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 Vision 2030. The population targeted for the study encompasses the real Kingdom of Saudi Arabia gross domestic product (GDP) from 2009 to 2018, and data entry point on all banking institution assets, liquid liabilities, and deposits. The number of commercial banks operating in Saudi Arabia stood at 26 (25 operating and 1 licensed) in 2017. To achieve the main purpose of the study, secondary data are collected and utilized from the 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 the 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

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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 toward 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 plays 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 program will be responsible to create strong base to support the financial sector which will have positive impact on the development of the national economy, and diversify the sources of income, savings, finance, and investment. The program will also help the financial institutions, private sector growth, and support capital market.

The Financial Sector Development Program is committed to increasing the total size of financial assets to gross domestic product (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; and opening the financial services sector to emerging players (i.e., Fin Techs) to spur innovation and growth [1].

The importance of this study stems from the essential role of banking systems in modern societies, and 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 use savings and convert them 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, and it might give bird's eye view about the relationship between the banking sector development and the economic growth of the country. Furthermore, it will be a source of help to various decision-makers in the relevant sectors. The findings of this study could be a vital reference for policy-makers in formulating macroeconomic and fiscal policies necessary for improving stability in the financial sector in under the Saudi Vision 2030. Furthermore, the research could add to the knowledge pool of understanding the influence of the banking sector on economic development.

The main objective of the research was to determine the role of Saudi banking sector in economic development under Vision 2030, and finding the relationship between banking sector development 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 research was the need to provide an explanation concerning the relationship between the bank's 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.

LITERATURE REVIEW

Abusharbeh conducted a study between the period of 2000 and 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 don't have a significant impact on economic growth [2].

Al Mahish 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].

Alghfais aimed at finding the relationship between financial sector development and economic growth in the non-oil sector in Saudi Arabia. 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].

Abbas investigated 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 used banking credits, interest rate, and the ratio of quasi-money (RQM) as independent variables while GDP as proxy variable. They found that banking credits and interest margin are negatively related to economic growth [6].

Medjahed and Gherbi conducted a study from the period 1980 to 2012. The main finding of their study was as follows: there is a negative impact between financial development and economic growth of MENA countries [7]. Similarly, Frikha and McMillan studied the role of Islamic banks in the growth of GDP 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 also improves economic growth [8]. In addition, Prochniak and Wasiak analyzed the impact of financial system on economic growth using 28 EU and 34 OCED economies from the period of 1993 to 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.

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 are measured by a ratio of banking institution assets to real GDP, sector customer deposits are also measured by 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 10 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 the published sources. The data are 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 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 independent variables 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 is the economic development which will be measured as the annual growth rate of the real GDP, X1 is the ratio of banking sector assets = Banking Sector Assets/GDP, X2 is the ratio of deposits to GDP = Deposits/GDP, X3 is the ratio of liquid liabilities to GDP = Liquid Liabilities/GDP, ε is the error term normally distributed about the mean of zero, β1, 2, 3 is the ANOVA regression model of the variations to determine the volatility of each variable to economic growth in the model (Figure 1).

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 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 the *P*-value. If the *P* value is less than 0.05, the null hypothesis will be rejected, and the alternative hypothesis will be accepted. If the *P*-value is greater than 0.05 level of significance, hence the null hypothesis is accepted, and the alternative hypothesis is rejected.
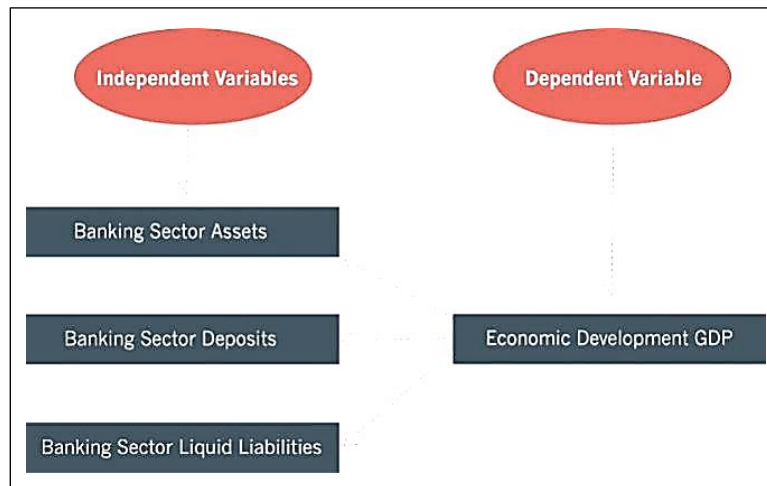
Fig. 1. *Study variables.*

ANALYSIS AND FINDINGS
Descriptive Statistics
It is noticed from 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.

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 mean and standard deviation of the banking sector were as follows: assets have a mean of 0.84 and a standard deviation of 0.11. Furthermore, the customer deposits have a mean of 0.60 and a standard deviation of 0.08, while the mean value of liquid liabilities is 0.72 with a standard deviation 0.09. Meanwhile, the mean value for the economic development as dependent variable is 5.12 with a standard deviation of 14.29.

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. The results show that Saudi banking sector assets to GDP value −0.303, deposits to GDP −0.301, liquid liabilities to GDP −0.310. Moreover, there is a high positive correlation between the independent variables of the Saudi banking sector, assets to deposits (0.982**), as well as assets to liquid liabilities (0.997**). Furthermore, there is a high positive correlation relationship between deposits and assets (0.982**) as well as deposits to liquid liabilities (0.984**). There is also a high positive correlation relationship between liquid liabilities and assets (0.997**) as well as liquid liabilities to deposits (0.984**).

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.

Table 1. *Calculated ratios from the Saudi commercial banks and GDP (2009–2018).*

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	−17.45	23.10	27.08	9.64	1.45	1.30	−13.50	−1.43	6.77	14.22

Source: -Saudi Arabian Monetary Authority- Annual Reports & Saudi Arabia GDP- Gross Domestic Product 2009-2018 [10, 11].

Table 2. *Descriptive analysis of the dependent and independent variables.*

Descriptive		N	Mean	Std. deviation
Banking sector assets	2009–2011	3	0.76	0.08
	2012–2014	3	0.81	0.06
	2015–2018	4	0.93	0.10
	Total	10	0.84	0.11
Customer deposits	2009–2011	3	0.53	0.04
	2012–2014	3	0.59	0.05
	2015–2018	4	0.66	0.07
	Total	10	0.60	0.08
Liquid liabilities	2009–2011	3	0.65	0.07
	2012–2014	3	0.70	0.05
	2015–2018	4	0.79	0.09
	Total	10	0.72	0.09
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

Table 3. *Pearson correlation.*

	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	−0.303	−0.301	−0.310
Saudi Banking Sector Assets to GDP	−0.303	1	0.982**	0.997**
Saudi Banking Sector Deposits to GDP	−0.301	0.982**	1	0.984**
Saudi Banking Sector Liquid Liabilities to GDP	−0.310	0.997**	0.984**	1

**Correlation is significant at the 0.01 level (2-tailed).

Table 4. *ANOVA analysis.*

ANOVA						
Source of Variation		*Sum of Squares (SS)*	*df*	*Mean Square (MS)*	*F*	*P value Sig.*
Banking Sector Assets	Between Groups	0.056	2	0.028	3.923	0.072
	Within Groups	0.050	7	0.007		
	Total	0.106	9			
Customer Deposits	Between Groups	0.030	2	0.015	5.183	0.042
	Within Groups	0.021	7	0.003		
	Total	0.051	9			
Liquid Liabilities	Between Groups	0.035	2	0.018	3.321	0.097
	Within Groups	0.037	7	0.005		
	Total	0.073	9			
Economic Development	Between Groups	155.497	2	77.748	0.323	0.734
	Within Groups	1683.061	7	240.437		
	Total	1838.558	9			

CONCLUSION

Banking sector plays an essential role in the economic progress of nations. The 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. The 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% in 2010 to 2.3% 2018. The main reason for this decline is a marked decline in the real growth rate in finance. However, the Saudi Government launched a number of goals and policies through Vision 2030 to develop all the economic sectors including the banking sectors. In this study, the researchers will try to find the role and participation of the Saudi banking sector in the economic development of GDP.

The results of the 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 is 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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