

Economic Developments

Second Quarter, 2013

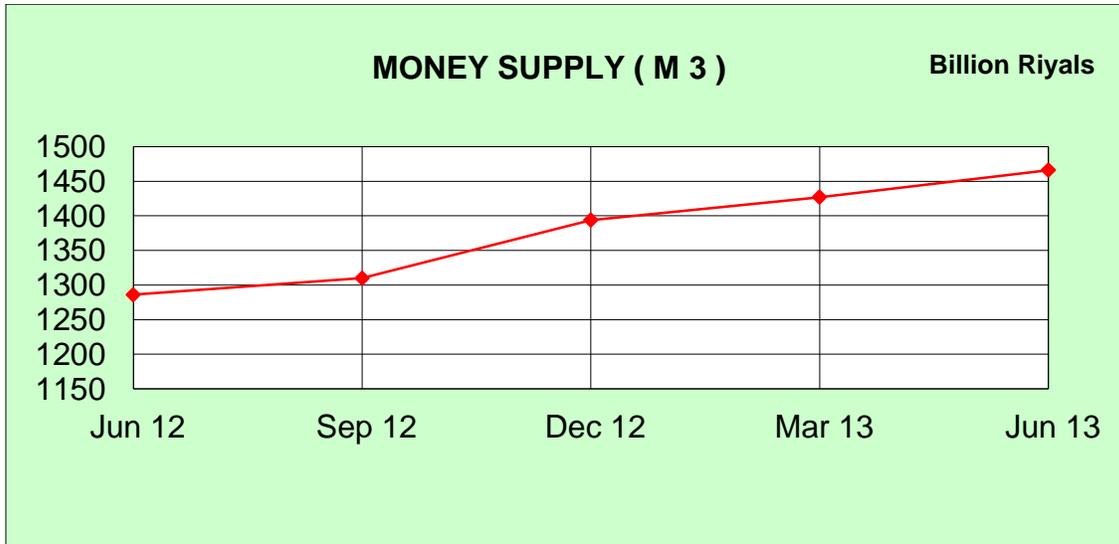
Monetary Policy and Financial Stability Department
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First: Monetary Developments

Broad money (M3) rose by 2.7 percent (RIs 39.2 billion) to RIs 1,466.4 billion during the second quarter of 2013 compared to a rise of 2.4 percent (RIs 33.4 billion) in the previous quarter. It also registered an annual growth rate of 14.0 percent (RIs 180.2 billion) at the end of the second quarter of 2013.



An analysis of the components of money supply (M3) indicates that (M1) rose by 2.2 percent (RIs 21.0 billion) to RIs 962.0 billion, or 65.6 percent of total money supply (M3) during the second quarter of 2013 compared to a rise of 6.1 percent (RIs 53.8 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 18.5 percent (RIs 150.3 billion) at the end of the second quarter of 2013. Money supply (M2) went up by 2.2 percent (RIs 28.3 billion) to RIs 1,281.3 billion, or 87.4 percent of total money supply (M3) during the second quarter of 2013 against an increase of 3.4 percent (RIs 41.5 billion) in the preceding quarter. Money supply (M2) registered an annual increase of 14.3 percent (RIs 160.7 billion) at the end of the second quarter of 2013.

Second: Monetary Policy

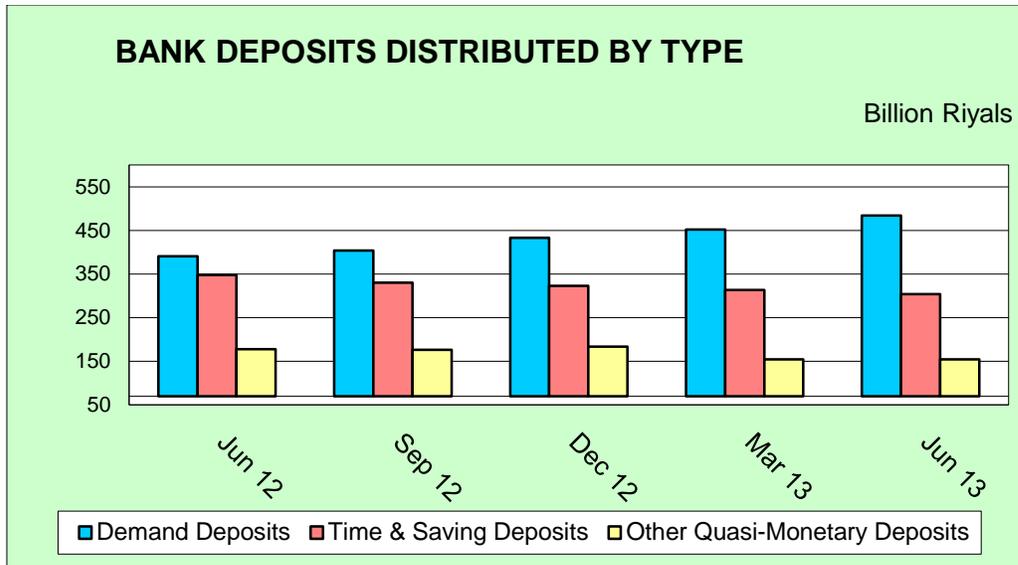
During the second quarter of 2013, SAMA continued to pursue monetary policy aimed at achieving financial and price stability by monitoring domestic and international economic developments and monetary liquidity developments and taking necessary measures in this respect. SAMA's daily average Repo transactions stood at RIs 79 million during the second quarter of 2013 against RIs 43 million in the previous quarter. Daily average Reverse Repo transactions totaled RIs 74,186 million in the same period compared to a daily average of RIs 97,922 million in the previous quarter.

Domestic inter-bank interest rates (SIBOR) on three-month deposits (Saudi inter-bank interest rate) dropped to 0.96 percent at the end of the second quarter of 2013 compared to 0.99 percent in the preceding quarter. The differential between the Riyal and the Dollar deposits for a three-month period continued to be in favor of the Riyal, standing at 69 basis points at the end of the second quarter of 2013, compared to 70 basis points at the end of the preceding quarter.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits recorded a rise of 2.8 percent (Rls 35.6 billion) to Rls 1,327.5 billion during the second quarter of 2013 compared to a rise of 2.5 percent (Rls 31.2 billion) during the preceding quarter, recording an annual rise of 14.4 percent (Rls 167.0 billion) at the end of the second quarter of 2013. The ratio of total bank deposits to total broad money supply (M3) remained unchanged at 90.5 percent compared to the end of the preceding quarter.



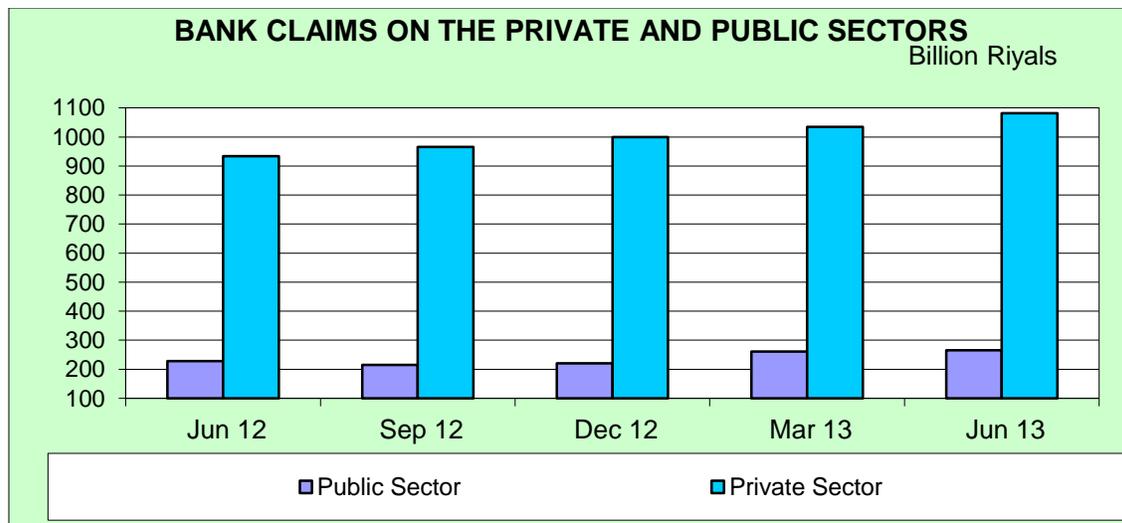
A review of the components of deposits by type during the second quarter of 2013 indicates that demand deposits rose by 2.2 percent (Rls 17.5 billion) to Rls 823.1 billion compared to a rise of 7.0 percent (Rls 51.1 billion) during the preceding quarter. Time and savings deposits went up by 2.3 percent (Rls 7.3 billion) to Rls 319.4 billion against a decline of 3.8 percent (Rls 12.3 billion) during the preceding quarter. Other quasi-monetary deposits also went up by 6.2 percent (Rls 10.9 billion) to Rls 185.0 billion compared to a decline of 4.4 percent (Rls 8.1 billion) during the preceding quarter. On an annual basis, demand deposits rose by 20.0 percent (Rls 137.1 billion), time and savings deposits by 3.4 percent (Rls 10.4 billion) and other quasi-monetary deposits by 11.8 percent (Rls 19.4 billion) at the end of the second quarter of 2013.

3.2 Credit and Investment Activity of Commercial Banks

Total claims of commercial banks on the private and government sectors (bank credit and investments) rose by 4.1 percent (Rls 53.0 billion) to Rls 1,350.3 billion during the second quarter of 2013, compared to a rise of 6.1 percent (Rls 74.7 billion) in the preceding quarter, recording an annual increase of 16.0 percent (Rls 185.6 billion) and constituting 101.7 percent of total bank deposits compared to 100.4 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the second quarter of 2013 went up by 4.6 percent (Rls 47.6 billion) to Rls 1,082.0 billion, compared to a rise of 3.5 percent (Rls 35.3 billion) during the preceding quarter, recording an annual rise of 15.9 percent (Rls 148.6 billion) at the end of the second quarter of 2013. The ratio of commercial banks' claims on the private sector to total bank deposits was 81.5 percent at the end of the second quarter of 2013, compared to 80.1 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sector rose by 2.0 percent (Rls 5.1 billion) to Rls 265.7 billion during the second quarter of 2013 against an increase of 18.1 percent (Rls 39.8 billion) during the preceding quarter, registering an annual rise of 16.2 percent (Rls 37.1 billion). Their ratio to total bank deposits was 20.0 percent at the end of the second quarter of 2013, compared to 20.2 percent at the end of the previous quarter.



An analysis of bank credit by maturity (private and government sectors) during the second quarter of 2013 shows that short-term credit went up by 3.3 percent (Rls 18.2 billion) to Rls 572.0 billion compared to a rise of 3.2 percent (Rls 17.1 billion) during the preceding quarter. Long-term credit also increased by 5.9 percent (Rls 17.1 billion) to Rls 308.8 billion compared to a rise of 10.9 percent

(Rls 28.7 billion) during the preceding quarter, while medium-term credit went up by 3.9 percent (Rls 7.6 billion) to Rls 201.8 billion, compared to a decline of 3.1 percent (Rls 6.1 billion) during the preceding quarter.

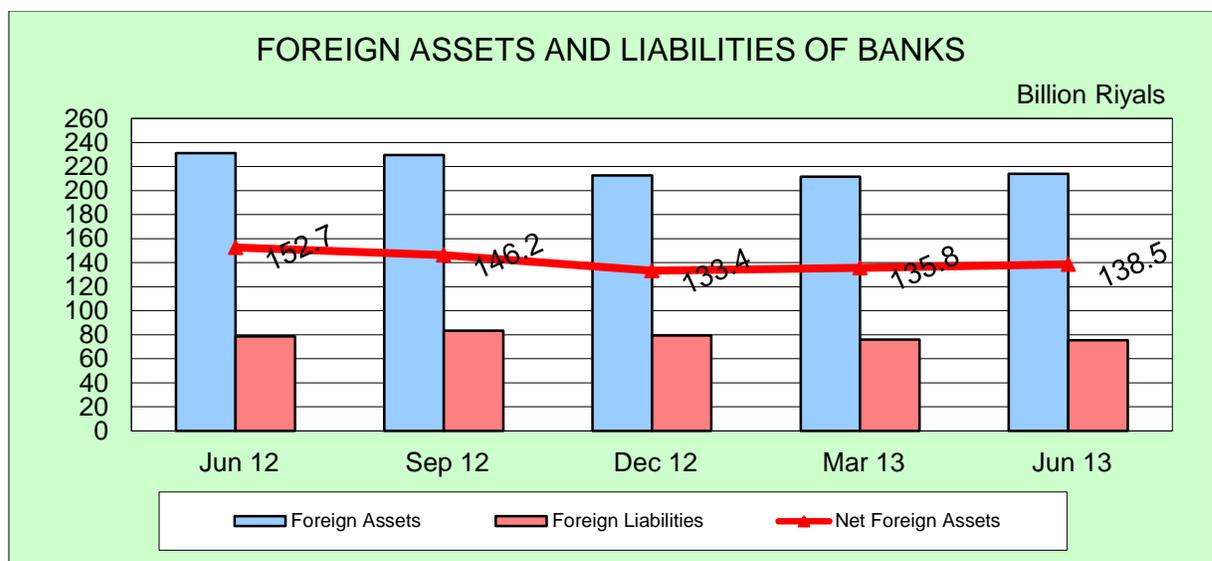
Total bank credit extended by economic activity increased by 4.1 percent (Rls 42.9 billion) to Rls 1,082.6 billion during the second quarter of 2013, compared to a rise of 4.0 percent (Rls 39.6 billion) during the preceding quarter, recording an annual rise of 15.6 percent (Rls 145.9 billion) at the end of the second quarter of 2013. A breakdown of bank credit extended to economic activities during the second quarter of 2013 indicates that bank credit extended to "mineral and mining" went up by 13.7 percent (Rls 1.7 billion), to "agriculture and fishing" by 11.6 percent (Rls 1.2 billion), to "other sectors" by 5.7 percent (Rls 22.4 billion), to "finance" by 5.1 percent (Rls 1.5 billion), to "commerce" by 4.4 percent (Rls 9.4 billion), to "transport and communications" by 2.6 percent (Rls 0.9 billion), to "industry and production" by 1.9 percent (Rls 2.6 billion), to "building and construction" by 1.8 percent (Rls 1.3 billion), to "services" by 1.7 percent (Rls 0.9 billion), to "government and quasi-government sector" by 1.1 percent (Rls 0.5 billion) and to "water, electricity, gas and health services" by 0.8 percent (Rls 0.2 billion).

3.3 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,807.6 billion at the end of the second quarter of 2013, increasing by 2.0 percent (Rls 35.5 billion) compared to a rise of 2.2 percent (Rls 38.0 billion) in the preceding quarter. They recorded an annual growth rate of 11.6 percent (Rls 188.1 billion) at the end of the second quarter of 2013.

3.4 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks during the second quarter of 2013 increased by 1.1 percent (Rls 2.2 billion) to Rls 213.9 billion compared to a decline of 0.5 percent (Rls 11.5 billion) during the preceding quarter. They registered an annual decrease of 7.5 percent (Rls 17.3 billion), constituting 11.8 percent of total commercial banks' assets compared to 11.9 percent at the end of the preceding quarter.



Commercial banks' total foreign liabilities also went down by 0.6 percent (Rls 0.5 billion) to Rls 75.4 billion during the second quarter of 2013 against a decline of 4.4 percent (Rls 3.5 billion) in the preceding quarter. The annual growth rate of total foreign liabilities dropped by 3.9 percent (Rls 3.0 billion), constituting 4.2 percent of commercial banks' total liabilities against 4.3 percent at the end of the preceding quarter. Net foreign assets went up by 2.0 percent (Rls 2.7 billion) to Rls 138.5 billion at the end of the second quarter of 2013 compared to a rise of 1.8 percent (Rls 2.4 billion) during the preceding quarter.

3.5 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks decreased by 1.3 percent (Rls 3.0 billion) to Rls 231.7 billion during the second quarter of 2013 compared to a rise of 12.1 percent in the previous quarter. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2013 stood at 17.5 percent compared to 18.2 percent in the previous quarter. Their annual growth rate rose by 9.6 percent (Rls 20.2 billion) in the second quarter of 2013. Commercial banks' profits stood at Rls 9.7 billion in the second quarter of 2013, increasing by 4.7 percent (Rls 0.4 billion) from Rls 9.3 billion in the preceding quarter. They recorded an annual growth rate of 10.6 percent (Rls 0.9 billion).

At the end of the second quarter of 2013, the number of commercial banks' branches operating in the Kingdom increased to 1,722, recording a growth rate of 0.6 percent (11 branches) compared to the preceding quarter.

Fourth: Banking Technology Developments

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the second quarter of 2013 totaled Rls 14,961.1 billion (nearly \$3,989.6 billion) through 1.9 million messages involving a total of 15.3 million transfers carried out through SARIE. The value of single payment transactions totaled Rls 14,562.1 billion, whereas the total value of gross payment transactions stood at Rls 391.6 billion. Customers' payments stood at Rls 1,221.8 billion, increasing by 14.4 percent over the corresponding quarter of the preceding year. The total value of inter-bank payments transactions stood at Rls 13,731.9 billion.

As for SPAN developments, the total number of transactions executed via ATMs in the second quarter of 2013 was about 335 million, with cash withdrawals

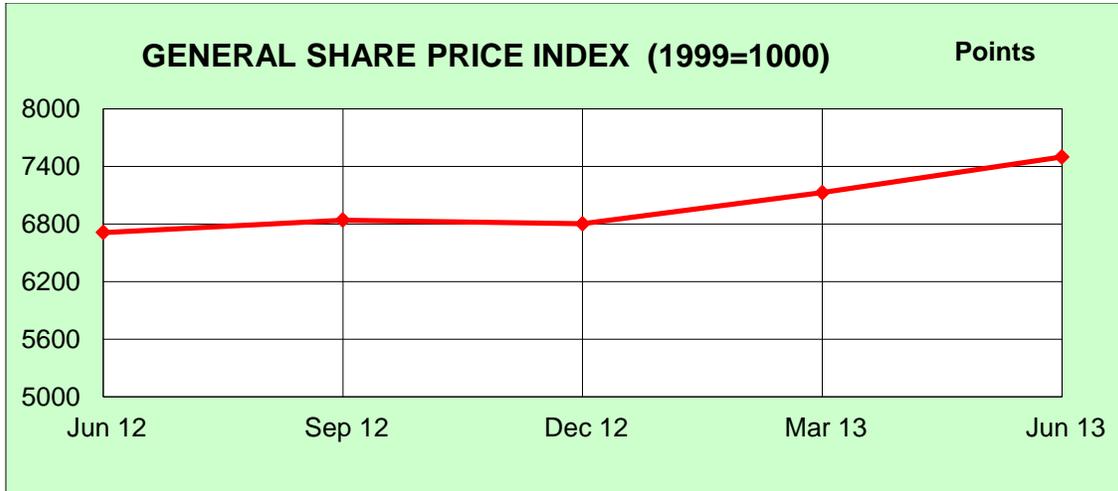
totaling Rls 169.1 billion, including transactions through banks' network and SPAN. Total transactions executed through POS terminals stood at 72.9 million with total sales of Rls 38.5 billion during the second quarter of 2013. The number of ATMs totaled 13,231 and the number of cards issued by domestic banks stood at about 17.0 million at the end of the second quarter of 2013. The number of POS terminals exceeded 99.4 thousand at the end of the same quarter.

The number of bank checks (outgoing and incoming) cleared at the clearing houses in the second quarter of 2013 totaled 1.8 million with a total value of Rls 232.8 billion. The number of household and business checks totaled 1.6 million with a total value of Rls 165.0 billion, and the number of certified checks totaled 223.0 thousand with a total value of Rls 67.9 billion during the same period.

Fifth: Domestic Share Market Developments

The general share price index went up at the end of the second quarter of 2013 by 5.2 percent to 7,496.6 compared to a rise of 4.8 percent in the preceding quarter, recording an annual increase of 11.7 percent. The number of traded shares also rose by 17.4 percent to 15.6 billion compared to an increase of 20.0 percent in the preceding quarter, recording an annual fall of 43.9 percent. Total value of traded shares increased by 6.5 percent to Rls 392.3 billion compared to a rise of 17.9 percent in the preceding quarter, with its annual growth rate decreasing by 30.2 percent.

At the end of the second quarter of 2013, the market capitalization of issued shares went up by 3.1 percent to Rls 1,497 billion against an increase of 3.7 percent in the preceding quarter, recording an annual rise of 12.0 percent. Total number of transactions executed in the second quarter of 2013 dropped by 7.4 percent to 8.5 million compared to an increase of 18.5 percent in the preceding quarter, recoding an annual negative growth rate of 31.6 percent.



Sixth: Investment Funds

Total assets of investment funds managed by investment companies went up by 8.3 percent (Rls 7.7 billion) in the second quarter of 2013 to Rls 100.2 billion compared to an increase of 5.1 percent (Rls 4.5 billion) in the previous quarter, recording an annual growth rate of 14.6 percent (Rls 12.7 billion).

An analysis of the total assets of the funds indicates that their domestic assets increased by 11.0 percent (Rls 7.7 billion) to Rls 78.0 billion in the second quarter of 2013, compared to a rise of 0.6 percent (Rls 0.4 billion) in the preceding quarter. Domestic assets registered an annual increase of 13.1 percent (Rls 9.0 billion). Foreign assets dropped by 0.2 percent (Rls 0.1 billion) to Rls 22.2 billion during the second quarter of 2013 against a rise of 22.3 percent (Rls 4.1 billion) in the preceding quarter, recording an annual rise of 20.3 percent (Rls 3.7 billion).

The number of subscribers to investment funds dropped by 2.0 percent (5,352) to 265.5 thousand in the second quarter of 2013 compared to a decline of 1.7 percent (4,760) in the preceding quarter. The number of subscribers recorded

an annual decrease of 6.5 percent (18,324). The number of operating funds rose by 0.4 percent (1 fund) to 241 funds during the second quarter of 2013 compared to the previous quarter in which their number remained unchanged at 240 fund.

Seventh: Supervisory and Legislative Banking Developments:

SAMA issued a number of circulars during the second quarter of 2013, as follows:

- Circular No. 66659 dated 08/04/2013 (27/5/1434H) regarding the issuance of a Press Release and a Consultative Document on approving buyer's credit cost protection by Basel Committee.
- Circular No. 69260 dated 14/04/2013 (04/06/1434H) requiring licensed money exchangers to provide SAMA with all requested data.
- Circular No. 74805 dated 25/04/2013 (15/06/1434H) concerning Basel Committee's Consultative Document pertaining to banks' external audit operations.
- Circular No. 74807 dated 25/04/2013 (15/06/1434H) regarding Anti-Money Laundering Law and its Implementing Regulations.
- Circular No. 85566 dated 20/05/2013 (10/07/1434H) concerning liquidity management daily control tools as of the month of April 2013.
- Circular No. 88098 dated 26/05/2013 (16/07/1434H) pertaining to a partial amendment to some rules of opening and operating bank accounts related to closure of accounts.
- Circular No. 96665 dated 15/06/2013 (06/08/1434H) regarding the controls relating to the application of banking mobile service.

Eighth: Prominent Regulatory Developments in the Saudi Economy during the Second Quarter of 2013

- Issuance of the Council of Ministers' Resolution dated 20/05/1434H (1/04/2013) approving Saudi Commission for Tourism and Antiquities' Initiative for Improving Service Centers on Regional Roads, built on what was mentioned in the General Strategy for the Development of National Tourism.

- Issuance of the Council of Ministers' Resolution dated 27/5/1434H (8/4/2013) approving granting the Ministry of Commerce and Industry powers to impose fines and penalties related to its terms of reference within industrial cities and factories.
- Issuance of the Council of Ministers' Resolution dated 17/7/1434H (27/5/2013) approving the conversion of the Standing Committee of Exhibitions and Conferences to a national program with the name: "National Program for Exhibitions and Conferences" to organize, develop the exhibitions and conferences held in the Kingdom and to develop the necessary plans to achieve the objectives of the program.
- Issuance of the Council of Ministers' Resolution dated 1/8/1434H (10/6/2013) approving arrangements for addressing the delayed or stalled government development projects and discussing possible solutions.
- Issuance of a Royal Order dated 14/8/1434H (23/6/2013) providing that official working days are to be from Sunday to Thursday and weekend on Friday and Saturday.