# SAUDI ARABIA

| Table 1 | 2017 |
|---|---|
| Population, million | 32.9 |
| GDP, current US$ billion | 686.7 |
| GDP per capita, current US$ | 20849 |
| School enrollment, primary (% gross)[a] | 116.2 |
| Life expectancy at birth, years[a] | 74.6 |

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

(a) Most recent WDI value (2016)

*The implementation of Saudi Arabia's structural reform program is starting to show early results. Non-oil revenues picked up in 2018 as the authorities rolled out a 5 percent Value Added Tax (VAT) and levied excise duties on some products and levies on foreign workers. However, with rising oil prices and associated improvements in fiscal balances, the appetite for difficult reforms with transformative potential, like addressing the high public-sector employment and wage bill, may weaken.*

## Recent developments

The Saudi Arabian economy is recovering from a mild contraction in 2017, driven largely by higher oil production and rising consumer spending. Saudi crude oil production reached 10.4 million barrels per day (mbpd) in June 2018, its highest level since December 2016, just before the OPEC+ agreement for limiting production. Consumer spending is on the rise, with point of sale transactions up 6.8 percent year-on-year in June. Non-oil exports also registered a marked increase of 26 percent year-on-year in April 2018 (latest available).

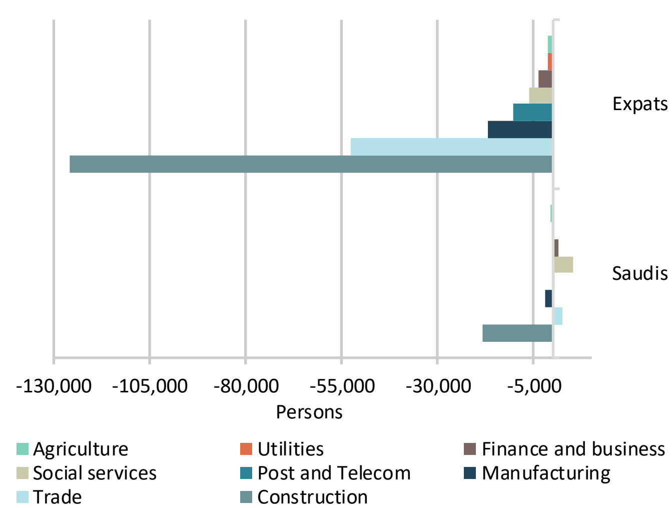
The authorities are implementing tax reforms to reduce the fiscal dependence on oil-based sources. In January 2018, Saudi Arabia began collecting a 5 percent Value Added Tax (VAT). In addition, excise taxes have been enacted on soft drinks and tobacco. Combined, these new tax measures are expected to support increasing non-oil revenues. With oil prices currently well above conservative reference price estimates in the low US$60/barrel range, budget balance is likely to be achieved ahead of the 2023 target.

The contractionary effects of additional taxes are dwarfed by rapidly expanding oil revenues. As of early August 2018, Brent crude was trading above US$70/bbl, nearly double the level a year ago. As a result, the fiscal deficit is expected to shrink faster than the Fiscal Balance Program suggested. In addition, foreign exchange reserves at the central bank rose month-on-month in June 2018 to US$506 billion, which is US$10 billion higher than at the outset of the year. The Saudi stock exchange (the Tadawul) was announced to be included in two widely traded stock indices (MSCI EM and the FTSE EM) in July 2017. This has led to a marked increase in qualified investor inflows, which were estimated to have reached US$3.3 billion in the first half of 2018.

The recovery prompted an increase in inflation, which reversed the course of deflation experienced last year. In 2018, prices rose by 2.1 percent year-on-year in June, which edged up slightly over May's number. The upward impetus from energy price reforms was partially offset by easing of housing rental costs, which is related to reduced demand from expatriates.

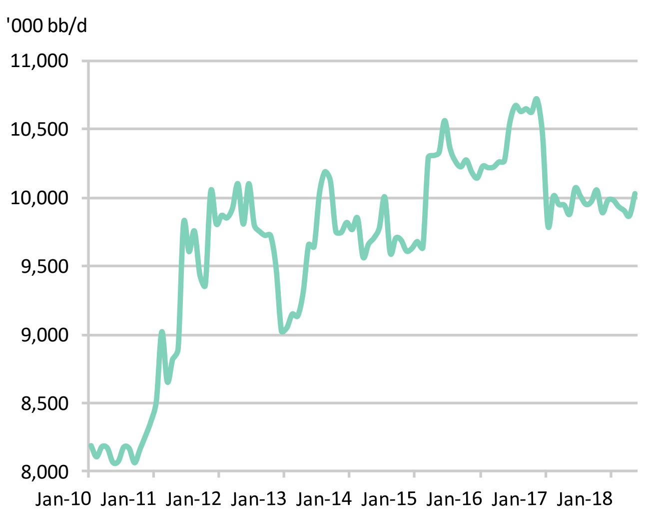
The adoption of Vision 2030 has spurred reforms in several areas. Efforts have been made to improve the business environment and promote SMEs and financial sector reforms. A draft law on private sector participation was published for public feedback in July 2018, a good move towards greater transparency. Critical reforms are underway in the labor market, targeted to increase the share of nationals in the Saudi workforce. A large quota-based policy for Saudi nationals ("Nitaqat") has shown positive results in terms of increasing employment of Saudi nationals, including women, in the workforce, though it faces broader question in terms of its impact on private sector growth and productivity. Levies on expatriate labor in Q1 2018 and other disincentives for expatriate employment have resulted in nearly a quarter of a million foreign workers leaving Saudi Arabia especially in construction (Figure 1).Going forward,

**FIGURE 1 Saudi Arabia** / Changes in employment trends by sector, Q12018 change to Q42017




Sources: GoSTAT and GOSI, accessed August 8, 2018.

**FIGURE 2 Saudi Arabia** / Crude oil production




Sources: Beyond 20/20, Joint Organizations Data Initiative, accessed August 8, 2018.

reforms will be needed to reduce the reservation wage for Saudi nationals as well as to better manage foreign labor admission and mobility across sectors.

While no official information is available on poverty, the Kingdom faces challenges in identifying and supporting 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. Like other MENA countries, the old social contract—one based on government employment, generous subsidies, and free public services—is no longer sustainable. As part of the Vision 2030's attempt to address these issues, authorities have launched a social protection fund (the Citizens Account) which aims to offset the adverse impact of expenditure rationalization measures. Although early experience with such a rapidly scaled up program has been registered as mixed, it is a promising foundation for supporting low income segment of the Saudi population.

## Outlook

GDP is projected to grow by around 2 percent in 2018-19, driven by higher oil production after the expiration of OPEC+ agreement, greater non-oil exports, and brisk domestic demand. The oil price rebound will enable further narrowing of the budget deficit in 2018 to 4.1 percent of GDP, and then again to 1.9 percent in 2019. Although oil revenues are the primary driver, the improving fiscal outlook also relies on commitment to reform efforts to raise non-oil revenues.

External accounts are expected to also strengthen further along with oil prices and production and register a current account surplus of around 10 percent of GDP in 2018-19. Consumer price inflation is set to rise in the short term, driven by subsidy reforms which are increasing energy prices, stronger growth, and VAT implementation, before stabilizing at 2 percent in 2019.

## Risks and challenges

With oil revenues climbing higher than expected, expenditures, especially those related to compensation and benefits in public sector, have also increased. While the government has shown commitment to implementing reforms in several areas including subsidies and non-oil revenue collection, it has not so far attempted to undertake significant changes in public sector compensation. Going forward, more favorable oil prices may weaken the drive to tackle public-sector compensation, which distort labor market incentives in the country.

A key challenge relates to the provision of adequate labor to support sustained growth. There is significant churn in the labor market with the ongoing departure of expatriate labor, but job creation for nationals has been lagging, and the number of workers in the private sector has declined for the first time since 2005. Another challenge relates to the availability of significant financing to catalyze the growth envisaged under Vision 2030. The planned investments are also complex to design; the capacity to adjust plans in real-time based on learning through implementation will be vital.

Finally, the successful implementation of Vision 2030 will depend in large part on sustained political and social support for reforms. While a strong machinery is in place to advance reforms, implementation challenges (coupled with a sustained increase in oil prices) can slow the pace and depth of reform efforts.

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

| | 2015 | 2016 | 2017 | 2018 e | 2019 f | 2020 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 4.1 | 1.7 | -0.9 | 2.0 | 2.1 | 2.2 |
| Private Consumption | 6.8 | 0.9 | 3.2 | 2.0 | 2.0 | 2.0 |
| Government Consumption | -1.8 | -17.5 | 3.2 | 1.8 | 3.5 | 3.6 |
| Gross Fixed Capital Investment | 3.7 | -14.3 | -4.5 | 0.5 | 1.0 | 1.5 |
| Exports, Goods and Services | 0.7 | 8.0 | -2.7 | 2.1 | 1.3 | 1.3 |
| Imports, Goods and Services | 1.5 | -20.3 | -0.4 | 0.5 | 0.6 | 0.5 |
| **Real GDP growth, at constant factor prices** | 4.1 | 1.7 | -0.6 | 2.0 | 2.1 | 2.2 |
| Agriculture | 0.6 | 0.6 | 0.0 | 0.2 | 0.6 | 0.6 |
| Industry | 5.0 | 2.5 | -0.3 | 1.0 | 1.7 | 2.1 |
| Services | 3.0 | 0.8 | -1.1 | 3.6 | 2.7 | 2.6 |
| **Inflation (Consumer Price Index)** | 2.2 | 3.5 | -0.2 | 3.7 | 2.0 | 2.2 |
| **Current Account Balance (% of GDP)** | -8.7 | -3.7 | 0.0 | 9.8 | 9.7 | 9.5 |
| **Fiscal Balance (% of GDP)** | -15.8 | -17.2 | -9.0 | -4.1 | -1.9 | -0.5 |

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