

Socio-economic impact of COVID-19 and measures taken in Kingdom of Saudi Arabia (KSA)

Draft, 1 April 2020, RCO KSA

This note represents a collection of information on the impact of COVID-19 and recent oil shock on the economy and society in KSA. It provides a background to the current crisis, outlines the activity of the UNCT, and lists the information available and measures taken so far in the areas of health, movement, social sphere and economy.

1. Background

KSA is simultaneously facing two of the largest crises in several decades: a historically notable drop in oil prices, and the global COVID-19 pandemic, both compounding the total effect on the society and economy in KSA.

The recent drop in oil price in March 2020, which has more than halved in its price in the last month and is at a 17-year low at around 25USD for Brent crude at the time of writing, has severely compounded the effects of COVID-19. The oil and gas sector accounts for about 50 per cent of Saudi gross domestic product (GDP), and about 70 per cent of all export earnings, which are and will be experiencing a massive drop, regardless of KSA's plans to increase oil production by 25 or 30% up from their OPEC arrangement of just under 10 000 barrels at the beginning of the year. This will lead to a severe fall in GDP and expected government revenues, where oil revenues were planned to present 62% of the total 2020 Budget.

Exactly how the non-oil economy will respond to the global COVID-19 demand and supply shock remains to be seen, but it is likely that it will contract in value by less than the oil economy if the oil prices do not pick up in the next couple of months. In any case, first quarter forecasts from private financial institutions are already forecasting a 5% drop in KSA's GDP in 2020¹, with making some positive assumptions both about the price of oil and the end of the global pandemic.

KSA has launched its Vision 2030 Program in 2016 and works towards achieving it through Vision realization programs, including National transformation program, which puts an emphasis on the restructuring the economy away from the oil and gas sector. It champions, amongst other things, tourism, which has now but completely shut down, starting with religious tourism (Umrah, Haj) and halting the desire to create a larger tourism sector by opening up the country – for the times of the pandemic at least. The combination of low oil prices and the pandemic will demand an adjustment of the strategy of how to achieve KSA's Vision 2030.

The labor market in KSA is very reliant on guest workers, who make up more than a third of total population and around 80 percent of the workforce. Many of these overseas workers are involved in low-skilled labor, employed in construction, hospitality and as domestic helpers. For most of them, their host countries are the only chance they have at gainful employment, and they have sent billions of dollars to their home countries from Saudi Arabia, and their long term income and job security may now be in question, with a potential huge reduction in the remittances they have been sending to their home countries.²

¹ The Economist, Economic Intelligence Unit

² <https://www.arabnews.com/node/1650236>

Additionally, the global footprint of KSA could change on account of more dire economic situation through the channel of direct government international humanitarian and development financing, as well as its involvement in the conflict in Yemen. Total revenues from KSA in assessed and voluntary contributions in 2018 was 508 million USD, or 0.91% of the total UN funds, making KSA the 18th largest contributor to the UN system, however broad humanitarian contributions channeled by the government through UN agencies, funds, NGOs and the International Red Cross and Red Crescent Movement (private sector contributions are not included here) were 5th largest at 1.5 billion USD, and KSA's ODA is considerably exceeding the UN target of 0.7% of GNI.³

2. UNCT analytical action

Several articles worldwide have started to highlight – and a lot of that is still speculation – what the socio-economic consequences of the COVID-19 might be. What we can see is that beyond the imperative of a proper health response, economic policy responses should be directed at preventing the pandemic – primarily a health crisis – from developing into a protracted economic recession with lasting losses through increased unemployment and bankruptcies, while also exploring new ways for economies to function under the “social distancing” conditions, both for the current as well as possible future pandemics.

Fundamentally, the critical question is how this will affect existing socio-economic progress and the path towards the SDGs, and what the impact of COVID-19 will be on the most vulnerable. It is unclear how to arrive to all those conclusions yet, however, there are already several possible types of analysis and measures taken that are being proposed in the “ideas market”. Our collective response to this will have a profound impact on our future workplans in the Kingdom and the Vision 2030 itself.

In this context, UNCT in KSA has **established a Taskforce**, coordinated by RCO on socio-economic effects of COVID-19, which is responsible for drafting the briefs and papers on the topic. The first two products the taskforce is working on are a *Diagnostics paper* on socio-economic effects of COVID-19 and *Standing UNCT COVID-19 capacity brief*, to be finalized in the next couple of weeks.

The short Diagnostics paper will firstly cover the socio-economic effects of COVID-19 on KSA and measures already taken by the government, plus possible additional measures based on what other countries are doing (an analysis of the situation). The UNCT COVID-19 capacity brief is intended to put together a list of measures be it suggested projects or policy recommendations that we as the UNCT already have and can share with the government immediately (a UNCT socio-economic coordinated response).

After the first two papers, the taskforce is planning to start on a *Impact of COVID-19 on SDGs paper*: going deeper with the diagnostics and concentrating on the impact of COVID-19 on SDG progress and through the lens of LNOB, where the findings of the first diagnostic paper on parts of the economy affected the most would inform the thinking of who is most at risk and also which SDGs could be affected the most – and thus would need the most innovative solutions to cushion the impact and to move forward and progress on them.

And finally, the impact of COVID-19 on the CCA and CF is planned to be examined, focusing on the effect of COVID-19 on the CCA and existing CF and financing and deliverables of the UNCT, and what necessary

³ <https://www.unsceb.org/content/FS-D00-01> ; <https://fts.unocha.org/>

changes are needed in the short term under the existing conditions, and in the longer term and in light of the new CCA.

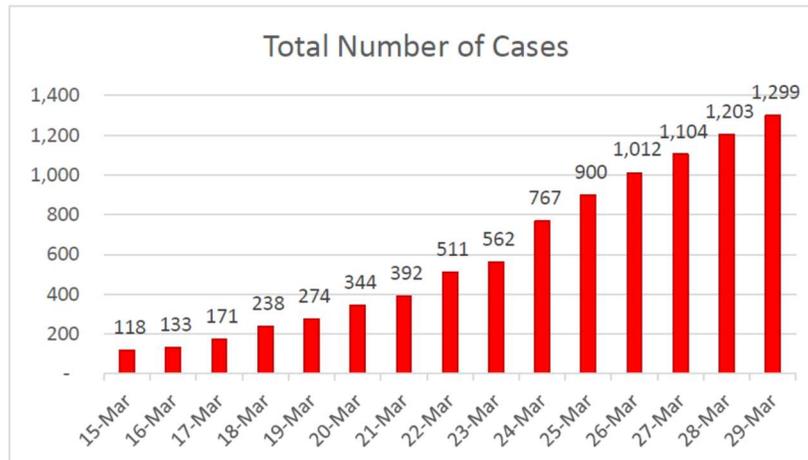
3. Overview of the situation and measures taken

In response to the global COVID-19 pandemic, which has impacted all segments of society in KSA, the government has already put several temporary measures in place as a first response, aimed at easing the burden on the health system, reducing the progress of the virus contagion, alleviating the social repercussions and supporting the economy.

Below is a collection of readily available information on 1) Health, 2) Movement, 3) Social measures, 4) Economic measures in terms of the socio-economic impact of COVID-19 and measures taken in KSA up to 31 March 2020.

1. Health:

- Total cases: as of 30 March, 1,299 confirmed, 8 deaths⁴



- HRH King Salman orders free health care in the Kingdom regardless of residency status or validity of visas.⁵

2. Movement:

- Travel: No more international flights, travel between regions of the country is prohibited, travel into or out of the cities of Riyadh, Mecca, and Medina is prohibited. Once restrictions are lifted, any persons seeking entry to the Kingdom will be quarantined for a period of 14-days as per the guidelines of the Ministry of Health.
- Curfew: For the cities of Riyadh, Mecca, and Medina, the previously announced curfew of 7 PM to 6 AM has been revised to a 3 PM to 6 AM curfew, with very limited exceptions for critical emergency staff, beginning March 26, 2020, and will extend until April 14, 2020. The 7 PM to 6

⁴ WHO Daily briefing, 30 March

⁵<https://english.alarabiya.net/en/News/gulf/2020/03/30/Coronavirus-Saudi-s-King-Salman-orders-treatment-for-all-including-visa-violators>

AM remains in effect for other parts of the country. Mosques are closed, Islamic prayer rituals are to be practiced at home. High penalties are in place for violations of the curfew and higher penalties still for posting violations on social media.

- **Ministry of Hajj and Umrah:**

- Mecca has been partially reopened however touching the Kaaba remains strictly prohibited. On 17 March the authorities suspended religious congregations at Mosques. The five customary prayers are performed at home, with Mosques only sounding the prayer calls.⁶
 - The Ministry of Hajj and Umrah launched a digital platform which enables pilgrimage agents to submit electronic requests for refunds for a period of three months.⁷
 - The Ministry of Hajj and Umrah directed hotels to extend the validity of current wholesale reservations purchased by Umrah companies and external agents for a period three months after the start of the next pilgrimage season⁸
- Procedures for expatriates in the Kingdom, who were unable to return during the validity of the exit-reentry visa, or overstayed in the Kingdom after their tourism or trade visas were expired, are as follows:
 - To extend visas for expatriates who left the Kingdom and could not return before their visas expiry date according to the requirements and regardless the expiry dates of their Iqamas, after the Ministry of Health of The Kingdom will announce the end of COVID-19 pandemic.
 - To extend all visit visas for visitors until 30/04/2020, after paying the fees and they will be exempted from the related fines.
 - These procedures will be valid for only 30 days after the Ministry of Health of the Kingdom will announce the end of this pandemic.⁹

3. Social measures:

- Social assistance - Utility and financial obligations support (waiver/postponement): New special provisions allow for delaying rent requests (by 3 months). This applies for 6 months, from March 20 to September 20.¹⁰
- Social insurance - Paid sick leave: Health insurance benefits: Special paid sick leave for all workers who, as of March 13, 2020, entered the Kingdom from countries abroad shall stay home on sick (quarantined). MOH developed a mobile application called “Sehhaty” to register and apply for the sick leave. The KSA mandated an automatic renewal of health insurance cards for 6 months, hence allowing families to make hospitals and clinic visits.¹¹
- Education: All academic institutions and educational facilities are conducting lessons on virtual learning platforms.¹²

⁶ <https://www.reuters.com/article/us-health-coronavirus-saudi-mosque/saudi-arabia-reopens-mecca-medina-holy-sites-after-coronavirus-closure-state-tv-idUSKBN20T0A8>

⁷ <https://arab.news/rztxp>

⁸ <https://arab.news/4q8m9>

⁹Ministry communique

¹⁰ Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures A “living paper”, version 2 (March 27, 2020) Ugo Gentilini (World Bank), Mohamed Almenfi (World Bank) and Ian Orton (ILO)

¹¹ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S>

¹² <https://arab.news/6g3ve>

- Social fund: a fund of SAR 500million between the Ministry of Human Resource and Social Development and Awqaf Authority to mitigate COVID19 negative impact has been announced
- The Ministry of Commerce Reduced cost of electricity 50% for a period of 6 months in light of lower revenues.¹³
- KSA's fifth General Census of Population, Housing and Establishments, which was supposed to start on March 17, 2020, has been postponed.

4. Economic measures:

- Fiscal:
 - A SAR 70 billion (\$18.7 billion or 2.7 percent of GDP) private sector support package was announced on March 20. The package includes the suspension of government tax payments, fees, and other dues to provide liquidity to the private sector and an increase in available financing through the National Development Fund. The government has also stated it will fund any needed increase in health spending and has made an additional budget allocation available to the Ministry of Health. Because the decline in oil prices will result in a loss of government revenue, the authorities have also announced that they will reduce spending in non-priority areas of the 2020 budget by SAR 50 billion (1.9 percent of GDP) to accommodate some of these new initiatives within the budget envelope.¹⁴
 - Ministry of Hajj and Umrah will support economic investment within the Umrah sector to help weather the COVID-19 crisis.¹⁵
- Tax policy¹⁶:
 - No expat levy for Iqamas (expatriate residence permits) that expire between 20 March to 30 June 2020. Such Iqamas shall be extended for a period of three months for free;
 - On March 24, 2020 The Saudi Ministry of Finance (MOF) & General Authority for Zakat and Tax ('GAZT) has announced the following:
 - Three-month extension for the payment and filing of corporate income tax, Zakat and mixed returns due between 19 March and 30 June 2020;
 - Corporate income tax and Zakat certificates will be issued without restriction for the fiscal year 2019 to allow companies to renew visas, licenses and receive payment in respect of government contracts;
 - Approval of installment payment requests for Zakat and corporate income tax purposes by the GAZT, where no advance payment was made;
 - Three-month extension for the payment and filing of withholding tax returns relating to the period March, April and May 2020;
 - Three-month extension for the payment and filing of monthly VAT returns relating to the period February and March 2020;
 - Three-month extension for the payment and filing of quarterly VAT return relating to Quarter 1 of 2020;

¹³ Ministerial Brief (Ministry of Commerce)

¹⁴ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S>

¹⁵ Ministerial Brief (Ministry of Commerce).

¹⁶ ESCWA analysis.



- Three-month extension for the payment and filing of excise tax returns due for the period March/April 2020;
 - The GAZT will temporarily suspend the application / enforcement of certain administrative penalties and fines; and
 - The GAZT has also announced its commitment to expedite the payment of taxpayers' refund claims.
- The Ministry of Commerce is converting all financial payments to a quarterly basis instead of annually for all economic sectors.¹⁷
- Monetary and macro-financial¹⁸: The Saudi Arabian Monetary Authority (SAMA) has reduced its policy rates twice in March, lowering its reverse repo and repo rates by a combined 1.25 pp to 0.5 and 1 percent respectively. On March 14, SAMA announced a SAR 50 billion (\$13.3 billion, 1.9 percent of GDP) package to support the private sector, particularly SMEs, by providing funding to banks to allow them to defer payments on existing loans and increase lending to businesses. The central bank will also cover fees for private sector stores and entities for point-of-sale and e-commerce transactions for 3 months. The Governor has announced that the central bank stands ready to supply liquidity if needed.
 - Labour market:
 - Employers will be entitled to a refund of fees paid to obtain work visas for employees that are ultimately not used, due to the entry/exit restrictions in the Kingdom; and
 - Employers will be allowed to extend exit and re-entry work visas that were not used, due to the entry/exit restrictions in the Kingdom.
 - The decree to suspend public and private sector staff from operating within offices has been extended until further notice. 'Telecommuting' applies to the vast majority of sectors in that work will be conducted remotely, with the exception of critical (emergency) staff.¹⁹
 - Activation (training) measures for the labor market: The Saudi Human Resources Development Fund announced the allocation of SR2B to support 100,000 job seekers in the private sector (in addition to offering and activating remote work tools as available and alternative options for regular work). A training support track includes SR800M to support 100,000 beneficiaries. And an additional SR1.5B has been allocated to add 100,000 new job seekers in the program.²⁰
 - General Authority for Small and Medium Enterprises will support foreign residents' salaries by 10-15% for SMEs within the 'Green Zone' (ratio of Saudi staff to expats) and above.²¹

¹⁷ Ministerial Brief (Ministry of Commerce).

¹⁸ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S>

¹⁹ <https://arab.news/ru9fn>

²⁰ Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures A "living paper", version 2 (March 27, 2020) Ugo Gentilini (World Bank), Mohamed Almenfi (World Bank) and Ian Orton (ILO), <https://www.hrdf.org.sa/News/4408>

²¹ Ministerial Brief (Ministry of Commerce).