

Economic Developments

Fourth quarter of 2006

Saudi Arabian Monetary Agency

Research and Statistics Department

First: Monetary Developments

Broad money supply (M3) rose by 6.0 percent (Rls 37.1 billion) to Rls 660.6 billion during the fourth quarter of 2006 compared to an increase of 4.1 percent (Rls 24.4 billion) in the preceding quarter. It registered an annual growth rate of 19.3 percent (Rls 106.9 billion). A breakdown of the components of money supply (M3) during the 4th quarter of 2006 indicates that (M1) increased by 6.5 percent (Rls 19.1 billion) to Rls 312.7 or 47.3 percent of total money supply (M3), compared to a decrease of 2.4 percent (Rls 7.2 billion) in the previous quarter. At the end of the 4th quarter of 2006, narrow money supply (M1) recorded an annual rise of 10.3 percent (Rls 29.2 billion). Money supply (M2) went up by 6.5 percent (Rls 33.1 billion) to Rls 538.8 billion (or 81.6 percent of total money supply (M3) during the 4th quarter of 2006, compared to a rise of 2.9 percent (Rls 14.2 billion) in the preceding quarter. At the end of the 4th quarter of 2006, money supply (M2) registered an annual increase of 20.0 percent (Rls 90.0 billion).

Second: Monetary Policy

During the 4th quarter of 2006, SAMA continued to pursue an appropriate monetary policy to support the domestic economic activity and cope with global economic developments aiming at maintaining a stable exchange rate for the Saudi riyal and making available adequate liquidity for the banking sector. SAMA did not make any change on the official interest rates during the 4th quarter of 2006. It continued maintaining the Official Repo Rate and Reverse Repo Rate unchanged at 5.20 percent and 4.70 percent respectively. The daily average value of Repo and Reverse Repo transactions stood at Rls 778 million and Rls 8,903 million respectively in the 4th quarter

of 2006, compared to average amounts of Rls 1,017 million and Rls 9,745 million respectively in the 3rd quarter.

Inter-bank interest rates on deposits went down in the 4th quarter of 2006 due to available liquidity in the domestic market. The three-month inter-bank interest rate (SIBOR) declined from 5.24 percent at the end of the 3rd quarter of 2006 to 4.95 percent at the end of the 4th quarter of 2006. The differential between the riyal and the dollar deposits for a three-month period increased to 41 basis points in favor of the dollar at the end of the 4th quarter of 2006 against 13 basis points in favor of the dollar at the end of the 3rd quarter of 2006. The Saudi riyal maintained its exchange rate stable in the spot market around the official parity rate of SR 3.75 per dollar.

Third: Banking Developments

3-1 Bank Deposits

Total bank deposits registered an increase of 5.3 percent (Rls 29.9 billion) to Rls 591.3 billion during the fourth quarter of 2006, compared to a rise of 4.8 percent (Rls 25.8 billion) during the preceding quarter, achieving an annual rise of 20.8 percent (Rls 101.9 billion). At the end of the fourth quarter of 2006, the ratio of total bank deposits to total broad money supply (M3) stood at 89.5 percent compared with 88.4 percent at the end of the same period of the previous year.

A review of the developments of the components of deposits by type during the fourth quarter of 2006 indicates that time and savings deposits rose by 6.6 percent (Rls 14.0 billion) to Rls 226.0 billion compared to an increase of 11.2 percent (Rls 21.4 billion) in the preceding quarter. Demand deposits went up by 5.1 percent (Rls 11.8 billion) to Rls 243.4 billion compared to a decline of 2.4 percent (Rls 5.8 billion) during the preceding quarter. Other quasi-monetary deposits rose by 3.4 percent (Rls 4.0 billion) to Rls 121.8 billion against an increase of 9.4 percent (Rls 10.1 billion) during the

preceding quarter. Time and savings deposits, demand deposits and other quasi-monetary deposits recorded an annual rise of 36.8 percent (Rls 60.8 billion), 11.0 percent (Rls 24.2 billion), and 16.2 percent (Rls 16.9 billion) respectively.

3-2 Banks' Credit and Investment Activity

Total claims of commercial banks on the private and government sectors (bank credit and investments) rose by 2.1 percent (Rls 12.8 billion) to Rls 635.1 billion during the fourth quarter of 2006 compared with a rise of 2.1 percent (Rls 12.8 billion) in the preceding quarter. At the end of the fourth quarter of 2006, they recorded an annual rise of 6.6 percent (Rls 39.1 billion) to constitute 107.4 percent of total bank deposits compared with 121.8 percent at the end of the same quarter of the preceding year.

Total claims of commercial banks on the government and quasi-government sector rose by 3.3 percent (Rls 5.0 billion) to Rls 158.2 billion during the fourth quarter of 2006 compared with a decline of 0.9 percent (Rls 1.4 billion) in the previous quarter. At the end of the fourth quarter of 2006, they registered an annual decline of 0.8 percent (Rls 1.3 billion). Their ratio to total bank deposits stood at 26.8 percent at the end of the fourth quarter of 2006, compared with 32.6 percent at the end of the same period of the preceding year.

Total claims of commercial banks on the private sector rose during the fourth quarter of 2006 by 1.8 percent (Rls 8.2 billion) to Rls 476.0 billion compared to an increase of 3.0 percent (Rls 13.8 billion) during the preceding quarter. They registered an annual rise of 9.2 percent (Rls 40.1 billion) at the end of the fourth quarter of 2006. 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 2006 compared to 89.1 percent at the end of the same period of the previous year.

An analysis of bank credit by maturity (private and government sectors) shows that medium-term credit rose by 3.5 percent (Rls 2.2 billion) to Rls 64.6 billion during the fourth quarter of 2006 compared to a rise of 2.2 percent (Rls 1.4 billion) during the preceding quarter. Long-term credit went up by 1.8 percent (Rls 2.8 billion) to Rls 156.2 billion compared to a decrease of 1.9 percent (Rls 2.9 billion) during the preceding quarter. Short-term credit also increased by 0.7 percent (Rls 2.0 billion) to Rls 276.2 billion compared to a rise of 5.9 percent (Rls 15.2 billion) during the preceding quarter.

Total bank credit by economic activity rose by 1.4 percent (Rls 7.0 billion) to Rls 497.1 billion during the fourth quarter of 2006 compared to an increase of 2.9 percent (Rls 13.7 billion) during the preceding quarter, recording an annual rise of 9.8 percent (Rls 44.6 billion) at the end of the fourth quarter of 2006, 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 2006 indicates that bank credit extended to the commerce sector went up by 13.0 percent (Rls 12.8 billion), manufacturing and processing by 6.7 percent (Rls 2.4 billion), water, electricity and other services by 6.2 percent (Rls 0.2 billion), agriculture and fishing by 3.6 percent (Rls 0.2 billion), building and construction by 3.4 percent (Rls 1.2 billion), government and quasi-government sector by 3.1 percent (Rls 1.1 billion), services sector by 2.7 percent (Rls 0.4 billion), transport and communications by 0.9 percent (Rls 0.06 billion). In contrast, bank credit extended to mineral and mining went down by 9.8 percent (Rls 0.2 billion), financing by 5.6 percent (Rls 3.6 billion), and miscellaneous services sector by 4.1 percent (Rls 7.5 billion).

3-3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks during the fourth quarter of 2006 decreased by 1.0 percent (Rls 1.3 billion) to Rls 129.8 billion compared with an increase of 8.2 percent (Rls 9.9 billion) in the preceding quarter, recording an annual growth rate of 42.0 percent (Rls 38.4 billion), and constituting 15.1 percent of total commercial

banks' assets compared with 12.0 percent at the end of the same period of the preceding year.

Banks' total foreign liabilities rose by 7.9 percent (Rls 4.3 billion) to Rls 59.2 billion during the fourth quarter of 2006 compared to a decline of 5.8 percent (Rls 3.4 billion) in the preceding quarter. They recorded a negative annual growth rate of 9.0 percent (Rls 5.8 billion), constituting 6.9 percent of total liabilities compared to 8.6 percent at the end of the same period of the preceding year. Net foreign assets amounted to Rls 70.6 billion, declining by 7.4 percent (Rls 5.6 billion) at the end of the fourth quarter of 2006 compared with a rise of 21.2 percent (Rls 13.3 billion) during the preceding quarter. Hence, net foreign assets registered a rise of 167.5 percent (Rls 44.2 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 0.6 percent (Rls 0.5 billion) during the fourth quarter of 2006. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the fourth quarter of 2006 stood at 13.5 percent compared to 13.6 percent at the end of the same period of the preceding year. Their annual growth rate rose by 20.0 percent (Rls 13.3 billion). Commercial banks' profits declined to Rls 7.3 billion during the fourth quarter of 2006 compared to Rls 8.3 billion in the preceding quarter, recording a decrease of 12.4 percent (Rls 1.0 billion) and an annual growth rate of 35.3 percent (Rls 9.1 billion). The number of commercial banks' branches operating in the Kingdom went up by 3.3 percent to 1,289 at the end of the fourth quarter of 2006 against 1,248 in the same quarter of the preceding year.

Fourth: Banking Technology:

The Saudi Riyal Inter-bank Express System (SARIE) has revolutionized electronic banking business and commercial transactions in the Kingdom. It constitutes the

infrastructure on which advanced financial payments and settlements depend. Since its inauguration on 18/1/1418H (14/5/1977G.), SARIE has been undergoing ongoing development both in the technical technology of the System and in banking business.

With regard to the technical aspect, work is underway on the replacement of bank's systems at their Private Contingency Sites. Work is also currently in progress on the application of a plan to prepare programs and systems for the accession of Muscat Bank to SARIE Live System for linking it to SARIE. To develop SARIE security system, development process and tests have been completed. A work plan will be adopted to upgrade the System at SAMA Sites.

SARIE statistics for the third quarter of 2006 indicate that the value of transactions carried out through SARIE totaled Rls 3,156 billion via 5,526,475 transactions. The value of single payments transactions totaled Rls 3,020 billion, whereas the total value of gross payments stood at Rls 136 billion. Customers' payments amounted to Rls 410 billion, rising by 7.8 percent from 378 billion in the third quarter of 2005. Total value of Inter-bank payments stood at Rls 2,746 billion.

The Saudi Payments Network (SPAN) is still recording good growth in terms of transactions made through it. Total operations executed via SPAN in the third quarter amounted to 161 million with a total value of Rls 74 billion. Total transactions of POS terminals executed through SPAN stood at 21.7 million with a total value of Rls 7.4 billion. The number of ATMs amounted to 6,067 and the number of cards issued by domestic banks exceeded 10 million. POS terminals continued their growth, increasing to more than 52,700 thousand at the end of the third quarter of 2006.

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. In 2001, they were provided with state-of-the-art machines that archive checks copies by using scanning technique in lieu of previously used microfilm.

The number of bank checks (outgoing and incoming) cleared at clearing houses during the third quarter of 2006 totaled 5,927,381 with a total value of Rls 132.8 billion during the same period. The number of household and business checks totaled 6,195,071 and their total value amounted to Rls 100.8 billion during the period. The number of banks' checks (certified) totaled 973,230 with a total value of Rls 32.0 billion.

Fifth: Domestic Share Market Developments

The general share price index declined during the fourth quarter of 2006 by 30.5 percent to 7,933.29 compared to a fall of 13.2 percent in the preceding quarter, recording an annual decrease of 52.5 percent. The number of shares traded in the fourth quarter of 2006 declined by 29.4 percent to 13.4 billion compared to an increase of 0.6 percent in the preceding quarter. The annual growth rate of shares traded increased by 343.3 percent. Total value of shares traded went down by 48.9 percent to Rls 718.3 billion compared to an increase of 5.4 percent in the preceding quarter, recording an annual growth rate of 27.1 percent.

At the end of the fourth quarter of 2006, the market capitalization of issued shares went down by 28.6 percent to Rls 1,226.0 billion compared to a decline of 12.8 percent at the end of the preceding quarter. The total number of executed transactions during the quarter registered a drop of 30.3 percent to 19,366.4 thousand compared to a decline of 2.0 percent during the preceding quarter, with its annual growth rate increasing by 106.2 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded a decline of 16.4 percent (Rls 16.5 billion) to Rls 84.2 billion in the fourth quarter of 2006 compared to a decrease of 7.8 percent (Rls 8.5 billion) in the preceding quarter, registering a negative annual growth rate of 38.5 percent (Rls 52.8 billion).

A breakdown of the funds' total assets indicates a decline in domestic assets by 21.8 percent (Rls 17.2 billion) to Rls 61.7 billion in the fourth quarter of 2006, compared to a decline of 11.8 percent (Rls 10.5 billion) in the preceding quarter. Domestic assets recorded a negative annual growth rate of 46.7 percent (Rls 54.0 billion). Foreign assets registered an increase of 3.0 percent (Rls 0.7 billion) to Rls 22.5 billion during the fourth quarter of 2006 against a drop of 10.1 percent (Rls 2.0 billion) in the preceding quarter, recording an annual growth rate of 5.6 percent (Rls 1.2 billion).

The number of subscribers to investment funds dropped by 8.6 percent (46,825) to 498,793 in the fourth quarter of 2006 compared to a decline of 6.3 percent (36,960) in the preceding quarter. The number of subscribers recorded an annual growth rate of 12.2 percent (69,491).

The number of operating funds in the fourth quarter of 2006 remained unchanged at 209 compared to the preceding quarter. Thus, the number of operating funds registered an annual growth rate of 7.6 percent.

Seventh: Cost of Living

During the fourth quarter of 2006, the average cost of living index increased by 1.3 percent, recording an annual increase of 1.8 percent. Compared with the preceding quarter, the index for “goods and other services” rose by 0.1 percent, “medical care” by 0.2 percent, “foods and beverages” by 3.4 percent, “transport and communications” by 0.1 percent, “house furnishing” by 1.6 percent, “education and entertainment” by 0.4 percent, and “renovation, rent, fuel and water” by 1.2 percent, while the index for “fabrics, apparel and shoes” remained unchanged.

Eighth: Banking Supervisory and Legislative Developments during the third quarter of 2006

- Circular No. B.C.S/35372 dated 9/10/ 1427 H (31/10, 2006G) was issued to banks concerning the document issued by Basel Committee requiring banks to observe and comply with regulations.

- No new licenses were issued to foreign banks in the fourth quarter of 2006 to establish branches in the Kingdom.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the Fourth Quarter of 2006

- The Council of Ministers issued a Resolution on 16/9/1427H (9/10/2006G) approving the establishment of 13 joint stock cooperative insurance companies.
- The Council of Ministers issued a Resolution on 23/9/1427H (16/10/2006G) approving the Poverty Addressing Strategy.
- The Council of Ministers issued a Resolution on 22/10/1427H (13/11/2006G) approving the establishment of Jeddah Corporation for Development and Urban Development.
- The Council of Ministers issued a Resolution on 6/11/1427H (27/11/2006G) approving an increase in the Kingdom's subscription to the capital of the Islamic Development Bank.