

ميزانية
2020

المملكة العربية السعودية
Saudi Arabia - Budget

Budget Statement

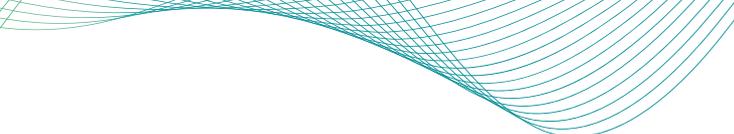
Fiscal Year 2020

"Spending Efficiency . . . Private Sector Empowerment"

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC VERSION

وزارة المالية
Ministry of Finance





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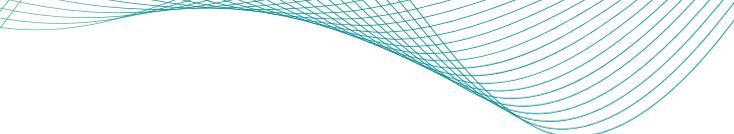
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Introduction

The Ministry of Finance (MoF) is pleased to issue this Budget Statement, presenting the details of the approved state budget for the Fiscal Year 2020. This statement describes the economic and fiscal developments during FY2019, the medium-term fiscal framework and economic outlook, and the major challenges facing the economy.

This statement is part of the MoF's endeavor to enhance fiscal disclosure and transparency, which is an essential pillar for the development of the budget preparation and execution processes as well as the promotion of efficiency in public financial management. The budget classification used in this document follows the International Monetary Fund's (IMF) Government Finance Statistics Manual 2014 (GFSM 2014), on a cash basis, which is a global standard classification.



Executive Summary of the Budget's Economic and Fiscal Framework

- The Kingdom continues to implement Vision Realization Programs (VRPs) for Saudi Vision 2030. In this context, the Kingdom adopts economic and fiscal policies aiming to achieve higher sustainable economic growth with a focus on growing non-oil GDP. The government continues to strive for improvement in the quality of public services and the effectiveness of social and governmental spending which enhances the citizens' standards of living and the nation's economic position in the global context. The government also aims to maintain fiscal sustainability and financial stability as a key pillar for sustainable economic growth while enhancing the role of the private sector in economic growth and job creation. Fiscal and economic policies aim to balance these objectives under the umbrella of the Saudi Vision 2030.
- The FY2020 budget is prepared in the context of challenging global economic and international market conditions. Trade disputes continue to cast a negative shadow over the global economic outlook, through negative effects on international trade, investment flows, and stability of international markets. This context necessitates adopting precautionary policies and making persistent efforts to strengthen fiscal discipline while continuing the implementation of economic reforms aimed at increasing the resilience of the economy and its ability to withstand external shocks. The Kingdom's fiscal policy ensures flexibility to respond to local and global developments and allow for continuous review and adjustment of priorities and implementation timelines as needed.
- Real GDP has registered annual growth of about 1.1% during the first half of FY2019, driven by annual growth of non-oil GDP of about 2.5%. Private sector non-oil GDP growth was 2.9% during the same period, despite a decline in oil GDP of -1.0% due to oil production policies. Preliminary estimates indicate overall annual GDP growth of about 0.4% in FY2019, driven by the growth of non-oil GDP.

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- The government continues to work on achieving its strategic objectives of diversifying the economic base and promoting the role of the private sector. This will be achieved through ongoing implementation of mega projects, Vision Realization Programs and privatization programs. This is in addition to stimulating the private sector investment in promising sectors such as manufacturing and mining, financial services, IT, tourism, entertainment and sports.
 - In light of these developments, the medium-term real GDP estimates have been reviewed. Preliminary estimates indicate real GDP annual growth of about 2.3% for FY2020. GDP growth is expected to maintain the same pace of growth over the medium term, supported by non-oil GDP, providing new and promising opportunities for investment and development, and contributing in achieving a better future for current and future generations.
 - The FY2020 budget includes continued implementation of the Kingdom's main expenditure plans, particularly in the areas of social protection and private sector development and empowerment, along with reevaluation of priorities consistent with better performance of the non-oil economy.
 - The government is targeting maintaining the deficit levels for FY2019 at SAR 131 bn, as per the approved budget. Total revenues for FY2019 are estimated to reach about SAR 917 bn, falling short of the budgeted figure due to the decline of oil revenues, despite the increase in non-oil revenues. Total expenditure for FY2019 is expected to reach SAR 1,048 bn, which is also lower than the budgeted target due to expenditure efficiency improvement, in addition to the private sector's contribution in establishing and operating several projects including water, sanitation and energy sectors, thus reducing the need to finance these projects from the budget.
 - The budget deficit for FY2020 is estimated to reach about SAR 187 bn, amounting to 6.4% of GDP. Work to gradually decrease the deficit will continue, in order to preserve fiscal stability and sustainability in the medium term.

- Revenues are expected to slightly decline to SAR 833 bn in FY2020 before increasing to SAR 863 bn in FY2022. Non-oil revenues are expected to improve in the medium term due to improvement in economic activity.
- The FY2020 budget and the medium-term plan focus on expenditure priorities. This ensures the continuous provision and development of basic services, empowerment of the private sector and execution of mega projects, VRPs and projects in addition to social protection programs. Execution timelines of these projects and programs are being continuously revised to increase their effectiveness and realize their social and economic objectives. Reforms in public financial management will continue to promote the efficiency of spending and ensure the realization of improved social and economic returns. Therefore, the total expenditure in FY2020 is expected to reach about SAR 1,020 bn before declining to SAR 955 bn in 2022 due the expected completion of several planned projects by that date.

Medium Term Fiscal Projections

SAR Billion (Unless otherwise stated)

	Actual 2018	Budget 2019	Estimates 2019	Budget 2020	Projections	
					2021	2022
Total Revenues	906	975	917	833	839	863
Total Expenditure	1,079	1,106	1,048	1,020	990	955
Budget Deficit	-174	-131	-131	-187	-151	-92
Percent to GDP	-5.9%	-4.2%	-4.7%	-6.4%	-5.0%	-2.9%
Debt	560	678	678	754	848	924
Percent to GDP	19%	22%	24%	26%	28%	29%
Government Reserves	490	496	467	346	280	265

Source: MoF

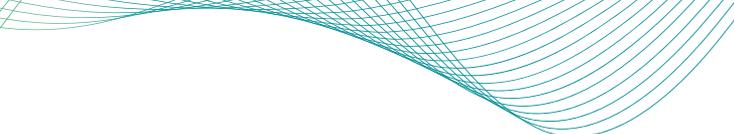
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01

Economic Developments and Medium-Term Outlook



First. Economic Developments and Medium-Term Outlook

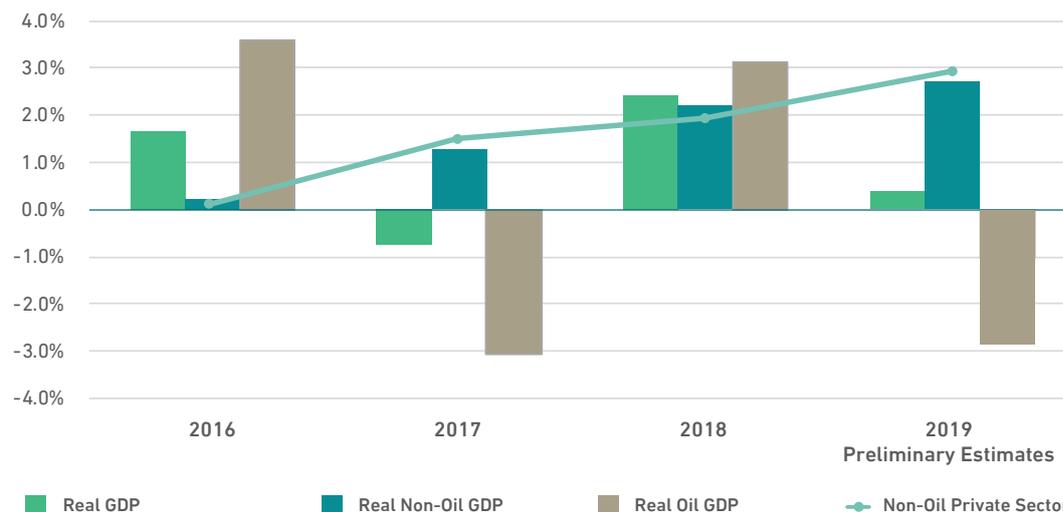
Since FY2016, the government has been implementing a comprehensive set of unprecedented fiscal, economic and structural reforms aimed at diversifying the economy, increasing its growth rate and achieving fiscal sustainability as a pillar of comprehensive and sustainable growth. Although some of these reforms had an initial adverse effect on economic activity, this impact was only transitional and the economy began to recover in FY2018. The economy, especially the performance of the non-oil sector, has significantly improved in FY2019, despite a decline in growth of the oil sector due to the OPEC+ agreement. The Kingdom played a leading role in achieving this agreement and has been committed to support stability in global oil markets.

Government policies have greatly contributed to helping the economy overcome the adverse effects of some reforms. These policies have included measures to encourage economic activity through the implementation of mega projects, VRPs, supporting households and enhancing the role of the private sector to achieve sustainable growth in the medium and long term. It is expected that these measures will gradually contribute to accelerated economic growth in the Kingdom in the coming years.

FY2019 has witnessed significant growth in various economic sectors. GDP data indicates an annual growth rate of approximately 1.1% in the first half of FY2019, supported by 2.5% annual growth in non-oil GDP during the same period. It should be noted that the annual growth rate of non-oil GDP increased to 2.9% in the second quarter of FY2019, the highest quarterly growth since 2015. During the first half of FY2019, non-oil private sector GDP registered growth of 2.9%, despite the decline in oil GDP of -1.0% during the same period due to crude oil production policies. Preliminary estimates indicate GDP growth of approx. 0.4% in FY2019, supported by non-oil GDP growth.

Detailed data shows that most non-oil economic sectors posted positive growth rates during the first half of FY2019. The construction sector recorded growth for the first time since FY2015.

Annual Real GDP Growth Rate

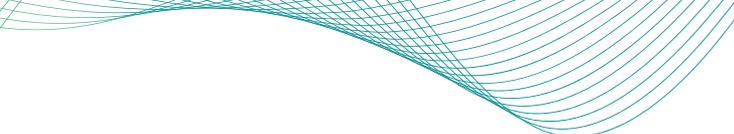


Source: General Authority of Statistics

The increase in economic activity led to a reduction in the unemployment rate for Saudis. The unemployment rate was recorded at 12.3% at the end of first half of FY2019, a decline of 0.4 percentage points compared to the end of FY2018.

Lending to the private sector confirms the continued recovery of economic activity. Total lending to the private sector registered annual growth of 4.2% through October FY2019, compared to -1.6% and 1.6% during the same periods in FY2017 and FY2018, respectively. The Purchasing Managers Index (PMI) stood at 58.3 points at the end of November FY2019, its highest level in four years, confirming improvement in private sector activity and confidence among non-oil private sector firms towards future output.

Total real estate loans extended by commercial banks reached approximately SAR 274 bn by end of third quarter of FY2019, an annual growth of 21%, driven by government support to help citizens benefit from home ownership programs. Real estate loans extended by real estate financing companies reached approx. SAR 19 bn by end of third quarter of FY2019, a growth rate of 20% compared to the same period previous year.



The current account showed improvement, achieving a surplus of SAR 98 bn (\$ 26 bn) during the first half of FY2019, driven by a surplus in the balance of goods and services and decline in external remittances. Foreign Direct Investment (FDI) grew by 10% in the first half of FY2019 compared to same period of FY2018. Foreign investments in financial securities grew by 30% to reach SAR 78 bn, driven by Tadawul's inclusion in global market indices. This progress was a result of the government's efforts to improve the business climate and attract FDI and is reflected in the improvement of the Kingdom's position in global indices measuring competitiveness and the ease of doing business.

Total SAMA reserve assets reached approximately SAR 1.9 tn (\$ 499 bn) in November FY2019, which reflects the strength and resilience of the Saudi economy.

The government's efforts to improve the business climate, develop local content and enhance the competitiveness of the economy were reflected in the improved ranking of the Kingdom in the international indicators. The World Bank's Doing Business Report for 2020 showed an improvement in the the Kingdom's ease of doing business ranking by 30 places to 62nd (out of 190 countries), compared to its ranking of 92nd last year. This increase places Saudi Arabia in the first place among the top ten countries in terms of improvement in ease of doing business this year.

The Kingdom's ranking in the Global Competitiveness Report published by the World Economic Forum has also improved by three places to 36th place. The government efforts in the process of structural transformation of its economy through the adoption of Information and Communications Technology have led it to become the 38th in the world in this area. This has been supported by the rapid growth of broadband technology and the significant increase in internet users. The Kingdom's ranking in the ability to innovate index has also improved to the 36th place due to the increase in patent applications and the level of spending on research and development. Moreover, the Kingdom



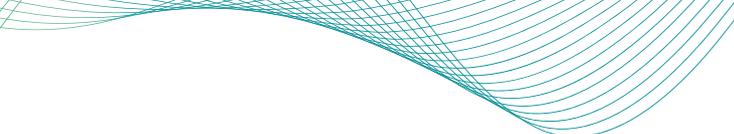
has achieved the greatest improvement among the most competitive countries in IMD World Competitiveness ranking 2019, improving by 13 places and ranking 26th globally.

Due to the contribution of government initiatives to support households and the private sector, real private consumption grew by 4.4% on an annual basis in the first half of FY2019, compared to 2.6% during the same period last year. Main consumption indicators show healthy annual growth rates: SADAD payments and sales through point of sales terminals, two main consumption indicators, registered average growth of 26% and 22% until the end of October FY2019, respectively. Key measures that helped private consumption growth include:

- Enhanced social protection network mainly through the Citizen Account program and the cost of living allowances;
- Private sector stimulus packages (PSSP);
- Labor market Saudization plans; and,
- Increased female participation in the labor market.

In FY2020 and the medium term, the government will continue to empower the private sector by supporting a stable economic environment and an appropriate investment climate. The government also plans to upgrade the infrastructure and legislative framework as well as enhance the social protection network and private sector empowerment. The private sector is expected to increase its contribution to growth and job creation in the medium term.

Implementation of a number of mega projects targeting the country's infrastructure is underway, including Neom, Qiddiya, the Red Sea project, and others. As part of its efforts to incentivize investments in promising sectors such as manufacturing and mining, financial services, IT, tourism, entertainment and sports, the government has recently established the Tourism Development Fund to provide financing facilities to encourage private sector investments in tourism. In addition, the tourist visa system was launched, allowing visas to be obtained via an e-platform and at airports and land ports. Another investment fund has been established to focus on entertainment, culture, sports and



tourism. This fund is linked to the National Development Fund (NDF) and is financed by the revenues generated from the entertainment events “Saudi Seasons”, aiming at developing these promising sectors and promoting economic growth.

In the context of the efforts supporting the private sector and enhancing the competitiveness of domestic industries, the government has decided to bear the cost of the expat levy for five years for the companies operating under industrial licenses, in order to decrease production cost, increase local content, enable national companies to compete in export markets and maximize employment rates.

The government will continue its efforts to increase the efficiency of capital expenditure and to implement the VRPs in order to achieve higher and more sustainable social and economic returns in the medium and long term. This will be achieved through the reorganization of priorities and rescheduling of implementation timeframes to enhance the efficiency and quality of these programs in realizing the objectives of Saudi Vision 2030.

The government tenders and procurement law was also developed. This system is expected to raise the efficiency of spending on development projects and support effective fiscal planning and management of financial resources. The new system also aims to increase local content proportion in government tenders, regulate business and procurement procedures, enhance transparency, competition, and fairness among bidders and increase participation by small and medium enterprises (SMEs). This reform was accompanied by the development of an e-system to support its success and efficiency.

Oil GDP growth in FY2019 is expected to be lower than in FY2018 due to KSA commitment to the OPEC+ agreements. At the same time, performance of the non-oil sectors improved during the first half of FY2019, a trend that is expected to continue in FY2020 and the medium term.

In light of the recent domestic and global fiscal and economic developments, real GDP is likely to grow at 0.4% in FY2019, driven by higher-than-expected improvement in real non-oil GDP. Preliminary estimates indicate a real GDP growth of 2.3% in FY2020, driven by non-oil GDP growth which is expected to be a key growth-driver in the medium-term.

Medium-Term Preliminary Projections of Economic Indicators

(Percentage, unless otherwise stated)

	Estimates	Projections		
	2019	2020	2021	2022
Growth of Economic Indicators (%)				
Real GDP Growth	0.4%	2.3%	2.2%	2.3%
Nominal GDP Growth (SAR in Billion)	2,811	2,902	3,027	3,143
Nominal GDP Growth	-4.7%	3.2%	4.3%	3.8%
Inflation	-1.0%	2.0%	2.0%	1.8%

Source: MoF

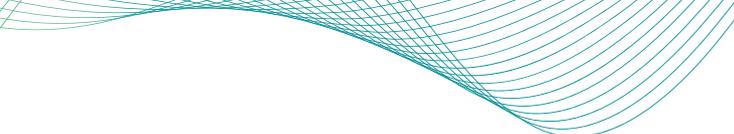
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02

Fiscal Developments and Medium-Term Outlook



Second. Fiscal Developments and Medium-Term Outlook

A. Fiscal Developments for FY2019

In context of the fiscal policy aimed at maintaining fiscal and economic stability and strengthening the resilience of the Saudi economy, the deficit for FY2019 is not expected to exceed the budgeted level of SAR 131 bn (4.7% of GDP), preserving public debt at targeted levels while maintaining adequate levels of government reserves.

Total revenues for FY2019 will be higher than FY2018 but lower than budgeted due to the oil market developments in FY2019. However, non-oil revenues for FY2019 will exceed budgeted revenues. Implementation of major expenditure plans has continued in FY2019, namely in the areas of social protection and private sector development and enablement. Meanwhile, spending has been prioritized to enhance the efficiency of public financial management. This has led to the improvement in the economic performance of the non-oil private sector in FY2019. Total expenditure is estimated to amount to SAR 1,048 bn, lower than the budgeted amount of SAR 1,106 bn.

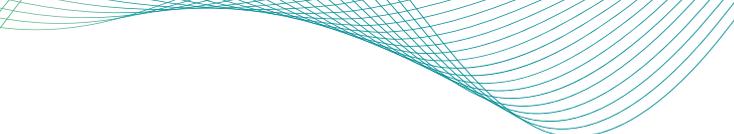
Fiscal Developments

	SAR Billion (Unless otherwise stated)			
	Actual 2018	Budget 2019	Estimates 2019	Annual change (Actual 2018 - Estimates 2019)*
Revenues				
Total Revenues	906	975	917	1.2%
Taxes	168	183	203	20.5%
Taxes on income, profits and capital gains	17	16	16	-2.9%
Taxes on goods and services	115	132	141	22.2%
Taxes on international trade and transactions	16	17	17	5.2%
Other Taxes	21	19	29	41.8%
Other Revenues	737	791	714	-3.2%
Expenditures				
Total Expenditure	1,079	1,106	1,048	-2.9%
Expenditures (OPEX)	891	860	877	-1.6%
Employee Compensations	484	456	504	4.2%
Goods and services	169	175	164	-2.8%
Financing Expenses	15	21	21	40.1%
Subsidies	13	32	22	71.8%
Grants	4	3	1	-70.0%
Social Benefits	84	73	77	-9.0%
Other Expenses	122	100	87	-28.5%
Non-financial Assets (CAPEX)	188	246	172	-8.9%
Budget Deficit				
Budget Deficit	-174	-131	-131	-24.5%
Percent to GDP	-5.9%	-4.2%	-4.7%	-
Debt and Assets				
Debt	560	678	678	21.1%
Percent to GDP	19%	22%	24%	-
Government Reserves	490	496	467	-4.5%

Source: MoF

Figures are rounded to the nearest decimal point

* Annual change was calculated based on figures in SAR million



Revenues

In FY2019, the government implemented several initiatives aimed at developing and diversifying non-oil revenues to achieve revenue stability and sustainability. These initiatives include decreasing the mandatory VAT registration threshold, implementing the approved gradual increase in the expat levy, in addition to improvement in supervisory procedures and mechanisms of revenue collection. An excise tax on sugar-sweetened beverages was implemented in December of FY2019, also aimed toward reducing the consumption of harmful beverages to protect citizens' health.

Total revenues in FY2019 are expected to be SAR 917 bn, 1.2% higher than FY2018. This growth is primarily due to the initiatives implemented in the previous period and projected growth of 6.9% of non-oil revenues despite the fall in expected oil revenues by 1.5% due to the decline in oil price and production.

Taxes

Tax revenues are projected to amount to SAR 203 bn in FY2019, a significant increase of 20.5% compared to FY2018, and 10.5% over the budget for FY2019.

Taxes on income, profits and capital gains are expected to decline by 2.9% compared to last year, reaching SAR 16 bn. This is due to the collection of non-recurrent amounts in FY2018. These tax collections are estimated to be 1.8% higher than budgeted estimates for FY2019 due to improvement in economic activity.

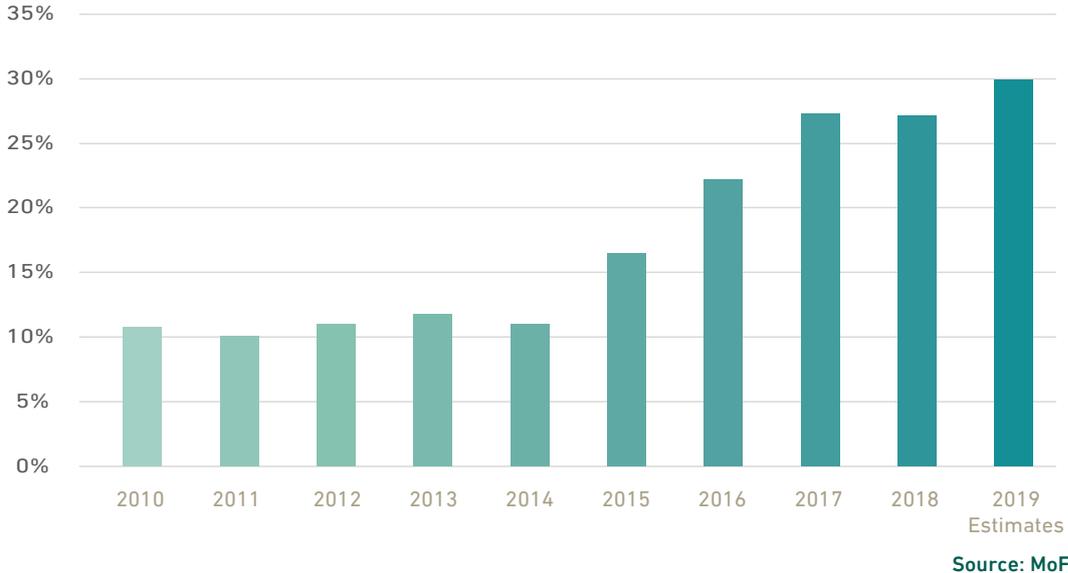
Taxes on goods and services are expected to reach SAR 141 bn in FY2019, an increase of 22.2% over the previous year, due to improvement in economic activity, continued implementation of the aforementioned initiatives, and collection of telecom sector settlements. Revenues from goods and services taxes are expected to outperform the budget by 6.5%.

Taxes on trade and international transactions (customs duties) are expected to reach SAR 17 bn by the end of FY2019, an increase of

5.2% when compared to the previous year and more than 1% higher than the budget estimate for FY2019. This is due to an increase in total commodity imports of 3.4% through September FY2019 compared to the same period last year, according to General Authority for Statistics (GASTAT).

Revenues of **other taxes (including Zakat)** are expected to reach SAR 29 bn in FY2019, an increase of 41.8% compared to last year and 55% higher than the budget estimate. This is mainly due to an increase in the number of Zakat payers registered with the General Authority of Zakat and Tax (GAZT) and the collection of revenues from banks' Zakat settlements.

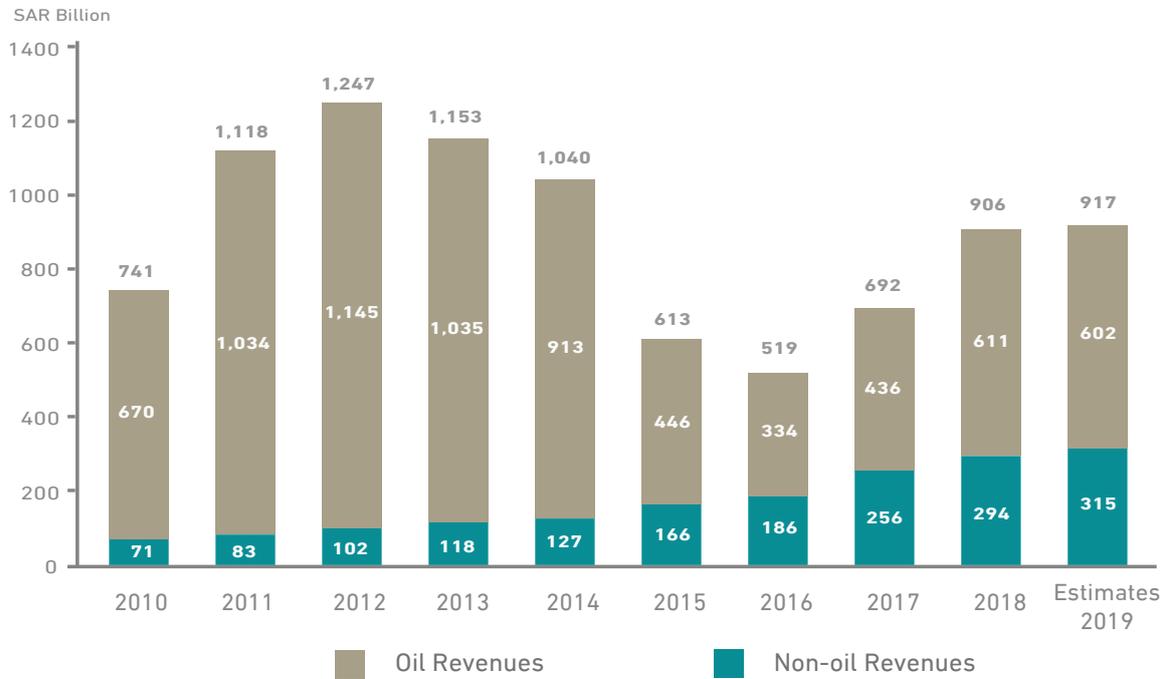
Non-Oil Revenues as Percentage of Total Expenditure



Other Revenues

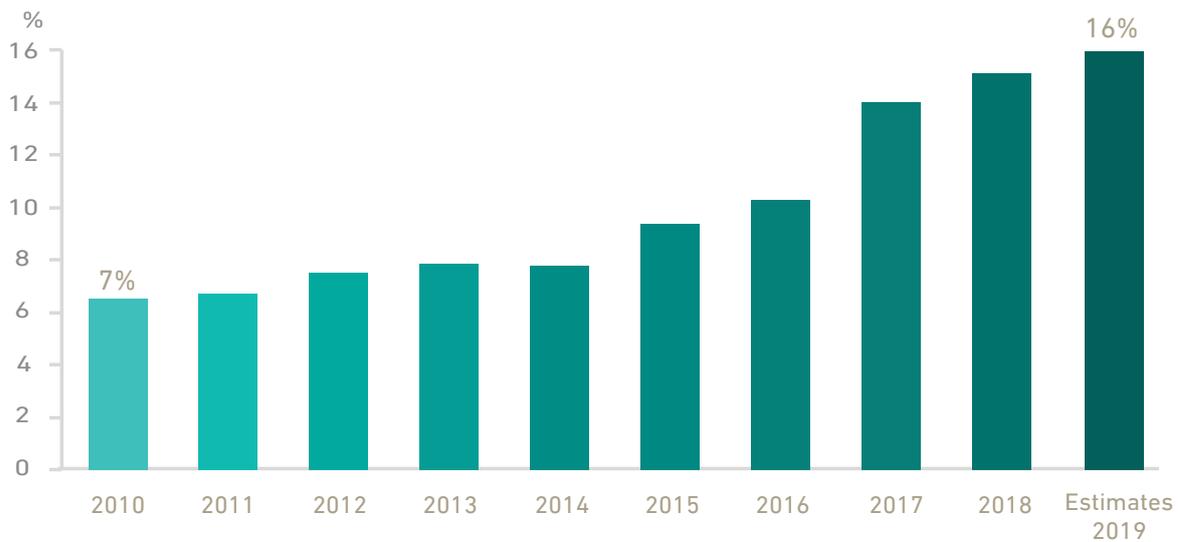
Income from other revenues is expected to amount to SAR 714 bn in FY2019, a decline of 3.2% compared to last year's actual performance. This is lower than the FY2019 budget estimate by 9.7%. This decline is due to reduction in oil revenues, which are expected to reach a total of SAR 602 bn in FY2019, a decrease of 1.5% compared to last year, and 9% compared to FY2019 budget estimates. Average oil production up to October 2019 was about 9.8 million barrels per day, a decline of 3.8% on an annual basis, whereas the average price of Brent crude registered \$64.2 during the same period, compared to \$73.1 per barrel a year earlier. Special oil dividends amounting to approximately SAR 75 bn were collected in FY2018.

Oil and Non-Oil Revenues



Source: MoF

Non-Oil Revenues to Non-Oil GDP (%)



Source: MoF

Expenditures

During FY2019, the government maintained spending on major plans while some spending programs were revised with the aim of realizing fiscal and economic targets. Spending was reprioritized in light of economic activity's development, while ensuring spending effectiveness and efficiency. Total government expenditure in FY2019 is expected to amount to SAR 1,048 bn or 37.3% of GDP, which is lower than the approved budget for FY2019 by 5.2%, and 2.9% below actual expenditure in 2018 (37.2% of total GDP). This is mainly driven by the decrease of 1.6% in OPEX compared to FY2018.

Employee compensation is expected to amount to SAR 504 bn, an increase of 4.2% over FY2018, driven predominantly by annual raises and higher contributions to the pension fund. This is expected to lead to a total wage bill of 48.1% of total expenditure in FY2019, compared to 44.8% in the previous year. Expenditures on goods and services and other expenses are expected to decline by 2.8% and 28.5% respectively on the back of enhanced OPEX efficiency and reprioritized allocation on some spending items. Financing cost is expected to remain in line with the approved FY2019 budget. Subsidies are expected to rise by 71.8% to SAR 22 bn due to spending on the collective bill that was approved in February 2019 to support establishments complying with the Saudization scheme, which is expected to amount to SAR 10.8 bn for FY2019.

Capital expenditure (CAPEX) is likely to fall by 8.9% compared to actual spending in 2018. This is mainly due to directing government spending according to developmental needs while improving its efficiency and effectiveness, in addition to the private sector participation in financing the establishment and operations of accordingly, CAPEX is likely to realize some saving compared to the budget.

Sectoral Performance

As a result of the aforementioned policies, spending on the municipal services sector & infrastructure and transportation sector is expected to increase by 28.5% and 26.7%, respectively, compared to the actual spending of FY2018. Meanwhile, spending on the military sector is expected to decrease by 18.3% to reach SAR 198 bn at the end of FY2019.

Expenditure on the Sectoral Level

SAR Billion (Unless otherwise stated)

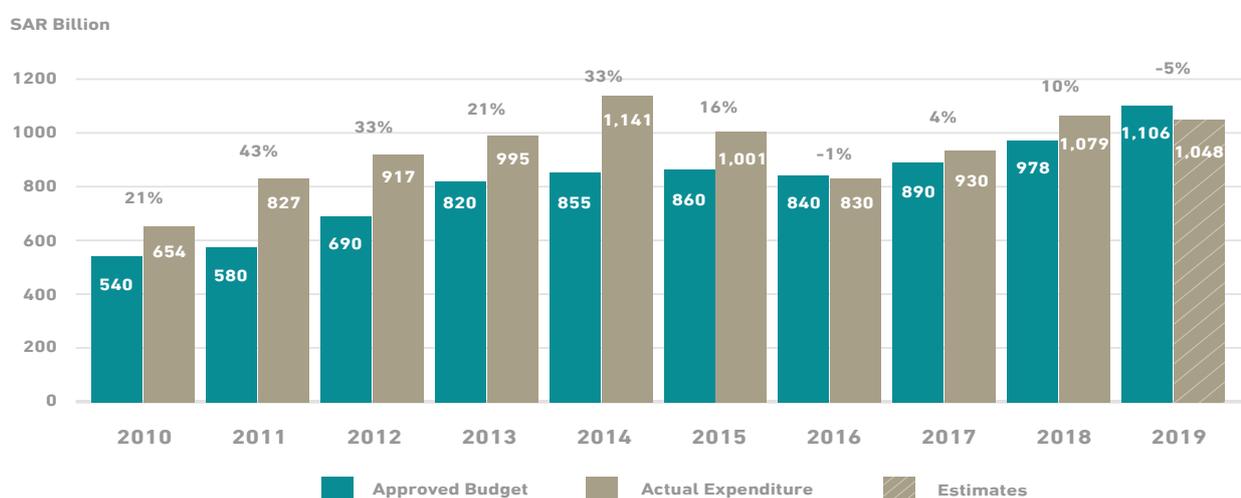
Sector	Actual 2018	Budget 2019	Estimates 2019	Annual Change (Actual 2018 - Estimates 2019)*
Public Administration	31	28	29	-7.0%
Military	242	191	198	-18.3%
Security and Regional Administration	113	103	104	-8.3%
Municipal Services	46	62	59	28.5%
Education	209	193	202	-3.3%
Health and Social Development	175	172	174	-0.8%
Economic Resources	105	131	99	-6.0%
Infrastructure and Transportation	49	70	62	26.7%
General Items	108	156	121	12.0%
Total	1,079	1,106	1,048	-2.9%

Figures are rounded to the nearest decimal point

Source: MoF

* Annual change was calculated based on figures in SAR million

Actual Expenditure compared to Approved Budget and Percent Change



Source: MoF

Deficit and Debt

It is expected that the budget deficit for FY2019 will reach SAR 131 bn, or 4.7% of GDP, compared to SAR 174 bn or 5.9% of GDP in FY2018, as a result of the government’s policy to gradually reduce the deficit.

The MoF has continued to adopt a diversified financing policy during FY2019 based on debt issuances and withdrawals from government deposits and reserves to finance the budget deficit. The MoF has diversified its domestic and international financing through sukuk and bond issuances which amounted to SAR 113.5 bn by October 2019, in line with the planned issuances of SAR 120 bn for FY2019 (including redemption of SAR 2 bn of principal). The public debt is expected to reach SAR 678 bn, or 24% of GDP by the end of FY2019, compared with SAR 560 bn, or 19% of GDP in FY2018.

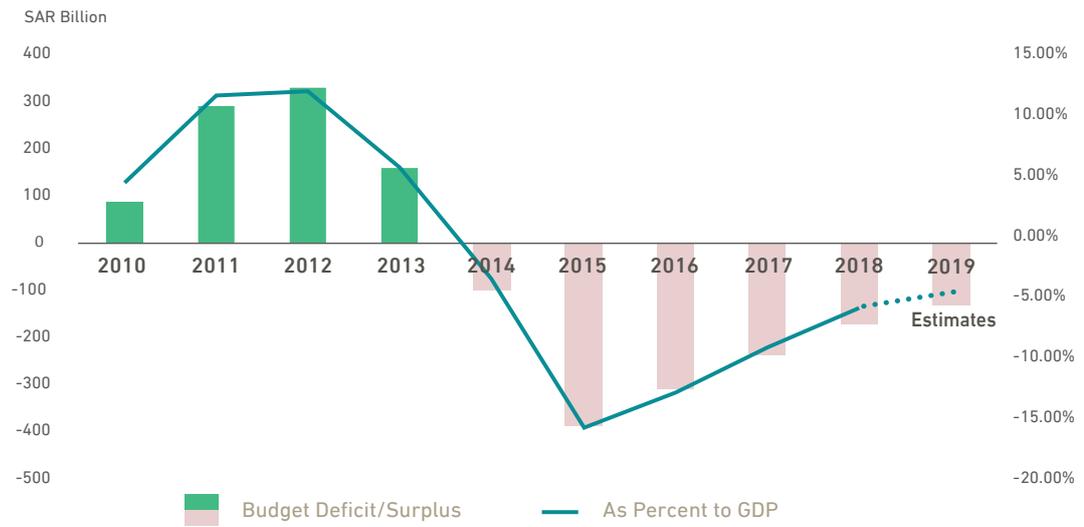
Actual Budget Deficit/Surplus compared to Approved Budget



Source: MoF

Total withdrawals from government reserves in order to cover financing needs, including loans granted to the private sector stimulus plan, are expected to reach SAR 22 bn by the end of FY2019, and the balance of reserves is estimated to be SAR 467 bn by the end of FY2019.

Budget Deficit/Surplus and as a percentage of GDP



Source: MoF

B. Fiscal Outlook for FY2020 and Medium-Term

The fiscal policies of FY2018 and FY2019 effectively stimulated economic activity through the implementation of programs and initiatives aimed at supporting households, empowering the private sector and alleviating the impact of some fiscal reforms. These initiatives have successfully achieved their interim objectives including that the economy has started to recover, private sector performance has improved, economic growth and employment rates are expected to continue to rise.

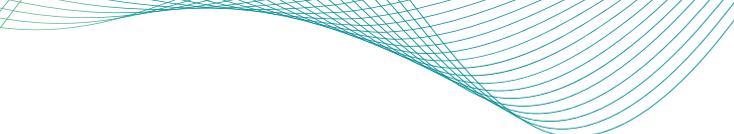
In light of risks faced by the global economy that may result in slower demand for the kingdom's key trade partners, medium-term projections were revised and more prudent policies have been adopted to better enable the country to face external shocks. The medium-term fiscal policy set in the FY2020 budget will continue to achieve balance between the objectives of economic growth, economic stability and fiscal sustainability.

Additionally, the government will continue to work on increasing revenues, especially non-oil revenues, as well as improving spending efficiency, increasing private sector participation in financing the establishment and operations of several projects, and controlling the public debt and deficit to achieve fiscal stability and sustainability in the medium term.

Revenues

The government's focus in FY2020 will be to enhance returns from revenue initiatives already implemented, and completing the implementation of previously announced initiatives.

FY2020 total revenues are estimated to reach SAR 833 bn (of which non-oil revenues will reach SAR 320 bn, representing 38% of total revenues), 9.1% lower than FY2019 estimates. Revenues are expected to reach SAR 863 bn by FY2022.



Taxes

Tax revenues are projected to reach SAR 200 bn in FY2020, 1.2% lower than the estimate for FY2019 due to the collection of non-recurrent amounts in FY2019. In FY2019, revenues from taxes were 131.9% higher than FY2017 and 20.5% higher than FY2018.

Taxes on income, profits and capital gains are expected to be SAR 16 bn in FY2020, 2% higher than FY2019 estimates.

Taxes on goods and services are estimated to be SAR 142 bn in FY2020, 0.8% higher than FY2019 estimates. This increase is due to the expected economic recovery, implementation of the excise tax on sugar-sweetened beverages in December 2019. The government collected non-recurrent settlement dues from the telecom sector in FY2019, without which growth rate of tax on goods and services for FY2020 would have been 5.3%.

Revenues from **other taxes (including Zakat)** are expected to reach SAR 26 bn in FY2020, 11.5% lower than FY2019 projections. This is due to the collection of non-recurrent Zakat settlements from banks in FY2019.

Other Revenues

Other revenues, including oil revenues, are estimated at SAR 633 bn in FY2020, 11.3% lower than FY2019 estimates. Oil revenues are estimated to be SAR 513 bn, compared to SAR 602 bn in 2019, 14.8% lower than FY2019 estimates. This decline is attributed to the collection of special dividends in FY2019.

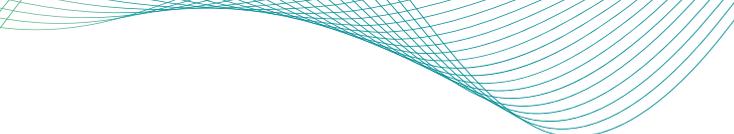


Expenditures

Over the past three years, several structural public financial management reforms have been implemented to raise spending efficiency. In cooperation with Center of Spending Efficiency (CSE), expenditure items are being revised at the entity level to increase the effectiveness of economic and social spending. In the same context, VRPs, mega projects and other projects have been reviewed and rescheduled in accordance with their projected returns to enhance fiscal stability and discipline.

Meanwhile, total expenditure in FY2020 includes providing household support through targeted social protection programs such as the Citizen Account, the cost of living allowances and other social security programs while continuing the review and improvement of these programs. Social spending is a key government priority to improve the quality of life and raise the standards of living for citizens.

Total expenditure in FY2020 is estimated to be SAR 1,020 bn, 2.7% lower than FY2019 estimates. The government will continue its efforts toward fostering private sector participation in the financing of establishing and operating several projects. The government will also focus on improving spending efficiency and directing spending towards the most productive sectors to achieve the targeted economic growth through supporting social development and enhancing fiscal discipline and planning.



Operational Expenditures (OPEX)

OPEX is estimated to reach SAR 847 bn in FY2020, amounting to 83% of total expenditure, 3.4% lower than FY2019 estimates. Employee compensation is estimated to remain stable at SAR 504 bn.

Expenditure on goods and services is expected to reach SAR 140 bn in FY2020, including operational, consumption, maintenance, cleaning and other expenses. This will be sufficient to meet the requirements of government entities, due to the expected improvement in spending efficiency, especially after implementation of the new government tenders and procurement system. Medium-term expenditure on this category is expected to decrease as a result of the extension of implementation timelines of some VRPs and other projects.

Expenditure on social benefits is estimated to reach SAR 69 bn in FY2020, 10.3% lower than FY2019 estimates. This includes financing the Citizen Account Program in addition to continuation of other support programs targeting the social protection of citizens and families.

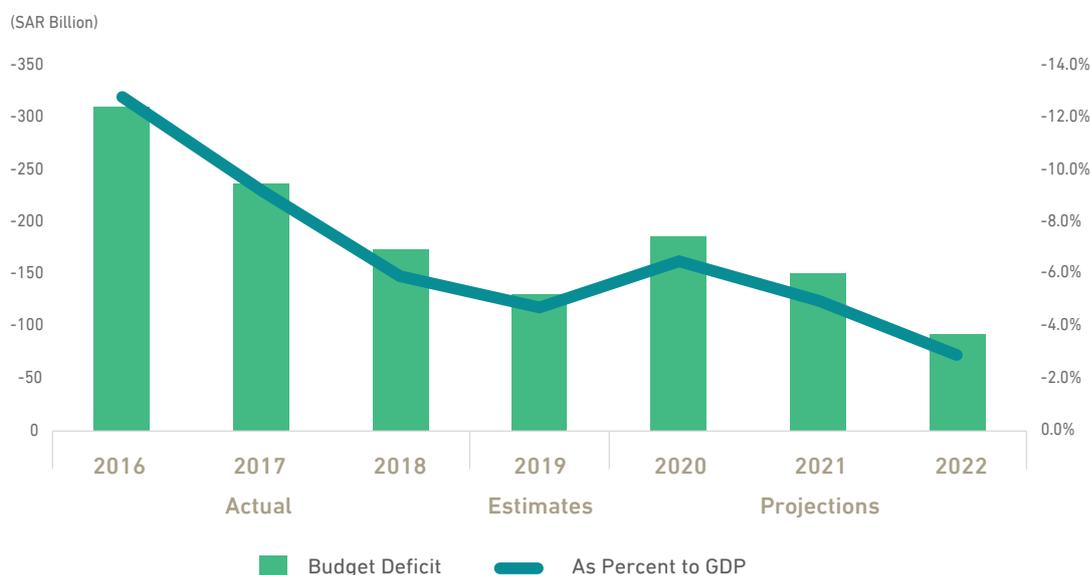
Capital Expenditures (CAPEX)

Expenditure on non-financial assets is estimated to amount to SAR 173 bn in FY2020 and includes CAPEX on VRPs, allocations to mega projects and implementation of various investment projects in municipal services, health, education, infrastructure, transportation and other sectors. The stabilization in allocation for investment spending in FY2020 at the same levels of FY2019 estimates was due to the improvement in private sector participation in financing the establishment and operations of several projects, in addition to the extension of some VRPs and other projects to ensure the efficiency and effectiveness of spending.

Deficit and Debt

The government will continue its efforts to contain budget deficit. In FY2020, the budget deficit is estimated to be 6.4% of GDP. The budget deficit is projected to gradually decrease to sustainable levels in the medium-term. By the end of FY2022, the budget deficit is projected to decline to 2.9% of GDP.

Budget Deficit



Source: MoF

The size of public debt issuances has been guided by the MoF's strategy to diversify its debt portfolio between domestic and international markets, maintain an appropriate level of local liquidity and benefit from foreign cash inflows. The size of debt issuance has been decided in consideration of the balance between debt issuance options and withdrawals from government deposits and reserves. In FY2020, total public debt is expected to reach SAR 754 bn, or 26% of GDP. It is likely to jump to SAR 924 bn (29% of GDP) by the end of FY2022.

Government reserves are expected to reach SAR 346 bn by the end of FY2020, and SAR 265 bn by the end of FY2022.

Budget Projections for Fiscal Year 2020

SAR Billion (Unless otherwise stated)

	Budget 2019	Estimates 2019	Budget 2020
Revenues			
Total Revenues	975	917	833
Taxes	183	203	200
Taxes on income, profits and capital gains	16	16	16
Taxes on Goods and Services	132	141	142
Taxes on international trade and transaction	17	17	16
Other Taxes	19	29	26
Other Revenues	791	714	633
Expenditures			
Total Expenditure	1,106	1,048	1,020
Expenses (OPEX)	860	877	847
Compensation of Employees	456	504	504
Goods and Services	175	164	140
Financing Expenses	21	21	31
Subsidies	32	22	17
Grants	3	1	1
Social Benefits	73	77	69
Other Expenses	100	87	85
Non-Financial Assets (CAPEX)	246	172	173
Budget Deficit			
Budget Deficit	-131	-131	-187
Percent to GDP	-4.2%	-4.7%	-6.4%
Debt and Assets			
Debt	678	678	754
Percent to GDP	22%	24%	26%
Government Reserves	496	467	346

Source: MoF

Medium Term Fiscal Projections

SAR Billion (Unless otherwise stated)

	Actual 2018	Budget 2019	Estimates 2019	Budget 2020	Projections	
					2021	2022
Total Revenues	906	975	917	833	839	863
Total Expenditure	1,079	1,106	1,048	1,020	990	955
Budget Deficit	-174	-131	-131	-187	-151	-92
Percent to GDP	-5.9%	-4.2%	-4.7%	-6.4%	-5.0%	-2.9%
Debt	560	678	678	754	848	924
Percent to GDP	19%	22%	24%	26%	28%	29%
Government Reserves	490	496	467	346	280	265

Source: MoF

Figures are rounded to the nearest decimal point

C. Sectoral Expenditures in FY2020 Budget

The FY2020 budget includes expenditure directed toward a number of vital programs and projects. These programs and projects aim to develop and improve the infrastructure and level of basic services provided to citizens and beneficiaries. This section outlines key achievements across various sectors realized during FY2019, as well as allocations approved for these sectors under key programs and projects, both ongoing and new, in FY2020.

Infrastructure and Transportation Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 56 bn
Sector Mandate	Roads, Ports, Railways, Airports, Housing, Communications, Information Technology, Postal Services and Space, and Industrial Cities such as Jubail, Yanbu, Ras Al Khair and Jazan
Number of Government Bodies Serving the Sector	21

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Housing	33 projects on infrastructure of lands to be used for residential building	Development of ~64 million square meters
Communications	Communications Infrastructure projects	<ul style="list-style-type: none"> 60% of houses covered with optic fiber network Experimental Launch of 5G service
Aviation	Opening of the new King Abdulaziz International Airport	Extended to 105 million square meters, with cost of approx. SAR 41 bn

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Communications	To improve digitization of governmental services	To achieve 76% in e-government maturity index.
Housing	To provide housing- subsidy-eligible population with housing products from developed land	To increase home ownership rate among citizens to 60%
Roads	To construct main and secondary roads and sub-routes; to complete ongoing road projects; and to begin implementation of some central roads.	To develop 2000 kilometers of roads; about 3% increase in total road network.
Aviation	To complete expansion of local airports	-

Education Sector

First: Overview

Sector Allocations in FY2020 Budget	SAR 193 bn
Sector Mandate	schools, colleges and university cities; scholarship program of the Custodian of the two Holy Mosques; support of research, development and innovation; university hospitals; and support knowledge sources.
Number of Government Bodies Serving the Sector	33

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Education	Completion of 583 new school buildings nationwide in 2019	Number of schools (either completed or in the pipeline) expected to reach 1,738 schools, marking 33% of the total planned number for (2016-2020).
Education	To add more laboratories, infrastructure and IT services to universities, institutes and training colleges; and to refurbish their current facilities.	To continue refurbishment of female colleges in a number of universities with a cost of approx. SAR 4.3 bn, that marks 83% of the of the total planned for (2016-2020) of SAR 5.4 bn.

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Education	To continue implementation and restoration of educational building projects.	Ongoing execution of buildings for approximately 653 projects, in addition to the restoration of 184 schools.
Education	To continue implementation of the Custodian of the two Holy Mosques Overseas Scholarship Program.	Number of overseas scholarships granted to students supervised by the Ministry of Education exceeded 82,432 students, including their dependents, while the number of students granted domestic scholarships is 10,216 students. Annual expenditure on internal and external scholarships equaled SAR 12.5 bn, excluding scholarships granted to civil servants.

Municipal Services Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 54 bn
Sector Mandate	Infrastructure for cities; development of Saudi cities; organization of entertainment activities, festivals and events; and, increase of urban quality of life.
Number of Government Bodies Serving the Sector	295

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Construction Projects	To build and develop rainwater drain network and to prevent the risks of flood.	Establishment of 500 kilometers rainwater drain network.
Humanizing cities	Signing of 7 investment contracts for the municipalities of Riyadh, Eastern Region and Central region in Madinah	-

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Roads	King Abdulaziz Project for Riyadh Public Transport	-
Gardens and Parks	Completion of King Abdullah Parks Project in Riyadh	Project Duration: 30 Months
Investment	Offering more than 5,500 investment opportunities via the Investment Opportunities Portal "Foras".	Completion of more than 2500 opportunities through Balady Platform and the smart phone application.

Health and Social Development Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 167 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, sports and entertainment services and the Quality of Life Program
Number of Government Bodies Serving the Sector	17

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Health	To establish and equip a number of hospitals within five years (2016-2020)	Number of completed hospitals amounted to 5, with a capacity of 1,050 beds and completion of 74%
Health	To launch cardiac catheterization, oncology, obesity and growth disorder centers.	There are 4 cardiac catheterization centers, 7 oncology centers, 3 obesity centers and 5 growth disorder centers.
Health	To operate a number of ambulatory centers and AI labs and a number of mobile clinics to provide health services in peripheral areas.	There are 65 ambulatory centers and 10 mobile clinics.
Sports	To complete developing and restoring a number of stadiums in Riyadh, Jeddah and Dammam, in addition to some sports cities and halls.	Number of developed and rehabilitated stadiums are 4, while the number of sports cities and halls reached 14.
Social Development	Opening of a number of community centers for orphan care.	Number of these centers reached 5.

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Health	To continue on-going work on building and equipping hospitals and primary health care centers nationwide	The number of hospitals and centers under construction and preparation is 35 with a capacity of 10,750 beds.
Health	To continue ongoing work on the establishment of the National Medical Research Center to support the country's health care system and to improve population health.	Establishment of one national medical research center.
Sports	Establishing a number of centers and cities for sports clubs	Establishment of 4 sport centers and one sports city.

Economic Resources Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 98 bn
Sector Mandate	Environmental infrastructures, water, agriculture, desalinated water, sewage networks, energy sources and mineral wealth; development of tourism, and investment environment, industrial, export; support of SMEs; enhancement of local content; and fiscal and economic planning.
Number of Government Bodies Serving the Sector	26

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Water	Establishment of an independent water desalination plant in Al-Shuqaiq city using reverse osmosis system to meet the southern region water needs to cope with the increasing demand.	Plant works with a capacity of 450 thousand cubic meters per day for the cities of Jazan and Asir, with a total cost of SAR 2.2 bn
Local Content	Increase in local content in government procurements	Development of the mandatory list of national products upon contracting with government bodies.
Environment	Establishment of environmental centers to help achieve the objectives of the environmental strategy, to promote investment in the field of eco-tourism and to improve public health and water quality.	Creation of 5 centers concerned with meteorology, waste management and development of vegetation and wildlife.
Sewage	Installation of sewage networks nationwide.	Increasing coverage ratio of sewage services to more than that 55%
Agricultural	Launch of an e-platform for trading of dates	25 e-outlets were established to support Saudi producers and exporters
Customs	Establishment of Arar Port Project on the Saudi-Iraq border	The project extends over an area of 667,000 square meters with a capacity 360 trucks in the waiting yard and 94 trucks in the inspection platform. This will facilitate trading and travel between Saudi Arabia and Iraq. It will also enable the Kingdom to establish a logistic platform.

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Environment	Launching a national program for environmental inspection of industrial and developmental facilities, including ecological service providers, to control wrong practices and pollution, spread environmental awareness and raise the level of environmental compliance.	The project will reduce the cost of environmental degradation estimated at SAR 84 bn. It will also improve the environmental condition in the country.
Alternative Energy	Initiating the second-and-third-round projects of the National Renewable Energy Program	Investment in the renewable and alternative energy will amount to SAR 14 bn and create 6,800 job opportunities in the construction phase and 730 opportunities in the fields of operation and maintenance.

Public Administration Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 28 bn
Sector Mandate	Supporting administrative & legislative bodies, civil service, foreign affairs, courts, Islamic affairs, human rights and care of the two Holy Mosques
Number of Government Bodies Serving the Sector	26

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Hajj and Umrah	Launching the Hajj and Umrah e-platform.	Facilitating the performance of rituals to raise satisfaction levels. More than 150,000 visas were issued in the experimental phase.
Islamic Affairs	Printing and distributing Al-Qur'an Al-Karim (Moshaf) in all versions, sizes and languages internally and externally.	More than 18 million copies were printed.
Justice	Activating a tech mechanism to issue power of attorneys outside the Kingdom through the notarization service (Notary), without the need for authentication by foreign and justice ministries.	This mechanism was enforced in 12 representative offices outside the Kingdom.
Foreign Affairs	Increasing the efficiency of services offered in the representative offices outside the Kingdom through better coordination between the representative offices and ministries.	95 representative offices are linked through the secure communication technology.

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Justice	Projects to establish courts and notary offices to improve relevant services.	The establishment of 73 courts and notarial offices with a cost of SAR 2,600 million.
Hajj and Umrah	MAQAM e-platform for Hajj and Umrah services	A central reservation engine, which is ranked the fifth worldwide, connecting providers of aviation, housing, internal transportation and catering services.
Civil Service	Launching a program qualifying distinguished and top-ranked students.	Training program for distinguished university graduates lasting for 24 months. It offers employment opportunities to those who pass the program.

Military Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 182 bn
Sector Mandate	National defense, Royal Guards, Development of military capabilities, cities, base, hospitals, medical services, colleges and universities; and nationalization of military industries.
Number of Government Bodies Serving the Sector	19

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Nationalization of Defense Industries	Launch of licensing programs for defense industries in the Kingdom and start receiving applications for licenses	Contains 3 main licensing types for defense industries each having 6 sub-types related to military equipment manufacturing
Military Hospitals	Management and operation of hospitals and specialized medical centers.	More than 25 hospitals in different areas
Military Cities	Management and Operation of Military Cities.	The initiative includes seven military cities.
Military Sciences	To continue supporting military universities, colleges and institutes.	There are 2 universities (including their satellite campuses), 5 colleges and a number of military institutes

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Military Bases	Build King Salman air base	Two phases
Military Education	Develop the national defense university	First phase
Military Institutes	Build King Faisal aviation college	Two phases
Military Institutes	Build King Fahad naval college	First phases

Security and Regional Administration Sector

First: Overview

Sector Allocation in FY2020 Budget	SAR 102 bn
Sector Mandate	Emirates of regions, internal security, border guards, prevention of crime, drugs and psychotropic substance, counter-terrorism and extremism, civil defense, traffic safety, prison administration, passports administration, security of vital facilities and cybersecurity
Number of Government Bodies Serving the Sector	31

Second: Key Projects Completed in FY2019

Scope	Description	In Numbers
Public Ser-vices	Completing the second phase of issuing the national identification cards (ID) - Second Phase	100% completed
Consulta-tions	Establishing an office to manage IT projects at the National Information Center.	100% completed
National Ca-pabilities De-velopment	Develop national capabilities in cybersecurity	Train 1,039 individuals of which 751 are employees in 113 entities and 288 students from 23 Saudi universities and colleges Offered scholarships for 231 students in cybersecurity specializations
Cybersecurity for National Entities	Work on cybersecurity evaluations on the national services and sensitive infrastructure	Evaluate 150 national entities
Development of Security Facilities	the Custodian of Two Holy Mosques King Abdullah Bin Abdul Aziz Project for Development of Security Facilities	Project consists of five phases, includes establishment of several security facilities and 14 residential compounds in five areas. The compound will include 10,000 units. Around 6 compounds will be delivered during the five-year period from 2016 to 2020. These six compounds comprise of 3,800 units which is 38% of the seven-year plan (2016-2022) target, and Completion of other projects such as Diplomatic Security Special Forces and General Administration for International Cooperation.

Third: Key Projects Planned for FY2020

Scope	Description	In Numbers
Public Services	Offering Shomoos services (National Network for Tourism information) to connect facilities and provide central databases on tourism information in order to develop business joint cooperation	50% completed.
National Cybersecurity	Responding to cybersecurity emergencies	On-going project
Cybersecurity for Individuals and Institutions	National cybersecurity center	On-going project

General Items

Allocations to general items in the FY2020 budget amounts to SAR 141 bn, including spending on government pensions, social insurances, financing cost, budget support provisions, contributions to international organizations, government programs and facilities, subsidies and emergency expenses.

Expenditure on the Sectoral level

SAR Billion (Unless mentioned otherwise)

Sector	Actual 2018	Estimates 2019	Budget 2020	*Annual Change (2019 Estimates compared to 2020 Budget)
Public Administration	31	29	28	-2.5%
Military	242	198	182	-8.2%
Security & Regional Administration	113	104	102	-1.6%
Municipal Services	46	59	54	-9.1%
Education	209	202	193	-4.4%
Health & Social Development	175	174	167	-4.0%
Economic Resources	105	99	98	-1.2%
Infrastructure and Transportation	49	62	56	-9.5%
General Items	108	121	141	15.9%
Total	1,079	1,048	1,020	-2.6%

Source: MoF

Figures are rounded to the nearest decimal point

* Discrepancy may arise due to rounding the figures to the nearest billion

ميزانية
2020

المملكة العربية السعودية
Saudi Arabia - Budget

03

Major Fiscal and Economic Challenges

Third. Major Fiscal and Economic Challenges

The FY2020 budget and the medium-term fiscal and economic framework have been developed based on fiscal and economic assumptions in the context of local and global economic developments. Any changes to these assumptions would affect the public finance outlook and, consequently, the current and medium-term forecasts of the country's fiscal performance.

Below are the major domestic and global economic and fiscal challenges faced by the Saudi economy and the policies being adopted by the government to manage them.

1. Global Economic Slowdown

Trade tensions are the most significant challenge that has negatively impacted international trade and increased volatility of global markets. Due to the global developments, the International Monetary Fund (IMF) lowered its estimates in October 2019 of global economic growth to 3.0% for FY2019 and 3.4% for FY2020, a decline of 0.3% and 0.2%, respectively, compared to the forecasts announced in April 2019.

Global Economic Growth for (2011 - 2024)



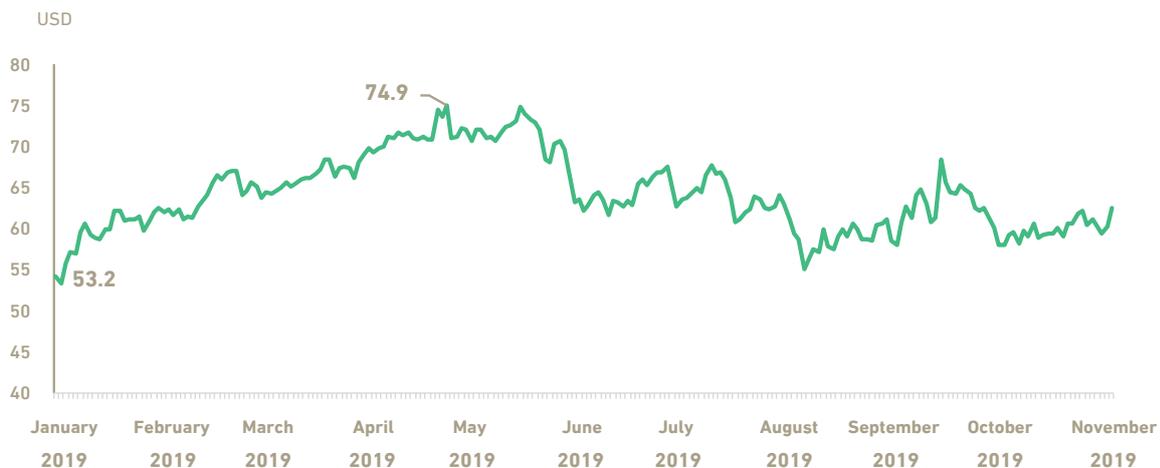
Source: WEO, IMF, October 2019

Due to increased concerns of global slowdown in the coming years, the Kingdom aims to maintain a prudent fiscal policy to enhance the resilience of the economy to withstand external shocks.

2. Oil Prices Volatility

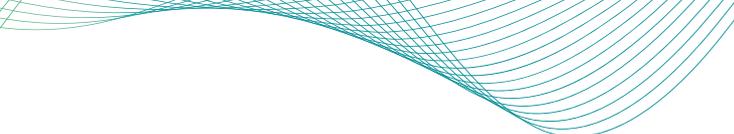
The Kingdom and other oil-exporting countries are facing many challenges. Restrictions on oil production and developments in the supply are additional negative indicators to the global economic slowdown. The resulting oil price instability are limiting countries' fiscal planning capabilities. Over the course of 2019, oil markets witnessed significant volatility. Brent crude recorded its lowest level during the year in January 2019, reaching \$53.2 per barrel, peaking in April at \$74.9 per barrel.

Bernt Curde Daily Prices (Jan 2019 - Nov 2019)



Source: U.S. Energy Information Administration

Saudi Arabia's oil policy aims to stabilize global crude oil market, balancing the interests of producers and consumers, and providing a conducive environment for sustainable global economic growth. To achieve this, Saudi Arabia plays a leading role regarding the output shares set as per OPEC+ agreement. Government policies aim to diversify its economic base and to develop and diversify non-oil revenues to reduce the fluctuation of fiscal revenues. The government also aims to enhance the role of the private sector and increase non-oil GDP growth to promote a more resilient economy.



3. Non-oil GDP Growth Rates

High economic growth and the creation of sufficient and decent employment opportunities in the private sector for Saudis are amongst the most significant challenges faced by the domestic economy. The government efforts to improve non-oil GDP growth are expected to yield positive results over the medium and long term with the completion of ongoing and planned projects, reforms and initiatives.

The performance of non-oil sector has improved due to the government's policies to empower the private sector, such as private sector stimulus packages (PSSP) and the execution of mega projects. These policies have led to improved performance in many sectors, mainly the financial services, information technology, tourism, entertainment sports in addition to the construction and retail sectors. The government is also expected to proceed with its privatization programs in sectors such as water, education and healthcare.

Other Potential Positive Factors

Despite the aforementioned challenges, several developments could have a positive impact on the medium-term performance of the domestic economy. For example, a significant increase in local and foreign private sector investment in the non-oil sector could lead to an improvement in the economic indicators compared to current estimates. Over the course of FY2020 and in the medium-term, the government will continue to improve the business climate and investment opportunities for the private sector in addition to realizing the benefits of completion of some VRPs and mega projects. The government will continue the implementation of its plans to develop non-oil domestic industries and exports enabling the private sector contribution in economic growth and employment creation.

The continuous increase in women's participation in the labor market is another positive factor. This indicator has seen significant improvement since the launch of Saudi Vision 2030, especially following the implementation of policies and initiatives supporting increased participation by women in various economic sectors and activities.

List of Acronyms

Bn	Billion
CAPEX	Capital Expenditure
CSE	Center of Spending Efficiency
FDI	Foreign Direct Investments
FY	Fiscal Year
GASTAT	General Authority for Statistics
GAZT	General Authority for Zakat and Tax
GDP	Gross Domestic Product
GFSM 2014	Government Finance Statistics Manual
IMF	International Monetary Fund
MoF	Ministry of Finance
NDF	National Development Fund
OPEC	Organization of the Petroleum Exporting Countries
OPEX	Operational Expenditures
PMI	Purchasing Managers Index
PSSP	Private Sector Stimulus Packages
SAMA	Saudi Arabian Monetary Authority
SAR	Saudi Riyal
SMEs	Small and Medium Enterprises
Tn	Trillion
VAT	Value Added Tax
VRPs	Vision Realization Programs
WEO	World Economic Outlook