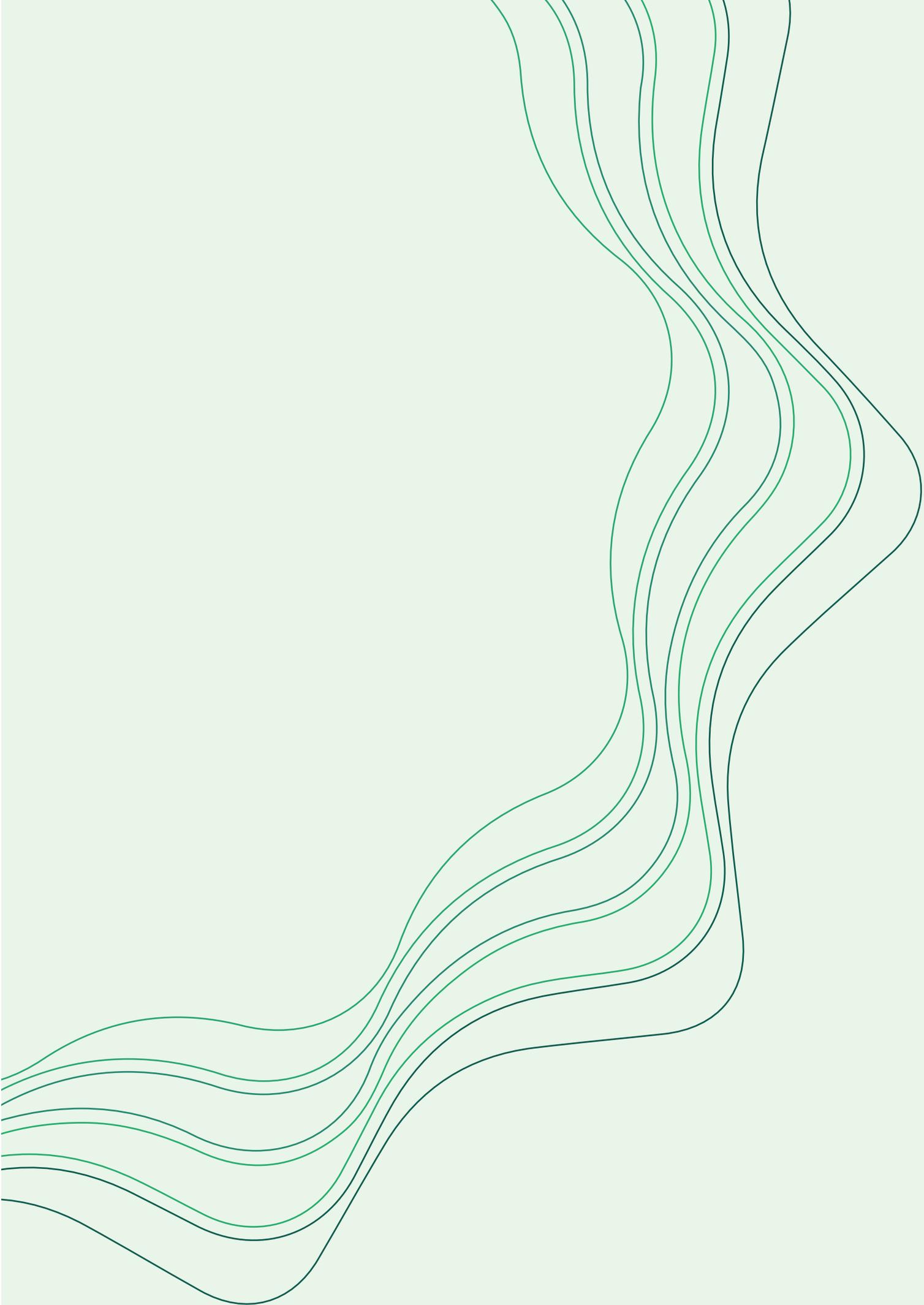




Fiscal Balance Program

2019 Update

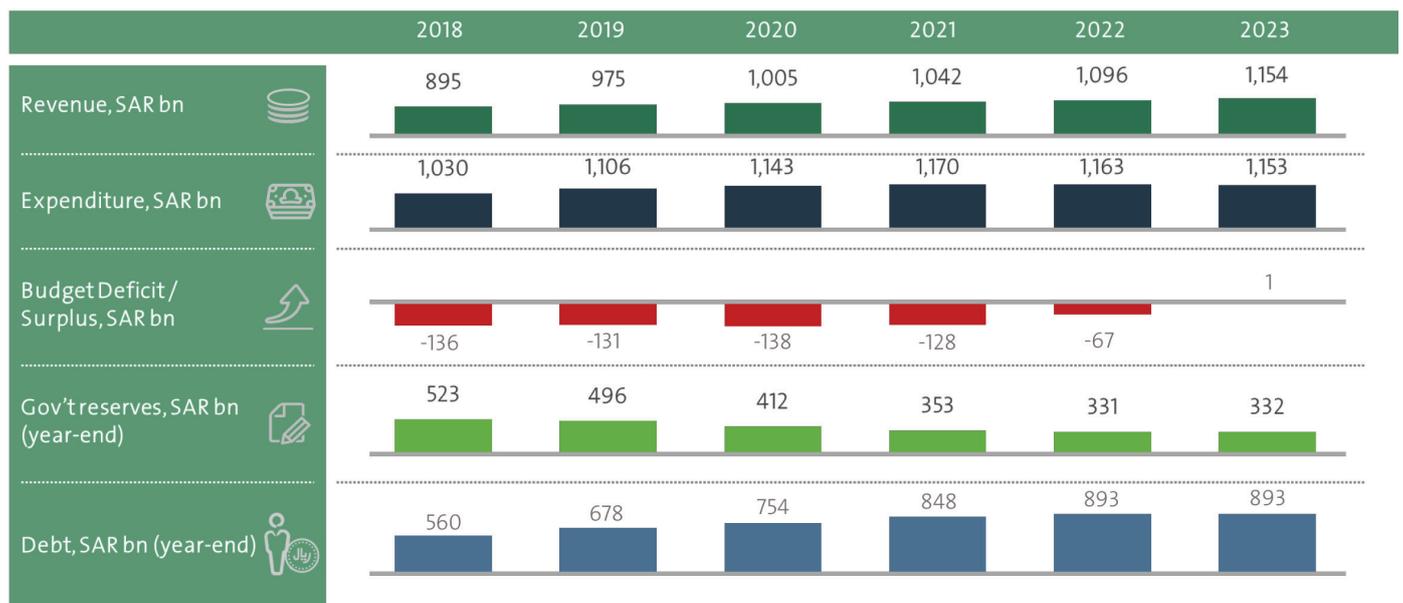




Introduction

In the medium term, fiscal and economic reforms aim to accelerate the economic transformation and ensure fiscal sustainability through achieving economic growth and maintaining low budget deficit ratios. In 2023, the budget is estimated to achieve a surplus of SAR 1 billion. Projections show that total Revenue will reach SAR 1,154 billion in 2023 (an average YoY growth of about 5.2%) while the total Expenditure are expected to rise to SAR 1,153 billion (an average YoY growth of 2.3% in the medium term).

Fiscal Projections (2018-2023)



Source: MoF
 Figures are rounded down to the nearest decimal place.

Revenues

As set out above, a number of reform measures have been implemented since the beginning of 2016, including the introduction of VAT, Expat Levies, as well as Energy Price Reform. The impact of these in growing and diversifying revenue will continue to be seen in 2019 and future years. Additionally, the government aims to structurally and continuously enhance revenues to finance expenditures, mainly with high social impact, and to decrease the budget deficit.

Total revenue in 2019 is estimated to reach SAR 975 billion, an increase of 9.0% over 2018, and to reach SAR 1,042 billion in 2021 with an average YoY growth of 5.3%.

• Taxes

Total tax revenue is expected to reach SAR 183 billion in 2019, an increase of 10.8% compared to 2018, and SAR 201 billion in 2021, due to economic growth, better taxpayer compliance, and an improvement in tax collection. Direct revenue of government entities according to the amended accounting treatment amounts to about SAR 10.2 billion in taxes.

- Taxes on income, profits and capital gains

Income taxes are expected to reach SAR 15.8 billion in 2019, decreasing by 2.1% compared to 2018 due to the inclusion in 2019 of receipts from the settlement of previous years' arrears. However, estimates also show a rise in income taxes in 2021 to reach SAR 17 billion, taking into account economic growth rates expected for the coming period.

- Taxes on Goods and Services

Taxes on goods and services in 2019 are estimated at SAR 132 billion, an increase of 16.4% compared to 2018, and to increase to SAR 145 billion in 2021, driven by the implementation of economic reforms, including:

» Value Added Tax

VAT has been applied in the Kingdom as of January 2018 to implement the GCC agreement of introducing 5.0% tax on goods and services. VAT is expected to become one of the major sources of non-oil revenue in the Kingdom. Enterprises with taxable or expected sales of SAR 1 million or more were required to register before December 20, 2017 and transfer VAT collected to the General Authority for Zakat and Income. Enterprises with annual sales of SAR 375,000 or more, are required to register before 20 December 2018.

Revenues from VAT are estimated to amount to SAR 47 billion in 2019 compared to SAR 45.6 billion expected in 2018.

» Excise Tax

Excise Tax applies on specific commodities such as “soft drinks, energy drinks, and tobacco and its derivatives,” with the objective of reducing consumption. Excise Tax revenues in 2019 are estimated to reach SAR 10 billion compared to an expected SAR 12 billion in 2018. The expected decrease is due to funds being collected in 2018 related to the transitional phase of implementation in 2017.

» Expat Levy

The objective of this initiative is to promote job creation for citizens by reducing the cost gap between hiring non-Saudi and Saudi workers in the private sector. This is achieved by imposing a monthly fee on private sector enterprises for each non- Saudi worker, based on the number of expatriates registered. If the number of non- Saudis workers exceeds the number of Saudis in an enterprise, the latter would be subject to a higher fee on for each additional expatriate worker. Expat levy revenues in 2019 are estimated at SAR 56.4 billion (including SAR 7 as direct income from some entities with a similar corresponding value on expenditures) compared to an estimated SAR 28 billion in 2018.

- Taxes on International Trade and Transactions

Taxes on trade and international transactions are expected to rise to SAR 17 billion in 2019, increasing by 6.6% compared to 2018, and SAR 18 billion by 2021, driven by the estimated level of economic growth during the period.

- Other Taxes

Income from Zakat is projected to reach SAR 17 billion in 2019, recording a decline of 14.2% compared 2018, due to the settlement of previous years' arrears in 2018, rising to SAR 19 billion by 2021, driven by the continuing growth in economic activity.

• Grants

As part of the new accounting system to consolidate the direct revenue of all government entities, an amount of SAR 1 billion is recorded in the grants budget item, for the first time, as receipts from other government units, with a similar amount included in expenditures. This item represents the amounts received by universities from the Higher Education Fund to support the educational system, as well as amounts received by the Small and Medium Enterprises General Authority (Monsha'at) from the HRDF.

• Other Revenues

Other revenues, which include oil revenues, are estimated at SAR 791 billion in 2019, increasing by 8.5% compared to 2018, and SAR 840 billion by 2021.

Estimated oil revenues in 2019, including the fiscal impact of the Energy Price Reforms, are projected at SAR 662 billion, compared to SAR 607 billion in 2018, a rise of 9%. Energy Price Reform is one of the most important initiatives of the FBP; aiming to foster rational consumption by a gradual removal of energy subsidies, to reach reference prices by 2025. The program will also boost public revenues. The government strives to continue to implement the Energy Price Reforms in 2019 and in the medium term, as announced in the FBP, while restructuring the social safety net to support eligible citizens and families.

Expenditures

The government is pursuing an expansionary spending policy in 2019, aimed at revitalizing the economy, speeding up the implementation of initiatives and projects under Saudi Vision 2030, and strengthening the efficiency of social benefits spending. The 2019 Budget is also designed to maintain momentum in achieving a fiscal balance by 2023, while the government pursues the establishment of a clear medium-term expenditure framework in line with the strategic objectives of the Saudi Vision 2030, and to achieve a balanced budget by 2023. Expenditure levels are determined within this fiscal policy, and with a debt level target not to exceed 30% of GDP. Expenditure is targeted to enhance economic growth.

Government spending, a major catalyst of the economy, reached 35.1% of GDP in 2018. Total expenditure in the 2019 budget is estimated at SAR 1,106 billion, increasing by 7.3% compared to 2018 estimates. This increase will drive the expansion of expenditure on the Vision Realization Programs and Initiatives, and will increase expenditure on social welfare and investment to stimulate economic activities and infrastructure development; thus enhancing economic activity of the private sector and creating more job opportunities. In addition, the increase in expenditures is, in part, due to applying the new accounting treatment based on the decision to consolidate all government revenues and associated expenses within the budget. Thus the expenditure increased (represent about 2.1% of total expenditure), but with no effect on the budget deficit.

- **Operational Expenditure (OPEX)**

Fiscal policy in 2019 and the medium term focuses on operational expenditure that prioritizes expenses with social and economic outcomes whilst maintaining the objective of bolstering spending efficiency. This includes the Private Sector Stimulus Plan, the Citizen Account Program, and Vision Realization Programs. Operational expenses in 2019 are projected at SAR 860 billion (about 77.8% of total expenditure), a 4.2% increase over 2018, driven by the increase in expenditure on social benefits, the Citizen Account Program, the annual employee allowance and Vision Realization Programs. Average growth of operational expenditure is expected to reach 2.7% during the period 2019-2021.

Compensation of employees in 2019 is budgeted at SAR 456 billion, accounting for around 53% of the total operational expenditure (and about 41.2% of total expenditure). Approximately 5.9% of these expenses represent government contributions to the pension fund.

Expenditure on goods and services is expected to grow by 25.5% in 2019 compared to 2018 estimates, driven by spending on Vision Realization Programs; which accounts for 20.4% of total operational expenditure. Around 5.5% of the spending on goods and services are self-financed by direct revenues to government entities.

Subsidies are estimated at SAR 32 billion in 2019 an increase of 174% compared to 2018, driven by the ongoing funding of initiatives such as the private sector stimulus plan, as well as the Citizen Account Program.

SAR 200 billion has been allocated to the Private Sector Stimulus Plan over the medium term. This has been launched in several phases and work on preparing the third phase of the incentive packages has progressed. The plan aims to stimulate the economy, boost the confidence of the private sector and remove obstacles, so as to maximize the private sector's contribution to GDP in line with the aspirations of Vision 2030.

The General Authority for Small and Medium Enterprises is also taking many initiatives to support small and medium enterprises, most importantly: returning government fees collected from small and medium-sized enterprises (SMEs), starting indirect lending to small and medium enterprises and raising the capital of the bail program "Kafalah".

The Ministry of Finance oversees two initiatives; the Corporate Sustainability Support Program and the Project Support Fund. The sustainability initiative aims to provide financing and advisory support to companies, with the objective of protecting Saudi jobs and supporting distressed companies that are financially feasible and beneficial to the economy. The Project Support Fund contributes to supporting the completion and continuation of projects in the sectors of real estate development, health, education and tourism, which contributes to raising the Kingdom's GDP and increasing the participation of the private sector.

Expenditure on social benefits in 2019 is expected to reach SAR 73 billion (similar to that expected for 2018). Approximately 23.5% of social security benefits will be directly financed by Zakat. Social security benefits financed by the budget represent 58.3% of estimated total social benefits.

Financing costs in 2019 are estimated to increase by 26.4% compared to 2018, driven by estimated sukuk and bond issuances to finance budget needs.

Other expenditures are projected to decrease in 2019 by 5.8% when compared to 2018. The total expenditure on students in the Kingdom and abroad is expected to account for 18.8% of total other expenditures.

- **Capital Expenditures (CAPEX)**

Capital expenditure for 2019 is estimated at SAR 246 billion, accounting for 22.2% of total expenditures, an increase of 19.9% compared to 2018. Capital expenditure is allocated to finance projects under Vision Realization Programs, infrastructure development, and mega projects. The objective is to enhance service provided to citizens and stimulate economic growth, thus contributing to the creation of jobs. About 2.3% of capital expenditure is self-financed.

The ratio of capital expenditure to total government expenditure is expected to increase from 19.9% in 2018 to 23.7% in 2021. Estimates indicate that the average capital expenditure growth over the medium term will reach 5.9%.

- Other initiatives to improve public financial management efficiency include:

- Developing the framework and the management of macro fiscal policies

Represented by the **Macro-Fiscal Policies Unit (MFPU)**, the MoF will continue to develop the fiscal planning and management efficiency by creating a fiscal framework governed within a medium-term economic framework. Expenditure ceilings are determined within this framework, based on fiscal and economic and strategic priorities. This framework supports the preparation of revenue forecasts and analysis to ensure the achievement of the medium-term goals and the realization of a balanced budget by 2023. Work will continue on developing a framework for the comprehensive governance of the state's fiscal liabilities and management of fiscal risks along with recommending policies to address them. The MFPU will investigate the possibility of setting fiscal rules that benefit from the fiscal and economic analysis and forecast tools developed for this purpose. The MFPU will also embark on preparing the necessary studies on fiscal policies and their impact on the macro economy.

- The Spending Efficiency Realization Center (SERC)

The **Spending Efficiency Realization Center (SERC)** has been created to raise the efficiency of government expenditure, both operational and capital. The SERC contributes to analyzing government budgets and reviewing operational and capital expenses to achieve savings that can be redirected to other projects. The SERC will also provide the necessary support to government agencies to enable them to adhere to budgetary expenditure ceilings by developing mechanisms and proposing policies and operational plans to raise the efficiency of expenditure and fiscal planning. It will also review cost estimates of future projects and programs and their operational expenses to realize savings that enable the government to better manage funds and increase services at a lower cost.

The SERC also plans to launch the **Strategic Purchasing Unit** as part of the institutionalization of the government procurement processes following the adoption of a new procurement system. The strategic purchasing unit aims to raise the efficiency of government spending in addition to directing spending to support the development objectives, enhancing local content and supporting SMEs, as well as enhancing transparency and competitiveness.

- 'Etimad' Platform

The 'Etimad' Platform, launched in early 2018, will enable government agencies to effectively manage their fiscal resources and govern the accounting cycle, as well as bolstering transparency by providing opportunities to the private sector and improving control and performance assessments. The platform includes a series of measures to improve links between the government and private sector, ensuring competitiveness and integrity.

Analysis of technical and financial offers from the private sector should be adhered to in the awarding of contracts and projects, as well as billing and payment. The platform focuses on following up and improving operations and ensuring that private sector receivables are met on time and without delay.

- Payment Of Private Sector Fees

Vision 2030 stresses the importance of the private sector as a key partner in achieving the economic development in the Kingdom. Therefore, the government formed a number of committees to come up with sustainable strategic solutions to pay all the private sector dues. The committees presented several studies and solutions to eliminate payment delays in the future by developing numerous projects to facilitate and accelerate these payments, most notably the digitization of dues payment procedures through Etimad platform and the new government tenders and procurement law.

- Development of budget preparation process

Based on the new methodology that was launched to prepare the budget in 2018, MoF is continually working on implementing and improving its strategy and ensuring compliance with budget ceilings, in accordance with the FBP. This takes into account the government entities' priorities that are put forward during workshops to achieve efficiency in spending. MoF has also provided new and more developed analytical tools to improve the quality of revenue and expenditure estimates. MoF has been keen to raise the level of disclosure in order to reach the highest level of commitment, transparency and participation through the launch of the Pre- Budget Statement for the first time in 2018.

Public Debt and Financing

MoF, through the **Debt Management Office**, is working on the preparation of a medium-term debt strategy and an annual borrowing plan to secure the Kingdom's financing needs from various global debt markets, at fair prices within prudent risk management frameworks. This strategy also takes into account the objectives of Vision 2030 to promote the growth of the financial sector. The public debt strategy will also depend on the diversification of local and international issuances to include sukuk and bonds with short, medium and long-term maturities.

