Volatile oil prices continued to present a significant challenge to government budgeting in 2019.

The Brent oil price fell to $55 a barrel in December 2018, rebounded to $75 in April 2019, and was trading around $60-66 at the end of the year. The Kingdom's cuts in oil production in 2019, as part of an OPEC+ agreement, contributed to a significant softening of the GDP to a projected 0.2% growth year-on-year in 2019 (from 2.9% in 2018).

Meanwhile, the non-oil sector provided a healthy up-tick of some 2.9%, supported by government spending. The fiscal deficit widened to a projected 6.5% of GDP in 2019 from 5.9% in 2018 as spending increased and in fact exceeded the budgeted amount and offset the increase in non-oil revenues.

The economic effects resulting from geopolitical tensions, Brexit and the threat of trade war remained limited, with sales of equities by foreign investors proving temporary and the appetite for Saudi bond issuances remaining strong.

The 2019 budget set out a medium-term consolidation path that still aims to balance the budget in 2023. According to the IMF, GDP growth in the Kingdom is expected to rise to 2.2% in 2021 as oil production cuts are reversed and ongoing diversification reforms yielded dividends. Saudi Arabia is to chair the G-20 in 2020, which is likely to stimulate additional progress on structural reforms.

The current account surplus is projected to widen with a shrinking trade surplus from lower oil exports receipts and higher private demand and Vision 2030-related infrastructure imports. Saudi Arabia is to chair the G-20 in 2020, which is likely to stimulate additional progress on structural reforms. Promoting non-oil growth and creating jobs for Saudi nationals remain key challenges. Fiscal consolidation is needed to reduce vulnerabilities in Saudi Arabia's economic prospects.

The newly implemented public procurement law and associated reforms will help to improve the efficiency of government spending and reduce risks of corruption. The banking system is well capitalized and liquid, providing a strong platform for underlying economic growth potential. Capital market reforms have resulted in the Kingdom's inclusion in global equity and bond market indices. Fiscal reforms also include lowering the registration threshold for the VAT, adjusting gasoline prices on a quarterly basis, and increasing fiscal transparency. Reforms to the capital markets, legal framework, business environment, and SME sector were ongoing.

Banks in the Kingdom have significant opportunity to develop their retail businesses. At the end of 2018 Bain & Company conducted a survey of over 150,000 customers in 29 countries (almost 2,000 of them in the Kingdom) which showed vast potential in the Kingdom for growth in delivery of digital services. The survey evidenced that Saudi Arabia has one of the lowest of "digital first" customers (ie those who perform more than half of their banking online or via mobile services). The report indicated that digital customers are more loyal to their banks than traditional customers, but over half of Saudi customers already use a third-party payment solution. This indicates clearly the potential for Saudi banks to penetrate more effectively the sheer scale of digital services that are being sought by customers.