COUNTRY RISK CATEGORY

2

OF 7

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Saudi Arabia

COUNTRY ANALYST

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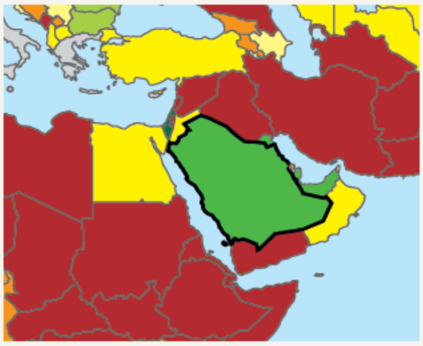
Basic facts (2021)

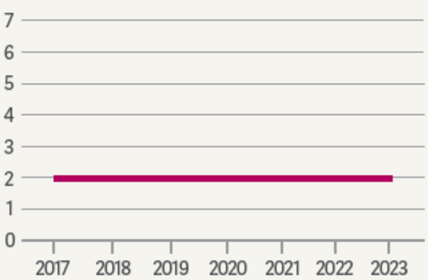
Population: 35 million
GDP, nominal: USD 833,5 billion
GDP/capita: USD 23 507



0 1 2 3 4 5 6 7

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

+ Significant oil and gas reserves
+ Strong government finances
+ Reform plans for the diversification of the economy

Weaknesses

– Strong dependence on oil revenues
– Lack of transparency
– History of weak payment experience among public buyers

An energy-policy superpower

Thanks to large oil and gas reserves, 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 petroleum export is the largest source of growth. In addition to this, the economy is driven by the local manufacturing industry, tourism and the service sector. Since 2014, sharply lower oil prices led to considerable drop in fiscal revenues. Following other countries in the region, the authorities has made several efforts to reduce depence on oil by implementation of fiscal reforms. The authorities have made great progress to diversify the economy, partly thanks to the comprehensive reform programme Vision 2030. Main objects is to modernise the economy, reduce vulnerability to commodity price changes and strengthen the private sector.

For the first time since to fall in oil prices in 2014, both fiscal and current account surpluses are expected in 2022, the International Monetary Fund (IMF) estimates a budget surplus of nearly six per cent of GDP. Public finances are healthy, and the government debt is low at around 30 per cent of GDP (2021). The external position is strong, and the international reserves correspond to more than two and a half years of import coverage. In addition to this, there are extensive assets in oil funds. The country's sovereign wealth fund, the Public Investment Fund, is among the largest in the world. Financial buffers have been built up during decades of current account surpluses. Due to high oil prices and increased production the current account surplus is expected to reach 16 per cent of GDP in 2022. External debt has increased in recent years but remains relatively low at around 30 per cent of GDP. Given its importance to economic stability, the Saudi riyal's peg to the US dollar is expected to remain unchallenged.

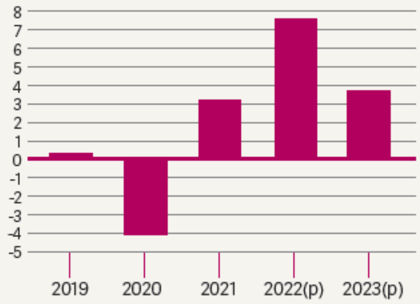
High oil prices benefit the economy

High commodity prices as a consequence of the war in Ukraine have benefited the country's oil-dominated economy. Increased revenues enable the government to invest in economic diversification, as well as increasing activity in the non-oil-related economy. In 2022, the IMF estimates GDP growth of nearly eight per cent, which is one of the highest growth rates among the G20 countries. Despite deteriorating global macroeconomic conditions, growth is expected to be robust. Although the Saudi economy will slow down over the coming years due to a weakening global economic environment, it shows relatively strong economic development. In the short term, the IMF estimates GDP growth of three to four per cent, a continued current account surplus and reduced budget deficit.

The political situation is stable, and Crown Prince Mohammed bin Salman has been Saudi Arabia's strong man since 2015. The Crown Prince is expected to officially take over control from the King shortly. He is Prime Minister, Minister of Defence and responsible for the ongoing socio-economic reform process Vision 2030. Saudi Arabia has undergone structural changes in recent years, partly through projects to realise Vision 2030. The Crown Prince has a strong grip on political power, despite his risky and widely criticised actions in recent years. This includes Saudi Arabia's involvement in regional conflicts, such as the war in Yemen and the previous blockade against Qatar. While tensions between Saudi

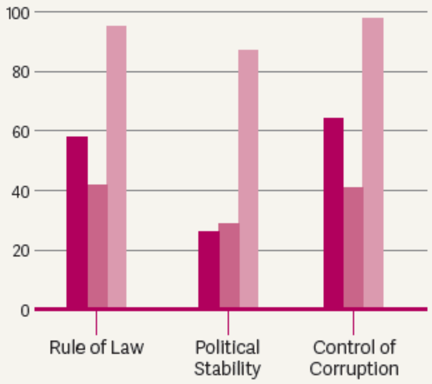
Saudi Arabia

Real GDP growth (constant prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Arabia and Iran will persist, a direct conflict is unlikely.

In the long term, the economic risks are dominated by unrealised structural reforms and new drops in oil prices. The government is investing heavily in attracting foreign investors. Since 2017, foreign direct investments (FDI) have increased, however, they remain at a low level and consist largely of volatile capital in the form of portfolio investments and loans. Saudi Arabia is expected to become a major competitor for foreign investments and to compete with the United Arab Emirates in the future. While the country has succeeded in implementing a number of reforms and the entrepreneurial climate has improved, structural challenges remain. The global trend towards increased use of renewable energy poses a threat 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 activity is high. The country must continue strengthen the business environment, private sector and increase youth employment. The Crown Prince has great ambitions to diversify the economy and financial resources are available, but there is uncertainty about the practical implementation and the timeline.

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 82 a year earlier. The ambition of Vision 2030 is that the country should be among the top 20 countries. Reforms of the capital market and the legal system, as well as investments in small and medium-sized enterprises, will make the country more attractive to foreign investors. 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.

In the World Bank's Worldwide Governance Indicators (WGI), which include various measurements of institutions and the regulatory environment, the country ranks above 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 bank sector is well capitalised and has proven to be resilient in periods of lower oil prices and poorer economic climates. 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. Banks are benefitting from increased revenues and favourable macroeconomic conditions, which has increased liquidity in the sector.

EKN:s policy

Saudi Arabia

Swedish export to Saudi Arabia

	MSEK
2021	10 360
2020	9 569
2019	8 844
2018	8 042
2017	9 191

Source: SCB

EKN:s exposure

	MSEK
Guarantees	3 657
Offers	7 468

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

EKN's guarantees include export transactions to the country in sectors such as telecommunications and machinery. During the period 2018–2022, EKN issued guarantees for 63 transactions with a total value of just over SEK 3.9 billion for Swedish companies exporting to Saudi Arabia. The largest sector in the flow in terms of amounts was telecommunications, but sectors such as machinery and transport are also substantial. 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 promissory notes and bills of exchange have proved to provide effective leverage in the event of payment problems. Payment delays do occur and of the delays that arose between 2017 and 2021, about half have been settled.