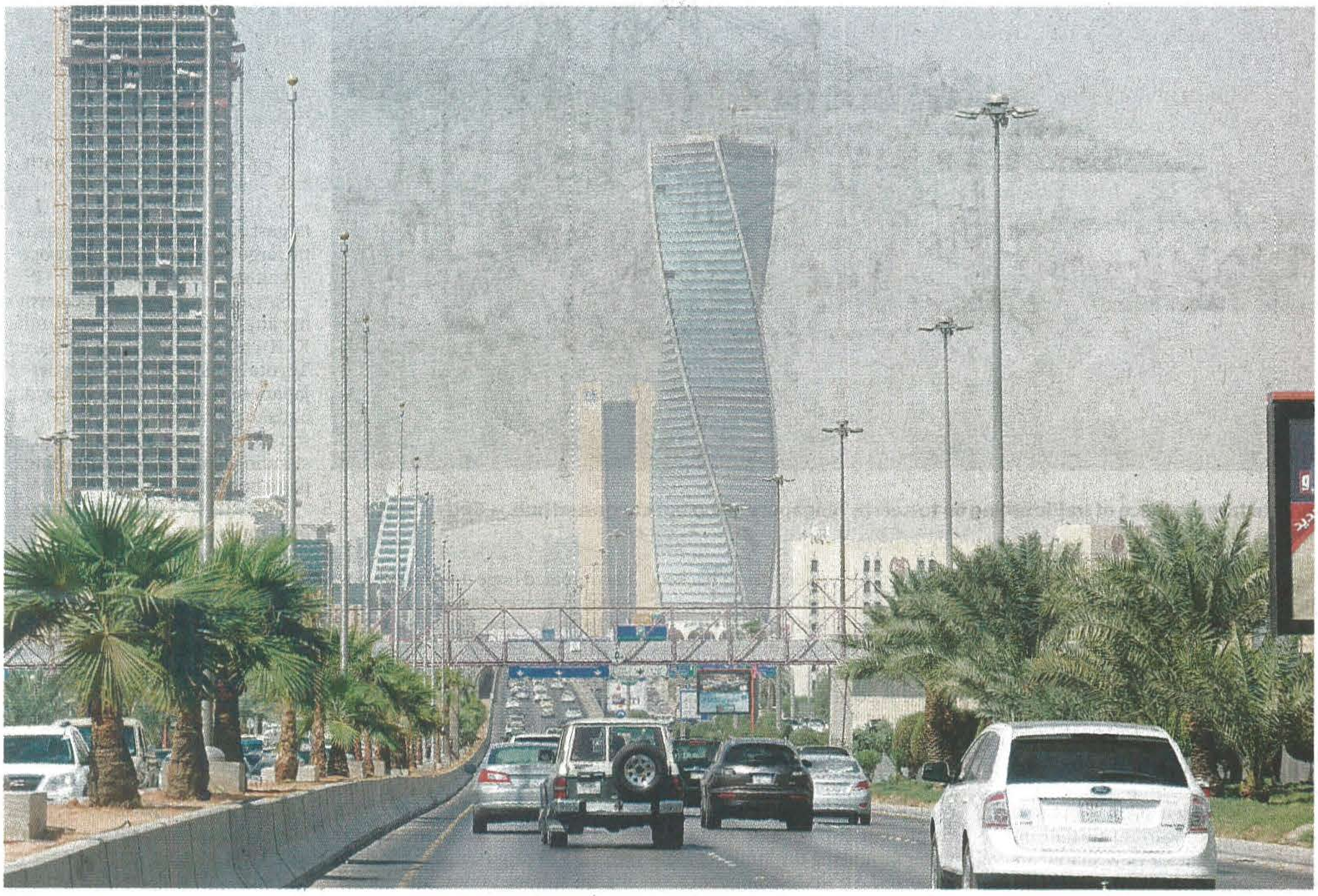

The reduced cost of borrowing should encourage lending and thereby boost broader economic activity in Saudi Arabia. – *AFP*

Changing dynamics in Gulf liquidity market

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DOHA DATELINE

SAUDI ARABIA'S government had made a payment of SR40 billion that it owed to private sector companies — and it would soon make more payments. This clearly represents a monetary stimulus.

Last Monday, the three-month Saudi Interbank Offered Rate (Saibor) fell to 2.19 per cent from 2.39 per cent three weeks earlier to reach its lowest level since June 2016 and reverse the upward trend of the past 12 months.

The Saibor's decline is credit-positive because it indicates that liquidity pressures among Saudi banks are easing after the past two years of deposit outflows and increased funding costs as a result of falling oil prices and associated government revenues.

The decline in three-month Saibor, a gauge of domestic funding conditions and a benchmark for lending rates, will reduce banks' funding costs. The reduced cost of borrowing should encourage lending and thereby boost broader economic activity. This is also likely reflective of the easing liquidity concerns in the economy. Liquidity pressures among Saudi banks are easing after the recent years of deposit outflows and increased funding costs as a result of falling oil prices and associated government revenues.

The Saudi Arabian Monetary Agency was also introducing a new money market instrument, a 90-day repurchase agreement that it could use to lend money to banks when needed. The new instrument will complement seven- and 28-day repo agreements that the central bank introduced. The Sama also said it was lowering the maximum volume for its treasury bill issues to SR3 billion per week from SR9 billion — a signal to banks that they would not face large drains of short-term funds.

The following were forecast by the International Monetary Fund recently:

• The Saudi economy is expected to grow by 1.2 per cent this year. Lending growth in the kingdom's banking sector was close to 12 per cent in the first nine months of 2016, while lending growth to the private sector was close to five per cent and lending growth to the government was more than 100 per cent.

Lending growth to non-financial public sector enterprises had a growth of more than 22 per cent. Demand deposit had fallen by three per cent in the first nine months of 2016. However, time and savings deposits had surged by nine per cent in the same period. Demand deposits are mostly sourced from businesses and individuals, while time and savings deposits are sourced from government entities.

• The UAE economy expected to grow by 2.3 per cent this year. The banking sector had witnessed a lending growth of 4.7 per cent year-to-date in the first nine months of 2016 with the private sector being a major contributor to growth with close to four per cent. Deposit growth was 2.5 per cent in the same period; the growth in non-residents' deposits has been much stronger at 8.9 per cent than residents' deposits, which had risen by only 1.67 per cent.

• The Oman economy is expected to grow by 1.8 per cent this year. In the banking sector, lending growth was close to seven per cent in the first nine months of 2016. However, deposit growth was close to three per cent.

• The Kuwait economy is expected to grow by 2.5 per cent this year. The value of loans increased 7.2 per cent in September over the same month last year. Government deposits have grown notably over the last 12 months at a time when private sector deposits have been under pressure. Private deposits rose in September, following three months of decline during the summer. Banking system liquidity improved in September, further bolstering its healthy level.

• The Qatar economy is expected to grow by 2.6 per cent this year. Qatar lending had grown by more than six per cent in the first nine months of this year. Government lending is close to 12 per cent, real estate lending is more than four per cent, the contract sector is close to two per cent, the consumption sector has contracted by less than one per cent and the service sector is up by close to 17 per cent. Deposit growth is more than four per cent, reflecting improvement in liquidity in recent months.

We are seeing changing dynamics in GCC liquidity, with improvement in liquidity in recent months, however can it be sustained in the light of volatile oil prices, the Opec meeting developments and Fed action is something we need to see.

2.19%

Saibor is credit positive because it indicates that liquidity pressures among Saudi banks are easing

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