Monthly Monetary Indicators
Torrent of citizen funds continues in April, but loan growth tapers

- M3 growth surges 17%, two-year high, as state bonus payments filter through
- Private sector loan growth slips off 22-month high; foreign assets at fresh record
- Demand deposits soar 33% YoY, leading 16.5% gain in bank deposits
- POS transactions jump for second month as Saudis relish in spending power rise

Saudi Arabian money supply growth surged substantially in April to its highest level in two years and consumer indicators showed generous government and industry handouts this year had boosted consumer confidence. High oil prices also shored up foreign assets to a fresh record, while imports improved. Yet, these positive indicators were not reciprocated by higher growth in bank lending to the private sector, which tapered off slightly as a likely consequence of the amplified focus on government-led development.

Banks in Saudi Arabia were hit with a torrent of new liquidity after the government paid out about SR53 billion in bonuses to civil service employees, a figure that excludes similar payouts offered by private sector employers and banks. Many private companies doled out two-month bonuses to staff in April, following in the footsteps of their state-owned counterparts a month earlier.
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Accordingly, broad money supply jumped 17.2% to SR1.18 trillion in April, the highest rate of growth since April 2009, and a level that if sustained would contribute to inflationary pressures in the kingdom. M2— which includes demand deposits, currency outside banks, and time and savings deposits—also advanced 17.8%, a 28-month peak. It is likely money supply growth will slow down in the coming months due to the one-off nature of the hand outs, however the implications of the massive rise in public spending power could be felt for some months in the cost of consumer goods.

Monetary base, a measure that reflects highly liquid currency in banks and held by the public, soared 26.5% in April. Most citizens were prone to keeping their funds in non-interest-bearing demand deposits, favoured due to their accessibility and a lack of appeal of savings deposits due to low interest rates. Demand deposits climbed 33% year on year in April, representing 57.4% of total deposits, up from just 48% at the start of 2010. Recurrent payments prior to the summer break could compel businesses to place funds in demand deposits to keep them easily deployable. Time and savings deposits, by contrast, fell 6.8% in April, including a month-on-month decline of 3.8%. Foreign currency deposits also eased 2.6% month on month.

POS transactions jump as Saudis spend bonuses

Private consumption has clearly picked up in the kingdom as a result of the slew of state-funded citizen benefits. The value of point of sale (POS) transactions increased 18% in the month to April 30 to SR9.11 billion – a 58% surge compared with the year earlier, indicating consumers were willing to make big-ticket purchases.

The number of POS transactions also rose sharply by 31.8% year on year in April. Saudi Arabia is still a largely cash-based society. Therefore, while POS transactions provide an indication about the level of consumption, they do not reflect the totality of the impact from government bonuses on consumer purchasing patterns.

For the time being, the inflationary impact has been muted. Headline inflation rose only slightly to 4.8% in April from 4.7% in March, mainly due to a decent decline in the pace of rental inflation and some base effects. Even other categories like clothing and home furniture were mostly stable in April, while the ‘other expenses and services’ category climbed only moderately. This could indicate many retailers are loath to increase prices as they sell excess inventory ahead of restocking during the summer, including the June wedding season. The central bank said in a quarterly inflation report it expected inflationary pressures to continue “at moderate rates” in H2.

Import trends continued to exhibit the modest pace in inventory growth. New letters of credit (LCs) taken against the import of goods rose 12% year on year in April, although they were down 11.4% from March levels, mostly owing to a drop in machinery, vehicle and food imports.
Private sector credit growth slips despite fervour

The block of state initiatives unveiled in the first quarter to support citizens underpinned the government’s willingness to continue to drive the economy. This enthusiasm has not yet led to an extensive improvement in the private sector’s investment appetite.

Private bank credit, excluding investments in securities, expanded 6.4% in April, edging lower from growth of 6.5% a month earlier, which had been the highest since May 2009. The pace of month on month expansion in private credit also decelerated. Credit to public sector enterprises similarly dropped 5.8% in the month to April 30.

With all of the new deposits, banks are well-capitalised to be able to extend new loans, although they continue to apply more stringent rules for loan extensions. Private sector businesses meanwhile are not expanding their businesses as much as they had been prior to the financial crisis. These factors have contributed to the temperate pace of improvement in the loan environment.

Most of the loans that are being granted are longer-term in tenure, indicating that project financing among larger companies, particularly those working alongside the government, is picking up. Loans maturing in three years or longer, classified as long-term, grew 15.9% in April, compared with 9.9% growth in medium-term credit (one to three years) and 0.9% for short-term lending (less than one year).

In an environment where lending is weak and deposit growth is strong, it is not surprising to see the loan-to-deposit ratio sag to a low 74.8% in April, down from 82.3% a year earlier. Banks are holding a lot of money abroad, their net foreign assets up 20.8% in April to SR121.6 billion. They are also becoming profitable as they take fewer provisions and lending, while slow, picks up relative to a year ago. Cumulative bank profits rose 6.5% in April, their second month of gain after almost two straight years of declining.

Net foreign assets of the central bank, meanwhile, expanded by 13.2% year on year to SR1.76 trillion ($468.34 billion), a record and the highest annual growth in two years. U.S. oil prices averaged $110 a barrel in April, up more than a fifth since the end of last year. Brent crude surpassed $120 a barrel.

Foreign security investments took precedence, rising 11% to SR1.27 trillion, while SAMA deposits with banks abroad slipped 1.8% compared with the month earlier, likely due to the government’s need to draw on funds to finance a hefty budget. The pace of foreign asset growth is likely to slow in the coming months as oil prices stabilise at lower levels and the bill to finance Saudi Arabia’s SR485 billion spending programme accumulates.
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Monetary base extends jump after Q1 bonuses

Money multiplier

Long-term loans continue to dominate new credit in April

Dollar makes slight gains versus euro in May

Oil tapers off in May after April surge

Settled letters of credit stable in April

Consumption climbs in April as government rolls out citizen benefits
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Loan-to-deposit drops again as money supply soars

Bank holdings of government debt rise in April

Real estate credit leads rise in consumer loans

Lending by sector Q1 2011

Bank profit growth climbs again in April after two-year decline

Bank current deposits at SAMA fall in April, others stable
Disclosure appendix

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