Themes from FIM

Saudi female employment is booming – so what?

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More GDP, higher wealth per capita and a boom in services

At a personal level, the question "so what" isn't a question you need to bother asking of an employed woman in Saudi. If you do, less than five minutes of conversation will make it very clear that this social transformation is extremely important. This piece focuses on the economic and sectoral impacts that are happening as Vision 2030 smashes its female employment targets, years ahead of schedule.

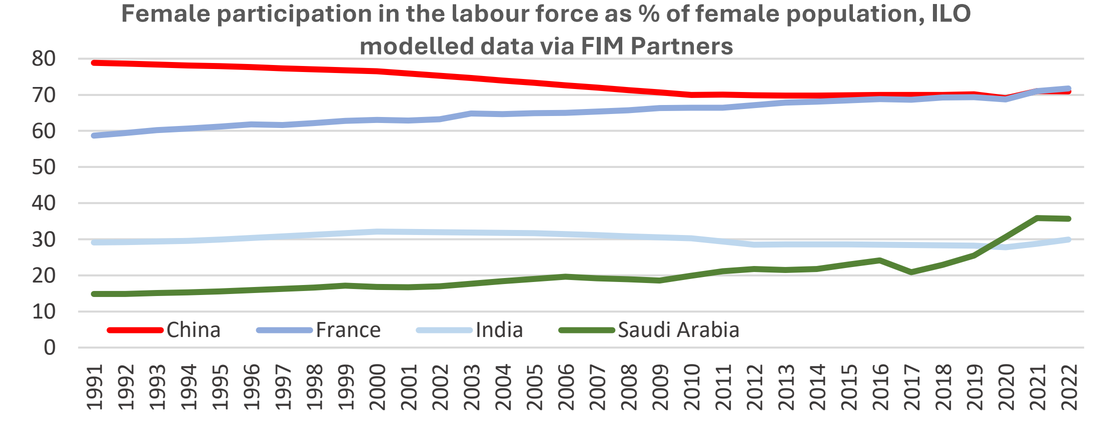
The change in the country is dramatic. The first female CEO of a major Saudi company was probably Lubna Suliman al-Olayan in 1986, appointed by her father, and she was the only female employee there for over a decade. A Mercer 2010 survey on women leadership found no recorded female participation at all, while a TNI Market Insight survey found 0.1% of Saudi board members were women in 2008. Fortune magazine in 2015 wrote there were just 23,000 female employees in the Saudi private sector in 2004.

By March 2024, 36% of Saudi females were participating in the labour force compared to 66% of men. This is a fifth above the 30% ratio target set in Vision 2030, and more than double the 15% share of 2018.

It is remarkable that the rise in female employees in 2022, up a quarter of a million to [1.5m according to the Saudi Arabia General Authority for Statistics], was more than 10 times the total number of private sector female employees in 2004.

This is the fastest ever increase in female employment that any country has ever recorded.

Using ILO modelled data, the 15 percentage point rise in five years (to 2022) beats the next best rises of 13 points, in the UAE to 2020 or Peru in the 1990s.



Source: ILO, estimates 13 July 2024

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What economic difference does this make?

There's been a great deal of research by the IMF, World Bank and others, to help guide us on that.

In countries where the gender employment gap is widest, an IMF paper in 2018 reckoned closing the gap would lift GDP by an average 35%. Most of the gain derives from high employment and a fifth from the benefits of gender diversity. In Saudi Arabia, that would be worth an extra $350bn, which at today's exchange rates is roughly equivalent to adding Africa's biggest economy to Saudi GDP. Achieving even half that gain would be a welcome $175bn.

Meanwhile a 2022 World Bank paper estimated that closing the gender employment gap would specifically lift Saudi per capita GDP by about 44%.

If we take 2018 as the baseline, that would imply a rise in Saudi per capita GDP from $28,000 to $40,000, or from 2/3 of France's level to nearly equal (93% of) France. If you prefer an emerging market comparison, Saudi per capita GDP would rise from 3 times higher than China to 4.5 times higher than China.

Roughly 1/3 of this employment gap has now closed, but a 30 percentage point gap still remains. Saudi per capita GDP did rise 16% over this period, and per capita GDP rose to 71% of France's 2023 level. There was improvement but not as much as implied by the World Bank paper.

One plausible reason is that these new female labour entrants, being relatively junior, will not have the same average level of pay as men, who will still dominate more senior, better paid, roles. As time passes, the per capita GDP impact and average female wage should rise, because educationally, Saudi females now outnumber new male graduates[1], and in some sectors take disproportionately professional roles[2]. Even if we assume that the fastest surge in female employment is now behind us, it is still rising. Combined with the increase in the overall female wage bill as their careers progress, this implies Saudi per capita GDP could rise to 76% of France's level by 2028.

That would take Saudi per capita GDP up to $40,000 in nominal US dollars in 2028, 10% above the $37,000 that the IMF has pencilled in, and 20% above the 2023 figure.

So it appears economic forecasts are failing to account for the rise in female participation as a driver of higher GDP growth.

At the least, it suggests a buffer for Saudi GDP, even if oil prices or government spending undershoot in a negative scenario. We should also expect better than expected sectoral impacts on the economy too.

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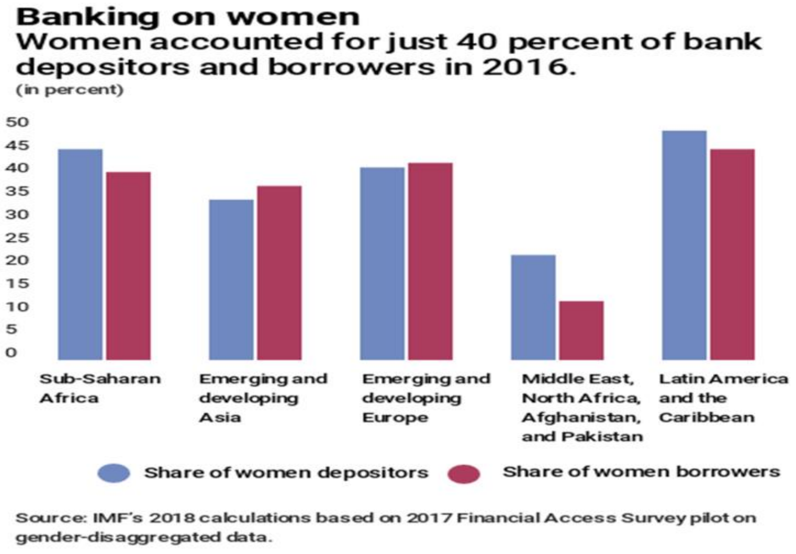
[1] The highest number of female graduates in 2021 at 48,000 were in business, management and law, well above arts and humanities, three times higher than in education and 6 times more than in a lower paid category like social sciences, journalism and media

[2] Within the 2.8m Saudis employed within the social insurance category, in 1Q24, 37% of females were classed as professional, against 26% of men. Over time, this is likely to reverse the current ratio in the "managers" category which is now 10% male and 7% female.

Sectoral impacts

The most obvious impact is in banking. In the 1990s, SNB forerunner NCB became the first bank to allow women to open a bank account. Today, MENA data imply the greatest customer growth is likely to come from female depositors (who could double as a share of depositors), and borrowers (who could quadruple their share). In their 1Q24 report, Al-Rajhi Bank reported 100% growth in female customers since 2015. No other region has such growth



Source: https://www.imf.org/en/Blogs/Articles/2018/09/19/blog-women-in-finance

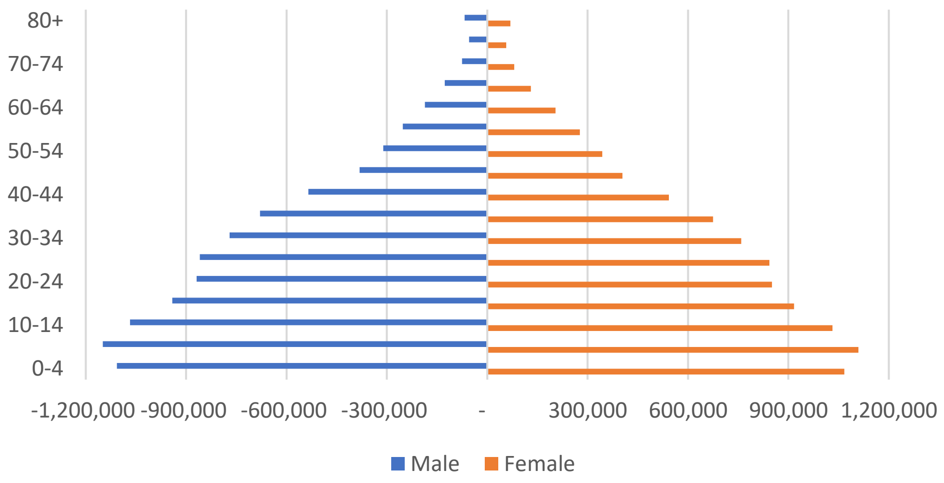
This then feeds into one of the other structural themes of Vision 2030: the focus on housing. As Saudi women marry later, have fewer children than their parents and increasingly embark on careers, more will be seeking modern homes and they will account for a growing share of the rising mortgage market. By contributing to rising credit/GDP ratios, they will help grow the construction sector, retail (from household goods to car ownership) as well as banks, insurance and the savings industry.

Demographic perspectives

This massive change in Saudi Arabia is happening exactly at the right time, demographically. If Saudi was a much younger nation, the impact of including more women in the workforce would be offset by the need for these women to look after many children, hampering career progression. But as the chart below shows, the number of children has now begun to fall (the peak was the 5-9 age group).

If Saudi was a much older nation, it might be hard to bring older women into the workforce who'd never formally worked before (only 14% of Saudi women over 55 worked in 1Q24), especially if many were also needing to care for elderly parents. What Saudi has today is a population pyramid that maximises the benefit of better educated females, entering the workforce in large numbers right now, at about 180,000 a year, peaking at 220,000 in the early 2030s (the figures very similar for young men).

Saudi national population pyramid



Source: General Authority for Statistics, estimates as of July 2024

The long-term impact of women inclusion in the economy on GDP

The extra macro benefit for KSA – more than in most countries - is the room for well-educated national workers to displace some of the expat/migrant workers who occupy so many jobs. Their remittance flows home at nearly $40bn (4% of GDP) in 2023 were larger than the size of Saudi Arabia's current account surplus, so improvement here would help the balance of payments.

Saudi Arabia is seeing the fastest ever growth in female participation, just when the country has a high share of young educated women in the population, in an economy that is already focused on services, which is where women tend to thrive globally. It is little wonder that the macro-economic and sectoral impact on the economy might be among the highest the world has ever seen. We suggest that women's inclusion in the economy can help lift GDP by 10-20% over the long-term and push up per capita GDP by $8,000 in the next five years.

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