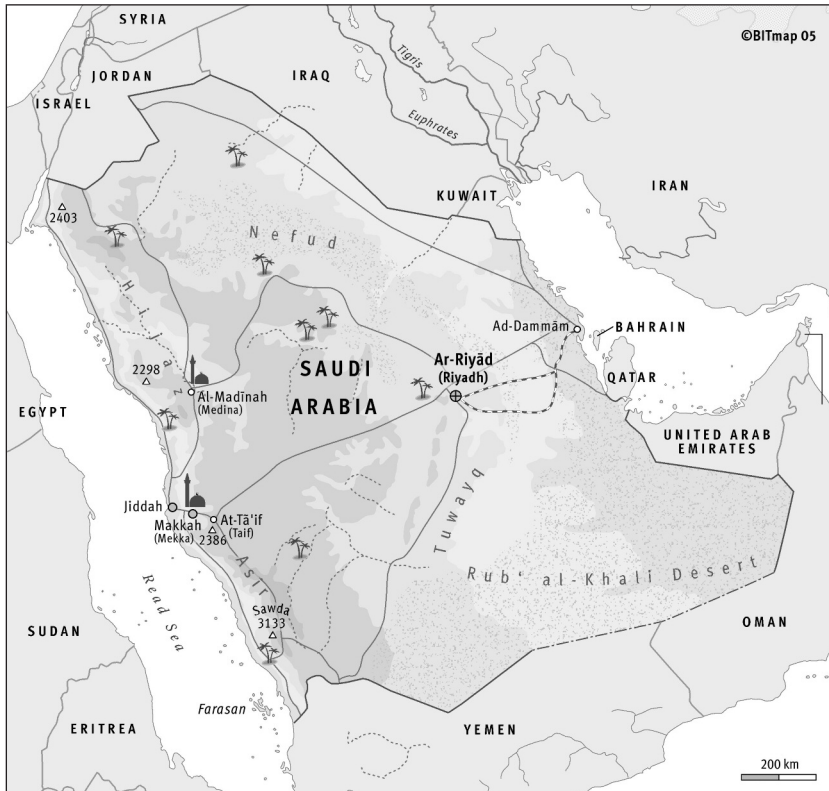


Saudi Arabia



SAUDI ARABIA

Tobias Rieth & Dilara Yazıcıoğlu

Area: 2.15 million sq km
Population: 32.9382 million (2017)
Capital: Riyadh
GDP: USD 686.738bn (2017)
Exports: USD 207.6bn (2016)
Imports: USD 129.8bn (2016)
Currency: Saudi Riyal (SAR)
Exchange rate: 1 EUR = 4.345 SAR (October 1, 2018)

Political System and Development

The so-called 'Arab Spring', which started in Tunisia in December 2010 and gradually spread out to several other Arab countries, did not have an obvious and significant influence on the Kingdom of Saudi Arabia at first. Under the reign of the late King Abdullah bin Saud, who passed away in January 2015, the kingdom maintained political stability and security at large. To counter possible civil commotion, the government had invested large sums – of its at the time still large financial resources – proactively especially in education and health, increased governmental salaries and established unemployment insurance.

Nonetheless, Saudi Arabia faced and still faces several socio-economic challenges, such as a high youth unemployment rate of approximately 30%, the absence of women from large parts of the economy, and the lack of diversification in the economic system, which is still dependent on oil income and on the work of 7-8 million foreign labour migrants.

King Abdullah responded with welfare programmes, but also with harsh repression against critics. In particular, opposition movements in the Shiite-dominated Eastern province of the kingdom, where the politically and economically marginalised majority of the Saudi Shiites (12-15% of the whole population) lives, has seen clashes between demonstrators and security forces.

The late King Abdullah had shown his willingness to modernise and liberalise the Kingdom in different ways with a top-down approach. For example, he initiated a so-called 'National Dialogue' in 2003 to establish a forum for different marginalised social and political actors in Saudi Arabia, such as women or Shiites. Furthermore, he nominated

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30 female candidates for the Majlis ash-Shura, the consultative council, and allowed women to take part in the municipal elections in 2015. Recognising the potential for social unrest due to increasing unemployment and limited work opportunities in the public sector, the government was seeking to diversify and privatise the Saudi economy. Still dependent on foreign labour migrants, a 'Saudisation' programme was introduced, which aims to reduce the number of foreign employees and replace them with Saudi citizens.

Since the death of King Abdullah, the socio-economic situation of the country has not seen significant improvement. Both the level of regional instability (most recently Syria, Iraq or Yemen) and a drop of the global oil price led to a situation, with Saudi Arabia being the largest oil producer in the world, in which the kingdom is facing seemingly more challenges than ever.

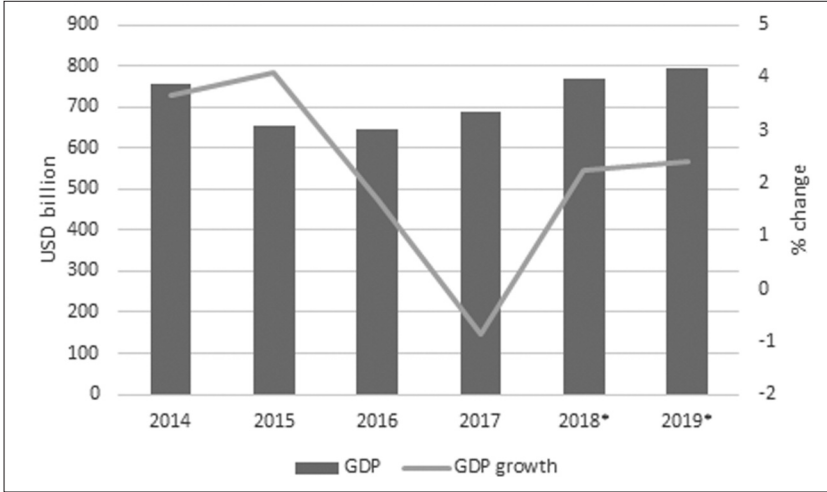
With the inauguration of King Salman bin Abdulaziz Al Saud in early 2015, then aged 79, the country stood at the crossroads. Instead of moderating the governmental expenditures and promoting further economic and fiscal diversification the policy of large-sum public spending continued. Especially the Saudi Arabian military and political intervention in Yemen have contributed to the deterioration of the fiscal situation since 2015. In addition, the nuclear talks with Iran and the resulting lifting of economic sanctions have exacerbated the perception according to which the kingdom loses its traditional economic and political supremacy in the Gulf Region.

Due to the further decreasing oil price in the end of 2016, the government implemented a halt for large-scale projects. To counter the socio-economic issues, announcements for huge social housing projects were made – these challenges, however, have again been approached in a top-down manner and neither social nor economic policies have seen comprehensive change to date. In the same year, the Saudi government presented the 'Vision 2030'.

With this ambitious economic and social reform programme, the country's dependence on the oil sector shall be reduced by diversifying the economy and expanding local production. This includes on the one hand large scale infrastructure projects, like the city NEOM or the Red Sea project, launched by the public sector. On the other hand, the private sector shall be strengthened by reducing bureaucracy and restrictions as well as privatising publicly owned companies. On the back of

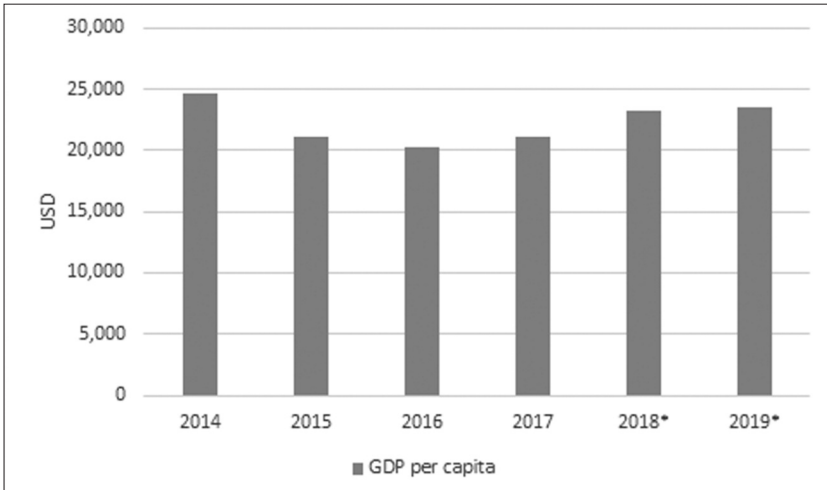
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GDP development (2014-2019)



Source: IMF
* estimated

GDP per capita (2014-2019)



Source: IMF
* estimated

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rising oil prices, the Saudi government resumed public investments and projects. The planned initial public offering of ARAMCO – albeit delayed – is a testament to this agenda.

In June 2017, King Salman made his son Mohammed bin Salman first in line to the throne. Since then Prince Mohammed has established and expanded his power, and now controls all major levels of government from defence to the economy. The alleged murder of US-based Saudi journalist Jamal Khashoggi in the kingdom's consulate in Istanbul in October 2018 caused an international outcry and again sparked a debate in Western countries about economic, military and political cooperation with Saudi Arabia. At the point of writing it is not yet clear to what degree this will impair Saudi Arabia's international relations in the future.

Economic Structure and Development

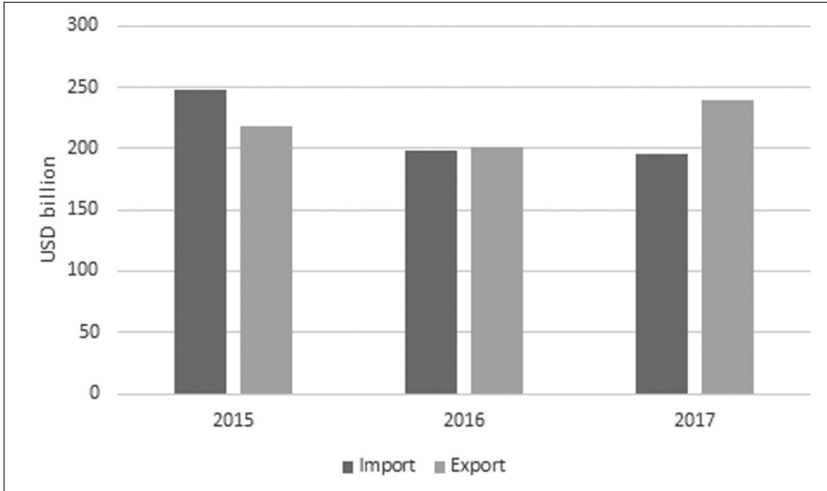
Saudi Arabia's oil-based and open market economy is increasingly integrated into the global economy. Due to the fluctuations on the international oil market, the average real growth rate of 4.0% achieved over the period 2011-2015 was not maintained, falling to 1.7% in 2016 and to -0.7% in 2017. With companies like ARAMCO and SABIC, the state holds dominant positions in the oil sector and is also heavily involved in infrastructure such as transport, energy, water and telecommunications.

According to estimates, the nominal GDP of the Kingdom of Saudi Arabia will amount to an estimated USD 769.878bn in 2018, thereby increasing from USD 686.738bn in 2017. In terms of real GDP development, the forecasts see a decrease of – 0,8% in 2017 and a growth of 2,2% in 2018. In the years since 2013 a general trend of slower growth has been noticed. This trend is generally accredited to the low oil price, which stands in direct connection to most of the country's revenues. However, those trends reversed as oil prices rose again.

Additionally, a series of five-year plans have been developed and directed toward increasing the share of private enterprise in the economy in an effort to move away from dependence on oil exports and to generate jobs. The impact of the oil price development was partially compensated by a growth in the non-oil sector. In this respect, Saudi Arabia recorded a 2.6% growth in the transport,

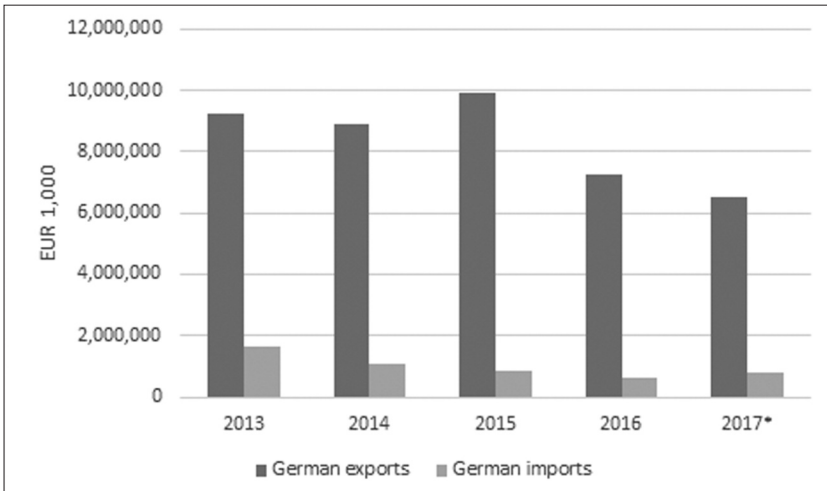
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Imports / Exports (2015-2017)



Source: UNCTAD

Bilateral trade with Germany (2013-2017)



Source: Federal Statistical Office of Germany
* estimated

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logistics and communication sector, a 2.5% in mining and industry and 0.6% in fishery.

In terms of nominal per capital GDP, an increase from an estimated USD 21.1k in 2017 to about USD 23.2k in 2018 is predicted, which constitutes a stable development after a strong slump from USD 20.3k in 2016. As part of the accession to the WTO in 2005, in addition to the traditional fields of activity of the private sector such as construction, manufacturing and tourism, the financial sector and other service activities were also opened to private foreign investment.

Plans to privatise various state-owned companies are currently designed to give the private sector further scope and further increase its share of gross domestic product (from 51.2% of GDP and 68.5% of non-oil GDP in 2016).

Foreign Trade

In 2017 Saudi Arabia exported goods worth USD 221bn, slightly recovering, after exports dropped from USD 342.3bn in 2014 to USD 204bn in 2015 and USD 184bn in 2016. Exports, mainly consisting of crude oil (73%) and petrochemical products (12.7%), were delivered to Japan with a share of 15.4%, to China with 15% and the Republic of Korea with 11.4% in 2017.

Due to the weak economic development, imports diminished from USD 159bn in 2015 to USD 128bn in 2016 and estimated USD 119bn in 2017. Countries that delivered commodities to the Kingdom were, in descending order of share, China with 21%, USA with 18.6%, United Arab Emirates with 8.9% and Germany with 8%. Main goods that were imported include machinery, automobiles, foodstuff, and electronics.

A balance in favour of Germany characterises foreign trade between the Federal Republic and Saudi Arabia. German imports from the Kingdom, mainly consisting of oil and chemical products, amounted to USD 0.8bn in 2017, dropping from 1.37bn in 2014. German exports to the Gulf State decreased from USD 12.2bn in 2014 to USD 6.6bn in 2018. German exports to Saudi Arabia continued to decrease in the first quarter of 2018. Germany mainly exported machines, automobiles, foodstuff, and medicals to the country.

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Economic Outlook

The economy of Saudi Arabia is recovering from a mild contraction in 2017, which was caused by higher oil production and rising consumer spending. In June 2018 Saudi Arabia's crude oil production reached 10.4 million barrels per day (mbpd) and therefore reached its highest level since December 2016, just before the OPEC+ agreement for limiting production.

In 2018-19 GDP is projected to grow by around 2%, impelled by higher oil production after the expiration of OPEC+ agreement, greater non-oil exports, and brisk domestic demand. In this regard, the Saudi 'Vision 2030' will play a major role in shaping future investment opportunities, especially in the non-oil sector. With the implementation of this wide ranging plan, Saudi Arabia will be less dependent on possible upcoming fluctuations in the oil market and the economic development will become more resilient and sustainable.

The recovery of the oil price will facilitate further narrowing of the budget deficit in 2018 to 4.1% of GDP, and then again to 1.9% in 2019. Even though oil income is the primary driver, the progress of the fiscal outlook also relies on the commitment to reform efforts to raise non-oil revenues.