

Fahad Bin Abdullah Al-Mubarak: Economic, financial and supervisory developments in Saudi Arabia

Opening speech by H E Dr Fahad Bin Abdullah Al-Mubarak, Governor of the Saudi Arabian Monetary Agency, on the occasion of the issuance of the 49th Annual Report, Riyadh, 17 March 2014.

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It gives me pleasure to meet you today. I would like to welcome you at SAMA and thank you for attending this conference on the occasion of the issuance of SAMA 49th Annual Report. We are deeply sorry for the delay of this gathering for reasons beyond our control.

Ladies and gentlemen,

At the beginning, I would like to review the latest economic developments in the Kingdom. Our economy continued its growth for the 14th consecutive year. The real GDP grew by 3.8 percent during 2013, which was greater than the global economic growth of 2.9 percent for the same year. The private sector grew by 5.5 percent. The growth of the Saudi economy was ascribed to the continuous government investment expenditure, especially on infrastructure projects, and continuous high-paced growth due to the achievements in the area of updating and improving regulations and enhancement of the business environment, which promoted domestic and foreign investments. The growth was also attributed to the finance provided by the domestic banks and specialized credit funds to the various economic activities in the Kingdom.

According to data of the Ministry of Finance, the Kingdom registered a real surplus of SAR 180.3 billion (6.5 percent of GDP) in its budget during 2013. The public debt fell to SAR 75.1 billion (representing 2.7 percent of GDP). Moreover, the Kingdom achieved a surplus of SAR 486.8 billion (17.4 percent of GDP) in the current account of the balance of payments (compared to 22.4 percent in the preceding year). The inflation rate increased from 2.9 percent in 2012 to 3.5 percent in 2013. However, it is still under control. According to the latest data of the Central Department of Statistics and Information, the inflation annual rate declined to 2.8 percent during February 2014, given that the inflation rate in emerging and developing economies was estimated at 6.2 percent in 2013. Inflationary pressures in the Kingdom were due to the housing sector and food prices.

At the time when a number of industrial countries are witnessing a decline in their credit rating, Fitch Credit Rating Agency promoted the Kingdom's sovereign credit rating from (AA-) to (AA) with a stable outlook, strengthening confidence in our national economy and making it more attractive to investments.

Ladies and gentlemen,

Allow me to talk about activities supervised by SAMA. In the banking sector, domestic banks continued to play their roles in serving the national economy in accordance with latest secure technologies in the banking services field. Monetary base (M3) increased by 10.8 percent in 2013 (by 12.8 percent in January of this year). Credit extended to the private sector went up by 12.1 percent to SAR 1,076.4 billion in 2013 (by 12.3 percent in January of this year). Domestic banks maintained their good financial solvency, recording a capital adequacy ratio of 17.9 percent at the end of 2013.

The number of domestic and foreign banks operating in the Kingdom currently is 23, 12 of which are domestic and 11 are foreign which became 12 after licensing the Industrial and Commercial Bank of China (ICBC) in 2012. Driven by the aim of achieving a better spread and service to a larger portion of citizens and expatriates, bank branches operating in the

Kingdom grew up by 4.2 percent (72 branches) to 1,768 branches at the end of 2013. The number of ATMs stood at 13,883, increasing by 9.2 percent (11,71 machines) at the end of 2013 compared to 2012. At the same time, POS went up by 16.5 percent to 107,783.

With regard to the insurance sector in the Kingdom, SAMA continued to guide this sector toward further regulation to work in accordance with highly professional standards and practices, aiming at promoting the competence of its staff and providing better insurance services to policy holders. The insurance sector witnessed a quantum leap over the past few years represented by developed potentials, skills and technical expertise of companies and increased awareness of insurance benefits. This contributed to better provision of insurance services at competitive prices and coverage, thereby, achieving higher growth rates in the market. The number of insurance and reinsurance companies at the end of the third quarter of 2013 stood at 34 in addition to 180 insurance-related service companies to support insurance services. Gross written premiums stood at SAR 19.2 billion at the end of the third quarter of 2013, compared to SAR 15.7 billion in 2012, growing by 22.3 percent. The ratio of insurance written premiums to GDP stood at 0.69 percent up to the third quarter of 2013, indicating significant opportunities of growth for this sector in the coming years.

SAMA attached great attention to insured persons' rights. The Implementation Regulation of The Cooperative Insurance Companies Control Law obligates insurance companies to settle customers' claims in a period not exceeding 15 days. SAMA supervises companies' compliance with the provisions of this article on a continuous basis.

Ladies and gentlemen,

In the area of finance, SAMA has published the Implementing Regulations for the Finance Laws, and issued Implementing Regulations of the Financial Leasing Law in coordination with the Ministry of Justice. It has also issued the Implementing Regulations of the Finance Companies Control Law. In this context, SAMA applies the best internationally recognized practices, ensuring the soundness of the sector and its stability, fairness of its transactions, in addition to encouraging legitimate and fair competition between finance companies, taking appropriate means to develop the sector, working on Saudization of jobs, and raising efficiency of its employees. SAMA works side by side in cooperation with relevant authorities, namely, the Ministry of Finance, Ministry of Housing, Ministry of Justice, Ministry of Commerce and Industry to achieve the cherished objectives of the Finance Laws.

The Implementing Regulations of the Real Estate Finance Law address criteria and conditions to be observed in the exercise of this activity for the purpose of regulating the finance sector, and protecting the rights of the dealers therein. The Regulations set a maximum limit on real estate financing that should not exceed 70 percent of the house value subject of the real estate finance contract. The Regulations also set up a regulatory framework for real estate refinancing, thereby, establishing a secondary market that contributing to providing the necessary liquidity and reducing the cost of financing to the consumer. The Public Investment Fund will contribute to the ownership of the Saudi Refinancing Company with a capital of five billion Riyals.

The Implementing Regulations of the Financial Leasing Law include provisions related to the Financial Leasing contracts. The Regulations identify the basic rights and obligations of both the lessor and lessee, including determining the amount of ownership right and dues of the lessee and lessor in case of the cancellation of the contract. The Regulations provide for the registration process of Financial Leasing contracts in accordance with the best practices in this area through a company incorporated for this purpose. The Implementing Regulations of the Finance Companies Control Law include supervisory and control provisions of the finance sector, including licensing requirements, conditions and procedures, and work rules of finance companies, the regulatory standards to be observed in practicing the activity, the requirements and standards necessary for the protection of consumer rights in finance

services, including determining the method of calculating the annual percentage rate of financing, and clarity of procedures and criteria for early repayment.

Activation of the Finance Laws is expected to have a positive impact on developing and promoting the finance activity in the Kingdom, improving the level of provided services by taking advantage of available assets and capital, in addition to finding new sources of funding to finance the activities of finance companies through the secondary market, which will be reflected positively on economic activity and create more jobs.

SAMA has established the Department of Consumer Protection to ensure the clients' rights in the sectors supervised by SAMA and to look into their complaints and improve the level of services of these sectors. SAMA will be happy to receive all complaints as it attaches great importance to protecting the rights of customers and raising the level of services provided to them.

In conclusion, I welcome this distinctive elite of media journalists, and I am pleased to answer your questions. As-salam Alaikum Wa Rhmat Allah Wa Barakatuh.