THE ROLE OF THE SAUDI BANKING SECTOR IN ECONOMIC DEVELOPMENT UNDER VISION 2030

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Abstract- This study aims to determine the role of Saudi banking sector in economic development under the Vision of 2030. The population targeted for the study encompasses the real Kingdom of Saudi Arabia GDP from 2009 to 2018, and data entry point on all banking institutions assets, liquid liabilities and deposits. The number of commercial banks operating in Saudi Arabia stood at 26 (25 operating and one licensed) in 2017. To achieve the main purpose of the study, secondary data are collected and utilized from published sources. The data collected and checked for completeness and consistency of the research. The data are analyzed by using SPSS such as Pearson correlation and ANOVA as well as other quantitative techniques in SPSS. The results of study proved that there is a negative correlation relationship between the Saudi banking sector as independent variable (assets, deposits, liquid liabilities) and economic development (GDP) as dependent variable. Moreover, there was a high positive correlation between the independent variables of the Saudi banking sector. The test of one-way ANOVA analysis proved that the first hypothesis was rejected, the second hypothesis was accepted and the third hypothesis was rejected.It was also found that, since the implementation of the Saudi Vision 2030 in 2016, it has been observed despite the fact that the GDP has increased at the same time the contribution of the Saudi banking sector in GDP has increased.

Keywords - Assets, Deposits, Economic Development, Liquid Liabilities.

I. INTRODUCTION

The banking sector is considered one of the most important and sensitive economic sectors and influential in the growth of the economies of countries, as it occupies a vital position in the economic and financial systems because of its positive impact on economic development, by mobilizing the sufficient savings required by economic growth and distribution competent in various areas of investment and exploitation. Commercial banks are defined as financial institutions that attract or accept customer deposits and then invest these deposits in short-term investments (treasury bills, commercial papers, tradable bank deposit certificates, bank acceptances) or long-term investments (purchase of Stocks, bonds, long-term finances). Economic development needs to be structured, packaged and directed towards different investments. The importance of banks in economic activity is due to the fact that they are one of the main pillars of the national economy, where commercial banks play an important role in facilitating economic and financial transactions.

Banks play an important role in the development process;they possess two types of assets represented in investments and loans. Local deposits are collected and then redirected, which serves local economies, both in the form of loans and in the form of investments, and banks have an advisory role in terms of local development and creating new investment opportunities. In addition to that, the banking sector playing a definite role to provide the right environment to drive production and economic growth in various fields and develops banking services. Banks are also one of the major pillars in building the financial and economic structure of countries, as they are effective financial institutions that are reliable in the development. However, this important and prominent role played by the banking sector in promoting the economies of countries depends on the effectiveness and development of the sector, and this effectiveness helps to attract the investments necessary to cover the needs of local development. Investment banks employ investors' savings and invest them in short and long-term investments, industrial banks finance the industrial sector, real estate banks finance the real estate sector, agricultural banks finance the agriculture sector, and other banks that are interested by funding certain sectors, which enhances their role in the country's economic development.

However, the Kingdom of Saudi Arabia launched the financial sector development program by the Council of Economic and Development Affairs (CEDA) to achieve the objectives of Vision 2030. The role of the program is to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income and stimulate savings, finance, and investment. The program will achieve its ambition by enabling financial institutions to support private sector growth, promoting and enabling financial planning, and ensuring the formation of an advanced capital market, without impeding the strategic objectives intended to maintain the financial services sector’s stability

The Financial Sector Development Program is committed to: Increasing the total size of financial assets to GDP ratio to reach 201% by 2020 from 192% registered in 2016. Increasing the share of capital markets assets from 41% in 2016 to 45% by 2020. Increasing the share of SME financing at banks

from 2% in 2016 to 5% by 2020.Increasing the share of mortgages in bank financing to 16% by 2020 from its 2016 level of 7%. Increasing the share of non-cash transactions from 16% in 2016 to 28% by 2020.Fully comply with international standards related to financial stability. Opening the Financial Services sector to emerging players (i.e., FinTechs) to spur innovation and growth.[1]

The importance of study stems from that the banking systems are one of the most important inventions of modern societies, because of the essential role they play, through their role between depositors who make up the supply side of the banking system and borrowers who make up the demand side of these funds, the banking system is an important mechanical to collect savings and their conversion into investments in addition to attracting foreign investment and directing them to finance the most efficient, productive and profitable projects.

This study may add a value to diverse stakeholders in the banking field of Saudi Arabia, as well as to the management in the banking sector, it will inform them about the relationship between the banking sector development and the economic growth of the country.Also it will be a source of help for various decision makers in the relevant sectors, Moreover, the findings will bea vital reference for policy makers in formulating macroeconomic and fiscal policies necessary for improving stability in the financial sector in line with the Saudi vision 2030. Furthermore, the research can be an addition to the knowledge pool of understanding the influence of the banking sector on economic development.

The main Objective of the Researchwas to determine the role of Saudi banking sector in economic development under the Vision of 2030, and finding the relationship between banking sectordevelopment indicators such as; assets, customers' deposits and liquid liabilities and the real economic development represented by GDP in Saudi Arabia.

The main Problem of the Researchwas theneed to provide an explanation concerning the relationship between the banks assets, deposits, and liquid liabilities with the economic development. The absence of such studies on Saudi banking sectors, and the disagreement among research findings on this relationship leave a research gap which this study is seeking to fill.

II. LITERATURE REVIEW

Mohammed T. Abusharbeh (2017), examines the impact of some banking sector indicators (credit facilities, depositors fund, the number of branches, and interest rate,) on gross domestic product using quarterly data from the period of 2000 to 2015 in Palestinian economy.The result reveals that banking credits are positively related to economic growth. However, interest rate, customers' deposits and number of branches have not a significant impact on economic growth. [2]

Mohammed A Al Mahish 2016 investigates the impact of the overall financing activities on economic growth in Saudi Arabia. The paper found an evidence of long run relationship between real GDP per capita, financing, real interest, public labor force, and capital. the paper also found a positive impact of financing on economic growth in Saudi Arabia.[3]

Mohammed Alghfais 2016 paper aimed examine the relationship between financial sector development and economic growth in the non-oil sector in Saudi Arabia. Six measures of financial sector development are used in this study. The main conclusion was that there is a positive and significant impact of financial sector development on the total economic growth of the non-oil public and private sector.[4]

Ibrahim, M Abbas 2013. investigates the relationship between financial development and economic growth for Saudi Arabia for the period 1989-2008. The results indicate that the domestic bank credit to the private sector has a significant and positive effect on economic growth in the long run, but insignificant and negative effect in the short run. On the other hand, stock market index has expected positive but insignificant effect in the long run but unexpected and insignificant effect in the short run.[5]

Petkovski and Kjosevski (2014). used banking credits, interest rate, and the ratio of quasi money (RQM) as independent variables while gross domestic product as proxy variable. They found that banking credits and interest margin are negatively related to economic growth. [6]

Medjahed and Gherbi (2016) examined the impact of banking sector development on growth using 11 MENA countries from period 1980 to 2012. They found that financial development has negative impact on short and long run relation with economic growth of MENA countries.[7] Similarly, Frikha and McMillan (2016) investigated the role of Islamic banks in the growth of domestic gross product in 10 developing countries (Bahrain, Egypt, Jordan, Kuwait, Pakistan, Saudi Arabia, Qatar, Sudan, Turkey and United Arab Emirates). Their study used ordinary least square regression for testing 120 banks from different developing countries. They found that conventional banks support economic growth. Moreover, the combination between Islamic and conventional way is also improves economic growth.[8] In addition, Prochniak and Wasiak (2017) analyzed the impact of financial system on economic growth using 28 EU and 34 OCED economies from the period of 1993 until 2013. They verified a positive significant relationship between banking system and economic growth.[9]

In fact, few studies in Saudi Arabia were found discussing and analyzing the role of banking sector in economic development. Therefore, this study adds new evidence to the existing literature by examining

the role of the Saudi banking sector in economic development under Vision 2030

III. METHODOLOGY

This study uses a descriptive analysis and correlation study with the dependent variable being economic growth which is to be expressed as an annual growth rate of the real GDP of Saudi Arabia, while the independent variables of the financial institution are; assets which is measured by a ratio of banking institution assets to real GDP, sector customer deposits is also measuredby the ratio of customer deposits to the real GDP, and sector liquid liabilities expressed by the ratio of liquid liabilities to the real GDP. This descriptive type is particularly imperative when a variable being studied outspreads over a significant time.

The population targeted for the study encompasses the real Kingdom of Saudi Arabia GDP for the last ten years on annual basis from 2009 to 2018, and data entry point from 2009 to 2018 on all banking institution assets, liquid liabilities and deposits. The number of commercial banks operating in Saudi Arabia stood at 26 (25 operating and one licensed) in 2017. To achieve the main purpose of the study, secondary data are collected and utilized from published sources. The data collected and checked for completeness and consistency of the research. The data are analyzed by using SPSS such as Pearson correlationand ANOVA as well as other quantitative techniques in SPSS.

The model which is used in this study comprised of three independent variables and one dependent variable. Dependent variable will be economic development represented by GDP,and the independentvariables which include: Saudi banking sector assets, Customer Deposits and Liquid liabilities. It is presented as follows:

$Y=\beta1\ X1+\beta2\ X2+\beta3\ X3+\varepsilon$

Where:

Y= Economic development which will be measured as the annual growth rate of the real GDP,

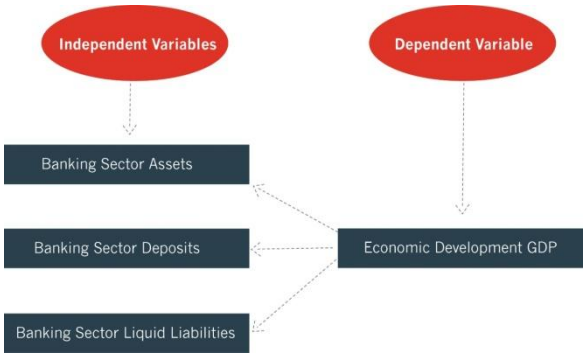
X1= Ratio of banking sector assets = Banking Sector Assets/GDP

X2= Ratio of deposits to GDP= Deposits/GDP

X3= Ratio of liquid liabilities to GDP = Liquid Liabilities/GDP

ε= Error term normally distributed about the mean of Zero

β1, 2, 3 = ANOVA regression model of the variations to determine the volatility of each variable to economic growth in the model.



A. Study hypotheses

In light of the importance, objectives and problem of the study, the hypotheses of the study can be formulated as follows:

Major hypothesis: There is a negative statistical relationship between the Saudi Banking Sector represented by assets, liquid liabilities and deposits and economic development represented by Gross Domestic Product (GDP). This was tested under the following null hypothesis:

H1: There is a negative statistical relationship between the Saudi banking sector assets and economic development.

H2:There is a negative statistical relationship between the Saudi banking sector liquid liabilities and economic development

H3:There is a negative statistical relationship between the Saudi banking sector deposits and economic development.

In this study the decision criterion is P value. If P-value is less than 0.05 the nullhypothesis will be rejected and the alternative hypothesis will be accepted. If P-valueis greater than 0.05, level of significance, hence the null hypothesis is accepted and the alternativehypothesis is rejected.

IV. ANALYSIS AND FINDINGS

A. Descriptive Statistics

It is noticed in table 1 that, since the implementation of the Saudi Vision 2030 in 2016, it has been observed despite the fact that the GDP has increased at the same time the contribution of the Saudi banking sector in GDP has increased.

Years / Variables	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets to GDP	0.85	0.71	0.71	0.76	0.8	0.87	0.87	0.87	0.9	1.08
Bank Deposits to GDP	0.58	0.5	0.51	0.55	0.59	0.64	0.63	0.63	0.63	0.76
Liquid Liabilities to GDP	0.73	0.61	0.61	0.65	0.70	0.75	0.74	0.74	0.76	0.92
Annual Growth of Gross Domestic Product GDP	-17.45	23.10	27.08	9.64	1.45	1.30	-13.50	-1.43	6.77	14.22

Table1: Calculated Ratios from the Saudi Commercial Banks and GDP (2009-2018)
Source: -Saudi Arabian Monetary Authority- Annual Reports & Saudi Arabia GDP- Gross Domestic Product 2009-2018.[10][11].

Table 2 describes and summarizes the quantitative features of the study variables. The standard deviation shows how much variation or dispersion exists from the mean. The low standard deviation indicates that the data are very close to the mean; high values of standard deviation indicate that the data set expands values. The difference is how the random variable is distributed near the mean value.

The banking sector mean and standard deviationwere as follows; assetshave a mean of 0.84 and a standard deviation of 0.11,furthermore, the customer deposits has a mean of 0.60 and a standard deviation of 0.08, while,the mean value of liquid liabilities 0.72 with a standard deviation 0.09. Meanwhile, the mean value for the economic development as dependent variable 5.12 with a standard deviation of 14.29.

Descriptive				
		N	Mean	Std. Deviation
Banking sector assets	2009 - 2011	3	.76	.08
	2012 - 2014	3	.81	.06
	2015 - 2018	4	.93	.10
	Total	10	.84	.11
Customer deposits	2009 - 2011	3	.53	.04
	2012 - 2014	3	.59	.05
	2015 - 2018	4	.66	.07
	Total	10	.60	.08
Liquid liabilities	2009 - 2011	3	.65	.07
	2012 - 2014	3	.70	.05
	2015 - 2018	4	.79	.09
	Total	10	.72	.09
Economic development	2009 - 2011	3	10.91	24.64
	2012 - 2014	3	4.13	4.77
	2015 - 2018	4	1.52	11.88
	Total	10	5.12	14.29

Table2. Descriptive Analysis of the Dependent and Independent Variables

Table 3 presents the Pearson correlation matrix for the study model. It shows clearly that there is a negative correlation relationship between the Saudi banking sector as independent variable and economic development GDP as dependent variable. Results show that, Saudi banking sector assets to GDP value -.303,Deposits to GDP -.301,Liquid Liabilities to GDP -.310. Moreover, there is a high positive correlation between theindependent variablesof the Saudi banking sector as; assets to deposits(.982**), as well as assets to liquid liabilities(.997**). Furthermore, there was a high positive correlation relationship between deposits and assets(.982**) as well as deposits to liquid liabilities (.984**). There was also a high positive correlation relationship between liquid liabilities and assets (.997**) as well as liquid liabilities to deposits (.984**).

	Economic Development (GDP)	Saudi Banking Sector Assets to GDP	Saudi Banking Sector Deposits to GDP	Saudi Banking Sector Liquid Liabilities to GDP
Economic Development (GDP)	1	-.303	-.301	-.310
Saudi Banking Sector Assets to GDP	-.303	1	.982**	.997**
Saudi Banking Sector Deposits to GDP	-.301	.982**	1	.984**
Saudi Banking Sector Liquid Liabilities to GDP	-.310	.997**	.984**	1

Table 3: Pearson Correlation
****. Correlation is significant at the 0.01 level (2-tailed).**

Table 4 reveals the test of one-way ANOVA analysis for the study variables. The Sig or p-value for the first hypothesis is 0.072 which is greater than 0.05, level of significance, hence the null hypothesis is accepted and the alternative hypothesis is rejected. The Sig. value for the second hypothesis is 0.042 which is less than 0.05,

level of significance, hence the null hypothesis is rejected and the alternative hypothesis is accepted. The Sig. value for the third hypothesis is 0.097 which is greater than 0.05, Hence the null hypothesis is accepted and the alternative hypothesis is rejected

ANOVA						
Source of Variation		Sum of Squares(SS)	df	Mean Square(MS)	F	P value Sig.
Banking Sector Assets	Between Groups	.056	2	.028	3.923	.072
	Within Groups	.050	7	.007		
	Total	.106	9			
Customer Deposits	Between Groups	.030	2	.015	5.183	.042
	Within Groups	.021	7	.003		
	Total	.051	9			
Liquid Liabilities	Between Groups	.035	2	.018	3.321	.097
	Within Groups	.037	7	.005		
	Total	.073	9			
Economic Development	Between Groups	155.497	2	77.748	.323	.734
	Within Groups	1683.061	7	240.437		
	Total	1838.558	9			

Table 4: ANOVA Analysis

V. CONCLUSION

Banking sector play an essential role in the economic progress of nations, commercial banks hold millions of deposits of individuals, companies, governments, private and public institutions and investment bodies, provide millions of financing to individuals, companies and governments, and invest in millions of business activities either directly or buying shares. Commercial banks also finance high-yield investment projects, and provide loans to finance industrial sector expenditures in general. These banks also work to reduce poverty and unemployment, improve income and balance the country's classes.

The financing sector is of the utmost importance by being a part of GDP and the greatest evidence of the growth rate. The annual GDP of Saudi Arabia was fluctuating in the recent years, it fell from 7.4 per cent in 2010 to 2.3 per cent 2018, the main reason for this decline is a marked decline in the real growth rate in finance. However, the Saudi government's launched a number of goals and policies through the 2030 vision to develop all the economic sectors including the banking sectors. In this study the researchers will try find the role and participation of the Saudi banking sector in in the economic development GDP.

The results of study proved that there is a negative correlation relationship between the Saudi banking sector as independent variable (assets, deposits, liquid liabilities) and economic development (GDP) as dependent variable. Moreover, there was a high positive correlation between the independent variables of the Saudi banking sector.The test of one-way ANOVA analysis proved that the first hypothesis was rejected, the second hypothesis is accepted and the third hypothesis is rejected. One of the most important results is that since the implementation of the Saudi Vision 2030 in 2016, it has been observed despite the fact that the GDP has increased at the same time the contribution of the Saudi banking sector in GDP has increased.

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