

Diversification from the oil sector will take time

General Information



GDP	USD646bn (World Ranking 20, World Bank 2015)
Population	31.54mn (World Ranking 41, World Bank 2015)
Form of state	Absolut Monarchy
Head of government	HRH King Salman bin Abdulaziz bin Abdul Rahman bin Faisal bin Turki bin Abdullah bin Mohammed bin Saud
Next elections	None



Strengths

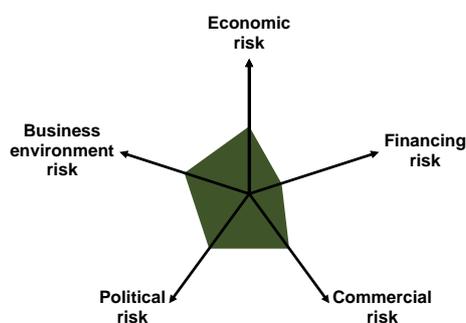
- Natural resource base (oil and gas)
- Strategic importance as an oil exporter and with spare capacity to increase output when needed
- Solid banking system, with large financial asset base and strong FX reserves
- In time of high oil prices strong fiscal and current account surpluses. These provide a financial buffer when deficits are recorded in times of severely depressed oil prices
- Long-standing and stable exchange rate system
- Strong international assessments of the business environment

Weaknesses

- Dependence on international oil prices along with a narrow economy focused on the hydrocarbon sector
- High unemployment and under-employment have the potential to 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 with Iran as a close neighbor. The latter is seen by some as a competitor for regional power

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	12% 1	16% China
United States	9% 2	11% United States
India	9% 3	7% Germany
South Korea	8% 4	6% South Korea
Taiwan	3% 5	5% United Kingdom

By product (% of total)

Exports	Rank	Imports
Crude Oil	67% 1	9% Cars And Cycles
Refined Petroleum Products	9% 2	6% Engines
Plastic Articles	7% 3	5% Telecommunications Equipment
Basic Organic Chemicals	5% 4	4% Electrical Apparatus
Natural Gas	2% 5	4% Aeronautics

Source: Chelem (2015)

Economic Overview

2016 was a difficult year

Real GDP growth dropped to +1.4% in 2016 from 4.1% in 2015, triggered by markedly lower oil prices (benchmark Brent was USD45/bbl on average, down from USD53/bbl in 2015) and a reduction in oil production which was due to lower external demand as well as the November 2016 OPEC agreement to cut output (in which Saudi Arabia pledged a cutback to 10.06mn bpd). Moreover, as oil revenues fell, the government implemented some fiscal consolidation measures. Nonetheless, the fiscal deficit remained a hefty -15.5% of GDP and public debt surged to 14% of GDP in 2016 (from just 5% in 2015) although this is still very low compared to most regional and global peers. Meanwhile, deflationary risks have emerged as well as inflation entered negative territory in January 2017 (-0.4% y/y) though new cuts in subsidies should relieve the downward pressures going forward.

2017 will be another low growth year, but uptrend in oil prices and successful bond sale should mitigate the harm

Looking ahead, an improved environment is expected to result in stabilization of GDP growth around +1.5% in 2017. Oil prices have recovered to an average USD56/bbl in January-February 2017. A debut sovereign bond issuance of USD17.5bn in 2016 (which could initiate a gradual start of corporate bond issuance in 2017) will allow a +8% increase in government spending which should improve both business confidence and investment, boosting construction, trade and the transport sector. However, the fiscal deficit will remain large, forecast at -9% of GDP in 2017, and public debt should further rise to 19% of GDP.

Meanwhile, the current account deficit is forecast to narrow to -3.6% of GDP in 2017 from -7% in 2016.

The structural change of the economy is a key challenge in the longer term

Saudi authorities are taking actions to address the economy's heavy dependence on the hydrocarbon sector which accounted for 44% of GDP in 2016. The Vision 2030 roadmap and the National Transformation Plan 2020 (NTP) are supposed to herald a turning point for Saudi Arabia, setting up a large framework to smoothen the economic diversification process, relying on a wide range of initiatives to develop weak sectors such as defense industries, retail, renewable energy and the private sector. These long-term projects will face challenges such as the transfer of public sector jobs to the private sector, which could increase social tensions.

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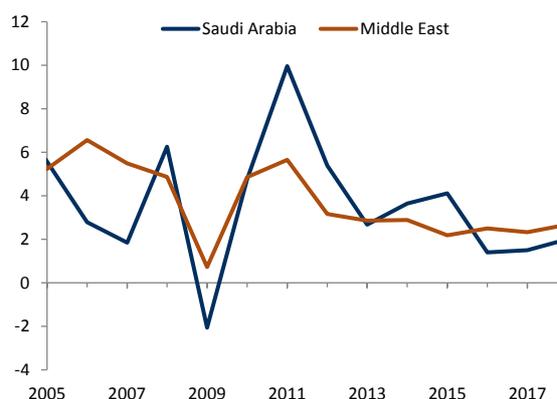
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Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	4.1	1.4	1.5	2.0
Inflation (% , end-year)	2.3	1.7	4.0	3.8
Fiscal balance (% of GDP)	-17.9	-15.5	-9.0	-7.0
Public debt (% of GDP)	5.0	14.0	19.0	24.0
Current account (% of GDP)	-8.3	-7.0	-3.6	-3.0
External debt (% of GDP)	12.0	17.0	19.0	21.0

Sources: National statistics, IHS, Euler Hermes

Real GDP growth (%)



Sources: IHS, Euler Hermes

Oil Prices (Benchmark Brent, USD/bbl)



Sources: Bloomberg, Euler Hermes