



Economic Developments

Fourth Quarter, 2008

Research and Statistics Department

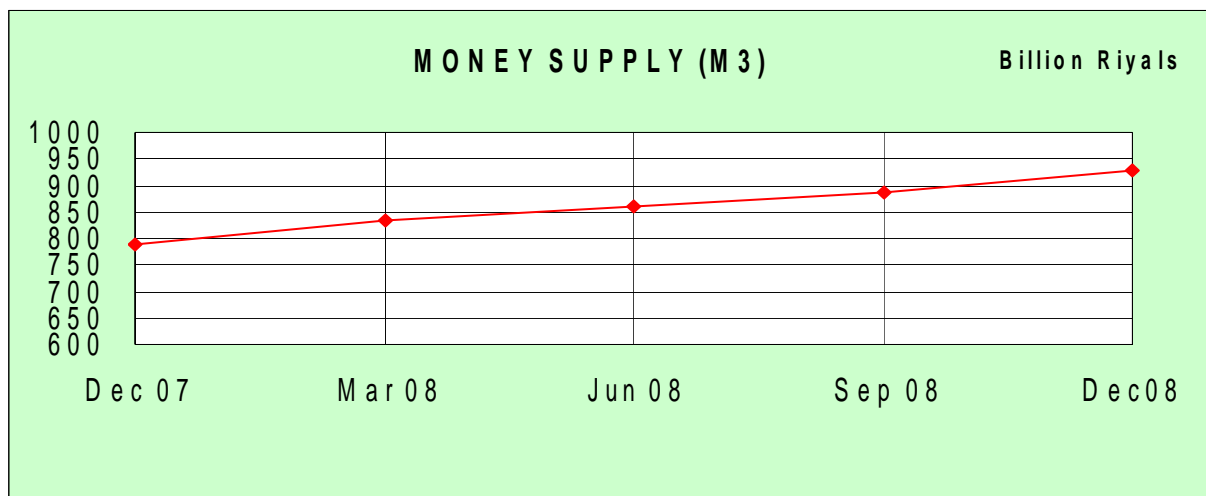
February 2009

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First: Monetary Developments

Broad money (M3) rose by 4.6 percent (Rls 40.6 billion) to Rls 929.1 billion during the fourth quarter of 2008 compared to an increase of 3.2 percent (Rls 27.8 billion) during the preceding quarter. It registered an annual growth rate of 17.6 percent (Rls 139.4 billion).



An analysis of the components of money supply (M3) indicates that (M1) declined by 1.8 percent (Rls 7.5 billion) to Rls 425.5 billion, or 45.8 percent of total money supply (M3) during the fourth quarter of 2008 compared to a decline of 2.6 percent (Rls 11.2 billion) in the preceding quarter. Money supply (M1) registered an annual rise of 10.9 percent (Rls 41.9 billion) at the end of the fourth quarter of 2008.

Money supply (M2) went up by 6.5 percent (Rls 48.7 billion) to Rls 793.1 billion, or 85.4 percent of total money supply (M3) during the fourth quarter of 2008, against a rise of 4.6 percent (Rls 32.5 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 19.0 percent (Rls 126.5 billion) at the end of the fourth quarter of 2008.

Second: Monetary Policy: Fourth Quarter, 2008

During the fourth quarter of 2008, SAMA continued to pursue a monetary policy aimed at achieving stability in the financial sector in light of the global financial

crisis, and provide the necessary liquidity to be able it to perform its funding role, especially that the annual inflation rate in the Kingdom went down to 9.00 percent by the end of December 2008 compared to 10.35 percent by the end of September of the year. SAMA has taken a package of anticipatory measures during the fourth quarter of 2008 to enhance the liquidity position and thus reduce the cost of loans to meet the local demand for credit in order to ensure that banks continue to perform their funding role in the Kingdom's development process. The most important measures in this connection are the following:

- 1- Reducing the Statutory Deposit Ratio for demand deposits to 7 percent in November 2008 against 13 percent in September 2008, and maintaining that for time and savings deposits at 4.0 percent.
- 2- Reducing the Repo Rate from its previous level of 5.50 percent to 2.50 percent gradually in December 2008 and the Reverse Repo Rate from 2 percent to 1.50 percent. SAMA's daily average of Repo transactions stood at Rls 2,489 million in the fourth quarter of 2008 and Reverse Repo transactions was Rls 16,939 million during the same period, reflecting the effectiveness of actions taken by SAMA to provide liquidity to the banking sector.
- 3- Reducing the pricing of Treasury Bills by fifty basis points lower than the Saudi inter-bank deposit rate (SIBID), in addition to limiting the issuance of treasury bills, which had previously been unlimited, to Rls 3000 million per week.
- 4- Creating cash deposits, not only in domestic currency but also in Dollar, in the domestic Money Market in order to enhance liquidity through the placement of time deposits with domestic banks. Total time deposits amounted to Rls 6,100 million in Riyal and \$2,100 million in Dollar.
- 5- SAMA also strengthened the liquidity position in the banking system through placement of time deposits with domestic banks for a relatively long period on behalf of government authorities and institutions and in coordination with them, in view of the fact that such deposits are considered customers' deposits included within the ratio of deposits to loans. Hence banks would be able to expand credit.

Total amount of deposits placed on behalf of governmental authorities and institutions stood at Rls 17,900 million.

- 6- SAMA entered into foreign exchange swaps during the fourth quarter with domestic banks for several periods in order to provide the necessary liquidity in U.S. dollar for the Saudi banking system, due to a shortage of the Dollar as a result of the global crisis. Total amount of foreign exchange swaps stood at \$2,600 million at the end of the fourth quarter, compared to \$1,000 million at the end of the third quarter.

Inter-bank interest rates on deposits witnessed a marked decline in the fourth quarter, as a result of the actions taken by SAMA. The three-month inter-bank interest rate (SIBOR) went down from 4.40 percent at the end of the third quarter of 2008 to 2.57 percent at the end of the fourth quarter of the year. The differential between the Riyal and the Dollar deposits for a three-month period turned in favor of the Riyal with 113 basis points at the end of the fourth quarter, compared with 35 basis points at the end of the third quarter, due to the significant lowering of interest rate on the Dollar by the U.S. Federal Reserve. At the end of the fourth quarter of 2008, the Saudi Riyal exchange rate maintained its stability against the Dollar at its official rate of Rls 3.75.

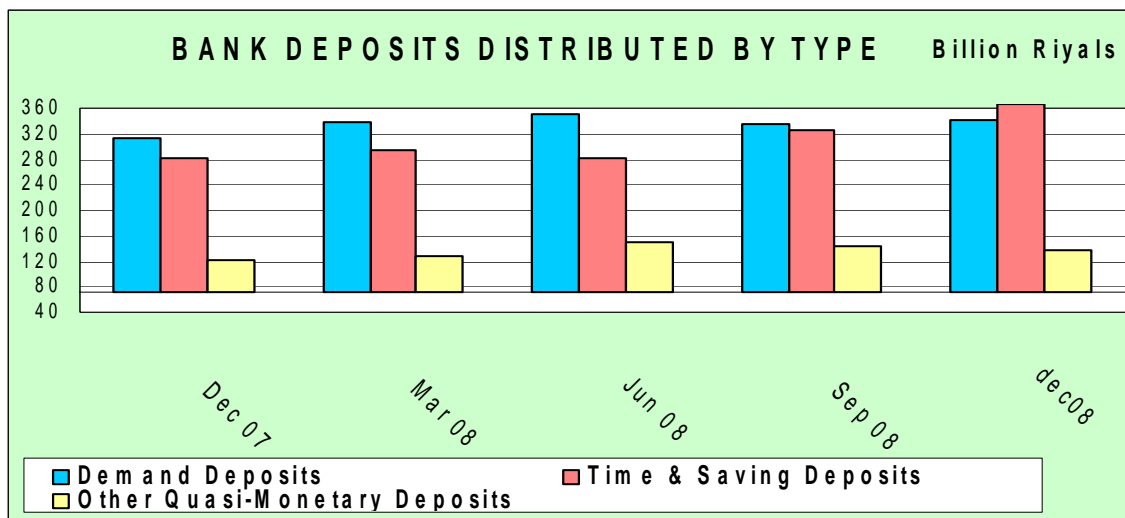
In the light of the present global financial crisis and signs of economic recession beginning to emerge in some countries, it is expected that SAMA will continue in the first quarter of 2009 to focus on controlling liquidity to meet needs of the national economy,

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits went up by 5.2 percent (Rls 42.0 billion) to Rls 846.1 billion during the fourth quarter of 2008 compared to an increase of 2.7 percent (Rls 21.0 billion) during the preceding quarter, recording an annual rise of 17.9 percent (Rls

128.5 billion) at the end of the fourth quarter of 2008. The ratio of total bank deposits to total broad money supply (M3) stood at 91.1 percent at the end of the fourth quarter of 2008 compared to 90.8 percent at the end of same period of the preceding year.



A review of the components of deposits by type during the fourth quarter of 2008 indicates that other quasi-monetary deposits declined by 5.6 percent (Rls 8.0 billion) to Rls 136.0 billion compared to a decline of 3.2 percent (Rls 4.7 billion) during the preceding quarter. Demand deposits increased by 2.7 percent (Rls 8.9 billion) to Rls 342.5 billion compared to a drop of 5.1 percent (Rls 18.0 billion) during the preceding quarter, while time and savings deposits went up by 12.6 percent (Rls 41.1 billion) to Rls 367.6 billion against a rise of 15.5 percent (Rls 43.7 billion) during the preceding quarter. Demand deposits, time and savings deposits, and other quasi-monetary deposits recorded annual rises of 10.0 percent (Rls 31.1 billion), 29.9 percent (Rls 84.6 billion), and 10.4 percent (Rls 12.9 billion), respectively.

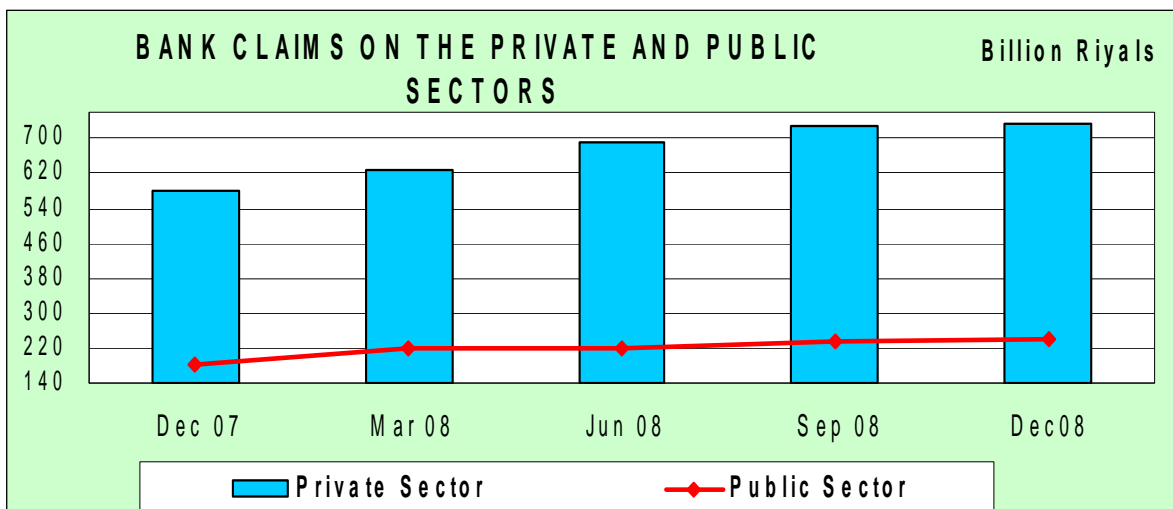
3.2 Credit and Investment Activity of Banks

Total claims of commercial banks on the private and government sectors (bank credit and investments) rose by 1.3 percent (Rls 12.9 billion) to Rls 976.6 billion during the fourth quarter of 2008 compared to an increase of 6.0 percent (Rls 54.3 billion) in the preceding quarter. At the end of the fourth quarter of 2008, they

recorded an annual rise of 28.6 percent (Rls 217.1 billion) to constitute 115.4 percent of total bank deposits compared with 105.8 percent at the end of the same quarter in the preceding year.

Total claims of commercial banks on the private sector during the fourth quarter of 2008 went up by 1.0 percent (Rls 6.2 billion) to Rls 734.6 billion compared to an increase of 5.5 percent (Rls 38.1 billion) during the preceding quarter, recording an annual rise of 27.1 percent (Rls 156.7 billion) at the end of the fourth quarter of 2008. The ratio of commercial banks' claims on the private sector to total bank deposits was 86.8 percent at the end of the fourth quarter of 2008 compared to 80.5 percent at the end of the same quarter of the previous year.

Total claims of commercial banks on the government and quasi-government sectors rose by 3.4 percent (Rls 7.9 billion) to Rls 242.0 billion during the fourth quarter of 2008 compared to an increase of 7.4 percent (Rls 16.0 billion) during the preceding quarter. At the end of the fourth quarter of 2008, they registered an annual increase of 33.2 percent (Rls 60.4 billion). Their ratio to total bank deposits amounted to 28.6 percent at the end of the fourth quarter of 2008 compared with 21.5 percent at the end of the same quarter of the preceding year.

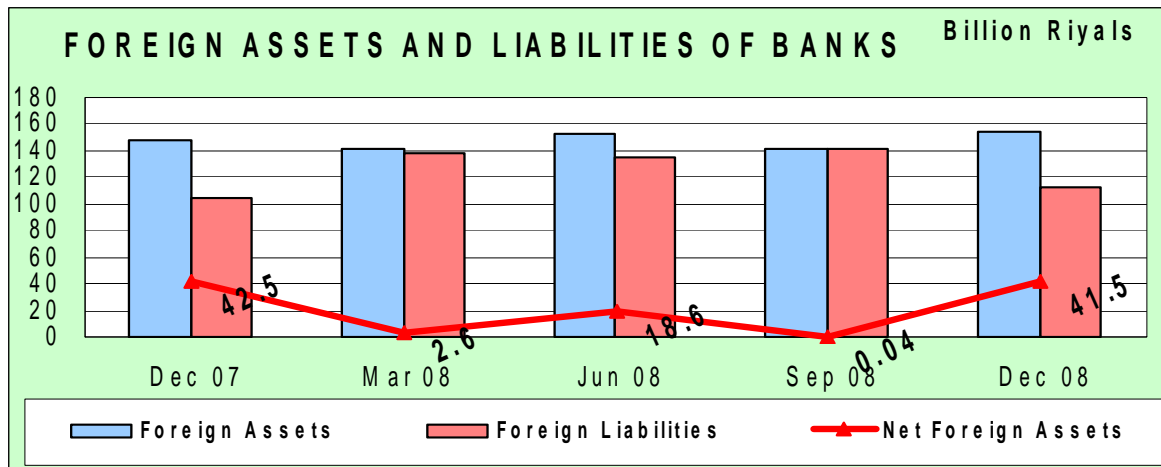


An analysis of bank credit by maturity (private and government sectors) shows that short-term credit increased by 4.4 percent (Rls 19.9 billion) to Rls 476.6 billion compared to an increase of 5.8 percent (Rls 25.0 billion) during the preceding quarter. Medium-term credit rose by 0.9 percent (Rls 1.0 billion) to Rls 104.6 billion during the fourth quarter of 2008 compared to a rise of 5.8 percent (Rls 5.7 billion) during the preceding quarter. Long-term credit went down by 8.7 percent (Rls 15.6 billion) to Rls 163.6 billion compared to a rise of 2.7 percent (Rls 15.6 billion) during the preceding quarter.

Total bank credit by economic activity rose by 0.7 percent (Rls 5.2 billion) to Rls 744.8 billion during the fourth quarter of 2008 compared to an increase of 5.0 percent (Rls 35.3 billion) during the preceding quarter, recording an annual rise of 25.2 percent (Rls 150.0 billion) at the end of the fourth quarter of 2008. A breakdown of bank credit by different economic activities during the fourth quarter of 2008 indicates that bank credit extended to “agriculture and fishing” went up by 6.8 percent (Rls 0.7 billion), “water, electricity and other services” by 7.1 percent (Rls 0.7 billion), “building and construction” by 1.5 percent (Rls 0.8 billion), and “commerce” by 4.4 percent (Rls 7.5 billion). On the other hand, bank credit extended to “finance” dropped by 9.2 percent (Rls 1.7 billion), “other miscellaneous services” by 1.1 percent (Rls 3.2 billion), “mineral and mining” by 0.7 percent (Rls 0.03 billion); bank credit extended to "government and quasi-government sector" dropped by 0.6 percent (Rls 0.2 billion) and "transport and communications" by 1.3 percent (Rls 0.5 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks increased during the fourth quarter of 2008 by 8.3 percent (Rls 11.8 billion) to Rls 153.9 billion compared to a decline of 7.2 percent (Rls 11.0 billion) during the preceding quarter, recording an annual growth rate of 4.2 percent (Rls 6.3 billion) and constituting 11.8 percent of total commercial banks' assets compared with 13.7 percent at the end of the same period of the preceding year.



Banks' total foreign liabilities went down by 20.9 percent (Rls 29.6 billion) to Rls 112.5 billion during the fourth quarter of 2008 against a rise of 20.9 percent (Rls 7.5 billion) in the preceding quarter. They recorded an annual growth rate of 6.9 percent (Rls 7.3 billion), constituting 8.6 percent of total liabilities compared to 9.8 percent at the end of the same period of the preceding year. Net foreign assets rose by Rls 41.5 billion at the end of the fourth quarter of 2008 compared to a decline of Rls 18.5 billion during the preceding quarter, recording a negative annual growth rate of 2.3 percent (Rls 0.9 billion).

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks went up by Rls 0.29 billion during the fourth quarter of 2008. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the fourth quarter of 2008 stood at 15.6 percent compared to 14.8 percent in the same quarter of the preceding year. Their annual growth rate rose by 24.3 percent (Rls 25.8 billion).

Commercial banks' profits increased to Rls 29.9 billion at the end of the fourth quarter of 2008 compared to Rls 25.5 billion in the preceding quarter, recording a rise of 17.3 percent (Rls 4.4 billion) and a negative annual growth rate of 1.1 percent (Rls 0.4 billion).

The number of commercial banks' branches increased during the fourth quarter of 2008 to 1,398 compared with 1,384 in the preceding quarter, recording a growth rate of 1.0 percent (14 branches). The number of commercial banks' branches registered an annual growth rate of 4.3 percent (58 branches) in the fourth quarter of 2008, as compared with the corresponding quarter of 2007 in which their number stood at 1,340.

3.5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,302.3 billion at the end of the fourth quarter of 2008, rising by 2.5 percent (Rls 32.0 billion) compared to a rise of 3.8 percent (Rls 47.0 billion) during the preceding quarter. They recorded an increase of 21.1 percent (Rls 227.1 billion) in their annual growth rate at the end of the fourth quarter of 2008.

Fourth: Banking Technology

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the fourth quarter of 2008 totaled Rls 5,860 billion through 820.6 thousand messages containing a total of 7.0 million transfers carried out through SARIE. The value of single payments transactions totaled Rls 5,668 billion, whereas the total value of gross payments stood at Rls 191 billion. Customers' payments amounted to Rls 723 billion, compared to Rls 515 billion in the fourth quarter of 2007, rising by 40.0 percent. Total value of Inter-bank payments stood at Rls 5,137 billion. It is expected that the use of SARIE will continue to grow at a faster pace in the upcoming years, especially in e-commerce transactions and individuals' transfers. Using of SARIE system for payment of salaries of employees in the government and private sectors is also expected to increase further.

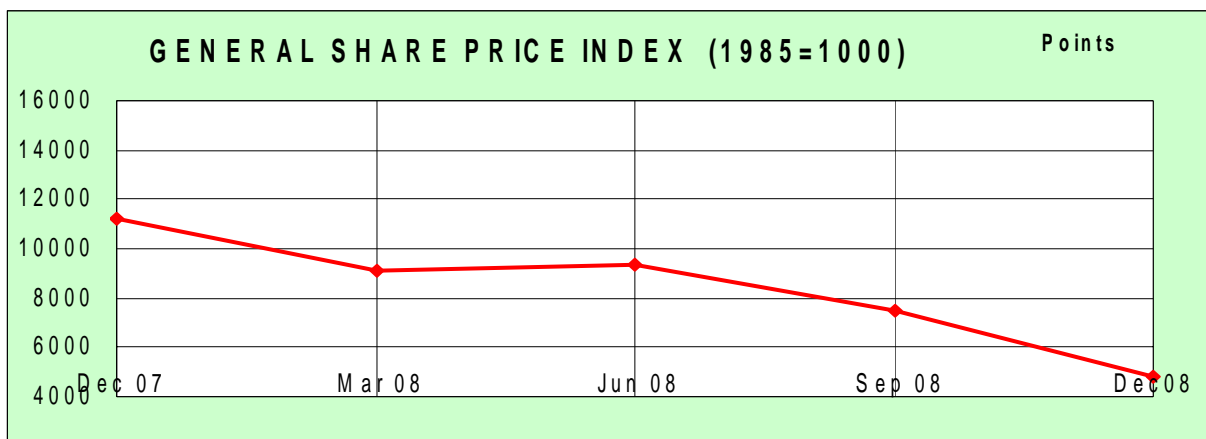
As for the developments of the Saudi Payments Network (SPAN), total transactions (including transactions of SPAN and banks' network) executed via ATMs in the fourth quarter of 2008 amounted to 207.8 million with a total value of Rls 90.6

billion. Total transactions executed through POS terminals stood at 28.7 million with a total value of Rls 11.7 billion. The number of ATMs amounted to 8,993 and the number of cards issued by domestic banks stood at 12.4 million at the end of the fourth quarter of 2008.

The number of clearing houses is 10 distributed among all SAMA's branches. Of these, 3 are located in Riyadh, Jeddah and Al-Dammam. In 2001, clearing houses were provided with modern machines, which depend on light scanning technique for archiving copies of checks instead of microfilm used previously. The number of bank checks (outgoing and incoming) cleared at clearing houses during the fourth quarter of 2008 totaled 1.7 million with a total value of Rls 157.3 billion. The number of household and business checks was 1.5 million with a total value of Rls 128.9 billion during the period. The number of banks' checks (certified) totaled 224.8 thousand with a total value of Rls 29.3 billion.

Fifth: Domestic Share Market Developments

The general share price index went down during the fourth quarter of 2008 by 35.7 percent to 4,802.99 compared to a decline of 20.2 percent in the preceding quarter, recording an annual decline of 56.4 percent. During the fourth quarter of 2008, the number of traded shares went up by 70.5 percent to 16.2 billion compared to a decline of 4.8 percent in the preceding quarter. The annual growth rate of traded shares went up by 14.9 percent. Total value of traded shares decreased by 6.7 percent to Rls 326.3 billion compared to a decline of 39.9 percent in the preceding quarter, with its annual growth rate falling by 41.0 percent.



At the end of the fourth quarter of 2008, the market capitalization of issued shares went down by 38.7 percent to Rls 924 million against a decline of 18.3 percent at the end of the preceding quarter, recording a decline of 51.6 percent in its annual growth rate.

Total number of transactions executed in the fourth quarter of 2008 recorded a decline of 22.9 percent to 9,085.1 thousand compared to a decrease of 23.8 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went up by 213.8 percent.

Sixth: Investment Funds

Total assets of investment funds managed by commercial banks recorded a decline of 23.0 percent (Rls 22.4 billion) to Rls 74.8 billion in the fourth quarter of 2008 compared to a decrease of 11.5 percent (Rls 12.6 billion) in the preceding quarter, registering an annual growth rate of 28.8 percent (Rls 30.3 billion).

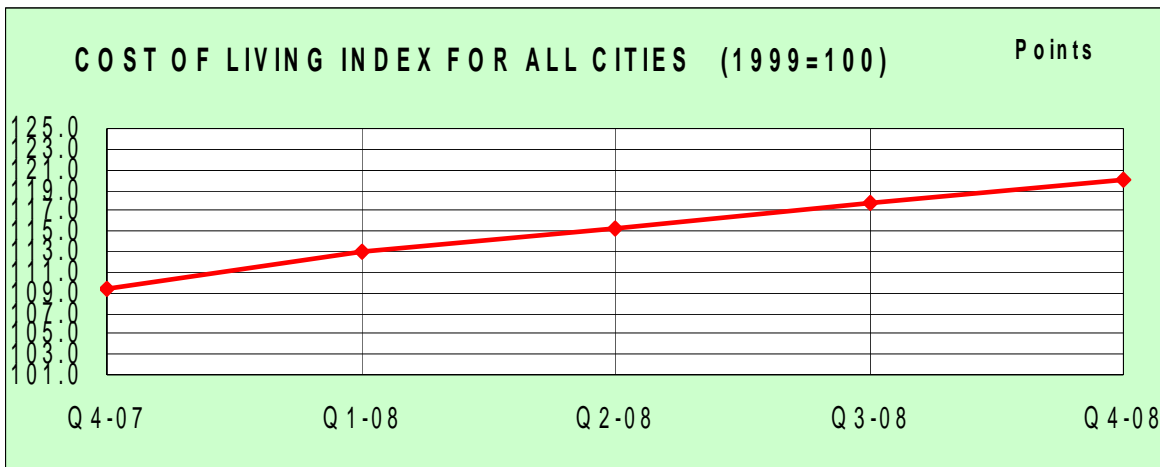
A breakdown of the funds' total assets indicates a decrease in domestic assets by 18.5 percent (Rls 13.9 billion) to Rls 61.3 billion in the fourth quarter of 2008, compared to a decline of 14.8 percent (Rls 13.1 billion) in the preceding quarter. Domestic assets recorded an annual growth rate of 23.3 percent (Rls 18.6 billion). Foreign assets registered a fall of 38.5 percent (Rls 8.5 billion) to Rls 13.6 billion during the fourth quarter of 2008 against an increase of 2.1 percent (Rls 0.5 billion) in the preceding quarter, recording an annual growth rate of 46.0 percent (Rls 11.6 billion).

The number of subscribers to investment funds dropped by 2.8 percent (10,981) to 347,975 in the fourth quarter of 2008 compared to a decline of 4.3 percent (10,384) in the preceding quarter. The number of subscribers recorded an annual growth rate of 12.0 percent (51,110).

The number of operating funds increased by 10 to 262 in the fourth quarter of 2008 compared to 252 in the fourth quarter the preceding year, recording a rise of 4.0 percent.

Seventh: Cost of Living

During the fourth quarter of 2008, the average cost of living index registered an increase of 1.9 percent compared to the third quarter of 2008, recording an annual rise of 9.8 percent (December 2008 together with December 2007). The index for “renovation, rent, fuel and water” rose by 2.6 percent, “food and beverages” by 2.7 percent, “house furnishing” by 9.6 percent, "fabrics, apparel and shoes" by 0.5 percent, “transport and communications” by 0.5 percent and, “education and entertainment” by 1.0 percent. On the other hand, the index for "goods and services" fell by 3.4 percent, whereas that for "medical care" remained unchanged.



Eighth: Legislative and Supervisory Banking Developments during the third Quarter of 2008

1- Legislative Developments:

- Circular No. MASH/740 dated 28/11/1429 was issued on reducing the statutory reserve requirement for banks from 10 percent to 7 percent for total demand deposits as from November 2008. On 30/10/2008, SAMA reduced its repo rate from 5 percent to 3 percent and further to 2.5 percent on 16/12/2008, and the reverse repo was reduced from 2 percent to 1.5 percent.

- Circular No. 581 B.C.S/44615, dated 22/9/2008 was issued concerning guidance on Internal Capital Adequacy Assessment Process (ICAAP) and the second version of Pillar 2 of the capital adequacy standard.
- SAMA circular was issued concerning controls on compliance by banks operating in the Kingdom
- SAMA circular was issued on the third update to the Rules for Opening Accounts at Domestic Banks.
- SAMA circular was issued on updating the Rules for Anti-Money Laundry and Terrorism Financing.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the Fourth Quarter of 2008

- The Council of Ministers issued a resolution on 27/10/1429 (27/10/2008) approving the license for establishing a joint-stock company under the name (Boroge Cooperative Insurance Co.)
- The Council of Minister issued a resolution on 19/11/1429 (17/11/2008) approving the government investment program by spending on basic projects and services and enhancing of the absorptive capacity. The investment program for the public and oil sectors is expected to exceed \$400 billion during the next five years.
- The Council of Ministers issued a resolution on 26/11/1429 (24/11/2008) approving granting an investor tax incentives in some of the Kingdom's regions.
- The Council of Ministers issued a resolution on 5/12/1429 (1/12/.2008) approving the license for establishing a joint-stock company under the name (General Gulf Cooperative Insurance Co.).