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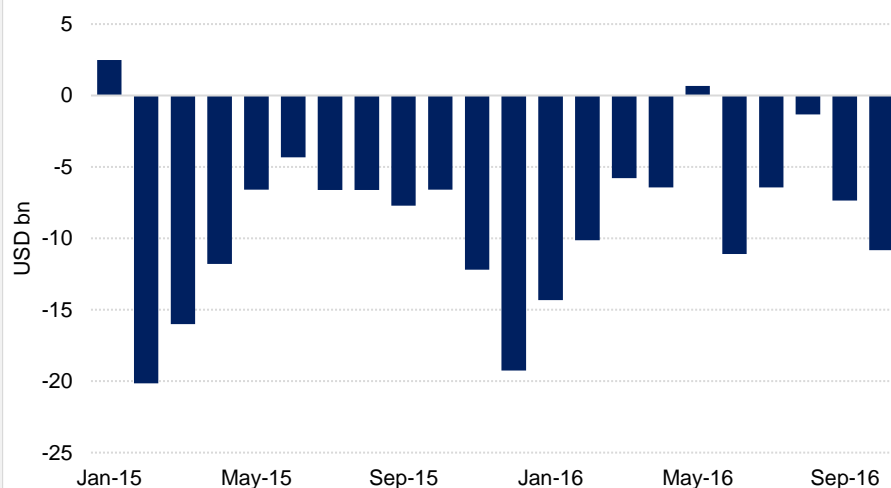
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## Saudi Arabia: Balance of payments outflows surge in October

**SAMA's net foreign assets (NFAs) declined by –USD 10.8bn in October**, which was surprising considering USD 17.5bn was raised through the kingdom's first international bond issue. **This implies outflows of more than USD 28.3bn from the Kingdom through the current and financial accounts of the balance of payments last month.** Some of the outflows in October may have included delayed payments to foreign contractors, higher than usual imports of goods and services, a jump in remittances abroad or simply capital flight. Saudi Arabia also transferred USD 2bn to the Central Bank of Egypt in October.

In 2015, NFAs declined by –USD115.4bn (average of -USD 9.6bn per month) with a current account deficit of –USD 53.5bn and no external debt issuance. **So far in 2016, the average decline in NFAs has been –USD 6.1bn per month in the year-to-October** with nearly USD 30bn raised from external debt issuance (USD 10bn in syndicated loan in May and USD 17.5bn from the bond issue last month). **Without the external debt raised in 2016, the average decline in NFAs would have been nearly USD 9bn per month, similar to 2015.** This suggests that the underlying economic drivers of the balance of payments have not improved in 2016. The only change is that more of the current account deficit is being financed by external debt issuance rather than by running down accumulated reserves.

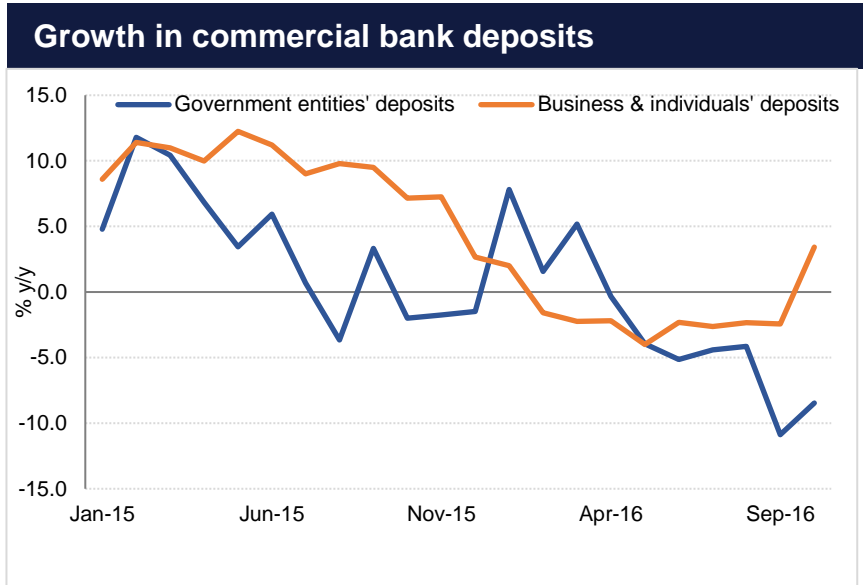
### Change in SAMA's Net Foreign Assets (USDbn)



Source: Haver Analytics, Emirates NBD Research

### Deposits at commercial banks rose by SAR 27.2bn (USD 7.2bn) in October.

**Total bank deposits only increased by SAR 27.2bn (USD 7.2bn) last month, up 1.7% m/m and 0.5% y/y.** Government deposits in commercial banks actually declined -SAR 7.6bn (-2.3% m/m and -8.5% y/y) but this was more than offset by the SAR 39.5bn (3.2% m/m and 3.4% y/y). This is the first y/y rise in non-government deposits in Saudi Arabia since January. Bloomberg reported in November that the government made SAR 40bn in outstanding payments to private sector entities, and this was likely a key driver of the rise in business & individuals' deposits last month.



Source: Haver Analytics, Emirates NBD Research

**Undoubtedly, the injection of liquidity into the domestic banks has been a key contributor to the decline in the 3m interbank rate**, which is evident from 28 October. The authorities also cancelled domestic bond issuance in October and November, which would also have helped improve domestic liquidity. 3m SAIBOR has declined by about 30bp since end October, and the spread over USD LIBOR has narrowed by slightly more than this.

**With the government expected to make a further SAR 100bn (USD 26.7bn) of payments to contractors in the coming weeks, we expect the downward trend in SAIBOR rates to continue through year-end.** However, we would caution against assuming that the full amount of payments made by the government will remain in the domestic banking system, as a substantial portion could be made to foreign contractors and firms and repatriated abroad.

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