

Kingdom of Saudi Arabia*

INTRODUCTION

General

<i>Capital/Other major cities:</i>	Riyadh/Jeddah, Mecca, Medina
<i>Area:</i>	1,960,582 km ²
<i>Population:</i>	27.02m
<i>Language:</i>	Arabic
<i>Currency:</i>	Saudi riyal (SAR)
<i>Country telephone code:</i>	966
<i>Weekend:</i>	Friday
<i>National holidays:</i>	
2006 –	9–15*, 31 Jan, 11 Apr, 23 Sep, 22–28 Oct*, 30–31 Dec*
2007 –	1–3*, 20 Jan, 31 May, 23 Sep, 12–18 Oct*, 17–21 Dec*
	* Since the Islamic calendar is lunar, these holidays depend upon the sighting of the moon and exact dates may vary from those listed above.
<i>Business hours:</i>	08:00–12:00 and 15:00–18:00 (Sat–Wed), 08:00–12:00 (Thur)
<i>Banking hours:</i>	08:00–12:00 and 17:00–20:00 (Sat–Wed), 08:00–12:00 (Thur) 10:00–15:00 (Sat–Thur during Ramadan)
<i>Stock exchange:</i>	Saudi Stock Market (Tadawul)
<i>All share index:</i>	Tadawul All Share Index (TASI)

Government

Legislature

- Monarchy with a unicameral consultative council (Majlis al-Shura).
- Consultative Council – 120 members and a chairman appointed for four-year terms by the monarch.
- Saudi Arabia is a member of the Gulf Co-operation Council (GCC).

Head of state and political leader

- King and PM Abdallah bin Abd al-Aziz Al Sa'ud since 1 August 2005.

* Please note that rules and regulations and market practice are not necessarily documented and are subject to interpretation. In addition, they may change rapidly for economic, political, social and religious reasons. As a result, the de facto enforcement and interpretation of regulations and market practice may diverge from the formal regulatory framework described in this country report. If you are planning any business activity in the country, we would recommend that you seek independent advice on the latest market and regulatory developments as well as legal and tax advice.

Economy

	2000	2001	2002	2003	2004	2005				2006
						Q2	Q3	Q4	YEAR	Q1
Exchange rate* (SAR/USD)	3.7500	3.7500	3.7500	3.7500	3.7500	3.7483	3.7450	3.7450	3.7471	3.7450
Interest rate* (deposit rate) (%)	6.667	3.992	2.234	1.631	1.734	3.385	4.035	4.782	3.754	5.102
Consumer inflation** (%)	- 1.1	- 1.1	+ 0.2	+ 0.6	+ 0.3	+ 0.4	+ 0.5	+ 1.1	+ 0.7	+ 1.7
Unemployment (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
GDP volume growth** (%)	+ 4.8	+ 0.5	+ 0.2	+ 7.6	+ 5.3	NA	NA	NA	+ 6.6	NA
GDP (SARbn)	707	686	707	805	939	-	-	-	1,161	-
GDP (USDbn)	188	183	189	215	250	-	-	-	310	-
GDP per capita (USD)	8,773	8,285	8,306	9,197	10,453	-	-	-	12,934	-
BoP (goods/services/income) as % GDP	15.8	13.4	14.8	20.0	26.2	-	-	-	32.8	-

* Period average. ** Year on year.

Source: *International Financial Statistics*, IMF June 2006.

Sectoral distribution of GDP (% of GDP)

- Agriculture 3.3%
- Industry 61.3%
- Services 35.4% (2005 estimate)

COUNTRY CREDIT RATING

Fitch Ratings rates Saudi Arabia's issuer credit as:-

Term	Local Currency Rating	Foreign Currency Rating
Short	-	F1
Long	A	A
Long term rating alert	Outlook Stable	

Source: www.fitchratings.com July 2006

LEGAL AND REGULATORY

Central bank

- The Saudi Arabian Monetary Agency (SAMA) began operating in 1952 and operates in accordance with the Charter of the Saudi Arabian Monetary Agency of 1957 and the Banking Control Law of 1966.

Bank supervision

- The SAMA supervises the banking sector within Saudi Arabia.

Resident/Non-resident status

- A company is considered resident in Saudi Arabia if the company is registered in Saudi Arabia, if its administrative office or factory is in Saudi Arabia or if it is performing contracts or work in Saudi Arabia.

Bank accounts

- Foreign exchange accounts can be held by residents domestically and abroad. Accounts in domestic currency (SAR) cannot be held by residents abroad, but are convertible into foreign currency.
- Non-resident bank accounts are permitted in domestic currency (SAR) and, with prior approval from the SAMA, in foreign currency. Non-resident accounts in domestic currency (SAR) are convertible into foreign currency although prior approval is required from the SAMA.
- Interest can be offered on savings accounts and time deposits. However, prior SAMA approval is required for the payment of interest on resident and non-resident current accounts.
- Overdrafts are permitted on resident current accounts.

Reporting

- No information is available at present.

Anti-money laundering / Counter-terrorist financing*

- Saudi Arabia has implemented anti-money laundering legislation ('Anti-Money Laundering Law' of 2003).
- Saudi Arabia is a member of the FATF (Financial Action Task Force) via the Gulf Cooperation Council (GCC). It is also a founding member of MENAFATF.
- Saudi Arabia has established a Financial Intelligence Unit (FIU), the Saudi Anti-Financial Crime Unit (SAFCU), within the Ministry of the Interior. The FIU refers all matters requiring investigation to the Saudi Arabian Monetary Authority (SAMA).
- All financial institutions must record and report suspicious transactions to the FIU.
- Account opening procedures require formal identification of the account holder. Anonymous commercial and financial transactions are prohibited. Non-resident individuals or corporations must gain specific authorisation from SAMA before opening an account.
- SAMA has also issued 'know your customer' guidelines, requiring banks to freeze accounts of customers who do not provide updated account information.
- 2003 SAMA guidelines require banks to establish a transaction monitoring threshold of SAR 100,000.

*Supplied by BCL Burton & Copeland (www.burtoncopeland.co.uk for background explanatory article). Data as at May 2005.

Exchange controls

- The Saudi riyal (SAR) is Saudi Arabia's official currency.

- The unitary exchange rate is a conventional pegged arrangement. The exchange rate of the SAR is pegged to the US dollar (USD) at a rate of SAR 3.745:USD 1. The SAMA determines the rate of the SAR against the USD.
- Banks can charge as much as 0.125% over the official exchange rate.
- There is an active forward exchange market within the commercial banking sector, covering exchange risks for up to one year.
- Foreign exchange controls are exercised by the SAMA.
- The GCC Customs Union with a common external tariff came into effect at the beginning of 2003.
- All trade with Israel is forbidden.
- Non-resident investors are permitted to hold stakes in the majority of Saudi Arabia's economic sectors.
- With the exception of interbank transactions and commercial credits, prior approval from the SAMA is required before banks in Saudi Arabia are permitted to provide credit to non-residents.
- The SAMA's reserve requirement applies to interbank deposits from foreign banks denominated in SAR.
- Saudi Arabian banks require approval from the SAMA before they can acquire a stake in a company established abroad.
- Non-residents must also acquire approval from the SAMA before purchasing shares in Saudi Arabian banks.

TAXATION*

Resident/Non-resident

- A company is considered resident in Saudi Arabia if the company is registered in Saudi Arabia, if its administrative office or factory is in Saudi Arabia or if it is performing contracts or work in Saudi Arabia.

Tax year

- At present, taxpayers may choose either a Gregorian or a Hijra calendar year as their tax year.

Corporate taxation

- Only non-Saudis and non-GCC citizens are liable to corporate income tax in Saudi Arabia. Local companies are subject to Zakat, an Islamic tax on net worth. In joint ventures, local shareholders' and GCC shareholders' attributable equity is subject to Zakat, whilst the foreigner's share of taxable income is subject to income tax.
- Corporation tax rates historically range from 25% (on taxable income up to SAR 100,000) to 30% (over SAR1m). Under the new tax law, which became effective on 30 July 2004, the income tax rate is a flat 20% for all accounting years commencing on or after 30 July 2004.

Advance tax ruling availability

- It is possible to approach the tax authority to obtain a ruling on the tax consequences of contracts prior to performance.

Wealth tax

- A religious wealth tax (Zakat) is levied on Saudi and GCC nationals and businesses (operating in Saudi Arabia) that they own outright or in proportion to their shareholding. It is levied on the taxpayer's capital resources that are not invested in fixed assets, investments and intangible assets. Such resources include a company's capital, net profits, retained earnings, reserves and provisions. The rate of Zakat is 2.5%.

Thin capitalisation

- There are no prescribed debt/equity ratios in Saudi Arabia. Companies may be structured as they wish, but unless they meet specified criteria they may not obtain investment incentives available under foreign capital investment regulations.

Transfer pricing

- There is no specific transfer pricing legislation.

Capital gains tax

- Capital gains on the sale of shares in a Saudi Company held by a foreign partner are subject to Saudi Arabian taxes. The capital gains are taxed as if they were ordinary income, hence subject to the same corporation tax rates noted above.

Stamp duty

- There is no stamp duty in Saudi Arabia.

Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident Companies	–	–	–	–
Non-resident Companies	–	5%	5–20%	5–20%

- Payments for rents, insurance premiums, management fees and royalties to non-resident companies are assessed for Saudi Arabian withholding taxes at rates ranging from 5% to 20%, depending on the type of service. The domestic company making the payment is liable for taxes relating to these foreign payments.
- Dividends paid to a non-resident shareholder on or after 30 July 2004 are subject to a withholding tax at 5%.

Tax treaties

- Currently, Saudi Arabia has only one double tax treaty, which is with France.

Sales taxes/VAT (incl. financial services)

- There are no consumption taxes in Saudi Arabia.

Other business taxes

- There is no form of stamp duty, excise or property taxes in Saudi Arabia except to the extent they all fall within the scope of Zakat, which only applies to Saudi companies (and individuals). However, if a foreign company, or a company that has a foreign partner, sells land owned by the company, the sale value attributable to the foreign partner or company is subject to a 10% tax, which is a deductible expense for income tax purposes.

Payroll and social security taxes

- Employers are required to contribute 9% of Saudi employees' salaries for insurance relating to old age, disability and death, with another 9% contributed by the employee. The employer also pays 2% for all workers, to cover occupational hazards. The upper limit of monthly salaries subject to social insurance is SAR 45,000.

*All tax information supplied by Deloitte & Touche (www.deloitte.com). Data as at 1 January 2005.

BANKING

Major banks

Bank	Total Assets (USDm) 31 Dec. 2005
National Commercial Bank	38,873
Samba Financial Group	28,879
Al Rajhi Bank	25,341
Riyad Bank	21,352
Banque Saudi Fransi	17,998
Arab National Bank	17,996
Saudi British Bank	17,579
Saudi Hollandi Bank	10,654
Saudi Investment Bank	10,554

Source: www.bankersalmanac.com

Overview

- There are eleven local banks (together having a branch network of over 1,200) in Saudi Arabia and four foreign bank branches: Bahrain's Gulf International Bank (GIB), the UAE's Emirates Bank International and France's BNP Paribas and the National Bank of Kuwait. Meanwhile, another six branches of foreign bank are also licensed to operate in Saudi Arabia.
- In terms of both assets and capital, the state-owned National Commercial Bank is the banking sector's dominant institution.
- Numerous leading international banks have also established a presence in the Saudi banking sector via minority shareholdings in local banks. Among the most notable are HSBC (Saudi British Bank), Crédit Agricole (Banque Saudi Fransi) and ABN AMRO (Saudi Hollandi Bank). In addition, Deutsche Bank and JP Morgan are preparing to follow BNP Paribas and open branches.

PAYMENT INSTRUMENTS

Credit transfers

- Electronic credit transfers are used for high-value payments and by government and commercial institutions to pay monthly salaries.
- Payments can be paper-based or automated. However, electronic credit transfers are mainly limited to corporate usage.

Direct debits

- Direct debits are particularly used for regular low-value, recurring payments such as utility bills.
- The direct debit is initiated by the payee, who sends the payment order in electronic form to the banks, instructing them to debit the payor's account.
- The Saudi Arabian Riyal Interbank Express (SARIE) operates an interbank direct debit service.

Cheques

- Cheques are used for both interbank and commercial transactions.
- Cheques are used in certain sectors to pay salaries and pension payments.
- Cheques are processed electronically via the Automated Clearing House, electronically via regional cheque clearing facilities at three of the SAMA's branches and located at Riyadh, Jeddah and Dammam, or manually via regional cheque clearing facilities at the remaining seven SAMA branches in Saudi Arabia.

Card payments

- The usage of payment cards has increased rapidly over recent years.
- Around 12 million cards are currently in circulation. Debit cards account for over 90% of all payment cards in circulation.
- Visa and MasterCard are the principal credit card issuers in Saudi Arabia.
- Card payments in Saudi Arabia are processed via the Saudi Payments Network (SPAN).
- SPAN connects all the banks operating in the Saudi Arabian ATM/POS market.
- The availability and usage of ATMs and POS terminals has increased rapidly in recent years. There are over 5,300 ATM terminals and over 48,000 POS terminals in Saudi Arabia.

PAYMENT SYSTEMS

Type

- The SAMA manages and operates all interbank payment and settlement systems.
 - Saudi Arabian Riyal Interbank Express (SARIE) is an automated real-time gross settlement (RTGS) system.
 - The Automated Clearing House (ACH) is composed of the clearing houses in the SAMA's three largest branches (Riyadh, Jeddah and Dammam), which together act as a national electronic interbank cheque clearing system. The other clearing houses clear cheques manually.
 - Saudi Payments Network (SPAN) is the national processing network for card payments.

Participants

- In addition to the SAMA, 15 participant banks in Saudi Arabia currently use SARIE to process credit transfers.
- All banks that issue cheques in Saudi Arabia participate in the ACH.
- There are also 16 banks participating in SPAN, including the SAMA.

Transaction types processed

- SARIE processes all interbank and customer credit transfers and direct debits, regardless of value, in addition to effecting the final settlement of ACH and SPAN participants' net balances.
- The ACH processes cheque transactions.
- SPAN processes all payment card transactions.

Operating hours

- SARIE operates between 08:30 and 15:00 Arabia Standard Time (AST) (Saturday to Wednesday), and between 09:30 and 13:30 on Thursday.
- The ACH operates during the SAMA's banking hours.
- SPAN operates on a 24 hour cycle.

Clearing cycle details

SARIE

- SARIE settles transactions electronically on a same-day basis in real time and with immediate finality.
- SARIE uses its proprietary electronic network to communicate with participants. Payment messages are based on SWIFT standards.
- All payments are settled across the participant banks' accounts held at the SAMA.

Automated Clearing House

- MICR cheques have a settlement cycle of D+1.
- Cheques are exchanged and settled between 10:00 and 12:00 AST.
- Cheques drawn on bank accounts based in Riyadh, Jeddah and Dammam and deposited locally are sent for clearing via the ACH next day, with value received overnight.
- Cheques for clearance elsewhere have one transit day. Cheques submitted to the smaller SAMA branches are processed manually between 10:00 and 13:30. The average clearing time ranges from two to three working days.
- Foreign cheques can take from five to 14 working days.

SPAN

- Payment card transactions are settled in real time via SARIE on a same-day basis and with immediate finality.

CASH MANAGEMENT

Domestic

Notional pooling

- Notional pooling within the same legal entity is permitted and offered by several of the larger banks. However, prior regulatory approval is required.

Cash concentration

- The large cash management banks offer zero- and target-balancing products.
- Cash concentration arrangements can involve different legal entities. However, prior regulatory approval is required.

Cross-border

- Cross-border sweeping is possible. However, cross-border notional pooling faces significant regulatory hurdles.

Short-term investments

- Interest can be paid on savings accounts and deposits. Prior approval from the SAMA is required for the payment of interest on current accounts.
- Demand and time deposits are available and have maturities ranging up to one year.
- Islamic investment accounts are increasingly popular, linking banks' profits to payments on time deposits to avoid Islamic prohibitions on interest.
- Treasury bills are issued weekly by the SAMA in denominations of SAR 1 million for banks and other institutions. SAR 50,000 is the minimum investment amount for retail buyers. Treasury bills are issued with maturities of one week and one, three, six and 12 months.
- Repurchase agreements (repos) are a popular method of short-term investment among large domestic banks. The majority of repos have maturities ranging from overnight to one week. Repos can only be arranged domestically and are exempt from withholding tax.
- Although commercial paper issuance is not prohibited, there is no formal market.

ELECTRONIC BANKING

- Electronic banking is gaining in popularity in Saudi Arabia in both the retail sector and, increasingly, the corporate sector.
- There is no bank-independent electronic banking standard in Saudi Arabia. Each bank offers its own proprietary system for corporate banking purposes.
- Most of these systems provide balance and transaction reporting and transaction initiation services.
- Offered by the majority of the leading banks in Saudi Arabia, internet banking is also becoming increasingly commonplace among retail users and smaller companies.

TRADE FINANCE

Trading partners

Import

- USA 13.2%, Germany 9.8%, Japan 8.1%, China 7.4%, France 4.8%, UK 4.4%, Italy 4.3%.

Export

- USA 17%, Japan 16.8%, South Korea 8.7%, China 7.2%, Singapore 5.3%, Taiwan 4.1%.

Imports

Documents

- In order to import goods into Saudi Arabia, a customs declaration is required to be filed. The commercial invoice must include a full description of the imported goods. A certificate of origin, bill of lading, steamship/airline company certificate, packing list and, in certain cases, an insurance certificate are also required.

Licences

- Special approval from the Saudi authorities is required in order to import animals, meat products, seeds, books, tapes, movies, archaeological artefacts, armaments, ammunition, chemical and pharmaceutical products and certain items containing alcohol.

Taxes/Tariffs and other fees

- Customs duties of 5% apply to the majority of dutiable imports.
- The Gulf Cooperation Council (GCC) established a 5% common external tariff, and imports of GCC origin are exempt from duties.
- Higher duty rates of 12% and 20% apply to certain imports and rise to 100% for tobacco products.

Prohibited imports

- A negative list (list of products that may not be imported) is in operation.
- It is prohibited to import certain commodities into Saudi Arabia in order to protect fauna and flora and national security. Additional restrictions apply for religious reasons.
- Importing from Israel is prohibited.

Exports

Documents

- In order to export goods from Saudi Arabia, a customs declaration is required to be filed, including a certificate of origin.

Licences

- Licences are not needed for the majority of exports.
- Licences are required to export certain fuels (such as natural gas, oil and petroleum products) and wheat.
- Special approval from the Saudi authorities is required in order to export certain items such as items of historical value, livestock and horses.

Taxes/Tariffs and other fees

- There are no taxes charged on exports from Saudi Arabia.

Prohibited exports

- Exporting items to Israel is prohibited.
- Re-exporting certain imports, to benefit from government subsidies, is also prohibited.

Financing imports and exports

Imports

- There are no financing requirements for imports.

Exports

- There are no financing requirements for exports.

USEFUL CONTACTS

Saudi Arabian Monetary Agency		www.sama-ksa.org
Leading banks	National Commercial Bank	www.ncb.com.sa
	Samba Financial Group	www.samba.com.sa
	Al Rajhi Bank	www.alrajhibank.com.sa
	Riyad Bank	www.riyadbank.com
Ministry of Finance		www.mof.gov.sa
Ministry of Commerce		www.commerce.gov.sa
Council of Saudi Chambers of Commerce		www.saudichambers.org.sa
Saudi Arabian General Investment Authority		www.sagia.gov.sa
Saudi Stock Market		www.tadawul.com.sa

HSBC CONTACT DETAILS

Global Payments and Cash Management
The Saudi British Bank
2nd Floor -Western Province Management
PO Box 109
21411 Jeddah
Saudi Arabia
Tel: +966 2 657 2121
Fax: +966 2 657 0019
Email: enquiriespcm@hsbc.com