جدوى للإستثمار
Jadwa Investment

September 2013

Saudi Monetary Update

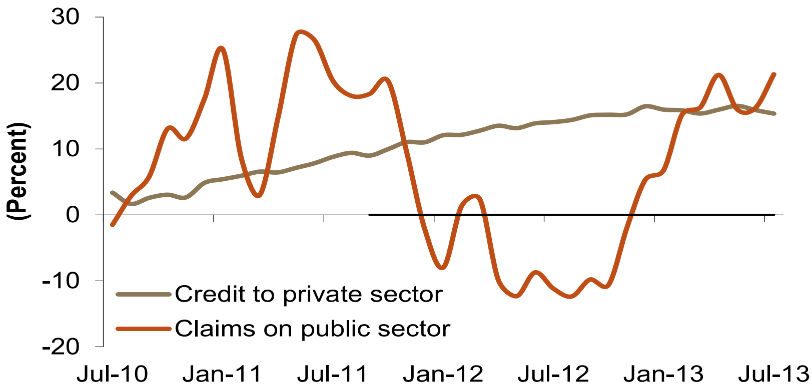
Flat deposits, but higher credit

- Net credit issued to the private sector during August maintains positive momentum. Growth of consumer lending recorded an all time high.
- Total deposits remain flat, though shift to demand deposits continues. Loan-to-deposit ratio up to 82.5 percent, the highest in 8 months.
- Money supply growth maintains a double digit growth. Bank excess deposits with SAMA shrink to lowest level since December 2008.
- Foreign assets continue to rise on the back of higher oil revenues, though the pace of assets accumulation slows.

Monetary aggregates picked up in July but remains buoyant

Monetary and banking data from the Saudi Arabian Monetary Agency (SAMA) are consistent with our view that private sector performance in the Kingdom remains solid. Growth of bank credit to the private sector is healthy and high oil revenues are supporting foreign assets. This performance is also reflected by a buoyant growth of money supply which maintained a double digit year-on-year growth for the eleventh consecutive month. Growth in broad money (M3) picked up to 15 percent year-on-year (0.5 percent month-on-month) in July from 14 percent in June. The narrower M2 measure, which includes demand deposits, time and savings deposits and currency outside banks, also increased to 15.9 percent year-on-year (0.7 percent month-on-month) in July versus 14.3 percent in June. The growth of the monetary base, the most liquid

Figure 1: Bank credit
(year-on-year change)



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All measures of money supply rose in July.

Currency outside banks grew the highest in 16 months…

...pushing monetary base growth back to the positive territory.

measure of money, stood at 7.8 year-on-year in July (0.6 percent month-on-month). While this expansion indicates that liquid money is being deployed in the economy, it also raises inflationary concerns particularly as currency outside banks accelerated by 14.5 percent year-on-year, the highest in sixteen months. As a result of the liquidity increase, the money multiplier broke its 2-month upward trend in May and June, recording 4.94 percent in July.

Foreign assets accumulation continues, growth will improve

Favorable oil prices and higher crude output contributed to positive accumulation of foreign assets...

...most of which invested in foreign securities...

…but we expect larger increase in foreign assets over the next few months as oil prices head north.

Saudi Arabia's foreign assets grew to a record high of SR2,560 billion in July as a result of robust oil revenues and possibly a higher return on SAMA's investments. Oil prices (Brent) averaged $108.6 per barrel in July compared to $103.2 per barrel in June while the Kingdom oil output rose from 9.6 million barrel per day (mbpd) in June to 9.7 mbpd in July. Within foreign assets, SAMA's deposits with foreign banks contracted 9 percent year-on-year in July, investments in foreign securities accelerated by 21.4 percent and foreign currency assets (excluding gold reserves) rose by 13.4 percent. The notable decline in deposits with bank aboard reflects in part the recent announcement by the government to support Egypt by $5 billion including $1 billion in cash. The pace of foreign assets accumulation is likely to pick-up over the next few months as oil prices and production trend upward, but it will remain shy of its levels last year. Year-to-July, foreign assets have increased by SR120 billion compared with SR239 billion for the same period last year. These levels of reserve accumulation will support the government budget and are consistent with our view for a budget surplus of 6.3 percent of GDP despite the current expansionary fiscal policy.

Bank NFAs declined for the second consecutive month…

...but foreign assets to liability ratio improved.

Bank excess deposits with SAMA shrank to lowest level since December 2008.

The NFAs of the commercial banks slightly declined for the second consecutive month in July to SR138.3 billion or 0.1 percent lower than its level in June. This declined was mainly due to a 0.8 percent month-on-month decrease in gross foreign assets to SR212 billion while foreign liabilities fell by 2 percent. Despite the decline in NFA, the foreign assets-foreign liability ratio rose to 2.9 in July compared with 2.8 in June and 2.7 at the end of last year. On the domestic front, bank liquidity position starts to shrink, though it remains adequate. At SR45 billion, bank excess deposits with SAMA fell to their lowest level since December 2008. This mainly due to additional funds being deployed into the economy in the form of claims on the private sector as well as treasury bills and credit to quasi-government entities while growth of deposits slow.

Figure 2: NFA & NDA contribution to M3 growth

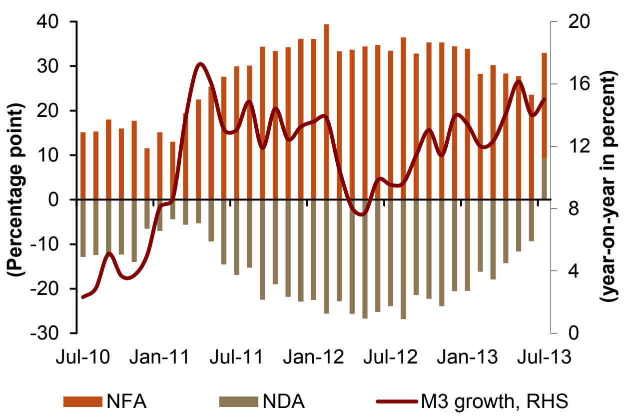
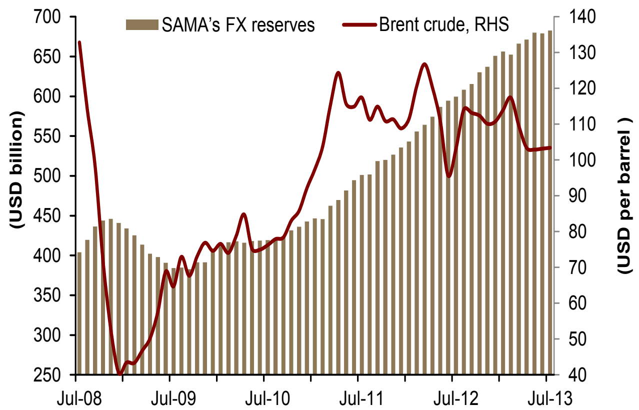


Figure 3: FX reserves and oil prices



Credit to private sector maintained positive growth

Growth of bank credit to private sector slowed to 15.3 percent year-on-year in July…

...owing to seasonal factors.

The growth of credit to the private sector (excluding investments in securities) slowed to 15.3 percent year-on-year in July from 15.9 percent year-on-year in June. The pace of month-on-month expansion in private credit also slowed in July to 1 percent, the lowest rate since November last year. This appears related to seasonal factors during Ramadan rather than a change in risk appetite. In absolute terms, banks increased their credit portfolio by SR10.9 billion in July pushing the year-to-date credit expansion to SR86.6 billion, 4.4 percent higher than in the same period last year. Overall claims on private sector, which include investment in private securities, advanced 15.6 percent year-on-year in July to SR1,092 billion.

Consumer lending growth recorded the highest growth for which data is available...

...owing to positive domestic factors including rapid consumption growth and strong demand for housing…

...all of which will keep the growth of consumer lending elevated.

The latest data also shows that banks have maintained a strong retail banking portfolios to meet a growing demand for consumer lending. The pace of this type of lending growth picked up in the fourth quarter of 2010, recording quarterly double digit growth rates since then. The pace of growth has accelerated recently, recording 24.5 percent in the first quarter this year, the highest growth rate for which data is available. Consumer lending accounts for 31 percent of total bank lending at the end of March compared with 27 percent at the end of 2010. This rapid growth reflects the strong domestic demand in the Kingdom which is boosted by two-year of labor market reforms, increasing employment in the public sector and five years of strong growth in the private non-oil GDP. In the three months to March 31, real estate finance surged 23 percent from the year earlier while auto finance was up 15 percent. Looking forward, consumer lending is likely to remain a key part of maintaining a double digit bank credit to the private sector over the next two years supported by both strong domestic demand particularly for housing as well as rising national disposable income.

We expect credit to private sector to record 16 percent growth this year.

We maintain our view that credit to private sector is most likely to remain strong for the rest of the year, thus we retain our forecast of year-on-year growth of 16 percent. On this basis, we expect banks to grow their credit portfolio by SR67 billion for the period between August and December this year. While both supply and demand of credit is likely to remain strong for this period owing to strong domestic economic fundamentals, the regional political turmoil presents a downside risk on general market sentiment, hence on

Figure 4: Contribution to consumer lending

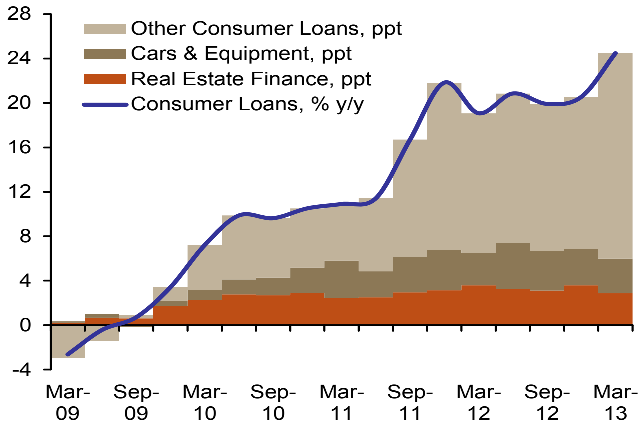
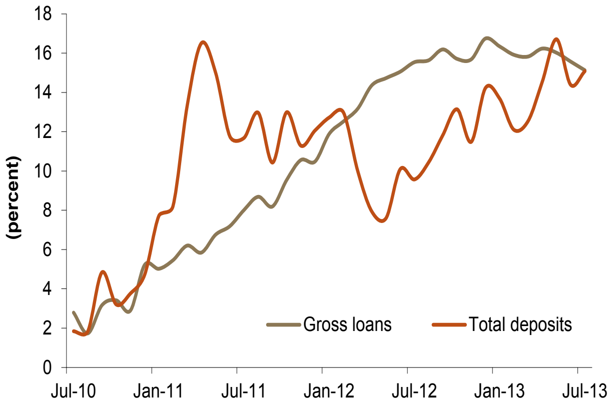


Figure 5: Bank deposits and loans
(year-on-year change)



credit growth.

Bank holdings of treasury bills continued to rise in July...

...partially replacing the decline in their holdings of government bonds.

Bank claims on the public sector rose by only 0.3 percent month-on-month in July. The SR266.6 billion in public sector claims are up 21.3 percent from the year earlier. New loan growth in July was largely due to bank increasing their holdings of treasury bills which expanded by 1 percent month-on-month while their investment in bonds fell by 6 percent. Credit to public sector enterprises also rose almost 4 percent in the month to July to SR48 billion, having contracted 0.8 percent in June.

Flat bank deposits but strong profit

Bank deposits were unchanged in July…

...owing to a drop in saving and time deposits…

...while demand deposits continued to rise.

Following a small contraction in June, bank deposits were flat in July. The low interest rate environment has continued to support deposits in non-interest bearing demand deposits. This trend has also been enforced by other seasonal factors in July which coincide with the beginning of Ramadan this year. Demand deposits accounted for 63 percent of overall deposits at the end of July, compared with 60 percent in last December. In July, demand deposits grew by SR9.4 billion or 1.1 percent from June and up 20.3 percent year-on-year. At the same time, time and saving deposits declined by 2.5 percent from June, though they remain 6.1 percent higher than a year earlier. Foreign currency deposits eased for the second consecutive month, falling by 0.6 percent month-on-month in July. This is normal as depositors began a seasonal withdraws that typically occurs during the summer months.

Loan-to-deposit ration rose to 82.5 percent…

...the highest in 8 months.

As monthly growth in credit to private sector and non-financial government entities (1.2 percent) has not been matched by growth in deposits, the system-wide loan-to-deposit ratio accelerated from 81.5 percent in June to 82.5 percent in July, the highest level since November last year.

Bank profits continue to benefit from strong operational environment....

...recording a third consecutive monthly record high profits for this time of year.

Bank profitability continues to benefit from preferred operation environment in the Kingdom as banks face lower funding cost, rising demand for credit and lower accumulation of provisioning. As of July, cumulative bank profits were up 4.6 percent year-on-year. In fact, monthly profits recorded new highs for the third consecutive month in July compared with the corresponding months in the last five years (Figure 7). This is in line with our view that bank profits this year on track to surpass the all-time high of SR34.7 billion recorded in 2006.

Figure 6: Composition of bank deposits

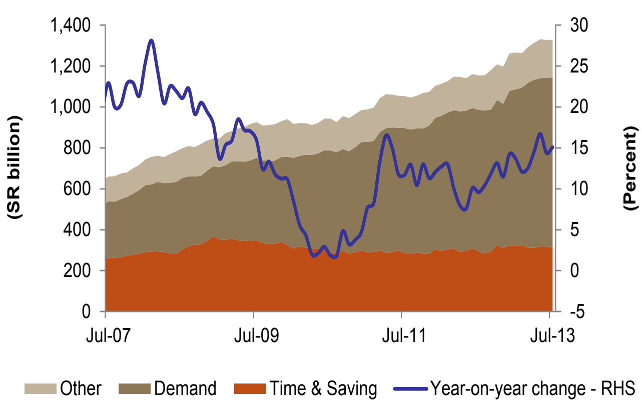


Figure 7: Bank profits

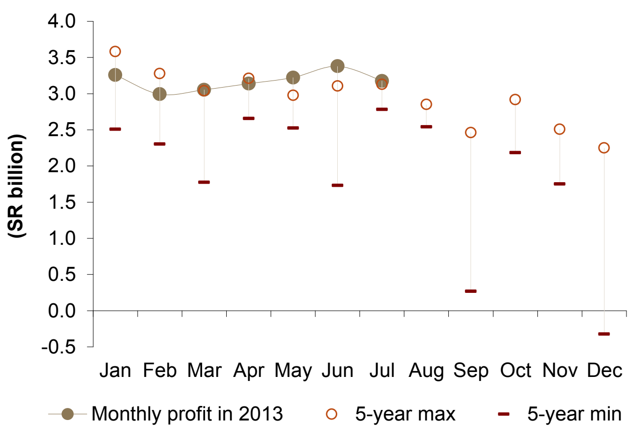


Figure 8: Annual growth of broad money supply picks up but not money multiplier

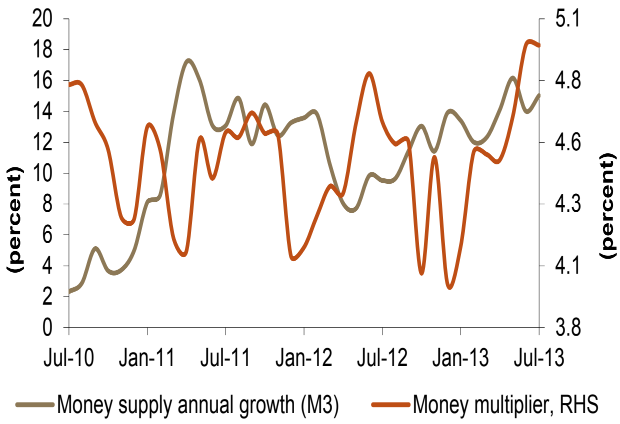


Figure 9: Seasonal factors reduce the incremental increase in credit to private sector

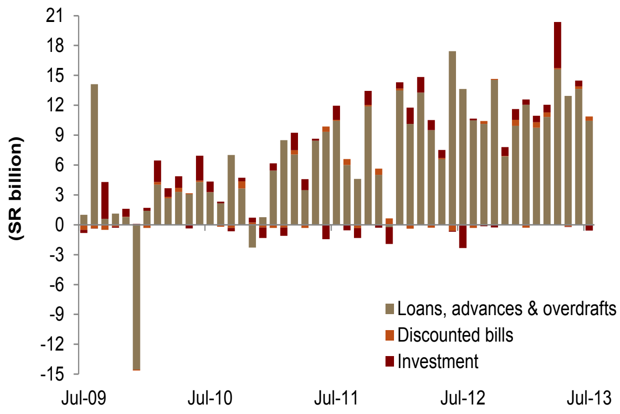


Figure 10: Bank excess reserves at SAMA fall to lowest level since end of 2008

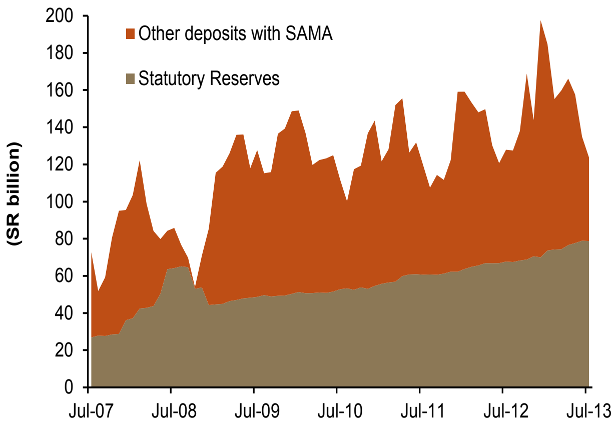


Figure 11: Loan-to-deposits ratio rose to 82.5 percent as credit grows faster than deposits

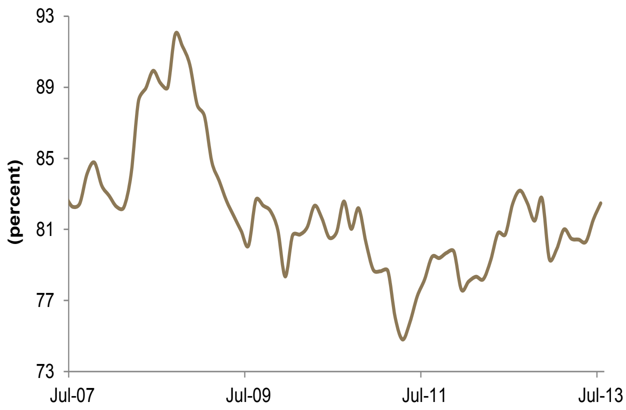


Figure 12: Policy interest rate is expected to remain on hold

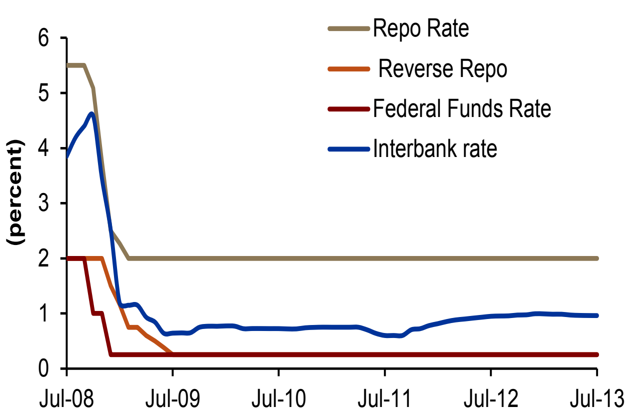
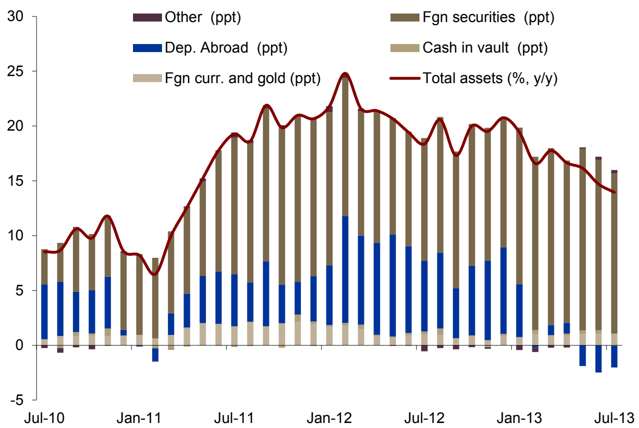


Figure 13: SAMA's foreign assets pick-up on the back of higher investment in foreign securities



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