

## Saudi Arabia's Economy: The Paradox of Thrift

The global economic crisis is dominating world news. Most people are, in some way, impacted by current events. With this in mind, the RGBB members who attended the last Special Briefing of 2008 were extremely fortunate to hear the views and insights on this subject from Dr. John Sfakianakis, Chief Economist at SABB, and one of the leading Economists in the Middle East region.

Prior to introducing the main speaker, Owain Raw-rees swiftly executed his dual responsibilities of hosting the briefing as RGBB Chairman and representing the sponsors for the evening, AXA. Founded in France, AXA is the biggest insurance company in the world and provides insurance services across 55 countries.

The subject of Dr. John's presentation was "Saudi Arabia's Economy: The Paradox of Thrift". Dr. John started off lightly (?) by informing us "the Global Economy is not going anywhere". Further, we would face difficulties in 2009 and the bad news is yet to come! Dr. John explained that the US is an important indicator of growth – if the US suffers, the world economy suffers. In respect of the current crisis, Dr. John considered view was that we were 40% through the recession and "recovery" would be towards end of 2010.

This quickly sobered-up the audience so they would focus on the subject in-hand. Dr. John expects more bailouts as more companies fail. The lack of liquidity is having a severe impact on project financing with many large-scale infrastructure projects now delayed or postponed. A recent visit to Dubai would provide ample evidence.

Most optimists would argue Saudi Arabia be insulated from the current global challenges – with oil prices at Saudi budget levels and an expansive expenditure plan announced for 2009 by the Saudi Government. Dr. John warned against complacency – the SABB Business Confidence Index had fallen 10 percentage points since Q1/08 and is trending down. Further, Middle East & North African economies will slowdown in 2009 with a drop in GDP expected.



## Special Briefing

by Marcus Cleverton

We should expect a lack of credit to lead to a reduction in bank lending in Saudi Arabia. There are reports that Jeddah has "run out of safes" as trust in banks reduces and people resort to setting-up their very own personal bank.

That said, as we have seen in the UK with action taken by the Government, it is highly unlikely that the Central Bank (SAMA) would allow any bank in the Kingdom to fail. Despite falling net income for some banks, overall the Saudi banking sector is profitable.

A challenge for Saudi is the high correlation between the movement in the Dow Jones index and the Saudi Stock Market index (TASI). If the US market is down, then the Saudi market will be down. Dr. John concluded that Saudi's have lost faith in the stock market – the 2006 downturn hurt small investors, the 2008 downturn has had a significant impact on large investors.

Globally, interest rates are coming down as countries battle to fight off recession. The UK has seen some very dramatic falls in rates. Dr. John explained that while the cost of funding is coming down in Saudi, loans have outpaced deposit growth in 2008 with asset to deposit ratios exceeding 85%.

