ميزانية 2021
المملكة العربية السعودية
Saudi Arabia-Budget

# Budget Statement

## Fiscal Year 2021

وزارة المالية
Ministry of Finance

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC VERSION

# Contents

## List of Abbreviations

| | |
|---|---|
| **Bn** | Billion |
| **CAPEX** | Capital Expenditures |
| **CPI** | Consumer Price Index |
| **DSSI** | Debt Services Suspension Initiative |
| **FMCBG** | Finance Ministers and Central Bank Governors |
| **FY** | Fiscal Year |
| **GASTAT** | General Authority for Statistics |
| **GDP** | Gross Domestic Product |
| **GFSM** | Government Finance Statistics Manual |
| **IMF** | International Monetary Fund |
| **IPI** | Industrial Production Index |
| **MDBs** | Multilateral Development Banks |
| **Mn** | Million |
| **MoF** | Ministry of Finance |
| **NDMC** | National Debt Management Center |
| **OECD** | Organization for Economic Cooperation and Development |

| | |
|---|---|
| **OPEC** | Organization of the Petroleum Exporting Countries |
| **OPEX** | Operational Expenditures |
| **PIF** | Public Investment Fund |
| **PMI** | Purchasing Managers' Index |
| **POS** | Point of Sales |
| **PPPs** | Public Private Partnerships |
| **SAMA** | Saudi Central Bank |
| **SAR** | Saudi Riyal |
| **SMEs** | Small and Medium Enterprises |
| **TASI** | Tadawul All Share Index |
| **Tn** | Trillion |
| **VAT** | Value Added Tax |
| **VRPs** | Vision Realization Programs |
| **WBG** | World Bank Group |
| **WEO** | World Economic Outlook |
| **WPI** | Wholesale Prices Index |

# Introduction

The Ministry of Finance (MoF) is pleased to issue this budget statement that provides details of the approved budget for FY 2021. This document includes a review of key fiscal and economic developments in FY 2020, the macro-fiscal framework and key challenges in FY 2021 and the medium-term.

Issuing the budget statement is part of the MoF's endeavors to enhancing the level of fiscal disclosure and transparency in the process of preparing and implementing the budget and raising the efficiency of public financial management. Fiscal accounts as presented in this document are compiled on a cash basis and are classified according to the Government Finance Statistics Manual (GFSM 2014), published by the International Monetary Fund (IMF), which is a unified global classification.

# Executive Summary

With the outbreak of the COVID-19 pandemic, the world has suffered an unprecedented crisis that has taken its toll on the global economy and significantly heightening uncertainty surrounding its economic outlook. Following the first wave of the pandemic, the world economy is not only grappling with the economic fallout, but many countries are also confronting a second wave with further repercussion on economic growth. Given the difficulty of predicting the time horizon for full recovery from the crisis, the FY 2021 budget aims to provide assurance about the government's ability to manage the crisis, gradually restore the pace of economic growth, strengthen the social benefits and subsidies schemes and continue to provide basic services. The budget also reflects the ability to adopt appropriate policies to balance between growth, economic stability and fiscal sustainability in the medium and long term. It also reflects efforts to develop non-oil revenue, raise spending efficiency and increase the level of private sector participation in the economy. The most important developments, challenges and features of the approved budget can be summarized as follows:

- The Saudi Vision 2030 signifies a major transformation phase of the Saudi economy and the beginning of a new future. Over the past years, the government has implemented Vision Realization Programs (VRPs), initiatives, and structural, economic and fiscal reforms to diversify the economic base. These initiatives have helped to stimulate growth, which has clearly reflected in the performance of the private sector and targeted economic activity by the end of 2019 and continued over the first two months of 2020. Vision 2030 has been tried and tested by the pandemic, greatly enhancing the economy's resilience and helping reduce the negative impact of the crisis. More specifically, investment in technological infrastructure enabled the government and the private sector to respond quickly and to move seamlessly to working virtually from home. Moreover, non-oil revenue development initiatives that were implemented during the past years compensated for a large part of the foregone revenue on the back of the crisis, especially from oil. It is worth noting that oil revenue is expected to cover only 84% of compensation of employees during the current year. Previous reforms have also enabled the government to enact stimulus packages to help cushion the impacts of the pandemic on the Kingdom's economy.

- According to data released by the General Authority for Statistics (GASTAT), real GDP has declined by 4.0% in H1 2020, as the real oil GDP witnessed a decline of 4.9% due to the significant reduction in oil production in Q2 2020 in compliance with the OPEC+ agreement. The real non-oil GDP contracted by 3.3% during the same period, which is better than the domestic and international projections for the Kingdom's economy and is considered one of the lowest contractions recorded when compared to other countries, especially within the G20. This is largely due to the positive impact of the measures that were taken by the government to address the health, financial and economic fallout of this crisis. Preliminary estimates indicate that real GDP is expected to decline by 3.7% in FY 2020, driven by a decrease in the oil and non-oil sectors. Inflation rate is expected to reach an average of 3.7%, in FY 2020, as a result of the impact of different shocks on the supply and demand sides, such as the increase of the Value Added Tax (VAT) rate to 15%.

- Preliminary projections for FY 2021 indicate real GDP growth of about 3.2%, driven by the assumption that economic activity will continue to recover during the year. The government will continue its efforts to enhance the role of the private sector as the main engine for economic growth and support small and medium enterprises (SMEs). It will also continue to implement structural reforms to diversify the economy, through Saudi Vision 2030 programs, improving the business climate and opening new horizons for domestic and foreign investment. These are in addition to the expected positive role of development funds, the implementation of mega projects, privatization programs, and other programs being implemented to achieve Saudi Vision 2030 objectives.

- In view of the negative impact of the pandemic on global economic growth, oil prices and public finances, the Kingdom has been keen, through its leadership role in OPEC and in coordination with OPEC+ countries, to restore the stability of oil markets. Also, during its presidency of the G20, the Kingdom has worked to strengthen international coordination to adopt the necessary policies to support global economic growth and mitigate the impact of the crisis on less developed countries. These efforts have greatly succeeded in cushioning the impact of the crisis on the global economy. On the domestic front, efforts of the health sector have succeeded in containing the spread of the virus with support from the government which has provided the needed appropriation to medical services. Moreover, a crisis response allocation was created to support the most vulnerable private sector activities and its Saudi employees by implementing several initiatives and providing stimulus packages to support individuals, companies and investors. The stimulus packages included direct transfers, financing facilities, and deferrals of some taxes and fees.

- In view of these developments, the budget deficit is expected to increase to SAR 298 bn in FY 2020. The target is to reduce the budget deficit to SAR 141 bn, or 4.9% of GDP, in FY 2021. It is envisaged that the budget deficit shall continue to gradually decline to 0.4% of GDP in FY 2023. This is planned through government efforts to enhance spending efficiency and achieve fiscal stability and sustainability.

- In FY 2021, it is expected that government revenues will be boosted by economic reform and initiatives implemented during the past years, in addition to the initiatives announced during FY 2020 to confront the COVID-19 crisis. Total revenues are estimated to reach SAR 849 bn, an increase of 10.3% over FY 2020 estimates, and SAR 928 bn in FY 2023.

- Total expenditures are expected to reach SAR 1,068 bn in FY 2020, an increase of 4.7% over the approved budget, due to the increase in spending to confront the pandemic during FY 2020. It should be noted that the additional budget allocations during FY 2020 amounted to SAR 159 bn, including additional allocations to the health sector to boost its capacity to confront the pandemic and accelerated payment of private sector dues. This increase was partially offset by savings in some of the expenditure items by SAR 111 bn, due to the cancellation, extension or deferral of some budgeted operational (OPEX) and capital (CAPEX) expenditures.

- In FY 2021 and the medium-term, the Kingdom aims to continue spending on mega projects, VRPs, social benefits and subsidies schemes, and stimulus packages due to their important role in providing more opportunities for the private sector and the development funds to participate in infrastructure projects. Expenditure ceilings as announced in 2020 budget are expected to be maintained in FY 2021 budget at SAR 990 bn, or 34.5% of GDP and SAR 941 bn, or 29.1% of GDP, in FY 2023.

- Total public debt is expected to reach SAR 854 bn, or 34.3% of GDP in FY 2020, approximately SAR 937 bn, or 32.7% of GDP in FY 2021, and SAR 1,026 bn, or 31.7% of GDP in FY 2023. The MoF, through the National Debt Management Center (NDMC), will continue to work on managing financing needs in accordance with the objectives of the fiscal policy and the public debt strategy.
- The government reserves balance is expected to be maintained at the end of FY 2020 as per the approved budget of SAR 346 bn, and at SAR 280 bn and SAR 265 bn at the end of FY 2021 and FY 2023, respectively.

## Summary of FY 2021 Budget and Medium-term Projections

(SAR Billion, unless otherwise stated)

| | Actual 2018 | Actual 2019 | Budget 2020 | Estimates 2020 | Budget 2021 | Projections | |
|---|---|---|---|---|---|---|---|
| | | | | | | 2022 | 2023 |
| **Total Revenues** | 906 | 927 | 833 | 770 | 849 | 864 | 928 |
| **Total Expenditures** | 1,079 | 1,059 | 1,020 | 1,068 | 990 | 955 | 941 |
| **Budget Deficit** | -174 | -133 | -187 | -298 | -141 | -91 | -13 |
| Percent of GDP | -5.9% | -4.5% | -6.4% | -12.0% | -4.9% | -3.0% | -0.4% |
| **Public Debt** | 560 | 678 | 754 | 854 | 937 | 1,013 | 1,026 |
| Percent of GDP | 19.0% | 22.8% | 26.0% | 34.3% | 32.7% | 33.3% | 31.7% |
| **Government Reserves at SAMA** | 490 | 470 | 346 | 346 | 280 | 265 | 265 |

Source: MoF

Figures are rounded up to the nearest billion.

# 01

# Macroeconomic Outlook for FY 2021 and the Medium-term

## First: Macroeconomic Outlook for FY 2021 and the Medium-term

### a- Global Economic Developments

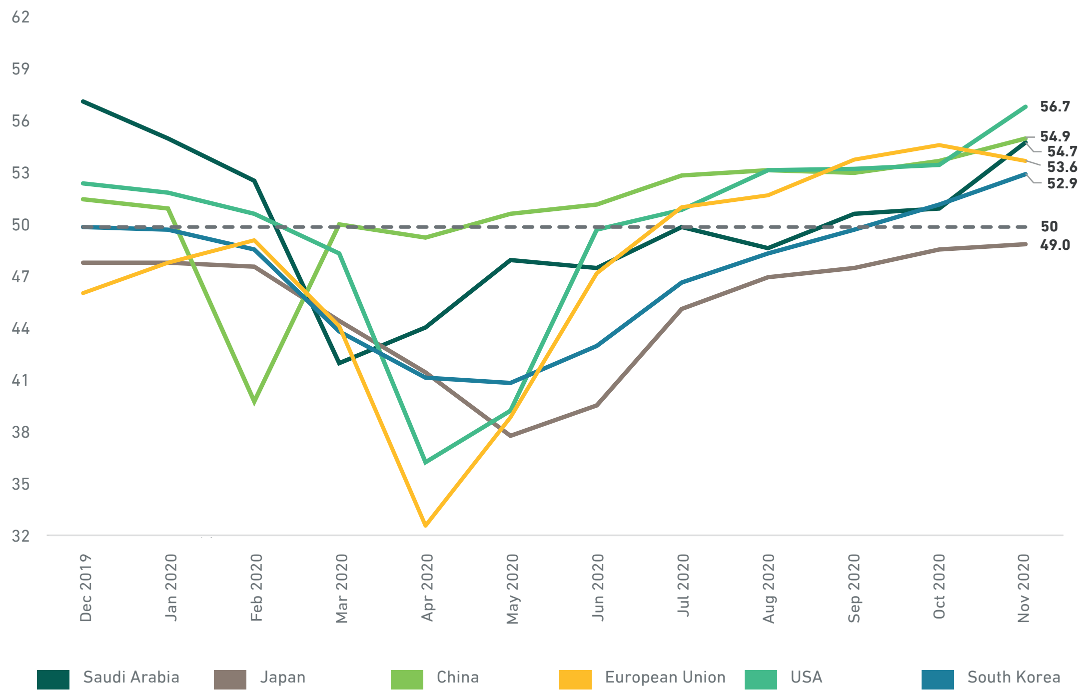
#### Global Economic Growth

The IMF expects the global economy to shrink by 4.4% in 2020, according to its projections published in the World Economic Outlook (WEO) in October 2020. This projection is more optimistic than previous forecasts published in the June 2020 WEO, which estimated global contraction of 4.9%. The report has described this economic crisis as the worst since the Great Depression of the 1930s. The IMF expects that the global economy will expand during 2021 by 5.2%, as recovery takes place.

| Growth rates | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **Global Economy** | **3.6%** | **2.9%** | **-4.4%** | **5.2%** |
| Advanced Economies | 2.2% | 1.7% | -5.8% | 3.9% |
| Emerging Market & Developing Economies | 4.5% | 3.7% | -3.3% | 6.0% |
| USA | 3.0% | 2.2% | -4.3% | 3.1% |
| China | 6.7% | 6.1% | 1.9% | 8.2% |
| Japan | 0.3% | 0.7% | -5.3% | 2.3% |
| India | 6.1% | 4.2% | -10.3% | 8.8% |
| Euro Area | 1.8% | 1.3% | -8.3% | 5.2% |
| **Inflation** | | | | |
| Inflation in Advanced Economies | 2.0% | 1.4% | 0.8% | 1.6% |
| Inflation in Emerging Market & Developing Economies | 4.9% | 5.1% | 5.0% | 4.7% |

Source: IMF - World Economic Outlook October 2020

The COVID-19 crisis has significantly affected industrial production worldwide during H1 2020, as indicated by the Purchasing Managers' Index (PMI) that recorded a sharp decline, observed below the level of 50 in many countries during the period from March to June 2020. However, there has been signs of improvement in the period from August to November.

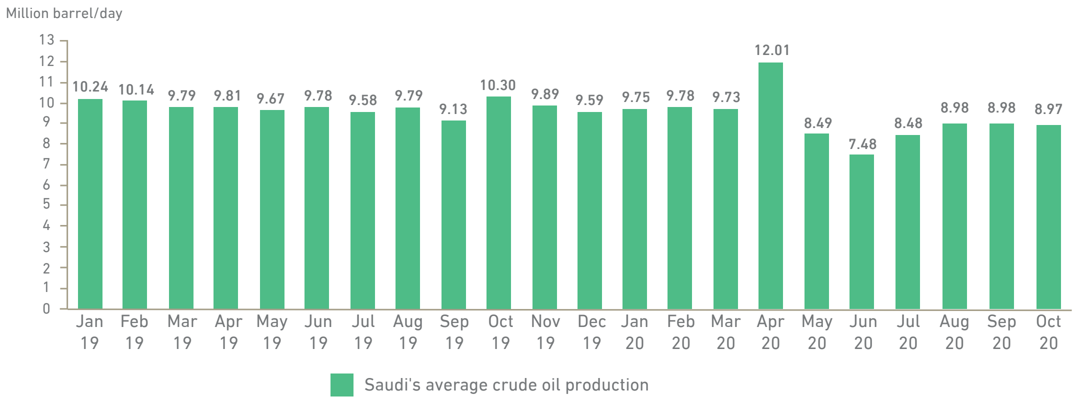



Source: IHS Markit

In response to the turmoil in the global economy and the unprecedented fluctuations in global financial markets as a result of the outbreak of the COVID-19 pandemic, the G20 countries, under the presidency of the Kingdom of Saudi Arabia, adopted a number of policies and procedures to manage associated health, economic and social challenges and to reduce the economic impact of the crises. One of the key initiatives that was adopted was the suspension of debt service payments for the poorest countries, which is expected to save about $14 bn to eligible countries in 2020. It was agreed to extend this initiative for an additional six months until mid-2021. The G20 has also approved stimulus packages of more than $11 tn to mitigate the effect of the pandemic on the global economy.

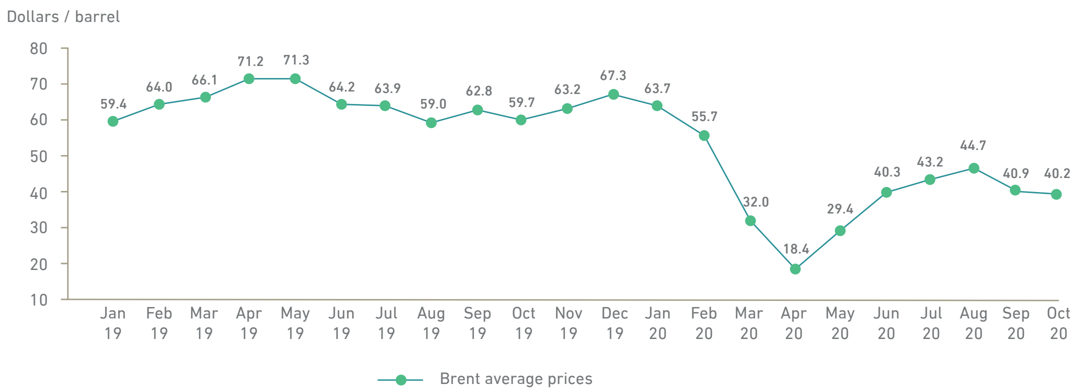
## World Oil Markets

According to the Organization of Petroleum Exporting Countries' (OPEC), the Kingdom's average oil production has declined by 577 thousand barrels per day (or 5.7%) on an annual basis during the period from January to October 2020 to record 9.3 million barrels per day. This decline came as a result of the collective effort of OPEC+ countries to support the stability of oil prices, coinciding with the decline in global oil demand due to the pandemic.




Source: OPEC Report issued on 14 September 2020

The average price of oil (Brent) since the beginning of 2020 until the end of October reached about $41.1 per barrel, compared to $64.1 per barrel for the same period last year, as oil prices witnessed large fluctuations during 2020 due to the rise in uncertainty and the contraction of the global economy during COVID-19 pandemic.




Source: Energy Information Administration (EIA)

# The Saudi G20 Presidency in 2020

## Overview of the key achievements of the G20 Finance Track

The G20 Finance Track under the Saudi G20 Presidency embraced an inclusive approach to develop the work program by conducting a comprehensive research on the main global economic and financial issues. The endeavors included discussions with the previous presidencies, member countries, and relevant international organizations. The efforts also didn't miss essential consultations with Arab countries to consider their aspirations and views during the Saudi G20 Presidency, with the aim of reflecting regional issues in the Finance Track program.

When the COVID-19 pandemic started to unfold, the Saudi G20 Presidency sought to coordinate with the G20 members and international financial institutions to address the pandemic. Therefore, the Kingdom called for a virtual extraordinary summit, which was held on March 26, 2020. In light of this, the Finance Track, re-prioritized the work program in order to focus on mitigating the economic, health and social impacts of the pandemic. G20 Finance Ministers and Central Bank Governors (FMCBG) held several extraordinary meetings, in addition to what were previously scheduled.

# The Key Achievements of G20 Finance Track

## Work Program

More than 20 key priorities have been achieved in the Leaders' Riyadh Summit held on November 2020, as set by the Finance Track work program, under the Saudi Presidency, to name a few:

1. Endorsement of the menu of policy options for addressing the G20 aim of enhancing access to opportunities for all, which promotes sustainable development and growth, as well as creates conditions that allow all people to live, work and prosper. In addition, benefiting from the best untapped economic potential, and helping to empower all segments of society, especially women and youth.
2. Endorsement of the G20 Riyadh InfraTech Agenda, which includes guidelines to improve the use of technology in infrastructure.
3. Endorsement of a roadmap to enhance cross-border payment systems for faster cheaper, more transparent and more inclusive payment services.
4. Evaluating the level of readiness for the transition away from the London Interbank Offered Rate Index (LIBOR) and coming up with proposed recommendations to address the global shift away from the LIBOR index.
5. Endorsement of the G20 high-level policy guidelines on digital financial inclusion for youth, women and SMEs.
6. Agreeing on the G20 Financial Inclusion Action Plan, which will be implemented over the next three years.
7. Welcoming the G20 and Organization for Economic Cooperation and Development (OECD) Report on the Collaboration with Institutional Investors and Asset Managers on Infrastructure Investment, which reflects investors' view on issues and challenges affecting private investment in infrastructure and possible policy responses to address them.
8. Achieving significant progress in developing a solution to address the tax challenges arising from digitalization of the economy by agreeing to detailed blueprints for a consensual and final solution by mid-2021.
9. Endorsing the G20 Reference Framework for Effective Country Platforms and the country-owned pilot platforms that have been deployed and look forward to further updates by Multilateral Development Banks (MDBs) on progress in this area.

## The Key Achievements of G20 Finance Track

### (Confronting COVID-19)

When the COVID-19 pandemic started to unfold, the G20 FMCBG immediately convened to discuss ways to fight the COVID-19 pandemic and accordingly made recommendations to the Extraordinary G20 Leaders' Summit held under the Saudi G20 Presidency on 26th of March 2020.

G20 FMCBG swiftly worked to implement leaders' commitments made at their Extraordinary G20 Summit, focusing on presenting a unified front against the pandemic. Among the most prominent achievements are the following:

1. Endorsing the G20 Action Plan – Supporting the Global Economy through the COVID-19 Pandemic. The Action Plan sets out the key principles guiding the G20 response and its commitments to specific actions to drive forward international cooperation as members navigate this crisis and look ahead to strong, sustainable, balanced and inclusive growth.
2. Launching the historic G20 Debt Services Suspension Initiative (DSSI), to support the poorest and low-income countries. The DSSI initiative will enable those countries in fulfilling their financial needs to address challenges imposed by the COVID-19 pandemic, as the pandemic has huge and serious impact on these countries which composes quarter of the world population and two thirds of people below the poverty line. It is expected that the initiative will provide $14 bn to eligible countries in 2020. As reported by the IMF and the World Bank Group (WBG), the DSSI is significantly facilitating higher pandemic-related spending in DSSI-eligible countries. As such, G20 members agreed to extend the initiative by an additional six months starting January 2021.
3. Injecting more than $11 tn into the global economy – the largest support on record, which has lessened the economic jolt and prevented worsening growth outcomes.
4. Moreover, G20 Leaders endorsed the "Common Framework for Debt Treatments beyond the DSSI", to address debt issues with broad creditors' participation including the private sector, which is considered as the first framework of its kind in the history of G20.

5. Working with international financial institutions to ensure that they provide the needed financial support to emerging, developing and low-income countries. This included providing comprehensive emergency financing to support countries in need and maintain global economic and financial stability, including (1) delivering the IMF's comprehensive support package; (2) swiftly implementing the support from the World Bank and other multilateral development banks amounting to $230 bn; (3) enhancing the coordination between international financial institutions to maximize the impact and enhance the effectiveness of the deployed resources.
6. Bridging the financing gap in the global health to fight the COVID-19 pandemic with $21 bn.
7. Working with the Financial Stability Board to coordinate the regulatory and supervisory measures that countries undertook to fight against the pandemic, with the aim of enhancing the resilience of the international financial system.
8. Enhancing collaboration between Finance and Health Ministers, as requested by G20 Leaders, by discussing common and urgent priorities to overcome the COVID-19 pandemic. Thus, a number of joint commitments were made and actions were taken to enhance the robustness of health and financial systems while at the same time addressing risks. In addition, targeted measures have been developed to help respond to the most pressing challenges, working towards ensuring that the international community is better prepared to address the future health-related crises, in line with the «One Health» approach. It was also agreed to support joint work to accelerate research, development, manufacturing, and distribution of diagnostic, therapeutics and vaccines of COVID-19 pandemic, including through the Accelerated Access to Anti-COVID-19 Tools (ACT-A) initiative, its «COVAX Facility» initiative, and voluntary licensing of intellectual property rights, with the aim of supporting equitable and affordable access for all, which is key to overcoming the pandemic and supporting global economic recovery.

## b- Domestic Economic Developments in FY 2020

### Domestic Economic Developments During H1 2020

The Kingdom's economy witnessed an improvement in real GDP growth during 2019 and early 2020, especially in the non-oil sector. This was a result of the efforts made to diversify the economy and raise growth rates through the implementation of several fiscal, economic and structural reforms. Yet, since mid-March, the outbreak of the COVID-19 pandemic crisis and the associated precautionary measures have clearly impacted the performance of the domestic economy.

Nevertheless, the protective measures taken by the government to control the spread of the virus and sustain the efficiency of the health care system have allowed a gradual return of economic activity in Q3 2020. They have also reduced the chances for re-imposing precautionary and lockdown measures, as happened in some countries, preventing re-closure that would have entailed additional government support, financial cost and negative impact on the economy that may be similar or greater than what happened during the earlier part of the current year. Accordingly, it is expected that economic activity will continue to recover during H2 2020 and 2021.

Government initiatives and policies have also contributed to mitigating the effects of the pandemic and reducing its financial and economic impact. This includes exemptions and deferral of fees and taxes payments, financial sector support initiatives and liquidity injection into the economy to enable the private sector to carry on its activities and overcome the negative impact of the crisis. The outcome of the initiatives was reflected in the Kingdom's real GDP growth that ranked among the top five of the G20 countries, registering higher than the group's average, during Q2 2020, according to data published by the Organization for Economic Cooperation and Development (OECD) in September 2020. Despite the decline of the Kingdom's GDP during H1 2020 (especially in Q2), the performance was better than forecasted at the beginning of the crisis and better than projections made by international organizations.

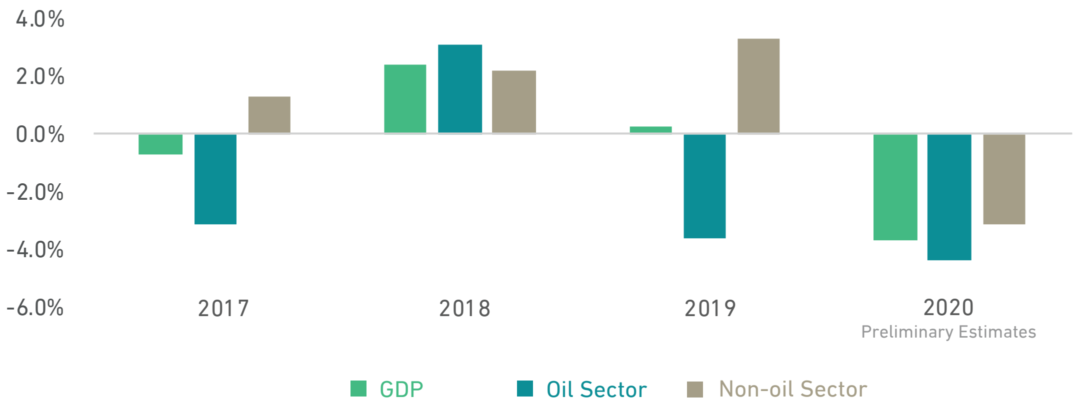
According to GASTAT, data for H1 2020 show a decline in the **real GDP** by 4.0%, due to the decrease in the **real oil GDP** by 4.9%, as a result of the reduction in oil production in Q2 2020 in compliance with the OPEC+ agreement. Likewise, **the real non-oil GDP** contracted by 3.3% during H1 2020 due to domestic and global impact of COVID-19, which clearly affected the performance of the domestic economy, albeit less severely than expected.

On the sectoral level, data show a decline in the majority of non-oil activities, leading to overall contraction in **the non-oil private sector** by 4.3%, coinciding with the lockdown period. Despite this decline, precautionary measures have helped achieve effective health targets that the government has set to preserve the health and safety of citizens and residents.

The highest decline recorded was in **other manufacturing activity**, reaching 6.6% and driven by the decline in global demand for petrochemicals and the decline in industrial activity around the world. **The Industrial Production Index (IPI)** of the kingdom shows an average annual decline of 8.5% since the beginning of the year until July due to the decline in domestic production. Besides, **wholesale, retail trade, restaurants and hotels activities** declined by 6.7%, while the construction activity contracted by 1.3%. Similarly, **transport, storage and communication activities**, as well as **the community, social and personal services activities** declined by 6.1% and 4.5% respectively. This decline is due to the precautionary measures taken during the period to limit the spread of the coronavirus, including the imposition of partial and total curfews, the suspension of domestic and international flights, and temporarily suspension of Umrah and visits to the Prophet's Mosque. This also affected **real private consumption** growth rates during H1 2020, that recorded an annual decline of 8.0%.

As a result of these exceptional conditions, **Saudi unemployment rates** has increased to reach 15.4%, during Q2 2020. However, the government initiatives and policies introduced to mitigate the financial and economic impact of the crisis on the business sector, as well as the contribution to the salaries of Saudi private sector employees by 60% through Saned system have contributed to preventing a further rise in unemployment rates. Unemployment rates are projected to gradually decline and return to their previous levels with the gradual economic recovery during H2 2020 and early 2021.

**Real GDP developments (2017 - 2020)**




Source: GASTAT and MoF Preliminary Estimates

According to SAMA, **the balance of payments' current account**, recorded a deficit of SAR 59 bn, or 4.7% of nominal GDP in H1 2020, compared to a surplus of SAR 92 bn, or 6.3% of GDP in the corresponding period last year. This is a result of the annual decline in the net value of **the goods and services** balance by 92% in H1 2020.

The surplus in **merchandise balance** has declined by SAR 147 bn, or 60.9%, in H1 2020, to record SAR 94.6 bn compared to SAR 241.7 bn in H1 2019. This is due to the decrease in the value of **oil and non-oil commodity exports** by 41.7% and 22.5%, respectively, in tandem with the decline in global demand for oil as a result of precautionary measures at the domestic and international levels. Meanwhile, **merchandise imports** have decreased by SAR 39.7 bn, or 15.3%, for the same period, due to the decline in domestic demand. On the other hand, **the services balance** deficit witnessed an improvement to reach SAR 83.4 bn in H1 2020, compared to SAR 101.2 bn for the same period last year, achieving a decrease of 17.6%. This is largely due to the decrease in outflows in the government account of goods and services not classified under other items by SAR 18.9 bn, or 38.8%.

The net **primary income account** declined from a surplus of SAR 21.3 bn in H1 2019 to a deficit of SAR 1.2 bn in H1 2020. Meanwhile, the deficit of **the secondary income account** decreased by 0.8% due to the decrease in general government transfers by 28.0%, while expat workers' remittances increased by 5.9% to reach SAR 58.8 bn in H1 2020.

Total **reserve assets** decreased by SAR 248.6 bn in H1 2020, to reach SAR 1.68 tn, a decrease of 12.9% compared to the same period last year. This decrease was due to transfer of SAR 150 bn from SAMA to the Public Investment Fund (PIF) from the reserve assets during the Q2 2020, alongside the increase in capital outflows of residents' investment abroad. Each of the portfolio investments and other investments in **the financial account** recorded net outflow of SAR 40.3 bn and SAR 94.9 bn, respectively in H1 2020.

### Domestic Economic Developments in Q3 2020

In Q3 2020, performance indicators showed a remarkable recovery in economic activity and restored business and consumer confidence due to the measures and policies taken by the government during the peak of the crisis, which aimed to preserve the health and livelihood of citizens and residents in the first place through enhancing the efficacy of the national health system. This was in addition to the initiatives intended to alleviate the severity of the crisis on the business sector.

**Main consumption indicators** recorded a recovery in consumer demand, as **point of sales (POS) transactions and Sadad payments** increased by 32.9% and 37.9%, respectively, on an annual basis in Q3 2020. The indicators also show rising demand on domestic tourism and the revival of economic activities in Saudi tourist cities during the same period. **Cash withdrawals** recorded a decline by 12.8% due to a drop in cash in circulation for the same period. This was offset by a significant increase in **POS transactions using electronic payment** that grew by 539.7% in Q3 2020 compared to the same period last year. This indicates an increase in the demand for electronic purchases via electronic payment methods, whether by cards or mobile phones, during the period.

The performance of **private investment indicators** witnessed a remarkable improvement in economic activity in Q3 2020, as the **PMI** shows an improvement of 6.6% in Q3 2020 compared to Q2 2020. In addition, it rose from 51.0 points in October to 54.7 points in November, the strongest improvement in business conditions since January 2020. **Cement sales** also increased by 28.5% during Q3 2020, compared to the same period last year, and by 38.3% compared to the Q2 2020. This might be attributed to the uninterrupted execution of government mega projects, in addition to the implementation of programs and initiatives of the Ministry of Housing despite the significant decline in government investments.

The **money supply** increased by 10.6% in Q3 2020, driven by the growth in demand and time and savings deposits of 12.1% and 4.8%, respectively. **Bank credit to the private sector** witnessed a growth of 15.2% during Q3 2020 compared to the same period last year, and by 3.4% compared to Q2 2020. This is due to the increase in liquidity in the banking system as a result of reduction in interest rates on **repos** and **reverse repos** rates by 125 basis points in March 2020, following the decline of the US federal interest rate. In addition, SAMA has injected SAR 50 bn to facilitate the rescheduling or restructuring of the private sector financing without any additional costs.

According to GASTAT data, the annual growth in **Consumer Price Index (CPI) (inflation)**[1] recorded 6.0% during Q3 2020. This exceptional increase in inflation during the period is a result of the increase in Value Added Tax (VAT) rate and customs duty on some products levied at the beginning of Q3. Most categories witnessed an increase, especially Food and Beverages, which recorded the highest increase of 13.5% compared to 6.5% in the same period in 2019. Education recorded a decrease by about 2.0% in Q3 2020, compared to the same quarter last year, with the continuation of distance learning. Since the beginning of 2020 until October, inflation recorded 3.0%, compared to a decline by 2.4% during the same period last year. The increase was the highest in Food and Beverages by 8.2%, compared to 2.0% in the same period in 2019. On the other hand, prices of Housing, Water, Electricity, Gas and other Fuels have continued to decline, albeit at a slower pace to record an annual decrease of 0.5% in 2020, compared to a decrease of 9.2% in the same period in 2019.

The **wholesale prices index (WPI)** continued its upward trajectory recording a growth of 5.5% during Q3 2020, compared to the same quarter of last year. This increase was driven by the rise in prices of agricultural and fishing products by 16.0% and prices of metal products and machinery by 13.3% during the same quarter. The **WPI** recorded a growth of 3.1% from the beginning of 2020 until October. This increase was mainly due to a rise in the prices of agricultural and fishing products by 11.8%.

[1] It should be noted that GASTAT adjusted the base year of the CPI from 2013 to 2018. It has also adjusted the relative weights of the main components of the index based on the results of Household Income and Expenditure Survey in 2018.

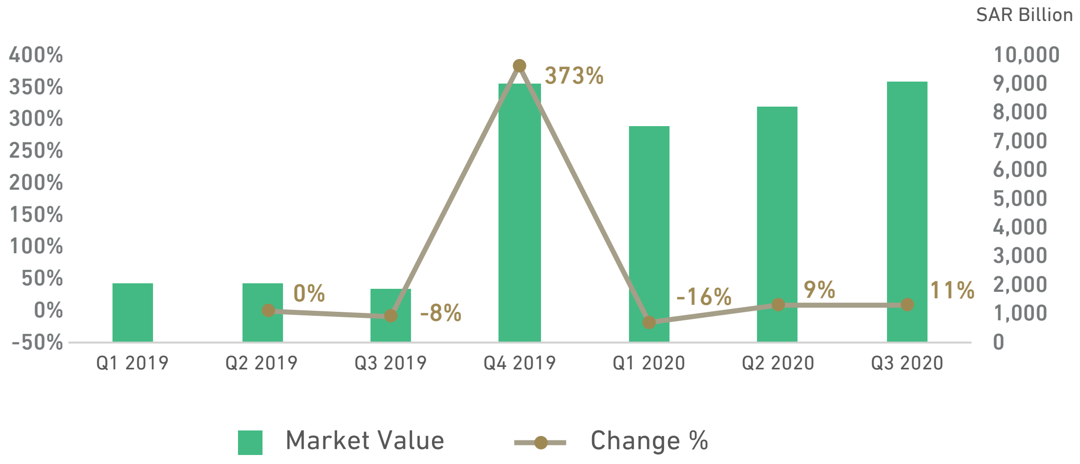
**The real estate price index** grew by 0.5% in Q3 2020, compared to the same period last year, affected by the increase in residential real estate prices of 2.1%, which has a relative weight of 65.4% of the index.

**The Saudi Stock Exchange (Tadawul)** maintained strong performance despite the impact of the pandemic on global markets. **The Tadawul All Share Index (TASI)** increased by 2.6% in Q3 2020, compared to the same period last year, as it closed at 8,299 points, up by 207 points, compared to the previous year. **The number of shares traded** has increased by 111.1% to reach 52.3 bn shares in Q3 2020 compared to 24.8 bn shares in Q3 2019. **The total number of transactions** has increased by 136.3% to reach 47.1 million in Q3 2020, compared to 19.9 million in Q3 2019, according to Tadawul's recent data.

The data also indicate that **the market value of the outstanding shares** recorded a remarkable increase reaching SAR 9.13 tn in Q3 2020, or 378.4%, compared to Q3 2019, largely affected by the listing of Saudi Aramco shares in Tadawul in late 2019. **The total value of traded shares** increased by 109.2%, or SAR 1.35 tn, compared to the same period of the previous year.

The chart below shows the quarterly growth rates of the market value of the outstanding shares since the beginning of 2019. A significant rise is noted due to the listing of Aramco shares in Q4 2019:

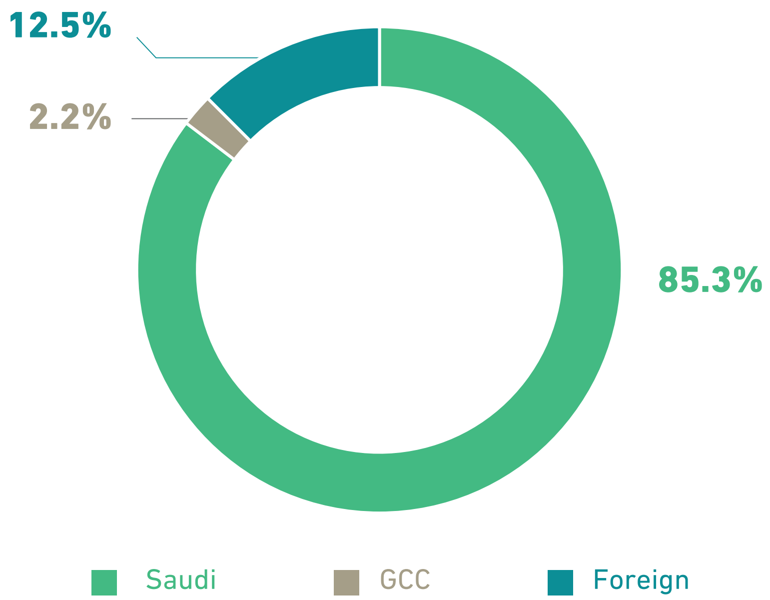
### Market Value




Source: The Saudi Stock Exchange Company (Tadawul)

The total ownership of foreign and GCC investors increased significantly by 14.7% in Q3 2020, compared to 10.4% in Q3 2019. Whereas, the Saudi investor's ownership decreased from 89.6% in Q3 2019, to reach 85.3% in Q3 2020.

**Ownership as % by Nationality**




Source: The Saudi Stock Exchange Company (Tadawul)

Based on the actual performance of economic indicators during the current year, which show a gradual recovery of the domestic economy, and in light of the expected improvement in the global economic performance, it is expected that the impact of the crisis on the performance of economic activity will gradually diminish as the economy continues to recover. In light of all these factors, **real GDP** is expected to decline by 3.7% in 2020, driven by a decline in **the oil and non-oil sectors**. **The inflation** rate is projected to reach 3.7% in 2020, in connection with the increase in the VAT rate to 15% in July 2020, and the increase in customs duty on some products in June 2020.

## c- Projections for FY 2021 and the Medium-term

In view of the domestic and global economic developments, the challenges facing the economy, the uncertain state of the COVID-19 crisis and the risks associated with it, the projections of the Kingdom's economic growth rates for 2021 and the medium-term have been revised. The preliminary projections for 2021 indicate **real GDP** growth of 3.2%, driven by the assumption that economic activity will continue to recover during 2021 as the government continues to strengthen the role of the private sector to be the key driver of growth and support the growth of SMEs by facilitating government financing programs and collaterals. This comes in tandem with the government's continued implementation of measures to diversify the economy through the implementation of the Saudi Vision 2030 programs, improve the business climate and open new horizons for domestic and foreign investments in many sectors including, telecom, digital transformation, tourism, entertainment, infrastructure and logistic services. Additionally, FY 2021 projections assume a greater role of development funds and mega projects, and enhanced partnership with the private sector in many tracks under the umbrella of Saudi Vision 2030 programs, such as investment strategy and privatization programs. This is through supporting and empowering the private sector to lead investment opportunities and privatizing some government programs and services, which in turn will reduce the costs of these services, improve their quality and gradually achieve increasing returns in the future. Expectation of improved performance is also supported by faster-than-expected recovery in the global economy and emerging markets, which will positively affect global demand, oil markets and the oil sector in the Kingdom. Preliminary projections indicate that **inflation** will record 2.9% during 2021, assuming that the impact of measures taken in 2020 will diminish by the end of H1 2021.

### Key Economic Indicators Estimates in the Medium-term

| | Actual* | Estimates** | Projections** | | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| **Economic Indicators** | | | | | |
| Real GDP growth | 0.3% | -3.7% | 3.2% | 3.4% | 3.5% |
| Nominal GDP (SAR Billion) | 2,974 | 2,486 | 2,866 | 3,042 | 3,232 |
| Nominal GDP growth | 0.8% | -16.4% | 15.3% | 6.1% | 6.3% |
| Inflation | -2.1% | 3.7% | 2.9% | 2.0% | 2.0% |

*Source: GASTAT
** Preliminary data

ميزانية 2021
المملكة العربية السعودية
Saudi Arabia-Budget

# 02

# Fiscal Developments and Medium-term Outlook

وزارة المالية
Ministry of Finance

## a- Fiscal Developments in FY 2020

The Kingdom has a strong fiscal position, given its large reserves and relatively low government debt, which enabled an immediate response to the pandemic crisis despite its fiscal and economic repercussions. Credit rating agencies have confirmed the strength of the Saudi economy and its ability to face the crisis currently confronting the world. To face existing challenges, it is a top priority for the Kingdom's government to continue implementing precautionary measures to protect the health of citizens and residents and to provide financial and economic support. The government will also continue to prioritize spending and adopt fiscal and monetary measures to contain fiscal risks.

## Fiscal Developments in FY 2020

(SAR Billion, unless otherwise stated)

| | Actual 2019 | Budget 2020 | Estimates 2020 | Annual Change* (Actual 2019 - Estimates 2020) |
|---|---|---|---|---|
| **Revenues** | | | | |
| **Total Revenues** | **927** | **833** | **770** | **-16.9%** |
| Taxes | 220 | 200 | 196 | -10.7% |
| Taxes on Income, Profits, and Capital Gains | 17 | 16 | 16 | -5.9% |
| Taxes on Goods and Services | 155 | 142 | 141 | -9.2% |
| Taxes on International Trade and Transactions | 17 | 16 | 16 | -6.2% |
| Other Taxes | 30 | 26 | 23 | -24.2% |
| Other revenues | 707 | 633 | 574 | -18.9% |
| **Expenditures** | | | | |
| **Total Expenditures** | **1,059** | **1,020** | **1,068** | **0.8%** |
| **Expenses (OPEX)** | **890** | **847** | **931** | **4.6%** |
| Compensation of Employees | 505 | 504 | 492 | -2.6% |
| Use of Goods and Services | 161 | 140 | 188 | 16.6% |
| Financing Expenses | 21 | 31 | 31 | 46.7% |
| Subsidies | 23 | 17 | 28 | 20.7% |
| Grants | 1 | 1 | 6 | 495.1% |
| Social Benefits | 82 | 69 | 67 | -18.4% |
| Other Expenses | 97 | 85 | 119 | 23.3% |
| **Non-Financial Assets (CAPEX)** | **169** | **173** | **137** | **-19.1%** |
| **Budget Deficit** | | | | |
| Budget Deficit | -133 | -187 | -298 | - |
| Percent of GDP | -4.5% | -6.4% | -12.0% | - |
| **Debt and Assets** | | | | |
| Public Debt | 678 | 754 | 854 | - |
| Percent of GDP | 22.8% | 26.0% | 34.3% | - |
| Government Reserves at SAMA | 470 | 346 | 346 | - |

Source: MoF

* Figures are rounded up to the nearest billion, whereas percentage changes are based on their complete values. Thus discrepancy may arise due to rounding.

## Revenues

In view of the slack in economic activity and the decline in government revenues, in addition to the sharp decline in oil prices, it was necessary to continue diversifying and developing non-oil revenue to ensure its sustainability and stability as a steady resource of government revenues. This is envisaged through the continued implementation of initiatives that provide resources to finance economic transformation plans and social spending, and to buffer fluctuations in the oil market. These initiatives included raising the VAT rate from 5% to 15% in July 2020, as well as the increase in customs duties for some products in June 2020, followed by exempting real estate transactions from VAT and replacing it with a real estate transaction tax of 5%, applied in October 2020. These measures are in addition to the continued implementation of expat levy as planned.

Considering the developments previously presented, it is estimated that total government revenues for FY 2020 will reach SAR 770 bn, a decrease of 16.9% compared to FY 2019. This is owing to the expected decline in oil revenue by 30.7%, due to the decline in global oil demand and the sharp drop in prices that world markets have witnessed since the beginning of the crisis. On the other hand, non-oil revenues are expected to increase by 7.8% compared to FY 2019 despite the projected decline in economic activity, mainly due to the collection of exceptional profits from government investments.

## Taxes

Tax revenue is estimated to reach SAR 196 bn in FY 2020, a decline of 10.7% compared to FY 2019, and decline of 1.8%, compared to the FY 2020 budget.

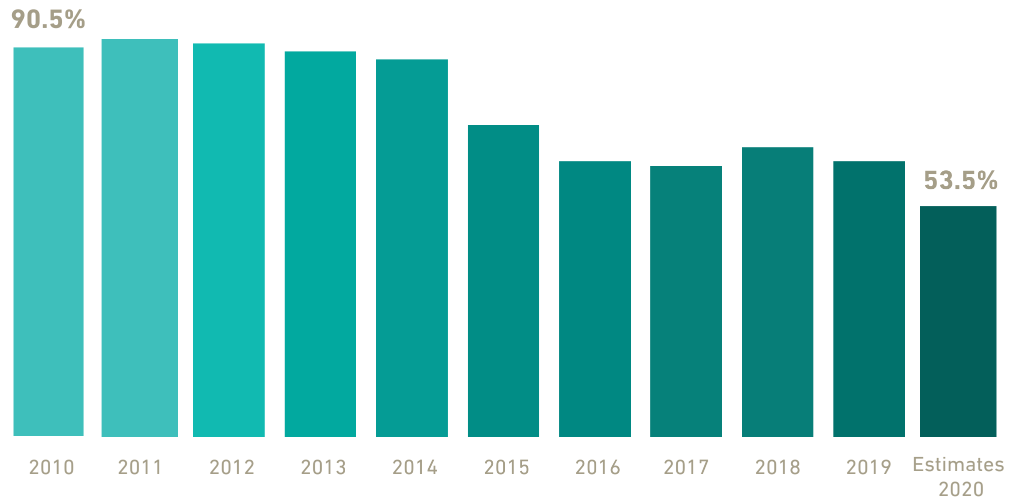
**Taxes on income, profits and capital gains** are estimated to reach SAR 16 bn in FY 2020, a decline of 5.9% compared to the previous year, mainly linked to the pandemic crisis.

**Taxes on goods and services** are estimated to record SAR 141 bn in FY 2020, a decrease of 9.2% compared to the previous year, mainly due to its linkage to economic activity and the suspension of domestic and international flights. It should be noted that exceptional revenue was collected in FY 2019 from the telecom sector settlements and the collective bill. Excluding this windfall, total taxes on goods and services shall increase by 0.1% on annual basis in FY 2020. It is also worth noting that raising VAT rate from 5% to 15% in July 2020 was part of fiscal policy reforms aimed to maintain the sustainability of non-oil revenue and contributes to overall reduction of the risks posed by dependence on oil revenue.

**Taxes on international trade and transactions (customs)** are expected to record SAR 16 bn in FY 2020, with a decrease of 6.2% compared to the previous year as a result of the decline in economic activity. It is worth noting that the GASTAT data show an annual decline of 17.5% in the value of commodity imports until August 2020, compared to the same period last year.

**Other taxes (including zakat)** are expected to reach SAR 23 bn for FY 2020, a decrease of 24.2% compared to the previous year due to the pandemic crisis. In addition, expected collection of revenues from bank zakat settlements in FY 2020 are less than that collected in FY 2019.

## Oil Revenues as % of Total Revenues



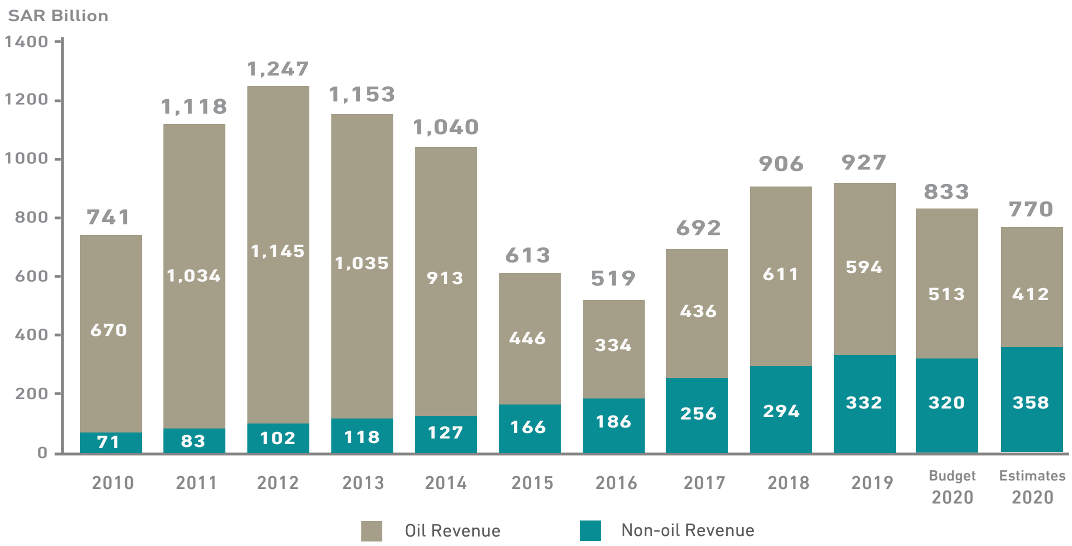

Source: MoF

## Other Revenues

Other revenues are expected to record SAR 574 bn in 2020, a decrease of 18.9% compared to the previous year, and 9.4% compared to the budget. This is mainly attributed to the estimated decrease in oil revenue by 30.7%, compared to the previous year, to reach SAR 412 bn in FY 2020. The average price of Brent oil recorded $41.1 per barrel from the beginning of the year until October 2020, compared to about $64.1 per barrel during the same period last year. The average production of oil recorded 9.3 million barrels per day until October, down by 5.7% compared to last year due to lowering production in accordance with the OPEC+ agreement.

Other non-oil revenues are expected to increase in FY 2020 compared to the previous year and the budget, mainly due to the collection of exceptional profits from government investments.

### Oil and Non-oil Revenues




Source: MoF

## Expenditures

In view of the exceptional economic circumstances the world is witnessing in 2020, the Kingdom's government has attached the highest importance to enhancing the efficiency of spending. Realized savings have been redirected to urgent crisis-related spending while maintaining fiscal discipline and avoiding excessive increase in expenditures, especially with the decline in oil revenues.

Accordingly, total government expenditure is expected to reach SAR 1,068 bn in FY 2020, an increase of 0.8% compared to FY 2019 and 4.7% compared to the budget. It should be noted that the additional allocations over the approved budget reached SAR 159 bn since the beginning of FY 2020, including extra allocations for the health sector to support preventive and therapeutic measures and expedite the payment of dues to the private sector. This increase was partially offset by savings in some expenditures items by SAR 111 bn, such as canceling, extending or deferring some items of operational and capital expenditures for a number of government agencies, in addition to halting some exceptional temporary measures that had been previously approved, such as the cost of living allowance, starting from June 2020.

Operational expenditures (OPEX) are expected to increase by 4.6% in FY 2020, compared to FY 2019, as a result of the increase in spending on use of goods and services and other expenses by 16.6% and 23.3%, respectively. This is mainly due to the policies and measures taken on the expenditure side on the back of the current crisis, including the allocation to support the readiness of the health sector, provide medical supplies and enable the citizens abroad to return. Subsidies are expected to increase by 20.7%, to reach SAR 28 bn. Likewise, expenses on financing costs are expected to increase by 46.7%, due to the rise in debt issuances.

Compensation of employees is expected to decrease by 2.6%, compared to FY 2019, to reach SAR 492 bn, as a result of halting the exceptional cost of living allowance starting from June 2020. Spending on social benefits are expected to decline by 18.4%, due to an increase in Zakat collection in FY 2019, driven by settlement of Zakat dues by banks.

Based on these developments, some capital expenditures (CAPEX) have been revised in light of the unprecedented global crisis and the efforts to enhance the spending efficiency and direct it to support the most affected sectors. As a result, capital expenditures are expected to decline by 19.1% in FY 2020, compared to FY 2019, as a result of reduction in the allocations of some initiatives under Vision Realization Programs (VRPs) and mega projects, as well as canceling, extending or postponing some capital initiatives and projects.

## Expenditures by Sector

On the sectoral level, municipal services and education are expected to increase by 4.6% and 1.4%, respectively in FY 2020, compared to the previous year. Military spending is expected to decrease by 5.9% for the same period. It is worth noting that the expected annual decrease in health and social development spending by 8.5% in 2020 is a result of the decrease in social development outlays due to the increase in Zakat collection and collective bill initiative in FY 2019. Compared to FY 2020 approved budget, spending on health sector increased by 13.5% due to the exceptional allocations to confront the coronavirus crisis.

### Expenditures by Sector

(SAR Billion, unless otherwise stated)

| Sector | Actual 2019 | Budget 2020 | Estimates 2020 | Annual Change* (Actual 2019 - Estimates 2020) |
|---|---|---|---|---|
| Public Administration | 31 | 28 | 40 | 30.3% |
| Military | 208 | 182 | 195 | -5.9% |
| Security and Regional Administration | 114 | 102 | 111 | -2.6% |
| Municipal Services | 50 | 54 | 52 | 4.6% |
| Education | 202 | 193 | 205 | 1.4% |
| Health and Social Development | 190 | 167 | 174 | -8.5% |
| Economic Resources | 94 | 98 | 84 | -10.0% |
| Infrastructure and Transportation | 59 | 56 | 59 | 0.9% |
| General Items | 113 | 141 | 147 | 30.1% |
| **Total** | **1,059** | **1,020** | **1,068** | **0.8%** |

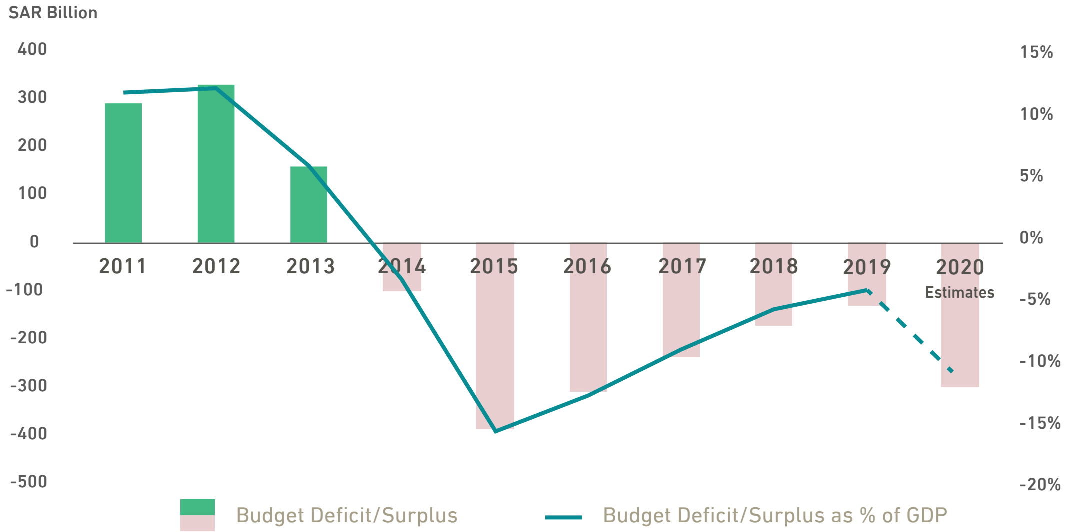
Source: MoF

* Figures are rounded up to the nearest billion, whereas percentage changes are based on their complete values. Thus discrepancy may arise due to rounding.

## Deficit and Debt

Considering the developments previously presented, budget deficit is expected to reach SAR 298 bn, or 12% of GDP, in FY 2020, compared to SAR 133 bn, or 4.5% of GDP in FY 2019.

### Budget Deficit/Surplus as % of GDP




Source: MoF

The financing policy pursued by the Ministry of Finance is based on diversifying the sources of financing between debt issuances and withdrawals from government reserves. Debt issuances are expected to reach SAR 220 bn (taking into account repayment of principal of SAR 44 bn), with a total of additional issuances of SAR 100 bn over the approved plan. Total issuances amounted to SAR 207 bn until September 2020 (of which, 78.3% are domestic and 21.7% are international issuances). Thus, domestic debt comprises 58.7% of the total outstanding public debt, while external debt is 41.3% as of end of September 2020.

It is expected that the public debt will reach SAR 854 bn, or 34.3% of GDP at the end of FY 2020, compared to SAR 678 bn, or 22.8% of GDP in FY 2019.

Total withdrawals from government reserves at SAMA are estimated to reach SAR 123 bn by the end of FY 2020. This is to cover the remaining financing needs to fulfil budget deficit and some loans to finance the private sector stimulus plan. Therefore, the balance of government reserves is expected to reach SAR 346 bn by the end of FY 2020.

## b- FY 2021 Budget and Medium-term Projections

In light of the exceptional circumstances and uncertainty associated with the pandemic, and the potential risks facing the domestic and global economy, it was necessary to revise spending priorities in the medium-term. The fiscal policy, through the FY 2021 budget and in the medium-term, will continue to aim at achieving a balance between the objectives of economic growth, maintaining economic stability and fiscal sustainability, developing non-oil revenue, enhancing spending efficiency and increasing contribution of private sector in the economy.

### Revenues

In FY 2021, the focus will be on continuing to implement the initiatives that have been launched during the past years, such as expat levy according to the recent increase in 2020, raising the VAT rate to 15% and continuing to apply the gradual correction of energy prices until reaching reference prices.

Total revenues are projected to reach SAR 849 bn in FY 2021, an increase of 10.3% from what was expected in FY 2020. It is forecasted to increase in the medium-term to reach SAR 928 bn in 2023.

### Taxes

Tax revenue is estimated to reach SAR 257 bn in FY 2021, an increase of 30.8% compared to FY 2020 estimates. This is a result of the realization of the full impact of raising the VAT rate to 15% and the increase in customs duties for some goods, in addition to the expected economic recovery in 2021, which will positively affect the tax revenue associated with economic activity.

**Taxes on income, profits and capital gains** are expected to reach SAR 13 bn in FY 2021, a decrease of 17.0% compared to the estimates for FY 2020. **Other taxes (including Zakat)** are expected to reach SAR 18 bn in FY 2021, a decrease of 21.3% compared to the estimates for FY 2020. The decline in both items is mainly attributed to the economic performance in FY 2020, which is affected by the circumstances of the pandemic crisis.

**Taxes on goods and services** are projected to reach SAR 209 bn in FY 2021, an increase of 47.7% over expected revenue in FY 2020, as a result of the projected recovery in economic activity after the crisis in addition to the realization of the full annual impact of the measures implemented during FY 2020. It should be noted that the projections for FY 2021 do not include the continuation of exemptions and deferrals that were applied in FY 2020.

**Taxes on international trade and transactions (customs)** are projected to reach SAR 17 bn for FY 2021, an increase of 4.3% over the estimated collection for FY 2020, taking into account the measures that have been implemented during FY 2020 and the continued application in FY 2021, as well as the improvement of economic activity.

### Other Revenues

Other revenues, including government profits from investments, oil revenue, sales of goods and services and collection of fines and penalties, are expected to reach SAR 592 bn in FY 2021, a slight increase of 3.2% compared to the estimates for FY 2020.

### Expenditures

The budget for the FY 2021, as well as the medium-term projections, have been prepared in light of the fiscal policies pursued by the Kingdom to continue spending on social benefits and subsidies schemes and development projects under the umbrella of the Saudi Vision 2030, while preserving the ceilings of expenditures previously announced in the FY 2020 budget, in order to ensure fiscal and economic stability. Emphasis will be placed on spending priorities while ensuring enough flexibility in dealing with emergency fiscal changes during FY 2021, in continuation of the effort made in facing the crisis during FY 2020. More opportunities will be provided to the private sector to execute infrastructure projects while continuing to implement economic and fiscal reforms to improve ease of doing business and develop the role of the private sector. Efforts will continue over the next year and the medium-term to raise the spending efficiency, develop the effectiveness of social spending, and raise the degree of fiscal discipline and planning, to achieve the aims of sustainable economic growth within the context of the Saudi Vision 2030.

Total government expenditure for FY 2021 is estimated to amount to SAR 990 bn, or 34.5% of GDP, down from the estimated expenditures for FY 2020 by 7.3%, with the government's continuing efforts to raise spending efficiency. The government expenditure projections for FY 2021 and the medium-term include the continuation of spending on VRPs, mega projects and social benefits and subsidies schemes.

### Operational Expenditures (OPEX)

**Operational expenditures** are expected to reach SAR 889 bn, a decrease by 4.4% compared to estimated OPEX for FY 2020, as a result of the progress in implementing the privatization programs and strengthening the public private partnership. Compensation of employees is projected to reach SAR 491 bn. The government will continue to implement a policy that is more dependent on the private sector in hiring Saudi youth of both genders, including through mega projects underway.

Expenditure on **goods and services** is expected to reach SAR 192 bn, an increase of 2.5% compared to FY 2020 estimates. This includes operational, consumption, medical, maintenance and other expenditures that fulfil the requirements of government agencies, taking into account saving achieved from higher spending efficiency while effectively implementing tendering and procurement law.

**Financing expenses** are estimated at SAR 37 bn in FY 2021, an increase of 20.6% compared to FY 2020 estimates, due to the increase in the debt stock. **Expenditure on social benefits** is estimated to reach SAR 63 bn for FY 2021. It should be noted that spending on social benefits and subsidies schemes targeting eligible families and individuals will continue.

### Capital Expenditures (CAPEX)

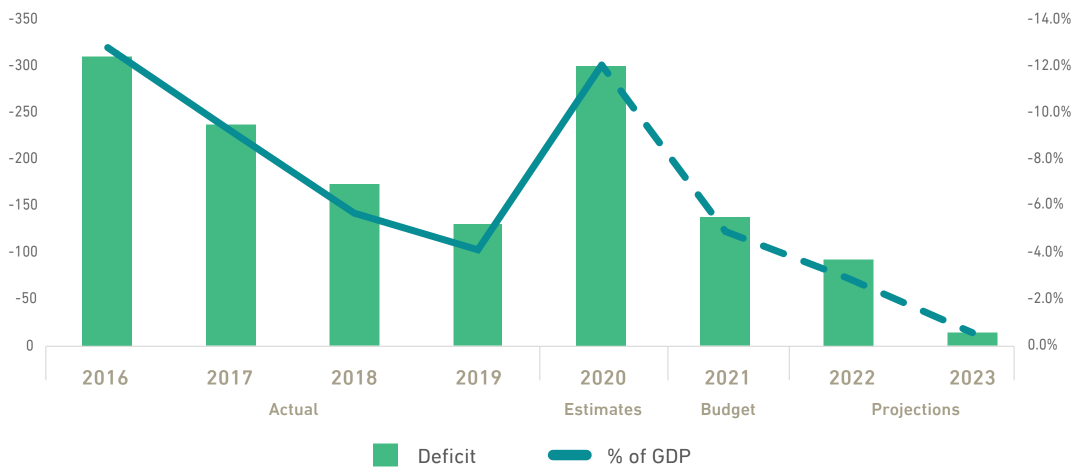
Expenditures on the non-financial assets are projected to reach SAR 101 bn in FY 2021, a decrease by 26.6% compared to what was expected in FY 2020. It includes spending on VRPs, allocations for mega projects, the implementation of several investment projects in municipal services, health, education, infrastructure and transportation and other sectors. It is worth noting that the decrease in allocations for investment spending compared to FY 2020 estimates is due to the high investment rate on infrastructure during the past years. It is also justified considering the expectation of higher participation of the private sector in investment projects, which is a key element of economic reform.

### Deficit and Debt

In view of the government's continued efforts to improve spending efficiency and achieve fiscal discipline, the budget deficit is projected to decrease to reach 4.9% of GDP in FY 2021 and will continue to decline gradually in the medium-term to reach 0.4% of GDP in 2023. This will enhance the ability to deal with crises by maintaining fiscal and economic stability in the medium and long terms.

### Budget Deficit as % of GDP

SAR Billion




Source: MoF

The fiscal policy adopted by the Ministry of Finance seeks to fulfil financing needs through a balanced financing policy, including debt issuances and withdrawal from government reserves, aiming to maintain targeted levels of government reserves in order to enable the Kingdom to manage future risks. It should be noted that borrowing is carried out according to the public debt strategy, which ensures that debt levels remain at safe rates to maintain fiscal substitutability.

The NDMC seeks to diversify financing sources between the domestic and foreign markets, with a focus on developing and deepening the local debt markets. In addition, it aims to access the global debt markets as part of its risk management strategy and to obtain fair pricing.

Recently, alternative government financing methodologies have been utilized as part of the Ministry's plan to support the continuity and completion of mega development projects to serve Saudi Vision 2030.

Accordingly, total public debt is expected to reach SAR 937 bn in FY 2021, or 32.7% of GDP, and about SAR 1,026 bn in 2023, or 31.7% of GDP. Despite raising the public debt ceiling from 30% to 50% of GDP, the government does not intend to approach this ceiling. Government reserves are projected to reach SAR 280 bn in FY 2021, and SAR 265 bn in 2023.

## FY 2021 Budget

(SAR Billion, unless otherwise stated)

| | Budget 2020 | Estimates 2020 | Budget 2021 |
|---|---|---|---|
| **Revenues** | | | |
| **Total Revenues** | 833 | 770 | 849 |
| Taxes | 200 | 196 | 257 |
| Taxes on Income, Profits, and Capital Gains | 16 | 16 | 13 |
| Taxes on Goods and Services | 142 | 141 | 209 |
| Taxes on International Trade and Transactions | 16 | 16 | 17 |
| Other Taxes | 26 | 23 | 18 |
| Other Revenues | 633 | 574 | 592 |
| **Expenditures** | | | |
| **Total Expenditures** | 1,020 | 1,068 | 990 |
| Expenses (OPEX) | 847 | 931 | 889 |
| Compensation of Employees | 504 | 492 | 491 |
| Use of Goods and Services | 140 | 188 | 192 |
| Financing Expenses | 31 | 31 | 37 |
| Subsidies | 17 | 28 | 22 |
| Grants | 1 | 6 | 0.4 |
| Social Benefits | 69 | 67 | 63 |
| Other Expenses | 85 | 119 | 83 |
| Non-Financial Assets (CAPEX) | 173 | 137 | 101 |
| **Budget Deficit** | | | |
| **Budget Deficit** | -187 | -298 | -141 |
| Percent of GDP | -6.4% | -12.0% | -4.9% |
| **Debt and Assets** | | | |
| **Public Debt** | 754 | 854 | 937 |
| Percent of GDP | 26.0% | 34.3% | 32.7% |
| Government Reserves at SAMA | 346 | 346 | 280 |

Figures are rounded up to the nearest billion.

Source: MoF

## Medium-term Fiscal Projections

(SAR Billion, unless otherwise stated)

| | Actual | Budget | Estimates | Budget | Projections | |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2020 | 2021 | 2022 | 2023 |
| Total Revenues | 927 | 833 | 770 | 849 | 864 | 928 |
| Total Expenditures | 1,059 | 1,020 | 1,068 | 990 | 955 | 941 |
| Budget Deficit | -133 | -187 | -298 | -141 | -91 | -13 |
| Percent of GDP | -4.5% | -6.4% | -12.0% | -4.9% | -3.0% | -0.4% |
| Public Debt | 678 | 754 | 854 | 937 | 1,013 | 1,026 |
| Percent of GDP | 22.8% | 26.0% | 34.3% | 32.7% | 33.3% | 31.7% |
| Government Reserves at SAMA | 470 | 346 | 346 | 280 | 265 | 265 |

Figures are rounded up to the nearest billion.

Source: MoF

## c- Expenditures by Sector in FY 2021 budget

In FY 2021, the Kingdom seeks to direct spending towards promising sectors that provide job opportunities for Saudi youth and to expand the opportunity for the private sector to invest in infrastructure projects that improve the level of basic services.

This section outlines the key programs and projects that will be included in the sectoral expenditure, both ongoing and new, for FY 2021:

### Infrastructure and Transportation Sector

#### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 46 bn** |
| Sector Mandate | Roads, ports, railways, airports, housing, communications, information technology, postal services and space and industrial cities such as Jubail, Yanbu, Ras Alkair and Jazan |
| Number of Government Bodies Serving the Sector | **17** |

#### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| **Aviation** | Building drone environment in Saudi (first stage) | 90% completion of the first stage |
| | Expansion of the second cargo station at King Khalid International Airport (KKIA) | Increasing the capacity to 600,000 tons |
| **Ports** | Inauguration of a new shipping line to serve the coastal transportation of containers on the Red Sea coast through Jeddah Islamic Ports and King Abdullah Port in Rabigh | Fully operating |
| | Advancing in Quality of Port Infrastructure ranking according to Global Competitiveness Report 2019 | From rank 44 to 40 |

| | | |
|---|---|---|
| Housing | Signing financing contracts for the beneficiaries of the Real Estate Development Fund and the Ministry of Housing | 183,000 financing contracts |
| | Providing various housing options for Saudi families | Benefiting more than 320,000 families |
| | Developing idle lands that are subject to fees | Developing more than 2.2 mn $m^2$ of idle lands, by their owners, to provide more than 4,000 residential plots |
| | Providing adequate housing to the families most in need and raising their quality of life | Providing more than 11,000 housing unit |
| Communication | Increasing the Internet speed in Saudi Arabia and advancing the Kingdom in digital infrastructure index | Increasing the Internet speed to 77.5 Mbps. Saudi Arabia is ranked the 5th fastest mobile internet network worldwide and the fastest 5G download speed in the world |

## Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Transportation | Raising the level of road safety | Reducing the costs of deaths and serious injuries resulting from accidents |
| | Creating a control center to automatically monitor transportation | 24 hours monitoring of traffic violations |
| Aviation | Expanding the existing terminal at Hail and Qurayyat Airports | Accommodating 1 mn passengers annually at Hail Airport and 500K at Qurayyat Airport |
| Housing | Supporting defaulters to pay installments of subsidized housing finance for those undergoing exceptional temporary circumstances. | |
| | Continuing to provide financing for mortgages loans to the beneficiaries of the Ministry of Housing and Real Estate Development Fund | Providing a profit-backed financing for an amount up to SAR 500,000 |
| Communications | Enhancing the infrastructure of the Fourth Industrial Revolution | |

## Education Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | SAR 186 bn |
| Sector Mandate | Setting up of schools, colleges, and university cities; managing external scholarship programs of the Custodian of the two Holy Mosques; support of research, development and innovation; setting up university hospitals; and supporting knowledge sources |
| Number of Government Bodies Serving the Sector | 33 |

### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| Education | Resuming education through the Madrasati e-learning platform | The number of registered students on the platform reached more than 5 mn |
| | Creation of 23 educational satellite channels (Ain) | 7.8k sessions were aired on Ain channels and on YouTube, with 91 mn views |
| | Establishing science center's inside schools (STEM school centers) | 72 centers were established |
| | Establishing the Academy of the General Authority of Zakat and Tax | 100% complete |

### Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Education | Shifting towards digital education to support student and teacher progress | |
| | Attracting distinguished foreign universities to open branches within the Kingdom | |
| | Launching the fourth phase of the external scholarship program of the Custodian of the Two Holy Mosques | Continuation of the scholarship program |
| | Launching the cultural scholarship program for undergraduate level and above in the most influential educational institutions around the world | Awarding scholarships and trainings to 10,000 students |
| | Establishing 3 local academies | The National Academy of Artificial Intelligence, the Academy of Administrative Leadership Development, and the Academy of Public Health |

# Municipal Services Sector

## First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 51 bn** |
| Sector Mandate | Cities infrastructure projects, developing Saudi cities, organizing entertainment activities, festivals and events, increasing the quality of life |
| Number of Government Bodies Serving the Sector | **295** |

## Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| Municipal Services | Obliging contractors to insure against hidden defects | 100% complete |
| | Improvement of gas stations and service centers on regional roads | |
| | Addressing manifestations of visual distortion in cities, including:<br>• removal of violating wall writings and advertisements<br>• removal of contraction and demolition wastes<br>• maintaining streets, sidewalks and gardens, including backfilling and surface restoration | • More than 500,000 ton<br>• More than 400,000 ton<br>• More than 6.5 mn meters |

## Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Municipal Services | Enhancing building permits | Accelerating permit processes and improving the quality |
| | Launch a platform for excavation permits (Nasaq) | Improving roads quality |

## Health and Social Development Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 175 bn** |
| Sector Mandate | Health development including health and ambulatory care, legislations and research. Social Development including security and protection services, in addition to cultural, media, sport and entertainment services and the Quality of Life Program |
| Number of Government Bodies Serving the Sector | **17** |

### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| Health | Launching specialized centers in various regions of the Kingdom | 24 centers for catheterization services, 19 oncology centers, 17 centers for obesity, 25 centers for diabetes, and 156 nephrology centers |
| | Launching Tawakkalna system (Tawakkalna app and Tabaud app) | More than 7.4 mn users, reporting more than 22,000 infected persons and more than 700 contacts |
| | Launching MoH Volunteers Project platform | More than 184,000 registered volunteers, with more than 30,000 active field volunteers and more than 22 mn beneficiaries |
| | Conducting COVID-19 tests in all MoH laboratories around the Kingdom | Testing more than 9.6 mn samples |
| Culture | Establishing cultural bodies | Establishing 11 cultural bodies |
| | Establishing the King Salman International Complex for the Arabic Language | 100% complete |
| Social Development | Opening social homes to take care of orphans with special conditions | 16 social homes |

### Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Health | Rehabilitating hospitals to deal with nuclear and radiological accidents and disasters | 4 hospitals |
| Social Development | Opening oasis centers for the elderly | Providing social care services for the elderly |
| Culture | The Ministry of Information's initiative (Kunooz) to support local production companies to document cultural wealth, intellectual creativity and civilizational contribution | Producing 400 short videos and 3 series for children |

## Economic Resources Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 72 bn** |
| Sector Mandate | Environmental infrastructure, water, agriculture, water desalination, sanitation, energy sources and mineral resources, in addition to development of tourism, investment environment, industry, space industry, exports, supporting SMEs, enhancing local content, and fiscal and economic planning. |
| Number of Government Bodies Serving the Sector | **33** |

### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| The Two Holly Mosques Project | Completion of the third Saudi expansion of the Grand Mosque and Mataf expansion | Achieved 80% of the Grand Mosque expansion and 65% of Mataf expansion. |
| Financing | Continuing lending to the private sector during the COVID-19 pandemic, and postponing the collection of installments due during the year 2020 to next year | SAR 204 mn has been disbursed for 12 projects, and 28 payments were deposited to several projects worth SAR 40 mn. |
| Monshaat | Reducing financial burdens on owners of SMEs, by requests for refunds of government fees, and increasing the share of lending to SMEs | SAR 1.42 bn in requests to recover government fees, and raising the lending share to 7.8% in Q2 2020. |
| Development of Non-oil Revenue | Enhancing non-oil revenue on several pillars | Four pillars:<br>• Designing a comprehensive visa structure<br>• Linking traffic violations for non-Saudi vehicles with several government agencies and creating a mechanism for paying visitors' fines through credit cards.<br>• Activating the necessary legislation and completing an actuarial study to collect the state's cost for those injured in traffic accidents |

| | | |
|---|---|---|
| Industry | Attracting industrial investments in several regions of the Kingdom | SAR 200 bn |
| | Growth in the number of industrial establishments, and the volume of investments in the industrial sector | Growth reached 9.6% to register 9,518 establishments, and the factories' capital grew to SAR 1.85 tn by October 2020 |
| | Issuing mining permits | Issuing of 1866 mining permits and the investments reached SAR 300 bn |
| Trade | Promoting and enabling electronic commerce | The increase of registered electronic stores by 68% |
| Privatization | Selling all shares of the flour milling Companies | To the First Milling Co. and Third Milling Co. |
| Water and Environment | Enhancing drinking water sourced from groundwater | Increasing drinking water supply by 90,000 $m^3$ per day |
| | Increasing the coverage rate of water services | The coverage rate reached 83% (lengths of 1,165 km), pumping hours increased to 19.22 hours, and the number of consumers grew to 301,492. |
| | Increasing sanitation services coverage | The sanitation coverage rate reached 57%, serving an additional 327,933 consumers, and an increase in network lengths by an additional 704 km. |
| Local Content | Including the local content requirements in several government projects | SAR 10 bn |
| Renewable Energy | Tendering solar energy projects | Tendering four large-scale solar projects, for a combined capacity of 1,200 MW in the third phase. 28 Saudi companies have been pre-qualified out of the 49 contenders |

## Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Water and Environment | Establishing three sewage stations in Madinah, Tabuk, and Buraidah | The capacity of Medina, Tabuk, and Buraidah stations are 375, 90 and 150 thousand $m^3$, respectively |
| | Increasing the quantity of treated wastewater | Reaching a production capacity of 5.79 mn $m^3$ per day by the end of 2021 |
| | Implementation of the national program for cloud seeding | Increasing rain percentage by 5% - 20% |
| | Implementing the sustainable agricultural rural development program and the agricultural subsidies program | |
| Investment | Attracting private investments to finance the construction of educational buildings, including design, construction, equipping, and facility management | 120 schools in two stages, each stage 60 schools |
| Industry | Increasing the contribution of industry and mineral resources to GDP and exports | |
| Customs | Reducing customs clearance time to streamline the import process and facilitate trade exchange | Reducing clearance time to two hours maximum |

## Public Administration Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 34 bn** |
| Sector Mandate | Supporting administrative and legislative bodies, civil service, the Ministry of Foreign Affairs, courts, Islamic affairs, human rights and care of the Two Holy Mosques |
| Number of Government Bodies Serving the Sector | **27** |

### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| Human Resources | Nationalizing pharmacy, engineering and dentistry professions | The percentage has not been determined yet |
| | Providing more job opportunities for citizens | Nationalizing 9 additional business activities |

### Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Human Resources | Nationalizing of qualitative and high priority jobs in each sector | 115,000 jobs |
| | Creating more jobs in the industrial sector | To reach 1.3 mn jobs by 2030 |

## Military Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 175 bn** |
| Sector Mandate | National Defense, the Royal Guard, developing military capabilities, military cities and bases, hospitals and military medical services, military colleges and universities, nationalization of military industries, and military research |
| Number of Government Bodies Serving the Sector | **19** |

### Second: Key Projects Achievements in FY 2020

| **Scope** | **Description** | **Remarks** |
|---|---|---|
| Military Bases | Initiating the first phase of King Salman Airbase facilities construction | Two-stage plan |
| Military Hospitals | Medical cities contribution to support health sector in facing the repercussions of COVID-19 | Increasing the capacity of all medical cities, including the capacity of intensive care units by 200% |
| Military Colleges | Implementing the first phase of relocating and establishing King Faisal Air Academy at its new location | Two-stage plan |
| Military Development | Preparing the necessary studies to develop the Ministry of National Guard in accordance with the National Defense Strategy | Setting a ten-year plan within the development plans of the military |
| Nationalization of Military Industries | Continuing to implement the strategy of nationalizing the industries within the Saudi Vision 2030 | The goal is to nationalize 50% of military spending by 2030 |

### Third: Key Projects Planned for FY 2021

| Scope | Description | Remarks |
|---|---|---|
| Military Research | Developing research in the area of military industries | The five-year plan was approved, starting from the FY 2021 |
| Military Development | Applying the operating model aimed to develop the Ministry of Defense within the ten-year plan | Implementing 80% of the operating model |
| Military Bases and Colleges | Continuing the implementation of the second phase of establishing and relocating King Salman Base and King Faisal Air Academy | The second and final stage of the project |
| Military Capabilities Development | Continuing to develop the defense capabilities and systems of the military | Includes capacity building in 8 military entities |

## Security and Regional Administration Sector

### First: Overview

| | |
|---|---|
| Sector Allocation in FY 2021 Budget | **SAR 101 bn** |
| Sector Mandate | Emirates of provinces regions, internal security, border guards, combating crime and drugs, combating terrorism and extremism, civil defense, traffic safety, reformatories and prisons administration, passport administration, protection of vital facilities, e-services for citizens provided by the Civil Affairs, and cybersecurity |
| Number of Government Bodies Serving the Sector | **30** |

### Second: Key Projects Achievements in FY 2020

| Scope | Description | Remarks |
|---|---|---|
| National Capacity Building | The authority launched the initiative to provide training for national cadres in different tracks and levels, seeking to achieve the following goals:<br>• Increasing the number of qualified national cadres in cybersecurity<br>• Developing and raising the skills of national cadres working in cybersecurity<br>• Encouraging distinguished recent graduates to work in the fields of cybersecurity | The number of trainees in the first and second phases is more than 2000, including 1,638 employees at 138 national entities, 428 new graduates from 26 Saudi universities, colleges, and graduates of the Custodian of the Two Holy Mosques program for external scholarship in the fields of computers and cybersecurity |
| International Indicators | The Global Competitiveness Yearbook 2020: it is one of the most comprehensive reports in the world on the competitive advantages of countries, and it analyzes and classifies the capabilities of countries to create an environment that maintains the competitiveness of institutions and economic prosperity in general. The report compares 63 countries based on four major pillars | • Saudi ranked second in the corporate cybersecurity indicator<br>• Saudi ranked 24$^{th}$ among 63 countries, and 15$^{th}$ in the Middle East, Africa and Europe |

| | | |
|---|---|---|
| National Policies and Regulations | The multiple preventive measures taken by the Kingdom to confront the emerging of COVID-19, limit its spread and reduce direct contact between people during the current stage, have increased the reliance of some national agencies on information and communication technology to enable workers and employees to perform their work remotely without the need to come to the workplace. Relying on remote work techniques may contribute to the preventive health measures at the current stage. However, this requires taking many necessary measures regarding cybersecurity, as the expansion of the provision of communication channels with the internal systems of the entities across cyber space, in turn, increases the risk of exposure to direct cyber-attacks. Therefore, additional controls must be taken to reduce the possibility of cyber risks or reduce its impact. In support of the national need, cybersecurity controls have been developed for remote work during the lock down and after | |
| Development of Security Headquarters | King Abdullah bin Abdul-Aziz to develop the security Headquarters | The project was approved on five phases including: constructing a number of security headquarters and 14 residential complexes in five regions that include 10,000 housing units (6 housing complexes will be delivered during the period from 2016 to 2022 and contain 3,800 housing units, or 50% of the total planned) Completing other projects, such as the Special Forces Building for Diplomatic Security and the General Administration for International Cooperation building. |
| Medical and Residential Complexes | Medical and residential cities projects | Completion of 90% |
| Security Services | Activating the Unified Call Center (911) in various regions | Completion of 90% |
| Premium Residency | Maximizing non-oil revenue, enhancing foreign investment opportunities | Ongoing projects |

| Third: Key Projects Planned for FY 2021 | | |
|---|---|---|
| Scope | Description | Remarks |
| Security at the National Level | Responding to emergency cybersecurity incidents | Ongoing project |
| Civil Affairs and Technological Linkage | Supplying, installing and operating applications and software to support and develop the infrastructure with security and technical systems, develop the electronic portal for civil affairs services and link all offices | The project aims to reduce operational costs by 70% - 95% and provide effective electronic services to the citizens |
| Public Services | Providing Shomoos services (the National Tourism Information Network) to link facilities and provide central databases for tourism information to develop joint cooperation in business | Completion of 50% |

## General Items

Total allocation to general items in FY 2021 amounted to SAR 151 bn, including government contribution to pension funds and social insurance, debt service, balancing account, contributions to international organizations, government programs and facilities, subsidies, and other contingency provisions.

### Expenditures by Sector

(SAR Billion, unless otherwise stated)

| Sector | Actual 2019 | Budget 2020 | Budget 2021 | Annual Change* (Budget 2020 - Budget 2021) |
|---|---|---|---|---|
| Public Administration | 31 | 28 | 34 | 20.0% |
| Military | 208 | 182 | 175 | -3.7% |
| Security and Regional Administration | 114 | 102 | 101 | -1.5% |
| Municipal Services | 50 | 54 | 51 | -5.2% |
| Education | 202 | 193 | 186 | -3.9% |
| Health and Social Development | 190 | 167 | 175 | 4.6% |
| Economic Resources | 94 | 98 | 72 | -25.8% |
| Infrastructure and Transportation | 59 | 56 | 46 | -17.8% |
| General Items | 113 | 141 | 151 | 7.4% |
| Total | 1,059 | 1,020 | 990 | -2.9% |

Source: MoF

* Figures are rounded up to the nearest billion, whereas percentage changes are based on their complete values. Thus discrepancy may arise due to rounding.

ميزانية 2021
المملكة العربية السعودية
Saudi Arabia-Budget

# 03

# Key Fiscal and Economic Risks and Challenges

وزارة المالية
Ministry of Finance

## Third: Key Fiscal and Economic Risks and Challenges

This part discusses the key challenges that may face the implementation of the general budget in FY 2021 and the medium-term fiscal and economic forecasts in light of potential domestic and global developments. The FY 2020 has witnessed many developments related to the COVID-19 pandemic that affected the domestic and global economies and led to the state of uncertainty. As a result, fiscal and economic outturns could deviate from projections due to the lack of clarity about the evolution of this pandemic and the world's ability to overcome it.

The following is a summary of the major fiscal and economic challenges in the coming year and the medium-term, and the key policies and measures adopted by the government to address them:

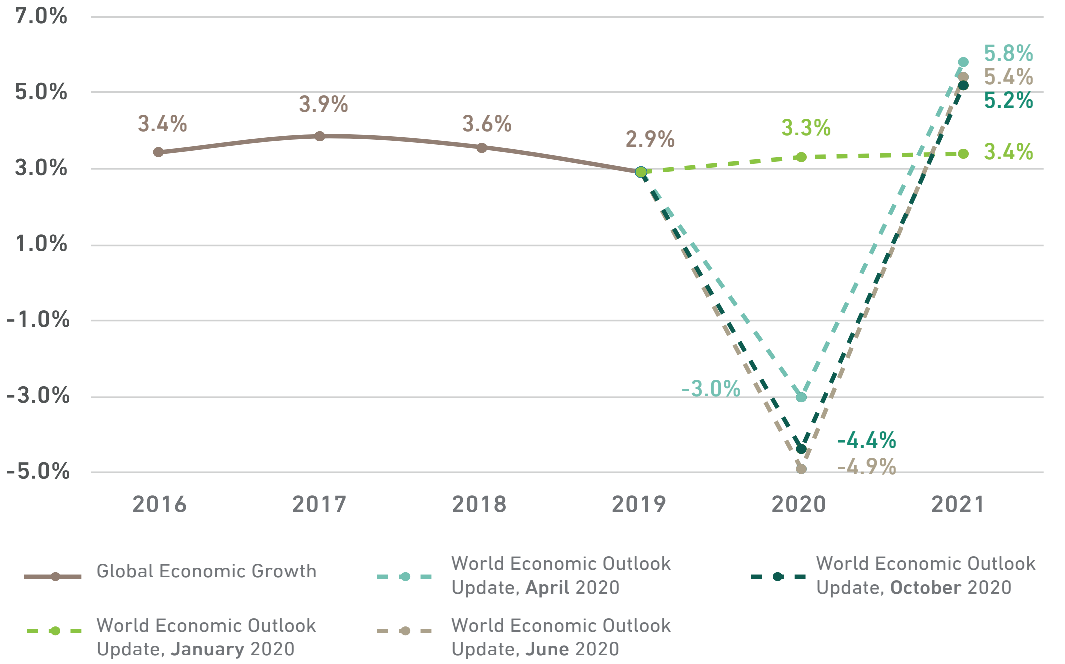
### 1- Low Global Economic Growth Rates

The COVID-19 pandemic has greatly affected global economic growth in 2020. The repercussions of the pandemic are expected to persist in 2021, challenging economic recovery in many countries of the world, including Saudi Arabia. Moreover, oil-exporting countries face the additional shock of a sharp drop in oil prices. According to the IMF's World Economic Outlook, the global GDP growth forecast for 2020 has been reduced from a positive growth of 3.3% in January, to a contraction of 3.0% in April, 4.9% in June, and 4.4% in October 2020, as a result of low GDP growth projections for most countries. These developments were taken into consideration during the preparation of the FY 2021 budget.

Although the IMF expects positive growth in 2021, uncertainty surrounding the global economy mean that such estimates might be revised. Thus, in case the impact of the crisis is prolonged, it will inevitably affect economic growth and budget performance.

In order to strengthen the domestic economy and increase its ability to face challenges and risks, the government has worked on policies to stimulate economic activity and maintain its strong fiscal position by enhancing the spending efficiency and developing revenues to be able to deal with external shocks and maintain sustainable development.

### Global Economy Growth



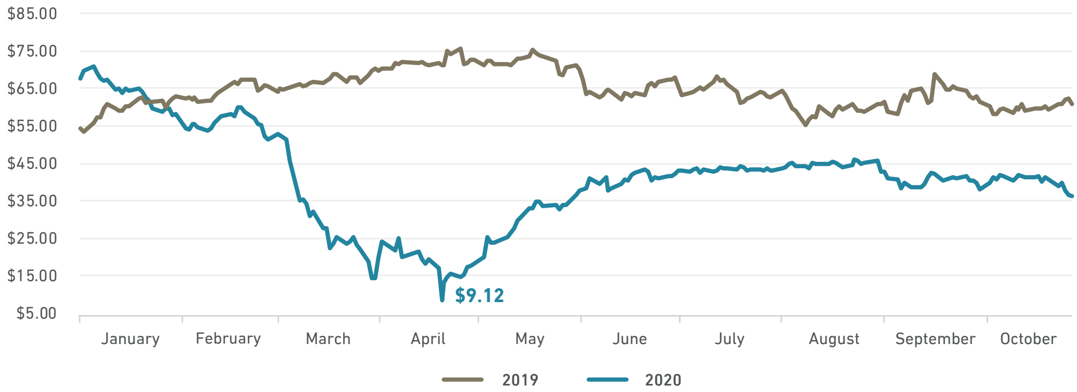

Source: World Economic Outlook

## 2- Oil Market Fluctuations

Despite the significant effort exerted by the government through fiscal and economic reform aimed at diversifying the economy and income sources, fluctuations in the oil market remains a major challenge for the Saudi economy, being one of the largest oil-exporting countries. As explained in the first section, the COVID-19 crisis has greatly affected the oil market during FY 2020.

In view of the uncertainty surrounding the pace of the global economic recovery and the potential persistence of the crisis, predicting the state of the oil market becomes increasingly challenging. This may lead to a significant deviation in oil revenue compared to the budget, especially with the structural changes in the oil markets and expected consumption trends. To counter this, the Kingdom will continue to play an effective role in achieving stability in the oil market and implement its plans for economic diversification.

**Daily Brent crude prices**
from January to October 2019 Vs. 2020




Source: EIA

## Prolonged COVID-19 pandemic

The current crisis has cast domestically high-probability risks in the short and medium-terms. This may hinder the realization of some of the targets that were planned prior to the crisis, such as achieving high and sustainable economic growth rates, empowering the private sector, enhancing the sustainability of public finances and creating more jobs in the private sector. Despite the negative effects caused by the pandemic, the Kingdom is still determined to overcome the crisis by implementing many policies and stimulus measures to help contain the crisis and mitigate its impact on the economy and achieve desired goals under the Saudi Vision 2030.

Initial projections indicate 3.2% growth in real GDP for FY 2021, driven by the assumption that economic activity will continue to recover and that the government will continue its efforts to strengthen the role of the private sector. However, if the crisis extends to the next year at the same severity, growth projections could be revised in light of potential risks to the domestic and global economies. For example, resurgence of high infection rates might require re-imposition of complete lockdown and partial or total precautionary measures. This will impact growth of private consumption and industrial production, as well as global supply chains for primary resources (production inputs), in addition to the possible delay in private and foreign investment.

Fiscal policy may also face a challenge in maintaining the approved spending ceilings for FY 2021 and the medium-term, in light of the potential emergence of unforeseen commitments to confront the pandemic, should it continue.

Therefore, fiscal policy will continue to set spending priorities according to higher economic outcome, and work on strategies to enhance the stability of government spending and reduce its procyclicality with the volatility in oil revenue. The government will also continue its efforts in the Saudization of many sectors, implement new projects in various sectors to create increased job opportunities for citizens, carry on the advance in economic diversification and support promising economic sectors such as tourism, sports and others due to the higher job opportunities these sectors could provide.

**Despite aforementioned global and domestic risks and challenges, a more speedy recovery could lead to a better-than-projected outcome.** Finding and delivering an effective coronavirus vaccine in the near future will prompt the recovery of economic activity worldwide and increase consumption rates, domestic demand, and domestic and foreign investments by the private sector in the non-oil sector. This will improve the Kingdom's trade balance with the main partners as a result of easing of the precautionary measures and procedures taken and the improvement of global supply chains, which will positively affect the domestic economy and may lead to better fiscal and economic results than projected in the FY 2021 budget.