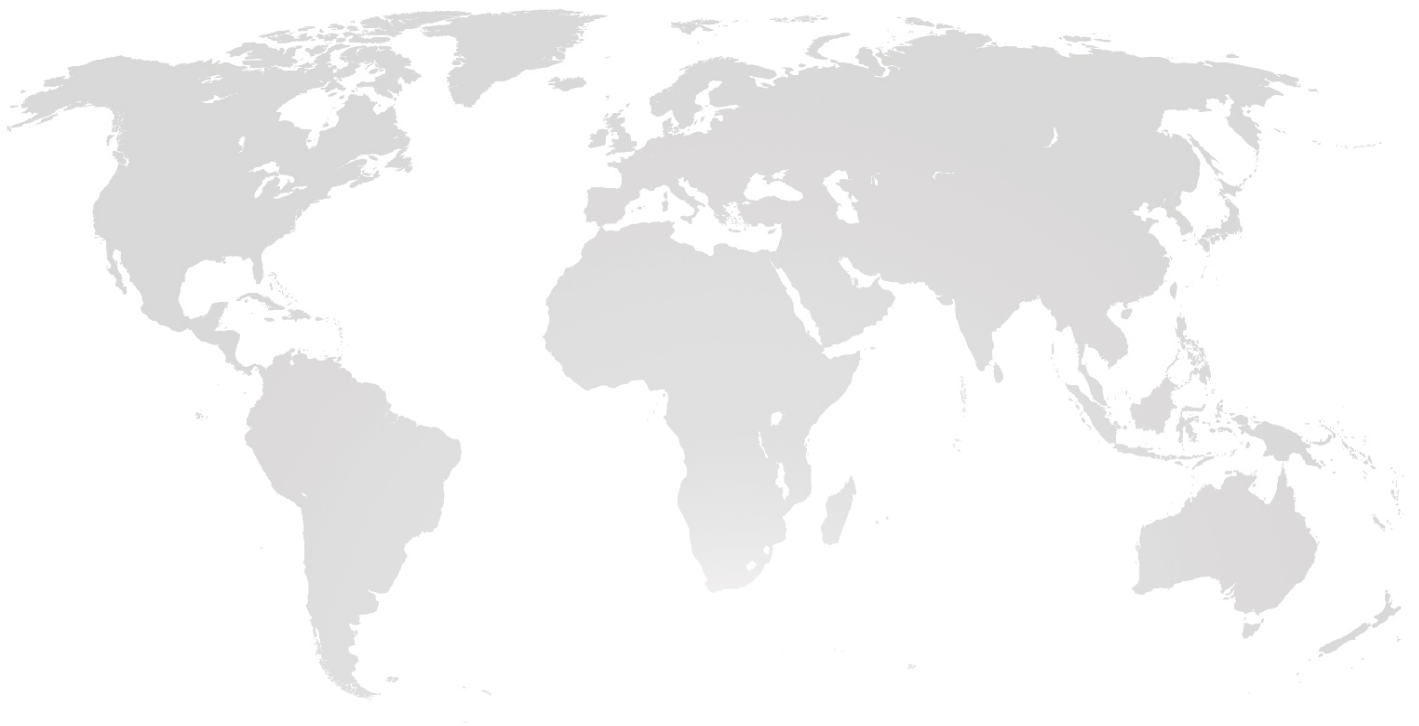


Country Insight Snapshot

Saudi Arabia

March 2016






OVERVIEW

OVERALL COUNTRY RISK RATING: DB3C

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

+ Saudi Arabia's large oil reserves, which have allowed it to build up huge financial buffers, will support government spending in the short term despite the downturn in the oil price.

+ Longer-term growth will be driven by government policies to reduce its dependence on oil export revenues and boost the private sector.

- High levels of recurrent government spending and declining oil prices have undermined the fiscal position.

- Long-term strategies should factor in further increases in petrol prices, an easing of subsidies on utilities, and the increasingly likely introduction of a sales tax in 2017.

KEY DEVELOPMENT

Dun & Bradstreet downgrades its country risk rating for Saudi Arabia in the face of slower employment and increased fiscal austerity.

CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

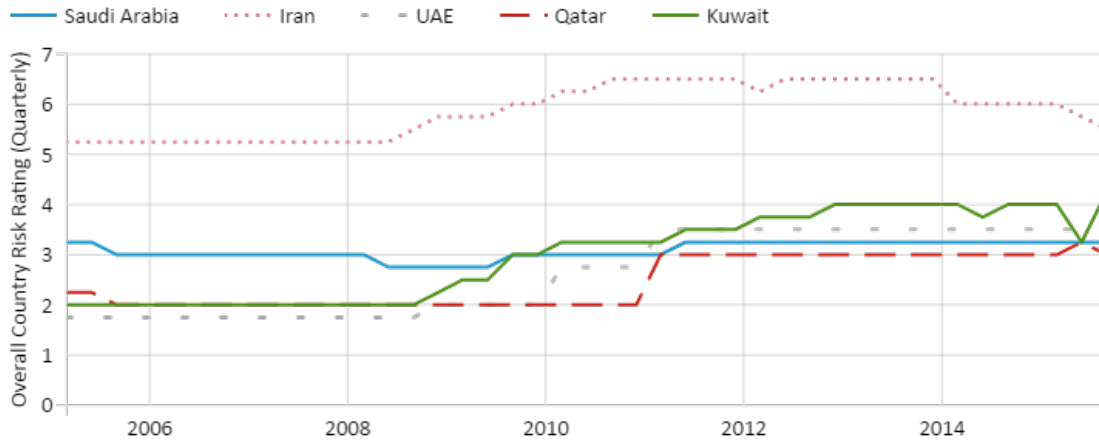
A

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

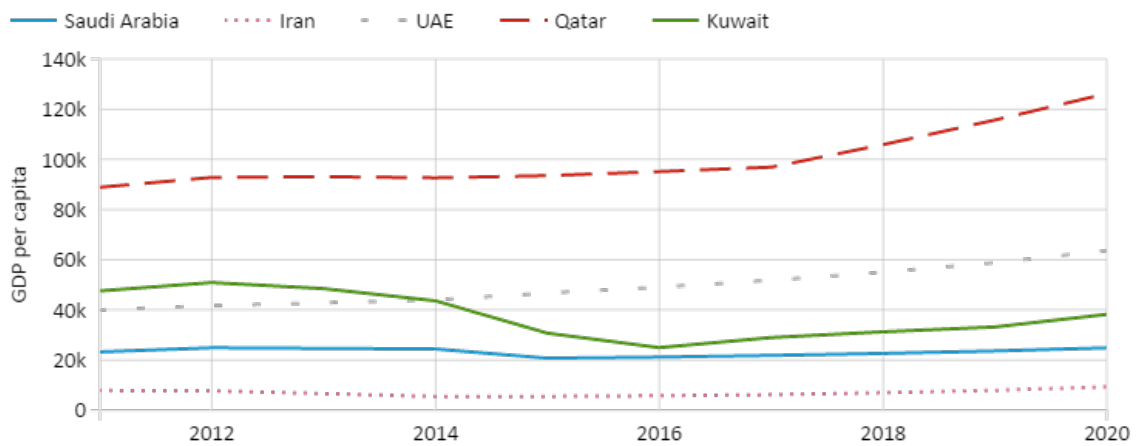
Rating History and Comparison



Source : Dun & Bradstreet

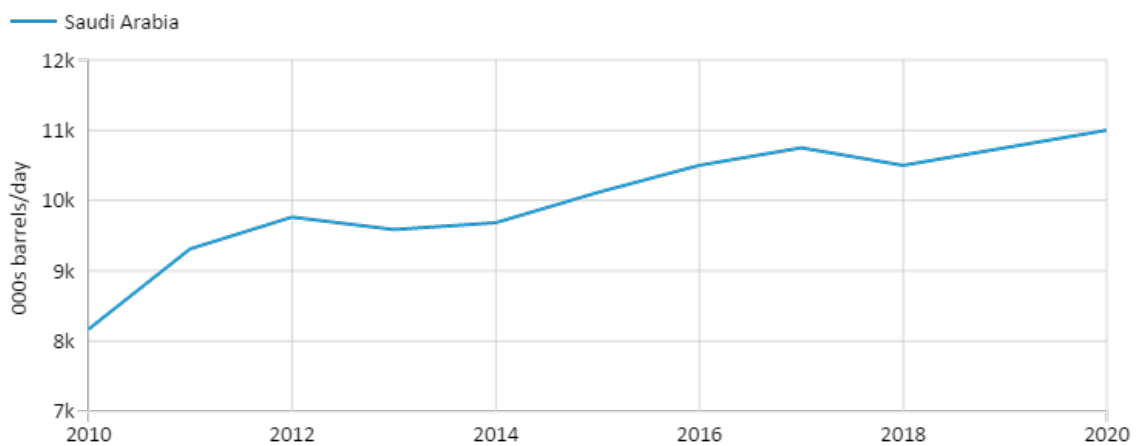
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Crude Oil Production



Source : Dun & Bradstreet



Economic Indicators

| Indicator | 2013 | 2014 | 2015e | 2016f | 2017f | 2018f | 2019f | 2020f |
|--------------------------|-------|------|-------|-------|-------|-------|-------|-------|
| C/A balance % GDP | 18.2 | 9.8 | -9.3 | -18.9 | -17.2 | -15.9 | -14.5 | -14.1 |
| Govt balance, % GDP | 6.5 | -2.3 | -18.5 | -14.0 | -11.5 | -7.5 | -3.8 | -2.7 |
| Inflation, annual avge % | 3.5 | 2.7 | 2.2 | 2.6 | 3.1 | 3.0 | 2.9 | 3.3 |
| Oil Price, USD/b | 108.6 | 99.2 | 52.4 | 36.5 | 46.6 | 53.0 | 58.0 | 75.0 |
| Real GDP Growth, % | 2.7 | 3.6 | 3.4 | 1.6 | 1.9 | 2.5 | 3.1 | 3.6 |

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

External economic and financial sector risks will remain manageable during our forecast period. Saudi Arabia has enjoyed a series of structural current account surpluses recently, due to strong oil revenues – a situation that allowed the build-up of significant FX reserves and minimised foreign debt, thus reducing external economic risk. That said, the recent sharp drop in the oil price has forced the government to draw down on these reserves and increase its debt levels. Meanwhile, financial sector risk is moderate, as capital buffers are at healthy levels and the ratio of non-performing loans to total lending is relatively low, although liquidity is now tightening. According to the IMF, banking supervision is adequate and as a result we are currently recommending LC terms.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: Up to 90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 months

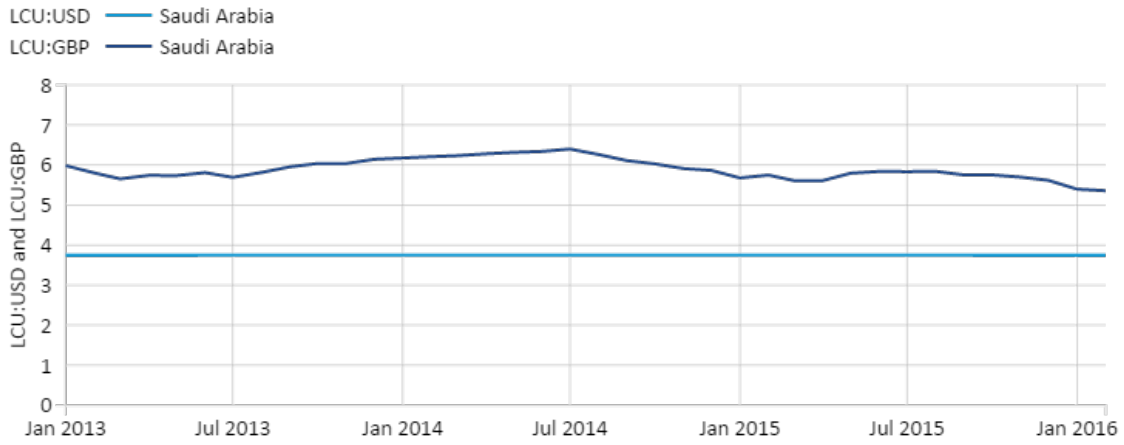
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



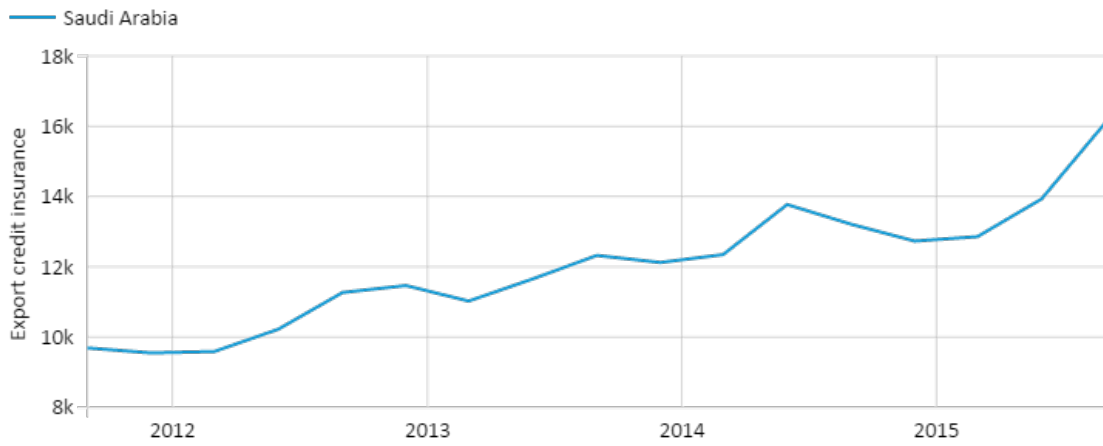
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU = Local Currency Unit

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Business Environment Quality

Risk rating downgraded

Dun & Bradstreet has downgraded its country risk rating for Saudi Arabia amid a slowing in new employment of Saudi nationals in 2015. According to a report by Jadwa Investments, a Saudi-based financial services company, net employment rose by just 49,000, the slowest annual growth since 1999 and well short of the 226,000 new jobs the economy must create to soak up all the new labour market entrants. Conversely, almost double that number, 85,000, were added to the pool of working age Saudis not in employment. The government took on just 93,000 new employees in 2015, 10,000 less than in 2014, while new hires in the private sector fell by 43,000 to 369,000 over the same period. The decline in new hires was the first since the Nitaqat quota system was introduced in 2011. The shortfall in employment is particularly worrying for the government as its primary focus is job creation; the USD36bn cut in public expenditure this year will put even more pressure on the public payroll. Private sector companies are also curbing their hiring plans, as the drop in the oil price adds uncertainty to the economic outlook. Surveys such as the *Purchasing Managers' Index* has in recent months shown a slowdown in private sector employment, although the latest February data showed a slight uptick. However, concerns abound among private sector companies that the government might resort to such drastic measures as forcing them to substitute foreign workers with Saudi nationals, a move which would only damage business sentiment and growth further as the cost of hiring Saudi nationals is higher than employing expatriates.

Short-Term Economic Outlook

Government cuts spending

The challenging fiscal situation has forced the government to take additional measures to curb spending, while seeking to raise additional credit. According to local press reports, the government has ordered all ministries to cut the costs of all projects they have contracted by a further 5%, in order to increase efficiency. What is not clear is how those contracts are supposed to be renegotiated with suppliers, many of whom, particularly in the construction industry, are facing serious cash flow issues because the government has delayed payments. Separately, the government has been selling SAR20bn of bonds every month in order to help support the fiscal deficit. This is in addition to drawing down on its large stock of reserves; in January, net foreign assets at the Saudi central bank fell 2.4% m/m to USD594bn, some 18% lower than the level the previous year. Saudi's FX reserves (excluding gold) reached a high of USD745bn in August 2014, equivalent of over 33 months' worth of imports. However, by end-2015 FX reserves had fallen to USD616bn, equivalent to 26.9 months' worth of imports and well above the 3.0-month minimum recommended by the IMF for emerging economies. Nevertheless, government fiscal consolidation will constrain real GDP growth in 2016; we are currently forecasting growth of 1.6% down from an estimated 3.4% in 2015.



COUNTRY PROFILE AND STATISTICS

Overview

Saudi Arabia is the largest country on the Arabian Peninsula; it has land borders with the other Gulf Co-operation Council members, as well as Iraq, Jordan and Yemen.

It has been ruled by the Saud royal family since its formation in 1932. Since then, an informal but well-recognised social contract based on redistributing oil revenue earnings has permitted autocratic royal rule without resorting to democracy. However, since May 2003, Al-Qaeda operatives have been linked to a series of violent attacks throughout the kingdom; although activity has diminished recently, the threat of an attack remains high.

Meanwhile, the economy is heavily dependent on hydrocarbons, which exports and government revenues rely on almost completely: the kingdom possesses 20% of global oil reserves. Using its oil revenues, the government has adopted a policy to reduce oil dependency and increase private sector involvement through a series of joint partnerships in industrial and infrastructure development.

Key Facts

| Key Fact | Detail |
|----------------------------|-----------------------------------|
| Head of state | King Salman bin Abdulaziz al-Saud |
| Capital | Riyadh |
| Timezone | GMT +03-00 |
| Official language | Arabic |
| Population (millions) | 31.5 |
| GDP (USD billions) | 653.2 |
| GDP per capita (USD) | 20,711 |
| Life expectancy (years) | 74 |
| Literacy (% of adult pop.) | 94.4 |
| Surface area (sq km) | 2,149,690 |

Source : Various sources/Dun & Bradstreet

Historical Data

| Metric | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 9.96 | 5.38 | 2.67 | 3.64 | 3.35 |
| Nominal GDP in USDbn | 669.51 | 733.96 | 744.34 | 753.83 | 653.22 |
| Nominal GDP in local currency (bn) | 2,511 | 2,752 | 2,791 | 2,827 | 2,450 |
| GDP per Capita in USD | 23,256 | 24,883 | 24,646 | 24,406 | 20,711 |
| Population (year-end, m) | 28.79 | 29.5 | 30.2 | 30.89 | 31.54 |
| Exchange rate (yr avge, USD-LCU) | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| Current Account in USDbn | 158.55 | 164.76 | 135.44 | 73.76 | -61.07 |
| Current Account (% of GDP) | 23.68 | 22.45 | 18.2 | 9.78 | -9.35 |
| FX reserves (year-end, USDbn) | 540.68 | 656.46 | 725.29 | 731.92 | 615.99 |
| Import Cover (months) | 32.77 | 36.6 | 37.84 | 33.91 | 26.89 |
| Inflation (annual avge, %) | 5.9 | 2.9 | 3.5 | 2.7 | 2.2 |
| Govt Balance (% GDP) | 11.6 | 13.6 | 6.5 | -2.3 | -18.5 |

Source : Haver Analytics/Dun & Bradstreet



Forecasts

| Metric | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 1.6 | 1.9 | 2.5 | 3.1 | 3.6 |
| Nominal GDP in USDbn | 681 | 715 | 754 | 799 | 854 |
| Nominal GDP in local currency (bn) | 2,552 | 2,680 | 2,827 | 2,997 | 3,204 |
| GDP per Capita in USD | 21,166 | 21,827 | 22,642 | 23,619 | 24,861 |
| Population (year-end, m) | 32.2 | 32.7 | 33.3 | 33.8 | 34.4 |
| Exchange rate (yr avge, USD-LCU) | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| Current Account in USDbn | -128.8 | -123.2 | -120.0 | -115.9 | -120.6 |
| Current Account (% of GDP) | -18.9 | -17.2 | -15.9 | -14.5 | -14.1 |
| FX reserves (year-end, USDbn) | 492.8 | 448.4 | 430.5 | 426.2 | 428.3 |
| Import Cover (months) | 20.1 | 17.0 | 15.4 | 14.6 | 14.0 |
| Inflation (annual avge, %) | 2.6 | 3.1 | 3.0 | 2.9 | 3.3 |
| Govt Balance (% GDP) | -14.0 | -11.5 | -7.5 | -3.8 | -2.7 |

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

| Indicator | S. Arabia | Iran | UAE | Qatar | Kuwait |
|---------------------------------------|-----------|-------|-----------|---------|---------|
| Income per Capita (USD) | 20,711 | 5,521 | 46,705 | 93,502 | 30,711 |
| Country Population (m) | 31.5 | 79.1 | 9.2 | 2.4 | 3.9 |
| Internet users (% of population) | 63.7 | 39.4 | 90.4 | 91.5 | 78.7 |
| Real GDP Growth (% p.a., 2016 - 2025) | 3 - 4.5 | 2 - 6 | 3.5 - 5.5 | 4 - 6.5 | 3 - 5.5 |

Source : Various sources/Dun & Bradstreet



LINKS

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Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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