

SAUDI ARABIA

Key conditions and challenges

Table 1	2020
Population, million	34.8
GDP, current US\$ billion	701.6
GDP per capita, current US\$	20160.9
School enrollment, primary (% gross) ^a	100.7
Life expectancy at birth, years ^a	75.1
Total GHG Emissions (mtCO ₂ e)	640.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

The Saudi Arabian economy is on a recovery path as the spread of the pandemic is kept under control and the vaccination rollout is making significant progress. Improvement of global conditions and spillovers in the oil market have strengthened medium-term fiscal and external outlook. A breakout of new variants, tighter global financial conditions, and renewed downward pressure on oil prices are key downside risks to the outlook. A slow and orderly withdrawal of the remaining COVID-19 support programs is warranted to maintain recovery and protect vulnerable groups.

The Saudi Arabian economy is dominated by oil, and a long-term diversification plan (Vision 2030), which started implementation in 2016, promotes structural reforms targeting strong, sustained, inclusive, greener, and service-led growth. The economy fell into a deep recession in 2020 in the aftermath of the twin shocks of COVID-19 and lower oil prices, creating large shortfalls in fiscal and external positions. While the oil sector impact of COVID-19 has accelerated the urgency to delink the path of the economy from the oil sector, the pandemic is also likely to change the nature of the services model in many countries, and oil will remain a valuable asset to finance the transformation and adaptation to this emerging model or any other non-oil growth model for Saudi Arabia.

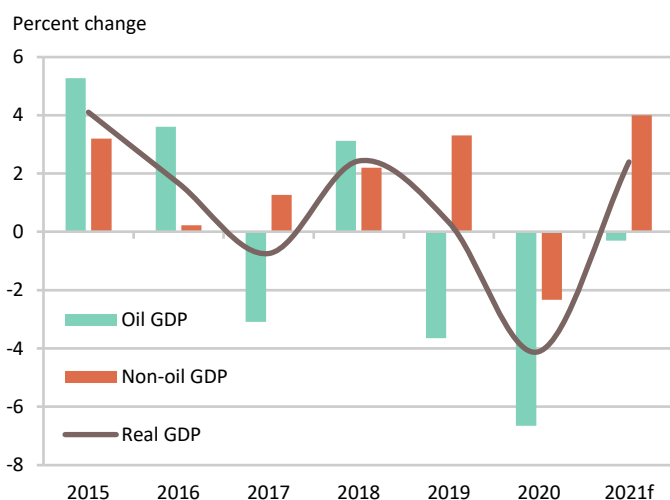
Risks to economic performance remain. While authorities lifted many stringent public health measures with the improvement of pandemic conditions, a spike in cases due to new variants of the virus risks a cycle of movement restrictions and delaying recovery. Furthermore, a rise in global risk premia and tighter global financial conditions due to rising inflationary pressures would result in a monetary tightening in Saudi Arabia; further dampening recovery. With oil prices rebounding as global demand recovers, the incentive to overproduce by OPEC+ members

increases, adding further uncertainty to the global oil market. The withdrawal of the remaining COVID-related support programs will need to be carefully gauged to reduce adverse impacts on individuals, businesses, and vulnerable groups. To lessen the burden on the budget as a driver of growth, the Public Investment Fund (PIF) is taking on a larger developmental role in the domestic economy, requiring enhanced fund's transparency and predictability for the private sector.

Recent developments

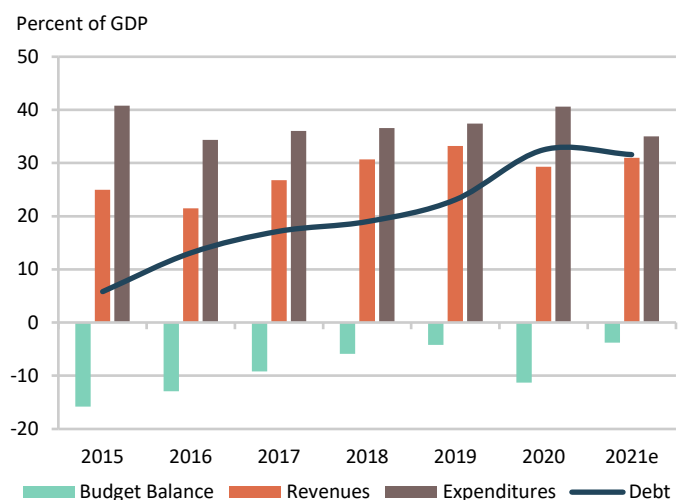
Saudi Arabia continues to cope directly with the pandemic and indirectly with oil market implications from the pandemic. The 7-day new cases average increased since Jan 2021 (110 cases), as a result of the spread of the new more transmissible COVID-19 variant, to reach a second peak in July 2021 (1400 cases). Since then, cases had been on a downward trajectory reaching 160 cases in early Sept 2021. Meanwhile, vaccination rollout is making significant progress with fully inoculated individuals reaching 50 percent of the population. On the other hand, the Kingdom has navigated extraordinary volatility in the oil market, using the OPEC+ structure and its own carefully calibrated production adjustments to keep supply in line with the gradual global relaxation of containment measures. Nevertheless, oil prices are now at a level where unconventional supply will be induced back into the market. Against this background, the

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and WB staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



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

economy is showing signs of recovery during H1 2021, after contracting by 4.1 percent in 2020. Quarter-to-quarter real growth registered -0.5 and 0.6 percent on seasonally adjusted basis for Q1 and Q2 in 2021, respectively. The oil sector recovered parts of its losses during Q2 2021 on the back of the unwinding of the 1 mbpd voluntary output cut that lasted from February to April. Non-oil sectors reported better-than-expected signs of recovery as containment measures eased which supported domestic demand—with seasonally adjusted growth registering 4.9 and -0.5 percent for Q1 and Q2, respectively. However, high frequency data suggests that consumer spending and the construction sector are losing steam in July and August. Inflation averaged 5.5 percent during H1 2021 and is expected to fall sharply in the remainder of this year as the effects of last year's VAT hike fall out of the annual price comparison. The budget deficit narrowed during H1 2021 (SAR 12 billion) compared to the same period of previous year (SAR 143 billion). Higher oil revenues and stronger fiscal adjustments have contributed to a favorable fiscal position. Thus far, use of reserves and ample market access have proven sufficient to finance the deficit, and shielding the economy from the full oil price volatility. There is no publicly available information on official poverty rates in Saudi Arabia

and access to micro data from household surveys is limited. However, in recent years the government has made gains creating the capacity to identify and support low-income households. The most recent labor market data shows that unemployment during Q1 2021 was 6.5 percent, 0.9 p.p. lower than in the previous quarter (Q4 2020), but still 0.8 p.p. higher than a year ago (Q1 2020). Similarly, the unemployment rate among Saudis fell to 11.7 percent in Q1 2021, down from 12.6 percent in Q4 2020, almost reaching the level from the previous year (11.8 percent in Q1 2020). In addition, total labor force participation rate has increased to 61.1 percent in Q1 2021, up from 58.2 percent in Q1 2020. Unemployment among women in Q1 2021 (16.1 percent) remains four times higher than for men (3.7 percent), and despite rising female labor force participation, a significant gender gap remains.

Outlook

The recovery is expected to continue with growth reaching 2.4 percent in 2021 and 4.9 percent in 2022. The oil sector is projected to grow at -0.3 percent in 2021 following OPEC+ agreed path of production levels until Dec 2021 and rebound

significantly in 2022 as OPEC+ production cuts end as announced. As the vaccination program gains more momentum and COVID-related restrictions are further eased, non-oil sectors will continue their growth trajectory, estimated to reach 4 percent in 2021 and 3.3 percent in 2022 reflecting stronger private consumption, gradual resumption of religious tourism, and higher domestic capital spending signaled through the National Investment Strategy, which targets SAR 12 trillion over the next 10 years. Headline inflation in 2021 is expected to reach 3.3 percent, as VAT-driven impact on inflation dissipates, but is expected to be offset by higher food and oil prices.

The budget deficit is anticipated to reach 3.8 percent of GDP in 2021 and will continue its narrowing path in the medium term, but not quickly enough to achieve the self-imposed medium-term balanced budget target articulated in the Fiscal Balance Program (FBP) by 2023. Signs of urgency by authorities to push forward with PPP and privatization programs will instill confidence about private sector role in Vision 2030 and ease financing needs, with debt-to-GDP projections staying comfortably below 50 percent target in the medium term. The external current account is projected to return into surplus during 2021-2023 as energy prices and export earnings recover.

TABLE 2 Saudi Arabia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	0.3	-4.1	2.4	4.9	2.3
Private Consumption	1.9	4.4	-4.9	2.8	2.2	2.4
Government Consumption	6.0	0.6	2.6	0.5	-0.6	-0.5
Gross Fixed Capital Investment	-2.9	4.9	-14.0	7.5	4.1	4.0
Exports, Goods and Services	6.8	-4.5	-8.7	0.9	9.6	3.2
Imports, Goods and Services	2.7	1.3	-14.6	2.7	3.0	3.1
Real GDP growth, at constant factor prices	2.6	0.3	-4.0	2.4	4.8	2.3
Agriculture	0.3	1.3	0.0	0.1	0.2	0.2
Industry	2.7	-2.6	-5.3	-0.2	5.4	1.6
Services	2.5	4.3	-2.5	5.9	4.4	3.2
Inflation (Consumer Price Index)	2.5	-1.2	3.4	3.3	2.0	2.0
Current Account Balance (% of GDP)	9.0	4.7	-2.3	4.8	5.0	2.3
Fiscal Balance (% of GDP)	-5.9	-4.2	-11.1	-3.8	-2.2	-1.7
Debt (% of GDP)	19.0	23.1	32.5	31.6	31.3	30.7
Primary Balance (% of GDP)	-5.4	-3.4	-10.1	-2.7	-1.1	-0.5
GHG emissions growth (mtCO2e)	-2.7	0.4	-0.1	1.2	4.5	1.6
Energy related GHG emissions (% of total)	77.4	77.8	78.8	79.2	79.1	79.1

Source: World Bank, Poverty & Equity and Macro economics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.