

KSA BUDGET

A newsletter issued by the Ministry of Finance of Saudi Arabia
1st Edition

16 december 2020



THE CUSTODIAN OF THE TWO HOLY MOSQUES KING SALMAN BIN ABDULAZIZ AL SAUD SPEECH:



"In the name of Allah, Most Merciful, Most Gracious. Praise be to Allah, Lord of the worlds, and prayer and peace be upon the Messenger of Allah.

May Allah's Peace, Mercy and Blessings be upon you.

With help and guidance of Allah, we announce the budget of the next Fiscal Year 2021, continuing consolidating the procession of development and prosperity of our dear country, with an endorsed expenditure of the budget that reached SR990 billion, and estimated revenues of SR849 billion and a deficit of SR141 billion, or 4.9 per cent of the Gross Domestic Product (GDP).

The world has experienced an unprecedented pandemic of the Coronavirus that negatively impacted the world economy, and in the context of what have been taken against such pandemic of precautionary and exceptional procedures and measurements, we have been directed to provide free treatment to all those contracted the Coronavirus, citizens, residents and illegal over-stayers, at all public as well as private health facilities. Moreover, a Cabinet decision has been recently issued to disburse SR500 thousand to the family of a dead person because of the Coronavirus pandemic, among workers in

the governmental and private health sectors, whether civil or military, Saudi or non-Saudi and that the decision shall took effect on the date of the first reported infection.

The Kingdom is a part of the world, sharing with all, the impacts of great incidents and circumstances. It was not an exception from the effects of the crisis in terms of general finance and economy, as the coronavirus has affected the activity of the local economy in addition to the negative impacts of global economic recession and reduction in demand, particularly on oil which witnessed drastic price fall.

This was a tough year in history. However, the health measures taken, the financial and economic initiatives adopted and the reforms garnered from endorsing the Kingdom's Vision 2030, have altogether resulted in curbing the negative impacts on citizens and residents in the Kingdom and on our economy, thanks to Allah Almighty as well as the cooperation of citizens and residents in our country to whom I avail myself of this opportunity to extend my thanks and appreciation to all of them for their positive role in confronting the pandemic and bearing its burdens.

Accordingly, We issued instructions that the this budget be giving priority to the protection of citizens and residents health and safety, continuation of efforts to reduce the effects of this pandemic on our economy, continuation of work to stimulate economic growth, developing of services, supporting the private sector, preserving citizens jobs in it, implementing housing programs and projects, implementing developmental projects that provide more job opportunities for citizens, achieving the objectives of the Kingdom's Vision, confirming raising the government spending efficiency, paying care to social protection, reducing depletion and waste practices and combating corruption.

We also emphasize effective implementation of the budget's programs and projects.

We thank Allah for the unlimited good things He pours on us, trusting his help and assistance, and gearing forward to continue the march of economic growth and comprehensive development and as we proceed to this end.

May Allah's Peace, Mercy and Blessings be upon you."

INTRODUCTION

In an unprecedented year in modern history, the impact of Covid-19 presented multiple difficult challenges to the global economy since early 2020.

The Kingdom`s economy is part of the global economy and is therefore not immune to its economic shifts and changes. The Annual Budget 2021 stands as a testament to the world that people`s health is the Kingdom`s top priority. Citizens and residents of Saudi Arabia have shown an unwavering commitment in adhering to precautionary health measures. Such commitment was pivotal in the Kingdom`s success in surmounting and mitigating the repercussions of the pandemic.

Whilst health remains the foremost priority of the Kingdom, Budget 2021 also aims to ease the private sector`s financial burdens from this exceptional year. The Kingdom has empowered the private sector to manage its activities, offered stimulus packages, and expedited due payments. These measures were vital in the resumption of economic activity, ensuring a better quality of life for citizens and residents.

Kingdom`s 2021 budget aims to maintain financial sustainability and stability, cultivate an agile and proactive mindset in confronting crises, develop an advanced digital infrastructure and enhance spending efficiency to support the most affected sectors.



The Statement of **His Royal Highness the Crown Prince** on the Occasion of the **Approval of the 2021 Budget**

His Royal Highness Prince Mohammed bin Salman bin Abdulaziz, Crown Prince, Deputy Prime Minister, Minister of Defense and Chairman of the Council of Economic and Development Affairs, on the occasion of the approval of the 2021 budget, affirmed continuing to consolidate the gains made since the approval of the Kingdom's Vision 2030, and to move towards further development and progress in various economic, developmental and social fields.

HRH the Crown Prince stated that the year 2020 was a difficult year for the whole world due to the outbreak of the COVID-19 pandemic, yet the Kingdom of Saudi Arabia's economy has proven its ability to face the repercussions of the pandemic. Moreover, the Kingdom was able to take health and preventive measures aimed primarily at protecting human health through reducing the spread of the epidemic, and providing free treatment for infected cases.

He indicated that under the continuous directives of the Custodian of the Two Holy Mosques, financial and economic measures have been taken aimed at limiting the repercussions of the pandemic on economic activities. The crisis was managed with great care and effectively that led to mitigating the negative effects on the Saudi economy which was expected earlier to be stronger, as balance between the precautionary measures and the timing of the gradual return of economic activities was at a good pace.

HRH the Crown indicated that a number of initiatives and measures have been approved to support private sector establishments during the pandemic and to preserve jobs and workers in the private sector, and these measures have helped limit the repercussions of the pandemic on the economy.

It also contributed to maintaining financial stability, and everything that would promote sustainable economic growth will be continued. It is among the budget's priorities to continue working to limit the effects of the pandemic and improve dealing with it, with the total approved spending reaching SR990

billion. This contributes to stimulating and supporting economic activities and creating more job opportunities for citizens. He stressed his concern for social protection, development projects, vision realization programs, and technical development, and work continues to review all programs and projects to ensure their consistency with the goals of the vision and raise the efficiency of spending.

HRH the Crown Prince added that the revenues in the budget are estimated at SR849 billion, an increase of 10.3% over the year 2020, which contributes to more financial stability, and that the target is to reduce the budget deficit in 2021 to about SR141 billion, an estimated rate of 4.9% of the Gross Domestic Product (GDP), down from SR298 billion, an estimated rate of 12.0% of the estimated GDP for the year 2020, and maintaining the rates of public debt is at an average of 32.7% of the GDP, compared to 34.3% in 2020.

He pointed out that economic growth is expected to increase while continuing to develop the private sector role by facilitating the business environment, advancing privatization programs, providing more opportunities for the private sector to participate in infrastructure projects, developing promising and new sectors. Moreover, continuing to implement the programs of the Kingdom's Vision 2030 to achieve its goals to contribute to the promotion of economic growth, and to support the local content to increase its contribution to the economic development of the Kingdom, in addition to the important role that development funds play in pushing economic activity. He added that the Public Investment Fund has become one of the main engines of the Saudi economy growth as it intends to pump hundreds of billions into the Saudi economy in the coming year and the following years, which will enable the emergence of new sectors, create more job opportunities and provide additional revenues for the state.

He pointed to the Kingdom's efforts, based on its policy to preserve the stability of international energy markets, in cooperation



The Kingdom, through its presidency of the G20, has raised the level of coordination and cooperation among G20 countries to jointly confront the pandemic and limit its effects on global economic growth, and mobilize resources to fund its programs in responding to the pandemic.

with the OPEC + to work on stabilizing oil markets, which witnessed a sharp decline in prices, as the production agreement for the group countries contributed to restoring stability to the markets and improving price levels.

HRH the Crown Prince affirmed that the Kingdom, through its presidency of the G20 this year, was keen to enhance the group's role in addressing global economic crises, by stimulating the efforts of the group's countries, raising the level of coordination and cooperation among them to jointly confront the pandemic and limit its effects on global economic growth, and mobilize resources to fund its programs in responding to the pandemic.

HRH the Crown Prince also expressed his thanks and gratitude to the citizens and expatriates, and workers in the health sector and the security sector for the exceptional efforts they made during the confrontation of the COVID-19 pandemic. He also thanked our brave soldiers in the southern border, praying for them to remain steadfast, and supplicating to Allah Almighty to bestow mercy on the souls of our martyrs.

Executive Summary

for Budget 2021

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

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

According to data released by the General Authority for Statistics (GASTAT), real GDP has declined by 4.0% in H1 2020, as the real oil GDP witnessed a decline of 4.9% due to the significant reduction in oil production in Q2 2020 in compliance with the OPEC+ agreement. The real non-oil GDP contracted

by 3.3% during the same period, which is better than the domestic and international projections for the Kingdom's economy and is considered one of the lowest contractions recorded when compared to other countries, especially within the G20. This is largely due to the positive impact of the measures that were taken by the government to address the health, financial and economic fallout of this crisis. Preliminary estimates indicate that real GDP is expected to decline by 3.7% in FY 2020, driven by a decrease in the oil and non-oil sectors. Inflation rate is expected to reach an average of 3.7%, in FY 2020, as a result of the impact of different shocks on the supply and demand sides, such as the increase of the Value Added Tax (VAT) rate to 15%.

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

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

In view of these developments, the budget deficit is expected to increase to SAR 298 bn in FY 2020. The target is to reduce the budget

deficit to SAR 141 bn, or 4.9% of GDP, in FY 2021. It is envisaged that the budget deficit shall continue to gradually decline to 0.4% of GDP in FY 2023. This is planned through government efforts to enhance spending efficiency and achieve fiscal stability and sustainability.

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

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

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

Total public debt is expected to reach SAR 854 bn, or 34.3% of GDP in FY 2020, approximately SAR 937 bn, or 32.7% of GDP in FY 2021, and SAR 1,026 bn, or 31.7% of GDP in FY 2023. The MoF, through the National Debt Management Center (NDMC), will continue to work on managing financing needs in accordance with the objectives of the fiscal policy and the public debt strategy.

The government reserves balance is expected to be maintained at the end of FY 2020 as per the approved budget of SAR 346 bn, and at SAR 280 bn and SAR 265 bn at the end of FY 2021 and FY 2023, respectively.

During the Press Conference of the Annual Budget Announcement for the Fiscal Year 2021:

- The Kingdom's budget will continue in the next year, and in the medium term, to finance mega projects and vision realization programs. We will keep spending on the protection and social benefits system and stimulus packages to uncover more opportunities for the private sector and development funds.
- The Kingdom's Vision 2030 is blazing a path for an unprecedented transformation for the Saudi economy and remains a stepping stone towards a brighter future. Over the past years, the government has implemented programs to realize Vision 2030 structural, economic, and financial reforms to diversify the economic base. Such efforts have played a crucial part in strengthening the economy's resilience in times of crisis and improving the government's ability to respond and mitigate Covid-19 challenges.
- We will continue spending on Vision 2030 programs in 2021 and in the medium term to realize Vision 2030 objectives. We are committed to providing more opportunities for the private sector to engage in these projects, in addition to empowering the development funds' role in these areas, especially, the PIF's.
- Government initiatives have focused on stimulating the private sector's role by introducing around 150 initiatives that unlock new cash flow sources for them to carry out business activities. We're witnessing a positive rebound in the employment rates of citizens during the third and fourth quarters of 2020.
- The Kingdom has a strong financial position given its large reserves with relatively low government debts. Credit rating agencies confirmed the Saudi economy's durability, strength and ability to handle the crisis that the world is currently witnessing.
- I extend my sincere gratitude to public and private sector employees for their unwavering commitment during the pandemic, which contributed to business continuity without significant setbacks. I admire and cherish the efforts of healthcare frontliners who sacrificed their lives to protect citizens and residents. I especially acknowledge and express my appreciation to our brave soldiers in the southern border; may Allah protect them.



Fiscal Estimates

for the Years 2020 and 2021



EXPENDITURES PER SECTOR: Infrastructure and basic services development

Total:
990
billion SAR

186
Education



151
General Items



72
Economic Resources



46
Basic Equipment and Transportation



51
Municipal Services



175
Military



175
Health and Social Development



34
General Administration



101
Security and Administrative Regions

*Numbers have been rounded to the nearest decimal point

Saudi Arabia`s

Measures to Address (Covid-19) Impact:



Reallocating expenditures to the health sector and priority sectors to ensure the safety of citizens and residents



Implementing programs and initiatives to enable and support the private sector, mitigate the negative impact of (Covid-19) pandemic, and simultaneously implement other financial reforms



The Kingdom`s priority is to continue implementing precautionary measures to protect citizens and residents' health while providing financial and economic support, taking into account the rearrangement of spending priorities under the current circumstances and adoption of financial and monetary measures to contain financial and economic risks

Budget 2021 reflects

The Government`s Pursuit To Get Back On Track And Meet Targets:



Continue economic reforms



Prioritize spending efficiency



Get the economic growth back on track over the medium term



Improve the provision of services to citizens, and continue developing the support system and social subsidies



Preserve the fiscal stability which ensures sustainable economic growth in the medium and the long term

Public Finance

Strategic Approaches:



Continue spending on vision programs and major projects



Increase the contribution of the private sector



Promote public finance sustainability



Develop social support and protection system



Develop Tender and Procurement Law



Maximize the role of national development banks and funds



Strengthen the role of Public Investment Fund in diversifying the economy

The Kingdom and the Presidency of G20

Saudi Arabia's Presidency of G20 commenced on 1 December 2019 and ended on 30 November 2020. The Presidency has hosted more than 170 (virtual) meetings and conferences, including ministerial meetings, government representatives' meetings, and civil society representatives' meetings

1
The first G20 summit to be hosted by an Arab country

11 **170+**
Approximately \$ 11 trillion in stimulus packages allocated to improve the performance of the global economy **+170 meetings** and conferences to deliver G20 objectives

Saudi Arabia's 2020 presidency of G20 came to promote "Realizing Opportunities of the 21st Century for All", focusing on three main themes:



Empowering
People



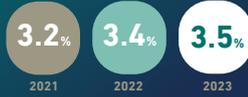
Safeguarding the
Planet



Shaping New
Frontiers

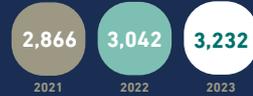
Key Economic Indicators

Real GDP Growth

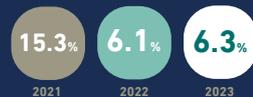


Nominal GDP

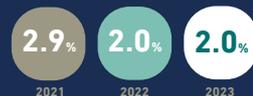
(SAR Billion)



Nominal GDP Growth



Inflation





Building Macro-Fiscal Policies and Capabilities in Saudi Arabia to Support National Transformation Posted

by Saad Alshahrani, Emre Balibek, and Yasser Sobhi

Saudi Arabia has embarked on a major program of national economic transformation. The Kingdom's Vision 2030, its National Transformation Program 2020, and its Fiscal Balance Program, set out an agenda for reform whose objectives include economic diversification, improving competitiveness and the business environment, increasing foreign direct investment and private sector participation in the economy, and growing the non-oil economy. To support these objectives, the agenda aims at ensuring that the public finances are managed efficiently, effectively, and sustainably, while adhering to high standards of transparency and accountability with a strong emphasis on performance and results.

With these objectives in mind, the Ministry of Finance (MoF) established in 2016 a Macroeconomic & Fiscal Policies Unit (MFPU) – since 2019 designated as the Macroeconomic & Fiscal Policies Deputyship (MFPD) – tasked with providing macro-fiscal input to budget planning over the medium term, as well as strengthening the identification, monitoring and management of macro-fiscal risks.

Since its establishment, the MFPD has ramped up its capacity by hiring new staff, developing their skills, and learning from international best practices. Capacity development provided by the IMF's Fiscal Affairs Department (FAD) and other partners has supported this process. The Deputyship has established a new Macroeconomic and Fiscal Statistics Center, has built a bespoke medium-term fiscal framework (MTFF), and now uses this framework to produce alternative scenarios for forecasting, analysis, and reporting. Macro-structural models have also been developed as useful tools for fiscal and economic analysis and

forecasting. Additionally, work has started on using available models and tools to analyze, quantify and report on potential risks to the fiscal outlook.

At the same time, Saudi Arabia has made efforts to increase budget transparency. The government now prepares and publishes a range of budget documents, which include:

for the last three years, a pre-budget statement outlining the medium-term fiscal strategy;

the annual budget statement with progressive improvements in its content;

Citizen's Version of the budget along with enhanced social media coverage of related budget reports and issues;

an end-year report comparing budget forecasts and outturns and explaining the main reasons for deviation; and quarterly budget performance reports providing timely information on fiscal developments.

As a result of these initiatives, Saudi Arabia's performance on the International Budget Partnership's Open Budget Index (OBI) has improved, with the country's transparency score rising to 18 in 2019, up from 1 in 2017 and 0 in 2015, with the ambition to further improve in the future.

At the same time, other PFM reforms are being implemented across government and the wider public sector. Digital solutions are being introduced through the Etimad platform to facilitate the electronic preparation and submission of budgets by government agencies, as well as an online system to record public procurement transactions (a new procurement law has also been enacted). In addition, work is underway to introduce accrual accounting in government.

Beyond the central government, the audited financial statements of Saudi Aramco were published for the first time in 2019, as part of the prospectus prepared by the company to support its first international market bond issue.

Notwithstanding this progress, there remains room for further improvements to support economic policymaking and fiscal transparency. An immediate priority is to develop a sovereign asset and liability management framework. This will help ensure that the impact of fiscal developments and investment decisions on the overall public sector balance sheet are better understood and assessed. Work will also continue to improve the quality and content of the government's budget documentation thus ensuring higher levels of fiscal transparency. The experience of Saudi Arabia in building macro-fiscal management capabilities provide some general lessons. The progress made in public

financial management in Saudi Arabia reflects the fact that these reforms are part of a broader comprehensive agenda for institutional modernization. It illustrates the value of strong ownership of the reform agenda and the need for adequate resources to be committed for substantial change to be achieved within a well-established institutional structure. The Saudi Arabian experience also serves to demonstrate the importance of anticipating the fiscal challenges of the longer term and taking early action to address them.

*This Article has published in the IMF blog.

