

ميزانية  
2019

المملكة العربية السعودية  
Saudi Arabia - Budget

# Pre-Budget Statement 2019

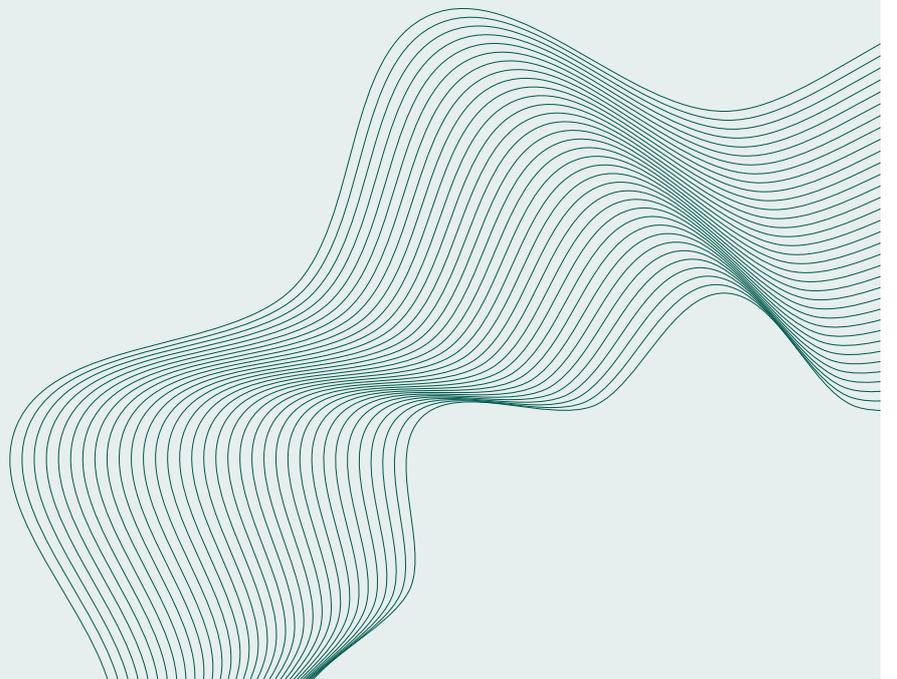
Translated from the  
Original Arabic Version

وزارة المالية  
Ministry of Finance





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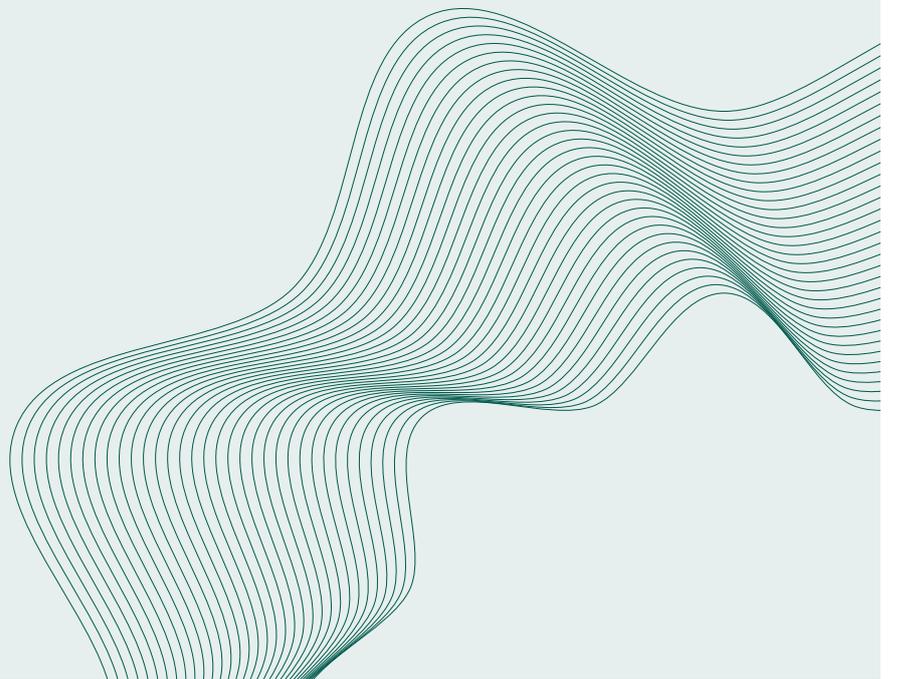


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# Introduction





# Introduction

The Ministry of Finance issues its first ever preliminary statement for the draft general budget for the fiscal year 2019. This is in line with the government's policy to continue developing the general budget preparation process within a comprehensive fiscal and economic framework over the medium term. This Pre-Budget Statement for the fiscal year 2019 includes key economic and fiscal developments along with the respective forecasts in the medium term. This identifies the most important challenges facing public finances as well as the macro-economy as a whole, over the medium term. The statement also addresses the major initiatives and reforms which the government will implement to mitigate these challenges. This document's development is intended to strengthen the Kingdom's move towards fuller disclosure and transparency.

This statement has been published prior to the State Budget to inform citizens, interested parties and analysts about the budget trends and objectives over the next three years.

Also, it should be noted that the official State Budget published at the end of the year may contain amendments to the Pre-Budget Statement in the light of events in the intervening period.



# Overview

The Kingdom's public finance is facing challenges, notably oil price fluctuations, which hinders fiscal planning. In order to improve the planning process and strengthen the public finance, the government has launched a Fiscal Balance Program, which aims at strengthening the fiscal discipline, developing non-oil revenues and enhancing spending efficiency to gradually reduce deficit rates in the medium term. Whilst allowing for fiscal sustainability and the economic growth requirements, this will result in attaining fiscal balance by 2023.

Since the launch of the program and its initiatives, the public finances have not the public finance has seen a marked improvement in fiscal discipline and the gradual reduction of budget deficit indicators as a result of the successful implementation of several initiatives to develop non-oil budget and improve spending efficiency. The Budget deficit declined significantly during the first half of the current fiscal year 2018, to reach SR 41,7 billion, a decrease of SR 31 billion compared to the same period of the previous year. This is despite a 26% increase in expenses over the same period. The rise in oil prices has contributed to this as well.

It is important to note that the objectives of the Fiscal Balance Program are not limited to fiscal performance, but they include stimulating the economic activities through the launching of several initiatives mitigate the side effects of fiscal reform measures on economic activities on economic activities. Initiatives such as the Citizens Account Program, the Private Sector Stimulus Package, the implementation of the kingdom's Vision 2030 programs, as well as the increase in capital expenditure in the budget were launched to speed up the structural reform process that stimulate economic growth and create employment opportunities for Saudi nationals.

Preliminary economic results and indicators reflect this progress, with GDP growth of 1.2% in the Q1 of 2018, compared to a negative growth of 0.8% for the same period of last year, due to non-oil GDP recovery by 1.6%, compared to a negative growth of 0.3% during the same period last year, according to General Authority for Statistics data.

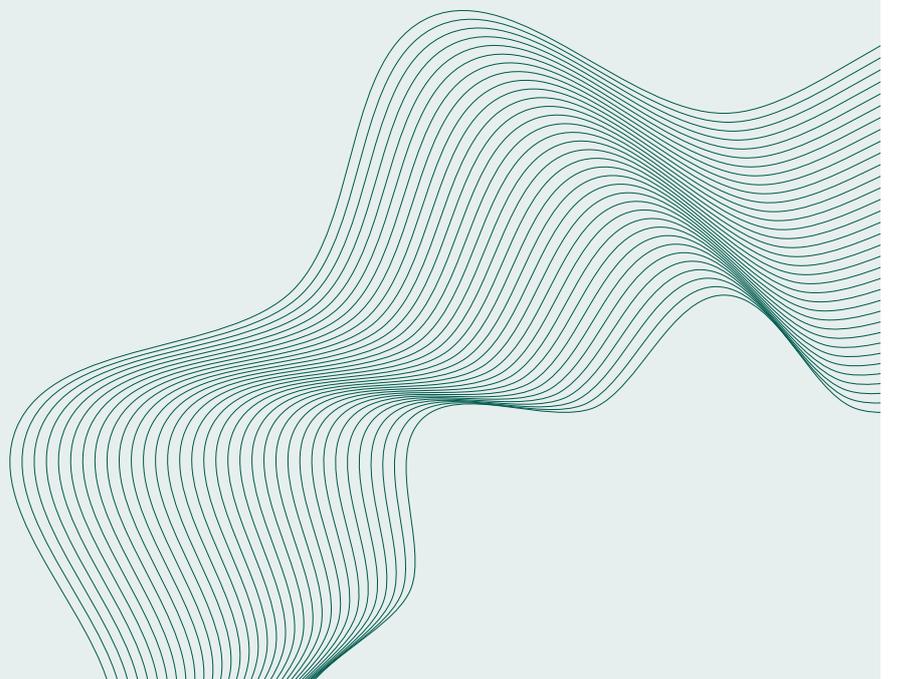
The main thrust of the government's 2019 budget is the continued implementation of Vision 2030 programs, initiatives and projects which will deliver the stated fiscal and economic goals. First and foremost is the diversification of the economy and stimulation of the private sector to achieve sustainable economic growth, employment, fiscal sustainability and fiscal balance by 2023. In addition, we are increasing non-oil revenues, raising spending efficiency, continuing progress in fiscal management reforms. These contribute to the provision of fiscal headroom which allows us the flexibility for interventions as and when the needs arise, as well as accelerating fiscal and economic goals, as well as delivering the ability to absorb external shocks that the economy could face.



**01**



**First: Main Fiscal and  
Economic Challenges  
and Targets in the  
Medium Term**



# Main Fiscal and Economic Challenges and Targets in the Medium Term

This section highlights the main fiscal and economic challenges facing the Saudi economy in the medium term. It outlines the most important fiscal and economic targets for 2019 and in the medium term, and the reform policies that will be applied to achieve these objectives.

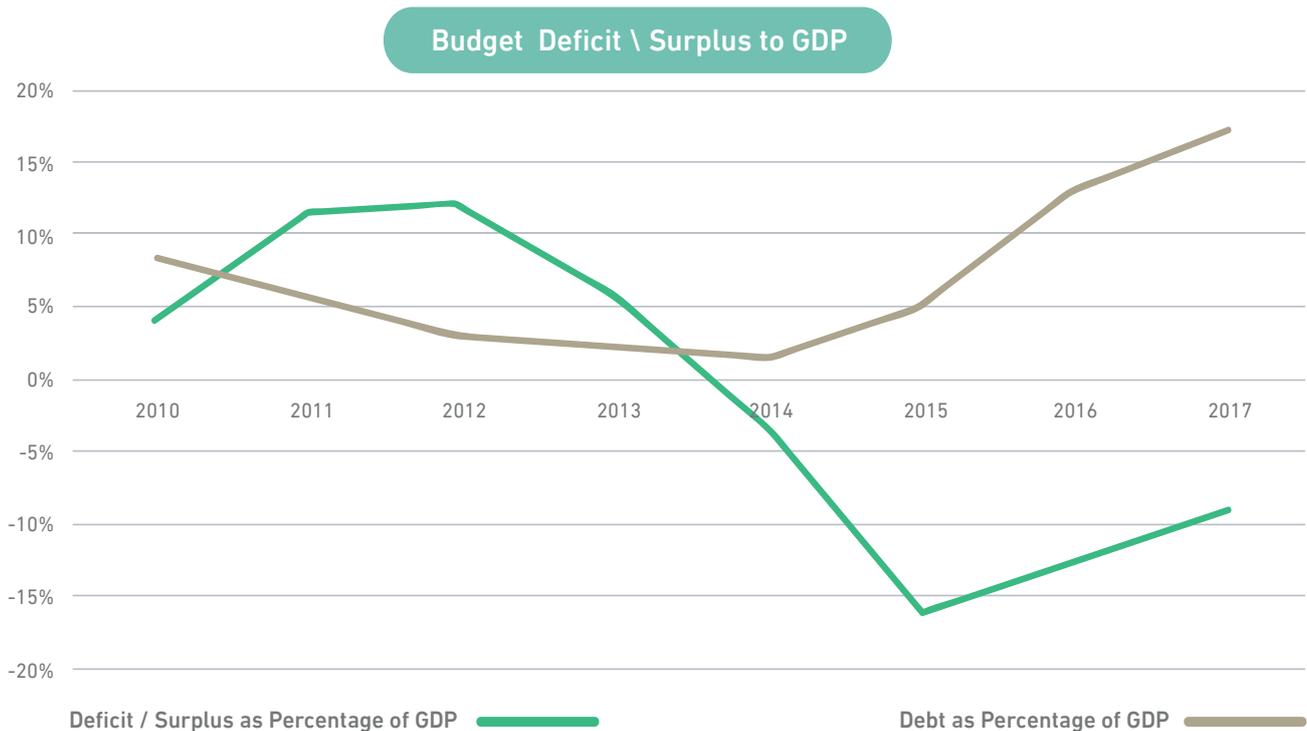
## 1 - Main Fiscal Challenges in the Medium Term :

The Kingdom's Public finances face several challenges, particularly the diversification of government revenues. For years, the government has been in quest of reducing dependence on oil, which remains the main component of public revenues despite the growth of non-oil revenues, This requires continued implementation of fiscal, economic and structural reforms to diversify revenues in the Kingdom. The Saudi Vision 2030 aims to implement specific fiscal, economic, structural and multi-scale reforms, the most important of which is to boost fiscal sustainability in the medium term, and to develop the economy, especially non-oil activities.

### The Main fiscal challenges can be summarized as follows:

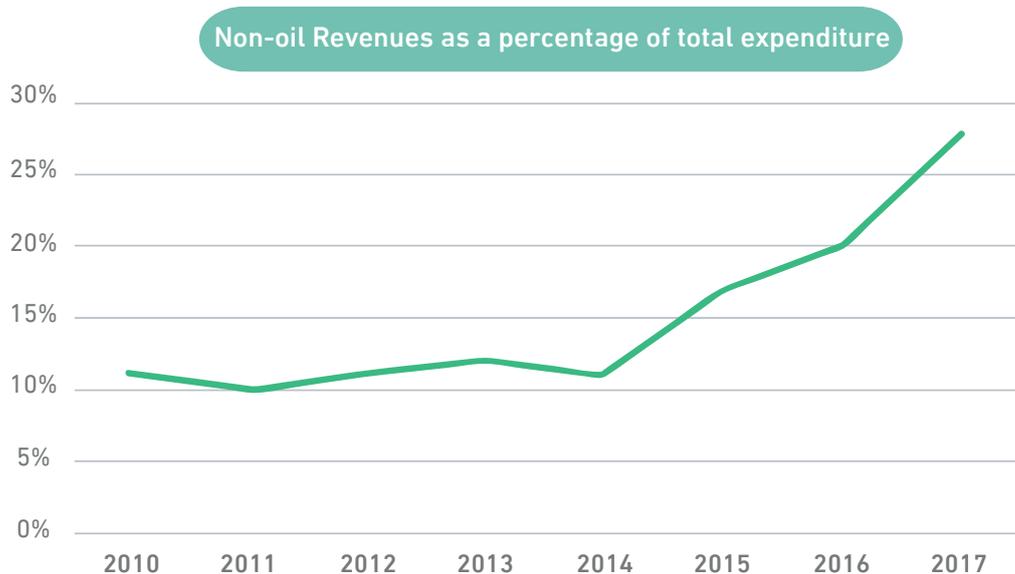
#### Control of deficit and public debt:

The increase in budget deficit and debt over the past years is a challenge facing the Kingdom's economy. Initiatives to achieve fiscal balance will ensure financial sustainability and economic stability in the medium and long term and achieve a more attractive environment for investment and economic growth.



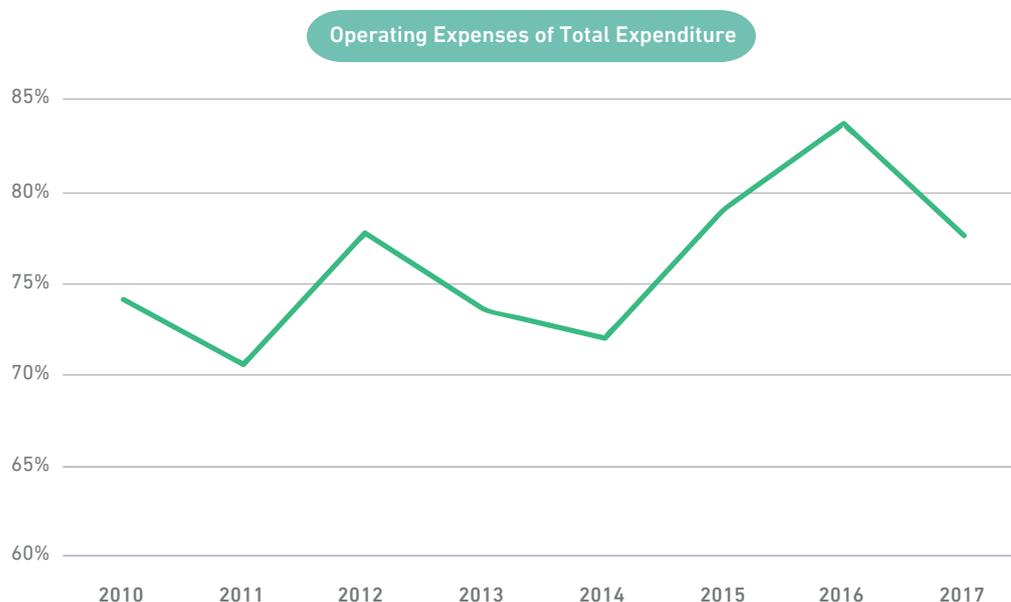
### Development of non-oil revenues and minimization of dependence on oil:

Diversification of the kingdom's resources represents a major challenge to public finances, especially in view of the fluctuations in world oil prices and the importance of developing non-oil revenues to ensure a stable and sustainable source of financing for necessary and development public of spending. The following figure shows a remarkable improvement in non-oil revenue coverage ratios for public expenditures over the past two years.



### Improving the Efficiency of Expenditures:

Raising spending efficiency and achieving the highest economic return is a challenge to fiscal policy. The Government is working to raise the efficiency of expenditure, especially capital spendings, through the implementation of several initiatives under the umbrella of the Vision 2030 programs to promote the objectives of economic growth, as well as the implementation of programs and initiatives that support social development.



The Kingdom is addressing these challenges by implementing a series of initiatives on both expenditure and revenue side rationalizing and enhancing expenditure efficiency and developing non-oil revenues in accordance with the Fiscal Balance Program. Such initiatives have begun to yield positively on the growth of total non-oil revenues. These measures include excise taxes, implementation of the Value Added Tax (VAT) and expat levies, the measures to reform energy prices.

## **2-The Main Economic Challenges in the Medium Term :**

The Saudi economy will encounter several challenges in the medium term. At the forefront of these challenges is diversifying the sources of economic activities in the Kingdom and increasing the role of the private sector in economic growth and employment creation To address this challenge, the Government has launched several programs and initiatives within this scope, that are helping to diversify the economic base and create promising opportunities, consistent with the objectives of the kingdom's Vision 2030.

The slowdown of the economic growth over the past two years is one of the challenges affecting the creation of employment opportunities which requires stimulating the private sector. A plan has been developed to incentivize the private sector to enhance its competitiveness of the sector and boost its developmental role. This is in addition to improving the investment and business climate to reach the objectives of the Saudi Vision 2030.

## **3-Economic Growth Targets for the Fiscal Year 2019 and Medium Term :**

To achieve Saudi Vision 2030 and its objectives, several programs and initiatives have been launched to promote economic growth and diversify the economic base. A group of programs have been implemented during 2018. Other programs will be launched later including structural reforms with medium and long-term economic returns targeting several sectors. The government aims to mobilize savings and provide investment and financing horizons that contribute to the development of the Saudi financial market. A Financial Sector Development Program, a diversified program that supports economic development, was launched.

Also, the Government aims to strengthen the role of the private sector in driving the economy through a range of programs, including the Privatization Program, which provides the private sector with the opportunity to manage assets that were previously run by the government and provide specific public services on behalf of the Government. It will also launch make initiatives to increase the contribution of SMEs to the economy, it will also work more to attract foreign investment. Among the programs is the National Entrepreneurship Program and the Strategic Partnerships Program, through which the Government seeks to strengthen the role of the private sector and providing the necessary support to these



companies, opening greater horizons for expanding their business locally and abroad, and the creation and consolidation of economic and investment relations between countries of common interests through the building of global partnerships to promote the strength of the economy and diversification of industries.

The Vision focuses on strategic programs supporting the national downstream industries in the Kingdom. The National Industrial Development and Logistics Program (NDC) is one of these strategic programs that enhances the contribution of local content and creates a new investment climate that reinforces the competitiveness of some sectors, increases their contribution to GDP and maximizes the utilization of natural resources of the Kingdom. In particular, the program aims to establish promising and sophisticated industries linked to the oil and gas industries as the Kingdom has huge natural resources. It also aims at strengthening the capabilities of the mining and technological industries, as well as facilitating business through the establishment of logistic support centers that will contribute to improving local, regional and international links to trade and transport networks.

These programs and other initiatives, which the government is seeking to implement in the medium term aim to achieve high economic returns which will not to enable the Kingdom to accelerate the achievement of the Saudi Vision 2030 objectives for a sustainable and promising economy.

The preliminary estimates indicate an increase in real GDP growth to 2.3% in 2019, Real GDP growth is expected to continue to improve gradually to reach 2.4% in 2021, as a result of the impact of structural economic reforms in the medium and long term. This is in addition to the contribution of fiscal reforms impact aimed at reducing the budget deficit to gain investors' confidence, and the development programs of some of the productive sectors announced in the Vision programs.

Selected Economic Indicators *				
	2018	2019	2020	2021
<b>Growth Rate of Economic Indicators (%)</b>				
Real GDP growth	2.1%	2.3%	2.2%	2.4%
Total Nominal GDP (billion)	2,934	3,136	3,232	3,387
Nominal GDP growth	13.9%	6.9%	3.1%	4.8%
Inflation	2.8%	2.3%	2.1%	2.1%

Source: Ministry of Finance

\* Preliminary Estimates

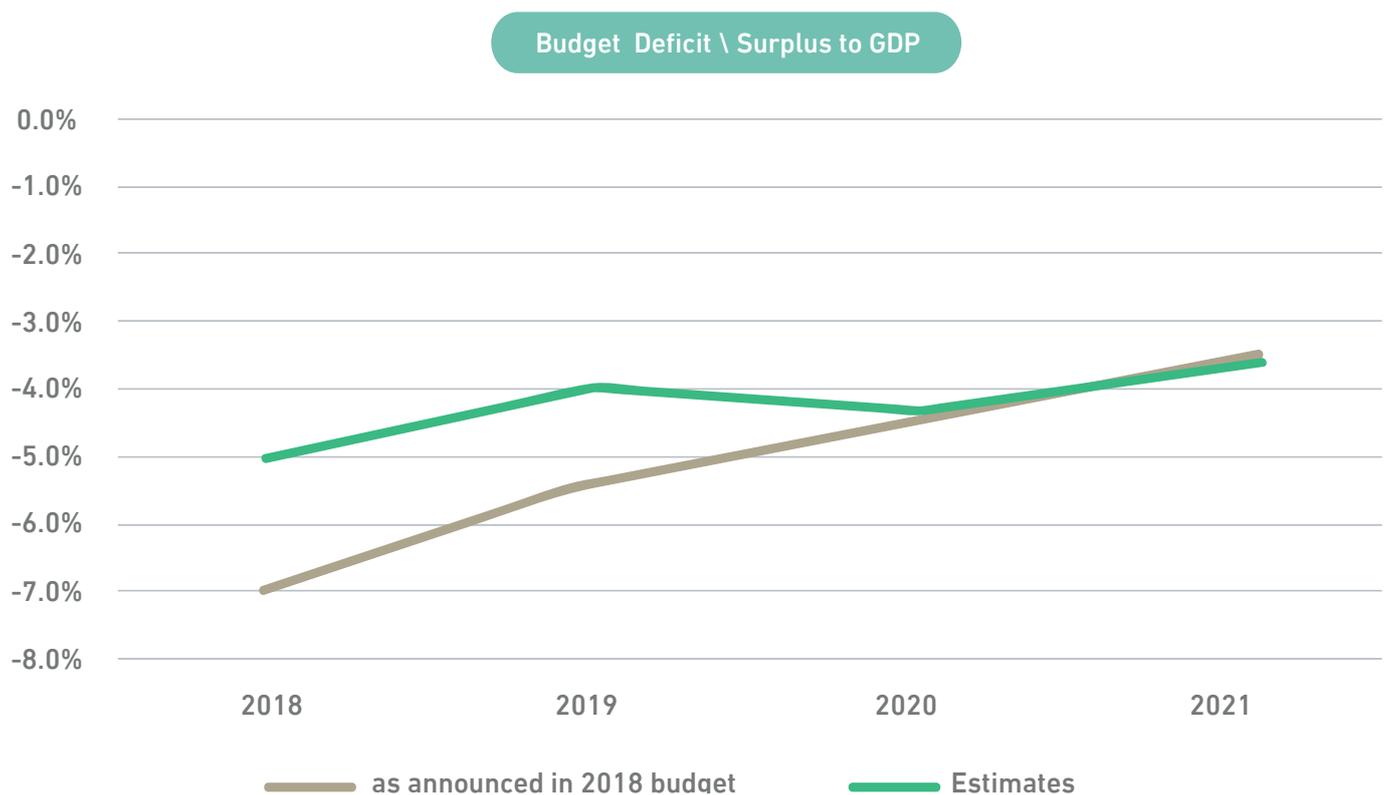
## 4- Main Fiscal Targets in the Medium Term :

### Deficit and Debt :

The fiscal reforms aim to maintain low deficits when implementing all the reforms and procedures included in the Fiscal Balance Program, as the deficit is expected to be 4.1% of GDP in 2019 and continue to decline gradually over the medium term until it reaches fiscal equivalent to around balance by 2023.

In addition, the Government has set a ceiling for public debt as a percentage of GDP at 30%, as announced in the National Transformation Program 2020, in June 2016. This percentage is low compared to the G-20 countries high debt levels, which reflects the strength of the fiscal position of the Kingdom.

It is also expected to continue financing deficit relying on debt issuances, which is expected to reach about 22% of GDP in 2019 and to reach about 25% of GDP in 2021, while at the same time using government deposits at SAMA when needed and maintaining appropriate levels of these deposits.



## Revenues:

The fiscal procedures and reforms implemented over the past two years have begun to yield positive results and directly reflected in the country's total oil and non-oil revenues, increasing the diversity of revenue sources to become more sustainable. The government has implemented reforms aiming at developing non-oil revenues in the medium term, including the introduction of value added tax (VAT), expat levy, and excise taxes, as well as development of oil revenues through gradual adjustment of domestic energy prices until they reach the level of reference energy prices to reduce waste, and to use these resources to redirect subsidies to support the targeted recipients.

Preliminary estimates indicate total revenues to reach SR 978 billion in 2019, an increase of 11% compared to the 2018 forecasts. Total revenues as percent of GDP is expected to reach 31% in 2019. Revenues are expected to continue to grow to reach SR 1045 billion in 2021, with an average annual growth rate of 6%.

## Expenditures:

Government spending is the main driver of economic activity. However, the rationalization requirements also require attention to increase the efficiency of this spending and ensure that it achieves the highest economic return while achieving the goals of fiscal stability. The public finance also considers the domestic and international developments during the budget implementation, change of policies needed to support economic growth, which necessitated reviewing the expenditure targets announced in December 2017 within the framework of the Fiscal Balance Program. They have been amended without changing the main objective of achieving fiscal sustainability and fiscal balance by 2023.

During 2018, several factors contributed to the need to update the public finance estimates. The Royal Decree that resulted in the return of the annual allowance and the decision of the cost of living allowance for citizens for the fiscal year 2018, has impacted the public finance estimates for the current year. The government's decision to consolidate all government revenues, some of which were directly attributable to some government agencies, to deposit such revenues into the public treasury, has also contributed. These factors contributed to raising the public finance estimates on the volume of spending in the medium term.

The Expenditures strategy for the medium term aims at reducing the deficit, until reaching a fiscal balance in 2023. This objective is achieved by adapting the increase in revenues, which requires an increase in balanced spending, which considers the basic needs in operating expenses and the development of capital expenditure in the medium term for spending on the kingdom's Vision 2030 programs that contribute to economic growth and provide job opportunities. Total 2019 budget expenditure is estimated to reach SR 1,106 billion.

In the medium term, the Government's strategy will continue to fund several programs and implement relevant initiatives in the fiscal balancing program. The most important strategies can be summarized in the expenditure side in the medium term as follows:

- Continue improvement of the efficiency of social spending and government support programs, such as Citizen Account Program, through which the subsidy is directed to those eligible to reduce the effects of the energy prices reform and other fiscal procedures through direct cash transfers.
- Continue the policy of improving the efficiency of expenditure through the Spending Efficiency Realization Center (SERC), which supports the government entities in developing mechanisms to raise the efficiency of spending and achieve savings that can be directed to other projects and expenditures. The Strategic Procurement Unit and the new Government Tenders & Procurement Law to be implemented will contribute to the enhanced efficiency of expenditure, in line with best international practice.
- Attention to direct the increase in expenditure as much as possible to capital expenditure, which contributes to the development of infrastructure and improvement of government services, while at the same time revitalizing the economy and improving the investment environment.

#### Fiscal Indicators Projections over the Medium Term

(2018-2021)

SR (billion) unless otherwise stated

	Estimates	Projections		
	2018	2019	2020	2021
<b>Revenue</b>				
Total Revenues	882	978	1005	1045
<b>Total Expenditure</b>	<b>1,030</b>	<b>1,106</b>	<b>1,143</b>	<b>1,170</b>
Deficit	-148	-128	-138	-125
as percentage of GDP	-5.0%	-4.1%	-4.2%	-3.7%
Debt Balance	576	678	754	848
as percentage of GDP	20%	22%	23%	25%

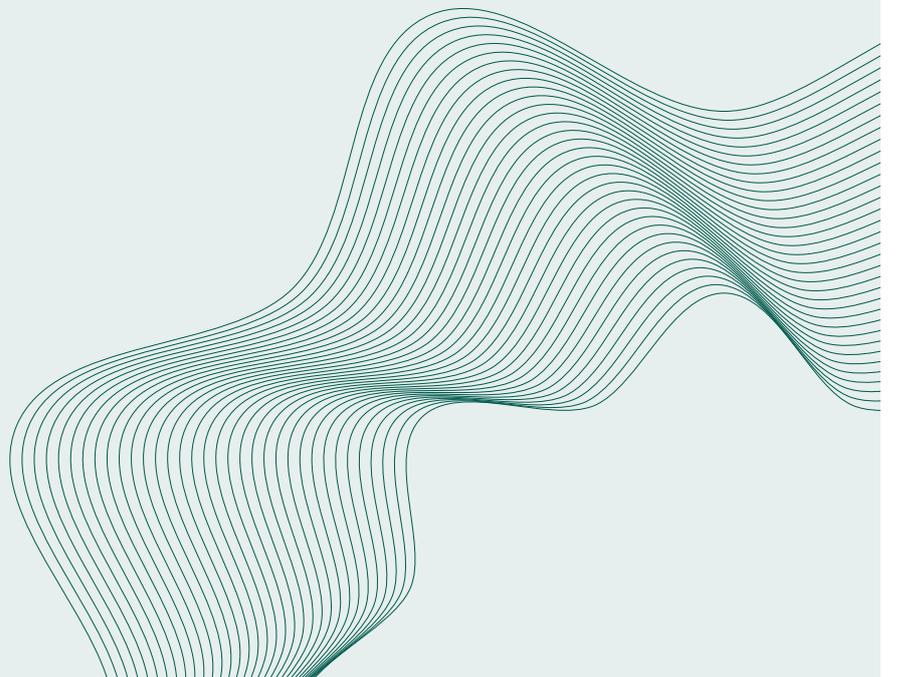
Source: Ministry of Finance



**02**



**Second:  
Main Fiscal  
Initiatives for 2019**



## Second: Main Fiscal Initiatives for 2019

In line with the objectives of the Saudi Vision 2030, the Government has adopted a strategy to develop the public finance performance in the medium term, which includes the development of sustainable fiscal policies, effective allocation and management of fiscal resources, improvement of financial accounts quality and transparency, optimal utilization of state assets and innovative financing. This strategy contains a range of programs and initiatives, including the implementation of a medium-term public finance framework. Through this framework, the government is working to determine the expenditure ceilings of government entities and forecast the public revenues. In addition, the government is working on developing the fiscal policies principles and rules in the medium term with concrete fiscal objectives, in addition to creating a framework to manage potential fiscal risks that may occur in the medium term.

To achieve these objectives within the structure of the Ministry of Finance, several units and offices have been established to manage several programs. The role of Macro and Fiscal Policy Unit (MFPU), Debt Management Office (DMO), the Spending Efficiency Realization Center, Fiscal Balance Program Office (FBPO), and Non-Oil Revenue Development Center are examples of units and programs that the State has developed to keep pace with the national transformation and the Saudi Vision 2030. Several initiatives have been launched, including the activation of the role of the treasury single account, which aims to enhance effective cash control, the government is unified procurement system to create savings in government operational and capital procurement, the transformation to accrual-based accounting which contributes to the efficiency of preparing the annual budget and raising fiscal control, and Eitimad digital platform - a comprehensive electronic platform for the Ministry of Finance services to various government agencies and the private sector that includes many basic services such as managing all contracts related to electronic registration until obtaining necessary approvals from the government and the Ministry of Finance. In addition to these organizational initiatives, a number of initiatives aimed at developing oil and non-oil revenues have been initiated, which can be summarized as follows:



## Revenues:

The Kingdom has begun implementing reforms that will continue in the medium term to create new sources to develop oil and non-oil revenues. Perhaps the most prominent are:

### - Value Added Tax (VAT)

The value added tax has been applied in the Kingdom effective from January 2018 to implement the GCC agreement of 5% tax rate on products and services. It is expected to become one of the main sources of non-oil revenues in the Kingdom. The enterprises whose taxable or expected sales exceed SR 1 million were obligated to be registered before December 20, 2017 and collected and supplied the receipts to the General Authority for Zakat and Tax (GAZT). The enterprises with annual sales exceeding SR 375,000 will have to register before December 20, 2018 to be subject to tax next year.

### - Excise Tax

The aim of this initiative is to develop non-oil revenues and reduce the consumption of commodities by applying a tax on specific commodities such as soft drinks, energy drinks, tobacco and its derivatives, Which were applied last year.

### - Energy Price Reform

The energy price reform initiative is one of the most important initiatives of the fiscal balancing program. The aim of the initiative is to incentivize rational consumption by gradually lifting energy subsidies until reaching the reference price, in order to take advantage of the opportunity cost that enhances public finance revenues while promoting rational consumption. The government aims to continue implementing the energy price reform plan in 2019 and in the medium term as announced in the Fiscal Balance Program, while in parallel increasing targeted subsidies for the eligibles.

### - Expat Levy

The objective of this initiative is to encourage job localization by narrowing the cost gap between expatriate and Saudi employees in the private sector. This is achieved by imposing a monthly fee on private sector establishments for each expatriate employee based on the number of expats in the establishment. The establishment with more expatriates than Saudis will bear a cost that is higher than those with less than or equal number of Saudis. This initiative has entered into force since January 2018.

## Expenditures:

The main reforms on the expenditure side include: the establishment of the Spending Efficiency Realization Center, private sector development, social benefits spending, enhancing the efficiency of public finance, developing a medium-term fiscal framework, and digital transformation in government transactions. These reforms are detailed below:

### - The Spending Efficiency Realization Center

This center was established as one of the most important reforms that the government has been working on to raise the efficiency of expenditure and rationalization in both its operational and capital spends. As there are many government agencies that exceed the expenditure allocated to them in the approved budget without a significant improvement in the quality of outputs or the economic return achieved. The Center works on analyzing government budgets and reviewing operational and capital costs to achieve savings to finance other projects. The Center also provides the necessary support to government entities to empower them to adhere to the budgeted spending limits by developing mechanisms and proposing policies and operational plans to improve the efficiency of expenditure and fiscal planning. This is in addition to revising the cost estimates of future projects and programs and their operational costs for the purpose of creating opportunities and savings that enable the Government to better manage cash and increase services at a lower cost.

### - Social Benefits Spending

Social benefits spending amounted to 37% of total government expenditures in 2017, health and social development at 14% and education at 23%, compared with 18% and 21%, respectively by mid-2018.

In order to achieve its objectives in supporting social spending, the Kingdom has recently launched several programs to improve the quality of services provided. The most important of these programs is the Citizen Account program, through which the Government aims to transfer subsidies from commodities to direct transfers directed to beneficiaries to mitigate the impact of energy prices reform initiatives. The amount of support allocated to the account is linked to the cost of the reforms announced in energy prices. The government is also developing employment programs and motivating job seekers (eg, Taqat, Hafiz, Sanid).



## - Private Sector Development

Several important initiatives have already been initiated to support and develop the private sector, supporting the role of employment and increasing employment opportunities. These initiatives include procedural and legal facilities for the establishment of certain commercial activities. The Small and Medium Enterprises Organization and other government agencies also coordinate and support the regulatory and logistical aspects that serve these enterprises. The capital for a group of funds has been raised to expand financing options to the private sector. In the same direction, large-scale projects that have been announced contribute to providing promising investment opportunities for the private and financial sectors.

In order to support the private sector, a plan to motivate the private sector has been prepared with SR 200 billion in the medium term, a program aimed at enhancing the competitiveness of the private sector and developing local industry to support the aspirations of the Saudi Vision 2030 as well as improving the local business environment and attracting more foreign investment.

## Improving the Efficiency of Fiscal Management Framework:

The State has established several specialized units to support the decision-making process and to develop public finance management. These include: Macro and Fiscal Policy Unit (MFPU), Debt Management Office (DMO), Strategic Procurement Unit and Non-Oil Revenue Development Center. It also launched several programs to support the financial planning process in the medium term and to achieve financial sustainability in support of the local economy through the adoption of several initiatives that aim to optimize government spending to simulate economic growth through work on the optimal allocation of resources and the efficient and effective management of resources and setting ceilings for spending at the level of government agencies. This is besides enhancing transparency and improving public revenue collection.

## - Medium Term Fiscal Framework

The Ministry of Finance, represented by the Macro-Fiscal Policies Unit (MFPU), has worked to enhance the efficiency of fiscal management by preparing a medium-term fiscal framework. Within this framework, ceilings are set for the expenditures, in line with strategic fiscal and economic priorities. It also forecast the size of revenues within a macro economic framework in order to achieve its medium-term objectives and reach a balanced budget by 2023. A comprehensive governance of the financial obligations of the State, development of a framework for fiscal risks management, and the working on the preparation of fiscal rules based on of the fiscal and economic models developed for this purpose.

## - Development of Medium-Term Debt Strategy

The Ministry of Finance represented by The Debt Management Office (DMO) is responsible for assessing the Kingdom's public borrowing requirements from time to time and for developing its Medium-Term Debt Strategy, to ensure that the Kingdom's financing needs and payment obligations are met at a practicable cost over the medium to long term, with a prudent level of risk. A number of initiatives have been taken to develop and deepen the domestic debt market in both primary and secondary markets to build key pillars of the government's strategy to make the Kingdom's markets a global investment powerhouse.

## - Digital Transformation

Based on the Saudi Vision 2030 and the Ministry of Finance's strategy of digital transformation towards e-government and the application of best international practices, the Ministry of Finance launched the digital Eitimad platform on January 21, 2018. Eitimad's aim is to empower government bodies to effectively manage their financial resources and governance of the documentary cycle, in addition to boosting transparency through providing opportunities for the private sector and enhancing control and performance measurement.

Eitimad platform contains five basic packages: budget management, tenders & procurement management, contract and awards management, payment management and the management of the financial rights of employees. These packages contain more than 20 integrated services based on accounting principles to ensure compliance with approved budgets and non-payment only after the registration of contracts and obtaining a reference number for the purchase order.

During the first six months of the application of Eitimad platform, all government agencies registered and the number of users of government agencies exceeded 11,000 users. More than 20,000 competitions and process of direct purchase, and the registration of more than 14,000 contracts have been awarded. The private sector has provided more than 35,000 electronic tenders. The Ministry of Finance continues to increase the level of activation of Eitimad platform and organize workshops for beneficiary training, change management and feedback processing.







