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***Effect of Covid on budget
balance in emerged
countries***

- Saudi Arabia case study

تأثير كوفيد على موازنة الميزانية في

البلدان الناشئة

-دراسة حالة المملكة العربية

السعودية –

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Abstract

This study aims to study the impact of the Covid pandemic on budget balance, with reference to the case of the Kingdom of Saudi Arabia.

The study concluded that there was a negative impact of the pandemic on tax revenues and the budget balance, which prompted the Saudi government to announce an economic plan worth 70 billion Saudi riyals to support the private sector.

Keywords: budget balance, tax revenues, KSA

ملخص:

تهدف هذه الدراسة الى دراسة أثر جائحة كوفيد على موازنة الميزانية، مع الإشارة لحالة المملكة العربية السعودية. توصلت الدراسة الى وجود تأثير سلبي للجائحة على كل من العائدات الضريبية وموازنة الميزانية، مما دفع الحكومة السعودية للإعلان عن خطة اقتصادية بقيمة 70 مليار ريال سعودي لدعم القطاع الخاص.

كلمات مفتاحية: موازنة الميزانية، العائدات الضريبية، المملكة العربية السعودية

1. Introduction

Covid-19 pandemic is considered as an event Black Swan (Nicola M & Al, 2020). In addition to impacts disastrous health, the Covid-19 pandemic is causing a serious economic recession and severe social instability across the world (Laing T, 2020). All productive sectors are affected by the containment measures imposed by the authorities to contain the transmission of the virus, these measures cause a drastic drop in demand on the main manufacturing products and services, which triggered a global economic recession.

The kingdom of Saudi Arabia, like to the rest of the world, has been affected by the Covid-19 pandemic with negative effects on the country's economic activity. The drastic fall in oil prices, brought about by the recession in world economic activity, considerably disrupts the financial balance and reinforces economic instability in Saudi Arabia.

The country, which has an economic and financial structure that is highly dependent on the oil and gas sector, faces the challenge of managing the impact of fluctuations in the global oil market on its economy in the short and medium term. In the long term, the Covid-19 pandemic increases uncertainty about the direction of

the global hydrocarbon market. In Saudi Arabia, the containment measures decreed, which are strongly needed to contain the pandemic, are producing a significant decrease in the country's economic activity. The closure of shops excluding food and pharmaceutical products, the cessation of passenger transport and the suspension of some service activities lead to a decrease in the level of overall demand, which has negative effects on supply and income, and consequently the tax revenues of the kingdom. At the same time, the pandemic has caused a panic that has disrupted the distribution and marketing chains of a few essential products.

To understand the importance of the impacts of the Covid-19 pandemic on oil and non-oil tax revenues in Saudi Arabia, by asking the following problem:

What is the impact of Covid-19 pandemic impact on budget balance and tax revenue in Saudi Arabia?

Study hypothesis:

- There is a significant statistical relationship between Covid-19 pandemic and budget balance in Saudi Arabia.

1.1 Objectives of study:

Based on past work, statistics and events in economic sector, in this paper, we examine the relationship between Covid-19 pandemic, oil and non-oil tax revenues.

1.2 Importance of the study

The Research is very important in that it gives us a comprehensive idea of the current state of the Saudi economy, and how tax revenues can help maintain financial stability and boost the country's economic activity.

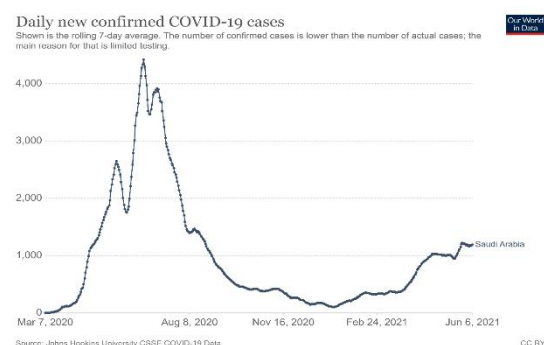
2. Literature review:

2.1. EVOLUTION OF THE COVID-19 PANDEMIC IN SAUDI ARABIA AND ITS TRANSMISSION DYNAMICS

On June 07, 2021, the official assessment of the World Health Organization reported 3 727 605 deaths and 173 005 553 confirmed cases in the world. reported to WHO. As of 5 June 2021, a total of 1 900 955 505 vaccine doses have been administered. The increase in the spread of the virus outside China confirms the presence of the third wave of the epidemic: 163,764,849 people were infected in 195 countries, mainly in the United

States (32,647,162), India (25,496,330), Brazil (15,657,391), France (5.802.138). In Europe, in addition to France, the pandemic particularly affected Russia (4,957,756), the United Kingdom (4,450,396), Italy (4,167,025), Spain (3,619,848), and Germany (3,614,095). 3,393,442 people died of the virus outside China (11,333 more in 24 hours). In Saudi Arabia, from January,3,2020 to June,7,2021, there have been 457 546 confirmed cases of COVID-19 with 7 456 deaths, reported to WHO. As of 25 May 2021, a total of 13 029 245 vaccine doses have been administered.

Graph 01 : Evolution of confirmed cases of COVID-19 in Saudi Arabia



Source ;

<https://covid19.who.int/region/emro/country/sa>

The graph shows an uptrend in new confirmed cases per day, showing that Covid-19 is still in the propagation phase. The basic reproduction rate (R_0) for the month of March was (0.96), for the months of April and May is 1.1 and 1.2 respectively. The basic reproductive rate of Covid-19 in Saudi Arabia is relatively low compared to its WHO defined value of 2.5 (April 2020). The countries most affected by Covid-19 recorded a very high (R_0) in the period of high spread of the virus, its value was between 3 and 4 in January in Wuhan (Chong & al 2020) and 3.1 between late February and mid-March in Italy (D'Arienzo & Coniglio, 2020).

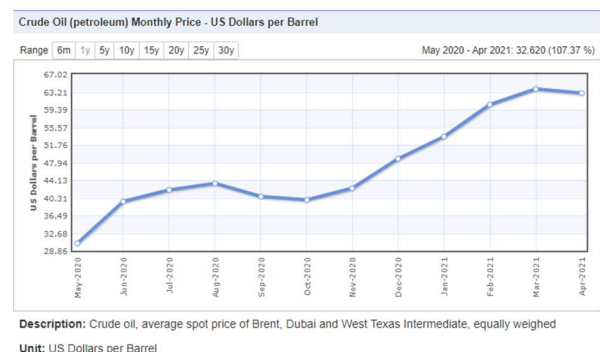
The value of (R_0) in Saudi Arabia remains above 1, which explains the upward trend in new cases recorded. This situation requires the maintenance of the protection against the virus until the basic reproduction rate falls below 1.

3. IMPACT OF COVID-19 ON BUDGET BALANCE IN SAUDI ARABIA:

Since the implementation of containment measures in China at the end of January, considered one of the largest energy consumers in the world, the price of oil has seen a significant decline. It accentuated, from the second week of March, with the

announcement of most of the industrial European countries like Germany, United Kingdom, France, Italy and also the USA of the application of heavy containment measures announcing a decrease of the demand on the world market of the energy. Such circumstances are aggravated by the non-adjustment of oil supply. The failure of negotiations, held on 2020, March, between OPEC and non-OPEC producers to find a compromise to lower production and adjust supply in response to this economic recession has kept oil prices down. Indeed, Saudi Arabia and Russia have increased their oil production in order to conquer additional market shares and in order to compensate for the decline in their oil revenues as a result of lower oil prices, which has further prolonged this drop in prices.

Graph 2: Evolution of oil prices



Sources: OPEC (June, 2021)

Saudi Arabia, like all other countries, has suffered for this situation with a negative

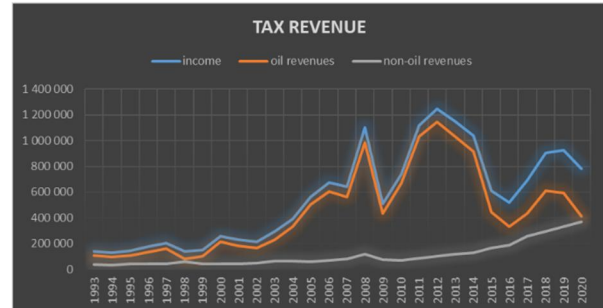
effect on the state budget. This situation requires the state to adopt an economic diversification strategy that leads to the reduction of the vulnerability of the balance of public finances by collect the tax and especially non-oil tax revenue.

3.1. IMPACT OF COVID-19 ON TAX REVENUE :

Nathan Goldman, assistant professor of accounting in NC State's Poole College of Management, and Gil Sadka, from UT Dallas's Jindal School of Management, looked at the correlation between income tax rate structures, pandemic restrictions, and state income tax revenues during 2020.

They found that states with reformist annual expense rates and more prohibitive COVID-19 strategies performed better as far as state personal assessment assortments comparative with states with level annual duty rates and less prohibitive COVID-19 approaches. Their investigation features that the general impact on charge assortments across all states was basically a "equal the initial investment," and almost 50% of the states' annual expense assortments expanded from 2019 to 2020. In any case, their examination likewise calls attention to that reformist annual duty rates and COVID-19 limitations lead to

more pay disparity, a huge potentially negative result.



This is reflected in the fact that, during 2020, non-oil revenues in the Saudi budget reached a record level of 368.7 billion rials, equivalent to about 47.1% of the total State revenue of 781.8 billion rials, while oil revenues amounted to about 413 billion rials, equivalent to 52.9 % of total revenue.

According to the above chart, based on Ministry of Finance data, non-oil tax revenues increased by more than 98.5% over the last five years (it was 185.7 billion rials in 2016).

During 2020, non-oil tax revenues increase by 11 %, about 36.3 billion rials from their 2019 levels of 332 billion rials.

The growth in non-oil tax revenues is due mainly to the continued implementation of economic reform programs in Saudi Arabia, including a value-added tax adjusted from 5 % to 15 % from July 2020

as a result of revenue being affected by the Corona pandemic and declining oil prices.

The 2021 budget estimated revenue at 849 billion rials, of which 257 billion rials were taxes, and 522 billion rials were other revenues.

Taxes are spread between 209 billion rials on goods and services (17 billion rials) on trade and business transactions, and 13 billion rials on income, profits and capital gains.

4. Conclusion:

The Covid-19 pandemic is an unanticipated event that has caused significant global economic disruption. Saudi Arabia, like most countries in the world, has suffered. As a result of this pandemic, there are significant socio-economic impacts, but state efforts have led to an 11% increase in non-oil tax revenues between 2019 and 2020 despite the Covid-19 pandemic

Recommendations and future directions:

The Saudi government announced a 70 billion Saudi riyal (18.7 billion \$) economic plan to support the private sector, including SMEs and sectors most affected by the crisis, this will encourage economic activity and increase tax revenues, but

foreign direct investment (FDI) must be encouraged to revive the economic machine even better.

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