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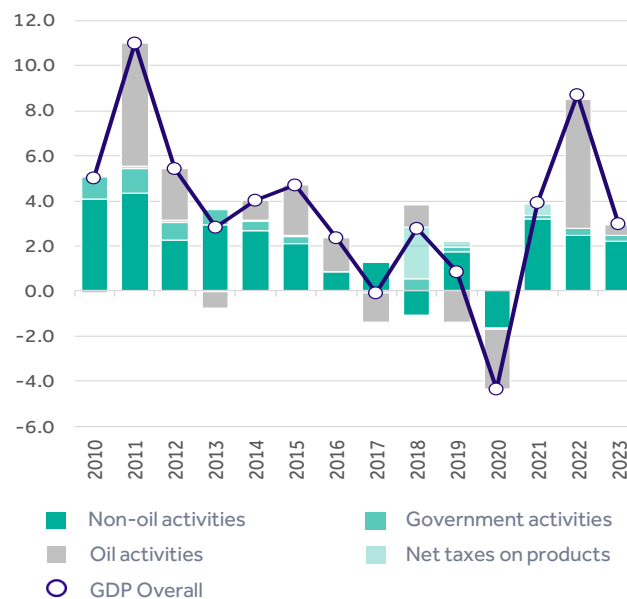
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GDP Growth in the Year 2023 Driven by Non-Oil Activities

- The Saudi economy expanded by 5.4%yoy in Q4 2022. For the full year 2022, GDP growth amounted to 8.7%, the highest growth rate since 2011. A major driver was the oil sector which contributed not less than 5.7% to this growth figure (see chart below).
- With oil production expected to broadly consolidate in 2023, the primary growth driver for the Saudi economy in 2023 will turn out to be non-oil activities which were on a solid expansion path in the course of 2022, growing by 6.2%yoy in Q4. This momentum is expected to largely carry over to 2023.
- The government recorded a deficit of 48 bln SAR in Q4 2022, mainly due to a distinct increase in fiscal spending. For the full year, a fiscal surplus of 102 bln SAR was achieved which was primarily the result of soaring oil revenues.
- Saudi crude output and exports were each reduced by almost 0.5 mbd in the course of Q4 2022, in-line with the OPEC+ decision back in October. Overall, OPEC cut its output by about 850k bd. This contributed to a stabilization of oil prices towards the end of the year and so far in 2023.
- On the back of a strong domestic economy, CPI inflation picked up to 3.4% in January. The major driver behind this trend turned out to be housing rents where 12M price changes accelerated to 7.7%. This reflects a recovering property market with prices rising specifically in the Riyadh region.
- SAMA raised its key interest rates overall by 425bp since March 2022, generally following the US Federal Reserve. We expect FED fund rates to peak around 5.25% in 2023 and to stay at this level throughout the year. 3M SAI-BOR is forecasted to stabilize at 5.55% by end of 2023.

GDP Growth Contribution by Major Economic Activities (in %)

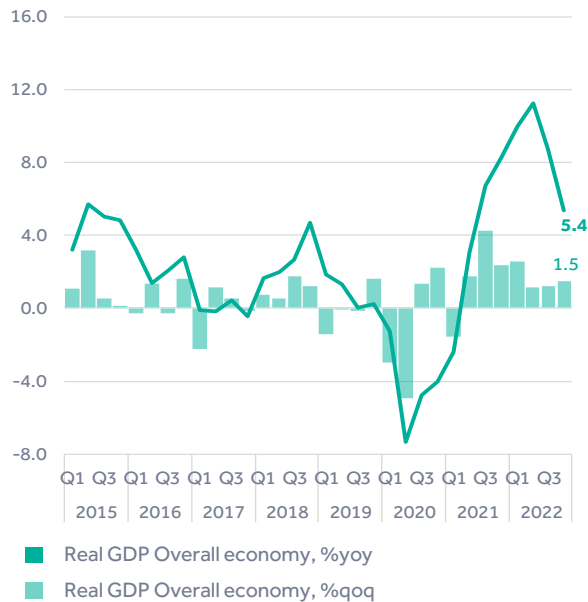


In 2022, the oil sector contributed a record 5.7% to the overall Saudi GDP growth of 8.7%. With oil production consolidating in 2023, this contribution is expected to shrink to 0.5%. On the other hand, the robust outlook for the non-oil economy in 2023 will lead to a contribution of 2.2% by non-oil activities to the overall GDP growth forecast of 3.0%.

source: GASTAT

Gross Domestic Product (GDP) by Main Economic Activities

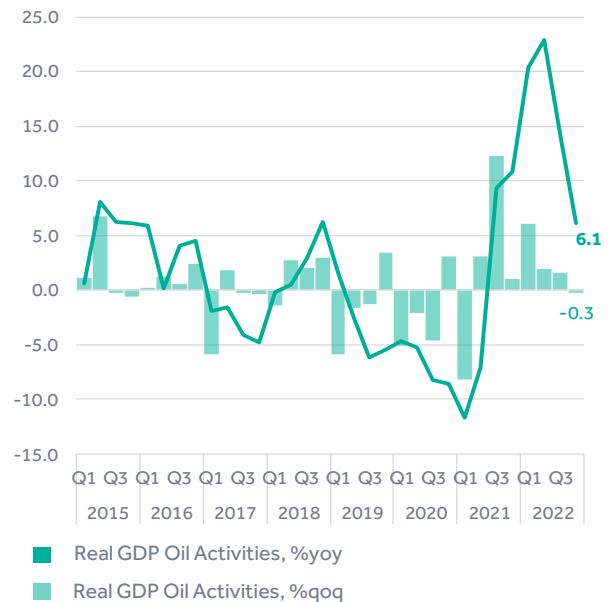
Figure 1:
GDP Overall Economy



(Q4 2022 flash estimate)

source: GASTAT

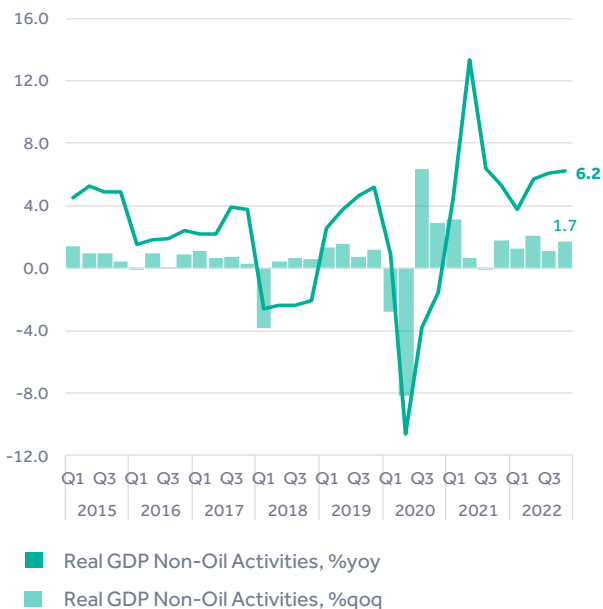
Figure 2:
GDP Oil Activities



(Q4 2022 flash estimate)

source: GASTAT

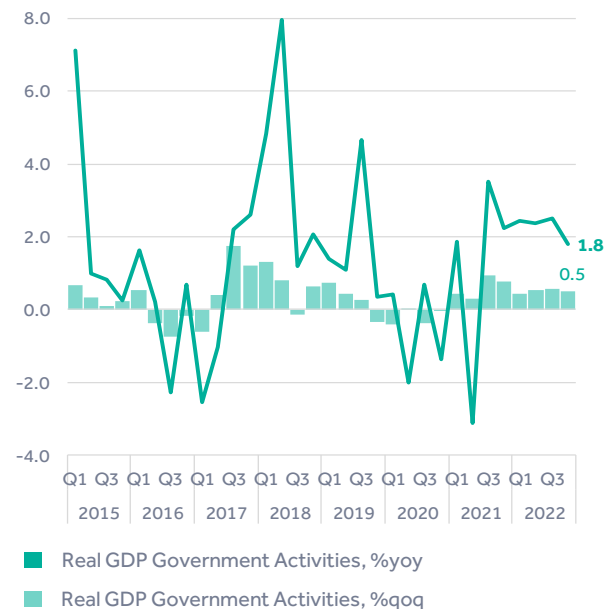
Figure 3:
GDP Non-Oil Activities



(Q4 2022 flash estimate)

source: GASTAT

Figure 4:
GDP Government Activities



(Q4 2022 flash estimate)

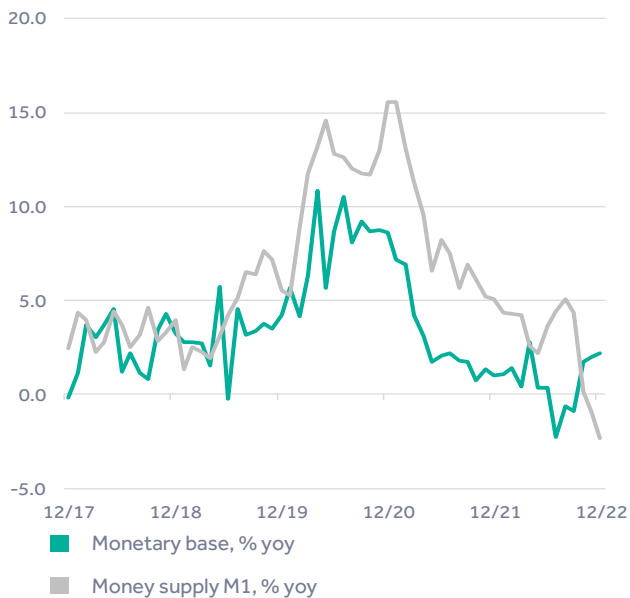
source: GASTAT

According to flash estimates, the Saudi economy expanded by 5.4%yoy in Q4 2022 after a multi-year peak growth of 12.2%yoy in Q2 2022. This growth slowdown is primarily the result of an oil output con-

solidation in H2 2022 which is reflected in a declining growth contribution by the oil sector. On the other side, non-oil activities remained on a strong expansion path with a growth rate of 6.2%yoy in Q4 2022.

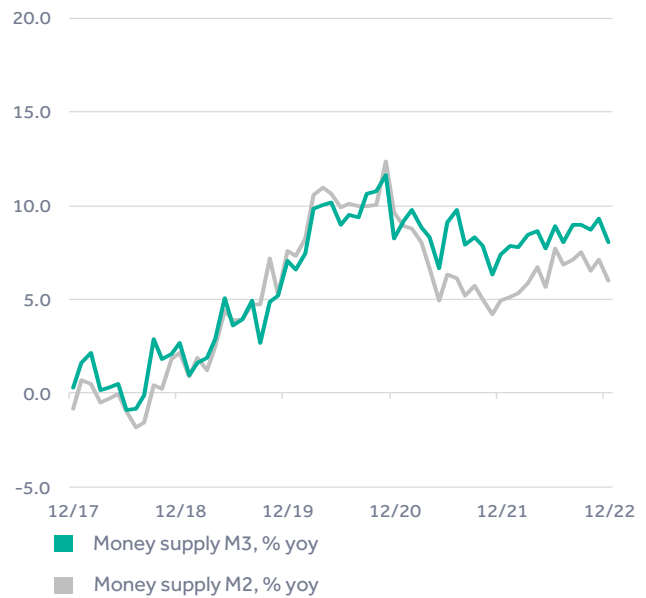
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Money Supply M1



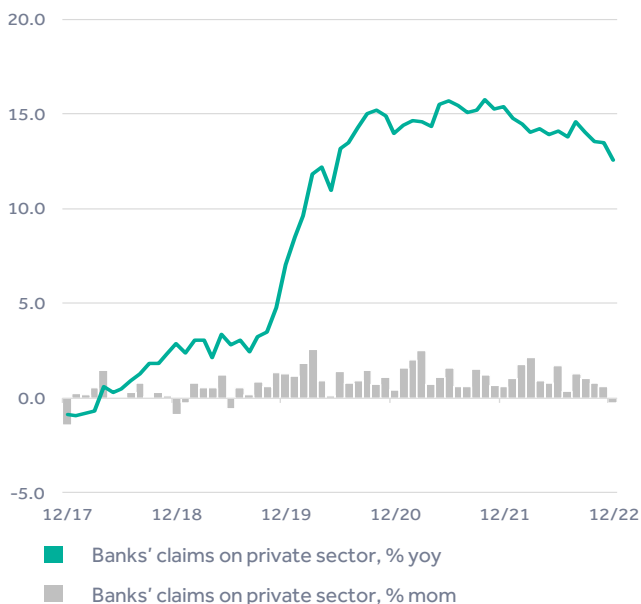
source: SAMA

Figure 2:
Growth Rate Money Supply M2 and M3



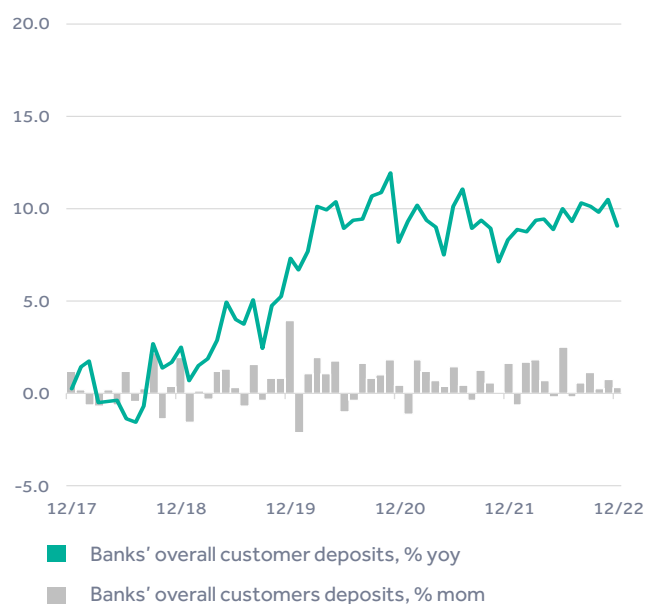
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



source: SAMA

While the growth rate of narrow money supply M1 faltered in H2 and contracted by -2.3% yoy in December, the broader money supplies M2 and M3 show still decent growth. This is due to a shift from

demand deposits into interest bearing time and savings deposits in view of higher interest rates. Rising interest rates may also explain the faltering credit demand growth by the private sector in 2022.

Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio

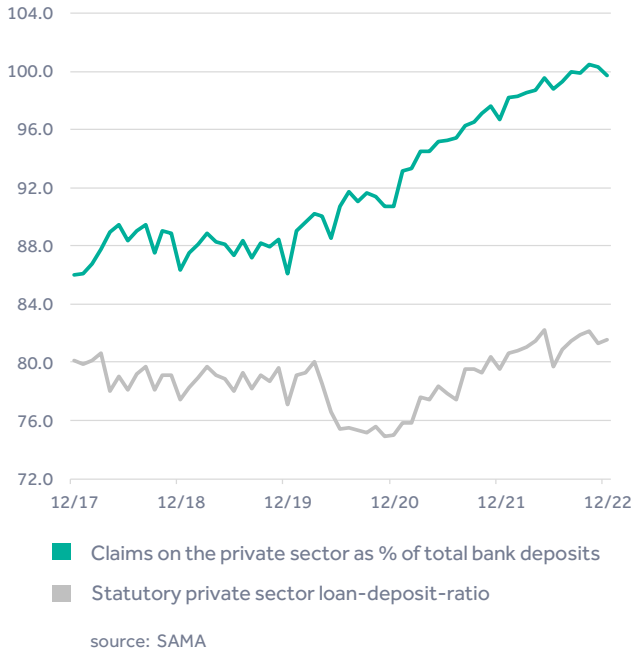


Figure 2:
Government Sector Loan-Deposit-Ratio

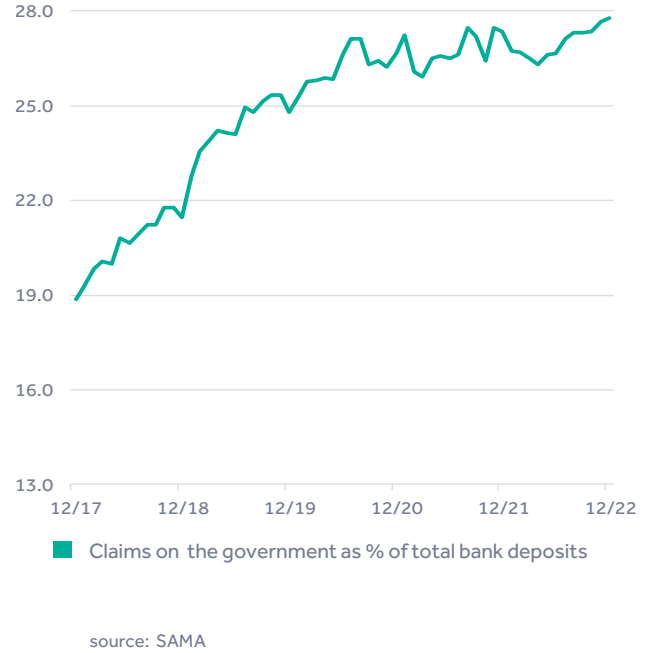


Figure 3:
Foreign Assets to Total Assets Ratio

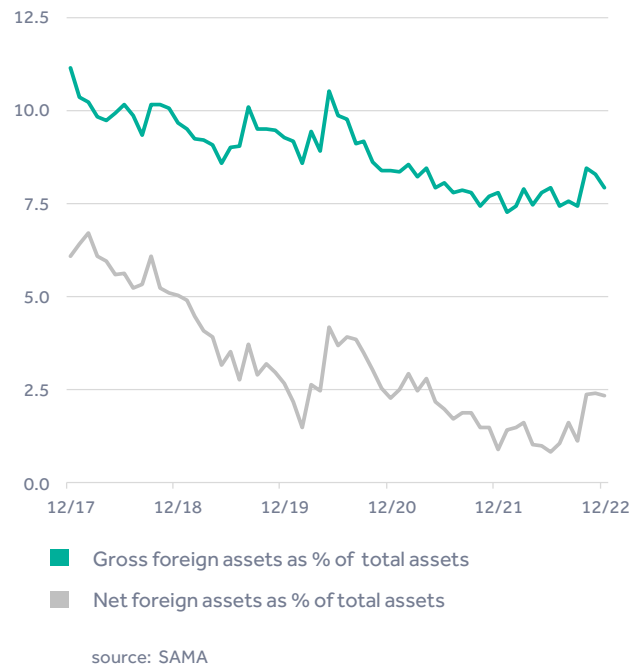
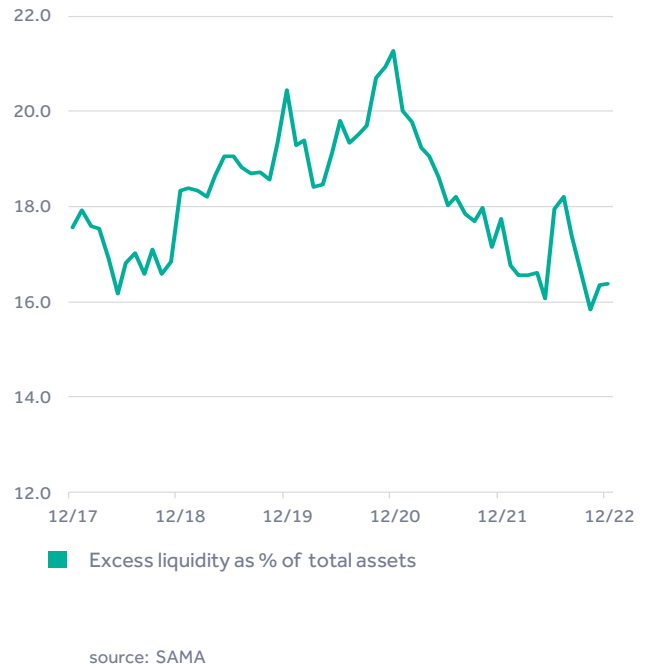


Figure 4:
Excess Liquidity to Total Assets Ratio

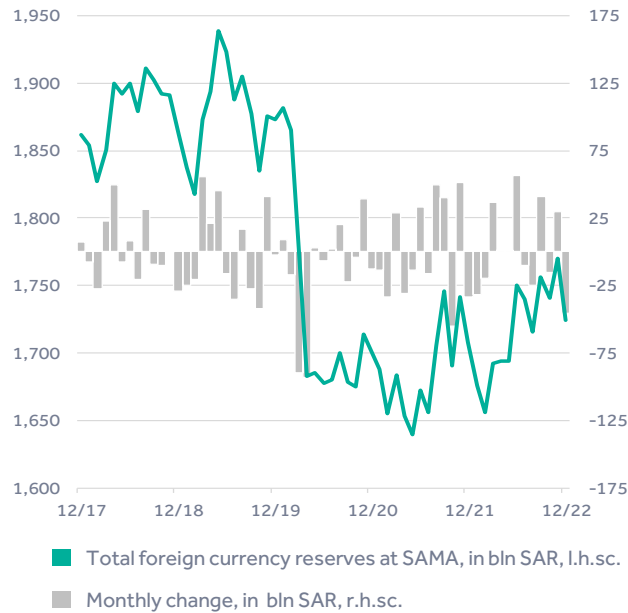


After a drop in June to 79.7% due to a liquidity injection by SAMA, the statutory loan-deposit-ratio (LDR) has stabilized around the current level with the latest reading at 81.55% in December. Mean-

while, the government sector LDR has picked up from a temporary low in April at 26.30% to 27.80% in December as the government regularly borrowed on debt capital markets during this period.

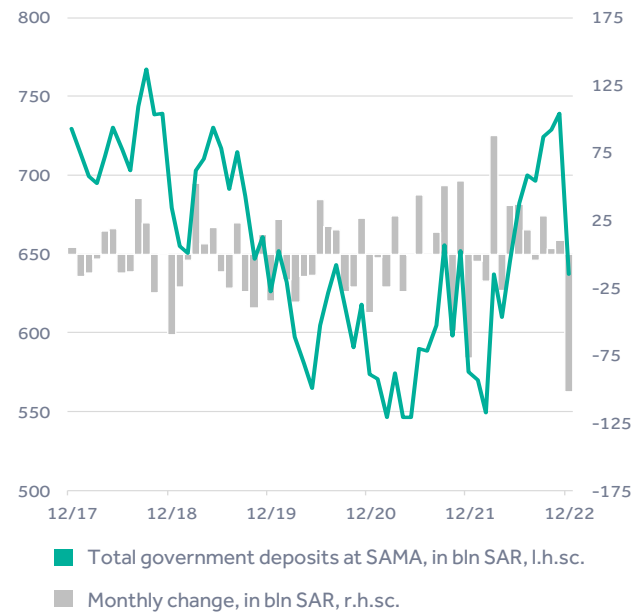
SAMA Balance Sheet and Government Deposits

Figure 1:
Foreign Currency Reserves at SAMA



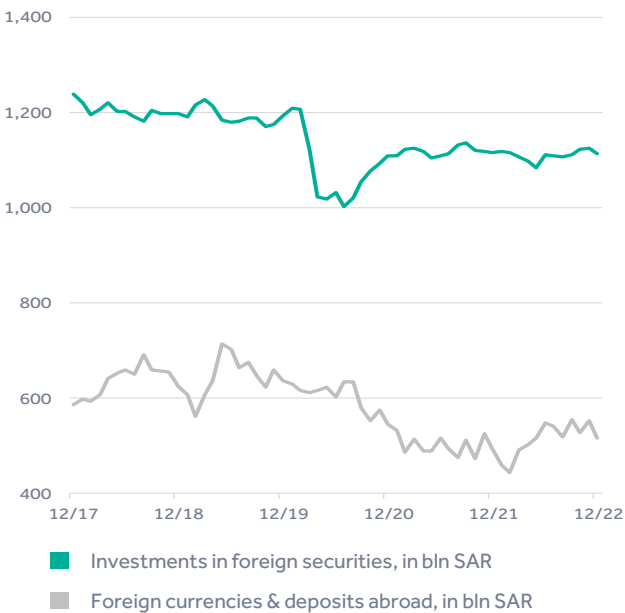
source: SAMA

Figure 2:
Government Deposits at SAMA



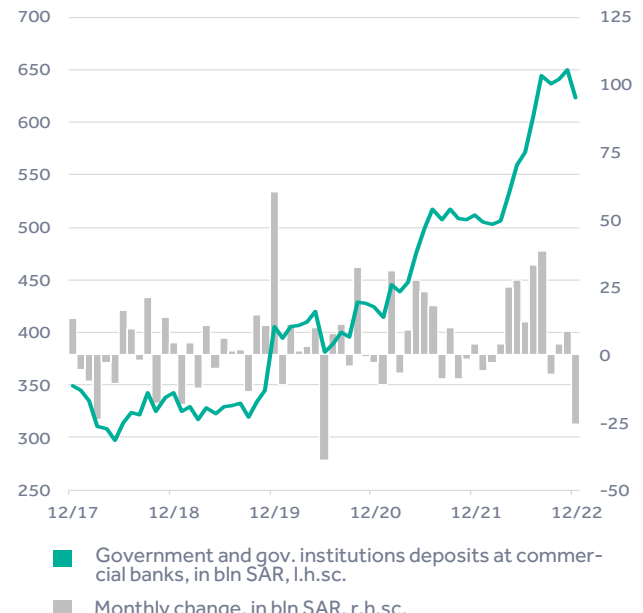
source: SAMA

Figure 3:
Breakdown of Foreign Currency Reserves at SAMA



source: SAMA

Figure 4:
Government Deposits at Commercial Banks



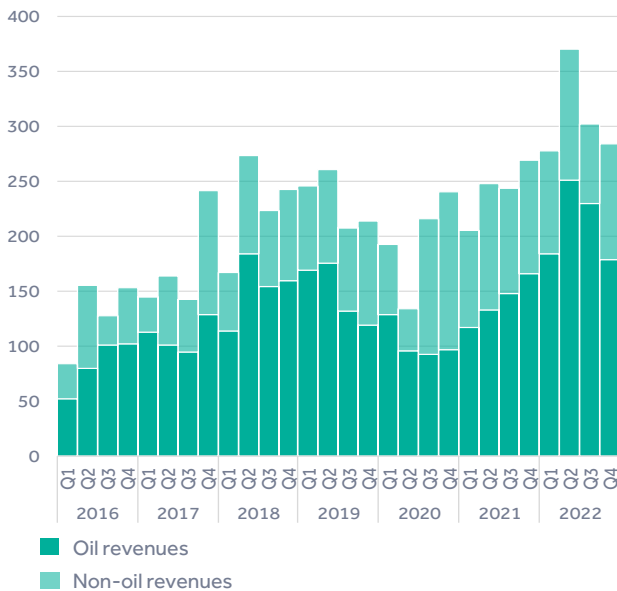
source: SAMA

While SAMA official reserves increased from February to November 2022 by 114 bln SAR, December saw a drawdown by -46 bln SAR. This has most likely to be seen in the context of a distinct withdrawal of

102 bln SAR from government (and government institutions) deposits at SAMA during the same month as the government substantially increased fiscal spending in the final quarter 2022.

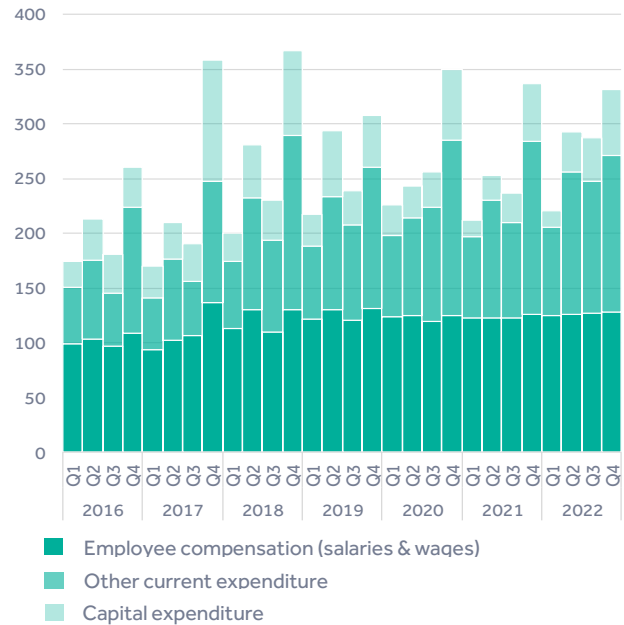
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



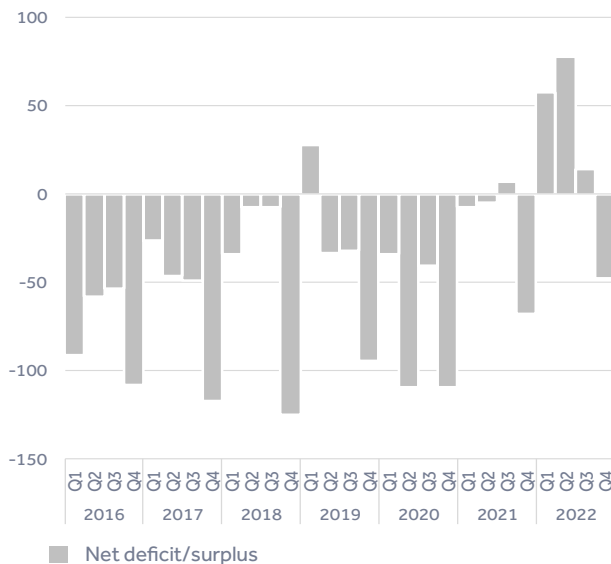
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



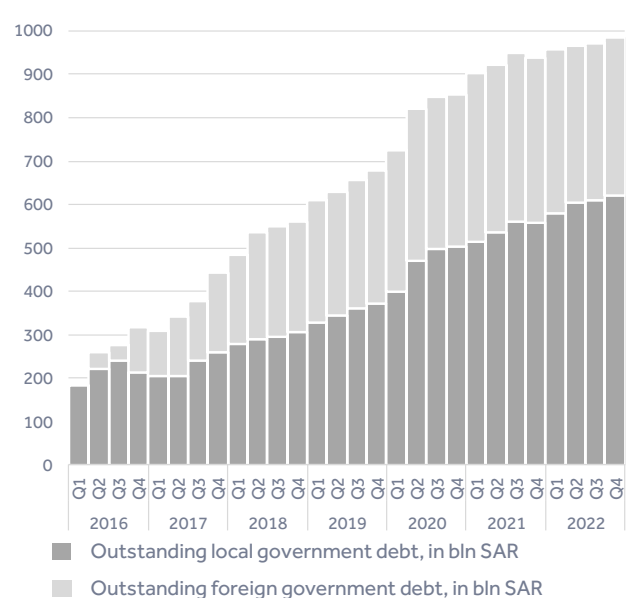
source: MoF

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



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



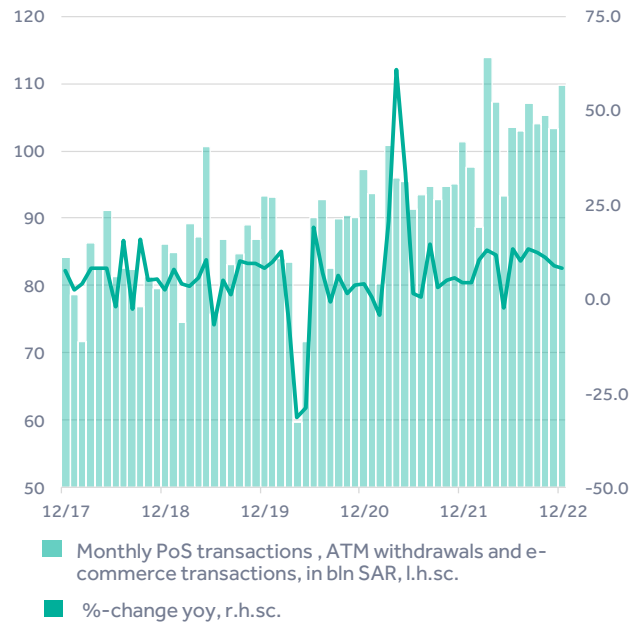
source: MoF

After a record figure of 120 bln SAR in Q2 2022, fiscal revenues slowed to 105 bln SAR in the last quarter, primarily due to lower oil revenues. For the full year, fiscal revenues reached a multi-year high of

1234 bln SAR. On the expenditure side, the usual seasonal pattern could be observed with quarterly expenditure rising to 331 bln SAR in the final quarter. Full year expenditure ended up at 1132 bln SAR.

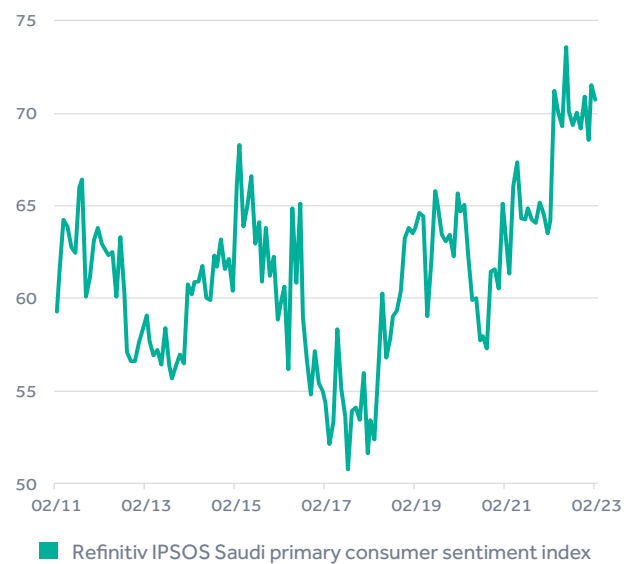
Indicators for Private Spending and Non-Oil Business Climate

Figure 1:
Private Spending Indicator



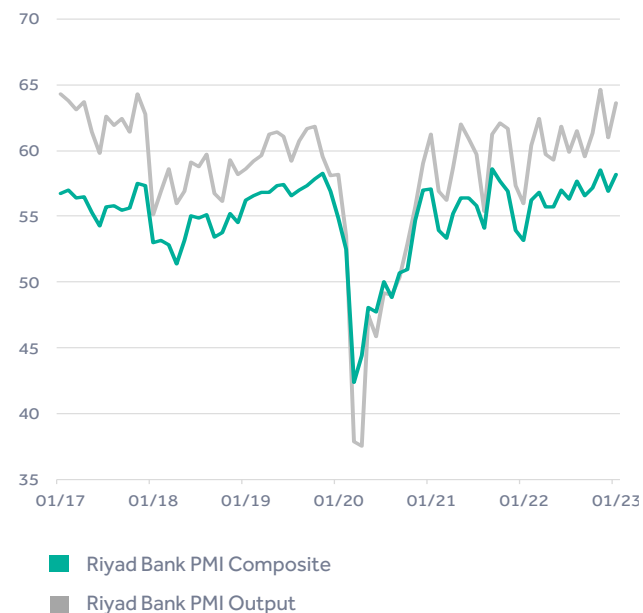
source: SAMA

Figure 2:
Consumer Sentiment Indicator



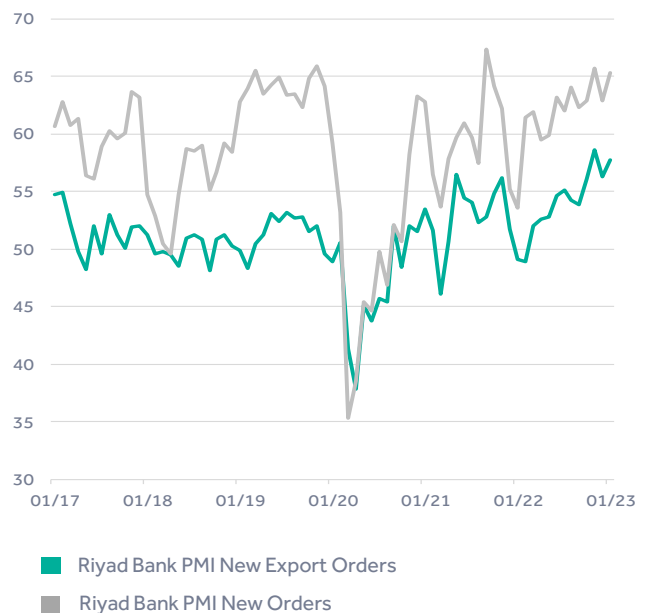
source: Refinitiv

Figure 3:
PMI Composite and PMI Output



source: IHS Markit

Figure 4:
PMI New Orders and PMI New Export Orders



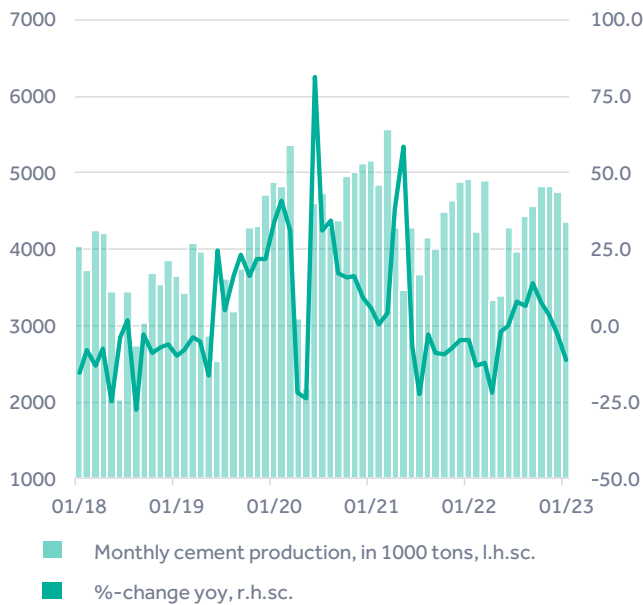
source: IHS Markit

While consumer sentiment in Saudi Arabia remains upbeat, private spending growth, mirrored by our proxy indicator (PoS transactions etc.), slowed to 8.3%yoy in December. Meanwhile, the business cli-

mate of the non-oil economy, measured by the purchasing manager indices (PMI), has started the new year on a very positive note. The PMI Composite climbed to a strong reading of 58.2 in January 2023.

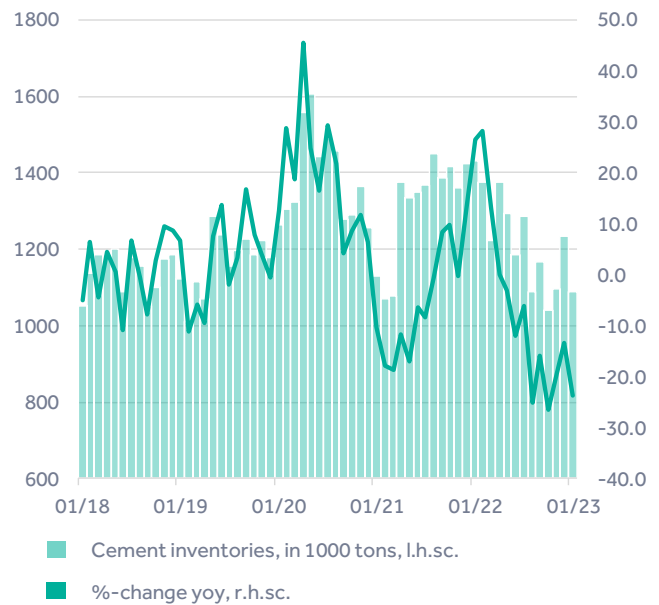
Cement Sector and Non-oil Exports and Imports

Figure 1:
Cement Production



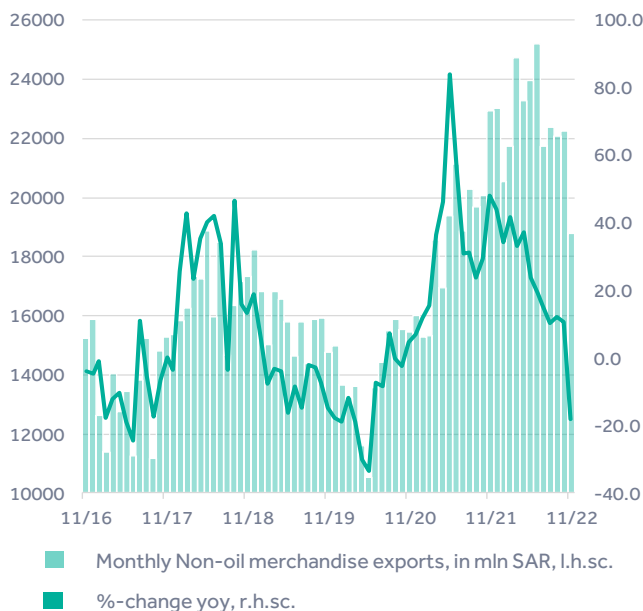
source: Yamama Cement

Figure 2:
Cement Inventories



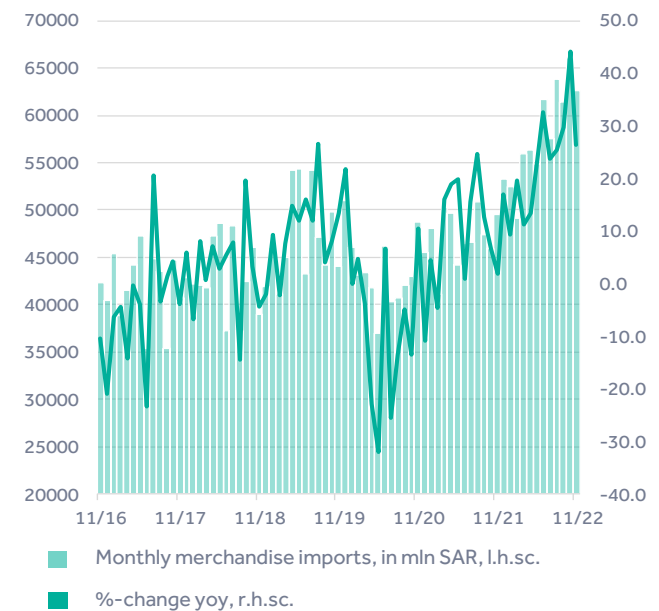
source: Yamama Cement

Figure 3:
Non-Oil Merchandise Exports



source: GASTAT

Figure 4:
Merchandise Imports



source: GASTAT

Cement production growth slowed in Q4 2022 and dropped by -11.2%yoy in January 2023. This slowdown was outpaced by a substantial drawdown in inventories which can be explained by strong export

growth. Non-oil export growth overall declined by -18%yoy in November 2022. Meanwhile, imports expanded by a solid 27%yoy in the same month reflecting the strength of the domestic economy.

Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



Figure 2:
Consumer Price and Wholesale Price Inflation

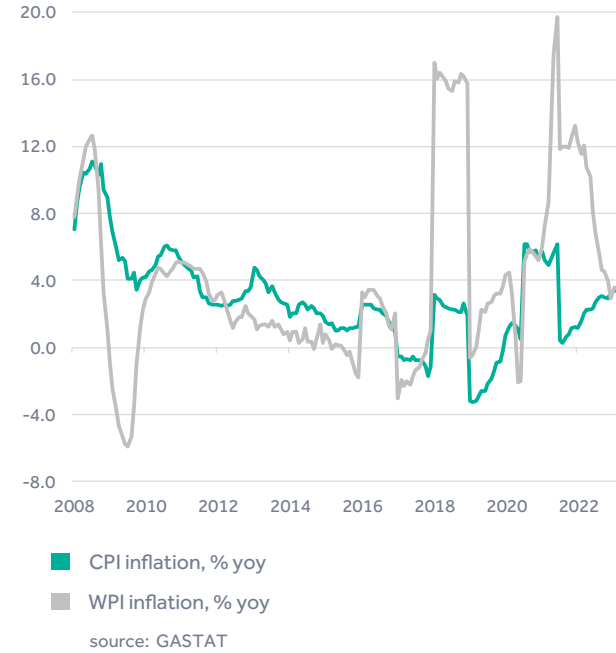
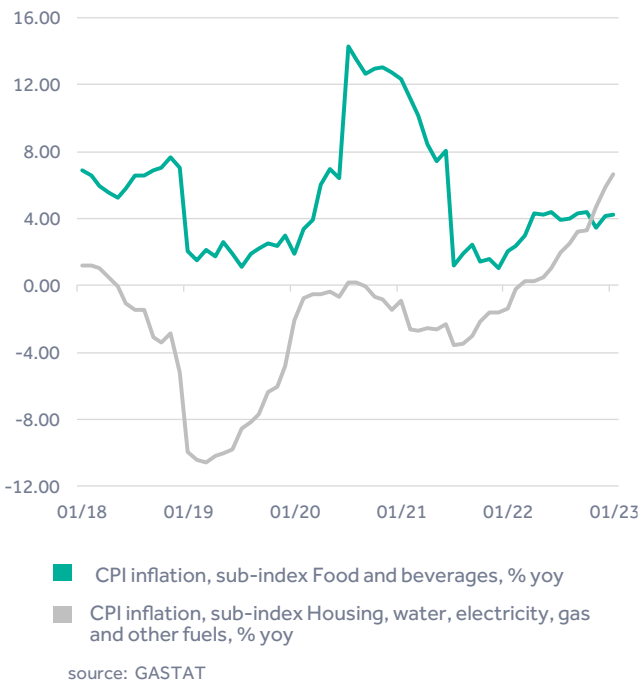
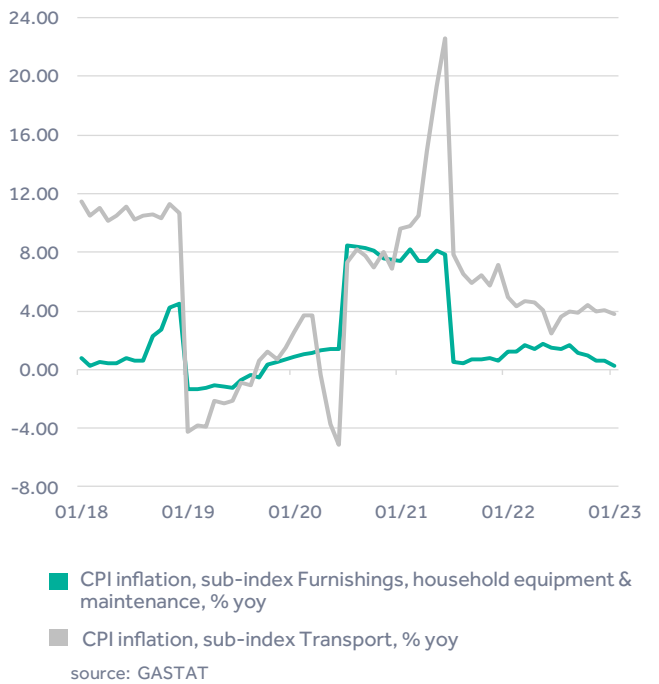


Figure 3:
CPI Inflation Food & Housing



Saudi CPI inflation rose to 3.4%yoy in January 2023. This increase was primarily driven by the category Housing, water&electricity ascending by 6.6%yoy and within this category housing rents as the single

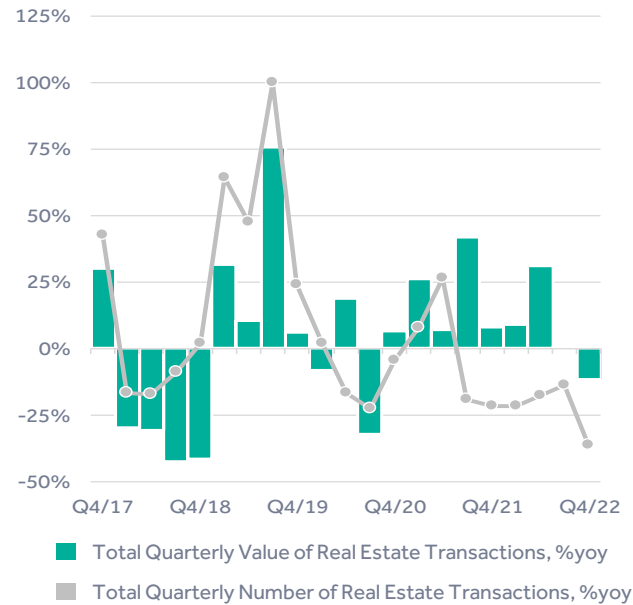
Figure 4:
CPI Inflation Furnishings & Transportation



most important item which climbed by 7.7%yoy. Besides, inflation in the categories food and transportation have been broadly fluctuating around 4% with the January readings at 4.2% resp. 3.8%.

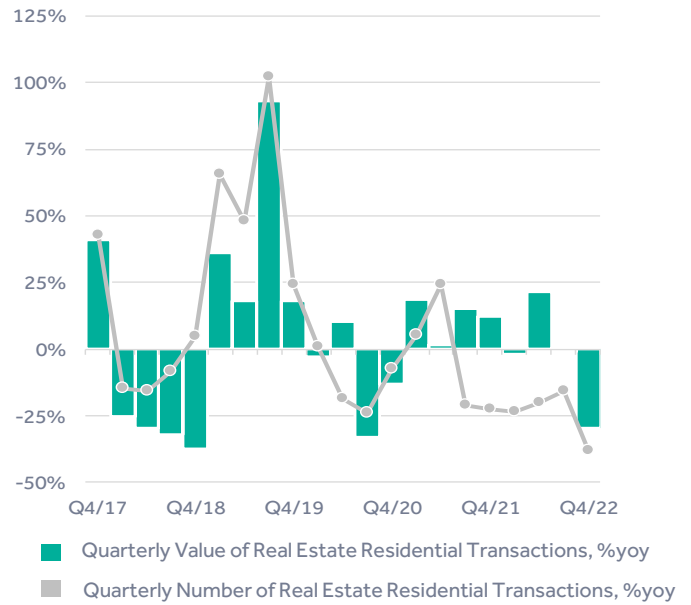
Real Estate Market: Transaction Activity

Figure 1:
Real Estate Transactions Total %yoy



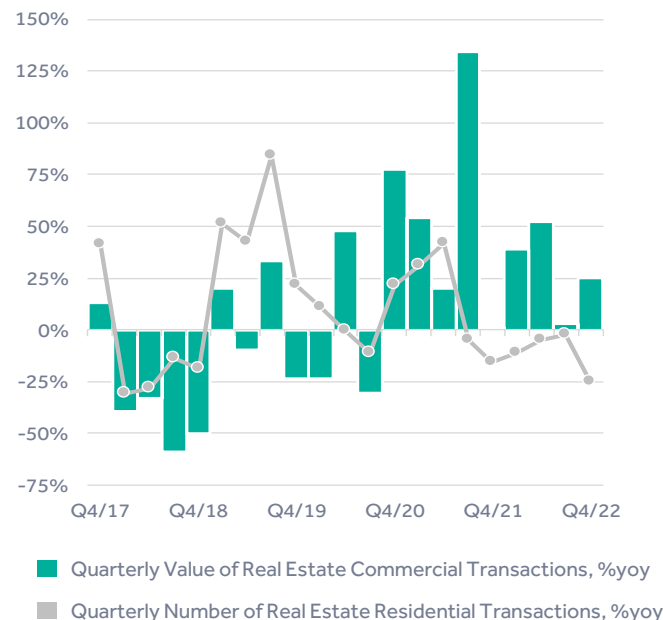
source: MOJ, RC

Figure 2:
Real Estate Transactions Residential %yoy



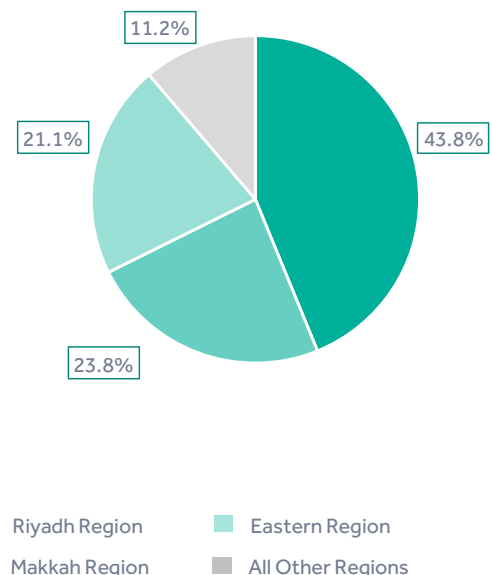
source: MOJ, RC

Figure 3:
Real Estate Transactions Commercial %yoy



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q4 2022)



source: MOJ, RC

The total value of real estate transactions dropped in Q4 2022 versus the previous year by -11.5%yoy. This was due to a sharp drop in residential transactions by -29.5%yoy in the final quarter 2022, while

commercial transactions climbed by 24.8%yoy during the same period. For the full year 2022, overall real estate transactions amounted to 205 bln SAR, an increase of 6.6% compared to the previous year.

Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices

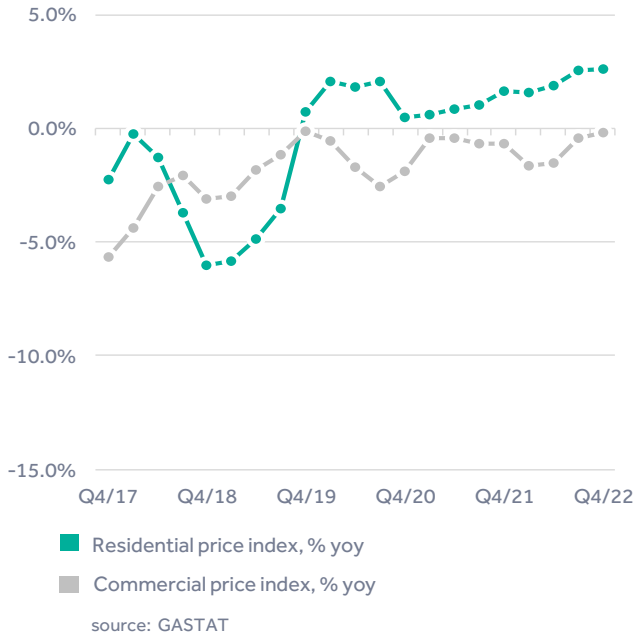


Figure 2:
Residential and Commercial Land Price Indices

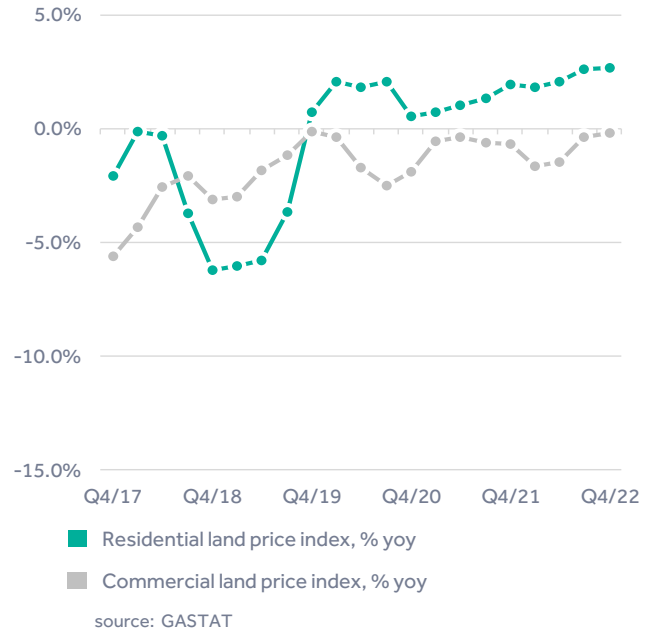
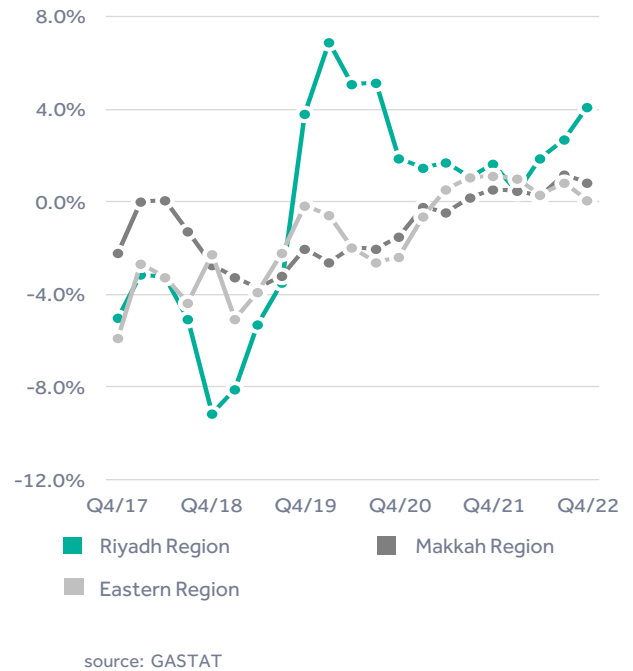


Figure 3:
Residential Villas and Apartments Price Indices



Figure 4:
Real Estate Price Indices Main Regions (%yoy)

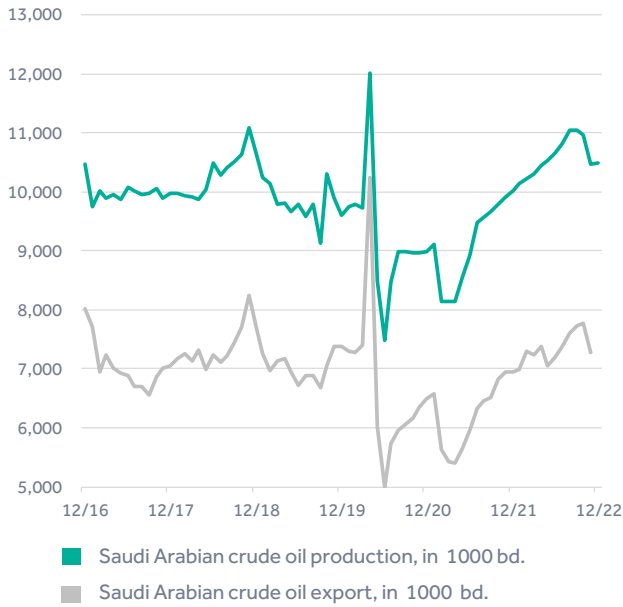


The recovery of real estate prices continued in Q4 2022 with residential prices climbing by 2.6%yoy and commercial prices being almost flat (-0.2%yoy). This trend is also reflected in residential villa and

apartment prices which showed a positive yearly growth rate in Q4 2022 of 1.7%yoy and 2.2%yoy. Geographically, property prices recorded the strongest growth in Riyadh region with 4.1%yoy.

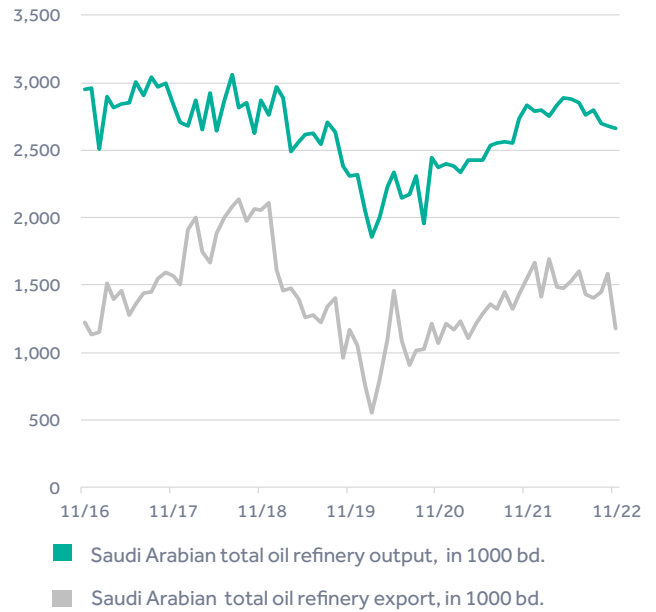
Oil Market Statistics: Production, Exports, Refinery and Prices

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

Based on the respective OPEC+ decision, Saudi Arabia cut its crude output in November 2022 by -440k bd. Crude exports were reduced by -490k bd and refined products exports by -400k bd. Overall,

OPEC oil production was cut by -850k bd according to secondary sources. Oil prices stabilized by end of the year after a protracted correction phase with Brent-WTI spread widening again to about 6 USD.

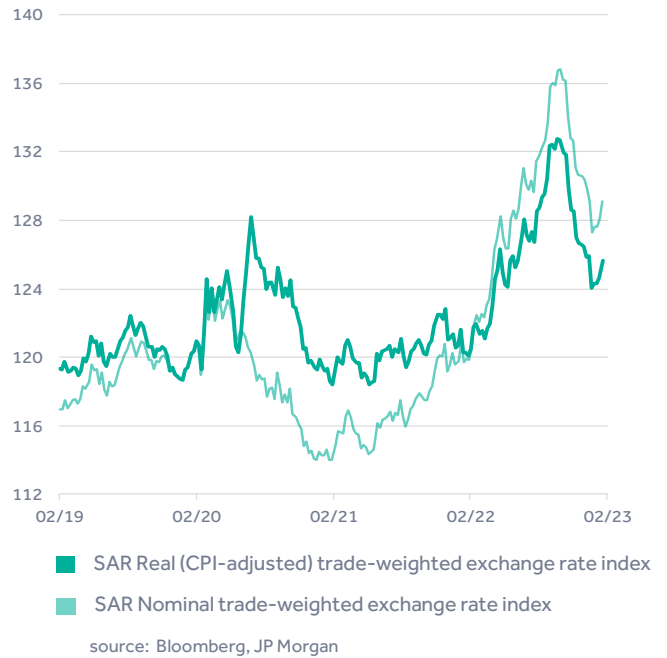
Foreign Exchange and KSA Credit Spread

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



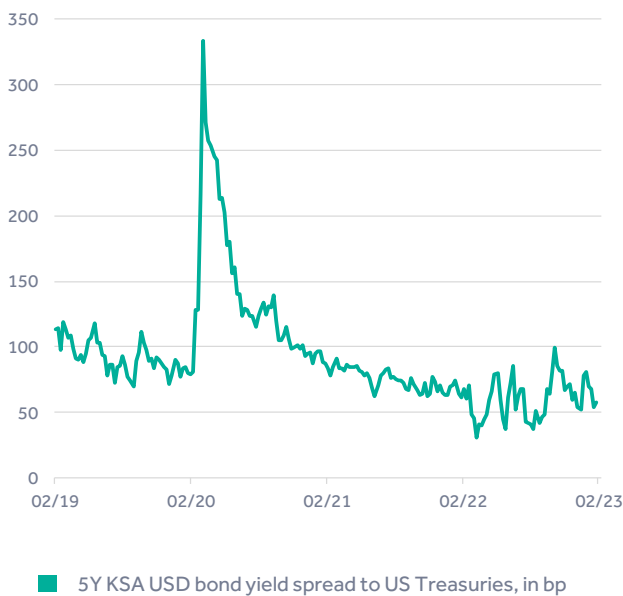
source: Bloomberg

Figure 2:
SAR Nominal and Real Effective Exchange Rate



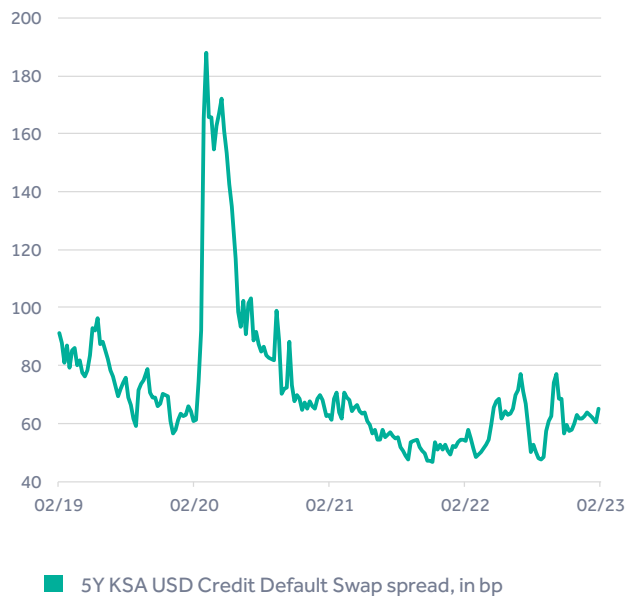
source: Bloomberg, JP Morgan

Figure 3:
KSA USD Bond Yield Spread to US Treasuries



source: Bloomberg

Figure 4:
KSA CDS Spread



source: Bloomberg,

After a quick spike to a level last seen during the pandemic, the 12M forward USD/SAR exchange rate started to normalized at the beginning of this year. The real and nominal SAR exchange rate index

corrected from mid-October 2022 to mid-January 2023 by -6.0% respectively -6.9% , before a gradual recovery kicked-in. The KSA bond yield spread and the KSA CDS spread both stabilized around 60bp.

Short-term, Long-term and Official Interest Rates

Figure 1:
3-Months SAIBOR vs. USD LIBOR

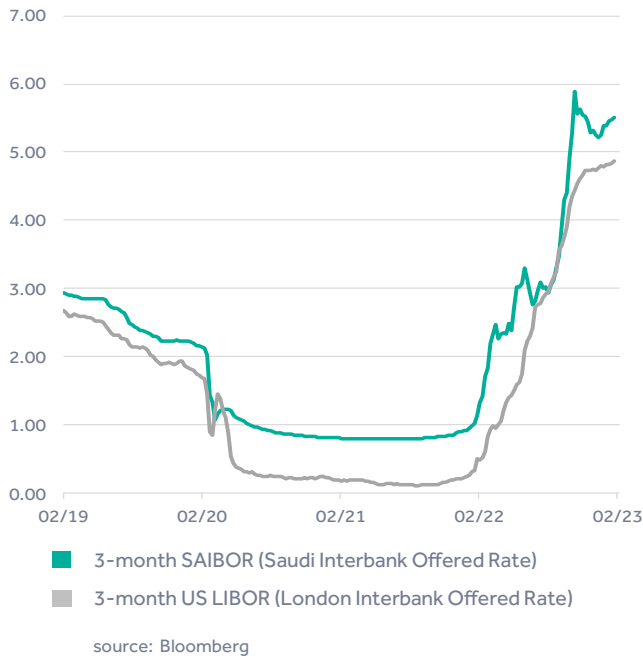


Figure 2:
5-Year Swap Rate SAR vs. USD



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



Figure 4:
Central Bank Rate and 3-Months SAIBOR

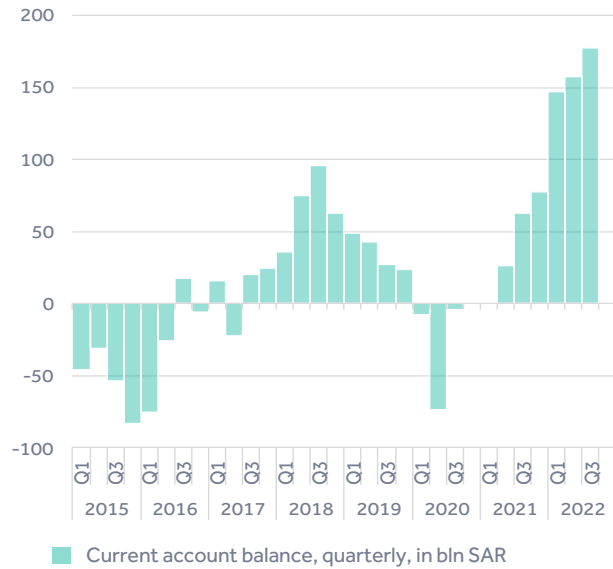


SAMA raised its key interest rates overall by 425bp since March 2022, generally following the rate hike policy by the US Federal Reserve. Against this background, 3M SAIBOR climbed from about 1.0% at the

beginning of 2022 to about 5.5% by February 2023. The rate spread to USD LIBOR most recently stabilized around 60bp which broadly also corresponds to the 5-year SAR-USD Swap rate spread.

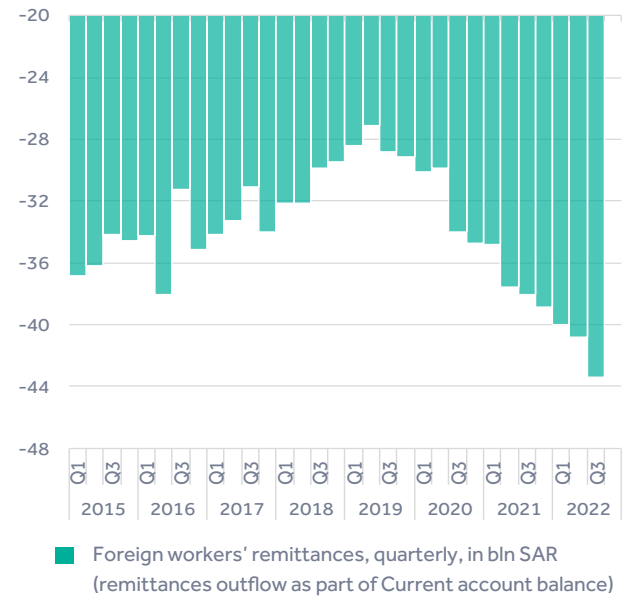
Saudi Balance of Payments

Figure 1:
Current Account Balance



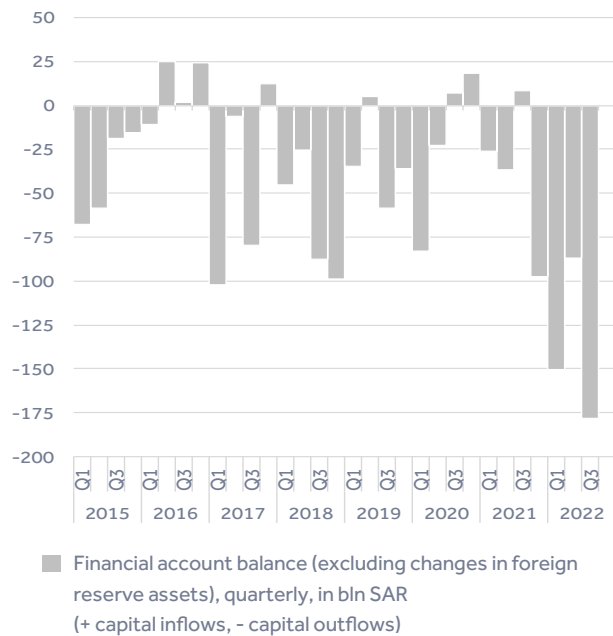
source: SAMA

Figure 2:
Foreign Workers' Remittances



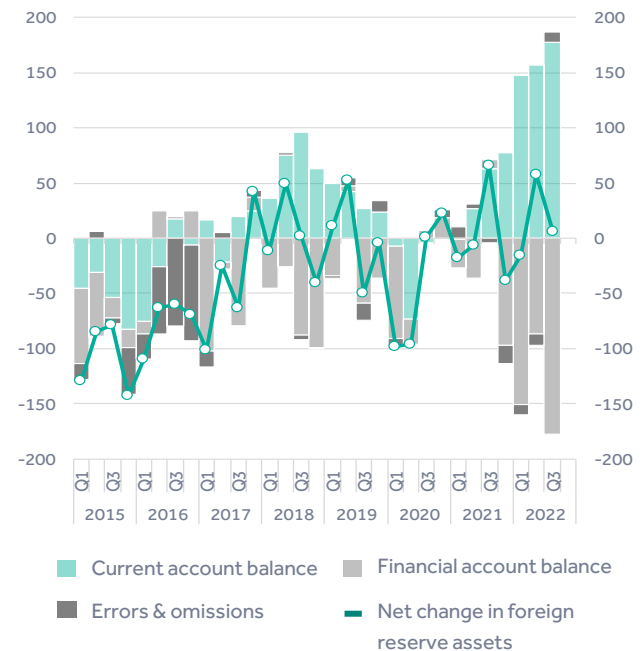
source: SAMA

Figure 3:
Financial Account Balance



source: SAMA

Figure 4:
Contribution to Balance of Payments



source: SAMA

In Q3 2022, foreign workers' remittances amounted to 43 bln SAR, the highest number on record. The current account balanced showed a surplus of 178 bln SAR in Q3 2022, the highest surplus since Q1

2012. On the other hand, the (private) financial account balance recorded a deficit of almost the same amount in Q3 2022 with the net figure resulting in a small increase in official currency reserves at SAMA.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index

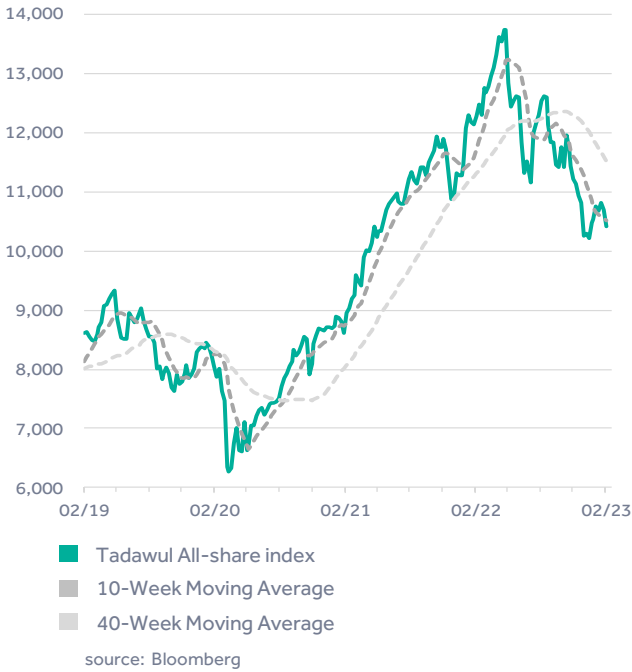


Figure 2:
Tadawul Average Daily Traded Value

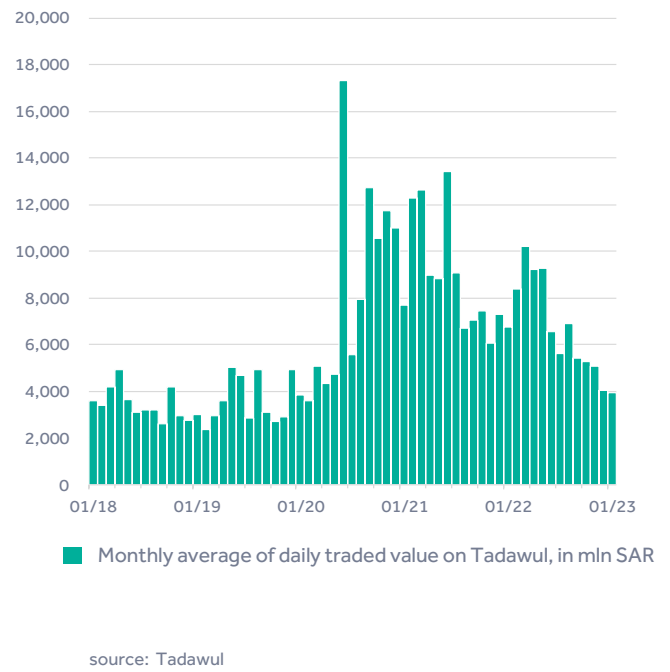


Figure 3:
Monthly Net Purchase by Ownership (in bln SAR)

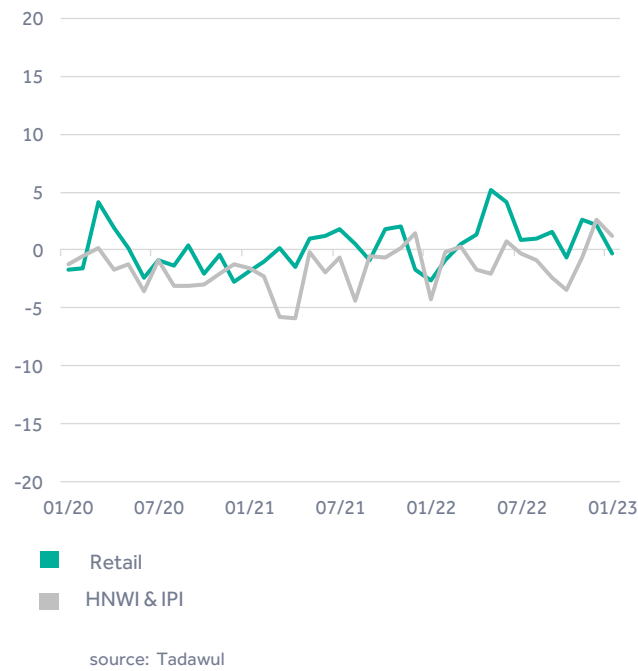
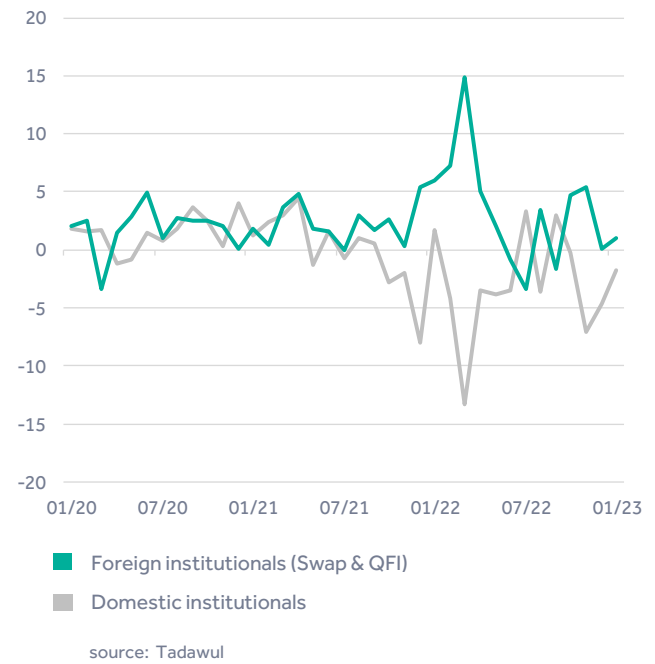


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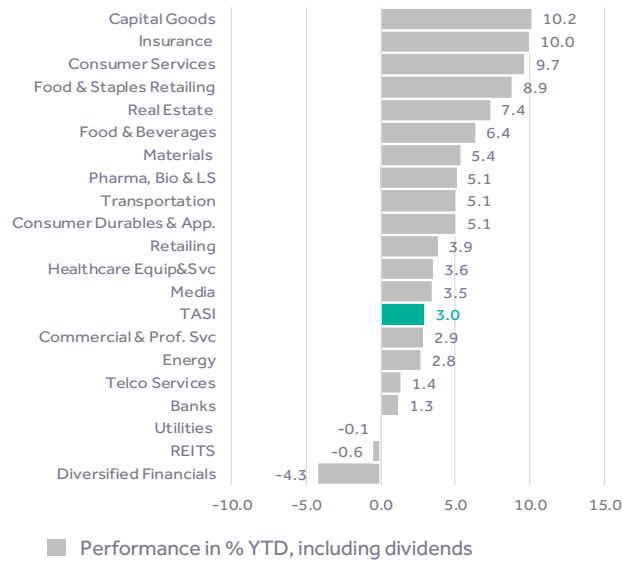


During last year, the Saudi equity market entered a bear market with a correction of -27% between mid-May and mid-December. Since then the market has tentatively recovered, supported by a positive

global market trend and rising oil prices. Trading volumes have continuously declined during this period and have reached a two-year low in January 2023 with 3.91 bln SAR average daily traded value.

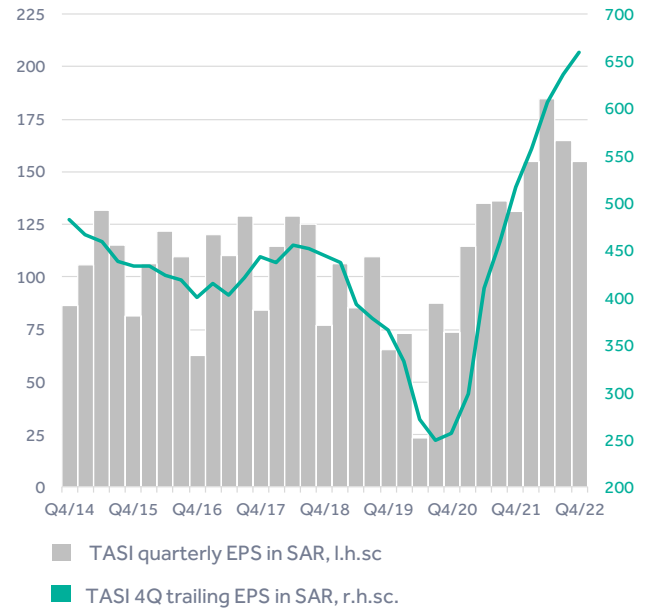
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors Jan 2023YTD



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

TASI recorded a positive start into the new year with a January 2023 performance of 3.0%. Amongst the major three sectors, banks (1.3%) and energy (2.8%) underperformed the index while ma-

terials (5.4%) managed to outperform. The strong earnings recovery in 2022, combined with the market correction in H2 2022, resulted in a substantial normalization of the valuation metrics of TASI.

Saudi Economic Outlook

The Saudi economy recorded strong growth of estimated 8.7% in 2022 which is the highest reading since 2011.

The primary growth driver in 2022 was the oil sector which expanded by estimated 15.4%, the strongest yearly growth rate since 2003. But also the non-oil economy was in firm expansion mode with a full year growth rate of estimated 5.4%.

For the year 2023, we expect oil production to broadly consolidate after the strong gains last year with an average output of 10.7 mbd after 10.6 mbd in 2022. As a consequence, oil sector GDP growth is expected to be of the order of 1.2%.

We expect continued solid growth for the non-oil economy, fostered by a growth-oriented fiscal policy with a focus on increased investment spending which will spur growth in 2023. For the full year, we have upgraded our forecast for non-oil activities GDP to 5.0%.

As a consequence, we expect the overall economy to expand in 2023 by 3.0%, this year primarily driven by the expected solid growth of the non-oil economy.

For global oil prices, we expect in our baseline scenario some weakness in the first half of 2023 on the back of a cooling global economy, but a distinct recovery in the second half. We expect Brent prices to end 2023 above 100 USD and forecast a yearly average Brent price of 92 USD.

With a view on these still high oil prices, we expect fiscal revenues to remain strong in 2023. This will allow fiscal spending to be focussed on economic growth and yet, still generate a surplus of the magnitude of 1.3% of GDP (after 2.6% in 2022).

Strong oil export revenues will also lead to a substantial surplus in the current account balance, albeit moderately lower than in 2022 (13.2% of GDP after 15.8% in 2022).

CPI inflation is expected to gradually ease in the course of 2023. For the full year, we forecast an average rate of 3.1% after 3.4% in January 2023.

In our baseline scenario, we expect the US Federal Reserve to hike rates up to a peak at 5.25% during H1 2023 and to keep rates on hold throughout the second half of 2023. SAMA will follow with its policy rates accordingly.

Facts and Forecasts at a Glance

	2020	2021	2022	2023f
Real GDP Growth				
Overall economy	-4.1	3.2	8.7	3.0
Non-oil Activities	-3.4	6.1	5.4	5.0
Government Activities	0.2	1.5	2.3	2.0
Oil Activities	-6.7	0.2	15.4	1.2
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-294	-73	102	51
Fiscal Balance in % GDP	-11.2	-2.3	2.6	1.3
Government debt in bln SAR	854	938	985	951
Government debt as % GDP	34.3	30.0	25.1	24.5
Trade and Current Account Balance				
Trade Balance in bln SAR	180	512	944	815
Trade Balance in % GDP	6.9	16.4	24.0	21.0
Current Account in bln SAR	-86	166	620	511
Current Account in % GDP	-3.3	5.3	15.8	13.2

source: GASTAT, SAMA, RC

	2020	2021	2022	2023f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	43.3	70.9	99.0	92.0
WTI price (USD pb)	39.4	68.0	94.3	87.0
OPEC Basket price (USD pb)	41.7	69.8	100.0	92.0
KSA oil production (mln bd)	9.2	9.1	10.6	10.7
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	3.44	3.06	2.47	3.10
3M SAIBOR SAR	0.82	0.91	5.34	5.55
Reverse Repo Rate	0.50	0.50	4.50	5.25
Official Repo Rate	1.00	1.00	5.00	5.75
Labor Market (yearly average)				
Unemployment rate total in %	7.7	6.7	5.9	5.8
Unemployment rate Saudi in %	13.7	11.3	9.9	9.7
Labor force part. total in %	59.5	61.2	61.0	61.4
Labor force part. Saudi in %	48.8	50.1	51.8	52.6

source: GASTAT, SAMA, Bloomberg, RC

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