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Saudi Arabia is making tremendous strides toward economic diversification and long-term growth.

The Kingdom’s medium-term goals include Vision 2030 projects, sustaining social spending, and growing non-oil sectors through increased Public Investment Fund (PIF) and foreign investments. These objectives provide additional opportunities post-COVID. Non-oil growth is aided by structural reforms to improve the business environment.

This report aims to examine the outlook for Saudi Arabia’s economy in 2022. We review the challenges to recovery, the Kingdom’s fiscal and external sector performance and outlook, and the progress of transformation plans as part of the government’s Vision 2030 strategy as well as the opportunity those plans provide for foreign investments.

Growth in 2022 will be driven by both the non-oil sector’s robust expansion and a strong recovery in oil GDP. The Public Investment Fund (PIF) will continue to provide additional stimulus to the economy. The growing contribution of the non-oil sector (~10% of which was tax-based in 2020) to overall GDP, and to total revenues and exports highlight the success of diversification efforts so far. Emerging COVID variants are a source of concern. Global economic recovery, particularly in the Kingdom’s key trade and FDI partners, is also critical to Saudi growth.

Saudi Arabia’s fiscal position is significantly improving and the outlook for 2021 and 2022 is positive, reflecting success in the Kingdom’s fiscal adjustment and the restructuring of public finances. A recovery in oil revenues will continue to support this outlook. Combined with growth in non-oil and other revenues as well as prudent spending, the Kingdom could eventually meet its fiscal target expectations and return to a budget surplus by 2023. Public debt is expected to remain below the revised ceiling set by the government (now 50% of GDP).
The Kingdom’s balance of payment position is expected to recover from the twin shock of lower oil prices and COVID in 2020 and strengthen in the next years. Recovery in oil exports and a growing percentage of non-oil exports, as well as greater tourism revenues and direct and portfolio investments, will all contribute to this growth. Growing FDI inflows, which remain below peak levels, will be crucial to support Vision 2030 objectives and the Kingdom’s balance of payment position.

Quarterly figures showing lower Saudi unemployment and greater female labour participation rates (already exceeding the 30% target under Vision 2030) reflect the government’s strides to resolve labour market imbalances. The government should continue to focus on strengthening the private sector and creating more jobs.

The current wave of reforms as part of Vision 2030 reaffirms the Kingdom’s commitment to fostering an attractive business environment. The Kingdom is making notable progress in terms of fiscal adjustment and reorganisation of public finances, as well as social reforms and measures to attract foreign investment.
Prospects for the global economy in 2022 have improved as vaccine uptake accelerates, but it remains an uneven recovery, with some countries further along in the recovery cycle than others. Differences in the rate of vaccine deployment and government support will contribute to this divergence. As of October 14, roughly 6.5 billion doses of the vaccine have been delivered globally, according to Our World in Data, but only ~3% of those doses were administered in low-income nations.

According to the IMF’s World Economic Outlook Update, issued on 12 October, the global economy will grow by 5.9% in 2021 and 4.9% in 2022 from 3.1% in 2020, led by strong recoveries in consumer spending and business investment. In October 2021, the growth forecast for the US was revised upwards by the IMF for 2022 to 5.2% from 4.9% in July. The IMF’s October projections for China and India’s growth in 2022 were unchanged from July.

Figure 1: Global growth to recover by 5.9% in 2021 & 4.9% in 2022
GDP Growth Rates

1- IMF World Economic Outlook October 2021.
In comparison to emerging economies, advanced economies have continued to provide stronger fiscal support to mitigate the pandemic's impact and support recovery efforts (Figure 2).

**Figure 2: Stronger fiscal response to COVID from advanced economies**

Additional Spending and Forgone Revenue ²

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² IMF Fiscal Monitor Database (Additional Spending and Forgone Revenue includes health and non-health sectors).
The global outlook in 2022 is positive but headwinds remain, including the spread of the Delta variant and its impact on the world economy. According to preliminary medical research, existing vaccinations are somewhat less effective against the Delta variant, which is rapidly spreading across many countries, potentially delaying the full removal of restrictions in many countries, especially in emerging markets. Aside from pandemic-related concerns, a range of additional factors continues to influence the outlook in different parts of the world. In some countries, social unrest, and geopolitical tensions, cyberattacks, and climate-related natural disasters (which have become frequent and severe) could impede recovery.

In Saudi Arabia, the lifting of COVID restrictions, which took effect on October 17 (driven by a large drop in daily infections and an increase in vaccinations), was a welcome move. The Kingdom will begin to witness the full resumption of activities including the Hajj and Umrah, entertainment and sports. A week prior to October 17, more than 51,000 spectators attended the World Cup qualifying match between Saudi Arabia and China in Jeddah.
Most MENA economies are projected to have a U-shaped recovery, with some having a wider bottom than others. This is due in part to the region’s disparate vaccination programmes.

Growth in 2021 and 2022 will also be higher than the 1% average over 2018-2019, but still below the average of 4.5% over 2000-2017.

Overall growth in the GCC is projected at **2.7%** in 2021 and **3.8%** in 2022, from a contraction of **4.8%** in 2020, compared with a 4.4% average over 2000-2017.

GDP growth in MENA is expected at **4.1%** in 2021 and **3.2%** in 2022, from a contraction of **3.2%** in 2020, compared with a 4.5% average over 2000-2017.

Figure 3: The road to recovery in MENA is uneven

Real GDP

<table>
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For the GCC oil economy, the picture is more optimistic. The growth forecast is 4.2% compared with a decline of 1.3% on average over 2016-2020.

Non-oil growth in the GCC is also expected to recover to 3.4% compared with growth of 0.8% on average over 2016-2020.

Countries like Saudi Arabia and the UAE (where budgetary assistance was substantial during the pandemic) are projected to recover quicker than others and are expected to reach pre-pandemic GDP levels by 2022. This will be supported by an increase in government expenditure, private investment, and a gradual rebound in the private sector driven by robust vaccine deployment.

MENA countries with lower-than-average support may not return to 2019 levels until 2023. In these countries, even pre-COVID, growth rates were nowhere near rates enough to chip at the perennial, and now, structural unemployment that prevails in those economies.
While the overall outlook for the MENA region is positive, oil will be crucial for recovery.

According to OPEC figures, oil demand increased by 6% YoY in the first half of 2021. Looking ahead, despite potential interruptions caused by the spread of the delta variant, the global economy’s recovery is projected to result in yearly and quarterly increases in oil consumption in H2 2021. Simultaneously, and despite recent problems, OPEC+ has maintained a flexible and proactive approach to preserving oil market stability, which is likely to continue in 2022.
Forecasts for Brent crude for 2021 and 2022 range from the EIA’s USD 71.3 and USD 71.9 per barrel, respectively, to more optimistic estimates by Goldman Sachs of USD 90 and USD 85 per barrel. Global economic recovery and Iranian supply potentially returning to the market in 2022 are expected to also support prices next year.

If oil prices average USD 70 per barrel or above this year and next (representing a 70% increase over Brent average price in 2020), GCC economies (with the exceptions of Bahrain and Oman) are likely to post better-than-expected fiscal performance. Some of these nations may be able to benefit from a looser fiscal policy cycle as a result, allowing for more capital expenditure to keep economic wheels turning.

Figure 4: Countries like Bahrain need even higher oil prices
GCC Breakeven Oil Price, 2021–2022

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4. IMF Regional Economic Outlook July 2021.
From last year’s 4.1% decline, the IMF expects growth to rebound to 2.8% and 4.8% in 2021 and 2022 respectively.

Saudi Arabia’s 2022 pre-budget statement released on 30 September 2021 revised growth forecasts to 2.6% and 7.5% in 2021 and 2022 respectively.

The revised forecasts assume continued growth in domestic economic activity, as well as recovery in global demand and supply chain improvements.

Growth in 2022 will be driven by both the non-oil sector’s robust expansion and a strong recovery in oil GDP. The Public Investment Fund (PIF) will continue to provide additional stimulus to the economy. By 2025, the new PIF strategy sets six major goals, including spending at least USD 40B yearly in the local economy and contributing USD 320B to non-oil GDP. The Kingdom’s commitment to creating a favourable investment climate to assist growth is also reaffirmed by the Vision 2030 reforms.
Saudi Arabia Growth Outlook

Quarterly GDP data from August 2021 by the General Authority for Statistics (GASTAT) indicate a stronger non-oil recovery in the first half of 2021.

A breakdown of oil and non-oil GDP suggests a stronger non-oil recovery in the first half of 2021.

Non-oil GDP is forecasted by the IMF at a peak of 10.1% YoY in Q2 2021 and 3.7% YoY in Q1 2021.

The growing contribution of the non-oil sector to overall GDP is a result of economic diversification reforms, and the reopening of the economy will promote non-oil GDP growth. According to Google mobility data, certain activity in Saudi Arabia has already exceeded pre-COVID levels (Figure 5).¹⁵

**Figure 5: Mobility metrics show activity surpassing pre-COVID levels**

*Saudi Arabia Google Mobility Data⁶*

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¹⁵ Measures time spent by people in venues such as their homes, offices, and grocery stores. Each day’s changes are compared to a baseline value for that weekday. “The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020”.

Data on point-of-sale (POS) and e-commerce transactions – indicators of private consumption – suggests that a recovery in household consumer spending is well on track. This bodes well for the consumer and retail market. The value of POS transactions rose by 46% YoY in H1 2021, exceeding pre-pandemic levels. The value of e-commerce transactions also doubled in H1 2021. ATM withdrawals were down 4% YoY in H1 2021, but this could be explained by the shift to cashless transactions and the resulting rise in online payments.

Saudi PMI data, a private investment indicator, which remains above the 50-threshold and higher than other MENA economies, also suggests positive signs of recovery in non-oil private sector activity, albeit at a slower pace (Figure 6).

As vaccination uptake grows in Saudi Arabia and other sectors such as tourism restart, domestic demand will strengthen, and business confidence will grow. Real gross capital formation, another private investment indicator, grew by 12.3% in H1 2021.

Figure 6: Despite a slower pace, the non-oil private sector is recovering

MENA PMI Index

7- Markit Economics. A reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.
In the hydrocarbons sector, according to IMF forecasts, oil GDP is expected to rebound strongly in 2022 as Saudi oil output increases, in accordance with the recent OPEC+ agreement to raise overall output by 400 thousand barrels per day. In H1 2021, the oil sector contracted by 9.3% YoY, a larger drop than in the same period in 2020. This was driven by an 11% YoY decline in Saudi oil production to an average of 8.5 million barrels per day (mbpd) in H1 2021. The IMF forecasts crude oil production to reach 9.8 mbpd in 2022.

Overall, the economic outlook for 2021-2022 is positive but headwinds remain. Concerns include risks of emerging COVID variants and their impact on economic activity. Growth also hinges on global economic recovery, especially in Saudi’s major trade and FDI partners.
Consumption

As the private sector contributes more, government consumption as a percentage of GDP is expected to be lower than peak years. The government aims to continue adopting a more prudent approach to fiscal affairs including maintaining expenditure ceilings, increasing spending efficiency, and reorganizing priorities. Private consumption will hold up overall, driven by relaxed COVID restrictions, the expansion of non-oil sector activities (such as tourism and entertainment) and higher employment.

Investment

PIF and private sector investments, in combination with other government-led non-oil investments (although less than in previous years), will continue to support growth in gross fixed capital formation. As economic activity rebounds, private investment is anticipated to rise steadily. Several measures have been launched by the government to attract foreign investment inflows. The recently announced ‘National Investment Strategy’ is an example of this.

Net Exports

Export growth will pick up by 2022 driven by higher oil exports after the OPEC+ supply limits deal expires and a steady rise in non-oil exports (from a low base) as government’s economic diversification effort forges on.
According to the 2022 pre-budget statement, the MoF forecasts inflation at 3.3% and 1.3% from 3.4% in 2020 as the impact of the VAT hike implemented in July 2020 wanes.

Inflation averaged 5.5% YoY in H1 2021, driven by the tripling of VAT although base year effects began to fade according to July 2021 data by GASTAT which showed a 0.4% YoY increase.

Figure 8: Inflation declines as VAT impact wanes

Future inflation patterns will be influenced by global inflationary pressures and rising local demand in the Kingdom. Another factor to keep an eye on is whether the government will rescind the plan to triple VAT. Crown Prince HRH Mohammad Bin Salman said in April 2021 that the VAT tripling was a temporary measure, although he did not say when it would be overturned.
Due to the Riyal's peg to the US dollar, the Saudi Arabian Monetary Authority (SAMA), the Kingdom's central bank, has limited capacity to respond to fluctuations in inflation levels. As such, any changes by SAMA to its repo and reverse repo rate will be in tandem with moves by the US Federal Reserve (Figure 9).

Figure 9: All eyes on US Fed rate moves
Saudi Arabia Reverse Repo Rate & US Federal Funds Rate

Jerome Powell, the chairman of the US Federal Reserve, has suggested that the US central bank might make its taper announcement as early as November if the economy continues to grow as expected. Powell stated in August that the Fed is dedicated to assisting the post-COVID recovery and that rates would remain unchanged “until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time.” In June, the Fed had forecast rate hikes in 2023.
Saudi Arabia’s fiscal position is considerably improving, with a favourable forecast for 2021 and 2022, reflecting success in the Kingdom’s fiscal adjustment and the restructuring of public finances. The authorities’ have carefully managed the fiscal restructuring process to ensure that it has the least possible impact on economic growth. The PIF’s role as an investment vehicle will continue to propel diversified domestic growth.

In the 2022 pre-budget statement, the MoF projects a reduction in the deficit to 2.7% of GDP this year, down from 11.2% in 2020, and further reductions to 1.6% in 2022, thanks to a rebound in overall revenues. This would represent significant improvements compared with 2015 when the fiscal deficit peaked at 15% of GDP. For 2023, the MoF expects a return to a budget surplus of 0.8%. The 2022 pre-budget statement highlights government’s intent to continue to focus on fiscal sustainability. Medium term priorities will continue to focus on the Vision 2030 Realization Programs, increasing investments into the Kingdom and maintaining social spending.

A recovery in oil revenues will continue to support the fiscal outlook, and combined with growth in non-oil and other revenue as well as prudent spending, the Kingdom would eventually meet its fiscal target expectations and return to a budget surplus by 2023. As part of its Vision 2030 goals, Saudi Arabia is making headway in increasing the share of non-oil revenues (Figure 10).

Strategic Gears outlined the performance of non-oil revenue in another report, which can be accessed here.

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**Figure 10: Non-oil revenue more than triples since 2014**

Saudi Arabia Total Revenue Breakdown

11- Including from asset sales and public-private partnerships.
12- Ministry of Finance, Saudi Arabia.
The latest data from the MoF shows that Saudi Arabia posted a budget deficit of 3.2B USD, 0.4% of GDP in H1 2021, a decline of 92% compared to H1 2020.

This means the Kingdom still has room to increase spending in H2 and would support better-than-expected fiscal performance in 2021 overall. The government will continue to finance its deficit using a mix of domestic and foreign borrowing.

Non-oil revenues doubled to 54.4B USD, making up 45% of total revenue during this period.

The increase in non-oil revenue is driven by the increase in VAT and customs duties. During H1 2021, oil revenues were up by 11% from the same period in 2020.

Brent oil prices averaged 64.8 USD in H1 2021, compared to 39.9 USD in H1 2020.

The government’s budgetary position will improve significantly if oil prices continue at or above current levels for the rest of the year and into 2022.

The budget for this year, as well as the previous five years, has been based on oil price assumptions ranging from USD 60 per barrel to USD 80 per barrel. Expenditures during H1 2021 were down 1% YoY, representing 47% of the total budget for this year. A significant decline was observed in terms of capital expenditure (capex), which fell by 36% YoY, and represented two-fifths of the total capex budgeted for 2021. By sector, spending on infrastructure and transportation, as well as municipal services, were both around 20% lower YoY, while spending on health and social development grew by 25%, indicating government efforts to weather the pandemic’s impact. While overall capex expenditures were reduced in the budget, the PIF and the private sector are compensating by shouldering some of the capital expenditure burdens.

Public debt stood at USD 246B in H1 2021, representing about 30% of GDP and 98% of the total budgeted for 2021. The public debt is still below the revised ceiling set by the government (raised to 50% of GDP in the 2021 budget from the initial 30% target). Medium-term projections by the government estimate public debt at 31.3% in 2022 and 29.2% by 2023.
Saudi Arabia’s balance of payment position is expected to improve and strengthen over the medium term. This will be fuelled by a rebound in oil exports and an increasing share of non-oil exports, as well as higher tourist receipts and both direct and portfolio investments.

The current account balance is expected to return to a surplus by 2021, even though it will remain well below the 20% average seen in the 10 years to 2014. Following the twin-shocks of COVID and lower oil prices in 2020, the current account balance shifted from a surplus of 4.8% of GDP in 2019 to a deficit of 2.1% in 2020. One main reason for this was the decline in the trade balance including a 41% drop in oil exports and an 8% decrease in non-oil exports. Despite the decline in 2020, it is important to note that the share of non-oil exports has increased considerably, a reflection of successful diversification efforts and reforms to enhance competitiveness. This, along with a rebound in oil exports, will bode well for the trade balance going forward. When comparing the composition of Saudi exports in 2020 to 2014, it is clear that the country’s exports have expanded beyond oil to include a diversified basket of non-oil commodities (Figure 11).

Brent oil price in 2020 was half of that in 2014. Meanwhile, oil exports in 2014 were 83% of total exports with non-oil share making up the rest (17%). By 2020, the share of oil exports declined to 69% while that of non-oil exports rose to 31%.
China remains Saudi Arabia’s largest export and import trade partner. In 2020, Saudi exports to China made up 18.4% of the Kingdom’s total exports. Imports from Saudi Arabia to China made up 20% of total imports by the Kingdom. Trade between the two sides stood at USD 51.9B in 2020, 22% lower than the previous year, due to lower oil prices and COVID. Despite the declines in trade in 2020, the bilateral trade value remains higher than in 2009 when oil prices were over USD 60 per barrel versus oil prices at USD 42 per barrel in 2020 (Figure 12). This is explained by the fact that trade between the two has expanded beyond oil to include organic chemicals, plastic, and fisheries exports from Saudi Arabia to China.

Figure 12: Sino-Saudi trade diversifying beyond oil
Saudi Arabia – China Bilateral Trade

14- GASTAT; UNCTAD; China Customs Administration.
Inward FDI flows are crucial to help the government achieve its diversification goals and support the Kingdom’s balance of payment position. According to UNCTAD’s World Investment Report 2021, FDI inflows to Saudi Arabia increased by 20% YoY to USD 5.5B in 2020, a four-year high, with investments concentrated in financial services, retail, e-commerce, and ICT. FDI inflows to Saudi Arabia are growing, although they are still far below their peak of USD 39B in 2008 and an average of USD 7.6B for the previous ten years (Figure 13).

Pro-business friendly reforms that are being rolled out by the government are likely to boost FDI into the Kingdom in the coming years, particularly following the launch of the new National Investment Strategy. By 2030, the goal of this new plan is to increase yearly net FDI to USD 103B. According to statistics from the Ministry of Investment of Saudi Arabia (MISA), the number of new foreign investor licences issued by the Kingdom increased by 36% YoY to 487 in Q1 2021, with 59% of them being full foreign ownership and the balance being joint ventures with local investors.
Saudi Arabia is also promoting portfolio investing by lowering the required minimum assets under management and improving disclosure requirements, having already opened its stock exchange to foreign investors. These efforts will help boost investments in the Kingdom and support Saudi Vision 2030 targets.

In collaboration with global index provider MSCI, Tadawul also aims to develop an ESG index which will be based on MSCI criteria. As part of shifting toward and attracting green investments, on 22 September, the PIF announced plans of issuing green bonds, the first such sovereign wealth fund to do so. More ESG-conscious investors will be attracted as a result of these moves.

Looking ahead, large foreign exchange reserves (estimated at USD 437B in July 2021) and the USD 430B in sovereign wealth fund assets under management by the PIF, combined with a return to current account surpluses will support the dollar peg. As the government increases its efforts to liberalise the economy, the peg will continue to serve as an anchor and a crucial consideration for potential foreign investors, who will have a significant influence on the Kingdom’s financial account.
Despite the slowdown in economic activity during Q1 2021, quarterly data highlighting declines in Saudi unemployment and higher female labour participation rates reflect some of the measures that the government has undertaken in supporting the non-oil economy and addressing imbalances in the labour market. Employment growth will be supported by the recovery in 2022, which will be led by both the oil and non-oil industries, as well as government efforts. The government is dedicated to bolstering the private sector as a source of employment and economic growth.

According to the General Authority for Statistics (GASTAT) estimates, the overall unemployment rate (Saudis and non-Saudis) fell to 6.5% in Q1 2021 from 7.4% Q4 2020, and the lowest rate since Q1 2020. During this period, the overall Saudi unemployment rate fell to 11.7% from 12.6% in Q4 2020. This was driven by a decline in the Saudi female unemployment rate from 24.4% in Q4 2020 to 21.2% in Q1 2021, the lowest rate since GASTAT began reporting quarterly statistics in Q2 2016 (Figure 14).

Saudi youth unemployment declined to 23.6% in Q1 2021 from 28% in Q4 2020, also driven by a marked decline in female rates. As the economy continues to diversify, new sector opportunities, including in tourism, sports and mega/giga projects, will help absorb a significant number of young people entering the labour market each year.

Figure 14: Female unemployment at a record low

Unemployment Rate (15+ years old)
Saudi Arabia’s Vision 2030 aims to cut unemployment from 11.6% in 2015 to 7% by 2030. Over (Q2 2020 to Q1 2021), Saudi female labour force participation rates averaged 32%, nearly twice the rates in 2017, and exceeding the 30% target under Vision 2030 (Figure 15). This was coupled with a rise in Saudi female employment rates during Q1 2021. During this period, around 60% of Saudi females held jobs in the private sector.

**Figure 15:** Vision 2030’s women in the workforce target exceeded

**Saudi Female Labour Market Statistics**

17- GASTAT
Albeit from a low base, Saudi nationals’ engagement in the private sector is expected to increase as a result of several measures including the enforcement of the nationalisation initiative within new sectors. Another factor is the growing shift in the mindset among young Saudis, especially those who are becoming more interested in private-sector jobs.

The breakdown in Q1 2021 shows roughly 54% of Saudis employed in the public sector versus 44% in the private sector, and 2% in other sectors\textsuperscript{18}. In contrast to the percentage distribution established in the Q1 2021 report, previous quarterly releases simply detailed the absolute statistics in each industry. Consistent comparisons will be possible with subsequent quarterly releases.

An increase in Saudi nationals’ engagement in the private sector will however be challenged by the increasing competition with government entities, and government-owned companies, driven by Vision 2030 targets and labour demand. This struggle for talent also has wide-ranging implications from higher labour costs to unfavourable long run impact on Saudi employees.

\textsuperscript{18}-Considered either “self-employed, family workers, non-profit organizations and domestic labour, regional and international organizations, agricultural sector workers”.

Unemployment lower as more women enter the workforce
When GCC countries have faced economic difficulties in the past, there has been a tendency to put diversification plans on hold. This time, for Saudi Arabia, furthering Vision 2030 initiatives while simultaneously recovering part of the GDP stock lost due to the pandemic and lower oil prices, as well as reverting to stronger macroeconomic fundamentals, requires sustained commitment. While some target deadlines might be revised at times, the pace and course of reforms unveiled by the government, which are already yielding fruit, indicate a strong long-term commitment to reform.

The number of new licences issued in the Kingdom and the Global Entrepreneurship Monitor (GEM) rankings are all indications of the success of reforms to enhance the business climate thus far. Saudi Arabia ranked first out of 43 countries in the GEM 2020 Index categories of “good opportunities to start a business” and “ease to start a business”.

Saudi Arabia’s “Programme HQ” will ensure the continued ramping up of reforms to improve the business environment. According to MISA, over 40 global corporations have shown interest in establishing regional headquarters in Riyadh, demonstrating Saudi Arabia’s growing appeal as a commercial and economic hub. The “Programme HQ” incentives are designed to promote international trust and encourage foreign investment. Such steps would also be important in reversing the country’s below-average FDI performance over the last decade.

The Financial Sector Development Program (FSDP), one of the 12 Vision Realisation Programs, has seen substantial development in critical areas. SME lending, capital markets, and digital banking and financial services have all seen significant progress. Such measures will help to strengthen the startup environment, attract foreign inflows to the Kingdom’s capital markets, and increase private sector funding for the fintech sector. Open banking will be implemented by 2022, and a digital marketplace for buying and selling Saudi real estate will be available by end-2021.

As part of diversification plans, there is a realisation that opening the economy and increasing private sector contribution to GDP also requires both privatisation and public-private partnerships (PPPs). COVID has highlighted the need for governments and the private sector to collaborate more than ever before. The government’s decision to publish the Private Sector Participation Law (PSP Law) in March 2021 demonstrates its commitment to PPPs. Looking ahead, PPPs will play an increasingly significant role in Saudi Arabia in the coming years, providing a variety of investment opportunities while also contributing to the Kingdom’s sustainable development goals (SDGs).
Other key reform highlights include the “Shareek” programme, the “Made in Saudi” programme, and the “Green Saudi” initiative which will contribute to bolstering the private sector and its contribution to GDP. The Kingdom also plans to launch an emissions exchange as part of plans to help curb climate change impacts. Green, sustainable, and resilient projects including in renewable energy, water/desalination, agritech and smart infrastructure will constitute key themes going forward.

Economic and social reforms are also offering new prospects in industries like tourism, aviation, logistics and entertainment sectors, all of which offer enormous untapped potential. Tourist attraction is a key component of Vision 2030. Tourism’s direct contribution to GDP increased to 5% in 2020 from 2.9% in 2017. While domestic travel and the Hajj accounted for the bulk of tourism revenue, the opening to international tourists will increase the latter group’s spending contribution. The new Saudi airline plans, announced in July 2021, aims to enhance the country’s aviation industry as it aspires to accommodate 100 million tourists each year by 2030. The National Transport and Logistics Strategy, also announced in July, seeks to turn Saudi Arabia into a major transport and logistics hub. Transformations in the entertainment industry will also start to deliver significant economic benefits including job creation, especially post-COVID.
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<td>Exchange Rate (SAR/USD)</td>
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<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
<td>3.75</td>
</tr>
<tr>
<td>Total Unemployment (% of Labour Force)</td>
<td>6.0</td>
<td>5.6</td>
<td>7.7</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Female</td>
<td>31.4</td>
<td>31.1</td>
<td>28.6</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Population (Millions)</td>
<td>33.7</td>
<td>34.2</td>
<td>34.8</td>
<td>35.4</td>
<td>36.1</td>
</tr>
</tbody>
</table>

19- IMF; *Ministry of Finance, Saudi Arabia.
Looking ahead, while some headwinds remain, the strengths and opportunities far outweigh the risks. The Kingdom will continue to carefully manage the COVID impact on citizens, while focusing on economic recovery efforts and the longer-term diversification agenda. Economic and social reforms coupled with initiatives by the PIF will be critical in attracting future FDI. Overall, the Kingdom maintains a favourable risk-reward profile.

Digitalisation of banking and financial services, public-private partnerships (PPPs), and green/sustainable initiatives are among key themes to watch. Saudi Arabia’s investments in the green economy and sustainable development are a crucial component of Vision 2030, offering investors untapped potential while also contributing to the country’s long-term sustainable development goals.
About Strategic Gears

Strategic Gears is a leading Management Consultancy based in Saudi Arabia, serving clients across the country. Strategic Gears's clients include the biggest public and private sector organizations, including a number of ministries, authorities, financial institutions, and companies. The company utilizes its top notch local consultants, and global network of experts to offer strategic solutions in the fields of Strategy development, Strategic marketing & communication, Research & Analytics, and Operational Excellence, and have a proven track record with multiple clients in each.

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