

2020

Monetary and Banking Developments

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مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Executive Summary

In Q2 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 continued to maintain the limit of weekly subscription in SAMA bills for domestic banks at SAR 3.0 billion in Q2 2020. The three-month Saudi interbank offered rate (SIBOR) declined to 1.1279 percent.

M3 increased by 2.1 percent and the monetary base rose by 4.0 percent in Q2 2020. Preliminary data of SAMA's balance sheet indicates that total foreign assets declined to SAR 1,670.8 billion. SAMA's total reserve assets also decreased to SAR 1,677.9 billion in Q2 2020.

Total bank deposits increased by 1.8 percent to SAR 1,843.0 billion. Total assets and liabilities of commercial banks amounted to SAR 2,839.3 billion at end-Q2 2020, increasing by 4.2 percent. Commercial banks' claims on the private and public sectors went up by 2.9 percent to SAR 2,162.4 billion.

Preliminary estimates indicate a surplus of SAR 10.7 billion in the current account balance in Q1 2020 compared to a surplus of SAR 51.9 billion in Q1 2019.

The total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions went down by 19.8 percent (SAR 3,031.2 billion) to SAR 12,280.4 billion. The total number of ATM transactions was approximately 344.5 million, with cash withdrawals totaling SAR 134.4 billion, including transactions through banks' network and Mada.

The Tadawul All Share Index (TASI) increased by 11.0 percent to 7,224 at end-Q2 2020. Total assets of investment funds managed by investment companies in Q1 2020 increased by 9.2 percent (SAR 14.8 billion) to SAR 174.7 billion.

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 assisting domestic banks to perform their financing role in the domestic economy. In light of COVID-19 developments and based on SAMA's role in activating monetary policy and enhancing financial stability, SAMA decided to inject SAR 50 billion into the banking sector to enhance the sector's liquidity and ability to continue providing credit facilities to all private sector. SAMA has also activated open market operations as a complement to its current issuances, in order to enhance liquidity level management in banking system in the short term.

1.1 Rate of Return and Cash Reserve

In Q2 2020, SAMA decided to keep the reverse repo rate at 0.50 percent and the repo rate at 1.0 percent in continuation of its efforts to maintain monetary stability.

SAMA's daily average repo transactions stood at SAR 723.2 million against SAR 356.1 million in Q1. Daily average reverse repo transactions stood at SAR 55.4 billion compared to SAR 68.5 billion in Q1.

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 continued to maintain the limit of weekly subscription in SAMA bills for domestic banks at SAR 3.0 billion. The three-month Saudi interbank offered rate (SAIBOR) went down to 1.1279 percent. The three-month interest differential between the riyal and the dollar deposits was 52 basis

points in favor of the riyal, compared to 34 basis points in Q1 2020. As for the riyal exchange rate against the dollar, it remained unchanged at its official peg rate of SAR 3.75.

2. Monetary Developments

2.1 Money Supply

M3 increased by 2.1 percent (SAR 42.5 billion) to SAR 2,051.6 billion in Q2 2020, compared to an increase of 1.2 percent (SAR 23.9 billion) in the preceding quarter, recording a y/y rise of 9.0 percent (SAR 169.3 billion) (Chart 1).

A breakdown of the components of M3 indicates that narrow money supply (M1) rose by 4.4 percent (SAR 60.1 billion) to SAR 1,425.2 billion or 69.5 percent of M3 compared to a rise of 6.0 percent (SAR 76.8 billion) in the previous quarter, recording a y/y rise of 12.8 percent (SAR 162.1 billion). Also, M2 increased by 2.4 percent (SAR 43.3 billion) to SAR 1,868.7 billion or 91.1 percent of M3 against a rise of 2.0 percent (SAR 35.4 billion) in Q1, recording a y/y rise of 9.9 percent (SAR 168.4 billion).

2.2 Monetary Base

Monetary base increased by 4.0 percent (SAR 13.6 billion) to SAR 354.3 billion in Q2 2020, compared to an increase of 4.9 percent (SAR 16.0 billion) in the preceding quarter, recording a y/y rise of 8.7 percent (SAR 28.3 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA increased by 5.0 percent (SAR 5.4 billion) to SAR 113.4 billion compared to a rise of 1.7 percent (SAR 1.8 billion) in the previous quarter, registering a y/y rise of 11.1 percent (SAR 11.4 billion). Cash in vault decreased by 5.6 percent (SAR 1.9

billion) to SAR 32.2 billion compared to an increase of 16.5 percent (SAR 4.8 billion) in Q1, recording a y/y decline of 2.5 percent (SAR 0.8 billion). On the other hand, currency in circulation rose by 5.1 percent (SAR 10.0 billion) to SAR 208.6 billion compared to a increase of 5.0 percent (SAR 9.4 billion) in Q1, registering a y/y increase of 9.3 percent (SAR 17.8 billion).

3. Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet indicates that total foreign assets fell to SAR 1,670.8 billion. SAMA's net foreign assets also recorded a decline to SAR 1,661.1 billion.

Total deposits in domestic currency for foreign entities dropped by 21.2 percent to SAR 9.6 billion, compared to a decline of 5.2 percent in the preceding quarter. They recorded a y/y decrease of 12.8 percent.

3.1 Reserve Assets

SAMA's total reserve assets decreased to SAR 1,677.9 billion in Q2 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 12.0 billion. However, investments in securities abroad declined to SAR 1,031.7 billion, the balance of special drawing rights to SAR 30.0 billion, and foreign exchange and deposits abroad to SAR 602.6 billion. Gold reserve was stable at SAR 1.6 billion.

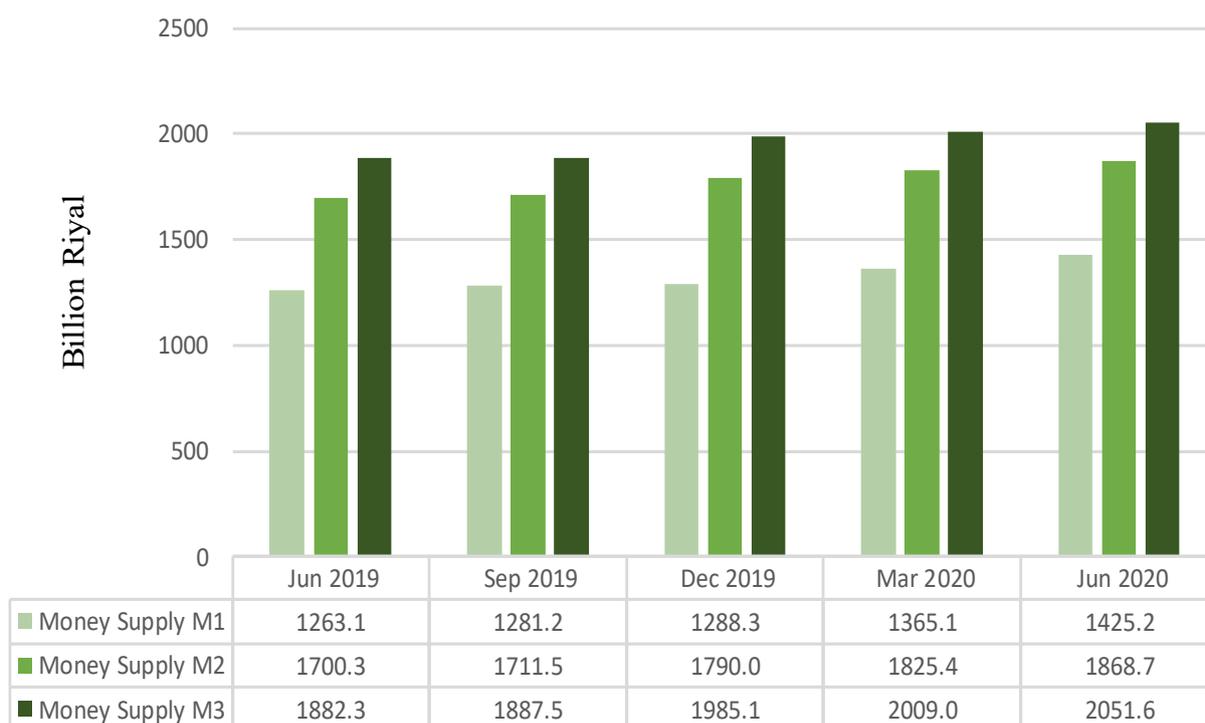
4. Banking Developments

4.1 Bank Deposits

Total bank deposits increased by 1.8 percent (SAR 32.5 billion) to SAR 1,843.0 billion compared to a rise of 0.8 percent (SAR 14.5 billion) in Q1, recording a y/y rise of 9.0 percent (SAR 151.5 billion).

A breakdown of deposit components by type in Q2 2020 indicates that demand deposits rose by 4.3 percent (SAR 50.1

Chart 1: Money Supply



billion) to SAR 1,216.6 billion compared to an increase of 6.1 percent (SAR 67.4 billion) in the preceding quarter, registering a y/y rise of 13.5 percent (SAR 144.3 billion). On the other hand, time and savings deposits decreased by 3.7 percent (SAR 16.8 billion) to SAR 443.5 billion compared to a fall of 8.2 percent (SAR 41.4 billion) in the previous quarter. They recorded a y/y increase of 1.4 percent (SAR 6.3 billion). Other quasi-monetary deposits went down by 0.4 percent (SAR 0.8 billion) to SAR 182.8 billion compared to a decline of 5.9 percent (SAR 11.5 billion) in Q1. They recorded a y/y rise of 0.5 percent (SAR 0.9 billion) (Chart 2).

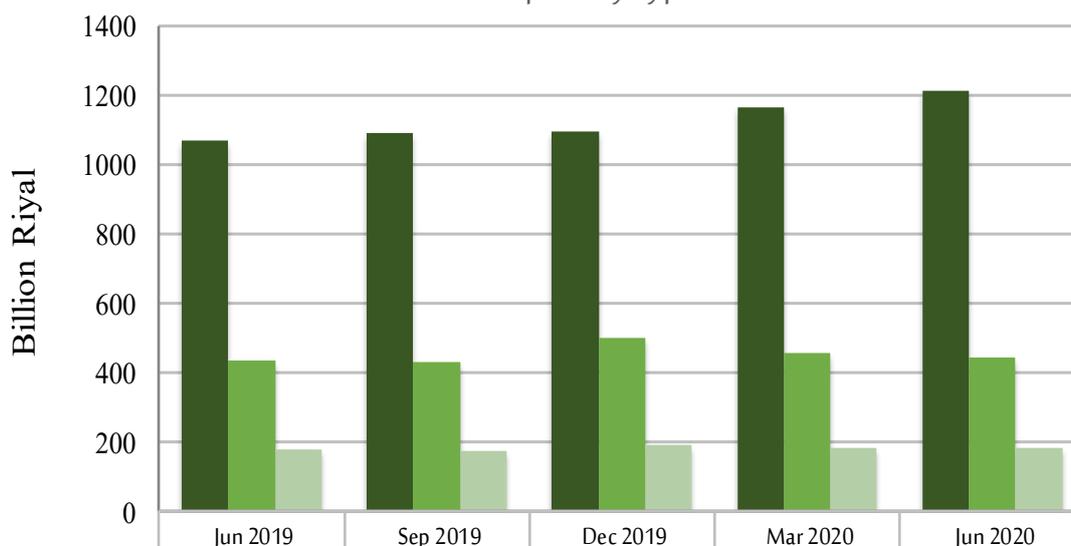
4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks stood at SAR 2,839.3 billion at end-Q2 2020, increasing by 4.2 percent (SAR 114.9 billion), compared to an increase of 3.5 percent (SAR 93.3 billion) during the previous quarter. They registered a y/y rise of 15.0 percent (SAR 369.7 billion).

4.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks increased by 8.8 percent (SAR 22.7 billion) to SAR 279.7 billion, as compared to an increase of 5.5 percent (SAR 13.4 billion) in Q1. They registered a y/y increase of 25.6 percent (SAR 57.1 billion), constituting 9.9 percent of commercial banks' total assets at end-Q2 2020 compared to 9.4 percent at end-Q1 2020. However, commercial banks' total foreign liabilities went down by 5.3 percent (SAR 9.9 billion) to SAR 175.6 billion against an increase of 7.1 percent (SAR 12.3 billion) in the preceding quarter. They registered a y/y increase of 29.6 percent (SAR 40.1 billion), or 6.2 percent of total liabilities of commercial banks against 6.8 percent at the end of the previous quarter. Commercial banks' net foreign assets went up by 45.6 percent (SAR 32.6 billion) to SAR 104.2 billion at end-Q2 2020, compared to an increase of 1.5 percent (SAR 1.1 billion) during the preceding quarter. They recorded a y/y rise of 19.5 percent (SAR 17.0 billion) (Chart 3).

Chart 2: Bank Deposits by Type



■ Demand Deposits	1072.3	1093.0	1099.2	1166.5	1216.6
■ Time & Savings Deposits	437.2	430.4	501.7	460.3	443.5
■ Other Quasi-Monetary Deposits	182.0	175.9	195.2	183.7	182.8

4.4 Commercial Banks' Claims on the Private and Public Sectors

Commercial banks' claims on the private and public sectors (including government and quasi-government) rose by 2.9 percent (SAR 61.6 billion) to SAR 2,162.4 billion in Q2 2020, compared to an increase of 5.5 percent (SAR 109.1 billion) in the preceding quarter. They recorded a y/y increase of 14.8 percent (SAR 278.0 billion). The ratio of these claims to total bank deposits rose to 117.3 percent compared to 116.0 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 2.4 percent (SAR 38.5 billion) to SAR 1,671.9 billion in Q2 2020, compared to a rise of 5.6 percent (SAR 86.9 billion) in the preceding quarter. The claims on the private sector registered a y/y increase of 13.2 percent (SAR 194.8 billion). The ratio of these claims to total bank deposits rose to 90.7 percent at end-Q2 2020 compared to 90.2 percent at end-Q1 2020 (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 23.0 billion) to SAR 490.5 billion in Q2 2020, compared to a rise of 5.0 percent (SAR 22.2 billion) in Q1. These claims registered a y/y increase of 20.4 percent (SAR 83.2 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits increased to 26.6 percent at end-Q2 2020 from 25.8 percent at the end of the preceding quarter (Chart 4).

4.4.3 Commercial Banks' Claims by Economic Activity

A breakdown of bank credit extended to economic activities in Q2 2020 indicates increases in bank credit extended to agriculture and fishing by 6.2 percent (SAR 1.0 billion), to commerce by 7.7 percent (SAR 21.8 billion), to building and construction by 1.2 percent (SAR 1.2 billion), to services by 2.5 percent (SAR 2.2 billion), to mining and quarrying by 11.9 percent (SAR 2.5 billion), to other sectors by 3.5 percent (SAR 25.7 billion), and to government and quasi-government

Chart 3: Banks' Assets, Liabilities and Net Foreign Assets



by 4.9 percent (SAR 2.9 billion). On the other hand, bank credit extended to electricity, water, gas and health services decreased by 7.5 percent (SAR 5.3 billion); to manufacturing and production by 3.6 percent (SAR 6.1 billion); to transport and telecommunication by 7.9 percent (SAR 4.2 billion); and to finance by 7.8 percent (SAR 3.4 billion).

A breakdown of bank credit by maturity in Q2 2020 indicates that long-term credit increased by 3.1 percent (SAR 21.6 billion) to SAR 712.0 billion compared to a rise of 8.8 percent (SAR 55.8 billion) in Q1. Short-term credit went up by 3.1 percent (SAR 21.8 billion) to SAR 716.7 billion compared to an increase of 1.7 percent (SAR 11.7 billion) in Q1. Medium-term credit declined by 2.0 percent (SAR 4.9 billion) to SAR 243.3 billion compared to a rise of 5.8 percent (SAR 13.6 billion) in Q1.

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks increased by 2.2 percent (SAR 8.3 billion) to SAR 379.4 billion in Q2 2020,

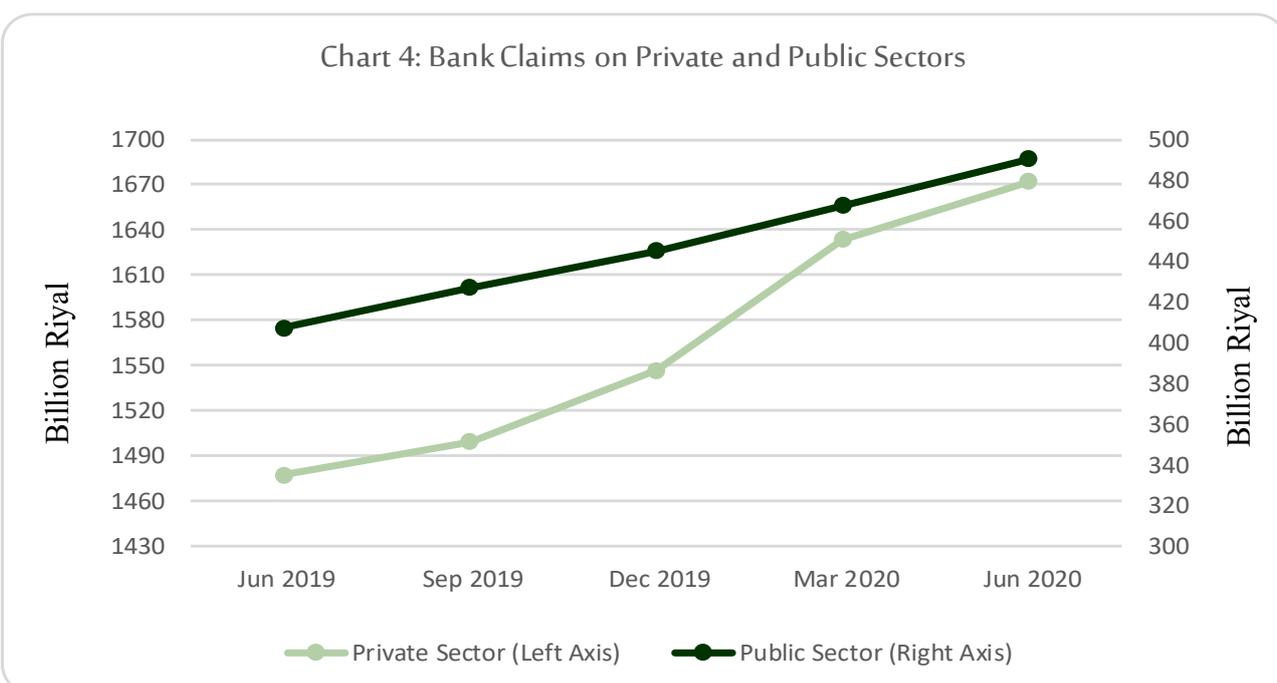
compared to a rise of 8.2 percent (SAR 28.1 billion) in Q1, recording a y/y rise of 5.9 percent (SAR 21.0 billion). Their ratio to total bank deposits rose to 20.6 percent at end-Q2 2020 from 20.5 percent in the preceding quarter. Commercial banks' profits stood at SAR 8.8 billion compared to SAR 13.3 billion in the preceding quarter, denoting a decline of 33.9 percent (SAR 4.5 billion) compared to a rise of 13.0 percent (SAR 1.5 billion) in Q1.

At end-Q2 2020, the number of commercial banks' branches operating in the Kingdom stood at 2,064 with a q/q decrease of 7 and a y/y increase of 2.

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 went down by 15.2 percent (SAR 135.5 billion) to SAR 756.8 billion, compared to a decline of 3.5 percent (SAR 32.0 billion) in the preceding quarter, recording an annual decline of 10.6 percent (SAR 89.4 billion).



A q/q comparison of banks' total purchases shows that purchases from domestic banks decreased by 12.4 percent (SAR 16.9 billion) and purchases from SAMA by 3.8 percent (SAR 7.5 billion). Banks' total purchases from foreign banks also decreased by 24.3 percent (SAR 104.2 billion) and from customers by 9.3 percent (SAR 11.1 billion). In contrast, purchases from other sources increased by 45.7 percent (SAR 4.3 billion) (Chart 5).

4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange went down by 16.0 percent (SAR 128.0 billion) to SAR 673.7 billion, compared to a decline of 7.2 percent (SAR 61.9 billion) in the preceding quarter. They recorded a y/y decline of 12.2 percent (SAR 93.7 billion).

A q/q comparison of banks' total sales of foreign exchange indicates that sales to SAMA declined by 62.9 percent (SAR 3.0 billion), to banks abroad by 28.3 percent (SAR 96.5 billion), to other customers in Saudi Arabia by 5.6 percent (SAR 14.6 billion), to domestic banks by 5.2 percent (SAR 5.5 billion), and to other purposes (traveling abroad, personal transfers, foreign contractors, financing of imports, and foreign

investments) by 11.1 percent (SAR 10.1 billion). However, sales to government entities increased by 437.0 percent (SAR 1.6 billion) and to ministries and municipalities by 161.1 percent (SAR 48.0 million) (Chart 5).

5. External Sector

Foreign Trade

In Q1 2020, total exports value went down by 20.6 percent to SAR 197.8 billion compared to SAR 249.1 billion in Q1 2019 as total value of oil exports declined by 21.0 percent to SAR 150.0 billion and other exports (including re-exports) by 19.2 percent to SAR 47.9 billion. In addition, value of imports (CIF) recorded a y/y decrease of 6.1 percent to SAR 124.1 billion in Q1 2020.

Balance of Payments

5.1 Current Account:

Preliminary estimates indicate a surplus of SAR 10.7 billion in the current account balance in Q1 2020 compared to a surplus of SAR 51.9 billion in Q1 2019. This is attributed to a surplus of SAR 47.8 billion in the balance of goods and services against a y/y surplus of SAR 78.2 billion. The balance of goods recorded a surplus of SAR 84.4 billion despite a decrease in exported goods by 20.7 percent to SAR

Chart 5: Banks' Foreign Currency Purchases and Sales



197.9 billion compared to SAR 249.4 billion in the corresponding quarter of 2019. Imported goods (FOB) declined by 4.6 percent to SAR 113.4 billion compared to SAR 118.9 billion in the corresponding quarter of 2019. The services deficit decreased from SAR 52.2 billion in Q1 2019 to SAR 36.7 billion in Q1 2020. The net balance of primary income recorded a deficit of SAR 3.2 billion in Q1 2020 against a surplus of SAR 8.7 billion in Q1 2019. The deficit in the secondary income balance decreased by 3.2 percent to SAR 33.9 billion compared to SAR 35.0 billion in Q1 2019.

5.2 Capital Account

Capital account registered outflows of SAR 1.2 billion in Q1 2020 against SAR 1.6 billion in the corresponding quarter of the previous year.

5.3 Financial Account

Net direct investments increased by SAR 2.1 billion in Q1 2020 due to the fact that net acquisition of financial assets abroad (SAR 8.1 billion) is higher than domestic net incurrence of liabilities (SAR 6.1 billion). Net portfolio investments went up by SAR 47.0 billion against a rise of SAR 34.1 billion in the previous quarter. Net other investments registered an increase of SAR 54.4 billion against a decline of SAR 15.1 billion in the corresponding quarter of the preceding year. Net reserve assets decreased by SAR 98.3 billion in Q1 2020 against an increase of SAR 11.1 billion in Q1 2019 as other reserve assets dropped by SAR 97.5 billion (due to a decrease in currency and deposits item by SAR 25.6 billion, despite the decrease in the item of investment in securities by SAR 72.0 billion) against a y/y increase of SAR 28.2 billion.

6. Banking Technology and Financial Inclusion Developments

6.1 Saudi Riyal Inter-bank Express System (SARIE)

The total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions fell by 19.8 percent (SAR 3,031.2 billion) to SAR 12,280.4 billion. The value of single payment transactions totaled SAR 11,481.3 billion, whereas the total value of bulk payment transactions amounted to SAR 788.6 billion. Total customer payments reached SAR 1,927.5 billion with a slight q/q increase of 0.1 percent. The total value of inter-bank payments stood at SAR 10,342.4 billion with a q/q fall of 22.7 percent.

6.2 Mada

The total number of ATM transactions was approximately 344.5 million, with cash withdrawals totaling SAR 134.4 billion, including transactions through banks' network and Mada. Total POS terminal transactions stood at 502.0 million with sales totaling SAR 76.6 billion. Moreover, the number of ATMs totaled at 18.8 thousand and the number of ATM cards issued by domestic banks stood at 32.0 million at end-Q2 2020. The number of POS terminals stood at 531.7 thousand at end-Q2 2020.

6.3 Clearing

As for statistics on clearing in Q2 2020, the number of bank checks (outgoing and incoming) cleared at the clearing houses stood at 386 thousand with a total value of SAR 58.7 billion. The number of individual and corporate checks totaled 337 thousand with a total value of SAR 33.5 billion, and the number of interbank checks totaled 49 thousand with a total value of SAR 25.3 billion.

7. Domestic Stock Market Developments

Tadawul All Share Index (TASI) increased by 11.0 percent to 7,224 at end-Q2 2020 compared to a decline of 22.5 percent in the preceding quarter, recording a y/y decrease of 18.1 percent. The number of traded shares increased by 41.0 percent to 16.6 billion compared to an increase of 31.4 percent in Q1 2020, recording a y/y increase of 82.6 percent. Total value of shares traded in Q2 2020 went up by 102.4 percent to SAR 552.3 billion compared to an increase of 17.4 percent in the previous quarter, registering a y/y rise of 110.8 percent.

At end-Q2 2020, the stock market capitalization rose by 8.9 percent to SAR 8.2 billion against a decline of 16.2 percent in Q1, registering a y/y increase of 295.6 percent. Total number of transactions executed in Q2 2020 increased by 10.2 percent to 13.4 million compared to a rise of 44.2 percent in Q1, recording a y/y rise of 99.0 percent (Chart 6).

8. Investment Funds

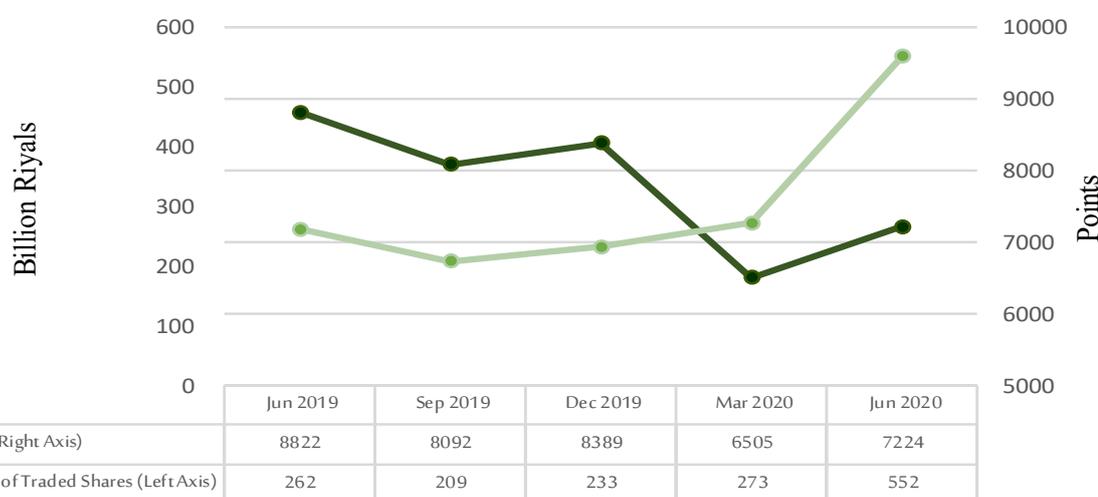
Total assets of investment funds managed by investment companies went up by 9.2 percent (SAR 14.8 billion) to SAR

174.7 billion in Q1 2020 compared to a rise of 16.6 percent (SAR 22.7 billion) in the preceding quarter. They recorded a y/y increase of 45.9 percent (SAR 55.0 billion).

A breakdown of total assets of investment funds shows that domestic assets dropped by 2.9 percent (SAR 3.8 billion) to SAR 129.6 billion in Q1 2020, compared to a rise of 17.8 percent (SAR 20.2 billion) in the previous quarter. They registered a y/y rise of 56.1 percent (SAR 46.6 billion). Foreign assets rose by 70.1 percent (SAR 18.6 billion) to SAR 45.1 billion against a rise of 10.7 percent (SAR 2.6 billion) in the preceding quarter, registering a y/y increase of 22.8 percent (SAR 8.4 billion).

The number of subscribers to investment funds rose by 3.0 percent (9.9 thousand) to 339.7 thousand in Q1 2020, compared to a decline of 1.1 percent (3.6 thousand) in Q4 2019. The number of subscribers recorded a y/y decrease of 4.7 percent (16.7 thousand). As for the number of operating funds, it remained unchanged at 253 in Q1 2020 compared to the preceding quarter.

Chart 6: Stock Market Index



Source: Tadawul and the Capital Market Authority.

9. Supervisory and Legislative Banking Developments during Q2 2020

- SAMA issued instructions to reduce risk-weighted asset ratio of SMEs to provide them with the necessary support in implementation of Basel III reforms on exposures of non-corporate SMEs.
- SAMA issued Margin Requirements for Non-Centrally Covered Derivatives to reduce risks and support central clearing.
- SAMA updated the Instructions for Offering Real Estate Finance Products to Retail Consumers to set the minimum provisions that financiers must adhere to when offering such products. The instructions aim at helping customers take the right decision when applying for a real estate finance, protecting the rights of all parties involved, and maintaining soundness of real estate finance sector.
- SAMA issued procedures for registration in contract register, the details required for registration, and provisions and procedures of access to the contract register by third parties, based on the powers granted to SAMA under the Finance Lease Law, issued by Royal Decree No. (D/48) dated 13/8/1433H.
- SAMA issued a circular on the plan to upgrade POS systems in the Kingdom to 4G to cope with the latest standard technical specifications for terminals that support connection with mobile phone networks.

10. Regulatory Measures and Developments in Response to COVID-19

- As part of its role in fostering an effective monetary policy and enhancing financial stability, SAMA decided in June 2020 to inject SAR 50 billion into the banking sector to enhance the sector's liquidity and ability to continue providing credit facilities to private sector.

- SAMA issued instructions to extend the working hours of money remittance centers to avoid crowding, and stressed that the centers are required to comply with the preventive measures set by the Ministry of Health.
- SAMA issued additional directives to clarify the accounting and regulatory treatment of support measures taken to mitigate the effects of COVID-19 and its impact on IFRS9 standard. The directives also cover additional transitional treatment of the impact of provisions on banks' capital as per the standards issued by the Basel Committee on Banking Supervision in April 2020.
- SAMA adopted many measures to support the banking sector and the private sector in responding to COVID-19 outbreak. Such measures include providing financial support, taking necessary monetary policy decisions, and providing the banking sector with instructions on the necessary preventive measures. For regulation and for the purpose of enhancing the operational capacity of the banking sector to respond to COVID-19 and support the affected economic sectors, SAMA postponed the issuance and implementation of a number of instructions until further notice.



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