Monthly Monetary Indicators

Saudi March money supply, deposits soar as government allots bonuses

- **M3 growth jumps to 20-month high as state distributes SR53 billion in bonuses to civil service employees**
- **Demand deposits lead 13% rise in deposits to more than SR1 trillion**
- **Consumer indicators up in signal inflationary pressures could mount**
- **Private sector loan growth at 22-month high, foreign assets jump on oil rise**

Saudi Arabian money supply growth surged to a 20-month high in March of 13.8% and bank deposits jumped 13.3% to more than SR1 trillion as the government handed out SR53 billion in bonuses that are likely to fuel short-term inflationary pressures. The latest data of the Saudi Arabian Monetary Agency (SAMA) also show that, as a consequence of higher oil prices, the kingdom’s foreign assets advanced almost 11% to a record level. Bank credit growth to the private sector further extended its moderate climb to 6.5%, a 22-month high.

In the first quarter, King Abdullah announced a block of initiatives to support Saudi citizens estimated to cost SR485 billion over several years, including plans to raise wages, pay out one-off bonuses, introduce an unemployment benefit, build new homes and create jobs. The immediate distribution of bonuses in the first quarter added about SR53 billion to fiscal expenditures this year, according to our estimates. Many private sector companies and banks followed suit with similar bonuses, greatly enhancing the purchasing power of citizens and residents.
The implications for money supply and deposit growth were apparent. Broad money supply (M3) increased 13.8% year on year to SR1.15 trillion in March, while growth in M2 – which includes demand deposits, currency outside banks and time and savings deposits – rose to 14.9%, the highest since June 2009. Saudi Arabia’s monetary base, comprising highly liquid currency in banks and held by the public, soared 24.7% in March to SR276.1 billion and, as a result of the liquidity boost, the money multiplier fell to 4.16 from 4.52 the month earlier.

The surge in privately held funds was reflected in total bank deposits, which grew 13.3% to SR1.04 trillion in March compared with the year earlier, the fastest rate of growth since September 2009. Non-interest-bearing demand deposits advanced by an annual 28.2% to SR579.5 billion during the month, up 7.1% from February.

Customers have favoured demand deposits for the last two years due to their accessibility and the low interest rates offered on savings deposits. Demand deposits now account for 55.5% of total deposits, compared with less than 42% at the start of 2009. Time-and-savings deposits, by contrast, slipped 5.1% year on year in March, although they are up almost 1.8% from February, while foreign currency deposits grew by an annual 6.4%.

One short-term consequence of government payouts and salary hikes this year should be a rise in inflation as private consumption picks up pace, with consumers more likely to pursue big-ticket purchases such as cars or appliances. Headline inflation fell in February to a 10-month low of 4.9%, but we anticipate prices will gain impetus in the coming months due to money supply growth, higher global food prices, steep rents and the weaker U.S. dollar. Inflation should average 5.6% for the year, up from 5.1% last year.

Private consumption, meanwhile, is already on the rise. In March, there was a notable gain in the number and value of point of sale (POS) transactions, which grew 22.6% month on month to SR7.7 billion. The number of transactions rose 18.7% to 15.1 million compared with the month earlier. Saudi Arabia is a largely cash-based society, yet these data send a clear signal that residents are spending more money after receiving bonuses equivalent to a 17% one-time pay rise. The value of commercial and personal cheques, too, jumped almost 29% on the month to SR51.6 billion, illustrating the immediate impact of the government cash injection.

**Loan growth maintains moderate pace**

Momentum behind private consumption aside, bank lending to the private sector continued to exhibit modest rates of growth. Private bank credit, excluding investments in securities, rose 6.5% in March to SR763.93 billion, the fastest growth rate since May 2009 but still well below double-digit levels witnessed prior to the financial crisis. Over all claims on the private sector were up 7%, while claims on the public sector climbed 3%. Bank credit to public sector enterprises rose 5.8% month on month.
Monetary Watch

April 27, 2011

The moderate pace of loan growth compared with deposits took the loan-to-deposit ratio down to 76%. Banks have plenty of cash to extend new loans, but the appetite of private sector businesses remains guarded. The government has maintained its position as the primary financier of strategic projects due to the combined effect of risk aversion among banks and hesitant private sector firms. As such, we anticipate government sector GDP will expand 5.6% this year, its third straight year of growing more than 5%, while private sector GDP growth should stand at a slower 4.2%.

Long-term loans yet again took precedence as banks are more likely to get involved in project financing to ventures where the state is a key participant. Loans maturing in three years or longer, classified as long term, jumped 15.2% in March, compared with 10.7% growth in medium-term loans (one to three years) and 1.5% for short-term lending (less than one year).

Oil surge supporting huge state outlays

The government’s massive spending boost this year, which should yield overspending of 45% on targets set out in the budget, has been supported by a high oil price environment. U.S. oil prices averaged around $103.4 a barrel in March – 16% higher than they were in December. Brent crude prices also jumped to $114.4 in March.

Net foreign assets of SAMA grew in tandem by 3.8% in the month to March to SR1.73 trillion ($460.98 billion), a record level. This marks a 10.9% rise from the year earlier as the central bank invested in both long-term, low risk foreign securities and deposited funds abroad.

Flush with liquidity, banks also boosted their foreign assets by 10.4% month on month to SR127.1 billion, while the money they deposited in the central bank’s reverse repo window soared by almost a third to SR95.1 billion, the highest in more than a year. For the first time in almost two years, cumulative bank profits rose in March, according to SAMA data. Profit growth of the country’s commercial banks was up 9.6% year on year. An improved lending environment and lower provisioning contributed to this shift in fortune.

While citizens are likely to consume more this year, there is little evidence companies are planning to substantially increase imports to meet new demand. Our Q2 business confidence index showed company executives planned to reduce inventories or keep them at similar levels in the next six months. New letters of credit (LCs) taken against the import of goods fell 0.7% year on year in March, although they were up almost 22% from February levels, mostly owing to an 84% jump in LCs for machinery imports, SAMA data show.

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Source: SAMA, Thomson Reuters

SAMA foreign assets jump to record as oil prices soar

Oil price

SAMA net foreign assets

SR (bn)

USD (bn)
Monetary Watch

April 27, 2011

Monetary base soars in March on government bonuses

Long-term loans gain precedence amid credit recovery

Oil prices cross $100 a barrel in March

Dollar continues to lose ground versus euro

Consumer indicators gain momentum, signal consumption rise

Settled letters of credit advance in March
Monetary Watch

April 27, 2011

Loan-to-deposit ratio falls on money supply, deposit surge

Bank holdings of government debt stable in March

Real estate credit leads rise in consumer loans

Lending by sector Q1 2011

Bank profit growth rises first time in almost two years

Bank deposits with SAMA jump in March
Monetary Watch

April 27, 2011

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