



**Financial Sector
Development Program**

Financial Sector Development Program

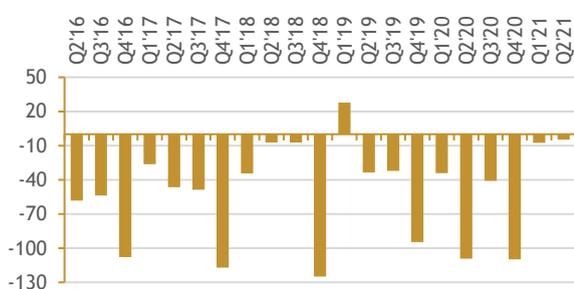
Quarterly Newsletter Q2 2021

Key Highlights: Budget deficit in Q2 2021, GDP declined 3.0% in Q1 2021

Q2 2021 Budget Highlights

- Saudi Arabia recorded a budget deficit of SAR 4.6bn in Q2 2021, compared to a deficit of SAR 109.2bn in the same period last year.
- Total revenue increased 85% YoY to SAR 248.1bn in Q2 2021, from SAR 133.9bn in the same period a year ago.
- Oil revenues increased 38% YoY to SAR 132.2bn, while non-oil revenues surged 203% YoY to SAR 116bn in Q2 2021. Revenues from 'Taxes on Goods and Services' witnessed a 543% YoY growth to SAR 68bn in Q2 2021.
- Total expenditure increased by 4% YoY to SAR 252.7bn in Q2 2021, from SAR 243.2bn in the same period last year.
- Public debt increased to SAR 922.8bn by the end of Q2 2021 from SAR 853.5bn by the end of FY 2020.

Budget Deficit/Surplus (SAR bn)



Council of Economic and Development Affairs Sheds Light on the Kingdom's Vision 2030's Most Important Achievements Five Years After its Inception

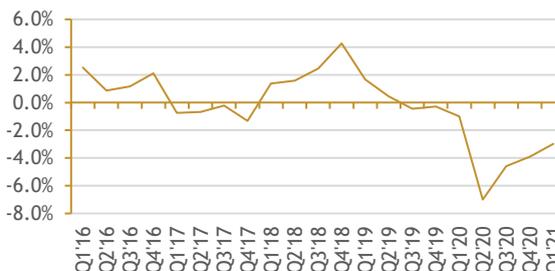
Conveying his gratitude to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud, for the special care and great support he is providing to the Kingdom's Vision 2030, His Royal Highness Crown Prince Mohammed bin Salman bin Abdulaziz, Deputy Prime Minister and Chairman of the Council of Economic and Development Affairs, confirmed that the Vision 2030 programs have made great strides and addressed structural challenges within only five years.

His Royal Highness also expressed his appreciation for the efforts of all governmental authorities for overcoming many challenges in recent months, praising the invaluable experiences gained which enhanced confidence in achieving the objectives of the vision. HRH also confirmed that much more remains to be done on various fronts to achieve Vision 2030's goals.

Q1 2021 GDP Growth (%)

- Real GDP (at 2010 constant prices) declined 3.0% YoY in Q1 2021.
- The decline was largely driven by 11.7% drop in the oil sector, while the non-oil sector recorded a 2.9% positive growth during the quarter.
- The non-oil sector accounted for 62.8% of total GDP in Q1 2021, compared to 60.5% in Q4 2020.

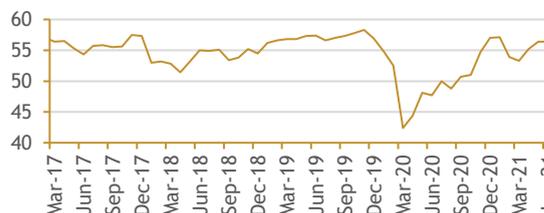
Real GDP YoY (%)



PMI Index

The Saudi Arabia Purchasing Managers' Index (PMI) remained unchanged in June at 56.4 from May. Output continued to rise sharply, while new orders increased at a rapid rate since January. Employment has increased at the fastest rate since November 2019. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction.

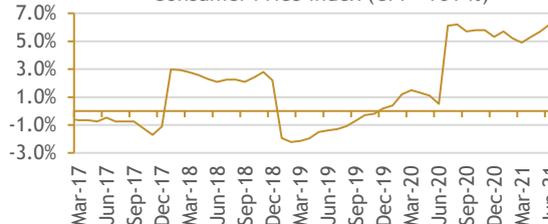
PMI



Consumer Price Index (CPI)

The CPI increased 6.2% YoY in June 2021. Transport and Communication segment prices witnessed an increase of 22.6% and 13.2%, respectively. Consumer prices continue to reflect the increase of the value-added tax (VAT) from 5% to 15% in July 2020. Education segment prices declined the most, down by 9.1% YoY in June 2021.

Consumer Price Index (CPI - YoY %)

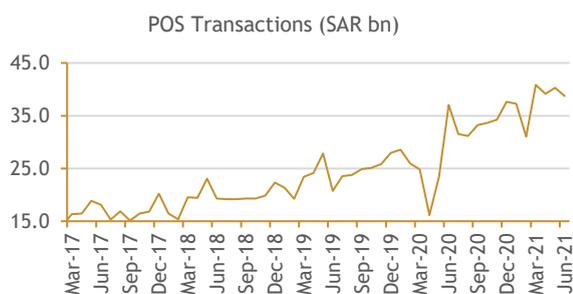


Macroeconomic and Financial Market

Macroeconomic Review

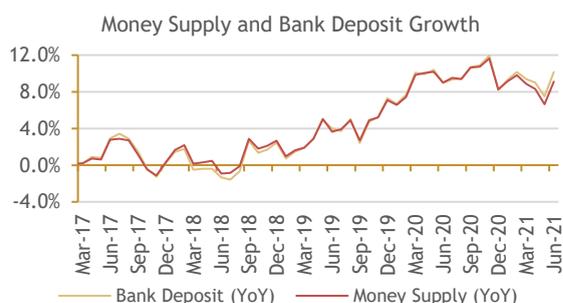
Points of Sale Transactions

POS transactions rose 4.6% YoY to SAR 38.7bn in June 2021 from SAR 37.0bn in June 2020. In Q2 2021, the total amount of POS transactions reached SAR 118.1bn (up 54.1% YoY and 8.2% QoQ).



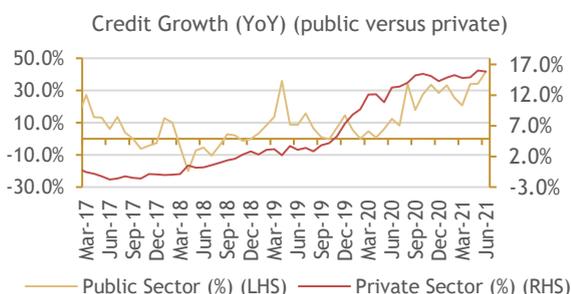
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 9.1% YoY in June 2021 and was up 2.4% on QoQ basis. M1 grew 8.2%, while Time and Savings deposits rose by 0.4% on YoY basis. Total bank deposits grew 10.2% YoY and 2.5% on QoQ basis in June 2021.



Credit Growth (%) *

Bank credit (public and private) grew 16.8% YoY in June 2021 and 4.0% on QoQ basis. Public sector credit increased 41.7% YoY and 23.2% on QoQ basis. Bank credit to the private sector rose 15.8% YoY and 3.2% on QoQ basis in June 2021.



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

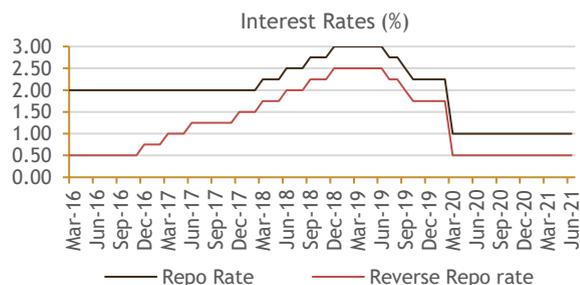
Non-performing Loans as portion of Total Loans

NPL ratio remained stable for the third successive quarter at 2.2% in Q1 2021.



Interest Rates

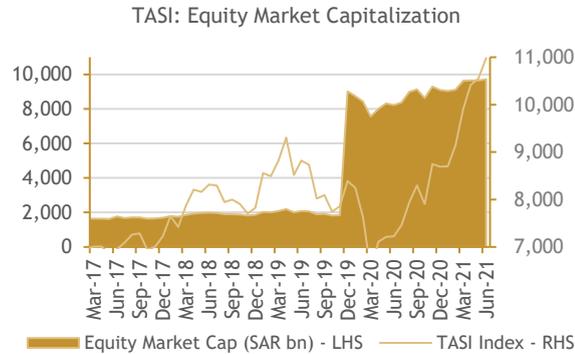
SAMA kept the repo and reverse repo rate unchanged during Q2 2021. The rates were last reduced in March 2020 by 125 bps. Policy rate adjustments are consistent with maintaining monetary stability.



Financial Market Overview

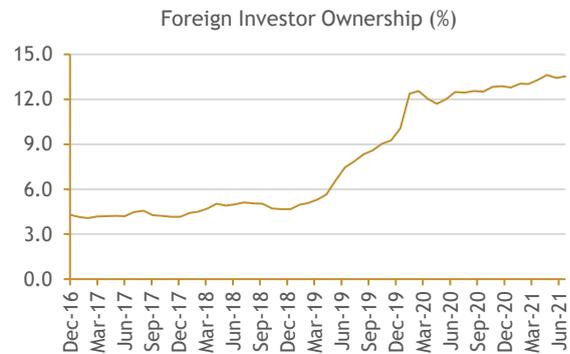
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) gained 4.1% MoM in June and 26.4% on YTD basis. TASI's equity market capitalization stood at SAR 9,722bn in June 2021, up 0.9% from SAR 9,632bn in March 2021.



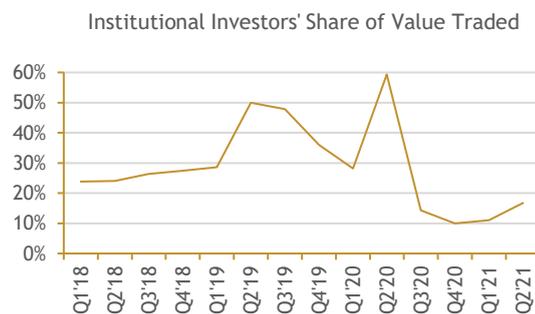
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks increased to 13.5% (free float) in June 2021 from 13.3% recorded in March 2021. On MoM basis, foreign investors holding value rose 4.6% to SAR 276.1bn as of June, from SAR 264.0bn in May.



Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded increased in Q2 2021 to a quarterly average of 16.1%, compared to 11.1% in Q1 2021.



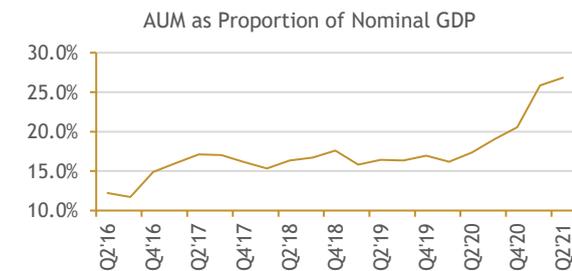
Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on Tadawul dropped to 88.2% by the end of June 2021, compared to 89.1% recorded at the end of March 2021.



Assets Under Management (% of GDP)

Assets under management (AUM) as a percentage of nominal GDP increased to 26.8% in Q2 2021 from 25.9% in Q1 2021. AUM rose 36.5% YoY and 3.7% on QoQ basis.



Financial Sector Development Highlights

Minister of Finance and SAMA Governor thank the Leadership for the Cabinet's Approval to License Two Local Digital Banks

Minister of Finance Mohammed Al-Jadaan, Chairman of the Financial Sector Development Program, and the Governor of the Saudi Central Bank, Dr. Fahad bin Abdullah Al-Mubarak, expressed gratitude and appreciation to the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, and His Royal Highness Prince Mohammad bin Salman, Crown Prince, Deputy Prime Minister and Minister of Defense, for the Cabinet's approval to license two local digital banks. First, STC Pay will be converted into a local digital bank, with a capital of SAR 2.5 billion (STC bank). Second, a number of companies and investors, led by Abdul Rahman bin Saad Al-Rashed and sons Company, will establish a local digital bank to conduct banking business in the Kingdom, with a capital of SAR 1.5 billion (Saudi Digital Bank).

Al-Jadaan noted that the cabinet's approval reflects the leadership's keenness to keep pace with the rapid development in the FinTech sector and to empower the Kingdom to be among the largest financial hubs in the world. He added that the Financial Sector Development Program, one of the Kingdom's Vision 2030 realization programs, seeks to keep pace with global developments in the financial services and FinTech during 2021-2025 to underpin economic diversification.

On his part, SAMA's Governor clarified that with the approval of the Council of Ministers, the Saudi Central Bank will recommence its work to finalize technical and operational requirements for the two banks to start their banking activities in the Kingdom. The Governor drew attention to the fact that digital banks are subject to supervision and controls applied currently to commercial banks operating in the Kingdom, with an increased focus on aspects of technology, cyber security, anti-money laundering, tracking terrorist financing as well as operational risks.

Al-Mubarak pointed out that digital banks provide services and products exclusively through electronic channels by adopting an innovative and sustainable banking business model to enhance the financial inclusion and keep pace with cutting edge technological developments in the financial sector.

The Saudi Central Bank's Governor Honors the Merged Insurance Companies

The Saudi Central Bank's governor, Dr. Fahad Abdullah Al-Mubarak, Honored the merged insurance companies honored the two board chairs of Al-Jazirah Takaful Tawuni and Solidarity Saudi Takaful after their recent merger, in the presence of the CEO of the newly formed company. This the third merger in the insurance sector was preceded by the merger of Wala cooperative insurance and MetLife and the American international Group and the Arab National Bank on one hand and the Gulf Union and Al-Ahlia on another.

Al-Mubarak explained that such merges reflect a positive indication that the plans and targets of the Central Bank are on track and moving in the right direction. Not to mention that all efforts, which were made to develop the insurance sector and raise its operational efficiency and financial solvency by encouraging capital increase resulted in three mergers within nearly a year. Whereas mergers and acquisition are among the most important utilized tool.

Al-Mubarak stated that the central bank will continue to encourage the insurance companies for further mergers and acquisitions in order to realize goals and programs of the Financial Sector Development Program as part of the Kingdom's Vision 2030. The insurance sector is one of the most important sectors for its role in bearing the burden of accepting risks facing the national economy and contributing to its stability and growth. In this regard, Al-Mubarak indicated that initiatives by the Financial Sector Development Program included an ambitious initiative to encourage and facilitate mergers within the insurance sector for the aim of achieving sustainability, stability, durability and growth, as well as increasing its contribution to the GDP by diversifying its products and digitizing it and enhancing innovation and competition in the sector.

The Saudi Central Bank Issues Two Hundred Saudi Riyal Banknote On the Occasion of the Five-Year Anniversary Of Launching "Kingdom's Vision 2030"

The Saudi Central Bank announces to the public its intention to issue a Two-Hundred denomination of the Saudi currency, on the occasion of the Five-year Anniversary of launching "Kingdom's Vision 2030", in the reign of the Custodian of the Two Holy Mosques King Salman bin Abdul Aziz Al Saud (may Allah protect him). This issue is based on Article No. (4), of Saudi Monetary Law issued by Royal Decree No. (6), dated on 1379/7/1 AH.

In this regard, the Saudi Central Bank stated that the Two-Hundred Saudi Riyal Banknote entered in circulation on Sunday 1442/9/13 AH, corresponding to 25/4/2021 AD, along with other current banknotes in all denominations as official legal tender.

The Central Bank stated that the new Two-Hundred denomination was printed according to the latest standards in the field of banknote printing. The new denomination is characterized by various technical specifications, high-quality security features, distinctive design, and attractive colors, which highlight the design of this denomination. Noting that the new banknote comes in gray color with a picture of the founder King Abdul Aziz Al Saud (may Allah have mercy on him) on the front of the banknote, the logo of the Kingdom's Vision 2030 in 3D design, in addition to the Saudi Central Bank name, and the banknote value in the Arabic letters and numbers. The back of the banknote carries an image of 'Qasr Al Hukm' in Riyadh City, the Saudi Central Bank name, and the banknote value in the English letters and numbers.

The Capital Market Authority announces the Approval on the Initial Public Offering of several companies

The Capital Market Authority "CMA" Board has issued several resolutions dated 28/06/2021G approving Banan Real Estate Company and Canadian Medical Center Company, "the Company," applications for registration of their shares for direct listing in the parallel market. CMA has also approved Mataam Bayt AlShatira Lilwajbat Alsariya (Burgerizzr) Company's "the Company" application for the offering of the Company's share capital in the Parallel Market.

The Board also issued a resolution approving four companies' applications for registration and offering of shares for public subscription in the main market.

- Arabian Internet and Communications Services Company
- Arabian Contracting Services Company
- Tanmiah Food Company
- International Company for Water and Power Projects' (ACWA POWER)

Announcement from the Capital Market Authority regarding the obligation to deposit and disclose privately placed debt instruments

As part of the CMA pursuit to develop the Debt instruments market in line with the initiatives of the "Financial Sector Development Program" one of the main programs to achieve the Saudi Arabian Vision 2030 and in continuation to CMA's role in regulating and developing the capital market.

The CMA Board has issued its resolution obligating issuers of Saudi riyal-denominated privately placed debt instruments offered in accordance with the Capital Market Law and its Implementing Regulations by Saudi Joint Stock Companies and affiliate Special Purposes Entities, to deposit local issuances with the Securities Depository Center Company (Edaa), provided that this takes effect from the date 23/02/1443H corresponding to 01/10/2021G. The mentioned CMA Board resolution also obligated Authorised Persons of whom private placements of Saudi riyal-denominated debt instruments are made or will be made through for Saudi Joint Stock Companies and affiliate Special Purposes Entities to disclose the issuance profile for the debt instruments offered on the website of the Saudi Stock Exchange (Tadawul), starting from 23/02/1443H corresponding to 01/10/2021G.

A continuation of the efforts made by the Capital Market Authority to develop the capital market, and to motivate investors and issuers of debt instruments by enhancing transparency and liquidity and raising the attractiveness and efficiency of the market.

The Capital Market Authority Approves the Merger of SAMBA Capital & Investment Management Company into NCB Capital Company

Based upon the Capital Market Law issued by Royal Decree No. (M/30) dated 02/06/1424H and its Implementing Regulations, The Board of the Capital Market Authority issued its resolution to approve the merger of SAMBA Capital & Investment Management Company as the merged company into NCB Capital Company as the merging company, and the cancellation of the license granted to SAMBA Capital & Investment Management Company.

Listing and Trading Government Debt Instruments in the Saudi Stock Exchange

Tadawul has approved through Q2 2021 the listing request of the debt instruments, issued by the government of the Kingdom of Saudi Arabia submitted by the Ministry of Finance as per the Listing Rules with a total value of SAR (4,650,000,000) and listing of the debt instruments from a class already listed with a total value of SAR (7,145,000,000).

Edaa Announces the Approval of International Central Securities Depositories Instructions and the Activation of the Linkage with the International Central Securities Depository “Clearstream”

The Securities Depository Centre Company (Edaa) announces the issuance of the Capital Market Authority’s Board resolution approving the international central securities depositories instructions.

These instructions regulate the linkage application process and its conditions, related Depository Centre accounts, and additional general provisions. Through these changes, Edaa aims to develop consistent regulatory environment with the international best practices and to raise the efficiency and attractiveness of the Capital Market towards foreign investors.

The Securities Depository Center Company (Edaa) announces the activation of the linkage with Clearstream, the post-trading services provider of Deutsche Börse Group, to allow international investors to benefit from the services of the International Securities Depository Center (ICSD).

Saudi Arabia Ranks First Worldwide in Government and Entrepreneurs Response to COVID-19 Pandemic, GEM Reports

The Kingdom of Saudi Arabia ranked first worldwide in the government response to the Novel Coronavirus (COVID-19) and entrepreneurs’ response to COVID-19, while ranked 7th in entrepreneurial progress globally, according to the Global Entrepreneurship Monitor (GEM) report for 2020/2021. The report was issued in cooperation with Prince Mohammed bin Salman College of Business and Entrepreneurship (MBSC) and Babson Global Center for Entrepreneurial Leadership (BGCEL).

Governor of the Small and Medium Enterprises General Authority (Monsha’at) Eng. Saleh Bin Ibrahim Al-Rasheed affirmed that this achievement reflects the tremendous impact of the Kingdom’s Vision 2030 on small and medium enterprises and entrepreneurs. He added that the vision provided an ideal business environment characterized by flexibility and the ability to face challenges.

According to GEM’s report, the Kingdom has jumped to 1st place worldwide at the ease of starting-up business index after it was ranked 22nd. This jump reflects the essential reforms in the entrepreneurship environment to business start-up procedures. Also, the Kingdom ranked 1st at good opportunities to start a business in my area index up from 6th previously.

After having been ranked 19th in the financial leadership index, the Kingdom jumped to 3rd place due to the increase of financing opportunities of all kinds for emerging companies in the local market. The Kingdom has jumped from 35th place to 2nd in the physical infrastructure index due to easy access to many services such as office spaces, commercial sites, the Internet, and public services.

National Debt Management Center Wins Two GlobalCapital Awards for Second Year Running

The National Debt Management Center (NDMC) was awarded for the second time in a row the “Most Impressive Emerging Market Issuer” and the “Most Impressive Middle East Sovereign Issuer” rewards at the 2021 GlobalCapital Bond Awards.

The awards come after the NDMC’s swift response during the unprecedented levels of market and commodity fluctuations and the instability of the global economy, especially under the impact of the pandemic. The rapid reaction is attributed to the Ministry of Finance and its commitment to implemented policies ensuring fiscal and economic stability of the Kingdom.

The awards demonstrate the efforts exerted by the Saudi government in developing the Saudi Debt Market, the increased global confidence in the Saudi economy and the positive view of the future of Saudi’s financial sustainability. In addition, the continued international demand for Saudi Sukuk and Bonds has greater depth in promoting the Kingdom’s financial position globally.

The GlobalCapital Bond Awards commend the achievements of governments and outstanding enterprises of various sizes in the scope of sovereign and regional finance, banking services, hedge funds, wealth management, assets, real estate assets, as well as other areas within the financial services sector. The GlobalCapital also highlights the most prominent innovations and achievements within the global financial services sector.

Under the auspices of the Minister of Finance, NDMC launches Its Identity and official logo

Under the auspices of the Minister of Finance the Chairman of NDMC’s Board of Directors, Mr. Muhammad bin Abdullah Al-Jadaan, the National Debt Management Center launches Its New Brand Identity and official logo in a virtual ceremony held this morning. The ceremony also included the launch of the center’s official website to be on the link www.ndmc.gov.sa in addition to its official accounts on social media networks (Twitter - LinkedIn - YouTube) with the identifier (@SaudiNDMC)

On this occasion, His Excellency Mr. Mohammed Al-Jadaan, said that the National Center for Debt Management, that classified as one of the national entities supporting the programs of the Kingdom’s Vision 2030, is one of the developed and successful debt centers in the region with its exceptional achievements in the international debt market and its active contributions to the local debt market and in addition to its role in securing the Kingdom’s financing needs in accordance with the objectives of the fiscal policy and the public debt strategy, the center contributes significantly to achieving a sustainable financial policy and achieving public financial sustainability, which reflects the stability of the Kingdom’s economy and financial strength.

Council of Economic and Development Affairs Sheds Light on the Kingdom's Vision 2030's Most Important Achievements Five Years After its Inception

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The Council of Economic and Development Affairs has reviewed the achievements of the Kingdom's vision after five years of its inception. The vision has focused over the past five years on establishing an empowering infrastructure, building the institutional and legislative structures, establishing general policies, and supporting initiatives. The next phase of the vision will focus on the continuation of implementation, ensuring greater participation by citizens and the private sector.

Moody's updates Saudi Arabia's Credit rating to A1

The international credit rating agency "Moody's" updates that Saudi Arabia's credit rating remain at "A1", with a negative outlook as a result of the external shocks due to the global crisis of the spread of Covid-19.

The agency stressed in its report that the structural reforms in the Kingdom led to narrowing the fiscal deficit in the first quarter of this year, adding that the non-oil sector continues to recover, backed by the strong growth of infrastructure of real estate products.

The agency also said that plans to diversify the economy in the Kingdom will contribute to raising growth in the medium to long term, in addition to the structural and organizational reforms that supported improvement in the competitive ability. The Kingdom of Saudi Arabia improved in 9 out of 10 areas measured by the Doing Business 2020 report, and its rank increased to 62 in 2020 from 82 in 2016 among the 190 assessed countries.

Moody's expects Saudi real GDP growth to reach 1.6% and 5% in 2021 and 2022, respectively.

On the public finance front, the agency lowered its forecast for 2021 budget deficit from 6.2% to 4.7% as a percentage of GDP. It expected the current account surplus for the current year to reach about 3.4% of GDP compared to the previous forecast of 2.9% in its last report. The agency also predicted that the Kingdom's public debt as a percentage of GDP would reach 30.6% and 30.9% in 2021 and 2022, respectively.

On the level of the Kingdom's general budget, the agency confirmed that the budget figures revealed a clear structural improvement represented in the reduction of the non-oil public finance deficit to its lowest level in more than 6 years.

Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2025 Target
Share of non-cash transactions, %	36%	-	70%
Banking sector assets, B SAR	2,631	3,114	3,515
Total GWP to GDP non-oil, %	1.9%	1.82%	2.4%
Life GWP per capita, SAR	33.16	23.5	45
Coverage ratio of Health insurance schemes, %	33%	29.5%	45%
Coverage ratio of Motor insurance schemes, %**	39.6%	48.2%	77%
Value of investments in private equity and venture capital, M SAR	9,304	11,585.84	11,404
# of Fintech players	-	16	30
SME loans as % of bank loans	5.7%	8.1%	11%
Credit to private sector, Bn SAR	1,510	1,889	2,053.2
Number of listings in Capital Market	6	5	26
Assets under Management, as % of GDP	16.94%	26.8%	31%
Debt as % of GDP	14%	26.99%	24.1%
Total market capitalization (shares) as % of GDP*	66.52%	103%	80.8%
Institutional investors' share of value traded %	35.96%	16.1%	44%
of micro and small cap companies listed, as % of total number of companies listed #	40.90%	11.4%	46%
Foreign Investor Ownership of the equity market cap (free float), in %	13.3%	13.5%	17.5%
Share of investment accounts opened through eKYC	82%	95%	=>70%

*Excluding Aramco

**As per SAMA's data



Financial Sector Development Program

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 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>