وزارة الاقتصاد والتخطيط
MINISTRY OF ECONOMY & PLANNING

KINGDOM OF SAUDI ARABIA

QUARTERLY ECONOMIC REPORT

THIRD QUARTER

2023

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Executive Summary

Global Economic Outlook

Although it has been more than three years since the global economy faced its biggest shock in 75 years, the ongoing recovery is still facing unprecedented challenges. In the third quarter of 2023, the pace of recovery slowed, affected by the negative effects of the initial stages of the COVID-19 pandemic. Various factors are holding back the recovery, including the long-term consequences of the pandemic, the conflict in Ukraine, and rising geo-economic risks. In addition, recurring obstacles include the impact of tightening monetary policy necessary to reduce inflation, the withdrawal of financial support amid rising debt levels, and the impact of extreme climate conditions.

Although economic resilience indicators rose earlier this year, and significant progress was made in reducing headline inflation levels, overall economic activity remains below pre-pandemic expectations, especially in emerging markets and developing countries. The strongest recovery was in the United States of America, where in 2023 the GDP exceeded pre-pandemic levels, while the eurozone is witnessing a less strong recovery, with GDP remaining below pre-pandemic expectations by 2.2%. These differences reflect greater exposure to the consequences of the conflict in Ukraine, trade shocks, and higher energy prices. In China, the slowdown caused by the pandemic in 2022 and the real estate sector crisis has contributed to a production loss of about 4.2%, compared to pre-pandemic expectations. Other emerging and developing economies are experiencing a weaker recovery, especially in low-income countries where output losses exceed 6.5%. The challenges faced by low-income countries are exacerbated by high-interest rates and currency depreciation, leaving more than half of the countries already in the process of collapse or at risk of severe collapse. Global economic forecasts for 2023 indicate that global production growth will reach 3.4% (about $3.6 trillion in 2023 prices), which is less than pre-pandemic expectations (3.6%).

Real GPD

The real GDP recorded an annual decline at a rate of 4.4% in the third quarter of 2023. This decline reflects the annual decline of oil activities at a rate of 17.0% in the third quarter of 2023; while non-oil activities increased at a rate of 3.5% due to the strong performance of the non-oil private sector; governmental activities also rose at a rate of 1.9%.

Fiscal and Monetary Policies

The country's public revenues decreased by 14.4% on an annual basis to about SAR 258.5 billion in the third quarter of 2023, while the country's public expenditures increased by 2.3% compared to the same period in the previous year, in light of continuing financial reforms and achieving targets. The state budget posted a deficit of SAR 35.8 billion, and this deficit does not create concerns due to the strength of the Saudi economy and financial policies that enhance financial sustainability.

Total money supply (M3) increased by 8.0% on an annual basis in the third quarter of 2023, supported by the growth of cash in circulation outside banks, time and savings deposits on an annual basis, and a decrease in demand deposits and quasi-cash deposits on an annual basis. Bank credit posted annual growth of 9.9% in the same quarter, supported by the growth of all economic activities and loans to individuals, except for agriculture, forestry, and fishing activities, and manufacturing activities. The Saudi Central Bank (SAMA) continued to raise interest rates during the third quarter of 2023 in conjunction with the US Federal Reserve, which resorted to raising interest rates to control inflation. The three-month average interest rate among Saudi banks (SAIBOR) also increased to reach 6.1% in the third quarter of 2023.

Industrial Production

At the end of the third quarter, the Industrial Production Index (IPI) saw an annual decrease of 11.2%, affected by a decline in the quantities of oil produced, while other factors impacting the production of manufacturing activities such as local demand, the continued expansion of government projects, and local industrial investment, contributed to the continued positive performance of the index.

Trade

The trade balance recorded a decline of 53.8% in the third quarter of 2023, to reach SAR 99.9 billion, compared to SAR 216.2 billion for the same period in the previous year. The reason for this is a decrease in merchandize exports by 24.9%, reaching SAR 299.8 billion, and an increase in imports by 9.4%, reaching SAR 200 billion.

Labor Market

The positive performance of the Saudi economy and the labor market in particular was reflected in the high rate of employment and economic participation, as the unemployment rate among Saudis decreased in the third quarter of 2023 to 8.6%, from 9.9% in the same quarter of the previous year. This improvement is attributed to the impact of the increase in the size of the total labor market, demand for labor, successful nationalization policies, the empowerment of women, and the Kingdom's continued implementation of major projects.

Markets and Business

The Riyad Bank Purchasing Managers' Index (PMI) for the non-oil private sector rose to record 57.2 points at the end of the third quarter of 2023 higher than its long-term average of 56.9 points. This indicates continued improvement in the non-oil private sector, and coincides with the expansion of commercial activity and an increase in new business in September, increasing significantly compared to the previous month, and the PMI remains at its quarterly average in the expansion area, although it witnessed a slight decline compared to the second quarter of 2023.

The positive growth of non-oil activities continued in the third quarter of 2023 at a rate of 3.6% on an annual basis, despite the challenges that global markets still face in the form of high interest rates and uncertainty and their negative impact on the performance of many economic activities.

Chapter one
Global Economy

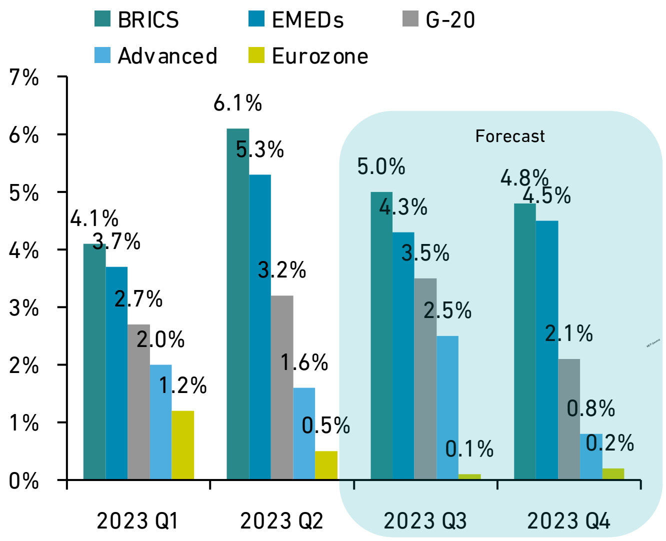
Although it has been more than three years since the global economy faced its biggest shock in 75 years, the ongoing economic recovery still faces unprecedented challenges. In the third quarter of 2023, the pace of recovery slowed, affected by the negative effects of the initial stages of the COVID-19 pandemic. Various factors are holding back the recovery, including the long-term consequences of the pandemic, the conflict in Ukraine, and rising geo-economic risks. In addition, recurring obstacles include the impact of tightening monetary policy necessary to curb inflation, the withdrawal of fiscal support amid rising debt levels, and the impact of extreme climate conditions.

Global Economic Growth

More than three years have passed since the global economy was exposed to its largest shock in the past 75 years, the economic recovery continues, though it is facing unprecedented challenges, and is characterized by great disparities between different regions. In the third quarter of 2023, the pace of the recovery process slowed compared to the rapid pace in the initial recovery phase of the COVID-19 pandemic. Several factors are impeding the recovery process, some of which reflect the long-term consequences of the pandemic, the conflict in Ukraine, and increasing geo-economic risks. There are also other cyclical obstacles that include the effects of tightening monetary policy necessary to reduce inflation, the withdrawal of financial support in light of high debt levels, and the impact of extreme climate conditions.

Figure 1: Quarterly global economic growth

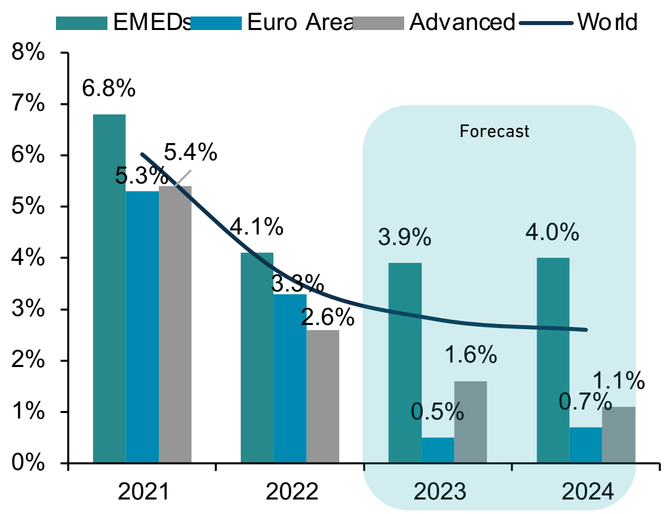
(Percentage, Annual basis)



Source: Bloomberg

Figure 2: Annual global economic growth

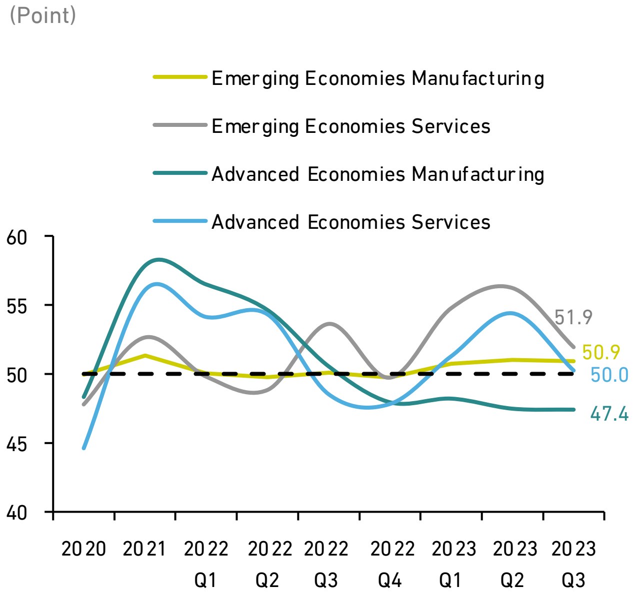
(Percentage)



Source: Bloomberg

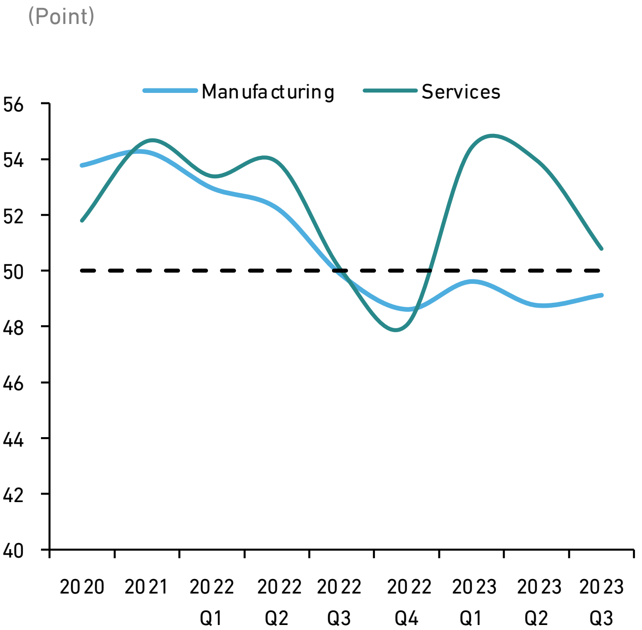
Despite rising indicators of economic resilience earlier this year and notable progress in reducing headline inflation, economic activity remains below previous expectations for the pre-pandemic period, especially in emerging markets and developing countries. The strongest recovery process among major economies was in the United States, where GDP is expected to exceed pre-pandemic levels in 2023. Meanwhile the eurozone has seen a slower recovery, with GDP remaining 2.2% below pre-pandemic expectations. This reflects increased exposure to the consequences of the conflict in Ukraine and the resulting trade shock, in addition to rising energy prices. In China, the pandemic-induced slowdown in 2022 and the real estate sector crisis will exacerbate production losses by about 4.2%, compared to pre-pandemic expectations. Emerging economies and other developing countries saw a weaker recovery, especially in low-income countries, where output losses amounted to more than 6.5%. The difficulties faced by low-income countries have increased due to high-interest rates and currency depreciation, leaving more than half of these countries at risk of severe collapse or already in a state of collapse. It is expected at the global and economic levels for the year 2023 that global production will be 3.4% (or about $3.6 trillion in 2023 prices) below pre-pandemic expectations.

Figure 3: PMI in emerging and advanced economies



Source: S&P

Figure 4: Global PMI



Source: S&P

Private sector consumption in advanced economies has rebounded faster than in emerging markets and developing countries, driven by an early reopening facilitated by the availability of effective vaccines, stronger safety nets, increased political stimulus, and greater access to remote working. These factors have boosted people's savings during the pandemic, and household consumption is now broadly in line with pre-pandemic trends. Among advanced economies, private consumption was stronger in the United States than in the Eurozone, as households received larger remittances early in the pandemic and spent associated savings faster. This is supported despite the higher energy prices as a result of the Ukraine conflict, and a relatively weak confidence environment amid tighter US labor markets, which has supported real incomes.

Differences in labor market performance between regions reflect variations in production and consumption. Employment and labor market participation rates in advanced economies are estimated to exceed pre-pandemic trends but remain much lower in emerging markets and developing countries, with greater losses in production and social protection. The countries with the narrowest fiscal margins are also those with the greatest job shortages. Among advanced economies, the eurozone has seen greater employment gains than the United States, perhaps reflecting the former's more widespread use of worker retention programs based on the German short-term work model, which protects workers' income and allows companies to retain their human capital, reducing turnover, costly layoffs, and rehiring and training. In the eurozone, these programs helped boost employment during the most difficult phases of the crisis and accelerate the recovery process once the economy re-opened.

On the other hand, investments generally and uniformly fell below pre-pandemic levels globally. Companies showed a decline in their expansionary policy and risk tolerance as a result of higher interest rates, the withdrawal of financial support, a more pessimistic outlook for domestic demand, tightening credit conditions, and increasing reservations given geo-economic risks.

Accordingly, it is expected that economic performance in general will continue to decline during the fourth quarter of 2023 and until the first half of 2024, as a result of three basic factors:

1. The decrease in savings built during the pandemic period: which has supported consumers so far in advanced economies, especially in the United States of America, and this means that there are fewer resources for families to benefit from as they struggle to confront the rising cost of living and tightening of credit conditions in light of expectations that monetary tightening will continue for a longer period.

2. Slow recovery in services: Global tourism levels are approaching pre-pandemic levels in most regions. The recovery of travel during the period 2021-2023 came with a strong economic recovery, especially in economies with a large share of tourism activities in the gross domestic product. These economies had suffered a sharp contraction in GDP at the start of the pandemic. But as tourism recovery reaches its peak, its growth-driving effect is fading. Leading indicators for the services sector point to weaker growth in economies that had previously experienced a strong recovery.

3. The ongoing manufacturing slowdown: Recent data indicate a general slowdown or contraction in the manufacturing sector, with a decline in industrial production, investment, and international merchandize trade. This decline reflects the combined impact of the post-pandemic shift towards consumption from the manufacturing sector to the services sector, weak demand caused by rising costs of living, tighter credit conditions, and continuing general uncertainty.

Factors supporting China's recovery are beginning to fade after the wave of economic reopening due to the COVID-19 pandemic in early 2023. Growth slowed from 8.9% in the first quarter of 2023 to 4.0% in the second quarter. With the great economic recession and lower energy and food prices, inflation fell to an estimated 0.8% on an annual basis in the third quarter of 2023.

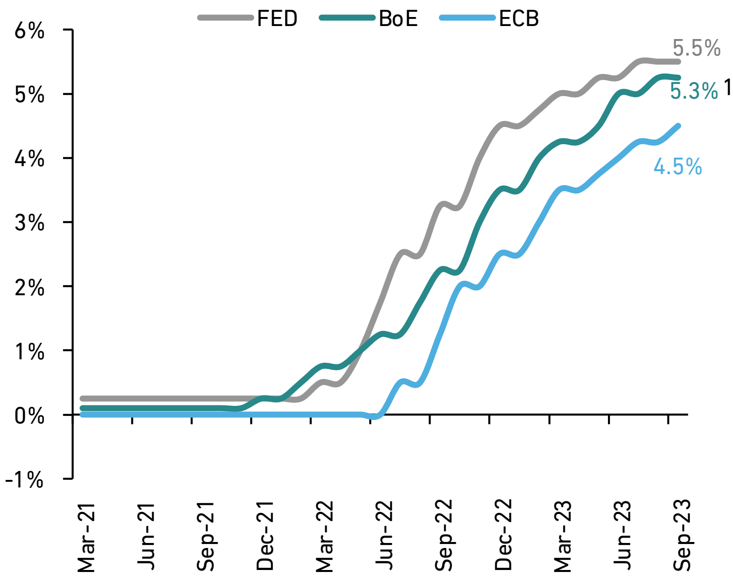
Indicators point to further weakness, as the crisis facing China's real estate sector is the most important factor hindering growth. The real estate distress has begun to spread to larger developers in the market, as real estate developers face severe financing constraints that prevent them from completing projects. This reduces home buyer confidence and prolongs the downturn in the real estate sector. At the same time, real estate investments and housing prices continue to decline, putting pressure on local government revenues from land sales and increasing fiscal sustainability risks.

Consumption was affected by these developments, in addition to the state of uncertainty in the labor market, which was reflected in the high unemployment rates among youth, which reached more than 20% in June 2023. Consumer confidence remains weak despite the reopening of the economy in the first quarter. Industrial production, business investment, and exports are also weakening, reflecting a combination of declining external demand and geopolitical uncertainty. Commodity exporters and countries that are part of the Asian industrial supply chain are most vulnerable to the risks of an economic slowdown in China.

Global Inflation

Figure 5: Key policy rates

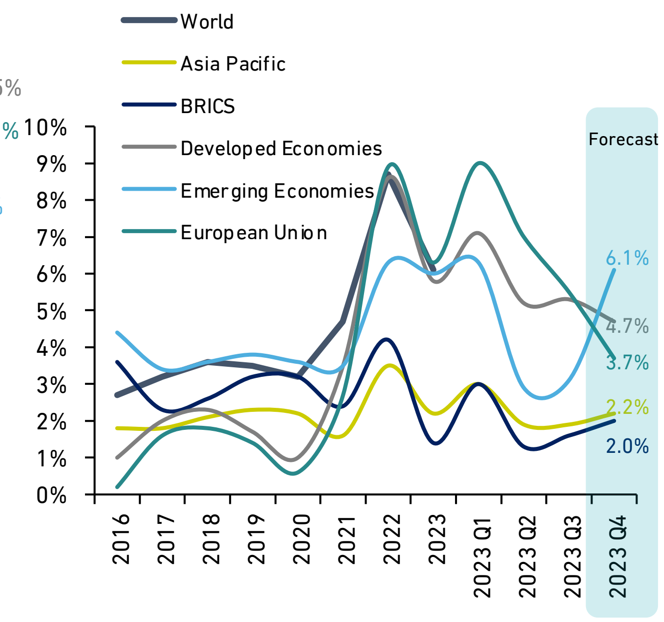
(Percentage)



Source: Bloomberg

Figure 6: Headline inflation

(Percentage, annual basis)



Source: Bloomberg

Global overall inflation saw a significant decline from its peak of 11.6% in the second quarter of 2022 to 5.3% in the third quarter of 2023. In major economies, headline inflation in the third quarter of 2023 ranged from 0.1% in China to 2.8% in the Eurozone and 2.7% in the United States. This decline was accompanied by variation between countries in the headline inflation rate, which indicates that the global distribution of inflation has returned to its normal rates since the significant rise in 2022.

The decline in overall inflation was due primarily to lower energy prices and, to a lesser extent, food prices. Despite the July recovery, crude oil prices declined during 2023 and are much lower than the June 2022 peak due to a decline in global demand affected by the tightening of global monetary policy. Supply constraints imposed by OPEC+ were partially offset by strong growth in oil production in non-OPEC countries, especially the United States. Natural gas prices also remain below their peak in 2022, thanks to abundant storage and supplies from Norway and North Africa. Food prices fell slightly in 2023, with lower demand offset by lower supply, particularly resulting from Russia's withdrawal from the Black Sea Grains Initiative in July, which led to lower wheat supplies on the global market. The return of supply chains to normal rates has further contributed to the decline in overall inflation in most countries.

The drivers of core inflation were a combination of demand pressures, reflected in the labor market, and the temporary effects of previous shocks, including those arising from supply shifts in various industries. The roles of these factors have varied widely across economies. On the one hand, demand pressures in some advanced economies resulted from large fiscal payments to households during the COVID-19 pandemic, as well as from monetary policy stimulus early in the pandemic, which supported the recovery in consumer spending. These pressures resulting from monetary and financial policies decreased significantly during the third quarter of this year.

On the other hand, temporary effects include that of relative price shocks, especially those related to energy prices, on prices and costs in other industries through supply chain inputs and wage demand which represents one of the important channels for rising inflation expectations in the short term, which has implications for determining wages and prices. Analysis by IMF experts suggests that shocks to past relative price movements in the Eurozone and the United Kingdom, especially those resulting from externally linked energy price shocks, have recently played a larger role than before in driving core inflation.

In the United States, labor market tightness has been an important driver. Although labor markets remain tight, the recent decline in the ratio of job vacancies to the number of unemployed indicates a decline in the labor market to pre-pandemic levels. Wage growth has remained under control, with wage price fluctuations unstable, especially when prices and wages accelerate together for an extended period. At the same time, evidence suggests that wages for low-income groups rose faster than average, resulting in an imbalanced wage distribution.

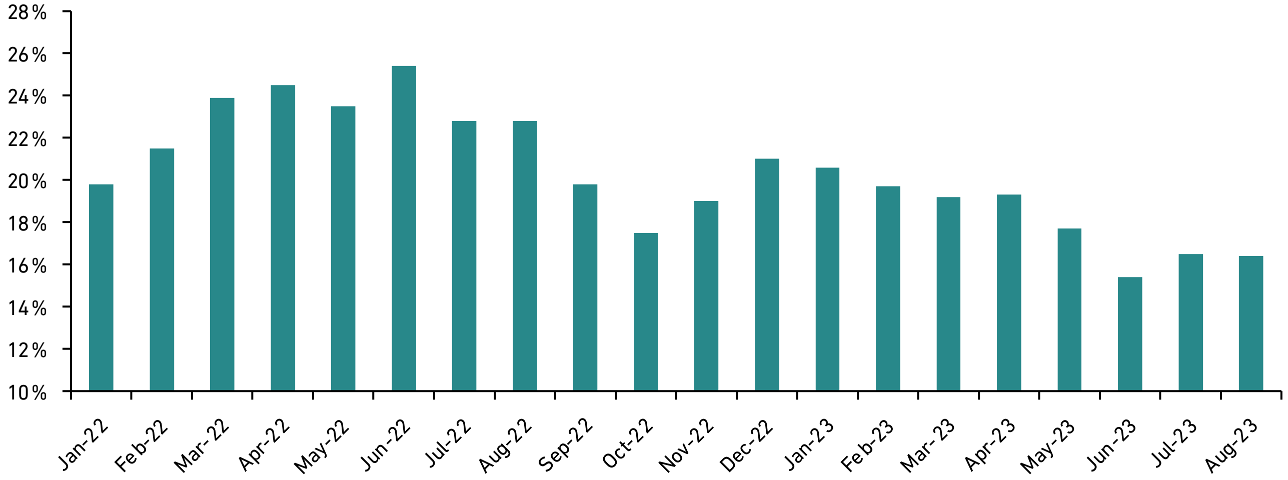
Corporate profits have risen strongly over the past two years, with wages rising more slowly than prices. For the United States and the Eurozone, the GDP deflator analysis shows lower labor costs in the early phase of the pandemic (2020-2021), with profits being the largest contributor to higher inflation. However, since 2022, rising labor costs have increasingly contributed to price increases, especially in the United States. Rising profits do not necessarily indicate increased monopoly power, as firms deliberately limit supplies to raise prices beyond marginal cost. Profits can rise when an increase in demand meets a supply constraint or when supply constraints tighten, causing prices to rise, but wages do not adjust immediately. Profits are expected to erode as wages begin to rise. Accordingly, IMF staff analysis based on firm-level data indicates little change in corporate profit margins (prices above marginal cost) across various sectors in major advanced economies for the period 2019-2022. Likewise, other studies have concluded that despite increases in profit share, corporate profit margins did not change or decline across several sectors in Germany and Italy during 2022. Overall, these results indicate that rising market power did not significantly contribute to higher inflation in 2022. Moreover, there is some evidence that since 2022, rising labor costs have accounted for a much larger share of price increases in the United States than profits.

Acute pressures in the banking sector have eased where the banking concerns that occurred in March 2023 remained under control and were limited to regional banks suffering from problems in the United States and Switzerland due to the rapid response from the authorities in both countries. Evidence suggests that tight monetary policy is starting to make its way through the financial system. Studies of lending in the United States and Europe indicate that banks have significantly restricted access to credit over the past year and are expected to continue to do so in the coming months. There are also clear signs that tightening credit conditions are increasingly affecting real activity. In advanced economies, demand for credit and investment contracted in the first half of the year, reflecting shrinking supply as well as lower demand for credit, as many companies began to reduce their debt in response to rising interest rates and excess production capacity. Rising interest rates are likely to put banks under increasing pressure in major economies, both directly (through rising cost of funding) and indirectly (with deteriorating credit quality). Housing markets have already begun to respond, with housing prices slowing or reversing since the start of the tightening cycle in many countries, but bankruptcy rates are rising in some economies (rising 20% in the United States over the past year).

Global Trade

Figure 7: Global trade

(Percentage)



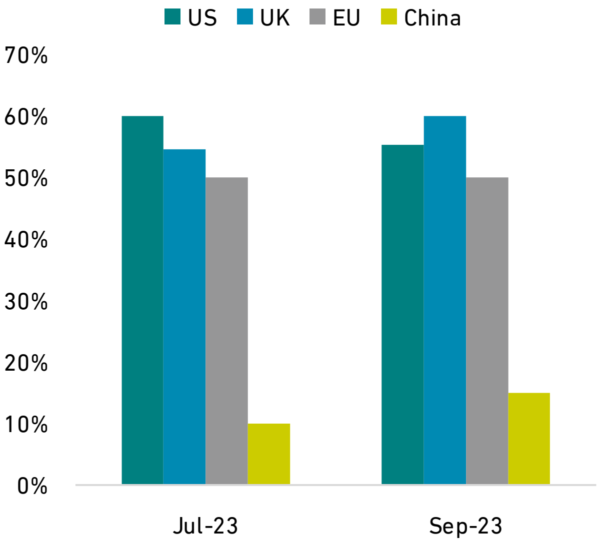
Source: Bloomberg

Global trade growth is expected to decline from 5.1% in 2022 to 0.9% in 2023, before rebounding to 3.5% in 2024, a figure well below the average of 4.9% in the period 2000-2019. The expected decline in 2023 is due not only to the path of global demand, but also to the shift towards domestic services, the delayed effects of the rise in the value of the dollar that hinders trade due to the spread of product bills in dollars, and an escalation in the pace of inflation. In 2022, countries imposed nearly 3,000 new trade restrictions, a significant increase from less than 1,000 in 2019.

At the same time, global current account balances are expected to shrink in 2023, after increasing significantly in 2022. As shown in the IMF's 2023 External Sector Report, the increase in current account balances in 2022 was largely driven by higher commodity prices resulting from the conflict in Ukraine, which led to an expansion in the trade balances of oil and other commodities. In the medium term, global stocks are expected to gradually shrink as commodity prices decline. The positions of creditors and receivables reached historically high levels in 2022, primarily reflecting expanding current account balances. These positions are expected to show slight moderation over the medium term as current account balances gradually tighten. In some developing economies, total external liabilities remain historically high and pose a risk of exposure to external pressures.

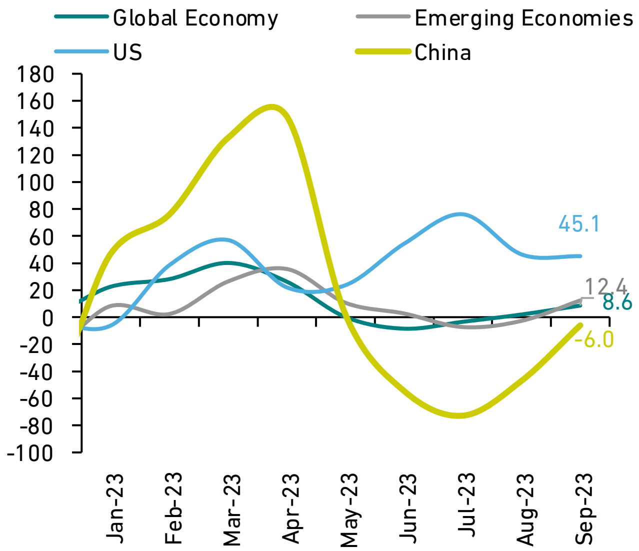
Global Economic Risks

Figure 8: Recession probability
(Percentage)



Source: Bloomberg

Figure 9: Economic surprise index
(Point)



Source: Bloomberg

Risks to the global economic outlook became more balanced during the third quarter of 2023, with downside risks decreasing. The resilience of economic activity and unexpected downward trends in inflation contribute to this shift. However, concerns remain about global inflation and the possibility of an economic recession, resulting in a continued negative bias in risks to global growth.

The risk of a severe recession has diminished, with the possibility of a slowdown in global growth falling to less than 2% in 2023 and rising in 2024. In addition, the probability that core inflation will be higher next year than this year is significantly lower.

Upside risks:

- **Faster-than-expected decline in core inflation:** A decline in factors such as the strong impact of lower energy prices, pressure on profit margins, and lower job vacancies, leading to an easing of pressures in labor markets, could lead to a faster decline in core inflation, supporting economic growth.
- **Faster recovery in domestic demand:** Excess savings accumulated during the pandemic, a tighter US labor market, stronger political support in China, and breakthroughs in artificial intelligence and green technology could contribute to a faster-than-expected recovery in domestic demand.

Downside risks:

- **Further slowdown in China's economic growth**: Risks to China's growth outlook have increased, with potential negative implications for trading partners. The extent of the slowdown depends on the effectiveness of the Chinese government's policy response, especially in restructuring the real estate sector.
- **Fluctuations in commodity prices**: Climate and geopolitical shocks, including heatwaves, droughts and disruptions to global food and commodity supply chains, pose risks. The war in Ukraine and geopolitical tensions may intensify, leading to increased volatility in the prices of food, fuel and other commodities.
- **Persistence of core inflation**: Tight labor markets and wage demand could contribute to persistent core inflationary pressures, complicating the role of monetary policy in restoring price stability.
- **Re-pricing in financial markets**: New upward inflation surprises may trigger a reassessment of monetary policy, leading to a sudden rise in interest rate expectations, lower asset prices and a tightening of financial conditions.
- **Growing debt distress**: Although global financial conditions have eased, lending standards have tightened, and borrowing costs remain high for emerging market and developing economies, posing risks of debt distress.
- **Exacerbating geo-economic risks**: Ongoing geopolitical tensions could increase restrictions on trade, capital movements, and international payments, hindering multilateral cooperation and negatively impacting global prosperity.
- **Continued social unrest**: Potential renewed social unrest, due to future increases in food and fuel prices, could negatively impact economic activity, especially in countries with limited economic policy flexibility.

Table 1: Highlights of overall economic summary of G20 countries

G20	Real GDP Growth (%) Q3'23 [1]	Inflation (%) Sep'23	Monetary Policy rate (%) Sep'23	Industrial Production Index (%) Sep'23 (%) [2]	PMI (Point) Sep'23
USA	2.9	3.7	5.5	-0.2	49.8
CHINA	4.9	0.0	3.5	4.5	50.6
ITALY	0.3	5.1	4.5	-2.0	46.8
FRANCE	0.7	4.9	4.5	-0.1	44.2
UK	0.6	6.7	5.3	1.5	44.3
GERMANY	-0.8	4.5	4.5	-3.7	39.6
EU	0.5	4.3	4.5	-6.9	43.4
INDONESIA	5.2	2.3	5.8	-	52.3
CANADA	1.1	3.8	5.0	0.6	47.5
JAPAN	1.6	3.0	-0.1	-4.4	48.5
RUSSIA	4.9	6.0	13.0	5.6	54.5
AUSTRALIA	2.1	5.6	4.1	1.6	54.5
BRAZIL	3.4	5.2	12.8	0.6	49
MEXICO	3.6	4.5	11.3	3.9	49.8
INDIA	7.8	5.0	6.5	5.8	57.5
KSA	-4.4	1.7	6.0	-11.2	57.2
TURKIYE	3.8	61.5	30.0	4.0	49.6
SOUTH KOREA	1.4	3.7	3.5	3.0	49.9
ARGENTINA	-4.9	138.3	118.0	-3.6	-
SOUTH AFRICA	1.5	5.4	8.3	-4.3	49.9

Source: Bloomberg, 2023

1* Q2 2023 for Italy, United Kingdom, European Union, Indonesia, Canada, Japan, and Russia, Australia, Brazil, Mexico, India, Turkiye, Argentina, and South Africa.

2* June 2023 for Australia.

Chapter Two

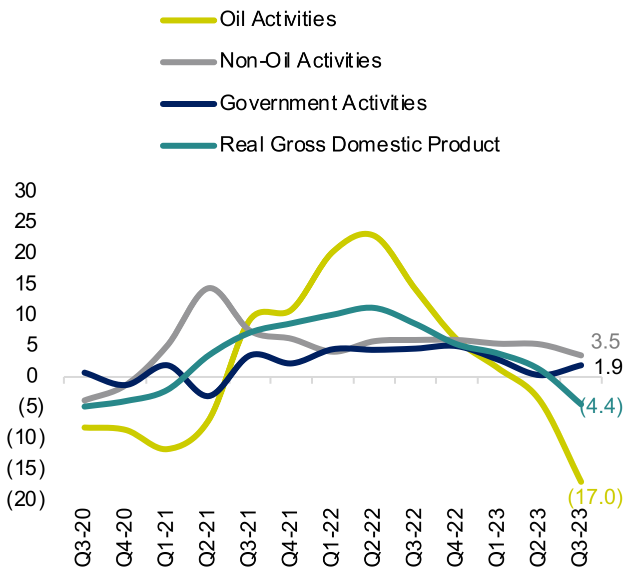
Saudi Economy

The Kingdom's real GDP recorded a decline of 4.4% in the third quarter of 2023; as a result of the decrease in oil activities by 17.0% compared to the same quarter of the previous year with the decision to voluntarily reduce oil production. Meanwhile non-oil activities achieved a growth of 3.5% on an annual basis, which reflects the diversification of the economic growth base and the recovery witnessed by all sectors, especially at the level of investment and manufacturing industries, and government activities posted annual growth of 1.9%.

Real Gross Domestic Product (GDP)

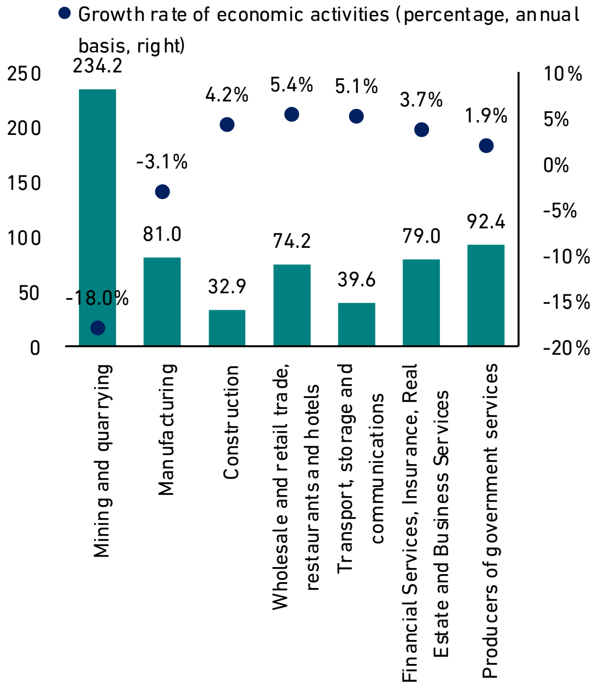
Figure 10: Real GDP growth

(Percentage, annual basis)



Source: General Authority for Statistics, 2023

Figure 11: Real GDP by economic activities, third quarter 2023



Source: General Authority for Statistics, 2023

The real GDP recorded a decline of 4.4% in the third quarter of 2023 on an annual basis, due to a decrease in oil activities by 17.0% compared to the same quarter of 2022. This is a result of the voluntarily reduction in Saudi oil production by 1.5 million barrels per day and retreat in oil prices, as the Kingdom continues its supportive policy for controlling oil markets. Non-oil activities also grew at a rate of 3.5% on an annual basis, and the strong performance of the non-oil private sector was reflected in continued optimism for the future, in addition to the growth of government activities at a rate of 1.9%.

The contribution of non-oil activities to the GDP was about 48.1% in the second quarter of 2023, while oil activities and government activities contributed about 35.5% and 12.9% of GDP, respectively.

Focusing on real GDP by type of economic activity, it is clear that “mining and quarrying” recorded the highest contribution rate, reaching 32.6% of real GDP despite its 18.0% decline in growth during the third quarter of 2023 on an annual basis, reaching a value of SAR 234.2 billion.

The second largest activity in the Saudi economy, “government services,” recorded a contribution amounting to 12.9% of real GDP, and an annual growth of 1.9% during the third quarter of 2023, as a result of the expansion in the provision and development of government services. Its value amounted to SAR 92.4 billion.

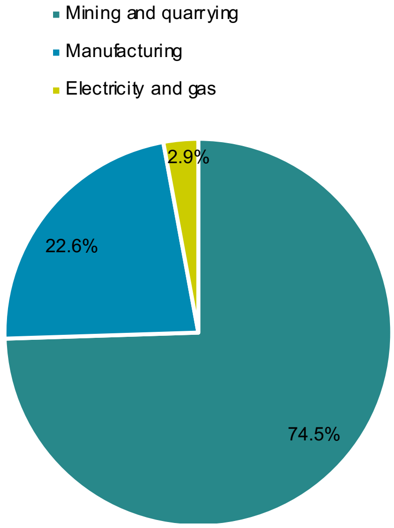
While the third largest activity, “manufacturing industries” recorded a contribution amounting to 11.3% of real GDP, with an annual decline of 3.1% during the third quarter of 2023, reaching a value of SAR 81.0 billion.

Leading Indicators

Industrial Production Index

Figure 12: The relative importance of the components of the index

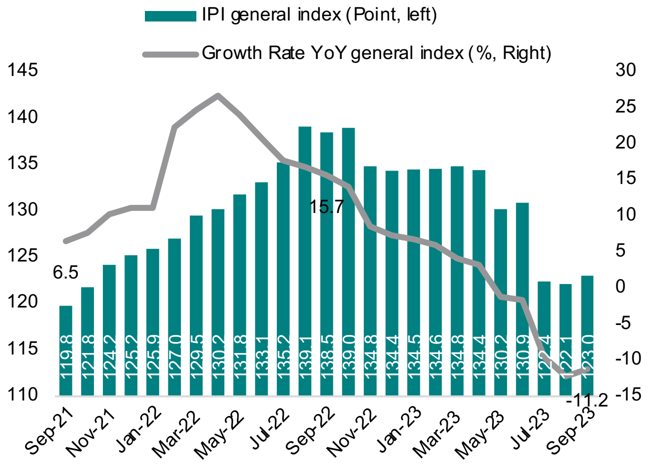
(Percentage)



Source: General Authority for Statistics, 2023

Figure 13: Monthly performance of the industrial production index

(Percentage annual basis)



Source: General Authority for Statistics, 2023

By the end of the third quarter 2023 the industrial production index recorded a decline of 11.2% on an annual basis, a continuation of its slowdown in recent months since April 2022.

This performance of the index comes as a result of the decline in mining and quarrying activity - including oil production, which represents 74.5% of the weight of the index as it decreased by 18.7% on an annual basis, especially with the decline in oil exports in recent months in conjunction with the Kingdom's continued implementation of policies that support market control.

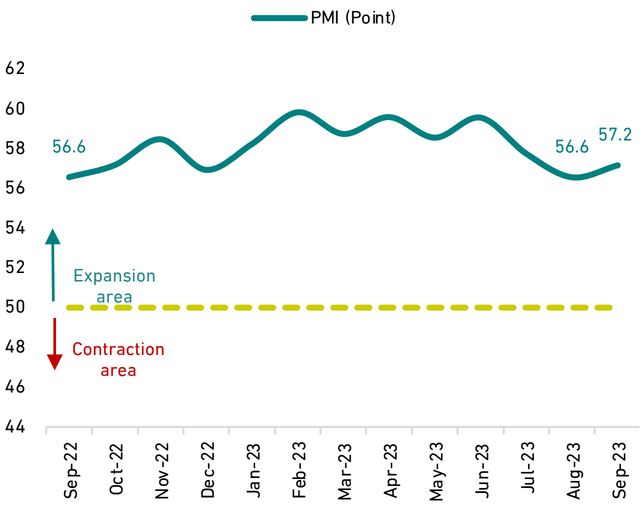
Data on manufacturing activity showed a continuous positive increase, as it rose by 6.7% in September 2023 on an annual basis, and by 1.0% compared to August 2023. Despite this positive annual performance, which is considered better than the previous month, it is less steep compared to the period from March 2022 to May 2023, with an average recorded growth of 20.7%, this comes in conjunction with the continued decline in the values of the most important non-oil export products, which are: "chemical and related industry products" and "plastics, rubber and their products" by 34.6% and 19.0% respectively, compared to the same period in 2022. The decrease in petrochemical exports is due to the increase in the amount of petrochemical production in China, while other factors affecting the production of manufacturing industries, such as domestic demand, the continued expansion of government projects, and domestic industrial investment, contributed to its continued positive performance.

The "Electricity and Gas Supplies" activity index rose by 26.5% on an annual basis and by 1.0% on a monthly basis, but due to the low weight of this activity, it did not have a significant impact on the general index. This activity is affected by the season, as the index rises significantly in the summer months of each year, coinciding with the growth in electricity consumption.

Purchasing Managers' Index (PMI)

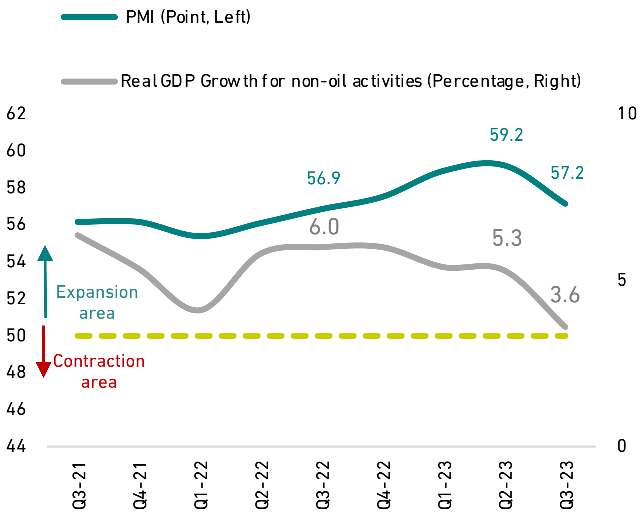
Figure 14: PMI by end of third quarter 2023

(Point)



Source: S&P Global

Figure 15: Quarterly performance of the PMI and real GDP growth for non-oil activities



Source: S&P Global, General Authority for Statistics, 2023

The Riyad Bank PMI for the non-oil private sector rose to record 57.2 points at the end of the third quarter of 2023 –September- becoming higher than its long-term average of 56.9 points. This indicates continued improvement in the non-oil private sector, as the index remained in the expansion area for three consecutive years, coinciding with an expansion in commercial activity and an increase in new business in September to a greater extent compared to the previous month. The PMI still maintains its level - the quarterly average - in the expansion area, although it witnessed a slight decline compared to the second quarter of 2023.

The production index returned to acceleration at the end of the third quarter of 2023 –September- following its decline in the previous month to its weakest levels in more than a year and a half, and this is due to the increase in the number of new businesses to its highest levels since June in light of improved market conditions and an increase in customer demands. Sales also rose supported by the decline in prices of final goods, due to companies offering seasonal discounts to their customers in September for the occasion of National Day, but the rise in production input costs in light of the increase in prices of raw materials and wages may put pressure on companies' profit margins.

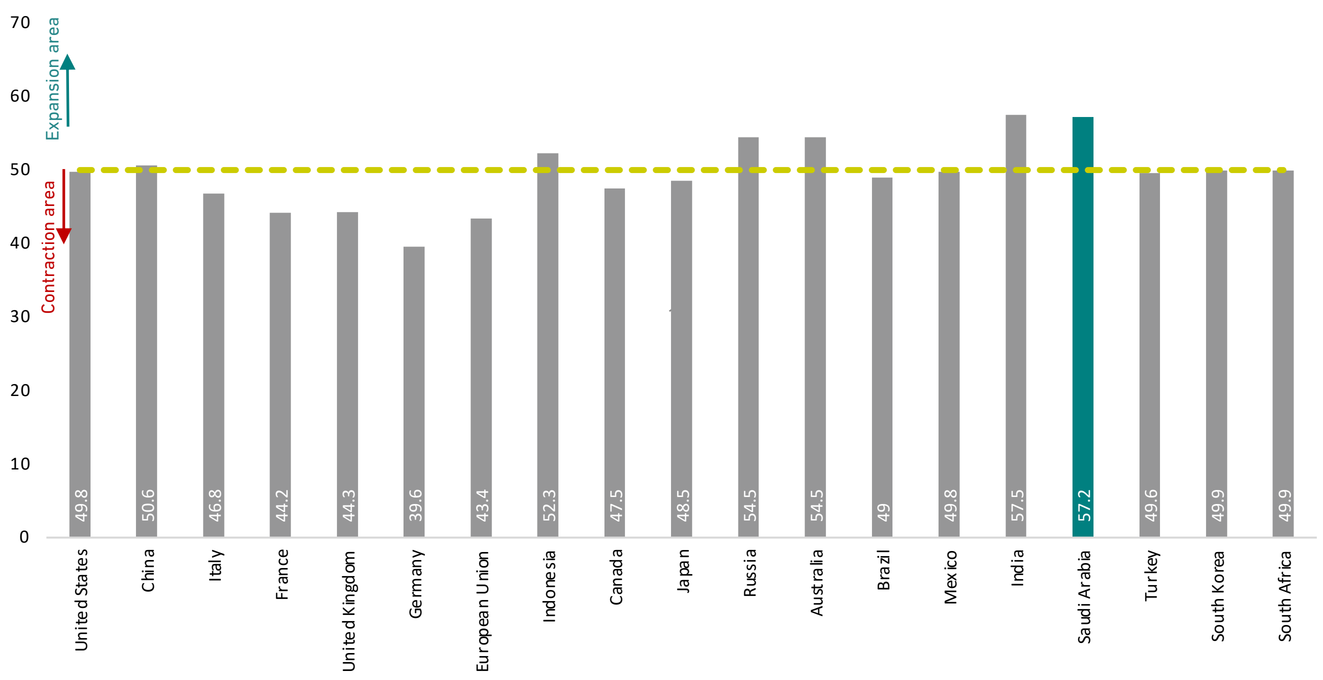
At the same time, the indicators for purchasing inputs and employment continued to grow at high rates, with a noticeable improvement in supplier delivery times. Finally, production expectations rose sharply during September after falling in the previous month due to improved company expectations about market conditions.

The positive growth of non-oil activities continued in the third quarter of 2023 at a rate of 3.6% on an annual basis, although it was less accelerated than the previous quarter in parallel with the movement of the PMI. This positive performance confirms the effectiveness of the factors that had a positive impact, such as diversification of investments and increased focus on sustainable development.

The growth of non-oil activities is in line with economic reform, which aims to diversify the economy and its sources of income by focusing more on the non-oil private sector and raising its contribution to the GDP.

Figure 16: PMI for the G20 countries in September 2023

(Point)



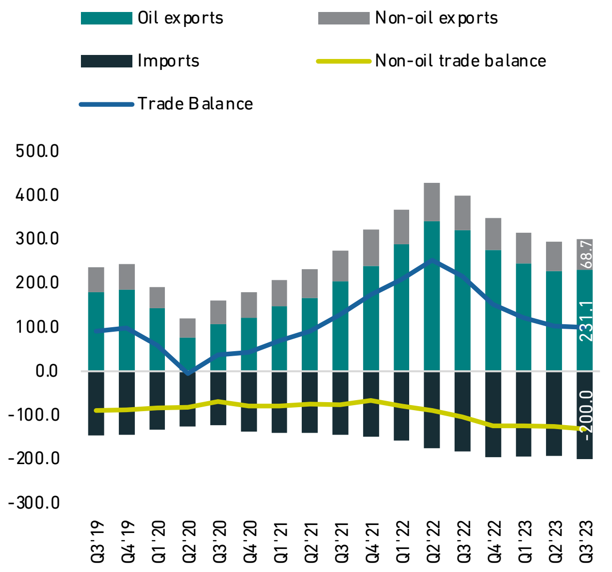
Source: S&P Global

The Kingdom ranked second among the G20 countries with the highest performance in the PMI in September 2023, supported by the positive performance of the non-oil private sector, strong domestic demand, and continued expansion of production levels, reflecting the strength and durability of the Saudi economy despite instability witnessed by international markets. It is noted that India ranked first among the G20 countries, while most of the G20 countries' performance during the month was less than the neutral zone (50 points) as a result of weak global demand, high financing costs, excess inventory in some sectors, and the impact of monetary tightening policy despite its recent easing.

International Trade

Figure 17: Volume of exports, imports and trade

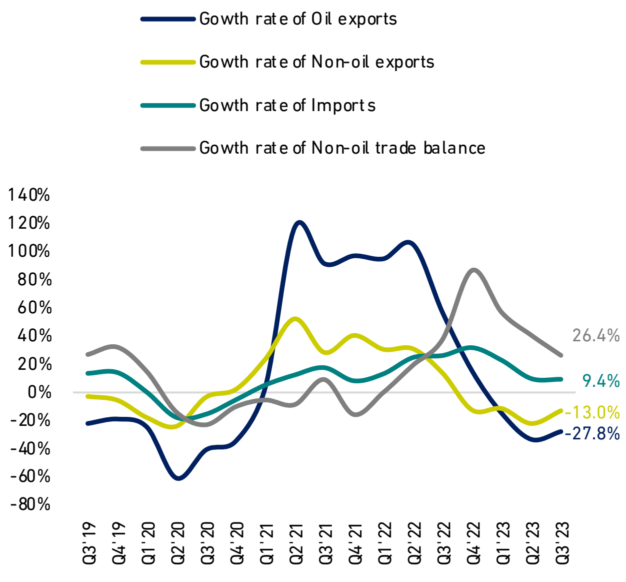
(Billion SAR)



Source: General Authority for Statistics, 2023

Figure 18: Growth rate of exports, imports and trade

(Percentage, annual basis)



Source: General Authority for Statistics, 2023

The trade balance surplus declined by 53.8% in the third quarter of 2023, reaching SAR 99.9 billion, compared to SAR 216.2 billion in the same period of the previous year. This decline is due to a decrease in merchandize exports by 24.9%, reaching SAR 299.8 billion, and an increase in imports by 9.4%, reaching SAR 200 billion.

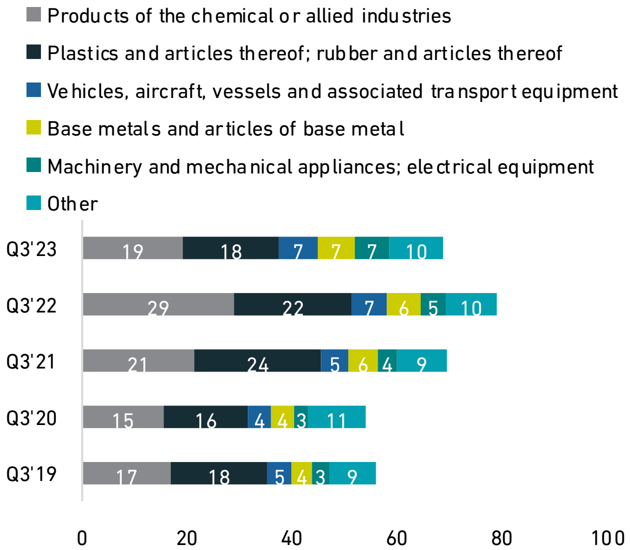
The deficit in the non-oil trade balance also increased by 26.4%, reaching SAR 131.3 billion, compared to the deficit of SAR 103.9 billion in the same quarter of the previous year. This is due to a decrease in non-oil exports by 13.0% to SAR 68.7. The share of re-exports of total non-oil exports reached 22.1%, with a value of SAR 15.2 billion.

Saudi oil exports declined by 27.8% during the third quarter of 2023, reaching SAR 231.1 billion, which represents 77.1% of total exports. This is due to the decrease in oil prices by 12.6%.

Non-oil Exports

Figure 19: Non-oil exports by key sectors

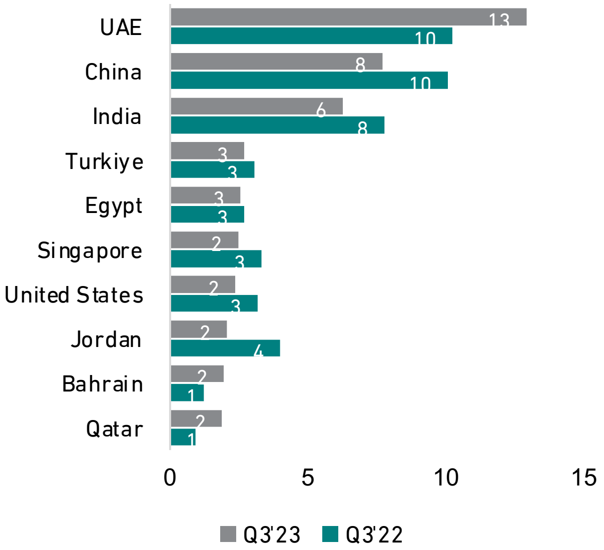
(Billion SAR)



Source: General Authority for Statistics, 2023

Figure 20: Non-oil exports by major trading partners

(Billion SAR)



Source: General Authority for Statistics, 2023

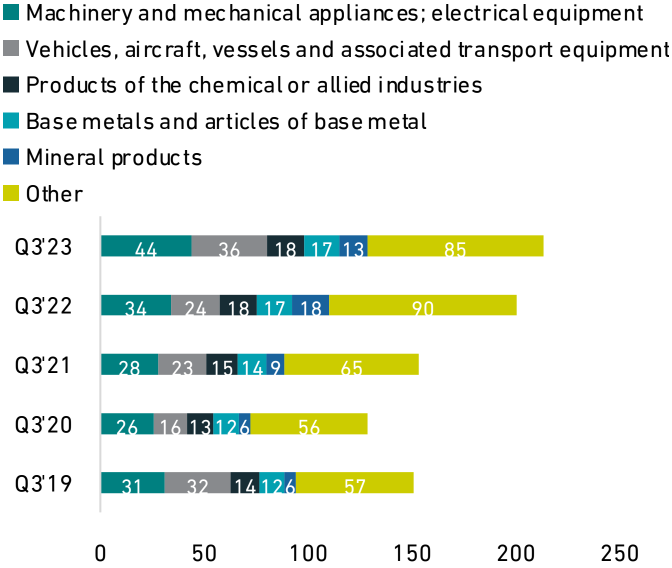
“Chemical industries and related products” constituted the Kingdom’s largest share of non-oil exports in the third quarter of 2023, with a value of SAR 19.2 billion, representing 27.9% of total non-oil exports. It declined on an annual basis by 33.7%, and exports of “plastics, rubber and their products” fell by 18.5% to reach a value of about SAR 18.2 billion, and 26.6% of the total. The decrease in petrochemical exports is due to an increase in petrochemical production in China, as the export of chemical industries and plastics to China decreased by 30.7% and 19.0%, respectively. Meanwhile, exports of "transportation vehicles and equipment" increased by 10.2% to reach a value of SAR 7 billion.

The UAE occupied first place in total Saudi non-oil exports in the third quarter of 2023, reaching a value of SAR 12.9 billion, a gain of 26.2% compared to the previous year, as it constituted 18.8% of the total non-oil exports, and the highest exported products were “machinery, mechanical devices, and electrical equipment”. China was the second largest importer of non-oil exports, with a value of SAR 7.7 billion, a decrease of 23.6% from the previous year, and the highest exported products were petrochemicals. India came in third place, with a value of SAR 6.3 billion, a drop of 19.4% compared to the previous year. Petrochemicals were also the top products exported to India.

Imports

Figure 21: Imports by key sectors

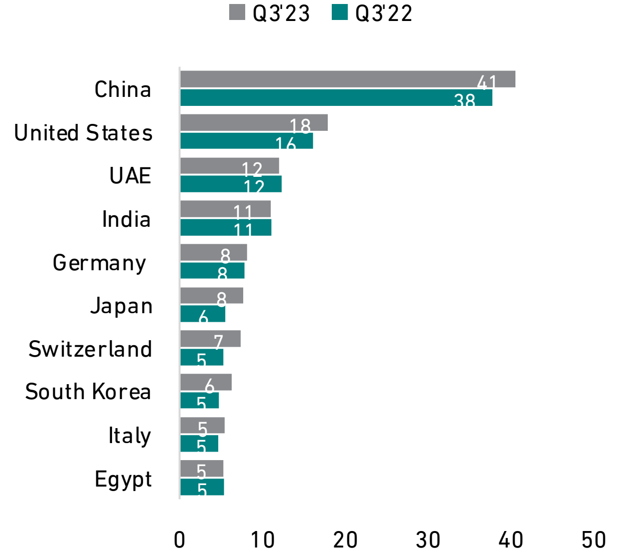
(Billion SAR)



Source: General Authority for Statistics, 2023

Figure 22: Imports by major trading partners

(Billion SAR)



Source: General Authority for Statistics, 2023

Imports to the Kingdom of Saudi Arabia increased by 9.4% in the third quarter of 2023 compared to the same period of the previous year, reaching a value of SAR 200 billion. This was a result of the increase in the most important import products, which are "machinery and mechanical appliances and electrical equipment" and "vehicles and transport equipment," which represent 22% and 18.1%, respectively, of total imports, with an increase of 29.1% and 53.9%, respectively, compared to the third quarter of 2022. "Food products" can be found in third place, accounting for 6.7% of total imports, and they decreased by 24.3% compared to the third quarter of 2022.

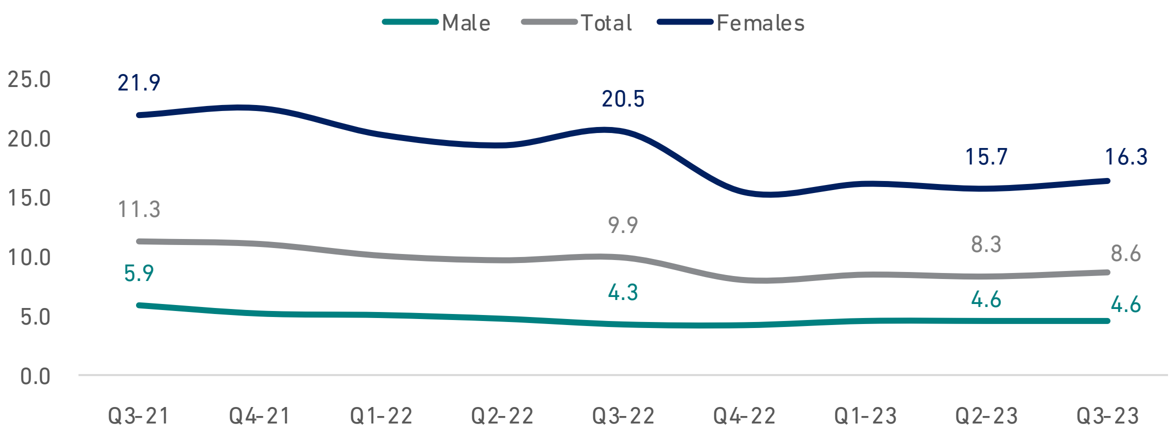
China maintains its first position as the largest supplier to the Kingdom, with a value of SAR 40.6 billion in the third quarter of 2023, recording an annual growth of 7.4%, and "machinery and mechanical appliances and electrical equipment" were the largest imported products. The United States ranked second in the list of the key countries exporting to the Kingdom, with imports worth SAR 17.9 billion, and an annual growth of 10.8%, with "machinery and mechanical appliances and electrical equipment" the largest products imported from the United States. Then came the UAE, with an annual growth of 2.1% to reach SAR 12.1 billion, with "precious stones" as the largest imported products.

Labor Market

Unemployment among Saudis

Figure 23: Unemployment among Saudis

(Percentage)



Source: General Authority for Statistics, 2023

The unemployment rate for Saudi citizens slightly increased by 0.3 percentage points between the second and third quarters of 2023, reaching 8.6% by the end of Q3. However, the unemployment rate among Saudis remains lower than the corresponding quarter of 2022 when it reached 9.9%, due to the government's intensified efforts to provide job opportunities for citizens, and the growing employment of Saudis in the private sector, in addition to supporting and protecting establishments and enhancing their ability to expand and continue growth, especially for the retail, tourism and entertainment sectors.

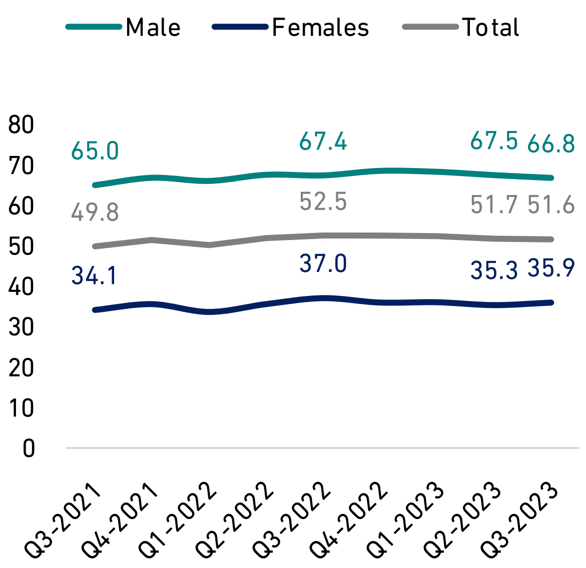
This noticeable decrease in the unemployment rate is due to a decline in the unemployment rate among females, which fell from 20.5% in the third quarter of 2022 to 16.3% in the third quarter of 2023, as a result of policy reforms set to empower women and create new job opportunities, in various areas such as security and some service sectors, as well as other industries.

It is noted that the youth group relatively has the highest unemployment rates compared to the rest of age groups. Data indicate that the highest unemployment rate for the Saudi population by age group in the third quarter of 2023 was among females in the (15-24) age group at 25.3%, as well as for males at 13.6%.

Considering the unemployment rate in administrative regions, the highest unemployment rate for Saudi males was in the Jazan region at a rate of 8.8%, and for Saudi females in Al-Baha region at 24.8%, while the lowest unemployment rates for males were in Tabuk region at a rate of 3.4% and for females in Najran region at 11.7%.

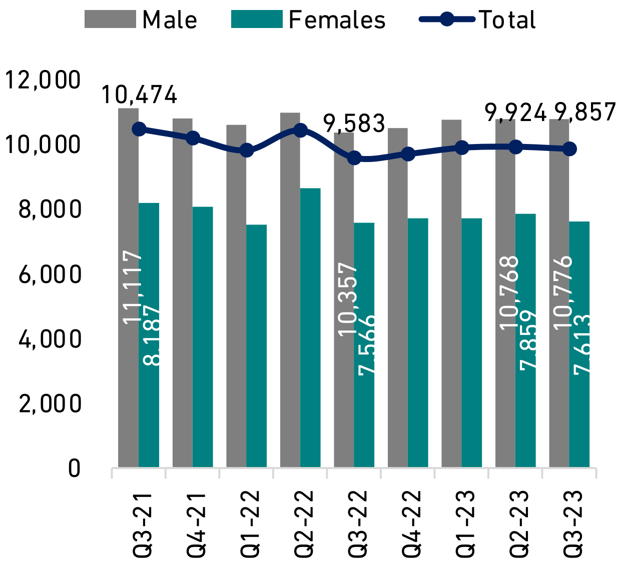
Economic Participation Rate and Average Monthly Wage

Figure 24: Economic participation rate



Source: General Authority for Statistics, 2023

Figure 25: Average monthly wage



Source: General Authority for Statistics, 2023

The overall rate of economic participation decreased by 0.9% on an annual basis, reaching 51.6% in the third quarter of 2023, and it fell slightly by 0.1% on a quarterly basis. This is due to a decline in the participation rate for males by 0.7% to 66.8% despite a rise in the participation rate for females by 0.6% to 35.9%.

We observe that over the past four years, there was significant improvement in the economic participation rate among females, rising from 23.2% in the third quarter of 2019 to 35.9% in the third quarter of 2023. The general improvement in work policies and environment, such as expanding child care services and developing the tourism and entertainment sectors also, creating new job opportunities and encouraging more females to participate in the labor market, had a big impact on improving the female participation rate.

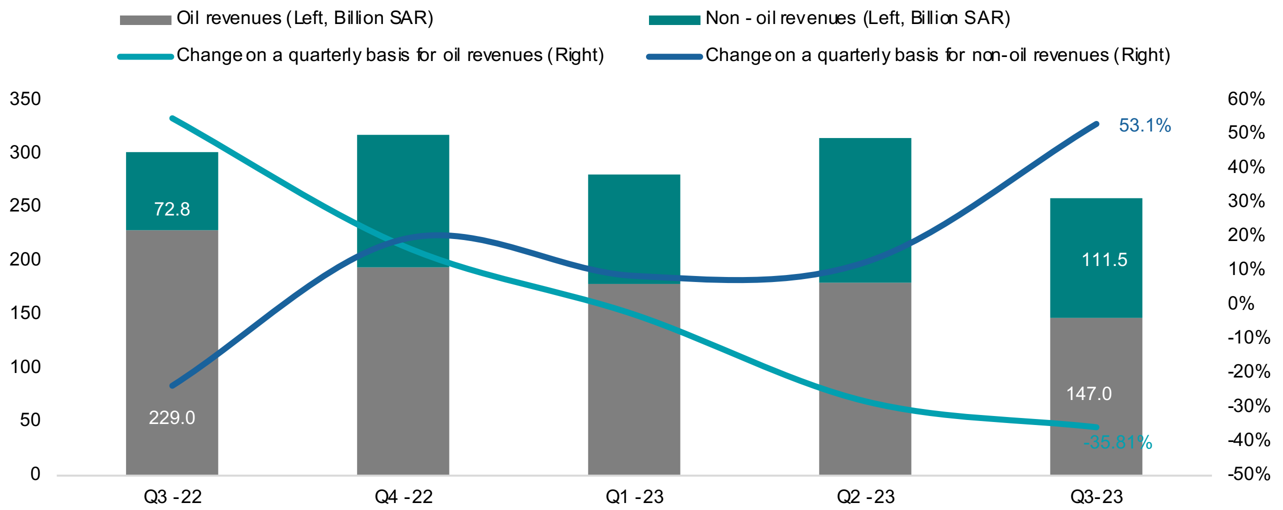
The average monthly wage for Saudi citizens decreased by 0.7% in the third quarter of 2023 compared to the previous quarter, affected by a 3.1% decline in the average wage for females, while the average wage for males rose slightly by 0.1%. Compared to the corresponding quarter of 2022, the average monthly wage for Saudis increased by 2.9% in the third quarter of 2023.

The average monthly wage for Saudi males was higher than its counterpart for Saudi females, reaching SAR 10,776 compared to SAR 7,613 for females, a gap of SAR 3,162, which is higher than the SAR 2,909 gap in the previous quarter.

Public Finance

Revenues

Figure 26: Oil and non-oil revenues



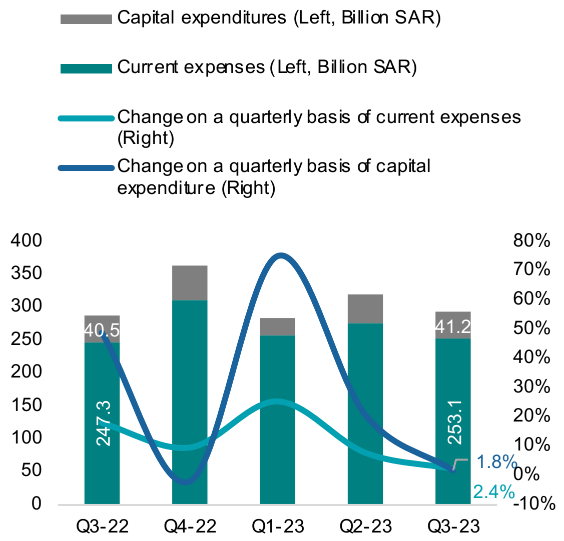
Source: Ministry of Finance 2023

Government revenues recorded a decline on an annual basis by 14.35% to reach SAR 258.5 billion in the third quarter of 2023, as oil revenues recorded a decline of 35.8% to reach SAR 147.0 billion, as a result of the fluctuation in oil prices and the voluntary reduction in production based on the OPEC+ agreement by 1.6 million barrels per day for the Kingdom from May 2023 until the end of 2023.

Non-oil revenues recorded an increase of 53.1% on an annual basis, reaching SAR 111.5 billion, due to an increase in tax revenues on goods and services and other revenues.

Expenses

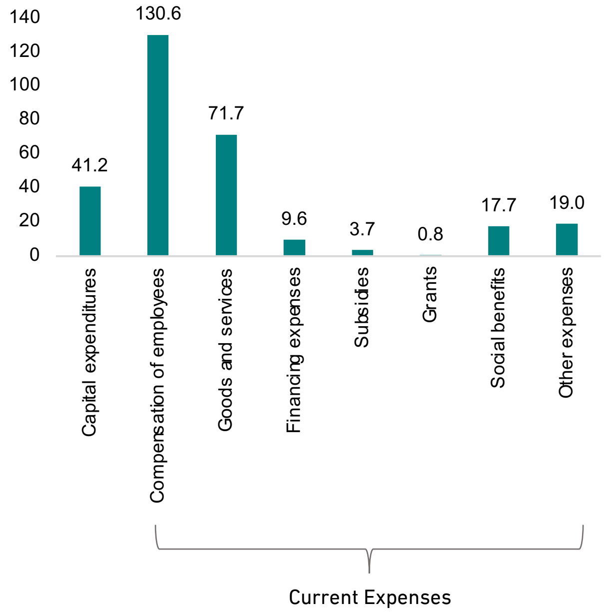
Figure 27: Current and capital expenditures



Source: Ministry of Finance, 2023

Figure 28: Distribution of expenses by category, third quarter 2023

(Billion SAR)



Source: Ministry of Finance, 2023

The government's expenditures increased by 2.3% in the third quarter of 2023 on an annual basis, as public finance continued to adopt expansionary spending policies for major development projects, infrastructure, programs and strategies that enhance economic diversification and financial sustainability, reaching SAR 294.3 billion. Current expenditures increased by 2.4% on an annual basis, reaching SAR 253.1 billion in the third quarter of 2023, as a result of increased spending on government services provided to citizens and residents, supporting social protection programs and continuing development projects to maximize economic impact.

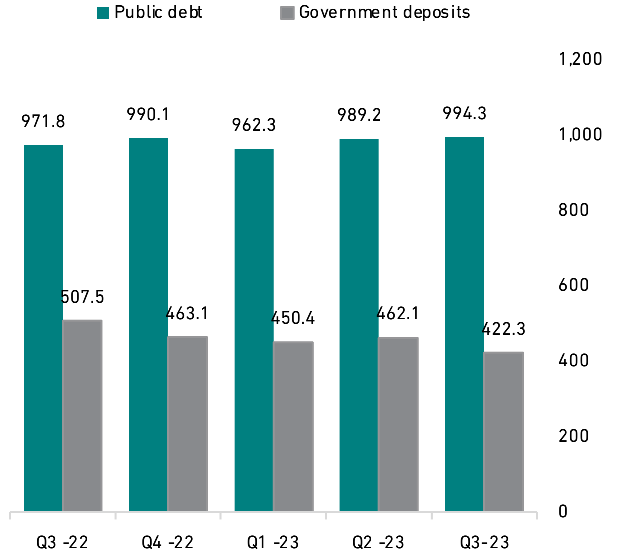
Capital expenditures also increased by 1.8% on an annual basis, reaching SAR 41.2 billion, a positive result that contributes to supporting Saudi Vision 2030 programs. Capital expenditure is considered to be one of the main influential drivers of economic growth, project implementation and better returns for various economic activities.

Employee compensation represented the largest share of actual government expenditures at 44.4%, reaching SAR 130.6 billion in the third quarter of 2023, an increase of 3.0% on an annual basis. Government spending on goods and services followed in second position, representing 24.4% of total expenditures to reach SAR 71.7 billion in the second quarter of 2023, an increase of 34.1% compared to the third quarter of 2022.

General Budget and Government Deposits

Figure 29: Public debt and government deposits

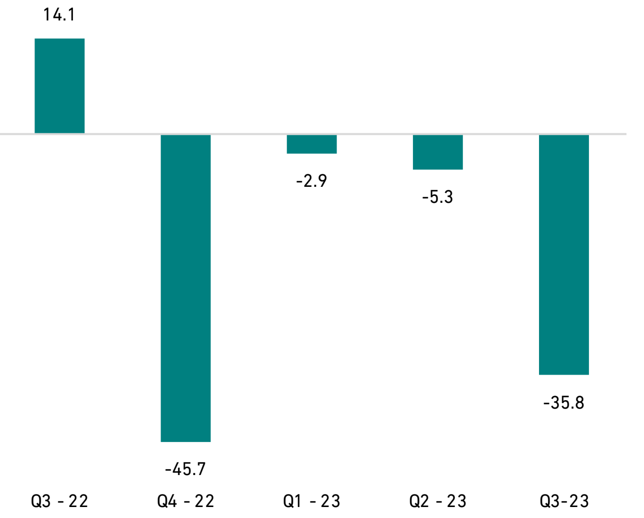
(Billion SAR)



Source: Ministry of Finance, 2023

Figure 30: General budget

(Billion SAR)



Source: Ministry of Finance, 2023

Total public debt reached SAR 994.3 billion by the end of the third quarter of 2023, compared to SAR 971.8 billion in the same period of 2022, an increase of 2.3%. This was accompanied by a decline in government deposits on an annual basis in the third quarter of 2023 by about 16.8%, reaching about SAR 422.3 billion, compared to SAR 507.5 billion in the same period of the previous year.

The increase in total public debt is due to the government's efforts to finance the deficit through issuances or borrowing. Debt issuances play a crucial role in covering the budget deficit and financial needs without depleting reserves or reducing investment expenditures. This approach ensures the sustainability of the debt, building upon the successful management of debt in previous years, whether in terms of the volume of issuances, pricing, or extended maturities.

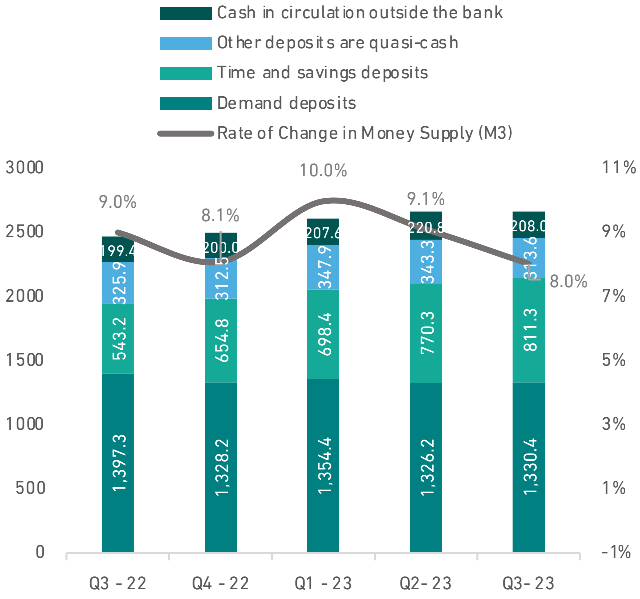
The combined domestic and external debt reached SAR 628.6 billion and SAR 365.6 billion, respectively, at the end of the third quarter of 2023, with an increase of 3.0% in domestic debt, and a rise of 1.1% in external debt. Public debt to GDP ratio reached 33.3%.

The Kingdom's general budget recorded a fiscal deficit of SAR 35.8 billion in the third quarter of 2023. This is due to an increase in the total government expenditures by 2.3% during the second quarter of 2023 on an annual basis. The government increased spending on targeted strategic projects, especially infrastructure and Saudi Vision 2030 projects, with an increase in current expenditures by 2.4% on an annual basis, as a result of price inflation and continued rise in interest rates. This deficit is not a concern, in light of the strong Saudi economy and financial policies that enhance financial sustainability, and the realization of ongoing projects that will enhance financial returns in the future.

The Monetary Performance

Figure 31: Money supply developments

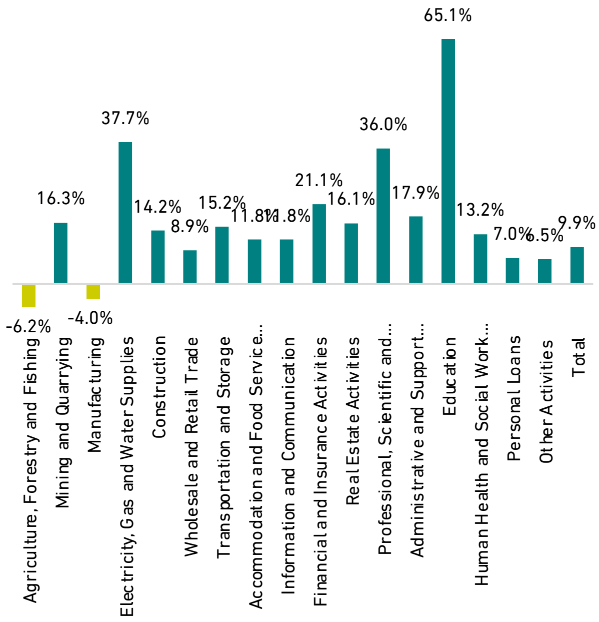
(Percentage)



Source: Saudi Central Bank, 2023

Figure 32: The annual growth rate of bank credit by economic activity, third quarter 2023

(Percentage Billion SAR)



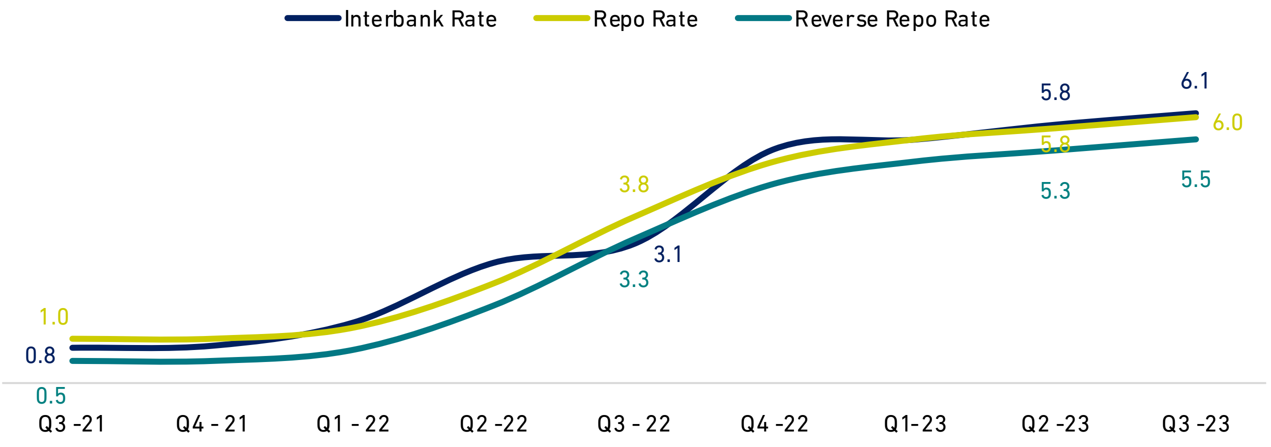
Source: Saudi Central Bank, 2023

Total money supply (M3) reached around SAR 2,663 billion in the third quarter of 2023, registering an increase of 8.0% on an annual basis. Demand deposits represented the largest share at 50.0%. Time and savings deposits represented 30.5%, quasi-cash deposits accounted for 11.8%, and outside banks 7.8%. Money supply (M3) increase is supported by the growth of cash in circulation outside banks, time and savings deposits, on an annual basis by 4.3% and 49.4%, respectively, and by a decrease in demand deposits and other quasi-cash deposits on an annual basis, which fell by 4.8% and 3.8%, respectively.

Total bank credit amounted to about SAR 2,544 billion, with an annual growth of 9.9%. This was supported by the growth of all economic activities and individual loans, except for, agricultural, forestry, and fishing activities and manufacturing activities. The highest growth rate was for education, with a growth of 65.1%, followed by electricity, gas and water supply activities with an annual growth of 37.7%. Agriculture, forestry and fishing activities and manufacturing activities decreased by about 6.2% and 4.0%, respectively. Individual loans represented 49% of total bank credit.

Figure 33: Main operation policy rates

(Percentage)



Source: Saudi Central Bank, 2023

The Saudi Central Bank (SAMA) raised the interest rate by 25 basis points in the third quarter of 2023, increasing it in conjunction with the US Federal Reserve, which has hiked interest rates to control rising inflation.

The repurchase agreements "repo" rate increased by 25 basis points to 6.0%, and the reverse repo rate rose by 25 basis points to 5.5% during the third quarter of 2023. This aligns with the bank's objectives in maintaining monetary and financial stability, and comes in light of global developments.

The average interest rate among local banks for three months (SAIBOR) rose to 6.1% during the third quarter of 2023. The three months (SAIBOR) increased since the beginning of 2023 up until the third quarter of the year, posting a gain of more than 80 points. It is worth noting that the difference between the average interest rate between banks on deposits in Saudi riyals (SAIBOR) and the interest rate between banks in dollars (LIBOR) for 3 months reached about 72 basis points in favor of the Saudi riyal in the third quarter of 2023, while it reached roughly 14 basis points in the third quarter of the previous year.

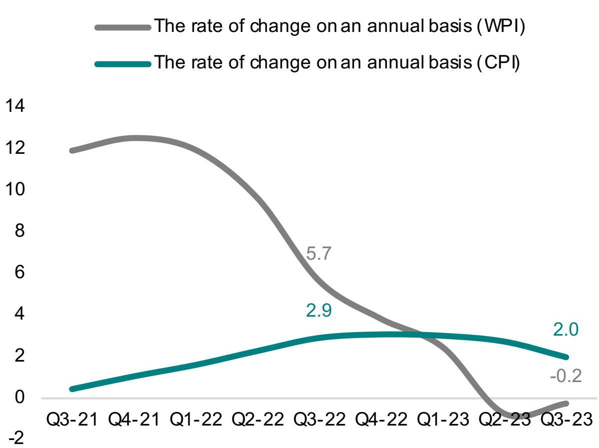
It is worth noting that SAIBOR determines the supply and demand for money between Saudi banks in Saudi riyals, which is done on a daily basis based on market factors according to a specific mechanism approved by the Saudi Central Bank, and used as a basic reference for measuring the cost of financing and pricing financing for customers in Saudi riyals. LIBOR is the basic lending rate between international banks in dollars. The rise of SAIBOR over LIBOR reflects a lower level of liquidity and credit risks in the Saudi banking system and the riyal as a whole compared to the dollar. Therefore, the higher lending index in riyals than its dollar counterpart reduces the gap that may encourage the transfer of local deposits from riyals to dollars.

Prices

Consumer Price Index and Wholesale Price Index

Figure 34: Consumer Price Index and Wholesale Price Index

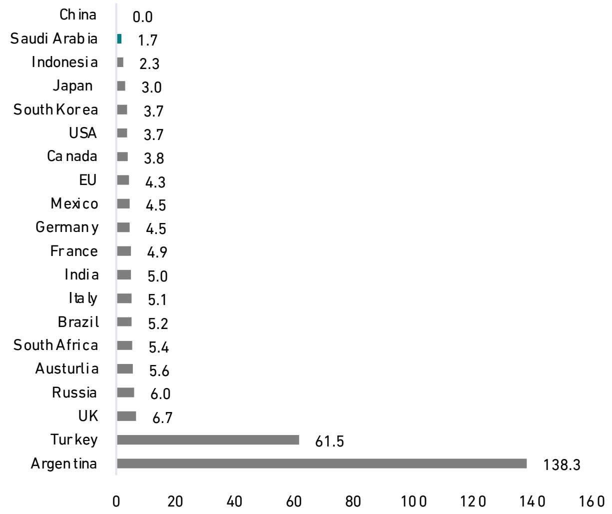
(Percentage)



Source: General Authority for Statistics, 2023

Figure 35: Inflation among G20 countries for September 2023

(Percentage)



Source: Bloomberg

The average Consumer Price Index for the third quarter of 2023 reached 109.7 points, an increase of 2.0% on an annual basis, and 0.3% on a quarterly basis. The main driver of this rise was the "Housing and its Derivatives", "Food and Beverages" and "Transportation" sectors. It was noted that the relative inflationary effects were not severe compared to the rest of the world, as a result of the continuous improvement of economic conditions in the Kingdom and creating a competitive environment for the non-oil private sector .

The Wholesale Price Index reached 149.4 points during the third quarter of 2023, declining by 0.2% on an annual basis, and rising by 0.1% on a quarterly basis. The decline in the index on an annual basis is due to the decline in the groups "metal products, machinery and equipment", "other transportable goods", and "food products, beverages, tobacco and textiles".

Since the beginning of the third quarter of 2023, the Kingdom of Saudi Arabia has witnessed a slight increase in the Wholesale Price Index, which measures the average prices of goods sold wholesale by companies. This rise is attributed to a combination of factors such as rising oil prices and currency fluctuations.

It is worth noting that inflation rates in the Kingdom are relatively low compared to the rest of the G20 countries, which is due originally to the strength of the Saudi economy, and the positive impact of the economic measures and procedures that Saudi Arabia took early on to confront the wave of global rise in inflation rates, as the Kingdom recorded at the end of the third quarter - September 2023 - the second lowest inflation rate among the G20 after China as a result of adopting rational monetary policies.

Consumer basket and Wholesale Price Index

Table 2: Third quarter 2023 statistics for the consumer basket and Wholesale Price Index

Major spending categories	Indices			Percentage change in third quarter 2023	
	Q3 2022	Q2 2023	Q3 2023	Q3 2022	Q2 2023
Consumer Price Index, Third Quarter 2023 (100=2018)					
CPI	107.57	109.37	109.70	1.98	0.30
Food and beverage	123.11	122.76	123.71	0.49	0.77
Tobacco	114.91	114.90	114.99	0.08	0.08
Clothing and shoes	102.65	100.40	98.66	-3.89	-1.73
Housing, water, electricity, and fuels	90.23	96.52	97.97	8.58	1.50
Home furnishing and appliances	109.93	107.85	106.80	-2.85	-0.97
Health	103.70	103.90	103.83	0.13	-0.07
Transportation	118.71	118.81	119.22	0.43	0.35
Telecommunications	111.26	110.72	109.95	-1.17	-0.70
Entertainment and culture	107.69	108.66	108.86	1.09	0.18
Education	100.68	102.73	102.47	1.78	-0.25
Restaurants and hotel	120.29	122.56	123.57	2.72	0.83
Consumer goods	108.49	108.66	107.54	-0.87	-1.03
Wholesale Price Index, Third Quarter 2023 (100=2014)					
Wholesale Price Index	149.80	149.29	149.43	-0.25	0.09
Agriculture and fishing products	142.65	139.80	139.47	-2.23	-0.24
Raw materials and mining	117.07	116.29	116.64	-0.36	0.31
Food products, beverages, tobacco and textiles	132.49	134.25	135.94	2.60	1.26
Other transportable goods, with the exception of metal products, machinery and equipment	175.58	174.87	175.22	-0.20	0.20
Metal products, machinery and equipment	137.49	136.68	136.06	-1.05	-0.45

Source: General Authority for Statistics 2023

Many components of the Consumer Price Index (CPI) rose during the third quarter of 2023. The “housing, water, electricity, gas, and other fuels” segment had the largest impact due to its relative importance, which constitutes 25.5% of the index’s components. Housing prices rose by 8.6% in Q3 2023 on an annual basis and 1.5% on a quarterly basis.

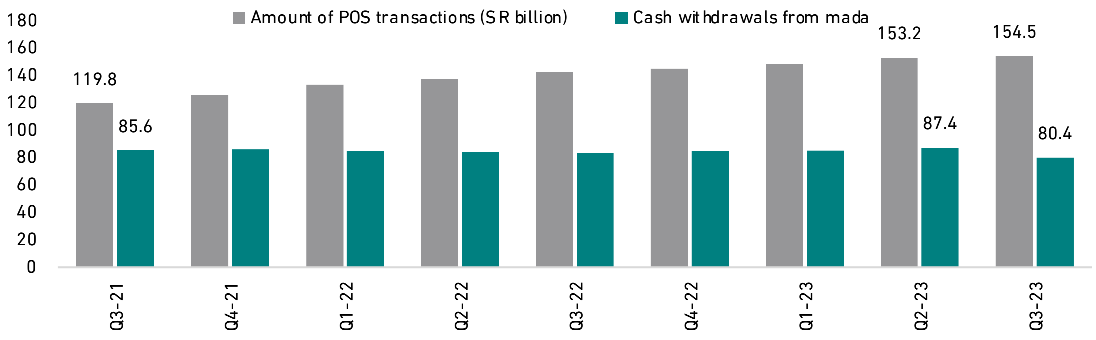
The increase in housing prices is due to rising rental prices, especially in the cities of Jeddah and Riyadh. This increase is attributed to the high demand for housing as a result of the re-planning and development of housing due to the removal and development of slums and the increase in the number of expatriates during this period.

Other components also contributed to the annual increase in the index. “Restaurants and hotels,” “entertainment and culture,” “education,” “food and beverage”, and “transportation”, recorded increases of 2.7%, 1.8%, 1.1%, 0.5% and 0.4%, respectively. “Clothes and shoes” and “home furnishings and appliances” decreased by 3.9% and 2.9%, respectively.

The Wholesale Price Index numbers declined in the third quarter of 2023. Prices of “agriculture and fishing products”, “metal products, machinery and equipment”, “raw materials and mining”, and “other transportable goods” decreased by 2.2%, 1.1 %, 0.4%, and 0.2%, respectively on an annual basis, while the prices of “food products, beverages, tobacco and clothing” rose by 2.6% on annual basis.

Point-of-Sale (POS) and ATM cash withdrawals

Figure 36: Point-of-Sale (POS) and cash withdrawals



Source: Saudi Central Bank, 2023

The value of point-of-sale transactions and cash withdrawals helps in anticipating the potential direction of the economy from the consumption perspective. Monitoring them provides insight into developments in the purchasing power of the private sector, retail sector activity, monitoring cash demand as well as trends in spending within the local economy.

Point-of-sale transactions, conducted through ATM cards and credit cards, increased by 8% in the third quarter of 2023 on an annual basis, reaching approximately SAR 155 billion, compared to approximately SAR 143 billion in the third quarter of 2022.

The increase is attributed to the positive performance of local demand and the recovery of activities, especially with the return of schools after the summer vacation in the middle of the third quarter of 2023, which brings strong demand, in addition to the National Day at the end of the third quarter of 2023, and its role in stimulating demand for points of sale in light of significant discounts in the final prices of products and services.

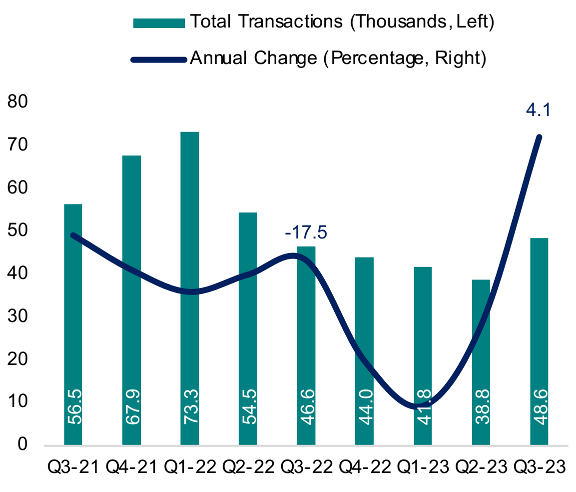
The development and spread of payment applications on mobile devices have played a role in facilitating the electronic payment process, and the efforts of the Saudi Central Bank have had an impact on dealing with points of sale and encouraged consumers to use points of sale on a large scale.

Cash withdrawals from ATMs recorded a decrease of 3.7% in the third quarter of 2023 on an annual basis, reaching about SAR 80 billion, compared to about 84 billion riyals in the third quarter of 2022. In the long term, the need for cash withdrawals continued to decrease as the value of withdrawals decreased. Cash through ATMs decreased by 29.2% since the first quarter of 2018. This decline in cash withdrawals reflects the trend towards digital transformation, including electronic payments.

Real Estate

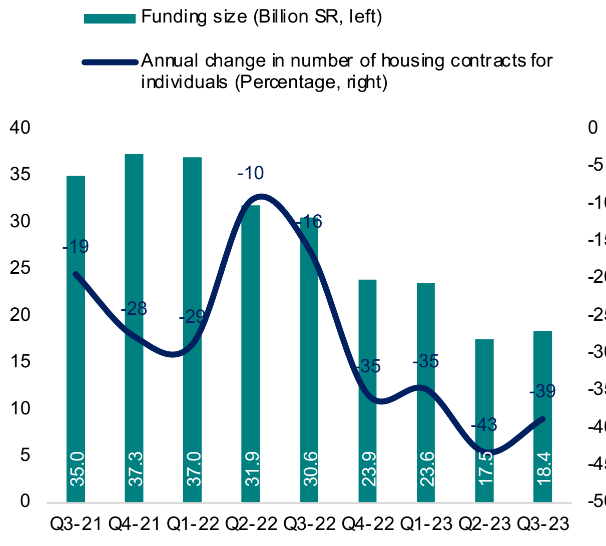
Mortgage Loans and Real Estate Transactions

Figure 37: Annual change in the total number of real estate transactions



Source: Ministry of Justice, 2023

Figure 38: New residential real estate finance for individuals from commercial banks



Source: Ministry of Justice, 2023

During the third quarter of 2023, real estate transactions executed in the Kingdom resumed their rise after a previous wave of declines, recording a rise of 4.1% on an annual basis. It is noted that these rose on a quarterly basis by 25%, as a result of the increase in the number of executed residential transactions by 6%, and this is due to the increase in residential apartment deals of all types by 51%; this comes with financing facilities to support housing ownership, especially for apartments that witnessed support in easy installments during the third quarter of 2023.

Meanwhile land deals declined by 2%, and the total number of deals reached 48,600 deals, with the residential sector representing 85% of total trades executed. As for commercial transactions, these declined by 9% on an annual basis, but less sharply than in the past three quarters, and increased on a quarterly basis by 12%.

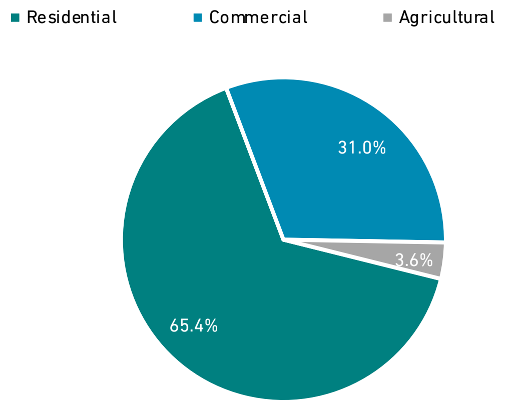
The volume of new residential real estate financing provided to individuals by commercial banks recorded about SAR 18.4 billion, a decrease of 40% compared to the same period in 2022, and accordingly, the number of residential financing contracts for individuals decreased by 39% on an annual basis to record about 23,800 contracts. However, comparison with the previous quarter of the current year notes an increase on a quarterly basis by 8%, with residential contracts increasing by 7%. The volume of financing compared to the number of contracts concluded reflects inflation in residential real estate, as this volume of financing was close to the third quarter of 2019, with the number of contracts approaching 30,000.

It is worth noting that the total real estate loans provided to individuals by commercial banks and finance companies continued to rise by a growth rate of 15.2% on an annual basis in the second quarter of 2023, but at a slower pace since it reached its peak in the fourth quarter of 2020, and this decline comes after the accelerated growth of interest rates (cost of lending). This factor, in addition to other factors such as the rise in real estate prices, had an impact on the decline of part of the residential real estate demand in the current period. It is worth noting that the housing finance market has begun to return to balance after an acceleration in construction.

Real Estate Price Index

Figure 39: The relative importance of each sector according to the composition index

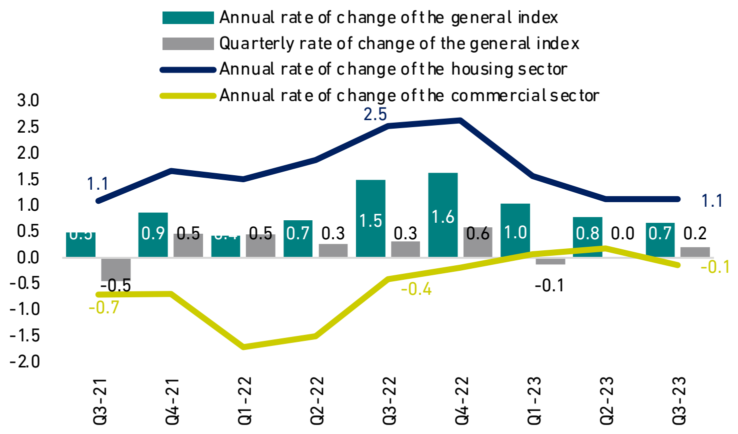
(Percentage)



Source :General Authority for Statistics, 2023

Figure 40: Rate of change in the real estate price index

(Percentage)



Source: General Authority for Statistics, 2023

The general real estate price index increased by 0.7% on an annual basis in the third quarter of 2023. But this annual price increase was lower than previous levels and is attributed to the rise in residential sector prices by 1.1% on an annual basis due to its relative importance in the general real estate price index, a limited 0.1% decrease in commercial sector prices and a 0.3% decline in agricultural sector prices. The general real estate price index on a quarterly basis increased by 0.2% after its stabilization in the previous quarter.

The annual increase in residential real estate prices was the result of an increase in residential land prices by 1.2% and apartment prices by 0.1%, which rose for the fifth consecutive quarter, while the prices of residential buildings and villas continued to decrease on annual basis for the fourth consecutive quarter by 1.0% and 4.0%, respectively. Although prices for the residential sector rose on an annual basis, these were less accelerated in the last two quarters of this year, after reaching their peak in the fourth quarter of 2022.

The commercial sector's real estate prices resumed a slight decline after recovering for two consecutive quarters - since the beginning of this year - as a result of an increase in commercial land prices by 0.2%. In general, the successive growth in demand for real estate in recent periods contributed to an increase in prices for real estate of all types, supported by the previous acceleration in loans. However, the high interest on real estate loans has limited this high demand, while the continued implementation of the Kingdom’s huge development projects has contributed to maintaining the level of demand.

As for the real estate price index at the regional level during the third quarter of 2023, it is noted that the Tabuk region has the highest increase in the index for the second quarter in a row, with a rise of 5.9% on an annual basis, with a large difference from other regions, after the Riyadh region was the highest in the fourth quarter of 2022 and the first quarter of 2023. In 2023, Al-Baha region, saw an increase of 1.96% on an annual basis, while Jazan region declined the most on an annual basis at 4.2% for the second quarter in a row, then Hail region at 2.9%.

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