



Financial Sector  
Development Program

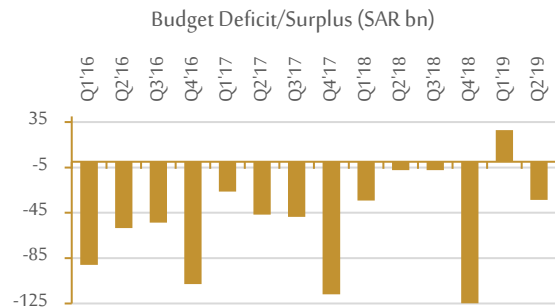
# Financial Sector Development Program

## Quarterly Newsletter Q2 2019

## Key Highlights: Budget Deficit in Q2 2019, Q1 2019 GDP growth rate 1.7% YoY

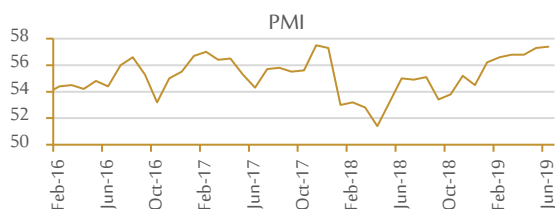
### H1 2019 Budget Highlights

- Budget deficit decreased to SAR 5.7bn in the first half of 2019, compared to a deficit of SAR 41.7bn in the same period last year. This was mainly due to revenue growth of 15%, despite the growth in expenditures by 6% during the same period.
- Total revenue Increased by 15% YoY to SAR 506.1bn as a result of an increase in non-oil revenues by 14% which was driven by the improvement of economic activity and implementation of non-oil revenue development initiatives in addition to improved performance of tax collection and settlements with some sectors.
- Oil revenue Increased by 15% YoY to SAR 343.9bn benefiting from abnormal profits from oil.
- Total expenditure rose 6% YoY to SAR 511.8bn in H1 2019 As a result of increased spending on social programs and stimulus packages for the private sector in addition to progress in financing major projects and vision 2030 realization programs.
- Capital spending rose 22% YoY to SAR 90.2bn, while operational expenditure surged 3.4% YoY to SAR 421.5bn in H1 2019.
- The internal and external borrowing during the first half of the year amounted to about SR 67.9 billion (SAR 28.1bn external, SAR 39.7bn internal), which will be used to finance part of the expected deficit until the end of the year. The Debt Balance as at the end of June 2019 amounted to SR 627.8 billion.



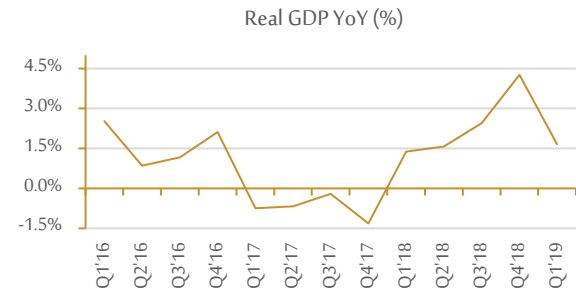
### PMI Index

The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) rose marginally to a 19-month high of 57.4 in June 2019 from 57.3 in May 2019, led by quicker pace of growth in new orders. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction.



### Q1 2019 GDP Growth (%)\*

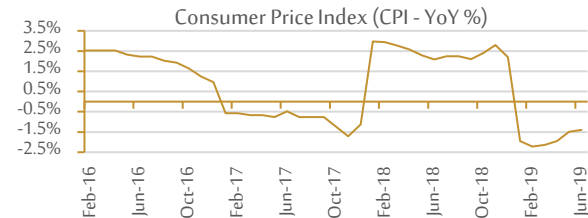
- Real GDP (at 2010 constant prices) rose 1.7% YoY in Q1 2019, easing from a 4.3% growth in the previous period (revised from preliminary reading of 3.6% in Q4 2018).
- GDP growth was driven by the non-oil sector, which grew 2.1% YoY in Q1 2019. The oil sector recorded 1.0% YoY increase during the quarter.



\* Based on Preliminary data

### Consumer Price Index (CPI)

The CPI decreased 1.4% YoY in June 2019 and has been in negative territory for six consecutive months. Housing, water, electricity, gas and other fuels prices declined 7.2%; while restaurants and hotels saw a 1.9% increase during the month. It was followed by food and beverages and education that recorded an increase of 1.3% each.



### SAMA and CMA to Establish Fintech Saudi Center at King Abdulla Financial Center to Support Financial Technology Sector in The Kingdom

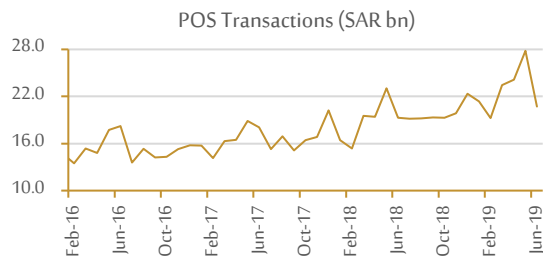
H.E. Dr. Ahmad bin Abdulkareem Al-Kholifey, governor of SAMA and H.E. Mohammad bin Abdullah Al-Quaez, Chairman of the CMA signed a memorandum of understanding (MoU) to establish the Saudi Fintech center in partnership with King Abdullah Financial Center during the Financial Sector conference 2019. The Saudi Fintech is an initiative of (FSDP) which is led and supported by SAMA and CMA to open the window for introducing innovative financial services.

## Macroeconomic and Financial Market

### Macroeconomic Review

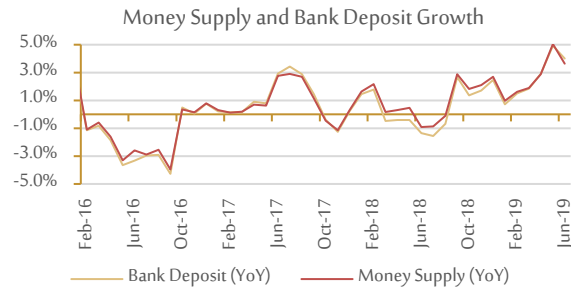
#### Points of Sale Transactions

POS transactions rose 7.4% YoY to SAR 20.7bn in June 2019 from SAR 19.3bn in June 2018. In Q2 2019, it stood at SAR 72.7bn (up 17.7% YoY and 13.5% QoQ).



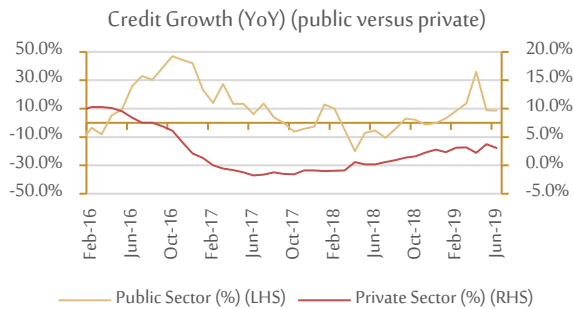
#### Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 3.6% YoY in June 2019 and was up 2.9% on QoQ basis. M1 grew 4.2%, while Time and Savings deposits increased 2.8% on YoY basis. Total bank deposits rose 4.0% YoY and 2.9% on QoQ basis in June 2019.



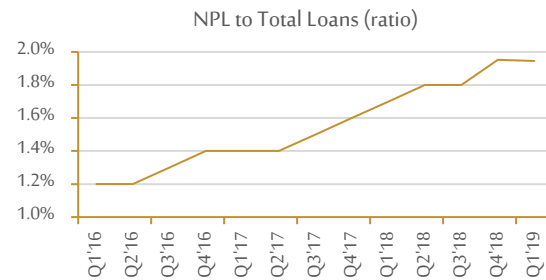
#### Credit Growth (%)\*

Bank credit (public and private) grew 3.3% YoY in June 2019 and 1.1% on QoQ basis. Public sector credit increased 8.6% YoY, while it dropped 2.2% on QoQ basis. Bank credit to the private sector rose 3.1% YoY in June and rose 1.2% on QoQ basis.



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

NPL ratio contracted marginally to 1.9% in Q1 2019 (latest data available) from 2.0% in Q4 2018.

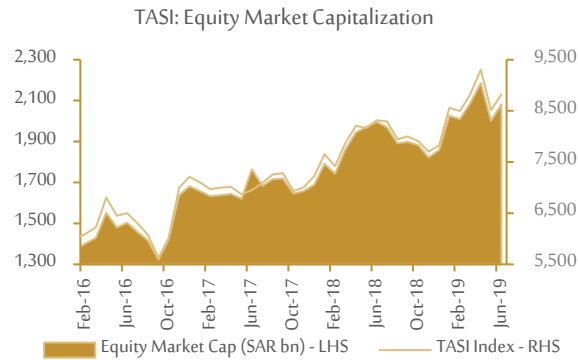


\*Credit to public sector does not include Gov't & Quasi-Gov't bonds

## Financial Market Overview

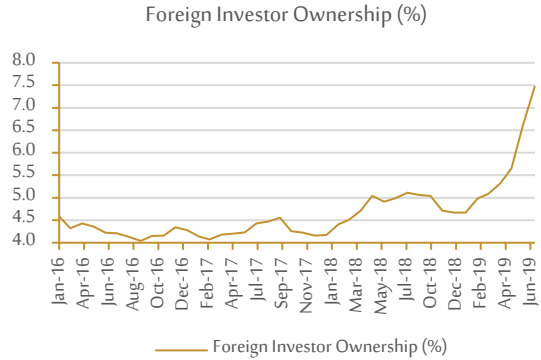
### Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) has been the best performer among GCC equity indices in June 2019 as it went up by 3.6%. On YTD basis, TASI was the second-best performer (up 12.7%). TASI's equity market capitalization surged 12.0% on YTD basis and 18.0% in the last two years.



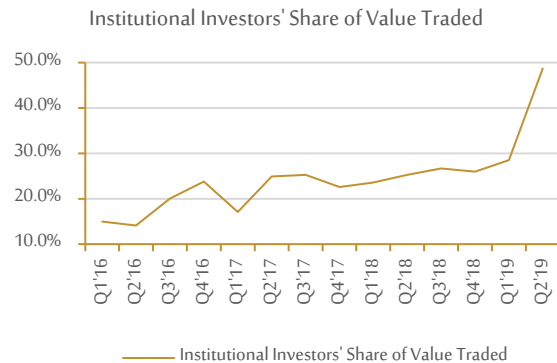
### Foreign Investor Ownership

Foreign investor ownership in Saudi stocks rose sharply in Q2 2019, to 7.5% in June 2019 from 5.3% in March 2019. This reflects the attractiveness of the Saudi financial market with growing investor confidence after the inclusion of FTSE and MSCI Emerging Market indices.



### Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded increased sharply in Q2 2019 to a quarterly average of 49.9% compared to 28.6% in Q1 2019. The considerable increase came-in during May and June driven by inflows from FTSE and MSCI Emerging Market Inclusion.



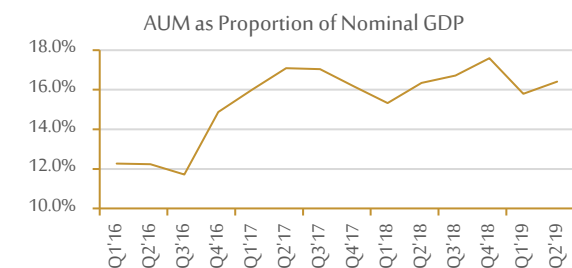
### Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on the Tadawul declined to 63.1 % by the end of June 2019, against 63.4 % recorded at the end of March 2019.



### Assets Under Management (% of GDP)

Assets under management (AUM) as a percentage of the nominal GDP increased to 16.5% in Q2 2019 from 15.8% in Q1 2019. AUM increased 3.9% QoQ to SAR 484.2bn in Q2 2019. On a YoY basis, AUM rose 14.7%.



## Financial Sector Development Highlights

### Implementation of Second and Third Phase Inclusion of Saudi Arabia into FTSE Russell Emerging Markets Index and First Phase of MSCI Emerging Markets Index

On Wednesday, May 1, 2019, the second phase of Saudi Arabia's inclusion in the FTSE Russell Emerging Markets Index commenced. The tranche size for the second phase was 15%, bringing the total to 25%. The third phase started on Monday, June 24, 2019, with the tranche size of 25%, bringing the total to 50%. The inclusion of the Saudi Stock Exchange (Tadawul) in the emerging markets index would take place in five tranches, with the final tranche ending on 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. In addition, the first phase of Saudi Arabia's inclusion in the MSCI Emerging Markets Index started on Wednesday, May 29, 2019, and the second phase is expected in August this year. Saudi Arabian securities would represent an aggregate weight of 2.8% in the MSCI Emerging Markets Index after the final inclusion, which is the largest global index for emerging markets in size, with assets estimated by the index of about USD 2 trillion. Furthermore, the total passive inflows expected from investors following the FTSE Emerging Markets Index inclusion up to this phase is around SAR 9 billion, while that from the MSCI Emerging Markets Index is about SAR 21.3bn billion from its first tranche.

### The Saudi Stock Exchange (Tadawul) Approved Reducing the Par Value of the Saudi Government Debt Instruments

The Saudi Stock Exchange (Tadawul) issued its resolution approving the request submitted by the Ministry of Finance to reduce the par value of the domestic government debt instruments issued by the Saudi government, as a result of reducing the par value from SAR 1mn to SAR 1,000 without changing the size of the 29 issuances. Accordingly, this change has commenced from 9<sup>th</sup> June 2019.

### The Saudi Stock Exchange (Tadawul) Announced Listing and Trading of Government Debt Instruments in Saudi Financial Market

In Q2 2019, the Saudi Stock Exchange (Tadawul) has issued its resolution approving the listing request of the debt instruments issued by the government of the Kingdom of Saudi Arabia submitted by the Ministry of Finance with total value of SAR 9.25bn. Tadawul has also issued its resolution approving the listing request of the debt instruments from a class already listed with total value of SAR 7.96bn.

### The CMA Announces the Adoption of the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies

In continuance to the Capital Market Authority's (CMA) role to regulate and develop the capital market, and in its efforts to enhance the market's efficiency and attractiveness and to expand the institutional investments base. This is in line with its strategic plan (Financial Leadership Program) and the objectives of the Financial Sector Development Program (FSDP). The CMA Board has issued its decision to adopt the instructions for the foreign strategic investors' ownership in listed companies to be effective as of the date of their publication.

### The Growth of Foreign Investors Ownership and The Volume of Foreign Investor Trading in the Saudi Stock Market

The implementation of the second and third phase of the plan to join FTSE Russell Emerging Markets Index and the first phase of the MSCI Emerging Markets Index significantly increased the average volume of foreign investors trading during Q2 2019. The average volume of foreign investors trading reached SAR 77bn during Q2 2019, representing 29.5% of the total value traded in the market, compared to SAR 18bn (10.2% of the total market value) during Q1 2019. Foreign investors bought shares worth SAR 96.0bn, while they sold shares worth SAR 57bn in Saudi market. In addition, foreign investors' share of total market capitalization increased to 7.46% during Q2 2019, compared to 5.30% in Q1 2019.

### The Institutional Investors' Trading Volume Increased to 50% of the Total Trading Volume

After implementation of the second and third phase of the plan to join the FTSE Russell Emerging Markets Index and the implementation of the first phase of the MSCI Emerging Markets Index the Saudi stock market witnessed a remarkable growth in trading volume reaching SAR 262.1bn in Q2 2019, compared to SAR 176.9bn in Q1 2019. This increase is reflected in the values of institutional investor trading which grew to 50% compared to 29% in Q1 2019. This comes as a result of the ongoing developments in the Saudi stock market that aim to create an attractive investment environment supporting the growth of the national economy. The inclusion in emerging market indices has played an important role in increasing the flow of funds from institutional investors.

### Ministry of Commerce and SAMA Issue New Rules on Installment Sales

The Ministry of Commerce and Investment (MoCI) and SAMA announced the commencement of work for implementing the new organizational arrangement for sales on installments. This step would assist in regulating the financing market in the Kingdom and also reduce disparities in regulatory requirements. Moreover, it would help protect the financial system, regulate fair and responsible finance, minimize unfair transactions and protect consumers.

### SAMA to Develop Instant Payments System to Facilitate and Accelerate Financial Transactions among Banks

The SAMA represented by 'Saudi Payments' has partnered with Vocalink and IBM to develop a new instant payments system that is expected to be launched at the end of 2020. The goal of such a system is primarily to promote economic development by increasing the efficiency and effectiveness of the financial system. This would be positively reflected in the growth of business transactions and contribute to the move toward a cashless society. This initiative is in line with the objectives of the Financial Sector Development Program (FSDP) to achieve digital transformation in the payments sector.

### SAMA Grants Banking License to Credit Suisse

The SAMA has licensed Credit Suisse Bank to operate in Saudi Arabia. This comes as part of its efforts to achieve one of the strategic objectives under the scope of the Financial Sector Development Program (FSDP). Credit Suisse is expected to add value to the Saudi banking sector by promoting the growth of the private sector through fulfilment of finance needs and development of innovative financial solutions. This would in turn help enhance the quality of banking services offered to customers and create job opportunities.

### Saudi Arabia Obtains Full Membership of Financial Action Task Force

The Financial Action Task Force (FATF) granted the Kingdom of Saudi Arabia full membership of the Group, with the total number of FATF full members coming to 39. The Kingdom is the first Arab country to obtain membership in the FATF. In 2015, the Kingdom received an invitation from the FATF to join the Group as an observer. The invitation was made in recognition of its efforts and measures in the field of combating money laundering and financing of terrorism and proliferation, its compliance with international standards and requirements, and its commitment to all relevant international and bilateral conventions.

### Esal Platform, SAMA's Initiative in Developing Financial Sector, Wins Best Technological Innovation Award for Invoices of Digital Business Payments in Middle East in 2019

The SAMA had launched Esal for test in March 2018, an e-invoicing digital business payment platform developed by 'Saudi Payments' System. The platform provides an integrated solution for all billing and payment operations in the business sector by facilitating interactions between suppliers and buyers, making it easy for all parties to track the status of invoices issued through all stages. The award was offered by Seamless 2019 Digital Economic Conference and Exhibition.

### SAMA Promotes Financial Inclusion in the Kingdom

The SAMA works on enhancing the level of financial inclusion in the Kingdom, which is one of the main goals of the Financial Sector Development Program (FSDP). The program seeks to help individuals and establishments access the authorized financial services and products to incorporate them in the official financial system in order to ensure fairness, transparency, and protection of clients. Financial inclusion is an effective means of enhancing stability, deepening and diversifying financial systems, and supporting opportunities for sustainable development.

### Tadawul and Edaa Announce Changes on Services Fees for Sukuk and Bond Market

The Saudi Stock Exchange (Tadawul) and the Securities Depository Center Company (Edaa) announced that fees and commissions would be restructured for sukuk and bond services, in line with the Financial Sector Development Program (FSDP) initiative to develop the Saudi debt market. The changes include the reduction of Edaa's IPO file upload fees and annual registry fees. In addition, these include lowering Tadawul's minimum fee requirement for annual listing and introducing caps for the first and subsequent issuances. The changes have been implemented from June 9, 2019.

### Tadawul Announces Amendment of Trading and Membership Rules

The Saudi Stock Exchange (Tadawul) announced the amendment of Trading and Membership Rules. The amended rules were effective from May 19, 2019 and were posted on Tadawul website.

### Moody's Investors Services Issued an Update on Its Credit Opinion Report on The Kingdom of Saudi Arabia Affirming 'A1' (Stable Outlook)

Moody's Investors services issued its regular update of its credit opinion report on The Kingdom of Saudi Arabia affirming 'A1' with stable outlook. The agency noted that "the stable outlook reflects our view that risks to Saudi Arabia's credit profile are broadly balanced. Positive developments could stem from the implementation of wide-ranging reforms that enhance competitiveness and private-sector employment while moving the budget towards balance as the government projects to happen by 2023."

The agency forecasted that Saudi GDP would grow by 2.5% each year for 2019 and 2020. Moody's also stated that plans to diversify The Kingdom's economy away from oil could contribute to the country's medium and long term economic growth. The agency also noted that "popular support for the government's ambitious reform momentum remains very high."

### For the First Time in KSA's history, the Finance Ministry has Successfully Issued SUKUK for 30 years in the Domestic Market

The debt management office at the Ministry of Finance has announced the successful issuance of SUKUK in the local market for 30 years, maturing in 2049. This exceeds by 15 years and 20 years compared with the maturity of last month issuance and the 2018 issuances, respectively. This issuance would also provide a new investment product in the local market and be valuable for long-term financing pricing in the Kingdom.

There was a huge demand for the issuance of 30 years, equivalent to SAR 9.25bn, which is close to 80% of the total April issuances. This clearly signifies investors' confidence in the Kingdom's economy and belief in Vision 2030.

### The Projects Support Fund was Established as a Stimulus Initiative to Support the Sustainability and Completion of Projects

The SAR 10.0bn Project Support Fund is focused on providing project financing support in the following sectors – Healthcare, Education, Tourism and Large Real Estate development.

The key objectives aimed under the Project Support Fund are: (1) Increasing private sector participation by providing loans to projects in priority sectors. (2) Maximize the economic impact through creation of jobs and localization. (3) Encourage economic diversification through financing projects in different regions of the Kingdom.

### SAMA Permits 14 New Companies to Join Sandbox Experimental Environment

The SAMA granted licenses to 14 new companies to work in the sandbox regulatory environment for offering financial technology services in the Kingdom, bringing the total number of companies to 21. The SAMA has recently designed a sandbox regulatory environment to understand and assess the impact of new technologies in the Saudi financial services and products market. It also aims to transform the Kingdom into an intelligent financial center, permitting domestic and international companies to test new digital solutions to be launched in the Kingdom. This forms part of the “Open Financial Services to new types of players” initiative of FSDP.

## Financial Sector Development Program KPI's

Program KPI's	Baseline	Status	2020 Target
Share of non-cash transactions (% of total transactions)	18%	23%	28%
# of adults with a bank account (%)	74%	-	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)	- -	45%(health) 75%(motor)
Assets under Management, as % of GDP	12%	16.5%	>=22%
Market concentration of top 10 companies by market cap, in %	57%	63.1%	55%
Institutional investors' share of value traded %	18%	49.9%	>=20%
Foreign Investor ownership of the equity market cap, in %	4%	7.46%	>=15%
# of micro and small cap companies listed, as % of total number of companies listed	34%	42.08%	>=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%	47.28%	>=45%
Total amount of savings held in savings products, B SAR	315	-	400
Number of available types of savings products, Absolute number	4	6	9
% of households savings on a regular basis	19%	-	29%
Share of A/C opened through eKYC %	-	3%	10%
Household savings ratio, % of disposable income	6.2%	-	7.5%

### 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

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