

## The impact of the Covid-19 on the Saudi banking sector

<sup>1</sup> Rabea M. Al-Fakih, <sup>2</sup> J.D. Kabra, <sup>3</sup> Sameh N. Al-Ward

<sup>1,2,3</sup> Research Scholar, Business Administration, Faculty of Commerce and Management Science Department of Commerce, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad, India  
Email - <sup>1</sup> rabee7719@gmail.com, <sup>2</sup> jawaharkabra4@gmail.com, <sup>3</sup> samehalward@yahoo.com

**Abstract:** This paper discusses the impact of the Corona virus-19 pandemic on the Saudi banking sector during the fiscal year 2020, the year in which this epidemic swept the world, and the focus was on the impact of the repercussions of the spread of the virus on the profits of the Saudi banking sector in addition to bank deposits, where the researcher used secondary data represented in The data published in the report of the Central Bank of Saudi Arabia regarding the consolidated financial position of Saudi banks for the year 2020 and the data contained in the report on the consolidated financial position of Saudi banks for the period from 2016-2019.

The study concluded that the pandemic had a clear direct impact on the level of profits, which led to a sharp decrease in the profits achieved by banks during the fiscal year 2020.

The study also found that there was no negative impact of the pandemic on the level of bank deposit growth in the Saudi banking sector, which indicates the safety and strength of the Saudi banking sector and its ability to overcome the repercussions of the crisis.

The study recommended more measures to ensure the safety of the banking sector and increase its ability to face any similar crises in the future.

**Key Words:** banks, impact, coronavirus, Saudi Arabia, corona pandemic, lower profits.

### 1. INTRODUCTION:

The Covid-19 pandemic is considered the biggest threat facing the global economy since World War II, given the level of impact caused by this epidemic, as it is considered one of the most severe factors that affected all aspects of human life. The emergence of this epidemic has contributed to changes in the way of life for all people, where restrictions and mandatory procedures were imposed by which societies were obligated to abandon some practices that were allowed before the epidemic, such as freedom of assembly in stadiums, markets, airports and other places that were competing to attract the largest number of people.

The economies of the countries have also incurred high losses, which differed from one country to another, according to the methods and strategies they had used to reduce the economic consequences of this global pandemic.

Given the great connection between the banking sectors and the economic life of any country in the world, this sector was not affected by this pandemic, as well as the Saudi banking sector, which is one of the most important economic sectors in the Arab region, given its financial mass affecting the local and regional economy.

In his paper (The impact of the covid-19 pandemic on the banking sector), Marco sees that the banking sector has always been at the center of global financial crises since the 1930s.

But in the Corona pandemic, the situation has changed because we are facing a crisis related to public health issues, and the banking sector is part of the defense lines that work to confront the spread of the virus.

#### 1.1 PROBLEM OF STUDY

The research problem was shaped by the following question: " Has covid-19 affected the performance level of Saudi banks, based on measuring profitability and bank deposits?"

#### 1.2 OBJECTIVE OF THE STUDY

By reviewing the studies and research required by the research material, a vision for research purposes can be built and materialized through:

- Verifying the extent to which the spread of the epidemic affected the net profits of commercial banks in the Kingdom of Saudi Arabia during the first year of the pandemic (2020).
- Verifying the extent of the impact of the epidemic on the level of bank deposits in the unified financial center of commercial banks in the Kingdom of Saudi Arabia.

## 2. METHODOLOGY OF THE STUDY:

To achieve the objectives of the research, the researcher relied on the descriptive approach to describe and study the Saudi banking sector, and the analytical approach to study and analyze the data obtained.

The researcher relied on secondary data, which are studies and information related to the subject and available from various sources such as books, journals, published and unpublished studies, and information available on the Internet (Internet).

### 2.1 RESEARCH HYPOTHESIS

The following hypotheses were developed:

**H<sub>1</sub>**. There is an impact of the spread of the epidemic (Covid -19) on the profits of the Saudi banking sector.

**H<sub>2</sub>**. There is an impact of the spread of the epidemic (Covid -19) on bank deposits in the Saudi banking sector.

### 2.2. THE IMPORTANCE OF RESEARCH

- Shedding light on the reality of the impact of the Coronavirus on the profits of the Saudi banking sector.
- Shedding light on the reality of the impact of the Coronavirus on the level of bank deposits in the Saudi banking sector.
- Knowing the extent to which the Saudi banking sector has been able to face the repercussions of the spread of the epidemic.

### 2.3 PREVIOUS STUDIES

Siska, (2021) indicated in the published study (Analysis Impact of Covid-19 Outbreak on Performance of Commercial Conventional Banks: Evidence from Indonesia) the significant impact that the epidemic has had on both global health and banking services.

In his study, he aimed to analyze the impact of the epidemic outbreak on the solvency (CAR), profitability (ROA and NIM), efficiency (OEOI), liquidity (LDR), and risk profile (NPL) of traditional commercial banks in Indonesia.

Where his study found a significant difference in the profitability, efficiency, liquidity, and credit risk of traditional commercial banks after the outbreak of the epidemic than what was before the outbreak.

The study Korzeb, Z., & Niedziółka, P. (2020). (Resistance of commercial banks to the crisis caused by the COVID-19 pandemic: the case of Poland.) aimed to assess the resilience of commercial banks operating in the Polish banking sector. For the potential effects of the pandemic, the study was conducted on 13 commercial banks.

The study came to the conclusion that the largest banks operating in Poland are the most resistant to the consequences of the epidemic. The study also identified the banks most vulnerable due to the crisis.

The second report, (2020) of the "CEPR/IESE Series on the Future of Banks" provides an in-depth analysis of the international banking sector".

One of the main ideas of the study was that the epidemic will lead, due to the economic downturn, to higher levels of credit losses once large-scale bankruptcies appear among companies and families.

Which in turn will raise the level of pressure on the banking sector due to the outbreak of the epidemic.

The report also paid close attention to digital disruption, as it is one of the most important pre-crisis trends that will be further accelerated after the pandemic.

In his research, entitled (The impact of the Corona pandemic (Covid 19) on the Saudi banking sector), Afana, (2020) also touched on the analysis of the repercussions of this pandemic on banks' profits and the allocation of credit losses to them.

His study concluded that there is a decrease in the net profits of Saudi banks for the first half of the year 2020, the time period of his study, which was conducted on a sample of commercial banks that included five banks.

The study also found an increase in the provision for credit losses due to the repercussions of the epidemic on the Saudi economy.

### 2.4 THE CONCEPT AND DEFINITION OF BANKS

Financial institutions that manage cash liquidity are supply and demand in the financial markets, open accounts for their clients, manage their financial accounts, and reinvest surplus funds in financial markets or in development

operations that have a physical location, and require the presence of the beneficiary or customer to this institution to obtain these services, can know as a traditional bank.

After entering the information technology revolution, methods of payment, deposit, transfer, opening, and management of accounts were established using the Internet or telecommunications networks, and what is now known as electronic banks has appeared.

After the great progress witnessed by the international arena, especially banking, it became possible for all banking operations to be carried out using technological means and from anywhere in the world, unlike traditional banks that required the customer's presence in the place and his personal presence, as indicated by Mirko Sagic in his published research paper. Titled "Digital Technologies in Transformation of Classical Retail Bank into Digital Bank" where he stated that "the whole bank with the greater part of it is a retail bank. These banks are waiting for customers to come to the bank premises in order to present their requests and service needs. This way of working creates many problems And disadvantages for customers and banks. Customers need to go to the bank headquarters and wait until the service wastes their time. Provide enough places and spaces for customers and enough personalities for services."

The use of electronic banks has increased with the expansion and acceleration of the use of the Internet, especially with the beginning of the nineties of the last century and to this day, but the emergence and spread of the epidemic increased the need to go towards electronic banks, which is considered part of the plan to confront this epidemic.

## **2.5 THE IMPACT OF THE EPIDEMIC ON THE GLOBAL ECONOMY DURING THE YEAR 2020.**

The emergence of covid-19 at the end of the year 2019 in China led to the emergence of a problem and a danger that threatened human existence on Earth, and made the superpowers face a strong confrontation that almost led to the creation of military conflicts.

The emergence of this epidemic and its rapid spread, has infected tens of millions of people and recorded millions of deaths in a short period.

The impact of this epidemic was not limited to the health sector and global health, but extended to many sectors, as it destroyed the aviation and global tourism sector in a large and direct way, and the banking sector was not isolated from the repercussions of this crisis.

## **2.6 THE IMPACT OF THE SPREAD OF THE EPIDEMIC ON THE ECONOMY IN THE KSA**

The rapid spread of the Covid -19 has complicated the economic conditions in the entire world, and the Saudi economy has not escaped the consequences of the spread of the virus and the attendant global economic downturn, which in turn was reflected in the global demand for oil, as the Kingdom depends on the resources resulting from the export of oil due to Because it is one of the richest oil-exporting countries.

The budget deficit recorded by the Kingdom for the year 2020 was considered the highest level of deficit it has known since its inception.

With the registration of the first confirmed and announced case of infection by the Saudi authorities, the Saudi economic sector entered a new challenge in addition to the previous challenge related to the decline in external demand for oil.

The Saudi economy has become under pressure from the requirements of safety and epidemic prevention, which needs more funds and more precautionary measures, which in turn have increased the deficit in the Kingdom's general budget.

The damage and impact of the Covid -19 were not limited to the oil sector, but it affected the religious tourism sector, the transportation and aviation sector, which was also greatly affected globally, as well as the industrial production sector, all service sectors, and the demand for health sector services increased.

The Saudi banking sector was also not isolated from the repercussions of the spread of the epidemic, as it was directly affected in a way that led to a change in its way of working in line with the precautionary protocols applied to contain the rapid spread of the epidemic, and the spread of the epidemic also led to pressure on the banking sector to adjust its policies and plans in line with New economic variables.

The policies and methods followed by the Saudi authorities to confront the impact of the epidemic.

Like the rest of the world, the government in the Kingdom of Saudi Arabia has sought to control the repercussions of the spread of the epidemic, by supporting the private sector and small and medium enterprises in particular, given that these groups are the most affected by the repercussions of the spread of the Covid -19.

The Saudi government has provided many initiatives with more than the equivalent of twenty billion US dollars, in addition to what was provided by the Saudi Arabian Monetary Agency to support financial institutions, the Saudi banking sector, and small and medium enterprises.

More exemptions for some fees and postponement of some tax dues that contribute to strengthening the affected sectors were also provided Covid -19.

## 2.7 THE IMPACT OF THE CORONA PANDEMIC ON THE BANKING SECTOR IN THE KSA

Afana's study regarding the impact of the repercussions of the spread of the Covid-19 on the Saudi banking sector, and extracted from the Banking Pulse report prepared by KPMG, confirmed that the measures taken by the Saudi Arabian Monetary Agency, have contributed to limiting the significant impact of the Covid-19 pandemic on the Saudi banking sector.

Whereas, the report issued by (KPMG) Al Fozan & Partners, which specializes in audit, tax, and advisory services, indicated that despite the rise in expected credit losses for Saudi banks, a large amount came in the form of a government grant of 12.1 billion Saudi riyals, within the framework of support launched by the Monetary Agency, which in turn limited the decline in net profitability of Saudi banks to only 9.6 percent, compared to the results of the first quarter of the year 2020 and the same period of the fiscal year 2019.

In addition, despite the exceptional circumstances due to the Corona pandemic, the Central Bank of Saudi Arabia report 57 for the year 2021 indicated that the capital adequacy ratio increased to 3.20 percent, which is higher than the international requirements represented by the requirements of the Basel Committee, which is considered a positive indicator despite fears of the repercussions of the epidemic. Banks' assets increased by 2.13 percent.

## 2.8 THE PRACTICAL PART TO STUDY THE IMPACT OF THE CORONA PANDEMIC ON THE BANKING SECTOR IN THE KSA

The analytical method was used to explain and interpret the results obtained by the researcher related to the direct effects affecting the Saudi banking sector resulting from the spread of the epidemic, as data were obtained from secondary sources related to the subject of this study.

The analysis of the consolidated budget of commercial banks in the Saudi banking sector for the fiscal year 2020, which is the lead in the annual report of the Central Bank of Saudi Arabia, No. 57 for the year 2021, was also relied upon, as the focus was on comparing items of profits and bank deposits.

### STUDY COMMUNITY

The Saudi commercial banks, where the number of commercial banks in the Kingdom of Saudi Arabia by the end of the year 2020 AD reached twenty-nine (12 local banks, and 17 branches of foreign banks).

### THE STUDY SAMPLE

All banks according to what was stated in the consolidated budget of Saudi banks issued by the Saudi Central Bank in the annual report No. 57 for the year 2021, regarding the results of the year 2020.

### QUANTITATIVE ANALYSIS

#### First hypothesis analysis:

#### H<sub>1</sub>. There is an impact of the spread of the epidemic (Covid -19) on the profits of the Saudi banking sector.

The consolidated financial position of the Saudi commercial banks for the year 2020, table No. (1) and Figure No. (1) Show the unified financial central of Saudi commercial banks at the end of the fiscal year 2020.

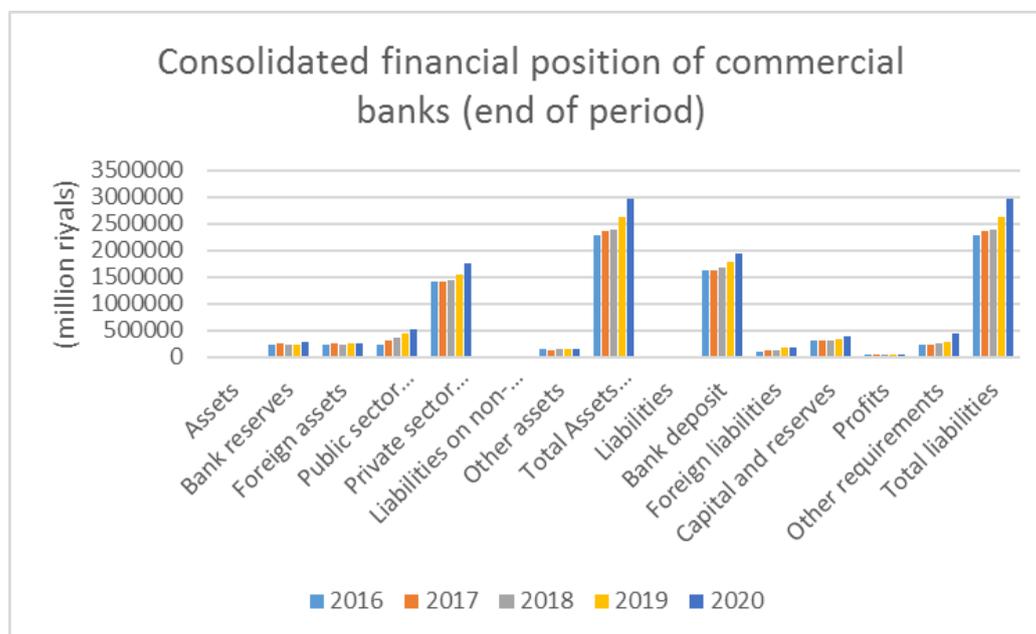
**Table No. (1) Consolidated financial position of commercial banks (end of period)**

	(million riyals)				
	2016	2017	2018	2019	2020
Assets					
Bank reserves	239,920	243,294	222,856	239,375	288,177
Foreign assets	233,832	262,124	231,832	243,629	250,064
Public sector liabilities	233,752	308,368	358,919	445,318	517,527
Private sector liabilities	1,417,920	1,405,210	1,445,252	1,546,519	1,762,440
Liabilities on non-monetary financial institutions	4,442	2,600	1,041	1,398	1,419
Other assets	159,136	129,295	138,246	154,888	159,998
Total Assets	2,289,001	2,350,890	2,398,146	2,631,128	2,979,625

Liabilities					
Bank deposit	1,629,385	1,633,125	1,673,513	1,795,979	1,942,984
Foreign liabilities	96,101	119,186	110,933	173,155	182,066
Capital and reserves	298,392	317,067	303,439	342,976	377,099
Profits	40,398	43,857	48,148	50,315	38,701
Other requirements	224,725	237,655	262,113	268,703	438,776
<b>Total liabilities</b>	<b>2,289,001</b>	<b>2,350,890</b>	<b>2,398,146</b>	<b>2,631,128</b>	<b>2,979,625</b>

Source: Annual report of the Central Bank of Saudi Arabia, No. 57 for the year 2021

**Figure No. (1) Consolidated financial position of commercial banks (end of period)**



Source: Annual report of the Central Bank of Saudi Arabia, No. 57 for the year 2021

The table reviews the comparative financial data for the years from 2016 to the end of 2020, which shows that profits are growing continuously and upward until the year of the epidemic, in which the level of profits changed, due to the decline in the level of profits to the lowest level during the period under study.

This indicates the negative impact of the epidemic on the profits of the Saudi banking sector due to the consequences of the spread of the Corona virus, but it is noted that the impact did not include all items of the financial center to the same degree.

This confirms the success of the financial policies pursued by the Saudi Central Bank and implemented by Saudi banks.

**With this result, the first hypothesis is accepted and the null hypothesis is rejected**

**Second hypothesis analysis:**

**H<sub>2</sub>. There is an impact of the spread of the epidemic (Covid -19) on bank deposits in the Saudi banking sector.**

The change in the consolidated financial position of Saudi commercial banks for the year 2020 compared to the year 2019.

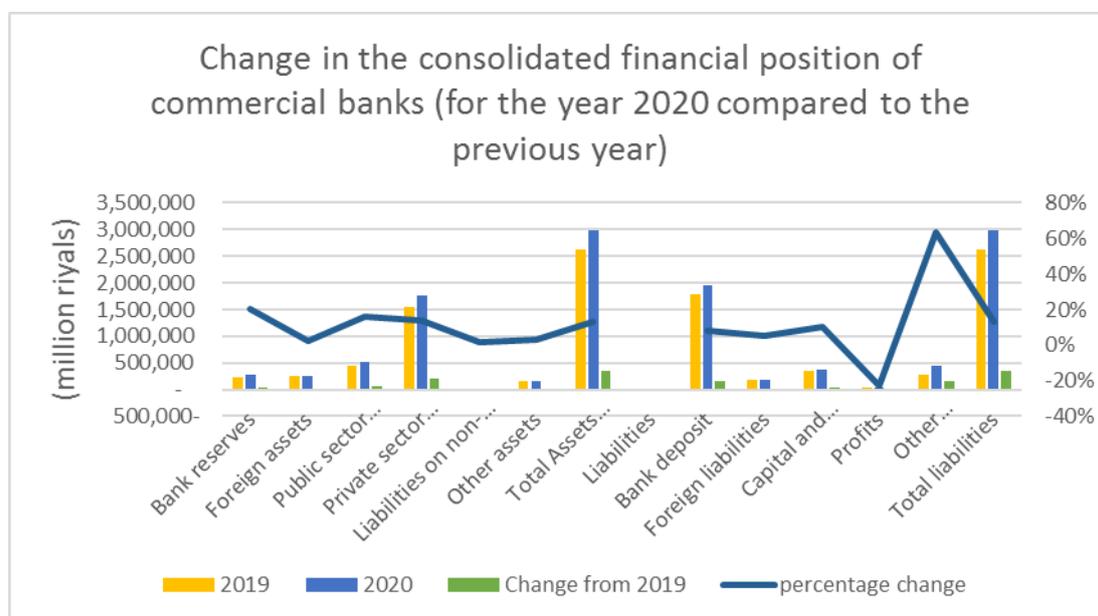
Table No. (2) and Figure No. (2) show a comparison of the consolidated financial statements of the Saudi commercial banks at the end of the fiscal year 2020 and the year 2019.

Table No. (2) Change in the consolidated financial position of commercial banks (for the year 2020 compared to the previous year)

(million riyals)				
	2019	2020	Change from 2019	percentage change
<b>Assets</b>				
Bank reserves	239,375	288,177	48,802	20%
Foreign assets	243,629	250,064	6,435	3%
Public sector liabilities	445,318	517,527	72,209	16%
Private sector liabilities	1,546,519	1,762,440	215,921	14%
Liabilities on non-monetary financial institutions	1,398	1,419	21	1%
Other assets	154,888	159,998	5,110	3%
<b>Total Assets</b>	<b>2,631,128</b>	<b>2,979,625</b>	<b>348,497</b>	<b>13%</b>
<b>Liabilities</b>				
Bank deposit	1,795,979	1,942,984	147,005	8%
Foreign liabilities	173,155	182,066	8,911	5%
reserves Capital and Profits	342,976	377,099	34,123	10%
Other requirements	268,703	438,776	170,073	63%
<b>Total liabilities</b>	<b>2,631,128</b>	<b>2,979,625</b>	<b>348,497</b>	<b>13%</b>

Source: Researcher preparation

Figure. (2) Change in the consolidated financial position of commercial banks (for the year 2020 compared to the previous year)



Source: Researcher preparation

It is clear from the table & figure No. (2) that there is no regression in any of the items in the consolidated financial position of Saudi banks except for the sharp drop in the item of profits.

The profits of commercial banks declined sharply by the end of 2020, as they achieved about 38.7 billion riyals, recording a decline of 23.1 percent over the profits of the previous year, which amounted to 50.3 billion riyals.

This indicates the extent of the impact that the spread of the Covid-19 has had on the profits of the banking sector, but through the table we find that there is a significant increase in bank deposits, as bank deposits at the end of the fiscal year 2020 amounted to 1.9 billion Saudi riyals, achieving an estimated increase over the year 2019 Almost 8%.

It also notes a significant increase in other liabilities, which were recorded at the end of the fiscal year 2020 at approximately 439 billion, an increase over the year 2019 of 63%, which may reflect the reason for the decline in profits, which may be due to the increase in provisions for credit losses, as banks tended to increase these The provisions that were approved to meet the expected risks as a result of the continuing spread of the epidemic, which may mean that the banks in fact did not decrease their profits as a result of matching resources with actual uses, but due to the increase in the value of provisions.

**With this result, the second hypothesis is accepted and the null hypothesis is rejected.**

The change in the consolidated financial position of commercial banks for the fiscal year 2020 relative to the average for the period from 2016-2019.

Table No. (3) and Figure (3) compare the data of the consolidated financial position of Saudi commercial banks at the end of the fiscal year 2020 and the general average of the data of the items of the consolidated financial position of Saudi banks for the previous four years, which is for the period 2016-2019.

It is clear from it that the regression rate in the profit item amounted to 15%.

This indicates the extent to which the impact of the spread of the Covid-19 on the profits of the banking sector is confirmed. However, through the table, we find that the percentage of bank deposits has increased by approximately 22%, and this is a positive indicator that indicates the strength and stability of the banking system.

It also notes a sharp rise, as we explained earlier, for the item of other liabilities, as it recorded at the end of the fiscal year 2020, an increase from the general average for the previous period by 77%, which confirms the precautionary work carried out by commercial banks, to face the expected bankruptcy risks for companies affected by the consequences of the continued spread of the epidemic.

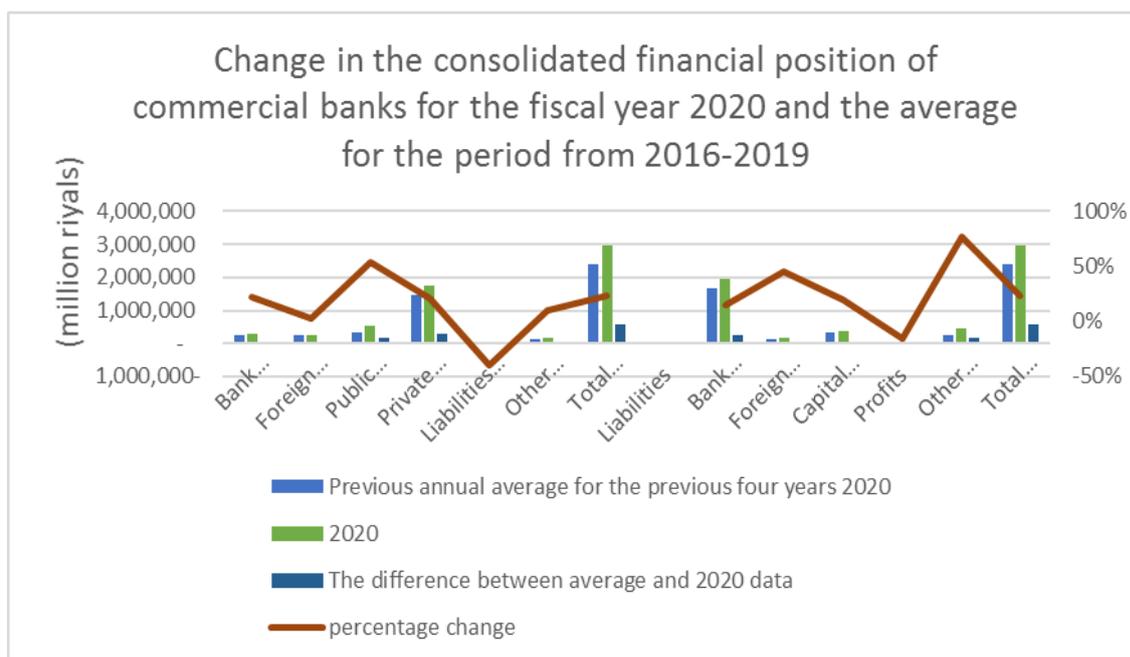
**Table No. (3) The change in the consolidated financial position of commercial banks for the fiscal year 2020 relative to the average for the period from 2016-2019**

	Previous annual average for the previous four years 2020	2020	The difference between average and 2020 data	percentage change
Assets				
Bank reserves	236,361	288,177	51,816	22%
Foreign assets	242,854	250,064	7,210	3%
Public sector liabilities	336,589	517,527	180,938	54%
Private sector liabilities	1,453,725	1,762,440	308,715	21%
Liabilities on non-monetary financial institutions	2,370	1,419	951-	-40%
Other assets	145,391	159,998	14,607	10%
Liabilities)) Total Assets	2,417,291	2,979,625	562,334	23%
Liabilities	-		-	
Bank deposit	1,683,001	1,942,984	259,984	15%
Foreign liabilities	124,844	182,066	57,222	46%
reserves Capital and	315,469	377,099	61,631	20%

Profits	45,680	38,701	6,979-	-15%
Other requirements	248,299	438,776	190,477	77%
Total liabilities	2,417,291	2,979,625	562,334	23%

Source: Researcher preparation

Figure No. (3) The change in the consolidated financial position of commercial banks for the fiscal year 2020 relative to the average for the period from 2016-2019.



### 3. CONCLUSIONS:

The study shows a sharp decline in the annual gross profit of the Saudi banking sector as a result of the COVID-19 virus sweeping the region and the world, which has had repercussions on all economic and health sectors in the world and the region.

The study also showed that the Saudi banking sector was able to face the risks and consequences of the effects of the epidemic on the banking sector, which supports the integrity of the precautionary measures, that Saudi banks have adhered to in response to the directives and recommendations of the Saudi Central Bank, and the relevant authorities.

### 4. RESEARCH RESULTS :

- The impact of the Corona virus-19 on the Saudi banking sector led to a decrease in the level of profits achieved by Saudi banks by the end of the fiscal year 2020 compared to what was achieved in the previous year.
- The spread of the COVID-19 virus did not negatively affect the rate of increase in bank deposits, but a good growth rate was observed compared to last year, which confirms the safety and strength of the Saudi banking sector.
- The impact of the spread of the Corona virus-19 on the items of the consolidated financial position of the Saudi commercial banks, where the focus of the impact was in the emergence of a sharp rise in other obligations and liabilities, which affected the percentage of declared profits.

### 5. RECOMMENDATIONS :

- The necessity of increasing the procedures that help commercial banks to raise the level of profits, by reducing provisions for potential losses, and defining realistic bases for a more accurate determination of those ratios.

- Continuing to search for the best ways to spare the banking sector any upcoming financial shocks as a result of similar events.
- Working to normalize conditions to coexist with the repercussions of this pandemic in order to avoid any negative impact on the banking sector.
- Continuing to create the climate for the implementation of Basel 3 recommendations.

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