Saudi Arabia

Outlook

								Forecast	
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	5.4	4.1	1.7	-0.7	2.4	0.3	-4.1	2.2	4.4
CPI Inflation (%)*	3.2	1.2	2.0	-0.8	2.5	-2.1	3.4	3.0	1.7
Fiscal balance (% of GDP)	6.0	-15.8	-17.2	-9.2	-5.9	-4.5	-11.1	-1.5	-0.2
Public debt (% of GDP)	4.1	5.8	13.1	17.2	19.0	22.8	32.4	31.0	31.7
Reference rate (%)*	2.0	2.0	2.0	2.0	2.5	2.7	1.2	0.5	0.6
Exchange rate (RMB/USD)*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Current balance (% of GDP)	17.3	-8.7	-3.7	1.5	9.2	4.8	-1.6	6.6	6.5
External debt (% of GDP)	13.2	12.5	17.3	19.1	18.1	21.6	32.5	30.0	29.6

Note: * Annual average.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **In 2020, Saudi Arabia's GDP fell by 4.1%, with its economy entering its worst recession in nearly four decades. However, despite this decline, the contraction was less severe than those observed in other developed and emerging economies, thanks to the service sector's lower GDP share.** The economic outlook is moderately favourable, against a backdrop of a global recovery in hydrocarbon prices and domestic demand. One key area is the vaccination programme, with the government estimating that by the end of 2021 around 70% of the resident population will have been vaccinated, although delays in the arrival of some of the doses that are part of the COVAX mechanism and outbreaks of new variants in the pandemic may result in it taking longer to hit that target.

- **Real shock of COVID-19.** The 4.1% drop in GDP in 2020, the sharpest since 1987, was the result of the joint shock of the pandemic and the collapse in crude oil prices, although the recession was mitigated by the economic policy response and the fact that services represent a smaller share of Saudi Arabia's GDP. Looking ahead to the coming years, we expect GDP growth to return to positive territory, with particular momentum from Q3 2021. The energy sector will gain in strength thanks to the recovery in global demand for crude oil and the resulting reduction in OPEC supply restrictions. The non-energy sectors of the economy will benefit from a gradual improvement in global activity through a rise in the export of goods – especially to China, its main trading partner – and services such as religious tourism. Moreover, with the stabilisation of the health crisis, the authorities have placed greater emphasis on developing infrastructure and construction projects, within the Vision 2030 plan.

- **Economic policy response**

  - **Fiscal policy.** The combination of the health crisis, which required an extension of the fiscal support packages and the sharp decline in oil industry's activities led to a significant increase in the fiscal deficit, which rose to 11.1% of GDP last year. For 2021, the authorities have expressed their commitment to resume the fiscal consolidation process that was started before the pandemic and reduce public expenditure and investment. However, the PIF (Public Investment Fund) will offset some of the cuts in public investment that are planned over the next two years with measures that could amount to an equivalent of 5% of GDP. In terms of revenues, we expect these to rise significantly due to the recovery of hydrocarbon prices (which, most likely, will continue throughout the year) and the rise in the VAT rate (from 5% to 15%), within the context of gradually strengthening domestic demand. In short, the negative fiscal balance should narrow significantly this year and may come close to balancing out in 2022. Additionally, this year, the government has planned

Closing date of this edition: 12 July 2021

Outlook (continuation)

a programme to issue *sukuk* (Islamic bonds) and other bonds with a value of 124 billion riyals (around 5% of GDP), which will be placed in foreign capital markets.

- **Monetary policy.** The Saudi Arabian Monetary Authority (SAMA) will maintain an accommodative monetary environment, driven by the Fed's monetary policy, as the riyal is pegged to the USD dollar (we expect this fixed exchange-rate regime to hold throughout the forecast scenario). In addition to having reduced the reference rates (125 bp to 1.00%), the SAMA has introduced measures to ensure that there is liquidity in the private sector (for an amount equivalent to 2% of GDP) and to extend the moratoriums on payments and the guarantee programmes (in the latter case, until March 2022).

- **Evolution of the exchange rate.** We expect the riyal's peg with the dollar to remain stable over the coming years. Against this backdrop, it is reassuring that the SAMA holds a high level of international reserves (equivalent to 28 months of imports, despite falling by 9% in 2020 due to the fall in crude oil prices), serving to guarantee the stability of the exchange rate. Furthermore, we expect the level of reserves to increase in 2021 as restrictions being lifted on crude oil production should benefit the current account balance.

Main risks

Downside risks prevail, but there are certain strengths that may bring positive surprises:

- **Macroeconomic risk.** The pace of the economic recovery may be harmed by the slowdown in vaccinations and the fall in crude oil prices, the future of which depends, in turn, on the recovery of global activity and the demand for oil. Another important factor is Saudi Arabia's dependence on foreign labour (skilled and unskilled, representing approximately 70% of the workforce). Foreign labor fell notably during the pandemic, which may present obstacles to productivity, foreign investment and domestic consumption.

- **Strengths in the banking sector.** The banking sector has remained resilient during the pandemic, thanks to a strong initial capital and liquidity position and the backing of the SAMA. Credit to the private sector grew strongly in 2020 (mainly in the real estate segment) and, to date, it is continuing to perform well in an environment with a low NPL ratio, factors that should help domestic demand to grow to pre-pandemic levels.

- **Tailwinds from the OPEC.** During the pandemic, Saudi Arabia's leadership at the helm of OPEC has been strengthened in the negotiations between the organisation and its partners. It has gone from being one of the highest producing countries to leading the strategy for all of the countries' production and the recovery of crude oil prices. Although moments of disagreement within the cartel cannot be ruled out, its ability to influence prices will remain high.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	A-	17/02/16	Stable	17/02/16
MOODY'S	A1	14/05/16	Negative	01/05/20
FitchRatings	A	30/09/19	Negative	09/11/20

■ Indicates that the country is rated as "investment grade".
□ Indicates that the country is not rated as "investment grade".