

**Kingdom of Saudi Arabia**  
**Saudi Arabian Monetary Agency**  
**Research and Statistics Department**

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**Economic Developments**  
Second Quarter of 2005

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**August 2005**

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### **First: Monetary and Banking Developments**

Broad money supply (M3) rose by 4.3 percent (Rls 21.6 billion) to Rls 528.2 billion during the second quarter of 2005 compared to an increase of 5.0 percent (Rls 24.2 billion) during the preceding quarter. It registered an annual growth rate of 19.5 percent (Rls 86.3 billion). The rise in money supply during the second quarter of 2005 was mainly ascribed to an increase in bank credit to the private sector by Rls 34.4 billion.

An analysis of the components of money supply (M3) indicates that (M1) rose by 0.4 percent (Rls 1.2 billion) to Rls 275.3 billion, or 52.1 percent of total money supply (M3) in the second quarter of 2005 compared to a rise of 4.9 percent (Rls 13.0 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 13.4 percent (Rls 32.6 billion) at the end of the second quarter of 2005. Money supply (M2) also went up by 3.2 percent (Rls 13.3 billion) to Rls 432.1 billion, or 81.8 percent of total money supply (M3) during the second quarter of 2005 compared to a rise of 4.7 percent (Rls 18.7 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 20.7 percent (Rls 74.2 billion) at the end of the second quarter of 2005.

### **Second: Monetary Policy**

During the second quarter of 2005, SAMA continued to pursue a monetary policy aimed at maintaining price stability and ensuring the financial system soundness. SAMA raised the official repurchase agreements (Repo) rate once during the second quarter from 3.25 percent to 3.50 percent, while it did not make any change to reverse repurchase agreements (Reverse Repo) rate as it remained unchanged at 3.00 percent during the second quarter of 2005. The average value of Repo per day stood at Rls 1.206 million during the quarter under study and that of Reverse Repo was Rls 4.790 million, indicating the availability of liquidity in the domestic market.

As a result of the monetary policy, inter-bank interest rates recorded a remarkable rise during the second quarter of 2005. The three-month inter-bank interest rate (SIBOR) increased from 3.12 percent at the end of the first quarter of 2005 to 3.73 percent at the end of the second quarter of 2005. The differential between the Riyal and the Dollar interest rates on three-month deposits went up from 15 basis points to 21 basis points at the end of the second quarter of 2005.

### **Third: Developments in Commercial Banks' Activity**

At the end of the second quarter of 2005, commercial banks' total assets and liabilities stood at Rls 703.5 billion, rising by 3.2 percent (Rls 22.1 billion) compared to an increase of 4.0 percent (Rls 26.1 billion) during the preceding quarter. It recorded an annual growth rate of 19.1 percent (Rls 112.9 billion) at the end of the second quarter of 2005.

#### **3.1 Bank Deposits**

Total bank deposits went up by 4.5 percent (Rls 20.1 billion) to Rls 468.0 billion during the second quarter of 2005 compared to an increase of 6.1 percent (Rls 25.6 billion) during the preceding quarter. It achieved an annual rise of 21.6 percent (Rls 83.2 billion) at the end of the second quarter of 2005. The ratio of total bank deposits to total broad money (M3) stood at 88.6 percent at the end of the second quarter of 2005 compared to 87.1 percent at the end of same period of the preceding year.

A review of deposits by type during the second quarter of 2005 indicates an increase in time and savings deposits by 10.2 percent (Rls 14.5 billion) to Rls 156.9 billion compared to a rise of 4.2 percent (Rls 5.7 billion) during the preceding quarter. Other quasi-monetary deposits went up by 9.4 percent (Rls 8.2 billion) to Rls 96.0 billion against a decline of 6.7 percent (Rls 5.5 billion) during the preceding quarter. Demand deposits declined by 1.2 percent (Rls 2.6 billion) to Rls 215.1 billion compared to a rise of 7.1 percent (Rls 14.3 billion) during the preceding quarter. Demand deposits, time and savings deposits and other quasi-

monetary deposits recorded an annual rise of 15.9 percent (Rls 29.5 billion), 36.1 percent (Rls 41.6 billion), and 14.4 percent (Rls 12.1 billion) respectively.

### **3.2 Credit and Investment Activity of Banks**

Total commercial banks' claims on the private and government sectors (bank credit and investment) rose during the second quarter of 2005 by 6.6 percent (Rls 34.2 billion) to Rls 552.4 billion compared to an increase of 5.7 percent (Rls 28.0 billion) in the preceding quarter. It registered an annual rise of 23.5 percent (Rls 105.2 billion) at the end of the second quarter and constituted 118.0 percent of total bank deposits compared to 116.2 percent at the end of the same quarter of the preceding year.

Total commercial banks' claims on the government and quasi-government sectors went up by 0.1 percent (Rls 0.1 billion) to Rls 177.6 billion during the second quarter of 2005 compared to a rise of 1.0 percent (Rls 1.7 billion) during the preceding quarter, denoting an annual drop of 0.9 percent (Rls 1.7 billion). The ratio of total claims of commercial banks on the private and government sectors to total bank deposits amounted to 38.0 percent at the end of the second quarter of 2005 compared to 46.6 percent at the end of the same period of the preceding year.

Total commercial banks' claims on the private sector went up by 10.1 percent (Rls 34.3 billion) to Rls 374.0 billion during the second quarter of 2005 compared to an increase of 8.2 percent (Rls 25.8 billion) during the preceding quarter, recording an annual rise of 40.0 percent (Rls 107.0 billion) at the end of the second quarter of 2005. The ratio of commercial banks' claims on the private sector to total bank deposits stood at 79.9 percent at the end of the second quarter of 2005 compared to 69.4 percent at the end of the same period of the previous year.

An analysis of bank credit according to maturity (private and public sectors) shows that long-term credit rose by 17.6 percent (Rls 18.1 billion) during the second quarter of 2005 compared to a rise of 6.6 percent (Rls 6.4 billion). Short-term credit increased by 7.7 percent (Rls 16.0 billion) compared to a rise of 8.2

percent (Rls 15.8 billion). Medium -term credit also went up by 4.5 percent (Rls 2.1 billion) compared to a rise of 7.1 percent (Rls 3.0 billion) in the preceding quarter.

Total bank credit given by economic activity rose by 10.1 percent (Rls 36.1 billion) to Rls 393.5 billion during the second quarter of 2005 compared to an increase of 7.6 percent (Rls 25.2 billion) during the preceding quarter, recording an annual rise of 37.7 percent (Rls 107.8 billion) at the end of the second quarter of 2005 compared to the end of the same period of the preceding year. A breakdown of bank credit given to different economic activities during the second quarter of 2005 indicates that bank credit for the financing sector went up by 16.7 percent (Rls 6.5 billion), other services by 14.4 percent (Rls 19.2 billion), building and construction by 13.9 percent (Rls 3.1 billion), agriculture and fishing by 11.9 percent (Rls 0.5 billion), manufacturing and processing by 9.6 percent (Rls 2.8 billion), commerce by 4.8 percent (Rls 3.2 billion), mining sector by 3.3 percent (Rls 0.05 billion), government and quasi-government by 3.1 percent (Rls 1.0 billion), services by 1.3 percent (Rls 0.2 billion), transport and communications by 0.8 percent (Rls 0.1 billion). In contrast, credit for water, electricity and other services dropped by 12.8 percent (Rls 0.4 billion).

### **3.3 Commercial Banks' Foreign Assets and Liabilities**

Total foreign assets of commercial banks fell during the second quarter of 2005 by 8.4 percent (Rls 7.6 billion) to Rls 82.8 billion compared to a decline of 2.6 percent (Rls 2.4 billion) during the preceding quarter. It recorded a negative annual growth rate of 7.3 percent (Rls 6.5 billion), constituting 11.8 percent of total assets of commercial banks compared to an annual growth rate of 15.1 percent at the end of the same period of the preceding year.

Their total foreign liabilities went up by 5.9 percent (Rls 2.6 billion) to Rls 46.9 billion during the second quarter of 2005 against a drop of 3.2 percent (Rls 1.5 billion) in the preceding quarter. They recorded an annual growth rate of 12.6 percent (Rls 5.2 billion), constituting 6.7 percent of total liabilities compared to an increase of 7.1 percent at the end of the same period of the preceding year. Net foreign assets stood at Rls 36.0 billion, dropping by 22.1 percent (Rls 10.2 billion) at the end of the second quarter of 2005 compared to a decline of 1.9 percent (Rls

0.9 billion) during the preceding quarter. Net foreign assets registered a decline of 24.6 percent (Rls 11.7 billion) in their annual growth rate.

### **3.4 Reserves, Capital, Profits and Branches of Commercial Banks**

Commercial banks' capital and reserves went down by 2.7 percent (Rls 1.7 billion) during the second quarter of 2005. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2005 stood at 13.3 percent compared to a ratio of 14.0 percent in the preceding year. Commercial banks' capital and reserves annual growth rate rose by 15.8 percent (Rls 8.5 billion).

Commercial banks' profits rose to Rls 7.1 billion during the second quarter of 2005 compared to Rls 5.1 billion in the preceding quarter, recording a rise of 37.8 percent (Rls 1.9 billion) and an annual growth rate of 47.4 percent (Rls 6.7 billion).

The number of commercial banks' branches operating in the Kingdom stood at 1,224 at the end of the second quarter of 2005, remaining unchanged as in the first quarter of 2005.

### **3.5 Banking Technology**

After the finalization of the work plan for joining Al-Bilad Bank to SARIE, work has continued through meetings with each of Muscat Bank, Deutsche Bank, BNP Paribas, and Bank of Kuwait to pave the way for their joining SARIE by explaining the requirements and preliminary work plans. BNP Paribas is planned to be linked to SARIE Test and Training environment in August 2005, and then to SARIE's Live System in September 2005.

As for SARIE's statistics during the second quarter of 2005, the value of transactions carried out through SARIE totaled Rls 2,434,377 million (or US\$ 649,167 million) and the number of these transactions stood at 409,083. The value of single and bulk payments transactions totaled Rls 2,316,346 million (or US\$617,692 million) and 118,031 million (or US\$ 31,475 million) respectively.

It is expected that using SARIE would continue to increase in the upcoming years, especially commercial transactions and those carried out by individuals. Using SARIE for payment of salaries of employees in the government and private sectors would also continue to increase.

Total cash withdrawals from ATMs rose from Rls 53.6 billion to Rls 61 billion, i.e., 13.8 percent (Rls 7.4 billion) during the second quarter of 2005 compared to a rise of 1.4 percent (Rls 0.8 billion) in the preceding quarter, recording an annual growth rate of 17.5 percent (Rls 31.0 billion).

Value of bank clearings of commercial and individual cheques went up from Rls 87.1 billion in the first quarter of 2005 to Rls 97.5 billion at the end of the second quarter of 2005, i.e., 11.9 percent (Rls 10.4 billion) against a decline of 7.9 percent (Rls 7.5 billion) during the preceding quarter, denoting an annual growth rate of 3.3 percent (Rls 11.0 billion).

Sales through points-of-sale terminals increased from Rls 6.6 billion in the first quarter of 2005 to Rls 7.3 billion at the end of the second quarter of 2005, i.e., a rise of 11 percent (Rls 0.7 billion) compared to an increase of 1.8 percent (Rls 0.1 billion) in the preceding quarter. They achieved an annual growth rate of 18.4 percent (Rls 3.9 billion).

#### **Fourth: Stock Market Developments**

The general share price index went up by 28.2 percent to 13455.24 during the second quarter of 2005 compared to an increase of 27.9 percent in the preceding quarter, registering an annual rise of 135.5 percent. The number of shares traded rose by 99.5 percent to 3.5 billion during the second quarter of 2005 against a fall of 3.5 percent in the preceding quarter, with its annual growth rate rising by 12.3 percent. Total value of shares traded went up by 128.7 percent to Rls 1,123.8 billion compared to a rise of 6.8 percent in the preceding quarter, with a rise of 118.5 percent in its annual growth rate.

At the end of the second quarter of 2005, market capitalization of issued shares went up by 31.7 percent to Rls 1,943 billion compared to a rise of 28.4

percent at the end of the preceding quarter. The total number of executed transactions during the second quarter of 2005 registered a rise of 149.1 percent to 11,495.8 thousand compared to a rise of 41.1 percent during the preceding quarter, with an annual growth rate rising by 192.8 percent.

Total assets of investment funds managed by commercial banks recorded an increase of 14.5 percent (Rls 28.7 billion) to Rls 97.8 billion in the second quarter of 2005 as compared with a rise of 14.5 percent (Rls 8.8 billion) in the preceding quarter, registering an annual growth rate of 78.1 percent (Rls 42.9 billion).

A breakdown of the funds' total assets indicates a rise in domestic assets by 54.3 percent (Rls 28.8 billion) in the second quarter of 2005 to Rls 81.7 billion as compared with an increase of 19.0 percent (Rls 8.4 billion) in the preceding quarter. Domestic assets recorded an annual growth rate of 110.1 percent (Rls 43.0 billion). Foreign assets registered a drop of 0.25 percent (Rls 0.04 billion) to Rls 16.1 billion during the second quarter of 2005 against a rise of 2.4 percent (Rls 0.4 billion) in the preceding quarter. They recorded a negative annual growth rate of 0.54 percent (Rls 0.09 billion).

The number of subscribers to investment funds increased by 83.9 percent (18,450) to 406,240 in the second quarter of 2005 compared to a rise of 11.8 percent (23,405) in the preceding quarter. The number of subscribers recorded an annual growth rate of 135.2 percent (23,355).

The number of operating funds rose by 3.7 percent (7) from 189 in the first quarter of 2005 to 196 in the second quarter of 2005 compared to an increase of 0.5 percent (1) in the preceding quarter. The number of operating funds registered an annual growth rate of 13.3 percent (23).

### **Fifth: Price Indices**

During the second quarter of 2005, the average general cost of living index declined by 0.1 percent, recording an annual increase of 0.6 percent compared to the end of the same period of the preceding year. The Index of (food and beverage) rose by 0.4 percent, (renovation, rent, fuel and water) by 0.5 percent, (transport

and communication) by 0.3 percent and (education and entertainment) by 0.1 percent. In contrast, the Index of (fabrics, apparel, and shoes) fell by 0.2 percent, (house furnishing) by 0.1 percent, (goods and other services) by 0.3 percent, whereas the index of (medical care) remained unchanged.

**Sixth: Supervisory and Legislative Developments during the Second Quarter of 2005**

- Circular No. 8733/MASH/138 on 3/3/1426H corresponding to 12/4/2005 was issued determining qualification requirements for appointment of senior positions in banks operating in Saudi Arabia.
- A preliminary draft of controls for regulating consumption financing was sent in April to all banks to ask opinions of specialized experts in the banks regarding these controls.
- SAMA's Circular No. 10168/MAT/156 on 14/3/1426H corresponding to 23/4/2005 was issued updating the controls for opening accounts to expatriates holding a Saudi passports.