Data and Profiles - Market Profiles

Saudi Arabia: Market Profile

02 March 2021

Fitch Solutions

1. Overview

Saudi Arabia is an oil-reliant economy with the largest proven crude oil reserves in the world. Ongoing structural reform efforts signal that Saudi Arabia's economic growth will continue to strengthen in the medium-to-long term. A large market and long-term macroeconomic stability increase the country's appeal as an investment destination. Saudi Arabia is also well placed for firms and investors looking to establish a base in the region. In order to shore up economic growth, the government is focused on increasing economic diversification efforts and attracting foreign direct investment in other sectors. Public finances and growth remain vulnerable to volatility in global energy prices and oil production cuts, while turbulence in global financial markets could affect the cost of financing for both the sovereign and corporates, especially given the financing needed to implement Vision 2030 initiatives. On the upside, lower oil prices may increase the momentum for structural reforms under Vision 2030 and prompt the government to tackle difficult fiscal issues, such as spending on public sector compensation and benefits. The banking sector is growing rapidly, and the capital market is becoming more sophisticated and is opening up to foreign investors. The non-hydrocarbon sector has seen rapid growth in recent years, creating opportunities for investment in a range of industries. The large and growing local population means solid domestic demand for goods, services and infrastructure. Owing to the Covid-19 pandemic, some reforms have been put on hold.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

January 2019
The Saudi Arabian government signed three contracts worth around USD14 billion for implementing major railway projects. The first deal, signed with Mainland China Civil Engineering Construction Corporation, was for the USD10.6 billion Land Bridge project, which was aimed at linking the Red Sea and the Gulf Cooperation Council (GCC) ports via the railways between Dammam and Riyadh. The USD3.6 billion second deal had been signed with a Saudi-Spanish consortium to build Phase Two of the Haramain high-speed train project. The USD267 million third deal had been signed by Saudi Railway Company and United States-based firm Green Bakery Corporation for the manufacturing of train wagons in the country.

January 2019
Saudi Arabia started construction on NEOM Bay in the first half of 2019. NEOM Bay, which was the first urban area of the USD500 billion NEOM project, included the construction of homes, lifestyle and tourist facilities, innovation centres as well as hotels. The master plan concept for NEOM Bay was approved by Saudi Crown Prince Mohammed, who was also the chairman of the NEOM board. The phase was expected to be completed in 2020.

July 2019
The Organisation of the Petroleum Exporting Countries (OPEC), of which Saudi Arabia was a member, agreed to continue curbing oil production for another nine months, to March 2020, in an effort to bolster the oil price.

July 2019
Saudi Arabia announced plans to list Saudi Aramco, the state oil company, in 2020 or 2021. Previous plans on the initial public offering of the USD2 trillion company were put on hold in 2018.

September 2019
Two major oil refineries were damaged in air attacks, claimed by the Yemeni Houthi movement. The attacks knocked out nearly half of Saudi Arabia's oil output.

November 2019
On November 3, Saudi Aramco announced its intention to move ahead with its long-awaited IPO on the Saudi stock exchange. The sale looked set to generate large-scale funding for economic diversification projects in Saudi Arabia, helping to alleviate fiscal pressures.

January 2020
Saudi Aramco signed a USD1.85 billion contract with Samsung Engineering for its Hawiyah Unayzah Gas Reservoir Storage project in Hawiyah. The scheme included the construction of gas injection facility of 1.5 billion standard cubic feet per day and a gas reprocessing facility of 2 billion standard cubic feet per day. Under the deal, Samsung would be responsible for the engineering, procurement and construction of the project, which was expected to be completed in 2023.

March 2020
Saudi Arabia and Russia, the world's two largest oil exporters, failed to agree on production cuts to increase global oil prices. As a result, Saudi Arabia drastically decreased the price of its oil, causing the global oil price to drop by about 30%.

Covid-19 lockdowns across various countries resulted in the demand for oil decreasing by about one-third.

Saudi Arabia earmarked a USD32 billion economic stimulus package to mitigate the effects of the Covid-19 pandemic and lower oil prices in the kingdom.

April 2020
Leading oil producers agreed to cut production by approximately 10 million barrels per day, with milder production decreases set to extend into 2021.

May 2020
To counter the financial and economic implications of Covid-19, the government announced that the VAT rate would increase to 15.0% from 5.0% from July 1 onwards.

Saudi Arabia began a three-phased approach to lifting Covid-19 restrictions on domestic travel and economic activity

June 2020
On June 21, the all clear phase started. Curfew restrictions were completely lifted and domestic travel started to return to normal throughout the country, while bans on international travel and religious pilgrimages were maintained.

July 2020
The first phase of privatisation in the flour milling sector was completed. The sale of the mills was one of the first planned privatisations as the government aims to diversify the economy.

A consortium signed an agreement to build a USD5 billion green hydrogen-based ammonia production plant in Saudi Arabia. The project would be based in NEOM and would integrate more than 4GW of renewable power from solar, wind and storage. The plant was due to be commissioned in 2025.

The Government of Saudi Arabia announced plans to transform the capital city of Riyadh into an economic, social and cultural hub in the next 10 years. The USD800 billion plan would double the size of Riyadh, with various new projects planned. The scheme would involve building a mega industrial zone focusing on technologies such as renewables, automation, biotechnology and aquaponics.

October 2020
Saudi Arabia's Tourism Development Fund signed a deal with Riyadh Bank and Banque Saudi Fransi to finance tourism projects, worth SAR160 billion (USD43 billion), in the country. Saudi Arabia was executing various tourism projects including the 28,000sq km Red Sea Project; the 366sq km Qiddiya entertainment city, the SAR64.1 billion (USD17.1 billion) Diriyah Gate and the 4,155sq km AMAALA project. The deal would also provide multiple credit facilities and financial guarantees to the private sector, and small- and medium-sized enterprises.

November 2020
The Central Bank announced the extension of the payment deferral program to support the private sector until end-March 2021.

December 2020
The 2021 budget aimed to cut spending by 7.3%, with expenditure for the year decreased to USD264 billion.

Saudi Arabia began the roll out of its Covid-19 vaccination programme.

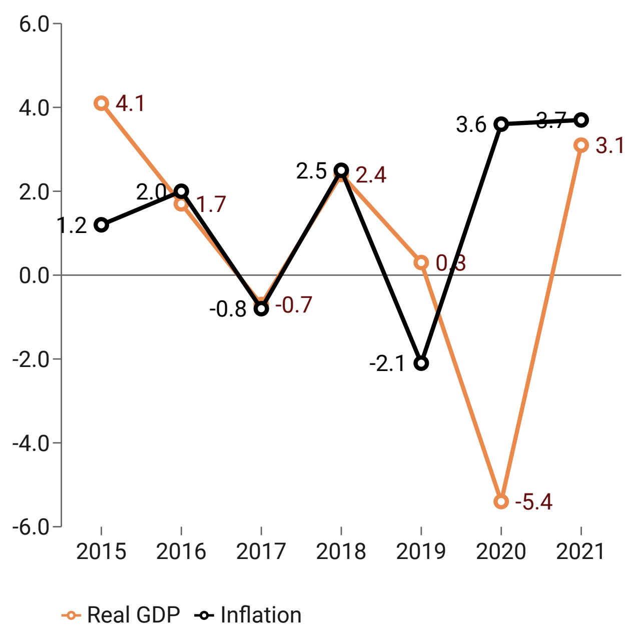
January 2021
Gulf countries, including Saudi Arabia, signed an agreement at the 41st annual GCC summit to end a three-year long embargo against Qatar. Diplomatic ties between the Quartet states (Saudi Arabia, the UAE, Bahrain and Egypt) and Qatar would be fully restored, and the boycott against Qatar would be lifted.

The government announced plans to build a zero-carbon city, known as ‘The Line’ within the NEOM business zone. The city would house one million residents. Construction was expected to start before April 2021.

Sources: BBC Country Profile – Timeline, Saudi Press Agency, [The New York Times](), Fitch Solutions

3. Major Economic Indicators

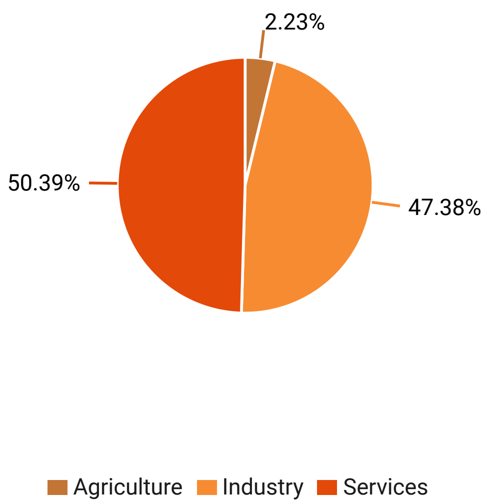
Real GDP and Inflation



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 11, 2021

GDP by Sector (2019)

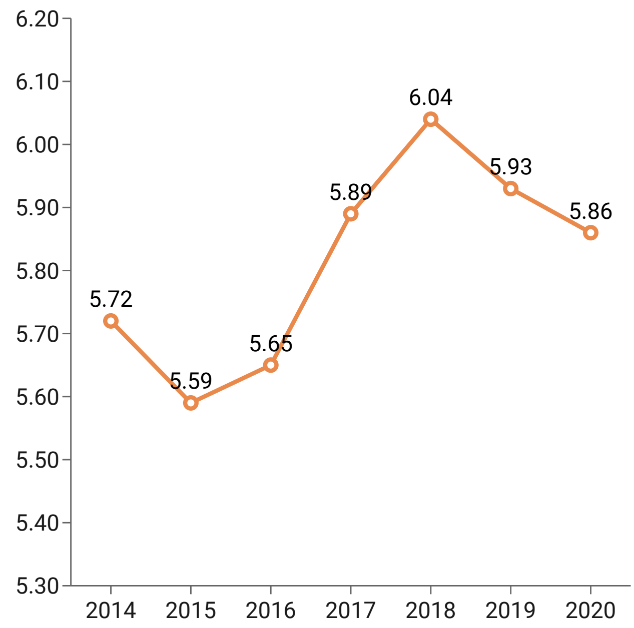
% share



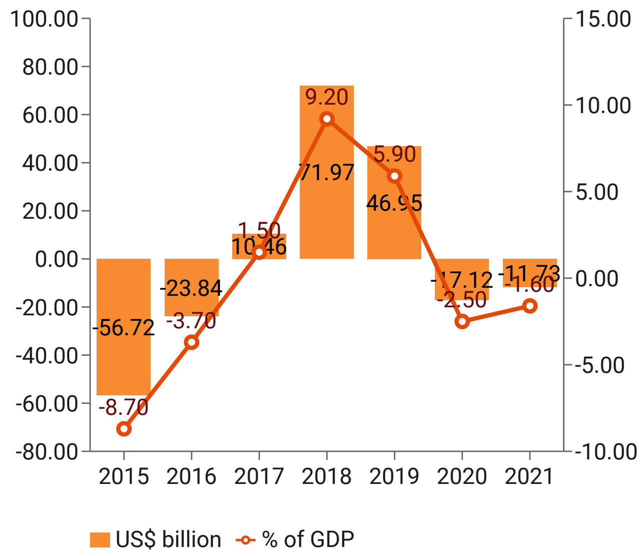
Source: World Bank
Date last reviewed: December 17, 2020

Unemloyment Rate

Current Account Balance



Source: World Bank (modelled ILO estimate)
Date last reviewed: October 16, 2020

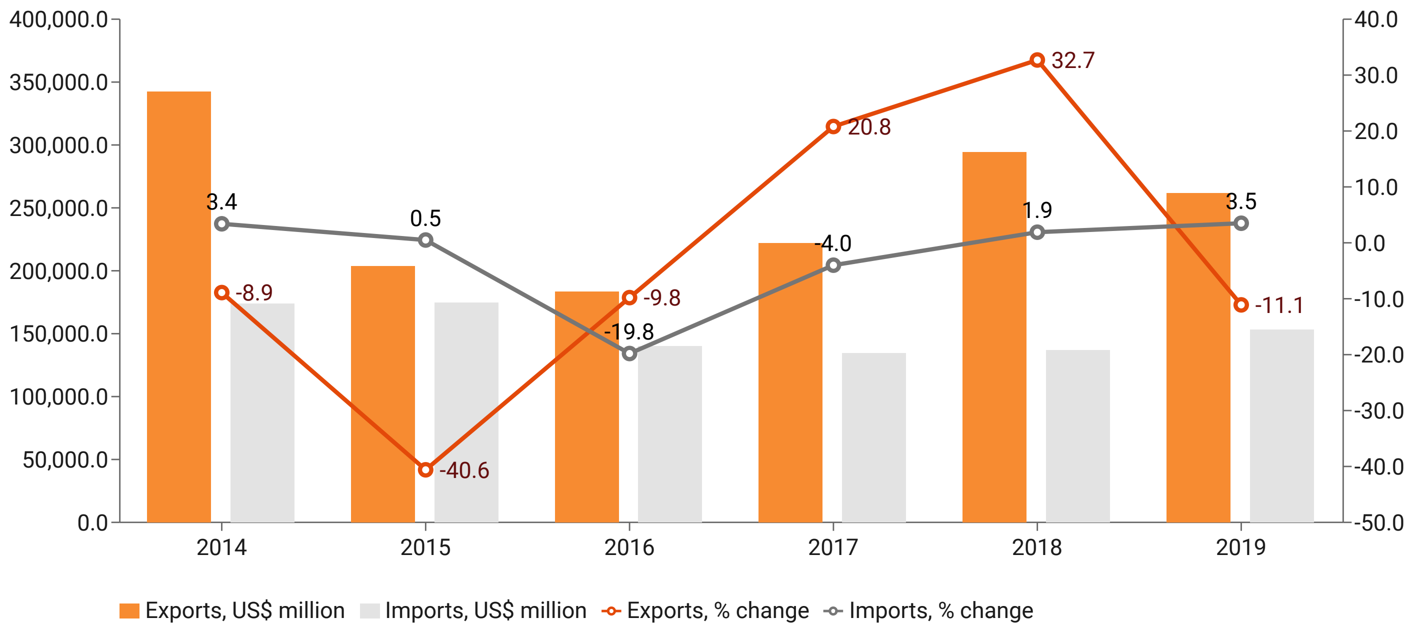


2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 11, 2021

4. External Trade

4.1 Merchandise Trade

Merchandise Trade



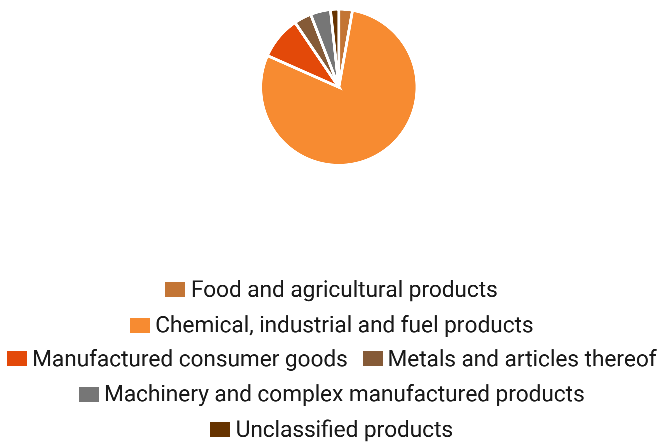
2014-2019 (estimate)
Source: WTO
Date last reviewed: January 11, 2020

Major Export Commodities (2018)

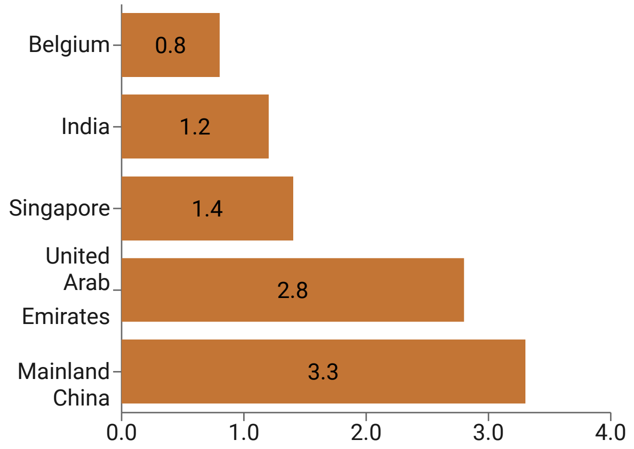
% share

Major Export Markets (2018)

% share



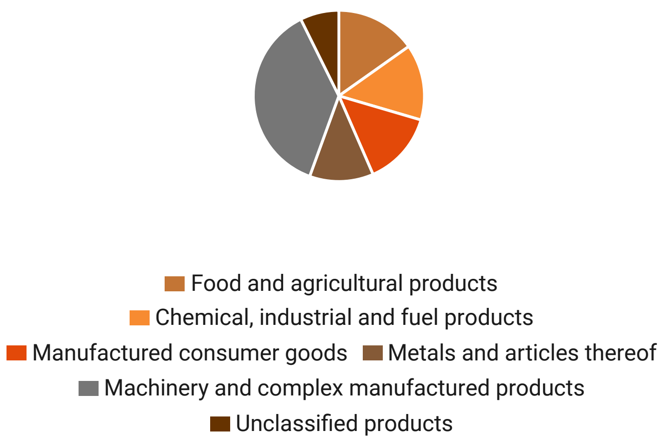
Note: Area NES accounts for 80.4% of total product exports, Note: 2019 data is available but is inaccurate and has therefore been excluded
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 14, 2021



Note: Area NES accounts for 78.6% of total product exports ,
Note: 2019 data is available but is inaccurate and has therefore been excluded
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 14, 2021

Major Import Commodities (2018)

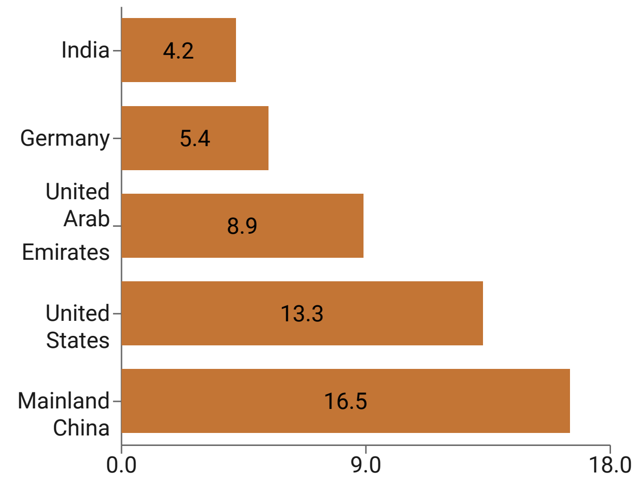
% share



Note: 2019 data is available but is inaccurate and has therefore been excluded
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 14, 2021

Major Import Markets (2018)

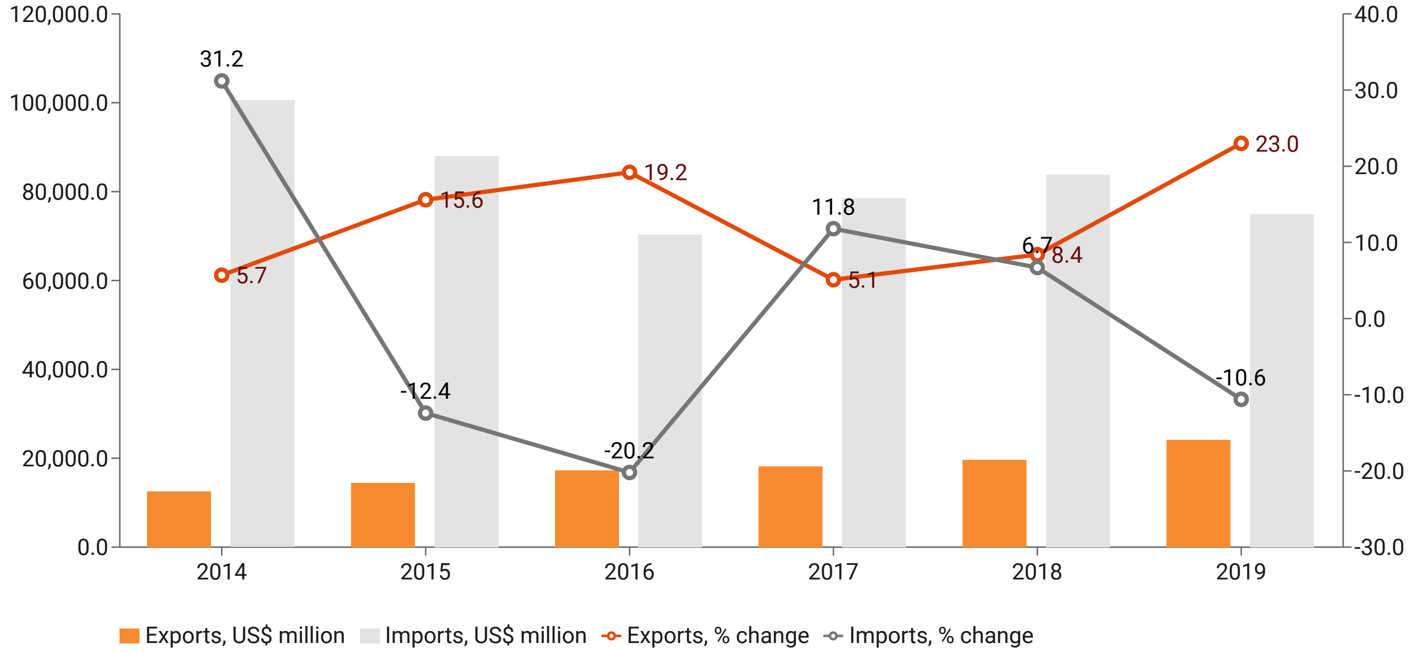
% share



Note: 2019 data is available but is inaccurate and has therefore been excluded
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 14, 2021

4.2 Trade in Services

Trade in Services



Source: WTO
Date last reviewed: January 11, 2020

5. Trade Policies

- Saudi Arabia has been a member of the World Trade Organization (WTO) since December 11, 2005.

- TThe country's GCC membership means that it is part of a single market and customs union with a common external tariff. A tariff of only 5% is imposed on the majority of items imported to Saudi Arabia from non-GCC countries, and there is a single point of entry where tariffs are collected once imports enter the GCC. Only imports on certain sensitive goods from fellow GCC countries will face tariffs, but generally there is freedom of movement between GCC countries without customs or non-customs restrictions.

- Overall, the average applied import tariff for goods entering Saudi Arabia specifically is 4.5%. This is the highest out of all six GCC states – just above Qatar, which has an average applied tariff rate of 3.4%. On average, Saudi Arabia has some of the highest import tariffs in the Middle East and North Africa region, and there are significant non-tariff barriers to trade in the country. Times and associated costs for border and documentary procedures in Saudi Arabia (especially imports) are some of the longest and highest in the GCC, reducing the country's competitiveness as a trading destination compared with its regional peers.

- From June 20, 2020 Saudi Arabia implemented an increase in customs duty rates (ranging from 0.5% to 15%), affecting more than 2,000 tariff lines.

- The Saudi Arabian government grants various subsidies and export incentives to a variety of industries, which reduces the competition of imports. In the third quarter of 2019, the Saudi Export Development Authority, in cooperation with the Private Sector Stimulus Office, launched the Saudi Export Stimulus Program, with a budget allocation of USD32 million, in line with Vision 2030. The budget is directed at the costs incurred by Saudi firms during the different stages of their export activities.

- For cultural and religious reasons, an import tariff of 200% is levied on cigarettes and tobacco products (GCC tariff).

- Saudi Arabia has a domestic metal manufacturing industry which is protected by tariff measures.

- For cultural and religious reasons, all imports of alcoholic beverages are banned.

- Various import bans exist on sensitive goods such as high energy air-conditioners, cars older than five years, and equipment used in water desalination processes.

- In order to import a wide variety of consumer goods (such as basic foodstuffs and packaged pharmaceutical products) to Saudi Arabia, special approval is required from the relevant government authority.

Sources: WTO – Trade Policy Review, Government websites, Fitch Solutions

6. Trade Agreement

6.1 Trade Updates

Following the restoration of diplomatic ties with Qatar in January 2021, trade and investment flows between Saudi Arabia and Qatar will resume. However, underlying issues remain unresolved, and the process of rebuilding trust between the two sides is likely to prove challenging. Therefore, initial economic gains may be limited.

6.2 Multinational Trade Agreements

Active

1. The GCC: Saudi Arabia is a founding member of the GCC, a political and economic organisation established on May 25, 1981. In January 2015, the GCC implemented a customs union and free trade agreement (FTA) that allows for the free movement of local goods among member states. Saudi Arabia's trade with these countries is tariff free. Other members of the GCC are Bahrain, Kuwait, Oman, Qatar and the UAE. This agreement helps member states to leverage one another's industrial capacity and logistic networks. The geographic proximity of these countries and their general adoption of free trade economic policies foster a competitive business environment. Only imports on certain sensitive goods from GCC countries face tariffs, and there is freedom of movement between GCC countries without customs or non-customs restrictions. In 2019 the GCC was the source market of 10.0% of Saudi Arabia's imports and the destination for 3.1% of Saudi Arabia's exports. Saudi Arabia negotiates FTAs through its GCC membership.

2. Greater Arab Free Trade Area (GAFTA): GAFTA came into force on January 1, 1998. In March 2001, it was decided to speed up the liberalisation process, and on January 1, 2005 the elimination of most tariffs among GAFTA members was enforced. The 17 members of GAFTA are Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE and Yemen. GAFTA was declared within the Social and Economic Council of the Arab League as an executive programme to activate the Trade Facilitation and Development Agreement, and the elimination of most tariffs among GAFTA members. GAFTA saw tariffs between 17 Arab states rapidly decline from an average of 15% in 2002 to 6% in 2009. Trade liberalisation has been of great benefit to all member states and has aimed to reduce the cost of imports to Saudi Arabia; however, regional instability and domestic security concerns have diminished the effect of this agreement and have created trade barriers. The UAE is the only GAFTA member within Saudi Arabia's top five trade partners.

3. GCC-European Free Trade Association (EFTA) (Iceland, Liechtenstein, Norway and Switzerland): The GCC and the EFTA signed an FTA on June 22, 2009 which entered into force on July 1, 2014. The agreement covers the progressive elimination of tariffs in trade in services and manufactured goods as well as investment, and other trade-related issues, such as the protection of intellectual property, and is fully consistent with provisions of the WTO. In addition, bilateral arrangements on agricultural products between individual EFTA states and the GCC form part of the instruments establishing the free trade area between both sides. As a single entity, the EFTA is one of Saudi Arabia's largest import partners.

4. GCC-Singapore FTA (GSFTA): The GSFTA became effective on September 1, 2013. The GSFTA eliminates tariffs on 99% of Singapore's exports to the GCC. This is a comprehensive agreement covering trade in goods, rules of origin, customs procedures, trade in services and government procurement, among others. Key sectors benefitting from the agreement include telecommunication, electrical and electronic equipment, petrochemicals, jewellery, machinery and iron and steel-related industry. The recognition of the halal certification of Singapore's Majlis Ugama Islam Singapura will also pave the way for trade in halal-certified products to gain faster access to GCC countries, such as Saudi Arabia.

Signed But Not Yet In Effect

Trade Preferential System of the Organization of the Islamic Conference (TPS-OIC): The agreement would see to the promotion of trade between member states by including most favoured nation principles, harmonising policy on rules of origin, exchanging trade preferences among member states, promoting equal treatment of member states and special treatment for least developed member states and providing for regional economic bodies made up of OIC nations to participate as a bloc. The agreement will cover all commodity groups. The OIC comprises 57 members, making the full realisation of such an agreement highly impactful, encompassing approximately 1.8 billion people. Although the framework agreement, the protocol on preferential tariff scheme and the rules of origin have been agreed on, a minimum of 10 members are required to update and submit their concessions list for the agreement to come into effect.

Under Negotiation

1. GCC-Australia FTA: Australia and the GCC commenced FTA negotiations in July 2007. Australia and the GCC share a significant economic relationship, encompassing trade and investment across a broad range of goods and services. Total trade between Australia and the GCC reached USD8.4 billion in 2017. The GCC is a key market for agricultural exports, such as livestock, meat, dairy products, vegetables, sugar, wheat and other grains. The agreement provides an opportunity to address a range of tariff and non-tariff barriers related to food exports that will benefit the food and drink sectors in Saudi Arabia. With a large proportion of world petroleum resources and a rapidly growing population, the GCC's prospects for continued trade growth are strong. The agreement will also help maintain a level playing field for automotive imports to the GCC market. These factors, along with a plurilateral FTA, will help sustain growth in Saudi Arabia's trade and investment relations with the country.

2. GCC-Mainland China FTA: The first-round negotiations of the GCC-Mainland China FTA commenced on April 27, 2005. Greater trade liberalisation will help develop the industrial and service sectors. Saudi Arabia mainly exports commodities, such as oil, to Mainland China and imports electrical goods and machinery from Mainland China. Trade liberalisation with the GCC will help the group integrate and grow with

mutual cooperation and comprehensive tariff reduction. Mainland China is Saudi Arabia's single largest trade partner.

3. United States-Middle East Free Trade Area (US-MEFTA): In May 2003, the US-MEFTA initiative was proposed, with the eventual goal of establishing an FTA between the United States and a range of countries in the Middle East. The countries targeted to join the MEFTA are Algeria, Bahrain, Egypt, Iran, Iraq, Israel (and through Israel, the Palestinian Authority), Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and Yemen. US-MEFTA includes a wide range of trade and investment issues, such as market access, intellectual property rights and labour and environmental issues. The initiative will help in growing commercial and investment opportunities by identifying and working to remove impediments to trade and investment flows between member states. This expands the scope of markets for businesses in Saudi Arabia to export products to and will significantly reduce trade costs. In July 2003, the United States and Saudi Arabia signed into force the Trade and Investment Framework Agreement, with the aim of regulating all commercial matters between member states.

4. India-GCC FTA: The agreement is expected to remove restrictive duties, push down tariffs on goods and pave the way for more intensive economic engagement between the nations. More than 50% of India's oil and gas comes from the GCC countries.

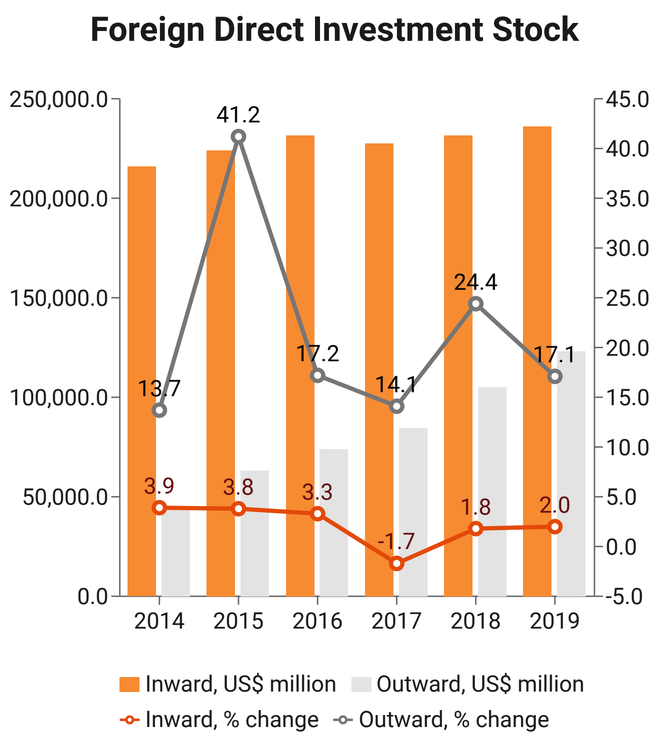
5. Japan-GCC FTA: This agreement will seek to reduce tariffs and liberalise services trade and investment. Japan mainly imports aluminium, natural gas, liquid natural gas and petroleum products from the GCC, while Japan mainly exports electronics, vehicles, machinery and other industrial products to the GCC.

6. Other: A number of other GCC FTAs are currently under negotiation. The countries engaged in negotiations include Pakistan, New Zealand, South Korea, the MERCOSUR bloc and Turkey.

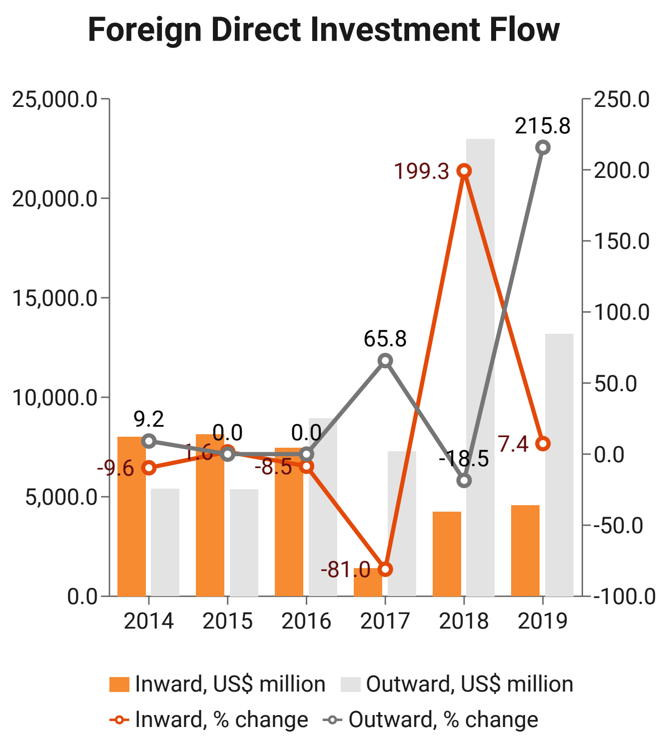
Sources: WTO Regional Trade Agreements Database, Fitch Solutions

7. Investment Policy

7.1 Foreign Direct Investment



Source: UNCTAD
Date last reviewed: October 6, 2020



Source: UNCTAD
Date last reviewed: October 6, 2020

7.2 Foreign Direct Investment Policy

1. The Saudi Arabian General Investment Authority (SAGIA), established in April 2000, is responsible for foreign direct investment (FDI) promotion, licensing and regulation, as well as offering support services to foreign investors. The agency provides information, licences and support services to foreign investors, which has greatly improved the framework for incoming businesses. SAGIA's primary goal is to facilitate and encourage investment wherever possible. FDI is particularly encouraged in key infrastructure sectors such as utilities, transport and real estate, as well as for high value-add businesses and knowledge-based industries, including education, health and life sciences. Foreign investors are eligible for a number of incentives through SAGIA, including heavily subsidised utility costs, reduced rent for industrial land and customs duty exemptions on imported raw materials (for five years) and machinery (for three years).

2. Businesses face relatively higher trade and investment risks in Saudi Arabia compared with regional peers. Despite the kingdom having some of the largest trade turnover and inward FDI stock volumes in the region, Saudi Arabia remains fairly closed off to international trade and foreign investment by virtue of its undiversified economy and export partner portfolio. The global slump in crude prices has highlighted the necessity of diversifying the economy and opening it up further to private and foreign investment. In this regard, there have been several positive developments, specifically with the release of the 'Vision 2030' economic diversification plan, the opening up of Saudi stock exchanges to foreign portfolio investment and the allowance of 100% foreign ownership in certain sectors. Nevertheless, while these developments are positive, it will take time for the impact of these policies to filter through to diversifying Saudi Arabian export revenues away from crude oil and opening the country up even further to foreign investment.

3. Related laws and regulations on foreign investment are well established; however, some restrictions remain for FDI, such as limits on foreign ownership and business activity in core sectors of the Saudi Arabian economy, including upstream oil and gas production.

4. In January 2018, the Saudi government took further steps to open up its stock market to foreign investors. This has been done by allowing foreign (whether resident or non-resident) holdings of an entity's securities listed on Saudi stock exchanges to amount to 49%. The ceiling of the total percentage of shares that a single qualified foreign investor can own of a listed entity has been increased to 10% (it was previously set at 5%). The authorities have also lowered the minimum assets under management that an investor must have to be recognised as a 'qualified foreign investor' from around USD1 billion to around USD500 million. These amendments formally came into effect on January 1, 2018.

5. There are a number of subsidised or soft loans available to foreign investors, primarily through the Saudi Industrial Development Fund (SIDF) which provides medium-to-long term funding for new projects or the expansion of existing facilities. Low-cost credit is allocated on a geographic basis, with businesses located in less developed regions benefitting from more generous financing options. Accordingly, loans covering either 50%, 60% or 75% of project costs are available on a time frame of either 15 or 20 years. Facilities based in the underdeveloped regions of Hail, Jazan, Najran, Al Baha, Al Jouf and the Northern Borders enjoy additional benefits, including a tax reduction of 50% of annual expenses for employing and training Saudi workers, a further tax reduction of 50% on gross salaries of Saudi employees and tax exemption up to 15% of the value of the non-Saudi's share of capital.

6. Non-residents are permitted to own property without a Saudi partner or sponsor. There are also fewer barriers to foreigners owning land in the kingdom than in some other GCC states.

7. Saudi investment law allows 100% ownership of projects by foreigners (except for activities ruled out by the negative list) and relaxes rules for sponsoring foreign employees.

8. Industries barred from foreign involvement are published in the country's negative investment list. This includes upstream oil production, manufacturing of military hardware, real estate in Mecca and Medina, recruitment and employment services, some printing and publishing activities, media services and land transportation. In addition, special licensing requirements are in place for a wider range of industries, including pharmaceuticals, air and maritime transport, hydrocarbon exploration, ports, livestock farming and advertising and media.

9. Local worker hiring requirements are in place. Government efforts to encourage the employment of Saudi nationals over expatriates have been enshrined in a clear plan known as Nitaqat, by which every company is divided into a sector with a different quota for the employment of Saudi workers, depending on the size of the firm. Businesses that meet the criteria are classed as platinum or green, those that fail are classed as yellow or red. Expatriate employees may move freely from the latter categories to the former (employers' permission is usually required), while companies under the former categories gain advantages in terms of employing expatriate workers.

10. Although the law no longer requires that non-resident companies must find local partners, this method remains the most effective way of doing business in Saudi Arabia as domestic entities will have a greater knowledge and experience of dealing with licensing, procurement and other bureaucratic procedures.

11. Saudi Arabia began offering tourist visas for citizens of 49 countries in September 2019.

12. The government of Saudi Arabia is aiming to rival the UAE and Qatar by incentivising foreign investment through its special economic zones. Through the Economic Cities (ECs) initiative in Rabigh, Hail, Madinah and Jazan regions, the government aims to develop vibrant urban areas with a business-friendly environment. This would leverage the country's competitive advantages, namely low-cost energy and strategic locations. EC projects are not only large industrial zones, but are also cities that will nurture new businesses and residential communities in areas that have had limited investment to date. They are expected to translate into employment growth in the cities; as a result, the ECs are expected to see positive growth in population, resulting in higher demand for real estate in the ECs.

13. The government of Saudi Arabia is aiming to rival the UAE and Qatar by incentivising foreign investment through its special economic zones. Through the ECs initiative in Rabigh, Hail, Medina and Jazan regions, the government aims to develop vibrant urban areas with a business-friendly environment. This would leverage the country's competitive advantages, namely low-cost energy and strategic locations. EC projects are not only large industrial zones, but also cities that will nurture new businesses and residential communities in areas that have had limited investment to date. They are expected to translate into employment growth in the cities; as a result, the ECs are expected to see positive growth in population, resulting in higher demand for real estate in the ECs.

Sources: WTO – Trade Policy Review, ITA, US Department of Commerce, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
Prince Abdulaziz Bin Mousaed Economic City in Hail, Knowledge Economic City in Madinah, King Abdullah Economic City in Rabigh, and the Jazan Economic City	- No restrictions on sponsoring foreign employees - Ability to carry forward losses indefinitely - Indefinite exemption from all income taxes - Minimum capital requirement and no restrictions on repatriation of capital - Accelerated investment application, business registration and setup process, with a guaranteed decision for foreign investment applications within 30 days of submission to Saudi Arabian General Investment Authority - No personal income tax and a minimal 20% corporate tax for foreign companies - Moderate utility rates - No export duties within the 17 GAFTA countries - Few restrictions on currency conversion, exchanges and transfers - Duty drawback, a customs refund for raw material imports that are processed and exported as finished goods - Preferential treatment for national products in Saudi Government procurement - Export credit, financing, guarantees and insurance through the Saudi Export Programme - Financial support for the training and employment of Saudis from the Human Resources Development Fund - Low-cost loans from the Saudi Industrial Development Fund and Public Investment Fund - Customs duty exemption on imported machinery, equipment, raw materials and spare parts, if they are for industrial use. Low land rental and utility rates – net leasing rate/annum: SAR700/sq m; service charge: SAR120/sq m (total service charge: SAR820/sq m, to be paid annually in advance on a quarterly basis) - Exemption from import fees for selected raw materials imported for manufacturing products - Contract term – minimum two years; no escalation during the first two years; year three onwards: 5% per annum - Modern infrastructure and education facilities

Sources: US Department of Commerce, Fitch Solutions

8. Taxation – 2021

- Value Added Tax: 15%
- Corporate Income Tax: 20%

Sources: Saudi Arabia Ministry of Finance, General Authority of Zakat and Tax (GAZT), Fitch Solutions

8.1 Important Updates to Taxation Information

- Saudi Arabia has double taxation agreements (DTA) and Investment Promotion and Protection Agreement (IPPA) with Mainland China. The DTA with Hong Kong entered into force on September 1, 2018.

- VAT is expected to become one of the major sources of non-oil revenue in Saudi Arabia, according to the 2019 budget statement. Enterprises with taxable or expected sales of SAR1 million or more were required to register before December 20, 2017 and transfer VAT collected to the General Authority for Zakat and Tax. Enterprises with annual sales of SAR375,000 or more were required to register before December 20, 2018.

- From July 1, 2020 the standard VAT rate increased from 5.0% to 15.0% to counter the financial and economic effects of Covid-19 on the budget.

- From October 4, 2020 a Real Estate Transaction Tax of 5% of the total real estate disposal value regardless of its condition, shape, or use at the time of the disposal, entered into force.

8.2 Business Taxes

Type of Tax	Tax Rate and Base
Corporate Income Tax (CIT)	-20% on a non-Saudi's share in a resident corporation; Zakat is levied on a Saudi's share (citizens of the GCC are treated as Saudis)
CIT in the natural gas sector	-30%
CIT in the oil sector	-50-85%
Dividends	-5% on net earnings (except for firms in the oil and gas sector)
Capital Gains Tax	-Treated as taxable income; gains on depreciable assets and on certain securities are exempt
Withholding Tax	-Resident: N/A -Non-Resident: • Dividends: 5% • Interest: 5% • Royalties: 15%
Value Added Tax	-15%
Zakat (religious levy, imposed on the shareholders in Saudi Arabian companies that are Saudi or GCC nationals)	-2.5% on Zakat base
Social security contributions – payable by employer	-12% of employee's salary for Saudi employees and an accident insurance of 2% of employee's salary for non-Saudi employees

Sources: Saudi Arabia Ministry of Finance , GAZT, Fitch Solutions
Date last reviewed: January 14, 2021

9. Foreign Worker Requirements

9.1 Localisation Requirements

The Saudi Arabian government has launched a local workforce hiring localisation policy called 'Saudisation', which is intended to boost the employment of Saudi nationals and reduce reliance on foreign labour. Foreign firms are, therefore, required to employ and train Saudi nationals. In line with Saudi Arabia's economic diversification strategy 'Vision 2030', the Saudi Arabian government has ramped up the enforcement of its 'Saudisation' policies in order to try and achieve its aim of 50% of all employment in the country's private sector to be occupied by Saudi Nationals. Employers must consider Saudi nationals for any positions before they hire a foreign worker. Before a company can apply for a work permit for a foreign national it wants to employ, it must advertise the job opening for two weeks on a government jobs portal.

Certain positions are reserved strictly for Saudi nationals and businesses must pay certain charges for every foreign national they hire. There are also specific 'Saudisation' targets set for specific firms or sectors, and if these are not complied with there is strong potential for businesses not to get the work permits of their foreign workers renewed or to be denied work permits for new foreign employees.

9.2 Obtaining Foreign Worker Permits for Skilled Workers

Applicants must have an offer of employment by an employer willing to sponsor their application and from there the applicant must provide proof of education qualifications and various medical records. Due to the Saudi Arabian government's drive to promote local employment these are becoming increasingly difficult to obtain, especially as the government is becoming stricter with the implementation of its policies. This could have negative repercussions for future foreign worker permit applications or renewals.

9.3 Visa/Travel Restrictions

All citizens of non-GCC states must apply for a visa before entering the country. However, in January 2020, the Saudi Commission for Tourism & National Heritage (SCTH) announced that visitors with United Kingdom, United States and Schengen-area country visas will be able to obtain a Saudi Arabia visitor visa at airport arrival halls, regardless of their citizenship. The only requirement is that the visitor must have previously used the visa to travel to any one of these countries before entering Saudi Arabia. In September 2019, Saudi Arabia also announced that it would begin offering visas for the first time to non-religious tourists from 49 countries. Holders of Israeli passports or holders of passports with an Israeli stamp are likely to be denied entry.

Sources: Government websites, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	A1 (Negative)	05/01/2020
Standard & Poor's	A- (Stable)	17/02/2016
Fitch Ratings	A (Stable)	09/11/2020

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	92/190	92/190	62/190
Ease of Paying Taxes Index	76/190	78/190	57/190
Logistics Performance Index	55/160	N/A	N/A
Corruption Perception Index	58/180	51/180	52/180
IMD World Competitiveness	39/63	26/63	24/63

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index	**49/201**	**55/201**	**43/201**
Short-Term Economic Risk Score	63.8	56.7	69.6
Long-Term Economic Risk Score	65.5	60.4	64.5
Economic Risk Index	**125/201**	**131/201**	**132/201**
Short-Term Political Risk Score	72.9	72.9	72.9
Long-Term Political Risk Score	56.7	55.9	55.9
Operational Risk Index	**51/201**	**40/201**	**38/201**
Operational Risk Score	62.3	64.3	65.8

Source: Fitch Solutions
Date last reviewed: January 14, 2021

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK
Saudi Arabia's economic fortunes are heavily tied to global hydrocarbon prices. Economic growth fell in 2020 amid the Covid-19 pandemic, with the contraction exacerbated by renewed OPEC+ production cuts, which caused oil output and exports to decline. Government's oil revenues are estimated to have halve in 2020. Investment and consumption levels for 2020 also declined as Covid-19 restrictions hamper business activity. Imports also look set to reduce sharply along with associated impacts on demand and trade, before increasing markedly in 2021 as the situation

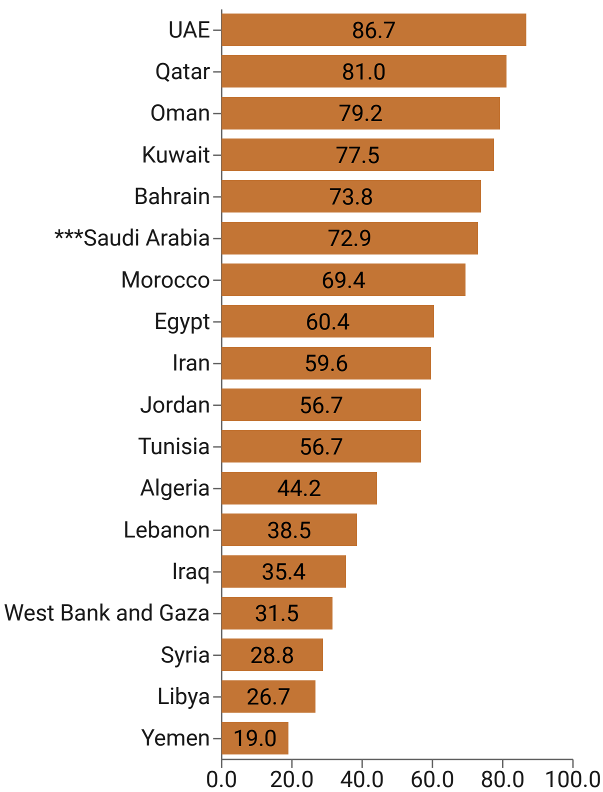
begins to normalise. Beyond 2021, import growth is expected to reflect moderate gains as GDP expands. Reduced export earnings will negatively impact on the government's financial commitment towards infrastructure and social services as it looks to cut back on non-essential spending. Meanwhile, failure by the government to deliver on economic reforms could lead to a deterioration in investor sentiment, as could perceived foreign policy impulsiveness. The Vision 2030 plan is expected to provide much-needed economic diversification and long-term benefits for private sector growth and foreign direct investment levels in the decades ahead. While Saudi Arabia's diversification measures have strong potential to boost export services revenue from areas such as leisure and medical tourism, they will continue to account for less than a third of total exports and will therefore, remain unable to drive significant shifts in the current account position. A key long-term challenge for the kingdom will be to generate enough jobs to absorb the rapidly rising youth population into the local workforce.

OPERATIONAL RISK
Saudi Arabia's oil-reliant economy will remain under pressure over the short-to-medium term following a slump in global oil prices in 2020 and subdued subsequent recovery due to the Covid-19 pandemic which has reduced fuel demand. Moreover, non-oil private-sector activity will likely also take a hit as Covid-19 weighs on private consumption and the tourism sector, and a more restrictive budget hinders the economy. Meanwhile, geopolitical tensions and internal instability render businesses and foreign workers vulnerable to additional security risks, necessitating comprehensive insurance cover and additional private security provisions, where possible. Strict Islamic laws have contributed to a low crime environment, especially for foreign business travellers and expatriates. Looking ahead, on the upside, the kingdom has one of the most attractive labour markets in MENA, boosted by relatively high educational attainments levels and strengthening investment in research and development. Furthermore, Saudi Arabia' boasts strong transport and utilities infrastructure, which lowers logistics risks for businesses operating in the country. The kingdom's considerable oil and gas wealth ensures low electricity and fuel costs and a high degree of availability of both utilities, benefiting businesses in terms of lower operating costs. There is also widespread access to a range of traditional financial products and services, including long-term and low-cost loans.

Source: Fitch Solutions
Date last reviewed: January 16, 2021

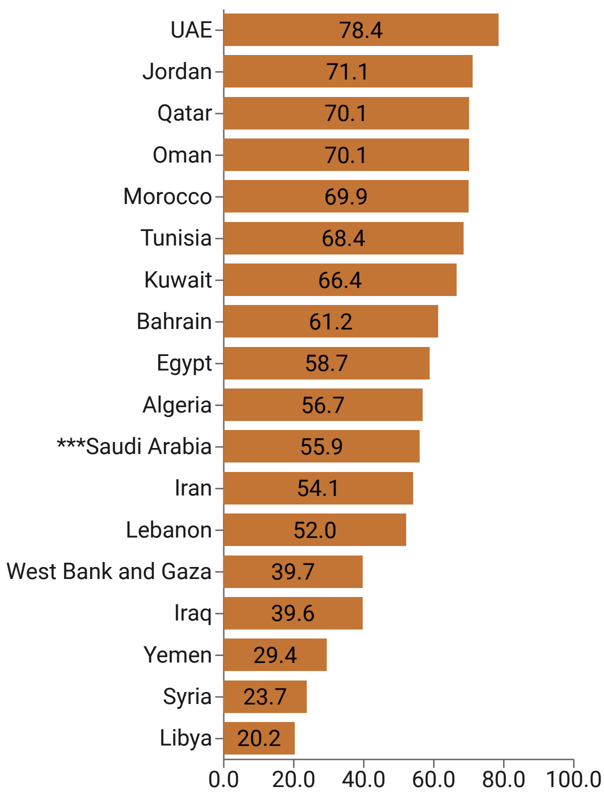
10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 14, 2021

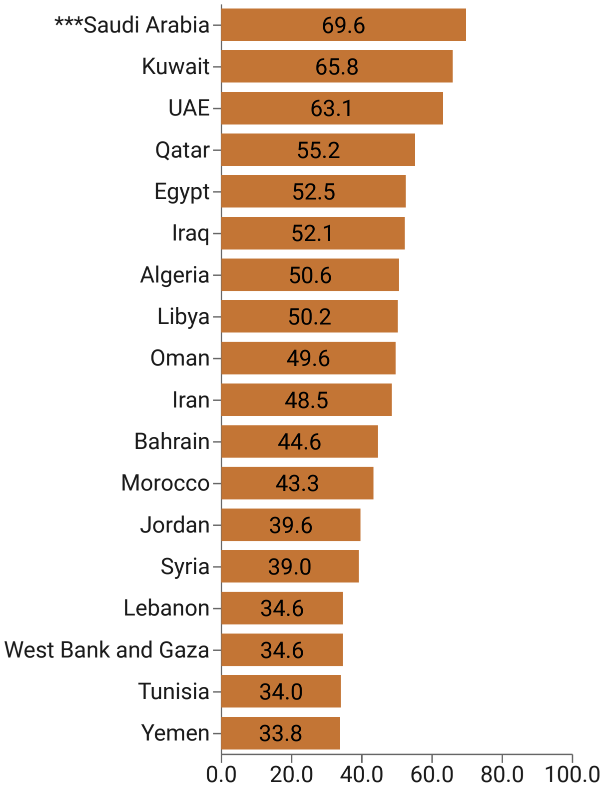
Long Term Political Risk Index



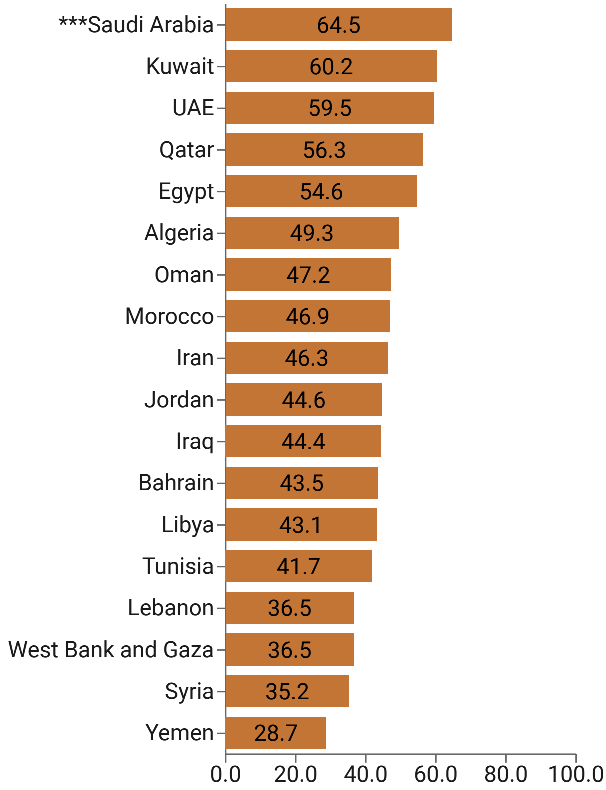
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 14, 2021

Short Term Economic Risk Index

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 14, 2021



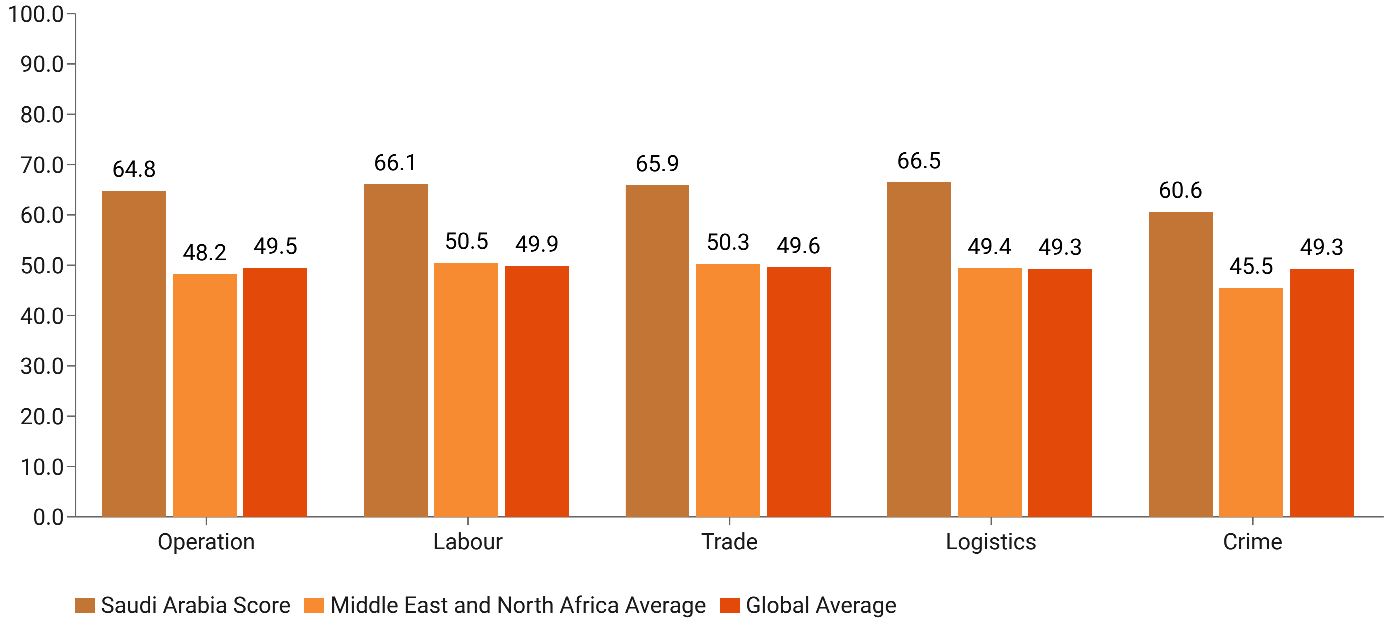
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 14, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Saudi Arabia Score	**64.8**	**66.1**	**65.9**	**66.5**	**60.6**
MENA Average	48.2	50.5	50.3	49.4	42.5
MENA Position (out of 18)	3	2	4	5	4
Global Average	49.5	49.9	49.6	49.3	49.3
Global Position (out of 201)	38	17	42	49	56

100 = Lowest risk, 0 = Highest risk
Source: Fitch Solutions Operational Risk Index

Saudi Arabia vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: January 14, 2021

Country	Operational Risk Index	Labour Market Risk Index	Trade and Investment Risk Index	Logistics Risk Index	Crime and Security Risk Index
United Arab Emirates	72.5	67.4	78.7	69.9	74.1
Bahrain	68.3	63.0	76.0	72.8	61.5
Saudi Arabia	**64.8**	**66.1**	**65.9**	**66.5**	**60.6**
Qatar	64.7	63.3	62.8	73.4	59.3
Oman	64.5	58.2	64.3	66.5	68.8
Jordan	56.9	56.6	63.3	56.4	51.2
Morocco	55.1	42.5	66.2	54.4	57.4
Kuwait	54.9	55.7	57.4	48.9	57.5
Egypt	49.7	47.8	48.9	58.0	44.1
Tunisia	47.7	40.1	57.7	47.8	45.0
Lebanon	44.1	51.8	50.2	42.9	31.5
Iran	42.4	48.3	36.6	51.4	33.4
Algeria	39.6	47.0	31.9	43.4	35.9
West Bank and Gaza	31.4	46.0	38.3	23.8	17.7
Iraq	30.7	39.4	33.9	39.3	10.2
Libya	29.0	42.6	27.3	29.2	17.0
Syria	28.0	39.0	25.3	24.3	23.3
Yemen	22.6	34.3	19.8	20.2	16.1

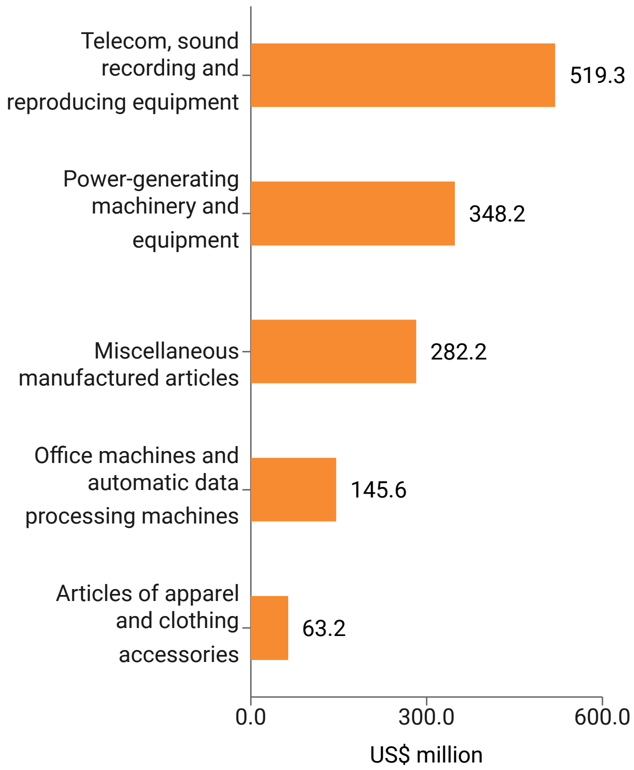
Regional Averages	48.2	50.5	50.3	49.4	42.5
Emerging Markets Averages	46.8	48.3	47.1	45.8	46.1
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk, 0 = Highest risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: January 14, 2021

11. Hong Kong Connection

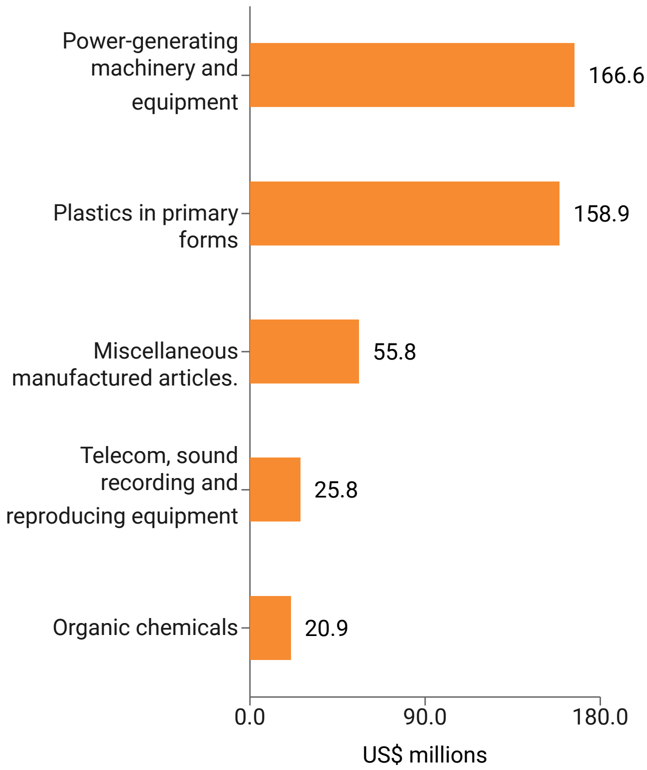
11.1 Hong Kong's Trade with Saudi Arabia

Major Export Commodities to Saudi Arabia (2019)



Note: Graph shows the main Hong Kong exports to Saudi Arabia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 14, 2021

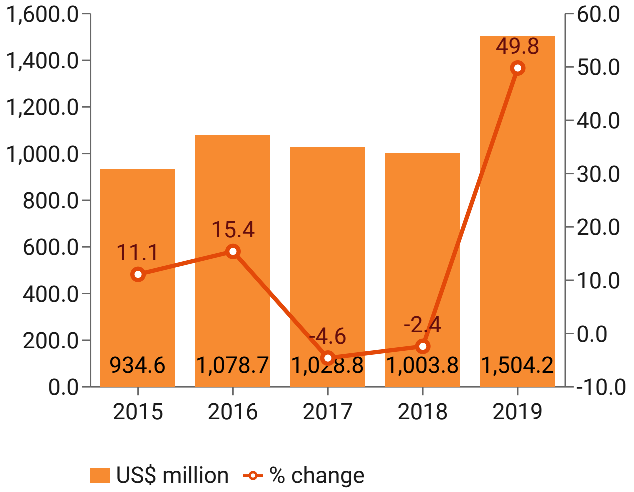
Major Import Commodities from Saudi Arabia (2019)



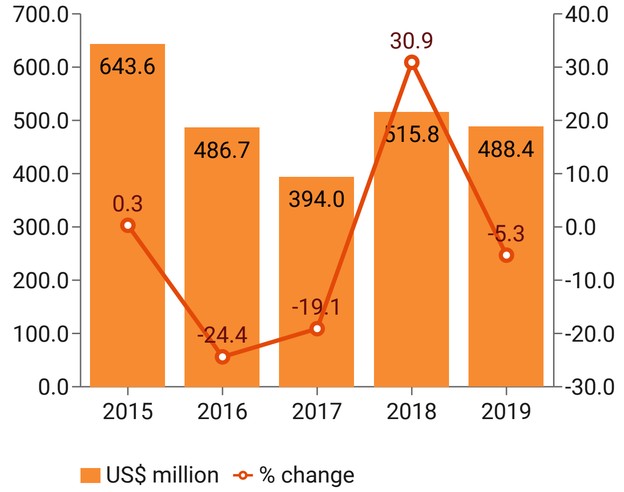
Note: Graph shows the main Hong Kong imports from Saudi Arabia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 14, 2021

Merchandise Exports to Saudi Arabia

Merchandise Imports from Saudi Arabia



Note: Graph shows Hong Kong exports to Saudi Arabia (by consignment)
Source: Hong Kong Trade Statistics, Census & Statistics Department
Date last reviewed: January 14, 2021



Note: Graph shows Hong Kong imports from Saudi Arabia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 14, 2021

Exchange Rate HK$/US$, average
7.75 (2015)
7.76 (2016)
7.79 (2017)
7.84 (2018)
7.84 (2019)

	2019	Growth rate (%)
Number of Saudi residents visiting Hong Kong	8,881	-21.1
Number of Middle East residents visiting Hong Kong	131,849	-12.8

Source: Hong Kong Tourism Board
Date last reviewed: January 14, 2021

11.2 Commercial Presence in Hong Kong

	2021	Growth rate (%)
Number of Saudi Arabian companies in Hong Kong	N/A	N/A
- Regional headquarters		
- Regional offices		
- Local offices		

11.3 Treaties and agreements between Hong Kong and Saudi Arabia

Saudi Arabia and Mainland China entered into a bilateral investment treaty in May 1997. Saudi Arabia has DTA and an investment promotion and protection agreement with Mainland China, and concluded the DTA with Hong Kong in August 2017. The DTA with Hong Kong entered into force in September 2018.

Source: Hong Kong Department of Justice, UNCTAD

11.4 Chamber of Commerce (or Related Organisations) in Hong Kong

Consulate of the Kingdom of Saudi Arabia in Hong Kong
Address: Suite 6401, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong
Email: hkcon@mofa.gov.sa
Tel: (852) 2520 3200

Source: Visa on Demand

11.5 Visa Requirements for Hong Kong Residents

Visa applications must be completed prior to travel. It is important to note that the passport must not contain any evidence of prior or intended travel to Israel. Since September 27, 2019 Mainland and Chinese HKSAR passport holders and are granted entry to Saudi Arabia for tourism reasons by applying for a one-year, multiple entry eVisa.

Source: Visa on Demand
Date last reviewed: January 14, 2021

Related Topics

Saudi Arabia | Middle East | MENA | VISION 2030 | GREATER ARAB FREE TRADE AREA
SAUDI ARABIA GDP | SAUDI ARABIA ECONOMIC STRUCTURE | SAUDI ARABIA EXTERNAL TRADE
SAUDI ARABIA IMPORT | SAUDI ARABIA EXPORT | SAUDI ARABIA TRADE POLICY
SAUDI ARABIA INVESTMENT POLICY | SAUDI ARABIA TRADE AGREEMENT | SAUDI ARABIA FDI
SAUDI ARABIA TRADE WITH HONG KONG