Update on the Financial Sector Development Program

Delivery Plan 2020

- In the last year or so, there has been a fair level of progress on most areas covered by the Financial Sector Development Program (FSDP). In particular, visible progress has been made in the development of the SMEs financing ecosystem, the insurance sector, capital markets and housing.

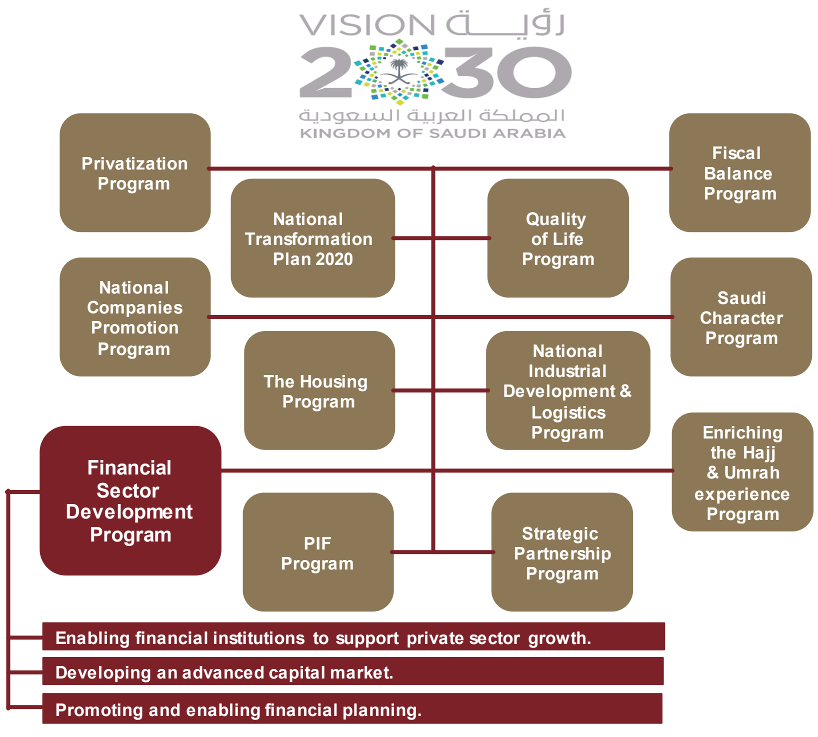
- One of the most notable developments has been the inclusion of the Saudi Stock Exchange (Tadawul) into both the MSCI Emerging Market (EM) and FTSE EM indices, which has resulted in inflows totaling $21 billion (SR79 billion) so far this year.

- Additionally, a number of changes have been made to improve the SMEs financing ecosystem, and indeed the overall commercial environment in the Kingdom. One of the most notable changes in this respect has been the introduction of a bankruptcy law.

- Meanwhile, in the Fintech sector, progress has been made through the launch of a sandbox regulatory environment, which is designed to help improve the level of understanding and impact of new technologies in the financial services and products market in the Kingdom.

- That said, with the latest Income & Household Survey showing that household savings have declined, measurable progress is yet to be made in rolling out initiatives set out under ‘promoting and enabling financial planning’ pillar of the FSDP which aims to support a national savings strategy.

Table 1: Vision 2030 and the Financial Sector Development Program



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Overview

Back in April 2018, as part of the ongoing implementation and planning towards the Vision 2030, the Financial Sector Development Program (FSDP) was launched. As we highlighted in our initial report in July 2018, the FSDP is one of the most important Vision Realization Programs (VRPs), primarily because the success of the other 12 VRPs are wholly dependent on it (for more details, please refer to our *FSDP* report). In the last year or so, there seems to be a fair level of progress on most fronts towards the measureable sector specific targets for all five of the 2020 commitments (Table 2). In fact, a number of the key achievements, and indeed challenges, were highlighted and discussed in the inaugural Financial Sector Conference held in Riyadh in April 2019.

In the last year or so, there seems to be a fair level of progress on most fronts towards the measureable sector specific targets for all five of the 2020 commitments under the FSDP.

In this update, we take a look at some of the key developments under the FSDP, particularly by focusing on the nearer term objectives outlined under the 2020 commitments.

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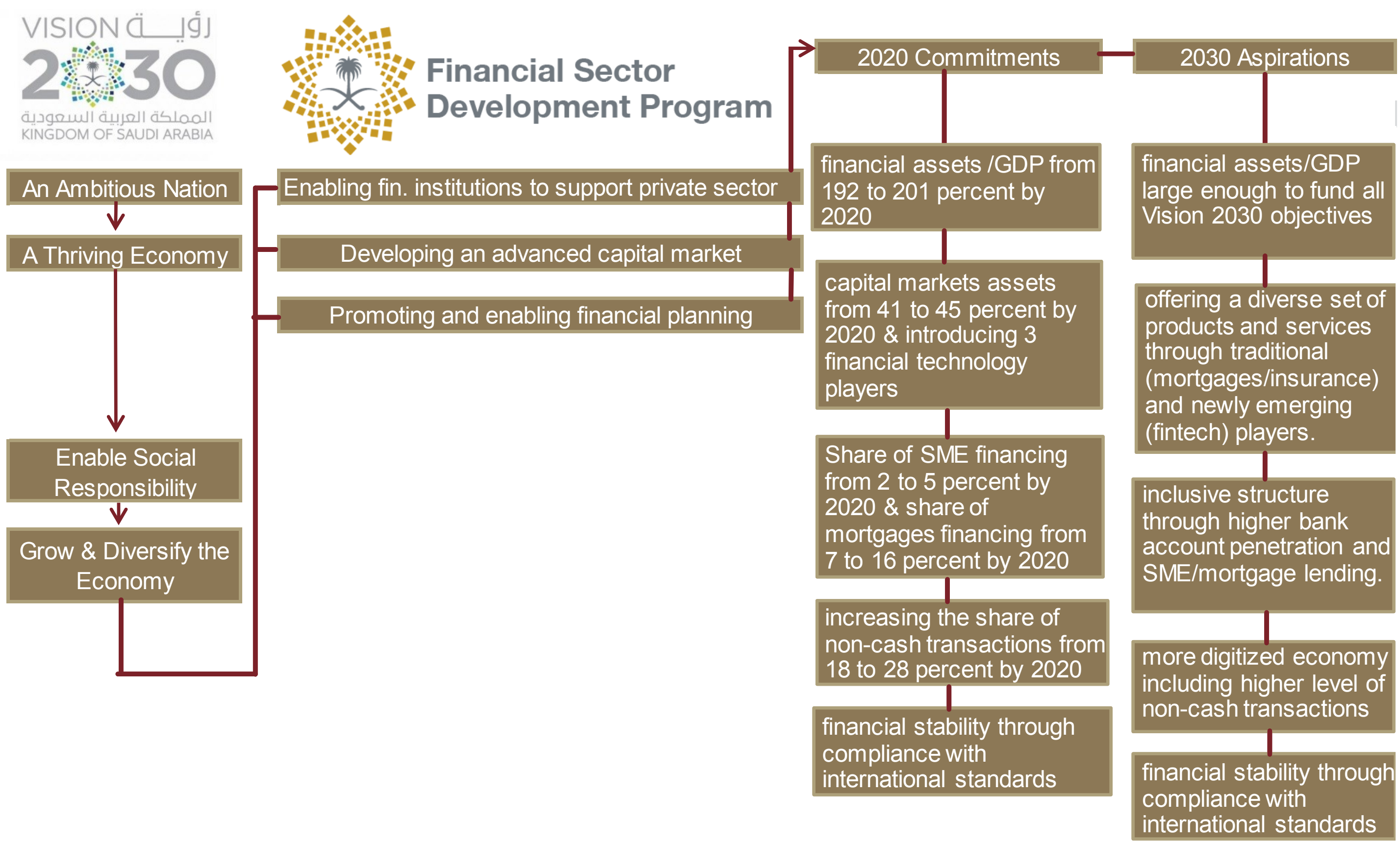
1) Enabling financial institutions

Insurance:

According to the Saudi Arabian Monetary Authority's (SAMA) Financial Stability Report 2019, gross written premiums (GWPs) (the amount of premiums customers are required to pay for insurance policies) totaled SR35 billion in 2018, resulting in a 4 percent decline year-on-year. The decline in overall GWPs was mainly attributable to a 15.3 percent yearly reduction in motor insurance GWPs, with motor insurance constituting around a third of total GWPs during the year. Aside from the full year effects of no-claim discounts for policy

Gross written premiums totaled SR35 billion in 2018, resulting in a 4 percent decline year-on-year…

Table 2: The FSDP's commitments and aspirations



...with the decline in overall GWPs mainly attributable to a 15.3 percent yearly reduction in motor insurance GWPs.

Meanwhile, healthcare GWPs, which make up the largest segment of total GWPs, at 57 percent, were up 4 percent year-on-year.

The rise is likely related to the Cooperative Council for Health Insurance (CCHI) introduction of a unified health insurance policy in 2018…

...which made it a legal requirement for employers to provide health insurance to all employees.

holders being seen during 2018, we also see lower motor GWPs a likely result of a trading down of higher priced suburban utility vehicles (SUVs) to less expensive fuel efficient cars. Higher gasoline prices (in both 2016 and 2018), and the implementation of VAT on the purchase of cars (since 2018) most likely contributed to a decline in the total value of passenger cars imported in the last year. In fact, General Authority for Statistics (GaStat) data shows a 16 percent year-on-year decline in the value of passenger cars imported during 2018, half the value of imports four years earlier (Figure 1).

Meanwhile, healthcare GWPs, which make up the largest segment of total GWPs, at 57 percent, were up 4 percent year-on-year. Whilst not a substantial rise, it still represents solid progress, especially in the context of falling number of expat workers, with Gastat data showing 1.1 million net departures of foreign workers during 2018. The rise is likely related to the Cooperative Council for Health Insurance (CCHI) introduction of a unified health insurance policy in 2018, which made it a legal requirement for employers to provide health insurance to all employees. The enforcement, and subsequent rise in health insurance, was also made easier through the linking of CCHI to General Organization for Social Insurance (GOSI) databases in 2018. In fact, from 2019 onwards, all employees and their family members are required to be included under the health insurance scheme. This policy along with the above mentioned changes has seen a rise of 8 percent in Saudi health insurance policies (at 3.3 million) in Q2 2019 compared to the end of 2018. At the same time, the departure of foreign workers, and some expat dependents, led to a 2 percent drop in expat health insurance policies (at 7.8 million) over the same period (Figure 2)

As a result in the decline of GWPs in 2018, the ratio to non-oil GDP dropped to 1.99 percent, which means a large ramp up in GWPs is needed to attain 2.7 percent GWP to non-oil GDP by 2020. Looking ahead, the aligning of CCHI and GOSI database will continue to raise the level of health insurance coverage. As of Q2 2019 the health insurance enforcement gap was around 26 percent (11.37 million private sector workers versus 9.1 million insured), so there should be a rise as enforcement is more rigorously applied (Box 1). Beyond this, a recent announcement by Ministry of Hajj and Umrah (MHU) of compulsory insurance for religious tourists and proposed mandatory health insurance for non-religious tourists arriving under the new eVisa scheme in the Kingdom will also raise GWPs.

Figure 1: Number and value of imported passenger cars and jeeps

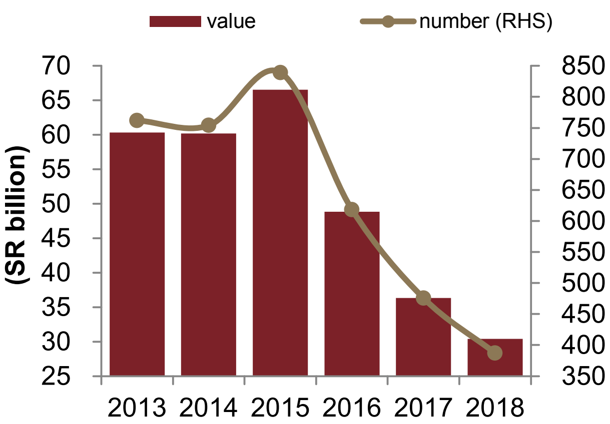
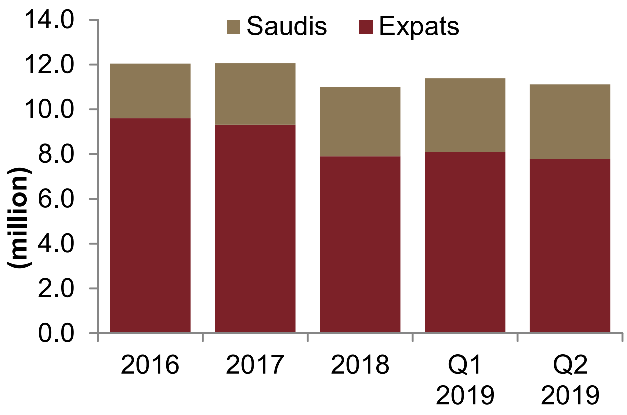


Figure 2: Number of private sector health insurance policies in the Kingdom



Looking ahead, the aligning of CCHI and GOSI database will continue to raise the level of health insurance coverage.

Meanwhile, the MoH is expected to set-up a preventive and curative integrated health coverage service (at both private and public health providers) which is free at the point of use to all Saudis, will also raise GWPs, but over the medium term. This initiative is part of the effort to raise the average life span of Saudis by four years to 80 years, as detailed in the Vision, and is expected to be implemented over the next four to five years.

More broadly speaking, the Saudi insurance market is far too concentrated….

…and longer term growth in the insurance sector still requires further diversifying of insurance products.

More broadly speaking, the Saudi insurance market is far too concentrated in motor and health insurance, together making up 84 percent of total GWPs. Naturally, longer term growth in the insurance sector still requires further diversifying of insurance products, such as life, property and accident & liability insurance. For example, whilst the UK market is more established and mature, medical and motor insurance combined represents around a third of total GWPs, whilst property insurance alone represents the same amount. Comparatively, property insurance in the Kingdom currently only contributes 4.8 percent of total GWPs, thereby offering huge potential growth.

Box 1: Q1 2019 GWPs

Latest available data for Q1 2019 shows that GWPs roseby 8 percent year-on-year, primarily a result of sizable rises in health insurance GWPs (up 24 percent), whilst motor insurance was down 15 percent over the same period. A number of other insurance segments, such as energy, engineering and aviation showed strong rises, although their contribution to overall GWPs remains small.

Fintech

Some major initiatives have been enacted to facilitate Fintech development in Saudi…

…which includes the launch of a sandbox regulatory environment to understand and assess the impact of new technologies...

...with a total of 21 companies specialized in financial technology within a regulated sandbox environment.

According to Cambridge University's Global Fintech Hub 2018 report, not a single MENA city features in the top 30 list of global or regional Fintech hubs. In fact, only Dubai is seen as an emerging Fintech hub with Asian, specifically Chinese, cities making up four out of the seven global hubs. One of the key objectives of the FSDP is to transform Saudi Arabia into a leading hub, and whilst evidently there is still a long way to go, some major initiatives have been enacted to facilitate this. Back in April 2019, SAMA and the Capital Markets Authority (CMA) signed a memorandum of understanding (MoU) to establish a Fintech Saudi center in King Abdullah Financial Center (KAFC). The aim of the center is primarily to provide a mutual space for those operating in sector to collaborate, design and test, ideas, and ultimately spur innovation and growth in the sector. Another area where progress has been made is through the development of innovative non-banking players. Most notably, at the time of writing, SAMA had a total of 21 companies specialized in financial technology within a regulated sandbox environment (Box 2).

Box 2: Sandbox Regulatory Environment

A number of global jurisdictions now have a formal regulatory program for market participants to test new financial services or models, which are referred to as a sandbox regulatory environment (sandbox). The advantage of such an environment is that it allows for the testing of various financial products and applications with live customers, but with certain stipulated safeguards and oversights. In Saudi Arabia, SAMA launched a sandbox regulatory environment back in February 2019, with the aim of understanding and assessing the impact of new technologies in the financial services and products market in the Kingdom. According to SAMA's Regulatory Sandbox Framework, such a set-up will help bring deliver a number of direct and indirect benefits to consumers (and innovators as well). That said, SAMA specifically states any proposals for sandbox testing should show evidence of how its product can benefit consumers.

SMEs

Encouraging the growth of SMEs is a top-level priority of the FSDP, and thus a number of major changes have been implemented in order to improve the SMEs financing ecosystem in the last year or so. One of these initiatives has been the launch of "Meras", a portal that allows new businesses to obtain all relevant government registrations in one place through an integrated online platform (Table 3). Additionally, Monsha'at, one of the main enablers of SMEs in Saudi Arabia, has set about working with a number of different organizations to further integrate and harmonized the SME eco-system (Table 4), including undertaking a feasibility study related to setting up a new bank dedicated only to SME financing (for more on this please refer to our SMEs and Vision 2030 report, published March 2019). In addition, the Saudi General Investment Authority (SAGIA) has been actively involved in helping raise the number of international SMEs through the issuance of foreign investor licenses, which totaled 291 in Q2 2019, up 103 percent year-on-year.

One of the main metrics for SMEs in the FSDP relates to bank lending, that is, at least 5 percent of total bank lending should be extended to such enterprises. At the end of 2018, bank loans to SMEs stood at SR100 billion, equivalent to 5.8 percent of total bank credit, comfortably above the FSDP 2020 target. Furthermore, by Q2 2019, total credit to SMEs by banks had reached SR105 billion, rising 12 percent year-on-year, versus a rise of 3 percent in bank credit as a whole (Figure 3). On the other hand, non-bank finance companies, where loans to SMEs make up 17 percent of total lending, growth was more modest, at 3 percent year-on-year, with total credit at SR7.8 billion. Additionally, a sizable rise in the value of guarantees under the Saudi Industrial Fund for Development (SIDF) backed Khafalah program also showed an uptick in lending to SMEs. At the end of 2018, the value of guarantees under the scheme rose by 47 percent year-on-year to stand at a total of SR13.6 billion since its inception 12 years ago, with 42 percent of all guarantees pertaining to the construction sector (Figure 4).

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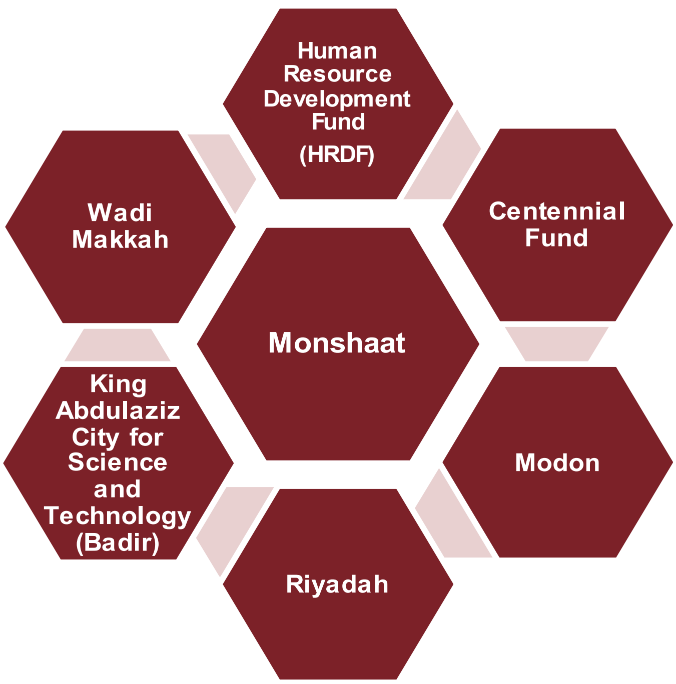
Table 3: Meras, first phase:

Issue a commercial registration with… وزارة التجارة والاستثمار Ministry of Commerce and Investment	مراس Meras In its first phase, Meras offers business owners the oppurtunity to complete all the following services in a unified platform.	Open a file with… وزارة العمل والتنمية الاجتماعية المملكة العربية السعودية
Open a tax file with… زكاة ودخل الهيئة العامة للزكاة والدخل GENERAL AUTHORITY OF ZAKAT & TAX	Open a file with… مجلس الغرف السعودية Council of Saudi Chambers	Open a file with… المؤسسة العامة للتأمينات الاجتماعية General Organization for Social Insurance

Table 4: Some entities supporting SMEs in the Kingdom



The recent introduction of a bankruptcy law…

...which aims to regulate the composition of bankruptcy proceedings and oversee financial re-structuring or liquidation

...represents a massive step forward for SMEs.

Whilst the Khafalah program performs an important role in encouraging the provision of finance to SMEs, its success, as we highlighted in our original FSDP report, is a result of limitations elsewhere, especially so in terms of weak creditor rights and collateral infrastructure. In light of this, therefore, the recent introduction of a bankruptcy law, which aims to regulate the composition of bankruptcy proceedings and oversee financial re-structuring or liquidation, represents a massive step forward for SMEs. Up until mid-2018, when the implementing regulations relating to the bankruptcy were introduced, there had been no codified protection for debtors facing financial difficulties, and hence why the Kingdom scored zero in the "Resolving Insolvency" indicator within the World Bank's most recent 'Doing Business' report. With the establishment of a bankruptcy law, besides raising Saudi Arabia's overall 'Doing Business' score, the law is expected to strengthen borrower and creditor rights, in turn, helping raise the level of investment and lending to SMEs.

The bankruptcy law is one of a series of recent laws to be introduced…

...with a new Saudi competition law and Government Tendering and Procurement law recently being passed…

...which should help SMEs.

Box 3: Legal Reform

The bankruptcy law is one of a series of recent laws to be introduced, or updated, to help improve the overall commercial environment in the Kingdom. In a bid to protect and encourage fair competition, a new Saudi competition law was passed in March 2019. Under the supervision of General Authority for Competition, the law is designed to prevent anti-competitive practices, curb the abuse of a dominant position of any groups or establishments, and prevent economic concentration in various sectors. Whilst the law is not explicitly geared towards SMEs, it should improve the operating environment of smaller companies by ensuring a more level player field for all market participants. Additionally, the approval of a Government Tendering and Procurement law, which is designed to improve the allocation and managing financial resources of government, will prioritize SMEs, as well as Saudi listed companies, with the former being exempt from initial guarantees.

Mortgages:

The continued implementation of objectives outlined in the Housing VRP has seen the level of real estate mortgages rising rapidly in 2019…

The continued implementation of objectives outlined in the Housing Vision Realization Program (VRP) has seen the level of new real estate mortgages rising rapidly so far in 2019 (Box 4). For example, in the year-to-July, new residential mortgages provided by banks to

Figure 3: Bank lending to SMEs

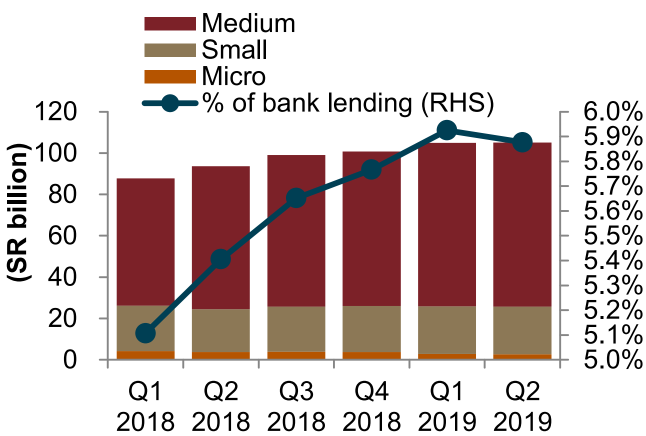
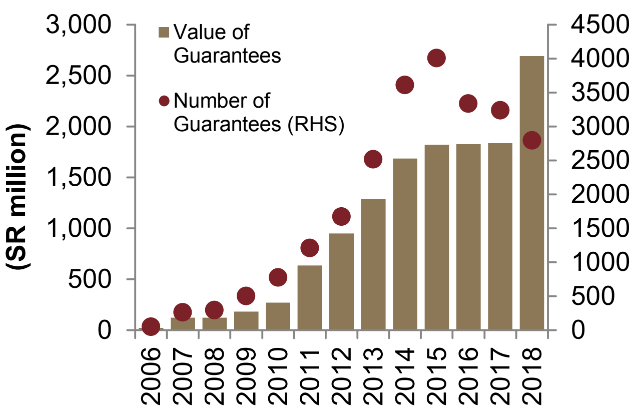


Figure 4: Number and value of SME guarantees under Khafalah program



...by a significant 157 percent, to reach over SR35 billion.

individuals rose by a significant 157 percent, to reach over SR35 billion, with mortgages for purchasing villas making up 79 percent of the total. We see the rapid rise in mortgages as being down to two main reasons. Firstly, around 30 thousand military employees were granted mortgages in the first half of 2019 through the Real Estate Development Fund (REDF), equal to just under a half of the total mortgages secured during the same period. Secondly, the rise also came about from the MOH's Sakani program, which has targeted the provision of 200 thousand housing units to eligible citizens during 2019, and which includes the provision of 100 thousand mortgages.

Box 4: The Housing Program

By improving the level of Saudi home ownership (to 60 percent in 2020 versus 50 percent in 2016)…

…and reducing the affordability of residential units (from 9 times annual income per capita down to 5 times)…

...the level of outstanding mortgages would rise over next few years.

Accordingly, the Housing VRP identifies ways of improving access to (mortgage) funding.

Whilst only one objective is directly applicable to both the Housing VRP and the FSDP (raising the level of outstanding real estate mortgage), there are a number of objectives within the Housing VRP that can contribute this specific commitment. Most notably, by improving the level of Saudi home ownership (to 60 percent in 2020 versus 50 percent in 2016) and reducing the affordability of residential units (from 9 times annual income per capita down to 5 times), to the level of outstanding mortgages would rise over the next few years. According to the Housing VRP, the current ratio of home ownership is 50 percent, and whilst a further 13 percent do technically have ownership of dwellings, they are not classified as such due to these dwellings not being made from reinforced concrete. The remaining 37 percent of households are identified as renting. Thus, in order to raise ownership levels, the Housing VRP identifies ways of improving access to (mortgage) funding for the 1.45 million beneficiaries under the MOH's Eskan and REDF programs. In particular, the program identifies consumer groups by income level (Figure 5) and spells out how each group can improve access to funding to obtain ownership or seek out support for housing (Table 5). Thus, whilst the program focuses on the provision of guarantees for those that are bankable or quasi-bankable, a plan is also set for the provision of rent subsidies or social housing for non-bankable and low-income groups. Concurrently, measures are outlined to tackle the supply of affordable housing, particularly in regions/cities where a significant demand-supply gaps exists (Figure 6). This includes plans to increase the availability of government land for housing developments, whilst another aims to adopt more modern technology in the construction of housing units.

Figure 5: Breakdown of type of Eskan and REDF beneficiaries

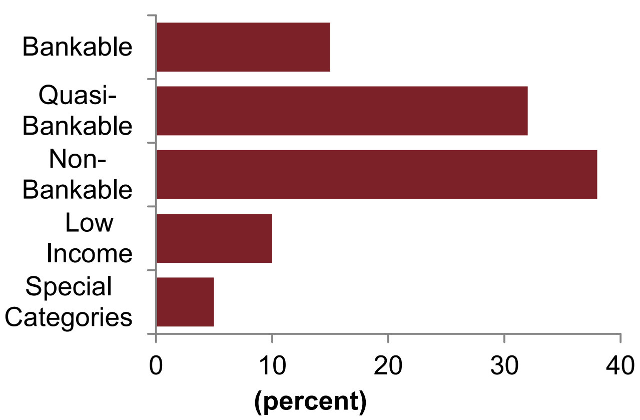


Figure 6: Demand for housing by city/region for those enrolled as Eskan and REDF beneficiaries

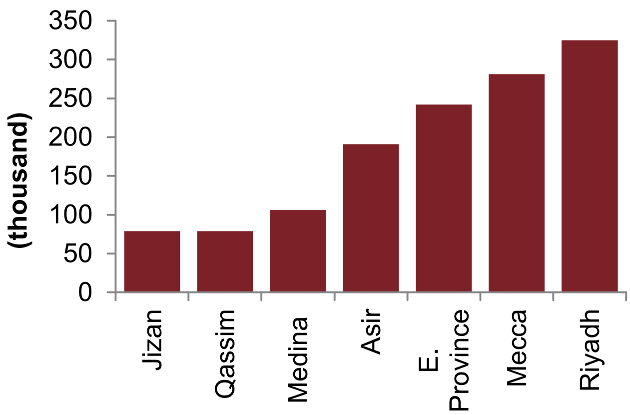


Table 5: Increasing access to finance

	Bankable	Quasi-Bankable	Non-Bankable	Low Income	Special Categories
Enabling demand	• Subsidized interest • Guarantees for specific segment	• Funding package (guarantee of advance payment, financial guarantees, interest subsidy)	•Restoration/ Renovation Loans • Rental and rent-to-own support • Funding package 1	• Usufruct right • Restoration Loan • Renovation Loan • Rental Subsidy	• Usufruct right • Rental Subsidy
Facilitating supply	• PPP • Self-construction • Ready Units from market	• PPP • Self-construction • Existing housing stock	• Existing housing stock • Low cost units 1	• Social housing • Rental units from Market	• Develop-mental housing • REDF rental units

2) Developing an advanced capital market

A number of developments have supported the advancement of the Saudi capital markets since the launch of the FSDP…

A number of developments have supported the advancement of the Saudi capital markets since the launch of the FSDP, with the most notable being the inclusion of the Saudi Stock Exchange (Tadawul) into both the MSCI Emerging Market (EM) and FTSE EM indices earlier this year. Back in March 2019, the Tadawul All Share Index (TASI) received the first tranche of passive inflows with year-to-date inflows totaling around $21 billion (SR79 billion) from around 1,400 registered QFIs (Figure 7). The promotion of Tadawul to EM status marks a key milestone, and rewards the depth and pace of reform that has taken place with the Kingdom's capital markets in the last few years. That said, the respective inclusions do not mark an end point in the advancing of capital markets. In fact, the Capital Market Authority's (CMA) Strategic Plan for 2019-21, highlights a number of areas which will continue to receive attention under its commitments to the FSDP (Table 6).

…with the most notable being the inclusion of the Saudi Stock Exchange (Tadawul) into both the MSCI Emerging Market (EM) and FTSE EM indices earlier this year.

Thus, aside from the index upgrade (Box 5), one other major change in the last few months has been the removal of a cap on ownership for strategic investors. With respect to this, back in June 2019, the CMA lifted an ownership cap on foreign strategic investors (FSIs) in listed companies, which was previously limited to 49 percent. More specifically, the updated rules now allow FSIs to hold majority ownership of listed shares if there is a clear intention of 'promoting the financial or operational performance of the listed company'. Additionally, FSIs are required to hold onto shares for at least two years following the date of ownership. Beyond these two qualifications, there seems to be no other objective test or requirement outlined under the FSI rules to measure whether a foreign investor's shareholding is a strategic one or not.

Aside from the index upgrade, another major change has been the removal of a cap on ownership for strategic investors.

The FSI rules follow a long list of measures taken in the last few years to encourage the number of QFIs participating in Tadawul (see FSDP report for more details). In fact, one of the metrics under the FSDP's 2020 commitment states that foreign investor ownership as a percentage of equity market capitalization should be a minimum of 10 percent at the end of 2019, rising to a minimum of 15 percent in 2020. According to the latest Tadawul market report, the combined ownership of foreigners, including FSIs, stood at 8.4 percent (5.8 percent when excluding FSIs) at early September 2019, equivalent to SR156 billion.

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There has also been a number of developments in debt capital markets…

...with Saudi Arabia's inclusion into the JP Morgan Emerging Markets Bond Index earlier in 2019 being a milestone.

Looking ahead, besides the various targets under the CMA's Strategic Leadership Plan, the development of capital markets is expected to continue in the near term too.

Box 5: Debt Capital Markets

There has also been a number of developments in debt capital markets, with Saudi Arabia's inclusion into the JP Morgan Emerging Markets Bond Index earlier in 2019 being a milestone. Other notable developments include the Saudi Debt Management Office (DMO) publishing an annual borrowing plan, which outlined an issuance calendar for domestic debt. The DMO also issued the longest-dated domestic sukuk sale in the Kingdom, at 30-years, helping provide a reference point for the pricing long-term public and private sector debt. Additionally, in a bid to encourage more retail investor participation in local issuances, the MoF announced that domestic sukuks would be issued in smaller denominations of SR1000, instead of the usual SR1 million.

Looking ahead, besides the various targets under the CMA's Strategic Leadership Plan, the development of capital markets is expected to continue in the near term too. In fact, earlier this year, the MSCI Tadawul 30 Index (MT30) tradable index was launched, which is seen as the initial steps in the development of Saudi derivatives and futures investment instruments. A whole litany of literature, and indeed real-life examples, show that well-regulated-i.e. derivatives traded on exchanges as well as cleared by central counterparties- can, not only, serve as an effective hedging instrument, but can also boost the efficiency of financial market operations (in line with this a Saudi Central Counterparty Clearing House (Muqassa) was established in 2018). Furthermore, a recent paper in Journal of Risk & Financial Management, found that there were also favorable effects of a derivatives market on economic growth, with the concluding remarks stating that 'any strategy for enhancing or boosting the size of the derivatives market should be encouraged, especially in emerging and developing countries, so as to boost economic development'.

Table 6: Indicators under the CMA's Strategic Leadership Plan

Performance Indicator	Baseline Year	Baseline Value	Unit	Actual 2018	Targets		
					2019	2020	2021
Market Capitalization (shares & debt instruments) as a percentage of GDP (%)	2016	78%	%	83%	86.75%=<	88%=<	88.70%=<
Assets under Management (AUM) as a percent out of GDP (%)	2016	12%	%	17%	18%=<	22%=<	24%=<
Market concentration of top 10 companies by market cap	2016	57%	%	62%	56%	55%	55%
Institutional investors' share of value traded (%)	2016	18%	%	27.4%	19%=<	20%=<	20%=<
Foreign Investor Ownership of the equity market cap (%)	2016	4%	%	4.70%	10%=<	15%=<	15%=<
Number of micro & small companies listed as a percent out of total number of listed companies (%)	2016	30%	%	42%	39%=<	40%=<	40%=<
Share of investment accounts opened through eKYC (%)	-	-	%	-	5%	10%	12%
Volatility of the Saudi Stock market index (average volatility of 90 days)	2016	21.76	Rate	13.9	25=>	25=>	25=>
Minimum free float of equity market cap in % of total outstanding shares (%)	2016	42%	%	42.8%	45%=<	45%=<	45%=<
Total amounts raised from offering securities (shares, debt, REITs, PE funds, VC funds, financing funds)	2016	430	SR billion (Accum.)	197	375	506	630
Number of annually listed companies in Saudi shares market	2016	4	Nb	12	22	23	25
Growth rate of market institutions sector' revenues	2016	-16%	% Accum.	9.2%	30%	50%	60%
The avg. of violation resolution time from the time of discovery and until its disposal within the CMA	2016	10	Months	7.2	5	3.5	3
The average period of time for litigation in securities disputes	2016	28	Months	12.9	12	9	7

Despite the expectations surrounding the parallel market (Nomu) when it was first launched back in early 2017, it has yet to fulfill its potential.

There are also more stringent levels of disclosure and operational requirement when compared to more developed parallel markets such as FTSE AIM.

Despite the expectations surrounding the parallel market (Nomu) when it was first launched back in early 2017, it has yet to fulfill its potential. One of the key challenges facing Nomu relates to the small number of companies currently listed on the exchange, with liquidity, in turn, being limited (Figure 8). Part of the reason behind this may relate to the overly protective regulation around the exchange, which, whilst shielding investors, makes it more difficult for listings on the exchange. Besides the limitations on who can invest within the market, there are also more stringent levels of disclosure and operational requirement when compared to more developed parallel markets such as FTSE AIM (*please refer to our Nomu report for more details)*. Thus, in an effort to make the exchange more flexible, a number of revisions to Nomu have been planned, which include allowing direct listings on Nomu without an IPO; reporting of financial earnings on a semi-annual, rather than quarterly basis; and the streamlining of the transitioning process for issuers from Nomu to TASI.

3) Promoting and enabling financial planning

It is more difficult to assess the progress on 'promoting and enabling financial planning' under the FSDP…

...since most of the metrics under this pillar are linked to a yet to be published National Savings Strategy.

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Meanwhile, according to the 2018 Income & Household Survey, household savings rates have declined.

Meanwhile, according to the 2018 Income & Household Survey, household savings rates have declined. Whereas the level of Saudi household savings were already very low, at around 2.4 percent of annual disposable income in 2013, the latest data for 2018 shows that this has declined to 1.6 percent. The data also shows that whilst average monthly Saudi household income grew by 9 percent in the five years to 2018, to SR14,823, a faster rise in consumption, by 10 percent over the same period, saw average consumption rise to SR14,584. Looking at the breakdown in expenditure by type, we can see that the first and second largest rises in proportional expenditure has been on utilities and transport categories (Figure 9). This is likely a result of the rise in electricity tariffs and gasoline prices instituted at start of 2018, and where the most vulnerable households have been compensated through monthly payments under the Citizen Accounts program. After that, the third largest rise in expenditure is related to more discretionary personal goods and services (personal) expenditure.

Figure 7: Number of registered QFIs

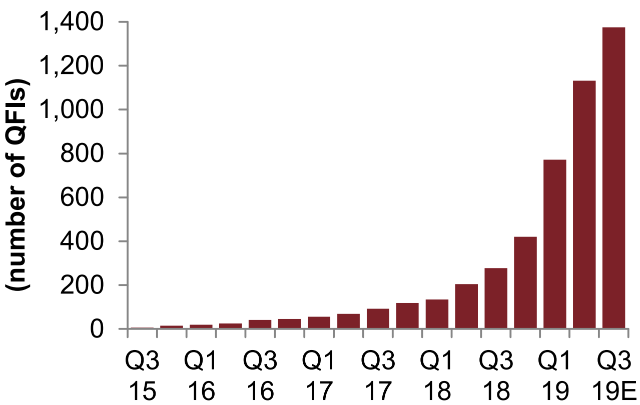
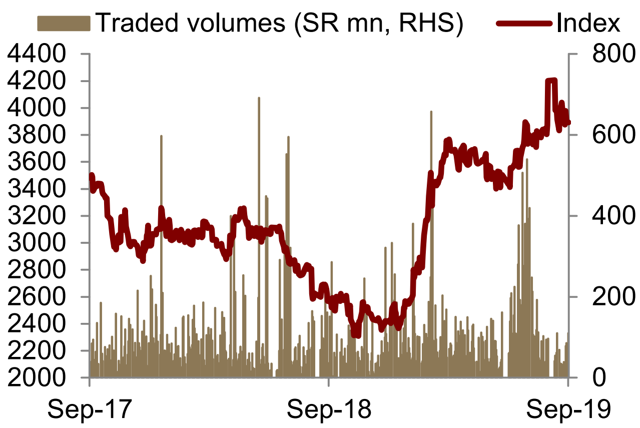


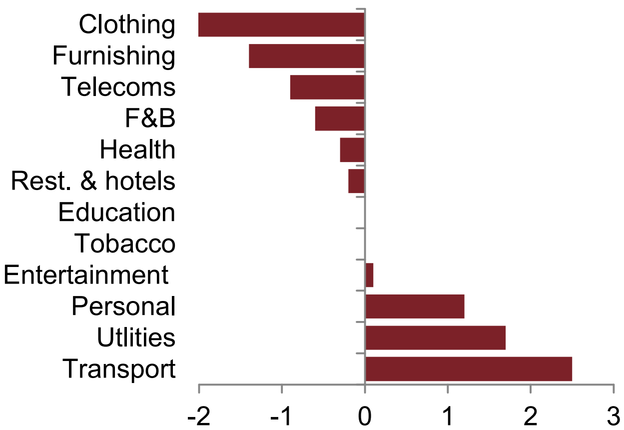
Figure 8: Nomu performance and traded volumes



Whereas the level of Saudi household savings were already very low, at around 2.4 percent of annual disposable income in 2013, the latest data for 2018 shows that this has declined to 1.6 percent.

Overall, the decline in personal savings in the Kingdom underlines the importance of broad initiative to support this area going forward. In fact, a recent report on financial exclusion by the King Khalid Foundation (KKF) highlighted that only 44 percent of Saudi adults surveyed in their report were actively saving, significantly below the average of high-income countries (at 71 percent), and even less than the average in low-income countries (at 48 percent). In fact, the KKF paper spelled out a number of policy recommendations in relation to raising the level of financial inclusion within the Kingdom, including setting more ambitious measures than currently outlined in the FSDP.

Figure 9: Proportional change in household expenditure (2018 vs. 2013, expressed as basis point)



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The data contained in this research is sourced from, FBP, Tadawul, SMEA, SIDF, IMF, SAMA, World Bank, Ministry of Finance, Reuters, Bloomberg, EIA and OPEC unless otherwise stated.

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