

SAUDI ARABIA

Recent developments

Table 1 **2019**

Population, million	34.1
GDP, current US\$ billion	749.1
GDP per capita, current US\$	21941.7
School enrollment, primary (% gross) ^a	99.8
Life expectancy at birth, years ^a	75.0

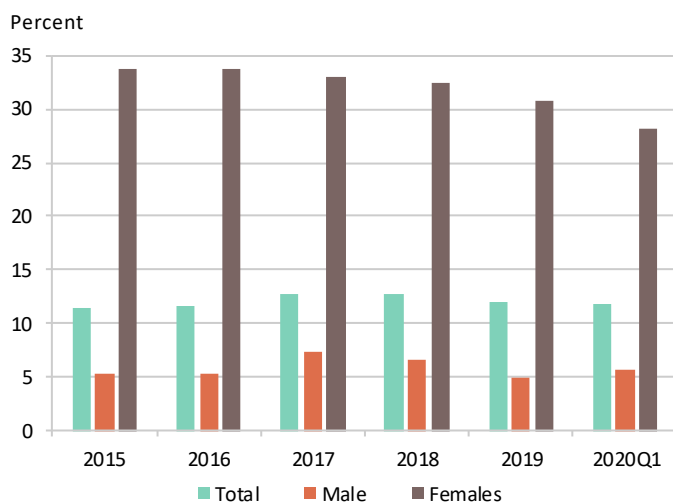
Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

COVID-19 and lower oil production levels and prices are weighing heavily on the economy and fiscal position, despite sizable fiscal and monetary mitigation measures. The 2020 outlook remains very weak with medium-term recovery dependent on global economic rebound and eventual containment of the pandemic. Medium-term fiscal deficits are estimated to continue, leading to a rapidly rising public debt trajectory. The prospects for successful diversification are complementary to a stable fiscal framework that is well-signaled to the private sector.

Saudi Arabia continues to evolve its response to the twin shocks of COVID-19 and lower oil prices. Daily confirmed COVID-19 cases have trended downwards, and oil prices recouped some of their lost ground in the Spring owing to OPEC+ agreement and a pick-up in economic activity as countries ease containment measures. Furthermore, the government has extended various fiscal mitigation measures, estimated at SAR 180 billion (7.3 percent of GDP), to mitigate the impact of the pandemic on the local private sector. These include the payment of up to 60 percent of wages of local private sector employees and the deferral or waiver of certain taxes and fees, with unspecified expiration dates for many measures. After contracting by 1 percent in the first quarter 2020, Saudi GDP declined by 7 percent during the second quarter. Output contracted during the first quarter 2020 by 1 percent, with oil sector falling by 4.6 percent reflecting production cuts in response to weak market conditions predating the pandemic outbreak. The oil sector continued its drag on the economy as fresh production cuts (subsequent OPEC+ agreements) led oil output to fall by 5.3 percent during the second quarter. Output across the non-oil sectors contracted by 8.2 percent during the second quarter 2020 reflecting the impacts of containment measures. Net foreign investment flows fell drastically over this period, but the government is continuing to implement

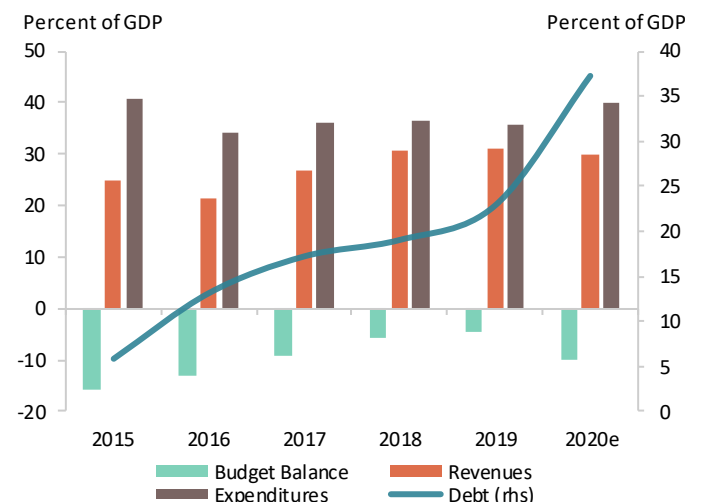
major projects at the center of Vision 2030. The freeze of religious tourism and fiscal adjustments (most notably the tripling of VAT rate to 15 percent effective July) will further suppress private consumption and investment and prolong non-oil sector weakness. With the VAT increase, headline inflation spiked to 6.1 percent in July, from a one-year low of 0.5 percent in June. The budget deficit widened in the first half of 2020 to SAR 143.3 billion (11.7 percent of GDP) compared to SAR 5.6 billion (0.4 percent of GDP) during the same period last year. Lowering spending by 8.3 percent through cutting the wage bill and slashing capital spending fell short of matching the collapse in revenues, which dropped by 35.6 percent. The scale of the decline in oil revenues means that even with painful fiscal measures like the suspension of cost of living allowance and increasing VAT, financing needs are very large. Thus far, depletion of reserves and ample market access have proven sufficient, providing space to smooth some of the fiscal adjustment to when economic conditions are stronger. Poverty information and access to survey data to measure welfare conditions have been limited. However, in recent years there have been gains in administrative capacity to identify and support low income households. Like other GCC countries, the bulk of low-income residents are migrant workers, but there is as yet no systematic data on their repatriation as a result of the pandemic. Unemployment among Saudis is largely made up of the young and educated. The participation rate of women is 26 percent, and the

FIGURE 1 Saudi Arabia / Saudis unemployment rate by gender



Sources: Haver Analytics.

FIGURE 2 Saudi Arabia / Central government operations



Sources: Haver Analytics, Macroeconomics Trade & Investment.

unemployment rate among Saudi females is almost five times that of males (28.2 percent and 5.6 percent, respectively).

Outlook

The severity of the 2020 contraction will depend on COVID-19 progression and oil price volatility during the remainder of the year. GDP growth is expected to contract by 5.4 percent as oil production levels are kept around OPEC+ commitment. Growth in non-oil sectors will inevitably be depressed due to the significant capital spending cutbacks, continuation of social restriction measures, and households' adjustment to the VAT increase.

Over the medium term, and pending global recovery and tapering of the pandemic, growth is expected to reach 2.2 percent by 2022; supported by expansion of hydrocarbon output and resumption of capital projects slowed down as part of the re-prioritization of spending. While the hit to sectors and the current account is broad-based, continuation of domestic tourism recovery and an emerging niche tourist

sector based on outdoor natural settings could partially compensate for religious tourism losses. There is little risk of the VAT increase being embedded in inflation expectations and the inflation spike will be brief.

The budget deficit is anticipated to widen in 2020 to 10 percent of GDP before it narrows in the medium term, but not quickly enough to achieve a balanced budget by 2023, per the pre-Covid fiscal balance programs. The public debt target of 30 percent of GDP from the original fiscal balance program has been wisely dropped. Signs of urgency by authorities to push forward with the privatization program will instill confidence about the private sector role in Vision 2030 and ease financing needs from other sources.

Risks and challenges

Authorities are gradually lifting stringent public health measures, enabling a pickup in activity. Many countries have seen such steps lead to higher cases from COVID-19. A spike in new cases would

likely see re-imposed containment measures; further hurting businesses, employment, and vulnerable groups. Oil prices have partially rebounded from their April lows largely owing to the revival in global demand and constrained supply through OPEC+ agreement. Compliance to quotas by member states is critical in keeping a floor under prices and the agreement intact, and the Kingdom has signaled its frustration both with non-compliance and financial market expectations of another plunge in oil prices.

Imposing further fiscal restraint, whether for the bloated wage bill or new capital projects, will need to be assessed against the need for fiscal mitigation to reduce COVID-19 impacts. The initial public offering of Saudi Aramco highlighted the tradeoff between predictability of oil revenues – its dividends – and investment needs in the hydrocarbon sector. Payoffs from diversification both in terms of productivity and the non-oil revenue base are therefore increasingly urgent. Significant efforts were already underway to reform the labor market, leaving nationals better incentivized to fill the gap left by expatriate exodus than other GCC countries.

TABLE 2 Saudi Arabia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-0.7	2.4	0.3	-5.4	2.0	2.2
Private Consumption	3.2	1.9	4.4	-2.5	1.5	1.6
Government Consumption	3.3	6.0	0.6	-5.2	1.0	1.5
Gross Fixed Capital Investment	0.7	-2.9	4.9	-2.3	1.4	1.9
Exports, Goods and Services	-3.1	6.8	-4.5	-9.7	2.6	2.8
Imports, Goods and Services	0.3	2.7	1.3	-3.9	1.0	1.3
Real GDP growth, at constant factor prices	-0.7	2.6	0.3	-5.4	2.0	2.2
Agriculture	0.5	0.3	1.3	0.0	0.1	0.2
Industry	-2.4	2.7	-2.6	-6.1	1.4	1.6
Services	1.9	2.5	4.3	-4.6	3.0	3.1
Inflation (Consumer Price Index)	-0.9	2.5	-1.2	2.0	2.2	2.5
Current Account Balance (% of GDP)	1.5	9.0	6.6	-4.8	-4.5	-1.7
Net Foreign Direct Investment (% of GDP)	0.9	0.7	0.8	-3.0	-1.0	1.0
Fiscal Balance (% of GDP)	-9.2	-5.9	-4.2	-10.0	-7.9	-5.7
Primary Balance (% of GDP)	-8.9	-5.4	-3.4	-9.2	-7.0	-4.7

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