



Saudi Economic Chartbook

Fourth Quarter 2020

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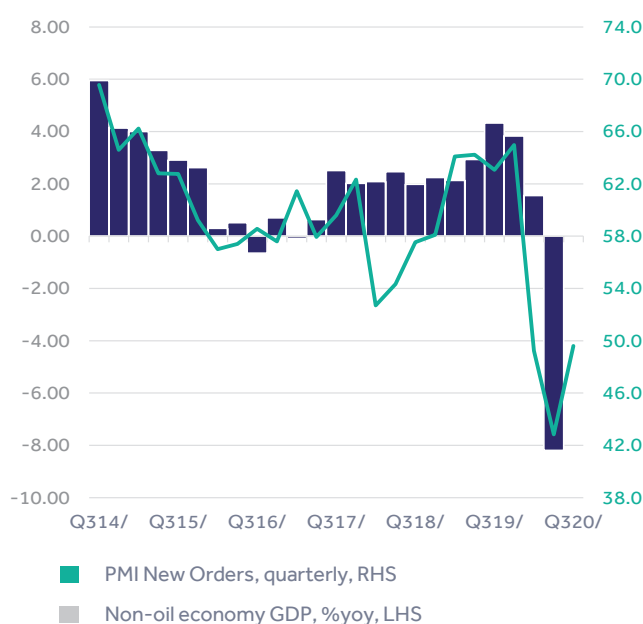
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Non-Oil Economy in Recovery Mode

- The Saudi economy contracted during the second quarter as a result of the global pandemic outbreak. However, flash estimates of GDP for the third quarter already indicate a recovery with quarter-over-quarter growth turning positive.
- This improvement is primarily due to a rebound of the non-oil economy which is confirmed by various macro indicators such as the Purchasing Manager Indices as a key gauge for the Saudi non-oil business climate (see chart below).
- Growth of credit to the private sector further accelerated in Q3 2020, primarily driven by strong residential mortgage loan demand and an increased reliance on credit by corporates due to the pandemic impact on their balance sheet.
- Official foreign currency reserves at SAMA stabilized in the last 6 months after a notable reduction in Spring due to an extraordinary asset transfer from SAMA to PIF.
- During Q3 2020, the Saudi crude oil production recovered from a multi-year low in July. However, a further output expansion, originally scheduled by OPEC+ for January 2021, may be delayed on the back of the renewed global COVID-19 outbreak.
- The Saudi equity market witnessed a strong rebound in the course of H2 2020. This rally was accompanied by increased trading volumes, with daily traded value numbers reaching multi-year highs in the most recent months.

Business Climate Indicators Signaling Recovery



The pandemic outbreak and the subsequent lockdown during the second quarter 2020 caused a considerable contraction of Non-oil GDP growth. However, Purchasing Manager Indices as the main business climate indicators are signaling an economic recovery in the second half 2020.

source: GASTAT, IHS Markit

Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



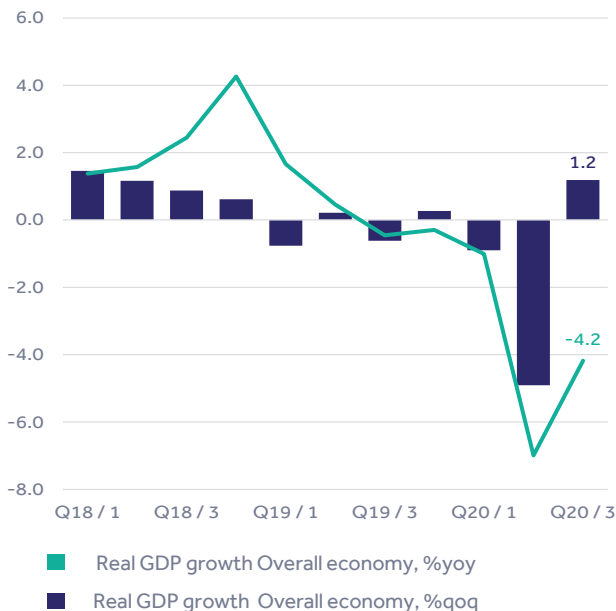
source: GASTAT

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



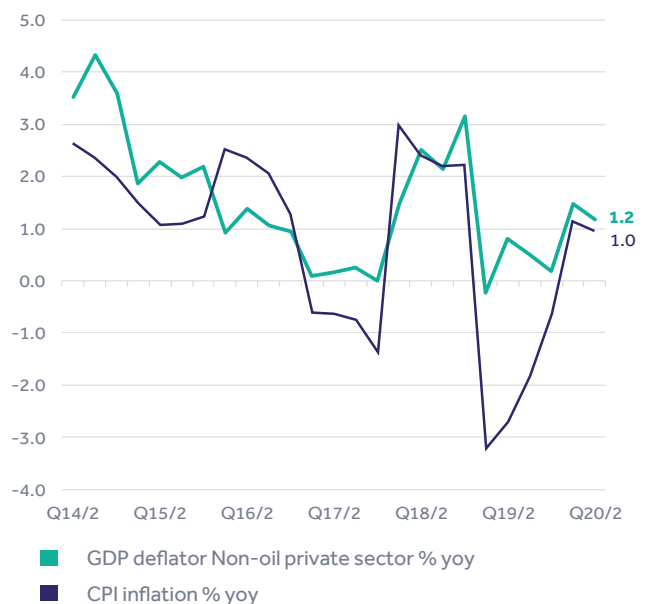
source: GASTAT

Figure 3:
GDP Overall Economy Flash Estimate Q2020 3



source: GASTAT

Figure 4:
GDP Deflator and CPI Inflation



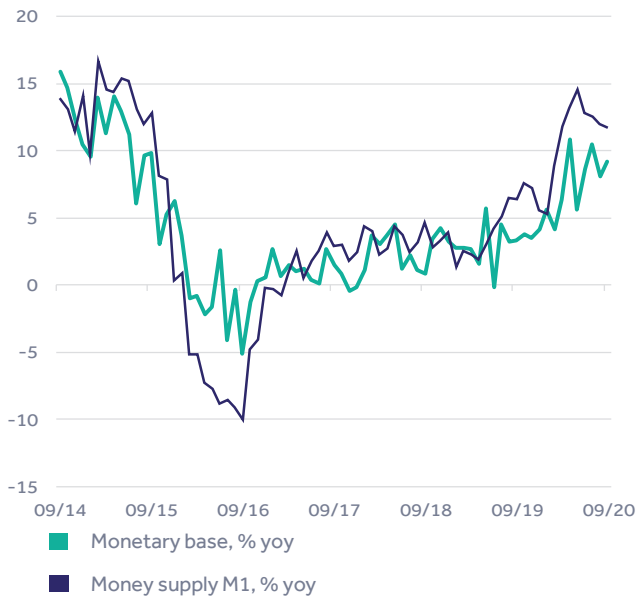
source: GASTAT

Against the backdrop of the global COVID-19 recession, the Saudi economy contracted in Q2 2020 by -7.0% yoy. The slowdown was more pronounced for the non-oil private sector economy

with -10.1% yoy, while the oil sector economy declined by -5.3% yoy. Most recent flash estimates of GDP for Q $^{(1.2+)}$ 3qoq indicate that the Saudi economy is already on a recovery path in H2020 2.

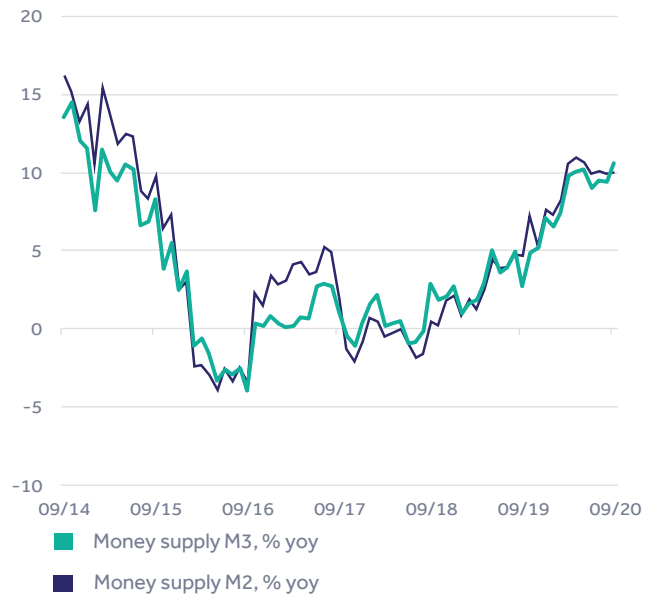
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
 Growth Rate Monetary Base and Money Supply M1



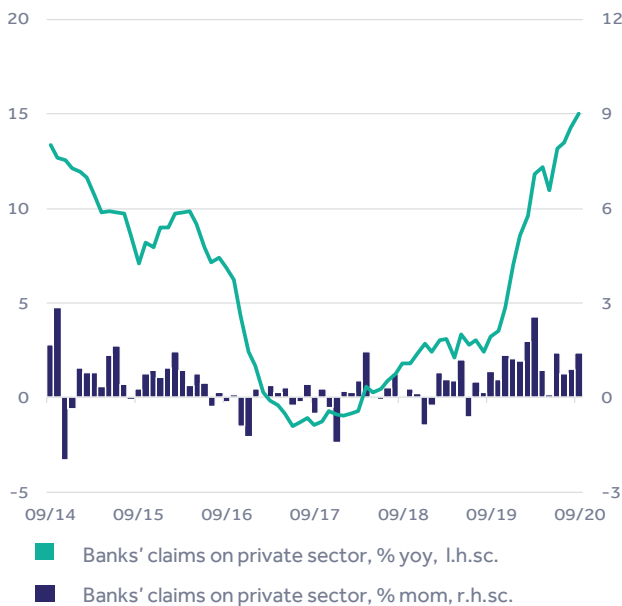
source: SAMA

Figure 2:
 Growth Rate Money Supply M2 and M3



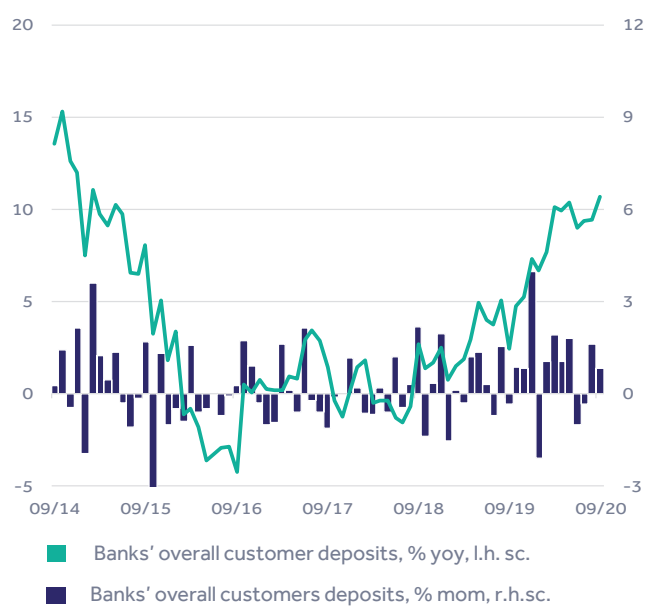
source: SAMA

Figure 3:
 Growth of Credit to the Private Sector



source: SAMA

Figure 4:
 Growth of Commercial Banks' Deposits



source: SAMA

Liquidity is still ample in the Saudi economy with the monetary base growing by %9.2yoy and money supply M3 expanding by %10.6 in September 2020. Growth of credit to the private sector continued to

accelerate, reaching %15.0yoy in September. The main drivers behind this growth are the continued strong demand for residential mortgage loans and an increased credit reliance by corporates in 2020.

Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio

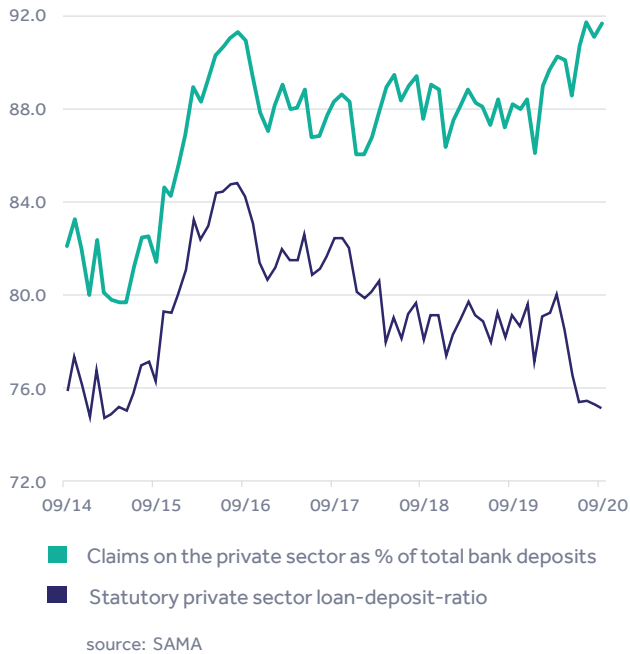


Figure 2:
Government Sector Loan-Deposit-Ratio

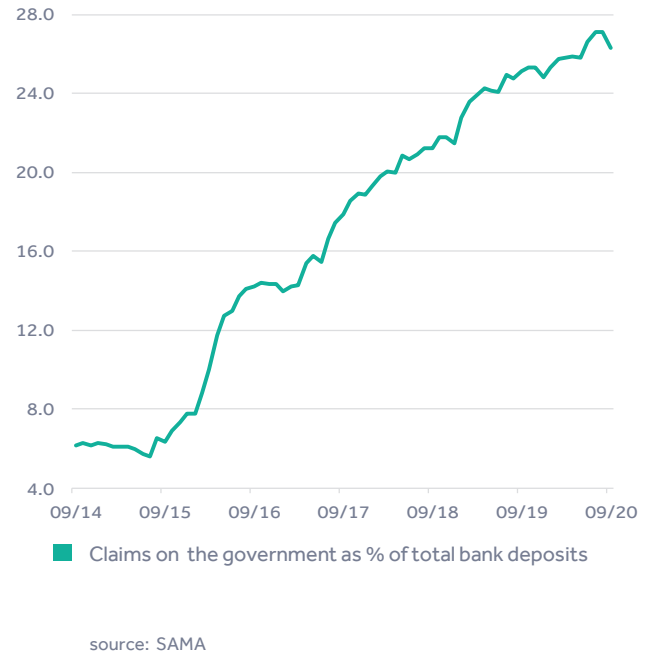


Figure 3:
Foreign Assets to Total Assets Ratio

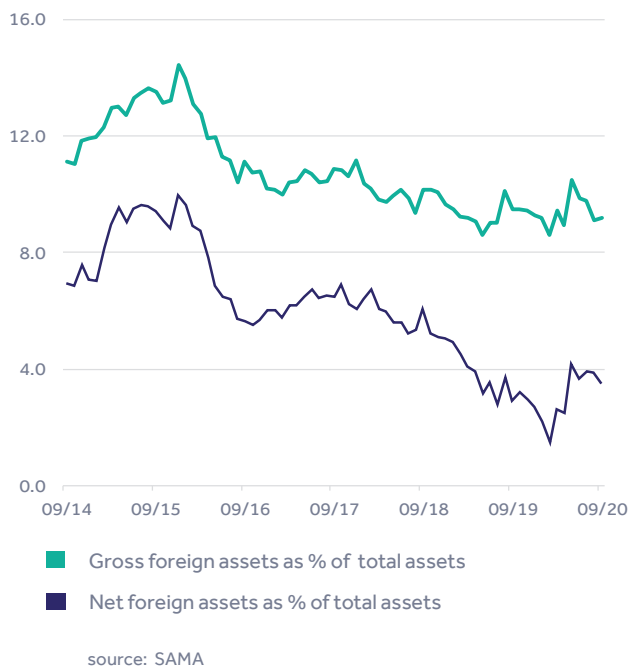


Figure 4:
Excess Liquidity to Total Assets Ratio



The divergence between the simple and the statutory loan-deposit-ratio can primarily be explained by SAMA liquidity injections to the banking sector which are only taken into account in the case of the

statutory LDR. These injections are aimed at supporting commercial banks in their activity to extend credit to the corporate sector during the period of increased economic stress due to COVID-19.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

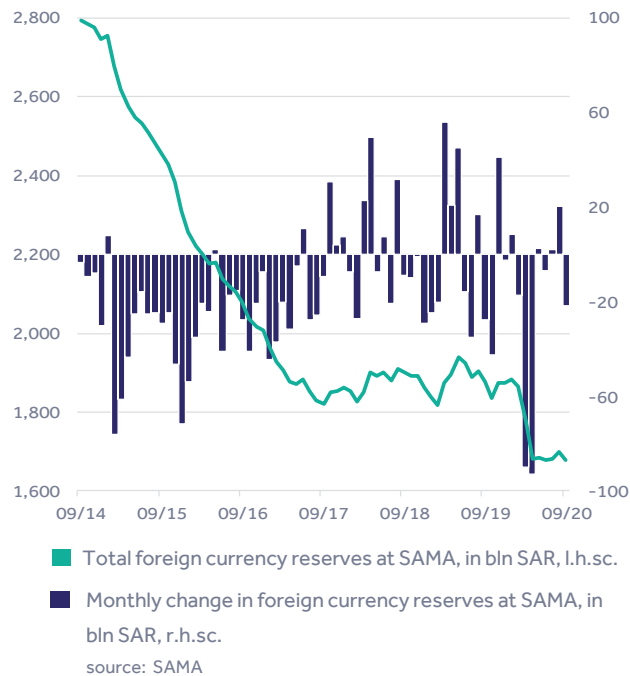


Figure 2:
Government Deposits at SAMA

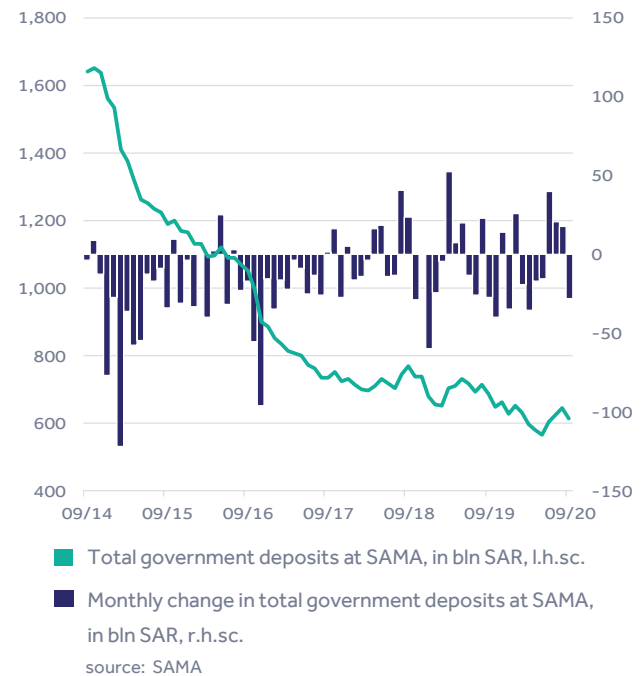


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

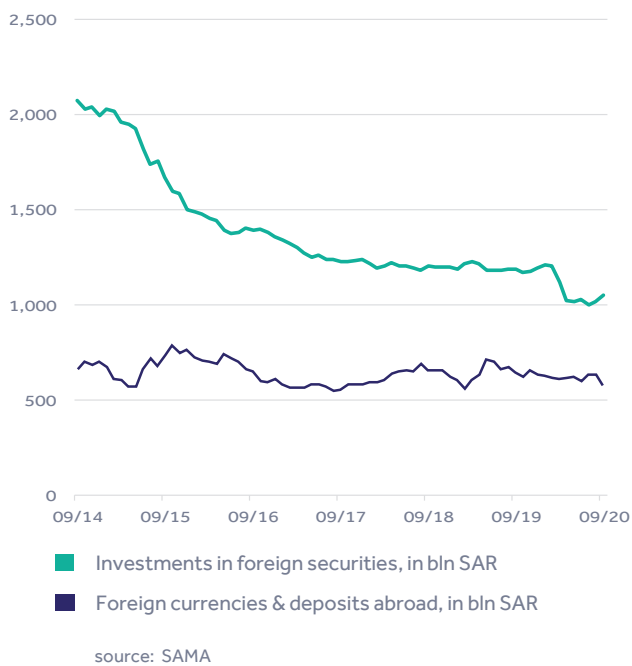
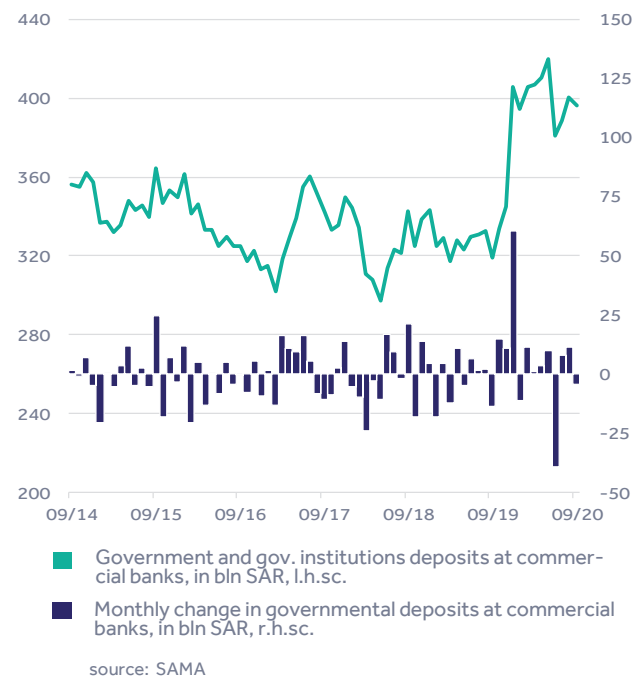


Figure 4:
Government Deposits at Commercial Banks

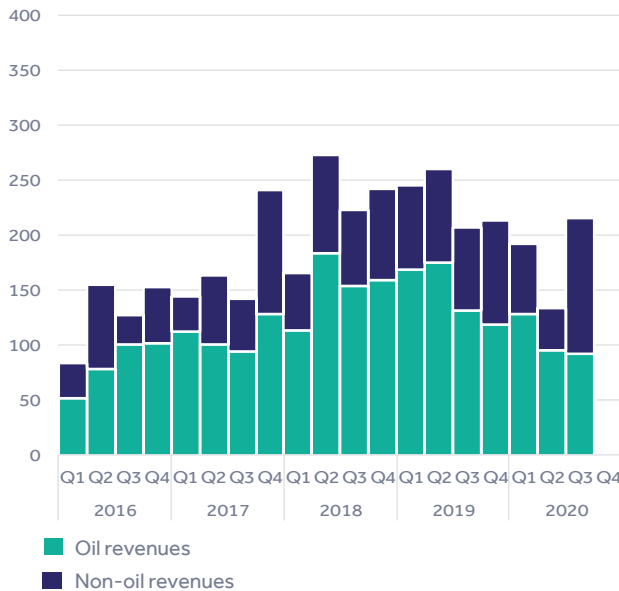


After the record outflow from SAMA official reserves in March and April, which can largely be explained by an extraordinary asset transfer from SAMA to PIF, foreign currency reserves broadly stabilized in the subsequent months. Meanwhile, government deposits at SAMA also stabilized over the last 6 months, which indicates that the budget deficit was primarily financed through borrowing activity.

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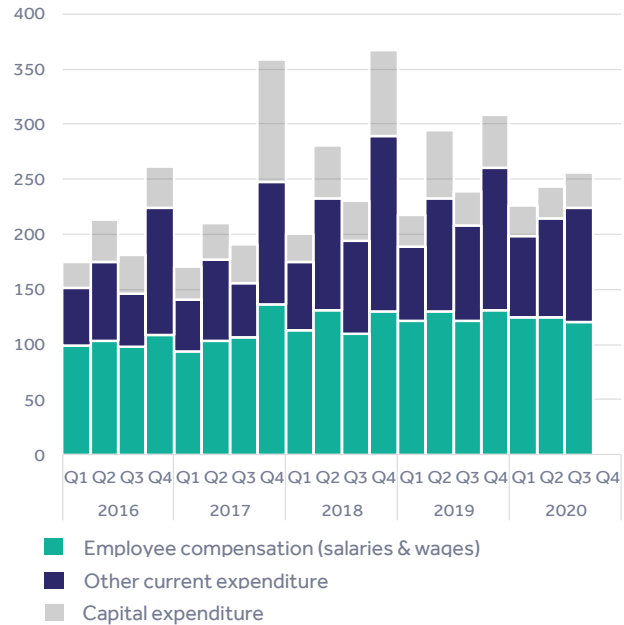
Quarterly Fiscal Balance and Outstanding Government Debt

Figure 1:
Quarterly Fiscal Revenues (in bln SAR)



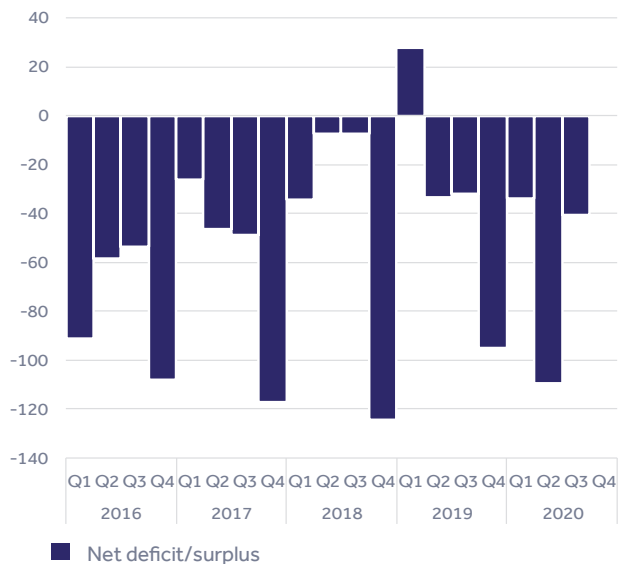
source: MoF

Figure 2:
Quarterly Fiscal Expenditure (in bln SAR)



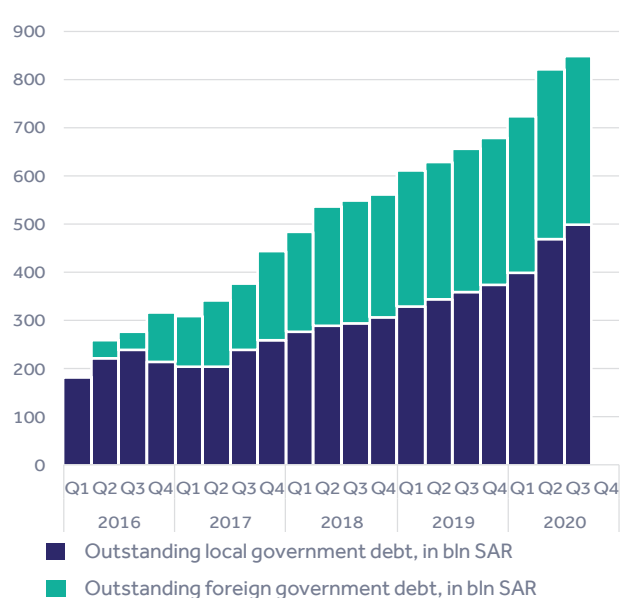
source: MoF

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



source: MoF

Figure 4:
Outstanding Government Debt (End of Quarter)



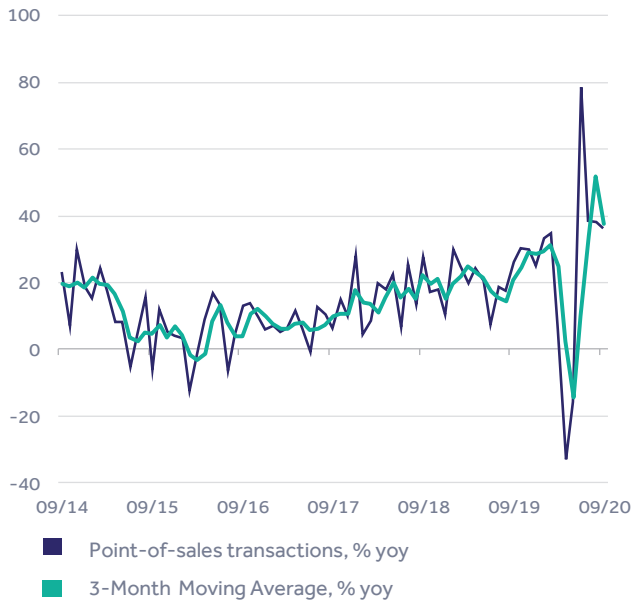
source: MoF

In Q3 2020, non-oil revenues at 123bln SAR turned out to be the highest on record (since 2016). This was due to both a sharp increase in tax revenues after Q2 and a substantial jump in other non-oil

revenues due to extraordinary government investment profits. Oil revenues were lower than in Q2 with 93bln SAR versus 96bln SAR, despite a substantial increase of oil prices over that period.

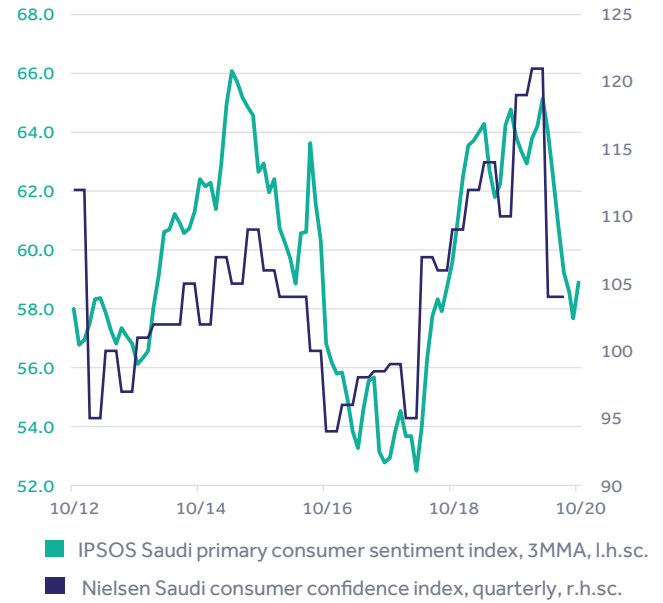
Private Spending Indicators and Non-Oil Foreign Trade

Figure 1:
Point-of-Sales Transactions



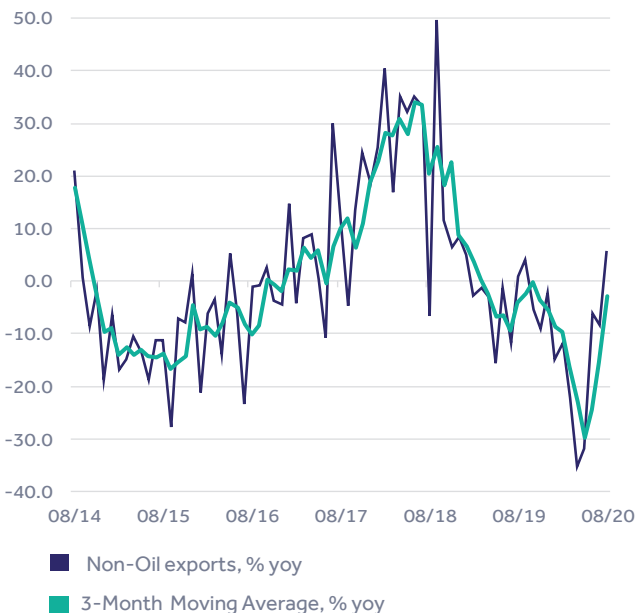
source: SAMA

Figure 2:
Consumer Sentiment



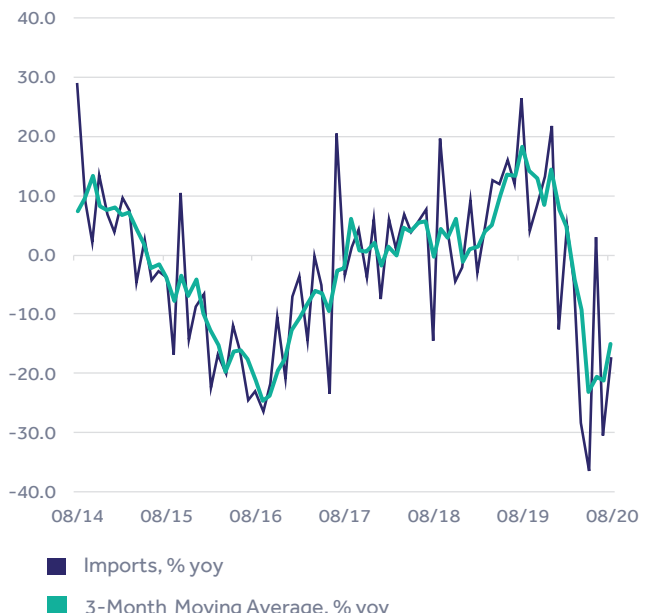
source: Refinitiv, Nielsen

Figure 3:
Growth of Non-Oil Exports



source: GASTAT

Figure 4:
Growth of Imports



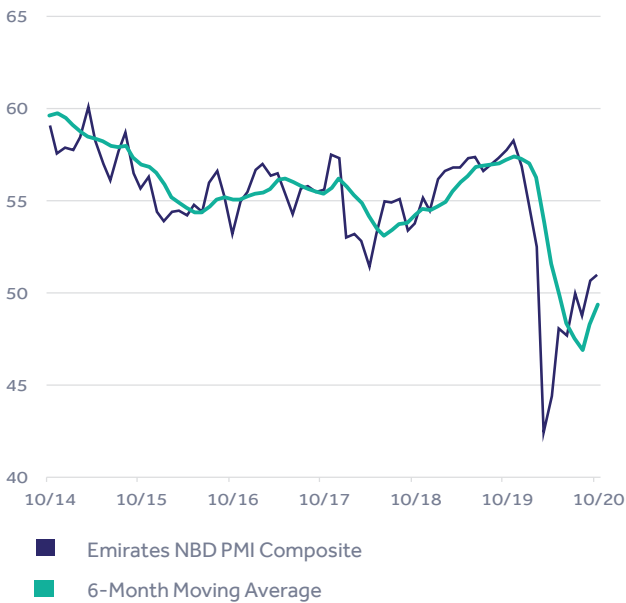
source: GASTAT

Point-of-sales transactions were largely influenced by the VAT rate increase in July with a sharp increase in June and a gradual decline thereafter. Consumer confidence shows some signs of

stabilization at the beginning of Q2020 4 after a notable decline due to economic impact of the pandemic outbreak. Meanwhile, non-oil export growth started to recover by the middle of the year.

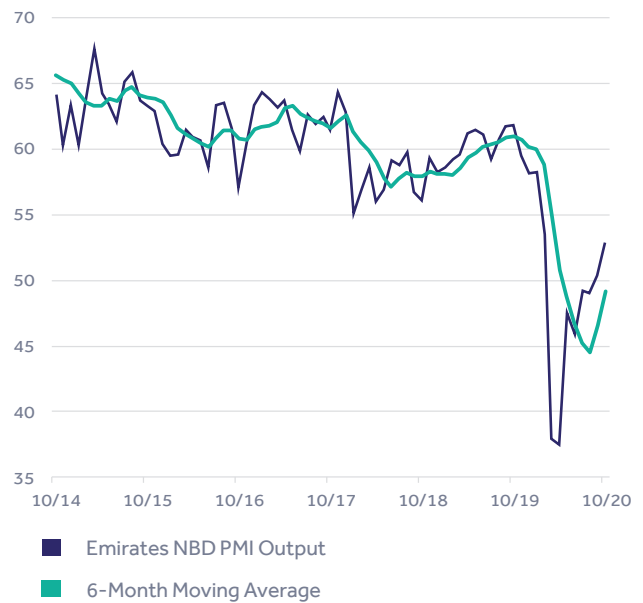
Non-Oil Private Sector Business Climate Indicators

Figure 1:
 Purchasing Manager Index Composite



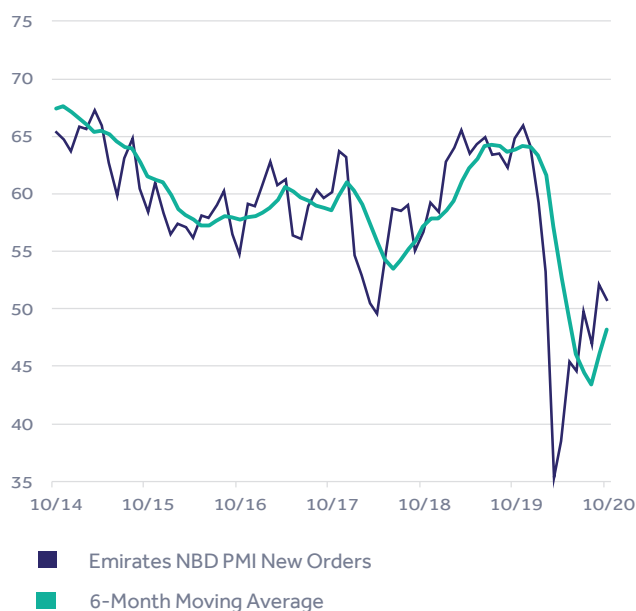
source: Markit

Figure 2:
 Purchasing Manager Index Output



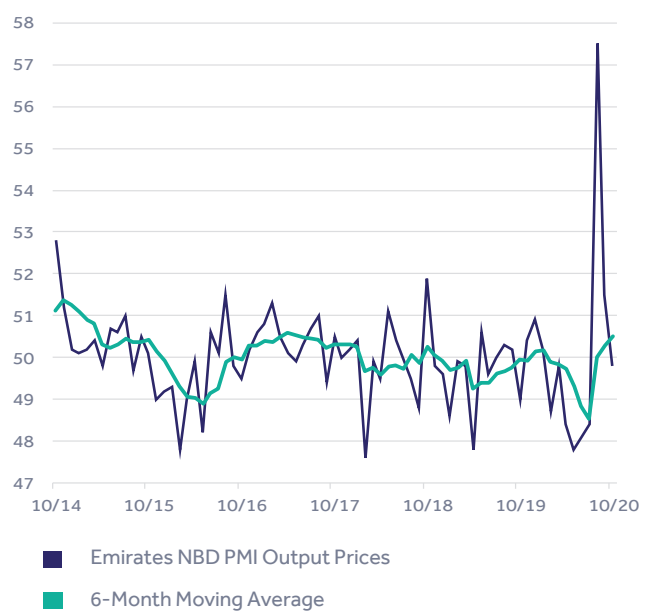
source: Markit

Figure 3:
 Purchasing Manager Index New Orders



source: Markit

Figure 4:
 Purchasing Manager Index Output Prices



source: Markit

The Saudi Purchasing Manager Indices (PMI) provide overall evidence for a recovery of the non-oil economy in the course of H2 2020. With a reading of 51.0 in October the Composite Index reached the

highest level since February, indicating an economic expansion at the beginning of Q4. The PMI Output Prices soared in July as a result of the extraordinary VAT rate increase, but normalized thereafter.

Consumer and Wholesale Price Inflation

Figure 1:
Consumer Price Inflation All Items



Figure 2:
Consumer Price and Wholesale Price Inflation

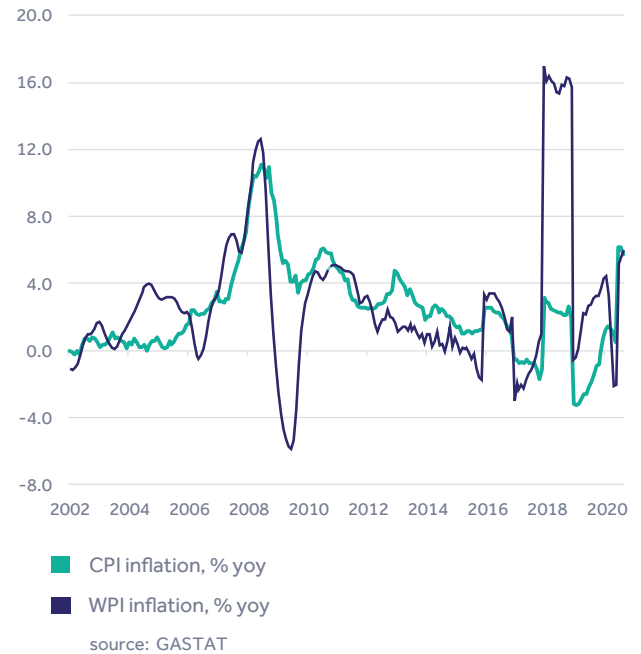


Figure 3:
CPI Inflation Food & Housing

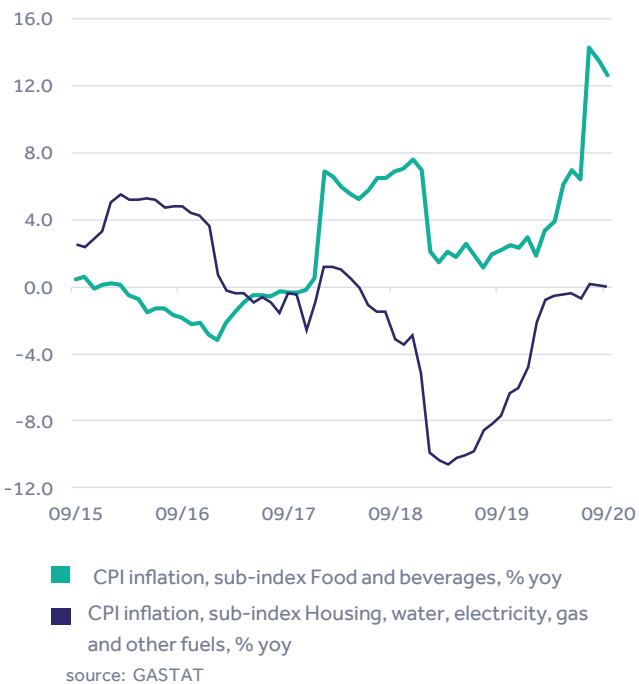


Figure 4:
CPI Inflation Furnishings & Transportation

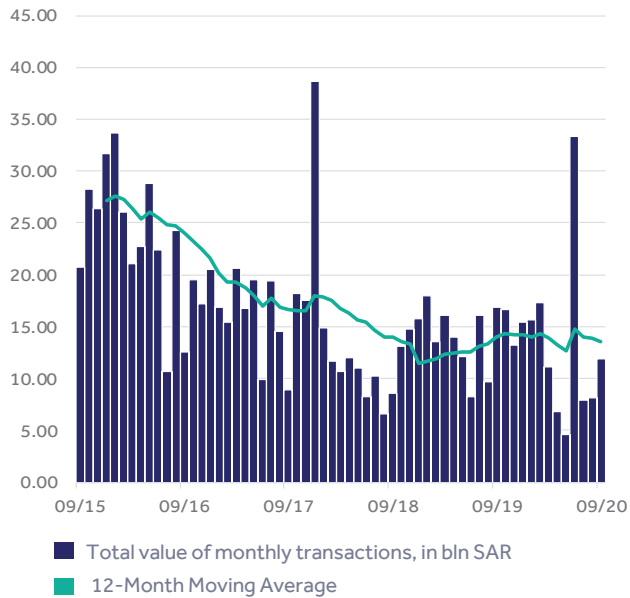


The increase of the VAT rate in July considerably impacted the CPI inflation data. The overall yearly inflation rate climbed from %0.5yoy in June to %6.1 in July. However, CPI inflation subsequently sof-

tened again to %5.7 in September. Food&beverage prices, a main driver for overall inflation in the last 12 months, witnessed a growth slowdown from %14.3 in July to %12.6 in September.

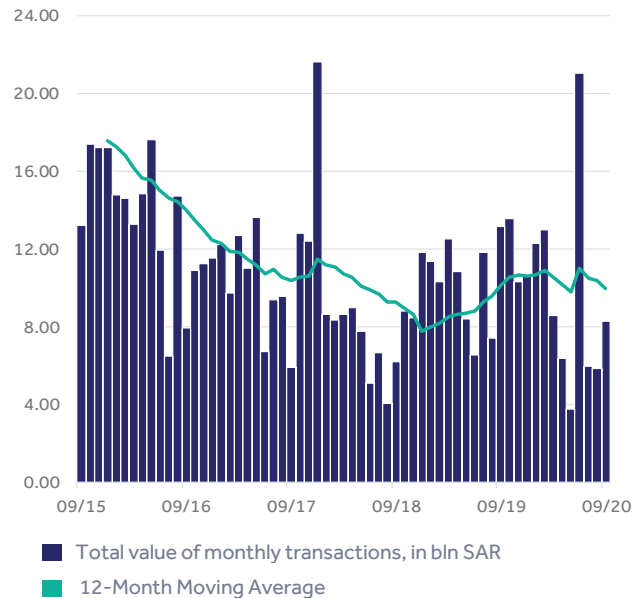
Real Estate Market: Transaction Activity

Figure 1:
Monthly Real Estate Transactions Overall Country



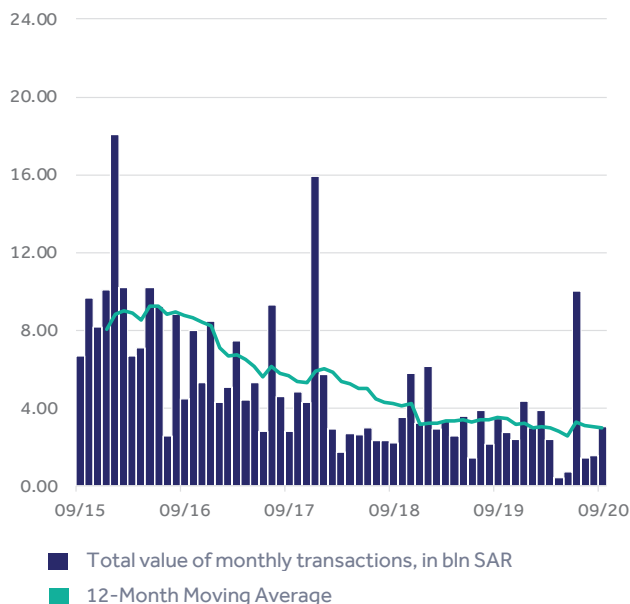
source: MOJ, RC

Figure 2:
Monthly Residential Real Estate Transactions



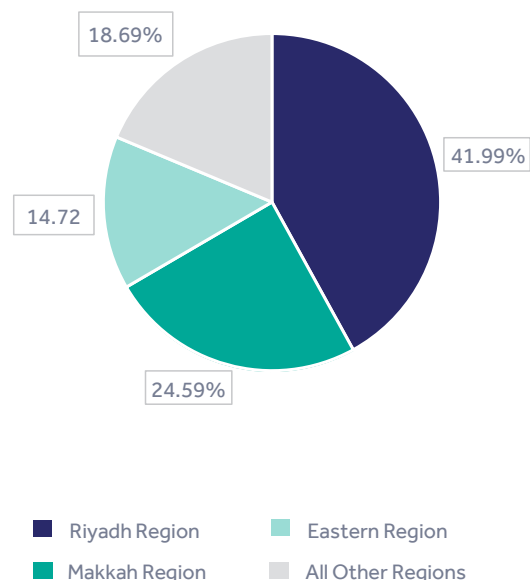
source: MOJ, RC

Figure 3:
Monthly Commercial Real Estate Transactions



source: MOJ, RC

Figure 4:
Breakdown of Transaction Value by Regions (Q3 2020)



source: MOJ, RC

The lockdown induced recession in Q2 2020 massively impacted the real estate transaction volume. Between February and May 2020, the total transaction value dropped from 17.3bln SAR to 4.6bln SAR.

The significant increase to 33.3bln SAR in June is entirely due to the VAT rate hike in July (similar to the jump in December 2017). In Q3 2020, the real estate transaction volume started to pick up again.

Real Estate Market: Price Indices

Figure 1:
Residential and Commercial Price Indices

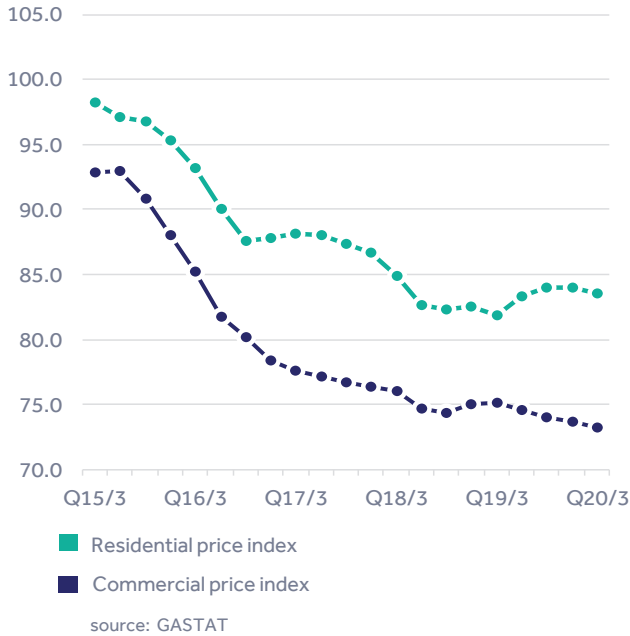


Figure 2:
Residential and Commercial Land Price Indices

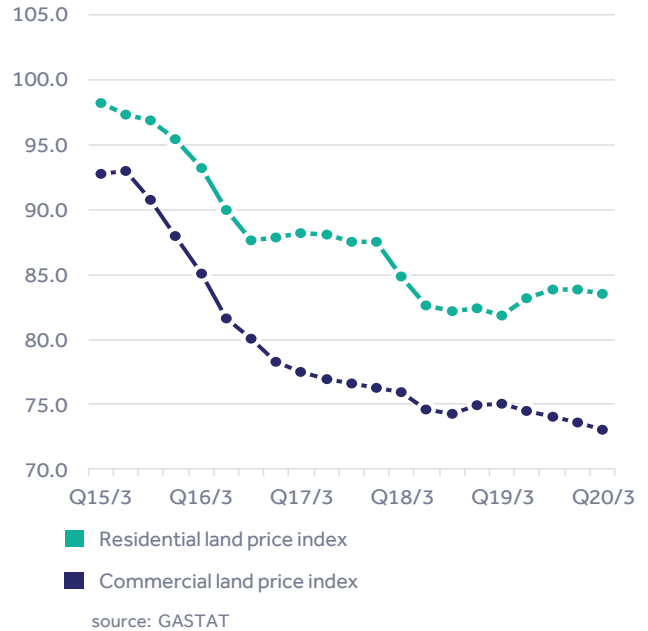


Figure 3:
Residential Villas and Apartments Price Indices

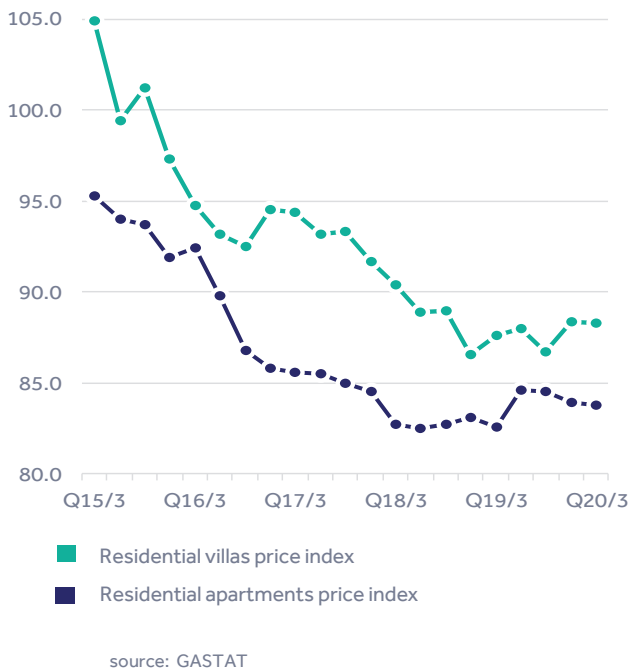


Figure 4:
Commercial Shops and Centers Price Indices

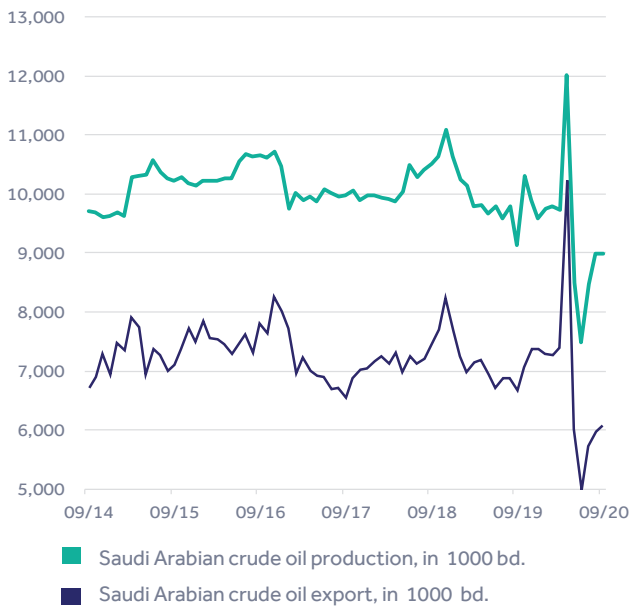


During Q2020 3, real estate prices gradually softened compared to the previous quarter. This can primarily be explained by lower land prices over the period. The residential real estate index weakened

by -0.5%, the commercial real estate index by -0.7%. Compared to the previous year, residential property prices advanced by %2.1, while commercial property prices dropped by -2.5%.

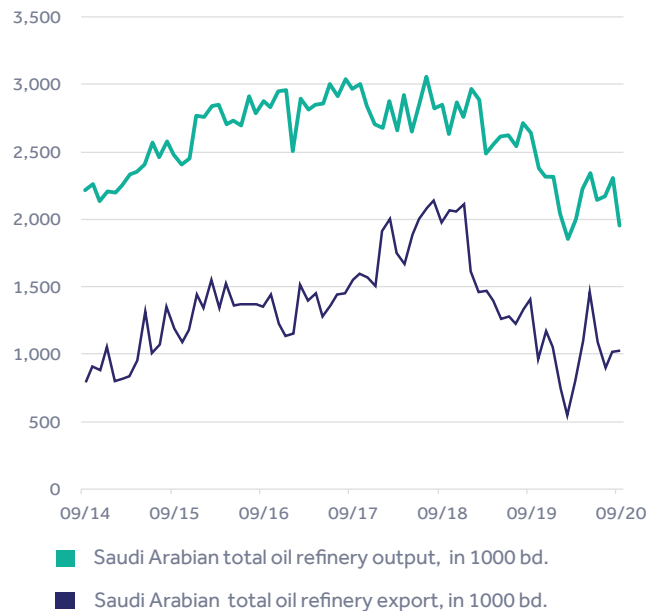
Oil Market Statistics: Production, Exports, Refinery and Prices

Figure 1:
 Saudi Crude Oil Production and Exports



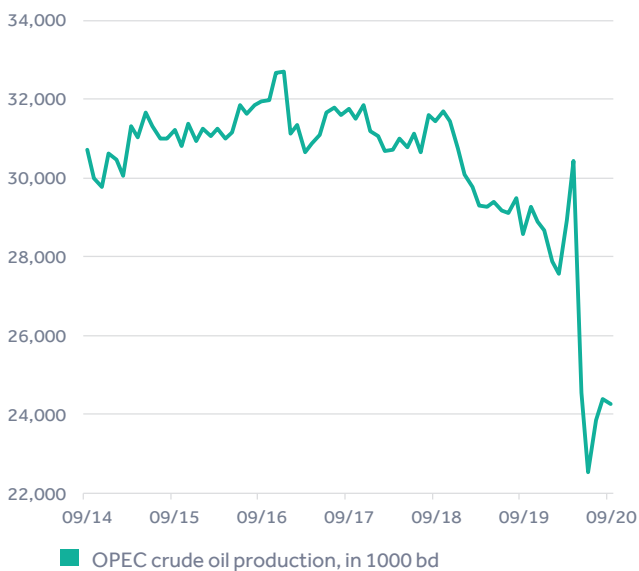
source: JODI, Bloomberg

Figure 2:
 Saudi Crude Refinery Output and Exports



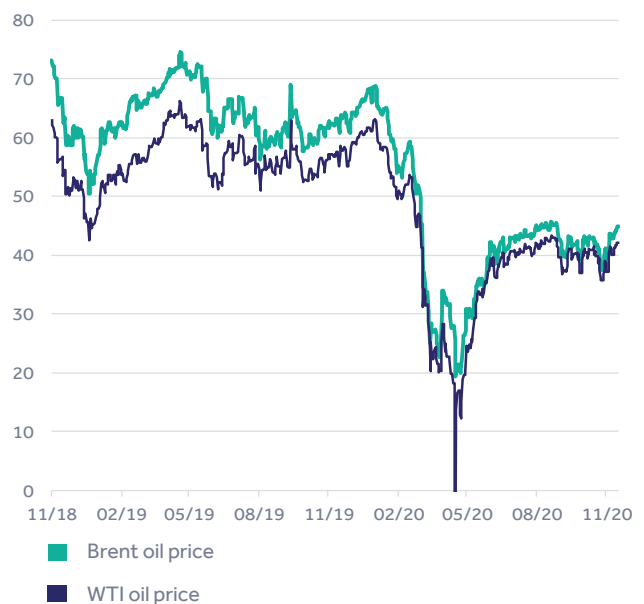
source: JODI

Figure 3:
 OPEC Crude Output



source: JODI, Bloomberg

Figure 4:
 Oil Prices



source: Bloomberg

Based on the OPEC+ oil production roadmap defined in April, Saudi crude output expanded from a multi-year low of 7.5mbd in June to 8.9mbd in September. On the back of the renewed global COVID-

19 outbreak, OPEC+ may delay a further production increase scheduled for January 2021. The renewed global pandemic threat also capped the recovery of oil prices at the beginning of Q2020 4.

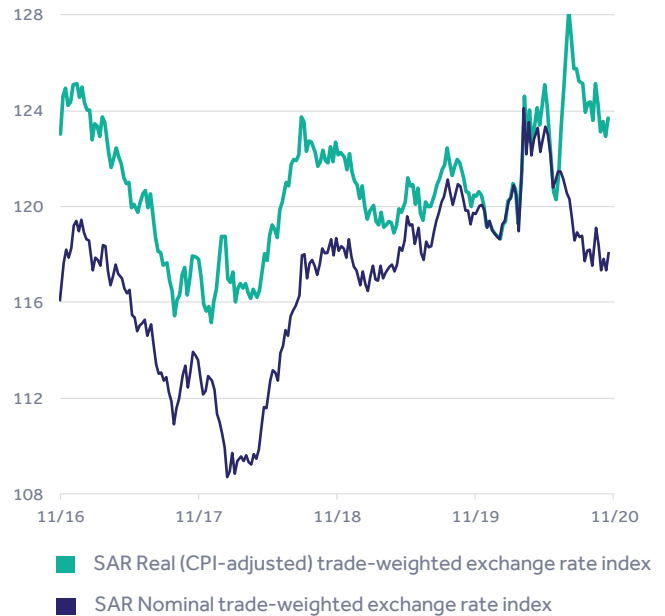
Foreign Exchange: Forward Rates and Effective Exchange Rate Index

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



source: Bloomberg

Figure 2:
 SAR Nominal and Real Effective Exchange Rate



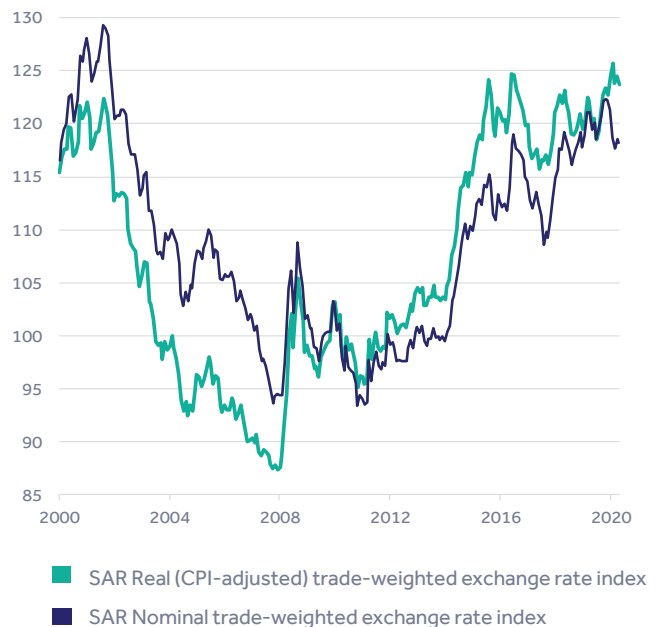
source: Bloomberg, JP Morgan

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



source: Bloomberg

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



source: Bloomberg, JPMorgan

In the course of Q2020 3, the USD/SAR forward premium continued to ease and is currently only gradually above the pre-pandemic lows of January 2020. The most recent divergence between the

nominal and real SAR exchange rate index can be explained by the VAT rate hike in July which caused CPI inflation to spike and, hence, pushed the real (CPI adjusted) exchange rate index up by about %6.

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

Figure 1:
 3-Months SAIBOR vs. USD LIBOR

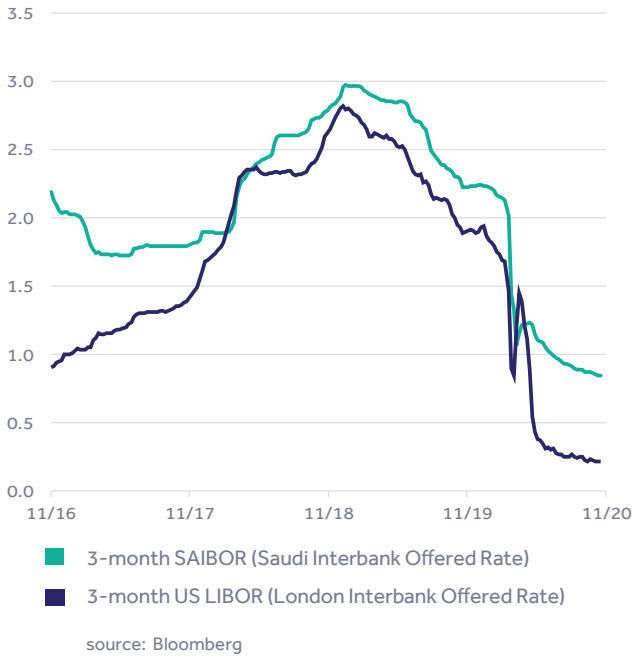
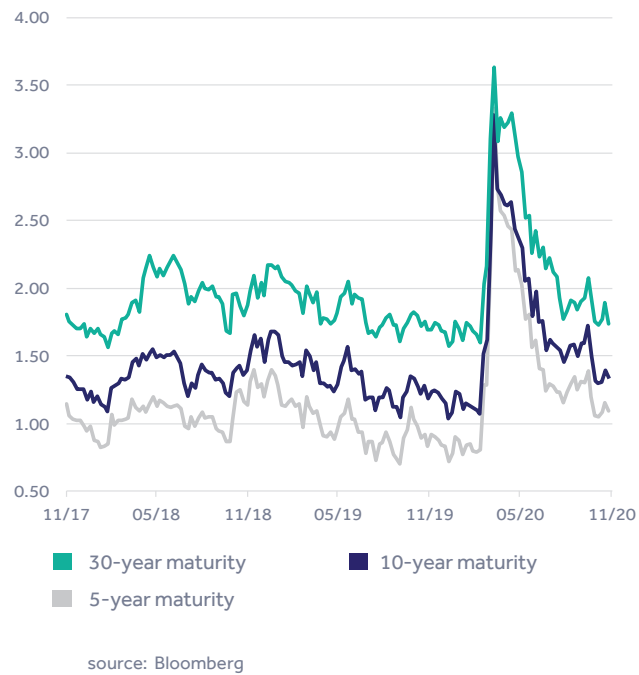


Figure 2:
 5-Year Swap Rate SAR vs. USD

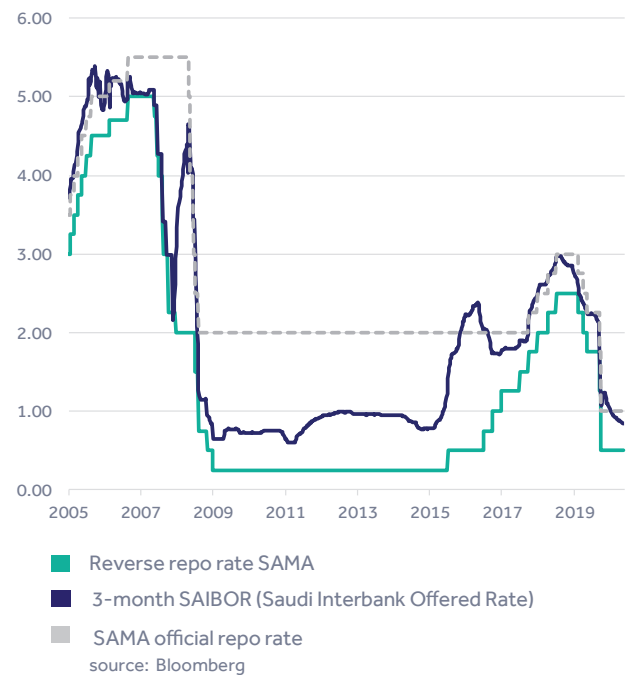


Figure 3:
 KSA USD-Bonds Yield Spread to US Treasuries



3M SAIBOR and 3M LIBOR declined in H2 2020 to reach 0.84% respectively 0.21% by mid-November. There is only limited room for further spread tightening from currently 63bp as long as SAMA keeps its

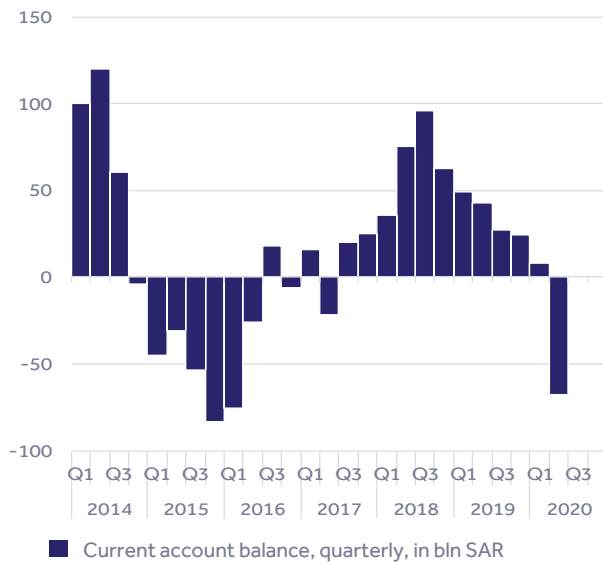
Figure 4:
 Central Bank Rate and 3-Months SAIBOR



Reverse Repo Rate at 0.50% with the FED fund rate at 0.25% (upper boundary). KSA USD bond spreads to US-Treasuries continued to tighten in H2 2020 but are still above their pre-pandemic levels.

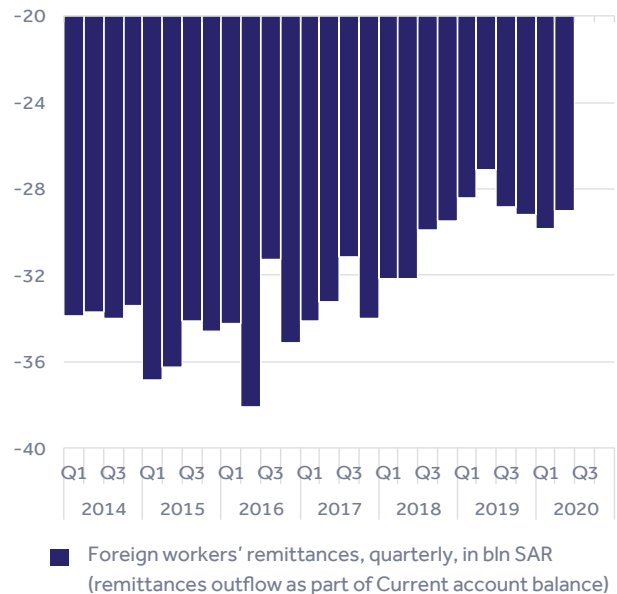
Saudi Balance of Payments

Figure 1:
Current Account Balance



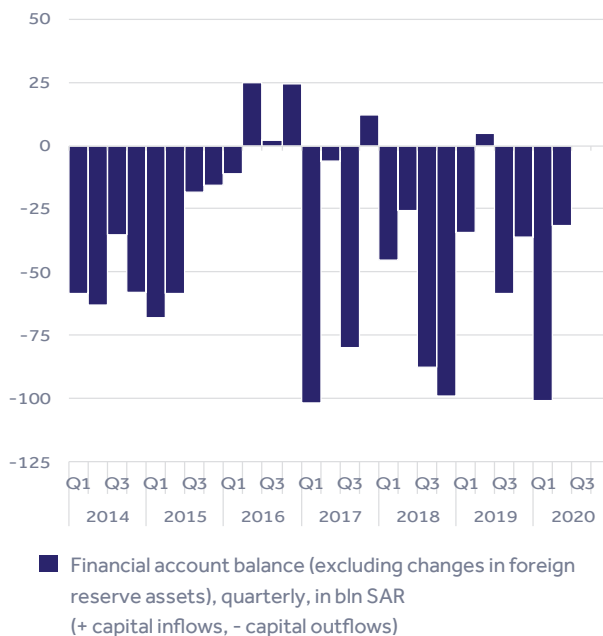
source: SAMA

Figure 2:
Foreign Workers' Remittances



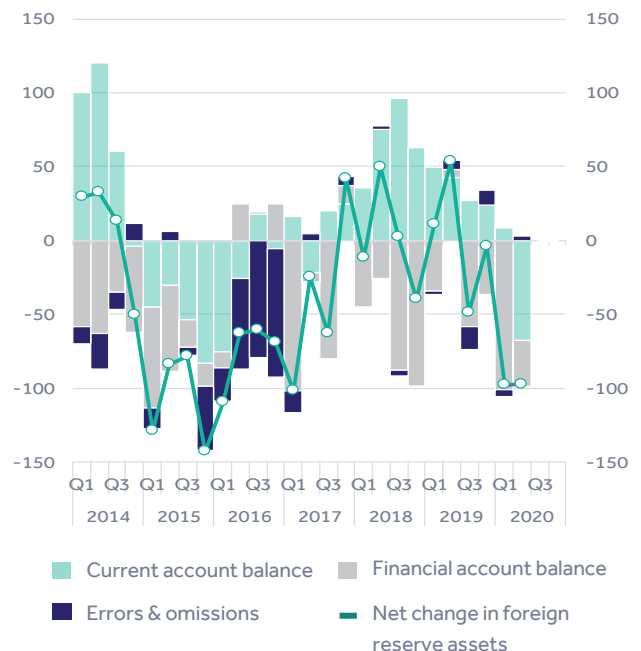
source: SAMA

Figure 3:
Financial Account Balance



source: SAMA

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



source: SAMA

Due to sharply lower oil exports, the current account balance dropped in Q2020 2 for the first time in 3 years again into a deficit (-67bln SAR). Combined with a private financial account deficit of –

33bln SAR (and errors&omissions of 3+bln SAR), this translated into a drawdown in official foreign reserve assets at SAMA of 97bln SAR in Q2020 2, almost the same amount as in the previous quarter.

Tadawul: Saudi Equity Market Statistics

Figure 1:
Tadawul All-Share Index

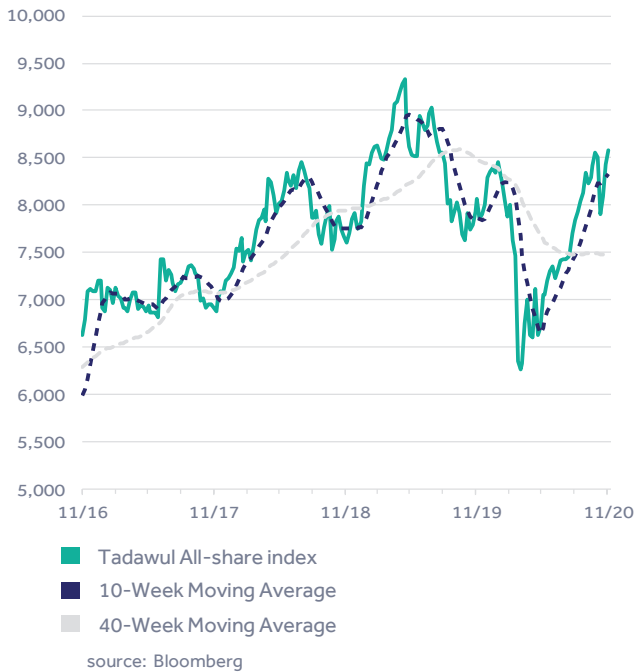


Figure 2:
Tadawul Average Daily Traded Value

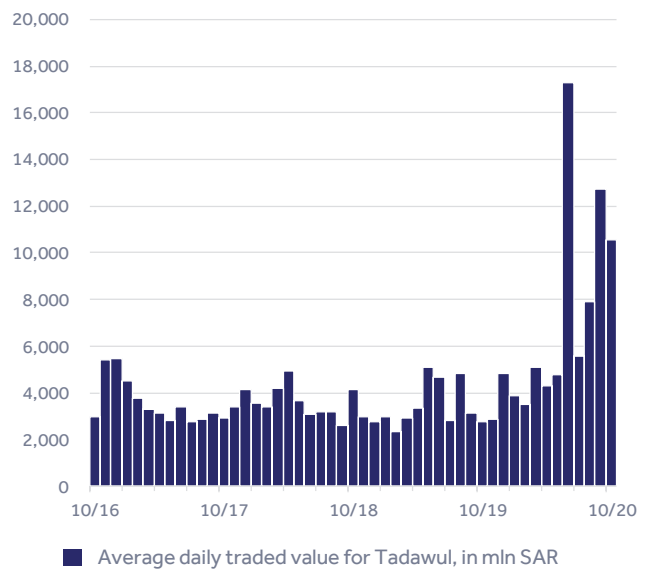


Figure 3:
Weekly Net Purchase by Ownership (in bln SAR)

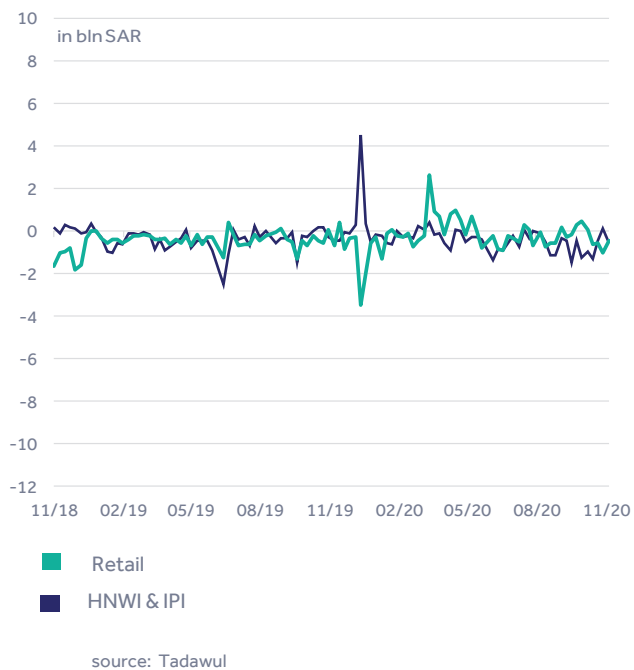
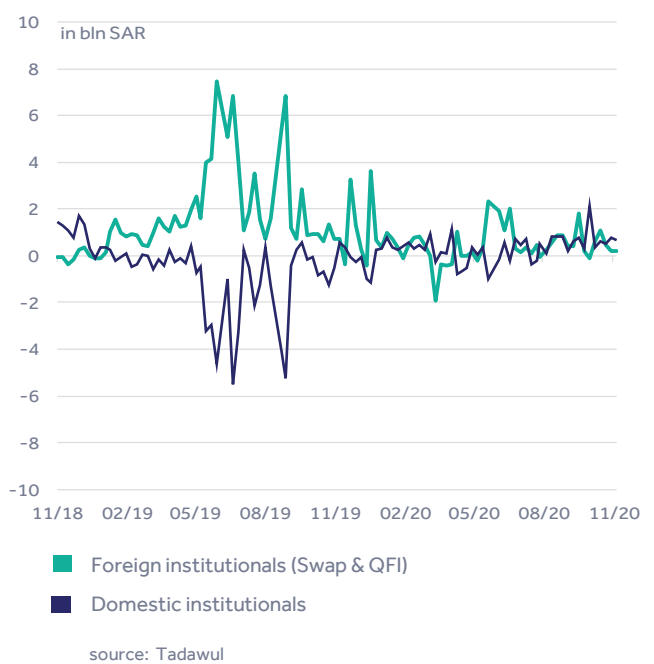


Figure 4:
Weekly Net Purchase by Ownership (in bln SAR)

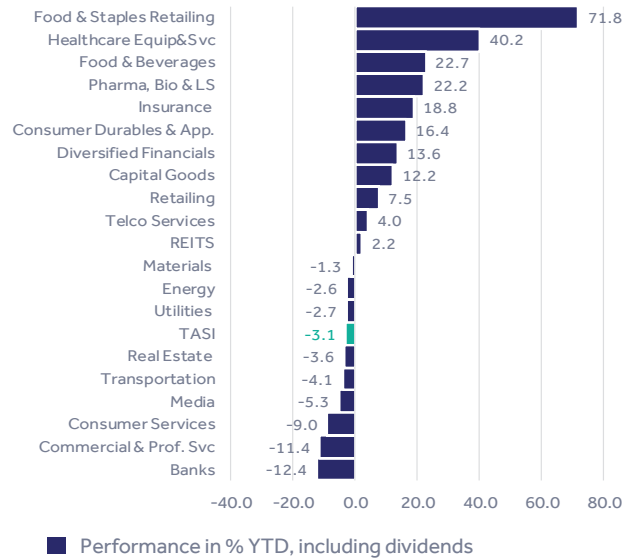


The Saudi equity market rallied in the course of H2 2020 to reach the level of 8600 by mid-October after a low close to 6000 in March. This upsurge was accompanied by increased trading volumes. The

average daily traded value for September amounted to 12.7bln SAR, for October still to 10.5bln SAR. This favourably compares to an average daily traded value of 3.6bln SAR for the full year 2019.

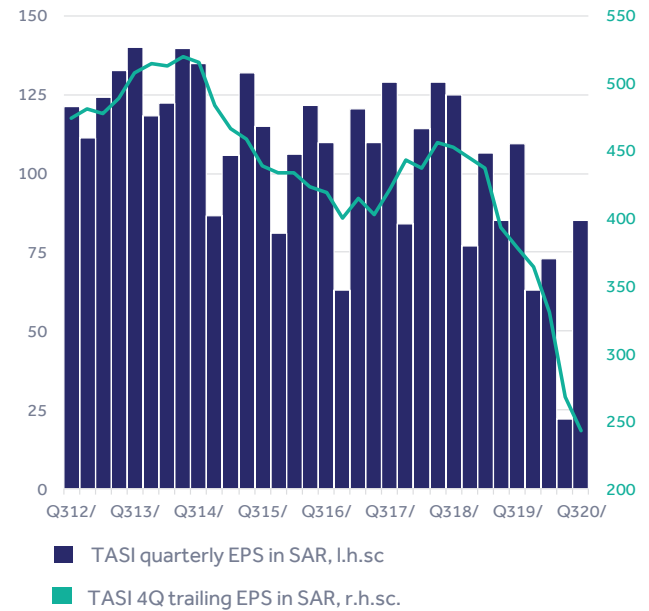
Tadawul: Saudi Equity Market Statistics

Figure 1:
Performance TASI Sectors October 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 consumer and commercial services and banks turned out to be the

worst performing sectors. Due to the strong TASI rally since March despite a notable decline of trailing and forward earnings over this period, the Saudi market looks 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 -4.3%.

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 3.8%

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 -5.2%. 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 -3.9% in 2020 and projected to recover to 3.3% next year.

Facts and Forecasts at a Glance

	2018	2019	2020f	2021f
Real GDP Growth				
Overall economy	2.4	0.3	-3.9	3.3
Non-oil Private sector	1.9	3.8	-4.3	3.8
Government sector	2.9	2.2	0.5	1.8
Oil sector	3.1	-3.6	-5.2	3.5
Fiscal Balance and Government Debt				
Fiscal Balance in bln SAR	-174	-133	-300	-214
Fiscal Balance in % GDP	-5.9	-4.5	-12.1	-7.5
Government debt in bln SAR	560	678	854	982
Government debt as % GDP	19.0	22.8	34.4	34.3
Trade and Current Account				
Trade Balance in bln SAR	633	485	183	327
Trade Balance in % GDP	21.5	16.3	7.4	11.4
Current Account in bln SAR	265	187	-85	52
Current Account in % GDP	9.0	6.3	-3.4	1.8

source: GASTAT, SAMA, RC

The fiscal deficit is forecasted to widen to -12.1% of GDP in 2020, specifically due to distinctly lower oil revenues on the one hand and pandemic induced higher spending on the other. The expected economic recovery in combination with higher oil prices will lead to a notable reduction of the fiscal deficit to -7.5% of GDP in 2021.

We expect oil prices to further recover towards the end of 2020 and in the course of next year. For the full year 2021, our baseline scenario projects an average Brent price of 53USD after 43USD in 2020.

CPI inflation has notably pick up in 2020 due to the VAT rate increase in July. We forecast inflation to average at 3.4% for this year and 3.3% for next year.

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

Against this background, there is some limited room for further SAIBOR-LIBOR spread tightening. As a consequence, we forecast 3M SAIBOR to decline from currently 0.84% to 0.70% until end of next year.

	2018	2019f	2020f	2021f
Oil Prices and Production (yearly average)				
Brent price (USD pb)	71.7	64.1	43.0	53.0
WTI price (USD pb)	64.9	57.0	39.0	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
Inflation and Interest Rates (year end)				
CPI Inflation (yearly average)	2.46	-2.09	3.40	3.30
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
Labor Market (yearly average)				
Unemployment rate total in %	6.0	5.6	7.9	7.2
Unemployment rate Saudi in %	12.8	12.2	14.2	13.0
Labor force part. total in %	56.0	57.9	59.2	59.4
Labor force part. Saudi in %	42.0	44.9	48.4	48.9

source: GASTAT, SAMA, Bloomberg, RC

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