

SAUDI ARABIA

Recent developments

Table 1 **2019**

Population, million	34.1
GDP, current US\$ billion	749.1
GDP per capita, current US\$	21942
Life expectancy at birth, years ^a	74.9

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent WDI value (2017).

The contracting oil sector led to sluggish growth in 2019, despite strong performance of non-oil sectors. The outlook for 2020 remains very weak in the wake of COVID-19 and oil supply shocks. Medium-term fiscal balances are estimated to continue in deficit – risking the ability in realizing Vision 2030 fiscal targets. Vision 2030 related reforms are critical for diversification and progress was made on business environment reforms. COVID-19 response includes preservation of gains made in job creation for nationals in the private sector.

Growth stalled in 2019, driven largely by the deliberate oil production cuts in excess of those required under OPEC+ agreement, lower oil prices, and further reinforced by the drone attacks on Saudi Aramco’s facilities in mid-September 2019. Overall, the economy grew by 0.3 percent in 2019 despite strong performance of non-oil sectors supported by private consumption and investments. The stronger non-oil sector offset the headwinds from oil, with December headline inflation recording a positive reading for the first time in a year.

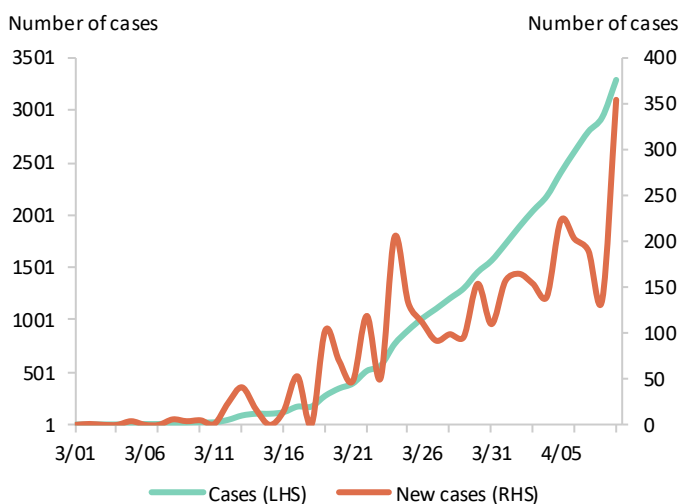
Public sector finances posted a narrower deficit in 2019, estimated at 4.2 percent of GDP. The fall in oil revenues was compensated by strong growth in non-oil revenues, which increased from reducing VAT registration threshold and expansion of excise taxes and fees. Total spending decreased with capital spending bearing the brunt of these cuts. The deficit was financed through a combination of government withdrawals from deposits, dropping from 19.1 to 17.8 percent of GDP in 2018 and 2019, respectively; and debt issuances, with debt to GDP rising from 19 to 23.1 percent in 2018 and 2019, respectively.

The current account surplus narrowed on lower oil export earnings, which is estimated at 5.4 percent of GDP in 2019 – compared to 9 percent in 2018. Current transfers balance reported slight improvement amidst lower remittances outflow,

which contributed in fueling private consumption. Net foreign investment flows increased slightly during 2019 but continues to be much lower than their pre-2014 levels – a major concern for policymakers given the ambition of Vision 2030. Portfolio investment inflows increased significantly as the Saudi Stock Exchange (Tadawul) became listed in the Emerging Markets Stock Indices. The central bank net foreign reserves stood at US\$494 billion in 2019 compared to US\$489.6 billion in 2018. Given the US dollar peg, the repo rate was reduced to 1 percent following Fed’s recent looser monetary policy and ease the impact of the COVID-19 outbreak.

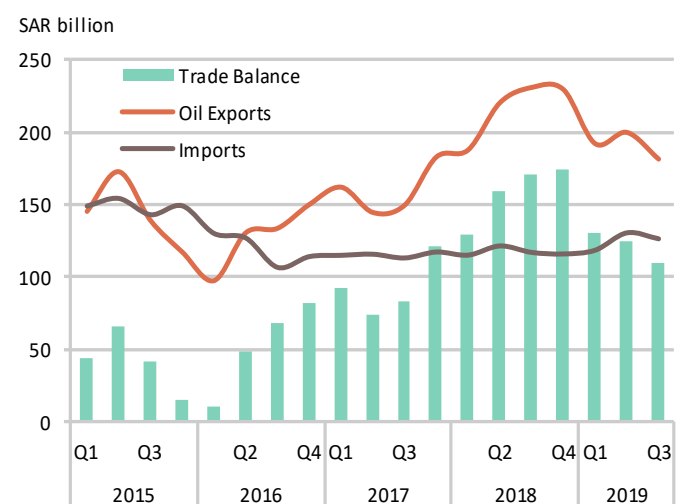
In the midst of the high-profile G-20 presidency in 2020, the Kingdom continued delivering on its Vision 2030 commitments and measures in several areas: financial sector development, human capital strengthening, public financial management, energy sector diversification, and many others. However, the most notable reforms during 2019 have been in the business environment, where Saudi Arabia was one of the top ten global improvers in Ease of Doing Business 2020 report. Furthermore, the completion of Saudi Aramco’s initial public offering (IPO) in December 2019 reflects the government’s drive to leverage oil wealth to finance diversification, transforming the Public Investment Fund (PIF) into an activist sovereign wealth fund. Labor market reforms aim to increase the share of nationals in the private sector workforce. Employment of nationals, including women, has increased; however impacts on private

FIGURE 1 Saudi Arabia / COVID-19 cases



Sources: World Bank; John Hopkins CSSE.

FIGURE 2 Saudi Arabia / Trade balance, oil exports



Sources: Haver.

sector growth and productivity are not immediately apparent.

No official information is available on poverty but there have been gains in administrative capacity to identify and support low income households. As in other GCC countries, the bulk of low-income residents are migrant workers, but as the citizen population crosses the 20 million-mark, there will inevitably be issues of ensuring secure livelihoods and well-being for nationals. Vision 2030 set ambitious goals to protect citizens, including modernizing the social welfare system, redirecting price subsidies toward those in need, preparing and training those unable to find employment, and providing tailored care and support to the most vulnerable citizens. Accordingly, the Citizens Account was introduced to compensate Saudi households for the cost of higher energy prices and expatriate levy. Close coordination with other cash transfer programs is warranted to assure overall effectiveness of social assistance.

Outlook

Growth will initially pivot to higher oil production as announced in March 2020, pending further agreement with OPEC+ and G20 countries. Weaker growth is anticipated in the non-oil sectors reflecting low domestic demand as COVID-19 closures and suspensions disrupt critical sectors in the economy; these effects are assumed to be concentrated within 2020. Despite indicated spending cuts to weather the fall in

oil receipts, the fiscal deficit is expected to widen in 2020. COVID-19 related health spending will be prioritized, for example a commitment to free treatment for all residents (not only nationals). The deficit narrows afterwards as oil prices moderately recover to levels well below consensus assumptions at the start of the year. A current account shortfall of 10.3 percent is expected during 2020, as oil and non-oil merchandise exports fall, accompanied with a drop in tourism receipts with the suspension of religious tourism. Subdued domestic demand will help suppress headline inflation in 2020, but it remains to be seen whether supply chains can quickly regain full capacity without sharp relative price effects when the COVID-19 crisis eases.

Risks and challenges

There are two major downside risks, both of which are materializing at the same time. First, the recent lapse of OPEC+ agreement places further downward pressure on oil prices as several main players reported plans of increased production, sometimes with huge discounts, to an existing sizeable market surplus. Saudi Arabia is participating in efforts to stabilize prices, through existing production coordination mechanisms (OPEC+) and the G20. Prolonged current oil price levels would have adverse impacts on the economy and to the extent that the revenue shock is absorbed by debt, lead to a rapidly rising public debt trajectory.

Second, the continually downgraded global growth outlook due to COVID-19 and its impact on energy demand and hydrocarbon earnings. Moreover, limited information on the extent and duration of the outbreak makes it difficult to evaluate the indirect channels of impact in the economy, e.g., value chains and tradable sectors, preventive measures taken by the authorities, e.g., travel restrictions and the suspension of work for public and private sectors, or potential austerity measures in response to declining revenues.

Lower oil prices provide the urgency to tackle difficult fiscal issues, such as the large and rigid spending on public sector compensation and benefits – which will need to be assessed against the obvious need for fiscal mitigation of the effects of COVID-19. Despite efforts to foster greater diversification, the hydrocarbon sector remains the economic driver with further large investments indicated for oil and gas expansion during the current oil price turmoil. Other large capital investments and mega projects are envisaged under Vision 2030, generating significant financing needs and fiscal risks, with potential crowding out of private-sector-led growth. Finally, Saudi Arabia nationals are being incentivized to fill the gap left by expatriate exodus, but a key challenge will be to make private sector opportunities appealing enough for nationals, coupled with better management of foreign labor admission and mobility.

TABLE 2 Saudi Arabia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	-0.7	2.4	0.3	0.2	2.1	2.6
Private Consumption	3.2	1.9	4.4	-0.2	1.2	1.8
Government Consumption	3.3	6.0	0.6	0.0	1.9	3.2
Gross Fixed Capital Investment	0.7	-2.9	4.9	-0.6	0.5	1.2
Exports, Goods and Services	-3.1	6.8	-4.5	-0.2	3.6	3.4
Imports, Goods and Services	0.3	2.7	1.3	-2.0	1.9	2.0
Real GDP growth, at constant factor prices	-0.7	2.6	0.3	0.2	2.1	2.6
Agriculture	0.5	0.3	1.3	0.0	0.1	0.2
Industry	-2.4	2.7	-2.6	0.9	1.5	1.6
Services	1.9	2.5	4.3	-0.6	2.9	4.1
Inflation (Consumer Price Index)	-0.9	2.5	-1.2	0.3	1.0	1.3
Current Account Balance (% of GDP)	1.5	9.0	5.4	-10.3	-5.4	-5.3
Net Foreign Direct Investment (% of GDP)	0.9	0.7	0.8	1.2	1.2	1.2
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.2	-7.5	-6.4	-6.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.