



Asset Management

**Saudi Arabia 2022 Budget
Highlights**

December 2021 | AMD

Saudi Arabia 2022 Budget Highlights

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 a stable oil outlook

Key Highlights:

- Budgeted government expenditure stands at **SR 955 Bn in FY22**. Revenues of **SR 1,405 Bn** is expected to be driven by oil revenues based on gradual supply additions with stable oil prices, along with investment returns. This leads to a budget surplus of **SR 90 Bn (c. 2.5% of GDP)**, vs. a deficit of **SR 85 Bn estimated for 2021 (-2.7% of GDP)**
- Budget expenditure allocations remain high towards Education (19.4%), Health & Social Development (14.5%), and Military (17.9%)
- In terms of spending, additional capex will be reserved for essential needs and maintenance requirements. The budget shows **SR 92 Bn** allocation to capex (18% lower than 2020 estimates)
- The budget also estimates a nearly zero net borrowing compared to current levels with the Kingdom capitalizing on growth opportunities and domestic cash generation of the expected economic recovery

2021 Economic Performance:

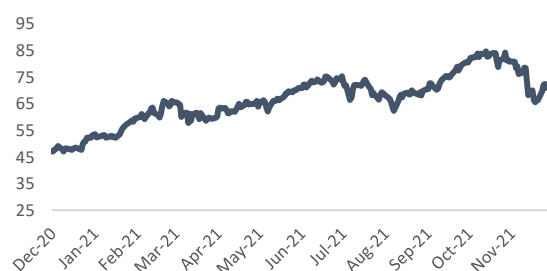
- Oil prices have steadily recovered over 2021 through a well-positioned supply elevation plan laid out by OPEC+ as demand across the globe comes back online. At the same time, the recent assessments of a possible Omicron variant of COVID-19 is thought to be less critical at this stage, and the Kingdom is leading precautionary measures to limit any impact on citizens
- Industrial activity has also picked up significantly with KSA's PMI seeing strong expansionary trends H2-21, whilst consumer spending has also rebounded
- Consumer and business sentiments improving, along with favorable monetary and credit environment. Inflation eased in

Summary of FY22 Budget and Estimates

| Fiscal SAR Bn | FY19A | FY20A | FY21E | FY22B | FY23P |
|-----------------------|-------------|-------------|------------|------------|------------|
| Revenues | 927 | 782 | 930 | 1,045 | 968 |
| Expenditures | 1,059 | 1,076 | 1,015 | 955 | 941 |
| Budget Deficit | -133 | -294 | -85 | 90 | 27 |
| % of GDP | 4.5% | -11.2% | -2.7% | 2.5% | 0.8% |
| Public Debt | 678 | 854 | 938 | 938 | 938 |
| % of GDP | 22.8% | 32.5% | 29.2% | 25.9% | 26.9% |

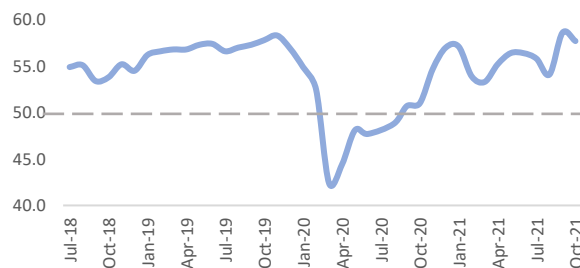
Source: MoF A=Actual, B=Budget, E=Estimate, P=Projections

Strong recovery in oil prices



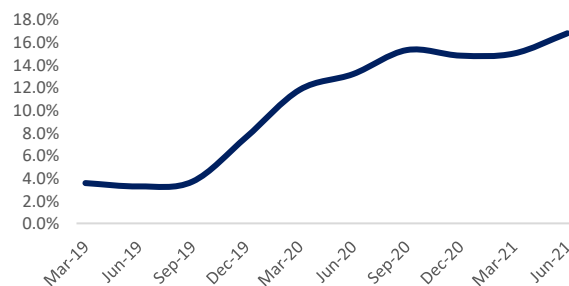
Source: Refinitiv Eikon

PMIs return to pre-pandemic levels



Source: SAMA

Strong loan growth across KSA Banks in 2021



Source: SAMA

August to 0.3% from 2.7% in July, indicating that increased costs due to VAT impact has started to fade

- Additionally, bank loan growth has shot up significantly over the year with major banks posting steady double digit growth across quarters against the same period of the previous year, largely driven by mortgages and consumer segments
- Capex spending being limited to essential projects for the year, maximizing free cash flow for further reinvestment.
- The unemployment rate has fallen to 11.3% in Q221 from 11.7% 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
- 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. Further IPOs are slated to be hitting the markets in the coming years.

2022 Budget Details:

- Through the FY 2022 budget, the Government aims to achieve further economic growth, stability and fiscal sustainability, and increasing private sector share in the economy, among others
- Focus remains on enhancing non-oil revenues through other sectors such as tourism, hospitality and others, as oil prices come back to reference levels. Total revenues are budgeted to be 12.4% higher than 2021 estimates, mainly driven by oil revenues and investment returns from possible PIF exits via IPOs and overall capital appreciation through various strategic global investments
- Overall expenditures are budgeted to be 5.9% lower than 2021 estimates. The government expects to rationalize spending 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

2021 Budget Performance (Estimated)

| In SR Bn | 2019A | 2020B | 2021E | % Change vs 2020A |
|-------------------------------------|--------------|---------------|--------------|-------------------|
| Total Revenues | 927 | 782 | 930 | 19.0% |
| Taxes | 220 | 226 | 295 | 30.2% |
| Income, Profits, and Capital Gains | 17 | 18 | 17 | -7.9% |
| Goods and Services | 155 | 163 | 232 | 41.8% |
| International Trade & Transactions | 17 | 18 | 17 | -3.1% |
| Other Taxes | 30 | 27 | 29 | 7.7% |
| Other revenues | 707 | 555 | 636 | 14.4% |
| Total Expenditures | 1,059 | 1,076 | 1,015 | -5.6% |
| Expenses (OPEX) | 890 | 921 | 903 | -1.9% |
| Compensation of Employees | 505 | 495 | 497 | 0.4% |
| Use of Goods and Services | 161 | 203 | 199 | -2.2% |
| Financing Expenses | 21 | 24 | 29 | 18.5% |
| Subsidies | 23 | 28 | 23 | -18.0% |
| Grants | 1 | 4 | 5 | 2.8% |
| Social Benefits | 82 | 69 | 67 | -3.2% |
| Other Expenses | 97 | 97 | 85 | -12.6% |
| Non-Financial Assets (CAPEX) | 169 | 155 | 112 | -27.7% |
| Budget Deficit | (133) | (294) | (85) | |
| Percent of GDP | -4.5% | -11.2% | -2.7% | |
| Public Debt | 678 | 854 | 938 | |
| Percent of GDP | 22.8% | 32.5% | 29.2% | |
| Government Reserves at SAMA | 470 | 359 | 350 | |

Source: MoF

2022 Budget Estimates Details

| In SR Bn | 2021E | 2022B | % Change vs 2021E |
|------------------------------------|--------------|--------------|-------------------|
| Total Revenues | 930 | 1,045 | 12.4% |
| Taxes | 295 | 283 | -4.1% |
| Income, Profits, and Capital Gains | 17 | 16 | -5.9% |
| Goods and Services | 232 | 223 | -3.9% |
| Int. Trade & Transactions | 17 | 18 | 5.9% |
| Other Taxes | 29 | 26 | -10.3% |
| Other revenues | 636 | 763 | 20.0% |
| Total Expenditures | 1,015 | 955 | -5.9% |
| Expenses (OPEX) | 903 | 863 | -4.4% |
| Compensation of Employees | 497 | 498 | 0.2% |
| Use of Goods and Services | 199 | 160 | -19.6% |
| Financing Expenses | 29 | 33 | 13.8% |

impetus to private sector growth. At the same time, segments such as Use of Goods and services and social benefits would see moderation

Fiscal Position:

- 2022 is expected to post a budget surplus based on conservative revenue estimates and prudent budget expenses.
- This surplus is expected to raise government reserves, support initiatives and the PIF to consider the possibility of accelerating the implementation of selective strategic programs and projects with economic and social dimensions
- Over debt levels are expected to be stable with net additions being virtually zero, as the surplus is expected to support overall leverage positions and partially repay debt balances based on market conditions

| | | | |
|-------------------------------------|--------------|--------------|---------------|
| Subsidies | 23 | 24 | 4.3% |
| Grants | 5 | 2 | -60.0% |
| Social Benefits | 67 | 63 | -6.0% |
| Other Expenses | 85 | 83 | -2.4% |
| Non-Financial Assets (CAPEX) | 112 | 92 | -17.9% |
| Budget Deficit | -85 | 90 | |
| Percent of GDP | -2.7% | 2.5% | |
| Public Debt | 938 | 938 | |
| Percent of GDP | 29.2% | 25.9% | |
| Government Reserves at SAMA | 350 | 381 | |

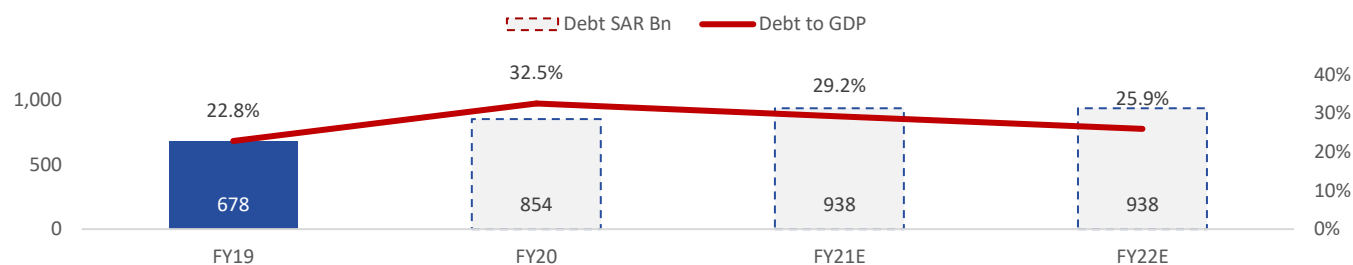
Source: MoF

2022 Budget Expenditure Breakdown

| In SR Bn | 2021E | 2022E | % Change vs 2021E |
|------------------------------------|--------------|------------|----------------------|
| Public Administration | 33 | 32 | -3.0% |
| Military | 190 | 171 | -10.0% |
| Security & Regional Administration | 99 | 101 | 2.0% |
| Municipal Services | 50 | 50 | 0.0% |
| Education | 191 | 185 | -3.1% |
| Health & Social Development | 191 | 138 | -27.7% |
| Economic Resources | 82 | 54 | -34.1% |
| Infrastructure and Transportation | 48 | 42 | -12.5% |
| General Items | 131 | 182 | 38.9% |
| Total | 1,015 | 955 | -5.9% |

Source: MoF

Public Debt to GDP Trend



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.

The ongoing Budget Forum being held in Riyadh have highlighted various new announcements for the coming months. These include:

- Discussions of floating more IPOs especially assets such as SAL Saudi Logistics Services and several affiliates of Saudi Arabian Airlines (Saudia) in the stock market
- The Saudi Public Investment Fund (PIF) has amassed assets worth SAR 1.8 Tn under management, well above its 2021 target. The PIF remains a key partner for private companies to localize technologies and innovation within the Kingdom. The fund aims to raise its contribution in the domestic market to 60% by 2025
- The housing boom to continue with the ministry targeting 300,000 units from the private sector over five years, adding further impetus to the already attractive space
- Domestic tourism is set to benefit as the priority in 2022 is to continue reforms and marketing campaigns in summer and winter, along with further training and development of human capital
- Following the recent announcements related to the 'net zero' targets laid out by Saudi Arabia, the ministry is looking to boost investments in areas such as green hydrogen, renewable energy and other green economy initiatives to further the overall strategy towards energy sustainability.