

Research on the Impact of COVID-19 on GDP of Saudi Arabia

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ABSTRACT

The global breakout of the COVID-19 has led to the inflicting heavy losses on the global economy where no country, whether developed or developing, has survived without significant losses. And what's more, Saudi Arabia has been swept up and affected without exception, negatively affected in many sectors of the economy, including its oil price, and concerning GDP level, consumption level, and investment level of people. This paper is to focus on exploring the impact of the COVID-19 virus on the economy of the Kingdom of Saudi Arabia, seeking to reflect a descriptive overview of the GDP level, utilizing the comparison among the last 20 years and analyzing the estimated data from the World Bank to assess each indicator of GDP level. Also, this article is going to discuss how the Kingdom has tried to get out of this dilemma and confront it, as well as give some suggestions about its survival of the economy. From this essay, we can notice a considerable GDP shock of Saudi Arabia and meticulously interpret each situation of composing level to reflect the most realistic economic crisis of KSA.

Keywords: Saudi Arabia, GDP level, oil price, COVID-19

1. INTRODUCTION

An outbreak of intense abnormal respiratory sickness happened in Wuhan, China in December 2019. Furthermore, the coronavirus disease pandemic has swept the world. And Saudi Arabia is one of the developing countries suffering from the effects of COVID-19, with cases fluctuating for months now, the disease has led to a reduction of people in Saudi Arabia from February 2019 to June, 2020, which shows an exponential increase in the number of cases.

The continued pressure on the Ministry of Health influenced the GDP of Saudi Arabia and has affected Saudi Arabia's economy in both direct and indirect channels. The direct channel means infection cases and outbreaks, while the indirect channels include oil price, value chains, and transport and tourism.

However, the emphasis would only be put on the factor oil price, as the oil and gas sector accounts for around 50% of its GDP and about 70% of all export earnings. Here comes the analysis of the precipitous drop of the oil price by using the supply and demand model.

This essay is aimed to quantify the size of GDP shock to the economy and key social and economic factors,

stemming from the dual impact of low oil prices and the COVID-19 pandemic, which carefully analyzes the wealth of data to reveal a detailed and clear picture of the economy. The article is looking forward to discussing the findings of GDP level of Saudi Arabia, which is subdivided into three parts which include Consumption and Government Spending, Investment, and Net Exports. With measures of Saudi Arabia government taking elaborated in the following part, I will give some suggestions about the difficult situation and have a prospect on the future.

2. THE SIGNIFICANT DROP IN OIL PRICE INFLUENCED BY COVID-19

The demand and supply of the oil were in equilibrium before the outbreak of COVID-19. Nonetheless, there were already factors causing demand to decrease. One example is the appearance or prevalence of new technology such as the flourishing of electronic cars.

After the outbreak, as China contributes a lot to global oil demand, the demand decrease in China significantly decreased global demand. In addition, the Chinese economy's great negative spillovers and the factors mentioned above before the pandemic continuing to take effect all together made demand decrease significantly.

As for the supply, since the OPEC+ failed to control the supply of oil, supply had inversely increased during the pandemic [1].

According to the data, oil prices are reduced by 58% comparing with the beginning of 2020. The reason why there is a decrease in price is due to lower demand for fuel, a decline in consumption and the suspension of work under the OPEC agreement. And the International Energy Agency expects the demand for oil to drop to approximately 80 million barrels per day in 2020, which has put a great deal of pressure and clamors of comments in both demand and the oil price[2].

A decrease in demand and an increase in supply simply caused the oil price to fall sharply, which demonstrated COVID-19 was a tremendous blow to the economy of Saudi Arabia, which would make a great

difference in both society and economy, simultaneously suffering from other countries' demand for oil. The detailed findings of its economy will be illustrated as followed.

3. THE FLUCTUATION OF GDP IN KSA

3.1. The brief introduction of GDP growth in Saudi Arabia

In the fluctuation of real GDP growth of KSA from 2000 to 2020, it witnessed a noticeable soar and plunge. There are 3 points in time plummeting at the bottom, respectively 2001,2002,2009,2017 and 2020, while the real GDP growth in 2020 decreases to -4.10%, reaching the lowest position so far.

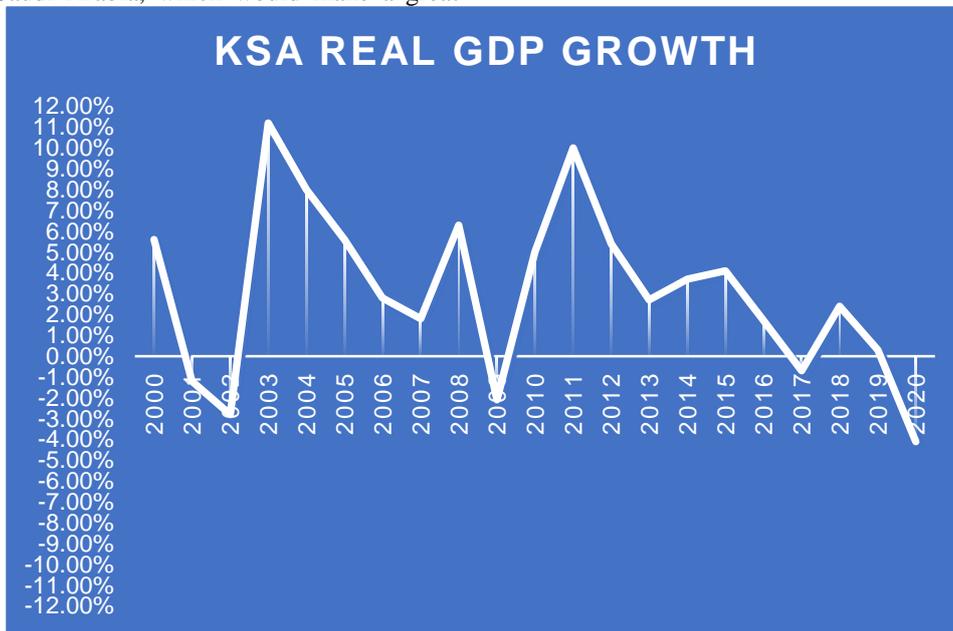


Figure 1. KSA Real GDP Growth

3.2. The Analysis about the GDP decrease in 2020

In Saudi Arabia, the oil industry accounts for the most essential position, which has significant related impacts over certain services industries, such as tourism, business, IT, and so on [3]. As for the lowest status of GDP growth in 2020, the reason is that the pandemic outbreak has significantly influenced the oil prices, an exact driver of inflation.

What is more, the fall in oil prices will have a positive effect on the CPI, and the most significant impact of the shock in oil prices will be the decline in investment. It also led to and disorder in substantial decreases in energy demand and prices, particularly of oil and industrial metals. Declines in commodity prices might interfere with financial uncertainty and investments and growth in producing and exporting oil and metals countries. This

part will analyze the impact of the pandemic seasons on the GDP in different aspects, which consists of Consumption and Government spending, Investment and Net Exports.

4. GDP SHOCK

Significant contraction is expected across the economy with exports being impacted the most, at the same time, the dual effect, which is lower oil prices and slow-down in economic activity induced by the pandemic, will likely impact Saudi Arabia simultaneously and adversely throughout 2020. It is difficult to quantify how exactly each of the channels would affect GDP components individually. However, as per World Bank pre-estimates, significant contraction is expected across the economy with exports to be impacted the most [4].

4.1. Consumption and Government spending (C+G)

As per consumption theory, private consumption is generally the most resilient in the overall GDP profile as the households endeavor to smoothen their spending over the lifecycle.

Table 1. Component of GDP—Private Consumption and Government Consumption

Key Economic Variables forecast	Oct 2019		Jun 2020		Difference	
	2020	2021	2020	2021	2020	2021
World Bank						
Private Consumption	2.4%	2.2%	-1.2%	1.4%	-3.6%	-0.8%
Government Consumption	1.2%	1.2%	-2.3%	1.0%	-3.5%	-0.2%

Based on World Bank collections, private consumption is expected to decrease by 3.6% in 2020, while at the same time marginally behind the decline in government consumption of 3.5%. It is evident that the overall economic lockdown has considerably affected the household consumption and government consumption, the recent fiscal measure of tripling value-added tax to 15% will further hurt consumption levels.

The vital driver of the economy in the Kingdom of Saudi Arabia- the total oil prices reflected the negative feedback, with the overall government expenditure estimated to fall during 2020. While the significant reduction economically took place according to recent estimates, the government's expansionary fiscal policy would still need to play an important role in maintain a certain level to keep the expenditure to deal with the fiscal deficit in 2020.

4.2. Investment (I)

As for the Investment of KSA, there are three main sectors—Oil, non-oil private sector investment, and government investment. They are likely to trend down in 2020, induced by the epidemic situation due to two main dual reasons: First is the shock of lower oil prices. Second is the slow-down in economic activity induced by the pandemic.

To evaluate the circumstances of the future-develop-trend, it is estimated that the anecdotal evidence can prove the existing estimates on investment in 2020 face downside risk due to oil prices and pandemic-related economic slow-down.

World Bank has estimated a growth in investment of 5.6% in 2020 while decline of -1.3% in 2020 from the different time point estimations.

Table 2. Component of GDP—Gross Investment

Key Economic Variables forecast	Oct 2019		Jun 2020		Difference	
	2020	2021	2020	2021	2020	2021
World Bank						
Gross Investments	5.6%	6.2%	-1.3%	1.8%	-6.9%	-4.4%

Similarly, the authorities have already announced either cut back or delay in projects associated with Vision 2030, which can highly control and reallocate higher expenditure on health [5].

4.3. Net Exports (NX)

Considering the lower demand for oil COVID-19 pandemic, in which many countries carried out the lockdown policies, so that oil prices have fallen sharply in 2020.

The oil exports are regarded as pillar of the economy in KSA.

From the World Bank Projections, there are some verifications about the fact- a dramatic decrease from various estimating can be found in the exports of KSA, up to -7.7%. Cumulatively, oil and petrochemical exports comprise 77% of total exports for the KSA. Given such a concentration of exports, the World Bank expects the KSA's exports to fall by the most 7.7% in 2020 [4].

Table 3. Component of GDP—— Exports and some estimations

Key Economic Variables forecast	Oct 2019		Jun 2020		Difference	
	2020	2021	2020	2021	2020	2021
Exports	0.8%	1.8%	-6.9%	4.0%	-7.7%	2.2%

Prices have recovered to some range; the year-to-date average oil price is still down by 35% year over year [4]. This, coupled with production cuts by OPEC+ to ease the supply and to bring the oil market into equilibrium again, Overall oil production in the KSA is expected to decline by -8 percentage points to -9.0mn bbl [1][4].

From these facts, we found the explanations: all this is expected to have a severe impact on the KSA's exports, given the high concentration of oil in the overall export mix.

Lower oil prices will also have an adverse impact on the KSA's petrochemical exports, which form the second-largest exports after oil, as petrochemical margins move in tandem with oil prices. Or put it in a way of logic chain: Expected lower consumption levels in economics → Overall lower economics → Higher taxation → Overall imports shrink [6].

On the other hand, according to import aspect, given the expected lower consumption levels in the economy driven in part by overall lower economic activity and higher taxation, overall imports are expected to shrink. Besides, With the epidemic influence causing the lower economic activity and decline expenditure of government, the dip in exports tend to be equal to or exceed the dip in imports, so that the KSA still maintains a dynamic trade balance.

5. THE KINGDOM OF SAUDI ARABIA'S MEASURES AND INITIATIVES TO DEAL WITH THE DIFFICULTY

The findings above on the economic impact at least hint that Saudi Arabia did face enormous challenges during this pandemic, which lost both oil revenue and non-oil income, reflecting the components of GDP level. Facing the extreme crisis, the Saudi Arabia government took a series of precautionary and preventive measures to fight the pandemic so that the economy of KSA would survive from this health pandemic with minimal lasting damage. [7]

According to KMPG in 2020, the Kingdom of Saudi Arabia had invested several measures being worthy of almost 266 billion riyals, which were adopted in support of efforts to counter the effects of the spread of the coronavirus pandemic on various economic sectors. The following measures and initiatives have been divided into the elements to stimulate the flourishing of the

economy of KSA—— Tax, Employment -related and Economic stimulus measures [8].

5.1. Tax Measures

Tax measures were taken from the direct and indirect aspect, based on the KPMG summarizing the actions like payment deferrals, rate reductions and so on, while the KSA announce a few measures to relieve the taxpayers in response to COVID-19 pandemic.

The General Authority for Zakat and Tax (GAZT) introduced a general method of three months for filing tax returns and payment of the related taxes for registered taxpayers.

According to payments suspended, penalties will not apply for payments of tax that are suspended. And refunds due to taxpayers are to be expedited. Besides, return filing dates for VAT will be postponed until 30 June, 31 July, 31 August, 30 September for the March, April, May, and June periods. The government also withheld tax by filing dates for submission of returns are now due on the 10th of July, August, and September for the March, April, and May periods [8].

5.2. Employment-related Measures

In response to the unemployment crisis caused by the pandemic, the Saudi Government has introduced a series of policies to help the Saudi citizens. For instance, Human Resource Development Fund has allocated SAR 5.3 bnto support private sector enterprises to hire and train nationals. And Saudi Government has announced to pay 60% of the salaries of Saudi employees working in the Private sector for a period of three months with a ceiling of USD 2.39 billion. The Compensation will be paid in accordance with the conditions stipulated in the unemployment insurance system (SANID). Allowing the employer and employee to agree within six months on either reducing the employee's wage to adjust with the actual work hours or granting the employee a local leave to be deducted from his/her deserved annual vacation, or granting him/her an exceptional leave. The termination is further not legitimate once it became evident that the employer has benefited from any government subsidy to deal with this situation [8].

5.3. Economic stimulus measures

There are a variety of stimulus measures that can help heal the battered economy, such as loans, a moratorium on debt repayments, and a series of policies such as Monetary Policy and Fiscal Policy to help KSA's economy recover.

According to KPMG collecting the measures of KSA, on 14 March, Saudi Arabia announced a stimulus package, including SAR 50 billion (USD 13.3 billion) for SMEs. Under Saudi Arabia's program, SAR 30 billion will be allocated for banks and financing companies to delay loan payments due from SMEs for six months. Here are helpful programs as followed

5.3.1. Deferred Payments Program

Like the beneficial policies, all SMEs, according to the Institution Circular No. 381000064902, dated 16/06/1438 AH, and financing companies are subject to the supervision of the Monetary Agency. And there is also included postponement period, all outstanding installments (including accrued profits) from March 14, 2020, CE to September 14, 2020 CE. On September 1st, 2020, this program was further extended for an additional 3 months ending December 14th, 2020. Furthermore, Banks and finance companies are subject to the supervision of the Saudi Arabian Monetary Agency [8].

5.3.2 Monetary Polices

The government also extended working capital finance to all corporates in such sectors and addressing their short-term liquidity requirements. Also, they Instigated Private Sector Job Retention Schemes – PSJRC for corporate customers in order to maintain the employment at these customers and providing concessional bridging loans for at least six months. The last, for example, introducing flexibility in repayments of Consumer Finance to individuals who have lost their job due to Covid-19. This includes the relief of repayment of the loan or mortgage payment for a period up to six months at no additional cost [8].

6. CONCLUSION

In conclusion, with the dual effect that lower oil prices and slow-down in eco-activity will impact Saudi Arabia continually throughout 2020, the overall decline in GDP of KSA is likely to trend down, in which the COVID-19 outbreak is used as a tool to analyze the economic and social issues. Furthermore, although Saudi Arabia was hit hard in 2020 due to the decline in crude oil prices reduced government revenue, there would be a great number of measures to prevent restricting economic activity, a series of new polices to combat COVID-19 may cast a shadow on future growth economic prospects to increase KSA' s GDP severely.

The solutions carried out by the Saudi Arabia government can be concluded as the last four aspects, which can make a great difference to the economic recovery, for instance, the Saudi Arabia government encouraged the new business to develop its economic of scales, as greatly as possible to improve the industry like tourism and some exports career. Furthermore, they increased their investment in technology and research in emerging industries, including software and artificial intelligence.

Also, they had to facilitate the exports and imports to recover, especially the survival of the oil-export development of KSA. About the release of Monetary and Fiscal policies, which promoted the private consumption to recover the GDP level.

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