



Financial Sector
Development Program

Financial Sector Development Program

Quarterly Newsletter Q4 2018

VISION رؤية
2030

Key Highlights: 2019 Budget, 2018 GDP growth published

2019 Budget – Key Highlights

The Ministry of Finance released 2019 budget statement on December 18, 2018 with the following key figures:

- Total expenditure estimate has been increased to SAR 1,106bn in 2019 from SAR 1,030bn in 2018, marking the largest budget in Saudi history.
- Total revenue estimate has been enhanced to SAR 975bn in 2019 from SAR 895bn in 2018.
- Fiscal deficit as a percentage of GDP is forecasted to decrease from 4.6% in 2018 to 4.2% in both 2019 and 2020.
- The report provides estimates and projections for key fiscal and macroeconomic indicators such as fiscal revenue, expenditure, nominal GDP growth, real GDP growth, and inflation, which are as follows:

Indicator	2018E	2019B	2020P
Revenue (SAR bn)	895	975	1,005
Expenditure (SAR bn)	1,030	1,106	1,143
Nominal GDP growth	14.1%	6.4%	4.4%
Real GDP growth	2.2%	2.6%	2.7%
Inflation	2.6%	2.3%	2.1%
Debt (% of GDP)	19.1%	21.7%	23.1%

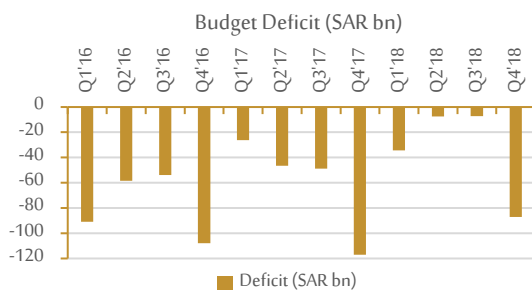
Note: E = Estimate; B = Budget; P = Projection

- The government is undertaking an expansionary spending policy in 2019 which aims to support the economy, expedite implementation of initiatives and projects under Saudi Vision 2030 and strengthen the efficiency of social benefits spending. The 2019 Budget maintains the momentum required to lower deficit until a fiscal balance is achieved by 2023.

2018 Budget – Key Highlights

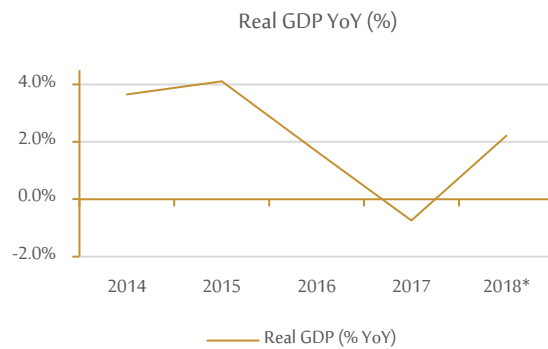
Budget deficit is estimated to decline to SAR 136bn in 2018 from SAR 238bn in 2017.

- Total revenue is estimated to increase 29.4% YoY to SAR 895bn in 2018.
- Total expenditures are estimated to rise 10.8% YoY to SAR 1,030bn in 2018.



2018 GDP Growth*

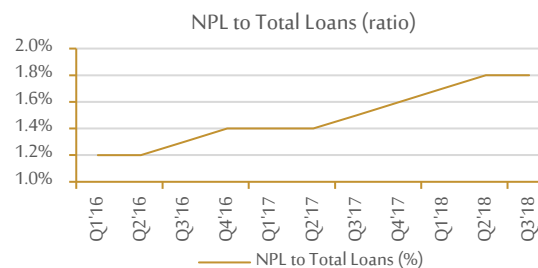
- Saudi Arabia's real GDP (at 2010 constant prices) grew 2.2% YoY in 2018, the highest growth rate achieved since 2016 (1.7% YoY). The recorded growth was a significant turnaround compared to the contraction in economic growth in 2017 (-0.7% YoY).
- The turnaround in GDP growth was driven by the oil sector, which increased by 2.85% YoY to SAR 1,134.6bn in 2018 and the non-oil sector that rose by 2.05% YoY to SAR 1,476.3bn in 2018.
- Ministry of Finance's Budget Statement 2019 expects GDP growth to accelerate to 2.6% YoY in 2019 (impacted by actual oil production), however, the growth in 2019 will be driven by the accelerating and expected growth of non-oil GDP (which is considered the main indicator for economic activities) due the economic policies and reforms being implemented to support the growth and sustainability of the non-oil sector.



* Based on Preliminary data

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

Saudi Arabia's NPL ratio remained unchanged at 1.8% in Q3 2018.

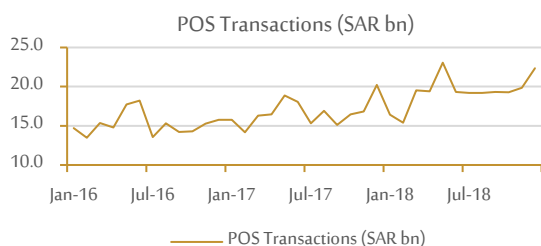


Macroeconomic and Financial Market

Macroeconomic Review

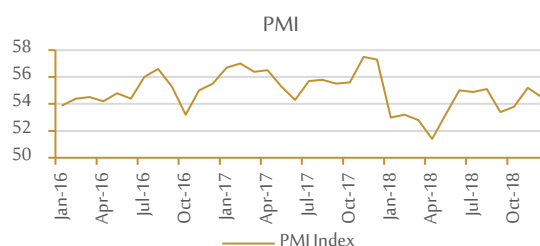
Points of Sale Transactions

POS transactions rose 15.9% year-over-year in 2018. On a monthly basis, POS increased 12.4% month-over-month in December 2018 (latest data release). POS went up by 10.4% YoY from SAR 20.2bn in Dec 2017 to SAR 22.3bn in Dec 2018.



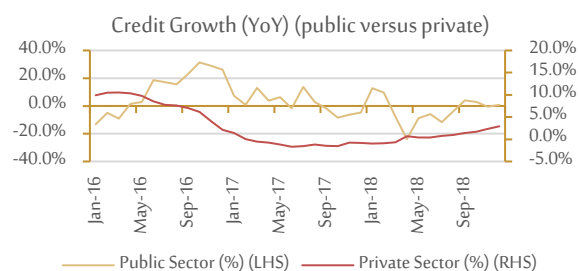
PMI Index

The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) fell to 54.5 in December 2018 from 55.2 in November 2018, weighed by drop in new orders and output as well as in new export orders. However, input prices remained in expansionary territory. A reading above 50 indicates expansion in activity; conversely, a reading below 50 indicates contraction. On a quarterly basis, the PMI came in higher in Q4 2018 than in the previous two quarters.



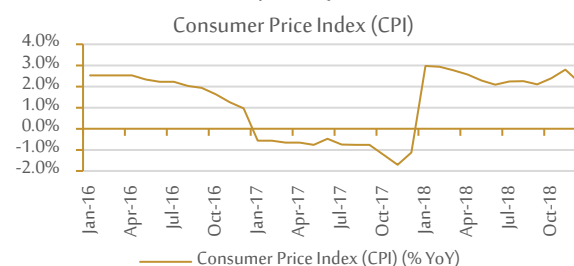
Credit Growth (%)

bank credit (public and private) grew 2.8% YoY in December 2018, reflecting the highest growth in the last 24 months. Private sector credit increased 2.9% YoY in December, with demand growth witnessing a continued positive YoY growth from April 2018. Public sector credit increased 0.9% YoY in December.



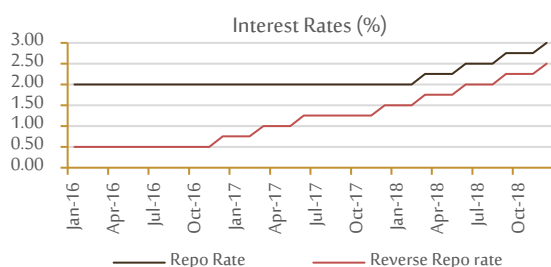
Consumer Price Index (CPI)

The Consumer Price Index (CPI) rose moderately to 2.5% YoY in 2018. The CPI rose 2.2% YoY in December 2018 (latest data release) led by 12.0% increase in transport cost and 7.1% rise in food and beverage prices. The Ministry of Finance, in its budget statement for 2019, has stated inflation is expected to be 2.3% and 2.1% in 2019 and 2020, respectively.



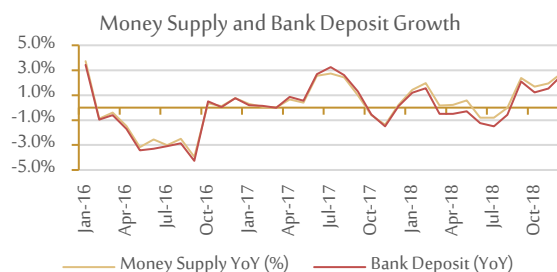
Interest Rates

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



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

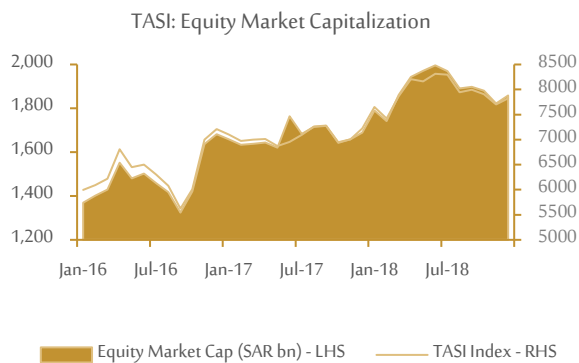
Money supply (M3) growth increased 2.8% on a YoY basis in December 2018. The 3.9% YoY increase in M1 was offset by a 2.0% YoY decrease in time and savings deposits. Bank deposits increased 2.6% YoY in December 2018.



Financial Market Overview

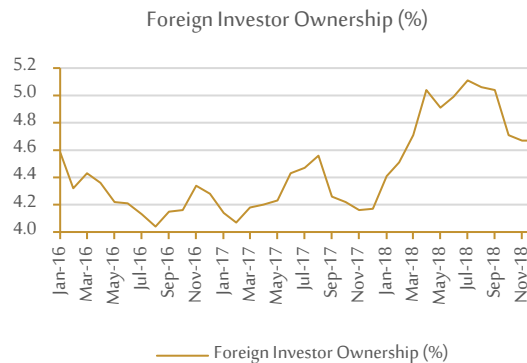
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) was amongst the top 5 best global performers in 2018. The index increased by 8.3%. Equity market capitalization has surged in the last two years by 10.5%.



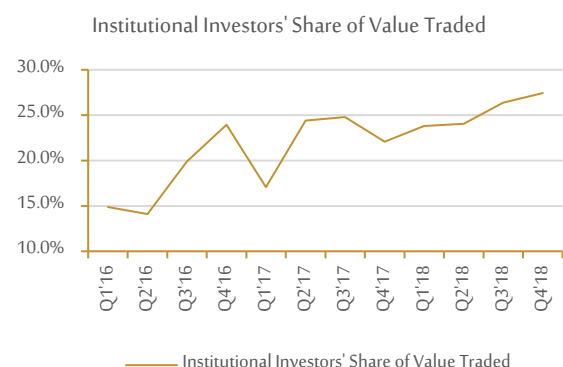
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks declined marginally in Q4 2018, to 4.67% in December 2018 from 5.04% in September 2018, only to rebound strongly in the first quarter of this year (More information will be provided in the next edition).



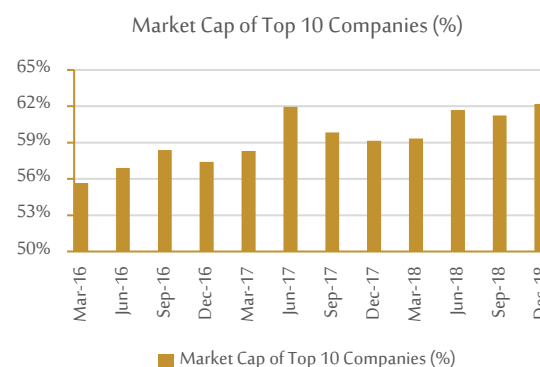
Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded increased in Q4 2018, to a quarterly average of 27.43% compared to 26.37% in Q3.



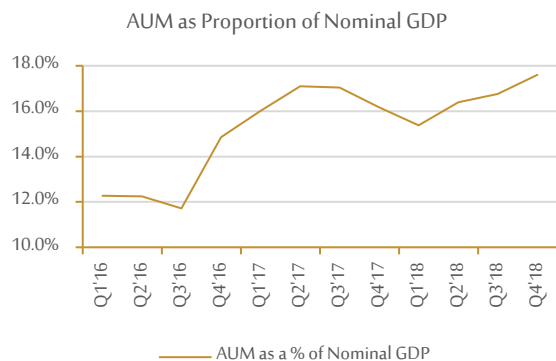
Market Concentration of Top 10 Companies

The market capitalization of the top 10 companies on the Tadawul rose to 62.2% by the end of December 2018, against 61.2% recorded at the end of September 2018.



Assets Under Management (% of GDP)

Assets under management (AUM), as a percentage of the nominal GDP, increased to 17.6% in Q4 2018 from 16.8% in Q3 2018. AUM increased by 5%QoQ to SAR 454bn in Q4 2018. On an YTD basis, AUM increased 16.2%.



Financial Sector Development Highlights

Significant Growth in Mada's System of POS Payments

The volume of transactions through Mada's system of POS payments displayed significant growth in 2018, increasing 46% YoY to over 1 billion transactions from 700 million in 2017. The growth was driven by Mada Atheer service that improved customer experience through the acceleration of time needed to execute a small-amount transaction, in addition to enhancing the smart payment infrastructure of the Kingdom. H.E. Dr. Ahmed Al-Khulaify Governor of The Central Bank and member of the Financial Sector Development Program highlighted that these efforts are in line with "Drive towards cashless society" initiative under the Financial Sector Development Program.

Closure of the (10-2018) Issuance Under the Saudi Arabian Government SAR-Denominated Sukuk Program

The Ministry of Finance announced the conclusion of the (10-2018) issuance under the Saudi Arabian Government SAR-denominated Sukuk Program. Issuance size was SAR3.25bn divided over three tranches: SAR2.33bn, SAR0.36bn and SAR0.56bn maturing in 2023G, 2025G, and 2028G respectively.

Announcement of the Issuance of the CMA Board's Resolution to Adopt the Rules for Registering the Auditors of Entities Subject to the Authority's Supervision

CMA issued a resolution to adopt and publish rules for registering auditors for entities subject to CMA's supervision. The rules set out the standards and conditions to be met by the auditors of entities subject to CMA's supervision, including conditioning the registration of the audit firms and certified public accountant with CMA and establishing the requirements and procedures for the registration.

SAMA Issues the Rules for the Licensing and Supervision of Branches of Foreign Insurance and/or Reinsurance Companies in the Kingdom of Saudi Arabia

SAMA issued licensing and control rules for the insurance/reinsurance companies in the Kingdom of Saudi Arabia. The rules clarify and illustrate the working of the cooperative insurance control law and governing regulations for foreign branches that will be allowed to operate in Saudi Arabia

Moody's Update its Credit Opinion on Saudi Arabia (A1, Stable) and Raised Growth Forecasts for Saudi Economy

Moody's Investor Service updated its credit opinion on Saudi Arabia (A1, stable). The agency also raised its GDP growth projections for the Saudi economy from 1.5% to 2.7% for 2019. The revision in the projections came as the agency expects higher oil production along with developments in the non-oil sector to boost the Saudi economy. Further, Moody's cut projections of government deficit for 2019 to 3.6%, from previous forecasts of 5.2% for the same period. The agency commended the Kingdom's financial management and noted that the government's reform program, including plans to balance fiscal budget by 2023, could lead to higher ratings.

CMA Financial Technology Experimental Permit (FinTech ExPermit) Opened for 2nd Batch Applications

CMA invited applicants for the 2nd batch of the FinTech ExPermits. CMA had received number of FinTech applications in the 1st batch of applications and sanctioned two applicants to set up an equity crowdfunding platform. H.E. Mohammed Elkuwaiz Chairman of The Capital Market Authority and member of the Financial Sector Development Program stated that this invitation aims to foster competition in financial services in a creative manner that is consistent with market expectation and plays a crucial role in funding businesses and entrepreneurs through making new funding channels available for different industries as well as increasing the types of investment products as part of "Opening financial services to new types of players", an initiative under the Financial Sector Development Program.

CMA Announces the Approval of Amendments to the Investment Accounts Instructions

CMA announced approval of amendments to the Investment Accounts Instructions. The amendments seek to enable the electronic opening of investment accounts and facilitate the procedures for opening and operating investment accounts. The amendment is one of the FSDP initiatives to 'Enable a digital process for investment account opening'.

SAMA Launches the Operational Model of the Unified Cash Centers, An Initiative Aimed at Improving the Monetary Cycle in the Kingdom

SAMA launched the operational model of the Unified Monetary Centers (UMC) to support the development of the national economy and the financial sector development program. UMC 'Multi-Bank Cash Center'-MBCC program focuses on combining the institution's cash center and local banks into unified centers that can deliver service to all local banks and retail sectors with superior quality standards and advanced technical technology.

SAMA Introduces an Advanced Diploma Program for National Cadres Working in The Insurance Sector

SAMA launched the Advanced Insurance Diploma Program (ACII) in collaboration with the Financial Institute in Riyadh. The program is spread over two and a half years divided into two phases. It aims to enhance the efficiency of Saudi employees in the technical insurance sector by granting them the opportunity to receive a professional certificate in the field of insurance. According to SAMA, the total number of candidates by the insurance companies reached 60 male and female.

Financial Sector Development Program KPI's

Program KPI's	Baseline	Status	2020 Target
Share of non-cash transactions (% of total transactions)	18%	Measured yearly	28%
# of adults with a bank account (%)	74%	75%	80%
Total GWP to GDP non-oil,	2.1%	2.49%	2.9%
# of Fintech players	-	Will be Measured in 2020	3
SME loans as % of bank loans	2%	3.94%	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	Measured yearly	40
Coverage ratio of insurance schemes,%	38%(health) 45%(motor)	Measured yearly Measured yearly	45%(health) 75%(motor)
Outstanding real estate mortgages, Bn SAR	290	297	502
Assets under Management, as % of GDP	12%	16.46%	>=22%
Market concentration of top 10 companies by market cap , in %	57%	61.6%	55%
Institutional investors' share of value traded %	18%	19.6%	>=20%
Foreign Investor ownership of the equity market cap , in %	4%	4.99%	>=15%
# of micro and small cap companies listed, as % of total number of companies listed	34%	36.4%	>=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%	42.6%	>=45%
Total amount of savings held in savings products, B SAR	315	-	400
Number of available types of savings products, Absolute number	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

*KPIs reflect performance measurement as per the approved reports.

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>