يرم المعودي المعرف المعرف Banque Saudi Fransi

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Monthly Monetary Indicators

Saudi private bank loans slip, deposits rise in November

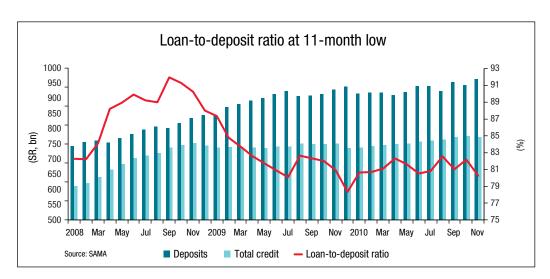
- November loan-to-deposit ratio falls to 80.27%, lowest since December
- Private sector credit growth down month on month, deposits climb
- Net foreign assets back to pre-2009 levels on high oil price
- Bank liquidity abundant, net foreign assets up 14.5%

The Saudi banking system's loan-to-deposit ratio stood at its lowest level in 11 months in November as deposits grew but bank lending to the private sector made another languid performance, falling from the month earlier. Claims on the private sector declined 0.2% between October and November while the annual growth rate dropped from 4.1% to 3.7% due to lower outstanding short- and medium-term loans. While monetary conditions continue to lag, high oil prices have supported a rebound in net foreign assets to pre-2009 levels and offer a prime backdrop for a broader recovery this year.

The long-winded revival in bank lending has been a key hurdle before an economic turnaround in the kingdom. Fiscally, the country is sound, with government estimates last month indicating a 2010 surplus of SR108.5 billion, linked to a good rebound in the global oil price last year to nearly \$80 a barrel, on average. Domestically, however, private sector business caution continued to prevail throughout the year. While non-oil private sector GDP growth did rise to 3.7% in 2010 from 3.5% in 2009, growth came below our forecasts. The government sector, meanwhile, picked up the slack, its GDP growth jumping to a 13-year high of 5.9%.

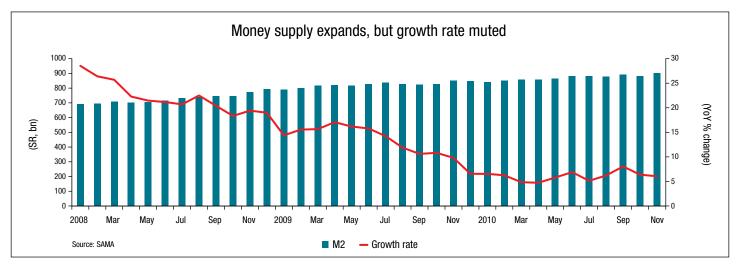
Resistance both on the side of companies toward investing their capital into new projects and of banks toward lending has resulted in a fragile recovery in bank credit. Stripping out investments in private securities, bank credit growth to the private sector stood at just 2.6% in November, below expansion of 3% in October. Growth in loans to public sector enterprises also declined in November to an annual 8.9% from 12.6% in October and almost 18% in September.

A loan-to-deposit ratio of 80.27% in November represented the lowest since December 2009. Deposit growth has been slow over all for 2010, growing just 2.6% in the first 11 months. By comparison, deposit growth was 11.2% in 2009 and 17.9% in 2008. Still, deposits held in banks advanced 2.1% in November from the month earlier, resulting mainly from greater interest in demand deposits, which have been favoured this year due to their accessibility and the low interest rates paid on time and savings deposits. While funds held in demand deposits climbed 24.2% in the year to November, the amount of savings deposits dropped 15.1%. Even time and savings deposits, however, rose 2.4% in November from October levels.



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Liquidity conditions pick up

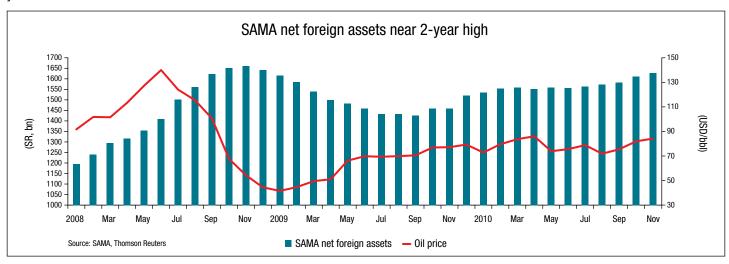
The advance in deposits gave a boost to broad money supply (M3), which grew almost 2% in November to SR1.06 trillion. M2 money supply better reflected growth in demand and time and savings deposits, growing 6% year-on-year. M2 growth rates fell in October and November after reaching a 10-month high in September of 8%. The monetary base also rose 8.5% from October, although the money multiplier fell for the fourth straight month to 4.24. The money multiplier is an important measure of the extent to which the banking system causes the growth in money supply.

High oil prices have enabled the kingdom to continue accumulating foreign assets despite the hefty spending bill it is taking on to finance strategic projects. In November, oil prices averaged more than \$84 a barrel, making it possible for the central bank to take net foreign assets back to pre-2009 levels. At SR1.63 trillion (\$434.7 billion), net foreign assets were up 11.5% to the highest level since December 2008. The government has a comfortable cushion of funds with which it can finance a record budget of SR580 billion this year.

Commercial bank foreign assets were also14.5% higher on the year in November, while their holdings in the central bank's reverse repo window jumped almost 28% from October. This once again highlights the abundance of liquidity in the banking system. Bank lending growth is likely to continue progressing this year, although a return to doubled-digit rates of private sector loan growth is unlikely before 2012.

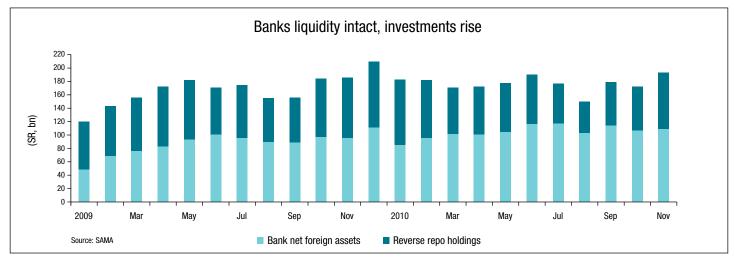
Our forecast for growth in claims on the private sector in 2011 is 9.3%, with long-term lending toward expansion projects likely steering the growth. In November, as outstanding loans of short- and medium-term maturities fell, those carrying long-term maturities climbed, taking their 2010 advance to 8.8%, higher than overall loan growth. Outstanding short- and medium-term loans expanded 3.7% and 5.3%, respectively, over the same period.

Improving lending is the key to building the banking sector's profitability in the coming years. Up to November, cumulative bank profits reached SR24.22 billion, down 10.8% from SR27.15 billion in November of 2009. Since 2006, commercial bank cumulative profits have declined year on year.



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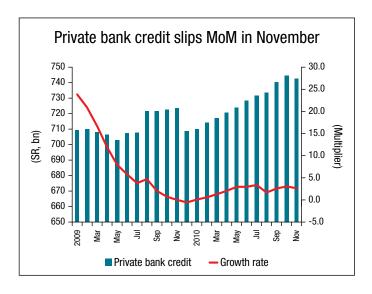
Imports still sluggish

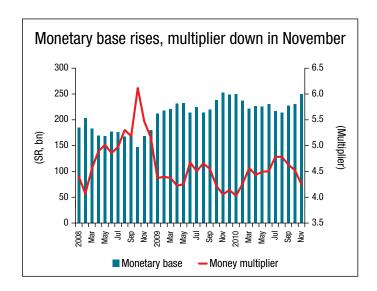
Saudi Arabia's current account surplus more than tripled in 2010, according to government estimates, both due to stronger oil export revenues and a slower-than-expected pickup in imports. Saudi Arabia's oil exports increased by 24.6% to SR762.1 billion (\$203.2 billion) in 2010, from SR611.5 billion in the year earlier, data from the Central Department of Statistics & Information (CDSI) showed. The kingdom's non oil exports saw a 13.7% increase last year to SR124.7 billion from 2009. Imports rose just 0.7% last year, exemplifying the cautious pace of the economic recovery as well as companies' reticence about building inventories too quickly. New letters of credit against imports fell 16.2% in November from October, although they had jumped an abnormally high 50% that month. They were up 0.9% year on year in November. The value of LCs toward building material imports, food, appliances and other goods all declined from October levels, according to SAMA data.

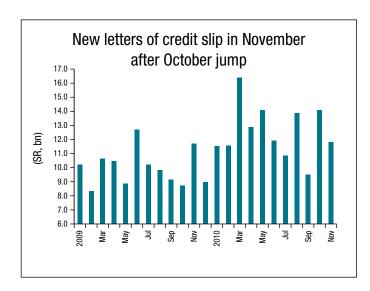
Consumer transaction statistics have been divided for much of the year. Point of sale transactions fell 5.1% in November compared with October, although they were up 23.4% from the year earlier. Commercial and personal cheques also slipped 7.4% from the month earlier and 1% on the year. The annual hajj pilgrimage fell in November and attracted a record number of pilgrims from abroad, according to preliminary data. The benefit to services, hospitality, and food and beverage industries in and around the holy cities is thus not adequately reflected in these consumer data since the bulk of transactions continue to be carried out using cash and credit cards.

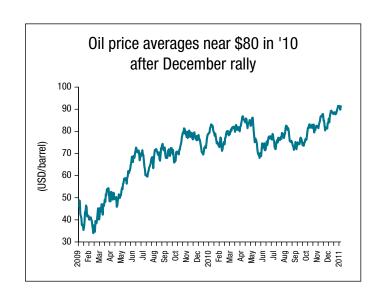
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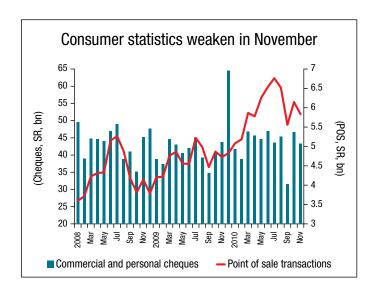












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Disclosure appendix

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- 2 All market data included in this report are dated as at close 4 January 2011, unless otherwise indicated in this report.
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