

2021

Monetary and Banking Developments

Third Quarter, 2021

Research and International Affairs Deputyship



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Executive Summary

In Q3 2021, 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 continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 10.0 billion in Q3. The average three-month Saudi interbank offered rate (SAIBOR) rose marginally to 0.7962 percent in Q3 2021.

M3 increased by 1.1 percent in Q3 2021, but the monetary base decreased by 1.1 percent as compared to the preceding quarter. Preliminary data of SAMA's balance sheet indicate that the total assets increased to SAR 1,890.7 billion in Q3 2021. SAMA's total reserve assets also recorded an increase to SAR 1,745.6 billion.

Total bank deposits increased by 1.4 percent to SAR 2,058.0 billion in Q3 2021 as compared to the preceding quarter. Total assets and liabilities of commercial banks stood at SAR 3,151.2 billion, increasing by 1.2 percent QoQ. Commercial banks' claims

on the private and public sectors went up by 3.0 percent to SAR 2,545.7 billion.

Preliminary estimates indicate a surplus of SAR 45.1 billion in the current account balance in Q2 2021, compared to a deficit of SAR 72.6 billion in Q2 2020.

The total value of the Saudi Riyal Interbank Express (SARIE) System transactions declined by 24.5 percent (SAR 3,715.9 billion) to SAR 11,420.9 billion in Q3 2021 compared to the preceding quarter. Total number of ATM transactions stood at 392.3 million, with cash withdrawals totaling SAR 140.7 billion, including transactions through banks' network and Mada. Total POS terminal transactions stood at SAR 1,383.5 million in Q3 2021, with sales totaling SAR 119.8 billion.

The Tadawul All Share Index (TASI) increased by 4.7 percent to 11,496 points at end-Q3 2021.

1. Monetary Policy

SAMA has been adopting a monetary policy aimed at achieving monetary stability, supporting various economic sectors in line with local and international economic developments, and enabling the banking sector to play its role in financing the various economic sectors. In continuation of its role in activating monetary policy tools and enhancing financial and monetary stability, SAMA has decided to extend the Deferred Payment Program until the end of Q4 2021. With this step, SAMA aims to enable the financial sector to continue supporting the micro-, small and medium-sized enterprise (MSME) sector, contributing to economic recovery and maintaining employment rates in the private sector.

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 Q3 2021.

The daily average of repo transactions stood at SAR 1.3 billion in Q3 2021 against SAR 389 million in Q2 2021. The daily average of reverse repo transactions stood at

SAR 43.6 billion in Q3 2021 compared to SAR 74.8 billion in the preceding quarter. SAMA continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 10.0 billion.

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

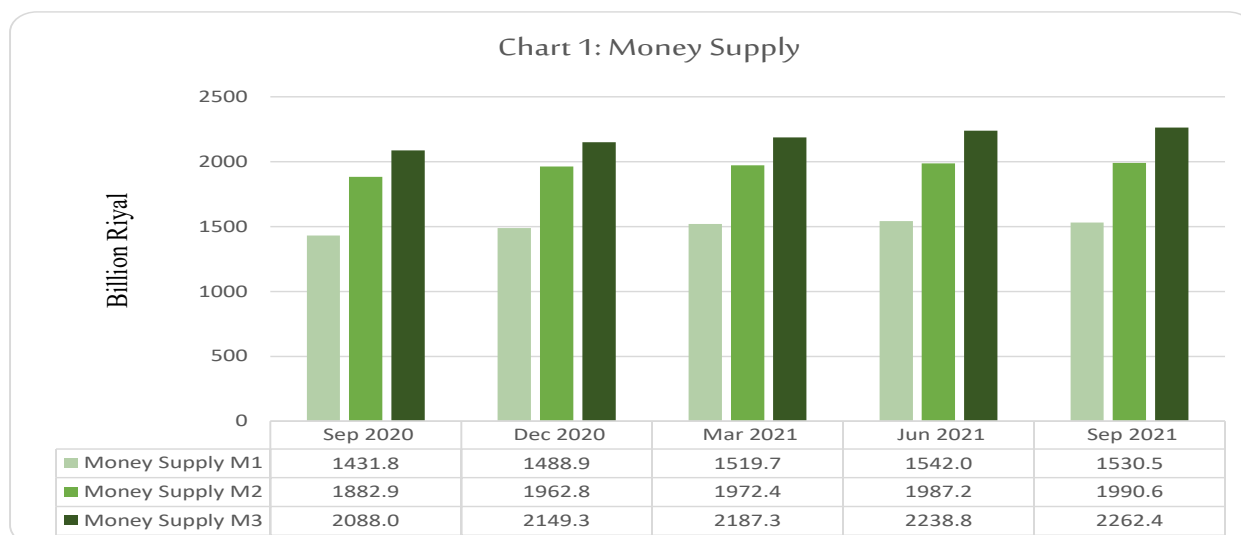
1.2 Interest Rates

The average three-month Saudi interbank offered rate (SAIBOR) marginally increased to 0.7962 percent in Q3 2021. The average interest differential between the riyal (SAIBOR) and the dollar (LIBOR) deposits was 67 basis points in favor of the riyal in Q3 2021, compared to 64 basis points in Q2 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

M3 increased by 1.1 percent (SAR 23.6 billion) to SAR 2,262.4 billion in Q3 2021, compared to an increase of 2.4 percent (SAR 51.5 billion) in the preceding quarter, recording a YoY rise of 8.4 percent (SAR 174.4 billion) (Chart 1).



A breakdown of the components of M3 indicates that narrow money supply (M1) declined by 0.7 percent (SAR 11.5 billion) to SAR 1.531 billion or 67.6 percent of M3 in Q3 2021, compared to a rise of 1.5 percent (SAR 22.3 billion) in the preceding quarter, recording a YoY rise of 6.9 percent (SAR 98.7 billion). Moreover, M2 increased by 0.2 percent (SAR 3.4 billion) to SAR 1,990.6 billion or 88.0 percent of M3 in Q3 2021 against a rise of 0.8 percent (SAR 14.8 billion) in the preceding quarter. It registered a YoY rise of 5.7 percent (SAR 107.7 billion).

2.2 Monetary Base

Monetary base declined by 1.1 percent (SAR 4.1 billion) to SAR 357.5 billion in Q3 2021, compared to an increase of 1.8 percent (SAR 6.5 billion) in the preceding quarter, recording a YoY rise of 1.7 percent (SAR 6.0 billion). A breakdown of the components of the monetary base indicates that deposits with SAMA increased by 2.5 percent (SAR 3.1 billion) to SAR 128.7 billion in Q3 2021, compared to a rise of 3.0 percent (SAR 3.7 billion) in the preceding quarter, registering a YoY rise of 11.4 percent (SAR 13.2 billion). Cash in vault, however, decreased by 10.8 percent (SAR 3.0 billion) to SAR 24.4 billion in Q3 2021, compared to an increase of 4.3 percent (SAR 1.1 billion) in the preceding quarter, recording a YoY decline of 16.1 percent (SAR 4.7 billion). In addition, currency in circulation went down by 2.0 percent (SAR 4.2 billion) to SAR 204.4 billion in Q3 2021 compared to a rise of 0.8 percent (SAR 1.7 billion) in the preceding quarter. It also registered a YoY decrease of 1.2 percent (SAR 2.5 billion).

3. Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet show that total assets increased to SAR 1,890.7 billion in Q3 2021. SAMA's total reserve assets also increased to SAR 1,745.6 billion in Q3 2021. A breakdown of the components of total reserve assets in Q3 2021 as compared to the preceding quarter indicates that the reserve position with the IMF decreased to SAR 14.4 billion.

However, the balance of special drawing rights rose to SAR 81.4 billion. Foreign exchange and deposits abroad decreased to SAR 511.4 billion. In contrast, investments in securities abroad increased to SAR 1,136.7 billion, while gold reserve was stable at SAR 1.6 billion.

4. Banking Developments

4.1 Bank Deposits

Total bank deposits increased by 1.4 percent (SAR 27.8 billion) to SAR 2,058.0 billion in Q3 2021, compared to a rise of 2.5 percent (SAR 49.8 billion) in the preceding quarter, recording a YoY rise of 9.4 percent (SAR 176.9 billion).

A breakdown of deposit components by type in Q3 2021 indicates that demand deposits fell by 0.6 percent (SAR 7.2 billion) to SAR 1,326.1 billion, compared to an increase of 1.6 percent (SAR 20.7 billion) in the preceding quarter, registering a YoY rise of 8.3 percent (SAR 101.2 billion). Other quasi-monetary deposits went up by 8.0 percent (SAR 20.2 billion) to SAR 271.8 billion compared to a rise of 17.1 percent (SAR 36.7 billion) during the

preceding quarter. They registered a YoY rise of 32.5 percent (SAR 66.7 billion). Time and savings deposits also increased by 3.3 percent (SAR 14.9 billion) to SAR 460.1 billion compared to a decline of 1.7 percent (SAR 7.5 billion) during the preceding quarter. They recorded a YoY rise of 2.0 percent (SAR 9.0 billion) (Chart 2).

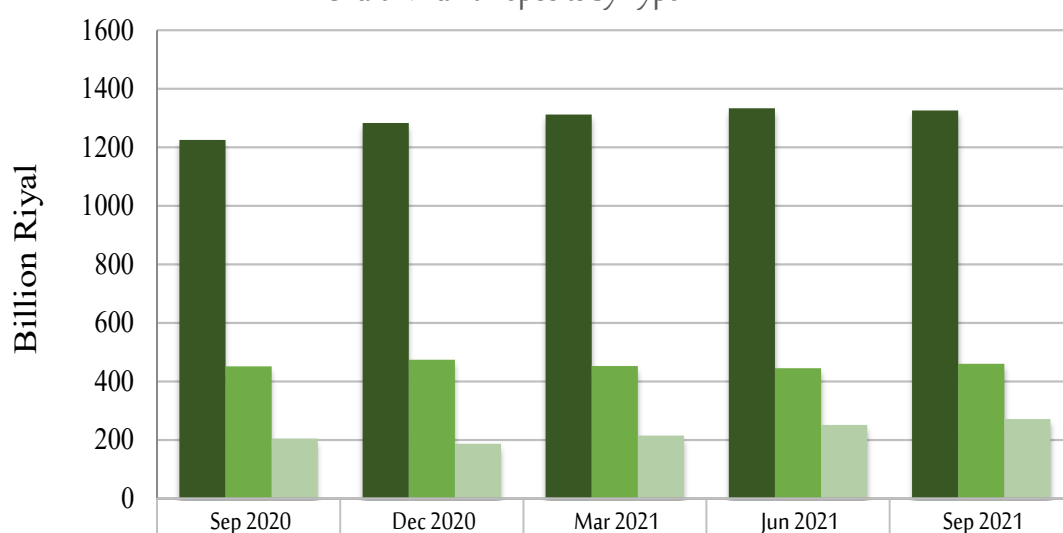
4.2 Assets and Liabilities of Commercial Banks

Total assets and liabilities of commercial banks stood at SAR 3,151.2 billion at end-Q3 2021, increasing by 1.2 percent (SAR 37.0 billion) compared to an increase of 2.6 percent (SAR 79.1 billion) during the preceding quarter. They registered a YoY rise of 9.4 percent (SAR 271.5 billion).

4.3 Foreign Assets and Liabilities of Commercial Banks

Total foreign assets of commercial banks decreased by 2.4 percent (SAR 6.0 billion) to SAR 245.3 billion in Q3 2021 as compared to an increase of 0.8 percent (SAR 2.0 billion) in the preceding quarter, recording a YoY decline of 7.3 percent (SAR 19.4 billion). They constituted 7.8 percent of commercial banks' total assets at end-Q3 2021 as compared to 8.1 percent at end-Q2 2021. Commercial banks' total foreign liabilities also went down by 2.2 percent (SAR 4.1 billion) to SAR 185.4 billion in Q3 2021 against an increase of 8.7 percent (SAR 15.2 billion) in the preceding quarter. They registered a YoY increase of 12.8 percent (SAR 21.0 billion), representing 5.9 percent of total liabilities of commercial banks compared to 6.1 percent at end-Q2 2021. Commercial

Chart 2: Bank Deposits by Type



■ Demand Deposits	1224.9	1282.6	1312.7	1333.3	1326.1
■ Time & Savings Deposits	451.0	474.0	452.7	445.2	460.1
■ Other Quasi-Monetary Deposits	205.2	186.4	214.9	251.6	271.8

banks' net foreign assets dropped by 3.0 percent (SAR 1.8 billion) to SAR 59.8 billion at end-Q3 2021 compared to a decline of 17.6 percent (SAR 13.2 billion) in the preceding quarter. They recorded a YoY decline of 40.3 percent (SAR 40.3 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 went up by 3.0 percent (SAR 74.0 billion) to SAR 2,545.7 billion in Q3 2021 compared to an increase of 3.6 percent (SAR 87.0 billion) in the preceding quarter. They recorded a YoY rise of 14.7 percent (SAR 326.7 billion). The ratio of these claims to total bank deposits increased by 123.7 percent compared to 121.8 percent at the end of the preceding quarter.

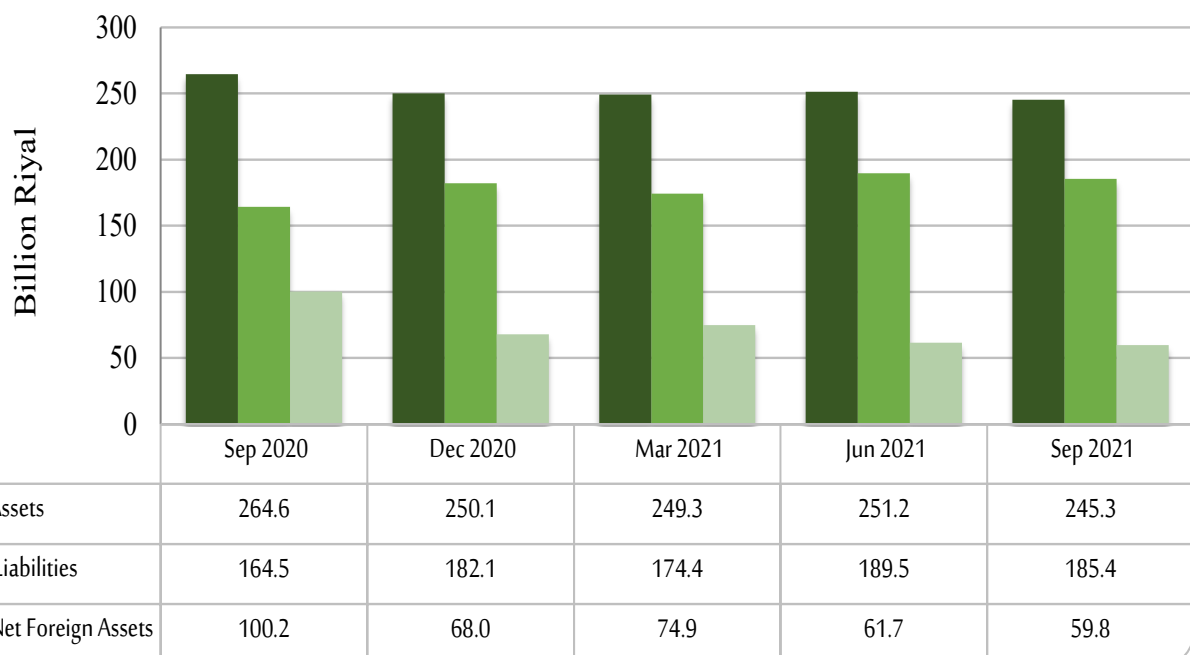
4.4.1 Commercial Banks' Claims on the Private Sector

Commercial banks' claims on the private sector increased by 2.7 percent (SAR 51.7 billion) to SAR 1,985.7 billion in Q3 2021 compared to a rise of 3.3 percent (SAR 62.4 billion) in Q2 2021. These claims registered a YoY increase of 15.2 percent (SAR 261.9 billion). The ratio of these claims to total bank deposits increased to 96.5 percent at end-Q3 2021 from 95.3 percent at end-Q2 2021 (Chart 4).

4.4.2 Commercial Banks' Claims on the Public Sector

Commercial banks' claims on the public sector rose by 4.1 percent (SAR 22.2 billion) to SAR 560.0 billion in Q3 2021 compared to a rise of 4.8 percent (SAR 24.6

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



billion) in the preceding quarter. These claims registered a YoY increase of 13.1 percent (SAR 64.8 billion). The ratio of commercial banks' total claims on the public sector to total bank deposits increased to 27.2 percent at end-Q3 2021 from 26.5 percent at the end of the preceding quarter (Chart 4).

4.4.3 Bank Credit by Economic Activity

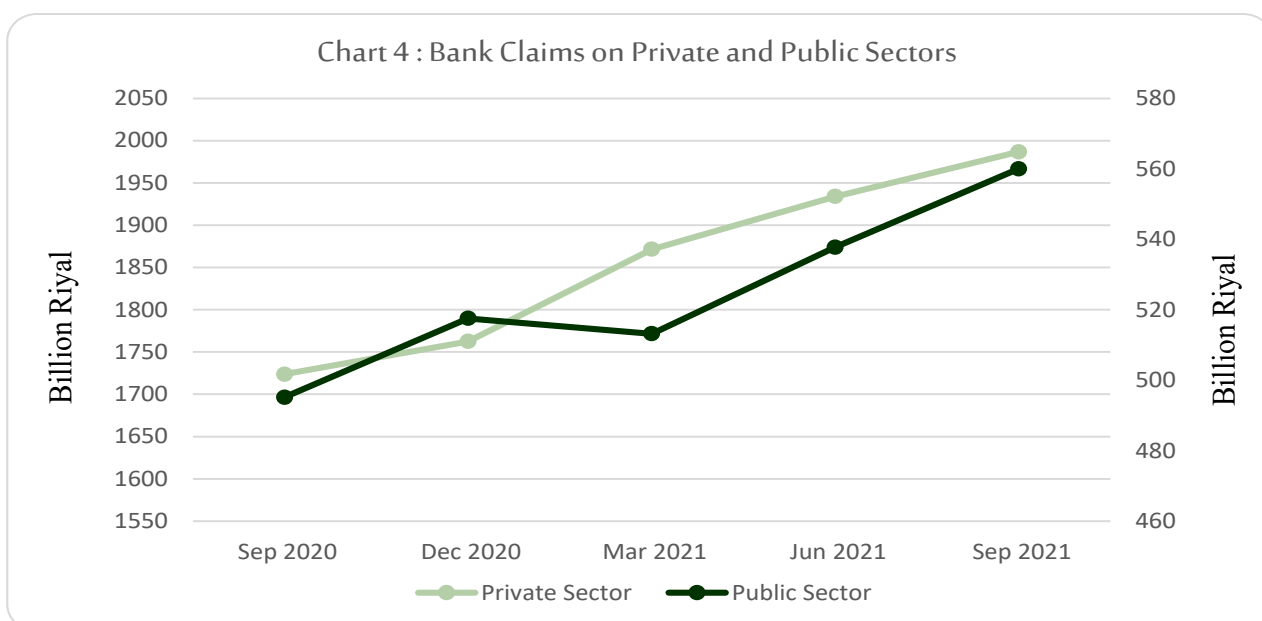
A breakdown of bank credit extended to economic activities in Q3 2021 indicates increases in bank credit extended to manufacturing and production sector of 6.3 percent (SAR 10.0 billion); to commerce sector 4.9 percent (SAR 15.7 billion); to other sectors 4.2 percent (SAR 40.5 billion); to government and quasi-government sector 3.8 percent (SAR 3.4 billion); and to building and construction 3.2 percent (SAR 3.1 billion). On the other hand, bank credit extended to agriculture and fishing fell by 22.7 percent (SAR 3.9 billion); to mining and quarrying by 10.6 percent (SAR 2.7 billion); to finance by 4.7 percent (SAR 2.6 billion); to transport and telecommunication by 4.6 percent (SAR 2.3 billion); to services by 3.1 percent (SAR 2.9

billion); and to water, electricity, gas and health services by 2.6 percent (SAR 1.9 billion).

A breakdown of bank credit by maturity indicates that long-term credit increased by 5.4 percent (SAR 49.5 billion) to SAR 971.4 billion in Q3 2021 compared to a rise of 3.0 percent (SAR 26.9 billion) in Q2 2021. Short-term credit also went up by 1.3 percent (SAR 10.4 billion) to SAR 791.3 billion in Q3 2021 compared to an increase of 8.2 percent (SAR 58.9 billion) in the preceding quarter. In contrast, medium-term credit witnessed a decrease of 1.4 percent (SAR 3.5 billion) to SAR 246.5 billion in Q3 2021 compared to a decrease of 4.3 percent (SAR 11.4 billion) in the preceding quarter.

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks decreased by 0.9 percent (SAR 3.4 billion) to SAR 394.8 billion in Q3 2021, compared to a decline of 2.8 percent (SAR 11.4 billion) in Q2 2021, recording a YoY



rise of 5.0 percent (SAR 18.9 billion). Their ratio to total bank deposits decreased to 19.2 percent at the end of Q3 2021 from 19.6 percent at end-Q2 2021. Commercial banks' profits stood at SAR 15.1 billion in Q3 2021 compared to SAR 12.8 billion in the preceding quarter, denoting an increase of 18.0 percent (SAR 2.3 billion) compared to a rise of 4.3 percent (SAR 0.5 billion) in the preceding quarter.

The number of commercial banks' branches operating in Saudi Arabia decreased to 1,961 at the end of Q3 2021, indicating a QoQ decrease of 8 branches and a YoY decrease of 75 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 went up by 20.5 percent (SAR 148.5 billion) to SAR 871.5 billion in Q3 2021 compared to a decrease of 13.2 percent (SAR 110.0 billion) during the preceding quarter. They recorded a YoY increase of 31.0 percent (SAR 206.4 billion) in

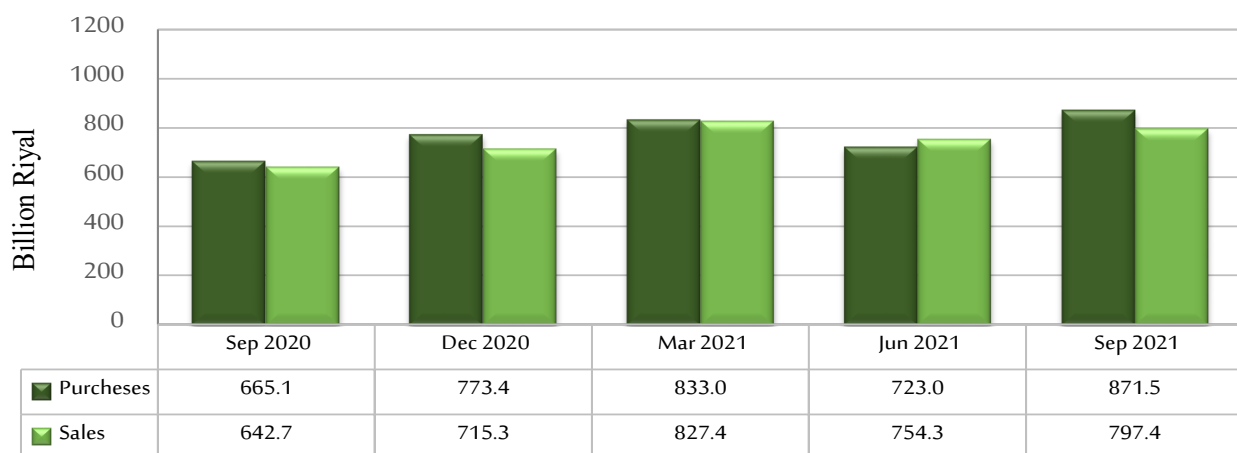
Q3 2021. A comparison of banks' total purchases shows that purchases from domestic banks decreased by 104.4 percent (SAR 40.6 billion) and from other sources by 25.3 percent (SAR 2.7 billion). In contrast, purchases from SAMA rose by 2.7 percent (SAR 3.8 billion), from foreign banks by 24.1 percent (SAR 99.5 billion), and from customers by 1.6 percent (SAR 1.9 billion) (Chart 5).

4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange went up by 5.7 percent (SAR 43.0 billion) to SAR 797.4 billion in Q3 2021 compared to a decline of 8.8 percent (SAR 73.1 billion) in the preceding quarter. They recorded a YoY rise of 24.1 percent (SAR 154.6 billion).

A comparison of banks' total sales of foreign exchange indicates that sales to ministries and municipalities rose by 484.6 percent (SAR 0.2 billion), to government entities by 66.4 percent (SAR 2.6 billion), to domestic banks by 30.3 percent (SAR 20.0 billion), to SAMA by 23.3 percent (SAR 0.2 billion), to banks abroad by 8.1 percent (SAR

Chart 5: Banks' Foreign Currency Purchases and Sales



26.4 billion), and to other purposes (traveling abroad, personal transfers, foreign contractors, financing of imports, and foreign investments) by 1.6 percent (SAR 1.6 billion). On the other hand, sales of foreign exchange to other customers in Saudi Arabia went down by 3.0 percent (SAR 8.0 billion) (Chart 5).

5. External Sector

Foreign Trade

Total exports value rose by 99.5 percent (SAR 238.7 billion) during Q2 2021 against SAR 119.7 billion in Q2 2020. Total value of oil exports jumped by 126.1 percent to SAR 173.0 billion and other exports (including re-exports) by 53.2 percent to SAR 64.5 billion. Additionally, the value of imports (CIF) went up by 14.2 percent YoY to SAR 130.0 billion in Q2 2021.

Balance of Payments

5.1 Current Account

Preliminary estimates indicate a surplus of SAR 45.1 billion in the current account balance in Q2 2021, compared to a deficit of SAR 72.6 billion in Q2 2020. This is attributed to a surplus of SAR 62.7 billion in the balance of goods and services against a deficit of SAR 45.5 billion in Q2 2020. The balance of goods recorded a surplus of SAR 108.7 billion, as exported goods increased by 99.5 percent to SAR 238.7 billion against SAR 119.7 billion in Q2 2020 and imported goods (FOB) by 14.2 percent to SAR 130.0 billion against SAR 113.9 billion in Q2 2020. The services deficit declined from SAR 51.3 billion in Q2 2020 to SAR 46.0 billion in Q2 2021. The balance of net primary income recorded a surplus of SAR 24.3 billion in Q2 2021, compared to a surplus of SAR 5.3 billion in Q2 2020. In addition, the deficit in the

secondary income account rose by 29.3 percent to SAR 41.9 billion against SAR 32.4 billion in Q2 2020.

5.2 Capital Account

Capital account registered outflows of SAR 1.2 billion in Q2 2021 against SAR 1.3 billion in Q2 2020.

5.3 Financial Account

Net direct investments decreased by SAR 26.2 billion in Q2 2021 due to domestic net incurrence of liabilities (SAR 51.9 billion) being higher than net acquisition of financial assets abroad (SAR 25.6 billion). Nevertheless, net portfolio investments recorded an increase of SAR 12.6 billion in Q2 2021 against a rise of SAR 28.7 billion in Q2 2020. Net other investments also registered an increase of SAR 66.6 billion against a decrease of SAR 1.2 billion in Q2 2020. Net reserve assets decreased by SAR 11.3 billion in Q2 2021 against a decrease of SAR 96.1 billion in Q2 2020, as other reserve assets dropped by SAR 13.0 billion (due to a SAR 14.4 billion fall in the item of investment in securities and a SAR 1.4 billion rise in the item of currency and deposits) against a decrease of SAR 97.9 billion in Q2 2020.

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 fell by 24.5 percent (SAR 3,715.9 billion) to SAR 11,420.9 billion in Q3 2021. The value of single payment

transactions totaled SAR 10,286.2 billion, whereas the total value of bulk payment transactions amounted to SAR 1,005.7 billion. Total customer payments stood at SAR 2,178.1 billion, with a QoQ rise of 1.02 percent. The total value of interbank payments stood at SAR 9,113.9 billion, with a QoQ fall of 29.7 percent.

6.2 Mada

The total number of ATM transactions was approximately 392.3 million, with cash withdrawals totaling SAR 140.7 billion, including transactions through banks' network and Mada. Total POS terminal transactions stood at SAR 1,383.5 million in Q3 2021, with sales totaling SAR 119.8 billion. Moreover, the number of ATMs totaled 16.8 thousand, the number of ATM cards issued by domestic banks stood at 37.3 million, and the number of POS terminals reached 899.6 thousand at end-Q3 2021.

6.3 Clearing

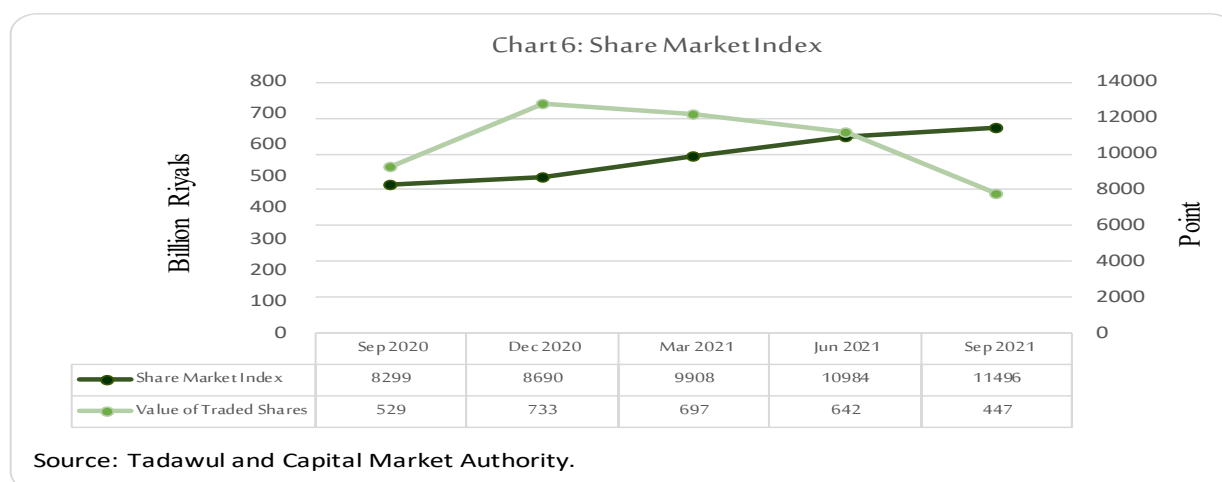
As for statistics on clearing in Q3 2021, the number of bank checks (outgoing and incoming) cleared at the clearing houses totaled 439.3 thousand with a total value of

SAR 81.2 billion. The number of individual and corporate checks totaled 369.8 thousand with a total value of SAR 40.2 billion, and the number of interbank checks totaled 69.5 thousand with a total value of SAR 40.9 billion.

7. Domestic Stock Market Developments

The Tadawul All Share Index (TASI) increased by 4.7 percent to 11,496 at end-Q3 2021 compared to a rise of 10.9 percent in the preceding quarter, recording a YoY increase of 38.5 percent. Nonetheless, the number of traded shares fell by 40.1 percent to 12.4 billion in Q3 2021 compared to a 5.8 percent decrease in Q2 2021, recording a YoY decrease of 47.3 percent. In addition, the total value of shares traded in Q3 2021 declined by 30.4 percent to SAR 446.8 billion against a drop of 7.9 percent in Q2 2021, recording a YoY decline of 15.6 percent.

In contrast, the stock market capitalization rose by 3.6 percent to SAR 10.1 billion at end-Q3 2021 against a rise of 0.9 percent at end-Q2 2021, recording a YoY increase of 10.3 percent. Total number of transactions executed in Q3 2021, however, declined by 24.1 percent to 18.7 million as compared to a fall of 10.9 percent in Q2 2021, recording a YoY decline of 13.2 percent (Chart 6).



8. Supervisory and Legislative Banking Developments in Q3 2021

- SAMA updated the Principles of Corporate Governance for Financial Institutions supervised and regulated by SAMA. The Principles aim to promote effective management in financial institutions, direct their financial and non-financial resources toward achieving their strategic objectives, maintain their stability and protect the rights of stakeholders.
- SAMA issued the Instructions to Explain Bank Requirements as per the Bankruptcy Law and Its Implementing Regulations. These Instructions aim to clarify requirements of the provisions of the Bankruptcy Law and its Implementing Regulations for banks, in addition to facilitating banking dealings related to bankruptcy procedures, thus enhancing the effectiveness of these procedures and benefiting the commercial environment in Saudi Arabia.
- SAMA extended the Deferred Payment Program, one of SAMA's Private Sector Financing Programs, for an additional three months starting from October 1, 2021 to December 31, 2021 to support MSMEs that are still affected by the precautionary measures taken in response to the pandemic, according to the assessments of financiers. The extension supports the private sector and liquidity of the financial system. It will enable financiers to play their role in supporting and financing the private sector and mitigating the economic and financial impacts on the MSME sector.
- SAMA issued the guidelines for repurchase agreements (repos). The guidelines aim to ensure the conclusion of repurchase agreements in accordance with policies and procedures consistent with the regulatory requirements of SAMA. SAMA also approved the standard legal documents for repo transactions, ensuring the soundness and comprehensiveness of risk management for those engaging in repo activities.
- SAMA instructed all financial institutions under its supervision to accept the digital identity shown through Absher platform and Tawakkalna application as an official identity document.



البنك المركزي السعودي
SAMA
Saudi Central Bank

