



Economic Developments

Third Quarter, 2007

Research and Statistics Department

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First: Monetary Developments

Broad money (M3) rose by 4.9 percent (Rls 34.8 billion) to Rls 744.1 billion during the third quarter of 2007 compared to an increase of 4.6 percent (Rls 31.5 billion) during the preceding quarter. It registered an annual growth rate of 19.4 percent (Rls 120.7 billion).

An analysis of the components of money supply (M3) indicates that (M1) rose by 6.2 percent (Rls 20.8 billion) to Rls 353.9 billion, or 47.6 percent of total money supply (M3) during the third quarter of 2007 compared to a rise of 3.2 percent (Rls 10.4 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 20.5 percent (Rls 60.3 billion) at the end of the third quarter of 2007.

Money supply (M2) also went up by 5.2 percent (Rls 30.7 billion) to Rls 618.4 billion, or 83.1 percent of total money supply (M3) during the third quarter of 2007 against a rise of 4.6 percent (Rls 26.0 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 22.3 percent (Rls 112.7 billion) at the end of the third quarter of 2007.

Second: Monetary Policy

During the third quarter of 2007, SAMA continued to pursue a monetary policy aimed at maintaining price stability, supporting domestic economic activity and coping with the domestic and global economic developments. Due to an increase in the annual inflation rate of the Kingdom to 3.8 percent by the end of July and to 4.4 percent by the end of August, SAMA did not make any change on the official interest rates during the third quarter of 2007. It continued maintaining the Official Repo Rate and Reverse Repo Rate unchanged at 5.50 percent and 5.00 percent respectively. The daily average value of Repo and Reverse Repo transactions stood at Rls 1,259 million and Rls 36,645 million respectively in the third quarter of 2007.

Inter-bank interest rates on deposits witnessed a slight rise during the third quarter of 2007. The three-month inter-bank interest rate (SIBOR) increased from 5.05 percent at the end of the second quarter of 2007 to 5.09 percent at the end of the third quarter of 2007. The differential between the Riyal and the Dollar deposits for a three-month period went down to 14 basis points in favor of the Dollar at the end of the third quarter of 2007 against 32 basis points in favor of the Dollar at the end of the second quarter of 2007, as a result of a reduction in the interest rate on the Dollar by the American Federal Reserve Bank. At the end of the third quarter of 2007, the Riyal exchange rate against the Dollar rose in the spot market to Rls 3.7341 due to further speculation about appreciation in the official Saudi Riyal exchange rate or its delinking from the Dollar.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits went up by 5.1 percent (Rls 32.7 billion) to Rls 675.0 billion during the third quarter of 2007 compared to an increase of 4.8 percent (Rls 29.5 billion) during the preceding quarter. It achieved an annual rise of 20.2 percent (Rls 113.6 billion) at the end of the third quarter of 2007. The ratio of total bank deposits to total broad money supply (M3) stood at 90.7 percent at the end of the third quarter of 2007 compared to 90.0 percent at the end of same period of the preceding quarter.

A review of the developments of the components of deposits by type during the third quarter of 2007 indicates that demand deposits rose by 7.0 percent (Rls 18.7 billion) to Rls 284.8 billion compared to a rise of 3.3 percent (Rls 8.5 billion) during the preceding quarter. Time and savings deposits went up by 3.9 percent (Rls 9.9

billion) to Rls 264.5 billion against a rise of 6.5 percent (Rls 15.6 billion) during the preceding quarter. Other quasi-monetary deposits rose by 3.4 percent (Rls 4.1 billion) to Rls 125.7 billion compared to an increase of 4.7 percent (Rls 5.5 billion) during the preceding quarter. Time and savings deposits, demand deposits, and other quasi-monetary deposits recorded annual rises of 24.7 percent (Rls 52.4 billion), 23.0 percent (Rls 53.2 billion), and 6.8 percent (Rls 8.0 billion) respectively.

3.2 Credit and Investment Activity of Banks

Total claims of commercial banks on the private and government sectors (bank credit and investment) rose by 5.2 percent (Rls 34.9 billion) to Rls 708.5 billion during the third quarter of 2007 compared to an increase of 4.9 percent (Rls 31.3 billion) in the preceding quarter. At the end of the third quarter of 2007, they recorded an annual rise of 13.9 percent (Rls 86.2 billion) to constitute 105.0 percent of total bank deposits compared with 110.8 percent at the end of the preceding quarter.

Total claims of commercial banks on the government and quasi-government sectors went down by 1.1 percent (Rls 1.8 billion) to Rls 158.9 billion during the third quarter of 2007 compared to a rise of 0.9 percent (Rls 1.4 billion) during the preceding quarter. At the end of the third quarter of 2007, they registered an annual increase of 3.7 percent (Rls 5.7 billion). Their ratio to total bank deposits amounted to 23.5 percent at the end of the third quarter of 2007 compared with 27.3 percent at the end of the same period of the preceding quarter.

Total claims of commercial banks on the private sector during the third quarter of 2007 rose by 7.2 percent (Rls 36.6 billion) to Rls 548.2 billion compared to an increase of 6.1 percent (Rls 29.4 billion) during the preceding quarter, recording an annual rise of 17.2 percent (Rls 80.4 billion) at the end of the third quarter of 2007. The ratio of commercial banks' claims on the private sector to total bank deposits was

81.2 percent at the end of the third quarter of 2007 compared to 83.3 percent at the end of the same period of the previous quarter.

An analysis of bank credit by maturity (private and government sectors) shows that short-term credit rose by 8.8 percent (Rls 26.1 billion) to Rls 324.3 billion during the third quarter of 2007 compared to a rise of 8.3 percent (Rls 23.0 billion) during the preceding quarter. Medium-term credit increased by 7.3 percent (Rls 5.1 billion) to Rls 75.9 billion compared to a drop of 11.0 percent (Rls 8.7 billion) during the preceding quarter. Long-term credit also went up by 2.8 percent (Rls 4.6 billion) to Rls 167.7 billion compared to a rise of 10.0 percent (Rls 14.8 billion) during the preceding quarter.

Total bank credit by economic activity rose by 6.7 percent (Rls 35.9 billion) to Rls 567.9 billion during the third quarter of 2007 compared to an increase of 5.8 percent (Rls 29.1 billion) during the preceding quarter, recording an annual rise of 15.9 percent (Rls 77.9 billion) at the end of the third quarter of 2007, compared to the end of the same period of the preceding year. A breakdown of bank credit by different economic activities during the third quarter of 2007 indicates that bank credit extended to transport and communications went up by 95.5 percent (Rls 9.7 billion), services sector by 18.1 percent (Rls 3.1 billion), mineral and mining by 17.1 percent (Rls 0.4 billion), water, electricity and other services by 15.1 percent (Rls 0.8 billion), government and quasi-government sector by 9.2 percent (Rls 3.3 billion), building and construction by 8.7 percent (Rls 3.6 billion), other activities by 3.3 percent (Rls 6.1 billion), manufacturing and processing by 2.4 percent (Rls 1.0 billion), commerce by 2.3 percent (Rls 2.9 billion). In contrast, bank credit extended to agriculture and fishing dropped by 2.4 percent (Rls 0.2 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks rose during the third quarter of 2007 by 5.1 percent (Rls 7.9 billion) to Rls 162.4 billion compared to an increase of 8.4 percent (Rls 12.0 billion) during the preceding quarter, recording an annual growth rate of 23.9 percent (Rls 31.3 billion), and constituting 16.3 percent of total commercial banks' assets compared with 15.8 percent at the end of the same period of the preceding year.

Banks' total foreign liabilities went up by 28.8 percent (Rls 18.7 billion) to Rls 83.5 billion during the third quarter of 2007 against a rise of 1.3 percent (Rls 0.8 billion) in the preceding quarter. They recorded an annual growth rate of 52.3 percent (Rls 28.7 billion), constituting 8.4 percent of total liabilities compared to 6.6 percent at the end of the same period of the preceding year.

Net foreign assets stood at Rls 78.9 billion, declining by 12.0 percent (Rls 10.8 billion) at the end of the third quarter of 2007 compared to an increase of 14.2 percent (Rls 11.2 billion) during the preceding quarter. Net foreign assets registered a rise of 3.5 percent (Rls 2.6 billion) in their annual growth rate.

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks went down by 1.7 percent (Rls 1.8 billion) during the third quarter of 2007. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the third quarter of 2007 stood at 15.4 percent compared to a ratio of 14.3 percent in the preceding quarter. Their annual growth rate rose by 29.6 percent (Rls 23.8 billion). Commercial banks' profits decreased to Rls 7.9 billion during the third quarter of 2007 compared to Rls 8.0 billion in the preceding quarter, recording a decline of 1.8 percent (Rls 0.1 billion) and a negative annual growth rate of 7.9 percent (Rls 2.6 billion). The number of

commercial banks' branches increased during the third quarter of 2007 to 1,340 compared with 1,323 in the preceding quarter and 1,283 in the corresponding quarter of 2006.

3.5 Banking Technology

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) indicate that the value of transactions in the third quarter of 2007 totaled Rls 8,120 billion via 6.5 million transactions carried out through SARIE. The value of single payments transactions totaled Rls 7,952 billion, whereas the total value of gross payments stood at Rls 166 billion. Customers' payments amounted to Rls 507 billion, rising by 27.2 percent compared to the third quarter of 2006. Total value of Inter-bank payments stood at Rls 7,611 billion, rising by 184.8 percent compared to the third quarter of 2006.

The Saudi Payments Network (SPAN) has continued to record good growth in terms of transactions made through it. Total operations executed via SPAN in the 3rd quarter of 2007 amounted to 71.9 million with a total value of Rls 39.7 billion. The number of ATM's transactions totaled 164.6 million during the 3rd quarter of 2007. The number of ATMs amounted to 7,150 and the number of cards issued by domestic banks exceeded 10.7 million. Total transactions of POS terminals executed through SPAN stood at 26 million with a total value of Rls 10.8 billion. POS terminals continued their growth, amounting to 59.5 thousand at the end of the 3rd quarter of 2007.

The number of bank checks (outgoing and incoming) cleared at clearing houses during the 3rd quarter of 2007 totaled 1,742.6 thousand with a total value of Rls 144.5 billion during the same period. The number of household and business checks was 1,512.1 thousand, and their total value amounted to Rls 109.0 billion during the period.

The number of banks' checks (certified) totaled 230.5 thousand with a total value of Rls 35.5 billion.

Fifth: Domestic Share Market Developments

The general share price index rose during the 3rd quarter of 2007 by 12.4 percent to 7,833.42 compared to a decline of 9.1 percent at the end of the preceding quarter, recording an annual decline of 31.3 percent. During the 3rd quarter of 2007, the number of traded shares fell by 20.8 percent to Rls 11.0 billion compared to a decline of 25.9 percent in the preceding quarter. The annual growth rate of traded shares rose by 27.8 percent. Total value of traded shares went down by 18.6 percent to Rls 516.0 billion compared to a fall of 25.8 percent in the preceding quarter, with its annual growth rate declining by 54.8 percent.

At the end of the 3rd quarter of 2007, the market capitalization of issued shares rose by 19.5 percent to Rls 1,330.0 billion against a decline of 6.8 percent at the end of the preceding quarter.

Total number of transactions executed in the 3rd quarter of 2007 recorded a decrease of 17.4 percent to 14,455.4 thousand compared to a decline of 18.4 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 22.5 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded a decline of 1.8 percent (Rls 1.5 billion) to Rls 79.7 billion in the 2nd quarter of 2007 compared to a decrease of 3.5 percent (Rls 2.9 billion) in the preceding quarter, registering a negative annual growth rate of 26.9 percent (Rls 29.5 billion).

A breakdown of the funds' total assets indicates a decline in domestic assets by 4.8 percent (Rls 2.7 billion) to Rls 56.3 billion in the 2nd quarter of 2007, compared to a decline of 4.0 percent (Rls 2.5 billion) in the preceding quarter. Domestic assets recorded a negative annual growth rate of 36.9 percent (Rls 33.0 billion). Foreign assets registered a rise of 6.2 percent (Rls 1.4 billion) to Rls 23.4 billion during the 2nd quarter of 2007 against a drop of 2.1 percent (Rls 0.5 billion) in the preceding quarter, recording an annual growth rate of 17.9 percent (Rls 3.6 billion).

The number of subscribers to investment funds dropped by 5.8 percent (27,5 thousand) to 447.8 thousand in the 2nd quarter of 2007 compared to a decline of 4.7 percent (23,5 thousand) in the preceding quarter. The number of subscribers recorded a negative annual growth rate of 23.1 percent (134.8 thousand).

The number of operating funds increased by 0.9 percent to 217 in the 2nd quarter of 2007 compared to 215 in the preceding quarter. Thus, the number of operating funds registered an annual growth rate of 3.8 percent.

Seventh: Cost of Living

During the 3rd quarter of 2007 compared to the Preceding quarter, the average cost of living index increased by 2.0 percent, recording an annual rise of 4.4 percent. The index for “renovation, rent, fuel and water” rose by 3.6 percent, for “food and beverages” by 1.9 percent, “medical care” by 5.7 percent, and for “transport and communications” by 0.9 percent. On the other hand, the index for “goods and other services” dropped by 4.5 percent, “fabrics, apparel and shoes” dropped by 0.5 percent, “education and entertainment” dropped by 0.3 percent, while the index for “house furnishing” remained unchanged.

Eighth: Most Salient Legislative and Supervisory Banking Developments during the 3rd Quarter of 2007

- Follow-up circular (3) No. 643/B.C.S, dated 16/8/1428H (29/8/2007) was issued to banks concerning explanations on the Consultative Draft of capital adequacy standard according to Basel 2.
- Circular No. 26877/B.C.S, dated 25/6/1428H (10/7/2007) was issued to banks regarding the double running of the basic standard as of July 2007.
- As of 1/4/2007, Bank Muscat's branch in Riyadh has commenced its operations.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the 3rd Quarter of 2007

- The Council of Ministers issued a resolution on 17/6/1428H (2/7/2007) approving the establishment of a national association, to be named the "*Consumer Protection Association*". Its responsibilities shall include taking care of the consumer and protecting his interests; adopting his cases with public and private entities, supporting the efforts of official authorities; spreading consumer awareness; it will be also concerned with protecting him against all kinds of manipulation, counterfeiting, fraud, deception and swindling in goods and services including both imported and domestically made foodstuffs and medicine. It shall have a general assembly of citizens who are interested in protecting and looking after consumer affairs.
- The Council of Ministers issued a resolution on 24/6/1428H (9/7/2007) approving the establishment of a Center for Petroleum Studies and Research and its statute.
- The Council of Minister issued a resolution on 2/7/1428H (16/7/2007) approving the establishment of a government national committee, to be called "*the National Committee for Population*", and be concerned with population affairs.

- The Council of Ministers issued a resolution on 9/7/1428H (23/7/2007) approving the contribution by the Public Investments Fund of 30 million dollars to the capital of the International Islamic Trade Finance Corporation (ITFC).
- The Council of Ministers issued a resolution on 23/7/1428H (6/8/2007) approving the assignment of higher administrative posts to information technology in government organs and their reporting to the chief official or, as an exception, to the second official (vice or deputy chief official) and assigning the post of general director for the unit in charge of information technology in government organs.
- The Council of Ministers issued a resolution on 14/8/1428H (27/8/2007) approving the establishment of a joint-stock company, to be called "*The National Company for Unified Purchase of Medical Drugs, Equipment, and Supplies*", for the provision, delivery, storage, and re-export of medical drugs, equipment, and supplies for the government health sectors.
- The Council of Ministers issued a resolution on 14/8/1428H (27/8/2007) approving the amendment of the name of the General Organization of Technical Education and Vocational Training into (Technical and Vocational Training Corporation).
- The Council of Minister issued a resolution on 14/8/1428H (27/8/2007) allowing the Saudi Arabian Airlines (Saudia) to convert the strategic units in the sectors to be privatized into companies which Saudia will be solely licensed to establish and fully own, in preparation for their privatization in participation with investors from the private sector.
- The Council of Minister issued a resolution on 28/8/1428H (10/9/2007) approving the statute of the *Public Authority for Housing*, the transfer of the tasks related to housing strategy from the Ministry of Economy and Planning to the *Public Authority for Housing*, and the transfer of the tasks and employees of the popular housing from the Ministry of Social Affairs to the Public Authority for Housing.

- The Council of Ministers issued a resolution on 28/8/1428H (10/9/2007) approving the establishment of a joint-stock company under the name of *BUPA Arabia* for cooperative insurance.
- The Council of Ministers issued a resolution on 12/9/1428H (24/9/2007) approving the establishment of a joint-stock company under the name of “*Ras Al-Zour Company for Water and Electricity*”.