

SAUDI ARABIA

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Budget supports construction industry growth in 2013



By Ben Cowling and Henry Clarke

The Saudi construction sector will continue to expand in 2013 on the back of the 14 percent expenditure increase in the government's 2013 budget. Estimates for the 2014 budget indicate an expenditure increase of 10 percent.

A notable US\$76 billion in the budget is allocated to capital expenditure. Backed by the multiplier effect of government spending in the construction sector, the industry is expected to grow by 10.3 percent this year. Saudi Arabia sits alongside Iraq, Libya and Qatar for its potential to sustain significant construction sector growth. The Saudi economy is about 50 percent of the Gulf states' GDP and is one of the fastest growing emerging markets. Its key role in the Gulf region is reflected in its fast growing population that is now above 25 million and its vast oil reserves which are estimated to hold about 20 percent of the known global oil reserves.

The private sector's GDP growth rate is expected to remain at about 7.5 percent in the near future. Reflecting this potential, Saudi Arabia received the most foreign direct investment in the Gulf region in 2010, amounting to US\$28 billion. The construction sector has featured strongly in the economic growth of recent years, an example being the US\$89 billion of construction contracts signed between July 2011 and June 2012.

Supporting demand

Various issues support the construction sector growth. These include the annual Hajj. This involves half a million or more pilgrims visiting Mecca annually with the associated transport and accommodation infrastructure requirements that this entails. The government plans to improve the quality and capacity of this infrastructure, generating major projects for the construction industry.

The government intends to expand and improve infrastructure to enable a widely based industrial economy to develop. A part of this plan involves improving the land links between different

regions of the country. This has generated major government funded road and railway projects.

Housing demand has also become a national issue. A quarter of a million units are being built a year at present. A financing law has given the average Saudi the possibility to buy residential property, which may sustain the continued expansion of the construction sector. The youthful Saudi population profile will underpin this expansion further into the future as approximately 40 percent of the population is under the age of 14 years old.

With increasing energy demand from the growing Saudi population, consideration is being given to domestic use of alternative energy sources so that carbon fuel resources in future remain available for export. Major power project schemes may result from this.

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Beneficial reforms

Legal reforms are also steadily making it easier to do business in Saudi Arabia. These include reform of the arbitration law, a general audit to check for compliance with the country's international obligations, court reform and dozens of other laws. These reforms have the potential to continue for some years as Saudi Arabia strives to acquire a business environment welcoming to international business of all sizes and from many industries.

Assets and growth

The 2013 budget figures in retrospect may be even more impressive; the Saudi government usually makes modest estimations of spending and oil revenues resulting in higher actual figures. The figures are significantly influenced by the price of oil, but the Saudi central bank has net foreign assets somewhere in the region of US\$626 billion. With the Saudi economy going

through major changes involving dramatic expansion of its construction sector, this is a market that it should not be overlooked by construction businesses seeking expansion.

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