SAUDI ARABIA

Saudi Arabia’s economic freedom score is 60.7, making its economy the 91st freest in the 2019 Index. Its overall score has increased by 1.1 points, with higher scores for government spending, investment freedom, and monetary freedom outpacing declines in trade freedom, business freedom, and labor freedom. Saudi Arabia is ranked 9th among 14 countries in the Middle East and North Africa region, and its overall score is below the regional and world averages.

Central to the government’s diversification drive is conversion of the Public Investment Fund into a $2 trillion sovereign wealth fund by selling state assets and divesting a small stake in the state-owned ARAMCO oil company. Higher oil prices allowed the fiscal deficit to shrink from 26 percent of GDP in 2016 to 9 percent in 2018. A planned value-added tax and subsidy cuts would reduce it further. Other reforms to improve regulatory efficiency would enhance overall competitiveness.

BACKGROUND: The birthplace of Islam and home to its two holiest shrines in Mecca and Medina, Saudi Arabia is an absolute monarchy ruled by King Salman bin Abdulaziz Al Saud. Stability is threatened by the Islamic State and sectarian tensions between Sunni Muslims and a Shiite minority. The government has undertaken a high-profile crackdown on corruption and is pursuing ambitious economic and social reforms aimed in part at diversifying the economy and bolstering foreign investment. Oil exports account for more than 85 percent of government revenues. Saudi Arabia is the largest exporter of petroleum and a leader in OPEC.
Laws protecting private property are subject to Islamic practices. The slow and nontransparent judiciary is not independent and must coordinate its decisions with the executive branch. The government took dramatic but highly unorthodox steps to reduce extensive corruption in 2018, but insufficient transparency and accountability remain problems. The royal family and other elites heavily influence the oil and energy sectors.

Saudi nationals or citizens of the Gulf Cooperation Council and corporations pay a 2.5 percent religious tax mandated by Islamic law. The overall tax burden equals 3.4 percent of total domestic income. Over the past three years, government spending has amounted to 37.6 percent of the country’s output (GDP), and budget deficits have averaged 14.0 percent of GDP. Public debt is equivalent to 17.3 percent of GDP.

With no minimum capital required, the process for starting a business has been relatively streamlined. Overall, Saudi Arabia’s regulatory efficiency has lagged behind that of other emerging economies. There is no mandated minimum wage, but wage increases have exceeded labor productivity. Price controls are prohibited by Islamic law. Progress to reduce subsidies for fuel, natural gas, electricity, and water has slowed.

The combined value of exports and imports is equal to 61.7 percent of GDP. The average applied tariff rate is 4.5 percent. As of June 30, 2018, according to the WTO, Saudi Arabia had 127 nontariff measures in force. The term for foreign investment licenses has been raised from one year to a renewable five years. The cap on foreign ownership of engineering firms has been removed. The financial sector is open and offers a range of options.