

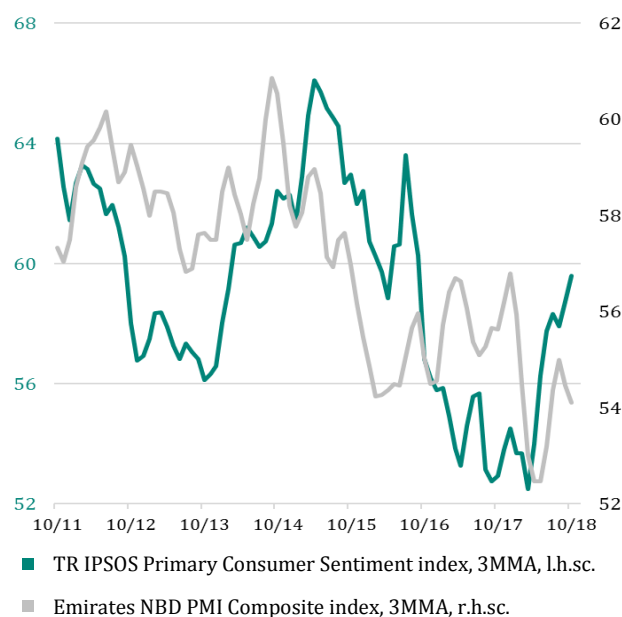
Economy Rebound Overall Still on Track

- GDP growth is gaining pace in the course of the second half 2018 according to our GDP tracker model. This is primarily due to a considerable recovery of the oil sector on the back of a notable output expansion over this period.
- Despite an expansionary fiscal policy stance the government exhibited only marginal deficits over the last two quarters. Combined with continued capital market funding activity this has translated into a stabilisation and recovery of government deposits at SAMA.
- The non-oil economy has recovered from its lows at the beginning of the year. However, there are mixed signals in the recent months with consumer sentiment still improving while the business climate has stalled in the course of Q3 2018 (see figure below).
- Saudi oil production and exports of crude and refined products have each increased by 500k bd since May 2018. So far, OPEC could overall very well absorb the Iranian output cuts, increasing its production by 700k bd since May.
- Foreign exchange and credit markets have only moderately reacted on the most recent geopolitical headlines and have already started to gradually reverse. 3M SAIBOR-LIBOR spread has narrowed to 18bp in November after having expanded beyond 30bp in the previous months.
- TASI has experienced a period of increased volatility with elevated trading activity at the beginning of Q4. While foreign investors were net sellers, government related entities and institutional DPMs were net buyers. The market correction since Summer has also led to more moderate valuation levels.

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Consumer Sentiment and Business Climate



While consumer sentiment has continued to recover into Q4 2018, business climate (PMI index) has stalled in the course of the third quarter.

source: Thomson Reuters

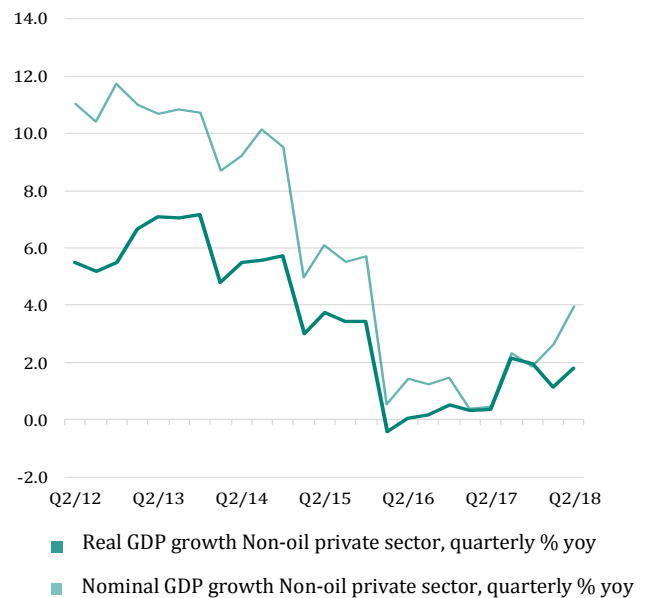
Gross Domestic Product (GDP) Overall Economy and Institutional Sectors

Figure 1:
Real GDP Overall Economy and Oil Sector



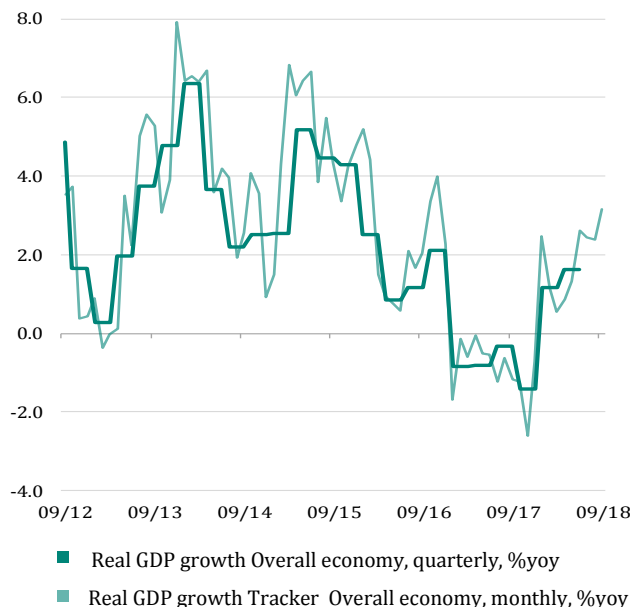
source: GASTAT

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



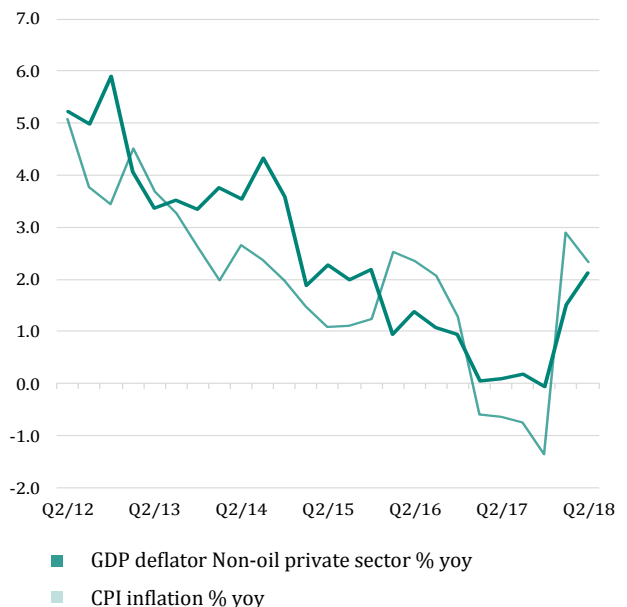
source: GASTAT

Figure 3:
Monthly GDP Tracker of Overall Economy



source: GASTAT, RC

Figure 4:
GDP Deflator and CPI Inflation



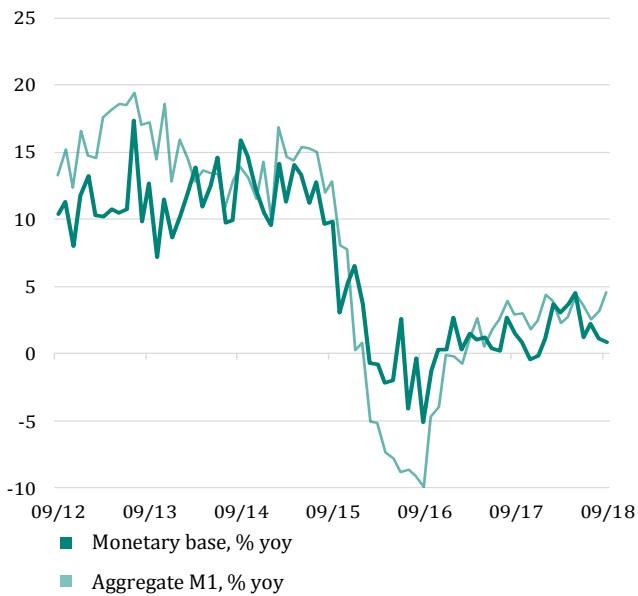
source: GASTAT

In the first half 2018 the overall economy recovered from last year's recession, driven by a rebound of both the oil sector and the non-oil sector. Our GDP tracker model indicates that GDP growth continued

to accelerate to approximately 2.7% in Q3 after 1.6% in Q2. Meanwhile, the GDP deflator of the non-oil private sector economy picked-up to 2.1% in Q2 2018, almost closing the gap to CPI inflation.

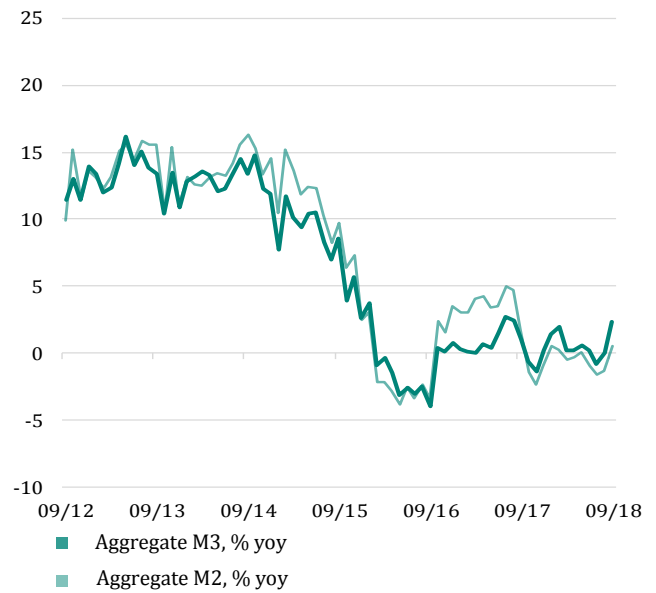
Monetary Aggregates, Credit and Commercial Banks' Deposits

Figure 1:
Growth Rate Monetary Base and Aggregate M1



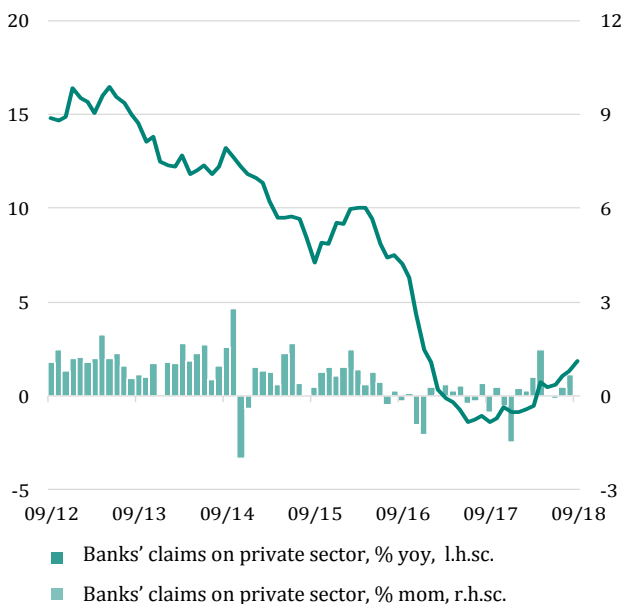
source: SAMA

Figure 2:
Growth Rate Monetary Aggregates M2 and M3



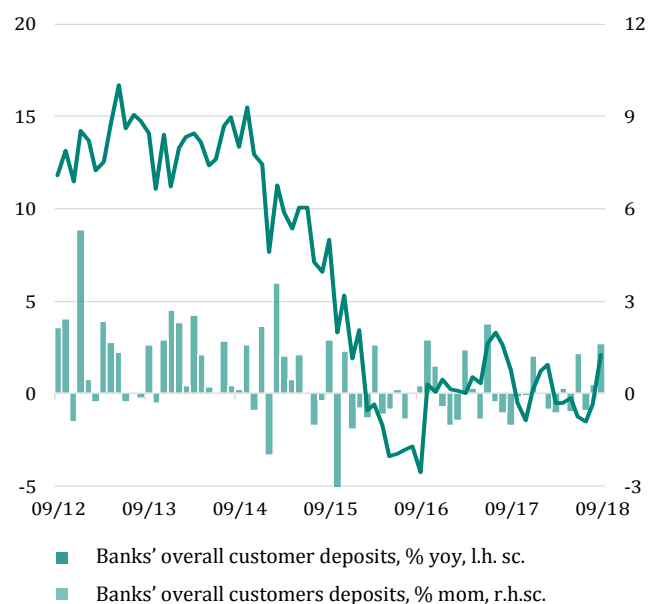
source: SAMA

Figure 3:
Growth of Credit to the Private Sector



source: SAMA

Figure 4:
Growth of Commercial Banks' Deposits



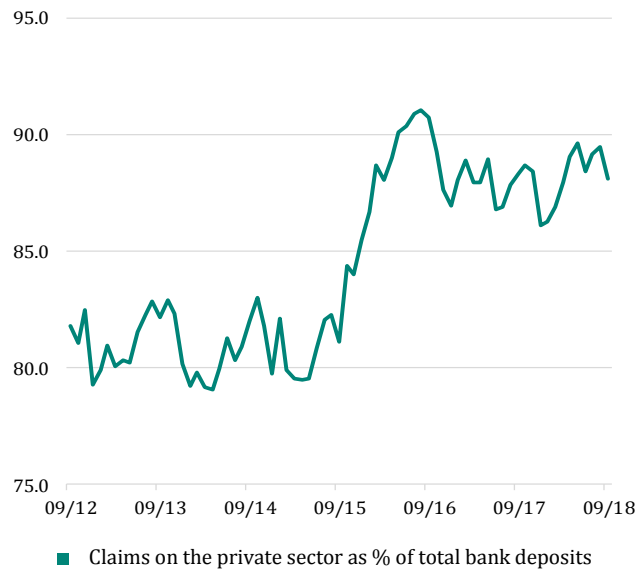
source: SAMA

During Q3 2018 the growth rates of broader monetary aggregates generally picked up. This can be explained by an increase in customer bank deposits by 1.4% in Q3 2018. Part of this increase is due to a rise

in deposits of government entities at commercial banks. Private sector credit growth also continued to recover; by September it stands at 1.9% yoy and at 3.4% since end of last year.

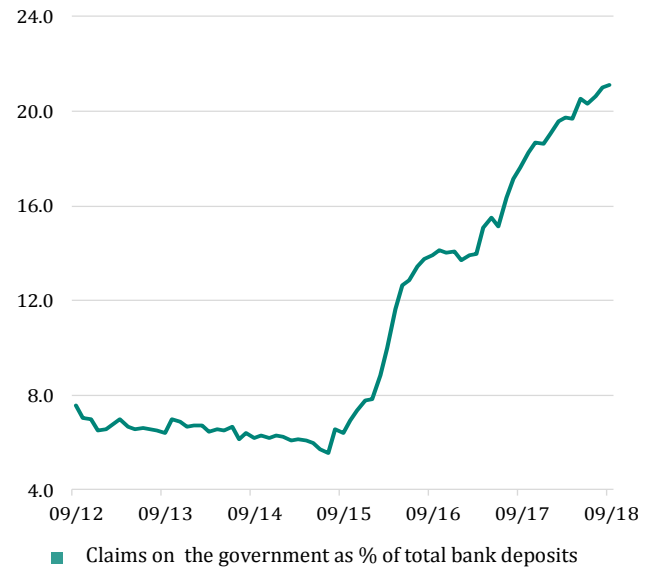
Commercial Banks Key Ratios

Figure 1:
Private Sector Loan-Deposit-Ratio



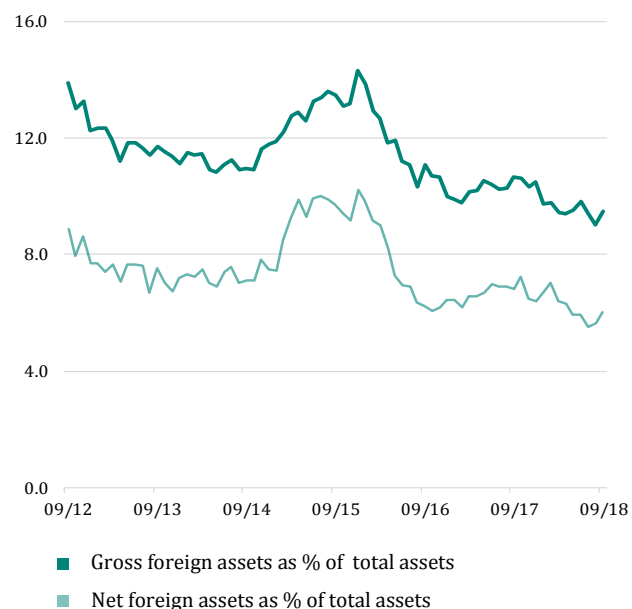
source: SAMA

Figure 2:
Government Sector Loan-Deposit-Ratio



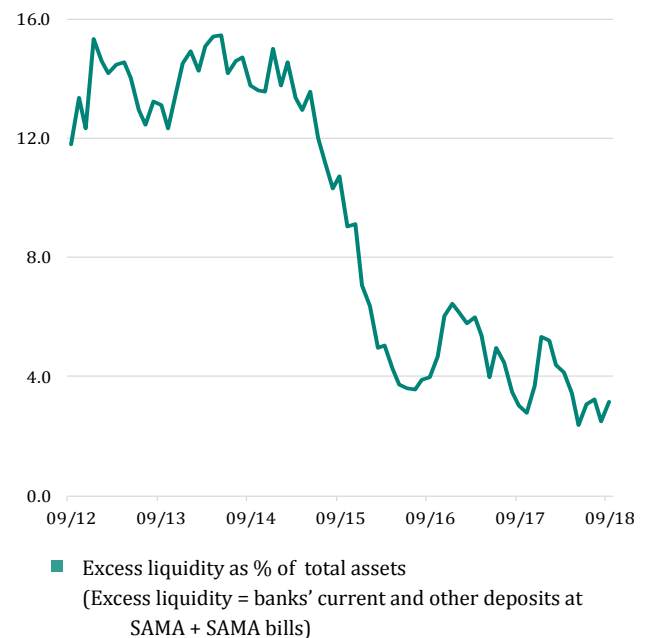
source: SAMA

Figure 3:
Foreign Assets to Total Assets Ratio



source: SAMA

Figure 4:
Excess Liquidity to Total Assets Ratio



source: SAMA

As a result of the increase in customer deposits during Q3 2018 the private sector loan-deposit-ratio of commercial banks eased from 89.2 in July to 88.1 in September. On the other hand, the government sec-

tor loan-deposit-ratio continued to rise from 20.3 in June to 21.1 in September as commercial banks increased their holdings in government bonds by 13 bln SAR over this period.

SAMA Balance Sheet: Key Elements of Assets and Liabilities

Figure 1:
Foreign Currency Reserves at SAMA

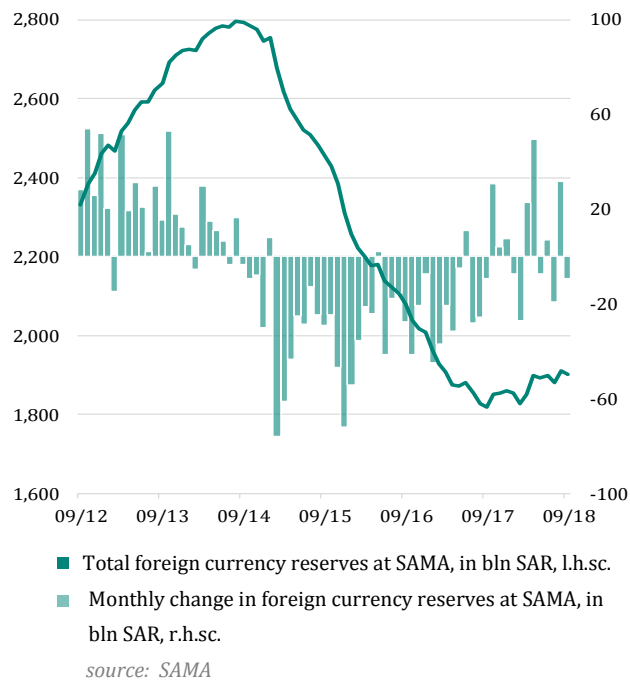


Figure 2:
Government Deposits at SAMA

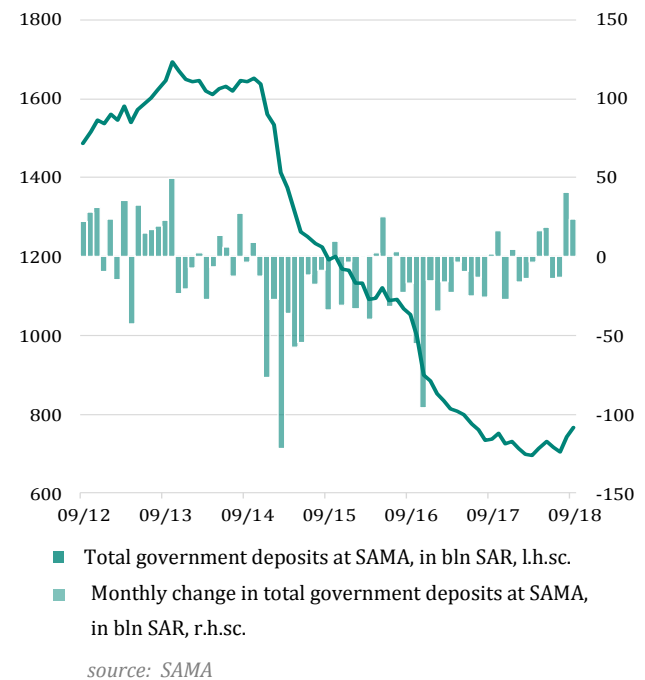


Figure 3:
Breakdown of Foreign Currency Reserves at SAMA

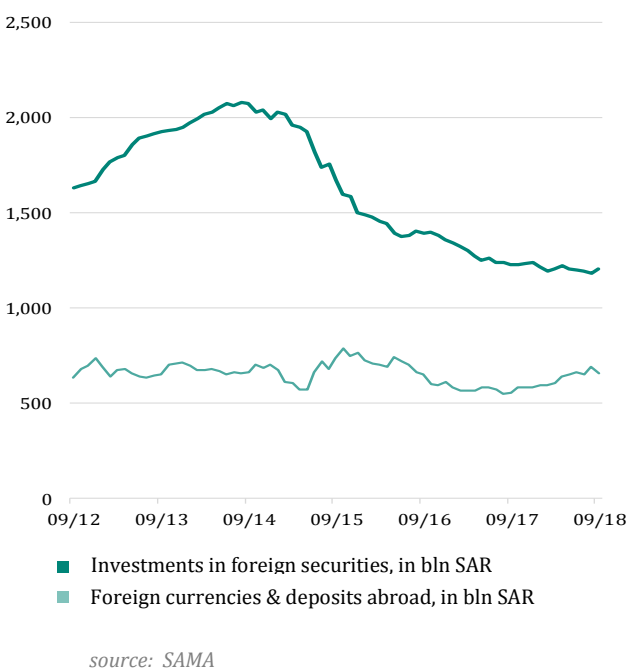
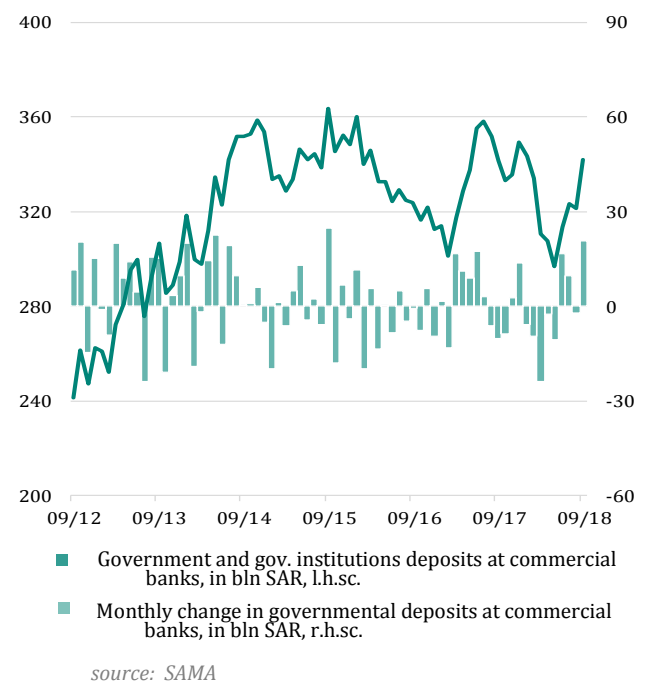


Figure 4:
Government Deposits at Commercial Banks



Foreign currency reserves at SAMA stabilized at 1900 bln SAR in the course of Q3 2018. Meanwhile, government deposits at SAMA increased by 51 bln SAR in Q3. On top, governmental deposits at com-

mercial banks also grew by 29 bln SAR. Overall this reflects the stable fiscal stance of the government with only marginal recent fiscal deficits combined with continued capital market funding activity.

