



***Findings and Recommendations of Al-Aghar Group Workshop***  
***The Global Financial Crisis and Recommendations to Eliminate its***  
***Negative Implications on Saudi Economy***  
Saturday, 19/10/1429H corresponding to 18/10/2008

**Introduction:**

World economy is encountering a critical period that started due to a crisis in the U.S. credit market and a severe shortage of liquidity. This led to the collapse of several major financial institutions, in addition to the intervention of the U.S. and European governments in unprecedented attempts to rescue their financial system. However, the crisis continued to spread to affect the financial system in other industrial countries and also many of the major developing countries, as well as emerging countries. Inevitability of a long term global economic recession has caused the spread of panic in global markets. In result, significant deterioration happened in global stock markets including the Saudi stock market, in addition to the sharp decline in prices of primary commodities, including oil. Accordingly, Saudi Arabia and the rest of Gulf countries were normally affected by what was happening and fear factor was transformed to them. Many questions were posed regarding the extent of affect on government and private deposits or investments in financial institutions in industrial countries. Despite the current relative calmness, but the crisis is still in its early stages and neither can anyone predict when it will end nor scale of its negative affects on the global growth, regardless of the seriousness and intensity of international efforts to save the situation. These efforts will be signified by holding the “20 Country” summit, including Saudi Arabia, in Washington by Mid-November, 2008 to conduct a road map for the new global financial system and draw the limitations of government intervention, nature of reform and role of global financial institutions like the International Monetary Fund and the World Bank during the next period.

Based on the concern about the public affairs, Al-Aghar Group as a strategic think tank, in an attempt to participate by presenting recommendations for eliminating economic, social and political challenges facing Saudi Arabia; it has called for holding a workshop to involve a selected group of intellectuals, officials, businessmen and academics of our beloved country with the aim of discussing the root causes of this global financial crisis and finally develop a set of recommendations that will alleviate the negative repercussions on Saudi economy during current and future phases.

### **Discussion Topics:**

Given the comprehensiveness of the topic, the aspects of discussion were defined to involve the following:

- Identifying the causes of this financial crisis in relation to the American economy.
- The impacts of this financial crisis on the European Union countries, Asia and the Middle East.
- The implications of this financial crisis on commodity markets and oil market in particular.
- Implications on Saudi economy including:
  - Oil returns / surplus or shortage, and if the rate of government expenditure on infrastructure projects will continue in the same manner with the reduction of oil returns during the next phase.
  - Government investments abroad.
  - Government expenditure on mega projects.
  - Local and foreign private sector funding of projects.
  - Linkage between Saudi Riyal and American Dollar.
  - Condition of Saudi banks and deposits.
  - Condition of trading in Saudi stock market.
  - Saudi investments abroad.
  - Global investment opportunities generated by this financial crisis.

In light of all that has been presented and discussed within this context, the meeting results can be summarized in three main sections:

**First Section:** Explaining and enlisting root sources of this crisis. The main cause was the outburst of credit market bubble in America.

**Second Section:** The Positive and negative aspects resulting from this crisis and its impact on Saudi economy:

**Negative Implications:**

- Reduction of oil prices more than 50%.
- Reduction of local stock prices more than 40%.
- Decline in desire and ability of foreign investors to fund mega projects and economic cities in Saudi Arabia.
- Increase in lending costs among local banks.
- High shortage in providing loans in local banks for companies and individuals along with increasing costs.
- Reduction in value (or loss) of individual investments in the Saudi capital market.
- Decline in returns of large government investments in U.S. treasury bonds.
- Possible deterioration of oil surplus for Saudi Arabia and the possibility of compelling Saudi Arabia to contribute more than its fair share to solve this crisis if the kingdom is not cautious.

**Positive Implications:**

- Saudi economy is less affected at present compared to industrial and emerging countries. This makes it an attractive investment environment for big international companies.
- The current decline and (projected future decline) in global prices of major commodities will contribute to decrease living costs, meanwhile encourage implementation of mega projects. Thus, the Kingdom might become more attractive for investors compared with other regions in the next period.

**Third Section: Proposed recommendations to contain the crisis in Saudi Arabia and trying to take advantage of opportunities resulting from current state of global economy.**

A set of proposals and recommendations have been presented to reduce the negative impact of the global financial crisis, as displayed in the two divisions below.

1. Quick fix solutions to reduce the yield impact of this crisis on Saudi Arabia.
2. Long-term strategic procedures to avoid the occurrence of similar crises in future.

**Division One: Quick fix solutions /procedures to reduce the yield impact of this crisis on Saudi Arabia:**

- Declaration of the Council of Ministers (Cabinet), to insure all deposits in local banks and appointing the duration of security period (*Example: three years*), in order to reassure depositors in Saudi Arabia and reflect the strength of the Saudi financial sector.
- Declaration of the Ministry of Finance, to support governmental financing of development projects during current development plan, to strengthen confidence in Saudi economy as well as continuation of economic growth.
- Reduction in reserve rate to be deposited in Saudi Arabian Monetary Agency (SAMA) on bank deposits to 7% (from the current 10%) as it was prior the rise in cost of living.
- Reducing SAMA interest rate to the least extent possible to encourage banks to expand lending to customers and consequently accelerating economic growth.
- SAMA, insuring loans amongst local banks, in order to encourage integration and provide liquidity necessary for the projects of Saudi private sector and individuals.
- Allowing Joint-Stock Companies listed in the market to buy their shares under the supervision of Monetary Market Authority.

- Study the feasibility of the investment portfolio in some international opportunities, particularly which may have a return to the Kingdom in the strategic development sectors, specifically education and health.

*Division Two: Long-term to medium strategic procedures to avoid the occurrence of similar crises in future:*

- Saudi Arabia pumping money internally via the following:
  - (a) Financing state funds to compensate for the withdrawal of international banks that have stopped their funding of local projects in Saudi Arabia due to shortage of money, in order to ensure continuity in implementation of those projects.
  - (b) Reduction of state debit in governmental bonds towards banks to raise the level of liquidity and enable banks to expand providing necessary finance for the private sector.
- Spending more portions of future surplus of oil on domestic investment projects to boost the confidence of local investors, as well as to create a secure and encouraging environment for foreign investors.
- Restructuring the financial sector's supervisory bodies including their four sections: *Commercial Banks, Investment Service Firms, Insurance Companies* and *Real-State Mortgage Companies*. In order to consolidate the overall supervision and coordination of the definition of compulsory management of financial risks that may arise as a result of multiple supervisory bodies in the financial sectors. Given the fact that the multiplicity of supervisory bodies, lack of compulsory coordination and the weakness of regulations and discipline was the main cause of the financial crisis in U.S., which cast its shadow on the entire global financial system.
- It is necessary to focus investments in building skilled manpower and establishing knowledge in different scientific fields as the basis of developing our country in the long run.

- Creating and adopting a system for issuing various bonds and deeds for Saudi firms as local investment alternatives.
- Considering the possibility to expand Islamic banking system in Saudi Arabian banks.
- Allocating part of financial surplus of the state to support public investment funds and other development funds as well as creating other similar funds to support local development.
- Conducting a strategy to support the state funding of economic cities when necessary.
- Developing a mechanism to support the stock market including direct intervention to prevent the collapse in prices through state funds.
- Conducting a strategy to enforce acceleration in pace of diversification for Saudi economy, by increasing capital investment and reducing dependence on the proceeds of bonds and securities encumbered by economic conditions of other countries.
- Considering the possibility of reliance on the Islamic banking system in banks as a mean to reduce the risk of a similar crisis in the kingdom.
- Activating local media outlets to educate the public on the future plans of the state, in terms of spending oil returns on different allocations. This aims to enhance level of transparency and help raise public awareness of the actual economic position of the kingdom, which in turn contributes to face crises from a stronger position.

**End of Report**