



Country Trade View: Saudi Arabia

[Trends in global trade]

Summary

As a trademark for Gulf countries, Saudi Arabia's economy is dominated by crude oil production. Its lack of diversification means it is highly sensitive to oil price developments.

With the fall of the oil price, Saudi Arabia ran a trade deficit in 2015. For the first time in sixteen years, the services trade deficit was no longer (more than) offset by a trade surplus in goods.

The drop in oil prices does not only affect the country's trade balance (and hence the current account) but also its fiscal balance. Both face a deficit which is financed by issuing dollar denominated debt and depletion of exchange reserves.

However, government spending cuts are expected to lower the country's fiscal break-even point of crude oil per barrel to \$66.70 in 2016 from \$94.80 in 2015. In addition, production break-even price still lies as low as \$10.

Saudi Arabia's currency, the Riyal, is pegged to the U.S. dollar. The recent rise of the dollar has hurt competitiveness and a further Fed rate hike may boost the dollar even higher. To maintain the peg, foreign exchange reserves are used to buy the domestic currency. This has led to a decline in foreign currency reserves since the end of 2014 by 20%.

China is expected to overtake the U.S. as Saudi Arabia's main trading partner in 2016 with India at third place. Saudi Arabia is a large importer of manufactured goods, road vehicles & transport equipment and industrial machinery.

In terms of product groups, China is expected to become the number one source of office, telecom & electrical equipment imports and the main destination of Saudi fuel exports.

About International Trade Analysis at ING

ING International Trade Analysis aims to help ING's (inter)national clients develop their knowledge and capabilities for doing business across borders, and contribute to the public debate on internationalization. We do this by providing insights on the current and future economic trends and international trade developments worldwide.

Economic profile

Economy

Expectations	2016	2017	2018
GDP growth (Real)	1.2%	1.9%	2.3%
GDP nominal (bn, USD)	618.3	659.7	699.4
GDP per capita (USD)	19,312.9	20,201.7	21,005.8
Exchange rate SAR/USD (peg)	0.27	-	-
Inflation	3.7%	1.0%	1.7%
GDP composition by sector			
Agriculture	2.3%		
Industry	46.9%		
Services	50.8%		

Population

	2015
Population (mln)	27.8
Unemployment rate (avg.)*	11.4%
65 years and over as % of total population	3.2%

Other indicators

	2015-2016
Competitiveness Rank World Economic Forum	28/140
Ease of doing business rank World Bank	82/189
Credit rating	
S&P	A- Stable
Moody's	A1 Stable
Fitch	AA- Negative

Saudi Arabia trade profile: components in USD bn, destination and origins of goods in % of total, 2014

Agriculture & raw materials

Exports	\$0.1
Imports	\$1.0

Basic food

Exports	\$3.5
Imports	\$23.1

Beverages & tobacco

Exports	\$0.3
Imports	\$1.1

Office, telecom & electrical equipment

Exports	\$0.9
Imports	\$18.7

Chemicals

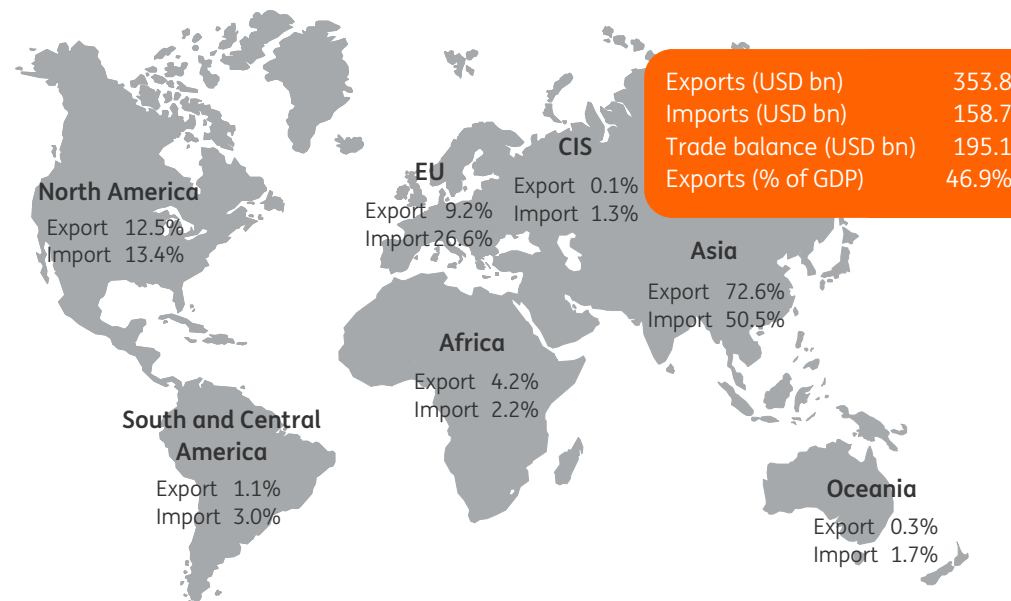
Exports	\$42.5
Imports	\$12.1

Fuels

Exports	\$295.5
Imports	\$1.7

Industrial machinery

Exports	\$0.6
Imports	\$23.9



Exports (USD bn)	353.8
Imports (USD bn)	158.7
Trade balance (USD bn)	195.1
Exports (% of GDP)	46.9%

Ores & metals

Exports	\$2.4
Imports	\$5.8

Other manufactured goods

Exports	\$5.6
Imports	\$34.0

Other products

Exports	\$0.3
Imports	\$1.7

Pharmaceuticals

Exports	\$0.4
Imports	\$4.6

Road vehicles & transport equipment

Exports	\$0.8
Imports	\$24.6

Textiles

Exports	\$0.6
Imports	\$6.2

Sources: ING, IMF World Economic Outlook, UNCTAD, Trading Economics, national sources.

Saudi Arabia's economic environment

Hit hard by the recent oil price fall

Being the world's second oil producer, the Saudi economy is largely dependent on the oil price. This dependency has far reaching consequences, both politically and economically.

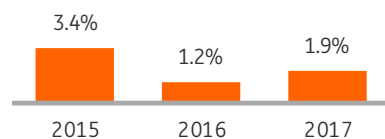
First, the forecast for real economic growth is only 1.2% for 2016, compared to 2.4% last year. Second, the government revenue is also very dependent on oil sales. The sharp decline in oil prices is to blame for the staggering 2015 budget deficit of \$98 billion or 15% of GDP.

The current account and budget deficits are financed by dollar denominated debt and its foreign currency reserves. The Saudi currency, the Riyal, is pegged to the U.S. dollar. Maintaining this peg puts another drag on foreign currency reserves. Since its recent peak in the end of 2014, Saudi Arabia's foreign currency reserves have declined by \$150 billion to \$587 billion. At this rate it still takes more than 3.5 years until depletion.

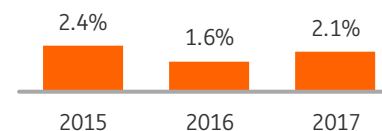
ING expects the oil price to continue its recovery before Saudi Arabia runs into real risk of depleting its currency reserves. We project the oil price to reach \$65 per barrel of oil by 4Q 2017. This will lead to higher economic growth in 2017 (1.9%) and an improved fiscal balance.

Expected Real GDP Growth

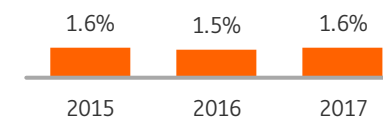
Saudi Arabia



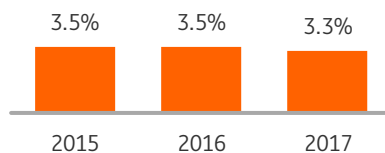
United States



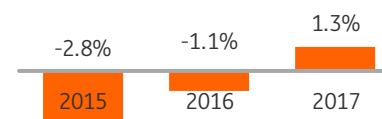
Eurozone



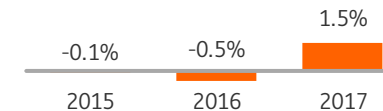
Emerging and Developing Europe*



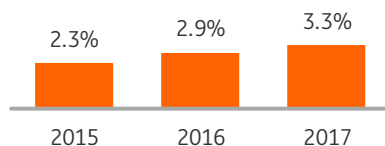
Commonwealth of Independent States**



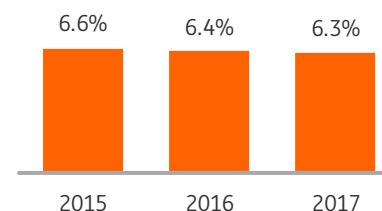
Latin America



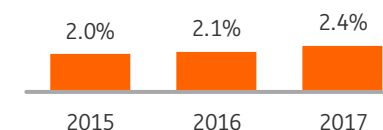
Middle East and Northern Africa



Developing Asia



Other advanced economies***



* Albania, Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia and Turkey

** Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine

*** Australia, Czech Republic, Denmark, Hong Kong SAR, Iceland, Israel, Korea, New Zealand, Norway, San Marino, Singapore, Sweden, Switzerland, and Taiwan.

Source: ING Forecasts May 2016, IMF World Economic Outlook October 2015

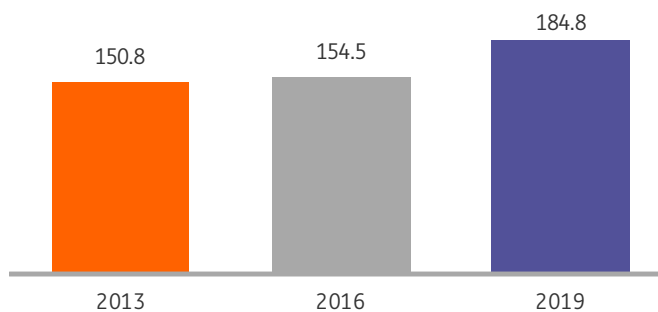
Trade forecasts

Exports are expected to recover the coming years.

ING projects trade in goods to continue to grow. Imports are predicted to increase annually by an average 6.2% over 2016 -2019. Exports are expected to recover from the decline during 2014 - 2016 and grow at an average annual rate of 7.1% during 2016-2019.

While Saudi Arabia runs a surplus in goods trade, the country's services trade deficit has tipped the balance into negative territory. The negative services trade balance is likely to persist in the near future, as there are no trends towards increased services exports or significant import substitution. Nonetheless, an oil price recovery is expected to bring Saudi Arabia's trade balance back into positive territory.

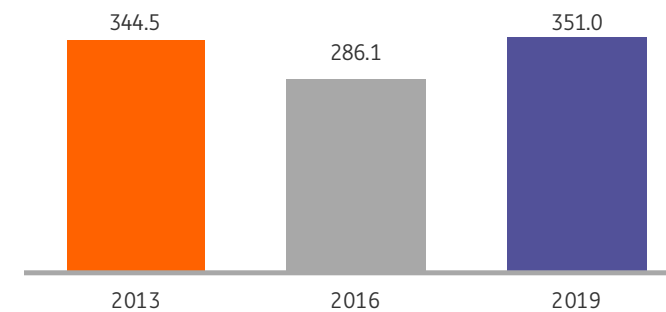
Total imports of goods, USD



Saudi-Arabia's imports of goods

World ranking 2014	17
Average expected growth rate 2016-2019*	6.2%

Total exports of goods, USD



Saudi-Arabia's exports of goods.

World Ranking 2014	29
Average expected growth rate 2016-2019*	7.1%

Imports by product group

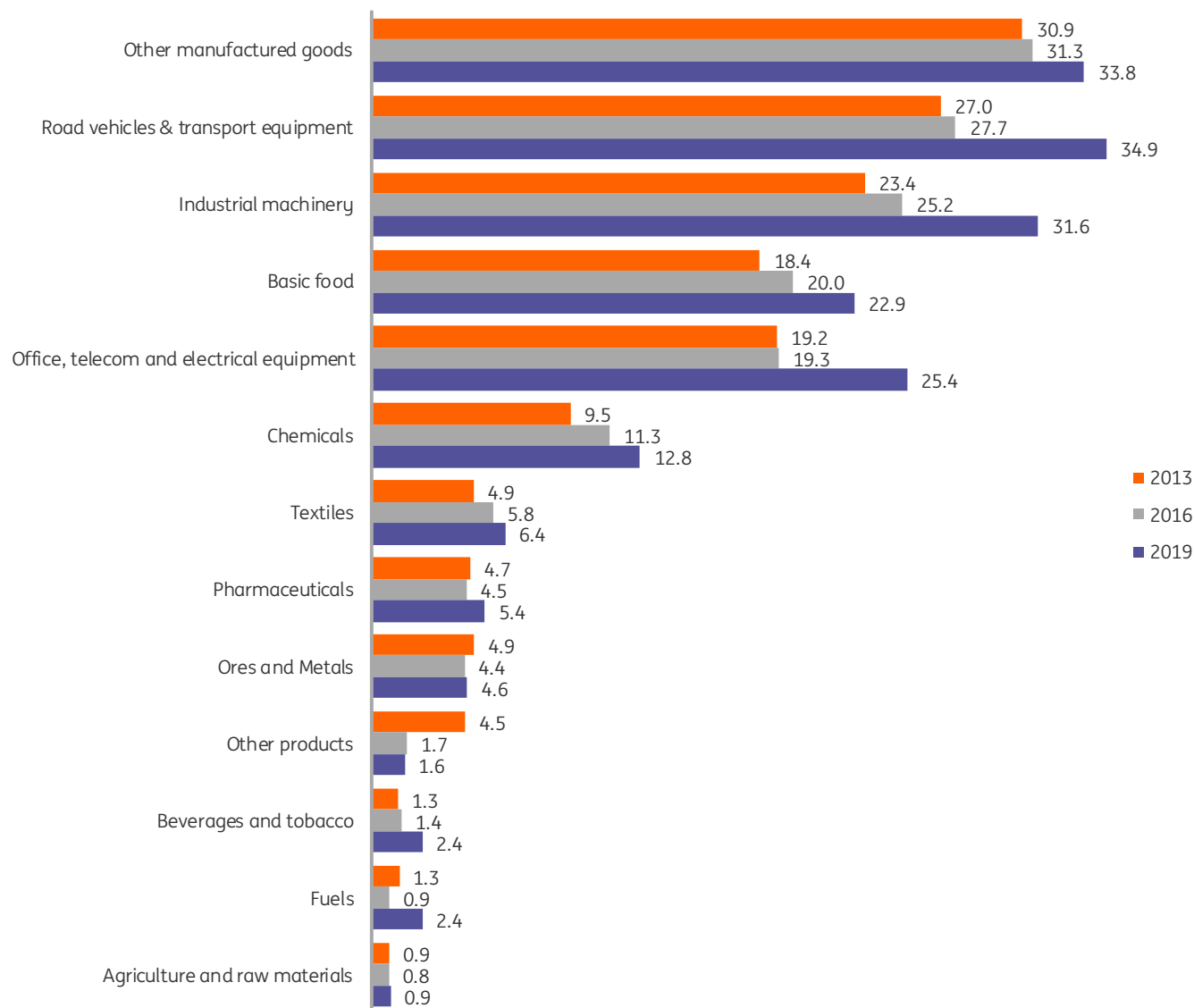
Widespread growth of imports across products categories.

Saudi Arabia's largest five import groups make up nearly 80% of its total imports in 2016. This is expected to remain so during 2016-2019 as these product groups are among the fastest growing.

ING forecasts an increase in imports across a variety of product groups. The categories that are expected to experience the fastest average annual growth between 2016-2019 are fuels (+41.1%) beverages & tobacco (+19.2%), office, telecom & electrical equipment (+9.5%) industrial machinery (+7.9%) and road vehicles & transport equipment (+7.9%).

On the other hand, the largest product group, other manufactured goods, is one of the slowest growing product groups. This group consists mostly of construction materials and luxury goods.

Imports by product groups, USD bn



Source: UNCTAD Data, ING International Trade Analysis

Demand for products: import origins

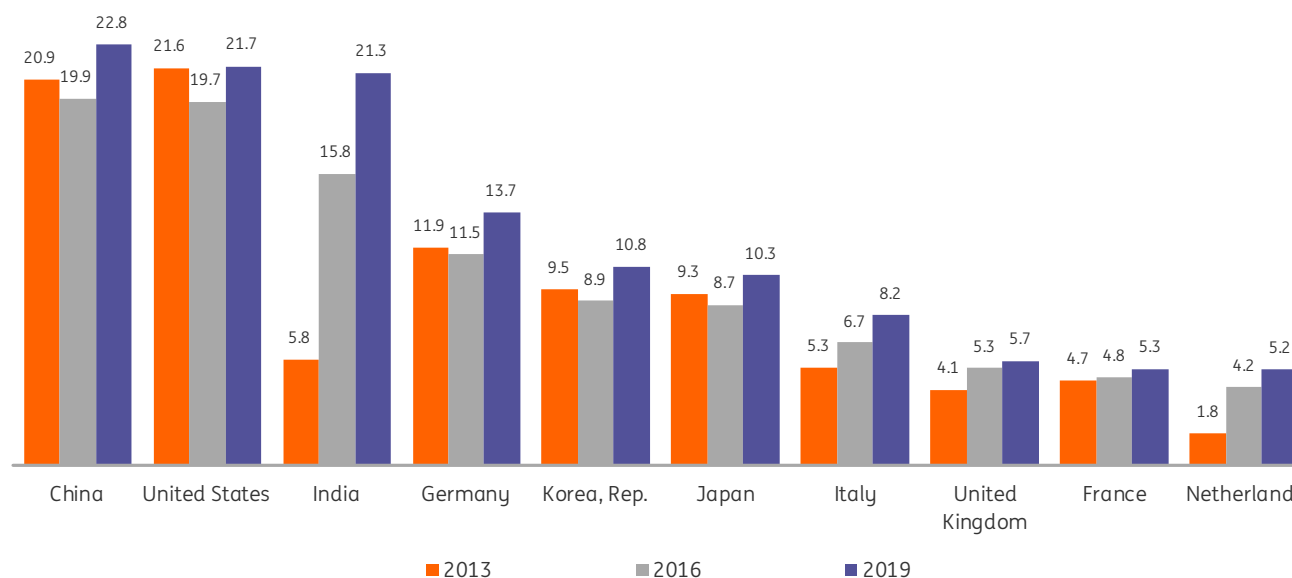
China will overtake the US as Saudi Arabia's largest import partner

Saudi Arabia's biggest import partner is the United States. This year China is expected to take on this position. In addition, import from India (in third place by 2019) has increased tremendously.

Looking at single product streams, we observe that office, telecom & electrical equipment from China is the largest. It is also the category in which largest growth is predicted (+11.5%). The second fastest growing product group by origin is road vehicles & transport equipment from Japan (+8.5%).

Importantly, in the top 5 of Saudi Arabia's largest import products by country of origin, road vehicles and transport equipment is present twice where the U.S. and Japan are competing for business.

Main origins of imports, USD bn



Top 5 largest import flows by product group and country of origin

Saudi Arabia						
Product group	Origin	2013	2016	2019	CAGR* 2016 - 2019	
Office, telecom and electrical equipment	China	6.8	7.0	9.7	11.5%	
Road vehicles and transport equipment	United States	7.2	6.8	7.5	3.5%	
Other manufactured goods	China	6.8	5.8	5.4	-2.6%	
Road vehicles and transport equipment	Japan	5.3	5.2	6.6	8.5%	
Industrial machinery	United States	5.9	5.1	5.6	2.7%	

Source: UNCTAD Data, ING International Trade Analysis

*Compound Average Growth Rate

Exports by product group

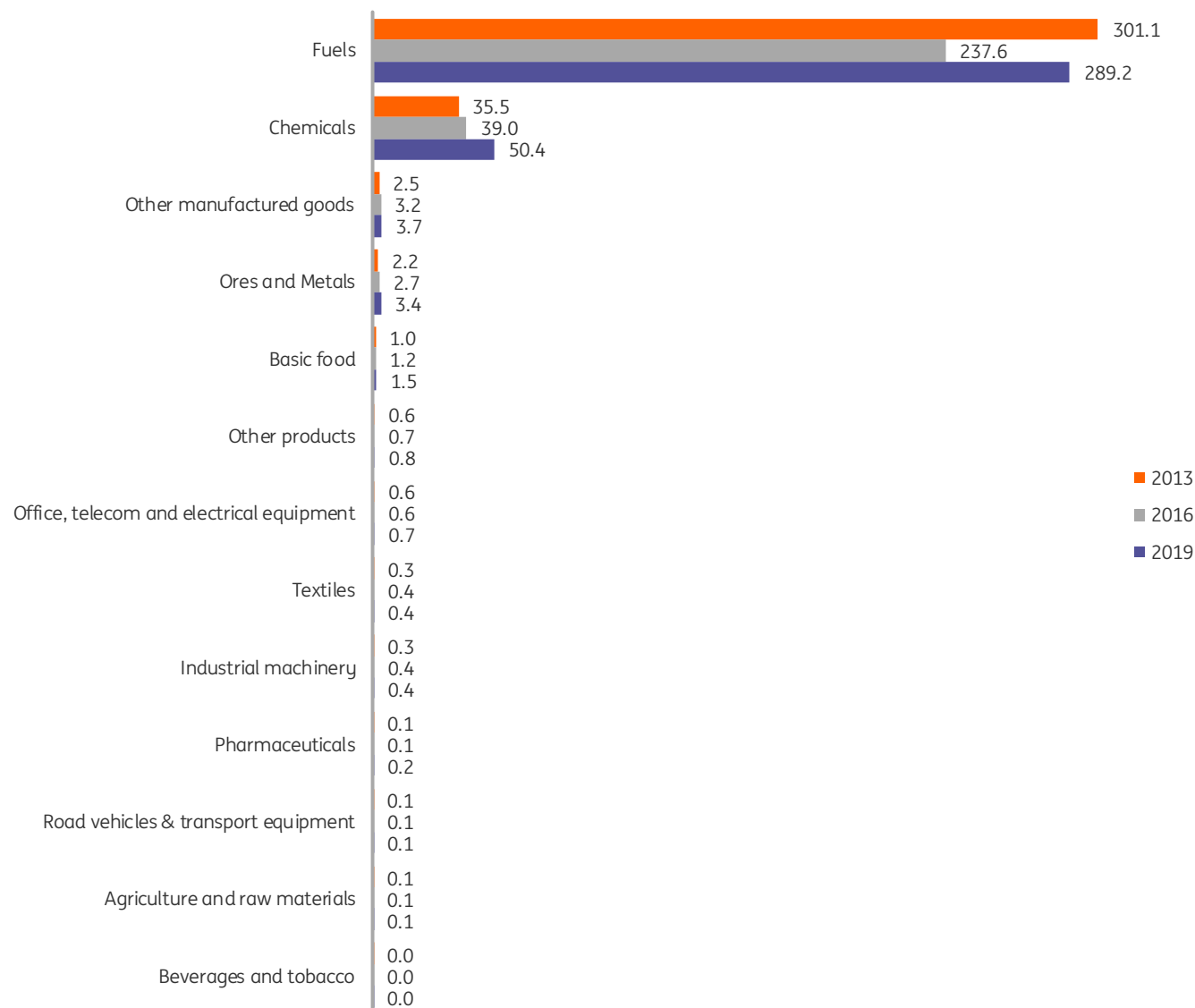
Saudi Arabia's fuel exports dominate

Being the second largest oil producer in the world, it is no surprise that Saudi Arabia exports consists largely of fuel (related) products. In fact, fuel exports account for nearly 83% of its total exports. The closely related chemicals exports are the Kingdoms second major export category, with a share of 13.6%.

The forecasted decline in Saudi Arabia's fuel exports for 2016 reflect the sharp fall in commodity prices. ING expects a recovery in oil prices starting in 4Q 2016. Fuel exports are estimated to grow on average 6.8% annually over 2016-2019, though not reach growth rates higher than those seen pre-2014.

Of the other product groups, pharmaceuticals, beverages & tobacco and chemicals are expected to grow fastest during 2016 - 2019, with 14.7%, 12.7% and 9.0% respectively.

Exports by product groups, USD bn



Source: UNCTAD Data, ING International Trade Analysis

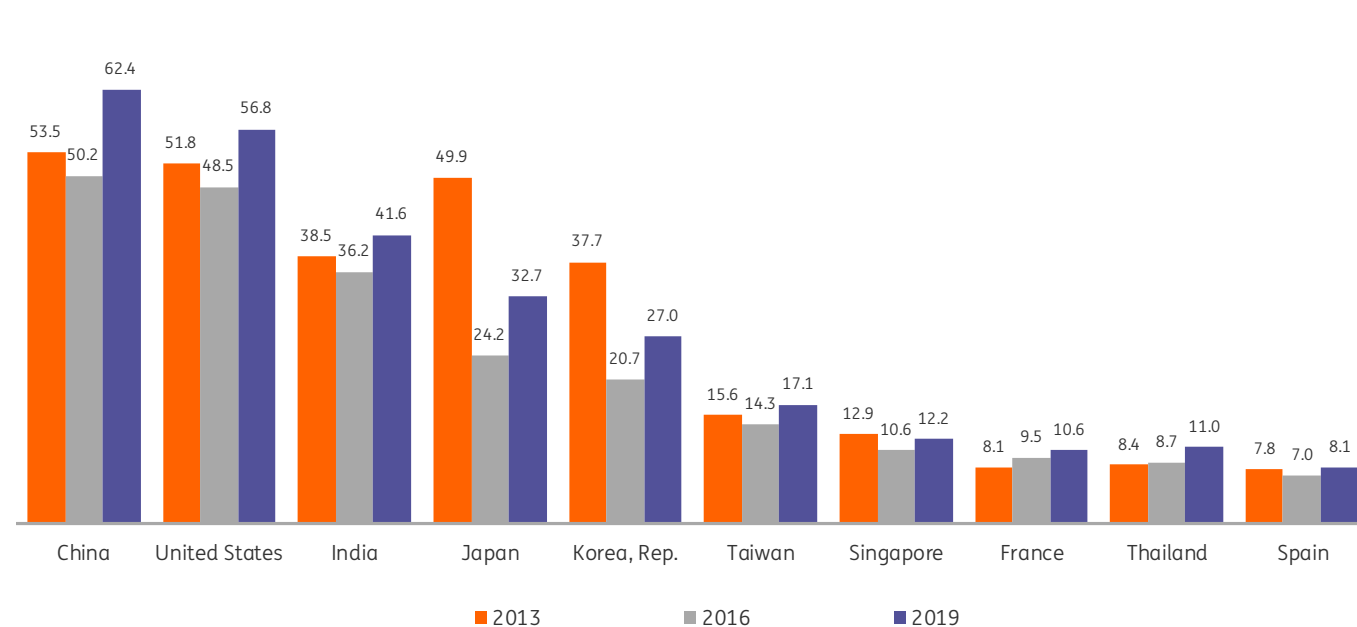
Supply of products: export destinations

China extends its lead

It is expected that China stays Saudi Arabia's largest export partner before the U.S and India. The fastest growth rate is expected to be to Japan (10.5% average growth rate) which bounces back after a tremendous fall of (fuel) imports in 2015.

The US remains the second most important destination, ahead of India. Unsurprisingly, Saudi Arabia's top 5 export destinations are also the main destination countries for the largest individual product group flows.

Main destinations of exports, USD bn



Top 5 largest export flows by product group and country of destination

Saudi Arabia					
Product group	Destination	2013	2016	2019	CAGR* 2016 - 2019
Fuels	United States	50.7	47.3	55.6	1.6%
Fuels	China	43.3	39.8	49.6	2.2%
Fuels	India	34.6	30.9	35.6	1.4%
Fuels	Japan	49.0	23.2	31.5	3.1%
Fuels	Korea, Rep.	36.1	19.1	24.9	2.7%

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