



Financial Sector  
Development Program

# Financial Sector Development Program

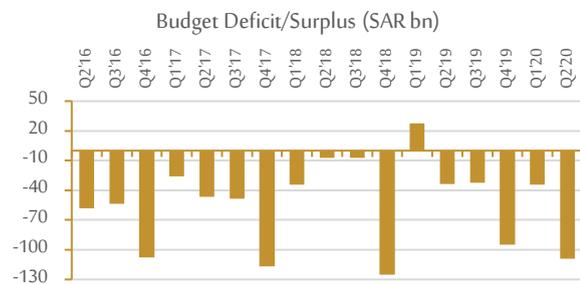
Quarterly Newsletter Q2 2020

VISION رؤية  
2030

## Key Highlights: Budget deficit in Q2 2020, GDP declined by 1% in Q1 2020

### H1 2020 Budget Highlights

- Saudi Arabia recorded a budget deficit of SAR 143.3bn in the first half of 2020, compared to a deficit of SAR 5.7bn in the same period last year.
- Total revenue decreased 36% YoY to SAR 326bn in H1 2020.
- Oil revenues declined 35% YoY to SAR 224.5bn and non-oil revenues dropped 37% YoY to SAR 101.5bn in H1 2020. Revenues from 'Taxes on Goods and Services' within the non-oil revenues saw a 47% YoY fall to SAR 41.2bn in H1 2020.
- Total expenditure dropped 8% YoY to SAR 469.4bn in H1 2020.
- Public debt increased to SAR 819.9bn by the end of H1 2020 from SAR 677.9bn by the end of FY 2019.



### SAMA Licenses Tap and BrightWare Companies

SAMA announces the licensing of two payments companies; Tap and BrightWare. This comes after their successful graduation of SAMA regulatory sandbox.

This step from SAMA follows the issuance of the Payment Services Provider regulations 30/1/2020, which was followed by the licensing of payment services providers (Financial Technology Institutions). SAMA emphasizes its constant pursuit to support the payment and Fintech eco-system and to boost the level of effectiveness and flexibility of the financial transactions, as well as to enhance innovations in the provided financial services. This is being done while observing international standards and ensuring the financial stability and fair treatment of transactions. Furthermore, this comes in tandem with the aspirations of the Financial Sector Development Program, which is part of the Kingdom's Vision 2030, and to achieve one of the vision's most important strategic goals, which is moving to a cashless society.

### 2020 GDP Growth (%)\*

- Real GDP (at 2010 constant prices) declined 1% YoY in Q1 2020
- The drop in GDP growth was driven by the oil sector, which shrank 4.6%, while the non-oil sector recorded a 1.6% growth in Q1 2020.
- The non-oil sector accounted for 59.2% of total GDP in Q1 2020, compared to 58.6% in Q4 2019.



\*Based on Preliminary data

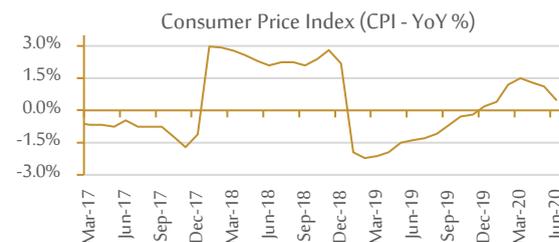
### PMI Index

The Saudi Arabia Purchasing Managers' Index (PMI) slipped to 47.7 in June 2020 from 48.1 in May. The survey recorded its fourth consecutive month of contraction in the non-oil private sector. It registered faster declines in exports, employment, business activity and new work. A reading above 50 indicates expansion; conversely, a reading below 50 indicates contraction.



### Consumer Price Index (CPI)

The CPI increased 0.5% YoY in June 2020 and has been in positive territory for seven consecutive months. Food & Beverages and Miscellaneous Goods & Services witnessed an increase of 6.4% and 1.8%, respectively; while Transport declined the most, down by 5.2% in June 2020.

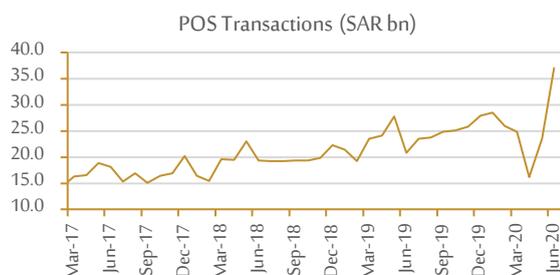


## Macroeconomic and Financial Market

### Macroeconomic Review

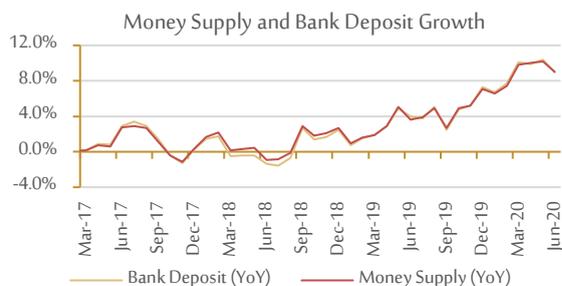
#### Points of Sale Transactions

POS transactions surged 78.3% YoY to SAR 37bn in June 2020 from SAR 20.8bn in June 2019. Whereas, in Q2 2020, it stood at SAR 76.6bn (up 5.4% YoY and down 3.3% QoQ).



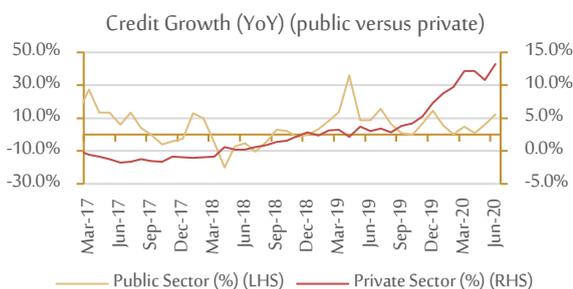
#### Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 9% YoY in June 2020 and was up 2.1% on QoQ basis. M1 grew 12.8%, while Time and Savings deposits rose by 1.4% on YoY basis. Total bank deposits grew 9% YoY and 1.8% on QoQ basis in June 2020.



#### Credit Growth (%)\*

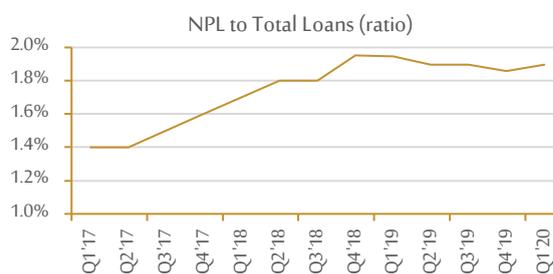
Bank credit (public and private) grew 13.2% YoY in June 2020 and 2.3% on QoQ basis. Public sector credit increased 12.3% YoY and 4.9% on QoQ basis. Bank credit to the private sector rose 13.2% YoY in June and 2.3% on QoQ basis.



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

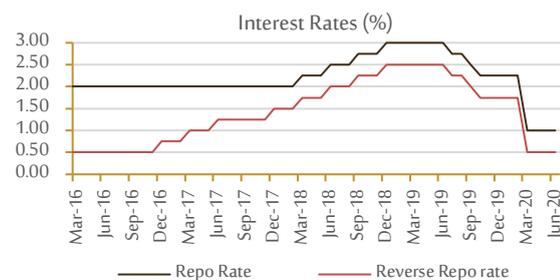
#### Non-performing Loans as portion of Total Loans (NPL ratio)

NPL ratio remained stable for the fifth consecutive quarter at 1.9% in Q1 2020 (latest data available).



#### Interest Rates

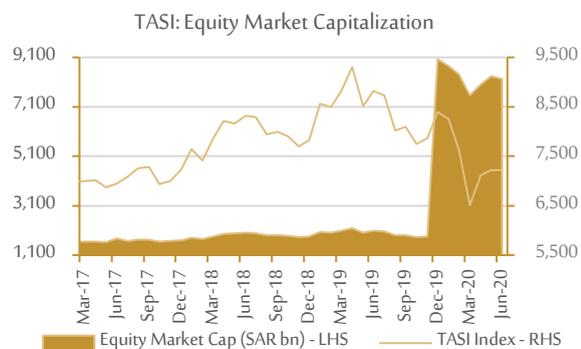
SAMA kept the repo and reverse repo rate unchanged during Q2 2020. The rates were last reduced in March 2020 by 125 bps. Policy rate adjustments are consistent with maintaining monetary stability.



## Financial Market Overview

### Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) gained 0.2% MoM in June, whereas it dropped 13.9% on YTD basis. TASI's equity market capitalization stood at SAR 8,233bn in June 2020, up 8.9% from SAR 7,562bn in March 2020.



### Foreign Investor Ownership

Foreign investor ownership in Saudi stocks increased in Q2 2020 to 2.08% in June 2020 from 2.02% recorded in May. On MoM basis, foreign investors holding value increased 2.2% to SAR 171.6bn as of June 2020, from SAR 167.9bn in May.



### Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded surged in Q2 2020 to a quarterly average of 57.28%, compared to 28.2% in Q1 2020.



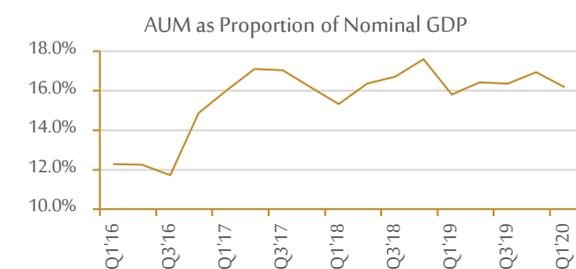
### Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on Tadawul decreased to 90.9% by the end of June 2020, compared to 91.2% recorded at the end of March 2020. By the end of September 2019, the concentration stood at 61.4%.



### Assets Under Management (% of GDP)

Assets Under Management (AUM) as a percentage of nominal GDP declined to 16.2% in Q1 2020 from 16.9% in Q4 2019. AUM rose 3.3% on YoY basis, while it dropped 3.7% on QoQ basis.



## Financial Sector Development Highlights

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### **SAMA Announces Granting Licenses for Finance Support Activities**

The Saudi Arabian Monetary Authority (SAMA) announced granting licenses for finance support activities, by announcing the issuance of the first license for National Finance Services Company, as a closed joint-stock company with a capital of SAR 80mn.

This step comes from SAMA's supportive role to enable the finance sector by allowing new and supporting activities to strengthen the sector and support companies and facilitate their business. It also comes in line with the SAMA's role in enhancing financial stability and supporting opportunities for economic growth and development being witnessed by Saudi Arabia towards achieving the objectives of Vision 2030.

### **SAMA Issues the Rules Governing Bancassurance Activities**

SAMA announces the issuance of the rules governing Bancassurance activities in the Kingdom. This step comes as part of SAMA's aspirations and efforts in developing the financial services environment and aligning with the latest technical developments in the insurance industry around the world, along with SAMA's efforts to raise the Insurance sector growth and spreading insurance culture and awareness.

These rules aim to expand the scope of distribution and marketing of insurance products through banks; to ease the access to variety of financial needs at one place. These rules come to place to regulate the practices of Bancassurance in the Kingdom, as well as the relation between the insurance companies and the banks. The Bancassurance rules have a substantial role in raising the demand and awareness of saving products by promoting the distribution of insurance products in isolated areas.

### **SAMA Deployed Blockchain Technology for Money Transfer with Local Banks**

SAMA has recently used blockchain technology to deposit part of the liquidity that SAMA had previously announced, to be injected into the banking sector, as part of SAMA's actions aimed at enhancing the sector's capabilities to continue its role in providing credit facilities. This comes as a part of SAMA's continuing efforts in exploring and experimenting emerging technologies and keeping pace with the global trends of central banks in assessing the impacts of such technologies on the financial sector.

SAMA is one of the pioneer central banks to experiment blockchain technology for money transfers, this move was one of the key innovative initiatives launched by SAMA in its program to enable and develop Fintech in the Kingdom. These include among others: The Fintech Saudi Initiative in cooperation with the Capital Market Authority, the introduction of SAMA Regulatory Sandbox, and an array of digital banking services and payments.

### **SAMA Permits 9 New Fintech Companies to Operate in the Regulatory Sandbox Specialized in Providing Saving Solutions for Individuals and Crowdfunding for SMEs**

SAMA announced that it has permitted 9 FinTech companies as a new batch to operate in the Regulatory Sandbox. These companies have, therefore joined the list of companies permitted in the two previous cohorts, bringing the total number of companies permitted by SAMA to 30.

The new batch of companies comes as part of SAMA's endeavor to accomplish and promote the digitization of financial services and drive towards digital transformation in the financial sector in line with the requirements and objectives of the Financial Sector Development Program, one of the Kingdom's 2030 vision programs.

### **SAMA Virtually Holds its Third Islamic Finance Workshop**

SAMA virtually held its third Islamic Finance Workshop entitled "The Role of Institutions Supporting Islamic Finance Sector".

The workshop was attended by more than 100 experts and participants interested in Islamic finance, in addition to Islamic Financial Services Board and Arab Monetary Fund. During the workshop, participants discussed the supportive role of institutions in developing Islamic finance sector in light of the unprecedented risks, in addition to the opportunities offered and the challenges posed to supervisory and legislative authorities and Islamic financial institutions due to such risks. Islamic finance sector is of great importance, especially in the Middle East and Southeast Asia. In Saudi Arabia, Islamic banking represents more than 23 percent of the total Islamic banking sector globally.

### **An Announcement from the CMA Regarding the Deadline for Disclosing the Annual Report for Investment Funds and the Financial Statements for Listed Companies**

In line with the precautionary measures announced by the country to limit the spread of the emerging Corona virus (COVID-19), and as an extension of the precautionary measures initiated by the authority in light of these exceptional circumstances, and to enable the public and private investment funds to comply with the regulatory requirements for disclosing annual report for the year 2019.

The CMA announced its resolution to extend the statutory deadline for public and private investment funds to disclose the annual report for the year 2019 to the public for (20) days to be no later than (90) days from the end of the period. In addition to that and to enable the listed companies to comply with the regulatory requirements for disclosing the Interim financial statements, the CMA announced the issuance of its resolutions to approve the extending of the statutory deadline to disclose the interim financial statements for listed companies whose interim period ends on 29/2/2020 and 31/03/2020 for an additional period of (20) days, within a period not exceeding (50) days from the end of the financial period covered by these financial statements.

### **The Capital Market Authority (CMA) Permits the Fintech Experiment Applications**

Based upon the Capital Market Law and reference to the Financial Technology Experimental Permit Instructions which aims to provide a regulatory framework that is conducive for the innovation of Financial Technology (FinTech) in the capital market within the Kingdom, the CMA Board of Commissioners issued its resolution to grant Mudaraba Capital Company a Financial Technology Experimental Permit (ExPermit) to establish a platform for offering and investment in debt instruments. Based on this permit, Mudaraba Capital Company will enable SMEs to obtain the required funding by arranging the offering of Sukuk to finance projects, and offering them to the collective investors registered in the platform.

Also, the CMA Board of Commissioners issued its resolution to grant Wethaq Capital Markets Platform Company a Financial Technology Experimental Permit (ExPermit) to use Distributed Ledger Technology (DLT) to arrange the offering of securities and custody services. Based on this permit, Wethaq Capital Markets Platform Company will utilize Distributed Ledger Technology to arrange the offering of securities (Sukuk as a preliminary stage) to investors, in coordination with the Issuer and the Authorized person (AP) assigned by the Issuer as an Offering Advisor.

### **The Completion of the Saudi Market's Inclusion in FTSE Russell Secondary Emerging Markets (EM) Index**

The second and final tranche of the fifth phase of Saudi Arabia's inclusion in FTSE Russell Secondary Emerging Markets (EM) Index started Monday 22/06/2020, based on closing prices as of June 18. The "FTSE Russell" has decided to divide the fifth and final phase of joining Saudi stocks to its indicator into two tranches – the first with an inclusion factor of 25% was implemented in March 2020 and the second with an inclusion factor of 75% has been completed in June 2020.

### **The Capital Market Authority Exempts Listed Companies from Paying the Fees Required by the CMA for a Period of One Year and for Debt Issuers Until the End of 2025**

The CMA Board of Commissioners has issued its resolution to exempt listed companies for a period of one year starting from the end of June 2020 from paying the fees of submitting an application to register shares, reviewing the application related to the registration of shares, and the registration of shares for requests to register and offer new shares of a class already listed by raising capital either by way of rights issue or debt conversion.

In addition, the CMA Board of Commissioners has issued its resolution to extend the exemption to debt instruments issuers intending to publicly offer debt instruments from paying the fees payable to the CMA upon submitting an application to register debt instruments, reviewing the application related to the registration of debt instruments and registration of debt instruments until the end of 2025. This initiative is part of CMA's efforts to alleviate the economic impacts resulted by the Coronavirus pandemic (COVID-19) and in line with the precautionary measures announced by the CMA to assist the participants in the capital market during these exceptional circumstances.

### **Tadawul Announces the Listing of AlBilad Gold ETF (by Al Bilad Capital)**

The Saudi Stock Exchange (Tadawul) announces the listing and trading units of "AlBilad Gold ETF" as an Exchange Traded Fund on Tuesday 02/06/2020. The Capital Market Authority in February approved the request of Al-Bilad Investment Company to offer and register the units of "Al-Bilad Traded Fund for Trading in Gold" in the market as units of a circulating investment fund that can offered publicly.

### **Listing and Trading of Government Debt Instruments in the Saudi Stock Exchange**

The Saudi Stock Exchange (Tadawul) has issued its resolution approving the listing request of the debt instruments from a class already listed, and 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 19.8bn.

### **Ministry of Finance Announces the Successful Pricing of the Seventh International Note Issuance for a Total value of USD 7bn**

The Ministry of Finance through the National Debt Management Center has announced the receipt of subscriptions from investors for its seventh international issuance under the Kingdom of Saudi Arabia's Global Medium-Term Note Programme.

The issuance was more than 7 times oversubscribed, with total orders amounting to more than USD 54bn. The Kingdom will issue a total of USD 7bn (equivalent to SAR 26.25bn), consisting of three tranches as follows: USD 2.5bn (equivalent to SAR 9.37bn) for 5 year notes maturing 2025, USD 1.5bn (equivalent to SAR 5.62bn) for 10 year notes maturing 2030, and USD 3bn (equivalent to SAR 11.25bn) for 40 year notes maturing 2060.

### **The Kingdom is progressing in the Global Competitiveness Yearbook 2020 report**

The Capital Market Authority stated that the Kingdom has made remarkable progress in the indicators related to the capital market in the Global Competitiveness Report issued by the Global Competitiveness Center of the International Institute for Administrative Development (IMD), in which the Kingdom this year ranked (24) compared to (26) in 2019 report, and achieved the rank (8) among the G20 countries. With regard to indicators related to the capital market, the Kingdom achieved a leap in its ranking in the index (market capitalization as a percentage of GDP), as it rose (24) ranks from rank No. (26) to rank (2) globally, as the Kingdom advanced in the index (Initial public offerings) (32) ranks, to reach rank No. (4). On the other hand, the Kingdom's ranking improved in the index (ease of access to capital markets), as it rose (13) ranks to reach rank No. (20), compared to (33) last year, and moved up (4) ranks in the index (Shareholders' rights) to reach Rank (20), and advanced (7) ranks in the index (provision of adequate financing for companies), achieving rank No. (18) in the world.

### **The National Debt Management Center Showcased the Kingdom's Efforts in Managing Covid-19 Impacts Over a Global Investor Virtual Meeting**

Mr. Fahad Al-Saif, Chief Executive Officer of the National Debt Management Center, discussed over a virtual meeting with international investors, the efforts made by the Kingdom of Saudi Arabia to manage the impacts of the coronavirus pandemic (Covid-19). The virtual meeting attracted investors from 20 countries, with majority participation from Europe, North America, Asia and the Middle East.

Mr. Al-Saif discussed during the virtual meeting, the Kingdom's economy and health situation in light of Covid-19. He shed light on how the Kingdom's government was able to take precautionary measures to achieve health and economic security in the Kingdom. Furthermore, he highlighted the government's urgent initiatives and financial stimulus packages aimed at relieving the impacts of the pandemic on the private sector and economic activities, and how the National Debt Management Center has adjusted its financing strategy to adapt to the global changes.

As part of the National Debt Management Center strategy, ensuring effective communication with investors is one of its main pillars to deepen its investor base and strengthen the relations, particularly during such unprecedented times.

### **Registration of shares as the first direct listing in the parallel market**

The Capital Market Authority "CMA" Board has issued its resolution approving Saudi White Cement Company's "the Company" application for the registration of its shares for direct listing in the parallel market, which is the first direct listing on the parallel market. Tadawul is the first GCC exchanges to allow Direct Listings, which will enable companies to directly list their shares in Nomu - Parallel Market without an offering, whether for institutional or individual investors. Through it, the company will be able to sell the minimum required for liquidity in the financial market within a period of no more than 12 months from the date of listing. Trading of these shares will be restricted to the categories of qualified investors stipulated in the list of terms used in the Authority's regulations and rules. The registration document will be published sufficiently before the listing date.

### **The Capital Market Authority publishes a number of amended regulations and rules for public consultation**

As part of the Capital Market Authority's (CMA) strategic objectives to enhance the regulatory and supervisory environment for the capital market, and based on the Capital Market Law issued by Royal Decree No. (M/30) dated 2/6/1424 H, the CMA's Board issued three resolutions to publish the draft amendments to a number of Regulations and Rules for public consultation.

During the second quarter of 2020, the board issued its resolution to publish a draft amendment to the Rules for Special Purposes Entities, a draft amendment Investment Funds Regulations and Real Estate Investment Funds Regulations, and the draft amendment to Rules on the Offer of Securities and Continuing Obligations

The proposed amendments to these regulations and rules aim to regulate and develop the capital market, enhance its role in capital formation, and protect investors, to become an advanced market that supports the development of the national economy and increases the efficiency of the financial sector.

## Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2020 Target
Share of non-cash transactions (% of total transactions)	18%	36%	28%
# of Fintech players	-	6	3
SME loans as % of bank loans	2%	6.4%	5%
Coverage ratio of insurance schemes, %	38%(health) 45%(motor)	33% 39.6%	45%(health) 75%(motor)
Assets under Management, as % of GDP	12%	16.19%	>=22%
Institutional investors' share of value traded %	18%	57.28%	>=20%
# of micro and small cap companies listed, as % of total number of companies listed	34%	39.71%	>=40%
Share of investment accounts opened through eKYC	0%	82%	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 [fsdp@mof.gov.sa](mailto:fsdp@mof.gov.sa) or for more information, please visit <https://vision2030.gov.sa/en/FSDP>