Growth Acceleration of the Non-Oil Economy into 2019

- GDP growth of the overall economy has notably picked up in the second half of 2018. This has primarily been the result of a substantial oil output expansion. For 2019 we expect a moderate growth slowdown as the oil production will broadly stabilize at last year's level.
- There are increasing signs of a further growth acceleration of the non-oil economy. Credit growth to the private sector has started to sustainably recover and has reached 3.0% yoy in December 2018 (see figure below).
- Purchasing Manager Indices as a proxy for the business climate of the non-oil economy have temporarily stalled in H2 2018. However, at the beginning of 2019 we see encouraging signs of a pick-up which may indicate further accelerating economic activity into 2019.
- On the back of the latest OPEC agreement, Saudi Arabia has started to scale down its oil production in December after a peak output at 11.0 mbd reached in November. Based on secondary sources, January production has been further trimmed to 10.2 mbd.
- SAR money market interest rates picked up in the course of 2018 with the 3M SAIBOR ending the year at 3.0%. Based on our new baseline scenario of only one single FED rate hike in 2019, SAR interest rates are close to their peak.
- TASI has seen a strong start into 2019, which has essentially been fueled by substantial foreign institutional capital inflow. However, overall trading volumes have remained subdued in the first weeks of the year.

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Credit and Broad Money Supply Picking Up

After a contraction in 2017 credit to the private sector has continuously picked up during last year to reach 3.0% yoy by end of 2018.

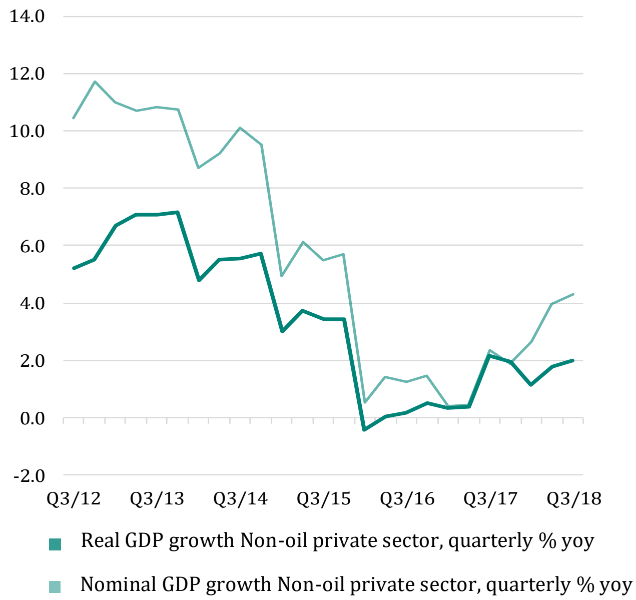
source: SAMA

Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector

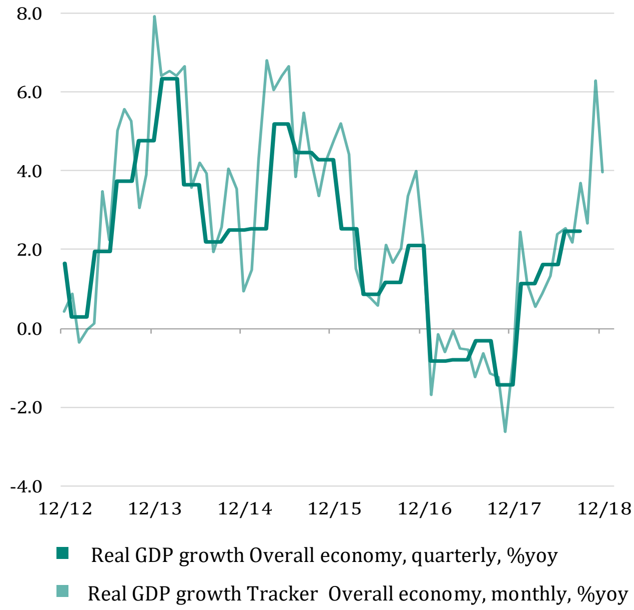
source: GASTAT

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



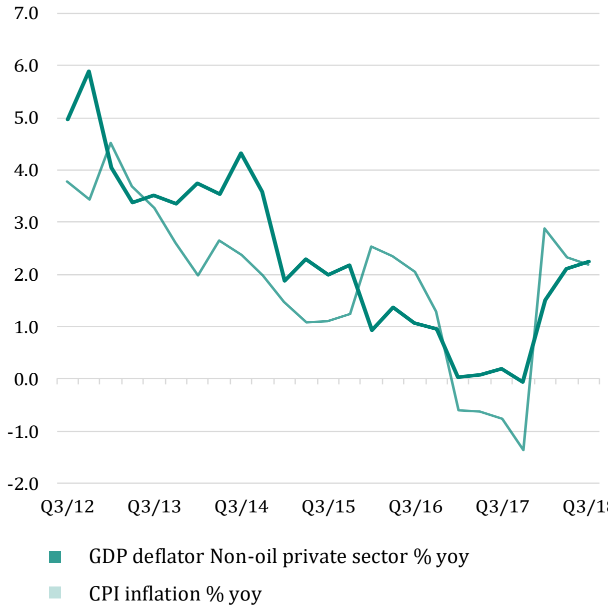
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation

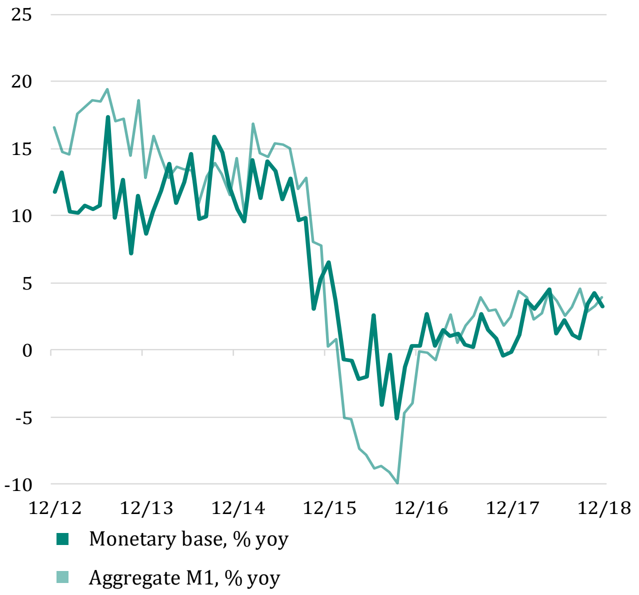


source: GASTAT

Real GDP growth of the overall economy accelerated in H2 2018. Based on preliminary GASTAT data, Q3 growth picked up to 2.5% and our GDP tracker model indicates a Q4 growth rate of about 4.0%. This is primarily the result of a substantial growth contribution by the oil sector which, according to our models, has reached about 6.0% in Q4 2018 on the back of a substantial oil output expansion.

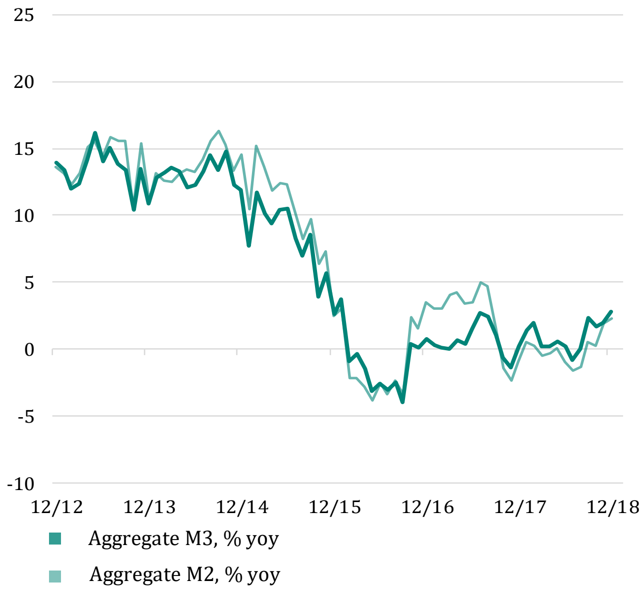
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Aggregate M1



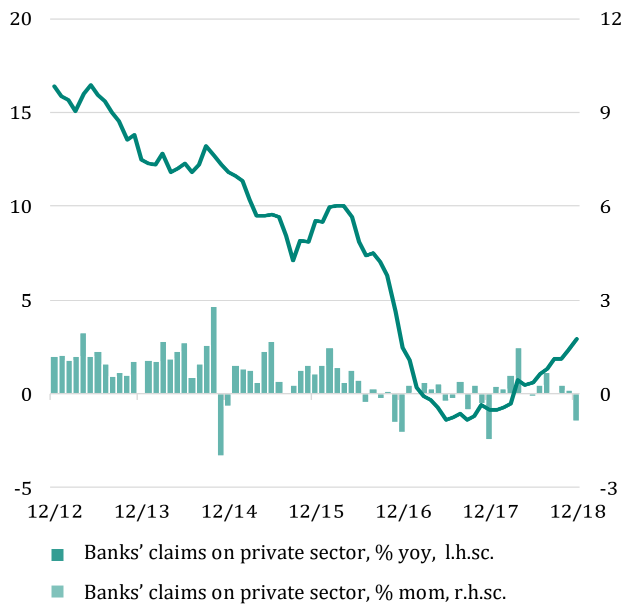
source: SAMA

Figure 2:
Growth Rate Monetary Aggregates M2 and M3



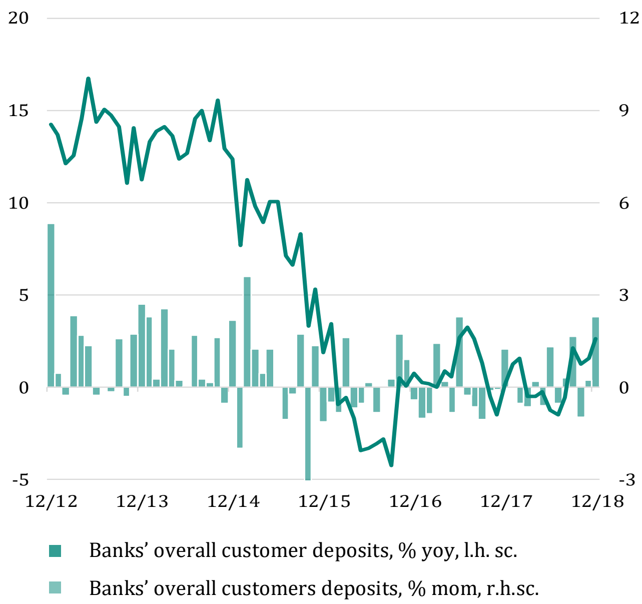
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits

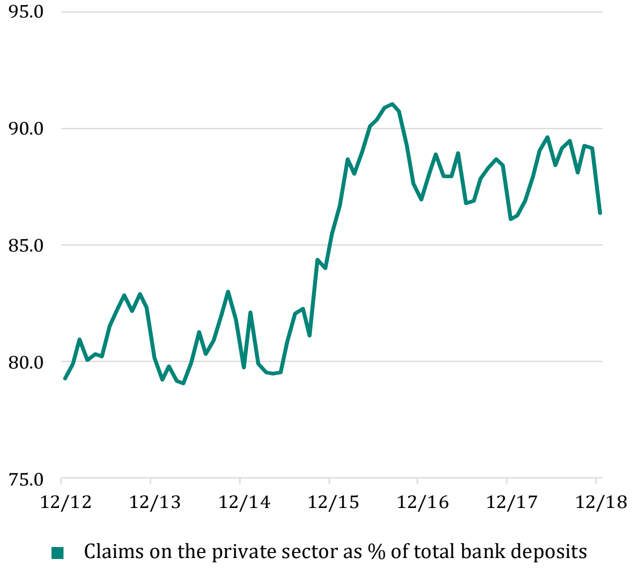


source: SAMA

Broad money supply M3 picked up in H2 2018 and grew in December by 2.8% yoy. This is the result of an expansion of commercial banks' deposits over this period. Meanwhile, credit to the private sector shows signs of a sustainable rebound after the contraction in the course of 2017. By end of last year credit growth reached 3.0% yoy after having contracted by -0.6% throughout the year 2017.

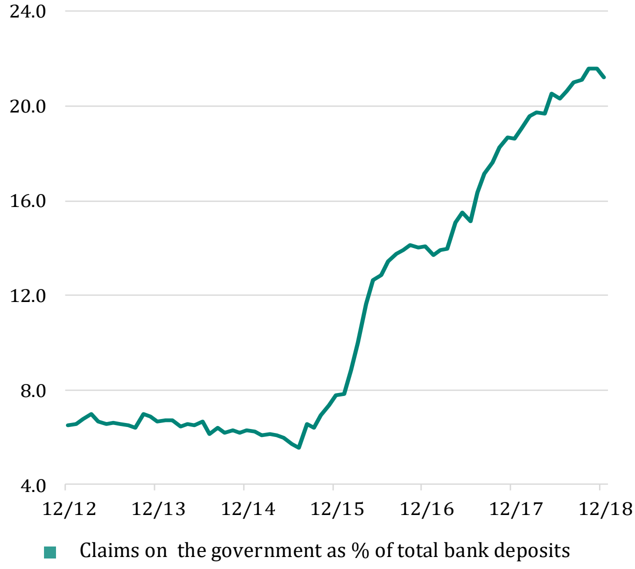
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



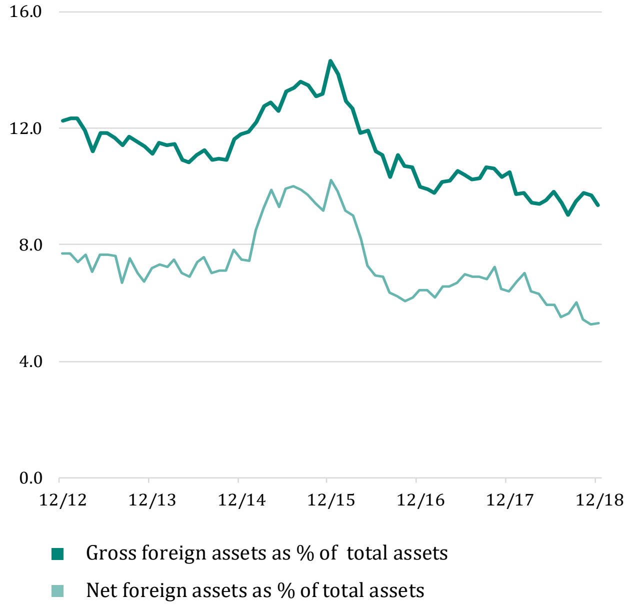
source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



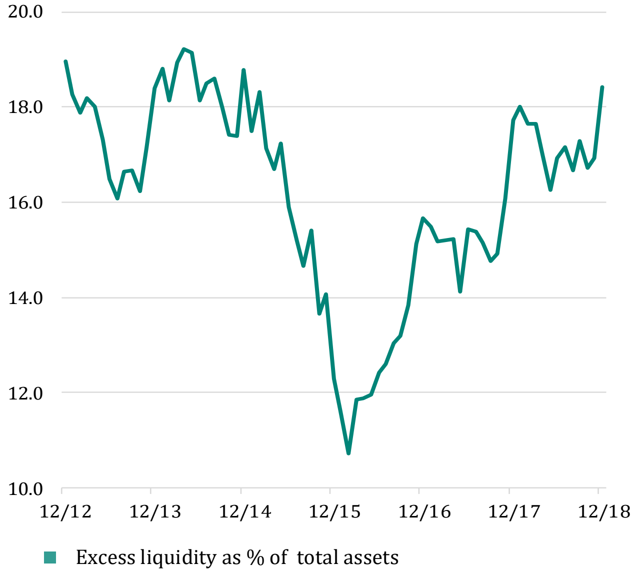
source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio

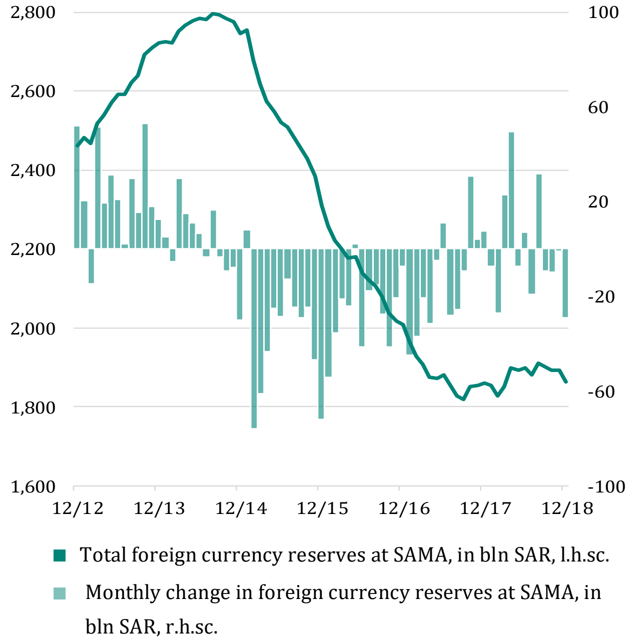


source: SAMA

Excess liquidity in the banking system clearly improved in Q4 2018 due an increase of commercial banks' deposits at SAMA. This is also reflected in the loan-deposit-ratio to the private sector which declined from 89.2 in October to 86.4 in December. On the other hand, outstanding loans to the government sector (i.e. government bonds held by commercial banks) overall stabilized in Q4 2018 at 21%.

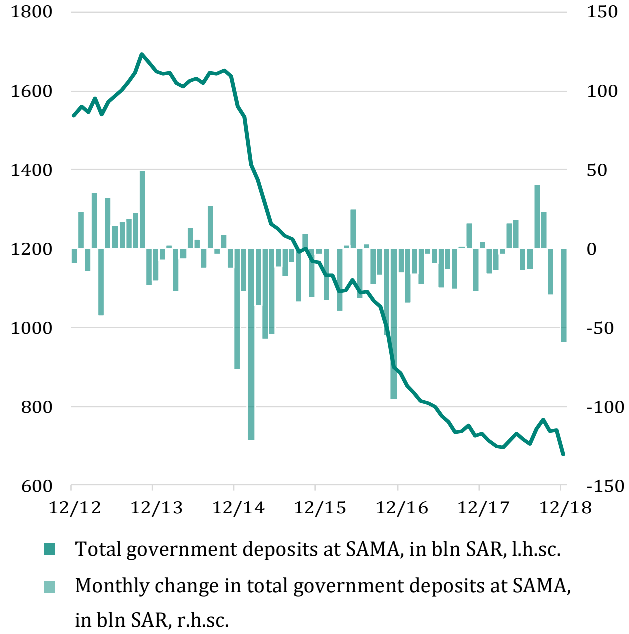
SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA



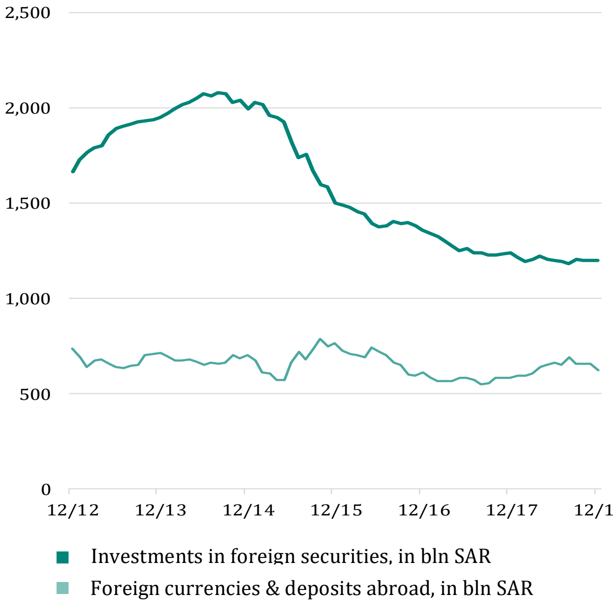
source: SAMA

Figure 2:
Government Deposits at SAMA



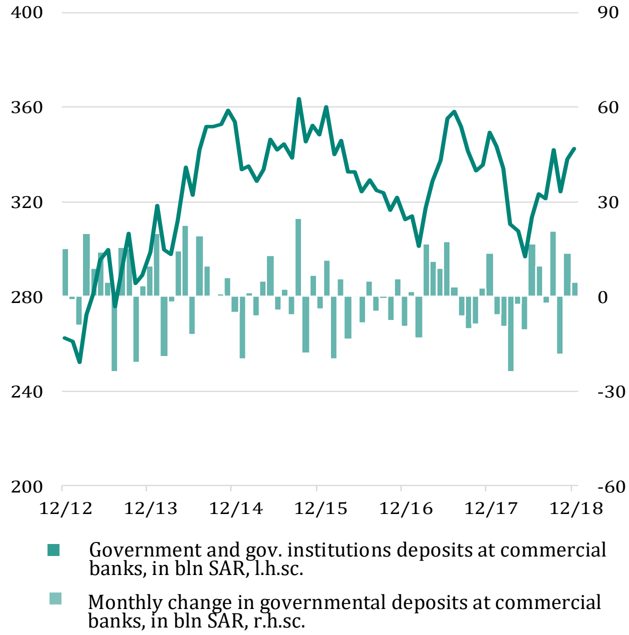
source: SAMA

Figure 3:
Breakdown of Foreign Currency Reserves at SAMA



source: SAMA

Figure 4:
Government Deposits at Commercial Banks



source: SAMA

As a result of the fiscal spending increase in Q4 2018 government deposits at SAMA declined over this period by overall 90bln SAR of which 60bln in December. This also translated into an outflow of foreign currency reserves of 40bln SAR at SAMA during this period which was funded through a corresponding reduction in foreign deposits while foreign security investments remained unchanged.