



Kingdom of Saudi Arabia Budget Report

A review of the Saudi Arabia 2020 budget
and recent economic developments

December 2019



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Foreword



Dr. Abdullah Al Fozan

Chairman and Senior Partner
KPMG in Saudi Arabia

We are pleased to present to you the second edition of our budget report for the Kingdom of Saudi Arabia. Drawing insights from the fiscal year 2020 budget statement, announced on 9 December 2019, the report assesses Saudi Arabia's fiscal and economic developments, and describes the progress the country has made in diversifying the economy.

With the central aim of transitioning the economy away from its dependency on the oil sector, the government of Saudi Arabia continues to push ahead with its diversification efforts. In addition, the government focuses on balancing fiscal stability and economic growth amidst the oil market volatility that occurred this fiscal year. We expect the government to continue with the same rigor in the forthcoming year.

The expenditure budget for fiscal year 2020 is estimated at SAR 1,020 billion, with a continued focus on promoting economic growth and improving spending efficiency. We, at KPMG, view the government's decision to maintain the same level of public expenditure as last year despite the volatility in the oil market as a testament of its commitment towards achieving fiscal, social, and economic targets.

The planned budget focuses on maintaining fiscal stability and sustainability, improving the diversification of revenue sources,

and taking measures to advance the economic and social development of the country.

According to the Ministry of Finance (MoF), real GDP growth is expected to reach 2.3 percent in 2020, a downward revision to last year's estimate of 2.7 percent. The reduction in the GDP growth estimate is due to the decline in oil prices amidst the trade war between China and the US, and the decrease in oil production as a result of the OPEC+ agreement.

The focus of spending in 2020 remains on building the non-oil sectors with high economic and social return, and creating more jobs. Additionally, the government will continue to spend on education and healthcare to raise the standard of living, and improve the quality of life for its citizens.

Total public revenue is forecasted to reach SAR 833 billion in 2020, 9 percent lower than total expected public revenue in 2019 (SAR 917 billion). Oil revenues are expected to represent 62 percent of total revenue in 2020.

The budget deficit in 2020 is expected to be SAR 187 billion (6.4 percent of the estimated 2020 GDP), compared to SAR 131 billion (4.7 percent of GDP) in 2019, owing to a higher rate of projected revenue decline vis-à-vis expenditure in 2020. Public debt in 2020 is expected to reach SAR 754 billion (26 percent of the

estimated 2020 GDP), compared to SAR 678 billion (24 percent of GDP) in 2019.

KPMG echoes the government's sentiments of driving economic growth by increasing the role of the private sector. The government continues to take notable measures to strengthen the private sector and enhance its contribution to achieve its goals and targets, in line with Vision 2030. For example, to support and develop the private sector, the government designed important initiatives such as The Private Sector Stimulus Package (PSSP) and the Privatization Program.

In line with its aim to attract more foreign direct investment (FDI), the government has made noteworthy progress in 2019. Saudi Arabia received US\$2.3 billion in FDI in 1H19, a year-over-year (y-o-y) growth of 10.3 percent. The addition of Saudi Stock Exchange (Tadawul) to the MSCI Emerging Markets Index in August 2019 is further expected to enhance the country's market efficiency.

The government's efforts and focus towards achieving sustainability and fiscal balance is expected to be beneficial for businesses and public policy planning. With the volatility in oil prices anticipated to decrease in 2020, we expect Saudi Arabia to continue progressing towards achieving its Vision 2030 objectives.

Key findings



Continuing the diversification efforts

For the second time in two years, Saudi Arabia announced budgeted expenditures of more than one trillion SAR for 2020. With budgeted expenditures of SAR 1.02 trillion, spending will continue to support the government's initiatives of diversifying the economy and achieving its fiscal, social, and economic targets.

Achieving fiscal sustainability

The budget focuses on maintaining fiscal stability and sustainability, improving the diversification of revenue sources, and taking measures to advance the economic and social development of the country. Additionally, strengthening the private sector and creating more jobs will remain key focus areas for the government in the next financial year.



Aiming for growth amidst headwinds

Real GDP growth is expected to reach 2.3 percent in 2020, a downward revision to last year's estimate of 2.7 percent, due to the decline in oil prices amidst global trade turbulence, and the cuts in oil production as part of the OPEC+ agreement.

Managing the debt-to-GDP ratio

The budget deficit in 2020 is expected to be SAR 187 billion (6.4 percent of GDP), compared to SAR 131 billion (4.7 percent of GDP) in 2019. This deficit increase can largely be attributed to the oil price volatility and the turbulence in the global economy that faces risk from trade wars.



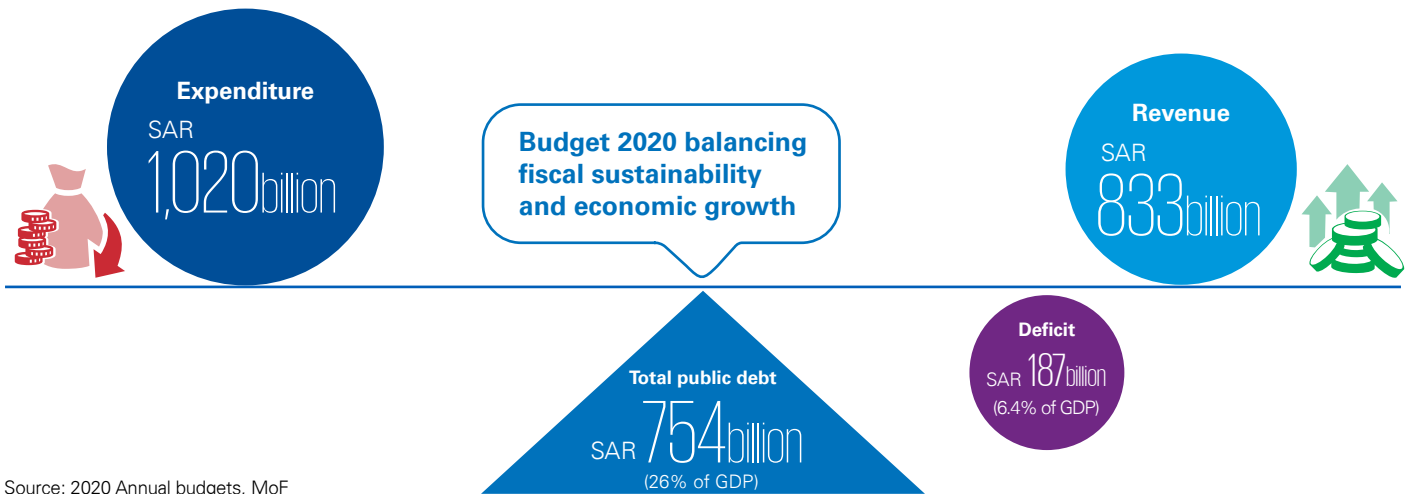
Strengthening non-oil sectors

Non-oil revenue is expected to reach a new high of SAR 320 billion in 2020, compared to SAR 315 billion expected in 2019, an increase of 1.6 percent. This boost is driven by the government's continued efforts to develop non-oil sectors with higher economic and social return.

Executive summary

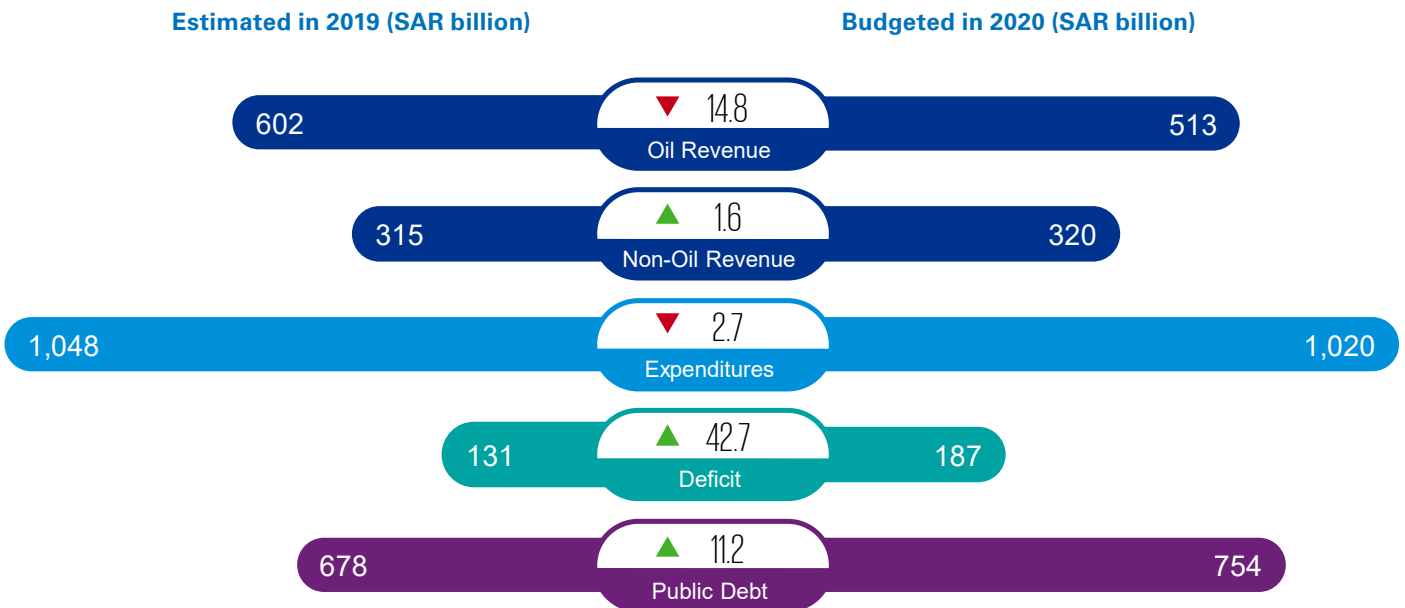
2020 Budget

Saudi Arabia 2020 budget



Source: 2020 Annual budgets, MoF

Change in budget 2019-2020



Source: 2020 Annual budgets, MoF

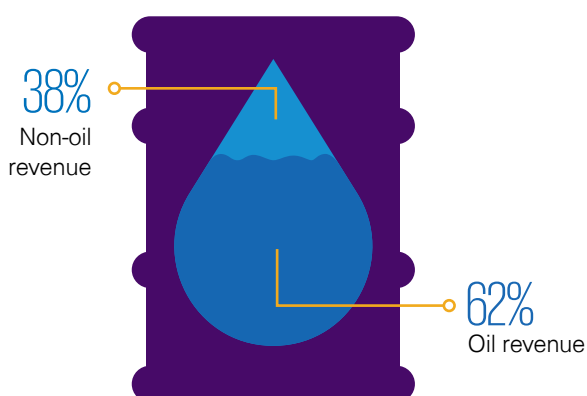


HIGHLIGHT

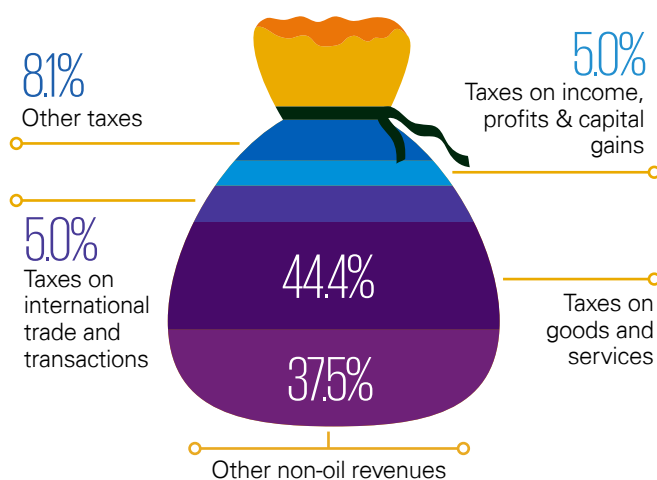
Public revenue is budgeted to be SAR 833 billion, 62 percent of which is attributed to the oil revenue and 38 percent to the non-oil revenue. The budgeted expenditure for 2020 is SAR 1,020 billion, out of which about 50 percent is allocated to employee compensation. At 19 percent, education has the largest allocation in terms of sectors, followed by military, with an allocation of 18 percent.

Saudi Arabia 2020 revenue

Public revenue, SAR 833 billion



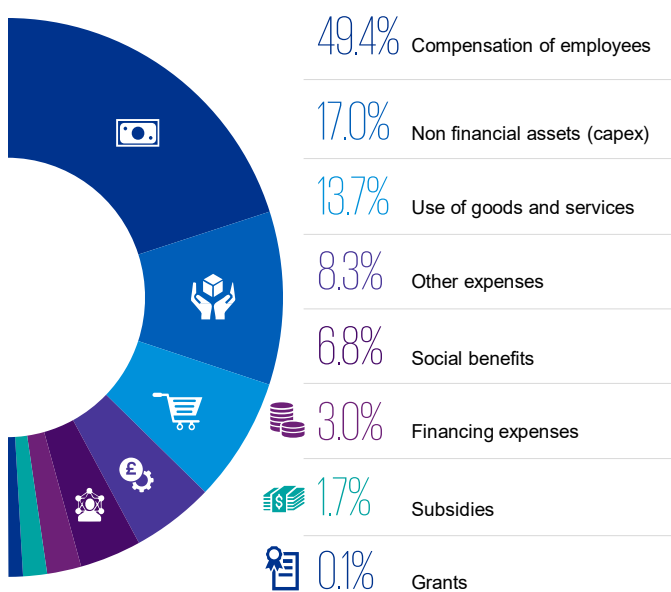
Non-oil revenue, SAR 320 billion



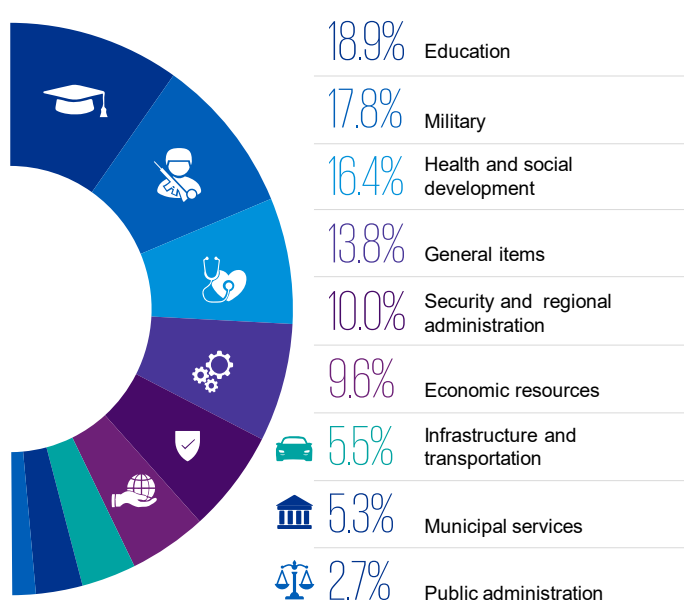
Source: 2020 Annual budget, MoF

Saudi Arabia 2020 expenditure

Expenditure by component, SAR 1,020 billion



Expenditure by sector, SAR 1,020 billion



Source: 2020 Annual budget, MoF

2020 Budget analysis

2020 Budget

Overview of KSA's 2020 budget

With a continued focus on economic diversification, creating more jobs, and developing non-oil revenues, the government of Saudi Arabia has set an optimistic target for the country's economic growth. To realize its Vision 2030 objectives, the Saudi cabinet approved the budget for fiscal year 2020 on 9 December 2019.

As a result of the reduction in projected revenue due to oil price volatility and lower oil production, the MoF has lowered budgeted expenditures for 2020 by 2.7 percent to SAR 1,020 billion, as compared to estimated spending of SAR 1,048 billion for 2019.

According to the MoF, the real GDP growth of the Kingdom is expected to reach 2.3 percent in 2020, as a result of relatively stable oil prices, implementation of Vision 2030 programs, and increased spending on infrastructure. Inflation is also expected to increase to 2.0 percent in 2020. Moreover, widening the tax net is likely to help the country diversify its revenue stream. This, coupled with the government's effort to improve the efficiency of expenditures, should also help the country achieve fiscal balance by 2023.

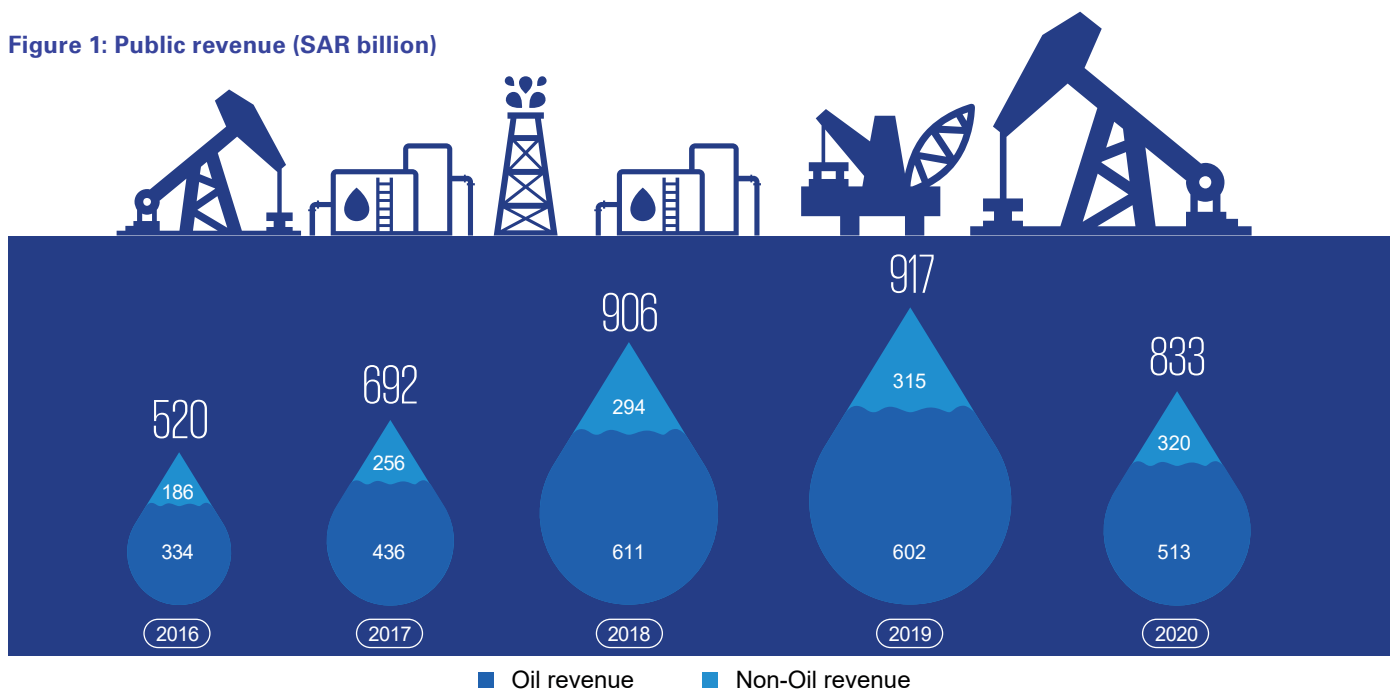
While the budget expenditure is steering towards a downward trajectory until 2022, we at KPMG believe that the decline in the expenditure will not affect the future growth of the country's economy. With the government's continued efforts towards increasing spending efficiency, and enhancing public-private partnerships, Saudi Arabia is expected to witness positive growth in future.

Public revenue

Saudi Arabia has been taking prudent measures to increase the ratio of non-oil revenues to total revenues, such as imposing excise taxes on sweetened drinks in December 2019 and continuing the implementation of the levy on expatriate workers. Oil is nevertheless expected to remain a significant contributor to public revenue.

According to the MoF, total public revenue is expected to reach SAR 833 billion in 2020, as compared to SAR 917 billion in 2019. Oil revenue is expected to remain a major contributor to the country's revenue, with a share of 62 percent in 2020 (with a value of SAR 513 billion), while the share of non-oil revenue is expected to reach 38 percent, valued at SAR 320 billion (see Figure 1).

Figure 1: Public revenue (SAR billion)



Source: 2020 Budget statement, MoF, IMF



The government of Saudi Arabia has announced the general budget for fiscal year 2020 with the revenue and expenditure anticipated to reach SAR 833 billion and SAR 1,020 billion respectively. The forecasted figures of higher expenditures over expected revenues, illustrates the government's efforts of diversifying the economy through continuous implementation of Vision 2030 programs. The key focus of the 2020 budget is to maintain the balance between growth and fiscal sustainability, while increasing spending efficiency.



Dr. Hussain Abusaaq

Chief Economist and Head of Research, KPMG in Saudi Arabia

Oil revenue

Oil revenue is expected to decline by 14.8 percent from SAR 602 billion in 2019 to SAR 513 billion in 2020, primarily due to volatility in oil prices owing to trade war.

In the past year, the government has taken measures to diversify the economy away from its dependence on oil, which has long been the primary growth driver of Saudi Arabia's economy. The non-oil sector growth of 2.5 percent in 1H19 became the primary driver of the country's GDP growth in 1H19 and stands as a testament to the government's efforts to support the private sector. Despite promising growth in the non-oil sector, oil revenue will remain the significant contributor to public revenue. Oil exports and energy price reforms will remain the two key sources of oil revenue, with the former being the major contributor (see Figure 2).

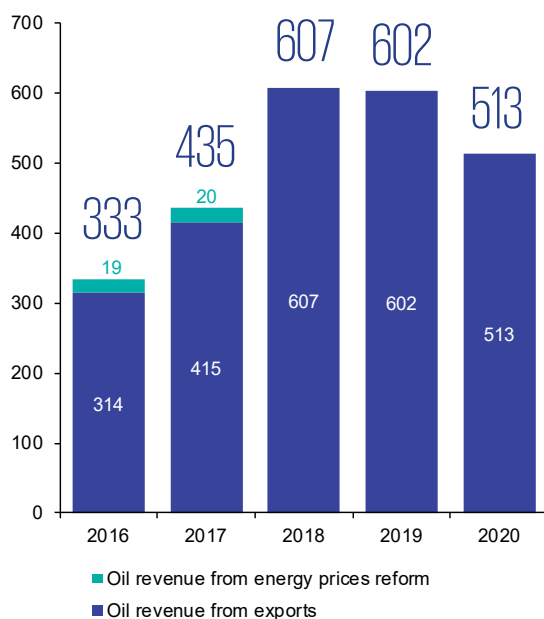
Although there is volatility in the oil market, OPEC and some non-OPEC countries are making efforts to maintain oil market stability.

Non-oil revenue

Non-oil revenue is expected to reach SAR 320 billion in 2020, an increase of 1.6 percent over an expected SAR 315 billion in the previous year. The surge in non-oil revenue reflects the government's ongoing efforts to diversify its income streams and reduce dependency on oil (see Figure 3).

At SAR 200 billion in 2020, tax revenues are projected to be 1.2 percent lower than last year's value of SAR 203 billion. Taxes on goods and services provides the largest share of non-oil revenue at 44.4 percent.

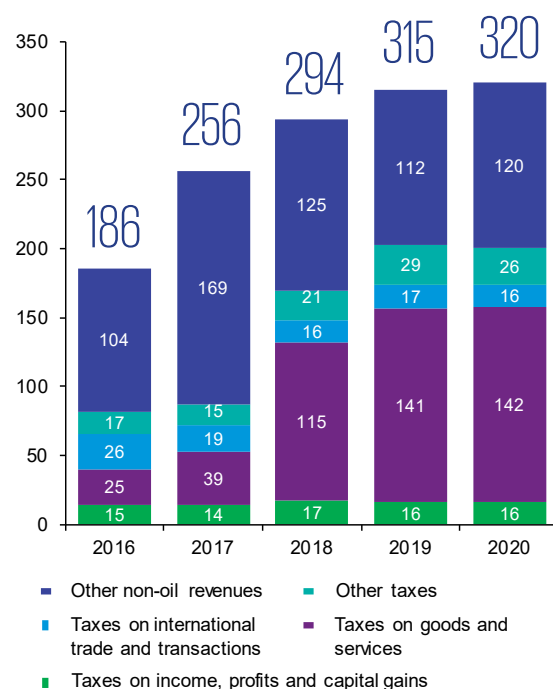
Figure 2: Oil revenue components (SAR billion)



Source: 2020 Budget statement, MoF, IMF

Note: *For 2018, 2019 and 2020, oil revenue includes energy price reforms and oil exports

Figure 3: Non-oil revenue components (SAR billion)



Source: 2020 Budget statement, MoF

2020 Budget analysis

2020 Budget

Public expenditure

According to the MoF, the total public expenditure budget has decreased by 2.7 percent to SAR 1,020 billion in 2020, as compared to the 2019 estimate of SAR 1,048 billion. Despite the oil market volatility, which had some impact on the expenditure, the government has made notable progress on the Vision Realization Programs (VRPs). In addition, allocation of over one-trillion SAR budget expenditure for 2020 demonstrates the government's commitment towards driving economic growth.

The government will continue to improve the quality of life for its citizens by further implementation of programs such as The Housing Program, Quality of Life Program, and the Public Investment Fund Program. In addition, for 2020, the government doubled the budget for the mega-projects that were launched in 2019 to support the infrastructure sector.

Sector priorities for 2020 budgeted expenditure are consistent

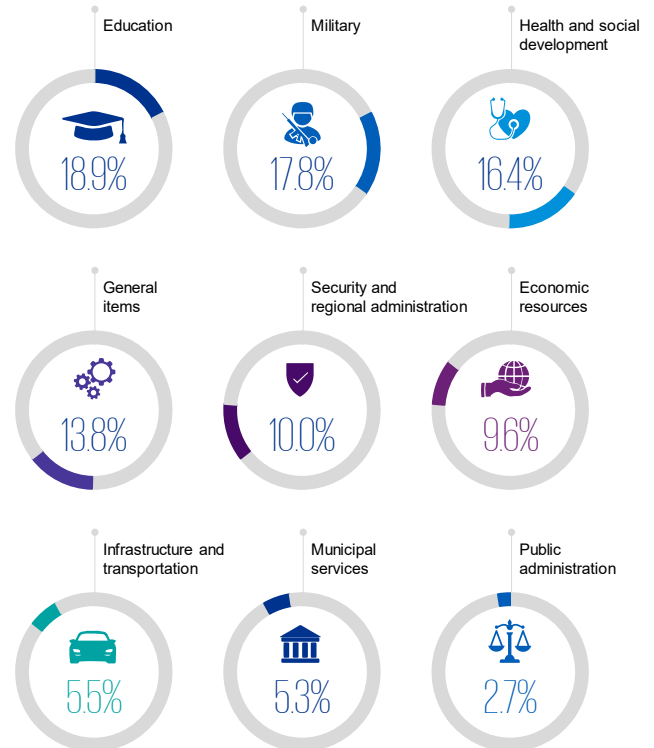
with recent years, with education, military and healthcare accounting for more than 50 percent of total allocations. As per the budget announcement, current expenditures (OPEX), which holds the largest share of public spending, is expected to decline by 3.4 percent to SAR 847 billion in 2020, as compared to 2019 estimates (SAR 877 billion). At SAR 504 billion, spending on public employees in 2020 is projected to remain unchanged from 2019 estimates. Capital expenditure estimates are also likely to remain unchanged from SAR 172 billion in 2019 to SAR 173 billion in 2020.

Figure 4: 2020 Expenditure by component, SAR 1.02 trillion



Source: 2020 Budget statement

Figure 5: 2020 Expenditure by sector, SAR 1.02 trillion





HIGHLIGHT

In 2020, public expenditure, OPEX, and CAPEX are budgeted to reach SAR 1,020 billion, SAR 847 billion, and SAR 173 billion, respectively. Spending on the military (SAR 182 billion), education (SAR 193 billion) and healthcare (SAR 167 billion) accounts for 53.1 percent of the total budget allocation.

Expenditure by sector



Education

The education sector continues to receive the largest share of the annual budget expenditure with a budget of SAR 193 billion or 18.9 percent of the annual budgeted expenditure. The education sector plays a vital role not only in increasing the employment rate in Saudi Arabia, but also in increasing the desired skills for the labor market. The Ministry of Education (MoE) has taken numerous initiatives to improve the education sector such as the Teaching Staff Proficiency Development project that aims to raise teaching and leadership competencies of the teaching staff. The MoE also aims to enhance scientific research and knowledge production with the help of its specially designed initiatives to bolster community development. We believe that on the back of such strong initiatives, the current gap between wages, skills and productivity can be significantly reduced.



Military

Along with education, military spending dominates Saudi Arabia's budget. The government has officially allocated SAR 182 billion in 2020 to military spending, comprising 17.8 percent of the total budget (see Figure 5). This level of spending kept Saudi Arabia as one of the top nations in terms of military spending in 2019. A number of key priorities continue to drive military spending, such as the execution of the new national security strategy, investments to build the country's own defense assembly and R&D programs. To further bolster its plans of diversifying the economy, the General Authority for Military Industries—in line with Vision 2030 to localize 50 percent of the country's military expenditure—have started accepting license applications for firms in the military industrial sector. With such notable developments in the sector, we expect the military sector to be amongst the future growth drivers for Saudi Arabia.



Healthcare and social development

With the third-largest share (16.4 percent) of the 2020 budget expenditure, the development of the healthcare sector remains a top priority for the government of Saudi Arabia. The healthcare sector's budgeted allocation of SAR 167 billion in 2020 has experienced a negative growth of 4.0 percent from the last fiscal year's allocation of SAR 174 billion.

The government will use this allotment in areas such as introducing public-private participation healthcare models to achieve the Vision 2030 target of privatizing 295 hospitals by 2030, and increasing the availability of skilled workforce by establishing new medical colleges. Furthermore, the government seeks to improve the country's healthcare sector by adopting digital information systems. To support this e-health strategy, the Ministry of Health has designed an e-health strategic framework with strategic business objectives. In addition, under the National Transformation Program, the government has set a target of increasing the proportion of patients that have a digital health record from zero percent in 2016 to 70 percent by 2020.



Infrastructure

The infrastructure sector (including transport) has been allocated SAR 56 billion in 2020, 5.5 percent of the total budget and 9.5 percent lower than in 2019. On the back of several big projects run by the government of Saudi Arabia, the infrastructure sector is expected to bring in significant investment from the private sector. Additionally, there will be a significant expansion program in the water sector comprising desalination plants, sewage treatment plants, strategic reservoirs, and selected transmission pipelines. The private sector plans to deliver these on a build, own, operate (and transfer) or other public private partnership basis. The transport sector is also expected to witness improved transport links as a result of metro systems, bus, and rapid transport projects.

With the launch of the National Industrial Development and Logistics Program (NIDLP), the government has embarked on an ambitious journey of increasing localization of the country's industrial capabilities and in-country manufacturing facilities. From an investment and growth perspective, we expect both transport and logistics to play a crucial role in the future.

Additionally, other mega projects such as Neom, the Red Sea project and Qiddiya, are expected to have a positive impact on the country's economy in the medium and long term. These projects are anticipated to create more jobs and increase the private sector engagement.

2020 Budget analysis

2020 Budget





HIGHLIGHT

The budget deficit in 2020 is expected to be SAR 187 billion, compared with SAR 131 billion in 2019. Public debt in 2020 is expected to reach SAR 754 billion, 26 percent of the estimated GDP in 2020, growing 11.2 percent compared to the previous year. Even though the debt has increased, the country's debt-to-GDP ratio remains significantly lower than many of its peers.

Fiscal deficit

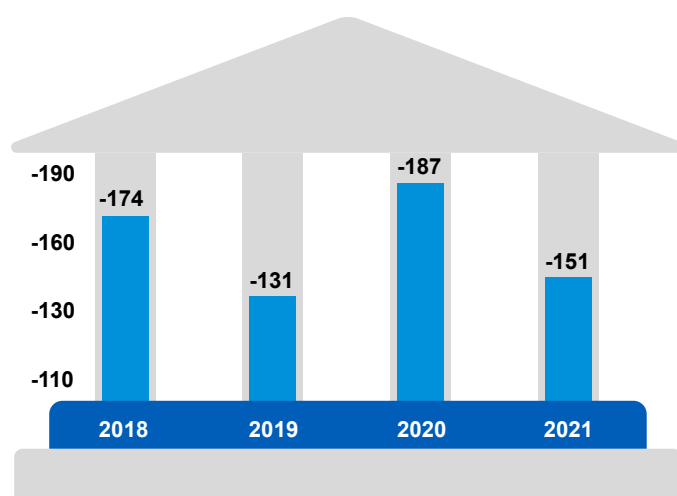
The budget deficit in 2020 is expected to be SAR 187 billion (6.4 percent of 2020's expected total GDP), compared to SAR 131 billion (4.7 percent of GDP) in 2019. The MoF expects the fiscal deficit for 2020 to widen, primarily due to oil market instability. The government is continuing its effort towards reducing the budget deficit to achieve the target of fiscal balance by 2023.

Public debt

Public debt in 2020 is expected to reach SAR 754 billion, 26 percent of the estimated GDP in 2020 and 11.2 percent higher than the previous year (SAR 678 billion; see Figure 7). Debt projections remain largely unchanged compared to 2019 budget, except for 2022, which has undergone an upward revision of around SAR 31 billion to reach SAR 924 billion. The debt-to-GDP ratio remains below the government's National Transformation Program 2020 target, wherein a ceiling of 30 percent was put on public debt as a percentage of GDP.

The government has increased debt issuance in previous years to achieve fiscal sustainability and stability, and to balance financing sources between debt and government reserves. Additionally, to improve the local debt market, the government has taken numerous steps including listing government debt instruments on Tadawul and appointing primary traders.

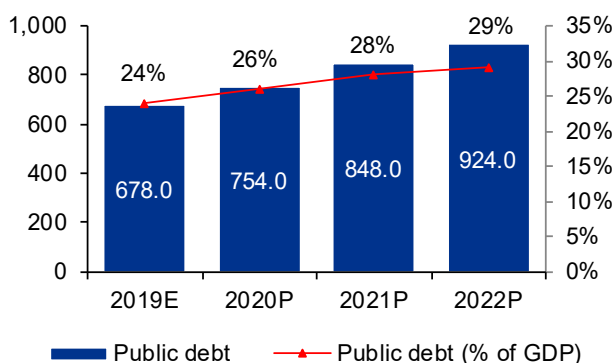
Figure 6: Fiscal deficit (SAR billion)



Source: 2020 Budget statement

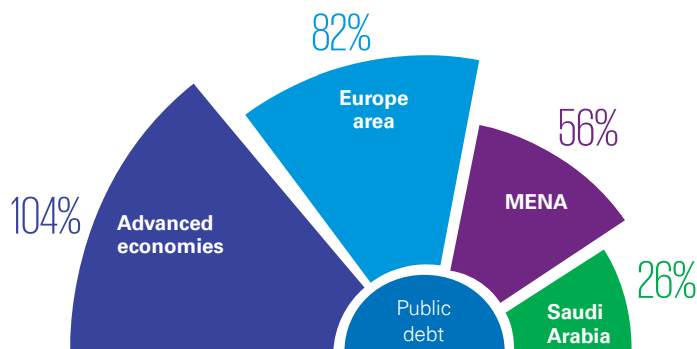
The country's debt-to-GDP ratio is expected to equal 28 percent by 2021, compared to 25 percent predicted last year, due to volatility in the oil prices in 2019. Even though the debt has increased in 2019, the country's debt-to-GDP ratio remained significantly lower than many of its peers (see Figure 8).

Figure 7: Public debt (SAR billion)



Source: 2020 budget statement, MoF

Figure 8: Public debt as percentage of GDP in 2020 (%)



Source: IMF, MoF

Gross Domestic Product

Vision 2030 realization

In the more than three years since Vision 2030 was launched, Saudi Arabia has taken notable measures to diversify its public-sector-dominated economy into a private-sector-driven system. The government is continuing to implement economic and social reforms to realize the Vision 2030 goals with the help of numerous initiatives including the creation of one of the world’s largest sovereign wealth funds and the launch of privatization programs to divest state-owned companies. Under the Vision 2030 initiative, several projects and mega projects have already started positively impacting the economy, especially in the non-oil sector whose revenue has increased nearly three-fold since 2016. The Saudi Stock Exchange’s (Tadawul) full inclusion in the MSCI EM Index in August 2019, marked the government’s continued efforts towards attracting international investors. Saudi Arabia has attracted US\$2.3 billion in FDI in the first half of 2019. With the addition of Tadawul to the MSCI EM Index in August 2019, this figure is expected to further increase in future.

However, despite the government’s continued efforts towards improving the domestic economy, the global economy is facing the consequences of a trade dispute between the US and China, which also impacts the country’s economic growth outlook, especially in the oil sector. Saudi Arabia’s

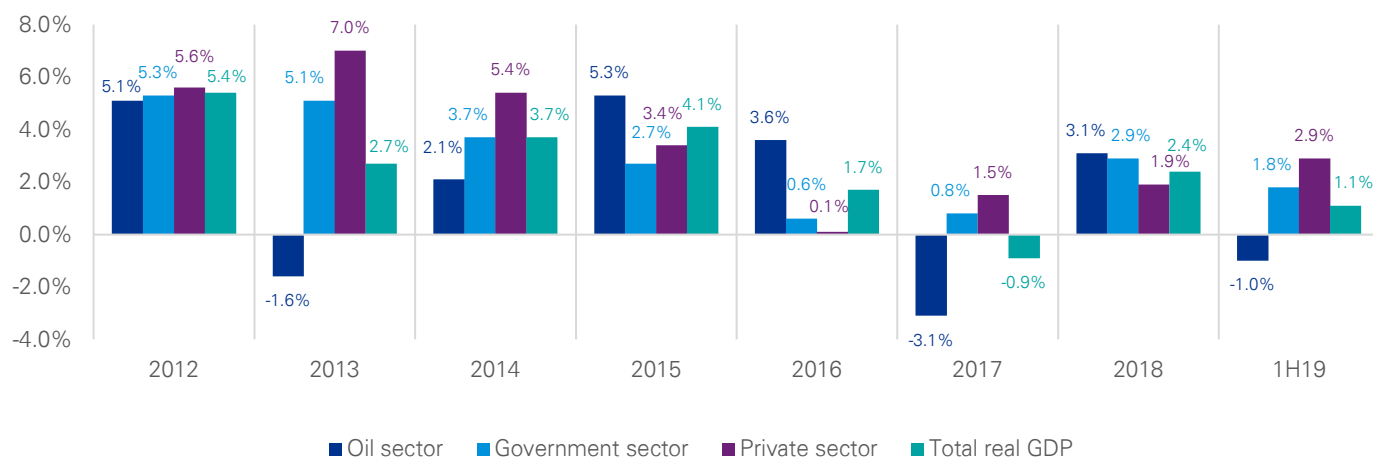
oil sector growth in 1H19 was -1.0 percent due to a decline in the oil prices amidst the trade war, which impacted global oil demand, and a production cut which was imposed by the latest OPEC+ agreement. To support oil prices, on 5 December 2018, OPEC and some non-OPEC countries decided to cut 1.2 million barrels per day (mb/d) starting 1 January 2019 for an initial period of six months. In July 2019, the OPEC+ countries extended the oil production cuts until March 2020. Furthermore, in December 2019, OPEC+ countries decided to increase the oil production cut by 500,000 barrels per day (bpd) to 1.7 mb/d until March 2020.

Due to these external factors, the contribution of real oil GDP to the overall GDP in 1H19 was -1.0 percent. In contrast, on the back of the government’s continuous efforts towards realizing its Vision 2030 goals, the non-oil GDP growth of 2.5 percent in 1H19 was the main contributor for the 1H19 GDP growth of 1.1 percent.

Real Gross Domestic Product (GDP)

According to MoF estimate, real GDP is expected to grow by 0.4 percent in 2019, while the International Monetary Fund (IMF) expects the country’s GDP to grow by 0.2 percent—a substantial reduction from their previous estimate of

Figure 9: Annual real GDP growth breakdown (%)



Source: National accounts, GaStat



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A number of Vision Realization Programs under the Saudi Vision 2030 initiative have entered the execution phase and achieved a good level of progress in 2019. The positive impact of these programs will be reflected in the medium term. The government’s continued focus on strengthening the non-oil sector makes it a key driver of economic growth. In 2019, the real GDP growth is expected to reach 0.4 percent and is further projected to improve to 2.3 percent in 2020.

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Ismail Daham Alani
Head of Public Sector, KPMG in Saudi Arabia

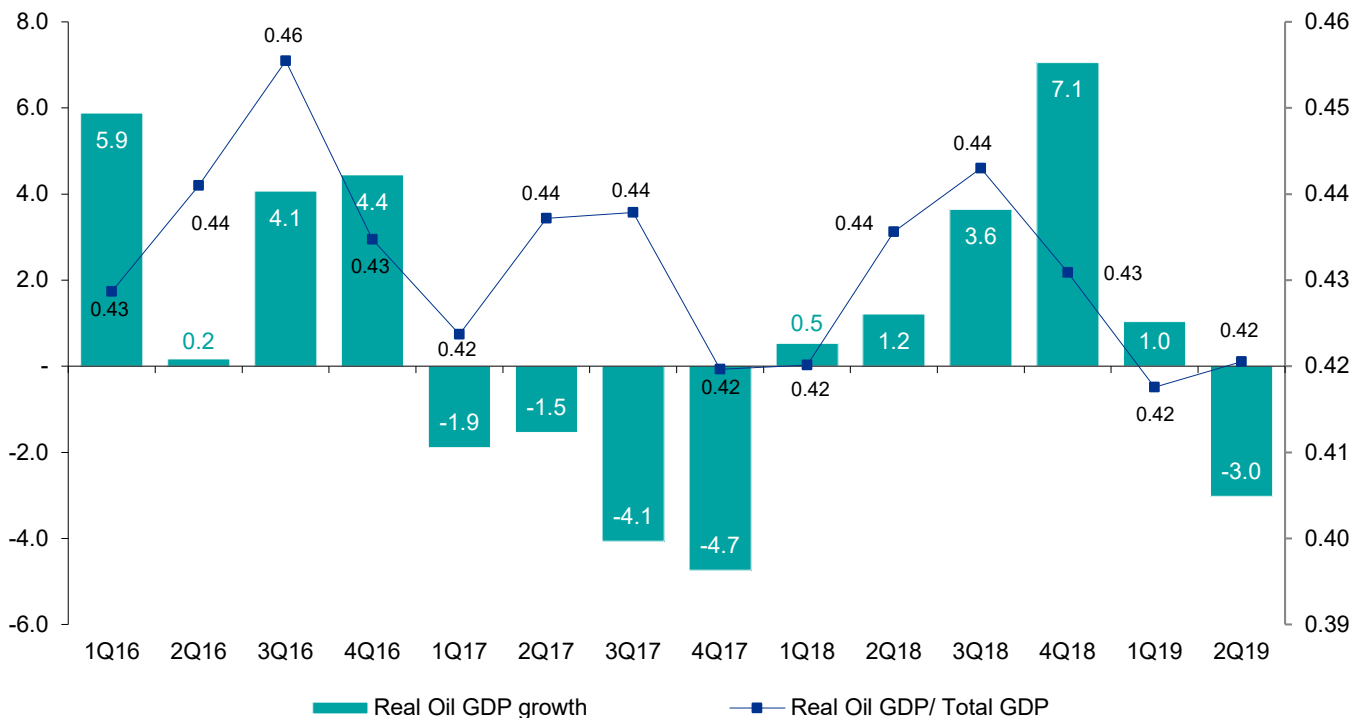
1.9 percent. The downward revision in the GDP estimates is primarily due to the decline in oil prices resulting from the slowdown of the global economy due to the trade war and the decline in oil production under the OPEC+ agreement. The MoF estimates the real GDP growth in 2020, 2021, and 2022 to be 2.3 percent, 2.2 percent, and 2.3 percent, respectively.

Real GDP growth in 1Q19 was 1.7 percent. Both the oil sector and the non-oil sector witnessed a growth of 1.0 percent and 2.1 percent, respectively. In 2Q19, while the real GDP and the non-oil sector GDP witnessed a growth of 0.5 percent and 2.9 percent, respectively, the real oil GDP declined by 3.0 percent due to the downward fall of the oil market.

Real oil GDP

Real oil GDP declined at an average of 1.0 percent in 1H19, due to lowered oil production stemming from the OPEC+ agreement and a decline in global oil prices. Additionally, according to OPEC, the oil price, which has remained volatile due to the trade war that slowed down global oil demand, stood at US\$59.8 per barrel (pb) in October 2019 versus US\$79.6 pb seen during the same period last year. Furthermore, OPEC has cut its 2019 oil demand growth projections by 4.0 percent, to just under 1 mb/d in its October monthly oil report. According to the General Authority for Statistics (GASTAT), the real oil GDP for Saudi Arabia in 2Q19 declined 3.0 percent, accounting for 42 percent of the total GDP (see Figure 10).

Figure 10: Real oil sector GDP growth and oil sector contribution to GDP



Source: National accounts, GaStat

Macroeconomics

Gross Domestic Product

Real non-oil GDP

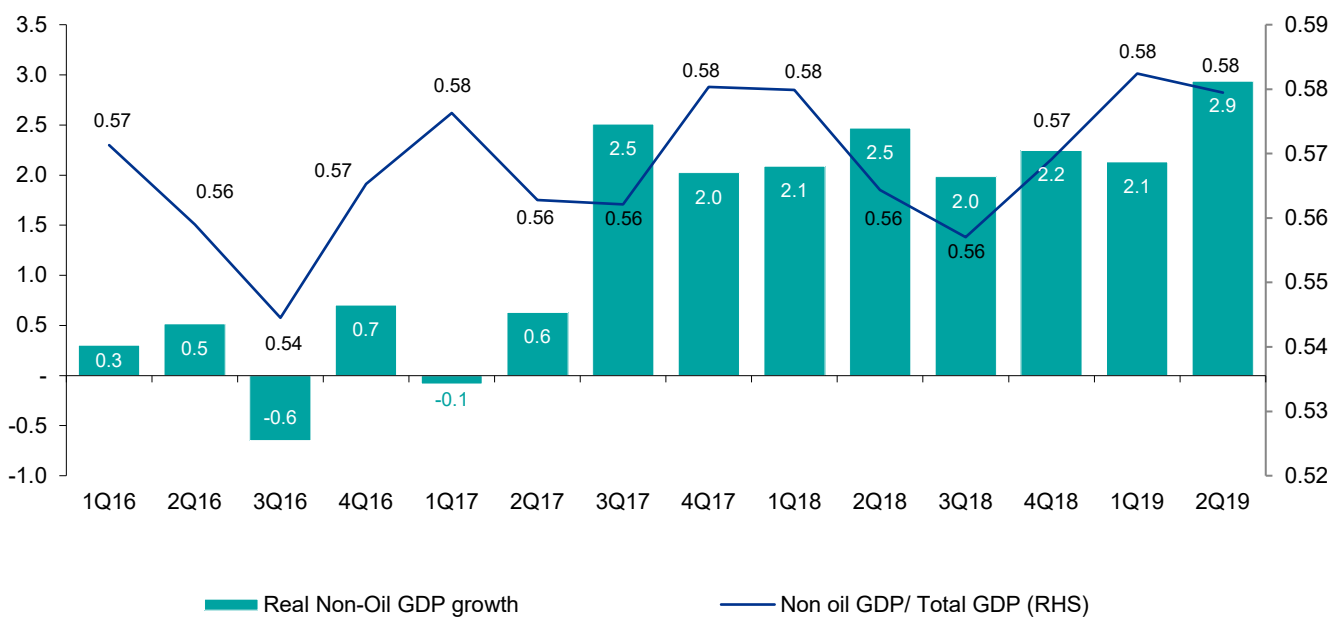
Saudi Arabia's economy is diversifying away from oil, and going forward, the growth is expected to be supported by the non-oil sectors. In 2019, the execution of mega projects had a positive impact on all the sectors—including the construction sector that outperformed the other sectors and witnessed growth for the first time in three years.

Reforms and improved confidence in the country improved Saudi Arabia's position in the World Bank's ease of doing business rankings. The country jumped 30 places to rank 62 with an overall score of 71.6 out of 100. The government's ongoing efforts indicate that the country is moving forward in the implementation of the VRPs to achieve vision 2030's main objective of diversifying the economy and decreasing its reliance on oil.

According to the GASTAT, in 1H19, real non-oil GDP grew by 2.5 percent compared to 1H18, primarily due to improved economic activity and the implementation of non-oil revenue development initiatives, such as execution of mega projects. While the non-oil private sector witnessed a growth of 2.9 percent in 1H19, the non-oil government sector grew at an average of 1.8 percent during the same period. Additionally, the actual real non-oil GDP annual growth for 2Q19 was 2.9 percent, accounting for 58 percent of the total GDP (see Figure 11). On the back of the strong performance of both private and government non-oil sectors, which grew 3.4 percent and 1.8 percent, respectively in 2Q19, the growth of non-oil sector in 2Q19 was the highest in the previous 15 quarters.

We, at KPMG, believe that in medium and long term, the economic growth of Saudi Arabia will be driven by the contribution of the non-oil sector, and the progress the government makes in implementing the Vision 2030 objectives.

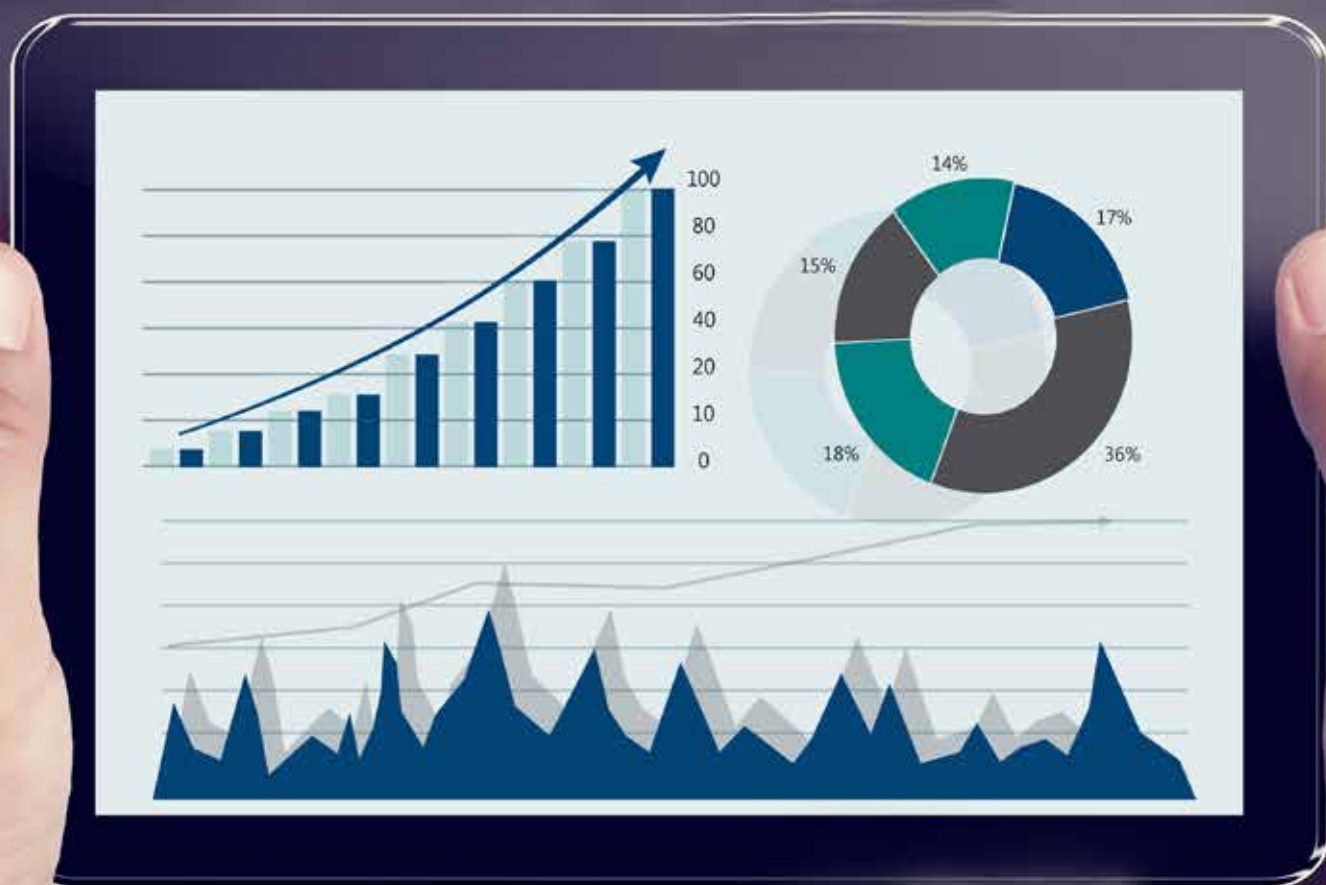
Figure 11: Real non-oil sector GDP growth and non oil sector contribution to GDP



Source: National accounts, GaStat



Economic indicators





HIGHLIGHT

Despite the decline in 2019 due to global trade turbulence and the OPEC+ agreement, Saudi Arabia's economy is expected to grow in 2020 and 2021. In addition, the public deficit is expected to decrease and the government is expected to achieve the objective of fiscal balance by 2023.

Table 1: Economic indicators

Key statistics						
	2016	2017	2018	2019	2020	2021
Economic output:						
Nominal GDP (SAR billion)	2,419	2,582	2,949	2,811	2,902	3,027
Nominal GDP y-o-y	-1.4%	6.7%	14.2%	-4.7%	3.2%	4.3%
Real GDP y-o-y	1.7%	-0.7%	2.4%	0.4%	2.3%	2.2%
Revenue (% of GDP)	21.5%	26.8%	30.7%	32.6%	28.7%	27.7%
Oil revenue (% of GDP)	13.8%	16.9%	20.7%	21.4%	17.7%	21.1%
Non-oil revenue (% of GDP)	7.7%	9.9%	10.0%	11.2%	11.0%	6.6%
Budget:						
Revenue (SAR billion)	520	692	906	917	833	839
Oil revenue (SAR billion)	334	436	611	602	513	-
Non-oil revenue (SAR billion)	186	256	294	315	320	-
Expenditures (SAR billion)	830	930	1,079	1,048	1,020	990
Surplus / (Deficit) (SAR billion)	-311	-238	-174	-131	-187	-151
Surplus / (Deficit) (% of GDP)	-12.9%	-9.2%	-5.9%	-4.7%	-6.4%	-5.0%
Gross public debt (SAR billion)	317	443	560	678	754	848
Gross public debt (% of GDP)	13.1%	17.2%	19.0%	24.1%	26.0%	28.0%
Trade and external sector:						
Export (SAR billion)	688	832	1104	1066	1068	1032
Oil export (SAR billion)	511	638	868	830	831	796
Current account (SAR billion)	-89	39	265	204	183	121
Current account (% of GDP)	-3.7%	1.5%	9.0%	7.3%	6.3%	4.0%

Source: MoF, GaStat, SAMA, IMF

Risks and challenges

Risks and challenges



Impact of the trade war and OPEC+ agreement

Due to the ongoing trade dispute between China and the US, and the adverse effect it has had on the confidence in global financial markets, OPEC reduced the global oil demand in 2019 by 4.0 percent, to just under 1 mb/d. Amidst the global trade turbulence, oil fell 8.7 percent in 3Q19—its biggest quarterly loss since 4Q18 when the prices dropped 35 percent.

The government of Saudi Arabia, along with other OPEC+ allies, has been taking strict measures to sustain global oil market stability. In a bid to boost oil prices, OPEC+ countries agreed to cut take 1.2 mb/d off the market for the first half of 2019 and later decided to extend oil production cuts until March 2020.

However, the production cuts and the decline in oil prices have weighed on Saudi Arabia in 2019. The country's oil revenue declined by 5.0 percent, to SAR 175 billion y-o-y, in 2Q19, while the real oil GDP declined at an average of 1.0 percent in 1H19



Labor market

The National Transformation Program had set a goal of having an unemployment rate of 9.0 percent by 2020 and 7.0 percent by 2030. However, the Ministry of Labor recalibrated its goal of reducing Saudi unemployment to 9.0 percent by 2020 to 10.5 percent by 2022. The unemployment rate of Saudi nationals declined in 2Q19, but still remains high at 12.3 percent, with the male unemployment rate at 6.0 percent and the female unemployment rate at 31.1 percent.

Labor incentive misalignment is a crucial structural barrier to Saudi Arabia's vision of economic diversification. Saudi citizens continue to prefer government jobs where wages are about 50 percent higher than in the private sector. Additionally, it would be imperative for the government to make more jobs available to the young population entering the market. According to the IMF, with the growing labor force participation, an estimated 1 million jobs could be needed in the next five years.



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The government has shown complete awareness about the risks and challenges that have impacted the country's economic growth. Externally, the slowdown of the global economy, triggered by trade tensions, has proved to be a headwind for the oil prices. Internally, labor market is still volatile due to the current gap between wages, skills and productivity.

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Glossary

Term	Definition
CPI	Consumer Price Index
GaSTAT	The General Authority for Statistics
GDP	Gross Domestic Product
IIF	Institute of International Finance
IMF	International Monetary Fund
MLSD	Ministry of Labor and Social Development
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
PIF	The Public Investment Fund
POS	Point of Sale
PSSP	Private Sector Stimulus Package
SAMA	Saudi Arabian Monetary Authority
SAR	Saudi Riyal
VAT	Value Added Tax

Appendix

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