



Economic Developments

First Quarter, 2009

Research and Statistics Department

May 2009

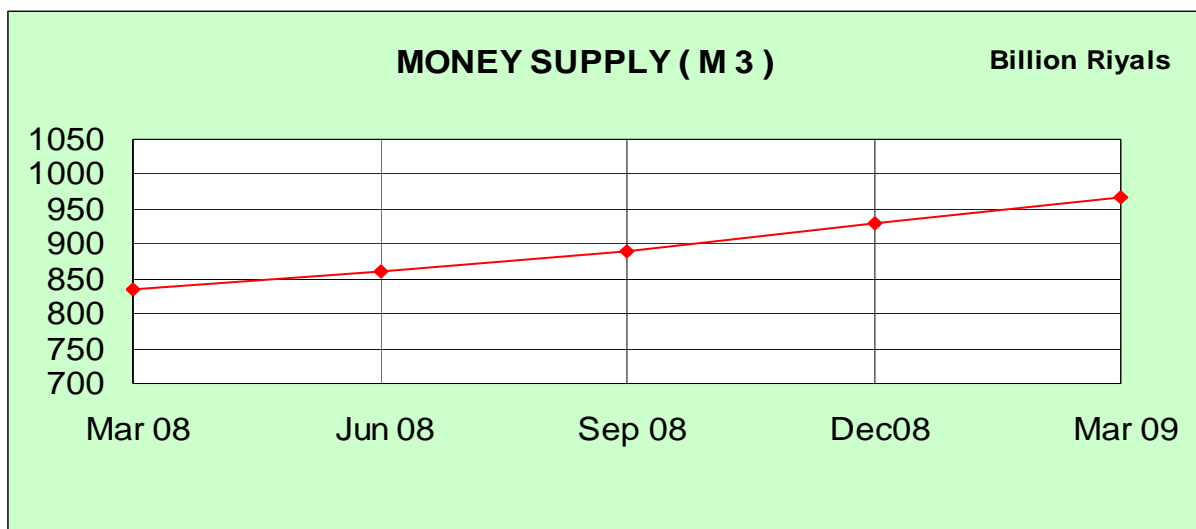
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First: Monetary Developments

Broad money (M3) rose by 3.9 percent (Rls 36.5 billion) to Rls 965.6 billion during the first quarter of 2009 compared to an increase of 4.6 percent (Rls 40.7 billion) during the preceding quarter. It registered an annual growth rate of 15.8 percent (Rls 131.6 billion).

An analysis of the components of money supply (M3) indicates that (M1) increased by 8.1 percent (Rls 34.3 billion) to Rls 459.8 billion, or 47.6 percent of total money supply (M3) during the first quarter of 2009 compared to a rise of 1.8 percent (Rls 7.6 billion) in the preceding quarter. Money supply (M1) registered an annual rise of 11.7 percent (Rls 48.1 billion) at the end of the first quarter of 2009.



Money supply (M2) went up by 2.9 percent (Rls 23.1 billion) to Rls 816.2 billion, or 84.5 percent of total money supply (M3) during the first quarter of 2009, against a rise of 6.5 percent (Rls 48.7 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 15.6 percent (Rls 110.4 billion) at the end of the first quarter of 2009.

Second: Monetary Policy: First Quarter, 2009

During the first 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 compared to 9.0 percent by the end of December 2008. SAMA has continued to take a package of measures during the first 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 percent and time and savings deposits at 4 percent.
- 2- Reducing the Repo Rate from its previous level of 2.50 percent to 2.00 percent and the Reverse Repo Rate from 1.50 percent to 0.75 percent in January 2009. SAMA's daily average of Repo transactions stood at Rls 1,596 million in the first quarter of 2009 against Rls 2,489 million in the fourth quarter of 2008. Daily average Reverse Repo transactions was Rls 74,154 million during the same period, against Rls 16,939 million in the fourth quarter of 2008. This indicates a significant rise in liquidity due to a continued decline in public debt and SAMA's renewal of time deposits with domestic banks on behalf of government entities.
- 3- Encouraging domestic banks to channel liquidity toward the private sector corporate loans, Treasury Bills were re-priced at 80 percent of the Saudi inter-bank deposit rate (SIBID), in addition to marinating 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 first quarter of 2009. The three-month inter-bank interest rate (SIBOR) went down from 2.57 percent at the end of the fourth quarter of 2008 to 1.15 percent at the end of the first quarter of 2009. The differential between the Riyal and the Dollar deposits for a three-month period turned in favor of the Dollar with 4 basis points at the end of the first quarter, compared with 113 basis points in favor of the Riyal at the end of the fourth quarter, due to ample Riyal liquidity in the banking system while global financial market are still short on Dollar liquidity. At the end of the first quarter of

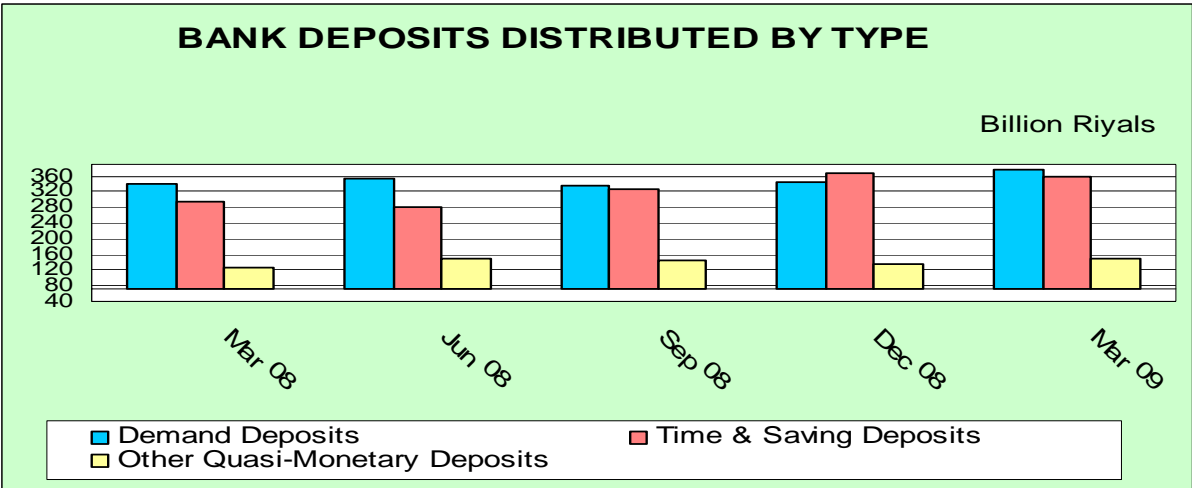
2009, the Saudi Riyal exchange rate maintained its stability against the Dollar at its official rate of Rls 3.75.

SAMA did not enter into any foreign exchange swaps during the first quarter of 2009 with domestic banks. At the end of the fourth quarter of 2008, total amount of foreign exchange swaps stood at \$2,600 million.

Third: Banking Developments
3.1 Bank Deposits

Total bank deposits went up by 4.3 percent (Rls 36.6 billion) to Rls 882.7 billion during the first quarter of 2009 compared to an increase of 5.2 percent (Rls 42.0 billion) during the preceding quarter, recording an annual rise of 15.9 percent (Rls 121.1 billion) at the end of the first quarter of 2009. The ratio of total bank deposits to total broad money supply (M3) stood at 91.4 percent at the end of the first quarter of 2009 compared to 91.1 percent at the end of preceding quarter.

A review of the components of deposits by type during the first quarter of 2009 indicates that demand deposits rose by 10.1 percent (Rls 34.4 billion) to Rls 376.9 billion compared to a rise of 2.7 percent (Rls 8.9 billion) during the preceding quarter. Other quasi-monetary deposits increased by 9.9 percent (Rls 13.4 billion) to Rls 149.4 billion compared to a drop of 5.6 percent (Rls 8.0 billion) during the preceding quarter, while time and savings deposits went down by 3.1 percent (Rls 11.2 billion) to Rls 356.4 billion against a rise of 12.6 percent (Rls 41.1 billion) during the preceding



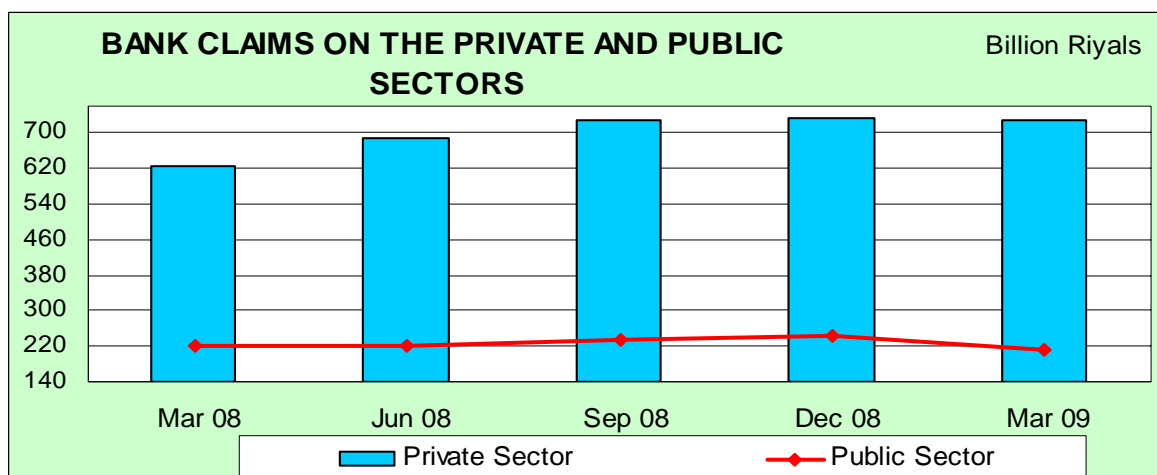
quarter, registering an annual increase of 21.2 percent (Rls 62.3 billion). Demand deposits and other quasi-monetary deposits recorded annual rises of 11.1 percent (Rls 37.6 billion) and 16.5 percent (Rls 21.2 billion) respectively.

3.2 Credit and Investment Activity of Banks

Total claims of commercial banks on the private and government sectors (bank credit and investments) fell by 3.6 percent (Rls 35.5 billion) to Rls 942.0 billion during the first quarter of 2009 compared to an increase of 1.3 percent (Rls 12.9 billion) in the preceding quarter. At the end of the first quarter of 2009, they recorded an annual rise of 10.8 percent (Rls 92.1 billion) to constitute 106.7 percent of total bank deposits compared with 115.5 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the first quarter of 2009 went down by 0.9 percent (Rls 6.4 billion) to Rls 728.1 billion compared to an increase of 0.9 percent (Rls 6.2 billion) during the preceding quarter, recording an annual rise of 16.3 percent (Rls 102.2 billion) at the end of the first quarter of 2009. The ratio of commercial banks' claims on the private sector to total bank deposits was 82.5 percent at the end of the first quarter of 2009 compared to 86.8 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sectors also dropped by 12.0 percent (Rls 29.0 billion) to Rls 212.9 billion during the first quarter of 2009 compared to an increase of 3.0 percent (Rls 7.1 billion) during the preceding quarter. At the end of the first quarter of 2009, they registered an annual decline of 4.3 percent (Rls 9.6 billion). Their ratio to total bank deposits amounted to 24.1 percent at the end of the first quarter of 2009 compared with 28.6 percent at the end of the preceding quarter.



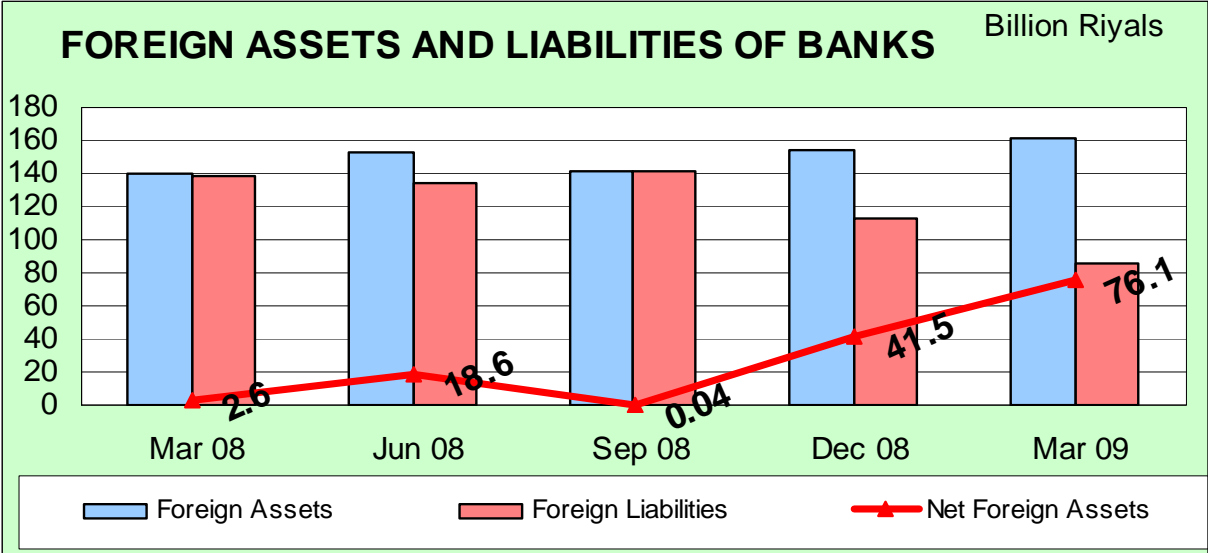
An analysis of bank credit by maturity during the first quarter of 2009 (private and government sectors) shows that short-term credit increased by 0.9 percent (Rls 4.3 billion) to Rls 480.9 billion compared to an increase of 4.4 percent (Rls 19.9 billion) during the preceding quarter. Medium-term credit decreased by 6.5 percent (Rls 6.8 billion) to Rls 97.9 billion during the first quarter of 2009 compared to a rise of 0.9 percent (Rls 1.0 billion) during the preceding quarter. Long-term credit went down by 1.9 percent (Rls 3.1 billion) to Rls 160.5 billion compared to a decline of 8.7 percent (Rls 15.6 billion) during the preceding quarter.

Total bank credit by economic activity went down by 0.8 percent (Rls 5.6 billion) to Rls 739.2 billion during the first quarter of 2009 compared to an increase of 0.7 percent (Rls 5.2 billion) during the preceding quarter, recording an annual rise of 15.4 percent (Rls 98.5 billion) at the end of the first quarter of 2009. A breakdown of bank credit by different economic activities during the first quarter of 2009 indicates that bank credit extended to “water, electricity and other services” went up by 18.8 percent (Rls 2.0 billion), “services” by 15.2 percent (Rls 4.9 billion), “transport and communications” by 14.5 percent (Rls 5.5 billion), “mineral and mining” by 8.2 percent (Rls 0.3 billion), and “commerce” by 1.6 percent (Rls 2.9 billion). On the other hand, bank credit extended to “finance” dropped by 16.9 percent (Rls 2.8 billion), “other miscellaneous services” by 5.3 percent (Rls 15.3 billion), “building and construction” by 3.2 percent (Rls 1.7 billion); bank credit extended to “agriculture and

fishing” dropped by 2.7 percent (Rls 0.3 billion), "industry and production" by 0.3 percent (Rls 0.2 billion) and " government and quasi-government sector " by 2.6 percent (Rls 0.8 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks increased during the first quarter of 2009 by 5.0 percent (Rls 7.8 billion) to Rls 161.8 billion compared to a rise of 8.3 percent (Rls 11.8 billion) during the preceding quarter, recording an annual growth rate of 15.0 percent (Rls 21.1 billion) and constituting 12.2 percent of total commercial banks' assets compared with 11.8 percent at the end of preceding quarter.



Banks' total foreign liabilities went down by 23.8 percent (Rls 26.8 billion) to Rls 85.7 billion during the first quarter of 2009 against a decline of 20.9 percent (Rls 29.6 billion) in the preceding quarter. They recorded a decreased annual growth rate of 37.9 percent (Rls 52.4 billion), constituting 9.1 percent of total liabilities compared to 11.5 percent at the end of the preceding quarter. Net foreign assets rose by Rls 34.6 billion at the end of the first quarter of 2009 compared to a decline of Rls 41.5 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 35.3 billion during the first quarter of 2009. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the first quarter of 2009 stood at 18.9 percent compared to 15.6 percent in the previous quarter. Their annual growth rate rose by 29.7 percent (Rls 38.3 billion).

Commercial banks' profits increased to Rls 8.2 billion at the end of the first quarter of 2009 compared to Rls 4.4 billion in the preceding quarter, recording a rise of 87.1 percent (Rls 3.8 billion) and a negative annual growth rate of 0.5 percent (Rls 0.04 billion).

The number of commercial banks' branches increased during the first quarter of 2009 to 1,430 compared with 1,410 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 4.3 percent (59 branches) in the first quarter of 2009, as compared with 1,371 in the corresponding quarter of 2008.

3.5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,323.9 billion at the end of the first quarter of 2009, rising by 1.7 percent (Rls 21.7 billion) compared to a rise of 2.5 percent (Rls 32.4 billion) during the preceding quarter. They recorded an increase of 12.8 percent (Rls 150.5 billion) in their annual growth rate at the end of the first quarter of 2009.

Fourth: Banking Technology

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the first quarter of 2009 totaled Rls 14,232 billion (\$ 3,795 billion) through 890.3 thousand messages containing a total of 7.2 million transfers carried out through SARIE. The value of single payments transactions totaled Rls 14,029 billion (\$ 3.741 billion), whereas the total value of gross payments stood at Rls

202 billion (\$ 54 billion). Customers' payments amounted to Rls 760 billion, compared to Rls 723 billion in the preceding quarter, rising by 5.1 percent. Total value of Inter-bank payments stood at Rls 13.5 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.

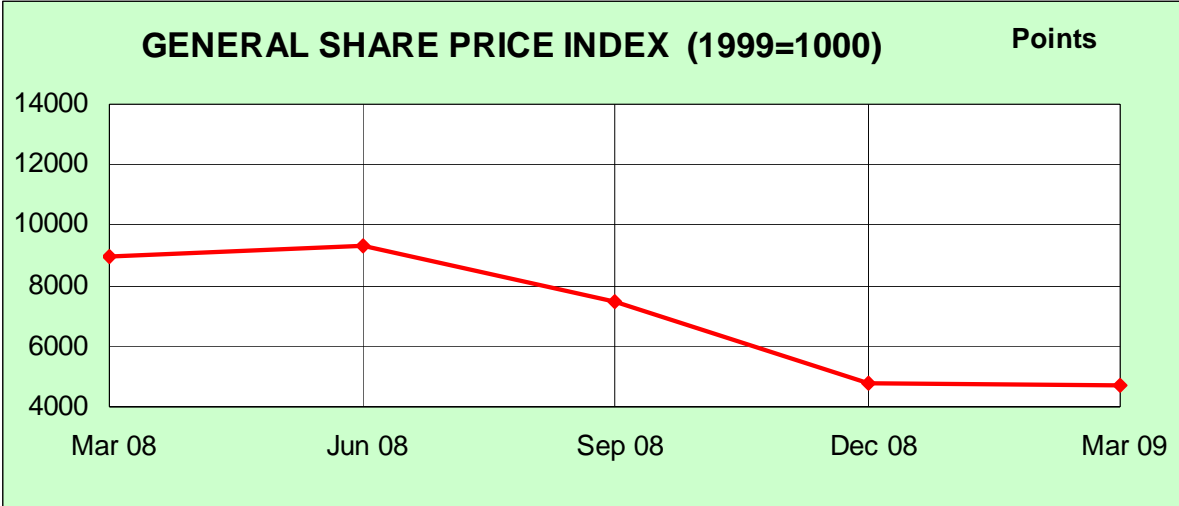
As for the developments of the Saudi Payments Network (SPAN), total transactions executed via ATMs in the first quarter of 2009 amounted to 224 million, including bank transactions of Rls 49.6 billion and SPAN transactions of Rls 45.9 billion. Total transactions executed through POS terminals stood at 30 million with a total value of Rls 13.2 billion. The number of ATMs amounted to 9,258 and the number of cards issued by domestic banks stood at 12.6 million. The number of POS terminals increased to more than 74.3 thousand at the end of the first 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 first quarter of 2009 totaled 1.8 million with a total value of Rls 149,4 billion. The number of household and business checks was 1.6 million with a total value of Rls 120.9 billion during the period. The number of banks' checks (certified) totaled 220.3 thousand with a total value of Rls 28.6 billion.

Fifth: Domestic Share Market Developments

The general share price index went down during the first quarter of 2009 by 2.1 percent to 4,703.8 compared to a decline of 35.6 percent in the preceding quarter, recording an annual decline of 47.7 percent. During the first quarter of 2009, the number of traded shares went up by 2.5 percent to 16.6 billion compared to a rise of

70.7 percent in the preceding quarter. The annual growth rate of traded shares went down by 5.4 percent. Total value of traded shares decreased by 6.6 percent to Rls 304.7 billion compared to a decline of 6.7 percent in the preceding quarter, with its annual growth rate falling by 56.8 percent.



At the end of the first quarter of 2009, the market capitalization of issued shares went down by 4.3 percent to Rls 884 billion against a decline of 36.3 percent at the end of the preceding quarter, recording a decline of 47.2 percent in its annual growth rate.

Total number of transactions executed in the first quarter of 2009 recorded a rise of 10.5 percent to 10.0 million compared to a decrease of 23.0 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 36.3 percent.

Sixth: Investment Funds

Total assets of investment funds managed by investment management firms recorded an increase of 3.2 percent (Rls 2.4 billion) to Rls 77.2 billion in the first quarter of 2009 compared to a decrease of 23.0 percent (Rls 22.4 billion) in the preceding quarter, with their annual growth rate falling by 25.8 percent (Rls 26.8 billion).

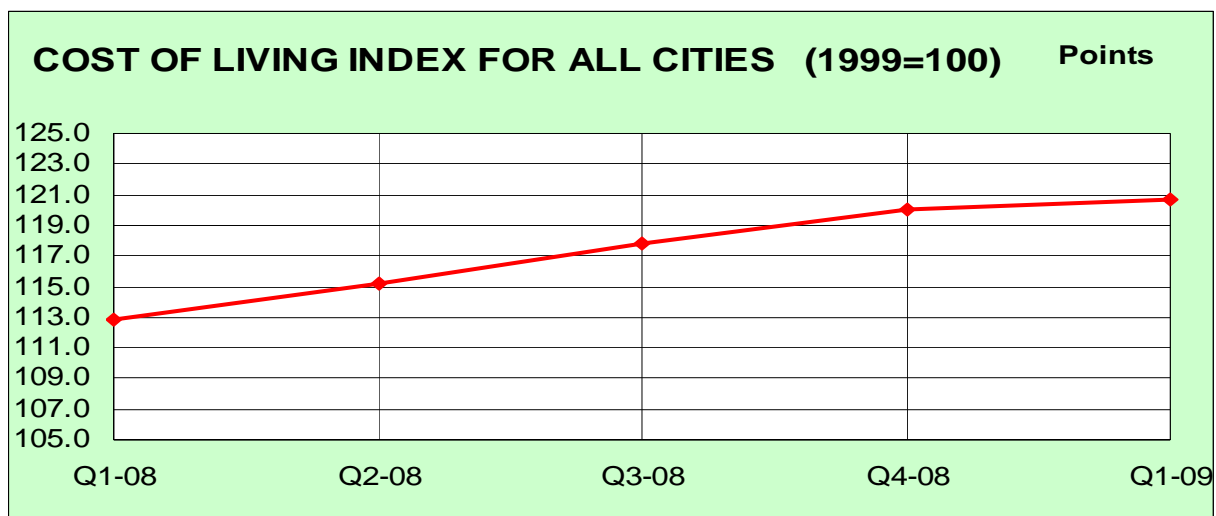
A breakdown of the funds' total assets indicates an increase in domestic assets by 5.3 percent (Rls 3.2 billion) to Rls 64.5 billion in the first quarter of 2009, compared to a decline of 18.5 percent (Rls 13.9 billion) in the preceding quarter. Domestic assets recorded a decline of 22.3 percent (Rls 18.5 billion) in their annual growth rate. Foreign assets registered a fall of 6.3 percent (Rls 0.9 billion) to Rls 12.7 billion during the first quarter of 2009 against a decrease of 38.5 percent (Rls 8.5 billion) in the preceding quarter, recording a decline of 39.5 percent (Rls 8.3 billion) in their annual growth rate.

The number of subscribers to investment funds dropped by 1.0 percent (3,878) to 371,097 in the first quarter of 2009 compared to a decline of 2.9 percent (10,981) in the preceding quarter. The number of subscribers recorded a decline of 10.4 percent (Rls 42,839) in their annual growth rate.

The number of operating funds decreased by 9 to 253 in the first quarter of 2009 compared to 262 in the fourth quarter of the preceding year.

Seventh: Cost of Living

During the first quarter of 2009, the average cost of living index registered an increase of 0.6 percent compared to the fourth quarter of 2008, recording an annual rise of 6.9 percent (first quarter of 2009 compared with the first quarter of 2008). The index for "renovation, rent, fuel and water" rose by 3.4 percent, "goods and services" by 2.7 percent and "transport and communications" by 0.6 percent. On the other hand, the index for "food and beverages" declined by 1.8 percent, "house furnishing" by 0.4 percent and "fabrics, apparel and shoes" by 0.1 percent. The index for "medical care" and "education and entertainment" remained unchanged.



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

- SAMA Circular No. 95/BCS/4685 dated 25/1/2009 was issued concerning Basel Guidance Documents: Supervisory Guidance for Assessing Banks' Financial Investment Fair Value Practices.
- SAMA Circular No. 94/BCS dated 25/1/2009 was issued concerning Basel Committee Guidance: Principles for Sound Stress Testing Practices and Supervision.
- SAMA Circular No. 99/BCS dated 26/1/2009 was issued concerning Basel Consultative Draft on Basel II Revisions and Guidance Related to Capital for Trading Book.
- SAMA Circular No. M A SH/207 dated 5/3/1430H. (2/3/2009) was issued with respect to the confidentiality of financial data.
- SAMA Circular No. 13559/MAT/245 dated 17/3/1430H. (14/3/2009) concerning the updating of the Implementation Regulations of Anti-Money Laundering Law.
- SAMA Circular No. 15151/BCS/273 dated 21/3/2009 concerning details of proprietary investments in structured products.
- SAMA Circular No. M A SH/277 dated 25/3/1430H. (22/3/2009) concerning compliance with non-imposing charges or commissions (regardless of their

names) on accounts of government employees salaries and accounts of students monthly allowances.

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

- The Council of Ministers issued a resolution on 29/1/1430 (26/1/2009) approving the Law of the Agriculture Development Fund to replace the Law of the Saudi Arabian Agricultural Bank.
- The Council of Ministers issued a resolution on 7/2/1430 (2/2/2009) approving the national strategy of industry and its implementation mechanisms.
- The Council of Ministers issued a resolution on 21/2/1430 (16/2/2009) approving the joining of the Kingdom of Saudi Arabia to the Convention on the Privileges and Immunities of the Specialized Agencies approved by the United Nations on 21/11/1947.
- The Council of Ministers issued a resolution on 28/2/1430 (23/2/2009) approving the restructuring of the Saudi Arabian Standards Organization, considering its statute and its role in light of the establishment of the Saudi Food and Drug Authority and changing its name to the Saudi Standards and Quality Organization.
- The Council of Ministers issued a resolution on 28/2/1430 (23/2/2009) approving the licensing of the establishment of the Yanbu' Water and Electricity Company (joint-stock company).
- The Council of Ministers issued a resolution on 12/3/1430 (9/3/2009) approving the controls related to selling of residential, commercial, office, service or industrial equipment.
- The Council of Ministers issued a resolution on 19/3/1430 (16/3/2009) approving licensing the establishment of a Saudi holding joint-stock company named (Water and Electricity Holding Company).

- The Council of Ministers issued a resolution on 19/3/1430 (16/3/2009) approving licensing the establishment of a joint-stock company named (the Saudi solidarity Company).
- The Council of Ministers issued a resolution on 26/3/1430 (23/3/2009) approving the establishment of a Saudi joint-stock company named Hasanah Investment Company (Hasanah).