

2020

Monetary and Banking Developments

Third Quarter, 2020

Research and International Affairs Deputyship



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Executive Summary

In the Q3 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 local banks at SAR 3.0 billion in Q3 2020. The three-month Saudi interbank offered rate (SIBOR) declined to 0.9160 percent.

Broad money supply (M3) increased by 1.8 percent and monetary base declined by 0.8 percent in Q3 2020. Preliminary data of SAMA's balance sheet indicate that total assets rose to SAR 1,822.3 billion and total reserve assets to SAR 1,678.5 billion.

Total bank deposits went up by 2.1 percent to SAR 1,881.1 billion. Total assets and liabilities of commercial banks amounted to SAR 2,879.7 billion at end-Q3 2020, increasing by 1.7 percent. Commercial banks' claims on the private and public sectors went up by 2.6 percent to SAR 2,218.9 billion.

Preliminary estimates indicate a deficit of SAR 67.4 billion in the current account balance in Q2 2020 compared to a surplus of SAR 42.9 billion in Q2 2019.

The total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions rose by 7.1 percent (SAR 866.7 billion) to SAR 13,147.1 billion. Total number of ATM transactions stood at 450.5 million with cash withdrawals totaling SAR 158.8 billion, including transactions through banks' network and Mada.

Tadawul All Share Index (TASI) increased by 14.9 percent to 8,299 at end-Q3 2020. Total assets of investment funds managed by investment companies increased by 8.0 percent (SAR 14.5 billion) to SAR 196.1 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 local banks to perform their financing role in the domestic economy. In continuation of its role in activating monetary policy tools and promoting financial stability, SAMA has decided to extend the Deferred Payments Program for another 3 months until December 14, 2020. This came as part of SAMA's efforts to enable the financial sector to play its role in supporting the private sector, especially micro, small and medium enterprises, contribute to enhancing economic recovery and maintain employment levels in the sector.

1.1 Rate of Return and Cash Reserve

In Q3 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 88.5 million in Q3 against SAR 723.2 million in Q2. Daily average reverse repo transactions stood at

SAR 68.3 billion in Q3 compared to SAR 55.4 billion in Q2.

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

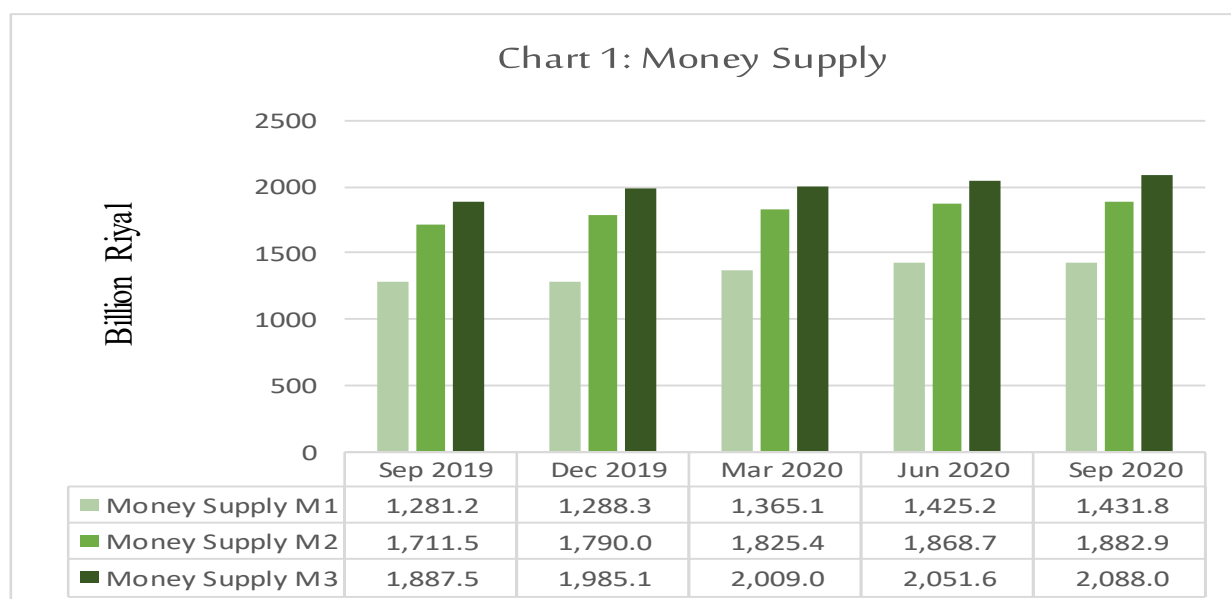
1.2 Interest Rates

SAMA continued to maintain the limit of weekly subscription in SAMA bills for local banks at SAR 3.0 billion in Q3 2020. The three-month Saudi interbank offered rate (SAIBOR) declined to 0.9160 percent. The three-month interest rate differential between the riyal and the dollar was about 66 basis points in favor of the riyal, compared to 52 basis points in Q2 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

Broad money supply (M3) increased by 1.8 percent (SAR 36.5 billion) to SAR 2,088.0 billion in Q3 2020, compared to an increase of 2.1 percent (SAR 42.5 billion) in the preceding quarter, recording a y/y rise of 10.6 percent (SAR 200.6 billion) (Chart 1).



A breakdown of the components of M3 indicates that narrow money supply (M1) rose by 0.5 percent (SAR 6.6 billion) to SAR 1,431.8 billion or 68.6 percent of M3, compared to a rise of 4.4 percent (SAR 60.1 billion) in the preceding quarter, recording a y/y increase of 11.8 percent (SAR 150.7 billion). Also, M2 increased by 0.8 percent (SAR 14.1 billion) to SAR 1,882.9 billion or 90.2 percent of M3 in Q3 against a rise of 2.4 percent (SAR 43.3 billion) in Q2, recording a y/y increase of 10.0 percent (SAR 171.3 billion).

2.2 Monetary Base

Monetary base declined by 0.8 percent (SAR 2.7 billion) to SAR 351.5 billion in Q3 2020, compared to an increase of 4.0 percent (SAR 13.6 billion) in the preceding quarter, recording a y/y rise of 9.2 percent (SAR 29.6 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA increased by 1.8 percent (SAR 2.0 billion) to SAR 115.5 billion, compared to a rise of 5.0 percent (SAR 5.4 billion) in the preceding quarter, registering a y/y rise of 11.0 percent (SAR 11.4 billion). However, cash in vault decreased by 9.7 percent (SAR 3.1 billion) to SAR 29.1 billion, compared to a decline of 5.6 percent (SAR 1.9 billion) in the preceding quarter, recording a y/y decline of 2.0 percent (SAR 0.6 billion). In addition, currency in circulation went down by 0.8 percent (SAR 1.7 billion) to SAR 206.9 billion compared to a rise of 5.1 percent (SAR 10.0 billion) in the preceding quarter, registering a y/y increase of 9.9 percent (SAR 18.7 billion).

3. Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet indicates that total assets increased by 0.9 percent to SAR 1,822.3 billion in Q3 2020. Total deposits in domestic currency

for foreign entities slightly rose in Q3 by 0.3 percent to SAR 9.7 billion, compared to a decline of 21.2 percent in Q2. They recorded a y/y decrease of 26.6 percent.

3.1 Reserve Assets

SAMA's total reserve assets increased to SAR 1,678.5 billion in Q3 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 12.2 billion, investments in securities abroad to SAR 1,053.8 billion, and the balance of special drawing rights to SAR 30.7 billion. On the other hand, foreign exchange and deposits abroad decreased to SAR 580.2 billion and gold reserve was stable at SAR 1.6 billion.

4. Banking Developments

4.1 Bank Deposits

Total bank deposits increased by 2.1 percent (SAR 38.1 billion) to SAR 1,881.1 billion in Q3 2020, compared to a rise of 1.8 percent (SAR 32.5 billion) in Q2 2020, recording a y/y rise of 10.7 percent (SAR 181.8 billion).

A breakdown of deposit components by type in Q3 2020 indicates that demand deposits rose by 0.7 percent (SAR 8.3 billion) to SAR 1,224.9 billion, compared to an increase of 4.3 percent (SAR 50.1 billion) in the preceding quarter, registering a y/y rise of 12.1 percent (SAR 132.0 billion). Time and savings deposits also increased by 1.7 percent (SAR 7.5 billion) to SAR 451.0 billion compared to a decline of 3.7 percent (SAR 16.8 billion) during the preceding quarter. They recorded a y/y rise of 4.8 percent (SAR 20.7 billion). Other quasi-monetary deposits went up by 12.2 percent (SAR 22.3 billion) to SAR 205.2 billion, compared to a decline of 0.4 percent (SAR 0.8 billion) during the preceding quarter. They recorded a y/y rise of 16.6

percent (SAR 29.2 billion) (Chart 2).

4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks stood at SAR 2,879.7 billion at end-Q3 2020, increasing by 1.7 percent (SAR 47.8 billion), compared to an increase of 4.0 percent (SAR 107.8 billion) during the previous quarter. They registered a y/y rise of 14.9 percent (SAR 373.3 billion).

4.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks declined by 5.4 percent (SAR 15.1 billion) to SAR 264.6 billion in Q3 2020 as compared to an increase of 8.8 percent (SAR 22.7 billion) during the preceding quarter. They registered a y/y increase of 11.3 percent (SAR 26.8 billion), constituting 9.2 percent of commercial banks' total assets at end-Q3 2020 compared to 9.9 percent at end-Q2 2020. Commercial banks' total foreign liabilities went down by 6.3 percent (SAR 11.1 billion) to SAR 164.5 billion in Q3 against a decline of 5.3 percent (SAR 9.9 billion) in the preceding quarter. They registered a y/y fall of 0.4 percent (SAR 0.7 billion), accounting for 5.7 percent of total liabilities of commercial banks against 6.2 percent at end-Q2 2020. Commercial banks' net foreign assets

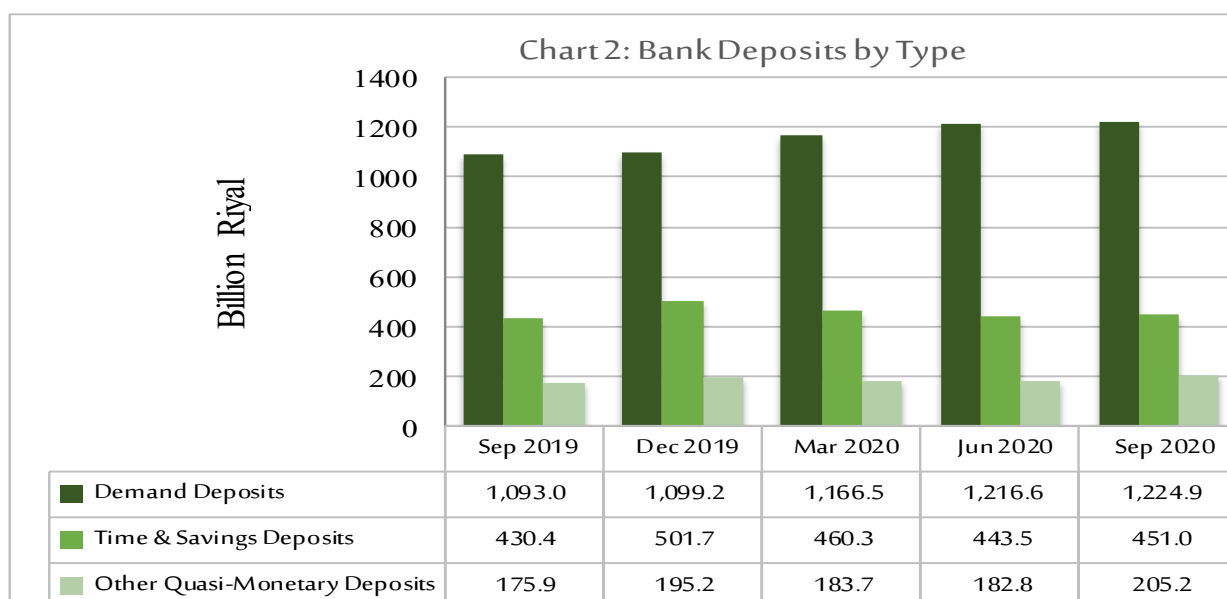
dropped by 3.8 percent (SAR 4.0 billion) to SAR 100.2 billion, compared to a rise of 45.6 percent (SAR 32.6 billion) during the preceding quarter. They recorded a y/y increase of 37.9 percent (SAR 27.5 billion) (Chart 3).

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) went up by 2.6 percent (SAR 56.5 billion) to SAR 2,218.9 billion in Q3 2020, compared to an increase of 2.9 percent (SAR 61.9 billion) in Q2 2020. They recorded a y/y rise of 15.2 percent (SAR 293.0 billion). The ratio of these claims to total bank deposits went up to 118.0 percent compared to 117.3 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 3.1 percent (SAR 51.9 billion) to SAR 1,723.8 billion in Q3 2020, compared to a rise of 2.4 percent (SAR 38.9 billion) in the preceding quarter. The claims on the private sector registered a y/y increase of 15.0 percent (SAR 224.8 billion). The ratio of these claims to total bank deposits rose to 91.6



percent at end-Q3 2020 compared to 90.7 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 0.9 percent (SAR 4.6 billion) to SAR 495.1 billion in Q3, compared to a rise of 4.9 percent (SAR 23.0 billion) in Q2. These claims registered a y/y increase of 16.0 percent (SAR 68.2 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits decreased to 26.3 percent at end-Q3 2020 from 26.6 percent at the end of the preceding quarter (Chart 4).

4.4.3 Bank Credit by Economic Activity

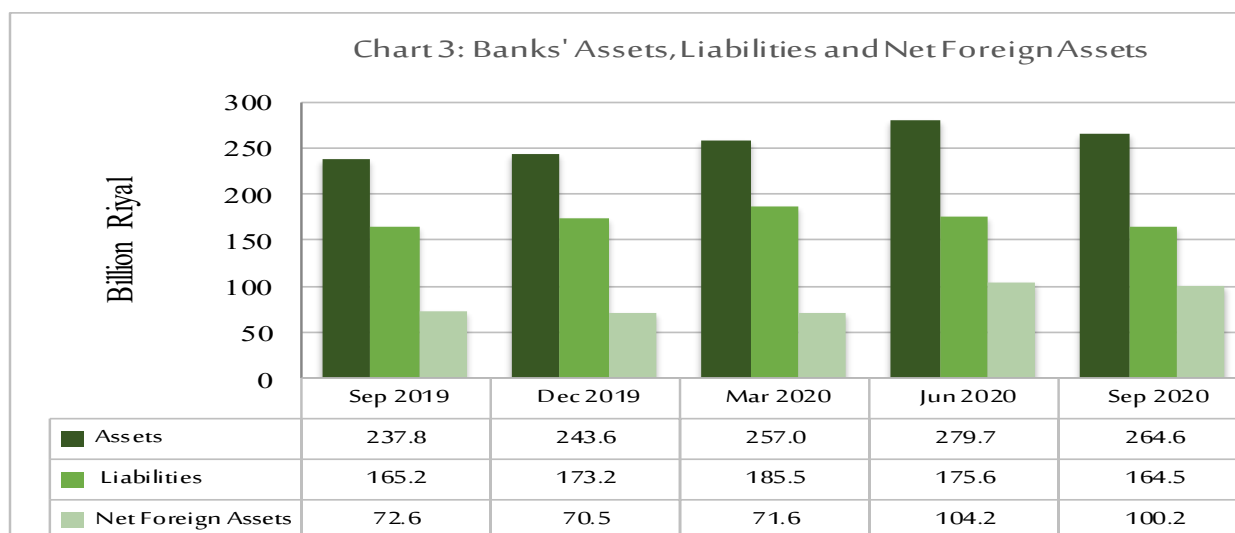
A breakdown of bank credit extended to economic activities in Q3 2020 indicates increases in bank credit extended to water, electricity, gas and health services by 4.1 percent (SAR 2.7 billion); to commerce by 0.8 percent (SAR 2.5 billion); to building and construction by 0.6 percent (SAR 0.6 billion); to services by 0.7 percent (SAR 0.7 billion); to other sectors by 7.2 percent (SAR 54.3 billion); to government and quasi-government by 5.8 percent (SAR 3.6 billion); and to finance by 2.9 percent (SAR 1.2 billion). On the other hand, bank credit

extended to agriculture and fishing fell by 8.8 percent (SAR 1.5 billion), to mining and quarrying by 12.5 percent (SAR 3.0 billion), to manufacturing and production by 1.1 percent (SAR 1.9 billion), and to transport and telecommunication by 0.7 percent (SAR 0.3 billion).

A breakdown of bank credit by maturity indicates that long-term credit increased by 6.3 percent (SAR 44.5 billion) to SAR 756.5 billion compared to a rise of 3.1 percent (SAR 21.6 billion) in the preceding quarter. Medium-term credit also went up by 7.4 percent (SAR 18.1 billion) to SAR 261.4 billion compared to a fall of 2.0 percent (SAR 4.9 billion) in the preceding quarter. However, short-term credit declined by 0.5 percent (SAR 3.7 billion) to SAR 713.0 billion against a decline of 3.2 percent (SAR 22.1 billion) in Q2 2020.

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks declined by 0.9 percent (SAR 3.6 billion) to SAR 375.9 billion in Q3 2020, compared to a rise of 2.3 percent (SAR 8.5 billion) in Q2 2020, recording a y/y increase of 9.0 percent (SAR 30.9 billion). Their ratio to total bank deposits decreased to 20.0 percent at end-Q3 2020 from 20.6



percent in the preceding quarter. Commercial banks' profits stood at SAR 13.0 billion in Q3 against SAR 1.4 billion in Q2, denoting a rise of 808.0 percent (SAR 11.5 billion) compared to a decrease of 89.2 percent (SAR 11.8 billion) in the previous quarter.

At the end of the quarter, the number of commercial banks' branches operating in Saudi Arabia declined to 2,036 with 28 and 35 less branches as compared to Q2 2020 and Q2 2019, respectively.

4.6 Commercial Banks' Purchases and Sales of Foreign Exchange

4.6.1 Commercial Banks' Purchases of Foreign Exchange

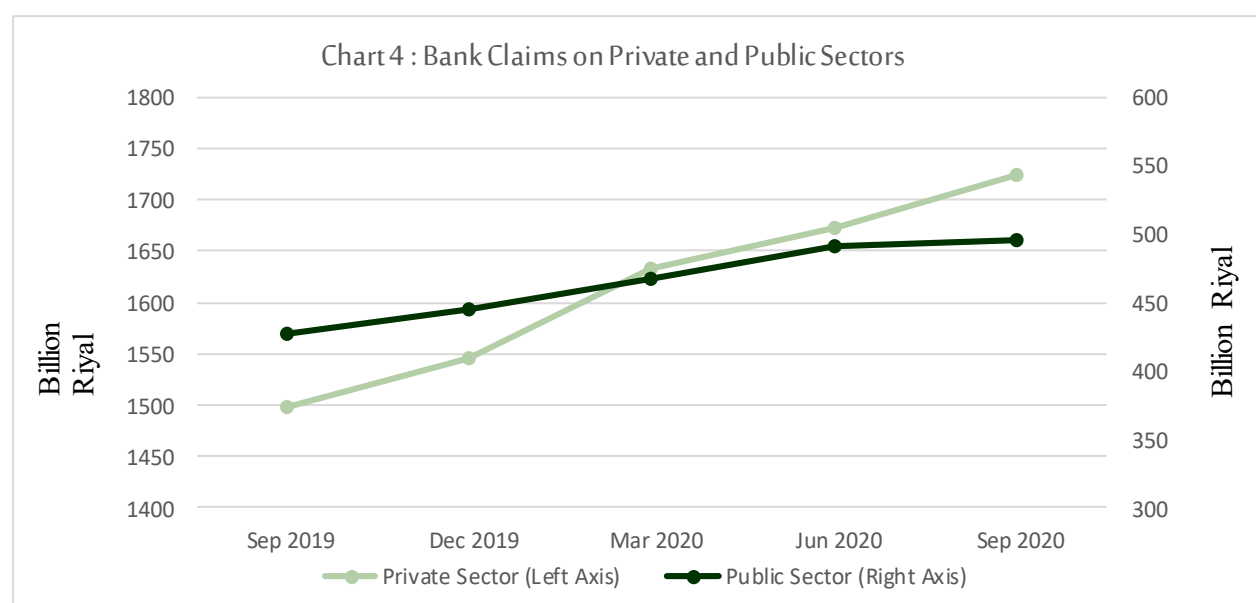
Commercial banks' total purchases of foreign exchange fell by 12.1 percent (SAR 91.7 billion) to SAR 665.1 billion in Q3 2020, compared to a decline of 15.2 percent (SAR 135.5 billion) in Q2, recording a y/y fall of 27.8 percent (SAR 256.7 billion). A q/q comparison of banks' total purchases of foreign exchange shows that purchases from local banks decreased by 46.2 percent (SAR 54.9 billion) and from SAMA by 24.2 percent (SAR 46.0 billion). However, commercial banks' purchases of foreign

exchange from other sources increased by 2.9 percent (SAR 0.4 billion), from foreign banks by 2.4 percent (SAR 7.8 billion), and from customers by 1.1 percent (SAR 1.1 billion) (Chart 5).

4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange went down by 4.6 percent (SAR 30.9 billion) to SAR 642.7 billion in Q3 2020, compared to a decline of 16.0 percent (SAR 128.0 billion) during the preceding quarter. They recorded a y/y decline of 23.7 percent (SAR 199.8 billion).

A q/q comparison of banks' total sales of foreign exchange indicates that sales to SAMA decreased by 22.3 percent (SAR 0.4 billion), to other customers in Saudi Arabia by 2.6 percent (SAR 6.3 billion), to local banks by 30.7 percent (SAR 30.5 billion), and to government entities by 55.0 percent (SAR 1.1 billion). On the other hand, commercial banks' sales of foreign exchange to banks abroad increased by 0.9 percent (SAR 2.3 billion), to ministries and municipalities by 1,188.1 percent (SAR 0.9 billion), and for other purposes (traveling abroad, personal transfers, foreign



contractors, imports financing, foreign investments) by 5.2 percent (SAR 4.2 billion) (Chart 5).

5. External Sector

Foreign Trade

In Q2 2020, total exports value went down by 53.6 percent to SAR 117.1 billion compared to SAR 252.6 billion in Q2 2019, with the total value of oil exports declining by 61.8 percent to SAR 74.8 billion and other exports (including re-exports) by 25.5 percent to SAR 42.3 billion. Moreover, the value of imports (CIF) recorded a y/y fall of 22.8 percent to SAR 117.1 billion in Q2 2020.

Balance of Payments

5.1 Current Account:

Preliminary estimates indicate a deficit of SAR 67.4 billion in the current account balance in Q2 2020 compared to a surplus of SAR 42.9 billion in Q2 2019. This is attributed to a deficit of SAR 37.6 billion in the balance of goods and services against a surplus of SAR 65.0 billion in Q2 2019. The balance of goods recorded a surplus of SAR 10.3 billion despite a decrease in exported

goods by 53.6 percent to SAR 117.1 billion compared to SAR 252.6 billion in Q2 2019. Imported goods (FOB) declined by 23.1 percent to SAR 106.9 billion compared to SAR 139.0 billion in the corresponding quarter of the preceding year. The deficit in the balance of services went down from SAR 48.7 billion in Q2 2019 to SAR 47.9 billion in Q2 2020. The balance of primary income recorded a surplus of SAR 4.1 billion in Q2 2020 against SAR 12.6 billion in Q2 2019. The deficit in the balance of secondary income decreased by 2.1 percent to SAR 33.9 billion compared to SAR 34.7 billion in the corresponding quarter of the previous year.

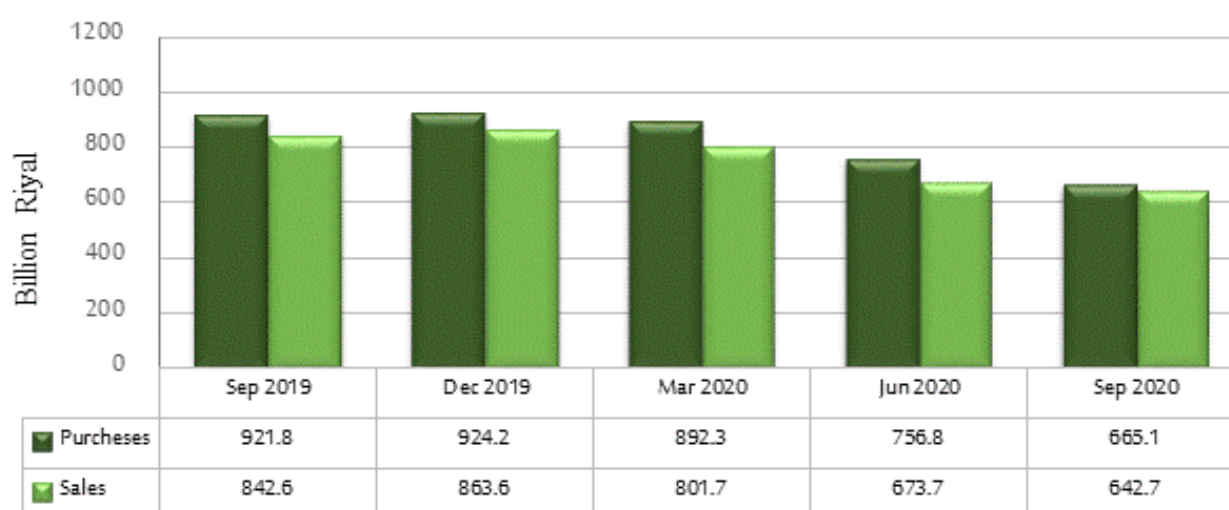
5.2: Capital Account

The capital account registered outflows of SAR 1.3 billion in Q2 2020 against SAR 1.2 billion in Q2 2019.

5.3: Financial Account

Net direct investments decreased by SAR 6.4 billion in Q2 2020 due to the decline in net acquisition of financial assets abroad by SAR 2.8 billion and the increase in domestic net incurrence of liabilities (SAR 3.5 billion). Net portfolio investments recorded a rise of SAR 13.5

Chart 5: Banks' Foreign Currency Purchases and Sales



billion against a decline of SAR 71.2 billion in the corresponding quarter of the preceding year. Net other investments also registered an increase of SAR 24.3 billion against an increase of SAR 62.7 billion in Q2 2019. Net reserve assets fell by SAR 97.3 billion in Q2 2020 against an increase of SAR 53.2 billion in Q2 2019. Other reserve assets also declined by SAR 99.1 billion (due to the decreases in currency and deposits by SAR 9.1 billion and in investment in securities by SAR 90.0 billion) against an increase of SAR 51.0 billion in Q2 2019.

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 went up at end-Q3 2020 by 7.1 percent (SAR 866.7 billion) to SAR 13,147.1 billion. The value of single payment transactions totaled SAR 12,300.7 billion, whereas the total value of bulk payment transactions amounted to SAR 838.7 billion. Total customer payments reached SAR 2,000.3 billion, with a q/q rise of 3.8 percent. The total value of inter-bank payment transactions was SAR 11,139.1 billion, with a q/q increase of 7.7 percent.

6.2 Mada

The total number of ATM transactions was approximately 450.5 million in Q3 2020, with cash withdrawals totaling SAR 158.8 billion, including transactions through banks' network and Mada. Total POS terminal transactions stood at 828.8 million, with sales totaling SAR 95.9 billion in Q3 2020. In addition, the number of ATMs and the number of ATM cards issued by local banks totaled 18.6 thousand and 33.2 million respectively at end-Q3 2020. The number of POS terminals stood at 614.3 thousand at end-Q3 2020.

6.3 Clearing

As for statistics on clearing, the number of bank checks (outgoing and incoming) cleared at the clearing houses totaled 553.8 thousand with a total value of SAR 77.0 billion. The number of individual and corporate checks totaled 479.4 thousand with a total value of SAR 45.5 billion, and the number of interbank checks totaled 74.4 thousand with a total value of SAR 31.5 billion.

7. Domestic Stock Market Developments

Tadawul All Share Index (TASI) recorded a q/q rise of 14.9 percent to 8,299 at end-Q3 2020 compared to a rise of 11.0 percent, recording a y/y increase of 2.6 percent. The number of shares traded in Q3 2020 increased by 41.6 percent to 23.6 billion shares against an increase of 41.0 percent in Q2 2020, recording a y/y rise of 207.6 percent. Total value of shares traded in Q3 2020 went down by 4.2 percent to SAR 529.3 billion compared to an increase of 102.4 percent in the previous quarter, registering a y/y rise of 153.7 percent.

On the other hand, stock market capitalization increased by 10.9 percent to SAR 9.1 billion at end-Q3 2020 against an increase of 8.9 percent at the end of the preceding quarter, registering a y/y rise of 378.4 percent. Total number of transactions executed in Q3 2020 went up by 60.2 percent to 21.5 million transactions compared to a rise of 10.2 percent in Q2, recording a y/y increase of 221.1 percent (Chart 6).

8. Investment Funds

Total assets of investment funds managed by investment companies went up by 8.0 percent (SAR 14.5 billion) to SAR 196.1 billion in Q3 2020 compared to a rise of 3.9 percent (SAR 6.8 billion) in the preceding quarter, registering a y/y

increase of 42.9 percent (SAR 58.8 billion).

A breakdown of total assets of investment funds shows that domestic assets rose by 4.9 percent (SAR 6.9 billion) to SAR 148.8 billion in Q3 2020 against a rise of 9.4 percent (SAR 12.2 billion) in Q2 2020. They registered a y/y increase of 31.3 percent (SAR 35.5 billion). Foreign assets also rose by 19.0 percent (SAR 7.5 billion) to SAR 47.3 billion against a decline of 11.9 percent (SAR 5.4 billion) in the preceding quarter, recording a y/y rise of 97.3 percent (SAR 23.3 billion).

Besides, the number of subscribers to investment funds rose by 2.3 percent (8.1 thousand) to 358.6 thousand in Q3 2020, compared to a rise of 3.2 percent (10.8 thousand) in the preceding quarter. The number of subscribers recorded a y/y increase of 7.6 percent (25.3 thousand). The number of operating funds stood at 255, increasing by 2 in Q3 2020, as compared to the preceding quarter.

9. Supervisory and Legislative Banking Developments in Q3 2020

- SAMA instructed all banks under its supervision to improve and activate the work of consumer care departments to ensure that

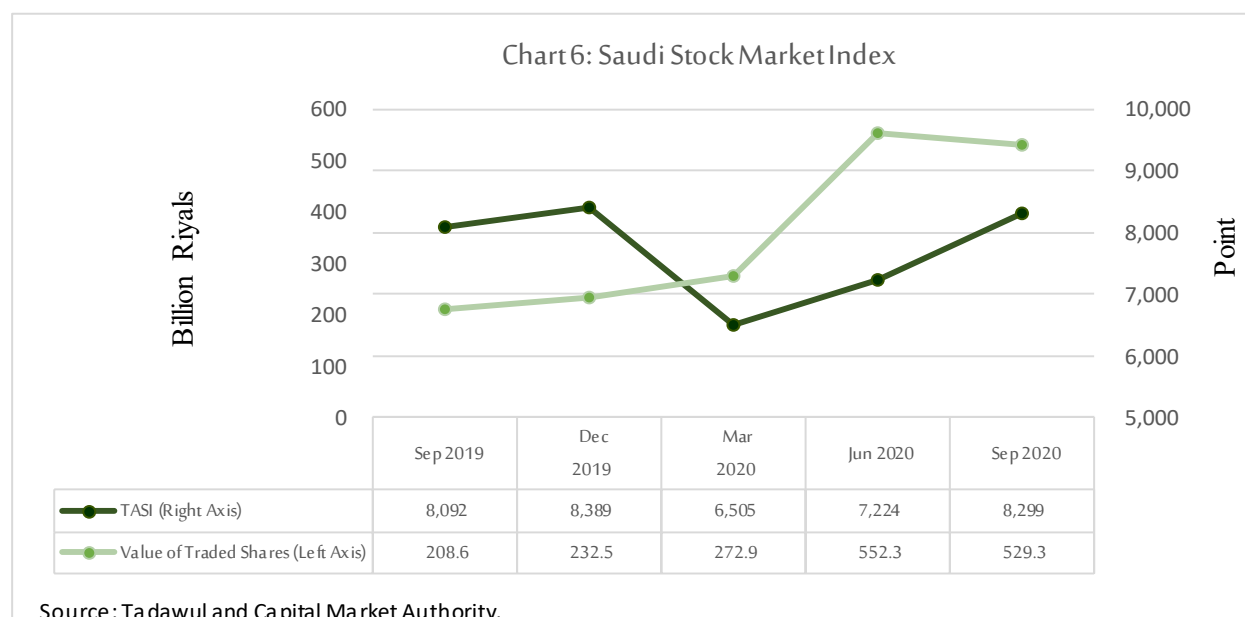
complaints are handled quickly and efficiently with the aim of protecting the rights of consumers.

- SAMA issued Compliance Guidelines for Commercial Banks Operating in Saudi Arabia to activate supervisory roles and promote sound practices in banking institutions.

- SAMA instructed banks operating in Saudi Arabia, payment service providers, and Saudi Payments to make the necessary preparations to install electronic payment systems for retailers when requested. The aim of such decision is to promote electronic payment, discourage the use of cash, and combat commercial concealment by gradually requiring retail sector to install electronic payment systems.

- SAMA instructed banks to start to issue and verify letters electronically as part of the efforts exerted to develop the financial sector and apply the latest digital technologies. Such letters must confirm the confidentiality of information included and the responsibility of the person to whom the letter is issued to maintain such confidentiality.

- SAMA issued Guidelines for Combating Financial Fraud in Banks



Operating in Saudi Arabia to assist banks in setting the minimum procedures and policies aimed at protecting banks and consumers from falling prey to financial fraud.

- 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.



البنك المركزي السعودي
SAMA
Saudi Central Bank

