



Financial Sector
Development Program

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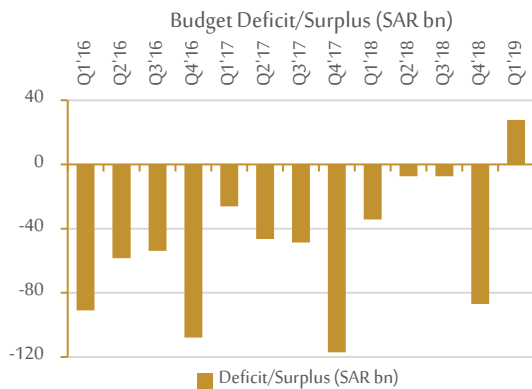
Quarterly Newsletter Q1 2019

VISION رؤية
2030

Key Highlights: Budget Surplus in Q1 2019, Q4 2018 GDP growth rate 3.6% YoY

Q1 2019 Budget Highlights

- Saudi Arabia recorded a budget surplus of SAR 27.8bn in Q1 2019, the first surplus since 2014.
- Total revenue increased 48% YoY to SAR 245.4bn in Q1 2019.
- Oil revenues grew 48% YoY to SAR 169.1bn and non-oil revenues increased 46% YoY to SAR 76.3bn in Q1 2019.
- Total expenditure rose 8% YoY to SAR 217.6bn in Q1 2019.
- Among expenditures, subsidies increased 244% YoY to SAR 10.3bn in Q1 2019.
- Public debt has increased to SAR 610.6bn in Q1 2019 from SAR 559.9bn in Q4 2018.
- Ministry of Finance's Budget Statement expects total revenue of SAR 975.3bn and total expenditure of SAR 1,106bn in FY2019.
- Total expenditure of SAR 217.6bn in Q1 2019 accounted for 20% of the SAR 1,106bn total expenditure budgeted in FY2019.

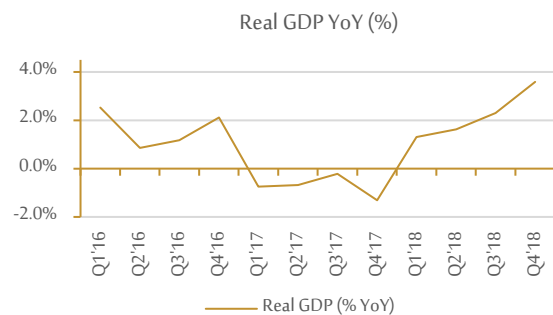


MSCI and Tadawul Tradable Index Goes Live with MSCI Tadawul 30 Index (MT30) Comprised Of 30 Largest Saudi Stocks

The Saudi Stock Exchange (Tadawul) and MSCI Inc. announced the launch of the MSCI Tadawul Index 30 (MT30), a tradeable index. The index initially includes Saudi Arabia's 30 largest securities based on free float market capitalization, screened for liquidity and international investability. It will be rebalanced four times a year and the number of securities in the index may vary within a range of 25-35. The index will serve as a benchmark of the largest liquid companies in Saudi Arabia, becoming the basis for development of an index futures contract to be listed on Tadawul. The index can be licensed for other index linked financial instruments including, mutual funds, derivatives, and exchange-traded products.

Q4 2018 GDP Growth (%)*

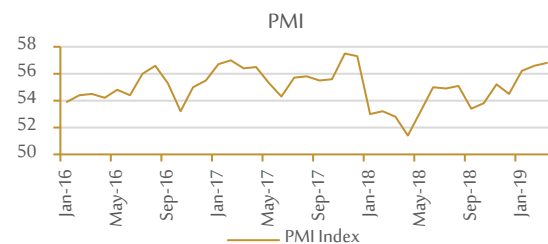
- Saudi Arabia's real GDP grew 3.6% YoY in Q4 2018, the highest growth rate achieved since Q4 2015 (4.3% YoY). GDP growth continued the uptrend witnessed since Q4 2017.
- GDP growth was driven by the oil sector, which increased 6.0% YoY in Q4 2018. The non-oil sector recorded 2.0% YoY increase during the quarter.
- Ministry of Finance's Budget Statement 2019 expects GDP growth at 2.6% YoY in 2019.



* Based on Preliminary data

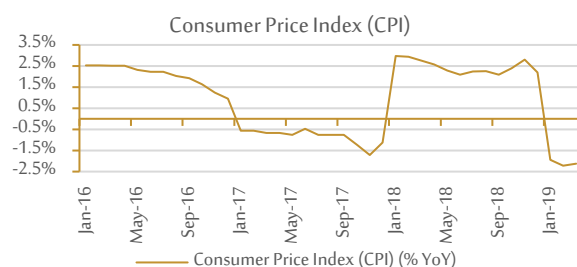
PMI Index

The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) rose marginally to 56.8 in March 2019 from 56.6 in February 2019 driven by quicker pace of growth in new orders. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction. On a quarterly basis, the PMI came in at 56.5 for Q1 2019, indicating the fastest expansion since Q4 2017.



Consumer Price Index (CPI)

The CPI decreased 2.1% YoY in March 2019 led by 8.1% decline in housing, water, electricity, gas and other fuels prices followed by 1.5% fall in clothing and footwear costs and 1.1% in communication. On the contrary, restaurants and hotels witnessed a 1.5% increase during the month.

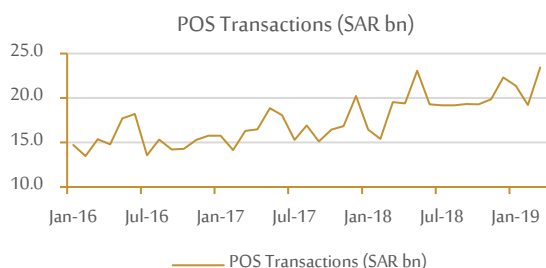


Macroeconomic and Financial Market

Macroeconomic Review

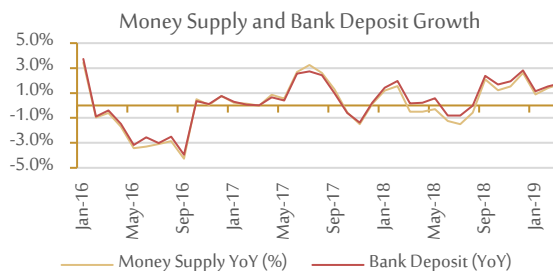
Points of Sale Transactions

POS transactions rose 19.9% YoY to SAR 23.4bn in March 2019 from SAR 19.5bn in March 2018 and 21.8% MoM from SAR 19.2bn in February 2019. In Q1 2019, it stood at SAR 64.0bn (up 24.7% YoY and 4.2% QoQ).



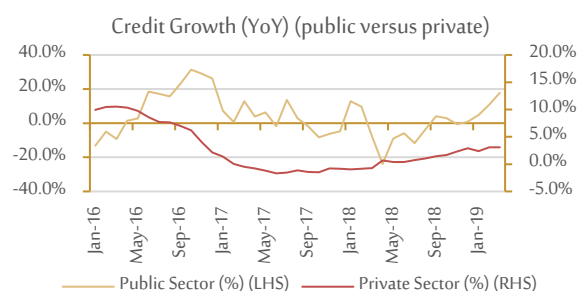
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 1.8% on a YoY basis in March 2019. The 2.2% YoY increase in M1 was offset by a 1.1% YoY decrease in time and savings deposits. Bank deposits increased 1.7% YoY in March 2019.



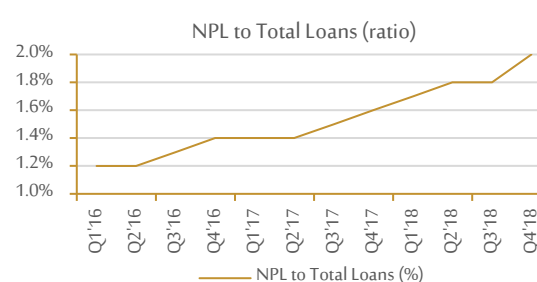
Credit Growth (%)

Bank credit (public and private) grew 3.6% YoY in March 2019, reflecting the highest growth in the last 28 months. Public sector credit increased 17.8% YoY in March, the fastest pace of growth since December 2016. Private sector credit increased 3.1% YoY in March, the fastest pace of growth since November 2016.



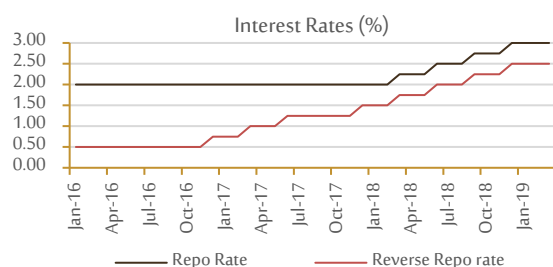
Non-performing Loans as Portion of Total Loans (NPL ratio)

Saudi Arabia's NPL ratio widened marginally to 2.0% in Q4 2018 from 1.8% in Q3 2018. The ratio is the highest since Q1 2012.



Interest Rates

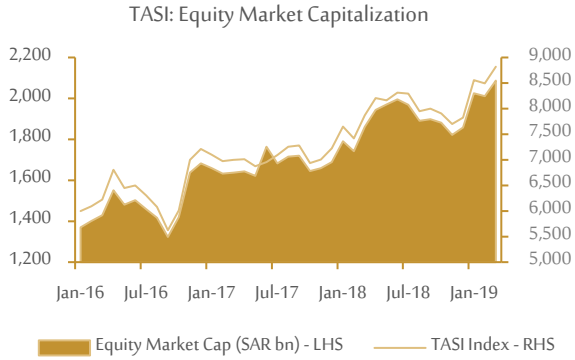
SAMA kept the repo and reverse repo rates unchanged after they were increased by 25 bps each to 3.00% and 2.50%, respectively in December 2018. Policy rate adjustments are consistent with preserving monetary stability.



Financial Market Overview

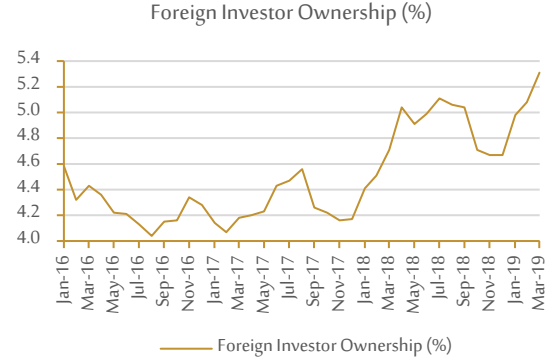
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) has been the best performer among GCC equity indices in 2019 (till March). The index increased by 12.7% from January till March 2019 and Equity market capitalization has surged to 12.3% in the same period.



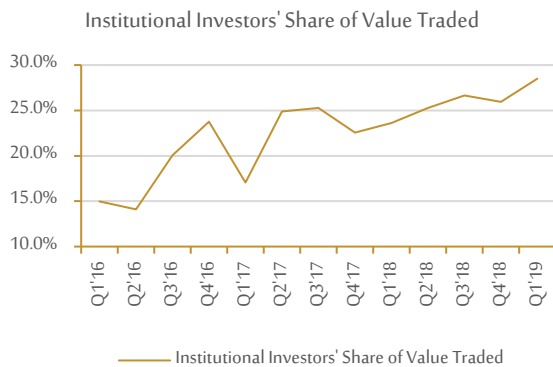
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks rose sharply in Q1 2019, to 5.3% in March 2019 from 4.7% in December 2018. This reflects the attractiveness of the Saudi financial market and affirms growing investor confidence in the economy.



Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded increased in Q1 2019 to a quarterly average of 28.6% compared to 25.9% in Q4 2018.



Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on the Tadawul rose to 63.4% by the end of March 2019, against 62.3% recorded at the end of December 2018.



Financial Sector Development Highlights

Tadawul Announces the Date of Implementing the First Tranche of FTSE Russell and S&P DJI Indices Inclusion as an Emerging Market

The first phase of Saudi Stock Exchange's (Tadawul) inclusion into the FTSE Russell Emerging Markets (EM) index and S&P Dow Jones Emerging Market Indices' (DJI) Global Benchmark Indices (BMI) was completed on March 18, 2019, based on the closing price of March 14, 2019. Tadawul's inclusion in the FTSE Russell EM index is being undertaken over five tranches, with the first tranche having an inclusion factor of 10%. The inclusion in S&P DJI Emerging Market Indices will be completed in two tranches, with a 50% float-adjusted market cap (FMC) in the first tranche.

Completion of the (03-2019) Issuance Under the Saudi Arabian Government SAR-Denominated Sukuk Program

The Debt Management Office of the Ministry of Finance announced the conclusion of the (03-2019) issuance under the Saudi Arabian Government SAR-denominated Sukuk Program. The issuance comprised of two tranches of 10 and 15 years which were well received among investors, especially the latter tranche which constituted 61% of the total issuance. Orders were received from several current investors as well as new investors including, banks, insurance companies, Tadawul-listed companies and investment funds. These achievements are in line with the Financial Sector Development Program.

CMA Grants a Financial Technology Experimental Permit (FinTech ExPermit) to FALCOM Financial Services Co to Create Equity Crowdfunding Platform

The Capital Market Authority (CMA) issued a Financial Technology Experimental Permit (ExPermit) to FALCOM Financial Services Co to develop an equity crowdfunding platform. This will permit the company to undertake crowdfunding FinTech under which investors can participate in funding small and medium enterprises in exchange for shares.

Apple Pay launched in Saudi Arabia

The Saudi Arabian Monetary Authority (SAMA) announced the launch of Apple Pay, which will allow users to easily transact through IOS smartphones, increase payment options for users in Saudi Arabia and provide more digital solutions that facilitate payments and purchases. This forms a part of the "Drive towards cashless society" initiative of the Financial Sector Development Program.

SAMA to Sponsor Training Program in Islamic Banking

The Saudi Arabian Monetary Authority (SAMA) is sponsoring a training program in the field of Islamic Banking being conducted by the Financial Academy in Riyadh. The program is being held over a duration of two months and includes eight training courses in Islamic Banking focusing on the basic concepts and principles of the banks operating in the sector. These programs also introduce the legal environment of Islamic Banking in Saudi Arabia and developments and challenges facing Islamic Banking.

SAMA Launches Regulatory Sandbox for Financial Institution's and FinTech's

The Saudi Arabian Monetary Authority (SAMA) has started designing a Sandbox regulatory environment to understand and assess the impact of new technologies in the financial services market in Saudi Arabia and to help transform the Kingdom into an intelligent financial center, permitting domestic and international companies to test new digital solutions to be launched in the Kingdom in the future. Further, SAMA has clarified that the products and services currently being tested include E-wallet services, P2P transfers, purchases through QR Codes, direct international transfers through financial technology companies in addition to the aggregators of Point of Sale (POS) devices, SADAD bills, SADAD account and Mada online. Currently, 11 domestic and international banks have been permitted to open and update accounts without the need to visit branches and 7 companies have been allowed to provide various digital payments services. This forms a part of "Open financial services to new types of players" an initiative under the Financial Sector Development Program.

Governor of the Saudi Arabian Monetary Authority inaugurates the 5th Saudi Insurance Symposium

The "5th Saudi Insurance Symposium" was inaugurated on March 27, 2019 by H.E. Dr. Ahmed Alkholifey, Governor of the Saudi Arabian Monetary Authority (SAMA). The event was organized by the Insurance Companies General Committee under the theme "Protection and Sustainability" and brought together senior sector officials and stakeholders from the Kingdom and abroad. During the opening session, SAMA Governor highlighted the growth and development of the Saudi insurance sector, noting that SAMA is working towards further boosting confidence in the sector.

A Statement on Launching "Aber" Project, the Common Digital Currency between Saudi Arabian Monetary Authority (SAMA) and United Arab Emirates Central Bank (UAECB)

The Saudi Arabian Monetary Authority (SAMA) and the United Arab Emirates Central Bank (UAECB) issued a joint statement clarifying that one of the goals of launching the digital currency project "Aber" is for use in financial settlements between the Kingdom of Saudi Arabia and UAE through Blockchains and Distributed Ledgers technologies. This is in the framework of "Proof-of-concept" under which the dimensions of modern technologies are closely understood and studied. This is in addition to the qualification of cadres that will deal with the technologies of the future and understanding the requirements of issuing a digital currency for use by the two countries. Furthermore, it will establish an additional means for the central financial transfer systems of the two countries and enable banks to directly deal with each other in conducting financial remittances.

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%	5.8%	5%
Value of SME funding through PE/VC vehicles, Bn SAR	-	Will be measured at the end of 2019	23
Life GWP per capita, SAR	33	33	40
Coverage ratio of insurance schemes,%	38%(health) 45%(motor)	- -	45%(health) 75%(motor)
Assets under Management, as % of GDP	12%	15.88%	>=22%
Market concentration of top 10 companies by market cap, in %	57%	63.4%	55%
Institutional investors' share of value traded %	18%	28.57%	>=20%
Foreign Investor ownership of the equity market cap, in %	4%	5.3%	>=15%
# of micro and small cap companies listed, as % of total number of companies listed	34%	41.29%	>=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%	43%	>=45%
Total amount of savings held in savings products, B SAR	315	-	400
Number of available types of savings products, Absolute number	4	4	9
% of households savings on a regular basis	19%	-	29%
Share of A/C opened through eKYC %	-	-	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

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>