الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Kingdom of Saudi Arabia

November, 2021

TRUST . TRANSPARENCY . INDEPENDENCE

Operating Environment:

With a reduced nominal GDP of USD 700bn during 2020 (2019: USD 790bn), the Kingdom of Saudi Arabia (KSA) is the largest economy in the middle-eastern region. While traditionally an oil based economy, the country has put building the non-oil economy on agenda, causing the contribution of hydrocarbons to shrink over the years. The share of non-oil economy was around 69% in 2019 (average crude oil export price: USD 65.9/ barrel), having successively risen from 55.5% in 2010 (average crude oil export price: USD 75.8/ barrel), and evidencing the effects of diversification in the last decade, even after adjusting for the oil price differential. At 77% in 2020, non-oil economy had increased in proportionate terms also on account of low oil production during the year given OPEC cuts in effect amid COVID-19. Overall, the GDP contracted by -4.1% during 2020, with the non-oil economy shrinking by 2.3%, led by travel and contact sensitive services, and a sharp contraction of 6.7% in the oil economy. Though recovery has been noted with Q2'2021 posting 1.8% growth on the back of a robust non-oil economy, the second half of the year is likely to post further traction as OPEC cuts are eased.

Table 1: Economic Indicators

%	2018	2019	2020	2021P
Real GDP Growth Rate*	2.4	0.3	-4.1	2.5
Inflation (Annual Average)	2.4	-2.3	3.4	3.2
Current Account / GDP	9.2	4.8	-2.8	3.9
Fiscal Balance / GDP	-5.9	-4.5	-11.2	-3.5
Public Debt / GDP	19.0	22.8	32.5	30.0
External Debt / GDP	19.2	23.5	34.1	29.9

Source: SAMA Annual Bulletin 2020, except Real GDP Growth

** Source: General Authority of Statistics, KSA*

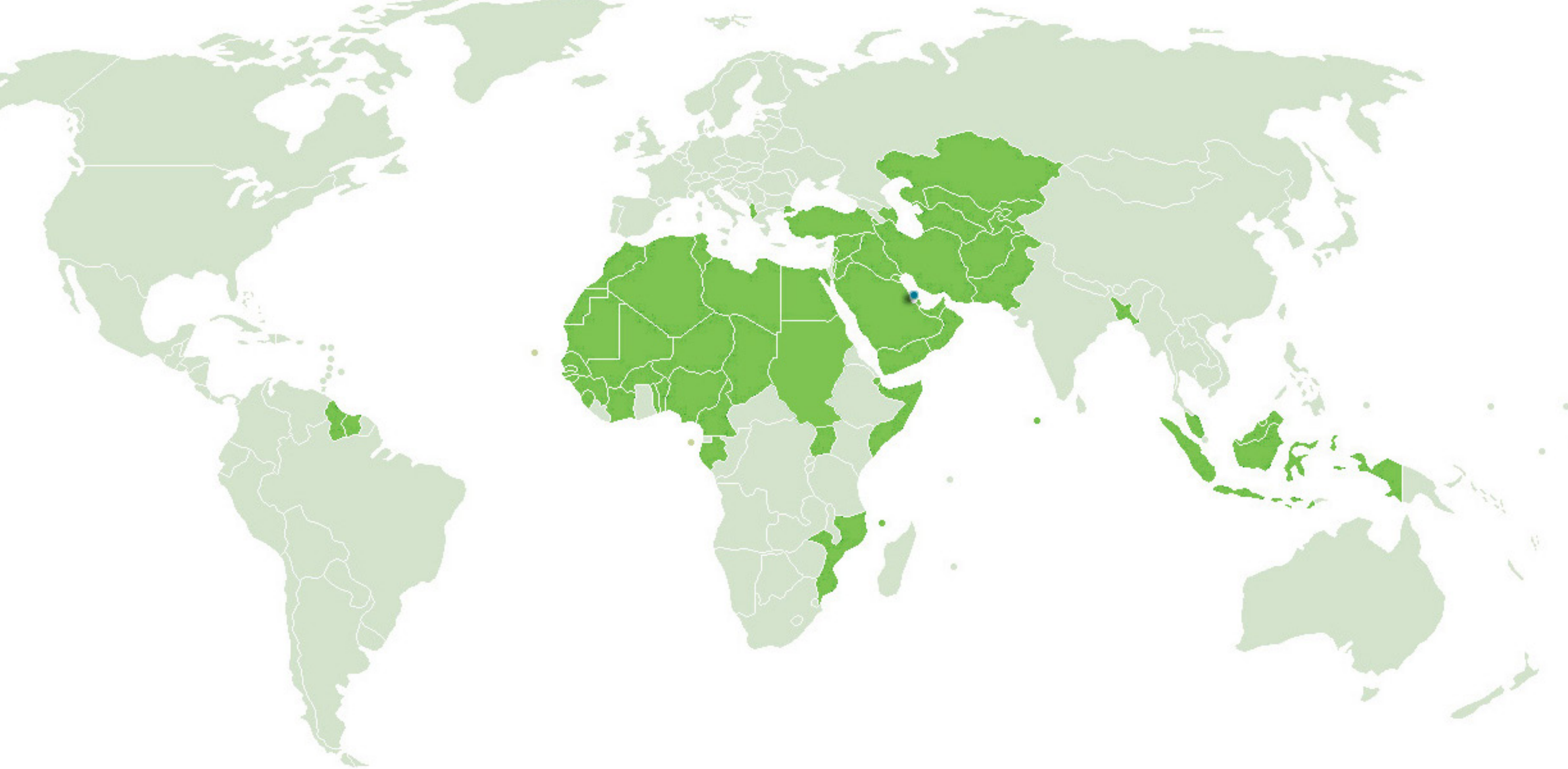
Despite the inevitable consequences of the pandemic, the economy was supported by timely government measures. A Supreme Crisis Committee was formed for managing the health and economic policy, which imposed strict measures including lockdowns and travel ban that helped contain cases. The vaccination drive has been effective, with 66% of the population inoculated, which indicates very high coverage of the adult population, allowing the economy to begin its trajectory towards normal, with international travel bans eased recently.

To further support the economy and following the monetary easing followed by the Federal Reserve, Saudi Arabia Monetary Authority (SAMA) cut the policy rate twice in March 2020. SAMA cut the policy rate by 75bps on March 03, 2020 to 1.75% and further by 75bps on March 16, 2020 to 1%, with a cumulative cut of 1.25%, leaving it constant since then.

Driven by strong oil exports, the country has been posting current account surplus during 2017-2019. In 2020, the average oil export price declined by a sharp 40.5% to USD 42.7/bbl from USD 65.9/bbl in 2019, taking total exports down by -33.5%. While imports were also lower, it did not offset the impact of lower imports, resulting in the current account balance moving from a surplus of 4.8% of GDP in 2019 to a deficit of -2.8% of GDP in 2020. The current account is expected to revert to a surplus in 2021, as oil prices have rebounded supported by stronger global growth, with the country expected to post a current account surplus of over 3.5% of GDP in 2021.

Government revenues also took a hit especially in the oil sector, revenues of which fell by 30.5%, while non-oil revenues increased by 10.9%, supported by implementation of VAT. VAT rates were increased from 5% to 15% in July 2020 and customs duties were also increased in June 2020. Expenditures increased moderately as increased COVID-19 spending was offset by removal of cost-of-living allowances (COLA) in Jun 2020 and lower capital spending. The COVID-19 budget support at SAR 116.5bn or 5.8% of GDP, also posed constraints on the budget. The government allocated an additional SAR 74bn or 4.5% of non-oil GDP to support health sector and ease the private sector. On a cumulative basis, the fiscal deficit widened to -11.2% (2019: -4.5%) of GDP during 2020. The government plans to consolidate the fiscal position and targets a deficit of -3.5% of GDP during 2021, and is largely on course to achieve target.

To meet the financing requirements as a result of twin deficits in both fiscal and current accounts, fresh funding was raised, increasing both public and external debt. The central government debt increased to 32.5% of GDP (2019: 22.8% of GDP) with external debt also increasing from 23.5% of GDP as at end 2019 to 34.1% of GDP as at end 2020. Despite the increase in the debt position, debt levels have remained manageable, supported by a strong reserve position in excess of USD 454bn as at end 2020.



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