

# SAUDI ARABIA

## Recent developments

**Table 1** **2017**

Population, million	32.8
GDP, current US\$ billion	685.2
GDP per capita, current US\$	20878
School enrollment, primary (% gross) <sup>a</sup>	109.5
Life expectancy at birth, years <sup>a</sup>	74.6

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

(a) Most recent WDI value (2015)

The Kingdom of Saudi Arabia is proceeding swiftly on its ambitious multifaceted reform agenda. In 2018, authorities are continuing their commitment to the OPEC+ deal, which is in place through the end of the year, by restricting oil production and implementing major reform initiatives to counter the pervasive problems in its oil-dependent economy. With subdued oil production, and a private sector still adapting to fiscal consolidation, growth is likely to be dependent on the trajectory of new public spending that has been recently announced.

The Saudi Arabian economy contracted moderately at 0.6 percent in 2017, as oil production was restrained based on the OPEC+ deal, and non-oil sector growth slowed in the wake of reduced public spending. Early data for 2018 suggests that non-oil GDP in the first quarter may have deteriorated further, given the January PMI level of 53.0, which fell noticeably from 57.3 in December 2017, and is the slowest recorded since August 2009. More promisingly for the future however, hiring picked up to its strongest level since August 2016 and business optimism reached an eight-month high, according to the Emirates NBD Saudi Arabia Purchasing Managers' Index survey.

The fiscal deficit markedly improved to 9.0 percent of GDP in 2017, compared to the 16.9 percent a year earlier. This substantial progress increased space to mitigate household impacts of fiscal reforms. Upon the completion of its recent crackdown on corruption, during which purportedly over US\$100 billion in assets were garnered, authorities announced new allowances for state employees over 2018 to compensate for the higher costs of living. Authorities have acknowledged that they ought to slow down the pace of austerity so as not to imperil the burgeoning economic recovery led by the private sector.

Deflation was evident in the economy through October 2017, and the annual inflation average registered by SAMA

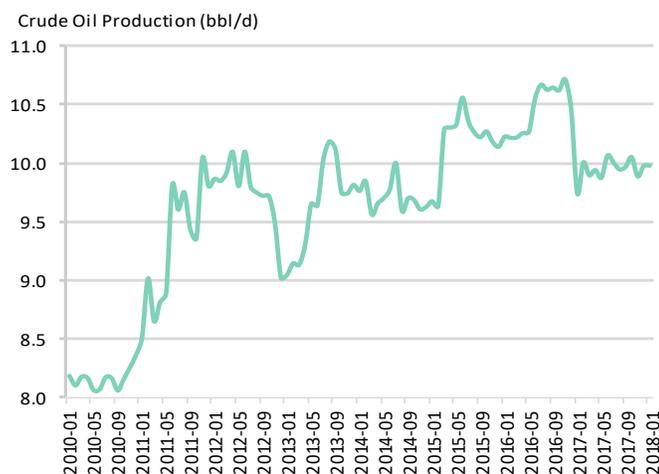
stood at -0.23 percent over the course of calendar year 2017. Although the deflationary trend has seemingly reversed, it could still spell a weaker demand environment in light of recent reforms and an uncertain political environment. The Kingdom has continued to peg its currency to US\$, which given recent depreciation could help rebalance pressures on non-oil exports and rein in imports.

On the external side, the pace of contraction in exports, registering at 4.7 percent as the OPEC+ deal slowed Saudi oil production, was outpaced by the discernable slowdown in imports by 8.3 percent. Together, this translated into a swing of the current account into surplus of 1.7 percent of GDP.

Regarding labor market issues, the latest available data suggests an improvement. The pace of job creation improved in the second half of 2017 as the unemployment rate decreased to 5.8 percent in the third quarter. Latest available survey data from Emirates NBD suggests that hiring levels are picking up strongly. However, the unemployment rate remained broadly unchanged in 2017 at approximately 5.8 percent for the overall population and increased to slightly above 12 percent for Saudi nationals (up from 11.5 percent a year earlier) given the structural labor market issues, including high reservation wages for Saudi nationals.

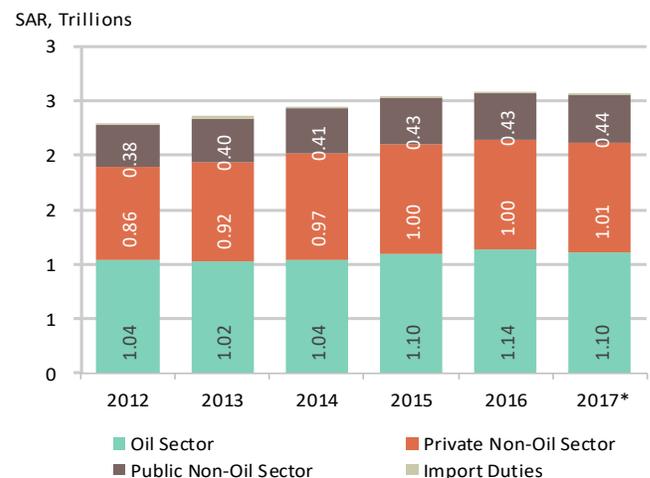
While no official information is available, the Kingdom likely faces a looming poverty problem. As in other GCC countries, the bulk of low-income residents are migrant workers, but as the citizen population crosses the 20 million-mark, inad-

**FIGURE 1 Saudi Arabia / Crude oil production in the KSA**



Source: Joint Organizations Data Initiative (JODI).

**FIGURE 2 Saudi Arabia / Institutional composition of the GDP (constant prices)**



Source: KSA General Authority for Statistics.

quate access to economic opportunities is also an issue for nationals. With the prospect of low oil prices for longer, the old social contract—one based on government employment, generous subsidies, and free public services—is no longer sustainable. A reform agenda contained in the Vision 2030 document envisages deep structural changes that will profoundly impact the population in all aspects of their livelihoods.

The authorities are serious about mitigating the negative impact of reforms, as seen in public pronouncements and actions. Yet targeted support is still a new concept in the country. Identifying the most poor and vulnerable groups has been difficult, and little evidence exists to inform policies about the level of support to be provided to them. In that respect, the authorities are currently building capacity and institutions for welfare measurement and analysis.

## Outlook

The economy is projected to expand again in 2018 mainly due to a moderate recovery in oil production levels (vis-à-vis last year's sharp cuts) and marginally higher public spending. However, as the negative

short-term effects of structural reforms dissipates and government balances improve, it is projected that growth will rise to over 2 percent in 2019. As NTP-related reforms and direct government initiatives aimed at the private sector are implemented, while capital spending is simultaneously ramped up, further domestic growth opportunities are foreseen to open up. Crown Prince Mohammed bin Salman continues to have strong popularity, providing a strong signal to investors and the wider public of a longer-term commitment to continue the path of reforms despite the negative perceptions generated by specific initiatives.

With improved economic conditions, and an announcement by authorities of fewer fiscal constraints in 2018, the fiscal deficit is expected to narrow only slightly in 2018 to 7.6 percent, as a share of GDP. The fiscal outlook incorporates a continued strong commitment to reform efforts.

Recovering oil prices are expected to further strengthen the current account from its estimated surplus of 1.7 percent of GDP in 2017. Inflation is projected to be considerably more volatile in the coming years, rising to nearly 5 percent in 2018 and then dropping to below 2 percent in 2019 as the VAT introduction is absorbed.

## Risks and challenges

Over the medium-term the main challenge to the economy is an ability to translate general strategic directions into specific policies, at which point opposition tends to materialize. In practice this means that reforms with broad "middle class" negative impacts are more prone to reversal, such as subsidy reform and taxation. To stave off such opposition to the social contract, credibility that alternative sources of job creation will emerge is critical. In addition, while the government has tended to downplay fears of capital flight, net foreign assets held by SAMA had fallen steeply in recent years until late 2017. Buffers are still ample, but depleted relative to 2014. The clear intention to engage in more directive investments with foreign assets raises risks that foreign assets could be less liquid, inhibiting the country's ability to cope with oil price volatility.

**TABLE 2 Saudi Arabia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
<b>Real GDP growth, at constant market prices</b>	4.1	1.7	-0.6	1.8	2.1	2.3
Private Consumption	6.8	2.3	1.8	2.6	2.5	2.9
Government Consumption	-1.8	-18.8	2.0	1.1	1.4	1.4
Gross Fixed Capital Investment	3.6	-15.9	1.7	2.0	3.8	4.1
Exports, Goods and Services	0.7	1.4	-0.5	1.9	1.7	1.8
Imports, Goods and Services	1.5	-24.3	2.2	2.6	2.8	3.0
<b>Real GDP growth, at constant factor prices</b>	3.5	1.8	-0.6	1.8	2.1	2.3
Agriculture	0.6	0.6	0.0	0.2	0.6	0.6
Industry	5.0	2.5	-0.3	1.4	2.0	2.0
Services	1.4	0.9	-1.1	2.5	2.4	2.9
<b>Inflation (Consumer Price Index)</b>	2.2	3.5	-0.1	4.9	1.9	2.3
<b>Current Account Balance (% of GDP)</b>	-8.7	-4.3	1.7	2.1	2.3	2.4
<b>Fiscal Balance (% of GDP)</b>	-15.8	-16.9	-9.0	-7.6	-4.9	-2.4

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

