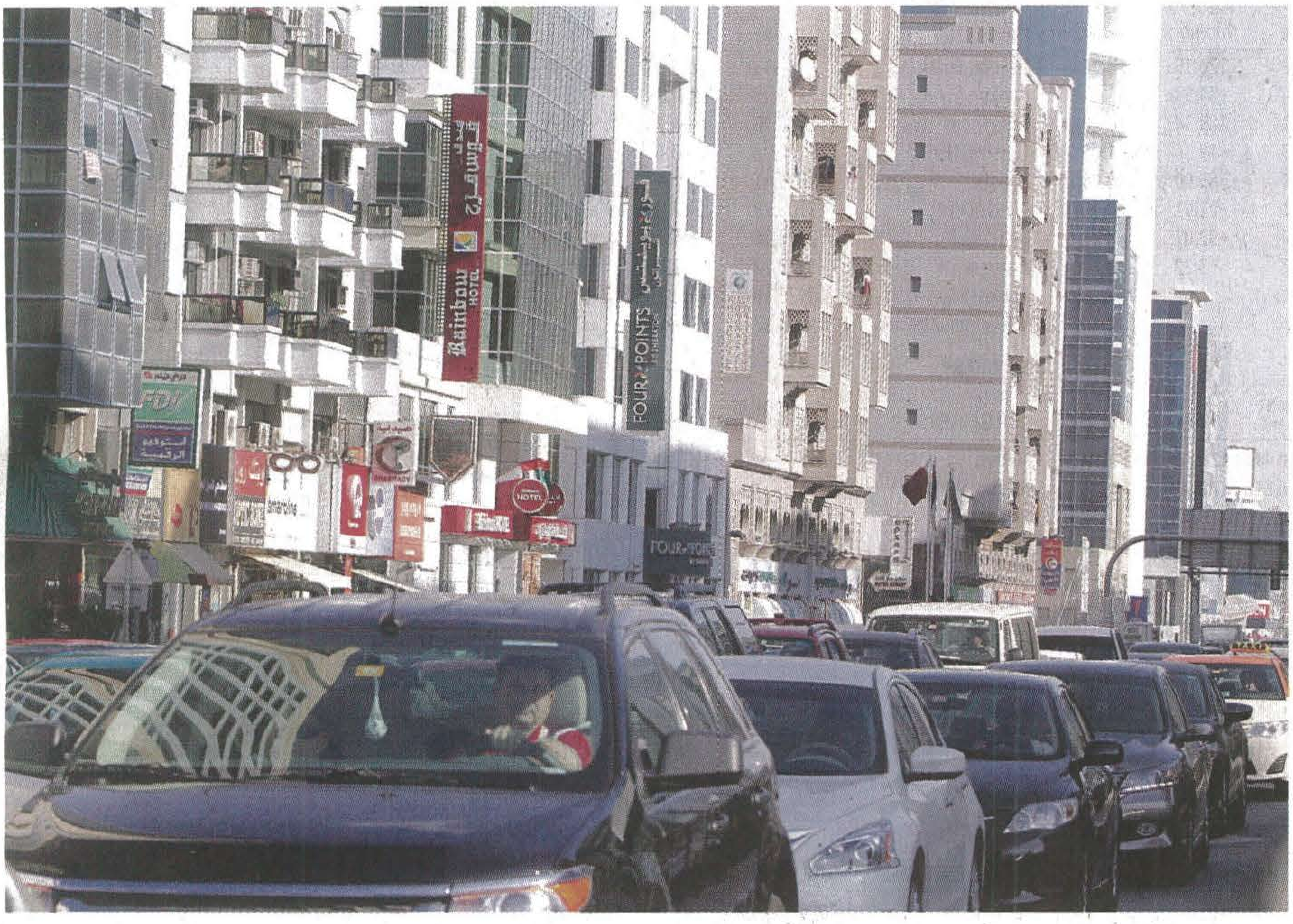

The UAE banking sector witnessed a loan growth of more than eight per cent in 2015. — *KT file*

Growing challenges for banking sector in GCC

Low oil may increase impairment risks in investment book

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Doha Dateline

THE UAE banking sector witnessed a loan growth of more than eight per cent year-to-date in 2015 with private sector was a major contributor to the growth. Deposit growth was close to four per cent in 2015. The growth in non-residents' deposits has been much stronger than residents' deposits, which have been affected by the sharp decline in government deposits this year. In 2016 the lack of liquidity could result in higher rates, increase cost of funding and thereby create pressure on net interest margin. Recently the International Monetary Fund (IMF) has revised the UAE growth forecast to 2.6 per cent in 2016. The sectors such as contract, real estate and small and mid-sized enterprises may be affected by domestic economic slowdown.

Saudi Arabia banking sector lending growth was close to nine per cent in 2015. The lending for private sector grew close to 10 per cent YTD and was the major contributor. Demand deposit fell by one per cent YTD in 2015. Time and savings growth was close to nine per cent YTD in 2015. Demand deposits are mostly sourced from businesses and individuals, while time and savings deposits are sourced from government entities. There was a drop witnessed in deposit growth when compared to the previous year due to liquidity pressure owing to the fall in oil prices. In 2016 the drop in government spending could contribute to slowdown in economic growth. The IMF had recently lowered Saudi economic growth outlook to 1.2 per cent in 2016. The drop in business volumes, surge in cost of risk and slow growth of deposits could impact the banking sector.

In the Qatar banking sector, lending growth was more than 15 per cent in 2015. Retail, real estate and contract financing were the key sectors, which contributed to growth in 2015. Private sector loans grew by close to 23 per cent in 2015. Deposit growth was more than eight per cent in 2015. Loan growth came in at 13.1 per cent in 2014 and deposit growth close to 10 per cent. In 2016 the deposits from public sector are expected to come down. Qatari banks had widened their funding base on account of weak domestic funding. There could be challenges to lending on account slowdown in infrastructure segment. The slowdown in lending and surge in cost of funding may impact Qatari banks.

4%
rise recorded in the UAE banking sector deposit growth

In the Oman banking sector, the lending growth was close to nine per cent in the first 11 months of 2015. However, deposit growth was close to four per cent. In 2016 higher borrowing costs and rising expenses could impact Omani banks.

Most of the GCC central banks had responded after the first rate hike by Fed in December 2015, Saudi Arabia raised its overnight reverse repo rate by 25bps to 50bps but left its benchmark repo rate unchanged at two per cent. The Central Bank of Kuwait (CBK) raised its benchmark discount rate by 25bps to 2.25 per cent, whereas Bahrain, while keeping the repo rate unchanged at 2.25 per cent, raised its overnight interest rate by 25bps to 0.5 per cent and its rate for one week also by 25bps to 0.75 per cent. The UAE central bank decided to raise the interest rate on its certificates of deposits by 25 basis points, effective immediately. The Fed reserve will contemplate rate hikes in the light of global market developments and if it happens it could create further funding pressure and surge in cost of funds. The fall in GCC capital markets due to drop in oil price could increase impairment risks in the investment book of GCC banks. The impact of pressure on European banks in GCC needs to be seen as it has only begun to impact global capital markets. The challenges for GCC banks are expected to grow in 2016 as low oil prices and global headwinds prevail and GCC banks are preparing themselves for the challenging scenario ahead.

The writer is the group CEO of Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.