



Economic Developments

Second Quarter, 2009

Research and Statistics Department

August 2009

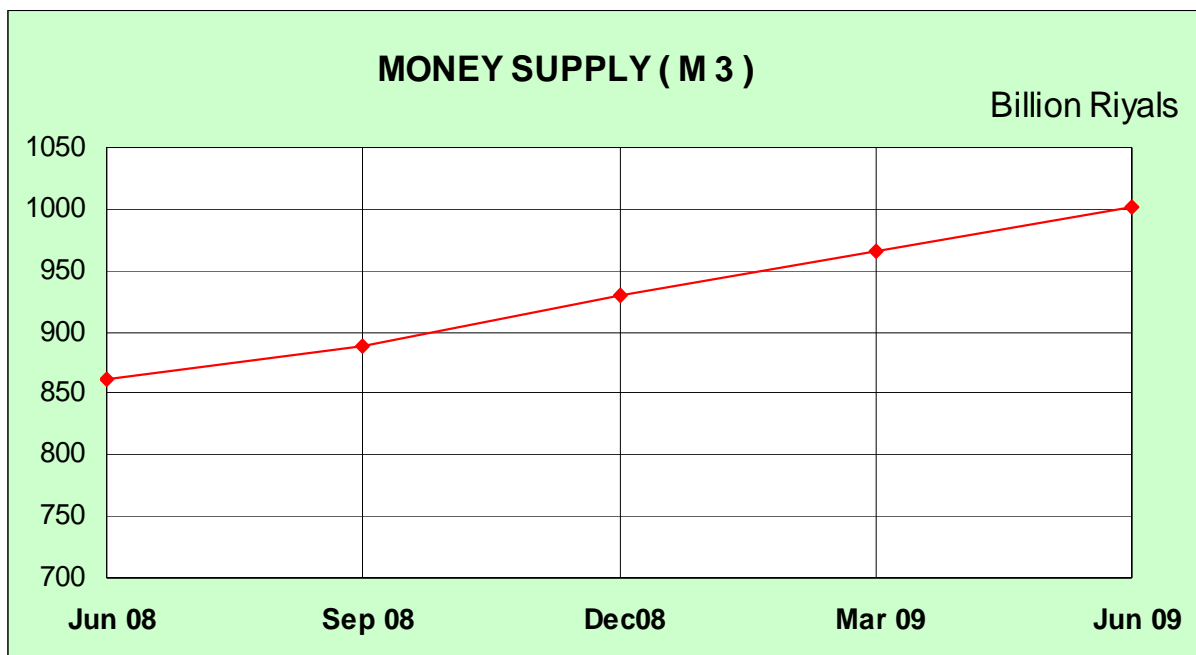
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First: Monetary Developments

Broad money (M3) rose by 3.8 percent (Rls 36.3 billion) to Rls 1,002 billion during the second quarter of 2009 compared to an increase of 3.9 percent (Rls 36.5 billion) during the preceding quarter. It registered an annual growth rate of 16.4 percent (Rls 141.2 billion).

An analysis of the components of money supply (M3) indicates that (M1) increased by 3.5 percent (Rls 16.3 billion) to Rls 476.1 billion, or 47.5 percent of total money supply (M3) during the second quarter of 2009 compared to a rise of 8.1 percent (Rls 34.3 billion) in the preceding quarter. Money supply (M1) registered an annual rise of 10.9 percent (Rls 46.9 billion) at the end of the second quarter of 2009.



Money supply (M2) went up by 1.0 percent (Rls 8 billion) to Rls 824.2 billion, or 82.3 percent of total money supply (M3) during the second quarter of 2009, against a rise of 2.9 percent (Rls 23.1 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 15.8 percent (Rls 112.3 billion) at the end of the second quarter of 2009.

Second: Monetary Policy: Second Quarter, 2009

During the second quarter of 2009, SAMA continued to pursue a monetary policy aimed at achieving financial and price stability by keeping up with domestic and international economic developments, and controlling liquidity. The annual inflation rate in the Kingdom went down to 6.0 percent by the end of March and continued its decline to 5.3 percent by June compared to 9.0 percent by the end of December 2008. SAMA continued to take a package of measures during the second quarter of 2009 to enhance the liquidity position and 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 are:

- 1- Maintaining the Statutory Deposit Ratio for demand deposits at 7.0 percent and time and savings deposits at 4.0 percent.
- 2- Maintaining the Repo Rate at 2.0 percent and reducing the Reverse Repo Rate two times by 25 basis points to 0.25 percent at the end of the second quarter of 2009. SAMA's daily average of Repo transactions stood at Rls 1,946 million in the second quarter of 2009 against Rls 1,596 million in the first quarter of 2009. Daily average of Reverse Repo transactions was Rls 92,428 million during the same period, against Rls 74,154 million in the first quarter of 2009. This is a result of the conservative lending policy adopted by domestic banks in the light of the international crisis. However, liquidity increased significantly in the second quarter of 2009 due to the government continued spending and reduction of public debt, and SAMA renewal of time deposits with domestic banks on behalf of government entities.
- 3- Encouraging domestic banks to channel liquidity toward lending, Treasury Bills were kept priced at 80 percent of the Saudi inter-bank deposit rate (SIBID), in addition to maintaining an issuance ceiling for treasury bills, which had previously been unlimited, to Rls 3000 million per week.

Inter-bank interest rates on deposits witnessed a marked decline in the second quarter of 2009. The three-month inter-bank interest rate (SIBOR) went down from

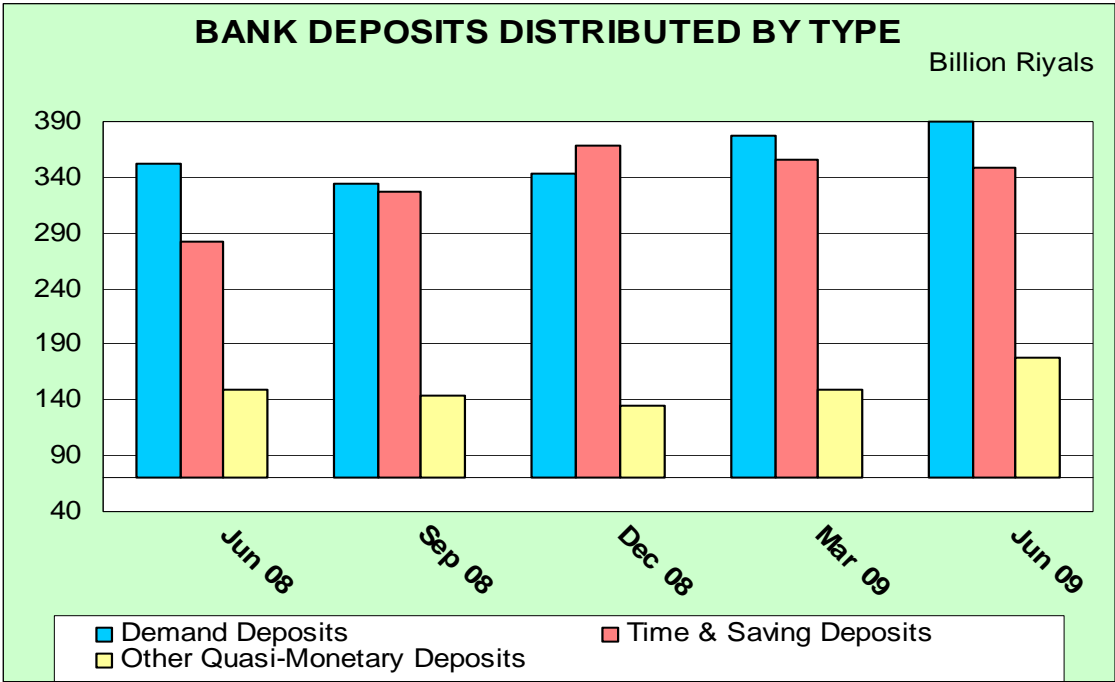
1.15 percent at the end of the first quarter of 2009 to 0.64 percent at the end of the second quarter of 2009. The differential between the Riyal and the Dollar deposits for a three-month period turned in favor of the Riyal with 4 basis points at the end of the second quarter, compared with 4 basis points in favor of the Dollar at the end of the first quarter of 2009. At the end of the second quarter of 2009, the Saudi Riyal exchange rate maintained its stability against the Dollar at its official rate of Rls 3.75.

SAMA did not enter into any foreign exchange swaps with domestic banks during the second quarter of 2009 due to their sufficient Dollar liquidity.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits went up by 3.8 percent (Rls 33.7 billion) to Rls 916.4 billion during the second quarter of 2009 compared to an increase of 4.3 percent (Rls 36.6 billion) during the preceding quarter, recording an annual rise of 17.0 percent (Rls 133.2 billion) at the end of the second quarter of 2009. The ratio of total bank deposits to total broad money supply (M3) stood at 91.5 percent at the end of the second quarter of 2009 compared to 91.4 percent at the end of preceding quarter.



A review of the components of deposits by type during the second quarter of 2009 indicates that demand deposits rose by 3.6 percent (Rls 13.7 billion) to Rls 390.6 billion compared to a rise of 10.1 percent (Rls 34.4 billion) during the preceding quarter. Other quasi-monetary deposits increased by 18.9 percent (Rls 28.3 billion) to Rls 177.7 billion compared to a rise of 9.9 percent (Rls 13.4 billion) during the preceding quarter, while time and savings deposits went down by 2.3 percent (Rls 8.3 billion) to Rls 348.1 billion against a decline of 3.1 percent (Rls 11.2 billion) during the preceding quarter, registering an annual increase of 23.1 percent (Rls 65.4 billion). Demand deposits and other quasi-monetary deposits recorded annual rises of 11.1 percent (Rls 39.0 billion) and 19.4 percent (Rls 28.9 billion) respectively.

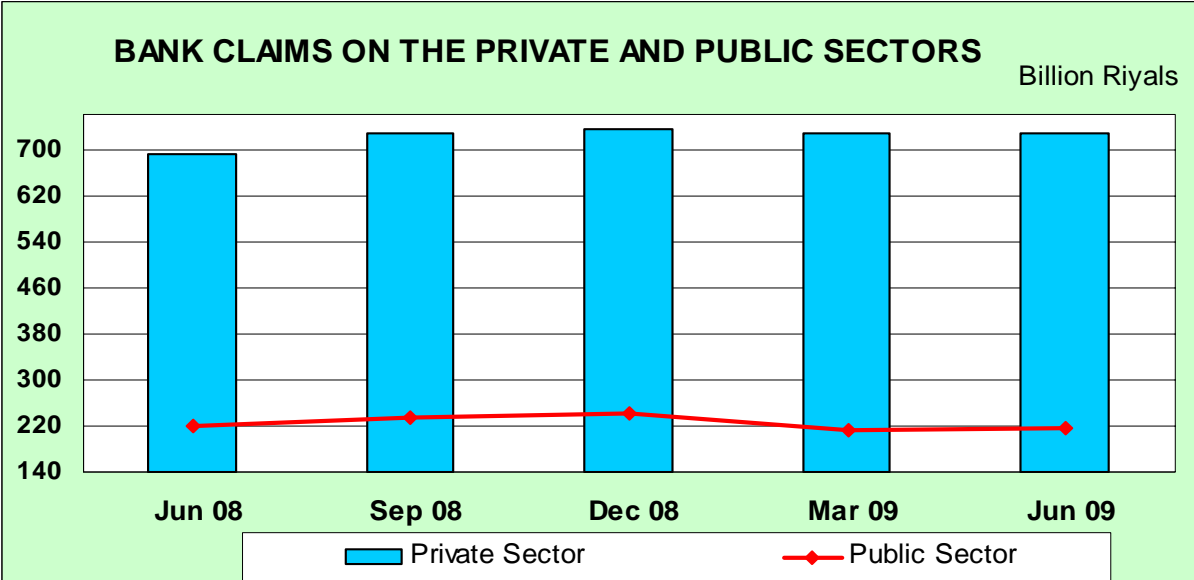
3.2 Credit and Investment Activity of Banks

Total claims of commercial banks on the private and government sectors (bank credit and investments) rose by 0.5 percent (Rls 4.8 billion) to Rls 945.9 billion during the second quarter of 2009 compared to a decline of 3.6 percent (Rls 35.5 billion) in the preceding quarter. At the end of the second quarter of 2009, they recorded an annual rise of 4.0 percent (Rls 36.2 billion) to constitute 103.2 percent of total bank deposits compared with 106.6 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the second quarter of 2009 went up by 0.1 percent (Rls 0.5 billion) to Rls 728.7 billion compared to a decline of 0.9 percent (Rls 6.4 billion) during the preceding quarter, recording an annual rise of 5.6 percent (Rls 38.4 billion) at the end of the second quarter of 2009. The ratio of commercial banks' claims on the private sector to total bank deposits was 79.5 percent at the end of the second quarter of 2009 compared to 82.5 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sectors also increased by 2.0 percent (Rls 4.3 billion) to Rls 217.2 billion during the second quarter of 2009 compared to a decline of 13.6 percent (Rls 29.0 billion) during

the preceding quarter. At the end of the second quarter of 2009, they registered an annual decline of 1.0 percent (Rls 2.1 billion). Their ratio to total bank deposits amounted to 23.7 percent at the end of the second quarter of 2009 compared with 24.1 percent at the end of the preceding quarter.



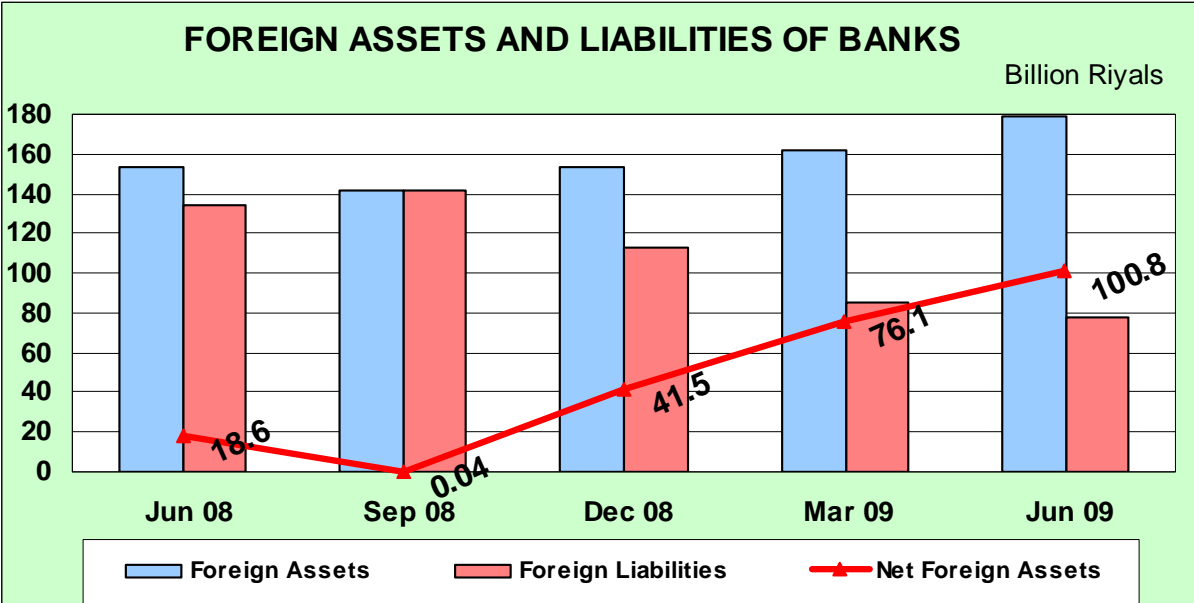
An analysis of bank credit by maturity during the second quarter of 2009 (private and government sectors) shows that short-term credit decreased by 1.2 percent (Rls 5.7 billion) to Rls 475.2 billion compared to an increase of 0.9 percent (Rls 4.3 billion) during the preceding quarter. Medium-term credit increased by 6.3 percent (Rls 6.2 billion) to Rls 104.0 billion during the second quarter of 2009 compared to a decline of 6.5 percent (Rls 6.8 billion) during the preceding quarter. Long-term credit went up by 1.1 percent (Rls 1.8 billion) to Rls 162.3 billion compared to a decline of 1.9 percent (Rls 3.1 billion) during the preceding quarter.

Total bank credit by economic activity went up by 0.3 percent (Rls 2.3 billion) to Rls 741.5 billion during the second quarter of 2009 compared to a decrease of 0.8 percent (Rls 5.6 billion) during the preceding quarter, recording an annual rise of 5.3 percent (Rls 37.3 billion) at the end of the second quarter of 2009. A breakdown of bank credit by different economic activities during the second quarter of 2009 indicates that bank credit extended to “finance” increased by 58.5 percent (Rls 8.2

billion), “mineral and mining” by 14.5 percent (Rls 0.7 billion), "government and quasi-government sector" by 9.6 percent (Rls 3.0 billion) and “other miscellaneous services” by 4.3 percent (Rls 11.8 billion). On the other hand, bank credit extended to “agriculture and fishing” dropped by 25.7 percent (Rls 2.7 billion), “transport and communications” by 13.8 percent (Rls 6.0 billion), “water, electricity and other services” by 6.7 percent (Rls 0.8 billion), "industry and production" by 6.0 percent (Rls 4.7 billion), “commerce” by 2.4 percent (Rls 4.3 billion), and “building and construction” by 0.8 percent (Rls 0.4 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks increased during the second quarter of 2009 by 10.6 percent (Rls 17.1 billion) to Rls 178.9 billion compared to a rise of 5.1 percent (Rls 7.9 billion) during the preceding quarter, recording an annual growth rate of 16.8 percent (Rls 25.8 billion) and constituting 13.4 percent of total commercial banks' assets compared with 12.2 percent at the end of preceding quarter.



Banks' total foreign liabilities went down by 8.8 percent (Rls 7.5 billion) to Rls 78.1 billion during the second quarter of 2009 against a decline of 23.8 percent (Rls 26.8 billion) in the preceding quarter. Their annual growth rate decreased by 42.0

percent (Rls 56.5 billion), constituting 5.8 percent of total liabilities compared to 6.5 percent at the end of the preceding quarter. Net foreign assets rose by Rls 24.7 billion at the end of the second quarter of 2009 compared to a rise of Rls 34.6 billion during the preceding quarter.

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks went down by Rls 1.7 billion during the second quarter of 2009. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2009 stood at 18.1 percent compared to 18.9 percent in the previous quarter. Their annual growth rate rose by 20.1 percent (Rls 27.7 billion).

Commercial banks' profits decreased to Rls 7.9 billion at the end of the second quarter of 2009 compared to Rls 8.2 billion in the preceding quarter, recording a decline of 3.9 percent (Rls 0.3 billion) and a negative annual growth rate of 7.0 percent (Rls 1.2 billion).

The number of commercial banks' branches increased during the second quarter of 2009 to 1,450 compared with 1,430 in the preceding quarter, recording a growth rate of 1.4 percent (20 branches). The number of commercial banks' branches registered an annual growth rate of 4.8 percent (66 branches) in the second quarter of 2009, as compared with 1,384 in the corresponding quarter of 2008.

3.5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,337.7 billion at the end of the second quarter of 2009, rising by 1.0 percent (Rls 13.8 billion) compared to a rise of 1.7 percent (Rls 21.7 billion) during the preceding quarter. They recorded an increase of 9.4 percent (Rls 114.8 billion) in their annual growth rate at the end of the second quarter of 2009.

Fourth: Banking Technology

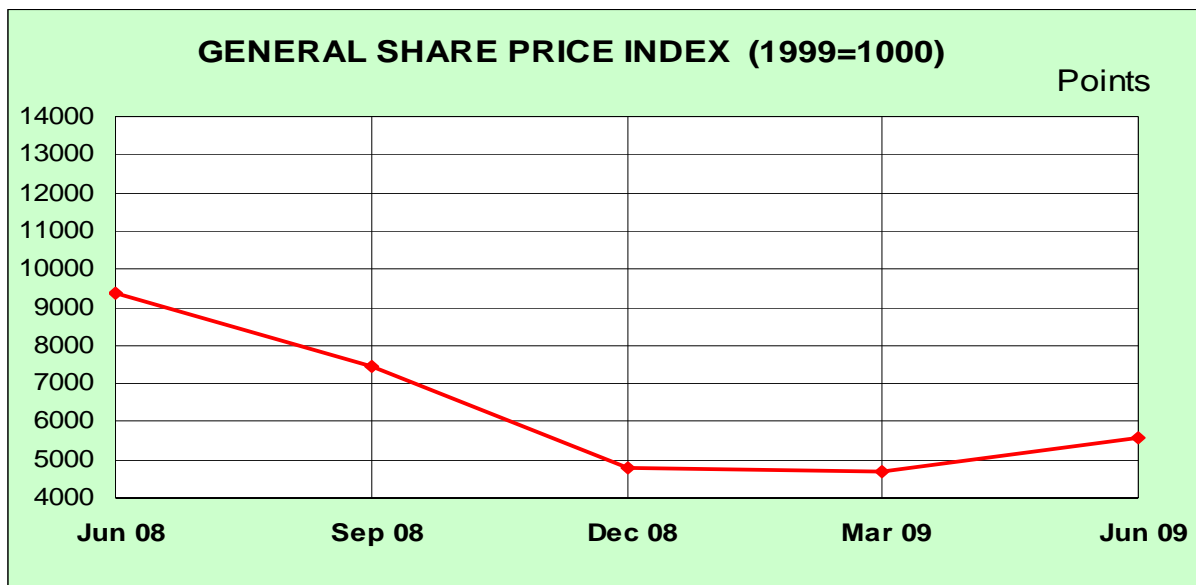
Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the second quarter of 2009 totaled Rls 17,174 billion (\$ 4,580 billion) through 988.5 thousand messages containing a total of 9.9 million transfers carried out through SARIE. The value of single payments transactions totaled Rls 16,979 billion (\$ 4,528 billion), whereas the total value of gross payments stood at Rls 190 billion (\$ 51 billion). Customers' payments amounted to Rls 700 billion, compared to Rls 727 billion in the corresponding quarter of 2008, declining by 3.6 percent. Total value of Inter-bank payments stood at Rls 16,470 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 executed via ATMs in the second quarter of 2009 amounted to 235 million, including bank transactions of Rls 54.4 billion and SPAN transactions of Rls 49.2 billion. Total transactions executed through POS terminals stood at 30 million with a total value of Rls 13.9 billion. The number of ATMs amounted to 9,517 and the number of cards issued by domestic banks stood at 13.0 million. The number of POS terminals increased to more than 75.3 thousand at the end of the second quarter of 2009.

The number of clearing houses is 10 distributed in all SAMA's branches. Of these, 3 are located in Riyadh, Jeddah and Al-Dammam. In 2001, the clearing houses were developed and provided with modern machines, which depend on light scanning technique for archiving copies of checks instead of microfilms used previously. The number of bank checks (outgoing and incoming) cleared at clearing houses during the second quarter of 2009 totaled 1.9 million with a total value of Rls 165 billion. The number of household and business checks was 1.6 million with a total value of Rls 125.8 billion during the period. The number of banks' checks (certified) totaled 249.8 thousand with a total value of Rls 39.2 billion.

Fifth: Domestic Share Market Developments

The general share price index went up during the second quarter of 2009 by 19.0 percent to 5,596.5 compared to a decline of 2.1 percent in the preceding quarter, recording an annual decline of 40.2 percent. During the second quarter of 2009, the number of traded shares went up by 28.6 percent to 21.4 billion compared to a rise of



2.5 percent in the preceding quarter. The annual growth rate of traded shares went up by 37.6 percent. Total value of traded shares increased by 56.0 percent to Rls 475.4 billion compared to a decline of 6.6 percent in the preceding quarter, with its annual growth rate falling by 18.3 percent.

At the end of the second quarter of 2009, the market capitalization of issued shares went up by 21.5 percent to Rls 1,074 billion against a decline of 4.3 percent at the end of the preceding quarter, recording a decline of 39.5 percent in its annual growth rate.

Total number of transactions executed in the second quarter of 2009 recorded a rise of 25.5 percent to 12.6 million compared to a decrease of 10.5 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 18.7 percent.

Sixth: Investment Funds

Total assets of investment funds managed by investment management firms recorded an increase of 14.7 percent (Rls 11.4 billion) to Rls 88.6 billion in the second quarter of 2009 compared to an increase of 3.2 percent (Rls 2.4 billion) in the preceding quarter, with their annual growth rate falling by 19.4 percent (Rls 21.3 billion).

A breakdown of the funds' total assets indicates an increase in domestic assets by 16.6 percent (Rls 10.7 billion) to Rls 75.2 billion in the second quarter of 2009, compared to a rise of 5.3 percent (Rls 3.2 billion) in the preceding quarter. Domestic assets recorded a decline of 14.8 percent (Rls 13.0 billion) in their annual growth rate. Foreign assets registered an increase of 5.2 percent (Rls 0.7 billion) to Rls 13.4 billion during the second quarter of 2009 against a decrease of 6.3 percent (Rls 0.9 billion) in the preceding quarter, recording a decline of 38.2 percent (Rls 8.3 billion) in their annual growth rate.

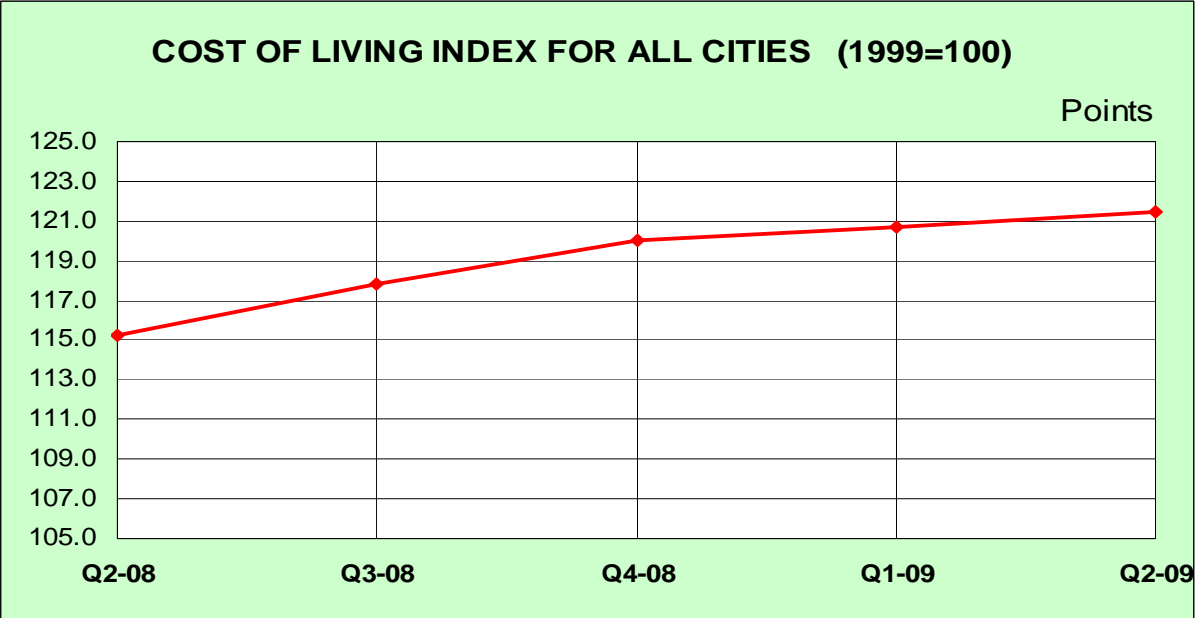
The number of subscribers to investment funds dropped by 0.5 percent (1,852) to 369,245 in the second quarter of 2009 compared to a decline of 1.0 percent (3,878) in the preceding quarter. The number of subscribers recorded a decline of 6.8 percent (27,095) in its annual growth rate.

The number of operating funds decreased by 6 to 247 in the second quarter of 2009 compared to 253 in the preceding quarter.

Seventh: Cost of Living

During the second quarter of 2009, the average cost of living index registered an increase of 0.5 percent compared to the first quarter of 2009, recording an annual rise of 5.3 percent (average second quarter of 2009 compared with the average second quarter of 2008). The index for "renovation, rent, fuel and water" rose by 4.1 percent, "goods and services" by 0.7 percent and "medical care" by 0.1 percent. On the other hand, the index for "food and beverages" declined by 0.9 percent, "transport and

communications” by 0.9 percent, “house furnishing” by 0.3 percent, "fabrics, apparel and shoes" by 0.2 percent, and “education and entertainment” by 0.2 percent.



Eighth: Supervisory and Legislative Banking Developments during the Second Quarter of 2009

- SAMA Circular No. 18132/M A SH/327 dated 9/4/1430H. (5/4/2009) was issued concerning Arabic translation of issuance and operation controls of credit and payment cards.
- SAMA Circular No. 422/BCS dated 25/4/1430H. (21/4/2009) was issued concerning SAMA’s approval for opening of banks’ subsidiaries and special purpose vehicles (SPV’s).
- SAMA Circular No. 24698/M A SH/453 dated 15/5/1430H. (10/5/2009) was issued concerning translation of instructions of outsourcing.
- SAMA Circular No. 598/BCS dated 21/7/1430H. (14/6/2009) was issued concerning details of proprietary investments in structured products.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the Second Quarter of 2009

- The Council of Ministers issued a resolution on 17/4/1430H. (13/4/2009) approving licensing of the establishment of a Saudi joint-stock company named (Saudi Company for Agricultural Investment and Animal Production.)
- The Council of Ministers issued a resolution on 2/5/1430H. (18/5/2009) approving licensing of the establishment of a joint-stock company named (Tokyo Marine Saudi Co.)
- The Council of Ministers issued a resolution on 23/5/1430H. (18/5/2009) approving the GCC Monetary Union Agreement.
- The Council of Ministers issued a resolution on 8/6/1430H. (1/6/2009) approving licensing of the establishment of a joint-stock company named (Amanah).
- The Council of Ministers issued a resolution on 22/6/1430H. (15/6/2009) approving the financing of the Saudi Commission for Tourism and Antiquities' activity and programs concerning domestic tourism, and the establishment of companies for development of domestic tourism with a government participation in their capital. Among the tasks of such companies is to develop tourism destinations, especially in new tourism areas, and to find appropriate formulas for the participation of government lending funds in financing domestic tourism projects. The Saudi Commission for Tourism and Antiquities shall work on increasing the private sector participation in domestic tourism development and in the voluntary funding of domestic tourism promotion activities. Government entities that own tourism destinations shall work on investing and leasing them on a long-term basis for their development.
- The Council of Ministers issued a resolution on 6/7/1430H. (30/6/2009) approving licensing of the establishment of a Saudi joint-stock company named (Saudi Company for Electronic Information Sharing (Tabadul)).