

Saudi Arabia

Country Report

Economic and Financial Research Department
Telef. 21 310 11 86 | Fax: 21 353 56 94 | Email: deef@bancobpi.pt

July 2016

Country Snapshot

Government

Head of State	King and Prime Minister Salman bin Abd al-Aziz Al Saud (since January 23, 2015)
Ruling political coalition	-
Main opposition parties	-
Elections	Absolute monarchy
	None, the monarchy is hereditary.

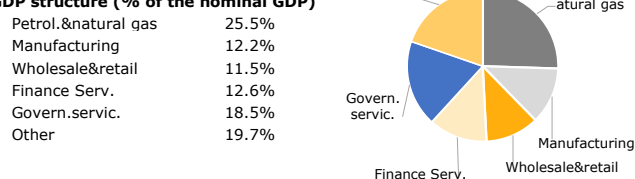
Demographics and social indicators

Population	27.8 million (CIA 2015 est.)
Main Language	Arabic (official)
Life expect. at birth	75.05 years old (CIA est. 2015)
Literacy %(adults>15)	94.7% (CIA 2015 est.)
Urban population	83.1% (CIA 2015)

Economic structure

GDP in USD	USD 746.2 bn (2014)
GDP per capita	USD 20,812.6 (2015)

GDP structure (% of the nominal GDP)



1980-89 1990-99 2000-09 2010-15

Real GDP growth*	-2.1%	3.6%	3.5%	5.0%
------------------	-------	------	------	------

* Average growth rates from the WEO (IMF)

Trade Structure - Main partners by destination/origin

Exports		Imports	
	% of total		% of total
China	17.6%	China	12.1%
US	13.6%	US	11.0%
India	12.5%	Germany	7.0%
Korea, Republic of	11.4%	Korea, Republic of	4.9%
Singapore	4.6%	United Kingdom	4.0%

Source: ITC (2014; mirror data)

Trade structure - Top product groups

Exports		Imports	
	% total		% total
Mineral fuels, oils, distillate	75.9%	Machinery, nuclear reactor	16.2%
Plastics and articles thereof	7.5%	Vehicles other than railway	15.2%
Organic chemicals	5.1%	Electrical, electronic equipment	11.8%
Ships, boats and other floating craft	1.2%	Pearls, precious stones, metals	3.5%
Aluminium and articles thereof	1.0%	Articles of iron or steel	3.5%

Source: ITC (2014)



Country Rating

	Rating	Last change	Outlook
S&P	A-	May.2016	Stable
Moody's	A1	Feb. 2016	Stable
Fitch	AA-	Apr.2016	Negative

Business Development Indicators

Last update

Global Competitiveness Index	
Ranking 25 (out of 140 countries)	2014-15
Ease of Doing Business	
Ranking 82 (out of 189 countries)	2016
Human Development Index	
Ranking 39 (out of 188 countries)	2015
Corruption Perception Index (Transparency.org)	
Ranking 48 (out of 168 countries)	2015

General assessment

Strengths	Weaknesses
<ul style="list-style-type: none"> Large oil and gas reserves and strategic importance, given the high spare capacity in oil production; Solid fiscal and external positions; Good position in the indices that evaluate the business environment. 	<ul style="list-style-type: none"> High dependence on hydrocarbon and still limited economic diversification; High unemployment rate among the Saudi population; Regional tensions.

Outlook and Risks

- A GDP slowdown is expected in 2016 as fiscal spending begins to adjust to the lower oil prices environment, the economy is expected to grow 1.2%, due to the deceleration of activity in both the oil and non-oil private sector.
- Main risks to the economic growth stands on the evolution of oil prices, slowdown in domestic reform agenda and the escalation of regional tensions, which undermines confidence and investment, reducing FDI inflows.

Key Macroeconomic Indicators

	Source	2012	2013	2014	2015E	2016F	2017F
GDP (real % change)	WEO; IMF	5.4%	2.7%	3.6%	3.4%	1.2%	1.9%
Real hydrocarbon GDP (% change)	IIF	5.1%	-1.6%	2.1%	3.1%	2.0%	2.0%
Real non hydrocarbon GDP (% change)	IIF	5.6%	6.2%	4.8%	3.6%	1.0%	1.6%
Nominal USD bn	WEO; IMF	734.0	744.3	753.8	653.2	618.3	659.7
Nominal in bn of Local Currency (Riyal)	WEO; IMF	2,752.3	2,791.3	2,826.9	2,449.6	2,318.5	2,473.7
CPI (% change, anual avg.)	WEO; IMF	2.9%	3.5%	2.7%	2.2%	3.8%	1.0%
Unemployment rate	IIF	12.1%	11.7%	11.7%	12.0%	12.0%	12.0%
Trade balance (USD bn)	IIF	246.6	222.5	184.0	47.3	22.5	50.9
Exports of Goods (USD bn)	IIF	388.4	375.9	342.5	202.3	167.7	196.4
Imports of Goods (USD bn)	IIF	141.8	153.4	158.5	155.0	145.2	145.5
Services, net (USD bn)	IIF	11.0	11.8	12.5	14.5	14.9	15.5
Current account balance (% GDP)	WEO; IMF	22.4%	18.2%	9.8%	-6.4%	-10.2%	-6.1%
Fiscal balance (% of GDP)	WEO; IMF	12.0%	5.8%	-3.4%	-16.3%	-13.5%	-11.8%
Public Debt (% of GDP)	WEO; IMF	3.6%	2.2%	1.6%	5.8%	17.2%	25.8%
External Debt (millions USD)	IIF	88.5	85.1	88.8	101.0	126.0	142.5
% GDP	IIF	12.0%	11.4%	11.8%	15.4%	19.6%	20.5%
USD/Din (period average)	IIF	3.75	3.75	3.75	3.75	3.75	3.75
International Reserves (USD billion)	Article IV; IMF	647.6	716.7	724.3	659.8	616.6	583.5
Months imports goods and services	Article IV; IMF	33.8	34.1	36.3	32.4	28.8	26.0

Sources: Macroeconomic forecasts from the IMF and IIF.

An economy significantly dependent on hydrocarbons

According to CIA data, Saudi Arabia has the 6th largest reserves of natural gas in the world and the 2nd largest oil reserves. Proven reserves of oil and natural gas are of, respectively, 268.3 billion barrels and 8.235 trillion square meters. The Saudi oil reserves represent 16% of proven reserves in the world. In the Saudi economy, the oil sector accounts for 42% of the GDP and 90% of export revenue. Also, its activity contributes with about 80% of public revenue. It is the largest oil exporter in the world (it produces 7.658 million barrels per day) and plays a key part in the OPEC, due to its large production capability, which allows the country the use of some discretion as to the quantities being sold and produced by them. In the last decade, daily production capabilities amounted to 2.6 million barrels per day.

Growth slows down in 2016 due to the fall in oil prices

In 2015, Saudi Arabia's GDP increased 3.4%, at the same pace as in 2014. Growth was mainly driven by the non-oil private sector, which contributed with 1.5 percentage points (p.p.) to the expansion, followed by the oil sector (1.3 p.p.) and the public non-oil sector (0.6 p.p.). However, information already available about this year indicates a likely slowdown of economic growth, mostly due to a fall in non-oil activity. This drop is, on its turn, mainly caused by the decrease in oil prices, due to the dependence of the private sector from the oil sector. In light of the perspective of lower oil prices for a longer period in the near term, expectations are for the rhythm of economic growth to decline towards 1.2% in 2016, according to the IMF. Also a set of fiscally restrictive policies should equally be a burden on economic activity, leading to a more moderate pace in GDP growth.

2015 saw second fiscal deficit in a row since 2009

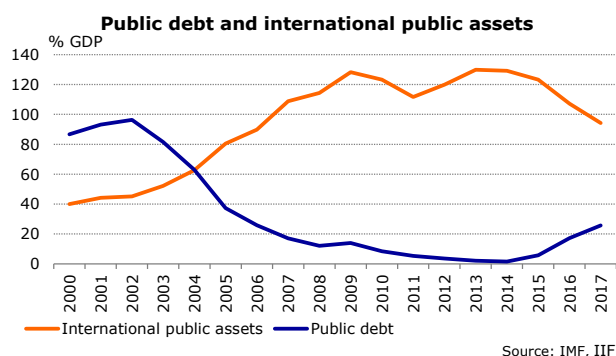
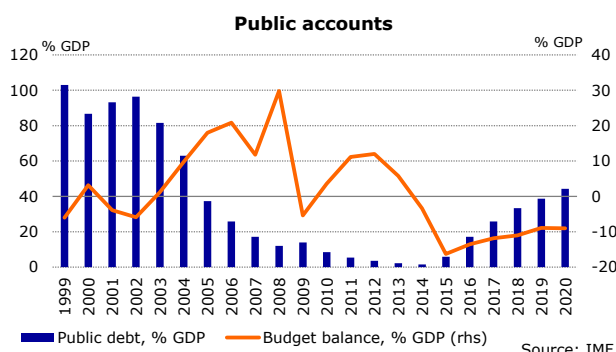
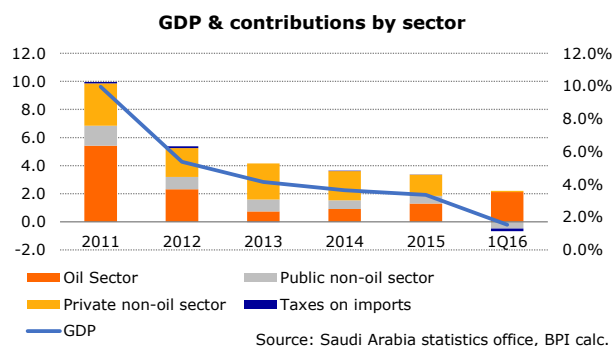
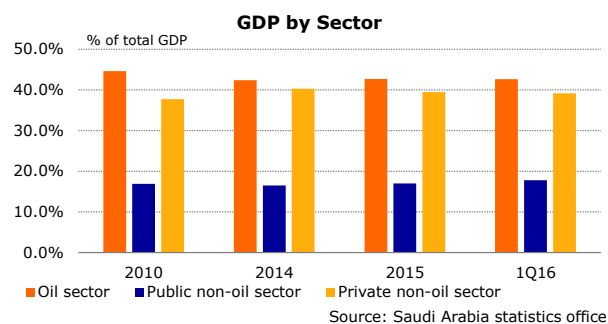
The significant weight of the hydrocarbon sector in the Saudi economy meant that a lower oil price caused an imbalance in the country's budget. In 2014, Saudi Arabia posted the first fiscal deficit since 2009, of 3.4% of the GDP, a situation severely worsened in 2015, as the budget balance was below -16% of the GDP. To face this problem, the government was forced to adopt a strongly restrictive fiscal policy, with a 15% decrease of public spending last year (16% of predicted decline in 2016). In comparison, public expenditure had increased at an average annual rate of 12% from 2001 to 2014. Among other measures, public investments were postponed, public wages were reduced, and subsidies to energy, fuel and water consumption were reduced. On the revenue side, fiscal revenues are expected to rise through an increase in taxes (namely on luxury goods, tobacco and beverages) and commissions on services provided by the public sector. The result of this fiscal deterioration was an increase in public debt, which is nevertheless still in relatively low level. Due to all these developments, it is worth noticing a downgrade of the country's rating from Aa3 to A1 by Moody's, although the agency expects the government to take action in diversifying the Saudi economy from oil. The executive has presented last April a document called Vision 2030, which contains the National Transformation Programme (NTP), which aims at economic diversification. Its main objectives are stated in the table next to the text. Other goals include the development of religious tourism: increase the number of muslim pilgrims from 8 to 30 million per year (both main cities for the Islamic world, Mecca and Medina, are in Saudi Arabia). Also, in May, an economic reforms package was approved, with the goal of reducing the weight of the state in the economy and also spur the labour market.

Current account with a deficit in 2015

2015 saw the first deficit in the external balance since 1998, mainly due to the lower oil prices in international markets, again together with the Saudi dependence on oil. Last year, the current account posted a deficit of USD 53.5 billion, result of the 74% reduction on the trade balance surplus, which in turn was caused by the 41% decrease in exports. Indicators on the first quarter of this year point towards a continuation of this trend: in that period, the current account deficit amounted to USD 18 billion; the deterioration of the trade balance is the main reason for this result. Still, foreign international reserves are still at a very comfortable position, accounting for 32 months of the country's imports.

Unemployment still very high

The level of unemployment in Saudi Arabia is very high, with the unemployment rate for Saudi Arabians in 2015 staying at 36.2%. Including foreign residents, the general unemployment rate was 12% in 2015. Therefore, it is one of the goals of the NTP to reduce this rate to 9% in 2020. In order to achieve this, the programme includes cancelling the access of foreigners to various sectors in the labour market, such as telecommunications and retail. In addition, the costs of hiring foreign labour will be higher.



Vision 2030 objectives

	2015	2030
Private sector, % of GDP	40%	65%
SME's, % of GDP	20%	35%
Gas production, billions of m3	108	216
Non-oil revenue		
million SAR	163	1,000
% of GDP	6.7%	16.8%
Non-oil exports, % of non-oil GDP	16%	50%
FDI, % of GDP	3.8%	5.7%
Unemployment rate	11.6%	7.0%
Domestic purchases of oil services, % of oil serv. purchases	40%	75%
Domestic military spending, % of military purchases	2%	>50%

Fonte: IIF