

SAUDI ARABIA

Table 1 **2018**

Population, million	33.6
GDP, current US\$ billion	785.5
GDP per capita, current US\$	23411
School enrollment, primary (% gross) ^a	116.2
Life expectancy at birth, years ^a	74.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2016)

Growth recovered to 2.2 percent in 2018, supported by rising oil revenues and increased public spending. The outlook for 2019 remains weak due to hefty oil production cuts and volatile oil prices. The 2019 budget continues the expansionary fiscal policy adopted since 2017, while being sensitive to oil price outcomes for deficit reduction. Vision 2030 related reforms are critical for diversification and progress was made on business environment reforms. The ambitious reform agenda could pose implementation challenges for the public sector.

Recent developments

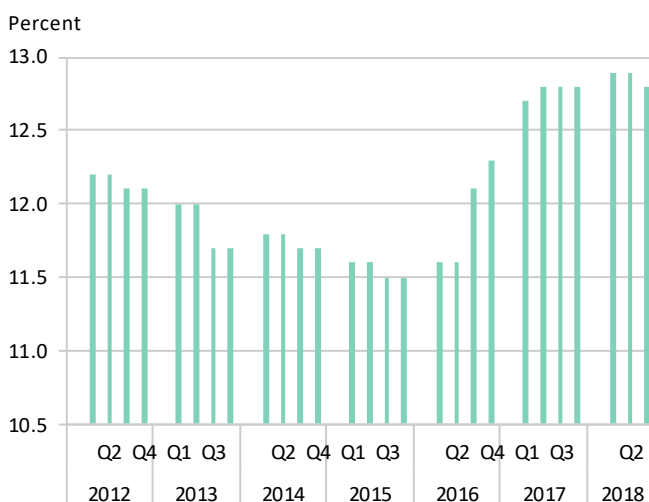
Growth recovered in 2018, driven largely by higher oil production and prices, and rising public and consumer spending. The economy expanded by 2.2 percent in 2018, following several years of steadily weakening growth due to the 2014 oil price shock, the implementation of OPEC+ oil production cuts and fiscal retrenchment that resulted in an economic contraction of 0.7 percent in 2017 and pushed unemployment to 12.9 percent in the first half of 2018. Following a brief period of deflation in 2017, headline prices rose by 2.5 percent in 2018, primarily reflecting the implementation of a 5 percent Value Added Tax (VAT).

The recovery in oil prices in 2017-18 helped to narrow the fiscal deficit and enabled a loosening of the fiscal stance to support the economy. Government spending rose by 10.8 percent in 2018; however, the deficit is estimated to have narrowed to 4.6 percent of GDP owing to healthy oil revenues and the introduction of the VAT, and new fees and excises. The 2019 budget proposal targets a deficit of 4.1 percent of GDP alongside a 7.4 percent increase in recurrent expenditures and 19.9 percent increase in capital expenditures (largely to finance Vision 2030 mega projects). Actual deficit outcomes may prove higher given optimistic revenue assumptions in a context of continued oil supply pressure from Texas shale. Furthermore, Saudi Arabia intends to cut oil output to just under 10mb/d (from

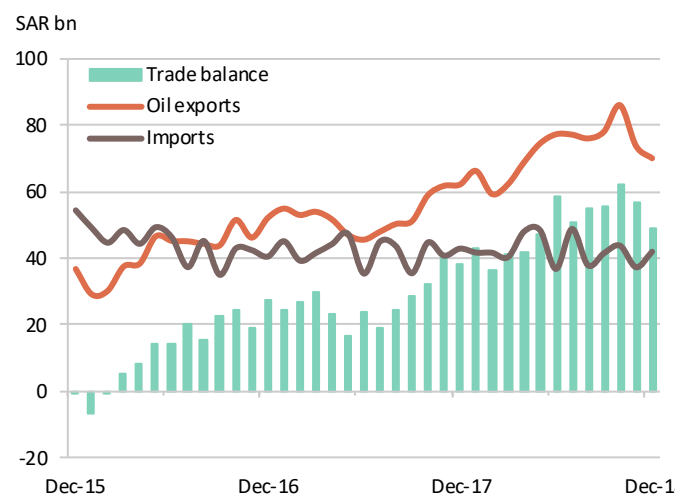
above 11 mb/d in November) as part of a fresh round of OPEC+ curbs. Deficits are expected to be financed by debt—with a US\$7.5 billion international bond issuance in January 2019 (10 years and 31 years maturity)—instead of drawdowns from government reserves at the central bank as was the case in the past. Although growing, public debt remains low at close to 20 percent of GDP at end-2018.

The current account balance shifted into surplus in 2017 and is estimated at around 8.4 percent of GDP in 2018. Net FDI increased through 2018, following a long period of net outflows, but the country continues to experience large portfolio outflows. Central Bank reserves remained broadly stable in 2018. Monetary policy has continued to tighten in tandem with the US Fed, given the US Dollar peg.

Vision 2030 has spurred reforms in several areas, including a large switch to gas and renewables for domestic energy, and business environment, SME and financial sector reforms. A bankruptcy law was promulgated in August 2018. Critical labor market reforms are underway, aimed at increasing the share of nationals, especially women, in the workforce. While employment of nationals, including women, has increased, impacts on private sector growth and productivity are less clear. Levies on expatriate labor and other disincentives for expatriate employment have raised business costs and led to the exit of nearly a quarter of a million foreign workers. Going forward, reforms will be needed to reduce the reservation wage for Saudi nationals as well

FIGURE 1 Saudi Arabia / Unemployment rate


Sources: Haver, World Bank.

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


Sources: Haver, World Bank.

as better manage foreign labor admission and mobility across sectors.

While no official information is available on poverty, as in other GCC countries, most low-income residents are migrant workers. As the citizen population crosses the 20 million-mark, ensuring secure livelihoods and well-being for low income households may be challenging. Under Vision 2030, authorities have launched a social protection fund (the Citizens Account) which aims to offset the adverse impact of subsidy reforms. Although early experience with such a rapidly scaled up program is mixed, it is a promising foundation for supporting low-income households. Like other MENA countries, the old social contract—one based on government employment, generous subsidies, and free public services—is no longer sustainable.

Outlook

Growth is expected to slow only moderately to 1.7 percent in 2019, as higher government spending offsets the impact of oil production cuts implemented in the first half of 2019. It should then recover to over

3 percent in 2020 as oil production cuts are reversed, and as large infrastructure projects generate positive spillovers to private sector growth. Fiscal deficits are expected to gradually narrow; nevertheless, achieving a balanced budget by 2023 (the target for the Kingdom's Fiscal Balance Program) will be contingent on a significant rise in oil receipts or sustained fiscal consolidation. External surpluses are expected to remain in the single digits as infrastructure-related imports increase over the medium term. Consumer prices are expected to remain muted in 2019, as VAT effects wear off and food and housing costs moderate.

Risks and challenges

Public finances and growth remain vulnerable to volatility in global energy prices, while turbulence in global financial markets could affect costs of financing for both the sovereign and corporates, especially given the financing needed to implement Vision 2030 initiatives. A slowdown in the global economy and related fall in oil demand would also hurt prospects for

growth. On the upside, lower oil prices may increase the momentum for structural reforms under Vision 2030, and prompt the government to tackle difficult fiscal issues, such as the large and rigid spending on public sector compensation and benefits.

A key challenge relates to the provision of adequate labor to support sustained growth. There is significant churn in the labor market with the ongoing departure of expatriate labor, and job creation for nationals has been lagging and unemployment remains high.

Another challenge relates to the availability of significant investment to catalyze the growth envisaged under Vision 2030, and the multi-sector nature of reforms. Planned reforms and infrastructure investments are also complex to design, and will require strong coordination across government and the capacity to adjust plans in real-time based on learning through implementation.

Finally, the successful implementation of Vision 2030 will depend in large part on sustained political and social support for reforms. While a strong machinery is in place to advance reforms, implementation challenges can slow the pace and depth of reforms.

TABLE 2 Saudi Arabia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	1.7	-0.7	2.2	1.7	3.1	2.3
Private Consumption	0.9	3.2	3.0	2.0	2.2	2.2
Government Consumption	-17.5	3.2	1.8	5.0	1.0	-0.9
Gross Fixed Capital Investment	-14.3	-4.5	0.5	4.0	7.0	9.0
Exports, Goods and Services	8.0	-2.3	1.7	-0.8	3.0	1.0
Imports, Goods and Services	-20.3	-0.4	0.5	2.0	3.0	3.5
Real GDP growth, at constant factor prices	1.7	0.6	2.3	1.7	3.1	2.3
Agriculture	0.6	0.4	0.2	0.6	0.6	0.6
Industry	2.5	0.0	1.0	-0.2	2.1	2.0
Services	0.7	1.6	4.4	4.5	4.6	2.7
Inflation (Consumer Price Index)	2.0	-0.9	2.5	1.0	2.0	2.0
Current Account Balance (% of GDP)	-3.7	1.5	8.4	6.9	6.8	6.2
Net Foreign Direct Investment (% of GDP)	-0.2	0.9	2.0	2.2	2.5	3.0
Fiscal Balance (% of GDP)	-12.9	-9.2	-4.6	-5.2	-4.1	-3.3

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