COUNTRY RISK CATEGORY

2

OF 7

JANUARY 2022

Saudi Arabia

COUNTRY ANALYST

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Basic facts (2020)

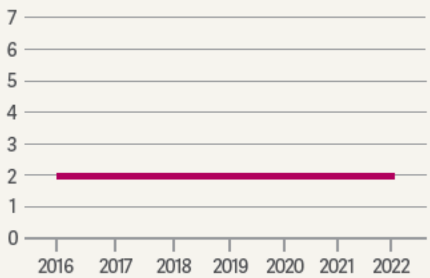
Population: 35 million

GDP, nominal: USD 700 billion

GDP/capita: USD 19 996

The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

+ Large stock of oil and gas reserves
+ Strong government finances
+ On-going economic reforms for diversification of the economy

Weaknesses

– Continued oil-dependence
– Lack of transparency
– Rigid government spending structure and deteriorating payment experience

An energy-policy superpower

In less than a century, Saudi Arabia has gone from a nomadic society to a member of the G20 and an energy superpower. Saudi Arabia is the world's largest oil exporter and growth in the economy is mainly driven by the oil and gas sector. Petroleum's accounts for nearly 70 per cent of the country's export revenues and more than 23 per cent of GDP (2020). In addition to this, the economy is driven by religious tourism to Mecca and Medina, the local manufacturing industry, and the service sector. The favourable economic situation is built upon the country's strong government finances. Government debt is low, and the FX reserves are substantial and cover more than two years of imports. In addition to this, the sovereign wealth fund is extensive and built up over decades of current account surpluses.

The oil-dependence is significant and oil revenues are needed to finance a large public sector and planned investments. Moreover, the budget deficit remains large around 11 per cent of GDP. As a result of a periodically low oil price, the current account surplus shrank. In 2020, the sharp decline in oil prices during the pandemic moved the current account into a deficit of three per cent of GDP. The sharp decline in oil prices during the pandemic moved the current account into a deficit of three per cent of GDP. The fixed exchange rate system, with the Saudi riyal pegged to the US dollar is expected to remain, given its importance to economic stability. External debt has increased in recent years but remains relatively low at around 30 per cent of GDP. Foreign direct investment in Saudi Arabia is low and has been replaced by more volatile capital in the form of portfolio investments and loans.

Strong recovery and Vision 2030

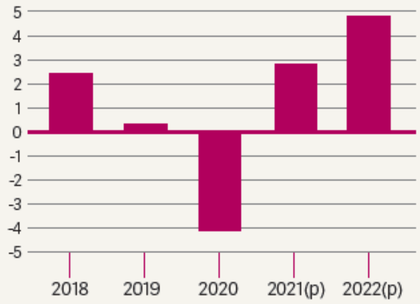
Going forward, the Saudi economy will have a robust rebound. The country went into the pandemic in a stable position with room for effective and comprehensive support measures. The collapse in oil prices, oil production restrictions under OPEC+ and lockdown measures reduced GDP by 4 per cent in 2020. The recovery benefits from a high oil price and a high vaccination rate. The IMF predicts a robust rebound in GDP growth of 3-4 per cent, a current account surplus and reduced budget deficits.

Since 2014, sharply lower oil prices led to a considerable drop in fiscal revenues. Following other countries in the region, the authorities has made major efforts to reduce dependence on oil by implementation of fiscal reforms. Vision 2030 is a comprehensive reform programme that aims to diversify the economy and modernise the country. The ambition is to make the economy less vulnerable to the volatile oil price, create employment in the private sector and achieve a fiscal balance in the long term. Reforms of the capital market and the legal system, as well as investments in small and medium-sized enterprises will attract foreign investors. Successful efforts to attract foreign investments would enable a stable source of foreign currency.

Since 2015, Saudi Arabia's Crown Prince Mohammed bin Salman has led the country. The Crown Prince is Deputy Prime Minister, Minister of Defence and responsible for the socio-economic reform process within the framework of Vision 2030. The Crown Prince has a strong grip on political power, despite his

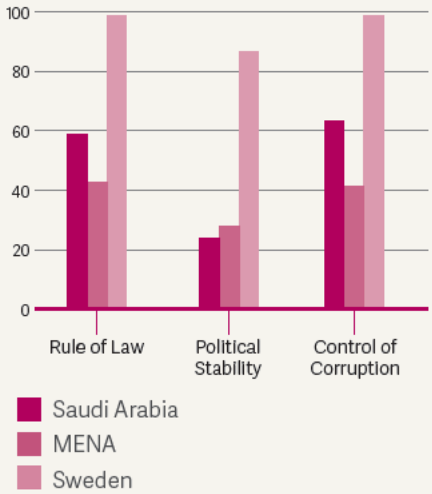
Saudi Arabia

GDP growth (fixed prices, % per annum)



Source: IMF WEO 2021

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

risky and widely criticised actions in recent years which include involvement in regional conflicts including the war in Yemen and the previous blockade against Qatar. The tensions between Saudi Arabia and Iran will persist, but a direct conflict is unlikely.

In the long term, the economic risks are dominated by unrealised structural reforms and new drops in the oil price. A forecast oil price of around USD 70 per barrel and restricted Saudi oil production prevent growth from gaining further momentum. The global trend towards increased use of renewable energy poses a risk to the country in the long term. However, a high oil price is needed to fund the development of other sectors and reduce dependence on oil. The risk of the public sector crowding out private economic activities is high. In order to achieve an economic growth in the long run, the country must improve its business environment and increase youth employment. This requires extensive reforms. The Crown Prince has great ambitions to diversify the economy, but there is uncertainty about the practical implementation and the timetable.

Business environment

The World Bank's Ease of Doing Business index ranks Saudi Arabia 62 out of 190 countries ranked in 2020, a great improvement from rank 92 a year earlier. The ambition in Vision 2030 is that the country should be among the top 20 countries. However, lack of transparent and clear legislation, prioritisation of domestic labour and late payments continue to be aggravating circumstances for foreign investors. In Transparency International's Corruption Index, Saudi Arabia ranks 52 out of 180 countries, which is among the better rankings in the region.

The World Bank's Governance Indicators (WBGI), which include various measurements of institutions and the regulatory environment, place the country above the average for the region in terms of regulations and corruption. The weaknesses are primarily the enforcement of court judgments and management of insolvency, mainly because a legal process takes a long time, and the outcome is uncertain. Bureaucracy and a lack of transparency in the legal system pose a risk to foreign companies. According to WBGI, the quality of the regulatory environment is just above the average for the region, but far from the OECD countries.

The Saudi banking sector is well developed and is surrounded by a modern regulatory framework. The banks are well capitalised and have proven to be resilient in periods of lower oil prices and economic downturns. The share of non-performing loans is low, and the banks are generally well equipped against credit losses. The Saudi Central Bank has the resources to provide liquidity support to the banking sector if necessary. During the pandemic, profitability and asset quality deteriorated in the banking sector, which is in line with other countries.

EKN:s policy

EKN classifies Saudi Arabia in country risk category 2 of 7, an assessment that is made in collaboration with the OECD. Saudi Arabia has been placed in this country risk category since 2005 when the country was upgraded one level.

Saudi Arabia

Swedish export to Saudi Arabia

	MSEK
2020	9 569
2019	8 844
2018	8 042
2017	9 191
2016	9 286

Source: SCB

EKN:s exposure

	MSEK
Guarantees	3 891
Offers	427

Normal risk assessment applies to all debtor categories except companies. Normal risk assessment means that there are no pre-given restrictions in the guarantee and that the transactions are assessed on their own merits without special requirements or terms and conditions.

In previous economic downturns, payment experience deteriorated noticeably. For this reason, an increased premium rate is applied for corporate risks. EKN has seen increased payment problems since the oil price fell in 2014. These problems point to the government's inability to implement public austerity measures in an orderly manner and deteriorating payment behaviour.

EKN:s commitment and experience

During the period 2017–2021, EKN issued guarantees for 77 transactions with a total value of just over SEK 4.9 billion for Swedish companies exporting to Saudi Arabia. Exposure is dominated by the telecom sector, but sectors such as machinery and transport are also large. EKN's payment experience is mixed. Since the drop in the oil price in 2014 and the generally more strained situation concerning government finances, the public sector has become a worse payer. The government began to accumulate overdue payments to suppliers in 2015, which in turn delayed payment to foreign suppliers. EKN has experienced payment problems mainly in the construction and transport sectors. These buyers tend to have to wait for payment from the public sector and delay payment to their foreign suppliers. The buyers' willingness to pay can in some cases be questioned when they prioritise which suppliers they pay.

These problems point to the government's inability to implement fiscal austerity measures in an orderly manner and deteriorating payment behaviour. Government payment delays have occurred during previous oil price drops in Saudi Arabia. In several cases, local debt instruments and bills have proved to be effective leverage in the event of payment problems. Payment delays occur and of the delays that occurred between 2017 and 2021, about half have been settled.