CHAPTER 1

Anatomy of the Saudi Economy

The Saudi economy is large in size but simple in structure. It is best described as a government economy within the frame of a market economy. The government owns and manages the oil and gas sector, the principal driver of the economy. The government provides a variety of public goods and services, including education, healthcare, housing, utilities, loans, subsidies, etc. Moreover, the government owns major equity shares in private sector mega joint-stock companies, such as the Saudi Basic Industries Corporation (SABIC) and the Saudi Electricity Company (SEC).

The private sector is heavily influenced by government subsidies, price controls, and government expenditures. The IMF has repeatedly noted in its country reports on Saudi Arabia that there is a robust relationship between government expenditures and the rest of the economy.

In this chapter, I show the government’s classification and measurement of the Saudi GDP; I then introduce some amendments to the government’s segmentation of GDP between government and nongovernment economy to illustrate the actual size of government GDP relative to the rest of the economy. Government GDP data leans toward underestimating government’s share of GDP and overestimating the private sector’s share of GDP thereby hiding the enormous size and role of the government in the economy and exaggerate the role of the private sector in the economy. At the end of this chapter, I critique the government’s use of GDP as a criterion to determine the status and growth of the Saudi oil-dependent economy instead of the genuine savings theory, which is more suitable to the Saudi economy.
Saudi National Accounts Classification of GDP

The Trilateral Classification

The National Accounts System of the Saudi government divides the country’s GDP into three main sectors: oil and gas sector GDP, private sector GDP, and government sector GDP.

In algebraic form, the GDP at time $t$ is:

$$Y_t = OY_t + GY_t + PY_t$$

where $Y_t$ is GDP at time $t$, $OY_t$ is oil and gas GDP at $t$, $GY_t$ is government GDP at $t$, and $PY_t$ is private GDP at $t$.

Figure 1.1 shows the composition of the Saudi GDP in 2010, according to the three-sector classification:

1. Oil and gas sector GDP ........... $220,682 million (51.2 percent)
2. Private sector GDP ............ $127,416 million (29.57 percent)
3. Government sector GDP ........ $82,834 million (19.22 percent)

The Flow Process

The three major components of the Saudi GDP are highly interdependent; the oil and gas sector owned and operated by the government...