KPMG

Analysis of Household Savings in Saudi Arabia

KPMG in Saudi Arabia

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Foreword

We are pleased to present to you the Saudi Household Savings report. This report investigates the importance of household savings, its relationship with the economic growth of a country, and how some countries, by adopting innovative solutions and policies, have inculcated a savings mindset among their citizens. The report further delves into the culture of household savings in Saudi Arabia, and how the country's household savings rate can be improved to a global standard of 10 percent that is recognized as the minimum level to ensure long-term financial stability.

Household savings and investments are two vital cogs in the proper functioning of an economy. An acceptable rate of economic growth typically requires an adequate rate of investment and therefore, a satisfactory supply of savings. While investment are recognized as a goal of economic policy as it improves productivity and increases the competitiveness of an economy, savings form the core of capital formation that fuels economic development. Nations that take conscious initiatives to encourage and nurture formal savings are more likely to witness higher levels of sustainable economic growth, human development and living standards.

Due to the key role household savings play in the economic development of a country, Saudi Arabia, as part of the Saudi Vision 2030 programs, launched the Financial Sector Development program (FSDP). One of the key objectives of FSDP is to develop a diversified financial sector to support the development of the national economy and stimulate savings. The program further aims to increase the country's household savings rate from 2.4 percent in 2013 to 7.5 percent by 2020.

Unavailability of an adequate number of savings products in the market and a low level of financial literacy compared to other countries such as Australia and Germany, encompass some of the factors behind Saudi Arabia's low household savings rate. The country's household savings rate, as of 2018, is significantly low compared with that of other G20 countries including Germany (11 percent), the US (8 percent) and Mexico (10.8 percent).

A thorough analysis performed on the GASTAT's Household Expenditure and Income Survey, conducted in 2007, 2013 and 2018, threw light on the downward trend of the country's household savings rate. The survey further revealed that while the average household monthly income during 2007–18 grew by 5.3 percent, household monthly consumption expenditure grew by 38.6 percent.

The main objective of this paper, in addition to identifying the core factors that impact a country's household savings rate, is to identify achievable policies and initiatives, which, if implemented, may lead to improvement in the savings mindset of the Saudi population. We hope you find this report a useful and insightful read

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Chairman
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Key Findings

Household savings play a crucial role in stimulating sustained economic growth

Household savings lay the foundation on which an economy is built and aids in the future development of a country while making it less dependent on external funding. It not only accounts for a substantial part of national savings in both industrial and developing economies, but also plays a very crucial role in stimulating sustained economic growth.

Countries around the globe have been witnessing a decline in household savings rate

Despite knowing the importance of maintaining adequate household savings for sound economic management, the household savings rate has been on the decline globally. Except for a few developed economies such as Germany and Luxembourg, which have been able to increase the level of household savings in their economies, most nations, including the UK, Australia and Saudi Arabia, have witnessed a decline in household savings rate over the recent years.

Analysis of GASTAT's Household Income and Expenditure Survey reveals a downward trend in Saudi Arabia's household savings rate

The GASTAT's Household Income and Expenditure Survey, which is published every five years, revealed that a major reason behind this decline was the disproportional increase of the monthly consumption and the monthly income in the past 10 years. According to the survey, while the average household monthly income during 2007–18 increased by 5.3 percent, from SAR 14,084 to SAR 14,823, the average household monthly consumption expenditure grew 38.6 percent, from SAR 10,522 to SAR 14,584, during the same period

Enhancing financial literacy and increasing the number of banking products are among the focus areas for improving Saudi Arabia's household savings rate

Owing to several factors including low level of financial literacy, unavailability of data on household savings in secondary sources and availability of limited savings products in the market, Saudi Arabia's household savings rate as of 2018 is significantly below the 10 percent global standard recognized as the minimum level to ensure long-term financial independence.

Saudi government has already been taking some notable measures to improve the country's household savings rate

One of the major objectives of FSDP is to promote and enable financial planning by driving the expansion of savings products available in the market, strengthening the savings ecosystem, and enhancing financial literacy. Increasing the total amount of savings held in savings products from SAR315 billion (2016) to SAR400 billion (2020), and increasing the number of available types of savings products from 4 (2016) to 9 (2020) are some of the ambitious targets that the program has set to achieve by 2020.

Policy recommendations that can be considered to improve Saudi Arabia's household savings rate

Introducing policy initiatives, driven by behavioral characteristics of households, increasing the country's financial literacy to boost savings, enabling easy access to financial products and services by emphasizing on financial inclusion, and increasing the frequency of data published on household savings are some of the areas that can be focused upon to improve the country's household savings rate.

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Introduction

Economists and scholars historically have wondered about the relationship between savings and investment. Scholars of the Chicago Economics School of thought argue that, in contrast to Keynesian theory, the concept of savings is different from investment by defining savings as the amount of money set aside for future consumption while investment as the amount of money spent in buying assets — such as stocks and real estate — that could yield more money in the future. Other scholars support John Maynard Keynes' views of savings being equal to investment. Keynes stressed in his General Theory of Employment, Interest and Money that, "aggregate savings always equals aggregate investment thus attaining saving- investment equality, a condition of equilibrium."

Despite the differences in economists' perspectives, the relationship between savings, investment and consumption is undisputed. The life-cycle hypothesis, developed by Franco Modigliani in 1957, states that individuals tend to spend and save, taking into account their life-time resources thus leading to different saving motives. The retirement motive — saving when income is high, in anticipation of lower income during retirement; the precautionary motive — saving to prepare for negative unanticipated shocks to income or needs; and the accumulation motive — saving when expected returns are high.

The concept of savings has been interpreted very widely among scholars. In this paper we will take into consideration the literature review that defines savings as the process of setting aside a portion of current income for future use, or the flow of resources accumulated over a given period of time.

Savings in a macroeconomic context can be classified as private savings, which comprises total savings at the household and corporate levels within an economy, public savings constitute savings at the government level. While national savings represent the sum of both private and public savings.

There has always been a positive relationship between a country's savings level and its economic growth rate. Savings lead to accumulation of fixed capital that can be used for innumerable things, from investing in technology to creation of new factories. This investable surplus in an economy in turn leads to high economic growth. The vital role of savings in the economic development of a country has been widely covered in economic literature and supported by a plethora of econometric models.

One of the main objectives of this paper is to emphasize the importance of household savings, which is often defined as the amount of money left over after subtracting the cost of an individual's consumer expenditure from his or her total disposable income. Household savings are an important instrument for any economy and play a crucial role in stimulating sustained economic development. Historically, countries with high household savings have demonstrated high economic growth. For instance, China's household savings rate is higher than the global average. Meanwhile, South Africa has low levels of household savings coupled with low levels of economic growth.

Statistical data shows that household savings rate for many countries has declined over the years. Owing to factors such as an aging population, the lack of financial literacy, consumer preferences, and government measures and policies, household savings ratios have nosedived in many major economies including Australia and the UK within the past decade. Saudi Arabia is also among the countries that are experiencing a waning household savings rate due to certain factors that this paper covers in detail.

In an attempt to boost household savings, countries around the world, including Saudi Arabia, have taken measures. In 2017, the Council of Economic and Development Affairs (CEDA) launched Vision 2030 with 10 delivery programs, including the Financial Sector Development Program (FSDP) that aims at developing the national economy, and creating a diversified financial services sector. One of the main pillars of the program is to promote financial planning and stimulate savings. To improve household savings in the country, FSDP aims to diversify the types of savings products available in the market, establish a financial literacy entity to enhance financial literacy and strengthen the country's savings ecosystem. The program further aims to increase Saudi Arabia's household savings rate as a percentage of disposable income to 7.5 percent by 2020.

The purpose of this paper is to emphasize on the importance of household savings and identify prudent measures the policymakers can adopt to improve Saudi Arabia's household savings rate. This paper has four parts:

— Part I provides an overview of national and household savings while emphasizing on their importance within the economy.

— Part II investigates the main patterns and drivers of the household savings rate in Saudi Arabia. By taking into consideration a survey of 24,996 Saudi Arabian households, conducted by General Authority for Statistics (GASTAT) in 2018, the paper analyzes the household savings rate for Saudi Arabia in 2007, 2013 and 2018.

— Part III of the report explores the plausible factors behind the low savings rate in Saudi Arabia.

— The final part of the report provides recommendations to improve the country's household savings rate on the basis of comparative analysis of initiatives undertaken by other countries that have succeeded in improving their household savings rate.

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Savings

Apart from acting as a buffer against uncertain times, savings play a pivotal role in a country's long-term economic growth. According to B. Douglas & John B (1991), increased saving rates may stimulate economic growth through increased investment while chronically inadequate rates of saving depress investment that leads to an economy in which the income, productivity and wages are all lower than they would ideally be in a more frugal society. Moreover, savings are a good indicator of stable investment and healthy economic environments. In many countries around the world, savings provide a major impetus to growth and development.

National savings are the difference between a country's income and what it spends on the consumption of goods and services. It can broadly be disaggregated into two types — private savings and public savings.

Savings can be categorized as either public, private, or national; all three of which are derived from the gross domestic product's primary function:

GDP= I + C + G + NX

Where:
I = Investment
C = Consumption
G = Government spending
NX = Net export

Private savings

These can be defined as the savings by all residents within an economy over a given period of time. It is also synonymous with savings by all households and companies within a country. Private savings equal the total disposable income of all the residents within an economy minus tax expenditure on consumption.

Private savings = Y – T – C

Where:
T = Tax

Public savings

These can be defined as the savings by the government of a country. It is a significant determinant of economic growth as it determines the level of funds (surplus or deficit) possessed by the government of a nation.

Public savings = T – G

Where:
T = Tax revenue
Tax revenue > Expenditure = Budget surplus
Tax Revenue < Expenditure = Budget deficit
Tax revenue = Expenditure = Balanced budget

National savings

These refer to the sum of private savings and public savings. It is synonymous with all the savings in a country which are used for investment purposes. National savings and investments determine the trade balance in an economy.

National savings = Y – C – G

In an open economy, national savings also includes the element of net exports which equals total exports minus imports.

National savings = Y – C – G – NX

Where:
Y = Total income
C = Consumption
G = Government spending
NX = Net exports

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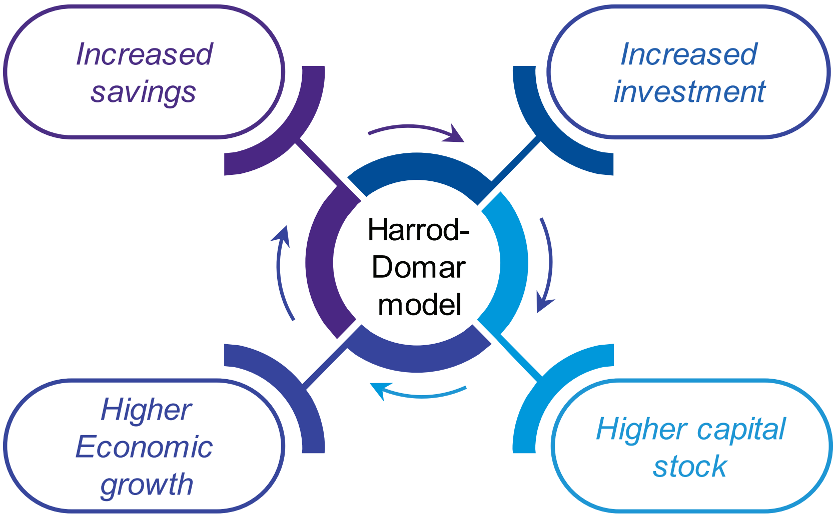
Importance of savings

Savings and investments are considered as critical macro-economic variables that contribute to a country's sustainable economic growth. Higher savings not only contribute to higher investments and higher GDP growth, but also aid the promotion of employment opportunities and boost the country's productivity over the long term.

Figure 1: Harrod-Domar model



Harrod-Domar's savings-investment model (1939 and 1946) recognizes savings as a key factor in determining economic growth rates. The model they introduced (Figure 1) accentuates the importance of savings and investments in an economy. It further demonstrates how savings, investment, and output form a virtuous circle of self sustaining economic growth. Countries that take initiatives to encourage and nurture savings are more likely to witness higher levels of sustainable economic growth, human development, and living standards. In general, there are two major benefits of savings:

Drives economic growth

The ratio of personal savings to disposable income, better defined as the savings ratio, is a major determinant of a country's economic growth. Savings co-relate with the level of investment in an economy, and as an investment is always financed through savings, a high level of investment leads to higher economic productivity in the long term. From an economist's viewpoint, savings lead to more investments, which eventually gets added to a nation's capital stock that has a great influence on a country's economic growth.

Benefits for individuals

- **Transaction benefits:** When there is a time interval between receiving income and making payments for consumption, savings bridge the gap between receipts and payments, thus, enabling individuals to meet their transaction demand.
- **Speculative benefits:** It assists individuals in tackling the uncertainties of financial markets, driven by fluctuating interest rates and other external factors, by providing ready money in times of shortage.
- **Precautionary benefits:** It revolves around saving money to meet unforeseen future contingencies such as health issues or unemployment.
  - For instance, unemployment has soared in many countries around the world due to the COVID-19 pandemic. People's adequate savings can help them tide over this crisis and make up for the shortfall in pay.

While most economists agree that savings are an accelerating factor for economic growth, it has been argued that personal savings can be a drag on the economy creating a paradox of thrift. The paradox concludes that an increase in savings would lead to a decrease in consumption, thus, resulting in a reduction in gross output and total savings.

In the subsequent section, we will delve into the importance of household savings while emphasizing how it is a crucial determinant of welfare in economies worldwide. Further, with the help of country-specific case studies, the section will outline the key factors that impact household savings.

Household Savings

With the ever-changing dynamics of households in the region, it is important to address what we imply when we discuss what a household is. According to GASTAT, a household refers to a person or a group of individuals — with or without kinship — who share a residence. Household savings lay the foundation on which an economy is built and aids in the future development of a country while making it less dependent on external funding. It not only accounts for a substantial part of national savings in both industrial and developing economies, but it also plays a very crucial role in stimulating sustained economic growth.

Since household savings are assumed to be one of the critical drivers of economic growth, the factors that determine the household savings rate have been analyzed thoroughly in economic literature. Some of these factors may be cultural and demographic; while others, such as the level and structure of taxes or rate of inflation and interest rates, are mostly policy variables and are thus independent of any geography. Taking into account a plethora of institutional, demographic and socio-economic factors, some of the major determinants of household savings are shown below.

Household savings

The savings by all the households in a country are known as household savings. It is the difference between a household's disposable income (wages, income of the self employed and net property income) and its consumption (expenditures on goods and services), plus the change in net equity of households in pension funds.

01 The level of income and wealth

A generally accepted phenomenon is that the rich save a larger share of their income and that the higher the level of income and accumulated wealth enables higher savings. Furthermore, wealth is a stock variable, whereas, savings and income are flow variables and whenever there is a reduction in wealth due to contingencies, people save more to restore their wealth. This behavior has also been captured in Richard Thaler's behavioral economic concept — mental accounting. Mental accounting is the behavioral tendency of individuals to associate labels with different amounts of income and how the information about origin of income leads to biased spending and consumption decisions. It stresses upon the unique quality money has which is the characteristic of fungibility, that as, being easily replaced.

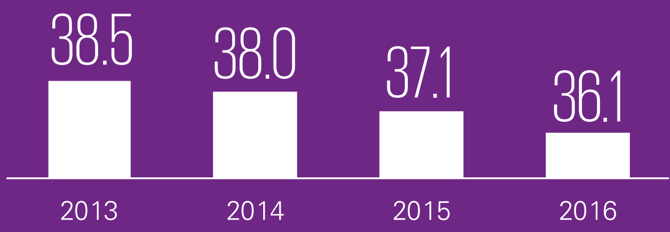
02 Demographic factors

a. Availability of working age population

The working age population comprising people aged between 16 to 64 years, makes positive contributions to savings by boosting economic activities and income generations, whereas, people aged 65 and above make negative contributions by nibbling away savings. According to the neoclassical economic model of circular flow of income developed by economist, Richard Cantillon in

In sync with the country's working age population, which has been declining since 2013, China's household savings rate has witnessed a downward trajectory.

Figure 2: China`s Household savings rate (%)



Source: Household savings, OECD data

Essay of Natural Trade in General (1730), the household provides a workforce for businesses and companies which in turn manufacture goods and services to be consumed by the household, thus creating a circular flow of income. Money flows to workers in the form of wages and then flows back to firms in exchange of these products resulting in income generation for all the players in an economy. Consequently, a declining working age population implies a decline in the level of income to the household, reduction in firms' profits and dip in household savings in an economy, since it is financed out of income (Figure 2).

b. Ageing population

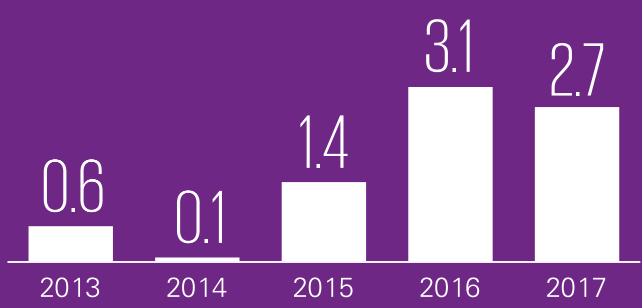
There is a belief among economists and policy makers that ageing leads to lower household savings in an economy. However, the precise magnitude of fall depends on country specific factors. As the population ages, the old aged people tend to consume more out of accumulated savings and pensions, thereby, lowering the ratio of overall household savings to disposable income. In a report by the United Nations, it is estimated that over 16 percent of the global population will be over the age of 65 by 2050, a significant increase from the 9 percent in 2019. Additionally, the number of people aged 80 years or above is projected to increase from 143 million in 2019 to 426 million in 2050. Rise in ageing population is likely to have an adverse impact on the economic performance of countries due to lower levels of income and savings (Figure 3).

03 Tax Policies

Taxes have been recognized as an important determinant of household savings in the IMF Working Paper — "Taxation and Household Savings Rate". The study's findings provide empirical evidence of the negative relationship between tax levels and tax structures on one hand, and household savings rate on the other. Taxes affect the level of consumption and savings by making production and consumption of goods and services expensive, leading to reduction in quantity left for households to save.

Despite being one of the most developed nations in the world, Japan's household savings rate of 2.7 percent is low compared with other developed countries such as the US and Germany that had a household savings rate of 7.2 percent and 10.4 percent, respectively in 2017. The ageing population considerably affected the financial pattern of savings and investments in Japan, which now has a smaller base of spenders, i.e., working population, with the complement of a bigger base of elderly spenders.

Figure 3: Japan`s Household savings rate (%)



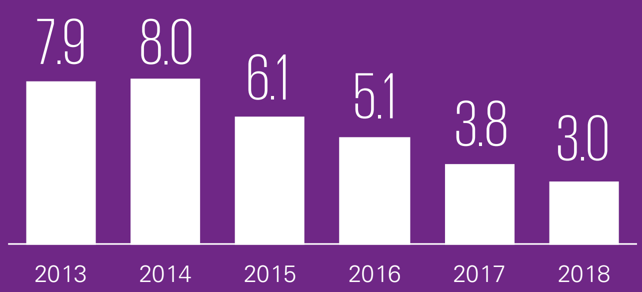
Source: Household savings, OECD data

04 Household's spending pattern

Household expenditure is one of the most essential driving forces of economic growth as it represents more than half of Gross Domestic Product (GDP) in most developed economies. As wealth grows, households tend to rapidly alter spending patterns to bring in a variety of goods to the consumption basket. However in the recent past, households within developed and emerging economies such as the UK and Australia, have seen their expenses surpass their incomes, which is not a sustainable phenomenon, considering the implication is that households accumulate more debt than assets (Figure 4).

In Australia, households have been spending more than what they are earning. In 2017, consumption expenditure grew faster than income with a 5.8 percent rise in expenditure vis-à-vis 3.5 percent rise in income. Also, in 2018, consumption increased by 2 percent, whereas income increased only by 0.4 percent. As of September 2018, Australia has shown to suffer from an extremely high household debt at 190 percent of incomes, which adversely affects the level of savings in the country. These factors have led to an inability to save over the years, with household savings declining at a compounded rate of 17.6 percent from 7.9 percent in 2013 to 3 percent in 2018.

Figure 4: Australia`s Household savings rate (%)



Source: Household savings, OECD data

Despite knowing the importance of maintaining adequate household savings for sound economic management, household savings rate has been on the decline globally. In early 1980's, most of the global investment was funded by household savings, whereas, in 2019, nearly two-thirds of global investment was funded by corporate savings. Except for a few developed economies such as Germany and Luxembourg, which have been able to increase the level of household savings in their economies, most nations, including the UK, Australia and Saudi Arabia, have witnessed a decline in household savings rate over the recent years.

Household Savings in Saudi Arabia

In April 2016, Saudi Arabia's Crown Prince, Mohammad bin Salman Al Saud, announced Vision 2030 with the aim of diversifying the country's economy, improving the standard of living and increasing the happiness quotient of the households. Saudi Arabia aims to improve happiness of the households by making more cultural and entertainment opportunities available to its citizens and encouraging widespread participation in sports and athletic activities to promote a healthy lifestyle. Since Vision 2030 was launched nearly four years ago, Saudi Arabia has taken notable measures to achieve its 2030 goals, including the establishment of the General Entertainment Authority in 2016.

One of the most substantial Vision Realization Programs (VRPs) launched by the Saudi government to realize its Vision 2030 goals is the Financial Sector Development program (FSDP). The FSDP aims to develop a diversified financial sector to support the development of the national economy and stimulate savings. One of the major objectives of this program is to promote and enable financial planning by driving the expansion of savings products available in the market, strengthening the savings ecosystem and enhancing financial literacy. Increasing the total amount of savings held in savings products from SAR315 billion (2016) to SAR400 billion (2020), and increasing the number of available types of savings products from 4 (2016) to 9 (2020) are some of the ambitious targets that the program has set out to achieve by 2020.

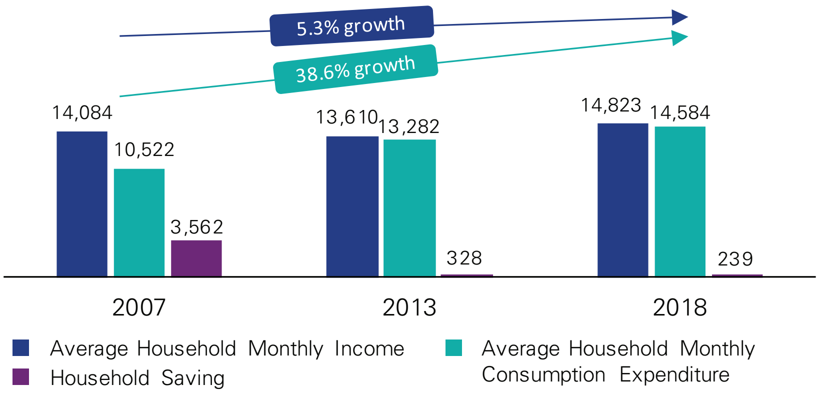
The FSDP program also aims to increase the country's presently low household savings ratio, which stood at 1.6 percent of annual disposable income for Saudi nationals in 2018. According to the GASTAT's Household Income and Expenditure Survey, which is published every five years, the average household monthly consumption expenditure stood at SAR 14,584, while the average household monthly income stood at SAR 14,823 for Saudi nationals in 2018, thus indicating low levels of household savings across the country.

Owing to several factors including low level of financial literacy, unavailability of data on household savings in secondary sources, and availability of limited savings products in the market, Saudi Arabia's household savings rate as of 2018 is significantly below the 10 percent global standard recognized as the minimum level to ensure long-term financial independence.

With the help of the findings from the Household Income and Expenditure Survey reports published every five years by GASTAT, we were able to ascertain the trend in the country's household savings rate (as percentage of disposable income) in the past decade.

A thorough analysis performed on the GASTAT's Household Expenditure and Income Survey, conducted in 2007, 2013 and 2018, confirmed that Saudi Arabia's household savings rate has witnessed a downward trend in the past decade. Our analysis of the survey further revealed that a major reason behind the decline was the disproportional increase in the monthly consumption and the monthly income in the past 10 years. While the average household monthly income during 2007–18 increased by 5.3 percent, from SAR 14,084 to SAR 14,823, the average household monthly consumption expenditure grew 38.6 percent, from SAR 10,522 to SAR 14,584, during the same period (Figure 5).

Figure 5: Saudi Arabia's household income and consumption expenditure (SAR)

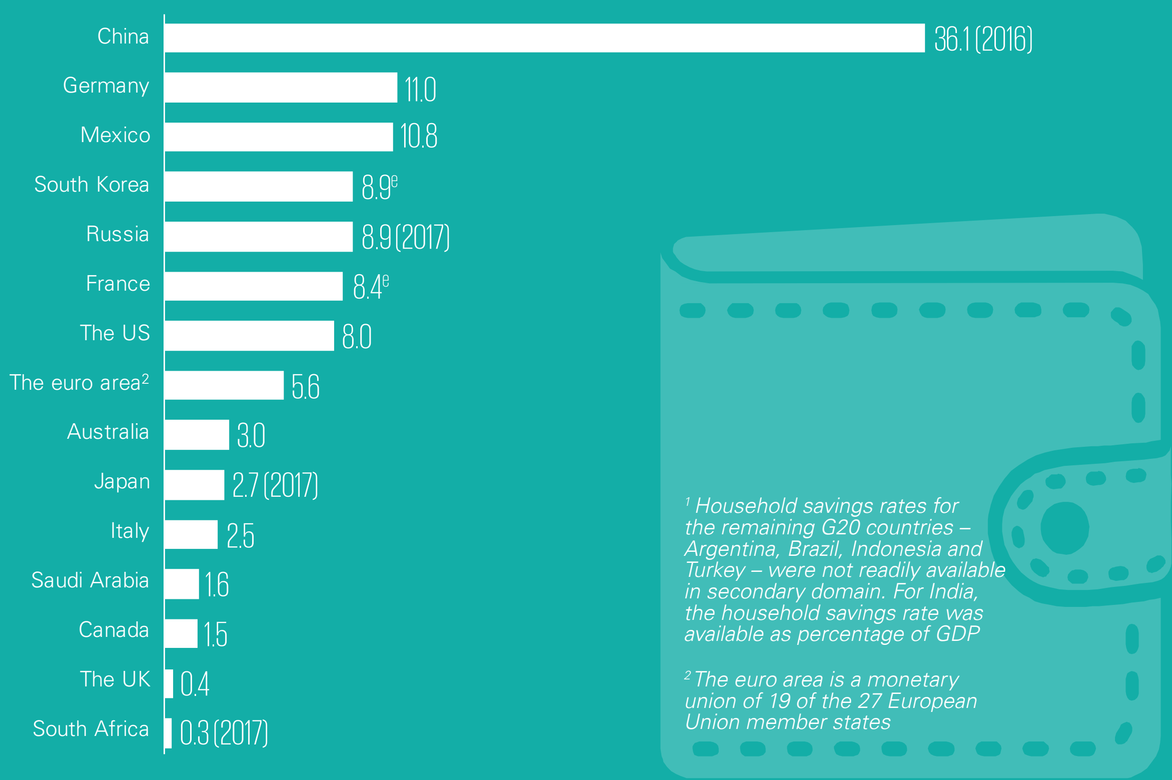


Source: GASTAT, KPMG Analysis

All the figures pertaining to Saudi Arabia's household income and consumption have been directly sourced from GASTAT's Household Expenditure And Income Survey conducted in 2007, 2013 and 2018.

— The household monthly income is the sum of household income values and sources divided by the number of household members.
— Total consumption is consumption expenditure plus expenditure on purchase of shares, buildings, land, etc.
— The consumption expenditure is the cash spent on purchase goods and services.
— The country's household savings rate was calculated by subtracting the average household monthly consumption expenditure from the average household disposable income, and dividing the output by the disposable income.

Figure 6: Household savings rate of select G20 countries (2018, unless otherwise stated)[1], with China topping the chart with 36.1 percent (2016) and Saudi Arabia among the lowest with 1.6 percent household savings rate as of 2018



[1] Household savings rates for the remaining G20 countries – Argentina, Brazil, Indonesia and Turkey – were not readily available in secondary domain. For India, the household savings rate was available as percentage of GDP

[2] The euro area is a monetary union of 19 of the 27 European Union member states

Source: OECD data, GASTAT, KPMG Analysis

Snapshot of Saudi Arabia's income, expenditure and household savings

The average household monthly income witnessed a surge of about 8.9 percent from 2013 to 2018. Out of the different provinces, the Eastern province recorded the highest monthly income while Tabuk had the lowest household monthly income. During the same period, it was observed that a stark difference existed between the monthly household income of males and females, with that of males being SAR 6,526 higher than that of females.

Average household monthly income

SAR 14,823 ↑
(2018)

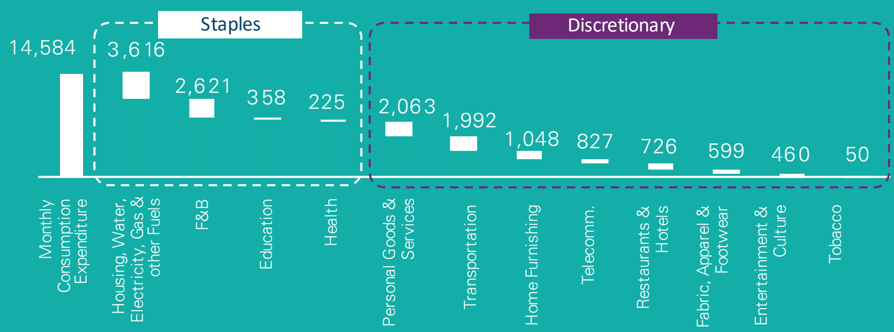
By administrative region (2018)		By gender (2018)	
Eastern prov.	Tabuk	Male	Female
SAR 17,872	SAR 11,024	SAR 15,132	SAR 8,606
(Highest)	(Lowest)		

The average household monthly consumption witnessed a 9.8 percent increase from 2013 to 2018. Out of the total average household monthly consumption expenditure, about 46.8 percent comprised expenditure on staples while the remaining 53.2 percent was contributed by expenditure on discretionary items.

Average household monthly consumption expenditure

SAR 14,584 ↑
(2018)

Average household monthly consumption expenditure by main expenditure groups (in SAR, 2018)



The average household savings witnessed a drastic decline of 27.1 percent from 2013 to 2018. On an average, by administrative region, while Qassim recorded the highest household savings, Najran registered the lowest household savings in 2018.

Average household savings

SAR 239 ↓
(2018)

By administrative region	
Qassim	Najran
SAR 951	SAR 12
(Highest)	(Lowest)

Average household savings rate

1.6% (2018) ↓

Source: GASTAT

↑ Increased in comparison to 2013 ↓ Decreased in comparison to 2013

Factors impacting household savings in Saudi Arabia

01 Lower level of financial literacy compared to other countries

Financial literacy can be best described as the comprehensive understanding of financial skills and knowledge that enables individuals to make well-informed financial decisions. A financially literate person can not only accumulate wealth throughout his life, but can also contribute toward the economic growth of a country. A low level of financial literacy on the other hand can negatively impact the financial potential of households, thereby adversely impacting the stability of financial institutions, which play a critical role in any nations' economic growth. Empirical evidence suggests that individuals with a high level of financial literacy share a few things in common, such as education, income, and median age. For instance, financial literacy increases considerably with academic growth, which leads to higher mathematical abilities and comprehension. A financially educated person tends to have a higher income level, aims for stretched financial goals and works toward achieving those goals through savings and investments.

At a global level, it is estimated that about two-thirds of the adult population lack basic financial knowledge. There is significant distribution of disparity, especially among lower income groups. The lack of adequate financial knowledge is also prevalent among the Saudi population. According to a recent research paper (Albassami & Alyousif, 2019), most of the country's population is ill-informed about the basic concepts of financial planning. While participants in the reports' survey exhibited a slightly higher than average level in 'meeting financial obligations,' the level still stood well below the acceptable world average. The implication of this is that individuals regularly find it difficult to pay financial obligations by the end of each month due to which they tend to resort to other people for financial assistance or, more disturbingly, take on debt. Also, according to the survey, many participants reported that on a monthly basis, their income failed to surpass their expenses, which illustrates that they hardly monitor their daily spending and credit card transactions. In addition, when it came to managing daily financial matters and cash outflows, participants performed poorly. The results of the survey give a grim picture of the country's overall financial literacy levels.

Furthermore, inadequate financial knowledge is also one of the reasons behind people's dearth of awareness about various banking products available at their disposal. For instance, a few Shariah compliant banking products are available in Saudi Arabia but are not being used by the majority ofpopulation.

Although the government of Saudi Arabia is taking some noteworthy measures and making steady progress toward ensuring financial inclusion, the present state of the country's financial literacy levels is one of the core reasons behind its meagre household savings rate of 1.6 percent (2018).

02 People's inclination toward spending rather than saving

After the oil boom in the 1970s, the economy of Saudi Arabia witnessed a dramatic change as oil revenues jumped from US$4.3 billion in 1973 to US$101.8 billion by 1980. This impressive increment of public revenues made Saudi Arabia a rich economy for a very long time. The government initiated the rampant development of the oil sector. This led to indications that the country was falling to a phenomenon that resource-rich countries are prone to — the resource curse or the Dutch disease. The Dutch disease is a situation where the discovery of primary mineral resource in a country leads to a decline or total collapse of economic activities in other sectors of the economy, instead of boosting harmonious development of the economy.

While the country placed more emphasis on developing the oil sector, over any other sector, it started accumulating wealth, which not only made Saudi Arabia a rich economy but also influenced the spending habits of the Saudi population. With a strong belief in the country's ability to maintain that wealth, the people of Saudi Arabia adapted to a lifestyle of spending rather than saving. High levels of spending in Saudi Arabia, however, do not reflect the economic development of the country.

While people in other countries tend to save due to personal reasons such as retirement planning, and unforeseen circumstances, such as economic crisis and unemployment, people in Saudi Arabia continue with their spending habits as they are more optimistic about the future. This characteristic is especially prominent in the country's younger generation that tends to consume more as they are under the misconception that, even in difficult economic times, the government will continue to provide a safety net. As a result, there is little motivation for any kind of precautionary saving.

03 Age Distribution

The demographic distribution of a country can have a noticeable impact on the overall household savings rate. The life-cycle hypothesis focuses on how changes in the age distribution impacts household savings, by suggesting that people tend to save more as they move toward middle age (Figure 7). According to the hypothesis, the household savings rate should reach its peak when the age of a person is between 40 and 49 years. In Saudi Arabia, people falling in this age bracket constitute about 12 percent of Saudi's total working age population (15 years old and above) as the country enjoys a vibrant and young demographic distribution. According to GASTAT's population estimates, as of 2018, about 37 percent of the Saudi's working age population is under the age of 35.

By analyzing GASTAT's Household Expenditure and Income Survey, and the population estimates, we ascertained the consumption pattern for Saudi nationals. As evident from the graph below, the saving behavior of people in Saudi Arabia, while somewhat consistent with the life-cycle hypothesis, depicts that individuals in their middle age still have a low savings rate. In 2018, The average rate of savings for Saudis in the age group of 40 and 49 was recorded at -4 percent, while the age groups between 25–29 and 30–35 recorded savings rates of about 2 percent and 4 percent, respectively. The overall average savings rate for Saudi's population stood at -14 percent (Figure 8).

Figure 7: Life-cycle hypothesis

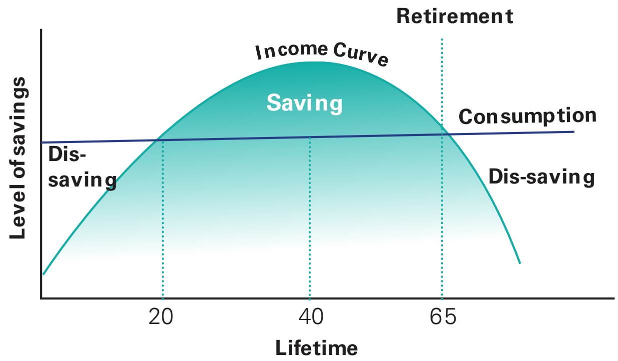
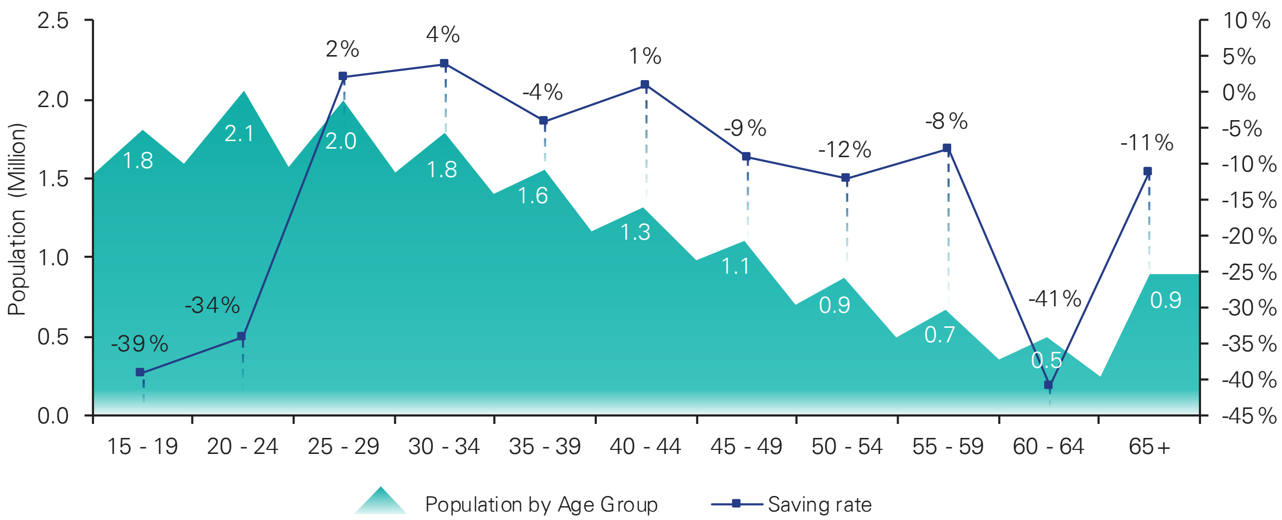


Figure 8: Saudi Arabia's population distribution by age group and household savings rate (2018)



**The savings rate was calculated with the total expenditure instead of the consumption expenditure due to lack of information*
**All the datapoints used are for Saudis citizen population only*

Source: GASTAT, KPMG Analysis

As Saudi Arabia is at an early stage of the life-cycle hypothesis, raising its low household savings rate is still achievable. With about 44 percent of the country's working age population below the age of 40, the country has a high potential of achieving a satisfactory savings ratio in the future, provided that the population is educated on the importance of savings on a regular basis.

Plausible policy recommendations and initiatives on improving Saudi Arabia's household savings rate

Taking the factors impacting household savings in Saudi Arabia into consideration, we have outlined some key recommendations, examples of some countries that have benefited from these measures, and future directions for the policymakers toward improving the household savings rate in Saudi Arabia.

01 Introduce policy initiatives, driven by behavioral characteristics of households

The field of behavioral economics is an amalgamation of psychology and economics and attempts to analyze the factors that drive an individual's decision-making ability. By identifying socio-economic and demographic factors that influence humans to save more, policymakers can introduce tailor-made policies to boost savings. A low-cost solution designed by applying simple concepts of behavioral economics can make a large impact on society. Saudi Arabia has the opportunity to leverage behavioral economics to enhance its national savings. The policymakers in the country can gain some insights from the initiatives taken by other countries that have been successful in promoting a savings-driven mindset.

Recommendation 1: Invoke a savings culture by running small scale behavioral experiments

Saudi Arabia can run small-scale randomized controlled experiments (RCTs) to understand the savings behavior of its citizens. Given the demographic diversity of the country, running small-scale behavioral experiments could yield valuable insights and pave the way for a subsequent launch of concrete commercial products at a later stage. For instance, the country can run an experiment to understand the impact of peer groups on saving decisions made by individuals. Chile performed such an experiment, known as 'saving more in groups' on microcredit clients in 2008, with the aim of understanding the impact of peer groups on the savings behavior of individuals. As part of the experiment, a test was conducted with three different random groups of participants. The first group was offered a basic savings account, the second group was offered a basic savings account and an option to publicly announce its savings plan, while the third group was offered an account with high interest rates. Upon completion of the experiment, it was found that the second group deposit 3.7 times as often into the savings account and their average savings balance was almost twice that of the first group. The third group, though observed an increase in average savings to some extent, was not able to match the performance of the second group.

Using the concept of behavioral insights, the US, in 2004, launched a pension program called Save More Tomorrow (SMarT). The program is based on the premise that although people intend to save more due to various challenges, they are unable to do so. As part of the program, a pension plan was designed in which employees' contribution to their saving plan automatically increased each year and with every salary increment. The plan was legally enforced in the US in 2006, as part of the Pension Protection Act and as of 2017 about 15.5 million Americans are involved in the plan. One of the US-based mid-sized manufacturing firms that adopted the plan, highlighted that the employees who participated in the program reported an increase in their savings from 3.5 percent to 13.6 percent over a period of four years

Recommendation 2: Create a regulatory body to monitor the progress of behavioral experiments

The country can establish a supervisory body to enforce specific guidelines, including the type of behavioral experiments permitted, monitor the progress of such experiments and demand corrective action wherever necessary.

Thus, behavioral economics can be leveraged to understand the behavioral characteristics of the population that will help Saudi Arabia design policies specific to the needs of its citizens. This, in turn, will have a positive impact on the volume of savings in Saudi Arabia.

02 Increase financial literacy to boost savings

Better financial literacy not only encourages greater personal savings, but also addresses the concern of having weak financial security at the time of retirement. To track the financial skills of its citizens, countries around the world conduct financial literacy surveys of their adult populations. One such survey of adult financial literacy, OECD/INFE (OECD International Network on Financial Education), to assess the level of financial skills in Saudi Arabia, was conducted in 2016. The survey results revealed that with a weighted score of 9.6 in financial knowledge, attitudes and behavior, Saudi Arabia ranks in the bottom four among all G20 countries. The overall average score of G20 countries stood at 12.7. Since the survey indicates that there is significant room for improvement in the overall level of financial literacy in the country, the policymakers can adopt certain measures and launch targeted initiatives to lead a financial literacy drive.

Recommendation 1: Introduce specially-designed awareness programs

— Financial institutions such as banks can host seminars for specific groups including school and college students, working professionals, middle income groups, housewives, retired personnel and others. Such seminars should focus on educating these specific target groups on the prevailing savings schemes that cater to their needs.

— A purpose-driven strategy can also be devised. For instance, policymakers can target the youth of the country and launch programs to encourage them to increase savings to meet their educational needs.

— Governing bodies can also assist families in gaining financial skills, establishing a savings goal and developing long term saving habits. As a push to increase the adoption of the plan, incentives can also be provided to the participants. Inspiration for a similar plan can be taken from the 'Saver Plus' program in Australia. The plan was implemented in 2003 with the objective of encouraging people to save more money in order to cover their educational expenses. The program, which is still active in the country as of April 2020, is a 10-month long financial education and savings program that tries to develop essential financial management skills in the community members. To accelerate the pace of adoption, participants are given benefits of up to US$500 upon completion of the program. The program is now a widespread success in Australia where more than 40,000 people have saved over US$23 million. Also, more than 20,000 lower income families from 27 local communities have been able to participate in this program.

Recommendation 2: Create an entity to monitor the country's financial literacy drive

As outlined in the Financial Sector Development Program (FSDP), we at KPMG believe that the establishment of a dedicated financial literacy entity will not only help the government track the progress of numerous initiatives but also provide governance around the overall financial literacy drive.

By taking such initiatives, Saudi Arabia can increase the level of financial literacy among its citizens who will then be equipped to take calculated decisions on their saving plans. Consequently, better saving plans on a citizen level can lead to a better national savings level and overall economic development of the country.

03 Increase the frequency of data published on household savings to develop responsive strategies

As household savings play a crucial role in the economic development of individuals and the country, more frequent publications on how the country is faring on parameters such as the household savings rate and average household consumption, will likely lead to more economic research on the subject. The availability of more information on this topic could result in new policy recommendations and a subsequent surge in awareness about the importance of household savings.

In Saudi Arabia, GASTAT is the government agency responsible for publishing and extracting statistical data in accordance with international standards. The agency performs and publishes the results of household expenditure and income survey at irregular intervals. For instance, information on the country's average household savings and consumption is available for the years 2007, 2013 and 2018 with significant gaps in between. As a result, it is difficult to make timely interventions on the level of savings in the country. For instance, the household savings rate in 2007 was 25.3 percent and then it steeply decreased to 2.4 percent in 2013. Finally, a further decline to 1.6 percent was observed in 2018. Policymakers might face obstacles in creating short-term action plans and strategies to drive more savings without more timely data.

Recommendation: Assign an entity to monitor the country's household savings rate

Saudi Arabia can assign an existing entity to work in tandem with GASTAT and the other two entities established for monitoring behavioral experiments and financial literacy drive. This entity can measure and publish the impact of the other two initiatives — behavioral experiments and financial literacy — on people's savings decisions. In addition, if the gap between two consecutive surveys is reduced, policymakers would be able to devise concrete strategies toward promoting a culture of saving in the country.

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Appendix

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