SAUDI ARABIA

Table 1	2018
Population, million	33.6
GDP, current US$ billion	786.5
GDP per capita, current US$	23441
Life expectancy at birth, years[a]	74.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Slower growth is anticipated in 2019 due to lower oil production levels, subdued prices and a temporary supply disruption due to the attack on Aramco's oil facilities. Growth is expected to rebound in the medium term as production cuts are reversed and structural reforms yield dividends. The 2019 budget continues its expansionary path while also deepening initiatives for non-oil revenue mobilization and medium-term spending restraint. A key challenge is to ensure that the numerous spending initiatives and reforms under Vision 2030 are well coordinated.

Recent developments

The Kingdom of Saudi Arabia implemented significant cuts in oil production in 2019, as part of an OPEC+ agreement. These have contributed to softening GDP growth to 1.7 percent year-on-year (y/y) in Q1 2019 from 2.4 percent in 2018. With US shale production continuing to increase in the first half of 2019, Saudi Arabia's oil production cuts were deeper than pledged, with output in July standing at 9.65mbd versus the voluntary limit under the OPEC+ accord of 10.3mbd.

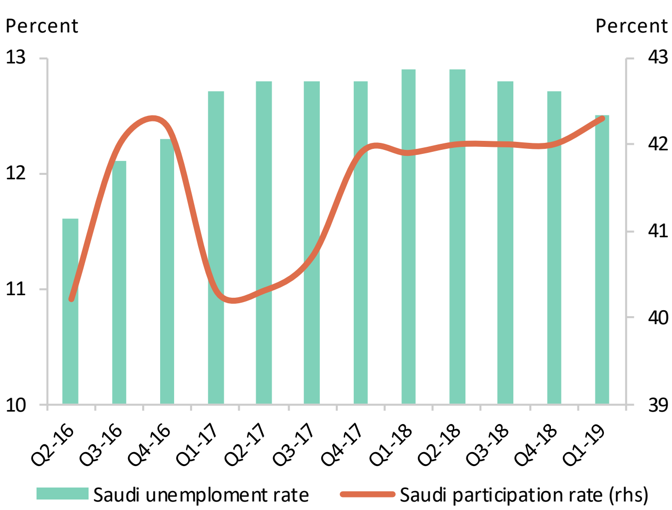
Non-oil sector growth increased as the fiscal stance turned more supportive and the government settled US$43 billion in arrears to private firms. Business confidence surveys signal continued expansion in Q2. Nevertheless, deflationary pressures persist, reflecting negative growth in rental prices, in part due to the exit of some 1.8 million foreign workers since 2017.

Public sector finances posted a surplus of US$7.4 billion in Q1, despite rising government spending and lower oil production. The improvement reflected increased VAT collection and expansion of excise taxes and larger transfers (including a special dividend) from Saudi Aramco to the budget. With spending increasing in Q2 and growth in revenues moderating, fiscal balances shifted back into deficit (of US$8.9 billion). Public investment has increased as Vision2030-related infrastructure plans are implemented. Recent fiscal deficits have led to a rapid increase in public debt, from 1.6 percent of GDP in 2014 to nearly 20 percent at end-2018, with US$18 billion in sovereign debt raised in H12019 alone. Additionally, a US$12 billion bond issuance in April by Aramco was one of the most oversubscribed offerings in history, and at a lower yield than the sovereign. To help develop domestic debt markets, the government has issued longer (30-year) maturity domestic bonds and allowed trading of government debt instruments on the stock exchange.

The current account surplus narrowed slightly in Q1 2019 on lower oil export earnings. The services balance has improved amidst lower remittances outflow. Net FDI flows remain significantly below pre-2014 levels at US$1.25 billion in Q1. Portfolio investment inflows significantly increased in preparation of the Saudi Stock Exchange listing in Emerging Markets Stock indices. Foreign exchange reserves at the central bank (excluding gold) stood at US$512 billion in June, up from US$496 billion at the end of 2018. Given the US dollar peg, the repo rate was reduced to 2.75 percent following Fed's recent looser monetary policy.

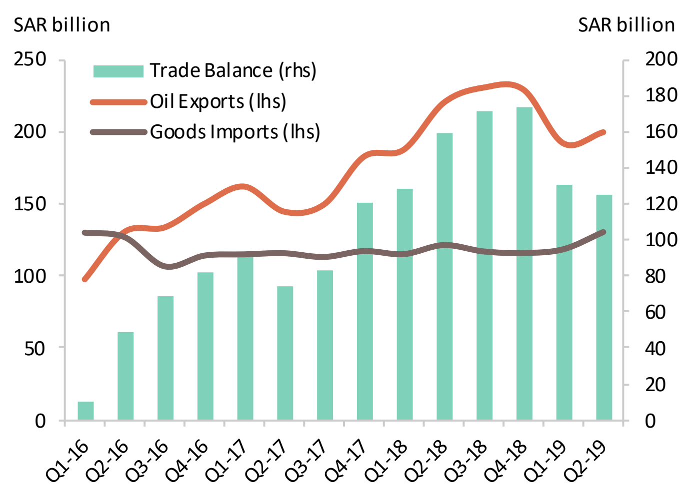
Vision 2030 has spurred reforms in several areas, including the development of the financial sector, improving the business climate, strengthening human capital, developing SME's, and attracting foreign investments. Public financial management reforms include the introduction of medium-term fiscal frameworks, improvements to budget processes and fiscal transparency and expenditure management systems. Labor market reforms aim

FIGURE 1 Saudi Arabia / Saudi unemployment and participation rates



Source: GASTAT.

FIGURE 2 Saudi Arabia / Trade balance, oil exports, and goods imports



Source: SAMA.

to increase the share of nationals, in the private sector workforce. While employment of nationals, including women, has increased, impacts on private sector growth and productivity are less clear. Levies on expatriate labor have raised business costs and weakened domestic demand as foreign workers have exited.

While no official information is available on poverty, identifying and supporting low income households is challenging. 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, introduction of VAT, and expatriate levy. However, close coordination with other cash transfer programs is warranted to assure overall effectiveness and efficiency of social assistance programs and use of public resources.

Outlook

GDP growth is anticipated to slow in 2019 to 0.8 percent, as the drag from oil production cuts is compounded by the worsening global outlook since the early summer. The attacks on Saudi oil facilities in September led to a significant supply disruption which is also expected to impact 2019 growth. These adverse outcomes would be partially offset by the boost to non-oil private sector activity from rising government spending. Growth is expected to rise to 2.2 percent in 2021 as oil production cuts are reversed and ongoing diversification reforms yield dividends. Inflation should remain subdued as growth remains below potential. Public finances will remain in deficit, albeit narrowing, given the outlook for low energy prices over the next two years. Realizing the balanced-budget target by 2023 (as in the Fiscal Balance Program) is contingent on sustained fiscal consolidation and higher oil prices. The current account surplus is projected to widen with a shrinking trade surplus from lower oil exports receipts and higher private demand and Vision 2030-related infrastructure imports. Saudi Arabia will chair the G-20 in 2020; this increased global profile is likely to stimulate progress on structural reforms.

Risks and challenges

Downside risks include disappointing global growth that weighs on energy demand and prices, and volatility in global financial markets that could increase funding costs. With government spending remaining a key driver of non-oil activity, a key challenge for fiscal policy is to balance macroeconomic stability and growth, on one hand, and fiscal sustainability, on the other. Despite significant progress on Vision2030 reforms, diversification remains a challenge, requiring stronger policy consistency, predictability, and agency coordination. Building political and social support and sound prioritization of reforms will be essential to realizing Vision 2030 objectives. Saudi Arabian nationals are disincentivized to fill the gap left by the expatriate exodus and a key challenge will be to reduce the reservation wage for nationals as well as better manage foreign labor admission and mobility across sectors. Finally, large capital investments and mega projects are envisaged under Vision 2030 but may generate significant financing needs and fiscal risks. Longer term impacts hinge on whether these projects genuinely ease bottlenecks for private sector led growth.

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

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	1.7	-0.7	2.4	0.5	1.6	2.2
Private Consumption	0.9	3.2	1.9	2.6	2.4	2.2
Government Consumption	-17.5	3.3	6.0	2.9	1.2	1.2
Gross Fixed Capital Investment	-14.0	0.7	-2.9	4.2	5.6	6.2
Exports, Goods and Services	8.0	-3.1	6.8	-2.5	0.8	1.8
Imports, Goods and Services	-20.3	0.3	2.7	2.9	4.3	4.1
Real GDP growth, at constant factor prices	1.7	-0.8	2.4	0.5	1.6	2.2
Agriculture	0.6	31.0	-4.5	2.3	2.3	2.3
Industry	2.3	-2.4	2.7	-0.2	1.5	1.5
Services	0.8	-0.2	2.6	1.4	1.7	3.2
Inflation (Consumer Price Index)	2.0	-0.9	2.5	-1.2	0.8	1.0
Current Account Balance (% of GDP)	-3.7	1.5	9.0	5.8	7.1	7.9
Net Foreign Direct Investment (% of GDP)	-0.2	0.9	0.7	0.8	1.0	1.0
Fiscal Balance (% of GDP)	-12.9	-9.2	-5.9	-6.1	-4.5	-4.1

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