



## Saudi Labor Market

### New challenges brought by COVID-19

- According to the International Labor Organization (ILO), global working hours will decline by 10.7 percent in Q2 2020 (equivalent to 305 million full-time workers), when compared to Q4 2019, as a result of lockdowns instituted around the world.
- After weeks of shutdown, many countries began to slowly re-open their economies recently, including the Kingdom, with sectors such as wholesale and retail, construction and manufacturing amongst the first to re-open last month.
- However, despite a progressive easing of the lockdown, some sectors are still not expected to hit full capacity in the near term, particularly vulnerable sectors include travel, hotels and restaurants, tourism and entertainment.
- We therefore see the above sectors as the most susceptible to expat redundancies. Overall we expect a total of around 1.2 million expat workers leaving the local labor market during the year, with our estimates based on health insurance data pointing to around 300 thousand such departures year-to-date.
- At the same, whilst we may see some movement in the Saudi unemployment rate during the year, we expect it to remain unchanged at around 12 percent by end of 2020.
- More specifically we see the combination of the Saned scheme, which will allow for the retention of citizens in applicable jobs in the private sector, together with some degree of substitution of expat labor, as helping to stabilize employment levels.

#### Saudi Unemployment Rate (percent)

	2017	2018	2019
Male	7.5	6.6	4.9
Female	31	32.5	30.8
Youth (20-24)	42.7	36.6	30.1
<b>Total</b>	<b>12.8</b>	<b>12.7</b>	<b>12</b>

#### Saudi Labor Force Participation Rate (percent)

	2017	2018	2019
Male	63.4	63	66.6
Female	19.4	20.2	26
Youth (20-24)	25.7	29.8	32.5
<b>Total</b>	<b>41.9</b>	<b>42</b>	<b>46.7</b>

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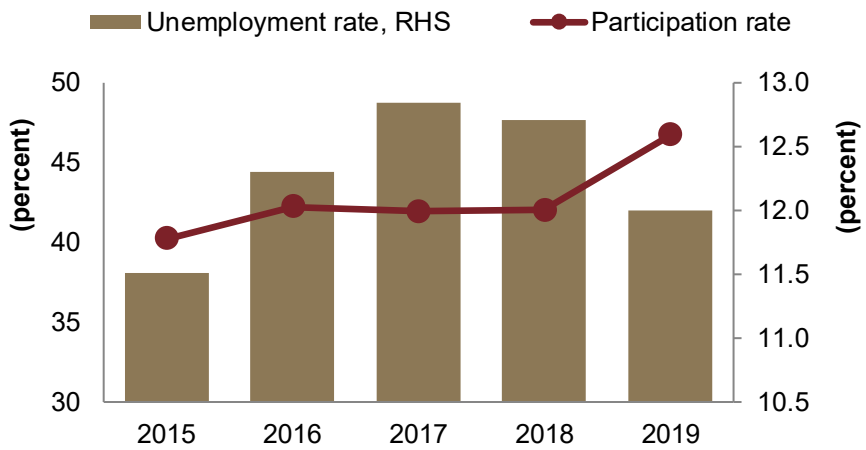
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**Figure 1: Saudi unemployment rates and participation rate**





## The Labor Market in 2020 with COVID-19

*The ILO expects a large decline in global working hours since the beginning of Q2...*

*...affected by the lockdowns around the world.*

*As such, policymakers are taking unprecedented measures to lessen the impact on businesses and jobs.*

According to the International Labor Organization (ILO), global working hours will decline by 10.7 percent in Q2 2020, compared to Q4 2019, which is the equivalent to 305 million full-time workers, affected by the lockdowns around the world since the beginning of Q2. However, with the uncertainty regarding the length of these lockdowns, and many workers ordered to stay at home, the final number of annual job losses will depend on the evolution of the pandemic and the measures taken to mitigate its impact. That said, even with remote work settings, a number of jobs, especially labor-intensive ones, cannot be performed remotely or in a socially distance setting. As such, the output of these sectors will be the most impacted by the lockdown measures.

Currently, policymakers are also taking unprecedented measures to lessen the impact on businesses, jobs and the most vulnerable members of society from the workplace shutdowns. As such, the ILO identifies a policy framework with four key pillars to fight COVID-19, which are 1) stimulating the economy and employment, 2) supporting enterprises, jobs and income, 3) protecting workers in the workplace, and 4) relying on social dialogue for solutions and other measures. In Table 1, we summarize the policies taken by Saudi Arabia in tandem with these four pillars.

### The Saudi labor market

Since mid-March 2020, and as in many other countries around the world, many workplaces in the Kingdom encouraged their employees to start working from home as much as possible. A few weeks later, all workers in the public and private sector were asked to stop

**Table 1: ILO's pillars and the measures taken by Saudi Arabia to support the labor market**

The ILO Pillars	The Kingdom's Policy Responses
1 <b>Stimulating the economy and employment</b>	SR120 bn stimulus package for the private sector: exemptions and postponement of tax payments and fees. Reallocating 5% of the 2020 budget into the vulnerable sectors, such as health.
2 <b>Supporting enterprises, jobs and incomes</b>	<b>Social protection:</b> The Ministry of Human Resources and Social Development (MHRSD) launched a SR500 mn "community fund" to support people most affected by the pandemic in collaboration with non-profit organizations. New special provisions were issued to allow for delaying rent requests for 3 months <b>Employment retention:</b> The Saned fund will bear 60% of Saudi employees' salaries in the private sector for 3 months with a total value of SR9 bn <b>Assistance to business and business continuity:</b> SAMA introduced a SR50 billion package to support SMEs to help maintain employment. The Human Resources Development Fund (HRDF) launched a SR5 bn to support employment and subsidize wages of Saudis employed in the private sector since July 2019
3 <b>Protecting workers in the workplace</b>	<b>Occupational safety and health:</b> Ordered to reduce the number of workers in their offices to the minimum with following the precautionary measures The MHRSD issued a provisional guide for remote work in the private sector, including rights and duties The Ministry of Education closed all academic institutions and requested activation of distance learning <b>Access to paid leave:</b> The Ministry of Health (MOH) announced that all workers entered the Kingdom as of March 13, 2020 shall keep self-quarantined and apply for sick leave MOH has announced a compulsory 2-week sick leave for vulnerable workers with chronic diseases and pregnant women <b>Access to health care:</b> The MOH announced free treatment for all COVID-19 patients in the country, regardless of nationality or legal status
4 <b>Relying on social dialogue for solutions, and other measures</b>	The Council of Saudi Chambers consulted with business leaders and provided solutions to support business continuity The Kingdom has enforced 24-curfew for certain times KSRelief signed an agreement with the World Health Organization (WHO) granting it \$10 million in financial support to fight COVID-19 National workers' committee conducted awareness campaigns for migrant and national workers



*We expect between 35-65 percent of total labor in the Kingdom to have stayed at home during varying degrees of lockdown during Q2 2020.*

*We see that Saned could cover up to 75 percent of Saudi labor in the private sector...*

*...with a further scope for the scheme to be extended.*

*We believe that Saned and other initiatives have helped minimize job losses in the labor market.*

commuting to workplaces, as part of the efforts to combat the virus spread through social distancing (Figure 2).

In-line with this, we expect between 35-65 percent of total labor in the Kingdom to have stayed at home during varying degrees of lockdown during Q2 2020. Faced with such an unprecedented and unpredictable situation, many companies will have (or will do so in the near future):

- i) instituted temporary salary reductions
- ii) implemented redundancies, especially so of foreign labor, and
- ii) enrolled onto the Saned scheme for Saudi workers (Box 1)

**Box 1: Saned**

Saned is an unemployment benefit scheme introduced in 2014. A Royal Decree was issued in April 2020, to bear 60 percent of most of the private sector Saudi workers' salaries for three months. Taking into account that three sectors (ICT, food retailers and financial institutions) are excluded from the support program (Figure 3), since they are deemed to have minimal impact from lockdowns, we calculate that this could cover up to 75 percent of Saudi labor in the private sector for the period in question.

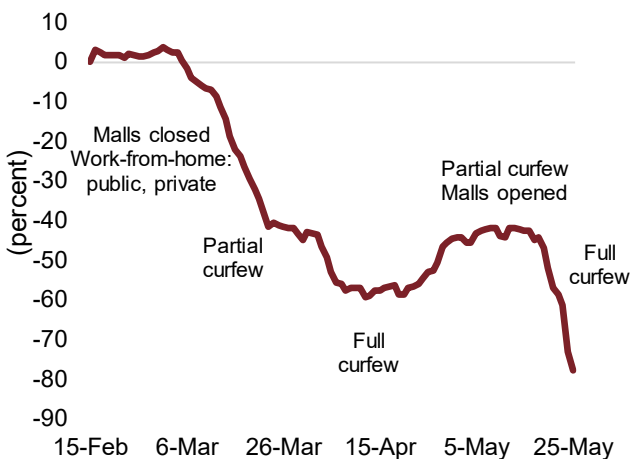
Latest data from the General Organization of Social Insurance (GOSI) shows there were 450 thousand Saned beneficiaries by May (the second month of support) in more than 90 thousand companies. So far, circa SR2.4 billion has been disbursed under the scheme, accounting for around 37 percent of the scheme's budget. Thus, we see further scope for the Saned scheme to be extended for more than three months, if necessary. For example, a similar furlough scheme has been extended in the UK for an additional four months, until October 2020, even as the economy progressively opens up.

Despite exceptional circumstances faced by the labor market in Q2 during the lockdown, we believe that Saned scheme and other initiatives by the Human Resource Development Fund (HRDF) and the Ministry of Human Resource and Social Development (MHRSD) have helped minimise job losses in the labor market (Box 2).

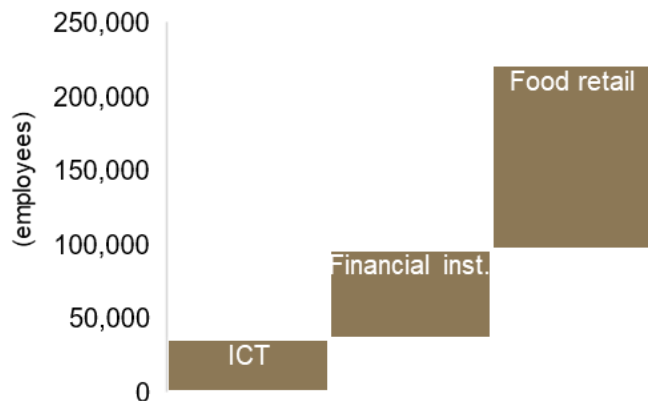
**Box 2: Higher demand during the lockdown**

Whilst many sectors are struggling to keep their employees during the lockdown, some sectors are facing higher demand for employment, such as food retail, technology and online retailers. In

**Figure 2: Visits to workplaces in Saudi Arabia\*** (percentage change compared to January)



**Figure 3: Number of employees in excluded sectors from Saned support\***



\*Data is provided by Google COVID-19 Community Mobility Report, which tracks geographical movements in 131 countries.

\*GaStat Labor Force Survey, and Jadwa Estimates

\*\*Partial curfew = 11-15 hours/day

Full curfew = 24 hours/day

\*\*\*6-day moving average



*the “Ajeer” initiative enables expats free movement between firms to meet the surge in demand during the lockdown.*

*We believe that transport, wholesale and retail, hotels and restaurants, and non-oil manufacturing, and entertainment & leisure, will bear the burnt of the downturn.*

*By the end of 2020, we expect a total of around 1.2 million expat workers to leave the local labor market.*

the Kingdom, companies working in the delivery sector are facing a similar trend as the government encourages home deliveries for residents to implement social distancing. As such, the “Ajeer” initiative by the MHRSD enables expats free movement between different private sector firms to meet the surge in demand during the lockdown, which, in turn, is expected to help ease operational pressure on firms that have been adversely affected by the shutdown.

### Vulnerable sectors

As outlined in our previous reports, [Chartbook-May 2020](#), and [oil market update](#), we believe that transport, wholesale and retail, hotels and restaurants, and non-oil manufacturing, in addition to entertainment & leisure, will bear the burnt of the downturn during the pandemic. At the same time, other sectors will still face challenging conditions (such as education, health, public administration, utilities and agriculture), but with much lower risk of operational obstacles (Table 2). We find that sectors with higher exposure to the pandemic hired 32 percent of total Saudis in the private sector by the end of 2019, whilst sectors with lower exposure hired 19 percent. However, as highlighted above, furloughed Saudi workers under the Saned scheme should mitigate the level of redundancies overall.

### Expat workers

Between April 22 – June 3 2020 a total of 178 thousand applications to “Awdah” (which aims to facilitate the departure of expat workers to their home countries) was filed through the Ministry of Interior. Moreover, according to our estimates, based on health insurance coverage of expats, around 323 thousand workers have left the Kingdom since the start of the year. Accordingly, by the end of 2020, we expect a total of around 1.2 million expat workers to leave the local labor market (Figure 4). We expect the most vulnerable sectors to face the highest share in expat departures, such as accommodation and food services, administrative and support activities (which includes rental and leasing activities, travel agencies, security and building services).

**Table 2: Private sectors with higher exposure to the negative impact of the COVID-19**  
(numbers as of Q4 2019)

Economic sector	Current impact of pandemic on economic output	Level of employment	Saudi workers	Expat workers	Share of Saudis in total %
Wholesale & retail (excl. food)	High	1,937,468	430,889	1,506,579	22.2
Arts & entertainment	High	24,143	6,598	17,545	27.3
Accommodation & food services		403,651	77,060	326,591	19.1
Transport		241,397	57,805	183,592	23.9
Manufacturing		824,736	195,893	628,843	23.8
Real estate & business services		35,611	10,659	24,952	29.9
Mining		184,529	115,250	69,279	62.5
Construction		2,252,257	286,488	1,965,769	12.7
Agriculture		85,240	14,893	70,347	17.5
Utilities		91,048	42,660	48,388	46.9
ICT	Low	72,082	36,689	35,393	50.9
Financial services	Low	74,291	61,782	12,509	83.2
Human health	Low	352,279	169,483	182,796	48.1
Education	Low	153,554	86,817	66,737	56.5



*SMEs are expected to be at the heart of the economic impact brought by COVID-19 pandemic.*

*A significant share of workers in SMEs are amongst the youth.*

*The segment is likely to struggle during the pandemic...*

*...however, we expect that the announced measures related to SMEs could help in providing support.*

### Workers in SMEs

SMEs are expected to be at the heart of the economic impact brought by COVID-19 pandemic and its containment measures. Lockdowns in many countries showed that SMEs are vulnerable to the supply and demand shocks imposed by the pandemic, especially with regard to liquidity, making it difficult to continue paying their employees' salaries, which, in most cases, is the main operational cost.

In the Kingdom, data from GaStat shows that 41 percent of all Saudi workers in SMEs range between 26-35 years old, accounting for the largest share amongst all age groups. In fact, the percentage of 26-35 year old working in SMEs is higher than in the overall labor market average (Figure 5). This implies that a significant rise in the level of bankruptcies of SMEs has the potential to create a larger pool of unemployed within this segment. That said, one of the earliest measures to be rolled out by the authorities were directly aimed at SMEs, and, as such, whilst this segment is still likely to struggle, we expect such measures will significantly blunt the effects of the sharp decline in activity associated with the pandemic (Box 3).

### Box 3: Key SMEs support initiatives

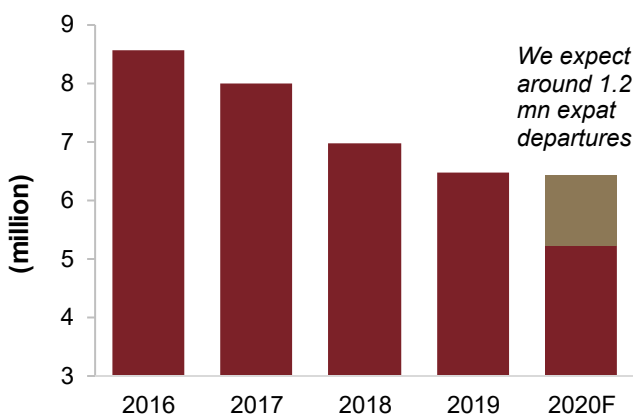
The key measures related to SMEs announced in March:

1. SAMA's SR50 billion stimulus package aiming to support SMEs, with SR30 billion allocated for banks and financial companies to delay loan payments due from SMEs for six months, will provide SR13.2 billion to SMEs through bank loans, and SMEs will get SR6 billion relief as loan guarantee.
2. More recently, SAMA launched a new program to guarantee 95 percent of total finance granted to SMEs, in collaboration with Kafalah, the SMEs loan guarantee program. SMEs will be exempted from fee payments and SAMA will pay the loan guarantees to Kafalah on behalf of the clients.
3. The Saudi Social Development Fund provided SR12 billion in direct finance to SMEs, especially to micro enterprises.

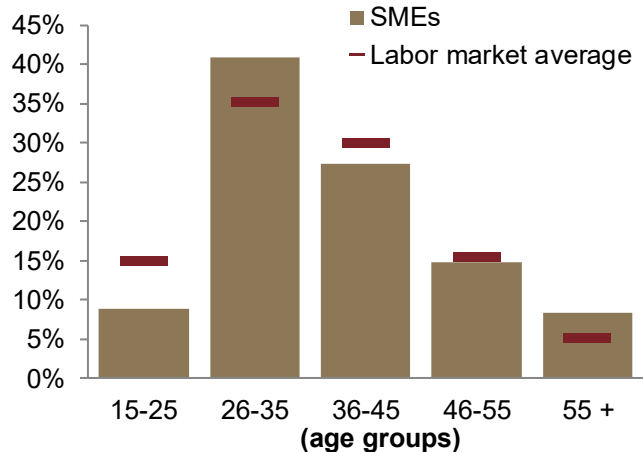
### Outlook

Recent data from the non-oil PMI survey shows that the lockdown has not affected the level of employment in the private sector as

**Figure 4: Number of foreign workers in the labor market**



**Figure 5: Saudis working in SMEs by age group, compared to labor market average**







*With a large departure of expats during 2020, there is a higher chance for expat substitution by citizens in certain sectors.*

*Also, as the economy begins to recover towards the end of the year, there is likely to be a surge in demand in certain goods and services.*

*Unemployment declined to 12 percent in 2019, notably lower than 2018 at a rate of 12.7 percent.*

*Q4 2019 saw a notable rise in labor force participation.*

severely as the headline PMI (Figure 6). Based on healthcare insurance coverage data, we suspect most of the slowdown in employment PMI being related to layoffs amongst expat workers, and we expect such layoffs to continue in the near term.

Whilst uncertainty related to COVID-19 will persist, the overall business environment is expected to progressively improve in the second half of 2020, and especially so in the final quarter of the year, bringing with it better prospects for employment for citizens. In particular, with a large departure of expats during 2020, there is a higher chance for expat substitution by citizens in sectors that created a significant number of jobs for Saudis in 2019 (Figure 7 & 8 and Box 4). Additionally, as the economy begins to recover towards the end of the year, there is likely to be a surge in demand in certain goods and services. Such a surge coupled with continued precautions related to the pandemic, which potentially limit the supply of new expat visas, is likely to offer more opportunities for citizens.

At the same, whilst we may see some movement in the Saudi unemployment rate during the year, we expect it to remain unchanged at around 12 percent by end of 2020.

**Box 4: Labor market trends in Q4 2019**

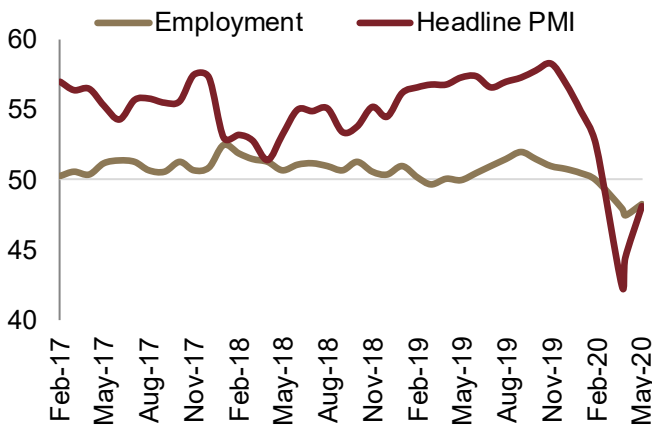
GaStat's latest labor market release shows that unemployment declined to 12 percent, and ended the year on a notably lower rate than 2018 of 12.7 percent. Additionally, both male and female unemployment declined (Figure 9), with youth unemployment (20-24 years old) declining notably, from 36.6 percent in 2018 to 30.1 percent in 2019.

Moreover, both male and female labor force participation rates continued to see rises, especially amongst the youth. Also, female labor force participation in general continued to rise, reaching 26 percent in 2019, surpassing the MHRSD National Transformation Program's (NTP) target of 25 percent by 2020.

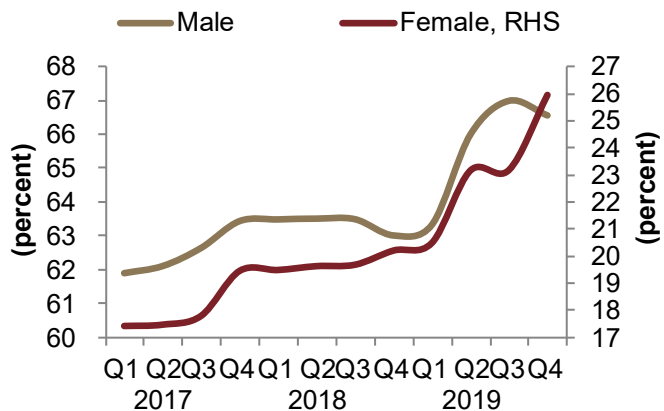
**Higher labor force participation**

We believe that the rise in both male and female labor force participation is the main reason for keeping unemployment rate unchanged in Q4 2019 versus to Q3 2019. More specifically, we view higher labor force participation due to higher numbers of jobs offered in sectors that witnessed high levels of growth towards the

**Figure 6: Non-oil PMI data**



**Figure 7: Labor force participation**





During 2019, a total of 445 thousand foreign workers left the labor market.

During 2019, the local economy witnessed an unprecedented growth in a number of sectors...

...which also saw a notable rise of Saudi workers.

end of 2019, in particular in areas of as tourism, entertainment, and social services.

**Lower number of expats leaving the labor market**

During 2019, a total of 445 thousand foreign workers left the labor market, compared with 1 million in 2018, pushing total expat departures to circa 2 million during the past three years. The departures are mostly correlated with the expat levies, which were first implemented in January 2018, and have now hit the maximum rate.

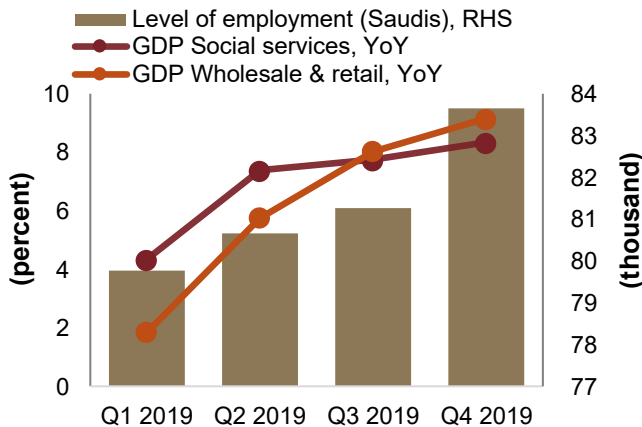
At the same time, however, the number of new expat work visas issued in 2019 seem to be the highest in three years, at more than 1 million visas for the private sector in 2019 compared with 662 thousand visas in 2018. According the MHRSD, this rise was associated with a higher number of new SMEs entering the local market, with other new businesses in the private sector, which increased demand on expat worker visas.

**Employment by kind of economic activity**

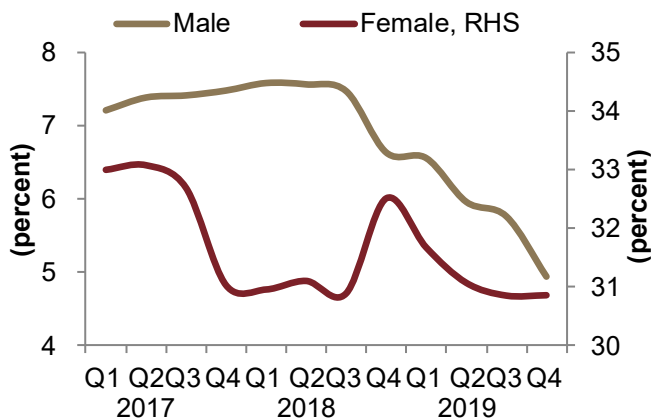
On a sectorial basis, most sectors categorized by the General Organization for Social Insurance (GOSI) saw a rise in the number of Saudi workers in the 2019, between Q1 and the end of the year.

During 2019, the local economy witnessed an unprecedented growth in a number of sectors, in-line with the goals of Vision 2030 to diversify the economy away from oil. Sectors such as entertainment, tourism, hotels and accommodation services all witnessed a rising number of Saudi workers as well during the year.

**Figure 8: Growth in employment in entertainment and accommodation & food services sectors\***



**Figure 9: Unemployment rate by gender**



\*With no specific GDP data for entertainment and tourism, we assume that the output of these sectors is partially between wholesale & retail, and social services.



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