

2020

Monetary and Banking Developments

Fourth Quarter, 2020

Research and International Affairs Deputyship



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Executive Summary

In Q4 2020, SAMA decided to keep the reverse repo rate at 0.50 percent and the repo rate at 1.0 percent. The cash reserve ratio was maintained at 7.0 percent for demand deposits and 4.0 percent for time and savings deposits. SAMA also decided to raise the limit of weekly subscriptions in SAMA bills for domestic banks from SAR 3.0 billion to SAR 10.0 billion as of 20/12/2020. The average three-month Saudi Arabian Interbank Offered Rate (SAIBOR) went down to 0.8390 percent in Q4 2020.

M3 and the monetary base registered q/q increases of 2.9 percent and 0.3 percent, respectively, in Q4 2020. Preliminary data of SAMA's balance sheet indicates that total assets rose to SAR 1,846.8 billion. SAMA's total reserve assets also increased to SAR 1,701.2 billion in Q4 2020.

Total bank deposits increased by 3.3 percent on a q/q basis to SAR 1,943.0 billion in Q4 2020. In addition, total assets and liabilities of commercial banks amounted to SAR 2,979.5 billion, increasing by 3.5 percent. Commercial banks' claims on the private and public sectors went up by 2.8 percent to SAR 2,281.7 billion.

Preliminary estimates indicate a surplus of SAR 8.7 billion in the current account balance in Q3 2020 compared to a surplus of SAR 27.1 billion in Q3 2019.

In Q4 2020, the total value of SARIE System transactions went up by 51.8 percent (SAR 6,803.5 billion) to SAR 19,950.6 billion on a q/q basis. The total number of ATM transactions stood at 453.9 million, with cash withdrawals totaling SAR 159.5 billion, including transactions through banks' networks and mada.

Moreover, TASI posted a q/q increase of 4.7 percent to 8,689.5 at the end of Q4 2020. Total assets of investment funds managed by investment companies rose by 7.0 percent (SAR 13.7 billion) to SAR 209.7 billion.

1. Monetary Policy

The Saudi Central Bank (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 assisting domestic banks to perform their financing role in the domestic economy. To further its role in activating monetary policy tools and promoting financial stability, SAMA has decided to extend the duration of the Deferred Payments Program up to end-Q1 2021. The main goal of the extension is to enable the financial sector to perform its role in supporting the micro, small and medium-sized enterprises (MSME), contributing to economic recovery, and maintaining employment rates in the private sector.

1.1 Rate of Return and Cash Reserve

In continuation of its approach to maintain monetary stability, SAMA decided in Q4 2020 to keep the reverse repo rate at 0.50 percent and the repo rate at 1.0 percent.

SAMA's daily average repo transactions stood at SAR 0.29 million in Q4 2020 against SAR 88.5 million in Q3 2020. On the other hand, SAMA's Daily average reverse repo transactions stood at SAR 111.5 billion in Q4 2020 compared to SAR 68.3

billion in the previous quarter.

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

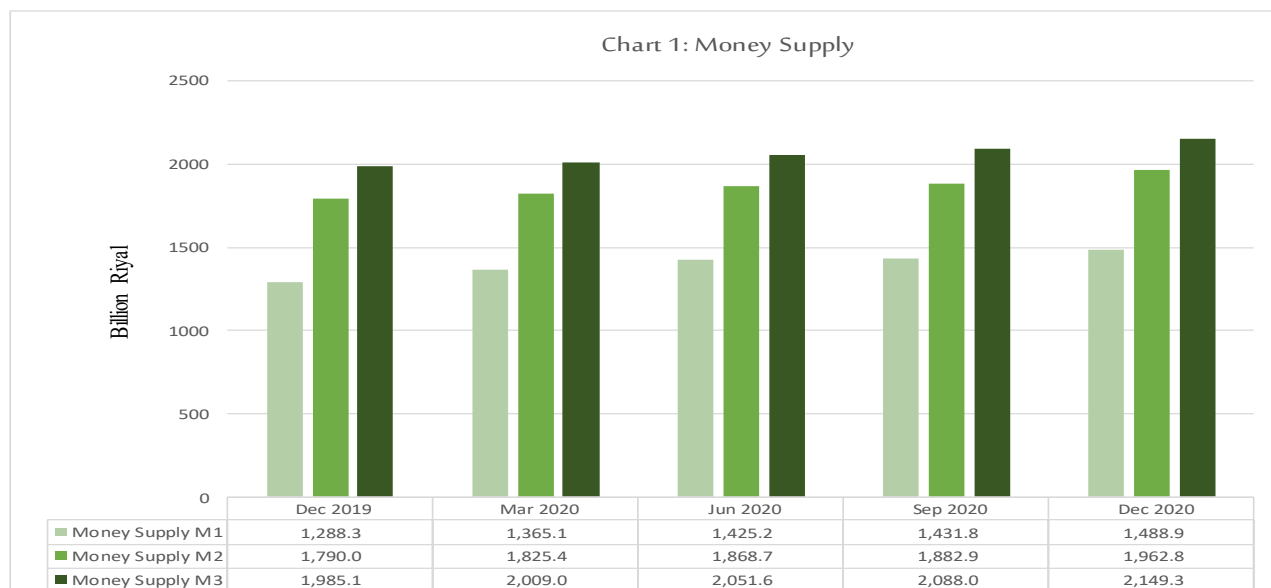
SAMA decided to raise the ceiling on the weekly issuance of SAMA bills from SAR 3.0 billion to SAR 10.0 billion as of 20/12/2020 in order to augment banks' efficiency in managing their liquidity.

The average three-month Saudi Arabian Interbank Offered Rate (SAIBOR) went down to 0.8390 percent in Q4 2020. The three-month interest rate differential between the riyal (SAIBOR) and the dollar (LIBOR) deposits was 61 basis points in favor of the riyal in Q4 2020, compared to 66 basis points in Q3 2020. Furthermore, 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

In Q4 2020, M3 increased by 2.9 percent (SAR 61.3 billion) to SAR 2,149.3 billion compared to an increase of 1.8 percent (SAR 36.5 billion) in the preceding quarter. It recorded a y/y rise of 8.3 percent



(SAR 164.1 billion) (Chart 1).

A breakdown of the components of M3 indicates that narrow money supply (M1) rose by 4.0 percent (SAR 57.1 billion) to SAR 1,488.9 billion (69.3 percent of M3), compared to a rise of 0.5 percent (SAR 6.6 billion) in the preceding quarter, recording a y/y rise of 15.6 percent (SAR 200.6 billion). M2 also increased by 4.2 percent (SAR 80.0 billion) to SAR 1,962.8 billion (91.3 percent of M3) in Q4 2020 against a rise of 0.8 percent (SAR 14.1 billion) in the preceding quarter. It recorded a y/y rise of 9.7 percent (SAR 172.9 billion).

2.2 Monetary Base

The monetary base rose by 0.3 percent (SAR 1.1 billion) to SAR 352.7 billion in Q4 2020, compared to a decline of 0.8 percent (SAR 2.7 billion) in the preceding quarter, recording a y/y rise of 8.6 percent (SAR 28.0 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA increased by 3.1 percent (SAR 3.5 billion) to SAR 119.0 billion in Q4 2020, compared to a rise of 1.8 percent (SAR 2.0 billion) in the preceding quarter, recording a y/y rise of 12.0 percent (SAR 12.8 billion). However, cash in vault recorded a q/q decrease of 6.0 percent (SAR 1.8 billion) to SAR 27.4 billion, compared to a decline of 9.7 percent (SAR 3.1 billion) in the preceding quarter, and it registered a y/y decline of 6.6 percent (SAR 1.9 billion). Currency in circulation also went down by 0.3 percent (SAR 0.6 billion) to SAR 206.3 billion compared to a decrease of 0.8 percent (SAR 1.7 billion) in the preceding quarter, but it registered a y/y increase of 9.1 percent (SAR 17.1 billion).

3. Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet indicates that total assets increased to SAR 1,846.8 billion in Q4 2020. Total

deposits in domestic currency for foreign entities dropped to SAR 8.3 billion.

3.1 Reserve Assets

SAMA's total reserve assets increased to SAR 1,701.2 billion in Q4 2020. A breakdown of the components of total reserve assets as compared to the preceding quarter indicates that the reserve position with the IMF rose to SAR 13.7 billion. Investments in securities abroad also increased to SAR 1,109.0 billion. The balance of special drawing rights increased to SAR 31.5 billion. However, foreign exchange and deposits abroad decreased to SAR 545.4 billion, while the gold reserve was stable at SAR 1.6 billion.

4. Banking Developments

4.1 Bank Deposits

Total bank deposits went up by 3.3 percent (SAR 61.9 billion) to SAR 1,943.0 billion in Q4 2020, compared to a rise of 2.1 percent (SAR 38.1 billion) in the preceding quarter, recording a y/y rise of 8.2 percent (SAR 147.0 billion).

A breakdown of deposit components by type in Q4 2020 shows that demand deposits rose by 4.7 percent (SAR 57.7 billion) to SAR 1,282.6 billion compared to an increase of 0.7 percent (SAR 8.3 billion) in the preceding quarter, registering a y/y rise of 16.7 percent (SAR 183.5 billion). Time and savings deposits also increased by 5.1 percent (SAR 22.9 billion) to SAR 473.9 billion compared to a rise of 1.7 percent (SAR 7.5 billion) during the preceding quarter. They, however, recorded a y/y decline of 5.5 percent (SAR 27.8 billion). Other quasi-monetary deposits went down by 9.1 percent (SAR 18.7 billion) to SAR 186.4 billion, compared to a rise of 12.2 percent (SAR 22.3 billion) during the preceding quarter. They also recorded a y/y decline of 4.5 percent (SAR

8.7 billion) (Chart 2).

4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks stood at SAR 2,979.5 billion at the end of Q4 2020, increasing by 3.5 percent (SAR 99.8 billion) compared to an increase of 1.7 percent (SAR 47.8 billion) during the previous quarter. They registered a y/y rise of 13.2 percent (SAR 348.3 billion).

4.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks decreased by 5.6 percent (SAR 14.7 billion) to SAR 249.9 billion in Q4 2020 compared to a decline of 5.4 percent (SAR 15.1 billion) during the preceding quarter. They, however, registered a y/y increase of 2.6 percent (SAR 6.3 billion), constituting 8.4 percent of commercial banks' total assets at the end of Q4 2020 as compared to 9.2 percent at the end of the preceding quarter. Commercial banks' total foreign liabilities went up by 10.9 percent (SAR 17.9 billion) to SAR 182.4 billion in Q4 2020 against a decline of 6.3 percent (SAR 11.1 billion) in the preceding quarter. They registered a y/y increase of 5.3 percent (SAR 9.2 billion), constituting 6.1 percent of total liabilities of commercial banks against 6.1 percent in the

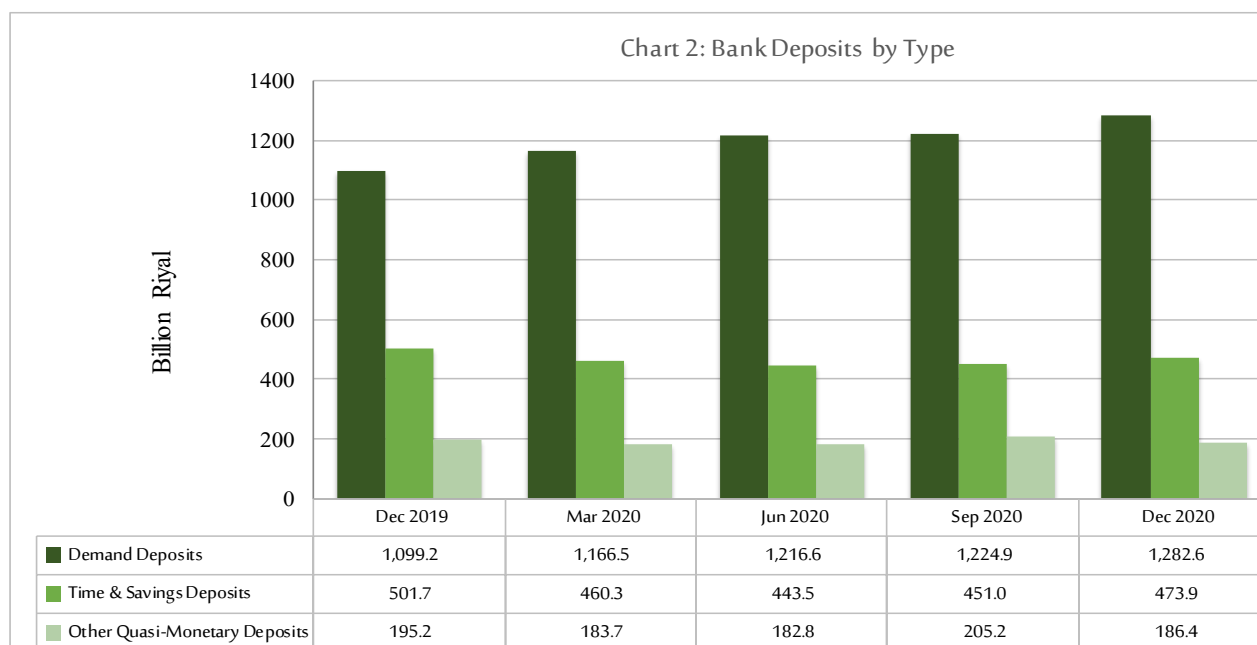
preceding quarter. Commercial banks' net foreign assets fell by 32.6 percent (SAR 32.6 billion) to SAR 67.5 billion at the end of Q4 2020, compared to a decline of 3.8 percent (SAR 4.0 billion) in the preceding quarter. In addition, they recorded a y/y decline of 4.2 percent (SAR 2.9 billion) (Chart 3).

4.4 Commercial Banks' Claims on the Private and Public Sectors

In Q4 2020, commercial banks' claims on the private and public (including government and quasi-government) sectors went up by 2.8 percent (SAR 62.7 billion) to SAR 2,281.7 billion compared to an increase of 2.6 percent (SAR 56.5 billion) in the preceding quarter. They recorded a y/y rise of 14.6 percent (SAR 289.8 billion). The ratio of these claims to total bank deposits dropped to 117.4 percent from 118.0 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 2.2 percent (SAR 38.7 billion) to SAR 1,762.5 billion in Q4 2020, compared to a rise of 3.1 percent (SAR 51.9 billion) in the preceding quarter. The claims on the private sector



registered a y/y increase of 14.0 percent (SAR 216.0 billion). Nevertheless, the ratio of these claims to total bank deposits declined to 90.7 percent from 91.6 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 sector rose by 4.9 percent (SAR 24.0 billion) to SAR 519.2 billion in Q4 2020, compared to a rise of 0.9 percent (SAR 4.6 billion) in the preceding quarter. These claims registered a y/y increase of 16.6 percent (SAR 73.9 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits also increased to 26.7 percent at the end of Q4 2020 from 26.3 percent at the end of the preceding quarter (Chart 4).

4.4.3 Bank Credit by Economic Activity

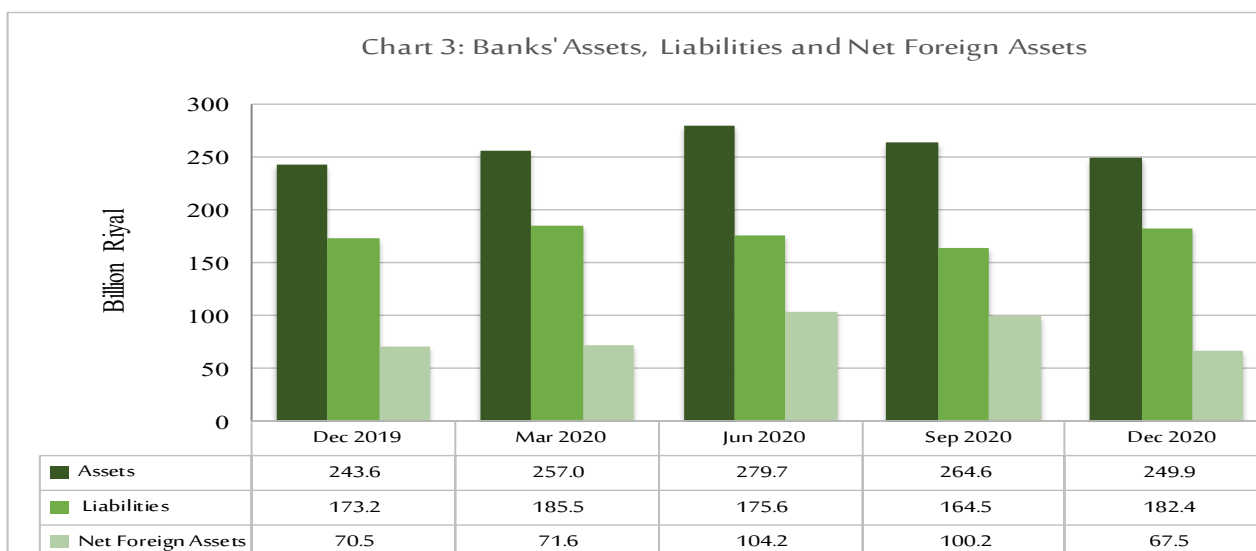
A breakdown of bank credit extended to economic activities in Q4 2020 indicates that bank credit extended to government and quasi-government sector increased by 20.1 percent (SAR 13.2 billion); to mining and quarrying by 19.9 percent (SAR 4.1 billion); to finance by 12.0 percent (SAR 4.9 billion); to other sectors by 6.5 percent (SAR 52.2 billion); to agriculture and fishing by 3.1 percent (SAR 0.5 billion); and to services by 2.3 percent (SAR 2.1 billion). In contrast,

bank credit extended to building and construction sector fell on a q/q basis by 7.8 percent (SAR 7.8 billion); to transport and telecommunication by 3.4 percent (SAR 1.7 billion); to water, electricity, gas, and health services by 3.3 percent (SAR 2.3 billion); to commerce by 3.0 percent (SAR 9.2 billion); and to manufacturing and production by 2.7 percent (SAR 4.3 billion).

A breakdown of bank credit by maturity shows that long-term credit increased by 8.7 percent (SAR 65.5 billion) to SAR 822.0 billion compared to a rise of 6.3 percent (SAR 44.5 billion) in the preceding quarter. Medium-term credit, however, went down by 0.6 percent (SAR 1.6 billion) to SAR 259.8 billion compared to an increase of 7.4 percent (SAR 18.1 billion) in the preceding quarter. Moreover, short-term credit dropped by 1.7 percent (SAR 12.2 billion) to SAR 700.8 billion compared to a decline of 0.5 percent (SAR 3.7 billion) in the preceding quarter.

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks increased by 0.3 percent (SAR 1.3 billion) to SAR 377.2 billion in Q4 2020 compared to a decline of 0.9 percent (SAR 3.6 billion) in the preceding quarter,



recording a y/y rise of 10.0 percent (SAR 34.2 billion). Their ratio to total bank deposits, however, went down to 19.4 percent at the end of Q4 2020 from 20.0 percent in the preceding quarter. Commercial banks' profits stood at SAR 11.1 billion in Q4 2020 compared to SAR 13.0 billion in the preceding quarter, denoting a decline of 14.6 percent (SAR 1.9 billion) compared to a surge of 808.0 percent (SAR 11.5 billion) in the preceding quarter.

At the end of Q4 2020, the number of commercial banks' branches operating in the Kingdom of Saudi Arabia stood at 2,014 with a q/q decrease of 22 branches and a y/y decrease of 62 branches.

4.6 Commercial Banks' Purchases and Sales of Foreign Exchange

4.6.1 Commercial Banks' Purchases of Foreign Exchange

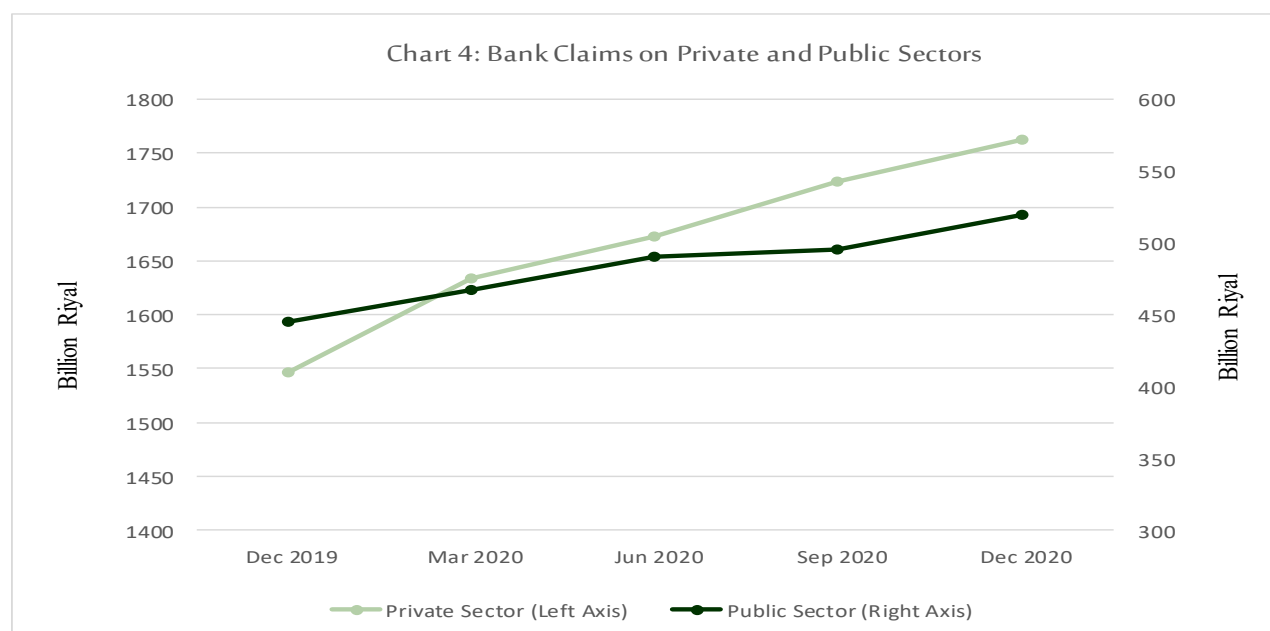
Commercial banks' total purchases of foreign exchange rose by 16.7 percent (SAR 111.0 billion) to SAR 776.1 billion in Q4 2020 compared to a decline of 12.1 percent (SAR 91.7 billion) in the preceding quarter, but recorded a y/y decline of 16.0 percent (SAR 148.1 billion). A q/q comparison of

banks' total purchases of foreign exchange shows that purchases from domestic banks increased by 31.6 percent (SAR 20.2 billion), from SAMA by 7.4 percent (SAR 10.7 billion), from other sources by 43.5 percent (SAR 6.1 billion), from foreign banks by 16.8 percent (SAR 55.8 billion), and from customers by 16.6 percent (SAR 18.2 billion) (Chart 5).

4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange went up by 11.8 percent (SAR 76.1 billion) to SAR 718.9 billion in Q4 2020 compared to a decrease of 4.6 percent (SAR 30.9 billion) in the preceding quarter. They recorded a y/y decline of 16.8 percent (SAR 144.7 billion).

A q/q comparison of banks' total sales of foreign exchange indicates that sales to SAMA declined by 16.3 percent (SAR 0.2 billion), to other customers in Saudi Arabia by 11.8 percent (SAR 28.2 billion), and to ministries and municipalities by 80.2 percent (SAR 0.8 billion). However, sales to banks abroad increased by 28.0 percent (SAR 68.9 billion), to domestic banks by 43.8 percent (SAR 30.2 billion), to



government entities by 45.3 percent (SAR 0.4 billion), and for other purposes (traveling abroad, personal transfers, foreign contractors, financing of imports, and foreign investments) by 6.9 percent (SAR 5.8 billion) (Chart 5).

5. External Sector

Foreign Trade

Total exports value went down by 31.4 percent to SAR 161.8 billion in Q3 2020 compared to SAR 235.9 billion in Q3 2019. Total value of oil exports declined by 39.8 percent to SAR 108.4 billion and other exports (including re-exports) by 4.4 percent to SAR 53.4 billion. In addition, value of imports (CIF) recorded a y/y decrease of 21.5 percent to SAR 114.2 billion in Q3 2020.

Balance of Payments

5.1 Current Account:

Preliminary estimates indicate a surplus of SAR 8.7 billion in the current account balance in Q3 2020 compared to a surplus of SAR 27.1 billion in Q3 2019. This is attributed to a surplus of SAR 25.9 billion in the balance of goods and services against a surplus of SAR 58.9 billion in Q3 2019. The

balance of goods recorded a surplus of SAR 57.6 billion despite a decrease of 31.4 percent in exported goods to SAR 161.8 billion compared to SAR 235.9 billion in the corresponding quarter of 2019. Imported goods (FOB) declined by 21.9 percent to SAR 104.2 billion compared to SAR 133.4 billion in Q3 2019. The services deficit decreased from SAR 43.6 billion in Q3 2019 to SAR 31.7 billion in Q3 2020. The net primary income recorded a surplus of SAR 21.0 billion in Q3 2020 against a surplus of SAR 2.2 billion in Q3 2019. The deficit in the secondary income balance increased by 12.3 percent to SAR 38.2 billion compared to SAR 34.0 billion in Q3 2019.

5.2 Capital Account

Capital account registered outflows of SAR 1.0 billion in Q3 2020 against SAR 2.0 billion in the corresponding quarter of 2019.

5.3 Financial Account

Net direct investments increased by SAR 2.1 billion in Q3 2020 due to the fact that net acquisition of financial assets abroad (SAR 6.0 billion) was higher than domestic net incurrence of liabilities (SAR 3.9 billion). Net portfolio investments also

Chart 5: Banks' Foreign Currency Purchases and Sales



went up by SAR 1.2 billion against a decline of SAR 11.2 billion in Q3 2019. Net other investments registered an increase of SAR 1.8 billion against an increase of SAR 69.1 billion in Q3 2019. Moreover, net reserve assets increased by SAR 0.6 billion in Q3 2020 against a decrease of SAR 49.2 billion in Q3 2019 as other reserve assets dropped by SAR 0.3 billion (due to a SAR 22.4 billion decrease in currency and deposits item, despite a SAR 22.1 billion increase in the item of investment in securities) compared to a decline of SAR 49.0 billion in Q3 2019.

6. Banking Technology and Financial Inclusion Developments

6.1 Saudi Arabian Riyal Interbank Express (SARIE) System

In Q4 2020, the total value of the Saudi Arabian Riyal Interbank Express (SARIE) System transactions went up by 51.7 percent (SAR 6,803.5 billion) to SAR 19,950.6 billion. The value of single payment transactions totaled SAR 18,829.7 billion, whereas the total value of bulk payment transactions amounted to SAR 1,111.0 billion. Total customer payments reached SAR 2,447.0 billion, with a q/q increase of 22.3 percent. The total value of interbank payments stood at SAR 17,493.7 billion, showing a q/q increase of 57.1 percent.

6.2 Mada

The total number of ATM transactions in Q4 2020 was approximately 453.9 million, with cash withdrawals totaling SAR 159.5 billion, including transactions through banks' networks and mada. Total POS terminal transactions stood at 978.1 million, with sales totaling SAR 105.5 billion in Q4 2020. Moreover, the number of ATMs totaled 18.5 thousand at the end of Q4 2020. The number of ATM cards issued by domestic banks stood at 34.3 million, and the number of POS

terminals reached 721.1 thousand.

6.3 Clearing

As for statistics on clearing in Q4 2020, the number of bank checks (outgoing and incoming) cleared at the clearing houses stood at 586.0 thousand with a total value of SAR 96.4 billion. The number of individual and corporate checks totaled 494.3 thousand with a total value of SAR 52.4 billion; the number of interbank checks totaled 91.7 thousand with a total value of SAR 43.9 billion.

7. Domestic Stock Market Developments

Tadawul All Share Index (TASI) increased by 4.7 percent to 8,689.5 at the end of Q4 2020 compared to a rise of 14.9 percent in the preceding quarter, recording a y/y increase of 3.6 percent. The number of traded shares rose by 15.0 percent to 27.1 billion in Q4 2020 compared to an increase of 41.6 percent in Q3 2020, recording a y/y increase of 201.7 percent. Total value of shares traded jumped by 38.6 percent to SAR 733.3 billion in Q4 2020 compared to a drop of 4.2 percent in the previous quarter, recording a y/y rise of 215.4 percent.

However, stock market capitalization decreased by 0.3 percent to SAR 9.1 billion at the end of Q4 2020 against a rise of 10.9 percent at the end of the preceding quarter, registering a y/y increase of 0.9 percent. Total number of transactions executed in Q4 2020 increased by 37.4 percent to 29.6 million compared to a surge of 60.2 percent in Q3 2020, recording a y/y jump of 249.7 percent (Chart 6).

8. Investment Funds

Total assets of investment funds managed by investment companies went up by 7.0 percent (SAR 13.7 billion) to SAR 209.7 billion in Q4 2020 compared to a rise

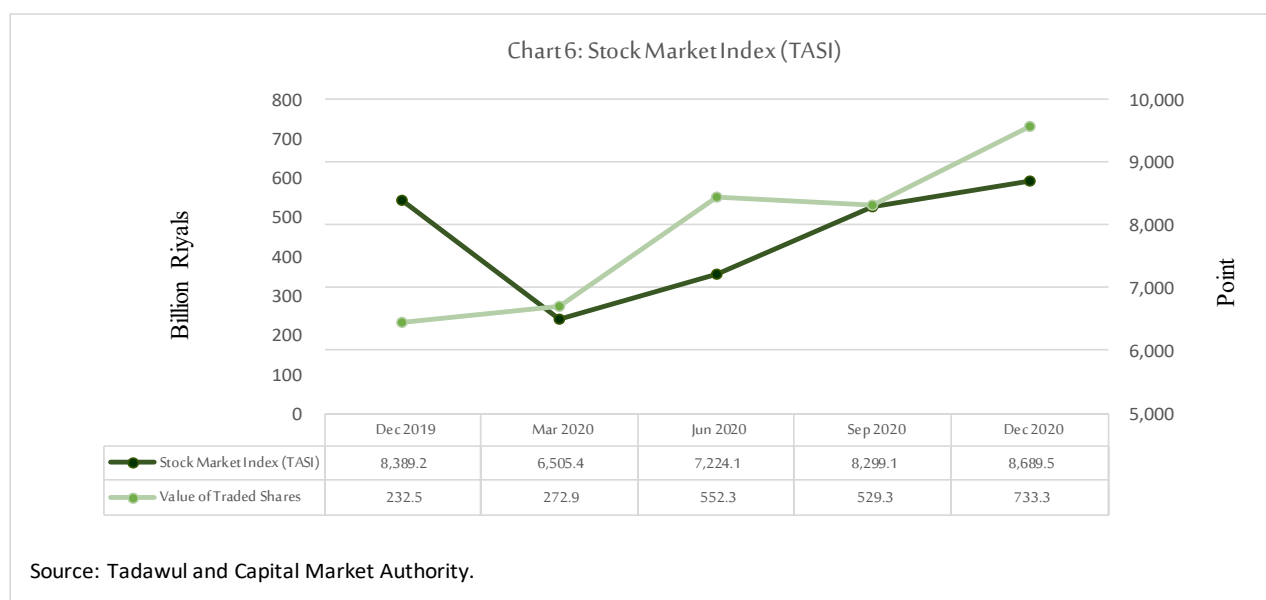
of 8.0 percent (SAR 14.5 billion) in the preceding quarter. They recorded a y/y increase of 31.1 percent (SAR 49.8 billion).

A breakdown of total assets of investment funds shows that domestic assets rose by 0.5 percent (SAR 0.8 billion) to SAR 149.6 billion in Q4 2020 compared to a rise of 4.9 percent (SAR 6.9 billion) in the previous quarter. In addition, domestic assets posted a y/y rise of 12.1 percent (SAR 16.1 billion). Foreign assets also increased by 27.3 percent (SAR 12.9 billion) to SAR 60.2 billion in Q4 2020 against a rise of 19.0 percent (SAR 7.5 billion) in the preceding quarter, recording a y/y jump of 126.9 percent (SAR 33.6 billion).

The number of subscribers to investment funds rose by 0.1 percent (0.3 thousand subscribers) to 358.9 thousand in Q4 2020, compared to a rise of 2.3 percent (8.1 thousand subscribers) in the preceding quarter. Moreover, the number of subscribers recorded a y/y increase of 8.8 percent (29.2 thousand subscribers). In contrast, the number of funds registered a q/q decrease of one fund to 254 in Q4 2020.

9. Supervisory and Legislative Banking Developments in Q4 2020

- SAMA updated the Interest Rates on Assets and Liabilities Reporting Guidelines. The guidelines support SAMA in analyzing the reported financial data relating to the interest rates of assets and liabilities and in determining their impact on the banking sector.
- SAMA drew up the Standard Agreement for Retail Current Account Opening and the Standard Agreement for Corporate Current Account Opening. The two agreements aim to facilitate and standardize procedures for opening bank accounts and to establish clear terms and conditions with a view to ensuring fair treatment.
- SAMA issued instructions for the adoption of the unified number starting with the number “7” issued by the National Information Center (NIC) to replace the commercial registration number for non-government entities. SAMA’s instructions came in line with the Council of Ministers Resolution No. 225 regarding the adoption of the number starting with “7” to be the identifier for the non-government entities



instead of the decimal numbering used for the civil register.

- SAMA updated the Guidelines on the Internal Liquidity Adequacy Assessment Plan (ILAAP) for further enhancement of these guidelines to be in line with international best practices.
- SAMA issued instructions on the “self-build” product of real estate financing. The instructions came in realization of SAMA’s role in protecting the rights of customers of financial institutions under its supervision, maintaining the soundness of the real estate finance sector, and achieving financial stability.
- SAMA updated the Rules on Disclosure of Interest Rates on Financing and Savings Products issued to determine the minimum information to be disclosed by banks and finance companies through their communication channels.
- SAMA updated the text notification templates sent to customers of financial institutions for mada card transactions. The recent update aims to keep customers well informed, through notification messages, of the transactions executed on their accounts, memberships, and e-wallets.
- SAMA directed all banks operating in Saudi Arabia not to refrain from confiscating the letter of guarantee for the purpose of opening a bankruptcy proceeding and suspending claims against the customer requesting the issuance of the letter. Such practice is based on the judicial principles and well-established banking norms regarding letters of guarantee, which represent an original, direct and independent obligation on the issuing bank in isolation from the circumstances surrounding the customer. SAMA’s instructions in this regard aim to preserve the credit reputation in Saudi Arabia and the stability of banking transactions.

- SAMA directed banks and finance companies operating in Saudi Arabia to register real estate transactions and pay the tax due through the e-portal dedicated for the real estate transactions. According to SAMA’s direction, banks and finance companies shall not require customers to register for value-added tax (VAT) for real estate transactions pursuant to Royal Order No. A/84 exempting real estate transactions from VAT and replacing it with the real estate transaction tax (RETT).



البنك المركزي السعودي
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