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المملكة العربية السعودية
Saudi Arabia – Budget

Budget Statement

Fiscal Year 2019

وزارة المالية
Ministry of Finance

Translated Version from Arabic

بسم الله الرحمن الرحيم

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Introduction

The 2019 Fiscal Year (FY) Budget Statement highlights main fiscal developments in Saudi Arabia in the FY 2018 and provides budget indicators for the FY 2019. This statement also shows the ongoing development of the budget planning and preparation methodology in accordance with the medium-term fiscal and economic framework, which started in early 2017. Set out in this statement are key performance indicators and economic and fiscal developments for the FY 2018, and the domestic fiscal & economic framework and world economic outlook on which 2019 medium term projections were built. This statement sets out projected expenditures and revenues for the medium-term. A fiscal balance is targeted to be achieved by 2023. The most important initiatives and reforms implemented by the government to attain fiscal sustainability and economic growth are set out in this statement along with key fiscal and economic risks and challenges that could affect expenditure and revenue projections in the medium term.

Amongst the objectives of this Budget Statement is providing greater levels of disclosure and transparency in public finances. In addition to this statement, this objective has been pursued by the publication of Quarterly Budget Performance reports and the Pre-Budget Statement which was published for the first time in September 2018, three months prior to the approval of the State Budget. This was done in order to present to citizens and other stakeholders the developments in the medium-term fiscal strategy's plans and objectives and fiscal policy priorities. Budget accounts are classified according to the Government Finance Statistics Manual (GFSM 2014), which is a unified global classification issued by the International Monetary Fund (IMF).

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Fiscal and Economic Framework

I:
Overview of the Fiscal and Economic Framework

Since the announcement of Saudi's Vision2030 in April 2016, the Kingdom of Saudi Arabia has witnessed an economic, social and structural transformation as reforms have been implemented towards achieving the Vision's goals. Vision 2030 is supported by 13 approved programs. These programs aim to develop promising economic sectors and increase the productivity of existing pivotal sectors by raising government efficiency and stimulating the prosperity of communities. Vision 2030 aims to achieve comprehensive and diversified economic development, especially in the non-oil sector, to achieve economic growth and fiscal sustainability. Vision 2030 will increase job opportunities and female's participation in the labor market, improving the living standards of citizens.

The Fiscal Balance Program (FBP), one of the programs of Vision 2030, includes the frameworks and directions of fiscal policy in order to achieve economic growth and fiscal sustainability within a comprehensive medium-term fiscal and economic framework. Initiatives implemented under the FBP include the launching of the Citizen Account; the Private Sector Stimulus Plan; and initiatives to the efficiency of public financial management, spending, planning and fiscal discipline, by setting expenditure ceilings for government entities and programs in the medium term, in addition to improving the quality and accuracy of fiscal accounts, and promoting disclosure and transparency. Other initiatives include the optimization of the use of state assets, enhancing revenues and their efficient management and redistribution and initiatives to control fiscal and economic risks. Innovative financing mechanisms have also been adopted such as the Treasury Single Account (TSA) for effective cash management and to enhance fiscal control. A government procurement system is being developed. Under the FBP, the government is moving from cash to accrual basis in government accounting to support improvements in budget preparation, fiscal control and performance effectiveness.

Economic Framework:

Actual performance in the first half of 2018 shows a 1.4% growth in Real GDP, with the non-oil sector growing by 2.0% and the oil sector by 1.0%. Economic performance indicators are expected to continue to improve in the second half of 2018, with GDP growth expected to reach 2.3% by the end of this year.

Real GDP growth in 2019 is expected to reach 2.6%, driven by capital expenditure, which is expected to reach SAR 246 billion, up by 19.9% compared to 2018, accounting for 22.2% of total government expenditures in 2019. In addition, the impact of the private sector stimulus plan, job creation initiatives and other economic reforms are expected to have a positive impact on the business environment.

Up to October 2018, the Consumer Price Index (CPI) registered a year on year (YoY) average increase of 2.5%, compared to a decline of 0.7% on average for the same period in 2017.

During the first half of 2018, the current account of the balance of payments recorded a surplus of SAR 107.1 billion, while reserve assets at the Saudi Arabian Monetary Authority (SAMA) increased by SAR 40.4 billion up to the third quarter of 2018. The positive performance in the balance of payments is expected to continue.

Several structural reforms and efforts to improve business environment have been implemented to strengthen the role of the private sector in the economy. These reforms include:

(1) Strengthening the financial sector and enhancing its attractiveness;

(2) Supporting Small and Medium Enterprises (SMEs), including: reimbursement of SMEs fees initiative, the creation of the "Fund of Funds" to invest in venture capital to support private sector projects, complemented by the restructuring of the SMEs financing program (KAFALAH) and the establishment of a SMEs investment fund;

(3) The empowerment of Saudi women by enhancing job opportunities and improving their work conditions, as well as achieving income equality.

Fiscal Framework:

The budget deficit for 2018 is expected to reach SAR 136 billion (about 4.6% of the GDP) compared to an estimated SAR 195 billion deficit in the approved budget (equivalent to 6.9% of this year's estimated GDP). The deficit has improved significantly from its 2017 level, when it stood at 9.3% of GDP, which confirms the government's determination to maintan fiscal discipline without compromising development projects.

Revenues in 2018 are expected to rise by 29.4% to reach SAR 895 billion due to an increase in oil and non-oil revenues. Total expenditure is estimated to grow by 10.8%, amounting to SAR 1,030 billion, in comparison to 2017 actual expenditure. The government has continued to implement reforms on both the revenue and expenditure sides. These reforms included the implementation of the second phase of the energy price reform and the introduction of value added tax (VAT) in January 2018. To minimize the side effects of implementing such initiatives, the Citizen Account Program (CA) was launched to compensate eligible individuals and households who are impacted.

In the 2019 budget, the government aims to reduce the budget deficit to approximately 4.2% of GDP compared to the expected 4.6% in 2018. The increase in total revenue is projected at 9.0% compared to the expected in 2018, while the increase in non-oil revenues is estimated at 9.0%. The government will continue implementing FBP initiatives in 2019, including: increasing the effectiveness of VAT management; continuing the energy prices reforms to be aligned with the reference energy prices by 2025 and continuing the application of the expat levy. Other economic initiatives and reforms will also continue to be implemented, in line with Vision 2030.

The 2019 budget shows a 7.3% increase in total expenditures compared to 2018, fueled by a 19.9% increase in government investments (capital expenditures) to finance the initiatives and projects of Vision2030 Realization Programs, including housing projects, launching mega projects and developing the infrastructure to stimulate economic growth and to create more jobs for citizens.

The budget includes additional provisions for social spending with improved targeting mechanisms through several programs, including Citizen Account Program which will increase the efficiency and effectiveness of such spending. In addition, more progress will continue in the ongoing public finance management reforms; the Ministry of Finance (MoF) has launched a range of digital services to develop the delivery of the budget and enhance transparency and disclosure. These include payment orders inquiries, the "Etimad" Digital Platform, financial claims service and other services to settle payments within 60 days for the private sector. MoF is also working towards developing the Government Tenders and Procurement system, to be announced soon, to meet the interests of both the public and private sectors, which will raise the efficiency of public expenditures, both capital and operational, enhance integrity and fair competition and protect public interests.

Medium-Term Fiscal Framework

The many initiatives, programs and reforms implemented to achieve Saudi Vision 2030 are expected to positively impact medium-term economic outlook, considering the progress in major projects and the structural reform initiatives aimed at achieving economic transformation and diversification.

The most important medium-term fiscal initiatives include improving the efficiency of social spending as well as government support programs such as the Citizen Account. The government will also continue to increase the effectiveness of expenditures by supporting government entities to achieve the best return on spending, by redirecting expenditures, to the extent possible, towards capital expenditure to further develop the infrastructure and government services to enhance economic growth. Expenditure projections are prepared in accordance with estimated revenues over the medium term, driven by the implementation of announced initiatives and growth in economic activity. Meanwhile, the government will ensure flexibility in responding to potential fiscal and economic risks and in ensuring the realization of its objectives by incentivizing the economic growth while maintaining fiscal sustainability and financial stability under the FBP.

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II:

World Economic Outlook

II:

Global Economy:

According to the latest International Monetary Fund (IMF) projections published in October 2018, global economic growth is expected to reach 3.7% in 2018 and 2019, representing a decline of 0.2% for both years, compared to its previous projections in July 2018.

The IMF also projected that growth in Europe will decline from 2.4% in 2017 to 2.0% in 2018 and 1.9% in 2019, while China and Japan are estimated to record growth of 6.6% and 1.1% respectively in 2018, and 6.2% and 0.9% respectively in 2019. The IMF raised its estimates for the economic growth in Saudi Arabia by 0.3% and 0.5% respectively to 2.2% for 2018 and 2.4% for 2019.

IMF ECONOMIC GROWTH FORECAST

	2017	2018	2019
Global Economy	3.7%	3.7%	3.7%
Advanced Economies	2.3%	2.4%	2.1%
Emerging Markets and Developing Economies	4.7%	4.7%	4.7%
US	2.2%	2.9%	2.5%
Euro zone	2.4%	2.0%	1.9%
China	6.9%	6.6%	6.2%
Japan	1.7%	1.1%	0.9%
Kingdom of Saudi Arabia	- 0.9%	2.2%	2.4%
Inflation in Advanced Economies	1.7%	2.0%	1.9%
Inflation in emerging markets and developing economies	4.3%	5.0%	5.2%

Source: WEO, IMF, October 2018

Several major risks continue to threaten the growth of the global economy in the short and medium term, with "global trade tensions" at the forefront of these risks. Some governments have introduced a series of protectionist measures such as imposing taxes on imports. These measures have also been accompanied by tightening monetary policies. The US Federal Reserve, for instance, has gradually raised interest rates since December 2015, reaching 2.25% at the end of September 2018. The increase in interest rates in advanced economies and the currency turbulance in some emerging countries have led to noticable capital outflowes from emerging markets and developing economies to advanced economies. Furthermore, a decline in global investment is projected due to higher borrowing costs and the increase in the cost of existing global debt portfolios.

Oil Markets:

The oil markets experienced significant fluctuations in 2018, with Brent crude passing the $86/bbl. range in early October and then falling to below $60/bbl. in late November.

Despite the oil markets volatility this year, oil prices increased by about $17/bbl. a 30% increase over the previous year, due to global economic growth and low commercial crude oil inventories.

Analysts expect oil prices to pick up gradually in 2019, due to the December OPEC+ Ministerial meeting decision to voluntarily reduce overall production by 1.2 mb/d, effective as of January 2019. This voluntary production resolution aims at achieving the supply and demand balance and restoring stability to the global oil markets.

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III:

Economic and Fiscal Developments In 2018

III:
Economic and Fiscal Developments in 2018

1.Economic Developments

Real Sector

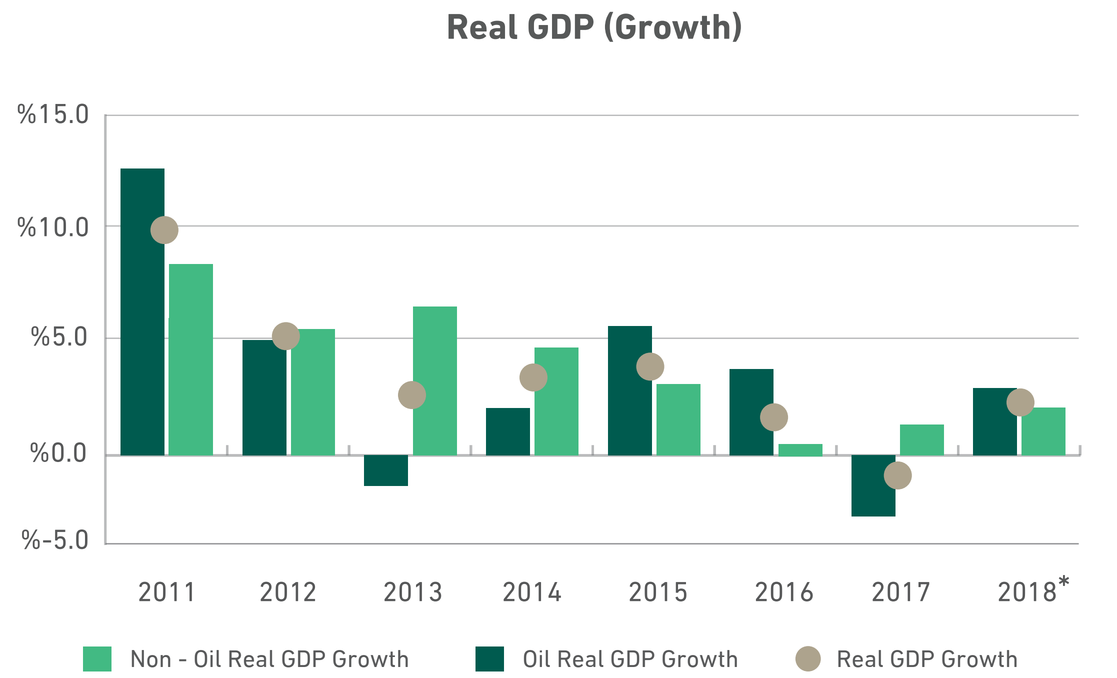
According to the General Authority for Statistics (GASTAT), real GDP increased by 1.4% in the first half of 2018, while real non-oil GDP grew by 2.0% and real oil GDP by 1.0%. The real GDP growth reached 1.2% and 1.6% during the first and second quarters of this year respectively. Non-oil real GDP grew by 1.6% and 2.4% respectively during the same period.

Actual data indicate that non-oil real GDP growth was driven by positive major non-oil economic activities. The manufacturing sector registered real growth of 5.3% for the first half of the year, while real growth of mining and other quarrying activities reached 4.4% over the same period. Financial, insurance, real estate and business sectors recorded real growth of 3.2% for the first half of the year. Government services recorded real growth of 4.1% over the same period. Other non-oil sectors declined during the same period; construction by 2.8%, transport, storage and IT by 1.0%, and the wholesale and retail trade, restaurants and hotels by 0.5%.

Data also show that positive growth in total consumption and exports of goods and services during the first half of the year were catalysts for the growth of non-oil GDP. Real government consumption grew by 4.5%, whereas private consumption rose by 2.2% for the same period. Exports of goods and services achieved real growth of 3.2%. The activation of the Citizen Account, reinstatement of annual allowances to government employees and cost of living allowances absorbed the negative impact of VAT application and energy prices reforms and had a significant positive impact on private consumption.

Actual data also show growth in real oil GDP due to an increase in oil production during the first half of the year. The crude oil and natural gas sector recorded, during the first half of the year, real growth of 1.2%, while oil refining recorded a decline of 1.5%.

Real GDP is expected to continue growing to reach about 2.3% by the end of 2018, due to improved economic performance driven by the impact of structural reforms and increased government operational and capital expenditures thus, contributing to the growth of the real non-oil GDP. Real oil GDP is also growing at higher rates due to the expected increase in oil production on average in 2018.



Source: GASTAT
*Preliminary Estimates

Other economic performance indicators also show significant improvements up to October 2018, especially in the main private consumption indicators. Point of Sale (POS) sales growth averaged 16.3% and cash withdrawals from ATMs averaged growth of 3.5% compared to the same period last year according to Saudi Arabian Monetary Authority (SAMA).

The main indicators of private investment performance show also slight improvement. Up to November 2018, the Purchasing Managers Index (PMI) registered more than 53.7 points on average, indicating an expansion in private sector activities. There has also been an improvement in corporate profits in several sectors such as banking and petrochemicals.

Banking credit to the private sector achieved YOY growth of 1.7% in October, which is the highest since the beginning of the year, due to the improvement in private sector economic activities.

Actual data for the first half of the year indicate an increase in nominal GDP by 13.2%. Nominal non-oil GDP rose by 7.3%, while nominal oil GDP rose by 29.6% driven by higher global oil prices.

Growth in nominal non-oil GDP was driven by an increase in total consumption. Government consumption grew by 18.7% in the first half of the year, while private consumption grew by 5.3%.

Based on these developments, nominal GDP is expected to grow by 14.1% at the end of 2018, driven by higher oil prices in international markets, in addition to the continued growth of nominal non-oil GDP of 4.9% by the end of the year, taking into account the rise in general price levels.

Inflation

In early 2018, GASTAT changed the name of the Cost of Living Index to the Consumer Price Index (CPI) to reflect precise naming and consistency with the international standards. It also adjusted the relative weight of the main components of the index, in addition to adjusting the base year from 2007 to 2013.

According to GASTAT data, the CPI grew by an average of 2.5% up to October 2018 compared with a decline of 0.7% in the same period last year. Most increases were in tobacco (the highest by an average of 28.4%), transport, hotels, restaurants and food and beverage categories. The recreation and culture sectors increased slightly. Clothing and footwear declined by an average of 7.7%.

Inflation rates in 2018 were largely influenced by various supply and demand factors and a series of economic and fiscal reforms and compensational initiatives, most importantly energy prices reforms, VAT application, the Citizen Account launch, the reinstate of allowances and the provision of cost of living allowance for this year.

The CPI is expected to grow by an average of 2.6% by the end of 2018 compared to negative growth by 0.9% the previous year.

External Sector

Balance of Payments data from SAMA indicate positive growth in the current account during the first half of 2018. The current account achieved a surplus of SAR 107.1 billion, driven by the improvement in the balance of goods and services and primary income which recorded a surplus of SAR 164.8 billion and SAR 15.2 billion respectively. This was driven by increased oil exports. Personal remittances declined by 4.7% to reach SAR 64.3 billion during the first half of 2018. SAMA estimates that the current account will register SAR 300 billion surplus by the end of this year.

Data show also a growth in Foreign Direct Investment (FDI) of SAR 6.6 billion during the first half of 2018, in line with government efforts to boost the business environment and economic transformation plans. FDI is expected to reach SAR 12.1 billion in 2018, according to SAMA estimates.

Reserve assets at SAMA increased by SAR 40.4 billion up to the third quarter of the year, and are expected to register an increase of about SAR 62 billion by the end of 2018.

Monetary Sector

According to SAMA's latest published data, money supply (M3) increased by 1.7% YOY in the period up to October 2018, resulting from the rise in currency in circulation and demand deposits, estimated at 6.2% and 2.2% respectively.

Quasi-cash deposits also increased by 15.5% despite the decrease in savings and current account deposits by 6.3%. Bank claims on the private sector increased by 1.9% in October compared to the same period last year. Bank claims on the public sector increased by 19.7% in October of this year compared to the same month last year, bringing the total value of claims to SAR 350 billion, driven by government domestic debt issuances and the growth of bank credit provided to public institutions.

Total bank credit extended to economic activities amounted to SAR 1430 billion, recording a 1.5% increase in the third quarter of 2018 compared to the same period last year. The highest increases were recorded by the mining and finance sectors at 32.5% and 15.3% respectively. Bank credit extended to the trade, construction, building, transport and communications sectors declined by 8.2% during the third quarter of 2018 compared to the same period of the previous year. These three sectors jointly constitute 30.5% of total bank credit granted during the third quarter of 2018.

Total consumer credit for the third quarter amounted to SAR 329 billion, a 5.1% increase compared to the same period last year, driven by an increase in consumer loans for furniture, durables, education, tourism and travel.

According to SAMA, total real estate loans from commercial banks amounted to SAR 228 billion (58% of these loans for retail, and 42% for corporate) at the end of the third quarter of 2018, recording YOY growth of 7.3%, driven by subsidized loans for government housing programs. Real estate loans by finance companies amounted to SAR 15.5 billion (83% of these loans for retail) by the end of the third quarter of 2018, recording an increase of 8.1% compared to the same period last year.

2- Fiscal Developments

As a clear indication that the Kingdom's fiscal policy is on track to achieve its medium-term goals, the budget deficit for FY 2018 is expected to be SAR 136 billion (4.6% of GDP compared to 9.3% of GDP in 2017), a decline of SAR 102 billion from the actual deficit in 2017 (which amounted to SAR 238 billion).

The projected deficit is also expected to be less than the estimated budget deficit of SAR 195 billion in the approved budget, due to the revenues increasing at a higher rate (14.2%) than total expenditures (5.4%).

SAR billions, unless otherwise stated

Fiscal Developments	Actual	Budget	Estimates	Annual change (Actual 2017 vs Estimates 2018)
	2017	2018	2018	
Revenues				
Total Revenues	692	783	895	29.4%
Taxes	**87**	**142**	**166**	**89.4%**
Taxes on income, profits, and capital gains	14	15	16	14.9%
Taxes on goods and services	39	85	113	>100%
Taxes on international trade and transactions	19	25	16	-14.8%
Other taxes	15	17	20	31.1%
Other revenues	**604**	**641**	**729**	**20.7%**
Expenditures				
Total Expenditures	930	978	1.030	10.8%
Expenses (OPEX)	**722**	**773**	**825**	**14.3%**
Compensation of Employees	420	438	474	12.8%
Goods and services	136	143	140	2.5%
Financing Expenses	9	14	17	84.2%
Subsidies	5	14	12	>100%
Grants	6	3	3	-56.8%
Social Benefits	48	65	75	57.0%
Other expenses	98	95	106	8.5%
Non-Financial Assets (CAPEX)	**208**	**205**	**205**	**-1.2%**
Budget deficit\surplus				
Budget deficit\surplus	-238	-195	-136	-43.1%
Ratio of GDP	-9.3%	-6.9%	-4.6%	-
Debt and assets				
Debt	443	555	560	26.3%
Ratio of GDP	17.2%	19.8%	19.1%	-
Government deposits at SAMA	579	456	523	-9.7%
Ratio of GDP	22.5%	16.2%	17.8%	-

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

a. Revenues:

The beginning of 2018 saw the implementation of several important revenue initiatives approved and announced in the FBP. Initiatives included the implementation of VAT, Expat Levy, and Energy Price Reforms. Revenues are also increasing in line with the improved economic performance in 2018.

Total revenue for 2018 is expected to reach SAR 895 billion, up by 29.4% compared to last year, due to an expected increase of 12.4% in non-oil revenue, driven by the implementation of the reforms, as described above. Oil revenue is expected to increase by 39.3% compared to the previous year, driven by higher oil production and prices. Compared with the initial budget estimates, total revenue for 2018 is expected to increase by 14.2%.

Taxes

Tax revenue is estimated at SAR 166 billion in 2018, increasing by 89.4% compared to last year, and by 16.3% compared to the budget estimate.

Taxes on Income, Profits and Capital Gains

Taxes on income, profits and capital gains are expected to increase by 14.9% YOY to reach SAR 16.1 billion in 2018. This increase is due to higher revenues from corporate income tax and non-resident withholding tax. Taxes on income, profits and capital gains are expected to increase when compared to budget estimates by 5.5% due to the improvement in economic activity as well as the increased effectiveness of tax administration.

Taxes on Goods and Services

Taxes on goods and services are expected to reach SAR 113 billion in 2018, a rise of 187.9% over the previous year, and 32.9% compared to the budget estimate. This increase is due to the implementation of several economic reforms, most notably VAT, Expat Levy and excise taxes.

VAT revenues, received for the first time this year, are expected to reach SAR 45.6 billion, up by 101.5% compared to the budget estimate. In addition the government is expected to incur an expense of SAR 2 billion in 2018 as a result of commitments made, as per a Royal Decree, that the government will pay VAT on behalf of citizens using private healthcare, private education or buying a first residence valued at no more than SAR 850,000.

Revenue from excise taxes is expected to reach SAR 12 billion, an increase of 44.7% compared to the budget estimate, due to higher than anticipated consumption rates. Revenue from the expat levy is expected to reach SAR 28 billion, higher by 2.6% compared to the budget estimate.

Taxes on Trade and International Transactions

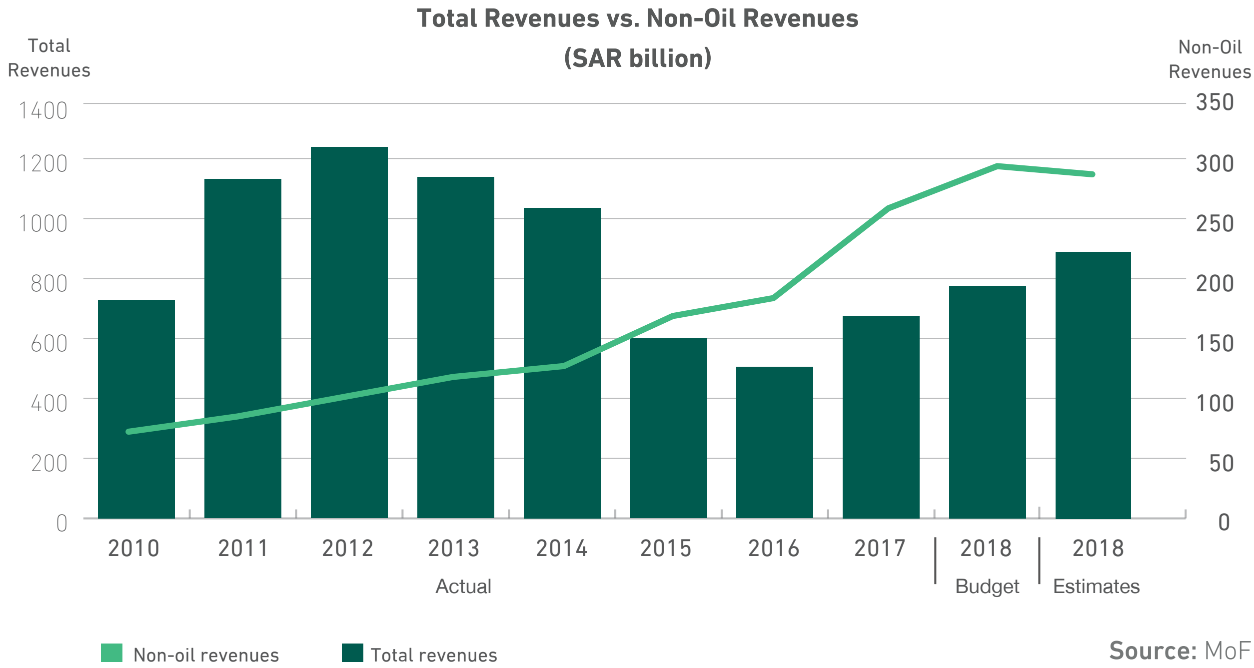
Taxes on trade and international transactions (customs duties) are expected to reach SAR 16 billion by the end of 2018, a decline of 14.8% compared to the previous year and of 35.8% compared to the budget estimate. This decline is due to a decrease in total commodity imports of 2.5% up to August 2018 compared to the same period last year, according to GASTAT. The data show a fall in non-exempted product imports, an increase in imports from countries such as China and India, and a decrease in imports from some European and North American countries. Also, the fall is due to the end of clearing all backlogs of inter-GCC transfers.

Other Taxes

Income from Zakat is expected to reach SAR 20 billion in 2018, an increase of 31.1% over the previous year and an increase of 18.3% compared to the estimated budget. This is due to the increase in the number of Zakat payers registered with the General Authority for Zakat and Income Tax, in addition to the improvements in the performance of Zakat collection.

Other Revenues

Other revenues in 2018 are expected to reach SAR 729 billion, an increase of 20.7% compared to the previous year and 13.7% higher than the estimated budget. Other revenues includes oil revenues which are expected to reach SAR 607 billion, an increase of 39.3% compared to last year and 23.5% higher than the estimated budget. Average oil production up to October was about 10.2 million barrels per day, which grew 2.6% over the same period last year and the average price of Brent crude up to October 2018 was 73.1 dollars per barrel compared to 52.4 dollars per barrel during the same period of 2017.



Source: MoF

Expenditure

Total government expenditure in 2018 is expected to amount to SAR 1,030 billion or 35.1% of GDP, exceeding the budget estimate by 5.4%, an increase of 10.8% compared to the previous year. This rise was mainly driven by the restoration of annual allowance payments for state employees, as well as allowances for civil servants and military personnel (SAR 1000 per employee per month), as well as retirees and social services beneficiaries (SAR 500 per employee per month). Student stipends were also increased by 10%. As a result, compensations for employees, social benefits and other expenses were impacted by the increase. Therefore, expenditure on compensation of employees is expected to reach SAR 474 billion, an increase of 8.2% (46.0% of total expenditure). A decline of 2.5% compared to budget estimates in expenditure on goods and services is projected due to the spending rationalization initiatives that have been implemented to increase the expenditure efficiency.

Expenditure on social benefits are expected to increase by 14.6% above budget (57.0% increase compared to actual expenditure of 2017). This is mainly driven by the Citizen Account actual expenditure, which constitutes about 37.5% of this budget item.

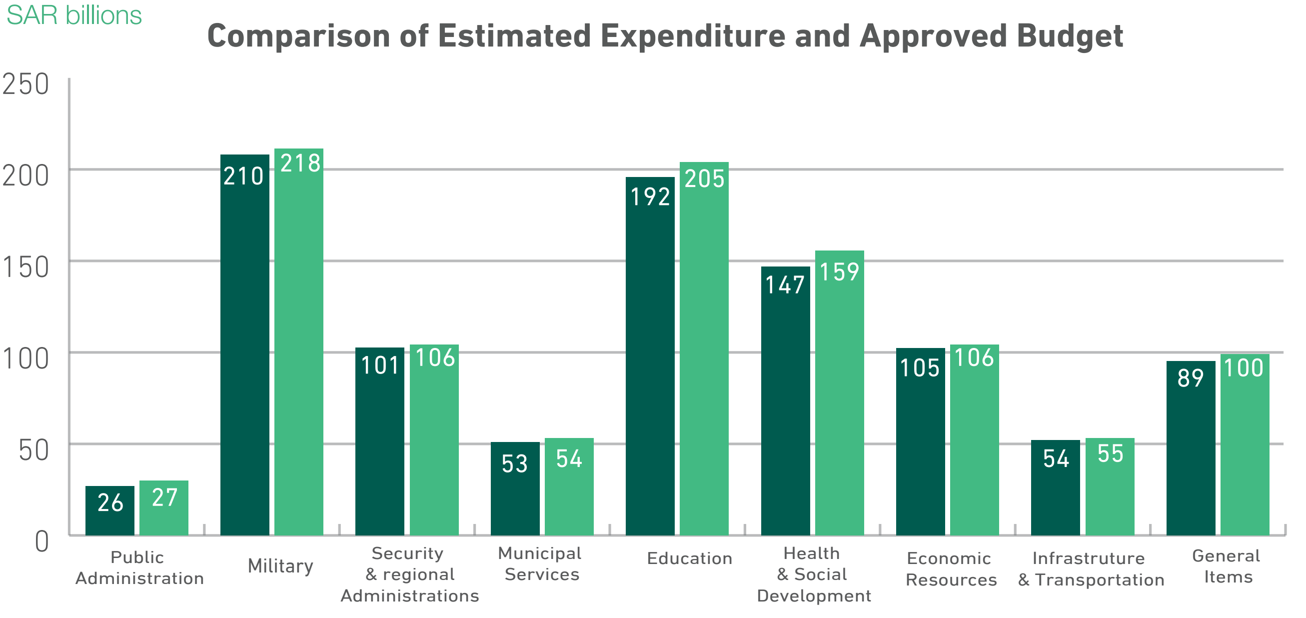
Other expenditure has increased over the budget estimates by 11.6%, driven by an increase in student stipends of 10% and the granting of an additional allowance to scholarship students of SAR 7,500. Expenses on financing costs are expected to reach about SAR 16.6 billion, higher than budgeted by SAR 2.5 billion, due to the rise in global interest rates. Subsidies are expected to rise by 126.5% over last year to reach SAR 11.6 billion, including of the expenditure on Private Sector Stimulus Plan.

Sectoral Performance

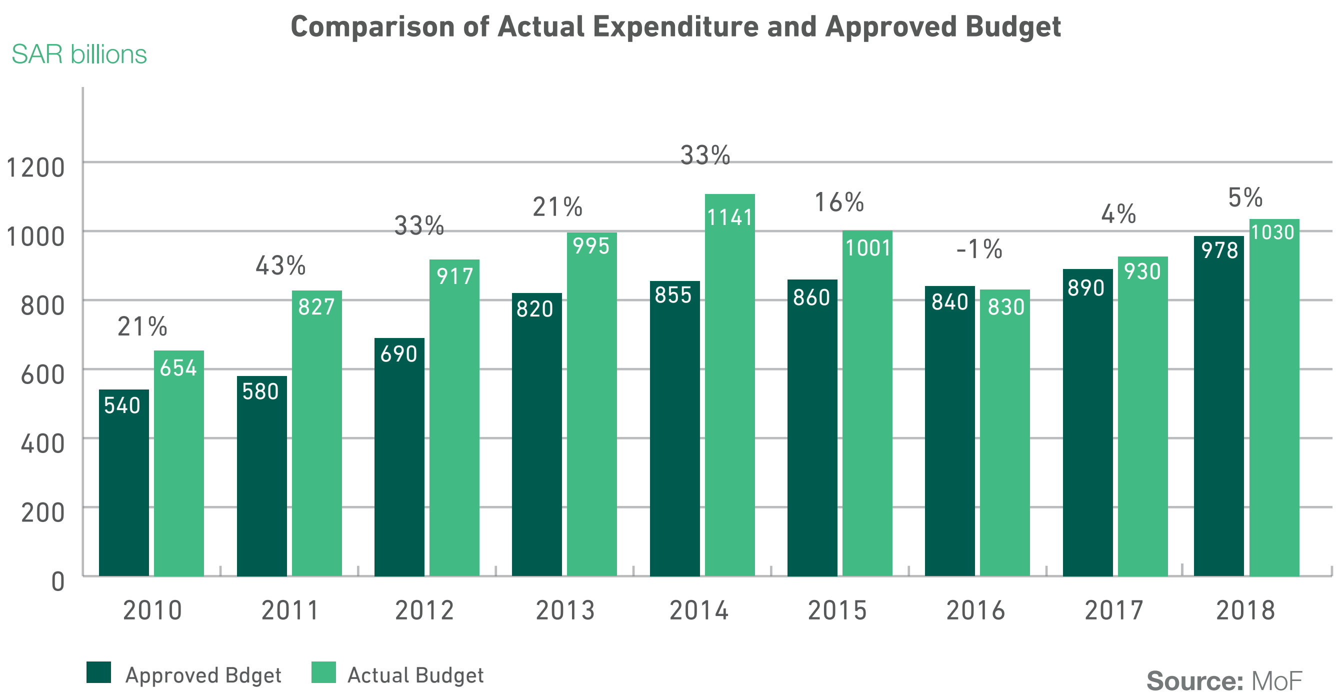
For the reasons mentioned in the above section, sectoral expenditure is expected to increase driven predominately by increased employee compensation costs, social benefits and other expenses. The most impacted sectors are education, health and social development, rising by about 6.8% and 8.6% respectively, compared to the beginning of the year. Expenditure in other sectors rose by between 1% and 5%.

Sectoral Performance				
Sector (SAR billion)	Actual 2017	Budget 2018	Estimates 2018	Annual change (Actual vs Estimates) %
Public Administration	30	26	27	-9%
Military	228	210	218	-4%
Security & Regional Administration	108	101	106	-2%
Municipal Services	55	53	54	-2%
Education	207	192	205	**-1%**
Health & Social Development	134	147	159	18%
Economic Resources	48	105	106	123%
Infrastructure & Transportation	35	54	55	56%
General Items	85	89	100	17%
Total	**930**	**978**	**1,030**	**11%**

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



Source: MoF



Source: MoF

c. Debt and Financing:

The MoF has continued to adopt a diversified financing policy based on debt issuances and withdrawals from government deposits and reserves during 2018 to finance the budget deficit. MoF has diversified its domestic and foreign financing through sukuk and bond issuances which amounted to SAR 108.6 billion by September 2018 and are expected to reach SAR 120 billion by the end of 2018, of which SAR 48.7 billion were domestic sukuk and SAR 71.3 billion were international sukuk and bonds. MoF has also refinanced its international syndicated loan facility. Total withdrawals from government deposits and reserves are expected to reach SAR 55.9 billion at the end of 2018 (less than the expected in the budget estimate as deficit declined) to finance budget deficit, private sector stimulus and increase the capital of some development funds. Government bonds amounting to SAR 3 billion were paid off during the year.

Public debt is expected to reach SAR 560 billion (19.1% of GDP) at the end of 2018, compared to SAR 443 billion (17.2% of GDP) in 2017. MoF, represented by the Debt Management Office (DMO), has put in place a medium-term strategy for public debt management as well as an annual borrowing plan (submitted to the financial committee for approval) in order to secure the Kingdom's financing requirements and ensure the sustainability of the Kingdom's access to global debt markets with a fair price, based on well-established risk framework, and in line with Saudi Arabia's fiscal policies.

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IV:

Domestic Economic Outlook

IV:
Domestic Economic Outlook

Macroeconomic indicators are expected to continue growing in 2019, driven by a budget focused on expanding investment spending, economic reform programs, private sector stimulus programs and compensation initiatives for eligible Saudi families and individuals. The Government will continue working on enhancing the business environment to foster the role of the private sector in achieving sustainable economic growth and job creation for citizens. MoF estimates real GDP growth of about 2.6%, supported by growth across both the oil and non-oil sectors.

Improvements in the business climate and increased investment opportunities are expected to allow for increased private sector participation and accelerated growth. Reform initiatives include promoting investments, boosting investors' confidence, privatization programs, directing capital spending to vital projects based on economic return, private sector stimulus packages and developing new economic sectors and activities. In addition, Public Investment Fund (PIF) plays a pivotal role in driving economic development, and improving the management and development of the Kingdom's assets on both medium and long term basis to increase productivity levels. PIF also plays a vital role in other initiatives for the realization of Vision 2030.

In addition to the expected growth in the production and services sectors, Vision Realization Programs focus on developing and boosting the growth of existing and new sectors, such as the manufacturing and mining sectors, as well as the financial sector and other services sectors including tourism and entertainment. These programs are expected to produce positive impacts in the short term, with greater benefits expected to take shape over the medium to long term by the completion of these programs.

To increase investment in the private sector and attract foreign investment, the government has launched several initiatives and issued laws that serve numerous sectors. With the aim of developing the financial sector and diversifying domestic investment instruments, government bonds have been traded on the Saudi stock Exchange "Tadawul" and various local financial institutions have been appointed as primary dealers to facilitate the government securities distribution process. PIF has also established a company to refinance real estate mortgages.

The government will continue to enhance the legal environment for foreign investment. For example, the minimum size of assets that foreign investors must hold to be qualified to trade in the stock market has been reduced. Foreign companies have also been allowed under certain criteria to fully own engineering companies and foreign investment licenses have been extended from one year to a renewable period of up to five years. In addition, foreign investors have been allowed to invest in numerous new sectors including recruitment agencies, visual audio services, road transport services and real estate brokerage.

Initiatives to facilitate the ease of doing business have begun to review organizational and legislative obstacles and find solutions to overcome these obstacles, as well as to harmonize planned and announced policies and better articulate future trends within the policy governance framework to make it easier for private sector to anticipate changes. Moreover, the government has launched the 'Meras' program, which enables investors to complete the process of starting a new business in 24 hours through a unified electronic platform linking business sectors with government agencies. The government has also introduced digital licenses for foreign investment and has streamlined the license issuance process to take less than 3 hours. New regulations have been issued or are being prepared for the bankruptcy, corporate and commercial franchise laws.

The government has established the National Development Fund (NDF) which aims to enhance the performance and sustainability of the Saudi development funds and banks, by achieving integration and coordination between funds and raising the efficiency of financing and development lending to boost the economic development and meet the expectations of citizens and the private sector. The NDF will initially oversee expectation of the functions of the Real Estate Development Fund, the Saudi Fund for Development, the Saudi Industrial Development Fund, the Agricultural Development Fund, the Social Development Bank and the Human Resources Development Fund. The Fund will supervise the tasks of its affiliated funds, improve fund distribution among them and link them to Vision 2030 objectives. Other development funds and banks will also be included in the coming stages, making the NDF the main source for allocation and disbursement of development funds in the Kingdom.

The vital role of small and medium-sized enterprises (SMEs) is recognized through actions such as the reimbursement of SMEs fees initiative and the creation of the Fund of Funds to invest in venture capital. This has been complemented by the restructuring of the SMEs financing program (KAFALAH), establishing a fund to invest in SMEs and a new framework for encouraging and supporting female entrepreneurs and improving their working conditions.

Investment stimulus and government spending are expected to boost real economic growth rates in 2019 and mitigate the negative impact of some reforms, with the increase in government capital spending in 2019 estimated to be about 19.9% higher than in 2018. Also, positive growth in private investment and consumption is anticipated to continue in 2019. Therefore, and given the positive impact of Vision 2030 programs and initiatives mentioned previously, private investment is expected to see continued growth from 2019 to 2023.

In line with government initiatives to further reform subsidies and redirect them through the Citizen Account, to those in need, real private consumption is expected to continue to grow at higher positive rates.

The 2019 budget will continue to focus on private sector stimulus plans in the medium term to ensure sustainable growth and development of the private sector in parallel with the ongoing reforms and in line with Vision 2030. It will also provide the necessary support to facilitate the private sector's adoption of higher energy efficiency standards. Moreover, the 2019 budget will drive competitiveness of private sector's outputs through enhancing the quality of products and services and increasing efficiency. Other major stimulus initiatives include catalyzing exports and industries as well as the fund to support projects and subsidized residential loans for those in military service.

A privatization program has been launched to transfer the ownership of some public assets or assign certain governmental services to private sector. Initiatives pertaining to sports clubs, flour mills of the Saudi Grains Organization (SAGO), projects of Saline Water Conversion Corporation (SWCC) and Ministry of Environment, Water and Agriculture have been launched to achieve this end. In addition, some PIF assets will be privatized, public real estate assets will be allocated for private sector's use and ports management will be handed over to private companies.

All these reforms will contribute to healthy and sustainable growth of the national economy, in line with Vision 2030.

2019 estimates are affected by several factors, most importantly the oil market performance and its impact on global economic developments and international trade, in addition to the implementation of economic reforms. Economic growth rates could rise higher than currently projected if the private sector responds positively and quickly to take advantage of the ongoing reforms and the available opportunities. Growth rates could also be on the upside based on progress in the implementation of government-funded projects, and the ability to unleash the economy's potential.

Medium-term estimates indicate a significant increase in GDP growth by 3.0% in 2023, while nominal GDP is expected to grow by around 6.4% in 2019, and 5.0% in 2023.

Economic Medium-Term Growth Rates (2018 - 2023)

	Estimates		Projections			
	2018	2019	2020	2021	2022	2023
Economic medium-term growth rates						
Real GDP growth	2.3 %	2.6 %	2.7 %	2.7 %	2.8 %	3.0 %
Nominal GDP (SAR billions)	2,938	3,125	3,263	3,418	3,602	3,781
Nominal GDP growth	14.1 %	6.4 %	4.4 %	4.8 %	5.4 %	5.0 %
Inflation	2.6 %	2.3 %	2.1 %	2.0 %	2.0 %	1.9 %

Source: MoF

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V:

Budget 2019 and Medium Term Projection

(Fiscal Balance Program Update)

V:
Budget 2019 and Medium Term Projection (Fiscal Balance Program Update)

1- Key Objectives

In the medium term, fiscal strategies aim to reduce deficit ratios, achieve fiscal sustainability, develop subsidies and social spending mechanism for better targeting, increase public expenditure efficiency, modernize and develop infrastructure, stimulate the private sector, develop productive and service sectors and new activities to strengthen growth and employment.

The main objectives underpinning the fiscal strategies for 2019 and the medium-term are as follows:

Maintaining Economic Growth and Fiscal Sustainability

Stimulating economic growth and ensuring fiscal sustainability are core objectives of fiscal policy. Through the 2019 budget, the government aims to pursue its policies to reduce the deficit through a gradual decline in the medium-term. This will be achieved through the implementation of the reforms and procedures featured in the FBP.

These include initiatives to develop stable and growing sources of government revenue to finance its commitments. In addition, further public finance management reforms and expenditure policies will be introduced to raise public expenditure efficiency. The FBP aims to avoid exceeding a debt ratio of 30% of the nominal GDP and maintain favorable levels of reserves.

In order to improve the efficiency of public finance management, the government has established several specialized units to support decision-making. It has also launched several programs to support the fiscal planning process in the medium term and to achieve fiscal sustainability to support the local economy. In addition, the Kingdom has adopted several initiatives to rationalize government expenditure and drive economic growth through the efficient allocation and management of resources, setting expenditure ceilings for government agencies, developing mechanisms for budget implementation, fiscal risk management, and streamlining the collection of the country's public revenues, while boosting fiscal transparency and disclosure.

Supporting Economic Growth and Employment

The government aims, through the 2019 budget and its fiscal policies in the medium term, to accelerate economic growth rates and employment by implementing a set of initiatives that can help achieve these objectives thus, satisfying the aspirations of the Kingdom's Vision 2030 to raise the standard of living for citizens.

On one hand, increasing the role of the private sector in economic growth and employment is a priority. In this regard, the government works to improve the local business environment and attract more foreign investment, in addition to implementing a plan to stimulate the private sector in the medium term. It is also expected that the fiscal reforms aimed at reducing the budget deficit will boost investor confidence. In addition, the government will provide new opportunities for the private sector through privatization programs and the development of productive sectors, services and new activities and thus supporting the growth of non-oil sector and increasing employment rates.

On the other hand, the government places importance on raising the economic and social return from public expenditure, especially capital expenditure. The 2019 budget includes an increase in capital expenditure to finance initiatives and projects to achieve Vision 2030 including housing projects and infrastructure development to stimulate economic growth and generate more jobs for citizens.

The government will continue to gradually increase capital expenditure in the budget for the coming years, contributing to Vision Realization Programs to diversify the economy, developing infrastructure and improving government services, while ensuring the private sector plays the largest role in the growth of economic activity and employment opportunities over the medium term.

Support Social Welfare

Through the 2019 budget, the government aims to maximize the outcome of social benefits by increasing spending and developing subsidy mechanisms targeting eligible beneficiaries and improving government services for citizens. The government will continue to implement the Citizen Account as a platform to provide government support to eligible families and citizens. It will also continue spending on social benefits and subsidy programs, and boosting expenditure on key service sectors, such as health, education, housing and municipal services. In addition, government services that target specific sectors, including programs for supporting working women and job seekers (including Nitaqat, Hafiz, Sanid) are also being developed.

The following sections highlight the 2019 budget details and medium-term projections, including the most important initiatives to be implemented to achieve the above mentioned objectives.

2- 2019 Budget and Medium-term Projections

The budget for FY 2019, as well as medium term estimates, have been prepared based on the fiscal and economic developments, presented earlier, and according to the expected medium term economic outlook, and the objectives and initiatives set out in the FBP.

The budget deficit in 2019 is expected to reach SAR 131 billion, equivalent to 4.2% of Nominal GDP, shrinking by 0.4 percentage point of GDP compared to the estimated deficit for 2018, and substantially below the 2017 deficit of 9.3% of GDP (SAR 238 billion riyals), a deficit reduction of more than 5 percentage points of GDP within two years.

The decline in the estimated deficit for 2019 results from the expected rise in total revenues by 9.0% compared to 2018 estimates driven by the reforms to increase and diversify sources of revenues. The 2019 Budget foresees an increase in spending of 7.3%, including an increase in non-financial assets (capital expenditure) of 19.9%, compared to 2018 estimates.

In the 2019 budget, a new accounting treatment was introduced; all direct revenues received by some government entities will be recorded, as well as the corresponding expenditures. This treatment is in accordance with a Royal Decree mandating the transfer of government revenues to the state's public treasury and the allocation of corresponding expenditure across entities, in line with budgeting procedures. The related revenues for FY 2019 are estimated at SAR 23 billion. The entities affected include; the Ministry of Housing, which collects fees on white lands to finance housing projects; universities; municipalities; Small and Medium Enterprises General Authority (Monsha'at); Saudi Food and Drugs Authority (SFDA); General Authority of Civil Aviation (GACA); and other governmental entities.

This change will result in an increase in revenues and expenditures for 2019 budget items and in the medium term compared to previous years, but without affecting the budget deficit/surplus.

SAR billions, unless otherwise stated

Mid-Term Fiscal Projections (2018 - 2021)					
	Budget 2018	Estimates 2018	Budget 2019	Projection 2020	Projection 2021
Revenues					
Total Revenues	783	895	975	1,005	1,042
Tax	**142**	**166**	**183**	**194**	**201**
Taxes on income, profits, and capital gains	15	16.1	15.8	17	17
Taxes on property	0	0	1	1	2
Taxes on goods and services	85	113	132	141	145
Taxes on international trade and transactions	25	16	17	18	18
Other taxes	17	20	17	18	19
Grants*	**0**	**0**	**1**	**1**	**1**
Other Revenues	**641**	**729**	**791**	**810**	**840**
Expenditures					
Total Expenditure	978	1,030	1,106	1,143	1,170
Expenses (OPEX)	**773**	**825**	**860**	**877**	**893**
Compensation of Employees	438	474	456	463	461
Goods and services	143	140	175	166	173
Financing Expenses	14	17	21	27	32
Subsidies	14	12	32	25	21
Grants	3	3	3	3	3
Social Benefits	65	75	73	94	103
Other Expenses	95	106	100	99	99
Non-Financial Assets (CAPEX)	**205**	**205**	**246**	**266**	**277**
Budget deficit\surplus					
Budget deficit\surplus	**-195**	**-136**	**-131**	**-138**	**-128**
Ratio of GDP	-6.9 %	-4.6 %	-4.2 %	-4.2 %	-3.7 %
Debt and assets					
Debt	**555**	**560**	**678**	**754**	**848**
Ratio of GDP	19.8 %	19.1 %	21.7 %	23.1 %	24.8 %
Government deposits at SAMA	**456**	**523**	**496**	**412**	**353**
Ratio of GDP	16.2 %	17.8 %	15.9 %	12.6 %	10.3 %

Source: MoF

* The accounting treatment related to the direct revenues collected by some entities outside of the budget was amended; these direct revenues are being included in the budget starting in 2019 with the corresponding expenses recorded on Expenditures. This process resulted in the emergence of new items in the budget classification for the first time, as presented in the table.

Figures are rounded down to the nearest decimal place.

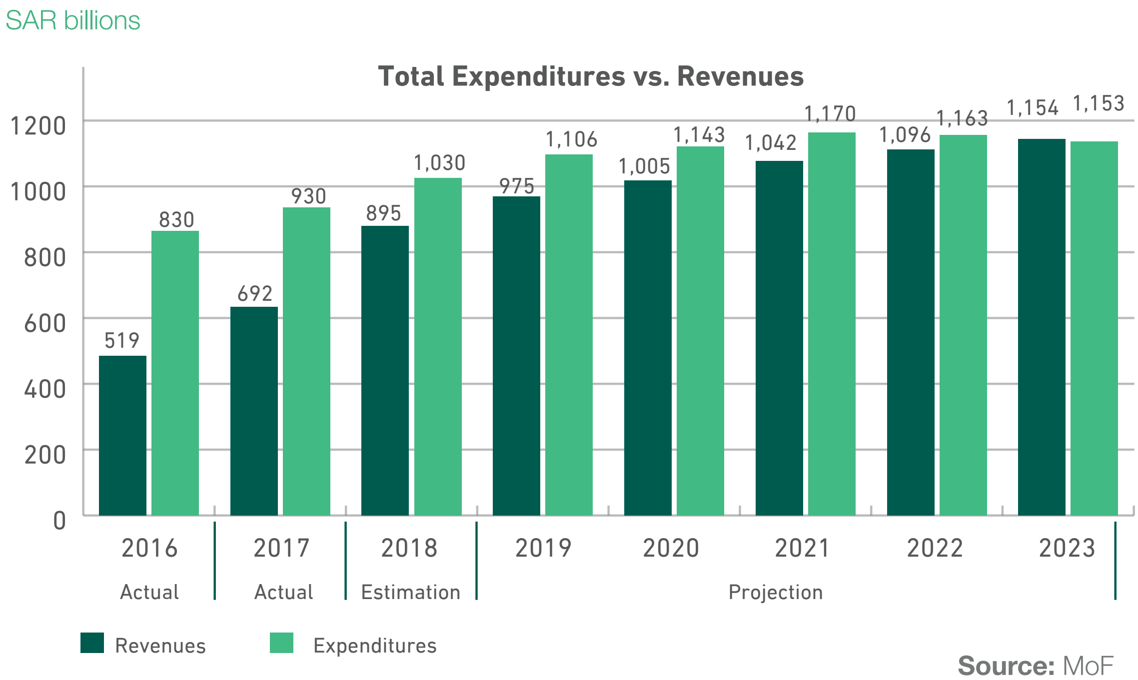
In the medium term, fiscal and economic reforms aim to accelerate the economic transformation and ensure fiscal sustainability through achieving economic growth and maintaining low budget deficit ratios. In 2023, the budget is estimated to achieve a surplus of SAR 1 billion. Projections show that total 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).

SAR billions

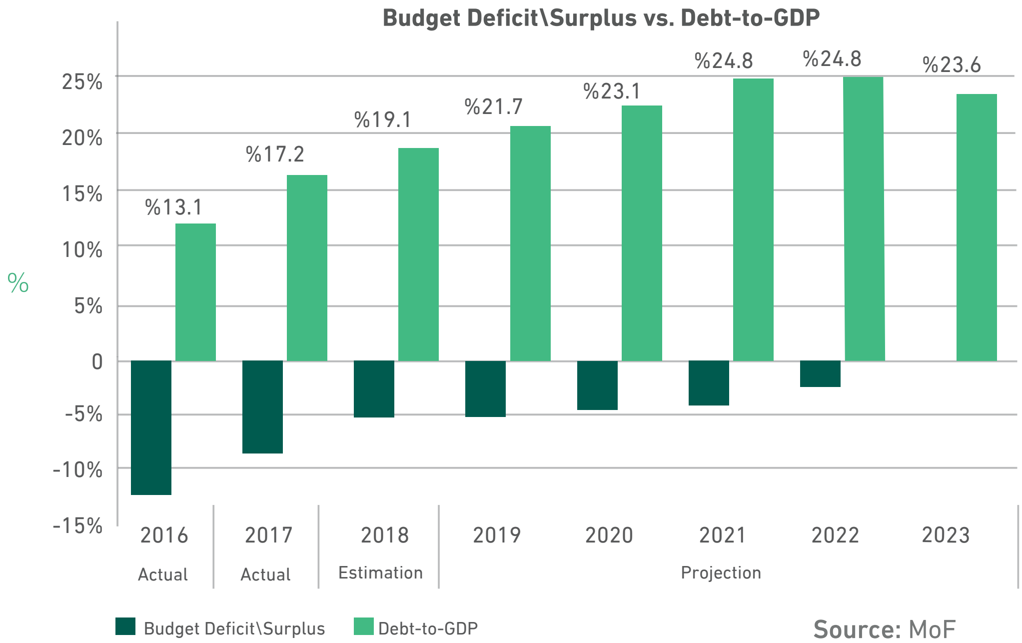
Fiscal Projections (2018 - 2023)

	Estimates	Budget	Projection			
	2018	2019	2020	2021	2022	2023
Total Revenues	895	975	1,005	1,042	1,096	1,154
Total Expenditures	1,030	1,106	1,143	1,170	1,163	1,153
Budget Deficit/Surplus	-136	-131	-138	-128	-67	1
Debt and Assets						
Government Deposits at SAMA	523	496	412	353	331	332
Public Debt	560	678	754	848	893	893

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



Source: MoF



Source: MoF

a- 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.

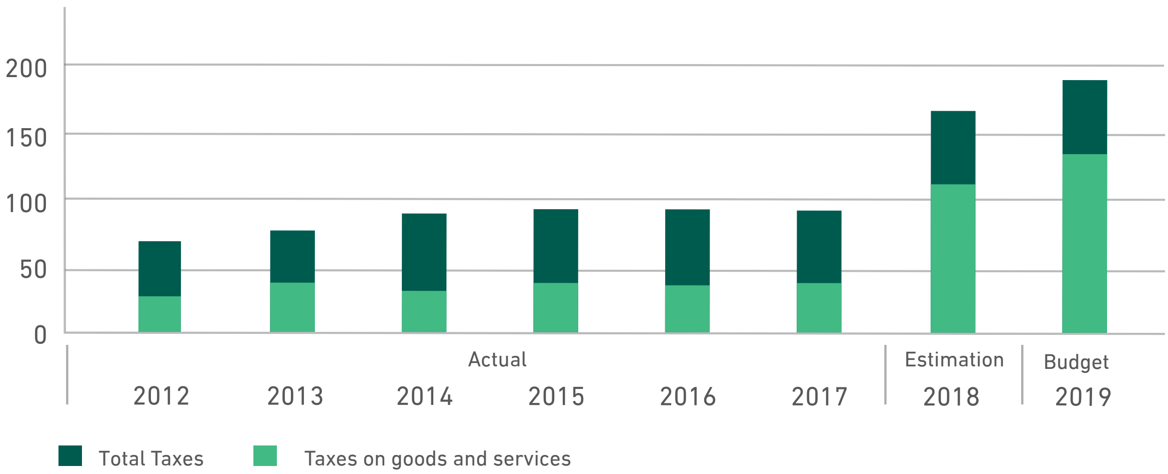
Excise Tax

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 goods and services vs. Total Taxes



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.

b- Expenditure

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.

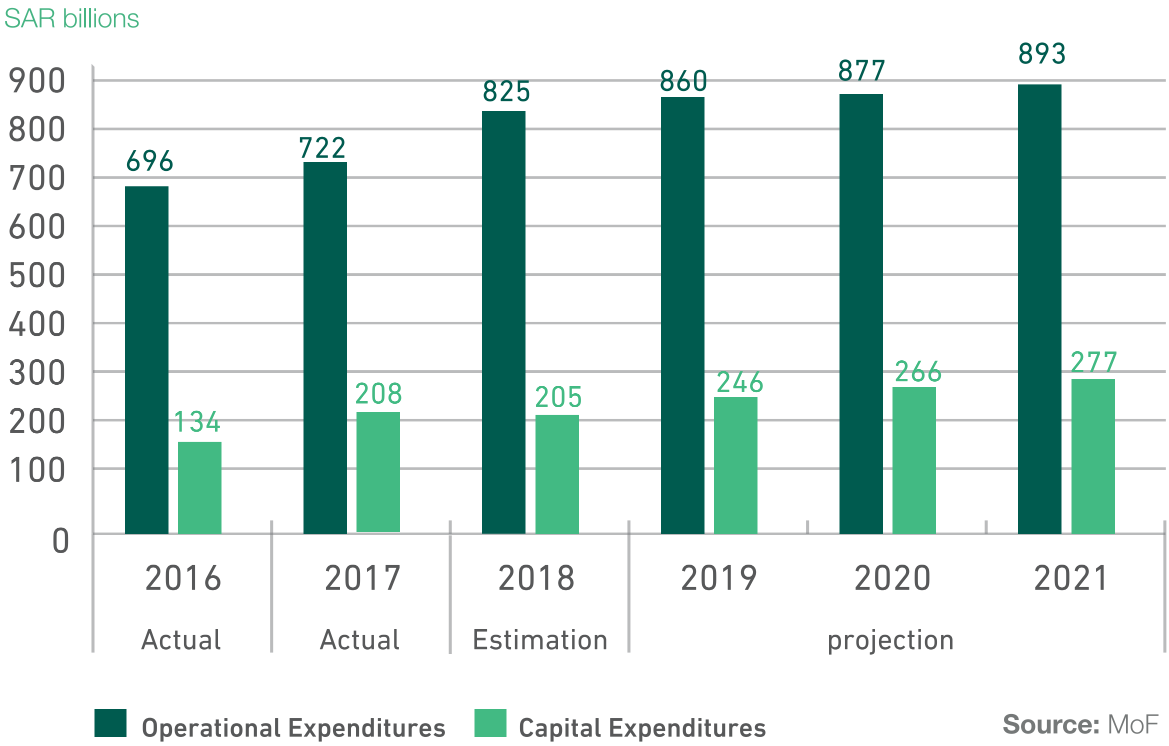
Other expenditures are projected to decrease in 2019 by 5.8% when compared to 2018. The total expenditure on students in the Kingdom and abroad is expected to account for 18.8% of total other expenditures.

Capital Expenditure (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%. The following Chart shows development of operational and capital expenditure over the medium term.

Operational And Capital Expenditures



Source: MoF

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.

c- 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.

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Infrastructure and Transportation Sector:

SAR 70.24 billion is allocated for infrastructure and transportation, of which SAR 36.66 billion is allocated for Vision Realization Programs to develop roads, ports, railways, airports, housing, communications and information technology, postal services, the industrial cities of Jubail and Yanbu, Ras Al-Khair Industrial Mining and Jazan City for primary and downstream industries. Primary, secondary roads have also been constructed alongside the completion of existing roads, bringing the total length of roads to be completed by 2019 to 3000 km, with the total length of all roads in service at about (68,261) km.

Economic Resources Sector:

SAR 131.4 billion is allocated for economic resources and public programs, of which SAR 71 billion is allocated for mega projects and initiatives related to Vision Realization Programs. The sector's budget also encompasses new projects and increases in allocations for existing projects. Further, the budget covers projects that provides drinking water and develop water resources, sanitation services, dam construction, well drilling, water leak detection and rectification, water and sewage networks replacement, water and electricity consumption rationalization, renewable energy support, efficiency and performance enhancement for desalination plants, infrastructure development for industrial cities, and the establishment of new silos and mills, in addition to the expansion of existing ones.

The total length of the drinking water network built during 2016-2019 will reach 11,776 km. The total length of the sewage network constructed during the period 2016-2019 will reach 5,432 km.

Moreover, between 2016 and 2019, 29 dams and 326 wells will be built or drilled. In addition, during (2016-2019), 26 wastewater treatment plants and 82 water purification plants will be completed. Funds will also be spent on existing projects.

Military Sector:

SAR 190.9 billion is provisioned for the military sector. The sector's budget includes allocations for compensation of employees, operational costs, and infrastructure projects for military facilities. It incorporates also new development programs and projects covering building advanced systems and capabilities, military education, covering military colleges, King Saud bin Abdulaziz University for Health Sciences and military medical services.

Health and Social Development Sector:

SAR 172 billion is allocated for the sector of health and social development, of which SAR 47.7 billion will be directed towards financing Vision Realization Programs. The sector's budget also accounts for completing the construction and equipment of hospitals and primary healthcare centers in all regions of the Kingdom. 35 new hospitals with a total capacity of 8850 beds are currently being established and developed in all regions. During the current fiscal year, five new hospitals with a capacity of 1800 beds were delivered. The number of hospitals handed over or expected to be delivered during 2016-2020 will stand at 30 hospitals or 70% of the total planned number for the five years with a total capacity of 6950 beds.

Regarding social services, the budget includes the development of five sports cities and the preparation of two stadiums in Jeddah and Dammam. In addition, e-gates will be introduced at six stadiums, three amusement parks will be established and the Ministry of Labor and Social Development's capabilities will be supported to achieve its goals of social development that addresses poverty. The allocation for these projects for the upcoming fiscal year is SAR 30 billion.

Education Sector:

SAR 192.82 billion is allocated for public and higher education and workforce training. The 2019 budget includes allocations of SAR 4.89 billion for Vision Realization Programs for human capital development initiatives which will be later announced. The sector's budget contributes to the implementation of new projects and the expansion of existing ones, including educational facilities and schools for all educational stages for males and females across different regions of the Kingdom and laboratories and infrastructure for universities and training institutes and colleges. Spending on projects that are currently being implemented will continue according to the stages of implementation as follows:

1. 719 new schools across the Kingdom have been handed over or will be delivered in the fiscal year 2018. The number of schools that are to be handed over during the period 2017-2019 will be 1069 or 62% of the 1738 schools planned for the five years (2017-2021). 1724 educational facilities and schools are currently being established. Another 259 schools are being renovated.

2. Work will continue to complete the renovation of women's colleges in several universities. The estimated cost of renovation amounted to SAR 4.3 billion or 71% of the total number set for the five years (2016-2020), which is estimated at SAR 5.4 billion.

3. The Custodian of the Two Holy Mosques' Overseas Scholarship Program will continue. The total number of students sent abroad to study under the supervision of the Ministry of Education has exceeded 196,221 students including their dependents. The number of internal scholarship's students amounted to 19,435 students. The annual expenditure on the internal and external programs equtvalent to SAR 14.6 billion, excluding scholarships for government entities employees.

Municipal Services Sector:

In 2019, SAR 62.2 billion is allocated for Municipal Services, including the Ministry of Municipal and Rural Affairs, municipalities, and development commissions for regions and cities, of which SAR 11.9 billion is allocated to the Vision Realization Programs. The sector's budget covers expenses on ongoing development projects, including public transportation projects. It also contains building new intersections, tunnels, and bridges for some roads and streets inside cities, as well as developing existing ones. Furthermore, the budget covers projects of asphalt road pavement, road lighting, storm drainage and flood control, equipment and machinery provision, waste disposal, marsh filling, coastline development, and administrative buildings and park upgrades.

Security and Regional Administration Sector:

SAR 102,9 billion is allocated for security and administrative regions, of which SAR 1.9 billion for Vision 2030 initiatives. The sector's budget includes allocations for new projects and the expansion of ongoing ones. The funding aims to provide security requirements incorporating facilities, supplies, equipment, weapons, and ammunition. Spending on projects currently being implemented will continue, most notably of which is the Custodian of the Two Holy Mosques Project for the Development of Security Headquarters, which has five stages and includes establishing 1376 security sites between 2016 and 2020. Furthermore, projects in this sector cover the establishment of 14 residential complexes consisting of 10,000 residential units in five regions.

The number of complexes that are to be handed over during 2016-2019 will be seven. The seven complexes will include 4200 residential units or 42% of the total planned units for the five years (2016-2020). The construction of two medical cities, with a capacity of 2500 beds, is also underway.

Public Administration Sector:

SAR 27.6 billion is allocated to the public administration sector, of which SAR 1.1 billion is allocated to Vision Realization Programs for the Justice, Hajj and Umrah, Civil Services ministries, as well as the Royal Court. The sector's budget includes projects which aim to improve performance and efficiency using available resources to raise the quality of outputs in line with Saudi Vision 2030 objectives, as well as automating and digitizing operations to develop and facilitate services provided to citizens.

General Items:

The budget allocated to the general budget in 2019 amounts to about SAR 156.2 billion; including the government's contribution share to the Public Pension Agency (PPA) and General Organization for Social Insurance (GOSI), financing expenses, budget support provisions, balancing fund and emergency expenses.

The following table shows a breakdown of the 2019 sectoral budget:

SAR billions

	Actual	Estimation	Budget	Annual Growth
	2017	2018	2019	Estimation 2018 vs Budget 2019
Sector				
Public Administration	30	27	28	1%
Military	228	218	191	-12%
Security and Regional Administration	108	106	103	-3%
Municipal Services	55	54	62	15%
Education	207	205	193	-6%
Health & Social Development	134	159	172	8%
Economic Resources	48	106	131	24%
Infrastructure and Transportation	35	55	70	28%
General Items	85	100	156	57%
Total	930	1,030	1,106	7%

Source: MoF

Figures are rounded down to the nearest decimal place.

ميزانية 2019

المملكة العربية السعودية

Saudi Arabia – Budget

VII:

Major Fiscal and Economic Challenges

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Major Fiscal and Economic Challenges

The 2019 budget and medium-term fiscal and economic framework have been developed based on the best available information regarding local and global economic conditions prevailing at the time of the budget's preparation. Nevertheless, a number of these variables may differ from forecasts affecting underlying projections, positively or negatively, hence affecting the current fiscal estimates for the upcoming fiscal year and over the medium term. This following section highlights major fiscal and economic medium-term challenges facing the Saudi economy, and the policies being implemented by the government to address and to mitigate these challenges.

The following are the most important medium-term challenges:

Global Oil Prices:

Despite the increase in oil prices in 2018, fluctuations in the oil market creates significant risks to all world economies, including in Saudi Arabia. Oil revenues continue to be the Kingdom's main revenue source and therefore fluctuations in global prices have an impact on the performance of the fiscal position and the local economy. The most significant factor influencing prices in terms of global demand is the growth rates of major advanced and emerging economies. On the supply side, prices will be impacted by the policies that will be agreed and adopted by the oil producing countries, development of alternative resources of energy, and geopolitical developments. These developments contributed to an increase of 30.6% in oil revenues in 2017, and expected to reach 39.3% in 2018. To overcome these risks, the government is implementing a comprehensive program of reforms to increase revenues and to diversify the economy, in addition to focusing on developing the local content and non-oil exports, however, the impact of these reforms is expected to be gradual so as to maintain fiscal sustainability and economic stability.

Non-Oil GDP Growth Rates:

Growth in non-oil economic activity is considered a major factor in the development of non-oil revenues, particularly following the introduction of new initiatives that improve public financing management, such as VAT and Excise Tax on certain goods and other initiatives related to the economic activities. Despite continuous economic growth in 2018, accelerating growth rates and the ability to create more jobs for citizens are major economic challenges. Key risks in this field are uncertainties in the private sector's response to investment opportunities and the investment climate in the Kingdom, as well as the potential impact on private consumption patterns and the labor market of economic developments.

To overcome these challenges, the government is implementing a private sector stimulus plan through offering incentives packages, to boost the competitiveness across the sector and elevate its developmental role. It is also implementing various measures to improve the investment and business climate, as well as accelerating the implementation of major projects across different sectors, in line with Vision Realization Programs. The Privatization Program offers opportunities for private sector investments, in addition to investing in infrastructure development, and establishing a new public-private partnership system.

Global Economic Slowdown:

The Kingdom's economy is closely linked to the performance of the global economy through developments in international markets, particularly the prices of valuable commodities. Compared to the last decade, the global economy is stronger. However, several potential risks still exist, such as the impact of protectionist measures, as well as a slowdown in the growth rates of some emerging economies, asset price inflation across some global markets and rising US interest rates. These factors directly affect the growth rates of the global economy. Consequently, they might affect the demand for Saudi exports, leading to a decline in the volume of oil or non-oil exports alike.

To address such risks, the government is striving to reduce the budget deficit and and ensure sustainability of public debt to help support the economy during periods of uncertainty. To limit adverse effects, the government introduced stimulus measures that help drive the growth of the local economy and maintain the Kingdom's foreign reserves through improvements to the current account performance in the balance of payments and by increasing non-oil exports.

Positive Factors for Economic Growth

While challenges continue to exist, several factors are expected to have a positive impact on the performance of the local economy. These include higher investment spending in the budget, boosting women's participation in the labor market, initiatives to improve the quality of life, and the role of privatization in boosting investment opportunities offered to the private sector, which in turn will help to create jobs and bolster Saudization. Positive factors also include the impact of mega projects under development, such as the Red Sea project, the Neom mega-city, and the National Industrial Development and Logistics Program (NIDLP), as well as other initiatives and projects that can drive non-oil economic growth to exceed current projections.

The longstanding political stability and continuation of prudent macroeconomic policies will contribute toward strengthening growth outlook and employment creation going forward.

APPENDIX

Acronyms:

GDP - Gross domestic product
PIF - Public Investment Fund
FBP - Fiscal Balance Program
CA - Citizen Account Program
VAT - Value Added Tax
YOY - a Year On Year
CPI - Consumer Price Index
HRDF - Human Resources Development Fund
IMF - International Monetary Fund.
CPI - Consumer Price Index
GFSM 2014 - Government Finance Statistics Manual
TSA - Treasury Single Account
SAMA - Saudi Arabian Monetary Authority
SMEs - Small and Medium Enterprises
OECD - Organization for Economic Cooperation and Development
IEA - International Energy Agency
EIA - American Energy Information Administration
GASTAT - According to the General Authority for Statistics
POS - Point of Sale
FDI - Foreign Direct Investment
M3 - money supply
DMO - Debt Management Office
NDF - National Development Fund
SAGO - Saudi Grains Organization
SWCC - Saline Water Conversion Corporation
SFDA - Saudi Food and Drugs Authority
GACA - General Authority of Civil Aviation
OPEX -Operational Expenditure
CAPEX - Capital Expenditures
MFPU - Macro-Fiscal Policies Unit
SERC - Spending Efficiency Realization Center
PPA -Public Pension Agency
GOSI - General Organization for Social Insurance
NIDLP -National Industrial Development and Logistics Program
bbl – Barrel
mb/d – millions of barrels per day

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