

ABSTRACT

Economic Reforms in Saudi Arabia: Results from a Dynamic General Equilibrium Analysis

In this study, a dynamic multi-sectors computable general equilibrium model (SAUMOD) has been used in order to examine the impact of Saudi Arabia's various reform policies on macro-economic variables, the performance of the productive sectors and the income distribution or welfare of different households.

For this purpose, a Social Accounting Matrix for Saudi Arabia (SAUSAM) has been constructed. The resulting Saudi micro SAM (SAUMIC) has a total of 62 accounts: 24 production activities, 21 commodities, 5 factors of production (2 labour accounts: Saudi workers and non-Saudi workers, 3 capital categories), 6 institutions (2 households types: Saudi and non-Saudi households, 2 accounts of enterprises: Public and private enterprises, Government, and the rest of the world), 4 other accounts for taxes, and saving- investment account.

Three categories of policy scenarios undertaken: Oil Price Simulations, Fiscal Policy Reform, and Foreign Sector Policies. The results indicate that adjustments in foreign savings, supporting an unchanged real exchange rate in the context of changes in oil world prices, quite effectively can insulate the domestic economy from international price fluctuations. In a set of scenarios aimed at raising government revenues via tax increases, the least distorting tax instrument available to the government is some form of income taxes. If the government wants to establish Value Added Tax (VAT); the simulations results suggest that it is probably least distorting to introduce non-uniform VAT scheme. The last group of simulations show that the effect of different tariff regimes on the economic activity is relatively very low given the low diversification of the Saudi economy and the dominance of oil sector in the GDP, exports, and public finances. It is potentially more fruitful if economic policy focused on increasing non-oil exports which has far positive and significant macro effects than the tariff reforms. Saudi Arabia, therefore, should go a head with trade liberalisation which expected to encourage the reduction in tariffs rate and will open up new markets for Saudi non-oil products.