



## Saudi labor market outlook: Current and long-term challenges

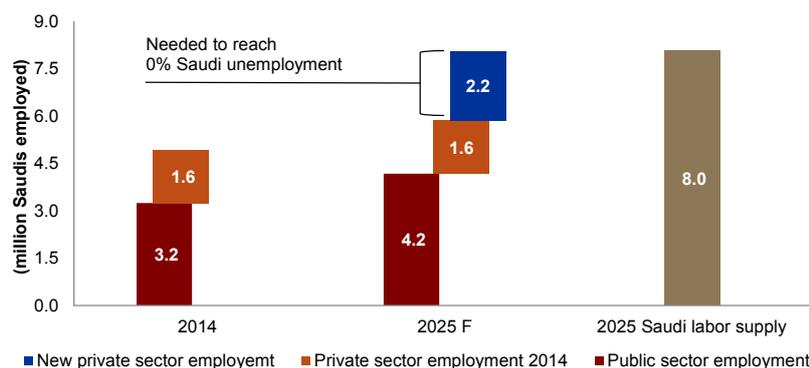
The Saudi labor market is segmented in several aspects, be it in wages, work hours, or skills, with unique challenges facing the employment of Saudis in the private sector. In this report, we look into data for the period 2005 - H1 2015 and analyze the dynamic trends in the Saudi labor market.

- The Saudi unemployment rate fell slightly to 11.6 percent during the first half of 2015, despite year-on-year growth in total Saudi employment continuing to fall to 1.1 percent.
- The slower growth in total Saudi employment was mainly due to slower hiring levels in the public sector, while Saudi employment growth in the private sector remained healthy.
- 2014 full year data showed that the increase in Saudi employment and Saudization in the private sector was associated with positive growth in labor productivity in the sector.
- We look into longer-term structural factors, including education and private sector investment, two key enablers of employment growth and labor productivity.

Looking forward, we forecast three scenarios for employment of Saudis in the private sector (Figure 1). These three scenarios correspond to three different Saudi unemployment rates by 2025:

- A high Saudi employment growth scenario yielding zero percent Saudi unemployment, which corresponds to the Ministry of Economy and Planning's (MEP) long-term strategy.
- A baseline Saudi employment growth scenario yielding 6 percent Saudi unemployment by 2025.
- A no-action scenario yielding 16.9 percent Saudi unemployment rate.

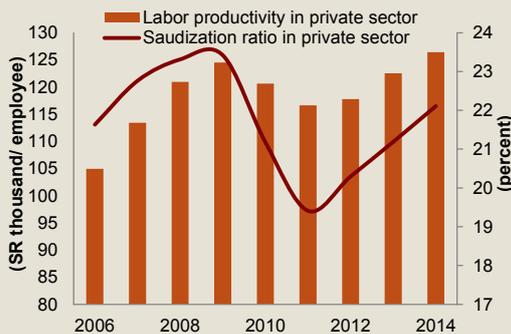
**Figure 1: Institutional breakdown of Saudi Employment**



### Saudi Unemployment Rate (percent)

| 2014 | H1 2015 |
|------|---------|
| 11.7 | 11.6    |

### Saudization ratio and productivity in the private sector



For comments and queries please contact:

Fahad Alturki  
Chief Economist & Head of Research  
faltaruki@jadwa.com

Rakan Alsheikh  
Research Analyst  
ralsheikh@jadwa.com

Head office:  
Phone +966 11 279-1111  
Fax +966 11 279-1571  
P.O. Box 60677, Riyadh 11555  
Kingdom of Saudi Arabia  
www.jadwa.com

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## Developments in the Saudi labor market

*In this report, we look into data for the period 2005 - H1 2015...*

...we then introduce three different scenarios as part of our 2025 forecast for the Saudi labor market.

*Recent data on H1 2015 has shown a slight fall in the Saudi unemployment rate to 11.6 percent.*

*The Saudization ratio in the private sector improved from 21.2 percent in 2013 to 22.1 percent in 2014...*

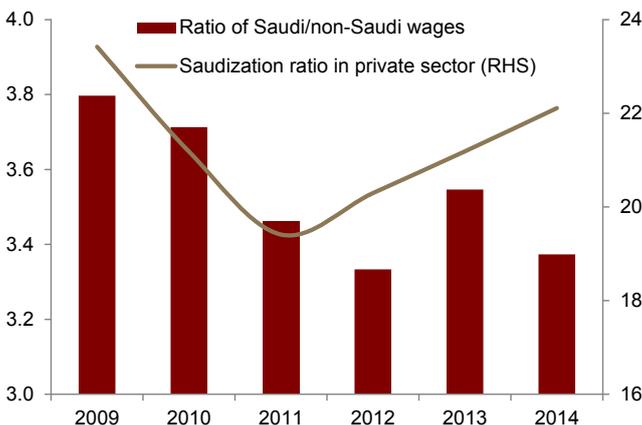
Data released by the Central Department of Statistics and Information (CDSI) showed that the overall unemployment rate (for both Saudis and non-Saudis) in Saudi Arabia was healthy by international standards at 5.7 percent during the first half (H1) of 2015. This reflected the positive general employment stance of the non-oil economy and the private sector in particular. However, the challenge to the Saudi labor market is rooted in the overreliance on non-Saudis occupying private sector jobs. This has meant a structurally high unemployment rate for Saudis, which stood at 11.6 percent in H1 2015. Initiatives implemented by the authorities over the last couple of years have mainly been aimed at narrowing the skills and wage gap between Saudis and non-Saudis. Initiatives were also aimed to address Saudi labor supply challenges, and traditional preference for public sector jobs by Saudis. Since 2011, these initiatives began to have a positive impact on overall trends in employment by sector and nationality. In this report, we look into data for the period 2005 - H1 2015 and analyze the dynamic trends in the Saudi labor market. We then introduce three different scenarios as part of our forecast for the Saudi labor market for the period 2015 to 2025.

According to data released by CDSI, the unemployment rate for Saudis fell slightly to 11.6 percent during H1 2015; down from 11.7 percent in H2 2014. The fall in the Saudi unemployment rate occurred despite a continuation of slower growth in employment of Saudis. We view this as mostly associated with slower hiring in the public sector.

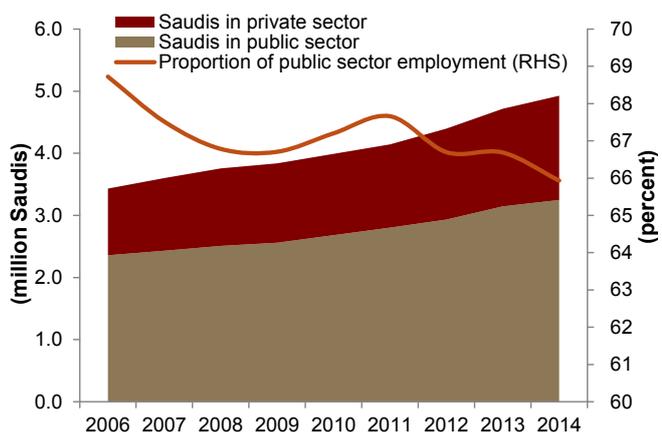
Based on our analysis of the annual data, and according to the Saudi Economic Report (SECOR) published by the Ministry of Economy and Planning (MEP), the Saudization ratio in the private sector improved from 21.2 percent in 2013, to 22.1 percent in 2014. Employment growth of Saudis in the private sector fell slightly in 2014 to 6.8 percent year-on-year, down from 7.3 percent in 2013, but continued to outpace the growth in employment of non-Saudis for the third consecutive year. We believe that labor market reforms, including the continued implementation of the wage protection system, the Nitaqaat program, and the correction of status to foreign workers played a notable role in this improvement.

In addition to the higher employment of Saudis, labor productivity in

**Figure 2: Private sector employment and pay**



**Figure 3: Saudis employed by institutional sector**





*...productivity in the private sector showed an improvement as well.*

*Average wages for Saudis in the private sector rose from SR5,171 in 2013 to SR5,519 in 2014...*

*...while wages for non-Saudis rose from SR1,489 to SR1,636 over the same period.*

*Between 2013 and 2014, growth in private sector employment of Saudis slowed from 7.3 percent to 6.8 percent...*

*...while growth in public sector employment of Saudis fell from 7.2 percent to 3.3 percent.*

*Efforts to curb growth in public sector employment is likely to intensify in the future...*

the private sector, including both Saudis and non-Saudis, showed an improvement as well. In fact, the productivity in the sector increased for the third consecutive year, as measured by real output per employee. Also, when measured in terms of real output per hour, productivity in the private sector yielded similar results. We see this as evidence that the ongoing initiatives to increase the hiring of Saudis has not hurt the Kingdom's private sector competitiveness, from a cost standpoint. The ongoing efforts to squeeze the wage differentials between Saudis and non-Saudis, as well as the gradual implementation of the wage protection system, was effective enough for the private sector to employ more Saudis, without a net decline in productivity.

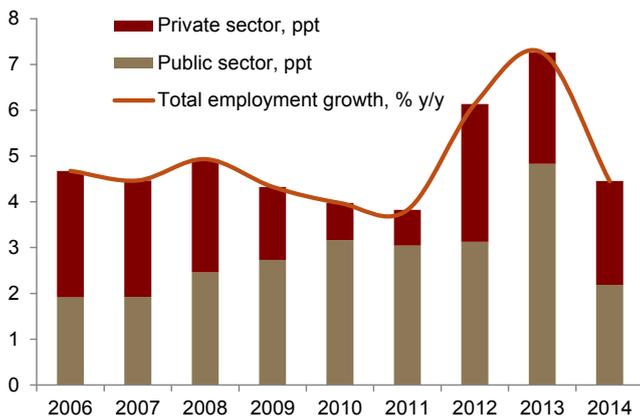
2014 data from the General Organization for Social Insurance (GOSI) showed a narrowing gap in wage differentials between Saudis and non-Saudis in the private sector (Figure 2). However, the differential remains sub-standard. According to the data, average monthly wages for Saudis in the private sector increased from SR5,171 in 2013 to SR5,519 in 2014 (6.7 percent, year-on-year), while wages for non-Saudis increased from SR1,489 to SR1,636 (12.2 percent, year-on-year) during the same period. Data from the Ministry of Labor (MOL) shows a similar trend.

**Declining portion of public sector employment**

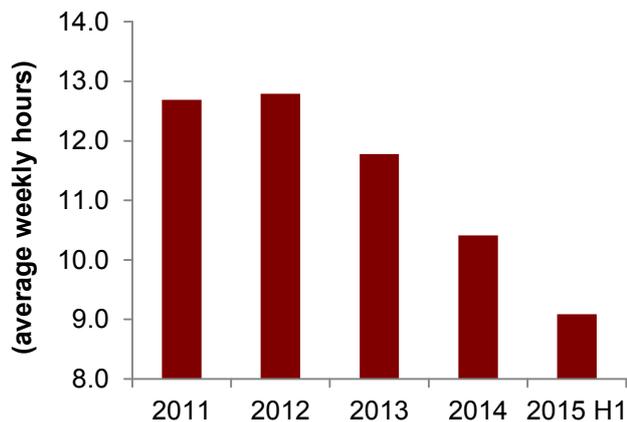
Official data shows that while private sector employment growth of Saudis slowed slightly from 7.3 percent in 2013 to 6.8 percent in 2014, growth in public sector employment of Saudis fell from 7.2 percent to 3.3 percent during the same period, its lowest in six years. The number of Saudi workers in the public sector reached 3.3 million in 2014, up from 3.2 million in 2013. However, the slower employment growth relative to the private sector has led to a falling proportion in public sector employment of Saudis (Figure 3). This slower growth has also meant that the sector's contribution towards overall employment growth of Saudis was now lower than that of the private sector (Figure 4).

Efforts to curb growth in public sector employment are likely to intensify in the future, particularly since a significant portion of the annual budget goes to current spending (66 percent, 2009-2014 average), of which 52 percent is spent on wages. The difficulty in reducing wages makes it a more likely scenario for the government to curb future public sector employment growth. Another problem with a large public sector workforce is that productivity tends to be

**Figure 4: Drivers of Saudi employment growth**



**Figure 5: Additional hours worked in the private sector relative to the public sector**





*...since a significant portion of the annual budget goes to current spending in the form of wages.*

*Between 2011 and H1 2015, average weekly work hours in the private sector fell from 51.7 to 47.9.*

*...while public sector average weekly hours remained unchanged, at 39, during the same period.*

*Pay differentials between the public and private sector have narrowed slightly in 2014...*

*...mainly supported by faster increases in private sector pay for Saudis.*

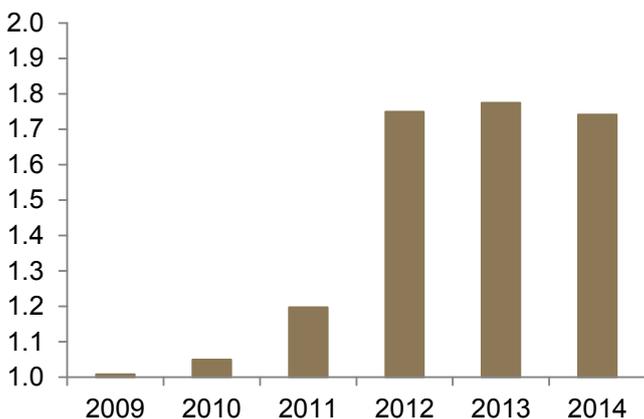
lower, with less working hours; promotions based on period served rather than merit; and difficulty in laying off public sector employees; which reduces the productive potential of many. Also, according to a paper published by the IMF, it has been empirically proven that expanding public sector employment does not solve the issue of unemployment, but rather crowds out private sector employment. Many Saudis tend to prefer a well-paid and safe public sector job than risk the time and effort of working in a more challenging, and evenly-paid private sector job. The rigidity in reducing pay to public sector workers means that alternatives are needed, including privatization of public enterprises, increasing working hours, and promotions based on merit.

We believe that the recent trends in institutional employment in favor of the private sector have accompanied a tightening gap between private and public sector working hours and pay differentials. According to CDSI data, sectors mostly associated with private activities have seen a decline in the average weekly working hours of their employees from 51.7 hours in 2011 to 47.9 hours in H1 2015, while public sector average weekly hours remained unchanged at 39 hours over the same period (Figure 5).

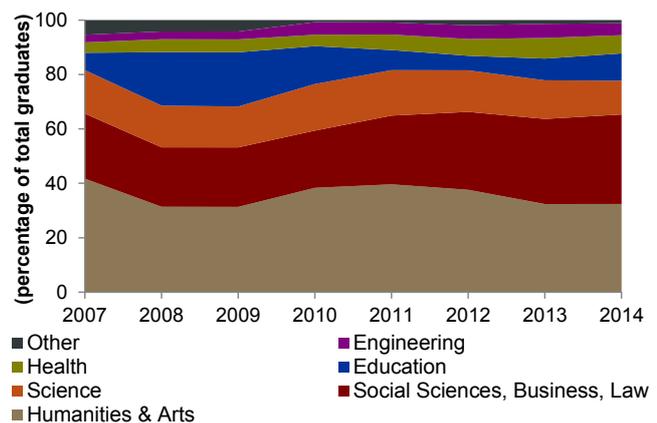
In addition to narrowing differentials in work hours, pay differentials have narrowed slightly as well. According to 2014 data on wages from GOSI, Saudis employed in the public sector earned 1.7 times more than their counterparts in the private sector. While this has remained high, some underlying changes, including a faster increase in private sector pay for Saudis, have meant that the ratio fell slightly from 1.8 in 2013 (Figure 6). We believe that the Ministry of Labor's full implementation of the wage protection system in 2015 to the private sector will act as a precursor to setting a minimum wage for both Saudis and non-Saudis, helping to further narrow the gap between private and public sector pay. The wage protection system will become a fully compulsory program for the private sector by the end of 2015, and will establish a link between employers, banks, and employees. Employers will have to channel all wages to employees through banks, which will enhance the monitoring and data collection of transactions by the Ministry of Labor and other relevant authorities.

We also see the recent encouraging trends in national employment by private sectors coming on the back of implemented initiatives, including the Nitaqaat program and the status correction of illegal

**Figure 6: Ratio of public/private sector wages for Saudis**



**Figure 7: Saudi graduates of tertiary education**





*we believe that significant challenges to the Saudi labor market still exist.*

*In 2014, 65.3 percent of tertiary graduates came from social sciences and humanities backgrounds...*

*... while 16.8 percent of graduates came from engineering and science fields.*

*Private Sectors with the highest labor concentration are wholesale and retail, followed by construction...*

*...with Saudization rates in such sectors significantly lower than those associated with higher-skilled/lower labor intensity.*

*Promoting vocational programs to Saudis is key to increased hiring in labor-intensive sectors.*

residents in 2011. Nevertheless, we believe that significant challenges to the Saudi labor market still exist, mainly stemming from longer-term structural challenges, which we discuss in detail in the following sections.

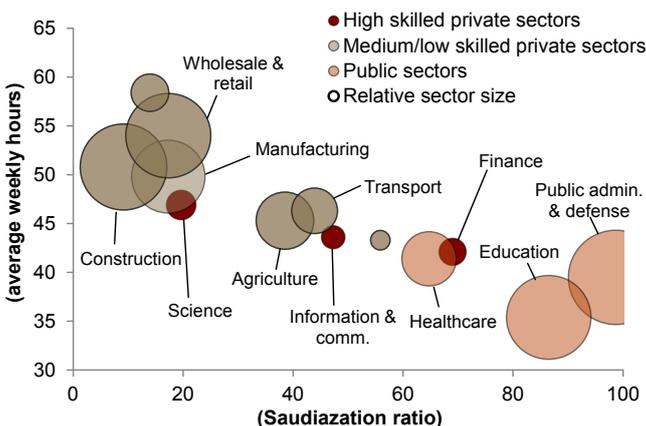
**Education outcomes and private sector needs**

Graduate profiles of Saudis indicate that there is a mismatch between private sector requirements and the supply of Saudi labor with the relevant skills. According to data from the Ministry of Education, out of a total of 129 thousand Saudi tertiary graduates in 2014, 65.3 percent came from social sciences and humanities background, and 16.8 percent of graduates came from engineering and science fields, two fields which are associated with high-skilled sectors. We see that the evolution of tertiary graduates by field of study has not changed much over the last seven years (Figure 7). We view the large share from humanities and arts graduates as being reflective of Saudi's preference for public sector jobs upon graduation. This is likely to change in the future as the public sector limits the growth in employment. However, while the distribution of tertiary graduates did also span a diverse group of fields, the private sector's needs are actually quite different.

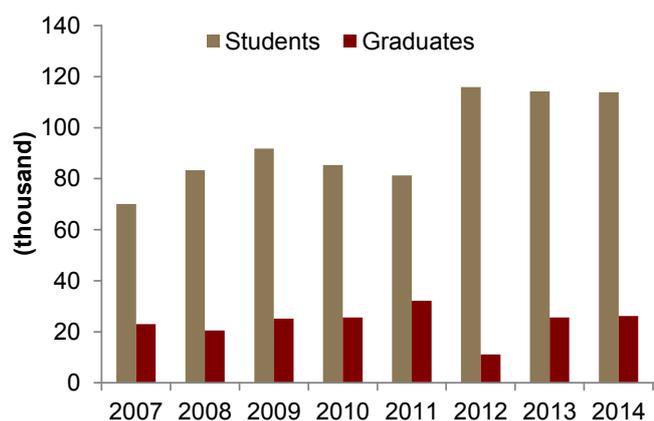
It is well established that labor-intensive industries tend to demand lower skilled labor. Labor market data shows that this also applies to the Kingdom. According to data from CDSI, the private sectors with the highest labor concentration are wholesale and retail, followed by construction, and manufacturing. In H1 2015, Saudization rates in such sectors were significantly lower than in higher-skilled/lower labor intensity sectors. For example, Saudization rates in the wholesale and retail and construction sectors stood at just 15.8 percent and 9.2 percent respectively, compared to 75 percent and 49.5 percent Saudization rates in finance and information technology, respectively. We see that the lower number of Saudis employed in labor-intensive sectors is due to a disconnect between these sectors needs and education/training outcomes of Saudi labor. It could also be partially related to the relatively higher work hours in labor-intensive sectors, which further discourages Saudis (Figure 8).

One way to overcome this disconnect is by further promoting vocational and training programs to Saudis. This initiative has been pursued for several years now, but has yet to result in a notable change. According to data released by the Technical and Vocational

**Figure 8: Employment distribution (2015 H1)**



**Figure 9: Outcomes of vocational training**





*Enrollments in vocational training institutions grew by 9.4 percent and 7.4 percent in 2013 and 2014 respectively.*

*In the Kingdom, most of the investment growth has been traditionally associated with lower job creation for Saudis.*

*One key outcome of private sector investment is improved training opportunities...*

*... it can contribute towards improving infrastructure and general work conditions as well.*

*Official data on private sector employment is inconsistent between CDSI and MOL.*

*The Saudization ratio in the private sector using CDSI data is 22.1 percent in 2014...*

Training Corporation (TVTC), Student enrollments in vocational training institutions grew by 9.4 percent and 7.4 percent in 2013 and 2014 respectively, reaching 145.3 thousand students. The number of graduates from vocational training programs stood at 28.8 thousand in 2014 (Figure 9), a relatively small number, compared with the annual job additions in sectors that demand such skills. The wholesale and retail sector alone added 48.3 thousand jobs in 2014.

**Private sector investment and work conditions**

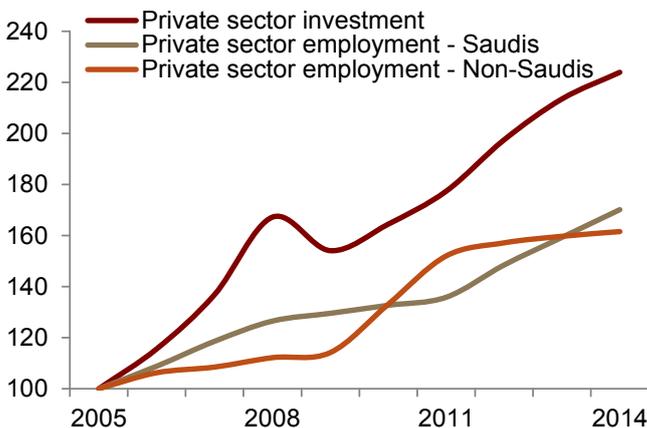
The rate of investment by firms in the private sector is a strong indicator of employment growth. In the Kingdom, however, most investment growth has been traditionally associated with relatively lower job creation for Saudis. In recent years, the rate of private sector investment continued to accelerate, with growth in jobs for Saudis lagging behind, while jobs occupied by non-Saudis increased at a faster rate. This trend saw a reversal in 2013, as labor market reforms were stepped up (Figure 10). We see plenty of room for firms in the private sector to direct their investment towards activities that can contribute more to the development of Saudi human capital.

Private sector investment can be directed towards training opportunities for Saudi workers. Also, investment by private sector firms can contribute towards improving infrastructure and general work conditions, to make the work environment of lower skilled jobs more attractive and suitable for Saudis. This enhancement would eventually contribute to a better quality of human capital in general. A measure of the quality of human capital by the World Economic Forum ranked the Kingdom on the lower end relative to regional peers. The human capital index (HCI) measures the quality of human capital using two broad themes; learning and employment; and ranks countries based on their success in leveraging their human capital endowment (Figure 11).

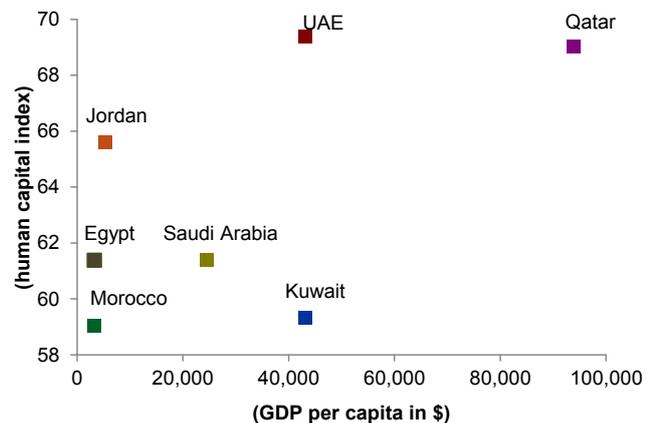
**Box 1. Differences in data impede proper reforms**

Official data on private sector employment is inconsistent between the two main providers, CDSI and MOL. The differences can be observed in measuring the Saudization ratio in the private sector. The Saudization ratio in 2014 using CDSI data is 22.1 percent, whereas it is 15.5 percent for the same year according to MOL data. Here, we highlight some of the fundamental issues that we believe are causing this disparity in the data:

**Figure 10: Investment and job creation**  
(rebased: 2005 = 100)



**Figure 11: 2015 Human capital index**





...whereas it is 15.5 percent for the same year according to MOL data.

This is caused by a significant difference in the total number of non-Saudis employed in the private sector...

... which is at its most extreme in particularly one sector, construction.

According to MOL data, there are a total of 4.4 million non-Saudi workers in construction.

While CDSI data shows that there are only 1.3 million workers in the same sector.

A more unified framework needs to exist in order to achieve targets set by policymakers

1. While differences in data estimation techniques between CDSI and MOL can justify a small disparity in the data; in practice, there are significant differences in their estimates, rendering some of the statistics inaccurate. These differences are specifically caused by a significant difference in the total number of non-Saudis employed in the private sector. According to CDSI data, the total number of non-Saudis employed in the private sector stood at 5.8 million in 2014, while MOL data shows that 8.2 million non-Saudis are employed by the private sector, a 2.4 million difference (Figure 12).

2. The difference in the number of non-Saudis in the private sector is at its most extreme in one particular sector, construction (Figure 13). According to MOL data, there is a total of 4.4 million non-Saudi workers in the sector. While CDSI data shows that there are only 1.3 million workers in the same sector. Which means a difference of 3.1 million. One potential cause for this inconsistency, we believe, is that a large number of private sector enterprises tend to issue visas for non-Saudis with a job description in the construction sector, even though the worker's job duties are irrelevant to that field. This is due to favorable quotas for construction under the Nitaqaat system relative to other sectors. This phenomenon, we believe, is likely causing MOL to record workers in sectors based on their official work visas, while in reality, they could be active in other sectors instead. This is more realistically reflected in CDSI's on-field labor surveys.

A joint statement issued by CDSI and MOL in February stressed that CDSI was the primary official source for any labor statistics. The Ministry of Labor did also note in its 2014 annual statistics report that the data on employment by kind of economic activity is still considered preliminary, due to the ongoing status correction to workers in the Kingdom. This note, together with the joint statement made by both CDSI and MOL back in February, makes CDSI the most reliable source for data on which to build proper employment strategies and implement reforms.

Looking ahead, we see that in order to better overcome policy challenges and achieve the ambitious targets of both the national employment strategy and the tenth development plan in the Kingdom, a more unified framework needs to exist between the several public authorities in charge of delivering statistical information on the labor market.

Figure 12: Private sector employment (2014)

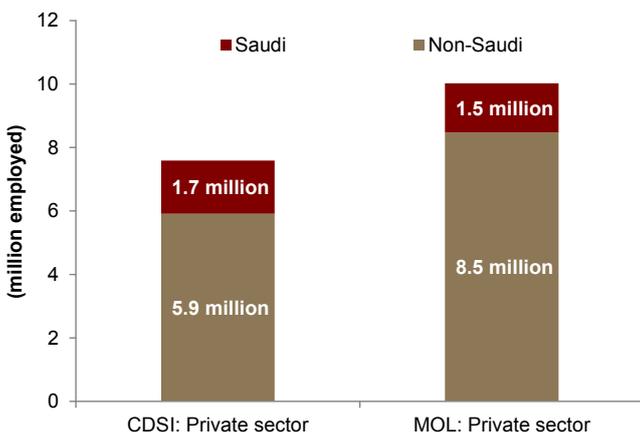
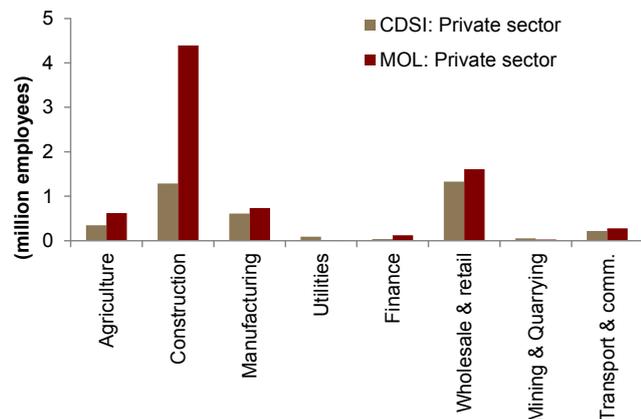


Figure 13: Non-Saudi employment (2014)





## Saudi employment forecasts 2015-2025

*In this section, we provide a framework for estimating Saudi employment growth in the private sector.*

*We estimate an increase in the Saudi working age population from 13.5 million in 2014 to 17.9 million in 2025.*

*We see the Saudi labor force participation rate rising to 45 percent in 2025.*

*For the public sector, we forecast average Saudi employment of 84 thousand per year.*

In the previous sections, we tried to assess the issues with an impact on the Saudi labor market in recent years. In this section, we try to present a clear picture of the trajectory in the Saudi labor market going forward, using a framework for estimating Saudi employment growth in the private sector. We first present our assumptions for Saudi labor supply and demand growth up to 2025. This is followed by a forecast using three scenarios of Saudi employment growth in the private sector and unemployment rates (Table 1).

### Labor supply

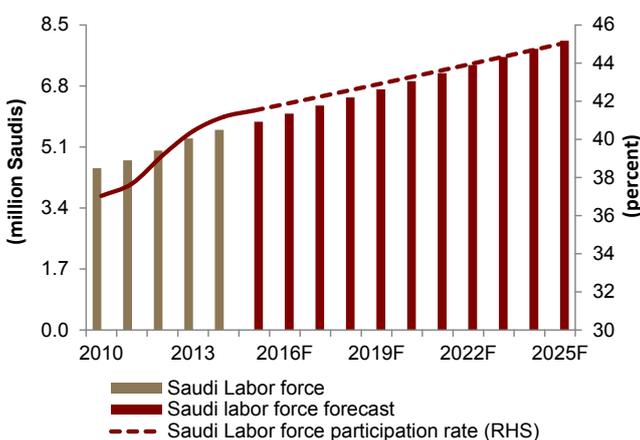
According to CDSI's long-term demographic estimates, the total Saudi population will increase from 20.7 million in 2014 to 25 million in 2025, with annual average growth in the Saudi population slowing from 2.3 percent between 2004 and 2014 to 1.7 percent between 2015 and 2025. We estimate an increase in the Saudi working age population from 13.5 million in 2014 to 17.9 million in 2025. This implies that working age Saudis will see their share of the total Saudi population increasing from 65 percent in 2014 to 72 percent in 2025. The increasing share of the working age Saudi population is also consistent with the United Nation's (UN) estimates of slowing total population growth and falling fertility rates, though UN estimates are not broken down by nationality.

Together with our assumption for Saudi working age population growth, we estimate an increase in the Saudi labor force participation rate (the share of employed and unemployed Saudis of the total Saudi working age population) from 41.2 percent in 2014, to 45 percent in 2025. This should lead to an increase in the Saudi labor force from 5.6 million in 2014 to 8.1 million in 2025, equivalent to 226 thousand Saudis entering the labor force per year (Figure 14). We view the improvement in the Saudi labor force participation rate as reflective of more working age Saudis actively searching for jobs in response to increased social and financial needs. The improvement in the Saudi labor force participation rate is also consistent with our view that more Saudis will be encouraged to enter the workforce as more effective reforms continue to be implemented by the Ministry of Labor.

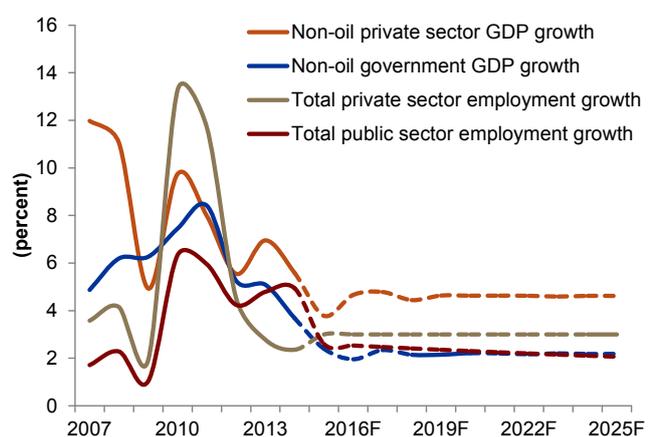
### Labor demand

For the public sector, we estimate 84 thousand new jobs to be

**Figure 14: Saudi labor force growth forecast**



**Figure 15: Sectoral employment growth forecast (year-on-year change)**





*Between 2006 and 2014, average private sector employment for both Saudis and non-Saudis was 214 thousand*

*...which we believe is considered on the high end...*

*...in part given the sweeping labor market measures undertaken by the Ministry of Labor between 2011 and 2013...*

*... we therefore adjust for lower growth in average private sector employment equivalent to 265 thousand jobs per year.*

*The high employment forecast assumes Saudi employment in the private sector reaching 200 thousand per year...*

created for Saudis per year between 2015 and 2025, compared to 103 thousand jobs created per year on average between 2006 and 2014. Pressure on the fiscal balance as a result of lower oil revenues, and a higher base effect lead us to project slower growth in public sector employment. Our forecasted lower number of annual job additions in the public sector is also consistent with the stated objectives of policymakers in directing the private sector to be the main engine for Saudi job creation.

As for the private sector, the Saudization ratio stood at 22.1 percent in 2014, meaning that the remaining 77.9 percent of jobs were held by non-Saudis (see previous section). Between 2006 and 2014, the number of total jobs created in the private sector (for both Saudis and non-Saudis) was, on average, 214 thousand per year. This excludes 2010 as we believe the employment growth from that year to be inconsistent with the long-term trend. As for our forecasted period, we assume the annual number of jobs to be created by the private sector (for both Saudis and non-Saudis) to reach 265 thousand. Despite the higher forecast number of annual jobs, the growth rate is actually lower. This is in part due to a higher base. Our forecast for lower growth in private sector employment (for both Saudis and non-Saudis) is because we believe the actual employment from the period 2006-2014 to be on the high end. We believe this is in part due to the sweeping labor market measures undertaken by the Ministry of Labor between 2011 and 2013 (Figure 15).

**On this basis, we present three different scenarios for Saudi employment growth in the private sector:**

**High employment scenario (0 percent unemployment by 2025):**

According to MEP's long-term strategy of the Saudi economy, the target unemployment rate for Saudis is zero percent by 2025. Despite our belief that this is not a likely or economically reliable outlook, we still run our model to show what such target would mean for the economy in general and the labor market in particular. Under this scenario, the required number of jobs going to Saudis in the private sector needs to reach 200 thousand per year. The growth is consistent with reducing the Saudi unemployment rate to zero percent by 2025. This number of annual job creation for Saudis is significantly higher than the average for the period 2006-2014, a period which saw 77 thousand Saudis employed by the private

**Table 1. Key indicators used in the labor market forecast**

| Key indicators and scenarios                                   | 2006 - 2014 (Actual)        |      | 2015 - 2025 (Forecast)      |      | 2025 Saudi unemployment rate |
|--|-----------------------------|------|-----------------------------|------|------------------------------|
|  | Avg. growth (000s per year) | CAGR | Avg. growth (000s per year) | CAGR |                              |
| <b>Key indicators</b>  |                             |      |                             |      |                              |
| Saudi labor force  | 207                         | 4.6  | 226                         | 3.3  |                              |
| Saudi employment in public sector                              | 103                         | 3.9  | 84                          | 2.3  |                              |
| Total private sector employment                                | 214*                        | 3.2* | 265                         | 3.0  |                              |
| Employment of Saudis in the private sector                     | 77                          | 6.1  |                             |      |                              |
| <b>Scenarios</b>   |                             |      |                             |      |                              |
| High employment of Saudis in the private sector (MEP Strategy) |                             |      | 200                         | 7.9  | 0.0                          |
| Medium employment of Saudis in the private sector (Baseline)   |                             |      | 156                         | 6.6  | 6.0                          |
| Unchanged employment of Saudis in private sector (No action)   |                             |      | 77                          | 3.8  | 16.9                         |

\* Note: excludes 2010 as data from that period is inconsistent with the long-term trend



*... a growth that is consistent with reducing the Saudi unemployment rate to zero percent by 2025...*

*...with Saudization needing to improve from 22.1 percent in 2014 to 36.9 percent in 2025.*

*This scenario also implies an increasing share of new jobs going to Saudis every year.*

*We see that structural rigidities hinder the possibility of reaching zero percent Saudi unemployment in ten years.*

*In this scenario, we assume the same number of average Saudi job additions between 2006 and 2014.*

*Such a trend would cause the Saudi unemployment rate to rise up to 16.9 percent in 2025.*

*Under our baseline scenario, average employment of Saudi private sector employment needs to reach 156 thousand per year.*

*...compared to 92 thousand between 2011 and 2014*

sector each year. We don't see this as a possible scenario. However, while cutting the Saudi unemployment rate down to zero percent by 2025 is a somewhat unrealistic target, we still see plenty of available room for the private sector to at least reduce the unemployment rate for Saudis from its current 11.7 percent.

As highlighted in our assumptions for labor demand, we expect total job creation (for both Saudis and non-Saudis) by the private sector to be around 265 thousand per year. This leads us to believe that it would be a more realistic assumption for the private sector to focus on Saudization only for newly created jobs – hiring more Saudis relative to non-Saudis - rather than focusing too much on replacing non-Saudis in existing jobs. Assuming that 200 thousand new jobs are going to Saudis per year, this translates into 75.6 percent of annual job creation benefitting Saudis (Figure 16.1), with Saudization in the private sector needing to improve from 22.1 percent in 2014, to 36.9 percent by 2025 (Figure 16.2). This scenario also implies an increasing share of new jobs going to Saudis every year, with almost all new job creation in the private sector needing to go to Saudis in 2025.

We see that structural rigidities; including high wage differentials between Saudis and non-Saudis; the disconnect between private sector needs and Saudi graduate profiles; and Saudis' general preference of public sector jobs over those offered by the private sector, hinder the possibility of reaching zero percent Saudi unemployment in ten years. In addition to the difficulty of achieving high employment growth to absorb Saudi workers; issues surrounding the readiness of the Saudi labor force and willingness to work in labor-intensive sectors have not been completely resolved, and will likely need more than ten years.

#### **No action scenario (16.9 percent unemployment by 2025):**

In the "no action" scenario, we assume the same number of average Saudi job additions between 2006 and 2014, at 77 thousand jobs per year. Continuing such growth would cause the Saudi unemployment rate to rise up to 16.9 percent in 2025 (Figure 17.1). Under our assumption of 265 thousand in total private sector employment (both Saudis and non-Saudis), the Saudization rate in the private sector under this scenario will still improve, rising slightly from 22.1 percent 2014 to 24 percent in 2025. The implication of this scenario is that even if the private sector succeeds in improving Saudization rates, it might not be enough to reduce the unemployment rate for Saudis (Figure 17.2).

#### **Baseline scenario (6 percent unemployment by 2025):**

Our baseline scenario assumes employment growth of Saudis in the private sector that is more consistent with the labor market initiatives implemented by authorities. Under this scenario, the annual average employment of Saudis in the private sector is put at 156.4 thousand jobs per year. We see this as a possible scenario if more plausible Saudization initiatives continue to be implemented, particularly when compared to the growth trajectory of annual Saudi employment between 2006 and 2014. The private sector was able to improve annual hiring of Saudis from an average of 64 thousand between 2006 and 2010, to 92 thousand between 2011 and 2014. We do, however, note that this requires doubling the 77 thousand cumulative average number of Saudis hired by the private sector between



*In this scenario, 59 percent of annual job creation should be going to Saudis...*

*..with Saudization in the private sector needing to improve from 22.1 percent in 2014 to 32.3 percent by 2025.*

*The actual path under which the labor market will take will depend mainly on structural factors.*

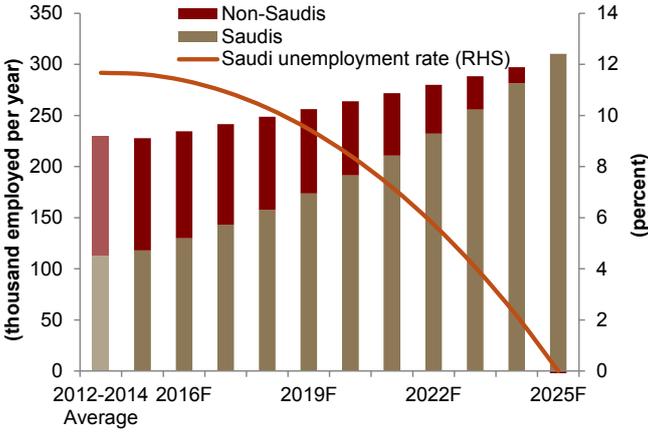
period 2006-2014. We thus see that any delay in implementing labor market policies would mean tougher conditions to meet such a scenario moving forward.

Under this scenario, 59 percent of annual job creation should be going to Saudis (Figure 18.1), with Saudization in the private sector needing to improve from 22.1 percent in 2014 to 32.3 percent by 2025 (Figure 18.2). We present this as a “most likely” scenario that can also be reasonably achieved on a sectoral basis as well. Sectors with the most potential in having an improvement to their Saudization rates include wholesale and retail, construction, and manufacturing. This is mainly because such sectors are the most labor intensive, and have the potential of creating the highest number of jobs for Saudis. We also see potential in achieving the 32.3 percent Saudization ratio through improvements in higher skilled sectors such as finance, and information and communication.

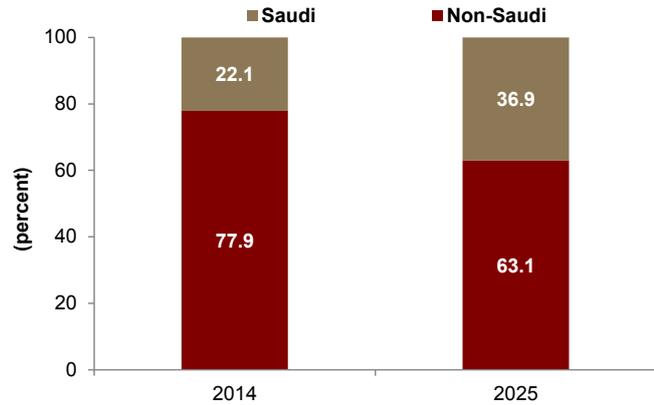
Risks to our baseline scenario will mainly stem from the failure of progressing with the structural factors we explained in the first section, including changes in investment, education, and training, as well as the ongoing MOL initiatives. The path will also depend on official policies that may impact employment growth in the public sector. Other risks include the trajectory in which the Saudi labor force might evolve, a higher Saudi labor force participation rate may lead to higher Saudi unemployment rates, and vice versa.



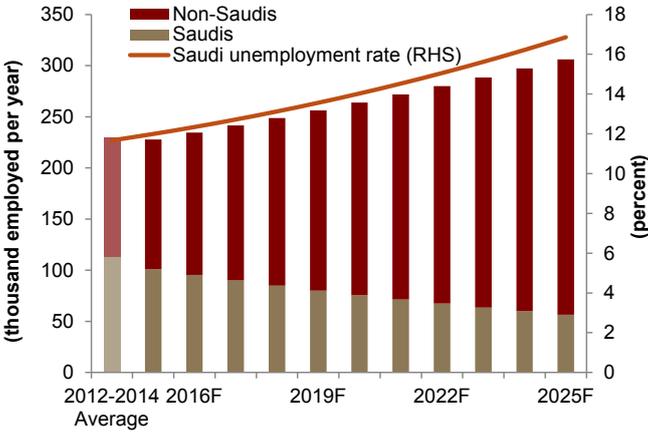
**Figure 16.1: High Saudi employment scenario: Private sector hiring and Saudi unemployment**



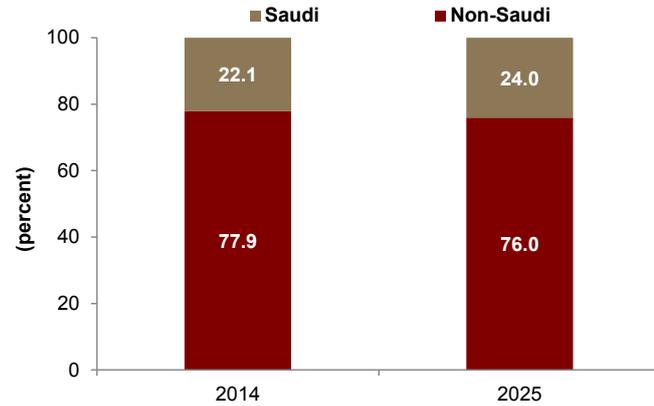
**Figure 16.2: High Saudi employment scenario: Saudization ratio in the private sector**



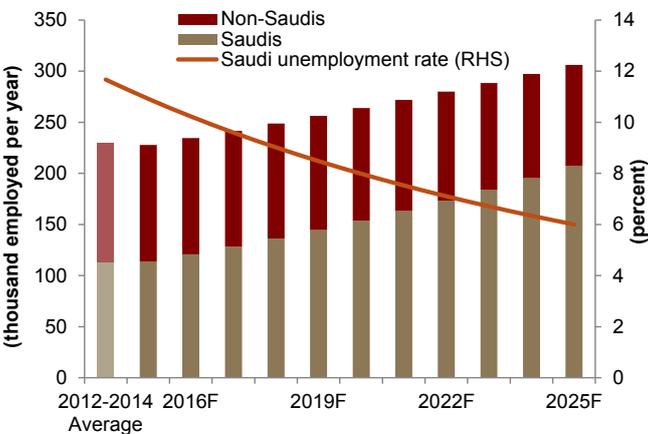
**Figure 17.1: No action scenario: Private sector hiring and Saudi unemployment**



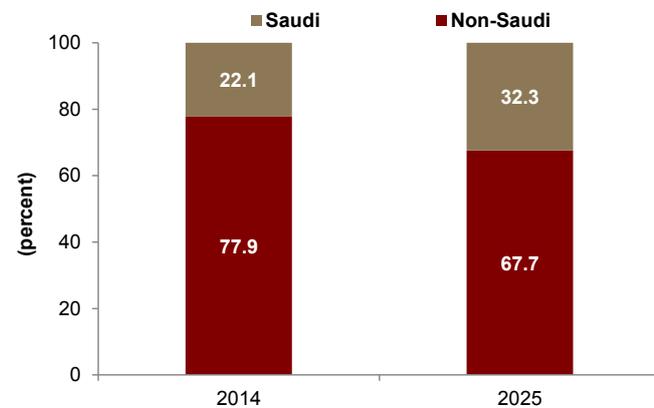
**Figure 17.2: No action scenario: Saudization ratio in the private sector**



**Figure 18.1: Baseline scenario: Private sector hiring and Saudi unemployment**



**Figure 18.2: Baseline scenario: Saudization ratio in the private sector**





### Key labor market data

|                                    | 2008  | 2009  | 2010  | 2011   | 2012   | 2013*  | 2014*  |
|------------------------------------|-------|-------|-------|--------|--------|--------|--------|
| <b>Labor Force (000s)</b>          |       |       |       |        |        |        |        |
| Saudis                             | 4,173 | 4,287 | 4,508 | 4,729  | 5,000  | 5,340  | 5,577  |
| Non-Saudis                         | 4,282 | 4,324 | 5,070 | 5,815  | 5,998  | 6,022  | 6,162  |
| Total                              | 8,455 | 8,611 | 9,578 | 10,544 | 10,998 | 11,362 | 11,739 |
| <b>Total Employed (000s)</b>       |       |       |       |        |        |        |        |
| Saudis                             | 3,757 | 3,838 | 3,991 | 4,143  | 4,397  | 4,717  | 4,927  |
| Non-Saudis                         | 4,261 | 4,310 | 5,051 | 5,792  | 5,993  | 6,012  | 6,141  |
| Total                              | 8,017 | 8,148 | 9,042 | 9,936  | 10,390 | 10,729 | 11,068 |
| Saudization ratio %                | 46.9  | 47.1  | 44.1  | 41.7   | 42.3   | 44.0   | 44.5   |
| <b>Private sector (000s)</b>       |       |       |       |        |        |        |        |
| Saudis                             | 1,248 | 1,278 | 1,309 | 1,340  | 1,464  | 1,571  | 1,678  |
| Non-Saudis                         | 4,105 | 4,178 | 4,870 | 5,563  | 5,751  | 5,845  | 5,912  |
| Total                              | 5,353 | 5,456 | 6,179 | 6,903  | 7,215  | 7,416  | 7,591  |
| Saudization ratio %                | 23.3  | 23.4  | 21.2  | 19.4   | 20.3   | 21.2   | 22.1   |
| <b>Public sector (000s)</b>        |       |       |       |        |        |        |        |
| Saudis                             | 2,509 | 2,560 | 2,682 | 2,803  | 2,933  | 3,145  | 3,248  |
| Non-Saudis                         | 156   | 132   | 181   | 230    | 242    | 168    | 229    |
| Total                              | 2,665 | 2,692 | 2,863 | 3,033  | 3,175  | 3,313  | 3,477  |
| Saudization ratio %                | 94.2  | 95.1  | 93.7  | 92.4   | 92.4   | 94.9   | 93.4   |
| <b>Unemployed Saudis (000s)</b>    | 416   | 449   | 517   | 586    | 603    | 623    | 651    |
| <b>Overall Unemployment rate %</b> | 5.2   | 5.4   | 5.6   | 5.8    | 5.5    | 5.6    | 5.7    |
| <b>Saudi Unemployment rate %</b>   | 10.0  | 10.5  | 11.5  | 12.4   | 12.1   | 11.7   | 11.7   |

\*Note: 2013 and 2014 Institutional breakdown is from the Central Department of Statistics and Information (CDSI) and the Ministry of Economy and Planning (MEP), earlier years are Jadwa Investment estimates.



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