



Economic Developments

Fourth Quarter, 2007

Research and Statistics Department

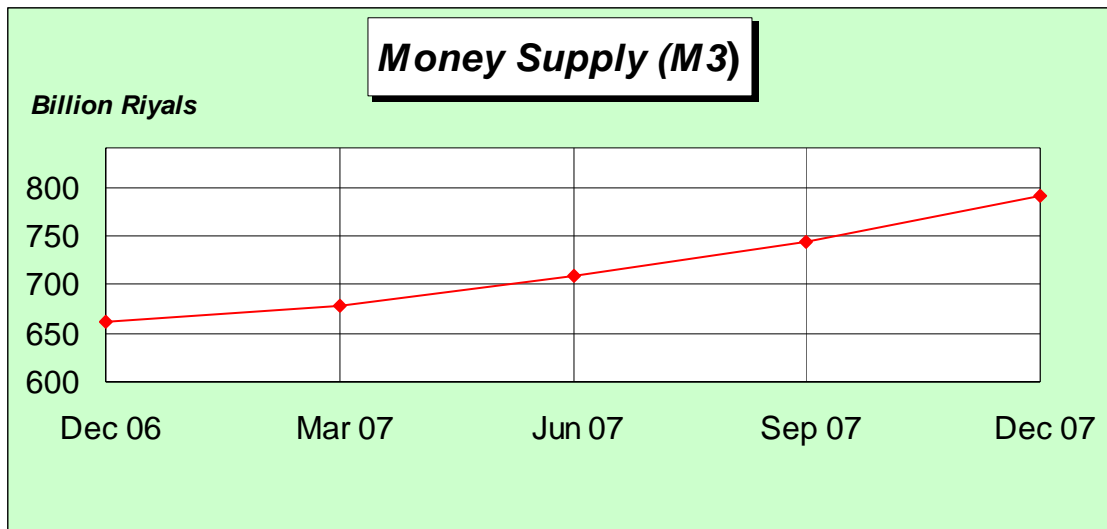
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First: Monetary Developments

Broad money (M3) rose by 6.1 percent (Rls 45.6 billion) to Rls 789.8 billion during the fourth quarter of 2007 compared to an increase of 4.9 percent (Rls 34.8 billion) during the preceding quarter. It registered an annual growth rate of 19.6 percent (Rls 129.2 billion).



An analysis of the components of money supply (M3) indicates that (M1) rose by 8.4 percent (Rls 29.6 billion) to Rls 383.6 billion, or 48.6 percent of total money supply (M3) during the fourth quarter of 2007 compared to a rise of 6.2 percent (Rls 20.8 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 22.6 percent (Rls 70.8 billion) at the end of the fourth quarter of 2007.

Money supply (M2) also went up by 7.8 percent (Rls 48.2 billion) to Rls 666.6 billion, or 84.4 percent of total money supply (M3) during the fourth quarter of 2007 against a rise of 5.2 percent (Rls 30.7 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 23.7 percent (Rls 127.8 billion) at the end of the fourth quarter of 2007.

Second: Monetary Policy

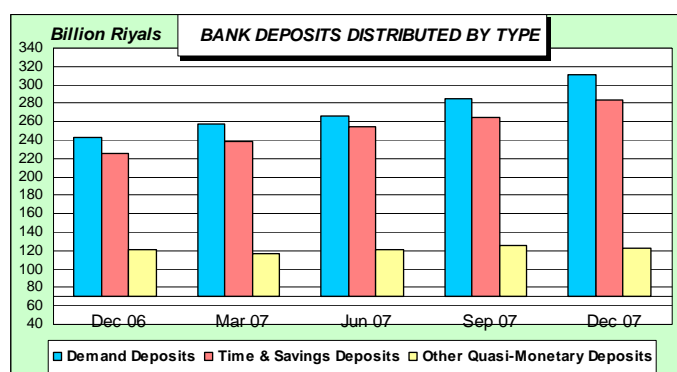
During the fourth quarter of 2007, SAMA continued to pursue a monetary policy aimed at maintaining price stability, supporting domestic economic activity and coping with domestic and global economic developments. Due to an increase in the annual inflation rate in the Kingdom to 5.4 percent at the end of October compared to 4.4 percent at the end of August, SAMA decided to increase Statutory Reserve Ratio during the fourth quarter of 2007 from 7 percent to 9 percent. It has also decided to maintain the Official Repo Rate unchanged at 5.50 percent, while decreasing the Reverse Repo Rate by 100 basis points to 4 percent to stop speculations on the Riyal. The daily average value of Repo and Reverse Repo transactions stood at Rls 635 million and Rls 65.0 billion respectively during the fourth quarter of 2007.

Inter-bank interest rates on deposits witnessed a noticeable decline during the fourth quarter of 2007. The three-month inter-bank interest rate (SIBOR) decreased from 5.09 percent at the end of the third quarter of 2007 to 4.03 percent at the end of the fourth quarter of 2007. The differential between the Riyal and the Dollar deposits for a three-month period went up to 66 basis points in favor of the Dollar at the end of the fourth quarter of 2007 against 14 basis points in favor of the Dollar at the end of the third quarter of 2007. This was attributed to increased liquidity in Riyal at the Saudi banking system and liquidity shortage in Dollar on the global markets, due to the sub-prime mortgage crisis in the United States. The Riyal exchange rate against the Dollar rose in the spot market to Rls 3.70 at the beginning of the fourth quarter as a result of further speculation on its exchange rate due to the Dollar depreciation against major currencies, leading to expectations of Riyal appreciation or delinking from the Dollar. However, the Riyal retained its stability around its official rate of 3.75 by the end of the fourth quarter due to SAMA intervention in the spot market by selling Riyal

and buying Dollar, and due to emphasis by officials of the continuation of the current policy aimed at maintaining stability of Riyal exchange rate. SAMA has also conducted Foreign Exchange Swaps with domestic banks for several terms that reached six months to absorb the excess liquidity of the Riyal and provide the required liquidity of the Dollar to the banking system.

Third: Banking Developments

3.1 Bank Deposits



Total bank deposits went up by 6.3 percent (Rls 42.5 billion) to Rls 717.6 billion during the fourth quarter of 2007 compared to an increase of 5.1 percent (Rls 32.7 billion) during the preceding quarter. It achieved an annual rise

of 21.4 percent (Rls 126.3 billion) at the end of the fourth quarter of 2007. The ratio of total bank deposits to total broad money supply (M3) stood at 90.9 percent at the end of the fourth quarter of 2007 compared to 89.5 percent at the end of the same period of the preceding year.

A review of the developments of the components of deposits by type during the fourth quarter of 2007 indicates that demand deposits rose by 9.3 percent (Rls 26.6 billion) to Rls 311.4 billion compared to a rise of 7.0 percent (Rls 18.7 billion) during the preceding quarter. Time and savings deposits went up by 7.0 percent (Rls 18.6 billion) to Rls 283.0 billion against a rise of 3.9 percent (Rls 9.9 billion) during the preceding quarter. Other quasi-monetary deposits dropped by 2.1 percent (Rls 2.6

billion) to Rls 123.1 billion compared to an increase of 3.4 percent (Rls 4.1 billion) during the preceding quarter. Demand deposits, time and savings deposits, and other quasi-monetary deposits recorded annual rises of 27.9 percent (Rls 67.9 billion), 25.2 percent (Rls 57.0 billion), and 1.1 percent (Rls 1.3 billion) respectively.

3.2 Credit and Investment Activity of Commercial Banks

Total claims of commercial banks on the private and government sectors (bank credit and investment) rose by 7.4 percent (Rls 52.5 billion) to Rls 760.9 billion during the fourth quarter of 2007 compared to an increase of 5.2 percent (Rls 34.9 billion) in the preceding quarter. At the end of the fourth quarter of 2007, they recorded an annual rise of 19.8 percent (Rls 125.8 billion) to constitute 106.0 percent of total bank deposits compared with 107.4 percent at the end of the preceding year.

Total claims of commercial banks on the government and quasi-government sectors went up by 14.3 percent (Rls 22.7 billion) to Rls 181.6 billion during the fourth quarter of 2007 compared to a decline of 1.1 percent (Rls 1.8 billion) during the preceding quarter. At the end of the fourth quarter of 2007, they registered an annual increase of 14.8 percent (Rls 23.4 billion). Their ratio to total bank deposits amounted to 25.3 percent at the end of the fourth quarter of 2007 compared with 26.8 percent at the end of the same period of the preceding year.

Total claims of commercial banks on the private sector during the fourth quarter of 2007 rose by 5.4 percent (Rls 29.7 billion) to Rls 577.9 billion compared to an increase of 7.2 percent (Rls 36.6 billion) during the preceding quarter, recording an annual rise of 21.4 percent (Rls 101.9 billion) at the end of the fourth quarter of 2007. The ratio of commercial banks' claims on the private sector to total bank deposits was

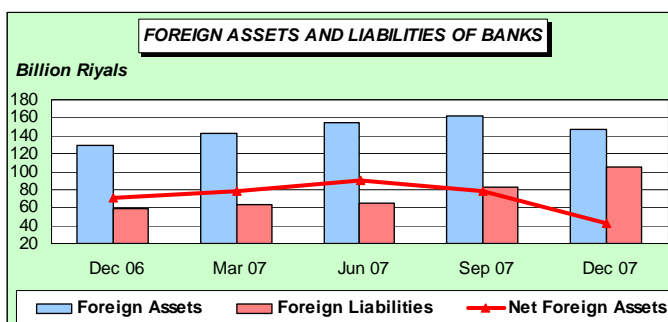
80.5 percent at the end of the fourth quarter of 2007 (the same percentage achieved at the end of the same period of the previous year).

An analysis of bank credit by maturity (private and government sectors) shows that short-term credit rose by 7.2 percent (Rls 23.3 billion) to Rls 347.6 billion during the fourth quarter of 2007 compared to a rise of 8.8 percent (Rls 26.1 billion) during the preceding quarter. Medium-term credit increased by 9.7 percent (Rls 7.4 billion) to Rls 83.2 billion compared to a rise of 7.3 percent (Rls 5.1 billion) during the preceding quarter. Long-term credit went down by 2.2 percent (Rls 3.7 billion) to Rls 164.0 billion compared to a rise of 2.8 percent (Rls 4.6 billion) during the preceding quarter.

Total bank credit by economic activity rose by 4.7 percent (Rls 26.9 billion) to Rls 594.8 billion during the fourth quarter of 2007 compared to an increase of 6.7 percent (Rls 35.9 billion) during the preceding quarter, recording an annual rise of 19.7 percent (Rls 97.8 billion) at the end of the fourth 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 fourth quarter of 2007 indicates that bank credit extended to mineral and mining went up by 49.5 percent (Rls 1.3 billion), services sector by 39.1 percent (Rls 8.0 billion), manufacturing and processing by 27.9 percent (Rls 11.9 billion), agriculture and fishing by 10.6 percent (Rls 0.8 billion), other activities by 5.7 percent (Rls 10.9 billion), transport and communications by 5.6 percent (Rls 1.1 billion), commerce by 0.1 percent (Rls 0.1 billion). In contrast, bank credit extended to finance sector dropped by 5.6 percent (Rls 3.7 billion), government and quasi-government sector by 5.0 percent (Rls 2.0 billion), building and construction by 3.0 percent (Rls 1.3 billion), water, electricity and other services by 1.9 percent (Rls 0.1 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks dropped during the fourth quarter of 2007 by 9.1 percent (Rls 14.7 billion) to Rls 147.7 billion compared to an increase of 5.1 percent (Rls 7.9



billion) during the preceding quarter, recording an annual growth rate of 13.8 percent (Rls 17.9 billion), constituting 13.7 percent of total commercial banks' assets compared with a rise of 15.1 percent at the end of the same period of the preceding year.

Banks' total foreign liabilities went up by 25.9 percent (Rls 21.7 billion) to Rls 105.2 billion during the fourth quarter of 2007 against a rise of 28.8 percent (Rls 18.7 billion) in the preceding quarter. They recorded an annual growth rate of 77.7 percent (Rls 46.0 billion), constituting 9.8 percent of total liabilities compared to 6.9 percent at the end of the same period of the preceding year.

Net foreign assets stood at Rls 42.5 billion, declining by 46.1 percent (Rls 36.4 billion) at the end of the fourth quarter of 2007 compared to a decline of 12.0 percent (Rls 10.8 billion) during the preceding quarter. Net foreign assets registered an annual negative growth rate of 39.8 percent (Rls 28.1 billion).

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks went up by 1.7 percent (Rls 1.7 billion) during the fourth quarter of 2007. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the fourth quarter of 2007 stood at 14.8

percent compared to a ratio of 13.5 percent in the same quarter of the preceding year. Their annual growth rate rose by 32.6 percent (Rls 26.1 billion). Commercial banks' profits decreased by 16.8 percent (Rls 1.3 billion) to Rls 6.5 billion during the fourth quarter of 2007 compared to Rls 7.9 billion in the preceding quarter, recording an annual negative growth rate of 12.7 percent (Rls 4.4 billion). The number of commercial banks' branches increased during the fourth quarter of 2007 to 1,353 rising by 1.0 percent (13 branches) compared with 1,340 in the preceding quarter, recording an annual growth rate of 5.0 percent (64 branches) against 1,289 in the corresponding quarter of 2006.

3-5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks amounted to Rls 1,075.2 billion during the 4th quarter of 2007, rising by 7.8 percent (Rls 77.6 billion) compared to an increase of 6.6 percent (Rls 61.5 billion) during the preceding quarter, recording an annual growth rate of 24.9 percent (Rls 214.1 billion) at the end of the 4th quarter of 2007.

Fourth: Banking Technology Developments

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) indicate that the value of transactions in the 4th quarter of 2007 totaled Rls 11,349 billion via 6.0 million transfer transactions carried out through SARIE. The value of single payments transactions totaled Rls 11,180 billion, whereas the total value of gross payments stood at Rls 168.5 billion. Customers' payments accounted for Rls 515.9 billion, rising by 19.9 percent compared to the 4th quarter of 2006. Total value of Inter-bank payments stood at Rls 10,823 billion, rising by 294.3 percent compared to the 4th quarter of 2006.

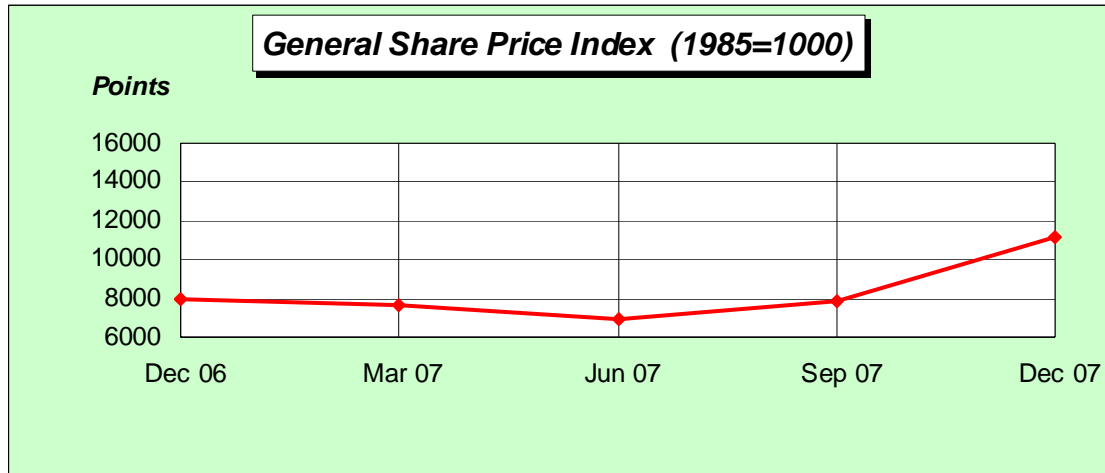
The Saudi Payments Network (SPAN) has continued to record good growth in terms of transactions made through it. Total transactions executed via SPAN in the 4th quarter of 2007 amounted to 72.6 million with a total value of Rls 39.0 billion, increasing by 12.5 percent compared to the same quarter of the previous year. The number of ATMs' transactions totaled 170.2 million during the 4th quarter of 2007, growing by 5.5 percent compared to the 4th quarter of 2006. The number of ATMs amounted to 7,543, rising by 24.1 percent compared to the same quarter of the preceding year. The number of cards issued by domestic banks exceeded 11.1 million.

Total transactions of POS terminals executed through SPAN stood at 25.1 million with a total value of Rls 9.8 billion, growing by 15.5 percent compared to the 4th quarter of the previous year. POS terminals continued their growth, amounting to 61.6 thousand at the end of the 4th quarter of 2007.

As to the clearing statistics for the 4th quarter of 2007, the number of bank checks (outgoing and incoming) cleared at clearing houses during the same period totaled 1,859 thousand with a total value of Rls 165.5 billion during the same period. The number of household and business checks was 1,620 thousand, and their total value amounted to Rls 124.8 billion during the period. The number of banks' checks (certified) totaled 239.2 thousand with a total value of about Rls 40.7 billion.

Fifth: Domestic Share Market Developments

The general share price index rose during the 4th quarter of 2007 by 42.7 percent to 11,175.96 compared to a rise of 12.4 percent at the end of the preceding quarter, recording an annual increase of 40.9 percent.



During the 4th quarter of 2007, the number of traded shares went up by 28.1 percent to Rls 14.1 billion compared to a decline of 21.7 percent in the preceding quarter. The annual growth rate of traded shares rose by 8.1 percent. Total value of traded shares rose by 7.3 percent to Rls 553.4 billion compared to a fall of 18.6 percent in the preceding quarter, with its annual growth rate declining by 22.9 percent. At the end of the 4th quarter of 2007, the market capitalization of issued shares rose by 46.3 percent to Rls 1,946.0 billion against a rise of 19.5 percent at the end of the preceding quarter. Total number of transactions executed in the 4th quarter of 2007 recorded a decrease of 15.2 percent to 12.3 million compared to a decline of 17.4 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 31.7 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded a rise of 23.0 percent (Rls 19.1 billion) to Rls 102.4 billion in the 4th quarter of 2007 compared to an increase of 4.4 percent (Rls 3.5 billion) in the preceding quarter, registering a negative annual growth rate of 21.6 percent (Rls 18.2 billion).

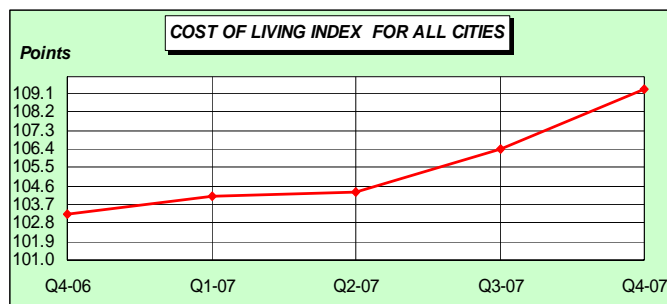
A breakdown of the funds' total assets indicates a rise in domestic assets by 33.9 percent (Rls 20.1 billion) to Rls 79.3 billion in the 4th quarter of 2007, compared to a rise of 5.2 percent (Rls 2.9 billion) in the preceding quarter. Domestic assets recorded an annual negative growth rate of 28.6 percent (Rls 17.7 billion). Foreign assets registered a decrease of 4.0 percent (Rls 1.0 billion) to Rls 23.0 billion during the 4th quarter of 2007 compared to a rise of 2.5 percent (Rls 0.6 billion) in the preceding quarter, recording an annual growth rate of 2.4 percent (Rls 0.5 billion).

The number of subscribers to investment funds dropped by 3.4 percent (14,561) to 417,918 in the 4th quarter of 2007 compared to a decline of 3.4 percent (15,280) in the preceding quarter. The number of subscribers recorded an annual negative growth rate of 16.2 percent (80,875).

The number of operating funds decreased to 216 in the 4th quarter of 2007. Thus, the number of operating funds registered an annual growth rate of 1.9 percent.

Seventh: Cost of Living

During the 4th quarter of 2007, the average cost of living index increased by 2.8 percent compared with the preceding quarter, recording an annual rise of 4.1 percent. The sub-index for “renovation, rent, fuel and water” group rose by 3.3 percent, for “food and beverages” by 4.9 percent, for “medical care” by 0.2 percent, “transport and communications” by 0.3 percent, “goods and other services” by 2.4 percent, “house furnishing” by 2.3 percent, and



“education and entertainment” by 2.4 percent. However, the sub-index for “fabrics, apparel and shoes” group remained unchanged.

Eighth: Banking Supervisory and Legislative Developments during the 4th Quarter of 2007

1. SAMA’s Circular No. 42475/M A T/788 dated 25/10/1428H (6/11/2007) was issued concerning the controls for receiving and addressing the complaints of bank customers.
2. SAMA’s Circular No. 42858/M A T/799 dated 29/10/1428H (10/11/2007) was issued concerning raising the statutory deposit to 9 percent as of November 2007.
3. SAMA’s Circular No. 822 43770/B.C.S, dated 4/11/1428H (14/11/2007) was issued regarding draft guidance to banks on outsourcing inside banks, and requested comments thereon.
4. SAMA’s Circular No. 895 46959/B.C.S, dated 28/11/1428H (8/12/2007) was issued concerning the Draft Guidance on measuring capital adequacy internally, related to the second pillar of the requirements of capital adequacy “Basel 2”.
5. SAMA issued Circular No. 907 47840/B.C.S, dated 1/12/1428H (11/12/2007) regarding a questionnaire on credit cards activity with banks.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the 4th Quarter of 2007

- Royal Decree No.(M/78) dated 19/9/1428H (1/10/2007) was issued, approving the Charter of Judiciary system, and the Grievances Bureau Charter, and the implementation work mechanism for both Charters.

- Royal Decree No.(A/164) dated 26/9/1428H (8/10/2007) was issued, promulgating the Implementation Rules of the Allegiance (Albai'ah) Law.
- The Royal Court issued a Statement on 29/9/1428H (11/10/2007) exempting all deceased men and women from all loan installments due to the Real Estate Development Fund for residential purposes, and exempting all deceased from loan installments due to the Saudi Credit & Saving Bank for social purposes.
- Royal Decree No.(M/81) dated 18/10/1428H (30/10/2007) was issued, approving a law regulating transport activity for delivery of money, precious metals, and documents of value.
- The Council of Ministers issued a resolution on 24/10/1428H (5/11/2007) approving the participation of the Ministry of Commerce and Industry in the membership of the International Bureau of Exhibitions.
- The Council of Ministers issued a resolution on 24/10/1428H (5/11/2007) approving the incorporation of a joint-stock company under the name: (the Saudi Company for Cooperative Reinsurance).
- The Council of Ministers issued a resolution on 24/10/1428H (5/11/2007) approving charging a SR1,000 fee for multi-entry visit visa for businessmen and those of similar standing, valid for one year, taking into consideration the principle of reciprocity for countries that levy lower fees or exempt Saudi businessmen from visa fees.
- The Council of Ministers issued a resolution on 2/11/1428H (12/11/2007) approving conversion of Al-Alam Company for Information Security from a Limited Liability Company into a Joint Stock Company.
- The Council of Ministers issued a resolution on 23/11/1428H (3/12/2007) approving the Law of Trademarks for GCC countries.

- A Royal Order was issued on 28/11/1428H (8/12/2007) granting a subsidy of SR1,000 per ton on imported rice, and increasing the flat subsidy on baby milk from SR2 to SR12 per kilo.