وزارة المالية
Ministry of Finance

End of the Year Budget Report

Fiscal Year 2019

Index

Introduction

The Ministry of Finance (MoF) is issuing the End of the Year Budget Report for the third year in a row. This report includes actual data and indicators for fiscal and economic performance during FY 2019, as well as explanation for deviation from the approved budget.

The report supports ongoing initiatives to enhance transparency and fiscal disclosure in line with the goals of the Kingdom's 2030 vision to improve fiscal performance.The Ministry has already cut strides towards this end, most notably by regularly reporting developments surrounding the design and implementation of policies and initiatives. This includes the publication of periodic reports such as the budget statement, the pre-budget statement, the citizen budget, in addition to the quarterly performance reports.

The MoF will continue to publish reports that enhance transparency to ensure better disclosure and explanation of policies, initiatives and programs adopted.

Executive Summary

During FY 2019, the government has successfully achieved several fiscal and economic targets, the most important of which is maintaining the approved budget deficit levels despite a marked decrease in oil revenues. This was realized as a result of higher spending efficiency and improved collection of non-oil revenue, which directly contributes to maintaining fiscal stability and sustainability. In addition, a major goal has been achieved by attaining a four-year-high growth of the non-oil activity, led by the private sector. Such growth was underpinned by government reforms aimed at improving the business climate, which gave way to the recovery of private investment and growth in various economic activities, and allowed for an enhanced role for the private sector in the economy.

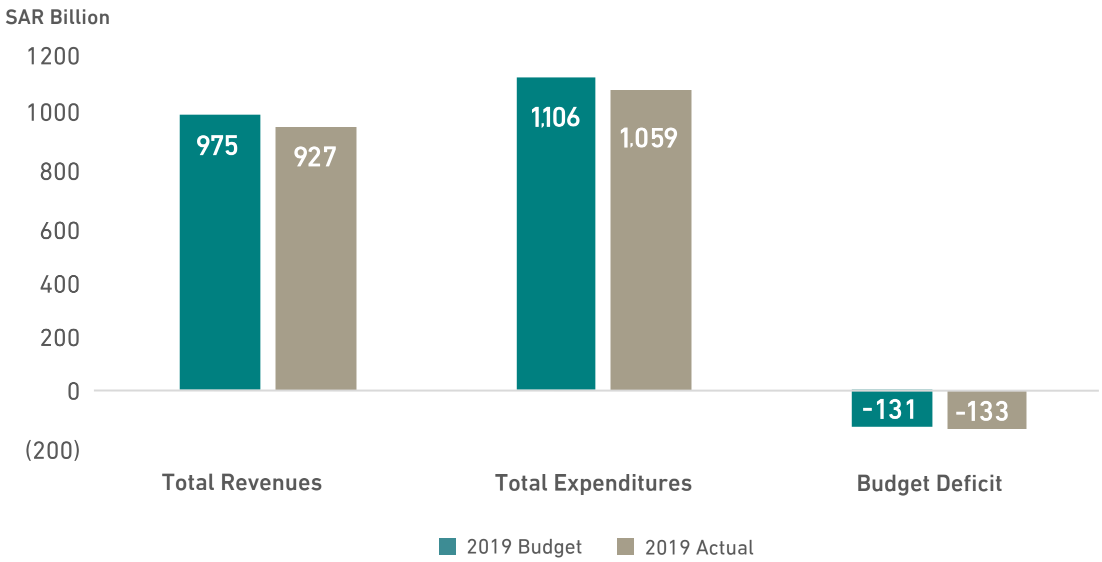
The FY 2019 has witnessed a decrease in total expenditures by 4.2% compared to the approved budget driven by a decrease in capital expenditures by 31.1%, as a result of improved spending efficiency and private sector taking key roles in infrastructure investment through privatization, establishment and operation of a number of projects, including in water, energy and sanitation. On the other hand, total revenues have decreased by 5%, driven by a decrease in oil revenue against the budget estimates by 10.2%, compared to a rise in non-oil revenue of 6.1% compared to the approved budget. The latter was achieved due to improvement in economic activity and tax administration, which has offset the impact of the decrease in oil revenue. The actual budget deficit for FY 2019 amounted to SAR 133 bn, equivalent to 4.5% of GDP, compared to SAR 131 bn, equivalent to 4.2% of GDP in the approved budget.

The stock of public debt at the end of FY 2019 reached SAR 678 bn (22.8% of GDP) as planned in the budget, while the stock of government reserves amounted to about SAR 470 bn (15.8% of GDP).

The FY 2019 also witnessed continued recovery in economic activity, with real GDP recording growth of 0.3%, despite the contraction in the oil sector by 3.6% as a result of low oil production. This was fostered by remarkable growth of 3.3% in the non-oil activity, the highest since 2015, with an increasing contribution of private consumption and investment.

It should be noted that despite the continued implementation of many corrective measures during FY 2019, non-oil activities have generally witnessed a remarkable improvement, most notably wholesale and retail trade, restaurants and hotels, construction and building, collective, social and personal services (including entertainment and tourism) as well as transportation, storage, and telecommunication activity.

2019 Actual Budget Performance



Source: MoF

01

Economic Performance

First. **Economic Performance**

Gross Domestic Product

Real GDP growth rate recorded 0.3% in FY 2019 compared to the budget estimate of 2.6%, due to a decline in the real oil GDP by 3.6%, while real non-oil GDP outperformed estimates to reach 3.3%. The government's policies that stimulate economic activity by supporting families and the private sector have had a positive role in promoting economic growth and supporting, as well as accelerating, the economic recovery that started in 2018. Moreover, contributing to this was the government's policies to continue implementing mega projects such as NEOM, Qiddiya, the Red Sea and VRPs. The government has also helped enhance the role of the private sector through expanding available investment opportunities by increasing private participation in infrastructure projects, lifting of restrictions on foreign investment in activities such as manpower recruitment services, audiovisual media services, real estate brokerage services, road transport services, as well as recruitment agencies and offices. Twenty venture capital companies were granted entry licenses to the Kingdom, while the number of licenses issued in 2019 for foreign investment reached 1,131 investment licenses, with a remarkable growth of approximately 54% over 2018 and three times what was achieved in 2017, in addition to the growth in foreign direct investment in 2019 by 7.4% compared to the previous year.

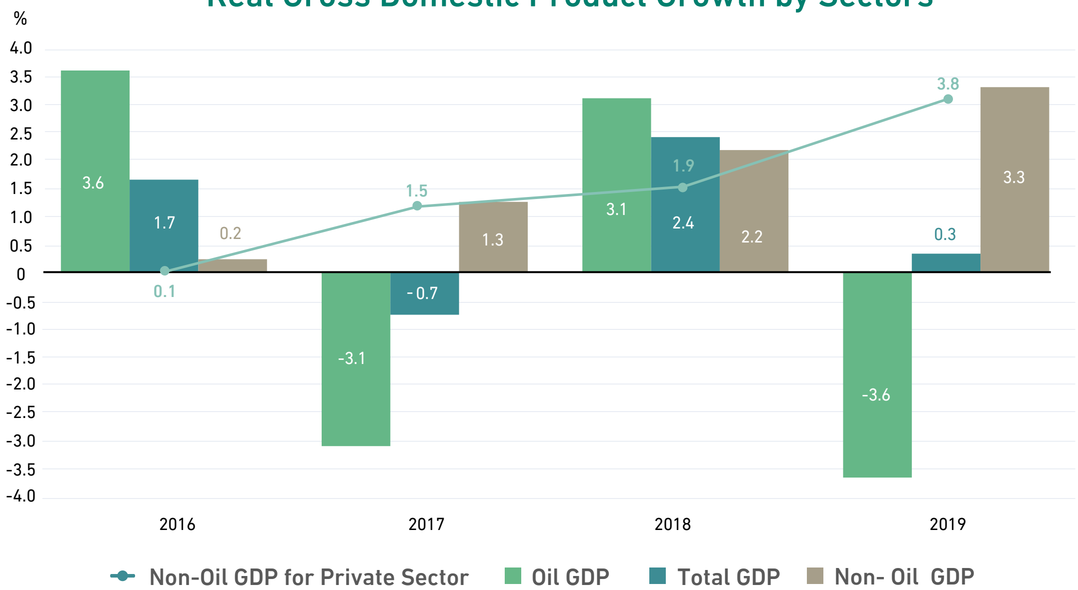
Late 2019 also witnessed a significant development represented in the execution of the planned initial public offering of Aramco, to promote private sector participation and develop its role in the economy. Developments during the year also included allowing the participation of foreign investors in the trading of sovereign debt and increasing the loans granted to small and medium enterprises.

The structural and institutional reforms implemented by the Kingdom to improve the business climate and support new investments have helped improve the ranking of the Kingdom in many prominent international reports and indicators to rank as the world's top reformer in the Doing Business 2020 report issued by World Bank Group. The Kingdom also advanced 13 places to rank 26th globally and 7th among the G20 countries, according to World Competitiveness Rankings by International Institute for Management Development. This has in turn reflected on the return of positive growth rates in the economy and the recovery of the private sector's performance from the impact of corrective measures during the past two years. Most of the non-oil economic activities witnessed remarkable growth, especially wholesale and retail trade, restaurants and hotels, financial and insurance services, real estate and business services, collective, social and personal services (including entertainment and tourism) as well as transportation, storage, and telecommunication activity.

As a result, economic activity in the non-oil sector witnessed a remarkable growth of 3.3% in 2019 compared to 2.2% in 2018 and 1.3% in 2017, supported by the growth of the private sector by 3.8% for the same period compared to 1.9% and 1.5% in 2018 and 2017, respectively. The private consumption growth rate witnessed a remarkable increase with a real growth rate of about 4.5% compared to about 1.9% in 2018 and 3.2% in 2017.

It is worth noting that nominal GDP growth rate in FY 2019 recorded 0.8% compared to the budget estimates of 6.4% due to the decline in the nominal oil GDP by some 6.0% due to lower oil prices. Non-oil GDP grew by 4.2% during the same period.

Real Gross Domestic Product Growth by Sectors



Source: General Authority for Statistics (GASTAT)

Inflation

In FY 2019, the Consumer Price Index has declined by 2.1%[1] (Following the change of the base year by the General Authority for Statistics in February 2020, to be 2018 instead of 2013, and the updating of the relative weights of the index components based on the results of the Household Income and Expenditure Survey in 2018). This was due to a decline in the housing, water, electricity, gas and other fuels division by 8.6%, which has a relative weight of 25.5% of index as well as a decline in transportation, communications, clothing, footwear, and different personal goods and services. These divisions altogether represent 35.4% of the relative weight of the index value. In addition to the phasing out of the base effect of the price increases associated with some economic reforms implemented in FY 2018.

Economic Indicators for FY 2019

	Estimated	Actual*
Real GDP Growth	2.6%	0.3%
Nominal GDP (SAR Billion)	3,125	2,974
Nominal GDP Growth	6.4%	0.8%
Inflation	2.3%	-2.1%

***Source: General Authority for Statistics (GASTAT)**

[1] According to the previous method, the inflation rate was -1.2% in FY 2019.

02

Fiscal Performance

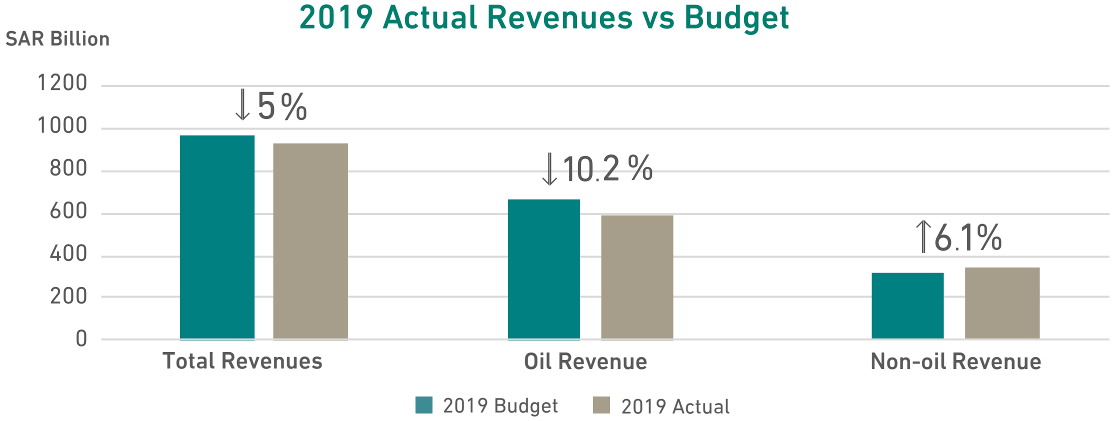
Second. **Fiscal Performance**

A- Revenues

Total revenues amounted to SAR 927 bn in FY 2019, falling short of the approved budget by approximately SAR 48 bn, or 5%, mainly on the back of the decline in oil revenue, which reached SAR 594 bn, a decrease of 10.2% compared to the budget and 2.8% compared to FY 2018. Such decrease in oil revenue was due to the decline in oil prices and reduced production according to the OPEC+ agreement in early 2019.

On the other hand, non-oil revenue amounted to SAR 332 bn at the end of 2019, higher by SAR 19 bn or 6.1% than the budget estimate and by 12.9% compared to FY 2018, mainly due to the improvement in economic activity, tax administration and improving collection mechanisms.

2019 Actual Revenues vs Budget



Source: MoF

Below are details of the main revenue items according to the economic classification:

Tax Revenue

Total tax revenue in FY 2019 recorded about SAR 220 bn, an increase of 20% compared to the budget, as a result of the improvement in economic growth during the year, which reflected positively on a number of activities and economic sectors.

Taxes on income, profits, and capital gains increased by 9.1% in FY 2019, compared to the budget, amounting to SAR 17 bn, this was partially due to improvement in tax revenue administration.

Taxes on goods and services amounted to SAR 155 bn in FY 2019, an increase of 17.7% compared to the budget estimate. This is traced down to multiple reasons such as the higher revenues compared to the budget in the Value Added Tax and excise tax by 31% and 39.6%, respectively, as a result of increased rates of private consumption and private investment, collection of telecom sector settlements, and facilitation of the procedures for obtaining work visas from the Ministry of Labor and Social Development. It is worth noting that tax levy on expats and their dependents amounted to SAR 45 bn.

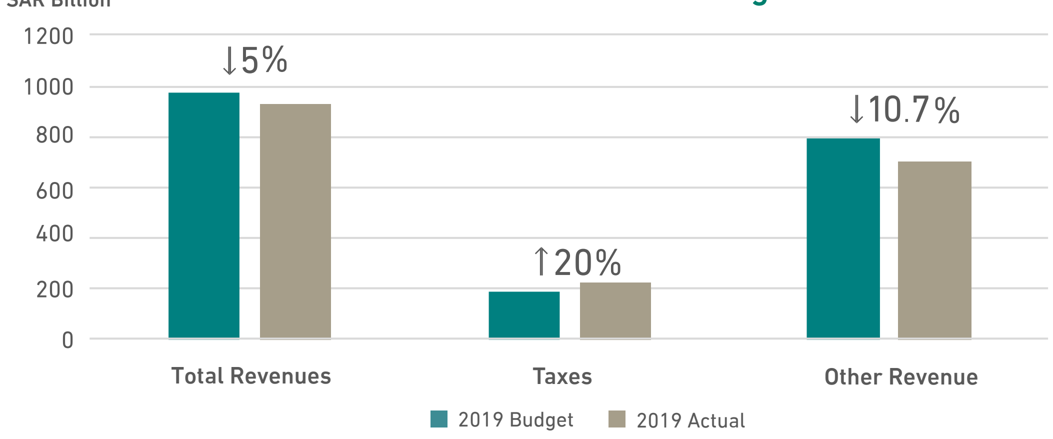
Taxes on international trade and transactions (customs duties) increased by 3.3% compared to the budget and reached SAR 17 bn. This was due to 5.3% growth in commodity imports, in addition to the implementation of the post-clearance auditing initiative and the expansion of audits as part of efforts to raise collection efficiency.

Other taxes (Zakat) amounted to SAR 30 bn in 2019, an increase of 60.1%, due to the increase in the number of taxpayers registered with the General Authority of Zakat and Tax (GAZT) and the collection of revenues from banks' Zakat settlements of SAR 6 bn.

Other Revenue

Total other revenue reached SAR 707 bn in FY 2019, a decline of 10.7% compared to the budget. This is mainly due to the decrease in oil revenue by 10.2% as a result of oil markets developments. Average oil production during the year reached 9.8 million barrels per day, whereas the average price of Brent oil reached $ 64.4 per barrel, compared to an average production of 10.3 million barrels per day and an average price of $ 71.1 per barrel in FY 2018.

2019 Actual Revenues vs Budget

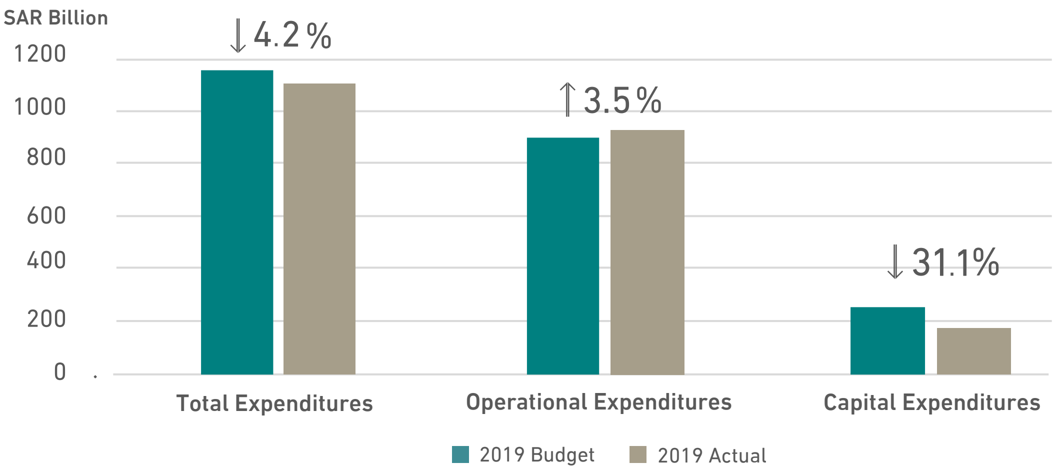


Source: MoF

B- Expenditures

Total expenditure in FY 2019 amounted to SAR 1,059 bn (35.6% of GDP), 4.2% (SAR 47 bn) lower than budgeted, mainly on the back of measures taken by the government to enhance the efficiency of spending, reprioritization of budgeted programs and projects with focus on those with high rate of return. The private sector has financed and operated several projects, in addition to extending the implementation of some projects. Operational expenditures increased by 3.5% (SAR 30 bn) compared to the budget due to higher spending on compensation of employees by 10.8% (SAR 49 bn), resulting from the reclassification of cost of living allowance for employees and retirees during budget execution, in addition to the settlement of all dues to entities, which previously used to be paid in the first months of the following fiscal year. On the other hand, capital expenditures decreased by 31.1% (SAR 77 bn) compared to the budget.

2019 Actual Expenditures vs Budget



Source: MoF

Operational Expenditures

Operational expenditures amounted to SAR 890 bn, exceeding the budget by 3.5% due to the reclassification of some items in addition to the payment of previous dues.

Total spending on compensation of employees amounted to SAR 505 bn, an increase of 10.8% (SAR 49 bn) over the budget, due to reallocation of cost of living allowance for employees and retirees from other expenditure chapters and paying previous dues to the Public Pension Agency. Expenditure on social benefits increased by 11.8% (SAR 9 bn), due to increase in revenues from Zakat tax on enterprises and companies, and consequently the corresponding social expenditures. It is worth noting that the total amount spent on the citizen account program during the FY 2019 reached SAR 31 bn (37.4% of the total spending on social benefits).

On the other hand, expenditure on goods and services and other expenses decreased by 8.1% (SAR 14 bn) and 3.5% (SAR 3 bn), respectively, compared to the budget, due to the efficiency reforms, including the development of government competition and procurement system in addition to reviewing and extending some VRPs.

Capital expenditures

Total capital expenditures amounted to SAR 169 bn in FY 2019, a decline by 31.1% (SAR 77 bn) over the budget. This is due to reviewing the policies and projects that were planned in the budget, with a focus on those projects of economic and social importance and the highest return. The private sector has financed and operated several projects, in addition to extending of some other projects within the framework of expenditure reprioritization.

A total of SAR 7 bn were spent on the housing program (48.2% of the total allocation for that program), SAR 15 bn on the Hajj and Omrah program, in addition to SAR 15 bn on the national transformation program (72.4% of the total spending on the program).

2019 Actual Budget Performance

SAR Billion (Unless otherwise stated)

	Budget 2019	Actual 2019	Change %
Revenues			
Total Revenues	**975**	**927**	**-5.0%**
Taxes	**183**	**220**	**20.0%**
Taxes on income, profits and capital gains	16	17	9.1%
Taxes on goods and services	132	155	17.7%
Taxes on international trade and transactions	17	17	3.3%
Other Taxes	19	30	60.1%
Other Revenues	**791**	**707**	**-10.6%**
Of which: Oil revenues	662	594	-10.2%
Expenditures			
Total Expenditures	**1,106**	**1,059**	**-4.2%**
Expenditures (OPEX)	**860**	**890**	**3.5%**
Employee Compensations	456	505	10.8%
Goods and Services	175	161	-8.1%
Financing Expenses	21	21	0.0%
Subsidies	32	23	-26.9%
Grants	3	1	-63.9%
Social Benefits	73	82	11.8%
Other Expenses	100	97	-3.5%
Non-financial Assets (CAPEX)	**246**	**169**	**-31.1%**
Budget Deficit			
Budget Deficit	**-131**	**-133**	
Percent of GDP	-4.2%	-4.5%	
Debt and Assets			
Debt	**678**	**678**	
Percent of GDP	21.7%	22.8%	
Government Reserves at SAMA	496	470	
Percent of GDP	15.9%	15.8%	

Source: MoF

Figures are rounded to the nearest decimal point

On the sectoral level, expenditure on health and social development sector have increased by 10.6% compared to the budget due to the increase in actual spending on social security benefits. This is in addition to the payment of the collective bill (SAR 10.5 bn), which was approved in February 2019 and aims to support the enterprises committed to nationalization plan.

Expenditure on the education sector increased by 4.9%, bringing total expenditure on health, social development and education sector to 37% of total actual expenditure in FY 2019.

Meanwhile, expenditure on some of the other sectors decreased due to reviewing programs and projects, by either extending or postponing their execution, with an emphasis on ensuring adequate social and economic impact.

2019 Actual Expenditures by Sector

SAR Billion (Unless otherwise stated)

Sector	Budget	Actual	Change %
Public Administration	28	31	12.3%
Military	191	208	8.7%
Security and Regional Administration	103	114	10.6%
Municipal Services	62	50	-19.8%
Education	193	202	4.9%
Health and Social Development	172	190	10.6%
Economic Resources	131	94	-28.8%
Infrastructure and Transportation	70	59	-16.6%
General Items	156	113	-27.7%
Total	**1,106**	**1,059**	**-4.2%**

Source: MoF

Figures are rounded to the nearest decimal point

C- Deficit, debt and financing

Overall budget deficit reached SAR 133 bn in FY 2019 (4.5% of GDP), compared to SAR 131 bn (4.2% of GDP) in the budget. The achievement of the targeted budget deficit, in spite of the noticeable decrease in oil revenues, is an affirmation that maintaining fiscal stability and sustainability is one of the main objectives of the fiscal policy adopted by the government.

To finance the deficit and meet other financing needs, the government has pursued various financing sources between domestic and external debt issuances and withdrawals from government reserves at the Saudi Central Bank (SAMA). The MoF has committed to the borrowing plan as announced in the budget, where the total government issuances amounted to SAR 120 bn (including the redemption of SAR 2 bn), to bring the total debt stock to SAR 678 bn at the end of FY 2019 (22.8% of GDP), equivalent to that planned in the budget. It is worth noting that the maturities of the public debt range from 5 to 31 years at the end of FY 2019, with maturity average of 8.7 years.

The average rate of return for the total domestic and international issuances at the end of FY 2019 were approximately 3.12% with total financing expenses of SAR 21 bn as estimated in the budget.

It is worth noting that issuances during the second half of the fiscal year have witnessed relatively lower yields, where the average interest rate on domestic and international bonds was approximately 2.5% compared to 4.1% for issuances in the first half of the year. This decrease is due to the diversification of the portfolio by accessing European markets in addition to the decrease in the domestic interbank rate (SIBOR) by 74 basis points to reach approximately 2.2% by the end of FY 2019, compared to 2.9% at the beginning of the year, in conjunction with lower interest rates by the US Federal Reserve.

A total of SAR 20 bn in withdrawals from the government reserve at SAMA were used to cover remaining financing needs. Accordingly, government reserves amounted to SAR 470 bn at the end of FY 2019 (15.8% of GDP) compared to SAR 490 bn at the end of FY 2018.

Debt Issuances at the End of FY 2019 vs Budget

SAR Billion (Unless otherwise stated)

	Budget 2019	Actual 2019
Total debt issuances	120	120
Total domestic issuances	71	70
Total international issuances	49	50
Total withdrawals from government reserves	22	20
End of Year debt	678	678

Source: MoF

Figures are rounded to the nearest decimal point