Confederation of International Contractors' Associations (CICA)

Strategic Watch: COVID-19 Overview by country and region (situation at April 21, 2021)

Based on FIEC's COVID-19 Construction Observatory, FIIC's, CIAN's and MEDEFI's and IFAWPCA's data

For more information go to the CICA Website: http://www.cica.net/cica-covid-19-overview/ and Dropbox: https://www.dropbox.com/home/Observatory%20COVID-19

Saudi Arabia

Country/Region	General measures	Measures for construction
SAUDI ARABIA		
Lockdown	Among the Gulf countries, Saudi Arabia has been the Arab Gulf country most affected by the pandemic. National curfew was installed from 7 p.m. to 6 a.m., and from 3 p.m. to 6 a.m. for Riyadh, Medina, Jeddah and Mecca. Total border closure. Extended lockdown measures were eased in July.	According to European contractors, some works were allowed to be continued. According to the Saudi Arabian Home Secretary, maintenance and operation works, plumbing, electricity and air conditioning services, water delivery services and sanitation tank services were not subject to the restrictions (April). Saudi Arabia had put in place a "localization program" that might have affected international contractors: the introduced In-Kingdom Total Value Add (IKTVA) policy favors local sources of materials and labor to help accelerate the diversification of its economy away from oil and gas and to develop skilled jobs for Saudi citizens. There would be the possibility of a ripple effect across the Gulf Cooperation Council (GCC) member states that could introduce VAT systems, particularly the United Arab Emirates and Bahrain. Kuwait and Oman are likely to be the next GCC members to introduce VAT systems (cf. ENR) (20 August).
Economic outlook	Despite its strong financial reserves, the Saudi kingdom's fiscal balance is heavily dependent on oil exports, which account for two-thirds of the country's revenues. In the context of drastically sinking oil prices, Saudi Arabia announced a ceasefire in Yemen. In May 2020, Saudi Arabia announced an austerity plan to triple the value added tax and end monthly allowances to its citizens in response to the historic drop in oil prices and the Covid-19 pandemic.	As the coronavirus took hold and Saudi Arabia went to economic lockdown in the Spring of 2020, the government announced a raft of measures including a cut back in projects spending as its revenues from oil sales declined sharply. The impact is no better highlighted than in the performance of the projects market. For 2020 as a whole, just US$18.2bn worth of contracts were awarded in total, making last year the worst year in at least a decade. Indeed, only a paltry US$5bn worth of deals were let in the second six months of the year as the economy drew almost to a halt.

	Indeed, Saudi Arabia increased its VAT (value-added tax) rate from 5% to 15% on July 1, 2020, to boost revenue and revive its oil-dependent economy. The move comes just two years after Saudi Arabia first introduced its VAT system. The Government has estimated that it could lose half of its oil-related tax revenues, which provide 70% of the total envelope. Saudi Arabia plans to borrow nearly US$ 60 billion (€ 55 billion) over the year to finance its budget deficit. In April, the IMF projected a 2.3% contraction in GDP in 2020 (cf. La Tribune) (11 May). In November 2020, Saudi Arabia's preliminary budget statement showed a cut to government spending of 7.3% in 2021, after VAT was tripled and customs duties increased in July 2020, and despite the economy entering a recession in Q2; this implies that the main policy goal for the Kingdom in the short term is to reduce the budget deficit, rather than boost economic growth. Additionally, the Kingdom is looking to sell assets in sectors which were previously not targeted for privatization, such as healthcare and education, as it looks to diversify its revenue base and bring more efficiency to state entities, with authorities aiming to raise a total of more than US$50 billion from privatizations over the next five years (cf. GlobalData) (November 2020). The government also announced back in April a US$32 billion fiscal stimulus to support the economy.	Nonetheless, the projects market is expected to rebound fairly strongly this year as life returns to normal and the crude price exceeds US$60 a barrel. The government is also talking bullishly by recommitting to its ambitious projects spending plans under its 2030 Vision. It has also doubled downed on its self-styled 'gigaprojects' programme which is set to transform the economic landscape in the kingdom. Increased government spending and a growing backlog of projects should combine to see overall project spending to rise to more than US$36bn in 2021 which would be on par with the totals seen in the 2017-19 period. However, the kingdom is still vulnerable to the vagaries of the oil price and investor confidence, and it remains to be seen whether it can successfully push through with its plans in the long run (cf. GlobalData) (February 2021). Prior to the Covid-19 outbreak, Saudi Arabia's construction sector had posted growth for the first time in four years, expanding to 4.1% in real terms for 2019. However, owing to disruptions from plunging oil prices and the pandemic, GlobalData forecasts construction output will contract by 2.8%, and expects a recovery for the sector of 3.3% in 2021. This latest forecast reflects the extended lockdown measures which were cautiously eased in July, along with the departure of an estimated one million expatriate workers in the wake of the economic shutdown, and the uncertainty regarding the degree to which the government will be able to offset its oil revenue losses and stabilize its debt burden in the short term.
Recovery	Despite Saudi Arabia's primary objective to reduce the budget deficit, there are clear signs, according to GlobalData, that the Kingdom is moving to progress with its Vision 2030. Saudi Arabia approved for example a new mining law to attract more local and foreign investments in the mining sector, as well as to diversify its economy away from oil. Tourism is another area that is being prioritized. The government is encouraging public-private partnerships (PPPs) under the executive programme and the programme aims to create an attractive investment environment in a bid to increase the quality of infrastructure (cf. Global Data) (November 2020).	