Fiscal Balance Program

Balanced Budget 2020

A program by:

VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

بسم الله الرحمن الرحیم

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Introduction

Earlier in the year, the government published Vision 2030, which defined a journey for a deep and ambitious socio-economic change in the Kingdom. Subsequently the National Transformation Program also set out specific commitments of Government Ministries and other Entities for the period up to 2020. Achieving budgetary balance is one of the specific goals of the Vision; and the NTP also commits to strengthening financial governance, increasing non-oil revenues and improving spending on programs and projects.

As one of the Executive Programs announced in the Vision, the Fiscal Balance Program will be a key component in developing a more effective government, by providing intense scrutiny of government finances and acting as a spur to increased efficiency.

Beyond fiscal balance and government performance, this program contributes to key socio-economic impacts sought by Vision 2030. This includes targeting the social welfare system on the neediest and supporting them effectively, and also making our economy more competitive. Most importantly, by carefully managing the government's finances, space can be created in the budget to enable investment in the long term programs that will ensure a successful delivery of the Vision.

Furthermore, such reform secures confidence in the Kingdom for citizens, residents , local and foreign investors, international financial institutions and markets, so everyone can contribute to this ambitious journey. This document sets out the context and rational for the Fiscal Balance Program; and it details its main components, together with the projected fiscal impact

Context

In the face of rising economic and socioeconomic needs, government expenditures have been continuously rising at an annual average rate of 18% since 1970. The level of expenditures recorded a major jump equivalent to 462% in the past two decades, and 182% jump for the past ten years alone. Such levels of expenditures have been mainly financed by oil revenues, which are highly volatile and non-reliable in nature.

Between 2014 and 2016, oil prices declined significantly; and, in 2015 the government announced the highest deficit in its budget at around SAR 366 billion - a fiscal balance swing from a surplus of SAR180bn over just two years. This situation caused the government to accelerate fiscal reforms, and reduce spending by 26%

In 2016, oil prices deteriorated further; and the government took a number of fiscal reforms to reduce the deficit to SAR 297 billion. These included:

» Rationalization of government expenditure

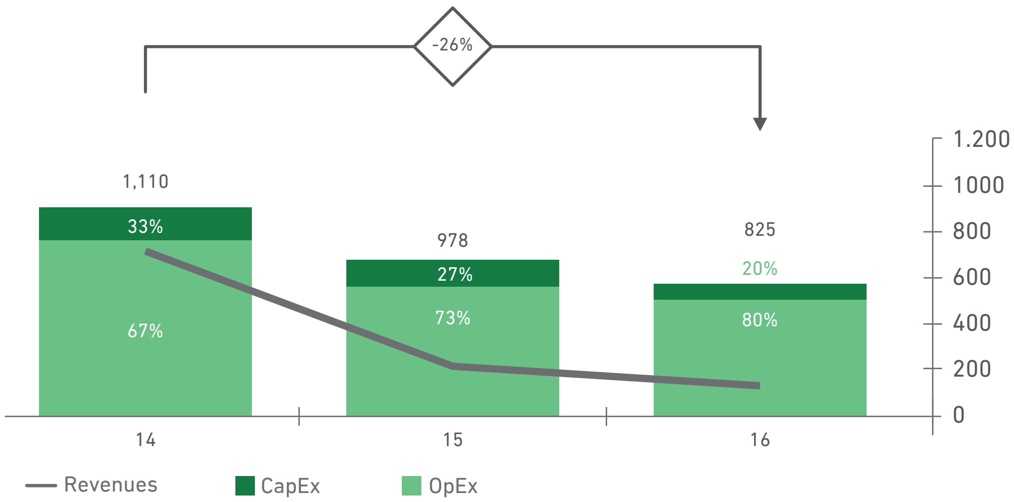
» Restructuring government wages

» Partially reforming energy products prices

» Approving initiatives to increase non-oil revenues

Historical Government Revenues and Expenditures

(SAR Billion)

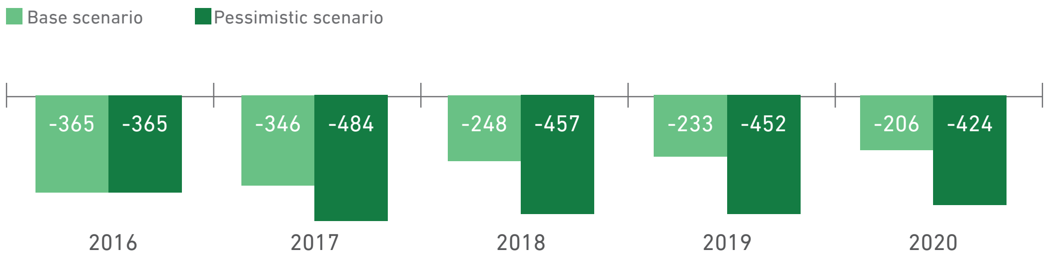


Note: 2016 expenditures do not include off-budget commitments of previous years

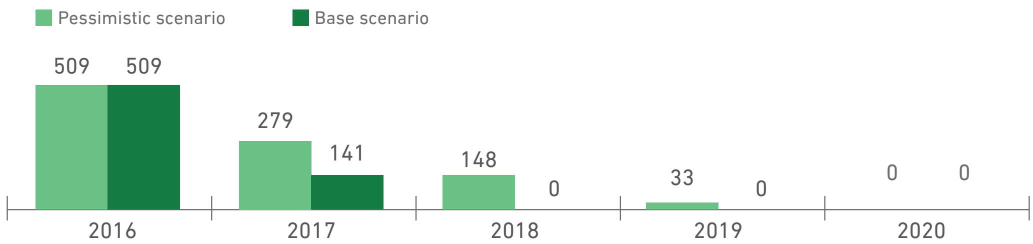
Despite these reforms, public debt increased from SAR 44 billion to SAR 316 billion; and government account balances at SAMA declined from SAR 1,413 billion to SAR 577 billion. With the current level of government spending, fiscal sustainability remains a significant challenge.

If such trends continue, and if no interventions were implemented, the government is likely to face serious fiscal challenges in the medium and long term; one of which is a potential chronic fiscal imbalance. As such, if no fiscal reforms were taken and government spending followed the historical trends, then in the face of volatile oil revenues, the government would likely fall into a chronic fiscal imbalance.

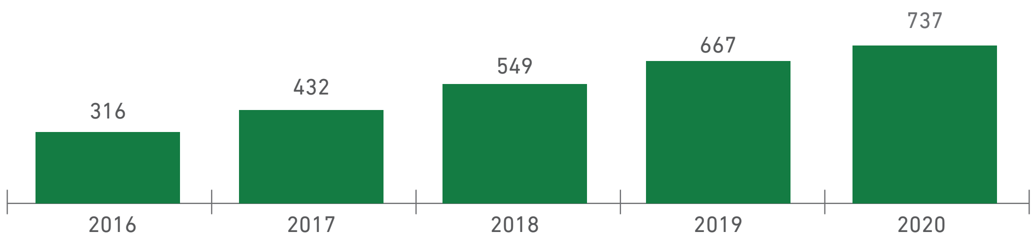
Government Fiscal Deficit Forecasts with No Fiscal Reforms
(SAR Billion)



Government Balances with SAMA with No Fiscal Reforms
(SAR Billion)



Government Public Debt with No Fiscal Reforms
(SAR Billion)



The 2016 measures paved the way to improve the government capability of decreasing the cumulative 5-year deficit by around SAR 311 billion between 2016 and 2020, and move closer to balanced budget by 2020. it has also helped increasing the confidence of the international debt market, as was clear on the level of subscriptions to Saudi bonds.

With that likely scenario in mind, in light of no further intervention, and in order to sustain its fiscal position, the government would find itself in a place of needing to cut capital spending by at least 90%, cut government operational spending by at least 30%, cut government wage bill by at least 30%, and substantially cut government retirement benefits. That, in turn, would magnify the economic and social impact of the fiscal imbalance and leads to an array of adverse fiscal and economic consequences such as economic recession with potential stagnation, increase in unemployment rates, decline in investors confidence and FDI, potential financial instability, higher cost of sovereign debt, depletion of sovereign reserves, and pressure on exchange rate.

Fiscal Balance Program

In light of such challenges and potential consequences, and as part of a wider fiscal reform, the government is embarking a Fiscal Balance Program with a main objective of achieving fiscal balance by 2020. The Fiscal Balance Program is anchored on the following themes:

» Enhancing sustainability of government revenues, by growing non oil revenues.

» Optimization and rationalization of government capital and operational expenditures, while focusing spending on the most strategic areas

» Eliminating misdirected subsidies, and empowering citizens to choose and consume responsibly

» Sustaining economic growth in the private sector.

Direct and indirect benefits are also realized from other fiscal reform programs and policies such as the debt management program, and budgeting process and policy reform.

The government started the implementation of number of reforms in 2016, which included the following:

» Optimizing and Rationalizing government expenditures through the development of over 100 initiatives to improve efficiency and operational spending across many categories. Capital expenditures reforms were initiated at three key Ministries of Health, Education, and Municipal and Rural Affairs

» Restructuring government wages through revising the eligibility and feasibility of various allowances

» Energy Prices Reform: An initial phase of price changes across Gasoline, Electricity and Water

» Non oil Government Revenues: where the current list of different fees has been changed.

In order achieve a balanced budget by 2020, the government will continue to implement additional measures from 2017-2020:

Additional Rationalization of Government Expenditure	Further optimization of Capital and Operational Expenditures including a wider set of ministries and government entities
Additional Energy Prices Reforms	Progressive increases of prices to market levels for electricity, fuel, and water for households and businesses
Additional Initiatives to Increase in Non-oil Revenues	Broadening the revenue base, including VAT, increased Expat Levy, and fees on harmful products

There are three further areas where the government is already taking steps to strengthen its fiscal position:

» Privatization: The privatization of government holdings will not only stimulate economic growth, but also improve the fiscal position

» Public Sector Reform: The government has been very clear in its intent to contain the cost of public sector salaries and is implementing an efficiency program, which will reduce costs in the medium term.

» Debt Management Policy: The government is developing a prudent approach to debt management, accessing international markets, to increase capacity for debt without negative impacts on domestic liquidity, and selectively accessing government reserves at the Saudi Arabian Monetary Authority.

Mitigation Measures

The government is very conscious that engaging on such a program of fiscal reform would, of necessity, have socio-economic impacts, which it is keen to mitigate. Low income households need to be supported, so that they are not adversely impacted by the increasing cost of living that will come from measures such as further energy price reform and the introduction of VAT.

In addition, the government will take significant measures to support the private sector through this transition, and enable its growth to achieve the economic goals established in Vision 2030.

Providing Benefits Directly to Households and Industry	Providing direct cash transfers to lower income households, so as to enable them to adjust to the resulting increases in the cost of living
Supporting the Private Sector	Providing a stimulus package, and structural reform to promote growth

Contents

The rest of this document provides the background and context for the Fiscal Balance Program as follows:

Historical Context:

Comparing the current situation with the measures taken in previous periods of low oil prices

Rationalizing Government Expenditures:

Current and future efforts to optimize and rationalize government expenditures

Energy and Water Price Reform:

How prices will move to market levels for both households and businesses

Other Government Revenues:

What other ways in which necessary government revenue will be raised

Household Allowance:

How lower income households will be protected from increases in costs of living

Enabling Private Sector Growth:

How the government will support and enable the private sector to grow in line with Vision 2030

Conclusion:

How the government will deliver its commitments to maintain fiscal balance while promoting economic growth and the welfare of citizens

Chapter 1

Historical Context

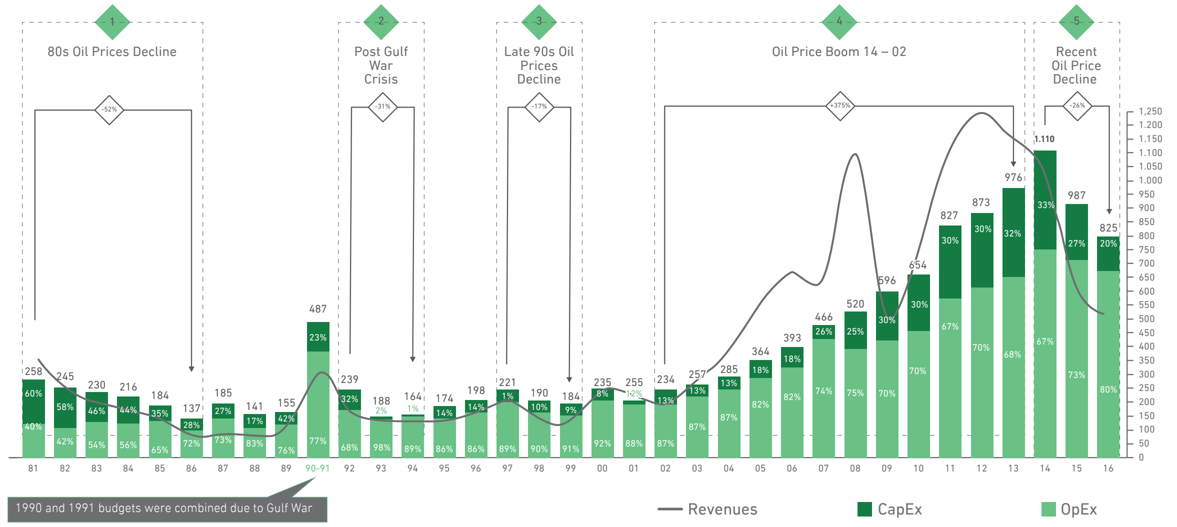
Background

Since 1980, Saudi Arabia’s public finances have experienced five periods of spending shocks as shown in the chart below. The recent period since 2014 is no exception; and it is not the first time that the Government has needed to take measures to address the situation.

For several decades, fluctuations in the oil price have had a significant impact on government revenues. These fluctuations in revenues have meant that on many occasions, the government has had to adjust it expenditures, to reduce and eliminate deficits. And in periods of higher oil prices, the government has paid down debt, and built up reserves to act as a protective buffer against future price shocks.

Historical Government Revenues and Expenditures

(SAR Billion)



Early to mid 80s

In the early to mid 80s, both oil prices and Saudi oil production declined, resulting in a sharp drop in government revenues. As a consequence, the government implemented a number of austerity measures to decrease government deficit. These measures included:

» Substantial reduction in government capital expenditures

» Adjusting and canceling a number of allowances, bonuses, and benefits

» Reducing the maximum overtime compensation from 50% to 25% of government salaries each month

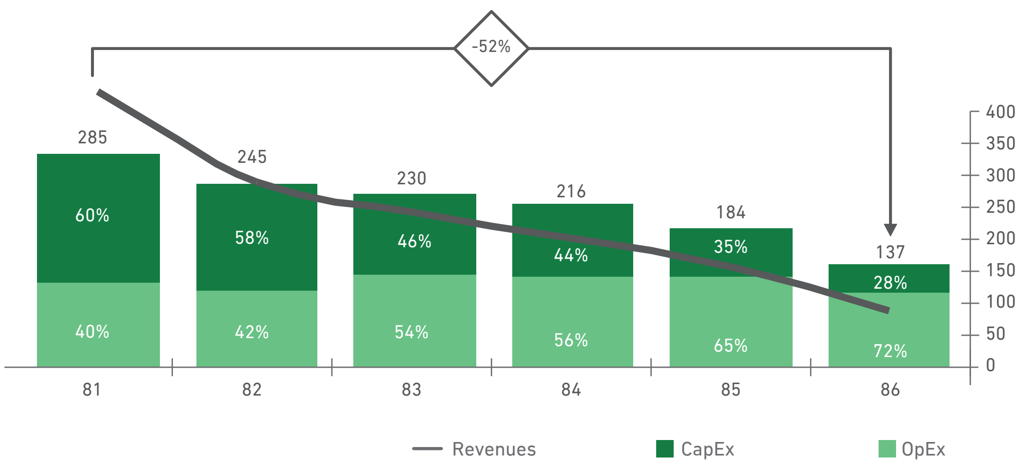
» Limiting the eligibility of weekends and holidays work to specific areas, and limiting the maximum compensation for these days to 50% of daily salary

» Limiting the number of per diem travel compensation to only 60 days in single year

» Removing eligibility for overtime for those in receipt of a per diem compensation during travel

Historical Government Revenues and Expenditures

(SAR Billion)

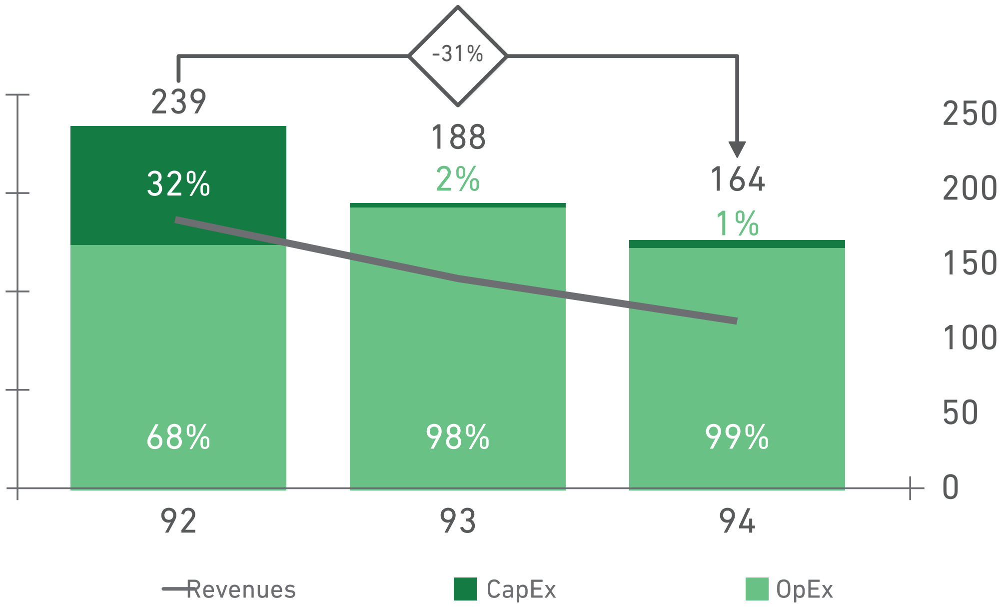


Early 1990s

Following the Gulf War, there was a drop in government revenues by 24% due to low oil prices. In reaction, government reduced expenditures by 31% between 1992-1994. It did so primarily by decreasing its capital spending from SAR 77 billion in 1992 to only SAR 2 billion in 1994. Public debt reached 52% of GDP in 1992, and annual interest on debt reached 7% of total government spending.

Historical Government Revenues and Expenditures

(SAR Billion)



Late 1990s

Between 1997-1999, the government responded to a drop in oil prices and increase in government deficit. Government expenditures were reduced by 17%, as a result of the government implementing a number of austerity measures. They included:

» Stopping government employment in a number of areas for a portion of 1998

» Reducing allocated budget for operational expenses by 10%

» Reducing spending on existing operational expenses by 10%

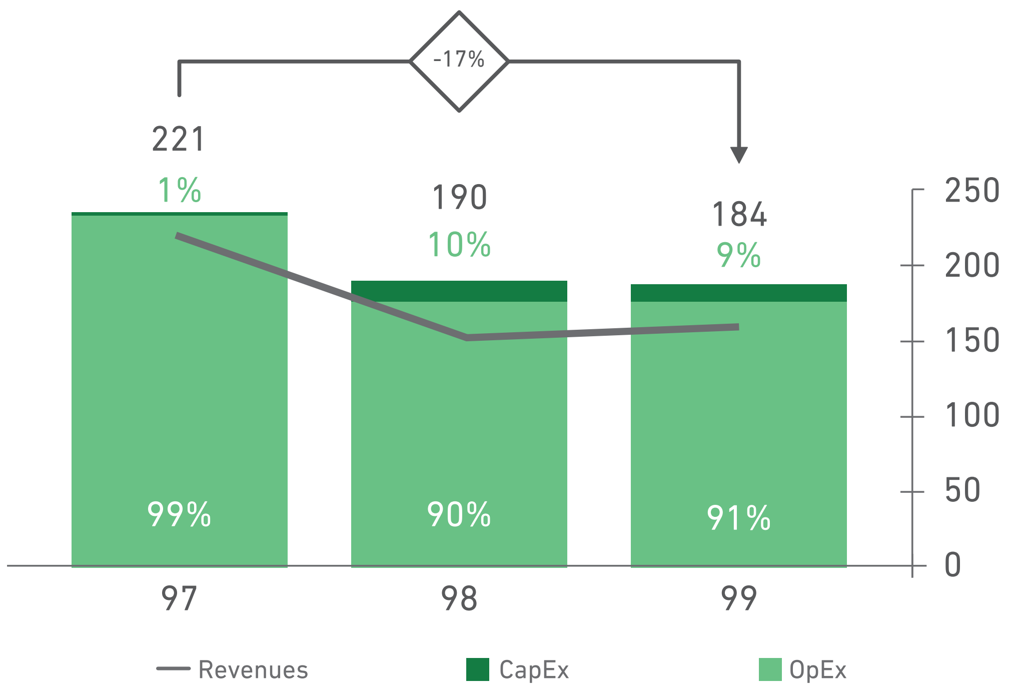
» Reducing spending on existing capital projects by 10%

» Stopping all capital projects with no committed contracts

» Mandating a ministerial committee to review a number of large projects in order to optimize government spending, review current subsidies, and creating initiatives to increase non-oil revenues.

Historical Government Revenues and Expenditures

(SAR Billion)



Between 2002 and 2014

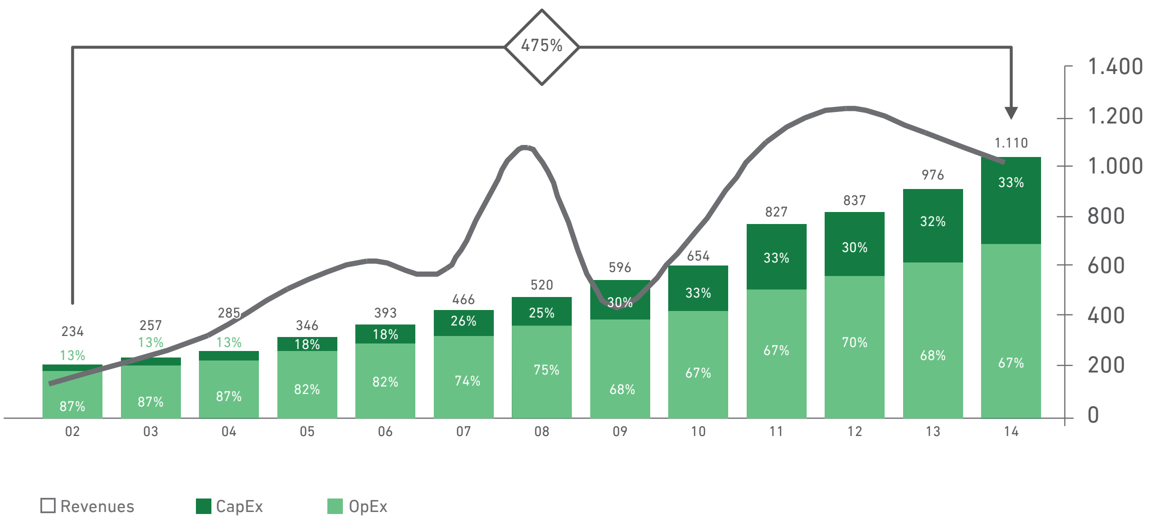
Between 2002 and 2014, the government revenues increased almost 5-fold from only SAR 213 billion in 2002 to a peak of SAR 1,247 billion in 2014. This increase in government revenues supported boosting government spending and, in the same period, the government managed to build substantial balances in its account with SAMA, amounting to SAR 1,413 billion by 2014.

In 2009, as a result of the financial crisis and a decline in oil prices, government revenues declined by 54%; but the collapse in oil prices only lasted 8 months, and prices recovered later and government budget continued to raise

Oil revenues soon represented 87% of the government total revenues, making the budget highly sensitive to oil prices. However, in 2014, as oil prices declined, the levels of government spending were unsustainable.

Historical Government Revenues and Expenditures

(SAR Billion)



Lessons Learned

The government has drawn important lessons from reviewing these historic experiences:

» Reliance on Oil Revenues is not a sustainable fiscal strategy

» Recent prudence in building up reserves has provided some room for maneuver

» Oil prices can stay low for sustained periods of time – waiting it out for prices to increase is not an option

» Government expenditure should be less responsive to oil revenues

» A broader base of non-oil revenue is essential for a sustainable fiscal position

These lessons have been incorporated into the planning and development of the Fiscal Balance Program

Chapter 2

Rationalizing Government Expenditure

Historic Spending Over-runs

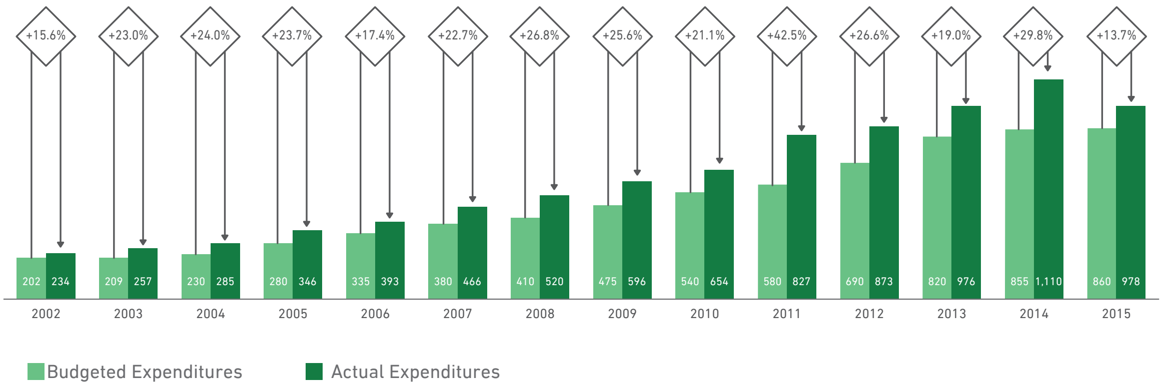
Over the last five decades, since the beginning of the Kingdom’s prosperity, the government has spent generously on development projects across a wide variety of various, particularly those related to the development of human capital and citizen wellbeing.

However, despite the nation’s generous spending, many projects were derailed, as a result of financial waste; and the quality of these projects fell short of the expectations of both the leadership and citizens alike. Studies have shown that the primary underlying reason has been inadequate planning and budgeting processes.

Furthermore, during the last boom period, the government has not been as disciplined as it could have been with overall spending, allowing it to exceed budget by 15%-25% in each year since 2002.

Historical Budgeted vs. Actual Expenditures

(SAR Billion)



Enhancing Budget Control and Spending Efficiency

The government has recognized the need to strengthen its capabilities in managing expenditure, in particular with respect to planning and budgeting. As a result, it has established The Bureau of Capital and Operational Spending Rationalization as an independent unit under the Council of Economic Affairs and Development

The Bureau supports government entities to identify opportunities for optimization of efficiency in both capital projects supporting the Kingdom's priorities in Vision 2030 and operational spending (such as operations and maintenance, administrative costs, etc.).

It also helps them in setting their initiatives, detailed plans and implementing them, based on best local and international practices It supports the implementation of initiatives for spending efficiency, and in developing solutions to overcome obstacles to implementation. It is also responsible for the development of mechanisms & policies needed to improve spending efficiency and ensure sustainability of implementation.

Bureau of Spending Rationalization

مكتب ترشيد الإنفاق
Bureau of Spending Rationalization

Scope

- Capital expenditures: Prioritizing current CAPEX projects based on theireconomic and developmental impact.
- Operational expenses: Identifying and implementing opportunities to optimize operational spend (such as operations and maintenance, administrative costs, etc.)

Objectives

- Identification: Supporting various government agencies to identify opportunities for optimization of spending efficiency, setting their initiatives, detailed plans and implementing them based on best local and international practices
- Implementation support: Supporting the implementation of those initiatives to achieve the desired objectives of improving the spending efficiency, and in developing solutions to overcome the obstacles to implementation.
- Policy changes: The development of mechanisms & policies needed to support improving the spending efficiency and implementation of their initiatives in a sustainable manner.

Best Practice Methodologies

The Bureau of Spending Rationalization supports government entities in adopting best practices for spending rationalization.

Raising operational spending efficiency involves three stages to identify opportunities to both adopt best operational practices and improve the quality of services offered.

Rationing of consumption: by ensuring that the products and services required are actually essential and irreplaceable, and also by addressing wasteful consumption of services

Maximizing benefits: by obtaining the highest service / quality / quantity compared to the amounts paid for doing so

Improving spending: by adopting mechanisms and tactics that exploit the scale of government purchasing to achieve bargaining power (e.g. reinforcing standardized procurement)

Improve spending	Maximize benefits	Rationing consumption
Can we maximize the benefits of purchasing power in the kingdom?	Can we set certain standards for providing and measuring the level of service?	Can we give up the product/ service?
Can we improve the entire supply chain?	Can we switch to sources with better total value?	Can we reduce the volume of work?
Can we standardize commonly used products and services?	How can we review the current options with respect to purchase compared to manufacturing?	How can we find an alternative/ innovative solution?

Raising the efficiency of operational spending: Lighting Case Study

108 initiatives have already been developed this year to improve efficiency and operational spending across many categories. Examples include standardized strategic procurement, improving operations and maintenance.

Addressing lighting is one of the simplest ways to achieve the efficiency of spending, by:

- Turning off lights during non work hours
- Reducing the intensity of the lighting used in certain places as needed
- The use of technology in the consumption electric lamps and the LED Control

As a result of these measures, we expect to achieve a reduction in the cost of lighting electricity consumption, equivalent to 73%, and to achieve a reduction of 15% of the cost of purchases from standardized procurement

Improve spending	Maximize benefits	Rationing consumption
15%	20%	66%
‘‘ Can we reduce the unit price? “	**“Can we increase the efficiency of consumption? “**	**““Can we reduce electricity consumption?“**
Kingdom-wide central purchasing of LED lamps	Using LED lamps with highest efficiency in terms of consumption	Turning off lights during non work hours
		Reducing intensity of light
		Using technology to control electric consumption

Target Savings: Operational Expenditure

Extensive studies have already been conducted on the size and nature of operational spending in 3 government entities, (MOH, MOE, and MOMRA). These studies were used to formulate four categories of initiatives that were designed to achieve efficiency in operational spending and tangible savings.

» Improving Efficiency of Government Contracting – Improving service contracts from “Inputs”, to “outcomes” and SLAs.

» Improving Government Procurement System – leveraging government economy of scale for purchases of common items

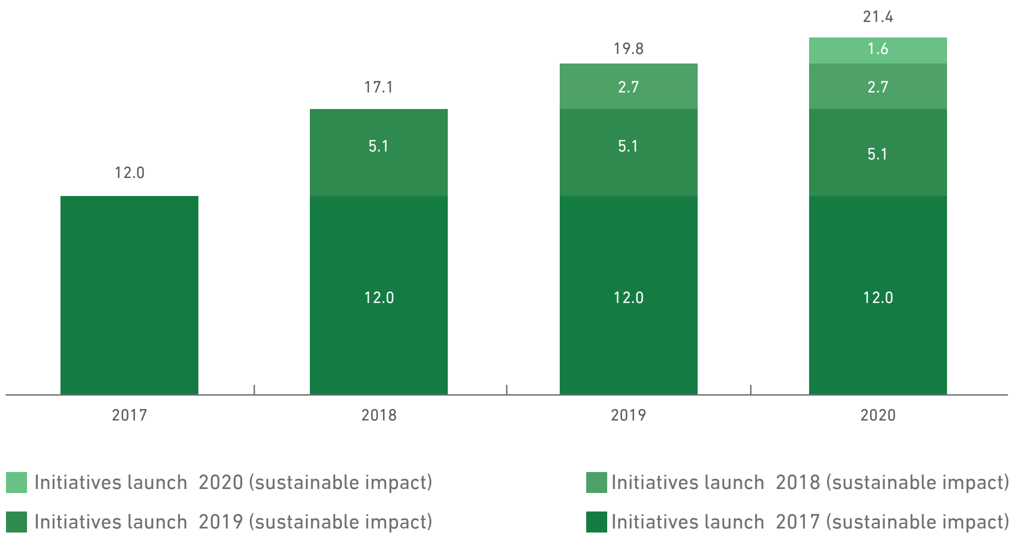
» Quick Wins –Improving operations efficiencies, optimizing consumption of utilities.

» In addition for MOE specifically: Student Awards and Stipends – to convert them to performance-based system targeted toward top performers; and reassess eligibility for other educational support, improving efficiency in school transportation.

Since then, work has been initiated on these 3 ministries; and the implementation of these initiatives is expected to save over SAR 70 billion, cumulatively by 2020. The expected recurring year-to-year savings from then on are projected to be over SAR 21.4 billion.

Currently, 14 more government entities are in the study phase. After the conception of initiatives and savings levers for these 14 entities, projected savings are expected to increase.

Expected Annual Savings
(SAR Billion)



Rationalizing Capital Expenditure

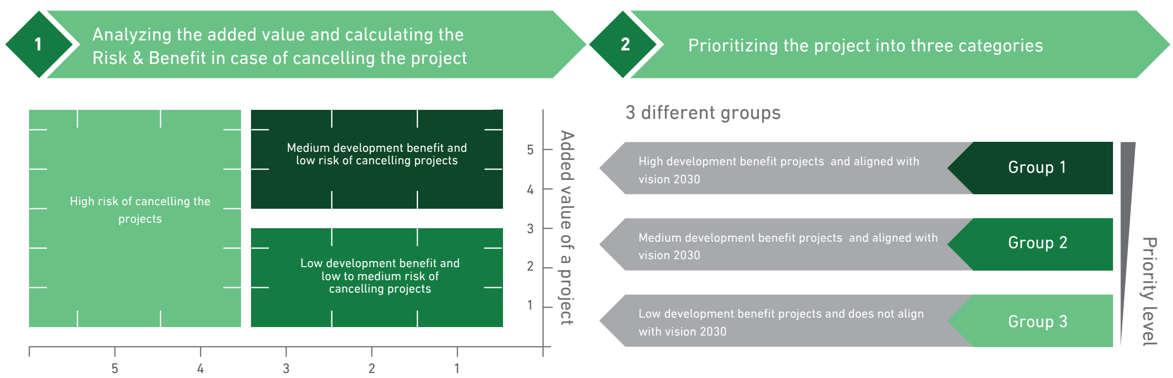
Optimizing capital spending depends on the supply and demand, risk-benefit and added value analysis. The methodology used to optimize capital spending involves analyzing:

» The development benefit and the alignment with vision 2030

» The added value of the project and the risk of cancelling it

» Supply and demand analysis

After the analysis, projects will be categorized into 3 groups of different priority levels. Groups are prioritized by the development benefit and the alignment with the vision 2030



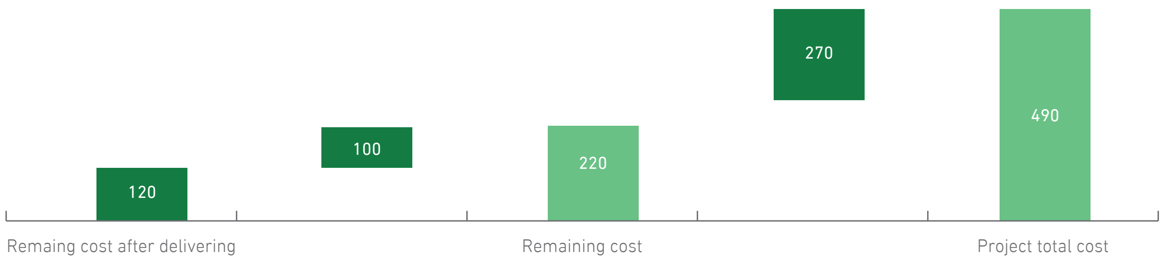
Target Savings: Capital Expenditure Phase 1

Phase 1 of optimizing capital expenditure started with the five civilian ministries with the greatest capital spending. Projects with a total cost of SAR 490 billion were reviewed (where the cost of projects delivered before phase 1 is SAR 270 billion, with SAR 220 billion as the remaining cost.)

During this phase, global best practices methodologies were used to identify SAR 100 billion as potential savings. Subsequently, more optimization from the remaining cost will be delivered and the remaining cost will be reduced to SAR 120 Bn.

This approach ensures prioritizing and maintaining capital projects with high development benefits that are in alignment with Vision 2030.

Phase 1 CapEx Optimization Targets

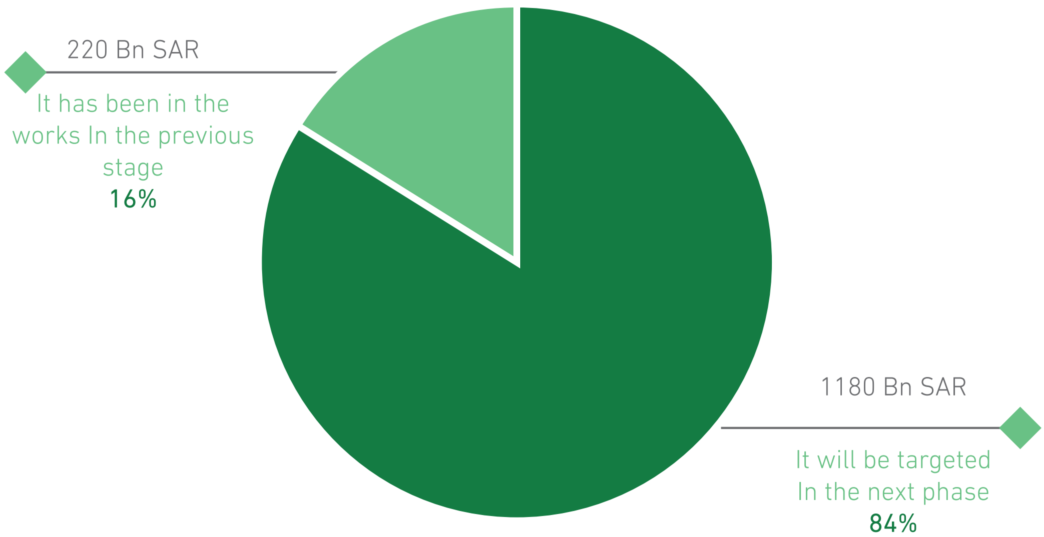


At the beginning of fiscal year 2016, the remaining cost for the implementation of capital projects was SAR 1400 billion. Of this, SAR100 billion were targeted, in some ministries by cancelling some of the projects that weare not in line with initiatives of the vision of the Kingdom 2030, and other low priority projects. The next phases will target similar projects in other ministries.

Rationalizing Capital Expenditure Phase 2

The remaining value of CAPEX projects is around SAR 1.4 trillion, and we have already completed studies on projects worth SAR 220 billion in the first phase of CAPEX spend efficiency. Similarly, a second phase of studies on CAPEX spend efficiency will commence on 13 other government entities, where the same methodology for optimizing CAPEX spending efficiency will be applied. This is to ensure that priority is given to projects that are necessary for development and are instrumental in the realization of the country's strategic objectives

Total remaining cost for CapEx projects in all government sectors around 1400 Bn SAR



Enabling Expenditure Efficiency

The Bureau supports Government entities to address challenges in their efforts to implement cost efficiencies. There are important efficiency enablers that must be activated to achieve the objectives of Spending Efficiency in a sustainable manner.

» To have policies and regulations so as to enable key best global practices – which requires adjusting existing and introducing new policies

» To have full visibility of spend and ability to compare and benchmark relevant costs.

» To make the procurement process a strategic process. i.e. to apply the right focus on the strategic part of procurement managing spend categories on different levels, and government sector volumes to maximize quality and value.

» To account systematically for "Total Cost of Ownership" when contracting, through having a robust process that ensures the same.

» To integrate planning of capacity and demand across entities, to enable country-wide optimization of needs.

» To Spread continuous improvement culture, so as to ensure sustainable impact and continuous efficiency improvement in the long term.

Efficiency Enablers	How to activate
Policies and regulations coincide spend efficiency best practices.	Improving and introducing some policies and regulations to enable global best practices
High spend visibility and ability to benchmark and compare cost / unit across entities	Creating the cost/unit database supported by a reference guidebooks for contracting
Strategizing government procurement practice	Creating a strategic procurement unit that can manage spend categories and leverage public sector volumes to maximize value and quality
Systemic consideration of "Total Cost of Ownership" when contracting.	Introducing a robust project planning and approving process, ensuring total cost of ownership is considered
Integrated Planning of capacity and demand across entities	Focusing on capacity and demand consideration in government project planning process
Spread of continuous improvement culture.	Improve Operational Excellence practices in government operations

The way forward for expenditure rationalization

The Bureau is continuing to work with the Ministries from the first phase. Ministries and entities that were not included in the earlier phase are now working on identifying savings opportunities.

		Entities included in Scope	Total
Optimizing Capital Spending	Implementation of recommendations	Ministry of Health Ministry of Education Ministry of Municipal and Rural Affairs Ministry of Transportation Ministry of Housing	5
	Expansion to include all entities	Ministry of Environment and Water and Agriculture Saline Water Conversion Corporation MODON Ministry of the National Guard Presidency of the Royal Guard General Intelligence Presidency Royal Commission for Jubail and Yanbu General Authority of Civil Aviation Ministry of Interior Ministry of Justice Ministry of Defense Ministry of Commerce and Investment Ministry of Finance	13
Optimizing Operational Spending	Implementation of initiatives	Ministry of Health Ministry of Education Ministry of Municipal and Rural Affairs	3
	Expansion to include all entities	Ministry of Environment and Water and Agriculture Ministry of Energy and Industry and Mineral Resources Ministry of Foreign Affairs General Sport Authority Ministry of Interior Ministry of Defense Ministry of the National Guard The Royal Guard General Intelligence Ministry of Transportation Ministry of Communications and Information Technology Ministry of Labor & Social Development Ministry of Culture and Information Ministry of Islamic Affairs	14

Chapter 3

Energy and Water Price Reform

Energy and water dominate government Subsidies

The Kingdom has been providing energy products to its domestic consumers at a differentiated or discounted price which is significantly lower than the export prices paid by the international buyers. The difference between the two prices (i.e. domestic versus international) can be termed as the opportunity cost of a barrel of oil or energy benefits to domestic consumers.

The Kingdom's energy benefits reached close to SAR 300 billion in 2015, given the oil export price at that time. Until recently (2015), Energy and Water Benefits have typically accounted for the vast majority (~80%) of the overall subsidies in KSA. They could significantly increase over time because of increasing domestic consumption & changes in oil prices.

These reduced energy prices also incentivize higher wasteful consumption. Since the Kingdom has been highly dependent on non-renewable oil and its derivative energy products as its main source of income, consuming it cheaply will not be sustainable in the long term. Furthermore, the effect of such subsidies benefited higher consumers, who tend to be better off in society. Lower income households (approx. ~40% of the population) benefit from only around 30% of energy subsidies.

Objectives for reforming Energy and Water benefits

Not capturing the best price for our resources is a lost opportunity to invest elsewhere for diversifying the economy, and providing other benefits to households and non-households (i.e. businesses and government).

Reforming subsidies is also an opportunity to improve its energy efficiency. For example, in 2015, Saudi had one of the highest gasoline consumption per capita in the world – with the 3rd cheapest gasoline prices.

Although in the recent past there have been some efforts towards energy efficiency in the industrial sector, but still it hasn't trickled down to all energy intensive sectors - because of the current pricing structure.

- **Improve fiscal position**
- **Incentivizing modest consumption**
- **Promote a sound investment model in industries**
- **Redistribute benefits to target segments**

Guiding Design principles for Reform

Our guiding principles for designing the reforms were based on successful reform experiences from 25 countries. We have also extensively studied domestic consumption behaviors & needs.

Household reform principles	1	Incentivize consumption reduction
	2	Protect minimum energy consumption needs for households
	3	Redirect some of the reform savings towards areas of high relevance to households (e.g., healthcare, housing)
Non-household reform principles	4	Support heavily impacted strategic industries/sectors with high Saudi employment and/or contribution to GDP
	5	Redirect some of the reform savings towards emerging industry priorities
	6	Increase prices gradually to allow impacted industries to adapt
Cross-cutting principles	7	Regularly update energy prices based on changes in market conditions
	8	Couple reform with service level and efficiency improvements in the utilities sector
	9	Engage all stakeholders and ensure communication is transparent pre-reform and post reform

Phased Implementation of energy and water pricing reform

In order to allow households and non-households to make necessary adjustments, the increase in prices towards international market prices is being implemented in Phases. In addition:

- We are prioritizing the reform of products that are least likely to have significant impact on citizens
- We are taking into consideration the implementation of the VAT in implementing any price changes in 2018.
- We will redirect savings to low income families, and support strategic industries.

	Phase 1	Future Phase
	2016	2017 - 2020
Guiding Principles	Marginal correction to current energy & water prices	Phased increase in prices towards international market prices
	Limited impact on low income, compensation not necessary	Compensation for effected consumers
	Limited impact on inflation	Industrial support
		Energy Efficiency programs

2016: Implementation of First phase

The first phase of energy and water price reform was implemented in 2016 for households and non-households. The impact in 2016 of the first phase of reform was as follows:

» Savings of between SAR 27-29 billion in 2016

» Inflation was as estimated and within a reasonable level

» Reduction in growth rate of energy consumption from 3.5% in the first half of 2015 to 1.7% in the first half of 2016

» Capital markets were impacted during the first week after the announcement of phase 1 reforms

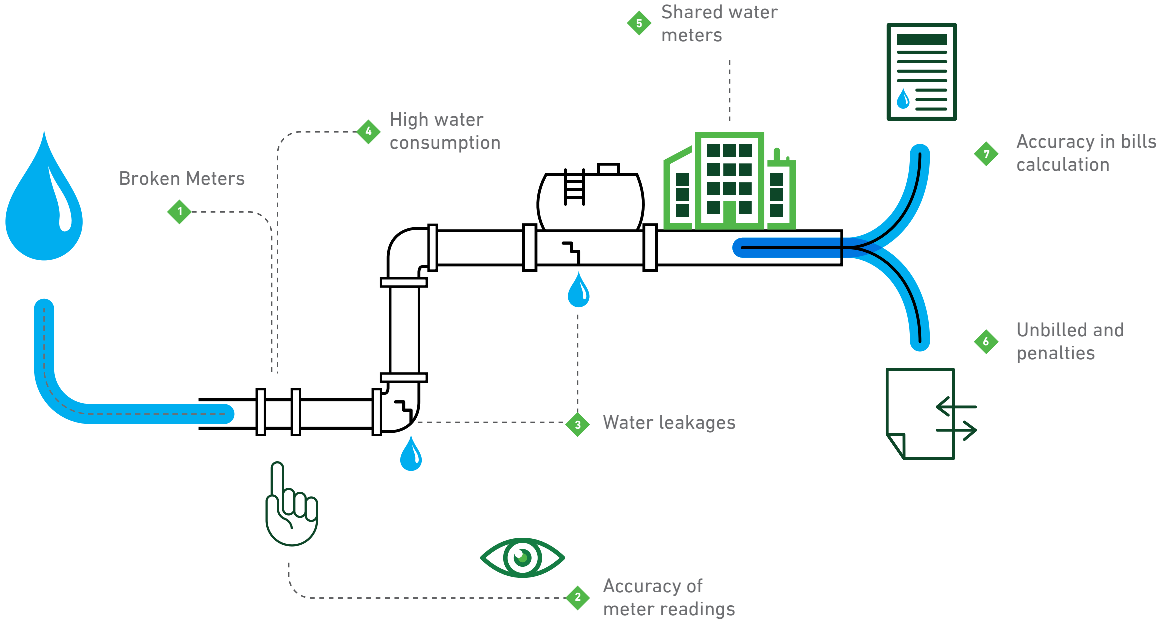
» There was no noticeable impact on foreign investment

Households	**Old Prices (pre-2016)**	**Current Prices (2016 - today)**
Gasoline SAR / liter	0.45 – 0.60	0.75 – 0.90
Electricity SAR / kWh	0.05 – 0.26	0.05 – 0.30
Water SAR / m3	0.10 – 6.00	0.15 - 9.00

Non-Households		**Old Prices (pre-2016)**	**Current Prices (2016 - today)**
Gas USD / mmBtu		0.75	1.25
Ethane USD / mmBtu		0.75	1.75
Diesel USD / Barrel	Transportation	10.60	19.10
	Industrial	9.12	14.00
HFO 380 USD / Barrel		2.08	3.80
Electricity SAR / kWh	Industrial	0.14[4]	0.18[4]
	Commercial	0.14-0.26	0.18 – 0.30
	Governmental	0.26	0.32
Water SAR / m3		0.1 - 6	0.15 - 9.00

Lessons Learned

We faced some challenges with the phase one reform, which will be used as lesson for next phase. In particular, there were some issues with the implementation of the new water prices. This was primarily due to insufficient readiness of the water system infrastructure. Therefore, no future water price changes will be made until the water metering and billing issues are resolved.



Roadmap for the next phase of reform

The second phase of reforms will involve a steady change in prices from 2017 to 2020.

Domestic prices of products will be linked as a percentage to the reference export price of the respective product, and will fluctuate according to fluctuations in the international market. The prices of those products will be revised periodically, based on increasing the percentage linkage with the international market prices of these products

<table>
<tr><th></th><th>Households</th><th>Non Households</th></tr>
<tr><td>2017</td><td>Link electricity 100% to reference prices</td><td></td></tr>
<tr><td>2018</td><td></td><td>Link electricity 100% to reference prices</td></tr>
<tr><td rowspan="2">2019</td><td colspan="2">Based on the readiness of the water infrastructure, gradually link water prices to reach reference prices</td></tr>
<tr><td></td><td>Gradually link all unpegged products to reach reference prices (except for butane, propane & natural gas)</td></tr>
<tr><td>2020</td><td colspan="2">Bring all products to reach 100% of reference prices</td></tr>
</table>

The linkage of gasoline and diesel to reference prices is currently being studied, and will be implemented between 2017 and 2020. The commencement date will be announced ahead of time.

Industrial Support

The cost base of energy intensive Industries could be materially impacted in 2019 and 2020, as a result of energy pricing reform. It is important that over this time period they are able to transform, so that they become energy efficient and globally competitive; and the government will provide targeted support to do so.

Prioritization criteria were identified, and accordingly industries were categories based:

1. Strategic Importance: industries were classified based on their strategic importance to KSA, measured through Socio-economic impact current & potential, Global industry outlook, and KSA's competitive advantage
2. Reform Impact on Industry's Survival: Industries were ranked according to the impact of reforms on their survivability

Accordingly, the following industrial support objectives were set translating into support themes:

	Objective	Support theme
a	Ensure rapid capture of efficiency opportunities	Implementation support and capability building
		Performance management
		Efficiency financing
b	Ensure survival of industries until commodity prices recover	Temporary funding support
c	Build enablers for a long term competitive advantage	Enabling Infrastructure
d	Promote an energy & operational efficiency ecosystem	Regulation

Support Themes

Industry support themes for energy intensive Industries are split into two measures:

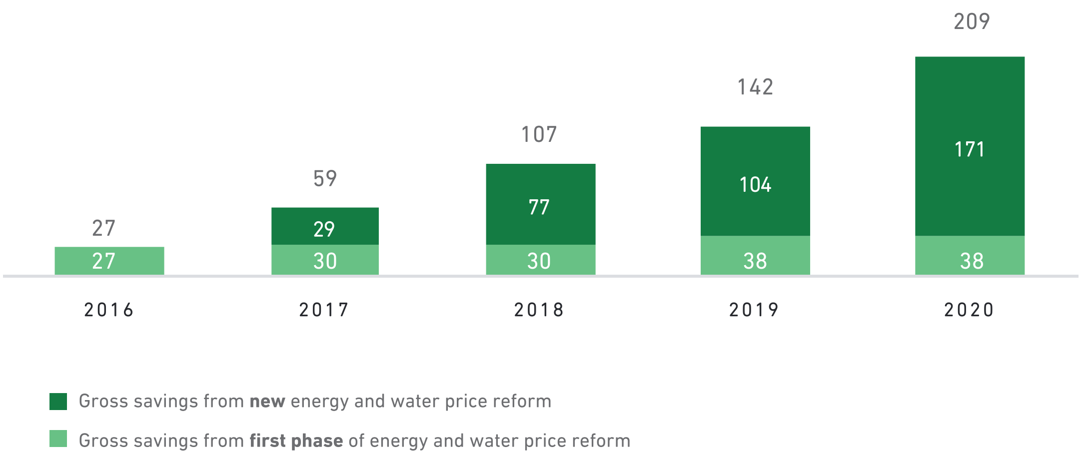
1. Industry-agnostic measures
2. Industry-specific measures

Support themes	Industry-agnostic measures	Industry-specific measures
Implementation support and capability building	Establish ESCOs to support implementation of energy efficiency projects Design energy efficiency manuals and develop benchmarks Launch trainings on energy conservation, measurement and auditing	Support to set up industry-specific centers of excellence to promote energy and operational efficiency improvement through: Technical and managerial training Design of efficiency manuals Development of benchmarks R&D programs
Performance management	Launch energy audit programs Set up nation-wide systems for collection and analysis of energy efficiency information	
Efficiency financing		Offer financing for energy and operational efficiency improvement projects
Temporary funding support		Provide funding to compensate for the energy reform impact on cash flows, with eligibility linked to meeting efficiency KPIs
Enabling Infrastructure		Improve transportation and energy/ water infrastructure reliability, where needed
Regulation	Develop and enforce cross-industry energy efficiency standards	Define and enforce industry-specific operational efficiency standards
	Set up a national energy efficiency campaign complemented with public recognition awards	
	Design renewable energy feed-in tariff framework	
	Launch quick-win regulations/ requirements	

Target Savings

The combined Energy and Water price reforms are expected to lead to saving of SAR 209 billion per year by 2020.

Gross savings from energy and water price reform



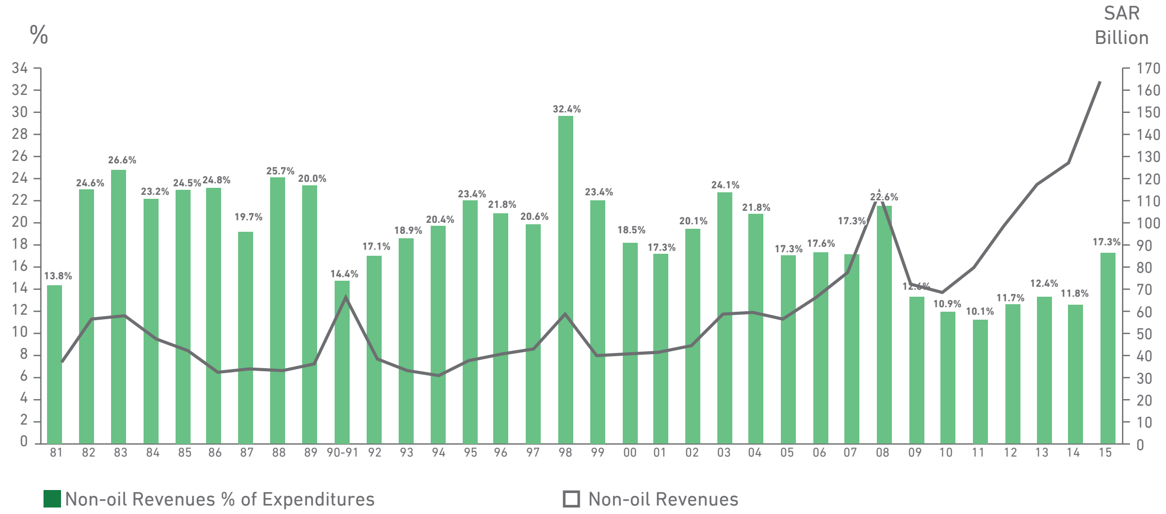
Chapter 4

Other Government Revenues

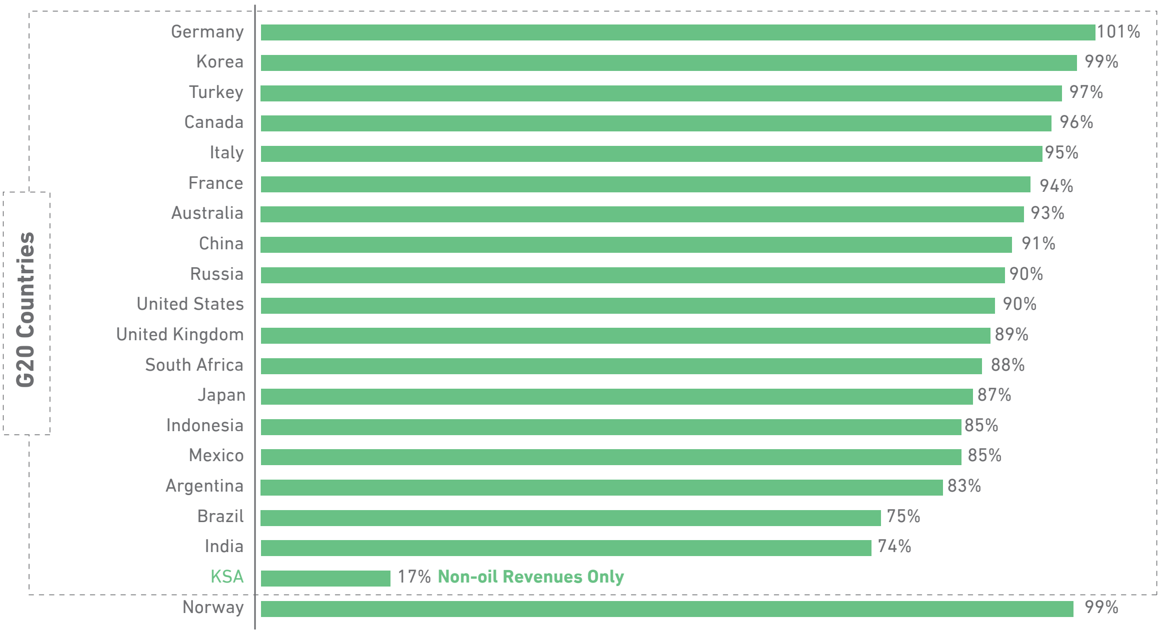
Non-oil Revenues

Government non-oil revenues have increased four-fold in the last 20 years. However, they cover a smaller proportion (17%) of government expenditures than 20 years ago. As a result, the government's budget is very exposed to oil prices.

Evolution of Government Non-oil Revenues



Government Revenues % of Expenditures (2015)



Direct revenue from oil has been excluded from all countries where it is substantial: China, Russia, Mexico, Canada, Brazil and Indonesia

Other G20 countries have a much broader base of revenue – with taxes, fees and duties covering between 70-100% of expenditure. Hence, there is an urgent need to broaden the government's revenue base – which started in 2016, and is being extended in future years.

In raising additional revenue, the government is seeking to do so in a way that minimizes negative economic impact, while also encouraging behavior that is aligned with our values and the goals of Vision 2030.

Non-oil revenue increases in 2016

2016 saw the Implementation of the First Phase of Government Revenue Enhancement which included:

Visa fees:

Visa fees to Saudi Arabia have been revised upwards for nationals of countries where bilateral agreements are not in place. However, the government, commits to cover these costs for first-time religious pilgrims exercising their Islamic duty to perform Hajj and Umra.

Municipality and Rural fees:

Municipality fees had been fixed for the past several decades, which has made it difficult for the government to fund enhancement and expansion of its services. Hence, fees have been raised to be comparable to international benchmarks

First Phase of Government Revenue Enhancement Initiatives	
Visa fees	Municipality and Rural fees

Revenue Levers to Be Implemented 2017 onwards

1. Expat Levy

Saudi Arabia has one of the most liberal labor policies globally, with very few restrictions on importing foreign labor to work in the Kingdom

Currently, companies pay a levy of SAR 200 per month per expat employee, but only for expat employees that exceed the number of Saudi employees.

Moving forward, the levy on all expats will be gradually revised upwards – which will provide an additional signal to employers to hire more Saudis. For expats not exceeding the number of Saudi/GCC employees the fee will no longer be waived, but will be charged at a discounted rate.

A fee on dependents of expatriate workers will also be levied. It will commence in July of 2017, in order to minimize impact on families with children enrolled in school.

Currently, neither Saudi nationals nor foreign laborers pay income taxes, and this policy will remain in place.

	Dependents for Expats	No. of Expats equal to no. of Saudis in a company	Expats more than Saudi's In a Company
2017	SAR 100 per month in July onwards		
2018	SAR 200 per month in July ownards	300 per month in January ownards	400 per month in January ownards
2019	SAR 300 per month in July ownards	500 per month in January ownards	600 per month in January ownards
2020	SAR 400 per month in July ownards	700 per month in January ownards	800 per month in January ownards

2. Value added Tax (VAT)

VAT is a consumption tax. It is built on the value added of the product at its different stages of the supply chain, plus services.

What happened to date

- Agreement At GCC to impose 5% in December 2015.
- Minister of Finance signed the agreement on December 2016.
- Several basic goods, such as meet and poultry which have been exempted from the VAT

What will happen?

- Implementing the VAT in the 1st quarter of 2018, inline with other GCC countries.

A broad-based VAT is internationally recognized as an efficient revenue-raising measure. In addition, it will stimulate the development of transparency and accounting infrastructure across the economy, which is an important part of the modernization of the economy.

3. Excise Tax on Harmful Products

The excise tax is a special tax that will be implemented on specific products with harmful health effects to dis-incentivize consumption of such products.

What happened to date

- Agreement at GCC to impose 50% on Soft Drinks, 100% on Tobacco and Energy Drinks in December 2015.
- Minister of Finance signed the agreement on December 2016.

What will happen?

- Implementing the taxes in the 2nd quarter of 2017.
- Scope of taxes is under study for inclusion of sugary snacks and drinks which contribute to high prevalence of obesity and diabetes in the Kingdom.

International benchmarks on taxes in other coutries

By comparing the tax system in KSA with other countries in the world, it is clear that the proposed tax system is still low.

Benchmark	KSA	Norway	Canada	USA	China	Malaysia	Australia
Corporate Tax	0 %	25 %	26.5 %	40 %	25 %	24 %	30 %
Income Tax	0 %	%47.2	29 %	39.6 %	45 %	25 %	45 %
VAT	5 %	25 %	5-10 %	0-7.5 %	17 %	6 %	10 %

*100 basic products have been excluded from VAT implementation

Road map for implementation

The implementation of the revenue levers will be sequential and will allow a grace period for the stakeholders to minimize disruption, and ensure that there is a minimal impact on the economy.

2017				2018			
1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	Excise Tax on Harmful Products						
		Expat Levy					
				VAT			
				Luxury Tariffs			

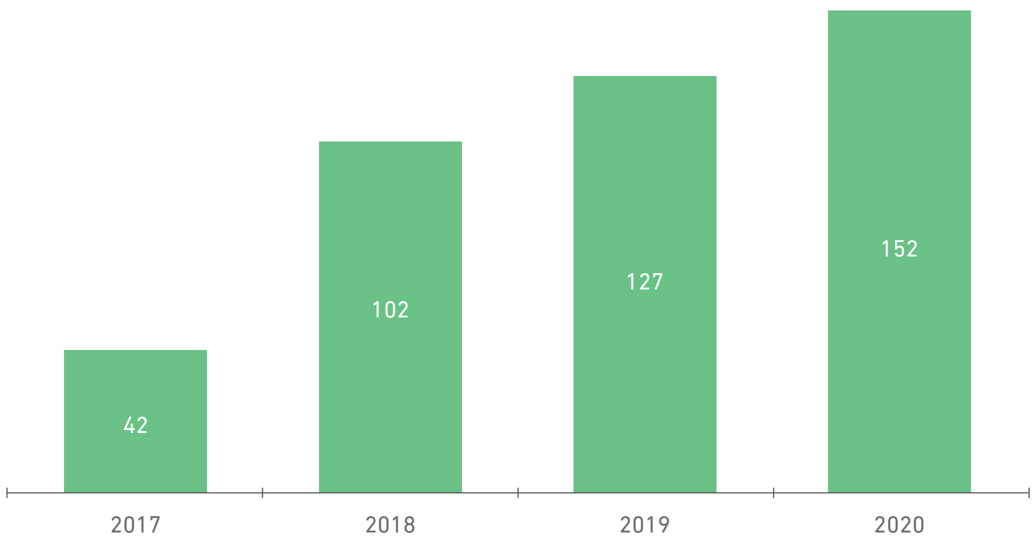
Impact of Additional Government Revenues

Incremental revenues from these measures are expected to reach SAR 152 Bn by 2020, assuming approval of all revenue generating measures under assessment. Even then, Saudi Arabia's burden per citizen will be substantially lower than in other parts of the world.

The revisions have been chosen to help the Kingdom's drive towards a sustainable and predictable fiscal regime while also helping improve government services and achieving social goals such as health of Saudi citizens.

Incremental Non-Oil Revenues Forecasts

(in SAR Billion)



Chapter 4

Household Allowance

Household Allowance

As a result of Energy and Water Pricing Reform Phase-1 (2016), there was an initial hike in prices, although not as great as might have been, because water pricing reforms were not implemented. In fact, inflation fell during 2016, because some other items in the basket became less expensive.

Moving forward, there will be more reforms between 2017-2020 that will significantly impact vulnerable household segments of the society, directly and indirectly. One of these reforms is the energy pricing reform, which will structurally change households energy expenditure and the overall cost of living compared to other necessary items in their daily consumable basket of goods.

Since we recognize that some vulnerable households will not be able to sustain the impact of these reforms on their own while many other mid income households will be majorly impacted as well, we have developed a national Household Allowance.

	Reforms that have been implemented:	Reforms expected to happen before 2020:
Reforms that impact cost of living	Energy and water price reform phase 1	Energy price reform
	Public sector salaries reform	Expat Levy
		VAT implementation
		Other initiatives to increase non oil revenues

Objectives for the Household Allowance

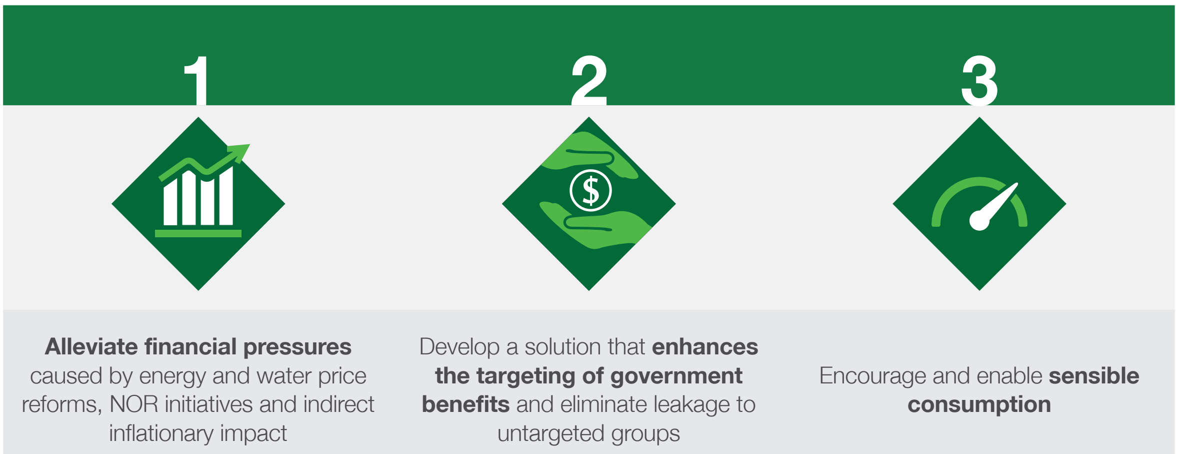
There are three primary objectives of the allowance program:

» Protect low and medium income households against the direct and the indirect impact of different reforms. Some of the planned reforms (such as Energy and water pricing reform phase-2) will have significant direct impact on cost of living (e.g. monthly gasoline expenditure, electricity bills, etc.). In addition, there will be some indirect impact, for example, the increase in diesel prices will result in increase of transportation cost of food items (e.g. chicken, vegetables etc.), which will result in an increase in the retail prices of food items.

» Improve targeting of government benefits by developing a mechanism that will direct the benefits to the eligible segments only. Instead of benefits that are built-in discounted prices of energy products, we will introduce bank transfers to the eligible households that will allow us to better redistribute benefits to the deserving households

» Promote sensible consumption of energy & water by households. Today most of the vulnerable Saudi household segments are modest consumers. The allowance will cover the costs of sensible consumption, but those who currently consume more than these levels will need to moderate their consumption in order to limit the impact on their disposable income.

Definition of "Sensible Consumption": the average consumption of a household of 6 members who consume 398 Liters of gasoline per month if they have 2 cars; and 2,594 Kwh electricity per month.



An additional benefit of this approach will be to provide much more transparency around which segments of society are being supported by the government – in contrast to the existing subsidies.

Guiding Principles for design of Allowance

To design such an encompassing and far-reaching benefit in the form of an allowance to Saudi households, we studied successful examples from other countries for launching and operating such massive programs. Some of the guiding principles include:

» Cash allowance direct to Households. This is because from the global success stories, bank transfers/cash are the most efficient in targeting the eligible recipients, and they provide savings opportunities to households if they consume/spend wisely.

» First payment should be made before changing energy prices. This is to ensure that Saudi households can plan their expenditure ahead of price changes and feel relieved

» Allowance should not promote over-dependency or over-consumption. We have extensively analyzed consumption needs and expenditure behaviors, to ensure an appropriate determination of how much the allowance should be.

» Amount should vary based on household structure (number of members) & economic well-being (income level). We also tapped in to existing local databases of Saudi households (e.g. family size, structure, and financial status) to simulate various profiles to ensure we are comprehensive in our coverage

Guiding Principles for design of Allowance

1	**Provide protection to low income groups against reforms' impact**
2	**Allowance should be cash based on sensible consumption levels**
3	**Allowance should be fair & vary for different households' compositions**
4	**First payment should be made before implementing any more reforms that will impact households.**

Eligibility – Who can claim the Allowance?

We have selected households instead of individuals to be the main beneficiaries of the allowance, since they fundamentally represent the main economic unit in the Saudi society. Hence, the head of each household will be the recipient of the allowance.

Definition of a "Household": a group of first degree relatives (wives & unmarried children) residing in the same place. The household's head can be a male or a female depending on the family construct.

The main beneficiaries of this program include Saudi Households along with other segments, such singles who are living independently of their families, the non-Saudi household with a Saudi mother, and holders of a transit permit. And to ensure maximum protection for the most vulnerable Saudi households, all Social Support (DSS) beneficiaries will be eligible & auto-enrolled in the program.

Eligibility – Who can claim the Allowance?

1	**Saudi Nationality**
2	**Residency Inside the Kingdome**
3	**All members of HH are relative from the first degree**

Determining & updating the Value of the Allowance

The allowance amount is determined by the direct indirect impact of energy and water price changes, along with the indirect impact of other reforms.

The Household Allowance is based on a fairness principle, which is why it is not a static amount. The amount will be revised frequently to reflect any in increased burden on households, resulting from changes in the energy and water prices or other reforms.

1. Energy & Water

Entitlement will be based on sensible consumption

2. Other Basic goods

Entitlement will be based on Median Saudi HH incremental inflation of basic goods

Entitlement – What determines the entitlement amount of the Allowance

The basic level of the allowance that a household is entitled to will be determined by the size of the household. The larger the size of the household, the greater the basic entitlement.

The government will determine the increased costs of modest consumption of energy products and necessary goods for a eligible single member household (i.e.1 person independently living alone), and will scale up this amount appropriately for larger households.

In addition, the entitlement amount will be reduced for households with higher income levels – and those on the highest incomes will not have any entitlement.

1	**Household size**
2	**Household economic well-being**

Tapering the entitlement based on household income

Since one of the objectives is to redistribute benefits directly to the most deserving Saudi households, only lower income Saudi households will be fully covered against the extra financial burden of the reforms.

The entitlement amount deceases as income increases. For upper-middle income Saudi households above an earnings threshold, the extra financial burden of the reforms will be covered partially. Their entitlement is tapered according to their household income.

High income Saudi households will have no entitlement since they will not be impacted greatly by the reforms.

Entitlement Level by Household Income Quantile (Illustrative)

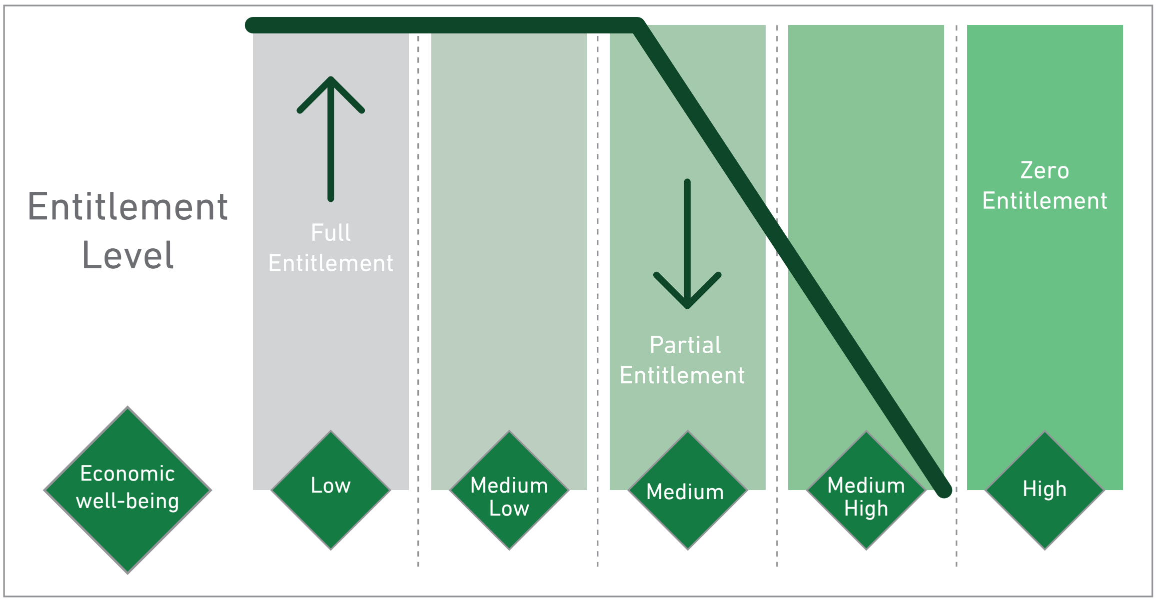


Illustration of the Allowance amount to the different segments

To estimate the burden of the various reforms on Saudi households, we segmented the Saudi population into five brackets of equal population (quintiles), analyzed the average income for a family of six members, and estimated the incremental monthly burden on them. We then estimated the average allowance amount and determined the net impact on them.

For illustration purposes, the examples below showcase the net burden on the average eligible Saudi household in each quintile before and after receiving the allowance amounts:

Illustrative Example: Estimated burden and average Allowance amount in 2017 for a family of 6

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile
Average Income (SAR/Month)	0 - 8,699	8,700 - 11,999	12,000 – 15,299	15,300 – 20,159	20,160 +
	4,500	8,500	12,500	17,500	34,500
Estimated Extra Burden (SAR/Month)	(1,000)	(1,100)	(1,300)	(1,500)	(2,000)
Average Allowance (SAR/Month)	1,200	1,200	1,000	600	0
Net Burden or Allowance (SAR/Month)	200	100	(300)	(900)	(2,000)

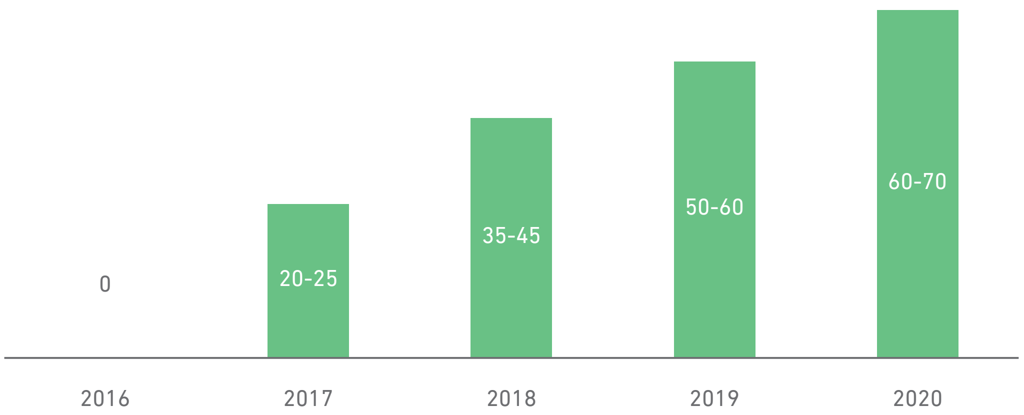
Illustrative Example: Estimated burden and average Allowance amount in 2020 for a family of 6

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile
Average Income (SAR/Month)	0 - 8,699	8,700 - 11,999	12,000 – 15,299	15,300 – 20,159	20,160 +
	4,500	8,500	12,500	17,500	34,500
Estimated Extra Burden (SAR/Month)	(1,300)	(1,600)	(1,900)	(2,200)	(3,100)
Average Allowance (SAR/Month)	2,000	2,000	1,500	1,000	0
Net Burden or Allowance (SAR/Month)	700	400	(400)	(1,200)	(3,100)

Estimated Costs for the Household Allowance

We will be spending generously, to ensure that we appropriately cover eligible Saudi households. The amount of Household Allowance will increase each year from 2017-2020 with the annual increase in burden on households resulting from gradual reforms. It is expected that the total annual amount of allowances will reach SAR60-70bn in 2020.

Estimated Allowance Amounts to Saudi Households over the Next Four Years (Bn. SAR)



Roadmap for the Implementation of the Household Allowance

- On the 1st of February 2017, the registration portal will be opened for registration to all Saudi households. All eligible DSS recipients relevant to the Ministry of Labor and Social Development will be automatically registered.
- Eligibility and entitlements verifications will start by the mid of February 2017.
- Eligibility and entitlements results will be communicated prior to implementing the new price changes.
- All eligible beneficiaries will receive their first payment prior to implementing the new price changes.

Citizens' Account Program

Establishing the Household Allowance Program for Saudi Households is just the first step in a major transformation program for cash transfers and subsidies in the Kingdom: the Citizens' Account Program. This will develop to become a comprehensive program that includes all different types of programs and government benefits.

This platform will facilitate a unified approach to eligibility, a more efficient determination of the true needs of families, rationalized entitlement, elimination of waste, and most importantly a much more streamlined experience for citizens.

Main benefits included in the Citizens' Account Program

Citizens' Account Program				
Household Allowance Program	Healthcare	Housing	Education	Social Security & Social Development
	Healthcare services Health Insurance Support	Home ownership support Rent Support	Public Education support Higher Education Support	Income support Food Support Jobseeker Support

Chapter 5

Enabling Private Sector Growth

Four Economic Headwinds

Over the last year, the economy has faced headwinds

» There has been slower economic growth, in particular in Utilities, construction, non-oil manufacturing, wholesale & retail. Furthermore, real consumption per capita is declining, driven by lower purchasing power

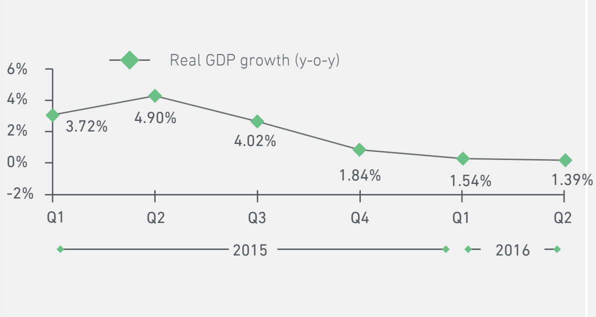
» The balance of payments has worsened, due to the drop in oil export value

» Confidence in the economy had declined, driven by business environment uncertainty and lack of government communication. Concerns about governmental subsidy cuts, job prospects and price hikes have caused consumer confidence to also drop.

» Private sector employment has dropped, resulting in an increase in the Saudi unemployment rate

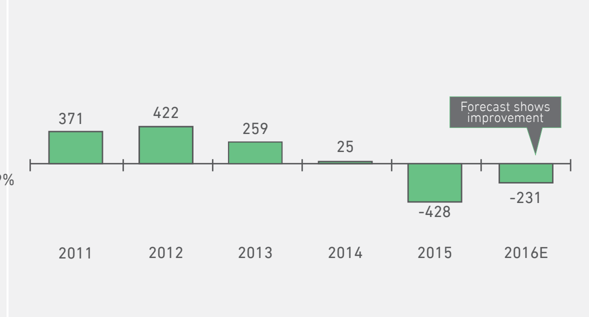
Given the plans to reform energy prices, and to increase non-oil revenues, it is critical that the government acts to strengthen the private sector economy, so that it is well placed to tackle the challenges of reform.

Slower overall GDP growth

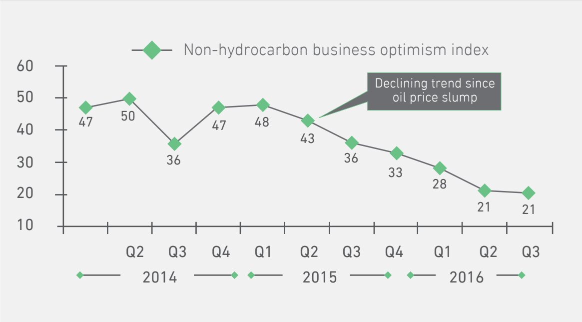


Negative Balance of Payment

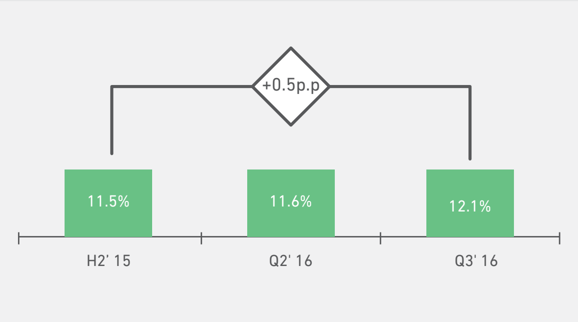
BoP without reserve depletion (SAR Bn)



Lower confidence of economy



Increasing unemployment rate of Saudis



Survey results. Not strictly scientific.

Growing the economy in line with the Vision 2030

There are three key objectives for unlocking the full potential of the Saudi economy:

» Grow non-oil private sector, to become less dependent on oil

» Develop local content and build up a competitive local industry

» Improve balance of payments supported by higher non-oil exports

In order to focus on delivering these objectives and achieving the targets of Vision 2030, the Local Content & Private Sector Development Unit was established.

1	**Grow non-oil private sector**
2	**Develop local content**
3	**Improve balance of payments**

Guiding principles for a thriving sustainable economy

Saudi Arabia will reduce the country's economic dependence on oil exports to build a thriving sustainable economy and set out long-term goals/expectations. KSA will continue to invest in the local capabilities and further utilize growth potentials.

The guiding principles for developing the Saudi economy are:

» Leverage existing advantages of natural resources and strategic geographic position

» Invest for the long-term, by growing local content and making Saudi Arabia a productivity-led economy

» Diversify the economy away from oil, by growing the non-oil private sector

» Transition the private sector from being driven by government spending to being focused on serving domestic and international demand.

Identify and leverage existing capabilities within the country

Invest with long-term focus to achieve sustainable results

Diversify the economy away from oil

Enabling economic transformation on many levels

Our approach will be to support the economy in the short term through a stimulus package, strengthen local content rules, address systemic barriers to economic growth, and promote sectors with export potential.

1	**Private Sector Stimulus:** Short-term economic growth push
2	**Local content:** Acceleration of local content by unified national local content strategy
3	**Structural Transformation:** High impact structural changes to enable further growth across the private sector
4	**Sector specific programs:** Specific economic sectors will be promoted

+

Engagement with private sector:

Ongoing communication with private sector and other governmental entities

1. Private Sector Stimulus

It is proposed to establish a fund that provides attractive investment capital to support the private sector to grow by raising its efficiency and competitiveness.

This support would be directed to sectors that drive economic growth and Saudis employment, focusing on:

» Raising the efficiency of industries with high energy intensity

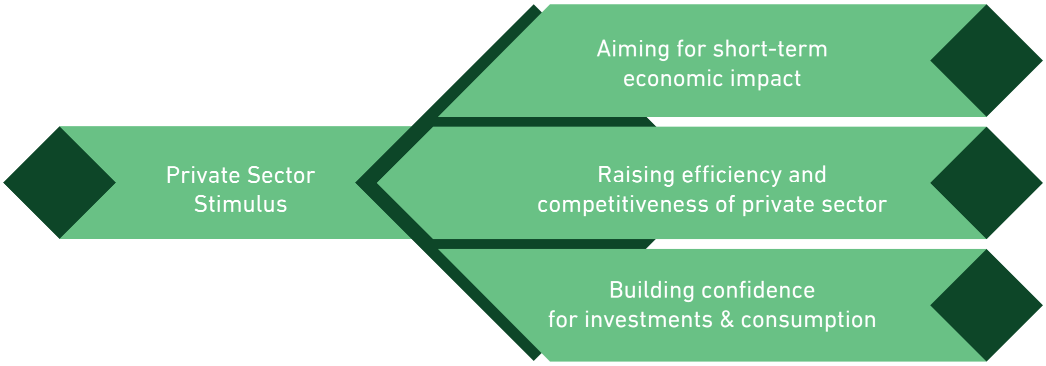
» Converting industries with high labor intensity to be more capital intensity

» Support industries with high density consumption of water to maintain its profitability

The proposed size of the stimulus package is SAR 200bn to increase the economic growth to support the kingdom's economy to reach the target of Vision 2030

The growth of the Saudi economy will be closely monitored during the implementation of non-oil revenues initiatives and the stimulate package; and the size of the package will be adjusted whenever required

Achieving the Vision 2030 target may require the continuation of private sector stimulus package beyond 2020

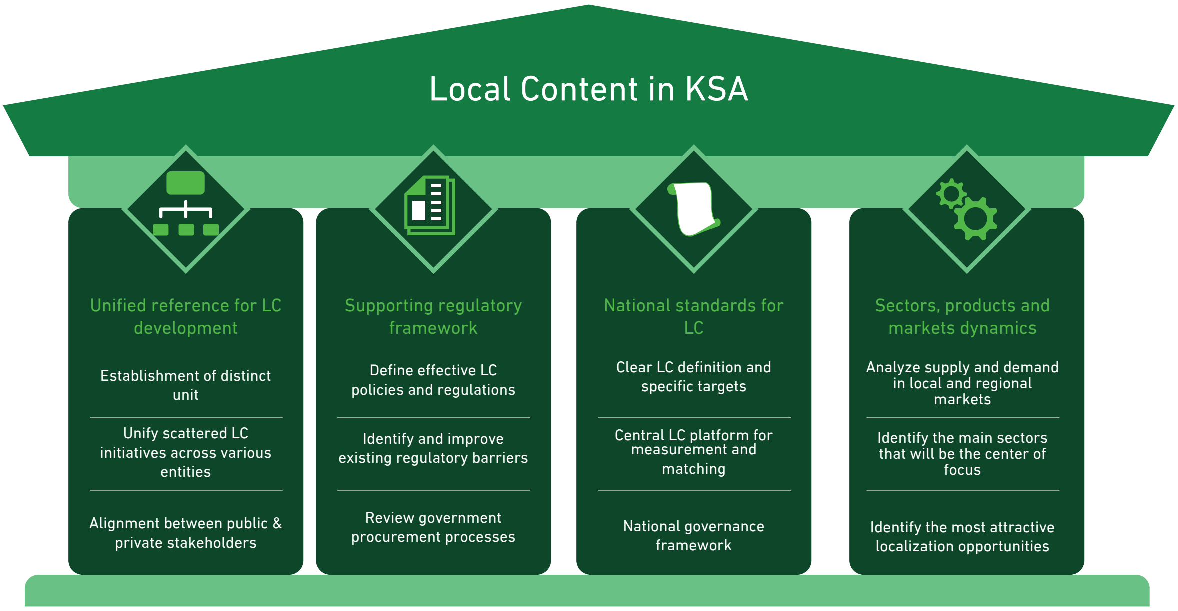


2. Growth of local content

Historically, there has been a lack of focus on local content with initiatives scattered across government, semi-government and private sectors. Going forward:

1. We are developing a comprehensive unified national Local Content strategy, and a national governance framework and structure that clearly details the interfacing between the various stakeholders
2. We are developing a detailed roadmap for the next five years, including determining the main sectors and subsectors that will be the center of focus, and the most important localization opportunities together with implementation plans
3. We are reforming the current policies and regulations to support local content development, in particular establishing clear procurement rules and processes
4. We are refining existing regulations to increased local and foreign investment
5. We will create a platform to connect local supply and demand, and also incentivize companies to transfer knowledge and expertise and thereby up-skill local workforce

Growth of local content accelerated by four main pillars



3. High impact structural reform

We are addressing high impact structural changes to the economy to enable further growth across the private sector:

» Ease of doing business: Facilitate private sector operations (e.g. company set-up, legal framework, service to businesses)

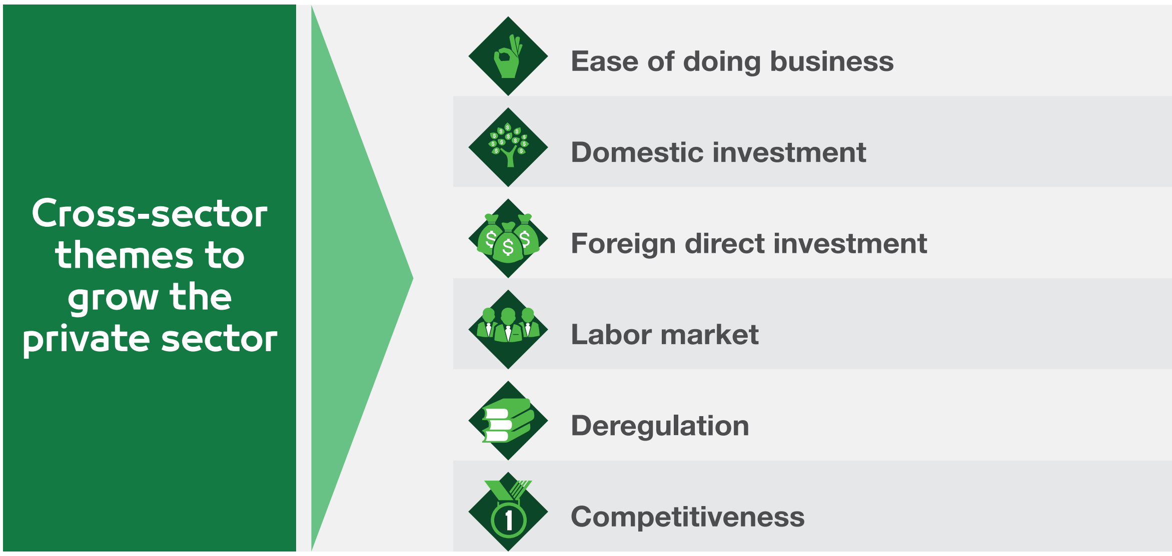
» Domestic investment: Increase the attractiveness of investment in the economy and enable re-investment of local capital (e.g. labor availability, corporate governance)

» Foreign direct investment: Attract more international capital by providing more opportunities and reducing risk (e.g. foreign ownership of companies and land, bankruptcy regulation)

» Labor market: Increase labor market efficiency (e.g. foreign labor mobility, supply of medium/ lower skilled workers)

» Deregulation: Reduce barriers to growth (e.g. new industries like tourism, entertainment, bureaucracy)

» Competitiveness: Improve competitiveness of Saudi companies in local and international markets (e.g. productivity and automation increase, marketing of Saudi brands) to increase exports



4. Sector Specific Programs

In addition to structural reforms, specific economic sectors will be promoted

- Mining: We will stimulate private sector investments in mining by intensifying exploration, building a comprehensive database of the Kingdom's resources, reviewing the licensing procedures for extraction, investing in infrastructure, developing funding methods and establishing centers of excellence
- Logistics: We plan to work with the private sector and enter into a new series of international partnerships to complete, improve and link our infrastructure internally and across borders. We will also unlock our "hard" infrastructure with systems that can drive higher performance, including more rigorous governance, leaner processes and a more efficient customs system. This will reinforce our position as a distinctive logistical gateway to the three continents.
- Export Sectors: We will identify (manufacturing and service) sectors where the capabilities for enhanced export potential exist; and we will ensure that the efforts of the relevant entities are all aligned to support focused reforms (from labor market to trade and investment) that will enable these sectors to nurture national champions.
- Digitization: We will expand the scope of current online services further to include areas such as geographic information, health care and education. Quality will be improved by streamlining processes, and diversifying communication channels. We will also support the wider use of online applications in government agencies, such as cloud applications, data sharing platforms and HR management systems.
- Finance: The formation of an advanced financial and capital market open to the world will allow greater funding opportunities and stimulating economic growth. We will smooth the process of listing private Saudi companies and state-owned enterprises, including Aramco.

This will require deepening liquidity in our capital markets, fortifying the role of the debt market and paving the way for the derivatives market.

Mining	Intensify exploration and invest in infrastructure Create resource database and review licensing procedures
Logistics Hub	Improve and link our internal and external infrastructure Establish new international private sector partnerships
Export Sectors	Indentify sectors with capabilities for enhanced export Enable these sectors to nurture national champions
Digitization	Expand services to areas such as health care & education Support use of online applications in government agencies
Finance	Open an advanced financial and capital market to the world Smooth process of listing private & state-owned companies

5. Economic Targets

Vision 2030 and the NTP have both provided a clear ambition and targets for economic transformation.

1. Increase the GDP share of the non-oil private sector from currently 40% to 65% by 2030.
2. Increase the local content share of expenditures from currently 36% to 50% by 2020.
3. Increase the export share of nominal non-oil GDP from currently 16% to 50% by 2030.

We recognize that the plan to address the deficit will place further challenges, and hence are committed to supporting the private sector in its endeavors to achieve these targets

GDP share of non-oil private sector	40 %	**65 %**
Local content share of expenditures	36 %	**50 %**
Export share of non-oil GDP	16 %	**50 %**

Conclusion

1. Fiscal Outlook

The drop in oil prices has placed significant fiscal pressures on all major oil-producing nations. As a result of prudent planning over the previous decade, the national debt was retired and significant reserves were built up. This has provided us with a high degree of fiscal resilience.

However, the government has needed to achieve greater fiscal balance, and more resilience to any future downturns. Hence it has developed a fiscal transformation plan that establishes

» a lower ongoing expenditure base, with expenditures channeled towards NTP priorities

» a greater diversification of revenues beyond oil - in fulfillment of NTP commitments.

This plan will enable the government to move towards a balanced budget by 2020, even at current low oil prices; and in the meantime, the government is maintaining solvency while borrowing locally and internationally at an appropriate rate.

The plan will also reduce the break-even oil price, thereby providing greater security for the future. As part of this plan, we are also doing what is needed to ensure a robust monetary policy and maintain our commitment to the dollar peg.

Fiscal Forecasts with All Reforms (in SAR Billion)

Note: Forecast scenarios are based on different oil prices, oil production levels, level of achievement in energy and water price reform and non-oil revenue increase. Government expenditures includes spending on household allowances and industry support, but does not include investment capital deployed in the stimulus fund

Over the five years from 2016-2020, the cumulative baseline increase in revenues is expected to be SAR 914 billion. The five-year cumulative net reduction in expenditures will be SAR 66 billion (after factoring in cost of Household Allowance). As a result, the overall fiscal position will improve by SAR1,088bn.

2. Socio-economic Outlook

We have begun moving towards realizing our Vision 2030 commitments; and the country will continue to provide appropriate services to citizens, while emphasizing balanced fiscal policies.

However, we recognize that a number of the measures will impact the cost of living, and we are committed to protecting the wellbeing of the lower income Saudi families. Hence we are introducing the Household Allowance as the first step in a broader reform program to consolidate and modernize social protection through the roll-out of Citizen Accounts. The cumulative impact is expected to be progressive: neutral for lower income households, with higher income households taking the burden of higher expenditure.

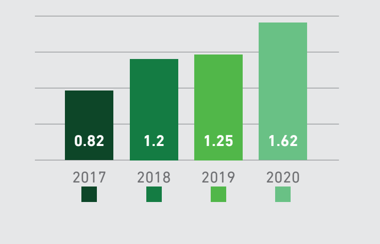
We are also very aware that fiscal consolidation programs can create challenges for businesses and the private sector economy as a whole, whether through reductions in aggregate demand, and/or input cost increases.

We are committed to supporting industry in the Kingdom, so that it can play its role in achieving the ambition of Vision 2030. Hence, we have committed an investment fund to be the backbone of our stimulus package, and also to continue the much needed structural reforms of the economy.

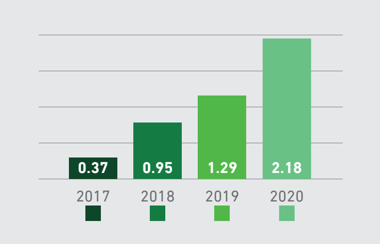
We also recognize the important role government can play in how it procures goods and services, and we are committed to taking substantial steps to procure and promote the development of significantly more local content.

The graphs below, show the economic impact of the components of the Fiscal Balance program announced in this document[1].

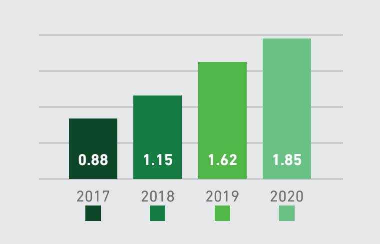
The Real GDP impact of the announced measures



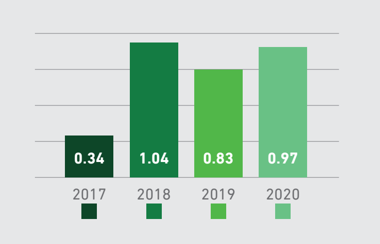
The Inflation impact of the announced measures



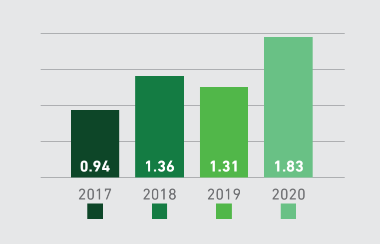
The non-Oil GDP impact of the announced measures



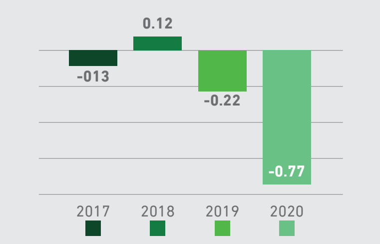
The Private Investment impact of the announced measures (as % of GDP)



The Private Consumption impact of the announced measures (as % of GDP)



The Unemployment impact of the announced measures



1 For example, the impact of VAT is not included, as it has been announced previously

As seen above, the announced measures will have a positive outcome on the Real GDP, the non-Oil GDP, the Private Consumption, the Private Investment, and Unemployment. This would raise the total level of demand with modestly higher inflation.

3. Policy Outlook

The government is also committed to transparent and sustainable policy development. This document sets out our comprehensive fiscal reforms for the next five years. Hence, beyond what is described in this document:

There will be no additional financial impositions by the government on its citizens or private sector,

- There will be no further removal of subsidies.
- There will be no income tax imposed on citizens.
- There will be no corporate income tax.

As part of our program of developing more robust policy-making process, we also commit the following:

- There will be an inclusive review process of draft key policies.
- There will be a grace period between policy announcements and policy implementation.
- There will be no retroactive decision making.

We know that in the past, many businesses have been very reliant on the cash-flow they receive from the government. As part of our support for the broader economy, we commit that going forward:

- There will be no delay in the government paying contractors for services rendered. The government will pay within 60 days of due dates.

4. Governance and Delivery

The plans set out in this document and in the budget require a lot of commitment and engagement from a wide set of partners, and their success will be driven by many internal and external factors.

Hence, the government will be putting in place extensive monitoring and review processes together with robust governance.

With the commitment of hard-working public-sector employees, and the participation and engagement of households and businesses, we have the plans and capabilities to establish a fiscal base on which our economy and society can thrive.

Potential Risks

We appreciate that applying the suggested fiscal reforms will have economic and social impacts that come with risks. Following is the most of these risks that have been identified:

	Risks
Economic Impact	Collected revenues fall short of projections
	Economic impact on families exceeds estimates
	Economic impact on companies exceeds estimates
	Economic growth projections falls short of projections
Household Allowance	Allowance does not sufficiently cover lower income brackets from the rising cost of living
Industrial Support	Estimates of industrial support amounts are inadequate
Stimulus Impact	Cost to the government of stimulus package needed is higher than the estimate
	The proportion of loans defaulting is higher than expected
	Loans offered by the government as part of the stimulus package crowd out private sector loans
	Positive economic impact of stimulus package is lower than the estimate

Risks Mitigation Approach

We will follow a twofold approach to mitigate risks, and given the size of the planned initiatives, assessing and improving the initiatives and their progress will be continuous.

Approved Initiatives	Developing key performance indicators and an integrated system to monitor them
Planned Initiatives	Analyzing the initiatives and assessing their impact thoroughly with specialized entities using advanced economic modeling