SAUDI ARABIA

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COUNTRY REPORT

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Al Jubayl
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Al Hufuf
Qatar
Medina
Yanbu' al Bahr
Riyadh
Egypt
U.A.E.
Jiddah
Mecca
At Ta'if
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Sudan
Red Sea
Oman
Jizart
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Eritrea
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KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	King Salman 60%
FIVE-YEAR	*Younger Al-Saud 70%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	High	A-	B	B+
FIVE-YEAR	Moderate	A-	B+	A-

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	2.4	1.9	57.04
2023(F)	0.7	2.5	63.70
2024-2028(F)	3.4	2.1	38.60

CRUCIAL JUNCTURE FOR VISION 2030

Russia's invasion of Ukraine in early 2022 has produced significant benefits for Saudi Arabia and its *de facto* ruler, Crown Prince Mohammed bin Salman (MBS), whose leadership was lent added weight by his formal appointment as prime minister in September 2022. The threat of disruptions to global energy supplies sent oil prices soaring, producing a massive economic windfall for the kingdom. At the same time, the west's strategy of isolating Russia and rapidly reducing Europe's dependence on Russian energy supplies has eased diplomatic tensions with the US and the EU that posed an obstacle to the success of MBS' signature Vision 2030 economic diversification program.

Yet another potential boon for the Vision 2030 agenda came in April 2023, when Saudi Arabia and Iran announced plans to resume diplomatic relations under an agreement brokered by China. To the extent that the rapprochement reduces the risk of a regional military conflict, it is inarguably beneficial from the perspective of Riyadh's diversification strategy, which depends heavily on ensuring a favorable climate for foreign investment.

The Saudi government is also exploring a possible normalization of diplomatic ties with Israel under the auspices of the so-called Abraham Accords, creating the potential for a permanent reshaping of the diplomatic landscape of the Middle East. However, Riyadh has conditioned a détente with Israel on US security guarantees, the lifting of restrictions on arms sales to the kingdom, and assistance in the development of Saudi Arabia’s civilian nuclear program.

Although US President Joe Biden might leap at the opportunity to push back against Chinese influence in the region, convincing Riyadh’s critics in the US Congress to overlook the Saudi regime’s human rights issues could be a tough sell. Moreover, it seems highly unlikely that the US, Israel, and the broader international community will view a nuclear-capable Saudi Arabia as a fair trade for Riyadh’s acknowledgment of Israel’s right to exist.

Saudi Arabia has also made clear that normalization of relations with Israel will require concessions from the latter related to the Israeli-Palestinian conflict, a very dim prospect given the far-right leanings of Prime Minister Benjamin Netanyahu’s coalition government. Indeed, security conditions in the West Bank have deteriorated significantly over the past year, creating the potential for an escalating cycle of violence that could undermine the broader US effort to promote reconciliation between Israel and its Arab neighbors.

Vision 2030 has reached the midpoint of its timeline (having been unveiled by MBS in 2016), and the achievements to date are mixed. The failure to achieve a sustained increase in FDI has limited the progress of efforts to boost the private-sector contribution to GDP. More positively, the share of the budget financed by non-oil revenue increased from just 10% in 2017 to more than one-third last year. Non-oil revenue has continued to rise in 2023, but not fast enough to prevent a parallel decline in oil income from pushing the budget balance back into deficit following the first surplus in more than a decade in 2022.

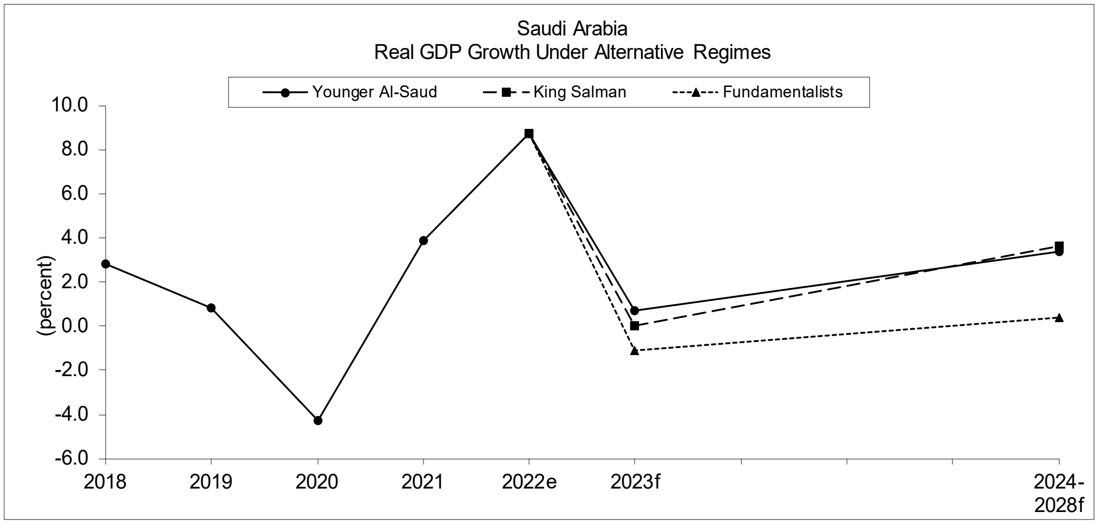
Officials were counting on steady non-oil expansion to sustain overall real GDP growth of 3%–4% this year, but with the extension of OPEC+ production cuts through the end of the year ensuring a sizeable contraction of oil-sector GDP, the government recently slashed its forecast for overall real GDP growth in 2023 to near zero. The near-term outlook for the non-oil sector is considerably more favorable, which suggests that the revised official growth forecast could be overly pessimistic.

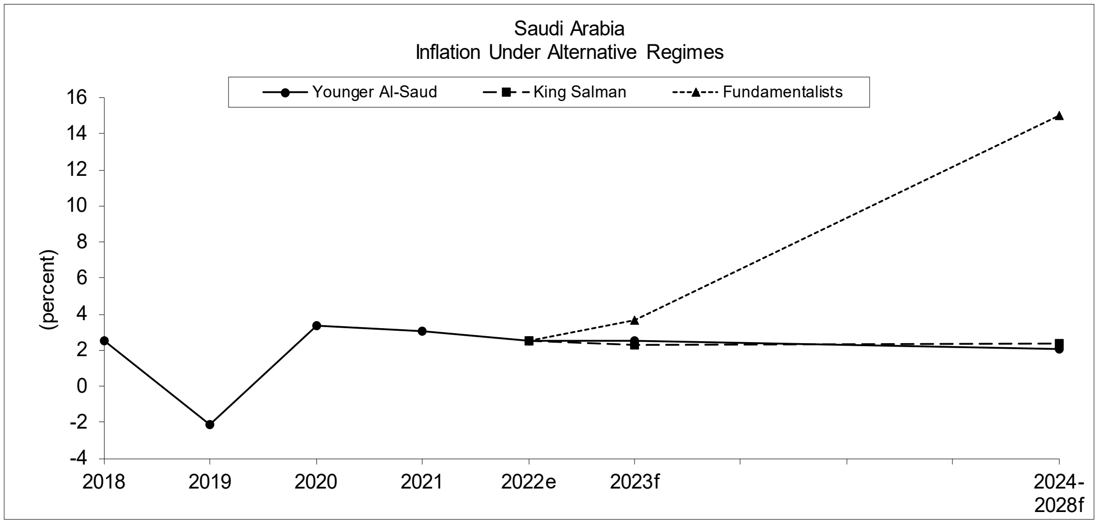
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Younger Al-Saud			King Salman			Fundamentalists		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	0.7	2.5	63.70	0.0	2.3	51.40	-1.1	3.7	39.50
2024-2028	3.4	2.1	38.60	3.6	2.4	48.90	0.4	15.0	8.70

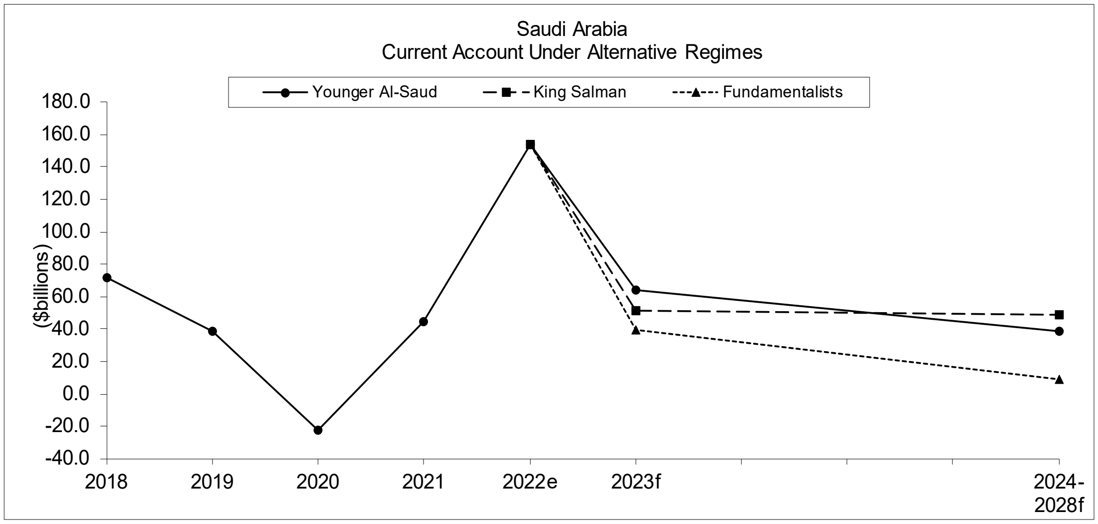
REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		King Salman 60%	Younger Al-Saud 35%	Fundamentalists 5%
RISK FACTORS	**CURRENT**			
Turmoil	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	MUCH MORE
Investment				
Equity	Moderate	SLIGHTLY LESS	Same	MUCH MORE
Operations	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	MUCH MORE
Taxation	High	Same	Same	MORE
Repatriation	Low	Same	Same	MORE
Exchange	Low	Same	Same	SLIGHTLY MORE
Trade				
Tariffs	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	MORE
Other Barriers	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	MORE
Payment Delays	Moderate	Same	Same	SLIGHTLY MORE
Economic Policy				
Expansion	High	SLIGHTLY LESS	Same	SLIGHTLY MORE
Labor Costs	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	MORE
Foreign Debt	Low	Same	Same	Same
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*Younger Al-Saud 70%	King Salman 25%	Fundamentalists 5%
RISK FACTORS	**BASE**			
Turmoil	Moderate	Same	Same	MORE
Restrictions				
Investment	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	MORE
Trade	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	MORE
Economic Problems				
Domestic	Moderate	Same	Same	MUCH MORE
International	Low	Same	Same	MORE

* When present, indicates forecast of a new regime


Saudi Arabia
Real GDP Growth Under Alternative Regimes
Younger Al-Saud
King Salman
Fundamentalists
(percent)
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Saudi Arabia
Inflation Under Alternative Regimes
Younger Al-Saud
King Salman
Fundamentalists
(percent)
16
14
12
10
8
6
4
2
0
-2
-4
2018
2019
2020
2021
2022e
2023f
2024-2028f


Saudi Arabia
Current Account Under Alternative Regimes
Younger Al-Saud
King Salman
Fundamentalists
($billions)
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
-20.0
-40.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

Saudi Arabia
Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	714.19	879.17	753.86	766.61	669.49	666.00	714.99
Per Capita GDP ($)	22727	25160	25179	24906	21213	20632	21706
Real GDP Growth Rate (%)	2.8	2.4	2.9	4.0	4.7	2.4	-0.1
Inflation Rate (%)	1.6	1.9	3.5	2.2	1.2	2.1	-0.8
Capital Investment ($bn)	181.26	204.73	176.91	191.09	196.53	170.55	171.23
Capital Investment/GDP (%)	25.5	23.2	23.5	24.9	29.4	25.6	24.0
Budget Revenues ($bn)	210.68	258.63	307.62	277.58	163.57	138.66	165.95
Budget Revenues/GDP (%)	29.1	29.3	40.8	36.2	24.4	20.8	23.2
Budget Expenditures ($bn)	258.99	288.74	265.06	304.05	266.94	229.60	229.30
Budget Expenditures/GDP (%)	36.3	33.3	35.2	39.7	39.9	34.5	32.1
Budget Balance ($bn)	-48.31	-30.11	42.56	-26.47	-103.37	-90.94	-63.35
Budget Balance/GDP (%)	-7.2	-4.0	5.7	-3.5	-15.4	-13.7	-8.9
Money Supply (M1, $bn)	299.63	378.06	267.58	305.37	306.30	305.71	313.20
Change in Real Wages (%)	6.0	0.1	10.2	8.4	3.2	2.4	5.7
Unemployment Rate (%)	5.7	6.3	5.6	5.7	5.6	5.6	5.9
International Economic Indicators							
Foreign Direct Investment ($bn)	6.78	8.27	8.86	8.01	8.14	7.45	1.42
Forex Reserves ($bn)	609.22	456.12	710.49	718.92	603.99	526.06	486.63
Gross Reserves (ex gold, $bn)	620.91	472.37	725.29	731.92	615.99	535.36	495.99
Gold Reserves ($bn)	0.43	0.43	0.43	0.43	0.43	0.43	0.43
Gross reserves (inc gold, $bn)	621.34	472.80	725.72	732.35	616.42	535.79	496.42
Total Foreign Debt ($bn)	126.12	239.48	91.84	99.08	90.29	158.66	190.74
Total Foreign Debt/GDP (%)	17.8	27.5	12.2	12.9	13.5	23.8	26.7
Debt Service ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service/XGS (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account ($bn)	27.82	57.04	135.44	73.76	-56.72	-23.84	10.46
Current Account/GDP (%)	3.4	5.8	18.0	9.6	-8.5	-3.6	1.5
Current Account/XGS (%)	4.4	13.9	32.8	19.3	-23.3	-10.6	4.0
Exports ($bn)	265.47	283.44	375.90	342.46	203.54	183.61	221.86
Imports ($bn)	144.46	141.50	153.34	158.46	159.27	127.84	123.40
Trade Balance ($bn)	121.01	141.94	222.56	184.00	44.27	55.77	98.46
Exports of Services ($bn)	14.84	19.74	11.84	12.52	14.47	17.25	18.13
Income, credit ($bn)	24.15	23.19	25.17	27.11	25.58	23.97	18.91
Transfers, credit ($bn)	0.02	0.00	0.09	0.00	0.00	0.00	0.00
Exports G&S ($bn)	304.48	326.37	413.00	382.09	243.59	224.83	258.90
Liabilities ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Reserves ($bn)	621.34	472.80	725.72	732.35	616.42	535.79	496.42
Liquidity (months import cover)	51.5	40.7	56.8	55.5	46.4	50.3	48.3
Currency Exchange Rate	4.499	4.260	4.980	4.980	4.157	4.148	4.228
Currency Change (%)	3.0	1.5	-3.2	0.0	19.8	0.2	-1.9
Social Indicators							
Population (million)	31.50	34.88	29.94	30.78	31.56	32.28	32.94
Population Growth (%)	2.5	2.0	2.9	2.8	2.5	2.3	2.0
Infant Deaths/1000	14	10	15	15	14	14	13
Persons under Age 15 (%)	27	25	27	27	27	27	26
Urban Population (%)	83	84	82	83	83	83	84
Urban Growth (%)	2.7	1.5	2.9	3.0	2.7	2.5	2.3
Literacy % pop.	95	95	96	95	95	95	95
Agricultural Work Force (%)	7	6	7	7	7	7	7
Industry-Commerce Work Force (%)	21	22	21	21	21	21	21
Services Work Force (%)	72	71	72	72	72	72	72
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	10.37	10.52	9.79	10.14	10.66	10.68	10.59
Energy - consumption/head (10^{9} Btu)	0.32	0.32	0.33	0.32	0.32	0.32	0.32

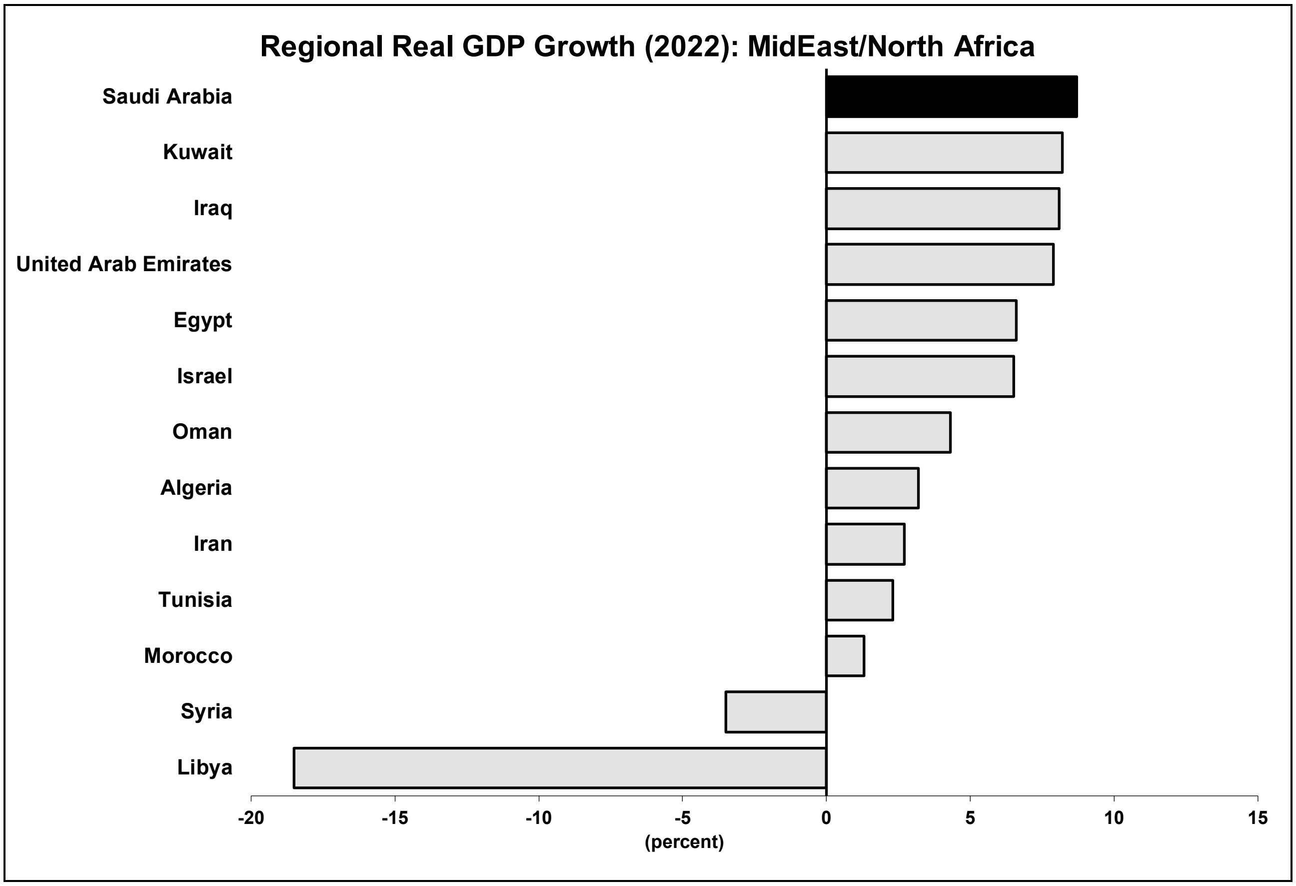
Note: *value of local currency measured against the euro

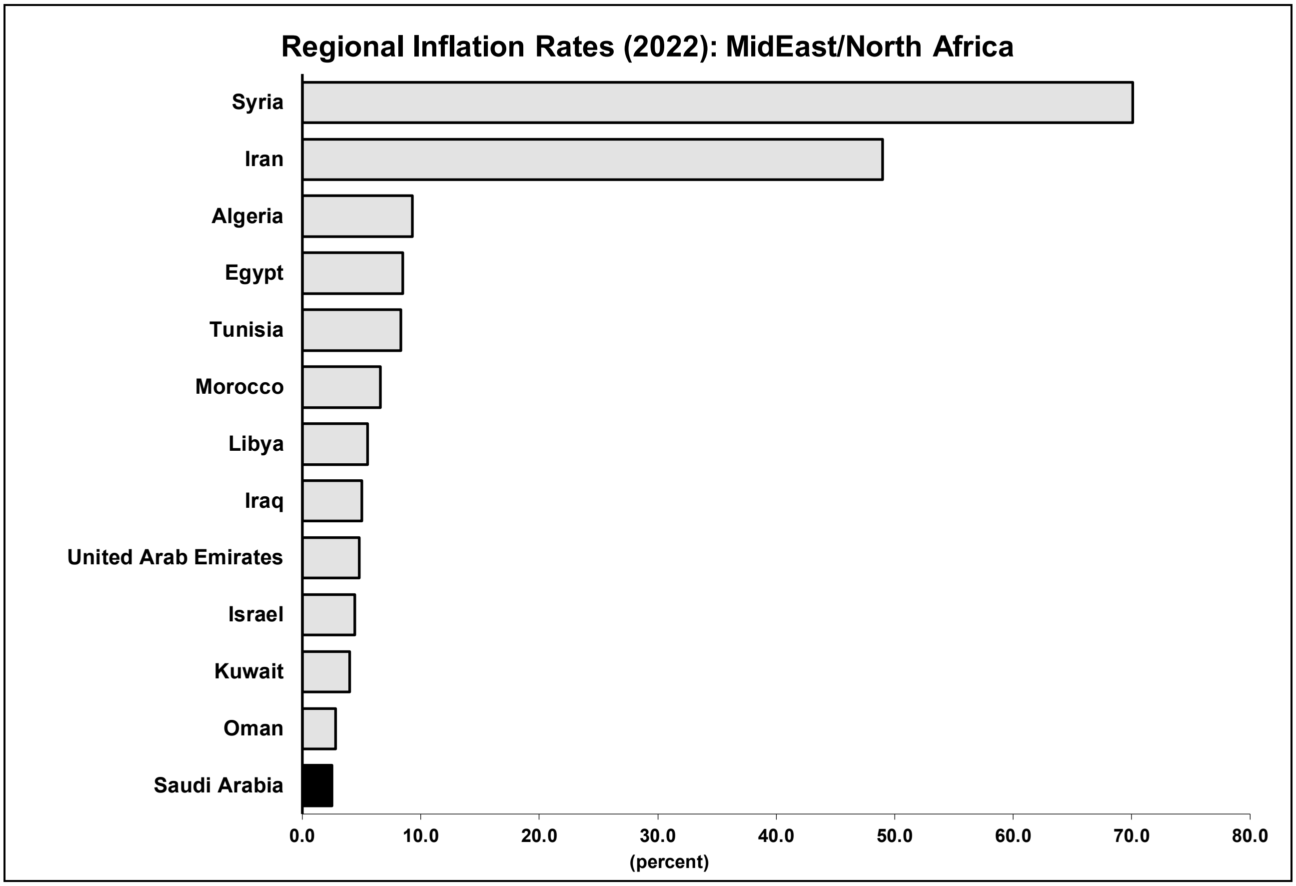
Saudi Arabia
Econometric Data

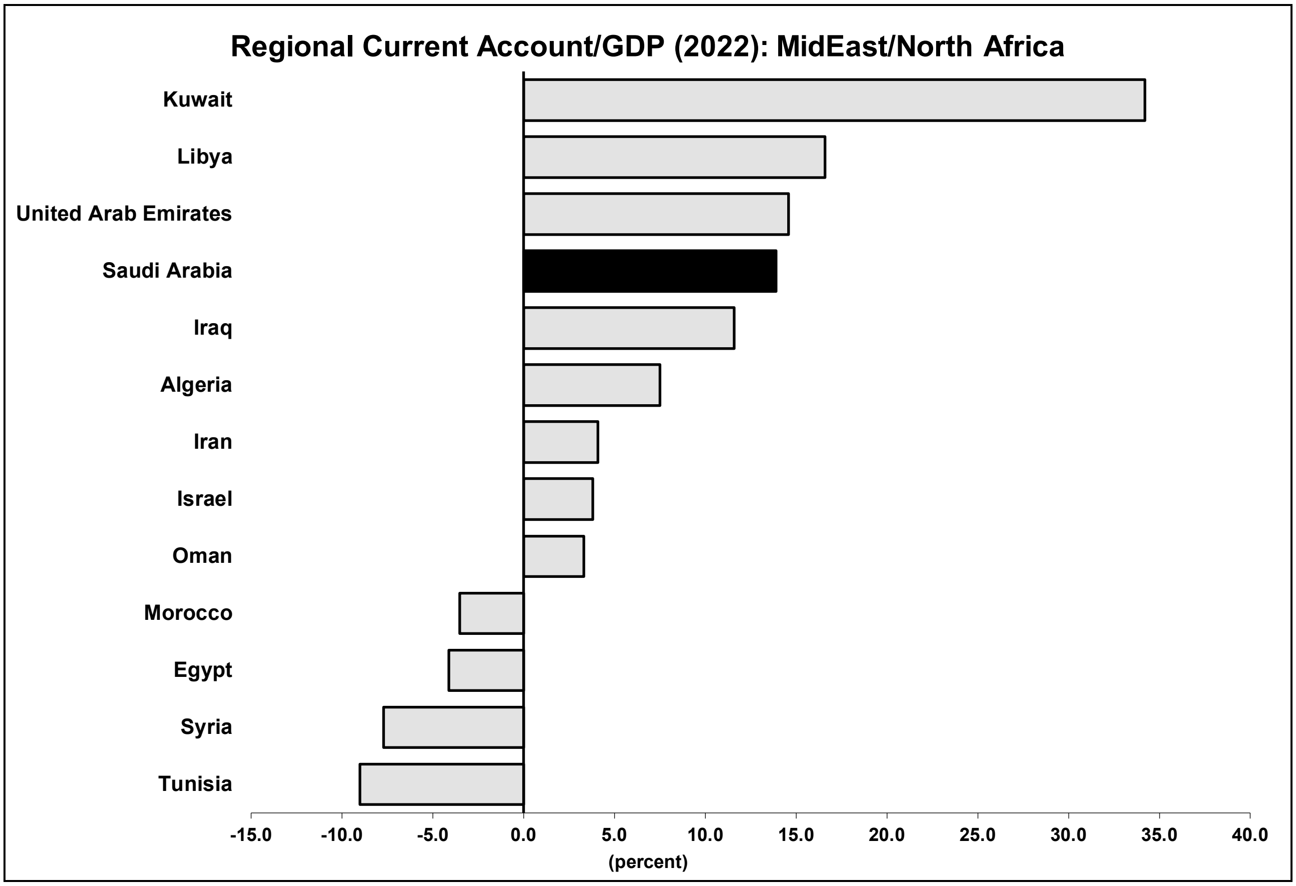
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	714.19	879.17	846.58	838.27	734.27	868.59	1108.15
Per Capita GDP ($)	22727	25160	25196	24496	21094	24578	30435
Real GDP Growth Rate (%)	2.8	2.4	2.8	0.8	-4.3	3.9	8.7
Inflation Rate (%)	1.6	1.9	2.5	-2.1	3.4	3.1	2.5
Capital Investment ($bn)	181.26	204.73	175.42	187.72	176.95	211.35	272.22
Capital Investment/GDP (%)	25.5	23.2	20.7	22.4	24.1	24.3	24.6
Budget Revenues ($bn)	210.68	258.63	241.71	247.51	208.20	257.56	338.18
Budget Revenues/GDP (%)	29.1	29.3	28.6	29.5	28.4	29.7	30.5
Budget Expenditures ($bn)	258.99	288.74	287.44	282.07	286.97	276.74	310.48
Budget Expenditures/GDP (%)	36.3	33.3	34.0	33.7	39.1	31.9	28.0
Budget Balance ($bn)	-48.31	-30.11	-45.73	-34.56	-78.77	-19.18	27.70
Budget Balance/GDP (%)	-7.2	-4.0	-5.4	-4.1	-10.7	-2.2	2.5
Money Supply (M1, $bn)	299.63	378.06	325.55	343.55	397.03	417.19	406.97
Change in Real Wages (%)	6.0	0.1	1.2	2.5	-0.5	-4.4	1.8
Unemployment Rate (%)	5.7	6.3	6.0	5.6	7.7	6.6	5.6
International Economic Indicators							
Foreign Direct Investment ($bn)	6.78	8.27	4.25	4.56	5.40	19.29	7.87
Forex Reserves ($bn)	609.22	456.12	487.80	488.12	440.86	429.50	434.31
Gross Reserves (ex gold, $bn)	620.91	472.37	496.16	499.02	452.90	454.94	458.82
Gold Reserves ($bn)	0.43	0.43	0.43	0.43	0.43	0.43	0.43
Gross reserves (inc gold, $bn)	621.34	472.80	496.59	499.45	453.33	455.37	459.25
Total Foreign Debt ($bn)	126.12	239.48	222.59	183.75	237.74	287.10	266.23
Total Foreign Debt/GDP (%)	17.8	27.5	26.3	21.9	32.4	33.1	24.0
Debt Service ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service/XGS (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account ($bn)	27.82	57.04	71.97	38.23	-22.81	44.32	153.49
Current Account/GDP (%)	3.4	5.8	8.5	4.6	-3.1	5.1	13.9
Current Account/XGS (%)	4.4	13.9	21.5	12.5	-11.2	14.1	32.5
Exports ($bn)	265.47	283.44	294.39	261.54	173.86	276.20	411.21
Imports ($bn)	144.46	141.50	125.64	140.28	125.92	139.74	175.92
Trade Balance ($bn)	121.01	141.94	168.75	121.26	47.94	136.46	235.29
Exports of Services ($bn)	14.84	19.74	20.53	24.24	8.98	10.30	34.67
Income, credit ($bn)	24.15	23.19	19.46	20.62	21.73	27.67	26.47
Transfers, credit ($bn)	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Exports G&S ($bn)	304.48	326.37	334.38	306.40	204.57	314.17	472.35
Liabilities ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Reserves ($bn)	621.34	472.80	496.59	499.45	453.33	455.37	459.25
Liquidity (months import cover)	51.5	40.7	47.4	42.7	43.2	39.1	31.3
Currency Exchange Rate	4.499	4.260	4.422	4.200	4.285	4.437	3.957
Currency Change (%)	3.0	1.5	-4.4	5.3	-2.0	-3.5	12.1
Social Indicators							
Population (million)	31.50	34.88	33.60	34.22	34.81	35.34	36.41
Population Growth (%)	2.5	2.0	2.0	1.8	1.7	1.5	3.0
Infant Deaths/1000	14	10	12	12	12	6	6
Persons under Age 15 (%)	27	25	25	25	25	25	25
Urban Population (%)	83	84	84	84	84	84	85
Urban Growth (%)	2.7	1.5	2.2	2.0	2.1	0.2	1.2
Literacy % pop.	95	95	95	95	95	95	95
Agricultural Work Force (%)	7	6	6	6	6	6	6
Industry-Commerce Work Force (%)	21	22	23	22	21	21	21
Services Work Force (%)	72	71	71	72	70	71	71
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	10.37	10.52	10.64	10.97	10.01	11.31	9.65
Energy - consumption/head (10^{9} Btu)	0.32	0.32	0.32	0.32	0.32	0.32	0.32

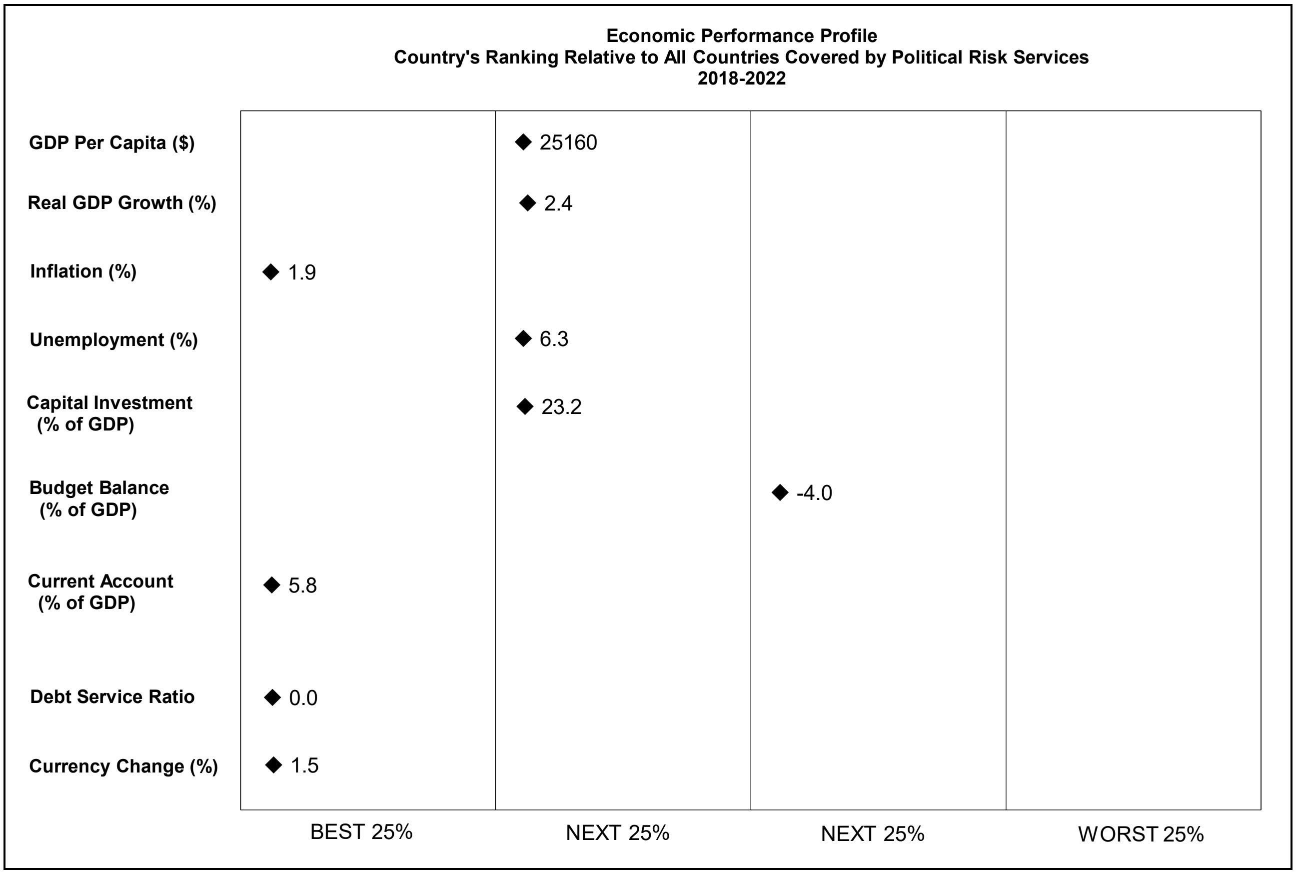
Note: *value of local currency measured against the euro

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): MidEast/North Africa
Kuwait
Libya
United Arab Emirates
Saudi Arabia
Iraq
Algeria
Iran
Israel
Oman
Morocco
Egypt
Syria
Tunisia
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
25.0
30.0
35.0
40.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
25160
Real GDP Growth (%)
2.4
Inflation (%)
1.9
Unemployment (%)
6.3
Capital Investment (% of GDP)
23.2
Budget Balance (% of GDP)
-4.0
Current Account (% of GDP)
5.8
Debt Service Ratio
0.0
Currency Change (%)
1.5
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

DIPLOMATIC STRATEGY IN FLUX

Russia's invasion of Ukraine in early 2022 has produced significant benefits for Saudi Arabia and its *de facto* ruler, Crown Prince Mohammed bin Salman (MBS), whose leadership was lent added weight by his formal appointment as prime minister in September 2022. The threat of disruptions to global energy supplies sent oil prices soaring, producing a massive economic windfall for the kingdom. At the same time, the west's strategy of isolating Russia and rapidly reducing Europe's dependence on Russian energy supplies has eased diplomatic tensions with the US and the EU that posed an obstacle to the success of MBS' signature Vision 2030 economic diversification program.

Yet another potential boon for the Vision 2030 agenda came in April 2023, when Saudi Arabia and Iran announced plans to resume diplomatic relations under an agreement brokered by China. To the extent that the rapprochement reduces the risk of a regional military conflict, it is inarguably beneficial from the perspective of Riyadh's diversification strategy, which depends heavily on ensuring a favorable climate for foreign investment. A similar consideration has guided Saudi Arabia's recent moves to normalize relations with Syria and a stepped-up effort to end the war in Yemen, which has included meetings with a delegation of Iran-backed Houthi rebels in Riyadh earlier this month.

The détente with Iran has moved forward with the reopening of embassies, high-level political meetings, and the exchange of ambassadors for the first time in seven years in early September. In parallel with these developments, the Saudi government is also exploring a possible normalization of diplomatic ties with Israel under the auspices of the so-called Abraham Accords, creating the potential for a permanent reshaping of the diplomatic landscape of the Middle East.

Beyond the implications for regional stability and security, Saudi Arabia's diplomatic recognition of Israel under a Washington-led initiative would be a huge diplomatic victory for the US in a region where its influence has weakened amid competition from Russia and China. However, Riyadh has conditioned a détente with Israel on US security guarantees, the lifting of restrictions on arms sales to the kingdom, and assistance in the development of Saudi Arabia's civilian nuclear program.

Saudi Arabia's terms highlight Riyadh's recognition that Iran will continue to pose a threat to the kingdom's security, the recent thaw notwithstanding, and in general are consistent with US interests in the region. But while US President Joe Biden might leap at the opportunity to push back against Chinese influence in the region, convincing Riyadh's critics in the US Congress to overlook the Saudi regime's human rights issues could be a tough sell. Moreover, it seems highly unlikely that the US, Israel, and the broader international community will view a nuclear-capable Saudi Arabia as a fair trade for Riyadh's acknowledgment of Israel's right to exist.

Saudi Arabia has also made clear that normalization of relations with Israel will require concessions from the latter related to the Israeli-Palestinian conflict, a very dim prospect given the far-right leanings of Prime Minister Benjamin Netanyahu's coalition government. Indeed, security conditions in the West Bank have deteriorated significantly over the past year, creating the potential for an escalating cycle of violence that could undermine the broader US effort to promote reconciliation between Israel and its Arab neighbors.

VISION 2030 AT CRUCIAL JUNCTURE

In any case, Biden's embrace of realpolitik has undermined the credibility of Washington's effort to persuade international investors to steer clear of Saudi Arabia on human rights grounds. Of course, that was but one of several impediments to meeting the Vision 2030 target of attracting $100 billion of foreign direct investment (FDI) annually.

Another is the danger of unpredictable policy shifts, such as the implementation of protectionist trade measures and other moves made in response to intensifying economic competition with the UAE, including a requirement that foreign businesses must base their regional headquarters inside Saudi Arabia to be eligible for state contracts. The rivalry between the regional powers is likely to intensify as the UAE continues with significant success to conclude comprehensive economic partnership agreements (CEPAs) with key global commercial partners independent of the Gulf Cooperation Council (GCC).

It remains an open question whether Saudi Arabia's policy changes and diplomatic initiatives will improve its ability to compete with the UAE for investment. Net inflows of new FDI surged to a 10-year high of $19.3 billion in 2021, but the figure was exaggerated by a single $12.4 billion pipeline deal. The total dipped to an estimated $7.9 billion last year, which amounts to just 0.7% of GDP, well short of the Vision 2030 target of 5.7% of GDP.

The government has launched several "giga projects" aimed at attracting foreign capital, including Neom, a planned urban area that features a $1 trillion megacity (The Line), a car-free environment that will be powered entirely by renewable energy and provide ready access to public services for a projected population of some 9 million people. There are nearly two dozen other major (if less ambitious) projects, including a Red Sea tourism complex and an arts and entertainment hub in Qiddiya.

It remains unclear whether these projects will actually advance the stated goals of the Vision 2030 strategy of promoting economic diversification and improving the material conditions of the Saudi population by creating jobs, reducing pollution, and enhancing the quality and efficiency of public services. Neom has attracted significant skepticism, with critics noting that construction will require the displacement of some 20,000 local tribespeople and will involve intense manual labor in a forbidding environment (a scenario ripe for abuses). Moreover, building a planned city in a desert poses logistical challenges that are certain to result in significant cost overruns for a project of uncertain value to anyone other than its creators, hardly a strong basis for attracting private investors.

Vision 2030 has reached the midpoint of its timeline (having been unveiled by MBS in 2016), and the achievements to date are mixed. The failure to achieve a sustained increase in FDI has limited the progress of efforts to boost the private-sector contribution to GDP, which is targeted to reach 65% in 2030. The figure for the first half of 2023 was 44.2%, down from 51% in 2015, the year before the initiation of the diversification push.

The lack of success in expanding the relative size of the private sector has in turn impeded efforts to reduce the unemployment rate among Saudi nationals, which remained in double digits until 2022. The annual average fell to 9.4% in 2022 and hit an all-time low of 8% in the final quarter of last year, but the improvement is mostly attributable to a steep decline in female unemployment, and the figure ticked up to 8.4% in the first half of 2023.

The government has had greater success with other components of the diversification program. The share of the budget financed by non-oil revenue increased from just 10% in 2017 to more than one-third last year. Non-oil revenue has continued to rise in 2023, but not fast enough to prevent a parallel decline in oil income from pushing the budget balance back into deficit following the first surplus in more than a decade in 2022. Moreover, to the extent that the improvement is attributable to the stimulus to non-oil growth from government spending of the recent oil windfall, there is cause to doubt whether the gains can be sustained as hydrocarbons income fluctuates.

NON-OIL SECTOR WILL CARRY ECONOMY IN THE NEAR TERM

Year-on-year real GDP growth surged into double digits in the first half of 2022, as supply shocks from the outbreak of war in Ukraine in late February sent global energy prices soaring. A combination of lower prices and production cuts mandated by OPEC+ contributed to a marked reduction of the growth contribution from oil in the second half of the year, but the stimulus from robust capital spending by the government underpinned faster non-oil growth, which accelerated from 4.7% (year-on-year) in the first half to more than 6% in the second half of 2022.

Overall real growth slowed to 5.5% in October-December, nudging the annual rate of expansion down to 8.7%, which was still the highest figure among G20 countries. Officials were counting on steady non-oil expansion to sustain overall real GDP growth of 3%–4% this year, but with the extension of OPEC+ production cuts through the end of the year ensuring a sizeable contraction of oil-sector GDP, the government recently slashed its forecast for overall real GDP growth in 2023 to near zero.

The near-term outlook for the non-oil sector is considerably more favorable, which suggests that the revised official growth forecast could be overly pessimistic. Consumer spending has continued to grow at a steady clip in 2023, and the manufacturing purchasing managers' index (PMI) exceeded the 50.0 level dividing expansion from contraction for a 36th consecutive month in August. Although last month's PMI of 56.6 was the lowest in eight months, it is still indicative of optimism in the sector.

Cuts in production aimed at boosting oil and gas prices figured to result in markedly slower growth of revenues this year, and adjustments to expenditures in the 2023 budget confirmed the government's commitment to fiscal discipline. A planned year-on-year decrease in overall spending was projected to keep the budget balance in positive territory again this year, although officials foresaw the surplus narrowing to less than 1% of GDP. However, the worsening outlook for growth prompted the Finance Ministry to revise its forecast for the budget, which now projects a deficit equivalent to about 2% of GDP in 2023 and a slightly smaller shortfall in 2024.

In any case, there is little danger of financing difficulties in the near term. The government plans to tap the international debt markets for the estimated $43 billion in financing required to fill the budget gap, which will not add significantly to the quite manageable foreign debt burden.

Otherwise, state investment vehicles, including the Public Investment Fund (PIF)—the worlds' fifth-largest sovereign wealth fund with estimated assets totaling more than $620 billion—and the National Development Fund, will continue to provide financing for "transformational" investment projects, with positive implications for housing, tourism, and transportation.

Inflation eased to 2% (year-on-year) in August, down from the recent peak of 3.4% reached in January 2023. Despite comparatively tame inflation, the peg of the dinar to the dollar puts pressure on the Saudi Arabia Monetary Authority (SAMA) to follow the lead of US policy makers with regard to interest rates. Accordingly, the repo rate has been hiked 11 times since March 2022, and stands at 6% following an increase of 25 basis points in July. The conservative monetary stance will help to contain inflation, but positive real interest rates will have a dampening effect on household spending, creating yet another drag on growth in the near term.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
	Very Low Risk				
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
	Low Risk				
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	**COUNTRY**	**COMPOSITE RISK RATING 09/23**	**COMPOSITE RISK RATING 10/22**	**09/23 VERSUS 10/22**	**RANK IN 10/22**
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141