

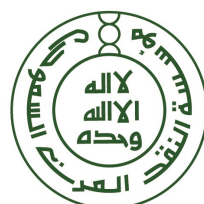
2019

## Monetary and Banking Developments

Third Quarter, 2019



Research and International Affairs Deputyship  
Economic Research Department



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## Executive Summary

In Q3 2019, SAMA decided to reduce the reverse repo rate from 2.5 percent to 2 percent and the repo rate from 3.0 percent to 2.5 percent. The cash reserve ratio was maintained at 7.0 percent for demand deposits and 4.0 percent for time and savings deposits. SAMA continued to maintain the limit of weekly subscription in SAMA bills for domestic banks at SAR 3.0 billion in Q3 2019. The three-month Saudi interbank offered rate (SIBOR) declined to 2.51 percent.

During Q3 2019, money supply (M3) increased slightly by 0.3 percent; however, monetary base decreased by 1.2 percent. Preliminary data of SAMA's balance sheet indicates that total foreign assets decreased by 2.3 percent to SAR 1,868.9 billion. SAMA's total reserve assets also recorded a decrease of 2.4 percent (SAR 46.1 billion) to SAR 1,877.2 billion.

Total bank deposits increased by 0.5 percent to SAR 1,699.2 billion. Total assets and liabilities of commercial banks amounted to SAR

2,506.4 billion at end-Q3 2019, increasing by 1.5 percent.

Commercial banks' claims on the private and public sectors rose by 2.2 percent to SAR 1,926.0 billion. Preliminary estimates indicate a surplus of SAR 46.5 billion in the current account balance compared to a y/y surplus of SAR 73.1 billion.

The total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions rose by 6.4 percent (SAR 683.2 billion) to SAR 11,298.8 billion. Total number of ATM transactions stood at 523.2 million with cash withdrawals totaling SAR 182.0 billion, including transactions through banks' network and Mada. The Tadawul All Share Index (TASI) decreased by 8.3 percent to 8,092 at end-Q3 2019.

Total assets of investment funds managed by investment companies in Q3 2019 increased by 8.8 percent (SAR 11.1 billion) to SAR 137.2 billion.

## **First: Monetary Policy**

SAMA has been adopting a monetary policy aimed at achieving price stability, supporting the various economic sectors in line with domestic and international economic developments, and assisting domestic banks to perform their financing role in the domestic economy.

### **1.1 Rate of Return and Cash Reserve**

In Q3 2019, SAMA decided to gradually reduce the reverse repo rate from 2.5 percent to 2 percent and the repo rate from 3 percent to 2.5 percent in order to continue to maintain monetary stability.

SAMA's daily average repo transactions stood at SAR 1.43 billion against SAR 1.01 billion in Q2 while daily average reverse repo transactions stood at SAR 47.3 billion compared to SAR 47.5 billion.

The cash reserve ratio was maintained at 7.0 percent for demand deposits and 4.0 percent for time and savings deposits.

### **1.2 Interest Rates**

To encourage domestic banks to increase lending, SAMA continued to maintain the limit of weekly subscription in SAMA bills for domestic banks at SAR 3.0 billion in Q3 2019. The three-month SAIBOR declined to 2.51 percent in Q3 2019. The three-month interest

differential between the riyal (SAIBOR) and the dollar (LIBOR) deposits remained unchanged at 32 basis points in favor of the riyal in Q3 2019, the same as in Q2. As for the riyal exchange rate against the dollar, it remained unchanged at its official peg rate of SAR 3.75.

As regards foreign exchange swaps, SAMA did not make any swap transaction with domestic banks in Q3 2019.

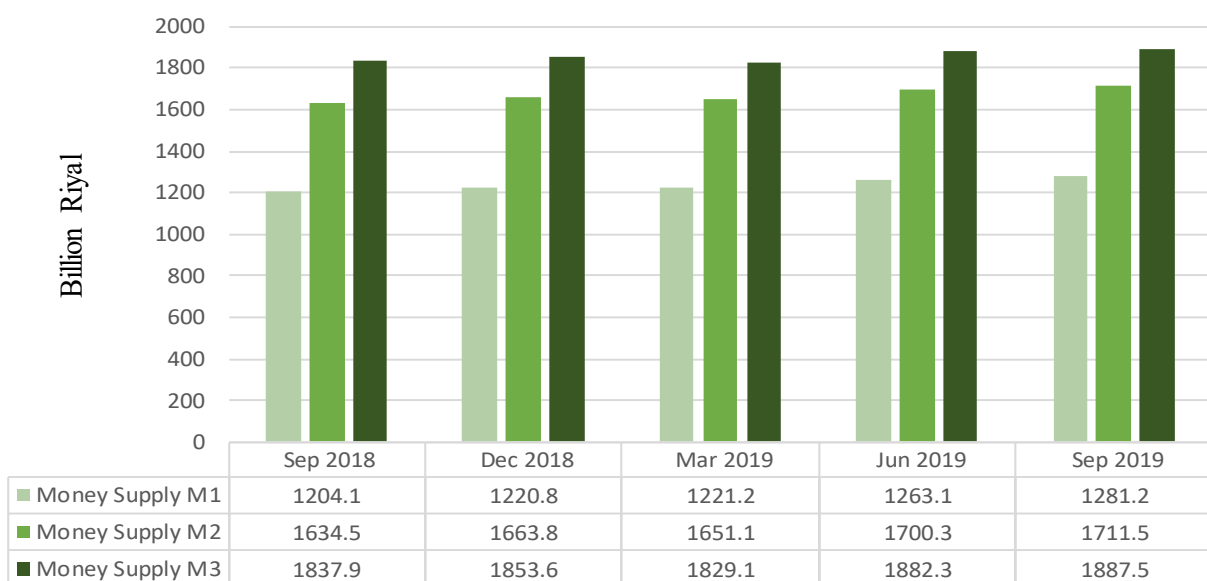
## **Second: Monetary Developments**

### **2.1 Money Supply**

M3 increased slightly by 0.3 percent (SAR 5.2 billion) to SAR 1,887.5 billion in Q3 2019, compared to an increase of 2.9 percent (SAR 53.2 billion) in the preceding quarter, recording a y/y annual rise of 2.7 percent (SAR 49.5 billion) (Chart 1).

A breakdown of the components of M3 indicates that narrow money supply (M1) rose by 1.4 percent (SAR 18.1 billion) to SAR 1,281.2 billion or 67.9 percent of M3, compared to a rise of 3.4 percent (SAR 41.9 billion) in the preceding quarter, recording a y/y rise of 6.4 percent (SAR 77.1 billion). Also, M2 increased by 0.7 percent (SAR 11.2 billion) to SAR 1,711.5 billion or 90.7 percent of M3 against a decrease of 3.0 percent (SAR 49.2 billion) in the preceding quarter. It recorded a y/y rise of 4.7 percent (SAR 77.0 billion).

Chart 1: Money Supply





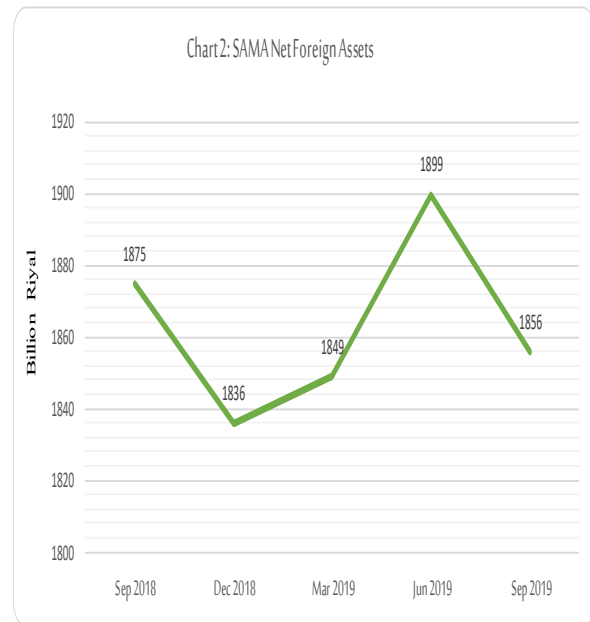
## **2.2 Monetary Base**

Monetary base declined by 1.2 percent (SAR 4.0 billion) to SAR 322.0 billion in Q3 2019, compared to an increase of 1.7 percent (SAR 5.6 billion) in the preceding quarter, recording a y/y rise of 3.4 percent (SAR 10.5 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA increased by 1.9 percent (SAR 2.0 billion) to SAR 104.0 billion in Q3 2019, compared to a decrease of 3.5 percent (SAR 3.7 billion) in the preceding quarter, recording a y/y rise of 4.0 percent (SAR 4.0 billion). Cash in vault decreased by 10.2 percent (SAR 3.4 billion) to SAR 29.7 billion, compared to an increase of 10.9 percent (SAR 3.2 billion) in the preceding quarter, recording a y/y decline of 8.4 percent (SAR 2.7 billion). In addition, currency in circulation went down by 1.4 percent (SAR 2.6 billion) to SAR 188.2 billion compared to a rise of 3.3 percent (SAR 6.1 billion) in the preceding quarter, registering a y/y increase of 5.1 percent (SAR 9.2 billion).

## **Third: Developments of SAMA's Balance Sheet**

Preliminary data of SAMA's balance sheet indicate that total foreign assets declined by 2.3 percent (SAR 45.0 billion) to SAR 1,868.9 billion in Q3 2019, compared to a rise of 2.7 percent (SAR 49.6 billion) in Q2. They registered a y/y decrease of 1.25 percent (SAR 23.7 billion). Net foreign assets went down by 2.3 percent (SAR 43.8 billion) to SAR 1,855.7 billion in Q3 2019, compared to an increase of 2.7 percent (SAR 50.7 billion) in the preceding quarter, recording a y/y decline of 1.0 percent (SAR 19.0 billion) (Chart 2).

Total deposits in domestic currency for foreign entities dropped by 8.4 percent (SAR 1.2 billion) to SAR 13.2 billion, compared to a decline of 7.3 percent (SAR 1.1 billion) in the preceding quarter. They recorded a y/y decrease of 26.5 percent (SAR 4.7 billion).



## **3.1 Reserve Assets**

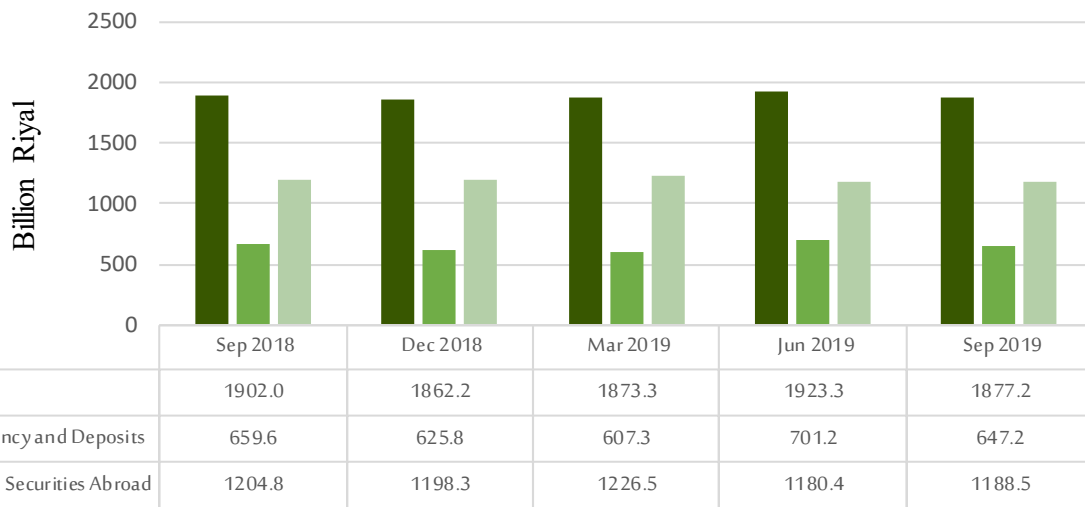
SAMA's total reserve assets decreased by 2.4 percent (SAR 46.1 billion) to SAR 1,877.2 billion in Q3 2019, compared to a rise of 2.7 percent (SAR 50.0 billion) in the preceding quarter. They recorded a y/y decrease of 1.3 percent (SAR 24.8 billion). A breakdown of the components of total reserve assets as compared to the preceding quarter indicates that the reserve position with the IMF rose by 8.8 percent (SAR 0.7 billion) to SAR 8.8 billion. Investments in securities abroad also rose by 0.7 percent (SAR 8.1 billion) to SAR 1,188.5 billion. On the other hand, foreign exchange and deposits abroad decreased by 7.7 percent (SAR 54.0 billion) to SAR 647.2 billion. The balance of special drawing rights (SDR) also declined by 3.0 percent (SAR 0.9 billion) to SAR 31.0 billion while gold reserve was stable at SAR 1.6 billion (Chart 3).

## **Fourth: Banking Developments**

### **4.1 Bank Deposits**

Total bank deposits increased by 0.5 percent (SAR 7.8 billion) to SAR 1,699.2 billion in Q3 2019, compared to a rise of 2.9

Chart 3: Reserve Assets



percent (SAR 47.1 billion) in the preceding quarter, recording a y/y rise of 2.4 percent (SAR 40.3 billion).

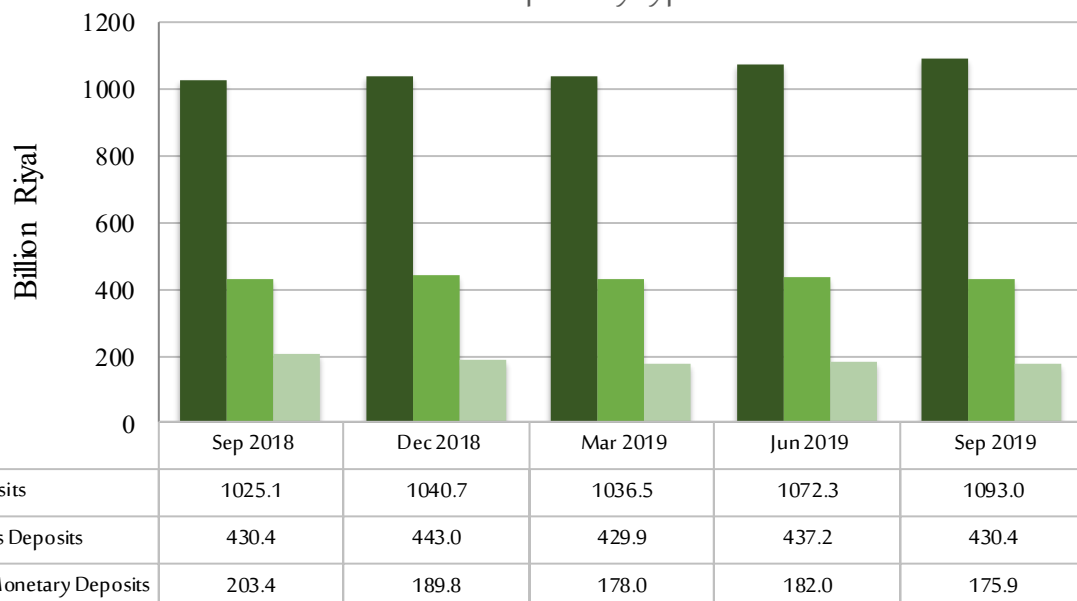
A breakdown of deposit components by type in Q3 2019 indicates that demand deposits rose by 1.9 percent (SAR 20.7 billion) to SAR 1,093.0 billion compared to an increase of 3.5 percent (SAR 35.8 billion) during the preceding quarter, recording a y/y rise of 6.6 percent (SAR 67.9 billion). Time and savings deposits decreased by 1.6 percent (SAR 6.8 billion) to SAR 430.4 billion compared to a rise of 1.7 percent (SAR 7.3 billion) during the preceding quarter. They recorded a y/y decline of 0.02 percent (SAR 0.1 billion). Other quasi-monetary

deposits went down by 3.3 percent (SAR 6.1 billion) to SAR 175.9 billion, compared to a rise of 2.2 percent (SAR 4.0 billion) during the preceding quarter. They also recorded a y/y decline of 13.5 percent (SAR 27.5 billion) (Chart 4).

#### 4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks stood at SAR 2,506.4 billion at end-Q3 2019, increasing by 1.5 percent (SAR 36.7 billion), compared to a q/q increase of 3.0 percent (SAR 71.7 billion). They registered an annual rise of 5.5 percent (SAR 131.3 billion).

Chart 4: Bank Deposits by Type



### **4.3 Foreign Assets and Liabilities of Commercial Banks**

Total foreign assets of commercial banks increased by 6.8 percent (SAR 15.1 billion) to SAR 237.8 billion as compared to an increase of 0.8 percent (SAR 1.7 billion) during the preceding quarter. They, however, registered a y/y decline of 1.3 percent (SAR 3.2 billion), constituting 9.5 percent of commercial banks' total assets at end-Q3 2019 as compared to 9.0 percent at end-Q2 2019. Commercial banks' total foreign liabilities went up by 21.9 percent (SAR 29.7 billion) to SAR 165.2 billion against an increase of 10.0 percent (SAR 12.3 billion) in the preceding quarter. They registered a y/y increase of 71.0 percent (SAR 68.6 billion), or 6.6 percent of total liabilities of commercial banks against 5.5 percent at end-Q2 2019. Commercial banks' net foreign assets dropped by 16.6 percent (SAR 14.5 billion) to SAR 72.6 billion, compared to a decline of 10.9 percent (SAR 10.6 billion) during the preceding quarter. They recorded a y/y decline of 49.7 percent (SAR 71.8 billion) (Chart 5).

### **4.4 Commercial Banks' Claims on the Private and Public Sectors**

Commercial banks' claims on the private and public (including government and quasi-government) sectors went up by 2.2 percent (SAR 41.6 billion) to SAR 1,926.0 billion in Q3 2019, compared to an increase of 1.7 percent (SAR 30.7 billion) in the preceding quarter. They recorded a y/y rise of 6.7 percent (SAR 121.4 billion). The ratio of these claims to total bank deposits rose to 113.3 percent up from

111.4 percent at the end of the preceding quarter.

### **4.4.1 Commercial Banks' Claims on the Private Sector**

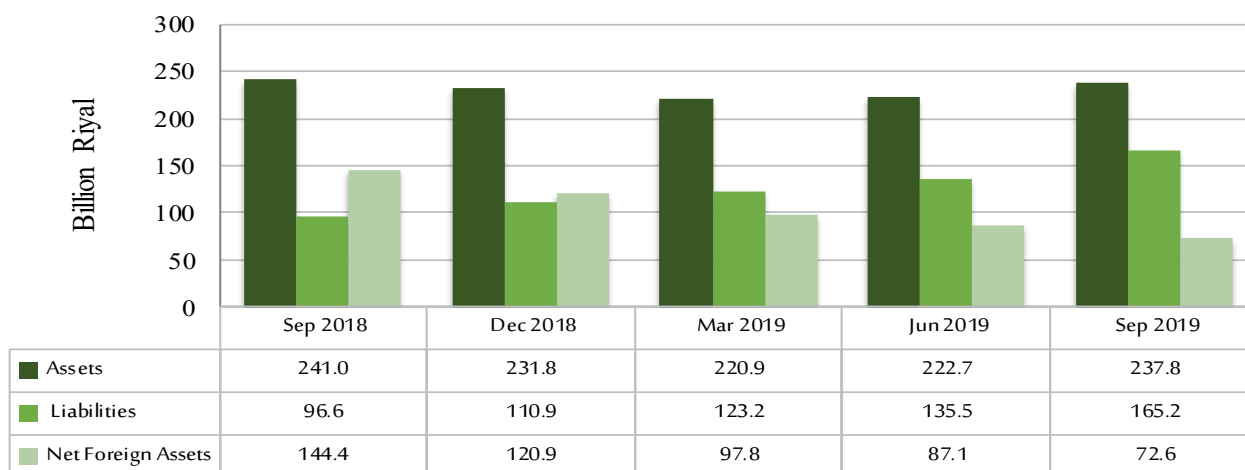
Commercial banks' claims on the private sector increased by 1.5 percent (SAR 21.9 billion) to SAR 1,499.0 billion in Q3 2019, compared to a rise of 1.1 percent (SAR 16.3 billion) in the preceding quarter. The claims on the private sector registered a y/y increase of 3.2 percent (SAR 46.6 billion). The ratio of these claims to total bank deposits rose to 88.2 percent at end-Q3 2019 compared to 87.3 percent at the end of the preceding quarter (Chart 6).

### **4.4.2 Commercial Banks' Claims on the Public Sector**

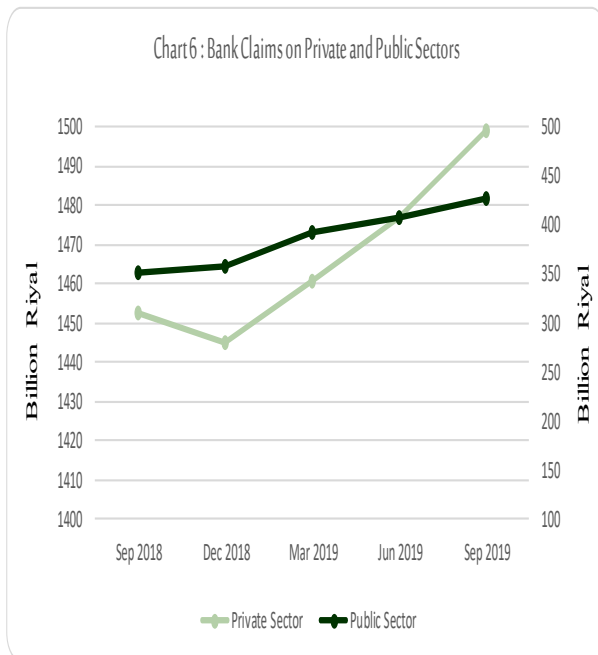
Commercial banks' claims on the public sector rose by 4.8 percent (SAR 19.6 billion) to SAR 427.0 billion in Q3 2019, compared to a rise of 3.7 percent (SAR 14.4 billion) in the preceding quarter. These claims registered a y/y increase of 21.3 percent (SAR 74.8 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits increased to 25.1 percent at end-Q3 2019 from 24.1 percent at the end of the preceding quarter (Chart 6).

A breakdown of bank credit by maturity indicates that long-term credit increased by 9.0 percent (SAR 47.0 billion) to SAR 572.5 billion, compared to a rise of 4.3 percent (SAR 21.7 billion) in the preceding quarter. Medium-term credit increased slightly by 0.6 percent (SAR 1.4 billion) to SAR 229.5

Chart 5: Banks' Assets, Liabilities and Net Foreign Assets



billion, compared to a drop of 2.3 percent (SAR 5.4 billion) in the preceding quarter. Short-term credit, however, decreased by 3.4 percent (SAR 24.5 billion) to SAR 699.0 billion compared to a slight decrease of 0.01 percent (SAR 88 million) in the preceding quarter (Chart 6).



#### **4.4.3 Commercial Banks' Claims by Economic Activity**

Total bank credit extended to economic activities increased by 1.6 percent (SAR 24.0 billion) to SAR 1,501.0 billion in Q3 2019, compared to a rise of 1.1 percent (SAR 16.2 billion) in the preceding quarter, recording a y/y rise of 3.7 percent (SAR 53.5 billion).

A breakdown of bank credit extended to economic activities in Q3 2019 indicates increases in bank credit extended to commerce by 0.2 percent (SAR 0.5 billion); to electricity, water, gas and health services by 0.02 percent (SAR 12.0 million); to building and construction by 0.3 percent (0.3 billion); to government and quasi-government by 0.8 percent (SAR 0.4 billion); to transport and telecommunications by 3.9 percent (SAR 1.8 billion); to services by 2.2 percent (SAR 1.7 billion); to mining and quarrying by 5.2 percent (SAR 0.9 billion); and to other sectors by 4.5 percent (SAR 27.5 billion). In contrast, bank credit extended to finance decreased by 9.2 percent (SAR 3.8 billion); to agriculture and fishing by 2.1 percent

(SAR 0.3 billion); and to manufacturing and production sector by 3.0 percent (SAR 5.2 billion).

#### **4.5 Reserves, Capital, Profits and Branches of Commercial Banks**

Capital and reserves of commercial banks increased by 0.1 percent (SAR 0.4 billion) to SAR 383.6 billion, compared to a rise of 5.2 percent (SAR 19.1 billion) in the preceding quarter, recording a y/y rise of 8.1 percent (SAR 28.8 billion). Their ratio to total bank deposits decreased to 22.6 percent from 22.7 percent in the preceding quarter. Commercial banks' profits stood at SAR 13.7 billion in Q3 2019 compared to SAR 10.9 billion in the preceding quarter, denoting a rise of 25.3 percent (SAR 2.8 billion) compared to a q/q decrease of 21.3 percent (SAR 3.0 billion).

At end-Q3 2019, the number of commercial banks' branches operating in Saudi Arabia increased to 2,071 with nine more branches over the preceding quarter, registering a y/y increase of two branches.

#### **4.6 Commercial Banks' Purchases and Sales of Foreign Exchange**

##### **4.6.1 Commercial Banks' Purchases of Foreign Exchange**

Commercial banks' total purchases of foreign exchange rose by 8.9 percent (SAR 75.6 billion) to SAR 921.8 billion, compared to a rise of 13.7 percent (SAR 102.2 billion) in the preceding quarter, recording a y/y increase of 42.9 percent (SAR 276.9 billion). A q/q comparison of banks' total purchases shows that purchases from domestic banks decreased by 36.3 percent (SAR 53.9 billion), from customers by 14.0 percent (SAR 21.2 billion) and from other sources by 23.4 percent (SAR 5.2 billion). However, banks' total purchases from foreign banks increased by 19.7 percent (SAR 84.2 billion) and from SAMA by 74.0 percent (SAR 71.7 billion) (Chart 7).

##### **4.6.2 Commercial Banks' Sales of Foreign Exchange**

Commercial banks' total sales of foreign exchange went up by 9.8 percent (SAR 75.1 billion) to SAR 842.6 billion in Q3 2019, compared to a rise of 10.6 percent (SAR 73.6



billion) during the preceding quarter. They recorded a y/y rise of 34.7 percent (SAR 217.2 billion).

A q/q comparison of banks' total sales of foreign exchange indicates that sales to SAMA rose by 20.9 percent (SAR 1.2 billion); to banks abroad by 29.3 percent (SAR 80.7 billion); and to other customers in Saudi Arabia by 14.5 percent (SAR 36.0 billion). A q/q comparison of banks' total sales of foreign exchange indicates that sales to government entities decreased by 46.4 percent (SAR 7.9 billion); to ministries and municipalities by 90.0 percent (SAR 0.7 billion); to banks inside Saudi Arabia by 20.8 percent (SAR 25.5 billion); for other purposes (traveling abroad, personal transfers, and foreign contractors) by 8.9 percent (SAR 8.7 billion) (Chart 7).

### **Fifth: External Sector**

#### **Foreign Trade**

In Q2 2019, total exports value went down by 9.0 percent to SAR 255.8 billion, compared to SAR 281.1 billion in Q2 2018, as total value of oil exports declined by 9.3 percent to SAR 199.8 billion and other exports (including re-exports) decreased by 7.9 percent to SAR 56.0 billion. On the other hand, value of imports (CIF) recorded a y/y increase of 7.5 percent to SAR 143.0 billion in Q2 2019.

#### **Balance of Payments**

##### **5.1 Current Account:**

Preliminary estimates indicate a surplus of SAR 46.5 billion in the current account balance

in Q2 2019 compared to a surplus of SAR 73.1 billion in Q2 2018. This is attributed to a surplus of SAR 77.3 billion in the balance of goods and services against a y/y surplus of SAR 103.0 billion. The balance of goods recorded a surplus of SAR 124.9 billion despite a decrease in exported goods by 9.0 percent to SAR 255.8 billion compared to SAR 281.1 billion in the corresponding quarter of the previous year and an increase in imported goods (FOB) by 7.4 percent to SAR 130.9 billion compared to SAR 121.9 billion in the corresponding quarter of the preceding year. The services deficit declined from SAR 56.2 billion in Q2 2018 to SAR 47.6 billion in Q2 2019. The surplus in the balance of primary income decreased to SAR 4.4 billion in Q2 2019 against SAR 9.2 billion in the corresponding quarter of previous year. The deficit in the secondary income balance decreased by 10.1 percent to SAR 35.2 billion compared to SAR 39.1 billion in the corresponding quarter of the previous year.

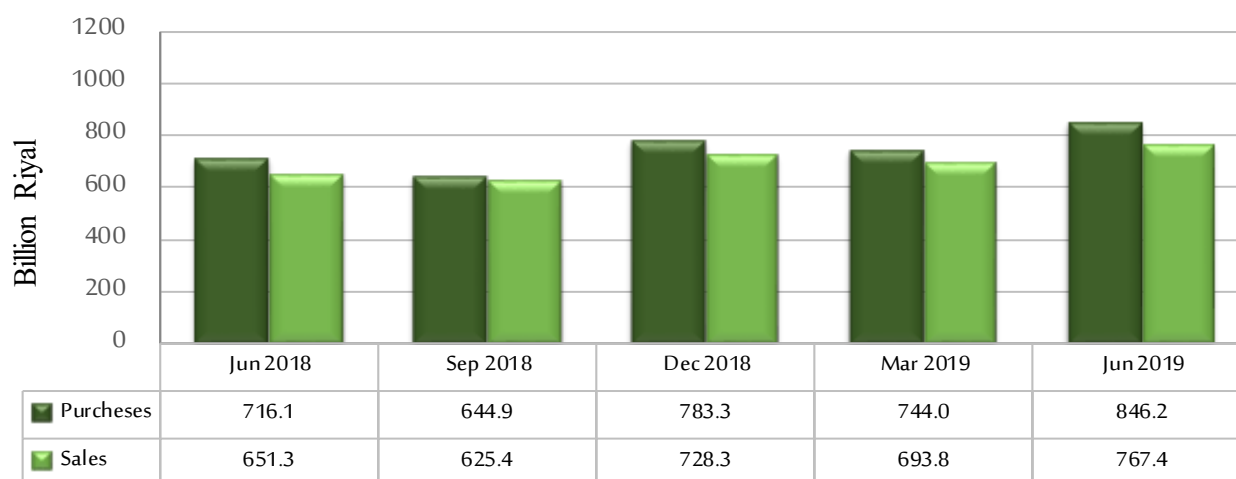
##### **5.2: Capital Account**

The capital account registered outflows of SAR 1.2 billion in Q2 2019 against SAR 2.2 billion in the corresponding quarter of the previous year.

##### **5.3: Financial Account**

Net direct investments increased by SAR 9.2 billion in Q2 2019 due to the fact that net acquisition of financial assets abroad (SAR 13.3 billion) is higher than domestic net

Chart 7: Banks' Foreign Currency Purchases and Sales



incurrence of liabilities (SAR 4.0 billion). Net portfolio investments recorded a decline of SAR 50.3 billion against a decline of SAR 44.7 billion in the corresponding quarter of the preceding year. Net other investments registered an increase of SAR 38.5 billion against a y/y increase of SAR 53.6 billion. Net reserve assets increased by SAR 50.0 billion in Q2 2019 against a y/y increase of SAR 49.6 billion as other reserve assets rose by SAR 47.8 billion (due to an increase in currency and deposits item by SAR 93.9 billion, despite the decline in the item of investment in securities by SAR 46.1 billion) against a y/y increase of SAR 50.9 billion.

### **Sixth: Banking Technology Developments and Financial Inclusion:**

#### **6.1 Saudi Riyal Inter-bank Express System (SARIE)**

The total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions went up by 6.4 percent (SAR 683.2 billion) to SAR 11,298.8 billion. The value of single payment transactions totaled SAR 10,513.7 billion, whereas the total value of bulk payment transactions amounted to SAR 778.4 billion. Total customer payments stood at SAR 1,896.8 billion, with a q/q decline of 0.1 percent. The total value of inter-bank payment transactions was SAR 9,395.2 billion, with a q/q increase of 7.9 percent.

#### **6.2 Mada**

The total number of ATM transactions was approximately 523.2 million, with cash withdrawals totaling SAR 182.0 billion, including transactions through banks' network and Mada. Total point of sale (POS) terminal transactions were 410.6 million with sales totaling SAR 69.7 billion. The number of ATMs totaled 18.8 thousand and the number of ATM cards issued by domestic banks stood at 31.0 million. The number of POS terminals stood at 407.2 thousand at end-Q3 2019.

#### **6.3 Clearing**

As for statistics on clearing in Q3 2019, the number of bank checks (outgoing and incoming) cleared at the clearing houses stood at 762 thousand with a total value of SAR 94.1

billion. The number of individual and corporate checks totaled 666 thousand with a total value of SAR 63.4 billion; the number of interbank checks totaled 96 thousand with a total value of SAR 30.7 billion.

### **Seventh: Domestic Stock Market Developments**

The Tadawul All Share Index (TASI) decreased by 8.3 percent to 8,092 at end-Q3 2019 compared to an increase of 0.03 percent in the preceding quarter, recording a y/y increase of 1.2 percent. The number of traded shares decreased by 15.9 percent to 7.7 billion in Q3 2019 compared to a q/q increase of 19.1 percent, recording a y/y increase of 7.4 percent. Total value of shares traded in Q3 2019 went down by 20.4 percent to SAR 208.6 billion compared to a q/q increase of 48.1 percent, registering a y/y rise of 17.7 percent.

At end-Q3 2019, the stock market capitalization decreased by 8.3 percent to SAR 1.9 billion against a decline of 0.3 percent at the end of the preceding quarter, registering a y/y increase of 0.5 percent. Total number of transactions executed in Q3 2019 increased by 4.2 percent to 7.0 million compared to an increase of 3.9 percent in the preceding quarter, recording a y/y rise of 35.3 percent (Chart 8).

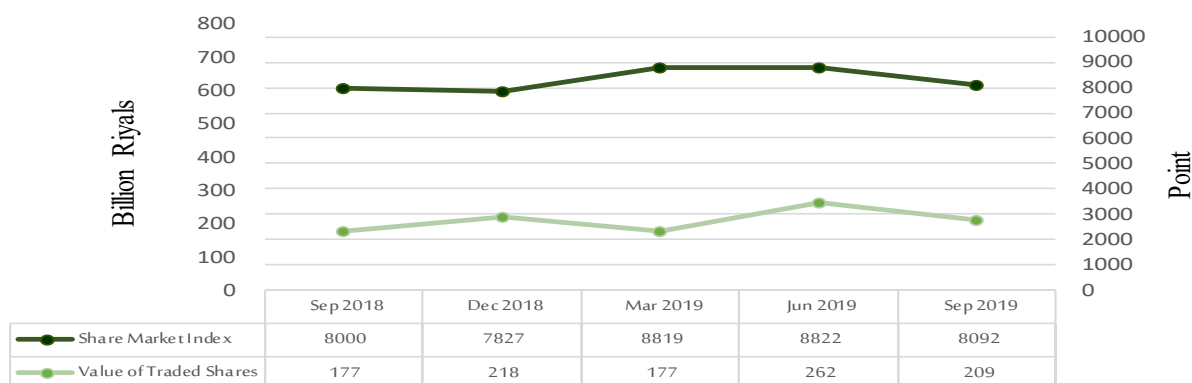
### **Eighth: Investment Funds**

Total assets of investment funds managed by investment companies went up by 8.8 percent (SAR 11.1 billion) to SAR 137.2 billion in Q3 2019 compared to a rise of 5.3 percent (SAR 6.3 billion) in the preceding quarter. They recorded a y/y increase of 16.4 percent (SAR 19.4 billion).

A breakdown of total assets of investment funds shows that domestic assets rose by 7.9 percent (SAR 8.3 billion) to SAR 113.3 billion in Q3 2019 compared to a rise of 26.4 percent (SAR 22.0 billion) in the previous quarter. They registered a y/y increase of 10.0 percent (SAR 10.3 billion).

Foreign assets also rose by 13.4 percent (SAR 2.8 billion) to SAR 24.0 billion in Q3 2019 against a decline of 42.5 percent (SAR 15.6 billion) in the preceding quarter, registering a y/y increase of 60.8 percent (SAR 9.1 billion).

Chart 8: Share Market Index



Source: Tadawul and Capital Market Authority.

The number of subscribers to investment funds declined by 0.6 percent (two thousand) to 333.3 thousand in Q3 2019, compared to a decline of 5.9 percent (21.0 thousand) in the preceding quarter. The number of subscribers recorded a y/y increase of 2.0 percent (6.4 thousand). As regards the number of funds, it increased by one to 252 in Q3 2019 compared to the preceding quarter.

#### **Ninth: Supervisory and Legislative Banking Developments in Q3 2019**

- SAMA updated the rules governing the opening and operation of bank accounts.
- SAMA issued the instructions for disclosure of licenses so as to raise awareness of customers about financial institutions and their supervisory and regulatory entity.
- SAMA issued the rules for disclosing prices of finance and savings products, determining the minimum information to be disclosed by finance companies and banks through their communication channels.
- SAMA issued the Code of Ethics and Professional Conduct to promote discipline, integrity, transparency, objectivity, efficiency and loyalty in employees of financial institutions when performing their duties and tasks.
- SAMA issued the Whistle Blowing Policy for Financial Institutions. The Policy aims to provide the minimum controls necessary to receive and process reports so that it is

easy for financial institution employees and stakeholders to report violations without being negatively affected.

- SAMA developed rules on bank transactions with relevant parties that aim to promote effective credit risk management, prevent conflict of interest and ensure conformity with international best practices.
- SAMA updated the Rules on Large Exposures of Banks to be in line with international best practices.
- SAMA issued the second version of the Requirements for Appointments to Senior Positions in Financial Institutions Supervised by SAMA.
- SAMA issued instructions for foreign bank branches to support regulatory and supervisory requirements as well as promote risk management in relation to the nature of these banks' business.
- SAMA encouraged all banks operating in Saudi Arabia to benefit from "Natheer" e-service in order to facilitate their compliance with the Rules of Bank Accounts when handling expatriates' accounts.





مُؤَسَّسَةُ النِّقْدِ الْعَرَبِيِّ السَّعُودِيِّ  
Saudi Arabian Monetary Authority

