FINANCIAL STABILITY REPORT

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Saudi Arabian Monetary Authority

Financial Stability Report 2020

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Executive Summary

Risks to growth in both advanced and emerging economies have increased somewhat in 2019, emphasized by a slower global manufacturing activities and increased uncertainty for the economic outlook, drawn back by a tighter trade policy conditions. Although, loose financial conditions played a key role in mitigating the impact of risk sentiment on global growth, which was observed by significant movements in global capital markets.

Going forward, downside risks includes ongoing uncertainties about the duration and intensity of the impact in the unprecedented economic shock of the global COVID-19 pandemic, which sparked a significant deterioration in risk sentiment with adverse global growth implications, and a slower global economic output on the back of health emergency and related containment measures witnessed in Q1-2020. Nevertheless, stimulus fiscal and monetary measures adopted by national jurisdictions worldwide ought to mitigate economic downturn implications.

Domestically, the Saudi economy grew modestly in 2019, largely driven by the non-oil sector led by private sector activity, whereas the oil sector declined due to oil production cuts. Inflation rate fell back into negative territory in 2019, while other macroeconomic indicators showed an increase of consumer spending and continuous strengthening in the performance of residential and commercial real estate sectors. The domestic fiscal stance showed an improvement in 2019 where the government revenues increased compared to 2018, while budget deficit and government expenditure decreased during the same period, which came as a result of the improvement in expenditure efficiency.

The Saudi economy cannot be unstained from global economic events; therefore, we are expecting a negative impact from the COVID-19 pandemic and the resulting global recession on the Saudi economy. However, the negative impact would likely be mitigated by the strong measures taken by various Saudi authorities. The global oil market developments continue to pose a challenge to the Saudi economy in the coming year due to expected decline in global demand caused by the containment measures of the COVID-19 outbreak and the uncertainty regarding the duration of market disruption.

Banking sector have witnessed positive growth in 2019, as indicated by assets, credit, and liquidity. The growth in credit was supported by private and public lending, whereas liquidity improved due to the inclusion of TASI index in several emerging markets indices. Profitability declined compared to 2018 due to a reduction in non-interest income. Financial soundness indicators suggest high resilience of the system and ability to withstand economic shocks.

Taking into account domestic and global economic outlook, the financial sector is expected to encounter a reduction in activities in 2020, which will reflect negatively on profitability and possibly increase defaults. Given the current comfortable financial position of the sector, breaching SAMA’s requirements in terms of financial soundness indications are highly unlikely.

Insurance market grew in terms of premium in 2019 compared to the preceding year, driven by the continued expansion in health segment. While motor premium contracted for the third consecutive year on the back of regulatory reforms aimed at achieving fair pricing and promoting safer driving behaviors, which are expected to pay off in the near future. Insurance sector continued to show strong solvency position and sufficient technical provisions. The market incurred slightly higher claims in 2019, driven by health line of business; keeping the loss ratio high and weighing on underwriting profitability. The overall profitability of the market remains unsustainably low.

The outbreak of COVID-19 is hurting all economic sectors world-wide and the insurance industry is no exception. The impact of the outbreak is expected to hit life insurers more severely compared to non-life insurers; as COVID-19 related claims spike, weighing on solvency; and interest rates drop, impairing life insurers’ ability to meet their contractual obligations and diminishing their profitability. However, the impact on the domestic insurance market is expected to be moderate given the high concentration of the market in non-life business and the limited exposure to the international capital markets.

Finance Companies have not recorded significant changes in activities during 2019 although there have been positive developments in the supervisory and regulatory framework front. Finance Companies overall performance was positive, as their assets, total credit and profitability have increased by end of 2019. Non-performing loans declined marginally in 2019, which indicates improvement in the overall health of the sector.

Alongside Capital Market Authority (CMA) initiatives to increase market depth in order to attract foreign investors, the Tadawul All Share Index (TASI) market capitalization increased substantially in 2019, becoming the world's ninth largest stock market in terms of market capitalizations. The notable increase is mainly driven by the IPO of the Saudi Arabian Oil Company (Saudi Aramco). The offering has enhanced Saudi equity global market visibility, attracted foreign capital flows and boosted Investment sentiment.

TASI was slightly more volatile during 2019 relative to the prior year. Revenue mix for Authorized Persons (APs) changed slightly during 2019 with year on year net income growth decelerating, and a notable drop in the value of investment in listed shares and private equities/subsidiaries.

Authorities worldwide have continued their efforts to strengthen and ensure the resilience of the financial sector. They also evaluate the effectiveness and efficiency of the post-crisis financial regulatory reforms. Recently, the Financial Stability Board (FSB) has launched an evaluation of the effects of the 'too big to fail' reforms. These evaluations are crucial to examine whether the implementation of these reforms has intended its aims, and addressing any material unintended consequences.

In Saudi Arabia, SAMA has extended its effort on improving the financial regulatory framework in line with regulations issued by international standard-setting bodies. It has been also paying more attention to new potential risks that may cause financial instability, including the extraordinary development of financial technology (FinTech) and cybersecurity threats. In addition, SAMA has continued to work on achieving globally agreed reforms in the area of over-the-counter (OTC) derivatives markets. In 2019, SAMA introduced rules on trade repository reporting and risk mitigation requirements for OTC derivatives contracts.

1

GLOBAL ECONOMIC DEVELOPMENTS

1. Global Economic Developments [1]

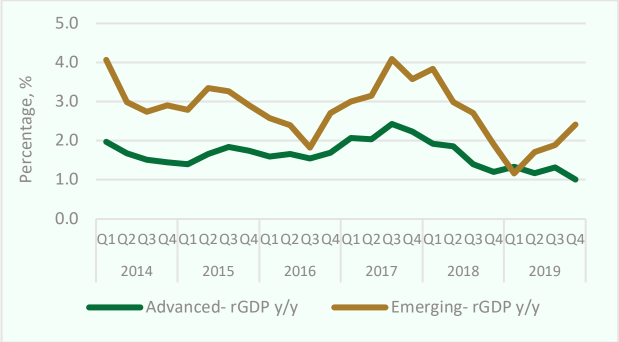
1.1 Overview

During 2019, a broad-based slowdown in global growth was visible in manufacturing activities and global trade. Lower trade volumes and weaker industrial production have weighed on business sentiment and elevated uncertainty. Tighter trade policy conditions were a downside risk for global growth. The unprecedented economic shock of the ongoing global COVID-19 pandemic has led to significant uncertainty for the global economic outlook due to the sharp contraction in real economic activity across sectors, and significant movements have been observed in global capital markets. Following these developments, financial conditions tightened, market volatility spiked and borrowing costs surged on expectations of widespread defaults; Global growth stabilized at a weak pace after a sharp decline by the end of 2018, as tighter trade policy conditions played a significant role in subduing global growth along a deceleration of economic activities.

In 2019, major economies rebounded at a slower pace. The notable uptick in the average GDP growth in emerging economies was uplifted by the Western Asia region, where growth was driven by a surge in private consumption, although external factors such as net exports weighed on the region's overall growth (Chart 1.1). The average GDP growth rate for emerging economies stood at 2.4 percent in Q4 2019 compared to 1.9 percent in Q4 2018, the lowest level recorded in 2018.

The United States maintained a moderate pace of year on year expansion of 2.1 percent in Q4 2019, on the back of a positive contribution from consumer spending and residential investments, which has propelled overall GDP growth. In the eurozone, where uncertainties have dented investment and demand for capital goods, a lower level of industrial production was exhibited, which pressurized GDP growth and elevated unemployment rates. That could be a possible indicator of a higher risk sentiment. By the end of 2019, advanced economies showed relatively slower growth, compared to 2018 levels, weighed down by major eurozone economies. Growth stood at 1.0 percent by December 2019 compared to 1.2 percent recorded in 2018 year on year.

Chart 1.1: GDP Growth

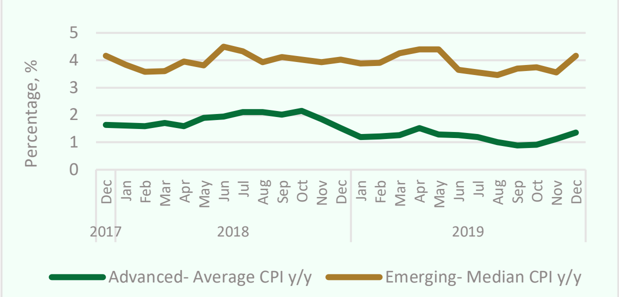


Source: Bloomberg

1.2 Inflationary Trends

Inflation rates for emerging economies remained elevated compared to advanced economies. EME's inflation softened by the end of 2019 amid more subdued activity across many emerging economies. Consumer price index (CPI) slightly increased to 4.2 percent by year ended 2019, compared to 4.0 percent in the previous year (Chart1.2). However, inflation rates in stressed economies in Latin America and Western Asia were among the highest, where countries suffered from severe inflationary pressure amid depreciation in currency and slower growth. On the contrary, average CPI for advanced economies remained flat by the year ended 2019 at around 1.4 percent.

Chart 1.2: CPI



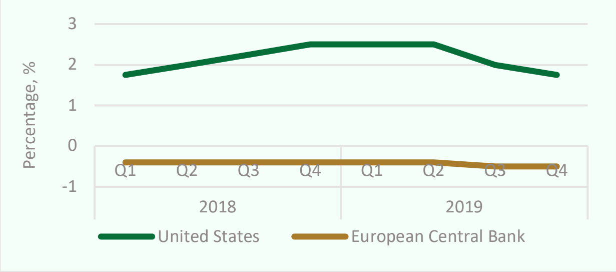
Source: Bloomberg

[1] The analysis in this chapter focuses on G20 countries, both advanced and emerging G20 countries.

Unemployment and underutilized labor remained high across many countries, indicating weaker labor market conditions, as the downturn in the manufacturing sector might have taken a toll on the wider economy especially in the eurozone.

The United States decision to cut its benchmark interest rate by a total of 75 basis points during 2019, stimulated growth and encouraged investments. Additionally, the European Central Bank announced quantitative easing measures and cut its interest rate to an all-time low of -0.5 percent in the second half of 2019 to stimulate eurozone economies (Chart 1.3).

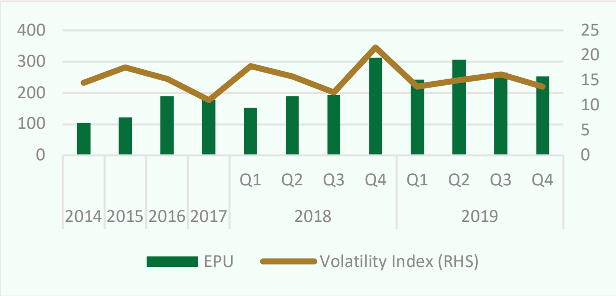
Chart 1.3: Interest Rates



Source: Bloomberg

The Economic Policy Uncertainty index (EPU) remained at a relatively high level, stemming largely from US-China trade policy, uncertainty and social unrest in several countries, in tandem with a spike in the volatility index[2], which reflected investor sentiment in 2019 (Chart 1.4).

Chart 1.4: Economic Policy Uncertainty Index

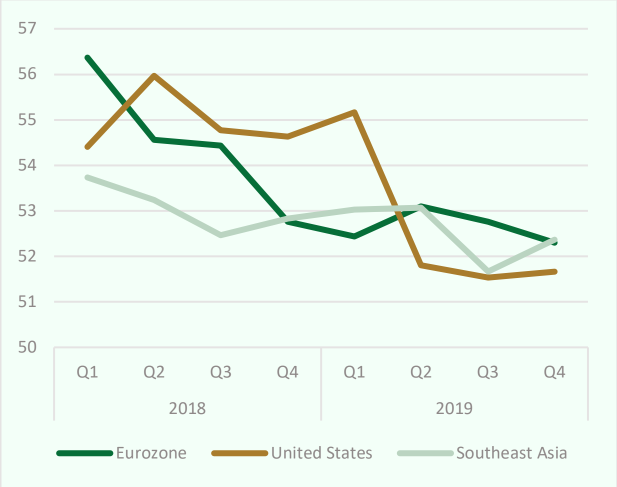


Source: Bloomberg

Economic activity indicators were relatively low in most regions throughout 2019. In the eurozone, slower momentum was highlighted by uncertainty and a downturn in a major industry such as machinery production among several economies. Subsequently, weak international trade flows weighed on business confidence, as new orders declined while unemployment rose.

While manufacturing in major economies has been sluggish in 2019, the services sector remained resilient in general, encouraging employment and consumer confidence. The International Monetary Fund's (IMF)[3] 2019 Outlook noted concern about whether the weakness in manufacturing sector might spill over to the services sector. The PMI index for business activity in the services sector showed a minor downturn trend in 2019 compared to 2018 (Chart 1.5), indicating that a spillover from the deterioration witnessed in manufacturing activities into the services sector would act as a downside risk in the long term.

Chart 1.5: PMI – Service Sector



Source: Reuters

[2] Chicago Board Options Exchange (CBOE) market volatility Index representing 30-day market expectation of forward looking volatility
[3] World Economic Outlook (WEO), Oct. 2019

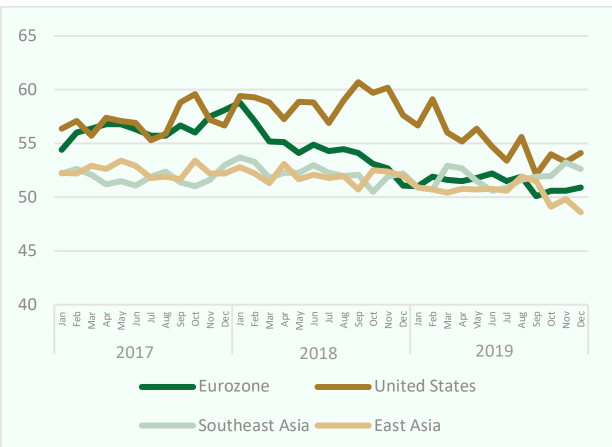
Eurozone: in 2019, the purchasing managers index (PMI), which is often used as a proxy for economic activity averaged 51.3, reached its highest level of 52.2 in June 2019 and its lowest level of 50.1 in Sep 2019 (Chart 1.6).

Southeast Asia: in 2019, PMI averaged 51.8, reached its highest point of 53.2 in November 2019, and recorded its lowest result of 50.6 in June 2019.

US: in 2019, PMI averaged 55.1, posted its highest result of 59.1 in Feb 2019 and its lowest result of 52.1 in Sep 2019.

East Asia: in 2019, PMI averaged 50.5, reached its highest point of 51.9 in Aug 2019 and its lowest point of 48.6 in Dec 2019.

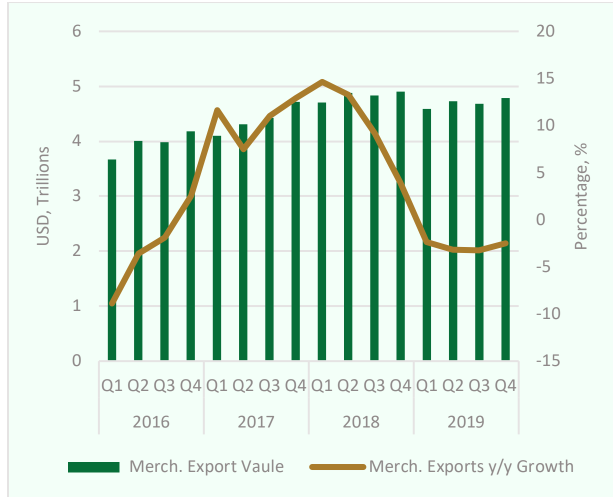
Chart 1.6 Global Composite PMI



Source: Bloomberg

Global Merchandise exports declined significantly in 2019 by an average rate of -2.8 percent compared to a growth of 10.3 percent witnessed in previous year (Chart 1.7). Any easing of trade disputes will be a key growth catalyst going forward.

Chart 1.7: Global Merchandise Exports



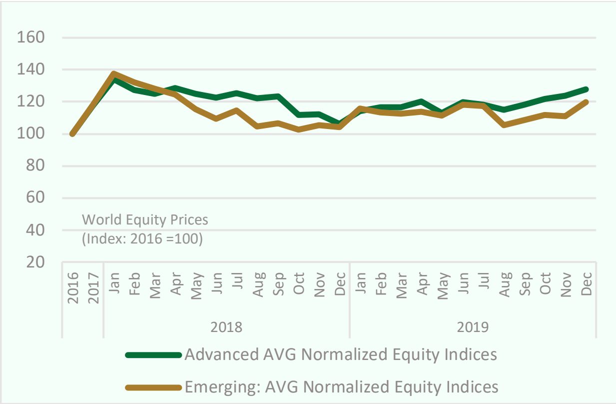
Source: World Trade Organization (WTO)

1.3 Global Capital Markets

Current conditions are leading to a significant repricing across markets due to ongoing uncertainties caused by the global health pandemic. However, 2019 was a buoyant year for equity markets, largely dominated by US indices driven by a more accommodative monetary stance and thriving tech sector. S&P500 was the highest performer and registered a growth of nearly 29 percent compared to 2018, followed by Dow Jones Industrial Average and Russell 2000, both of which rose by more than 20 percent. The average growth rate for equity markets in advanced economies stood at 20 percent compared to the previous year. For emerging market equities, some indices remained below 2016 levels. However, the average growth rate for stock markets in emerging economies was at 14 percent by end-2019 compared to end-2018, uplifted by the RTS-Russia Index outperforming emerging market peers and recording significant growth at nearly 45 percent compared to 2018 (Chart 1.8).

It is worth noting that the average price-to-earnings (PE) multiple for advanced economies was at 18.7x, higher than 2018 average of 13.8x, which indicates a slight overvaluation of prices. On the contrary, the emerging economies PE ratio remained unchanged and stood at 15.5x.

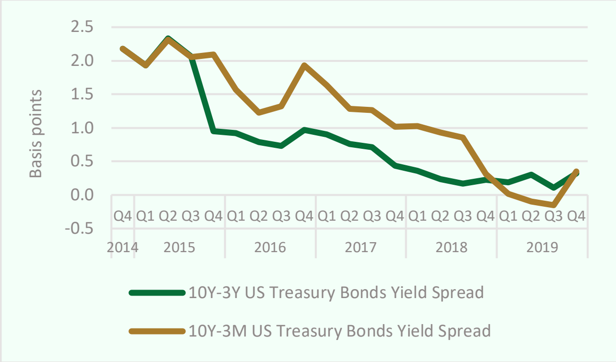
Chart 1.8: Global Equities



Source: Bloomberg

Market risk sentiment increased somewhat, as an inversion of the US yield curve signaled fear about tepid economic growth and pending recession among investors (Chart 1.9); the difference between 3-month and 10-year Treasury bond yields turned to negative territory for the first time since Q1-2007, posting -0.10 basis points by end Q2-2019, as the yields on long-term US Treasury bonds fell below that for short-term, a possible indication of global sell-off amid uncertainty. Another measure is the difference between 2-year and 10-year Treasury bonds yields, which edged to the lowest quarterly level during the year of 0.108 basis points by Q3-2019 before adjusting to a higher level by end of 2019.

Chart 1.9: Yield Curve Inversion

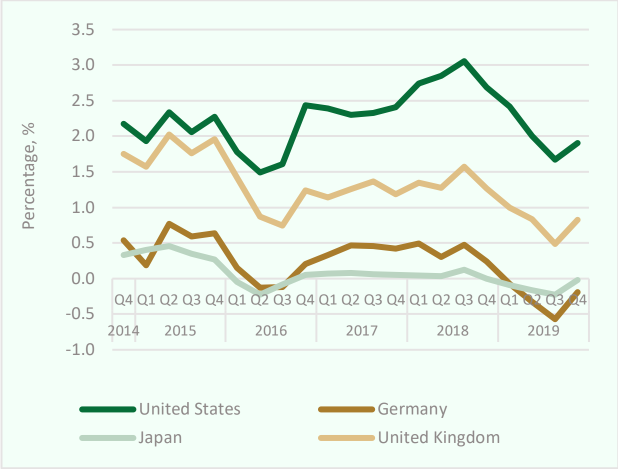


Source: Reuters

Notably, the shift toward more accommodative monetary stance took a place amid a decline in long-term yields; at the end of 2019, the yield for the 10-year Treasury bond in the US was 1.91 percent, falling 75 basis points on a year-to-date basis – the biggest annual drop since 2011 (Chart 1.10).

For Germany and Japan, the negative trend of bond yield continued at the end of the year (-0.19 percent and -0.02 percent, respectively) due to slower global growth momentum and prolonged uncertainty. Brexit and global trade tensions weighed on the long-term economic outlook in the United Kingdom, as the 10-year government bond yields declined by nearly 39 basis points to 0.825 percent in 2019.

Chart 1.10: 10-Y Bond Yields

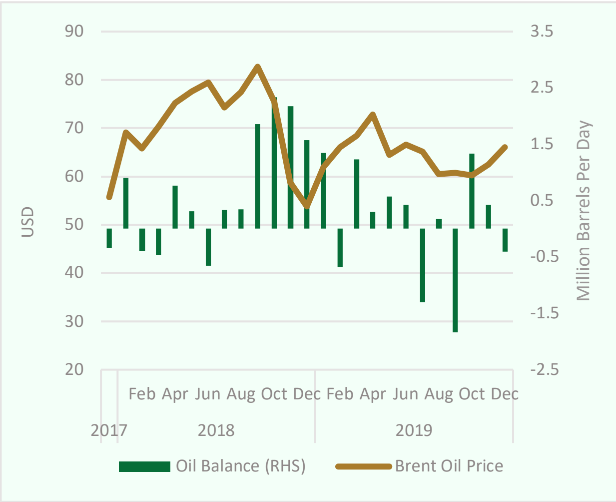


Source: Reuters

Oil prices were relatively stable in 2019 despite a heightened geopolitical uncertainty during the year (Chart 1.11). Oil was trading around 64.2 USD per barrel. Brent price dipped to a low of 54.91 USD per barrel in January 2019 on the back of weak economic fundamentals and reached the highest level of 74.6 USD per barrel in April. The year ended with above-average price of 66.0 USD per barrel. Moreover, despite the change in the oil balance[4], average Brent prices remained broadly stable.

[4] Oil balance is calculated as the difference between crude oil and other liquids for the total world supply and consumption.

Chart 1.11: Brent Oil Price



Source: Bloomberg

1.4 Risk Dimensions

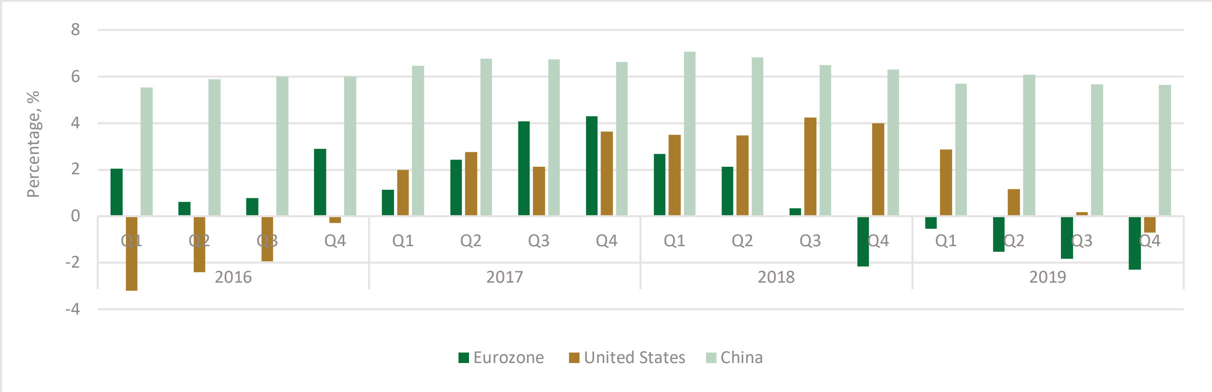
Loose financial conditions mitigated the impact of risk concerns on the overall global economic growth and supported the short-term outlook, but also raises the risk of financial vulnerabilities; Downside risks at end of 2019 included debt accumulation in sovereign, corporate, and non-bank institutions.[5] This was as a result of easy financial conditions in addition to slower-than-expected global growth on the back of persistent trade tensions and social unrest in several countries, hence, increased uncertainty.

Tailwinds mitigating risks in the financial dimension appear in the form of lower debt service costs, stemming from subdued interest rates. In the monetary dimension, accommodative policies in advanced economies represent favorable investment conditions.

Box 1.1: Developments in Global Industrial Production

The Global Manufacturing downturn deepened in 2019, as growth in production and new orders marginally deteriorated. The macroeconomic consequences of global trade policy and tariffs imposed by the US affected global business sentiment and consumer confidence, as well as Chinese manufacturing and exports. Although China enjoyed relatively high growth in industrial production in 2019, at an average of 5.8 percent compared to 6.7 percent in 2018 (Chart 1.12), the rate had been marginally decreasing over the year. The aforementioned conditions weighed on demand. That was partially reflected in the sharp drop in automobile sales in China. The sales dipped by an average of 9.6 percent in 2019 compared to the previous year (Chart 1.13), affected by trade friction and the adoption of tighter emission standards alongside the eurozone.

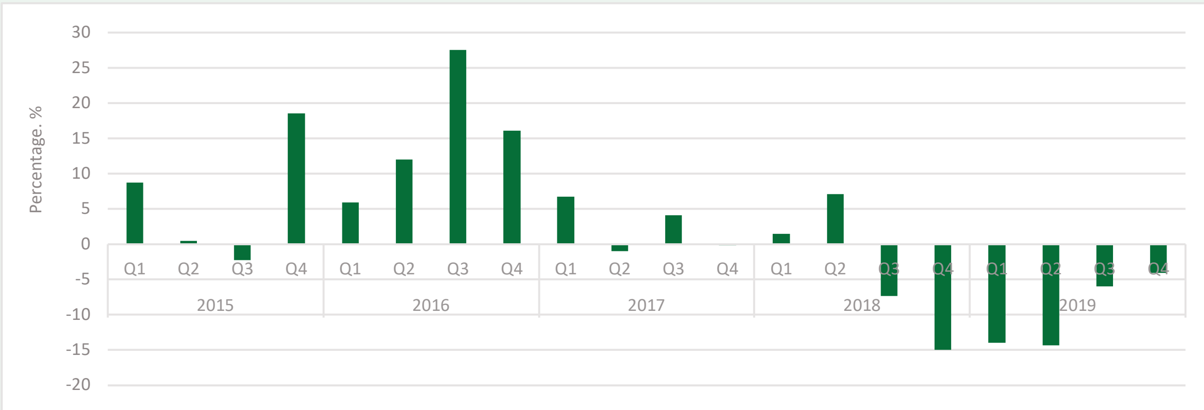
Chart 1.12: Industrial Production (Y/Y)



Source: Reuters

[5] GFSR, Oct. 2019

Chart 1.13: Chinese Automobile Exports (Y/Y)



Source: Bloomberg

Headwinds from international trade and uncertainty weakened trade and manufacturing in Europe, mainly in machinery and transport equipment. Overall production in the eurozone dropped. The average industrial production for the eurozone fell by 1.6 percent in 2019 compared to the previous year, marked by a decline in the production of capital goods by 6.7 percent compared to the previous year. This was driven by a lower industrial activity in the machinery and equipment sector, mainly in the automobile segment, which is a crucial industry for the eurozone that underpins employment and significantly contributes to overall economic growth. Intermediate goods also declined by 1.4 percent, while non-durable consumer goods slightly rose by 1.3 percent compared to 2018 levels.

Broadly, the countries exposed to international trade were more vulnerable to the impact. Germany, an industrial powerhouse, was affected the most due to its strong focus on manufacturing. Its industrial production declined by an average of 3.5 percent in 2019 compared to last year, followed by Italy where the decline was 1.4 percent compared to the previous year. On the other hand, countries that were less reliant on exports, and less exposed to trade fluctuation and current cyclical downturn, such as France and Spain, registered an average industrial production rate of 0.3 percent and 0.7 percent, respectively, in 2019 compared to the previous year.

In the United States, growth in overall industrial output reached negative territory in Q4 2019 (-0.72 percent compared to 4.0 percent in the same period of the previous year). Accompanied by lower capacity utilization, average growth in industrial production for the year 2019 contracted to 0.87 percent, significantly lower than the 3.8 percent achieved in the preceding year.

According to the US Institute of Supply Management, the US new orders index registered 46.8 percent in December, a decrease from 51.1 percent recorded in the same period last year. By year ended 2019, only three manufacturing industries reported growth; Food and Beverages, Miscellaneous manufacturing, and Textile Mills, while the remaining reported a contraction.

2

DOMESTIC
MACRO-FINANCIAL DEVELOPMENTS

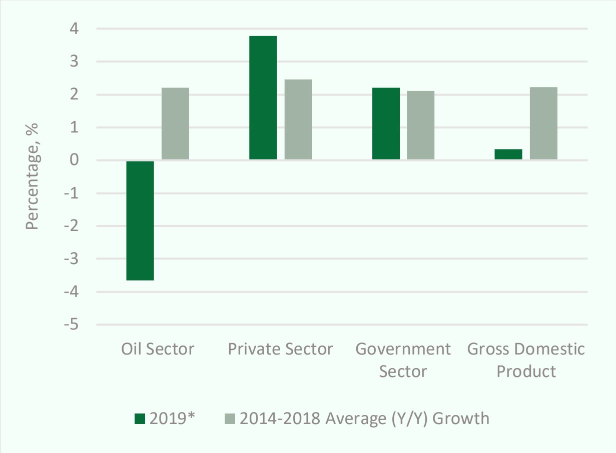
2. Domestic Macro-Financial Developments

2.1 Growth Developments

The Saudi economy grew modestly in 2019. Overall, real GDP grew by 0.33 percent in 2019 compared to an expansion of 2.43 percent in the previous year. The oil sector declined by 3.65 percent in 2019 compared to an increase of 3.13 percent in 2018, and with an average growth of 2.2 percent over the last five years (2014-2018) (Chart 2.1). This drop in the oil sector growth was largely attributed to the reduction in oil production due to the OPEC output cut agreement.

Despite negative growth in the oil sector, non-oil economic growth accelerated in 2019. Non-oil output grew by 3.31 percent, led by private sector activity, in line with the Kingdom's efforts to diversify the economy away from oil (Box 2.1). The growth in the non-oil sector in 2019 is mainly attributed to the wholesale, retail trade, restaurants and hotels sector which increased by 6.27 percent, along with the finance, insurance, real estate and business services sector, which grew by 5.53 percent. The improvement in the construction sector, which increased by 4.60 percent, was mainly due to high growth in the real estate sector and government housing initiatives (Chart 2.2) as indicated by the growth of subsidized real estate loans.

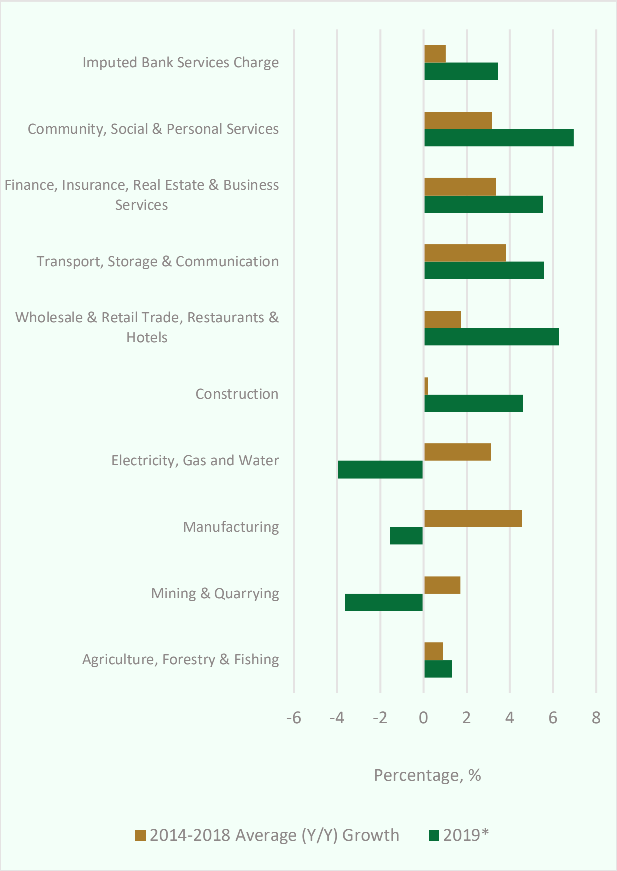
Chart 2.1: Real GDP Growth by Institutional Sectors



Source: General Authority for Statistics

** Estimated*

Chart 2.2: Real GDP Growth by Economic Sectors



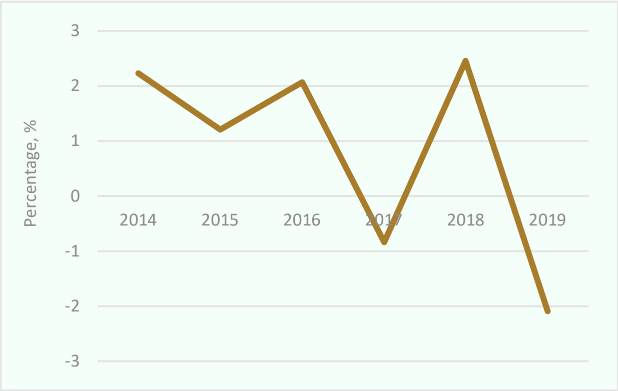
Source: General Authority for Statistics

**Estimated*

2.2 Inflation Trends

Inflation fell back into negative territory in 2019. The Consumer Price Index (CPI) averaged -2.1 percent in 2019 compared to 2.5 percent experienced in 2018 (Chart 2.3). One factor contributing to the slowdown in prices was the base effect caused by the introduction of VAT at the beginning of 2018. The other factor was the sharp decline in rentals for housing, a sub-item with a large weight of the total consumer basket, which declined by an average of 10.2 percent in 2019.

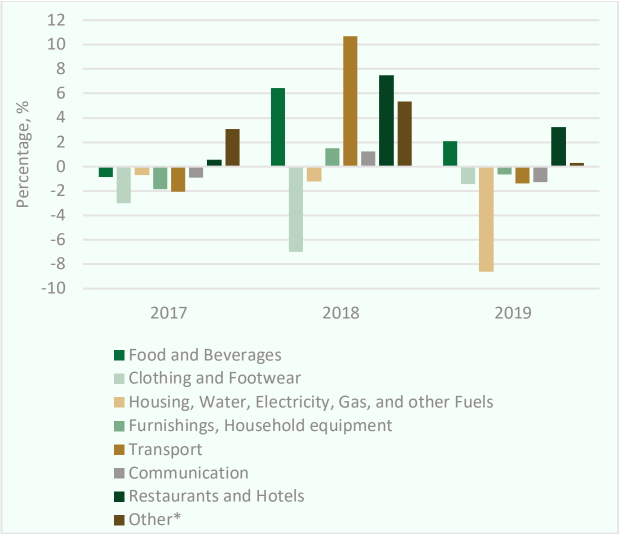
Chart 2.3: Annual Inflation (2018=100)



Source: General Authority for Statistics

Prices of seven main groups in the CPI basket declined in 2019. The main division that sharply declined was housing, water, electricity, gas and other fuels with an average of 8.6 percent in 2019, as 'rentals for housing' recorded the most significant decline, falling by 10.2 percent during the same period. This may be due to the lower demand amid the final departure of some expats' families citing high fees. Moreover, the other six sections that decreased during the same period were: Clothing & footwear (1.4 percent); furnishing, household equipment and maintenance (0.6 percent); transport (1.4 percent); communication (1.3 percent); recreation and culture (1.7 percent); goods and services (0.4 percent). Whereas restaurants and hotels registered the highest increase amongst the main CPI basket items of 3.2 percent. Education, food & beverages, tobacco and health came next with an increase of 2.5 percent, 2.1 percent, 1.0 percent and 0.1 percent, respectively (Chart 2.4).

Chart 2.4: Annual Inflation Rate of the Consumer Price Index by Main Sections



Source: General Authority for Statistics
** Includes: tobacco, health, recreation & culture, education and miscellaneous goods & services*

Looking forward, inflation is expected to return to a positive range in 2020 despite the decline in local demand for most economic activities due to the precautionary measures that have been taken to limit the spread of COVID-19. International food prices are expected to rise due to global value chain distortions as a result of the precautionary measures applied globally. In addition, the government will help private sector companies to keep paying wages by facilitating their access to banking loans, as well as exempting them partially from the expat levy or paying 60 percent of Saudi employees' wages for three months which started May 2020. This initiative will contribute to maintaining consumption levels, especially for essential goods and services. Additional factors will also contribute to this upward pressure on inflation including applying fees for sweetened drinks, which were applied from Q4 2019, lifting subsidy on poultry feed which began in early 2020, and raising Value-Added Tax (VAT) from 5 to 15 percent which is set to take effect starting July 2020.

Taking the Point of Sales (POS) data as indicative of consumer spending activity, it signals a healthy sales growth. Retail consumption indicators point to a persistent increase throughout 2019. Both transactions and sales continued to grow at high rates, 56.5 percent and 22.8 percent, respectively (Chart 2.5). One factor contributing to the jump in POS was holding a number of seasonal events in various regions and cities across the Kingdom. In addition, given that shops and selling outlets are now obliged to provide an electronic payment services, the consumer is able to pay in small amounts electronically and this has resulted in the divergence in growth between POS transactions and value. When considering the utilization rate, i.e. the average number of times each terminal is used, it reflects a notable increase in the use of cashless payments on the back of recent initiatives by SAMA to promote a cashless society in line with Vision 2030 (Chart 2.6).

Chart 2.5: Point of Sale Activity

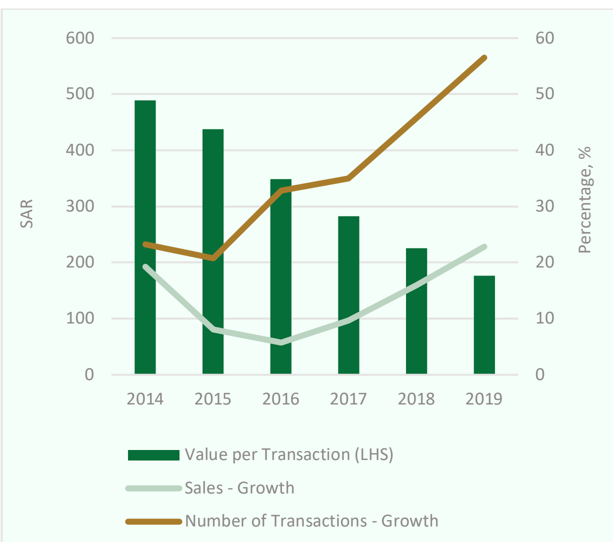
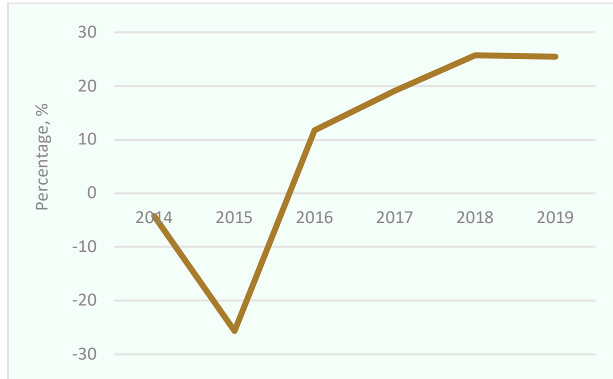


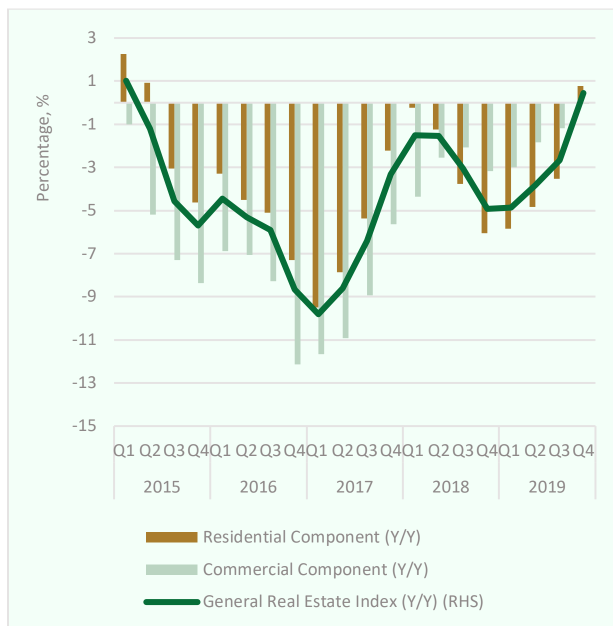
Chart 2.6: POS Utilization Rate



2.3 Real Estate Developments

Real estate prices recorded an increase for the first time in five years. The Real estate index averaged 80.8 in the fourth quarter of 2019; an increase of 0.4 percent compared to the same period last year (Chart 2.7). The pickup in prices was driven mainly by residential home prices, which rose by 0.8 percent in the fourth quarter of 2019 year on year.

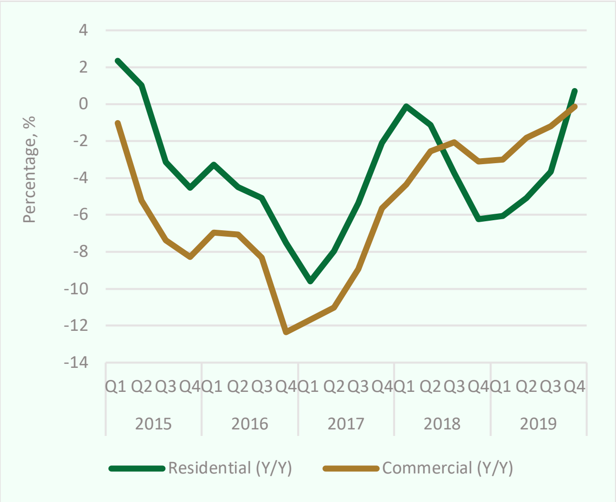
Chart 2.7: Real Estate Price Index



Source: General Authority for Statistics

The prices for plots of land stabilized by the end of 2019. Residential plot prices rose for the first time since 2014 by 0.7 percent, while commercial plot prices fell by 0.1 percent year on year in the fourth quarter of 2019 (Chart 2.8). The pickup in prices may be attributed to the high demand for mortgage loans in 2019.

Chart 2.8: Commercial and Residential Plot Price Indices



Source: General Authority for Statistics

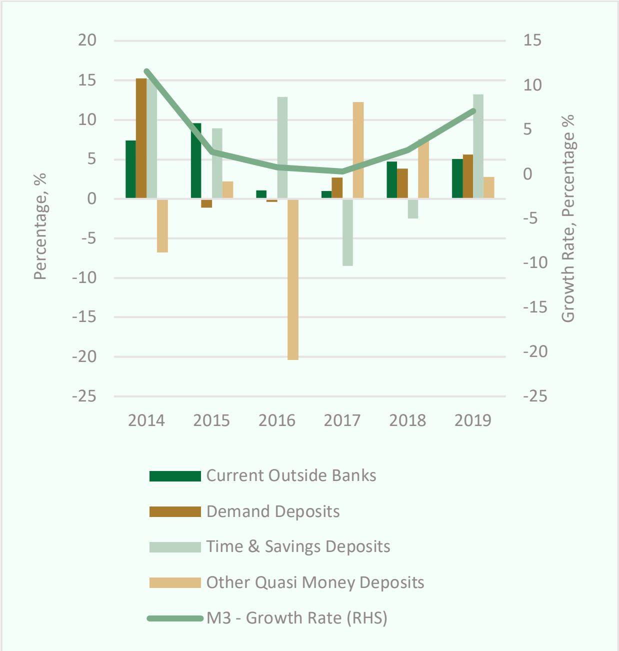
2.4 Monetary Developments

2.4.1 Monetary Aggregates

Monetary aggregates increased compared with the previous year. The monetary base recorded a growth rate of 4.2 percent in 2019 compared with an increase of 3.2 percent in 2018. As a result of high government spending, the broad monetary aggregate (M3) grew by 7.1 percent by the end of 2019 which reflects, the improving liquidity levels for households and businesses.

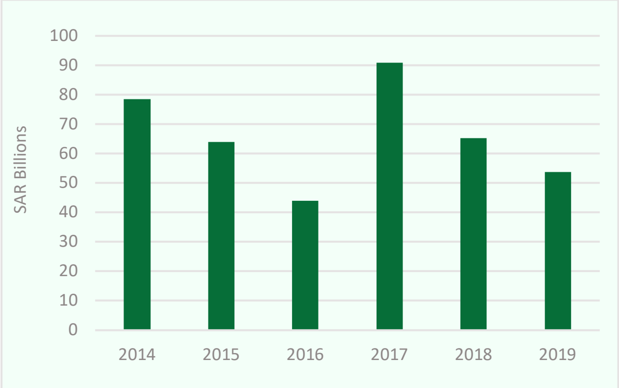
Among M3 components, time and savings deposits grew significantly by 13.2 percent in 2019. Demand deposits, which represent 55.4 percent of M3, recorded a growth rate of 5.6 percent in 2019 mainly supported by the increase in business and individuals' deposits. In addition, currency outside banks growth slightly improved from 4.7 percent in 2018 to 5 percent in 2019, while other quasi-monetary deposits continued to grow recording an increase of 2.8 percent in 2019 (Chart 2.9).

Chart 2.9: Growth Rates of M3 and its Components



Reverse repo transactions declined modestly in 2019. The monthly average reverse repo witnessed a slight decrease from SAR 65 billion in 2018 to SAR 53 billion in 2019 (Chart 2.10). Despite the decrease in reverse repo levels, they remained within comfortable levels, aided by the redeployment of the Saudi Arabian Oil Company (Saudi Aramco) IPO proceeds in the system.

Chart 2.10: Reverse Repo Transactions Performance



2.4.2 Monetary Policy Conditions

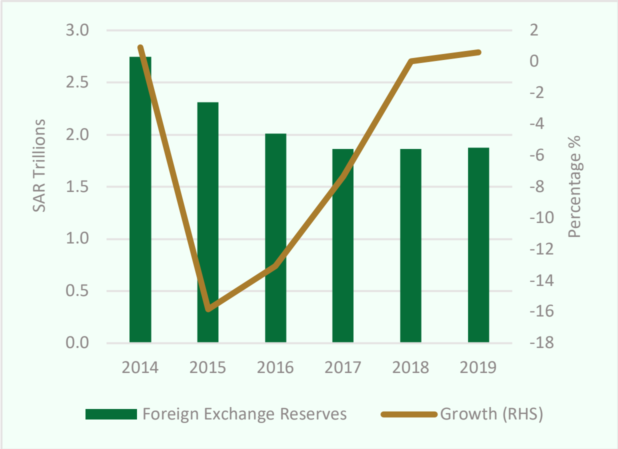
The Saudi Arabian Monetary Authority (SAMA) has affirmed its commitment to maintaining its exchange rate policy. Since 1986, the Saudi Riyal has been pegged to the US Dollar at the rate of 3.75 per 1 USD. The current market conditions and economic structure support the current exchange rate framework, which serves to ensure monetary and financial stability. During 2019, SAMA reduced its Repo and Reverse Repo rate by an aggregate of 75 basis points to reach 2.25 and 1.75 percent by the end of the year respectively. The rates cut are in line with SAMA's objective of preserving monetary stability.

In response to the three rate cuts by SAMA, the 3-month Saudi Arabian Interbank Offered Rate (SAIBOR) slightly decreased throughout 2019. As Chart 2.11 illustrates, the SAIBOR slightly increased in the first half of 2019, and then started declining and averaged 2.6 percent by the end of the year, reflecting monetary conditions in the United States.

Chart 2.11: Saudi Interbank Offered Rate (SAIBOR)

At SAR 1,873 billion by the end of 2019, SAMA's foreign exchange reserves were about 0.6 percent higher compared to the year before (Chart 2.12). SAMA's foreign exchange reserves are used in meeting Saudi Arabia's external obligations, import demand, non-residents' remittances, and are also used for the purpose of maintaining monetary and financial stability.

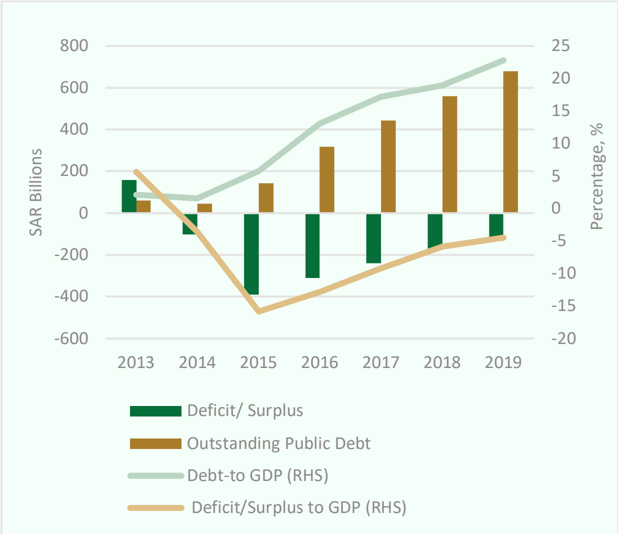
Chart 2.12: Foreign Exchange Reserves



2.5 Fiscal Developments

The government continues its efforts to decrease its budget deficit. The government budget deficit reached SAR 132.6 billion in 2019, lower than the previous year by around 23.7 percent (SAR 174 billion). It represents approximately 4.5 percent of GDP compared to about 5.9 percent in 2018 (Chart 2.13). This decrease in the government budget deficit came as a result of the improvement in expenditure efficiency, which is lower than budgeted, in addition to a decline in capital expenditures.

Chart 2.13: Fiscal Developments

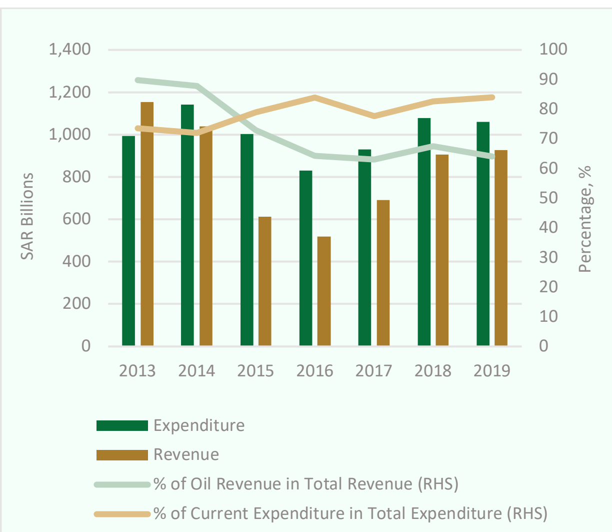


Source: Ministry of Finance

Government revenues increased in 2019 driven by the non-oil sector. Total revenues have reached SAR 926.8 billion in 2019, an increase of 2.3 percent compared to the previous year. Non-oil revenue reached SAR 332.4 billion, of which tax revenue represented SAR 220.1 billion, an increase of almost 31 percent on the previous year. Despite the improvement in non-oil revenues, oil remains a major contributor and represents approximately 64 percent of total government revenue in 2019 (Chart 2.14).

Government expenditure exceeded SAR 1 trillion for the second year in a row in 2019. It decreased by approximately 1.9 percent compared to an increase of 16 percent in the previous year. Current expenditures declined by 0.1 percent, reaching SAR 890 billion in 2019, where salary expenses, which hold the largest share of current expenditures at around 57 percent, witnessed an increase of 4.4 percent. Capital expenditures reached SAR 169.4 billion by the end of 2019, demonstrating a drop of 10 percent compared to the previous year. The decline reflects government efficiency in managing expenditure.

Chart 2.14: Revenues and Expenditures

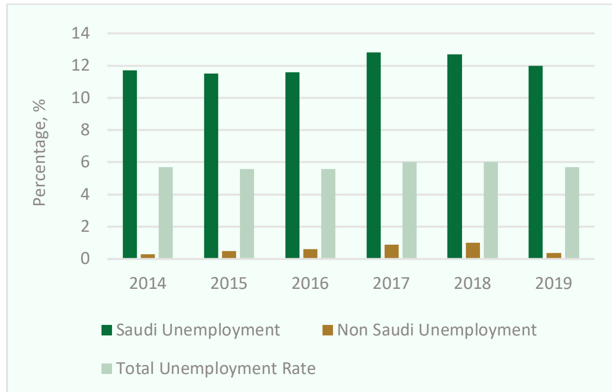


Source: Ministry of Finance

2.6 Labor Market Performance

The unemployment rate continued its downward trend in 2019. The average Saudi unemployment rate declined to 12 percent in 2019, reaching its lowest level in three years; compared to 12.7 percent in 2018 (Chart 2.15). It should be noted that the unemployment rate among Saudis has shown a drop for all Saudis, both male and female. The Saudi male unemployment rate decreased from 6.6 percent in 2018 to 4.9 percent in 2019, while the female unemployment rate has declined from 32.5 percent to 30.8 percent. The lower unemployment rate may be attributed to the effectiveness of Vision 2030 reforms, and higher growth in the private sector.

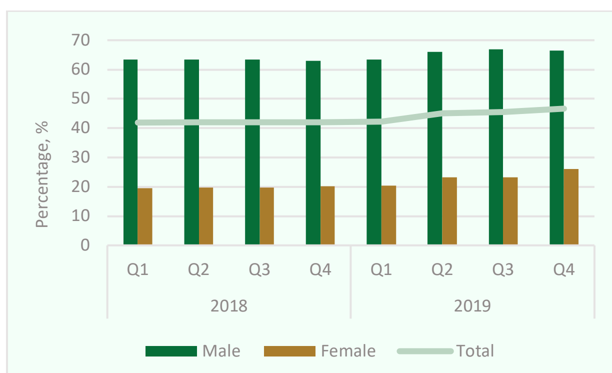
Chart 2.15: Unemployment Rate



Source: General Authority for Statistics

The economic participation ratio among Saudis has increased in 2019. The Saudi labour force has increased due to a higher economic participation ratio, which rose from 42 percent in 2018 to 46.7 percent in 2019 (Chart 2.16). Therefore, the decrease in the unemployment rate was not a result of a decline in Saudi labour force.

Chart 2.16: Saudis Economic Participation Rate of Population



Source: General Authority for Statistics

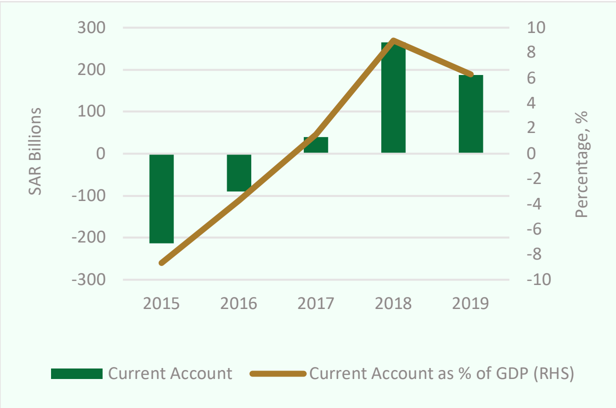
2.7 External Sector

2.7.1 Balance of Payments

2.7.1.1 Current Account

The current account recorded a surplus during 2019. Estimated data suggest a surplus of SAR 186.9 billion in 2019, a decrease of 29.4 percent compared to 2018 (Chart 2.17). This is mainly attributed to two factors: The first one is the decrease in total exports by around 11.2 percent to reach SAR 980.7 billion in 2019, with declines seen in both oil and non-oil exports. The second factor is the increase in imports by 5.3 percent to reach SAR 541.3 billion during the same period.

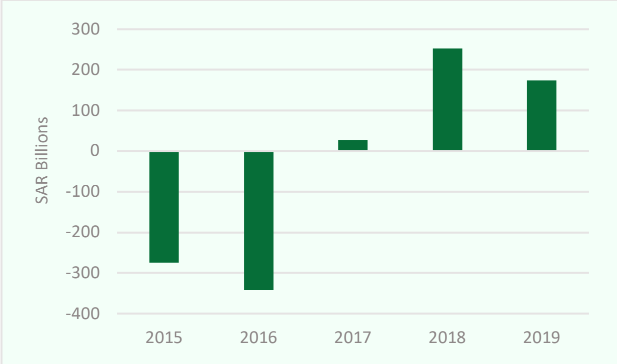
Chart 2.17: Current Account



2.7.1.2 Financial Account

The financial account continued to post a surplus for the third year in a row. Preliminary data showed a surplus of SAR 173.8 billion in 2019, compared to a surplus of SAR 252.7 billion in 2018 (Chart 2.18). This was due to the rise in direct investments, other investments and reserve assets by SAR 32.3 billion, SAR 177.8 billion and SAR 11.2 billion respectively, while portfolio investments have shown a decrease by SAR 47.5 billion. Despite the Public Investment Fund's (PIF) foreign asset acquisition, net portfolio investment in 2019 was lower due to the full inclusion of the Saudi Stock Exchange (Tadawul) in the global emerging markets indices and international debt issuances.

Chart 2.18: Financial Account

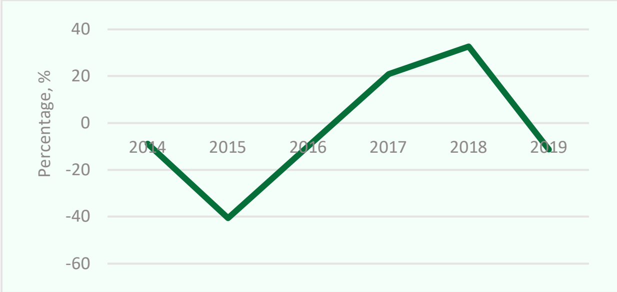


2.7.2 External Trade

2.7.2.1 Exports

Exports recorded a decrease due to lower oil production. In value terms, exports dropped by 11.2 percent in 2019 (Chart 2.19). Oil and non-oil exports were both down by 12.6 percent and 5.8 percent, respectively in 2019. This drop in oil exports is primarily driven by a lower oil price and the production cut. Moreover, the decline in non-oil exports may be attributed to the global trade tensions, which have negatively affected global trade.

Chart 2.19: Export Growth

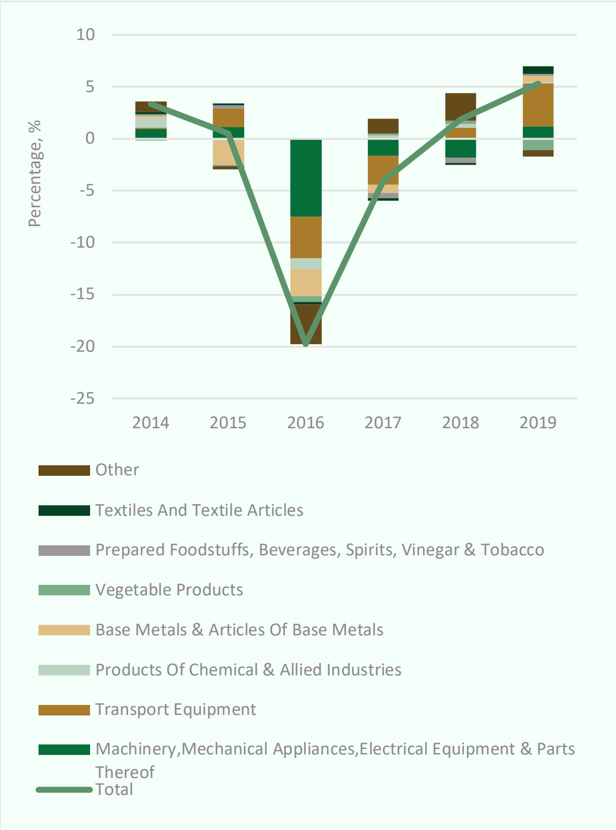


Source: General Authority for Statistics

2.7.2.2 Imports

Imports registered an increase during 2019. Imports increased by 5.3 percent in 2019 compared to 2018. The rebound in private sector growth is reflected in import drivers, such as transport equipment (Chart 2.20). This was mainly attributed to the railway projects in progress during 2019, where transportation is a key driver of the economic renaissance to support Vision 2030.

Chart 2.20: Import growth by Contribution



Source: General Authority for Statistics

2.8 Saudi Economic Growth Outlook and Risks

The Saudi economy cannot be unstained from global economic events; therefore, we are expecting a negative impact from the COVID-19 pandemic and the resulting global recession on the Saudi economy. However, the negative impact would likely be mitigated by the strong measures taken by various Saudi authorities (Box 7.1). The slowdown in economic activities could also be mitigated by the low interest rates, the continuing government initiatives to support the private sector and the PIF projects.

The global oil market developments continue to pose a challenge to the Saudi economy in the coming year since the very low global demand caused by the containment measures of the COVID-19 outbreak and the uncertainty regarding the duration of market disruption.

Overall, the Saudi macro financial position remains stable. Saudi Arabia still maintains ample government reserves and low debt-to-GDP ratio compared to other G20 countries, which indicate a sustainable fiscal space for further budget financing. The large fiscal space and reserves puts Saudi Arabia in a good position to support the domestic economy and cushion it against the inherent economic risks.

Box 2.1: The Saudi Private Sector in 2019

The Saudi government is continuing its efforts to enable the private sector to be a key partner in achieving the Kingdom's Vision 2030 ambitions by increasing its contribution from 40 to 65 percent of GDP. As one of its main programs, the National Transformation Program 2020 (NTP) is geared to support the private sector through its commitment of increasing SMEs contribution to GDP from 22 percent to 23 percent. It is also committed to increase the contribution of digital economy to non-oil GDP from 2 to 3 percent.

The Saudi private sector continued its growth during 2019 registering the highest level of growth in five years of 3.8 percent. This high growth rate was mainly attributed to the strong pickup in Construction, Wholesale & Retail Trade, Restaurants & Hotels and Transport, Storage & Communication sectors; which constitute more than 60 percent of the private sector. The sharp recovery of the construction sector comes as a result of the progress on significant projects such as NEOM and Qiddiya as well as the high growth in the real estate sector due to the various government initiatives to support housing. Moreover, the Saudi government has decided to waive the fees of expats working in industrial companies for the next five years to lighten the burden on the private sector and help cut labor costs for these companies.

A key focus for Vision 2030 is creating an environment which unlocks business opportunities and broadens the economic base. The development of the tourism and national heritage sectors is one of the most essential elements of the vision. The year 2019 witnessed several international events hosted by the Kingdom in various sports such as formula, tennis, boxing, wrestling and football. In addition, the Ministry of Tourism launched the "Saudi Seasons" program, which included 11 tourist seasons covering most of the Kingdom's regions. The program included a set of cultural, sporting, entertainment and business events that came along with accommodation and transportation. These events contributed to the growth of the Wholesale & Retail, Restaurants & Hotels sector by 6.27 percent.

Through NTP, many significant achievements occurred by the end of 2019 which contributed in enabling the private sector to achieve economic growth. The establishment of the National Competitiveness Center (Tayseer) helped to develop a competitive environment in the Kingdom by implementing more than 400 reforms to serve investors, such as: procedures automation, development of regulations, regulations and policies. Also, the launch of the Comprehensive Service Centers (Meras), which provides a package of licenses and electronic services such as starting a business by establishing companies electronically in just one hour, managing a business, and closing a business. The launch of the Biban forum seeks to create the appropriate environment for existing and new SMEs to ensure their growth. In addition, the launch of the municipal investment portal "Furas" to present investment opportunities in all regions of the Kingdom. Another achievement is increasing the contribution of productive families to the economy to ensure their growth by activating the regulation of their work, and providing financing solutions to more than 40,000 beneficiaries in various regions of the Kingdom in 2019 compared to 3,000 beneficiaries in 2016.

NTP also succeeded in the tourism arena through the issuance of tourist visas resulting in the issuance of more than 350,000 tourist visas during the last quarter of 2019. Moreover, NTP supported investment in the tourism sector through the issuance of about 3,000 investment licenses since the beginning of 2018 for several tourism sectors, including tourist accommodation, organizing tourist trips, and tourist travel agencies. NTP also provided loans estimated at 100 million riyals for new tourism destinations such as Jubail, Yanbu and Buraidah. These investments contributed to increasing the level of internal spending and generating job and investment opportunities for SMEs. The Kingdom added 75 heritage sites to its list to reach 316 sites in total, which enhanced the Kingdom's position as a tourist destination.

Box 2.2: FinTech Developments

In line with the Financial Sector Development Program's (FSDP) objective to put Saudi Arabia in the front line as a strong financial technology (FinTech) hub and ensure a high satisfaction index of FinTech players within the overall KSA FinTech ecosystem, several initiatives have been launched to achieve this mission. 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. One of the game changer initiatives is opening the Financial Services sector to emerging players (i.e., FinTechs) to spur innovation, growth, and competition in the financial sector.

During the past thirty years, the payments sector in the Kingdom has witnessed remarkable developments. SAMA has heavily invested in building the payment infrastructure by developing and introducing different payment rails such as the RTGS system (SARIE), the electronic bill presentment and payment (SADAD), the ATM and POS Network (mada) and the business-to-business e-invoicing (Esal). Constantly working with the financial sector, this payment infrastructure helped setting local standards, and supported local and international interoperability, furthermore, paved the roads for the local service providers to offer their payment services to consumer, business, and government beneficiaries.

Saudi Arabia's Capital Market Authority (CMA) has launched the FinTech Lab initiative which is aimed at supporting innovation in the financial market, as well as the development of new products in the FinTech sector. Participants can use the FinTech Lab to run a trial of their products and services in a regulatory environment which is supportive at fostering innovation.

Another initiative to look at is SAMA's launch of the FinTech Saudi, which acts as a catalyst for the development of FinTech industry. The initiative also aims to support the FinTech ecosystem by promoting the Kingdom as a FinTech hub embracing a thriving, responsible ecosystem of banks, investors, companies, colleges, and state institutions; thereby contributing to the support of financial inclusion and the rise of digital transactions.

In accordance with international best practices and in order to further advance and organize the local payment ecosystem, SAMA with the approval from the cabinet has spun off the payment systems department as an independent entity, Saudi Payments, with a mandate to continue SAMA journey in building and operating payment infrastructure and insure payment standards are in place. Saudi Payments will be enabling the payments ecosystem through secure, reliable, interoperable and accessible back-end services that creates common infrastructure to ensure competitiveness among all payment service providers.

SAMA and the United Arab Emirates Central Bank have jointly concluded "Aber" project, this prove of concept project is an exploration of the Distributed Ledgers technologies (DLT) in cross-border payments. The project aim was to explore, experiment, and gain a deeper understanding of technology and analyze its maturity and to explore an alternative DLT-based cross-border payment solution that can overcome inefficiencies in existing cross-border interbank payment approaches.

In order to understand and assess the impact of new technologies in the Kingdom's financial services market, as well as to help transform the Saudi market into a smart financial center, SAMA has designed a 'Regulatory Sandbox'. This initiative welcomes local and international firms wishing to test new digital solutions in a 'live' environment with a view to deploying them in the Kingdom. The SAMA Sandbox is expected to enhance innovation in financial and digital payments services. It will help financial institutions and FinTech companies to test their products with minimal controls. This will facilitate financial transactions and reduces costs. Services and products that are being tested currently include

E-wallet services, P2P transfers, purchases through QR Codes, POS devices, SADAD bills, SADAD account, financing services, crowdfunding platforms, e-payment services, payment services for schools and exchange services.

Under the supervision of SAMA, Saudi Payments has started the implementation project of the Instant Payment System (IPS), the system that is expected to go pilot by end of 2020 year. The system will allow all types of customers to send and receive instant payments 24/7 during the full year. It Increases efficiencies in the payments system, particularly where it displaces high-cost instruments such as cheques and Cash. IPS will also open up financial institutions to include more people and more transactions and can enable future innovations, creating a platform for the next wave of FinTech pioneers.

In the financial sector development conference that was held in April of 2019, SAMA and CMA signed a memorandum of understanding (MoU) to establish the FinTech Saudi Center in partnership with King Abdullah Financial Center. The center will embrace those with interest and passion in the financial technologies industry by providing specialized workspaces for joint work and related services. Moreover, the center will provide models for innovative solutions and is equipped with a technical laboratory in order to develop Fintech products and services in partnership with companies and actors in the sector before obtaining official licenses from supervisory authorities. The center also aims to support entrepreneurs and SMEs. Launching accelerator programs specialized in Fintech. Promote the spread of financial technology through community communication. Besides, establishing partnerships and agreements with partners and supporters to host related events inside and outside the Kingdom.

3

BANKING SECTOR DEVELOPMENTS

3. Banking Sector Developments

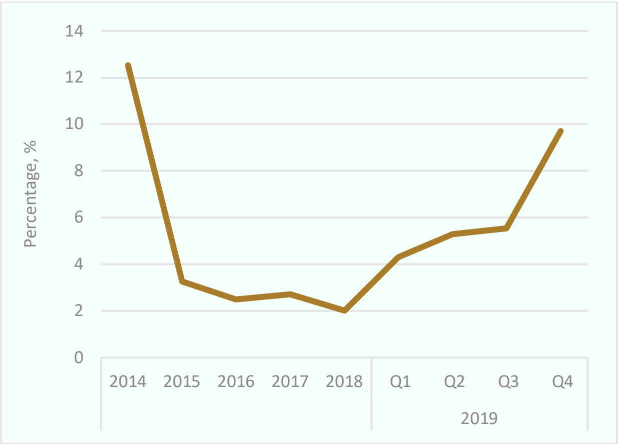
3.1 Overview

Abundant liquidity, credit growth and subdued profitability are the highlights of the banking sector in 2019. Corporate credit have experienced a recovery as it went back to positive growth, real estate credit growth soared as a result of the government's initiatives to support citizens housing ownership. Profitability was subdued due to reduction in non-interest income.

3.2 Assets

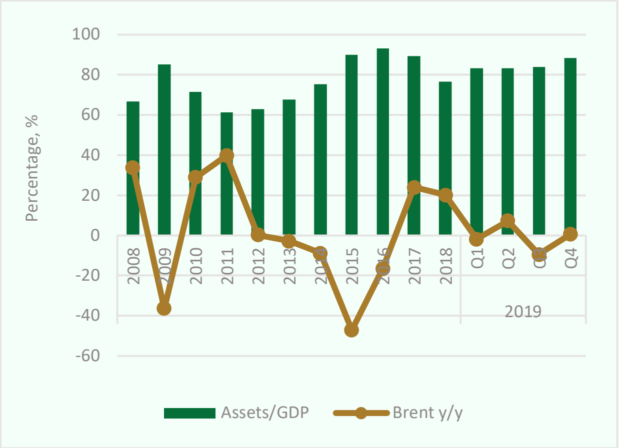
Banking sector assets grew significantly in 2019; the growth of total assets was consistent throughout the year and reached its peak of 9.7 percent by the year-end (Chart 3.1). The growth, which has been the highest pick-up in total assets since 2014, was induced by lending activities to public and private sector alike.

Chart 3.1: Asset Growth (Y/Y)



While total assets of the banking sector have increased, data indicate a lower correlation between asset growth and GDP growth in 2019 due to the negative contribution from oil to total GDP, driven by lower oil prices and revenues. Banking sector assets continue to represent a large percentage of domestic GDP (88 percent as at end 2019) indicating the continued importance to financial stability from the relatively dominant banking sector (Chart 3.2).

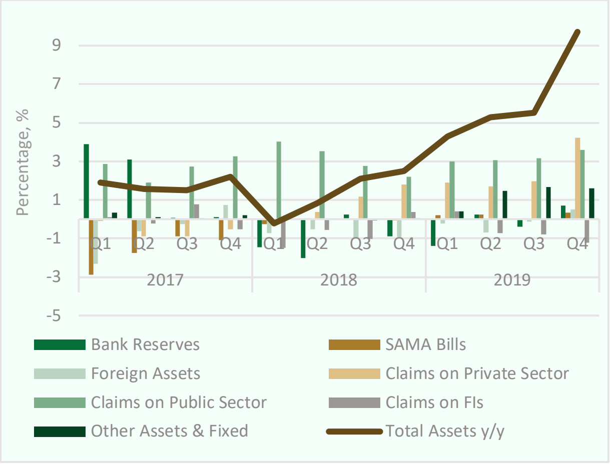
Chart 3.2: Bank Assets to Total GDP



Source: SAMA, GASTAT, Bloomberg

The significant growth in assets was characterized by the uptick in Q4 2019 by claims on the private sector, mainly due to real estate lending and Aramco IPO, which recorded 4.2 percent increase. Claims on public sector continued its consistent growth and grew by 3.6 percent in 2019 and partly helped finance the government deficit. Claims on financial institutions have been on a downward trend in 2019. This is particularly important as it could imply lower interconnectedness across the financial system, reducing the potential impact of systemic risk formation and contagion risk arising from the interlinkages. Other components of total assets witnessed modest growth by the year-end, putting asset growth at 9.7 percent (Chart 3.3).

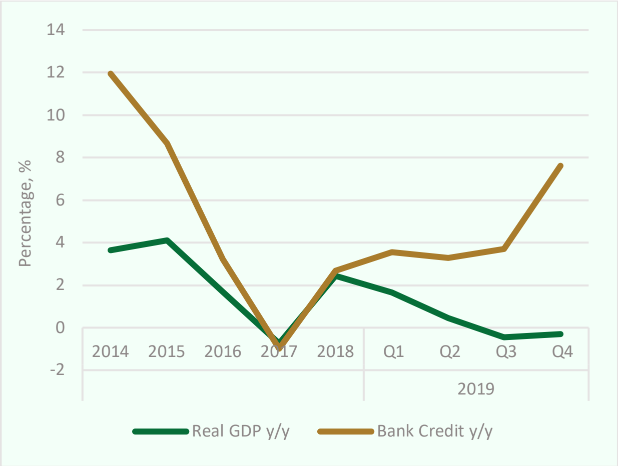
Chart 3.3: Sectoral Contribution to Asset Growth (Y/Y)



3.3 Credit

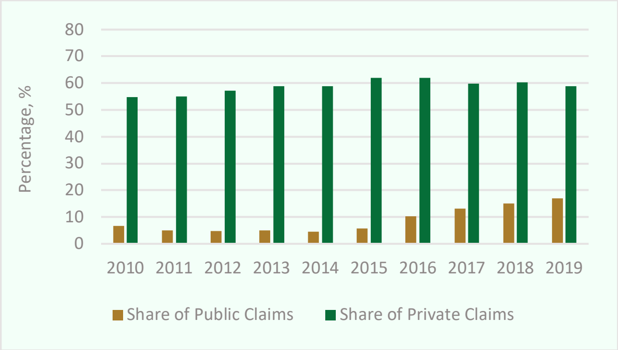
Growth in credit recorded a significant increase in 2019, reaching 7.6 percent by the year-end. 2019 witnessed a divergence between growth of bank credit and real GDP, which was quite apparent throughout the year (Chart 3.4). This is mainly because of the government initiatives to support retail real estate lending that significantly supported overall credit levels. (Chart 3.5) represent the split between private and public claims in the banking system's balance sheet and highlights the trend in government borrowing activities. Whereas we notice an accelerated trajectory, no signs of crowding out effects as shown by the sector Loan to Deposit ratio (LDR) (Chart 3.19).

Chart 3.4: GDP and Total Banking Credit Growth Rates



Source: SAMA, GASTAT

Chart 3.5: Average Claim Shares of Private and Public to Assets



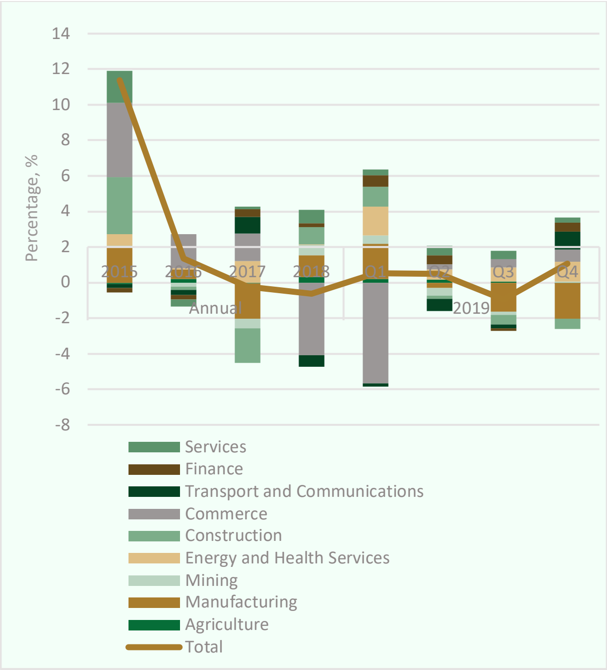
3.3.1 Corporate Credit

Corporate credit rebounded following a two-year contraction with 1.1 percent growth (Chart 3.6). This is particularly important as indicator of improved economic activity. The pace of recovery had been slower during this period compared to the previous downturns due to relatively lower oil price and reduced public consumption expenditure.

Chart 3.6: Episodes of Corporate Credit Contraction

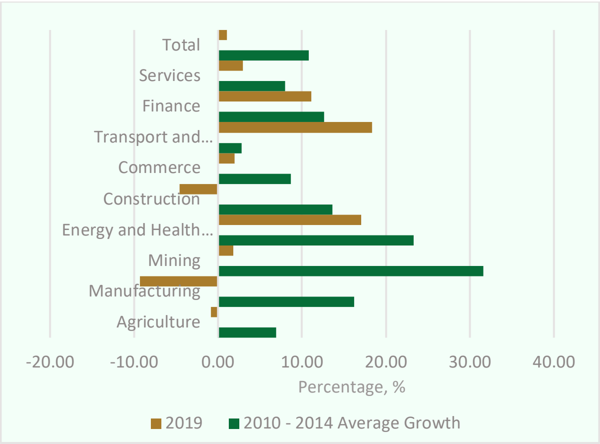
Credit growth has been positive during most of the year, reaching 1.07 percent by the year-end. Downturn in Q3 was mainly caused by the decline in agriculture, manufacturing and construction sectors' credit levels. Manufacturing and construction have been on a downward trend since Q2. This may be concerning as both sectors constituted 31 percent of banking sector's credit portfolio in 2019. The analysis of credit growth cycle in the past years as shown in (Chart 3.7) suggests an upward trend in the second half of 2019. Challenging economic conditions as a result of restrictions in economic activities due to COVID-19 may, however, weigh down further on credit recovery as indicted by the International Monetary Fund's (IMF) April 2020 World Economic Outlook.

Chart 3.7: Contribution to Corporate Credit Growth



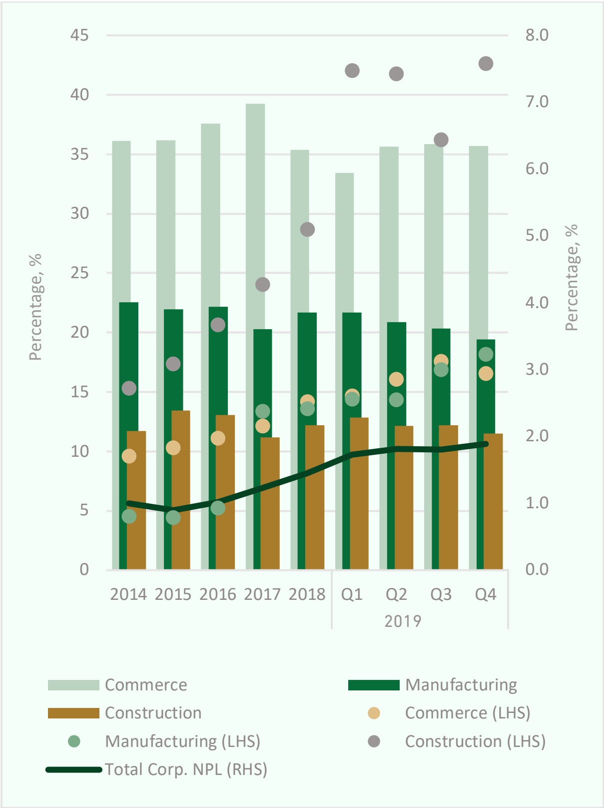
Sector specific growth levels compared to historical averages could imply a structural change in credit market as a result of shifting economic opportunities. Current trends suggest a deviation from traditional and may be saturated sectors towards emerging, more thriving sectors. A two-year decline in credit extended to manufacturing and commerce in addition to the decline in construction sector in 2019 put in this context supports this narrative. Higher diversification in credit portfolio could minimize concentration risk arising from sectoral credit growth imbalances (Chart 3.8).

Chart 3.8: Loan Book Changes



With regards to corporate Non Performing Loans (NPLs), sectoral analysis of the three largest sectors in terms of credit (which constitute two thirds of corporate credit portfolio) shows a continuous upward trend consistent over the past three years. The effect on overall corporate NPLs was evident as an uptick in construction sector defaults, reaching its highest levels of 7.6 percent over the past five years. Corporate NPLs recorded at 1.88 percent by the year-end (Chart 3.9).

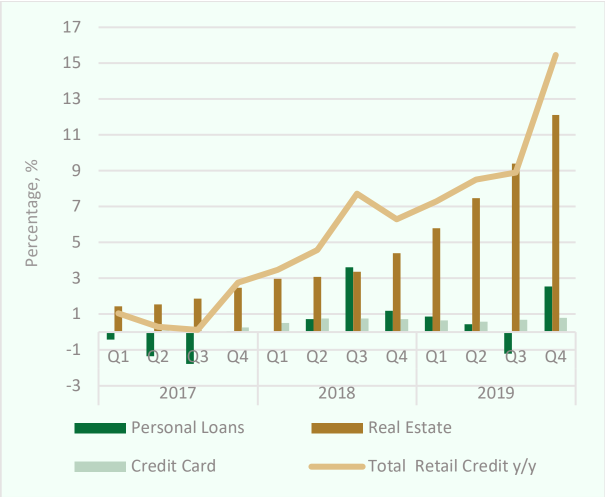
Chart 3.9: Largest Share of Corporate Credit and NPL Rates



3.3.2 Retail Credit

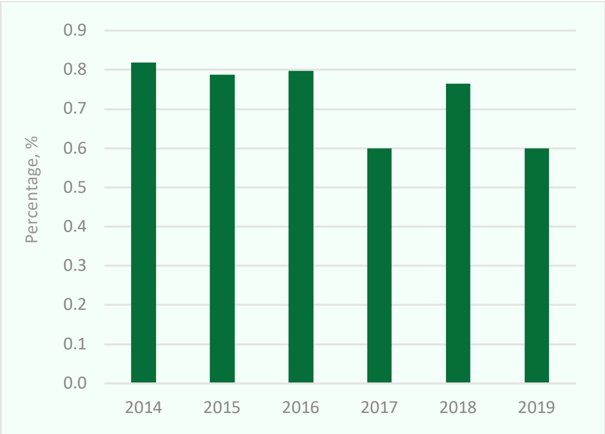
Retail lending has been on an upward trend since late 2017 and the growth was across the board with the exception of personal loans in Q3 2019. Overall, retail credit recorded a 15.5 percent growth mainly supported by the eminent focus on real estate lending that recorded a 12.1 percent growth (Chart 3.10). Although retail loans portfolio is less influential to overall lending, due to its size as it accounts for only 15 percent of the total lending portfolio, the acceleration of its growth rate in addition to concentration on real estate retail may make it significantly important in the medium to long term.

Chart 3.10: Quarterly Contribution to Retail Credit Growth



Despite the significant increase in retail lending portfolio, retail NPLs were lower than 2018 levels of 0.78 percent (Chart 3.11). Reduced NPLs coupled with expansion in retail portfolio indicate banking system effective risk management approach, as any inherent credit risks seems to not have translated into elevated NPL levels. Also, retail lending may be less susceptible to defaults as repayments are mostly salary assigned.

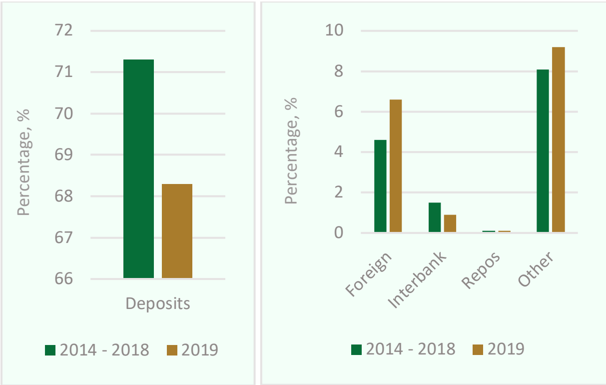
Chart 3.11: Retail Loans NPL Ratio



3.4 Funding and Liquidity

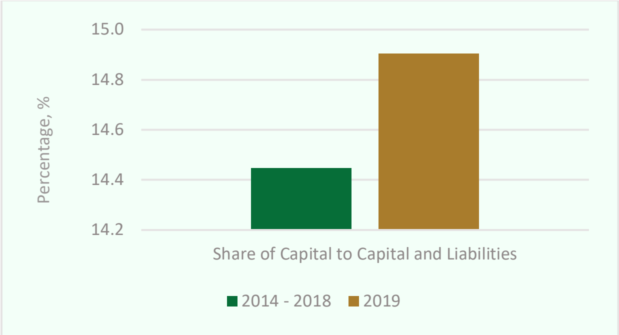
Banks' total liability has increased by 9.7 percent in 2019 compared to the previous year with a slight increase in foreign liabilities but otherwise the structure remaining mostly unchanged. The asset growth in 2019 was funded through slightly different composition relative to the preceding 5-year average. Deposits remained the primary source of funding whereas foreign liabilities and other liability-components witnessed a slight increase. Funding sources are influenced by economic conditions and banks sometimes turn to alternative sources such as debt issuances and Interbank Repo operations as shown in (Chart 3.13).

Chart 3.12 & 3.13: Component Shares of Banking Liabilities



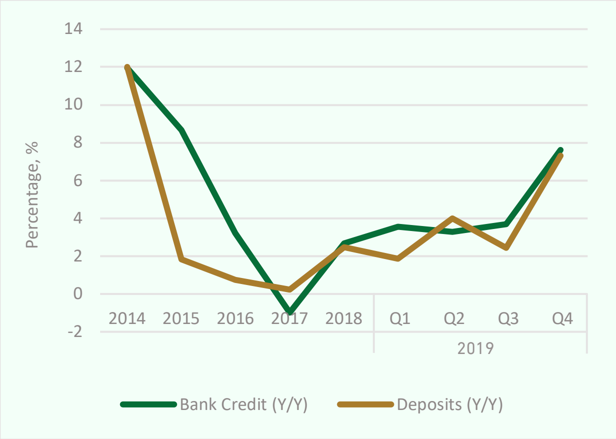
Compared to the 5-year average we note increase in banks capital account by 11.9 percent in 2019, contributing to the total growth of banks' balance sheet by 1.7 percent (Chart 3.14). The increase in banks' reserve and capital investments have been the main factor in the increase of the capital account. Historically, relatively stable share of capital reflect strong profitability and adequate reserves.

Chart 3.14: Share of Capital



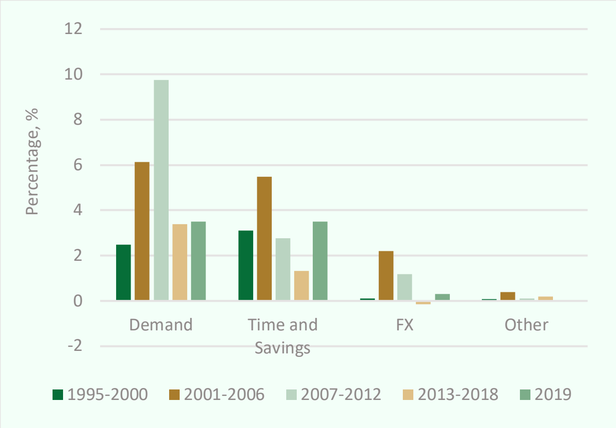
Banks' total deposits increased by 7.3 percent in 2019 compared to the previous year, the highest annual increase since 2014 (Chart 3.15). Saudi Arabia inclusion in the global emerging markets indices has been a key factor contributing to the overall growth. Moreover, the increase in banks' credit was also reflected in the growth of deposits which have been uplifted by traditional growth drivers including placement of deposits from both private and public sectors.

Chart 3.15: Deposits and Credit (Y/Y)



Deposit structure has remained stable with minor variation given that it is heavily influenced by economic conditions and the evolving business cycle. While all types of deposits exhibited positive growth from the previous year, the shift to time and savings deposits is mainly due to the government placement of Aramco's IPO proceeds in Q4 2019 in the form of time deposits (Chart 3.16).

Chart 3.16: Six Year Average of Contribution to Deposit Growth by Type of Deposits



As shown in (Chart 3.17), public sector placement of time and saving deposits, which grew by 3 percent in 2019, contributed to the growth of banks' deposits. Total public sector deposits increased by 18.2 percent in 2019 mainly driven by the increase in time and saving deposits which grew by 42.4 percent. Public sector demand deposits declined by 16.8 percent. Government coordination and timely placement of Aramco proceeds has helped to maintain the liquidity in the banking system to preserve financial stability.

Credit to private sector increased by 7.3 percent. This translated into a 4.6 percent growth in private sector deposits and specifically in demand deposits while weighted by the decline in time and saving deposits. The increase in demand deposits has offset all other types anchoring a decline in growth during 2019.

Chart 3.17: Six Year Average of Contribution to Deposit Growth by Sector

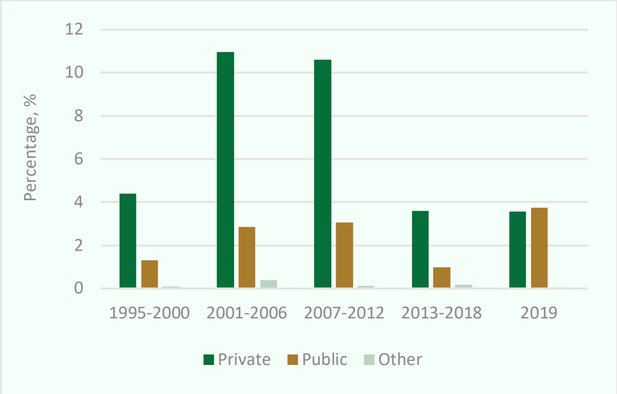
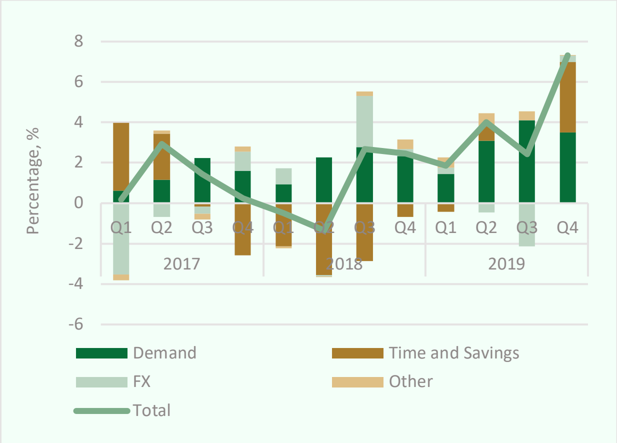
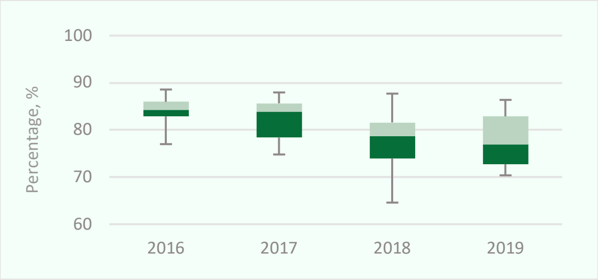


Chart 3.18: Contribution to Deposit Growth by Type



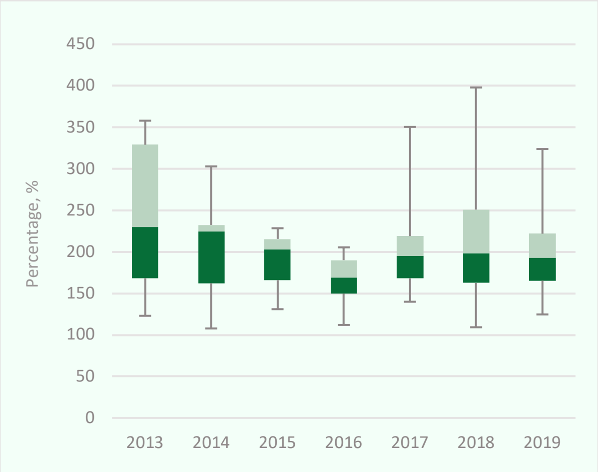
Loan to Deposit Ratio guidelines allow banks to lend up to 90 percent of their customer deposits. LDR levels in 2019 show a slight increase with the sector's average at 77.5 percent (Chart 3.19). Despite heightened recent credit levels, the banking system is able to support higher demand for credit.

Chart 3.19: Distribution of LDR



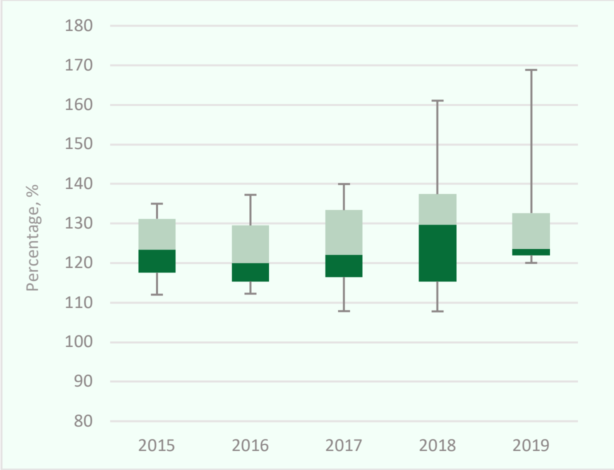
Liquidity Coverage Ratio (LCR) declined slightly in 2019 with the banking sector's average at 198 percent by the year-end (Chart 3.20). The gap, between the highest and the lowest banks for this ratio, has significantly reduced. This reflects the relatively better position for the individual banks. As per SAMA requirements, banks are required to hold a minimum of 100 percent of High Quality Liquid Assets (HQLA) to expected 30-day net outflow. Given the current developments with regards to COVID-19 pandemic, we expect it to weigh-in on LCR especially if cash flows are impacted. However, given the buffer levels of this ratio for the banking system, reaching levels lower than SAMA requirement is highly unlikely.

Chart 3.20: Distribution of LCR



Net Stable Funding Ratio (NSFR) is indicative of long-term liquidity position of the system. As shown in (Chart 3.21) the Saudi banking system enjoys an adequate liquidity supported by the pick-up in deposits in 2019 year-end. The NSFR improved reaching 130 percent by the end of the year, accompanied with lower standard deviation.

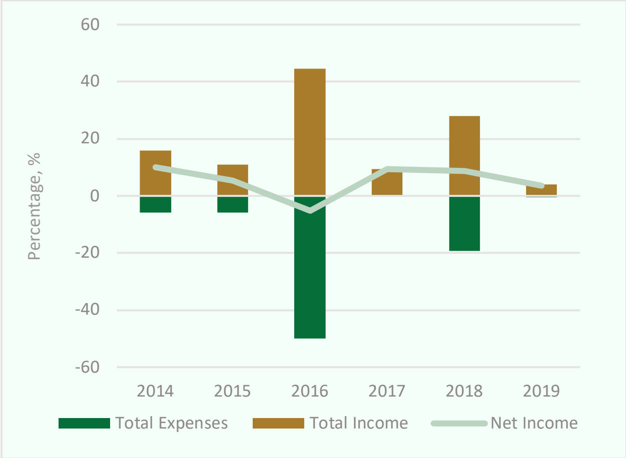
Chart 3.21: Distribution of NSFR



3.5 Profitability

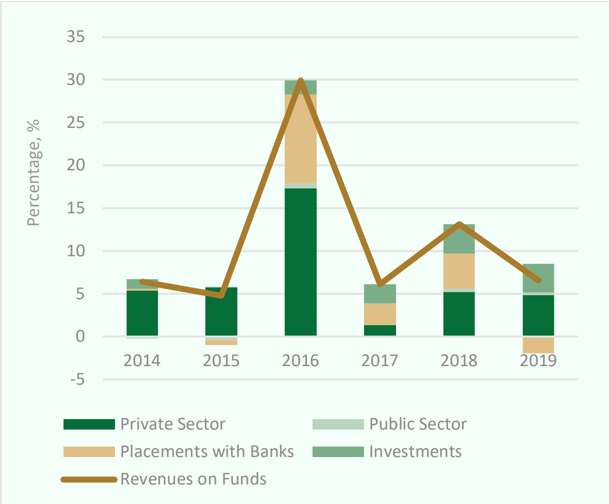
The banking system witnessed a sluggish growth in profitability in 2019 despite the reduction in total expenses growth recording a 0.5 percent compared to 19.3 percent in 2018. Reduction in expenses was accompanied by a greater reduction in total income which overshadowed the positive developments of lower expenses. Net income recorded 2.5 percent growth at year-end (Chart 3.22).

Chart 3.22: Contribution to Net Income Growth



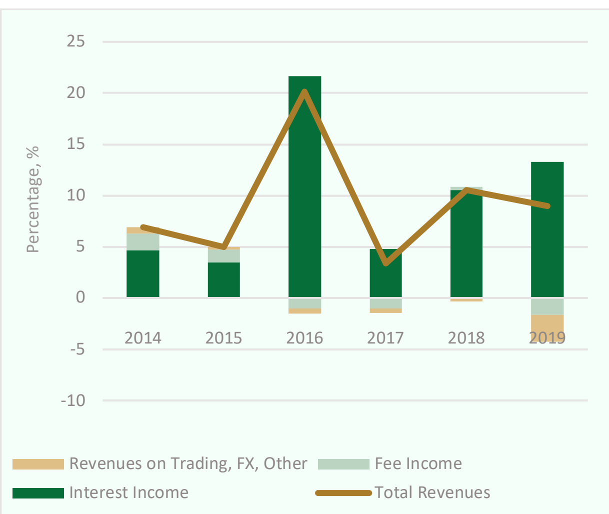
Overall revenues recorded 6.5 percent growth in 2019 despite the negative contribution of placement with banks which declined by 1.9 percent. As for other drivers of growth in revenue on funds, private sector and investments were the main contributors with 4.8 and 3.4 percent respectively (Chart 3.22).

Chart 3.23: Contribution to Revenue on Funds



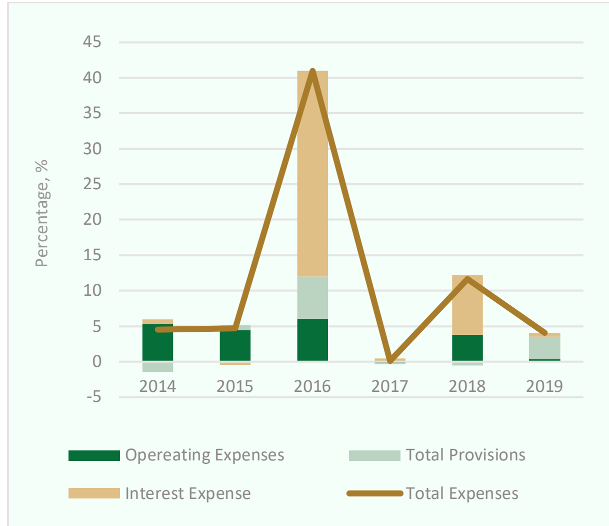
While assessing the contributors to total revenue, we note a fourth-year decline in trading and FX revenues. The pickup in interest income was undermined by reduction anchored in fee and trading income and other revenues. In hindsight, interest rates cuts seem not to have had an effect on revenues as indicated by interest income. Total revenue growth deteriorated by 9 percent in 2019 compared to the previous year (Chart 3.24).

Chart 3.24: Contribution to Total Revenues Growth



Total expense contributors remained stable after an acute increase in 2016. All components encountered a moderate uptick. Led by a two percent growth in total provisions, total expenses recorded a 4.0 percent growth in 2019 (Chart 3.25). Similar to total revenues, low interbank activities subdued growth in interest expense. The increase in provisioning is in line with the pickup in corporate NPLs.

Chart 3.25: Contribution to Total Expense Growth



Cost of funds as a portion of return on placed funds reduced in 2019, influenced by the sharp increase in credit. Yet, yields are still sluggish compared to historical averages (Chart 3.26). Tapping into emerging sectors for credit extension may accelerate the pace to yield-growth.

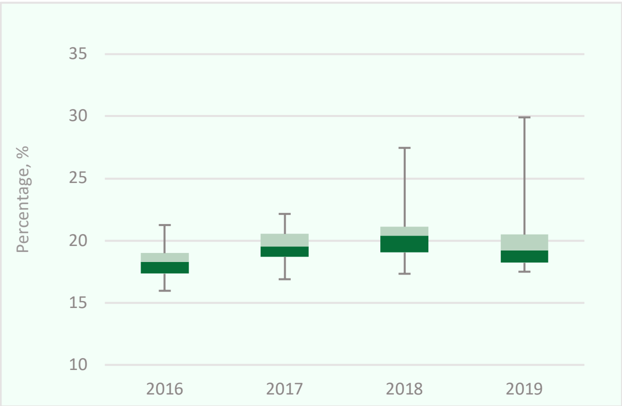
Chart 3.26: Cost of Funds to Revenues on Funds Ratio

3.6 Capital Adequacy

Overall capital conditions, as indicated by the Capital Adequacy Ratio (CAR), declined in 2019. The average CAR of domestic banks was 19.3 percent by the year-end compared to 20.3 percent in 2018. However, Capital

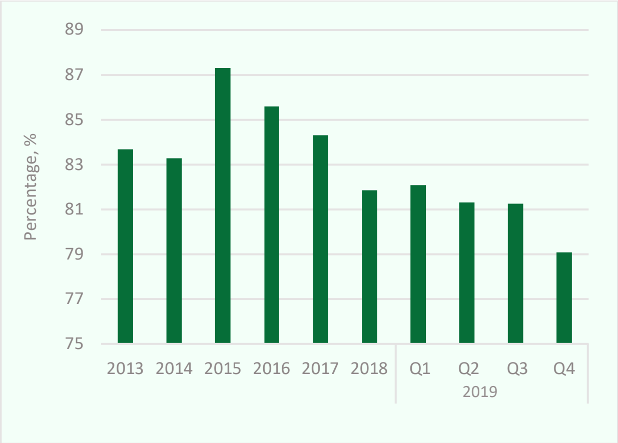
Adequacy Ratio at the lower end of the distribution remained stable versus 2018 (Chart 3.27). Despite the reduction, the banking system's CAR is well above the requirement set forth by SAMA. That also points to the resilience of the banking system to withstand potential shocks.

Chart 3.27: Distribution of Capital Adequacy Ratio



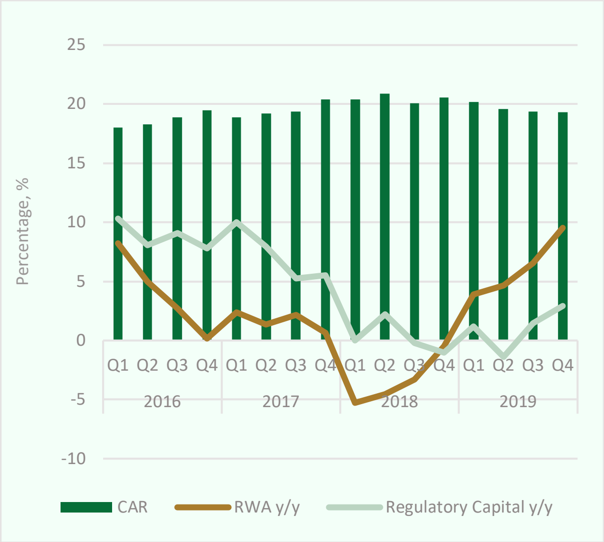
The ratio of Pillar I RWA to total assets continued its downward trend to reach 79.1 percent by the year-end, which is caused by the increase in banking system assets derived by both private and public claims and indicates lower levels of overall credit risk in total banking sector assets (Chart 3.28).

Chart 3.28: Risk-Weighted Assets to Total Assets



As (Chart 3.29) indicates, the fall in average capital adequacy ratio could be explained by increased RWAs in 2019, which grew by an accelerated pace of 9.5 percent in 2019. While regulatory capital growth showed modest levels throughout the year recording a 2.9 percent by the year-end.

Chart 3.29: Drivers of Total CAR



Box 3.1: Deposit Insurance Scheme

Deposit insurance systems, typically backed by governments, are a vital component of the financial safety net. They offer protection to depositors by minimizing or even eliminating the risk of losing their funds in the case of bank failure. Such assurance is important for sustainable economic growth and financial stability alike.

A deposit insurance system has the advantage of maintaining the confidence of depositors across the wider banking system. Therefore, such scheme reduces the incentive for depositors to trigger a widespread bank run in times when concerns about the banking sector, or some of its institutions, arise. A situation that can harm the otherwise-sound banks, in addition to causing liquidity and credit-availability shocks to the economy. Moreover, having a deposit insurance scheme in place boosts public confidence in the bank resolution framework. This can be crucial for preserving stability during banking crisis. However, the scheme should be structured in a way not to increase depositors' moral hazard or distort banks' risk-reward balance. This can be achieved though proper setting of scope, eligibility criteria, and coverage limits.

Deposit insurance schemes around the world vary widely in terms of organizational structure, scope, participation requirements (mandatory vs voluntary), fee structure, and degree and type of coverage. In Saudi Arabia, SAMA has established a scheme called Depositors Protection Fund (DPF), and issued the rules governing the fund's operations, which came into effect in January 1st, 2016. The fund carries out the functions of collecting contributions, managing resources of the funds and evaluating their adequacy, assessing claims of eligible depositors for payments and making payments of accepted claims within the applicable protection limits. The DPF is mainly funded by the periodic premiums payable by the banks and the return on investing those premiums. Management and oversight of the DPF is provided by a governing committee appointed by the Governor of SAMA. The DPF is required to maintain separate accounts and prepare annual financial statements, including the profit and loss account and balance sheet.

The fund offers protection of up to SAR. 200,000 per eligible depositor per insured bank (i.e. an eligible depositor, with multiple accounts in the same bank is considered as one depositor and separate accounts in different banks are covered separately). This protection level would fully cover more than 97 percent of eligible depositors. Nevertheless, in order to maintain financial stability, and subject to the availability of funds, SAMA may decide to raise the aforementioned protection limit as deemed appropriate.

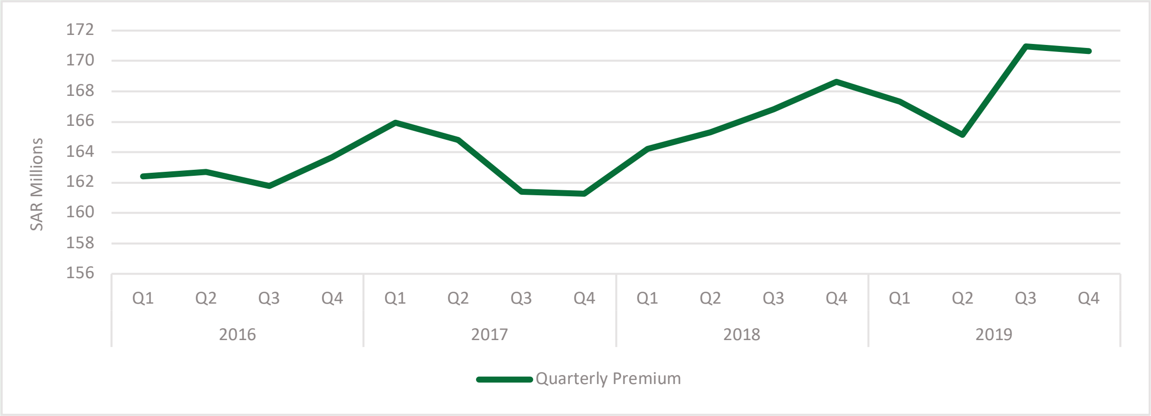
All forms of deposits are covered by the DPF, including current accounts, savings accounts, time deposits, inheritance accounts, unclaimed accounts, escrow accounts, client accounts, trust accounts, structured deposits, etc. The fund protects deposits denominated in both local and foreign currency. It also covers bank drafts, cheques and other similar instruments, and instructions entered into the payment system notwithstanding delay in or failure of crediting the eligible account by the bank.

The DPF does not insure deposits payable outside Saudi Arabia, inter-bank deposits, negotiable instruments of deposit and other bearer deposits, repurchase agreements, in addition to any other deposits or financial instruments as may be specified by SAMA. Depositors eligible for coverage are all natural and legal entities excluding the following: members of the board of directors and senior management of banks as well as their family members, other banks and financial institutions, shareholders holding more than 5% shares in the bank, Saudi government and quasi-government institutions, persons or legal entities acting on behalf of the aforementioned depositors, and other persons or legal entities as may be specified by SAMA.

All banks, including branches of foreign banks, operating in Saudi Arabia are mandated to contribute to the DPF by paying an annual flat rate of 0.05 percent of the average amount of deposits for eligible deposits held by the bank. The contributions are payable on a quarterly basis and calculated as one fourth of the annual rate (i.e. 0.0125 percent). The quarterly average of deposits is calculated by adding the opening and the closing balance of deposits of eligible depositors during a calendar quarter then dividing that by 2. The payable contribution should be paid by a bank within 30 days from the end of each calendar quarter. Branches of Saudi banks operating outside the Kingdom as well as subsidiaries of Saudi banks operating within or outside the Kingdom are not required to contribute to the DPF.

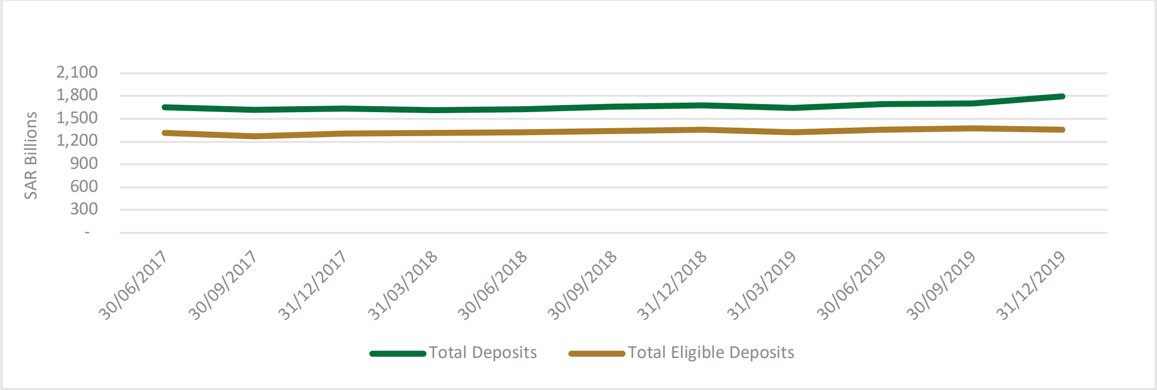
In Q4 2019, the fund received around SAR. 171 million from the banks, compared to SAR. 168.6 million received in Q4 2018. The highest level of contribution was in Q3 2019 when the fund collected SAR. 171 million (Chart 3.30).

Chart 3.30: Quarterly Contribution of the Banks



Level of banks' deposits eligible for coverage in Q4 2019 totaled SAR. 1,353 billion, which represented a slight reduction by 0.2 percent compared to Q4 2018, whereas total bank deposits increased by 7.3 percent and reached SAR. 1,796 billion (Chart 1.2). As a result, 75 percent of total bank deposits were insured under the DPF as of the last quarter of 2019 (Chart 3.31).

Chart 3.31: Level of Deposits



4

INSURANCE SECTOR DEVELOPMENTS

4. Insurance Sector Developments

4.1 Trends in the Market

The insurance market expanded in terms of premium by 8.3 percent in 2019, marking the first growth in three years, with gross written premium (GWP) reaching SAR. 37.8 billion. The growth is attributed to the strong performance of the health sector. The insurance market also grew in asset terms, as total assets increased by 9 percent compared to the previous year, amounting to SAR 63 billion.

The insurance sector as a whole continued to show a strong solvency position and sufficient technical provisions. The loss ratio remains high, with slightly worse claims experience driven by health segment; a situation that puts heavy pressure on underwriting profitability.

The overall profitability of insurance companies remains unsustainably low. Net income of the market stood at SAR. 873 million in 2019, growing by more than 300% compared to the preceding year.

A number of developments were seen in the market during the year 2019. The most prominent among those were: 1) the increase in consolidations activities, where six companies announced signing of a preliminary memorandum of understanding to assess the feasibility of three mergers in the insurance sector (the first quarter of 2020 witnessed the materialization of the first consolidation in the sector); 2) the success of the pilot exercise for motor accident damage assessment; 3) pursuant to the issuance of the Rules for Licensing and Supervision of Branches of Foreign Insurance and/or Reinsurance Companies in Saudi Arabia, initial approval was granted to a foreign insurance company to open a branch in the Kingdom; and 4) the increasing use of insurance aggregators, following the issuance of regulations governing these activities.

Generally, the medium- and long-term outlook for the sector is very promising, given the structural reforms and the development initiatives undertaken in the past few years. In addition, the economic activities and mega infrastructure projects linked to Vision 2030, all present ample underwriting opportunities. However, this outlook is expected to be attenuated by the recent macroeconomic developments; namely, the fluctuation in oil prices and the devastating impact of the Coronavirus outbreak on the global economy.

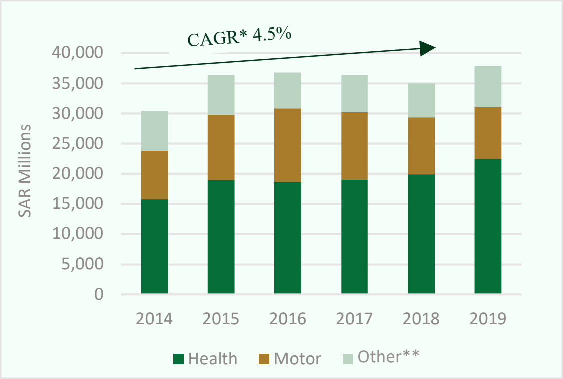
4.1.1 Market Premium Written

The recent growth in the market was driven by the continued expansion in health insurance, which grew by 13 percent in 2019 compared to 4.5 percent in 2018 (Charts 4.1 and 4.2). This strong performance can be attributed to many factors, including: the inflationary pressure on healthcare (has a dual effect on the health insurer's balance sheet), the effect of the unified health insurance policy introduced in July 2018 and the increase in compliance of employers with the Cooperative Health Insurance Law on the back of stronger regulatory monitoring.

The motor line of business contracted by 8.7 percent, which has been the trend over the last three years. The shrinkage in motor premium is partially linked to the regulatory reforms aimed at reducing the average cost of motor insurance policies, achieving fair pricing, and encouraging safer driving behaviors. However, these reforms are expected, on the medium-term, to pay off by offering opportunities for market growth in the form of less motor claims filing, reduced number of uninsured vehicles, more efficient management of claims, and more use of technology in insurance offerings. In addition, new business is expected from female drivers; the new segment of clients entering the market. Other factors attributed to the decline include intensive market competition and tightened economic conditions during the last few years.

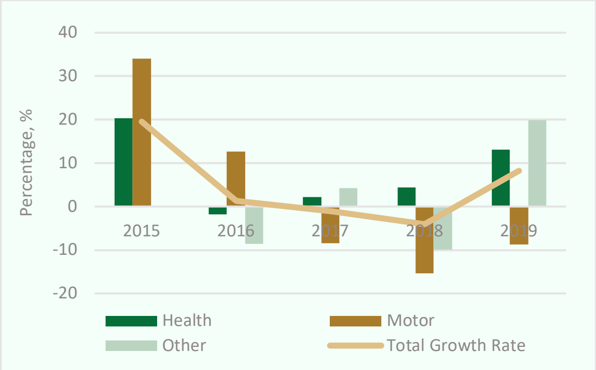
All property and casualty (P&C) lines recorded positive growth and collectively grew by 25 percent, a healthy recovery from the dip seen in the last few years. The protection and savings (P&S) segment contracted by 4 percent, to constitute 2.6 percent of total GWP in 2019.

Chart 4.1: Segments Contribution to GWP



**CAGR: Compound annual growth rate (2014-2019)*
***Other: P&C and P&S*

Chart 4.2: GWP Annual Growth Rate



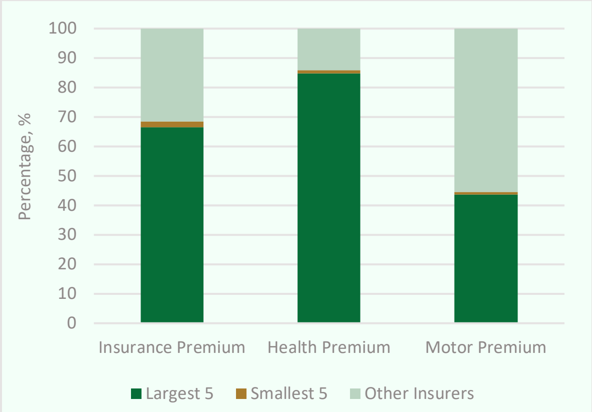
4.1.2 Market Concentration

The insurance market remains dominated by the health and motor lines of business, as they collectively account for 82 percent of the market. Health insurance increased its share of GWP to 66 percent, whereas the share of the motor segment continued to shrink for the third consecutive year, declining from 33 percent in 2016 to 23 percent in 2019. All P&C lines have maintained relatively stable market shares over the last three years (collectively they compose around 15 percent of the market).

In 2019, around 67 percent of total GWP was generated by the largest five insurance companies. The concentration of premium was at its highest in the health segment, where 85 percent of the business was on the books of the biggest five insurers. A contributing factor to this concentration of health insurance premium is that one of the largest insurers in the market exclusively writes this line of business. This concentrated distribution of health premium poses inherent systemic risk for the insurance sector.

On the other hand, in the motor segment, where the competition is higher, the largest five companies attracted only 49 percent of the premium (Chart 4.3).

Chart 4.3: Concentration of Market Premium

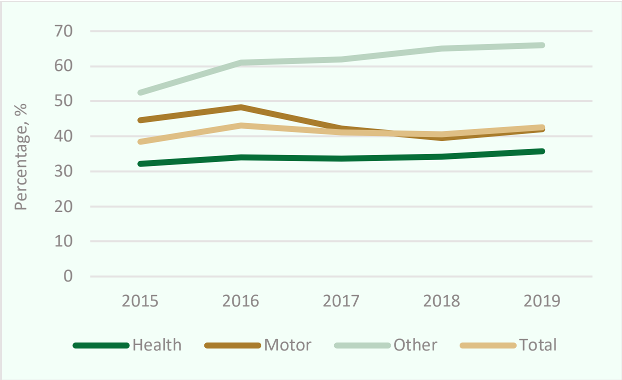


4.1.3 Insurance Intermediation

In 2019, around 43 percent of the market premiums were written through insurance brokers and insurance agents, slightly above the three-year average of 42 percent (Chart 4.4). Health business was the least reliant on intermediation services as brokers and agents wrote only 36 percent of it, although increasing from the three-year average of 34 percent. For P&C, which typically rely heavily on brokerage services, 67 percent of the business was written through brokers and agents.

Generally, for most lines of insurance, large insurers tend to rely more on insurance intermediaries compared to small insurers.

Chart 4.4: Contribution of Intermediaries to GWP



Aggregators offering online brokerage services expanded rapidly in 2019, particularly for motor policies. These new, more cost-effective, distribution channels are expected to contribute to operational efficiency, and to enhance affordability and access to products as well.

Intermediation services were less expensive in 2019, as commissions paid for these services slightly dropped. The decrease is driven by the motor segment which has been paying noticeably less commissions in the last few years, due to the high competition for motor sales.

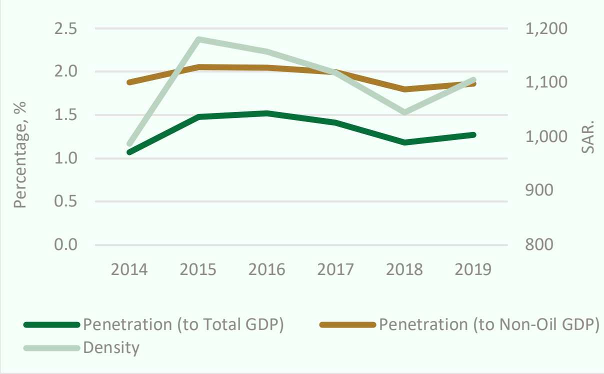
4.1.4 Insurance Penetration and Density

Insurance contribution to the gross domestic production is still modest, recorded as 1.27 percent in 2019 compared to 1.18 percent in the preceding year (Chart 4.5). The health insurance contributed 0.76 percent of total GDP, compared to 0.67 percent in 2018, while the motor insurance contributed 0.29 percent.

The penetration rate relative to non-oil GDP slightly increased as well, from 1.80 percent in 2018 to 1.87 percent in 2019.

Insurance density (i.e. average spending on insurance services per capita) increased by around 6 percent in 2019 to SAR. 1,105. Spending on health insurance products was the highest, and increased by 10 percent in 2019; while spending on motor insurance decreased by 11 percent, partially due to more pricing efficiency that lowered the average price of motor policies. For P&C products, the total spending increased by 6 percent. Among these, spending on property insurance was the highest.

Chart 4.5: Insurance Penetration and Insurance Density



4.2 Insurance Market Performance

4.2.1 Underwriting Performance and Profitability

Net claims incurred (NCI) by insurance companies in 2019 totaled SAR. 25.3 billion, which represents an increase by 2.9 percent compared to the previous year (Charts 4.6 and 4.7). The year-end result was driven by a noticeable growth in health net claims by 7.7 percent, an upward trend that has persisted for the fifth consecutive year on the back of the continued growth in healthcare cost and the wider coverage of the new unified health insurance policy. In contrast, motor reduced its net claims, for the third year, by 8.5 percent, as more efficient claims management practices are being seen in the market on the back of regulatory reforms.

Chart 4.6: Segments Contribution to NCI

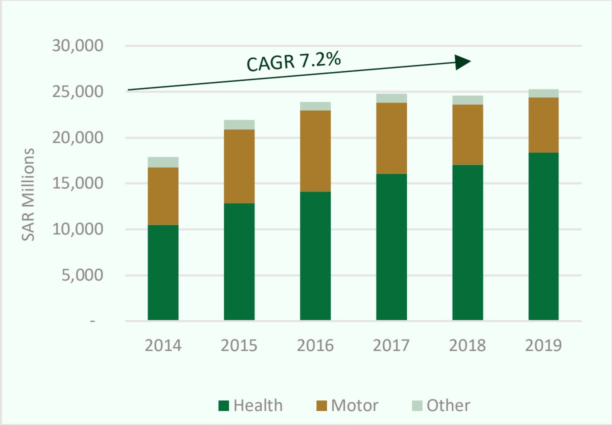
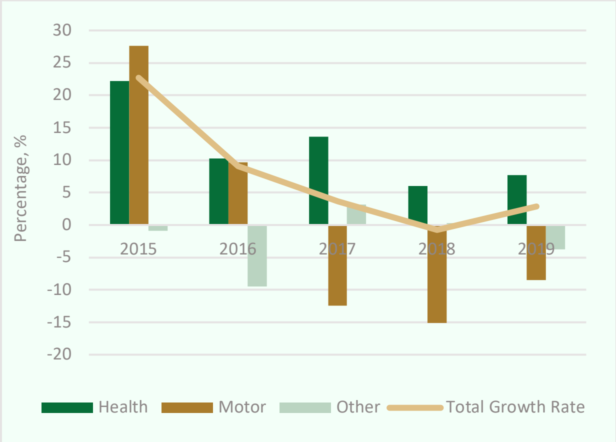


Chart 4.7: NCI Annual Growth Rate



The insurance market is still recording high loss ratios, depressing underwriting profitability. In 2019, the overall ratio stood at 81.8 percent, compared to 82.2

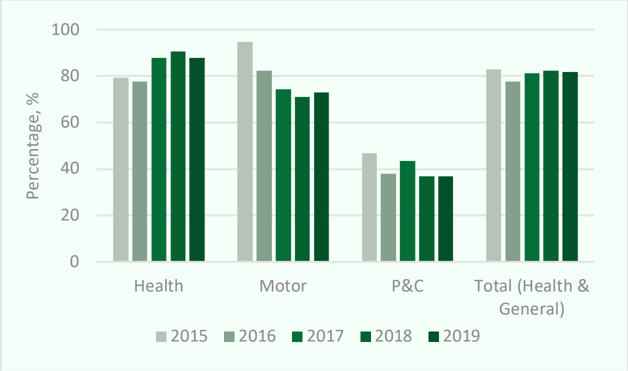
percent in 2018 and a three-year average of 80.4 percent (Chart 4.8). The year-end result is attributed to a growth in earned premium by 3.7 percent, which outweighed the increase in claims incurred by insurance companies.

Health insurance, the biggest segment by volume of premium, reduced its loss ratio from 90.6 percent in 2018 to 87.8 percent. This improvement is due to the expansion by 11 percent in premium earned by health insurers.

The motor loss ratio slightly deteriorated to 72.9 percent from 70.9 percent in 2018, the first since 2016. The increase in the ratio is partially due to the reduction in the average cost of a motor insurance policy, leading earned premium to shrink by 11 percent.

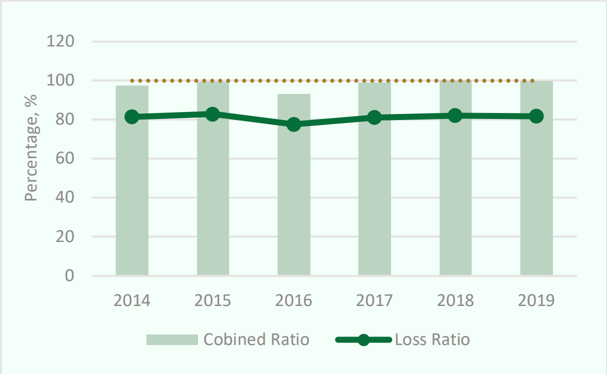
Large insurers had a collective loss ratio close to that of the market. But small insurers recorded a significantly higher loss ratio than the market in the health segment. This had a considerable impact on the underwriting profitability of those companies, given the health business makes up more than a third of their collective insurance portfolio.

Chapter 4.8: Loss Ratio by Insurance Segment



The insurance market has a low and stable expense ratio, which totaled 18.0 percent in 2019, unchanged from the previous two years. On an aggregate level, the industry earned a slight underwriting profit in 2019 as the combined ratio (loss ratio plus expense ratio) posted 99.8 percent down from 100.3 percent in 2018 (Chart 4.9).

Chart 4.9: Underwriting Profitability



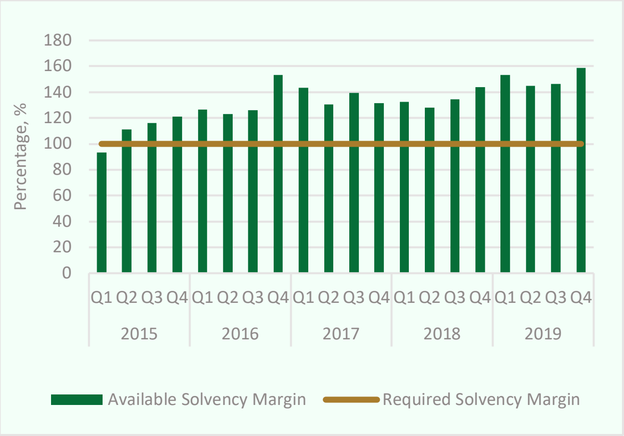
The largest five insurance companies tend to have an expense ratio that is even lower than the market (13 percent), which helps alleviate the downward pressure on their profitability. In addition, they collectively ended the year having somewhat better underwriting results than the market (their combined ratio was 96.5 percent). But for small insurers, the expense ratio is typically almost double that of the market, indicating less efficiency in controlling operational cost. Their collective underwriting activities recorded high losses in 2019 as their combined ratio reached 127 percent.

4.2.2 Adequacy of Capital and Provisions

On a macro level, the insurance sector continued to show a strong solvency position that is well above the regulatory requirement of 100 percent, averaging 159 percent in 2019 compared to an average of 146 percent in the preceding year (Chart 4.10). The overcapitalization of the market is driven by small insurers, as they tend to maintain much higher regulatory capital compared to their large peers.

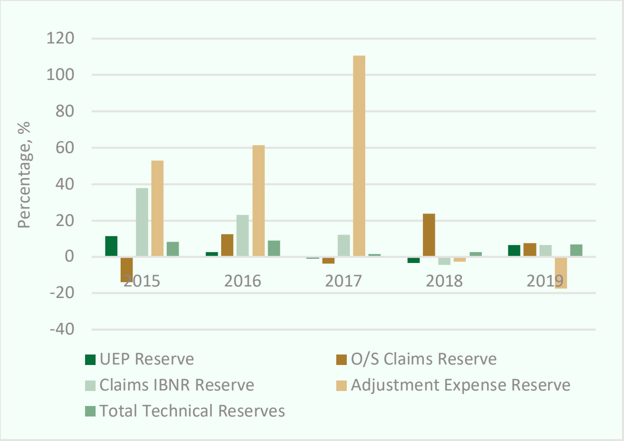
On a micro level, most insurance companies have available regulatory capital that well exceeds the capital required by the regulator. However, as of Q4 2019, six of the 32 insurance companies operating in the market fell below the solvency requirements.

Chart 4.10: Solvency Position of the Market



Increased aggregate technical reserves fosters the market resilience to insurance risk. In 2019, the total technical provisions of the market continued its upward trend for the fifth consecutive year, and increased by 6.8 percent compared to 2018. The year-end result was above the three-year average of 4.4 percent, and was due to the increase in all of the three main types of provisions. Unearned premium reserve, which makes up half of the total provisions, grew by 6.6 percent. Reserves for outstanding claims and claims incurred but not reported (IBNR) increased by 7.7 percent and 6.6 percent, respectively (Chart 4.11).

Chart 4.11: Change in Technical Reserves

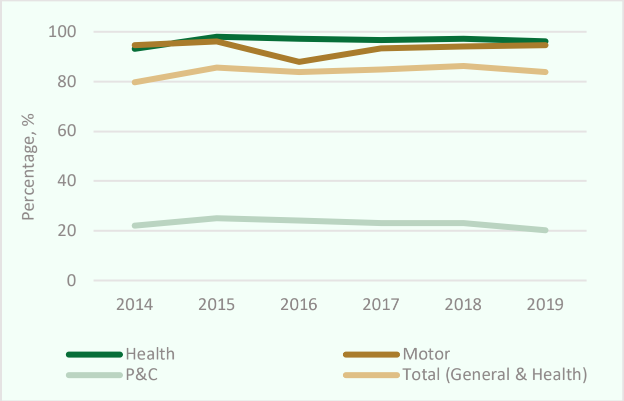


4.2.3 Retention Rate

The insurance market ceded 16 percent of total premium written in 2019 to reinsurers. This share is above the three-year average of 15 percent and above the 14 percent ceded in 2018. Health and motor lines of insurance, which typically have very high retention rates, retained 96 percent and 95 percent of the risk, respectively. The insurance market retained 20 percent of the P&C premium, compared to 23 percent in 2018 (Chart 4.12).

For motor and health, the largest five and smallest five insurance companies showed retention rates consistent with that of the market. However, both retained much lower percentages of P&C risk compared to the market (12 percent and 7 percent, respectively).

Chart 4.12: Retention Rate



4.2.4 Investment Performance and Profitability

On an aggregate level, the insurance market increased its return on assets (ROA) from a quarterly average of 0.12 percent in 2018 to 0.39 percent in 2019. The market also improved its return on equity (ROE) from an average of 0.51 percent in 2018 to an average of 1.54 percent in 2019. Weak profitability in the insurance market is the main source of earnings volatility.

Large insurance companies, as well as the market, posted positive ROA and ROE results in most quarters since 2014. On the other hand, small insurers have been struggling with investment losses in most quarters during the same period (Charts 4.13 and 4.14).

Chart 4.13: Return on Assets

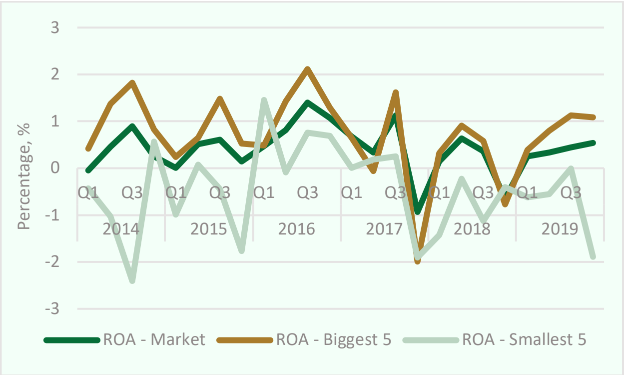
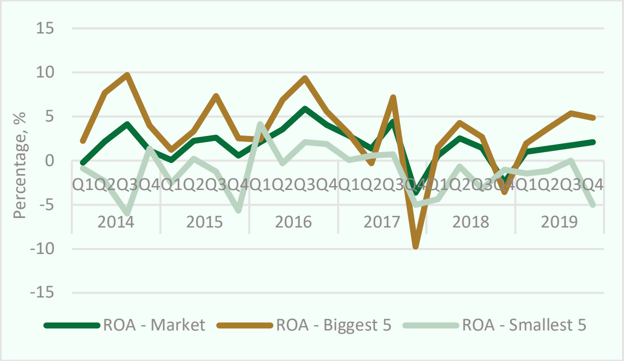


Chart 4.14: Return on Equity



4.3 The Impact of COVID-19

Global insurance markets are likely be largely affected by the sharp slowdown in economic activities due to the Coronavirus outbreak, which will undermine growth and profitability in both underwriting and investment portfolios. The extent of this is still unclear, as it depends on how the Coronavirus situation develops. Life insurers (protection and savings or family takaful operators in the case of Sharīʻah-compliant insurance) are expected to face greater challenges compared to insurers active in non-life business. This is due to two reasons: first, the coverage offered under their policies typically includes mortality/morbidity due to epidemics and pandemics (such as the COVID-19); second, the structure of their investment portfolios (being largely concentrated in bonds, and, to a lesser extent, in equities) makes them more sensitive to interest rate risk and financial market volatility. Therefore, life insurers are expected to witness temporary spikes in claims, weighing on underwriting profit and solvency (although reinsurers will bear some of the burden). Their earnings are expected to be under extreme pressure, given the very low interest rate environment and the expected significant market corrections and asset repricing (as reactions mount to Coronavirus developments, recession fears, and oil price volatility, etc.). That will expose them to a greater asset-liability-management risk as well (this is particularly true for life insurers offering policies with guaranteed returns). The dual hit from the rise in claims and the drop in interest rates could materially impact life insurers and possibly spill over to the broader financial sector.

In the same international vein, but for companies writing non-life insurance risk, the developments in the financial markets will be likely to have less impact on their earnings due to the different focus of their investments. From an underwriting perspective, the Coronavirus effect on their solvency positions is likely to be less as well. This is due to the fact that most property and casualty lines exclude infectious diseases, epidemics and pandemics from the insurance coverage. Thus, many COVID-19 related claims are not likely to be covered. However, claims under workers' compensation insurance (in the case it is under a private scheme) and trade credit insurance are expected to register a noticeable increase. For health insurance, the effect of the outbreak on claims depends mostly on the contribution of the private sector in the healthcare system and whether or not the public sector will bear, in full or in part, the Coronavirus treatment cost. These effects on claims experience across the board are likely to be accompanied by an increase in litigation cost and a drop in policy sales as the economic activities slow down and unemployment goes up.

However, some positive developments are expected as well. Given the closedown of businesses, and the curfew and confinement measures, some lines of insurance are expected to witness less claims filing (including motor and non-virus-related medical claims), which will help alleviate the pressure on solvency. Once economies start to recover, health and life insurance may witness an increase in demand, especially for coverage for critical and communicable illness, similar to the trends seen after the previous virus outbreaks of SARS and MERS. And the overall COVID-19 experience may trigger structural changes in the market, as the world may witness global public demand to improve healthcare infrastructure, make healthcare more affordable, and make more use of technology; in addition to changes to insurance and reinsurance products in terms of coverage, conditions, and exclusions, etc. (which have already started).

The extent of these negative and positive trends will depend greatly on how serious the situation gets and how long the precautionary measures last.

In Saudi Arabia, almost the entire insurance market is active in general and health insurance (composing 97 percent of the sector); with investments concentrated in short-term high-liquid assets, in the form of cash and deposits (50 to 75 percent) and fixed-income securities (20 to 25 percent). In addition, the investments are domestically focused, as international investments of insurance companies are subject to a regulatory limit of 20 percent of total invested assets. Therefore, the macro-financial developments discussed above are expected to have much less impact on the domestic insurance market.

Royal decree No. 46745 dated 04/08/1441H (28/03/2020G) announced the Saudi government would cover healthcare cost related to COVID-19 for all citizens, residents, and those in violation of residency laws. This factor will moderate the Coronavirus-related claims experience, while the fact that the insurance market is well-capitalized implies that insurers are starting from a strong position to absorb potential losses stemming from the outbreak.

Box 4.1: Insurance Technology

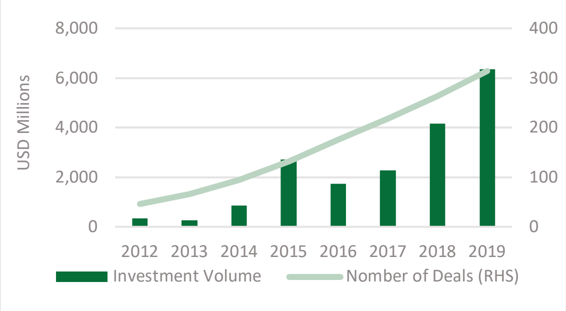
Digital platforms, internet of things, big data, machine learning and artificial intelligence, distributed ledger technology and blockchain, among others, have been increasingly used by financial institutions, FinTech companies, and entrepreneurs, in order to provide “living services”; more personalized products, services, and solutions to the customers. This trend has been driven mostly by heavy-technology-use generations and rising customer expectations.

Historically, most of the FinTech investment had been directed at the banking and capital markets. However, innovators in recent years have started seeking more diversification by stepping into other financial industries, such as the insurance sector. Chart 4.15 demonstrate how insurance technology (“InsurtTech”) is increasingly attracting global investments. 2019 was a strong year for InsurTechs, as some have started to lead in specific parts of the market and global funding committed to the InsurTech sector reached a record-high of USD. 6.3 billion, general insurance start-ups continued to receive a greater share of it.[6]

InsurTech companies have been targeting all parts of the insurance value chain. However, their main focus to date has been on the more easily accessible functions, i.e. distribution and policy administration (Chart 4.16). They made some efforts to take advantage of opportunities in claim management; an area that is expected, when digitalized, to witness massive improvement in relevant key performance indicators. McKinsey&Company estimates digital claim management should reduce claims expenses by 25-30 percent, as it would improve claims handling accuracy (by reducing both overpayments and underpayments of indemnity obligations) and reduce processing time, which should lead to higher customer satisfaction and lower incidents of claim disputes and litigation. Technology is expected to improve underwriting and pricing performance as well, by enhancing the selection of risk and reducing both overpricing and underpricing of policies. This can be achieved through the usage of predictive models, big data (e.g. motor insurance GPS tracking), and market intelligence, for instance. Furthermore, advancement in technology can bring cost-efficiency to insurance operations. That would support the profitability, and ultimately, the stability of insurance companies.

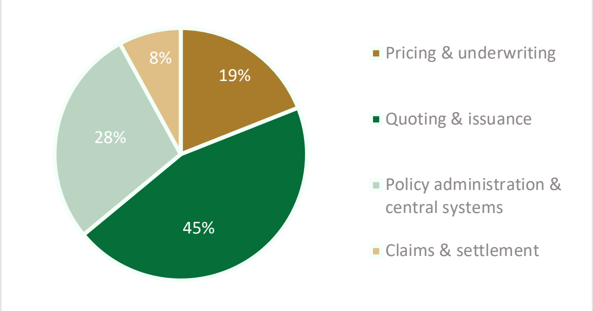
[6] Source: Willis Towers Watson

Chart 4.15: Global Investment in InsurTechs



Source: CB Insights

Chart 4.16: Breakdown of InsurTechs by Area of Focus



Source: Willis Towers Watson

In response to the change InsurTech sector is bringing in, affecting all components of the insurance functional chain, the conventional insurance market, which is considered one of the most traditional industries, has started embracing emerging technologies, partnering with tech firms, and adopting their process and business models in order to provide digitalized solutions, linked to the internet of things in some cases.[7]

Insurance technology is expanding the industry reach and easing barriers to inclusive insurance, on both the supply and demand sides. And when adopted on a larger scale, it is expected to transform the insurance market drastically. This offers great opportunities and brings in new challenges as well. From regulatory and supervisory perspective, the main challenge is to allow flexibility and encourage innovation in the market without compromising financial stability or customer protection. Insurance regulators and supervisors will need to continue to have the ability to adequately oversee the market and monitor its trends. They will also need to keep their regulatory capital and liquidity frameworks and their reporting requirements on pace in order to adequately capture both general market risk and idiosyncratic risk, including the potential increase of interconnectedness risk. In addition, authorities should set rules for data ownership, consumers' protection, and data sharing between providers. This is important in order to avoid any potential for conduct risk.

In the new digital insurance market, insurance aggregation has seen a momentum recently as an important risk distribution channel. Today, aggregators are estimated to be responsible for almost 50 percent of the online insurance sold in Europe[8]. Using automated platforms, insurance aggregators conduct online brokerage business and allow customers to access and compare insurance products across the market. Aggregators have grown in sophistication over time, from mere price comparison engines to becoming a more integral part of the insurance value chain by acting as brokers and providing digital advice or even, in some advanced cases, by providing products that fill in gaps in the coverage provided by the insurer.

In Saudi Arabia, technologically-enabled financial products and services are being encouraged through different programs. A prominent one is SAMA's regulatory sandbox, which offers valuable opportunity for both local and international businesses interested in testing their insurance technology solutions in a 'live' environment, with the purpose of deploying them in the Saudi market in the future. In addition, SAMA has introduced new rules that govern insurance aggregation activities in the Kingdom. The rules aims at expanding customer reach and facilitating access to insurance coverage, increasing competition in terms of price and product development, and ensuring transparency and efficiency. These initiatives, among others, are expected to ultimately support the development and growth of the Saudi insurance market and enhance its contribution to economic growth.

[7] According to KPMG International's Global CEO Outlook, 73 percent of insurance CEOs agreed they are personally prepared to lead their organizations through radical transformation to remain competitive
[8] Source: McKinsey&Company

5

FINANCE COMPANIES

DEVELOPMENTS

5. Finance Companies Developments

5.1 Overview

Finance companies have not recorded significant changes in activities during 2019 although there have been positive developments in the supervisory and regulatory framework front. The number of licensed companies reached 38 by end of 2019 compared to 37 in 2018, and total capital slightly decreased by 2.3 percent (Table 5.1).

Table 5.1: Evolution of the Finance Companies Sector

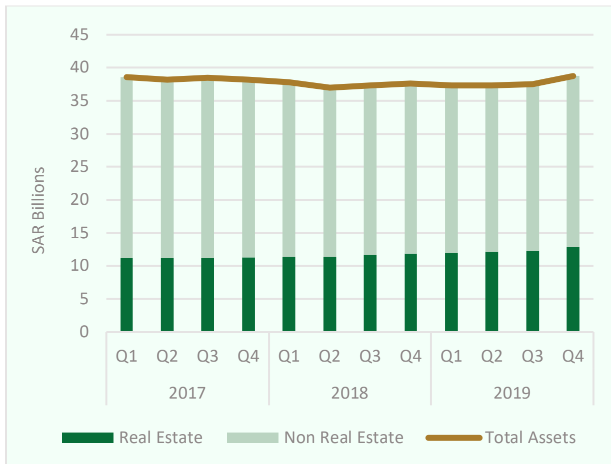
	2017	2018	2019
Total number of licensed companies	37	37	38
Real estate companies	6	6	6
Non- real estate companies	29	29	30
Refinance companies	1	1	1
Micro finance companies	1	1	1
Total capital (Million SAR)	14,158	14,427	14,100

Finance companies are expanding their role in the financial sector through accessing new sources of funding which is expected to increase their lending capacity and lower their cost of funds. In addition, developments in regulations will also allow the issuance of new funding instruments in the form of bonds or Sukuk and improve efficient balance sheet management. In April 2019, SAMA with CMA have permitted finance companies to create a special purpose vehicle (SPV) to issue bonds or Sukuks. This will provide a new source of funding for finance companies and will increase their lending capacity as well as likely lower their cost of funds subject to their risk profile. In June 2019, SAMA allowed Saudi Real Estate Refinance Company (SRC) to be able to purchase residential mortgage portfolios after a period no less than three months from granting the loans. These transactions will off load these assets from finance companies' balance sheet and will help create more lending capacity for these companies.

5.2 Finance Companies Assets

Total assets in the finance companies sector have remained stable. The increase in total assets of 2.9 percent was driven by an increase in real estate assets of SAR 1 billion and SAR 100 million non-real estate assets, to reach SAR 38.8 billion at the end of 2019, compared to SAR 37.7 billion in 2018 (Chart 5.1). The sector continues to represent a small share of the financial system in 2019, as it represents approximately 1.4 percent. Real estate and non-real estate assets accounted for 33 percent and 67 percent of total finance companies' assets, respectively.

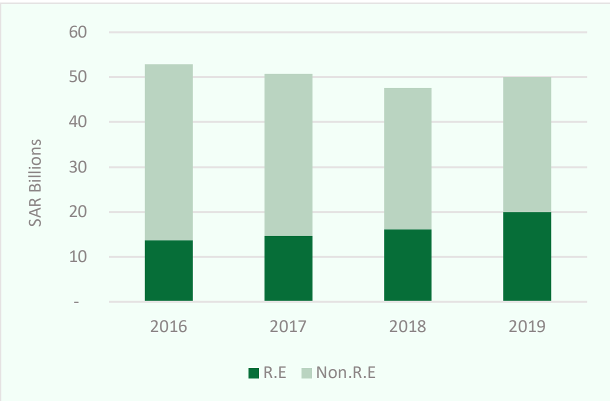
Chart 5.1: Finance Companies Size



5.3 Finance Companies Portfolio

Finance companies lending increased slightly during 2019, standing at SAR 50.26 billion compared to 47.7 billion in 2018 (Chart 5.2). Real estate credit witnessed an increase of 23 percent in 2019 reaching SAR 19.9 billion compared to a raise of 10 percent in 2018 totaling SAR 16.1 billion. This increase in real estate credit is supported partially by government initiatives such as Sakani program. Whereas the high increase in real estate lending is consistent with the banking sector real estate lending, it may, however, pose a systemic risk in real estate sector due to credit concentration especially due to the relatively smaller size of overall assets. Finance companies overall credit is equivalent to 3.2 percent of the banking system. This should not be of concern at the macro level, however; the current trend should be highlighted as systemic risk formation may occur should the current pattern in lending persists. The shift in credit structure is clear as we compare 2019 sectoral levels compared to 2018, given the modest increase in total credit (Chart 5.2).

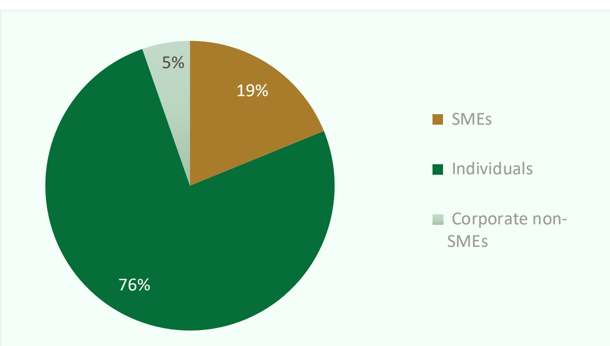
Chart 5.2: Total Credit of Finance Companies



5.4 Breakdown of Finance Companies Total Portfolio

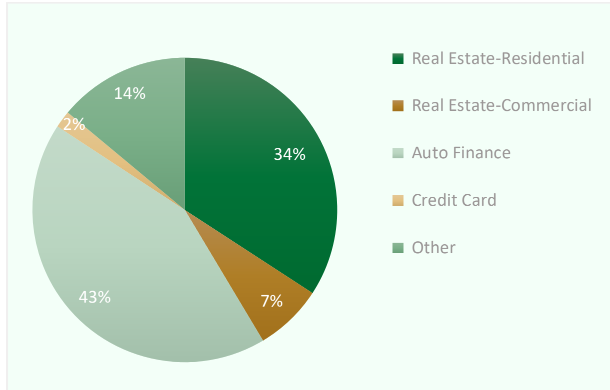
Lending to individuals composed the largest lending segment of the total portfolio. As of 2019, loans to individuals represented 76 percent, followed by SMEs at 19 percent, while corporate non-SME standing at only 5 percent of total finance portfolio (Chart 5.3).

Chart 5.3: Total Finance Companies Portfolio by Borrower Type



Auto finance continues to represent the largest share of the total finance companies portfolio. By the end of 2019, auto finance amounted to 43 percent of the total portfolio, followed by residential real estate at 34 percent. Residential real estate has increased from 28 percent to 34 percent, on the account of auto finance which deteriorated by 8 percent. Commercial real estate and credit cards represented 7 percent and 2 percent, respectively (Chart 5.4).

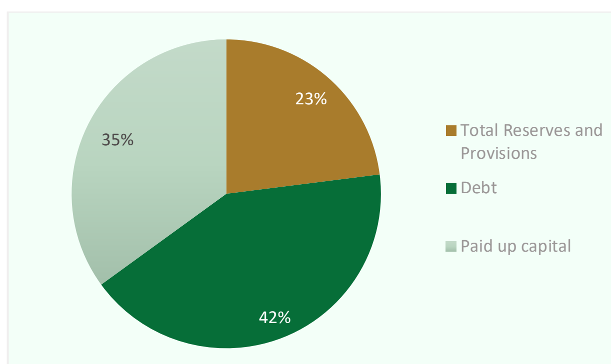
Chart 5.4: Finance Portfolio by Line



5.5 Sources of Funds

Finance companies are not depository institutions, which makes them sensitive to interest rate movements due to their dependency on debt to finance their lending. Debt funding continues to represent the largest proportion of funding for finance companies. In the future, regulatory changes and SRC activities may affect the diversification of funding in favor of higher debt percentages. The composition of funding has remained relatively unchanged compared to 2018. In 2019, equity and liabilities totaled SAR 38.8 billion. Of this, debt funding accounted for 42 percent, while capital represented 35 percent and reserves and provisions amounted to 23 percent (Chart 5.5).

Chart 5.5: Breakdown of Total Equities and Liabilities

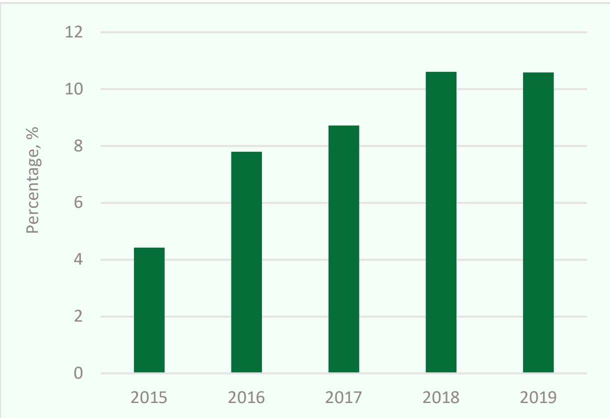


5.6 Risk Outlook of Finance Companies

Non-performing loans of finance companies declined for the first time since 2015 reaching 10.58

percent in 2019 compared to 10.61 percent in 2018 (Chart 5.6). The reduction was attributed to the write-offs and redemption of NPLs in addition to the increase in total lending.

Chart 5.6: NPL Ratio of Finance Companies



As for the NPLs amounts based on sectors, the wholesale retail sector represented 43.5 percent of total NPLs, while SMEs and corporate non-SMEs sectors accounted for 44.2 percent and 12.3 percent, respectively (Chart 5.7). In terms of NPLs by business activity, auto loans represented 56.6 percent of the total NPLs by end of 2019, while real estate-residential and real estate-commercial accounted for 11.2 percent and 6.5 percent, respectively. The developments in sectoral NPLs are consistent with developments in credit activities (Chart 5.8).

Chart 5.7: NPL Total Portfolio by Borrower Type

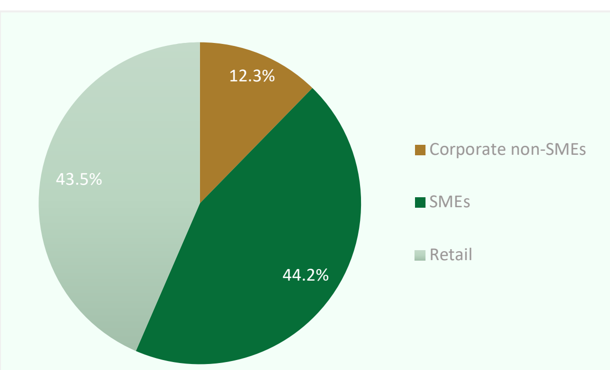
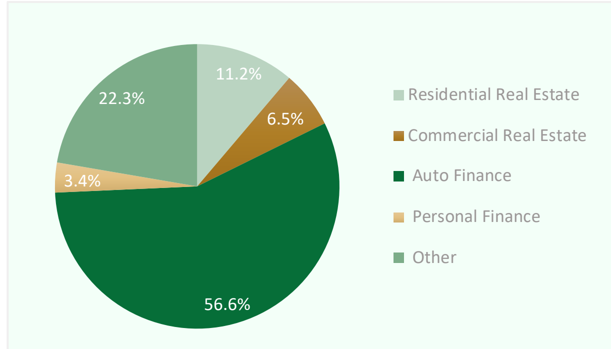


Chart 5.8: NPL Amount for Finance Companies by Activity

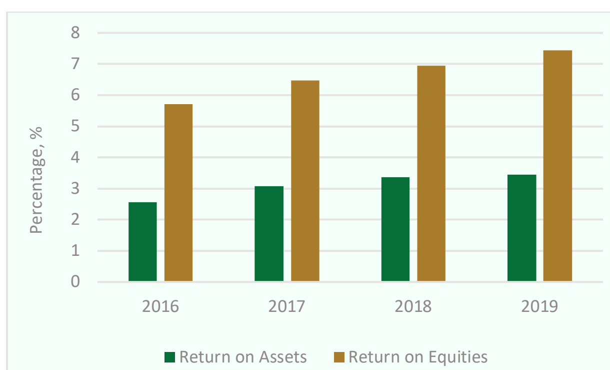


5.7 Finance Companies Resilience

5.7.1 Profitability

Profitability of finance companies sector has increased by the end of 2019. Profits recorded a significant increase in 2019 by 5 percent reaching SAR 1.33 billion compared to SAR 1.26 billion in 2018. This increase was mainly due to the Ministry of Housing and the General Authority for Small and Medium Enterprises "Monshaat" initiatives. Thus, ROE posted a slight rise, standing at 7.44 percent in 2019 compared to 6.9 percent last year, while ROA also witnessed a small increase (from 3.36 percent in 2018 to 3.44 percent in 2019). In 2019, the economic trends led to monetary which put a downward pressure on interest revenues. However, the eligibility of new customers and the government initiatives and policy adjustments led to increases in the loan base to offset shortfall in interest income (Chart 5.9).

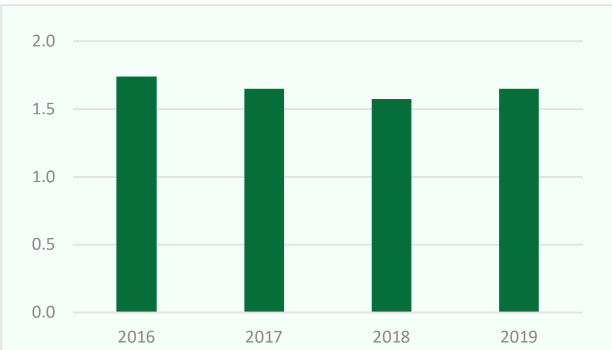
Chart 5.9: Profitability of Finance Companies



5.7.2 Leverage

The finance companies' leverage ratio continued to be below the maximum limit allowed by SAMA.[9] Leverage ratio, at 1.65 times, slightly increased in 2019 compared to 1.57 in 2018. This was, however, within an acceptable level (Chart 5.10).

Chart 5.10: Leverage Ratio of Finance Companies



[9] SAMA's regulations in regard to leverage state that the amount of real estate credit extended by companies shall not exceed five times the company's capital and reserves. This policy can be raised to a maximum of seven times, given SAMA's approval. As far as non-real estate companies are concerned, leverage shall not surpass three times the amount of capital and reserves, with an upper limit of five times, after obtaining a no objection letter from SAMA.

Box 5.1: Saudi Real Estate Refinance Company

Since its establishment in 2017, the Saudi Real Estate Refinance Company (SRC) which is a subsidiary of the PIF, has played an important role in helping Saudis gain access to mortgage loans. The loans are projected to grow from SAR 290 billion to SAR 502 billion by end of 2020 in line with the housing program objectives towards achieving Vision 2030.

Short term funding and portfolio acquisitions are the main products offered by SRC. Short-term funding products provide low cost funding which allow banks and finance companies to leverage balance sheet capacity and enable real estate companies to offer more mortgages. This product provides immediate access to short-term (less than five years) low-cost funding. Portfolio acquisition seeks to enhance the banks and finance companies' capital utilization by freeing up their balance sheet and it does that by SRC's acquisition of their residential mortgage portfolio.

SRC has continued its unremitting efforts to stimulate the development of the residential real estate finance market, as well as unifying the standards used within the sector. In 2019, SRC expanded its business to include banks where SRC signed an agreement with Aljazira Bank to buy real estate portfolios in addition to two acquired portfolios from Banque Saudi Fransi and the Saudi British Bank. SRC also lowered their profit margin twice during 2019 to reach 40 basis points, and extended its long term fixed rate (LTFR) mortgages to 25 years in order to improve the citizens' affordability for housing. In addition, SRC signed the agreement with the Ministry of Finance to get explicit government guarantee for Sukuk issuances to reduce their cost of funds, which will help attract foreign as well as local investor across capital market.

In 2019, SRC has grown significantly as their total assets increased by 29 percent reaching SAR 2.3 billion (SAR 1.8 billion in 2018). Leverage ratio also has increased to 1.47 compared to 0.57 in 2018 due to increasing activities made by SRC, while NPLs have moved slightly and recorded 0.05 percent in 2019 compared to 0.0 in 2018. Moreover, both ROE and ROA have been negatively impacted with a decline of 1.32 percent and 0.86 percent, respectively by end of 2019 compared to 0.032 percent 0.027 percent, respectively in 2018. This was mainly attributed to a sharp increase in the operating expenses by 94 percent, along with an increase in depreciation and amortization, along with a 74 percent raise in legal and professional fees.

6

CAPITAL MARKET DEVELOPMENTS

6. Capital Market Developments

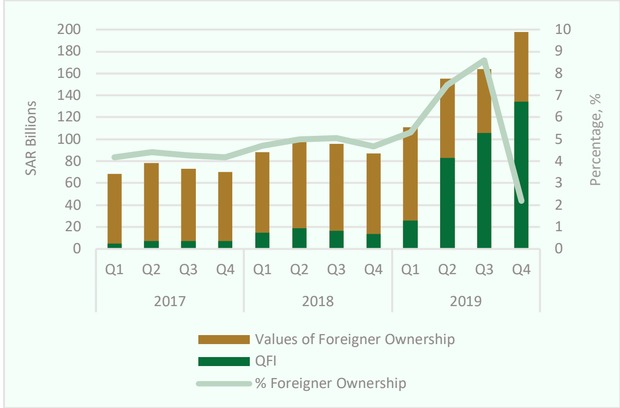
6.1 Overview

Steered by Vision 2030, one of the main goals of CMA strategic plan is to encourage investment. The announcement made by The Saudi Stock Exchange (Tadawul) of its full inclusion into the MSCI Emerging Markets index is an important step in achieving this strategic goal and diversifying the investor base. Tadawul has also been promoted by MSCI, an international leading provider of indices, from a “standalone Market” to an “Emerging Market”, a milestone achievement by CMA in raising market attractiveness for foreign investors. From a financial stability perspective, increased activities in the capital market and investor base would support market stability.

6.2 Capitalization

The value of foreign ownership has risen to a record high amount. Furthermore, the number of qualified foreign investors (QFIs) has jumped by 300 percent, adding approximately SAR 120 billion of capital inflow to the market. This substantial increase comes as a validation of the major market reforms and the continuous enhancements to the financial market infrastructure. Despite the sharp decrease of the percentage of foreign ownership, which can be attributed to the increase in market capitalization following the Aramco listing, the total value of foreign ownership reached SAR 198 billion in 2019, an increase of 128 percent from the prior year (Chart 6.1). Having higher foreign ownership in the market will make domestic liquidity more susceptible to fluctuations due to higher foreign inflows and outflows, making the domestic economy more intertwined with global economic conditions.

Chart 6.1: Value of Foreign Ownership

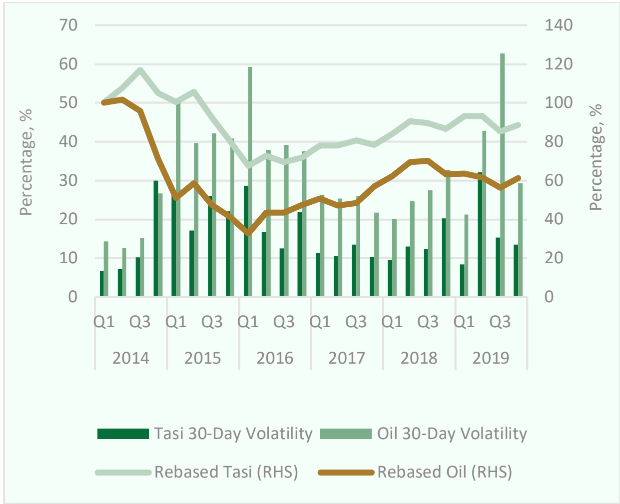


Source: CMA

6.3 TASI and Market Activities

The Tadawul All Share Index (TASI) was slightly more volatile during 2019 relative to the prior year. The oil market, on the other hand, recorded a higher level of volatility. Chart 6.2 shows TASI and oil price where both are rebased to Q1-2014, along with the 30-day volatility of both TASI and oil prices. Although 2019 witnessed lower oil prices, TASI has managed to close the year with a 7.2 percent increase. This gain is in part caused by the rapid growth of foreign capital inflow mentioned earlier.

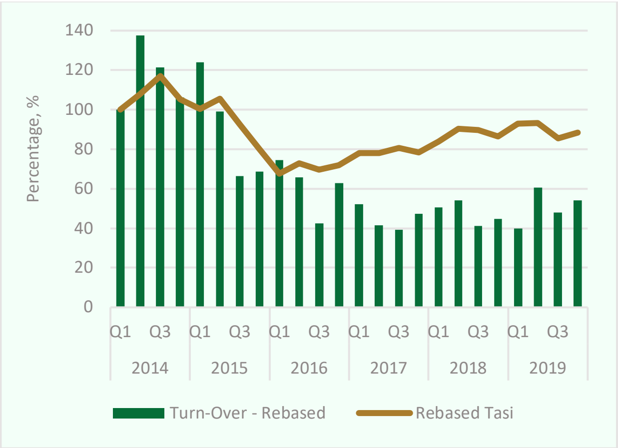
Chart 6.2: TASI and Oil Price



**2014=100* *Source: CMA, Bloomberg*

Equity market activity modestly improved during 2019. However, market activity as measured by turnover has remained at a moderate level. The first quarter showed a marked decline in activity followed by higher turnover in the second quarter, whereas the last two quarters recorded similar market activity to 2018 levels (Chart 6.3).

Chart 6.3: TASI and Turnover

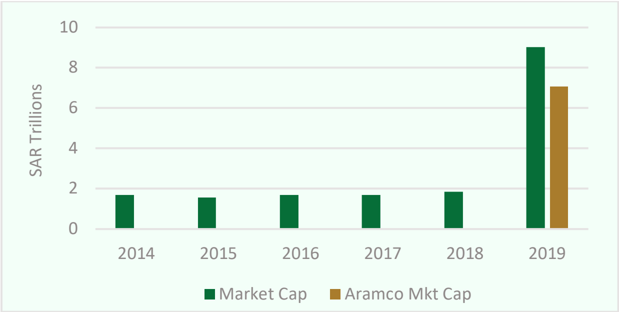


**2014=100 Source: CMA*

Alongside CMA initiatives to increase market depth in order to attract foreign investors, TASI's market capitalization significantly increased in 2019. TASI's market capitalization grew substantially to reach SAR 9.0 trillion, an increase of 385.5 percent from last year. As a result, TASI became the world's ninth largest stock market in terms of market capitalizations. This notable increase is mainly attributed to Aramco IPO which accounted for 78.1 percent of the total market capitalization (Chart 6.4).

Overall, 2019 witnessed the IPO of five companies in sectors such as energy, technology and consumption services. 2019 also marked the IPO of one real estate investment trusts (REITs). The aggregate number of shares listed was 200.7 billion, of which 3.1 billion were offered for IPO.

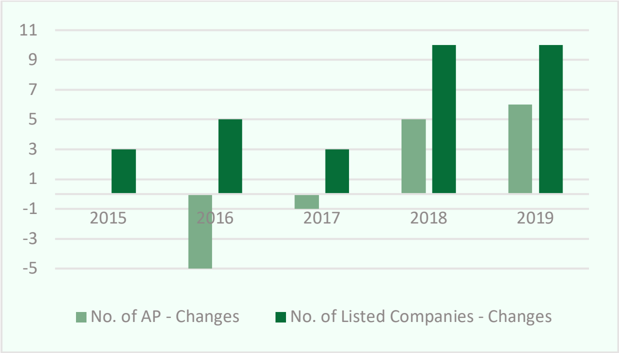
Chart 6.4: Market Capitalization



Source: CMA

Market size has continued to increase during 2019. The number of listed companies has grown by 9 to reach 199 companies and the number of authorized persons (APs) has risen to reach 93 (Chart 6.5).

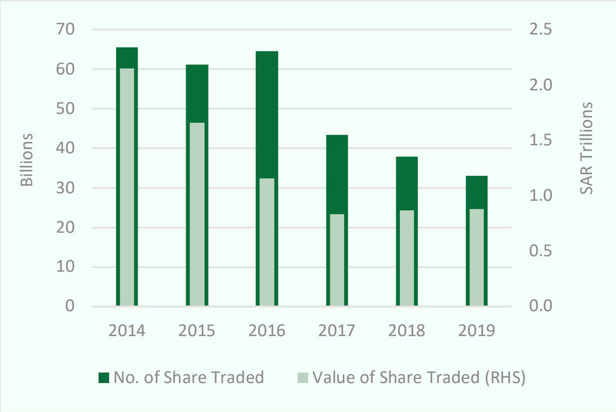
Chart 6.5: Market Size



Source: CMA

Both the number and value of shares traded have remained at a moderate level relative to the 2014 levels. The lower level of equity market activity mentioned earlier is captured by the nearly unchanged value of shares traded which was approximately SAR 880 billion at the end of 2019 (Chart 6.6). Due to the inclusion in the MSCI emerging Markets index, activities are expected to encounter an uptick as an influx of liquidity by foreign investors takes place.

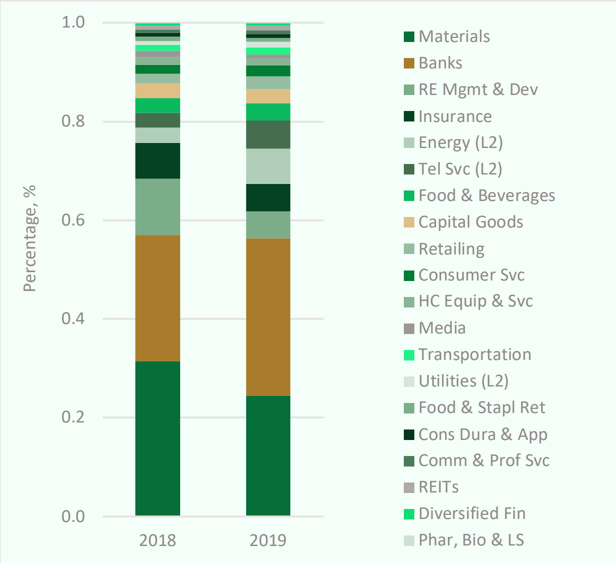
Chart 6.6: Number and Value of Shares Traded



Source: CMA

Sectoral shares of value traded have seen considerable shifts in 2019. The banking sector has claimed the largest share, with almost one-third of the total value traded in 2019. The energy sector's share has also risen to reach 7.2 percent, an increase of 4 percentage points. The materials sector, with the second largest share of 24.4 percent, recorded a decrease by roughly 7 percentage points. The real estate management and development sector's share declined 6 percentage points (Chart 6.7).

Chart 6.7: Value Traded by Sector

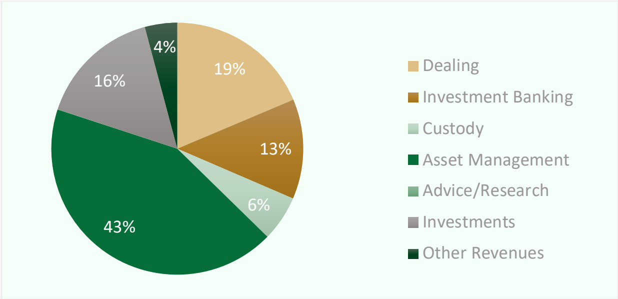


Source: CMA

6.4 Revenues and Profitability

Revenue mix for APs changed slightly during 2019. Similar to prior years' proportions, revenue generated by asset management accounted for more than two-fifths of APs' total revenues. The percentages of the other sources of revenue remained similar to 2018's percentages (Chart 6.9).

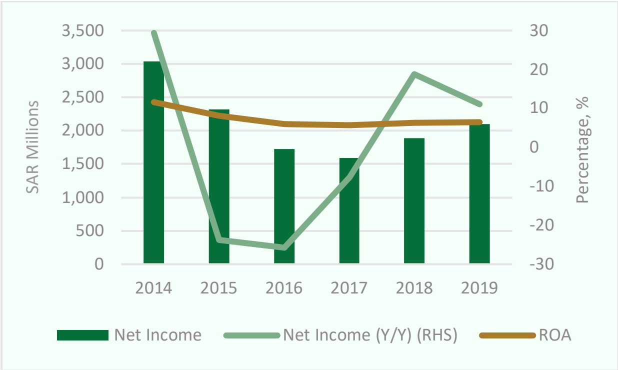
Chart 6.8: AP's Revenue Distribution



Source: CMA

AP's year on year net income growth has slowed, despite the total value increasing. Net income growth has dropped 800 basis point compared to the previous year, but remained positive at around 11 percent which is well above 2015-2017 levels. ROA slightly increased to 6.5 percent by year end-2019, compared to 6.3 percent in 2018 (Chart 6.9).

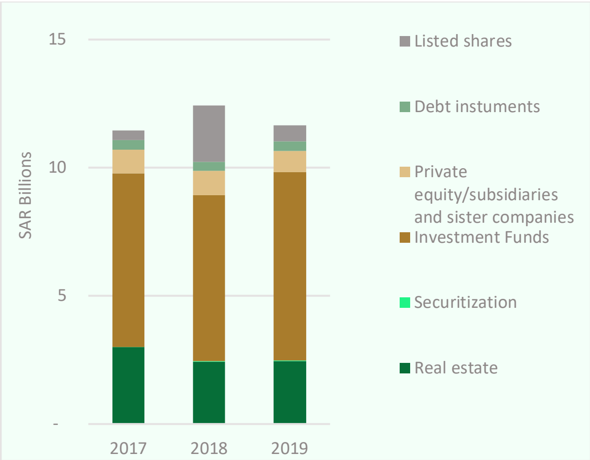
Chart 6.9: AP's Net Income and ROA



Source: CMA

AP's investments have declined during 2019. Most of the decline in the total value of APs investments came from the sharp drop in the value of investments in listed shares and in private equities / subsidiaries. While remaining assets classes' growth remained flat, investment funds increased by 13 percent to reach SAR 7.3 billion (Chart 6.10).

Chart 6.10: AP's Investments in Asset Classes

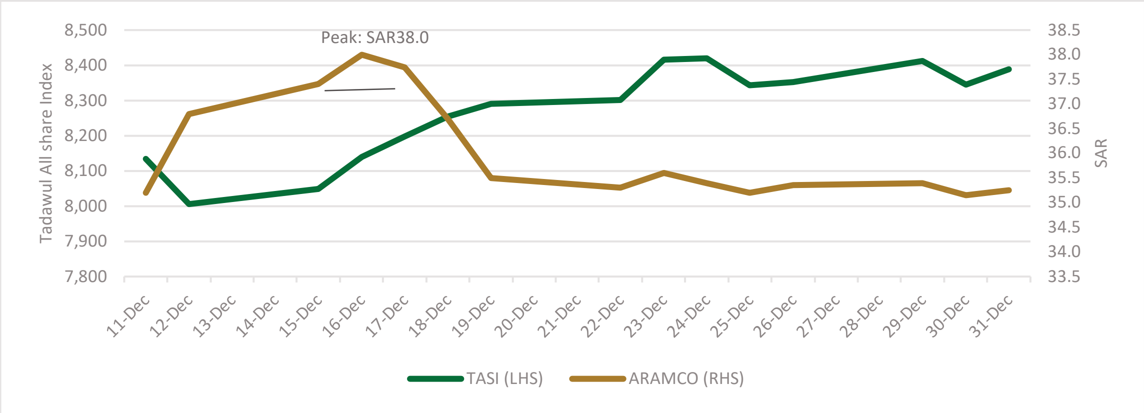


Source: CMA

Box 6.1: Listing of Saudi Aramco on the Saudi Stock Exchange

On December 11, 2019 the Saudi Stock Exchange listed the shares of Saudi Aramco following its successful initial public offering. Shares began trading at SAR 32.0 per share, implying a company valuation of SAR 6.375 trillion. The stock gained 10 percent for two consecutive days (Chart 6.11), moving toward a higher valuation of nearly SAR 7.5 trillion. The IPO has attracted foreign capital flows and boosted investment sentiment for the whole Saudi equity market.

Chart 6.11: Price Performance in 2019



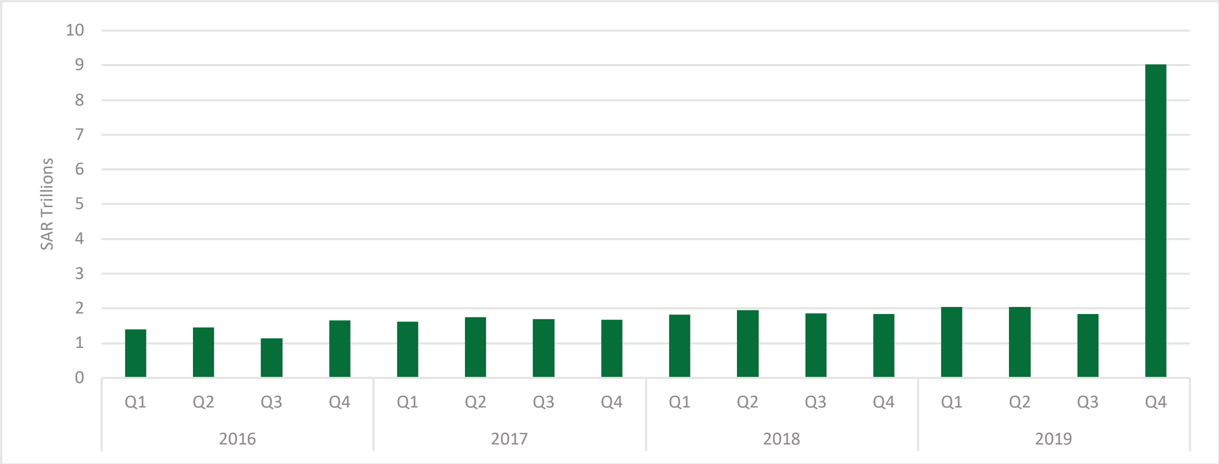
Source: CMA

The company completed the offering by raising more than SAR 96.1 billion, with an offering size of 3 billion shares, comprising 1.5 percent of the company's share capital. Out of the shares offered, 1 billion were allocated to retail investors and 2 billion to institutional investors. The company offered a 10 percent share bonus to nationals who hold their shares for 180 days. Institutional orders reached SAR 397.3 billion, whereas the retail tranche attracted bids worth

SAR 48.8 billion, an oversubscription of 1.5x the amount of their share offering. The oversubscription indicated strong demand and confidence in the Saudi economy.

A milestone achievement, the Aramco IPO will play a vital role in economic reforms within the Kingdom, boosting economic development and diversification. The proceeds of the IPO will contribute to the domestic economy and local investments, with the aim of growth in the non-oil sector. In addition, the IPO has created new opportunities for foreign capital entering the Kingdom in the form of institutional inflows and foreign direct investments, and placed the Saudi stock market among the top 10 global equity markets by market capitalization. Equity indices, MCSI and FTSE, also included the shares of Aramco. Driven by the IPO, TASI's market capitalization surged to SAR 9.0 trillion by end of 2019, an increase by nearly 385.5 percent compared to prior year (Chart 6.12).

Chart 6.12: TASI Market Capitalization



Source: CMA

7

FINANCIAL REGULATORY FRAMEWORK

7. Financial Regulatory Framework

7.1 Overview of International Developments

The 2008 global financial crisis sparked an overhaul of financial regulations worldwide in terms of focus and scope, requirements, measures, and practices.

Following the crisis, and at the 2009 G20 summit, the international regulatory authorities agreed more attention should be given to prevent the formation of systemic risk, and to enhance both macroprudential and microprudential policies and frameworks.[10] They emphasized the following: improve capital buffers and mitigate leverage; restrain funding mismatches and currency risk as well as strengthen the structure and enhance the supervision of large and interlinked financial firms. Years later, despite significant progress, numerous jurisdictions still fail to implement the Basel III Net Stable Funding Ratio (NFSR), notwithstanding the agreed deadline was January 2018. The Financial Stability Board (FSB) acknowledged the hurdles and challenges faced by several regulatory authorities in the meeting where some of the reforms were approved. However, it reiterated the need to sustain momentum to accomplish greater resilience in the financial sector globally. Hence, regulators and supervisors must continue to respond to possible threats, monitor safety and soundness concerns as well as remain vigilant to the unfolding of events.

The Basel III framework was introduced by the Basel Committee in 2010 (finalized in 2017). The new framework, which marks a transition from the previous standards of Basel II, is aimed at mitigating several drawbacks with the pre-crisis regulatory agenda and improving the resilience of the banking sector. It focuses on advancing capital and liquidity requirements, enhancing supervisory scrutiny of interlinked institutions, alleviating credit leverage and addressing procyclicality, improving supervisory review approaches, and raising disclosure requirements.

Recently, some particular facets of financial regulations have gained eminence, such as regulations related to financial technology and financial inclusion. FinTech is growing rapidly; and the main regulatory challenge is to support FinTech's potential contribution to innovation, efficiency, and inclusion while safeguarding against risks that could amplify shocks to the financial system (FSB 2017 b). Thus, policymakers should continue to evaluate and monitor the sufficiency of their regulatory frameworks.

7.1.1 Macroprudential Regulations

The macroprudential approach to regulate and supervise the financial sector has been emphasized in policy discussion, and the use of its instruments has broadened extensively in both developed and emerging economies. The framework of macroprudential policy identifies the buildup of vulnerabilities in the system, which increases the potential for risk to materialize. The framework aims to prevent systemic risk and to mitigate the spillover effects either from within the financial system or from other sectors in the economy.

System-wide risk contains two dimensions: a time dimension, which assesses how risks might increase or build up over time; and a cross-sectional dimension, which evaluates the degree of the systemic importance of the financial institution to the financial sector. It contains the risks to financial stability originating from, for instance, the instability of specific firms. The macroprudential toolkit deals with both dimensions of risk.

7.2 SAMA's Macroprudential Regulatory Framework

SAMA has in place a robust regulatory framework that promotes the growth of the financial system; maintains its soundness, stability, and integrity; and ensures the availability of vital financial services necessary for economic growth. The framework keeps pace with the relevant international standards, as well as the evolving nature of the financial products and services, and the associated risks.

[10] The definition of BIS-FSB-IMF (2016), macroprudential policy, involves principally employing prudential elements to minimize structural repercussions

In 2019, SAMA's regulatory activities have continued to concentrate on strengthening the resilience standards against emerging risks, fostering confidence in the financial sector, and promoting efficiency and sustainable growth. A key element of regulatory measures is improving the macroprudential policy framework.

7.2.1 Banking System Laws and Regulations

7.2.1.1 Banking Laws

SAMA is the designated regulatory and supervisory authority in all matters related to the banking system of Saudi Arabia. This authority is derived from two royal decrees issued on 25/07/1371H (corresponds to 20/04/1952G). The first (No. 30/4/1/1046) provided for establishing SAMA.[11] The second (No. 30/4/1/1047) approved the articles of association of the SAMA. A pivotal role of SAMA is to ensure the banking system is financially sound, stable, and able to provide necessary services.

The legal framework governing banking activities was established under the Banking Control Law by a Royal Decree M/5 on 22/02/1386H (corresponds to 11/06/1966G) and amended by a decree five years later. The law covers matters such as liquidity and capital adequacy, financial institutions licensing requirements, inspecting and supervising licensed financial entities, constraints on banking activities, and resolving insolvent banks. Other banking laws include, for instance:

Credit Information law

Legislated by a Royal Decree M/37 on 05/07/1429H (corresponds to 09/07/2008G). The law represents a milestone in the development of the Saudi credit market. It develops an effective mechanism for collecting precise credit information, and safeguards both consumer and financial firms' rights.

The Anti-Forgery Law

Approved by Royal Decree No.144 dated 26/11/1380H (corresponds to 12/05/1961G) and amended by a Royal Decree No.53 on 05/11/1382H (corresponds to 30/03/1963G).

7.2.1.2 Banking Regulations

SAMA has been proactive in adopting banking regulations issued by internationally recognized standard-setting bodies, such as the Basel Committee on Banking and Supervision (BCBS), and the Financial Stability Board (FSB).

Main highlights of the regulatory framework are:

Capital Adequacy Ratio (CAR)

SAMA introduced the Basel I Capital Adequacy Accord in 1992, the Basel II regulatory framework in 2008, and then, Basel III in 2012 when it joined the Basel Committee.

SAMA has gradually refined its regulatory capital requirements, based on Basel III standards, with the aim of improving the resilience of the banking system. The risk-based capital requirements are applicable to all 12 domestic banks.

Capital is subject to the following minimum requirements:

- Common Equity Tier 1 must be at least 4.5 percent of the risk-weighted assets
- Tier 1 capital must be at least 6 percent of the risk-weighted assets
- Tier 1 Capital + Tier 2 Capital (i.e. total regulatory capital) must be at least 8 percent of the risk-weighted assets, excluding the Basel III capital buffers.

Leverage Ratio

The capital regulatory framework includes requirements for leverage ratios, which apply to all banks in Saudi Arabia. Two leverage ratios exist. A ratio of Tier 1 capital to total exposures should equal a minimum of 3 percent in line with the Basel III framework, and the other ratio, under the Banking Control Law, states a bank's deposit liabilities should not exceed 15 times its reserves and invested capital.

[11] Named Saudi Arabian Monetary Agency back then

Net Stable Funding Ratio (NSFR)

This measure was introduced on January 1, 2016, and it requires banks to maintain a stable funding profile (at least a ratio of 100 percent on an ongoing basis) in relation to the composition of their assets. Therefore, it increases the resilience of the banking system.

SAMA Liquidity Ratio (SLR)

The Banking Control Law requires Saudi banks to maintain a minimum liquidity reserve equal to at least 15 percent of their deposit liabilities. SAMA may, if deemed necessary, increase the aforesaid percentage up to 20 percent. The SLR is currently set at 20 percent.

Loan-to-Deposit Ratio (LDR)

Saudi Banks are expected to maintain a loan to deposit ratio of 90 percent (raised from 85 percent in 2016).

Liquidity Coverage Ratio (LCR)

Banks are required to maintain, at a minimum and on an ongoing basis, High Quality Liquid Assets (HQLA) equal to 100 percent of projected net cash outflows over a 30-day stress period, as described by SAMA (introduced in 2015 as 60 percent and phased in).

Stress Testing

After the 2008 financial crisis, stress tests have become well-established tools used by supervisory authorities around the world.

SAMA requires banks to conduct bottom-up stress tests and reverse stress tests semi-annually. SAMA also uses its own stress test system to evaluate the resilience of the banking system against financial and economic shocks. SAMA performs the top-down exercise on a quarterly basis.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is at the core of banks' capital management. It is also a significant component of the banking supervisory framework. All Saudi domestic banks are required to provide SAMA with a comprehensive ICAAP package on an annual basis. The ongoing review of the package, as part of the annual Supervisory Review Processes, enables SAMA to assess banks capital adequacy based on their risk profiles and to evaluate banks' ability to manage and report their risks.

Internal Liquidity Adequacy Assessment Process (ILAAP)

ILAAP plays a pivotal role in managing risk of the banking sector, and it is an important input factor in SAMA's Supervisory Review Processes. ILAAP came into force in January 2018 in order to meet Basel III Pillar 2 requirements for liquidity risk management. All Saudi domestic banks are required to provide ILAAP package annually. The ongoing review of the package enables SAMA to assess banks' ability to continue operating by maintaining sufficient liquidity buffers and stable funding and by managing their risks effectively.

Table 7.1: SAMA's Macroprudential Measures and Policies Toolkit – Banking

Instrument	Regulatory Requirement as of 2019
Provisioning	As per IFRS 9 – Which was adopted as from January 2018
Reserve Requirement	7 percent for demand deposits 4 percent for time and saving deposits
Loan-to-Value (LTV)	First Mortgage Loan ≤ 90 percent of residential real estate value Other Mortgage loans ≤ 70 percent of residential real estate value
Debt-to-Income Ratio	The limit varies according to the level of income and customer's total obligations[12]
Exposure Limit	The limit varies according to the type and size of the counterparty[13]
Foreign Exposure	SAMA's approval needed before lending in foreign currency in the cases of non-Saudi residents and syndicated facilities (a qualitative measure)
Countercyclical Capital Buffer (CCyB)	Set at 0 percent of risk-weighted assets since its introduction on January 1st, 2016
Capital conservation buffer	2.5 percent of risk-weighted assets, to be met with CET1 capital
Capital surcharges for domestic systemically important banks (D-SIBs)	Effective January 2016. The designation of D-SIBs and the determination of capital surcharges are done on an annual basis. In 2019, six Saudi banks have been designated as D-SIBs
Other qualitative measures	SAMA's approval for mergers and acquisition SAMA's non-objection for appointment of senior executives

7.2.2 Insurance Sector Laws and Regulations

7.2.2.1 Insurance Laws

The scope of regulation has become increasingly complex. Financial stability has long been associated with banking sector activities. However, the supervision of other financial institutions such as insurance companies also plays a significant role in ensuring financial stability.

In Saudi Arabia, SAMA is the regulatory and supervisory body for the insurance sector. Its role includes licensing insurance and reinsurance businesses, as well as the insurance and reinsurance intermediaries; ensuring fair competition and proper market conduct; protecting policyholders and their beneficiaries; and maintaining a stable and financially-sound insurance sector. This authority is derived from the Cooperative Insurance Companies Control Law issued by Royal Decree No (M/32) dated 02/06/1424H (corresponds to 31/07/2003G).

The abovementioned law was preceded by two milestones: the issuance of the Articles of Incorporation of the National Company for Cooperative Insurance by Royal Decree No (M/5) dated 17/04/1405H; and the issuance of the Law of Cooperative Health Insurance by Royal Decree No. (M/10) dated 01/05/1420H.

7.2.2.2 Insurance Regulations

Over the years, SAMA has issued a number of regulations that shaped and developed the insurance market. The first building block was the Implementing Regulations of the Cooperative Insurance Companies Control Law, issued on 20/04/2004G. The regulation was followed by a series of other regulations, such as

[12] For details, see Responsible Lending Principles for Individual Customers, available on SAMA website
[13] For details, see Rules on Large Exposures of Banks 2019, available on SAMA website

Insurance Market Code of Conduct Regulations, Anti-Fraud Regulation, Anti-money Laundering and Combating Terrorism Financing Rules, Risk Management Regulation, The Regulation of Reinsurance Activities, and Insurance Intermediaries Regulation.

In 2019, a number of regulatory reforms were introduced to the insurance sector, such as the draft of new actuarial business regulations for both insurance and reinsurance firms (issued for public consultation in 2019 and become effective in the first quarter of 2020). The new reforms aim to support the growth of the actuarial profession to ensure its effective participation in the prosperity of the insurance sector. This would ultimately enable the insurance industry to meet the demand in the market, which is growing in complexity, and keep pace with the current economic expansion.

SAMA has also introduced new rules regulating insurance aggregation activities, a step that would increase customer reach, facilitate access to insurance coverage, and increase the competition between market players. In addition, an updated unified compulsory vehicle insurance policy has been introduced in 2019. The new policy improves protection of the policyholders as well as the beneficiaries of the insurance coverage. Moreover, the sector has completed Phase 1 of the IFRS17 implementation journey, and moved on to Phase 2 of the four-phase implementation process laid out by the regulator.

Table 7.2: SAMA's Macroprudential Measures and Policies Toolkit – Insurance

Instrument	Regulatory Requirement as of 2019
Solvency Margin	$\frac{\text{Available Admissible Assets}}{\text{Required Solvency}} \geq 100 \text{ percent}$
Provisioning (Technical Reserves)	Certain requirements for each type of reserve
Statutory Deposit (At SAMA)	10 percent of Paid Capital (subject to additional 5 percent based on company profile)
GWP-to-Capital ratio	Gross written premium (GWP) should not exceed 10 times the paid capital and reserves
Reinsurance	At least 30 percent of ceded premium must be reinsured within the Kingdom Reinsurer must be rated at least BBB
Retained Insurance Premium	At least 30 percent of total insurance premium (SAMA's exemption may apply)
Investment Concentration Limit	Certain concentration limits apply for each type of investments (unless SAMA approves the company's investment policy) Any one single investment should not exceed 50 percent of total investment in that particular investment instrument Investments outside the kingdom should not exceed 20 percent of total investment
Foreign Exposure	SAMA's approval is required before sharing risk with foreign companies Maximum of 50 percent of the investment portfolio can be in foreign currency (for deviation, SAMA's approval is required)
Other qualitative measures	SAMA's approval for mergers and acquisition SAMA's non-objection for appointment of senior executives

7.2.3 Finance Companies Laws and Regulations

7.2.3.1 Finance Companies Laws

The non-bank lending institutions have become increasingly important players in the financial market. Finance companies have grown in size and in interconnectedness with the banking sector; and as a consequence, legislative bodies have proceeded in introducing various regulations to govern the sector. In Saudi Arabia, SAMA is responsible for authorizing, supervising, and regulating finance companies. The first law regulating these companies was the Finance Companies Control Law, introduced in 2012 which became effective in late 2014. The law was followed by the Finance Lease Law, Real Estate Finance Law, and Anti-Money Laundering Law.

7.2.3.2 Finance Companies Regulations

In recent years, SAMA has introduced a number of regulations aimed at developing and deepening the market, ensuring its financial soundness, and protecting rights of all stakeholders. These regulations include, for instance, Implementing Regulation of the Finance Companies Control Law, Anti-Fraud Rules for Finance Companies, Rules Governing Disposal of Finance Assets or Their Contractual Rights, and Responsible Lending Principles for Individual Customers.

In 2019, several regulatory developments took place. The most prominent among those were: 1) the introduction of the new unified car leas contract, which aimed at protecting the rights of both consumers and dealers; 2) the issuance of rules governing microfinancing activities and the reduction of regulatory requirements for microfinance companies, which aimed at accommodating more practitioners in the sector and attracting a new segment of investors with medium capital; 3) the draft of rules for licensing finance professions (issued for public consultation in 2019 and become effective in the first quarter of 2020; and 4) the introduction of new rules concerning owning properties in Makkah and Madinah for all licensed non-bank mortgage lenders, without breaching the non-Saudi nationals' ownership law. These developments came in line with SAMA's constant efforts to enhance financial inclusion and ensure the provision of more financing products to meet consumer's needs. In addition, SAMA updated the finance companies supervisory framework by introducing a risk-based supervision (RBS) approach, which involves assessment of the risk profile of each company, taking into account the company's size and exposure to the banking system.

Table 7.3: SAMA's Macroprudential Measures and Policies Toolkit – Finance Companies[14]

Instrument	Regulatory Requirement as of 2019
Leverage ratio	Real estate companies' leverage ratio should not exceed five times the company's capital and reserve (could be exceeded upon approval) Non-real estate companies' leverage should net surpass three times capital and reserves (could be exceeded upon approval)
Disposable of finance assets	The company is allowed to factorize a loan provided it complies with the following: For real estate companies: passing one year from credit initiation or six months from the first installment, whichever comes later For non-real estate companies: passing three months from credit initiation or three months from the first installment, whichever comes later
Loan-to-Value (LTV)	First Mortgage Loan ≤ 90 percent of residential real estate value Other Mortgage Loans ≤ 85 percent of residential real estate value
Debt-to-Income Ratio	The limit varies according to the level of income and customer's total obligations[15]
Exposure limit	The limit varies according to the type of the counterparty[16]
Other qualitative measures	SAMA's approval for mergers and acquisition SAMA's non-objection for appointment of senior executives

7.2.4 Other Regulatory Developments

SAMA has embraced post-crisis reforms to foster the health, integrity, efficiency, and effectiveness of different components of the financial system. As part of the reform process, SAMA has enhanced (FinTech) environment, bolstered cybersecurity, and deterred financial industry misconduct.

7.2.4.1 Strengthening and Protecting Financial System Integrity

The Kingdom, has in place, a robust system for combating money laundering, terrorism financing, and other related threats to the integrity of the financial system and this has contributed to the stability of the Saudi financial sector.

On 17/01/1420H (corresponds to 03/05/1999G), the Council of Ministers released resolution No. 15 approving the implementing of Anti Money Laundering (AML) administrative directives issued by the Financial Action Task Force (FATF). Another Royal Decree, M/31, was issued on 11/05/1433H (corresponds to 03/04/2012G) approving the AML system to be implemented in financial institutions and designated non-financial businesses and professions, including lawyers.

SAMA, has in place, an Anti-Money Laundering Committee with the role of inaugurating the necessary actions to implement the international recommendations with regard to AML. In addition, SAMA sets the necessary measures to ensure full compliance with relevant laws and regulations, in order to prevent criminal money laundering and terrorist financing activities.

7.2.4.2 Over-The-Counter Derivatives Trade Repository

The year 2019 marked the establishment of the first trade repository in the market after fulfilling the licensing requirements set by SAMA. As of 1 January 2020, all banks operating in Saudi Arabia are required to report details of their outstanding over-the-counter (OTC) interest rate derivatives or OTC foreign exchange (FX) transactions that are cleared or uncleared to the trade

[14] Finance companies are subject to the Companies Law issued by a Royal Decree and implemented by the Ministry of Commerce. The law requires companies to maintain a minimum statutory reserve equal to 30 percent of the paid-up capital (to be reached by setting aside 10 percent of the net profit on an annual basis). SAMA does not impose any additional requirements with this regard.
[15] For details, see Responsible Lending Principles for Individual Customers, available on SAMA website
[16] For details, see Implementing Regulation of the Finance Companies Control Law 2019, available on SAMA website

repository on a daily basis, unless an exemption applies. In addition, SAMA enacted SAMA Trade Reporting and OTC Risk Mitigation Rules, which come in line with the G20 reforms to regulate OTC derivatives markets following the 2008 global financial crisis. The rules represent an important milestone in the development of the Saudi derivatives market to enhance international confidence and encourage cross-border investment and liquidity into the Kingdom.

7.2.4.3 Payment Systems

SAMA regulates and supervises the Saudi Arabian payment network to ensure its availability and integrity. The network includes RTGS, ATM, EFTPOS, cheques, clearing systems, electronic bill presentment, and payment system.

The Saudi Arabian payment system has experienced extraordinary changes in the past few years as it adopted procedures to enhance resilience in line with international payment infrastructure standards. Lately, developing technology has supported the design of new payment platforms, as well as consumer and business-technology for payments away from the traditional forms of payments.

The Integrated Payment Strategy (IPS), which is an updated version of the payment strategy of 2009, has rapidly progressed, and is expected to cater for 30 percent of all electronic transactions by 2021. Using three primary pillars, IPS aims to meet all stakeholders (government, individuals and corporates) requirements, and expand technology, as well as enrich products, marketing, and innovation. The Strategy includes the following major pillars and objectives:

- Creating a real-time Automated Clearing House is expected to enhance the payment network. It would allow retail payment transactions to complete faster, so maintaining a competitive national payment system.
- Providing an innovative online payment infrastructure and using mobile technology to promote eCommerce.
- Fostering innovation and supporting start-up with an innovation center, concept hub, and FinTech hubs.
- Using SADAD (a central system for displaying and paying invoices, and making a variety of other payments) accounts and Biller Base expansion initiatives of SADAD to expand SMEs, employing invoicing hubs to address payments.
- Offering numerous payments and digital components to improve the user experience.

The most notable developments in the payment systems include the launch of Mada Pay in 2018, which is the first application that supports contactless (NFC) transactions in Saudi Arabia. Also, in 2018, SAMA announced the launch of Esal, an e-Invoicing business payment platform that will revolutionize the payment processes for government entities and businesses in the Kingdom. In line with international best practices, the platform will significantly improve the competitiveness of the Saudi economy. In addition, SAMA, represented by Saudi Payments, has entered into an agreement with Vocalink and IBM to develop the new Instant payments system planned for launch at the end of 2020. The development of such a system is primarily intended to promote economic development by increasing the efficiency of the financial system and the effectiveness of financial transactions among all parties. This should be positively reflected in the acceleration of business transactions and will contribute to the achievement of the initiative to move towards a cashless society, which is a central focus of Saudi Arabia’s Vision 2030.

7.2.4.4 Cybersecurity

As technology advances, growing attention is being given to the role of cybersecurity infrastructure and standards in fostering financial stability. In the World Economic Forum’s 2017 Global Risk Report, cyber risk was noted as being in the top 5 trends that determine global developments. Disruptive technologies can generate cyber-attack vulnerability, creating financial liabilities and outage of vital financial services. With recent surge in cybersecurity threats, not only in number but also in intricacy, authorities around the world have taken regulatory and supervisory actions to promote the mitigation of cyber risk as well as facilitate powerful response to cyber-attacks. The Financial Stability Board (FSB) has evolved its agenda on cybersecurity. In 2017, it provided a cybersecurity regulation related to the financial sector activities. Also, it published a cyber-lexicon in 2018 to maintain FSB's work, and to support regulatory bodies, private sector participants, and authorities. The Lexicon contains a variety of roughly 50 core terms connected with cybersecurity and cyber resilience in the financial sector.

SAMA also introduced a cybersecurity framework in May 2017, which is meant to support financial institutions in their efforts to have an appropriate cyber security governance and to build a robust infrastructure along with the necessary detective and preventive controls. The Framework articulates appropriate controls and provides guidance on how to assess maturity levels.

The framework, which is in line with recognized international guidelines such as NIST, ISF, ISO, Basel, and PCI, is applicable to all financial institutions regulated by SAMA (i.e. banks, insurance and reinsurance companies, financing companies, credit bureaus, and financial market infrastructure entities).

7.2.4.5 FinTech Services

Financial innovation has changed business strategies, regulatory frameworks, products, and services offered in the financial industry. Therefore, it is important to take into account the benefits and risks in evaluating rapid innovation in FinTech. In 2017, the FSB developed a framework that determines the scope of FinTech activities to help regulatory and supervisory authorities monitor all issues related to this area. The FSB has identified and assessed potential risks and benefits to financial stability. Potential risks include micro-financial (e.g. credit risk, liquidity risk, operational risk, and leverage) as well as macro-financial (e.g. credit growth expansion, procyclicality, and increased interconnectedness). Potential benefits include decentralization and increased intermediation by non-financial entities; higher efficiency, transparency, competition, and resilience of the financial system; and better financial inclusion and higher economic growth, especially in developing countries.

FinTech evolution, regulated by SAMA and CMA, has advanced immensely, influencing financial network sustainability. In 2018, in light of Saudi Arabia's 2030 vision, SAMA announced the FinTech Saudi Initiative, professing to commence the first Saudi FinTech system and to increase the mindfulness regarding developing FinTech skills and knowledge. Furthermore, SAMA initiated the Regulatory Sandbox in 2019 in order to assess the outcomes resulting from new technology in the Saudi Arabian financial industry, as well as help transform the Kingdom's sector into a smart financial network. The Sandbox hosts both international and domestic firms that want to examine new digital tools in a 'live' environment with a view to employ them in the Saudi's economy in the future. In January 2020, SAMA issued its first licenses for two financial technology institutes; an electronic wallet company and a payment services company; after successful testing of their solutions in the regulatory Sandbox.

7.3 Capital Market Regulations

Close oversight of capital market developments enables SAMA, through engagement with the CMA, to determine primary risk origins to help safeguard the financial industry's solidity and stability. The capital market is an important element to promote financial system steadiness. Saudi Arabian legislation created the capital market on July 31, 2003, under the Capital Market Law pursuant to the Royal Decree No. (M/30) dated 02/06/1424H. Sixty-seven articles regulate capital market business, overseeing security issuing, transactions, and CMA-licensed individuals as well as shielding investors and citizens from illegal activities. The regulatory body has continued developing and amending the capital market's rules and regulations. In 2019, CMA has undertaken several reforms to increase capital inflows into the Kingdom's market, strengthen its prudential rules, and improve its monitoring of all trading transactions and actions to ensure compliance of market participants with the CMA's regulations. The most prominent development is the issuance of cybersecurity guidelines for financial institutions under the CMA's regulations.

Box 7.1 Economic and Financial Measures Taken by Saudi Arabia in Response to COVID-19

The outbreak of COVID-19 which began in December 2019 and was determined to be a global public health crisis by the World Health Organization in March 2020. It has since spread rapidly affecting over 194 countries around the globe. As a result, the world has faced a combined health and economic crisis of unprecedented nature. In the second half of February 2020, when the virus spread out of mainland China and reached every continent, many countries started enforcing public health containment measures to delay the spread of the virus and to boost the capacity of health sector. The situation that has developed has resulted in an abrupt stop in economic activities and a slump in economic outlook. As a result, the virus has had a detrimental effect on the global economy and is placing enormous pressure on households, businesses and governments.

Jurisdictions around the world have taken both health and economic measures to contain the effect of the escalating virus outbreak. Health measures include lockdown imposition, community quarantines, curfew orders, temporary business suspension and travel restrictions or bans. Economic measures include, for instance, financial support to citizens affected by the situation, government-funded paid sick- and family- leaves, expanded unemployment compensations, postponement of tax payments and other measures to support businesses.

According to the April 2020 World Economic Outlook, global growth is expected to decrease by 3.0 percent in 2020, which is worse than what was experienced during the global financial crisis. Commodities prices have fallen at record level while safe-haven asset prices, like gold and US Treasuries rose. Banks' losses on their private credit portfolios are likely to increase as the suspension of economic activities continues. The risks appear to be less severe in the global insurance sector, although some economies and regions are already experiencing in a challenging liquidity environment, credit risks, and currency mismatch. Additionally, the increased uncertainty has led to high volatility in the equity markets due to the growth downgrade which is forecast to be significantly worse than the impact on global growth following the 2008-2009 global financial crisis. The acute financial stress along with the significant global growth downturn has increased global risks to financial stability domestically in Saudi Arabia.

In Saudi Arabia, the coronavirus outbreak is likely to have a significant economic impact. This was accompanied by another challenge of falling oil prices[17], affected by a decrease in global demand due to the world-wide travel bans and the suspension of most economic activities. Strong financial and economic measures have been taken by the Saudi government to limit the impact of these developments and to provide support to the society and economy alike. These measures have included support for businesses and households through government fiscal and medical support measures; SAMA monetary policy; financing and lending measures to support the private sector especially the Micro, Small and Medium Enterprises (MSMEs); deferrals on bank loan payments and waiver of fees on some governmental services.

SAMA has the task, in particular during crisis and stress periods, to ensure financial services are available, there is confidence in the financial markets and financial stability is safeguarded. In this regard, and in response to the Coronavirus outbreak, SAMA intervened to reduce uncertainty, ensured the credit markets are operating satisfactorily and managed system liquidity in such a manner as to minimize financial system disturbance and the risks of failure of the financial institutions it supervises. It has implemented a range of precautionary measures and maintained open channels of communication with the market. The main measures and actions it has taken include, among others, the following:

[17] Prices have dropped by over 50 percent since the start of the pandemic

Table 7.4: Summary of SAMA's Policy Responses to COVID-19	
31/01/2020	SAMA started monitoring the coronavirus developments since the WHO declared the Coronavirus as a global public health emergency in late January, and continued monitoring monetary and financial indicators more closely.
28/02/2020	An internal task force was established to assess the potential impact of the coronavirus situation.
03/03/2020	Unscheduled MPC meeting discussed the developments and decided to meet weekly. SAMA cut both the Repo and Reverse Repo rates by 50 basis points (Repo rate from 2.25 percent to 1.75 percent, and Reverse Repo rate from 1.75 percent to 1.25 percent).
08/03/2020	SAMA issued a circular requiring all financial institutions (FIs) to establish a formal internal coronavirus risk management committee and to update their business continuity plans.
13/03/2020	SAMA issued a circular that encourage FIs to promote E-services and payment systems.
14/03/2020	SAMA announced a SAR 50 billion Private Sector Financing Program, aimed at mitigating the impact on the private sector, especially MSMEs. The program consists of: deferred payment program (30 billion), funding for lending program (13.2 billion), loan guarantee program (6 billion), support for fees of POS and eCommerce (800 million), and finance repayment arrangements for institutions affected by the measures taken in the cities of Makkah and Madinah.
16/03/2020	SAMA cut both the Repo and Reverse Repo rates by 75 basis points (Repo rate from 1.75 percent to 1.00 percent, and Reverse Repo rate from 1.25 percent to 0.50 percent).
16/03/2020	SAMA activated its own business continuity plans and directed FIs to do the same.
18/03/2020	SAMA increased purchase limit for MADA Atheer to SAR 300 (no PIN required), and requested the relevant parties to make necessary adjustments.
18/03/2020	SAMA introduced to FIs controls for provision of necessary services not available online.
19/03/2020	SAMA directed banks to stop freezing accounts in certain cases.
22/03/2020	SAMA emphasized that all banks operating in the Kingdom should accept and verify legal agencies issued electronically using the Ministry of Justice e-services.
25/03/2020	SAMA raised E-wallet top-up monthly ceiling limit to SAR 20,000.
29/03/2020	Unscheduled meeting of the National Financial Stability Committee (NFSC) discussed possible measures to maintain financial stability.
29/03/2020	SAMA postponed the annual Supervisory Review visits (SRVs), ICAAP, and the implementation of finalized Basel III reforms and the new Foreign Banks' Branches regulations, and the introduction of new provisioning rules. SAMA introduced the Private Sector Job Retention Scheme (PSJRC) and measures to promote remote banking.
26/4/2020	SAMA issued a circular to postpone the annual ILAAP and the June 2020 Stress testing requirements for the banking sector. In the same circular, SAMA also extended the timeline for completing the final two implementation phases of the margin requirements for non-centrally cleared derivatives and provided guidance on accounting and regulatory capital treatment of the Covid-19 extraordinary support measures.

As of March-end 2020, more than 22 public entities have taken measures to support the economy with more than SAR 172.5 billion.

Summary of other Saudi Arabia's Extraordinary Policy Interventions.

Ministry of Finance

- Announced a more than SAR 70 billion financial stimulus package, which aims to support the private sector, especially SMEs, and provide them with liquidity necessary to run their business activities.
- Allowed employers to get refund on work visas unused during the ban period, and to extend exit-and-entry visas unused during the ban for three months free of charge.
- Exempted expats from levy for those with expired Iqama until June-end 2020, by extending their Iqama free of charge for a period of three months.
- Postponed the collection of customs duties on imports for a period of a month against the submission of a bank guarantee, and set the criteria for extending the deferral period for the next three months.
- Delayed the payment of service fees due to government institutions and municipalities from the private sector for a period of three months (could be extended further for activities hard hit).
- Authorized the Minister of Finance to approve lending and other sorts of finance, and exemption from payment of fees and returns until end-2020, under Corporate Sustainability Program initiative.
- Established a ministerial committee, led by the Minister of Finance, with the following duties:
    - Identifying and reviewing incentives and initiatives of the National Development Fund (NDF) or any of its banks and funds, in order to alleviate the impact of the precautionary measures.
    - Instruct Kafala program and Monshaat to develop supportive initiatives, and support them from the resources of funds and banks under NDF.

Capital Market Authority (CMA)

- Extended the statutory deadline to disclose the board report for listed companies whose fiscal year ends in December 2019 for one month, and the statutory deadline for public and private investment funds to disclose the 2019 annual report to the public for 20 days (with a deactivation of the Procedure of Suspending the Trading of Listed Securities for one trading session after expiry of the deadline).

Ministry of Health

- Announced a more than SAR. 47 billion financial stimulus package, which aims to enhance the readiness of the health sector facilities and ensure the sufficiency of medical supplies.

Ministry of Industry and Mineral Resources- Mining

- Extended the period for investors to issue/renew their permits for three months, and deferred payment of applicable fees; extended the validity of expired export-import permits for three months; and the validity of expired mining permits for two months.

The Saudi Authority for Industrial Cities and Technology Zones (MODON)

- Cut levy by 25 percent for factories with valid licenses until end-2020, and postponed the payment of levy for affected factories for a period of three months.
- Allowed contracts amendment free of charge until the end of 2020.
- Extended the period to start production for a year, and licenses for operating factories for an extra year.

The Saudi Industrial Development Fund (SIDF)

- Restructured and deferred loan installments due in 2020 for small projects, medical projects, and medium and large factories; and established a special program to fund SMEs' working capital.

The General Authority for Zakat and Tax (GAZT)

- Postponed, for three months, extendable, the payment of VAT, excise, and income taxes, and the submission of Zakat declaration. Allowed granting Zakat certificates without restrictions for the 2019 fiscal year and accepting installment requests without applying the condition of advance payment.
- Suspended fines on violators, and postponed executing service suspension and financial seizure.

Ministry of Human Resources and Social Development (MHRSD)

- Free secondment of workers through Ajeer, to ease conducting business and alleviate the impact on affected segments, and temporary lifted the suspension on companies to correct their paths.
- Temporary lifted the suspension related to wage protection.
- Included the employment of Saudi Nationals in Netakat program immediately for all establishments.
- Temporary lifted the suspension on establishments that have not paid accumulated fines.

Human Resources and Development Fund (HRDF)

- Launched a SAR. 5.3 billion package of four special initiatives to support the private sector: wage support (1 billion), training support (800 million), employment support (2 billion), and work seekers subvention (1.5 billion).

Social Development Bank (SDB)

- Launched a SAR. 12 billion program to support start-ups, small enterprises, and low-income households.

The Royal Commission for Jubail and Yanbu (RCJY)

- Suspended, until June-end 2020, levies, fees, and execution of service suspension on investors.
- Deferred the payment of monthly bills for light industries until Jun-end 2020.
- Extended the Conditional Allocation Notice for industrial investors from 12 months to 24 months.
- Extended the validity of current and under-renewal investment agreements for an extra year at the same rate without extra charge.