



Economic Developments

First Quarter, 2008

Research and Statistics Department

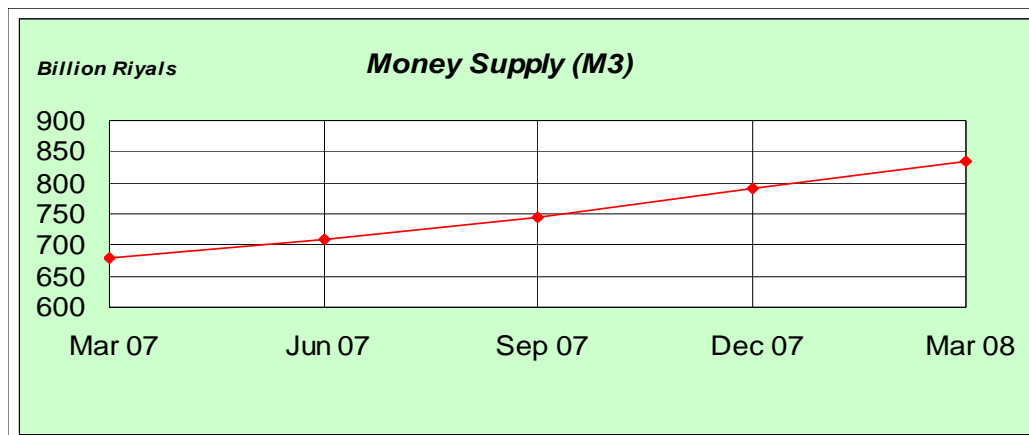
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First: Monetary Developments

Broad money (M3) rose by 5.6 percent (Rls 44.3 billion) to Rls 834.0 billion during the first quarter of 2008 compared to an increase of 6.1 percent (Rls 45.6 billion) during the preceding quarter. It registered an annual growth rate of 23.0 percent (Rls 156.2 billion).



An analysis of the components of money supply (M3) indicates that (M1) rose by 7.3 percent (Rls 28.1 billion) to Rls 411.7 billion, or 49.4 percent of total money supply (M3) during the first quarter of 2008 compared to a rise of 8.4 percent (Rls 29.6 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 27.6 percent (Rls 89.0 billion) at the end of the first quarter of 2008.

Money supply (M2) also went up by 5.9 percent (Rls 39.2 billion) to Rls 705.8 billion, or 84.6 percent of total money supply (M3) during the first quarter of 2008 against a rise of 7.8 percent (Rls 48.2 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 25.7 percent (Rls 144.2 billion) at the end of the first quarter of 2008.

Second: Monetary Policy

During the first quarter of 2008, SAMA continued to pursue a monetary policy aimed at maintaining price stability, supporting domestic economic activity and coping

with the domestic and global economic developments. Due to an increase in the annual inflation rate in the Kingdom to 9.6 percent in March against 6.5 percent in December, 2007, SAMA increased the statutory deposit to 10 percent from 9 percent to alleviate the impact of market liquidity during the first quarter of 2008. It continued maintaining the Official Repo Rate unchanged at 5.50 percent while it reduced the Reverse Repo Rate by 175 basis points to 2.25 percent at the end of the first quarter of 2008 to enhance domestic currency stability. The daily average value of Repo and Reverse Repo transactions stood at Rls 1.4 billion and Rls 78.4 billion respectively in the first quarter of 2008.

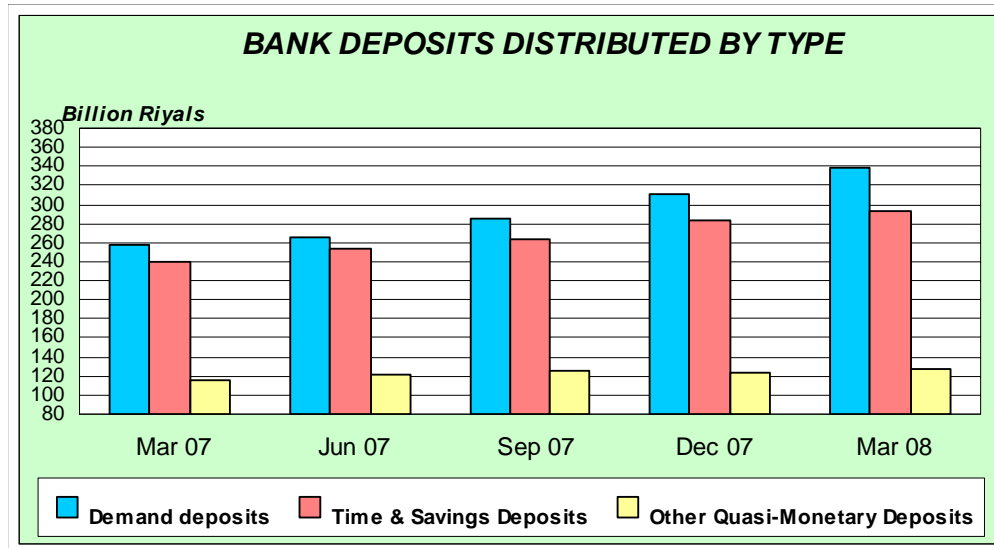
Inter-bank interest rates on deposits witnessed a marked decline during the first quarter of 2008. The three-month inter-bank interest rate (SIBOR) dropped from 4.79 percent at the end of the fourth quarter of 2007 to 2.03 percent at the end of the first quarter of 2008. The differential between the Riyal and the Dollar deposits for a three-month period was still high in favor of the Dollar. It stood at 64 basis points at the end of the first quarter of 2008 against 43 basis points at the end of the fourth quarter of 2007. This was attributable to Riyal increased liquidity in the Saudi banking system and lack of U.S. Dollar liquidity in the international markets due to the real estate mortgage crisis in the United States. At the end of the first quarter of 2008, the Riyal retained its stability around its official rate of 3.75. SAMA has also conducted Foreign Exchange Swaps with domestic banks for several terms equal to Rls 4,750 million to absorb the excess liquidity of the Riyal and provide the required liquidity of the Dollar to the banking system.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits went up by 6.1 percent (Rls 44.1 billion) to Rls 761.6 billion during the first quarter of 2008 compared to an increase of 6.3 percent (Rls 42.5 billion) during the preceding quarter. Bank deposits achieved an annual rise of 24.3

percent (Rls 148.9 billion) at the end of the first quarter of 2008. The ratio of total bank deposits to total broad money supply (M3) stood at 91.3 percent at the end of the first quarter of 2008 compared to 90.4 percent at the end of same period of the preceding year.



A review of the developments of the components of deposits by type during the first quarter of 2008 indicates that demand deposits rose by 9.0 percent (Rls 27.9 billion) to Rls 339.3 billion compared to a rise of 9.3 percent (Rls 26.6 billion) during the preceding quarter. Time and savings deposits went up by 3.9 percent (Rls 11.1 billion) to Rls 294.1 billion against a rise of 7.0 percent (Rls 18.6 billion) during the preceding quarter. Other quasi-monetary deposits rose by 4.1 percent (Rls 5.1 billion) to Rls 128.2 billion compared to a decline of 2.1 percent (Rls 2.6 billion) during the preceding quarter. Demand deposits, time and savings deposits, and other quasi-monetary deposits recorded annual rises of 31.7 percent (Rls 81.7 billion), 23.1 percent (Rls 55.1 billion), and 10.3 percent (Rls 12.0 billion) respectively.

3.2 Credit and Investment Activity of Banks

Total claims of commercial banks on the private and government sectors (bank credit and investment) rose by 11.5 percent (Rls 87.2 billion) to Rls 848.1 billion

during the first quarter of 2008 compared to an increase of 7.4 percent (Rls 52.5 billion) in the preceding quarter. At the end of the first quarter of 2008, they recorded an annual rise of 32.1 percent (Rls 205.9 billion) to constitute 111.4 percent of total bank deposits compared with 104.8 percent at the end of the same quarter in the preceding year.

Total claims of commercial banks on the government and quasi-government sectors went up by 21.6 percent (Rls 39.2 billion) to Rls 220.8 billion during the first quarter of 2008 compared to a rise of 14.3 percent (Rls 22.7 billion) during the preceding quarter. At the end of the first quarter of 2008, they registered an annual increase of 38.6 percent (Rls 61.6 billion). Their ratio to total bank deposits amounted to 29.0 percent at the end of the first quarter of 2008 compared with 26.0 percent at the end of the fourth quarter of the preceding year.

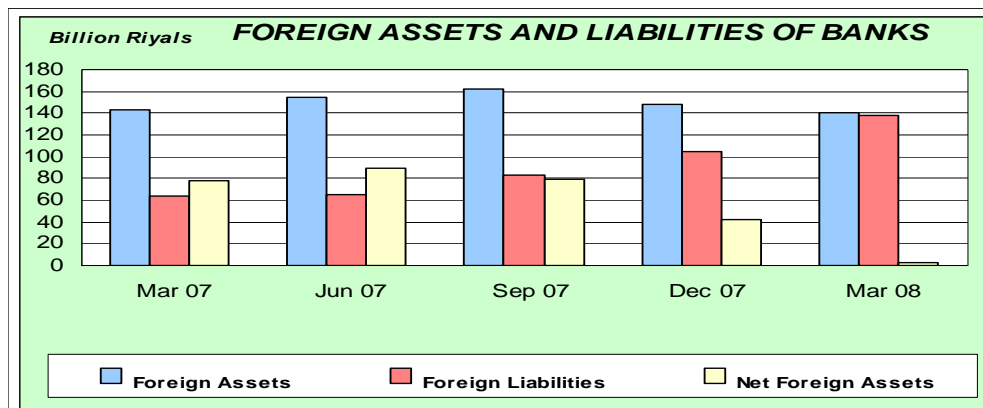
Total claims of commercial banks on the private sector during the first quarter of 2008 rose by 8.3 percent (Rls 48.1 billion) to Rls 626.0 billion compared to an increase of 5.4 percent (Rls 29.7 billion) during the preceding quarter, recording an annual rise of 29.8 percent (Rls 143.7 billion) at the end of the first quarter of 2008. The ratio of commercial banks' claims on the private sector to total bank deposits was 82.2 percent at the end of the first quarter of 2008 compared to 78.7 percent at the end of the fourth quarter of the previous year.

An analysis of bank credit by maturity (private and government sectors) shows that medium-term credit rose by 10.5 percent (Rls 8.7 billion) to Rls 91.9 billion during the first quarter of 2008 compared to a rise of 9.7 percent (Rls 7.4 billion) during the preceding quarter. Short-term credit increased by 9.2 percent (Rls 31.9 billion) to Rls 379.5 billion compared to an increase of 7.2 percent (Rls 23.3 billion) during the preceding quarter. Long-term credit also went up by 3.2 percent (Rls 5.3 billion) to Rls 169.3 billion compared to a decline of 2.2 percent (Rls 3.7 billion) during the preceding quarter.

Total bank credit by economic activity rose by 7.7 percent (Rls 45.8 billion) to Rls 640.7 billion during the first quarter of 2008 compared to an increase of 4.7 percent (Rls 26.9 billion) during the preceding quarter, recording an annual rise of 27.4 percent (Rls 137.7 billion) at the end of the first quarter of 2008. A breakdown of bank credit by different economic activities during the first quarter of 2008 indicates that bank credit extended to transport and communications went up by 49.6 percent (Rls 10.4 billion), commerce by 11.9 percent (Rls 15.2 billion), water, electricity and other services by 26.4 percent (Rls 1.5 billion), agriculture and fishing by 10.0 percent (Rls 0.9 billion), building and construction by 9.7 percent (Rls 4.2 billion), finance by 5.9 percent (Rls 3.7 billion), mineral and mining by 5.8 percent (Rls 0.2 billion), miscellaneous services by 5.1 percent (Rls 10.3 billion), industry and production by 4.4 percent (Rls 2.4 billion), services by 1.5 percent (Rls 0.4 billion). In contrast, bank credit extended to government and quasi- government sector dropped by 9.1 percent (Rls 3.4 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks dropped during the first quarter of 2008 by 4.8 percent (Rls 7.1 billion) to Rls 140.7 billion compared to a decline of 9.1 percent (Rls 14.7 billion) during the preceding quarter, recording a negative annual growth rate of 1.3 percent (Rls 1.9 billion), and constituting 12.0 percent of total commercial banks' assets compared with a positive increase of 15.9 percent at the end of the same period of the preceding year.



Banks' total foreign liabilities went up by 31.2 percent (Rls 32.8 billion) to Rls 138.0 billion during the first quarter of 2008 against a rise of 25.9 percent (Rls 21.7 billion) in the preceding quarter. They recorded an annual growth rate of 115.5 percent (Rls 74.0 billion), constituting 11.8 percent of total liabilities compared to 7.1 percent at the end of the same period of the preceding year.

Net foreign assets stood at Rls 2.6 billion, declining by 93.8 percent (Rls 39.9 billion) at the end of the first quarter of 2008 compared to a decrease of 46.1 percent (Rls 2.6 billion) during the preceding quarter. Net foreign assets registered a decline of 96.7 percent (Rls 75.8 billion) in their annual growth rate compared to the same period in the preceding year.

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks went up by 21.6 percent (Rls 22.9 billion) during the first quarter of 2008. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the first quarter of 2008 stood at 16.9 percent compared to a ratio of 17.8 percent in the same quarter of the preceding year. Their annual growth rate rose by 18.1 percent (Rls 19.8 billion).

Commercial banks' profits increased to Rls 8.3 billion during the first quarter of 2008 compared to Rls 6.5 billion in the preceding quarter, recording a rise of 26.7 percent (Rls 1.7 billion) and an annual growth rate of 5.8 percent (Rls 0.5 billion).

The number of commercial banks' branches increased during the first quarter of 2008 to 1,371 compared with 1,353 in the preceding quarter, recording a growth rate of 1.3 percent (18 branches). The number of commercial banks' branches registered an annual growth rate of 4.8 percent (63 branches) in the first quarter of 2008 as compared with 1,308 in the corresponding quarter of 2007.

3.5 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets and liabilities of commercial banks stood at Rls 1,173.4 billion at the end of the first quarter of 2008, rising by 9.1 percent (Rls 98 billion) compared to a rise of 7.8 percent (Rls 77.6 billion) during the preceding quarter, recording an increase of 30.8 percent (Rls 276.2 billion) in their annual growth rate at the end of the first quarter of 2008.

Fourth: Banking Technology

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the first quarter of 2008 totaled Rls 15,544 billion via 7.3 million transactions carried out through SARIE. The value of single payments transactions totaled Rls 15,339 billion, whereas the total value of gross payments stood at Rls 195.7 billion. Customers' payments amounted to Rls 638.3 billion, rising by 71.0 percent compared to the first quarter of 2007. Total value of Inter-bank payments stood at Rls 14,897 billion, rising by 178.1 percent compared to the first quarter of 2007. It is expected that transactions via SARIE will continue to increase rapidly in the upcoming years, especially in e-commerce transactions and individuals' transfers, apart from growing use of SARIE system for payment of salaries of employees in the government and private sectors..

The Saudi Payments Network (SPAN) has continued to record good growth in terms of transactions made through it. Total operations executed via SPAN in the first quarter of 2008 amounted to 203 million with a total value of Rls 87.0 billion, recording a growth rate of 33.4 percent as compared with the same quarter of the preceding year. The number of ATMs amounted to 7,988, recording a growth rate of 22.5 percent compared to the corresponding quarter of the preceding year. The number of cards issued by domestic banks stood at 11.0 million.

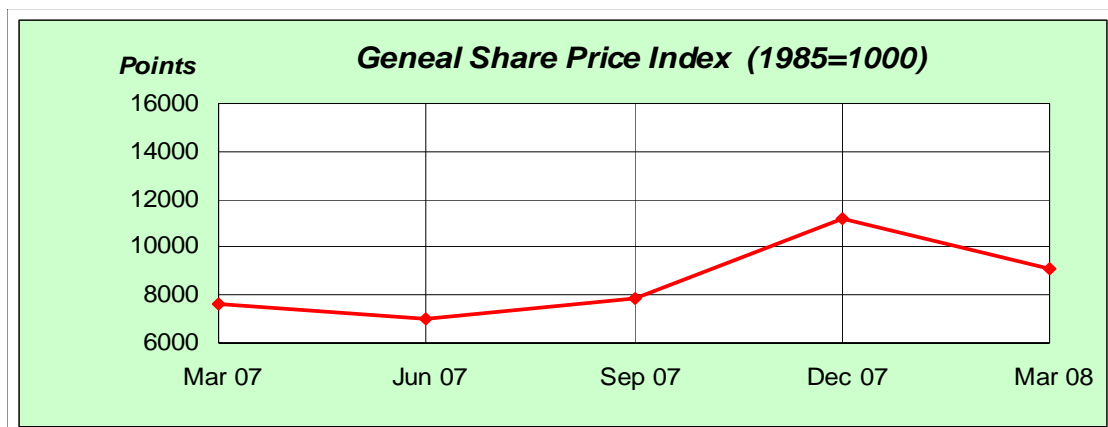
Total transactions of POS terminals executed through SPAN stood at 29.4 million (with a growth rate of 28.2 percent compared to the same quarter of preceding

year) and with a total value of Rls 11.5 billion. POS terminals continued their growth, amounting to 63.9 thousand at the end of the first quarter of 2008.

The number of bank checks (outgoing and incoming) cleared at clearing houses during the first quarter of 2008 totaled 1,927 thousand with a total value of Rls 192.1 billion. The number of household and business checks was 1,665 thousand, and their total value amounted to Rls 133.3 billion during the period. The number of banks' checks (certified) totaled 262 thousand with a total value of Rls 58.8 billion.

Fifth: Domestic Share Market Developments

The general share price index declined during the first quarter of 2008 by 18.3 percent to 9,134.99 compared to a rise of 42.7 percent in the preceding quarter, recording an annual rise of 19.2 percent. During the first quarter of 2008, the number of traded shares rose by 24.1 percent to Rls 17.5 billion compared to an increase of 28.1 percent in the preceding quarter. The annual growth rate of traded shares declined by 19.1 percent. Total value of traded shares went up by 27.4 percent to Rls 705.3 billion compared to a rise of 7.3 percent in the preceding quarter, with its annual growth rate declining by 44.1 percent.



At the end of the first quarter of 2008, the market capitalization of issued shares went down by 13.9 percent to Rls 1,675 billion against a rise of 46.3 percent at the end of the preceding quarter, recording an annual growth rate of 40.3 percent.

Total number of transactions executed in the first quarter of 2008 recorded a rise of 28.5 percent to 15.8 million compared to a decline of 15.2 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 26.5 percent in the first quarter of 2008 compared to the same quarter of the preceding year.

Sixth: Investment Funds

Total asset of investment funds managed by commercial banks recorded a rise of 29.3 percent (Rls 23.8 billion) to Rls 105.1 billion in the 4th quarter of 2007 compared to an increase of 4.5 percent (Rls 3.5 billion) in the preceding quarter, registering an annual growth rate of 25.0 percent (Rls 21.0 billion).

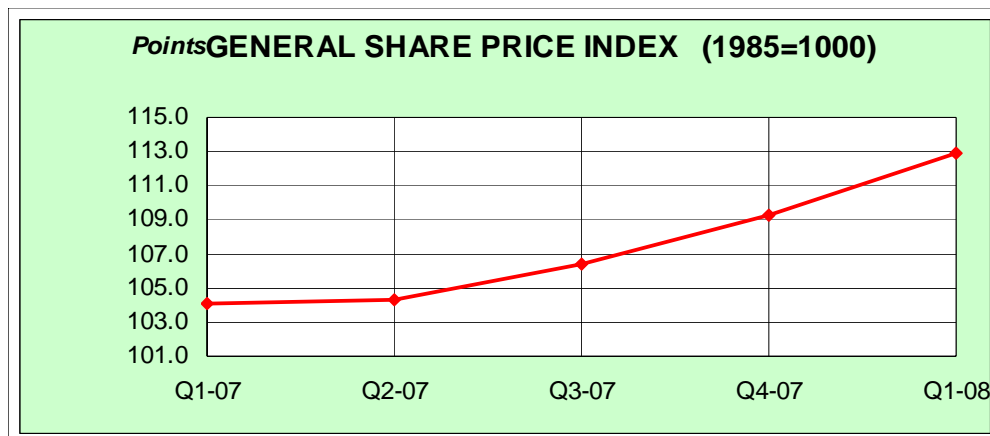
A breakdown of the funds' total assets indicates a rise in domestic assets by 41.4 percent (Rls 23.4 billion) to Rls 79.9 billion in the 4th quarter of 2007, compared to an increase of 4.7 percent (Rls 2.5 billion) in the preceding quarter. Domestic assets recorded an annual growth rate of 30.2 percent (Rls 18.5 billion). Foreign assets registered a rise of 1.6 percent (Rls 0.4 billion) to Rls 25.2 billion during the 4th quarter of 2007 against a rise of 4.2 percent (Rls 1.0 billion) in the preceding quarter, recording an annual growth rate of 10.7 percent (Rls 2.4 billion).

The number of subscribers to investment funds dropped by 1.6 percent (6,923) to 426,085 in the 4th quarter of 2007 compared to a decline of 3.6 percent (16,396) in the preceding quarter. The number of subscribers recorded an annual decline of 14.8 percent (73,883).

The number of operating funds increased by 7.7 percent (18 funds) to 252 in the 4th quarter of 2007 compared to an increase of 4.5 percent (10 funds) to 234 in the 3rd quarter of 2007. Thus, the number of operating funds registered an annual growth rate of 17.8 percent (38 funds).

Seventh: Cost of Living

During the first quarter of 2008 the average cost of living index increased by 3.3 percent, compared to the 4th quarter of 2007, recording an annual rise of 9.6 percent (March 2008 together with March 2007). The index for “food and beverages” rose by 5.8 percent, “goods and other services” by 4.7 percent, “renovation, fuel and water” by 4.4 percent, “house furnishing” by 1.5 percent, “medical care” by 1.3 percent and “fabrics, apparel and shoes” by 0.2 percent. On the other hand, the index for “transport and communications” dropped by 1.0 percent and that for “education and training” by 0.1 percent.



Eighth: Legislative and Supervisory Banking Developments during the first Quarter of 2008

Circular No. 124 B.C.S, dated 27/2/1429 (5/3/2008) was issued to banks concerning transition to the Basel II New Capital Adequacy Standard.

Ninth: Most Prominent Regulatory Developments in the Saudi Economy during the first Quarter of 2008

- The Council of Ministers issued a resolution on 12/1/1429H (21/1/2008) approving the *Consumer Protection Association Law*". The association aims at caring of consumer and protecting his interests; maintaining and safeguarding his rights;

protecting him against all kinds of manipulation, counterfeiting, fraud, deception and swindling in goods and services; and spreading consumer awareness.

- The Council of Ministers issued a resolution on 12/1/1429H (21/1/2008) approving the establishment of the Railways Corporation.
- The Council of Minister issued a resolution on 12/1/1429H (21/1/2008) approving the establishment of "The National Water Company" which aims at providing all services of underground water and potable water distribution sectors; collecting and recycling sewage water.
- The Council of Ministers issued a resolution on 19/1/1429H (28/1/2008) approving the recommendations of the General Committee of the Council of Ministers concerning the minutes report of the Supreme Economic Council's Consultative Body regarding the phenomenon of high prices and cost of living spread throughout the Kingdom. Among these recommendations are: The State bears 50 percent of port fees for a period of 3 years; the State bears 50 percent of the fees charged for issuing passport, driving licenses and transfer of car ownership and others; adding higher cost of living allowance of 5 percent per year to the salaries of the government's staff employees and pensioners for a period of three years, apart from other actions.
- The Council of Ministers issued a resolution on 26/1/1429H (4/2/2008) approving the setting up of the Health Endowment Fund.
- The Council of Ministers issued a resolution on 4/2/1429H (11/2/2008) approving non-collection of a due fine from the heritage of a person who died before paying it.
- The Council of Ministers issued a resolution on 4/2/1429H (11/2/2008) studying the economic feasibility of founding a joint-stock company for processing dangerous wastes.
- The Council of Ministers issued a resolution on 18/2/1429H (25/2/2008) approving the establishment of the Light Communications company for Integrated Telecommunications as well as (Atheeb) Consortium for Telecommunications for installment and operation of public fixed telecommunications networks. A ratio of

25 percent of Atheeb's capital will be offered for public subscription and a share of 10 percent will be subscribed by the Pension Public Agency and the General Organization for Social Insurance.

- The Council of Ministers issued a resolution on 25/2/1429H (3/3/2008) approving the floating of 50 percent of Ma'aden Company's capital for public subscription.
- The Council of Ministers issued a resolution on 9/3/1429H (17/3/2008) approving the national plan for promoting the fodder industry and its optimal use and supporting its inputs.
- The Council of Ministers issued a resolution on 9/3/1429H (17/3/2008) approving the Cooperative Societies Law.
- The Council of Ministers issued a resolution on 16/3/1429H (24/3/2008) approving the Statute of the General Commission for Tourism and Antiquities.
- The Council of Ministers issued a resolution on 23/3/1429H (31/3/2008) approving that the State bears the difference between the fee category applied under the GCC's customs tariff and the protection fee category applied in the Kingdom.
- The Council of Ministers issued a resolution on 23/3/1429H (31/3/2008) approving of the licensing of the Turkish (Zarat) Bank to open a branch in the Kingdom for practicing banking and investment activities.
- The Council of Ministers issued a resolution on 23/3/1429H (31/3/2008) approving the controls related to utilization by private schools of educational facilities owned by the education sector.