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Monetary and Banking Developments

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البنك المركزي السعودي
SAMA
Saudi Central Bank



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Executive Summary

In continuation of its efforts to maintain monetary stability, SAMA decided to maintain the Reverse Repo Rate at 0.50 percent, and maintain the Repo Rate at 1.0 percent in Q4 2021. The cash reserve ratio for demand deposits remained at 7.0 percent, and time and savings deposits at 4.0 percent.

To enhance the efficiency of banks in managing their liquidity, SAMA continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 10.0 billion. The average three-month Saudi Interbank Offered Rate (SAIBOR) went up to 0.8428 percent in Q4 2021.

Broad money supply (M3) increased by 2.1 percent in Q4 2021, while the monetary base decreased by 0.4 percent compared to the preceding quarter. Preliminary data of SAMA's balance sheet indicate that the total assets fell to SAR 1,848.7 billion in Q4 2021. SAMA's total reserve assets also recorded a QoQ decrease to SAR 1,707.6 billion.

Total bank deposits increased by 2.3 percent on a QoQ basis to SAR 2,104.5

billion in Q4 2021. Total assets and liabilities of commercial banks amounted to SAR 3,277.8 billion, increasing by 4.0 percent. Commercial banks' claims on the private and public sectors went up by 2.5 percent to SAR 2,609.9 billion.

Preliminary estimates indicate a surplus of SAR 81.4 billion in the current account balance in Q3 2021 compared to a deficit of SAR 2.6 billion in the corresponding quarter of 2020.

In Q4 2021, the total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions went up by 15.5 percent (SAR 1,780.0 Billion) to SAR 13,200.9 Billion. The total number of ATM transactions in Q4 2021 was approximately 396.1 million, with cash withdrawals totaling SAR 141.9 billion, including transactions through banks' network and Mada.

The Tadawul All Share Index (TASI) decreased by 1.8 percent to 11,282 points at end-Q4 2021.

1. Monetary Policy

SAMA has been adopting a monetary policy aimed at achieving price stability, supporting various economic sectors in line with domestic and international economic developments, and enabling domestic banks to perform their financing role in the domestic economy. In continuation of its role in activating monetary policy tools and enhancing financial stability, SAMA has decided to extend the Deferred Payment Program until the end of Q1 2022. With this step, SAMA aims to enable the financial sector to continue supporting the micro-, small and medium-sized enterprise (MSME) sector and support the pace of recovery for all economic activities.

1.1 Rate of Return and Cash Reserve

In continuation of its efforts to maintain monetary stability, SAMA decided to keep the reverse repo rate at 0.50 percent and the repo rate at 1.0 percent in Q4 2021.

SAMA's daily average repo transactions stood at SAR 1.8 billion in Q4 2021 against SAR 1.3 billion in Q3 2021, while daily average reverse repo transactions stood at SAR 43.5 billion in Q4 2021 compared to SAR 44.0 billion in Q3 2021.

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

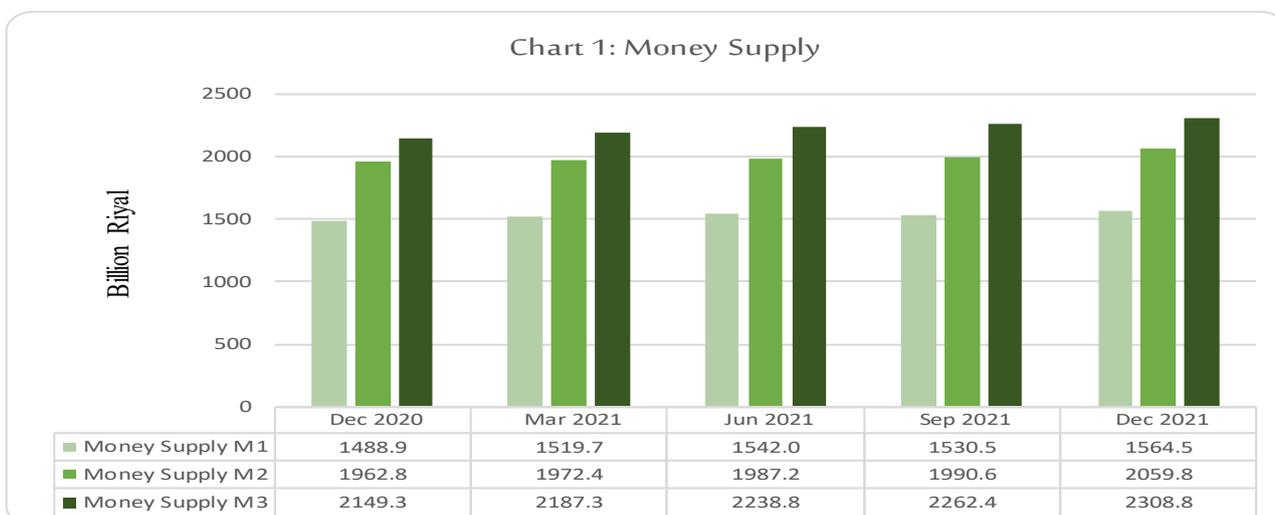
To enhance the efficiency of banks in managing their liquidity, SAMA continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 10.0 billion.

The average three-month Saudi Interbank Offered Rate (SAIBOR) went up to 0.8428 percent in Q4 2021. The three-month interest rate differential between the riyal (SAIBOR) and the dollar (LIBOR) deposits was 68 basis points in favor of the riyal in Q4 2021, compared to 67 basis points in Q3 2021. The riyal exchange rate against the dollar remained unchanged at its official peg rate of SAR 3.75.

2. Monetary Developments

2.1 Money Supply

Broad money supply (M3) increased by 2.1 percent (SAR 46.4 billion) to SAR 2,308.8 billion in Q4 2021, compared to a rise of 1.1 percent (SAR 23.6 billion) in the preceding quarter, recording a YoY increase of 7.4 percent (SAR 159.6 billion) (Chart 1).



A breakdown of the components of M3 in Q4 2021 indicates that the narrow money supply (M1) rose by 2.2 percent (SAR 33.9 billion) to SAR 1,564.4 billion or 67.8 percent of M3, compared to a fall of 0.7 percent (SAR 11.5 billion) in the preceding quarter, recording a YoY rise of 5.1 percent (SAR 75.6 billion). Furthermore, money supply (M2) registered a rise of 3.5 percent (SAR 69.2 billion) to SAR 2,059.8 billion or 89.2 percent of M3 in Q4 2021, compared to an increase of 0.2 percent (SAR 3.4 billion) in the preceding quarter, recording a YoY increase of 4.9 percent (SAR 96.9 billion).

2.2 Monetary Base

The monetary base fell by 0.4 percent (SAR 1.3 billion) to SAR 356.3 billion in Q4 2021 compared to a drop of 1.1 percent (SAR 4.1 billion) in the previous quarter. It registered a YoY increase of 1.1 percent (SAR 3.6 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA rose slightly by 0.1 percent (SAR 0.1 billion) to SAR 128.8 billion in Q4 2021 compared to an increase of 2.5 percent (SAR 3.1 billion) in the preceding quarter, recording a YoY rise of 8.2 percent (SAR 9.8 billion). Cash in vault dropped by 5.4 percent (SAR 1.3 billion) to SAR 23.1 billion, compared to a decline of 10.8 percent (SAR 3.0 billion) in the preceding quarter. It recorded a YoY decline of 15.5 percent (SAR 4.6 billion). Currency in circulation outside banks fell by 0.02 percent (SAR 0.05 billion) to SAR 204.4 billion, compared to a drop of 2.0 percent (SAR 4.2 billion) in the preceding quarter, recording a YoY increase of 0.9 percent (SAR 1.9 billion).

3. Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet indicate that total assets fell to SAR 1,848.7 billion on a QoQ basis in Q4 2021, and total reserve assets fell to 1,707.6 billion riyals. A breakdown of the components of total reserve assets in Q4 2021 as compared to the preceding quarter indicates that the IMF reserve increased to SAR 14.6 billion. Likewise, the balance of special drawing rights rose to SAR 80.8 billion. In contrast, foreign exchange and deposits abroad fell to SAR 494.0 billion, and investments in securities abroad also dropped to SAR 1,116.6 billion, while gold reserve was stable at SAR 1.6 billion.

4. Banking Developments

4.1 Bank Deposits

Total bank deposits increased by 2.3 percent (SAR 46.5 billion) to SAR 2,104.5 billion in Q4 2021, compared to a rise of 1.4 percent (SAR 27.8 billion) in the preceding quarter. They recorded a YoY increase of 8.3 percent (SAR 161.5 billion).

A breakdown of deposits by type in Q4 2021 indicates that time and saving deposits rose by 7.7 percent (SAR 35.3 billion) to SAR 495.3 billion, compared to an increase of 3.3 percent (SAR 14.9 billion) in the preceding quarter, registering a YoY increase of 4.5 percent (SAR 21.4 billion). Demand deposits increased by 2.6 percent (SAR 34.0 billion) to SAR 1,360.1 billion compared to a drop of 0.5 percent (SAR 7.2 billion) in the preceding quarter, recording a YoY increase of 6.0 percent (SAR 77.5

billion). Other quasi-monetary deposits declined by 8.4 percent (SAR 22.8 billion) to SAR 249.0 billion compared to a rise of 8.0 percent (SAR 20.2 billion) in the preceding quarter, recording a YoY increase of 33.6 percent (SAR 62.6 billion) (Chart 2).

4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks reached SAR 3,277.8 billion at end-Q4 2021, recording an increase of 4.0 percent (SAR 126.6 billion) compared to a QoQ increase of 1.2 percent (SAR 37.0 billion). They also registered a YoY increase of 10.0 percent (SAR 298.2 billion).

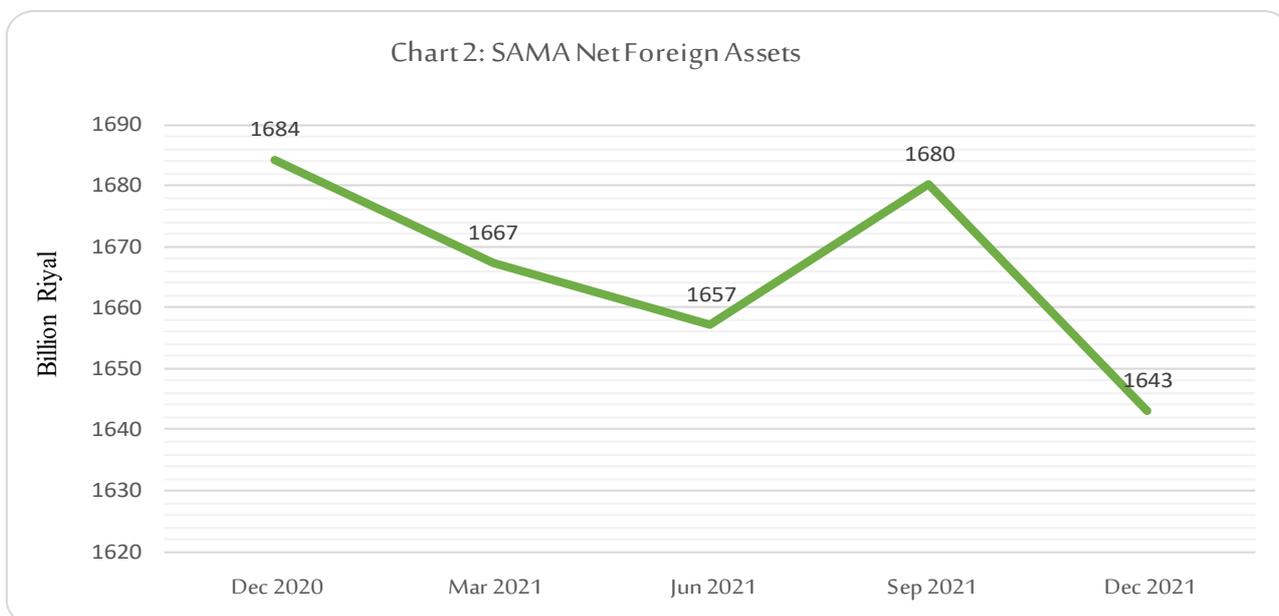
4.3 Foreign Assets and Liabilities of Commercial Banks

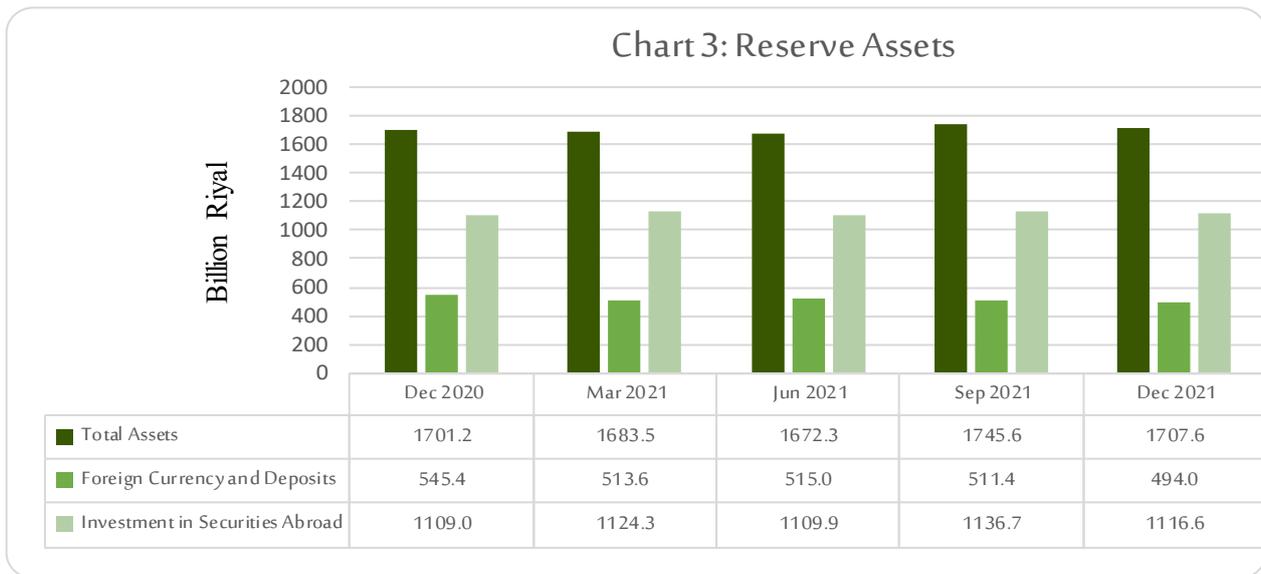
Total foreign assets of commercial banks rose by 4.2 percent (SAR 10.3 billion) to SAR 255.6 billion in Q4 2021 compared to a fall of 2.4 percent (SAR 6.0 billion) in the preceding quarter. They registered a YoY increase of 2.2 percent (SAR 5.5 billion).

The ratio of foreign assets to total assets remained unchanged at 7.8 percent in Q4 2021 compared to the preceding quarter. Commercial banks' foreign liabilities jumped by 21.7 percent (SAR 40.3 billion) to SAR 225.7 billion in Q4 2021 against a fall of 2.2 percent (SAR 4.1 billion) in the preceding quarter. They registered a YoY increase of 24.0 percent (SAR 43.7 billion), constituting 6.9 percent of the total liabilities against 5.9 percent in the preceding quarter. Commercial banks' net foreign assets declined by 50.1 percent (SAR 30.0 billion) to SAR 29.8 billion at end-Q4 2021 compared to a fall of 3.0 percent (SAR 1.8 billion) in the preceding quarter. They recorded a YoY decline of 56.1 percent (SAR 38.2 billion) (Chart 3).

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 rose by 2.5 percent (SAR 64.2 billion) to SAR 2,609.9 billion in Q4 2021, compared to an increase





of 3.0 percent (SAR 74.0 billion) in the preceding quarter, recording a YoY increase of 14.5 percent (SAR 329.9 billion). The ratio of these claims to total bank deposits rose to 124.0 percent from 123.7 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 2.4 percent (SAR 48.4 billion) to SAR 2,034.1 billion in Q4 2021, compared to a rise of 2.7 percent (SAR 51.7 billion) in the preceding quarter. The claims on the private sector registered a YoY increase of 15.4 percent (SAR 271.6 billion). The ratio of these claims to total bank deposits rose to 96.7 percent at end-Q4 2021 from 96.5 percent at the end of the preceding quarter (Chart 4).

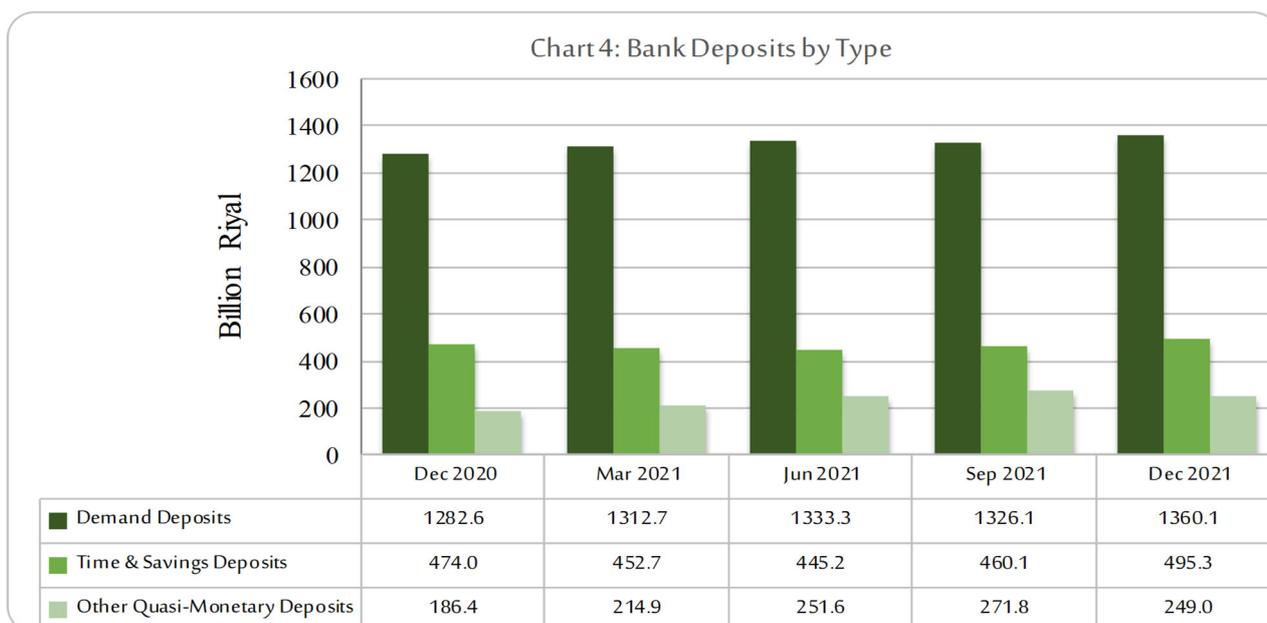
4.4.2 Commercial Banks' Claims on the Public Sector

Commercial banks' claims on the public sectors increased by 2.8 percent (SAR 15.8 billion) to SAR 575.8 billion in Q4 2021, compared to a rise of 4.1 percent (SAR 22.2

billion) in the preceding quarter. These claims registered a YoY increase of 11.3 percent (SAR 58.3 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits increased to 27.4 percent at end-Q4 2021 from 27.2 percent at the end of the preceding quarter (Chart 4).

4.4.3 Bank Credit by Economic Activity

A breakdown of bank credit extended to economic activities in Q4 2021 indicates increases in the bank credit extended to the finance sector by 7.9 percent (SAR 4.2 billion), to the agriculture and fishing sector by 4.6 percent (SAR 619.7 million), to water, electricity, gas and health services by 4.4 percent (SAR 3.1 billion), to government and quasi-government sector by 3.8 percent (SAR 3.5 billion), to commerce by 3.6 percent (SAR 12.1 billion) to the services sector by 3.4 (SAR 3.1 billion), to other sectors by 3.7 percent (SAR 37.2 billion). On the contrary, bank credit extended to mining and quarrying fell by 5.6 (SAR 1.3 billion), to manufacturing and production by 4.2 percent (SAR 7.0



billion), to building and construction by 3.8 percent (SAR 3.9 billion), to transport and telecommunication by 3.3 percent (SAR 1.5 billion).

A breakdown of bank credit by maturity in Q4 2021 as compared to the previous quarter indicates that medium-term credit increased by 9.3 percent (SAR 22.8 billion) to SAR 269.4 billion, compared to a drop of 1.4 percent (SAR 3.5 billion) in the preceding quarter. Long-term credit also rose by 4.8 percent (SAR 46.9 billion) to SAR 1,018.3 billion, compared to a rise of 5.4 percent (SAR 49.5 billion) in the preceding quarter. In contrast, short-term bank credit fell by 2.5 percent (SAR 19.7 billion) to SAR 771.6 billion, compared to a rise of 1.3 percent (SAR 10.4 billion) in the preceding quarter.

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks increased by 6.3 percent (SAR 24.7 billion) to SAR 419.5 billion in Q4 2021, compared to a decrease of 0.8 percent (SAR 3.4 billion) in the preceding quarter, recording

a YoY increase of 11.3 percent (SAR 42.4 billion). Their ratio to total bank deposits rose to 19.9 percent at end-Q4 2021 from 19.2 percent in the preceding quarter. Commercial banks' profits stood at SAR 13.7 billion in Q4 2021 compared to SAR 15.1 billion in the preceding quarter, recording a decline of 9.3 percent (SAR 1.4 billion) compared to a QoQ increase of 18.0 percent (SAR 2.3 billion).

The number of commercial banks' branches operating in Saudi Arabia fell to 1,945 at the end of Q4 2021, indicating a QoQ decrease of 16 branches and a YOY drop of 69 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 7.5 percent (SAR 65.5 billion) to SAR 937.0 billion in Q4 2021 compared to a jump of 20.5 percent (SAR 148.5 billion) during the preceding

quarter. They recorded a YoY increase of 21.2 percent (SAR 163.6 billion). A QoQ comparison of banks' total purchases shows that purchases from domestic banks increased by 18.3 percent (SAR 14.5 billion) and purchases from SAMA by 34.1 percent (SAR 49.9 billion), from other sources by 94.8 percent (SAR 12.5 billion), while purchases from foreign banks fell by 2.1 percent (SAR 10.8 billion) and from customers by 0.5 percent (SAR 562 million) (Chart 5).

4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange rose by 7.5 percent (SAR 59.9 billion) to SAR 857.2 billion in Q4 2021, compared to a QoQ increase of 5.7 percent (SAR 43.0 billion), recording a YoY increase of 19.8 percent (SAR 142.0 billion).

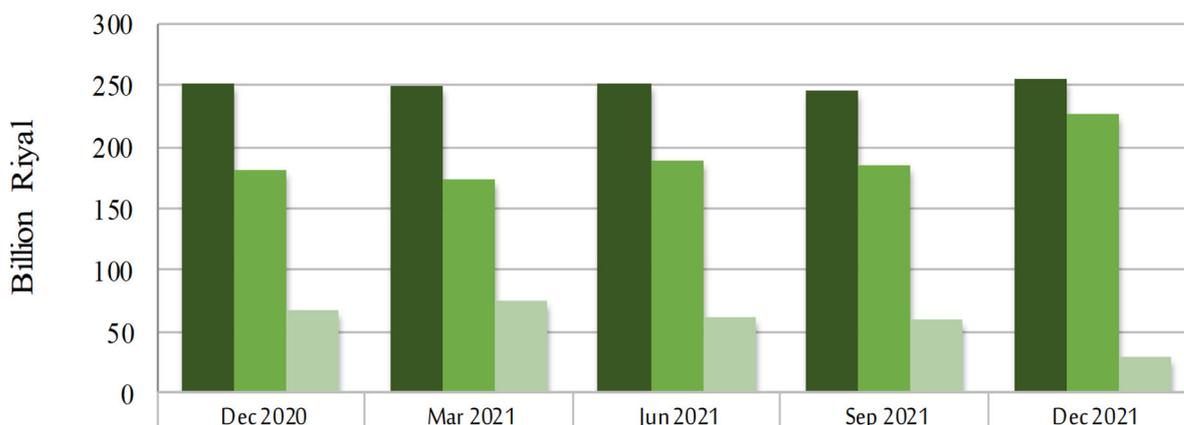
A comparison of banks' total sales of foreign exchange indicates that sales to government entities rose by 51.0 percent

(SAR 3.3 billion), to SAMA by 27.9 percent (SAR 356.5 million), to other customers by 22.6 percent (SAR 57.3 billion), to domestic banks by 18.3 percent (SAR 15.8 billion), and to other purposes (traveling abroad, personal transfers, foreign contractors, financing of imports, and foreign investments) by 4.3 percent (SAR 4.2 billion). In contrast, sales of foreign exchange to ministries and municipalities declined by 76.7 percent (SAR 164.8 million), and to banks abroad by 5.9 percent (SAR 20.9 billion) (Chart 5).

5. External Sector **Foreign Trade**

Total exports value jumped by 71.8 percent (SAR 276.0 billion) during Q3 2021 against SAR 160.6 billion in Q3 2020. The total value of oil exports jumped by 93.9 percent to SAR 206.6 billion and other exports (including re-exports) by 35.7 percent to SAR 68.5 billion. Additionally,

Chart5: Banks' Assets, Liabilities and Net Foreign Assets



■ Assets	250.1	249.3	251.2	245.3	255.6
■ Liabilities	182.1	174.4	189.5	185.4	225.7
■ Net Foreign Assets	68.0	74.9	61.7	59.8	29.8

the value of imports (CIF) rose by 17.5 percent YoY to SAR 124.2 billion in Q3 2021.

Balance of Payments

5.1 Current Account

Preliminary estimates indicate a surplus of SAR 81.4 billion in the current account balance in Q3 2021 compared to a deficit of SAR 2.6 billion in the corresponding quarter of 2020. This is attributed to a surplus of SAR 101.2 billion in the balance of goods and services against a surplus of SAR 12 billion in Q3 2020. The balance of goods recorded a surplus of SAR 142.2 billion as exported goods jumped by 71.8 percent to SAR 276.0 billion against SAR 160.6 billion in Q3 2020, despite an increase of 19.3 percent in imported goods (FOB) to SAR 133.8 billion compared to SAR 112.2 billion in Q3 2020. The services deficit increased from SAR 36.4 billion in Q3 2020 to SAR 41.0 billion in Q3 2021. The primary income balance recorded a QoQ fall of 0.3 percent to SAR 22.7 billion in Q3 2021. The deficit in the secondary income balance increased by 13.5 percent to SAR 42.4 billion compared to SAR 37.4 billion in Q3 2020.

5.2 Capital Account

Capital account registered outflows of SAR 1.1 billion in Q3 2021 against SAR 2.1 billion in the corresponding quarter of the preceding year.

5.3 Financial Account

Net direct investments increased by SAR 3.7 billion in Q3 2021 due to an increase

in net acquisition of financial assets abroad by SAR 10.3 billion despite an increase in domestic net incurrence of liabilities by SAR 6.6 billion. Net portfolio investments rose by SAR 18.6 billion against a YoY drop of SAR 7.1 billion. Net other investments dropped by SAR 21.3 billion against a YoY fall of SAR 0.5 billion. Net reserve assets jumped by SAR 73.3 billion in Q3 2021 against a YoY drop of SAR 0.6 billion where other reserve assets rose by 23.1 billion (due to an increase in the item of investments in securities by SAR 26.8 billion despite the drop in currency and deposits item by SAR 3.7 billion) against a YoY fall of SAR 1.5 billion.

6. Banking Technology Developments

6.1 Saudi Riyal Inter-bank Express System (SARIE)

The total value of the Saudi Arabian Riyal Interbank Express (SARIE) System transactions jumped by 15.6 percent (SAR 1,780.0 billion) to SAR 13,200.9 billion in Q4 2021. The value of single payment transactions totaled SAR 11,739.6 billion, whereas the total value of bulk payment transactions amounted to SAR 1,239.9 billion. Total customer payments reached SAR 2,570.3 billion registering a QoQ increase of 18.0 percent. The total value of inter-bank payments transactions stood at SAR 10,409.1 billion, with a QoQ increase of 14.2 percent.

6.2 Mada

The total number of ATM transactions in Q4 2021 was around 396.2 million with cash withdrawals totaling SAR 141.9 billion, including transactions through

banks' network and Mada. Total POS terminal transactions stood at SAR 1,516.1 million in Q4 2021, with sales totaling SAR 126.1 billion. Moreover, the number of ATMs totaled 16.5 thousand, the number of ATM cards issued by domestic banks stood at around 39.3 million, and the number of POS terminals reached about 1.0 million at end-Q4 2021.

6.3 Clearing

As for statistics on clearing in Q4 2021, the number of (outgoing and incoming) bank checks cleared at the clearinghouses totaled 456.7 thousand with a total value of SAR 91.6 billion. The number of individual and corporate checks totaled 370.1 thousand with a total value of SAR 42.2 billion, and the number of interbank checks totaled 85.7 thousand with a total value of SAR 49.0 billion.

7. Domestic Stock Market Developments

The Tadawul All Share Index (TASI) fell by 1.8 percent to 11,282 points at end-Q4

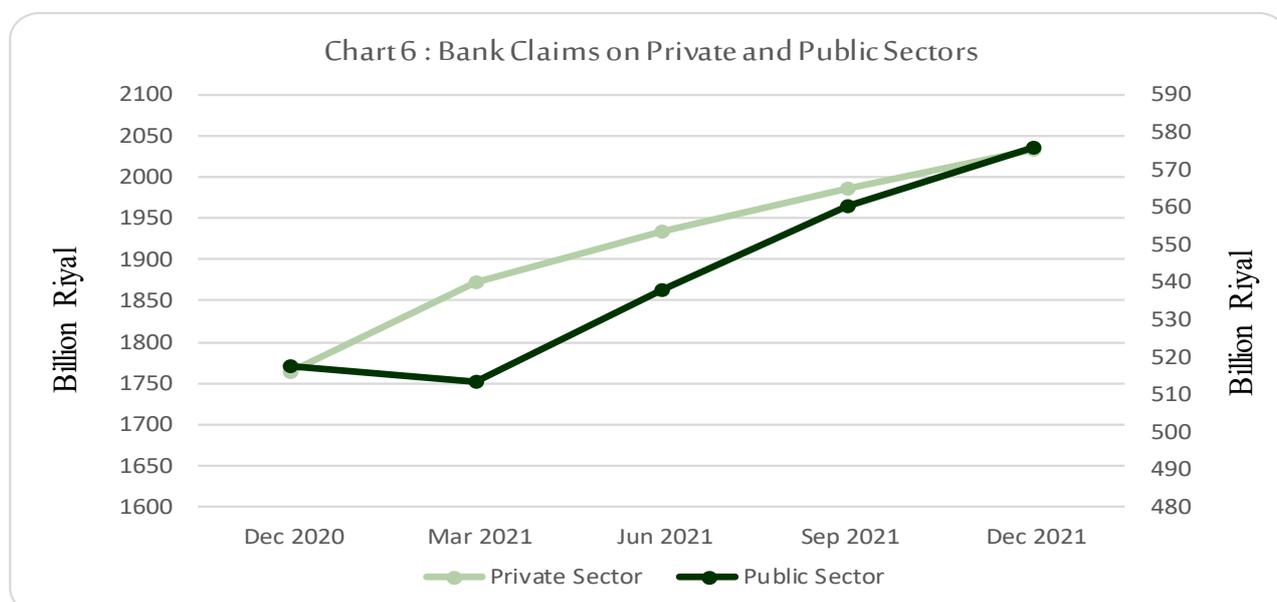
2021, compared to a rise of 4.7 percent in the preceding quarter, recording a YoY increase of 29.8 percent. The number of traded shares fell by 4.9 percent to 11.7 billion in Q4 2021 compared to a 40.1 percent decline in Q3 2021, recording a YoY decline of 56.2 percent.

In addition, the total value of shares traded in Q4 2021 increased by 0.7 percent to SAR 449.8 billion against a drop of 30.4 percent in Q3 2021, recording a YoY decline of 38.6 percent.

Moreover, the stock market capitalization fell by 0.6 percent to SAR 10.1 billion at end-Q4 2021 against a rise of 3.6 percent in the preceding quarter, recording a YoY increase of 9.9 percent. The total number of transactions in Q4 2021 increased by 12.5 percent to 21.0 million compared to a QoQ decline of 24.1 percent, recording a YoY decline of 28.9 percent (Chart 6).

8. Supervisory and Legislative Banking Developments in Q4 2021

- SAMA issued the Instructions on Processing Periods of Requests for



Clearance Letters, Account Transfer and Debt Buyout. The periods provided in the Instructions shall replace any periods set out in any other relevant SAMA's instructions. The Instructions aim to raise the quality of services provided by banks and financing companies operating in Saudi Arabia to retail customers by reducing the time for issuance of clearance letters, transfer of account, consumer debt buyout, and real estate debt buyout, which were mentioned in several relevant instructions to protect customers, achieve fair transactions, and enable competition.

- SAMA updated the Framework for Calculating Operational Risk-Weighted Assets, which aims to strengthen the Framework, enhance risk response and reduce variation in risk weights, in line with the recent reforms issued by the Basel Committee for Banking Supervision in 2017. The updating of the Framework is a part of the project to adopt Basel reforms.
- SAMA updated the Leverage Ratio Framework, which aims to strengthen the Framework and set the minimum requirements for the leverage ratio to avoid high leverage in the banking system and introduce a leverage measurement and control mechanism in line with international best practices and the recent reforms issued by the Basel Committee for Banking Supervision in 2017. The updating of the Leverage Ratio Framework is a part of the project to adopt Basel reforms.
- SAMA updated the Guidelines on Standing Orders for Real Estate Creditors. The Guidelines set out the minimum obligations when setting up a standing order for a creditor. The Guidelines aim to enhance and protect competition between creditors, ensure the availability of financing options

for customers, and reduce default risks. In this update, the service covers all financing products and is not limited to real estate financing products. In addition, the scope covers financiers, banks and funds affiliated with the National Development Fund.

- SAMA issued the Framework for Calculating The Minimum Capital Requirements for Market Risk, which aims to develop standard methodologies for calculating market risk-weighted assets and losses that banks may incur as a result of maintaining any positions on- and off-balance sheet due to movements in market prices to strengthen the Framework, enhance risk response and reduce variation in risk weights. This is in line with the recent reforms issued by the Basel Committee for Banking Supervision in 2017. The issuance of the Framework is part of the project to adopt Basel reforms.
- SAMA issued the Internal Audit Principles, which aim to set minimum requirements that would help internal audit committees to follow a single methodology to ensure an independent and objective assessment process to confirm the adequacy and effectiveness of governance processes, risk management, controls, policies and procedures.
- SAMA issued and updated the Unified Instructions for Funds Exempt from Seizure Under Court Orders, which aim to develop unified instructions for the funds exempted from the seizure based on arrangements with the Ministry of Justice being the competent authority of implementing the Enforcement Law. This contributes to the effective application of exemptions by banks which positively affects the interest and rights of the client.

The funds that are disbursed to some beneficiaries and are exempted from seizure based on coordination with the competent authorities have been clearly and precisely identified for easy reading by stakeholders. The Instructions were issued in June 2021 and updated in December 2021 to include the funds deposited by the Ministry of Health to the beneficiaries as compensation for accommodation out of town for treatment.

- SAMA issued the Risk Management Framework for Banks Practicing Islamic Banking, which aims to establish minimum principles for risk, market risk, and operational risk management.
- SAMA issued the Pricing Policy for Money Transfers Through the Gulf Payment System "AFAQ", which aims to facilitate cross-border payments and enable a single and advanced payment infrastructure across

the GCC countries, in addition to implementing real-time processing of transfers between the GCC countries, including gross settlements to enhance financial and economic integration.

- SAMA issued the Manual for Information Technology Governance in the Financial Sector to improve IT governance practices, in light of technical advancement, by setting effective controls for the development of infrastructures for systems, applications and devices to ensure the optimal use of IT resources in financial institutions.
- SAMA updated the mechanism for calculating the SAIBOR/SAIBID reference rate in line with international principles and recommendations to maintain the quality and soundness of the reference rate.



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