



**Financial Sector
Development Program**

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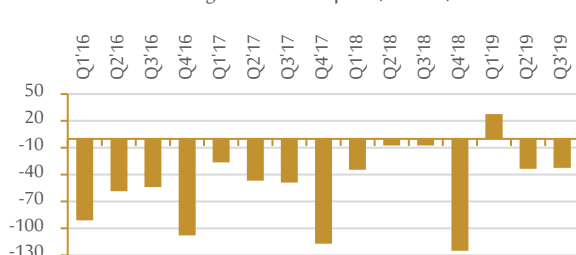
Quarterly Newsletter Q3 2019

Key Highlights: Budget Deficit in Q3 2019, GDP grows by 0.5% YoY in Q2 2019

Q3 2019 Budget Highlights

- Saudi Arabia recorded a budget deficit of SAR 32.2bn in Q3 2019, compared to a deficit of SAR 7.3bn in Q3 2018.
- Total revenue decreased by 7% YoY to SAR 207.2bn in Q3 2019, where oil revenue declined 14% YoY to SAR 131.8bn, whereas non-oil revenue surged 9% YoY to SAR 75.4bn. Revenues from 'Taxes on Goods and Services' within non-oil revenues witnessed a 22% YoY growth to SAR 37.6bn.
- Total expenditure rose 4% YoY to SAR 239.4bn in Q3 2019.
- Public debt increased to SAR 655.6bn by the end of Q3 2019 from SAR 627.8bn in Q2 2019.

Budget Deficit/Surplus (SAR bn)



- Total revenue rose 8% YoY to SAR 713.3bn in the first 9 months of 2019, driven by both oil and non-oil revenues. While total expenditure increased 5% YoY to SAR 751.2bn in the same period.
- The internal and external borrowing during the first 9 months of the year stood at SAR 96.8bn (SAR 56.1bn internal and SAR 40.8bn external).

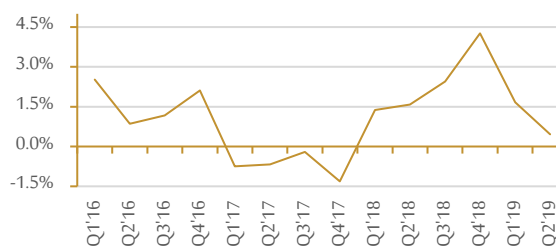
FSDP Conducts the Second Workshop on Open Banking

The Financial Sector Development Program held its second workshop on the Open Banking Initiative of the year 2019. The workshop was attended by officials of various government entities in addition to experts and leaders from the financial sector. The workshop aimed at discussing the concept of open banking, and its implementation approaches in addition to its objectives and benefits to the financial sector. The initiative is expected to add value to the Saudi banking sector by promoting growth and development of financial technology companies, increasing the share of cashless transactions and enhancing the efficiency of the sector. This initiative contributes to the achievement of a number of strategic objectives directly related to the Kingdom's Vision 2030, including the development of the digital economy and improving the quality of services provided to citizens.

Q2 2019 GDP Growth (%)*

- Real GDP (at 2010 constant prices) grew 0.5% YoY in Q2 2019, slowing down from 1.7% growth in Q1 2019.
- GDP growth was driven by the non-oil sector, which grew 2.9% YoY, while the oil sector recorded a 3.0% YoY decline in Q2 2019.
- The non-oil sector accounted for 57.3% of total GDP, compared to 57.7% in Q1 2019 and 55.9% in Q2 2018.
- The Ministry of Finance in its FY 2020 Pre-Budget Statement has revised GDP growth forecast to 0.9% for FY 2019

Real GDP YoY (%)

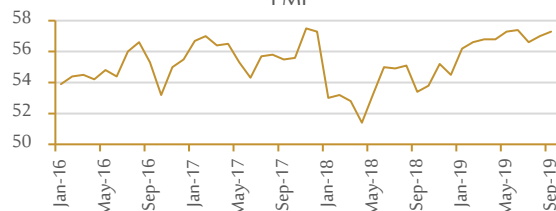


* Based on Preliminary data

PMI Index

The Saudi Arabia Purchasing Managers' Index (PMI) rose marginally to 57.3 in September 2019 from 57.0 in August 2019, led by quicker pace of growth in output and employment levels. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction.

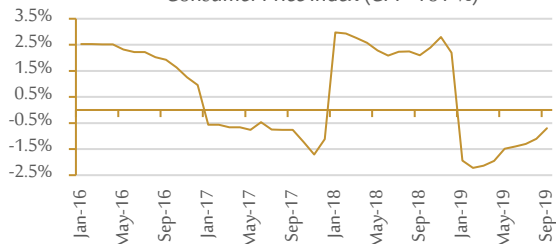
PMI



Consumer Price Index (CPI)

The CPI decreased 0.7% YoY in September 2019 and has been in negative territory for nine consecutive months. Housing, water, electricity, gas and other fuels prices declined 5.6%; while Education and Restaurants & Hotels saw 2.3% and 1.9% increase, respectively.

Consumer Price Index (CPI - YoY %)

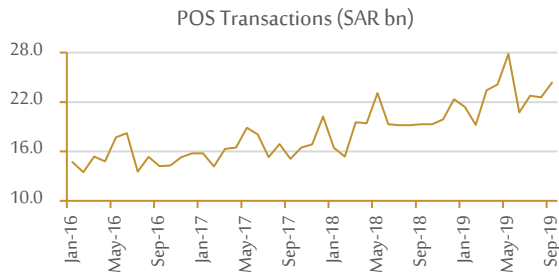


Macroeconomic and Financial Market

Macroeconomic Review

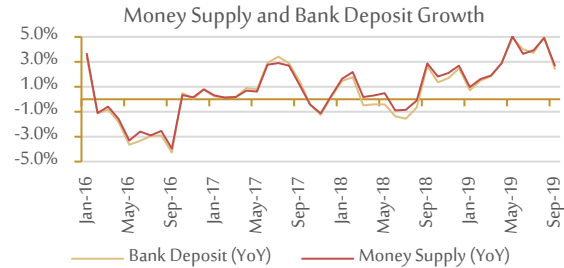
Points of Sale Transactions

POS transactions rose 26.2% YoY to SAR 24.4bn in September 2019 from SAR 19.3bn in September 2018. In Q3 2019, it stood at SAR 69.7bn (up 20.8% YoY and down 4.1% QoQ).



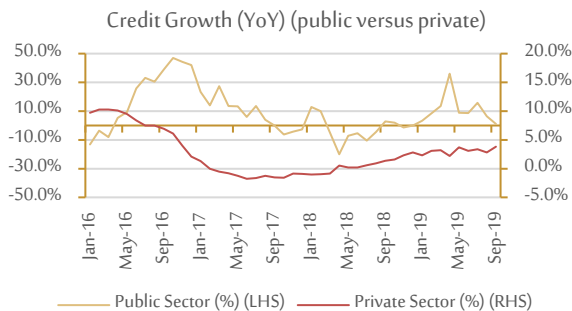
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 2.7% YoY in September. M1 grew 6.4%, while Time and Savings deposits decreased by a slight margin on YoY basis. Total bank deposits rose 2.4% YoY basis.



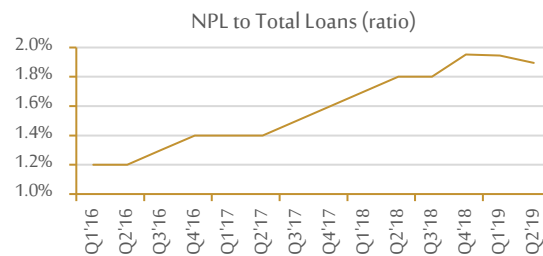
Credit Growth (%)*

Bank credit (public and private) grew 3.7% YoY in September 2019 and 1.6% on QoQ basis. Public sector credit increased by 1.0% YoY and 0.8% on QoQ basis. Bank credit to the private sector rose 3.8% YoY in September and 1.7% on QoQ basis.



Non-performing Loans as Portion of Total Loans (NPL ratio)

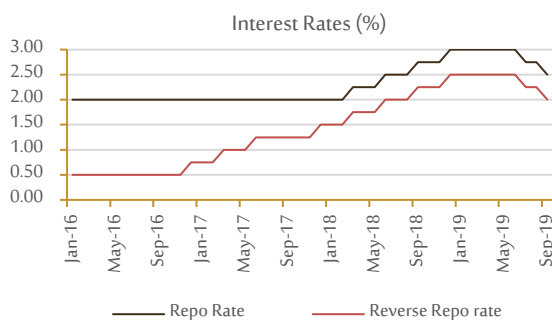
NPL ratio remained stable at 1.9% in Q2 2019 (latest data available) as compared to Q1 2019.



*Credit to public sector does not include Gov't & Quasi-Gov't bonds

Interest Rates

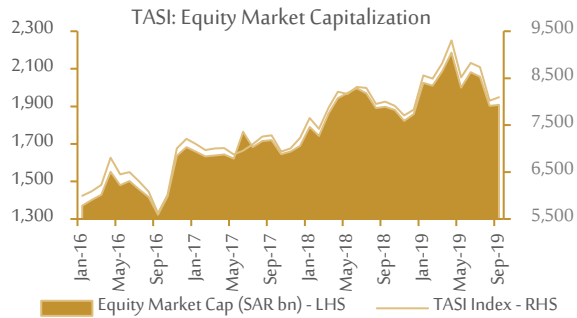
SAMA lowered the repo and reverse repo rates twice during Q3 2019. The rates were decreased by 25 bps on each instance (in July and in September). Repo rate was lowered to 2.5% as of September 2019, down from 3.0% in June 2019; while the reverse repo rate was lowered to 2.0%, down from 2.5% in June 2019. Policy rate adjustments are consistent with preserving monetary stability.



Financial Market Overview

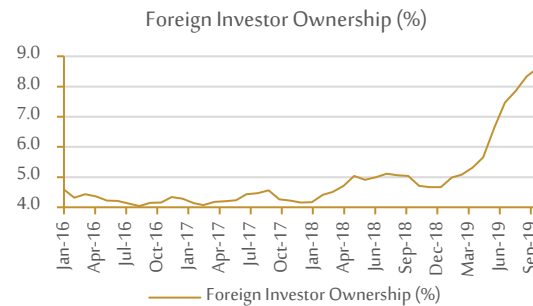
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) was the second best performer among GCC equity indices in September 2019. It rose by 0.9% MoM and 3.4% on YTD basis. TASI's equity market capitalization surged 2.7% on YTD basis and 10.9% in the last two years.



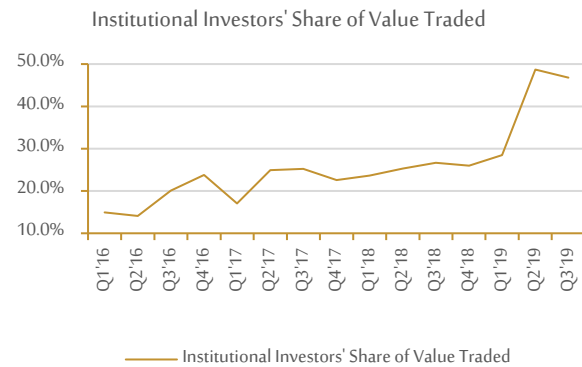
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks rose in Q3 2019 to 8.6% in September 2019, up from 7.5% in June 2019 and 4.7% in December 2018. This reflects the attractiveness of the Saudi financial market with growing investor confidence after the MSCI and FTSE inclusions.



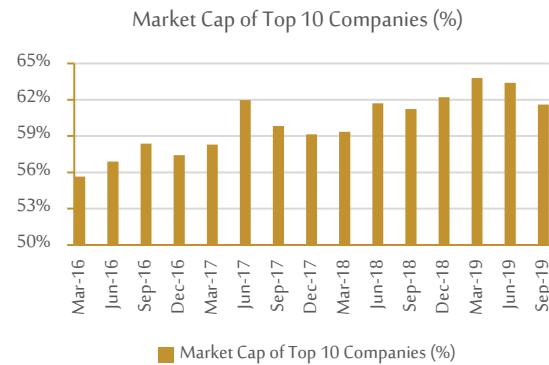
Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded declined in Q3 2019 to a quarterly average of 47.8%, compared to 49.9% in Q2 2019.



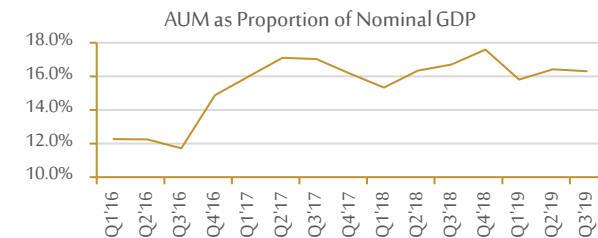
Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on Tadawul declined to 61.4% by the end of September 2019, from 63.1% which was recorded at the end of June 2019.



Assets Under Management (% of GDP)

Assets under management (AUM) as a percentage of nominal GDP decreased slightly to 16.3% in Q3 2019 from 16.4% in Q2 2019. On a YoY basis, AUM rose 11%.



Financial Sector Development Highlights

Tadawul completes full inclusion in MSCI and S&P Dow Jones Emerging Markets Indices, and Fourth Phase of Saudi FTSE Russell Secondary Emerging Market Index

The Saudi Stock Exchange (Tadawul) completed Saudi Arabia's full inclusion into the MSCI Emerging Markets Index with the successful implementation of the second and final tranche of index inclusion, which brings the Kingdom's weighting to 2.8% of the index's total market capitalization. 31 Tadawul-listed companies are included in the MSCI Emerging Markets Index. Where the implementation of the first tranche took place in May 28, 2019 and implementation of the second and final tranche occurred on August 28, 2019. The Saudi market was fully listed on the S&P DJI on September 23, 2019, and the first phase of the upgrade of the Saudi market to an emerging market on March 18, 2019 was 50%. The fourth phase of the FTSE Russell Secondary Emerging Markets Index was implemented on September 23, 2019. The FTSE announced in March 2018 that the Saudi market was included in the Emerging Markets secondary market after it met the requirements, and it will take place in five tranches due to its large size. The last phase of this inclusion ends in March 2020. Saudi Arabia is estimated to have an index weight of 0.25% in the FTSE Global Equity Index Series, and 2.7% in the FTSE Emerging All Cap Index.

"Council of Ministers" Approves the Amendment of the Capital Market Law

The Council of Ministers approved, during the meeting chaired by the Custodian of the Two Holy Mosques King Salman bin Abdul Aziz on Tuesday 17-9-2019, amending the Capital Market Law. The proposals to amend the system were based on the objectives and responsibilities of the Authority, the initiatives entrusted to achieve the goals and directions of the Kingdom's Vision 2030, the Financial Sector Development Program, and the Financial Leadership Program, guided by international best practices and legislations. The amendments will aid in developing capital market infrastructure institutions and reducing risks, in addition to enabling new classes of securities and attracting foreign investment to the capital market. This will enable the Authority to authorize the capital market infrastructure institutions, which include the Exchange, the Depository Center and the Clearing Center. This will also lead to regulating the securities clearing center and activating its role in performing duties and obligations within the capital market infrastructure institutions.

Edaa Launches Paying Agent Service for All Market Participants

The Securities Depository Center Company (Edaa) announced the launch of the "Paying Agent" service, as an optional service for listed companies and funds. This service is part of Edaa's strategic plans to provide innovative and efficient solutions for all market participants, in line with international standards. Edaa aims to provide issuers with comprehensive services to facilitate completing procedures related to dividends distribution to ensure prompt cash transfers and reduce costs for issuers.

SAMA: The Success of Online "Bank Accounts Opening" and "Know Your Customer" Update

The Saudi Arabian Monetary Authority (SAMA) has announced the success of the two experiments; opening bank accounts for individuals and Know Your Customer's data update both were performed online. This was achieved within the newly introduced framework of the Regulatory Sandbox, along with the participation of 12 banks operating in the Kingdom's local market.

This step achieves a number of strategic objectives of linking the private experimental environment of SAMA directly with the Financial Sector Development Program and the Kingdom's Vision 2030, which seeks to promote all of economic growth, investment activities moving into a cashless society and financial inclusion. SAMA's Sandbox aimed at attracting financial institutions and local and international companies specialized in financial technology companies that are looking to leverage current or new technologies to offer innovative financial products and services to the Saudi Market.

SAMA Launches Awareness Campaign "More Financial Awareness"

The Saudi Arabian Monetary Authority (SAMA) introduced a large awareness campaign called "more financial awareness" through its branches across the Kingdom. This campaign targets the largest possible segments of the community by organizing awareness exhibitions within malls. This comes in line with SAMA's abiding efforts to organize awareness and educational campaigns among the public. This is a valuable attempt to raise financial and cognitive awareness among cash traders, increase awareness of the characteristics of the national currency and security signs of the authentic paper, promote positive behavior in dealing with coins categories of currency, encourage its use in daily dealings and develop saving culture.

This awareness campaign is part of the Financial Sector Development Program which aims at building an advanced diversified financial sector in order to support the national economy, stimulate savings, financing and investment through the development and deepening of financial sector institutions and to promote and empower financial planning for all segments of society.

Launch of the International Certificate in Wealth Management and Investment Provided by CISI

In continuation of the Capital Market Authority's (CMA) efforts to raise the level of knowledge of the personnel in the field of asset management and investment analysis and to enhance their technical capabilities, CMA announced that the Board of Commissioners (BoC) has approved the launch of the International Certificate in Wealth Management and Investment provided by the Chartered Institute for Securities & Investment (CISI). This certificate covers the fundamentals of investment and its analysis. It shall be required from persons to be registered under the management activity such as fund managers, investment portfolio managers and related investment analysts as of 30/06/2020.

Financial Academy and CISI Sign Joint Strategic Partnership Agreement

The Financial Academy has signed an agreement with The Chartered Institute for Securities & Investment (CISI) to develop and host their professional examinations. This comes as one of the Capital Market Authority's initiatives, to develop qualification examinations for registered persons. This will help raise the professionalism of all participants and therefore provide consumers and investors with greater confidence and protection, which in turn leads to development and growth of the sector. CISI is the largest professional institute in the UK's financial markets and investment sector and in a growing number of financial centers worldwide. CISI's examinations are recognized by over 50 jurisdictions, with over 40,000 CISI exams taken in over 80 countries. The Academy is one of Financial Sector Development Program's key initiatives aiming to enhance professional and technical capabilities in the financial sector.

SAMA's Statement Concerning Provisions Regulating a Natural and Legal Person Practice of Financing His/Her Institutions' Products and Services, and SAMA's Issue of New Regulatory Rules for Consumer Finance Companies

SAMA issued controls and guidelines regulating a natural or legal person's practice of financing his/her products and services through finance companies licensed by SAMA. The controls allow finance companies to assign their services or part of such services to the merchant or other entities in accordance with relevant rules. It should be noted that such controls do not include real estate finance.

Pursuant to SAMA's permanent keenness to regulate and develop the financial sector, increase competitiveness, and enhance the level of financial inclusion to cover all groups of society, SAMA has decided to reduce some of the requirements for obtaining a license to practice finance activities with the aim of enabling the foundation of new finance companies.

Resilience of Saudi Arabia's Credit Ratings Highlights the Kingdom's Intrinsic Strengths

The Ministry of Finance welcomed the reports issued by international credit rating agencies, including Moody's, which confirmed the Kingdom's credit rating at its previous levels, reflecting the strength of the economy, its resilience and its ability to face global economic challenges, and its launch towards achieving the goals of Vision 2030 and achieving economic and social development. The Ministry affirmed that the Kingdom of Saudi Arabia and the major Saudi companies maintained this high rating, proving the effectiveness of the efforts taken by the Kingdom towards promoting economic growth. Currently, the budget deficit is well within the parameters set for the 2019 budget. Whilst it remains committed to focus on increased investment in key Vision 2030 areas, and also improve its efficiency and effectiveness of that spending. It also affirmed that the Kingdom also has one of the strongest reserves in the world and the country's financial assets substantially exceed its liabilities.

Saudi Arabia Subscribes to IMF's SDDS

H.E. Mohammed Al-Jadaan, Minister of Finance of Saudi Arabia declared on 19 September 2019, the subscription of Kingdom of Saudi Arabia to IMF's Special Data Dissemination Standard (SDDS), which is considered one of the best international practices in the provision of economic and financial data to the public. H.E. pointed out that the Kingdom's progress in the field of transparency and disclosure of financial and economic data supports efforts to raise the efficiency of governance and adjustment of public finance and improve the investment climate. Moreover, it should strengthen the Kingdom's position at the international level, especially as the Kingdom is on the threshold of assuming the presidency of the Group of Twenty during the coming year. H.E. also added that SDDS will contribute to the availability of real-time and comprehensive statistics, which will increase the level of data access to financial markets to help in making investment decisions in the Kingdom.

Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2020 Target
Share of non-cash transactions (% of total transactions)	18%	36%	28%
# of adults with a bank account (%)	74%	Will be Measured in 2020	80%
# of Fintech players	-	Will be Measured in 2020	3
SME loans as % of bank loans*	2%	5.9%	5%
Coverage ratio of insurance schemes,%	38%(health) 45%(motor)	Will be Measured in 2020	45%(health) 75%(motor)
Assets under Management, as % of GDP	12%	16.31%	>=22%
Market concentration of top 10 companies by market cap , in %	57%	61.39%	55%
Institutional investors' share of value traded %	18%	47.83%	>=20%
Foreign Investor ownership of the equity market cap , in %	4%	8.58%	>=15%
# of micro and small cap companies listed, as % of total number of companies listed	34%	42.36%	>=40%
Share of investment accounts opened through eKYC	0%	Will be measured at the end of 2019	10%
Minimum free float of equity market cap., in % of total outstanding shares	46%	47.60%	>=45%
Total amount of savings held in savings products, B SAR	315	Will be Measured in 2020	400
% of households savings on a regular basis	19%	Will be Measured in 2020	29%
Share of A/C opened through eKYC %	-	2%	10%

Financial Sector Development Program

The Financial Sector Development Program is one of the executive programs launched by the Council of Economic and Development Affairs (CEDA) to achieve the objectives of Vision 2030. The role of the program is to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income and stimulate savings, finance, and investment. The program will achieve its ambition by enabling financial institutions to support private sector growth, promoting and enabling financial planning, and ensuring the formation of an advanced capital market, without impeding the strategic objectives intended to maintain the financial services sector's stability.

Sources: Ministry of Finance, Saudi Arabian Monetary Authority (SAMA), Capital Market Authority (CMA), General Authority of Statistics, Tadawul, Bloomberg, Reuters Eikon

*The data of foreign bank branches operating in Saudi Arabia have been amended and updated as per international best practices and the Monetary and Financial Statistics Manual in SAMA monthly bulletin

This report has been published by Financial Sector Development Program Office. For questions or comments, please contact us at fsdp@mof.gov.sa or for more information, please visit <https://vision2030.gov.sa/en/FSDP>

