

Economic Developments

Second quarter of 2007

Saudi Arabian Monetary Agency

Research and Statistics Department

First: Monetary Developments

Broad money (M3) rose by 4.6 percent (Rls 31.5 billion) to Rls 709.3 billion during the second quarter of 2007 compared to an increase of 2.6 percent (Rls 17.3 billion) during the first quarter of the same year. It registered an annual growth rate of 18.4 percent (Rls 110.2 billion).

An analysis of the components of money supply (M3) indicates that (M1) rose by 3.2 percent (Rls 10.4 billion) to Rls 333.1 billion, or 47.0 percent of total money supply (M3) in the second quarter of 2007 compared to a rise of 3.2 percent (Rls 9.9 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 10.7 percent (Rls 32.3 billion) at the end of the second quarter of 2007. Money supply (M2) also went up by 4.6 percent (Rls 26.0 billion) to Rls 587.7 billion, or 82.9 percent of total money supply (M3) during the second quarter of 2007 against a rise of 4.25 percent (Rls 22.9 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 19.6 percent (Rls 96.2 billion) at the end of the second quarter of 2007.

Second: Monetary Policy

During the second 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. SAMA did not make any change on the official interest rates during the second 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 702 million and Rls 42.700 million respectively in the second quarter of 2007.

Inter-bank interest rates on deposits witnessed a slight rise during the second quarter of 2007. The three-month inter-bank interest rate (SIBOR) increased from 5.00 percent at the end of the first quarter of 2007 to 5.05 percent at the end of the second quarter of 2007. The differential between the Riyal and the Dollar deposits for a three-month period went up to 32 basis points in favor of the dollar at the end of the second quarter of 2007 against 29 basis points in favor of the dollar at the end of the first quarter of 2007. The Saudi Riyal maintained its exchange rate stable in the spot market around the official parity rate of Rls 3.75 per dollar.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits went up by 4.8 percent (Rls 29.5 billion) to Rls 642.3 billion during the second quarter of 2007 compared to an increase of 3.6 percent (Rls 21.5 billion) during the preceding quarter. It achieved an annual rise of 19.9 percent (Rls 106.7 billion) at the end of the second quarter of 2007. The ratio of total bank deposits to total broad money supply (M3) stood at 90.6 percent at the end of the second quarter of 2007 compared to 89.4 percent at the end of same period of the preceding year.

A review of the developments of the components of deposits by type during the second quarter of 2007 indicates that demand deposits rose by 3.3 percent (Rls 8.5 billion) to Rls 266.1 billion compared to a rise of 5.8 percent (Rls 14.2 billion) during the preceding quarter. Time and savings deposits went up by 6.5 percent (Rls 15.6 billion) to Rls 254.5 billion against a rise of 5.7 percent (Rls 13.0 billion) during the preceding quarter. Other quasi-monetary rose by 4.7 percent (Rls 5.5 billion) to Rls 121.6 billion

compared to a decline of 4.6 percent (Rls 5.6 billion) during the preceding quarter. Demand deposits, time and savings deposits and other quasi-monetary deposits recorded an annual rise of 12.1 percent (Rls 28.8 billion), 33.6 percent (Rls 64.0 billion), and 13.0 percent (Rls 14.0 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 4.8 percent (Rls 30.8 billion) to Rls 672.3 billion during the second quarter of 2007 compared to an increase of 1.1 percent (Rls 7.3 billion) in the preceding quarter. At the end of the second quarter of 2007, they recorded an annual rise of 10.5 percent (Rls 63.7 billion) to constitute 104.7 percent of total bank deposits compared with 113.6 percent at the end of the same quarter of the preceding year.

Total claims of commercial banks on on the government and quasi-government sectors went up by 0.9 percent (Rls 1.4 billion) to Rls 160.7 billion during the second quarter of 2007 compared with a rise of 0.7 percent (Rls 1.0 billion) during the preceding quarter. At the end of the second quarter of 2007, they registered an annual increase of 3.9 percent (Rls 6.1 billion). Their ratio to total bank deposits amounted to 25.0 percent at the end of the second quarter of 2007 compared with 28.9 percent at the end of the same period of the preceding year.

Total claims of commercial banks on the private sector rose during the second quarter of 2007 by 6.1 percent (Rls 29.4 billion) to Rls 511.6 billion compared to an increase of 1.3 percent (Rls 6.2 billion) during the preceding quarter, recording an annual rise of 12.7 percent (Rls 57.6 billion) at the end of the second quarter of 2007. The ratio of commercial banks' claims on the private sector to total bank deposits was 79.7 percent at the end of the second quarter of 2007 compared to 84.8 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 dropped by 11.0 percent (Rls 8.7 billion) to Rls 70.7 billion during the second quarter of 2007 compared to a rise of 22.9 percent (Rls 14.8 billion) during the preceding quarter. Long-term credit increased by 10.0 percent (Rls 14.8 billion) to Rls 163.2 billion compared to a drop of 5.0 percent (Rls 7.8 billion) during the preceding quarter. Short-term credit also went up by 8.3 percent (Rls 23.0 billion) to Rls 298.2 billion compared to a decline of 0.4 percent (Rls 1.0 billion) in the preceding quarter.

Total bank credit by economic activity rose by 5.8 percent (Rls 29.1 billion) to Rls 532.1 billion during the second quarter of 2007 compared to an increase of 1.2 percent (Rls 5.9 billion) during the preceding quarter, recording an annual rise of 11.7 percent (Rls 55.7 billion) at the end of the second 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 second quarter of 2007 indicates that bank credit extended to transport and communications went up by 10.8 percent (Rls 1.0 billion), agriculture and fishing by 8.5 percent (Rls 0.6 billion), water, electricity and other services by 38.6 percent (Rls 1.5 billion), commerce by 8.2 percent (Rls 9.4 billion), manufacturing and processing by 9.0 percent (Rls 3.4 billion), services sector by 2.6 percent (Rls 0.4 billion), the financing sector by 5.0 percent (Rls 2.9 billion), building and construction by 11.9 percent (Rls 4.4 billion), government and quasi-government by 3.5 percent (Rls 1.2 billion), and other activities by 2.4 percent (Rls 4.3 billion). In contrast, bank credit extended to mineral and mining dropped by 2.7 percent (Rls 0.1 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks rose during the second quarter of 2007 by 8.4 percent (Rls 12.0 billion) to Rls 154.5 billion compared to an increase of 9.8

percent (Rls 12.7 billion) during the preceding quarter, recording an annual growth rate of 27.5 percent (Rls 33.3 billion), and constituting 16.5 percent of total commercial banks' assets compared with 15.9 percent at the end of the same period of the preceding year.

Banks' total foreign liabilities went up by 1.3 percent (Rls 0.8 billion) to Rls 64.9 billion during the second quarter of 2007 against a rise of 8.2 percent (Rls 4.9 billion) in the preceding quarter. They recorded an annual growth rate of 11.4 percent (Rls 6.6 billion), constituting 6.9 percent of total liabilities compared to 7.1 percent at the end of the same period of the preceding year. Net foreign assets stood at Rls 89.6 billion, rising by 14.1 percent (Rls 11.1 billion) at the end of the second quarter of 2007 compared to an increase of 11.2 percent (Rls 7.9 billion) during the preceding quarter. Hence, net foreign assets registered a rise of 42.4 percent (Rls 26.7 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 2.8 percent (Rls 3.1 billion) to Rls 106.1 billion during the second quarter of 2007. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2007 stood at 16.5 percent compared to a ratio of 17.8 percent in the preceding year. Their annual growth rate rose by 29.8 percent (Rls 24.4 billion). Commercial banks' profits rose to Rls 8.0 billion during the second quarter of 2007 compared to Rls 7.8 billion in the preceding quarter, recording a rise of 2.3 percent (Rls 0.2 billion) and a negative annual growth rate of 17.0 percent (Rls 3.3 billion).

3.5 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 (14/5/1997G.), SARIE has been undergoing ongoing development both in the technical technology of the System and in banking business.

SARIE statistics for the second quarter of 2007 indicate that the value of transactions carried out through SARIE totaled Rls 8,500 billion via 7,082,449 transactions. The value of single payments transactions totaled Rls 8,345 billion, whereas the total value of gross payments stood at Rls 155 billion. Customers' payments amounted to Rls 474 billion, rising by 11.0 percent from 427 billion in the second quarter of 2006. Total value of Inter-bank payments stood at Rls 8,025 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 second quarter amounted to 71.8 million with a total value of Rls 36.9 billion. Total transactions of ATMs amounted to 170.1 million. The number of ATMs stood at 6,850 and the number of cards issued by domestic banks exceeded 10.4 million. As for POS transactions, total transactions of POS terminals executed through SPAN stood at 26 million with a total value of Rls 10.3 billion. POS terminals continued their growth, increasing to more than 57,520 thousand at the end of the second quarter of 2007.

The number of bank checks (outgoing and incoming) cleared at clearing houses during the second quarter of 2007 totaled 1,885.6 thousand with a total value of Rls 159.2 billion during the same period. The number of household and business checks totaled 1,630.8 thousand and their total value amounted to Rls 112.2 billion during the period. The number of banks' checks (certified) totaled 254.8 thousand with a total value of Rls 46.9 billion.

Fifth: Domestic Share Market Developments

The general share price index declined during the 2nd quarter of 2007 by 9.1 percent to 6,970 compared to a fall of 3.4 percent in the preceding quarter, recording an annual decrease of 47.0 percent. The number of shares traded in the 2nd quarter of 2007 decreased by 25.9 percent to 13,929 million compared to a rise of 40.4 percent in the preceding quarter. The annual growth rate of shares traded at the end of the 2nd quarter of 2007 was 123.5 percent (taking into consideration share split). Total value of shares traded also went down by 25.8 percent to Rls 633.8 billion compared to an increase of 19.0 percent in the preceding quarter, recording a negative annual growth rate of 52.4 percent.

At the end of the 2nd quarter of 2007, the market capitalization of issued shares went down by 6.8 percent to Rls 1,113 billion compared to a decline of 2.6 percent at the end of the previous quarter. The total number of transactions executed during the 2nd quarter of 2007 registered a decline of 18.4 percent to 17,505.3 thousand compared to a rise of 10.7 percent during the preceding quarter, with its annual growth rate decreasing by 38.3 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded a decline of 1.83 percent (Rls 1.5 billion) to Rls 79.8 billion in the second quarter of 2007 compared to a decrease of 3.5 percent (Rls 3.0 billion) in the preceding quarter, registering a negative annual growth rate of 27.0 percent (Rls 29.5 billion).

A breakdown of the funds' total assets indicates a decline in domestic assets by 4.8 percent (Rls 2.9 billion) to Rls 56.3 billion in the second 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 37.0 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 second quarter of 2007 against a decrease of 2.1 percent (Rls 0.5 billion) in the preceding quarter, recording an annual growth rate of 18.0 percent (Rls 3.6 billion).

The number of subscribers to investment funds dropped by 5.8 percent (27,532) to 447,759 in the second quarter of 2007 compared to a decline of 4.7 percent (23,502) in the preceding quarter. The number of subscribers recorded a negative annual growth rate of 23.1 percent (134,819).

The number of operating funds increased by 0.9 percent to 217 in the second 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 2nd quarter of 2007, the average cost of living index increased by 0.19 percent, recording an annual rise of 3.0 percent. The index for “foods and beverages” dropped by 1.3 percent, “fabrics, apparel and shoes” by 0.9 percent, “transport and communications” by 0.2 percent, and “education and entertainment” by 0.3 percent. On the other hand, the index for “renovation, rent, and fuel” rose by 2.9 percent, “medical care” by 0.3 percent, and “goods and other services” by 0.9 percent.

Eighth: Latest Banking Supervisory and Legislative Developments during the 2nd quarter of 2007

First: Legislative and Regulatory Developments:

- Follow-up circular No. 12251/B.C.S dated 23/3/1428H (11/4/2007) was issued to banks concerning the structuring of credit risk assessment offered by External Credit Assessment Institutions (ECAI’s) which are qualified for determining the weights of risks.

- Follow-up circular No. 15085/B.C.S dated 11/4/1428H (28/4/2007) was issued to banks regarding the explanations on the Consultative Draft of capital adequacy standard in accordance with the Basel 2.
- Follow-up circular No. 378/B.C.S dated 7/5/1428H (24/5/2007) was issued to banks including a guidance draft for the disclosure requirements of capital adequacy standard with accordance to Basel 2 (pillar 3).
- SAMA’s circular No. 19635/MASH/381 dated 10/5/1428H was issued concerning SAMA’s intention to execute the SAMA NET project which aims at developing its transactions with banks operating in the Kingdom and other entities through electronic linkage with the purpose of enhancing the services offered by SAMA to those entities, raising work efficiency and meeting the interests in conformity with the applied rules.
- Follow-up circular (2) No. 20310/B.C.S dated 13/5/1428H (30/5/2007) was issued to banks regarding the explanations on the Consultative Draft of capital adequacy standard in accordance with the Basel 2.
- SAMA’s circular No. 474/B.C.S was issued in June 2007 concerning a questionnaire on the costs of disclosure.
- SAMA’s circular No. 455/B.C.S dated 4/6/1428H (19/6/2007) was issued regarding SAMA’s updating the list of foreign banks whose guarantees are accepted by domestic banks.
- Follow-up circular No. 24568/MAT/24568 dated 10/6/1428H (25/6/2007) was issued to banks concerning some amendments to SAMA’s circular No. 5555/MAT/95 dated 8/2/1428H regarding the second update of opening bank accounts, especially serving banks’ blind clients.

Second: Recent domestic developments in opening branches for GCC banks in the Kingdom:

- On 1/4/2007, Bank Muscat's branch in Riyadh was officially inaugurated and started its business.

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

- The Council of Ministers' Resolution was issued on 22/4/1428H (9/5/2007) approving the formation of an autonomous authority of a legal personality engaged in housing and aimed at making accessible proper accommodation for citizens and establishing appropriate residences for the needy who are unable to benefit from government and private lending and funding programs. It also has the power to build public residences.
- The Council of Ministers' Resolution was issued on 27/4/1428H (14/5/2007) approving the establishment of the *Saudi-Tunisian Company for Developmental Construction* after converting it into a lending institution that operates in its capacity as comprehensive (commercial) banks.
- The Council of Ministers' Resolution was issued on 11/5/1428H (28/5/2007) approving the National Plan for Communications and Information Technology.
- The Council of Ministers' Resolution was issued on 25/5/1428H (11/6/2007) approving the license to establish a Saudi joint-stock company under the name: the Saudi Mobile Telecommunications Co. to practice the telecommunication business. The Company will offer 50 percent of its capital shares for IPO.