



# **Economic Developments**

Fourth Quarter, 2010

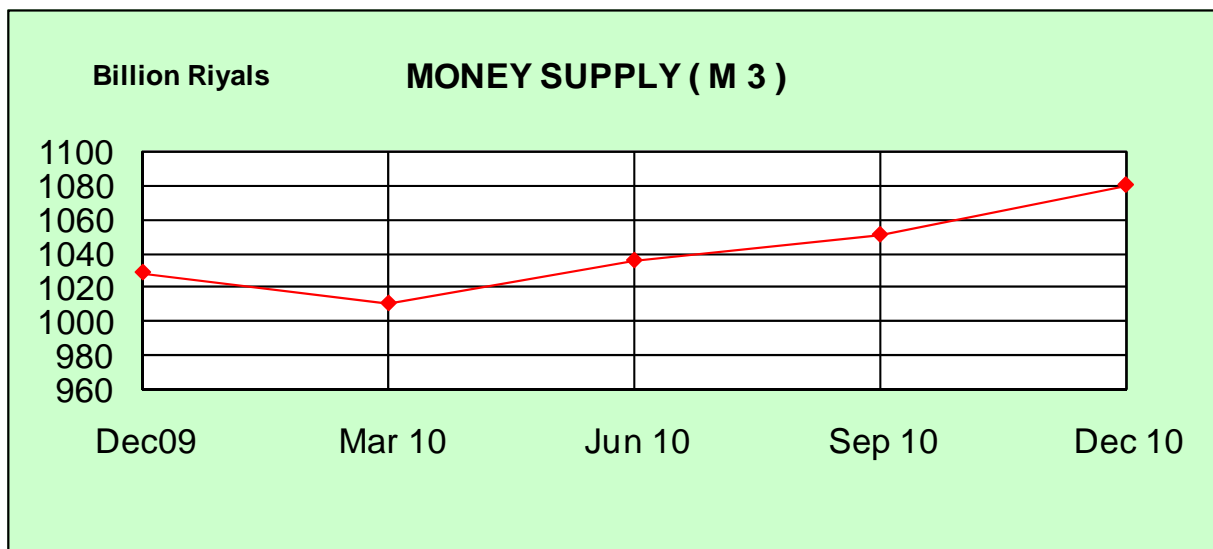
Research and Statistics Department  
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### **First: Monetary Developments**

Broad money (M3) rose by 2.8 percent (Rls 29.4 billion) to Rls 1,080.4 billion during the fourth quarter of 2010 compared to an increase of 1.5 percent (Rls 15.4 billion) during the preceding quarter. However, It registered an annual growth rate of 5.0 percent (Rls 51.4 billion) at the end of the fourth quarter of 2010.



An analysis of the components of money supply (M3) indicates that (M1) rose by 5.8 percent (Rls 34.3 billion) to Rls 625.6 billion, or 57.9 percent of total money supply (M3) during the fourth quarter of 2010 compared to a rise of 2.5 percent (Rls 14.4 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 19.9 percent (Rls 104.4 billion) at the end of the fourth quarter of 2010. Money supply (M2) also went up by 3.9 percent (Rls 34.4 billion) to Rls 923.9 billion, or 85.5 percent of total money supply (M3) during the fourth quarter of 2010 against a rise of 1.0 percent (Rls 8.5 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 9.3 percent (Rls 78.9billion) at the end of the fourth quarter of 2010.

### **Second: Monetary Policy**

During the fourth quarter of 2010, SAMA continued to pursue a monetary policy aimed at achieving financial and price stability by monitoring domestic,

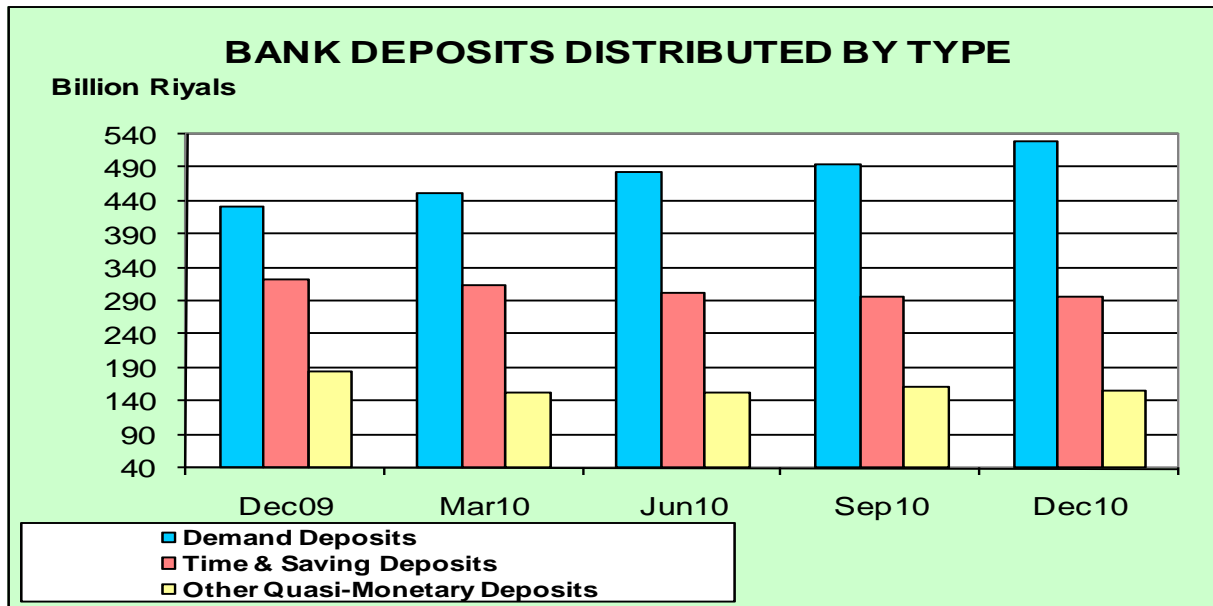
international economic and monetary developments, and taking necessary measures to address them. SAMA continued its efforts aimed at providing necessary liquidity to meet domestic demand for credit in order to ensure that banks continued their financing role in the Kingdom. SAMA's daily average Repo transactions stood at Rls 395 million in the fourth quarter of 2010 against Rls 1,637 million in the third quarter of 2010. Daily average Reverse Repo transactions were valued at Rls 70,711 million during the same period compared to Rls 55,419 million in the third quarter of 2010.

Domestic inter-bank offered rate on three-month deposits was stable at 0.75 percent at the end of the fourth quarter of 2010. The differential between the Riyal and the Dollar deposits for a three-month period continued to be in favor of the Riyal, standing at 45 basis points at the end of the fourth quarter of 2010 compared to 43 basis points at the end of the third quarter of the same year. The Saudi Riyal exchange rate against the Dollar maintained its stability at its official rate of Rls 3.75 at the end of the fourth quarter of 2010.

### **Third: Banking Developments**

#### **3.1 Bank Deposits**

Total bank deposits recorded a rise of 3.1 percent (Rls 29.4 billion) to Rls 984.9 billion during the fourth quarter of 2010 compared to a rise of 1.3 percent (Rls 12.3 billion) during the preceding quarter, recording an annual rise of 4.7 percent (Rls 44.3 billion) at the end of the fourth quarter of 2010. The ratio of total bank deposits to total broad money supply (M3) stood at 91.2 percent at the end of the fourth quarter of 2010 compared to 94.7 percent at the end of the preceding quarter.



A review of the components of deposits by type during the fourth quarter of 2010 indicates that demand deposits rose by 6.9 percent (Rls 34.3 billion) to Rls 530.1 billion compared to a rise of 2.3 percent (Rls 11.3 billion) during the preceding quarter. In contrast, time and savings deposits remained stable at Rls 298.2 billion without any change from the preceding quarter compared to a decline of 5.9 billion (1.9 percent) in the preceding quarter. Other quasi-monetary deposits declined by 3.1 percent (Rls 4.9 billion) to Rls 156.5 billion compared to a rise of 4.4 percent (Rls 6.9 billion) during the preceding quarter. Demand deposits recorded an annual rise of 22.4 percent (Rls 96.9 billion). Time and savings deposits recorded an annual decline of 7.8 percent (Rls 25.1 billion) and other quasi-monetary deposits recorded an annual decline of 15.0 percent (Rls 27.5 billion) at the end of the fourth quarter of 2010.

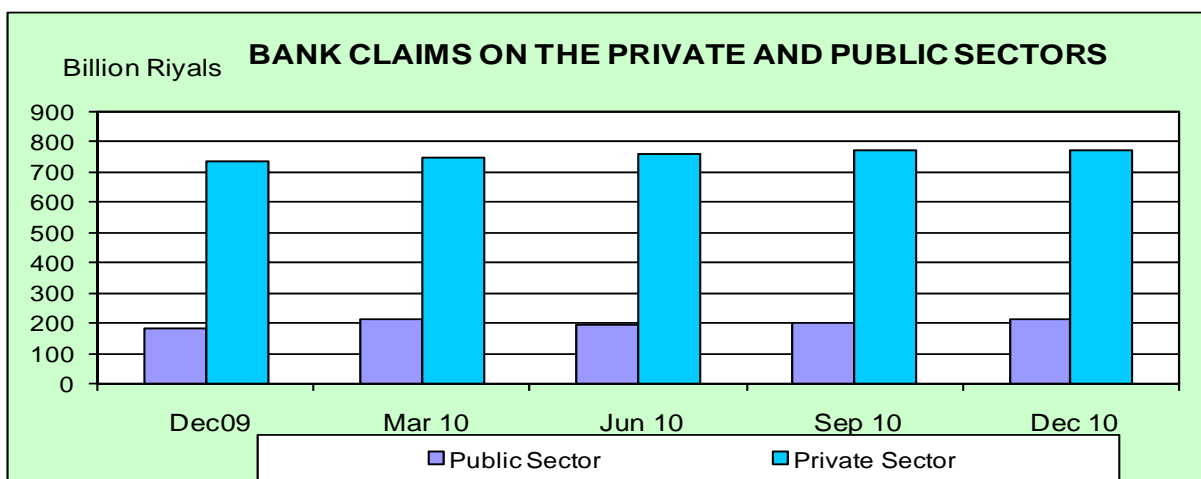
### **3.2 Credit and Investment Activity of Commercial Banks**

Total claims of commercial banks on the private and government sectors (bank credit and investments) went up by 1.6 percent (Rls 15.9 billion) to Rls 990.1 billion during the fourth quarter of 2010, compared to a rise of 1.6 percent (Rls 15.7 billion) in the preceding quarter. At the end of the fourth quarter of 2010, they recorded an

annual growth of 8.0 percent (Rls 73.5 billion) to constitute 100.5 percent of total bank deposits, compared to 102.0 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the fourth quarter of 2010 went up by 0.3 percent (Rls 2.6 billion) to Rls 775.8 billion, compared to a rise of 1.7 percent (Rls 12.8 billion) during the preceding quarter, recording an annual rise of 5.7 percent (Rls 41.5 billion) at the end of the fourth quarter of 2010. The ratio of commercial banks' claims on the private sector to total bank deposits was 78.8 percent at the end of the fourth quarter of 2010, compared to 80.9 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sectors increased by 7.0 percent (Rls 13.4 billion) to Rls 214.3 billion during the fourth quarter of 2010 compared to a rise of 1.0 percent (Rls 2.9 billion) during the preceding quarter. At the end of the fourth quarter of 2010, they registered an annual increase of 17.6 percent (Rls 32.0 billion) in 2010. Their ratio to total bank deposits amounted to 21.8 percent at the end of the fourth quarter of 2010, compared to 21.0 percent at the end of the previous quarter.



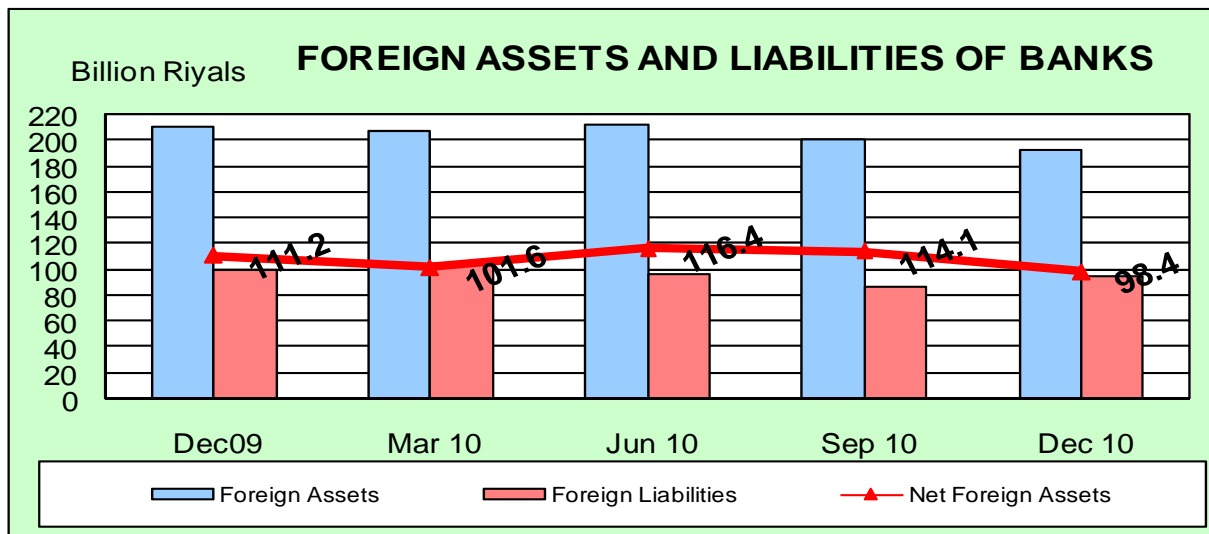
An analysis of bank credit by maturity (private and government sectors) during the fourth quarter of 2010 shows that short-term credit declined by 3.0 percent (Rls

14.3 billion) to Rls 456.2 billion compared to a rise of 4.0 percent (Rls 18.9 billion) during the preceding quarter. Medium-term credit increased by 4.0 percent (Rls 4.9 billion) to Rls 126.8 billion during the fourth quarter of 2010 compared to a rise of 1.7 percent (Rls 2.0 billion) during the preceding quarter. Long-term credit went up by 5.8 percent (Rls 10.5 billion) to Rls 192.3 billion compared to a decline of 3.4 percent (Rls 6.3 billion) during the preceding quarter.

Total bank credit extended, by economic activity, increased by 0.1 percent (Rls 1.2 billion) to Rls 775.3 billion during the fourth quarter of 2010, compared to a rise of 1.9 percent (Rls 14.6 billion) during the preceding quarter, recording an annual rise of 5.0 percent (Rls 38.4 billion) at the end of the fourth quarter of 2010. A breakdown of bank credit extended to different economic activities during the fourth quarter of 2010 indicates that bank credit extended to “agriculture and fishing” increased by 2.8 percent (Rls 279 million), “building and construction” by 7.7 percent (Rls 3.9 billion), “water, electricity and other services” by 19.3 percent (Rls 3.1 billion), "industry and production" by 19.2 percent (Rls 14.5 billion), “other miscellaneous services” by 7.3 percent (Rls 2.4 billion), “mineral and mining” by 30.4 percent (Rls 1.4 billion), “transport and communications” by 17.7 percent (Rls 6.5 billion), and "finance" by 1.7 percent (Rls 0.3 billion). In contrast, bank credit extended during the fourth quarter of 2010 to “commerce” decreased by 2.4 percent (Rls 4.4 billion), "government and quasi-government sector" by 4.9 (Rls 1.7 billion), and "other sectors" by 8.1 percent (Rls 25.2 billion).

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

Total foreign assets of commercial banks during the fourth quarter of 2010 decreased by 4.0 percent (Rls 8.1 billion) to Rls 193.1 billion compared to a fall of 5.4 percent (Rls 11.4 billion) during the preceding quarter, showing a contraction of 8.4 percent (Rls 17.8 billion) and constituting 13.6 percent of total commercial banks' assets compared to 14.6 percent at the end of the preceding quarter.



Commercial banks' total foreign liabilities went up by 8.7 percent (Rls 7.6 billion) to Rls 94.7 billion during the fourth quarter of 2010 against a decline of 9.4 percent (Rls 9.0 billion) in the preceding quarter. The annual growth rate of total foreign liabilities decreased by 5.0 percent (Rls 4.9 billion), constituting 6.7 percent of commercial banks' total liabilities against 6.3 percent at the end of the preceding quarter. Net foreign assets fell by Rls 15.7 billion to Rls 98.4 billion at the end of the fourth quarter of 2010 compared to a fall of Rls 2.0 billion during the preceding quarter.

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

The capital and reserves of commercial banks declined by 1.6 percent (Rls 2.8 billion) to Rls 178.0 billion during the fourth quarter of 2010 compared to a decrease of 1.0 percent (Rls 180.9 billion) in the previous quarter. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the fourth quarter of 2010 stood at 18.1 percent compared to 18.9 percent in the previous quarter. Their annual growth rate rose by 8.8 percent (Rls 14.4 billion).

Commercial banks' profits stood at Rls 6.5 billion during the fourth quarter of 2010 compared to Rls 5.7 billion in the preceding quarter, increasing by 14.3 percent (Rls 0.8 billion) and recording an annual increase rate of 80.7 percent (Rls 2.9 billion) in 2010.

During the fourth quarter of 2010, the number of commercial banks' branches operating in the kingdom increased to 1,591 compared to 1,569 at the end of the preceding quarter, recording a growth rate of 1.4 percent (22 branches).

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

Total assets and liabilities of commercial banks stood at Rls 1,415.3 billion at the end of the fourth quarter of 2010, increasing by 3.0 percent (Rls 39.2 billion), compared to a decline of 0.4 percent (Rls 5.6 billion) in the preceding quarter, recording an annual growth rate of 3.3 percent (Rls 45.0 billion) at the end of the fourth quarter of 2010.

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

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the fourth quarter of 2010 totaled Rls 12,827.3 billion (nearly \$3,420.2 billion) based on 1.1 million messages involving a total of 8.3 million transactions carried out through SARIE. The value of single payment transactions totaled Rls 12,579.5 billion, whereas the total value of gross payments stood at Rls 244 billion. Customers' payments stood at Rls 758.3 billion, increasing by 3.9 percent from the fourth quarter of 2009. The total value of inter-bank payments transactions stood at Rls 12,065.2 billion.

The number of transactions executed via ATMs in the fourth quarter of 2010 stood at about 280 million, including bank transactions and SPAN transactions of Rls 117.6 billion. Total transactions executed through POS terminals stood at 40 million with a total value of Rls 18.3 billion during the fourth quarter of 2010. The number of ATMs totaled 10,885 and the number of cards issued by domestic banks stood at about

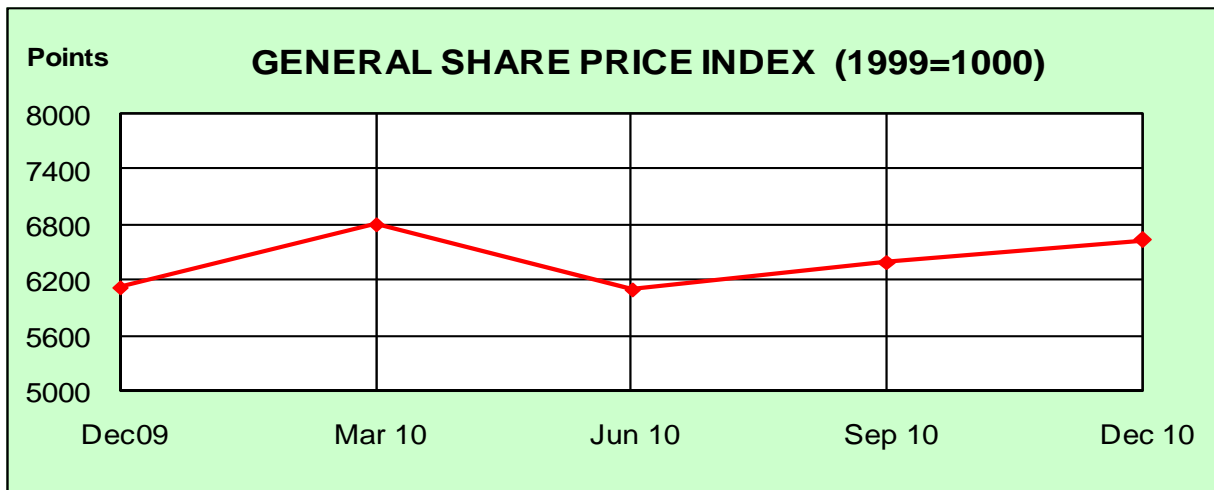
12.1 million at the end of the fourth quarter of 2010. The number of POS terminals totaled 80.5 thousand at the end of the fourth quarter of 2010.

The number of bank checks (outgoing and incoming) cleared at clearing houses in the fourth quarter of 2010 totaled 1.8 million with a total value of Rls 205.9 billion. The number of household and business checks totaled 1.6 million with a total value of Rls 158.1 billion during the period. The number of banks' checks (certified) totaled 223.9 thousand with a total value of Rls 47.8 billion.

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

The general share price index went up during the fourth quarter of 2010 by 3.6 percent to 6,620.8 compared to a rise of 4.9 percent in the preceding quarter, recording an annual rise of 8.2 percent. During the fourth quarter of 2010, the number of traded shares went up by 14.3 percent to about 7.1 billion compared to a decline of 45.2 percent in the preceding quarter. However, traded shares experienced a decline of 28.6 percent in 2010. Total value of traded shares increased by 28.2 percent to Rls 170.5 billion compared to a decline of 49.9 percent in the preceding quarter, with its annual growth rate falling by 30.2 percent.

At the end of the fourth quarter of 2010, the market capitalization of issued shares went up by 5.0 percent to Rls 1,325 billion against a rise of 5.3 percent at the end of the preceding quarter, recording a rise of 10.9 percent in its annual growth rate. Total number of transactions executed in the fourth quarter of 2010 recorded a decline of 2.6 percent to 3.9 million compared to a decline of 36.9 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 37.6 percent.



### **Sixth: Investment Funds**

Total assets of investment funds managed by investment companies recorded a decline of 3.6 percent (Rls 3.6 billion) to Rls 94.7 billion in the fourth quarter of 2010 compared to a decline of 0.7 percent (Rls 658 million) in the preceding quarter. However, these funds experienced an annual growth rate by 5.8 percent (Rls 5.2 billion).

A breakdown of the funds' total assets indicates a decline in domestic assets by 5.1 percent (Rls 3.9 billion) to Rls 74.4 billion in the fourth quarter of 2010, compared to a decline of 1.4 percent (Rls 1.1 billion) in the preceding quarter. Domestic assets recorded a rise in their annual growth rate of 0.4 percent (Rls 305 million). Foreign assets registered a rise of 2.2 percent (Rls 431 million) to Rls 20.3 billion during the fourth quarter of 2010 against an increase of 2.2 percent (Rls 430 billion) in the preceding quarter, recording an annual increase rate of 31.7 percent (Rls 4.9 billion).

The number of subscribers to investment funds dropped by 3.3 percent (10,870) to 320.4 thousand in the fourth quarter of 2010 compared to a decline of 2.7 percent (9,230) in the preceding quarter. The number of subscribers recorded a negative annual growth of 10.1 percent (35,916). The number of operating funds decreased by 4.0 percent to 243 during the fourth quarter of 2010 compared to a rise of 1.2 percent (3) during the preceding quarter.

### **Seventh: Supervisory and Legislative Banking Developments during the fourth Quarter of 2010:**

A number of circulars were issued during the fourth quarter of 2010 as follows:

- SAMA Circular No. BCS/25289 dated 22/11/1431H (30/10/2010) concerning Basel Committee's Consultative Document: Set of Methodologies to Harmonize Risks and Performance Compensations
- SAMA Circular No. M A SH/26896 dated 14/9/1431H (21/12/2010) concerning the inclusion of a provision requiring commitment of all external auditors to directly coordinate with SAMA, in its capacity as the supervisory and control authority, regarding contracts concluded by banks with the external auditors.
- SAMA circular No. 8/BCS/101 dated 30/12/1431H (7/12/2010), on a presentation on current regulatory developments relating to the frameworks of Basel II and III.
- SAMA Circular No. BCS/1276 dated 4/1/1432H (21/12/2010) concerning Basel Committee's papers on sound practices of backtest of models of credit risk of a counterparty, and setting a capital to cover exposure of banks to central counterparties
- SAMA Circular No. BCS/1277 dated 4/1/1432H (21/12/2010) on Basel Committee's papers on: Identifying the impact of insurance risk mitigation in operational risk models, sound practices to manage and control operational risk, and operational risk and control guidance to advanced measurement methods.
- SAMA Circular No. BCS/1278 dated 4/1/1432H (21/12/2010) on Basel Committee's documents, published in December 16<sup>th</sup>, 2010 on the framework of the Global Basel III for more flexible banks and banking system, Basel III global measurement standards for liquidity risk and control, and the findings of the study on quantitative impact of the standard.