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# **Monthly Monetary Indicators**

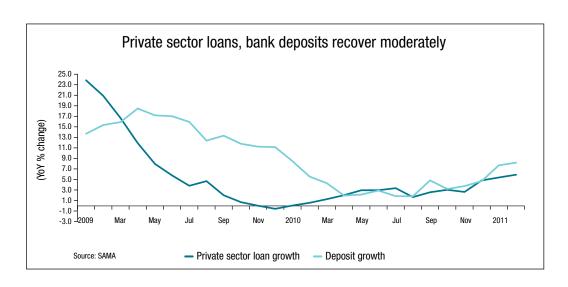
Oil price rise forms backdrop for firm Feb monetary indicators

- Private sector loan growth shows best m-o-m performance in 18 months; private sector claims up 6.3%
- SAMA foreign assets slip off record in February
- Demand deposits retain focus as deposits gain 8.2%
- Total bank claims on the private sector advanced 6.3% in February

A month of higher oil prices in February formed the backdrop for a firm economic turnaround taking place in the country evidenced in the latest monetary statistics. Private sector loan growth showed its best monthly performance in a year and a half, money supply growth accelerated for a fourth month and deposits grew at their fastest annual pace in more than a year, according to central bank's monthly bulletin, which also showed a slight dip in net foreign assets from record levels a month earlier.

Saudi banks' loan growth to the private sector continued to follow cautious course toward recovery in February, rising more than 1% from January levels in the largest monthly gain in a year and a half, indicating that efforts to rebuild confidence in the banking sector and engage the private sector are making some headway.

Private bank credit, excluding investments in securities, increased to SR756.43 billion in February, up 5.9% year on year and 1.1% month on month, the highest rate of monthly growth since August 2009, showed data in the Saudi Arabian Monetary Agency (SAMA)'s monthly bulletin. Total bank claims on the private sector advanced 6.3% in February, highlighting that many long-term loan deals are beginning to be reflected in bank balance sheets.



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Project financing for larger-scale ventures will be the key catalyst behind the kingdom's credit recovery in the medium term in our perspective. The proportion of loans outstanding in February carrying maturities of three years or longer (classified as "long term") rose for a fifth month to account for more than 25% of total loans. By comparison, long-term loans comprised 21% of total loans two years ago, underpinning the shift in focus. Loans maturing in less than one year still account for the largest proportion of total credit, although the ratio has fallen to 58.2% in February from about 65% two years ago.

Public sector credit fell for a second month to SR27.7 billion in February, according to the data, a 5.7% year-on-year decline, while over all claims on the public sector, which also take into consideration bank holdings in treasury bills and government bonds, eased 5.5% month on month.

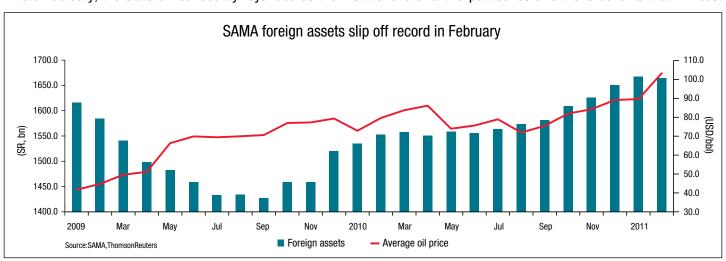
The Saudi banking sector's loan-to-deposit ratio was virtually unchanged in February at 78.65%, after having held above 80% throughout most of 2010. This, again, underscores that Saudi banks enjoy ample liquidity, although the propensity to scrutinise new loans continues. Furthermore, private sector credit demand is yet to return as the government funds steer the country's development programme. Net foreign assets held by Saudi commercial banks rose 10.3% in February from the month earlier, taking them to seven-month higher of SR115.14 billion.

# Foreign assets slip off record despite oil price decline

Net foreign assets held by the Saudi central bank slipped off record levels in February. The slight SR2.8 billion drawn down in foreign assets corresponded with a sharp rise in oil prices, indicating that the government could turn this year to foreign assets again to support its budget. In any event, oil prices are providing enough fiscal support for the government's high spending. We do not, however, assume that the decline in foreign assets is related to the 41 royal decrees unveiled in the first quarter to offer a series of support measures to citizens.

SAMA's net foreign assets edged down SR2.8 billion, or 0.2%, to SR1.67 trillion (\$444.14 billion) in February. The decline resulted from a 6.8% month-on-month decrease in SAMA deposits held with banks abroad, which fell to SR318.8 billion from SR341.95 billion in January. By contrast, investments in low-risk low-yield foreign securities climbed 10.7% year on year to SR1.22 trillion.

In late February, the state announced by royal decree the first tranche of a two-part series of citizens benefits that will cost



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hundreds of billions of riyals to finance in the coming years, including bonus payments for state employees, wage increases, an unemployment benefit, as well as new housing commitments and jobs. One measure involves paying out one-off two-month salary bonuses to public sector employees, pensioners and students.

In 2009, during a period of economic weakness, Saudi Arabia had financed a good portion of public spending by drawing down its deposits with foreign banks, which are liquid and easily accessible. This appears to be a strategy that the government will use this year as well.

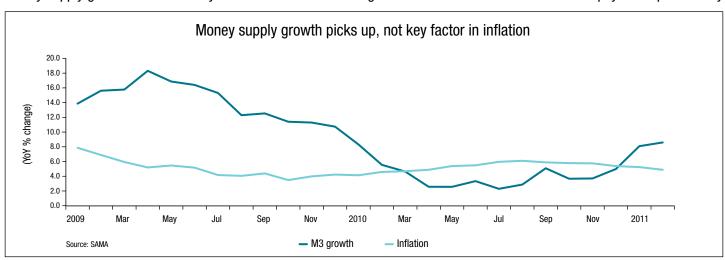
The decline in foreign assets happened even as a higher regional risk premium drove up the average price of U.S. oil to \$90.81 in February while Brent climbed to \$103.3, thus boosting Saudi Arabia's public revenues. Political instability in Libya, Egypt, Tunisia and elsewhere has supported higher oil prices and compelled Saudi Arabia to raise production to compensate for a shortfall in output by fellow OPEC-producer Libya. While its revenues from oil are more than adequate to cover the costs of the new programme, it is likely SAMA will rely somewhat on deposits with banks abroad in the coming months.

# **Deposits, money supply point to recovery**

Deposits gained momentum for a fourth month, their rate of annual growth rising to 8.2% in February from January's 7.7%. Deposits in Saudi banks now stand at SR996.92 billion, including 54.3% held in non-interest-bearing demand deposits. Saudi depositors have gravitated toward demand deposits due to the low interest rate environment, taking the total ratio of funds held in this type of deposit from under 42% at the start of 2009 to more than 54% now. Demand deposits grew 22% year on year in February while time and savings deposits fell 7.9%, now accounting for 29.4% of total deposits. There was a mild monthly rise in time and savings deposits of 1.2% in February, while foreign currency deposits grew 2.1%.

Money supply data also showed a pick up in economic activity. Broad money supply growth (M3) accelerated to 8.6% in February, the fastest year on year growth since 2009. A steep and continuous rise in broad money supply could lend impetus to inflation. Growth in M2 – which includes demand deposits, currency outside banks and time and savings deposits – edged lower to 9.9% in February after hitting a 15-month high above 10% the month earlier. Still, month on month growth in M2 picked up from January.

Money supply growth rates are likely to accelerate in the coming months as a result of one-time bonus payments provided by



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the government and private sector in the first quarter of the year. While the rate of money supply growth remains far from peaks above 20% that had fuelled inflation in 2008, a return to consistent double-digit money supply growth later this year would have some ramifications on inflation. The kingdom's monetary base, comprising highly liquid currency in banks and held by the public, rose climbed 2.4% year on year. A rise in the monetary base means that banks may be piling up on reserves with SAMA rather than of lending it. Banks are unwinding credit and should continue to gradually expand the pace of lending.

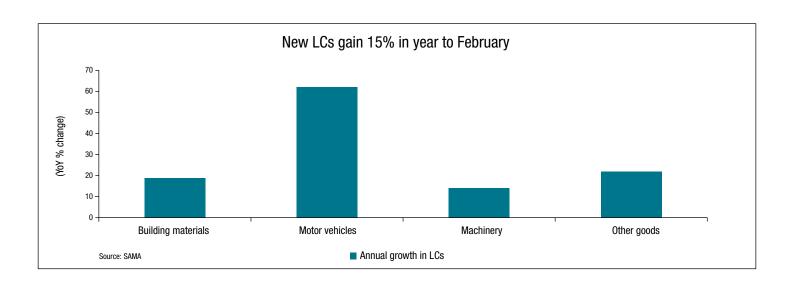
SAMA monetary policy over the past two years has been one of trying to encourage banks to lend by holding interest rates steady at 0.25% for the reverse repurchase rate and 2% for the repurchase rate, in line with U.S. Federal Reserve policy. Barring a significant turnaround in loan growth and rapid rise in inflation, the most likely scenario is that interest rates will remain unchanged into 2012.

# Private consumption poised to rise

Point-of-sale transaction data were strong for February, witnessing a 21.4% year on year rise, although they reflected a 3.4% decline from January levels possibly due to the shorter length of the month. The value of commercial and personal cheques also dropped 16.1% month on month in February but remained 3% higher than they were a year earlier.

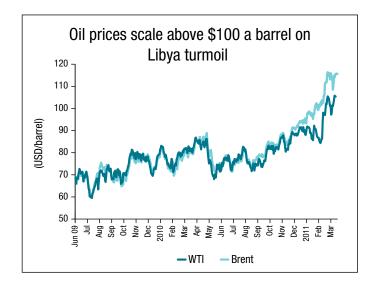
We have observed evidence of a rise in private consumption in the first quarter, which supports a view that consumer indicators should continue to show improvement over last year. Offering employees a one-off, two-month salary bonus provides individuals with 17% more money to spend this year. The repercussions of this will likely become evident in consumption patterns through the course of the year.

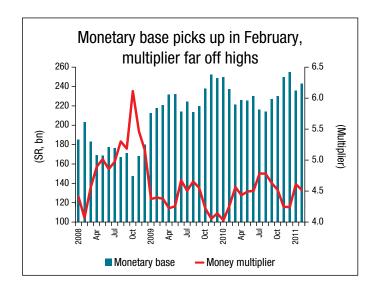
Wholesalers and retailers could also take such consumption into consideration when building inventories this year, which would have a positive bearing on import flows. One way to gauge imports is to look at data on new letters of credit issued against the import of goods. In February, new LCs grew an annual 15.4%, and 13.9% month on month. This reflected a 19% jump in LCs against building materials imports, a massive 62% surge in the number of LCs taken out to finance the import of automobiles, and a 14.2% rise in LCs taken against machinery imports.

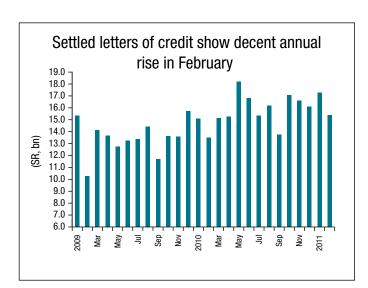


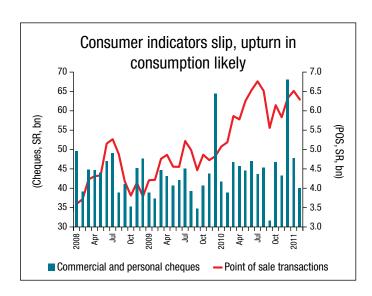
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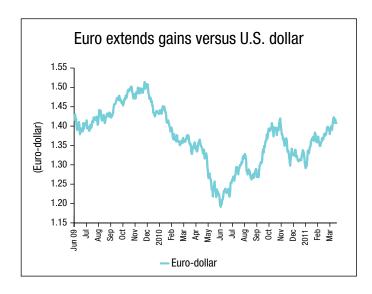


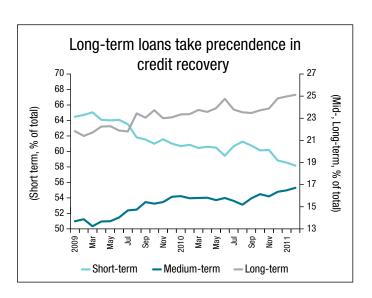












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# **Disclosure appendix**

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