



# **Economic Developments**

Third Quarter, 2009

Research and Statistics Department

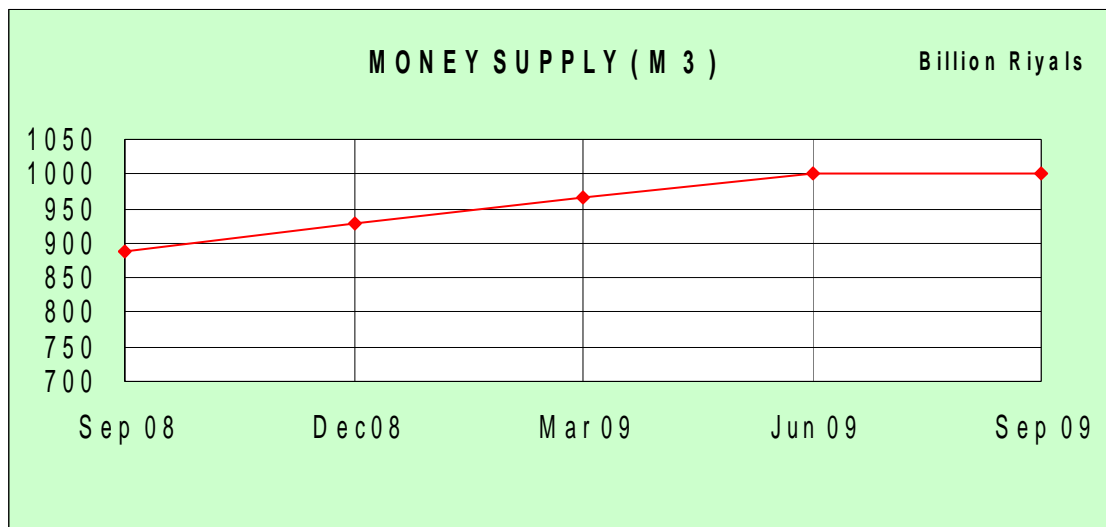
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### **First: Monetary Developments**

Broad money (M3) decreased by 0.2 percent (Rls 2 billion) to Rls 1,000 billion during the third quarter of 2009 compared to an increase of 3.8 percent (Rls 36.3 billion) during the preceding quarter. It registered an annual growth rate of 12.5 percent (Rls 111.5 billion).



An analysis of the components of money supply (M3) indicates that (M1) increased by 3.5 percent (Rls 16.6 billion) to Rls 492.7 billion, or 49.3 percent of total money supply (M3) during the third quarter of 2009 compared to a rise of 3.5 percent (Rls 16.3 billion) in the preceding quarter. Money supply (M1) registered an annual rise of 17.9 percent (Rls 74.8 billion) at the end of the third quarter of 2009. Money supply (M2) registered a decline by 0.1 percent (Rls 890.3 million) to Rls 823.3 billion, or 82.3 percent of total money supply (M3) during the third quarter of 2009, against a rise of 1.0 percent (Rls 8 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 10.6 percent (Rls 78.9 billion) at the end of the third quarter of 2009.

## **Second: Monetary Policy: Third Quarter, 2009**

During the third 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, monitoring liquidity developments and taking necessary measures. Due the decline in the annual inflation rate in the Kingdom to 4.4 percent in September 2009 compared to 10.4 percent in September 2008 and in order to promote banks to grant credit, SAMA took a number of measures as follows:

- 1- Maintaining the Cash Resrve 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 the Reverse Repo Rate at 0.25 percent at the end of the third quarter of 2009 without any change. SAMA's daily average of Repo transactions stood at Rls 892 million in the third quarter of 2009 against Rls 1,946 million in the second quarter of 2009. Daily average of Reverse Repo transactions was Rls 79,924 million during the same period, against Rls 92,428 million in the second quarter of 2009. The decline in the daily average of Reverse Repo transactions in the third quarter was due to SAMA's reduction of the Reverse Repo Rate by 0.25 percent in the last month of the second quarter and SAMA's withdrawal of its time deposits and a part of government entities' deposits with domestic banks.
- 3- In order to encourage 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 at Rls 3000 million per week.

Domestic inter-bank interest rates on deposits witnessed a marked decline in the third quarter of 2009. The three-month inter-bank interest rate (SIBOR) remained unchanged at 0.64 percent at the end of the third quarter compared to the end of the second quarter. The differential between the Riyal and the Dollar deposits for a three-month period turned in favor of the Riyal with 36 basis points at the end of the third quarter, compared with 4 basis points in favor of the Dollar at the end of the second

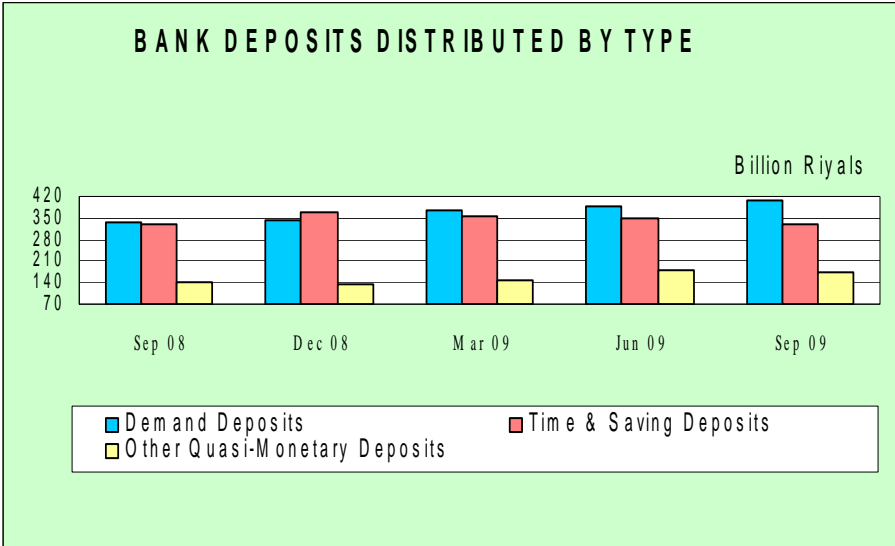
quarter of 2009. At the end of the third quarter of 2009, the Saudi Riyal exchange rate against the Dollar maintained its stability at its official rate of Rls 3.75.

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

**Third: Banking Developments**

**3.1 Bank Deposits**

Total bank deposits went down by 0.6 percent (Rls 5.1 billion) to Rls 911.4 billion during the third quarter of 2009 compared to an increase of 3.8 percent (Rls 33.7 billion) during the preceding quarter, recording an annual rise of 13.3 percent (Rls 107.2 billion) at the end of the third quarter of 2009. The ratio of total bank deposits to total broad money supply (M3) stood at 91.1 percent at the end of the third quarter of 2009 compared to 91.5 percent at the end of preceding quarter.



A review of the components of deposits by type during the third quarter of 2009 indicates that demand deposits rose by 3.5 percent (Rls 13.5 billion) to Rls 404.1 billion compared to a rise of 3.6 percent (Rls 13.7 billion) during the preceding quarter. Other quasi-monetary deposits decreased by 0.6 percent (Rls 1.1 billion) to Rls 176.6 billion compared to a rise of 18.9 percent (Rls 28.3 billion) during the

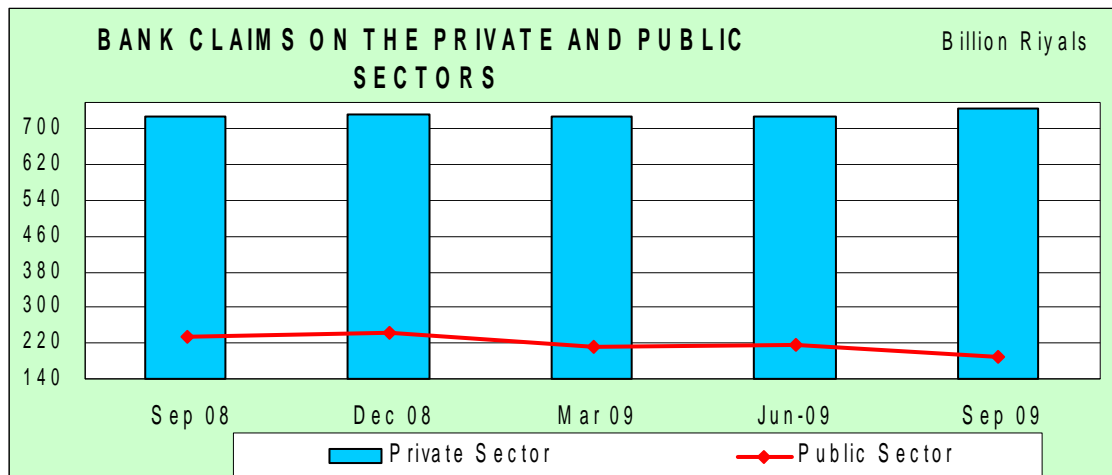
preceding quarter. Time and savings deposits also went down by 5.0 percent (Rls 17.5 billion) to Rls 330.6 billion against a decline of 2.3 percent (Rls 8.3 billion) during the preceding quarter, registering an annual increase of 1.3 percent (Rls 4.1 billion). Demand deposits and other quasi-monetary deposits recorded annual rises of 21.1 percent (Rls 70.5 billion) and 22.6 percent (Rls 32.6 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) went down by 1.0 percent (Rls 9.6 billion) to Rls 936.3 billion during the third quarter of 2009 compared to a decline of 0.5 percent (Rls 4.8 billion) in the preceding quarter. At the end of the third quarter of 2009, they recorded an annual decline of 2.8 percent (Rls 27.0 billion) to constitute 102.7 percent of total bank deposits compared with 103.2 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the third quarter of 2009 went up by 2.4 percent (Rls 17.7 billion) to Rls 746.3 billion compared to a rise of 0.1 percent (Rls 0.5 billion) during the preceding quarter, recording an annual rise of 2.5 percent (Rls 18 billion) at the end of the third quarter of 2009. The ratio of commercial banks' claims on the private sector to total bank deposits was 82 percent at the end of the third quarter of 2009 compared to 79.5 percent at the end of the previous

Total claims of commercial banks on the government and quasi-government sectors also decreased by 12.6 percent (Rls 27.3 billion) to Rls 189.9 billion during the third quarter of 2009 compared to an increase of 2.0 percent (Rls 4.3 billion) during the preceding quarter. At the end of the third quarter of 2009, they registered an annual decline of 19.1 percent (Rls 45.0 billion). Their ratio to total bank deposits amounted to 20.8 percent at the end of the third quarter of 2009 compared with 23.7 percent at the end of the preceding quarter.

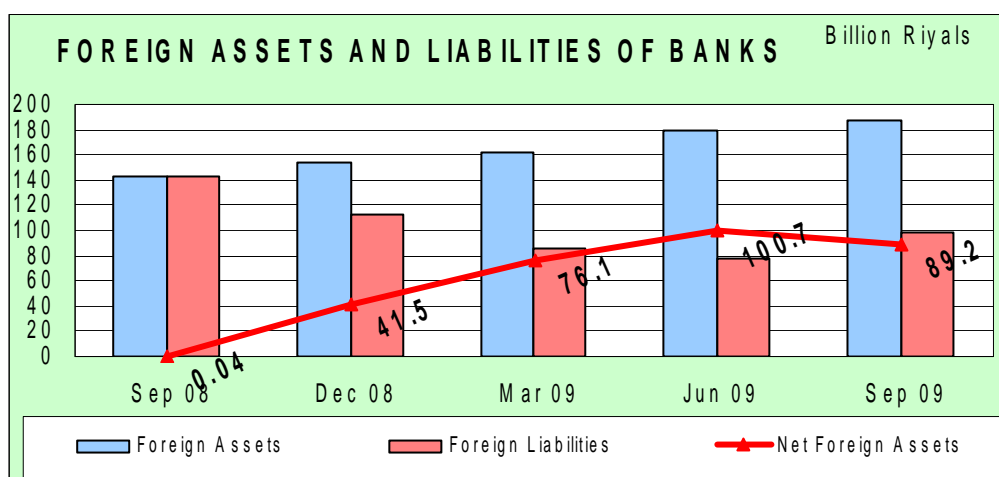


An analysis of bank credit by maturity during the third quarter of 2009 (private and government sectors) shows that short-term credit decreased by 2.8 percent (Rls 13.4 billion) to Rls 461.8 billion compared to a decline of 1.2 percent (Rls 5.7 billion) during the preceding quarter. Medium-term credit increased by 11.2 percent (Rls 11.7 billion) to Rls 115.7 billion during the third quarter of 2009 compared to a rise of 6.3 percent (Rls 6.2 billion) during the preceding quarter. Long-term credit went up by 6.6 percent (Rls 10.6 billion) to Rls 172.9 billion compared to a rise of 1.1 percent (Rls 1.8 billion) during the preceding quarter.

Total bank credit by economic activity went up by 1.2 percent (Rls 8.9 billion) to Rls 750.4 billion during the third quarter of 2009 compared to an increase of 0.3 percent (Rls 2.3 billion) during the preceding quarter, recording an annual rise of 1.5 percent (Rls 10.8 billion) at the end of the third quarter of 2009. A breakdown of bank credit by different economic activities during the third quarter of 2009 indicates that bank credit extended to “finance” increased by 1.1 percent (Rls 0.2 billion), “mineral and mining” by 24.0 percent (Rls 1.3 billion), “agriculture and fishing” by 0.2 percent (Rls 0.1 billion), “transport and communications” by 0.3 percent (Rls 0.1 billion), “water, electricity and other services” by 19.7 percent (Rls 2.3 billion), “industry and production” by 2.7 percent (Rls 2.0 billion), and “commerce” by 0.6 percent (Rls 1.0 billion). On the other hand, bank credit extended to “building and construction” dropped by 5.8 percent (Rls 3.0 billion), “government and quasi-government sector” by 15.9 percent (Rls 5.4 billion), and “other miscellaneous services” by 0.2 percent (Rls 0.5 billion).

### **3.3 Commercial Banks' Foreign Assets and Liabilities**

Total foreign assets of commercial banks increased during the third quarter of 2009 by 4.8 percent (Rls 8.6 billion) to Rls 187.5 billion compared to a rise of 10.6 percent (Rls 17.1 billion) during the preceding quarter, recording an annual growth rate of 31.9 percent (Rls 45.3 billion) and constituting 13.8 percent of total commercial banks' assets compared with 13.4 percent at the end of preceding quarter.



Banks' total foreign liabilities went up by 25.8 percent (Rls 20.1 billion) to Rls 98.3 billion during the third quarter of 2009 against a decline of 8.8 percent (Rls 7.5 billion) in the preceding quarter. Banks' total foreign liabilities annual growth rate decreased by 30.8 percent (Rls 43.8 billion), constituting 7.3 percent of banks' total liabilities compared to 5.8 percent at the end of the preceding quarter. Net foreign assets dropped by Rls 11.6 billion to Rls 89.2 billion at the end of the third quarter of 2009 compared to a rise of Rls 24.7 billion during the preceding quarter.

### **3.4 Commercial Banks' Capital and Reserves, Profits and Branches**

The capital and reserves of commercial banks went up by Rls 5.1 billion during the third quarter of 2009. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the third quarter of 2009 stood at 20.5 percent compared to

19.8 percent in the previous quarter. Their annual growth rate rose by 18.7 percent (Rls 29.4 billion).

Commercial banks' profits decreased by 11.0 percent (Rls 0.9 billion) to Rls 7.1 billion at the end of the third quarter of 2009 compared to Rls 7.9 billion in the preceding quarter, recording a decline and a negative annual growth rate of 13.4 percent (Rls 1.1 billion).

The number of commercial banks' branches increased during the third quarter of 2009 to 1,481 compared with 1,450 in the preceding quarter, recording a growth rate of 2.1 percent (30 branches). The number of commercial banks' branches registered an annual growth rate of 5.9 percent (83 branches) in the third quarter of 2009, as compared with 1,398 in the corresponding quarter of 2008.

### **3.5 Commercial Banks' Assets and Liabilities**

Total assets and liabilities of commercial banks stood at Rls 1,350.9 billion at the end of the third quarter of 2009, rising by 1.0 percent (Rls 13.3 billion) compared to a similar rise of 1.0 percent during the preceding quarter. They recorded an increase of 6.4 percent (Rls 81.1 billion) in their annual growth rate at the end of the third quarter of 2009.

### **Fourth: Banking Technology Developments**

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the third quarter of 2009 totaled Rls 14.0 billion (\$ 3.7 billion) through 924.5 thousand messages containing a total of 8.0 million transactions carried out through SARIE. The value of single payments transactions totaled Rls 13.8 billion (\$ 3.7 billion), whereas the total value of gross payments stood at Rls 173 billion (\$ 46 billion). Customers' payments amounted to Rls 703 billion, compared to Rls 723 billion in the corresponding quarter of 2008, declining by 2.8 percent. Total value of Inter-bank payments stood at Rls 13.3 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 increasing.

As for the developments of the Saudi Payments Network (SPAN), total transactions executed via ATMs in the third quarter of 2009 amounted to 243.5 million, including bank transactions and SPAN transactions of R1s 108.7 billion. Total transactions executed through POS terminals stood at 31.3 million with a total value of R1s 14.7 billion. The number of ATMs amounted to 9,735 and the number of cards issued by domestic banks stood at 13.4 million. The number of POS terminals increased to more than 75.2 thousand at the end of the third 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.

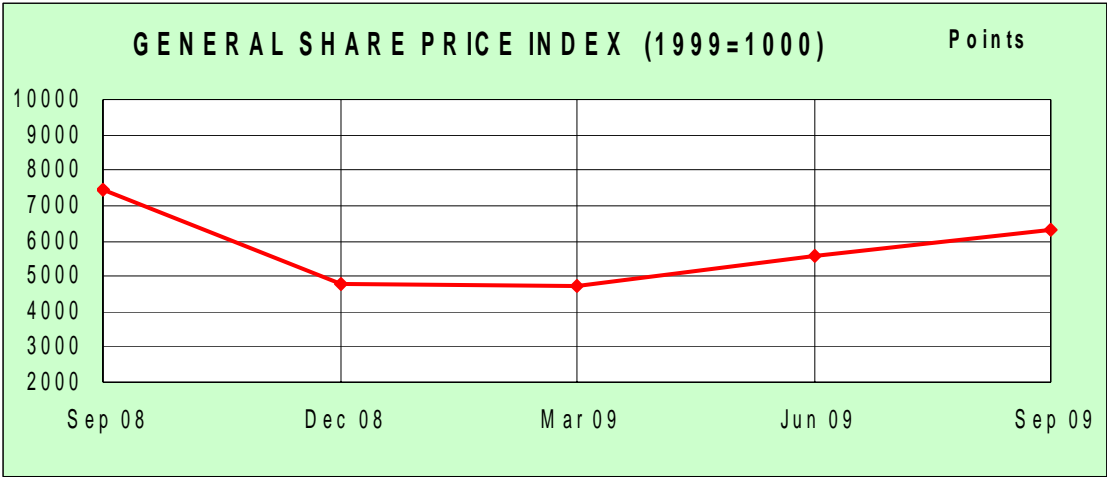
The number of bank checks (outgoing and incoming) cleared at clearing houses during the third quarter of 2009 totaled 1.6 million with a total value of R1s 150.7 billion. The number of household and business checks was 1.4 million with a total value of R1s 119.0 billion during the period. The number of banks' checks (certified) totaled 212.9 thousand with a total value of R1s 31.6 billion.

#### **Fifth: Domestic Share Market Developments**

The general share price index went up during the third quarter of 2009 by 13.0 percent to 6,322.0 compared to a rise of 19.0 percent in the preceding quarter, recording an annual decline of 15.2 percent. During the third quarter of 2009, the number of traded shares went down by 59.0 percent to 8.8 billion compared to a rise of 28.6 percent in the preceding quarter. The annual growth rate of traded shares went down by 7.7 percent. Total value of traded shares decreased by 49.6 percent to R1s

239.7 billion compared to a rise of 56.0 percent in the preceding quarter, with its annual growth rate falling by 31.5 percent.

At the end of the third quarter of 2009, the market capitalization of issued shares went up by 14.6 percent to Rls 1,230 billion against a rise of 21.5 percent at the end of the preceding quarter, recording a decline of 15.2 percent in its annual growth rate. Total number of transactions executed in the third quarter of 2009 recorded a decline of 39.6 percent to 7.6 million compared to a rise of 25.5 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 35.5 percent.



**Sixth: Investment Funds**

Total assets of investment funds managed by commercial banks recorded a rise of 6.0 percent (Rls 5.31 billion) to Rls 93.9 billion in the third quarter of 2009 compared to an increase of 14.7 percent (Rls 11.4 billion) in the preceding quarter, registering a negative annual growth rate of 3.5 percent (Rls 3.4 billion).

A breakdown of the funds' total assets indicates a rise in domestic assets by 3.5 percent (Rls 2.6 billion) to Rls 77.8 billion in the third quarter of 2009, compared to a rise of 16.6 percent (Rls 10.7 billion) in the preceding quarter. Domestic assets recorded an annual growth rate of 3.5 percent (Rls 2.7 billion). Foreign assets

registered a rise of 20.2 percent (Rls 2.7 billion) to Rls 16.1 billion during the third quarter of 2009 against an increase of 5.2 percent (Rls 0.7 billion) in the preceding quarter, recording a negative annual growth rate of 27.3 percent (Rls 6.0 billion).

The number of subscribers to investment funds dropped by 1.3 percent (4.9 thousand) to 364.3 thousand in the third quarter of 2009 compared to a decline of 0.5 percent (1.9 thousand) in the preceding quarter. The number of subscribers recorded a negative annual growth of 5.6 percent (21.7 thousand). As for the number of operating funds, they increased by 3 funds to 250 in the third quarter of 2009 compared to 247 during the preceding year.

### **Seventh: Supervisory and Legislative Banking Developments during the Third Quarter of 2009**

- SAMA Circular No. 775/BCS/39910 dated 11/8/1430H (2/8/2009) was issued concerning the paper issued by the Basel Committee on Banking Supervision, entitled "Principles of Exercising Stress and Control Tests".
- SAMA's circular to commercial banks No.842/BCS/43936 dated 5/9/1430H (26/8/2009) was issued providing for "continued practice of granting financial rewards to bank senior managers".
- SAMA's circular No.854/BCS/44392 dated 9/9/1430H (30/8/2009) was issued concerning informing banks of the paper issued by the Basel Committee in May 2009, requesting the follow-up of remittances by applying FATF's recommendations.
- SAMA's circular to commercial banks No. 44978 /MAU/863 was issued on 12/9/1430H (2/9/2009) to ensure that the necessary requirements for opening or updating accounts for money-changers, or verifying the validity of the license are met.

### **Eighth: Most Prominent Regulatory Developments in the Saudi Economy during the Third Quarter of 2009**

- The Council of Ministers issued a resolution on 20/7/1430H (13/7/2009) approving the use by Human Resources Development Fund of available investment loans to acquire shares of public joint stock companies, whose incorporation licenses were issued by royal decrees.
- The Council of Ministers issued a resolution on 24/9/1430H (14/9/2009) approving the agreement of the Monetary Union of the GCC Countries adopted by the Supreme Council for the GCC Countries at its twenty-ninth meeting held in Muscat on 1 and 2/1/1430H (20/12/2008).
- The Council of Ministers issued a resolution on 17/9/1430H (7/9/2009) allowing any licensed bank in the Kingdom to establish a company by one person to be wholly owned by the bank. This is an exemption from the provisions of some articles of the Companies Law. The company shall be formed as a limited liability company or a closed joint stock company. Its activity shall be within the activities which the bank is licensed by the Minister of Commerce and Industry in accordance with SAMA's approval.