



# USSBC Economic Brief Tourism Update 2021

## Overview

Saudi Arabia's Vision 2030 earmarked sizeable investments into the tourism sector through a combination of giga-projects that highlight the Kingdom's diverse geographical landscape, introduction of a tourist visa, expanding infrastructure capabilities, and creating one of the highest employment opportunities for its citizens. While the Kingdom experienced immense challenges stemming from the global pandemic, it enacted swift fiscal measures to support the economy. The impact on the Kingdom's religious tourism and supporting sectors, which witnessed 2.5 million pilgrims for Hajj in 2019 to 1,000 in 2020 was a significant challenge.

Prior to the COVID-19 pandemic, the travel and tourism sector outpaced the growth of the global economy (3.9 percent vs. 3.1 percent) in each of the prior eight years, according to the World Travel & Tourism Council (WTTC). As global travel resumes, Saudi Arabia has continued its plans to attract substantial local and foreign investment in the tourism sector through regulatory liberalization developments and significant government expenditures to create local jobs and build a sustainable non-oil pillar of the economy.

Global tourism GDP declined 49 percent in 2020 due to unprecedented lockdowns and travel restrictions. Saudi Arabia's tourism economy declined 39 percent by comparison and accounted for 7 percent of national GDP. The cancellation of Hajj, international flight suspensions, and domestic curfews led to an unprecedented decline in activity. Despite the pandemic, Saudi Arabia established a SAR15 billion (\$4 billion) Tourism Development Fund which signed agreements with major commercial banks to help finance public and private sector tourism projects, launched SAR11 billion (\$3 billion) in new projects in the Asir region under the Soudah Development Company (a Public Investment Fund company), and oversaw the opening of the Middle East's first U.N. World Tourism Office in Riyadh.

As international travel resumes, the tourism sector is expected to make a partial rebound this year. Domestic tourism has recovered faster after the Kingdom lifted its official COVID curfew in late June 2020 with spending at hotels nearing pre-pandemic levels and spending on recreation & culture reaching record levels in the first quarter of 2021. International tourism remains significantly depressed due to lingering pandemic measures. Downside risks of COVID variants and vaccine efficacy may prolong the negative impact on international travel and result in further project delays and workforce losses. The tourism sector

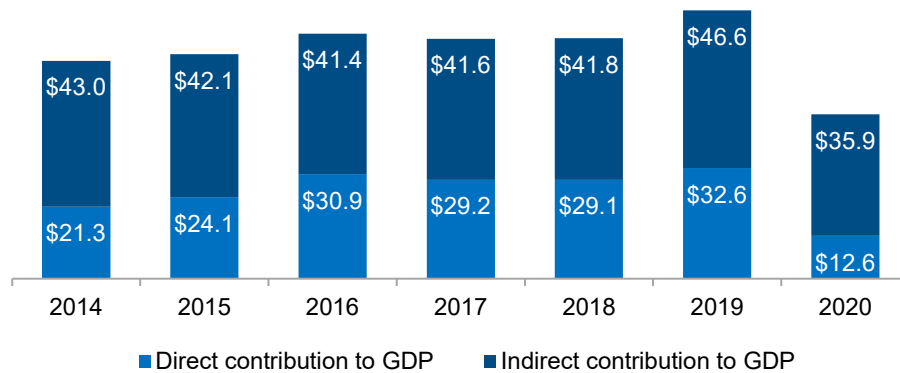


continues to rely on ongoing government support programs such as SAMA's Deferred Payments program and the Kafalah program. In the year ahead, Saudi Arabia is expected to resume issuance of tourism visas and sign contracts for major tourism projects.

## Pandemic Impact

Saudi Arabia has the largest travel and tourism sector in the Middle East, valued at SAR182 billion (\$49 billion) in 2020. The tourism sector accounted for 633,000 direct jobs and 792,000 indirect jobs in the Kingdom during 2020, according to WTTC estimates. Workforce levels in the Saudi tourism industry are estimated to have declined 10 percent in 2020 due to the pandemic, resulting in 160,000 permanent or temporary jobs lost. The Kingdom's religious tourism segment, estimated at more than SAR75 billion (\$12 billion), has been virtually closed since February 2020 due to preventive pandemic measures. As a result, the contribution of tourism to Saudi Arabia's GDP was down 39 percent last year.

**Saudi Tourism Sector Contribution to Real GDP**  
(USD Billion)



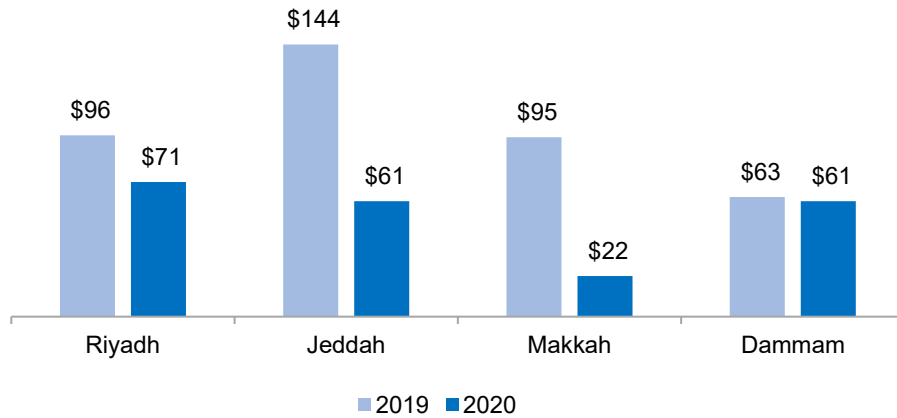
Source: WTTC

Fiscal support measures were put into place by SAMA, the Ministry of Finance, and the National Development Fund (NDF) to stabilize service and travel-dependent industries like tourism. In August 2020, the Kafalah program launched a package of initiatives worth SAR450 million (\$120 million) to guarantee loans to small and medium enterprises (SMEs) and provide further financial support during the pandemic. The program supported 61 tourism businesses worth SAR176 million (\$47 million) in 2020, according to the Ministry of Tourism. Major government stimulus measures to support the private sector and maintain liquidity in the banking sector during 2020 totaled SAR170 billion (\$45 billion).

The hospitality sector was particularly hard-hit in Makkah where the occupancy rate fell from 61 percent in 2019 to 25 percent in 2020. Revenue per available room (RevPAR) in Makkah declined 77 percent, lower than all other major Saudi cities. Jeddah also saw steep declines in the hospitality sector while Riyadh and Dammam were comparatively stable. In Riyadh, average revPAR was down 26 percent compared to a 57 percent decline in Jeddah.

The global pandemic also negatively impacted project pipelines for entertainment venues, transportation,

### Revenue Per Available Room

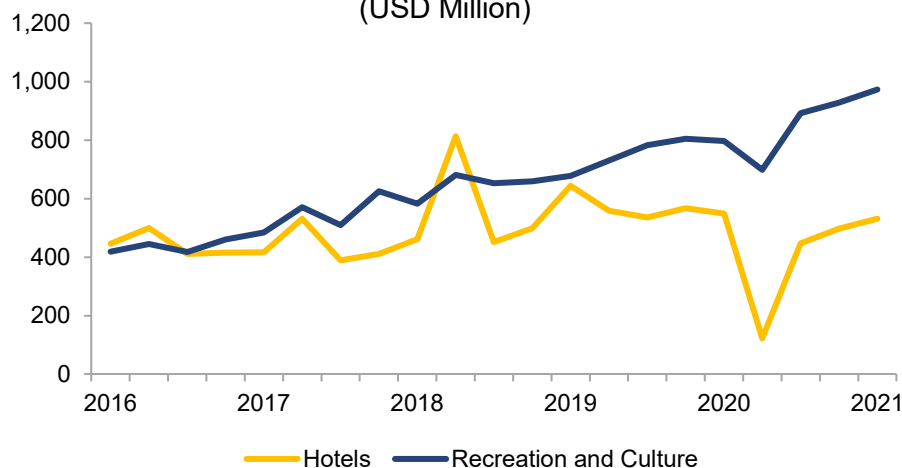


Source: STR Global, Deloitte

civic works, and public exhibition projects that are a key component of the Kingdom's Quality of Life agenda to improve livability and accentuate the diverse cultures of Saudi cities. The government cancelled a reported SAR100 billion (\$27 billion) from planned Vision 2030 expenditures due to the fiscal impact of the pandemic and falling oil prices. The official 2021 Saudi budget plans a 26 percent reduction of capital expenditures from SAR137 billion (\$37 billion) in 2020 to SAR100 billion (\$27 billion) in 2021, which will momentarily slow the current pace of tourism projects along with other non-oil sectors targeted by Vision 2030.

However, consumer spending and travel has picked up since the Kingdom lifted nationwide lockdown measures in June 2020. Spending at hotels totaled SAR2 billion (\$531 million) in Q1, around 3 percent below pre-pandemic levels while spending on recreation & culture stood 22 percent higher than pre-pandemic levels, accounting for SAR3.7 billion (\$973 million). Other related segments, including transportation and restaurants, have fully recovered and currently exceed pre-pandemic levels.

### Saudi Consumer Spending (USD Million)



Source: SAMA



Domestic tourism is expected to recover faster than international tourism as quarantine protocols and some air travel restrictions remain in place, and the issuance of tourism visas has yet to resume. As oil markets recovered strongly through H1 2021, Saudi Arabia announced it would implement a cap on gas prices in-country on July 10 of SAR2.18 (\$0.58) for 91 octane and SAR2.33 (\$0.62) for 95 octane per liter to help stimulate domestic demand and insulate local travelers from rising fuel prices. The move follows another extension of the small business deferred payments program through September 30 to ease the burden on consumer-facing businesses that were impacted by pandemic measures.

## Market Developments

The Ministry of Tourism has reiterated the importance of the tourism sector to Vision 2030 and the country's ambition to achieve a sustained 10 percent GDP contribution of the tourism sector by 2030. The Kingdom wants to achieve this by expanding non-Hajj religious tourism, increasing business travel to Riyadh and other major cities, and significantly boosting inbound leisure travel to entertainment events, megaproject destinations, and heritage sites. Prior to the pandemic, Saudi Arabia's travel & tourism sector GDP grew at a 3.1 percent compounded annual growth rate (CAGR) in three years following the launch of Vision 2030. With a Hajj season that will only cater to 60,000 local pilgrims this year and ongoing international travel restrictions, the sector is not expected to reach pre-pandemic GDP levels until 2023 or later.

Five months before the onset of COVID-19, Saudi Arabia launched the first tourist visa in the country's history. Travel into the Kingdom had historically been limited to religious pilgrims, resident workers, business, or family visitation. Within the first 10 days of the tourism visa, more than 24,000 visas were granted with largest source markets being China (7,391), the U.K. (6,159), and the U.S. (2,132). Saudi Arabia issued more than 400,000 tourism visas from its launch in September 2019 until issuances were paused in March 2020, according to the Saudi Press Agency.

The tourist visa is expected to play a crucial role in attracting not only international visitors but international business interest in the growing competitiveness of Saudi Arabia as a newly accessible destination for travelers. During Q4 2020, the Kingdom issued 26 foreign investment licenses for 'Tourism, Culture, and Entertainment.' U.S. companies were the third largest initiator of foreign investment projects in Saudi Arabia (33 total investments) behind only Egypt and India in Q4, according to the Ministry of Investment.

## Financing

The Kingdom's newly launched SAR15 billion (\$4 billion) Tourism Development Fund (TDF) is also expected to play a leading role by providing equity and debt investment vehicles in collaboration with commercial and investment banks for the tourism sector. TDF has signed deals with Riyadh Bank and Banque Saudi Fransi to extend financing to small and medium private enterprises (SMEs) engaged in the Saudi tourism industry. Under the TDF's Tourism Partners program, three financing options are made available to private sector tourism establishments valued between SAR1 million (\$267,000) and SAR100 million (\$27 million) via both direct TDF financing and joint financing with partnered banks.

The Tourism Partners program represents a new public-private approach to develop the sector and is expected to enable the development of 113 tourism projects in Saudi Arabia this year. The program



provides credit guarantees up to 90 percent to enhance investor appetite for tourism projects. TDF recently announced a partnership with U.S. technology company Oracle to implement software-as-a-service (SaaS) and infrastructure-as-a-service (IaaS) cloud solutions to support core functions of tourism businesses including core banking, HR, and procurement. Oracle launched its first general Cloud region in the Middle East in Jeddah last year and is expected to follow with additional cloud regions in Saudi Arabia.

The promotion of private investment in the tourism sector has been supported by government-backed finance guarantees under the Kafalah program and land lease extensions. Any SME operating in the Kingdom under Saudi, joint, or foreign ownership whose annual sales volume do not exceed SAR30 million (\$8 million) is eligible to apply. The Kafalah program has so far supported hundreds of tourism and entertainment enterprises and thousands of jobs in the sector.

## Transportation

Transportation infrastructure is one of the prerequisites for the successful development of the Saudi tourism sector. In recent years, the Kingdom has extended and upgraded its national road and highway network to meet the demands of a growing population and greater inbound and intraregional travel. The World Economic Forum's Global Competitiveness Report in 2019 saw Saudi Arabia's ranking rise three places due to improved assessments in railroad density, road quality, air transport services, and train services. Transportation infrastructure projects are also making the GCC more connected by road and rail to neighboring U.A.E and Oman.

Saudi Arabia has also opened new airports at NEOM and the Red Sea Project to accommodate international tourism. It also announced plans in June 2021 to launch a second national airline based in Riyadh that would double Saudi Arabia's air cargo capacity and focus on tourist and business travelers. The announcement came as part of a new SAR550 billion (\$147 billion) nine-year transportation and logistics plan that seeks to address key multi-modal transportation gaps in line with the government's economic growth and diversification agenda. The government anticipates local and foreign private sector firms providing 65 percent of the investment in these projects.

The PIF has also expanded its tourism portfolio with the launch of Cruise Saudi, an entity that will develop ports and terminals in several Saudi cities along with tourist destinations. The company will also serve as a "one-stop shop" to assist cruise companies interested in exploring the Saudi market. Global cruise companies Scenic Group and MSC Cruises recently announced plans to offer their first Saudi cruises this summer in another first for the industry.

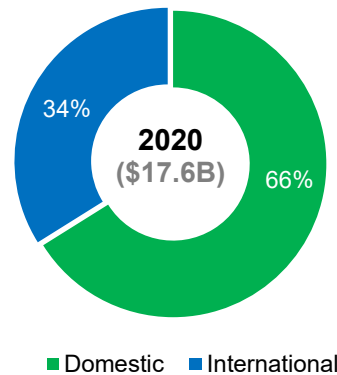
## Domestic Tourism

Domestic tourism was the primary driver of Saudi Arabia's tourism GDP in 2020 due to international travel limitations. Domestic spending in travel and tourism totaled SAR44 billion (\$12 billion) compared to SAR23 billion (\$6 billion) in international spending. As a result, the share of domestic tourism as a percentage of tourism GDP rose from 36 percent to 66 percent of the total.

As normal travel conditions resume in 2021, the Saudi Tourism Authority has announced the launch of its Saudi Summer Program 2021, 'Summer Vibes.' Running across 11 destinations from June 24 until the

end of September, 'Summer Vibes' offers more than 500 tourist experiences through the Visit Saudi platform with 250 private sector partners. 'Saudi Seasons' is another similar initiative aimed at boosting cultural and tourist activities in Saudi cities and providing local jobs through a rotating set of "seasons" hosted in different cities with differing themes.

### Travel and Tourism Spending in Saudi Arabia (USD Billion)



Source: WTTC

In addition to well-known megaprojects like NEOM and the Red Sea Project that will have long development timelines, the government has initiated new investments in rehabilitating existing cultural sites and building up tourism capacity (roads, commercial real estate, tour agencies, and other indirect categories). The PIF has been increasingly active in developing infrastructure for existing heritage and UNESCO sites. Soudah Development Company (SDC) was established by the PIF in early 2021 to coordinate and drive SAR11 billion (\$3 billion) in tourism infrastructure in Soudah and Rijal Alma'a Governorate in the Asir region.

SDC's projects offer an array of investment opportunities to both local and international investors with the goal of creating lucrative partnerships within the public and private sectors. The company's announced projects will see the development of 2,700 hotel rooms, 1,300 residential units and 30 unique commercial and entertainment attractions. Upon completion, the destination is projected to attract over 2 million visitors annually and create 8,000 direct and indirect jobs by 2030.

## Challenges

Despite stable growth in the inbound and domestic segments of the tourism sector pre-COVID, there are major challenges to address for Saudi Arabia to reach its goal of 100 million visitors and 10 percent direct contribution to GDP by 2030.

## Regional Competition

Regional competitors engaged in the tourism industry such as the U.A.E and Qatar are more firmly established as leisure tourism destinations. While the Middle East region received 63.6 million tourists in 2018 and has seen growth each year since 2016, Saudi Arabia's share of those regional tourists has



declined. We expect the tourist visa will make it significantly easier to travel between neighboring countries and tourist hotspots like Dubai, Doha, Petra, and Cairo.

The Kingdom's competitive advantage remains its religious tourism segment. However, there are significant opportunities to join in the rising popularity of Middle East destinations as the regulatory and investment climate within Saudi Arabia improves. A joint visa between Saudi Arabia and the U.A.E, which was announced in late 2019, would help in growing the Kingdom's brand as a tourist destination but further details have not since been released. The developing high-speed rail infrastructure has the potential to transform regional connectivity over the next decade.

### **Lack of Low-Mid Range Accommodations**

Market data indicates there is strong demand for mid-range accommodations amid supply shortages, creating a growing gap in this market. In an entertainment and tourism survey conducted by the General Authority for Statistics (GASat), 60 percent of Saudis cited high prices of accommodations as a reason for not travelling inside the Kingdom. Mid-range accommodations are attractive to domestic travelers looking for extended stays and companies on tight business traveling budgets. These two categories tend to stay at unbranded hotels or serviced apartments that match their budgetary needs. While demand has yet to be matched by supply, there have been recent investments into this sector as international companies like Frasers Hospitality, Citadines, and Staybridge have developed mid-range accommodations in recent years. Overall, hotel and furnished apartment construction has shown steady growth since 2013 and is expected to continue.

### **Market Outlook**

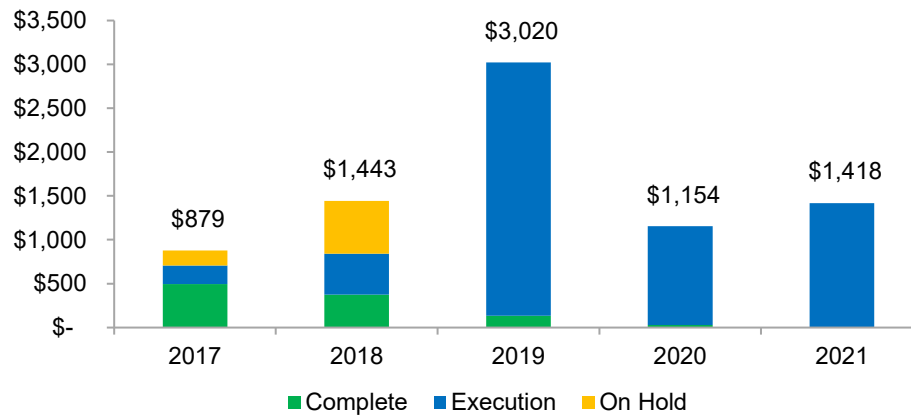
The tourism sector is expected to improve in 2021 due to the relaxation of travel restrictions, but domestic tourism will recover faster than international tourism as downside risks and lingering COVID precautions provide potential headwinds for the sector's recovery. This year's low Hajj pilgrimage count will continue to depress the Kingdom's religious tourism segment and challenge Makkah's business and hospitality sectors in 2021.

However, many tourism projects and related hospitality projects are moving ahead in anticipation of the sector's full recovery. According to MEED Projects, SAR22.9 billion (\$6.1 billion) in leisure or hospitality projects are currently under execution. Saudi megaprojects including the Red Sea Project, NEOM, Amaala, and Diriyah Gate have tendered sizeable hospitality, site readiness, and project management contracts that have involved a variety of U.S. companies including Bechtel, Parsons, and Hill International.

The PIF is expected to play a leading role in the development of Saudi Arabia's newer leisure tourism offerings. The PIF has established companies in air tourism (The Helicopter Company) and cruises (Cruise Saudi) along with new entities to oversee large-scale tourism infrastructure projects (SDC). Saudi Arabia's sovereign wealth fund also holds full ownership of each of the major tourism megaproject companies (NEOM, Qiddiya, TRSDC, AMAALA). The PIF reportedly plans to inject SAR150 billion (\$40 billion) annually into the Saudi economy in 2021 and 2022 as a main driver for economic diversification.

Additional contracts for local and international firms at these megaproject sites are expected to comprise

### Leisure & Hospitality Contracts in Saudi Arabia (USD Million)



Source: MEED Projects

some of the most sizeable deals in the sector over the near-term. Meanwhile, numerous opportunities also exist for local SMEs to provide tour services, event management, digital solutions, or other innovative ideas to a growing sector. According to the government's Qiwa labor services platform, the fastest growing segment is 'micro and small enterprises' in the tourism sector, which grew from 395 establishments to 457 establishments between January and April of this year. The Kafalah SME lending program also announced that it planned to target the tourism and entertainment sectors specifically in 2021, in addition to the communications and information technology sectors.

More broadly, the years following the launch of Vision 2030 have seen unprecedented public investment across the entertainment sector. The General Entertainment Authority (GEA) pledged SAR240 billion (\$64 billion) over the 2018-2028 period to develop a robust domestic entertainment industry including e-sports, cinemas, and concert venues. The government has also been engaged in an ambitious bidding effort for staging rights of major international sporting events in an effort to establish a global identity as a sports tourism destination (covered in our recent [Sports Economic Brief](#)).

While Saudi Arabia has lifted some international travel limits and most domestic business restrictions, these policies are subject to change based on the dynamic and unpredictable current public health crisis. In recent weeks, flights to and from the U.A.E, Ethiopia, and Vietnam have been suspended due to the spread of the Delta variant strain of COVID-19. Other GCC countries such as Oman have reinstated some domestic lockdowns due to rising virus cases in the region. Renewed lockdown and travel measures in Saudi Arabia remain a distinct possibility. Despite the pandemic, the Kingdom is pressing forward with plans to establish its tourism sector as a leading non-oil sector in the decades ahead.



## Appendix:

### Megaproject Pipeline

Project	Title	Details	Province
Neom	SAR500 billion (\$133.3 billion)	Smart, 16-borough city powered entirely by renewable energy sources Intended to serve as a global hub across nine key economic sectors including media production and entertainment, energy and water, and biotechnology and digital sciences	Tabuk
The Red Sea Project	SAR10 billion (\$2.7 billion)	Development of 50 islands off the Red Sea coast including an airport, seaport, 12,000 housing units, luxury resorts, sports, retail, and entertainment centers Marine sanctuary and eco-tourism destination Projected to create 70,000 jobs	Tabuk
Qiddiya	SAR4 billion (\$1.1 billion)	Entertainment city 40 km from Riyadh city center containing amusement parks, sports venues, safari and bike-riding locales Six Flags Qiddiya planned to open in 2023 Projected to create 17,000 jobs	Riyadh
Amaala	SAR1 billion (\$266 million)	Branded as "The Riviera of the Middle East", wellness retreat, wildlife sanctuary, resort Construction of hotels providing 2,500 rooms Construction of new international airport	Tabuk
Al Ula	No estimate	925 sq. km nature preserve including a global fund for the protection of the Arabian leopard Projected to create 38,000 jobs and attract two million visitors by 2035	Madinah
Jeddah Economic City	SAR30 billion (\$8 billion)	Construction of world's tallest building, Jeddah Tower Development of 470,000 sq. meters of commercial area, 800,000 sq. meters of office space, 150,000 sq. meter university campus	Makkah
Souq Okaz City Project	SAR2 billion (\$533 million)	Heritage tourism project including museums, recreational areas, and convention center 18 private sector projects, 5 public sector projects New international airport handling five million passengers per year	Taif
Diriyah Gate	SAR17 billion (\$4.5 billion)	New culture and lifestyle destination including eight museums, restoration of historic Wadi Hanifa historical village, 15,000 seat entertainment arena, 20 hotels providing more than 3,100 rooms	Riyadh



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