



Economic Implications of COVID-19



Focus on Saudi Arabia

9 April 2020



Close

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Global economic impact of COVID-19

1 Global economic impact of COVID-19



- The COVID-19 pandemic has heightened economic and socio-economic uncertainty.
- According to the International Monetary Fund (IMF), uncertainty around the pandemic is highest in advanced and emerging market economies and, while rising, remains at low levels in low-income economies.
- Many countries have adopted different degrees of lockdown or social isolating policy to mitigate the spread of the virus.
- These lockdown policies are having a severe economic impact; the longer these policies last the stronger the negative repercussions on measurements such as GDP and employment will be, and the longer the recovery period.
- Many international organizations and institutions are expecting the COVID-19 pandemic to plunge the world in 2020 into the worst economic recession since the global financial crisis in 2008.

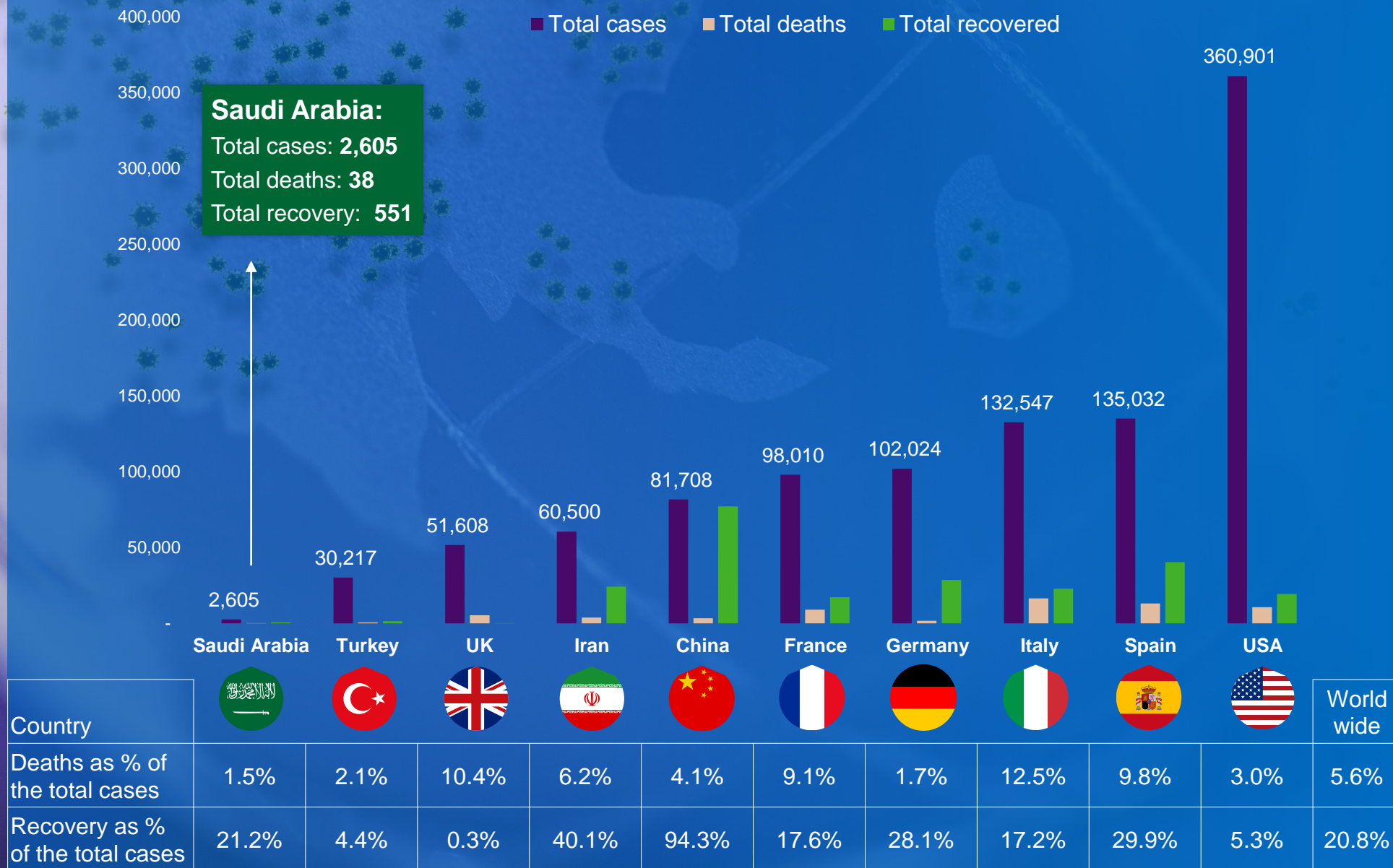
2



Global spread and confirmed cases

By the 6th of April 2020, the global number of confirmed cases reached 1,335,570 cases.

Figure 1: Selected countries total cases



2.2

Developed countries have been most hit by the coronavirus, with confirmed cases in the USA, Spain and Italy representing 27%, 10.1% and 9.9%, respectively, of the total. Chart compares developed countries with hard-hit emerging economies.

Figure 2: Countries confirmed cases as a percentage of the global cases

Saudi Arabia



0.2%

Turkey



2.3%

UK



3.9%

Iran



4.5%

China



6.1%

France



7.3%

Germany



7.6%

Italy



9.9%

Spain



10.1%

USA



27.0%

3



Global economic outlook projections

3.1

Global economy has entered a recession due to COVID-19. Although initial predictions in January showed growth of 3.3%, the global economy will likely contract by 2.2% in 2020.

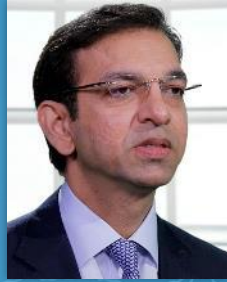
2020 Growth projections amid COVID19

World
-2.2%



3.2

Many international organizations and financial institutions are expecting the coronavirus pandemic to plunge the world into a deep recession in 2020.



Chetan Ahya

Chief Economist at Morgan Stanley

“While some downside protection from the policy response can be expected, the underlying damage from tighter financial conditions and from COVID-19’s impact will be a material drag for the economy“



Brian Coulton

Chief Economist at Fitch Ratings

“Deep Global Recession in 2020 as Coronavirus escalates”



Kristalina Georgieva

Chairwoman at International Monetary Fund

“It is now clear that we have entered a recession, as bad or worse than 2009”



David Malpass

President of the World Bank Group

“As we know, beyond the health impacts from the COVID-19 pandemic, we are expecting a major global recession”

4

Economic impact of protective measures to contain COVID-19

4.1



Direct impact of protective measures and containment policies

4.2



Impact on most affected sectors

4.3



Initiatives and actions from selected countries to combat COVID-19

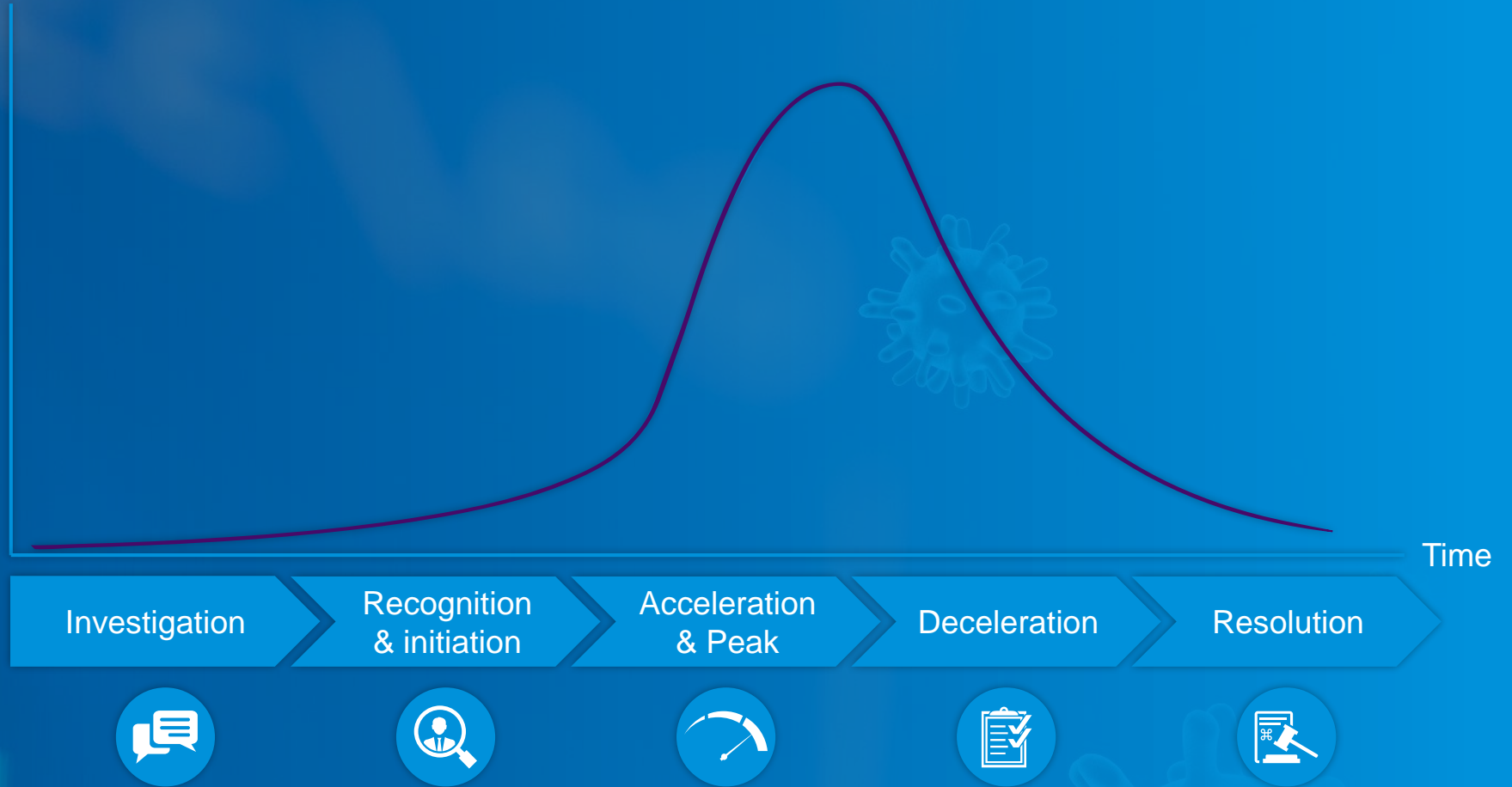
4.1

Epi curve with CDC epidemic 'intervals'

Source: COVID-19 testing for testing times, Richard Baldwin, 26 Mar. 2020

While China has made it to the resolution phase, Europe and the USA are still in their accelerating phase. The peak could be much higher for developing countries that are currently only at the beginning of the curve.

Number of new cases

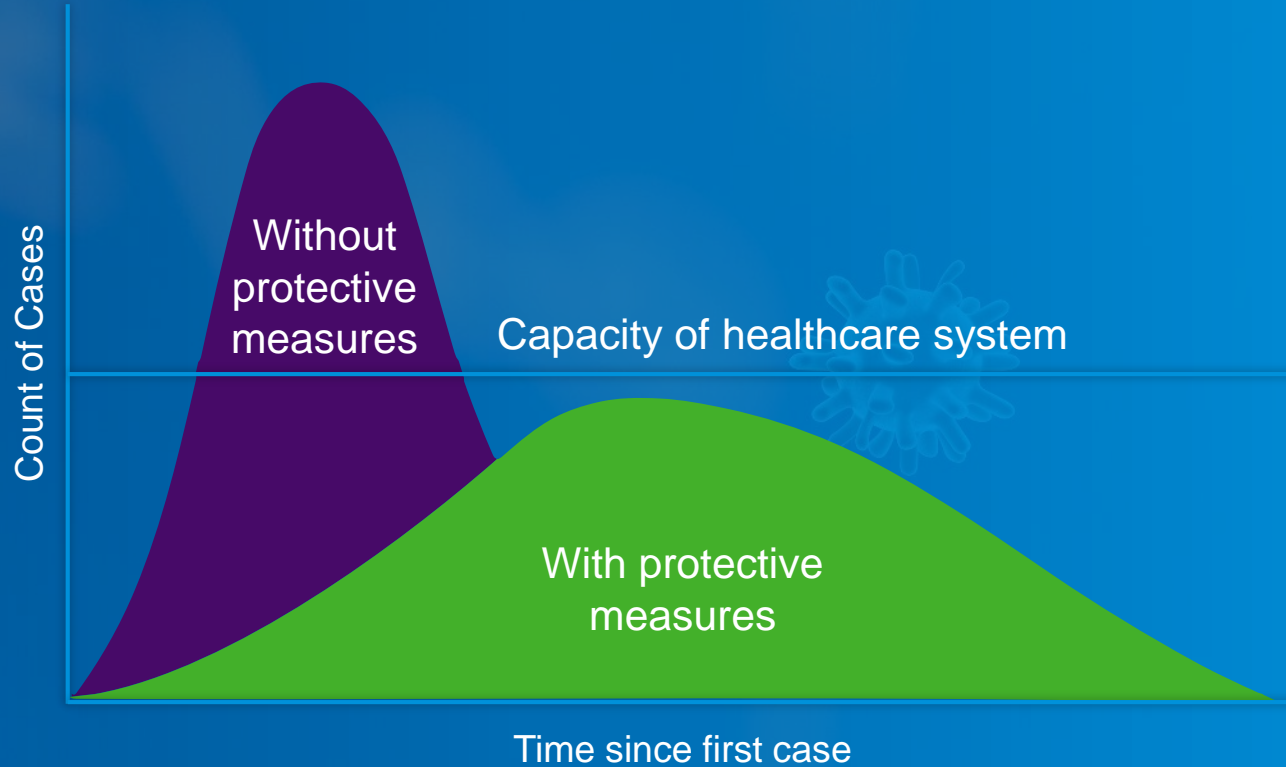


During the spread of COVID-19, countries are taking drastic measures to contain the spread of the virus so as to not overwhelm the healthcare system and facilities. This practice is known as 'flattening the curve'.

4.1

The direct impact of protective measures to flatten the curve

Countries with strict containment policies aimed at flattening the curve of the pandemic will reduce pressure on their healthcare infrastructure by delaying the peak.



Source: COVID-19 outbreak and impact on the economy, Frost & Sullivan, 17 Mar. 2020



Isolation of confirmed cases



Nationwide lockdown



School and university closures



Complete suspension of air travel



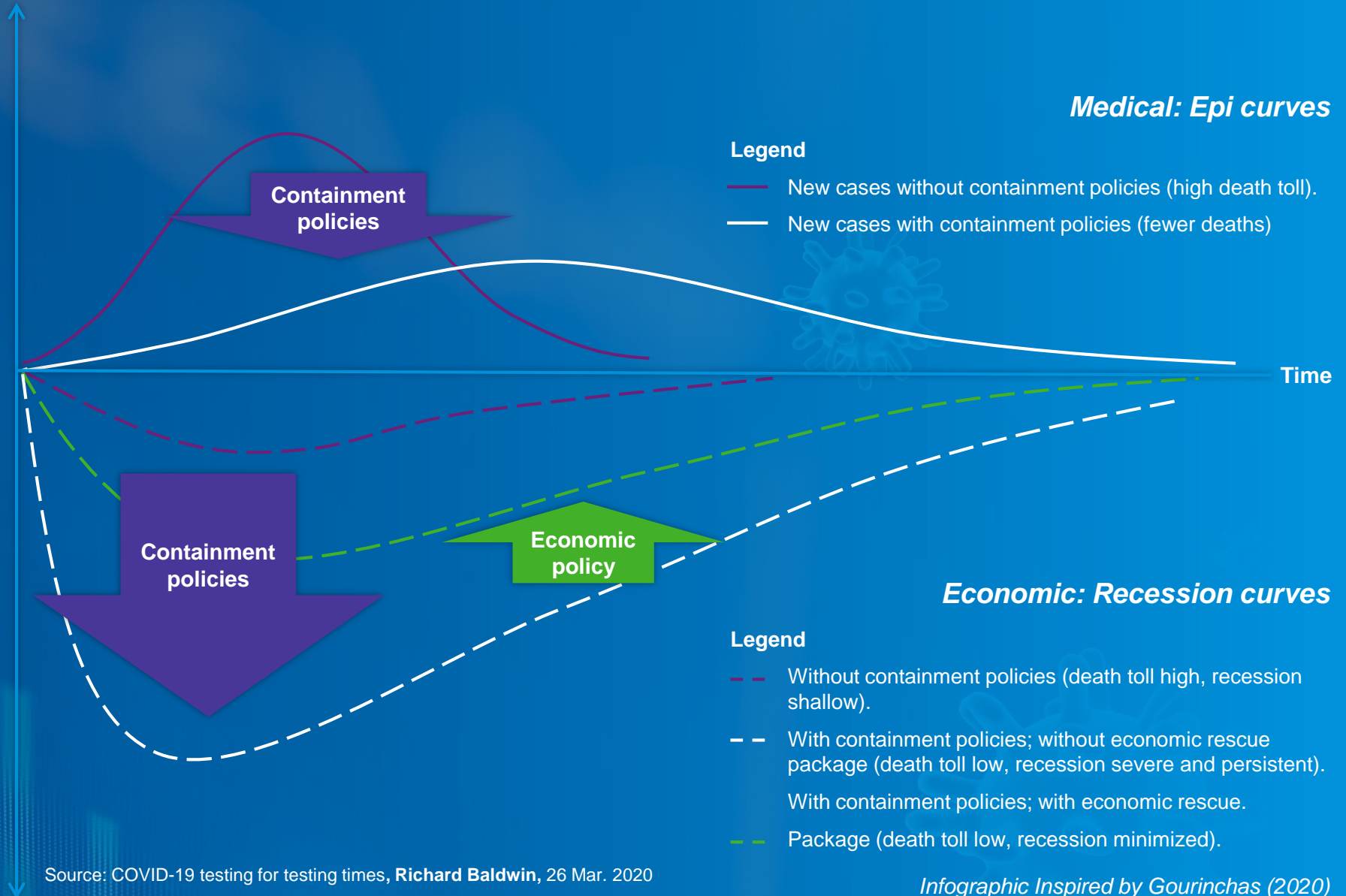
Social distancing

4.1

There is a direct correlation between flattening the curve in order to contain the virus and thus maintain healthcare system capabilities, and economic growth. Strict containment policies have a high direct economic impact across the economy, particularly the services component.

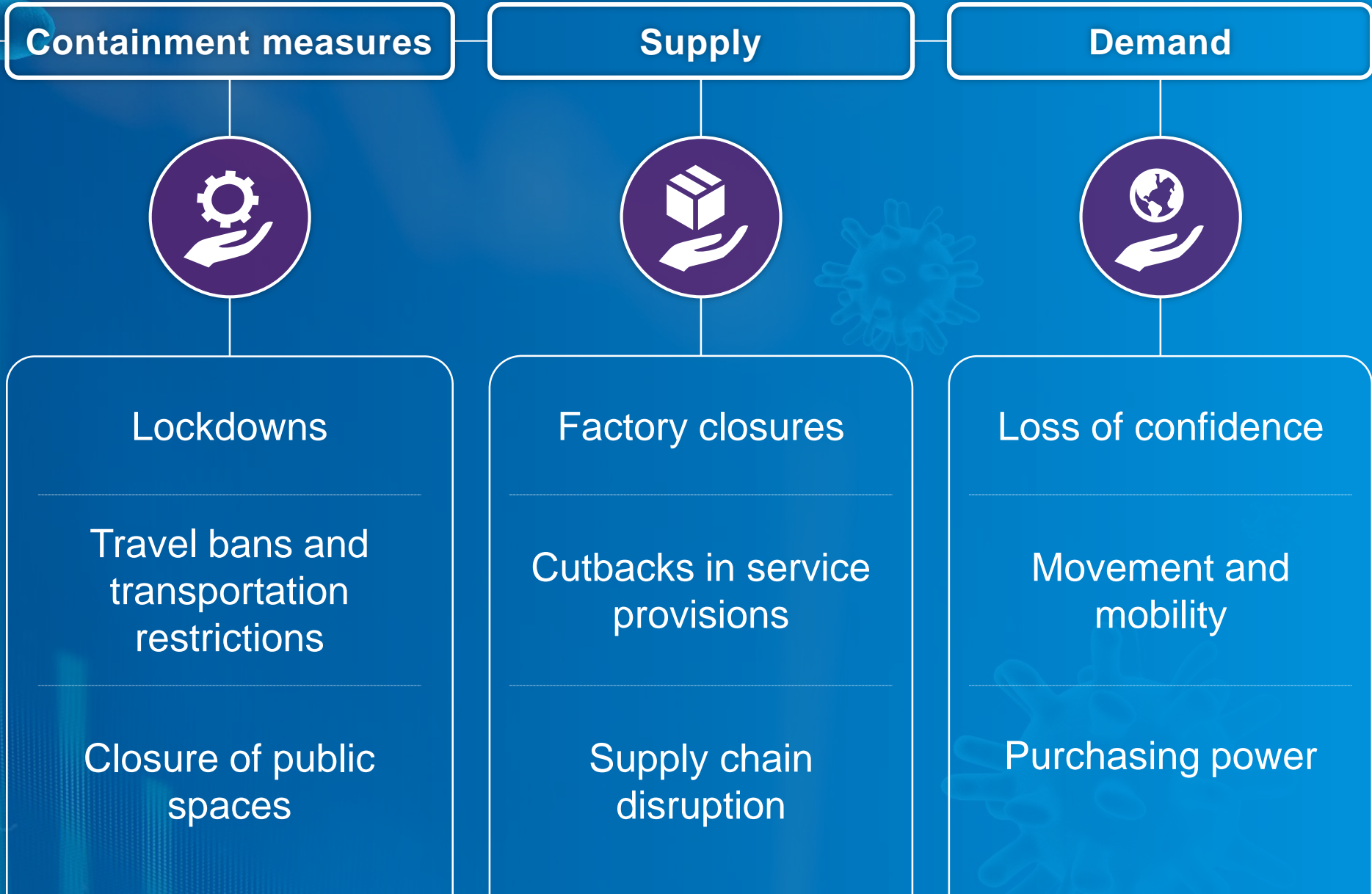
New cases

GDP loss



4.1

Impact of protective measures on the supply and demand sides



4.2

Containment measures such as quarantines, travel restrictions, and closure of public places have a significant negative economic impact on certain sectors.

Negatively impacted sectors



Energy

Oil and gas were among the hardest hit commodities. With air travel suspended and assembly plants shutting down production, the price of crude oil dropped dramatically. This, along with output disagreements between Saudi Arabia and Russia, reduced oil prices to a record setting \$23 per barrel on March 30th.



Air travel and tourism

With air travel bans in almost all infected nations globally, airlines and hotels have suffered a sharp decline in demand. Decreases in demand for air travel and tourism has been so severe that airlines around the world ground all their commercial fleets, and some have resorted to laying-off employees.

Energy, capital assets, and non-essential retail and commerce



Entertainment/leisure

As a result of containment measures, the entertainment and hospitality sectors are being severely impacted, especially cinemas, restaurants and the events industry.



Manufacturing

Manufacturing is suffering from both declines in output via virus response measures and supply chain disruptions (supply shock), as well as falls in confidence (demand shock).

4.2

Social distancing policies have led to a noteworthy shift in consumer behavior, most notably spiking online services.

Non-durable goods, medical supplies, and e-commerce



Medical supplies

The healthcare sector has experienced a mixed response to the COVID-19 outbreak. As a consequence of hoarding behavior from the public, increased demand from the health sector, and supply chain disruptions, there have been shortages of medical items such as face masks and hand sanitizer.



E-commerce

As e-commerce platforms are readily and widely available among consumers, e-commerce websites, along with consumables, are performing far better than any other sector. Social distancing and staying indoors are intensifying demand for deliveries through such platforms.

Non-durable goods, healthcare, and E-commerce



E-learning

To avoid any disruptions of the academic system, countries have made the shift to using online classrooms and e-learning tools.



Consumables

Supermarkets are among the best performing businesses since the COVID-19 outbreak; quarantine and social distancing has led to a surge in product turnover of such businesses.

4.3 Responses of selected countries to combat COVID-19

China

Key containment measures

- The Chinese government had forced a 14-days quarantine on returning migrant workers to prevent further transmissions of the disease.

- The Chinese government has built extra hospitals and health clinics to contain infected individuals and treat them.

Key economic measures

- Key policy measure cuts by 50-100 bps for banks to support small firms.

- Increased production of medical equipment.

- Delay of loan payments to support households and SMEs.



4.3 Responses of selected countries to combat COVID-19

Spain

Key containment measures

Suspension of commercial, hotel, restaurant, and recreational services. Only essential services are allowed until April 11.

Key economic measures

Financing basic social services provision for residents.

Suspension of price review to avoid any increase in household expenses.

Research & development funding for the COVID-19 vaccine.



4.3 Responses of selected countries to combat COVID-19

United States of America:



Key containment measures

- The US government restricted travel between states within the USA, to reduce the spread of COVID19.
- Closure of schools and social distancing measures are in place.
- Increased testing

Key economic measures

- Reduced key policy interest rate to 0%.
- Student loans obligations have been suspended for 60 days and tax filing deadlines have been extended.
- The US government has provided billions of dollars in funds for hospitals to develop and test new vaccine for the virus.

4.3 Responses of selected countries to combat COVID-19

United Kingdom

Key containment measures

- The UK government has enforced remote working to protect UK workers and mitigate the negative impact of COVID19.

- Closure of entertainment and other non-essential facilities.

Key economic measures

- The UK government has expanded the social safety net.

- Grants are available for firms in the most affected sectors.



4.3 Responses of selected countries to combat COVID-19

Singapore

Containment measures

- Travel restrictions and ban on large gatherings.
- Temperature screening and social distancing.
- Closure of entertainment venues.





Key economic measures

- Easing of financial obligations to support SMEs survive the crisis.
- Wage subsidies to support businesses under The stabilization and support package
- Reduced property taxes and other government related fees in tourism and entertainment sectors.



5

Efforts of Saudi Arabia to combat COVID-19

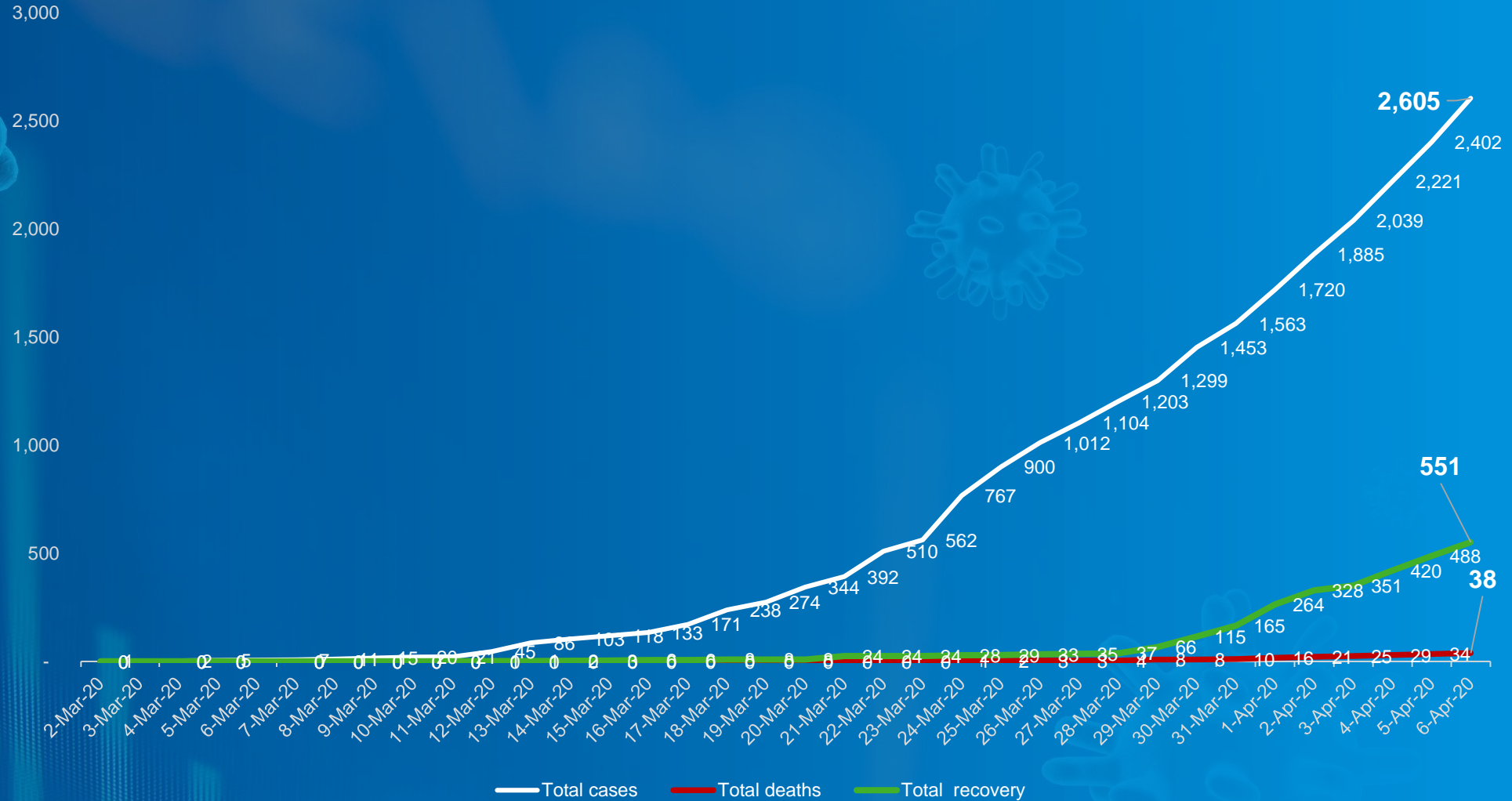
- 5.1  Total confirmed cases per day
- 5.2  Cumulative total active cases compared to other countries
- 5.3  The impact of COVID-19 on oil prices
- 5.4  Government efforts to mitigate the negative economic and socio-economic impact

5.1



Saudi Arabia: Case in point

Saudi Arabia has implemented containment and preventive measures to protect citizens and residents from the health implications of COVID-19.



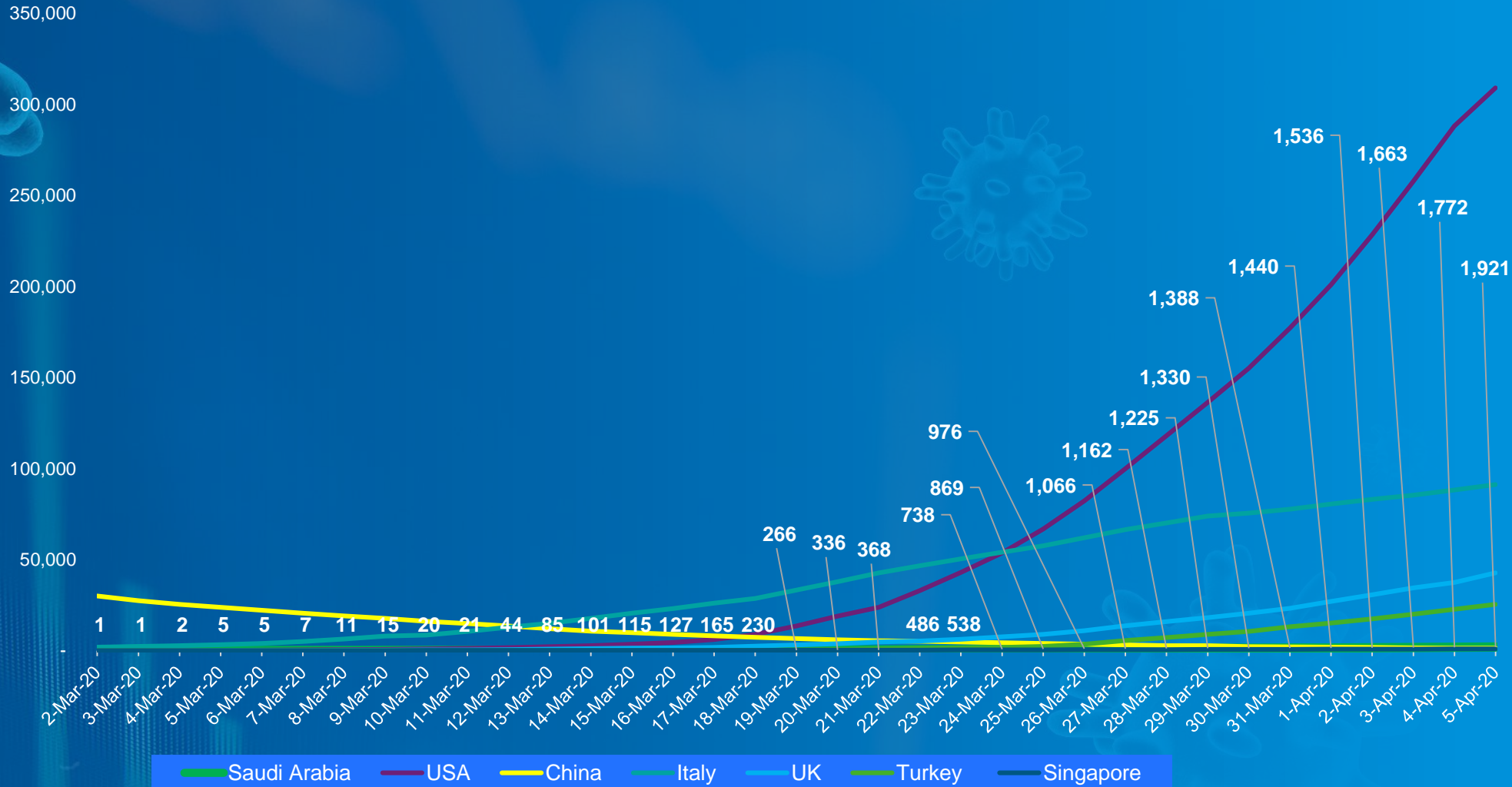
Source: MoH dashboard

5.2

Cumulative total active cases compared to other countries.



With current active cases representing only 0.6 percent of the total active cases in the world, Saudi Arabia's rate of new cases is following a slower trajectory than its peers.



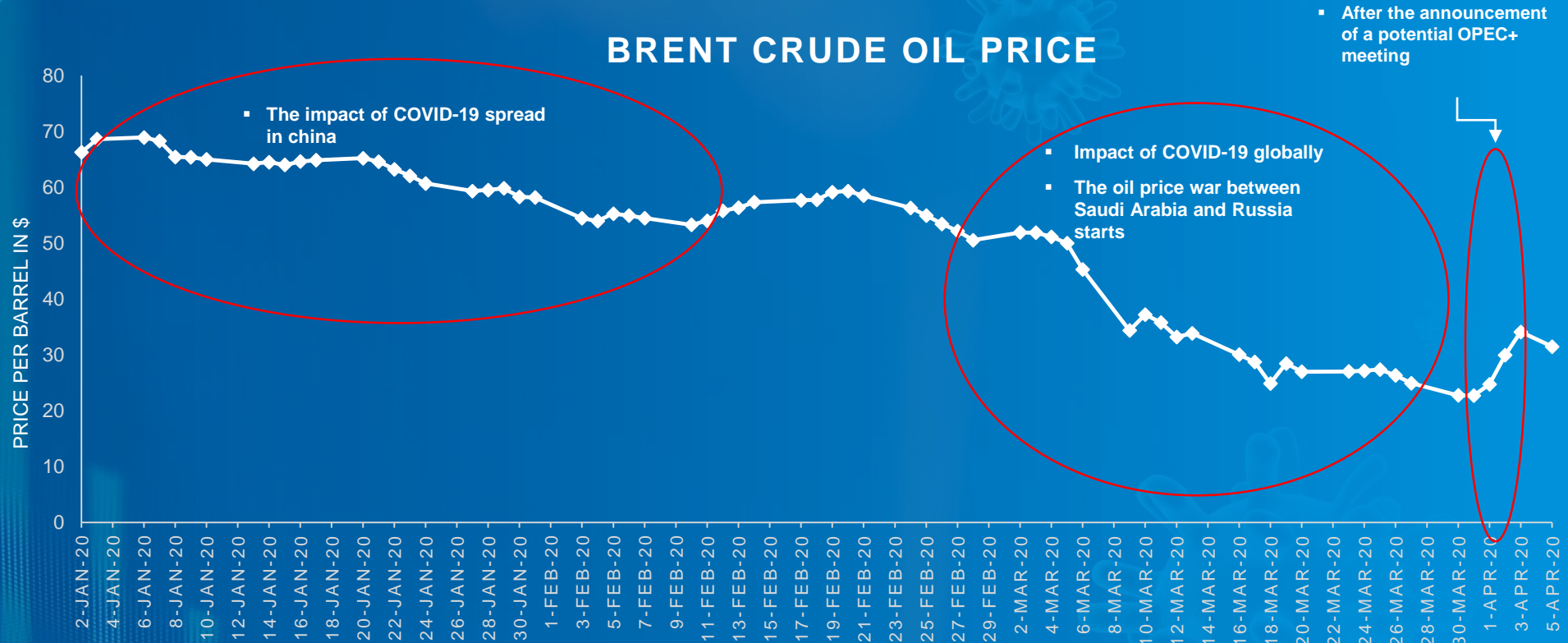
5.3

The Impact of COVID-19 on oil prices



The economic impact of COVID-19 and the plunge in oil prices has affected the position of the government finances of Saudi Arabia.

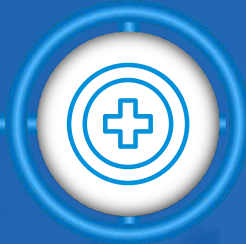
- Oil prices had started to decline from Jan. 2nd, reaching \$53.27 per barrel on Feb. 10th. This decrease was largely due to lower demand in response to the lockdown in China following the outbreak of COVID-19.
- Between Mar. 11th and 31st, the price per barrel dropped from \$37.22 to \$22.74. Aside from the spread of COVID-19, this was the result of a failed OPEC+ agreement and an ensuing oil price dispute between Saudi Arabia and Russia, with both countries ramping up production. On Mar. 11th, Saudi Aramco announced that it will produce 12.3 million barrels per day (bpd), instead of 10 million, as of Apr. 1st.
- On Apr. 3rd, the oil price increased to \$32.68 per barrel following the announcement by US president Donald Trump that OPEC and its allies will meet on Apr. 6th to discuss oil production.



5.4.1 Major Healthcare initiatives by the government of Saudi Arabia



The Minister of Health has announced the issuance of a royal decree providing free treatment to all people with corona virus.



The Ministry of Health (MoH) is providing protection and healthcare for every citizen and resident to support the country initiatives to combat COVID-19. Many procedures e.g. temporary facilities for returning citizens, have been implemented by MoH in coordination with different institutions to mitigate the negative impact over the health system.



On 12 March, the MoH developed the Salem tool as a measurement tool for assessing health risks. Another tool, Mawid, helps people to evaluate their situation in a self-assessment service.



On 13 March, the MoH announced that every traveler coming into Saudi Arabia from that day must remain in domestic quarantine, and will be granted sick leave equivalent to the duration of their quarantine.



The MoH issued an educational guide in several languages that targets citizens and residents to raise awareness about the risks of COVID-19. In collaboration with CITC, MoH has relayed two billion awareness messages through SMS.

5.4.2 Major Social initiatives to combat the COVID-19

Since the outbreak of COVID-19, Saudi Arabia has taken the following steps to promote social distancing as a means of protection, and to cut the spreading chain of the virus. The government has set restrictions on peoples movement and issued guidelines on social distancing.

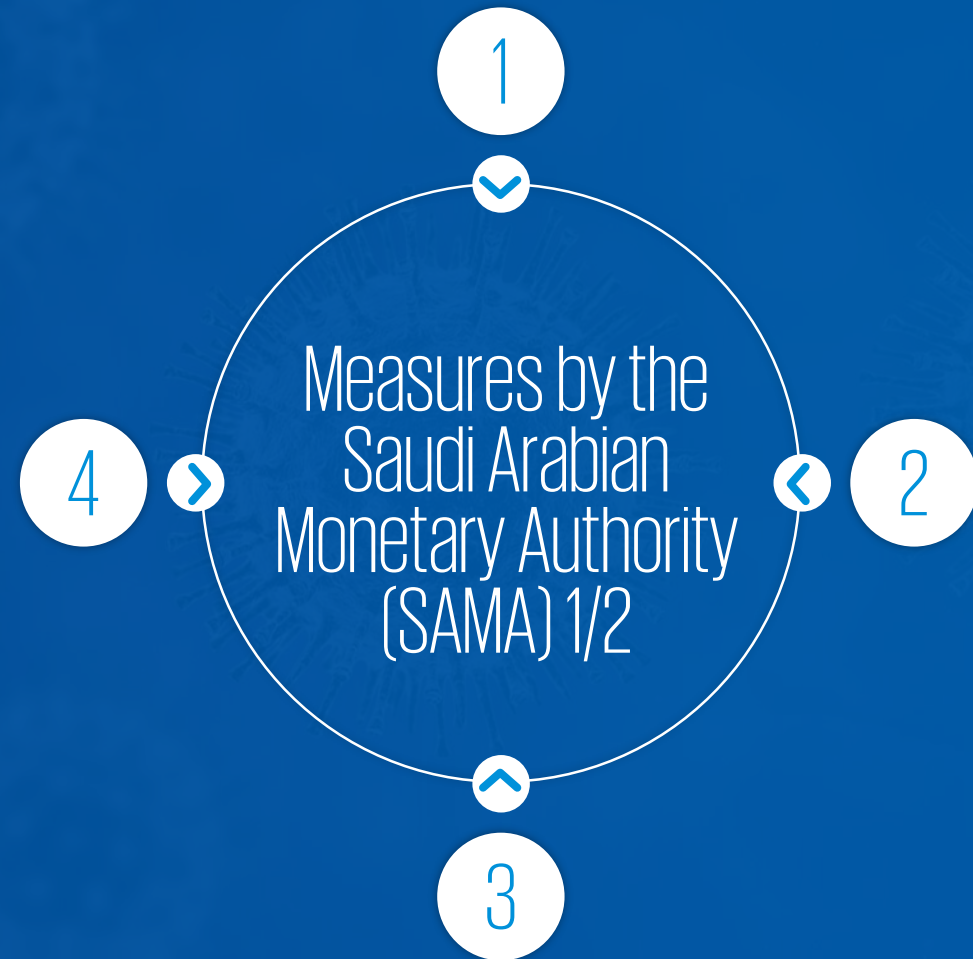


5.4.3

Major Economic initiatives to combat the COVID-19 (1/3)

SAMA coordinated with the National Center for Disease Prevention and Control "Weqaya" to isolate all Saudi currencies received from its branches from outside the Kingdom, to combat the virus.

On 22 March, SAMA announced an initiative whereby Saudi local banks postpone (for 3 months) installments for all public and private health care personnel who have credit facilities, effective from April.



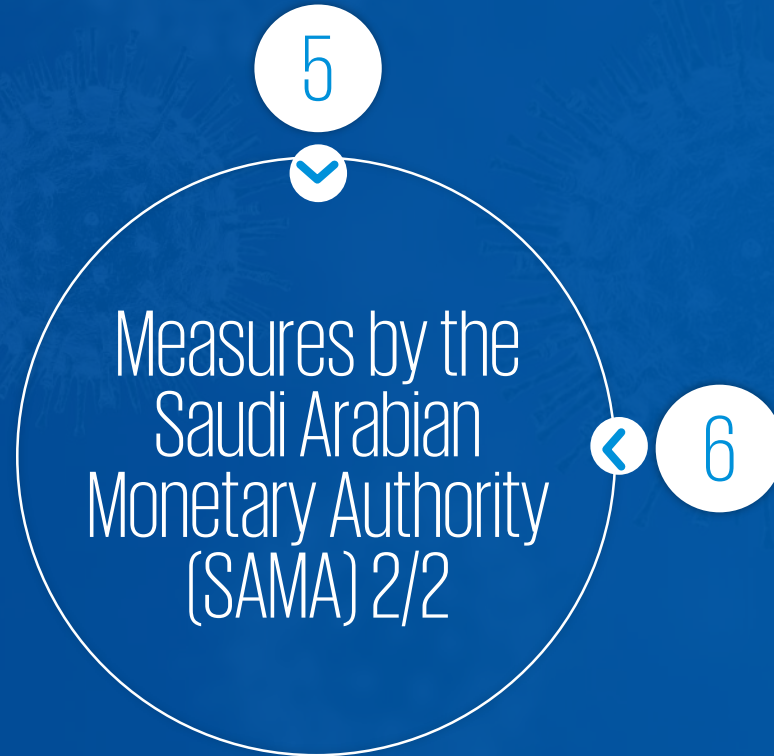
On 16 March, SAMA cut the repo rates by 75 basis points to preserve monetary stability given evolving global developments. The authority has also funded a Private Sector Financing Support Program with a total value of about SAR 50 billion.

SAMA announced the suspension of the freezing of clients' bank accounts for a period of 30 days, according to specific cases.

5.4.3

Major Economic initiatives to combat the COVID-19 (2/3)

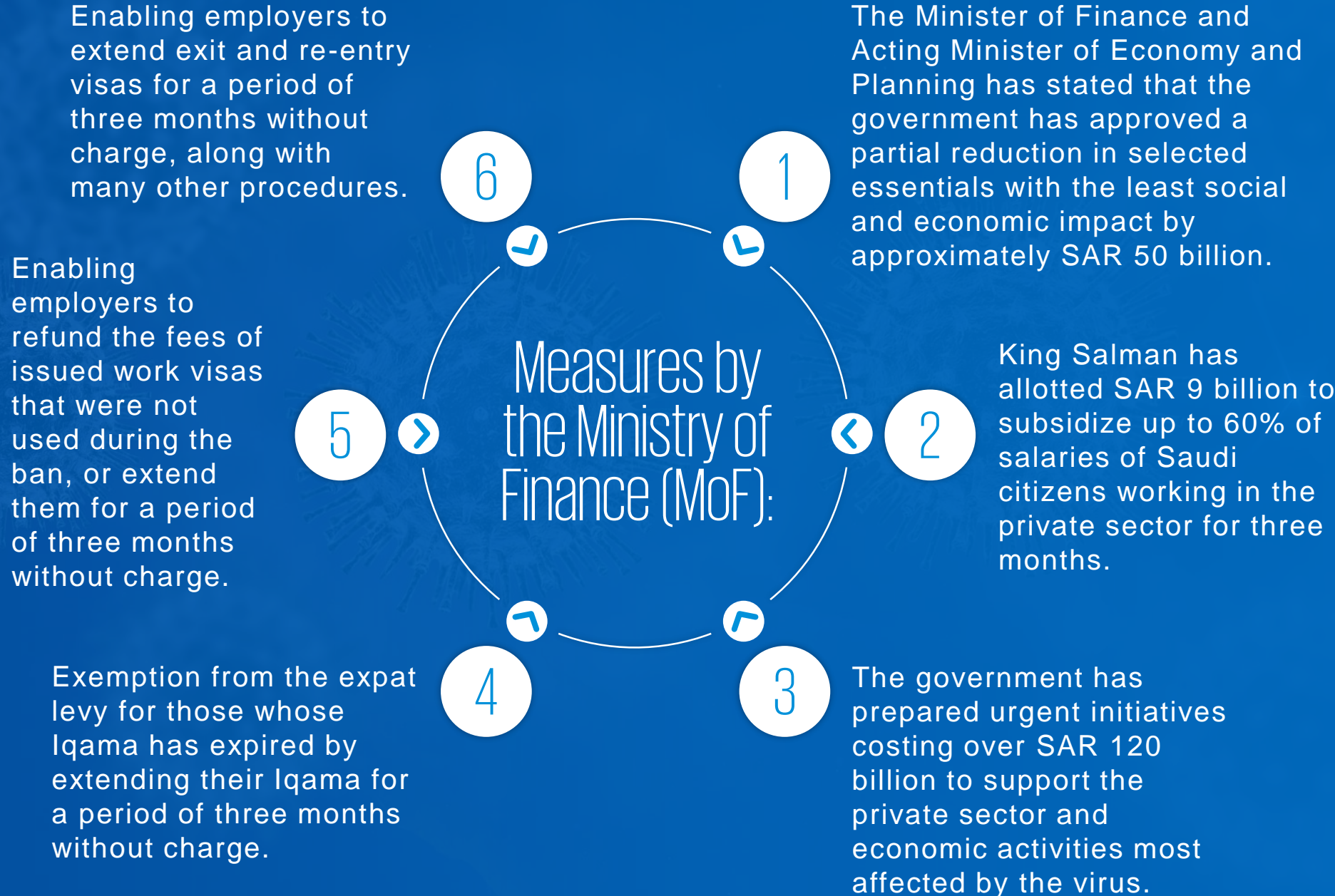
SAMA has adopted a new precautionary package directed toward banks.



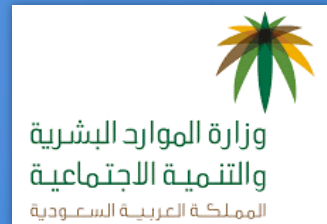
SAMA informed the licensed Payment Services Providers (PSPs) in the Kingdom that it will raise the allowed top-up of the monthly ceiling limit for e-wallets up to SAR 20,000.

5.4.3

Major Economic initiatives to combat the COVID-19 (3/3)



Preeminent coordination within government entities to mitigate the consequences of COVID-19





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We do it right



Excellence:

We never stop learning and improving



Courage:

We think and act boldly



Together:

We respect each other and draw strength from our differences



For Better:

We do what matters