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GCC: tight financial conditions for businesses feed alternative sources of financing

Despite improving economic performances across the Gulf Cooperation Council (GCC), monetary and financial conditions remain tighter than they were before 2015. Access to financing remains one of the key issues for companies, particularly for small- and medium-sized enterprises (SMEs). Loan growth in the region has recovered somewhat thanks to higher oil prices, but it remains below its historical average. The US Federal Reserve's (Fed) policy normalisation is another cause: since the Fed announced its policy normalisation in 2013, central banks across the GCC have increased their policy rates in line with the Fed's exit strategy. These tight bank credit conditions have forced companies to look for alternative financing sources in recent years, e.g. bond and sukuk issuances, trade finance, and initial public offerings. But despite their fast growth, these different sources of financing account for no more than around 5% of usual bank credit. GCC companies are now looking forward to the expected expansionary monetary policy in the United States, which should help them.

Loan growth is back but remains restrained

Domestic loan growth across the GCC[1] region stood at 9.1% in 2017 and slowed to 4.4% in 2018. Bank loans to the private sector rose by only 1.4% in 2017 due to the low level of hydrocarbon production and the fact that several countries in the region were in recession. (Kuwait, Oman and Saudi Arabia). In 2018, this situation had started to improve slightly, with the annual increase in private sector loans reaching 5%. In line with higher oil prices and stronger growth performances, loans to the private sector across the GCC region are expected to expand a further 5% in 2019 – an improvement, but below the 2013-2015 average of 9%[3]. In the first quarter of 2019, commercial banks' loans to the private sector increased compared to the previous year: 3.1% in Saudi Arabia, 4% in UAE, 12.6% in Qatar, 2% in Oman, and 6.5% in Bahrain. The Institute of International Finance's (IIF) lending survey[2] points to low loan growth in the quarters

1 - *The Gulf Cooperation Council is comprised of Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.*
2 - *The IIF EM Bank Lending Conditions Survey is conducted quarterly among banks in Emerging Asia, Latin America, Emerging Europe, Middle East and North Africa, and Sub-Saharan Africa. The survey contains 26 multiple-choice questions that address five different topics on bank lending. When the index is above 50, it suggests lending conditions are more amenable. When it is below 50, it suggests tighter lending conditions.*

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