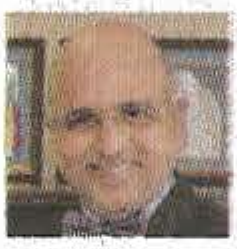
Syndicated loans to benefit GCC banks



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THE SIGNIFICANT fall in oil prices and the rate hike by the US Fed have once again highlighted the concerns of liquidity in the banking sector.

The UAE banking sector had witnessed a loan growth of more than seven per cent YTD in the first 10 months of 2015. There was improvement in demand growth among large firms for conventional loans. An improvement for resident loans was also evident among both expats and locals. Demand growth within the SME segment softened while demand for credit from non-resident and government-related enterprises (GREs) also fell.

However, UAE deposit growth was less than one per cent YTD in the first 10 months of 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. The deposit growth in the UAE in the year ended December 2014 was more than 11 per cent.

Saudi Arabia banking sector lending growth was close to eight per cent in the first 10 months of 2015. The lending for private sector had grown by 7.5 per cent YTD and for government had grown by more than 34 per cent YTD. The lending for non-financial public sector enterprises had contracted by close to 14 per cent YTD.

Demand deposit growth was at 2.4 per cent YTD in the first 10 months of 2015. However, it was more than 15 per cent in 2014. Time and savings growth was at 1.25 per cent YTD in first 10 months of 2015, however, it was more than six per cent in 2014.

Demand deposits are mostly sourced from businesses and individuals, while time and savings deposits are sourced from government entities. There was a drop witnessed across deposits when compared to the previous year due to liquidity pressure owing to the fall in oil prices.

Oman industry

In the Oman banking sector, the lending growth was at 7.5 per cent in the first nine months of 2015. However, deposit growth was close to five per cent during the same period. Omani banks have high borrower and real estate sector concentrations, which will continue to pose a downside risk to the asset risk performance. However, the banks' solid capital buffers will counterbalance the asset risk pressures. Omani banks increasingly rely on more costly market funding to support credit growth despite remaining primarily deposit funded.

The Kuwait banking sector recorded growth of 13 per cent during the first half of 2015 on account of an improving operating environment and healthy growth in credit. Infrastructure finance and corporate lending are expected to grow at a faster pace as more large projects are rolled out. Despite a slowdown in government deposits on account of declining oil prices, banks will aim to improve liquidity through growth in private deposits.

In the Qatar banking sector, lending growth was more than 11 per cent in the first 10 months of 2015. Retail, real estate and contract financing are the key sectors which contributed to growth in 2015. Private sector loans grew by more than 18 per cent in the first 10 months of 2015. Deposit growth was close to five per cent in the first months 10 months of 2015. Loan growth came in at 13.1 per cent in 2014 and deposit growth close to 10 per cent.

Syndicated loans, in which a group of financial institutions pool together to fund a client, have grown by more than $67 billion this year in the GCC, which is the highest levels in the Gulf since 2008 as there is appetite for traditional bank loans, bonds or sukuk.

The rise of syndicated loans is also beneficial for banks, providing them with extra cash as oil prices drop and when lending to various sectors are coming under pressure as GCC economies slow down. Lower bank deposits on account of drop in oil prices and instability in emerging market bonds have made GCC banks raise syndicated loans. On the whole, the liquidity challenges have contributed to a surge in GCC syndicated loans.

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

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