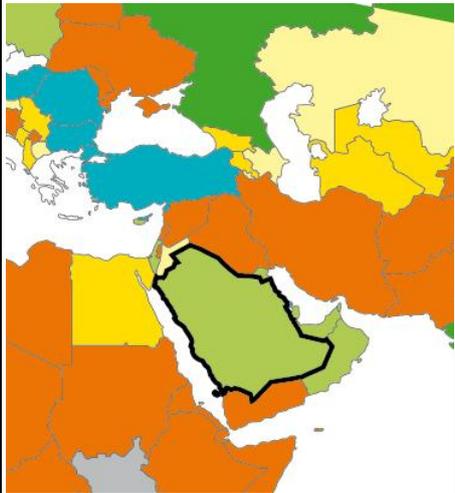
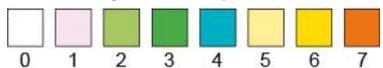


Saudi Arabia

	COUNTRY RISK CATEGORY <h2>2/7</h2> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	EKN'S POLICY Sovereign risks: Normal risk assessment Other public risks: Normal risk assessment Bank risks: Normal risk assessment Corporate risks: Normal risk assessment <p>See "EKN'S POLICY" section</p>
	EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY Short-term transactions: SEK 331 million Medium and long-term transactions: SEK 1,462 million	DATE 14/05/2013

Oil continue to dominate

Saudi Arabia is the world's largest oil exporter and a leading power in OPEC. The revenue from the oil sector is vital for the country's development and a contributing factor to the royal family maintaining their overall political power. Political uncertainty grew in the Middle East in connection with the Arab Spring, but no dramatic changes have occurred or are expected in Saudi Arabia over the coming few years. Sporadic expressions of discontent and protests are occurring, particularly in the Shiite-dominated eastern parts of the country. Police have suppressed these with heavy-handed actions and the likelihood of protests spreading to other regions and posing a threat to the ruling royal family is small. The biggest threat to the ruling royal family is internal fragmentation when power is to be handed over to the younger generation. Economic reforms have gradually opened the kingdom for trade and investment, and Saudi Arabia is a major export market for Swedish companies.

STRENGTHS

- The world's largest oil exporter
- Very strong international reserves, healthy export revenues, low debt
- Well capitalised and sound banking sector

WEAKNESSES

- The issue of succession could create both political and economic instability
- The country is totally dependent on the oil and gas sector, which generates few job opportunities
- The lack of transparency is complicating the risk assessment of companies and public institutions

POLITICS

Centralised political power

All political power rests with the royal family. Both the private business community and public offices are dominated by thousands of princes. That political freedom in the country is heavily suppressed is reflected for example in “The Economist Democracy Index” and the World Bank's “Governance Indicators” where Saudi Arabia ranks very low. Since the royal family's founder, Abdul Aziz al-Saud, died in 1953, all successors have been his sons. The current king, Abdullah, is 89 and over the past 18 months the two crown princes have passed away. Both were in their eighties. The current crown prince Salman is 78. Recently the youngest of founder Al-Saud's sons, Prince Muqrin, 68, was appointed as second Deputy Prime Minister, which basically means that he is in line to become crown prince should anything happen to the current one. This appointment means the royal family has gained time, but a generation change is approaching and there is uncertainty as to how the branches of the family tree that have felt overlooked will respond. In recent years, some of the younger generation (grandchildren of the country's founder) have started to be appointed to important posts in society, including the post of interior minister and commander of the National Guard.

The prospects of the royal family remaining in power are based on the financial capacity that oil gives and on them being able to maintain a unified stance regarding the succession issue. Politics is a combination of carrot and stick, where the enormous wealth paves the way for generous government spending to curb demands for reform while all opposition is suppressed. Regarding the succession issue, the royal family will, sooner or later, be forced to hand over to the next generation, which may create major conflicts and the questioning of the legitimacy of the royal family.

Popular protests, especially in the Shia-dominated eastern parts of the country, have occurred but these are not expected to lead to a threat to the regime in the short term.

A large young population, income disparities and widespread corruption are major challenges for the regime in Riyadh. However, the opposition is weak and divided. In 2011, a huge state-sponsored five-year package of USD 125 billion was launched, with promised investment and higher wages for public employees. However, in the longer term more radical political reforms will be needed in order to maintain political stability.

Generally, transparency in the political process is weak and reforms are limited. The biggest threat to the regime is a split within the royal house which could lead to a power struggle. However, the main scenario is that the current situation continues to prevail over the coming years with power still heavily centred around the royal family.

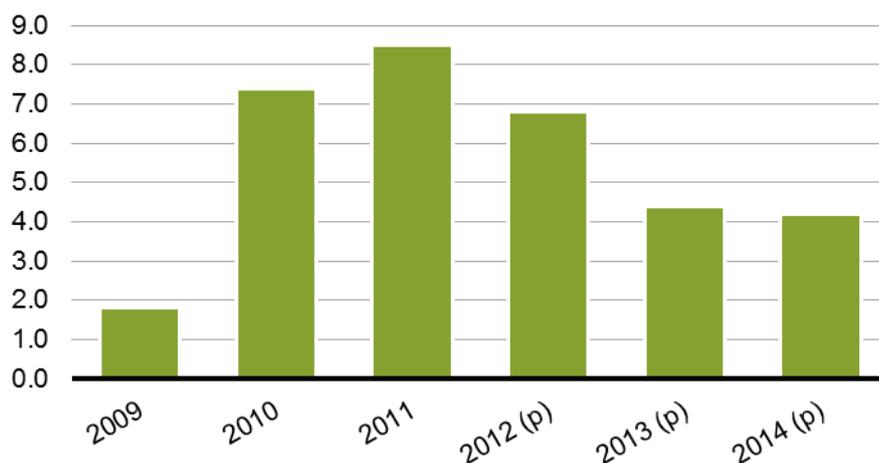
ECONOMY

Focus on oil

Saudi Arabia is a key player in the global oil market and a major power in the oil-producing countries' cooperation body, OPEC. The country is the world's largest oil producer and has vast untapped oil and gas reserves. The income from the oil sector is vital for the country's development and represents 90 per cent of government revenues. Development in the private sector is driven by government stimulus packages and publically funded projects.

Saudi Arabia is expected to maintain positive GDP growth. The trend is falling, but growth is expected to stabilise at around four per cent in the coming years. One reason for the slowing growth rate is lower oil production due to increased production from other countries, and the global slowdown in growth.

GDP GROWTH (% PER YEAR)



A combination of oil production, oil prices and fluctuations in the global economy is affecting growth. Data: IMF.

Oil prices are expected to remain at historically high levels of around USD 100 per barrel in 2013 and 2014, giving Saudi Arabia a good platform to continue its expansionary economic policies. This year's budget has seen spending increase by 20 per cent year on year, which is equivalent to 34 per cent of GDP. The breaking point at which the oil price balances the budget has jumped significantly over the past ten years, from just over USD 20 per barrel to just under USD 80 per barrel in 2012. For 2013 the breaking point is expected to rise to just over USD 80 per barrel, but far below the projected market price of around US 105 per barrel. There is flexibility in the economy, which means that if oil prices were to fall drastically, investments and imports can be corrected relatively quickly. Cost increases in 2011 and 2012 are primarily due to several major initiatives designed to boost employment, raise wage levels and increase house construction. All this is part of the efforts to combat social unrest and protests. The oil sector is the backbone of the economy, but generates few jobs, which is why diversification of the economy is high on the political agenda.

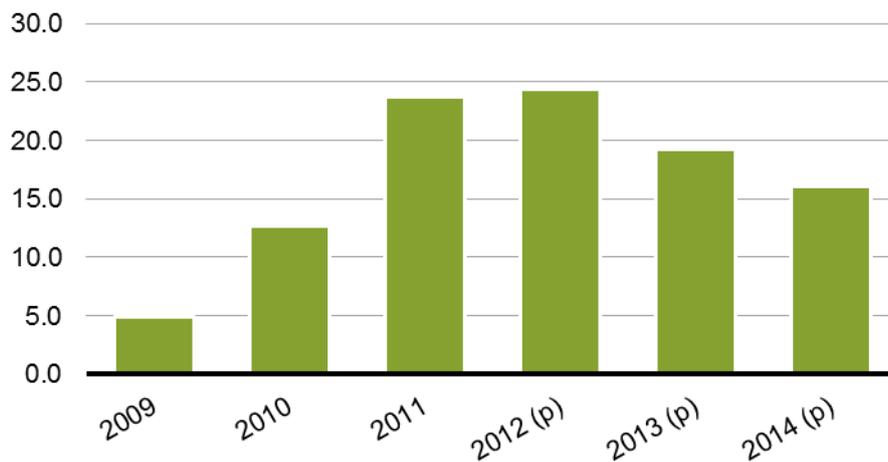
Despite the stimulus packages, inflation has been kept down and is expected to remain around four per cent this year and next. A contributing factor to inflation being kept down has been a greater range of housing with lower rent levels. National debt remains very low, below ten per cent of GDP, which is explained by the strong financial reserves that have been built up in recent years of high oil prices. Overall, Saudi Arabia has good growth, low debt and strong revenue streams. In combination with continued high oil prices, this indicates continued positive economic development, at least for the next three to four years.

BALANCE OF PAYMENTS AND DEBT ISSUES

Low debt and high reserves

Saudi Arabia has enjoyed large current account surpluses for many years. The expected reduction in the surplus in 2013 and 2014 is due to an assumption that import costs will increase more than export revenue. However, the curve is expected to flatten out and a satisfactory surplus can be maintained over the coming years. Thanks to its oil revenue, Saudi Arabia has been able to build enormous international reserves. The reserve amounts to nearly USD 700 billion, which would cover the equivalent of three years of imports of goods and services. Overall, Saudi Arabia has large surpluses in its external balance and low debt, which means that the prospects for payment capacity is good.

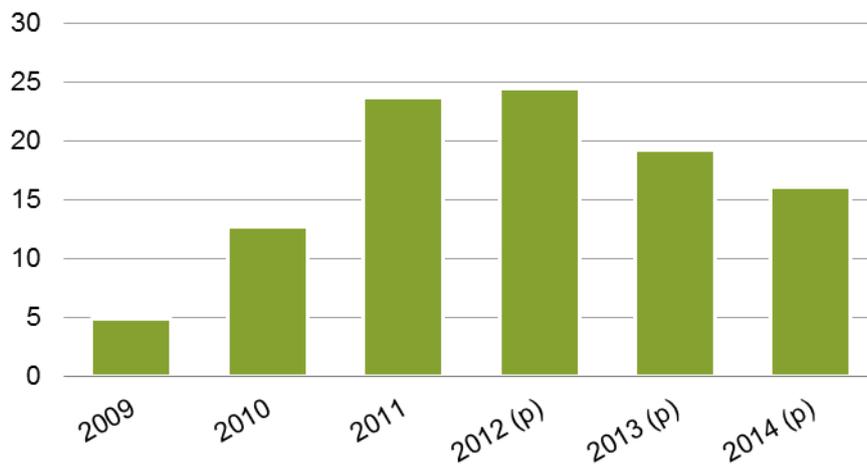
CURRENT ACCOUNT BALANCE (% OF GDP)



Decreasing but still considerable current account balance surpluses. Data: IMF.

The external debt level has risen over the last few years but is still at a low level and consists of loans to the private sector, not to the state. The country's foreign assets exceed liabilities several times. The low debt level poses no threat to the balance of payments.

EXTERNAL DEBT (% OF GDP)



The level of debt is expected to decline again. Data: Datastream.

CURRENCY POLICY

Fully convertible currency

The currency, the Riyal, is pegged to the US Dollar. The exchange rate to the US Dollar is set by the central bank, SAMA, and has been the same since 1986. The fixed exchange rate has been important for market confidence and consequently for foreign investment in the country. Moreover, the exchange rate is backed up by Saudi Arabia's huge international reserves. Nothing indicates that the currency policy will change in the short term. Cooperation within the Gulf countries has begun on future monetary union, but this is many years away. Saudi Arabia is a member of the IMF and has accepted the conditions under Article VIII as early as 1961, which means that there can be no restrictions on payment or transfer of international transactions. The currency can be assessed by EKN in local currency financed transactions.

FINANCIAL SECTOR

Well capitalised and liquid financial sector

The banking system consists of some 20 banks, half of which are foreign. Four banks dominate the sector by jointly accounting for 60 per cent of total assets. The main source of funding by the banks is savers' deposits. Lending is largely down to the private sector. Banks are generally well capitalised. Lending has increased, in the order of 15 per cent for 2012, indicating confidence in the economic development of the country. Thanks to a corresponding increase in savings, lending in relation to deposits is relatively stable, at around 80 per cent. The proportion of bad loans has fallen for several years in a row and is at a low level, at about two per cent. The provisions for bad loans are generous and far exceed 100 per cent. EKN believes that the banking system has the capacity to withstand external surprises, such as falling oil prices.

BUSINESS ENVIRONMENT

Challenges despite few formal barriers

Generally speaking, Saudi Arabia has a high rating in terms of its business climate. The World Bank's "Doing Business Index" puts the country at 22 (out of 185) which is the best in the Middle East and on a par with many OECD countries. This impressive position is due to some weighty factors in the index that give good results, rather than on the current perception of what it is like doing business in the country. Admittedly restrictions have eased since the country joined the WTO in 2005, but a lot remains. Weaknesses include the enforcement of judicial decisions and the management of insolvencies, mainly due to the legal process taking a very long time and where outcomes are uncertain. Widespread bureaucracy and lack of transparency in the legal system pose a risk to foreign parties not being treated equal to the citizens of Saudi Arabia.

Corruption is also widespread which is apparent by Transparency International's "Corruption Perception Index" where the land comes in at 66th place (of 176). In its "Worldwide Governance Indicators" the World Bank ranks Saudi Arabia worst of the six Gulf countries in the Gulf Cooperation Council. EKN has conducted a review of the types of companies and accounting regulations in Saudi Arabia. The summary shows that only two of the six types of company are required to have audited financial statements and publish them, by submitting

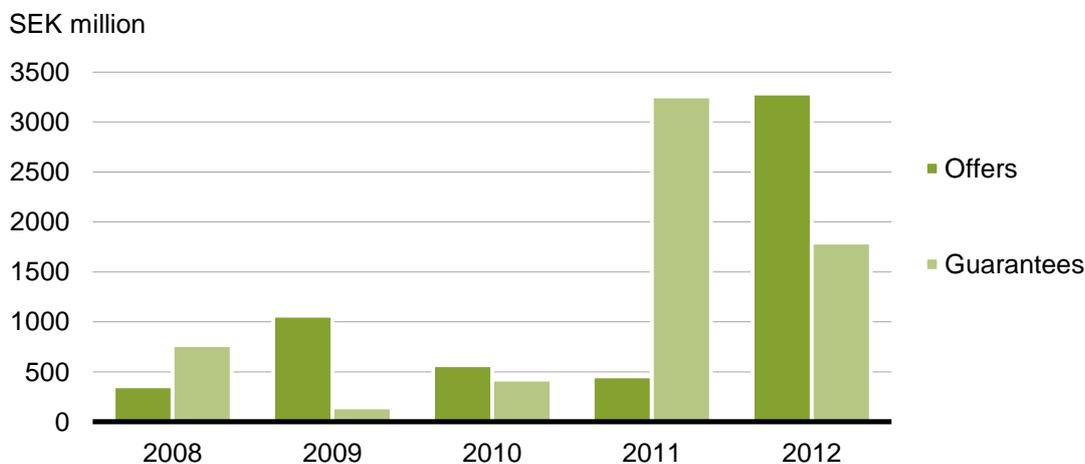
them to the Department of Commerce. Transparency in more companies is consequently generally very small, which may create problems when making credit assessments.

EKN'S EXPOSURE

A few major transactions dominate

EKN's issued guarantees total SEK 1.8 billion and consist of a few major transactions in terms of value. In 2012, guarantees for 22 new transactions were issued, which is in line with the previous year, primarily in the transport and construction sectors.

EKN'S EXPOSURE AT DECEMBER 31, 2012



A few major transactions dominate exposure. Data: EKN.

PAYMENT EXPERIENCE

Delays commonplace

EKN's payment experience comes mainly from the building and construction sector, where delays are common. Often two to three months but even up to two years. However, no indemnification payments have been made. The reason for the delays appears to be a nonchalant payment culture, but cases also occur whereby the buyer, in turn, is waiting for payment from clients in the public sector and therefore delays payment.

EKN's experiences regarding the quality of information also vary. In several instances it has been the case that when the transaction has ended in delay, the apparently strong and locally audited financial statements are inconsistent.

EKN'S POLICY

Unchanged policy

EKN classifies Saudi Arabia in country risk category two, an assessment undertaken in collaboration with the OECD. Saudi Arabia has been in this country risk category since 2005 when the country was upgraded one level. EKN applies standard risk assessment for all buyer categories. For sovereign risk and other public risks the policy is justified by the state's strong

financial position. The banking sector is solid and shows good key ratios. Lack of transparency in terms of authorities and departments as well as in many companies can limit access to financial information.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATING	
Area: 2,149,700km ² (4.8 times Sweden)	COUNTRY CEILING	SOVEREIGN RATING
Population: 26.9 million (2013)	Moody's: Aa3/Stable	Aa3/Stable
Population growth: 2.7% (average 2005-2010)	S&P: AA+	AA-/Stable
GDP: USD 597 billion in 2011 (Sweden USD 544 billion in 2011)	Fitch: AA	AA-/Positive
GDP/capita: USD 21,196 in 2011 (Sweden USD 57,638 in 2011)		

COUNTRY ANALYST

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Victor Carstenius

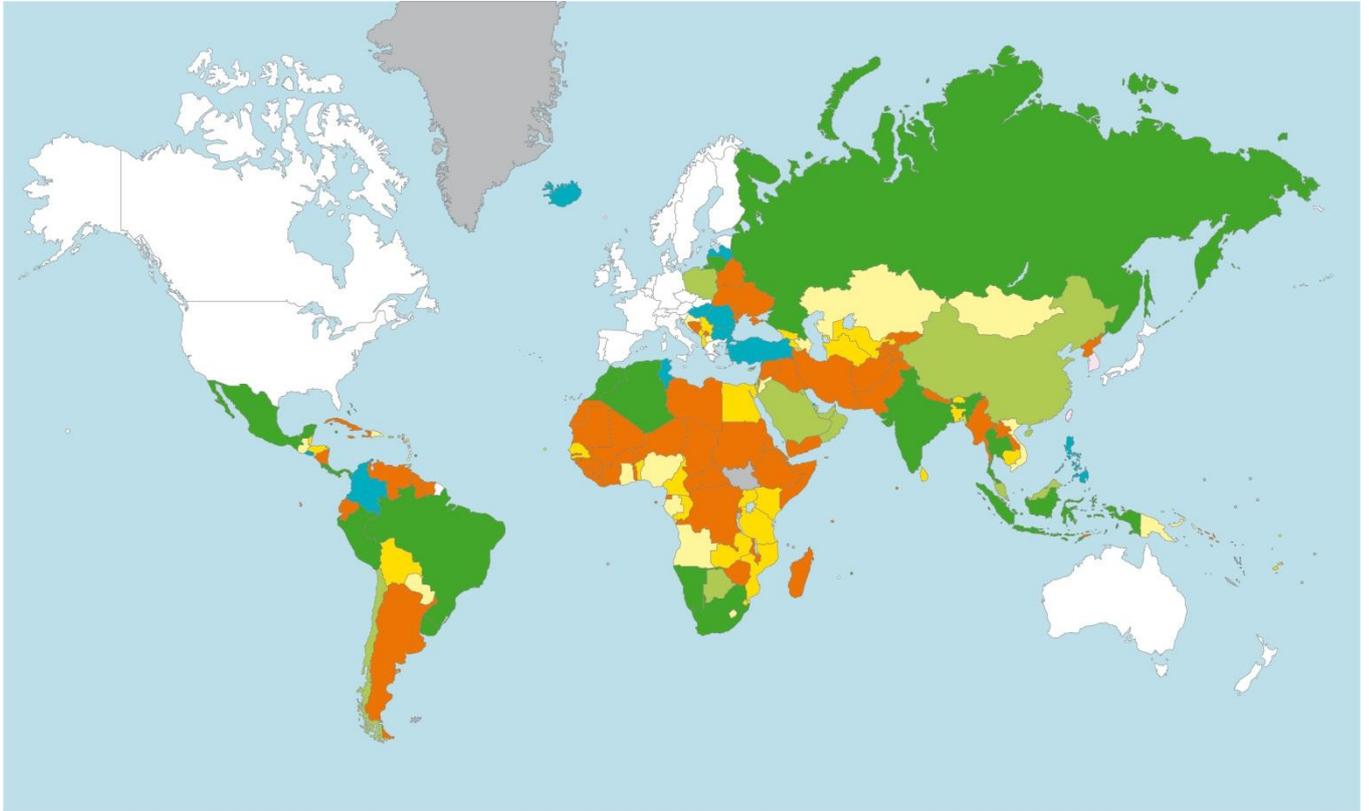
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DISCLAIMER

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damages.

EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.

**EKN – CREATING CONFIDENCE IN YOUR EXPORTS**

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

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