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COVID-19

Saudi Arabia Banking: Caught in the COVID-19 Grip

Falling NIMs to
pressurize profits

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Executive Summary

- **Economy:** Saudi Arabia's economy is expected to contract in 2020, affected by low oil demand and pandemic related lockdown measures. Sectors such as energy, logistics, transport, aviation, retail and manufacturing are likely to be among the worst affected.
- **COVID-19 impact:** Loss of government revenue due to low oil prices need to be compensated through drawdown of reserves and external borrowing. Need for stimulus package to revive economic activity would also lead to budgetary cuts and lesser capital expenditure on projects. Discretionary consumption is likely to reduce due to increase in VAT.
- **Credit growth:** Total bank credit witnessed an uptick at the end of 2019, increasing by XX% and trended upwards in the start of 2020 due to the pickup in real estate loans related to the government's housing program. Weak economic conditions are expected weigh on credit growth, which is likely to slow down to XX% at the end of 2020.
- **Deposit growth:** Overall deposit growth in 2019 was fueled by an XX% increase in public sector deposits, which were largely from the proceeds of Saudi Aramco's stake sale. Deposit growth is therefore likely to slow down but remain stable at the end of 2020.
- **Non-performing loans:** NPL ratio has historically stayed low, ending the year 2019 at XX% of total loans. Current NPL levels have been masked by deferment of loan repayments. Once their effect is removed, a spike in bad loans is expected, with the NPL to total loans ratio at XX% during the end of 2020.

Executive Summary

- **Net Income:** Shrinking net interest margins, sluggish credit growth, increase in bad loans and higher provisioning are expected to affect profitability of banks. Aggregate net income of listed banks to slip by XX% in 2020 on a yearly basis.
- **Digital Push:** Further traction is expected in the move towards digital banking in the coming years as people start embracing the new normal. Banks are likely to spend on technology to gain a competitive edge.

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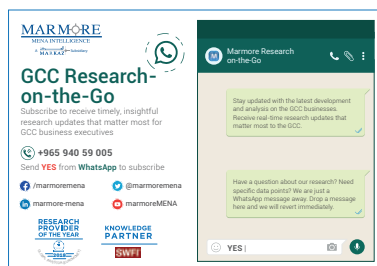


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