03

Trends & Indicators of National Economy

The Economic Position of the Kingdom during 2023

Despite the ongoing global efforts to recover from COVID-19 effects especially on the economy, the global economy continues to face challenges that stunted the global economic growth. Several countries' economies have been affected by geopolitical events that led to subsequent fluctuations in inflation rates and disruptions in supply chains. In addition to the rising public debt, tensions have been brewing in the energy and raw materials markets. As a defense against such circumstances, central banks tightened monetary policies to contain inflation. As a result, economic activity in advanced and developing countries has witnessed a significant slowdown, which has exacerbated global economic uncertainty. The International Monetary Fund (IMF) estimates that global economic growth will slow by 3% in 2023 compared to last year.

In the meantime, the Saudi economy has continued to grow and maximize its economic and social returns by continuing to implement structural and economic programs and reforms. Such measures has aim of diversifying the economy, providing an attractive investment environment, developing private sector investments, increasing the contribution of the non-oil industry to economic growth, supporting the stability of the local economy, and achieving economic sustainability. The Kingdom's efforts in implementing financial policies also contributed to maintaining the continuity of financial sustainability, in addition to accelerating the wheel of economic growth to achieve the goals and aspirations of Saudi Vision 2030 and moving forward in implementing various development projects. According to estimates by the General Authority for Statistics, the real GDP witnessed a slight decrease of 0.8% compared to the previous year, reaching SAR 3.5 trillion (according to the Chain-Linked Methodology). The culprit is the decline in oil activities by 9% as consistent with the Kingdom's commitment to voluntarily reduce oil production within the OPEC PLUS Agreement. The average OPEC Basket prices in 2023 witnessed a 17% decline compared to the previous year. While the non-oil sector witnessed an increase of 4.4 % compared to 2022 – with an increased GDP contribution from 47% in 2022 to nearly 50% in 2023, which is the highest rate of non-oil sector contribution to the GDP in the history of Saudi Arabia. The increase in the non-oil sector is attributed to the growth in the volume of investments and many major economic activities such as wholesale and retail trade and hospitality by 7%, financial services, insurance, real estate and business services by 4%, and construction and building by 4%.

SAR 3.5 billion

Saudi GDP

%4.4

Non-oil industry share

Data of the General Authority for Statistics (GASTAT) showed that the annual average of the consumer price index reached 109.45 in 2023, at an annual change rate of 2.3% compared to 2022. This can be attributed to an increase in the prices of housing, water, electricity, gas and other types of fuel by approximately 8%. The price of liquid fuel increased by 15%, along with a 4% increase in the prices of restaurant and hotel activities. It is noteworthy that inflation rate in the Kingdom is one of the lowest globally, due to the strength of the local economy and the Kingdom's early adoption of economic measures and actions as a precaution against the rising global inflation rates.

Preliminary estimates from the Saudi Central Bank (SAMA) indicate that the current account balance of payments recorded a surplus of SAR 128 billion by the end of 2023, compared to a surplus of SAR 568 billion for the same period in 2022. The trade balance showed a surplus of SAR 424 billion by the end of 2023, with a decline of approximately 49%. However, if oil exports are excluded, the trade balance showed an increase in deficit by 27% in 2023, amounting to SAR 503.6 billion against SAR 396.3 billion in 2022. Exported goods saw a decline to approximately SAR 1,200 billion, due to a 24% decrease in oil exports reach SAR 928 billion, and a decrease in non-oil exports by 14% compared to 2022 reaching approximately SAR 272.3 billion. In addition, imported goods increased in 2023 by 9% compared to 2022 to reach approximately SAR 776 billion.

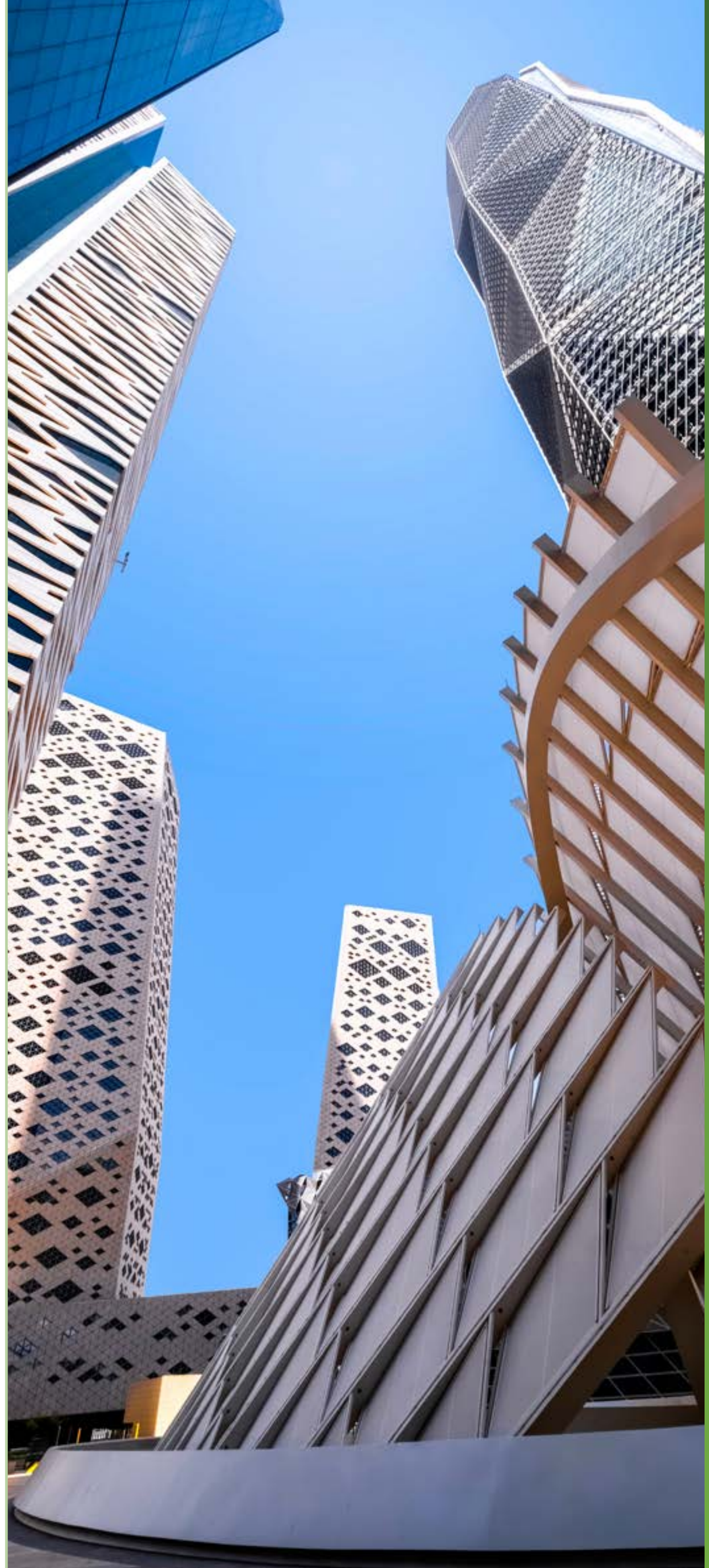
For financial and monetary developments, the government continues to execute several structural initiatives and reforms in light of the expansion in spending on strategic sectors, pursuing to achieve a sustainable economic growth, along with establishing policies that contribute to enhancing the financial sustainability. The state budget indicated that the Kingdom continued pursuit of structural economic and financial reforms, supporting the diversification of the economy, accelerating the implementation of projects and maximizing future economic gains. In addition, revenues decreased by about 5% to reach SAR 1,212 billion compared to 2022, mostly due to the decline in oil prices compared to the previous year, affecting total revenues despite the increase in other revenues compared to 2022. Expenses increased by 10% over the past year, to approximately SAR 1,293 billion. The state budget recorded a deficit of approximately SAR 81 billion, while public debt amounted to nearly 26.2% of GDP. This can be attributed to the Kingdom's desire to accelerate the execution of projects and programs with social and economic returns, taking into account the principles of financial sustainability and maintaining safe levels from government reserve.

In 2023, the Saudi broad money supply (M3) increased by 7.6% compared to 2022, reaching SAR 2.685 billion by the end of the year. However, when we consider the different components of money supply (M3), there was a decrease of 0.3% in narrow money supply (M1) compared to 2022. On the other hand, money supply (M2) experienced an annual increase of 9.4% compared to the previous year.

SAR 128 billion
Surplus of the balance of payments at the end of 2023

SAR 1,200 billion
Value of exported goods

SAR 776 billion
Value of imported goods



In respect of the banking sector, the end of 2023 witnessed an increase in the capital and reserves of commercial banks by 6% to approximately SAR 464 billion. Additionally, the liabilities of those banks from both the public and private sectors increased by 9% to approximately SAR 3,205 billion. Moreover, there was an 8% annual growth in bank deposits. In 2023, commercial banks played a significant role in supporting various economic activities by providing a total credit of approximately SAR 2,583 billion to the private sector. This amount represents an increase of 10% compare to the previous year. Given the details of credit distribution over sub-activities, it is evident that the volume of bank financing increased for most economic activities. The professional, scientific and technical activities experienced the highest growth of 51%, followed by the education sector with 33%, the power, gas and water sector with 28%, the insurance sector with 16%, and the manufacturing industries with 0.5%. On the other hand, financing for the agriculture, forestry and fishing sector decreased by 5%.

In 2023, the Saudi Industrial Development Fund (SIDF) introduced a series of initiatives aimed at encouraging industrial projects. The strategic focus of SIDF also expanded to align with the national objectives of the Kingdom. This involved increasing support for various promising sectors such as the industry, energy, mining, and logistics. In addition, SIDF continued its lending activity by approving 134 loans at a value of SAR 12.9 billion compared to SAR 14.2 billion in 2022. The approved loans were dedicated to financing new expansion projects in vital sectors across nine regions of the Kingdom. The industrial sector received the largest share of loans (132 loans at SAR 12.8 billion), while small and medium projects received 83 loans (62% of the approved loans) at SAR 1.7 billion.

Meanwhile, at the end of 2023, the Saudi Stock Exchange (Tadawul All-Share Index – TASI) increased by 14% to a level of 11,967 points compared to 10,479 points at the end of 2022. This marked the highest annual closing since 2005. The total value of shares traded during 2023 was approximately SAR 1,333 billion, compared to SAR 1,708 billion in 2022, a decrease of 22%. The market value of shares issued was approximately SAR 11,259 billion, experiencing an increase of approximately 14% compared to the previous year.

SAR 464 billion
Capital and reserves of commercial banks

14%
Saudi Stock Market Growth

SAR 11,259 billion
Market value of issued shares

In 2023, the Saudi Exchange "Tadawul" witnessed an increase in financing and growth opportunities for companies as well as in investment channels. Additionally, the Saudi Exchange welcomed eight new companies representing various sectors such as financial services, commercial and professional services, pharmaceuticals, food production, transportation, energy, and media and entertainment. As a result, the total number of listed companies reached 231 by the end of 2023. The collective market value of the listed companies stood at approximately SAR 63 billion, accounting for nearly 0.6% of the overall market value. Meanwhile, the parallel market index (Nomu) experienced a 26% year-on year growth, closing at 24,529 points compared to 19,417 points in 2022.

In order to promote the financial market's role in the Saudi economy, several measures were implemented in 2023. These include the completion of two mergers of several listed companies in the Saudi Exchange, and the announcement of the recent financial derivative products, such as single share options.

Six new reforms were introduced, such as revoking normal trades in the main market and changing the price closing calculation mechanism for debt instruments and exchange-traded funds by calculating the average price. Additionally, Cancel on Disconnect orders, Request for Quotes (RFQ) Service for negotiated deals, and client Execution Copy were among the amended services. According to the 2022 annual report by the International Institute for Management Development (IMD) on global competitive indicators in financial markets, Saudi Arabia's ranking rose seven positions into the third place among the G20 countries. The level up reflects the efforts by the capital market and its continuous improvements to develop the capital market sector in the Kingdom.

In 2023, Saudi Arabia's capital Riyadh won the bid to host World Expo 2030. Additionally, four special economic zones were announced bearing laws and regulations to attract key global investments. The Kingdom also announced the Master plan for Logistics Centers, focusing on developing the logistics infrastructure. In 2023, Saudi Arabia announced the country's first-ever car manufacturing facility (Lucid Motors), and Saudi's first electric vehicle brand (Ceer Motors).

The Saudi economy has received accolades from various global economic institutions. The International Monetary Fund (IMF) has praised the Kingdom's robust local economy and disciplined and prosperous financial situation. The IMF also praised the decline in unemployment rates to the lowest levels in the history of the Kingdom and lauded the strength of the monetary and financial sector in the Kingdom. Consequently, the IMF expects positive short and medium-term prospects for the Saudi economy and public financial accounts at a level close to balance. The IMF praised Saudi for effectively managing inflation and for its structural reforms in light of Saudi Vision 2030. The Kingdom succeeded to implement its plan for economic diversification, which included reduced reliance on the oil sector. The non-oil sector has experienced growth, consistent with strong consumer spending and fast-paced project execution, leading to more demand. The IMF attributed the major reforms and improvements in the regulatory environment and business climate to Saudi Vision 2030 and its Vision Realization Programs, including the Saudi Green Initiative that will assist the Kingdom to achieve net zero emissions in a green economy.

Despite the challenging global conditions, Saudi Arabia maintains a strong global credit rating. In September 2023, S&P assigned the Kingdom a rating of A-/A-1 with a positive stable outlook, given ongoing efforts into reforms made in the recent years with achieving structural improvements that contributed to supporting sustainable development for the non-oil sector. This is coupled with efforts of the Kingdom related to the method of managing the public finance and maintaining the balance level of the public debt. The growth of the non-oil economy has also contributed to the positive financial and external indicators of Saudi Arabia. In April 2023, Fitch gave the Kingdom an A+ rating with a positive outlook, specifically highlighting the potential for further growth in Saudi Arabia's general budget. Government debt-to-GDP ratio and sovereign net foreign assets are at a significant level. Additionally, the state maintains large financial reserves in the form of deposits and other public sector assets. In March 2023, Moody's assigned the Kingdom an A1 rating with a stable- to positive outlook. This can be attributed to the government's fiscal policies, and reforms and investments in various non-hydrocarbon sectors that will reduce the Kingdom's dependence on hydrocarbon energy with time. Additionally, the pivotal role of government economic diversification initiatives and projects supported by private sector investment is yet another factor on the economic growth and positive outlook.

In conclusion, the global economic and geopolitical challenges caused fluctuations in the world's economic activity, slowing economic growth and creating inflationary pressures. Despite such challenges, Saudi Arabia continued its swift and determined efforts in implementing economic reforms to diversify income sources and support the local economy stability. The reforms included increasing the contribution of non-oil sectors and enhanced the flexibility and adaptability of the local economy to potential changes. The Kingdom is expected to continue pursuing structural and economic transformations to further strengthen its economy across all sectors.