

Saudization, or the reservation of certain jobs and sectors for Saudi nationals, is part of the government's effort to transform its private sector.

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In late February, the Saudi General Directorate of Public Security [announced](#) it will allow women to serve in the military with the rank of soldier. Candidates have flooded the online [application](#) process, even though there are many restrictions on a woman's eligibility based on age, height, weight, marriage status to foreigners, and physical location of her guardian. The expansion of opportunities for women in the Saudi labor market is moving quickly. In a [shake-up](#) of military top brass and new ministerial appointments, Tamadur bint Youssef al-Ramah became deputy labor minister, marking a step closer to including more women in the Saudi Cabinet. Women's labor force participation is probably the most important factor in medium-term economic growth in the kingdom.

Saudization, or the reservation of certain jobs and sectors for Saudi nationals, is part of the government's effort to reduce the public wage bill and transform its private sector. In January, the government [announced](#) it would expand its growing list of Saudi-only jobs to the sale of watches, eyewear, medical equipment and devices, electrical and electronic appliances, auto parts, building materials, carpets, cars and motorcycles, home and office furniture, children's clothing and men's accessories, home kitchenware, and confectioneries. The experimental nature of Saudization begs many questions of which sectors are targeted and why, and how smaller businesses will be able to assume higher wage costs of hiring nationals. This policy should create opportunities for all Saudis, but especially for Saudi women.

In addition to Saudization, there are a [range of reforms](#) in rationalizing fuel and electricity costs, and a new value-added tax, as well as targeted cash support to lower income families through the Citizen's Accounts program, all of which are disrupting the economy as families try to establish a monthly baseline for expenses. Energy prices have increased two to three fold, and there was an 80-120 percent increase in gasoline prices in 2017, according to research by EFG Hermes. Consumer sentiment in Saudi Arabia, among Saudis and foreigners, is apprehensive. Just as the image of a Saudi woman soldier is testing the limits of popular culture, there is an unsettled sense of "What next?" in

consumer confidence.

The Reuters [Ipsos](#) consumer sentiment index from late 2017 showed consistent negative expectations about jobs, investment, and growth. Indexes by IHS Markit and [Emirates NBD](#) see a sharp drop in the Purchasing Managers' Index, declining to 53.0 in January from 57.3 in December 2017, the lowest reading in the survey's history. This malaise is all the more troubling as it has been met with the largest fiscal outlays in recent Saudi history. The Saudi budget has expanded for 2018, and combined with additional investment spending from the Public Investment Fund, there is 340 billion Saudi riyals (about \$90.66 billion) in investment spending planned for 2018. For good measure, the government has delayed its commitment to a balanced budget until 2023. But spending its way out of the current slump could include inherent risk.

One key factor driving consumer sentiment, and the general malaise especially within the private sector, is the unwitting victim of Saudi Arabia's reforms – its expatriate population. For those who stay, the rise in cost of living has been substantial. And for those who leave, their absence is compounding weak economic activity. And many are leaving. A third of the population in Saudi Arabia, expatriates are facing price increases without the cushion of the [Citizen's Accounts](#), or the reinstatement of public sector [allowances](#) (issued by decree for 2018 only). And foreign workers are subject to a range of additional [fees](#) for [dependents](#) and [levies](#) that citizens do not have to pay.

The rationale for increased fees and taxes is to create an alternate stream of government revenue, to offset losses in oil revenue still compounding since late 2014. Even though Saudi Arabia's 2018 [budget](#) is its largest ever, there are cost savings at work. Price rationalization in energy and attempts to cut the public wage bill are combined with new [taxes](#) on tobacco and sugary drinks, consideration of road tolls, the implementation of a VAT on January 1, new efforts to retroactively collect [zakat](#) (Islamic tax) on financial institutions, and notably, a drive to [seize assets](#) through an anti-corruption campaign.

But these efforts are not necessarily garnering the return some promised. The corruption purge has not come close to its \$100 billion promise (government [estimates](#) of the yield to date are closer to \$13 billion), and the VAT revenue for 2018 will be about \$6 billion. Notably the VAT (23 billion Saudi riyals or \$6.13 billion) is adding less in government revenue to the 2018 budget than the increase in fees on expatriates (28 billion Saudi riyals or \$7.47 billion) for visas and family sponsorship.

Fiscal Savings vs. Expenditure (selected, in billion Saudi riyals)

Expenditure	
Allowances	50
Citizen's Accounts	32
Revenue	
VAT	23
Fuel and Electricity Price Increases	28
Excise Tax	9
Expat Levy	28

Source: Ministry of Finance. EFG Hermes estimates

There is a very clear assignment of the burden of alternate sources of government revenue placed on the backs of foreign workers. While some foreign workers are choosing to leave, many others are being laid off or fired as companies also adjust to higher energy prices and lower business activity. The result is sharp increases in expatriate departures. According to the [General Authority of Statistics](#) in Saudi Arabia, more than 300,000 blue collar workers (mostly in construction) lost jobs in Saudi Arabia in the first nine months of 2017, and [nearly 100,000](#) lost jobs in the third quarter alone. And Saudis are not taking up their jobs.

White collar job loss has not declined at the same pace and there remains level demand for domestic workers. In essence, the labor market restructuring that needs to take place to put Saudis working in more productive and knowledge-based positions will require more time and this interim period will create some disruptions, especially in the construction and service sector. The hope is that service sector and construction wages will go up, which could be good for Saudis in the longer term, but in the shorter term adds to pressures of inflation from the energy normalization and tax implementation – all at the same time that government spending will drive any new growth. This could be a recipe for inflated contracts and poor delivery, which has plagued Saudi Arabia for years, and which was the purported impetus for the corruption purge late in 2017.

It will take a decade or more (hence, [Vision 2030](#)) to shift the Saudi labor force to take on higher paying white collar professional service roles and create a working class of Saudis willing to do service sector, retail, and construction jobs. On the upside, the inclusion of women in the workforce is a very simple way to incentivize employment, increase household income, and push toward greater productivity in the workforce. Saudization and the expat exodus may help ease the way forward for women's labor force participation, in some service sectors and retail. For the sectors that are heavily dependent on foreign (male) labor, the outlook is less promising.

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