

Economic Developments

Fourth quarter of 2005

Saudi Arabian Monetary Agency

Research and Statistics Department

First: Monetary developments

During the fourth quarter of 2005, broad money supply (M3) registered an increase of 3.1 percent (Rls 16.3 billion) to reach Rls 546.3 billion compared to a rise of 0.3 percent (Rls 1.8 billion) in the preceding quarter. Broad money supply (M3) recorded an annual growth rate of 11.4 percent (Rls 56 billion). The increase is mainly attributable to the growth in bank credit to the private sector by Rls 28.1 billion.

An analysis of the components of broad money supply (M3) during the quarter shows a rise of 3.8 percent (Rls 10.4 billion) in narrowly defined money supply (M1) to Rls 283.5 billion (or 51.9 percent of total broad money supply (M3)) , compared to a decline of 0.8 percent (Rls 2.1 billion) in the preceding quarter. At the end of the fourth quarter of 2005, narrowly defined money supply (M1) registered an annual growth rate of 4.5 percent (Rls 12.2 billion). However, broader money supply (M2) went up by 3.4 percent (Rls 14.7 billion) to Rls 448.8 billion (82.2 percent of total money supply "M3"), as compared to a rise of 0.4 percent (Rls 1.9 billion) in the preceding quarter. At the end of the fourth quarter of 2005, broader money supply (M2) recorded an annual growth rate of 10 percent (Rls 40.8 billion).

Second: Monetary Policy

Monetary policy aims at maintaining stability of domestic prices and riyal exchange rate, provision of liquidity for all economic sectors and ensuring a sound financial system. Recent economic conditions (including increase in economic growth, expansion in money supply, as a result of a great rise in bank credit) required the pursuit of a more tightened monetary policy. Therefore, SAMA raised Reverse Repo Rate twice in the fourth quarter of 2005 by 25 base points each from 4.25 percent to 4.75 at the end of the quarter. In the fourth quarter, Average value of daily Repo and Reverse Repo transactions amounted to Rls 7,765 million and 1,810 million respectively.

Inter-banks interest rates witnessed a significant increase in the fourth quarter of 2005, reflecting pursued monetary policy and increased interest rates in the international markets. Inter-bank 3-month (SIBOR) interest rate went up from 4.79 percent at the end of the third quarter of 2005 to 4.97 percent at the end of the fourth quarter of 2005. Interest rate differential between riyal and US dollar for 3 months stood at 43 base points at the end of the fourth quarter of 2005 against 44 base points at the end of the preceding quarter.

Third: Developments of Banking Activities

3.1 Bank Deposits

Total bank deposits recorded an increase of 2.5 percent (Rls 11.6 billion) during the fourth quarter of 2005 to Rls 482 billion, compared to a rise of 0.5 percent (Rls 2.4 billion) during the preceding quarter, recording an annual growth rate of 12 percent (Rls 51.8 billion) at the end of the fourth quarter of 2005. The ratio of total bank deposits to total broad money supply (M3) rose to 88.2 percent at the end of the quarter from 87.7 percent at the end of the same period of the preceding year.

A review of the developments of the components of deposits by type shows a rise of 2.7 percent (Rls 5.7 billion) in demand deposits to Rls 219.3 billion during the fourth quarter of 2005 compared to a decline of 0.7 percent (Rls 1.5 billion) in the preceding quarter. Time and savings deposits increased by 2.7 percent (Rls 4.4 billion) to Rls 165.3 billion, compared to a rise of 2.6 percent (Rls 4 billion) in the preceding quarter. Other quasi-monetary deposits increased by 1.6 percent (Rls 1.6 billion) to Rls 97.5 billion compared to a fall of 0.1 percent (Rls 0.1 billion) during the preceding quarter. Demand deposits, time and savings deposits, and other quasi-monetary deposits registered annual growth rates of 3.8 percent (Rls 8.1 billion), 20.9 percent (Rls 28.6 billion), and 18.4 percent (Rls 15.2 billion) respectively.

3.2 Banks' Credit and Investment activity

Total commercial banks' claims on the government and private sectors (bank credit and investments) rose by 3.9 percent (Rls 22.5 billion) to Rls 595.9 billion during the fourth quarter of 2005 compared to a rise of 3.8 percent (Rls 21 billion) in the preceding quarter. At the end of the fourth quarter, these claims denoted an annual growth rate of 21.6 percent (Rls 105.8 billion), constituting 123.6 percent of total bank deposits compared to 114 percent at the end of the same quarter of the preceding year.

Total commercial banks' claims on the government and quasi-government sectors went down by 3.4 percent (Rls 5.6 billion) to Rls 159.5 billion during the fourth quarter of 2005 compared to a fall of 7.1 percent (Rls 12.6 billion) in the preceding quarter. At the end of the fourth quarter of 2005, their annual growth rate fell by 9.3 percent (Rls 16.3 billion). The ratio of total commercial banks' claims on government and quasi-government sectors to total bank deposits declined to 33.1 percent at the end of the fourth quarter of 2005 from 40.9 percent at the same period of the preceding year.

Total commercial banks' claims on the private sector rose by 6.9 percent (Rls 28 billion) to Rls 435.9 billion during the fourth quarter of 2005 compared to a rise of 9.1 percent (Rls 33.9 billion) in the preceding quarter, recording an annual increase of 38.9 percent (Rls 122 billion). The ratio of commercial banks' claims on the private sector to total bank deposits rose to 90.4 percent at the end of the quarter from 73 percent at the end of the same period of the preceding year.

An analysis of bank credit by maturity (private and public sectors) during the fourth quarter of 2005 shows that long-term bank credit increased by 10.1 percent (Rls 13.6 billion) to Rls 148.2 billion compared to a rise of 11.1 percent (Rls 13.5 billion). Short-term bank credit rose by 4.3 percent (Rls 10.3 billion) to Rls 250.8 billion, compared to a rise of 7.3 percent (Rls 16.3 billion). Medium-term bank credit went up by 4.2 percent (Rls 2.2 billion) to Rls 53.5 billion, compared to an increase of 6.7 percent (Rls 3.2 billion) during the preceding quarter.

Bank credit classified by economic activity during the fourth quarter of 2005 rose by 6.1 percent (Rls 26 billion) to Rls 452.5 billion, compared to a rise of 8.4 percent (Rls 33 billion) during the preceding quarter. At the end of the fourth quarter of 2005, it recorded an annual increase of 36.2 percent (Rls 120.4 billion) compared to the end of the same period of the preceding year. An analysis of bank credit to various economic activities during the fourth quarter of 2005 shows increases in bank credit to the sectors of "agriculture and fishing" by 25.1 percent (Rls 1.3 billion), "building and construction" 18.5 percent (Rls 5 billion), "finance" 15.1 percent (Rls 7.5 billion), "mining and quarrying" 13.7 percent (Rls 0.3 billion), "services" 9 percent (Rls 1.2 billion), "transport and telecommunications" 6.1 percent (Rls 0.8 billion), "commerce" 6 percent (billion 4.7 billion), "miscellaneous services" 3.1 percent (Rls 5.2 billion), "manufacturing and processing" 2.2 percent (Rls 0.8 billion), and "water, electricity

and other services" 1.6 percent (Rls 0.05 billion). Bank credit to government and quasi-government sectors declined by 2.5 percent (Rls 0.8 billion).

3.3 Foreign assets and liabilities of commercial banks

Total foreign assets of commercial banks recorded a rise of 1.4 percent (Rls 1.3 billion) to Rls 91.4 billion during the fourth quarter of 2005 compared to a rise of 8.9 percent (Rls 7.3 billion) in the preceding quarter, recording a fall in its annual growth rate by 1.5 percent (Rls 1.4 billion), constituting 12 percent of total commercial bank assets, compared to an increase of 14.2 percent at the end of the same period of the preceding year.

During the fourth quarter of 2005, total foreign liabilities of commercial banks recorded an increase of 12.5 percent (Rls 7.2 billion) to Rls 65 billion compared to a rise of 23.3 percent (Rls 10.9 billion) in the preceding quarter, registering an annual growth rate of 42.2 percent (Rls 19.3 billion) and constituting 8.6 percent of total liabilities compared to 7 percent at the end of the same quarter of the preceding year. Net foreign assets amounted to Rls 26.4 billion at the end of the fourth quarter of 2005, declining by 18.5 percent (Rls 6 billion) compared to a decline of 10 percent (Rls 3.6 billion) in the preceding quarter. The annual growth rate of net foreign assets went down by 43.9 percent (Rls 20.7 billion).

3.4 Banks' Reserves, Capitals, Profits and Branches

Capital and reserves of commercial banks rose by 3 percent (Rls 1.9 billion) during the fourth quarter of 2005. Their ratio to total bank deposits rose to 13.8 percent at the end of the quarter from 12.1 percent in the same quarter of the preceding year. Their annual growth rate went up by 27.5 percent (Rls 14.4 billion).

Commercial banks' profits went down at the end of the quarter to about Rls 6.2 billion, compared to Rls 7.2 billion during the preceding quarter, declining by 13.1 percent (Rls 0.9 billion), recording an annual growth rate of 54.5 percent (Rls 9.0 billion).

The number of commercial banks' branches operating in the Kingdom rose by 2.5 percent to 1,247 at the end of the fourth quarter of 2005 from 1,216 at the end of corresponding period in the preceding year.

Fourth: Banking Technology

SARIE has revolutionized electronic banking business and commercial transactions in the Kingdom. It constitutes the infrastructure of a number of sophisticated payments and financial settlement systems. Since the inauguration of SARIE System in 1997, continued development has been witnessed both in the technical technology of the system and banking business. A plan was completed during the previous period for the accession of the Bank of Kuwait to SARIE. According to the plan, the Bank of Kuwait is scheduled to be linked to SARIE's Live System in March 2006. Work is still in progress and special meetings are held for explaining requirements and initial work plans to Muscat Bank and Deutsche Bank as a preliminary step for their accession to SARIE.

The value of transactions carried out through SARIE during the fourth quarter of 2005 totaled Rls 3139 billion and their number stood at 458672. The value of single payments transactions amounted to Rls 3000 billion, whereas the value of bulk payments stood at Rls 135677 million. Customers' payments totaled Rls 378483 million (23 percent) compared to Rls 308134 million in the fourth quarter of the preceding year. Total value of inter-bank payments stood at Rls 2761 billion. It is expected that individual and commercial transactions via SARIE will continue to increase in the upcoming years particularly in commercial and individual transactions, apart from increased payment of salaries of employees of the government and private sectors via SARIE.

SPAN has continued to record good growth in transactions executed. Total withdrawal transactions through automated teller machines (ATMs) in the fourth quarter of 2005 amounted to 153 million, totaling Rls 68 billion, including transactions executed through banks' and SPAN networks,. Total transactions via POS terminals made through SPAN stood at 18 million with a total value of Rls 7 billion. The number of ATMs amounted to 4,594, and the number of cards issued by domestic banks exceeded 8 million at the end of the fourth quarter of 2005. POS terminals continued their growth to reach 44 thousand at the end of the same quarter.

At the end of the fourth quarter of 2005, the number of clearing houses in the Kingdom amounted to 10 in all branches of SAMA, 3 of which are automated clearing houses in Riyadh, Jeddah and Dammam. The number of checks (outgoing and incoming) cleared at clearing houses during the quarter amounted to 1,9 million with a total value of Rls 131,9 billion compared with 1,9 million checks with a value of Rls

130 billion during the same quarter of the preceding year. The number of household and businesses' checks totaled 1,6 million and their value stood at Rls 99.9 billion during the period under review, compared to 1.6 million checks totaling Rls 94.6 billion in the same quarter of the preceding year. The number of banks' checks (certified) totaled 269.6 thousand with a value of Rls 32 billion compared to 285.9 thousand checks with a total value of Rls 35.5 billion.

Fifth: Domestic Share Market Developments

During the fourth quarter of 2005, the general share price index rose by 11.2 percent to 16,712.64 compared to an increase of 11.7 percent in the preceding quarter, denoting an annual increase of 103.7 percent. The number of shares traded in the quarter went up by 9.6 percent to 3.7 billion compared to a decline of 4.4 percent in the preceding quarter, indicating an annual growth rate 19.3 percent. Total value of shares traded went up by 42.7 percent to Rls 1,483.7 billion against a drop of 7.5 percent in the preceding quarter, recording an annual growth rate of 133.3 percent.

At the end of the fourth quarter of 2005, the market capitalization of issued shares went up by 11.2 percent to Rls 2,423 billion compared to a rise of 12.1 percent at the end of the preceding quarter. The total number of executed transactions during the quarter registered a rise of 28.8 percent to 17,167.7 thousand compared to a rise of 15.9 percent during the preceding quarter, indicating an annual growth rate of 249.9 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded an increase of 20.3 percent (Rls 23.1 billion) to Rls 137.0 billion in the fourth quarter of 2005 compared to a rise of 16.3 percent (Rls 16.0 billion) in the preceding quarter, registering an annual growth rate of 127.1 percent (Rls 76.7 billion).

A breakdown of the funds' total assets indicates a rise in domestic assets by 19.1 percent (Rls 18.6 billion) to Rls 115.7 billion in the fourth quarter of 2005 compared to an increase of 18.9 percent (Rls 15.4 billion) in the preceding quarter. Domestic assets recorded an annual growth rate of 160.0 percent (Rls 71.2 billion). Foreign assets registered a rise of 27.3 percent (Rls 4.6 billion) to Rls 21.3 billion during the fourth quarter of 2005 against a rise of 3.6 percent (Rls 0.6 billion) in the preceding quarter, recording an annual growth rate of 34.7 percent (Rls 5.5 billion).

The number of subscribers to investment funds increased by 16.2 percent (79,321) to 568,284 in the fourth quarter of 2005 compared to a rise of 20.4 percent (82,723) in the preceding quarter, denoting an annual growth rate of 186.5 percent (369,927).

The number of operating funds rose from 197 in the third quarter of 2005 to 199 in the fourth quarter of 2005, increasing by 1.0 percent compared to a rise of 0.5 percent in the preceding quarter. The number of operating funds registered an annual growth rate of 5.9 percent.

Seventh: Cost of Living

During the fourth quarter of 2005, the average cost of living index (for all cities) went up by 0.8 percent compared to the third quarter of the same year. It registered a rise of 1.1 percent compared to end of the same quarter of the preceding year. The cost of living index for "goods and other services" rose by (0.46 percent), "foods and beverages" by (2.4 percent), "transport and telecommunications" by (0.8 percent), "entertainment and education" by (0.4 percent) and "house furnishing" by (0.3 percent). In contrast, it declined by 0.2 percent for "fabrics, apparel and shoes, by (0.2 percent) for "renovation, rent, fuel and water", and by 0.1 percent for "medical care".

Eighth: Supervisory and Legislative Developments during the Fourth Quarter of 2005

- Circular No.33232/MASH/516 dated 23/9/1426H. was issued providing controls for the regulation of consumer financing with a view to protect lenders, borrowers and guarantors at the same time. The controls became effective from January 2006.
- Circular No.ASH/587 dated 19/10/1426H. was issued pursuant to the Council of Minister's Resolution No.253 providing for lifting economic sanctions imposed on Iraq as the reasons for which they had been imposed no longer exist.
- Various meetings were convened with domestic banks during the fourth quarter of 2005 to discuss the extent of their readiness to apply Basel II Framework. The meetings were constructive and helpful in identifying challenges confronting banks in the application of the Framework.

Ninth: Regulatory Developments in the Saudi Economy during the Fourth quarter of 2005:

- A Royal order was issued on 6/9/1426H (Cors. to 9/10/2005) providing for the establishment of a Competition Protection Council.
- The Council of Ministers issued Resolution No. 233 dated 7/9/1426H (Cors. to 10/10/2005) requiring coordination and cooperation of government organs to provide the Central Department of Statistics, on a continuous and periodic basis, with economic and oil data; and improving transparency in the preparation of data in accordance with the General Data Dissemination System (GDSS) set by the IMF for data publication; and called for:
 - Reforming both expenditure and revenue sides, and improving State budget management, thereby, contributing to drawing the Public finance strategy;
 - Authorities concerned should work to deepen the securities secondary market and establish a secondary market for government bonds;
 - The enactment of real estate mortgage law be expedited.
- The Council of Ministers issued its Resolution on 21/9/1426H (Cors. to 24/10/2005) approving the documents of the Kingdom's accession to the World Trade Organization.
- The Council of Ministers issued its Resolution on 21/9/1426H (Cors. to 24/10/2005) dissolving the General Organization for Petroleum and Mineral Resources, cancelling its Charter and transferring the ownership of its properties to the Saudi Arabian Oil Company (Saudi Aramco).
- At its meeting held in Geneva, the World Trade Organization's General Council sanctioned the Kingdom's accession to WTO on 9/10/1426H (Cors. to 11/11/2005) in the presence of 148 member states. The Kingdom, thereby, is the 149th member state.
- The Council of Ministers issued its Resolution on 19/10/1426H (Cors. to 21/11/2005) approving the Draft Eighth Development Plan.
- The Council of Ministers issued its Resolution on 19/10/1426H (Cors. to 21/11/2005) approving the Civil Aviation Draft Tariff Regulation.
- The largest Economic City Project (King Abdullah Economic City) in the Middle East was inaugurated on 18/11/1426H (Cors. to 20/12/2005).