Saudi economic growth strategy on the face of oil price uncertainty

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
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Agenda

1. Overview

2. Oil Prices and KSA

3. Saudi Economic Strategy
Section 1

Overview

1. Oil Demand & Global GDP
2. The Future Oil Demand Dynamics
3. Demographic & Economy to drive positive growth
4. KSA : Largest Economy in the MENA & Key Player in Global Oil Sector
Oil Demand and Global GDP are positively correlated

Correlation: 0.75 (2002-2017)

- Global GDP & Oil demand growth continues to remain positive even though at a lower pace.
The future Global Oil demand dynamics:

Given the demand dynamics and energy poverty in developing countries, *Oil will still remain as dominant fuel* across the globe and contribute not only towards economic growth & equity BUT ALSO towards a smooth energy shift.
Demographic & Economy will drive positive growth

**Population Growth & Urbanization:** Trends with more households would lead to higher Energy / Oil Demand inside & outside KSA to support modern living standard.

- More than 90% of the additional population will be in developing nations where the economic growth & improvement in standard of living are policy priority
- Reducing energy poverty continue to be policy priority in developing nations
- Rising economic activities, income and urbanization levels in emerging & developing (Non-OECD) countries

**Economies are expanding** (albeit in a lower pace). Higher growth is positively related to energy/oil demand.

**Global Real GDP growth**

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<tbody>
<tr>
<td>Growth</td>
<td>3.73%</td>
<td>3.65%</td>
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<td>3.64%</td>
<td>3.58%</td>
<td>3.59%</td>
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**KSA Real GDP growth**

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<tr>
<td>Growth</td>
<td>2.23%</td>
<td>2.43%</td>
<td>1.91%</td>
<td>2.11%</td>
<td>2.20%</td>
<td>2.28%</td>
<td>2.19%</td>
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**Emerging market and developing economies Real GDP growth**

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<tbody>
<tr>
<td>Growth</td>
<td>4.68%</td>
<td>4.68%</td>
<td>4.93%</td>
<td>4.88%</td>
<td>4.82%</td>
<td>4.84%</td>
<td>4.81%</td>
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- The global economic growth will keep the oil demand up and hence positively impact KSA’s economic transition

**World Population by 2040 (in billion)**

- 2018: 7.6, 2040: 15
- 2018: 20%, 2040: 5%

**KSA Population by 2040 (in Million)**

- 2018: 33.4, 2040: 42.8
- 2018: 27%, 2040: 35%

**Global Megatrends** indicate towards rapid urbanization & growth of global educated middle class
- Demographic dynamics would drive growth

- Positive for KSA Economic Growth
KSA is the largest Economy in the MENA & Key Player in Global Oil Sector

Largest Economy in the MENA Region (IMF Data)

2017, Nominal GDP (PPP - Billion International dollars)

...with 2nd largest oil reserves worldwide at end 2017 (BP Stat 2018)

Share of World oil reserves

Oil Reserves (bn of barrels)

Share of World oil Exports

Oil Exports (Thousand of barrels per day)
Section 2
Oil Prices and KSA

1. Oil Price Trend
2. Oil price & Government Revenue
3. Oil & Non-Oil Revenue
4. KSA’s Non-Oil Activities recovering
Oil price has been historically volatile and uncertain which influenced KSA economy differently at different point of time.
Oil price link with Government Revenue & Expenditure

Oil Price, Oil Revenue and Budget Expenditure Move ‘Hand in Hand and’ are ‘positively correlated’

Movement of Oil Price, Oil Revenue & Budget Expenditure

- Total Revenue (Million SAR)
- Total Expenditure (Million SAR)
- Oil Revenue (Million SAR)
- Oil Price (US$/bbl)
The share of oil-revenue has been very high indicating heavy dependence on Oil in KSA budgetary landscape.

However, the share of non-oil revenue is increasing albeit at a slower pace. During 2012-2017, the share of non-oil revenue in total revenue increased at an average of 35% indicating the progress in revenue diversification & reducing the dependence on oil revenue.

However, the oil still dominates the government revenue pie.
KSA’s Non-Oil Activities recovering

KSA Economy is regaining momentum driven by recovering Non-Oil Activities

The non-oil GDP is most likely to increase both in terms of absolute value and as the share of GDP
Section 2
Saudi Economic Strategy

1. New Reality
2. Growing Non-oil private sector
3. Strong macroeconomic fundamentals of KSA
4. Vision & Policy Tools
KSA has built up strong buffers to minimize any potential risks pain.

Risk reducing factors and reforms measures taken by the government are sufficiently capable to sail KSA through the transition period.
Growing Non-oil private sector

- Efforts of Economic Diversification have been intensified
- Economic Diversification reflected by Growing Non-oil exports

Vibrant Consumer Sector REFLECTED BY Healthy Points of Sales Transactions & Credit Growth
Strong macroeconomic fundamentals

Moderate Growth + Comfortable Inflation = Investment Heaven

Low Public Debt = Low Financial Risk & Value Creation

Expansionary Fiscal Policy

![Graph showing Saudi Real GDP Projection and Debt to GDP Ratio](image)
Strong macroeconomic fundamentals

- Low Budget deficit
- High Forex Reserve as an emergency buffer zone

- KSA’s Financial Condition remains firm

**Forex reserve KSA vs USA (in USD bn)**

**KSA Fiscal & Current Account Balance (% of GDP)**

- Fiscal Balance (% of NGDP)
- Current Account Balance (% of NGDP)
KSA is all set to face the new reality under the direction of Vision 2030 by using appropriate policy tools.
Thank you