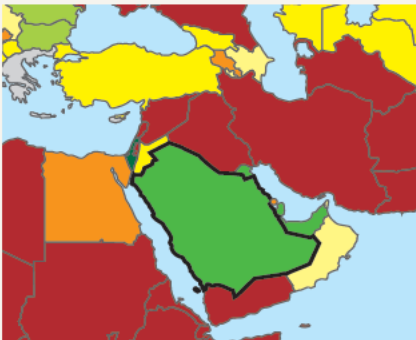


Basic facts (2023)

Population: 23 million

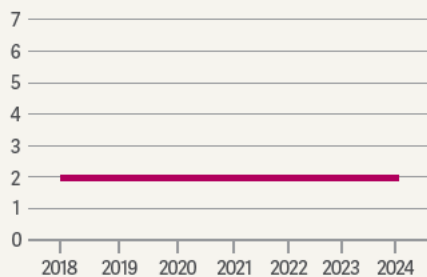
GDP, nominal: USD 1 180 billion

GDP/capita: USD 34 441



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

- Continued extensive dependence on oil revenues
- Lack of transparency
- Weak willingness to implement more stringent budgets and deteriorating payment behaviour in the public sector

An energy-policy superpower

Thanks to its vast reserves of oil and gas, Saudi Arabia currently boasts the world's 17th largest economy, is a member of the G20 and is an energy-policy superpower. Saudi Arabia is the world's largest oil exporter, with the oil and gas sector accounting for around 40 per cent of GDP and 60 per cent of government revenue, albeit down from 90 per cent a decade ago. Projected oil prices over the coming years are expected to fund the country's ambitious diversification strategy, Vision 2030, which aims to increase the contribution of the non-energy-sector to the country's GDP. With fossil fuels expected to constitute a declining percentage of global energy consumption, the ambition is to reduce the vulnerability of the economy to fluctuations in oil price and strengthen long-term growth capacity. Reforms over recent years have led to significant advances in social rights, with the aim of making the country more attractive to both capital and labour.

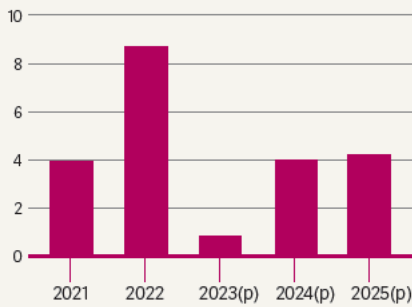
Saudi Arabia's country risk category is based on its well-established leading role in OPEC+ and production capacity, which allows the country to increase or decrease supply relatively quickly, thus influencing global oil prices. Public finances are sound and government debt is low, at around 30 per cent of GDP (2021). The external position is strong and international reserves correspond to almost two and a half years of import coverage. In addition to this, there are extensive assets in oil funds. The Public Investment Fund, the country's sovereign wealth fund, is among the largest in the world and has been tasked with leading the country's Vision 2030 strategy by establishing new businesses in key sectors and implementing and leading a number of high-profile diversification projects. Should these prove successful, with the aid of private investment the planned diversification of the economy may increase structural growth in non-oil-based sectors of the economy. Financial buffers have been built up during decades of current account surpluses, with the exception of during the pandemic. Thanks to high oil prices and an anticipated increase in production from 2024 onwards, the current account surplus is expected to be just over 5 per cent of GDP during the period 2023–2025. While external debt increased during the pandemic, it has since decreased to approximately 25 per cent of GDP. The Saudi currency is pegged to the US dollar and there is little reason to expect this to change in the foreseeable future given the country's strong external financial position and the stability of the exchange rate arrangement since the mid-1980s.

High oil prices benefit the economy

GDP growth is expected to slow to around 0.8 per cent during 2023 due to already decided cuts in oil production, before rising to an average 3.6 per cent per annum during the period 2024–2026. The services sector is expected to perform strongly over the same period, supported by social liberalisation and increased female participation in the workforce. According to the World Bank, female participation in the workforce reached 29 per cent in 2021, an increase of just under 8 percentage points compared to a decade earlier. While public investment is expected to increase over the coming years in order to implement Vision 2030, thus contributing to growth. In the assessment of credit ratings

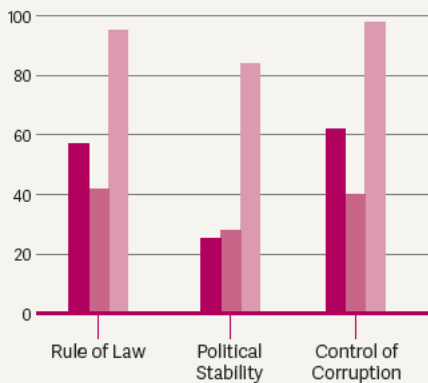
Saudi Arabia

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Saudi Arabia
■ The Middle East and North Africa
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Saudi Arabia

	MSEK
2022	13 330
2021	10 360
2020	9 569
2019	8 844
2018	8 042

Source: SCB

EKN:s exposure

	MSEK
Guarantees	3 179
Offers	7 961

agency Fitch, the government should still be able to balance the budget at an average oil price of USD 76 per barrel during this period.

The domestic political situation is stable and the country's system of government, a centralised monarchy, is expected to remain unchanged. In September 2022, the post of prime minister was formally passed from the King to 39-year-old Crown Prince Mohammad bin Salman, further consolidating his position as heir to the throne. A recent agreement brokered by China has resulted in the normalisation of diplomatic relations between Iran and Saudi Arabia, which should serve to decrease tensions in the region, even if proxy conflicts such as the one in Yemen seem likely to continue. It is also reckoned that Saudi Arabia and Israel will reach agreement on establishing normal diplomatic relations within the next few years.

The long-term risk is dominated by a failure to implement structural reforms or a significant acceleration in the global green energy transition that the Saudis' economic transition fails to keep pace with. Regional geopolitical tensions will also continue to pose risks for the foreseeable future. Continued tension between Iran and Saudi Arabia could have a negative impact on the Saudis' ability to produce and/or export oil, especially through the Strait of Hormuz.

Business environment

The World Bank's Ease of Doing Business Index ranks Saudi Arabia 62nd out of 190 countries ranked in 2020, which is a major improvement on the previous year when the country was ranked 82nd. In Transparency International's Corruption Index 2022, Saudi Arabia ranks 54th out of 180 countries, which is among the better rankings in the region. Saudi Arabia ranks low in Freedom House's 2022 rating of access to political rights and civil liberties, especially in the former category.

The country has made progress in the World Bank's Worldwide Governance Indicators (capacity of institutions and the overall business environment) with the country being placed above the region average as a whole but still significantly below the highest ranked country in the region, its neighbour the United Arab Emirates. The weaknesses are primarily the enforcement of court judgements and management of insolvency, mainly because legal processes are time consuming, and outcomes remain uncertain. In 2021, Saudi Arabia enacted new legislation on dealing with commercial disputes, with the aim of

streamlining proceedings and generally adapting national legislation to international praxis. Saudi Arabia and the United Arab Emirates have been competing to attract foreign capital and labour for a number of years now, and this competition can be expected to gradually improve the overall business environment in both economies.

The Saudi banking sector is well-developed with a modern regulatory framework and adequate supervision by the Saudi Central Bank (SAMA). The sector is well capitalised and has demonstrated resilience during periods of declining oil prices with liquidity support from the Central Bank. The percentage of non-performing loans has returned to the pre-pandemic level of just under 2 per cent, and banks are generally well-equipped to withstand credit losses. The sector can be expected to benefit from the planned diversification of the economy over the coming years, which will reduce exposure to the energy sector.

EKN's policy

The Swedish Export Credit Agency (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 in the same category since 2005 when the country was upgraded one level. Normal risk assessment applies to all debtor categories except corporate. This means that there are no predetermined limitations in the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions.

In previous economic downturns, payment experience deteriorated noticeably. For this reason, an increased premium rate is applied for certain corporate risks. EKN is also aware of increased payment problems in the aftermath of the oil price collapse of 2014. These problems were derived from the government's inability to adjust public spending in an orderly manner, as well as a failure of willingness or capacity to make payments.

EKN's commitment and experience

EKN's guarantees include export transactions to the country in sectors such as telecommunications and energy. 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. In terms of total amount, telecommunications were the largest sector. EKN's payment experience is mixed. After the global oil price collapse in 2014 and the subsequent decline in public finances, there was a deterioration in payment behaviour among public-sector buyers. During 2015, government agencies began to accumulate overdue payments to contractors, who in turn delayed payments to foreign suppliers. EKN has mainly experienced payment problems in the construction and transport sectors. These buyers tend to have to wait for payment from the public sector, and in turn delay payment to their foreign suppliers. Willingness to pay can sometimes be called into question when it becomes necessary to prioritise which suppliers to pay.

These problems point to the government's inability to adjust public spending in an orderly manner and at times a declining willingness to pay. Arrears on the part of Saudi government agencies have occurred during previous drops in the price of oil. In many cases, local promissory notes and bills of exchange have proved to be effective leverage in the event of payment problems. Indemnifications (cases in which EKN compensates an exporter for non-payment) do occur and approximately half of the indemnifications incurred between 2017 and 2021 have thus far been recovered.

Sustainability analyses of transactions with Saudi Arabia often focus on labour and working condition aspects of the individual transaction or project. Generally speaking, the country ranks low in international comparisons of civil and political rights, making it difficult to collect data and make independent assessments. Reforms have been implemented over recent years to strengthen the rights of women and migrant workers and, while challenges remain, this is a positive development. In the case of major projects, EKN has set and followed up requirements to maintain international sustainability standards.