



Financial Sector
Development Program

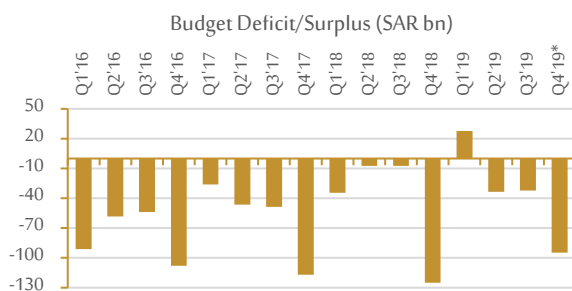
Financial Sector Development Program

Quarterly Newsletter Q4 2019

Key Highlights: Budget Deficit in Q4 2019, GDP grows by 0.3% in 2019

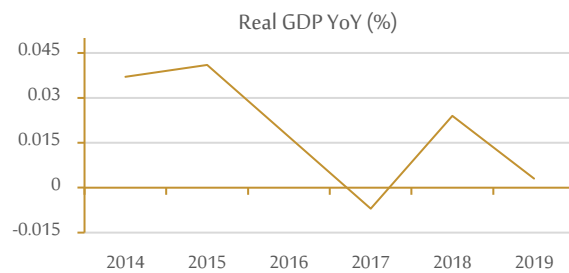
Q4 2019 Budget Highlights

- Saudi Arabia recorded a budget deficit of SAR 94.7bn in Q4 2019, compared to a deficit of SAR 124.9 bn in Q4 2018.
- Total revenue decreased by 12% YoY to SAR 213.5bn in Q4 2019 from SAR 242.5bn in the same period last year, where oil revenue declined 26% YoY to SAR 118.6bn, whereas non-oil revenue surged 14% YoY to SAR 94.9bn. Revenues from 'Taxes on Goods and Services' witnessed a 27% YoY growth to SAR 40.2bn.
- Total expenditure declined 16% YoY to SAR 308.3bn in Q4 2019.
- Public debt increased to SAR 677.9bn by the end of Q4 2019 from 655.6bn in Q3 2019.



2019 GDP Growth (%)*

- Real GDP grew 0.3% in 2019, down from 2.4% expansion recorded in 2018.
- The drop in GDP was driven by the oil sector, which shrank 3.6%, while the non-oil sector recorded a 3.3% growth in 2019(it's fastest rate since 2014).
- The non-oil sector accounted for 57.9% of total GDP in 2019, compared to 56.2% 2018 and 56.3% in 2017.
- The Ministry of Finance in its FY 2020 Budget Statement has estimated the real GDP annual growth of 2.3% for FY 2020.



* Based on Preliminary data

SAMA Exceeds Financial Sector Development Target on Electronic Payments in a Head of its Foreseen Date 2020

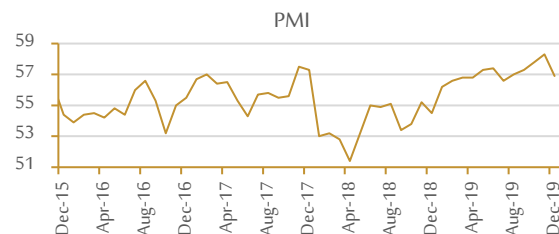
(SAMA revealed that the rate of electronic payments for the retail sector - Individual Retail Payments by the end of July 2019, amounted more than 36% of all payments available, including cash in the Kingdom, exceeding the target percentage of the financial sector development program. The program stipulates that the share of non-cash transactions should be increased by 28 % by 2020.

This achievement is based on SAMA's strategy for payment systems and the Financial Sector Development Program, which aims to enhance electronic payment and reduce cash handling to reach 70 percent of total payments in the Kingdom by 2030, for its many positive effects. These include providing customers with an excellent experience in facilitating payment processes, reducing cash transaction costs on the local economy, enhancing transparency in transactions, and direct impact on the efficiency of the national economy. The reduction of cash transactions is one of the most important strategic objectives that SAMA has been working on during the past period through the completion of several initiatives, projects and investments in the digital payments sector in line with the objectives of the financial sector development program.

SAMA clarified that within the framework of the importance of monitoring and measuring the performance of the payment systems strategy, it recently conducted a detailed and comprehensive study to review and develop indicators to measure the percentage of e-payment transactions of the total payments in the Kingdom, and included payment methods currently used in the individual sectors in accordance with international practices, in addition to Government and business payments sectors.

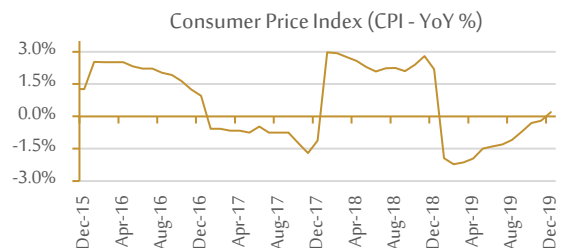
PMI Index

The Saudi Arabia Purchasing Managers' Index (PMI) slipped to 56.9 in December 2019 (its lowest reading in five months) from 58.3 in November 2019, weighed by slower output and new orders. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction.



Consumer Price Index (CPI)

The CPI increased 0.2% YoY in December 2019 after being in negative territory for eleven consecutive months. Restaurants & Hotels, Education and Food & Beverages saw 2.6%, 2.3% and 2.2% increase, respectively; while Housing, water, electricity, gas and other fuels declined 3.7% in December.

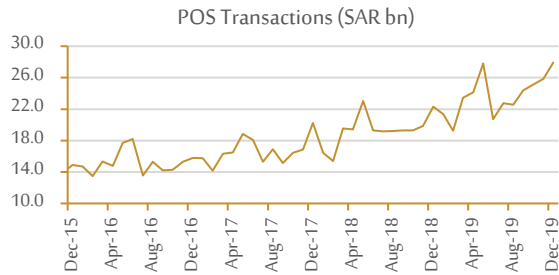


Macroeconomic and Financial Market

Macroeconomic Review

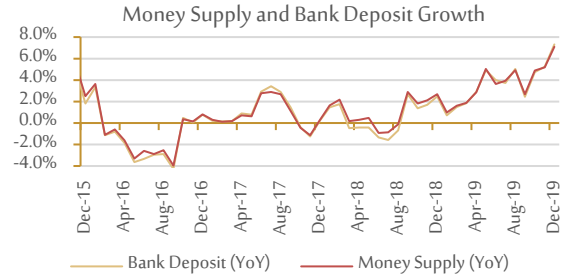
Points of Sale Transactions

POS transactions rose 25.1% YoY to SAR 27.9bn in December 2019 from SAR 22.3bn in December 2018. As the total amounts of POS operations reached SAR 78.9bn in Q4 2019 (up 28.3% YoY and 13.2% QoQ).



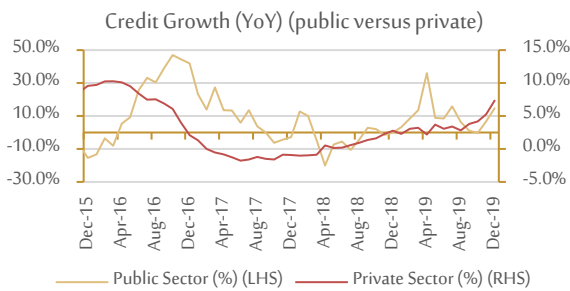
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased by 7.1% YoY in December 2019. Additionally, M1 grew by 5.5%, while Time and Savings deposits increased considerably by 13.2% on YoY basis. When total bank deposits rose by 7.3% YoY.



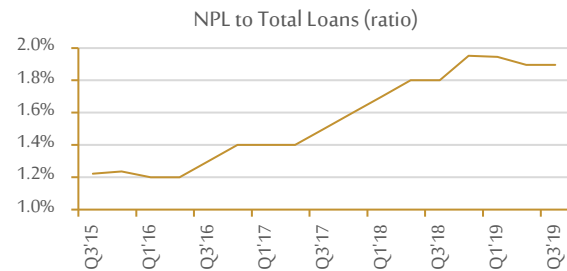
Credit Growth (%)*

Bank credit (public and private) grew 7.6% YoY in December 2019 and 3.4% on QoQ basis. Public sector credit increased by 14.7% YoY and 10.3% on QoQ basis. Bank credit to the private sector rose 7.3% YoY in December and 3.2% on QoQ basis.



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

NPL ratio remained stable for the third successive quarter at 1.9% in Q3 2019 (latest data available) compared to Q2 2019.

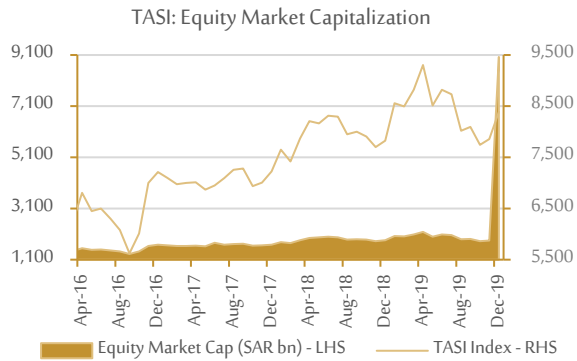


*Credit to public sector does not include Gov't & Quasi-Gov't bonds

Financial Market Overview

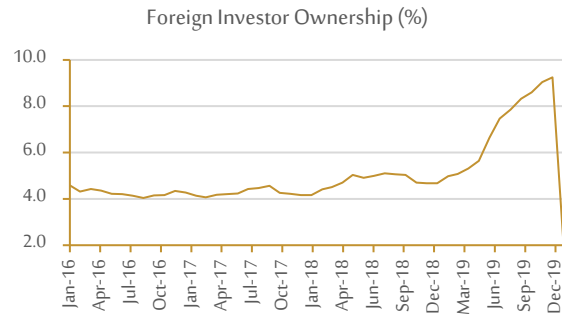
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) was the best performer among GCC equity indices in December 2019. It rose by 6.7% MoM and 7.2% on YTD basis. TASI's equity market capitalization surged to SAR 9,025bn in December 2019 from SAR 1,844bn in November 2019, led by Saudi Aramco listing during the month.



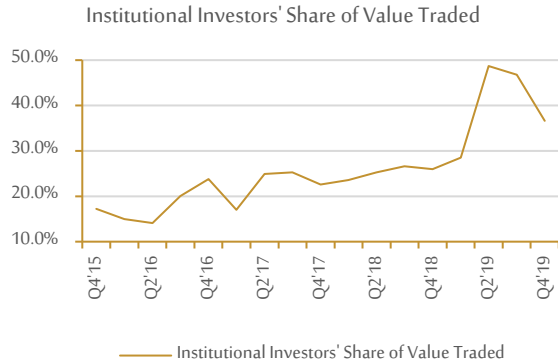
Foreign Investor Ownership

Foreign investors holding value increased by 16.0% the end of December 2019 to SAR 198.0bn compared to SAR 170.6bn in November 2019. Foreign investor ownership in Saudi stocks (excluding Aramco) increased from 8.6% in Q3 2019 to 9.3% by the end of Q4 2019. With the inclusion of Aramco shares foreign investor holding represent 2.2% due to the increase of the market value.



Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded declined in Q4 2019 to a quarterly average of 35.96%, compared to 47.8% in Q3 2019.



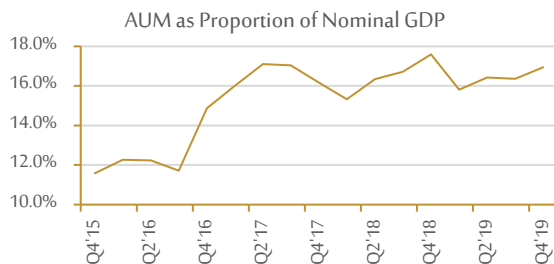
Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on the Tadawul increased significantly to 90.8% by the end of December 2019 with the listing of Saudi Aramco during the month. By the end of Q3 2019, the concentration stood at 61.4%.



Assets Under Management (% of GDP)

Assets under management (AUM) as a percentage of nominal GDP increased to 16.9% in Q4 2019 from 16.4% in Q3 2019. AUM rose 10.0% on YoY basis.



Financial Sector Development Highlights

The Capital Market Authority Announces the Adoption of the Amended Rules on the Offer of Securities and Continuing Obligations

The Capital Market Authority (CMA) Board has adopted the amended Rules on the Offer of Securities and Continuing Obligations (the Rules). Initiated on 1/1/2020. One of the amendments that have been adopted to the Rules will allow foreign issuers to list their shares on the main market. And allow all foreign segments investors to invest directly in the foreign issued shares listed on the main market. In addition, the imposed restricted investment rules by CMA's regulations will not be obligatory to the investments made by foreign investors in the listed foreign companies in the main market.

On the other hand, amendments aim also at developing the Parallel Market (Nomu) and promoting the trading and listing in the market allowing the direct listing in the Parallel Market. Also, the amendments included the expansion of listing so that it is not limited to expert investors. This is in continuance to the CMA's effort to regulate and develop the capital market, in addition to deepening it and promoting its role in the attractiveness of the market. In line with the Financial Sector Development Program objectives.

The Capital Market Authority (CMA) Opens the Door to Apply for a Financial Technology Experimental Permit (FinTech ExPermit) for the 3rd Batch

The CMA welcomed applications for the 3rd batch for the FinTech ExPermits effective from 01/12/2019 through 30/01/2020. The CMA looks forward to receiving new models in this batch, these include facilitating the distribution of investment products and increasing the efficiency of services provided to investors. The Authority had previously announced the opening of the first batch of applications in February 2018 and had received a number of FinTech applications. It had granted the FinTech ExPermit to two applicants to create an equity crowdfunding platform. The second batch of FinTech applications opened in October 2018. The CMA had again received a number of applications and had so far granted the FinTech ExPermit to six applicants to create an equity crowdfunding platform, as well as a robo-advisory platform.

This initiative aims at enhancing the innovation and development of technology in the financial market and providing a supportive regulatory framework for the participants to conduct their work efficiently in light of the rapid development in the exploitation of financial technology (FinTech) associated with the securities business in the Kingdom; and to find new financing and investment means for entrepreneurs and investors based on the strategy of the CMA in facilitating financing and stimulating investment under the umbrella of the Financial Sector Development Program (FSDP).

Listing and Trading Government Debt instruments in the Saudi Stock Market

The Saudi Stock Exchange Company (Tadawul) approved during the fourth quarter of 2019 the request submitted by the Ministry of Finance to list debt instruments issued by the government of the Kingdom of Saudi Arabia in accordance with the listing rules with a total value of (1,783,900,000) riyals. And the inclusion of government debt instruments from a previously listed category with a total value of (11,994,561,000) riyals.

The Financial Academy Has Signed Agreements and Memoranda of Cooperation with a Number of Entities

The Financial Academy – an initiatives of the Financial Sector Development Program - and the Human Resources Development Fund (HadaF) signed a memorandum of cooperation to train and qualify national cadres in the financial industry and prepare them for the labor market. This will be done through the establishment of specialized electronic training programs on the "Droop" platform as the national electronic training platform. The Financial Academy has signed an agreement with The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to host their professional examinations at FA in Riyadh, Jeddah, Dammam, and Abha.

Further, within the Sustainability and Empowerment Program, a partnership agreement was signed between the Financial Academy and the General Authority for Awqaf to empower the profitable sector through training and developing employees in Awqaf sector. The Financial Academy (FA) and the IE Business school has signed a memorandum of understanding (MOU) for providing high end, cutting edge, professional trainings in the field of Finance, Banking, Capital Market and insurance, through their international professional's lecturers to the market to increase the financial knowledge and efficiency for the executives in the Kingdom of Saudi Arabia.

The Governor of SAMA Thanks the Leadership for Approving the Establishment of the Saudi Payments Company

The Governor of the Saudi Arabian Monetary Authority (SAMA), Dr. Ahmed bin Abdulkarim al-Kholifey, thanks the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and His Royal Highness Prince Mohammed bin Salman, Crown Prince and Deputy Prime Minister and Minister of Defense for the cabinet approval of SAMA's request to establish Saudi Payments Company.

The establishment of the company is in accordance with international best practices, which usually entrust the preparation and operation of payment infrastructure services to national companies. Whereas central banks contribute in establishing the infrastructure with the aim of linking local and international payment service providers from licensed banks and companies with payment networks and systems.

It is worth mentioning that the payments sector in the Kingdom has witnessed remarkable developments during the past 30 years. SAMA has constantly worked with the financial sector to develop national payment systems in accordance with the latest technical standards and international best practices. SAMA worked as well within the Financial Sector Development program on several initiatives aimed at accelerating innovation and developing the sector.

SAMA Launches Draft "Payment System and Services in the Kingdom" For Public Feedbacks

The Saudi Arabian Monetary Authority (SAMA) announces the launch of the draft payment system and services in the Kingdom, calling on the public and interested parties - in order to enhance the principle of transparency and participation - to give their comments and views on the project.

SAMA explained that the project aims to develop a regulatory framework for the payment infrastructure to keep pace with developments in the field of payments and raise the level of efficiency and flexibility of financial transactions, and promote innovation in financial services in accordance with international standards and to ensure the stability of the financial sector and fair transactions. This is in order to achieve the aspirations of the Kingdom Vision 2030. SAMA stated that it took into account the preparation of the draft payment system and services in the Kingdom, international best practices in the field.

SAMA Holds a Workshop on "Facilitating the Application of Islamic Financial Services Board Standards"

The Saudi Arabian Monetary Authority (SAMA), in cooperation with the Islamic Financial Services Council, held a training workshop entitled (Facilitating the application of the standards of the Islamic Financial Services Council).

The workshop aims to discuss the Islamic Financial Services Board standards related to the banking sector such as the standard of capital adequacy requirements and risk management, and the basic Islamic banking principles of control related to investment accounts in the Islamic banks. Additionally, it reviews the guidelines issued by the Islamic Financial Services Board regarding investment accounts in Islamic banks and the mechanism to promote and protect the rights of the holders of these accounts. The workshop will enhance participants' understanding of Islamic banking standards and guidelines and exchange experiences among Gulf and Arab central banks involved in the implementation of the IFSB standards. This comes as part of a series of workshops sponsored by SAMA aimed at building competencies in Islamic finance locally and internationally and promote Kingdom's pioneer status in this industry where the Islamic banking in Saudi Arabia represents about 20.2% of the assets of the Islamic banking industry globally.

Within the Initiatives of the Saudi-Emirati Coordination Council - the Inauguration of the First Saudi and UAE Banks Conference to Discuss Challenges and Opportunities of the Banking Sector

On 24th November, 2019, the first joint conference of Banking Officials in Saudi Arabia and the United Arab Emirates was launched. It was organized by SAMA in cooperation with the Central Bank of the United Arab Emirates in Riyadh.

His excellency, Dr. Kholifey, pointed out that the conference is an opportunity for bank officials in the two countries to discuss and identify the main challenges and opportunities in areas that have become of high importance at the international level and have an impact on the banking sector. The vision of the Saudi-UAE Coordination Council is to create an exceptional model of integration and cooperation between the countries at the regional and Arab levels through the implementation of joint strategic projects for the happiness and prosperity of the peoples of both countries. One of the most important objectives that SAMA seeks to achieve within the framework of the Financial Sector Development Program; is to reduce dependence on cash circulation, through the continuous development of the infrastructure of national payment systems in order to facilitate the transition to a digital environment for payments, which is pouring directly to encourage a non-monetary society.

SAMA Launches a Draft "Regulation for the Provision of Payment Services in the Kingdom", Inviting Comments Thereupon

The Saudi Arabian Monetary Authority SAMA" announces the launch of a Draft Regulation governing the Provision of Payment Services, in-line with its efforts to achieve the objectives of the Financial Sector Development Program, in enabling financial institutions to support private sector growth by opening financial services to non-banking actors (payment services providers and financial technologies), supporting development of the national economy.

It also aims to support the achievement of "SAMA's strategic goals" in promoting financial inclusion and reliance on technology in the field of payments to reduce cash transactions, as well as regulating the payments sector and coping with developments in it according to international best practices. Upon preparing the Draft Regulation for the provision of payment services in the Kingdom", SAMA has conducted studies and made similar comparisons with some countries within the Group of Twenty, in addition to holding workshops, meetings and discussions in cooperation with the relevant consultation offices and the participation of members, relevant bodies, and global payment service providers.

Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2020 Target
Share of non-cash transactions (% of total transactions)	16%	36%	28%
# of adults with a bank account (%)	74%	-	80%
# of Fintech players	-	4	3
SME loans as % of bank loans	2%	5.7%	5%
Coverage ratio of insurance schemes,%	38%(health) 45%(motor)	- -	45%(health) 75%(motor)
Assets under Management, as % of GDP	12%	16.94%	>=22%
Market concentration of top 10 companies by market cap , in %*	57%	60.32%	55%
Institutional investors' share of value traded %	18%	35.96%	>=20%
Foreign Investor ownership of the equity market cap , in %*	4%	9.35%	>=15%
# of micro and small cap companies listed, as % of total number of companies listed	34%	40.68%	>=40%
Share of investment accounts opened through eKYC	-	89%	10%
Minimum free float of equity market cap., in % of total outstanding shares*	46%	55%	>=45%
Total amount of savings held in savings products, B SAR	315	-	400
% of households savings on a regular basis	19%	-	29%
Share of A/C opened through eKYC %	-	2%	10%

*Excluding Aramco

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 fsvp@mof.gov.sa or for more information, please visit <https://vision2030.gov.sa/en/FSDP>

