ميزانية 2018
المملكة العربية السعودية
Saudi Arabia – Budget

وزارة المالية
Ministry of Finance

Budget Statement

Fiscal Year 2018

رؤية VISION 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

بسم الله الرحمن الرحيم

Index

ميزانية
2018
المملكة العربية السعودية
Saudi Arabia - Budget

Introduction

The Ministry of Finance ("the Ministry") has embarked on developing the preparation process of the state budget. This FY 2018 budget statement reflects the Ministry's reform policies in preparing the budget within a medium term macroeconomic and fiscal framework. It also highlights the budget performance and key fiscal and economic developments in FY 2017, key domestic and global economic developments expected in FY 2018, key indicators for FY 2018 and medium-term projections until 2023, including an adjusted version of the Fiscal Balance Program. The statement also highlights key government initiatives and reforms aimed at achieving fiscal sustainability and economic growth. It also reviews key economic risks posed to the public finance in the medium run and government policies to reduce and mitigate such risks. The report also reflects Saudi Arabia's endeavors towards greater disclosure and transparency. It is worth mentioning that Budget accounts have been classified according to the Government Finance Statistics Manual (GFSM 2014), which is a standard global classification issued by the International Monetary Fund (IMF).

ميزانية 2018

المملكة العربية السعودية

Saudi Arabia - Budget

I:

Overview of the Budget Fiscal and Economic Framework

I:

Overview of the Budget Fiscal and Economic Framework

Saudi Arabia is currently undergoing a historic and important transformation at economic, social and cultural levels under the direct guidance and supervision of the Custodian of the Two Holy Mosques and His Royal Highness the Crown Prince. Saudi Vision 2030 was launched in April 2016, followed by the launch of specific programs in 2016 and 2017. The Vision and its programs aim to diversify the economy beyond oil, achieve fiscal and economic stability, stimulate non-oil sector growth, increase the contribution of the private sector as the main driver of economic growth, increase employment opportunities for citizens of both genders, improve the standard of living of citizens and build a vibrant society.

In execution of Vision 2030, the Fiscal Balance Program was launched to achieve fiscal sustainability. The Ministry also launched several other programs and initiatives, such as the implementation of a medium-term fiscal framework that will help to set certain expenditure caps for government entities; the optimal allocation and efficient management of resources; development of the projection and collection of revenues through measurable targets; improvement of the quality, accuracy, transparency and frequency of financial accounts; optimal utilization of state assets; and introduction of new financing methods.

To achieve these objectives, a number of units and offices have been established to run the various programs and support the transition phase and the Vision, including: Macro and Fiscal Policies Unit, Debt Management Office, Expenditure Rationalization Office, Fiscal Balance Program Office, Financial Sector Development Office, and Non-Oil Revenue Development Unit. These newly established functions complement the treasury function's structure that includes the Deputyship for Budget and Organizational Affairs, Deputyship for Financial and Accounts Affairs, and Deputyship for Revenues Affairs working in tandem with different departments in the Ministry and other government agencies to implement the Ministry's strategy. Other initiatives launched by the Ministry include: (1) the development of public finance management, (2) the introduction of treasury single account for effective cash control and liquidity management, (3) the development of the budget preparation process, (4) revision of the Government Tenders and Procurement Law, (5) the transformation from the cash basis to the accrual basis in government accounting, and (6) the improvement of fiscal control systems. These initiatives will result in a more efficient budget preparation and better financial control and performance measurement.

Economic Framework

The real GDP growth in Saudi Arabia is expected to be nearly 2.7% in 2018, predicated on the implementation of policies to improve economic performance, especially non-oil activities. This growth outlook follows negative growth of 0.5% in 2017, driven by lower oil output. On the other hand, non-oil sector grew by 0.6% in the first half of the year and is expected to grow at 1.5% for the year on the back of the improvement of economic performance indicators in the second half of the year.

The cost of living index registered a YOY average negative growth rate of -0.3% until October 2017 compared to 3.8% in same period of 2016. The current account of the balance of payments is expected to record a surplus of SAR 14.4 billion or 0.5% of nominal GDP during the first half of 2017, and even higher surpluses are projected for the second half of this year and 2018.

According to what was announced, several measures will be implemented to stimulate economic performance in the coming year, including: (1) package of measures to stimulate investments; (2) payment of arrears to the private sector within 60 days from the receipt of fully complete orders by the Ministry; (3) promoting investment through facilitating procedures; (4) improving government services; (5) launching projects in construction, tourism, culture and entertainment sectors; (6) privatization programs to create new opportunities for private sector investments and employment generation; and (7) developing a framework for public-private partnerships (PPP). The government will continue taking initiatives to reduce any negative impact on citizens, including by introducing the Citizen Account Program; a key initiative to compensate eligible citizens for the additional costs arising from VAT and energy price reform. The budget for the Program is expected to be nearly SAR 32 billion in 2018.

Fiscal Framework

The budget deficit is projected to reach 8.9% of GDP in 2017; a sharp decline from 12.8% of GDP in 2016. Revenues are expected to increase by 34% to SAR 696 billion, buoyed by higher oil and non-oil revenues. Concurrently, expenditures are expected to increase by 11.6% to SAR 926 billion due to the settlement of private sector arrears. Several reforms were also introduced to drive non-oil revenues, rationalize expenditures, reduce the budget deficit and control public debt growth. The reforms included the first round of energy price reform in 2016, amendment of several fees, including visa fees and traffic violation fees, the introduction of excise tax in June 2017 on some goods such as tobacco and soft and energy drinks; and the implementation of expat levies in July 2017. To improve performance and ensure timely private sector payments within the Ministry's committed 60-day period, the Ministry has launched platforms, such as "Eitimad" platform, and e-services, such as payment order inquiry and claim submission service.

The Ministry has also revised the Government Tenders and Procurement Law in line with best international practices to meet the requirements of Vision 2030, , meet the needs of the public and private sectors, rationalize and raise the efficiency of operational and capital expenditure, maximize the value of public funds, ensure honesty and competition, protect public funds from being exploited for personal gains and boost economic development by supporting local content and SMEs.

2018 Budget

In 2018 budget, the government targets lowering the deficit to nearly 7.3% of nominal GDP versus an expected deficit of 8.9% of GDP in 2017. Total revenues are estimated to climb 12.6% in 2018 budget compared to 2017, while non-oil revenue is estimated to increase by 14% as the government will continue to implement the reforms outlined by the Fiscal Balance Program in 2018. These reforms include the implementation of: (1) a 5% VAT in January in accordance with the Unified VAT agreement of GCC states, (2) the second round of energy price reform, with a medium-term target to gradually link domestic energy prices to international benchmarks, (3) the second round of expat levy, and (4) other initiatives and reforms to explore other sources for non-oil revenue as well as rationalize and raise the efficiency of government expenditure. At the same time, 2018 budget will see an increase in government expenditure by 5.6% compared to 2017 on the back of a 13.6% increase in government investment (capital expenditure) to fund the Vision's projects and initiatives, including infrastructure development, to stimulate economic growth and generate more jobs.

Medium-Term Fiscal Framework

In view of the economic developments and growth targets, the timeframe of the Fiscal Balance Program was revised and the goal to achieve fiscal balance has been moved from 2020 to 2023. Accordingly, the Program's measures and reforms will be phased in gradually to ensure that economic growth is not affected. Moreover, the fiscal and economic developments will be closely monitored to ensure the Program's goals are realized. This deferral is not expected to entail consequences for fiscal sustainability and strengthening because of the strong financial position of the Saudi economy and the high amount of reserves level that will allow the economy to withstand external shocks.

ميزانية 2018

المملكة العربية السعودية

Saudi Arabia – Budget

II:

World Economic Outlook

II:

World Economic Outlook

On October 2017 World Economic Outlook, the IMF has revised upward its global economic growth forecasts to 3.6% in 2017 and 3.7% in 2018, from its previous forecasts of 3.5% and 3.6%, respectively. The following table shows economic outlook projections for the world major economies.

Global GDP and Inflation (Percentage)

	2016	2017	2018
World	3.2	3.6	3.7
Advanced economies	1.7	2.2	2
Emerging markets and developing economies	4.3	4.6	4.9
US	1.5	2.2	2.3
China	6.7	6.8	6.5
Japan	1	1.5	0.7
Inflation in advanced economies	0.8	1.7	1.7
Inflation in emerging markets and developing economies	4.3	4.2	4.4

Source: October 2017 WEO, IMF

With the assumption that fiscal policy will be less expansionary than previously assumed, the IMF has marked down the GDP growth in the United States by 0.1% for 2017 and 0.2% for 2018. However, as a result of the late approval of the tax cut bill, the US economic growth is expected to rise, which will also be expected to accelerate the increase in US interest rates.

The IMF has also revised upward the growth for the Euro area, on the back of stronger economic indicators and diminishing political risks. It has also revised up the economic growth for Japan and China, which are Saudi Arabia's top trading partners, to 1.5% in 2017 and 0.7% in 2018 for Japan and 6.8% and 6.5% for China respectively.

On the other hand, the IMF noted that the global economy is still facing serious medium-term risks, as tightened policy in some advanced economies, especially the US interest rate normalization, could trigger a faster-than-anticipated tightening in global economic growth. It also noted that trade protectionism as well as political tensions in many regions could harm the global economy. Moreover, high valuations in global financial markets accompanied by very low volatility, in an environment of high policy uncertainty, raise the likelihood of a future market correction, which could dampen confidence.

The World Bank has also warned against the same risks. In the June 2017 Global Economic Prospects report, the World Bank has indicated that global growth will be supported by the prospective economic growth in the US and the rise in demand and exports in the Euro area and Japan. The Bank also noted that the negative impact of falling oil prices on the budgets of some oil-exporting economies has begun to wane as oil prices are starting to pick up gradually. However, it has emphasized the importance of continuing fiscal and economic reforms as well as improving trade policies to attract foreign investments.

• Global Oil Markets

Despite the fluctuation in oil prices this year due to various factors, prices kept picking up gradually. This has been helped by good global growth and decline in OECD commercial stocks by 200 million barrels from January to October 2017.

The OPEC agreement has strengthened the positive outlook for oil markets and boosted investor confidence. However, higher output in Libya, Nigeria, and the United States, and non-compliance by some countries, have negatively affected the market, albeit modestly. Nevertheless, the price of Brent crude rose from $44 a barrel in June to $65 a barrel in December, rising by more than $20 a barrel.

While most forecasts suggest a continued recovery in global oil markets based on the output cut deal, such forecasts are subject to the compliance with the deal, continued global economic growth, validity of supply and demand forecasts, and success in addressing arbitrary regulations against fossil fuel products.

According to the latest data from OPEC Secretariat, the International Energy Agency (IEA) and the US Energy Information Administration (EIA), the global demand is projected to increase by 1.5 mb/d in 2018, although there is a clear discrepancy in non-OPEC supply growth forecasts (which also includes non-oil liquids from OPEC countries) from these three sources, ranging from 920 thousand b/d to 1.63 million b/d. With that, oil prices are expected to continue to rise, provided that oil markets remain balanced, and taking into account seasonal conditions where demand in the first half is lower than the second half.

- **Trade:**

Japan has become, for the first time, the top destination for Saudi Arabia's exports in 2017. China is the second top destination for exports, and also ranks first in terms of imports into Saudi Arabia, followed by the United States.

Top five Destinations for Saudi Arabia's Exports (SAR Billion)

	until Q3 2016	until Q3 2017	Change (%)
Japan	49.324	71.848	46% ▲
China	56.064	69.486	24% ▲
India	46.149	53.623	16% ▲
USA	45.921	53.101	16% ▲
South Korea	41.611	52.343	26% ▲

Top five Sources of Saudi Arabia's Imports (SAR Billion)

	until Q3 2016	until Q3 2017	Change (%)
China	58.103	56.187	-3.3% ▼
USA	55.549	50.141	-9.7% ▼
UAE	21.476	23.577	9.8% ▲
Germany	26.487	21.696	-18.1% ▼
India	15.141	15.129	-0.1% ▼

Source: GaStat

ميزانية 2018

المملكة العربية السعودية
Saudi Arabia – Budget

III

Economic and Fiscal Developments in 2017

III:

Economic and Fiscal Developments in 2017

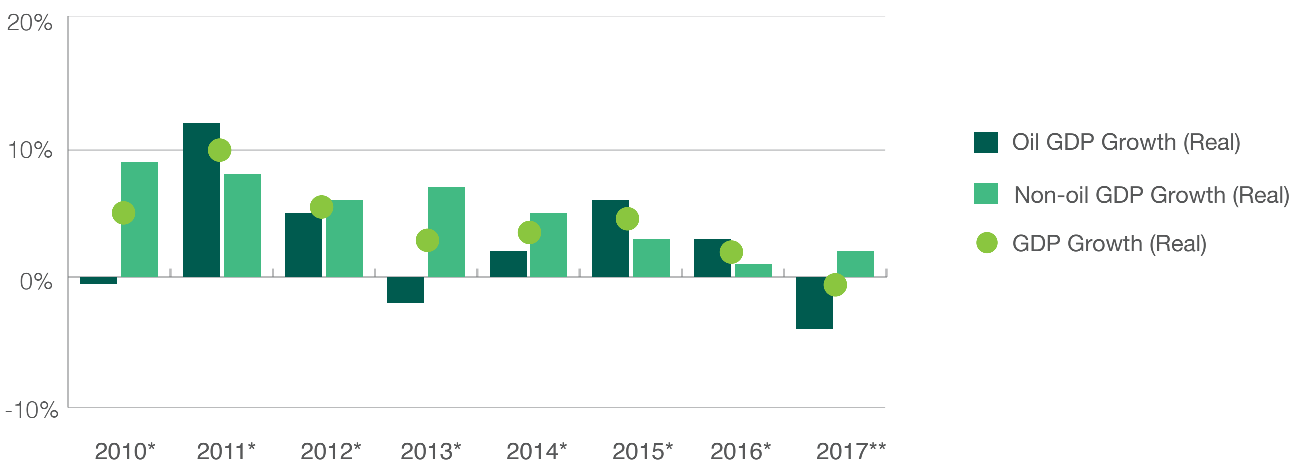
1- Economic Developments

Real Sector

According to the data of the General Authority for Statistics (GaStat), the real GDP registered a negative growth of 0.8% in the first half of 2017, while it is projected, according to the Ministry of Economy and Planning (MEP), to register a negative growth of 0.5%[1] in 2017. This negative growth is attributed to the decline in real oil GDP, which recorded a negative growth of 2% during the first half, and is expected to continue the negative trajectory to as much as 4.3%[1] by the end of this year as a result of Saudi Arabia's commitment to cut oil output pursuant to the November 2016 OPEC deal, which was extended until the end of 2018.

Based on GaStat data, the positive growth of real non-oil GDP is expected to offset the decline in real GDP. Non-oil GDP is expected to grow by 1.5%[1] in 2017 (as compared to actual growth rate of 0.6% in the first half), driven by the growth in some economic sectors, such as the manufacturing and services sectors, despite lower growth in sectors such as building and construction.

GDP Growth (Real)



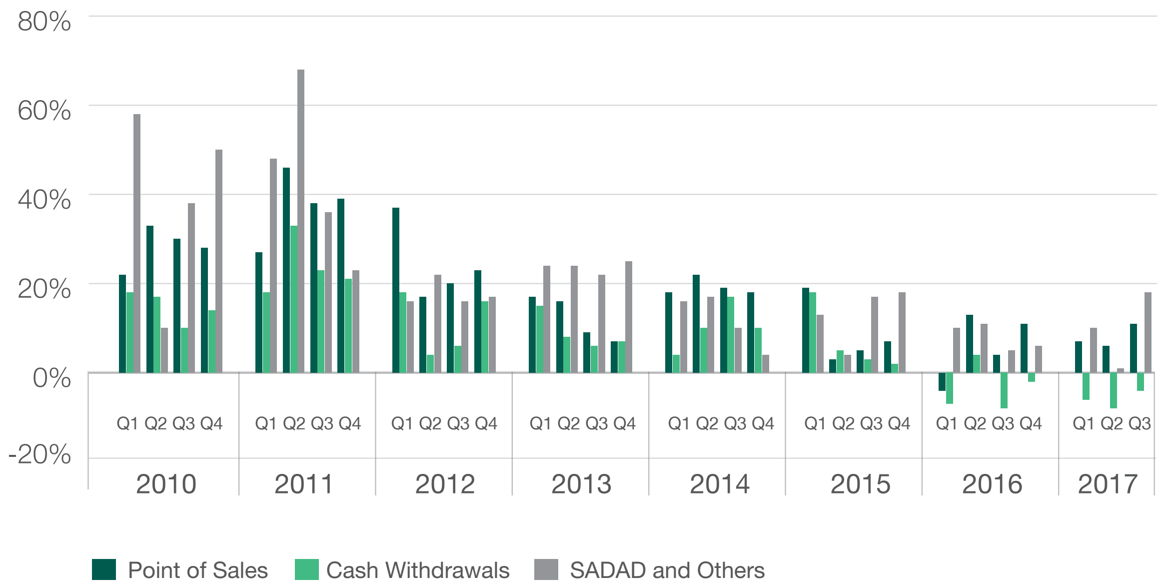
Source: *Gastat , ** MEP

(1) MEP

Nominal GDP is expected to grow by 6.1%[1] at the end of 2017 buoyed by higher oil prices in the global markets that also contributed to a 20.2%[1] increase in nominal oil GDP. Nominal non-oil GDP is also expected to grow by 1.4%[1], taking into account the overall lower prices as shown in the negative cost of living index for this year.

Some key indicators of economic performance showed some improvement in the third quarter of 2017, especially in private consumption. Point of Sales (POS) transactions recorded a YOY increase of 9.8% in the third quarter of the year compared to an average of 5.7% in the first half of 2017. On the other hand, ATM withdrawals recorded a YOY fall of 2.2% in the third quarter compared to an average decline of 5.6% in the first half of the year, according to SAMA data. In addition, the corporate profits improved during the third quarter YOY in some sectors, such as petrochemicals and banking.

YOY Private Consumption Indicators



Source: Saudi Arabian Monetary Authority

Data from GaStat's Labor Market Bulletin indicates that unemployment rate for Saudis was 12.8% by the end of the first half of the year compared to 12.3% at the end of 2016.

(1) MEP

Inflation

According to GaStat actual data, the cost of living index registered a YOY average decline of -0.3% until October 2017 compared to 3.8% in the same period of the previous year. According to MEP estimates, the index is expected to register -0.1% change by the end of 2017 compared to 3.5% in the previous year. However, private and government consumption in the fourth quarter is expected to reduce the negative inflation rate.

External Sector

The balance of payments performance, published by SAMA, showed an improvement in the current account, recording a surplus of SAR 14.4 billion until mid 2017. The surplus was driven by improvement in the balance of goods and services and the balance of primary income, which recorded surpluses of SAR 54.1 billion and SAR 30.7 billion respectively, as a result of oil prices recovery. On the other hand, the secondary income account, which represents the government and private transfers, recorded a deficit of SAR 70.4 billion, driven by workers' remittances of SAR 62.7 billion during the first half of 2017. According to SAMA estimates, the current account is expected to record a surplus of 2.5% of GDP for the full year.

GaStat data indicates that the total commodity exports reached SAR 591 billion until the end of September 2017, increasing by 20.3% compared to the same period in 2016 due to an increase in oil exports value by 26.3%. Non-oil exports amounted to SAR 136 billion during the same period of 2017, increasing by 4.2% compared to the same period last year. On the other hand, the commodity imports amounted to SAR 364 billion until the end of September 2017, falling by 8.7% compared to the same period last year due to the decline in import of consumer and intermediate goods.

Monetary Sector

According to SAMA data, broad money supply (M3) recorded a slight YOY decline of 0.6% in October 2017, driven by a drop in time and savings deposits and currency in circulation, despite a 3.7% growth in demand deposits. Whereas the banks' claims on the private sector fell by -1.2% in October of this year compared to the same period of 2016. Banks' claims on the public sector saw a YOY growth of 29% in October to SAR 292 billion, driven by government bond issuances and the growth of bank credit to public agencies.

With regard to bank credit, the total credit extended to economic activities was SAR 1,408 billion, recording a YOY decrease of 1.5% in the third quarter of 2017. This decrease was caused by the fall in the credit extended to the construction and building sector by 7.7%, manufacturing and production sector by 8% and other sectors 2.7%. On the other hand, the total consumer credit decreased by 1.4% YOY to SAR 339 billion in the third quarter of this year, driven by a decrease in consumer loans for furniture, durables, and health care. According to the latest data by SAMA, total real estate loans from commercial banks recorded an annual growth of 9% to SAR 220 billion by the end of the third quarter of 2017, driven by subsidized homeownership loans, in which the share of retail and corporate loans accounted for 51% and 49% of total loans respectively. The Real estate loans by finance companies recorded a YOY increase of 8% to SAR 14 billion at the end of the third quarter of 2017, with retail loans accounting for 82% of total real estate loans.

Fiscal Developments

The budget deficit for FY 2017 is expected to amount to SAR 230 billion or 8.9% of GDP compared to 12.8% of GDP in 2016; a clear indication that Saudi fiscal policy is on the right track to achieve its medium-term goals. Nevertheless, the deficit is expected to be higher than budget estimates (SAR 198 billion) as total revenues increased by 1%, while total expenditures increased by 4%.

a. Revenues:

Revenues developments in 2017 were significant; as many reforms, announced in the Fiscal Balance Program that was published in December 2016, were implemented. Reforms included: (1) adjustment of visa and municipality fees, (2) implementation of the expat levies, and (3) application of excise tax on some products, such as tobacco and its derivatives, soft drinks and energy drinks.

Total revenue is expected to increase by 34% to SAR 696 billion in 2017 compared the previous year. The increase is due to higher oil prices, which contributed to an increase of 32% in oil revenues and the implementation of many reforms which contributed to an increase of 38% in non-oil revenues. Total revenue is expected to be 1% higher than budget estimates.

Taxes

Taxes are estimated at SAR 97 billion in 2017, increasing by 19% over the previous year. However, they are expected to fall below the budget estimates by 19%. Moreover, taxes on income, profits, and capital gains are expected to decline by 6% from the previous year. This decrease is due to lower yields from foreign corporate income tax, non-resident withholding tax, and Zakat as a result of the slowdown in economic performance. Further, these taxes are expected to be lower than budget estimates by 23%.

Taxes on goods and services are, however, expected to reach SAR 47 billion in 2017, rising by 54% over the previous year due to the implementation of a number of economic reforms, the most important of which are excise taxes and visa fee adjustments. Despite the increase, taxes on goods and services are projected to be lower by 16% from their budget estimates as implementation of the excise tax took place only in the second half of the year.

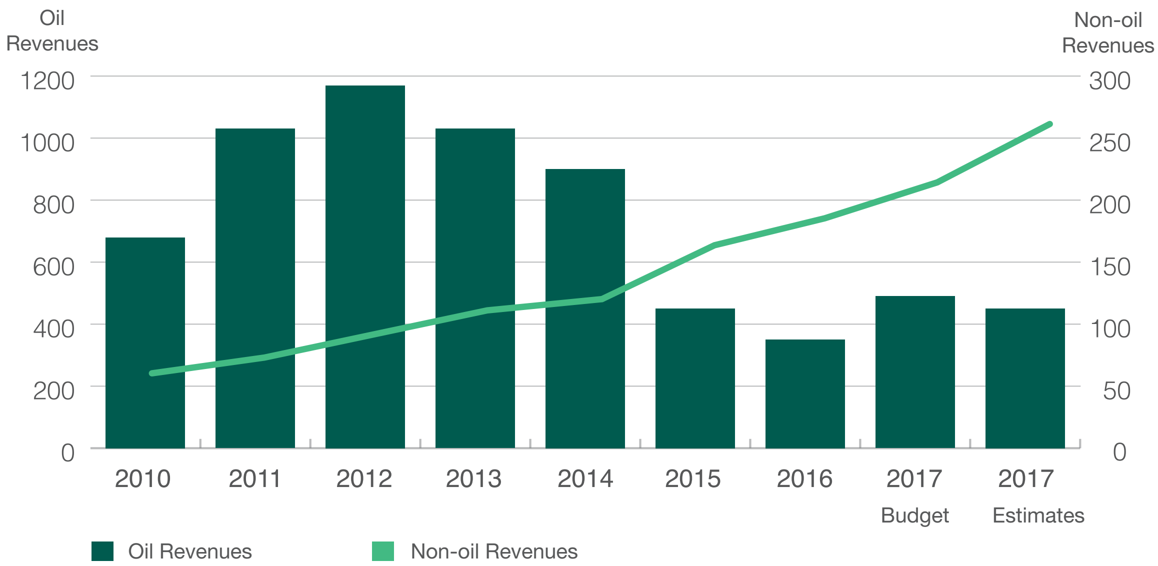
Taxes on international trade and transactions (customs duties) are expected to reach SAR 21 billion by the end 2017, rising by 3% over the previous year but lower by 31% from the budget estimate. GaStat data shows that total goods imports declined by 8.7% up to September 2017 compared to the corresponding period of the previous year.

Other revenues:

Other revenues are expected to reach SAR 599 billion in 2017, rising by 37% compared to the actual figure of the previous year, and exceeding the budget estimates by 4.7% . This includes oil revenues that are estimated at SAR 440 billion in 2017, increasing by 32% over the previous year. Oil production averaged 9.9 million barrels per day. The average Brent crude oil price was $53.3 per barrel up to November 2017, compared to $43.5 per barrel during the corresponding period of 2016. Oil revenues are however expected to be lower by 8% from the budget estimates due to the postponement of energy price reform planned for this year.

Total Revenues 2010 - 2017

(SAR Billion)



Source: MOF

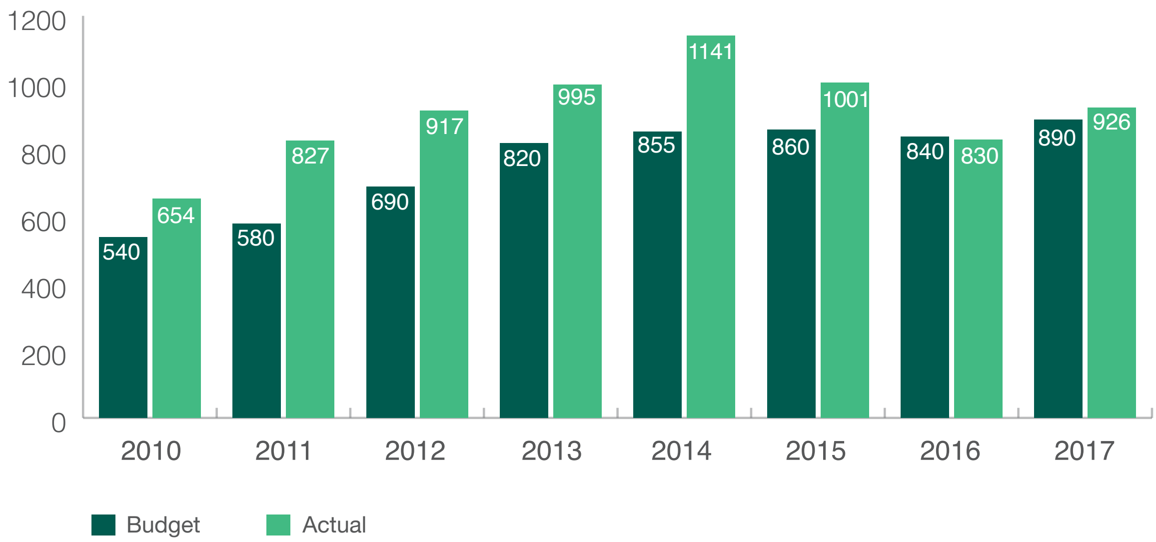
b. Expenditures:

Total government expenditures in 2017 are expected to amount SAR 926 billion or 36% of GDP, exceeding the budget estimates by 4% and 11.6% higher compared to the previous year. This rise was mainly driven by higher compensation of employees due to the retroactive payment of allowances, as well as appropriations for new programs and projects to pay private contractors and suppliers within 60 days. Another cause for the increase was spending for the expansion of Al-Masjid an-Nabaw (Prophet's Mosque). Social benefits also increased by 20.4%. Capital expenditure rose by nearly 3.6% despite the decline in spending on the use of goods and services by 11.7% from the budget estimates.

Expenditures are also expected to increase above estimates as follows: education sector by 14% to SAR 228 billion, public administration by 13% to SAR 30 billion, health and social development by 11% to SAR 133 billion, municipal services by 2% to SAR 49 billion, military by 17% to SAR 224 billion, and security and regional administration by 14% to SAR 110 billion. In contrast, expenditure on infrastructure and transport sector, general items sector, and economic resources sector are projected to record declines, to reach SAR 29 billion, SAR 85 billion and SAR 39 billion, respectively.

Comparison of Actual Expenditure and Approved Budget

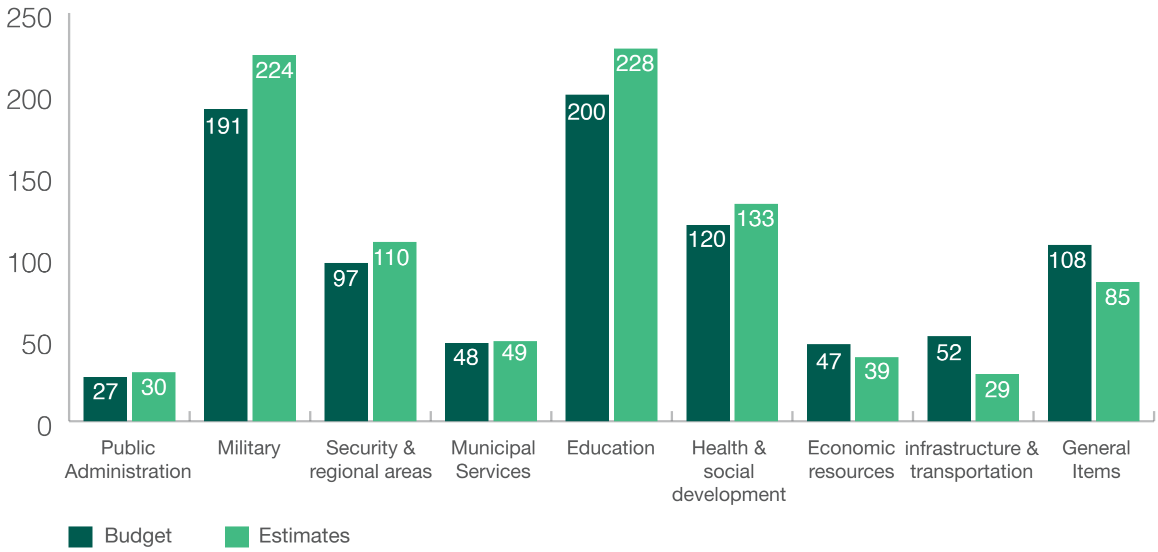
(SAR Billion)



Source: MOF

Comparison of Actual Expenditure and Approved Budget in 2017

(SAR Billion)



Source: MOF

c. Debt and Financing:

To finance budget deficit during the current fiscal year 2017, the Ministry has continued to adopt a balanced policy between debt issuances and withdrawals from government deposits and reserves. The Ministry has also diversified its domestic and foreign issuances through the issuance of sukuk and bonds estimated at SAR 134 billion, of which SAR 53.6 billion were domestic sukuk SAR 33.7 billion external sukuk, and SAR 46.8 billion external bonds. Meanwhile, around SAR 100 billion of government deposits and reserves are expected to be used. Government bonds amounting to SAR 8.5 billion were paid off, and debt repayments amounting to SAR 4 billion were made. Public debt is expected to total SAR 438 billion (17% of GDP) at the end of 2017, compared to SAR 317 billion (13.1% of GDP) in 2016. The Ministry, represented by the Debt Management Office (DMO), put in place a medium-term strategy to manage public debt, which includes suitable finance solutions at the best possible costs with an acceptable degree of risk in line with Saudi Arabia’s fiscal policies.

(SAR billion, unless otherwise stated)

Fiscal Developments	Actual 2016	Budget 2017	Estimates 2017	Annual change
Revenues				
Total Revenues	**519**	**692**	**696**	**33.9 %**
Taxes	**82**	**121**	**97**	**18.6 %**
Taxes on income, profits, and capital gains	15	18	14	-5.6 %
Taxes on goods and services	30	56	47	54.3 %
Taxes on international trade and transactions	20	31	21	3.3 %
Other taxes	17	16	15	-6.6 %
Other revenues	**437**	**571**	**599**	**36.8 %**
Expenditures				
Total Expenditures	**830**	**890**	**926**	**11.6 %**
Expenses (OPEX)	**696**	**716**	**746**	**7.2 %**
Compensation of Employees	409	412	440	7.6 %
Goods and services	150	153	135	-10.1 %
Financing Expenses	5	9	9	81.9 %
Subsidies	7	7	7	-1.9 %
Grants	5	3	3	-39.2 %
Social Benefits	41	37	44	6.3 %
Other expenses	79	95	108	36.7 %
Non-Financial Assets (CAPEX)	**134**	**174**	**180**	**34.3 %**
Budget deficit\surplus				
Budget deficit\surplus	-311	-198	-230	-25.9 %
Ratio of GDP	-12.8 %	-7.7 %	-8.9%	--
Debt and assets				
Debt	317	--	438	38.5 %
Ratio of GDP	13.1%	--	17.0 %	--
Government deposits at SAMA	683	--	584	-14.6 %
Ratio of GDP	28.2%	--	22.7 %	--

Source: MOF

2- Institutional Reforms to Develop Public Finance Management

The Ministry undertook a number of initiatives and institutional reforms in 2017 to develop public financial management, including completing the classification of the government budget in accordance with the Government Finance Statistics Manual (GFSM) 2014, and developing the institutional structure responsible for designing the fiscal policy. The progress included the establishment of specialized units to support decision-making process and enhance the efficiency of public finance management. Units recently created at the Ministry include the Macro and Fiscal Policies Unit (MFPU), the Debt Management Office (DMO), and the Non-Oil Revenue Development Unit (NOR). The Capital and Operational Expenditure Rationalization Office, the Strategic Procurement Unit and the Fiscal Balance Office (FBO) have also been brought under the supervision of the Ministry.

1- Macro and Fiscal Policies Unit

Macro and Fiscal Policies Unit (MFPU) has been established pursuant to Royal Decree No. 45438, dated 1/9/1437H (corresponding to 6/6/2016), in line with the Saudi Vision 2030 to develop the medium-term fiscal framework. The MFPU acts as a strategic advisory unit to the Minister of Finance that aims at promoting the formulation of fiscal and economic policies as well as monitoring their performance and fiscal planning, by adopting the best international practices and standards. The most significant tasks of MFPU include carrying out fiscal and economic analysis, issuing fiscal and economic forecasts, advising and proposing policies that ensure the soundness and sustainability of public finance over the medium term, and achieving the development objectives of the Saudi Vision 2030.

In 2017, the MFPU prepared a medium-term economic and fiscal framework for the economy of Saudi Arabia, which included the establishment of a detailed economic and fiscal database and developing economic models according to international best practices and standards, with the technical support of major international institutions. The framework enables the preparation of the budget in a more comprehensive eco-nomic framework, for a medium-term horizon exceeding the budget year, the setting of expenditure ceilings and the identification of medium-term budget financing needs. In addition, it provides a mechanism for better assessment of the fiscal and economic developments in order to optimize fiscal planning, and evaluate the need for intervention through fiscal policy instruments to achieve the fiscal and economic targets of Vision 2030. The framework allows also for the identification andmonitoring of the most significant fiscal and economic risks in the medium term, in line with the national and international macroeconomic performance.

The MFPU also prepares fiscal and economic reports. It has worked with other depart-ments at the Ministry on preparing the budget statement report and quarterly reports on the public finance performance. The Ministry has published these reports for the first time starting from the first quarter of 2017 to enhance fiscal transparency and disclosure.

2- Debt Management Office

Since its establishment in the fourth quarter of 2015, the Debt Management Office (DMO) has worked to meet the financing needs of Saudi Arabia at the best possible costs in the short, medium, and long term and with an acceptable degree of risk taking in line with the fiscal policies of Saudi Arabia, and to maintain the Kingdom's access to different international markets at fair pricing.

In 2017, the DMO has achieved the following:

• In April 2017, it registered government financing instruments at the Securities Depos-itory Center (SDC) and appointed a paying agent from the private sector. This will be followed by appointment of primary dealers to enable the DMO to list government financing instruments on Tadawul as part of developing primary and secondary debt markets in the Kingdom of Saudi Arabia.

• An international sukuk issuance program was arranged, and the largest-ever sover-eign sukuk issuance across emerging markets was offered in April 2017, more than double the previous largest sovereign sukuk in the world. The $9 billion sukuk was sold in two tranches: a $4.5 billion five-year tranche at 2.894% maturing on 20 April 2022 and a $4.5 billion 10-year tranche at 3.628% maturing on 20 April 2027. This issuance attracted many investors, as it was oversubscribed 3.7 times. Demand for this sukuk was high as many investors, 34% of the overall investors for this issuance, preferred this type of instrument. These issuances are essential for the banking sector in Saudi Arabia due to the international regulatory framework of Basel III and the liquidity management restrictions consistent with this type. Indeed, two other elements helped the government meet these requirements: (1) the wide acceptance of sukuk is-suances by a large number of Shariah committee members in financial institutions and councils and (2) the innovative structure of sukuk, which shows the strong leadership of the Kingdom of Saudi Arabia in this respect, reflected by the design of a structure that has not been used before by any other sovereign government. This issuance also attracted many large international investors previously not known for large sukuk investments.

•Furthermore, the Ministry managed the second international bond issuance in September 2017. The $12.5 billion issue was split in three tranches. The first tranche, ma-turing on 4 March 2023, was $3 billion in size at 3.009%. The second, maturing on 4 March 2028, was $5 billion at 3.762%. The third, maturing on 4 October 2047, was $4.5 billion at 4.663%. The successful offering was supported by a marketing campaign. The DMO met with more than 130 international investors, 90% of whom participated in this issue. This volume of participation was higher than the percentage of participation in the first issuance in 2016, which was 74%. The high demand was clear as the issue was heavily oversubscribed with orders worth $40 billion, enabling the Kingdom of Saudi Arabia to reduce the final pricing by 20bp for all tranches.

•In July 2017, the Ministry, through the DMO, arranged the domestic sukuk issuance program in Saudi riyals and qualified commercial banks and government institutions to invest in the government sukuk issues. Besides, the Ministry, represented by the DMO, offered four issuances within the domestic sukuk issuance program with maturities of 5, 7, and 10 years. The fourth issuance was reopened in November 2017 to reduce the number of issuances and increase the liquidity of each issuance. The total value of the four issuances has reached SAR 54 billion.

ميزانية
2018
المملكة العربية السعودية
Saudi Arabia – Budget

IV

Domestic Economic Outlook

IV:

Domestic Economic Outlook

It is projected that most of the macroeconomic indicators in 2018 will improve, compared with the preceding year, driven by a budget that focuses on economic reforms and expansion of investment spending. The estimates of MEP indicate that the real GDP will increase by 2.7%, fundamentally led by the rise of the real non-oil GDP by 3.7%. The private sector will be a major driver for this increasingly important role of non-oil sectors; the growth rate of its real investments is estimated at about 3.3%. The government sector will also play an important role and contribute to the growth of non-oil sectors due to the direct effect of the increase in government spending by 5.6%. This increase in government expenditure aims to implement current reforms as well as future economic reforms that focus on encouraging investment, raising investors' confidence, privatization, stimulating directed capital spending on vital projects based on economic contribution, developing new sectors, boosting productivity, and other initiatives aimed at achieving the Saudi Vision 2030.

The economic activity will be fostered in major sectors, such as manufacturing industries and building and construction industry, which contribute greatly to GDP growth, in addition to mining, financial services, insurance, real estate, business services, and telecommunication sectors. MEP medium-term estimates show that real GDP growth rate will exceed 2.8% in 2020 and the real non-oil GDP growth will reach 3.2% in 2020. Estimates also show that the nominal GDP growth will reach 3.2%in the coming year and grow by 3.7% in 2020.

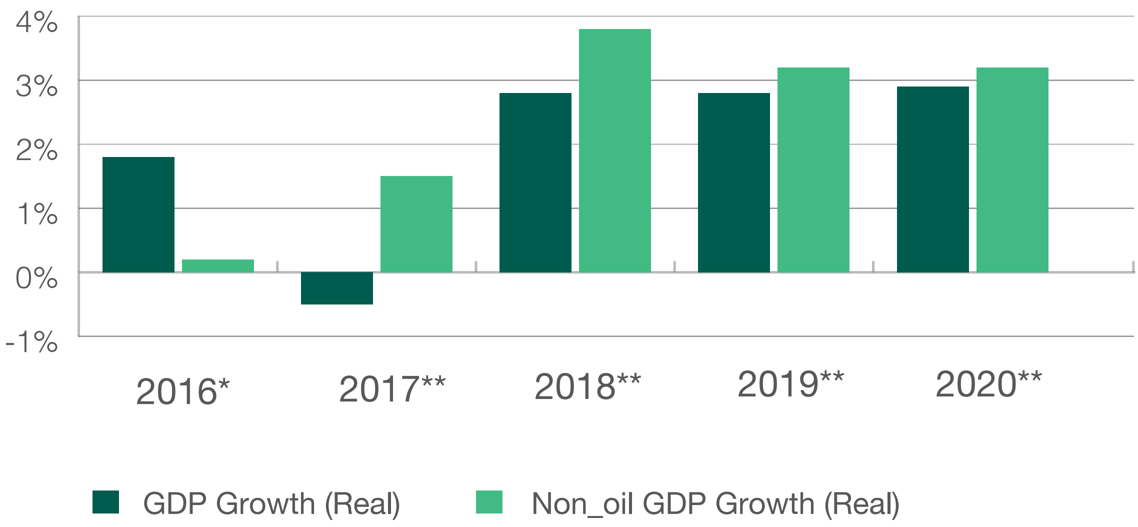
It is also expected that the government stimulation and capital spending will contribute to the increase of the real economic growth rates in 2018, and to the neutralization of the consequences of public finance sustainability. The policies of the public finance sustainability, which include raising spending efficiency and non-oil revenues through VAT and energy price reform, may negatively and temporarily affect prices and consumptions. However, stimulus programs, such as the Citizen Account Program and other stimulus initiatives for the private sector, will greatly contribute to offsetting the consequences of these measures. Such initiatives and programs will focus on improving growth of real non-oil GDP along with the increase in government capital expenditure in 2018 which is estimated to grow by 13.6% compared to the previous year.

MEP expects the growth rates of private investment and consumption to be positive in 2018. Given the critical role of the private sector in achieving Vision 2030, private investment is expected to record a positive growth of 3.3% in 2018 and 3.5% in 2020, following a significant decline in 2017. On the other hand, private consumption is projected to record a modest growth rate of 0.4% in 2018 before rising to 2% in 2020.

In addition, according to MEP estimates, unemployment rate among Saudis is projected to decrease in 2018 compared to the previous year, which indicates that Saudi unemployment rate will decline to 12% in 2018. It is expected to continue to decline gradually, with the support of economic growth, expat levy, substitution plans and multiple initiatives, to reach 10.6% in 2020. Such rates may further decline when the desired results of initiatives aimed at bringing citizens into a number of sectors and economic activities are achieved.

The projections of 2018 are dependent on several factors, the most important of which are the oil market performance and the accurate and synchronized implementation processes of economic reform programs. Even though certain reforms may have a positive impact on fiscal sustainability and diversification of income sources (such as VAT, expat levy, and energy price reform programs), they may have an adverse impact on economic growth if not implemented simultaneously with the economic stimulus programs, such as the activation of the Citizen Account Program, stimulus packages and capital government expenditure. Thus, 2018 projections took into account the level of the implementation of and synchronization between the various initiatives related to economic reform programs.

GDP Growth (Real)



Source: *GaStat **MEP

Medium-Term Economic Indicators Estimates (2017- 2020)					
	Actual*	Estimates**	Projections**		
	2016	2017	2018	2019	2020
Economic Indicators (%)					
GDP Growth (Real)	1.7	-0.5	2.7	2.7	2.8
Non-Oil GDP Growth (Real)	0.2	1.5	3.7	3.1	3.2
GDP Growth (Nominal)	-1.2	6.1	3.2	4.2	3.7
Non-Oil GDP Growth (Nominal)	1.7	1.4	0.1	2.2	1.6
Real Private Consumption	2.2	1.2	0.4	1.6	1.9
Real Private Investment	-0.2	-6.0	3.3	3.4	3.5
Saudi unemployment growth rate	12.3	12.3	12.0	11.2	10.6

Source: *GaStat **MEP

ميزانية
2018
المملكة العربية السعودية
Saudi Arabia – Budget

V

Medium-Term Fiscal Policies

V:

Medium-Term Fiscal Policies

The Fiscal Balance Program 2017-2020 that was launched in December 2016 represented a mechanism for the medium-term fiscal planning to sustain the status of public finance and achieve a balanced budget. The program is based on 5 key pillars represented in:

1) Rationalizing Government Expenditures.
2) Energy and Water Price Reform.
3) Other Government Revenues.
4) Household Allowance.
5) Enabling Private Sector Growth.

In 2017, the Fiscal Balance Program was reviewed in light of the economic developments as a medium-term fiscal framework which will be updated and published on an annual basis as an integral part of the annual budget statement, this will include initiatives and policies to achieve the objectives and governance in order to ensure effective execution.

As part of the follow-up on the progress of the actual local and global economic performance during the year, the fiscal and economic impacts of some of the implemented initiatives, the expected estimates of some planned initiatives, and the medium-term economic growth targets, which represent a major objective of the Vision 2030, the timeline of the program has been reviewed and the amendment to extend the execution period of some reforms. This changed reaching Fiscal Balance to 2023 instead of 2020 to prevent having a negative impact on the growth rates of non-oil GDP, which is one of the main objectives of the Vision 2030.

Program Implementation Mechanism

The Fiscal Balance Program has set ambitious goals requiring significant changes in the fiscal policy. Thus, the following four strategic pillars have been identified:

A- Laying the foundations of financial accountability in all government entities by allocating a budget consistent with the strategic priorities of these entities, and establishing a system promoting accountability and full ownership of financial targets across all entities.

B- Fiscal and Macroeconomic Planning by directing the fiscal policy towards achieving fiscal and economic sustainability and stimulating efficient decision-making process for budget management while providing an integrated picture of debts and reserves.

C- Maximizing Government Revenues by creating a portfolio of revenue initiatives necessary to achieve the fiscal balance objectives.

D- Improving the government spending efficiency through optimal utilization of state resources to achieve the fiscal balance objectives.

1- Laying the foundations of financial accountability in all government entities:

The Ministry of Finance has initiated a number of initiatives in order to strengthen accountability, increase fiscal transparency and increase the financial supervision of government entities. This is expected to prevent expenditures from exceeding the budget. This pillar includes two key initiatives:

• Enabling government entities to sustain fiscal balance: This initiative seeks to strengthen performance management mechanisms in order to ensure the entities' compliance with fiscal targets, i.e. budget ceilings and revenue projections. It also aims at monitoring Key Performance Indicators (KPIs) and fiscal targets at the entities' level. Other objectives of this initiative include the supervision of performance management processes, including the provision of incentives and accountability if the outcomes of the such entities fail to meet the fiscal targets starting from beginning of next year.

• Enhancing the Budgeting Process: The Ministry of Finance has launched a new budgeting methodology in 2018 based on two principles: (1) Distributing the budget from the overall level to the detailed level, (2) and raising the spending efficiency. Workshops have been held with the budget entities in order to discuss the budget and identify their needs. This new methodology will be implemented on an annual basis as part of the future budgeting phases, so that the annual budget is consistent with the Kingdom's fiscal targets. One of the features of the new budgeting methodology is to set spending ceilings from the overall level to the detailed one and to take the priorities into account. Furthermore, budget review workshops have been held and the governance system has been implemented. The Ministry of Finance will also continue to set priorities, adhere to the spending ceilings of the entities, and work with the said entities in order to put an end to some practices that negatively affect the spending efficiency.

2- Fiscal and Macroeconomic Planning:

This pillar includes identifying fiscal policies to meet fiscal targets while supporting economic objectives by directing government spending to sectors that support the Kingdom's strategic objectives, including the identification of the revenues levers necessary to achieve this objective and the work on support and stimulus initiatives such as the Citizen's Account.

• Medium-Term Fiscal Framework: The aim of this initiative is to establish a clear framework for medium-term expenditure (3-5 years), and to include setting budget ceilings at the budget and entity levels, setting criteria for entities to follow when creating and introducing their draft budgets, and linking the entities' ceilings to strategic priorities, sector policies and performance assessments.

• Reimbursement of SMEs fees initiative: Objective of the initiative is both to encourage new SMEs to enter the market, and to support them to grow during the first years of operations that are traditionally challenging. This is done by reimbursement of selected fees to start ups in selected priority sectors, (e.g. fees related to new licenses, annual fees, employer related fees) during their first 3 years of operations.

• Indirect SME lending initiative: Indirect lending provides the Government with the ability to leverage the network of commercial non-banking loan providers to distribute loans to targeted SME's by providing them with low cost funds and refinancing. This will improve SMEs access to financing and thus better enable their operations and investments

• SME Financing – Kafalah capital Initiative: A complete revamp and rebuild of Kafalah is being conducted to ensure its sustainability and to continue the successful support of KSA SME sector.

• Support struggling companies Initiative: Initiate a multiple staged programs to identify and support struggling companies by providing liquidity or (quasi) equity financing. Operations (i.e. assessment & provision of financial support) will be outsourced to the private sector (banks, funds), while the approval of the targeted assessment and support will be strictly controlled by the gov. owners' supervisory committee. The forms of support offered will be debt financing to private sector, and equity financing to private sector, consultation and advisory, as well as guarantee of private sector investment IRR.

• Project Support Fund Initiative: Establish a fund to grant low interest loans to large projects with significant economic impact in the health, tourism, and real estate sectors to guarantee the continuation and completion of the projects.

• Highly efficient A/Cs Initiative: Buyers of new A/C units will receive price subsidy if they choose higher efficiency appliance. Full scale national wide implementation will target purchase of 520.000 A/C units over next four years and will follow local content requirements.

• Supported housing loans Initiative: Provide subsidy for to facilitate home ownership and help get real-estate financing. This will be done by providing down-payment support ranging from 10% to 20% depending on the income level and household size.

• Launch export incentive program Initiative: Remove barriers from companies to start exporting through providing logistics and legal grants, marketing grants and market information to help companies build up exporting capabilities and discover new markets.

• Export Financing Initiative: Improve export financing capabilities by up-scaling existing program and establishing EXIM bank in order to provide exporting companies with required financing to access additional markets.

• SME Financing – Government VC fund Initiative: Establish government Venture Capital fund that will focus on investing in the early and growth stages of enterprise growth cycle, and thus targeting gaps in existing SME funding not covered by current PE/VC fund of fund proposals.

• The Mega Investments Program Initiative: Accelerate the investment attraction in KSA by launching the Mega/ Large Strategic Investments Program, aiming at negotiating customized deals with local and foreign large investors to implement projects with high social and economic value for the Kingdom.

• Broadband Stimulus Fund Initiative: A stimulus fund to accelerate operators' fiber and high speed wireless deployment in urban and rural areas by providing financial incentives of ~40% of the investment to fiber operators.

• Housing technology Initiative: The Eskan housing technology and innovation program will unlock the production capacity needed to achieve the national housing target through productivity increase, and will enable additional GDP increase.

• Private Sector Feedback Platform Initiative: Develop an internet feedback platform for continuous communication with the private sector and demonstrate openness for Private sector feedback.

• Private Sector LABs Initiative: Based on the feedback of the private sector during Private Sector LABs in May 2017, institutionalize the Private Sector as an annual platform for direct engagement with the private sector. This will increase Private sector's visibility of Private sector development roadmap and ongoing initiatives, and on PSS initiatives.

• Open ministerial panels Initiative: Launch open monthly panels in Chambers of Commerce that are attended by ministers and high government officials and supported by a task force lead by MCI with SAGIA, SMEA and LCPSD as members.

• The Citizen's Account: The Citizen's Account Program was created to improve the efficiency of government support and direct support to eligible citizens in order to reduce the impact of the energy price reform and other financial measures on Saudi households. In addition, the Citizen's Account resides in direct cash transfers to be allocated for the beneficiaries. Such program will become one of the government's platforms to provide direct support to the citizens.

• Water Price Reform: Water Price Reform is a parallel measure to Energy Price Reform. It aims to (1) Strengthening the fiscal situation, (2) Stimulating rational consumption; and (3) Redirecting support in order to deliver it to the eligible segments.

• Energy Price Reform: Energy Price Reform is the most important element of the fiscal balance program. This initiative aims to: (1) Stimulating the rational consumption; (2) Encouraging the establishment of competitive investments in the industrial sector; (3) Redirecting and rationalizing support provided to the eligible segments, and (4) Strengthening the general fiscal position.
The energy price reform plan has been modified from what was announced in the fiscal balance program (in 2016) as described below. (The plan is subject to modificationaccording to the developments of the Fiscal Balance Program).

3- Maximizing Government Revenues:

This pillar is based on three key initiatives, as new revenue sources have been developed to ensure the provision of additional public benefits, such as encouraging competition and/or improving social behavior (reducing excessive consumption or the consumption of harmful substances).

• Expat Levy: This key initiative aims to encourage Saudization by bridging the cost gap between expatriates and Saudis. This is achieved by imposing a monthly fee on each expat employee in the private sector based on the number of expatriates who are less or more compared to the Saudi employees within the same enterprise, starting from January 2018, with an annual increase of SR 200 per month (SR 300 per person in an enterprise in which the number of expatriates are equal or less than the number of

<table>
<tr><th></th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>Gasoline (Benzene)</td><td colspan="8">Targeted and gradual transition to the linked Reference Price</td></tr>
<tr><td>Diesel</td><td colspan="8">Targeted and gradual transition to the linked Reference Price</td></tr>
<tr><td>Aviation Fuel</td><td>Linking to the Reference *Price</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Natural Gas and Ethane</td><td></td><td></td><td colspan="2">Targeted and gradual transition to the linked Reference Price with an applied price ceiling</td><td></td><td></td><td></td><td></td></tr>
<tr><td>LPG and Kerosene (retail sector)</td><td></td><td>Linking to the Reference Price</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Asphalt</td><td></td><td colspan="3">Targeted and gradual transition to the linked Reference Price</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Natural Gas Liquids (incl. Propane, Butane and Natural Gasoline)</td><td></td><td></td><td>Targeted and gradual transition to the linked Reference Price</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Other liquid fuel products (HFO 180, HFO 380, Arabian Light Crude oil, Arabian Heavy Crude Oil)</td><td></td><td colspan="7">Targeted and gradual transition to the linked Reference Price</td></tr>
<tr><td>Electricity Tariff</td><td colspan="8">Reflects production cost based on the price of fuels, assuming ideal efficiency</td></tr>
</table>

***Only for Saudi Arabian Airlines**
Source: MOF

The prices resulting from the above shall apply generally to energy products used by all sectors throughout the economy with the intent of providing the suppliers of energy products international standards for return on investment while recognizing the Kingdom's comparative advantages in domestic supply of hydrocarbons.

Saudis, and SR 400 if the number of expatriates exceeds Saudis in 2018). In addition, a fee was imposed on dependents starting from July 2017, with an annual increase amounting to SR 100 to be paid on a monthly basis (100 in the first year, then 200, 300, 400 Riyals in the following years).

• The Value Added Tax: The implementation of the value-added tax is part of the implementation of the GCC Agreement and it is expected to become one of the main sources of non-oil revenues in the Kingdom. This confirms the significance of the proper implementation of this tax, which will start on 1/1/2018, by imposing 5%.

• The Excise Tax: This type of tax achieves a double objective represented in (1) The development of non-oil revenues and (2) The promotion of sensible consumption by imposing a tax on certain commodities, such as soft drinks, energy drinks, and tobacco and its derivatives. These may even include other products such as luxury goods.

4- Improving the government spending efficiency

This pillar aims to increase the efficiency of spending through the following key initiatives:

• Establishing a Spending Efficiency Realization Center (Bureau of Spending Realization Office): This center will oversee and support other entities in developing their initiatives in order to increase their spending efficiency, remove implementation-related obstacles and propose the necessary legislation and regulations to ensure the sustainability of spending efficiency.

• Establishing a Strategic Procurement Unit: this unit will aim to transform government procurement into a strategic process focused on optimizing financial and developmental benefits in return of spending, and enhancing transparency through the development of capacities, systems and procurement operations. This is in order to measure and optimize procurement by implementing the best local and global practices for each spending category.

These two key initiatives aim at activating other initiatives and programs whose cumulative savings are estimated at approximately SR 220 billion (+/- 15%) by the end of 2023. The government entities have been able to support the CAPEX and OPEX Rationalization Office in terms of activating the first package of initiatives during 2017 and achieved savings up to SAR 56 billion, which will have a cumulative effect until 2023, by avoiding additional operational costs of approximately SAR 57 billion. In addition, by establishing the Spending Efficiency Realization Center and the Strategic Procurement Unit in 2018, the Fiscal Balance Program seeks to support government entities by activating the second package of priority initiatives in order to achieve the spending efficiency.

Program Governance to Ensure the Efficient Implementation

The Fiscal Balance Office was established in 2017, it aims to achieve the program objectives by monitoring the initiatives' implementation, following-up, evaluating their readiness, and creating new initiatives in order to achieve the program objectives. A committee composed of representatives from different entities will oversee the execution of the program and will lead it to achieve its objectives. The committee of the Fiscal Balance Program assumes the following key roles:

- Approving the executive plans of the Fiscal Balance Program.
- Ensuring consensus among the various key stakeholders.
- Providing strategic input to the Fiscal Balance Program statements, scenarios, courses, and initiatives related to it.

The committee is governed by the following two entities in the Royal Court, who are responsible for the decision-making process: The Fiscal Committee (in charge of setting the financial objectives), the Strategic Committee (in charge of setting national economic priorities and monitoring the execution of the programs of the Vision 2030). according to the developments of the Fiscal Balance Program).

ميزانية 2018

المملكة العربية السعودية

Saudi Arabia – Budget

VI

Medium-Term Fiscal Projections

VI:

Medium-Term Fiscal Projections

According to the fiscal and economic framework, based on which the budget and initiatives of the Fiscal Balance Program were prepared, the budget deficit in 2018 is expected to reach SAR 195 billion equivalent to 7.3% of GDP, decreasing by 1.6 percentage points of GDP compared to the estimated deficit for 2017 and substantially below the 2016 deficit which was 12.8% of GDP (SAR 311 billion). This decline in the deficit projected for 2018 budget is due to the rise in total revenues by 12.6% over 2017 estimates besides the reform measures to increase non-oil revenues and diversify their sources. This is despite of the increase in spending of 5.6%, including the increase in non-financial assets (capital expenditure) by 13.6% as compared to 2017 estimates.

(SAR billion, unless otherwise stated)

«Medium-Term Fiscal Estimates (2017- 2020)						
	Actual	Budget	Estimates	Budget	Projections	
	2016	2017	2017	2018	2019	2020
Revenues						
Total Revenues	**519**	**692**	**696**	**783**	**843**	**909**
Taxes	**82**	**121**	**97**	**142**	**164**	**189**
Taxes on income, profits, and capital gains	15	18	14	15	16	18
Taxes on goods and services	30	56	47	85	103	124
Taxes on international trade and transactions	20	31	21	25	26	28
Other taxes	17	16	15	17	18	20
Other revenues	**437**	**571**	**599**	**641**	**679**	**720**
Expenditures						
Total Expenditures	**830**	**890**	**926**	**978**	**1,006**	**1,050**
Expenses (OPEX)	**696**	**716**	**746**	**773**	**789**	**822**
Compensation of Employees	409	412	440	438	445	452
Goods and services	150	153	135	143	145	146
Financing Expenses	5	9	9	14	19	24
Subsidies	7	7	7	14	7	7
Grants	5	3	3	3	3	3
Social Benefits	41	37	44	65	74	94
Other expenses	79	95	108	95	95	96
Non-Financial Assets (CAPEX)	**134**	**174**	**180**	**205**	**218**	**228**
Budget deficit\surplus						
Budget deficit\surplus	-311	-198	-230	-195	-163	-141
Budget deficit\surplus, as ratio of GDP	-12.8%	-7.7%	-8.9%	-7.3%	-5.9%	-4.9%
Debt and assets						
Debt	317	--	438	555	673	749
Debt, as ratio of GDP	13%	--	17%	21%	24%	26%
Government deposits at SAMA	683	--	584	456	411	345
Government deposits, as ratio of GDP	28.2%	--	22.7%	17.2%	14.8%	12.0%

Source: MOF

a. Revenue

Since 2016, a number of reform measures have been implemented, which will influence the growth of revenues over the medium term, in addition to the plan of implementing several other measures in the coming years, which will gradually diversify revenues sources. These measures include the introduction of value-added tax and expat levies and the energy price reform to be aligned with reference energy prices. Additionally, the government aims for the structural and continuous development of revenues to be the primary source to finance government spending and reduce budget deficit.

Estimates indicate that total revenues will reach SAR 783 billion in 2018, increasing by 12.6% over 2017 budget estimates, and expected to reach SAR 909 billion in 2020 with an average annual growth of 9.3%. In addition, total taxes are expected to reach SAR 142 billion at a growth rate of 46% in 2018 compared to 2017, reaching SAR 189 billion in 2020. Taxes on income, profit and capital gains receipts are estimated at SAR 15 billion in 2018 at a growth of 10.4% compared to 2017, reaching SAR 18 billion in 2020 given prospective economic growth over the coming period. Meanwhile, taxes on goods and services are estimated at SAR 85 billion, rising by 82% over 2017 to SAR 124 billion in 2020. This comes as a result of implementing some economic reforms, such as value-added tax, which are projected to generate revenues of SAR 23 billion in 2018. Revenues from excise tax are expected to generate SAR 9 billion in 2018, while expat levies revenues are projected to reach to SAR 28 billion.

Taxes on international trade and transactions are projected to reach SAR 25 billion with growth rate of 17% in 2018 compared to 2017, reaching SAR 28 billion by 2020. This growth is attributed to the implementation of certain reforms related to customs revenues, such as the re-imposition of customs duties on 193 goods and the implementation of post-clearance auditing. Other taxes including Zakat are projected to record SAR 17 billion in 2018 increasing by 10.8% over 2017, reaching SAR 20 billion by 2020.

Other revenues including oil revenues, are projected at SAR 641 billion with a growth rate of 7% in 2018 compared to 2017, and reaching SAR 720 billion in 2020. Additionally, estimates indicate that oil revenues, including the fiscal impact of energy price reform, will reach SAR 492 billion in 2018 compared to SAR 440 billion in 2017, increasing by 11.8%. It is worth mentioning that the energy price reform plan has been revised so as to carry out implementation gradually at a slower pace, taking into consideration the importance of driving economic activity at higher rates.

b. Expenditure

2018-fiscal year's budget aims to establish a clear medium-term fiscal framework in line with the strategic objectives of the Saudi Vision 2030 Programs and to set spending levels based on a policy that strikes balance between the objective of cutting budget deficit, so that public debt levels does not exceed 30% of nominal GDP, and the objective of reinforcing economic activity by directing government spending in a manner that supports the economic vision and targeted strategic plans. Government spending, which is considered to be one of the main drivers of the economy, accounts for 36% of nominal GDP in 2017. A budget with total expenditure of SAR 978 billion is approved, rising by 5.6% compared to 2017. This increase is due mainly to the expanded spending on the initiatives of Vision 2030 programs.

- **Expenses (OPEX)**

The medium-term fiscal policy aims to prioritize initiatives that have social and economic returns with respect to operational expenses, such as private sector stimulus packages, Citizen Account Program, and Saudi Vision 2030 Realization Programs. Total operational expenses estimated for 2018 total SAR 773 billion or 79% of total spending, rising by 3.6% compared to 2017. Compensation of employee is estimated at SAR 438 billion, 44.8% of the total expenditure, and approximately equal to the actual levels of the current year. In addition, ratios of 'Use of Goods and Services' and 'Social Benefits' to total expenses constitute 14.6% and 6.7%, respectively, as the spending envelope for Use of Goods and Services rises by 6%. However, spending on subsidies is projected to rise by 102% to SAR 14 billion as a result of executing some programs, such as the stimulus packages that aims to support the private sector and to enhance its participation, in addition to the industrial sector support program. Further, Social Benefits expenses are expected to increase by 48.1%, motivated by the Citizen Account Program which might reach SAR 32.4 billion in 2018. Financing Expenses are estimated to rise by 57.1% compared to 2017, led by the increase of prospective securities issuances to finance the budget.

As shown in the table above, the average growth of operational expenses during the period 2018-2020 stands at 3.3%, driven by increased Social Benefits spending in the medium-term due to the persistent increases in spending on the Citizen Account Program and the growth of spending on financing costs resulting from rises in the volume of issuances, with lower growth rates for the remaining operational expenses.

- **Capital Expenditure (CAPEX)**

Saudi Arabia's medium-term fiscal policy mainly aims to develop capital expenditure, infrastructure, and the programs of Vision 2030 to provide impetus for economic activities. Additionally, estimates of 2018 indicate that capital expenditure will record SAR 205 billion or 21% of total expenditures, rising by 13.6% compared to 2017 to finance the projects of Vision 2030 programs and develop the infrastructure to spur economic growth and generate more jobs for citizens.

Capital expenditure ratio to total government expenditure is projected to increase from 19% in 2017 to 22% in 2020. While total government expenditure growth is expected to average 4.3% for the period 2018-2020, the growth of capital expenditure over the medium term is expected to average 8.3%, in order to foster economic activity and generate job opportunities.

c. Public Debt and Financing

The Ministry, through the DMO, and with the approval of the Fiscal Committee at the Royal Court, has put in place a medium-term strategy and an annual borrowing plan for the management of public debt. The strategy is relies on, in the process of borrowing and issuance of debt instruments, best opportunities available in domestic and international markets. In addition, the strategy avoids in the issuance of domestic finance instruments causing any adverse impacts on the liquidity of the domestic financial sector, economic growth rates, and Vision 2030's deliverables aiming to promote growth of the private sector. It also considers different options available in international markets and analyzes targeted markets, currencies, and future interest rates to minimize the costs of financing of the debt portfolio. Moreover, the public debt management strategy will involve loans and diversification of debt issuances to include Sukuk and bonds with short-, medium-, and long-term maturities.

The Saudi Vision 2030 encompasses numerous initiatives, programs, and sectoral development plans that would bring about a quantum leap in economic performance, where non-oil GDP growth rates are projected to rise gradually over the medium term. Pursuant to government plans for the Fiscal Balance Program to be implemented more gradually, it is projected that the budget deficit will continue decreasing gradually over the medium term, ultimately accomplishing fiscal balance by 2023. Such reforms contribute to the growth of total revenues with an annual average of 8.6%, along with a rise in expenditures averaging an annual growth rate of 3.4% in the medium term while carrying on plans of increasing the efficiency of spending.

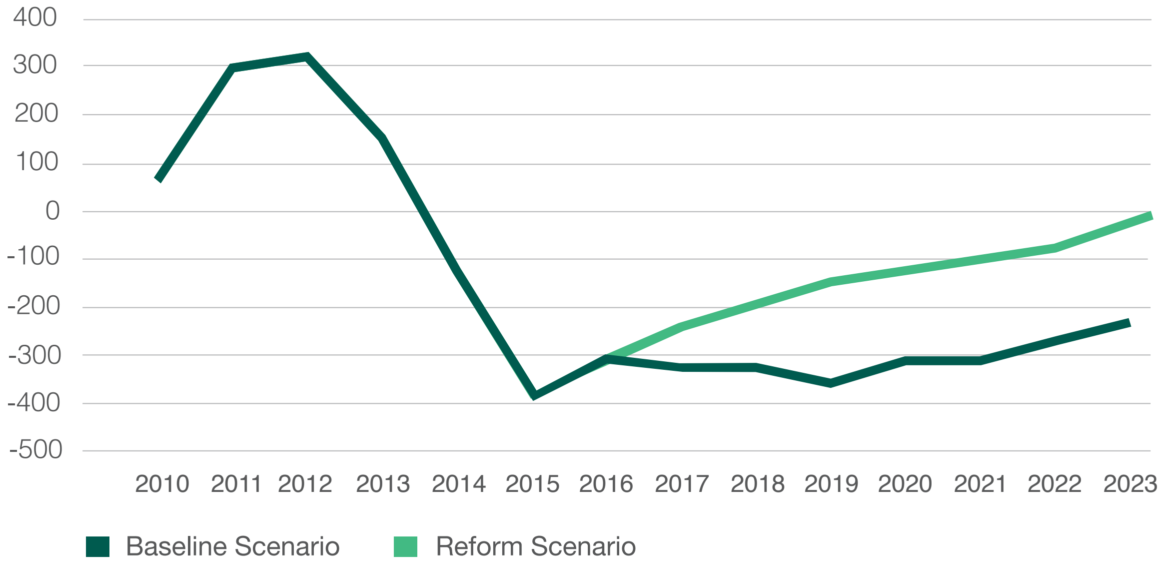
SAR bn	2017	2018	2019	2020	2021	2022	2023
Revenues	696	783	843	909	955	1.049	1.138
Expenditures	926	978	1.006	1.050	1.080	1.107	1.134
Budget deficit/surplus	-230	-195	-163	-141	-126	-58	4
General Reserve (end of the year)	584	456	411	345	276	267	271
Debt (end of the year)	438	555	673	749	805	854	854

Source: MOF

The following figures show fiscal projections in the medium term when applying reforms of the Fiscal Balance Program as compared to fiscal projections when those reforms are not put in place.

Budget Deficit / Surplus

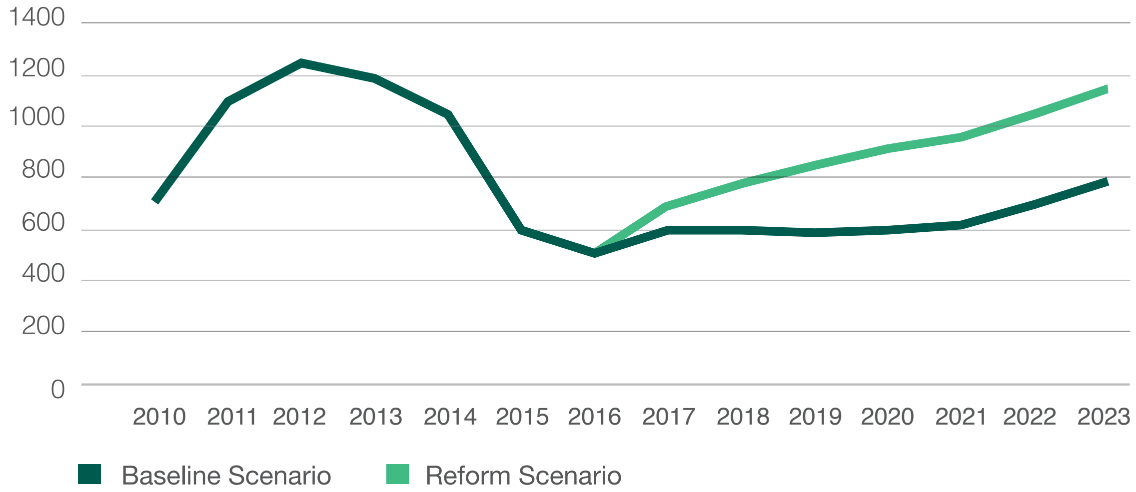
(SAR Billion)



Source: MOF

Total Revenues

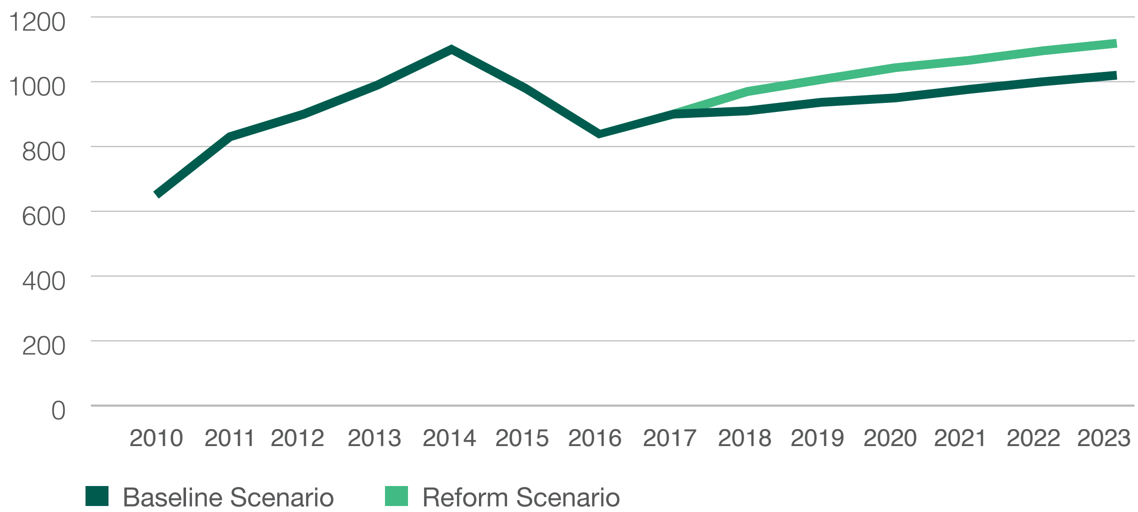
(SAR Billion)



Source: MOF

Total Expenditures

(SAR Billion)



Source: MOF

ميزانية
2018
المملكة العربية السعودية
Saudi Arabia – Budget

VII

FY 2018 Budget-Sectors

VII:

FY 2018 Budget-Sectors

Total expenditures in 2018 are estimated at SAR 978 billion, increasing by 5.6% over 2017 estimates. This increase is due to the rise of operational expenses and capital expenditures incurred as a result of spending on the initiatives of the Saudi Vision Realization Programs. Some of this is the Citizen Account Program that has been launched to offset any adverse impacts that may arise from the implementation of certain financial measures, including adjustments to prices of energy. The first allowance from the Citizen Account is to be paid before applying any amendments to energy prices. Budget allocations by sector are detailed below, with expenses for the initiatives of the Saudi Vision Realization Programs being listed under the sectoral expenses. Such expenses may increase or decrease as some of the Vision Realization Programs are still under development.

1-Public Administration Sector:

SAR 26 billion in 2018 budget is earmarked for Public Administration, covering the budgets for projects and new programs for initiatives. The funding is intended to help implement the initiatives of Vision 2030 Realization Programs, which are related to the Ministries of Justice, Haj and Umrah, and Civil Service. These initiatives aim to enhance the performance of these ministries and achieve efficient and effective utilization of accessible resources in order to maximize the quality of outputs.

2- Infrastructure and Transportation Sector:

SAR 54 billion is allocated for Infrastructure and Transportation, including the budget for projects and initiatives with an overall cost of SAR 21 billion to develop roads, ports, railways, airports, housing, communications and information technology, postal services, the industrial cities of Jubail and Yanbu, Ras Al-Khair Industrial Mining, and Jazan City for primary and downstream industries. Primary, secondary, and feeder roads have also been constructed alongside the completion of existing roads, bringing the total length of roads completed during the period 2016-2018 to 2,225 km or 45% of the road scheme with total length of 5,000 km for the 5-year period (2016-2020). Funds will also be spent on sector projects that were approved in previous fiscal years

3- Economic Resources Sector:

SAR 105 billion is allocated for Economic Resources and Public Programs, of which SAR 42 billion is allocated for programs and projects of initiatives related to the Saudi Vision 2030 Realization Programs. The sector's budget also encompasses new projects and increases in costs of existing projects centered around the Saudi Vision 2030 Realization Programs. Further, the budget covers projects to provide drinking water and develop water resources. The projects budgeted also include sanitation services provision, dams construction, wells drilling, water leak detection and rectification, water and sewerage networks upgrade, water and electricity consumption rationalization, renewable energy promotion, efficiency and performance enhancement for desalination plants, infrastructure development for industrial cities, and the establishment of new silos and mills, in addition to the expansion of existing ones. The total length of the drinking water networks built during the period 2016-2018 will reach 15,988 km or 62% of the total planned length of 25,591 km for the five years (2016-2020). The total length of the sewerage networks constructed during the period 2016-2018 will reach 6,842 km or 35% of the total planned length of 19,788 km for the five years (2016-2020). Moreover, during 2016-2018, 19 out of 37 dams and 243 of 472 wells will be built or drilled, comprising 51% of the total dams or wells planned for the five years (2016-2020). In addition, during the same period (2016-2018), 51 out of 101 wastewater treatment plants and 45 of 72 water purification plants will be built, constituting 50% and 63%, respectively, of the total planned numbers for the five years (2016-2020). Funds will also be spent on sector projects approved in previous fiscal years.

4- Municipal Services Sector:

SAR 53 billion is allocated to the Municipal Services, including the Ministry of Municipal and Rural Affairs, municipalities, and development commissions for regions and cities, of which SAR 5 billion is allocated to the initiatives of Saudi Vision 2030 Realization Programs. The sector's budget covers expenses of ongoing development projects, including the public transportation projects. It also contains building new intersections, tunnels, and bridges for some roads and streets inside cities, as well as developing existing ones, to solve traffic jams. Furthermore, the budget covers projects of asphalt road pavement, road lighting, storm drainage and flood control, equipment and machinery provision, waste disposal, marsh filling, coastline development, and administrative buildings and parks upgrade.

5- Education Sector:

SAR 192 billion is allocated to the public and higher education and workforce training. This budget includes allocations of SAR 5 billion for a number of initiatives of Saudi Vision 2030 Vision Realization Programs and projects.

The sector's budget embraces implementing new projects and expanding existing ones, including educational facilities and schools for all educational stages for males and females across different regions of the Kingdom of Saudi Arabia; labs; and infrastructure of universities and training institutes and colleges. The budget also covers the renovation of existing facilities of schools, universities, and training institutes and colleges. The total cost of initiating new projects and expanding existing ones is SAR 4 billion, most of which are for implementing initiatives. Spending on projects that are currently being implemented across all regions of the Kingdom of Saudi Arabia will continue according to the stages of implementation as follows:

1- The implementation of the King Abdullah Bin Abdulaziz Public Education Development Project (Tatweer) will be continued by Tatweer Education Holding, with an estimated cost of SAR 9 billion, of which SAR 3.1 billion has been paid.

2- During the current fiscal year, 352 new schools have been handed over across the Kingdom of Saudi Arabia. 431 new schools will be handed over in the fiscal year 2018. The number of schools that are to be handed over during the period 2016-2018 will be 1,107 or 42% of the 2,621 schools planned for the five years (2016-2020). 1,717 educational facilities and schools are currently being established.

3- Work is to be continued to complete the renovation of females' colleges in a number of universities. The estimated cost of renovation will amount to SAR 1.4 billion during 2016-2018 or 31% of the total number set for the five years (2016-2020), which is estimated at SAR 5 billion.

Likewise, the Custodian of the Two Holy Mosques' Overseas Scholarship Program will continue. The total number of students sent abroad to study under the supervision of the Ministry of Education has exceeded 173,000 students and their escorts. The annual expenditures of this program will amount to SAR 14.7 billion, excluding scholarships for government agencies' employees.

6-Security and Regional Administration Sector:

SAR 101 billion is allocated for Security and Regional Administration. The sector's budget includes allocations for new projects and the expansion of ongoing ones, with a total cost of SAR 12.6 billion. The funding aims to provide security requirements incorporating facilities, supplies, equipment, weapons, and ammunition. Spending on projects currently being implemented will continue, most notably of which is the Custodian of the Two Holy Mosques Project for the Development of Security Headquarters, which has five stages and includes establishing 1,296 security sites during 2016-2020. The number of security sites that are to be handed over during 2016-2018 will be 551 or 43% of the total planned number for the five years (2016-2020). Further, projects in this sector cover the establishment of 14 residential complexes consisting of 10,000 residential units in five regions. The number of complexes that are to be handed over during 2016-2018 will be two or 14% of the total planned number for the five years (2016-2020). The two complexes will include 600 residential units or 6% of the total planned units for the five years (2016-2020). The construction of two medical cities, with a capacity of 2,500 beds, is underway and will not be completed at the end of the fiscal year 2018.

7- Military Sector:

SAR 210 billion is earmarked for Military. The sector's budget includes allocations of SAR 10.2 billion for new development programs and projects covering building advanced systems and capacities. In addition, SAR 3.5 billion is allocated for military education, covering military colleges and King Saud bin Abdulaziz University for Health Sciences. Moreover, SAR 26.5 billion are designated for military medical services besides allocations for development initiatives that embrace developing weapon and defense systems, improving military readiness, reinforcing capabilities, increasing performance efficiency, updating strategic planning mechanisms, developing military bases, supporting the nationalization of military industry, and developing accommodation and service facilities. The sector's budget also incorporates salaries and wages of military personnel. Spending on operational and support programs and military construction and service projects needed will continue.

8- Health and Social Development Sector:

SAR 147 billion is allocated to the sectors of health services and social development, of which SAR 33 billion are for the initiatives of Saudi Vision 2030. The sector's budget also accounts for completing the construction and equipment of hospitals and primary healthcare centers in all regions of the Kingdom of Saudi Arabia. 36 new hospitals with a total capacity of 8,950 beds are currently being established and developed in all regions of the Kingdom of Saudi Arabia. Two medical cities with a total capacity of 2,350 beds are also being constructed. During the current fiscal year, a new hospital with a capacity of 100 beds was delivered. The number of hospitals handed over during 2016-2018 will stand at 25 hospitals or 58% of the total planned number for the five years (2016-2020) with a total capacity of 5,150 beds or 52% of the total planned number for the aforementioned period (2016-2020). As for the two medical cities that are currently under construction and development, they will not be finished before the end of the fiscal year 2018.

Regarding social services, the budget includes the development of nine sports cities within the initiatives of the General Sports Authority and preparation of three stadiums in Riyadh, Jeddah, and Dammam to receive families during the upcoming fiscal year pursuant to regulations set. In addition, the budget envisages developing support facilities to be open for society 24 hours and supporting the potentials of the Ministry of Labor and Social Development to achieve the objectives of social development and enhance the programs established to tackle poverty. The allocations for these projects for the upcoming fiscal year are SAR 30 billion.

9-General Items:

A total of SAR 89 billion is allocated for General Items. The budget includes the government's contributions to Public Pension Agency and General Organization for Social Insurance, subsidies, cost of debt, and contingent expenses. The following table shows the distribution of the 2018 budget at the sectoral level:

(SAR billion, unless otherwise specified)

Expenditure Estimates by Sectors			
	Estimates	Projections	Change
	2017	**2018**	**%**
Expenditures			
Sector	926	978	5.6 %
Public Administration	30	26	-13.3 %
Military	224	210	-6.3 %
Security and Regional Administration	110	101	-8.2 %
Municipal Services	49	53	8.2 %
Education	228	192	-15.8 %
Health and Social Development	133	147	10.5 %
Economic resources and public programs	39	105	169.2 %
Infrastructure and Transportation	29	54	86.2 %
Total	841	889	5.7 %
General Items	85	89	4.7 %

Source: MOF

ميزانية 2018

المملكة العربية السعودية

Saudi Arabia – Budget

VIII

Fiscal and Economic Risks

VIII:

Fiscal and Economic Risks

The 2018 budget and medium-term fiscal and economic framework have been prepared in light of major fiscal and economic assumptions, that have been based on the best available information, updates, and economic conditions, locally and globally, at the time of the budget's preparation. Nevertheless, a number of these variables may vary from forecasts affecting underlying assumptions, positively or negatively, hence affecting the current fiscal estimates for the upcoming fiscal year and over the medium term. Most important variables that could influence the performance of the local economy are as follows:

1- Global Oil Prices:

Although a number of the reforms and initiatives designed to diversify the economy and develop alternative sources of revenue in the Kingdom of Saudi Arabia, their impact will be reflected gradually. As a result, oil revenues will continue to remain the major source of revenue in the budget. Considering the high volatility of oil prices, the decline in oil prices will remain a major fiscal risk. The most significant factors affecting prices on the demand side are economic growth of major advanced and emerging economies. On the supply side, main factors are related to oil exporting countries' commitment to OPEC agreement, development of alternative resources of energy, and political developments in some oil-exporting countries. To overcome these risks, the government is implementing a comprehensive program to increase non-oil revenues.

2- Non-Oil GDP Growth Rates:

Non-oil economic activity growth rates are considered a major factor in the develop-ment of government revenues, particularly, with the introduction of new initiatives to develop non-oil revenues that are linked to economic activities, such as the introduc-tion of the value-added tax (VAT) and the excise tax on some goods. The most import-ant risks arise from the private sectors' pace of response to investment opportunities available in the Kingdom of Saudi Arabia as well as the degree of improvement in investment climate, and changes that may occur in the pattern of private consumption in response to economic reforms.

To address these risks, the government is implementing a number of initiatives to incentivize private sector investments, in addition to maintaining government investments at good levels as a spur for economic activity. Initiatives include introducing stimulus packages to encourage investments, especially in the manufacturing sector; immediate payment of private sectors' dues without delay; streamlining procedures to encourage and attract investments in Saudi Arabia; implementation of privatization programs that create new investment opportunities to the private sector; continuation of investment to upgrade the infrastructure as an incentive for the development of private investment; and establishment of a new mechanisms for public-private partnerships. Furthermore, to reduce the effect of some measures on private consumption, the government seeks to carry out many compensatory measures, such as the implementation of the Citizen Account to compensate households and offset the impact on their spending.

3- Fiscal and Economic Effects of Economic Initiatives and Reforms:

The government implements many reform initiatives, aiming to correct some economic and price distortions and achieve fiscal sustainability and economic growth in the medium term. These objectives are important to maintain adequate living standards levels for citizens. Fiscal sustainability is also considered a key factor for private sector investment decisions. Such initiatives may have side effects that might be different from the anticipated ones. Particularly, some of these initiatives are being implemented unprecedently for the first time making it harder to anticipate their fiscal and economic effects with absolute certainty.

The government does not see the adjustment measures as a target in themselves but tools to achieve the objectives of fiscal sustainability and enhancement of economic activity at the same time. Consequently, the government is monitoring the reforms implementation and their economic impact, and is ready to make the necessary changes and corrective decisions to ensure the economy is advancing on the right track. For instance, changes were applied to some previous decisions, resulting in restoring allowances to government employees and in applying more gradual stages in other measures as in applying more gradual increase in energy prices. Saudi economy has a strong fiscal position and sufficient reserves allowing it to absorb external shocks and apply reforms more gradually.

4- Absorptive Capacity of Government Agencies:

The government vigorously seeks to increase its absorptive capacity to implement initiatives and projects listed in 2018 budget; develop regulatory frameworks; and train qualified human resources capable of implementing these initiatives and projects and meeting 2018 objectives. However, the absorptive capacity of government agencies remains as one of the existing challenges, requiring further attention, consideration, and follow-up.

5- International Economic Developments:

The performance of Saudi economy is closely linked to the development of global economy's performance and to the developments in global markets, especially the prices of major commodities. Despite the improvement in the performance of global economy and the large decrease in the risk levels compared to the last decade, there still are a number of potential risks that might affect the performance of the current global economy. Some of which are concerns linked to the adoption of more protectionist trade policies, the likelihood of raising US interest rates, the potential slowdown in growth rates of some emerging economies, the inflation of asset prices in some global markets, the negative impacts of Brexit, and regional unrests. All or some of these factors may affect the speed of recovery of the global economy.

To overcome these risks, the government aims to reduce the budget deficit and public debt levels to strengthen the economy's resilience to external shocks, which also improves the performance of the current account in the balance of payments by increasing the economy's competitiveness economy and promoting non-oil exports, tourism, and taking other measures that contribute to the economic growth and maintaining high foreign reserves.

Positive Factors for Economic Growth

In addition to the above-mentioned risks that might have positive or negative effects on the forecasts of the fiscal performance during the upcoming year and over the medium term, there are upside risks likely to contribute positively on the Saudi economy's performance. These include the rise of females' participation in the labor market; initiatives to enhance the quality of life (of which plans for cultural and entertainment sectors), which will promote the economic growth and the prosperity of citizens; partial privatization of Saudi Aramco and of some other assets, which opens additional investment opportunities for the private sector; and increase of new job opportunities available to Saudis resulting from initiatives set to raise Saudization percentage. Some other factors include anti-corruption campaigns, which are expected to create a more attractive and clearer investment environment; the improvement in the performance of the global economy by more than expected; the beginning of the implementation of some major projects, like NEOM city; and other projects and initiatives that are likely to generate higher rates of non-oil economic growth, compared with current estimates.

It is worth mentioning that the economic projections herein do not take account of all initiatives of the Vision Realization Programs, which are currently being developed. Nor do they take account of the initiatives of national developments funds and the Public Investment Fund in the post 2018 period, which are expected to have a larger positive effect on economic growth and the generation of job opportunities.

وزارة المالية
Ministry of Finance

www.mof.gov.sa