

Prepared by the New Zealand Embassy in Riyadh.

Summary

- Saudi Arabia's GDP is recovering faster than expected, with a forecast growth of 1.8 percent by the end of 2021, after a 4.1 percent contraction in 2020. This is driven by a strong increase in domestic economic activity and consumer spending following widespread vaccinations and the return of larger-scale leisure and entertainment activities, as well as a rebound in global oil demand.
- Government coffers have been boosted by a ten percent increase in VAT last year, which has compensated for the loss of revenue from historically low oil prices but has driven inflation to 6.2 percent.
- A 2030 target for raising the rate of female participation in the labour market from 20 percent to 35 percent has been reached almost ten years early. Increasing numbers of women and youth in the labour market have driven a decline in the unemployment rate to its lowest level since 2016.
- As New Zealand's 19th largest export market, Saudi Arabia's economic recovery in 2021 is good news for New Zealand exporters, while forecast growth sectors of the economy (particularly tourism and healthcare) present opportunities for New Zealand expertise.

Report

Data in this report is sourced from the Saudi General Authority for Statistics and Saudi economic consultancy Jadwa unless otherwise stated. New Zealand trade data is sourced from Statistics New Zealand for the year ending June 2021.

Consumer Spending

- Consumer spending in the first half of 2021 was up 16 percent compared to 2020. This growth can partly be attributed to the fact that H1 2020 coincided with Saudi Arabia's strictest COVID-19 response measures including a 24 hour curfew. However, consumer spending is expected to stay strong for the remainder of 2021, especially as COVID-19 restrictions ease as the vaccination rollout reaches critical mass (Saudi Arabia has administered 116 doses per 100 people), a return to in-person schooling, as well as a suite of large scale entertainment and leisure events opening up to vaccinated individuals (such as the 'Seasons' entertainment festivals and the Formula One Grand Prix). In addition, tourism visas and more flight routes are re-opening for vaccinated travellers (including for the key UAE transit hub) and caps on the number of Umrah pilgrims are being raised, all contributing to forecast growth in the retail, hospitality, and tourism sectors.

Government Revenue

- Government revenue has been given a much-needed boost by a ten percent raise in VAT in July 2020. The tax rise saw non-oil revenue increase in Q2 2021 by 203 percent to 115.9 billion SAR (43.45 billion

NZD), making up 46.7 percent of total revenue. In the same quarter of 2020 (before the VAT hike), non-oil revenues were just 28.5 percent of total revenue. While the growth of 203 percent was a one-off, it indicates that the VAT rise has achieved its objective of reducing (though not eliminating) the Government's dependence on a fluctuating global oil price for the majority of its revenue.

Oil Revenue

- Oil revenue also saw a healthy increase of 38 percent between Q2 2020 and Q2 2021, reflecting the increase in the oil price since its historic lows in Q2 2020. According to OPEC data, oil demand is up 14 percent year-on-year in Q2, with demand expected to continue growing for the remainder of 2021. Overall, only transportation fuels (jet fuel and gasoline) are showing sizable differences in demand when compared to pre-pandemic levels (with jet fuel demand still about 30 percent lower than 2019 levels). The International Energy Forum does not expect demand to recover until at least 2023 as a result of the slow return of long haul flights (which accounted for 30 percent of pre-COVID aviation fuel demand).

Inflation

- While the VAT rise has helped government revenue, it has significantly impacted inflation, which saw a 6.2 percent year-on-year increase. The inflation is not evenly spread: high retail prices for gasoline led to 22.6 percent annual inflation in the 'transport' sector, prompting a royal decree to cap gasoline prices. 'Food and beverages' prices increased by 8.1 percent year-on-year despite most global food prices trending lower. Because the majority of food in Saudi Arabia is imported, food prices are expected to continue to increase.

The Labour Market

- The steady decline in the unemployment rate is a further indicator of Saudi Arabia's economic recovery, with the Q1 2021 rate of 11.7 percent the lowest since 2016. The rate also reflects a drop of 3.7 percentage points since the peak of the pandemic in Q2 2020. The decline in unemployment was largely driven by youth unemployment (20-24 years old) dropping from 28 percent to 23.6 percent in the last quarter, as well as female unemployment dropping from 24.4 percent to 21.2 percent.
- The rate of female employment is indicative of the pace of economic and social change in Saudi Arabia: at the start of 2020 the female unemployment rate was 31.4 percent. Earlier this year, women's participation in the Saudi labour market reached the Vision 2030 target of 35 percent almost ten years early, up from just 20 percent in 2018. Growth in female employment has also largely been driven by the private sector, with 60 percent of women working in private sector roles, while 60 percent of Saudi men work in the public sector.
- Overall improvements in the labour market for Saudi citizens have partly been driven by the ongoing 'Saudisation' programme of localising certain jobs and industries. In Q1 of 2021 approximately 18,700 foreign workers left the Saudi labour market while 92,000 Saudi nationals entered it in the same period. A key driver for this was a requirement for most hospitality and retail outlets to hire a minimum quota of Saudi staff, opening up thousands of entry-level jobs for Saudis. In more professional roles, the Ministry of Human Resources and Social Development has imposed further Saudisation targets on certain roles within the accounting, IT, law, real estate and education sectors. Despite the continued expansion of Saudisation in the private sector, a majority of Saudi nationals (54 percent) are still employed in the public sector, and 'compensation of employees' continues to be the single largest area of government spending (making up 48 percent of total government spending in Q2 2021).

Conclusion

- As New Zealand's 19th largest export market, Saudi Arabia's economic recovery in 2021 is good news for New Zealand companies operating in the Saudi market and the broader GCC region. In particular, actual and forecast increases in consumer spending in the hospitality and food sectors, despite high inflation,
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indicates continued demand from Saudi consumers for New Zealand food products, which make up over 80 percent of our exports to Saudi Arabia. While the ongoing impact of freight costs is likely to continue to affect New Zealand companies exporting to the region, especially exporters without economies of scale, the Saudi market of 35 million consumers remains strong and is braced to absorb higher prices for imported goods given the rise in shipping costs globally, not just from New Zealand.

- At a more strategic level, Saudi Arabia's planned tourism expansion offers opportunities for New Zealand companies and expertise, including through G2G. Our initial discussions with key tourism industry and giga-project stakeholders were largely paused as a result of COVID-19, though planned introductory calls for New Zealand's new Ambassador to Saudi Arabia will be an opportunity to re-examine potential opportunities for New Zealand in Saudi Arabia's tourism industry. Healthcare is another growth industry for Saudi Arabia that New Zealand is well positioned to support. Even before the pandemic, Saudi Arabia was investing heavily in an increasingly privatised healthcare system. Growth in this sector is likely to continue, and New Zealand goods, services, and expertise in this sector is expected to be in demand.
- The statistics from the first half of 2021 are also the earliest indications that the Vision 2030 economic reform programme launched in 2016 is beginning to have an impact at a macro level on the economy. While social reforms were quickly implemented, it has taken longer for behavioural change and larger structural economic reforms to take shape and significantly change the macro-level makeup of the Saudi economy. While oil remains by far the dominant economic force in Saudi Arabia and structural issues remain (including the outsized role of the public sector in economic activity, employment, and government spending), Saudi Arabia's economic recovery from COVID-19 has mostly come from domestic commercial activity (and increased VAT on that activity). In particular the rapid growth of female employment, the Saudisation of entry-level service jobs, and the increase in consumer spending shows how the economic diversification has in part been achieved through social liberalisation and changing attitudes towards Saudi Arabia's traditionally conservative social norms.

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