➡ Saudi Arabia

Argentina
Australia
Brazil
Canada
China
EU
France
Germany
India
Indonesia
Italy
Japan
Korea, Republic of
Mexico
Russian Federation
South Africa
Spain
Turkey
United Kingdom
United States

G20 Country Briefs

International Labour Office

G20 Meeting of Labour and Employment Ministers
20–21 April 2010 Washington, DC

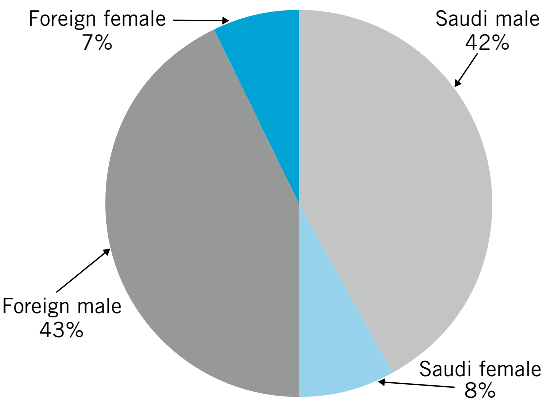
SAUDI ARABIA'S RESPONSE TO THE CRISIS

Relatively mild economic impact but challenging employment prospects

Gross domestic product (GDP) growth averaged 3.6 per cent between 2005 and 2007, and rose moderately to 4.3 per cent in 2008. Prior to the crisis, the government had saved nearly three-quarters of the oil windfall earned between 2002 and 2008 and reduced public debt from more than 100 per cent of GDP in the 1990s to 13.5 per cent in 2008. This has provided for considerable fiscal space and, partly because of recent stimulus measures, the crisis is expected to have only a minor and short-lived adverse impact on the economy. Though Saudi Arabia is one of only three of the 22 Arab countries that were expected to face a contraction in 2009 (the other two being United Arab Emirates and Kuwait), preliminary estimates for 2009 GDP range between a decline of less than 1 per cent[1] and growth of 0.15 per cent[2].

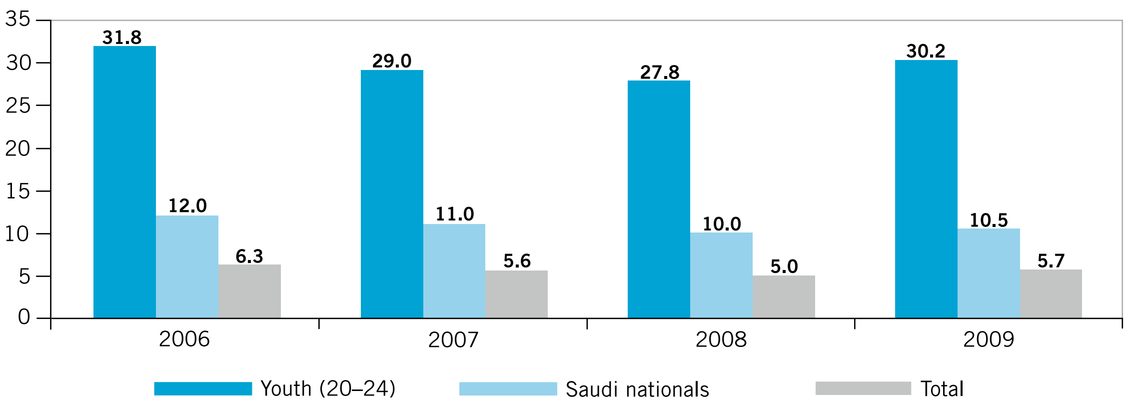
The authorities assess the effect of the crisis on employment to be minimal given the large number of development projects under way. However, unemployment among Saudi nationals – and particularly Saudi youth – was high even during the years of high international oil prices that preceded the financial crisis (figure 1). At 30.2 per cent, the unemployment rate of Saudi youth in 2009 was almost three times that of Saudi nationals overall. At the same time, foreign workers (4.32 million) continued to outnumber the nationals (4.29 million) in the labour force (figure 2). In contrast to other countries where the crisis has been associated with deflation, rising living costs, including for housing and food, have added to the challenges the Saudi government faces, not

Figure 2. Composition of the labour force, 2009



Source: Central Department of Statistics of Saudi Arabia.

Figure 1. Unemployment rate: Youth, Saudi nationals and total, 2006–2009 (percentage)



Source: Central Department of Statistics of Saudi Arabia. Annual data for 2006 and 2009, first semester data for 2007 and 2008.

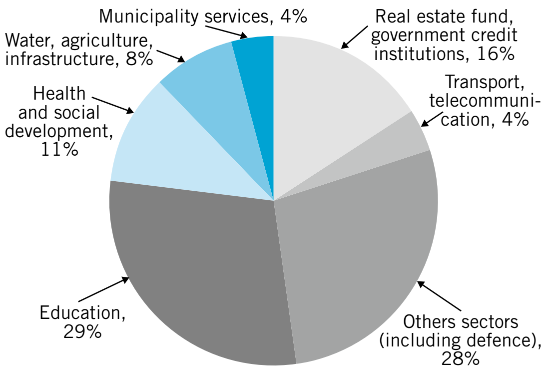
THIS IS PART OF THE COUNTRY BRIEF SERIES, PREPARED BY THE ILO FOR THE G20 LABOUR AND EMPLOYMENT MINISTERS. EACH BRIEF PROVIDES AN OVERVIEW OF THE COUNTRY'S EMPLOYMENT SITUATION, DESCRIBES ITS RESPONSE TO THE GLOBAL FINANCIAL CRISIS AND LOOKS AT TWO SIGNIFICANT POLICY INTERVENTIONS.

so much in terms of the ability to introduce expansionary fiscal and monetary measures, but more in terms of offering its citizens rising living standards and sustainable employment opportunities.

Large stimulus through government-led investment

Amid concerns about a tightening of bank lending and to discourage the holding of excess reserves, the Saudi Arabian Monetary Authority (SAMA) cut one of its key interest rates to 0.25 per cent in June 2009, a rate that is one of the lowest among both emerging economies and developed economies. As there is no income tax, the primary fiscal lever of the government to boost domestic demand is an increase in spending. The Kingdom's 2009 budget of US$127 billion approved in December 2008 was the largest in its history, representing a 16 per cent increase in public spending over the previous year. Large-scale infrastructure investments, including the so called "megaprojects", continued as the budget's capital allocation for new initiatives in 2009 was 36 per cent higher than in 2008. Education was allocated around 30 per cent of total spending (up from 25.5 per cent in 2008) and health and social development another 11 per cent (up from 8.4 per cent) (figure 3).

Figure 3. Budget by sector, 2009



Source: Ministry of Finance.

In spite of higher than budgeted spending through the year, the estimated deficit of US$12 billion for 2009 was under the budget forecast of US$17 billion as revenues were buoyed by average oil prices well above the original assumption of US$37 per barrel.

The 2010 budget, approved in December 2009, continues the fiscal stimulus programme, with a forecast deficit of US$18.7 billion. Investment spending is to rise 16 per cent on projects covering a wide spectrum of sectors, including education, health, social security, municipal services, and public infrastructure. Particular importance is being attached to projects related to research and development and science and technology.

Overall, the government is planning to spend over US$400 billion from 2009 to 2013 under its 9th Plan, covering infrastructure development. An estimated one-third of planned expenditure has been slated for expansion of the petrochemical and natural gas sectors. Construction projects, including the building of "economic cities" and other megaprojects represent another major expenditure component. The education and financial sectors as well as tourism, water, roads and railways are also expected to receive a boost during the next few years.

These investments make the government the most important investor in the economy. However, the employment impact on Saudi nationals of the planned investments is likely to be low, either because the investments are in capital-intensive sectors, such as oil and gas, or in sectors that typically do not attract Saudi nationals, such as construction.

A series of employment-related plans and measures have been announced since 2008. Although they partly deal with the effects of the crisis, they mainly aim to scale up existing programmes that will address structural imbalances in the Saudi labour market in the context of the 9th Plan. Nevertheless, the Ministry of Labour set up an internal working group to monitor the impact of the crisis and, at its request, a government committee was formed with representation from the Ministry as well as SAMA and the Chamber of Commerce to assess the impact of the crisis on the labour market, especially with respect to retrenchments. The Ministry also expects social dialogue to be intensified. It plans to open new employment offices within educational institutions with a view to expanding employment services for secondary school leavers and university graduates; introduce new training initiatives; assist workers affected by the crisis to find alternative employment in less-affected locations; and support investments in agricultural and other employment intensive projects.

Two dominant features of the Saudi labour market are the private sector's reliance on foreign workers at wages and employment conditions that are unattractive to nationals[3] and the strong preference of nationals for public sector employment. Saudi nationals comprise 92 percent of employment in the public sector but only 13 per cent in the private sector. The new Employment Strategy and the Human Resources Development Fund and the National System for Joint Training described below are among the more prominent policy instruments focusing on redressing imbalances in the Saudi labour market.

Employment strategy to support economic recovery and development

The Council of Ministers adopted the Saudi National Employment Strategy in July 2009. Though the Strategy had been in preparation well before the crisis started, its objectives and policies were seen as relevant in addressing labour market issues in the face of the global crisis. The Strategy aims at the achievement of full employment, the sustained increase in the participation of the national workforce, and increased productivity of the national workforce to a level comparable to advanced OECD countries.

The Strategy covers a period of 25 years divided into three phases. In the short term (two years) the objective is to lower the unemployment rate among Saudi nationals through policies to reduce dependence on foreign labour and employ male and female Saudi citizens at a rate equal to the number of new jobseekers. Specific measures include expansion of the labour market information system, prioritization of vacancies for citizens, incentives to private sector firms to hire nationals, and enhancing skills and building capacity. In the medium term (the following three years) the objective is to continue reducing unemployment through policies that aim to increase employment, participation and productivity. In the long run, the Strategy's aim is to align the economy with the country's competitive advantage based on its national human resources through reorganization of the labour market.

Increasing employment of Saudi nationals in the private sector

According to the Ministry of Labour, no Saudi worker has been retrenched as a result of the economic slowdown. Nonetheless, the Ministry is redoubling its efforts to avoid the retrenchment of Saudi nationals in violation of the labour regulations. In parallel, the recruitment and employment of foreign workers will be closely monitored to avoid potential problems related to unemployment of foreign workers already in the country.

At same time there will be further efforts to increase the proportion of Saudi nationals in the labour force through substitution. Government statistics show a decrease of nearly 30 per cent in the number of foreign labour visas issued in the first half of 2009. The exclusion of foreign workers from some 40 job categories is expected to remain in force.

Critical to supporting this policy of "Saudization" of the labour force is the Human Resources Development Fund (HRDF). Established by Royal Decree in 2000, the Fund is an independent entity that supports training and employment of nationals in the private sector[4]. It promotes pre-employment, insertion and on-the-job training through grants and wage subsidies to companies hiring Saudi nationals.

In its first five years since becoming operational in 2002, the Fund supported 52,000 male and female citizens at a total cost of US$150 million. This amounts to supporting over 10,000 Saudis annually, a figure that is expected to increase in the future. The Fund's support to the private sector became more generous in the wake of the crisis: the Fund announced that it would pay in advance half of the first annual salary of newly hired Saudis, instead of 50 per cent after the completion of the first year. The contribution of the Fund to the salaries of employees would not exceed two years, however. The Fund continues to pay 75 per cent of bonuses paid to Saudis who undergo training at private firms. It recently established a women's unit and is also expected to address, at least in part, the needs of Saudis from less well-off households.

In addition to HRDF, the National System for Joint Training (NSJT) was established to provide training for certain professions or trades according to the needs of the labour market. The NSJT enables the private sector to participate in the training process and to increase the capacity of vocational and technical training programmes.

The NSJT is a national project whose activities are shared by the Technical and Vocational Training Corporation, the Human Resource Development Fund, and the Chamber of Commerce and Industry. This project represents an example of the cooperation between the educational and training institutions and the private sector enterprises. While increasing the role of the private sector in training, it encourages employers to direct their investment towards national manpower.

Outlook and challenges

The effects of the global crisis on the Saudi economy have been relatively mild. Buoyed by government stimulus spending, real GDP is forecast to grow modestly in 2010, between 2.7 and 4 per cent according to various estimates. Although the Ministry of Labour has not observed a noticeable impact of the crisis on employment in terms of retrenchments, some companies have scaled back and either did not pay bonuses or adjusted working hours. With the number of foreign workers exceeding that of nationals, the government should be able to weather the employment impact of the crisis on its citizens, provided that the private sector generates in large numbers the types of jobs that are appealing to the increasingly educated Saudi workforce (figure 4).

The ability of the private sector to create decent jobs in adequate numbers may be a challenge, given past experience and the current situation. Earlier efforts to increase the share of Saudi nationals in the labour force have produced lower than expected results. Megaprojects undertaken by construction conglomerates have historically been associated with limited trickle down to SMEs and few employment gains for nationals. The previous 8th Plan (2005–2009) had expected unemployment to be reduced to 140,000 by 2009 – almost half the 270,000 figure in 2004 – but unemployment during this period actually increased to nearly 400,000. A post-crisis survey in April 2009 showed that nearly three out of four companies expected to freeze hiring over the course of the following six months[5] though a more recent survey undertaken in January 2010 showed that Saudi employers were

References:

Banque Saudi Fransi (2009): "Open for business: Saudi 2010 budget targets private sector with spending boost", 21 Dec.

Banque Saudi Fransi (2010): "Bearing the funding burden: Saudi state agency funds plug project financing gap left by banks", 14 Feb.

Behrendt S. and Dionigi F. (2009): *The $400 billion stimulus package of the Kingdom of Saudi Arabia: Investment review.* Carnegie Endowment for International Peace: Carnegie Middle East Center. (Beirut) September 3.

Byblos Bank SAL (2009): *Country Risk Weekly Bulletin.* Issue 142, 19 Nov.

Government of Saudi Arabia (2004): "Manpower and Employment", Chapter 8 of the 8th Plan.

ILO (2009): *The financial and economic crisis: A decent work response.* International Labour Institute for Labour Studies (Geneva).

IMF (2009): *World Economic Outlook: Crisis and Recovery* (Washington, DC).

Ministry of Finance of the Kingdom of Saudi Arabia (2009): "Highlights for fiscal years 2009 and 2010 and recent economic developments", Press release, 21 Dec.

Tzannatos Z. (2009): *The global financial, economic and social crisis in the Arab countries: A review of the evidence and policies for employment creation and social protection.* Paper presented at the Arab Employment Forum, Beirut, 19–21 October 2009. ILO Regional Office (Beirut).

World Bank (2008): *Saudi Arabia: Investment Climate assessment survey update* (Washington, DC).

the most optimistic among employers in 14 regional economies.[6]

Additional issues facing Saudi Arabia in terms of both the response to the crisis and the longer-term agenda include the lack of protection mechanisms for the unemployed and the absence of a minimum wage. Significant gender disparities persist though some recent policy pronouncements are providing the basis to start addressing them. The success of the government's employment policies will very much depend on whether they protect the right of citizens to decent employment by reducing the dependence of the private sector on foreign workers.

1 IMF (2009).

2 Banque Saudi Fransi and The Economist Intelligence Unit. Jan. 2010.

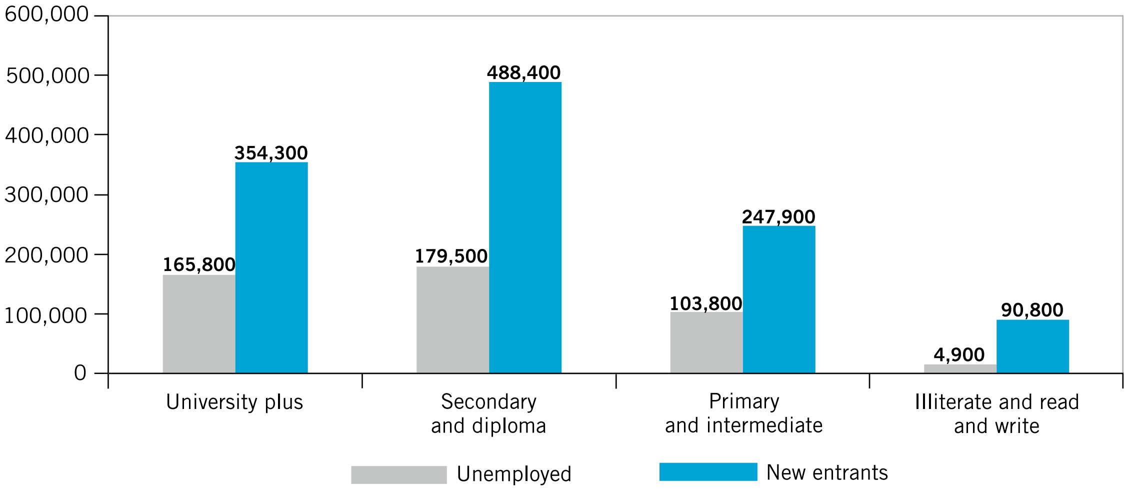
3 For example, the average wage of Saudi workers is 3.6 times higher than that of foreign workers.

4 Human Resources Development Fund–The Guide Book.

5 *Arab News*, 2 April 2009.

6 Bayt.com.

Figure 4. Number of unemployed (2007) and expected new entrants to the labour force (2009–2014)



Source: Constructed from preliminary estimates of the 9th Plan (2009–2013).
The unemployment rate in 2007 was 15 per cent for university graduates, 12 per cent for diploma holders and secondary school leavers, 9 per cent for those with primary and intermediate education, and 2 per cent for those with below primary or no education.