

IN THIS EDITION ...

The economic rebound in the second quarter of 2021 marks another important milestone for Saudi Arabia, which, like the rest of the world, is overcoming the challenges of COVID-19.

The 1.5% increase in GDP in the second quarter compared to the same period last year, was led by the non-oil sector, which saw double-digit growth, according to the [General Authority for Statistics](#).

The economic outlook was further reinforced by the strong performance in July.

IHS's latest purchasing managers' index (PMI) survey for July pointed to a further expansion in the non-oil economy at the start of the third quarter. Output grew at a brisk pace, underlined by a robust increase in new business inflows, the research consultancy said in its monthly PMI index.

"Output in the non-oil sector maintained a sharp pace of expansion in July, despite slowing for the second month running," IHS said. "Nearly 27% of surveyed businesses reported an increase in activity, linked to strengthening client demand and a loosening of pandemic-related measures."

Meanwhile, [Fitch Ratings](#) affirmed the kingdom's credit rating at "A" and revised the outlook to stable from negative. Saudi Arabia is among only a few countries that had a positive revised credit rating outlook, according to the Saudi [Ministry of Finance](#).

The kingdom also boasts one of the highest reserve coverage ratios among Fitch-rated sovereigns at more than 20 months of current external payments.

Fitch attributed its outlook revision on the positive reforms that the Saudi government has taken during the past five years through Vision 2030. The credit ratings agency also expects the kingdom's budget deficit to narrow in 2021 from -8.4% to -3.3% of GDP compared with their last estimation and -3.8% in 2022.



ECONOMIC TRENDS

Foreign investors are finding opportunities in the kingdom, sending the number of newly issued business licenses to record high.

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ECOMMERCE

Technology has changed consumers' shopping behaviour, invigorated digital trade platforms, and supported goals linked to Vision 2030.

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REAL ESTATE

Saudi Vision 2030's goal of raising home ownership rate in the country has sparked a flurry of activity in the real estate market.

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COVID-19

Almost a quarter of the global population have already been inoculated, but vaccine supply shortages to vulnerable economies remain a challenge.

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SME

Financial support to small and medium businesses have been strong as the start-up culture takes hold in the country.

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CURRENCY

Monetary policies have been kept on hold as governments navigate a rough path towards global economic health.

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SAUDI'S Q2 2021 GDP FUELLED BY NON-OIL ECONOMY



Saudi Arabia has staged a smart recovery, with the kingdom's real gross domestic product (GDP) posting a positive growth rate for the first time since the COVID-19 pandemic started.

Data from the [General Authority for Statistics](#) (GaStat) shows GDP grew 1.5% in the second quarter of 2021 compared to the same period last year. Non-oil economy surged 10.1%, while government activities rose by 0.7%, even as the oil economy declined 7% during the period.

"Seasonally adjusted real GDP recorded a positive growth rate of 1.1% in Q2/2021 compared to the previous quarter (Q1/2021)," [GaStat](#) stated in its flash GDP estimate report. "This increase in GDP was a result of growth in both oil activities and non-oil activities by 2.5% and 1.3%, respectively, while government activities recorded a negative growth of 2.6%."

FOREIGN LICENCES

Saudi Vision 2030 programmes have also become a major draw for global investors looking for new opportunities in the country.

The launch of Shareek (the Arabic word for "partner"), is part of a USD 7.2 trillion investment programme to boost investment and the private sector's contribution to GDP over the next 10 years.

"As private sector's contribution to GDP is set to rise to 65% in accordance with Vision 2030 goals, Shareek is expected to create hundreds of thousands of additional jobs through new investments," according to the [Ministry of Investment of Saudi Arabia](#) (MISA).

[The ministry](#) awarded a record number of foreign investment licenses at 478 in the first quarter of this year, a 36.2% increase compared to the same period last year. This surge marked the fourth consecutive quarter of increase in the number of new foreign investment projects.

The Q1 2021 peak broke the previous record of 466 licences awarded in the fourth quarter of 2020. January saw 113 licenses issued, and the momentum only accelerated with 160 in February and 205 in March.

Around 59% of the licences issued were for full foreign ownership and the remainder were joint ventures with investors, [MISA](#) data shows.

INDUSTRIAL STRENGTH

The manufacturing sector led the foreign licences with 114 new investment licenses during the quarter, as investors were attracted to the spate of opportunities.

"After a slowdown in the last quarter of 2020, the month of March witnessed a whopping USD 4.1 billion in new industrial investments licensed by the Ministry of Industry and Mineral Resources, leading to a 198% overall spike in Q1 2021," [MISA](#) noted.

International investors are also eyeing Saudi Arabia's potential as an industrial power, buoyed by efforts to diversify its economy further away from oil. In March, the government launched "Made in Saudi" programme, aimed at strengthening the private sector's resilience and contribution to GDP.

The programme aims to support national products and services at a local and global level, improve direct purchasing power towards local goods and services, increase export capacity, and raise the private sector's

contribution to GDP.

Other sectors also saw a number of foreign investment licences issued, underscoring the broad range of business opportunities in the country. Construction saw 78 new foreign investment licenses, after new projects were announced as part of Saudi Vision 2030.

Retail and ecommerce, a sector that is 100% open to foreign ownership, saw 78 new foreign investment licences. As many as 62 licences were also issued in the burgeoning professional and scientific sector.

"The annual increase among top new investment areas was starkest in retail and ecommerce, where the number of new licenses awarded by MISA skyrocketed by 151.6% compared to the same period in 2020," [MISA](#) noted. "This reflected the rapid adjustment of the market in the kingdom to the new normal emerging after the COVID-19 pandemic."

TADAWUL LURES INVESTORS

Foreign investors are also attracted to The Saudi Exchange, which has surged 26.7% in the first seven months of the year, making it among the best performing major markets in the world.

Tadawul saw USD 50.6 billion in investments inflows in the first quarter through qualified foreign investors (QFI) – the fourth consecutive quarterly increase, [MISA](#) data shows.

The kingdom has also boosted its efforts to develop the capital city of [Riyadh](#) as a regional hub for foreign companies.

"Twenty-five companies have already signed MoUs with MISA to move their regional headquarters to Saudi Arabia," noted MISA, adding that US companies Deloitte, PricewaterhouseCoopers (PwC), PepsiCo, Schlumberger, Hewlett-Packard Enterprise and Germany's Siemens, were among the signatories.

STRONG ECOMMERCE WORKS IN TANDEM WITH SAUDI'S DIGITAL FOCUS

Saudi Arabia has been named the world's 25th largest ecommerce market, valued at USD 7 billion, according to [ecommerceDB](#), an ecommerce consultancy firm.

"With an increase of 34%, the Saudi Arabian ecommerce market contributed to the worldwide growth rate of 29% in 2020. Revenues for ecommerce continue to increase," the research website stated. "New markets are emerging, and existing markets also have the potential for further development. Global growth will continue over the next few years. This will be propelled by East and Southeast Asia, with their expanding middle class and lagging offline shopping infrastructure."

According to [ecommerceDB](#), [namshi.com](#) was the kingdom's biggest digital commerce platform, with net sales of USD 126 million, followed by [Jarir.com](#) at USD 91 million. Coming in third was [extra.com](#) with USD 64 million in net sales last year, while global ecommerce giant [amazon.com](#) took the fourth spot with USD 52 million.

"It has been predicted that the compound annual growth rate (CAGR 20-24) for the next four years will be 8%. Compared to the year-over-year growth of 34%, this decrease suggests a moderately flooded market," noted [ecommerceDB](#). "Another indicator of market saturation is the online penetration of 69% in Saudi Arabia; in other words, 69% of the Saudi Arabian population have bought at least one product online in 2020."

DIGITAL GOVERNMENT

The Saudi government is also pursuing a five-year strategy to develop smart government and rollout state-of-the-art telecommunication systems and ICT technology to facilitate the country's digital transformation.

The country has embarked on two five-year 'First Action Plans' for 2006-10 and 2012-16, while the [third Action Plan 2020-2024](#) aims to realise a digital-first government.

"The Smart Government Strategy (2020-2024) defines the kingdom's aspiration, vision, objectives, initiatives, and action plan. Most strategic initiatives are geared towards achieving SDGs by taking actions and innovative approaches to align with the UN Sustainable Development Goals (SDGs) and the Saudi Vision 2030," according to the [government](#).

The strategy aspires to achieve the following:

- deliver a unified and world-class smart service experience;
- provide all public servants with leading smart capabilities;



- equip leaders with insights to solve tomorrow's challenges today;
- deliver the future through a digitally capable, inclusive workforce;
- fast track digital through an ecosystem of partners; and
- make use of shared resources to deliver more for less.

In an effort to make digital services widely available in the kingdom by 2024, the government is also pursuing the digital-by-default strategy, which ensures that digital channels will be the primary means to provide services to consumers and businesses, although the government will ensure that those without the ability to go digital will also be included in the service.

"The high level of Internet penetration with approximately 98% of the population covered with 4G, with plans to have more Internet coverage by 2024 and assuming a relatively high individual Internet users

percentage (83%), allows the government to move the focus toward implementation of the 'digital by default' approach and 'mobile-first' strategy," according to the GOV.sa, the unified national platform. "Both are identified as key priorities that can be implemented in the provision of governmental services by 2024.

5G IN SAUDI

Saudi corporations are also introducing new digital services, especially as the country's telecommunication companies roll out 5G services.

5G wireless technology delivers peak data speeds, ultra-low latency, more reliability, massive network capacity, increased availability, and a more consistent user experience. Higher performance and improved efficiency empower new user experiences and connects new industries.

[GSMA](#), a global body that tracks the development of technology, states that Saudi Arabia had the highest ratio among GCC countries in the first quarter of 2021.

"We compared Saudi Arabia's median download speed over 5G with an average of 5G download speeds around the world during Q1 2021 and found that Saudi Arabia's 5G is 127% faster at 322.42 Mbps," [GSMA](#) said.

Last year, 5,358 new 5G towers were installed across the country, bringing the total to 12,302 by the end of the year.

"This number is set to grow as the allocation of spectrum for commercial uses continues to increase, as does the demand for faster Internet services," the [my.gov.sa](#) noted.

The government is also exploring a number of areas in the digital space. From cloud to automation, robotics and digital payments, the technology sector in the kingdom is expanding at an exponential rate to ensure that it is ready to serve as a springboard for Saudi Vision 2030's other goals.

SAUDI PROPERTY SECTOR IN ITS PRIME AS MORTGAGE LENDING SOARS

Saudi Arabia's real estate sector saw prices rise 0.4% in the second quarter of 2021 compared to the same period last year, as economic activity resumed.

Residential real estate prices increased by 0.8% on an annual basis in the second quarter of the year, mainly due to the rise in prices of residential land plots by 1.0%, which contributed to the expansion in the general index, according to the [General Authority for Statistics \(GaStat\)](#).

Among other residential real estate categories, prices for residential buildings decreased by 0.2%, as well as villas (-2.3%), apartments (-1.6%), and houses (-1.1%).

The steady improvement in housing prices follows a 0.2% year-on-year gain in the first quarter.

HOME OWNERSHIP A PRIORITY

The housing sector has gained strategic importance as the kingdom aims to boost home ownership from 47% in 2016 to 70% by 2030, as part of the Saudi Vision 2030 initiative. The home ownership rate in 2020 was 62%, according to the [International Monetary Fund](#).

"Real estate developers added around 344,000 new housing units in 2020 — an increase of 4.1% from 2019 of which 30% was supplied through the partnership with the private sector programme (Shrakat) and the developers' platform Etmam," according to the [IMF](#). "These initiatives ensure access of qualified developers to interest-free

financing, provide subsidised or free land for construction, and facilitate licensing and legal permits."

The IMF also lauded the government's rollout of real estate financing loans, noting that the Sakani programme provided around 266,000 residential loans and free land packages in 2020.

"Under this programme, beneficiaries can obtain subsidised mortgage loans up to SAR 500,000 — they receive a subsidy on the interest payment to the lender not on the principal payment according to income level and family size.

"Low income households can obtain a mortgage guarantee and subsidised loan up to SAR 500,000 or free land parcels. The value of new residential mortgage contracts increased by 84% in 2020 to reach SAR 136 billion, of which 96% were government-subsidised loans."

BUILDING BLOCKS

[Saudi Central Bank's](#) monthly report for July shows more than 150,550 new mortgage financing contracts were provided by banks in the first six months of the year, compared to 130,743 during the same period last year, or a 15.15% increase.

Overall, just under SAR 77 billion worth of mortgages had been issued during the period, compared to SAR 59.7 billion in the first half of 2020 — or an impressive 29% increase, [SAMA's](#) monthly data shows.

And new housing projects continue to come online. In August, Roshn, the kingdom's national community developer owned by [the Public Investment Fund](#), launched its first residential community in Riyadh featuring 30,000 homes.

"More than 4,500 homes will be built in Phase One of construction. The modern, integrated community will provide homes with different sizes and facades to cater to all residents. Homes will be made available ready to live in and will come with kitchens, split unit ACs, water heating systems, and LED light fixtures, among other amenities," the [company](#) said.

Real estate consultancy [Jones Lang LaSalle](#) noted that construction activity in the kingdom's residential market remained active in the second quarter, with various projects delivered across the main cities, and around 26,500 units handed over during the first half of the year.

This brings the total residential supply to 1.3 million and 840,000 in Riyadh and Jeddah, respectively. While the total stock for Makkah and Dammam Metropolitan Area stands at 404,000 and 366,000, respectively.

"In terms of performance, asking sale prices for apartments and villas jumped by almost 10% in West Riyadh when compared to the same period last year. Meanwhile they also increased almost 12% in North of the city over the same period," [JLL](#) said in its second quarter report on the kingdom's real estate sector.

With Saudi Vision 2030 projects in full swing and new cities coming up, the real estate sector should continue to see brisk activity.

The government has also introduced digital solutions for homebuyers, which has accelerated eligibility checks and applications and allow easier access to financial products for homebuyers.

"The Ijar initiative provides digital solutions for the rental market to increase transparency and efficiency, through standardising electronic rental contracts, establishing the regulatory framework for real estate brokerage firms and providing a digital matching platform," the IMF said.



MORE NEEDS TO BE DONE TO COMBAT COVID-19



The world has stepped up its efforts to fight the coronavirus, even as various variants continue to pose a challenge to authorities.

Around 23.4% of the global population has been fully vaccinated, or 1.82 billion in total, according to [OurWorld In Data](#).

But the World Health Organization (WHO) believes more needs to be done to eradicate the virus, especially in low-income countries.

“We reiterate the urgency of providing access to COVID-19 vaccines, tests and treatments to people throughout the developing world,” WHO said in its [statement](#).

In the area of vaccines, a key constraint is the acute and alarming shortage in the supply of doses to low- and low-middle income countries, especially for the rest of 2021, the world health body noted.

COVAX PROGRAMME

“We call on countries with advanced COVID-19 vaccination programmes to release as soon as possible as much of their contracted vaccine doses and options as possible to COVAX, AVAT, and low and low-middle income countries,” WHO noted.

More than USD 35 billion in grant are needed with only one third of this financed to date, [WHO](#) said, adding that the recent announcement by COVAX and the World Bank to accelerate vaccine supplies for

developing countries through a new financing mechanism is vital to eradicate the virus.

Saudi Arabia is among 75 countries that has submitted expressions of interest to protect their populations and those of other nations by joining the COVAX facility, a mechanism designed to guarantee rapid, fair and equitable access to COVID-19 vaccines worldwide, according to [WHO](#).

“The 75 countries, which would finance the vaccines from their own public finance budgets, partner with up to 90 lower-income countries that could be supported through voluntary donations to Gavi’s COVAX Advance Market Commitment (AMC),” [WHO](#) noted. “Together, this group of up to 165 countries represents more than 60% of the world’s population. Among the group are representatives from every continent and more than half of the world’s G20 economies.”

KINGDOM’S RESPONSE

Saudi Arabia has also been making rapid progress in its fight against the virus.

More than 31.5% of the Saudi population, or around 11 million people, have been fully vaccinated, according to [OurWorld in Data](#).

In addition, the government has enforced mandatory double-vaccination policies for those travelling abroad from 8 August.

The [Ministry of Interior](#) has excluded children under 12 years old, as long as they provide an accredited insurance document before travelling, which covers the costs of the virus threats outside the kingdom. The decision also excluded those who “recovered from the virus, providing that they have spent at least six month of their infection and those who got infected with the virus and received one dose of the anti-virus vaccines”.

In addition, the government has [enforced](#) immunisation requirements in the kingdom in the following places: economic, commercial, cultural, entertainment or sports activities, cultural, educational, social or entertainment events, governmental private establishments whether as an employee or a visitor, governmental or private educational facilities and when using public transportation. Additionally, it is mandatory to show the Tawakalna app to verify the immunisation status of citizens and residents.

Meanwhile, the [Ministry of Tourism](#) also opened its doors to foreign tourists, and lifted the suspension of entry for tourist visa holders from 1 August .

Fully vaccinated tourists can enter the kingdom without the need for an institutional quarantine period, provided that an official vaccination certificate, and proof of a PCR test with its negative result within 72 hours from the time of departure is presented upon arrival.

The [Ministry of Hajj and Umrah](#) also said it will start receiving Umrah performers for the domestic population and Umrah requests from the rest of the world from August 9.

Umrah performers will be able to pray in the Grand Mosque and the Prophet’s Mosque, with a capacity of up to 60,000 people divided into eight operating periods, “increasing the overall capacity to two million per month, with the condition that the issuance of permits will be through the ‘Etamarna and Tawakalna’ applications, amid an integrated system of services and preventive measures, taken by the Kingdom of Saudi Arabia for the safety and health of those wishing to perform the rituals of Umrah and visit,” the [ministry](#) said.

The robust measures from the Saudi government will ensure a balance between returning to normalcy and ensuring that safety protocols are in place.

BANK CREDIT TO SAUDI SMES AT NEAR RECORD

The bank and financial services sector's credit facilities towards small and medium enterprises (SMEs) in the first quarter of the year exceeded SAR 188 billion, according to the latest available data from the [Saudi Central Bank \(SAMA\)](#).

Funds extended by banks to micro, small and medium enterprises (MSMEs) in the first quarter reached SAR 175.46 billion, or 7.9% of banks' total credit facilities during the quarter, [SAMA](#) data shows. This is near the 8% reached in 2020 – the highest proportion of credit facility provided by banks to SMEs.

Medium-sized companies accounted for 72% of bank financings, or SAR 127.5 billion, while small businesses made up SAR 39.6 billion, or 22.5%, and micro companies received SAR 8.4 billion, or 5.5% of all financings.

Meanwhile, credit facilities by financial services companies to SMEs stood just over SAR 13 billion in the first quarter, or 22% of their total loan book – its highest level in at least three years.

SURGE IN START-UPS

The kingdom's start-ups are also garnering attention with record financings in the first half of the year.

Saudi saw a robust 65% growth in SME capital invested in the first half of the year, accounting for 14% of all funds raised in the MENA region during the period, according to [Magnitt](#), which tracks regional financings and activity in the SME space.

This growth resulted in a half-yearly record amount of capital invested in Saudi, which surpassed the full-year capital raised in pre-pandemic 2019 at USD 62 million and is valued at 94% of capital raised in the entire 2020, [Magnitt](#) noted.

Despite a drop in the number of deals between H1 2020 and H1 2021, the Saudi VC ecosystem showed exemplary performance on several fronts, perhaps foreshadowing its rise to becoming the top VC ecosystem in the region, [Magnitt](#) said.

"From a broader perspective, the deal flow in KSA did witness a dip in H1 2021, however, if we focus on the data and benchmarks at hand, we still observe a very healthy qualitative and quantitative growth in KSA-based VC deals," [Magnitt](#) noted. "The 54 deals closed in H1 2021 was the second-highest number of deals closed by Saudi start-ups in half a year, that's after H1 2020's record of 58 transactions. Even more remarkably, Saudi Arabia was able to close the deal gap with the UAE



from 44 transactions in 2020 to just an 11-deal difference in H1 2021."

The surge in investment means Saudi Arabia secured the second-largest share of funding across MENA in the first half of the year

"The Saudi Arabia VC ecosystem observed a healthy deal flow, where early-stage funding accounted for 82% of the 54 transactions closed in H1 2021, while later-stage deals rose by 7 percentage points year on year. Yet most importantly, it could be attributed to Saudi Arabia's steady growth track, where CAGR of VC funding has been 56% between 2016 and 2020," [Magnitt](#) noted.

STRONG INVESTOR BACKING

The momentum continues in the second half.

[Sabbar](#), a Saudi-based tech start-up focusing on securing blue-collar flexible staffing in MENA, said in July it had raised USD 4 million for its pre-series A round led by STV, with additional investment from past backers Derayah VC and SEEDRA Ventures.

"As the pandemic made businesses more aware of its operational cost and adopt a flexible and cost-conscious culture, Sabbar has managed to have a big part in a healing economy post COVID-19 by launching a two-sided marketplace matching businesses with high quality flexible staff," the [company](#) said. "The platform has been growing at a monthly

rate of 40%, fulfilling shifts for over 150 customers such as IKEA, Toys 'R' Us, Domino's Pizza, and Tamimi Markets, while ensuring high quality workers with an on-time arrival rate of 96.8%."

Saudi agriculture technology start-up Red Farms also secured USD 16 million in its pre-Series A funding round from several investors from Saudi Arabia, UAE and the United States.

Meanwhile, Nejee, an online fashion and lifestyle start-up, said it had raised USD 15 million Series A round led by Impact46 fund.

"Each day at Nejee, embracing our vision, we strive to enhance and innovate by delivering the most convenient, reliable and unique experience, using big data, AI and innovative tech solutions," [Neejee](#) founder and CEO Ibrahim Al Mogren said in a statement.

Finally, Speero, a Riyadh-based digital automotive series, said it had completed its USD 1.8 million Pre-Series A round, from Nuva Capital, Eq2 Ventures and other domestic and international venture capital players such as JIMCO (Jameel Investment Management Company), Impact46, Access Bridge Ventures, and Mountain Partners.

UNCERTAIN ECONOMY FORCES CENTRAL BANKS TO KEEP RATES STEADY

The global recovery has been on an uneven path with some economies rebounding even as the coronavirus – and its variants – continue to rear its ugly head.

Central banks across the world have responded with monetary policy easing and other measures to support their respective economies and the private sector.

Amid this continuing trend, the US dollar has staged a smart recovery after falling to a low of 89.21 points in June against a basket of currencies.

The USD is trading at 92.52 in early August amid news that the US Federal Reserve is poised to taper and, at some point, raise interest rates. There were also concerns about high inflation rates in the US, which stood at 5.4% in July and would require the monetary policy to be reined in.

In a much anticipated Federal Open Market Committee (FOMC) meeting, [Federal Reserve](#) governor Jerome Powell emphasised the improvement in the economy, with expectations for strong gains in employment. The Fed decided to maintain its interest rate within the target range for the federal funds rate at 0 to .25%. It also expects to maintain this target range until labour market conditions have reached levels consistent with the committee's assessments of maximum employment, as well as inflation rising to 2% and is on track to

moderately exceed 2% for some time.

FED OUTLOOK ON US INFLATION

On inflation, Powell said he was still comfortable that bottlenecks, while larger than expected and potentially leaving near-term risks to the upside, will fade out alongside the one-off boost from energy and low base year prices. He also drew comfort from tamed long-term inflation expectations.

“With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen,” the [Federal Reserve](#) said in a statement. “The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to US households and businesses.”

The FOMC also noted that it wanted to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation having run persistently below this longer-run goal, the committee will aim to achieve inflation moderately above 2% percent for some time. By seeking inflation that averages 2% over time, the committee hopes longer term inflation expectations will remain well anchored at 2%.

CENTRAL BANKS KEEP RATES STEADY

Meanwhile, the [European Central Bank](#) (ECB) also pledged to support its 2% inflation target in line with its monetary policy strategy. In its July meeting, the Governing Council said it “expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target.”

The ECB said the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50%, respectively. The euro is down 3.4% against the US dollar year to date at 1.18.

The [Bank of Japan](#) (BOJ), as widely expected, also decided to keep its policy measures unchanged at its monetary policy meeting in July. And it has kept its cautious recovery outlook, but downgraded its FY2021 growth forecast slightly although the easing growth trend remains intact until FY2023.

The most notable change was the inflation forecast upgrade for FY2021 (due to higher energy prices) but the persistent view of well below 2% inflation forecasts in FY2022/2023 remained intact. The Japanese yen has surged against the US dollar by 6% to 109.59 year to date.

The People's Bank of China (PBoC), meanwhile, is faced with a slowdown after a strong recovery. The country's factory activity fell sharply in July as demand declined for the first time in over a year in part on high product prices, according to [The Caixin/Markit Manufacturing Purchasing Managers' Index](#).

Analysts are calling the PBoC to cut interest rates to boost the economy. The yuan has been flat for the year against the US dollar, trading at 6.47 – 0.85% lower against the American currency year to date.



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