SAUDI ARABIA

Table 1	2023
Population, million	32.8
GDP, current US$ billion	1069.0
GDP per capita, current US$	32593.0
School enrollment, primary (% gross)[a]	93.3
Life expectancy at birth, years[a]	76.9
Total GHG emissions (mtCO2e)	776.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2008); Life expectancy (2021).

Subsequent OPEC+ decisions of cutting oil production is adversely affecting Saudi Arabia's overall GDP, fiscal, and external balance positions. Meanwhile, the performance of non-oil private sector is robust and continue to reap benefits from reform implementation. Inflation remains contained supported by generous subsidies, tight monetary policy, and cheaper imports. An escalation in regional and global armed conflicts, volatility in oil prices, and tighter-than-needed global financial conditions are key risks to the outlook.

Key conditions and challenges

Saudi Arabia has made significant oil production cuts for over a year, as part of the OPEC+ alliance decisions. The most recent voluntary cut of 1 mbpd was initiated in July 2023 and extended to expire in Q2 2024. However, these cuts did not prevent a decline in oil prices, as the average per barrel price fell from US$100 to US$83 in 2022 and 2023, respectively; affected by weak global demand. Assessing oil price developments in a scenario where production cuts had not been implemented is challenging, yet the overall effect on the fiscal and external positions is negative. Moreover, with these cuts, Saudi Arabia is losing market share to other oil exporters (e.g., the US, or Angola after it left OPEC over quota disputes) and concerns remain over peak oil demand, which risks leaving oil reserves stranded. With this background, limiting supply to stabilize prices is becoming even more challenging for Saudi Arabia, which is further exacerbated by the Kingdom's need to finance its ambitious reform agenda.

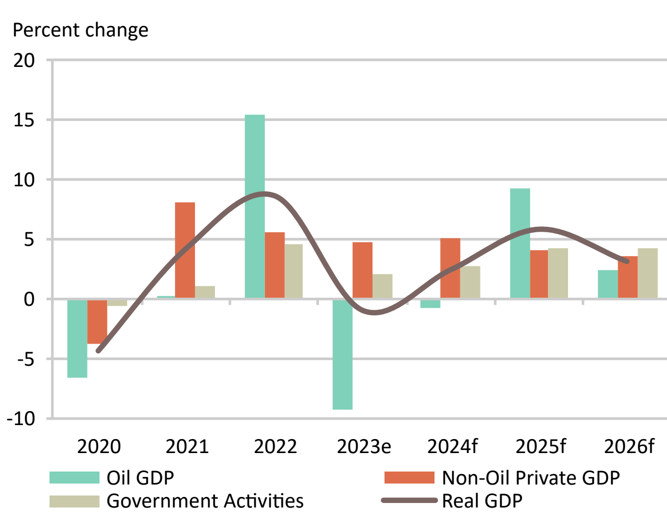
Other downside risks and uncertainties to the outlook include downward revisions of China's growth prospects, which will have an adverse impact on Saudi Arabia's main export market. Further escalation of the conflict in the Middle East and Russia's invasion of Ukraine, in addition to tighter-than-needed global financial conditions, all risk affecting regional and global economic activity. Delays or digressions in implementing structural reforms in support of the diversification goals highlighted in the Vision 2030, perhaps due to other global shocks or an uncomfortable fiscal position, would reduce prospects for stronger long-term growth and employment.

Recent developments

Economic activity contracted in real terms by 3.7 percent (y/y) in Q4-2023 (preliminary data), which represents a sharp decline in annual growth for the second consecutive quarter. This translates to an annual contraction of 0.9 percent in 2023, the worst performance in 20 years (apart from the pandemic and global financial crises years). The decisions by OPEC+ to cut oil production, initiated in Q1-2023 and further deepened by Saudi Arabia's voluntary cut of 1 mbpd since H2-2023, have had a detrimental impact on oil GDP, which contracted by 9.2 percent (y/y). The strong performance of non-oil private activities, which grew by 4.6 percent (y/y) during 2023, was not sufficient to fully compensate for the decline in oil activities. High-frequency data reaffirm a strong start of non-oil activities in 2024, with the January and February PMI recording 55.4 and 57.2, respectively; driven primarily by stronger domestic demand despite tight monetary conditions.

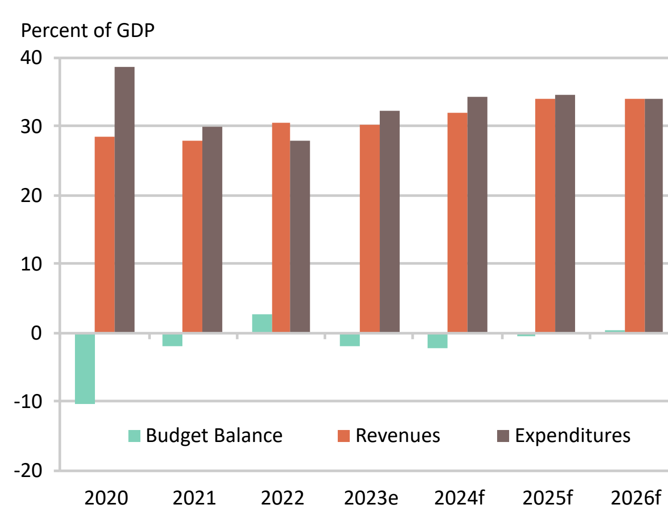
Lower oil revenues, due to lower prices and production levels, coupled with expansionary fiscal policy (expenditures are

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.

up by 11 percent y/y) shifted the fiscal surplus of 2.6 percent of GDP in 2022 into a deficit of 2.1 percent of GDP in 2023. Financing needs have been covered by the issuance of a US$10 billion sovereign bond while state oil firm Aramco introduced a performance-linked dividend, on top of its annual base dividend, to shore up budgetary funds. In January 2024, Saudi Arabia made its largest international debt issuance since 2017 (US$12 billion) to partially cover the anticipated financing gap.

Balance of payments data shows the current account surplus narrowing to US$36.9 billion during the first 9 months of 2023 (down from US$131 billion in the previous year) driven primarily by a 25.8 percent fall in oil receipts. As a result, the estimated current account surplus narrowed from 13.7 to 4 percent of GDP in 2022 and 2023, respectively. The Saudi Central Bank's (SAMA) foreign reserves reached US$436.9 billion in December 2023, the lowest in 14 years, suggesting that oil revenues are being channeled to PIF to finance its larger investment role in the local economy.

Overall, labor market outcomes are positive, as Saudis, both men and women, find jobs particularly in manufacturing, construction, and in the public sector. The overall unemployment rate remained at 5.1 percent, while unemployment for Saudi women slightly rose in Q3-2023, possibly driven by labor supply growth that outpaced labor demand. However, it remains far below the level a year ago. The overall labor force participation rate, however, declined to 51.6 percent in Q3-2023, down from 52.4 percent in Q1-2023. The number of Saudis working in the private sector in Q3-2023 is estimated at 2.6 million while the non-Saudi nationals increased to 8.1 million. The employment-to-population ratio decreased slightly between Q1 and Q3-2023, with the declines primarily driven by changes among Saudi males and among non-Saudi women. The employment-to-population ratio among Saudis declined from 48 percent to 47.2 percent over the same period.

Outlook

Following the contraction witnessed in 2023, real GDP is expected to grow by 2.5 percent in 2024, driven primarily by robust non-oil private activities (forecast to grow by 4.8 percent). Loose fiscal policy, lower interest rates, strong private consumption, and investment, will continue to support non-oil activities in the medium term. Meanwhile, and despite Aramco's plan to halt the increase in oil production capacity to 13 mbpd by 2027 (now at 12 mbpd), oil output is expected to increase gradually to exceed 10 mbpd by end 2024—from around 9 mbpd in January. With the recent announcement by the Ministry of Energy to extend voluntary oil production cuts until end Q2-2024, oil GDP is expected to contract in 2024 by 0.8 percent. These trends are expected to be reversed in 2025, with oil output anticipated to ramp up aggressively resulting in 5.9 percent overall GDP growth. Inflation is expected to hover around 2.2 percent in the medium term, contained by generous subsidies on fuel and food and cheaper imports.

The fiscal deficit is expected to widen to 2.4 percent of GDP in 2024, reflecting continued expansionary fiscal policy and the drop in oil receipts. Aramco's distribution of performance-linked dividends, which started in Q3-2023, should improve the fiscal position in the medium term—supported by recovery in oil production levels. As budgetary financing needs grow, the debt-to-GDP ratio is expected to rise to 27.7 percent in 2024, before moderating to 25.8 percent in the medium term.

The current account surplus should widen in the medium term (averaging 7.1 percent of GDP) supported by the recovery of oil production and non-oil exports.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.3	8.7	-0.9	2.5	5.9	3.2
Private consumption	9.5	4.9	4.5	3.3	3.0	3.1
Government consumption	0.8	9.3	4.9	2.0	5.8	2.7
Gross fixed capital investment	10.7	21.7	3.3	3.0	2.0	3.8
Exports, goods and services	1.0	19.7	-7.9	-1.0	11.0	3.7
Imports, goods and services	8.3	12.4	8.1	4.3	5.0	4.0
Real GDP growth, at constant factor prices	3.9	9.2	-1.3	2.5	5.9	3.2
Agriculture	2.5	4.1	5.5	2.0	2.0	2.0
Industry	1.1	13.2	-4.8	-0.5	6.4	1.6
Services	7.6	4.7	2.9	6.1	5.6	5.0
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	4.2	6.6	7.7
Net foreign direct investment inflow (% of GDP)	-0.2	0.1	-1.2	-1.1	-1.1	-1.1
Fiscal balance (% of GDP)	-2.1	2.6	-2.1	-2.4	-0.6	0.2
Revenues (% of GDP)	27.8	30.5	30.2	32.0	33.9	34.1
Debt (% of GDP)	26.9	23.8	26.2	27.7	26.1	25.5
Primary balance (% of GDP)	-1.2	3.3	-1.1	-1.4	0.5	1.3
GHG emissions growth (mtCO2e)	1.8	3.5	2.8	3.1	3.5	1.9
Energy related GHG emissions (% of total)	68.3	68.5	68.3	68.1	68.0	67.3

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