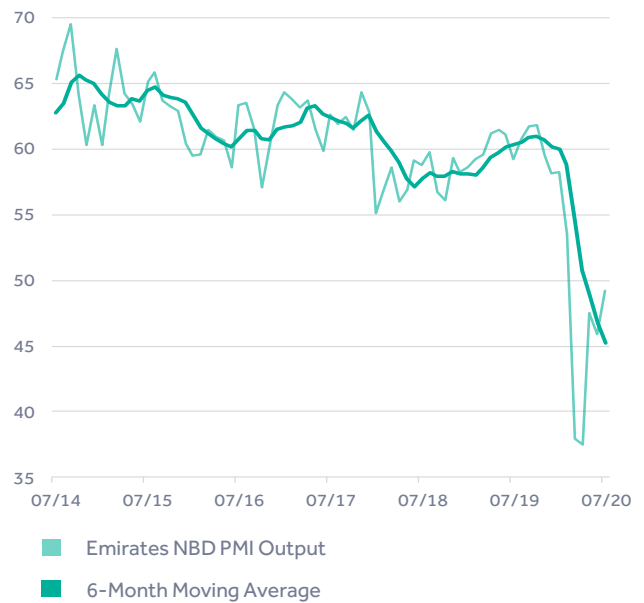
## Non-Oil Private Sector Business Climate Indicators

**Figure 1:**  
Purchasing Manager Index Composite



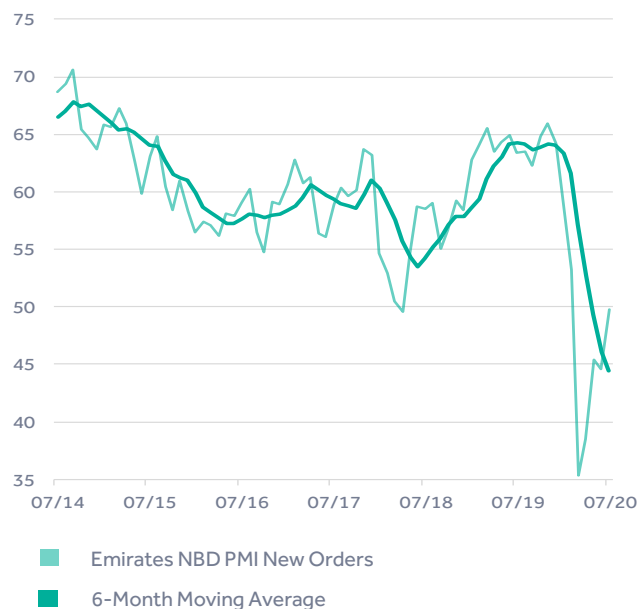
source: Markit

**Figure 2:**  
Purchasing Manager Index Output



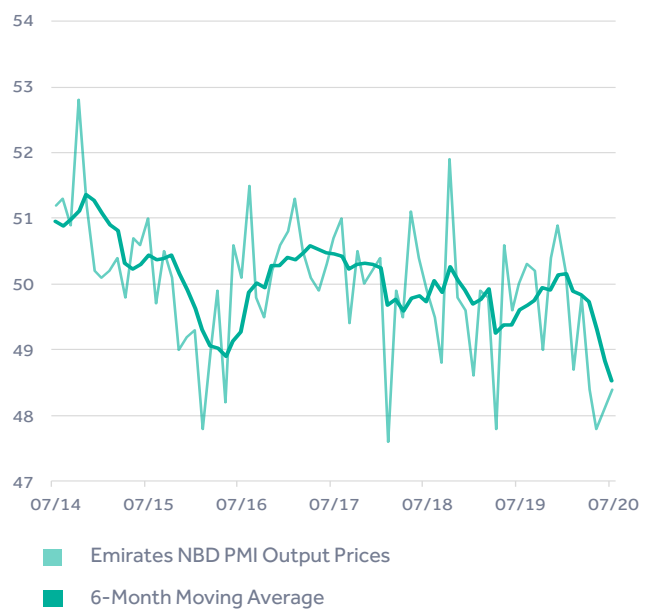
source: Markit

**Figure 3:**  
Purchasing Manager Index New Orders



source: Markit

**Figure 4:**  
Purchasing Manager Index Output Prices



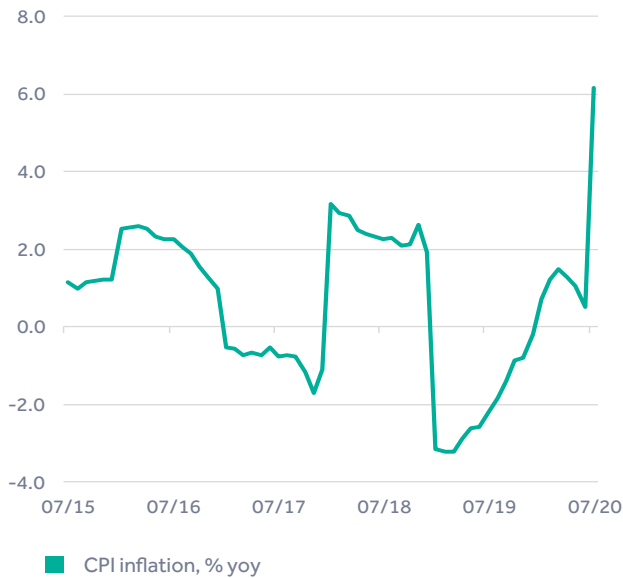
source: Markit

The business climate of the non-oil economy, measured by the Purchasing Manager Index (PMI), is witnessing a gradual recovery in the last few months after a trough in Spring. For July, the composite in-

dex reached 50.0, the level which separates contraction from expansion. However, the pricing power still remains weak for Saudi corporates with the output price index at 48.4, still clearly below 50.

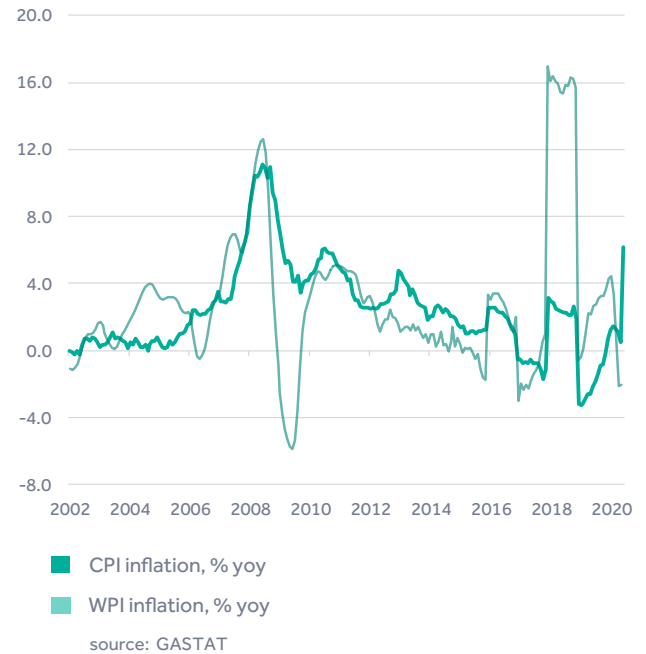
## Consumer and Wholesale Price Inflation

**Figure 1:**  
Consumer Price Inflation All Items



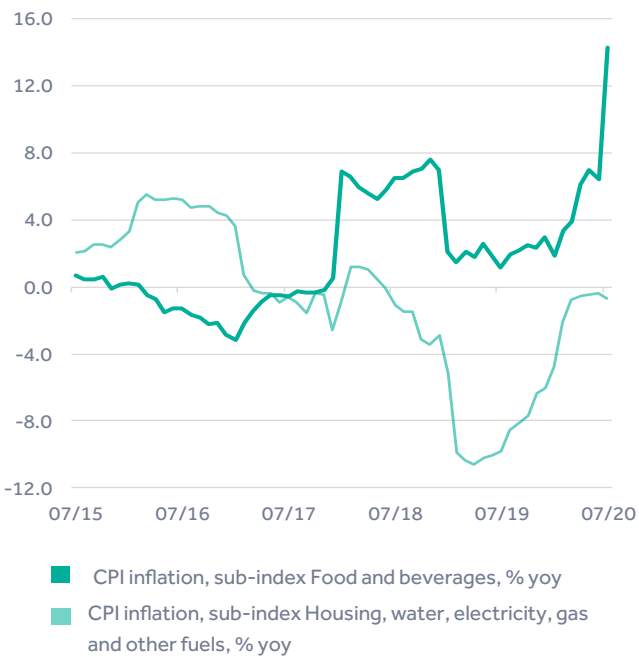
source: GASTAT

**Figure 2:**  
Consumer Price and Wholesale Price Inflation



source: GASTAT

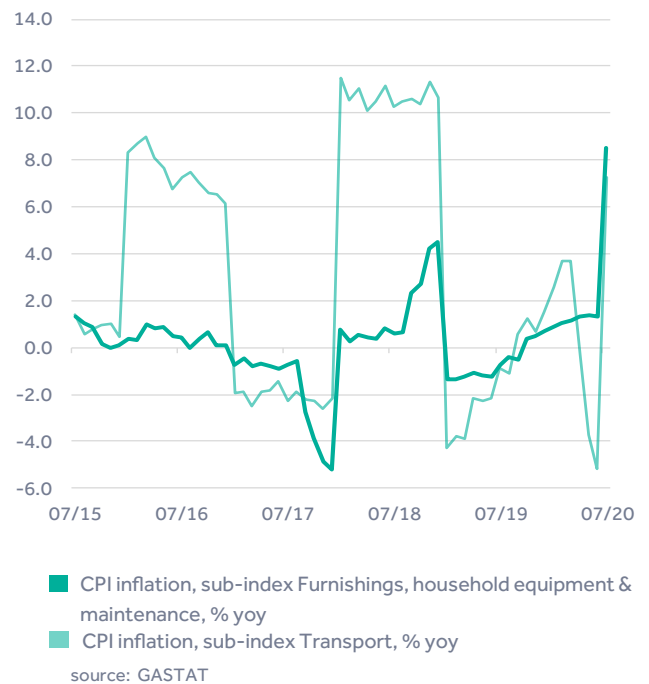
**Figure 3:**  
CPI Inflation Food & Housing



source: GASTAT

The increase of the VAT rate from 5% to 15% as of 1st July considerably impacted the CPI inflation data. The overall yearly inflation rate climbed from 0.5%yoy in June to 6.1% in July. The monthly in-

**Figure 4:**  
CPI Inflation Furnishings & Transportation

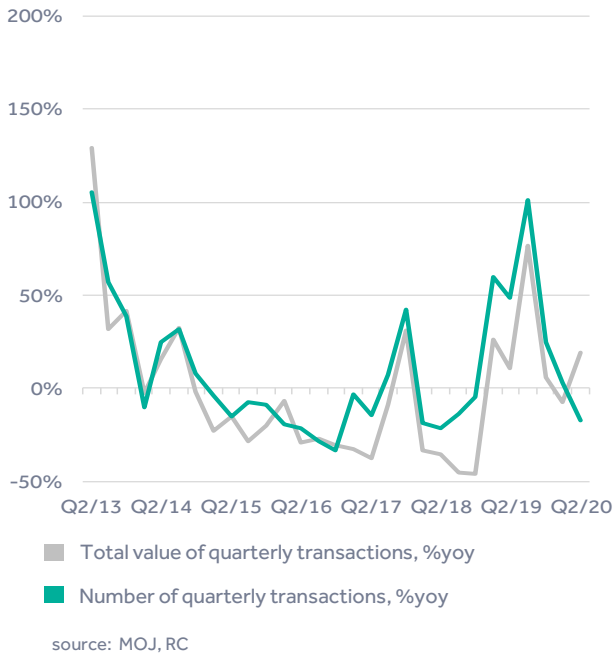


source: GASTAT

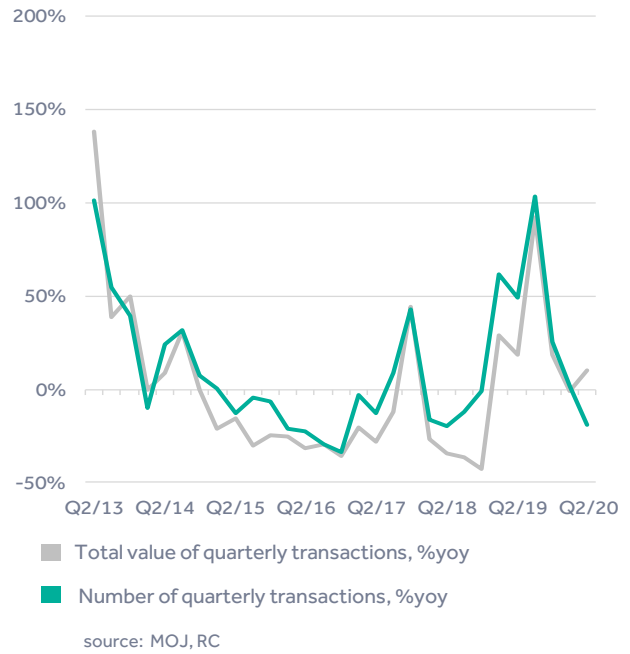
crease from June to July amounted to 5.9%. Given the magnitude of the tax rate hike, this moderate CPI increase indicates that producers did not pass on the entire tax rate mark up to their consumers.

## Real Estate Market: Transaction Activity

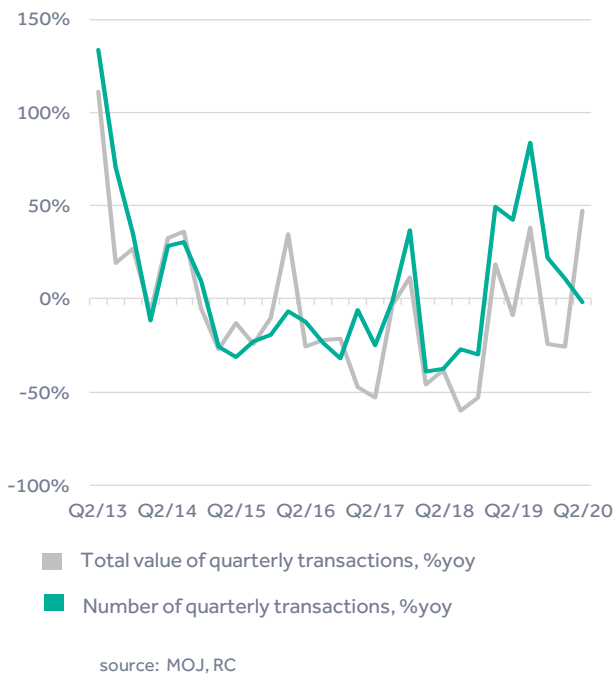
**Figure 1:**  
Quarterly Real Estate Transactions Overall Country



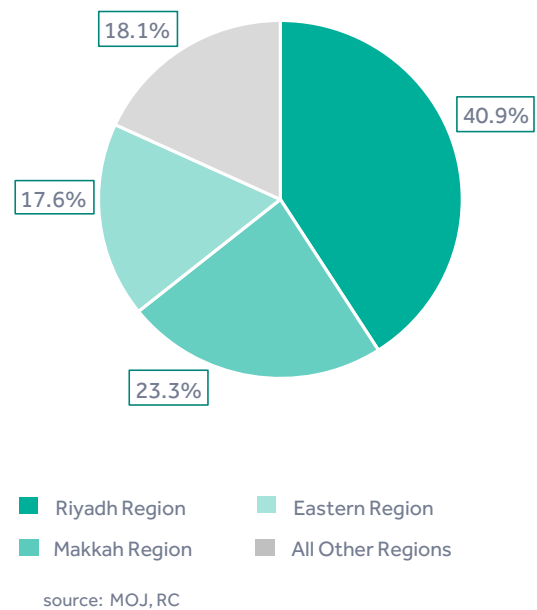
**Figure 2:**  
Quarterly Residential Real Estate Transactions



**Figure 3:**  
Quarterly Commercial Real Estate Transactions



**Figure 4:**  
Breakdown of Transaction Value by Regions (Q2 2020)

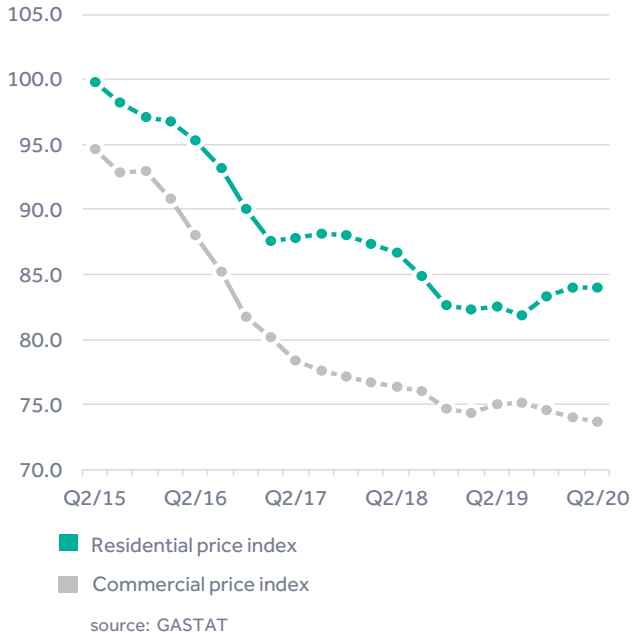


In Q2 2020, the real estate transaction value expanded by 19% compared to the previous year, while the number of transactions declined by 17%. This indicates that the quarter was characterized by

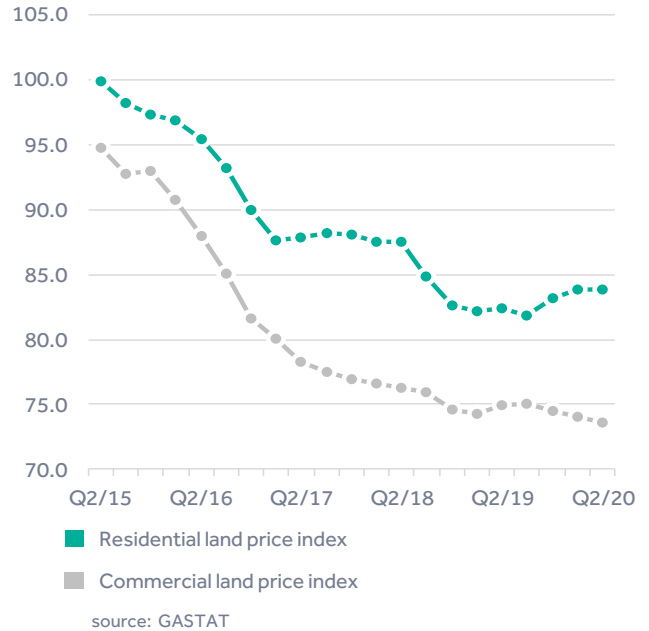
a small number of very large transactions. This specifically applies to commercial real estate deals where the overall value soared by 48% while the number of transactions was almost unchanged.

## Real Estate Market: Price Indices

**Figure 1:**  
Residential and Commercial Price Indices



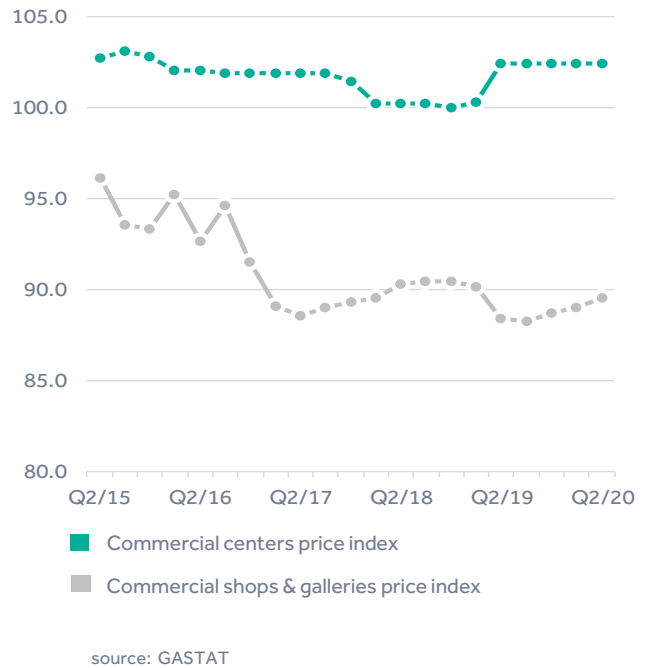
**Figure 2:**  
Residential and Commercial Land Price Indices



**Figure 3:**  
Residential Villas and Apartments Price Indices



**Figure 4:**  
Commercial Shops and Centers Price Indices

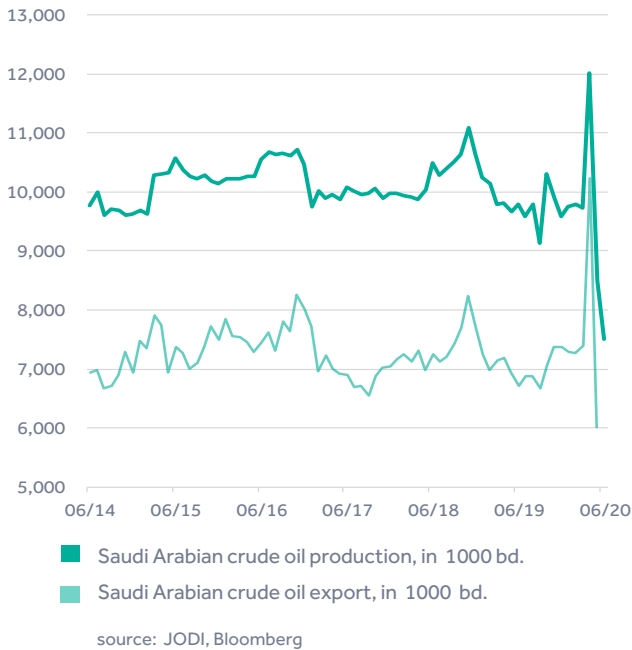


Since end of last year, a gradual divergence between residential and commercial real estate prices can be observed. While residential sales prices have already started to recover, commercial prices are still in an

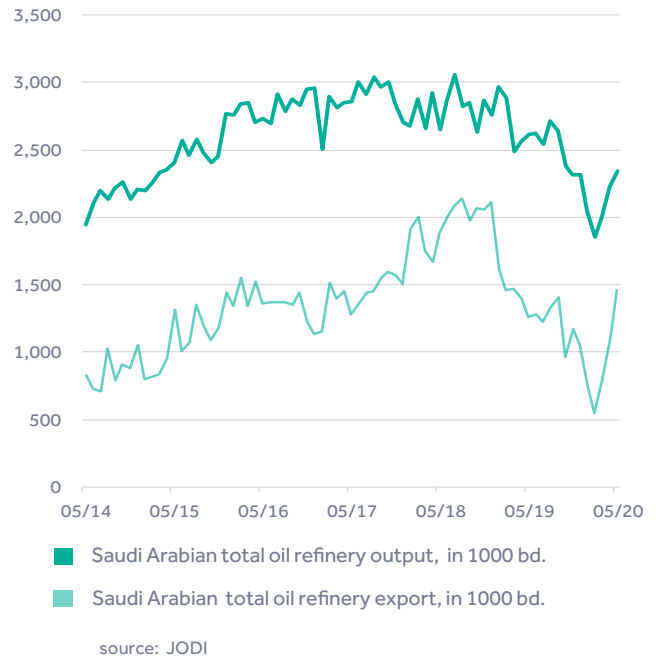
protracted bottoming out period. This, in particular, applies to land prices. On the back of a weak economy in Q2, residential prices remained unchanged, whereas commercial prices dropped by -0.5% qoq.

## Oil Market Statistics: Production, Exports, Refinery and Prices

**Figure 1:**  
Saudi Crude Oil Production and Exports



**Figure 2:**  
Saudi Crude Refinery Output and Exports



**Figure 3:**  
OPEC Crude Output



**Figure 4:**  
Oil Prices



Saudi crude oil production sharply dropped from 12.0 mbd in April to 7.5 mbd in June. This strong output contraction has to be seen on the back of the latest OPEC+ output cut agreement in April. As a

consequence, overall OPEC production has dropped from 30.3 mbd in April to 22.2 mbd in June. Based on the agreement, a gradual output expansion can be expected in the course of H2 2020.

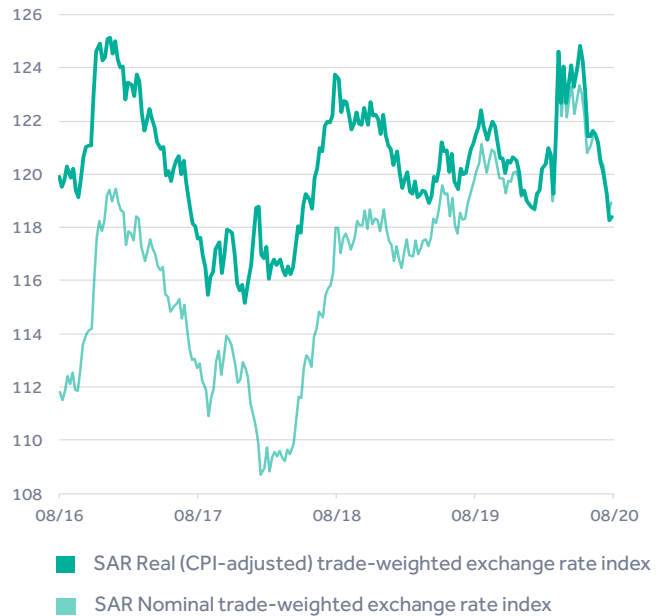
## Foreign Exchange: Forward Rates and Effective Exchange Rate Index

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



source: Bloomberg

**Figure 2:**  
SAR Nominal and Real Effective Exchange Rate



source: Bloomberg, JP Morgan

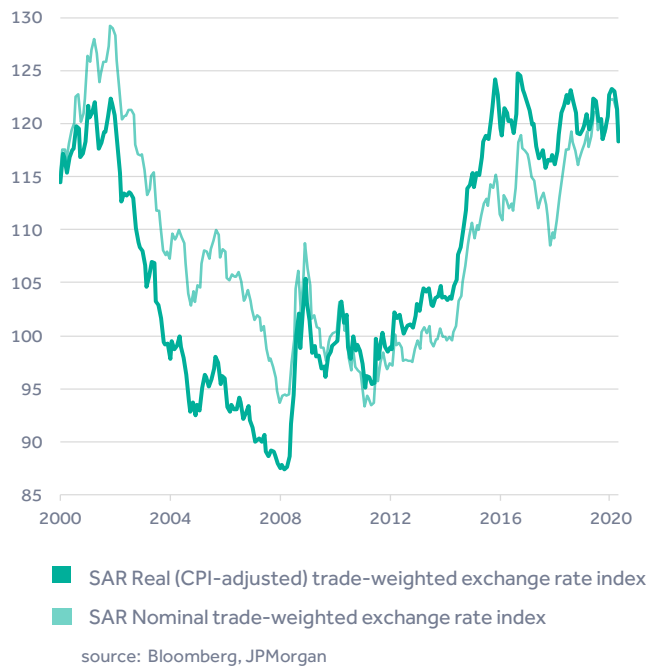
**Figure 3:**  
12-Months Forward Exchange Rate USD/SAR in the Long Term



source: Bloomberg

After having reached a temporary peak at 3.78 in April, the 12M FX-forward rate for USD/SAR has consolidated slightly above 3.76 most recently. This is still gradually above the pre-pandemic level of

**Figure 4:**  
SAR Nominal and Real Effective Exchange Rate in the Long Term

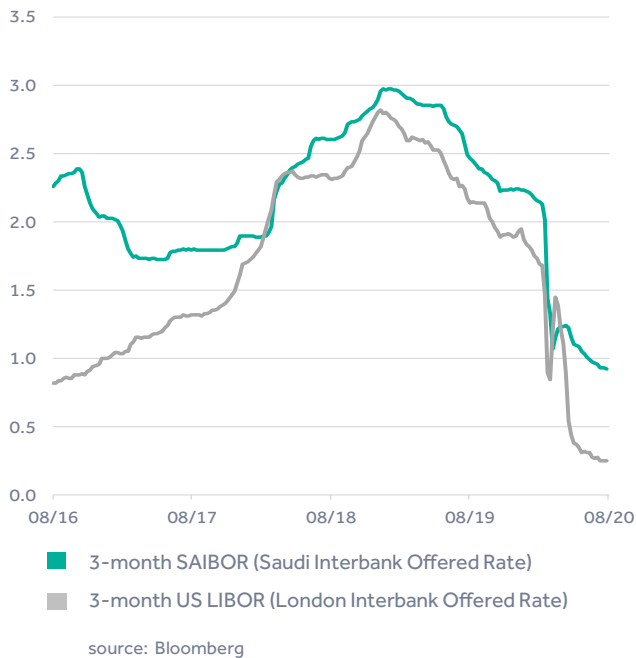


source: Bloomberg, JPMorgan

2019. The USD weakness since May of this year has also affected the Saudi riyal. The trade-weighted SAR exchange rate index declined by -5.2% in nominal terms and -3.6% in real terms since mid-May.

## Interest Rates: Money Market, Capital Market and Central Bank Rates

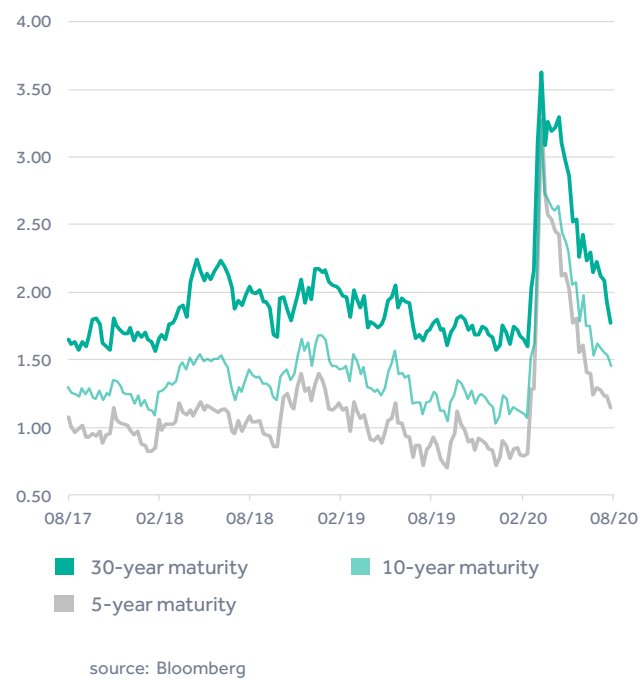
**Figure 1:**  
3-Months SAIBOR vs. USD LIBOR



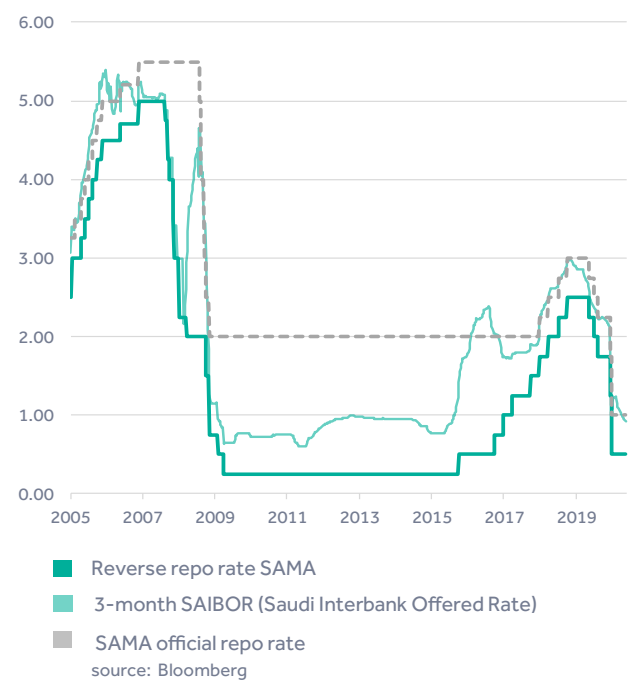
**Figure 2:**  
5-Year Swap Rate SAR vs. USD



**Figure 3:**  
KSA USD-Bonds Yield Spread to US Treasuries



**Figure 4:**  
Central Bank Rate and 3-Months SAIBOR

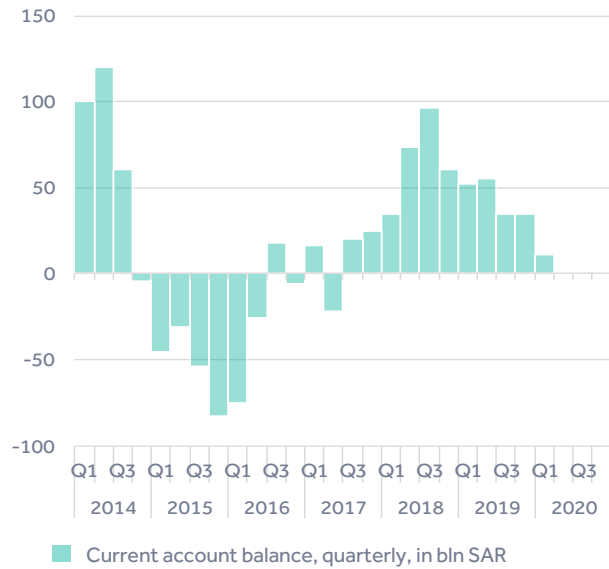


USD and SAR interest rates continued their protracted decline since March of this year. 3M SAIBOR has dropped to 0.92% by mid-August. The spread to USD 3M LIBOR has stabilized around 70bp which,

however, is still notably above the pre-pandemic spread of about 30bp. As we expect this spread to further tighten in the next 12 months, there is still room for SAIBOR to further decline.

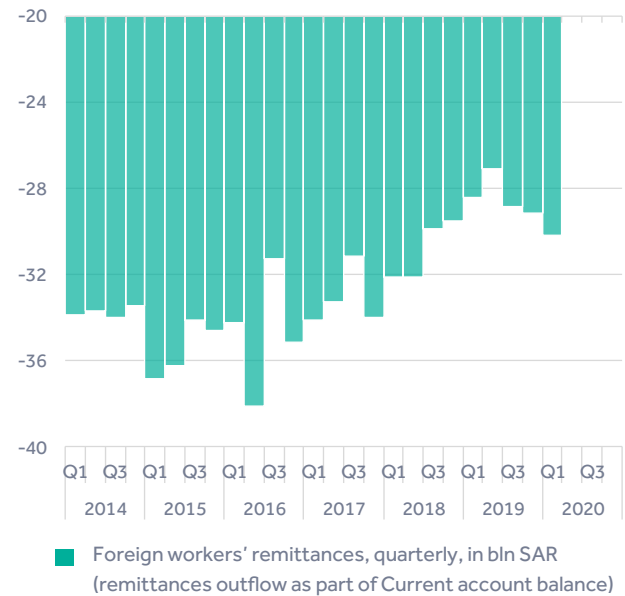
## Saudi Balance of Payments

**Figure 1:**  
Current Account Balance



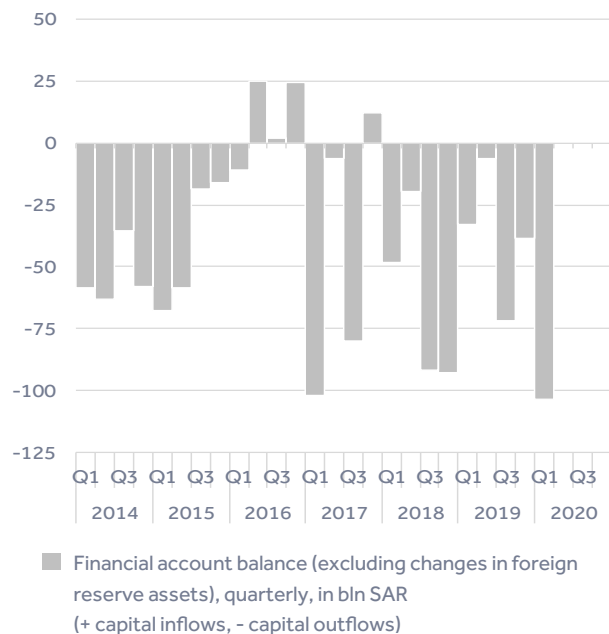
source: SAMA

**Figure 2:**  
Foreign Workers' Remittances



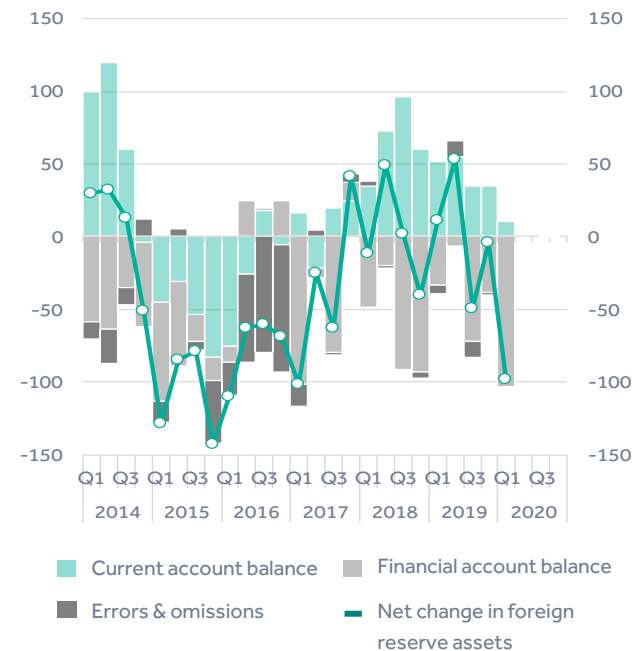
source: SAMA

**Figure 3:**  
Financial Account Balance



source: SAMA

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



source: SAMA

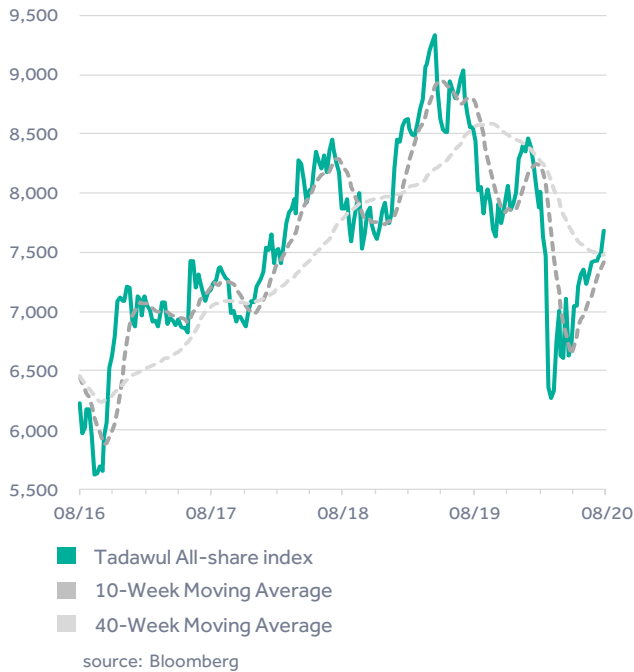
Lower oil prices in February and March already affected the current account balance which declined to 11bln SAR in Q1 2020. We expect the current account to drop into a deficit for the full year 2020,

primarily due to lower oil export revenues. The Q1 2020 deficit of 104bln SAR for the financial account balance can mainly be explained by the 75bln SAR foreign asset transfer from SAMA to PIF in March.

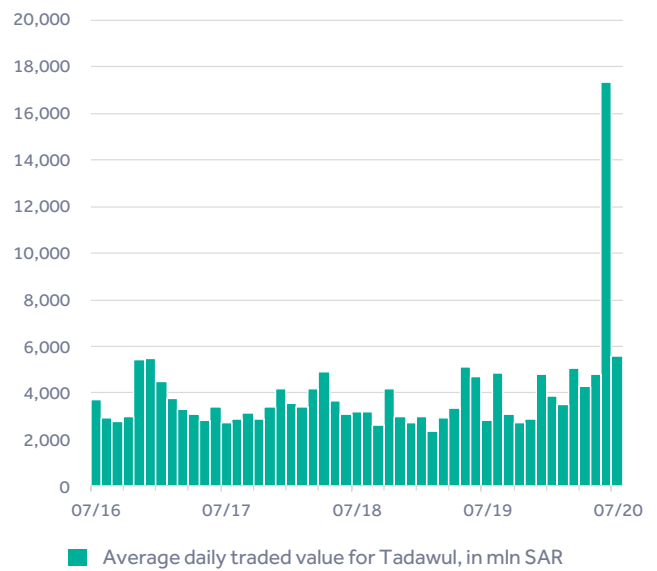


### Tadawul: Saudi Equity Market Statistics

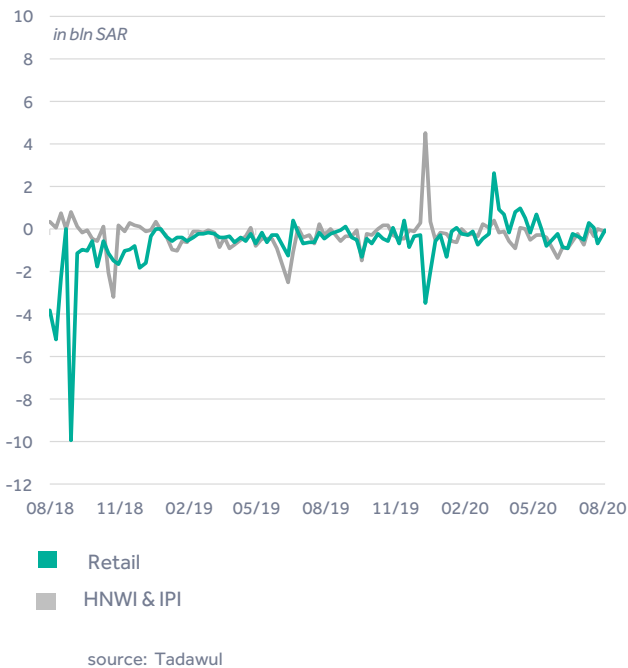
**Figure 1:**  
Tadawul All-Share Index



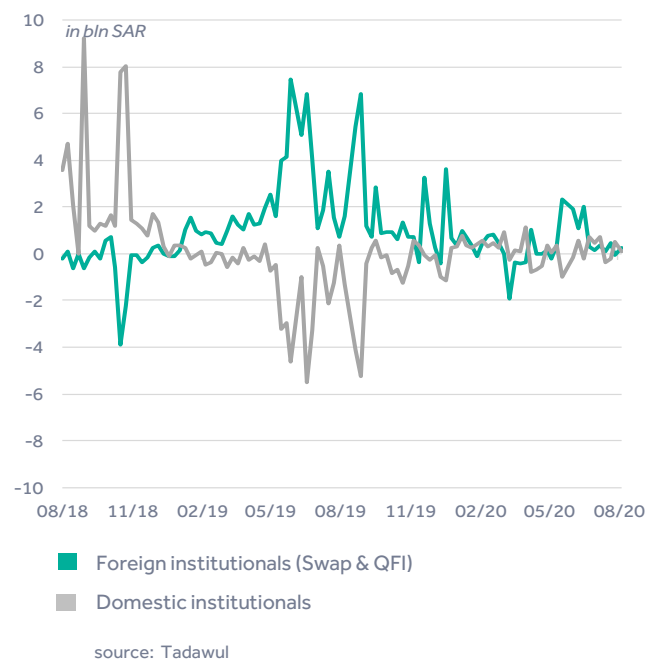
**Figure 2:**  
Tadawul Average Daily Traded Value



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



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

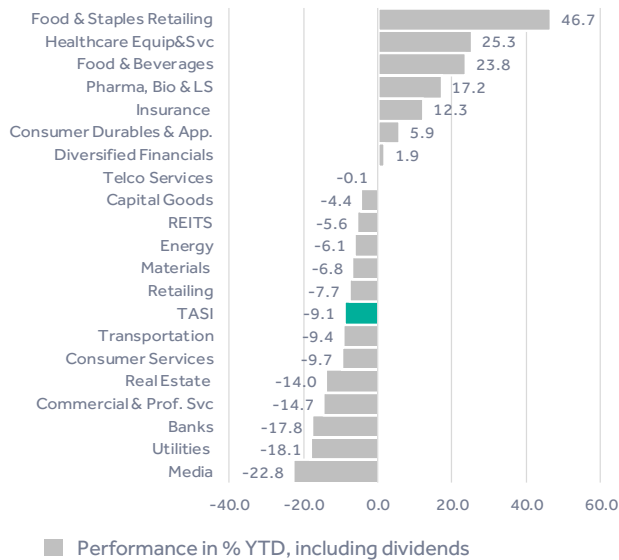


The Saudi equity market has strongly rebounded since its lows in March. While in an initial stage of this recovery phase domestic retail investors turned out to be net buyers, foreign investors took

on this role in the subsequent period since May. The spike in the traded value on Tadawul in June can be explained by the 259bln SAR transaction, in which Aramco acquired a 70% stake of SABIC from PIF.

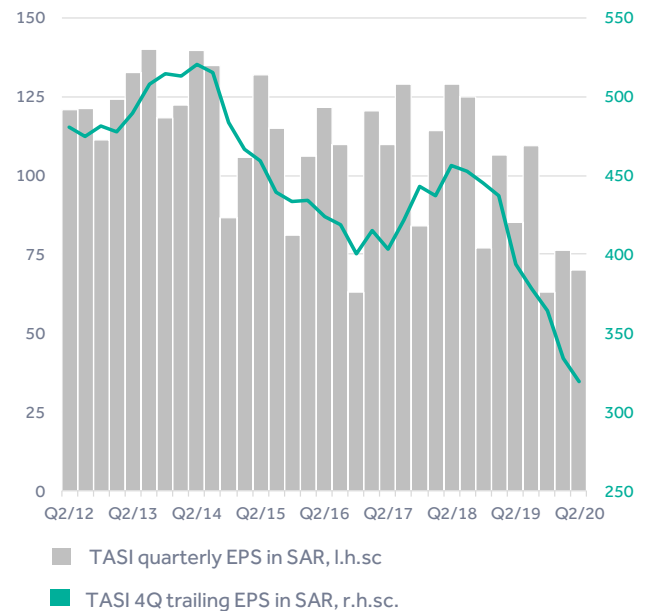
## Tadawul: Saudi Equity Market Statistics

**Figure 1:**  
Performance TASI Sectors July 2020YTD



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

Defensive sectors, such as food&staples retailing, healthcare and pharmaceuticals were the TASI top performers so far this year, while media, utilities and banks turned out to be the worst performing sec-

tors over this period. Due to a notable decline of trailing and forward earnings during the TASI rebound period since March, the Saudi market looks increasingly expensive by historical standards.

## Saudi Economic Outlook

In 2020, the Saudi economy is affected by two major factors: The fallout of the Coronavirus outbreak and the decline of oil prices due to the global economic shutdown.

In our baseline scenario, the non-oil private sector economy is expected to notably slow down with a cyclical trough in the second quarter and a gradual recovery towards the end of the year. For the full year 2020, we forecast non-oil private sector growth to contract by -4.6%.

Based on the assumption that the impact of the Coronavirus pandemic will fade in 2021, we project a recovery of the non-oil private sector in the course of next year with a full year growth rate of 4.0%

On the back of the OPEC+ output cut agreement the Saudi oil production is expected to decline in 2020 which will translate into a negative GDP growth contribution by the oil sector of -3.9%. For next year, we project a rebound in the order of 3.5%.

As a result, GDP growth of the overall economy is forecasted to decline by -3.6% in 2020 and projected to recover to 3.5% next year.

The fiscal deficit is forecasted to widen to -12.7% of GDP due to distinctly lower oil and non-oil revenues in 2020. The expected economic recovery and higher oil prices will lead to a notable reduction of the fiscal deficit to -7.4% of GDP in 2021.

We expect oil prices to further recover in H2 2020 and forecast Brent prices to reach 50USD by end of the year. For 2021, our baseline scenario projects an average Brent price of 53USD.

CPI inflation is forecasted to notably pick up in 2020 due to the VAT rate increase in July. For the full year 2020, we expect an average inflation of 3.5% after a negative rate of -2.1% in 2019.

The US Federal Reserve is expected to keep interest rates unchanged at least until the end of 2022. As a result, SAMA will also leave its repo and reverse repo rate at current levels.

We expect the 3M SAIBOR-USD LIBOR spread, which currently is approximately 70bp, to narrow in the medium term. As a consequence, we forecast a further sustainable decline of SAIBOR interest rates until end of next year.

### Facts and Forecasts at a Glance

	2018	2019	2020f	2021f
<b>Real GDP Growth</b>				
Overall economy	2.4	0.3	-3.6	3.5
Non-oil Private sector	1.9	3.8	-4.6	4.0
Government sector	2.9	2.2	-0.5	2.1
Oil sector	3.1	-3.6	-3.9	3.5
<b>Fiscal Balance and Government Debt</b>				
Fiscal Balance in bln SAR	-174	-133	-322	-214
Fiscal Balance in % GDP	-5.9	-4.5	-12.7	-7.4
Government debt in bln SAR	560	678	898	1048
Government debt as % GDP	19.0	22.8	35.5	36.1
<b>Trade and Current Account</b>				
Trade Balance in bln SAR	633	485	183	327
Trade Balance in % GDP	21.5	16.3	7.2	11.3
Current Account in bln SAR	265	187	-85	52
Current Account in % GDP	9.0	6.3	-3.3	1.8

source: GASTAT, SAMA, RC

	2018	2019f	2020f	2021f
<b>Oil Prices and Production (yearly average)</b>				
Brent price (USD pb)	71.7	64.1	43.0	53.0
WTI price (USD pb)	64.9	57.0	40.0	51.0
OPEC Basket price (USD pb)	69.8	64.0	42.0	52.0
KSA oil production (mln bd)	10.3	9.8	9.2	9.5
<b>Inflation and Interest Rates (year end)</b>				
CPI Inflation (yearly average)	2.46	-2.09	3.50	3.40
3M SAIBOR SAR	2.98	2.23	0.80	0.70
Reverse Repo Rate	2.50	1.75	0.50	0.50
Official Repo Rate	3.00	2.25	1.00	1.00
<b>Labor Market (yearly average)</b>				
Unemployment rate total in %	6.0	5.6	5.7	5.6
Unemployment rate Saudi in %	12.8	12.2	12.3	12.2
Labor force part. total in %	56.0	57.9	58.9	59.1
Labor force part. Saudi in %	42.0	44.9	46.9	47.2

source: GASTAT, SAMA, Bloomberg, RC

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