SAUDI ARABIA

Table 1	2023
Population, million	36.9
GDP, current US$ billion	1069.0
GDP per capita, current US$	28934.7
School enrollment, primary (% gross)[a]	102.7
Life expectancy at birth, years[a]	77.9
Total GHG emissions (mtCO2e)	790.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2022).

Economic growth continues to be suppressed by the extended oil output cuts but is projected to gradually pick up in FY2025 given a likely increase in oil production starting in 2025. The non-oil sector is estimated to grow at a stable rate. The fiscal, monetary, and external sectors are healthy with low fiscal deficit and inflation, and a current account surplus. Geopolitical uncertainty (and the impact on oil demand and prices), lack of productivity growth, and fiscal risks of domestically financed megaprojects are the main downside risks.

Key conditions and challenges

Saudi Arabia is implementing a bold economic diversification agenda of Vision 2030 to reduce its dependence on oil. As a result, the share of non-oil activities in GDP has increased from around 65 to 67 percent between 2016 and 2023. However, this improvement has been partly driven by reduced oil production rather than exceptional non-oil growth. Since 2016, the oil sector has not grown on average while the non-oil sector grew by an average of 2.2 percent.

Three key challenges can impede the country's goals of economic diversification. First, Saudi Arabia witnessed a decline in economic productivity levels in recent years, implying a decline in the efficiency of using factors of production (labor and capital) for production. Since 2016, Total Factor Productivity has declined by 1.6 per annum on average. Firm-level data from the World Bank Enterprise Survey reveals even larger productivity gaps, underscoring a substantial drag on growth.

Second, the economic diversification agenda relies heavily on domestic financing through its US$925 billion Sovereign Wealth Fund (SWF)—the Public Investment Fund (PIF)—which has seen a sharp increase in domestic investments from 67 to 76 percent of total assets between 2022 and 2023. While utilizing the PIF to finance development helps offsetting the weak foreign direct investment (FDI) inflows, it introduces fiscal risks in the form of (i) undermining the SWF core macro-stabilization function, and (ii) a potential misallocation of capital towards projects that may not yield an adequate risk-adjusted return on investment.

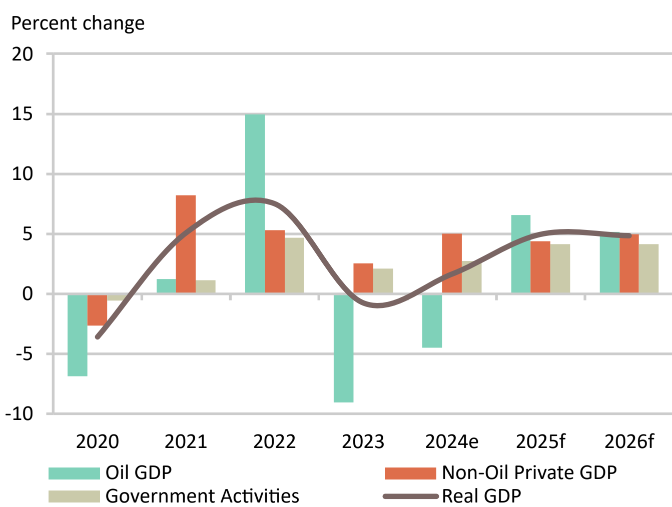
Finally, the uncertain regional context with the conflict in the Middle East, carries a risk of spillover into a broader regional conflict. While a broader conflict could drive up oil prices and generate fiscal windfalls, a negative impact could materialize through other channels including a likely increase in logistics costs, economic downturn in trading partners, and deterred foreign investment.

Recent developments

Economic activity contracted in real terms by 0.4 percent (y/y) in Q2-2024, driven by a contraction of the oil sector by 8.5 percent. Oil production averaged at 8.9 million bpd during January-July, driving down overall growth forecasts. Conversely, and a testament to the diversification efforts undertaken over the past few years, the non-oil private sector experienced strong growth of 4.4 percent (y/y), driven primarily by a robust service sector growth (+5 percent). The wholesale, restaurant, and hotel sector led with 5.9 percent (y/y) growth, reflecting robust tourism, followed by the transport and communication sector at 4.9 percent (y/y).

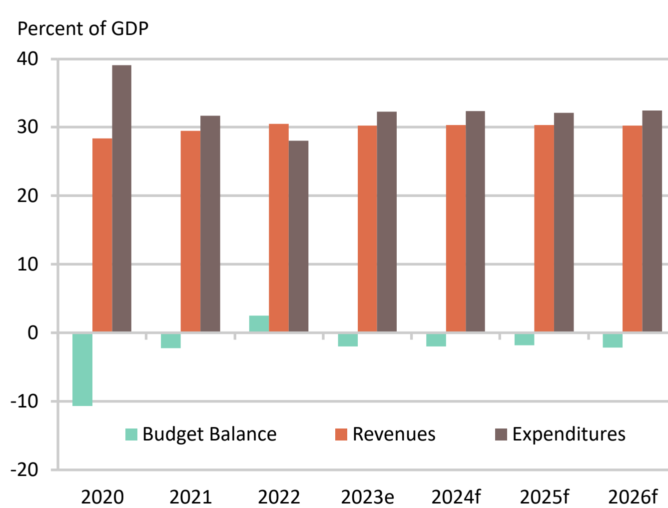
On the fiscal side, ample fiscal buffers exist despite a widening deficit during Q1 and Q2-2024, respectively. The deficit

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank.

expansion is primarily due to increased government spending, with municipal services seeing the largest rise at 116 percent in H1 2024, driven by Saudi Arabia's enhanced financial support for local services and infrastructure. Public administration followed with a 30 percent increase in spending.

On the monetary side, CPI inflation remains contained at 1.5 percent in July 2024 (down from 2.5 percent in 2022), supported by the local currency peg to the U.S. dollar and despite large public spending. However, while overall inflation is subdued, the housing sector witnessed much higher inflation at 9.3 percent in July. The food and beverage sector recorded a modest increase of 0.4 percent, and the transport sector experienced the largest deflation, at 3.5 percent.

The trade balance deteriorated owing to investment-driven increases in imports. This, in addition to lower proceeds and heightened volatility in oil exports resulted in a narrower current account surplus of 2.8 percent of GDP in Q1-2024, down from 5.6 percent of GDP in Q1-2023.

Labor market outcomes remain stable but mixed, with a decline in both the unemployment rate and the labor force participation rate. The unemployment rate declined to 3.5 percent in Q1-2024 (relative to 4.2 percent in Q1-2023). The overall labor force participation rate declined to 66 percent in Q1-2024, down from 66.9 percent in Q1-2023, with the decline largely ascribable to non-Saudi women. The decline among non-Saudi women is also explaining the lower employment-to-population ratio between Q1-2023 and Q1-2024, while the ratio among Saudi women increased to 30.7 percent (+1 percentage point) over the same period. The number of Saudis working in the private sector in Q1-2024 is estimated at 2.3 million up from 2.2 million in Q1-2023, while employment of non-Saudi nationals increased to 8.5 million relative to 7.7 million a year before.

Outlook

GDP growth forecast for 2024 has been revised downward to 1.6 percent due to lower-than-expected oil production but is still an improvement from the contraction of 0.8 percent in 2023. Growth is expected to rebound to an average of 4.9 percent in 2025-2026 as oil production increases. The oil production quota is expected to increase from the current cap of 8.9 million bpd to 9.98 million bpd during 2025 as announced by OPEC+. This is forecast to boost oil GDP growth by 6.6 and 5.1 percent for 2025 and 2026 respectively, reversing an estimated contraction of 4.5 percent in 2024.

The non-oil sector is estimated to maintain steady growth in the coming years. The services sector, critical to Saudi Arabia's economic diversification agenda, is expected to grow at a stable average rate of 5.8 percent in 2024-2026. The anticipated increase in oil production is also expected to strengthen the external sector in 2025-2026. The current account surplus is projected to increase from 3.0 percent of GDP in 2024 to 4.8 and 6.7 percent of GDP in 2025 and 2026, respectively. The fiscal and monetary sectors are estimated to stay stable over the next two years, assuming no significant external shocks. The planned increase in oil production in 2025-26 is likely to keep the fiscal deficit within reasonable bounds between -1.8 and -2.2 percent of GDP and a low average debt-to-GDP ratio of 28.1 percent over the period. Inflation is also projected to remain stable in the coming years.

TABLE 2 **Saudi Arabia** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.1	7.5	-0.8	1.6	4.9	4.8
Private consumption	9.5	4.9	5.3	3.3	3.0	3.1
Government consumption	0.8	9.3	5.7	0.7	4.9	3.5
Gross fixed capital investment	10.5	21.3	5.3	5.0	5.0	5.0
Exports, goods and services	5.6	20.5	-6.5	-3.8	7.0	6.7
Imports, goods and services	8.3	12.4	9.9	4.3	5.0	4.0
Real GDP growth, at constant factor prices	4.6	8.2	-1.4	1.7	5.0	4.9
Agriculture	2.2	4.0	4.1	2.0	2.0	2.0
Industry	1.7	12.4	-6.0	-2.3	3.7	3.5
Services	7.6	4.5	2.9	5.3	6.1	6.1
Inflation (consumer price index)	3.1	2.5	2.3	2.1	2.3	2.2
Current account balance (% of GDP)	4.8	13.7	4.0	3.0	4.8	6.7
Net foreign direct investment inflow (% of GDP)	-0.2	0.1	-1.2	-1.1	-1.1	-1.1
Fiscal balance (% of GDP)	-2.2	2.5	-2.0	-2.0	-1.8	-2.2
Revenues (% of GDP)	29.5	30.5	30.2	30.3	30.3	30.2
Debt (% of GDP)	26.9	23.8	26.2	27.7	27.6	29.1
Primary balance (% of GDP)	-1.4	3.2	-1.1	-1.1	-0.9	-1.2
GHG emissions growth (mtCO2e)	3.1	3.6	4.4	-1.7	0.2	3.2
Energy related GHG emissions (% of total)	68.6	68.5	68.6	66.8	65.4	65.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.