Monthly monetary indicators

Little thrust behind loan growth, but trade, consumer data perk up in October

Money supply growth slows, 2010 poised for lowest growth since 1998

Private sector loan growth edges higher, lower deposits reflect weak momentum

New letters of credit, point of sale transactions point to recovery

SAMA foreign assets jump 10.4% as oil touches $82

Saudi Arabia’s private sector credit growth once again inched higher in October, although declines in deposits and money supply growth lent little impetus to optimism for a decent fourth-quarter turnaround in monetary conditions. Trade and consumer activity, however, appeared to pick up following a weak showing in September, according to the latest data of the Saudi Arabian Monetary Agency (SAMA).

Lacklustre credit growth has characterised most of 2010, and the fourth quarter appears set to be no different. Resulting from both a reticence among banks toward new lending and caution among private investors still re-positioning themselves following the financial crisis, private sector credit growth expanded just 5.1% in October compared with the end of December 2009. Bank credit to the private sector grew 3% year on year in October, while claims on the private sector, which combine bank credit with investments in private securities, rose an annual 4.1%.

While the pace of annual growth in private sector claims looks likely to pick up in November and December, overall growth for the year is unlikely to exceed 7.4%, below our 8% forecast. As we stated in our December monthly report, Saudi banks probably will not witness a return to double-digit rates of loan growth before 2012-2013, when a greater stream of project financing deals bolsters their balance sheets. All of the credit growth that happened in October was from loans carrying medium- to long-term maturities (one year or longer), which grew 2.8% and 1.4%, respectively, from the month earlier. Short-term loans carrying maturities of less than a year, on the other hand, fell.

Credit to public sector enterprises, meanwhile, dropped almost 5% in October from September to SR32.27 billion. But loans that banks have extended to state-linked entities are still up almost 15% from December. The government has been steering the economy this year by taking the lead in financing strategic expansion projects.
Weak deposits, money supply growth

The state’s efforts to stimulate the economy by increasing spending have failed to noticeably advance growth in deposits or money supply in 2010. Total deposits fell in July and August before rising by 3.2% in September. In October, they fell again by 1.1% to SR945.2 billion, just 0.5% above deposit levels at the end of 2009. The decline in October was due to lower time-and-savings and foreign currency deposits. Demand deposits continued to grow, reaching SR499.53 billion, almost 53% of total deposits.

Non-interest-bearing demand deposits have gained favour among corporate and individual clients in the past two years due to their accessibility and the low interest rates paid on interest-bearing deposits. This scenario is likely to remain in place until such a time as SAMA raises its benchmark interest rates, which we expect will not happen before the latter part of next year. The central bank has deliberately kept its benchmark repurchase rate at 2% and reverse repurchase rate at 0.25% since mid-2009 in an effort to stimulate banks to lend. Since Saudi Arabia pegs its currency to the U.S. dollar, interest rate policy in many ways mirrors official Federal Reserve policy.

Banks, though, have continued to shelter their liquidity. Commercial bank foreign assets have more than doubled since the beginning of 2009 in conjunction with bank vigilance. While their foreign asset holdings declined 6.6% in October from the month earlier, banks stashed more with the central bank – including in statutory deposits and in the reverse repurchase window.

Expansion in broad money supply (M3), fell to just 3.7% in October, down almost 1% from September levels. Full-year money supply growth looks poised not to exceed 4% in 2010, slower than any year since 1998. The money multiplier has, nonetheless, improved through the course of the year. In October it was 4.52 which, while lower than almost 4.8 in August, has risen from just 4 at the start of the year. Acceleration in economic activity has been taking place on the ground. We expect private sector GDP will have grown 4% in 2010 while government sector GDP will have expanded 4.6% by the end of the year. The country is also likely to post twin fiscal and current account surpluses.
Trade, consumption activity picks up

Enhanced trading activity was evident in October letters of credit (LCs) data. The value of new LCs signed against imports jumped 61.5% year on year, and, following a big drop in September, rose almost 50% from the month earlier. There was a broad rise in the value of LCs for food imports, building materials, cars and machinery in October.

Domestic consumer activity is also on the rise. The number of point of sale transactions that were concluded in October stood at 13.1 million, valued at SR6.15 billion, up 10.6% from September and 26% from the year earlier. The value of commercial and personal cheques gained 48% in October from September and was up 15% on the year at SR46.7 billion, the highest level since March. While this does not include cash transactions that continue to account for the majority of purchasing activity, it offers a glimpse into the sentiment of consumers. One of the key drivers of inflation this year has been the other expenses and services, which recorded inflation of 8.9% in October, on par with the increase in the rental index. Hence, consumers have been more active than they were a year ago.

Strong consumer activity likely continued in November in conjunction with the annual Hajj pilgrimage, which attracted a record number of pilgrims from abroad, according to preliminary data. This likely had a ripple effect on the wider hospitality and services sectors in the country and should reflect positively on consumer statistics.

The central bank, meanwhile, built its net foreign asset holdings up 10.4% in October from the month earlier as it benefitted from an average oil price of almost $82 a barrel. Net foreign assets of SR1.61 trillion ($429.4 billion) are now the highest since January 2009. Most of the new foreign assets went into deposits with banks abroad, which grew almost 14% from the month earlier, data show. Whatever scenario may evolve in the coming months globally, this substantial cushion will shield Saudi Arabia’s economy from contagion and enable the state to continue spending heavily push forward its $384 billion five-year development plan.
Monetary Watch

December 6, 2010

Loan to deposit ratio gains as deposits fall

Money multiplier dips for second month in October

New letters of credit jump in October

Oil price rallies toward $90 in early December

Dollar regains some ground vs euro, other currencies

Banks retain liquidity, at home and abroad
Disclosure appendix

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