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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

The Saudi population represents 0.45% of the world's population with an estimated 35.8 million inhabitants in 2022 (UNFPA). Some 42.2% are women according to the latest estimates of Stats SA. The population increases by 1.6% per year, bringing the country's density from 9.6 inhabitants / km² in 2000 to 16 inhabitants / km² in 2020 (World Bank, latest data available). According to the World Bank around a third of the population residing in Saudi Arabia was born outside the country. The median age is 32.4 years in 2022 while it was 21.3 years in 2000 (Data Reportal). This ageing of the population can be seen at all age group levels. The 0/14 age group represented 24% of the population in 2022 compared to 41.7% in 1995, the 15/64 age group 72% in 2022 against 55.3% in 1995 and those aged 65 and over 4% against 2.9% over the same period (UNFPA). As this ageing is accelerating, the Saudi government even estimates that the over 60s could represent 25% of the population by 2050.

The number of households is 5.46 millions of which 35.9% are foreign and 64.1% Saudi (Stats SA, latest data available). According to the country's General Statistics Authority (latest data available), households have an average of 5.9 people and 52% of them are in Mecca or Riyadh. The majority of the population is urban with 84.7% of Saudis living in the city in 2022 and a third of whom live in settlements with more than one million residents (Data Reportal and World Population Review). There are four of these, Riyadh (capital and the most populous city in the country with more than 4 million souls), Jeddah, Mecca and Medina. According to the World Bank, 98% of the population aged 15 and over was literate in 2020. Thus, 96% of women and 99% of Saudi men know how to read and write. The enrolment rate has increased significantly in the last ten years. According to UNESCO, 92.9% of the population attended primary education in 2020, compared to 96.6% in 2016. Some 96.2% of the population had secondary education in 2020 compared to 89.7% in 2016 and 70.6% of the population attended tertiary education in 2020 whereas only 58.3% had this chance in 2014. While unemployment affects 7.4% of the total population in 2021, it concerns 22.3% of young people aged 15 to 24, and 21.6% of women looking for work (only 3.7% of men) (World Bank). The hiring sectors are services (73% of total employment), industry (25%) and agriculture (2%) (World Bank).

Purchasing Power

In Saudi Arabia, GDP per capita PPP was \$ 46,759 in 2020 compared with \$ 39,882 in 2000, according to the World Bank. A five-year survey data issued by the General Authority for Statistics (GASTAT, latest data available) showed that the average monthly income for Saudi families amounted to SAR 14,820 in 2018, up 8.9% from 2013's income of SAR 11,980. The average monthly income for individuals (Saudis and residents) reached SAR 2,485 in 2018, compared to SAR 2,062 in 2013. One of the main problem of Saudi Arabia is the low household savings ratio, which stood at 1.6 percent of annual disposable income for Saudi nationals in 2018, which is significantly below the 10 percent global standard recognized as the minimum level to ensure long-term financial independence.

The kingdom has a two-tier economy made up of about 16 million Saudis, with most of the rest foreign workers. They have lower income and work mainly in the construction and maintenance sector. The poverty rate among Saudis continues to rise as youth unemployment skyrockets.

Another notable inequality is women's access to education, work and outdoor activities. While Prince

Mohammed bin Salman has taken a more progressive approach in granting driving licenses the kingdom remains one of the world's most lagging countries in terms of gender equality. In particular, gender segregation and women's wards prevent women from working, making Saudi Arabia one of the lowest countries in the world for women to access jobs. According to Stats SA, the proportion of women that is economically active is 34.9% (Q4 2021), far below the 79.5% male labor force participation rate.

Consumer Behaviour

According a survey of McKinsey & Company, Saudi consumer optimism has remained steady throughout the Covid-19 crisis, even if more than half of consumers have seen a decline in income savings. Most Saudi shoppers go to shopping centres for food, clothing and electronics. They can be divided into five broad categories based on their behaviours. The savvy consumers, brand savers, multi-channel buyers, discounted converts and selective spenders. More generally, Saudis prefer quality over quantity (two thirds of consumers value quality over price) and are attracted by international brands, especially luxury brands. However, in recent years there has been a change in the behaviour of consumers in the Arab world in general, and Saudi Arabia in particular. They pay more attention to prices and are therefore less loyal to brands. More than half of Saudi Arabian consumers have become more mindful of how they spend their money. Consumers tend to change to less expensive products, research brand and make shopping lists before buying. As the economy is recovering from the Covid-19 pandemic, consumers' confidence level is increasing and the great majority of them have a positive outlook about the future (Ipsos, March 2022). Since the pandemic they focus more on healthy products, have a better work-life balance and have become more digital (PwC, March 2022).

The e-commerce market in the MENA region is particularly promising and represents the emerging trend in Saudi Arabia, where it grew about 60% in 2019-2020. It is expected to reach USD 13.3 billion by 2025 (Boston Consulting Group and Meta Platforms). The great majority of Saudis (77%) are shopping online more frequently than before the pandemic (Mastercard). A behaviour strongly focused on their mobile phones with more than half of internet users making their purchases smartphones and barely a quarter on a computer. This is mainly due to the predominance of a young and connected population - the internet penetration rate stood at 97.9% of the total population in 2022 according to Data Reportal - that seeks to save time and money, but also by the arrival in Saudi Arabia of new secure online payment methods. E-consumers are mainly men, aged from 25 to 44 years. The market's largest segment is Fashion with a projected market volume of US\$3.84 billion in 2022, then there are electronics & media and food & personal care (Statista).

Consumer Recourse to Credit

As of 2010, the use of credit continues to grow in Saudi Arabia with consumer loans increasing by 17.3% every year between 2010 and 2014 at the height of the trend. This has been accompanied by an increase in the use of credit cards, whose circulation has increased by 28% in 2013 alone. To curb this progression before it becomes problematic, the Saudi monetary agency set up, as of 2015, restrictions on cash withdrawals citizens can make with credit cards. These are now limited to a maximum of 30% of the consumer's monthly expenses (compared to 50% previously).

In June 2018, Saudi household debt reached \$ 88.6 billion, compared to \$ 87.7 billion in the previous quarter. It affected 12.83% of households in 2017, according to the IMF.

Growing Sectors

With the [Vision2030](#) plan, the kingdom hopes to diversify its economy. Tourism and leisure, manufacturing or new technologies are all sectors that should benefit from this new development. The digital economy is also a sector on which the Saudi government is banking on. In order to encourage the use of electronic payments, the Saudi Monetary Agency has taken a number of initiatives, including the introduction of a new electronic payment system "mada" and mandatory payment of salaries into bank accounts.

In addition, the creation of a new city dedicated to energy and the construction of a gas distribution network represent important opportunities. With more than \$ 1.4 trillion in planned and ongoing major investments, Saudi Arabia is the largest construction project market in the region.

Consumers Associations

Consumer Protection Association of Saudi Arabia

IMPORTING & DISTRIBUTING

Import Procedures

The following is the list of documents required for customs clearance in Saudi Arabia. The list subject to modification. Please visit the website of the [Saudi Ministry of Commerce](#) for future updates.

- Commercial Invoice, indicating the country of origin, name of the carrier, brand and quantity of goods, and description of the goods including weight and value.
- Certificate of origin, authenticated by a local chamber of commerce and translated into Arabic.
- A bill of lading (or airway bill)
- A steamship (or airline) company certificate, which is an Appended Declaration to Bill of Lading or airway bill) should be issued by the steamship (or airlines) company in at least one original
- An insurance certificate (if goods are insured by the exporter)
- Packing List

Saudi Arabian Standard Organizations (SASO) is the regulatory authority controls quality of goods imported into Saudi Arabia. The conformity certificate is required to ensure all imported goods conform with Saudi standards

For more information, please visit the website of the [Saudi Customs Authority](#).

Specific Import Procedures

Depending on the nature of exported goods to Saudi Arabia, or according to a request from the Saudi importer, certain documents may also be required.

Requirements for labeling food and food products sold in the Kingdom of Saudi Arabia are determined by the SASO. Exporters of these products should must provide the following certificates: Food Manufacturer's Ingredients Certificate, Consumer Protection Certificate and Price List.

In addition to the general shipping documents all meat shipments must be accompanied by the following certificates: a certificate of "Halal" meat and an Official Health Certificate.

The Health Certificate is required for all exports to Saudi Arabia of all kinds of meats, (including poultry and seafood), meat products, livestock, vegetables, fruits, and human blood, attesting to the fact that they are free from pests and/or disease.

Furthermore, the exporter of seeds or grains must provide the following authenticated certificates: Certificate of Inspection, Phytosanitary Certificate, Seed Analysis Certificate, Certificate of Weight.

Other special shipping documents are required for shipment of livestock, pets, horses, importation of fruit and vegetables, electrical appliances and equipment, motor vehicles and medicines and pharmaceuticals.

Distribution channels

Saudi Arabia is the largest consumer market in the GGC countries. Despite the fall in oil prices, the market in Saudi Arabia has been continuing to enjoy a robust growth, due to its solid base of domestic consumers and growing youth population with high disposable income, the rising level of disposable income (higher than the global average), and high consumer confidence index. In 2020, total retail sales were estimated at approximately USD 37 billion (USDA). Euromonitor expects Saudi Arabia's retail market to grow by about 20% by

2022 (Retail Gazette).

Consumer spending increased by 10% in February 2022 compared to the previous month, Saudi consumers spending about SR 88.5 billion (SAMA). Fitch Solutions forecasts real household spending to post growth of 3.5% in 2022.

The government has moved on in order not to rely solely on revenues from fuel as the global energy market dynamics is changing and demographics of the country is expected to enter the transition phase with an increasing number of working-age Saudi Arabians by 2030. One of the main characteristics of the retail market is the high demand for luxury products.

Saudi nationals make up 48.4% of the retail workforce, with just under half of these employees, some 125,000, being women. This strong representation in the retail workforce helped take the overall Saudi female economic participation rate to 19.7% as of the end of September 2019 (SAMA).

There are three main commercially active regions in the Kingdom: the Western Region, with the city of Jeddah as the main commercial centre; the Central Region, including the capital Riyadh; and the Eastern Province, where the oil and gas industry is concentrated.

In terms of product category, food & beverages account for a nearly one-third market and the segment is anticipated to maintain its market dominance in the short-term.

Some of the major players operating in Saudi Arabia retail market are Panda Retail Co (Savola Group), Abdullah Al Othaim Markets, BinDaWood Holding, Farm Superstores, Al Raya Supermarkets, Tamimi Super Markets, Lulu Group International (EMKE Group) and Carrefour Saudi Arabia (USDA).

Distribution market players

The Saudi food retail sector is increasingly competitive, marked by the presence of domestic, regional and international outlets. The structure of retailing is characterized by the presence of supermarkets, hypermarkets and other convenience-oriented sales channels. The number of supermarkets and hypermarkets in Saudi Arabia increased by more than double between 2011 and 2016. In the fragmented domestic retail market, there is high pressure to innovate. Due to the recent government decision to reduce the share of the Saudi labor force consisting of low-skilled expatriate workers, relative margins have decreased, therefore driving up wage bills. This has disproportionately affected independent and convenience retailers (bakalas) and creates strong pressure to realize cost savings in other areas of operation without compromising consumer experience.

According to USDA, the total number of supermarkets and hypermarkets in Saudi Arabia was estimated at 1,255 stores in 2016 (latest data available). This is a relatively small number, and accounts for only 2.9% of the retail outlets. However, this 2.9% of outlets accounted for approximately 37% of total grocery sales in Saudi Arabia.

They are mostly located in the three major cities of the Kingdom (Riyadh, Jeddah and Dammam).

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Traditional retailers and independent grocers collectively account for the large majority of sales in Saudi Arabia. Bakalas are well-suited to cater to day-to-day consumer needs, particularly in terms of small quantity purchases. Prices in bakalas tend to be high, but they maintain an advantage over supermarkets by providing different services to shoppers looking to buy quickly a few items.

Retail Sector Organisations

Saudi Arabia Grocery Association

OPERATING A BUSINESS

Type of companies

Sole Proprietorship

Number of partners: One single person.

Capital (max/min): No minimum capital required.

Shareholders and liability: The individual entrepreneur is liable for the company's debts with his personal possessions.

Limited Liability Company

Number of partners: Minimum one director and one shareholder

Capital (max/min): Minimum SAR 100,000.

Shareholders and liability: Liability is limited to the amount contributed.

Joint Stock Company

Number of partners: Minimum three directors and one shareholder

Capital (max/min): Minimum SAR 500,000.

Shareholders and liability: Liability is limited to the amount contributed.

Limited Partnership

Number of partners: Minimum one director and two partners

Capital (max/min): No minimum capital

Shareholders and liability: At least one partner must have an unlimited liability. Liability of other partners is limited to the amount contributed.

Setting Up a Company	Saudi Arabia	Middle East & North Africa
Procedures (number)	3.0	6.3
Time (days)	10.4	19.5

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

SAR 4,000 - Private firms are required to pay citizens a minimum of SAR 4,000/month to count nationals for Nitaqat Saudization program purposes. However, they are neither statutorily required nor are they obliged by Nitaqat program regulations.

Average Wage

SAR 10,186 for the Saudi, SAR 4,023 for the Non Saudi (GaStat, Q4 2021)

Social Contributions

Social Security Contributions Paid By Employers: Employers contribute 9% of monthly covered payroll (monthly earnings considered are min SAR 1,500 and max SAR 45,000) to GOSI and 2% salary of all employees for work injury. From 1 Sep 2014, an additional 1% unemployment insurance contribution is required.

Social Security Contributions Paid By Employees: Saudi employees contribute 9% of gross monthly covered earnings, within the maximum limit of SAR 45,000. From 1 Sep 2014, an additional 1% unemployment insurance contribution is required.

Self-employed Saudi residents contribute 18% of monthly covered declared earnings (monthly earnings

considered are min SAR 1,200 and max SAR 45,000). Unemployment insurance contribution is not applicable to self-employed individuals.

Intellectual Property

National Organisations

Industrial Property Office (Patents): [Saudi Patent Office](#).

Industrial Property Office (Marks): [Ministry of Commerce and Industry](#) (Trade Mark Section)

Copyright Office: [Saudi Authority for Intellectual Property](#)

Regional Organisations

[Arab Society for Intellectual Property \(ASIP\)](#)

[Arab Intellectual Property Mediation and Arbitration Society \(AIPMAS\)](#)

International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

[Membership to the TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

A Value Added Tax (VAT) was introduced on 1st January 2018. For more info consult the website of the [Zakat, Tax and Customs Authority](#).

Tax Rate

15% (effective 1 July 2020).

Reduced Tax Rate

Certain goods and services are zero-rated, including exports of goods and services outside the GCC, the supply of qualifying medicines, medical goods, investment metals (gold, silver and platinum of 99% purity or higher, on a producer or refiner's original sale of investment metal and any further sale of gold, silver and platinum where the purity level remains), international transport services, and vehicles and equipment to be used for international transportation.

Other Consumption Taxes

Other consumption taxes are levied at the national level and the local level (e.g. gasoline tax, aviation fuel tax,

liquefied petroleum gas tax, petroleum tax, motor vehicle tax, etc.). Excise taxes were introduced in 2017. The rates are 50% on soft drinks and 100% on energy drinks, tobacco products, and electronic devices used for smoking or vaping, as well as liquids consumed in such devices. In order to comply with the Saudi Arabian Excise Tax Law, manufacturers and importers of such goods are required to register with the Zakat, Tax and Customs Authority.

Corporate Taxes

Company Tax

20% + 2.5% Zakat

Tax Rate For Foreign Companies

A resident corporation is taxed on income arising in Saudi Arabia. A company is considered resident if it is registered in accordance with the regulations for companies in Saudi Arabia or if its central management is in the Kingdom.

A non-resident carrying out activities in Saudi Arabia through a permanent establishment is taxed on income arising from or related to the permanent establishment.

Branches are taxed in the same way as subsidiaries.

Capital Gains Taxation

The disposal of shares in a resident company by a non-resident shareholder is subject to a capital gains tax of 20%. Capital gains are subject to the normal income tax or Zakat rate, as appropriate. However, capital gains deriving from the disposal of securities traded on foreign stock markets are tax-exempt if they are also traded on the Saudi stock market.

Capital gains and losses on depreciable assets are not taken into consideration in determining the tax base. No gain or loss arises on the transfer of assets between companies belonging to the same group provided that the companies are wholly owned directly or indirectly within the group and the assets are not disposed of outside the group for two years from the date of transfer.

Main Allowable Deductions and Tax Credits

All costs and expenses paid or incurred during the tax year to earn taxable income such as salaries and wages, travel expenses which are connected with the business or enterprise, and rent on properties used in the business, are deductible from the tax base, provided that they respect certain conditions: the expenses are supported by a verifiable document or other qualifying evidence; they are related to the generation of taxable income and to the subject tax year; they are of a non-capital nature.

Other expenses which may be deducted from the tax base include employers' contributions paid for the employees to retirement funds; research and development expenses incurred to generate an income that is subject to taxation; school fees paid for the employees' children (provided that such benefit is stated in the employment contract and that fees are paid to a local licensed school). Start-up expenses can generally be fully expensed in the first financial year or can be capitalised and amortised. Bad debts are also deductible (conditions apply), the same as for donations to certain approved charitable organizations. Operational losses can be carried forward (the maximum yearly profit percentage that could be used to offset cumulative losses should not exceed 25% of the year's taxable profit). Carryback of losses is not permitted.

Non-deductible expenses include taxes, entertainment expenses incurred for certain events, expenses of an individual for personal consumption, insurance commission in excess of 3% of total premiums collected in Saudi Arabia through an agent or other, payments made to headquarter offices located abroad by wholly-owned local subsidiaries or branches.

The Saudi government grants a 10-year tax incentive on investments in the following six underdeveloped provinces: Hail, Jizan, Abha, Northern Border, Najran and Al-jouf. Machinery and raw materials that are required for approved projects are exempted from customs duties (when they are not available in the local market).

Other Corporate Taxes

There is no capital duty, stamp duty or payroll tax in Saudi Arabia. While there is no real estate tax, Zakat (religious tax) may be payable on real estate if held for speculation.

A Real Estate Transaction Tax ("RETT") applies to the disposal of real estate, at a rate of 5%.

A 2.5% white land tax applies on all undeveloped land within urban boundaries.

Zakat also applies to companies that are resident in Saudi Arabia and other GCC nations. It is levied at a flat rate of 2.5% and is chargeable on the total of the taxpayer's capital resources held for more than 12 months and income not invested in fixed assets. These include the company's capital, net profits, retained earnings and reserves not created for specific liabilities.

Saudi employees are responsible for the monthly payment of the social insurance tax, which is levied at 2% for non-Saudi employees and 12% for Saudi employees (9% social insurance + 2% occupational hazard + 1% unemployment insurance), calculated on the basic wage, housing allowance and commissions (capped at SAR 45,000).

Other Domestic Resources

[Zakat, Tax and Customs Authority](#)

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

[See the international tax treaties on the website of the Zakat, Tax and Customs Authority](#)

Withholding Taxes

When paid to a non-resident, withholding tax rates are 5% for dividends, 5% for interest and 15% for royalties, unless otherwise provided in a tax treaty. No withholding taxes are levied on residents.

