SAUDI ARABIA

Table 1	2021
Population, million	35.3
GDP, current US$ billion	833.0
GDP per capita, current US$	23597.7
School enrollment, primary (% gross)[a]	100.2
Life expectancy at birth, years[a]	75.1
Total GHG Emissions (mtCO2e)	601.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

After registering a stronger-than-expected recovery in 2021, the Saudi Arabian economy is on an accelerated growth path in 2022; driven by higher oil and non-oil activities as oil production and prices strengthen and pandemic pressures fade. Direct trade flows with Russia and Ukraine are limited; however, spillovers in the oil market have strengthened medium-term fiscal and external outlook. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

The war in Ukraine will have sizable economic implications globally through multiple channels; most significant for Saudi Arabia is through energy markets. Energy prices have already increased and are likely to rise further if conflict continues to escalate which may require OPEC+ members to ramp up production—presenting an upside risk to Saudi Arabia's outlook.

The government's long-term strategy to diversify the economy and reduce dependence on oil is well-articulated in Vision 2030. The Public Investment Fund (PIF) is envisioned to play a central developmental role in this transformation plan by investing SAR 150 billion (US$40 billion) annually into the domestic economy. This role would require fund's enhanced transparency and predictability for the private sector. Moreover, off-balance sheet investments reduce overall fiscal oversight and could increase contingent liabilities and fiscal risks.

Risks to the non-oil sector recovery remain. Despite more than two-thirds of the population fully inoculated against the COVID-19, a spike in cases due to new variants that are vaccine-resistant would risk a cycle of movement restrictions and delay the recovery. In all cases, the vaccine rollout should remain the authority's main priority in the near term. Furthermore, domestic monetary policy is set to tighten in line with the US monetary policy, which will dampen the recent mortgage credit boom.

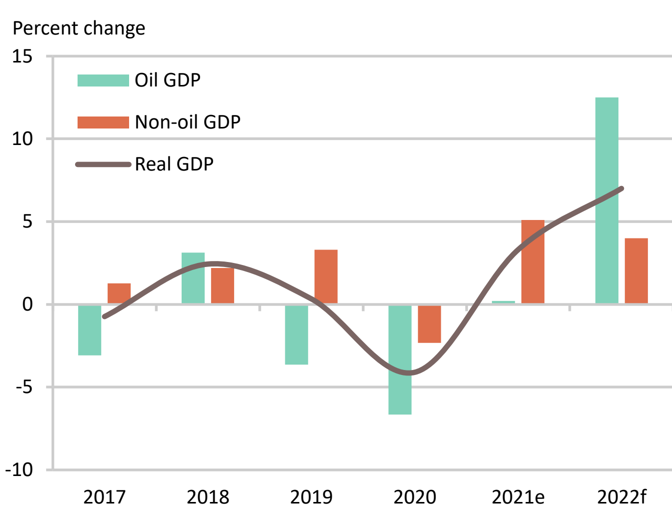
Recent developments

Saudi Arabia continues to successfully control the adverse impacts of the pandemic despite the Omicron variant outbreak at the end of 2021. With a high vaccination rollout, reaching 68 percent of the population, new cases are on a downward trajectory since January 2022. Globally, Saudi Arabia continues to assume its pivotal role, under the OPEC+ structure, in resolving oil market imbalances through waning monthly oil production cuts of 0.4 mbpd, which started in July 2021.

Against this background, latest official data suggest that the economy grew by 3.3 percent in 2021. The oil sector registered growth of 0.2 percent, reflecting a gradual easing of voluntary output cuts. The non-oil sector continued its recovery path registering a 5.1 percent growth in 2021 —lifting the non-oil economy by 3.2 percent above its pre-pandemic level. More recent high frequency data report a slight dip in January 2022 PMI following the Omicron surge, but the economic impact of the Omicron is expected to be short-lived. Headline inflation registered 3.1 percent in 2021, as the VAT-driven impact on inflation dissipated, but was offset by higher food and transportation prices.

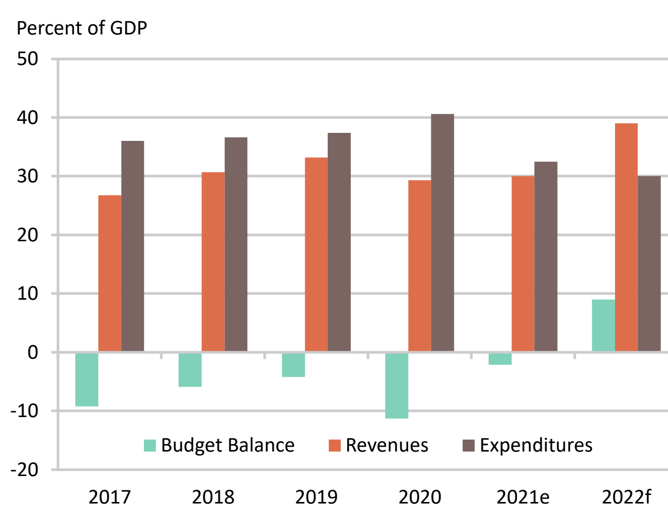
The budget deficit narrowed in 2021 to 2.1 percent of GDP, driven by higher oil revenues and fiscal consolidation measures.

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank, Macroeconomics, Trade & Investment Global Practice.

Tax revenues have also contributed to this improvement, increasing by 40 percent from 2020, driven by stronger domestic demand and full-year collection of the higher VAT rate. On the expenditures side, tighter fiscal policy resulted in expenditures dropping by 3 percent; with capital expenditures bearing the brunt of this cut. Thus far, reduction of reserves and ample market access have proven sufficient to finance the deficit and shield the economy from full volatility of oil prices; especially, during H1 2021.

Supported by higher oil export receipts and phasing-out of restrictions on religious tourism, the current account is estimated to register a surplus of 5.2 percent of GDP in 2021 from a deficit of 2.3 percent of GDP in 2020.

There is no publicly available information on official poverty rates in Saudi Arabia and access to micro data from household surveys is limited. However, recent statistics point to significant and remarkable changes in the labor market. First, Saudi nationals are entering the labor market at high rates driven by recent reforms; especially, those aimed at women's participation. Second, along with rising participation among Saudi women (from 26 percent in Q4 2019 to 34.1 percent in Q3 2021), unemployment rate has also dropped by 9 percentage points relative to pre-pandemic levels to an estimated 21.9 percent in Q3 2021. Third, the increase in employment is driven by the private sector reflecting strong performance in non-oil activities. Last, but not least, foreign workers are leaving, leading to an overall reduction in employment of almost 900,000 workers (Q3 2021 relative to Q4 2019).

Outlook

Growth is expected to accelerate to 7 percent in 2022 before moderating to 3.8 and 3.0 percent in 2023 and 2024, respectively. Stronger oil output is the main driver behind the recovery which is expected to grow by 13 percent in 2022 following the end of the OPEC+ production cuts in December 2022. The non-oil sector is expected to continue its growth trajectory, estimated at 4 percent in 2022 and 3.2 percent in the medium-term. Despite headwinds from tighter fiscal and monetary policies in the medium term, stronger private consumption, an increase of religious tourism, and higher domestic capital spending—signaled through the PIF and other state agencies—are anticipated. Headline inflation is projected to slow and hover at around 2 percent during 2022 as result of a stronger US dollar, against which the Saudi Riyal is pegged, and tighter monetary policy.

The budget balance is expected to register a surplus of 9.1 percent of GDP in 2022—the first surplus in nine years—driven by higher oil receipts. Fiscal performance in the medium term is underpinned by authorities' commitment to compress expenditures and build credible budget envelopes. With most of capital spending channeled through the PIF and other state agencies, the overall fiscal stance is more expansionary than officially reported through the budget.

As higher energy prices and further unwinding of OPEC+ oil production cuts kick in, the current account surplus is projected to widen to 14 percent of GDP in 2022 before moderating to an average of 9.2 percent in the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.3	-4.1	3.3	7.0	3.8	3.0
Private Consumption	4.4	-4.9	3.4	3.0	3.1	2.8
Government Consumption	0.6	2.6	1.8	0.6	0.8	0.6
Gross Fixed Capital Investment	4.9	-14.0	8.2	6.4	7.2	3.3
Exports, Goods and Services	-4.5	-8.7	1.4	14.8	5.1	4.7
Imports, Goods and Services	1.3	-14.6	2.7	7.6	5.4	4.3
Real GDP growth, at constant factor prices	0.3	-4.0	3.3	7.0	3.8	3.0
Agriculture	1.3	0.0	0.1	0.2	0.2	0.2
Industry	-2.6	-5.3	0.6	8.5	2.8	2.7
Services	4.3	-2.5	7.0	5.5	5.2	3.5
Inflation (Consumer Price Index)	-1.2	3.4	3.1	2.0	1.8	1.9
Current Account Balance (% of GDP)	4.7	-2.3	5.2	14.0	11.1	7.3
Fiscal Balance (% of GDP)	-4.2	-11.1	-2.1	9.1	5.9	3.8
Debt (% of GDP)	23.1	32.5	29.1	23.5	21.4	19.4
Primary Balance (% of GDP)	-3.4	-10.1	-1.2	10.1	6.8	4.6
GHG emissions growth (mtCO2e)	-2.2	-4.7	1.1	3.1	1.8	1.3
Energy related GHG emissions (% of total)	77.2	77.2	77.6	77.3	77.5	77.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.