

KEY ECONOMIC DEVELOPMENTS

Second Quarter 2023

Research and International Deputyship
Economic Research and Reports Department

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1- Executive Summary

The global economic growth is expected to rise by 3.0% in 2023 and 2024 according to the World Economic Outlook report issued in July 2023 (WEO).

The global demand for crude oil, according to OPEC estimates in July 2023, decreased by 0.4% during Q2 2023 to an average of 101.2 million bpd.

Projections of the International Monetary Fund (IMF) indicate that the Saudi economy will grow by 1.9% and 2.8% in 2023 and 2024, respectively.

Quick estimates for Q2 2023 indicate that the real GDP increased by 1.1% YoY. This growth is attributed to increases in non-oil activities and government services activities by 5.5% and 2.7%, respectively.

Private consumption indicator -consisting of POS transactions, cash withdrawals, individual and corporate bank checks cleared at the clearing houses, and e-commerce transactions using mada cards- show an increase in consumption during Q2 2023. It recorded a YoY growth of 5.0% and a QoQ growth estimated at 0.3%

Saudi Arabia's average production of crude oil in Q2 2023 registered a YoY decline of 3.9%, bringing the average production to around 10.1 million bpd.

The average price of Arab Light oil recorded a YoY decrease of 29.8% in Q2 2023, reaching an average price of \$79.9 per barrel.

Total actual budget revenues decreased by 15.0% YoY to SAR 314.8 billion in Q2 2023. Total actual budget expenditures increased by 9.4% YoY to SAR 320.1 billion in Q2 2023.

The average consumer price index (CPI) registered a YoY increase of 2.7% in Q2 2023. It also registered a QoQ growth of 0.6%.

Total exports value went down by 14.6% YoY to about SAR 313.5 billion in Q1 2023.

Broad money supply (M3) recorded a YoY increase of 9.1% (SAR 221.6 billion) to nearly SAR 2,660.6 billion in Q2 2023.

2- Global Economy

Key Global Economic Developments

Global growth is projected to witness low growth rates during the coming period. This is attributed to the continuous rise in interest rates that will increase borrowing costs and slow the growth of economic activities. In spite of this, the IMF raised its projections for global GDP growth slightly by 0.2 percentage points from its April 2023 forecast (World Economic Outlook report). Additionally, growth rates are expected to decrease from 3.5% in 2022 to 3.0% in 2023 and 2024; such rates are lower than the annual average of 3.8% for the period from 2000 to 2019. It is worth mentioning that advanced economies are the main factor behind this decline, as the GDP is expected to grow by 1.5% in 2023 and 1.4% in 2024. In contrast, the economies of emerging and developing markets are expected to see stable growth rates for 2023 and 2024, reaching about 4.0% and 4.1%, respectively (Chart 1).

Chart 1: Growth Projections for Economies

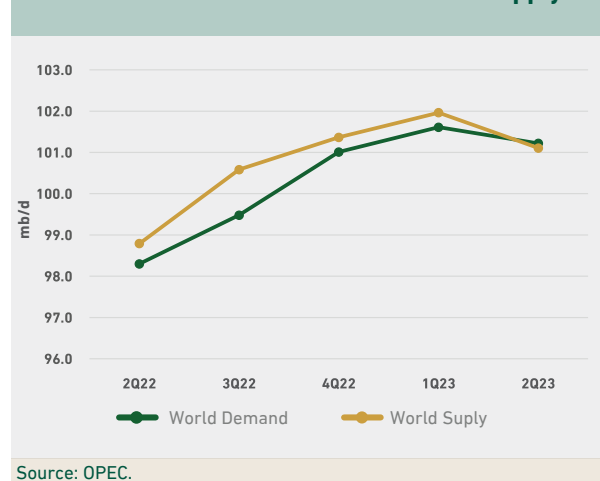


The IMF also expects a decrease in global inflation from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024; such a decrease is expected to be driven by a decline in commodity prices.

Key Developments of Global Oil Markets

Projections of the OPEC in its July report show a QoQ decrease of 0.4 million bpd in global demand for crude oil in Q2 2023, bringing the average demand to 101.2 million bpd. This decrease is attributed to the decrease of about 0.8 million bpd in demand from the OECD Asian and Pacific countries due to the slowdown in the growth of economic activity. Additionally, the OPEC's projections indicate a decrease of 0.9 million bpd in the global supply of oil to 101.1 million bpd in Q2 2023 due to a decrease of 0.6 million bpd in supply from OPEC countries (Chart 2).

Chart 2: International Demand and Supply



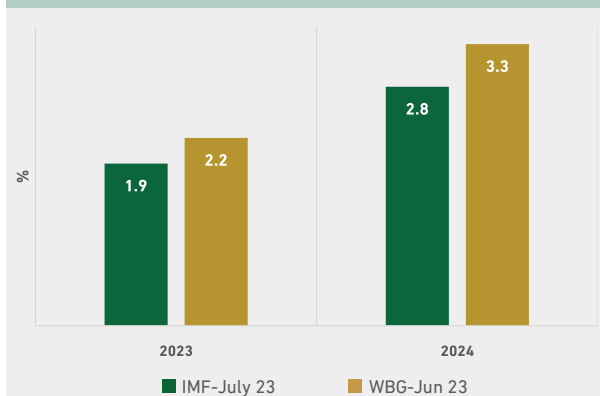
3- Saudi Economy

3-1 Key Developments in the Real Sector

Saudi Economic Outlook

According to the World Economic Outlook (WEO) report issued in July 2023, the IMF's projections the Saudi economy will be 1.9% in 2023; the growth is lower than expected in the previous report by 1.2 percentage points. In contrast, it is projected to grow by 2.8% in 2024. Furthermore, the World Bank's projections were close to those of the IMF as they indicate growth rates of 2.2% and 3.3% for 2023 and 2024, respectively (Chart 3). According to the IMF's estimates, inflation in Saudi Arabia is projected to rise by 2.8% and 2.3% for 2023 and 2024, respectively.

Chart 3: Projections of Key International Organizations About GDP Growth at Constant Prices for Saudi Arabia



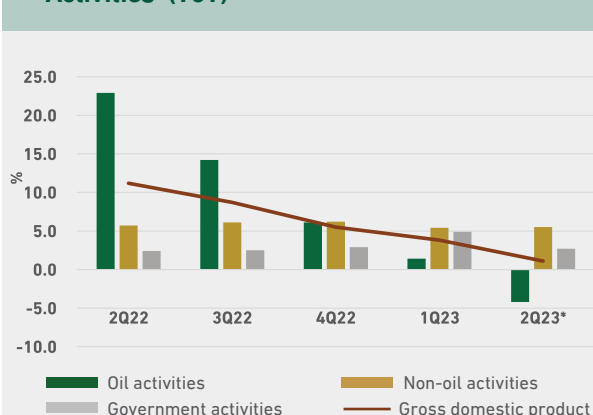
Source: IMF, WBG.

Real GDP

Quick estimates of the General Authority for Statistics (GaStat) indicate that the real GDP in Saudi Arabia recorded a YoY increase of 1.1% in Q2 2023. This growth is attributed to increases of 5.5% in non-oil activities and 2.7% in government services activities, despite a 4.2% decline in oil activities.

Moreover, the real GDP recorded a YoY increase of 3.8% in Q1 2023 and a QoQ decrease of 3.9%. This rise is attributed to a YoY growth of about 5.4% and a QoQ increase of 0.7% in non-oil activities. In addition, oil activities rose by 1.4% YoY. However, oil activities recorded a QoQ decline of about 5.4% in Q1 2023. Further, government services activities recorded a YoY increase of about 4.9% and a QoQ decrease of 2.6% (Chart 4).

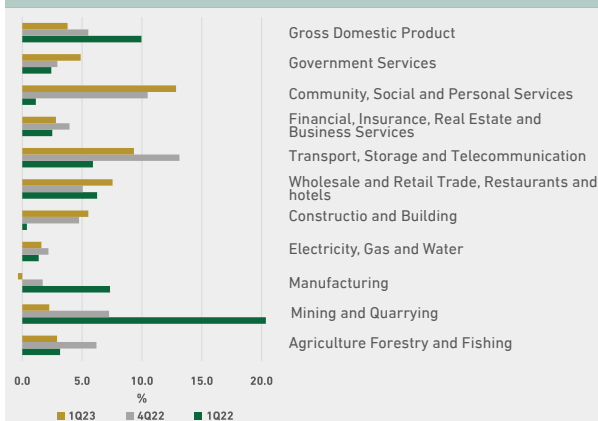
Chart 4: Growth of Real GDP by Main Economic Activities (YoY)



Source: General Authority for Statistics (GaStat).

*Quick estimates.

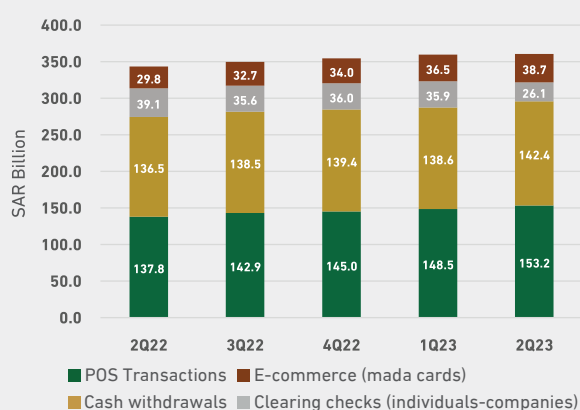
In the context of main economic activities, all activities recorded YoY increases in Q1 2023 except for manufacturing. Community, social and personal services increased by 12.9% YoY and 3.7% QoQ. Transportation, storage and communication came second with a YoY increase of 9.3% and a QoQ decrease of 7.6%, followed by wholesale and retail trade, restaurants, and hotels with a YoY increase of 7.5% and a QoQ increase of 4.2%. Construction and building ranked fourth with a YoY increase of 5.5% and a QoQ increase of 0.4%. It was followed by government services with a YoY increase of 4.9% and a QoQ decrease of 2.6% (Chart 5).

Chart 5: Growth of Economic Activities (YoY)

Source: General Authority for Statistics (GaStat).

Private Consumption Index

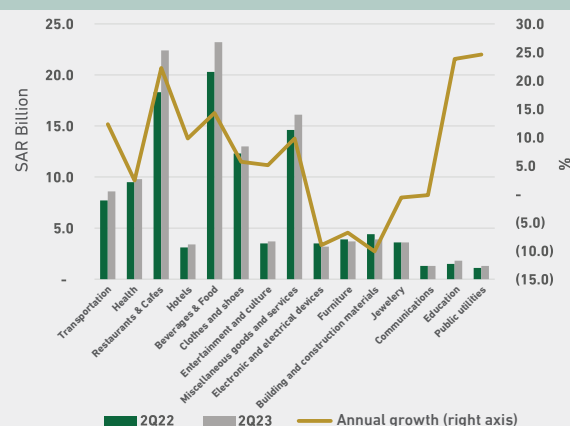
Data of the private consumption index consisting of POS transactions, cash withdrawals, individual and corporate bank checks cleared at the clearing houses, and e-commerce transactions using mada cards show that consumption recorded a YoY growth of 5.0% and a QoQ growth of nearly 0.3% in Q2 2023. E-commerce transactions using mada cards, POS transactions and cash withdrawals recorded YoY increases of 30.0%, 11.2% and 4.3%, respectively. On the other hand, individual and corporate bank checks cleared recorded a YoY decrease of 33.1% (Chart 6).

Chart 6: Private Consumption Index

Source: Saudi Central Bank (SAMA).

Data of POS transactions by sector in Q2 2023 show positive growth in transactions of most sectors. However, transactions of some sectors during that period registered a YoY decrease in growth, which is as follows:

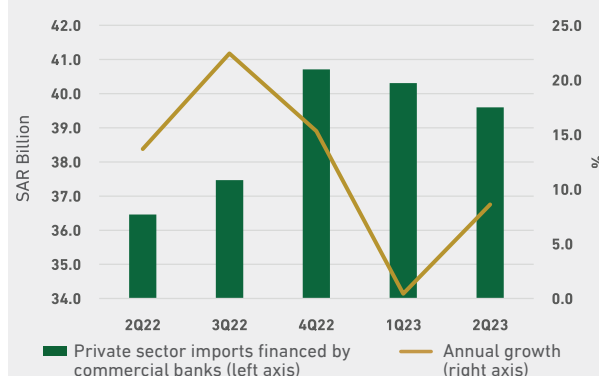
building and construction (10.1%), electronics and electrical appliances (9.0%), furniture (6.8%), jewelry (0.6%) and communication (0.2%) (Chart 7).

Chart 7: Points of Sale Transactions by Sectors

Source: Saudi Central Bank (SAMA).

Private Sector Imports Financed by Banks

The new letters of credit opened for the private sector imports financed by commercial banks recorded a YoY increase of 8.6% to SAR 39.6 billion in Q2 2023. In contrast, they registered a QoQ decrease of 1.8% (Chart 8).

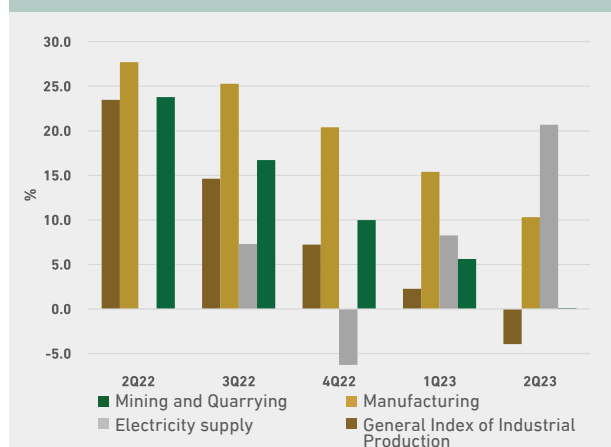
Chart 8: Private Sector Imports Financed by Commercial Banks (New Letters of Credit Opened)

Source: Saudi Central Bank (SAMA).

Industrial Production Index

Data of the general industrial production index (IPI) in Q2 2023 indicate a YoY rise of 0.1%, driven by rises of 20.7% and 10.3% in electricity and gas supplies and manufacturing activity, respectively. on the other hand, mining and quarrying decreased by 3.9%. Furthermore, the IPI witnessed a QoQ contraction of 2.1%, driven by decreases of 3.2% in mining and quarrying and 1.9% in Manufacturing. electricity and gas supplies, however, recorded a QoQ rise of 31.5% (Chart 9).

Chart 9: YoY Growth of Industrial Production Index

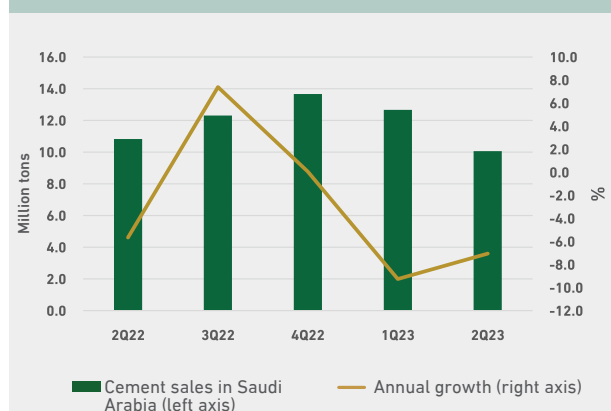


Source: General Authority for Statistics (GaStat).

Cement Sales in Saudi Arabia

Saudi Arabia's cement sales in Q2 2023 declined YoY by 7.1% to 10.1 million tons and fell QoQ by 20.6% (Chart 10).

Chart 10: Cement Sales in Saudi Arabia



Source: Cement companies in Saudi Arabia.

3-2 Oil Sector

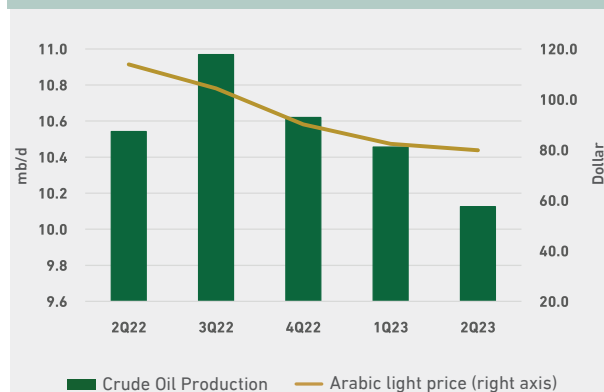
Crude Oil Production Developments

Saudi Arabia's average production of crude oil in Q2 2023 recorded a YoY decrease of 3.9% and a QoQ decrease of 3.2%, bringing the average production to 10.1 million bpd (Chart 11).

Oil Price Developments

The average price of Arabian Light Crude Oil in Q2 2023 recorded a YoY decrease of 29.8% and a QoQ decrease of 3.1%, reaching an average price of \$79.9 per barrel (Chart 11).

Chart 11: Saudi Arabia's Production of Crude Oil and the Price of Arab Light Oil



Source: OPEC.

3-3 Public Finance

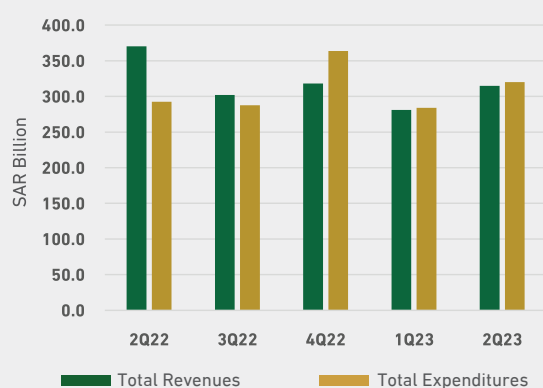
Revenues and Expenditures

Total actual budget revenues decreased YoY by 15.0% to SAR 314.8 billion in Q2 2023. Oil revenues accounted for 57.1% (SAR 179.7 billion) of total revenues. On the other hand, non-oil revenues amounted to SAR 135.1 billion, with taxes on goods and services constituting the largest share of non-oil revenues at 49.0%.

Total actual budget expenditures increased by 9.4% YoY to SAR 320.1 billion in Q2 2023. Current expenses accounted for 86.4% (SAR 276.6 billion) of total expenditures, and compensation of employees constituted the largest share of 47.7%

of current expenses. In addition, capital expenditure amounted to SAR 43.5 billion, constituting 13.6% of total expenditures. Accordingly, the budget recorded a deficit of SAR 5.3 billion in Q2 2023 (Chart 12).

Chart 12: Revenue and Expenditure Developments



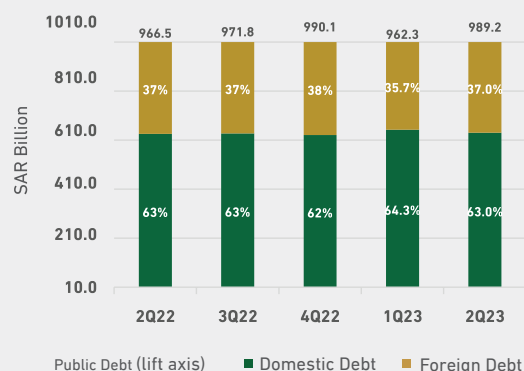
Source: Ministry of Finance.

As for the budget performance in the first half of 2023, total actual revenues registered a YoY decrease of 8.1%. In contrast, actual expenditures registered a YoY increase of 17.7%. Consequently, the budget recorded a deficit of SAR 8.2 billion in the first half of 2023 against a surplus of SAR 135.4 billion in the first half of 2022.

Public Debt

The public debt registered a YoY increase of 2.3% to SAR 989.2 billion in Q2 2023. Domestic debt recorded a YoY increase of 3.1% to SAR 623.5 billion (accounting for 63.0% of total public debt). On the other hand, foreign debt stood at SAR 365.6 billion (37.0% of the total), with a YoY increase of 1.1% (Chart 13).

Chart 13: Public Debt Developments



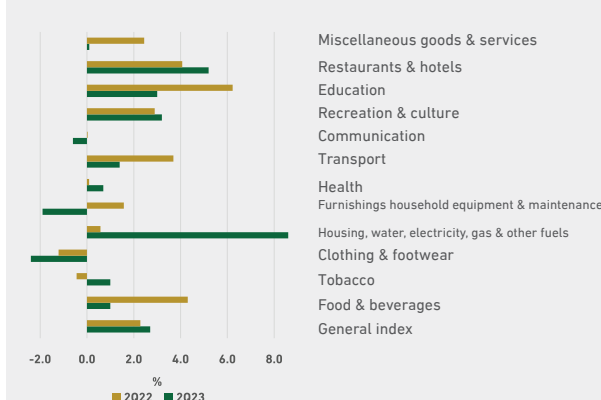
Source: Ministry of Finance.

3-4 Inflation

Consumer Price Index

The average general consumer price index (CPI) recorded a YoY increase of 2.7% and a QoQ increase of 0.6% in Q2 2023. This growth is attributed to the following YoY increases: housing, water, electricity, gas and other fuels by 8.6%, restaurants and hotels by 5.2% and recreation and culture by 3.2%. On the other hand, clothing and footwear registered the highest YoY decrease of 2.4% in Q2 2023 (Chart 14).

Chart 14: Annual Change Rate of Consumer Price Index

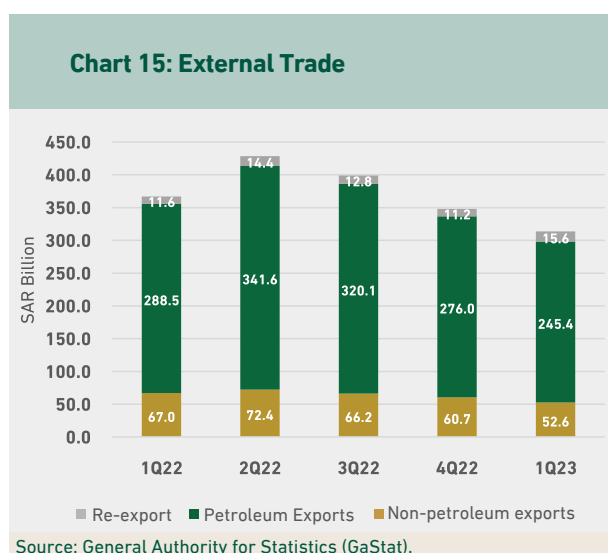


Source: General Authority for Statistics (GaStat).

3-5 External Sector

External Trade

Exports value registered a YoY decrease of 14.6% to around SAR 313.5 billion in Q1 2023. This decrease was due to a decline of nearly 14.9% in the value of oil exports to SAR 245.4 billion. In addition, non-oil exports (including re-exports) decreased by 13.1% to about SAR 68.1 billion. Oil exports constituted 78.3% of total exports, while non-oil exports (not including re-exports) constituted 16.8% of total exports. Moreover, the value of imports (CIF) increased by 18.1% YoY to around SAR 186.4 billion in Q1 2023 (Chart 15).



Balance of Payments

Current Account

Preliminary estimates indicate a surplus of SAR 66.4 billion in the current account balance in Q1 2023 compared to a surplus of SAR 148.5 billion in Q1 2022. This is attributed to a surplus of SAR 101.9 billion in the balance of goods and services against a surplus of SAR 179.7 billion in Q1 2022. The balance of goods recorded a surplus of SAR 134.9 billion as exported registered a surplus of SAR 315.1 billion against about SAR 365.9 billion in Q1 2022. Imported goods (FOB) increased by

24.4% to SAR 180.2 billion compared to about SAR 144.8 billion in Q1 2022. The services deficit decreased from SAR 41.4 billion in Q1 2022 to SAR 33.0 billion in Q1 2023. The deficit in the secondary income balance decreased by 4.8% to nearly SAR 41.1 billion compared to SAR 43.2 billion in Q1 2022. The primary income balance recorded a decrease of 52.9% to SAR 5.7 billion in Q1 2023 compared to about SAR 12.0 billion in Q1 2022.

Capital Account

Capital account registered outflows of SAR 3.4 billion in Q1 2023 against outflows of around SAR 1.8 billion in Q1 2022.

Financial Account

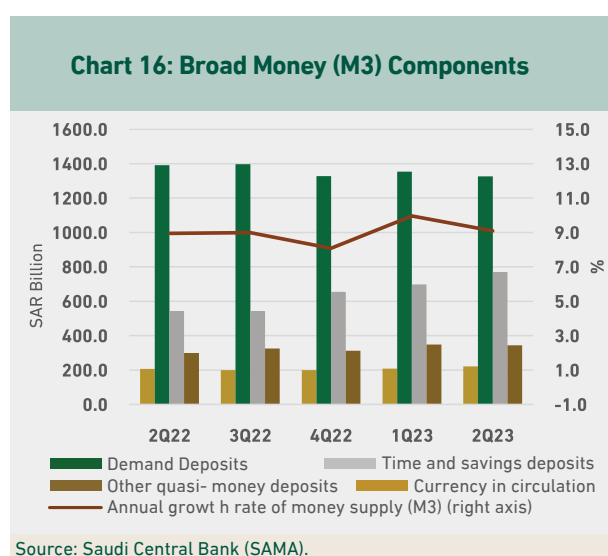
Net direct investments increased by SAR 27.0 billion in Q1 2023 due to an increase of SAR 35.1 billion in net acquisition of financial assets abroad against a smaller increase in domestic net incurrence of liabilities by around SAR 8.1 billion. Net portfolio investments rose by SAR 63.2 billion in Q1 2023 against a decrease of SAR 1.6 billion in Q1 2022. Moreover, other net investments surged by approximately SAR 48.3 billion against a rise of about SAR 151.0 billion in Q4 2021. Net reserve assets fell by SAR 79.4 billion in Q1 2023 against a drop of SAR 15.0 billion in Q1 2022 as other reserve assets declined by SAR 80.8 billion (due to a decrease in investment in securities item by SAR 101.5 billion despite the increase of currency and deposits item by SAR 20.6 billion) against a fall of SAR 13.9 billion in Q1 2022.

4- Banking and Financial Sector

Developments in the Financial Sector

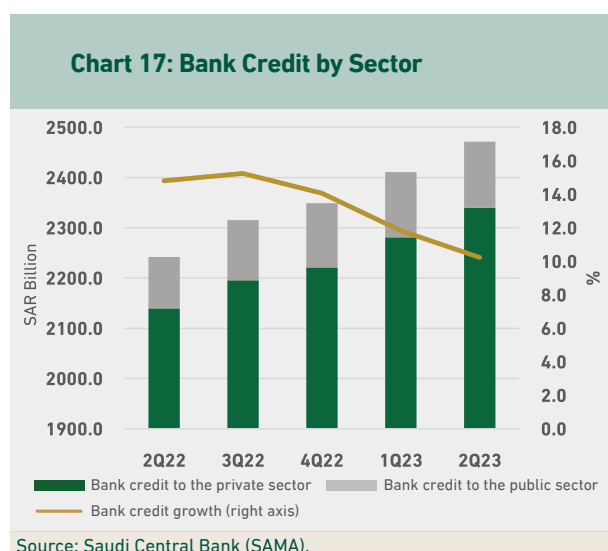
Money Supply

Broad money supply (M3) recorded a YoY increase of 9.1% (SAR 221.6 billion) to SAR 2,660.6 billion and a QoQ increase of 2.0% (SAR 52.2 billion) in Q2 2023 (Chart 16).



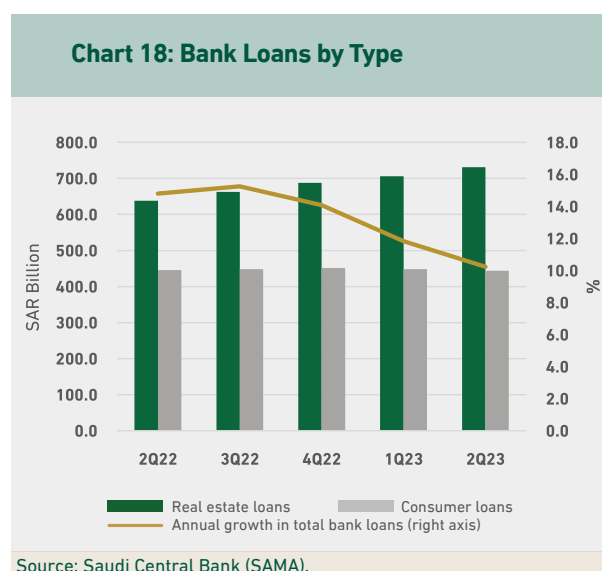
Bank Credit

Bank credit extended to the private and public sectors registered a YoY increase of 10.2% (SAR 229.4 billion) to SAR 2,471.3 billion and a QoQ increase of 2.5% (SAR 60.3 billion) during Q2 2023 (Chart 17).



Bank Loans by Type

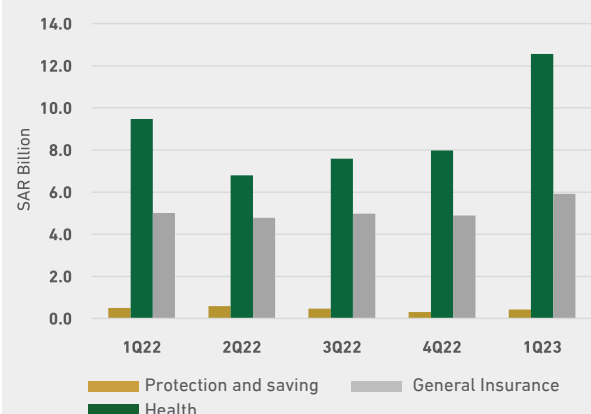
Real estate loans recorded a YoY rise of 14.6 percent (SAR 93.0 billion) at end-Q2 2023, constituting 29.6 percent of total bank credit. On the other hand, total consumer loans recorded a YoY decrease of 0.4% (SAR 1.8 billion) in Q2 2023, representing 18.0% of total bank credit (Chart 18).



4-2 Developments in Insurance, Finance and Capital Markets

Insurance Market Developments

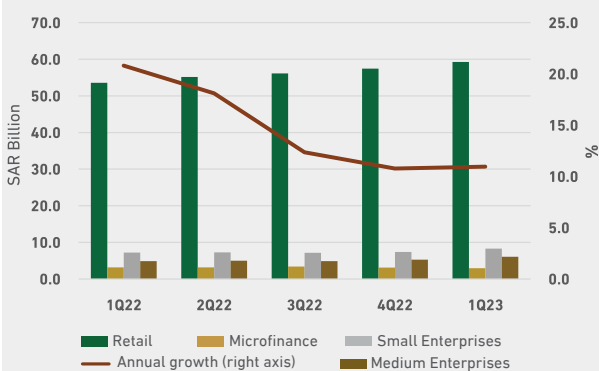
The insurance market witnessed a YoY increase of 26.2% in the total gross written premiums (GWP) to around SAR 18.9 billion and a QoQ increase of 43.6% in Q1 2023. This increase came as a result of the health insurance GWP increasing by 32.6% YoY. Moreover, while the general insurance GWP increased by 18.1% YoY, protection and savings insurance GWP decreased by 14.7% YoY (Chart 19).

Chart 19: Gross Written Premiums (GWP)

Source: Saudi Central Bank (SAMA).

Finance companies

The total credit offered by finance companies recorded a YoY increase of 11.0% to SAR 78.9 billion in Q1 2023. It also recorded a QoQ increase of 4.6%. Moreover, medium enterprise finance recorded the highest YoY rise of 23.7%, with a QoQ increase of 14.9% (Chart 20).

Chart 20: Credit Offered by Finance Companies by Sector

Source: Saudi Central Bank (SAMA).

Capital markets developments

The Tadawul All Share Index (TASI) recorded a YoY decrease of 0.6% to 11,459.0 points at end-Q2 2023, while it recorded a QoQ increase of 8.2%. The number of traded shares increased by 8.1% YoY to 12.6 billion and increased by 26.4% QoQ. Additionally, the total value of traded

shares recorded a YoY decrease of 34.3% to about SAR 325.0 billion and a QoQ increase of 20.5% (Chart 21).

Chart 21: The Tadawul All Share Index (TASI)

Source: Saudi Stock Exchange (Tadawul).

The traded value of Sukuk and Bonds Market recorded a QoQ decrease of 37.0% to SAR 4.4 billion in Q2 2023. Moreover, the Sukuk and Bonds Market Index also recorded a QoQ decline of 0.1% to close at 943.8 points.

4-3 Banking Technology Developments

SARIE System

The total value of the Saudi Arabian Riyal Interbank Express (SARIE) system transactions went down by 18.3% YoY to SAR 11,148.1 billion in Q2 2023. Total customer payments stood at around SAR 2,790.4 billion, with a YoY rise of 4.4%. The value of single payment transactions totaled SAR 1,436.9 billion, whereas the total value of bulk payment transactions amounted to nearly SAR 1,353.5 billion. The total value of interbank payments reached SAR 8,069.6 billion, with a YoY decline of 20.7%.

Mada

The total number of ATM transactions in Q2 2023 was about 385.5 million, with cash withdrawals totaling SAR 142.4 billion, including transactions through banks' network and Mada. Total POS terminal transactions stood at about 2,174.0 million, with sales totaling SAR 153.2 billion. Moreover, the number of ATMs totaled about 16.1 thousand, the number of ATM cards issued by domestic banks stood at about 44.9 million, and the number of POS terminals reached around 1.6 million.

Clearing

As for statistics on clearing in Q2 2023, the number of (outgoing and incoming) bank checks cleared at the clearinghouses totaled around 244.0 thousand, with a total value of SAR 52.3 billion. The number of individual and corporate checks totaled nearly 204.8 thousand with a total value of SAR 26.1 billion, and the number of interbank checks totaled about 39.2 thousand with a total value of SAR 26.2 billion.

4-4 Key Fintech Developments in Q2 2023

The Saudi Central Bank (SAMA) licensed a company in the field of payment and two companies to practice buy-now-pay-later (BNPL) services in Saudi Arabia, bringing the number of licensed fintech companies to three during Q2 2023. This step comes as part of SAMA's role in empowering the fintech sector through various activities aimed at supporting the private sector and attracting investors and companies that bring added value to the sector.

In addition, the preceding period witnessed a rapid development in the fintech legislation, with the issuance and updating of several regulations, rules, and frameworks that contribute to the development of supervision, control, and licensing mechanisms. These include: the issuance of the Open Banking Framework, and the update of the Regulatory Sandbox Framework. This comes as a result of SAMA's efforts to achieve several national strategic goals. Moreover, SAMA has recently issued a number of rules and regulations that contribute to raising the efficiency and services of fintech companies, such as the Implementing Regulations of the Law of Payments and Payment Services. SAMA has also launched a public consultation on the rules regulating buy-now-pay-later (BNPL) companies, performing its supervisory and oversight role on BNPL companies and continuing its efforts to develop the finance sector in general, and the fintech sector in particular.

