

GCC Consumer Health Check

Executive Summary

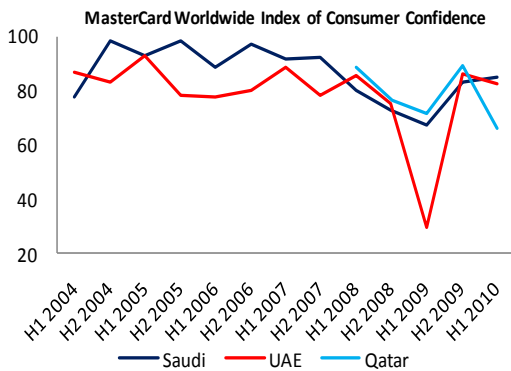
- GCC consumers have been battered over the last 24 months as economies have slowed, per capita incomes have fallen, credit has tightened, and disposable incomes have been squeezed as households feel the pinch from lower asset prices - especially real estate - and high debt burdens. In some cases these adverse factors have been accentuated by job losses and the exodus of expatriate workers.
- Despite recent strains and an inevitable slowdown in spending, consumers have weathered the recent economic crisis reasonably well. This is particularly true in the dominant Saudi economy where private consumption growth held at 8 percent in 2009 and remains solid this year. However, households in the UAE are more constrained as they confront the aftermath of an excessive build up in credit, a sharp real estate correction, corporate restructuring, and job losses.
- Private consumption is normally the largest GDP component in an economy accounting for between 50-60 percent in advanced and emerging economies. However, the GCC states are somewhat of an exception given the dominance of oil and gas export sectors. As a result, consumption's share of GDP is lower at around 16 percent in Qatar, 30 percent in Saudi Arabia and 47 percent in the UAE.
- Consumption performance in the GCC reflects the interaction of different factors affecting households, key amongst which are:
 - Population dynamics and employment
 - Wages and disposable income
 - Household debt and credit conditions
 - Asset prices and consumer confidence
- Taking into account the above, the healthiest consumers appear to be in Saudi Arabia where household debt levels are relatively modest, credit conditions are more favourable, and government fiscal support is considerable.
- Our health check suggests that the GCC's relatively wealthy and fast growing consumer sector is becoming increasingly resilient, and will be a major driver of growth as governments continue to pursue their diversification programs.

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Despite recent set-backs we expect that private consumption will be a major driver of future economic growth throughout the GCC as governments continue to pursue economic diversification.



Summary

A difficult past 24 months

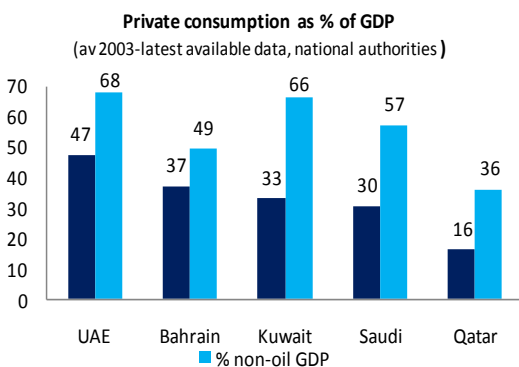
GCC consumers have been battered over the last 24 months as economies have slowed, per capita incomes have fallen, credit has tightened, and disposable incomes have been squeezed as households feel the pinch from lower asset prices, most particularly real estate in Dubai, and high debt burdens. In some cases these adverse factors have been accentuated by job losses and the exodus of expatriate workers. Given that private consumption is playing an increasingly important role in GCC national economies, we thought it timely to check up on the health of its consumers, and their role in the economic recoveries that are underway in the region.

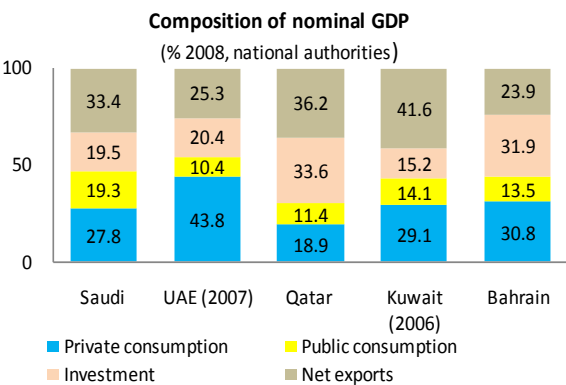
Analysis is hampered by a lack of data, and we have focused on **Saudi Arabia, the UAE and Qatar**. Nonetheless, our findings suggest that the GCC's rapidly growing and relatively wealthy consumer sector is maturing and becoming increasingly resilient. For the most part, it has weathered the bursting of the global credit bubble and subsequent worldwide recession reasonably well, bolstered by robust fiscal and monetary policy support. Available data show that private consumption in the dominant Saudi economy grew by 8 percent in 2009, and continues to expand in 2010. Third quarter data for Qatar shows a similar trend with private consumption growth holding up at 7.4 percent. However, it is likely to have declined in the UAE, reflecting a combination of consumer deleveraging and job losses. Despite this set back, we expect that private consumption will be a major driver of future economic growth throughout the GCC as governments continue to pursue economic diversification. It is already a key driver of the non-oil economy, and is clearly an important factor supporting the trade and retail sectors, as well as the consumer lending operations of banks.

The importance of consumption

When assessing GCC economies, in the past the tendency has often been to focus on dominant oil and gas sectors, and their emphasis on exports and external demand developments. More recently, attention has been drawn to the massive infrastructure programs and increased government spending which has been fuelled by the oil boom of 2003-08. In this context, it is sometimes overlooked that the region has established an increasingly durable and rapidly growing private consumer base that provides a valuable source of domestic growth.

When measuring GDP using the expenditure approach, economists prefer to split general consumption into two parts; private consumption and public consumption (or government spending), with the former being the focus of welfare economics and an indicator of improving standards of living. A country's total GDP (Y) is the sum of this (private) consumption (C), investment (I), government spending (G) and net exports (X-M) i.e. the difference between income from exports (X) and spending on imports (M), and





Consumption is normally the largest GDP component in an economy accounting for between 50-60 percent in advanced and emerging economies.

is commonly represented by the equation:

$$Y=C+I+G+(X-M)$$

Consumption consists of household expenditure in the economy on durable and non-durable goods and services; such as food, jewellery, cars, communication services and rent – but not new home purchases which are classified as investment. It is normally the largest GDP component in an economy accounting for between 50- 60 percent in advanced and emerging economies. However, the GCC states are somewhat of an exception given the dominance of oil and gas export sectors in their economies. As a result consumption's share of nominal GDP is lower at an average of around 20 percent in Qatar, 30 percent in Saudi Arabia and 47 percent in the UAE. However, the share is considerably larger when set against non-oil GDP, ranging from 38-70 percent (see table 1).

Table 1. Consumption as a share of nominal GDP

% of GDP	2003	2004	2005	2006	2007	2008	2009
Saudi Arabia							
Total consumption	58	54	49	50	52	47	63
Public	25	24	22	23	22	19	25
Private	34	30	26	27	29	28	38
<i>% non-oil GDP</i>	53	51	51	53	59	65	67
Investment	18	17	17	17	20	19	25
Net exports	23	29	35	33	28	33	13
UAE							
Total consumption	63	64	59	55	54	-	-
Public	14	13	11	10	10	-	-
Private	49	51	48	45	44	-	-
<i>% non-oil GDP</i>	66	67	70	68	67	-	-
Investment	22	21	19	20	20	-	-
Net exports	15	15	22	25	25	-	-
Qatar*							
Total consumption	32	31	30	37	33	31	41
Public	15	13	12	16	12	11	17
Private	17	18	18	20	21	20	27
<i>% non-oil GDP</i>	40	38	44	47	43	39	39
Investment	35	33	36	34	42	43	37
Net exports	33	36	35	29	26	26	19

Source: IMF, national authorities

*2009 first 3 quarters

totals may not add due to rounding

Oil and gas dominance distort consumption's GDP share in the GCC

The importance of oil and gas in the region shows up in the large share of net-exports which account for between a quarter and a third of GDP, and which are also prone to fluctuations in line with oil prices. For example, high oil prices in 2005-2008 saw Saudi Arabia's net exports share of GDP exceed that of private consumption for the first time since the early 1980's, although this pattern reversed in 2009 when oil prices fell back. The large scale investment needed to develop hydrocarbon resources and associated industries also has an impact. This is most clearly seen in smaller economies such as Qatar where massive investments (particularly in LNG) have dwarfed the small, albeit rapidly growing, consumer sector. In 2008, investment accounted for about 34 percent of Qatar's GDP and net exports 36 percent. In contrast, the increasing diversification of the UAE economy has reduced the impact of the oil and gas sector, such that private consumption now clearly dominates.

Recent Developments and Consumption Drivers

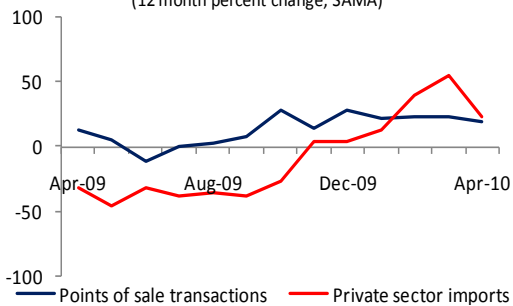
Private consumption has been growing rapidly over the past few years as GCC economies benefited from an oil boom which helped drive strong economic performances. Annual nominal consumption growth (constant price expenditure data is not available) averaged around 12 percent a year in Saudi Arabia, 19 percent in the UAE, and an exceptional 41 percent in fast growing Qatar (see Table 2 below). However, it is clear that households faced major strains in late 2008 and 2009 as the global credit crunch and recession spilt over into GCC economies.

The data is scarce, but nominal expenditure GDP for 2009 in the dominant Saudi economy show that consumption remained resilient, expanding by 8 percent as households benefited from strong counter cyclical fiscal policies. Although down from 18 percent in 2008, this expansion was a major reason behind the kingdom's positive real GDP growth last year of 0.6 percent, despite a sharp decline in the dominant oil sector.

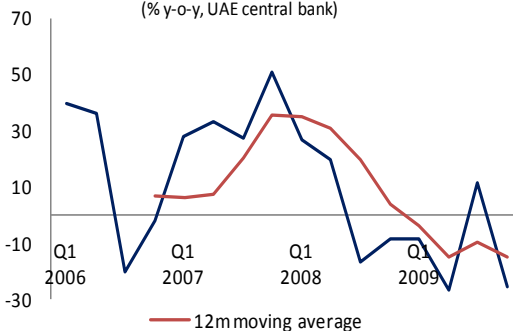
A similar robust policy response in Qatar also helped to maintain positive - although sharply lower - consumption growth of 7.4 percent in the first three quarters of 2009, despite pressure on households from declining asset prices and relatively high debt burdens. In addition, expanding hydrocarbons exports ensured that Qatar's real GDP growth remained strong at 8.7 percent in 2009.

In contrast, consumption is likely to have contracted in the UAE in 2009 as deeper problems in Dubai's indebted economy led to considerable job losses and consumer deleveraging, which could not be offset by expansionary fiscal policies in Abu Dhabi. This appears to be supported by 2009 point-of-sales data (a proxy for consumption) which show a sustained contraction in the UAE, compared to the recovery seen in Saudi Arabia. At the same time, the UAE's real GDP is estimated to have contracted by around 1 percent.

Saudi Arabia: Private Consumption Indicators
(12 month percent change, SAMA)



UAE: POS transactions
(% y-o-y, UAE central bank)



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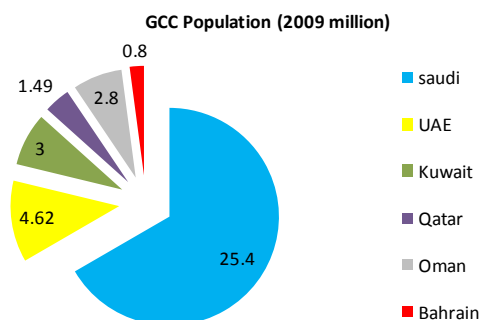


Table 2. Nominal Consumption Growth

% per annum	2004	2005	2006	2007	2008	2009	Average
Saudi Arabia							
Total consumption	8	13	16	12	13	5	11
Public	12	18	18	4	7	1	10
Private	6	10	13	19	18	8	12
UAE							
Total consumption	19	18	15	20	-	-	18
Public	7	10	13	25	-	-	14
Private	22	20	16	19	-	-	19
Qatar*							
Total consumption	29	30	64	12	34	10	27
Public	14	18	89	-10	34	18	25
Private	43	40	49	29	34	7	30

Source: IMF, national authorities

*2009 first 3 quarters

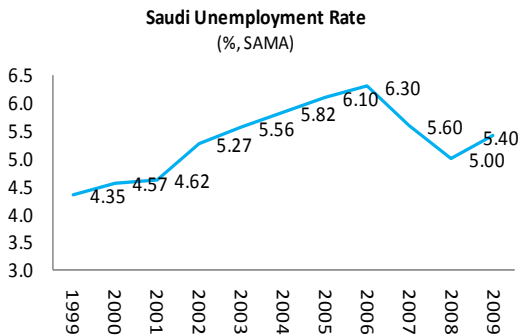
Key drivers of household consumption

Consumption performance in 2009, as well as prospects for this year and next, reflect the interaction of different factors affecting households. Their influence varies within the GCC, but the key drivers are:

- Population dynamics and employment
- Wages and disposable income
- Household debt
- Credit conditions
- Asset prices
- Confidence

Population dynamics and employment

A number of issues are important here. First has been the large increase in expatriate populations, particularly in the smaller Gulf States. Workers have flowed into the region to take up jobs generated by the recent construction boom, and in the new services and manufacturing industries being developed. Expatriates now account for about 70-80 percent of the population in Qatar (total population of 1.5 million) and the UAE (4.6 million) compared with around 20 percent in Saudi Arabia (25.4 million). This inflow has prompted rapid population growth, concentrated in urban areas which facilitates more diverse spending patterns, and has contributed to a sharp increase in consumption demand (table 2). In Saudi Arabia, consumption growth has been more measured, but importantly, has been driven principally by the increase in the large local population.



Relying on expatriates for consumption has its drawbacks as residency regulations mean they have to leave the country if they lose their jobs, thus potentially rapidly reducing demand in the economy. Detailed employment data is not available, but surveys suggest that there were significant redundancies during 2009 (see charts) in the private sector where expatriates are overwhelmingly employed. This is particularly the case in Dubai where the outflows of expatriates is thought to have led to a contraction in the UAE's overall population. However, unemployment data for Saudi Arabia show that the overall rate rose only slightly to 5.4 percent in 2009, reflecting increased unemployment amongst Saudi nationals while the rate for non-Saudis dipped (to 0.3 percent).

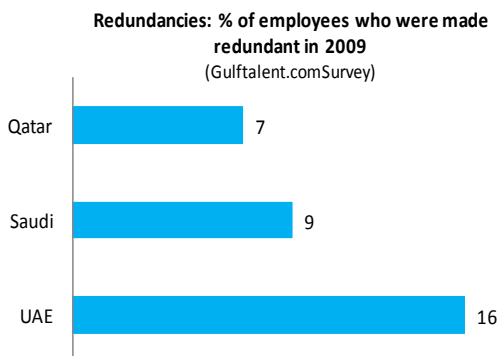
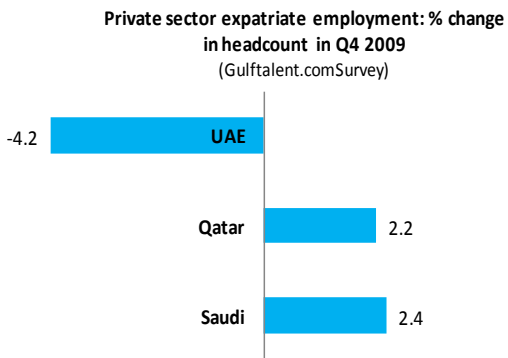


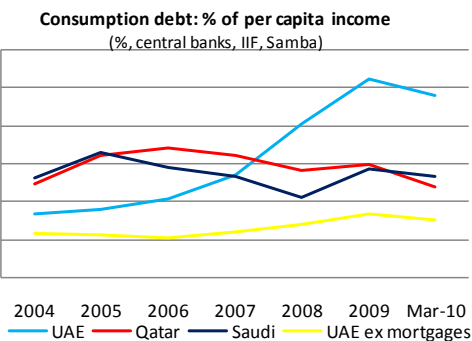
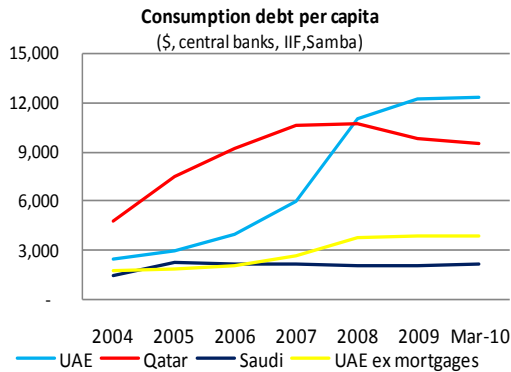
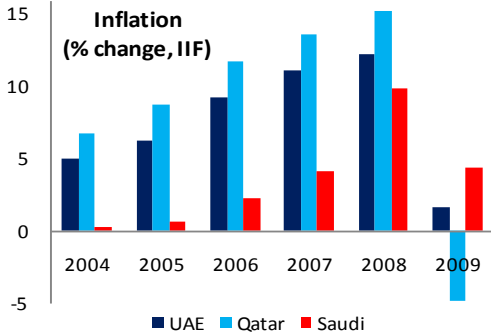
Table 3. Population, Household Income, Debt and Leverage

	2005	2006	2007	2008	2009
Saudi Arabia					
Population (mn)	23.1	23.7	24.2	24.8	25.4
% change	2.6	2.4	2.4	2.4	2.3
Per capita income (\$)	13,657	15,061	15,837	19,175	14,565
% change	22.7	10.3	5.2	21.1	-24.0
Per Capita Debt (\$)	2,247	2,192	2,121	2,033	2,081
% Change	52.7	-2.4	-3.2	-4.2	2.31
Leverage (%)*	16.4	14.6	13.4	10.6	14.3
UAE					
Population (mn)	3.98	4.23	4.49	4.76	4.62
% change	5.9	6.3	6.1	5.5	-3.0
Per capita income (\$)	33,983	38,781	44,673	54,786	47,183
% change	14.1	14.1	15.2	22.6	-13.9
Per Capita Debt (\$)	3,044	4,010	6,065	11,028	12,280
% Change	21.2	31.7	51.2	81.8	11.4
Leverage (%)*	9.0	10.3	13.6	20.1	26.0
Qatar					
Population (mn)	0.90	1.04	1.22	1.45	1.49
% change	12.0	15.6	17.3	18.9	2.8
Per capita income (\$)	47,181	54,587	66,182	76,353	65,982
% change	19.5	15.7	21.2	15.4	-13.6
Per Capita Debt (\$)	7,549	9,292	10,611	10,756	9,816
% change	56.8	23.1	14.2	1.4	-8.7
Leverage (%)*	16.0	17.0	16.0	14.1	14.9

* leverage refers to debt relative to income

Source: IMF, national authorities, central banks

Public sector employment is dominated by nationals who have in the main continued to benefit from increased government spending on salaries as well as investment programs despite the slump in oil revenues. Employment in the public sector has risen steadily (at an average of 3.3 percent a year in



Saudi Arabia between 2000-08), and we expect that GCC authorities will look to sustain this growth over the next couple of years. However, it is clear that the public sector cannot continue to absorb the increasing national populations.

	Oil & gas	Government	Manu.	Construction	Trade
Kuwait	0.3	47.5	5.4	8.1	13.6
Oman	1.8	16.0	10.6	37.5	15.5
Qatar	5.0	10.0	8.6	44.3	11.0
Saudi	1.0	13.0	9.0	35.0	20.0
UAE	1.2	10.4	12.7	22.3	23.2

Source: GCC authorities, latest available data

Wages and disposable income

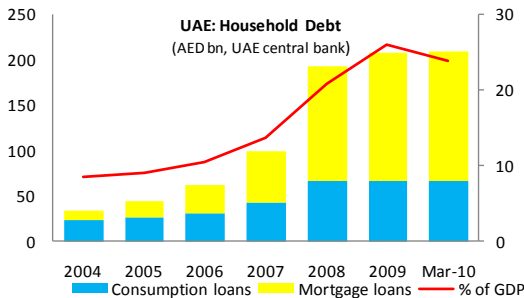
There is little wage and income data in the GCC. However, at the broadest level per capita income trends give some indication of consumption potential and recent developments. These show that having surged during 2005-08 GCC per capita incomes declined by around 13-25 percent in 2009 as hydrocarbon earnings slumped from their peak in 2008. That said, they remained relatively high at nearly \$66,000 in Qatar (which is amongst the highest in the world), over \$47,000 in the UAE and \$14,500 in Saudi Arabia. Per capita incomes are also still between 30-70 percent higher than five years ago, and this increased wealth is changing consumer behaviour as more people can afford to consume beyond the bare necessities. In addition, real purchasing power should improve as previously soaring inflation rates recede.

Private sector employment survey data by GulfTalent shows a decline in average GCC pay increases in 2009 to 6.5 percent, from 11.5 percent in 2008. However, this exceeded the rate of inflation which fell sharply in the GCC during 2009, especially in the UAE and Qatar where there were steep declines in the heavily weighted rental component of the CPI. That said GulfTalent also notes that almost two thirds of those surveyed did not receive a pay increase at all which, combined with previously noted redundancies, is likely to have offset much of the beneficial impact of lower inflation and real wage rises.

% pa	2008	CPI	2009	CPI	2010*	CPI
Saudi	9.8	9.9	6.5	5.1	7.0	5.0
Qatar	12.7	15.2	6.8	-4.5	6.6	0.5
UAE	13.6	12.3	5.5	1.6	5.8	1.8
GCC average	11.5	11.1	6.5	2.5	6.6	3.0

*Forecast

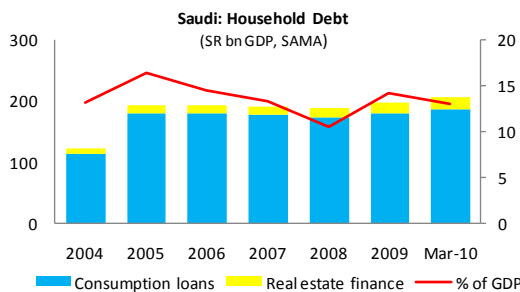
Source: GulfTalent.com, Samba estimates



Household debt burdens

The household debt situation is a major determinant of household consumption, with higher levels tending to constrain consumption. Many GCC households entered the current economic downturn carrying significant debt which had been built up during 2005-08 when high oil prices generated huge liquidity for banks and lending surged. This was particularly true in Qatar and the UAE which opened real estate ownership to non-residents and developed mortgage finance. Lending for share purchases was also a major feature prior to the 2006 stock market correction. Soaring inflation is also thought to have pushed some consumers into greater borrowing to finance the increasing cost of living.

However, after a sharp rise in 2005 Saudi Arabia households have actually reduced their level of indebtedness through 2009. This principally reflects a sharp decline in the financing of share purchases, especially in IPOs, which surged dramatically during 2004-05. When the stock market subsequently fell sharply in 2006, some households were left carrying large losses and heavy debt burdens, IPO activity dried up, and the authorities' tightened consumer lending regulations.

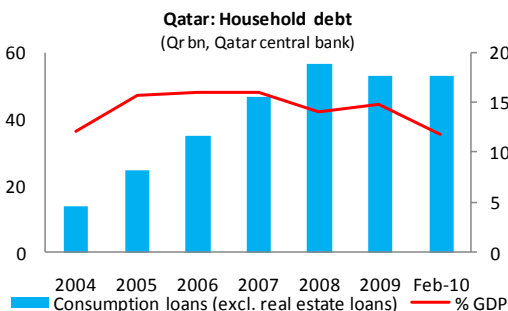


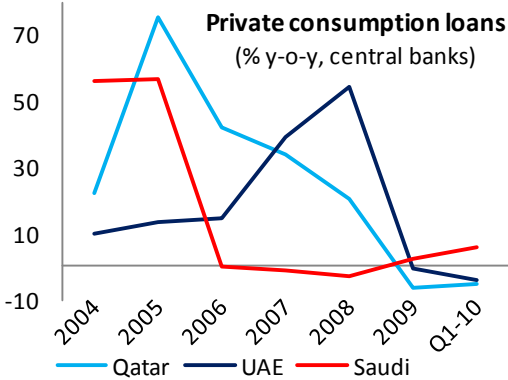
Looking at the available data we can see that per capita household debt rose most dramatically in the UAE, mainly reflecting the surge in real estate borrowing (see table 3 & charts). Debt rose fourfold from around \$3,000 a head in 2005 to over \$12,000 in 2009, and household leverage also jumped sharply with debt relative to income rising from 9 percent in 2005 to 26 percent in 2009 (the ratios to nominal GDP are more or less identical).

Consumer real estate lending is not clearly identifiable in Qatar's lending data, but consumer debt has followed a similar, although less steep, path rising by over 40 percent to a peak of \$10,700 in 2008. However, faster per capita income growth and some debt reduction in 2009 has meant that household leverage has fallen back to around 15 percent from a peak of 17 percent in 2006. As noted earlier, the Saudi story is different, with total household debt actually contracting slightly between 2005 and 2009. Per capita debt levels are also considerably lower than in Qatar and the UAE at around \$2,000. However, household leverage in the kingdom is more comparable. This peaked at 16.4 percent in 2005 before falling back to 14.3 percent 2009, the lowest ratio of the three countries.

Credit conditions

Credit growth is a very important determinant of household consumption. As is apparent from the household debt data, consumer lending by banks was extremely rapid in the UAE and Qatar in the past, hitting annual increases of 50-70 percent. It has decelerated sharply since the global crisis hit the region in 2008, while remaining muted in Saudi Arabia. Government support for GCC banking systems has meant that they remain sound and well capitalized, and





liquidity conditions have improved. Nonetheless, banks have tightened lending conditions and remain cautious given their own balance sheet strains and rising NPLs.

Consumer credit limits

Saudi Arabia: Total monthly payments of the borrower on total borrowings, including credit cards borrowings, should not exceed one third of his net monthly salary. However, for retired persons this limit is set at 25 percent of pension payments.

UAE: Personal loans are capped at AED250,000

Qatar: Total monthly obligations against the customer’s salary, including the obligations of consumer loans, should not exceed 50 percent of salary. The maximum limit to a single customer is QR2.5m.

Circumstances differ between countries with Saudi banks probably best placed to resume lending. The aggregate loans to deposit ratio is around 85 percent in Saudi Arabia, compared with over 100 percent in the UAE and Qatar. Having held up in 2009, consumer lending in the kingdom has accelerated this year and was running at over 5 percent y-o-y in March. This compares with declines of between 4-5 percent in the UAE and Qatar.

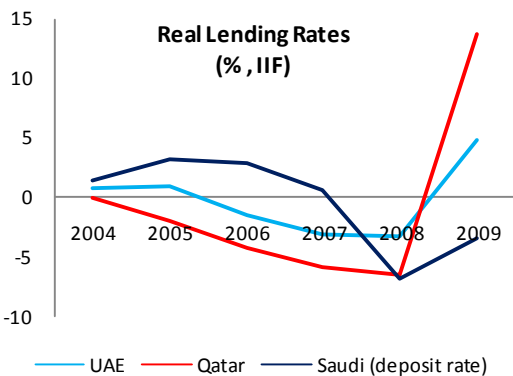
Consumers themselves are also less inclined to borrow in the current uncertain economic environment, and many are making efforts to reduce their elevated debt levels. In addition, the very loose credit conditions of 2005-08 which encouraged borrowing have ended. Although policy interest rates in the GCC have been cut in line with the U.S., lending rates have actually risen in real terms as inflation in the region has fallen sharply. In the UAE and Qatar this principally reflects the slump in real estate which exaggerates the rise in notional real lending rates (i.e. the difference between lending rates and the rate of inflation), especially in Qatar which registered deflation of 4.9 percent in 2009.

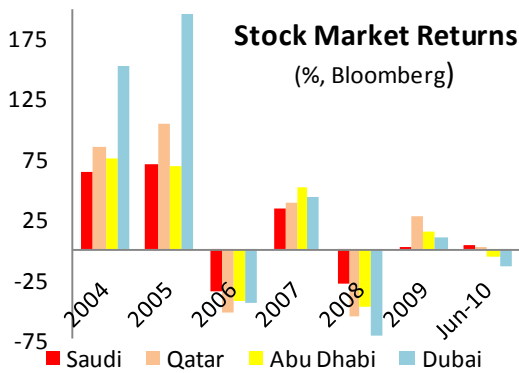
Changes in asset prices

Changes in asset prices (shares, houses) also play a large role in the development of private consumption. Negative wealth affects, first from the slump in GCC shares in 2008 (which still remain well below their peaks of 2005) and then from the sharp decline in real estate prices in 2009 are thus likely to have acted as a major drag on household consumption in the region, especially in the UAE.

Confidence

Consumer confidence is also an important factor, and this has been fragile, despite the recovery in oil prices during 2009 and supportive fiscal policies. Defaults by large Saudi family conglomerates, debt restructuring in Dubai and fears over a possible double dip global recession and subsequent decline in oil prices, all continue to act as a drag on confidence. Concerns also remain





over weakness in real estate markets, particularly in Dubai, as well as in global and regional financial markets

Consumption Outlook 2010-11

Taking into account the above, the outlook for consumer demand varies somewhat between countries.

Saudi Arabia

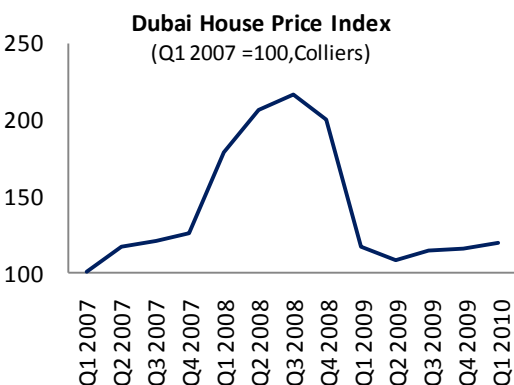
The healthiest consumers appear to be in Saudi Arabia where household debt levels are relatively modest, credit conditions are more favourable, the Saudi stock market is likely to be the best performing in the region and government fiscal support is considerable. Importantly, consumers are not widely exposed to declining real estate, and population dynamics remain positive. Large scale public investment programs are helping provide jobs and restore confidence and survey data suggest private sector pay raises will exceed inflation in 2010. Lingering uncertainty over oil prices and global developments will remain a drag, but consumer spending is likely to continue to pick up over the next 12 months helping underpin the expected rebound in real GDP growth to 4.5 percent by 2011.

Qatar

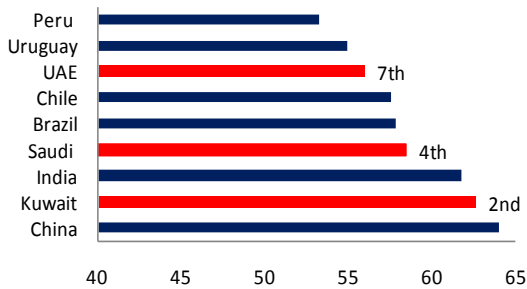
The situation in Qatar is more mixed. On the down side, consumer debt levels are probably higher than the data show as it does not include real estate finance, and Qatar has also suffered a sharp real estate correction, with prices unlikely to recover until 2011. Consumer sentiment also started the year weakly. Some consumer deleveraging is thus likely to be taking place (as implied by the drop in consumer loans in 2009), particularly given the extremely rapid credit growth of the last few years. However, this is countered by the fact that the economy continues to grow strongly on the back of large scale public investment and growing hydrocarbons exports, with real GDP projected at nearly 18 percent this year and 14 percent next. In addition, Qatar's public finances are very strong and are being used to support the banking system and help bolster asset prices, and this is restoring consumer confidence. Private sector job losses during the global downturn are also thought to have been modest and population dynamics remain positive, albeit less robust than in the past. Moreover, the combination of deflation and sustained public and private wage increases should raise consumers' real purchasing power. We thus expect to see an increasingly strong contribution to real economic growth from private consumption as the year progresses and into 2011.

The UAE

Consumers in the UAE appear most constrained as they confront the aftermath of an excessive build up in credit and sharp real estate correction. Past evidence from around the world suggests that countries experiencing the largest increase in household leverage before a housing crisis tend to experience more severe and long lasting downturns. Certainly efforts by



2010 Global Retail Development Index
(Top 10, A.T. Kearney)



It is not clear what the “right” level of household leverage is for any country, and this is likely to change over time in response to economic and demographic developments.

UAE households to reduce their elevated debt levels via higher savings are expected to result in a sluggish recovery in consumer spending, which is likely to be accentuated by continued corporate restructuring and deleveraging in Dubai with its adverse implications for employment and incomes. In addition, the debt crisis in previously high flying Dubai and uncertainty over the level of support from wealthier Abu Dhabi has hit consumer confidence hard.

However, there are grounds for cautious optimism that UAE consumers will pull through more quickly than past trends would suggest. In the first place there is a distinct difference between the debt constrained outlook in Dubai and the healthy prospects for growth in Abu Dhabi as outlined in our recent report *The UAE: A Two Track Recovery*. In addition, the trade, tourism, and services sectors are picking up in line with a revival on global activity. As a result, the UAE economy as a whole is expected to start growing again this year, accelerating to around 3 percent real GDP growth in 2011. Not all UAE households will be highly leveraged, and real disposable incomes throughout the emirates will benefit from the sharp drop in inflation, especially rental costs. Further progress with restructuring of Dubai’s debt and greater transparency over Dubai Inc’s finances will also go some way to helping restore confidence. However, as in the rest of the GCC, until a durable global recovery is seen to be underway, fear of a double dip global recession will continue to dampen sentiment and stunt consumer spending.

Some policy issues

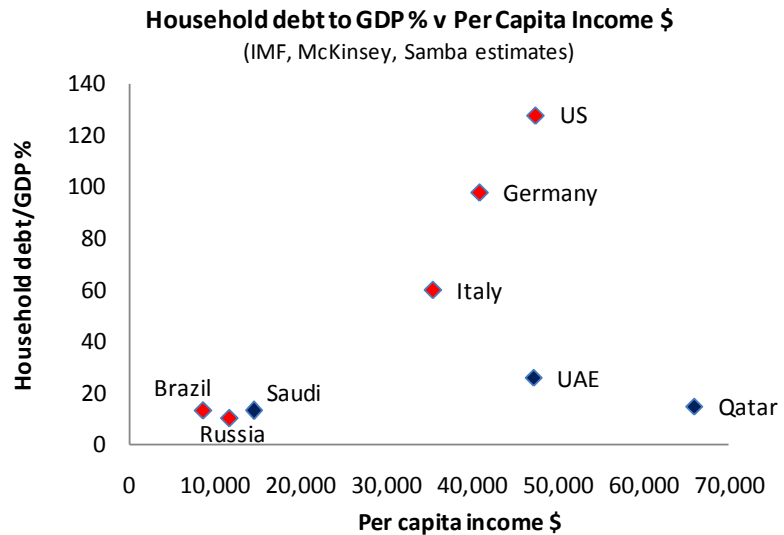
Developments over the past few years have thrown up a number of issues that policy makers need to consider. It is clear that excessive borrowing combined with loose lending standards can cause serious harm to individual households, and subsequent deleveraging can dent consumption with adverse implications for growth. In addition, asset price inflation (itself driven in part by excessive credit) can mask large and potentially unsustainable increases in household leverage. This was especially true in the UAE where soaring house prices meant that household debt to assets appeared reassuringly manageable, only to become serious burdens when prices collapsed.

The foregoing are all issues that Saudi Arabia is likely to be reviewing as it prepares to approve its own mortgage law. It is understood that mortgage lending in the kingdom will not be bound by existing consumer borrowing limits, and thus its implementation is expected to lead to a potentially large increase in consumer debt. Given the recent experience in the UAE and Qatar some caution in proceeding down this path is understandable. However, an increase in debt for house purchases need not be cause for concern, particularly if disposable incomes are little changed as former rent payments are merely transferred into mortgage payments. In addition, it is not clear what the “right” level of household leverage is for any country. This is likely to change over time in response to economic and demographic developments and is heavily influenced by a society’s housing preferences. To give some perspective, Italy’s household debt to disposable income ratio has risen from 34 percent in 2000 to 60 percent in 2008. In Switzerland the

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ratio has risen from 166 percent to 180, while it has declined in Germany from 114 percent to 98 percent. In the BRICS (Brazil, Russia, India, China) the ratio currently stands at between 10-13 percent.



An important role for monetary policy

Perhaps the most pressing concern is thus the need to avoid a build up in price bubbles. Laws on real estate activities that deter excessive speculation are an important factor (Saudi Arabia has already tightened regulations surrounding off-plan sales). But an equally large burden falls on central banks and their pursuit of appropriate monetary policies, particularly in the context of large inflows of hydrocarbon revenues. It should be recalled that loose monetary policy played a significant role in fuelling the unsustainable credit boom in the GCC as the exchange rate peg to the US dollar impelled central banks to cut interest rates during 2007-08 in line with the US Federal Reserve, despite their then booming economies and soaring inflation rates. The resultant negative real interest rates distorted both banks' and their customers' incentives and helped fuel asset bubbles – particularly real estate in Dubai - which have since crashed leaving consumers and banks badly exposed, particularly those that relied heavily on wholesale funding.

Looking ahead, monetary authorities will obviously need to consider carefully their exchange rate regimes and monetary policy needs. Strengthened bank supervision will also be important to identify any potential build up of risks, while the development of credit bureaux would allow banks to make more informed lending decisions. Longer term mortgage finance will require careful management of any maturity mismatches in banks, and is another reason for accelerating the development of local bond markets as a source of long term financing.

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