

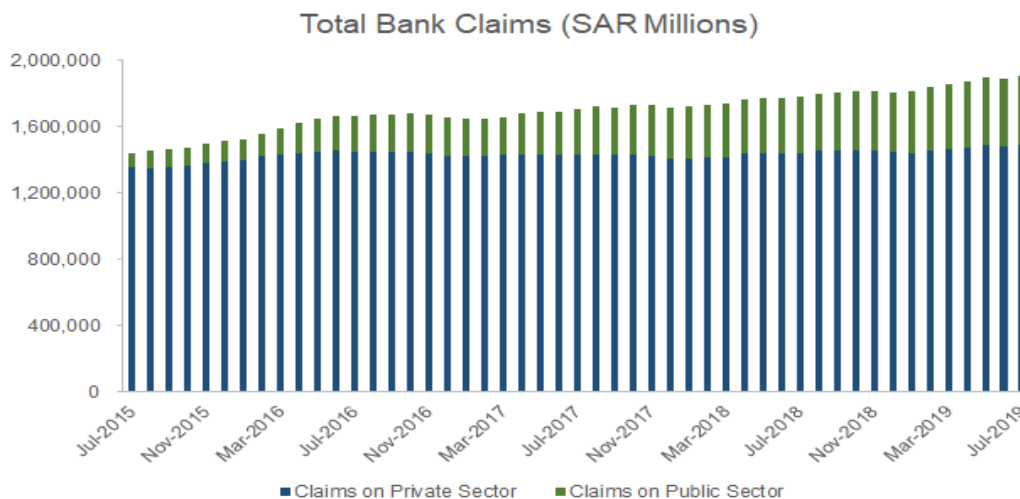


# USSABC Economic Brief: Saudi Arabia’s Bank Lending Update

## Overview

The Saudi Arabian banking sector has witnessed strong growth in lending as its appetite to extend credit to both the private and public sector has risen by 9.7 compound annual growth rate (CAGR) since the second quarter of 2015. On an annual basis, extended credit grew by 7 percent this July compared to the same period last year. The private sector accounts for the largest share of credit as it garnered 78 percent of all lending as of July. The private sector grew by 3 percent Y-o-Y as the ‘Loans, Advances, & Overdrafts’ category accounts for the largest share of private credit, which grew by 3.4 percent.

The public sector has witnessed stronger growth compared to the private sector as it grew by an impressive 23.7 percent Y-o-Y. A majority of credit extended to the public sector comes in the form of ‘Government and Quasi-Government Bonds’, as it accounted for 85.6 percent of all public sector loans in July. Bank credit to ‘Public Sector Enterprises’ on the other hand accounts for the remaining public sector credit and has grown by 15.8 percent Y-o-Y.

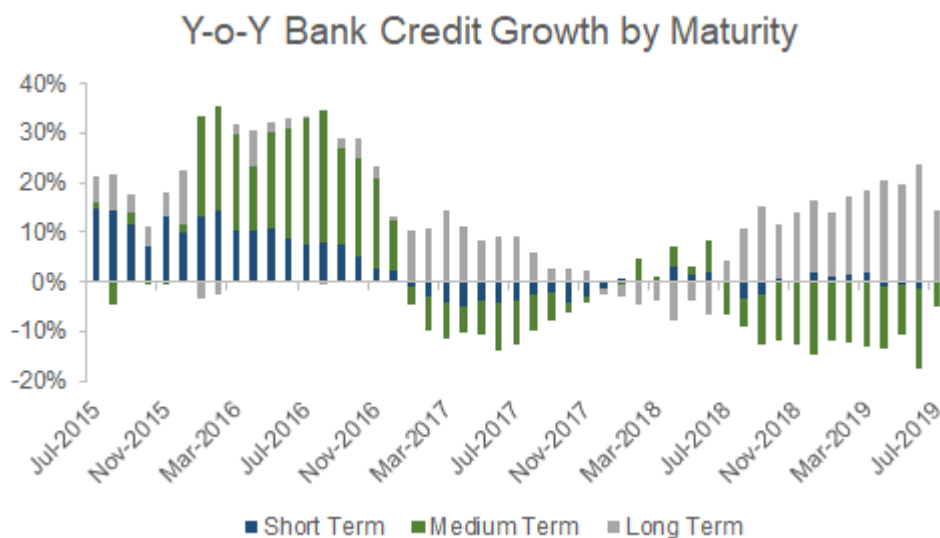


Source: SAMA, USSABC estimates

## Bank Credit Classified by Maturity

In terms of bank credit by maturity\*, short-term lending accounted for 48.5 of all lending, while medium-term and long-term lending accounted for 15.2 percent and 36.3 percent, respectively. Both short and medium-term lending have not grown consistently since 2017. Short-term lending grew just by .07 percent Y-o-Y in July after three straight months of declines while medium-term lending decreased by 5.2 percent Y-o-Y and has yet to witness positive growth so far in 2019. Short and medium-term loans have been hit hard over the last couple of years as the drop in the Kingdom's revenues directly impacted consumer behavior. Demand for personal finance, credit cards, and especially auto loans have declined on the back of the Kingdom's subdued macroeconomic performance.

However, long-term loans have seen significantly stronger demand as it has grown by double digits for 12 consecutive months. The Y-o-Y growth in July reached 14 percent after a 23 percent growth in June. The strong growth in long-term loans can be attributed to soaring demand for mortgage finance. Mortgage financing has witnessed historic growth over the last two years as relaxed lending criteria coupled with a strong push by the Real Estate Development Fund to assist in financing has caused double digit growth in mortgage lending over the last three quarters.



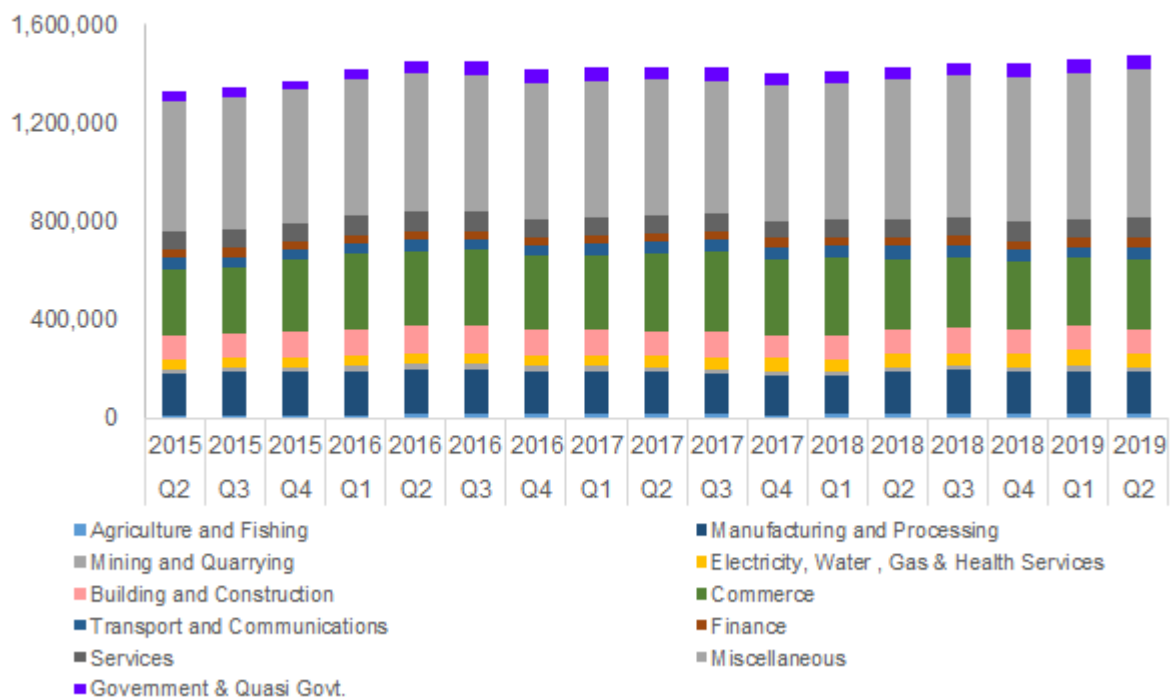
Source: SAMA, USSABC estimates

\* SAMA classifies short-term lending as less than one year; Medium-term between 1-3 years; Long-term lending over three years.

## Bank Credit Classified by Economic Activity

Bank credit growth by economic activity was inconsistent as of the second quarter of 2019. Five out of the 11 main categories witnessed declines compared to the second quarter of 2018. The largest category by volume, 'Miscellaneous' had the largest growth as it rose by 6.7 percent Y-o-Y, while 'Finance,' 'Services,' 'Commerce,' 'Government & Quasi-Government,' and 'Electricity, Water, Gas & Health Services' accounted for the remaining growing categories.

Bank Credit by Activity



Source: SAMA, USSABC estimates

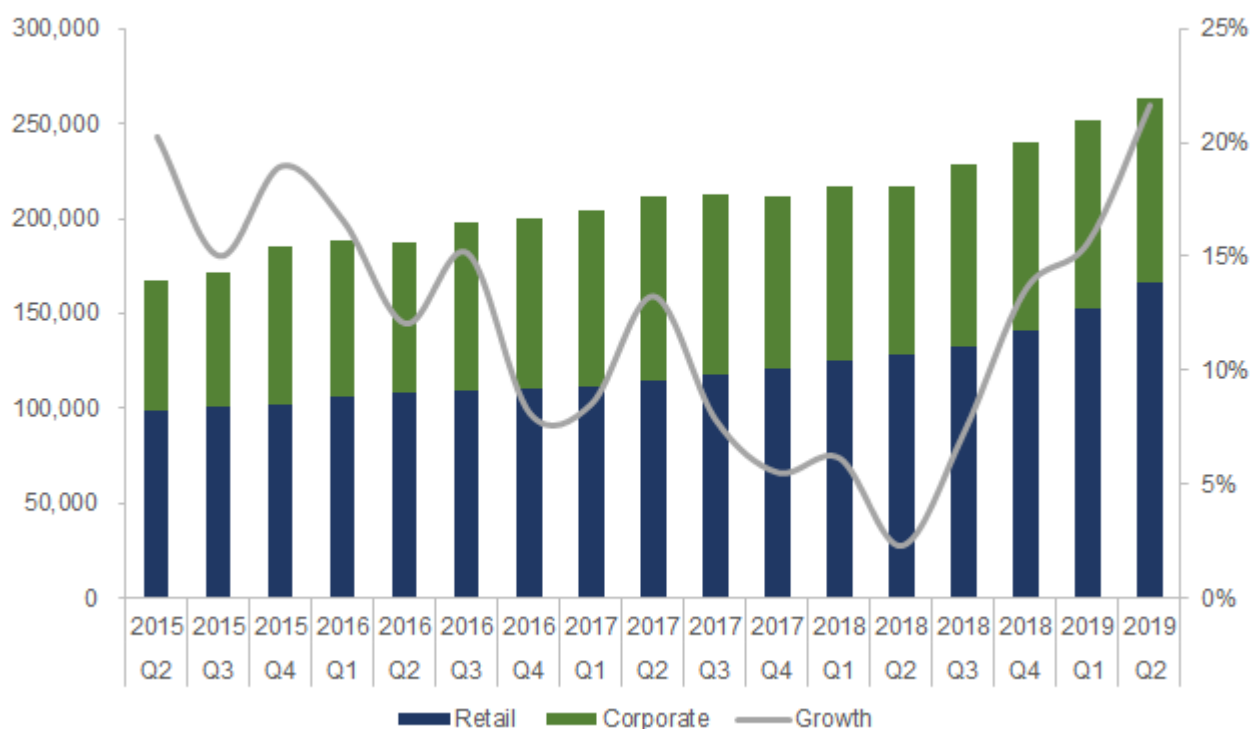
## Real Estate Lending

A deeper look into real estate financing indicates very strong growth thus far in 2019. Residential financing has been an elusive opportunity for many hopeful home buyers as the dearth in the supply of affordable housing coupled with stringent financing criteria by banks limited buying opportunities. However, regulatory shifts have allowed banks to relax lending rules and place banks at the forefront of assisting the government in providing Saudi residents with funding opportunities to acquire affordable homes.

While the impact of economic reforms on the real estate sector creates challenges in the short-term, the medium to long-term strategic plan set forth by the government for the economy as a whole is expected to provide a more robust economic foundation. The real estate sector is one of the critical areas the government aims to enhance, with particular emphasis on residential real estate. The reforms will aid the economy by improving local labor participation rates, needed capital injections by the government, and active support from the private sector.

Real estate loans by banks have grown by 21.6 percent Y-o-Y during the second quarter of 2019. It has witnessed double digit growth for the last three consecutive quarters. More specifically, the number of mortgage contracts that were signed reached 34,905 during the second quarter of 2019, a 276 percent increase Y-o-Y. The third quarter of 2019 has continued this rapid pace as more than 15,000 mortgage contracts were issued in July alone.

Real Estate Loans by Banks (SAR Millions)



Source: SAMA, USSABC estimates

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