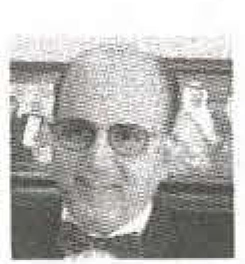
# GCC liquidity: Banks still not out of the woods



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We have seen the deposit growth and liquidity pick up in the Gulf during last quarter of 2016, as Opec commitment to cut output stabilised the oil prices that eased the liquidity position in region. The liquidity in the GCC is a function of oil prices and interest rates.

In first quarter of 2017, oil prices are at a better range after the Opec commitment to cut production in November 2016. In first quarter of 2016, we saw oil prices reaching new lows on account of shale oil and gas development and concerns of slowdown in China growth, after the first rate hike in December 2015 after a decade. Nevertheless even in this current year we need to be alert to oil prices from potential shale oil and gas developments as it could prevent steep upside of oil prices.

The challenge for liquidity also arise from surge in interest rates. Fed has hiked rates in December 2016 and most of the GCC central banks have hiked rates. We are going to see more monetary tightening in the GCC due to Fed rate hikes. The liquidity condition in first quarter of this year is better when compared to last year on account of high oil prices and due to only one Fed rate hike in 2016, which happened in December 2016. The liquidity stress in the GCC has been subdued, but we are not still not out of the woods. We need to be alert to Fed rate hike action in March meeting and shale oil and gas developments as well in the near future.

Saudi Arabia banking sector lending growth was up by nine per cent in 2016. Lending growth to private sector was close to two per cent and lending growth to government was close to 82 per cent. Overall deposits had surged by one per cent in 2016.

**The UAE banking sector had witnessed a lending growth of 5.2 per cent in 2016 with private sector being a major contributor with a growth close to five per cent. — *Bloomberg***

Demand deposit had fallen by less than one per cent in 2016. However, time and savings deposit had surged by 13 per cent last year. Demand deposits are mostly sourced from businesses and individuals, while time and savings deposits are sourced from government entities. The loan-to-deposit ratio was at 101 per cent by end of 2016.

Saudi Arabia's banking sector lending growth was close to nine per cent in 2015. The lending for private sector had grown by close to 10 per cent year-to-date (YTD) and was the major contributor. The deposit growth was close to two per cent, demand deposit had fallen by one per cent while time and savings growth was close to nine per cent YTD in 2015.

The UAE banking sector had witnessed a lending growth of 5.2 per cent in 2016 with private sector being a major contributor with a growth close to five per cent while deposit growth was close to six per cent. The growth in non-residents' deposits has been much stronger at 16 per cent than residents' deposits which had grown by five per cent. The loan-to-deposit ratio was more than 93 per cent last year while the UAE's banking sector had witnessed a loan growth of more than eight per cent YTD in 2015 with private sector being a major contributor to growth. The UAE's deposit growth was close to four per cent YTD in 2015.

The Qatar banking sector had witnessed a lending growth of more than 12 per cent in 2016 and deposit growth close to 12 per cent. Qatar's government sector and service sector witnessed significant lending in 2016. However, sectors such as real estate, retail and contract witnessed significant slowdown in lending growth when compared to previous year. The loan-to-deposit ratio was more than 116 per cent in 2016. Qatar had witnessed a lending growth of more than 15 per cent in 2015, however deposit growth was more than eight per cent.

In the Oman banking sector, the lending growth was close to eight per cent last year. However, deposit growth was more than two per cent and the loan-to-deposit ratio was over 107 per cent by the end of last year. In 2015, Oman banking sector lending growth was more than eight per cent and deposit growth was more than three per cent.

In Kuwait, credit growth averaged seven per cent in 2016 which is up from six per cent in 2015.

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