

ميزانية

2020

المملكة العربية السعودية  
Saudi Arabia - Budget

Pre-Budget  
Statement

# Pre-Budget Statement FY 2020

“Spending Efficiency . . . Private Sector Empowerment”

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC VERSION

وزارة المالية  
Ministry of Finance  
Macro-Fiscal Policies Unit





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## Introduction

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For the second consecutive year, the Ministry of Finance (MoF) is issuing the pre-budget statement ahead of the general budget for the FY 2020. This is part of the government's broader policy that aims at enhancing budget preparation process, and integrating it into a comprehensive medium-term fiscal and economic framework. This document is part of the government's efforts towards greater fiscal transparency and disclosure.

This statement aims to inform citizens, interested parties and analysts about fiscal developments for the FY 2019, in addition to the main fiscal targets and projections of economic indicators for FY 2020 and the medium term. It also addresses the principal initiatives and programs to be implemented by the government in the coming fiscal year to support the realization of Saudi Arabia's Vision 2030.

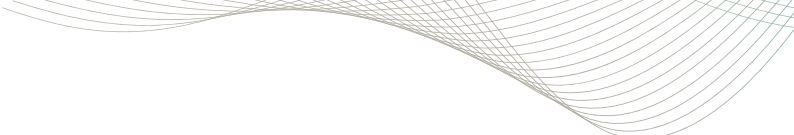
It should be noted that the enacted budget is published each December and may contain amendments to the Pre-Budget Statement that reflect fiscal and economic developments in the intervening period.



## Executive Summary

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- The global economy is facing many risks that may affect its growth trajectory and prospects, international trade, investment flows and stability of global markets. In particular, trade tensions have resulted in the downward revision of global economic growth projections by the international financial institutions for 2019 and 2020. These risks have also reflected on the stability of oil markets. Governments were subsequently urged to take precautionary policies and make strong efforts to strengthen fiscal discipline and structural reforms to increase the economy's resilience, especially to external shocks.
- Government reforms and initiatives have contributed to marked improvement in economic performance in the non-oil sector. Preliminary estimates indicate GDP growth of 0.9% in FY 2019, with expected continued improvement, reaching 2.3% in FY 2020, due to the positive effects of the medium and long-term structural reforms. These reforms aim to diversify the economy, achieve fiscal sustainability, and strengthen the role of the private sector in the economy as a major driver of growth and employment.
- The government's focus is on developing and increasing non-oil GDP growth rates as a key measure of economic activity and job creation. The government is implementing short-term plans to stimulate the economy, in addition to medium-term plans to sustain growth and diversify the sources of growth to achieve higher efficiency in the quality of economic growth and enable economic performance that meet citizens' aspirations. It is noteworthy that non-oil sector growth is expected to be the main driver of real GDP growth for 2019 and the medium term.



- The government attaches great importance to maintaining fiscal stability and sustainability through improving fiscal discipline and raising the efficiency of operational and capital spending. The budget deficit is expected to reach 4.7% of GDP in FY 2019 and 6.5% of GDP in FY 2020, reflecting continued improvements in revenues and expenditure policies. Expenditure will continue to target social protection initiatives, support to the private sector, and progress in implementing Vision 2030 realization projects and programs. Meanwhile, the government will continue to enhance the efficiency of expenditure, both for operational and capital expenditure. These efforts seek to increase the quality of public services, and their economic and social returns throughout the medium term. The budget deficit is estimated to decrease gradually over the period and is estimated to be about 2.9% of GDP in 2022.

- Due to oil market instability, government's revenue policies and programs seek to improve the diversification of revenue sources to reduce the volatility in government receipts. Providing more stability will improve fiscal planning and regular funding of projects and programs. Total revenues for FY 2019 are to be SAR 917 billion, indicating a growth of 1.2% over the past year, and are expected to reach approximately SAR 833 billion in FY 2020, increasing to SAR 863 billion in FY 2022. These estimates depend on continued improvement in the economic performance, in addition to continued implementation of previously announced initiatives to increase revenues.

- The government strongly prioritizes comprehensive economic and social development. This requires a reprioritization of spending towards upgrading basic services to improve citizens' quality of life and raise living standards, as well as complete the development of Vision Realization Programs and private sector development plans. Total expenditure is expected to be SAR 1,048 billion in 2019, SAR 1,020 billion in FY 2020, and



approximately SAR 955 billion by FY 2022. The reduction in medium-term expenditure levels reflects the fiscal policy objective of balancing fiscal sustainability and growth. The policy focus will remain on spending in sectors where higher growth rates can be achieved. Meanwhile, fiscal policy will encourage diversifying the sources and drivers of economic growth by increasing the role for the private sector, which is expected to achieve better economic performance and results. Government efforts to improve the business environment have been reflected in the performance and growth of private investment as well as the Kingdom's improved ranking in relevant international indexes, as explained later in this report.

- The MoF implements an annual borrowing plan within the framework of a medium-term public debt strategy to secure the Kingdom's financing needs. Funding is obtained using domestic and international issuances through sukuk and bonds. In 2019, public debt is expected to reach approximately SAR 678 billion, reaching SAR 754 billion in FY 2020, and SAR 924 billion in FY 2022, while maintaining an appropriate government reserves position at the Saudi Arabian Monetary Authority.

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01

Main Fiscal and Economic  
Developments for FY 2019



## **Main Economic Developments for FY 2019**

Recent global economic developments impose numerous challenges to economic growth in the Kingdom, as its high degree of trade openness impacts external sector and a large proportion of GDP. This, in turn, affects the performance and outlook of the fiscal sector.

### **Global Economy**

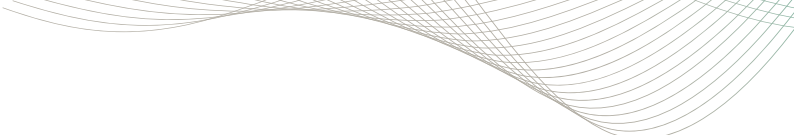
The global economy is facing many risks that may affect its growth trajectory and prospects, international trade, investment flows and stability of global markets. In particular, trade tensions have resulted in the downward revision of global economic growth projections by the international financial institutions for 2019 and 2020. Despite the efforts undertaken at the 2019 G20 Osaka summit, trade tensions continued to escalate and have impacted other countries and regions, all of which have affected oil markets and global economic outlook. Other key factors affecting the outlook include the decline in oil prices, adherence to the oil production agreements, low global demand from main trading partners (America, Europe, China, and Russia). On the back of such challenges, governments were urged to take precautionary policies and make strong efforts to strengthen fiscal discipline and structural reforms to increase the economy's resilience, especially to external shocks.

Oil markets have witnessed significant fluctuation in 2019 with the price of Brent crude reaching \$69 per barrel in the second quarter of 2019, then falling to \$62.8 per barrel in September 2019. Reports of OPEC show a decrease in production by members during the second quarter of 2019 to 29.97 million barrels per day that is equivalent to a decline of 510 thousand barrels per day when compared to the production during the first quarter of 2019. This is the result of the collective efforts of OPEC+ to stabilize oil markets.

### **Domestic Economy**

During the last three years, as part of the Saudi Vision 2030, the Kingdom has implemented various fiscal, economic and structural reforms, and began executing several projects and mega projects in various sectors that aim to support infrastructure. The benefits of these reforms and investments are beginning to be reflected in economic performance and are expected to yield further positive returns over the medium term.





Real GDP increased by 1.1% in the first half of 2019. This was mainly supported by the expansion in the non-oil sector of around 2.5%. This expansion led to improvements in Saudi unemployment rates, which declined by 0.4 percentage points compared to the end of 2018 to reach 12.3% during the second quarter of this year.

Meanwhile, Consumer Price Index have continued to fall since the beginning of 2019, registering a decline of 1.6% on average during the first nine months, mainly due to the diminishing effect of some of the implemented fiscal and economic reforms from the previous year, such as the energy price reforms (EPR) and the value-added tax (VAT), in addition to the decline in housing rents.

The government continues to implement fiscal and economic reforms and initiatives aimed at diversifying the economy and increasing the role of the private sector as a key partner in achieving economic development and job creation objectives.

The Private Sector Stimulus Package (PSSP) and execution of mega projects are important initiatives that have stimulated varying sectors. The most significant of these was the construction sector, which obtained positive growth in FY2019 for the first time in three years. In general, the economy has resumed positive and high growth, as observed across various economic sectors. In the first half of 2019, wholesale, retail trade, restaurants and hotels, and finance, insurance, and real estate activities grew by 3.8% and 5.1% respectively compared to the same period last year. Furthermore, transport, storage and communication, and community, social and personal Services activities (including arts and entertainment) increased by 5.6% and 5.9% respectively compared to the same period in FY2018.

Furthermore, in line with the observed sectoral growth indicators, the non-oil private sector registered 2.9% positive growth in the first half of 2019. This growth was supported by private sector stimulus policies, while private consumption achieved positive growth by 4.4% compared to 2.6% of the same period last year. This reflects government initiatives to support household and private sector.

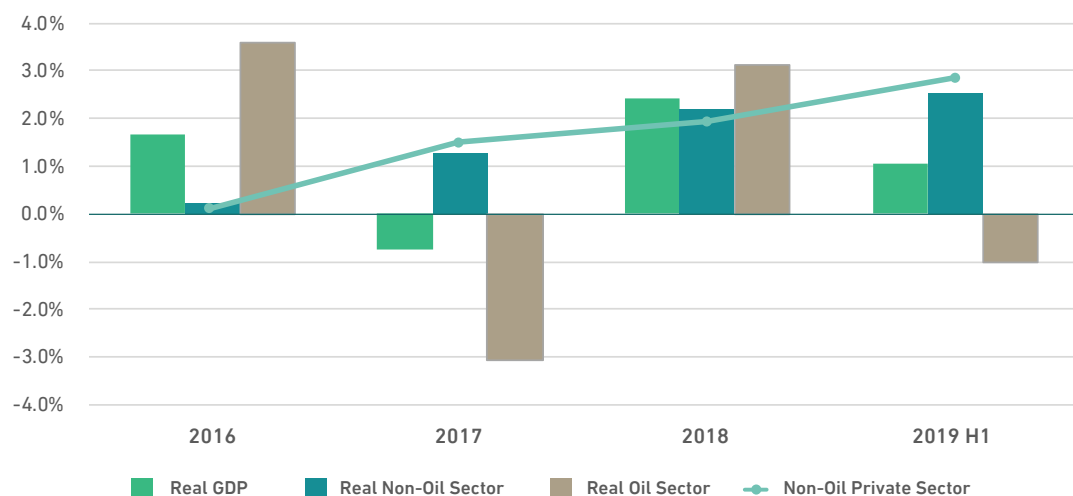
The kingdom's improved ranking in international indices reflects the government's efforts to develop and improve the business climate, develop local content and enhance the competitiveness of the economy.

The World Bank's recent Doing Business Report 2020 showed that the Kingdom's ranking in terms of ease of doing business jumped by 30 places to 62<sup>nd</sup> (out of 190 countries), up from 92<sup>nd</sup> the previous year. In 2019, the Kingdom is among the top 10 countries in terms of improvement in ease of doing business.

The government continued its efforts to develop local content and enhance the competitiveness of the economy. International reports and indicators show a marked improvement in the business environment as the Kingdom advanced to 36<sup>th</sup> globally in 2019 from 39<sup>th</sup> in 2018 as per the Global Competitiveness Report published by the World Economic Forum. This was supported by the rapid deployment of broadband technology and a significant increase in Internet users. The Innovation Capacity Index also improved to 36<sup>th</sup> place in 2019 (out of 141 and compared to 39 in 2018) due to an increase in patent applications and the level of spending on research and development.

The success of these efforts is best seen in the listing of the Saudi Stock Exchange in some of the world's top global equity indices for emerging markets. This inclusion is expected to help enhance market efficiency and depth, expand the role of institutional investors, attract foreign investments which witnessed significant growth in the first half of 2019 compared to the same period in 2018.

### Real GDP Growth (2016-2019 H1)



Source: General Authority of Statistics

## Developments in Fiscal Performance

(SAR in billions, unless otherwise stated)

	Actual	January - September		Annual Change
	2018	2018	2019	
<b>Revenues</b>				
Total Revenues	906	663	713	7.6%
<b>Taxes</b>	<b>168</b>	<b>126</b>	<b>166</b>	<b>31.9%</b>
Taxes on Income, Profits, and Capital Gains	17	13	14	8.7%
Taxes on Goods and Services	115	83	115	38.3%
Taxes on International Trade and Transactions	16	12	12	5.1%
Other Taxes	21	18	25	36.0%
<b>Other Revenues</b>	<b>737</b>	<b>537</b>	<b>547</b>	<b>1.9%</b>
<b>Expenditures</b>				
Total Expenditures	1,079	712	751	5.5%
<b>Expenses (OpEx)</b>	<b>891</b>	<b>602</b>	<b>630</b>	<b>4.6%</b>
Compensation of Employees	484	354	373	5.7%
Goods and Services	169	82	92	12.3%
Financing Expenses	15	10	16	52.4%
Subsidies	13	11	20	86.6%
Grants	4	2	1	-47.7%
Social Benefits	84	64	62	-2.1%
Other Expenses	122	80	65	-18.7%
<b>Non-Financial Assets (CapEx)</b>	<b>188</b>	<b>110</b>	<b>122</b>	<b>10.3%</b>
<b>Budget Deficit</b>				
Budget Deficit	-174	-48.9	-37.8	-22.7%
As Percent to GDP	-5.9%	-1.7%	-1.4%	
<b>Debt and Assets</b>				
Debt	560	550	656	19.3%
As Percent to GDP	19.0%	18.6%	23.5%	
<b>Government Reserves</b>	<b>490</b>	<b>574</b>	<b>496</b>	<b>-13.5%</b>
As Percent to GDP	16.6%	19.4%	17.8%	

Source: Ministry of Finance

Figures are rounded up to the nearest decimal point

## Fiscal Developments for FY 2019

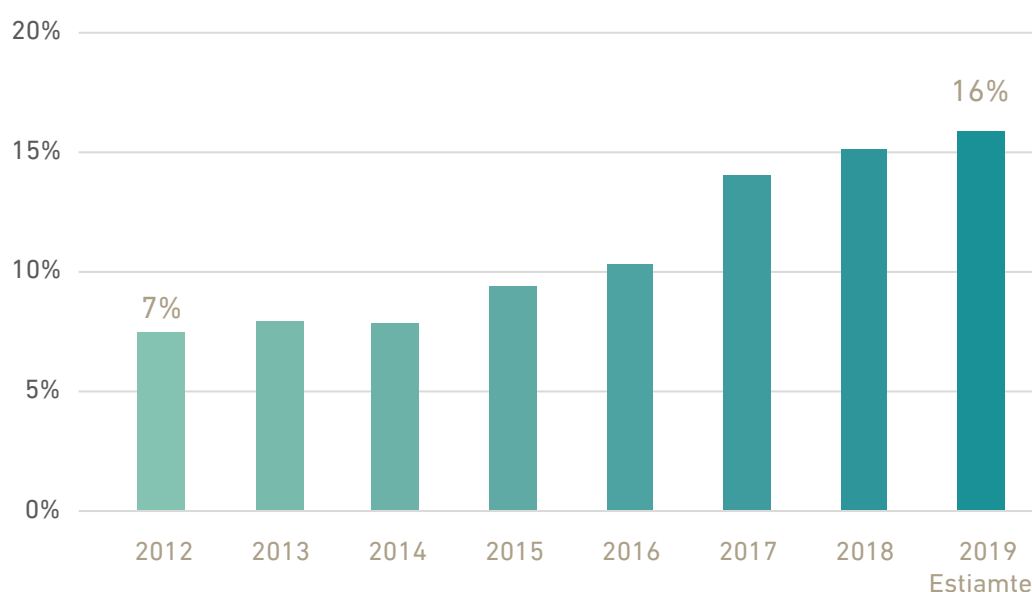
### Revenues

Numerous reforms have been implemented by the government with the aim of improving non-oil revenues to diversify the government's resources and decrease revenue and expenditure volatility. Major reforms include VAT, the expat levy, the excise tax (on soft drinks, energy drinks, tobacco and its derivatives), which has significantly improves the growth in non-oil revenues. Others include gradual energy price increase to align products with reference energy prices in order to rationalize energy consumption. The government has also implemented several reforms in 2019, including:

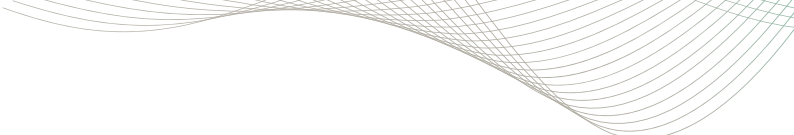
- Decreasing the VAT mandatory registration threshold,
- Implementing the approved increase in the Expat Levy,
- The excise tax on sugar sweetened drinks,
- Collection of banks' Zakat and telecom sector settlements.

These reforms have contributed noticeably to the observed growth in non-oil revenues, which averaged about SAR 140 billion prior to the reform implementation (2012-2016), increasing to approximately SAR 288 billion (2017-2019). Non-oil revenues increased to an expected 16% of non-oil GDP in 2019, compared to only 7% in 2012, as illustrated in the chart below.

### Non-Oil Revenues as Percent of Non-Oil GDP



Source: Ministry of Finance



Non-oil revenues helped partially compensate the decline in oil revenues this year stemming from the drop in global oil prices and oil production cuts from the OPEC+ agreement. Non-oil revenues remained relatively stable due to their links to economic activity in 2018 and 2019, where the recovery in economic activity was associated with strengthened non-oil revenue collection.

## **Expenditures**

The government's spending policy seeks to promote economic growth and broad-based development, while supporting social development and maintaining fiscal discipline, including through improving fiscal planning and increasing the efficiency of public spending.

Within this framework, several key programs and initiatives were implemented during this year. For example, expenditure on housing projects included the spending on the affordable housing program, in addition to the financial support initiative that subsidizes financing costs for those eligible for housing loans for up to 20 years. Moreover, spending on the Hajj and Umrah Program registered SAR 14.6 billion until September 2019; in addition to the spending on infrastructure development programs, such as desalination and sanitation projects, as well as education and health projects.

Special attention is being given to social spending during 2019, by implementing direct support programs, including the Citizen Account and cost of living allowances for government employees, pensioners and students.

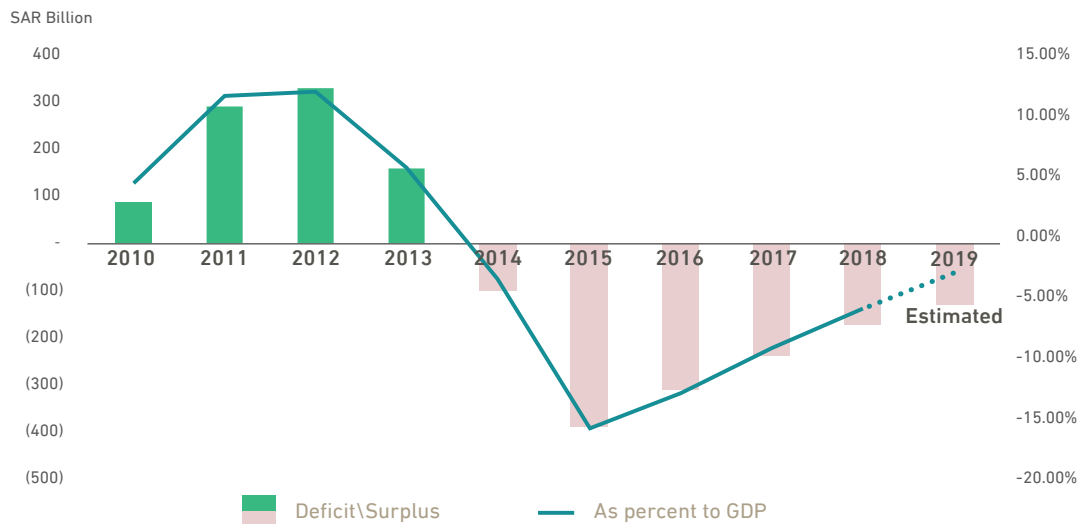
Development support for the private sector included the privatization program, which was designed to support and develop the private sector and enhance the public-private partnerships. Examples include the transport sector (privatization of medical services for Saudi Airlines), the health sector (a public-private partnership in the Dialysis Initiative Project) and the environment, water and agriculture sector (a public-private partnership in the Rabigh Plant Project). This is in addition to the implementation of the Private Sector Stimulus Package.

Continuous efforts by the government to raise spending efficiency and maintain fiscal sustainability, in addition to focusing on stimulus policies for the private sector and improving the business environment as mentioned, will contribute to lowering government expenditure compared to this year's budget.

## Budget Deficit and Public Debt

Over the last two years, budget deficit has continued to decline. This has been one of the key aims of the government in order to achieve fiscal stability and sustainability over the medium term and strengthening fiscal position. Budget deficit is estimated to further decline in 2019 to approximately 4.7% of GDP, compared to 5.9% of GDP in 2018, as shown in the graph below. The public debt is estimated to be approximately 24% of GDP by the end of 2019.

### Budget Deficit/Surplus to GDP



Source: Ministry of Finance

# 02

## Main Fiscal and Economic Targets for FY 2020 and the Medium Term



## 1- Projections of Economic Indicators for FY 2020 and the Medium Term

The government continues its efforts to implement medium and long-term structural reforms aimed at diversifying economic activity and achieving fiscal sustainability in light of Saudi Vision 2030, while promoting the private sector's leading role as the main driver of economic growth and job creation.

The government's focus is on developing and increasing non-oil GDP growth as a key measure of economic activity and job creation. The government is implementing short and medium-term plans to stimulate non-oil GDP growth and diversify its drivers to achieve higher efficiency in the quality of economic growth and enable the performance of the economy to meet citizens' aspirations.

The completion of several mega projects which aim to support infrastructure, in addition to the other projects being implemented in other sectors that support non-oil growth is expected to contribute progressively to non-oil GDP growth in FY 2020 and over the medium term. The final section of this document shows some examples of these projects.

Through set plans to advance the Privatization Program, the government seeks to transfer ownership of assets, as well as to assign the provision of specific public services to the private sector. This newly strengthened role of the private sector will help attract more foreign investment. Moreover, the government aims at stimulating savings, financing, and investments through the progress in the implementation of the Financial Sector Development Program (FSDP) to support economic development and diversify the sources of income.

These privatization plans, alongside government fiscal initiatives, will support economic activity and strengthen social protections. Fiscal initiatives include the private sector stimulus package and small and medium enterprises support initiatives. An example of these initiatives is the stimulus initiative that pays the cost of the expat levy for five years for licensed industrial enterprises starting in October 2019. It is funded from the private sector stimulus budget and intended to support stability and growth of manufacturing in the Kingdom.



The government is also implementing Vision Realization Programs such as the Housing Program, Quality of Life Program, Public Investment Fund Program, Hajj and Umrah Program and the National Transformation Program. These programs will support building a new modern economy that secures job opportunities for the new generations and promotes long-term economic prosperity.

Preliminary estimates indicate real GDP growth increasing to 2.3% in FY 2020. Estimates of real GDP growth for FY 2019 have been revised downwards due to oil market developments and the extension of the OPEC+ agreement. Nevertheless, better than expected performance in recent economic indicators suggests positive upward revision in non-oil growth. The medium-term real GDP growth forecast has also been revised to reflect global and domestic economic developments.

The inflation forecast in 2019 and the medium-term were updated based on the latest Consumer Price Index results until the end of September 2019, which reflected the diminishing effect of the implementation of some economic reforms last year, such as the VAT and energy price reforms. The data also reflected a significant drop in house rent prices, which constitutes 22.1% of the overall index weight.

### Selected Economic Indicators\*

Growth Rate of Economic Indicators (%)	2019	2020	2021	2022
Real GDP Growth	0.9%	2.3%	2.2%	2.3%
Nominal GDP (SAR in billions)	2,792	2,858	2,996	3,140
Nominal GDP Growth	-5.4%	2.4%	4.8%	4.8%
Inflation	-1.0%	2.0%	2.0%	1.8%

\* Preliminary Estimates



## 2- Main Fiscal Targets for FY 2020 and the Medium Term

### Budget Deficit and Debt

Saudi Arabia's fiscal policy strikes the appropriate balance between the principal objectives of maintaining fiscal sustainability and fostering sustainable economic growth, thereby supporting the economic and social transformation that the Kingdom is pursuing in accordance with its Vision 2030.

The government seeks to contain the budget deficit. The deficit is estimated to reach 6.5% of GDP in FY 2020, continuing to decline gradually to levels that ensure fiscal stability, sustainability and balance in the medium term.

Debt issuances have been determined in the light of the strategy adopted by the MoF which targets fiscal sustainability and stability. It reflects the diversification of financing sources between debt and drawing on government reserves. Several steps have been taken to develop and deepen the local debt markets. These include the appointment of primary traders, listing government debt instruments on Tadawul trading platform, and the completion of the local yield curve up to 30 years to set a benchmark for potential public and private sector issuers, and as a guide for rates of return. International markets will remain the principal financing source, ensuring the sustainability of the Kingdom's access to the debt markets. In addition, the MoF launched the first Saudi euro-denominated issuance, helping create a new yield curve for potential public and private issuers and diversifying the investor base. Against this backdrop, the public debt is expected to reach SAR 754 billion (26% of GDP) in FY 2020, and SAR 924 billion in FY 2022 (29% of GDP).



## Revenues

Over the next year and throughout the medium term, the government will continue to implement initiatives that support developing and diversifying non-oil revenue sources and ensure stability. This will help develop resources to accelerate the implementation of economic transformation plans and finance social spending. Measures include imposing excise taxes on sugar sweetened drinks (to be implemented in December 2019), and continuing the implementation of the expat levy as previously announced, as well as energy price reforms to align with reference prices that promote energy consumption rationalization, and towards better targeted subsidies within comprehensive social protection mechanisms.

Preliminary estimates indicate that total revenues will almost reach SAR 833 billion in FY 2020. Though this is lower than estimated last year, non-oil revenues are expected to grow significantly.

## Expenditures

The government's expenditure policy promotes economic growth and social protection programs while maintaining fiscal discipline. These objectives will be achieved through increases in public spending efficiency, reprioritizing and extending the execution of some capital expenditure programs and projects over a longer period. Efforts will continue to upgrade public financial management framework to ensure greater efficiency and sustainability. Expenditure plans also reflect the potential impact of local and international developments during budget preparation and execution.

The current medium-term expenditure estimates reflects the fiscal policies adopted by the government that balance fiscal sustainability and economic growth, while allocating spending towards sectors with higher economic and social return. They also strive to achieve a balance in the sources of growth by strengthening the role of the private sector.

Accordingly, government expenditure in FY 2020 is estimated at SAR 1,020 billion. Efforts to increase spending efficiency to support economic growth and social protection while increasing the quality of government services will continue over the medium term.

### Medium Term Fiscal Projections

(SAR in billions, unless otherwise stated)

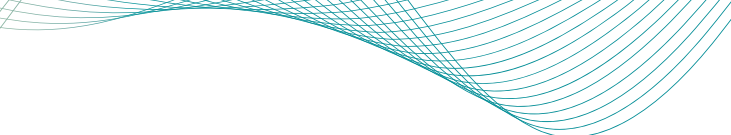
Fiscal	Estimates	Projections		
	2019	2020	2021	2022
<b>Total Revenues</b>	<b>917</b>	<b>833</b>	<b>839</b>	<b>863</b>
<b>Total Expenditures</b>	<b>1,048</b>	<b>1,020</b>	<b>990</b>	<b>955</b>
<b>Budget Deficit</b>	<b>-131</b>	<b>-187</b>	<b>-151</b>	<b>-92</b>
As percent to GDP	-4.7%	-6.5%	-5.0%	-2.9%
<b>Debt</b>	<b>678</b>	<b>754</b>	<b>848</b>	<b>924</b>
As percent to GDP	24%	26%	28%	29%

Source: Ministry of Finance

Figures are rounded up to the nearest decimal point.

# 03

## Main Vision Programs and Initiatives for FY 2020 and the Medium Term



The FY 2020 budget will continue to implement programs and initiatives aimed at accelerating the achievement of the above mentioned fiscal and economic targets that complement the fiscal policy objectives under the Saudi Vision 2030.

Medium-term fiscal policy is working to further develop both revenues and expenditures, so that the ratio of non- oil revenues to total revenues gradually increases as explained above, while continuing to support Vision Realization Programs, mega projects, private sector development. Nevertheless, the burden of economic and structural reforms is reduced through targeted social support programs. The following are examples of some of the programs and initiatives being implemented next year and over the medium term.

### **Strengthening Social Protection Network**

The government has defined social spending as a top expenditure priority to improve the quality of life for its citizens and raise the standard of living. Key tools to achieving this target involve increasing the efficiency of basic services, as well as implementing direct support programs for citizens and families. Also, the government continuously reviews and reforms social protection programs to ensure their efficiency and achievement of their objectives.

In addition, the government focuses on spending on health and education that target all segments of the society, thereby developing human capital, raising the efficiency of health and education services, increasing the effectiveness of scientific research, creativity, and innovation, and developing the skills of education and health employees. The government also focuses on continuing the implementation of housing projects and initiatives, as illustrated below.

- **Vision Realization Programs**

Vision Realization Programs and initiatives are the main tools to achieve Saudi Vision 2030 targets. As such, the FY 2020 budget is expected to include allocations for these programs, while reviewing and developing the implementation efficiency of some of these programs. This enables them to achieve economic and social performance targets in the coming years. The FY 2020 focus programs include the following:



- **Housing Program**

The Housing Program seeks to support housing solutions that enable Saudi families to own or benefit from housing according to their needs and finances. It seeks to improve living conditions for current and future generations by increasing Saudi household homeownership rates to 60% by 2020 up to 70% by 2030, and to provide 200 thousand housing units. The program provides appropriately subsidized financing solutions while increasing the supply of affordable high-quality housing in record time. It includes specialized housing programs for low-income groups and develops the legislative and regulatory environment for the housing sector. The program maximizes the economic impact of the housing sector and enhances its attractiveness to the private sector, while helping the development of local content utilization, helping foster job creation and strengthening the Kingdom's economic base.

Against this backdrop, the housing program provided 224 thousand housing products, benefiting over 165 thousand households. It provided approximately SAR 8.7 billion of financial support for both housing financing and down payment of September 2019. The program is also working to sustain the pace of achievement at the level of initiatives. The government has also committed to supporting beneficiaries of post-2020 housing subsidies to cover the cost of housing finance. The housing program delivered first homes to over 60 thousand families by September 2019, and is expected to reach 90 thousand by the end of this year. In this context, the ownership ratio reaches around 54% and according to the plans of the housing program, with 204 thousand housing will be provided for the year 2020 to serve the various segments to reach the 60% target.

The Housing Program is committed to achieving 2020 targets by supporting the realization of initiatives in the program's strategic pillars, by enhancing the supply of housing, enabling demand through the provision of real estate finance, developing regulations and legislation, and raising the level of end-user service.



- **Quality of Life Program**

This program is concerned with improving the quality of life in the Kingdom by enhancing facilities, developing bylaws and regulations, providing options and stimulating participation in sports, recreational, cultural and tourism activities. These will contribute to enhancing the quality of life for individuals and families, creating job opportunities and diversifying the economy, thereby elevating Saudi cities to become among the top cities in the world.

- **Mega-Projects**

Mega-projects that aim at supporting the infrastructure were launched in 2019. These projects are expected to improve economic growth, investment, quality of life indicators, and create new jobs. Improving the business environment to attract investors is also an intended outcome. In Riyadh, four mega projects have been launched by the end of Q1 2019. These are King Salman Park, Green Riyadh, Riyadh Sports Boulevard, and the Riyadh Art Project, representing SAR 86 billion in total investment over several years. Additional projects include the establishment of a new desalination plant in the city of Duba and the development of the Gate of Diriyah and the Red Sea project.

The mega-projects budget is expected to increase to double in 2020 compared to 2019 allocations, targeting the completion of existing and the development of new projects.

- **Public Investment Fund**

The Fund plays a pivotal role in driving the Kingdom's economic diversity. To enhance its economic role, the Public Investment Fund program was launched in 2017, and it aims at developing specific strategic sectors by maximizing the impact of its investments. The Fund will also act as the building block in becoming one of the largest sovereign wealth funds. This is in addition to establishing strong economic partnerships that contribute to deepening the Kingdom's role in the regional and global context.





Through this program, the Fund aims to increase its contribution to GDP growth, generate jobs, increase content utilization, while leveraging the private sector for economic growth, investment, and opportunities, without crowding out the private sector.

In order to achieve this, the Fund began to execute some of the largest projects, such as Al-Qiddiya Project, which offers world-class recreational services including parks, gardens and recreational activities. In addition, the Red Sea project envisions developing hotels and luxury residential units, as well as the relevant infrastructure, including air, land and sea transport hubs, military industries and waste recycling projects.

- **Privatization Program**

The Privatization Program aims at enhancing the role of the private sector by improving the quality of services provided. This will contribute to the reduction of budget costs and make government assets available for private investment. Furthermore, it will strengthen the government's focus on its legislative and regulatory role, in line with the Saudi Vision 2030. In addition, the program seeks to attract foreign direct investment and improve the balance of payments.

The Program aims to contribute to GDP in the FY 2020 and generate government revenues from asset sales, in addition to attaining net government savings (capital and operating expenses) through privatization/Public-Private Partnerships, which include various sectors such as transportation, education, health, energy, manufacturing, mining, water, environment and agriculture, labor and social development, municipal, communication and IT as well as sports.



- **Private Sector Development**

- Initiatives of the Private Sector Stimulus Plan (Stimulus Package)**

Currently, there are 22 relevant support initiatives, including cash subsidy, commitments and financing guarantees, offered by the entities implementing the initiative such as the Ministry of Finance, the Ministry of Housing, General Investment Authority, etc. These initiatives have been budgeted in the form of incentive and transfer initiatives that support the private sector.

The initiatives also targeted a number of strategic sectors, the most important of which are sector wholesale and retail trade, manufacturing and service sectors. Prominent among these initiatives is the Military Housing Loans Initiative. Loan guarantees have also been approved through raising the Kafalah Program capital by SAR 6 billion to guarantee financing SMEs. This is in addition to the Indirect Lending Initiative where 940 SMEs were offered loans through non-bank financial institutions. Also, through the Corporate Sustainability Support Initiative, 14 companies received financial and non-financial support, while more than SAR 1 billion was approved through investment funds and mutual funds managed by the government's Venture Capital Initiative. Furthermore, SAR 15 billion were allocated for the Tourism Development Fund to support private sector projects in this promising sector.

It is also worth mentioning that the total number of supported enterprises from all initiatives is more than 300 thousand which represented 70% of all active enterprises in the local private sector as in 2018. In support of efforts to stimulate the private sector, and specifically industrial activities, the Council of Ministries recently passed a resolution to absorb the expat levy of licensed industrial firms, thereby supporting the stability and growth of industrial activities in the kingdom.

The Private Sector Stimulus Office works effectively and periodically on assessing the performance indicators of existing initiatives, ensuring that targets are met to avoid risks at an early stage, and guaranteeing that the private sector benefits from these initiatives.

## • **Financial Sector Development Program (FSDP)**

This is one of the executive programs launched by the Council of Economic and Development Affairs to achieve the targets of Saudi Vision 2030. This program aims at developing a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings, financing and investment. This is done by developing and deepening of financial sector institutions and financial markets.

Three main objectives are derived from the FSDP: Ensuring the formation of an advanced capital market; enabling financial institutions to support private sector growth and promoting and enabling fiscal planning. Throughout 2019, several initiatives were implemented to fulfill the program's commitments, including the launch of the MSCI Tadawul 30 Index (MT30) for the largest listed companies in the Saudi Stock Exchange (Tadawul); the listing of the Saudi Stock Market as part of the MSCI's Emerging Markets Index (EMI), and the S&P's Emerging Markets Dow Jones (S&PDJI). Likewise, FTSE Russell Emerging Markets Index has started the process of adding the Saudi Stock Market to its index.

Moreover, the Saudi FinTech Center has recently been established, which will add new coworking spaces and creates prototypes for innovative solutions. Furthermore, other initiatives were also implemented, including the launch of the Business Accelerator Program; the establishment of the Financial Academy; and the activation of Mada and Apple Pay services for payments through smart devices. In addition, in preparation for the development of savings products, the rules regulating the practice of the banking agency has been issued, while par value of government sukuk has been reduced to SAR 1,000 as part of the Kingdom's sukuk program in Saudi Riyals.

FSDP also aims at completing several initiatives in 2020, including the transition to a cashless society by raising non-cash transactions to 28% of total transactions, and enhancing financial inclusion by increasing the proportion of adults with bank accounts to 80%. Other initiatives include raising health insurance coverage to 45%, increasing foreign investors' ownership in the total market value of shares to 15%, raising the number of micro and small enterprises as a ratio of the total listed companies to 40%; and increasing the assets under management as a percentage of GDP to 22%.



- **Development of Public Financial Management**

In addition to supporting the allocations for development projects and social protection programs, the government pays special attention on enhancing fiscal planning and raising the efficiency of spending to ensure the optimal utilization of the program's allocations, manage them efficiently and effectively, and set expenditure ceilings at the level of government entities in order to achieve desired returns. This is in addition to enhancing transparency and improving the collection of government revenues.

In this context, the government has launched several programs and initiatives, as well as several specialized units to support decision-making processes and to advance the development of public financial management. Initiatives currently under development include:

- **Medium Term Fiscal Framework**

During the budget preparation process, a comprehensive fiscal and economic framework is developed for the medium term, reflecting significant domestic and international variables, trends, plans and future policies that achieve the fiscal, economic and social goals of the Saudi Vision 2030. The MoF, in coordination with concerned authorities, prepares the medium-term fiscal and economic framework to achieve alignment between different economic policies.

The fiscal and economic framework is based on balancing the objectives of fiscal stability and sustainability with promoting economic growth, while improving growth rates and achieving the objectives of economic diversification. The government intends to continue to improve public financial management in order to enhance the efficiency of spending and drive higher economic and social returns. In addition, non-oil revenues will continue to be developed in line with improving economic performance, allowing continued control of deficits and debt, ensuring fiscal stability, sustainability and medium term fiscal balance. Progress in achieving the objectives of diversified economic growth and employment will continue. Through this framework, the government's financing needs are met with identified funding sources and costs, while maintaining an appropriate level of government reserves.



- **Non-Oil Revenue Development Center**

The Non-Oil Revenue Development Center plays an important role in supporting government entities and Vision Realization Programs in initiatives and proposals related to increasing non-oil revenues and preparing them for approval and full implementation. It also monitors the implementation and development of approved initiatives and help in overcoming the difficulties faced by government entities.

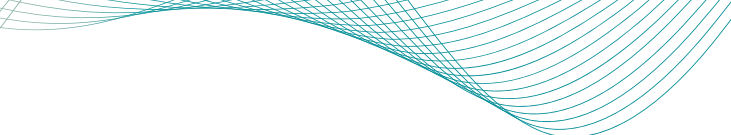
The Non-Oil Revenue Development Center applies criteria for evaluating non-oil initiatives, including expected revenues, the costs of implementing initiatives, and expected savings. Criteria include evaluating the ease of implementing non-oil revenue initiatives from technical, legislative, and infrastructure perspectives, as well as leveraging relevant past experiences.

The criteria also include assessing the impact of implementing non-oil revenue initiatives on the macroeconomy, the stability of collected revenue, the relevance of an initiative's objectives to Saudi Vision 2030 and its direct or indirect impact on other initiatives. Moreover, the impact of implementing the initiatives on the society are studied as well.

- **Center of Spending Efficiency (CSE)**

Center of Spending Efficiency (CSE) works in coordination with the National Center for Privatization to enable government entities to adhere to the spending ceiling allocated in the budget, in line with plans, programs, and decisions, thereby working towards the realization of Saudi Vision 2030.

The CSE was established to raise the efficiency of spending in both its operational and capital sectors, as one of the most important reforms that the government is working on. The CSE analyzes the budgets of government entities and reviews the operational and capital costs, seeking savings by maintaining comparison costs across projects. This ensures that government entities do not exceed their approved budgets. The CSE also supports government entities in adhering to their budget expenditure ceilings by developing control mechanisms and proposing

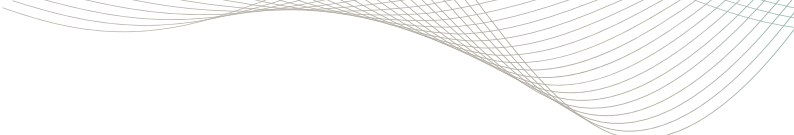


policies and implementation plans that raise the efficiency of spending and fiscal planning. Finally, the CSE reviews future projects and program estimated costs, including operational costs, to identify savings, enable cash management, and increase services at lower costs.

The CSE also promotes efficient spending practices as per the Royal Decree approving the new Tenders & Procurement Law, as per the Royal Decree. In effect, the Law will contribute to raising the efficiency of spending on development projects, enhance the effectiveness of fiscal planning and management of financial resources, promote economic development, and support the realization of the Fiscal Balance Program. The Council of Ministers has assigned the functions of the centralized procurement authority to the CSE to enable government entities to achieve contracting best value through the adoption of best global and domestic practices and diversifying procurement methods. These include concluding framework agreements for goods and services that are often needed by government entities, preparing forms of contracts and procurement documentation, and reviewing feasibility studies and, RFPs prior to their release by government entities. This is in addition to participating in bid examination committees, developing training programs for procurement officers in all government sectors to enable them to conform to legal provisions, thereby contributing to its effective implementation.

- **National Development Fund (NDF)**

The National Development Fund aims to enhance the performance and sustainability of Saudi development funds and banks, raising the efficiency of financing and development lending, in order to boost economic development and meet the expectations and concerns of the citizens and private sector. The NDF supports the Kingdom's development priorities and economic needs by integrating and coordinating funds. The NDF plays a supervisory role, contributing to the integration of the efforts of development funds and banks to achieve Saudi Vision 2030 objectives. These goals include: increasing private sector contribution to GDP, particularly SMEs; creating jobs and increasing employment rate, increasing local content utilization; attracting foreign direct investment; and diversifying and sustaining the Saudi economy.



The NDF is a key player in Saudi Arabia's transition from public to private sector-based economy. It aims to support private sector growth through its affiliated funds by providing long-term financing, feasibility risks financing, credit guarantees, etc. to stimulate and increase the investments of the private sector. In addition, the NDF will provide basic public services to segments of society that are not fully covered (through concessional financing) and encourage and facilitate entrepreneurship.

- **Medium Term Risk Management Framework**

The MoF is preparing a comprehensive framework to manage potential fiscal risks and neutralize the risks of external shocks arising from either local or international fiscal and economic developments. Important risks facing fiscal and economic performance include global oil market developments, escalations of trade wars and weakened global economic growth outlooks. Other risks include challenges in raising the efficiency of operational and capital spending and maintaining fiscal sustainability.

To counter these risks, the government pursues several precautionary policies. These include continuing the fiscal and economic reforms program to diversify income sources, committing to fiscal targets (expenditure ceilings, deficit and debt rates), and developing non-oil revenues through several initiatives currently under implementation. Other policies include relaxing regulatory constraints in the business sector, attracting foreign direct investment, establishing new sectors for investors, and continuing to promote private sector contributions. The government also continues implementing a social protection network that seeks to mitigate the impact of fiscal and economic reforms on citizens and maintain high levels of wellbeing.



- **Other initiatives**

The government is currently working on the accrual-based accounting transformation project to improve the quality of accounts and enhance transparency. A Treasury Single Account (TSA) is also under development. Following international best practices in effective government cash control, the TSA is a proven practice for improving payment methods, collecting revenues and aptly controlling public expenditure. This is done through a centralized interaction via a single account with free government account balances. The TSA also improves the predictability of internal and external cash flows and balances as a key factor for improving cash management.

Work will also continue for promoting transparency and disclosure in public finances. Under this framework, the Kingdom has recently joined the IMF's Special Data Dissemination Standard (SDDS) after completing all prerequisites. It is also worth noting that among all G20 countries implementing SDDS, Saudi Arabia was the first to join Statistical Data and Metadata eXchange (SDMX) for data sharing. This constitutes an important step in the Kingdom's path towards enhancing financial disclosure and transparency as per international standards.