



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

Private Sector Imports/Exports Financed Through Commercial Banks January 2019

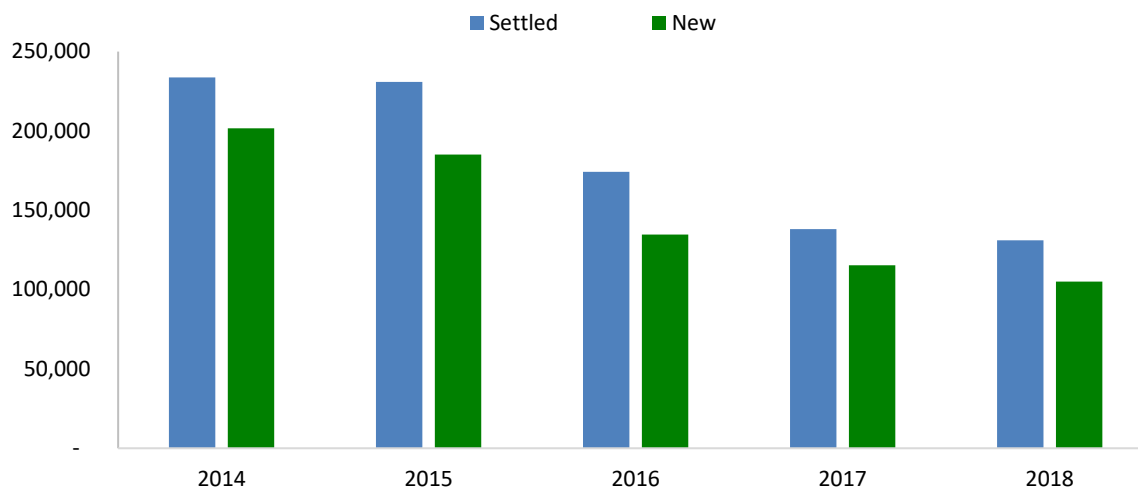
The financing of imports and exports to and from Saudi Arabia has largely been financed through commercial banks by way of letters of credit (LCs). LCs have been the preferred method of financing in Saudi Arabia as it gives assurances by the buyer's bank to remit sale proceeds to the seller through the seller's bank on maturity. More specifically, an importer's (buyer) bank conditionally guarantees payment to the exporter providing documents submitted by the exporter that comply with all the conditions specified in the contract. On the other hand, an exporter (seller) receives the conditional guarantee of payment from another bank that is opening the letter of credit on behalf of the importer. According to the National Commercial Bank in Saudi Arabia, a 'Sight Draft' is the most commonly used LC as it provides payment to the beneficiary immediately after presenting all stipulated documents.

Tracking LC movement and performance is measured by analyzing both opened and settled LCs. The value of settled and opened LCs in Saudi Arabia has decreased over the last few years as the downturn in oil prices impacted the banking sector's liquidity and risk appetite. While a downwards trend in LCs has been observed, it appears that this trend bottomed out in 2018. The reduction in LCs marginally decreased from 2017 to 2018, indicating that we should witness positive growth in 2019 on the back of significant mega-project announcements by the government.



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Saudi Arabian Total Import LCs (SAR millions)



Source: Saudi Arabian Monetary Agency (SAMA)

In terms of private sector exports financed through commercial banks by products, the value of LCs has rebounded from the decreases in 2015 and 2016. The ‘Chemical & Plastics’ and ‘Other Industrial Products’ have steadily increased in 2017 and 2018. Other industrial products likely include minerals such as phosphate and aluminum.

Letters of Credit by Products (Exports)

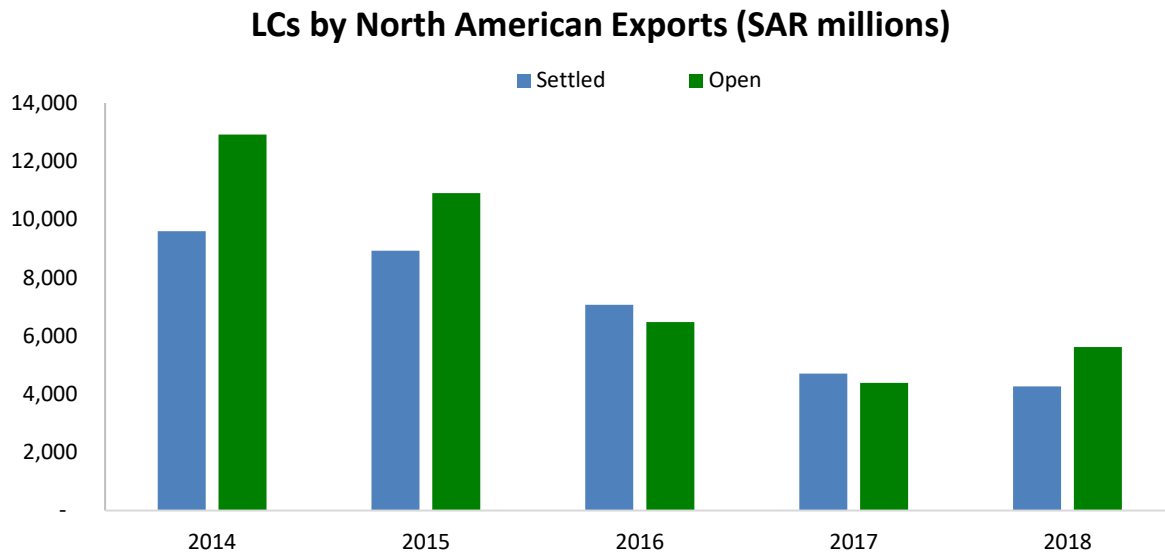
| Year | Agricultural & Animal Products | | Chemical & Plastics | | Other Industrial Products | | Total | |
|------|--------------------------------|---------|---------------------|---------|---------------------------|---------|---------|---------|
| | Opened | Settled | Opened | Settled | Opened | Settled | Opened | Settled |
| 2014 | 393 | 453 | 8,500 | 7,031 | 114,001 | 41,166 | 122,893 | 48,680 |
| 2015 | 369 | 336 | 7,845 | 5,988 | 73,660 | 43,635 | 81,874 | 49,959 |
| 2016 | 123 | 188 | 5,078 | 3,385 | 52,319 | 38,259 | 57,520 | 41,832 |
| 2017 | 315 | 82 | 12,082 | 3,591 | 57,049 | 36,717 | 69,446 | 40,390 |
| 2018 | 108 | 68 | 15,838 | 4,255 | 57,900 | 39,899 | 73,845 | 44,222 |

Source: SAMA



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The level of LCs for imports and exports to and from partnering countries indicates that North America (SAMA does not have a breakdown for the U.S.), of which a significant portion of trade is with the U.S. has increased the volume of opened LCs in 2018. As the below chart portrays, the value of opened LCs surpassed that of settled LCs. This indicates a positive flow of new trade agreements between the two countries within their respective private sectors.



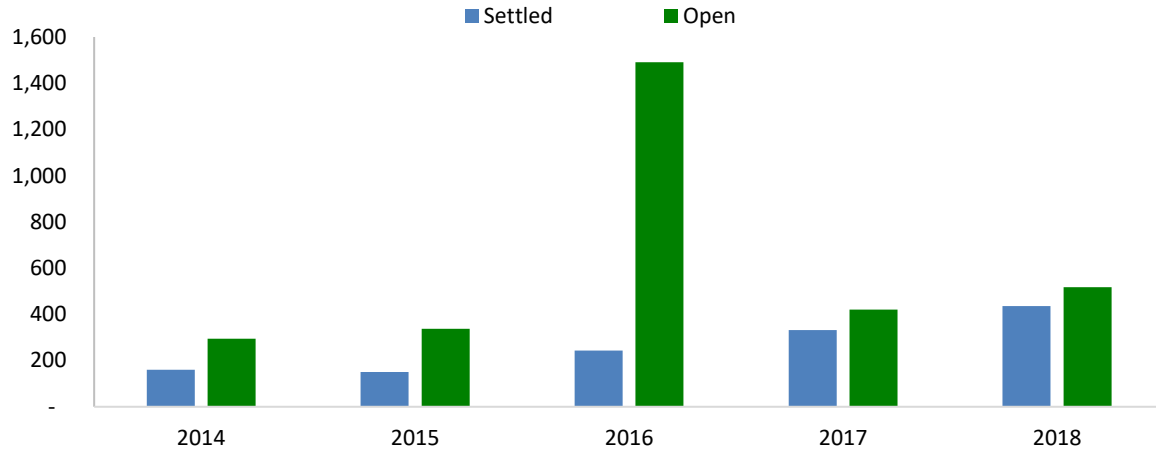
Source: SAMA

While the quantity and value of LCs by importing from North America does not constitute significant figures, it has nonetheless increased in 2018 compared to 2017. Moreover, opened LCs surpassed settled LCs.



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LCs by North American Imports (SAR millions)



Source: SAMA

Looking ahead into 2019, we expect the volume of LCs to increase as they climb their way back to the levels witnessed prior to the downtrend in oil prices. The rebounds seen in 2018 support the notion of improved trade conditions between Saudi Arabia and its trading partners. Improvements in oil prices and banking liquidity coupled with expected mega-project announcements over the medium term will facilitate enhanced trade opportunities for Saudi Arabia. The recent announcement by the government regarding the National Industrial Development and Logistics Program, which anticipates approximately SAR1.6 trillion worth of new investments (in mining, industry, logistics, and energy) will certainly provide for further export opportunities by Saudi Arabia's partners over the short-term, but more importantly, will provide for the opportunity for the Kingdom to export goods in the long-term.