

Highlights of the Sovereign Rating on the Kingdom of Saudi Arabia

Rating Results

Long-term Local Currency: AA_i

Long-term Foreign Currency: AA_i

Outlook: Stable

Previous Results

Long-term Local Currency: AA_i+

Long-term Foreign Currency: AA_i+

Outlook: Stable

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Rating Opinions

United Ratings has downgraded the long-term local and foreign currency ratings of the Kingdom of Saudi Arabia (hereinafter, "Saudi Arabia") from AA_i to AA_i, with Stable outlook. Due to the substantial drop in the crude oil price, Saudi Arabia's fiscal deficit is soaring and the government debt burden sees rapid increase. Besides, the country is involved in regional conflicts, which is increasing its external security risk. In the short run, the country's economy will continue to slide downward, while in the medium run, no obvious recovery tendency is foreseen. The effects of its grand structural reform are yet to be observed. To sum up, the payment ability of the Saudi Arabian central government in both local and foreign currencies is declining.

Reasons for Downgrading Ratings

- The plummeting oil price leads to drastic increase in the country's fiscal deficit, and thus a rapid rise in the government debt.
- Saudi Arabia's proactive foreign policies will bring the country into geopolitical conflicts, while border clashes will increase its external risk.
- The succession of state power has been accomplished, but uncertainties remain regarding future power shift within the royal family.
- In the short run, the country's economy will keep going downward, while in the medium run, the recovery trend is not obvious.
- Risks of the banking sector will rise due to the policy of Riyal pegging to US dollars.
- The deficit of current account will increase, but the country will maintain its ability to pay off foreign debt thanks to its huge international reserves, the scale of which, however, will decline greatly.

Outlook

In the short run, the influence of the external security risk and the global trend of oil price to the fiscal revenue of Saudi Arabia will become a point for observation. The pressure on public finance will stay

at a high level, domestic economy will step into depression, and the deficit of current account will continue. But the strong fiscal and international reserves will support the country's local and international solvency. In conclusion, United Ratings affirms the outlook for Saudi Arabia's long-term local and foreign ratings in 1-2 years at Stable.

Key Indicators of the Sovereign Rating for the Kingdom of Saudi Arabia

	2011	2012	2013	2014	2015	2016 ^f
GDP (billion USD)	669.5	734.0	744.3	753.8	646.0	665.0
GDP per capita (USD)	23,910.0	25,400.0	25,630.0	25,420.0	21,260.0	21,360.0
Real GDP Growth Rate (%)	10.0	5.4	2.7	3.6	3.5	1.3
Inflation rate (%)	3.9	2.9	3.5	2.7	2.2	4.7
Total lending/GDP (%)	56.3	57.4	63.6	70.3	89.1	90.0
Domestic credit growth (%)	-4080.6	-171.3	21.4	122.7	904.6	65.0
M2 Growth (%)	13.3	13.9	10.9	11.9	2.6	-0.6
Budget balance of governments/GDP (%)	11.6	13.6	6.5	-2.3	-15.0	-13.1
Primary balance of governments/GDP	11.4	13.4	6.3	-2.5	-15.2	-13.3
Public debt/GDP (%)	11.2	9.5	9.4	9.2	15.0	30.8
Current-account balance/GDP (%)	23.7	22.4	18.2	9.8	-8.3	-8.6
Total foreign debt/GDP (%)	17.6	19.1	20.9	22.0	26.3	30.2
Total foreign debt/Current-account (%)	9.8	11.3	13.1	15.1	24.4	37.8
Short-term foreign debt/Total foreign debt (%)	45.6	45.3	44.0	42.6	40.8	35.1
International reserves/Total foreign debt (%)	460.2	469.8	466.0	440.8	363.1	275.7
Gross external financing requirement/GDP (%)	-16.7	-14.5	-9.0	0.0	20.2	20.0

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.