



Saudi Arabia

Economic Developments & Prospects

January 2018

Rima M. Bhatia
Group Economist

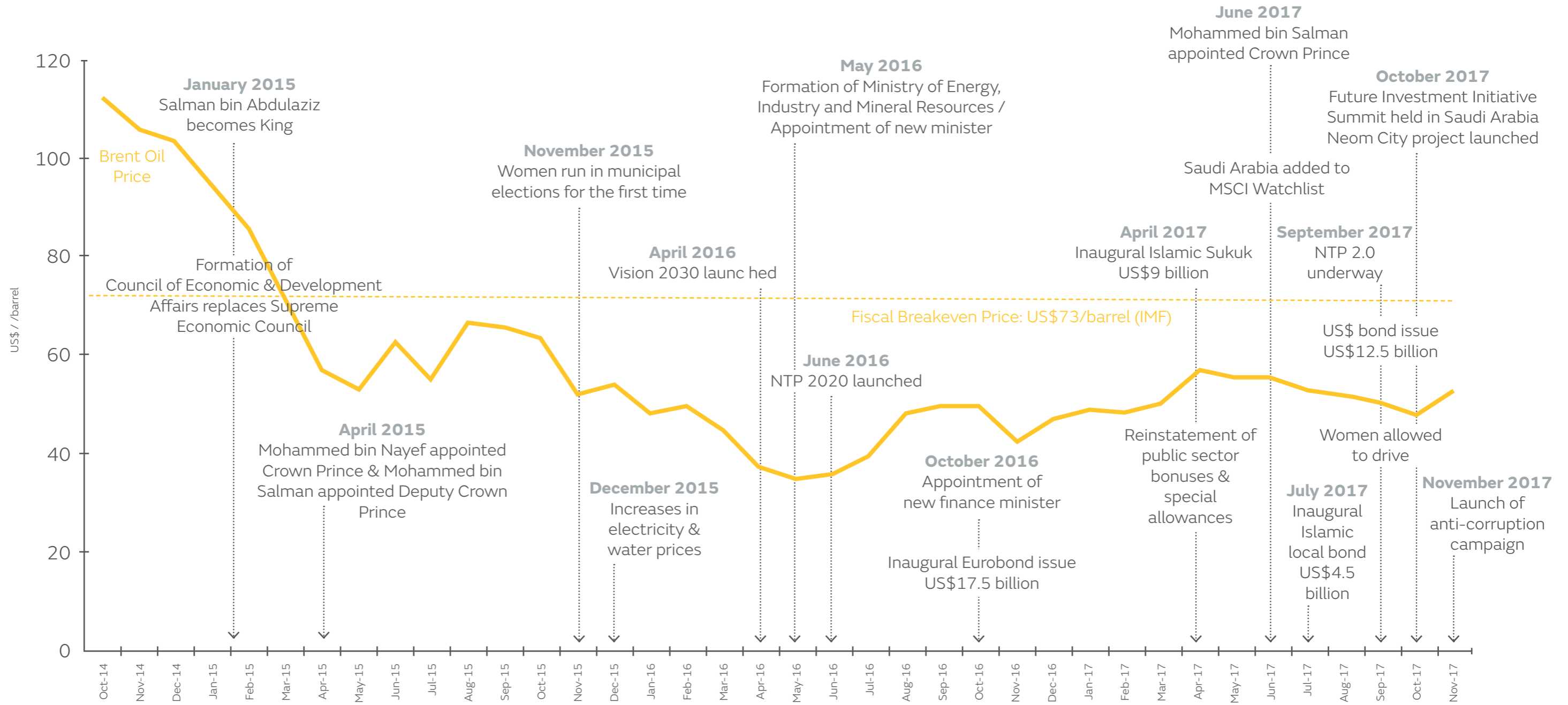
GiB
بنك الخليج الدولي



Table of Contents

Timeline	4
The Changing Landscape	6
› Transforming the Economic Model	8
› Saudi Vision 2030 Roadmap	10
Recent Performance	12
› Saudi Arabia – Fiscal Breakeven Oil Prices	14
› Growth & Inflation	16
› Non-Oil GDP	18
› Government Finances	20
› Real Sector	22
› External Sector	24
› Financial Sector	26
› Foreign Exchange Reserves & Debt	28
Near-Term Prospects	30
› Positives & Challenges	32
› Risks to Outlook	34
› Oil Sector	36

Key Events Timeline



Source: GIB Economics

Initiation of a wide-ranging economic & structural reforms, and liberalisation amid higher oil prices has improved economic indicators and overall prospects in 2017.

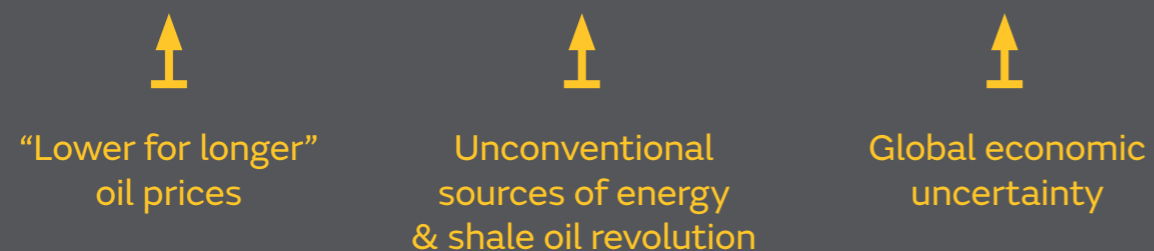
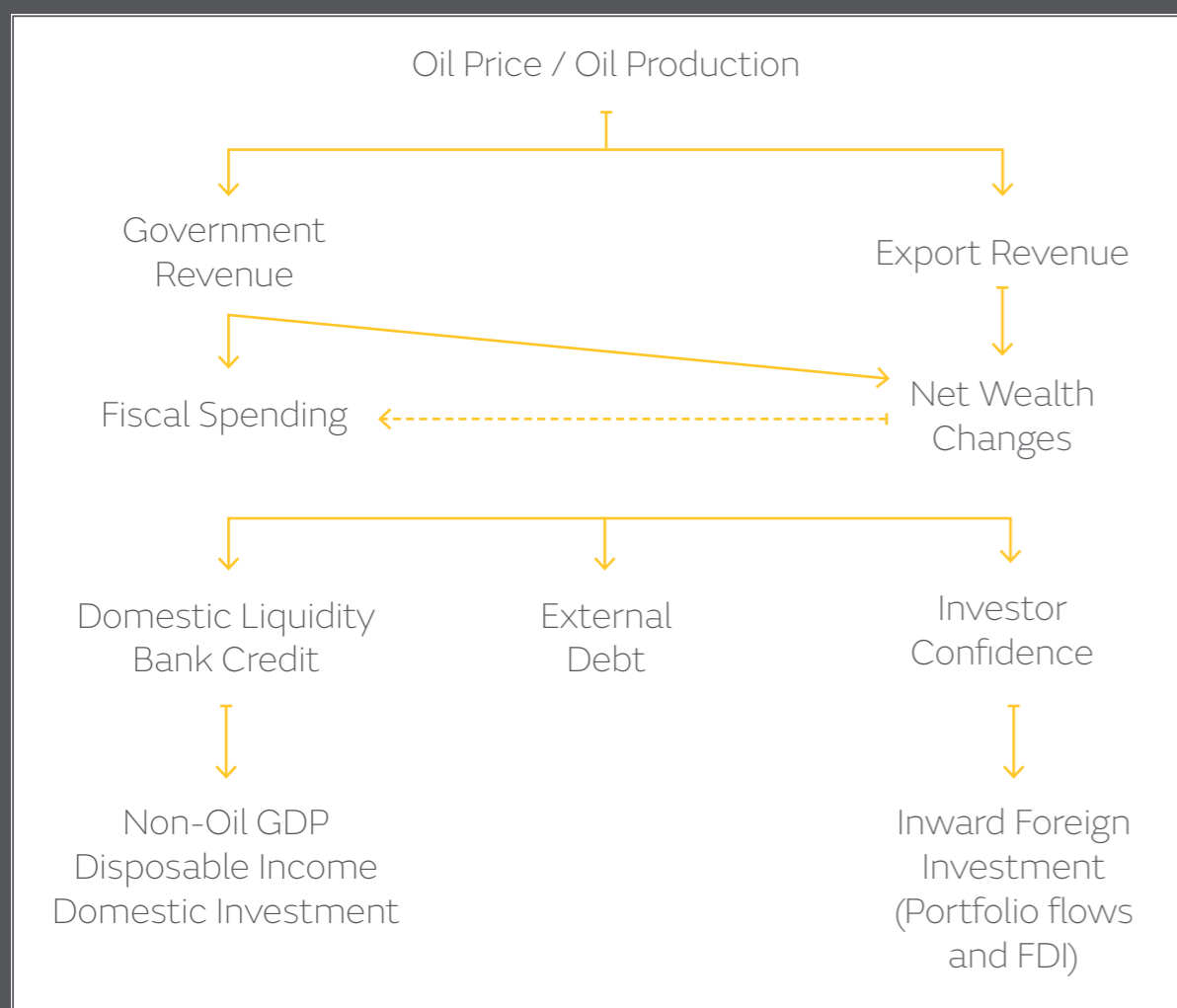


The Changing Landscape



Transforming the Economic Model

Current Economic Model

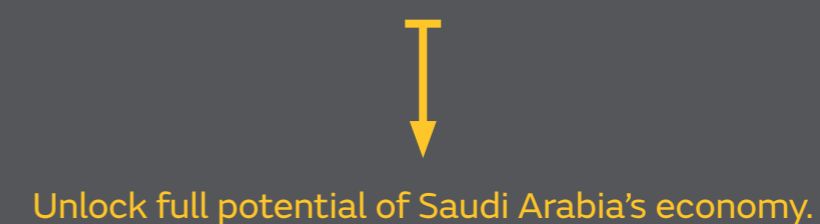


Transformation Drivers



Key Features:

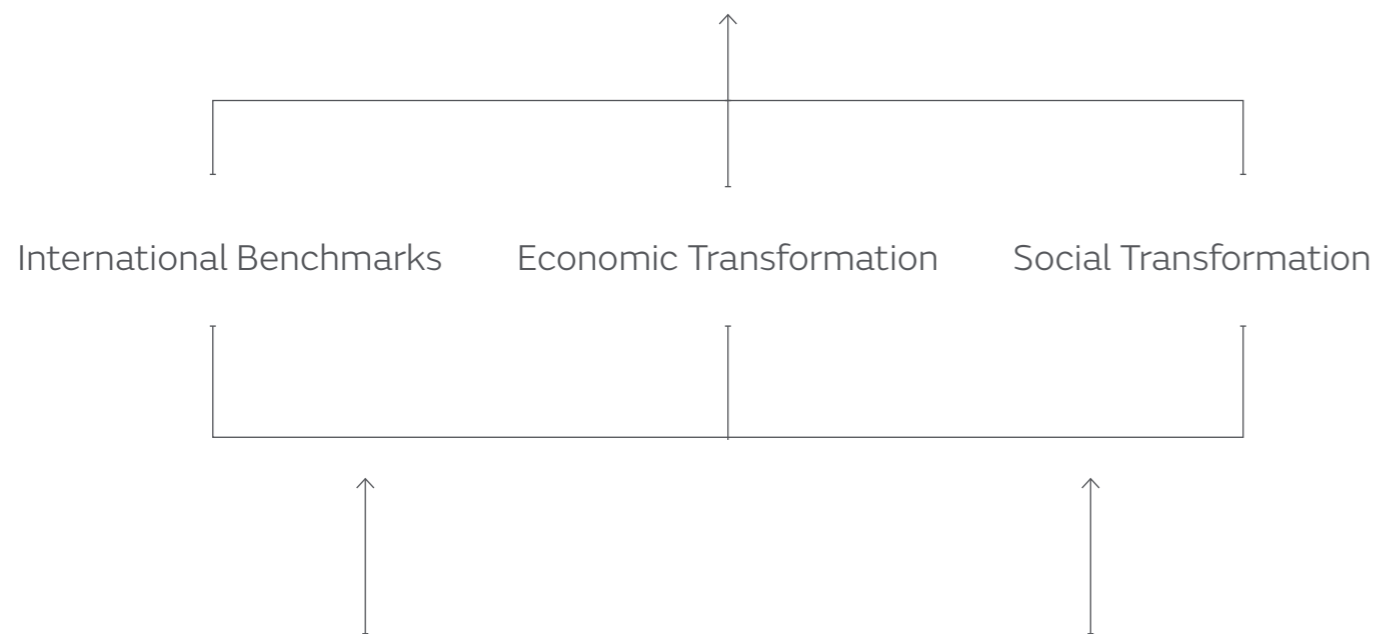
- > Reduced economic dependence on oil.
- > Diversified economic base.
- > Private sector driven economy.
- > Enhanced local and foreign investment.
- > Governance and efficient use of resources
- > High productivity employment for all Saudi nationals.
- > Knowledge and technology base.
- > Expanded global trade and investment flows and collaborations.
- > Developed public service sectors (health, education, infrastructure, recreation and tourism).



Transformation Goal

Saudi Vision 2030 Roadmap

Vision 2030



Unveiled in April 2016, Vision 2030 is a wide-ranging program that aims to reduce Saudi Arabia's dependence on oil; diversify the economy; build the private sector's economic role; develop the public service sectors; and implement social reforms .

Launched Programmes

- > The Government Restructuring Programme
- > The Strategic Directions Programme
- > The Fiscal Balance Programme
- > The Project Management Programme
- > The National Transformation Programme (NTP) - NTP 2.0
- > NEOM City Project
- > The Regulations Review Programme
- > The Performance Measurement Programme

Forthcoming Programmes

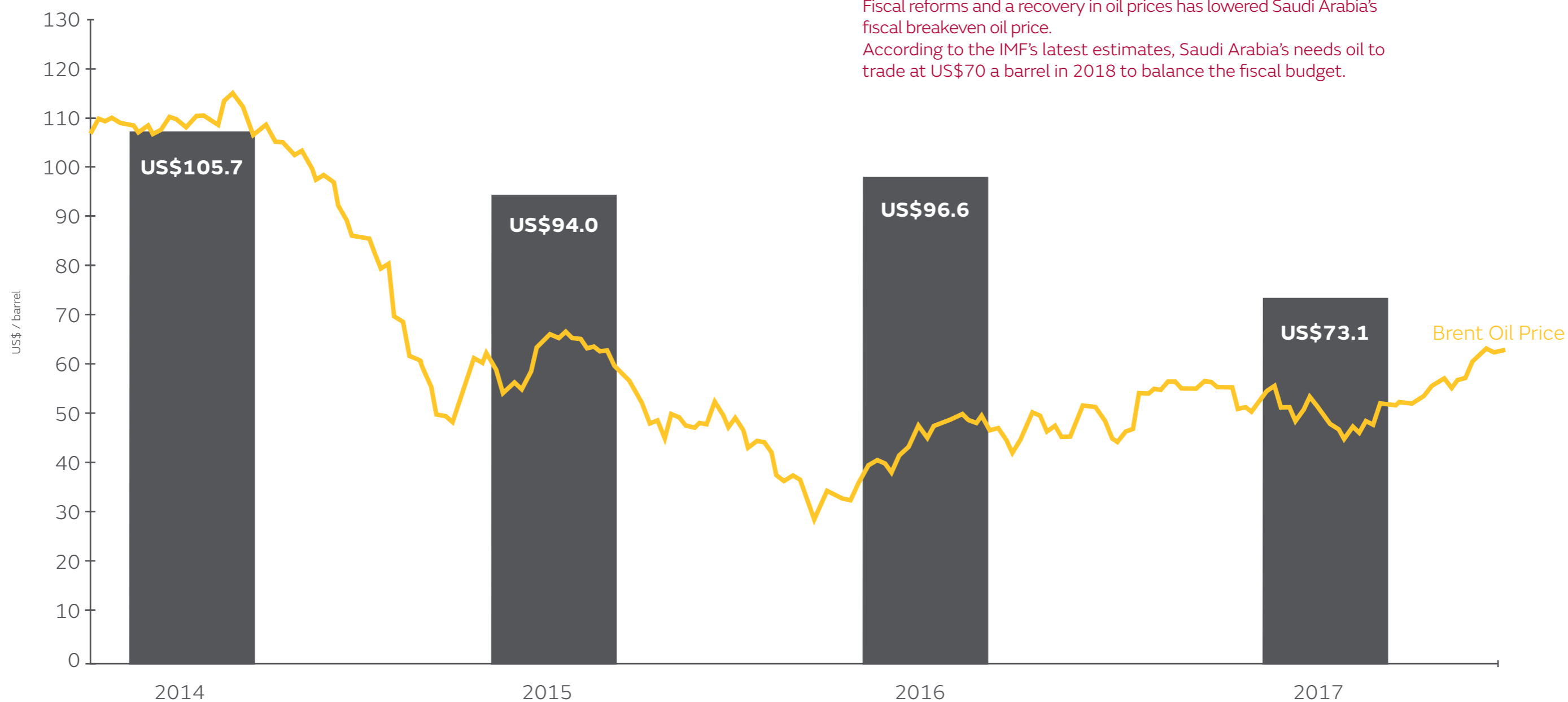
- > The Saudi Aramco Strategic Transformation Programme
- > The Public Investment Fund Restructuring Programme
- > The Human Capital Programme
- > The Strategic Partnerships Programme
- > The Privatisation Programme
- > The Program for Strengthening Public Sector Governance



Recent Performance

Saudi Arabia – Fiscal Breakeven Oil Prices

Fiscal reforms and a recovery in oil prices has lowered Saudi Arabia's fiscal breakeven oil price. According to the IMF's latest estimates, Saudi Arabia needs oil to trade at US\$70 a barrel in 2018 to balance the fiscal budget.

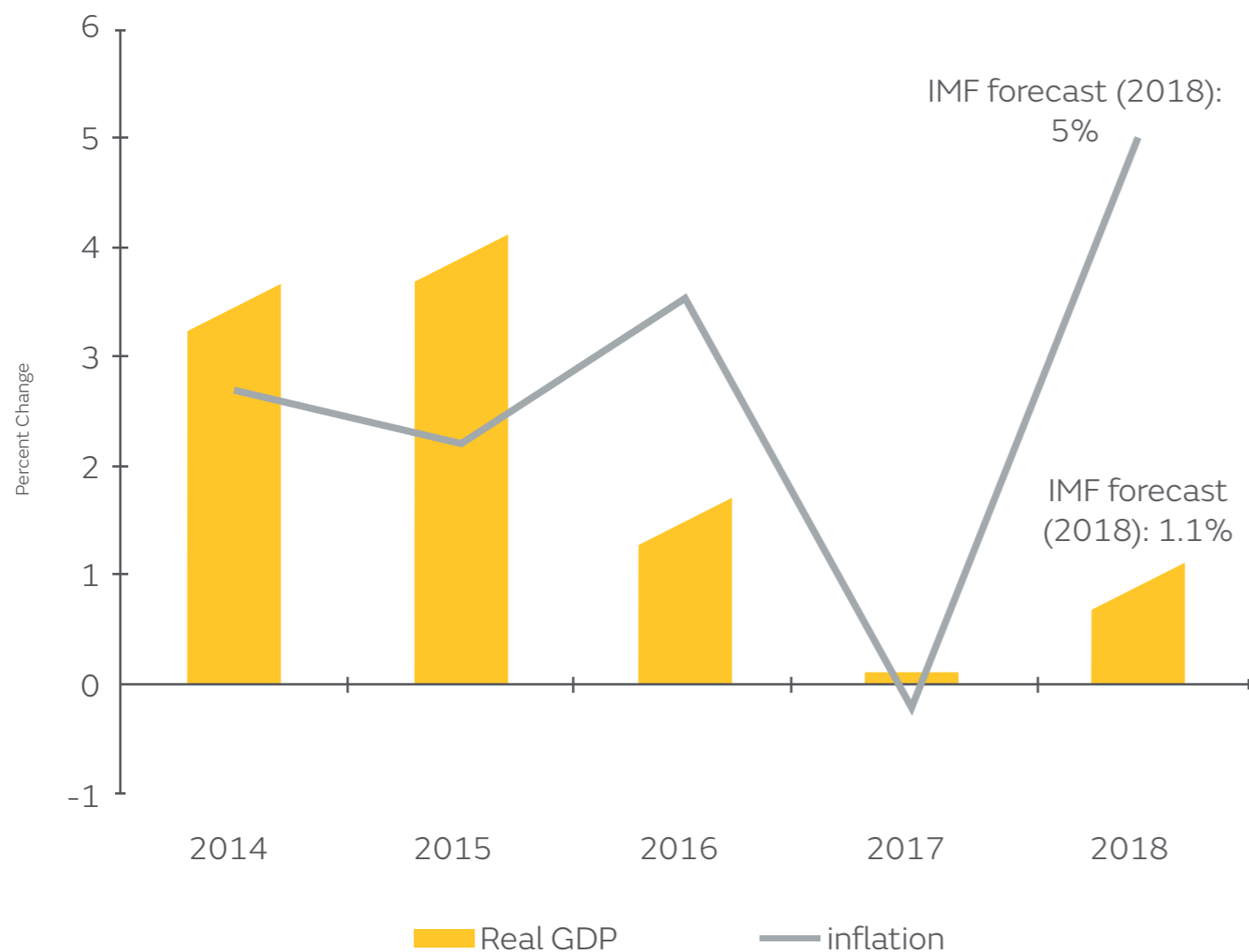


Data Source: IMF & Ministry of Finance, Kingdom of Saudi Arabia

Breakeven Oil Price Trend

Growth & Inflation

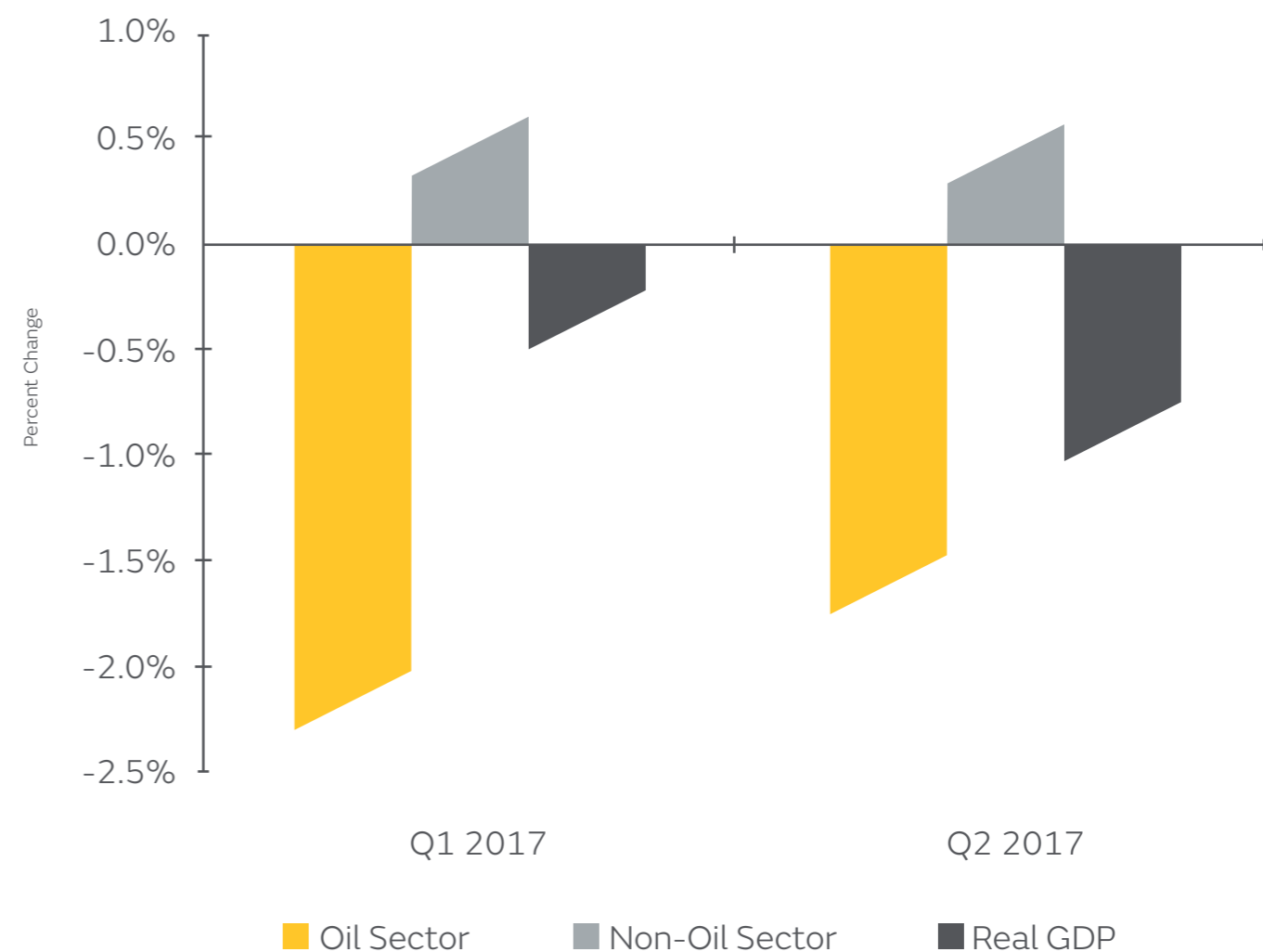
Real GDP & Inflation



Data Source: International Monetary Fund (IMF)

Economic downturn and deflation are expected to bottom out in 2017. Improved prospects for growth and inflation in 2018, with the latter attributed to excise taxes, energy price reforms and introduction of VAT.

Real GDP (quarterly performance y-o-y)

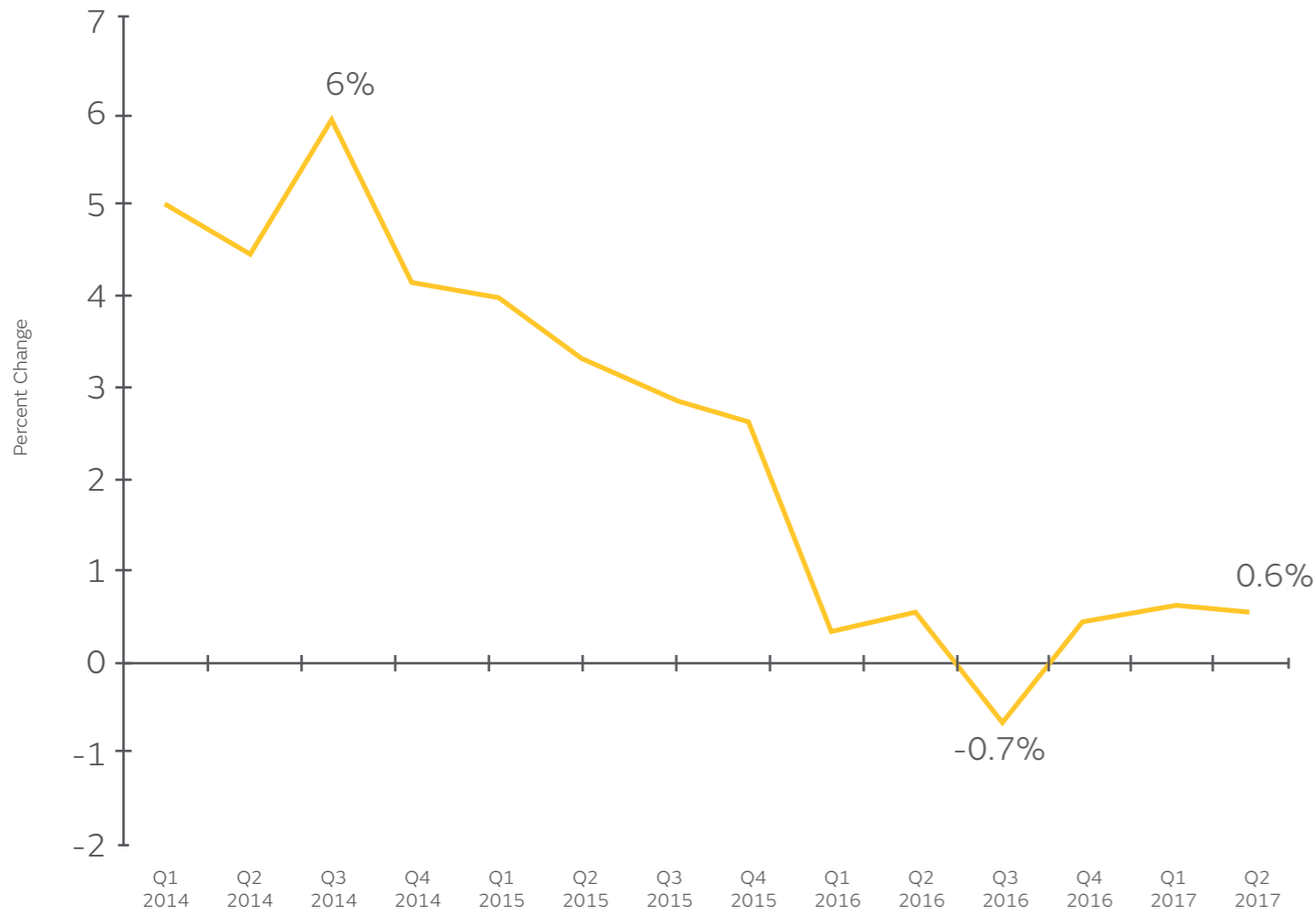


Data Source: General Authority for Statistics, Kingdom of Saudi Arabia

Economic activity has been dragged down by the oil sector and compliance with oil production cuts. Non-oil sector growth remains positive.

Non-Oil GDP

Non-Oil GDP Growth (y-o-y)

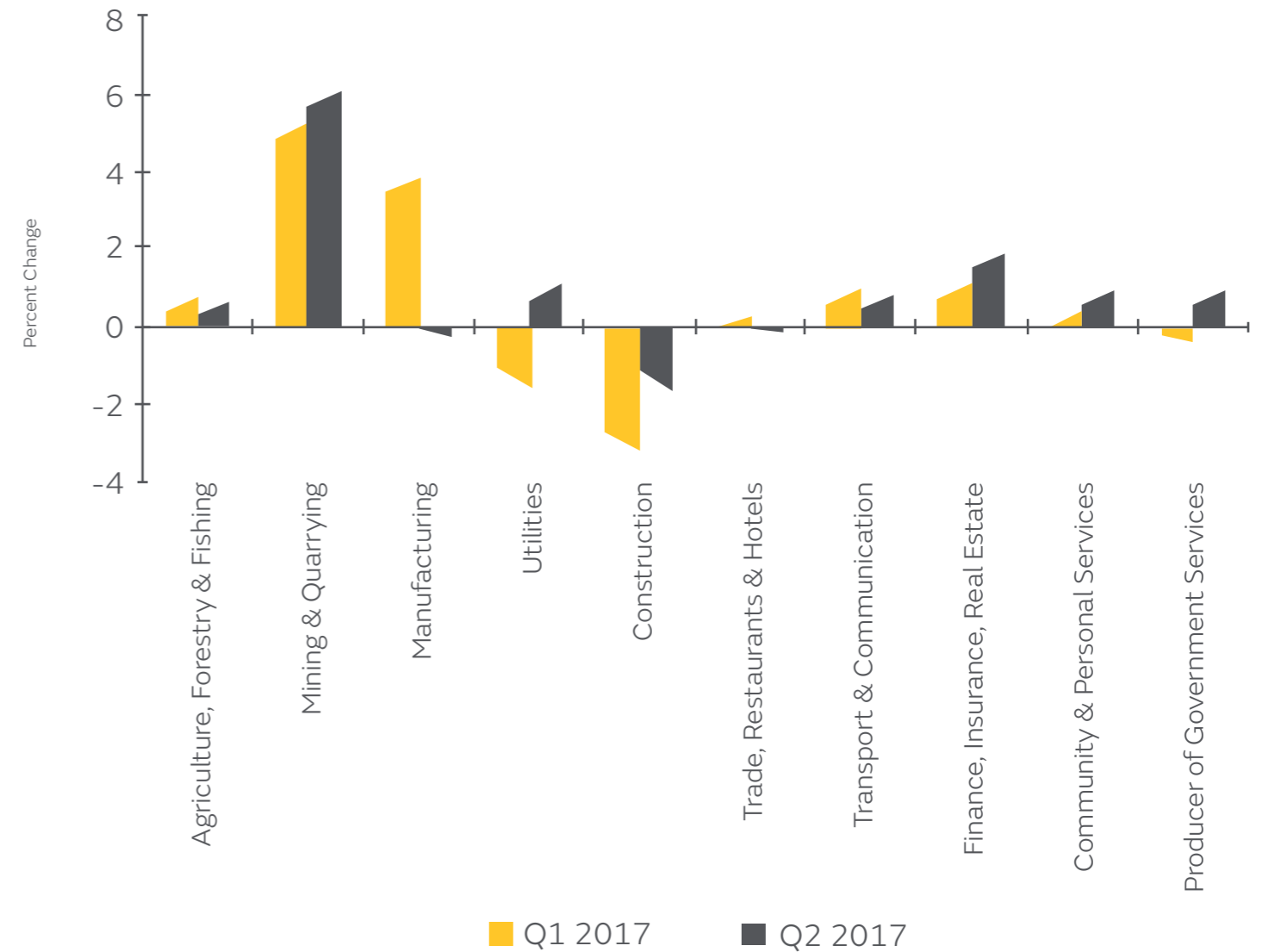


Data Source: General Authority for Statistics, Kingdom of Saudi Arabia

Ministry of Finance has paid majority of SR525 billion (US\$140 billion) worth of invoices owed to the private sector in September 2017.

98% of all invoices representing 92% of total dues were paid within 45 days. Only 2% invoices took longer than 60 days to pay.

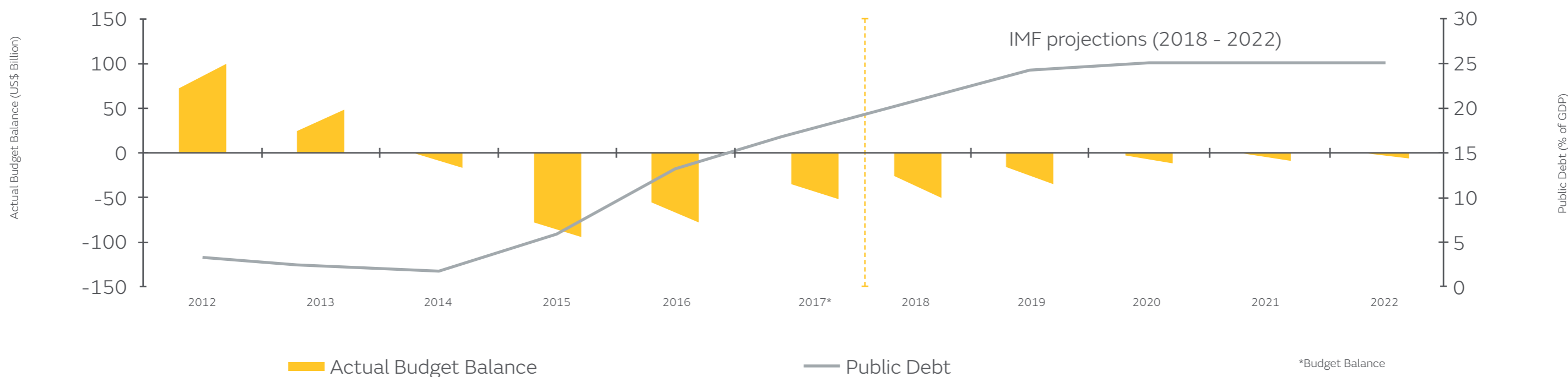
Non-Oil GDP (growth by sector)



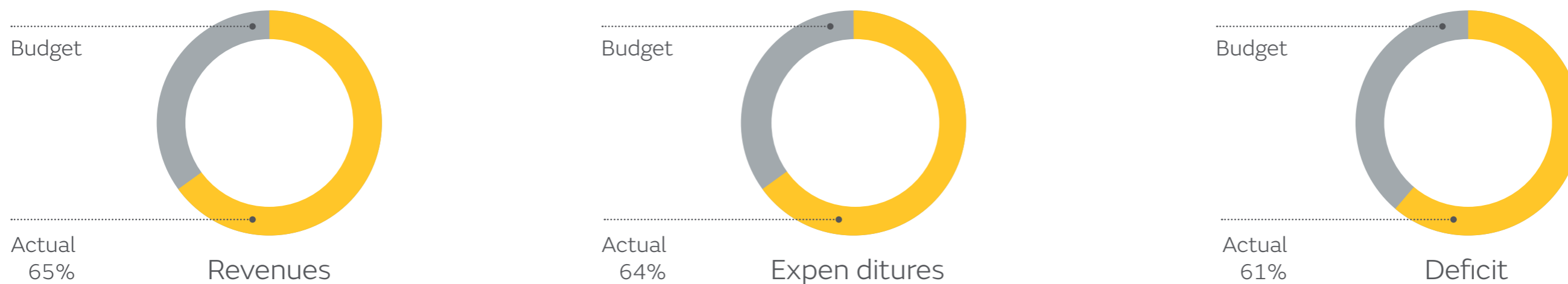
Data Source: General Authority for Statistics, Kingdom of Saudi Arabia

Government Finances

Fiscal Balance & Public Debt
(Actual / Projections)



Actual (Q3 2017) vs. Budget 2017



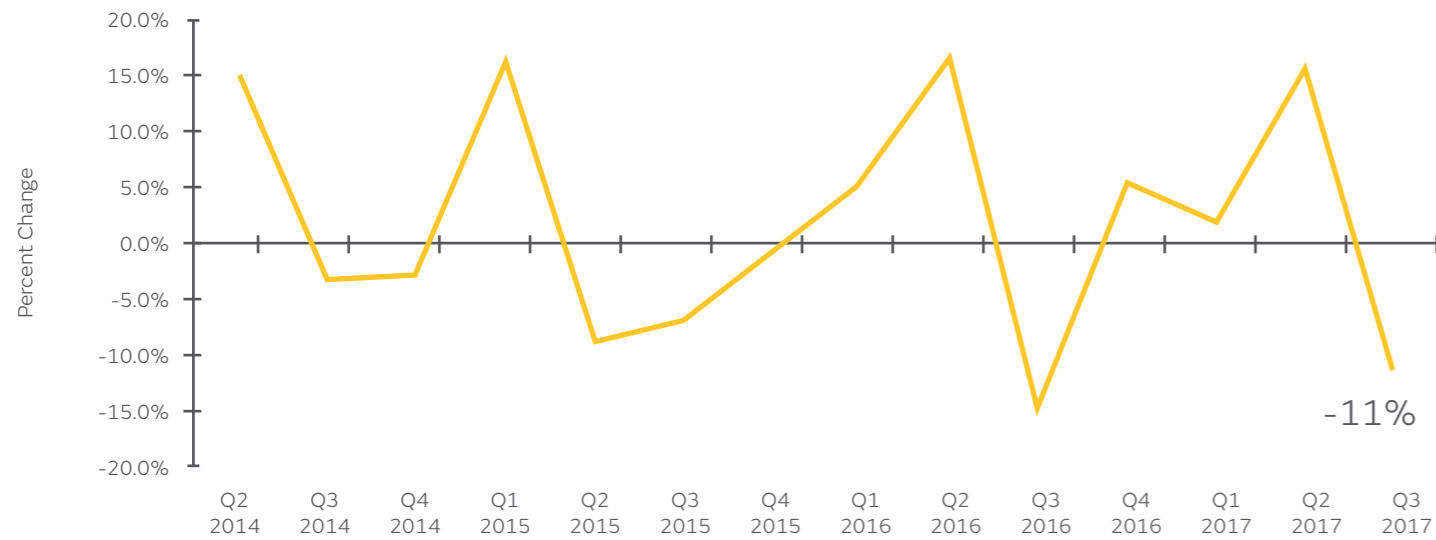
Data Source: IMF & Ministry of Finance, Kingdom of Saudi Arabia

The most notable improvement has been in the area of greatest concern – government finances.

Real Sector

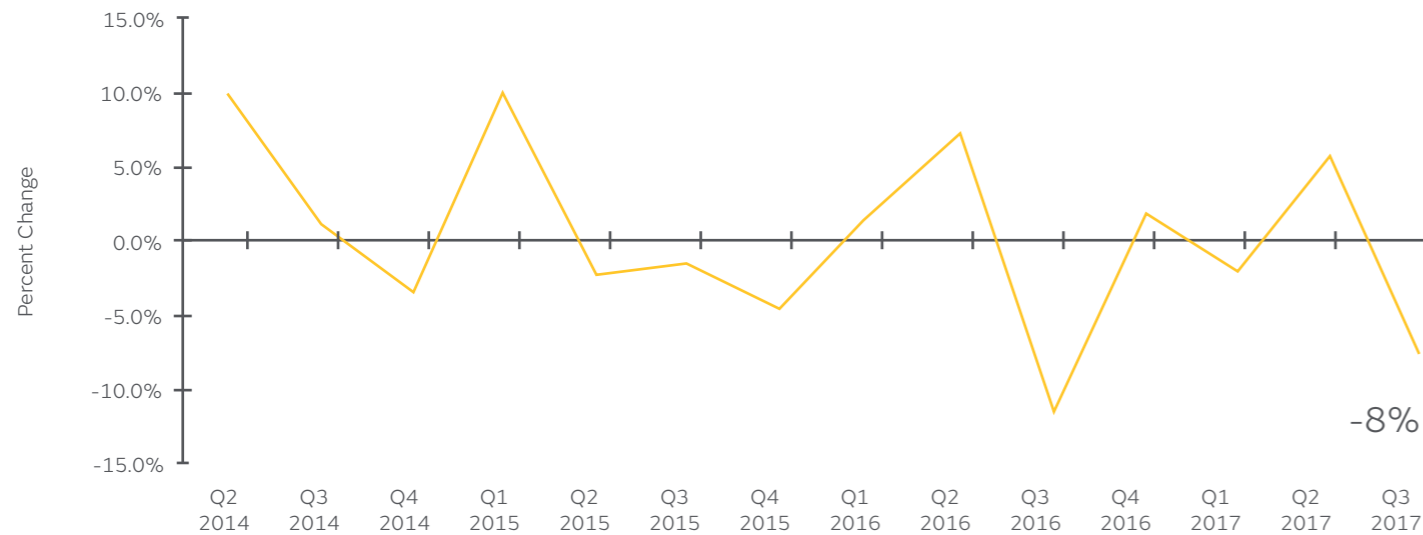
Consumer Spending

POS Transactions Trends



Consumer Spending

ATM Withdrawal Trends

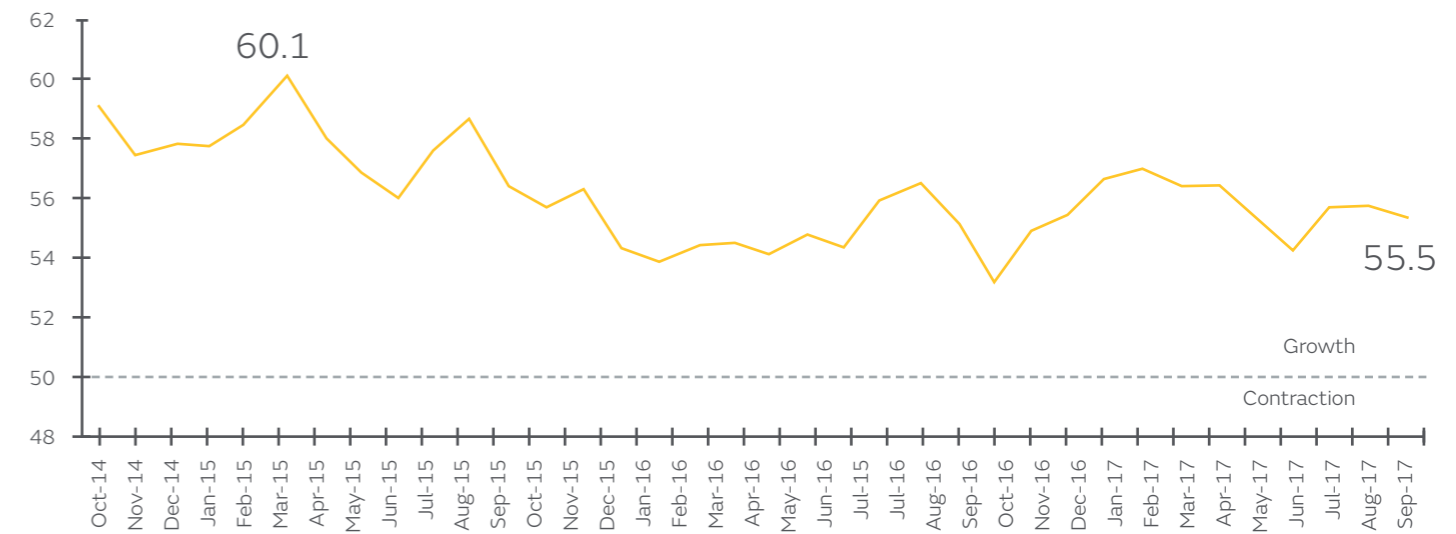


Data Source: SAMA & Bloomberg

Consumer spending has recovered, supported by reinstatement of public sector bonuses / allowances and delays in energy subsidy cuts.

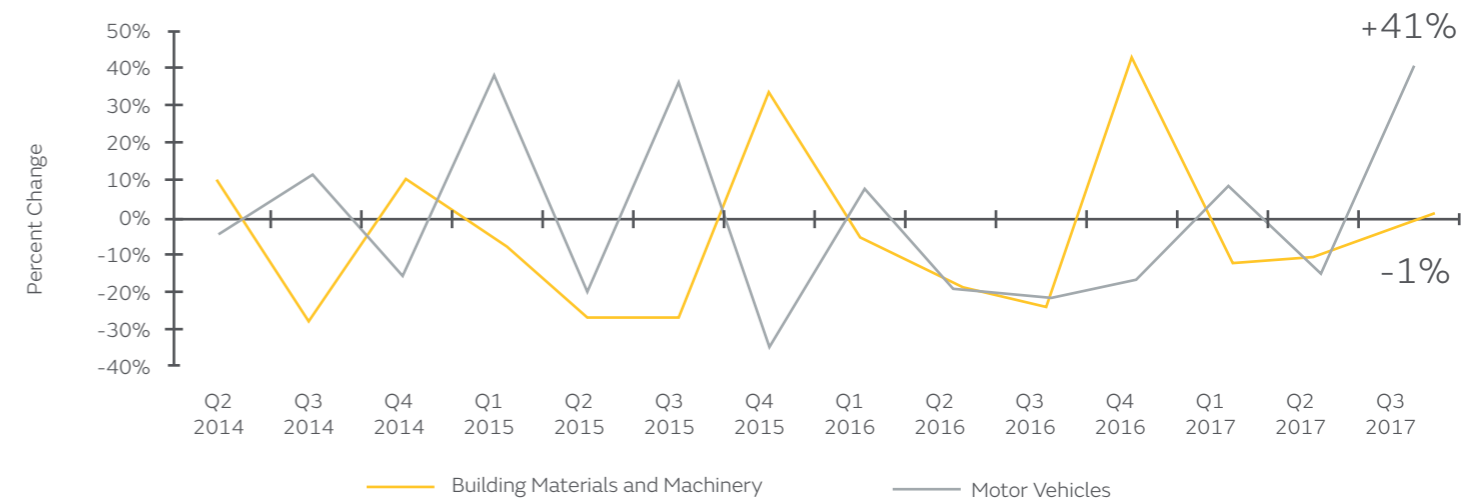
Business Conditions

Purchasing Manager's Index



Sector Conditions

New Letters of Credit

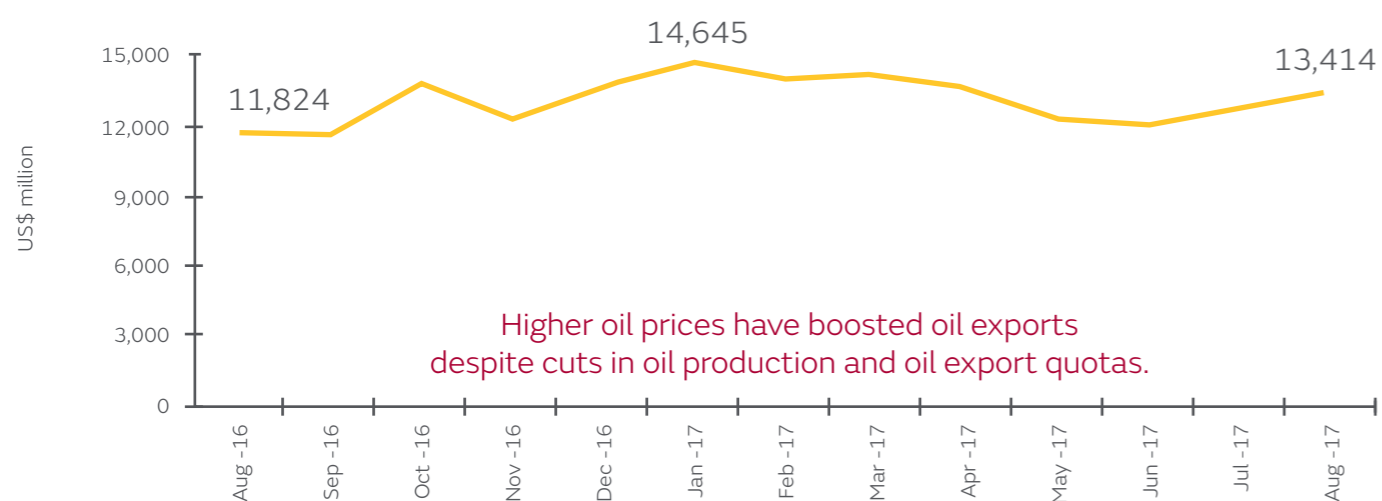


Data Source: SAMA & Bloomberg

Mild improvements in business and sectoral conditions underpinned by an improvement in economic conditions.

External Sector

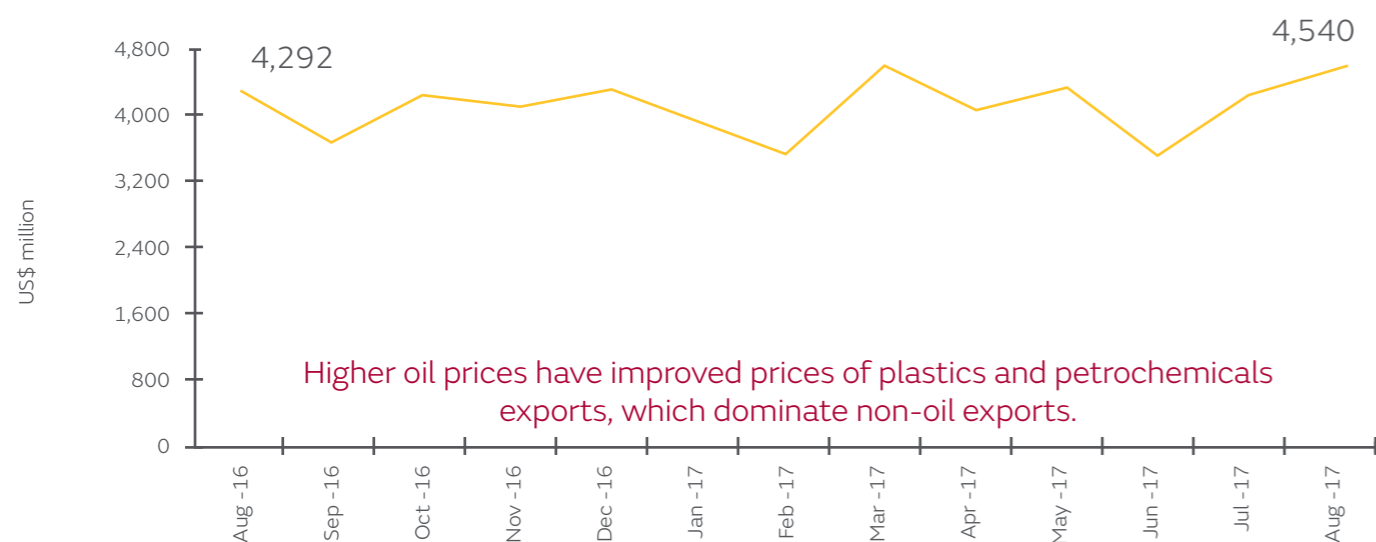
Oil Exports (monthly)



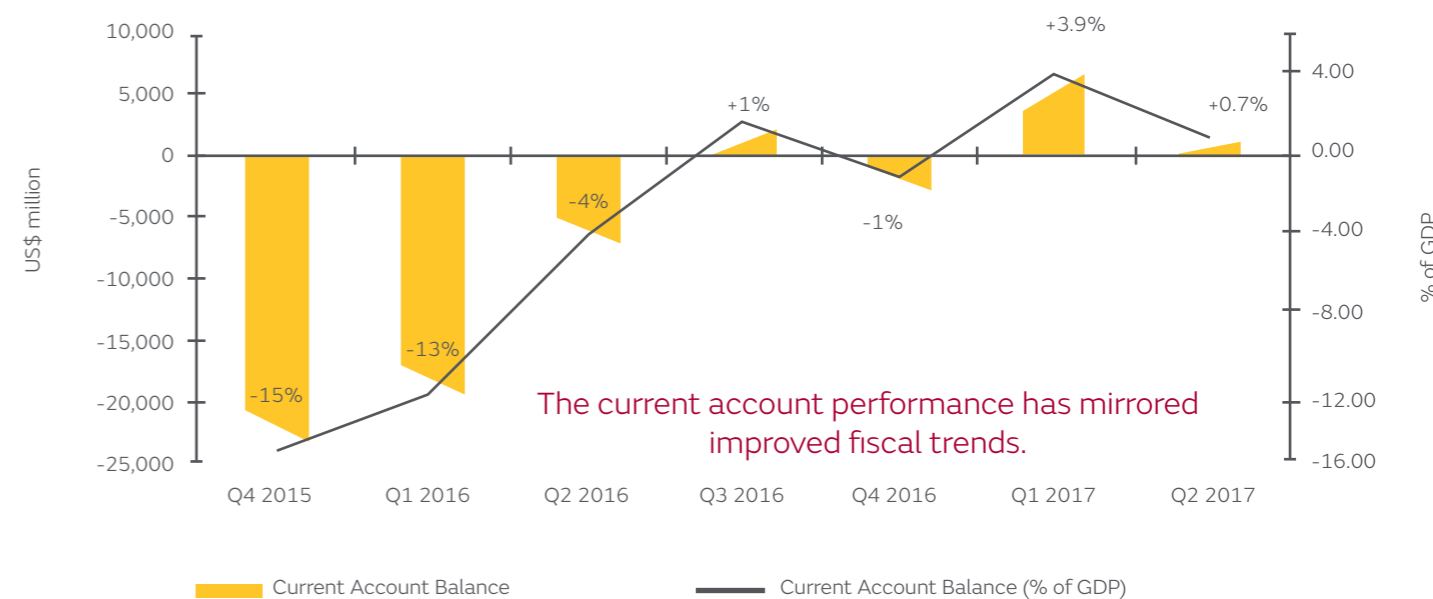
Total Imports (monthly)



Non-Oil Exports (monthly)

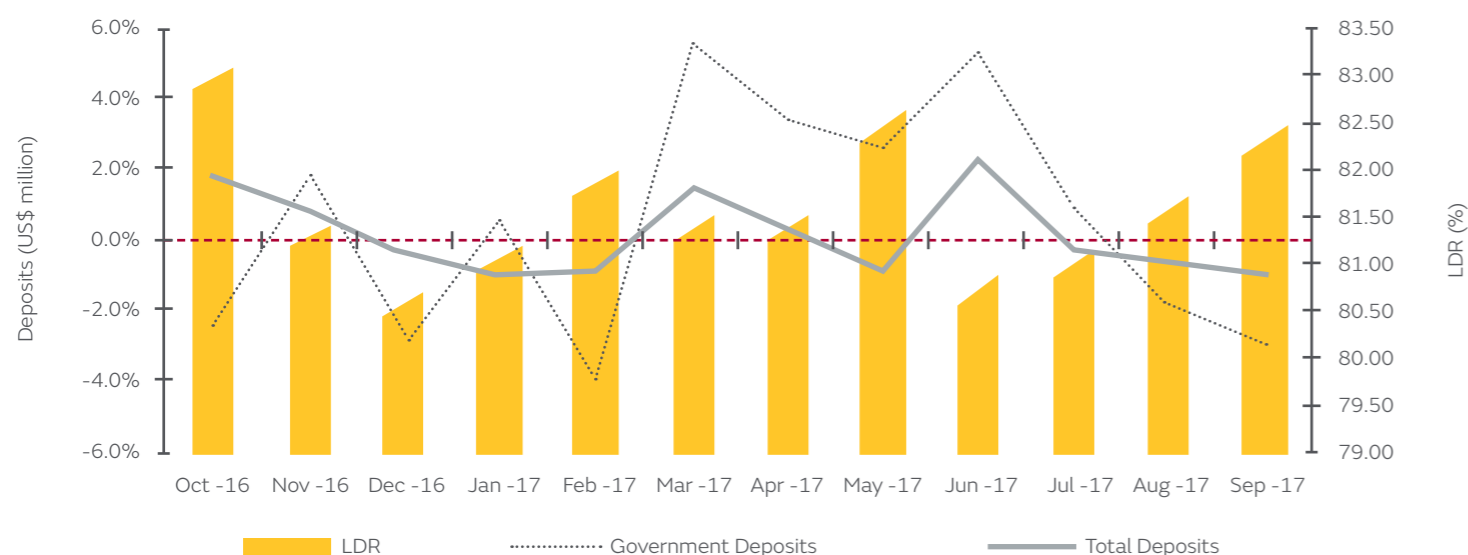


Current Account Balance (Q2 2017)

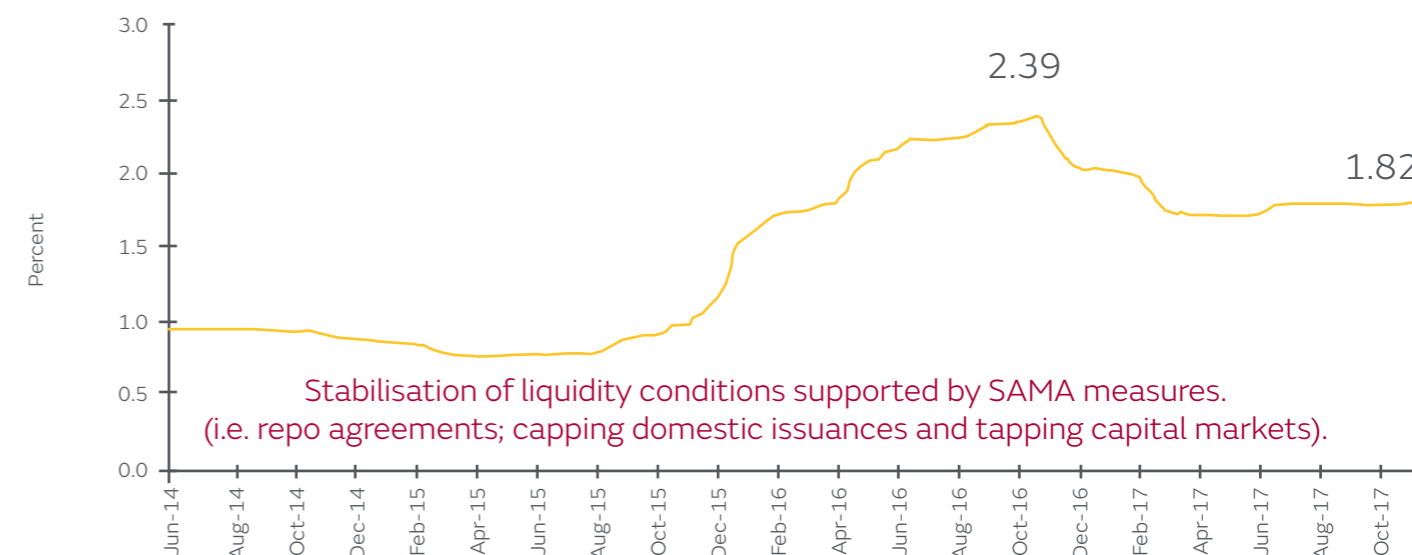


Financial Sector

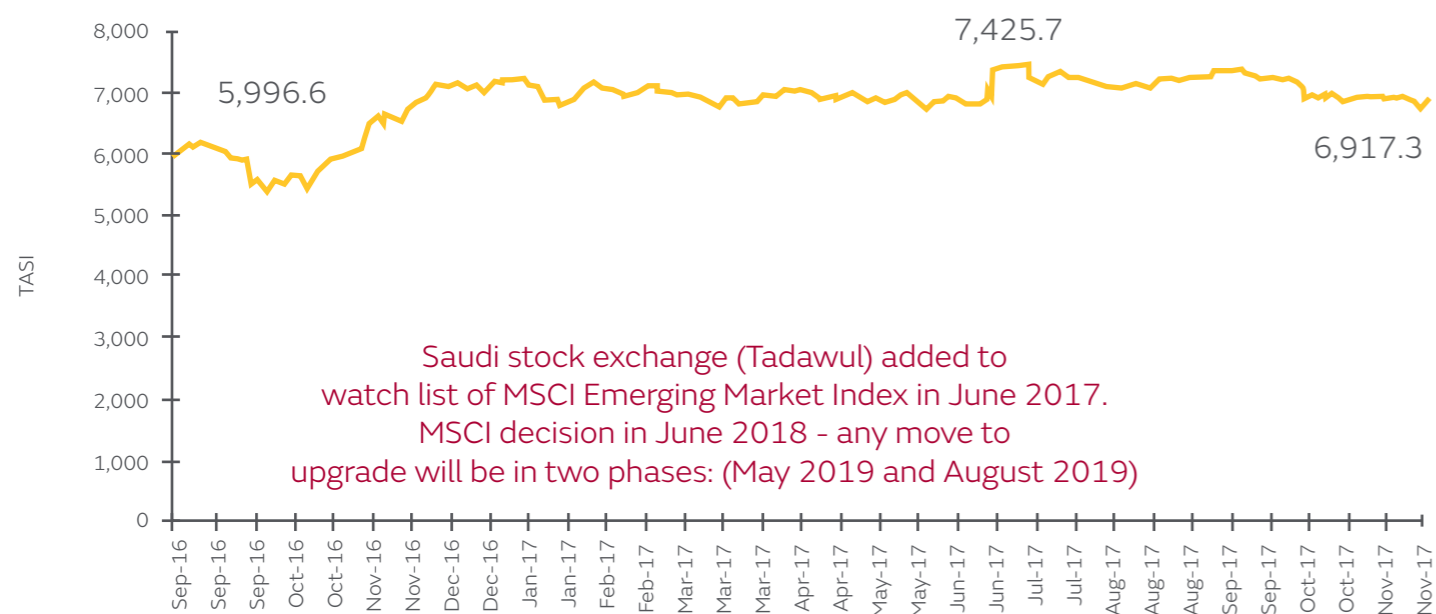
Deposits & Loans/Deposit Ratio (LDR)



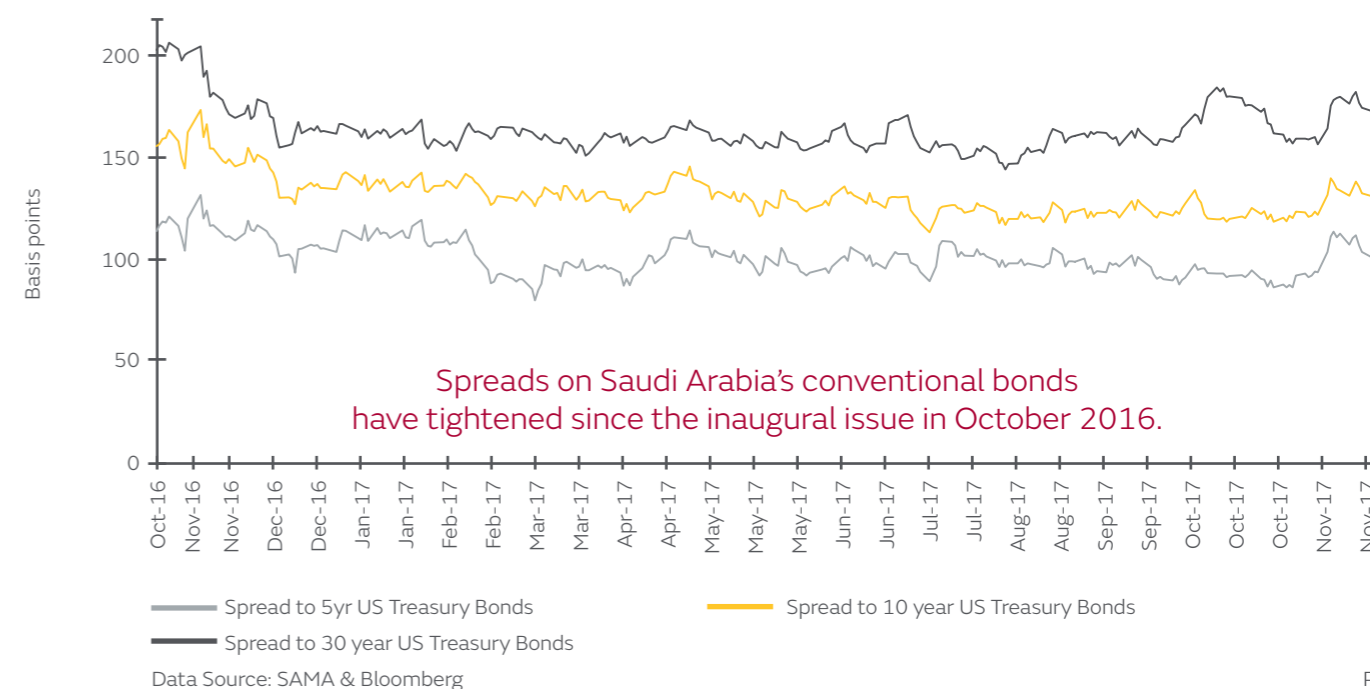
3 Month Saudi Interbank Offered Rate (SAIBOR)



Equity Prices

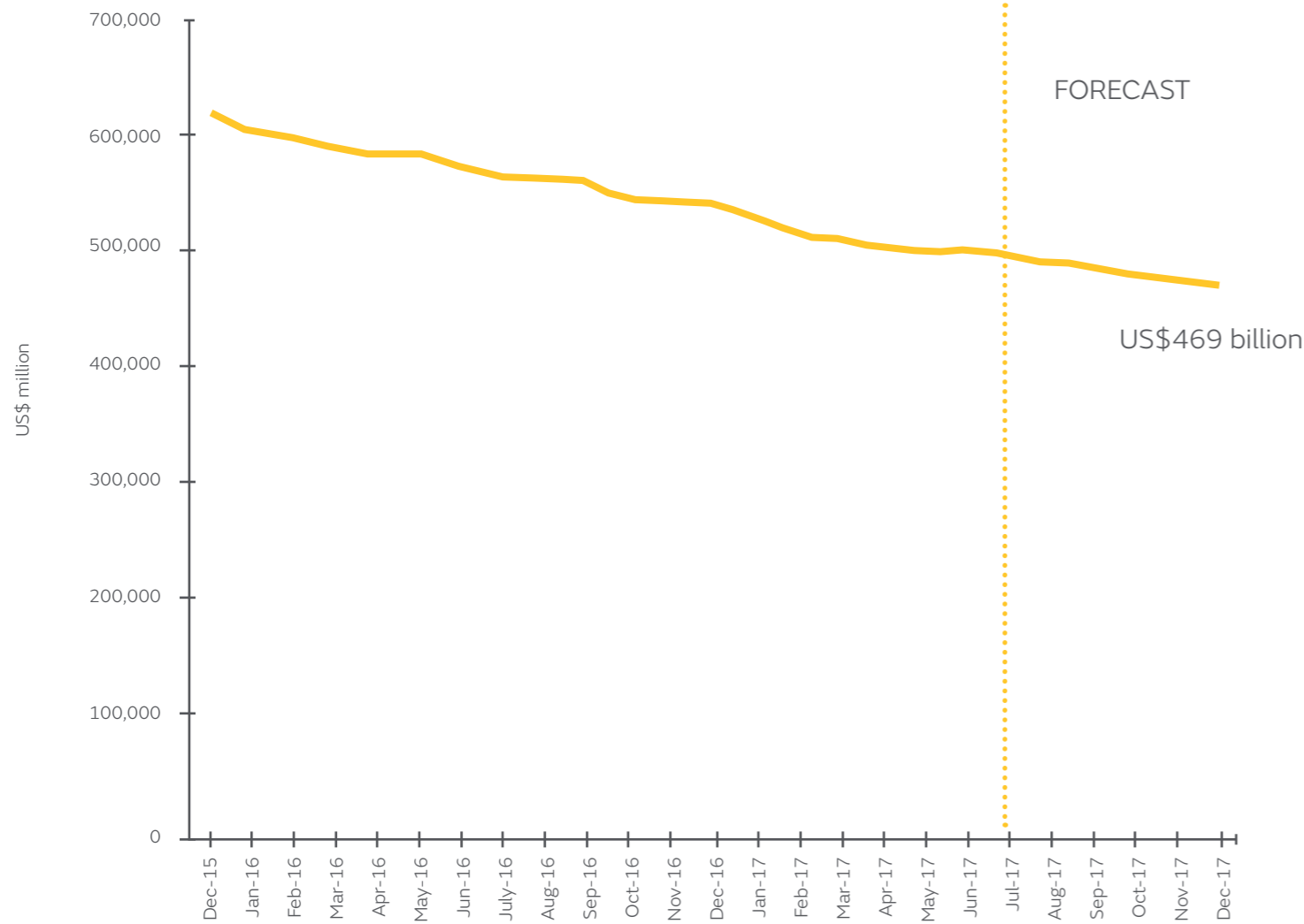


Saudi International Bond Yields



Foreign Exchange Reserves & Debt

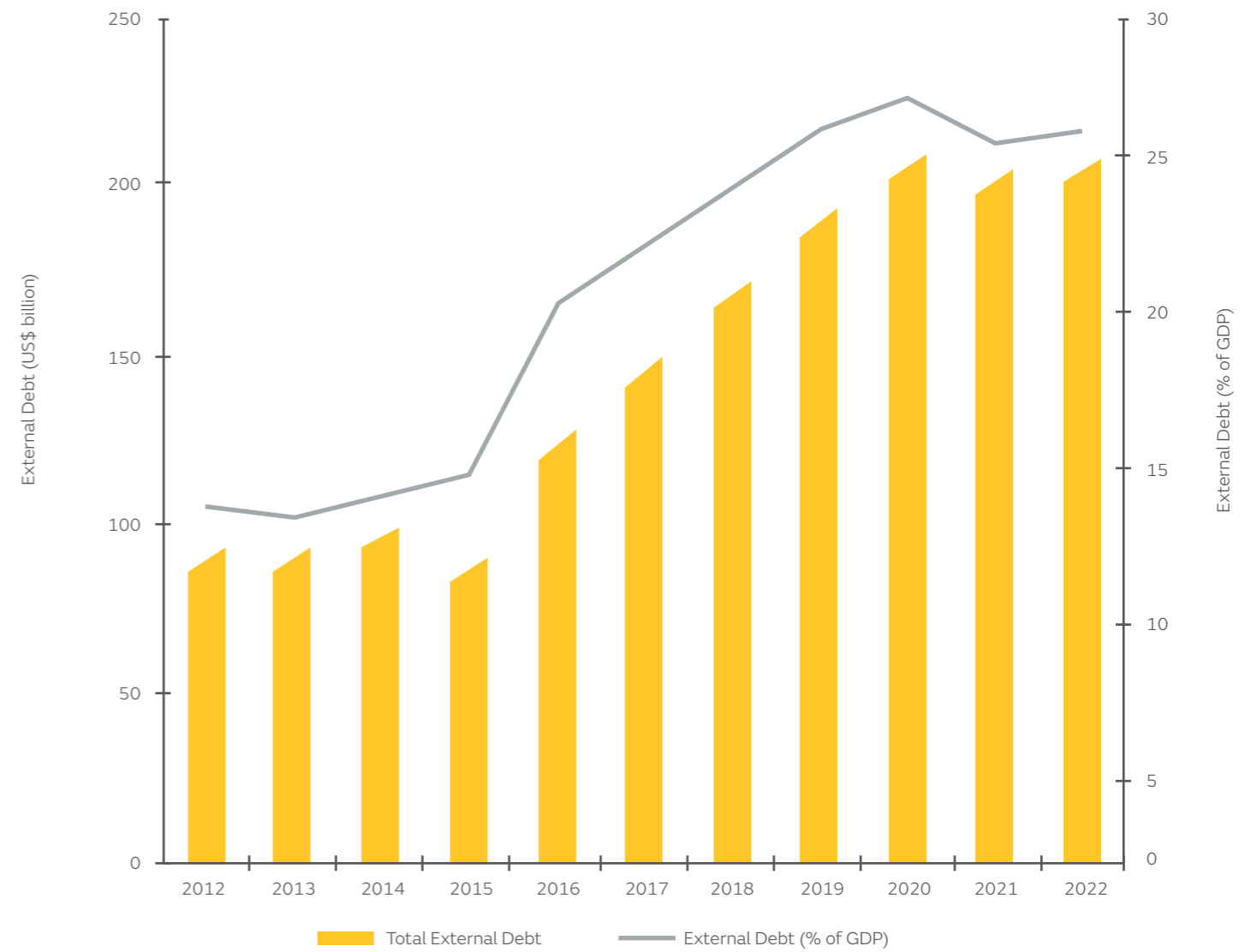
Foreign Exchange Reserves



Data Source: IMF & GIB Economics

August 2017 – December 2017 foreign exchange reserves forecasted on the basis of average monthly drawdown of last 12 months averaging 1.02%.

External Debt



Data Source: IMF

National Transformation Programme (NTP) 2020 target: Government Debt / GDP ratio of 30%



Near-Term Prospects

Positives & Challenges

Positives

- › **Sizeable foreign reserves** (even after assuming continuous drawdowns for the coming 12 months).
- › **Considerable progress in reform agenda** (initiation and implementation).
- › **Fiscal reforms** (five-year spending plan based on a Fiscal Balance Programme).
- › **Narrowing fiscal spending variances** (establishment of Spending & Rationalisation Office).
- › **Fiscal revenues are based on realistic oil prices.**
- › **Increasing transparency and accountability** of government.
- › **Stabilisation of financial sector conditions** (supportive SAMA and government policies).
- › **Deficit financing through borrowing** will help develop the capital market and strengthen the monetary policy transmission mechanism.

Challenges

- › **Economy will remain reliant on oil revenues** for some time to come.
- › **Government revenues vulnerable** to oil price volatility.
- › **Challenging to maintaining government spending** to support non-oil sector if oil prices weaken.
- › **Resurgence of liquidity and banking sector strains** if oil prices remain in extended decline.
- › **Rapid rise in external indebtedness** if oil prices weaken.
- › **Effective prioritisation, sequencing, and coordination** of reforms.
- › **Maintaining the support of OPEC and Non-OPEC members** to curtail supply and support oil prices.
- › **Timely delivery** of the reform & liberalisation initiatives (Future Investment Initiative Summit).

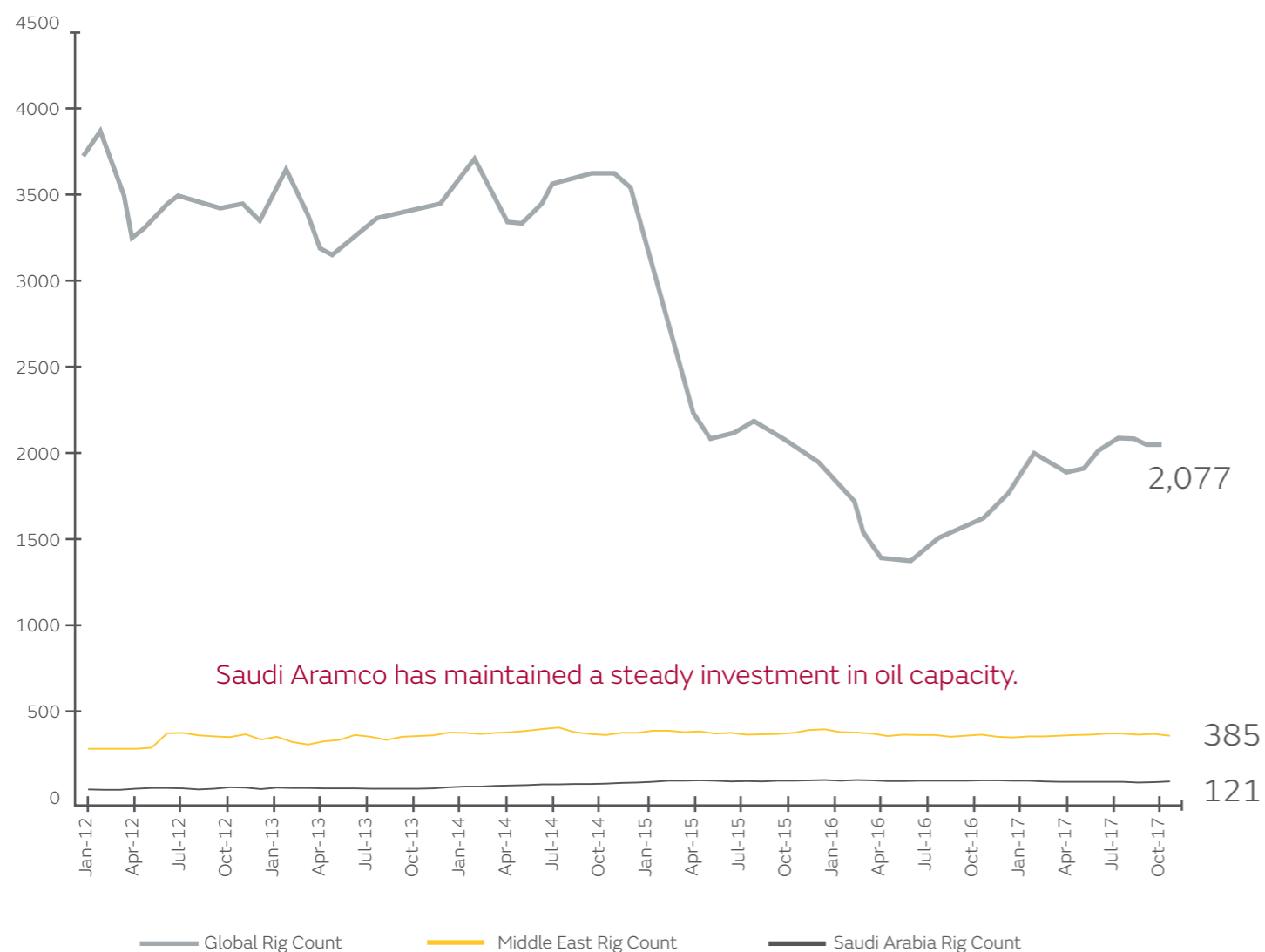
Risks to Outlook

Reducing economic dependency on oil takes time and this raises a number of risks:

- **Rising challenges in construction sector** lead to a surge in non-performing loans (NPLs) and increase provisioning costs for banking sector.
- **Unintended policy missteps and messy outcomes** emerge as result of sector reform i.e. unbundling power sector.
- **Extended liquidity strains and banking sector stress** fuels non-performing loans (NPLs) and pressurises the peg to the US dollar.
- **Erosion in social buy-in** of the reform agenda.
- **Fiscal slippages and/or Extended delays in implementing major non-oil reforms** and energy price increase (Fiscal Balance Programme).
- **Major breakthrough in the unconventional oil technology** (US shale) which leads to dramatic reduction in the break-even oil price.
- **Crisis with Qatar remains at a stalemate** for an extended period.

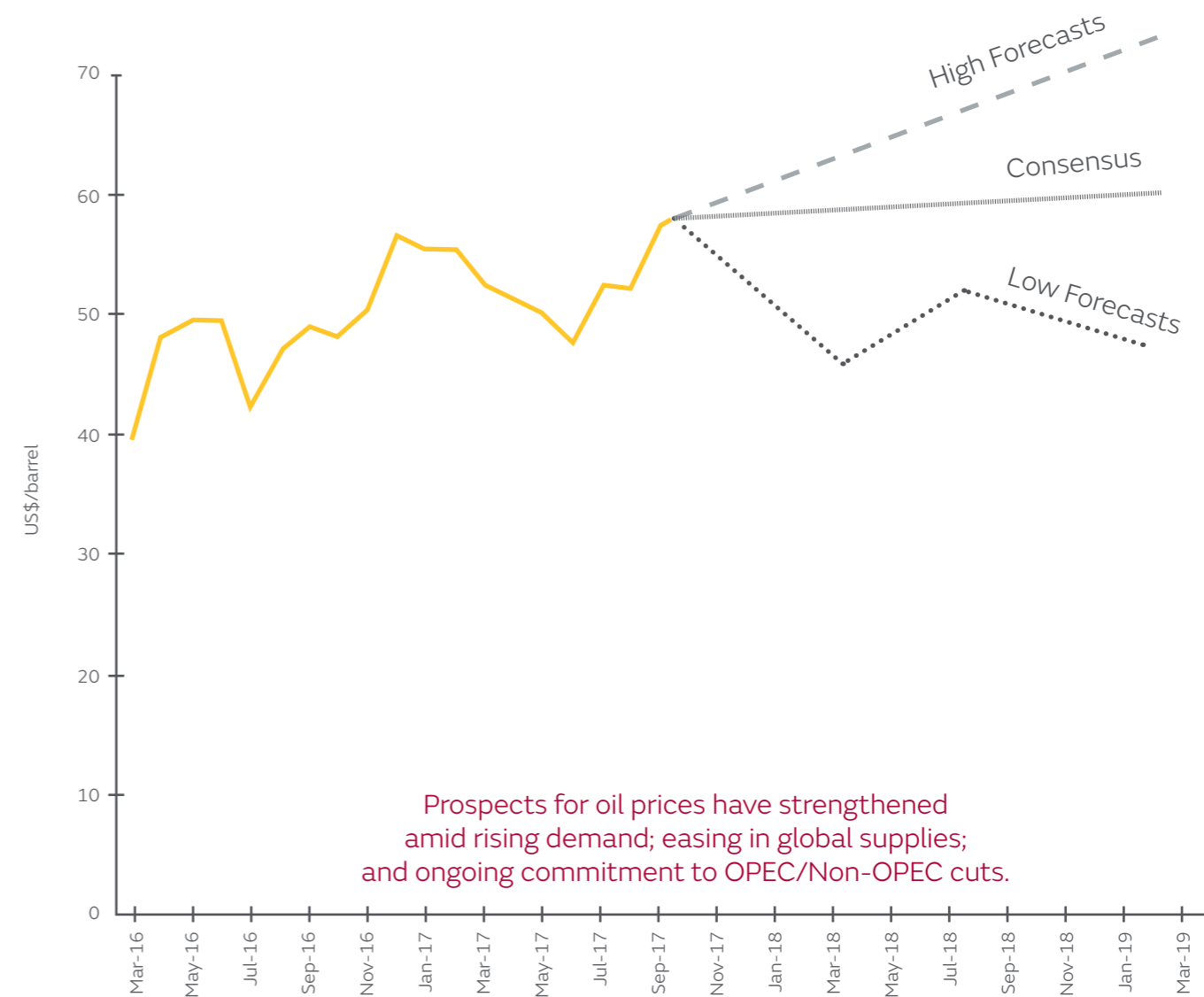
Oil Sector

Indicators of Oil Investment (Rig Count)



Data Source: IMF & Bloomberg

Oil Price Forecast



Data Source: IMF & Bloomberg



Disclaimer

This report and its contents are prepared for information purposes only. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. The report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The information and views expressed in this report are the sole responsibility of the writer. Gulf International Bank B.S.C. ("GIB") and its subsidiaries are not responsible for the accuracy of the information or opinions or any consequential actions/loss arising from the use of this report or its contents. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report contains publicly available information only, which has been compiled by the writer. While every effort has been made to use reliable and comprehensive information, the accuracy of the information cannot be guaranteed. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind.

GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information.

The report contains statements that constitute "forward looking statements". These forward looking statements are the sole opinion of the writer and do not represent GIB's judgment and future expectations.

GIB retains all right, title and interest (including copyrights, trademarks, patents, as well as any other intellectual property or other right) in all information and content (including all text, data, graphics and logos) in this document. All recipients must not, without limitation, modify, copy, transmit, distribute, display, perform, reproduce, publish, license, frame, create derivative works from, transfer or otherwise use in any other way for commercial or public purposes in whole or in part any information, text, graphics, images from this document (excluding publicly available information) without the prior written permission of GIB.

