



USSBC Economic Brief: Saudi Arabia's 2022 Budget Review

Key Findings:

2021 Performance:

- ◆ The deficit for 2021 is estimated to reach SAR85 (\$23 billion), or 2.7 percent of GDP, compared to an expected SAR141 billion (\$38 billion) deficit due to a rapid recovery in global oil markets.
- ◆ Total revenues increased to an estimated SAR930 billion (\$248 billion) in 2021, marking a 19 percent jump compared to 2020 which saw SAR782 billion (\$209 billion) in revenues.
- ◆ Other revenues, including oil income, grew to SAR636 billion (\$170 billion) compared to SAR555 (\$148 billion) in 2020, marking a 14.4 percent increase.
- ◆ Total government expenditures in 2021 are expected to reach SAR1,015 billion (\$271 billion) compared to SAR1,076 billion (\$287 billion) in 2020, a 5.6 percent decrease.
- ◆ Total public debt is expected to reach SAR938 billion (\$250 billion), or 29.2 percent of GDP, by the end of 2021 compared to SAR854 billion (\$227 billion), or 32.5 percent of GDP, in 2020.



2022 Budget:

- ◆ The Kingdom is budgeted to have its first fiscal surplus since 2013 to reach SAR90billion (\$24 billion), equivalent to 2.5 percent of GDP, compared to -2.7 percent of GDP in 2021.
- ◆ Budgeted revenues are projected to reach SAR1,045 billion (\$279 billion), of which 73 percent or SAR763 billion (\$203 billion) will derive from other revenues (oil revenues are included in other revenues but the government did not provide specific oil revenue estimates).
- ◆ Tax revenues are budgeted to reach SAR283 billion (\$75 billion) in 2022, accounting for 27 percent of total revenues. It also marks a 5 percent decrease from 2021. Compared to 2021, tax revenues will decrease by 4 percent next year. The VAT will be the driving force of tax income.
- ◆ Total expenditures in 2022 are budgeted to reach SAR955 billion (\$255 billion), marking a 6 percent reduction from 2021 estimates. The government has put forth a plan to maintain its flexibility in implementing reforms that support developing the management of public finances.
- ◆ Current expenditures are budgeted to reach SAR863 billion (\$230 billion), or 90 percent of total expenditures, representing a 1 percent increase compared to 2021.
- ◆ Capital expenditures are budgeted to reach SAR92 billion (\$25 billion) in 2022, representing an 18 percent decline compared to 2021. The decline is mainly due to the government's heavy investments in prior years to develop infrastructure capabilities which warranted a slowdown in spending while allowing the private sector to continue its growing involvement in the the Kingdom's development.
- ◆ There are notable declines across most sectors, reflecting the reduction in total expenditures for 2022. The Security and Regional Administration and General Items are expected to increase in 2022 while Infrastructure & Transportation and Health & Social Development spending is expected to decrease.
- ◆ The budgeted surplus of SAR90 billion (\$24 billion) is expected to support government reserves, sustain development funds along with the PIF, with a goal of accelerating economic diversification and potentially pay down sovereign debt.
- ◆ Total public debt is expected to reach SAR938 billion (\$250 billion) and is budgeted to remain at that level through 2024. However, debt in 2022 will reach 25.9 percent of GDP before growing to 26.9 percent in 2023 and retreating to 25.4 percent in 2024.

Table 1 - Economic Medium-Term Growth Rates (2020-2024)

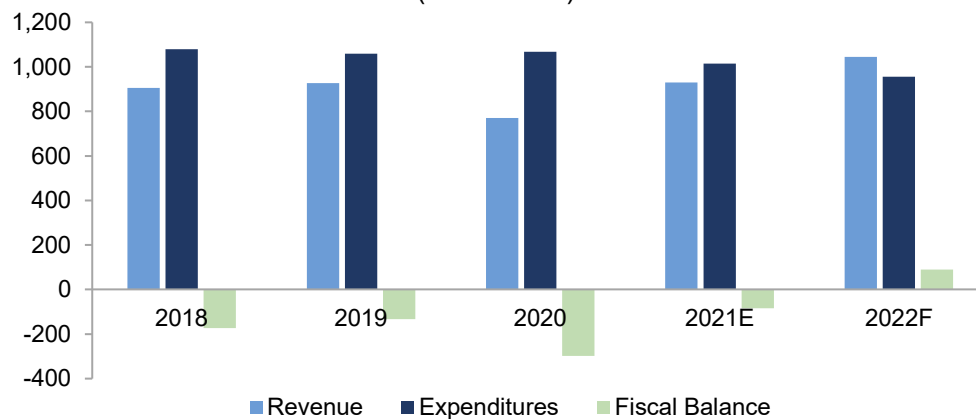
	Actual	Estimates	Projections		
	2020	2021	2022	2023	2024
Real GDP Growth	-4.1%	2.9%	7.4%	3.5%	4.0%
Nominal GDP Growth (SAR billion)	2,625	3,207	3,615	3,479	3,697
Inflation	3.4%	3.3%	1.3%	2.0%	2.0%

Source: Ministry of Finance, USSBC

Fiscal Performance in 2021

The Kingdom's finances recovered strongly in 2021 as increases in global demand for oil pushed up prices from an average of \$41 per barrel (pbl) in 2020 to \$70.60 pbl YTD in 2021. Other contributing factors were improvements in fiscal sustainability programs that contributed to minimizing losses while paving the way for the PIF, NDF, and private sector to complement Saudi's investment plans. These transformations resulted in the deficit decreasing from the budgeted -SAR141 billion (-\$38 billion), or -4.9 percent of GDP, to -SAR85 billion (-\$23 billion), or -2.7 percent of GDP.

Chart 1 - Fiscal Balance
(SAR Billion)



Source: Ministry of Finance, USSBC

Revenues

Total revenues increased to an estimated SAR930 billion (\$248 billion) in 2021, marking a 19 percent jump compared to 2020, which saw SAR782 billion (\$209 billion) in government revenue. The gradual recovery of the economy led to rapid growth of the non-oil sector, which is expected to grow by 18.2 percent compared 2020. The full impact of the VAT saw tax income rise by 30 percent over 2020 to reach SAR295 billion (\$79 billion) while oil revenues spiked as the price per barrel grew to above \$80 in 2021. Other revenues, which includes oil income, grew to SAR636 billion (\$170 billion) compared to SAR555 (\$148 billion) in 2020, marking a 14.4 percent increase.

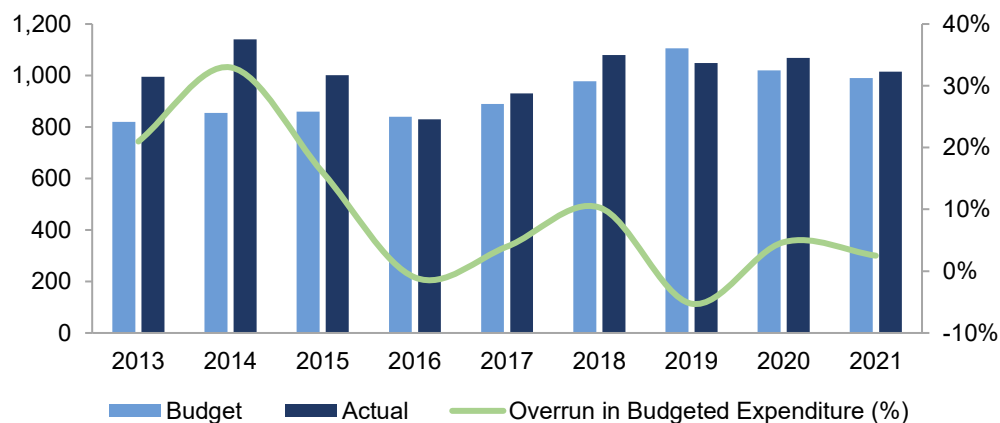
Revenues from tax collection accounted for approximately 32 percent of total revenues, a 3 percent increase compared to 2020. The increase in tax collection increased despite a significant jump in oil revenues, highlighting a rebound in consumer spending resulting from the economy reopening. Consequently, 79 percent of tax revenues came from ‘taxes on goods and services,’ an increase over 2020 which registered a 72 percent contribution to the total. The increase in the VAT to 15 percent in July 2020 caused the inflation rate to jump up through the first half of 2021 before settling at a forecasted 3.3 percent for the year, which is marginally lower than the 3.4 percent in 2020.

Other revenues (oil revenues, profits from government investments, sales of goods and services, and fines) accounted for 68 percent of total revenues in 2021 compared to 70 percent in 2020. The slight decrease in other revenues’ share is attributed to other non-oil revenues, which are expected to decline by 45.8 percent in 2021 compared to 2020. There were one-off large profits from government investments in 2020. Direct oil revenues are expected to increase by 35.2 percent in 2021 on the back of stronger demand for oil. According to OPEC, total global oil demand for 2021 is expected to grow by 6.4 percent compared to 2020, making total demand average 96.6 mbpd, an increase of about 5.82 mbpd. The Kingdom’s average oil production through October 2021 reached approximately 8.9 mbpd, a 3.4 percent reduction compared to 2020.

Expenditures

Total government expenditures in 2021 are expected to reach SAR1,015 billion (\$271 billion) compared to 2020, which reached SAR1,076 billion (\$287 billion) representing a 5.6 percent decrease. The government expenditures to combat the pandemic continued to weigh on spending as expenditures on vaccines, compensation of healthcare workers, and external support for international organizations were main drivers. These allocations served to stabilize the healthcare sector as well as keeping the private sector buoyant. However, increases in pandemic-related expenditures were offset by a reduction of SAR61 billion (\$16 billion) in operational and capital expenditures that necessitated project delays and cancellations.

Chart 2 - Budget Overruns
(SAR Billion)



Source: Ministry of Finance, USSBC



Current expenditures are expected to account for approximately 89 percent of total spending, while the remaining 11 percent is attributed to capital expenditures. The employee compensation category occupies the largest share of any category as it is anticipated to reach SAR497 billion (\$133 billion) in 2021, a 0.4 percent increase compared to 2020. Employee compensation will account for approximately 55 percent of current expenditures and nearly 49 percent of total expenditures. The increase in this category resulted from increases in overtime compensation in the healthcare sector as well as non-recurrent amounts that were disbursed during 2021 to the General Organization for Social Insurance (GOSI).

Capital expenditures continued its downward trend over the last few years, falling 28 percent to reach SAR112 (\$30 billion) in 2021. Capital spending's contribution to total expenditures also decreased from 14 percent in 2020 to 11 percent in 2021. However, it grew by 11 percent compared to the 2021 budgeted figure, signifying improvements in COVID-related slowdowns in completing infrastructure projects. The coronavirus pandemic impacted capital projects, especially Vision Realization Programs (VRPs) as numerous cancellation and delays took place in 2020 and into 2021. Furthermore, the government opted for a more targeted approach with its capital expenditures as it focused improving its efficiency and effectiveness while providing the private sector and development funds the opportunity to lead investment projects.

Debt and Financing

Since 2014, the government has embarked on a two-prong strategy of covering the funding gap via debt issuances and drawing down its reserves. Debt issuances were the preferred option adopted by the government in 2021 to fund its expenses. The National Debt management Center (NDMC) within the Ministry of Finance has diversified its domestic and international financing by issuing debt worth SAR125 billion (\$33 billion). Domestic debt issuances were the favored strategy as they accounted for 61 percent compared to 39 percent for international issuances.

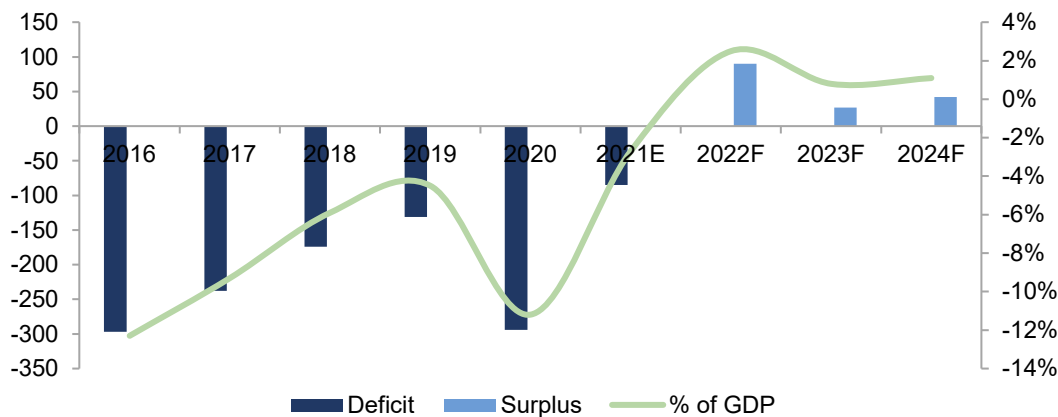
Demand for the Kingdom's sovereign issuances ramped up in 2021 as the Sukuk and Global Medium-term Note Issuance (GMTN) program completed its first international offering in USD-denominated bonds, which was valued at \$5 billion and was four times oversubscribed. It also completed the second Euro international issuance valued at EUR1.5 billion, which was oversubscribed by more than three times. Additionally, Saudi completed its third international sukuk and bond issuance, which had a total value of \$3.25 billion and was also more than three times oversubscribed.

Alternatively, total withdrawals of government reserves to cover financing needs, including loans granted to the private sector stimulus plan, are expected to decline by SAR9 billion (\$2.4 billion) compared to the end of 2020. The balance of reserves is expected to level at SAR350 billion (\$93 billion) by the end of 2021, higher than the budget amount of SAR280 billion (\$75 billion) and due to the decline in the deficit. Total public debt is expected to reach SAR938 billion (\$250 billion), or 29.2 percent of GDP, by the end of 2021 compared to SAR854 billion (\$227 billion), or 32.5 percent of GDP, in 2020.

Fiscal Budget 2022

The Kingdom is budgeted to have the first fiscal surplus since 2013 next year, reaching SAR90 billion (\$24 billion), equivalent to 2.5 percent of GDP, compared to a -2.7 percent of GDP deficit in 2021. Compared to 2021's figure of 29.2 percent, the debt-to-GDP is expected to decline to 25.9 percent in 2022 before climbing to 26.9 percent in 2023 followed by a decline to 25.4 percent in 2024. The return to a surplus after 9 years is attributed to a 12 percent increase in total revenues in 2022 as the government forecasts SAR1,045 billion (\$279 billion) in revenues versus SAR930 billion (\$248 billion) for 2021. The improvement is mainly due to increased oil revenues resulting from higher production once OPEC+ production limits are lifted, and stemming from stronger global demand in 2022. Total expenditures are budgeted to decrease by 6 percent in 2022 compared to 2021. Total expenditures are expected to fall from SAR1,015 billion (\$271 billion) in 2021 to SAR955 billion (\$255 billion) in 2022.

Chart 3 - Budget Deficit/Surplus
(SAR Billion)



Source: Ministry of Finance, USSBC

Revenues

Budgeted revenues are projected to reach SAR1,045 billion (\$279 billion), of which 73 percent or SAR763 billion (\$203 billion) will derive from other revenues (oil revenues are included in other revenues but the government did not provide specific oil revenue estimates). Brent crude has averaged approximately \$70.60 in 2021 YTD and is forecasted to remain relatively constant at \$70.05 in 2022, according to the EIA. With steady oil prices, other revenues, which include oil revenues, government profits from investments (i.e. PIF and domestic development funds), sales of goods and services, and collection of fines and penalties, are expected to increase by 20 percent over 2020. Tax revenues are budgeted to reach SAR283 billion (\$75 billion) in 2022, accounting for 27 percent of total revenues. Tax revenues will decrease by 4 percent in 2022. The VAT will be the driving force in tax income.

The main driver of tax revenues is the category of taxes on good and services which will account for 79 percent of all tax revenues. This category is budgeted to marginally decrease by SAR9 billion (\$2.4 billion)



or 4 percent compared to 2021. The decrease is related to changes in VAT due dates of entities doing business with the government. Income from VAT is expected to stabilize as indicated by continued strong growth in POS and SADAD transactions following the stay at home orders and shifts in consumer behaviors stemming from COVID-19.

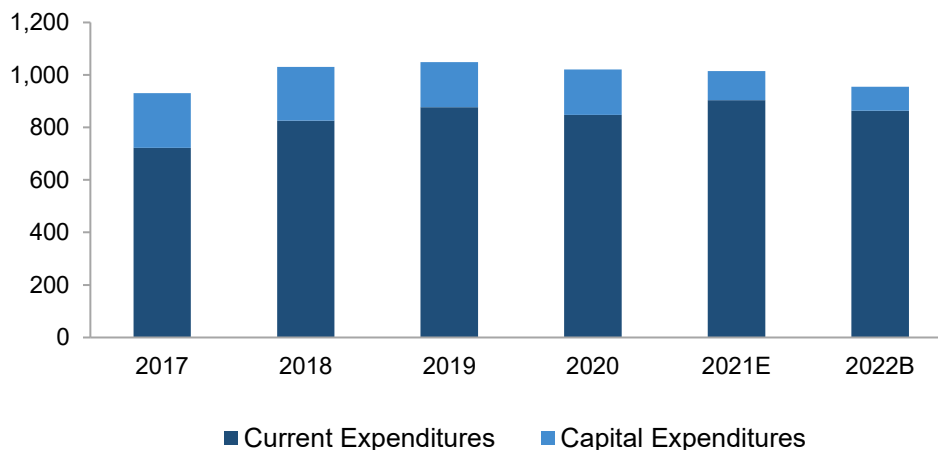
Expenditures

Total expenditures in 2022 are budgeted to reach SAR955 billion (\$255 billion), marking a 6 percent reduction compared to 2021 estimates. The government has put forth a plan to maintain its flexibility in implementing reforms that support developing the management of public finances. Ensuring social benefits and subsidies to its citizens is a hallmark of the Kingdom's spending plans. The government has also chosen to take less of a role compared to previous years in allowing the private sector to shoulder some of the burden associated with capital projects and VRPs. The role of the private sector in building the Kingdom's infrastructure capabilities will be vital in coming years. This confidence in the private sector is noticeable in the reduction of the government's capital expenditures for 2022.

Current expenditures are budgeted to reach SAR863 billion (\$230 billion) or 90 percent of total expenditures, representing a 1 percent increase compared to 2021. Current expenditures represent the more stringent part of expenditures, owing mostly to the compensation of employees category. Compensation of employees is budgeted to slightly increase to SAR498 billion (\$133 billion) for 2022 and will account for 52 percent of total expenditures. Although this category is budgeted to remain similar in 2021, it accounts for 3 percent higher as a proportion of total expenditures compared to 2021.

Capital expenditures are budgeted to reach SAR92 billion (\$25 billion) in 2022, representing an 18 percent decline compared to 2021. The decline is mainly due to the government's heavy investments in prior years to develop its infrastructure capabilities, which warranted a slowdown in its own spending while

Chart 4 - Current and Capital Expenditures
(SAR Billion)



Source: Ministry of Finance, USSBC

Table 2 - Expenditures by Sector
(SAR Billion)

Sector	2020 Actual	2021 Estimates	2022 Budget	% Growth (2021-22)
Public Administration	40	33	32	-3%
Military	195	190	171	-10%
Security and Regional Administration	111	99	101	2%
Municipal Services	52	50	50	0%
Education	205	191	185	-3%
Health & Social Development	174	191	138	-28%
Economic Resources	84	82	54	-34%
Infrastructure and Transportation	59	48	42	-13%
General Items	147	131	182	39%
Total	1,068	1,015	955	-6%

Source: Ministry of Finance, USSBC

allowing the private sector to continue its growing involvement in the development of the country. The pandemic caused delays to a number of VRP spending plans in 2020 and 2021, yet the government is keen on delivering on its Vision 2030 mandate. The private sector will play a prominent role in developing the economy coupled with significant support from the Public Investment Fund, which will continue to inject a committed SAR150 billion (\$40 billion) into the domestic economy annually through 2024.

In terms of the 2022 budgetary allocations by sector, there is a notable decline across most sectors, reflecting the reduction in total expenditures. However, Security and Regional Administration and General Items are expected to increase in 2022. General items include spending on government pensions, social insurances, financing cost, budget support provisions, contributions to international organizations, government programs and facilities, subsidies, and emergency expenses. The table above breaks down the projected expenditures in 2021 and 2022.

Debt and Financing

The budgeted surplus of SAR90 billion (\$24 billion) is expected to support government reserves, sustain development funds along with the PIF with the goal of accelerating the implementation of strategic objectives, and potentially pay down sovereign debt. As stated in the budget statement, the Kingdom will pursue a heavy focus on issuing debt both locally and internationally rather draw down on its reserves. The medium-term debt strategy will see the government focus on issuing bonds, sukuk, and loans while diversifying its investor base.

Total public debt is expected to reach SAR938 billion (\$250 billion) and is budgeted to remain at that level through 2024. However, debt in 2022 will reach 25.9 percent of GDP before growing to 26.9 percent in 2023, and then retreating to 25.4 percent in 2024. Government reserves are expected to reach SAR280 billion (\$75 billion) by the end of 2021 and SAR265 billion (\$71 billion) in 2023.



2022 Outlook

The 2022 budget reflects the Kingdom's commitment to structural reforms financially (based on structural revenues reflecting stable expenditure ceilings) and economically (private sector participation along with the PIF to develop the real economy). The allocation of improved budgeting processes that include expenditure ceilings will provide more stability by limiting procyclical spending, a scenario that was a hallmark of past spending strategies. The stringent goal of diversifying away from volatile oil revenues through establishing quantitative controls within a structural expenditure ceiling will aid in providing buffers for future economic shocks.

The introduction and enhancement of a number of fiscal and economic enablers since 2016 has aided the Kingdom in establishing a comprehensive economic policy. These policies cover three main pillars: fiscal reforms that ensure their sustainability; enabling the private sector through targeted programs to increase contributions to the national economy, and implementing broader structural reforms across economic and social platforms that aim to support the first two points.

The government anticipates the economy to grow by a sizeable 7.4 percent in 2022 on the back of increases in its oil GDP due to higher crude oil production. While still on somewhat fragile footing given the pandemic, the global economy is expected to regain its footing in 2022, supported by higher vaccination rates (70 percent in Saudi Arabia according to the government). This will allow global demand for oil to increase by 4 percent YoY to 101 million bpd in 2022, according to OPEC.

Annex 1: Budgetary Allocations 2020-2022

Fiscal Performance (2020-2022) (SAR Billion)

	2021 Budget	2021 Estimate	2022 Budget
Revenues			
Total Revenues	849	930	1045
Tax	257	295	283
Taxes on Income, Profits, and Capital Gains	13	17	16
Taxes on Goods and Services	209	232	223
Taxes on International Trade and Transactions	17	17	18
Other Taxes	18	29	26
Other Revenues	592	636	763
Expenditures			
Total Expenditures	990	1015	955
Expenses (OPEX)	889	903	863
Compensation of Employees	491	497	498
Goods and Services	192	199	160
Financing Expenses	37	29	33
Subsidies	22	23	24
Grants	0.4	5	2
Social Benefits	63	67	63
Other Expenses	83	85	83
Non-Financial Assets (CAPEX)	101	112	92
Budget Deficit/Surplus			
Budget Deficit/Surplus	-141	-85	90
Ratio of GDP	-4.9%	-2.7%	2.5%
Debt and Assets			
Debt	937	938	938
Ratio of GDP	32.7%	29.2%	25.9%
Government Reserves	280	350	381



Annex 2: Detailed 2022 Budgetary Allocations by Sector

The 2022 budget estimates total revenues at SAR1,045 billion (\$279 billion) and total expenditures at SAR955 billion (\$255 billion), resulting in a surplus of SAR90 billion (\$24 billion). The table below summarizes the key budgetary allocations as presented in the official budget release.

Sector	Allocation
Public Administration	Expenditures for public administration are projected at SAR32 billion (\$8.5 billion), representing 3 percent of the total budget and a 3 percent decline from last year's budget. Spending will cover civil service, foreign affairs, judiciary, Islamic affairs, care of the two Holy Mosques, and other costs associated with administrative and legislative bodies.
Military	Military expenditures are projected at SAR171 billion (\$46 billion), representing 18 percent of the total budget and a 10 percent decline from last year's budget. Spending will cover national defense, Royal Guards, nationalization of military industries, and other costs associated with military capabilities. Key projects include operating 200 beds for the Women's Health Specialized Hospital and 200 beds for the Specialist Children's Hospital.
Security and Regional Administration	Security and regional administration expenditures are projected at SAR101 billion (\$27 billion), representing 11 percent of the total budget and a 2 percent increase from last year. Spending will cover border protection, drug control, counter-terrorism, civil defense, prison administration, passport administration, cybersecurity capabilities, and the security of vital facilities. Key projects include the establishment of the General Directorate for Civil Defense, residential and medical cities projects, and training program for the National Cybersecurity Academy.
Municipal Services	Expenditures for municipal services are projected at SAR50 billion (\$13.3 billion), representing 5 percent of the overall budget and a 1 percent decline from last year. Key projects include the launch of a spatial detection system to determine city-level service needs. Spending will cover city infrastructure, organization of entertainment activities such as festivals and events, and associated projects stemming from the mandate to increase urban quality of life.
Education	Education expenditures are projected to reach SAR185 billion (\$49.3 billion), representing 19 percent of the total budget and a 3 percent decline from last year's budget. Spending will cover the construction of new school buildings, laboratories, research centers, and university hospitals. Other projects include the launch of the Industrial Apprenticeship program, establishing talent and innovation clubs, and support for university researchers in key sectors.
Health and Social Development	Expenditures for health and social development are projected at SAR138 billion (\$36.8 billion), representing 14 percent of the overall budget and a 28 percent decline from last year. Projects planned for 2022 include construction of 35 hospitals and medical centers with an overall capacity of 10,750 beds as well as the construction of 4 sports centers and one sports city. Spending will cover health development including ambulatory care and research services, social development including security and protection services, and the Quality of Life program.
Economic Resources	Economic resource expenditures are projected at SAR54 billion (\$14 billion), representing 6 percent of the budget and a 34 percent decline from last year. Spending will cover environmental infrastructure, water, agriculture, desalinated water, sewage networks, energy sources, and mineral wealth as well as the development of tourism, industrial exports, support for SMEs, and the enhancement of local content. Key projects include the privatization of five sewage treatment plants, developing industrial locations for MODON and RCJY, and prepare detailed plans for 15 tourist development sites.
Infrastructure and Transportation	Infrastructure and transportation expenditures are projected to total SAR42 billion (\$11.2 billion), representing 4 percent of the total budget and a 12 percent decline from last year. Key projects planned for 2022 include facilitation of housing units for more than 130k residents, launching Rental Contracts service through Naql portal, launching a business incentives program under SDAIA, and establishing a special economic zone to attract global companies.
General Items	Expenditures on general items are projected at SAR182 billion (\$49 billion), representing 19 percent of the overall budget and a 39 percent increase from last year's budget. Allocations to general items includes debt service, spending on government pensions, social insurance, financing costs, subsidies, and various government programs and emergency expenses.



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