



**Financial Sector
Development Program**

Financial Sector Development Program

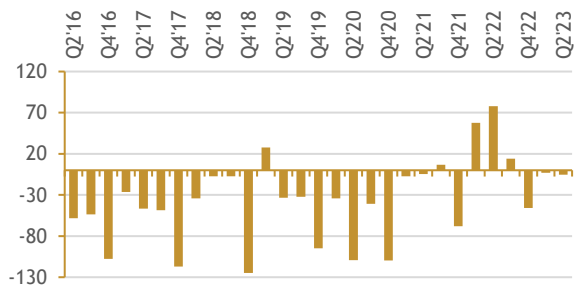
Quarterly Newsletter Q2 2023

Key Highlights: Budget Surplus in Q2 2023, GDP rose 3.8% in Q1 2023

Q2 2023 Budget Highlights

- Saudi Arabia recorded a budget deficit of SAR 5.26 billion in Q2 2023, contrasting with the surplus of SAR 77.90 billion in the same period last year.
- Total revenues fell by 15% year-over-year (YoY) to SAR 314.8 billion, down from SAR 370.4 billion, primarily due to a 28.2% decrease in oil revenues, which totaled SAR 179.7 billion.
- However, non-oil revenues bucked this trend, rising by 12.5% to SAR 135.1 billion, with 'Taxes on Goods and Services' contributing a 2.9% increase to SAR 66.1 billion.
- On the expenditure side, total spending rose by 9.4% to SAR 320.1 billion, up from SAR 292.5 billion the previous year.
- The period saw a slight reduction in public debt, decreasing to SAR 989.15 billion from SAR 990.08 billion at the end of FY 2022.

Budget Deficit/Surplus (SAR billion)



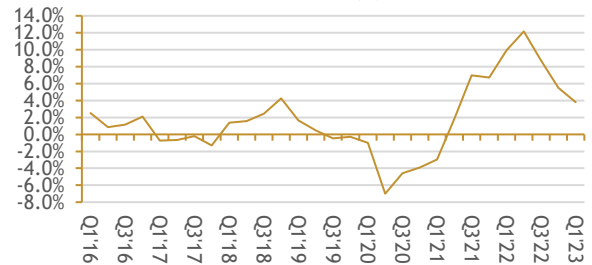
Saudi Arabia's Economic Growth Leads G20 in 2022, Supported by Resilient Financial Sector

In 2022, the Saudi economy showcased remarkable growth, emerging as the fastest growing among the G20 nations. This growth, highlighted in the Saudi Central Bank (SAMA)'s Financial Stability Report 2023, was supported by a resilient financial system despite global economic challenges. The report details key developments in the local and global economy, associated risks, and the latest advancements in Saudi Arabia's financial sector. It particularly notes the robust performance of the banking sector, with significant increases in bank assets and credit, and liquidity ratios well above the regulatory requirements. SAMA's focus on supporting technological innovations in the financial sector has been pivotal in this achievement.

Q1 2023 GDP Growth (%)

- Real GDP, measured at 2010 constant prices, experienced a growth of 3.8% YoY.
- This growth was driven by a 1.4% increase in oil activities and a more substantial 5.4% rise in non-oil activities.
- The non-oil sector played a significant role, contributing 59.5% to the total GDP during this quarter

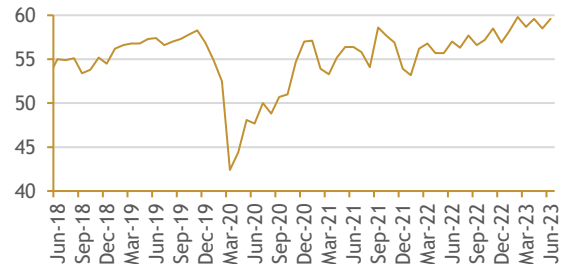
Real GDP YoY (%)



Purchasing Managers' Index (PMI)

The Saudi Arabia Purchasing Managers' Index (PMI) climbed to 59.6 in June 2023 compared to 58.5 in May 2023.

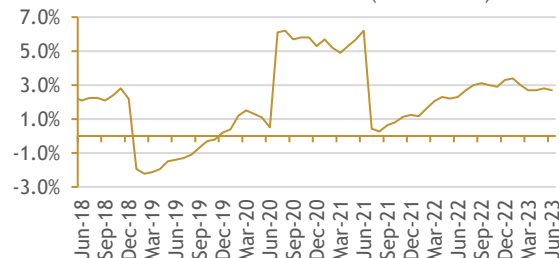
PMI



Consumer Price Index (CPI)

In June 2023, the CPI saw a YoY increase of 2.7%. The Housing, Water, & Other Fuels segment and the Restaurants & Hotels segment experienced price increases of 9.1% and 4.3% respectively. Education costs also rose by 3.0%. In contrast, the Clothing and Footwear segment saw the most significant decline, with prices dropping by 2.9% compared to the previous year.

Consumer Price Index (CPI - YoY %)

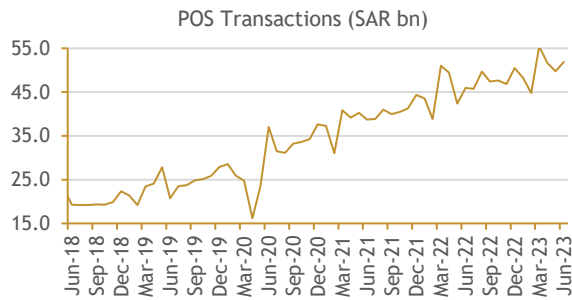


Macroeconomic and Financial Market

Macroeconomic Review

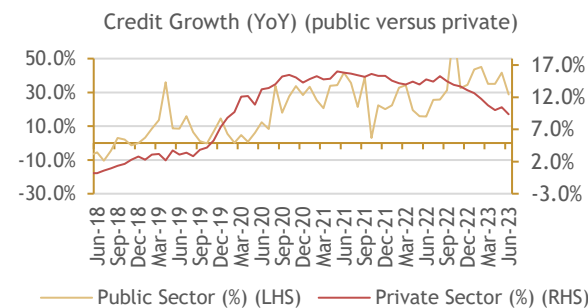
Points of Sale Transactions (POS)

In June 2023, POS transactions in Saudi Arabia increased by 12.8%YoY, reaching SAR 51.9 billion, up from SAR 46 billion in June 2022. For the second quarter of 2023, the total POS transactions amounted to SAR 153.2 billion, marking an 11.2% increase YoY and a 3.2% rise from the previous quarter.



Credit Growth (%) *

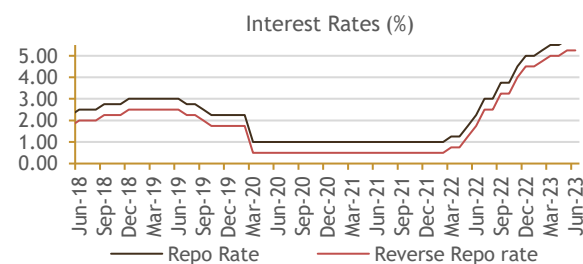
In June 2023, overall bank credit, encompassing both public and private sectors, grew by 10.2% YoY and 2.5% quarter-over-quarter (QoQ). Specifically, public sector credit saw a significant increase of 28.7% compared to the same period last year, and a 1.1% rise from the previous quarter. Credit to the private sector also grew, with a 9.4% YoY increase and a 2.6% rise on a QoQ basis.



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

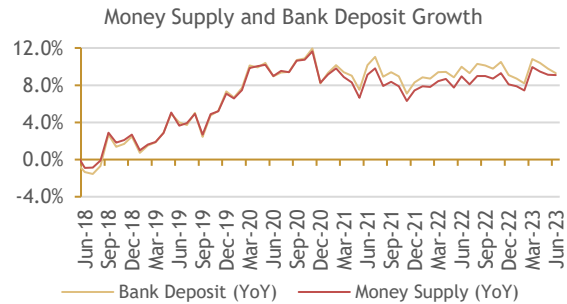
Interest Rates

During Q2 2023, SAMA raised both the repo and reverse repo rates by 25 basis points. These policy rate adjustments align with the bank's commitment to maintaining monetary stability.



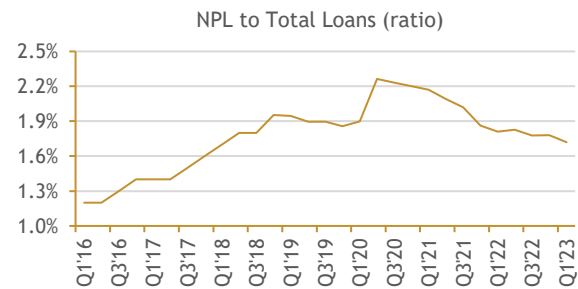
Money Supply (M3) and Bank Deposit Growth (%)

In June 2023, Saudi Arabia's total M3 saw a YoY increase of 9.1% and a QoQ rise of 2.0%. However, M1 experienced a 3.2% decrease compared to the previous year. Notably, Time and Savings deposits surged by 41.9% on a YoY basis. Total bank deposits also grew, with a 9.3% increase YoY and a 1.6% rise from the previous quarter.



Non-Performing Loans (NPL) as Portion of Total Loans

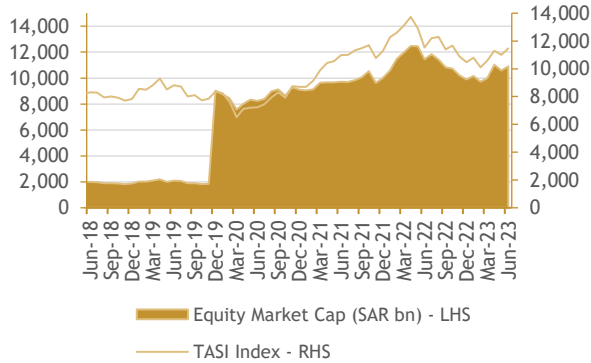
NPL ratio declined to 1.7% in Q1 2023 (latest data available) from 1.8% in Q4 2022.



Financial Market Overview

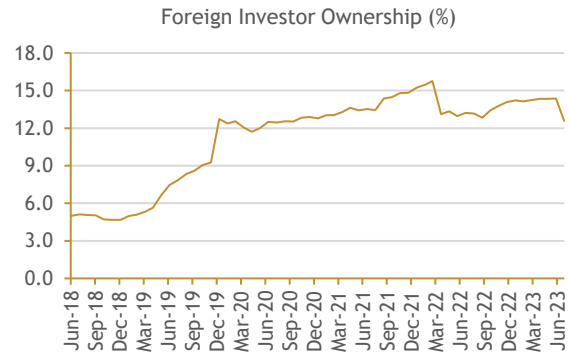
Tadawul and Equity Market Capitalization

In June 2023, the Tadawul All Share Index (TASI) saw a monthly increase of 4.0% and a year-to-date (YTD) gain of 9.4%. Additionally, TASI's equity market capitalization reached SAR 10,908 billion in June, marking a 9.2% rise from SAR 9,984 billion in March 2023.



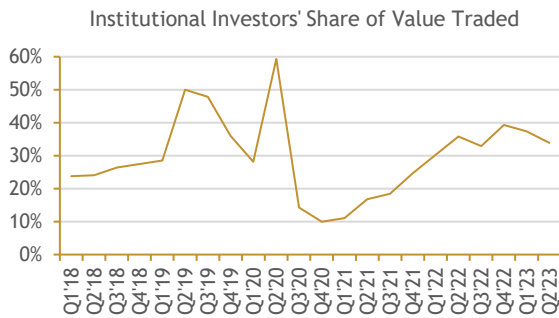
Foreign Investor Ownership

In June 2023, foreign investor ownership of free-float Saudi stocks decreased to 12.5%, down from 14.3% in March 2023. As of June, the value of foreign investors' holdings stood at SAR 376.4 billion.



Institutional Investors' Share in Value Traded

In Q2 2023, the share of institutional investors in the total value traded on the Saudi stock market averaged 33.9%, a decrease from 37.2% in Q1 2023.



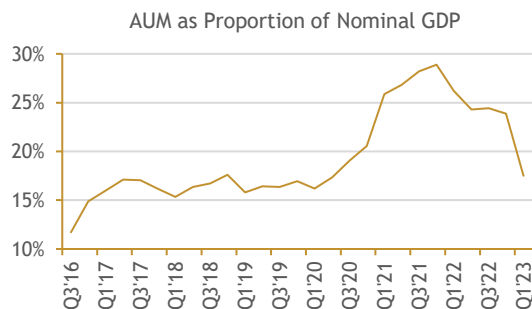
Market Concentration of Top 10 Companies

By the end of June 2023, the combined market capitalization of the top 10 companies on the Tadawul stock exchange decreased slightly to 86%, from 86.4% at the end of March 2023.



Assets Under Management (% of GDP) (AUM)

As of Q1 2023, AUM in Saudi Arabia represented 17.5% of the nominal GDP, a decrease from 23.8% in Q4 2022. The total value of AUM holdings stood at SAR 770.62 billion as of March 2023.



Financial Sector Development Highlights

SAMA Completes Connectivity to Social Development Bank Through "TANFEETH" Program

The Saudi Central Bank (SAMA) announced the completion of connectivity to the Social Development Bank via "Tanfeeth" program. The underlying objective is to optimize system connectivity and integration between Saudi government entities and banks operating in the Kingdom of Saudi Arabia, with a view to promoting automation of processes and efficiency of work flows to help realize Saudi Vision 2030 objectives.

The "Tanfeeth" program seeks to promote operational efficiency by overcoming procedural hurdles in coordination with the government entities. It is also a step towards achieving SAMA's strategic objectives by upgrading its IT infrastructure for optimizing administrative processes including speed, quality, and integration with the financial institutions operating in the Kingdom.

Insurance Sector Grew by 26.9% in 2022

The Saudi Central Bank (SAMA) issued the 16th Saudi insurance market annual report. The report highlights the insurance sector's developments, financial results, and contribution to the Kingdom's GDP in 2022.

According to the report, the insurance sector grew by 26.9% in 2022, bringing gross written premiums to SAR 53 billion. Health insurance, protection and savings insurance, and motor insurance recorded significant increases in gross written premiums. The report highlights that the penetration ratio to non-oil GDP increased from 1.91% in 2021 to 2.09% in 2022, due to the significant increase in gross written premiums. The overall loss ratio remained unchanged at 83.4% in 2022.

CMA Cancels its Share in Sukuk and Bonds Trading Commission

The Capital Market Authority ("CMA") announced the cancellation of its share in Sukuk and bonds trading commission starting from May 2023.

This step comes as part of the efforts to reduce costs on market participants in a way that enhances liquidity, increases competitiveness in the local market and expands domestic investors' base in government debt issues. The step that shall contribute to achieve the strategic objectives of Vision 2030 related to develop a diversified and effective financial sector to support the development of economy and create an advanced capital market.

By the cancellation decision, CMA affirms its commitment to stimulate activities of debt instruments secondary market, considering such commitments as long-term commitments, without exceptions. This comes in line with CMA's strategic objective relevant to developing Sukuk and debt instruments market to boost its attractiveness to issuers and investors.

SAMA Licenses Payment Fintech Company

The Saudi Central Bank (SAMA) licensed "Rasid Payments Company for Financial Technology" to provide payment solutions through point of sales (POS). This addition brings the total number of payment companies licensed by SAMA to 24, in addition to six companies granted in-principle approvals.

SAMA Permits 2 BNPL Companies

The Saudi Central Bank (SAMA) granted "Spotii" and "Madfu" permits to carry out Buy Now Pay Later (BNPL) solutions pursuant to Saudi Central Bank Law and Finance Companies Control Law for providing finance to customers wishing to purchase products or services from merchants without incurring term financing cost.

This initiative is aimed at enticing a new segment of investors and companies that can bring benefit to the sector for more efficient operation, while maintaining full adherence to the regulatory and supervisory guidelines defined by SAMA.

SAMA Permits 3 New Fintech Innovators to Operate Under its Regulatory Sandbox

The Saudi Central Bank (SAMA) announces granting permits to three innovators to test their Open Banking solutions in the Regulatory Sandbox. These innovators are: Tarabut Gateway Company for Information Technology, Umg Alholol Trading Co (known as Single View), and Drahim App for Financial Technology.

Saudi Exchange Company announces the approval of the Amended Trading and Membership Rules and Procedures and the Amended Glossary of Defined Terms Used in The Exchange Rules

The Saudi Exchange Company announced the issuance of its Board of directors' decision to approve the amended Trading and Membership Procedures, and the issuance of the Capital Market Authority's Board decision to approve the amended Trading and Membership Rules, and Glossary of Defined Terms used in the amended Market Rules. The amendments aim to develop a number of structural procedures for debt instruments and exchange traded funds, in addition to introducing a package of general improvements to trading procedures to increase flexibility, facilitate trading activity in the market, and enhance its attractiveness.

The Capital Market Authority Approves the Rules for Foreign Investment in Securities

The Capital Market Authority ("CMA") approved the Rules for Foreign Investment in Securities (the "Rules"), Amendments to the Investment Accounts Instructions, Amendments to the Implementing Regulation of the Companies Law for Listed Joint Stock Companies and Amendments to the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, which shall be effective as of the date of their publications, The approval of the Rules, Instructions and Glossary aim to develop the provisions regulating foreign investment in securities, facilitate access to the regulatory frames regulating foreign investment in securities by collecting the regulating provisions in a single regulatory document, as well as facilitating qualified foreign investors' (QFIs) entry procedures to invest in the Saudi capital market.

The last Amendments comprised considering facilitating the QFIs' requirements, facilitating disclosure requirements and continuous obligations to ease Saudi capital market entry with the aim of minimizing the differences between QFIs and other investor categories in the Saudi market.

The National Debt Management Center Announces the Completion a USD 6 Billion Trust Certificates issuance

The National Debt Management Center (NDMC) announced the completion of receiving investors' requests for the international trust certificates issuance (Sukuk), with a total value of USD 6 billion under the Kingdom's Global Trust Certificate Issuance Program.

The total order book reached over USD 27 billion, which equals an oversubscription of 4.5 times the total of USD 6 billion issuance (equivalent to SAR 22.50 billion) via a dual-tranche Trust Certificates (Sukuk) offering. The value of the first tranche was USD 3 billion (equivalent to SAR 11.25 billion) for a 6-years Sukuk maturing in May 2029 with a 4.274% profit rate. The second tranche totaled USD 3 billion (equivalent to SAR 11.25 billion) for a 10-years Sukuk maturing in May 2033 with a 4.511% profit rate.

Fitch upgrades its credit rating of the Kingdom of Saudi Arabia to A+ with a Stable Outlook

Fitch Ratings has recently upgraded its Saudi Arabia's Rating to 'A+' with a Stable Outlook.

The agency indicated in its report that this rating upgrade reflects the Kingdom's strong fiscal and external balance sheets with large sovereign net foreign assets compared to 'AA' median and debt/GDP half of 'A' medians. In its press release, the Agency praised the Kingdom continued progress with fiscal, economic and governance reforms while pointing to the Kingdoms formidable foreign reserves with one of the highest reserve coverage ratios among Fitch -rated sovereigns.

The Kingdom continues achieving advanced ranks in competitiveness indicators related to the financial market in 2023

The Kingdom of Saudi Arabia has continued its progress in the competitiveness indicators related to the financial market to achieve the third position among the most competitive countries on the G20 nations' level, according to the IMD World Competitiveness Yearbook for 2023. The Kingdom advanced seven ranks, compared to its standing in 2022 The Kingdom ranked first in the Corporate Boards index among G20 nations, ranked second in capital markets councils index, stock market capitalization index (as a percentage of GDP), shareholders' rights index and venture capital index. The Kingdom also ranked third in the stock market index, and fifth in the index evaluating the ability of stock markets to provide adequate financing to companies.

Further, the Kingdom ranked third globally in the stock market capitalization index (as a percentage of gross domestic product), advancing over other countries like Japan, India, Germany, the United Kingdom, China, and the United States of America. The Kingdom ranked third as well in the venture capital index, exceeding countries like India, the United Kingdom, Germany, Japan, and China. As for the stock market index (% change on index), the Kingdom ranked fifth, advancing over countries like India, the United States of America, Japan, China, Germany, and the United Kingdom.

Monshaat presents 23 initiatives related to the goals of the Saudi vision 2030

The General Authority for Small and Medium Enterprises "Monshaat" presented 23 initiatives related to 7 strategic objectives through 5 programs affiliated to the Saudi Vision 2030, out of 11 programs of the vision, including national transformation, financial sector development, financial sustainability, human capacity development, as well as national industrial development and logistics.

Among the most prominent achievements presented in the National Transformation Program presented by Monshaat is the increase in the number of small and medium enterprises from 429,026 enterprises in 2016 to 1,141,733 establishments in 2022, with a growth rate of 166% since the launch of Saudi Vision 2030, and Monshaat succeeded in bringing the Kingdom to second place in the State of Entrepreneurship Index (NECI) for 2022 after it was ranked 41st in 2018 according to the Global Entrepreneurship Monitor report.

In the Financial Sector Development Program, Monshaat contributed to the establishment of the Small and Medium Enterprises Bank, raising the share of SME lending from 5.4% in 2018 to 8.3%.

Monshaat Launches Slingshot Program to Boost Enterprise Growth

The Small and Medium Enterprises General Authority (Monshaat) launched recently the Slingshot Program for fast-growing enterprises. The program will be implemented with a group of experts in entrepreneurship to learn from the best international practices in driving enterprise growth and facing challenges. It offers its services in training and development locally and internationally for a period of three months.

Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2025 Target
Life GWP per capita, SAR***	33.16	13.3	45
Debt as % of GDP	14%	18%	24.1%
Banking sector assets, B SAR	2,631	3,829	3,515
Total market capitalization (shares) as % of GDP*	66.52%	76.1%	80.8%
Share of investment accounts opened through eKYC****	82%	94.42%	=>90%
Credit to private sector, billion SAR***	1,510	2,308	2,053.2
Number of listings in Capital Market	6	21	26
% of micro and small enterprises at the time of listing out of total listings	33%	76.2%	46%
Coverage ratio of Health insurance schemes, %***	33%	35.86%	45%
Coverage ratio of Motor insurance schemes, %**	39.6%	55.63%	77%
# Of Fintech players	82	183	230
SME loans as % of bank loans***	5.7%	8.3%	11%
Share of non-cash transactions, %****	36%	62%	70%
Total GWP to GDP non-oil, %***	1.9%	2.76%	2.4%
Assets under Management, as % of GDP	16.94%	17.5%	31%
Institutional investors' share of value traded %	35.96%	33.9%	44%
Foreign Investor Ownership of the equity market cap (free float), in %	13.3%	12.48%	17.5%
Value of investments in private equity and venture capital, M SAR***	9,304	20,506.61	36,738.27

*Excluding Aramco

**As per SAMA's data

***Q1 2023 Data

****Data for the year 2022



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.

Key Abbreviations: (YoY) year-over-year / (QoQ) quarter-over-quarter / (M1) money supply

Sources: Ministry of Finance, Saudi Central Bank (SAMA), Capital Market Authority (CMA), General Authority for 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.

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