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Saudi Economic Review

NCB Monthly Views on Saudi Economic and Financial Developments

Contents

Executive Summary

- Pressure for higher crude prices is expected to moderate next year as more production from outside the OPEC will compensate for growing world demand.
- The yen gained briefly on part from safe haven flows resulting from concerns over the US budget debate, dragging the pair to fresh 2-month lows.
- Improvements in global PMIs and the recovery in China are expected to stabilize base metals' upside trend rather than accelerate it. This is due to the negative impact of the US fiscal standoff, and the upcoming debt ceiling debates which could lead the global economy into unchartered territories.
- Imported inflation considerably influences local prices given the heavy reliance on imports. Food prices remain the leading category driving up prices as the sub-category accelerated by 6.5% Y/Y.
- listed stocks have started announcing their quarterly corporate profitability and judging by the handful of announcements from cement, banking and retail companies, profit levels are on the rise again.
- Household credit shows a 25.2% Y/Y increase for real estate purposes which is expected to continue rising as demand for housing is not projected to be met anytime soon.
- China continued as the largest trade partner of the kingdom by receiving SAR2.3 billion worth of goods or 13.9% of total non-oil exports, edging up by 11.7% on an annual basis.

View of the Month

Robust oil prices and vibrant economic activity in Saudi Arabia led to a surge in urban development, increasing demand for foreign labor. Estimating over USD27.6 billion of outward remittance flow in 2012, the World Bank ranks Saudi Arabia as the second top remittance-sending country in the world after the USA.

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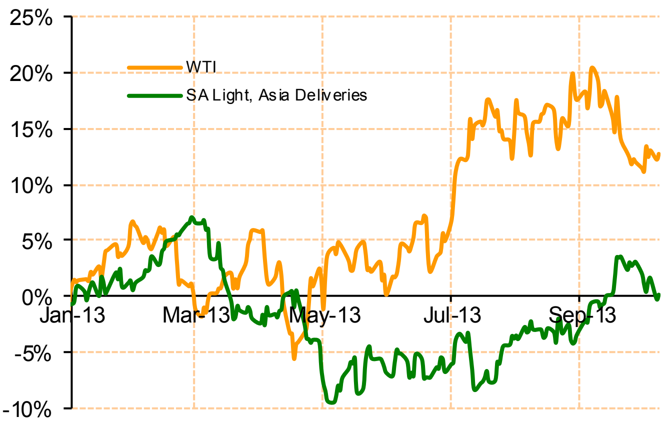
Macroeconomic Indicators

	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
Prices Moderating

Brent has retreated by nearly 5% recently from late August as a UN Security Council Resolution to disarm Syria's chemical weapon dispelled the threat of a US military intervention. Brent traded around USD108 a barrel on the ICE Futures Europe in September from a six-month high above USD117 a barrel in August, and will probably trade at a premium of USD6 to USD8 a barrel to WTI over the long term. Pressure for higher crude prices is expected to moderate next year as more production from outside the OPEC will compensate for growing world demand. In addition, the global demand is not particularly strong and the oil market is currently well balanced, thus limiting the scope for Brent to advance next year. However, expected continuing instability in the Middle East region, including Syria and Libya, will likely prevent prices from any sharp plunge.

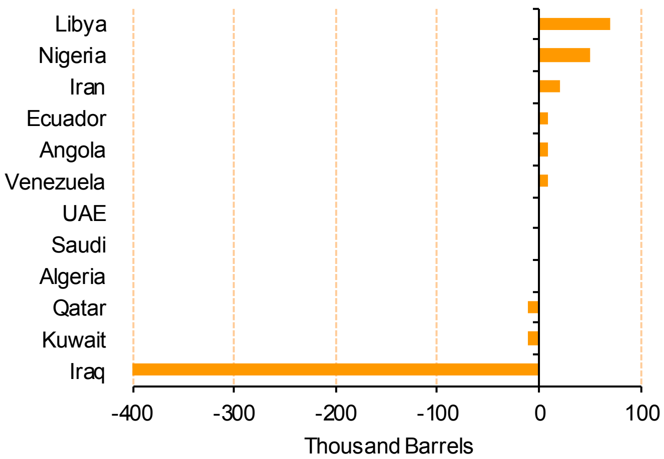
Chart 1: Oil Price Developments, YTD



Source: Thompson Reuters

On the supply side, output by OPEC countries increased to an average of 31.1mmbd in September from a revised 31.04mmbd in August. OPEC crude production climbed to a 10-month high last month as Saudi Arabia pumped oil at the fastest pace in at least 24 years. Supply by Iraq increased by 0.1mmbd to 3.3mmbd last month, the most since December. Despite signs of recovery, Libyan production is less than half what it was in early 2013 averaging 0.56mmbd in September, and Nigerian production reached 2.15mmbd last month, the highest since August 2012, but is far below its potential, underlining the drag that domestic conflicts in these two countries are having on the world oil supply. Libya still has some way to go to bring its production back to 1.4mmbd, the production rate that was reached earlier this year. Meanwhile, Saudi Arabia has kept its September production near August rate of 10mmbd. The UAE trimmed production marginally to 2.9mmbd last month. Iranian Production was estimated to have reached 2.6mmbd in September, unchanged from the month before, as continued US and European sanctions aimed at stopping ran's nuclear program have more than halved its exports since early 2012.

Chart 2: OPEC's Monthly Oil Production Changes



Source: OPEC Survey

On the demand side, OPEC is believed to have increased its crude shipments by 1.5% in September to meet rising demand from Asian refiners. Meanwhile, IEA forecasts 2014 oil demand growth at 1.12mmbd, and probably will increase by around 1.0mmbd per year in the next 7-8 years, and to slow from 2020 onward due to efficiency. As fast-growing energy use in Southeast Asia leads to a sharp rise in the region's dependence on oil imports, IEA projects Southeast Asia's energy demand to increase by more than 80% in the period to 2035, a rise equivalent to current demand in Japan. In addition, IEA forecasts that by 2035, the region's oil imports will rise to nearly 5mmbd, making it the world's fourth-largest oil importer after China, India and the European Union. According to IEA, crude oil output from wells producing in 2011 will have dropped by almost two-thirds by 2035. Accordingly, supplying the world's energy rising needs will be very tough, as industry players believe that the first priority is to invest in new supplies, hence failing to do so would be a definite path to major oil price volatility.

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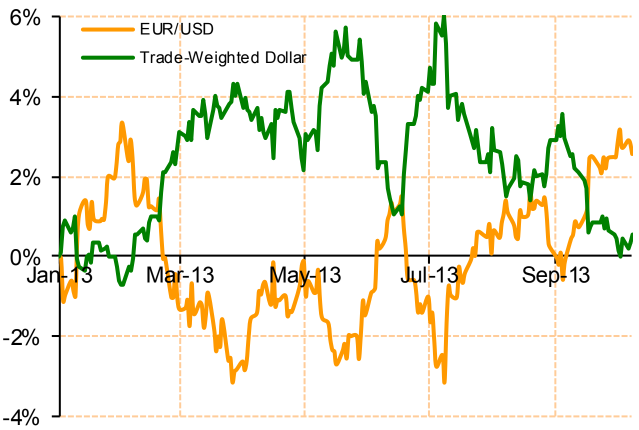
Foreign Exchange

Fiscal Stalemate Hinders QE3 Scale back

In the foreign exchange arena, the USD took a blow in September after the political impasse in the US over entitlement programs, namely the Obamacare led to a government shutdown. The stalemate came coinciding with a debt ceiling deadline due on October 17th. Consequently, the trade-weighted dollar (DXY) weakened by 2.3% throughout September to 80.2, and sank below the 80 points level on October 2nd. Investors who were anticipating the Federal Reserve to start scaling back its QE3 program in September and placed their bets on the dollar began to park their assets value in safe havens, further weakening the dollar. Nevertheless, the FOMC meeting in September witnessed a change in tone; justified by underperformance, the Fed postponed the tapering plan. With much uncertainty surrounding the fiscal side, the Fed decided that withdrawing from the market at this time may not be favorable to the economy.

Chart 3: Trade-Weighted Dollar and the Euro

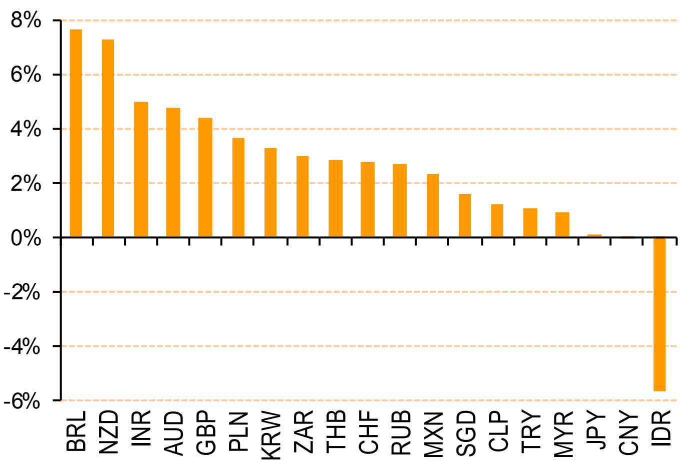


Source: Thompson Reuters

On the other hand, the Fed's chairman, Ben Bernanke, is scheduled to retire in January, which makes it imperative to ensure that the Fed's policymakers are not left in disarray. Policy skeptics continue to believe that the benefits of QE are no longer significant and that the low level of interest rates is driving investors and banks to take undesirable risks. However, the Fed's announcements since May have led the benchmark 10-year treasuries yield to breach 2% on May 22nd, peaking on September 10th at 2.96% ahead of the FOMC meeting. The Fed's late announcement to continue the bond purchases eased rated down to 2.61%. Furthermore, it is expected that the annualized US GDP growth rate for this year will be well under 2%, increasing the odds of continuing QE3 into 2014. Meanwhile, congress is considering a back pay for furloughed government workers which is expected to sooth the negative multiplier effect of the budget deadlock.

The USD/JPY pair ended the month lower by 0.07% at 98.25 yen. The yen gained briefly on part from safe haven flows resulting from concerns over the US budget debate, dragging the pair to fresh 2-month lows. In addition, the Bank of Japan is holding stimulus plans as the US fiscal standoff continued to weigh on demand for the greenback. However, the tides turned after the Fed's hawkish stance, sending the pair to rally, closing twice above the 100 level. The yen sank against high-yielding FX as risk appetite was re-ignited by the Fed's non-tapering position. On the other hand, the Japanese economy indicates signs of inflationary trends after more than a decade of deflation. Japan's CPI grew by 0.8% Y/Y, beating estimates for August. 2Q 2013 GDP growth was estimated at 3.8%.

Chart 4: Monthly Foreign Exchange Rate Changes



Source: Thompson Reuters

In the Eurozone, consumer sentiment hit a 2-year high of 96.9 in September up from 95.3 the previous month in expectations for a gradual improvement in the economy through 2014. Save the recent slump in European shares, the EUR/USD pair closed on the last day in September gaining 2.29%. The euro reached 1.35USD towards the end, and surpassed 1.36 on October 3rd's closing.

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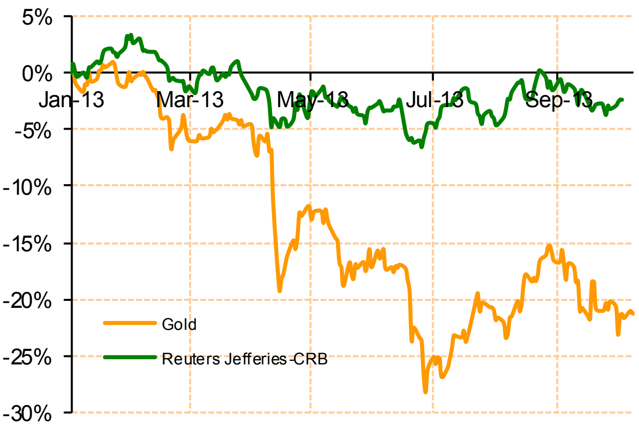
Commodities

Price Fluctuation Amid Uncertainty

Commodities, especially energy and precious metals came under renewed selling pressure along with the strengthening of the USD. The Thomson-Reuters CRB commodity index fell by 1.9% down to 285.5, affected by a drop in precious metals and corn. Lack of tapering by the US Federal Reserve helped re-establish some support for gold which tumbled by 4.9% from August to find support at USD1,328.2/oz. India gold futures opened slightly down although a two month ban on gold imports was removed. Easing prices and government regulations should provide a boost for demand on the precious metal. However, due to scarcer supply (averaging 60 metric tonnes this year versus 70 metric tonnes last year), and China's ran-out import quota, silver is expected to become the metal of choice as the wedding and festival season drives up demand. Silver imports are on pace to hit a record high this year after it lost 7.7% of its value, standing at 21.74 by the end of September.

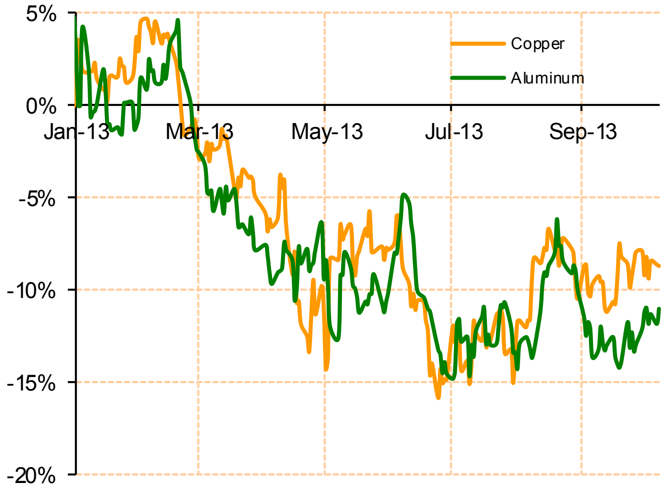
Chart 5: Reuters Jefferies vs. Gold



Source: Thompson Reuters

Prices of industrial metals rebounded on improving economic data from China after weaker imports in August. The restocking of Chinese steel mills led prices of LME copper and aluminum to increase by 2.8% to USD7,302/ton and 1.7% to USD1,845/ton, respectively. In retrospect, improvements in global PMIs and the recovery in China are expected to stabilize the upside trend rather than accelerate it. This is due to the negative impact of the US fiscal standoff, and the upcoming debt ceiling debates which could lead the global economy into unchartered territories. In the medium term, we hold a bullish outlook on industrial commodities as China rebalances its economy and adjusts for a slower, more sustained growth. On the other hand, increased copper supply from Chile is expected to leave the market in a surplus in the coming years, capable of responding to a pickup in growth and demand. London Metal Exchange (LME) copper inventories shrank by 8.5% to 538'000 tonnes and aluminum inventories shrank by 0.4% to 5.3 megatons, indicating increased activity.

Chart 6: Base Metals



Source: Thompson Reuters

Soft commodities, save wheat, registered a negative return over the month of September. Record harvest led corn prices downwards by 8.3%, priced at cents 441.5/bushel while soy prices tumbled by 10.7% due to favorable weather in the US Midwest and Brazil leading to higher yield. Soy prices ended the month supported at cents 1,281/bushel. Wheat crops edged higher by 3.7%, standing at cents 678.5/bushel as global demand remains supportive. Old crop corn stocks in all positions on September 1st totaled 824 million bushels, down 17% from the same period last year, while wheat stored in all positions totaled 1.85 billion bushels, down 12% from a year ago. Finally, old crop soybeans stored in all positions totaled 141 million bushels, down 17% Y/Y.

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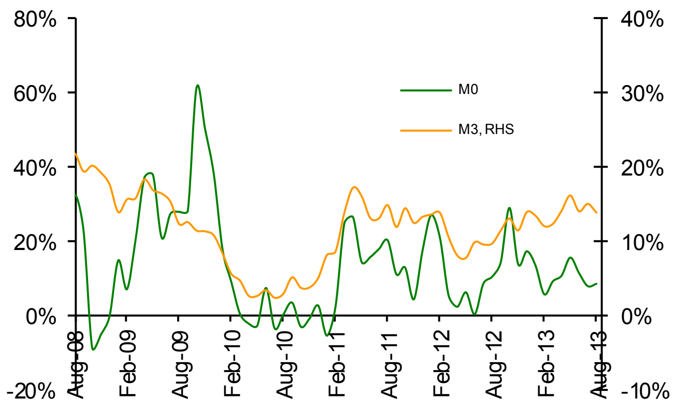
Money & Inflation

Inflation Subdued Despite Liquid State

The Saudi economy has relished with large influxes of oil revenues and has kept a strong foothold with sound economic indicators. The increase in oil prices coupled with a rise in production levels were triggered by geopolitical tensions aiding the economy. Accordingly, the monetary state has been expanding as M0, the monetary base, increased by 8.4% during August on an annual basis, rising to SAR307.6 billion. The main driver for M0's growth was banks' deposits with SAMA which rose by 11.4% Y/Y. Meanwhile, cash in vault grew by 6.8% annually to bring total bank reserves to SAR166.1 billion by the end of August. SAMA has shown the ability to control the increasing monetary levels in the local economy by absorbing liquidity to avoid inflationary pressures domestically. In addition, currency outside banks picked up by 5.9% Y/Y during August as consumers were in the peak of Ramadan expenditure season.

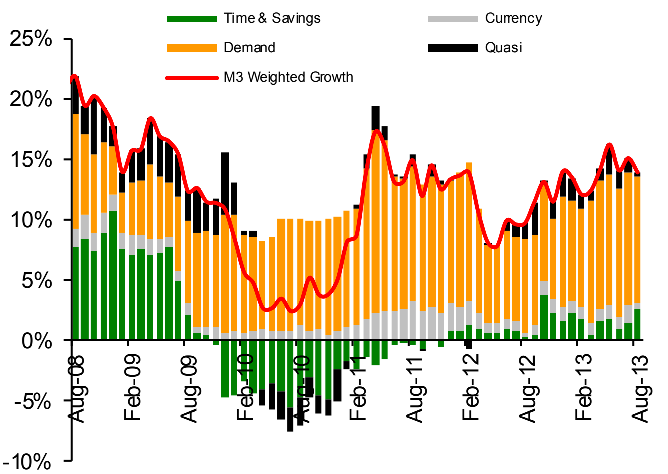
Chart 7: Growth in Monetary Aggregates



Source: SAMA, NCB Estimates

SAMA's macroprudential policy will contain potential liquidity risks by its willingness to use conventional tools such as treasury bills. Consequently, the broader measure of money supply, M3, decelerated to record a gain of 13.8% on an annual basis. On a monthly basis, M3 declined from its all-time high of SAR1'474.0 billion during July to SAR1'467.1 billion by the end of August. The highlight of the month was the sizable growth in time and savings deposits. Amid the globally suppressed interest rate market and the bullish momentum of the local stock market during August, time and saving deposits managed to gain a significant 11.2% Y/Y, the fastest pace since October 2012. Meanwhile, the largest component of M3, demand deposits, continues to expand rapidly by posting an annual 19.1% growth rate. Furthermore, other quasi-monetary deposits decelerated significantly and only increased 2.7% during August in comparison to the same month of 2012.

Chart 8: Money Supply, Contribution



Source: SAMA, NCB Estimates

Consumer prices have been contained and the benchmark inflation rate recorded a 3.5% annual rise during August. The recently rebased index peaked at 3.96% last April, but since then, policy makers have been proactive in subduing any inflationary pressures. Imported inflation considerably influences local prices given the heavy reliance on imports. Food prices remain the leading category driving up prices as the sub-category accelerated by 6.5% Y/Y. Interestingly, the category of furnishings and household equipment witnessed a second consecutive rise in annual prices at 5.9%. The category holds a weight of 9.09% within the index. Furthermore, rental prices were supported higher by the academic holiday and Ramadan season. Real estate prices remain a priority concern for consumers as the youth population seek to own their assets. However, elevated prices have been a major burden for the majority of citizens and the situation is yet to be mended by the mortgage law. The inflation rate is expected to remain subdued despite the liquid state of the economy. We do not foresee the index rising to 4% within 2013 with upside risks in 2014 as the expected drop in the USD, given the US tapering intentions, will contribute to higher imported inflation.

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Capital Markets

Anticipating Corporate Profitability

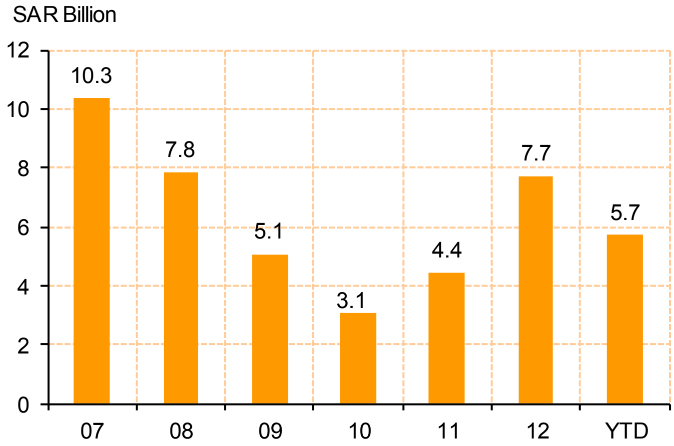
The Saudi stock market experienced turbulent times over the past couple of months. During August, the Tadawul index entered bear market territory by peaking at 20.8% since the beginning of the year. However, the market dropped 7.1% from its peak to as low as 7'634.3 by the closing bell on the 5th of September. The market is certainly not reflective of Saudi's robust economy but is rather influenced by external shocks as the geopolitical tensions alarmed local investors. In addition, the US congressional gridlock which resulted in a partial shutdown of the US government will not bode well for Tadawul either. Last month, the index regained its early losses and managed to increase 2.6% on a monthly basis, just shy of the 8'000 level. The cement sub-index was the only sector to performer negatively with a drop of 0.3% M/M. The multi-investment sub-index was the top performer with an impressive 9.4% gain last month. The speculative insurance sub-index also recorded an increase of 6.8%. The top performing sectors since the beginning of the year are hotels, retail, and real estate with YTD gains of 102.9%, 50.8%, and 43.0%, respectively. The market has been range bound near the 8'000 level and as the Hajj rituals commence next week, Tadawul investors will have a break to reevaluate their portfolios.

Chart 9: Tadawul All-Share Index

Source: Tadawul

The level of activity in the market indicates the uncertainty of traders as daily traded volumes averaged SAR5.7 billion during September, a drop of 2.1% in comparison to the previous month. The last trading day last month recorded an average of only SAR3.9 billion, reflective of the elevated uncertainty among individual traders. Saudi individual traders represent more than 85% of market activity while Saudi institutions signify 10% and the remaining 5% is between GCC traders and foreigners through local brokers. Market makers are much needed during times of disruptions to minimize price fluctuations. Institutional trading should be emphasized domestically to accommodate the role. The market's price-to-earnings ratio increased to 14.66 by the end of last month with long-term opportunities for fundamental investors. Furthermore, listed stocks have started announcing their quarterly corporate profitability and judging by the handful of announcements from cement, banking and retail companies, profit levels are on the rise again.

Chart 10: Average Daily Traded Value



Source: Tadawul

The primary market recorded no activity last month and no initial public offering are in the pipeline for October either. The Sukuk market has also been quite since June despite the strong interest of investors in such offerings. Furthermore, the current head of the Capital Market Authority has been actively improving regulations and logistics of Tadawul but the main discussion for investors, local and foreign, continues to be the anticipation of a foreign unconditional access. The move will provide more depth to the market but the timing is of the essence. The Syrian crisis and the US political standoff will keep the decision off the table for now.

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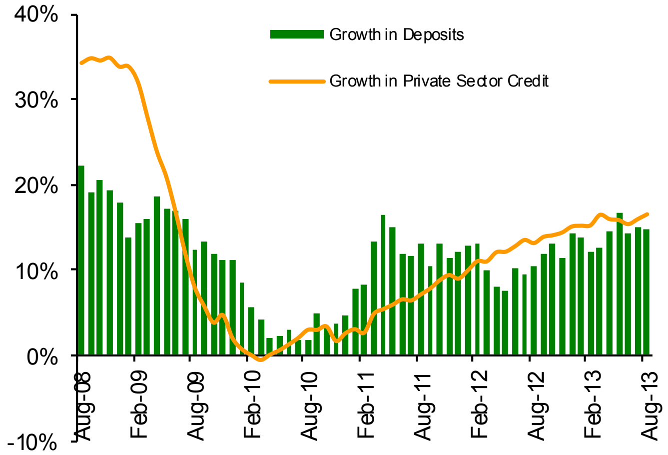
Loans Market

Shifting to Long-term Credit

The asset/liability composition in the form of loans and deposits positively reflects the economy's robust position with growth of total credit marginally outpacing that of total deposits. This resulted in a better utilization ratio represented by the loans-to-deposits ratio which rose to its highest level in the past twelve months at 83.1%. The depositary base decreased from its all-time high to settle at SAR1'325.6 billion by the end of August. However, on an annual basis, banks managed to increase their total deposits by SAR170.5 billion, a 14.8% rise. Regarding individuals and businesses, they opted for demand deposits as they increased 15.8% annually while their time and savings deposits only gained 1.1% Y/Y. Given the economy's influx of revenues, the government had the opportunity to finance megaprojects domestically. Banks have benefited from the government's liquidity by holding demand deposits for government entities in the amount of SAR72.3 billion, a 71.1% annual increase. Additionally, other quasi-monetary deposits grew by 2.7% annually, with its main component, foreign currency deposits, dropping by 2.7% Y/Y. Furthermore, the deadline for expat workers to mend their statuses is less than a month away which hiked outstanding remittances by 43.2% on an annual basis to reach SAR11.8 billion.

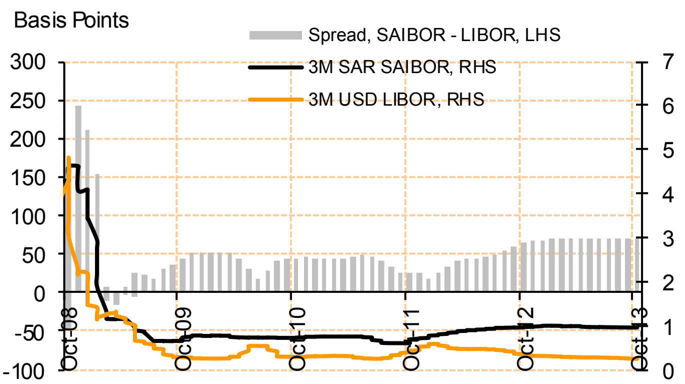
Chart 11: Private Sector Financing



Source: SAMA, NCB Estimates

Assessing the other side of the balance sheet, total claims of the banking system, excluding T-bills and government bonds decelerated for yet another month, increasing on an annual basis at a rate of 14.7%. Following banks' turbulent years post the financial crisis, asset quality improvement has been a key guideline from SAMA to avoid the damaging defaults in from a few family conglomerates in the past couple of years. Banks have targeted syndicated loans for government and semi-government projects. In the first half of 2013, the top 25 megaproject contract awards by value averaged SAR4.2 billion. Accordingly, long term credit on banks' balance sheets posted an expansion of 31.8% Y/Y. Meanwhile, medium term credit increased by 21.5% and short term credit only gained 5.5% annually.

Chart 12: Liquidity and Risk Detector



Source: Thompson Reuters

As for the private sector, the bulk of banks' portfolio is focused towards household credit. During the first half of 2013, household credit, including credit card loans, increased 21.5% annually. Evaluating household credit further shows a 25.2% Y/Y increase for real estate purposes which is expected to continue rising as demand for housing is not projected to be met anytime soon. On the business side, the commerce category holds the largest share of total bank credit to the private sector at 21.4%. Banks extended their exposure to commerce businesses by 14.4% Y/Y by the end of 2Q13. Mining and quarrying category maintained its extraordinary pace at 59.3% annually. Total fresh lending over the first 8 months of 2013, to the private sector, reached SAR93.9 billion so far. The strong growth in credit which started early 2010 (see Chart 11) has moderated as expected. This will reduce risks of an overheating economy and will maintain economic growth domestically. We expect the moderation to continue for the remainder of 2013.

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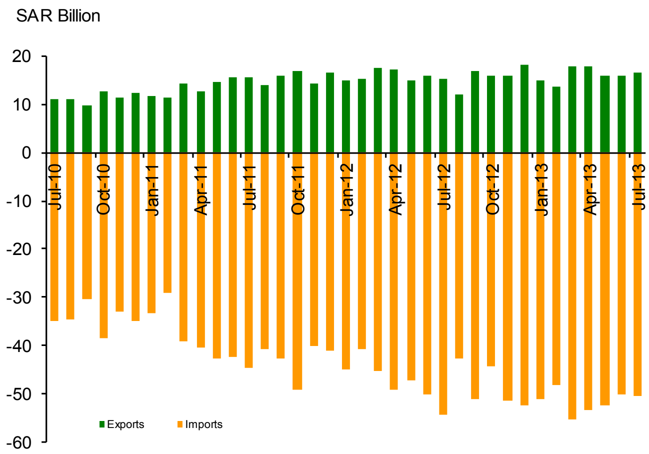
External Trade

Non-oil Exports on the Rise

On the grounds of international trade, Saudi Arabian non-oil exports totaled SAR16.6 billion in July versus SAR15.4 billion during the same month last year, advancing by 7.4% Y/Y. The consistency of annual increases in demand since March indicates that the respective economies are stabilizing. Prices are still supportive as 3.9 megatons of non-oil exports reveal a 3.6% annual decline in tonnage. Non-oil imports, on the other hand, reached SAR50.5 billion in July, which is 7% less than the corresponding month of last year, marking the first annual decline in 2013. Similarly, imports by weight decreased 6.6%, amounting to 59.6 megatons.

Chart 13: Saudi Non-Oil Trade Balance



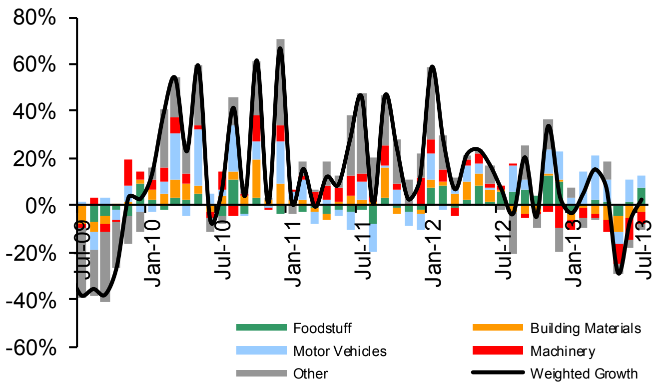
Source: CDSI, NCB Estimates

The main categories of non-oil exports comprise of chemical products and allied industries which realized SAR5.8 billion in revenue, rising by 13.2% Y/Y, thus maintaining their status at the top export category (35.1% of total non-oil exports). Plastic products recorded an 18.6% upturn amid improving global economic data. Transport equipment, the category which made its debut in January of this year, realized SAR1.1 billion, falling by 1% Y/Y. As for base metals, which constitute 6.5% of the total, its value surged by 54% annually to SAR1.1 billion.

By destination, China continued as the largest trade partner of the kingdom by receiving SAR2.3 billion worth of goods or 13.9% of total non-oil exports, edging up by 11.7% on an annual basis. The UAE came in second, acquiring 10.8% of non-oil exports, worth SAR1.8 billion, and thus rising over last year's figures by 14%. Singapore is the third largest trade partner with SAR1.1 billion worth of exports which amounts to 6.9% of total non-oil exports, and surged over last year's figure by 23.3%.

Inflow of imports recorded a 7% annual decline in the month of July. The worst performing category was machinery and electrical equipment which account for 24.5% of total imports. They tumbled down to SAR12.3 billion from SAR14.3 billion, sliding by 13.6% Y/Y. Furthermore, transport equipment which constitute 17.4% of total imports decreased by 9.9% Y/Y, totaling SAR8.8 billion. Imported base metals make up 13.2% of non-oil imports; SAR6.6 billion worth of this category was imported, waning by 10.1%. Analysis of imports data reveals that China is the largest country of origin (14.3% of total non-oil imports) with goods amounting to SAR7.3 billion, albeit a decline of 4.8% Y/Y. The US is the second largest origin of non-oil imports to the Kingdom (12.4% of the total). US imported goods fell by 7.8% to SAR6.3 billion from SAR6.8 billion in the same month last year. German imports, which account for 6.9% of non-oil imports were not spared from the annual decline as they inched lower by 2.4% Y/Y, totaling SAR3.5 billion.

Chart 14: Attribution Analysis of Letters of Credit Opened



Source: SAMA, NCB Estimates

The Central Department of Statistics and Information categorized imports by the level of processing as well as usage type. It shows that 66.8% of July's imports were processed (finished) goods, while 30.3% were semi-processed (intermediate) goods. Only 2.9% of imports were raw materials. As for usage type, 31.6% were consumer goods, 43.3% were intermediate goods, and 25.1% were capital goods.

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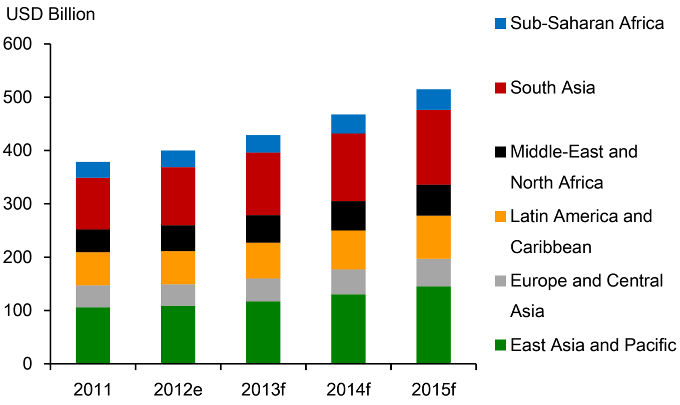
Special Focus:

Remittances: A Steadily Growing External Source of Capital

Migrant remittances are an often overlooked external source of capital that is becoming increasingly critical to the development of labor-abundant countries. The importance of remittances lies in their compensation for the loss of human capital resulting from migration. In addition, the large volumes and frequency of transferred funds have prompted financial institutions to utilize and service this niche market. In contrast to FDI and capital market flows which fell sharply following the global economic downturn in 2008, remittances were only minimally affected. Granted resilience in the following years, global remittances steadily grew from 2010 by an annual 10.9%, realizing USD514 billion in 2011. In perspective, officially recorded remitted funds are estimated to have reached USD529 billion in 2012. USD401 billion of which went to developing countries, involving 192 million migrants who constitute 3% of the world's population. The latest forecasts suggest remittances to reach USD559 billion this year.

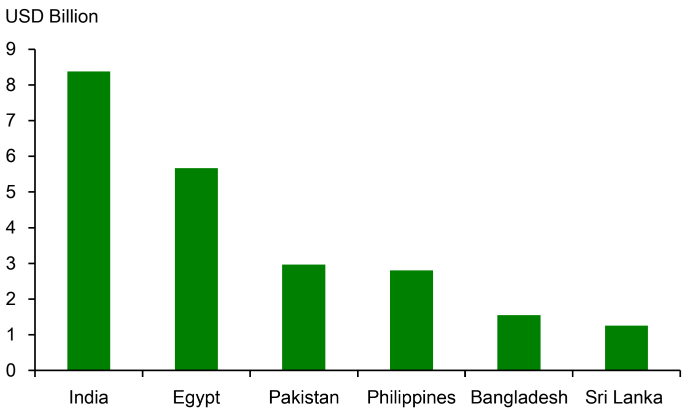
Table 15: Developing Countries Remittance Flows



Source: World Bank

Remittance inflows data released by the World Bank and the IMF Balance of Payments statistics reveal that developing countries received the lion's share of remittance inflows in all recorded years. It is estimated that 75.8% or USD401 billion of last year's total inflows were transferred to developing countries. Moreover, estimates for 2013 indicate a 6.7% Y/Y growth rate, leading to a total of USD427 billion. India, China, the Philippines remain he largest recipients of migrant remittances. The World Bank estimates that India received USD69.4 billion in 2012, followed by China and the Philippines receiving USD60.2 billion and USD24.5 billion, respectively. Analysis of developing countries by region shows a substantial variation between and within regions. In 2012, estimates indicate a rapid expansion to the Middle East, North Africa and South Asia whereas Europe and Central Asia experienced a decline. Surges in Bangladesh and Pakistan propelled South Asia to rise as the largest recipient region in 2012, growing by 12.3% Y/Y to USD109 billion. In the medium-term, however, East Asia and the Pacific region is expected to remain the largest recipient. In 2012, remittances to the Middle East and North Africa (MENA) region grew by an estimated 14.3% Y/Y, which is the fastest annual expansion rate, stacking USD49 billion. It's worth-noting that Egypt accounts for over 40% of remittance inflows to the MENA region, a USD20.5 billion or 6% of GDP which is a six-fold increase over the past 8 years, leaping over Lebanon, Jordan, Morocco and Tunisia.

Table 16: Top Recepient Countires of Saudi Remittances, 2012E



Source: World Bank

Robust oil prices and vibrant economic activity in Saudi Arabia led to a surge in urban development, which in turn, increased demand for foreign labor. Estimating over USD27.6 billion of outward remittance flow in 2012, the World Bank ranks Saudi Arabia as the second top remittance-sending country in the world after the USA. GCC-wise, UAE comes second, with USD20.3 billion, followed by Kuwait at USD8.5 billion. The estimated top three remittance beneficiaries from Saudi Arabia in 2012 are India (USD 8.4 billion), Egypt (USD 5.7 billion), and Pakistan (USD 3 billion). The average cost of remitting USD 200 or its equivalent reveals that Saudi Arabia, alongside Russia are the cheapest remittance-sending countries at 4.5% of the amount sent. South Africa, on the other hand, is the costliest remittance-sending country with an average of 20.7% of the amount sent. The data shows that the cost of remitting funds negatively correlates with the volume of remittance inflow. In our opinion, the Saudi Nitaqat program is expected to swell these figures in 2013 as expatriates boost money transfers prior to leaving the country.

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