

Country Insight Snapshot

Saudi Arabia

July 2019





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

- + Falling oil prices over the next five years will see the government forced to liberalise the economy, opening opportunities for cross-border investment and trade.
- + Longer-term growth will be driven by government reforms under its Vision 2030, which aims to reduce dependence on oil export revenues and boost the private sector.
- The unwritten social contract makes it difficult to cut government spending without provoking socio-economic tensions.
- Crown Prince Mohammed's assertive domestic and external policies have heightened political and security risks.

KEY DEVELOPMENT

Security risks continue to rise for Saudi Arabia as a consequence of the tensions in the Persian Gulf around Iran.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

R

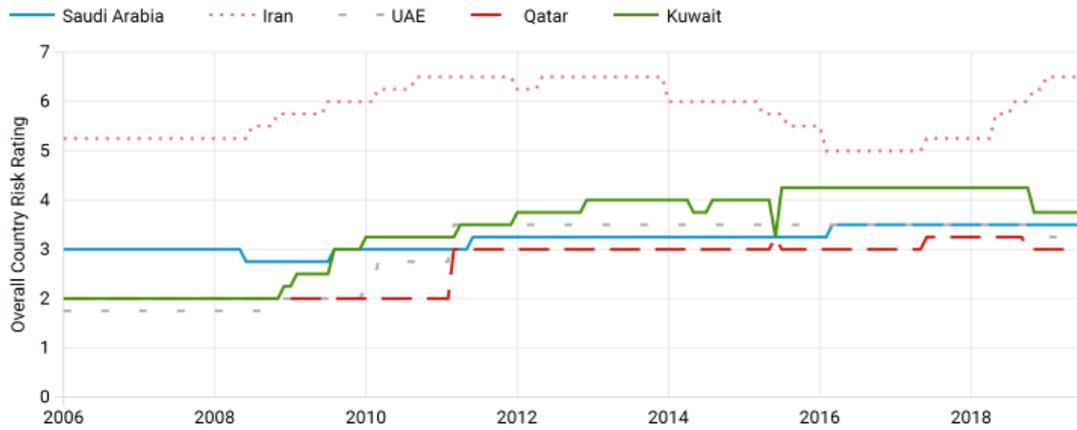
Trend: Deteriorating rapidly 

Key Development has had a negative impact on the outlook.



KEY INDICATORS

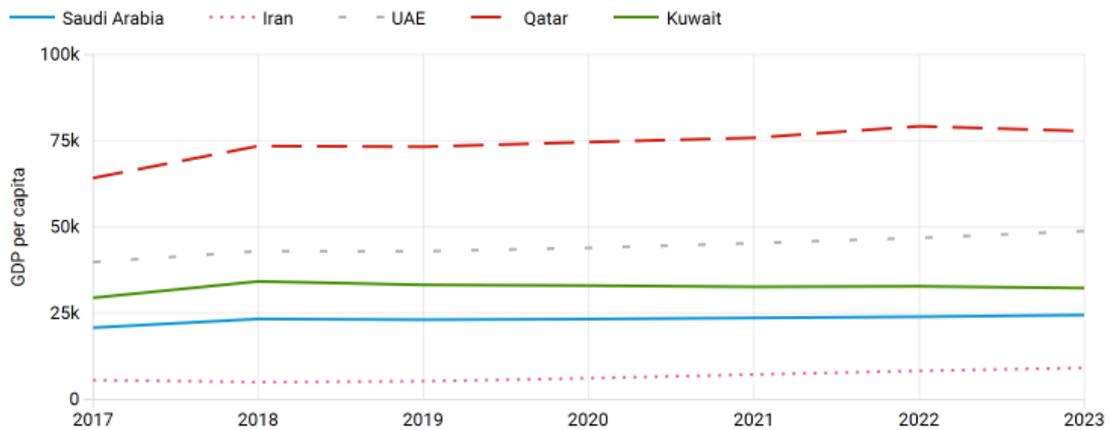
Rating History and Comparison



Source: Dun & Bradstreet

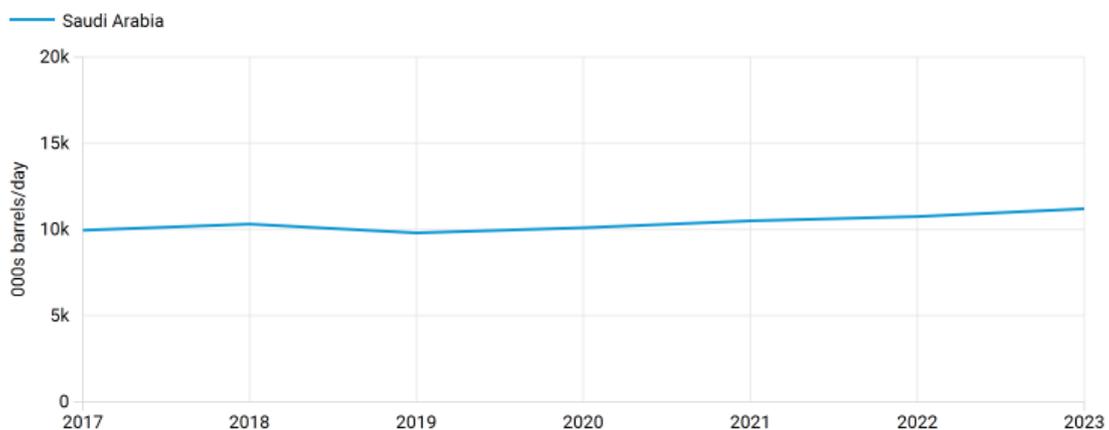
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Crude Oil Production



Source: Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-3.7	1.5	9.2	3.0	1.0	1.4	1.2	1.5
Govt balance, % GDP	-12.9	-9.2	-5.9	-2.5	-4.8	-3.2	-4.5	-3.4
Inflation, annual avge %	2.1	-0.8	2.5	-1.2	0.8	1.2	0.9	1.3
Oil Price, USD/b	44.0	54.4	71.1	66.7	62.3	58.0	55.0	51.0
Real GDP Growth, %	1.7	-0.7	2.4	1.9	1.6	1.8	2.0	2.1

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The forward-looking Emirates NBD Saudi Arabia Purchasing Managers' Index highlights that growth prospects in the non-oil private sector climbed to a 19-month high of 57.4 in June, up from 57.3 in May. The index shows that non-oil economic activity is still expanding, as it was above the 50-point level that marks the division between contraction and expansion. Furthermore, the index has improved in seven of the past nine months, showing a sustained improvement in business activity. Economic activity in the non-oil private sector was driven by high output (albeit lower than in May) on the back of strong demand including a rise in new business, domestically and from abroad. However, employment data remained weak, as firms appear reluctant to hire. Nevertheless, business optimism in the country remained strong in May, despite easing to a 10-month low.

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: OA

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.



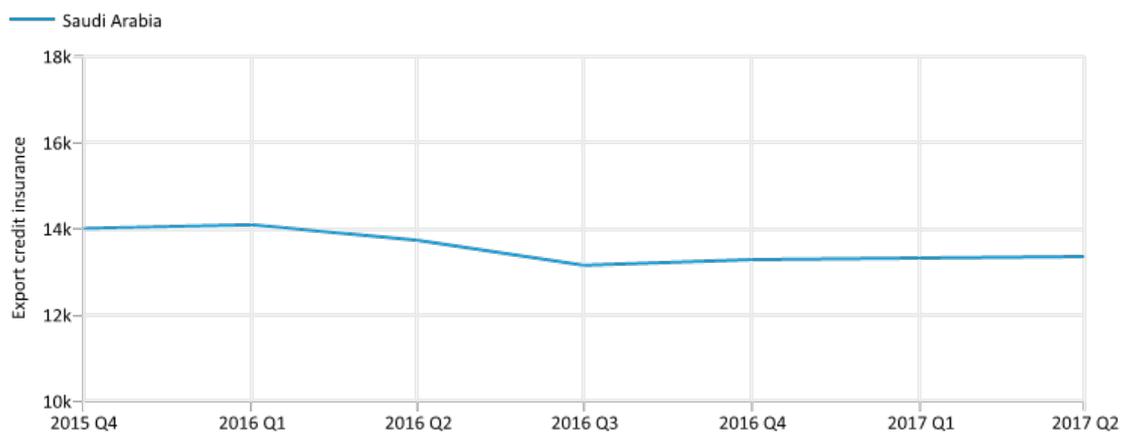
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Saudi riyal

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Security risks rise even further

Security risks have continued to rise for Saudi Arabia in the past month as tensions between the US, Saudi Arabia and Israel over Iran have widened to include the UK. In July, UK forces seized an Iranian-flagged oil tanker off Gibraltar, saying that it was being used to supply the Assad regime in Syria in contravention of UN sanctions. Iran responded by detaining a UK-flagged tanker in the Persian Gulf, for allegedly contravening international maritime regulations. As part of the repercussions, Saudi has been facing attacks by Iranian-backed Yemeni-based Houthi rebels on its oil infrastructure and southern cities. We expect further low-level attacks on Saudi Arabia over the next few months. However, there is a danger that a misstep could result in military confrontation between Iran and the US, which would see Saudi Arabia become actively involved, supporting Washington. Any military action would severely disrupt regional supply chains. As a result, we have downgraded the trend indicator on the Supply Environment Outlook from 'stable' to 'deteriorating', maintaining the RAG status at Amber. In addition, we have downgraded the trend indicator on the Political Environment Outlook from 'deteriorating' to 'rapidly deteriorating'; the RAG status remains at Red.

Business Regulatory Environment

Further easing of business barriers

The authorities continue to chip away at the high barriers to doing business in Saudi Arabia, particularly for foreign companies and investors. Among the more recent changes is a new residency scheme for privileged foreigners, which was announced by the cabinet in May. Two types of residency are available under the scheme; one is permanent residency, while the other is renewed annually. The exact details of the new rules still have to be published. However, the existing sponsorship system (*kalafa*) will remain in place for the vast majority of the 10m expatriates who work in the Kingdom. The second change is the latest relaxation in foreign ownership rules, by removing the existing 49% ceiling. Certain non-financial companies (referred to as 'foreign strategic investors') will be allowed to invest on the stock market (Tadawul), after they have been approved by the Capital Market Authority. We expect slow improvements in the business regulatory environment in relation to foreign investment to continue into the medium term.

Short-Term Economic Outlook

Economy contracts in Q1

The latest official data indicates that the economy contracted by 1.3% q/q in Q1 2019 as adherence to OPEC quotas limited oil production and oil prices weakened. This followed four quarters of growth in 2018, culminating in 1.4% q/q growth in Q4; the highest level since Q2 2015. Throughout 2019, the twin constraints of a lower oil price and curtailed output will impact negatively on oil revenues, which are a key driver of growth in the Kingdom. As a result, we are currently forecasting slower real GDP growth in 2019 of 1.9% (down from 2.4% in 2018) followed by 1.6% in 2020. However, the forecast assumes there is no significant escalation of tensions in the Persian Gulf (or indeed military action). If this were to occur, our forecasts would be downgraded.



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 with 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.

The economy is heavily dependent on hydrocarbons, upon which exports and government revenues rely 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)	33.7
GDP (USD billions)	786.5
GDP per capita (USD)	23,337
Life expectancy (years)	74.7
Literacy (% of adult pop.)	94.8
Surface area (sq km)	2,149,690

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	3.7	4.1	1.7	-0.7	2.4
Nominal GDP in USDbn	756	654	645	689	787
Nominal GDP in local currency (bn)	2,836	2,454	2,419	2,582	2,949
GDP per Capita in USD	24,464	20,628	19,879	20,802	23,337
Population (year-end, m)	30.9	31.7	32.4	33.1	33.7
Exchange rate (yr avge, USD-LCU)	3.8	3.8	3.8	3.8	3.8
Current Account in USDbn	73.8	-56.7	-23.8	10.5	72.3
Current Account (% of GDP)	9.8	-8.7	-3.7	1.5	9.2
FX reserves (year-end, USDbn)	731.9	616.0	535.4	496.0	496.2
Import Cover (months)	33.9	29.9	32.4	29.5	28.3
Inflation (annual avge, %)	2.7	1.2	2.1	-0.8	2.5
Govt Balance (% GDP)	-3.5	-15.8	-12.9	-9.2	-5.9

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.9	1.6	1.8	2.0	2.1
Nominal GDP in USDbn	792	811	835	860	889
Nominal GDP in local currency (bn)	2,970	3,041	3,133	3,223	3,333
GDP per Capita in USD	23,112	23,296	23,638	23,981	24,466
Population (year-end, m)	34.3	34.8	35.3	35.8	36.3
Exchange rate (yr avge, USD-LCU)	3.8	3.8	3.8	3.8	3.8
Current Account in USDbn	24.0	8.0	12.0	10.0	13.0
Current Account (% of GDP)	3.0	1.0	1.4	1.2	1.5
FX reserves (year-end, USDbn)	511.0	513.6	518.7	523.9	526.5
Import Cover (months)	27.9	26.8	25.7	24.5	23.2
Inflation (annual avge, %)	-1.2	0.8	1.2	0.9	1.3
Govt Balance (% GDP)	-2.5	-4.8	-3.2	-4.5	-3.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	S. Arabia	Iran	UAE	Qatar	Kuwait
Income per Capita (USD)	23,112	5,258	42,971	73,268	33,226
Country Population (m)	34.3	82.9	9.8	2.7	4.2
Internet users (% of population)	73.8	53.2	90.6	94.3	78.4
Real GDP Growth (% p.a., 2019 - 2028)	3.0 - 4.5	2.0 - 6.0	3.5 - 5.5	4.0 - 6.5	3.0 - 5.5

Source: Various sources/Dun & Bradstreet



LINKS

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Please click [here](#) to visit our online user guide.

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