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Saudi Economic Review

NCB Monthly Views on Saudi Economic and Financial Developments

Contents

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Executive Summary

- The oil market remains balanced, as current OPEC production continues to meet demand, while prices remain rather stable, signaling limited need to change anything.
- The Bank of Japan decided to continue with quantitative and qualitative monetary easing, aiming to reflate the Japanese economy and achieve the price stability target of 2%.
- South American harvest have provided a supply-side relief that pressured the agriculture markets negatively despite US planting delays and yield risks.
- Rental prices are expected to rise in the coming months due to the summer holidays and specifically in western region cities as we near the Holy month of Ramadan.
- The low nature of traded volumes is, in our opinion, indicative of the medium term investment horizons of investors. The capital inflows during the month of May are likely to remain in the market which could support forming a new strong support level for the index.
- As the financial system continues to expand its credit portfolios, especially in longer term maturities, banks should attract more time and savings deposits to comfortably finance larger long-term projects.
- Exports by direction shows that UAE, China, and Singapore were the top three trading partners, with demand weighing as much as 14%, 10.8%, 6.2%, respectively.

View of the Month

The tourism sector provided 670’028 jobs with 26.4% filled by Saudi nationals. SCTA plans to expand their contribution to the labor market by providing a total of 841’400 jobs by 2015 and 1.2 million jobs by 2020, an ambitious goal which is supported by large projects and development plans.

Macroeconomic Indicators

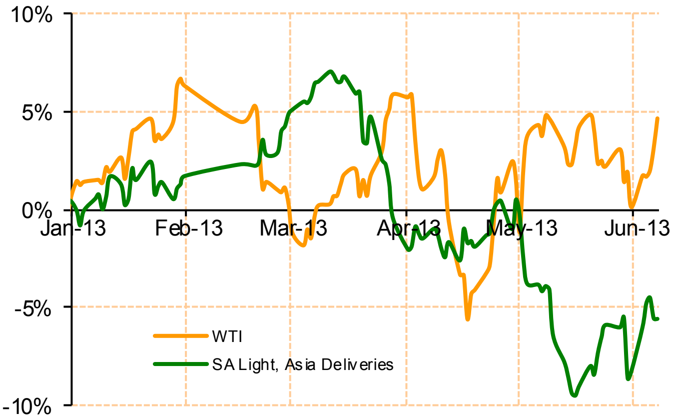
	2007	2008	2009	2010	2011P	2012F	2013F
Real Sector							
Average KSA Crude Spot Price, Arab Light, USD/BBL	68.3	94.9	59.2	77.6	108.1	110.2	105.0
Average Daily Crude Oil Production, MMBD	8.8	9.2	8.2	8.2	9.3	9.9	9.5
GDP at Current Market Prices, SAR billion	1,442.6	1,786.1	1,412.6	1,690.5	2,511.4	2,727.4	2,720.2
GDP at Current Market Prices, USD billion	385.2	476.9	377.2	450.8	670.6	728.3	726.3
Real GDP Growth Rate	2.0%	4.2%	0.1%	4.6%	8.5%	6.8%	3.0%
Oil Sector GDP Growth Rate	(3.6%)	4.2%	(7.8%)	2.4%	4.3%	5.5%	-3.1%
Non-oil Sector GDP Growth Rate	4.7%	4.3%	3.5%	5.5%	7.8%	7.2%	7.6%
Population, million	24.9	25.8	26.7	27.6	28.4	29.2	30.1
Population Growth Rate	3.4%	3.4%	3.4%	3.4%	2.9%	3.0%	3.0%
GDP /Capita, USD	15,444.2	18,495.4	14,147.9	16,354.7	23,632.8	24,917.7	24,127.9
CPI Inflation, Y/Y % Change, Average	4.1%	9.9%	5.1%	5.3%	5.0%	4.8%	4.5%
External Sector							
Merchandise Trade Balance, USD billion	150.6	212.0	105.2	153.7	244.7	268.4	231.6
Oil Exports, USD billion	205.3	281.0	163.1	215.2	317.6	347.6	324.6
Non-oil Exports, USD billion	27.8	32.3	29.1	35.8	46.9	48.9	42.2
Merchandise Imports, USD billion	(81.5)	(100.6)	(86.4)	(96.7)	(119.1)	(128.2)	(135.2)
Net Unilateral Transfers, USD billion	(17.0)	(23.0)	(27.7)	(27.9)	(29.4)	(32.1)	(114.5)
Current Account Balance, USD billion	93.3	132.3	21.0	66.8	158.5	178.7	117.1
Current Account Balance/GDP	24.2%	27.7%	5.6%	14.8%	23.6%	24.5%	16.1%
Net Foreign Assets with SAMA, USD billion	301.3	438.5	405.9	441.0	535.9	648.5	713.4
Fiscal Sector (Central Government)							
Budgeted Expenditure, SAR billion	380.0	410.0	475.0	540.0	580.0	690.0	820.0
Actual Revenues, SAR billion	642.8	1,101.0	509.8	741.6	1,117.8	1,239.5	1,076.6
Actual Expenditure, SAR billion	466.2	520.1	596.4	653.9	826.7	853.0	870.1
Expenditure Overrun, %	22.7%	26.8%	25.6%	21.1%	42.5%	23.6%	6.1%
Total Revenues/GDP	44.6%	61.6%	36.1%	43.9%	44.5%	45.4%	39.6%
Total Expenditure/GDP	32.3%	29.1%	42.2%	38.7%	32.9%	31.3%	32.0%
Overall Budget Balance, SAR billion	176.6	580.9	(86.6)	87.7	291.1	386.5	206.5
Budget Balance/GDP	12.2%	32.5%	(6.1%)	5.2%	11.6%	14.2%	7.6%
Break-Even Oil Price	40.5	40.2	60.8	64.1	71.1	67.0	72.8
Financial Sector							
USD/SAR Exchange Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Growth in Broad Money (M3)	19.6%	17.6%	10.7%	5.0%	13.3%	13.9%	8.1%
Growth in Credit to the Private Sector	20.6%	27.9%	-0.6%	4.8%	11.0%	16.4%	18.8%
Average 3M SAR Deposit Rate	4.9%	3.3%	0.9%	0.7%	0.7%	0.9%	1.0%
Average 3M USD Deposit Rate	5.2%	3.0%	0.7%	0.4%	0.3%	0.4%	0.4%
Spread, in Basis Points, SAIBOR-LIBOR	(39.2)	37.4	26.4	39.8	40.9	55.2	60.0

Oil Market

Balancing a Tight Market

OPEC basket price has climbed back above the USD100 per barrel level, averaging USD100.79 in May, while the pace of the Brent benchmark's upward movement has largely coincided with the weakness in the US dollar, underlying fundamental and geopolitical developments. However, Brent, which is used to price more than half of the world's oil, lost 8.5% YTD to trade near USD102 a barrel, while WTI, the US benchmark, is trading at about USD93 a barrel. The oil market remains balanced, as current OPEC production continues to meet demand, while prices remain rather stable, signaling limited need to change anything. OPEC, in its recent meeting, maintained its group target of 30 mmbd for a third consecutive time, suggesting that oil prices at USD100 a barrel are adequate to sustain members' revenue as the global economy recovers.

Chart 1: Oil Price Developments, YTD

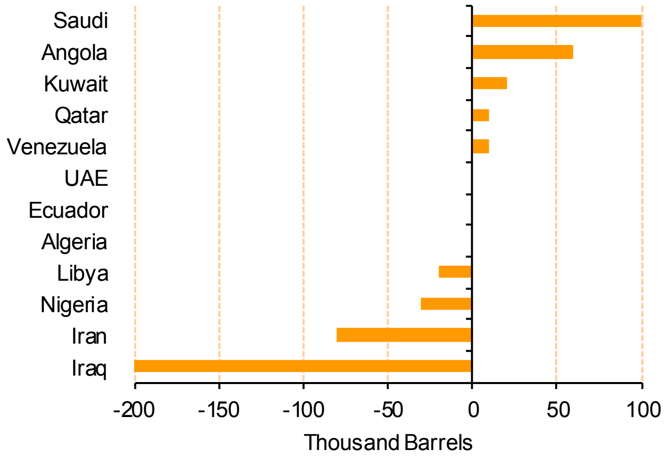


Source: Thompson Reuters

Meanwhile, OPEC is pumping more than its target of 30 mmbd, climbing in May to the highest level in six months to an average of 31.034 mmbd from a revised 30.94 mmbd in April. In addition, Iraq is due to start pumping crude from two of its largest oil fields within weeks, thus creating a potential obstacle to upcoming efforts by OPEC to reduce production in the event of falling prices. While OPEC achieved the best adherence to the organization's production ceiling in 18 months, the group may need to increase discipline to stem price declines. OPEC risks delaying an organized response to the challenge of its own rapidly increasing supply and that of non members and should trim production back to the agreed target to prevent prices from falling later this year. On the other hand, increasing intensity of geopolitical developments in Syria and Iraq has the potential to drive upside risks and push Brent above the USD102 a barrel level going into the second half of the year.

On the demand side, recovery in prompt demand is expected to be sluggish and steady rather than a brisk rebound over the summer as end-consumption picks up. The pace of the rebound is likely to be slow, given the need for existing surpluses to be absorbed and also for refinery margins to stabilize at a comfortable level. Chinese crude oil imports in May held steady at 5.66 mmbd, but fell 6% Y/Y from last year's high base. Moreover, in the months ahead, structurally slower economic growth, estimated at 7.4% in 2013, presents more challenges to Chinese oil demand.

Chart 2: OPEC's Monthly Oil Production Changes



Source: OPEC Survey

On the supply side, US crude oil production exceeded imports in the last week of May, first time in 16 years. US oil production soared 42% over the past five years, reaching a 21-year high of 7.37 mmbd, while imports dropped 26% over the same period to reach 7.27 mmbd in the week ended May 3. A combination of horizontal drilling and hydraulic fracturing has unlocked supplies trapped in shale formations in North Dakota, Oklahoma and Texas. US production has led to a plunge in oil imports from some OPEC members, especially those in Africa, which typically produce lighter grades of oil similar to the North American blends. US imports from Angola declined to 0.85 mmbd in March, the lowest level since 1993, and Shipments from Nigeria decreased to 0.19 mmbd in February, a 19-year low. Meanwhile, OPEC has formed a committee to research the implications of US shale oil, an admission that the escalating supply is worrying to some of its members. Saudi Arabia, in anticipation of summer demand, pumped 9.35 mmbd in May, up 170,000 barrels from April, while UAE bolstered production to 2.77 mmbd, the highest level since September.

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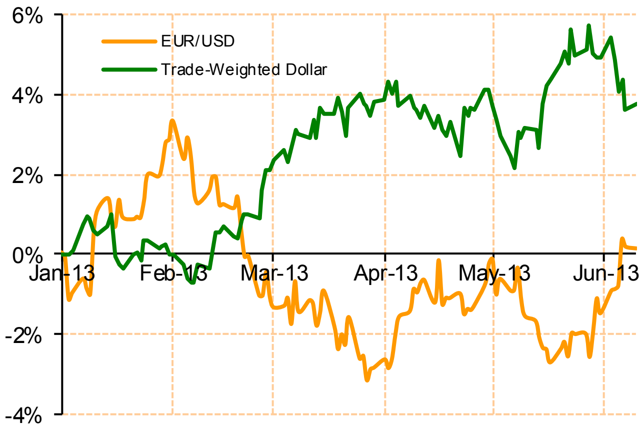
Foreign Exchange

Goldilocks Recovery Supports the USD

The improving outlook of the US jobs market has had a positive impact on the greenback and equities last month. April's job data, which came out in May exceeding expectations, boosted US consumer and business sentiments. Unemployment rate, initially reported at a four-year-low 7.5%, displays a consistent gradual decline since January. And the increasing of non-farm payroll employment by 165,000 reflects job gains in professional and business services, retail, food and healthcare. As a result, The Thomson Reuters/University of Michigan consumer sentiments index disclosed a final reading of 84.6, up from 76.4 in April, the highest in nearly 6 years.

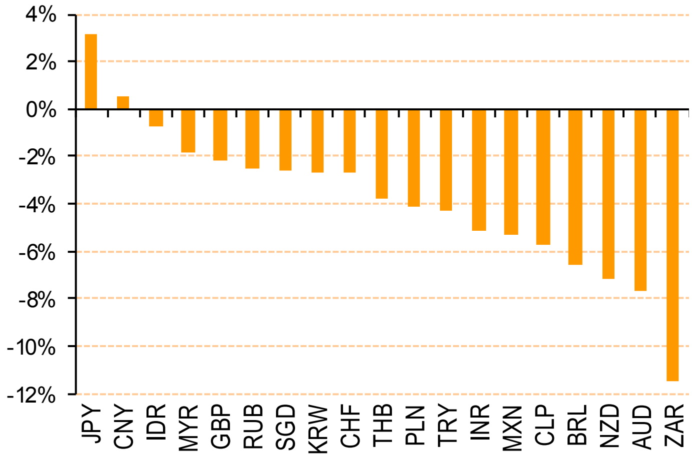
Chart 3: Trade-Weighted Dollar and the Euro



Source: Thompson Reuters

On the businesses front, the repercussions from the optimistic jobs data jolted the Purchasing Managers' Index (PMI) up to 52.3 in May from a six-month low of 52.1 in April. The subsequent market reactions to the data were a spike in US equities accompanied with a strong USD. Both the Dow and S&P 500 hit record highs on the 22nd of May at 15,542.40 and 1,687.81, respectively. The world's most widely held reserve currency strengthened as the dollar index (DXY) surged by 1.8% versus a basket of currencies. Speculations early June, however, that the Fed might taper its monthly purchases of asset-backed securities and treasuries prematurely upset the market and sent equities tumbling. In addition, downward revisions of April's non-farm payroll to 149,000, upticked unemployment rate back to 7.6%. As a result, the Dow and S&P 500 dipped to 15,144 and 1,628, respectively, and the dollar weakened by 2.13%. These weaker figures, although negatively impacted the USD and equities, alleviated QE3 trimming concerns in the short-run, which set the USD to moderately gain and global equities to rise.

Chart 4: Monthly Foreign Exchange Rate Changes



Source: Thompson Reuters

The Bank of Japan (BoJ) decided to continue with quantitative and qualitative monetary easing, aiming to reflate the Japanese economy and achieve the price stability target of 2%. It will conduct money market operations in order to double its monetary base by 60 -70 trillion yens/ year. In addition, it will also lower interest rates across the yield curve to push investors into riskier assets, such as loans and stocks. The BoJ may be on the right track in its bid to reverse a decade and a half of falling prices, but downside risks associated with Japan's mounting national debt may be stymieing these bold reform attempts. Japanese government bonds (JGB) prices have slumped pushing 10-year yield near a 13-month high of 1% after Japan's Public Pension Fund, the world's largest with more than USD1 trillion in assets, allocated 12% of its portfolio to Japanese stocks from a previous 11%, reducing JGB's weighting to 60% from 67%. However, following the Fed's monetary tightening speculation, and downsized job data revisions, investors were prompted to cut heavy bets on the USD, resulting in a stronger yen which went from a four-year-high of 103.74 on May 22nd down to 99.55 in early June. The Nikkei's volatility spiked as the Nikkei fell by 3.2% to a six-week low of 13,261.82, entering a bear market territory.

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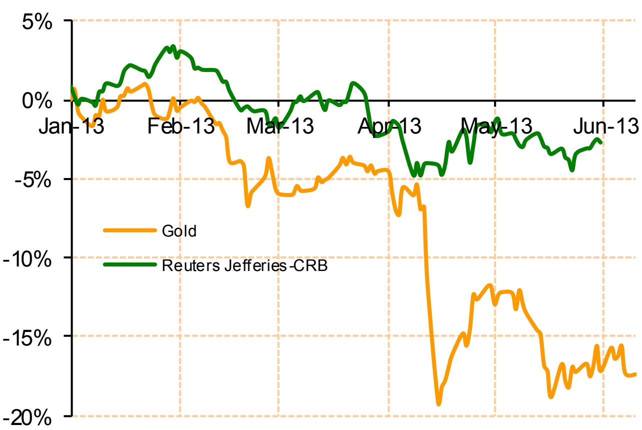
Commodities

Bears Continue to Take Hold

Commodity prices fell sharply for a third straight month due to macroeconomic concerns, positive supply prospects and slowing Chinese demand. As a result, the Thomson Reuters/Jefferies CRB Index, which measures commodity prices across the board fell by 2.2% during the month of May, with the IMF cutting its near-term outlook for commodities to a gain of just 3.3% in 2013. On the precious metals front, a stronger USD combined with the Reserve Bank of India (RBI) recent curbs on gold imports served as a damper on the yellow metal price. In addition, fears of European countries liquidating their gold reserves caused the price to tumble to a three-month low of USD1,359.7/Oz, losing nearly 6% during last month. Silver followed gold with more intensity as it fell by 24.8% M/M to USD22.31/Oz.

Although lower Chinese GDP prospects have left a cloudy vision on industrial metals such as copper and aluminum, it seems that traders are using this as an opportunity to stockpile the metals. Interestingly, copper stocks have increased by 92% this year to over 600,000 metric tons while aluminum inventories rose to 5.2 million tons, an increase of 1% from last month. As a result, copper prices have recovered by 3.6% in comparison to April. Similarly, aluminum prices have also gained traction, appreciating by 1.9%. In our opinion, copper prices which have fallen drastically since their peak at USD10,160/ton in February 2011 down to USD7,309/ton by the end of May, will regain some of the losses on perceived bargain buying.

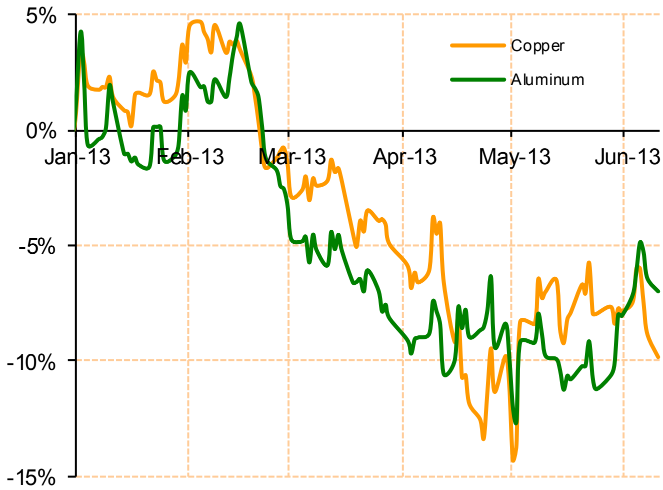
Chart 5: Reuters Jefferies vs. Gold



Source: Thompson Reuters

Production of soft commodities such as wheat, corn and soybean are expected to grow at an annual average of 1.5% compared to an average 2.1% between 2003 and 2012, according to an OECD report. Limited expansion of agricultural land, rising production costs, and the environmental cooperation agreement, recently signed by China, are expected to add resource constraints.

Chart 6: Base Metals



Source: Thompson Reuters

As agriculture has become a market-driven sector as opposed to policy-driven, it offers opportunity for investment given the naturally increasing average demand. However, since they have become asset-classes, they are exposed to market shocks emanating from the Great Recession's aftermath. Therefore, while the global economic recovery can be favorable to commodity prices, failing to find a viable and lasting solutions have adversely affected commodities and food security. China's consumption growth is expected to outpace its production by 0.3% per year as its focus on rebalancing its economy towards domestic consumption. Wheat for July delivery fell to USD6.935/bushel on the Chicago Board of Trade as Australia, the world's fourth-biggest exporter, raised its production estimate due to favorable weather to around 25.4 million metric tons in 2013-2014 from 24.9 million tons estimated in March and 22.1 million tons a year earlier. Furthermore, corn for December delivery declined to USD5.4925/bushel on improved supply outlook. Evidently, South American harvest have provided a supply-side relief that pressured the agriculture markets negatively despite US planting delays and yield risks.

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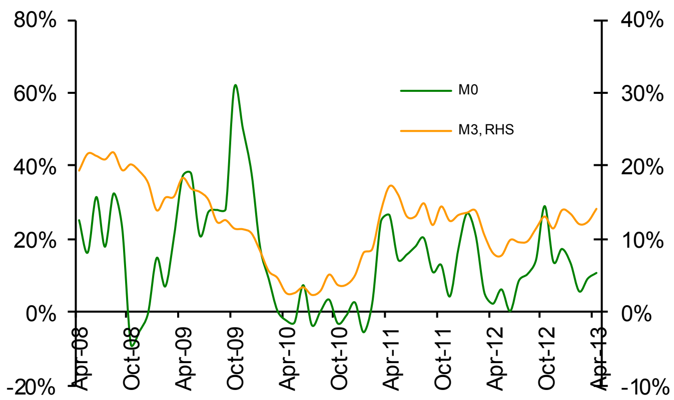
Money & Inflation

Consumer Prices on the Rise

Over the past few years, liquidity in the Saudi economy has been in excess given the large influx of revenues due to elevated oil prices. The monetary base (M0) increased by 10.7% Y/Y during April to reach SAR323.5 billion, yet below the record level of SAR350.6 billion set last December. The YTD drop is attributed to banks' withdrawal of deposits with SAMA. Since the beginning of 2013, banks have decreased their deposits with SAMA by SAR30.8 billion. Owing to an expanding credit market, banks were expected to utilize dormant funds following their annual reporting. Although, on an annual basis, banks' deposits with SAMA increased by 10.2% and cash in vault levels rose by 19.2% to reach SAR167.0 billion and SAR21.0 billion, respectively. Additionally, currency outside banks grew by 10.0% annually by recording SAR135.5 billion by the end of April.

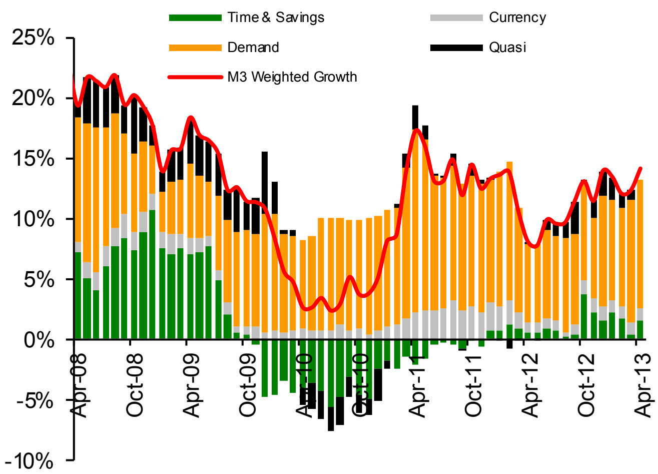
Chart 7: Growth in Monetary Aggregates



Source: SAMA, NCB Estimates

The broadest measure of money supply (M3) recorded the fastest growth rate since October 2011 by expanding at an annual rate of 14.1% to reach an all-time high of SAR1.45 trillion by the end of April. The bulk of M3 resides in non-yielding deposits which represent a 56.7% share, the highest on record. The fact that interest rates remain subdued, globally and domestically, will support demand deposits growth. Time and savings deposits could not manage to match the pace of demand deposits and only rose by 6.7% Y/Y during April. Additionally, given the increasing activity in the local stock market since mid-March, we expect investors to have shifted their capital to easily accessible deposits to grasp attractive opportunities in Tadawul. Consequently, the expansion in the depositary base continues to aid the growth of credit domestically for the private and public sector (see Loans Market section). Meanwhile other quasi-monetary deposits rose by 7.4% to reach SAR180.9 billion by the end of April. The elevated levels of oil prices and overflow of liquidity aided the buildup of excess reserves which reached 54.2%. On a positive note, SAMA managed to increase its net foreign assets by a substantial 17.0% Y/Y during April to reach SAR2.51 trillion.

Chart 8: Money Supply, Contribution



Source: SAMA, NCB Estimates

The recently rebased cost of living index, has been steadily creeping up over the past year. The import orientation of the economy supported consumer prices higher which recorded an annual 4.0% rise during April. The main catalyst in higher local prices was the food category, as it holds the largest weight in the index, increasing 6.2% Y/Y driven by fruits and vegetables import prices. The second largest category in the benchmark index with a weight of 20.45% is the housing and utilities category which recorded a rise of 3.0% annually by the end of April. Rental prices are expected to rise in the coming months due to the summer holidays and specifically in western region cities as we near the Holy month of Ramadan. We expect the inflation rate to continue rising in the coming two to three months as the summer holiday coincides with Ramadan which will drive consumer prices higher.

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Capital Markets

Bullish Momentum Lifts Tadawul

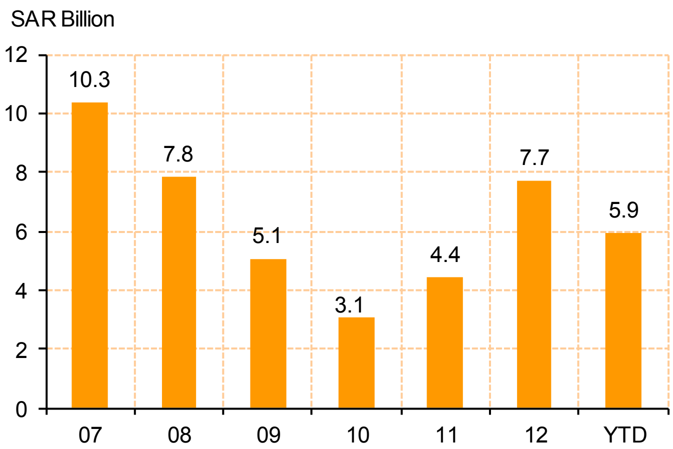
The Saudi stock market remained relatively sluggish and was underperforming for the most part of this year. The economy is witnessing unprecedented growth which will be supported for at least the next year given the price of oil remains elevated. Equities in advanced economies, namely the US, recorded all-time highs this year as investors on a global scale were shying away from other asset classes. The huge drop in gold prices, coupled with its failure to rebound above the USD1'500/ounce, supported an investment shift to stock markets. In accord, Tadawul experienced a bullish movement towards the end of last month which continued into June. The main index gained 3.1% during the month of May, and by the end of last week's trading session, Tadawul recorded a YTD gain of 12.1%. Last week, the market recorded a positive streak of 9 consecutive trading sessions, the longest since March 2012. During last month, the real estate sector and the retail sector were the top performers, climbing by 9.1% and 8.9%, respectively. The real estate sector was supported by Dar Al Arkan's large weight in the market and its decision to attract funds through Sukuk issuances. Meanwhile, within the retail sector, Al Hokair's better than expected quarterly earnings which were due to higher sales volume and successful expansion plans largely contributed to the sector's gain.

Chart 9: Tadawul All-Share Index

Source: Tadawul

On the other side of the spectrum, the insurance sector declined 9.2% during the month to bring the YTD loss to 10.3%. Given the speculative nature of the sector, investors are likely to shy away when "blue chips" are on a positive momentum. Furthermore, the hotel & tourism sector and the media & publishing sector round up the only losers for the month, the former experiencing a correction phase. Being the best performing sector this year at 58% by the end of May, hotel & tourism companies are expected to report strong corporate earnings as the sector is strongly supported by the government (see Special Focus).

Chart 10: Average Daily Traded Value



Source: Tadawul

Although price gains were fundamentally strong during last month, liquidity in the market was rather low with an average daily traded volume of SAR5.5 billion, in comparison to April's SAR6.6 billion. Even though investors were bullish and lifted stock prices higher, lucrative opportunities still exist with attractive valuations; sectoral price-to-earnings ratios of telecommunications, banks, and petrochemicals registered 11.62, 11.63, and 12.22, respectively, last month. The low nature of traded volumes is, in our opinion, indicative of the medium term investment horizons of investors. The capital inflows during the month of May are likely to remain in the market which could support forming a new strong support level for the index.

The primary market concluded two initial public offerings, Aljazira Takaful and ANB-AIG, with a total of SAR15.75 million shares at SAR10 per share. As for the Sukuk market, Dar Al Arkan announced a multi-tranche dollar denominated issuance with a total of USD750 million over the next twelve months. The first tranche was completed, worth USD450 million, at a profit rate of 5.75% over a five year tenor. The appetite for the issuance was rather strong with an oversubscription of 3.7 times, indicative of the potential of Sukuk issuances as a viable financing alternative.

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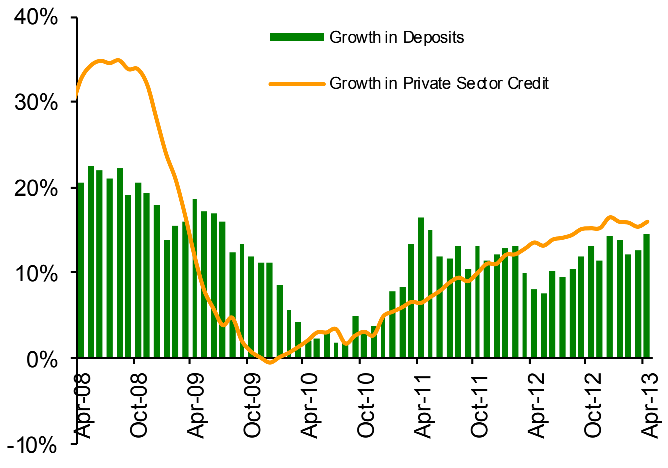
Loans Market

Expanding the Maturity Curve

The deposit base in the Saudi financial system continues to be majorly composed of non-interest bearing liabilities. Businesses and individuals compensate the low deposit yield by keeping their funds in demand deposits for quick access to grasp lucrative, also relatively riskier, opportunities. Total deposits in the Saudi banking industry surpassed the SAR1.3 trillion level during April, providing a solid backbone for credit expansions. Demand deposits recorded the fastest pace since February 2012 at 19.6% annually, reflective of the low interest rate environment globally and locally. Meanwhile, time and savings deposits were outpaced yet again as they expanded by only 6.7% Y/Y by the end of April. Government entities increased their share of the interest bearing deposit base by an annual growth of 19.3% while businesses and individuals withdrew 1.9% over the same period. As the financial system continues to expand its credit portfolios, especially in longer term maturities, banks should attract more time and savings deposits to comfortably finance larger long-term projects. Additionally, other quasi-monetary deposits reached SAR180.9 billion, a gain of 7.4% Y/Y. Interestingly, remittances have averaged SAR15.3 billion during 4M13 in comparison to SAR10.9 billion for the first four months of 2012 due to the Ministry of Labor's strict saudisation quest.

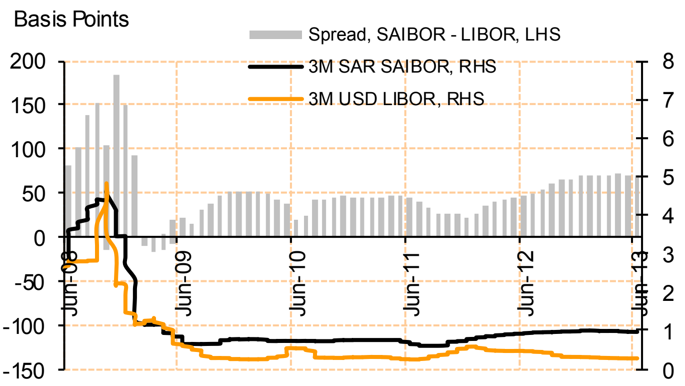
Chart 11: Private Sector Financing



Source: SAMA, NCB Estimates

Following three months of deceleration, total claims of the banking system, excluding T-bills and government bonds, posted an annual increase of 16.2% during April. Driving lending growth, longer term credit maturities remain the focus of banks this year. Long term credit expanded by a staggering 42.4% annually to reach a record SAR299.7 billion. Furthermore, medium term credit registered an increase of 39.4% Y/Y by the end of April. Meanwhile, short term credit only grew by 17.0% on an annual basis. However, short term credit lines still represent more than half of total credit with a share of 54.4% whereas long and medium term credit hold 28.4% and 18.2%, respectively. According to NCB's Construction Contracts Index, the state of the construction sector is on a positive trajectory. Contracts worth a total of SAR49.1 billion have been awarded during the first quarter of 2013 and banks will be keen to finance more projects in the remainder of this year.

Chart 12: Liquidity and Risk Detector



Source: Thompson Reuters

The private sector had a pivotal role in driving the non-oil economy as Saudi experiences unprecedented growth years. Fresh lending to the private sector has reached SAR49.1 billion for the first four months of 2013 in comparison to SAR46.0 billion for the same period last year. The momentum of private sector growth has been sustainable as business activity grows. However, credit to the public sector increased by 21.2% Y/Y during April. Interestingly, SAMA seems to have developed a concern for the liquidity levels in the economy. Treasury bill issuances has reached the highest level in almost two years at SAR171.2 billion. Given the peg of the Saudi Riyal, SAMA has used open market operations to absorb any excess liquidity with interest rate policy in lockstep with the US. Additionally, Repo transactions reached SAR580 million in April. Despite being low in absolute value, when compared to the average of the last three years at SAR118 million, SAR113 million, and SAR9 million, respectively, it reflects SAMA is more than aware of the status of monetary aggregates and is trying to limit the risks that could hinder the economy.

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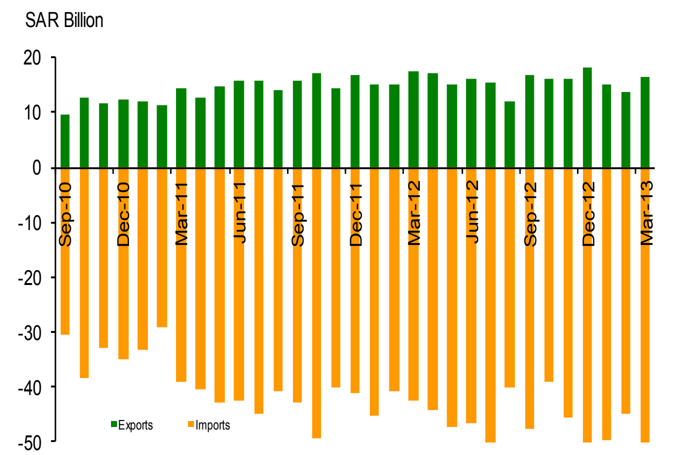
External Trade
Towards More Moderation

In march, Saudi Arabian external trade continued to display moderation for the third month in a row. The value of exports totaled SAR16.5 billion versus SAR17.5 billion a year ago. Volume-wise, exported goods weighed 3.8 million tonnes compared with 4.3 million tonnes last year. In perspective, export revenues declined by 5.9% Y/Y while the volume of exports declined by 11.5%, reflecting continued adequate demand for Saudi exports. On the imports side, the value of imported goods amounted to SAR51 billion, surpassing last year's figures by 12.7%. On the other hand, the volume of imports receded by 11.6% to record a total of 6 million tonnes, which is indicative that imported inflation is intensifying.

Chart 13: Saudi Non-Oil Trade Balance

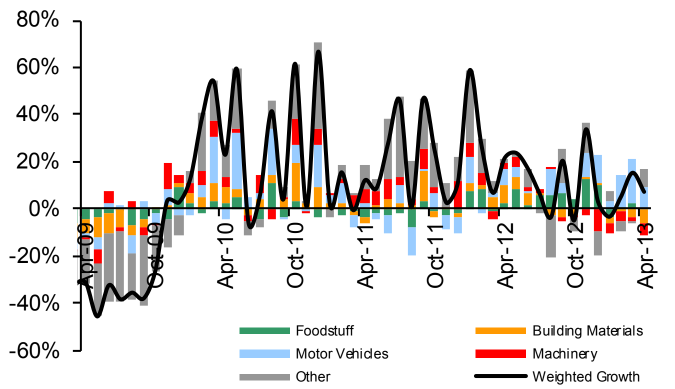


Source: CDSI, NCB Estimates

Analysis of exports composition shows that petrochemicals regained dominance as the top non-oil export category by 33.7%. With SAR5.5 billion in revenue, it notes a Y/Y surge of 13.4%. Plastics and rubber, which make up 29.3% of Saudi exports, registered a return of SAR4.8 billion, growing by 4.1% on an annual basis. Base metals exports and their articles, weighing as much as 7.7% of the kingdom's exports, were valued at SAR1.3 billion. That, in turn, marks an upsurge of 48.7%. Exports analysis by direction shows that UAE, China, and Singapore were the top three trading partners, with demand weighing as much as 14%, 10.8%, 6.2%, respectively. SAR2.3 billion worth of goods headed to UAE, which leaps over China as the top importer of Saudi exports, registering a 42% rise. Meanwhile, Singapore's demand for Saudi exports waned by 0.7% Y/Y, generating SAR1 billion of export revenue.

Analysis of Saudi imports by composition reveal that 26.6% of non-oil imports comprise of machinery and electrical equipment, which continues to dominate the categories of goods demanded in Saudi Arabia. As much as SAR13.6 billion worth of machinery and electrical equipment were realized, making a 20.7% upturn over last year. Transport equipment, which weigh up to 20.2% of the kingdom's demand for foreign goods, amassed SAR10.3 billion, surging by 44.4%. The kingdom's imports of base metals which registered SAR6.8 billion, make up 13.3 of non-oil imports. In comparison to last year, it denotes a 10.5% growth.

Chart 14: Attribution Analysis of Letters of Credit Opened



Source: SAMA, NCB Estimates

The largest exporters of non-oil articles and products to the kingdom are; the US, China, and Germany with import shares of 13.9%, 11.2%, and 6.2%, respectively. The US continues to dominate as the largest source of imports since October of last year, surging in March by 33.9% Y/Y after racking up SAR7.1 billion. China, the second largest, made an annual upturn of 18.5%, attracting SAR5.7 billion. Imports of German origin recorded SAR3.2 billion, an increase of 2.9% Y/Y.

In the month of April, settled LCs show an annual growth of 2.9%, a total of SAR22.6 billion. This is supported by strong demand for items such as motor vehicles and foodstuff. On an annual basis, motor vehicles LCs increased by 18.6%, and foodstuff LCs edged up by 24.5%. On the downside, machinery and building materials contracted by 4.4% and23.2%, respectively in moderation of last year's high figures. Opened LCs, which recorded SAR18.7 billion, show a similar behavior with motor vehicles and foodstuffs remaining on the upside trajectory of 70.3% and 16%, respectively. Whereas machinery and building materials show a moderation of 34.8% and 39.4%, respectively.

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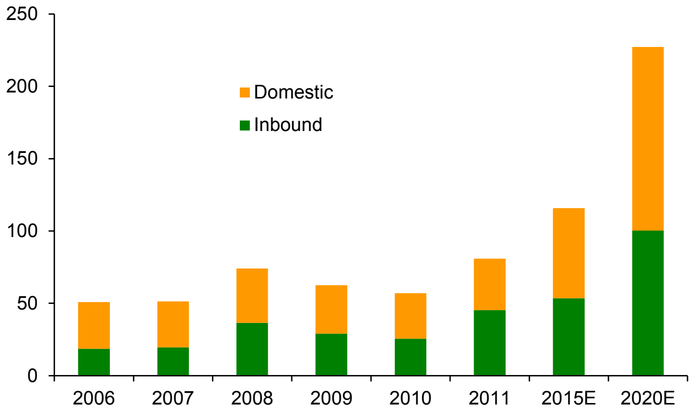
Special Focus:
Religious Pilgrims Supporting Tourism

The Saudi Commission for Tourism & Antiques (SCTA) is the main body responsible for organizing, developing, and promoting Saudi tourism. SCTA's establishment in 2008 was the first major step in overhauling a promising sector within the economy which contributed 6.4% to non-oil GDP in 2011, with an estimated value at SAR59.5 billion. Government efforts to support the SCTA have been evident by the 32.8% increase in budget allocations from 2009 to 2012, rising from SAR384.9 million to SAR511.3 million. The tourism sector generated almost SAR81 billion in 2011, a figure poised to grow significantly. In 2011, the SCTA approved 378 sites feasible for tourism development.

Domestic (citizens and residents touring local destinations) and inbound (international tourists arriving to Saudi for religious/leisure purposes) trips recorded a 17.6% annual growth in 2011 by reaching 40 million trips with an average stay of 11.2 nights. Religious trips for Haj and Umrah constitute the bulk of local tourism and given the geographical location of the Holy mosques, the western region is the recipient of almost 60% of all trips. Consequently, the tourism sector provided 670'028 jobs with 26.4% filled by Saudi nationals. SCTA plans to expand their contribution to the labor market by providing a total of 841'400 jobs by 2015 and 1.2 million jobs by 2020, an ambitious goal which is supported by large projects and development plans.

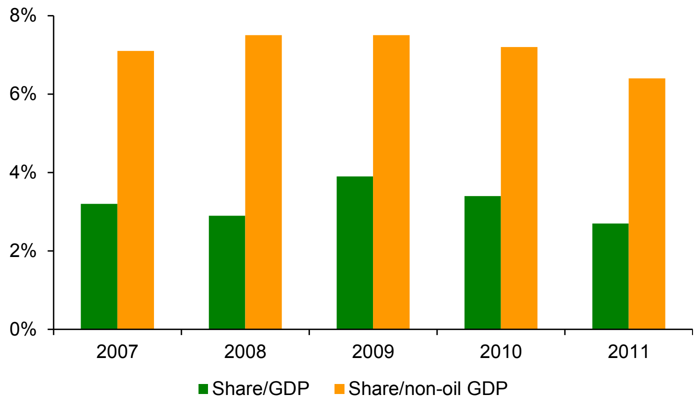
Table 15: Tourism Expenditure by Type, SAR billion



Source: SAMA Annual Report

Domestic tourism expenditure accounted for SAR35.5 billion in 2011 with expenditure on leisure presenting the highest share followed by religious purposes at 42.3% and 26.9%, respectively. However, inbound tourist expenditure is largely composed of religious purposes with a share of 61.3%. A member of the Haj and Umrah committee at the Madinah Chamber of Commerce highlighted the inefficiency of local Haj and Umrah companies, with management and proper utilization, revenues could reach SAR60 billion, double the current estimate of SAR30 billion. Even though thousands of rooms are added on annual basis in holy cities, the occupancy rate is almost 100% during peak seasons, Ramadan and Haj. Domestic tourism expenditure is projected to reach SAR62.3 billion by 2015 and SAR126.9 billion by 2020, while inbound tourism expenditure is estimated to reach SAR53.5 billion and SAR100.4 million by 2015 and 2020, respectively.

Table 16: Tourism Sector's Share of GDP



Source: SAMA Annual Report

Recently, a study by Visa, a leading payment solutions provider, concluded that Saudi outbound tourists are the top spenders globally with an estimated USD6'666 per trip. The potential opportunities for attracting these travelers are numerous, but the task would be very difficult to achieve. International Saudi tourists spend almost 90% of their trip budget on entertainment. In order to lure the potential revenue, SCTA must diversify their attractions and entertainment services. Promotion and awareness is also crucial and SCTA have been registering and submitting heritage sites to the UNESCO World Heritage Centre such as Mada'in Salih, Ad-Dir'iyah, and Historic Jeddah. Building on the Kingdom's geographical diversity, projects such as the Farsan Islands in Jazan province, Dawmat Al-Jandal Lake in Al-Jouf, and many more will promote Saudi as a viable destination for holiday planners locally and internationally.

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