Asset Management

Pre-2022 KSA budget highlights

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FY2022 is set to build on the already strong recovery seen in the current year driven by the Kingdom's effort towards rapid vaccination, strong initiatives towards improving business environment and an elevated oil market

Pre-Budget estimates suggest a GDP growth of 2.4% in 2021, driven by a steady improvement in business activity, strong recovery in the commodity and industrial sector, backed by consumer demand. The oil sector continues to elevate with WTI hovering around US$ 75 / bbl. mark, up 55% YTD. Taking cues from the current performance run-rate, GDP estimates for FY2022 show a growth of 4.8% in real terms.

The Saudi Pre-Budget report estimates significant improvement from higher revenues and cost efficiencies in Government spending:

FY2021 Budget Estimates:

- Total revenue projected at SAR 930 Bn (implying a ~SAR 477 Bn in H221)
- Expenditure is expected to stand at SAR 1.015 Bn (implying ~SAR 550 Bn in H221)
- Budget deficit of SAR 85 Bn
- Estimated Debt to GDP of 30.2%, (SAR 937 Bn) indicating around SAR 83 Bn in additional debt against FY2020

FY2022 Budget Estimates:

- Total revenue projected to reach SAR 903 Bn
- Expenditures of SAR 955 Bn
- Deficit of SAR 52 Bn is estimated for the coming year
- Debt to GDP of 31.3% (SAR 941 Bn)

Drivers for a better H221:

- Oil markets are better placed with OPEC+ seeing recovery in demand amid further vaccination, supply side tailwinds and travel fully coming back online. Additionally, current market conditions leading to strong appreciation in oil and commodities-based businesses
- Non-oil exports recorded an increase of 52.1%, reaching SR65.7 billion while compared to SR43.2 billion in the second quarter of 2020.
- Consumer and business sentiments improving, along with favorable monetary and credit environment. Inflation eased in August to 0.3% from 2.7% in July, indicating that increased costs due to VAT impact has started to fade
- Capex spending being limited to essential projects for the year, maximizing free cash flow for further reinvestment. Focus is on reducing the fiscal deficit to 1.6% in 2022e and a budget surplus in 2023e.

- Budget spending is expected to drop by 6% in 2021e, partly due to improved spending efficiency and higher participation of the private sector in investment spending (through various programs like the recently initiated Shareek program) and through increased investment and value unlocking through PIF
- Mortgage growth which has weakened in Q221 has strongly picked up pace in July and August. We expect the mortgage story to continue bring strong in H221. It is estimated that the home ownership should reach ~66% by 2021e and reach ~70% by 2022e
- The unemployment rate has fallen to 11.3% in Q221 from 11.3% in the previous quarter, the lowest in a decade. Saudi women labor force participation increased to 32.4% in Q221 and already surpassed the 30% target under Vision 2030. This will continue propping the consumption sentiment.
- Banking sector is performing well with increased credit uptake from the corporate segment as well from the retail, mainly led by mortgage. First of the rate hikes is expected at the end of 2022e, with more hikes down the line.
- The Saudi capital markets are going through one of their best periods in terms of listing as well as investor demand. The oversubscribed IPOs also signal towards the very strong growth profiles of the IPO companies and the broader economic sectors by extension. So far in 2021 there have been five IPOs on the main market with a stronger pipeline expected in H221.

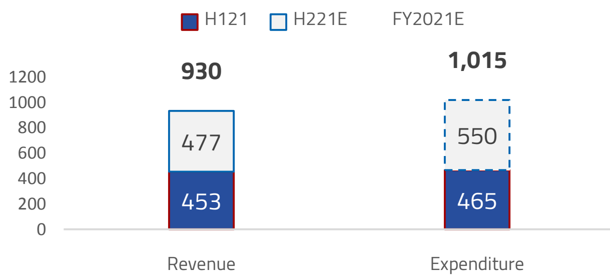
The 2022 Budget estimates some moderation in oil prices from current elevated levels with easing global inflation and recovery in supply chain bottlenecks. At the same time, there is likely an expected reduction in overall expenditure, leading to an improved budget position. The government expects to continue the housing push and provide continued support to the Housing program, investment in mega projects and Saudi Vision 2030 programs, while supporting private sector growth programs. Privatization programs will also continue thereby providing impetus to private sector growth. We see the coming months of 2021 and the upcoming years to be very positive for the Kingdom, from both, an economic activity point of view as well as larger interest in the Kingdom's financial markets.

Exhibit 1: Budget Estimates

Fiscal SAR Bn	FY2019A	FY2020E	FY2021E	FY2022E	FY2023E
Total Revenues	927	770	846	864	928
Total Expenditures	1,059	1,068	990	955	941
Budget Deficit	(133)	(298)	(145)	(91)	(13)
Debt	678	854	941	1,016	1,029
Deficit as % of GDP	*4.5%*	*-12.0%*	*-5.1%*	*-3.0%*	*-0.4%*
Debt as % of GDP	*22.8%*	*34.4%*	*32.9%*	*33.4%*	*31.8%*
YoY Growth					
Total Revenues		*-16.9%*	*9.9%*	*2.1%*	*7.4%*
Total Expenditures		*0.8%*	*-7.3%*	*-3.5%*	*-1.5%*
Budget Deficit		*124.1%*	*-51.3%*	*-37.2%*	*-85.7%*
Debt		*26.0%*	*10.2%*	*8.0%*	*1.3%*

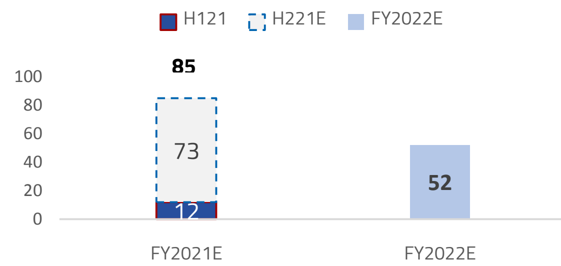
Source: MoF

Exhibit 2: More expenses to come up in H221 (SAR Bn)



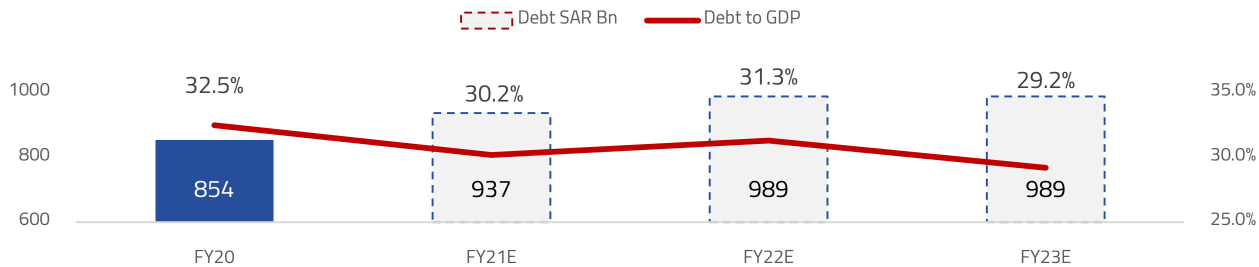
Source: MoF

Exhibit 3: Deficits expected to rationalise (SAR Bn)



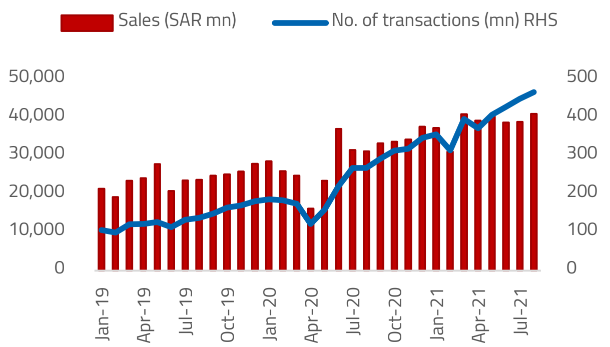
Source: MoF

Exhibit 4: Debt levels expected to see a slight elevation in FY22 (SAR Bn)



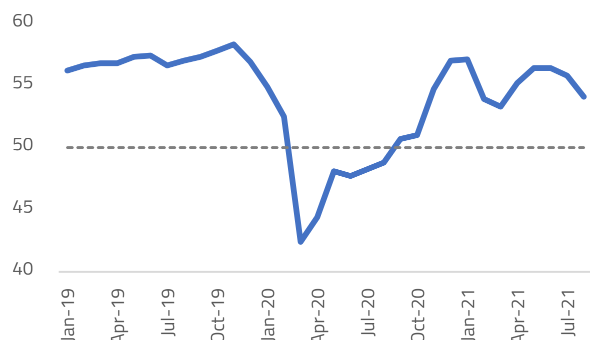
Source: MoF

Exhibit 5: Point of Sales transactions seeing solid recov



Source: SAMA

Exhibit 6: PMI back at healthy levels



Source: IHS Markit