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IMPACT OF INTEREST RATE ON STOCK MARKET IN KINGDOM OF SAUDI ARABIA

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ABSTRACT

Investment is regarded to have a substantial role to play for the stock market in developing its growth and stock returns. Nevertheless, this impact was not apparent in the general stock market index in Saudi Arabia. Thus, this work has analyzed the impact of investment on the stock market in Saudi Arabia. In this work, the impact of investment on the financial stock market in Saudi Arabia during the period of 1985 to 2013 was examined. This work was done based on quantitative method. This study was carried out in two parts. The first part comprised of analyzing previous stock market data from the period of 1985 to 2013. The second part comprised of survey analysis. For the survey analysis, the sample population consisted of 50 representatives of the bank division in Saudi Arabia. Questionnaire was utilized as a medium for data collection. The findings of this work have shown that there is a positive relationship between investment and the stock market in Saudi Arabia. Furthermore, the findings have shown that stock markets are also affected by loans.

CCS Concepts

- Information systems → Database management system engines
- Computing methodologies → Massively parallel and high-performance simulations.

INTRODUCTION

Investment is one of the most important macro-economic variables [1]. It is defined as directing the funds available for financial operations or investment projects with a view to creating new capital, maintaining the original capital of the project, achieving financial assets and adequate returns, and increasing investment [2]. In addition, investment is considered to play a significant role

in increasing financing return in the stock market [3]. The stock market relates to the set of stocks and exchanges in which the purchasing, disposal and redemption of securities in publicly held corporations take place on a regular basis [3]. Stock market indices measure the value of the stock market area of a country by means of the weighted normal value of the chosen stock. These files provide assistance to financial specialists and investigators to showcase and compare distinctive speculations [3].

In most cases, the stock market does not offer goods or commodities, but the goods traded are not real assets, but securities or financial assets [4]. They are often in the form stocks and bonds. The stock market is linked to investment in some way, as the stock market is a tool for attracting financial surpluses and enhancing the vitality of investment projects [4]. Increased investment, therefore, leads to an increase in the circulation of money in the financial market, which supports the national economy and achieves economic growth, which leads to an increase in the well-being of citizens [4].

On the other hand, interest rate is one of the key macro-economic factors specifically related to financial development [5]. Interest rate is the amount charged by the lender to the borrower for the use of the assets, expressed as a percentage of the principal. Interest rates are typically recorded on an annual basis, known as the Annual Percentage Rate (APR) [6]. For the most part, the interest rate is considered to be the capital cost that is paid for the use of cash for a period of time [6]. For example, the banks pay the client an interest rate on deposits, as they borrow the money from the client [7]. Banks use deposits from savings accounts or accounts to fund loans and invest in shares, stock markets, and bonding funds. Thus, the banks are paying interest rates to encourage people to make deposits [7]. Banks charge borrowers a little higher interest rate than they pay depositors so that they can make a profit [7].

Investment as an independent variable has an impact on the financial market, especially in stock markets [8]. Several studies have been reported in analyzing the impact of investment on stock market. Nsofor [9] analyzed the effect of investment on the stock market in Nigeria and discovered that the inflow of investment had a substantial impact on the performance and profit of the stock market. Barakat et al. [10] examined the link between investment factors and the stock market in Tunisia and the Egyptian economy and found that supply of money, exchange rate and interest rate had a significant interaction with the stock market. Meinn and Röhe [11] examined the impact of investment on stock market growth and returns and found that stock market volatility had a significant impact on the rate of return on investment. Abbas et al. [12] studied the importance of investment and its economic growth rate on the stock market in Tanzania and found that Tanzania's economic growth rate was moderate and suggested the launch of the Initial Public Offering (IPO) to increase the investment rate.

Investment is considered to have a significant role to play in increasing investment in the stock market. However, this effect was not evident in the general index of the stock market in Saudi Arabia. The increase in the general stock market index was not consistent with the increase in investment. The

increase in total capital formation was SR 614906 million at the end of 2012 and SR 651231,6 million at the end of 2013 [13]. The stock market index was low at the end of the same year, closing at SR 1929317.9 million in 2012 and at SR 136,665.7 million in 2013 [13]. Due to the lack of studies which dealt with investment as an economic variable, particularly for Saudi Arabia, the key question to be answered in this study is the impact of investment on the Saudi stock market. Thus, this study was done to measure the investment and its impact on the financial market in Saudi Arabia, its relationship to the financial market during the period of 1985 to 2013.

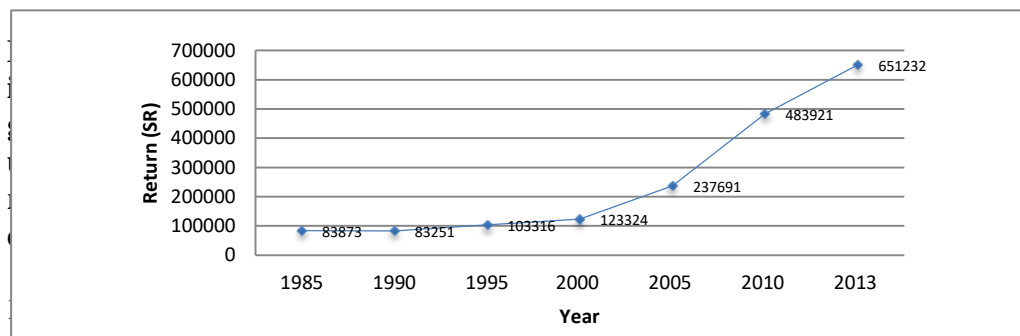
METHODOLOGY

This study was carried out based on quantitative research method. This study was conducted in two parts. For the first part, previous data on investment from the year 1985 to 2013 and its impact on the financial market in Saudi Arabia were analyzed. For the second part, survey method was applied. For the survey method, the sample population of this work consisted of 50 representatives of the bank division in Saudi Arabia. Data collection was done using questionnaire. The collected data were analyzed in terms of basic statistics and are presented in graphical form.

Result And Discussion

Investment Analysis

Figure 1 shows the development of investment in the Saudi Arabia during the period of 1985 to 2013. Based on Figure 1, the results shows the high investment rate in the Kingdom of Saudi Arabia at the beginning of the twentieth century. In 2001, the Saudi Industrial Cities and Technology Zones Authority was formed to increase investment and boost development [13]. This led to a positive growth of 103316 million Up to 651232 million riyals in 2013. The increase in investment in Saudi Arabia during the previous period indicates that incentives and legislation are in place to support the investment environment provided by Saudi Arabia to investors in order to improve and develop its investment environment [13,14].



Development of investment in the Saudi Arabia during the period 1985 to 2013

Table 1 shows the change in the Saudi stock market index during the period of 1985 to 2013, which was positive in most years. The data in Table 1 show that the stock market index rose by 82% in 1990, when the State considered the

Saudi Arabian Monetary Agency to be the supervisor and observer of the stock market protection in 1985, and stopped trading through unlicensed offices. In 2000, the stock market index reached 65292 points and 64% under the management of the institution. The increase in the rate of change in 2005 to 98% at a rate of 4138695 points was due to the establishment of the Capital Market Authority (CMA), a government body with financial and administrative independence [13,14]. In 2010, the change was negative, as this decline was the result of many events and crises, most notably the increase in citizens liquidity compared to the number of companies offered. Although some economists have denied the relationship of the stock market to global events, the rise in oil prices in the years to come has led to a 44% increase in the stock market index in 2013. Thus, based on the trend of the data, it is deduced that there is a positive relationship between investment and the stock market in Saudi Arabia.

Table 1. Change in the Stock Market Index in Saudi Arabia (1985-2013)

Percentage change	Stock Market Index (SR Million)	Years
-	759.97	1985
0.827407	4403.24	1990
0.810422	23226.59	1995
0.644266	65292	2000
0.984224	4138695	2005
-4.4515	759184	2010
0.445716	1369666	2013

Figure 2 shows foreign direct investment index in Saudi Arabia during the period (1985-2013). Based on the Figure 2, over the first five years, foreign investment has seen fluctuating growth due to the events faced by Saudi Arabia at Organization of the Petroleum Exporting Countries (OPEC) and the abandonment of its role as weighted prices within the organization [15]. In 1990, foreign investment reached the highest value of \$1.8 billion, which increased negatively as a result of the political events of the Gulf War and its impact on Saudi Arabia and the Gulf in general. In 2001, Saudi Arabia adopted policies to support foreign direct investment by providing the same incentives and guarantees for local businesses that led to a boom in foreign direct investment in Saudi Arabia by 2010, reaching its highest level of \$29 billion [13,14]. However, the external problems facing the Arab region in general have had a negative impact on Saudi Arabia until it reached \$9.2 billion by the end of 2013.

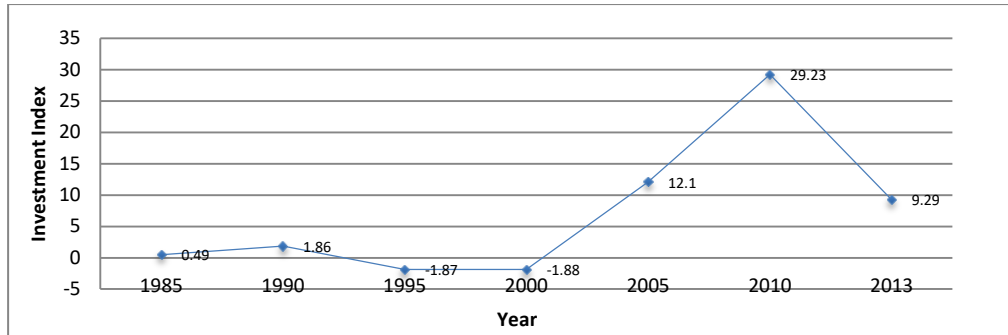


Figure 2 Foreign direct investment index in the Kingdom of Saudi Arabia during the period (1985-2013)

Questionnaire Analysis

Based on Figure 3, for this work, 33.6 % of the respondents were male and the remaining 66.4 % of the respondents were female.

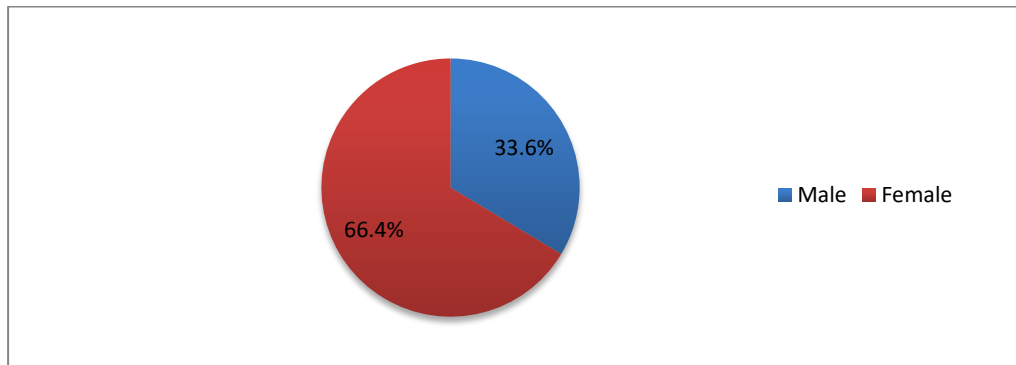


Figure 3 Gender

Based on Figure 4, in terms of age group, 58.0 % of the respondents were in the age group of 20 to 30 years old, 24.4% were in the age group of 31 to 40 years old, 12.2 % of the respondents were in the age group of 41 to 50 years old, 4.0 % of the respondent were in the age group of 51 to 60 years old and 1.4 % of the respondents were aged above 61 years.

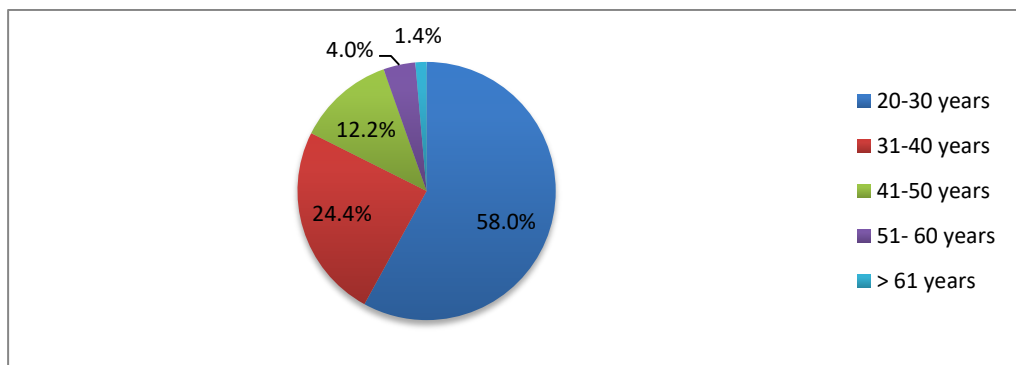


Figure 4 Ages

Based on Figure 5, in terms of education level, 66.4 % of the respondents have completed bachelor degree, 25.2 % of the respondents have completed masters degree and 8.4 % of the respondents have completed PhD degree.

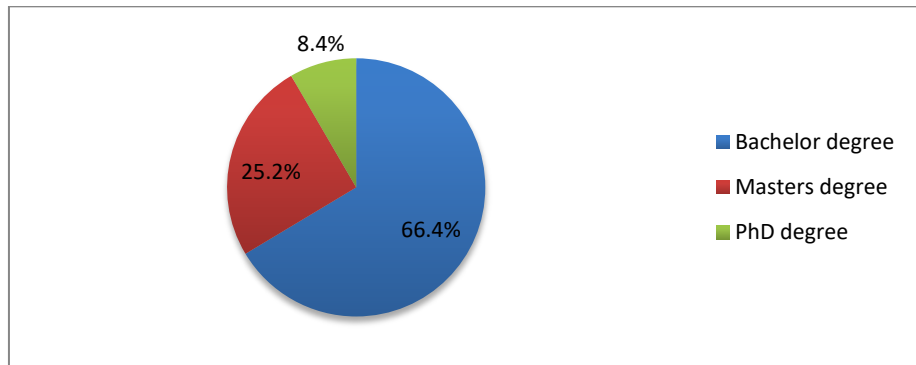


Figure 5 Level of education

The respondents were asked whether interest rate as a factor effects the stock market. Based on Figure 6, 66.5 % of the respondents have stated yes and 33.5 % of the respondents have stated no.

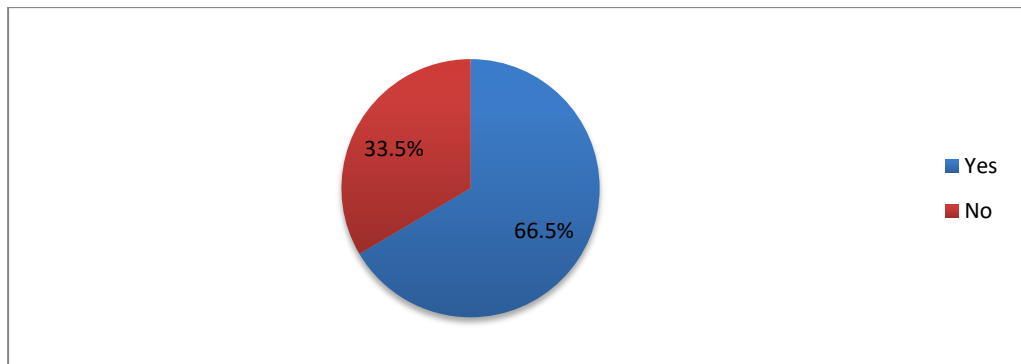


Figure 6 Interest rate affects the stock market

The respondents were asked whether stocks are directly affected by loans. Based on Figure 7, 51.2 % of the respondents have stated yes, 37.2 % of the respondents have stated no and 11.6 % of the respondents have stated maybe.

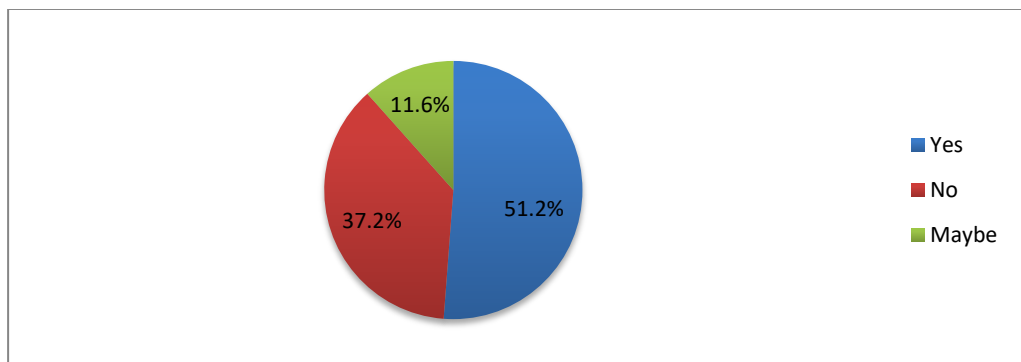


Figure 7 Stocks are directly affected by loans

The respondents were asked whether they have borrowed from bank and it has interest rate. Based on Figure 8, 51.8 % of the respondents have borrowed more than 1 time, 38.4 % of the respondents have borrowed for 1 time, and 9.8 % of the respondents have stated no.

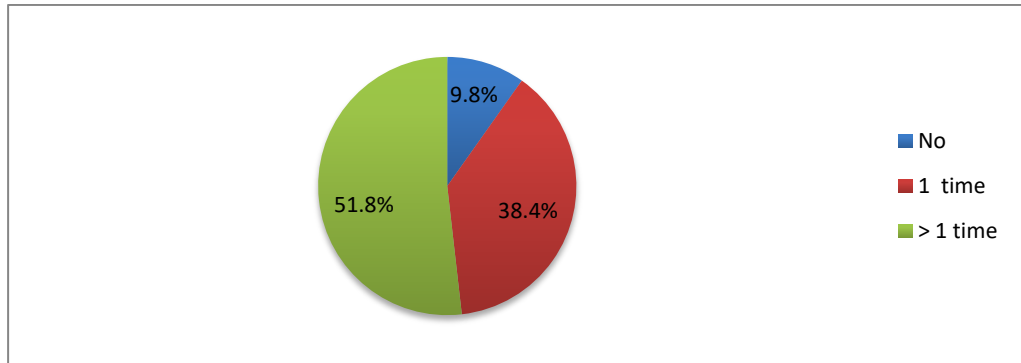


Figure 8 Borrowed from bank

The respondents were asked whether they have ever dealt with the stock market. Based on Figure 9, 54.3 % of the respondents have stated yes and 45.7 % of the respondents have stated no.

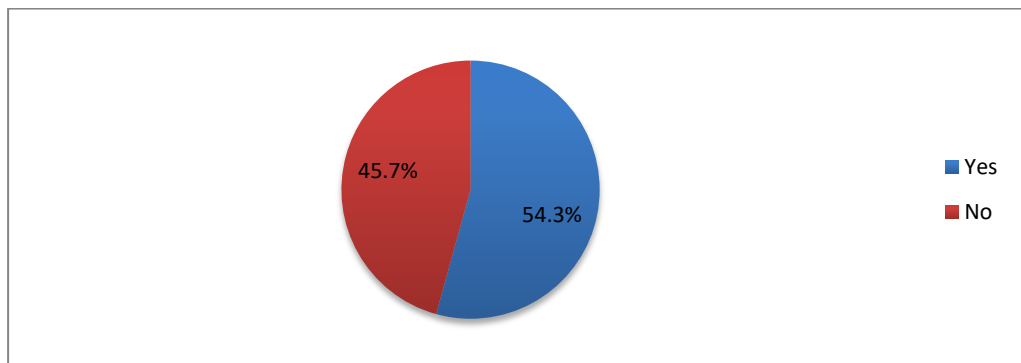


Figure 9 Dealt with the stock market

The respondents were asked what the interest rate affects. Based on Figure 10, 51.8 % of the respondents have stated bank, 31.1 % of the respondents have stated company and 17.1 % of the respondents have stated individuals.

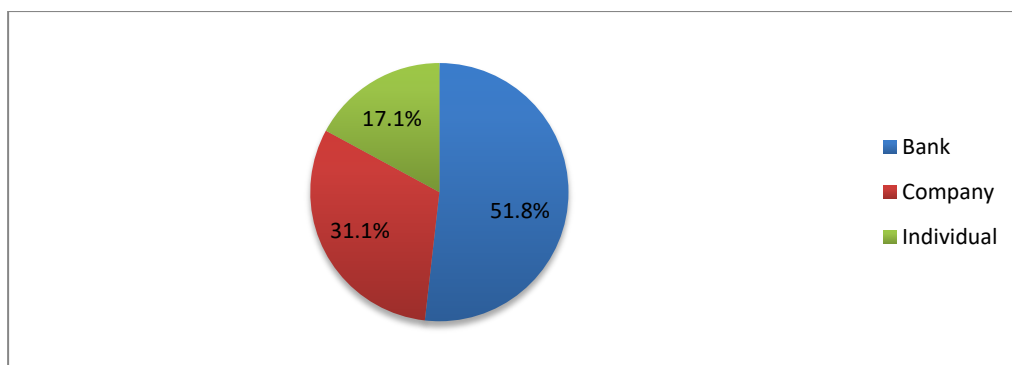


Figure 10. Elements affected by interest rate

Overall Discussion

Based on the investment analysis, the findings of this work have shown that from the period of 1985 to 2013, there is a positive relationship between investment and the stock market in Saudi Arabia. In addition, the findings from the questionnaire analysis have also confirmed that majority of the respondents have stated that interest rate affects the stock market. In addition, the findings of this work have shown that stock markets are also affected by loans. Moreover, the results have found that interest rate effects bank, company and individual in general. The findings of this work are inline with the work of Rafiq et al. [16], where it was confirmed that stock market are affected by interest rate.

CONCLUSION

This study has examined the impact of investment on the financial market in Saudi Arabia. The findings of this work have shown that for the period of 1985 to 2013, there was a positive relationship between the investment and the stock market in Saudi Arabia. In addition, the representative from the banking sector have also stated that that interest rate affects the stock market. Thus, based on the findings of this work it is concluded that Saudi Arabia is in progress in terms of developing financial and economic policies in order to increase investment and direct it towards the stock market.

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