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An Onward Progressive March Of The Kingdom Of Saudi Arabia (Ksa): Some Pointers

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Abstract

With the ongoing spate of trade wars and the consequent economic uncertainty looming large in the face of global economies, several macro-environmental challenges are gripping the attention of the economies-developed and developing, both. The Kingdom of Saudi Arabia (KSA) is pushing forth a progressive agenda to tackle the challenges posed by the hydrocarbon sector which has hitherto remained the chief plank of its economic growth. In this vein, the country has explored avenues into non-hydrocarbon spaces in order to steer the country forward. IMF has been appreciative of the efforts of the country in terms of the reforms undertaken so far (The National, 2018)[i]. At the same time, the IMF has issued an advisory to the country not to increase government spending as the oil prices rise (Reuters, 2018)[ii]. As such, the country has undertaken reforms like the launch of the Value Added Tax (VAT) and the opening up of the capital markets to foreign investors. The proposed IPO of SAUDI ARAMCO in 2019 is expected to add to the revenues. Very recently, the Saudi Capital Markets Authority (SCMA) has been included in the MSCI's Emerging Markets Index and this would further facilitate market stability, increase institutional investments and enhance market attractiveness and liquidity[iii]. With this background, it is as well opportune to appreciate the onward progressive march of the Kingdom of Saudi Arabia (KSA) in terms of economic diversification initiatives. Specifically, the country is seeking to push forth its economy with an emphasis upon investments, education, entrepreneurship, tourism, and the like.

The present write-up is an endeavor to appreciate the key areas of performance in order to realize the aims and aspirations underlined in the Vision 2030.

BALANCED BUDGET

Fitch has rated the country as "stable" (A+) (Fitch, 2017)[iv] while Moody's rates Saudi Arabia as A1 as far as the credit ratings are concerned and this is a significant progress in comparison to the ratings in 1996 (Baa3) or 2006 (A3/A2) (Moody's, 2018)[v]. IMF observes that there is a need for attaining a balanced budget through gradual fiscal reforms (IMF, 2017)[vi]. The Fiscal Balance-Balanced Budget (2017-2020) programme of the country has shifted its timeline from 2020 to 2023 to realize its vision of fiscal sustainability and has laid emphasis upon a number of initiatives to achieve its objectives of "developing a more effective government, by providing intense scrutiny of government finances and acting as a spur to increased efficiency".

The Fiscal Balance Program has rested itself on five pillars:

1. Rationalizing government expenditures (e.g. setting up Bureau of Spending Realization Office and a Strategic Procurement Unit to bring about efficiency in government spending);
2. Energy and water price reform (e.g. Citizen's Account Program);
3. Other government revenues (e.g. levying expat levy; introducing VAT and excise duties);
4. Household allowance (e.g. disbursing household allowance on the basis of household size and economic well-being (Citizens' Account Program); managing cost of living with less household income with inflation figures around 2% in 2018[vii]);
5. Enabling private sector growth (e.g. setting up Local Content & Private Sector Development Unit for facilitating the promotion of private sector; providing a stimulus package of SAR 200 billion).

The government has released its budget statement for the first quarter of 2018 and this is indicative of the expediency which the government is observing in terms of managing the economy. Also, this is suggestive of a transparent administration as a whole. The fiscal deficit increased by 31% year-on-year, to SAR 34 billion, in Q1 2018 and this deficit was financed by external and domestic borrowings.

The fiscal policy should be aligned to bear the swings of oil prices as well to manage future risks. Reforms in energy pricing, household allowance and support to industry should be conducted in a gradual manner. IMF (2017) has acknowledged the successful implementation of revenue reforms like the excise duties on tobacco, soft drinks and expat levies (since 2017) and VAT (since January 2018). IMF has also commended the steps taken by the government to bring about greater transparency in fiscal policy and the maintenance of fiscal discipline as reflected in the Fiscal Balance Program and the Budget Reports. It is hoped that such transparent moves would help the private businesses and investors to better plan their investment and employment decisions. The government has undertaken reforms to promote the private sector by reducing the time consumed in securing custom clearance and instituting new bankruptcy and commercial mortgage laws.

A significant contribution towards realizing the objective of a balanced budget is through the promotion of private sector and stabilizing the employment scenario wherein women should be accorded due participation in the labor force. For reforming the employment scenario in the country, a collaborative effort of all the stakeholders (government, businesses, entrepreneurs, civic society) is required in order to ensure increased competitiveness of the Saudi employees in the private sector.

IMF (2017) observes that the banking sector is functioning well and the Saudi Arabian Monetary Authority (SAMA) has shown resoluteness in tackling the financial risks so far. Likewise, the Saudi Capital Markets Authority (SCMA) has undertaken many efforts to develop the local capital and given more incentives for financing and saving in the domestic economy while providing impetus for attracting the foreign investors at the same time. Since the country pegs the exchange rate of the Saudi riyal to the US dollar, the country has benefited so far given the structure of the economy. All these aforementioned reforms would be instrumental in achieving a fiscal balance in the long run.

EMPLOYMENT GENERATION

One of the critical challenges at hand is to provide employment to the local Saudi population. It is anticipated that local content would be retained and ample job opportunities would be created to suit the needs of the country. At the same time, it has been conceded that education and training avenues need to be more structured because the adequate employability skills are starkly missing in the youth (IPS News, 2018)[viii]. The Global Competitiveness Report (2017-2018) underlines the need for the country to tackle restrictive labor regulations because of the segmented labor market among different population groups and the exclusion of women from many employment avenues.

In the 2017-18 budget statement, SAR 192 billion is allocated to the public and higher education and workforce training. Further, it is probable that about half of the country's population would attain the age of 25 in the year 2030 and this implies that suitable job opportunities should be provided to the young graduates. Over the years, investments in education have been on the rise which is reflected in the rising university enrollments (tertiary education enrollment stands at 63% according to the Global Competitiveness Report, 2017-2018). Measures are also being undertaken to ensure that the quality of primary, secondary and tertiary education improves by promoting disciplines like Science, Technology, Engineering and Mathematics (STEM). Also, government's efforts at Saudization are also being rampant over the years. However, the macroeconomic environment has posed challenges as far as the provision of employment is concerned. The government is also gearing towards providing more opportunities for female labor workforce conceding that the current unemployment rate among females is 32.7%.

Entrepreneurship is being provided the required impetus by the government. According to the Doing Business Report (2018)[ix], the government has instituted reforms for setting up private businesses like simplified and user-friendly pre-registration and registration formalities, introduced online system for reserving and submission of articles of association as well as property registration, improved the accessibility of the land dispute resolution mechanisms, strengthened minority investor protections by expanding shareholders' role in company management, increased disclosure requirements for related-party transactions, made the tax payment system easier by introducing online systems, facilitated customs administration for exports and imports and reformed measures linked with the enforcement of contracts through its online case management system for the use of lawyers and judges.

PRIVATIZATION

IMF (2017)[x] commends the country for its infrastructure but calls for structural reforms to boost the private sector. In line with the aims and objectives of the Vision 2030, a comprehensive roadmap has been laid down for privatization in sectors like water, transportation, education, municipalities, energy, sports, labor and social development, communication, health, etc. For instance, in April 2018, the Privatization Program Delivery Plan was approved by the Council of Economic and Development Affairs (CEDA) with the mandate to privatize five government assets by 2020. The five main privatization projects are: Saline Water Conversion Corporation (SWCC), 4 flour mills, sports clubs, Post services and transport projects. It is hoped that with the privatization of these five assets, the government would yield revenue of SAR 35-40 billion.

It is proposed that the transfer of ownership of assets from the government to the private sector is accomplished in diverse ways like full or partial sale of assets, initial public offering (IPO), management buy-outs, public-private partnerships (PPP) and concessions/outsourcing. The rationale behind privatization of government enterprises is to achieve two goals: first, to bring about efficiency in the delivery of services, and second, to generate employment opportunities. For instance, it is anticipated that the privatization initiative would result in the creation of around 10,000-12,000 employment opportunities. For overseeing and governing the overall privatization programme, the government has established the National Center for Privatization (NCP) and Supervisory Committees wherein the former are entrusted with the development of frameworks to manage the privatization and the latter would be entrusted with providing technical, financial and legal support for privatization.

Finally, it is being emphasized that privatization would be provided the required impetus by the growth of local content. Therefore, the government is developing a structured "Local

Content" strategy. Steps are being taken to identify the major economic sectors and subsectors which might benefit localization strategies. For supporting the local content initiatives, clear procurement rules and processes are being laid down. Further, rules are being instituted for increasing local and foreign investment. The government is planning of creating a platform where local supply and demand needs may be matched in line with the skills and expertise.

Notwithstanding the aforesaid, there are challenges to privatization:

1. There is a shortage of well-established and experienced local companies which might provide privatized services and this might impact the quality of services in an adverse manner.

2. There is a lack of regulatory base which is customized for a specific sector.

BANKING SYSTEM

Owing to the declining oil prices in 2015-2016 which culminated in a fall in the oil revenues, the government had adopted austerity measures and this led to some contraction of the economy. Thanks to the promptness of the Saudi Arabia Monetary Authority (SAMA) which injected liquidity thereby facilitating in the repayment of the arrears and normalizing the banking system. To keep up with the global regulatory reforms, Basel III has been implemented since 2013 and further steps are being taken to manage risks. SAMA has been regularly publishing Financial Stability Reports apart from introducing deposit insurance, setting up the National Financial Stability Committee (NFSC), and preparing a draft resolution law that corresponds to the Financial Stability Board's (FSB) Key Attributes for Effective Bank Resolution. SAMA is also taking steps to ensure that the market interest rates are well-aligned with the policy objectives, liquidity forecasting models are adequately developed, money market interventions are focused upon regular and short-term liquidity operations, standing facilities to overnight maturity are limited and collateral is provided in the case of all lending to commercial banks. Steps are underway to improve the macro- and microprudential financial sector. For instance, SAMA has taken steps to enhance the prudential oversight of banks in line with the best practices.

It has been the observation of the IMF (IMF, 2017[xi]; IMF, 2017[xii]) that as the core of the Saudi financial system, the Saudi banks remain liquid and resilient and are well-placed to manage any increase in the non-performing loans (NPLs)[xiii]. Further, stress tests show that most banks, including the systemically important banks, are in a favorable position as far as meeting regulatory requirements are concerned. IMF (2017) further commends the banking system in the country stating that under all perverse circumstances, the banks would be able to handle any untoward liquidity shocks.

TOURISM & ENTERTAINMENT

Considering the prospects of pushing forth the KSA economy by furthering tourism and entertainment, the Vision 2030 underlines the significance of increasing the contribution of this sector in the country's GDP over the years. The government has been instituting several measures in this regard. For instance, the General Entertainment Authority (GEA) was set up in 2016 with the purpose of streamlining projects linked with entertainment. Likewise, the General Commission for Audiovisual Media (GCAM) has been entrusted with the responsibility of licensing the recently re-introduced cinema screens. It has been anticipated that the number of screens would increase to more than 2000 by 2030 thereby yielding a sectoral growth of around USD1 billion over the years. Contracts have been signed with many US entertainment companies like AMC theatres and steps have been taken to run amusement parks and live parks in collaboration with companies like Six Flags, National Geographic, Cirque Du Soleil and IMG Artists. Increased efforts are being undertaken to build suitable infrastructure and increase awareness of the tourist sites and entertainment sector. The government is considering to increasing expenditure on this sector in line with the aims of the National Transformation Plan (NTP).

The country well-acknowledges the prospects for religious/pilgrimage tourism for Makkah and Madinah. For example, 3 million visitors, inclusive of 1.8 million foreigners- performed Haj in 2017 and it has been the endeavor of the Ministry of Haj and Umrah (MHU) to ensure that greater opportunities are being provided to the prospective visitors to perform Haj and Umrah. The Ministry of Haj resolves to increase the number of Umrah pilgrims from abroad to 15 million by 2020 in comparison with 6.8 million back in 2017.

Besides, other hospitality avenues are also being conceived. For instance, it is being proposed to increase the number of heritage sites in the United Nations Educational, Scientific and Cultural Organization (UNESCO) list in order to attract more visitors and guests locally as well as internationally. The latest addition to the UNESCO list of heritage sites is that of the Rock Art sites in Hail in 2015. Also, historical cities- Al-Ula, Okaz, Farasan Island, Alrras al'abyad, Uqair- are being further developed and promoted to attract international tourists. Furthermore, steps are being taken to increase domestic tourism. Improvisation in railroads and hospitality is underway. For instance, inauguration of 84 new hotels is being planned for 2018 with a total of 27000 rooms in the country. Also, steps are being taken to increase the number of tourist visas and easing the procedure of availing the same. It is anticipated that provision of eVisa, revision of cost of application for visas and establishment of visa regional agreements would spearhead international arrival rates.

However, there are challenges associated with attracting tourists. For instance, rising costs linked with expat levies, high commercial electricity prices, VAT and increased cost of funding are posing challenges to the overall tourism sector growth (Jadwa Investment, 2018[xiv]). Nevertheless, these challenges need to countered by the government by ensuring increased participation of the concerned stakeholders like the entrepreneurs and providing impetus to foreign investments, small and medium enterprises (SMEs) and public-private partnerships (PPPs). Thus, the governments are providing support to partnerships between regional hotels, tour operators, transport providers, vendors, entrepreneurs and government departments. Besides, the sector is poised to contribute towards employment generation. For instance, the National Transformation Plan (NTP) underlines the possibility of increasing the number of direct jobs in the sector to 1.2 million by 2020 in contrast with 830,000 in 2015.

DEFENSE

The national defense sector is being accorded significance in the Vision 2030. For instance, it is anticipated that military equipment spending will be localized to a large extent and there would be an increase from 5% to 50% in line with the Vision 2030. Steps are underway to further the development of less complex industries like spare parts' production, armored vehicles and basic ammunition. The Vision 2030 aims to move further in this direction by scaling up industries to design complex military equipments like the military aircraft. While the overall aim is to attain self-sufficiency in the long run, exports in this sector are also being pushed further. Therefore, efforts are being undertaken to develop the requisite expertise in manufacturing, maintenance, repair, research and development. The Vision 2030 underlines the need for training the personnel and setting up more specialized and integrated industrial complexes.

Over the years, budget spending has increased. In the budget 2017-2018, defense budget has been allocated SAR 210 billion. Further, SAR 3.5 billion has been earmarked for furthering military education. Besides, SAR 26.5 billion has been reserved for refurbishing military medical services, weapon and defense systems, military readiness, military bases, accommodation and services, etc. The yearly budget also stipulates spending on military construction and maintenance of salaries and wages of military personnel. For refurbishing its military and defense establishments, Saudi Arabia has been buying weapons and missiles (e.g. armored vehicles, helicopters, ships, missile defense systems, from the US. Earlier, the country engaged in defense deals worth USD 54 billion with the US (CNBC, 2018; NBC, 2018)[xvxvi].

CONCLUSION

The major plank of the article was to underline the recommendations of the IMF in line with the reforms in Saudi Arabia. IMF has commended the efforts of the country in its economic diversification moves which were specifically laid down in the Vision 2030. On the one hand, the government is trying to follow the fiscal budgeting programme in terms of squeezing the fiscal deficit, and on the other hand, the government is leading initiatives in the areas of tourism and entertainment, privatization, development of the Small and Medium Enterprises (SMEs) sector and the like. The government has taken steps to promote Saudization by providing more job opportunities to the citizens and striking a balance between private and public sector jobs. Banking and monetary system are being revamped and steps are being taken to attract foreign investment. Likewise, the government is taking strides in the defense sector and increasing military prowess. With the ongoing structural reforms, it is anticipated that Saudi Arabia would witness a growth-especially, non-oil growth- over the years (IMF, 2017)[1]. The government has undertaken reforms in different economic sectors and all efforts are being made to tackle the prospective macroeconomic flux including the ongoing trade protectionism policy of the US[2] or the oil shocks[3]. The Vision 2030 of Saudi Arabia has chalked out preemptive measures to handle any critical situations and it is hoped that the country would sail easily through its economic diversification drives.

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