جدوى للإستثمار
Jadwa Investment

October 2021

2022 Preliminary Budget Statement

Based on the Ministry of Finance's (MoF) continued implementation of the Vision 2030, the preliminary budget statement for fiscal year 2022 was announced on 30th September 2021. Some fiscal and economic indicators were revised for the medium term.

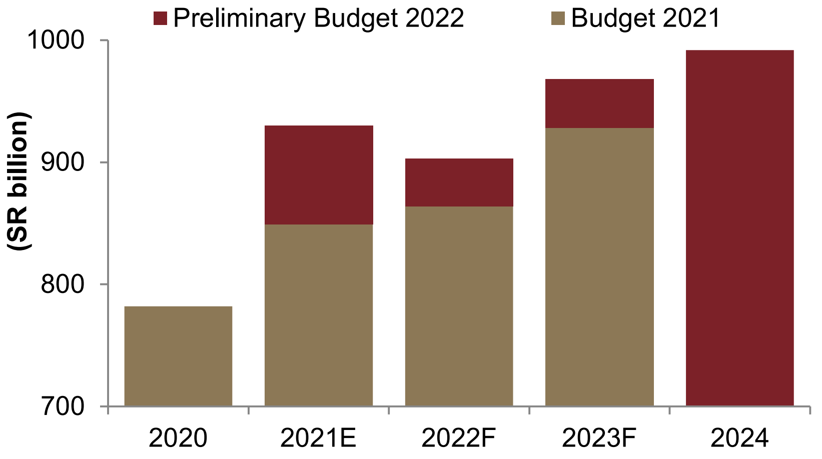
- The main adjustment to Saudi Arabia's fiscal outlook relates to the revenue side. According to the preliminary budget statement, government revenue is now expected to be 9 percent higher this year (at SR930 billion), 4 percent higher next year (at SR903 billion), and 4 percent higher in 2023 (at SR968 billion, Figure 1), when compared to the *2021 fiscal budget statement*.

- We see the upward revision to total revenue from 2022 onwards being related to oil revenue. Brent oil is currently trading around $80 per barrel (pb), with the year-to-date average at $68 pb, significantly higher than the average of $50 pb back in December last year, when 2021 fiscal budget statement was published. As of H1 2021, government oil revenue totaled SR249 billion, up 11 percent over H1 2020 levels, and we expect full year 2021 government oil revenue to total SR563 billion, 36 percent higher than 2020's total.

- Looking beyond the current year, a continued recovery in the global economy, in-line with higher vaccination rates, should, according to OPEC data, push oil demand to all time record highs by the end of 2022 (Figure 2). At the same time, with OPEC and partners (OPEC+) having recently shored up an oil output agreement until at least end-2022 (*as detailed in our latest Oil Market Update*), the outlook for the global oil market looks reasonably stable, all of which is likely to have played a part in the MoF's decision to raise oil revenue forecasts.

- Value added tax (VAT) revenue remains a key component of non-oil revenue. In fact, we see at least 50 percent of the SR40 billion upward revision in tax revenue for full year 2021 coming from higher than budgeted VAT revenue. As such, we estimate that income from VAT will contribute around 43 percent of full year 2021 non-oil revenue, up from 25 percent last year and 14 percent in 2019 (Figure 3).

Figure 1: Upward revision to government revenue



For comments and queries please contact:

Asad Khan
Chief Economist & Head of Research
rkhan@jadwa.com

Nouf N. Alsharif
Director
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Released: October-3-2021, 19:00 UTC+3

The main adjustment to Saudi Arabia's fiscal outlook relates to the revenue side.

We see the upward revision to total revenue from 2022 onwards being related to oil revenue.

VAT revenue remains a key component of non-oil revenue.

'Other revenues' is expected to be an important contributor to non-oil revenue in the medium term…

...as this segment is boosted by circa SR206 billion from asset sales and PPP over the next five years.

On the expenditure side, the only change in MoF's forecast relates to 2021.

There were no changes to expenditure projections for 2022 and 2023.

The PIF and NDF will continue to provide a larger share of future capital injections vis-à-vis central government.

- Meanwhile, 'Other revenues' is expected to be an important contributor to non-oil revenue in the medium term as this segment is boosted by circa SR206 billion from asset sales and public-private partnerships (PPP) over the next five years.
- In-line with this, the Private Sector Participation Law was implemented back in July 2021, and provides a regulatory framework for PPPs and privatizations, including offering protection for private companies and foreign investors. Whilst we do expect the program to improve the efficiency of capital allocation and service provision for the government, the inconsistent nature of revenue generation from this segment presents a risk in the attainment of annual targets set out under the latest Privatization Vision Realization Program (VRP).
- Thus, whilst the National Centre for Privatization & PPP (NCP) did recently announce the sale of two flour mills totaling circa SR3 billion, the center also stated that it had suspended the privatization of Ras Al Khair Desalination and Power Plant as a result of repercussions linked to coronavirus pandemic (the deal was reportedly worth SR7.5 billion). Such an unforeseen delay will, most likely, impact the targeted SR26 billion in asset sales and PPPs expected to be finalized this year.
- On the expenditure side, the only change in MoF's forecast relates to 2021, with government expenditure SR25 billion (or 3 percent) higher than previously projected, at a total of SR1.015 trillion. Both capital (capex) and operational (current) expenditure will see rises over budgeted levels, with the former being 11.6 percent or SR11.7 billion higher than budgeted and the latter being 1.5 percent or SR13.7 billion higher.
- There were no changes to expenditure projections for 2022 and 2023, reflecting the MoF's more prudent approach to fiscal affairs, in-line with the Fiscal Sustainability VRP. Overall, expenditure plans between 2021-23 are expected to continue focusing on the development of mega-projects and on the implementation of various VRPs, including, but not limited to, the Housing VRP, and the newly unveiled Human Capital Development VRP, which aims to enhance the education sector and improve labor market inputs.
- Meanwhile, as has been the case in recent years, the Public Investment Fund (PIF) and National Development Fund (NDF) will continue to provide a larger share of future capital injections vis-à-vis central government. More specifically, the statement highlights the continued role of the PIF in strengthening and diversifying the

Figure 2: OPEC forecasts oil demand to hit all time record highs by the end of 2022

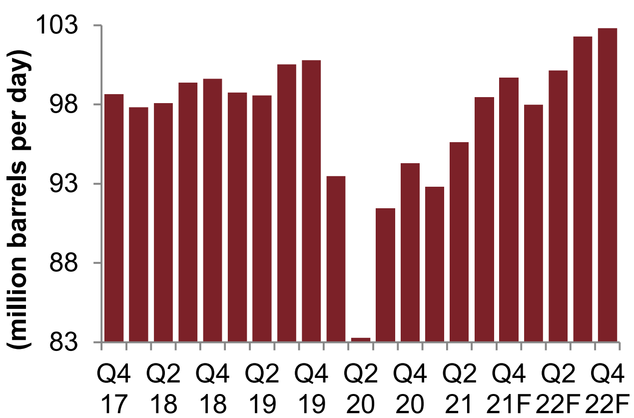
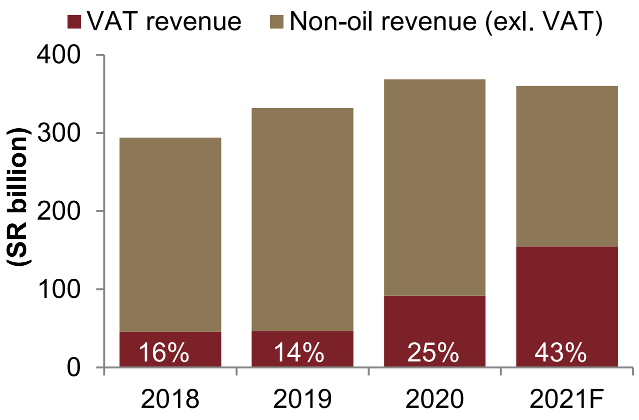


Figure 3: We expect VAT to contribute around 43 percent to full year 2021 non-oil revenue



The 2021 fiscal deficit is expected to narrow to -SR85 billion (or -2.7 percent of GDP) vs. -4.9 percent of GDP previously.

economy, with the fund's latest five year strategy aiming to invest SR150 billion annually into the local economy till 2025. At the same time, the NDF is expected to raise the level of private and foreign investments in the Kingdom via the National Investment Strategy (NIS), with the 'Shareek' Program being one channel through which this will be achieved.

The MoF has taken a conservative approach in budgeting oil and non-oil revenue…

...but a nominal surplus could emerge next year.

- As a result of the above revisions, 2021's fiscal deficit is expected to narrow to -SR85 billion (or -2.7 percent of GDP) vs. -4.9 percent of GDP previously, with 2022 seeing a deficit of -SR52 billion (or -1.6 percent of GDP). The Kingdom is forecasted to see a fiscal surplus in 2023, one year earlier than previously projected, at SR27 billion (or 0.8 percent of GDP), with this being sustained into 2024, at 1.2 percent of GDP (Figure 4).

- The MoF has taken a conservative approach in budgeting oil and non-oil revenue. Indeed, we surmise that the revenue forecasts from 2022 onwards do not assume the continued payment of Aramco special dividend. If the payout were to be confirmed for full year 2022 (it is usually announced by Aramco towards the end of Q1 alongside full year financial results), and oil prices average at least $65 pb, a nominal surplus could emerge next year.

A lower than budgeted fiscal deficit in 2021 will not result in lower borrowing.

In 2023 and 2024, the Kingdom's total debt obligation will remain unchanged at SR989 billion…

...with debt-to-GDP ratio declining to 27.6 percent in 2024, versus 32.7 percent in 2021.

- A lower than budgeted fiscal deficit in 2021 will not result in lower borrowing, with total gross debt raising set to reach SR124 billion by year end (with SR102 billion issued so far). Because of the improved outlook on the fiscal deficit in 2022, the sovereign funding requirement is now projected to total SR52 billion, SR24 billion less than previously budgeted. In 2023 and 2024, the Kingdom's total debt obligation will remain unchanged at SR989 billion, with the debt-to-GDP ratio declining to 27.6 percent in 2024, versus 32.7 percent in 2021.

The MoF now sees average annual real GDP growth of 4.6 percent during 2021-2023, versus 3.4 percent over the same period previously.

- An improvement in the fiscal outlook is also mirrored in economic growth, with a sizable mark-up in GDP when compared to previous official estimates. The MoF now sees average annual real GDP growth of 4.6 percent during 2021-2023, versus 3.4 percent over the same period previously. (Figure 5). Lastly, inflation has been revised upwards for this year but has been lowered for next year. As a result, 2021 inflation is expected to average 3.3 percent (vs. 2.9 percent previously) and 1.3 percent in 2022 (versus 2 percent previously).

Figure 4: The preliminary budget statement forecasts a fiscal surplus by 2023

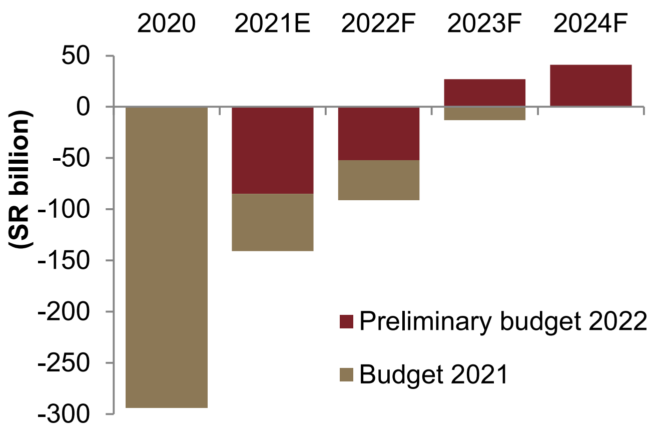
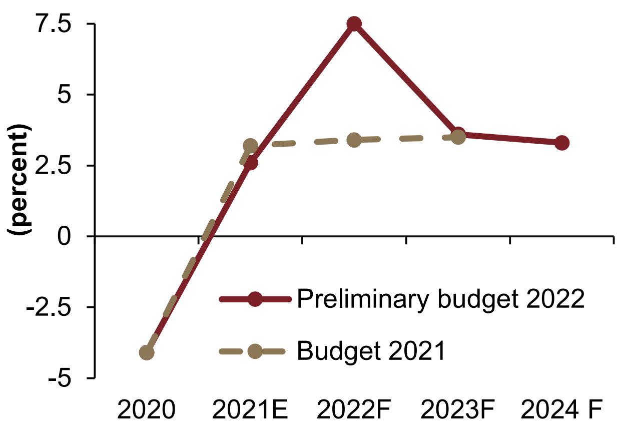


Figure 5: Revised real GDP growth forecasts for 2022 & 2023 in preliminary budget statement



Disclaimer of Liability

Key Data

	2015	2016	2017	2018	2019	2020	2021F	2022F	2023F
Nominal GDP									
(SR billion)	2,454	2,419	2,582	2,949	2,974	2,625	3,144	3,311	3,526
($ billion)	654	645	689	787	793	700	838	883	940
(% change)	-13.5	-1.4	6.8	14.2	0.8	-11.7	19.7	5.3	6.5
Real GDP (% change)									
Oil	5.3	3.6	-3.1	3.1	-3.6	-6.7	-0.7	9.4	8.5
Non-oil private sector	3.4	0.1	1.5	1.9	3.8	-3.1	4.4	2.8	3.3
Non-oil government	2.7	0.6	0.7	2.9	2.2	-0.5	1.5	1.0	1.0
Total	4.1	1.7	-0.7	2.4	0.3	-4.1	1.8	5.1	5.0
Oil indicators (average)									
Brent ($/b)	52	43	54	71	66	42	67	65	65
Production (million b/d)	10.2	10.4	10.0	10.3	9.8	9.2	9.0	9.7	10.5
Budgetary indicators (SR billion)									
Government revenue	616	519	692	906	926	782	923	891	961
Government expenditure*	1,001	936	930	1,079	1,059	1,076	990	955	941
Budget balance	-385	-417	-238	-173	-133	-294	-67	-64	20
(% GDP)	-15.7	-17.2	-9.2	-5.9	-4.5	-11.2	-2.1	-1.9	0.6
Gross public debt	142	317	443	560	678	854	937	1013	1026
(% GDP)	5.8	13.1	17.1	19.0	22.8	32.5	29.8	30.6	29.1
Monetary indicators (average)									
Inflation (% change)	1.2	2.1	-0.8	2.5	-2.1	3.4	3.7	1.5	1.4
SAMA base lending rate (%, end	2.0	2.0	2.0	3.0	2.3	0.75	0.75	1.25	2.5
External trade indicators ($ billion)									
Oil export revenues	153	137	171	232	201	122	188	193	220
Total export revenues	204	184	222	294	262	174	248	257	286
Imports	159	128	123	126	140	126	136	143	148
Trade balance	44	56	98	169	121	48	111	114	138
Current account balance	-57	-24	10	72	38	-20	37	28	49
(% GDP)	-8.7	-3.7	1.5	9.2	4.8	-2.8	4.4	3.1	5.2
Official reserve assets	616	536	496	497	500	454	457	461	479
Social and demographic									
Population (million)	31.0	31.7	32.6	33.4	34.2	35.0	35.4	35.8	36.3
Saudi Unemployment (15+, %)	11.5	12.5	12.8	12.7	12.0	12.6	10.5	10.3	10.0
GDP per capita ($)	21,095	20,318	21,114	23,539	23,174	19,996	23,691	24,665	25,924

Sources: Jadwa Investment forecasts for 2021 to 2023. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.