The Effect of Suspended Salary Allowance on Business Loan in Saudi Arabia

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Abstract

The research was carried out to study two factors; first the impact of suspended Salary allowance (about 20% of Saudi Salary per month) on borrowing loans from national and commercial Saudi's banks. Secondly, to analyze the effects of suspended salary allowance on re-payment of loans. This study showed that most Saudi banks’ customers should be well-aware of the influence of suspended salary allowance on borrowing bank loans and re-payment of loans. It was noticed that the provision of loans to Saudi people after suspended salary allowance had a great impact on their businesses performance. The study also found that salary cuts together with other factors including high interest rates may be the most important causes of poor business performance.

Keywords: Suspended, Salary, Allowance, Financial perks, Quantitative, Qualitative

1. Introduction

The Kingdom of Saudi Arabia is a major oil producing country, in which the economy is mainly based on oil exports. At a time of cheaper crude oil, the Saudi government decided to significantly cut costs through reducing ministers' salaries by 20% as well as suspending or canceling some bonuses and financial benefits. It can be considered the first pay cuts for governmental employees, who make up about two-thirds of working Saudis (Financial Stability Report 2016).

The prime target of banks; just like any business organization, is to make profit. In order to maximize profit, banks attract and serve customers, elevate market shares to stay competitive (Kashyap et al., 1993 and Calza et al., 2001). The banks are usually fully compliant with all the ambience of laws governing banking and they continuously operate under the umbrella of central bank (Bernanke, B. and M. Gertler M.1995). The Saudi government usually urges national and commercial banks to come up with attractive products and services such as giving loans that are intended to attract customers (borrowers), while charging certain fees and commissions (Allen 1988).

As the oil export revenues of the Saudi government are down sharply, there has been a growing pressure on the Saudi economy and banking system as they struggle to curb a budget deficit which totaled a record 367 billion Riyals ($98 billion) last year as reported by Financial Stability Report 2016.

The Saudi Arabian Monetary Agency has given commercial banks instructions to reschedule loans to customers hit by recent cuts in government spending due to low oil prices. Moreover, the agency has directed local banks to reschedule consumer loans for employees whose salaries were considerably reduced after the cancellation of a number of allowances and bonuses and other financial perks for public sector workers. The cabinet announced that it has cut a range of allowances for public employees to help curb a huge budget deficit caused by low oil prices. Under banking rules, monthly installments for consumer loans in Saudi Arabia must not exceed a third of a borrower's total salary.

The following questions will be addressed in this study:
(i) What is the effect of suspended Salary allowance on borrowing loans from Saudi national and commercial banks?
(ii) What is the impact of interest rates on loan repayment?
(iii) What is the effect of re-scheduling on the loan repayment?
The main objective of this study is to investigate the effect of suspended salary allowances on borrowing from national and commercial banks in Saudi Arabia. Therefore, this study attempts to (1) determine the relationship between suspended salary allowances and borrowing money from national and commercial banks in Saudi Arabia and (2) determine the effect of interest rates and re-scheduling on loan repayment.

2. Literature Review

According to Saudi’s bank law, the borrowers may not take a loan for more than 30% of their salary. It has become difficult for customers to borrow and to pay back their loans due to salary cuts and high lending rates and charges currently implemented by most banks. Evans and Adjei 2014 studied the impact of high lending rates on borrower’s ability to pay back loans and concluded that Interest Rate Re-financial Loan should be adopted by all financial institution and the central bank, otherwise, there will be less people showing interest in the demand for loans and as a consequence it will be falling in private sector development which is very critical for the development of a young nation like Ghana. In connection with this study, some studies urge that loans cost should be adjusted to cost opportunity of banks loans (Calcagnini et al., 2012). However, Banks are generally follow different strategies to maximize profit which is the main aim of any business organization (Annim, 2009). These different strategies are directed by Saudi Arabian Monetary Agency to attract customers (Borrowers) and maximize market shares.

Although in Saudi Arabia fluctuations in interest rates are very rare, one factor that influences the level of interest rates is the actions of the Saudi Arabian Monetary Agency in terms of raising interest rates to slow down the economy when expanding too rapidly and lowering them when the economy is heading for a recession. Rising and falling interest rates make the customer hesitant and will directly affect their financial decisions. Rising interest rates make saving relatively more attractive and lowering relatively more expensive (Bernanke et al, 1999). Therefore, customers find it difficult to re-pay their loans due to salary cut together with high lending rates. Another factor that may impact business loans is the level demand for loans (Aryeetey et al., 1994). Therefore, the present study assesses the relationship between recent salary cut law implemented by Saudi governmental and the borrowing from national and commercial banks. The effect of interest rates on loan repayment is also examined. The research was carried out in National and commercial banks in Saudi Arabia.

3. Method

A quantitative survey was used in this study to investigate the effect of suspended salary allowances on borrowing from Saudi governmental banks. The survey was administered to 328 employees from both genders were selected randomly from different demographic areas of Riyadh. As this is the capital city, we tried to cover as many different locations as possible. The desired sampling design was stratified to select a sample of individuals had suspended salary allowance and are interested in taking loans.

The sample included 200 customers with loan repayment and 128 who were willing to take loans. This information was obtained from both bank officials and customers.

3.1 Data Collection

The questionnaire was administered to gather information about the influence of suspended salary allowances on borrowing bank loans and loan repayment. A questionnaire is an established written set of questions usually implemented to collect the data from the involved respondents. The questionnaire was used to obtain quantitative or qualitative data from both categories of respondents. Participants gave their responses independently, and their information was treated with strict confidentiality.

3.2 Data Analysis

Data collected from the questionnaire were carefully classified, based on categories of the questions. The data were edited, checked for accuracy and consistency to ensure reliability. Descriptive statistical analyses were performed for the study participants. Proportions were used for categorical variables and continuous variables were summarized using mean and standard deviation (SD). Responses to the questionnaire were compared by participants’ characteristics including age, gender, marital status, salary, family size, housing status and occupation using the chi-square test. Statistical significance was considered at $P<.05$. All statistical analyses were performed using SPSS 21.0 (Release 21.0.0.0, IBM, USA).

4. Results

A total of 328 individuals completed the questionnaire, representing a response rate of 100%. Descriptive statistics of the respondents are displayed in Table 1. Seventy eight percent of respondents were aged between 21-40 years and 54% were females. About half of respondents were married; most of whom have a working spouse. Most salaries (62%)...
ranged from 5,000-30,000 riyals. Forty one percent of respondents reported that they own a house, 31% renting and 26% were provided by housing through family or work. The distribution of occupation was as follows: 33% work in the private sector, 15% in the military, 13% self-employed, 13% government, 9% civil servant and 17% other.

Table 1. Profile of Respondents. N = 328.

| Factor                        | n (%)          |
|-------------------------------|----------------|
| Gender n (%)                  |                |
| Male                          | 150 (45.7%)    |
| Female                        | 176 (53.7%)    |
| Missing                       | 2 (0.6%)       |
| Age group (years) n (%)       |                |
| Less than 20                  | 11 (3.4%)      |
| 21-30                         | 141 (43.0%)    |
| 31-40                         | 114 (34.8%)    |
| 41-50                         | 38 (11.6%)     |
| 51-60                         | 15 (4.6%)      |
| Above 60                      | 0 (0.0%)       |
| Missing                       | 9 (2.7%)       |
| Marital Status n (%)          |                |
| Married                       | 163 (49.7%)    |
| Single                        | 107 (32.6%)    |
| Widow(er)                     | 26 (7.9%)      |
| Separated                     | 27 (8.2%)      |
| Missing                       | 5 (1.5%)       |
| If married, does your spouse work? n (%) |            |
| Yes                           | 121 (74.2%)    |
| No                            | 42 (25.8%)     |
| Salary (SAR) n (%)            |                |
| Less than 5,000               | 86 (26.2%)     |
| 5,000-10,000                  | 96 (29.3%)     |
| 10,001-20,000                 | 67 (20.4%)     |
| 20,001-30,000                 | 39 (11.9%)     |
| More than 30,000              | 20 (6.1%)      |
| Missing                       | 20 (6.1%)      |
| Household (Family) Size mean ± SD | 5.0 ± 3.1    |
| median (range)                | 5 (1-29)       |
### Housing Status n (%)

| Status                  | Count | Percentage |
|-------------------------|-------|------------|
| Own                     | 133   | 40.5%      |
| Rent                    | 101   | 30.8%      |
| Provided by Family      | 58    | 17.7%      |
| Provided by Work        | 27    | 8.2%       |
| Missing                 | 9     | 2.7%       |

### Occupation n (%)

| Occupation              | Count | Percentage |
|-------------------------|-------|------------|
| Civil Servant           | 28    | 8.5%       |
| Self-employed           | 44    | 13.4%      |
| Private Sector Worker   | 109   | 33.2%      |
| Military                | 50    | 15.2%      |
| Government Sector Worker| 41    | 12.5%      |
| Family Business         | 19    | 5.8%       |
| Other                   | 26    | 7.9%       |
| Missing                 | 11    | 3.4%       |

The results in Table 2 showed that 46% of respondents reported having knowledge on loans in Saudi banks and 41% used bank loans; most of whom within the last 5 years. Also, 51% of respondents stated that they had 1-2 loans in the past 10 years and 16% had 3-6 loans. Fifty six percent of respondents had their largest loan in the past 10 years ranging from 51,000-300,000 SAR. While 46% had financed business projects, only 37% reported having successful business projects and 62% reported no increase in total income from their business. Only 33% reported facing challenges using bank loans; mostly due to high interest rates and short repayment period. Fifty three percent of respondents reported that they were charged up to 4% in interest rates. About 70% of respondents had duration of loan re-payment of 6 years or less. Lastly, 60% reported that they never bought a new car via bank leases.
Table 2. Previous Loans before Pay Cuts. N = 328.

| Item                                                      | Options               | No. of Responses | %   |
|-----------------------------------------------------------|-----------------------|------------------|-----|
| Knowledge on loans in Saudi banks?                        | Yes                   | 151              | 46.0% |
|                                                           | No                    | 171              | 52.1% |
|                                                           | Missing               | 6                | 1.8% |
| Ever used loans from Saudi banks?                         | Yes                   | 133              | 40.5% |
|                                                           | No                    | 189              | 57.6% |
|                                                           | Missing               | 6                | 1.8% |
| If yes, how long have been using loans*                   | Less than 1 year      | 42               | 23.6% |
|                                                           | 2-3 years             | 65               | 36.5% |
|                                                           | 4-5 years             | 33               | 18.5% |
|                                                           | 6-7 years             | 12               | 6.7% |
|                                                           | 8-9 years             | 11               | 6.2% |
|                                                           | 10 years or above     | 15               | 8.4% |
| How many loans in the past 10 years?*                     | None                  | 63               | 29.4% |
|                                                           | 1-2                   | 110              | 51.4% |
|                                                           | 3-4                   | 28               | 13.1% |
|                                                           | 5-6                   | 7                | 3.3% |
| Largest loan in the past 10 years*                        | 10,000-50,000         | 14               | 17.9% |
|                                                           | 51,000-100,000        | 16               | 20.5% |
|                                                           | 101,000-200,000       | 20               | 25.6% |
|                                                           | 201,000-300,000       | 8                | 10.3% |
|                                                           | 301,000-500,000       | 11               | 14.1% |
|                                                           | >500,000              | 9                | 11.5% |
| Number of business projects on loans*                     | None                  | 117              | 53.7% |
|                                                           | 1-2                   | 69               | 31.7% |
|                                                           | 3 or more             | 32               | 14.7% |
| Number of successful business projects                    | None                  | 206              | 62.8% |
|                                                           | 1-2                   | 81               | 24.7% |
|                                                           | 3 or more             | 28               | 8.5% |
|                                                           | Missing               | 13               | 4.0% |
| % increase in total income from business                  | None                  | 204              | 62.2% |
|                                                           | 10-20%                | 70               | 21.3% |
21-30%  30  9.1%
Missing  24  7.3%

**Facing challenges using the loans?**
Yes  109  33.2%
No  188  57.3%
Missing  31  9.5%

**If yes, what are the challenges? **
High Interest Rates  76  43.9%
Short Repayment Period  35  20.2%
Small Loans  11  6.4%
Social Problem  18  10.4%
Fiscal Policy (Taxation)  17  9.8%
Lack of Entrepreneurial Skills  16  9.2%

**Interest rate charged on loans**
2-3%  114  34.8%
3.1-4%  60  18.3%
4.1-5%  26  7.9%
5%  23  7.0%
Missing  105  32.0%

**Duration (years) of loan re-payment**
1-2  70  21.3%
3-4  84  25.6%
5-6  75  22.9%
7 or more  29  8.8%
Missing  70  21.3%

**How frequently you buy a new car via bank leases?**
Never  195  59.5%
Every Year  20  6.1%
Every 2-3 Years  25  7.6%
Every 4-5 Years  23  7.0%
Other  28  8.5%
Missing  37  11.3%

*Based on a subset of respondents answering “yes” for the second item in the table.
** Based on a subset of respondents answering “yes” for the item 9 in the table.

Results from analyzing the effect of pay cuts on loan borrowing are displayed in Table 3. Almost half of respondents reported that they were affected by the latest round of pay cuts; 77% of whom had up to 24% reduction in their total salary. The majority of respondents (63%) reported that the latest pay cuts would impact their decision to take loans. Only 27% reported that they were thinking of taking a loan after suspended Salary allowance and 47% said they would use the loan for buying a house/car or for higher education expenses. Forty four percent said they had challenges with bank loans; mostly due to high interest rates or short repayment period.
Table 3. Effect of Pay Cuts on Loan Borrowing. N = 328.

| Item                                                                 | Options          | No. of Responses | %    |
|----------------------------------------------------------------------|------------------|------------------|------|
| **Affected by the latest round of pay cuts?**                       |                  |                  |      |
| Yes                                                                  | 159              | 48.5%            |      |
| No                                                                   | 141              | 43.0%            |      |
| Missing                                                              | 28               | 8.5%             |      |
| **If yes, % reduction in total salary**                             |                  |                  |      |
| <10%                                                                 | 72               | 36.0%            |      |
| 10-24%                                                               | 81               | 40.5%            |      |
| 25-39%                                                               | 40               | 20.0%            |      |
| >40%                                                                 | 7                | 3.5%             |      |
| **Enough knowledge on borrowing loans**                             |                  |                  |      |
| Yes                                                                  | 119              | 36.3%            |      |
| No                                                                   | 186              | 56.7%            |      |
| Missing                                                              | 23               | 7.0%             |      |
| **Do you know how bank loans operate?**                             |                  |                  |      |
| Yes                                                                  | 130              | 39.6%            |      |
| No                                                                   | 180              | 54.9%            |      |
| Missing                                                              | 18               | 5.5%             |      |
| **Ever used bank loans?**                                           |                  |                  |      |
| Yes                                                                  | 133              | 40.5%            |      |
| No                                                                   | 178              | 54.3%            |      |
| Missing                                                              | 17               | 5.2%             |      |
| **Thinking of taking new loan during next year?**                   |                  |                  |      |
| Yes                                                                  | 90               | 27.4%            |      |
| No                                                                   | 180              | 54.9%            |      |
| Maybe                                                                | 42               | 12.8%            |      |
| Missing                                                              | 16               | 4.9%             |      |
| **Maximum loan you can afford (SAR)**                               |                   |                  |      |
| 100,000 or less                                                     | 44               | 13.4%            |      |
| 101,000-200,000                                                     | 24               | 7.3%             |      |
| >200,000                                                            | 23               | 7.0%             |      |
| Missing                                                              | 237              | 72.3%            |      |
| **Most likely payment duration you might choose?**                  |                   |                  |      |
| 1 year                                                               | 44               | 13.4%            |      |
| 2-3 years                                                           | 79               | 24.1%            |      |
| 4-5 years                                                           | 100              | 30.5%            |      |
| Other                                                                | 61               | 18.6%            |      |
| Missing                                                              | 44               | 13.4%            |      |
| Kind of loans you prefer to take?          |        |
|------------------------------------------|--------|
| Personal                                 | 128    |
| Commercial                               | 72     |
| Car Lease                                | 23     |
| Mortgage (Housing Loan)                  | 69     |
| Missing                                  | 36     |

| Most likely purpose of taking a personal loan? |        |
|-----------------------------------------------|--------|
| Buying a House                               | 86     |
| Buying a Car                                 | 40     |
| Higher Education                             | 30     |
| Marriage                                     | 5      |
| Buying Stocks                                | 20     |
| Vacation                                     | 18     |
| Other                                        | 82     |
| Missing                                      | 47     |

| Latest pay cuts will impact your decision to take loans? |        |
|----------------------------------------------------------|--------|
| Yes                                                      | 208    |
| No                                                       | 96     |
| Missing                                                  | 24     |

| Major factor affecting your decision to take loans       |        |
|----------------------------------------------------------|--------|
| Need for Money                                           | 89     |
| Interest Rate of the Loan                                | 106    |
| Purpose of the Loan                                      | 50     |
| Whether Already Having Loans                             | 59     |
| Other                                                    | 0      |
| Missing                                                  | 24     |

| Any challenges with using loans (other than salary cuts)? |        |
|----------------------------------------------------------|--------|
| Yes                                                      | 143    |
| No                                                       | 157    |
| Missing                                                  | 28     |

| If yes, what are the challenges?**                      |        |
|---------------------------------------------------------|--------|
| High Interest Rates                                     | 89     |
| Short Repayment Period                                  | 62     |
| Social Problems                                          | 33     |
| Lack of Entrepreneurial Skills                          | 37     |

| Loan interest rates you have been charged               |        |
|---------------------------------------------------------|--------|
| 2-3%                                                    | 114    |
Table 4 shows data on pre pay cuts responses by participants’ characteristics. The reported knowledge on bank loans and actual use of these loans were significantly different by most respondents’ characteristics including gender, age, marital status and salary ($P<0.05$). Significantly higher rates of reporting knowledge on bank loans were observed among males (60% vs. 36% among females), older respondents (59% for those aged above 30 vs. 33% among aged 30 or below), married or separated/widower (55%/49% vs. 34% among singles) and among those with lower salaries (68% vs. 32% among those earning above 10,000 Riyals); $P<0.001$, $<0.001$, 0.004 and $<0.001$, respectively.

Data on post cuts responses by participants’ characteristics are displayed in Table 5. The percentage of respondents reporting that they were affected by pay cuts was significantly higher among males, older respondents and among those with lower salaries; $P = 0.006$, 0.047 and 0.027, respectively. No significant differences in rates of reporting effect of pay cuts on decision to take loans were observed by any of the respondents’ characteristics ($P>0.05$).
Table 4. Pre Pay Cuts Responses by Participants’ Characteristics.

**Knowledge on Bank Loans in Saudi Banks**

| Gender          | N* | Number | %    | P** |
|-----------------|----|--------|------|-----|
| Male            | 150| 90     | 60.0%|     |
| Female          | 171| 61     | 35.7%|     |

| Age group (years) | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| 30 or below       | 149| 49     | 32.9%|     |
| Above 30          | 167| 99     | 59.3%|     |

| Marital Status    | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| Married           | 160| 88     | 55.0%|     |
| Single            | 105| 36     | 34.3%|     |
| Other (separated or widow) | 53 | 26 | 49.1% |     |

| Salary (SAR)      | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| 10,000 or less    | 128| 87     | 68.0%|     |
| Above 10,000      | 178| 57     | 31.8%|     |

**Use of Bank Loans in Saudi Arabia**

| Gender          | N* | Number | %    | P** |
|-----------------|----|--------|------|-----|
| Male            | 150| 89     | 59.3%|     |
| Female          | 171| 44     | 25.7%|     |

| Age group (years) | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| 30 or below       | 148| 42     | 28.4%|     |
| Above 30          | 168| 88     | 52.4%|     |

| Marital Status    | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| Married           | 160| 77     | 48.1%|     |
| Single            | 105| 31     | 29.5%|     |
| Other             | 53 | 24     | 45.3%|     |

| Salary (SAR)      | N* | Number | %    | P** |
|-------------------|----|--------|------|-----|
| 10,000 or less    | 128| 78     | 60.9%|     |
| Above 10,000      | 178| 49     | 27.5%|     |

*Number of respondents with available data **Based on the chi-square test.
Table 5. Post Pay Cuts Responses by Participants’ Characteristics.

| Affected by the Latest round of Pay Cuts | N* | Number | %   | P** |
|-----------------------------------------|----|--------|-----|-----|
| Gender                                  |    |        |     |     |
| Male                                    | 147| 90     | 61.2%| 0.006|
| Female                                  | 152| 69     | 45.4%|     |
| Age group (years)                       |    |        |     |     |
| 30 or below                             | 140| 66     | 47.1%| 0.047|
| Above 30                                | 155| 91     | 58.7%|     |
| Marital Status                          |    |        |     |     |
| Married                                 | 146| 84     | 57.5%| 0.26 |
| Single                                  | 99 | 48     | 48.5%|     |
| Other                                   | 51 | 24     | 47.1%|     |
| Salary (SAR)                            |    |        |     |     |
| 10,000 or less                          | 124| 76     | 61.3%| 0.027|
| Above 10,000                            | 164| 79     | 48.2%|     |

Latest Pay Cuts Affecting Decision to Take Loans

| Gender                                  |     |        |     |     |
| Male                                    | 146| 105    | 71.9%| 0.24 |
| Female                                  | 157| 103    | 65.6%|     |
| Age group (years)                       |     |        |     |     |
| 30 or below                             | 142| 91     | 64.1%| 0.12 |
| Above 30                                | 156| 113    | 72.4%|     |
| Marital Status                          |     |        |     |     |
| Married                                 | 148| 108    | 73.0%| 0.23 |
| Single                                  | 102| 65     | 63.7%|     |
| Other                                   | 50 | 32     | 64.0%|     |
| Salary (SAR)                            |     |        |     |     |
| 10,000 or less                          | 125| 80     | 64.0%| 0.24 |
| Above 10,000                            | 166| 117    | 70.5%|     |

*Number of respondents with available data  **Based on the chi-square test.
5. Discussion

Saudi debt has increased rapidly over the past 20 years. A rising number of Saudis are taking out loans, to pay for buying a house, car and for other living expenses. The cost of loans is rising, at the same time, banks have begun diverting money to buy bonds that finance the government’s deficit, as oil export revenues are down sharply. The Saudi Arabian Monetary Agency’s data signaled some signs of slower consumer spending; cash withdrawals from automated teller machines fell to their lowest level this year.

Suspended salary allowances make banks more cautious in their services especially in supporting loans. Based on studies by Aryeetey et al., 1994, Peek and Rosengren, 2005; Caballero et al., 2008, this lending disruption created by high loans compromises the country’s long-run growth prospects. Today, most banks find giving loans to private customers risky and therefore they increased the threshold of service charges that are associated with borrowing to discourage non-qualified customers (Paget, 2007).

Our results showed that half of respondents had enough knowledge on loans in Saudi banks while 41% used bank loans; most of whom within the last 5 years. Also, half of respondents had one or more loans in the past 10 years ranging from 51,000-300,000 SAR while a small number had 3-6 loans. Only 37% stated that they had successful business projects. However, 33% demonstrated that they face challenges using bank loans; mostly due to high interest rates and short repayment period. Fifty three percent of respondents reported that they were charged up to 4% in interest rates.

The role of credit in a society is to improve the welfare of the poor directly (consumption smoothing that reduces their vulnerability to short term income shocks) (Friedman, and Kuttner.1993, Binswanger and Khandker 1995; Heidhues and Scheider 2000; Nwanna 1995) and to enhance productive capacity through financing investment by the poor in their human and physical capital.

Most Saudi loans are non-performing loan (NPL), which are several months overdue or in default. NPL is more than just an indicator of a debtor’s inability (or unwillingness) to pay, but also a burden for both the lender and the borrower. For a debtor, an NPL traps valuable collateral and the unresolved debt makes it more difficult to obtain new funding and make investment (Bernanke et al., 1999).

In our study, half of respondents declared that they were suffering from the latest rounds of pay cuts; high percentage had up to 24% reduction in their total salary. Furthermore, a significant number of respondents showed that the latest pay cuts would impact their decision to take loans. A relatively low number of respondents reported that they were thinking of taking a loan after suspended Salary allowance and 47% said they would use the loan for buying a house/car or for higher education expenses. In connection with the Saudi bank law, the borrowers cannot take a loan that exceeds 30% of their salary. Therefore, it had become hard for customers to borrow and to pay back their loans due to salary cuts and high lending rates and charges implemented by most banks. This study therefore clarified the information about the impact of suspended Salary allowance on borrowing from banks to the extent to which it impedes their growth from customers’ point of view.

The data on pre pay cuts responses by participants’ characteristics presented in the current study showed that the actual use of these loans were significantly different by most respondents’ characteristics including gender, age, marital status and salary. Significantly higher rates of reporting knowledge on bank loans were observed among males (60% vs. 36% among females), older respondents (59% for those aged above 30 vs. 33% among aged 30 or below), and among those with lower salaries (68% vs. 32% among those earning above 10,000 riyals). While data on post cuts responses by participants’ characteristics were higher among males, older respondents and among those with lower salaries.

The fluctuations in interest rates in Saudi banks are very rare, and are controlled by the Saudi Arabian Monetary Agency. The agency sometimes raises interest rates to slow down an economy that is expanding too rapidly and lowers them when the economy is heading for a recession. Rising and falling interest rates will make the customer hesitant to make financial decisions. Rising interest rates make saving relatively more attractive and borrowing relatively more expensive. Falling interest rates have the opposite effect. Consequently, the effect of an interest rate rise or fall will depend on whether you are a saver or a borrower.

It has been reported that there is an inverse relationship between interest rates and the consumer’s ability to re-pay a loan, since interest rates directly impact the customer’s ability to repay a loan. Bharath et al., 2011, showed that when interest rates are low, people are willing to borrow because they find it relatively easy to repay their debt. However, when the interest rates are high, people are hesitant to borrow because repayments on loans cost more. Furthermore, some consumers may even find it difficult to repay the loan because interest rates increase exceeds the
rise in a consumer’s income. If interest rates rise sharply and stay high for a long period, some consumers will default on their loans (Hou and Dickinson 2007, Beck et al., 2013, Klein 2013 and Berghthaler et al., 2015).

The strength of this study is its methodological contribution in terms of enabling the researcher to get an in-depth description of the impact of suspended salary allowances on borrowing from banks and also on the business performance, overall and by consumers’ characteristics. Moreover the study provides the basis for understanding the relationships between rate of borrowing from banks and business performance.

The major limitation of this study is that participants were specifically selected from the capital city of Riyadh, which is not necessarily representative of the population of bank customers in Saudi Arabia. Nevertheless, our study covered the vast majority of bank customers in Riyadh as evidenced by the perfect response rate of 100%. However, the choice of the population is not random process. Since the study variables are specific concern, the study has been based on selected population with salary cut and responsible for and in charge of loan repayment or interested for bowing loans. Therefore, the sample population depended upon the number of customers (borrowers) or interesting in bowing loans.

6. Conclusion

This result of this study reveals a close relationship between suspended salary allowances and borrowing loans and also with the loan repayment. We observed a negative impact of suspended salary allowances and high interest rates on customers and the Saudi economy in general. Therefore, there will be less people showing interest in taking loans, which will negatively affect private sector development that is critical for the development of Saudi private sector economy. Furthermore, there are also other external factors that may trigger the demand for loans by the customers irrespective to suspended salary allowances or high interest rates, as some customers are forced to take loans to make sure their businesses survive.

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