Euler Hermes Economic Research

Country Risk Analysis

Saudi Arabia

Oil king, with large financial assets

General Information

GDP	USD576.8bn (World ranking 20, World Bank 2011)
Population	28.08 million (World ranking 46, World Bank 2011)
Form of state	Monarchy
Head of government	King and Prime Minister ABDALLAH bin Abd al-Aziz Al Saud
Next elections	None

Strengths

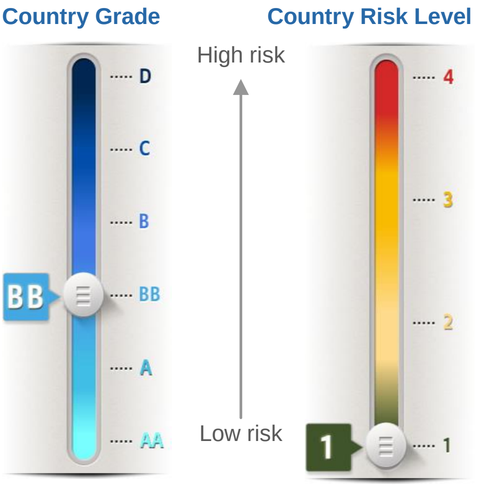
- Natural resource base (oil and gas).
- Strategic importance as an oil exporter with spare capacity to balance international markets and stabilise oil prices.
- Large asset base and strong FX reserves.
- Fiscal and current account surpluses.
- Net creditor.
- Generally good relations with the US.
- Long-standing and stable exchange rate system.
- Strong international assessments of the business environment.

Weaknesses

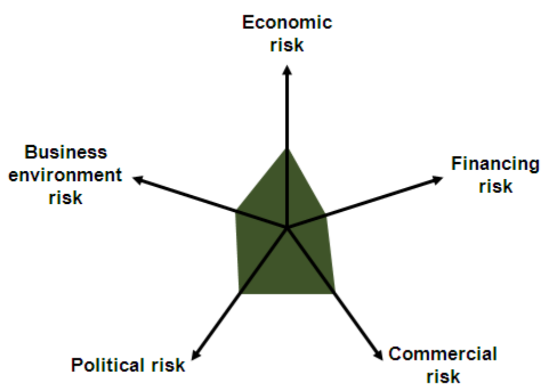
- Dependence on international oil prices and only limited economic diversification.
- High unemployment and under-employment, together with lack of political representation, fuel increased militancy, particularly among the minority Shia population.
- Data transparency is below average for a high income economy.
- Regional uncertainties, with land borders with Iraq and Yemen and Iran as a close neighbor.

Country Rating

BB1

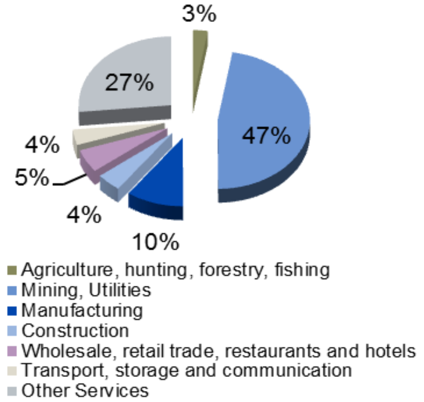


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
Japan	14%	1	12%	China
China	14%	2	11%	United States
United States	13%	3	8%	Germany
Korea, Republic of	10%	4	6%	Korea, Republic of
India	8%	5	5%	Japan

By product

Exports		Rank		Imports
Petroleum, petroleum products and related materials	82%	1	12%	Road vehicles
Plastics in primary forms	4%	2	8%	Iron and steel
Organic chemicals	4%	3	6%	Other industrial machinery and parts

Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	3.7	0.1	5.1	7.1	6.8	4.0	4.5
Inflation (%, end-year)	2.1	4.0	5.8	3.6	3.6	3.1	3.0
Fiscal balance (% of GDP)	13.0	-4.1	3.0	12.4	15.9	9.4	4.1
Public debt (% of GDP)	55.9	14.0	8.5	5.4	4.1	4.5	4.8
Current account (% of GDP)	17.5	5.6	14.6	26.5	20.2	14.0	9.1
External debt (% of GDP)	12.2	22.8	19.8	14.6	12.9	12.7	13.0

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

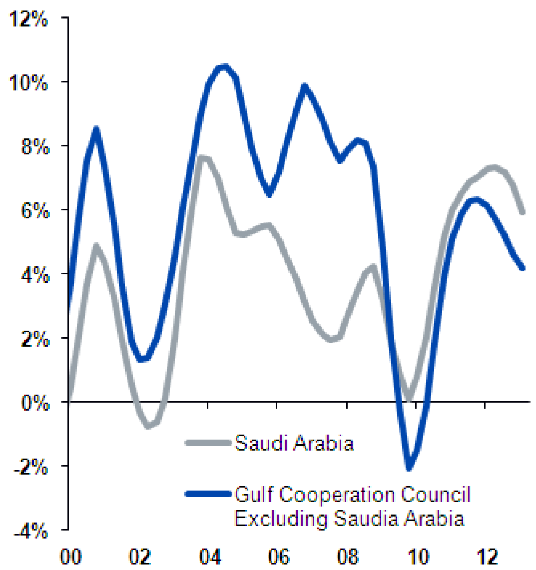
Strong growth in 2010-12

Despite the Arab Spring movement and associated disruption to some regional business activity, Saudi Arabia's GDP increased by over +7% in 2011, with strong performances by manufacturing (+13.8%) and the service sector, as well as the oil and gas industry. Indeed, the short-term impact of the Arab Spring was positive for the Saudi economy as oil output was increased to substitute for disrupted supplies elsewhere. In addition, large social-support packages (see also Economic Policies) were announced by the king in early 2011, providing a further boost to the domestic economy. These trends continued into 2012, with GDP expanding by +6.8%.

Growth to ease in 2013-14

EH expects growth to ease in 2013-14, given a generally weak global environment and likelihood that the kingdom will scale back its output of crude oil to maintain relative price stability in world energy markets. EH forecasts GDP growth of +4% in 2013 and +4.5% in 2014, driven by domestic demand as government spending and investment will remain elevated.

GDP growth (y/y, 4 qtrs cumulated %)



Sources: IHS Global Insight, Euler Hermes

Economic Policies

The current five-year development plan (2010–14) envisages spending of around USD385 billion and commits the government and economic agencies to a programme of diversification away from oil by investing in infrastructure and human resource development. As elsewhere in the region, labour policy promotes the employment of nationals rather than expatriate workers. In 2011 and partly in response to the Arab Spring, the government unveiled two social support packages, with additional state spending of around USD130 billion over a seven-year period that includes measures to increase housing and job prospects.

Benign inflationary outlook

Food prices and housing costs are the main inflation drivers and are likely to remain so over the forecast period, particularly as domestic demand is forecast to remain strong. Inflationary pressures from these two sources somewhat offset each other as high food prices are balanced by easing price pressures through housing as the supply of new-build homes is being boosted under government social programmes. The outlook for inflation is relatively benign, with EH forecasting end-year rates of around +3% in 2013 and 2014, although upside risks exist through the potential for high energy prices if there is a major disruption to oil supplies through a regional conflict in the Middle East.

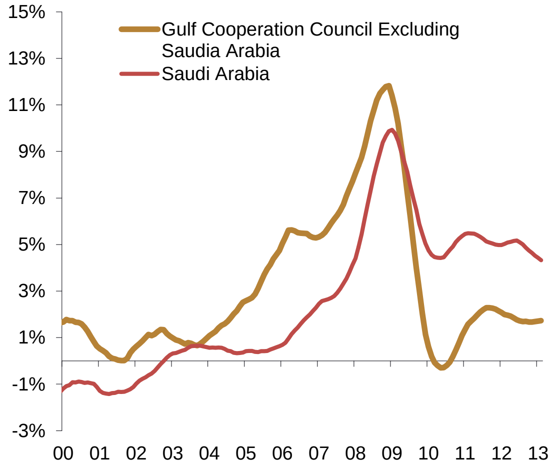
EH does not expect the exchange rate regime to change in the forecast period to end-2014, with the fixed peg of SAR3.75 = USD1 throughout. Progress towards a full Gulf monetary union has been limited and EH does not envisage the introduction of an effective GCC single currency in this period.

Fiscal surpluses

Fiscal surpluses have been recorded since 2010, ranging from +3% of GDP (2010) to +15.9% (2012), largely reflecting international oil prices and associated volatility in state revenues. The planned large increases in state spending, partly to avoid contagion from the Arab Spring and partly to boost domestic demand, will result in lower fiscal surpluses in 2013-14. Moreover, oil prices are forecast to ease during this period, so revenue growth will be limited from this source. EH forecasts that the fiscal surplus will fall to +9.4% of GDP and then to +4.1% in 2014.

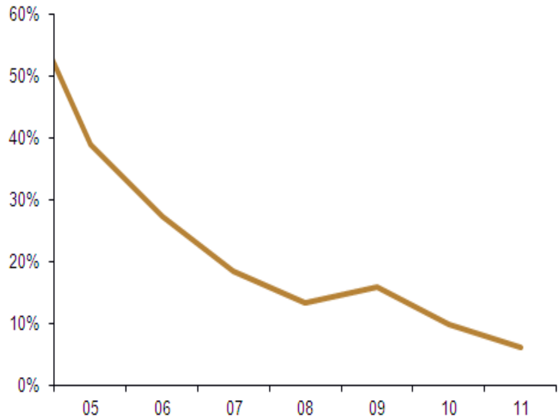
A notable feature of the country's fiscal accounts is the government's determined reduction in debt stock. Public debt, which is wholly domestic, was equivalent to around 4% of GDP at end-2012 and, even with the current plans to boost spending significantly, ability to drawdown on foreign assets, in need, will ensure that public debt remains below 5% of GDP by end-2014.

Inflation rate (% y/y)



Sources: IHS Global Insight, Euler Hermes

General government debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Oil revenues underpin surpluses

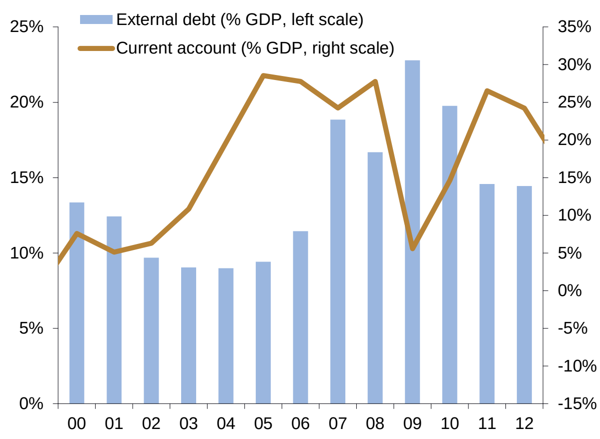
Saudi Arabia's external accounts rebounded strongly in 2010 from a relatively weak 2009, when indicative benchmark oil prices averaged USD63/barrel (-36% y/y). Oil prices increased to average USD80/b, USD111/b and USD112/b in 2010, 2011 and 2012, respectively. Accordingly, with oil accounting for over 80% of export revenues, the current account registered strong double-digit surpluses in 2010-12, including +26.5% in 2011. Global oil prices are forecast to weaken in 2013-14, although they currently remain above USD100/b, and Saudi Arabia's external accounts will deteriorate. However, the kingdom has the ability to alter its oil output in an attempt to support international oil prices and the current account will remain in surplus over the forecast period. EH forecasts current account surpluses of +9.4% in 2013 and +4.1% in 2014.

Hard currency foreign exchange reserves are around USD60 billion but SAMA (central bank) has a substantial financial asset base to draw on, in need. Using IMF data, which puts FX reserves at over USD660 billion, gives Saudi Arabia an import cover of at least 15 months.

External debt is low

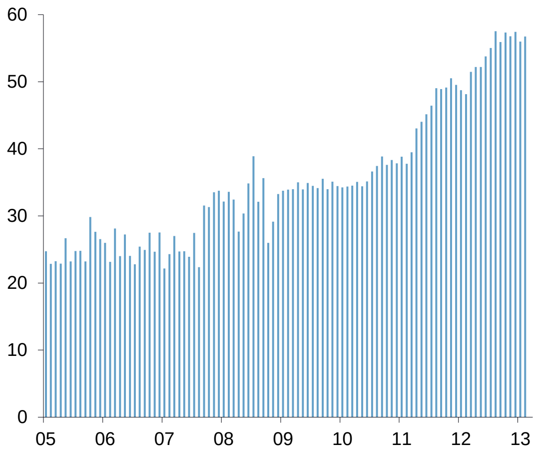
External debt ratios are low, with total foreign debt stock at around 13% of GDP and 23% of export earnings and the debt service ratio on existing obligations is below 2% of export receipts. As a result, external payments of debt obligations (and, by association, settlement of trade payments) will not be problematic.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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