Monthly monetary indicators
Loan growth weakens, money supply dips with Ramadan slowdown

- Private sector credit growth falls to 5-month low in August
- Money supply, deposits ease from July levels in Ramadan slowdown
- Oil prices support 16-month peak in growth of SAMA foreign assets
- Point of sale transactions signal consumer demand recovery

Key banking indicators showed weak performance in August corresponding with the holy month of Ramadan, according to the latest data of the Saudi Arabian Monetary Agency (SAMA). Growth in bank lending to the private sector was the slowest in five months, total broad money supply fell from July levels, and bank deposits declined almost 2%. Strong oil prices averaging $77 a barrel in August, however, enabled SAMA to replenish its net foreign assets to SR1.57 trillion ($419 billion) – the highest since February 2009 – giving support to the kingdom’s fiscal position. State spending continues to be the motivating force behind economic growth, but Saudi Arabia’s monetary outlook remains guarded, with modest rates of growth in lending and money supply likely to continue for the remainder of 2010.

The month of Ramadan usually coincides with a slight slowdown in commercial activity as companies observe shorter working days and take a week-long holiday to celebrate Eid al-Fitr marking the end of the month of fasting. Growth in outstanding bank credit to the private sector, excluding investments in private securities, fell to 1.7% year on year in August from 3.4% in July, the slowest pace of growth since March. Total bank claims on the private sector witnessed growth of 3.3% in August, down from 4.9% a month earlier, SAMA data show.

Private sector claims have risen 4.4% since December levels, but growth momentum remains weak. Subdued bank credit growth is linked both to stricter loan criteria applied by banks and the less-active private sector; companies are still holding back on major expansion plans, relying on working capital and government contracts. The new loan growth that happened in August was skewed toward loans carrying short-term maturities of less than one year. Credit classified as short term rose 1.3% in August, while medium and long-term loans fell in value. Banks are unlikely to see a substantial revival in credit until there is good growth in long-term project financing, which we expect will take place in 2011 and 2012.
Weak money supply growth carries on

There was also a notable decline in deposits of 1.8% from July to SR925.87 billion, which led to a rise in the loan-to-deposit ratio to 82.6% from 80.8% the month earlier. Deposits fell broadly; foreign currency deposits dropped 7.2% from July, time-and-savings deposits eased 0.9% and demand deposits declined 1.1%. The low-interest-rate environment continues to favour non-interest bearing demand deposits over time and savings deposits. Demand deposits accounted for 53.1% of the total in August, up from 46.1% at the end of last year.

Despite a continued acceleration in inflation to an 18-month peak of 6.1% in August, Saudi Arabian money supply growth remains muted. Overall broad money (M3) fell 1.1% in August from July to SR1.02 trillion, although the annual growth rate rose slightly to 2.9% from July’s 2.3%. M2 money supply growth was higher at 6.2% in August.

From 2005 to 2009, M3 growth rates had consistently been in the double digits, leading to a more than doubling of money supply over that period. Against this backdrop, the slowdown in money supply growth in 2010 is marked and goes hand in hand with the passive credit market. We expect that money supply growth likely resumed at a faster pace following Ramadan, although not at a level that would trigger additional inflationary pressures in the short term. Food inflation at a 19-month peak of 8% in August, rents, and general goods and services prices are the main drivers of inflation at the moment.

The Saudi monetary base, comprising highly liquid currency in bank deposits and held by the public, also declined slightly according to SAMA data. The money multiplier, which measures the extent to which the creation of money in the banking system causes money supply growth to exceed growth in the monetary base, remained at 4.78, the highest since 2008.

Foreign assets climb; consumer activity rises

Fiscally speaking, Saudi Arabia is benefitting from higher oil prices and stronger energy demand from Asia, the destination of a majority of its exports. Net foreign assets held by SAMA rose 9.7% in August to SR1.57 trillion ($419 billion), the highest annual growth rate since April 2009. To put this into perspective, growth in net foreign assets had peaked at nearly 68% in August of 2008, a month after oil prices touched a climax of almost $150 a barrel. The kingdom drew down foreign assets in 2009 to finance a stimulatory spending programme designed to keep the economy moving despite the decline in oil prices and output. This year, SAMA has added SR53.7 billion ($14.3 billion) to its foreign assets, which comprise a combination of foreign security investments and bank deposits. In August, SAMA’s investments in foreign securities rose 4.9%, taking their 2010 gains to 7.4%. Deposits with banks abroad witnessed a year on year jump of almost 33%.
While the central bank builds its foreign assets, banks drew theirs down by almost 13% from July. Commercial banks exhibit high levels of liquidity but have chosen to park their excess cash in investments abroad or with the central bank rather than lending it. Bank foreign assets are still more than double their level at the end of 2008. They also reduced their holdings in the central bank’s reverse repo window for a second month in August by 20.7% from the month earlier, taking them to less than half the level they were in January. The central bank has held interest rates low to encourage banks to jumpstart lending. A prolonged decrease in foreign assets and central bank deposits over several months could signal that bank lending will gain momentum. In August, however, the drops coincided with a 27% rise in the amount of cash held in vault.

With the improved macro-economic backdrop and state stimulatory spending continuing to drive the economy, there has also been a return in consumer activity. Inflation in the “other goods and services” category hit 8.5% in August, consistent with anecdotal evidence of an upturn in domestic demand among Saudi Arabia’s 27 million residents. The value of point of sale transactions in August rose almost 31% from the year earlier, while the amount of commercial and personal cheques grew 15.7%.

Trade flows, meanwhile, have slowly improved in 2010. There was a 41.4% annual rise in new letters of credit issued in August, including a 23.3% rise in letters of credit taken to finance imports of automobiles, representing a quarter of the total. LCs for financing food imports more than doubled while those taken for building material imports grew 34%, SAMA data show.
Credit growth remains very slight in Aug

Money multiplier holds firm at 21-month high

Dollar weakens as euro gains momentum

Oil price sustains upward momentum above $80 in Oct

Consumer demand strengthens in summer months

Money supply growth slows in August
Disclosure appendix

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