



## Saudi Monetary Update

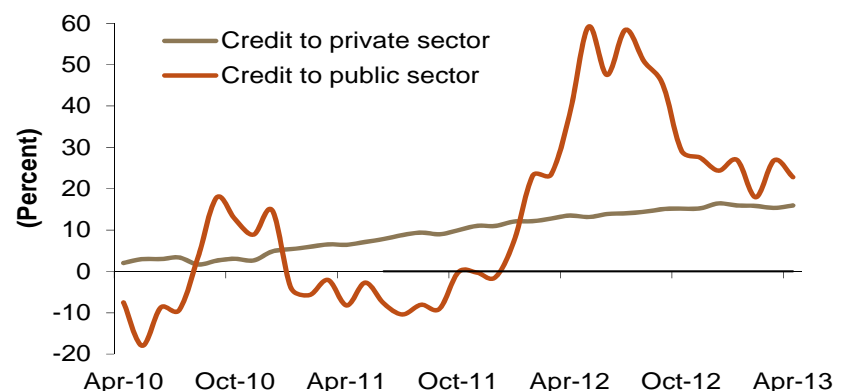
### Positive credit growth and ample liquidity

- Net credit issued to the private sector accelerated this year, recording SR49 billion year-to-April and a growth of 16 percent year-on-year in April. Claims on non-financial government entities also maintained strong growth of 23 percent year-on-year in April.
- Total deposits increased by SR53 billion year-to-April. The latest data shows a growth of 14.5 percent year-on-year in April. The loan-to-deposit ratio declined slightly to 80.4 percent.
- SAMA's gross foreign assets continued to grow, rising SR78 billion year-to-April. The additional FX reserves was allocated entirely to investment in foreign currencies.
- Bank excess deposits with SAMA remained elevated at SR89.6 billion in April, though it is significantly lower than its level earlier this year (SR111 billion in January), reflecting the strong liquidity position of the domestic banks.

### Rapid money supply growth

The monetary conditions in the Kingdom reflects the strong performance of domestic economic activities particularly with all three measures of money supply showing strong growth rates since early 2011. Expansionary fiscal policy and low interest rate environment played an important role in supporting such a trend. Growth in broad money (M3) picked up slightly to 14 percent year-on-year (1.5 percent month-on-month) in April from 12.3 percent in March. The narrower M2 measure, which includes demand deposits,

**Figure 1: Bank credits**  
(year-on-year change)



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All measures of money supply registered strong growth so far this year...

...reflecting the positive performance of the domestic economy...

...but raising the upside risk to prices

SAMA's foreign assets continued to expand despite lower crude oil prices....

... and we expect the trend to continue this year, though at a lower pace than last year

Banks' net foreign assets contracts so far this year...

time and savings deposits and currency outside banks, also expanded 15 percent year-on-year (1.2 percent month-on-month) in April versus 13 percent in March. The growth in both measures were driven by healthy growth in demand, time and saving deposits, which increased 15.8 percent year-on-year (1.3 percent month-on-month) in April compared with 13.5 percent in March. The monetary base also contributed to expanding money supply, recording a month-on-month growth of 2 percent which pushed the annual growth to 10.7 percent. The monetary base acceleration was driven by an increase in bank deposits with SAMA (3.9 percent month-on-month) owing to stable credit expansion versus a strong growth in deposits. At the same time, currency outside banks reversed the previous month's contraction and expanded 0.15 percent month-on-month in April. Given such monetary dynamic, the money multiplier reversed its upward trend and slightly eased to 4.48 percent.

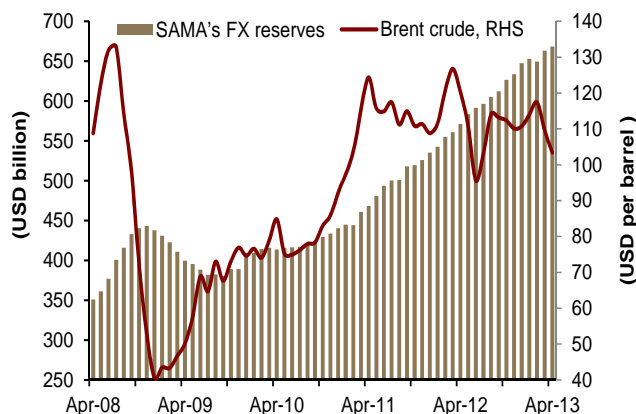
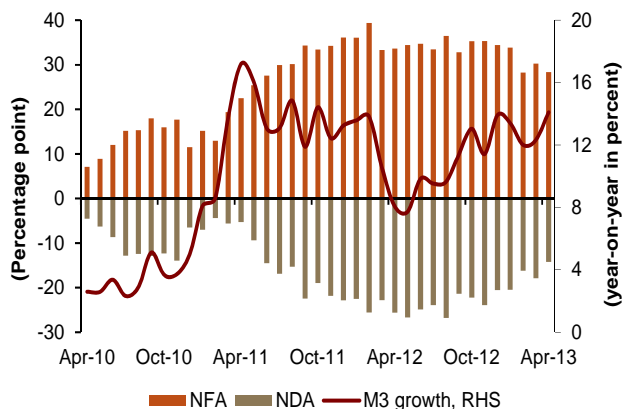
**Net foreign asset position continues to improve**

The net foreign assets (NFAs) of the Saudi financial system continued to expand, reaching SR2,638 billion in April compared with SR2,566 billion at the end of last year. SAMA's NFAs recorded SR2,506 billion (\$668.4 billion) in April owing to SR78 billion increase in gross foreign assets year-to-April. Its foreign liabilities have marginally increased from SR4.1 billion at the end of last year to SR4.7 billion in April. The improvement in gross foreign assets reflects in part a rebound in oil exports during February and March, which were scaled slightly up to 7.2 million barrel per day (mbpd) compared with 7.1mbpd in December and January. Foreign asset position also contributed to an expansion in SAMA's total assets, which grew 3 percent year-to-April to SR2,558 billion. Within foreign assets, SAMA increased its investment in foreign currencies by SR137.5 billion year-to-April while reducing deposits with banks abroad (SR-59.4 billion) as well as investment in currencies convertible to gold (SR-717 million). We expect the positive momentum in SAMA's foreign assets to slightly slow over the coming few months relative to their strong growth last year as oil prices shift to below \$105 per barrel (pb).

The NFAs of the commercial banks contracted by SR6.4 billion, or 4.8 percent year-to-April. Although gross foreign assets slipped by 5.5 percent year-to-April, to SR201 billion, foreign liabilities also contracted but at a slower base of 5.4 percent year-to-April, to SR74 billion. At the same time, banks' total deposits with SAMA maintained

**Figure 2: NFA & NDA contribution to M3 growth**

**Figure 3: FX reserves and oil prices**





... while their excess deposits with SAMA remained elevated.

Net credit issued to private sector accelerates this year, in nominal terms.

We expect credit growth of 16 percent year-on-year in 2013...

....with medium- and long term credit taking the lead.

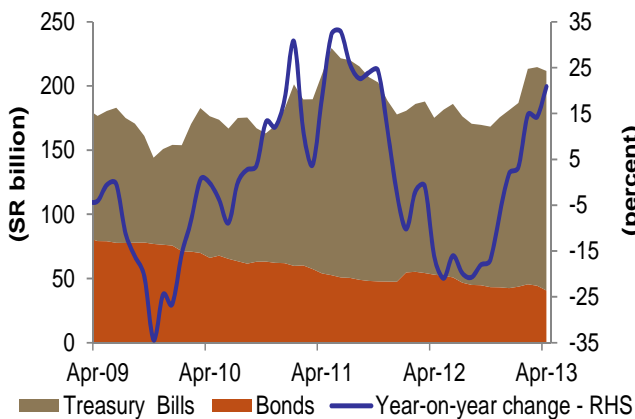
a positive trend for the second consecutive month in April, increasing by SR6.2 billion to SR167 billion, of which 53.6 percent or SR89.6 billion was excess reserves. While this is considerably less than the excess deposits earlier this year (SR111 billion in January), it remains 8 percent higher than in April 2012. This reflects the ample liquidity in the Saudi banking system which could translate into higher credit growth in the coming months. With such liquidity conditions and strong growth in all measures of the money supply, the risk is on the upside for domestic inflation.

**Credit to private sector maintains a solid path**

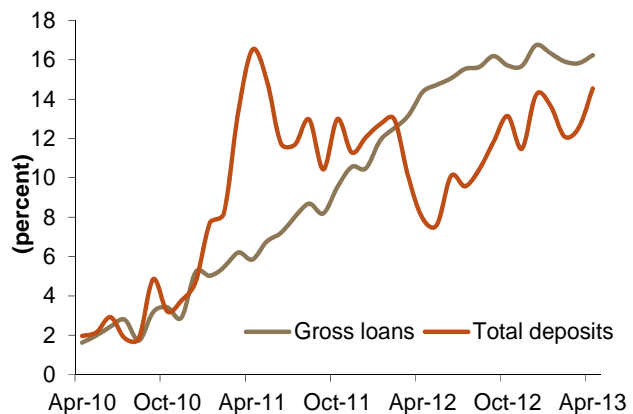
Credit to the private sector (excluding securities lending) expanded 16 percent year-on-year (1.6 percent month-on-month) in April compared with 15.4 percent year-on-year (1.1 percent month-on-month) in March. In year-to-date basis, credit expanded by 5.1 percent in April compared with 5.6 percent the same period last year. In nominal terms, however, net credit issued year-to-April was SR49 billion compared with SR45.9 billion same period of last year. Loans, advances and overdrafts combined to make the largest contribution (5 percentage point) to the year-to-April's credit growth. In addition, total claims on the private sector, which include investment in private securities, expanded 5.6 percent year-to-April and were 16 percent higher than a year earlier in April.

We expect growth in credit to the private sector to expand further this year (16 percent year-on-year), although with a smoother trajectory than we saw last year (16.4 percent year-on-year). On this basis, we expect net credit issuance to total SR144 billion in 2013 compared with SR136 billion in 2012. Expansionary government fiscal policy is expected to be the main growth driver, while regional geopolitical risk and external economic environment present a downside risk on general market sentiment. While credit with long-term maturity profiles should expand on higher government capital spending, the relatively small share of longer-term deposits (24 percent of total deposits) is expected to weigh on such expansion. Nonetheless, the share of long term credit to total credit improved to 28.4 percent in April compared with 24 percent a year earlier. Medium-term credit should also improve given the government's expansionary consumption spending, gains in Saudi public- and private-sector employment and the positive outlook for the housing market development. In fact, the share of medium term credit to total credit

**Figure 4: Bank holding of government securities**



**Figure 5: Bank deposits and loans (year-on-year change)**





*Banks increase their holdings of treasury bills this year.*

*Growth in credit to non-financial government entities remained high.*

*Deposits continue a strong growth...*

*...pushing the loan-to-deposit ratio to slightly lower level of 80.4 percent.*

*...3-month Sibor maintained a downward trend since January's peak.*

*Banks' profits are almost flat compared with last year.*

improved from 17 percent in April 2012 to 18.2 percent in April 2013.

Bank claims on government continues to expand owing to greater investment in treasury bills, while banks holding of development bonds continues its downward trend. While commercial banks' holdings of treasury bills slightly rose by SR858 million in April, they are 40 percent higher than their level a year ago, owing to a significant issuance in February (SR24.8 billion). Credit to non-financial government entities maintained a strong annual growth since February last year, it increased 23 percent year-on-year pushed by a significant 18 percent year-to-April growth. We expect the momentum to remain the theme throughout this year on the back of an expansionary fiscal policy.

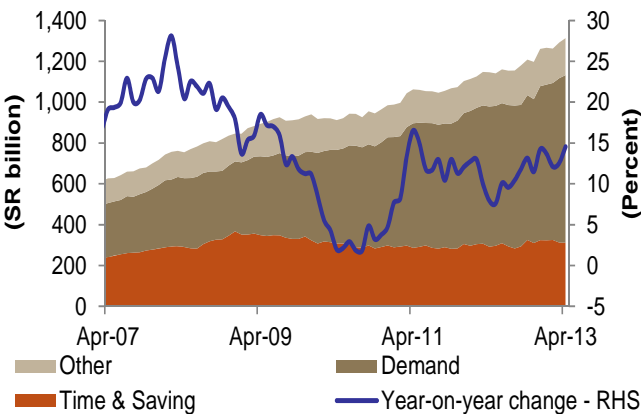
**Funding and liquidity profiles remain strong**

A rapid growth in total deposits since the introduction of the two fiscal packages in early 2011 has supported the banking sector funding profile. The growth of banks' total deposits accelerated to 14.5 percent year-on-year (1.7 percent month-on-month) in April from 12.5 percent year-on-year in March. In nominal terms, banks deposit increased by SR53 billion year-to-April with demand deposits increasing at a faster pace (SR67 billion year-to-April) while other type of deposits contracted. The contraction in saving and time deposits, however, slowed to SR13 billion year-to-April compared with SR-13.5 billion in January-April 2012. As monthly growth in credit to private sector and non-financial government entities (1.6 percent month-on-month) was slower than the monthly expansion in deposits (1.7 percent month-on-month), the system-wide loan-to-deposit ratio eased to 80.4 percent in April from 80.5 percent in March.

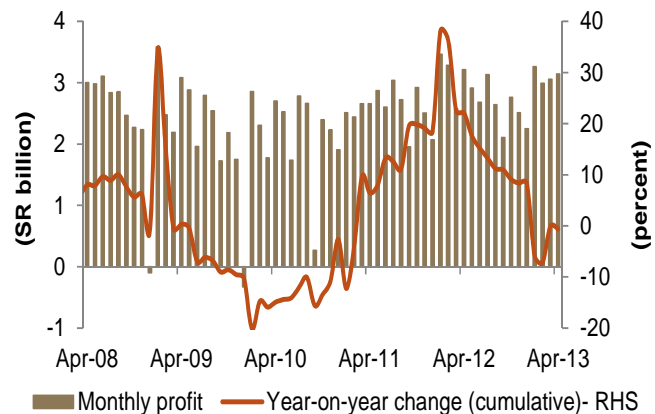
At the same time, 3-month Sibor continued on a downward trend after the January peak of 0.9975 percent to record 0.9637 percent on May 26. While the ample liquidity of the banking sector played a role on pushing the rate down, external political and economic environment are likely to slow the process.

The expansion in credit and low funding costs continue to contribute to a pick-up in bank profits, which registered SR12.4 billion year-to-April compared with 12.5 billion January-April 2012. We remain positive on bank profit growth, based on a solid path projection for credit growth and low funding costs in 2013.

**Figure 6: Composition of bank deposits**

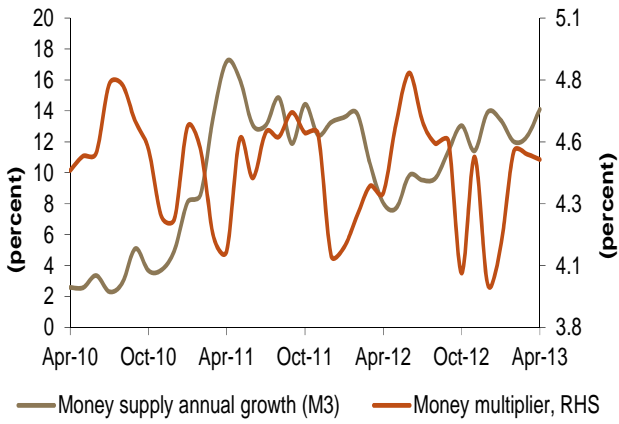


**Figure 7: Bank profits**

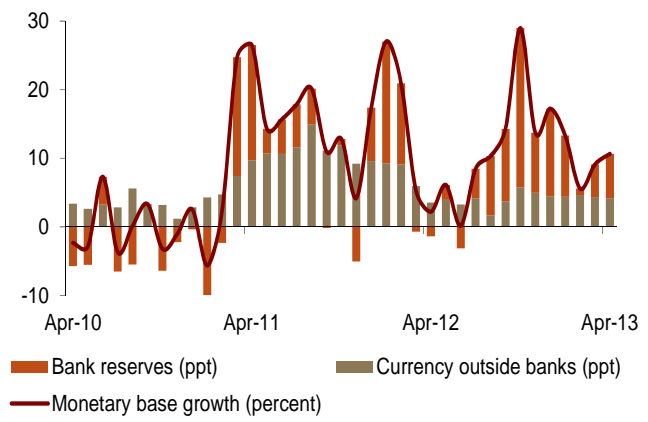




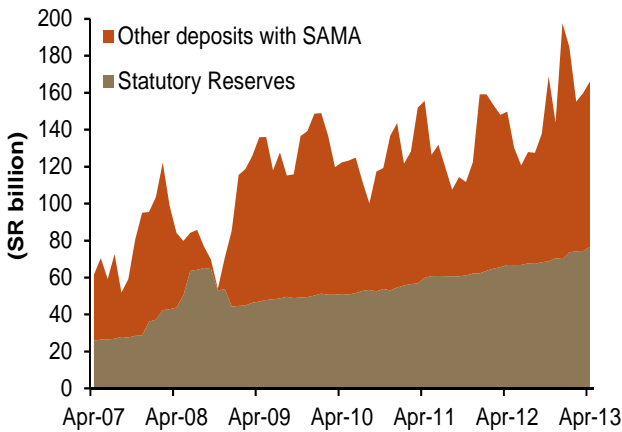
**Figure 8: Money multiplier and money supply**



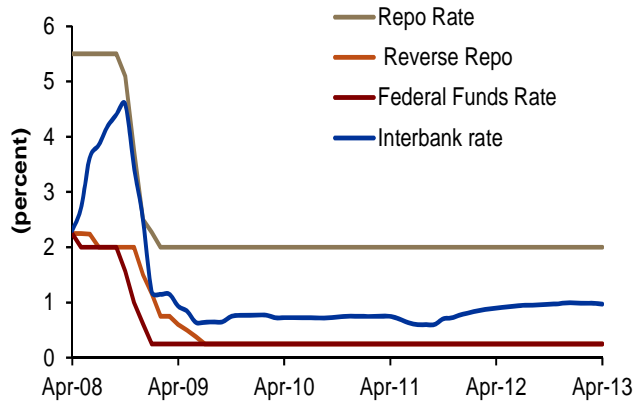
**Figure 9: Contribution to monetary base**



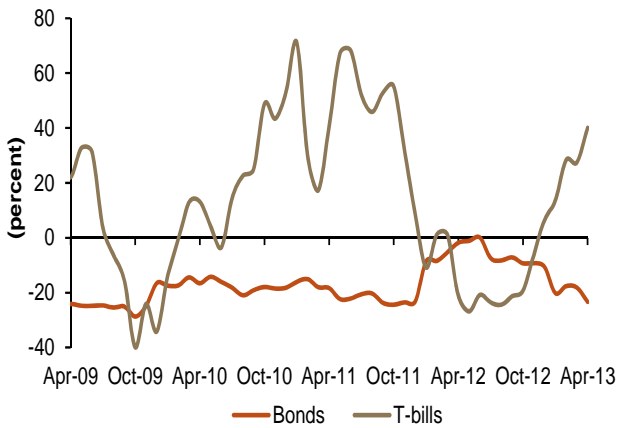
**Figure 10: Bank excess reserves with SAMA**



**Figure 11: Policy interest rates**



**Figure 12: Bank holding of government securities (year-on-year change)**



**Figure 13: Contribution to SAMA's total assets**

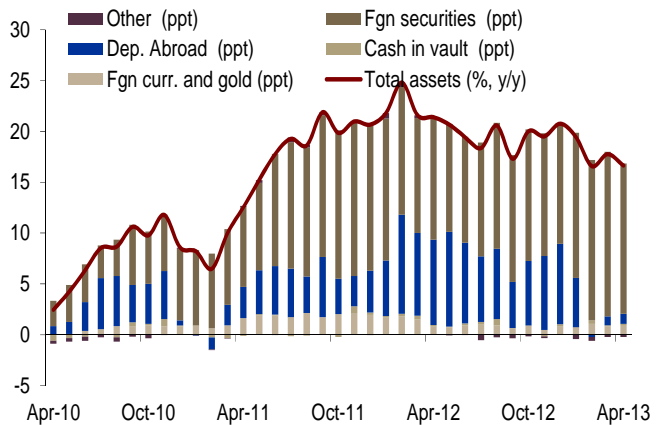




Figure 14: Lending by maturity

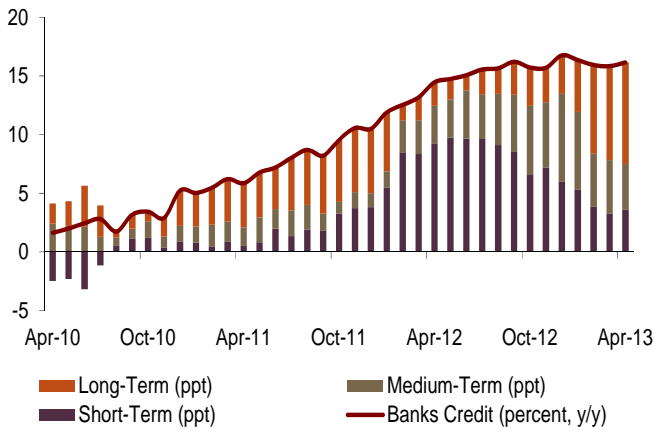


Figure 15: Lending by economic activities

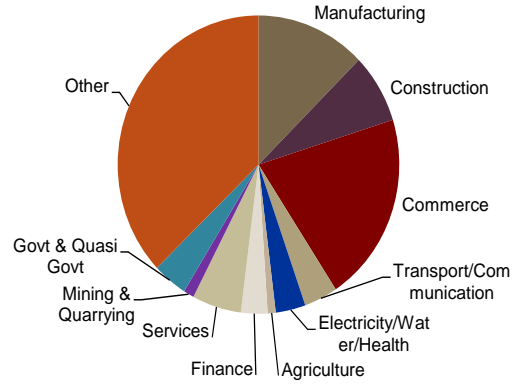


Figure 16: Consumer lending

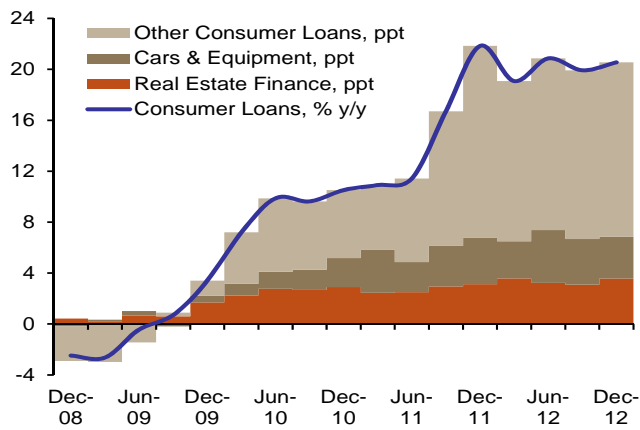


Figure 17: Loan-to-deposit ratio

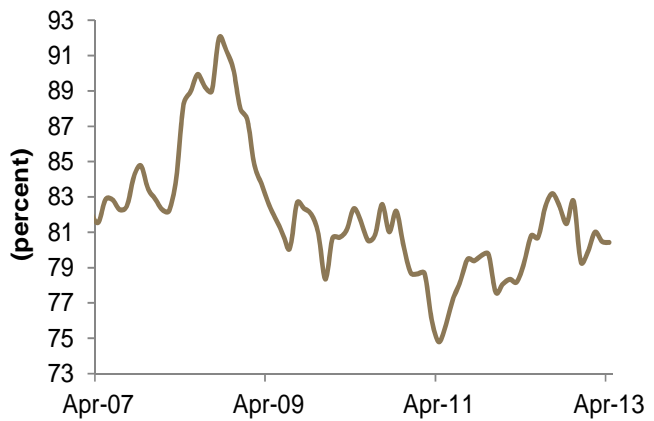


Figure 18: Growth of banking sector profits

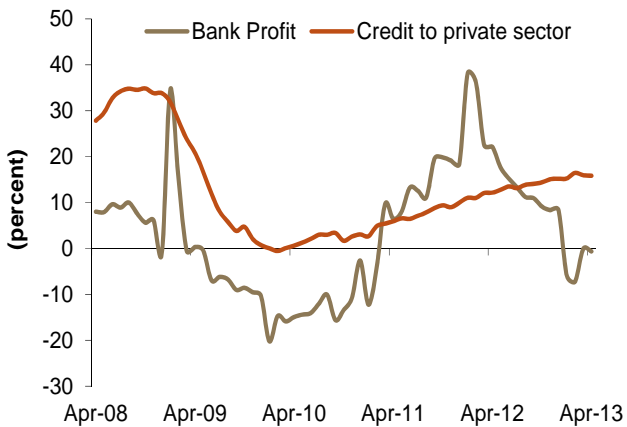
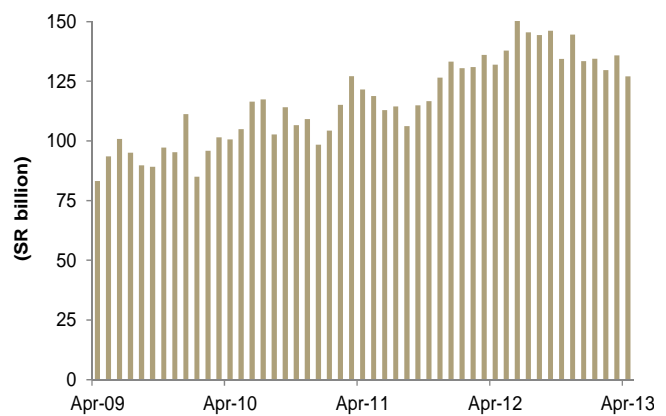


Figure 19: Banks' net foreign assets





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