وزارة الاقتصاد والتخطيط
MINISTRY OF ECONOMY & PLANNING

Kingdom of Saudi Arabia

QUARTERLY ECONOMIC REPORT

Fourth Quarter
2023

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Executive Summary

The global economy is expected to exhibit weak growth in 2024 compared to pre-pandemic levels, especially due to the ongoing risks associated with high interest rates, the expanding scale of geopolitical conflicts, a slowdown in international trade, and the tightening of financial policies. This outlook persists despite the diminishing risk of a global recession, thanks to the growth of the US economy.

Global growth is expected to slow for the third consecutive year to 3.1% in 2024 according to the IMF estimates, with developing economies experiencing growth of only 4.1%, which is below the average growth rate of the previous decade. Low-income countries are poised to grow by 5.5%, a pace that is weaker than anticipated. Advanced economies are projected to experience a deceleration in growth, as the rate is slated to decline from 1.6% in 2023 to 1.5% this year.

As for the Kingdom's economy, real GDP recorded a decline of 4.3% in the fourth quarter of 2023 on an annual basis, due to a decline in oil activities by 16.2%. In contrast, non-oil activities recorded a growth of 4.2% as a result of the strong performance of the non-oil private sector. In addition, government activities grew by 3.1% in the same quarter.

In line with financial policies geared towards realizing the ambitious Saudi Vision 2030, the Kingdom's public revenues experienced a year-on-year increase of 12.6%, amounting to SAR 358 billion in the fourth quarter of 2023. Conversely, the government's public expenditures grew by 8.6% in comparison to the same period of the preceding year, reaching a total of SAR 395 billion. Consequently, the general budget recorded a fiscal deficit of SAR 37 billion. The actual statement for the year 2023, as per the government's general budget, reported total revenues of SAR 1,212.3 billion, with total expenditures reaching SAR 1,292.2 billion, and a deficit of SAR 80.9 billion. However, given the continued implementation of policies that amplify financial sustainability, this deficit is not alarming since the Kingdom is perceptibly leaning toward increased expenditure on key developmental projects.

In terms of the performance of monetary indicators, total money supply (M3) increased on an annual basis by 7.6% in the fourth quarter of 2023, supported by the growth of cash in circulation outside banks and time and savings deposits. Bank credit also witnessed an annual growth of 10%, supported by the growth of most economic activities, while interest rates remained at their levels during the quarter.

The positive economic performance in the fourth quarter, particularly within non-oil sectors, was evident in the Purchasing Managers' Index (PMI) and the labor market. The non-oil private sector showed notable progress, **as demonstrated by the Riyad Bank Purchasing Managers' Index**, which climbed to an impressive 57.8 points at the close of the fourth quarter of 2023, surpassing its long-term average of 56.9 points. This surge is indicative of the expansion in activity and businesses. Concurrently, **the labor market** has seen a significant improvement, evidenced by increases in employment rates, coupled with a decrease in the unemployment rate among Saudis. The unemployment rate fell to 7.7% in the fourth quarter of 2023, down from 8.0% in the corresponding quarter of the previous year. This improvement in labor market can be attributed to the impact of the increase in labor market size, demand for labor, successful nationalization policies, women empowerment, and the continued implementation of major projects.

The Kingdom's international trade recorded a surplus despite the difficult global economic conditions, nevertheless the surplus declined by 36.5% in the fourth quarter of 2023 to reach SAR 96.5 billion, compared to SAR 152 billion in the same period of the previous year. This decline is due to a decrease in merchandise exports by 14.4%, to reach SAR 297.9 billion, and an increase in imports by 2.8%, to reach SAR 201.4 billion.

The decline in the quantities produced and exported of oil in particular has undoubtedly affected some economic activities, including **industrial production**. At the end of the fourth quarter of 2023, **the Industrial Production Index** (IPI) declined by 10.5% on an annual basis, and the activity of manufacturing industries showed a declining performance compared to the same period of the previous year in the light of the decline in the value of petrochemical exports.

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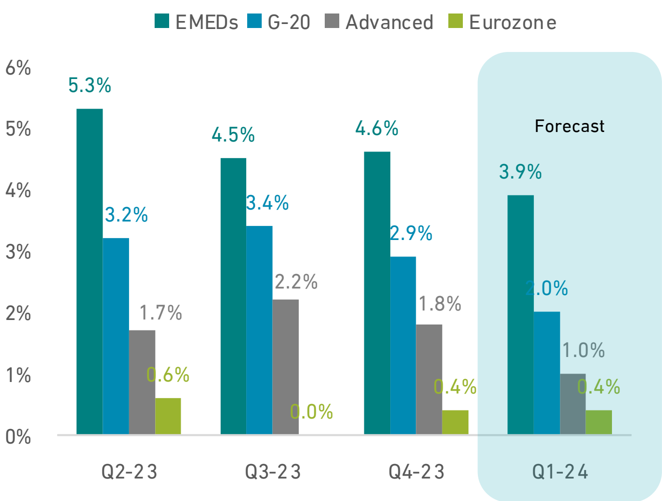
Chapter One

The Global Economy

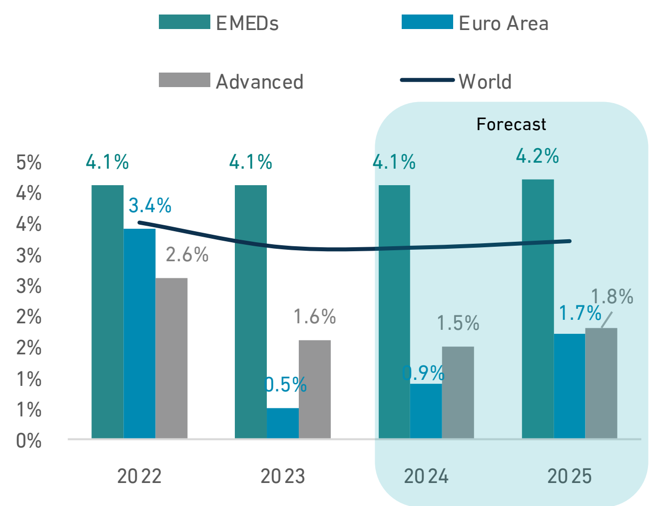
Global Economic Growth: Higher than expected performance for 2023, with similar growth in 2024

Figure 1: Quarterly growth rate of the global economy



Source: Bloomberg

Figure 2: Annual global rate of the global economy



Source: Bloomberg

In the last quarter of 2023, major economies, including the United States and many emerging markets, saw better-than-expected economic growth. This was supported by a mix of government and private spending, with real gains in disposable income to support consumption. Families have withdrawn from their savings accumulated since the COVID-19 pandemic. There has also been a notable rise on the supply side, characterized by increased workforce participation, easing supply chains bottlenecks, and reduced delivery times. However, this growth was not as strong in other regions. The Eurozone witnessed weak growth affected by weak consumer confidence, high energy prices, and weak manufacturing linked to interest rates, in addition to a decline in business investments. On the other hand, low-income economies continued to face significant output, losses compared to pre-pandemic levels as a result of higher borrowing costs.

Given the prospects for the global economy, **global growth** for the year 2023 is about 3.1%, and maintains the same level, 3.1% in 2024, and in advanced economies, the growth rate is expected to witness a slight decline from 1.6% in 2023 to 1.5% in 2024, followed by An increase to 1.8% in 2025 with improved performance of the Eurozone and relative stability of growth in the US.

According to estimates, **the US** economy will witness a decline in the growth rate from 2.5% in 2023 to 2.1% in 2024 and then to 1.7% in 2025. Factors contributing to this declining trend include the lagged effects of monetary policy tightening, tax reforms, and labor market easing.

In the Eurozone, the growth rate is expected to recover from about 0.5% in 2023 to 0.9% in 2024 and then to 1.7% in 2025. This recovery is supported by an increase in household consumption and the fading effects of the energy price shock, which supports real income.

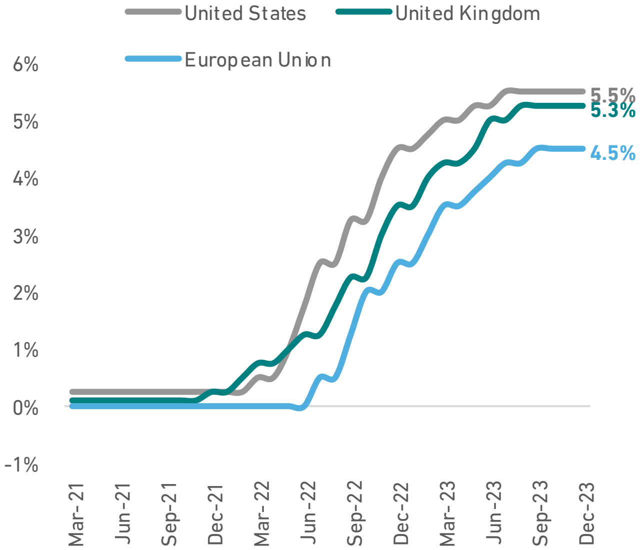
As for the **UK** economy, it is expected to grow modestly from about 0.5% in 2023 to 0.6% in 2024, then to 1.6% in 2025, with a decline in the pace of energy price increases and a recovery in real income.

In **Emerging Markets and Developing Economies**, growth is expected to remain stable at 4.1% in 2024, then rise to 4.2% in 2025, with the growth rate in China reaching 4.6% in 2024 and 4.1% in 2025.

Global Inflation: Inflation rates declined faster than expected

Figure 3: Monetary policy

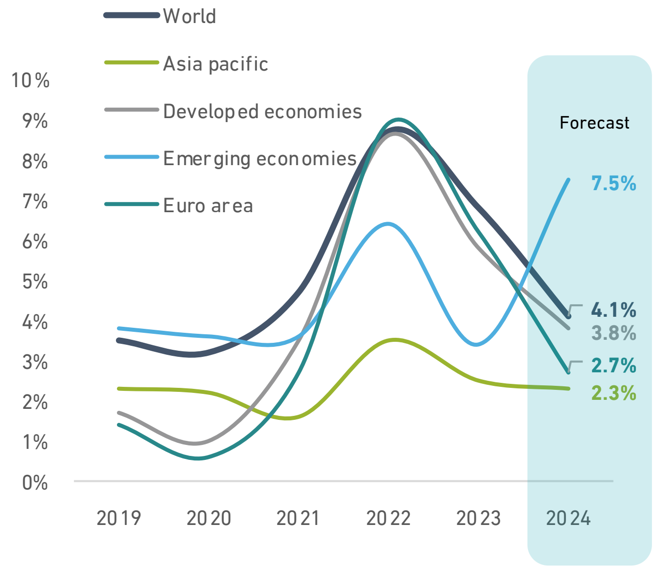
(Percentage)



Source: Bloomberg

Figure 4: General inflation rates

(Percentage, annual basis)



Source: Bloomberg

With global supply improving, headline and core inflation rates declined faster than expected and approached the pre-pandemic average. It is estimated that the global inflation rate was about 0.3 percentage points lower on a quarterly basis in the fourth quarter of 2023, compared to previous estimates after the impact of price shocks, especially energy prices, faded.

This decline also reflects an easing of tightening in the labor market, with lower job vacancies, and a slight increase in unemployment rates, in addition to an increase in labor supply in many economies. The strong influx of migrants from conflict zones has also helped keep wage growth generally in check.

In addition, major central banks raising interest rates to high levels in 2023 led to increased mortgage costs, as companies faced challenges in refinancing their debt, tightening credit availability, and weakness in commercial and residential investment. Commercial real estate has also come under some pressure. Despite the decline in inflation, and market expectations of lower interest rates, long-term borrowing costs remain high, partly due to high government debt and continued uncertainty amid delayed central bank decisions.

It is also expected that the official interest rates of the Federal Reserve, the European Central Bank, and the Bank of England will remain at current levels until the second half of 2024, and will gradually decrease as inflation approaches set target rates. The Bank of Japan is also expected to maintain its accommodative policy. It is worth noting that in some countries that witnessed a decline in the inflation rate, including Brazil and Chile, interest rates have decreased since the second half of 2023, unlike many advanced economies, due to early central bank tightening policy compared to other countries.

Advanced economies have eased fiscal policy in 2023. The United States, whose GDP was already above its pre-pandemic trajectory, has eased its fiscal policy quicker than the euro zone and other economies where the recovery is not complete. In emerging markets and developing economies, output on average fell further below pre-pandemic growth levels. In low-income countries, liquidity pressures and high cost of interest payments, averaging 13% of general government revenues, have reduced the ability of governments to support spending and investment in strategic sectors such as education and health.

The global inflation rate is expected to decrease from 6.8% in 2023 to 4.1% in 2024. Advanced economies are expected to witness a faster decline of two percentage points in 2024 to 3.8%, while inflation in emerging markets and developing economies is expected to decline to 7.5%.

Regarding global trade, expectations indicate a growth of about 3.3% in 2024, rising to 3.6% in 2025. Although trade growth rates have improved, they remain below the historical average growth rate of 4.9%.

In general, overall global growth remains below the historical average of 3.8%, primarily due to the implementation of tightening monetary policies, declining fiscal support, and continuing low productivity.

Global Economic Risks

Upside Risks

1. The potential **for a faster deceleration in inflation,** driven by lower fuel prices, shifts in the ratio of job vacancies to the unemployed, and pressures on profit margins to absorb increases in costs. This may lead central banks to move forward with a cycle of easing monetary policies, promoting improved confidence in business, consumer, and financial markets, which contributes to increased growth.

2. The slowdown of decline in financial support by governments of major economies. A gradual reduction in fiscal policy support than expected could lead to higher-than-expected global growth in the short term.

3. Faster recovery in China, where reforms in the real estate sector and significant financial support could enhance consumer confidence, stimulate private demand, and generate spillover effects on cross-border growth.

Downside risks

1. High commodity prices due to geopolitical shocks. Escalating conflicts in regions vital to global oil and gas exports, such as the Middle East, could lead to negative supply shocks, affecting food, energy and transportation costs.

2. Core inflation continues a slower-than-expected decline in core inflation due to a tightening labor market and renewed supply chain tensions could lead to higher interest rate expectations, lower asset prices, and increased risks to financial stability.

3. Growth faltering in China, and without comprehensive restructuring policies for its troubled real estate sector; investment could decline more than expected, affecting local and international partners.

4. Shifting towards public finances consolidation: Although fiscal consolidation is necessary to address high debt ratios, an overly sharp shift towards higher taxes and spending cuts than expected could lead to slower-than-expected growth. Negative market reactions may put pressure on countries that lack credible medium-term fiscal consolidation plans, especially low-income and emerging markets economies that face high risks of debt distress.

Negative risks to the global economy, especially those facing the key trading partners, may put pressure on the Kingdom's economic growth in the coming year in light of the slowdown in global demand in addition to the tightening of monetary policies, which would affect the growth of local and global investment activities.

Table 1: Selected developments in economic performance for G20 countries

G20	Real GDP Growth (%) Q4'23 [1]	Inflation (%) Dec'23	Monetary Policy rate (%) Dec'23	Industrial Production Index (%) Dec'23 (%) [2]	PMI (Point) Dec'23
USA	3.1	3.4	5.5	1.2	47.9
CHINA	5.2	-0.3	3.5	6.8	50.8
ITALY	0.5	0.6	4.5	-2.10	45.3
FRANCE	0.7	3.7	4.5	0.9	42.1
UK	-0.2	4	5.3	0.6	46.2
GERMANY	-0.4	3.7	4.5	-3.0	43.3
EU	0.1	2.9	4.5	1.2	44.4
INDONESIA	5.0	2.6	6	-	52.2
CANADA	1.0	3.4	5	-	45.4
JAPAN	1.0	2.6	-0.1	-0.1	47.9
RUSSIA	5.5	7.4	16	2.7	54.6
AUSTRALIA	2.1	3.4	4.4	0.0	47.6
BRAZIL	2.1	4.6	11.8	1.0	48.4
MEXICO	2.5	4.7	11.3	0.0	52
INDIA	8.4	5.7	6.5	3.8	54.9
KSA	-3.7	1.5	6	-10.5	57.5
TURKIYE	4.0	64.8	42.5	1.6	47.4
SOUTH KOREA	2.2	3.2	3.5	6.6	49.9
ARGENTINA	-0.8	211.4	100	-12.9	-
SOUTH AFRICA	-0.3	5.1	8.3	0.7	49

Source: Bloomberg

1* Q3 2023 for Russia, Australia, Argentina, and South Africa
2* September 2023 for Australia

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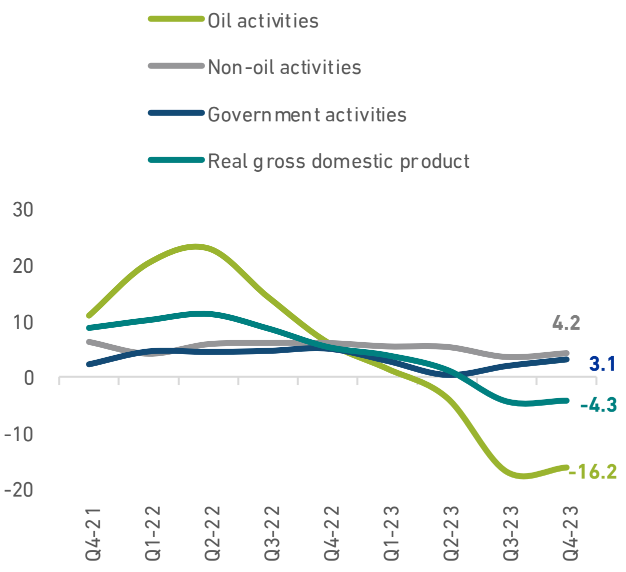
Chapter Two

The Saudi Economy

Gross Domestic Product: A more resilient non-oil sector in the face of global challenges

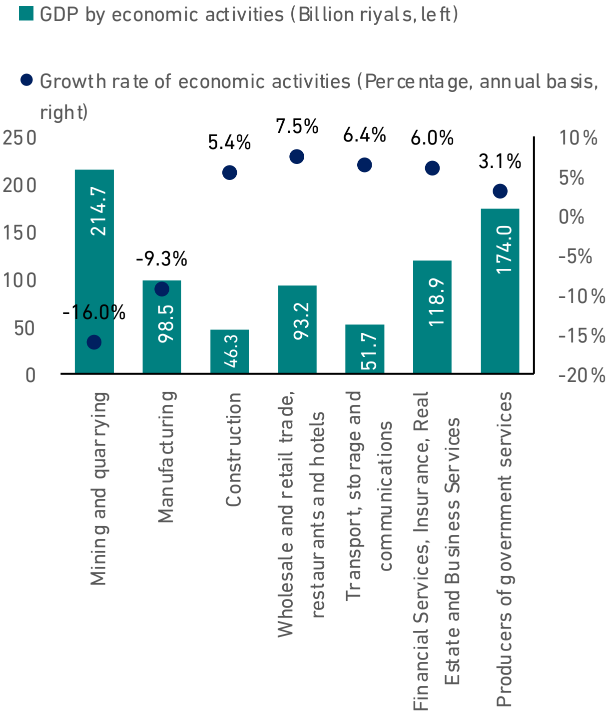
Figure 5: Real GDP growth

(Percentage, annual basis)



Source: General Authority for Statistics

Figure 6: Real GDP by economic activities, fourth quarter 2023



Source: General Authority for Statistics

The real GDP recorded a decline of 4.3% in the fourth quarter of 2023 on an annual basis, due to a decrease in oil activities by 16.2% compared to the same quarter of the previous year, in light of the continued voluntary reduction in oil production by 1.5 million barrels per day. Non-oil activities grew at a rate of 4.2% on an annual basis. Government activities grew at a rate of 3.1%.

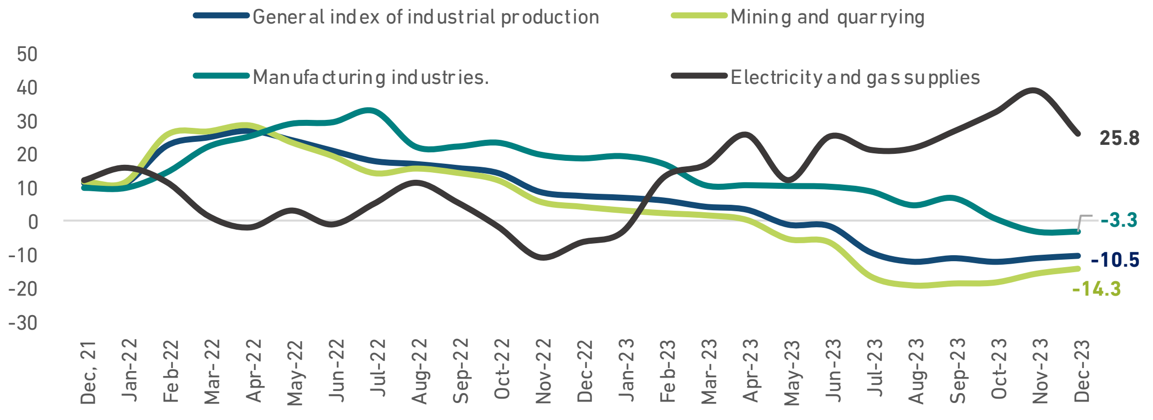
'Mining and quarrying' recorded the highest rate of contribution at 24.1% of the gross domestic product, despite its growth declining by 16.0% on an annual basis during the fourth quarter of 2023, reaching a value of SAR 214.7 billion. 'Government services' recorded the second-largest contribution with 19.5% of the GDP and an annual growth of 3.1% during the fourth quarter, and its value amounted to SAR 174.0 billion riyals. The third-largest activity, 'financial services, insurance, real estate, and business services,' recorded a contribution of 13.3% of the gross domestic product, with an annual growth of 6.0% during the fourth quarter, reaching a value of SAR 118.9 billion.

Despite a 0.8% decline in annual GDP for 2023, driven by a 9.0% decrease in oil activities, non-oil sectors sustained robust growth, rising by 4.4%. This growth is attributed to the solid performance of the non-oil private sector. The non-oil sector has shown resilience in facing global challenges, with the growth of collective and social services, transportation, storage, communications, wholesale and retail trade, restaurants and hotels, the upswing of the tourism sector, and the continued strong performance of the construction sector, benefiting from government spending on major projects.

Industrial Production Index: A decline in mining activities in 2023 will weaken growth

Figure 7: Annual growth of the IPI and its components

(percentage, annual basis)



Source: General Authority for Statistics

The IPI recorded a decline of 10.5% on an annual basis at the end of the fourth quarter of 2023. This decline is a continuation of the slowdown in the index in recent months since April 2022 after the rise reached its peak at the beginning of last year. This slowdown was caused by a decline in mining and quarrying activity (including oil production) by 14.3% on an annual basis, as the weight of activity constitutes (74.5%) of the general index. The slowdown in oil activity in general is due to the Kingdom's continued implementation of OPEC+ decisions, and this was reflected in some industrial activities, especially those tied to oil production.

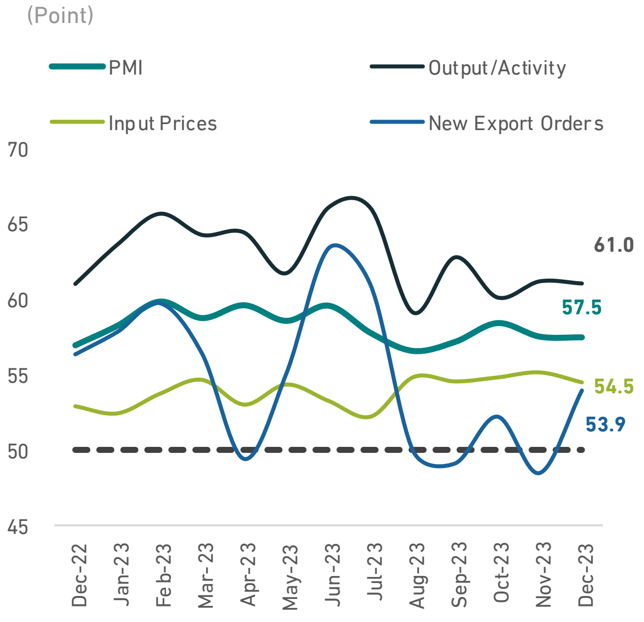
The activity of manufacturing industries showed a decline at the end of the fourth quarter of 2023 compared to the same period of the previous year, as it decreased by 3.3%. This coincides with a decline in the value of exports of plastics and related industries by 7.5%, and a slight improvement in chemical and related exports by 6% in December 2023 on an annual basis.

On the other hand, the electricity and gas supply activity index increased by 25.8% on an annual basis at the end of the fourth quarter of 2023.

Notably, the average IPI in 2023 recorded 127.4 points, down by 4.4% from the previous year. This decrease is due to the decline in mining and quarrying activity, which began to decline clearly since the beginning of May 2023. But at the same time, the average growth of manufacturing activity during the year 2023 recorded a positive performance, as it increased by 7.3% compared to the year 2022, as Saudi Vision 2030 initiatives and structural reforms contributed to the expansion of the manufacturing sector.

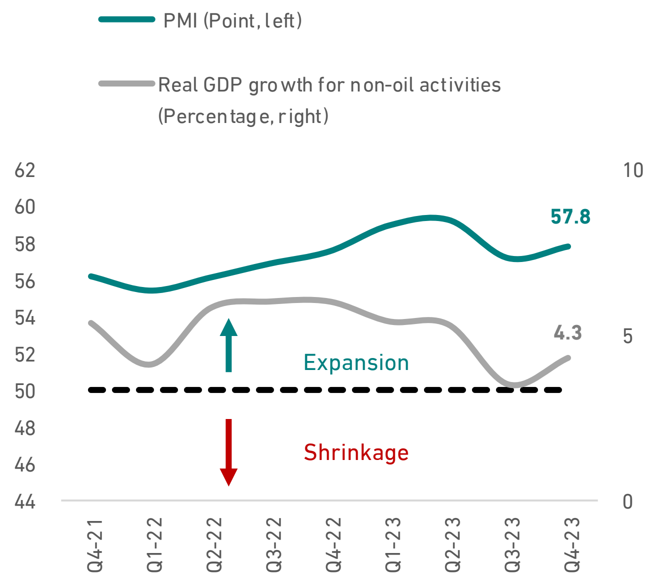
Purchasing Manager's Index: Expansion of activity and business in 2023

Figure 8: The monthly PMI performance



Source: S&P Global

Figure 9: Quarterly average PMI and growth for non-oil activities



Source: S&P Global, General Authority for Statistics

The Riyad Bank Purchasing Managers' Index for the non-oil private sector rose to record 57.8 points at the end of the fourth quarter of 2023, becoming higher than its long-term average of 56.9 points, reflecting the expansion of activity and business as a result of the acceleration in sales growth and the rise in export orders, which returned to the expansion zone after contracting in the previous five months. This is supported by increased opportunities in new markets and government initiatives.

Corporate activity increased during the month of December 2023, with the continued strong growth witnessed in purchases over recent months, especially in industrial products. Inventory levels also increased in December 2023 compared to November, which is unusual as inventory typically decreases at the end of each year. Companies also benefited from a reduction in average supplier delivery times, the largest decline in 14 years.

As for cost inflation, it decreased slightly in December 2023, but remains high due to the increase in raw material prices, which affected sales prices. Production inputs remained high in December 2023 despite their decline from the previous month, and the increasing demand momentum contributed to transferring higher input costs to customers.

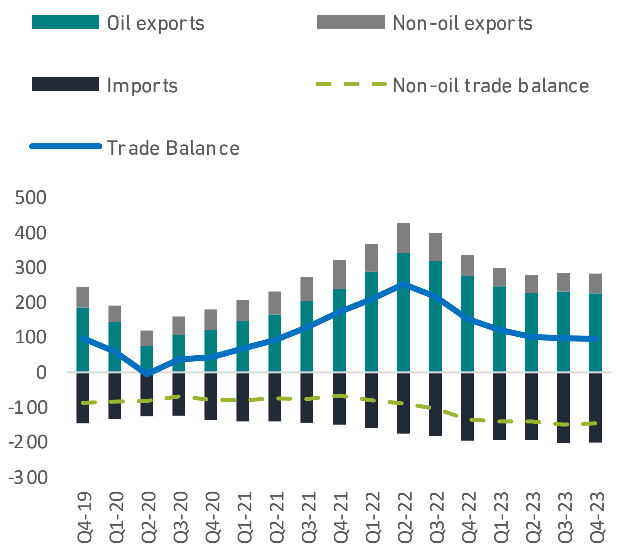
It is noted that the performance of the non-oil private sector in 2023 was strong and positive and a driver of investor optimism, and this is evidenced by improved confidence in economic activity for the coming year, as companies continued their optimistic expectations for the next 12 months due to growth in demand and new business flows, especially in the construction sector.

The Kingdom ranked first among the G20 countries with the highest PMI performance in December 2023, supported by the positive performance of the non-oil private sector and strong domestic demand. The performance of most of the G20 countries declined during the month as a result of weak global demand, high financing costs, surplus stock in some sectors, and the impact of monetary tightening policy, despite its recent easing.

International Trade: The decline of trade balance surplus in the fourth quarter of 2023

Figure 10: Growth rate of exports, imports and trade exchange

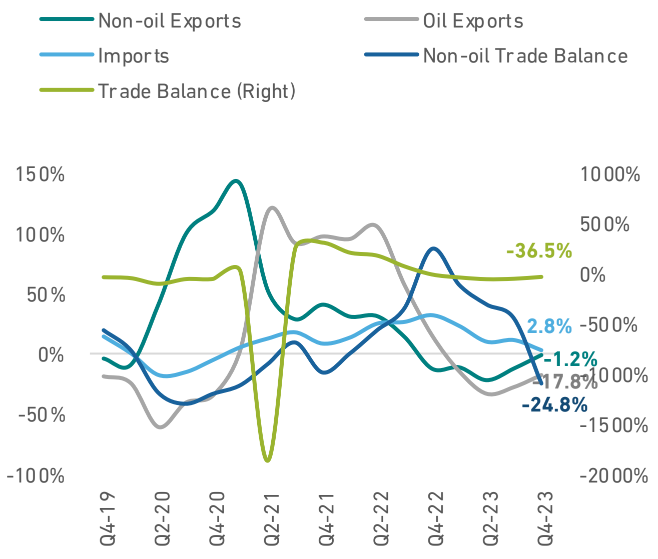
(Billion SAR)



Source: General Authority for Statistics

Figure 11: Growth rate of exports, imports and trade exchange

(Percentage, annual basis)



Source: General Authority for Statistics

The Kingdom continued to record a surplus in its trade balance despite difficult global circumstances, the surplus declined in the fourth quarter of 2023 by 36.5%, reaching SAR 96.5 billion, compared to SAR 152 billion in the same period of the previous year. This decline is due to a decrease in merchandise exports by 14.4%, to reach 297.9 billion riyals, and an increase in imports by 2.8%, to reach SAR 201.4 billion.

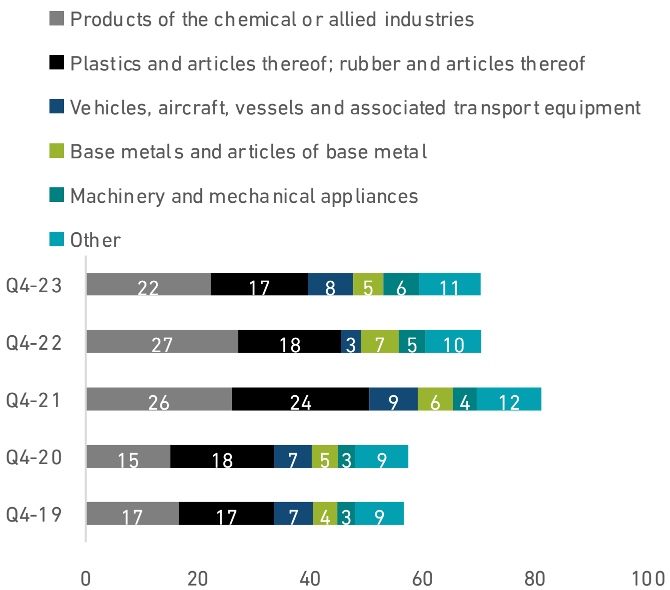
The deficit in the non-oil trade balance also widened by 24.8% to reach SAR 93.2 billion, compared to the deficit of SAR 124 billion in the same quarter of the previous year. This is due to a decrease in non-oil exports by 1.2% to reach SAR 71.1 billion. The share of re-exports of total non-oil exports reached 22.4%, with a value of SAR 15.9 billion. Saudi oil exports declined by 17.8% during the fourth quarter of 2023, reaching SAR 226.8 billion, which represents 76.1% of total exports.

Chemical industry products ranked first in the Kingdom's non-oil exports during the fourth quarter of 2023, with a value of SAR 22.2 billion (31.2% of the total non-oil exports) despite a decline of 18.3% on an annual basis, while exports of 'plastics, rubber and their products' declined by 5.2% to SAR 17.3 billion (24.3% of the total), compared to an increase in exports of 'transportation vehicles and equipment' by 130.2% to SAR 8 billion.

International Trade: The UAE is the largest trading partner for the Kingdom's non-oil exports

Figure 12: Non-oil exports

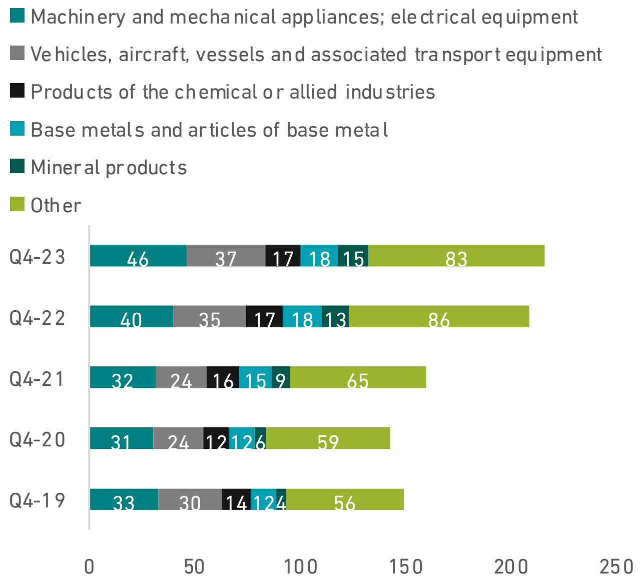
(Billion SAR)



Source: General Authority for Statistics

Figure 13: Imports

(Billion SAR)



Source: General Authority for Statistics

In the fourth quarter of 2023, the UAE topped the list of importers of Saudi Arabia's non-oil exports with a value of SAR 14 billion, an increase of 44.8% over the same period of the previous year, constituting 19.7% of total non-oil exports, as 'transport vehicles and equipment' were the most exported products. China came in second place with a value of SAR 7.4 billion (a decrease of 14.7%), and India came third with a value of SAR 5.2 billion (a decrease of 36%).

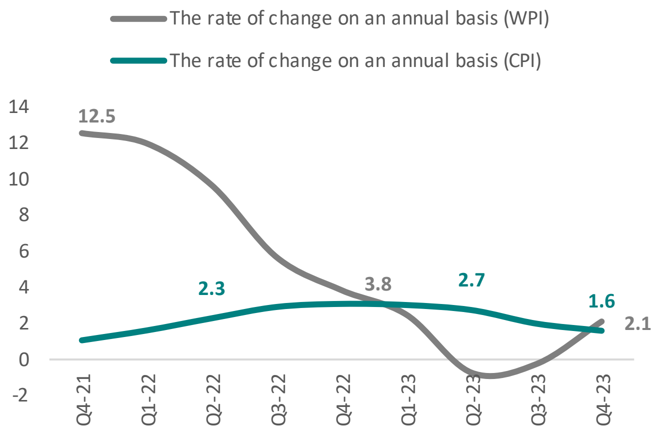
As for imports, they increased by 2.8% in the fourth quarter of 2023 compared to the same period of the previous year, reaching a value of 201.4 billion riyals. Machinery, mechanical devices, and the like" and "transportation vehicles and equipment," which represent 23% and 18.5%, respectively, of total imports, grew 16.1% and 7.7%, respectively, compared to the fourth quarter of 2022. In third place are "chemical industry products," which represented 8.4% of total imports, and decreased by 3.5% compared to the fourth quarter of 2022.

China maintained its first position as the largest supplier to the Kingdom with a value of 44.3 billion riyals in the fourth quarter of 2023, with a growth of 4.6%, while America came second with a value of 19.3 billion riyals and a growth of 2.3%, followed by the UAE with a value of 14.4 billion riyals and a growth of 22.2%.

Prices: The inflation rate declined by the end of 2023

Figure 14: Consumer price index and wholesale price index

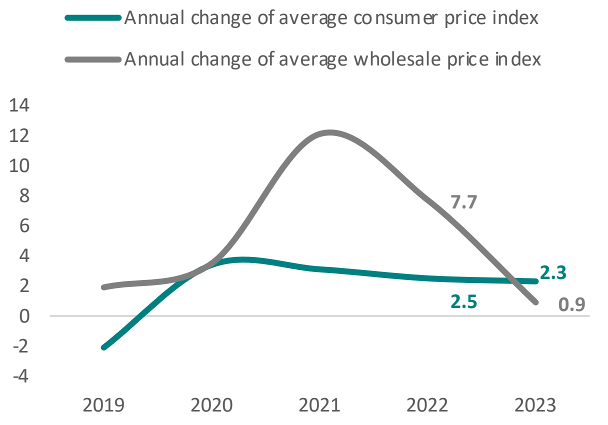
(Percentage)



Source: General Authority for Statistics

Figure 15: Consumer and wholesale prices

(Percentage)



Source: General Authority for Statistics

The average Consumer Price Index (CPI) recorded 110 points in the fourth quarter of 2023, showing an annual increase of 1.6% and a quarterly increase of 0.3%. This upswing in the index was primarily due to the growth observed in the 'housing and its related components' category, which holds a relative importance of 25.5% in the index composition. This category experienced a 7.7% annual increase and a 2.1% quarterly increase. The increase in the housing category can be attributed to the upward trend in rental prices, specifically in the cities of Jeddah and Riyadh. This surge in demand for housing is a consequence of the growing population of residents and workers since 2022. This increase is concentrated in certain cities. The continuation of high interest rates on real estate financing has also resulted in a segment of citizens opting for rentals over borrowing to finance property ownership.

Some other categories have also contributed to the increase in CPI on an annual basis. The 'restaurants and hotels' category, alongside the 'education', 'recreation and culture', and 'food and beverages' category segments have recorded increases of 2.2%, 0.8%, 0.9%, and 1.1%. respectively. The transportation category, followed by 'apparel and footwear,' as well as 'home furnishings and equipment,' each registered respective declines of 0.6%, 4%, and 3.1%.

The Wholesale Price Index (WPI), which reflects the rate of price changes in local and imported goods in primary markets, rose to 152 points in the fourth quarter of 2023, marking an annual increase of 2.1% and a quarterly increase of 1.7%. The yearly rise in the index can be attributed to the increases recorded in the 'food, beverage, tobacco, and textile products' category and 'other transportable goods' category, which rose by 3.2% and 4.6% respectively on an annual basis. While the prices of the 'agricultural and fishing products' category, 'metal products, machinery, and equipment' category, and 'raw materials and minerals' category decreased by 0.7%, 0.4%, and 1.2% respectively on a yearly basis.

Prices: Proactive measures contain high prices in 2023

The average overall CPI in the Kingdom registered a 2.3% rise in 2023 compared to the previous year. This increase was mainly due to a 7.9% surge in the "Housing, Water, Electricity, Gas, and Other Fuels" category, affected by high rental prices by 9.5%, followed by the increased prices of the "Restaurants and Hotels" category by 4.1%. The “Education” category marked a 2.2% growth, and the “Recreation and Culture” category increased by 1.5%, influenced by higher holiday packages and tourism prices. In contrast, the “Personal Goods and Services” category, accounting for 12.6% of the index, contracted by 0.5%. Most notably, the 'Clothing and Footwear' section witnessed a significant fall of 3.1%, the greatest among the recorded categories.

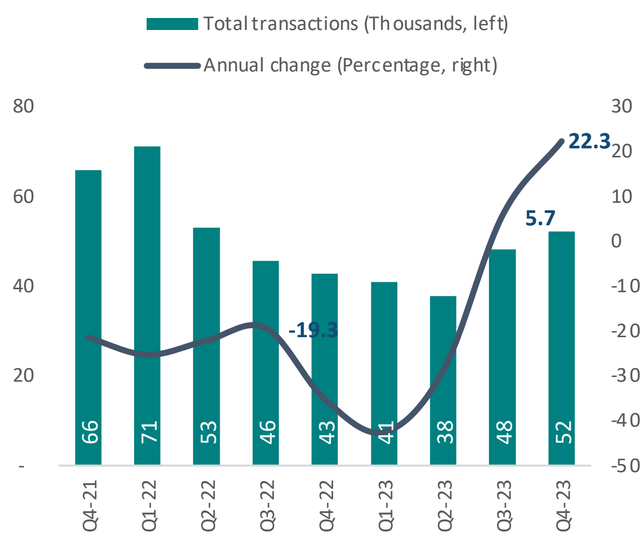
The average WPI recorded a 0.9% increase in 2023. The notable rise can be attributed to the ‘food, beverage, tobacco, and textile products’ category, which experienced an annual growth rate of 3.7%. Additionally, the ‘other transportable goods’ category increased by 1.5%. It is worth noting that the pace of acceleration in the Wholesale Price Index has gradually declined since 2021 until 2023.

It is worth mentioning that the inflation rate in the Kingdom is relatively low compared to other G20 countries, thanks to the proactive measures and policies implemented by the government to contain price increases. These measures include setting a ceiling for fuel prices, increasing food reserves, and supporting social protection programs. Additionally, the Saudi Central Bank has raised benchmark lending rates in line with the monetary tightening policy adopted by the US Federal Reserve, which has helped curb inflation.

Also among the factors is the strengthening of the US dollar against global currencies. Due to the fixed exchange rate of the Saudi riyal with the US dollar, the strength of the Saudi currency is also reflected, which reduces the cost of some imported goods. In addition, the continuous improvement of local economic conditions and the creation of a competitive environment for the non-oil private sector have played a significant role.

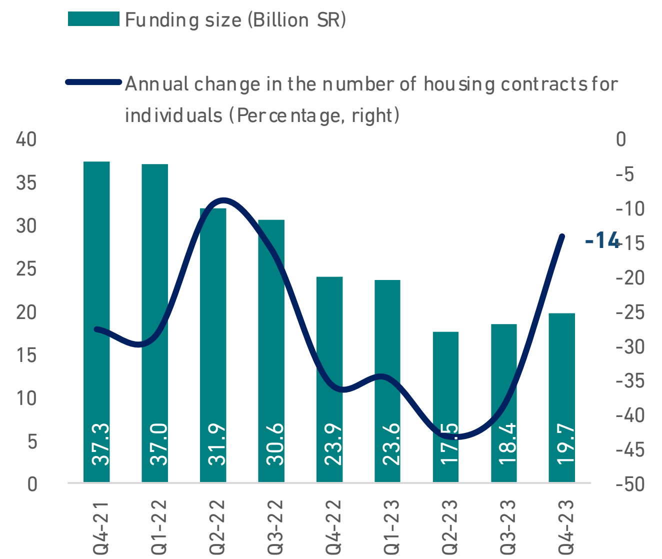
Real Estate: Growth of transactions and total real estate loans in the fourth quarter of 2023

Figure 16: Total number of real estate transactions



Source: Ministry of Justice

Figure 17: New residential mortgage financing for individuals provided by commercial banks



Source: Ministry of Justice

Real estate transactions in the Kingdom resumed their upward trend in the fourth quarter of 2023, following a previous wave of declines. They recorded a year-on-year increase of 22.3% and a quarterly increase of 8.3%. The annual increase in transactions was primarily driven by a 25% rise in the number of residential transactions. The total number of transactions reached 52.2 thousand, with the residential sector accounting for 85% of the total executed transactions. As for the total number of commercial transactions, the annual growth rate increased by 10.8%, while the quarterly basis showed a 12% increase.

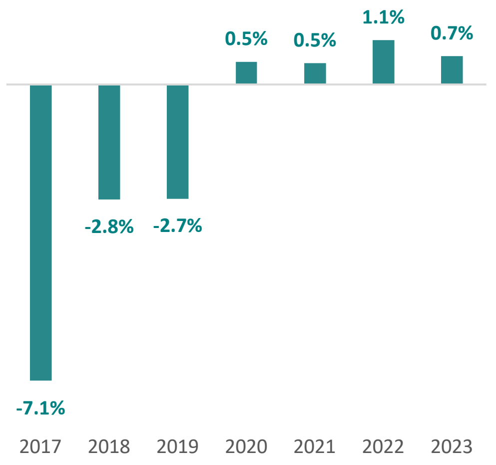
However, the increase in interest rates led to a decline in the volume of new residential mortgage financing provided to individuals by commercial banks by 18% compared to the same period in 2022, reaching approximately SAR 19.7 billion. Consequently, the number of residential financing contracts for individuals decreased by 14% on an annual basis, totaling around 27 thousand contracts. Despite the annual decline, it was lower than the previous quarters, as both the number of contracts and the volume of financing showed consecutive quarterly increases of 13% and 7% respectively.

The total amount of real estate loans provided to individuals by commercial banks and financing companies continued to grow at 7.1% year-on-year in the fourth quarter of 2023. However, this growth rate is lower than the peak reached in the fourth quarter of 2020, which coinciding with the rapid rise in interest rates, leading to an increase in borrowing costs.

Real Estate: Real estate prices rise by 0.2% in the fourth quarter of 2023

Figure 18: The average annual performance of the real estate price index

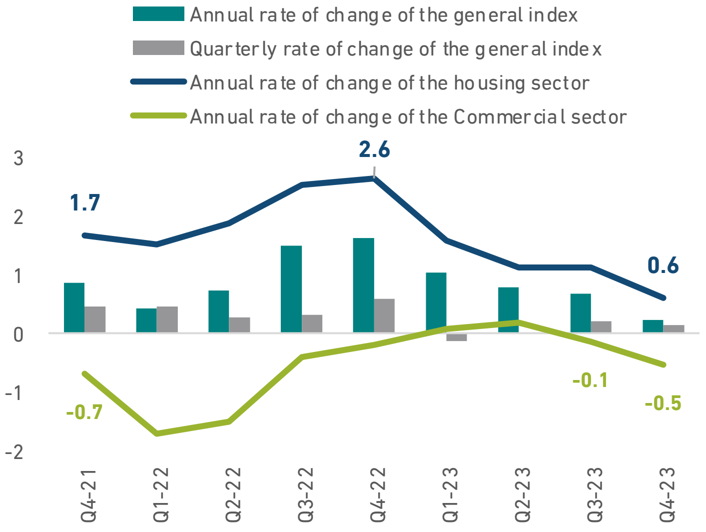
(Percentage)



Source :General Authority for Statistics

Figure 19: The general index for real estate prices

(Percentage)



Source: General Authority for Statistics

As for the general real estate price index for the fourth quarter of 2023, it recorded an increase of 0.2% on an annual basis. However, this annual growth in prices was lower than previous levels. The increase in the index is primarily due to a 0.6% annual increase in residential sector prices. Prices in the commercial sector decreased slightly by 0.5%. Additionally, prices in the agricultural sector declined by 0.1%. On a quarterly basis, the general real estate price index rose by 0.1%.

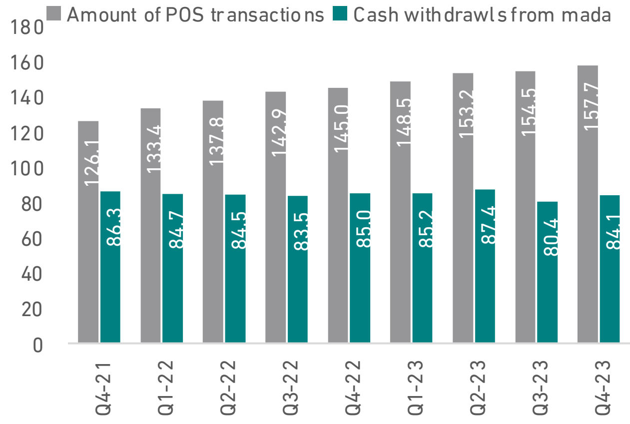
The annual increase in residential sector prices was a result of an increase in the prices of land and apartments by 0.7% and 0.1%, respectively. On the other hand, the prices of buildings decreased by 0.9%, villas by 3.8%, and houses by 0.3%. The average annual increase in the general index for real estate prices for the year 2023 was 0.7% compared to 2022.

At the level of regions during the fourth quarter of 2023, it is noted that the Tabuk region has the highest increase in the index for the third quarter in a row, with an increase of 4.9% on an annual basis. The Riyadh region had the highest increase in the first quarter of 2023. Al-Baha region also experienced an increase, reaching 1.6% on an annual basis. However, Hail region showed the largest decline on an annual basis at 3.9%.

POS and Cash Withdrawals: Increased consumer spending and improved performance of promising sectors

Figure 20: (POS) and cash withdrawals

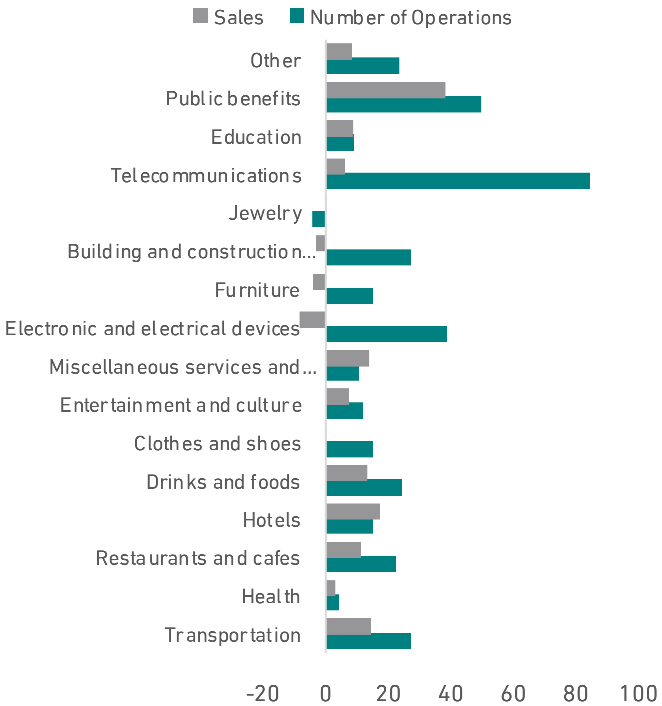
(Billion SAR)



Source: Saudi Central Bank

Figure 21: Annual change in POS fourth quarter 2023

(Percentage)



Source: Saudi Central Bank

Consumer spending continued to rise in 2023, with the value of POS transactions through debit and credit cards increasing by 9% in the fourth quarter on an annual basis, reaching approximately SAR 157.7 billion. This comes as stores are required to provide POS devices across most sectors. The number of POS devices reached approximately 1.73 million devices by the end of the quarter, representing a 21% increase compared to the same quarter of the previous year.

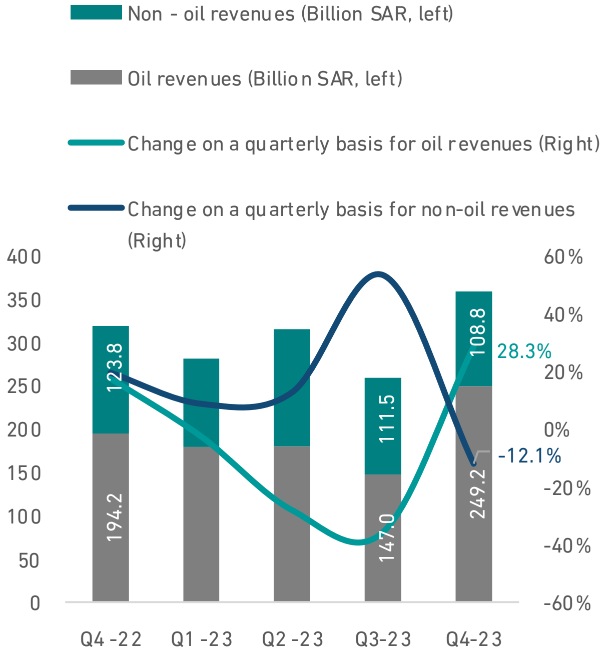
In terms of the number of POS transactions, the fourth quarter of 2023 witnessed a 21% increase on an annual basis due to an improvement in local consumer demand. The largest number of these operations were concentrated in the restaurants and cafes sector, with approximately 710 million operations. This growth was driven by the improved performance of the tourism sector. The telecommunications sector recorded the highest growth in the number of transactions, with an increase of approximately 85% compared to the same quarter in 2022. The highest growth in POS sales was observed in the public utilities sector at 38.3%. Additionally, the "Beverages and Food" and "Restaurants and Cafes" sectors witnessed growth rates of 13.3% and 11.4% respectively, compared to the same period of the previous year. On the other hand, the sales of the electronic and electrical appliances sector declined the most, with their value decreasing to 3 billion riyals, reflecting a 8.3% decrease.

Cash withdrawals from ATMs declined by approximately 1% annually in the fourth quarter of 2023, reaching SAR 84 billion. This decline reflects consumers' inclination towards digital payments.

For the entire year of 2023, the value of POS transactions increased by approximately 10%, reaching SAR 614 billion, where a total of 8.97 billion transactions were executed. This growth supports positive expectations for the Saudi economy and its performance at the beginning of 2024. It is anticipated that there will be an increase in investment spending, leading to growth in consumer spending and potentially more spending from POS. Additionally, the inflation rate is expected to remain stable.

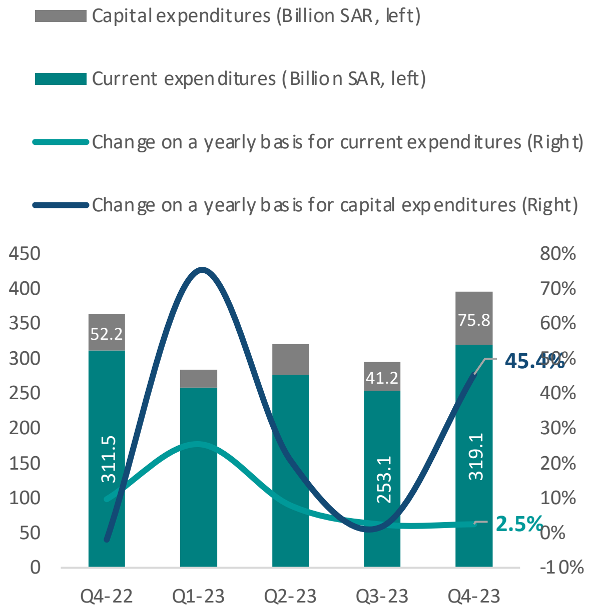
Public Finance: Growth in oil revenues has reduced the budget deficit in the fourth quarter

Figure 22: Oil and non-oil revenues



Source: Ministry of Finance

Figure 23: Current and capital expenditures



Source: Ministry of Finance

General revenues increased by 12.6% on an annual basis, reaching SAR 358 billion in the fourth quarter of 2023. This growth was driven by a 28.3% increase in oil revenues, totaling SAR 249.2 billion. While non-oil revenues recorded a decline of 12.1% on an annual basis during the same period, reaching 108.8 billion riyals. Non-oil revenues were negatively impacted by a decline in tax revenues. Revenues from goods and services tax decreased by approximately 23%, and income and profit tax revenues declined by 3.8% on an annual basis.

In terms of spending, the state's public expenditures increased in the fourth quarter of 2023 by 8.6% on an annual basis, reaching SAR 395 billion. This increase can be attributed to the continuation of expansionary financial policies aimed at spending in various government services provided to citizens, as well as major development projects and infrastructure.

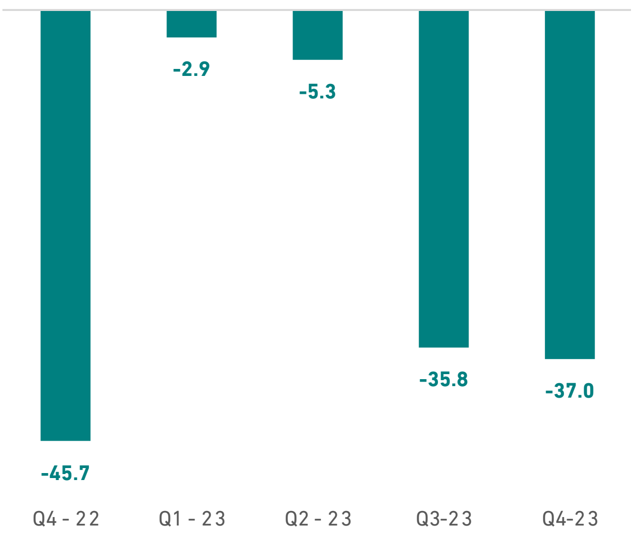
Workers' compensation represented the largest share of government expenditures, accounting for 35.6%, and amounted to SAR 140.8 billion in the fourth quarter of 2023. This amount increased by 4.1% on an annual basis. Government spending on goods and services ranked second, comprising 29.2% of total expenditures, with a value of SAR 115.5 billion. This reflects an increase of 7.5% compared to the fourth quarter of 2022.

Accordingly, the general budget recorded a financial deficit of SAR 37 billion in the fourth quarter of 2023. However, this deficit is not alarming, as it aligns with the government's general trend to expand its expenditure to achieve ambitious economic goals. These goals aim to enhance the level of services, increase productivity, and encourage investments from the private sector.

Public Finance: A strong credit rating reflects the strength of the Saudi economy

Figure 24: General budget

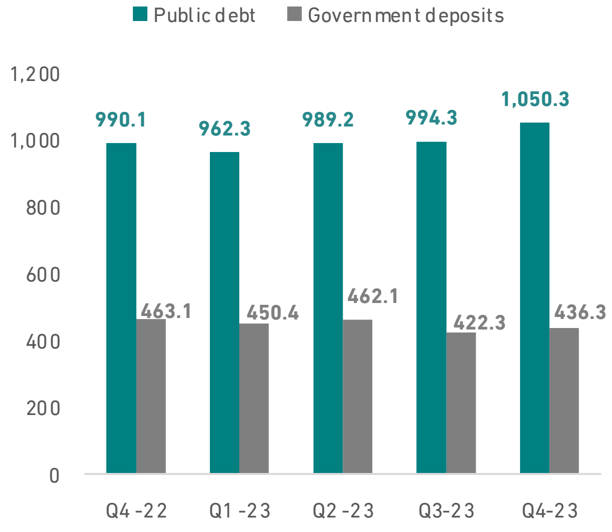
(Billion SAR)



Source: Ministry of Finance

Figure 25: Public debt and government deposits

(Billion SAR)



Source: Ministry of Finance

The total public debt increased by approximately 6% on an annual basis in the fourth quarter of 2023, reaching 1,050.3 billion riyals compared to 990.1 billion riyals at the end of the same quarter of the previous year. This is attributed to the government's efforts to finance the budget deficit through debt issuance or borrowing, in order to maintain reserves and investments.

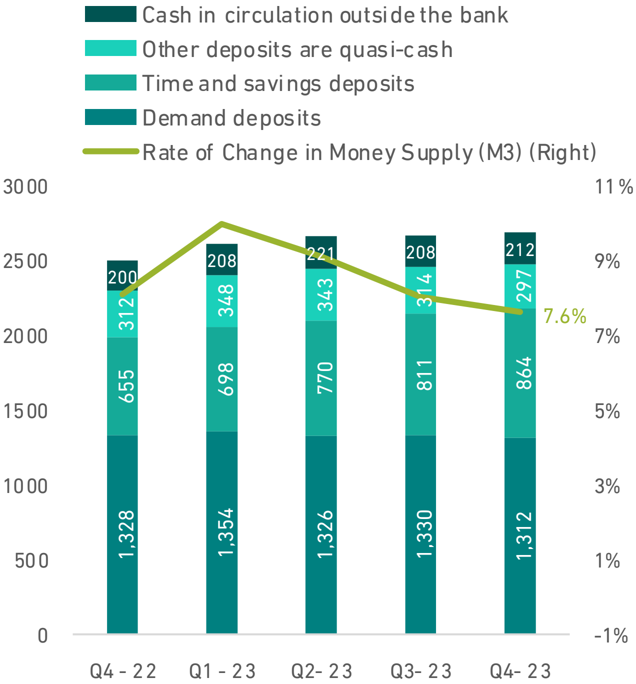
Issued debt during the year 2023 amounted to 189.2 billion riyals, compared to 125.4 billion riyals in 2022. As for the repaid debt, they reached 73.3 billion riyals in 2023, compared to 128.7 billion riyals in 2022. Specifically, both domestic debt and external debt increased to 644.4 billion riyals and 405.9 billion riyals, respectively, by the end of the fourth quarter of 2023, with a 4.8% increase in domestic debt and an 8.2% increase in external debt on an annual basis. Expectations for the ratio of public debt to gross domestic product reached 25.4%, according to the state's general budget statement for 2024, compared to 23.8% in 2023.

Fitch Ratings has maintained the Kingdom's credit rating at "A+" with a stable outlook, while Moody's has assigned an "A1" rating, indicating the strength of the Kingdom's finances. According to Fitch's report, this rating reflects the strength of the Kingdom's fiscal and external budgets, along with the net large sovereign foreign assets. The agency expects that the Kingdom will continue to work on financial, economic, and governance reforms, while highlighting the Kingdom's massive foreign reserves, which are classified as one of the highest reserve coverage ratios among sovereign-rated countries by Fitch. The agency also indicated that the government's strategic decision-making process is carried out in a balanced manner.

Cash Performance: Time and savings deposits reach their highest levels, and bank credit growth is on the rise

Figure 26: Developments in the components of the money supply

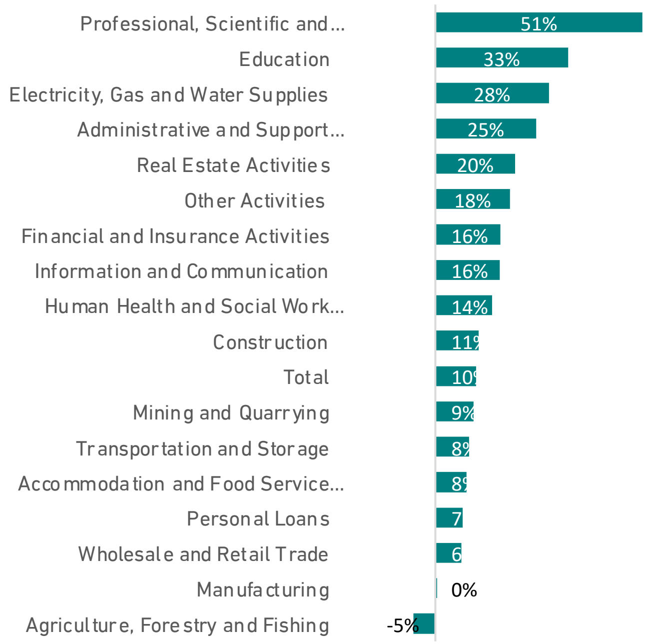
(Billion SAR, Percentage)



Source: Saudi Central Bank

Figure 27: Annual growth of bank credit in the fourth quarter 2023

(Percentage)



Source: Saudi Central Bank

Total money supply (M3) reached approximately 2,685 billion riyals in the fourth quarter of 2023, registering a 7.6% year-on-year increase. Demand deposits accounted for 49%, comprising the largest share of the total money supply. Time and savings deposits made up 32%, while other semi-cash deposits represented 11% and cash in circulation outside banks each represented 8%. This growth in the money supply (M3) is attributed to the growth in cash in circulation outside banks and time and savings deposits on an annual basis by 6% and 32%, respectively.

On the other hand, total demand deposits decreased by 1.2% on a yearly basis due to a decline in deposits for both companies and individuals by 5.3% on a yearly basis. Total other quasi-cash deposits declined by 4.9% on a yearly basis, attributed to a decrease in deposits for government entities in foreign currency.

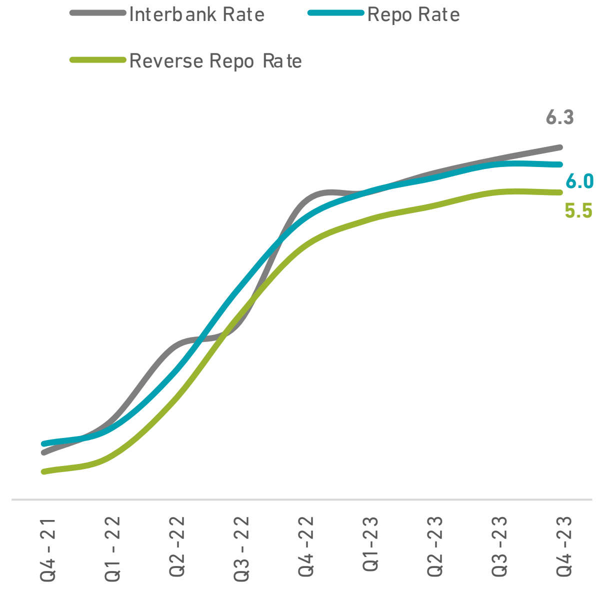
Total bank credit recorded an annual growth rate of 10%, reaching approximately 2,583 billion riyals. This growth was driven by the expansion of all economic activities and retail loans, with the exception of agricultural, forestry, and fishing activities. Among the sectors, professional, scientific, and technical activities experienced the highest growth rate of 50.8%, followed by education activities with an annual growth rate of 32.5%. However, agricultural, forestry, and fishing activities declined by about 5.4%.

Additionally, retail loans achieved a growth rate of 6.7% on an annual basis. Retail loans represent about 48.1% of total bank credit.

Monetary Performance: Stability in interest rates in the fourth quarter of 2023

Figure 28: Monetary indicators (interest rates)

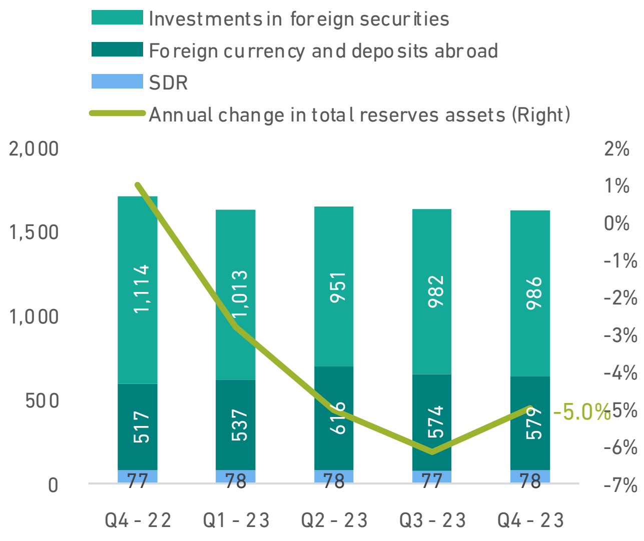
(Percentage)



Source: Saudi Central Bank

Figure 29: SAMA reserves assets

(Billion SAR, Percentage)



Source: Saudi Central Bank

The Saudi Arabian Monetary Authority (SAMA) raised the interest rate by 100 basis points during the year 2023.

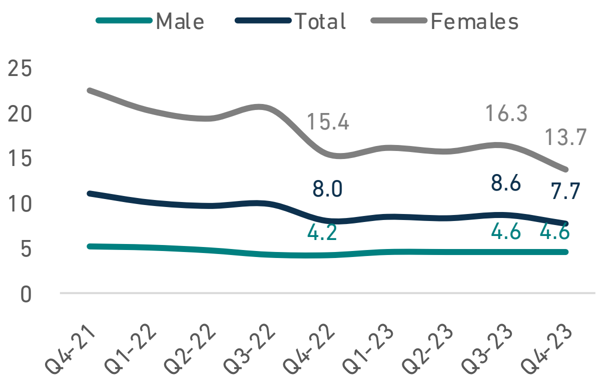
The repurchase agreements (repo) rate reached 6.0%, while the reverse repo reached 5.5% during the fourth quarter of 2023. These changes align with the bank's objectives of maintaining monetary and financial stability.

Reserve assets experienced a decline of 5%, reaching 1,638 billion riyals in the fourth quarter of 2023, compared to 1,724 billion riyals in the same period of the previous year. This decrease is primarily attributed to a decline in investments in securities abroad by 11.5% on an annual basis, accounting for 60% of the total reserve assets.

Labor Market: The unemployment rate among Saudis is approaching the Saudi Vision 2030 target of 7%

Figure 30: Unemployment rate among Saudis

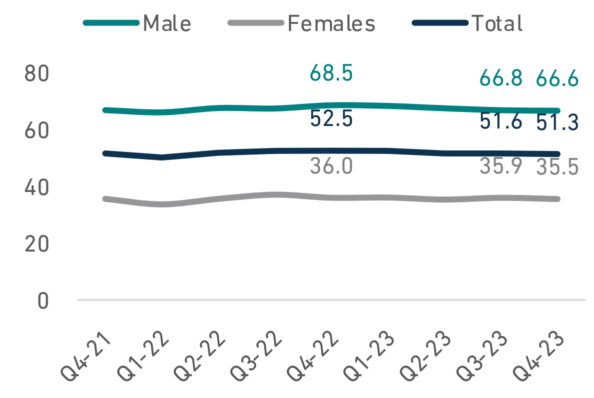
(Percentage)



Source: General Authority for Statistics

Figure 31: Economic participation rate

(Percentage)



Source: General Authority for Statistics

With the continued efforts of the Kingdom to create jobs for citizens in all fields, the unemployment rate among Saudis fell to 7.7% in the fourth quarter of 2023, down from 8.6% in the previous quarter. This improvement reflects the growing rates of Saudi employment in the private sector, in addition to creating a conductive business environment, especially in retail, tourism, and entertainment sectors. Compared to the fourth quarter of 2022, the unemployment rate decreased by 0.3 points due to the significant decrease in female unemployment, which declined to 13.7% in the fourth quarter of 2023 from 15.4% in the same quarter of the previous year. Women empowerment policies have supported their participation in the labor market, especially with the creation of new job opportunities in security, services, and other sectors, which has significantly reduced female unemployment rates.

It is noteworthy that the unemployment rate among Saudis for the fourth quarter, which reached 7.7%, is historically the lowest since data became available in 1999. This brings Saudi unemployment rates closer to achieving the Vision 2030 target of 7%, which reflects the continuous improvement in the Saudi labor market, indicating the path of economic diversification through investment in new sectors such as tourism, industry, and services. Additionally, the effectiveness of empowerment programs provided by the Kingdom to support and empower Saudi youth, along with the impact of significant investment in education, where the Kingdom places great emphasis on education, also play a role.

However, the overall labor force participation rate decreased by 0.3 percentage points on an annual basis, reaching 51.3% in the fourth quarter of 2023. This decline is attributed to a decrease in the participation rate for males by 1.9 percentage points to reach 66.6%, as well as a decrease in the participation rate for females by 0.5 percentage points to reach 35.5%, reflecting the necessity of incentivizing participation in the labor market among Saudis.

The average monthly wage for employed Saudis increased by 1.6% in the fourth quarter of 2023 compared to the previous quarter, reaching 10,017 Saudi Riyals. This increase was driven by a 1.8% rise in average wages for males and a 1.7% increase in average wages for females. Compared to the same quarter in 2022, the average monthly wage for employed Saudis increased by 3.3% in the fourth quarter of 2023.

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