وزارة المالية
Ministry of Finance

Report

End of the Year Budget

Fiscal Year 2020

Contents

Introduction

The Ministry of Finance (MoF) presents the End of the Year Budget Report for FY 2020 in support of the initiatives of fiscal disclosure and in line with the Saudi Vision 2030 objectives. The MoF has already undertaken several initiatives to this end, including publishing periodic reports on the fiscal performance and improving disclosure of related policies and initiatives, as well as enhancing published reports such as the budget statement, the pre-budget statement, the citizen budget, in addition to the quarterly performance reports.

This report presents actual data and indicators for fiscal and economic performance during FY 2020, which was impacted by the COVID-19 crisis, as well as explanation for deviation from the approved budget.

The MoF is determined to continue its focus on enhancing fiscal transparency and reporting to ensure better disclosure and clarity of policies, initiatives and programs adopted.

Executive Summary

During 2020, the government has implemented several fiscal and economic measures and initiatives that supported the most effected sectors by the COVID-19 crisis. This took place under a comprehensive vision aimed at providing appropriate health care services, taking the necessary preventive measures, and providing stimulus packages to support the continuation of economic activities and employment. This is in addition to maintaining economic stability and fiscal sustainability by reducing the negative impact of the crisis on the Kingdom's fiscal position.

In this context, the government has reprioritized its expenditures and enhanced its non-oil revenue, especially in light of the decline in oil revenue due to the negative impact of the crisis on oil markets. The government was thus able to continue implementing initiatives to enhance the capacity of the health sector, and implement economic transformation plans, in addition to financing social spending. Non-oil revenue measures included raising the VAT rate from 5% to 15% in July 2020, as well increasing customs duty for some products in June 2020, followed by exempting real estate transactions from VAT and replacing it with a real estate transaction tax of 5%, applied in October 2020. These measures were in addition to the continued implementation of expat levy as planned.

In FY 2020, total expenditures witnessed an increase of 5.5% over the approved budget on the back of exceptional spending to confront the pandemic. The additional budget allocations during FY 2020 amounted to SAR 136 bn, of which SAR 70 bn to confront COVID-19, including additional allocations to the health, security and other sectors, as well as accelerated payment of the private sector dues. This increase was offset by savings in some of the expenditure items by SAR 80 bn, due to the cancellation, extension or deferral of some budgeted operational and capital expenditures, in addition to halting some exceptional temporary measures that had been previously approved, such as the cost of living allowance, starting from June 2020.

Total revenues decreased by 6.1% compared to the approved budget, as oil revenue fell short of the approved budget by 19.5%. This is mainly due to the decline in global oil demand and the sharp drop in prices since the beginning of the crisis. Meanwhile, non-oil revenue increased by 15.2%, despite its sharp decline during H1 of the year on the back of the crisis. This has been realized thanks to the economic reform efforts and initiatives implemented during the past years, in addition to the new initiatives implemented during 2020, and revenues accrued to the budget from extraordinary dividends on government investment to confront the COVID-19 crisis and non-oil revenue compared to the budget.

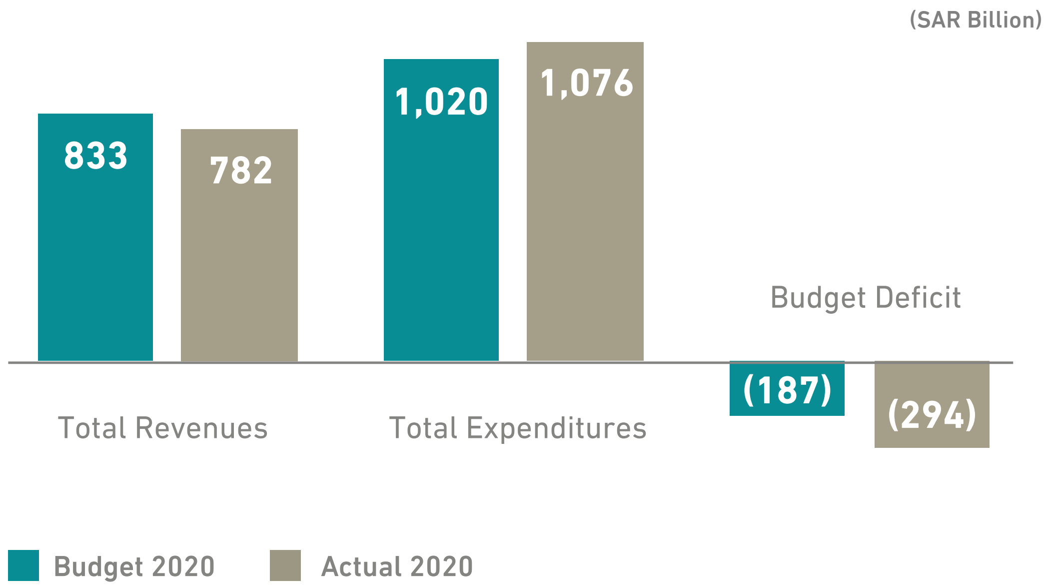
In FY 2020, the budget deficit amounted to SAR 294 bn (or 11.2% of GDP) compared to SAR 187 bn (or 6.4% of GDP) in the approved budget. The government allowed a rise in the budget deficit exceptionally in 2020 to reduce the impact of the crisis, promote economic activity, and continue providing the required government services and social support.

Total public debt reached SAR 854 bn, or 32.5% of GDP at the end of FY 2020. Government reserves balance at the Saudi Central Bank amounted to SAR 359 bn.

Despite the sever decline in economic activity during Q2 of 2020 on the back of the crisis, the real non-oil GDP growth rate for 2020, which recorded contraction of 2.3% on annual basis, outperformed initial estimates and estimates by international institutions. The performance of the domestic economy also witnessed several signs of recovery, starting in H2 2020. This was a result of the strengthening of the non-oil sector, which recorded a slight expansion in Q4 by 0.8%. Overall, real GDP saw a decline in FY 2020 by 4.1%, driven by a decrease in real oil GDP by 6.7% as a result of developments in the oil markets and the OPEC+ agreement.

It should be noted that fiscal measures initiated by the government during FY 2020 to confront the pandemic, including stimulus packages to support individuals, companies and investors, have contributed to the accelerated recovery of the economy and the mitigation of the effects of the crisis on the non-oil sector.

2020 Actual Budget Performance



Source: MoF

First: Economic Indicators

During FY 2019, non-oil GDP growth rate recorded its highest rate in four years to reach 3.3%, while the private sector achieved its highest growth rate in four years to reach 3.8%, reflecting the impact of government policies on economic activity. The FY 2020 budget anticipated a continued pace of growth for the year, as the GDP growth rate was expected to reach 2.3%.

Economic growth continued during Q1 2020. However, since the outbreak of the pandemic in mid-March 2020, the government was obliged to take necessary precautionary measures to protect the health of the citizens. These measures included closure of most of the economic activities, which had significantly impacted growth in non-oil GDP during Q2 2020, leading to a contraction therein by 8.2%.

The crisis was exacerbated by developments in the global oil markets, that witnessed a sharp decline in demand and unprecedented drop in the prices, which reached $18.4 per barrel in April 2020. The average oil price in Q2 2020 was $29.3.

To mitigate the impact of the pandemic on the private sector, the government approved some 150 initiatives amounting to SAR 233 bn during FY 2020. These measures reflected positively on economic activity, especially with the effectiveness of the preventive measures, which resulted in a gradual return of economic activity in H2 2020 and preventing the need to reimpose lockdown measures, as happened in some countries. The real non-oil GDP recorded an improvement in H2 2020, with a slight contraction of 1.5% compared to the sharp decline of 3.3% in H1 2020.

As a result, the real non-oil GDP witnessed a decline of 2.3%, outperforming initial estimates and estimates by international institutions during the crisis. However, the decline in oil GDP by 6.7% led to a decrease of 4.1% in overall GDP in 2020.

Nominal GDP decreased by 11.7% in 2020, compared to an expected growth rate of 3.2%, as nominal oil GDP contracted by 34.4% driven by lower oil prices, whereas nominal non-oil GDP decreased by 1.5%, on annual basis.

The consumer price index recorded a growth of 3.4% in 2020, compared to an estimate of 2.0% in the budget, due to the increase in the VAT rate by 15% in the middle of the year and the increase in customs duties on some products. The annual increase in the headline index was mainly driven by inflation in Food and Beverage by 9%. On the other hand, prices of Housing, Water, Electricity, Gas and other Fuels decreased by 0.6%.

Economic Indicators

	2020	
	Estimated	Actual*
Growth of Economic Indicators (%)		
Real GDP Growth	**2.3%**	**-4.1%**
Nominal GDP (SAR Billion)	2,902	2,625
Nominal GDP Growth	**3.2%**	**-11.7%**
Inflation	**2.0%**	**3.4%**

*Source: General Authority for Statistics (GASTAT)

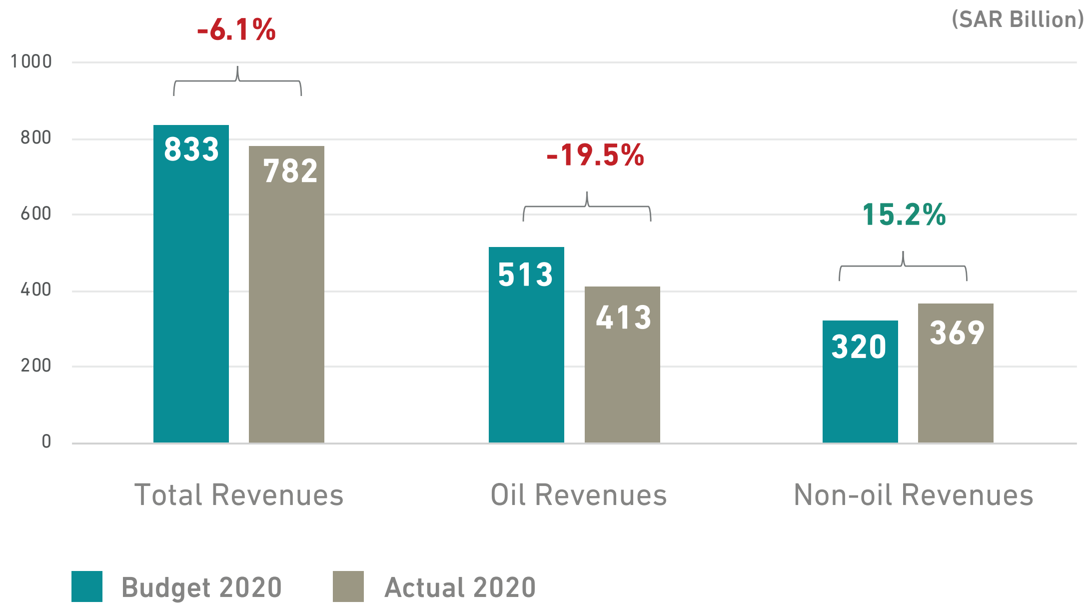
Second: Fiscal Performance

a. Revenues

In 2020, total revenues amounted to SAR 782 bn, down by SAR 51 bn, or 6.1%, compared to the approved budget. This is mainly due to the decline in oil revenues, which recorded SAR 413 bn, a decrease of 19.5% (SAR 100 bn), compared to the budget, and 30.5% (SAR 181 bn) compared to 2019. This decline is attributed to the drop in oil prices and production due to the pandemic.

In contrast, non-oil revenue recorded SAR 369 bn, an increase of 15.2% over the approved budget and by 10.9% compared to FY 2019. This is mainly due to the collection of extraordinary dividends from government investments in FY 2020, in addition to implementing some additional initiatives to confront the repercussions of the pandemic, which aimed at promoting and developing non-oil revenue and ensuring their sustainability.

2020 Actual Revenues Vs. Budget



Source: MoF

The following are details of the main revenue items classified according to the GFSM 2014:

Tax Revenue

Tax revenue recorded a sharp decline in Q2 2020 on the back of the lockdown imposed as part of the preventive measures. Additionally, tax revenue was impacted by the exemptions and deferrals of some government dues and the extension of some of them, as these developments contributed to a decrease in tax revenues in Q2 2020 by 69% on annual basis. On the other hand, increasing the VAT rate from 5% to 15% in H2 2020 contributed to the growth in tax revenue by 13.1% compared to the budget to reach SAR 226 bn in FY 2020.

Tax on income, profits, and capital gains increased by 10.6% in FY 2020, compared to the budget, to reach SAR 18 bn. This was due to the collection of non-recurring amounts related to previous years as a result of re-evaluation of declarations and the Ifsah initiative's waiver of penalties in FY 2020.

Taxes on goods and services amounted to SAR 163 bn in FY 2020, an increase of 15.2% compared to the budget. This is mainly due to the growth in VAT revenue by 65% compared to the budget, as a result of the increase in VAT rate to 15%. Levies on expat and their dependents decreased by 24.2% compared to the budget and reached SAR 37 bn, driven by the exemption of the private sector for 4 months as part of the measures to mitigate the economic impact of the crisis on the private sector.

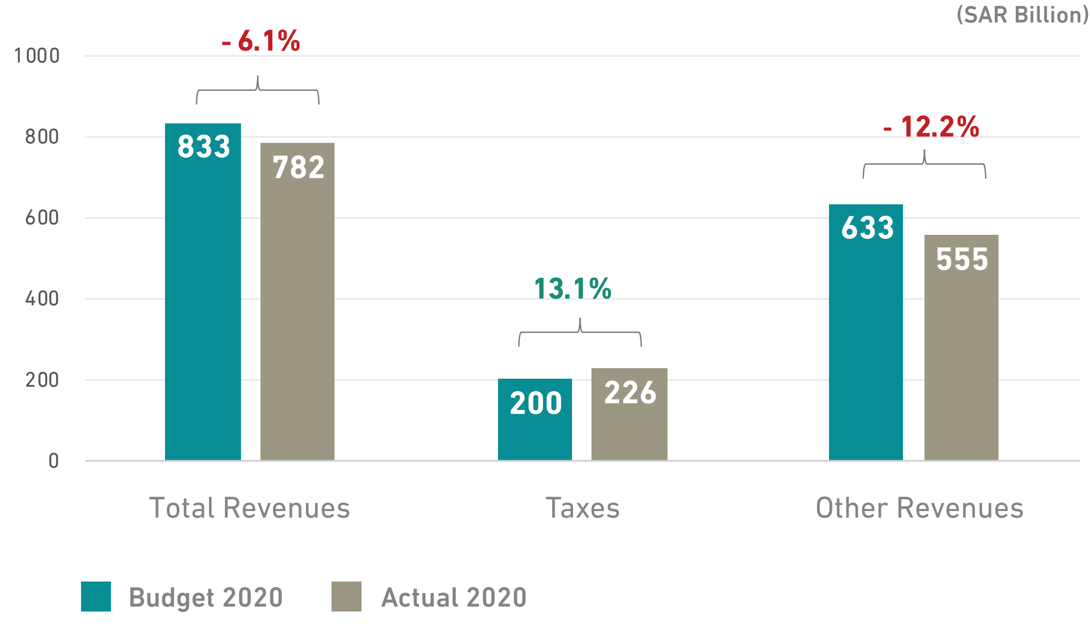
Taxes on international trade and transactions (customs duties) reached SAR 18 bn (increased by 8.9%), compared to the budget. This is due to the increase in customs duty on some products in June 2020.

Other taxes (including Zakat) reached SAR 27 bn in FY 2020, an increase of 5.2% compared to the budget.

Other Revenues

Other revenues recorded SAR 555 bn in FY 2020, a decrease of 12.2% compared to the budget. This is mainly due to the decline in oil revenue by 19.5%, as oil markets were impacted by the pandemic. The average oil production was 9.2 million barrel per day and the average price of Brent oil reached $42 per barrel in 2020, compared to the average production of 9.8 million barrels per day and the average price of $64.4 per barrel in 2019.

2020 Actual Revenues Vs. Budget



Source: MoF

Revenue-side stimulus packages and initiatives to confront the pandemic:

Given the strength of the Kingdom's fiscal position and the low government debt according to the classification of credit rating agencies, the government has taken a set of precautionary measures and initiatives to confront the COVID-19 crisis and contain its economic repercussions, which included exemptions and deferral of some government dues, as follows:

- Deferring the submission of declarations and payment for VAT.
- Deferring the submission of declarations and payment for excise taxes.
- Postponing the payment of VAT on imports to be submitted with declarations.
- Postponing the payment of the excise tax on imports to be submitted with declarations.
- Accelerating the VAT refunds and postponing related inspection.
- Extending the period for submitting Zakat filing and CIT returns.
- Granting Zakat certificates without restrictions for the 2019 declaration period and approving all requests for release of certificates for Zakat and tax contracts.
- Deferring from suspending services, freezing bank accounts, or seizing assets on non-compliant Taxpayers.
- Partial exemption from tax levy on expats whose Iqama expired during the period from 18 March 2020 to 30 July 2020, by extending their Iqamas for a period of four months without charge.
- Refunding issued work visas that are not used due to the ban period, even if they were stamped in the passport, or extending the expiry date for three months without charge.
- Allowing employers to extend exit and return visas that were not used during the ban for three months with no charge.
- Postponing the payment of some government services and municipal fees due on private sector establishments for a period of three months, and setting the necessary criteria to extend the postponement period for the most affected sectors.

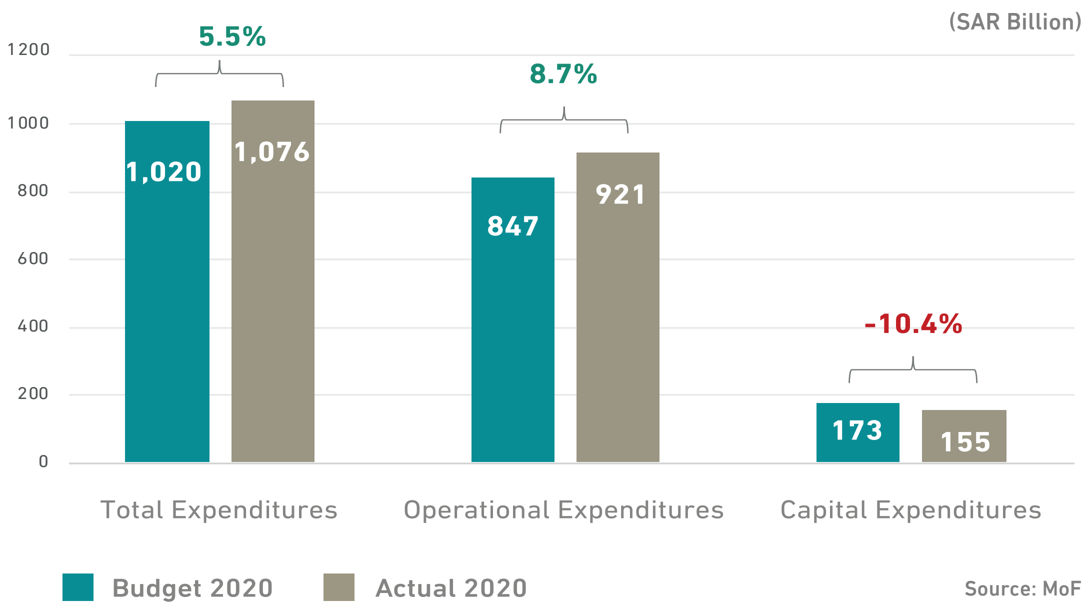
b. Expenditures

In FY 2020, total expenditures amounted to SAR 1,076 bn, exceeding the approved budget by 5.5% (SAR 56 bn). This was a result of an increase in operational expenditures by 8.7%, or SAR 74 bn, to support the health and other sectors affected by the pandemic, in addition to expediting the payment of dues to the private sector. On the other hand, capital expenditures witnessed a decrease of 10.4%, or SAR 18 bn, due to reducing the allocations of some VRPs initiatives, as well as canceling, postponing, or extending some capital initiatives and projects.

The additional spending over the approved budget amounted to SAR 136 bn in FY 2020 (including SAR 70 bn response to the pandemic). This was to raise the readiness of the health, security and other sectors, limit the repercussions of the pandemic, expedite the payment of dues to the private sector, support workers who are not under the umbrella of any company but registered with the Transport General Authority under activities of passenger transport, and support the Housing Program initiatives.

The government has tried to contain the deviation of actual expenditures from the approved budget by redirecting some of the allocations in the approved budget between government agencies. The total saving achieved reached SAR 80 bn, including reduction and postponing of the VRPs and mega projects allocations, and halting the cost of living allowance starting from June 2020.

2020 Actual Expenditures Vs. Budget



Source: MoF

Operational Expenditures (OPEX)

OPEX reached SAR 921 bn in FY 2020, up by 8.7% or SAR 74 bn over the budget, driven by the allocations that took place during the year to confront the pandemic. Purchase of goods and services increased by 45.2%, or SAR 63 bn, mainly influenced by policies and measures taken on the expenditure side in light of the pandemic.

Expenditure on subsidies increased by 61.1%, or SAR 11 bn, compared to the approved budget. This was mainly due to the extra spending on the entitlement for the Housing Program, in addition to the increase in grants by 273.9%, or SAR 3 bn, compared to the approved budget. This includes the grants and aids given to international organizations, as a contribution form the Kingdom to help other countries in containing and coping with the pandemic. Other expenses increased by 13.6%, or SAR 12 bn, driven by the increase in emergency expenses, such as the allocations to enable the citizens abroad to return during the pandemic.

On the other hand, the employee compensations witnessed a decrease of 1.8%, or SAR 9 bn, compared to the approved budget, driven by the halting of the cost of living allowance from June 2020. Financing expenses decreased by 20.1%, or SAR 6 bn, compared to the budget, due to the significant decrease in Saudi Interbank Offered Rate (SAIBOR) in 2020, coincided with a decrease in US interest rates.

Capital Expenditures (CAPEX)

Total CAPEX amounted to SAR 155 bn, a decrease of 10.4%, or SAR 18 bn, compared to the approved budget, as government has reduced the allocations for VRPs and mega projects, and canceled, postponed or extended some capital projects and initiatives.

Key Programs and Initiatives

In continuation of economic and fiscal reforms that support the Saudi Vision 2030, the government has resumed the execution of the VRPs and related initiatives in 2020, while continuing to spend on the social benefits and subsidies scheme.

- **Vision Realization Programs**

Despite the challenges imposed by the global pandemic in 2020, and the need to postpone some of the spending allocated to VRPS to prioritize other needs, the Saudi government continued its commitment towards achieving the goals of the Saudi Vision 2030. It should be noted that the approved budget for the VRPs was SAR 80 bn at the beginning of 2020, of which 86% has been disbursed.

- **Housing Program**

The housing program aims to provide housing solutions that enable Saudi families to own or benefit from appropriate houses according to their needs and financial capabilities, and to improve the living conditions of present and future generations. This is envisaged through providing adequate, government-supported financing solutions in parallel with increasing the supply of housing units at reasonable prices, implementing specialized programs to house the neediest groups in society. The program also aims at developing the legislative and regulatory environment for the housing sector, maximizing its economic impact, enhancing its attractiveness to the private sector, and developing the local content. This is expected to create more job opportunities and help diversify the economic base of the Kingdom.

The most important achievements of the program until 2020, was the rise in the percentage of home ownership over the past four years from 47% to 60%, exceeding the target percentage by 8%. In addition to facilitate procedures of immediate entitlement for citizens to real-estate, instead of the 15-year waiting period through the Sakani platform, and providing housing and financing solutions to 834 thousand families, of which 310 thousand families have already received their homes. Adequate housing of more than 46 thousand housing units has also been provided to the most needy families in various regions in the Kingdom through the usufruct system, in partnership with the non-profit sector. Moreover, more than 141 thousand housing units were developed in partnership with the private sector.

- **Initiatives to Enhance and Develop Health Care**

During the exceptional circumstances witnessed in 2020, the utmost priority of the Saudi government was to preserve the health and lives of the citizens and residents. In this context, efforts were made to provide the necessary fiscal resources to ensure the readiness of the health sector and to prevent the spread of the virus. Measures taken included providing free treatment to citizens, residents and visitors, scaling up testing for coronavirus, in addition to government's continuing efforts to provide COVID-19 vaccines. Actual spending on health services witnessed an increase of 11% in 2020, compared to the same period of the previous year.

- **Social Benefit and Subsidies Scheme**

Given the importance of social spending in ensuring a dignified standard of living for citizens, the government has given great attention to social spending. This took place through spending on programs and sectors with social impact, such as social security, student allowance in addition to education and health. Total expenditure on social security amounted to SAR 27 bn in FY 2020, while spending on allowance for higher education students inside the Kingdom reached SAR 14 bn.

Actual expenditure on citizen account amounted to SAR 25 bn in FY 2020. Citizen Account aims at reducing the impact of economic reforms on Saudi families, raising the efficiency of government support, and encouraging rationalization of energy and water consumption, by redirecting government benefits to those who deserve them.

2020 Actual Budget Performance

SAR Billion (Unless otherwise stated)

	Budget 2020	Actual 2020	Change %
Revenues			
Total Revenues	**833**	**782**	**-6.1%**
Taxes	**200**	**226**	**13.1%**
Taxes on income, profits and capital gains	16	18	10.6%
Taxes on goods and services	142	163	15.2%
Taxes on international trade and transactions	16	18	8.9%
Other Taxes	26	27	5.2%
Other Revenues	**633**	**555**	**-12.2%**
Of which: Oil revenues	513	413	-19.5%
Expenditures			
Total Expenditures	**1,020**	**1,076**	**5.5%**
Expenditures (OPEX)	847	**921**	8.7%
Compensation of Employees	504	495	-1.8%
Goods and Services	140	203	45.2%
Financing Expenses	31	24	-20.1%
Subsidies	17	28	61.1%
Grants	1	4	273.9%
Social Benefits	69	69	0.7%
Other Expenses	85	97	13.6%
Non-financial Assets (CAPEX)	**173**	**155**	-10.4%
Budget Deficit			
Budget Deficit	**-187**	**-294**	**-**
Percent to GDP	-6.4%	-11.2%	-
Debt and Assets			
Debt	**754**	**854**	**-**
Percent to GDP	26.0%	32.5%	-
Government Reserves at SAMA	**346**	**359**	**-**

Source: MoF

Figures are rounded to the nearest decimal point

Expenditures by Sector

From a sectoral perspective, spending on health and social development increased by 14.0%, compared to the approved budget, driven by the increase in medical expenses in light of the pandemic. The education sector also witnessed an increase by 6.1%, due to shifting education to Madrasati e-learning platform and creating educational satellite channels. The total spending on these two sectors represented 36.8% of the total actual expenditures in FY 2020.

Actual spending on the general items sector increased by 11.2%, supported by the increase in spending on emergency expenses allocation. On the other hand, the actual spending on the economic resources and municipal services sectors declined by 37.1% and 11.6%, respectively.

2020 Actual Expenditures by Sector

SAR Billion (Unless otherwise stated)

Sector	Budget 2020	Actual 2020	Change %
Public Administration	28	36	29.3%
Military	182	204	12.2%
Security and Regional Administration	102	115	12.4%
Municipal Services	54	47	-11.6%
Education	193	205	6.1%
Health and Social Development	167	190	14.0%
Economic Resources	98	61	-37.1%
Infrastructure and Transportation	56	60	7.1%
General Items	141	156	11.2%
Total	**1,020**	**1,076**	**5.5%**

Source: MoF

Figures are rounded to the nearest decimal point

C. Deficit, Debt and Financing

In light of the exceptional economic conditions in FY 2020, the budget deficit reached SAR 294 bn, or 11.2% of GDP, compared to SAR 187 bn, or 6.4% of GDP in the approved budget. This increase in the deficit represents the government's response to the pandemic.

In order to finance the deficit and other financing needs, the government pursued different financing means, including domestic and external debt issuances and withdrawals from government reserves at the Saudi Central Bank (SAMA). Total government issuances amounted to SAR 220 bn, reaching SAR 100 bn over the approved plan (including principal repayment of SAR 44 bn), of which 79.2% are domestic issuances and 20.8% are external issuances. Thus, domestic debt in the total portfolio amounted to SAR 503 bn and the external debt amounted to SAR 351 bn. Accordingly, the total balance of public debt reached SAR 854 bn, or 32.5% of GDP in FY 2020, which is higher than the stock of planned debt in the approved budget of SAR 754 bn, or 26.0% of GDP.

The average maturity of the public debt portfolio increased to 9.4 years at the end of FY 2020, compared to 8.7 years at the end of FY 2019. The average rate of return for the total domestic and external issuances were approximately 2.8% at the end of FY 2020, with total financing expenses of SAR 24 bn, less by SAR 6 bn compared to the 2020 budget, which was estimated at SAR 31 bn, with an average interest rate of 4.1%. This decrease in financing expenses was due to the significant decrease in SAIBOR in FY 2020, in tandem with the decrease in US interest rates, which decreased by 100 basis points since the beginning of 2020. This is in addition to diversifying the public debt portfolio and benefiting from alternative financing methodologies such as financing through export credit agencies.

In addition, a total of SAR 111 bn were used to cover financing needs from government reserves at SAMA. Total government reserves reached SAR 359 bn in FY 2020, compared to SAR 470 bn in FY 2019.

Debt Issuances at the End of FY 2020 Vs. Budget

(SAR Billion)

	Budget 2020	Actual 2020
End of Year debt	**754**	**854**
Total debt issuances	**120**	**220**
Total domestic issuances	86	174
Total external issuances	34	46
Total withdrawals from government reserves	**121**	**111**

Source: MoF

Figures are rounded to the nearest decimal point

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