



Strategic Gears
Management Consultancy

Saudi Arabia
**Economic
Outlook
2023**



Saudi Arabia

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2023**

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Summary

Our annual Saudi Arabia Economic Outlook report examines the Kingdom's macroeconomic performance and outlook for growth, fiscal policy, inflation, the labour market, the external sector, the overall business environment, and reform momentum. We review the Kingdom's performance in 2022 and outlook for 2023, as well as the progress of transformation plans as part of the government's Vision 2030 strategy and things to watch next year.

Saudi Arabia's growth in 2023 will be fuelled by the robust expansion of the non-oil sector and sustained oil activity. The 2023 forecast assumes continued momentum from 2022's stellar 8.5% growth and expansion in non-oil domestic economic activity in 2023, led by the private sector. This is while many economies globally face more downbeat forecasts including fears of a recession in some. The Public Investment Fund (PIF) and the National Development Fund (NDF) will continue to provide additional stimulus to the Saudi economy. The growing number of PIF- and NDF- backed initiatives will be key to cultivating global investor trust and ushering in FDI going forward. The risk of re-emergence of COVID variants and global economic recession fears, particularly in the Kingdom's key trade and FDI partners, are a source of concern.

The Kingdom's inflation rate will continue to be the lowest among G20 members and among the lowest worldwide in 2023, supporting, among other things, private consumption, and tourism in the Kingdom.

Fiscal restructuring continues to assist in streamlining operating spending and diversifying income sources. The fiscal balance expects to show a surplus in 2023, and over the medium term until 2025. This would represent the second year of consecutive surplus following 8 years of budget deficits. Public debt is forecast to remain below the government's debt ceiling of 50%.

An improvement in the trade balance and greater FDI flows are anticipated to sustain the current account balance's notable improvement from 2022 into 2023.

Improvements in the fiscal and external position, lower debt-to-GDP, and sizable foreign reserves, all contribute to the Kingdom's strong credit rating profile.

Unemployment continues to decline, and female labour force participation continues to grow (the share of women in the labour force has doubled in just four years, exceeding the 2030 target already). However, the supply of specialist talent will need to keep up with growing demand and increasing competition for talent between the private sector and government entities/government-owned companies. This could have wide-ranging long-run implications including higher labour costs.

As part of Vision 2030, the Kingdom continues to implement a wave of reforms that underline its dedication to diversifying the economy. Plans for diversification have often been put on hold when economic difficulties have hit the GCC economies hard. This time, Saudi Arabia is bucking the trend, maintaining its momentum, and continuing its commitments to Vision 2030 initiatives.

The year 2023 is expected to witness interesting activity in the travel, tourism and hospitality space, entertainment and related industries, progress on green initiatives (as part of the Saudi and MENA Green Initiatives), and the mining industry. More companies are expected to also sign up and shift regional HQs to Riyadh (before the January 2024 deadline.), and IPO and M&A activity are expected to remain hot.

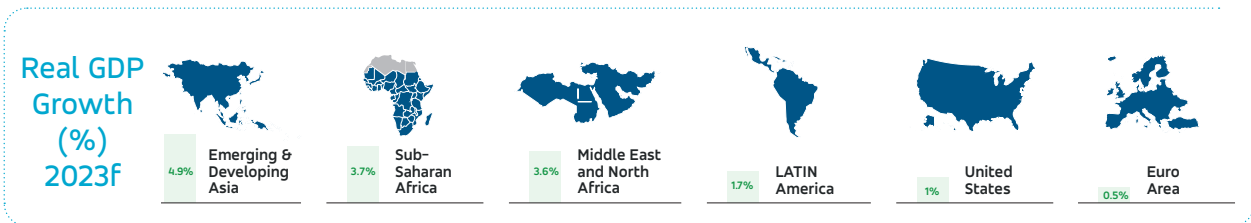
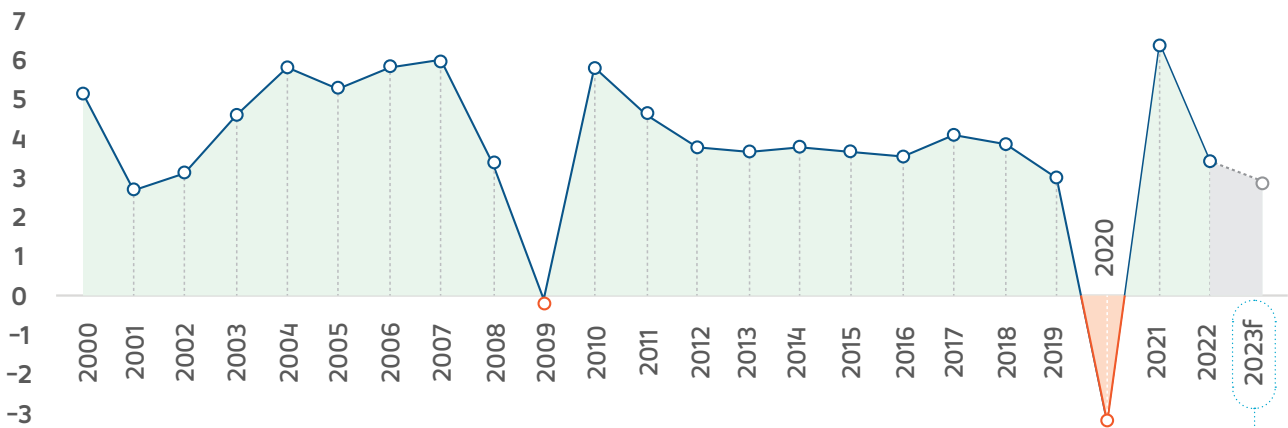
The Global Outlook: 2023 growth worst since 2001, with exception of 2009 & 2020



The outlook for the global economy in 2023 has dampened, with a recession forecast in some. According to the IMF's World Economic Outlook Update, issued in October 2022, global economic growth will slow to 2.7% in 2023 (revised from an initial 3.8% forecast in their January WEO update), compared with 3.2% in 2022 and 6% in 2021.

The negative outlook comes on the back of the growing cost of living brought on by rising inflation, Russia's invasion of Ukraine, and the persisting impact of the COVID-19 pandemic. Aside from the global financial crisis and the acute phase of the COVID-19 pandemic, 2023's global growth will also mark the worst growth profile since 2001 (Figure 1).

Figure 1: Global growth in 2023 to mark worst since 2001
GDP Growth Rates (Annual % Change)¹



¹- IMF World Economic Outlook October 2022.

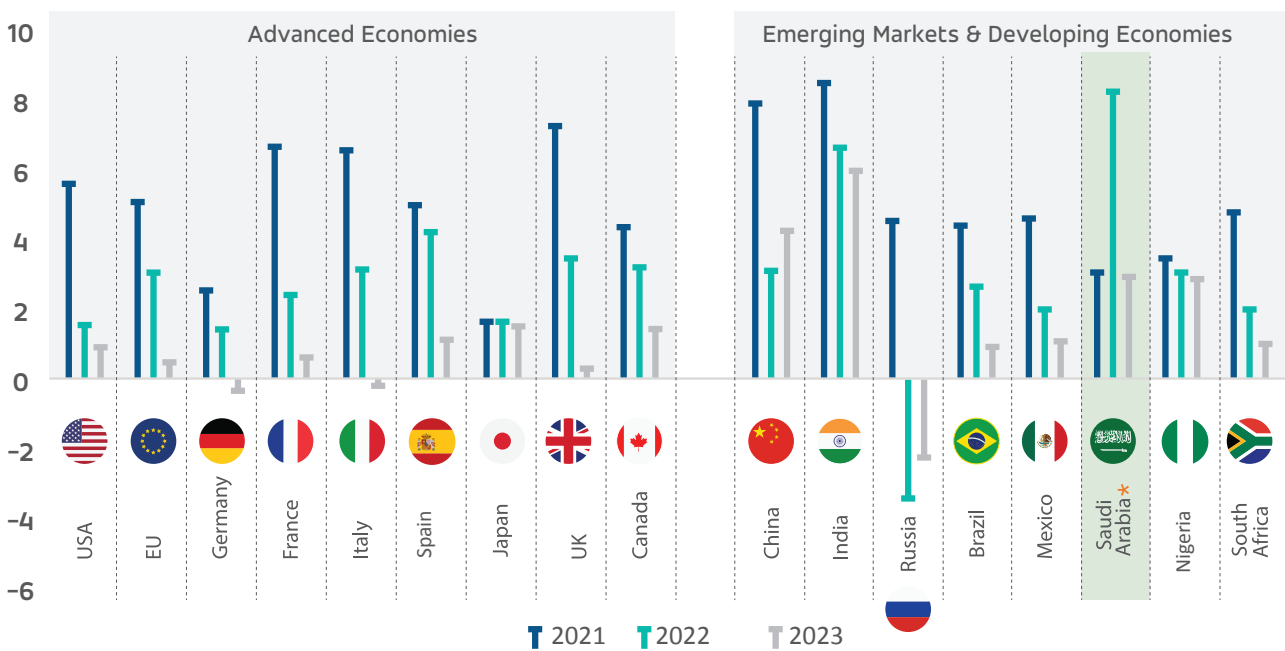
The Global Outlook: EMs to outperform in 2023; risk of recession in other countries



In 2023, emerging markets and developing economies are expected to perform better than advanced economies, according to forecasts by the IMF (Figure 2). On the other hand, a recession is forecast in advanced economies such as Germany and Italy.

Figure 2: Growth in emerging & developing economies to outperform advanced economies in 2023

Real GDP Growth (%)²



2- IMF World Economic Outlook October 2022.
*Saudi Arabia Ministry of Finance data.

MENA Regional Outlook:

Uneven & slower growth in 2023 from 2022's stellar performance



According to the IMF, overall MENA regional growth is forecast at



& still below the average of 4.4% growth over 2000-2018

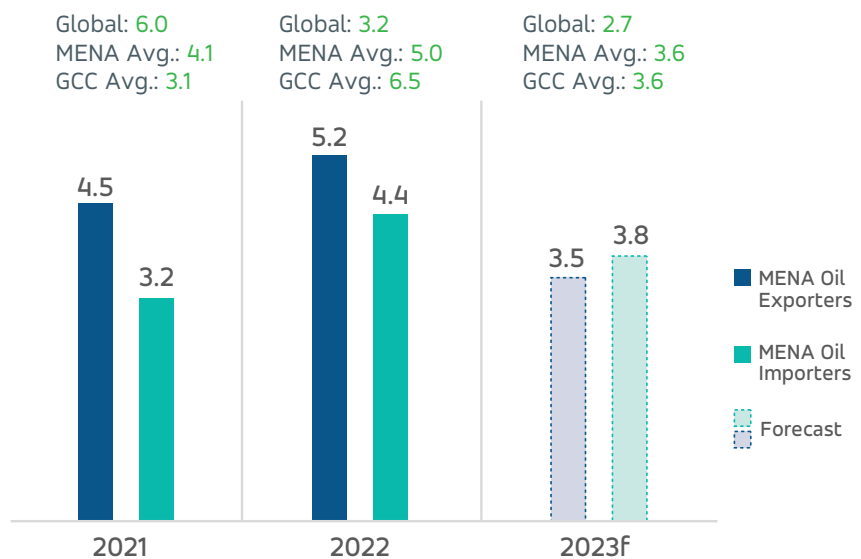
Growth in oil-exporting countries is expected to moderate to 3.5% in 2023 from stellar growth of 5.3% in 2022, due to the easing of oil output growth as a result of the supply cap extension agreed upon under OPEC+. Real GDP growth for oil importers is also expected to moderate to 3.8% in 2023 from 4.4% growth in 2022. While this means oil importers are forecast to grow slightly higher than exporters in 2023 (driven by non-oil economic growth), this level of growth for oil-importing countries is insufficient for them to sustainably solve the problems they face and create enough jobs to meet a growing labour force.

For MENA oil importers, lower growth is forecast for Egypt and Tunisia. Growth in Morocco, on the other hand, is expected to benefit from better agriculture production as the drought in North Africa dissipates. However, oil importers in MENA will still have to deal with tough challenges including high food costs and food shortages, slow progress on vaccine rollouts (particularly in countries like Syria and Sudan), and conflict and fragility in some nations.

Overall growth in the GCC is projected at 3.6% in 2023 from 6.5% in 2022 and 3.1% in 2021. The performance forecast in 2023 is still better than the 1.7% contraction over 2018-2019, but remains below the average of 4.3% over 2000-2018.

According to IMF projections, the UAE, Oman, and Saudi Arabia are likely to dominate GCC growth in 2023. As World Cup activity ripples across the economy, Qatar may also experience faster growth than expected by the IMF.

Figure 3: MENA growth slowing in 2023 but higher than global average
Real GDP Growth (%)³



Oil Outlook: Downside risks to forecasts, but still good for GCC oil exporters (ex. Bahrain)



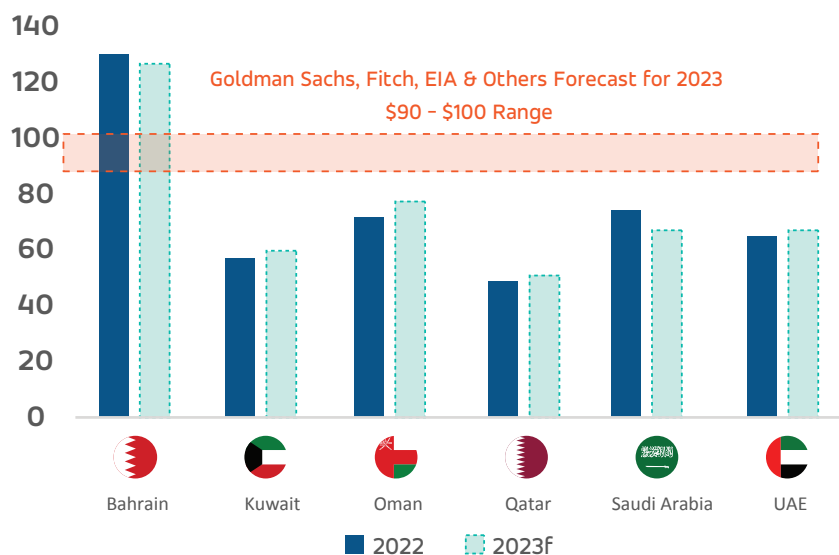
According to OPEC, robust oil demand is expected to exceed oil supply in 2023. OPEC’s forecasts are based on assumptions of an optimistic scenario of China’s COVID relaxations and geopolitical tensions subsiding. The potential of a faster-than-expected economic rebound in China will be a positive for oil prices (should COVID relaxation policies continue). Downside risks to the projection, however, will come from slower-than-anticipated growth in the US and the potential extension of the anticipated recession in some parts of Europe. However, OPEC+ has historically maintained a flexible and proactive approach to preserving oil market stability, which is likely to continue in 2023.



While Goldman Sachs had a more bullish USD 110 per barrel projection for 2023, it revised its projection (on 15 December 2022) to USD 97.5. Other organizations, such as Fitch, JP Morgan, Standard Chartered and the EIA, have anticipated Brent oil prices in the USD 90 - USD 95 per barrel range for 2023.

After years of deficits, both oil price ranges predicted by Goldman Sachs, Fitch, the EIA, and others will still be higher than the fiscal breakeven oil prices for GCC oil exporters, with the exception of Bahrain (which has a breakeven oil price higher than USD 120). For GCC countries except for Bahrain (which needs even higher oil prices), this will serve as a buffer for these countries and presents an opportunity for them to continue to enhance their diversification plans.

Figure 4: Still-higher than breakeven oil prices provide buffer for GCC countries except for Bahrain
GCC Breakeven Oil Price (USD per Barrel)⁴





Saudi Arabia Growth Outlook

Saudi Arabia Growth Outlook

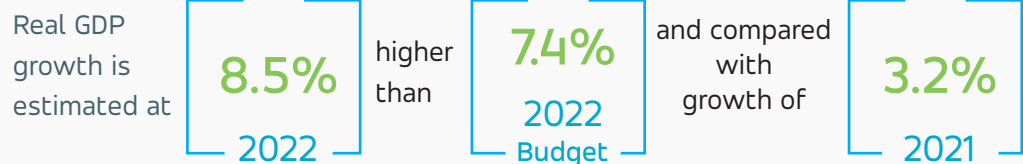
2023 growth led by non-oil expansion & sustained oil



Overall, the outlook for growth in Saudi Arabia in 2023 is positive, though slower than the stellar performance in 2022. Downside risks include risks of emerging Covid variants and their impact on economic activity, and the downturn in growth globally, especially in Saudi's major trade and FDI partners.

Growth in 2022 exceeded the Ministry of Finance's projections from the previous year, and marked a substantial improvement over 2021 as oil prices rebounded and non-oil activity continued to be supported by the relaxation of COVID restrictions and government reforms.

2022



Strategic Gears reviewed Saudi Arabia's economic and fiscal performance in 2022 in more detail in its annual budget analysis report [here](#).

2023



The 2023 forecast assumes continued momentum from 2022 and growth in non-oil domestic economic activity in 2023, led by the private sector. This is while many economies globally face more downbeat forecasts including fears of a recession in some.

Saudi Arabia Growth Outlook

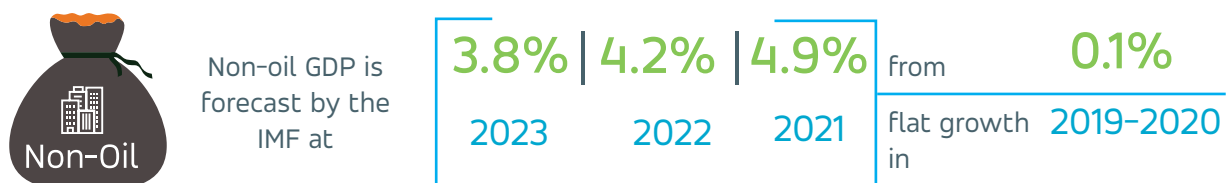
2023 growth led by non-oil expansion & sustained oil

Oil output and exports will contribute less to Saudi total growth in 2023 (after being the growth engine in 2022). According to the 2023 budget and IMF forecasts, growth next year is expected to be led by the non-oil economy.

While the Kingdom does not usually reveal the breakdown of oil and non-oil GDP or revenue forecasts for the year ahead, IMF forecasts help paint the picture.



In the oil sector, according to IMF forecasts, oil GDP is expected to slow in 2023 due to the easing of oil output growth as a result of the supply cap extension agreed under OPEC+. The IMF forecasts crude oil production to reach 11.02 mbpd in 2023, from 10.62 mbpd in 2022 and 9.10 mbpd in 2021.



Available data from Saudi's GASTAT shows non-oil economic activity growth of 9.5% on average over the first three quarters of 2022, and 53% contribution to total GDP.

As the non-oil sector drives growth in 2023, tax revenues, particularly those from VAT, should be supported by the pickup in non-oil economic activity.

According to Minister of Finance, Mohammed Al Jadaan, in October 2022, non-oil private sector activity is forecast to grow around 6% annually over the next three to five years.

Saudi Arabia Growth Outlook

2023 growth led by non-oil expansion & sustained oil

Despite higher inflation in 2022, data on point-of-sale (POS) and e-commerce transactions – indicators of private consumption – showed healthy spending. The value of e-commerce transactions was also at a record high in Q3 2022 since 2019 when SAMA started reporting data on this indicator.

Higher interest rates could weigh on credit-based consumer spending in 2023, but this could be tempered by easing inflation and potentially higher public wages (as the government continues to preserve the high standard of living enjoyed by Saudi residents in light of the growing cost of living).

Figure 5: POS transactions growth
Saudi Arabia Point of Sale Transactions (SAR, B)⁵

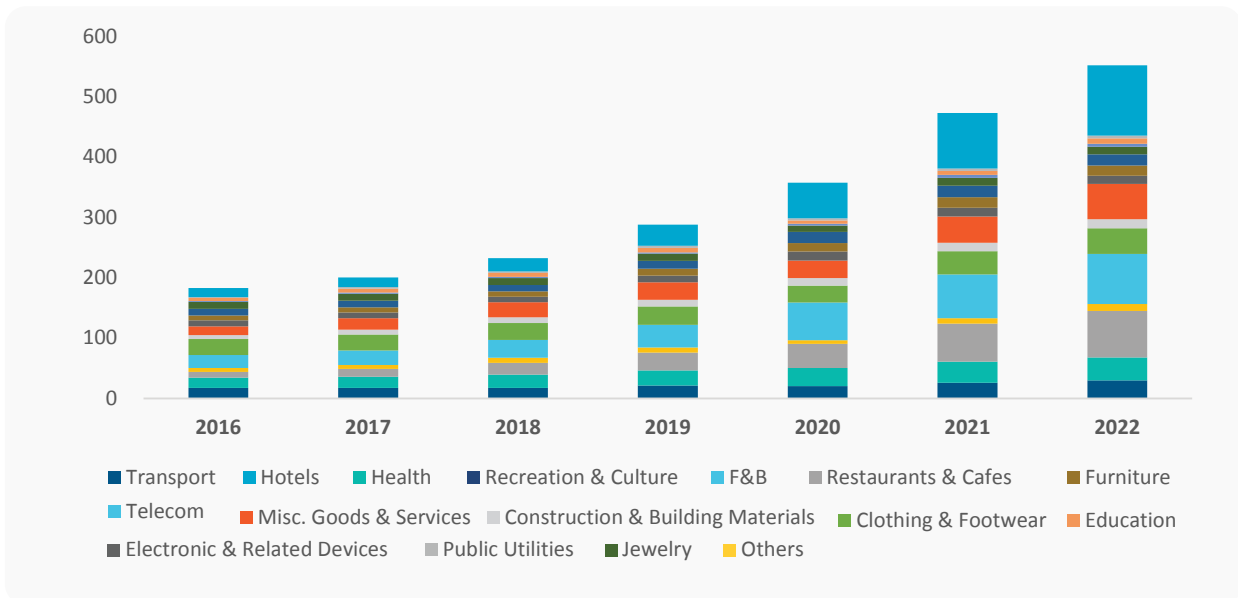


Figure 6: E-commerce transactions growth
Saudi Arabia E-commerce Sales (SAR, B)⁵



⁵- SAMA. Full-year 2022 data was annualized using Q1-Q3 available data from SAMA.

Saudi Arabia Growth Outlook

2023 growth led by non-oil expansion & sustained oil

Saudi Purchasing Managers Index (PMI) and Industrial Production Index (IPI) data, two private investment indicators, both show strong momentum.

Figure 7: Non-oil private sector expansion continues

MENA PMI Index (Points)⁶

The PMI remains above the 50-threshold and higher than other MENA economies such as the UAE and Egypt, suggesting positive signs of continued expansion in non-oil private sector activity. This is driven by ongoing capital expenditures by government and affiliated entities as well as the adoption of business-friendly policies under Vision 2030.

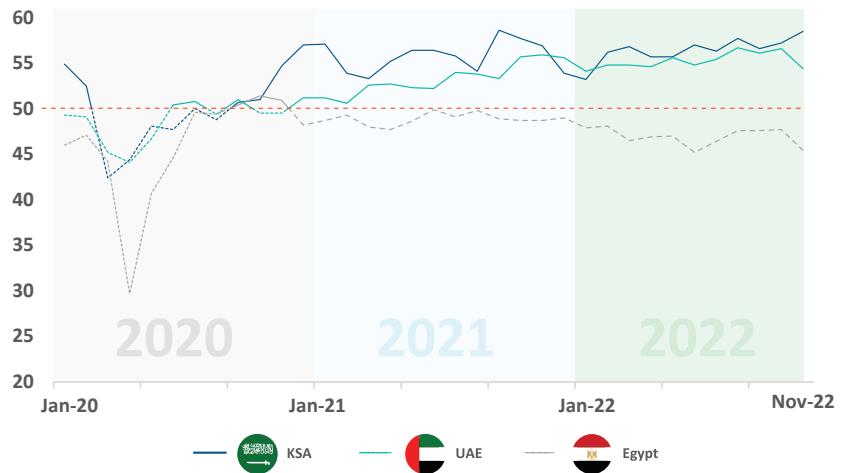


Figure 8: Saudi industrial production index at 4-year high

Saudi Arabia Industrial Production Index (Points)⁷



Saudi Arabia's IPI rose 14.1% YoY in October 2022, to a four-year high of 139 points in October 2022, according to the base year 2010. This growth is mainly driven by mining & quarrying and manufacturing.

Construction activity, manufacturing and tourism are expected to be bolstered by progress on several initiatives including the Housing Program, the Tourism Strategy, the Saudi Green Initiative, the National Strategy for Industry and the Global Supply Chain Resilience Initiative.

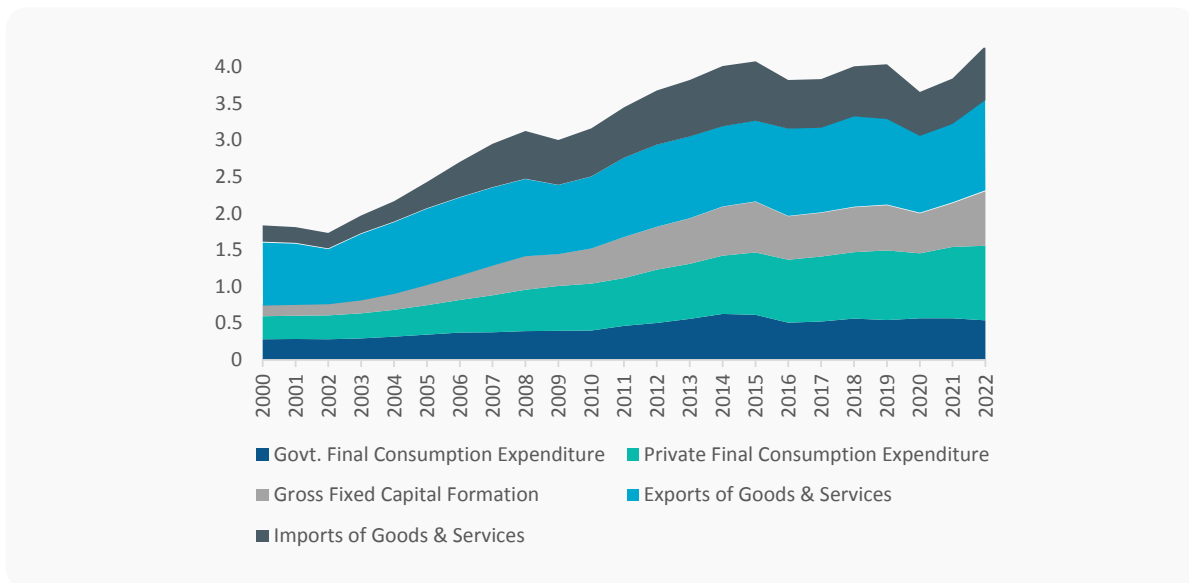
As the investment momentum continues and sectors such as tourism, hospitality and entertainment open up new possibilities, domestic demand will continue to strengthen, and business confidence will continue to grow.

6- Markit Economics. A reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.
7- GASTAT.

Saudi Arabia Growth Outlook

GDP by Expenditure Component & Outlook

Figure 9: Private consumption & gross fixed capital formation share of GDP expanding
GDP by Expenditure at Constant Prices (SAR, T)⁸



Consumption (Government & Private)



As the private sector contributes more, government consumption as a percentage of GDP is expected to be lower than in peak years.

Private consumption will continue expand, driven by population growth, strong financial sector and the emergence of new non-oil economic sectors that will encourage spending.

Investment



PIF, NDF and other government-led non-oil investments will continue to support growth in gross fixed capital formation, driving overall Saudi growth. As the business environment continues to improve, both domestic and foreign private investment are anticipated to rise steadily. Several measures have been launched by the government to attract domestic and foreign investment inflows, including the Regional Headquarter (RHQ) Program and the National Strategy for Industry.

Exports & Imports



Export growth will continue, dominated by a steady rise in non-oil exports (from a low base) as government's economic diversification efforts forge on. The demand for capital goods, raw resources, and machinery from other countries will continue to be supported by Saudi Arabia's investments in its infrastructure and efforts to diversify its economy, also accelerating import growth.

⁸- GASTAT. Full-year 2022 data was annualized using Q1-Q3 available data from GASTAT.

The background of the slide is a composite image. The top half features a blurred cityscape with a semi-transparent blue overlay. Overlaid on this are several data visualization elements: a green bar chart with varying heights, a red line graph showing an upward trend, and some faint digital numbers like '0', '10', and '1'. The bottom half of the slide shows stacks of silver coins in the foreground, with a white line graph and a prominent blue arrow pointing upwards and to the right, ending in a bright light. The overall color palette is dominated by blues, greens, and greys, with a warm orange glow on the right side.

Saudi Arabia Monetary Policy Outlook

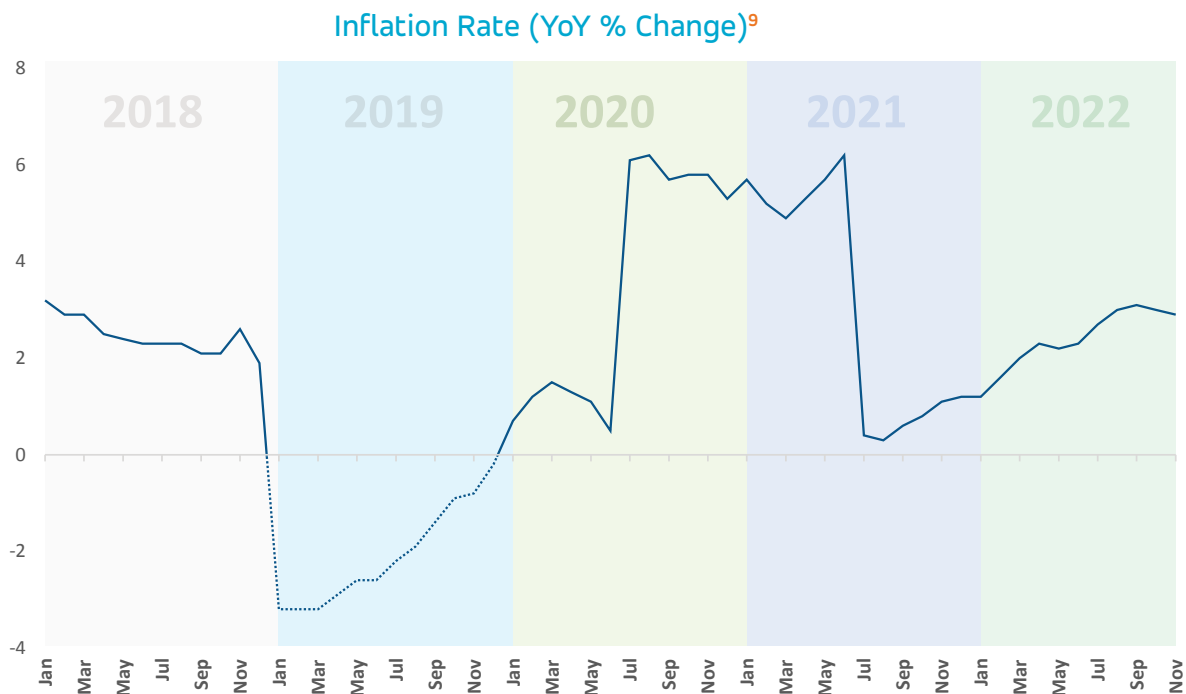
Saudi Arabia Monetary Policy Outlook

Inflation contained in the Kingdom

According to the 2023 budget statement, the MoF forecasts inflation at



Figure 10: Saudi inflation contained by several factors



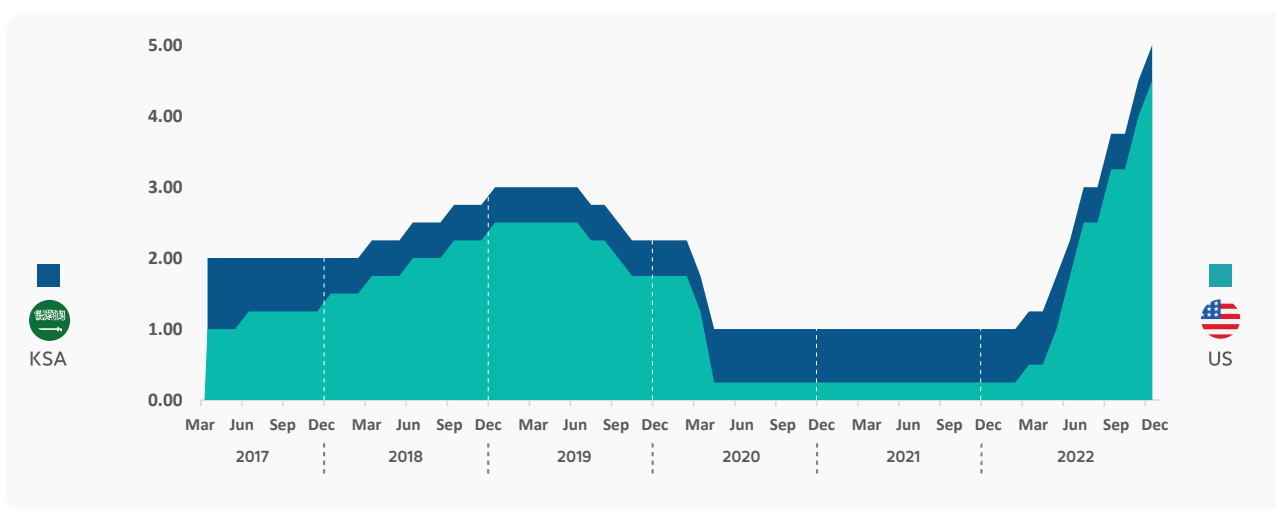
Contained inflation in Saudi Arabia is made possible by a number of factors, including the government's efficient supply chain management strategies, fuel and food subsidies, the peg of the Riyal to a strong US dollar (which helps to control import inflation), and higher oil revenues (which helps keep the impact of high global commodity prices on domestic inflation in check).

Saudi Arabia Monetary Policy Outlook

Saudi Inflation among lowest globally

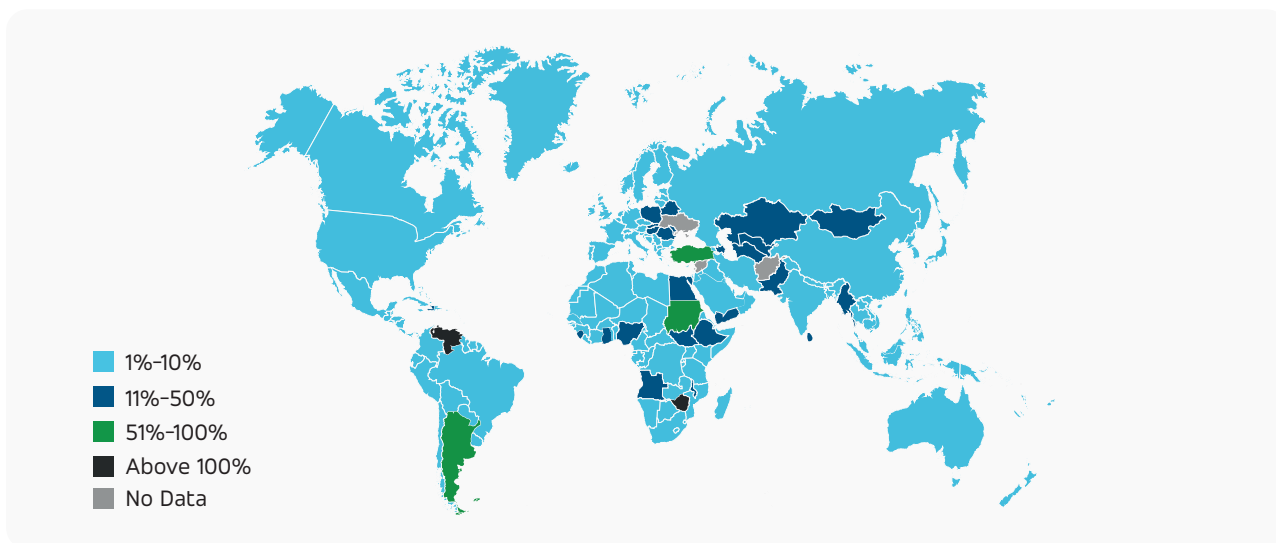
Due to the Riyal's peg to the US dollar, any changes by the Saudi Arabian Monetary Authority (SAMA), the Kingdom's central bank, in response to fluctuations in inflation levels, will be in tandem with moves by the US Federal Reserve (Figure 11).

Figure 11: SAMA mirrors US Fed rate moves
Saudi Arabia Reverse Repo Rate & US Federal Funds Rate (%)¹⁰



The Kingdom's inflation rate will continue to be the lowest among G20 members and among the lowest worldwide in 2023, supporting, among other things, private consumption and tourism in the Kingdom.

Figure 12: Saudi 2023 inflation among lowest globally
Global Inflation Rates, 2023 (%)¹¹



10- SAMA; US Federal Reserve.
11- IMF World Economic Outlook October 2022.



Saudi Arabia Fiscal & Public Debt Outlook

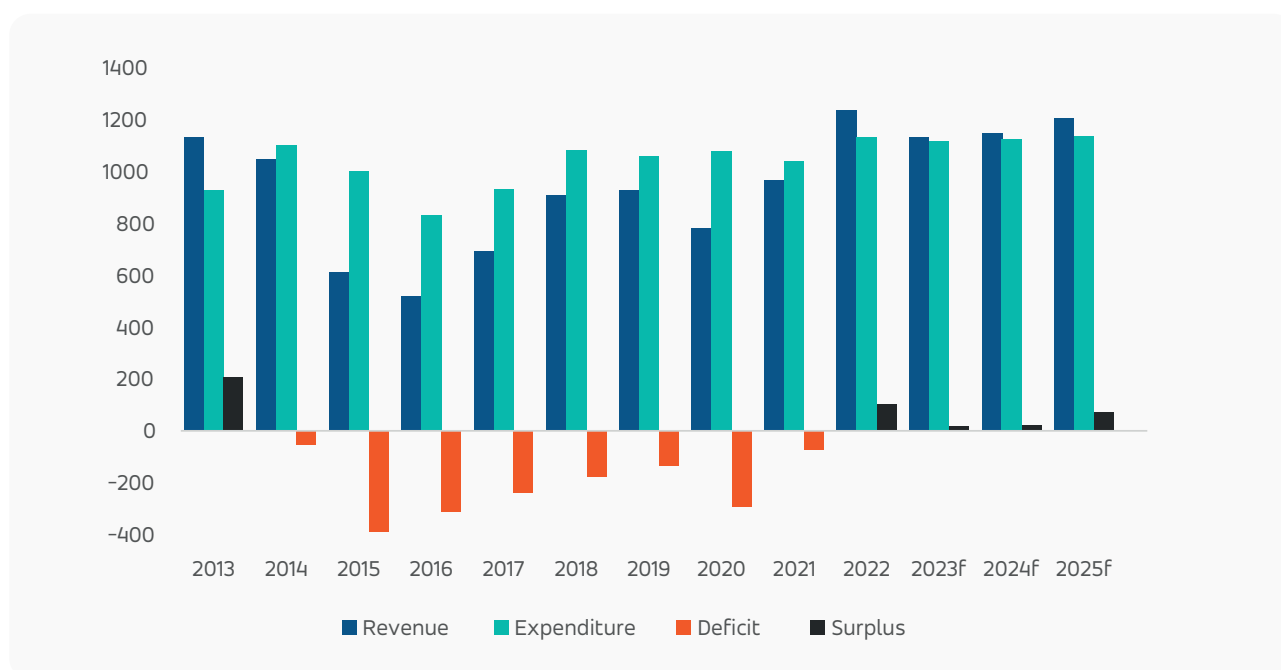
Saudi Arabia Fiscal & Public Debt Outlook

The fiscal surplus days return

The success of Saudi Arabia’s fiscal adjustment and public finances restructuring is evident in the significantly improved fiscal position of the Kingdom.

In the 2023 budget statement, the fiscal balance expects to show a surplus in 2023, and over the medium term until 2025. This would represent the second year of consecutive surplus following 8 years of budget deficits. The fiscal surplus is forecast at SAR 9B (0.2% of GDP) in 2023, compared with a surplus of SAR 90B (2.3% of GDP) in 2022 actual. A lower forecast for 2023 (than actual 2022) is associated with baseline estimates employed by the government, which bases predictions of oil and non-oil revenues in the budget on conservative standards in anticipation of any events that may take place in the local and global economy.

Figure 13: The fiscal surplus days are back
Surplus/Deficit, Revenue & Expenditure (SAR, B)¹²



Public debt is forecast at SAR 951B in 2023 (24.6% of GDP) and compared with SAR 985B in 2022 (24.9% of GDP), still less than the government's debt ceiling of 50%. According to the government's medium-term projections, the public debt will decline to 24.2% of GDP in 2024 and to 22.6% of GDP in 2025.

Saudi Arabia Fiscal & Public Debt Outlook

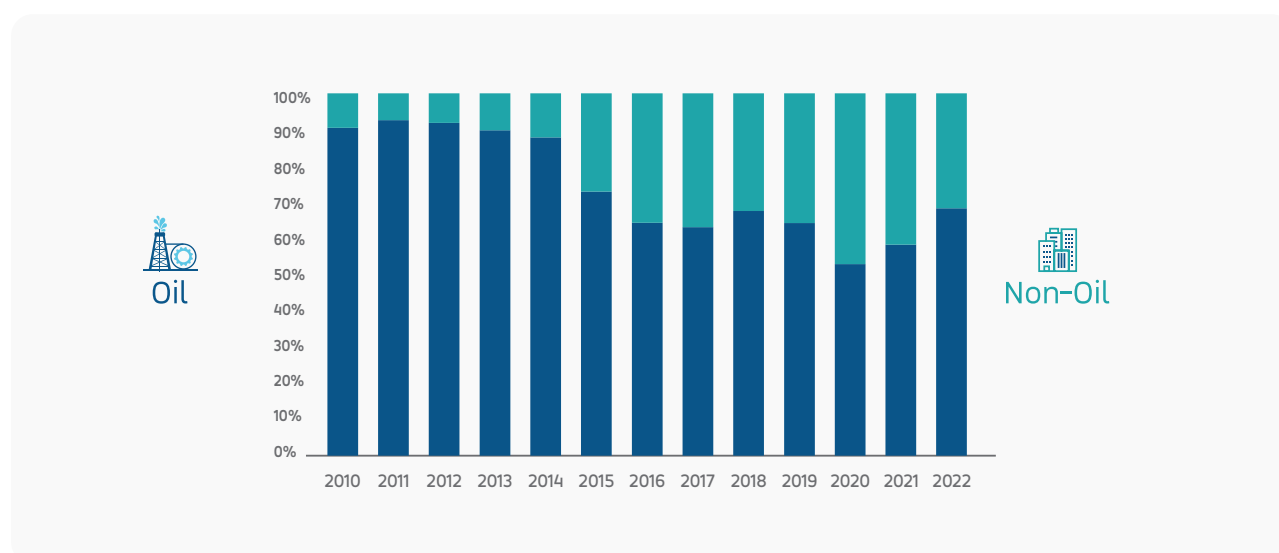
The fiscal surplus days return

Overall, sustained oil and non-oil revenues, combined with prudent spending, will continue to support the fiscal outlook. The Saudi budget does not typically specify the exact breakdown of oil and non-oil revenue forecasts for the year; however, it outlines certain non-oil revenue sources that will contribute to total revenues, with VAT income still contributing the most among other non-oil sources.

Overall, the annual contribution of non-oil income to total revenues was lower in 2022 (31.7% of the total) compared with 2021 (41.7% of the total), but remains higher than the 27% total in 2015 before the launch of the Vision.

Figure 14: Higher oil revenue in 2022; non-oil share sustained

Saudi Arabia Total Revenue Breakdown (% of Total)¹³



In 2023, expenditures are forecast to be 1.6% lower than the 2022 actual and 16.6% higher than the 2022 budget. Capital expenditure (Capex), which is expected at SAR 157B compares with SAR 151B in actual 2022. The annual Capex share of the total budget had declined over the last 5 years from 17% of the total in 2018 to 13.3% in 2022, but estimated to pick up to 14.1% of the 2023 total.

A breakdown by sector reveals an expenditure trend that is consistent with previous years. The military sector makes up the largest portion of expenditures, followed by education and healthcare with SAR 189B allocated respectively for 2023, each making up 17% of the total budget and 4.8% of GDP.



Saudi Arabia External Sector Outlook

Saudi Arabia External Sector Outlook

Current account surplus wide by historical standards

Significant improvement in the current account balance in 2022 is expected to continue in 2023, driven by an improvement in the balance of trade i.e., higher exports relative to imports, as well as rising FDI inflows and tourism.

According to the IMF, the current account balance returned to a surplus of 5.3% of GDP in 2021 from a deficit of 3.2% of GDP in 2020 (following the twin shocks of COVID and lower oil prices that year). This surplus continues to rise reaching an estimated 16% of GDP in 2022 (driven by higher oil exports) and projected by the IMF at 12.3% of GDP in 2023, still wide by historical standards. However, it still remains below the 21% average seen in the 10 years to 2014.

Figure 15: Saudi current account balance remains high
Current Account Balance (% of GDP)¹⁴

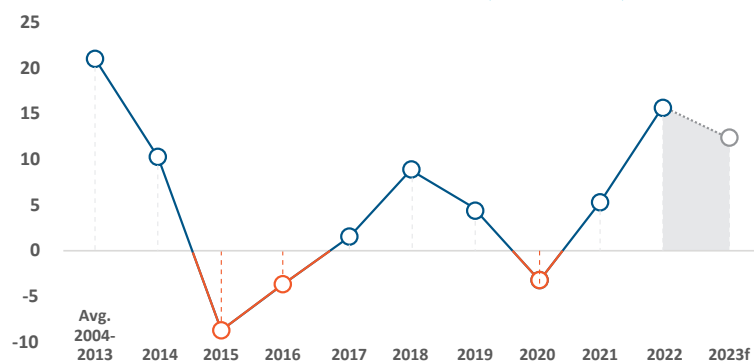
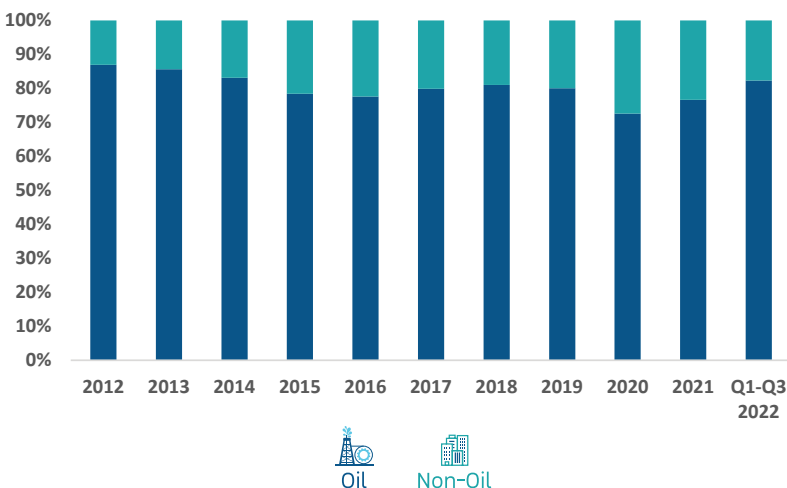


Figure 16: Saudi exports basket continues to diversify
Oil & Non-Oil Share of Saudi Exports (% of Total)¹⁵



Looking at the composition of Saudi exports over the last decade, it is clear that the country's exports have expanded beyond oil to include a diversified basket of non-oil commodities. The share of non-oil exports has increased considerably, a reflection of successful diversification efforts and reforms to enhance competitiveness.

Total non-oil exports in 2021 were valued at SAR 231B (23% of total exports), compared with SAR 190B in 2012 (13% of total exports), representing a new high for non-oil exports in the Kingdom. In the first nine months of 2022, total non-oil exports were valued at SAR 205B (18% of total exports).

Saudi Arabia's ratio of non-oil exports (excluding re-exports) to imports has also increased to a high of 40.4% in 2021 compared with 32.7% in 2012 and a 10-year low of 24.1% in 2015. In the first nine months of 2022, this ratio stood at 47.8%.

Saudi Arabia External Sector Outlook

FDI growing; but lower than peak levels

Inward FDI flows are crucial to help the government achieve its diversification goals and support the Kingdom's balance of payment position. According to Invest Saudi, FDI inflows to Saudi Arabia stood at SAR 72.3B in 2021 from SAR 20.2B in 2020. FDI inflows stood at SAR 74B in Q1 2022 and SAR 7.9B in Q2 2022. FDI inflows to Saudi Arabia are growing, although they are still far below their peak of SAR 148.1B in 2008 and an average of SAR 29.7B for the previous ten years (Figure 13).

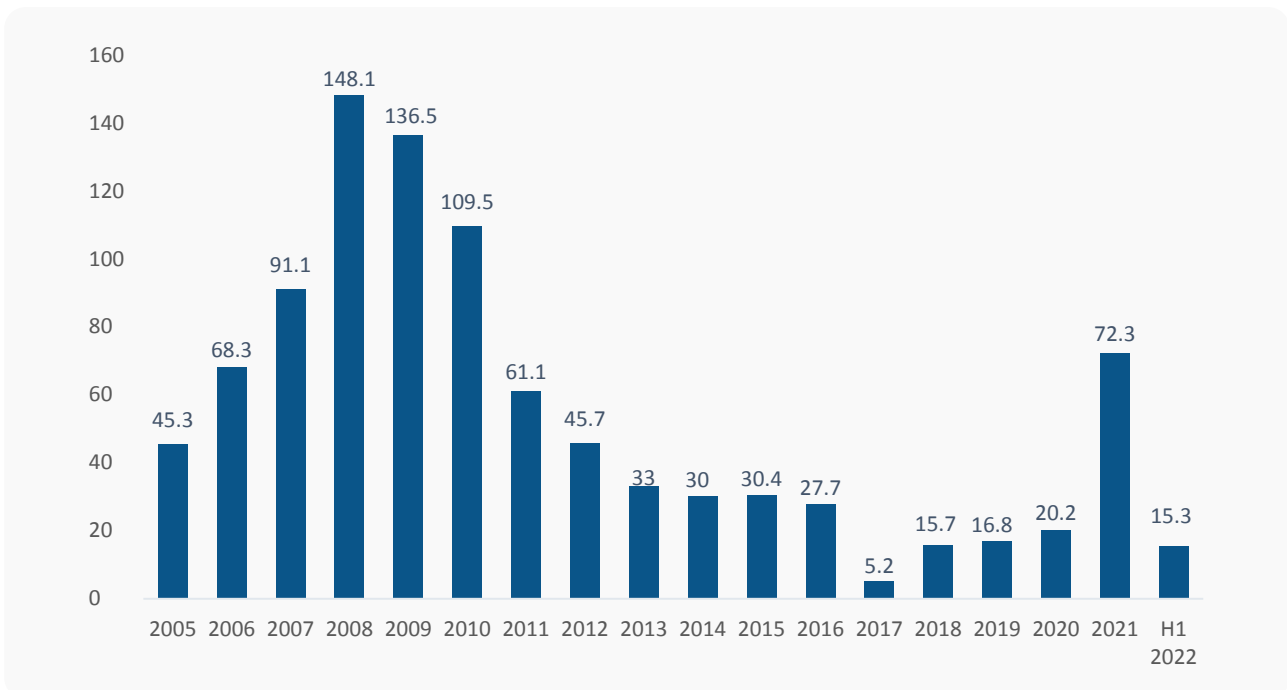
The government's pro-business initiatives are anticipated to increase FDI into the Kingdom during the next several years. The new National

Investment Strategy aims to attract SAR 1.8T in FDI inflows between 2021 and 2030, equivalent to SAR 200B a year, albeit at the present rate, this seems a little ambitious.

Looking ahead, the dollar peg will be supported going forward by sizable foreign exchange reserves (estimated at SAR 1.74T in November 2022) and the SAR 1.98T in assets managed by the PIF for sovereign wealth funds as of the end of 2021. The peg will continue to act as an anchor and a key factor for prospective foreign investors, who will have a substantial impact on the Kingdom's financial account, as the government intensifies its efforts to liberalize the economy.

Figure 17: FDI recovering, but still below peak levels

Saudi Arabia FDI Inflows (SAR, B)¹⁶



¹⁶Invest Saudi; UNCTAD. *2021 spike reflects Aramco deal closed in Q2 2021 of a \$12.4 billion pipeline infrastructure.



Saudi Arabia Labour Market Outlook

Saudi Arabia Labour Market Outlook

Record low Saudi male & female unemployment

The government's initiatives to strengthen the non-oil economy and address labour market imbalances are reflected in quarterly figures that show improvements in both total and Saudi unemployment as well as greater Saudi female labour participation rates.

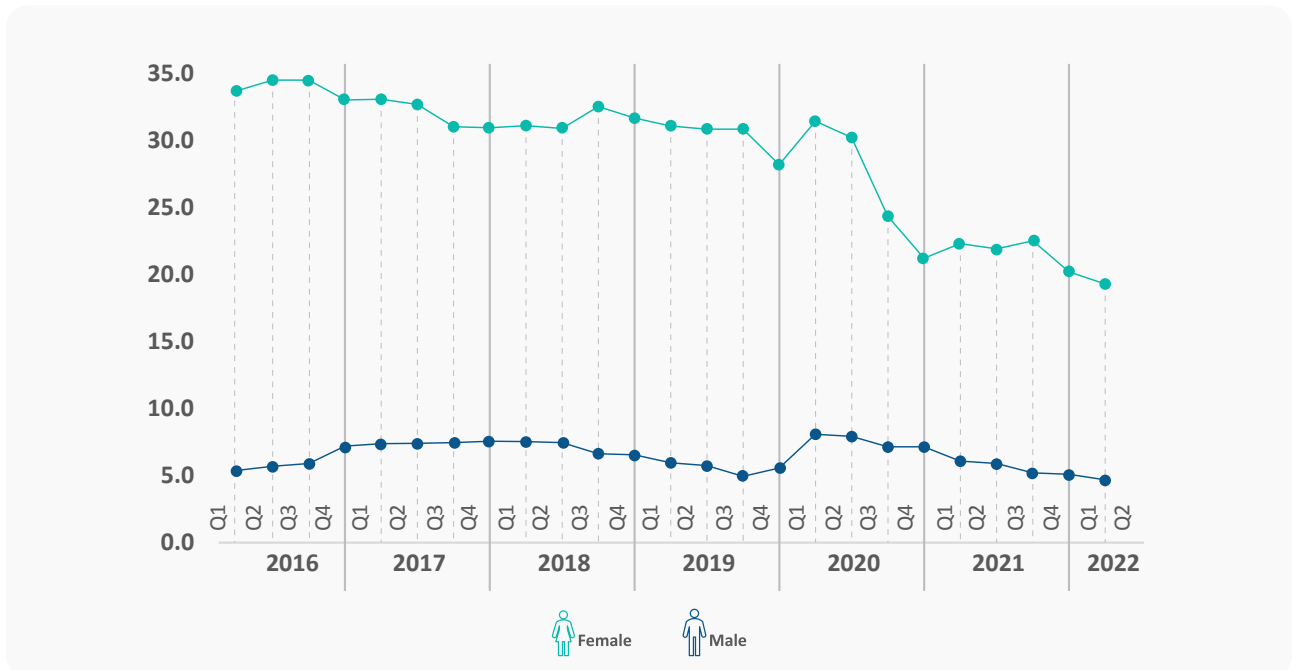
Assuming that momentum from 2022 carries over, employment growth will continue in 2023, led by both non-oil domestic activity and government initiatives. The private sector will also act as a source of employment and growth.

Saudi Arabia's Vision 2030 aims to cut unemployment from 11.6% in 2015 to 7% by 2030. According to the General Authority for Statistics

(GASTAT) estimates, the overall unemployment rate (Saudis and non-Saudis) fell to 5.8% in Q2 2022 compared with 6.6% in the same period of the previous year.

During this period, the overall Saudi unemployment rate fell to 9.7% in Q2 2022 compared with 11.3% in the same period in 2021, and the lowest rate since GASTAT began reporting quarterly statistics in Q2 2016. This was driven by a decline in both Saudi male and female unemployment rates to 4.7% and 19.3% respectively in Q2 2022 compared with 6.1% and 22.3% in the same period of 2021, and also represent the lowest rates since GASTAT began reporting quarterly statistics in Q2 2016 (Figure 18).

Figure 18: Both Saudi male & female unemployment at a record low
Unemployment Rate % (15+ years old)¹⁷



Saudi Arabia Labour Market Outlook

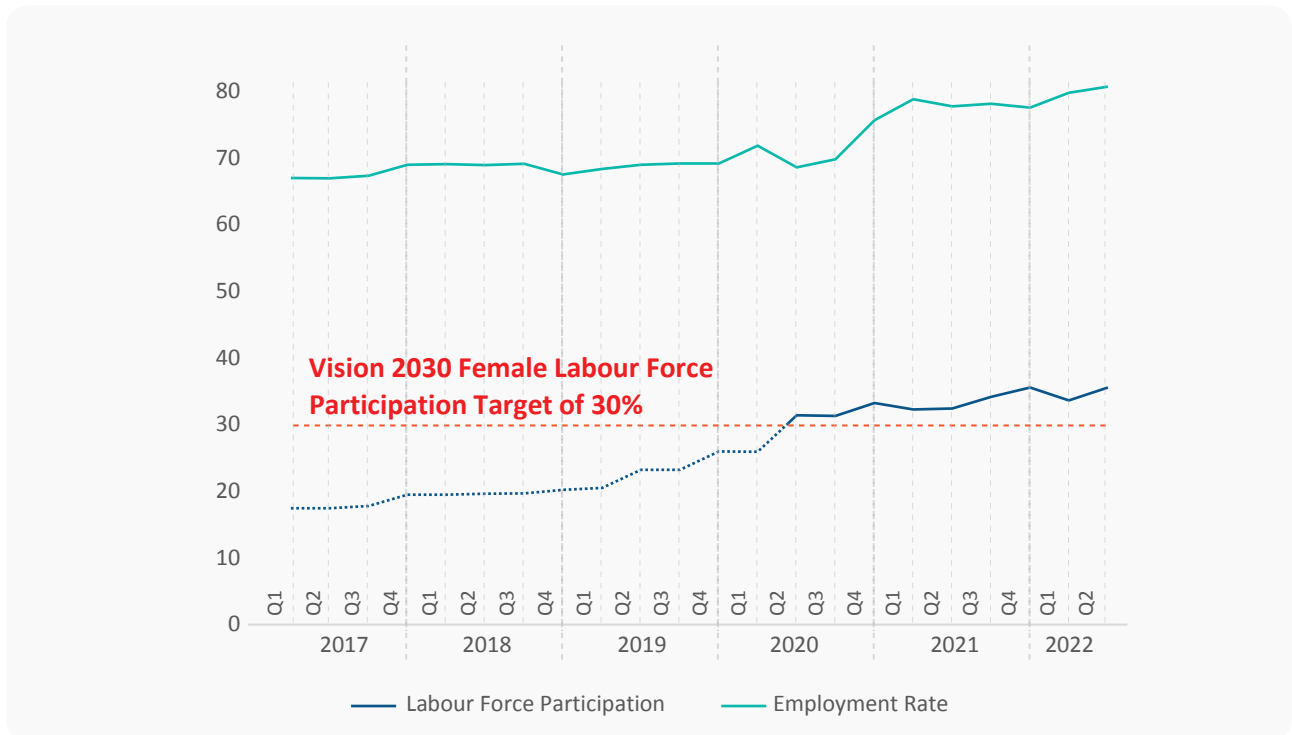
Record high female participation in labour market



Over Q2 2021 to Q2 2022, Saudi female labour force participation rates averaged 34.3%, doubling of the share of women in the labour force in just four years, far exceeding Vision 2030 objectives (Figure 15). This was coupled with a rise in Saudi female employment rates during Q2 2022. According to labour market data, during this period, 61.4% of employed Saudi females were in the private sector. A breakdown by sector shows that 26.2% of Saudi women were employed in the education sector followed by 16.2% in the wholesale and retail sector and 9.2% in the human health & social work activities as of Q2 2022.

Figure 19: Saudi female labour force participation doubles & Vision 2030's target exceeded

Saudi Female Labour Market Statistics (%)¹⁸



Saudi Arabia Labour Market Outlook

Other emerging labour market challenges

Labour market indicators are encouraging, and momentum from the government continues to address the structural imbalances that existed, as well as emerging challenges.

Saudis in the Private Sector

The breakdown in Q2 2021 shows that 52.5% of Saudis are still employed in the public sector versus 47.1% in the private sector, and 0.4% in other sectors¹⁹. Saudi reliance on government employment stands out in international comparison, as both advanced and emerging economies generally accommodate less than one-fifth of their citizens in the public sector.

Competition between the Private & Public Sector

An increase in Saudi nationals' engagement in the private sector is challenged by the increasing competition with government entities, and government-owned companies, driven by Vision 2030 targets and labour demand. There are positive effects of such a situation including helping to reduce unemployment, and higher salaries and this also bodes well on the female employment front including showing that the country is opening up to a diverse workforce. However, this increased competition for talent also has wide-ranging long-run implications from higher labour costs that the private sector will struggle to afford to unfavourable long-run impact on Saudi employees.

Supply Versus Demand for Specialised Talent

With the PIF continuing to expand and create new companies, and more businesses move their MENA headquarters to Riyadh or enter the market for the first time, the supply of specialised talent will need to keep up with demand.

There is limited data on the supply and demand of talent today in Saudi Arabia. However, some initial statistics have been provided by Korn Ferry and Ruya Recruitment firm:

- According to a 2018 analysis by Korn Ferry, Saudi Arabia would experience a 663,000-person skilled labour shortfall by 2030.
- In a November 2022 article on LinkedIn by Director of Ruya Recruitment, the author revealed that the average salary for a fresh graduate within the private sector has increased by 30% in the last year alone and employees are being lured with new offers equal to 60% over and above their current salaries. This was based on the author's conversation with 30 C-level executives, board directors and HR professionals in Saudi Arabia.

¹⁹-Considered either "self-employed, family workers, non-profit organizations and domestic labour, regional and international organizations, agricultural sector workers".



Saudi Arabia Business Environment

Saudi Arabia Business Environment

The reform momentum continues



Economic fundamentals in Saudi Arabia are strong and the outlook is positive. In turn, maintaining the reform momentum is essential to the Kingdom's long-term prosperity and stable growth.

Saudi Arabia is making strides in enhancing the business climate, luring international investment, and generating jobs in the private sector. Thanks to these measures, for example, a company can now be registered in three minutes. Efforts to improve governance and labour market conditions are also in progress.

One of the Vision Realisation Programs, the Financial Sector Development Program (FSDP), continues to make significant progress in key areas as reform momentum continues to support SME financing, capital markets, digital banking, and financial services. The Open Banking framework was introduced by SAMA in November 2022, while the FinTech Strategy was introduced in June 2022. These steps will improve the business climate, draw foreign money to the Kingdom's capital markets, and boost private sector investment in the FinTech industry.

In Q4 2022, the momentum for reform accelerated once again. The Saudi government launched the Global Supply Chain Resilience Initiative in October 2022 with the intention of luring global investment by utilizing the nation's infrastructure and strategic location. In Riyadh, the Kingdom revealed its first integrated economic zone, which will exempt businesses from taxes for up to 50 years. The Saudi government also made plans to set up one of the biggest Carbon Capture, Usage and Storage hubs in the world, which will capture 44 million tons of CO₂ emissions, also in October 2022.

On the socioeconomic front, the Saudi government implemented several reforms to empower women throughout the Kingdom and ease foreigners' access to religious travel. All of these initiatives are consistent with the government's reform strategies outlined in Vision 2030, which we anticipate will maintain strong momentum throughout the medium term.

Saudi Arabia's "Regional Headquarter (RHQ) Programme" will ensure the continued ramping up of reforms in 2023 to improve the business environment, ahead of the 2024 deadline. Incentives are designed to promote international trust and encourage foreign investment. In early 2022, the Ministry of Investment Saudi Arabia (MISA) issued new guidance regarding the RHQ Programme including conditions for obtaining the Regional Headquarters' business license.



**Things to
Watch in 2023**

Things to Watch in 2023

Travel, Tourism & Hospitality

Travel, tourism, and hospitality growth will be fuelled by a number of tourism megaprojects that will open their doors to visitors in 2023, the launch of Saudi Arabia's new national airline, the Riyadh International Airlines (RIA), as well as the anticipated release of additional high-end hotel capacity onto the market.

Entertainment & Related

Tourism growth will in turn fuel part of the expansion in entertainment and related industries. In addition, these industries will be boosted by other factors such as the Kingdom's Riyadh season (and others like Jeddah season and ALUla festivals) which are getting bigger each year; and the Kingdom's increased hosting of trade shows, conferences, and international competitions.

Continued PIF & NDF Investments

The Kingdom will increasingly rely on investments from both the PIF and NDF in the local economy. As part of its 2021-2025 Strategy, the PIF aims to invest a minimum of SAR 150B annually in new investment projects locally. The NDF intends to invest SAR 570B, or more than SAR 70B annually, into the Kingdom's economy by 2030 as part of its new strategy, which was unveiled in 2022.

IPO & M&A Activity

IPO and M&A activity are expected to remain hot. The pipeline includes Aramco's plans to IPO its trading division, MBC Group, the PIF's ADES International Holding and Red Sea Global.

Green Initiatives

Saudi Arabia is hosting MENA Climate Week in 2023. By stepping up energy transition initiatives like the Middle East Green Initiative and the Saudi Green Initiative, Saudi Arabia is advancing climate pledges and creating investment opportunities in the green economy. The Kingdom plans to develop a regional center with expertise in carbon capture, storage, and use in collaboration with other countries. Additionally, Saudi Arabia has declared the start of a regional endeavor to provide clean cooking fuel options that might help more than 750 million people globally. A regional investment fund is also being planned with a focus on funding technological solutions for the envisioned circular carbon economy.

Mining

The second Future Minerals Forum, hosted by Saudi Arabia, will bring together the world's mining industry in January 2023. The Kingdom plans to auction five mining exploration licenses next year with copper, zinc, lead, and iron deposit to both local and foreign investors.

Regional Headquarter (RHQ)

Programme

More companies are expected to sign up to and shifting regional HQs to Riyadh before January 2024 deadline.



Macroeconomic Dashboard

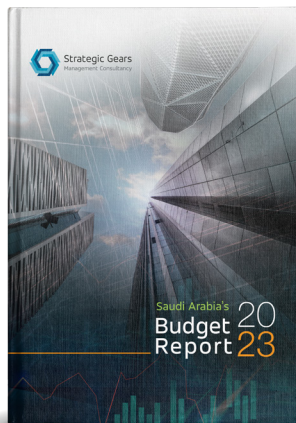
Macroeconomic Dashboard²⁰

	2019	2020	2021f	2022	2023f
Real GDP Growth (%)	0.3	-4.1	3.2	8.5	3.1
Oil GDP (%)	-3.3	-6.6	0.2	13.1	3.3
Non-Oil GDP (%)	2.8	-2.5	4.9	4.2	3.8
CPI Inflation (%)*	-2.1	3.4	3.1	2.6	2.1
Fiscal Balance (% of GDP)*	-4.5	-11.2	-2.3	2.6	0.4
Current Acc. Balance (% of GDP)	4.8	-3.2	5.3	16.0	12.3
Total Government Gross Debt (% of GDP)*	22.8	32.5	30.0	24.9	24.6
External Debt (% of GDP)	23.2	33.8	34.1	28.9	29.4
Reserves (Months of Next Year's Imports)	32.8	25.4	22.7	25.4	26.1
Exchange Rate (SAR/USD)	3.75	3.75	3.75	3.75	3.75
Population (Millions)	35.8	35.9	35.9	36.4	36.9

20- IMF; *Ministry of Finance, Saudi Arabia.

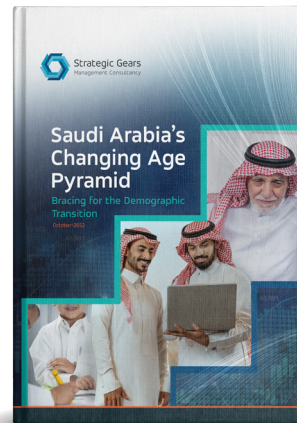
Other Publications

Strategic Gears prides itself in its ability to be a knowledge hub for the Saudi market. We release a range of reports on the current state of the Kingdom's economy as well as hot topics in both the public and private sectors. Below is a sample of our latest publications.

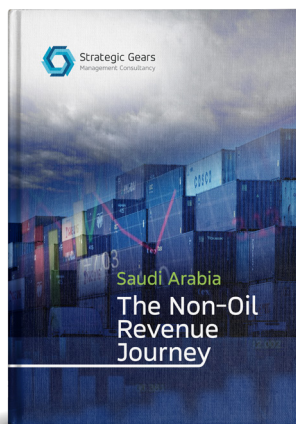


Saudi Arabia Budget Report 2023*

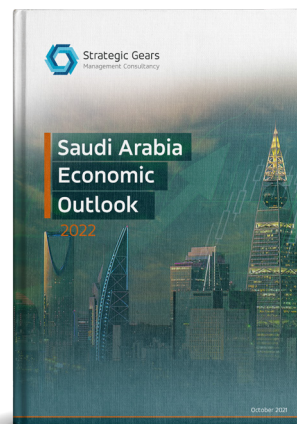
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Saudi Arabia's Changing Age Pyramid



Saudi Arabia: The Non-Oil Revenue Journey



Saudi Arabia's Economic Outlook 2022



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