Saudi Arabia

High Growth Markets country profile

Saudi Arabia is the world's twentieth largest economy, a ranking built upon its position as the biggest producer and exporter of crude oil and natural gas, with about 17 percent of the proven global oil reserves. The government continues to pursue economic reform and diversification and promote foreign investment in the kingdom, a strategy that has stepped up significantly since Saudi Arabia's accession to the World Trade Organisation (WTO) in 2005. Its main concerns are coping with a burgeoning population, depleting water supplies and an economy largely dependent on high petroleum output and prices.

Country overview

Geography and climate

- **Location:** in the Middle East, bordering the Persian Gulf and the Red Sea, north of Yemen
- **Climate:** harsh, dry desert with great temperature extremes
- **Regions:** 13 provinces
- **Major cities:** (2009 figures): Riyadh (4.7 million), Jeddah (3.2 million), Mecca (1.5 million), Medina (1.1 million), Ad Dammam (0.9 million)

Political system

- **Type of government:** monarchy
- **Capital:** Riyadh

Population, language and religion

- **Population:** 29.8 million
- **Urban population:** 82.3%
- **Immigration:** immigrants make up more than 30 percent of the total population, according to United Nations (UN) data (2013)
- **Demographics:** 0–14 years: 27.6%; 15–64 years: 67.9%; 65 years and over: 3.1%
- **Official language:** Arabic
- **Prominant religions:** Muslim

Currency and central banking

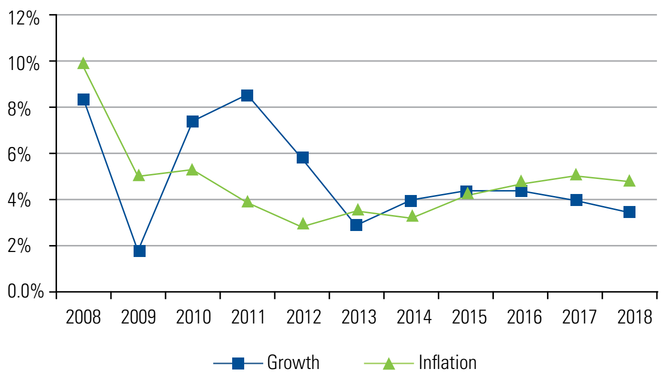
- **Local currency:** Saudi Riyal (SAR)
- **Exchange rate:** 1 SAR = US$0.2666 (1 April 2014)
- **Interest rate (average annual rate):** 1.0% (2013); 0.9% (2012); 0.7% (2011); 0.7% (2010); 0.9% (2009)
- **Foreign exchange reserves:** US$739.5 billion
- **Total debt (2013):** external: US$149.4 billion; internal public debt: 12.2% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$930.0 billion. Economic growth should remain relatively robust,** at an annual average of 4.1 percent from 2014–2018, lifted by rising investment and disposable income. However, growth will be restrained by a less expansive fiscal policy and flat oil production.
- **Foreign direct investment (FDI) (billions):** inbound: US$39.5 (2008); US$17.4 (2013); US$13.3 (2018 forecast); outbound: US$3.5 (2008); US$4.0 (2013); US$2.3 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$388.4 (2012); US$377.1 (2013); US$334.8 (2018 forecast)
- **Imports FOB (billions):** US$141.8 (2012); US$147.0 (2013); US$203.3 (2018 forecast)
- **Sector breakdown:** service: 35.5%; industrial: 62.5%; agriculture: 2%
- **Trade balance (billions):** surplus of US$246.6 (2012); US$230.1 (2013); US$131.5 (2018 forecast)
- **Stock exchanges:** Saudi Stock Exchange (Tadawul)

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government is expanding the oil and gas industry, while trying to diversify the economy into non-oil sectors, including manufacturing and services. It is encouraging development of the private sector – notably in services and utilities – raising social spending and creating more public sector jobs. One major priority is to reduce unemployment among Saudi nationals, with government quotas (which vary by sector) on the employment of expatriates.
- **Competition policy:** Local Saudi economic regulations are largely based on free market principles, qualified in part by Shari'a (Islamic law), with the exception of a few protected industries. Some industries are protected by import duties and price differentials on tenders. Saudi Arabia eliminated tariffs on pharmaceuticals, as well as for products covered by the WTO Agreement on Trade in Civil Aircraft. Tariffs on computers, semiconductors and other information technology products were also ceased. No antitrust legislation or formal definition of monopoly exists in Saudi Arabia. All mergers require approval from the Ministry of Commerce and Industry. Islamic law forbids price controls; hence, they are illegal in the kingdom.
- **FDI policy:** Saudi Arabia has transitioned from a relatively closed state dominated by hydrocarbons and opposed to FDI, to an open economy that welcomes foreign capital. It is still a volatile investment target, reflecting the kingdom's dependence on oil. However, a number of trends since 2005 have significantly improved prospects for overseas investors: better security; the removal of some investment barriers following its 2005 accession to the WTO; a rapidly expanding domestic consumer market; and major investment projects encouraged by government incentives. The US Securities & Exchange Commission (SEC) has now approved several economic sectors that were previously barred to majority-foreign-owned companies outside the Gulf Co-operation Council (GCC) countries. Foreign companies have been slow to enter these sectors, largely because of continuing concerns over regulatory and labor issues. During 2014–2015, the kingdom should continue to pursue reforms aimed at pushing the country into the top ten of the World Bank's *Doing Business* rankings (from 22nd). There will be new focus on improving access and services for foreign investors, although property ownership will remain restricted. In the period 2016–2018, the building of four economic cities is likely to proceed slowly, with only the King Abdullah Economic City and the Jazan Economic City reaching completion.
- **Foreign trade and exchange controls:** Exports are dominated by oil and, to a lesser degree, petrochemicals and plastics. The government prevents the export of any Saudi and non-Saudi goods that receive a state sales subsidy. Saudi Arabia forbids imports of certain items for religious or security reasons, and it taxes other goods to protect domestic industries. There are no significant restrictions on the inward or outward movement of funds by companies or individuals. The existing currency peg will remain during 2014–2015. It is uncertain whether the GCC will reach free trade agreements with Asian countries. Between 2016 and 2018, little progress is expected on legal harmonization, despite the existence of the GCC common market.
- **Financing policy:** In 2014–2015, stock market activity should be lifted by a revival in initial public offerings, and several banks are beginning to offer mortgages. The period 2016–2018 should see slow improvements in standards of corporate governance, while bond and mortgage markets are likely to develop from a low base.
- **Taxes:** Saudi citizens and businesses pay no tax on income and are only liable for zakat (an Islamic tax on wealth) of 2.5 percent of net worth per year. Non-Saudi businesses are subject to corporation tax up to a maximum of 20 percent (with the exception of profits in the hydrocarbons sector, which are taxed on a sliding scale between 30 percent and 85 percent). There is no value-added tax (VAT). Despite pressure to increase the employment of Saudi nationals, no new income taxes are likely to be introduced for foreign workers. Tariffs for power and water are expected to rise between 2016–2018, but probably only for industry, with the government set to avoid new direct taxes. Corporation tax (capped at 20 percent) should continue to apply only to non-Saudi firms.

KPMG in Saudi Arabia

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KPMG in Saudi Arabia aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Saudi Arabia website: kpmg.com/sa

Sources: Economic Intelligence Unit, 2014; Central Intelligence Agency, 2014; KPMG International research, 2014; Everest Group, 2014; Market Watch, 2014

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