GCC to balance Fed rate hike impact, low oil

GCC FOCUS

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Saudi Arabia's banking sector lending growth had grown by 6.5 per cent year to date till August 2015. The lending for private sector had grown by 6.4 per cent year to date and for government had grown by more than 22 per cent year to date.

The lending for non-financial public sector enterprises had contracted by close to 10 per cent year to date. The deposit growth is close to 3.9 per cent year to date till August 2015. There was drop in time and savings deposits by close to five per cent year to date. However demand deposits had surged by more than seven per cent. Demand deposits is mostly sourced from businesses and individuals, while time and savings deposits is mostly sourced from government entities. According to IMF Oct 2015 outlook, Saudi's GDP growth for 2015 is expected to be at 3.4 per cent in 2015 and the GDP at current prices was brought down to $632bn in 2015 from over $746 billion in 2014. Weakening economic growth and strain on funding sources are expected to slowdown loan growth in Saudi Arabia and it could be difficult for Saudi banks to diversify their credit portfolios. The fall in oil prices continues to impacted time and savings deposit procurement.

In UAE banking sector the lending growth is more than 5.6 per cent in first eight months of 2015. UAE deposit growth is more than four per cent in first eight months of 2015. In UAE declining oil revenue had slowed bank deposit growth and impacted credit growth in 2015.The credit conditions have softened in 2015 with moderating demand growth for credit and a tightening of credit standards for corporates. According to IMF Oct 2015 outlook, UAE's GDP growth for 2015 was brought to three per cent in 2015 and the GDP at current prices was brought down to $364 billion in 2015 from over $402 billion in 2014.In Oman banking sector lending growth was close to six per cent in the first seven months of 2015 and deposit growth was above six per cent. Lending growth is sustained in 2015 by higher spending on infrastructure projects, the government's proposal to boost funding for development and an increasingly vibrant consumer credit market. According to IMF Oct 2015 outlook, Oman's GDP growth for 2015 was brought to 4.4 per cent in 2015 and the GDP at current prices was brought down to $60.1 billion in 2015 from over $77 bn in 2014.

In Kuwait, the banking sector lending came in at 5.2 per cent year-on-year in June 2015. Lending for security purchases and household borrowing were the major contributors. Loan growth had not picked up on account of slowdown in economy. According to IMF's Oct 2015 outlook, Kuwait economy is expected to grow at 1.17 per cent in 2015 and GDP at current prices brought down to $123bn in 2015 from over $172 billion in 2014.

Qatar's banking sector lending growth was close to 10 per cent in first eight months of 2015. The retail, real estate and contract financing are the key sectors which contribute to growth in 2015. Private sector loans grew by more than 14 per cent year to date till August 2015. Deposit growth was more than four per cent in first eight months of 2015. According to IMF's Oct 2015 outlook, Qatar's economy is expected to grow at 4.7 per cent in 2015 and GDP at current prices brought down to $192 billion in 2015 from $210 billion in 2014.

The persistency in low oil prices has impacted GCC economic growth as reflected in the recent IMF forecasts. The banking sector will face challenging times ahead both in deposit moblisation and in lending. The liquidity conditions which had remained difficult on account of low oil prices may further get impacted if GCC monetary policies follow monetary tightening in response to US fed rate hike. It will be interesting to see how GCC monetary policies are going to be developed in the light of Fed hike coming up and with oil price remaining at low levels. It is expected that GCC monetary policies will delicately balance between fed rate hike and low oil prices.

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