

OUR MARKETPLACE

The impacts of the COVID-19 pandemic on the global economy, lower levels of oil production and resulting volatility in oil prices presented significant challenges during 2020.

Saudi Arabia's authorities took a phased and rigorous approach in their attempts to mitigate the consequences, including implementing social distancing measures and establishing agreements on oil production.

The Kingdom's economy saw a record contraction in GDP of 7% in Q2. This rebounded in Q4 with 2.8% growth, as compared to a 0.3% contraction in the same period of 2019. Towards the end of the year, non-oil sector growth experienced a 2.1% decline as compared to 8.2% in Q2 2020. The oil economy, however, fell 8.2%, the most significant decline since the start of 2011.

Value-added tax (VAT) was also increased threefold in July to offset the impact of lower oil revenue on state finances, with further effects on non-oil sector economic activity.

The Brent Crude oil price was \$67.3 a barrel in December 2019. It fell to \$18.38 in April 2020 and was trading at around \$49.99/b at the end of 2020. The 2021 budget deficit is expected to narrow to SAR 141 billion, amounting to 4.9% of economic output, as compared to nearly SAR 300 billion, or 12% of Saudi Arabia's GDP in 2020.

As part of a historic OPEC agreement in response to the pandemic, Saudi Arabia and other countries agreed to reduce their overall crude oil production by 10 million barrels per day (mb/d), with subsequent adjustments to follow. These developments weighed heavily on the Kingdom's economy, despite governmental support through fiscal and monetary measures.

The Kingdom also hosted the G20 Riyadh summit in November, which was held virtually due to the pandemic. The leaders agreed to rise to the challenge of responding to COVID-19 collectively. An emergency meeting was also held in March, with the attendees agreeing to support those who lost their incomes as a result of the pandemic.

THE KINGDOM'S BANKING SECTOR

While the Kingdom's banking sector was affected by the consequences of COVID-19, the impact was less significant than might be the case for other countries in the region. The Government has been proactive in cushioning the effects where possible. It announced support packages for the private sector totaling almost SAR 228 billion, including support to the Saudi banking and SME sectors. The Saudi Central Bank (SAMA) announced an injection of SAR 50 billion into the banking sector, to help improve banking liquidity and support the provision of credit facilities for the private sector.

LOOKING AHEAD

Saudi Arabia's outlook depends heavily on COVID-19 developments in the months ahead. The Kingdom announced a budget of SAR 990 billion for 2021, lower than previously estimated, as the country aims to mitigate the deficit caused by the pandemic and ongoing oil volatility. Despite the exceptional challenges for the economy in 2020, efforts towards supporting Vision 2030 and its pillars remain a priority for the Kingdom. Further, according to the IMF, GDP growth in Saudi Arabia is expected to increase by 2.6% in 2021. Thus, while the outlook remains uncertain, the economy is expected to recover.