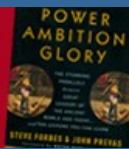


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Thomson Reuters

Q&A-Main economic challenges facing Saudi Arabia

08.11.09, 12:06 PM EDT



RIYADH, Aug 11 (Reuters) - Saudi Arabia, the world's biggest oil exporter, is facing challenges as it

tries to diversify its economy and integrate its fast rising young population.

Here is a list of the main challenges:

HOW DOES SAUDI ARABIA PLAN TO DIVERSIFY ITS ECONOMY AND CREATE NEW JOBS?

* Saudi Arabia has pledged to spend \$400 billion until 2013 to upgrade its infrastructure and has also launched a plan to build five economic and industrial cities to create new jobs. But delays are stalling many projects while analysts point to the competition from more established locations like Dubai.

Several international firms have pulled out of projects due to a credit squeeze after the global financial crisis. About 80 projects worth \$20 billion have been put on hold, according a study by Proleads Global.

But given the huge reserves accumulated from years of high oil prices, the kingdom can keep funding the main industrial projects. The government doubled capital spending in the first quarter and is drawing on foreign reserves to weather the global crisis.

'The country could run a 10 percent budget deficit for over 20 years, without approaching financial markets to borrow money, regardless of its oil revenues -- impressive,' said Daniel Broby, chief investment officer at British fund manager Silk Invest, which invests in Saudi stocks.

HOW RAPID IS POPULATION GROWTH? DO THE YOUTH WANT A GREATER SHARE OF OIL WEALTH?

* According to Saudi bank Samba Financial Group the population is growing at an annual rate of 3.5 percent -- but details are hard to get as the kingdom rarely publishes figures.

* A much-anticipated nationwide census is expected for next year. The last one was in 2004.

* The monarchy's efforts to diversify the economy away from oil and create jobs for the rapidly growing youth base is coming under greater scrutiny. On Internet blogs sensitive questions are being discussed such as how the country's wealth is distributed.

HOW DOES SAUDI ARABIA PLAN TO SOLVE HOUSING PROBLEM?

* The kingdom has recognised the challenges of providing housing and land for the fast rising population but a mortgage

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bill to help facilitate funding has not been approved yet. Home ownership stands at around 30 percent, the lowest level in the Gulf, said Samba Chief Economist Howard Handy.

Analysts hope the mortgage law will be in place by the end of the year but this would not automatically improve the situation.

HOW SUCCESSFUL IS EDUCATION REFORM ?

* Officials seem to understand the need for an overhaul of the education system to hone the skills of its graduates for the job market. But, weary of clerics' opposition, the government has not yet taken a serious drive at reforming the curriculum.

Billions are spent on building new universities and schools and equipping old ones with computers but diplomats say up to 60 percent of school curriculums deal with religion.

WHAT ABOUT THE JUDICIARY ?

* King Abdullah removed in February the head of the supreme court, a hardline cleric, as part of efforts to modernise the court system but diplomats say not much has been achieved.

The only concrete step planned is to set up appeal courts but there is still no consistent law application with courts in different provinces handing out different verdicts for the same crime -- often to a point of embarrassment for the government.

'The judiciary is the area most penetrated by clerics. They dominate senior and middle positions and obstruct reforms ordered from the top,' said a senior Western diplomat.

The case of troubled family firms fighting out a law suit in New York shows that even locals do not trust the court system.

HOW SUCCESSFUL ARE PLANS TO ATTRACT MORE INVESTMENT?

* Efforts to attract more investment have been hampered by a debt crisis involving family firms such as Saad Group or Ahmad Hamad Algosaiibi & Bros which have unveiled debt restructurings but have declined to detail the size. The central bank has not confirmed that the firms' accounts are frozen.

The saga reinforces investors' worries about transparency of its financial sector. The Arab world's largest bourse has allowed limited ownership of shares but disclosure rules fall short of standards of more mature markets.

((For an ANALYSIS on Saudi Arabia's young population, please click on))

(Reporting by Ulf Laessing and Souhail Karam; Editing by Samia Nakhoul) Keywords: SAUDI CHALLENGES

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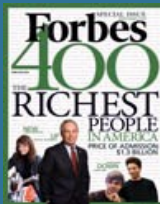
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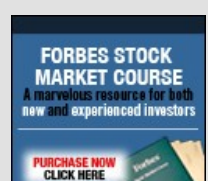
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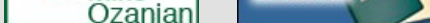
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