SAUDI ARABIA

Table 1	2020
Population, million	34.8
GDP, current US$ billion	701.6
GDP per capita, current US$	20151.6
School enrollment, primary (% gross)[a]	100.7
Life expectancy at birth, years[a]	75.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

After a deep contraction in 2020, Saudi Arabia's economy is on a recovery path as new COVID-19 cases have stabilized at manageable levels, global conditions improve, and the national vaccination program gains momentum. Improvement in oil prices and easing of containment measures will strengthen medium-term fiscal and external positions. A resurgence of COVID-19 infections and renewed downward pressure on oil prices are key downside risks to the outlook. Further fiscal austerity measures would also act as a headwind to the recovery.

Key conditions and challenges

Saudi Arabia remains highly dependent on the hydrocarbon sector, but a reform acceleration beginning in 2016 had made progress on economic diversification, especially regarding labor force participation of women, mobilization of non-oil revenues, and services-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.

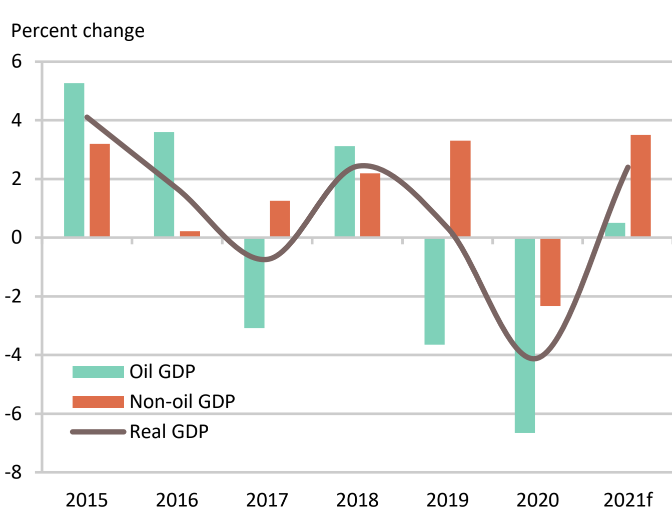
While authorities lifted many stringent public health measures with the improvement of pandemic conditions, a spike in cases due to new variants of the virus risks a cycle of on-off lockdowns, dampening recovery. Saudi Arabia is a regional leader for launching its national vaccination program in mid-December; however, the vaccination rate remains in the large cluster of slowly-progressing countries, an order of magnitude behind countries like the USA, UAE, and Chile. Strong groundwork for a vaccination scale-up and an ample testing apparatus should support efforts in restarting in-person services, especially in light of the importance of travel for religious pilgrimage.

With oil prices rebounding as global demand recovers, the temptation to "cheat" on production quotas by OPEC+ members increases, which might trigger another price war as in March 2020. Imposing further fiscal restraint, whether to tackle the public sector wage bill or mobilize non-oil revenues, will need to be balanced against the case for active fiscal policy to mitigate COVID-19 impacts. 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; experience of other countries shows that the crowding-in potential of a public fund is enhanced by transparency and predictability for the private sector on the fund's investments and governance thereof.

Recent developments

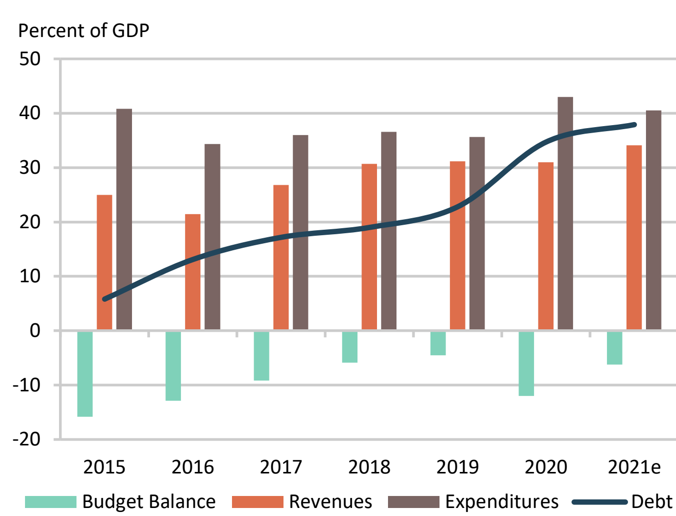
Saudi Arabia has faced a compound challenge of coping directly with the pandemic and with the indirect oil market implications of the pandemic. Daily infections had been on a downward trajectory from its peak in June 2020 (4400 cases) to early January 2021 (100 cases); yet by mid-February new and more transmissible variants of the virus crept up, forcing partial reinstatement of travel bans. Meanwhile, the national vaccination program rollout started in mid-Dec 2020, ahead of many countries in the region, with the aim of inoculating at least 70 percent of population by end 2021. The

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and WB staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



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

vaccination rate, currently standing at 7 doses per 100 people, is increasing rapidly, but still too low to give sizable immunity. 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, GDP contracted by 4.1 percent in 2020, led by oil production cuts. Non-oil sectors reported better-than-expected signs of recovery during the second half of 2020 as containment measures eased—with quarter-to-quarter growth registering 1.8 and 2.8 percent for Q3 and Q4, respectively; yet proxies for consumer spending remain weak reflecting households' adjustment to higher VAT rate and the construction sector seemed to slow. With the VAT increase in mid-2020, headline inflation rose to 3.4 percent for the year.

Despite painful fiscal measures introduced in mid-2020, the budget deficit continued to widen, reaching 11.3 percent of GDP. Thus far, depletion of reserves and ample market access have proven sufficient to finance the deficit, insulating the economy from the full volatility of oil revenues.

There is no publicly available information on official poverty rates in Saudi Arabia and access to survey data to measure welfare conditions is limited. However, in recent years the government has made gains creating the capacity to identify and support low income households.

The most recent employment data from the General Authority of Statistics (GASTAT) shows that unemployment during Q3 of 2020 was 8.7 percent, 2.9 p.p. higher than during the same period of 2019. Unemployment among Saudis is largely made up of the young and educated ; 60.7 percent of all unemployed Saudis belong to the age group 20-to-29 years, and more than half of them (53.9 percent) hold a bachelor's degree. Male labor force participation (66 percent) is more than double that of females (31.3 percent) – itself a doubling of the rate since 2016.

Outlook

The economy is expected to grow by 2.4 percent in 2021, driven by a more accelerated pick-up in global energy demand and prices and Saudi oil production level closer to its OPEC+ original commitment, resulting in oil sector growth of 0.5 percent. As the vaccination program gains more momentum and COVID-related restrictions are eased, non-oil sectors will continue their growth trajectory, estimated to reach 3.5 percent in 2021 and reflecting stronger private consumption, gradual resumption of religious tourism, and higher domestic capital spending signaled through PIF's five-year strategy (2021-2025). Medium-term growth is expected to reach 3.3 percent while headline inflation in 2021 is expected drop, as VAT -driven impact on inflation dissipates.

The budget deficit is anticipated to reach 5.6 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 the privatization program 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 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	0.3	-4.1	2.4	3.3	3.2
Private Consumption	1.9	4.4	-4.9	2.3	2.6	2.7
Government Consumption	6.0	0.6	2.6	2.6	1.2	0.9
Gross Fixed Capital Investment	-2.9	4.9	-14.0	3.9	4.0	4.0
Exports, Goods and Services	6.8	-4.5	-8.7	1.8	4.7	4.5
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	3.3	3.2
Agriculture	0.3	1.3	0.0	0.1	0.2	0.2
Industry	2.7	-2.6	-5.3	0.4	2.4	2.4
Services	2.5	4.3	-2.5	5.1	4.6	4.3
Inflation (Consumer Price Index)	2.5	-1.2	3.4	3.6	2.0	2.2
Current Account Balance (% of GDP)	9.0	6.6	-2.7	2.6	4.5	5.9
Net Foreign Direct Investment (% of GDP)	0.7	0.8	-0.2	0.5	0.6	0.8
Fiscal Balance (% of GDP)	-5.9	-4.2	-11.3	-5.6	-3.0	-1.0
Primary Balance (% of GDP)	-5.4	-3.4	-10.1	-4.3	-1.7	0.3

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