

## Research Article

## Effect of Economic Indicators on Economy of Kingdom of Saudi Arabia

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**Abstract:** Saudi Arabia has the largest economy in the Arab world. There are some economic indicators of Saudi Arabia. In this research paper researcher has examine the effect of economic indicators on Saudi's economy. Saudi Arabia possesses approximately 22% of the world's oil reserves. It is the world's largest exporter of petroleum liquids and relies on the oil industry for almost half of its GDP. Rather than the oil sector Saudi Arabian banking sector is good enough in performance and ranked in one of the highly paid sectors. Higher oil prices allowed the fiscal deficit to shrink from 26 % of GDP in 2016 to 9% in 2018. The Saudi Arabian economy is projected to expand again in 2018 with a 1.8% increase in GDP mainly due to a moderate recovery in oil production levels and marginally higher public spending. However, as the negative short-term effects of structural reforms dissipate and government balances improve, it is projected that growth will rise to over 2% in 2019. The Saudi Arabia Monetary Authority (SAMA), the kingdom's central bank, oversees the operations of commercial banks in Saudi Arabia. The SAMA is also responsible for issuing the country's national currency (Saudi Riyal), managing the country's foreign exchange reserves, promoting price and exchange rate stability and ensuring the growth and soundness of the domestic financial industry.

**Keywords:** Economy, economy indicator, soundness, GDP, banking.

## INTRODUCTION

Saudi Arabia is one of the richest countries in the world and has the 20<sup>th</sup> largest economy in the world. The gross domestic product (GDP) measures of national income and output for a given country's economy. Gross domestic product is a measure of market value of all final goods and service produced in a yearly period. The GDP of Saudi Arabia is \$646.00(USD Billion) and its growth was 3.49% from 2014 to 2015. Its highest GDP was recorded in 2014 and its average GDP in the last 10 years is \$581.62(USD Billion). The GDP figure in the third quarter of 2018 was \$196.293million.

According to the report, the oil-rich kingdom will be West Asia's richest economy in terms of GDP per capita by 2050, with Saudis earning \$98,311 a year on average by 2050. Saudi Arabia has the largest economy in the Arab World and the second-largest economy in the region, after Turkey. Economic growth rates are depending on world oil prices.

## Statement of the problem

As of October 2018, Saudi Arabia is the largest economy in the middle East and the 18<sup>th</sup> largest

in the world. It is strongly dependent on foreign workers with about 80% of those employed in the private sector being non- saudi. Saudi Arabia has an oil-based economy shipments of oil account for 87 % of total exports and for 46% of GDP. In recent years. In recent years ,in order to diversity the economy, the government has been investing in telecommunications, petrochemicals, natural gas exploitation and power generation sectors. This study is an attempt to sketch the main indicators of economy such as GDP(billions USD), GDP(constant prices, Annual % change), GDP per capita(USD), General Government Gross Debt(in % of GDP), Inflation rate(%), Current Account(billions USD), Current Account(in % of GDP), Unemployment rate, monetary indicators, main sectors of industry.

## Objectives:

The main objective was to study economic indicators of Saudi Arabia and its effect on Saudi economy. Following are the specific objectives:

- To analyze the Financial Performance of Saudi Arabia.
- To analyze the relation between economic indicators in Saudi Arabia.

Quick Response Code



Journal homepage:

<http://www.easpublisher.com/easiebm/>

Article History

Received: 14.04.2019

Accepted: 30.04.2019

Published: 24.05.2019

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DOI: 10.36349/easiebm.2019.v02i05.003

- To analyze the impact of various economic indicators on Saudi Arabia.
- To study the effect of economy in Saudi Arabia.
- Performance of the Saudi Arabian economy with reference to the global economy.

**Need and Significance of the Study**

Economic Indicators are some of the most valuable tools which can be used to predict future trends. It provide systematic framework for analyzing economy of a country. Through economic indicators we can understand and make sense of economy. Banking Industry is the backbone of an economy, without proper banking channels the total business environment will be adversely affected. The modern banking is placed in a very complex and intricate environment so its proper functioning is very essential for the growth of an economy. A country’s general health can be measured by its economic indicators.

**RESEARCH METHODOLOGY**

This study is comprised of secondary data collected through different sources such as Wikipedia, The World Bank , Focus Economics, Trading economics, Bureau of economic analysis etc of Saudi Arabia. The purpose of using secondary data of economic indicator to measure country’s soundness.

- **Hypothesis:** Within the framework of the above objectives, the following hypotheses are verified during the course of analysis:
- **Hypothesis (H<sub>0</sub>):** The economic indicators have a positive effect on economy of the country.

- **Hypothesis (H<sub>a</sub>):** The economic indicators have a negative effect on economy of the country.

**Research Design:**

There are several indicators of economy in Saudi Arabia divided into sub categories. Main indicators are GDP(billions USD), GDP(constant prices, Annual % change), GDP per capita(USD), General Government Gross Debt(in % of GDP), Inflation rate(%), Current Account(billions USD), Current Account(in % of GDP), Unemployment rate, monetary indicators, main sectors of industry. Economists and statisticians use several different methods to track economic growth. The most well-known and frequently tracked metric is gross domestic product (GDP). Gross domestic product is the logical extension of measuring economic growth in terms of monetary expenditures. GDP formula takes the total income generated by the goods and services produced. GDP can be determined by the given formula:

$$\text{GDP} = \text{Total National Income} + \text{Sales Taxes} + \text{Depreciation} + \text{Net Foreign Factor Income}$$

**Total National Income** – The sum of all wages, rent, interest and profits.

**Sales Taxes** – Consumer tax imposed by the government on the sales of goods and services.

**Depreciation** – Cost allocated to a tangible asset over its useful life.

**Net Foreign Factor Income** – The difference between the total income that a country’s citizens and companies generate in foreign countries, versus the total income foreign citizens and companies generate in that country.

**Table.1 Main Indicators of Saudi Arabia**

Main indicators	2016	2017	2018	2019(e)	2020(e)
GDP(billions USD)	644.94	686.74e	769.88	795.58	815.32
GDP(constant prices, Annual % change)	1.7	-0.9e	2.2	2.4	1.9
GDP Per Capita(USD)	20,318	21,096e	23,187	23,491	23,602
General Government Gross Debt(in % of GDP)	13.093	17.206	19.390	20.436	21.237
Inflation Rate(%)	2.0	-0.9	2.6	2.0	2.3
Current Account (billions USD)	-23.87	15.23	64.67	69.99	62.23
Current Account(in % of GDP)	-3.7	2.2	8.4	8.8	7.6

Source: IMF – World Economic Outlook database – October 2018.

**Note: (e) Estimated data**

From the above data we see that main indicators are GDP(billions USD), GDP(constant prices, Annual % change), GDP per capita(USD), General Government Gross Debt(in % of GDP), Inflation rate(%), Current Account(billions USD), Current Account(in % of GDP). Researcher has taken three years data and two years she has taken estimated data. All the indicators in the above table are increasing yearly.

**Table.2**

Socio-Demographic Indicators	2018	2019(e)	2020(e)
Unemployment Rate(%)	0.0	0.0	0.0

Source: IMF – World Economic Outlook Database - Latest available data.

The above table shows that socio-demographic indicators (unemployment rate ) in Saudi Arabia are zero in 2018,2019 and 2020. It means there is no unemployment here.

**Table.3**

Monetary Indicators	2013	2014	2015	2016	2017
Saudi Riyal(SAR)- Average Annual Exchange Rate for 1EUR	4.79	4.78	4.00	3.99	4.24

Source: World Bank – Latest available data.

The above table indicates that Saudi Riyal much stronger in early period. It was 4.79 in 2013, 4.78 in 2014, 4.00 in 2015, 3.99 in 2016 and 4.24 in 2017.

**Table.4 Main Sectors of Industry**

Breakdown of Economic Activity by sector	Agriculture	Industry	Services
Employment by sector(in % of total employment)	6.4	22.5	71.2
Value Added(in % of GDP)	2.5	45.5	52.5
Value Added(Annual % change)	0.5	0.0	0.8

Source: World Bank – Latest available data.

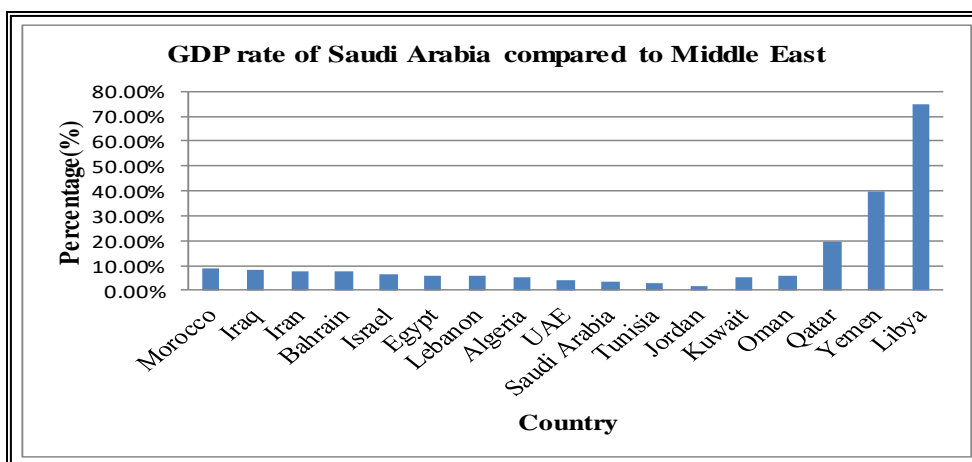
The above table shows that there are main sectors of industry such as agriculture, industry and services. It indicate that employment by sector of agriculture is 6.4, industry is 22.5 and services is 71.2. Percentage of employment by sector, value added, are higher.

**Table.5 GDP rate of Saudi Arabia compared to Middle East**

Country	Percentage
Morocco	8.61%
Iraq	8.51%
Iran	7.66%
Bahrain	7.64%
Israel	6.48%
Egypt	5.72%
Lebanon	5.59%
Algeria	5.14%
UAE	3.99%
Saudi Arabia	3.71%
Tunisia	2.71%
Jordan	1.40%
Kuwait	5.39%
Oman	5.71%
Qatar	19.53%
Yemen	39.70%
Libya	74.58%

Source: IMF World Economic Outlook Database

The above table indicates that Saudi Arabia growth rate of GDP is 3.71% and it holds seventh position in the Middle East. Morocco has highest GDP 8.61%.



The above Table shows the gross domestic product of Saudi Arabia fluctuates dramatically according to the price of the oil. Oil prices have a significant and sustained impact on key economic and financial variables.

**Table.6 SAMA Financial Position**

Assets	2013	2014	2015	2016	2017
Foreign currencies and gold	194,984	216,132	237,212	234,505	229,188
Cash in vault	28,296	35,240	39,300	34,516	25,831
Notes	28,284	35,228	39,289	34,505	25,811
Coins	12	12	11	11	20
Deposits with banks Abroad	546,629	510,972	552,360	401,144	377,966
Investments in foreign securities	1,952,837	1,998,580	1,505,023	1,365,189	1,244,669
Other miscellaneous assets	16,283	31,185	39,487	41,517	26,009
Total	2,738,728	2,792,109	2,373,382	2,076,871	1,903,663
Liabilities					
Currency issued	194,684	216,132	237,212	234,505	229,188
In circulation	166,388	180,892	197,912	199,989	203,357
At SAMA	28,296	35,240	39,300	34,516	25,831
Govt. deposits and reserves	1,484,426	1,378,948	1,023,304	885,094	729,723
Govt. current account	180,795	53,051	71,005	89,134	52,192
Govt. reserves	1,303,632	1,325,879	952,299	641,466	589,185
Govt. institutions and funds deposits	165,720	182,270	142,074	154,514	88,346
Statutory deposits for financial institutions	81,901	92,558	98,117	97,839	97,534
Foreign institutions deposits in local currency	6,358	9,695	11,213	18,490	18,469
SAMA bills and repo agreements	459,932	427,815	182,947	164,755	138,786
Other miscellaneous liabilities	345,707	484,692	678,515	676,187	689,962
Total	2,738,728	2,792,109	2,373,382	2,076,871	1,903,663

Source: Saudi Arabian Monetary Authority

The financial position of SAMA declined in 2017 compared with the preceding year. SAMA's total assets fell by 8.3%(SAR173. Billion) to SAR 1.9 trillion, a slower rate of decline when compared with 12.5% (SAR 296.5 billion) decline in 2016. Foreign assets accounted for the bulk of decline in the SAMA's financial position. These foreign assets continue to be invested primarily in foreign securities, which dropped by 8.8%(SAR 120.5billion) in 2012 compared with the decrease of 9.3%(SAR 139.8billion ) in 2016. SAMA's deposits with banks operating abroad decreased by 5.8%(SAR 23.2 billion) in 2017 compared to decrease of 27.4%(SAR 151.2 billion) in 2016. Currency backing decreased by 2.3%(SAR229.2 billion) in 2017 compared to decline of 1.1% (SAR 234.5 billion) in proceeding year, in the above table.

As for liabilities, Government deposits and reserve accounted to 38.3% of SAMA's total liabilities in 2017 compared with 42.6% in the preceding year. The government current account decreased by 41.4%(SAR36.9billion) to SAR 52.2billion compared with a rise of 25.5 % in the preceding year. On the other hand, the government reserves fell by 8.3 % (SAR 52.3 billion) to SAR 589.2 billion in 2017 compared with a decrease of 32.6%(SAR 310.9 billion) in the preceding year. Deposits of government agencies and funds fell by 42.8% (SAR 66.2 billion) to SAR 88.3 billion compared with an increase of 8.8%(SAR 12.4 billion) in the preceding year. SAMA's bills and repos also declined by 15.8%(SAR 26 billion) to SAR 138.8 billion compared with a decline of 9.9%(SAR18.2 billion) in the preceding year.

#### Limitations of the Study

This study is mainly based upon secondary data, so accuracy will depends upon authenticity of data.

#### CONCLUSION:

The above analysis shows that economic indicators of Saudi Arabia have a positive effect on Saudi Arabia economy. SAMA's primary objective is to achieve monetary and financial stability which promotes economic growth and its sustainability. With a total worth of US\$34.4trillion, Saudi Arabia has the second most valuable natural resources in the world. In 2016 the Saudi Government launched its Saudi Vision 2030 to reduce the country's dependency on oil and diversify its economic resources. In 2018, GDP for Saudi Arabia was 769.88 billion US dollars. In 2018, GDP it was increased from 161.72 billion US dollars in 1999 to 769.88 billion US dollars in 2018 growing at an average annual rate of 9.31%. In the present era the financial position of Saudi Arabia is strong. So the growth of economy is also high.

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