



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

## Kingdom of Saudi Arabia

June, 2023

## ECONOMIC OVERVIEW - KSA

Being the largest economy in the middle-eastern region and amongst the six member Gulf Cooperation Council ("GCC") states, the Kingdom of Saudi Arabia posted a nominal GDP per capita of about US\$27,997 in 2022, thereby being classified as a 'high-income earning' country as per the World Bank.

Table 1: Economic Indicators

%	2020	2021	2022	2023F
Real GDP Growth Rate	-4.3	3.9	8.7	2.9
Oil-based GDP	-6.6	0.2	15.3	0.8
Non-oil GDP	-3.0	5.7	4.8	4.1
Inflation (Annual Average)	3.4	1.1	3.1	2.4
Current Account / GDP	-3.1	6.6	15.7*	11.0
Fiscal Balance / GDP	-11.3	-2.4	2.6*	1.7
Public Debt / GDP	32.4	30.0	25.7*	24.6

(Source: SAMA Annual Bulletin, Financial Stability Report 2022, General Authority of Statistics, KSA; \* estimate World Bank KSA April 2023: F: forecast)

With economic indicators highly correlated with oil prices, KSA's real GDP expanded by 8.7% in 2022, following 3.9% growth registered in the previous year. This acceleration is attributable to mid-teen percent rate rebound in oil sector coupled with about 4.8% expansion in non-oil sector supported by consumer and government spending. Energy prices reached historic highs in 2022 with crude oil peaking in the early part of the year due to tight supplies amidst the Russia-Ukraine conflict, followed by moderation on weaker demand from China and fears of recession, yet having remained elevated at a full year average US\$100.9/barrel<sup>1</sup> (2021: US\$70.8/barrel). Prolonged effects of the ongoing Russia-Ukraine conflict have muted the global growth outlook for 2023, which has been revised downward. Likewise, KSA economy is expected to pace at 2.9%<sup>2</sup> in 2023 as the Country abides by the OPEC+ production cuts, constraining oil sector growth, to be offset by 4.1% growth in non-oil segment, boosted by credit growth and expected impact of easing monetary conditions on consumption.

Reform agenda under Vision 2030 is noted to be gathering pace with the sovereign wealth fund - Public Investment Fund ("PIF") aiming to channel SAR150bn annually into pushing the diversification agenda forward. In conjunction, the Shareek initiative aims to generate about SAR5trn of local investment by 2030 through participation of the Country's largest corporates. Further, plans to boost tourism are afoot, with a view to increasing the sector's contribution to 10% of GDP by 2030. Overall labor force participation is noted to have improved YoY<sup>3</sup> until Q3'22, with unemployment rate also decreasing during the period.

The Saudi Riyal ("SAR") is officially pegged to the U.S. Dollar at US\$/BHD @ 3.75, which allows for limited monetary policy transmission, largely following the monetary policy of the United States Federal Reserve ("Fed rate") to preserve the peg. Mirroring the U.S. Fed rate, since 2022, SAMA raised the benchmark repo rate by 450bps cumulatively, to 5.50% until Q1'23, in addition to also increasing the reverse repo rate. Monetary policy easing is expected from H2'23 onwards with slower rate hikes anticipated in H1'23. Currency peg coupled with strong USD, tight monetary policy and cap on domestic fuel prices have contained inflation, which remained moderate in 2022 at 3.1% (annual average), later having peaked to 3.4% on monthly basis in January 2023<sup>4</sup>.

<sup>1</sup> Source: Energy Information Administration; spot Brent crude oil prices; year-to-date ("YTD") March 20, 2023: US\$81.8/barrel

<sup>2</sup> Source: World Bank MENA - Saudi Arabia: April 2023

<sup>3</sup> Year-over-year

<sup>4</sup> March 2023: monthly 2.7%

Owing to strong oil exports, a current account surplus of 15.7% of GDP is estimated for 2022 vis-à-vis 6.6% in 2021. Likewise on the fiscal side, government data indicates oil receipts surpassed government spending last year, translating into a fiscal balance of 2.6% of GDP vis-à-vis deficit of 2.4% a year ago, which was reflected in improvement in public and external debt. Official reserves stood at about SAR1,697.3bn at February 2023 (end-2022: SAR1,724.4bn).

## BANKING SECTOR OVERVIEW

Contribution from financial sector in KSA's GDP has been range-bound hovering at about 5% over the last few years, with latent upside potential. KSA banking sector comprises 24 operating commercial banks and financial institutions and four that have been licensed but are yet to commence operations. In addition to 8 operating Islamic windows, there are 4 full-fledged Islamic banks in KSA, of which the latter comprised about 44.5% of aggregate Islamic banking assets at 2022 (2021: 42%).

Continued improvement in economic activity boosted credit growth and banking assets that posted 12.2% and 10% YoY increase to SAR2,927bn and SAR3,621bn, respectively in 2022. Islamic banks' assets and financings also grew 12.5% and 14.7% YoY, respectively during last year. Financings off-take remained healthy, driven by government projects related to Vision 2030, private sector credit and real estate lending. Government-backed mega infrastructure projects might continue to raise prospects for corporate financings over the coming periods, while growth in mortgage financings may remain slow due to still high prevailing rates.

During 2022, KSA banking sector faced liquidity constraints as deposits growth was not commensurate with rapid financings increase in the high oil price environment. Moreover, policy tightening has shifted depositors' preference towards remunerative accounts. SAMA intervened to provide liquidity support in the form of short-term open market operations and injection of funds at discounted rates. While SAMA liquidity support may be expected to continue over the next 12 months, unless the structural assets and liabilities duration gap narrows, banking system liquidity might continue to be tested. Some banks have issued medium-to-long-term funding through additional Tier 1 capital to support financings growth, while also securitizing mortgages with Saudi Real Estate Refinance Company to help partly alleviate funding constraints.

Banking sector non-performing financings ("NPFs") ratio improved on a timeline due to base effects. Profitability metrics of KSA banks continue to indicate favorable trends in 2022 and capitalization remains robust.

Table 2: KSA Banking Sector

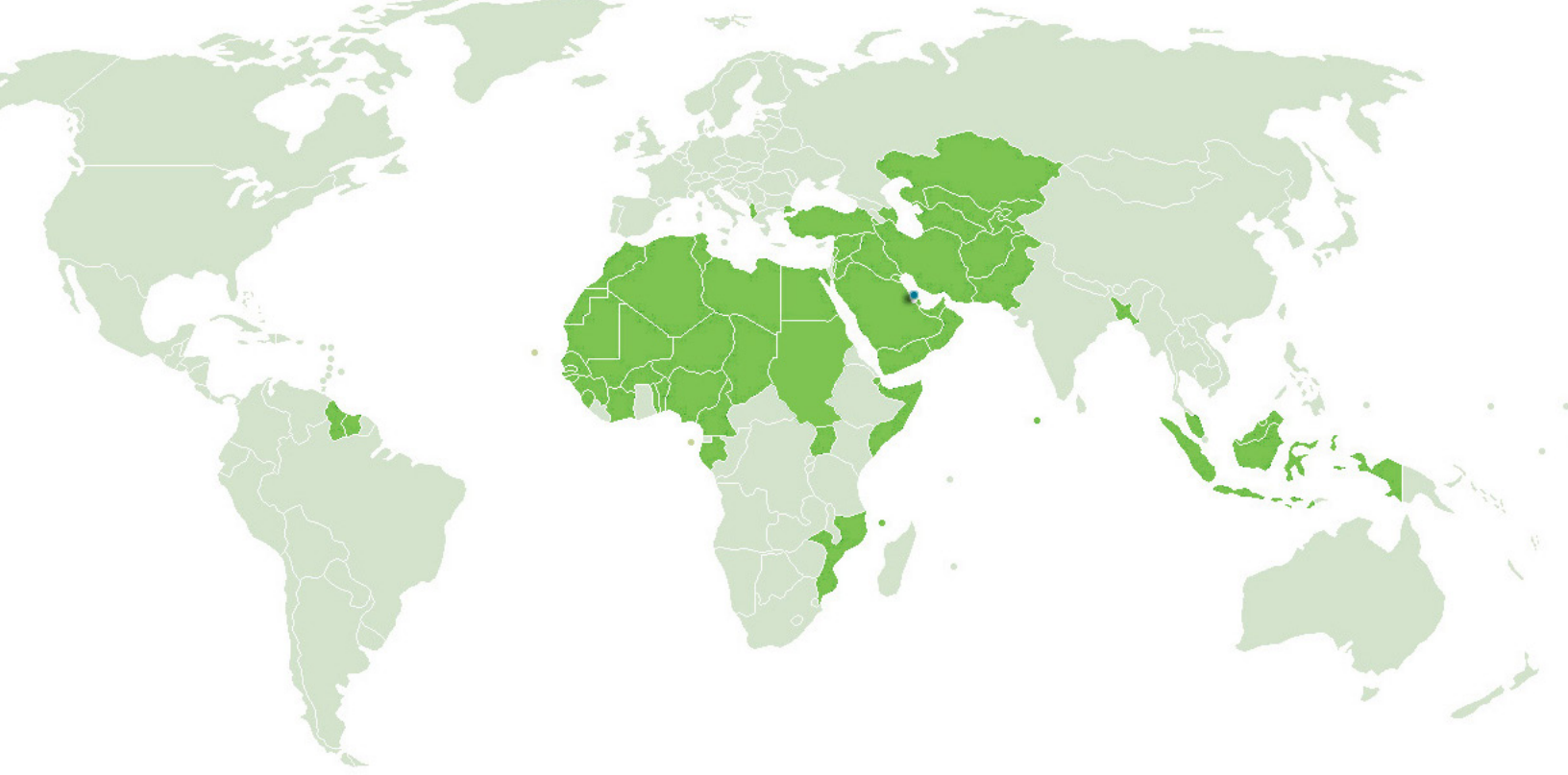
SAR'bn, unless otherwise stated	2020	2021	2022
Total Assets	2,980	3,278	3,621
Total Deposits	1,943	2,104	2,295
Claim on Private & Public Sector *	2,280	2,610	2,928
Net Profit before zakat & tax	39	54	
CAR %	20.3%	19.9%	19.9%
Tier 1 Ratio %	18.7%	18.2%	18.4%
Gross NPF %	2.2%	1.9%	1.8%
Net NPF to capital %	2.5%	2.5%	2.7%
Return on Assets	1.5%	1.8%	2.8%
Return on Equity	8.6%	10.8%	12.5%
Liquid assets to total assets %	26.8%	24.7%	22.8%
<b>Islamic Banking:</b>			
Total Assets	2,041	2,413	2,715
Total Deposits	1,570	1,768	1,874
Total financing	1,462	1,724	1,977

(Source: SAMA Monthly Bulletin; \* excluding claims on non-monetary FIs)

During 2022, SAMA issued prudential guidelines on Basel III finalized post-crisis reforms<sup>5</sup>, gearing the sector for implementation in 2023. Apart from this, since our last review, further notable circulars issued by the regulator pertain to related party transaction limits, remuneration rules, and rules for profit sharing investment accounts for Islamic banks. SAMA also issued the open banking framework in Q4'22 to enable banks and Fintech to provide open banking services in KSA. 3 fintech companies that operate in the field of debt-based crowdfunding and electronic payments, were also licensed last year.

---

<sup>5</sup> Also referred to as Basel IV



## الوكالة الإسلامية الدولية للتصنيف Islamic International Rating Agency

AFS Tower, 2nd Floor, Hoor 320, Manama, P.O. Box 20582, Kingdom of Bahrain

Tel: +973 17211606, Fax: +973 17211605

Website: [www.iirating.com](http://www.iirating.com) | Email: [iira@iirating.com](mailto:iira@iirating.com)

*All of the information contained herein is obtained from sources believed to be accurate and reliable. IIRA does not audit or verify the accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. This rating is an opinion and not a warranty of the rated entity's current or future ability to meet contractual obligations, nor is it a recommendation to buy, sell or hold any security. This is a fee paying client and the rating has been conducted at the request of the customer. Copyright @ IIRA. All rights reserved. Contents may be used by news media with credit to Islamic International Rating Agency.*