



**Financial Sector
Development Program**

Financial Sector Development Program

Quarterly Newsletter Q3 2018

Key Highlights: Improved Deficit, First Pre-Budget Statement

Pre-budget 2019 – Key Highlights

The Ministry of Finance released its first ever pre-budget statement for the FY 2019 general budget.

- The estimate for FY 2018 fiscal deficit has been reduced to SAR148bn from the prior estimate of SAR194.66bn.
- Fiscal deficit as a percentage of GDP is forecast at 5.0% and 4.1% for 2018 and 2019 respectively.
- The report provides estimates for key macroeconomic indicators such as fiscal revenue, expenditure, nominal GDP growth, real GDP growth, inflation, and debt as a percentage of GDP, which are as follows:

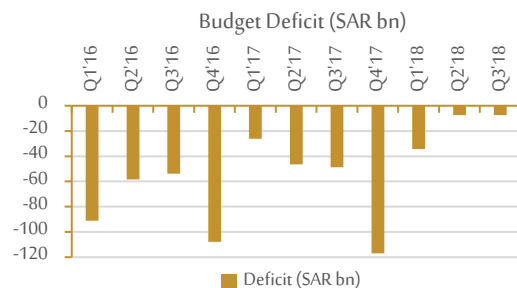
Indicator	2018 E(Prior)	2018E	2019E
Revenue (SAR bn)	783	882	978
Expenditure (SAR bn)	978	1,030	1,106
Nominal GDP growth	3.2%	13.9%	6.9%
Real GDP growth	2.7%	2.1%	2.3%
Inflation	N.A.	2.8%	2.3%
Debt (% of GDP)	21%	20%	22%

Note: E = Estimate; N.A. = Not Available

- The government aims to lower deficit until a fiscal balance is achieved in 2023. The government is focused on balanced spending, including spending on basic needs and the development of capital expenditure in the medium term for realizing the Kingdom's Vision 2030.

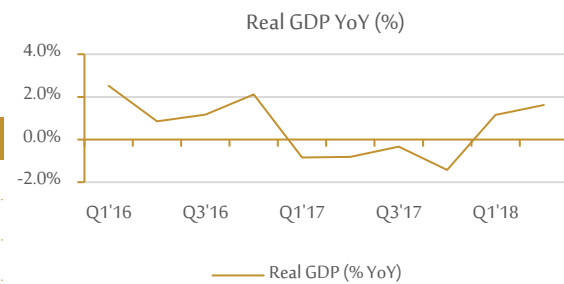
Q3 2018 Budget Highlights

- Budget deficit declined to SAR7.29bn in Q3 2018 from SAR7.36bn in Q2 2018.
- Total revenue increased 57.1% YoY to SAR223.3bn in Q3 2018,
- Total expenses grew 20.8% YoY to SAR230.5bn in Q3 2018.



Q2 2018 GDP Growth

- Saudi Arabia's real GDP grew 1.6% YoY in Q2 2018, the highest growth rate achieved since Q4 2016 (2.1%). It continued the uptrend witnessed in Q1 2018 (1.2% GDP growth).
- GDP growth was driven by the non-oil sector, which increased 2.4% YoY to SAR356.9bn in Q2 2018. The oil sector rose 1.3% YoY to SAR279.0bn in Q2 2018.



Saudi Government Bonds to be Part of JP Morgan EM Bond Indices

- JP Morgan announced its plan to include Saudi government bond issuances in JP Morgan Emerging Markets Bond Indices. The Saudi issuances would carry 3.1% weight in the index.

Saudi Arabia's Rank in Global Competitiveness Report 2018 Improves to 39

- In the Global Competitiveness Report 2018, published by the World Economic Forum, Saudi Arabia's rank in terms of global competitiveness increased to 39 out of 140 countries in 2018 from 41 among 135 countries in 2017.

Macroeconomic and Financial Market

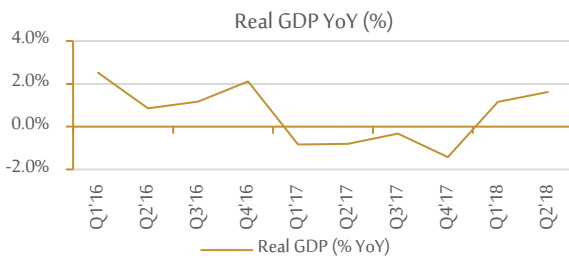
Macroeconomic Review

Q2 2018 GDP Growth (%)

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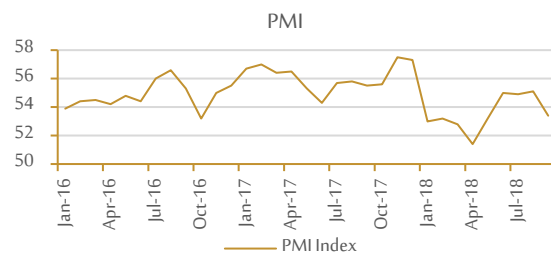
GDP growth was driven by the non-oil sector, which increased 2.4% YoY in Q2 2018. The government sector grew 4.0% YoY in Q2 2018.

As per a pre-budget statement for 2019 from the Ministry of Finance, the real GDP is estimated to grow by 2.3% in 2019, from 2.1% in 2018.



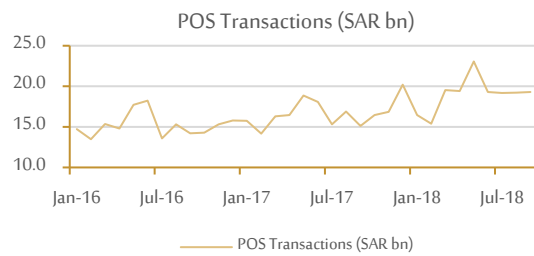
PMI Index

The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) fell to 53.4 in September 2018 from 55.1 in August 2018, weighed by softer growth in new orders and output as well as decline in new export orders last month. However, it remained in an expansionary trend. A reading above 50 indicates expansion in activity; conversely, a reading below 50 indicates contraction. On a quarterly basis, the PMI came in higher in Q3 2018 than in the previous two quarters.



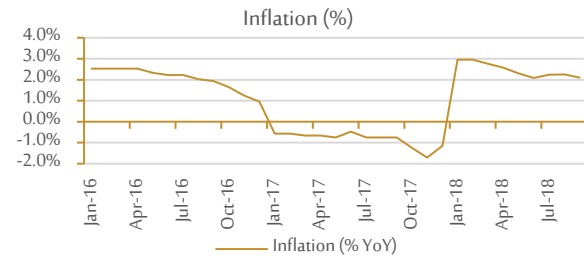
Points of Sale Transactions

POS transactions were up 0.6% month-over-month in September 2018 (latest data release). On a year-over-year basis, POS went up by 27.7% from 15.1 SAR bn in Sep 2017 to 19.3 SAR bn in Sep 2018.



Inflation

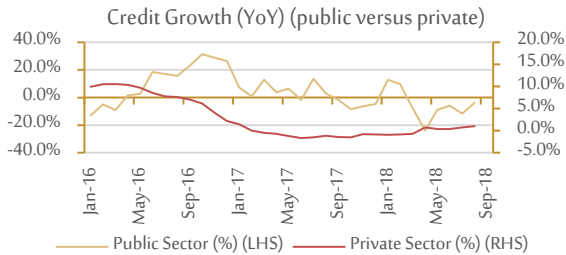
The Consumer Price Index (CPI) continued to rise moderately in 2018. The CPI rose 2.1% YoY in September 2018 (latest data release) led by 11.1% increase in transport cost and 6.8% rise in food and beverage prices. The Ministry of Finance of Saudi Arabia, in its pre-budget statement for 2019, has stated inflation is expected to be 2.8% and 2.3% in 2018 and 2019, respectively.



Macroeconomic Review

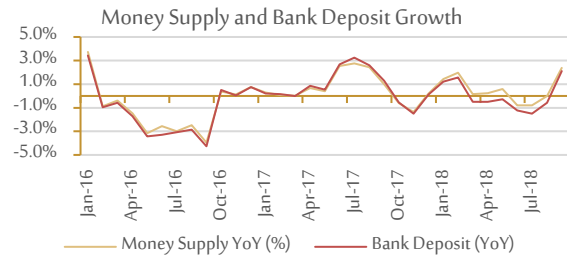
Credit Growth (%)

Overall bank credit grew 1.5% YoY in September 2018, reflecting the highest growth in the last 19 months. Private sector credit increased 1.4% YoY in September, with demand growth witnessing a continued positive YoY growth from April 2018. Public sector credit increased 4% YoY in September.



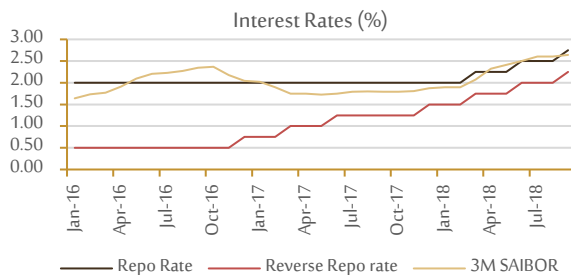
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) growth increased 2.4% on a YoY basis in September 2018. The 4.6% YoY increase in M1 was offset by a 9.4% YoY decrease in time and savings deposits. Bank deposits increased 2.1% YoY in September 2018.



Interest Rates

The repo and reverse repo rates were increased 25 bps each to 2.75% and 2.25% respectively in September 2018 after they were raised 25 bps each in June 2018. This was largely on account of the US Fed hiking interest rates by 25 bps in September 2018

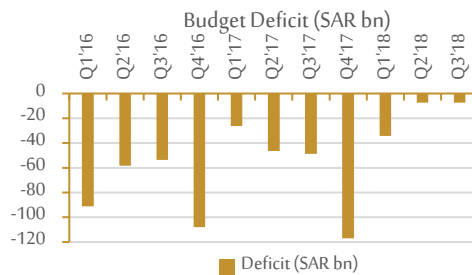


Q3 2018 Budget Deficit (% of GDP)

Budget deficit in Q3 2018 declined to SAR7.29bn from SAR7.36bn in Q2 2018.

Total revenue increased 57.1% YoY to SAR223.3bn in Q3 2018, driven by a 63.2% YoY rise in oil revenues.

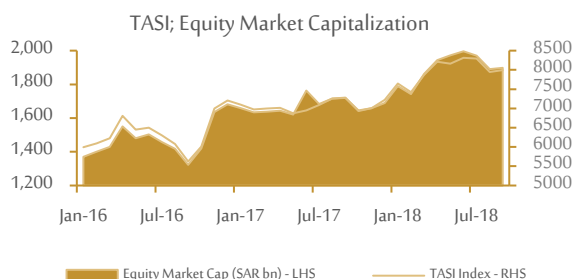
Total expenses grew 20.8% YoY to SAR230.5bn in Q3 2018.



Financial Market Review

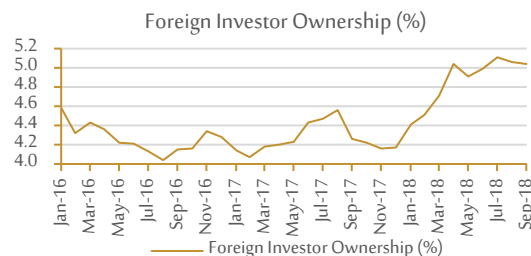
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) has been the second best performer among GCC equity indices in 2018 (till September). The index increased 10.7% from January till September 2018. Equity market capitalization has surged in the last two years by 43.4%.



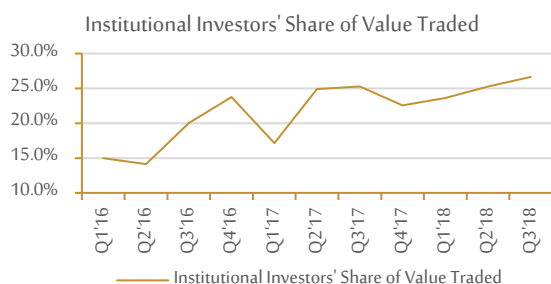
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks continued to rise in Q3 2018, to 5.04% in September 2018 from 4.99% in June 2018. This reflects the attractiveness of the Saudi financial market and affirms growing investor confidence in the economy.



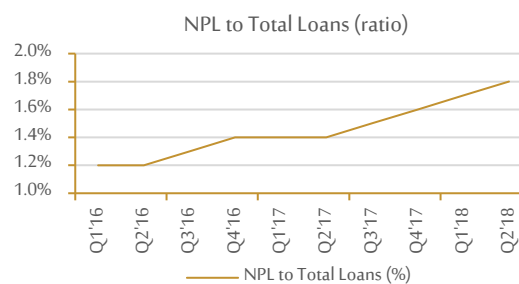
Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded grew steadily in Q3 2018, to a quarterly average of 26.37% in Q3.



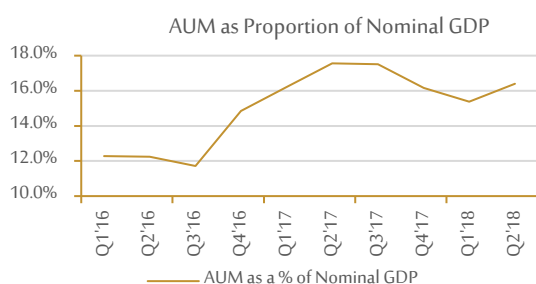
Non-performing Loans as Portion of Total Loans (NPL ratio)

Saudi Arabia's NPL ratio widened marginally to 1.8% in Q2 2018 from 1.7% in Q1 2018.



Assets Under Management (% of GDP)

Assets under management (AUM), as a percentage of the nominal GDP, increased to 16.4% in Q2 2018 from 15.4% in Q1 2018. AUM increased by 6.7% QoQ to 422.2bn in Q2 2018. On an YTD basis, AUM increased 8.0%.



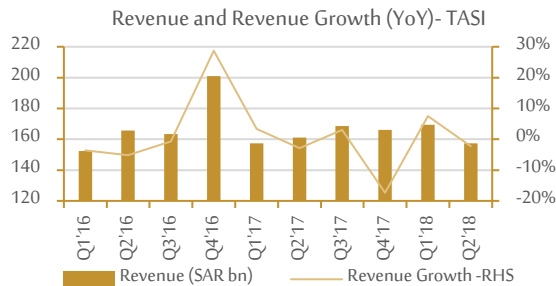
Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on the Tadawul dropped to 61.2% by the end of September 2018, against 61.7% recorded at the end of June 2018.



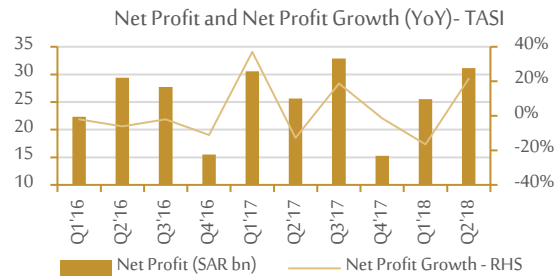
Revenue and Revenue Growth YoY (%) – TASI

Revenue of companies listed in the TASI declined 2.2% YoY to SAR157.4bn in Q2 2018. However, revenue increased 2.6% YoY to SAR326.8bn in H1 2018.



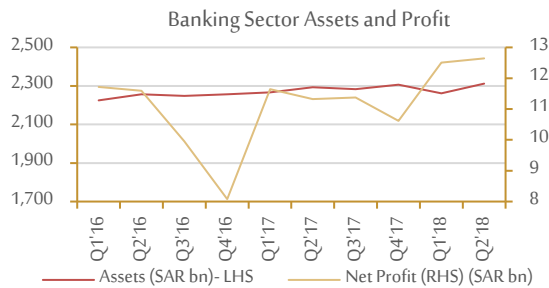
Net Profit and Net Profit Growth YoY (%) - TASI

Net profit of companies listed in the TASI increased 21.5% YoY to SAR31.1bn in Q2 2018. The Q2 2018 YoY profit growth is a significant improvement over -16.5% YoY decline reported in Q1 2018 net profit. Net profit for H1 2018 increased 0.8% YoY to SAR56.7bn.



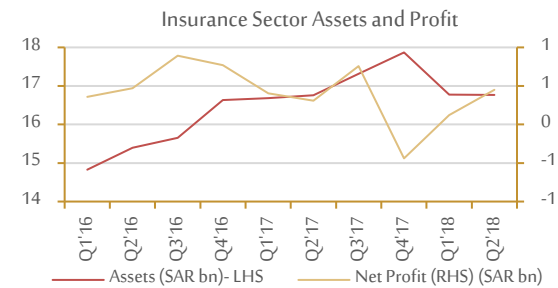
Banking Sector Assets and Profit

Banking sector assets rose by 2.1% YoY to SAR2,330.8bn in Q3 2018. Listed banking sector net profit increased by 11.6% YoY to SAR12.64bn in Q2 2018.



Insurance Sector Assets and Profits

Insurance sector assets rose marginally by 0.1% YoY to SAR16.8bn in Q2 2018. Insurance sector net profit increased by 46.8% YoY to SAR0.5bn in Q2 2018.



Financial Sector Development Highlights

Saudi Government Debt to be Included in JP Morgan Emerging Markets Indices

JP Morgan announced its plan to include Saudi government debt in its emerging market sovereign government bond indices in 2019. Saudi issuances will have a weight of 3.1% in the index. The inclusion will increase liquidity for the debt issued by government and government-owned companies, and strengthen investor base. The development is in accordance with strategic initiatives of the Ministry of Finance's Debt Management Office (DMO) to ensure Saudi Arabia's continued access to global debt markets. The inclusion is a major step toward strengthening Saudi Arabia's position in global debt markets and deepening the debt capital market, a major initiative of the Financial Sector Development Program

DMO of the Ministry of Finance Launches Primary Dealers Program

The DMO conducted the Primary Dealers Program for sukuk distribution on July 22, 2018, under the Saudi Arabian Government SAR-denominated Sukuk Program as part of the Financial Sector Development Program initiative to deepen the debt capital market. This enabled various asset managers and more than 20 investors from financial institutions to submit bids for their proprietary books and on behalf of their customers. Primary dealers would be required to expand the investor base in their capacity in the primary market, play a central role in market-making, and provide two-way pricing for issuances under the Saudi Arabian Government SAR-denominated Sukuk Program in the secondary market. Market-making would aid in stimulating financial markets, and increase liquidity in the secondary market.

Capital Market Authority (CMA) Grants Initial Licenses in Financial Technology

CMA approved first two trial financial technology licenses to Scooper and Manafa Capital. The trial licenses will enable the two companies to offer crowd funding service in Saudi Arabia. These licenses are part of "Open financial services to new types of players" initiative which is one of the initiatives under the Financial Sector Development Program.

IMF Executive Board Completes 2018 Article IV Consultation with Kingdom of Saudi Arabia

On July 16, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Saudi Arabia. Executive Directors commended the authorities for the progress made in implementing their reform agenda. Directors welcomed the broadly positive outlook and agreed that continued commitment to implementing wide-ranging reforms will help achieve the fiscal objectives.

SAMA Provides an Update to the Unified Policy for the Mandatory Vehicle Insurance

SAMA announced an update to the unified policy for compulsory vehicle insurance. One of the key amendments to the policy is that it now covers drivers aged 18 years and above and holding a driver's license.

Saudi Arabia's Rank in Global Competitiveness Report 2018 Improves to 39

In the Global Competitiveness Report 2018, published by the World Economic Forum, Saudi Arabia's rank in terms of global competitiveness has increased to 39 out of 140 countries in 2018 from 41 among 135 countries in 2017. Saudi Arabia's score in 2018 has increased in nine out of 12 index components. These components are Institutions, Infrastructure, Information and Communication Technology adoption, Health, Skills, Labour Market, Financial System, Business dynamism and Innovation capability. With respect to the component of Macroeconomic Stability, Saudi Arabia has scored the best possible score of 100 out of 100. The report notes that the implementation of reforms envisaged in Vision 2030 will increase private sector dynamism and innovation capability.



Financial Sector Development Program

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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 Central Bank (SAMA), Capital Market Authority (CMA), General Authority of Statistics, Tadawul, Monsha'at, 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>