Saudi Arabia budget report 2024

Review of the 2024 budget in the context of recent economic developments

December 2023
KPMG Professional Services

Content

Foreword

I am pleased to present the annual KPMG budget report for Saudi Arabia, providing our view on the government's announced expenditures and revenues. The presented figures are based on the Ministry of Finance's (MoF) Budget statement for FY 2024, as approved by the government on 6 December 2023, with our views supported by internal analysis and other sources.

According to the MoF, after rapid real GDP annual average growth of 8.7 percent in fiscal year 2022, the economy is estimated to expand by a lower annual rate of 0.03 percent in 2023. Economic growth in 2023 weakened largely in line with reduced output in the oil sector and base effects. Meanwhile, the non-oil sector is estimated to expand at a healthy rate, supported by a range of sub-sectors such as Transport, storage, and communications.

During 2023, international oil prices have remained weak amid tepid demand in key markets, and despite OPEC+ supply cut agreements and global supply disruptions as geopolitical tensions remain elevated. Overall trends have resulted in only modest support for oil producers.

Private consumption in 2024 will continue to be boosted by existing government policies, such as social protection programs and the ceiling on gasoline prices, that will further boost real incomes. Vision 2030 initiatives will continue to stimulate the broader economy as related projects and domestic investment by the National Development Fund (NDF) and Public Investment Fund (PIF) will boost both public and private sector spending. These trends and more are drivers behind the MoF's expectations that real GDP will recover to a respectable growth rate of 4.4 percent in 2024.

Continued growth in the non-oil economy will drive broader economic activity and thus non-oil revenues in 2024. The government's commitment to controlling spending, even as it continues to invest in a range of initiatives designed to expand and diversify the economy, will help to contain public expenditure during the next fiscal year.

"Looking ahead, the government will remain committed to strategic expenditure on infrastructure, its mega and giga projects, regional and sectoral development and economic diversification that supports the growth of the private sector.

The 2024 fiscal year budget statement estimates a 5.9 percent year-on-year (YoY) drop in total revenues, to SAR1,193 billion, in the 2023 fiscal year, largely in line with a fall in oil prices. The out-turn is nevertheless greater than the revenue estimate of SAR1,130 billion targeted in the 2023 fiscal year budget statement.

Actual government spending in fiscal year 2023 is estimated at SAR1,275 billion, compared with originally planned spending of SAR1,114 billion. The greater-than-planned expenditure reflects in part government policies designed to limit the impact of high global inflation on domestic real incomes; an expansion of social support for target groups has been an important pillar of this strategy. Meanwhile, targeted development spending designed to diversify the economy and enhance the role of the private sector drove an increase in expenditures on goods and services.

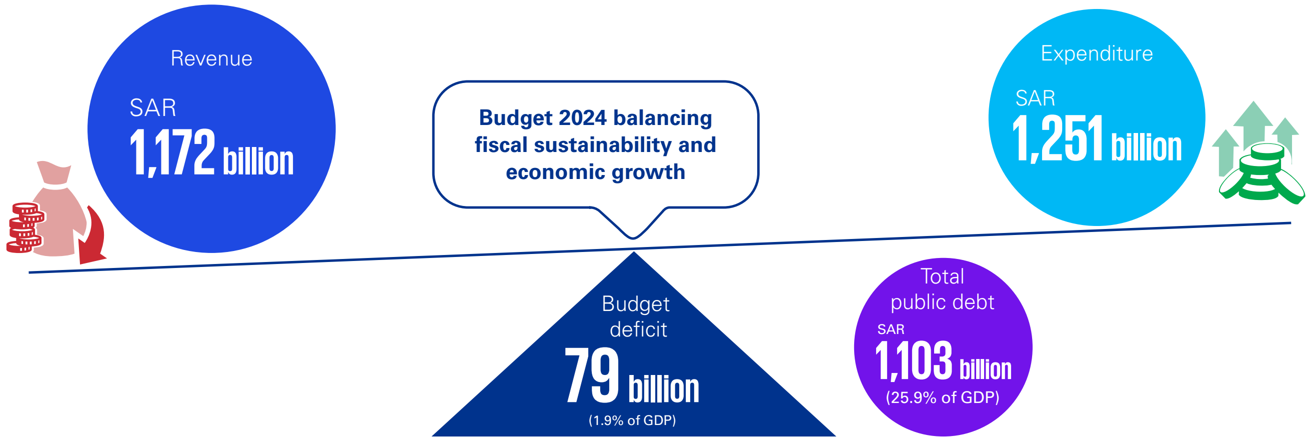
Looking ahead, the government will remain committed to strategic expenditure on infrastructure, its mega and giga projects, regional and sectoral development and economic diversification that supports the growth of the private sector. That also includes portions of anticipated spending on Riyadh Expo 2030 and the World Cup 2034 as Saudi Arabia successfully bid to attract these mega events to be held in the Kingdom. It is too soon to assess the impact of these on the annual budget figures. Overall, the government will seek to balance fiscal sustainability versus economic and social objectives.

Dr. Abdullah Al Fozan

Chairman & CEO
KPMG Professional Services

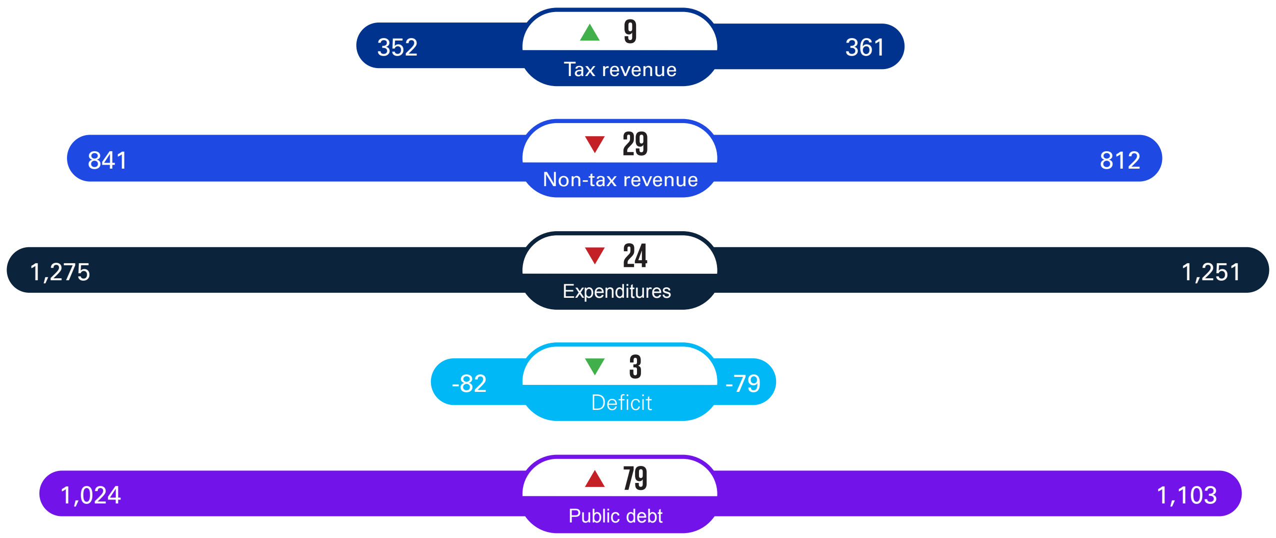
Budget summary

Budget 2024



Source: MoF, Budget Statement 2024

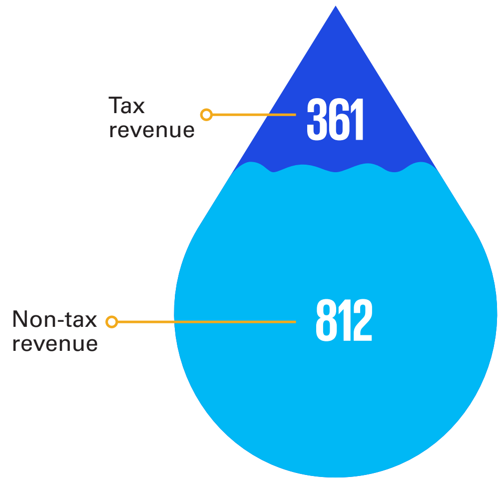
Changes in budget 2023-2024



Source: MoF, Budget Statement 2024

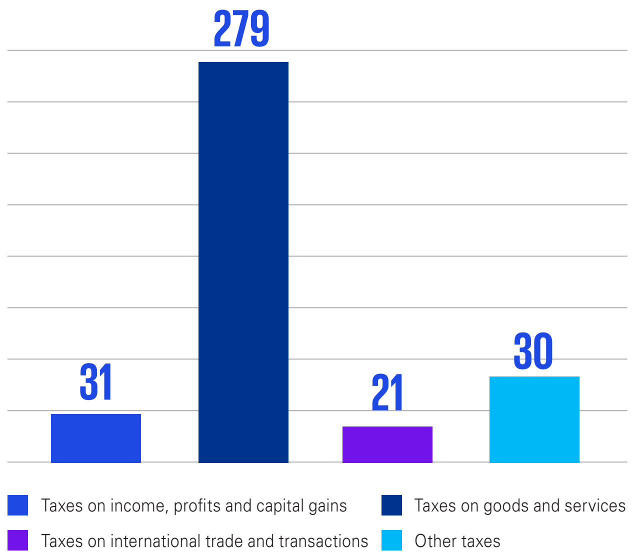
Total revenues 2024

Total revenue, SAR1,172 billion



Source: MoF, Budget Statement 2024

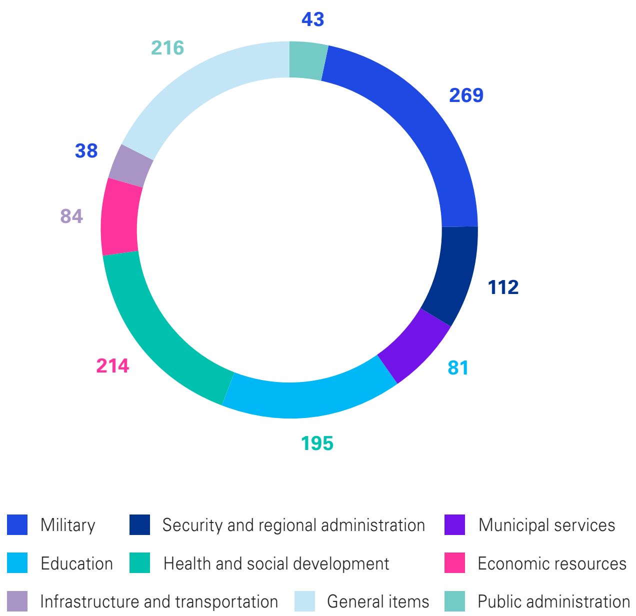
Tax revenue, SAR361 billion



Source: MoF, Budget Statement 2024

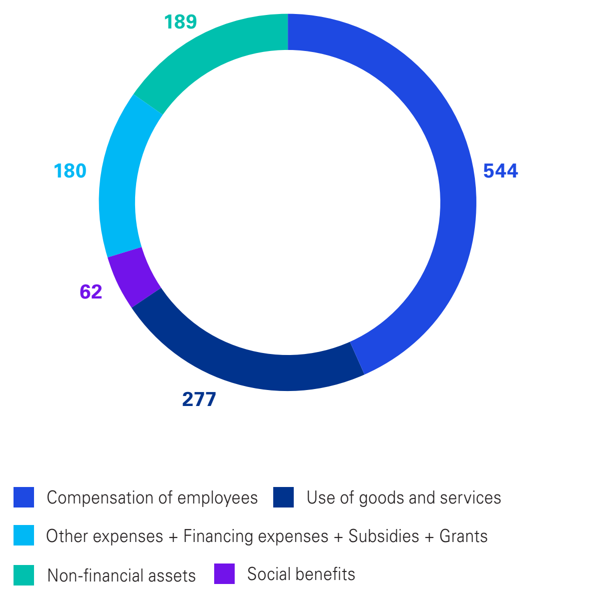
Total expenditures 2024

Expenditure by sectors, SAR1,251 billion



Source: MoF, Budget Statement 2024

Expenditure by components, SAR1,251 billion



Source: MoF, Budget Statement 2024

Disclaimer: Figures are rounded up to the nearest billion throughout the report. Some figures may not add up to 100 percent due to rounding.

Key takeaways

Domestic economic recovery will support non-oil tax revenues

A pick-up in domestic consumption and broader private sector activity in 2024 will support non-oil tax revenues, partly compensating for relative weakness in oil-related public revenues that reflects lower international oil prices.

A deterioration in fiscal indicators will be mild and of limited concern

The budget is expected to remain in deficit as continued weakness in international oil prices contains total public revenue growth even as total public expenditure is expected to remain close to the level estimated for 2023. A budget deficit of 1.9 percent of GDP and a public debt stock of 25.9 percent of GDP represent low ratios relative to peers.

Government efforts to balance fiscal sustainability and spending on economic reforms will continue

Vision 2030 objectives in part designed to restructure the economy will remain the thrust of government spending and investment. The costs of meeting these objectives will largely be borne by the authorities, who will continue to focus on optimising spending on Vision 2030 initiatives while maintaining fiscal prudence.

Key spending categories will remain stable

The 2024 budget indicates that the Health and social development, Defense, Education and Infrastructure and transport categories will remain priority sectors in terms of public spending; these sectors will remain central in implementing policies designed to support Vision 2030 objectives.

External economic shocks remain key risks to fiscal and broader economic policy success

Economic shocks derived from policy mismanagement in Saudi Arabia's main trading partners or as a result of geopolitical tensions could derail the country's ongoing economic recovery. Such external shocks could undermine domestic consumer and investor confidence and in turn weaken the private sector's role in supporting Vision 2030 objectives.

Economic growth assumptions

According to the Ministry of Finance (MoF), after rapid real GDP annual average growth of 8.7 percent YoY in fiscal year 2022, the economy is estimated to expand by a lower annual rate of 0.03 percent in 2023.

Economic growth in 2023 weakened largely in line with reduced output in the oil sector and base effects (see figures 1 and 2). Meanwhile, the non-oil sector is estimated to expand at a healthy rate, supported by a range of sub-sectors. Investor and broader private sector confidence continues to benefit from government spending on Vision Realisation Programs (VRPs) and infrastructure investment more generally.

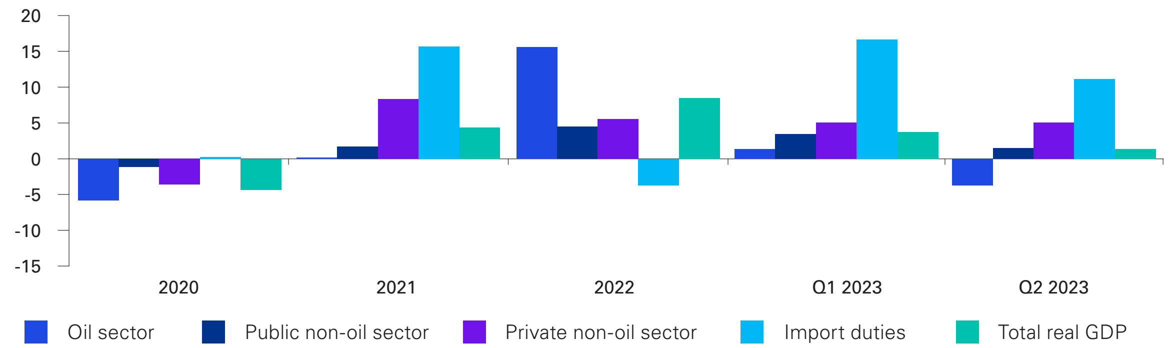
Private consumption continues to be bolstered in particular by government initiatives that include a ceiling on gas prices, a subsidies scheme and efforts to support food stocks – all factors that have helped to contain consumer price inflation – even as the buoyant private sector continues to strengthen the labor market. Consumption and tourism are being provided an additional stimulus through the ongoing recovery of Hajj pilgrims as all remaining Covid-related restrictions were removed in early 2023.

During 2023, international oil prices have remained weak amid tepid demand in key markets such as China, despite OPEC+ supply cut agreements and global supply disruptions as geopolitical tensions remain elevated. Overall trends have resulted in only modest support for oil producers.

The Energy Information Administration (EIA) estimates that oil consumption will stand at an annual average of 101 million barrels per day (mb/d) in 2023, compared with 99.2 mb/d in 2022. The EIA expects oil consumption to rise to an annual average of 102.4 mb/d in 2024, with oil prices remaining well below their 2022 oil prices are expected to remain at 2023 levels in 2024. Indeed, according to the International Monetary Fund's (IMF) October 2023 World Economic Outlook, oil prices are expected to stand at an annual average of US$79.9 per barrel (p/b) in 2024, compared with an annual average of US$80.5pb in 2023.

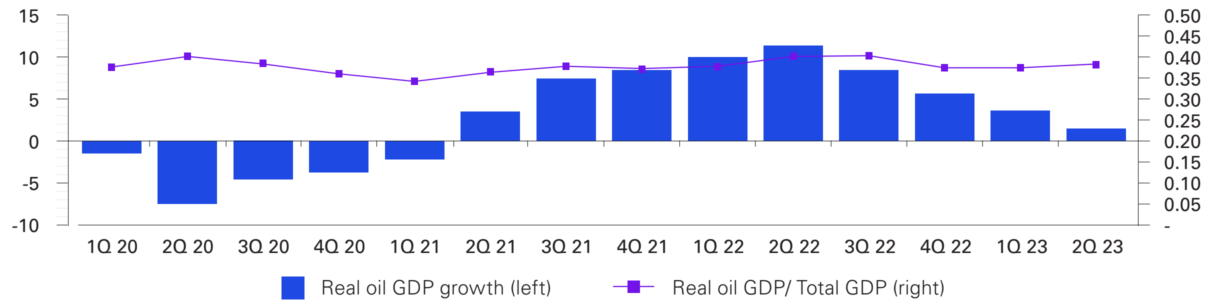
Private consumption in 2024 will continue to be boosted by existing government policies, such as social protection programs and the ceiling on gasoline prices, that will further boost real incomes. Vision 2030 initiatives will continue to stimulate the broader economy via related projects and domestic spending by the National Development Fund (NDF) and the Public Investment Fund (PIF), and will boost both public and private sector spending. However, continued weakness in the oil sector will provide below-potential support to the domestic non-oil economy, given oil money flows on the public and current account balance sheets impact confidence and the broader economy. Overall, these trends are the main drivers behind the MoF's expectations that real GDP will recover to a growth rate of 4.4 percent in 2024.

Figure 1: **Composition of GDP growth**



Source: General Authority for Statistics (GaStat)

Figure 2: **Real oil GDP growth and oil sector contribution to GDP**



Source: GaStat

Budget 2024

Budget

Saudi Arabia's cabinet approved the budget for fiscal year 2024 on 6 December 2023. The government's focus remains balancing public spending that drives economic diversification (supporting growth in non-oil revenues) along with fiscal sustainability. Respectable domestic non-oil GDP growth has supported public non-oil revenues in 2023, even as lower international oil prices have weakened total revenues. Continued growth in the non-oil economy will drive broader economic activity and thus non-oil revenues in 2024. The government's commitment to controlling spending, even as it continues to invest in a range of initiatives designed to expand and diversify the economy, will be evident during the next fiscal year.

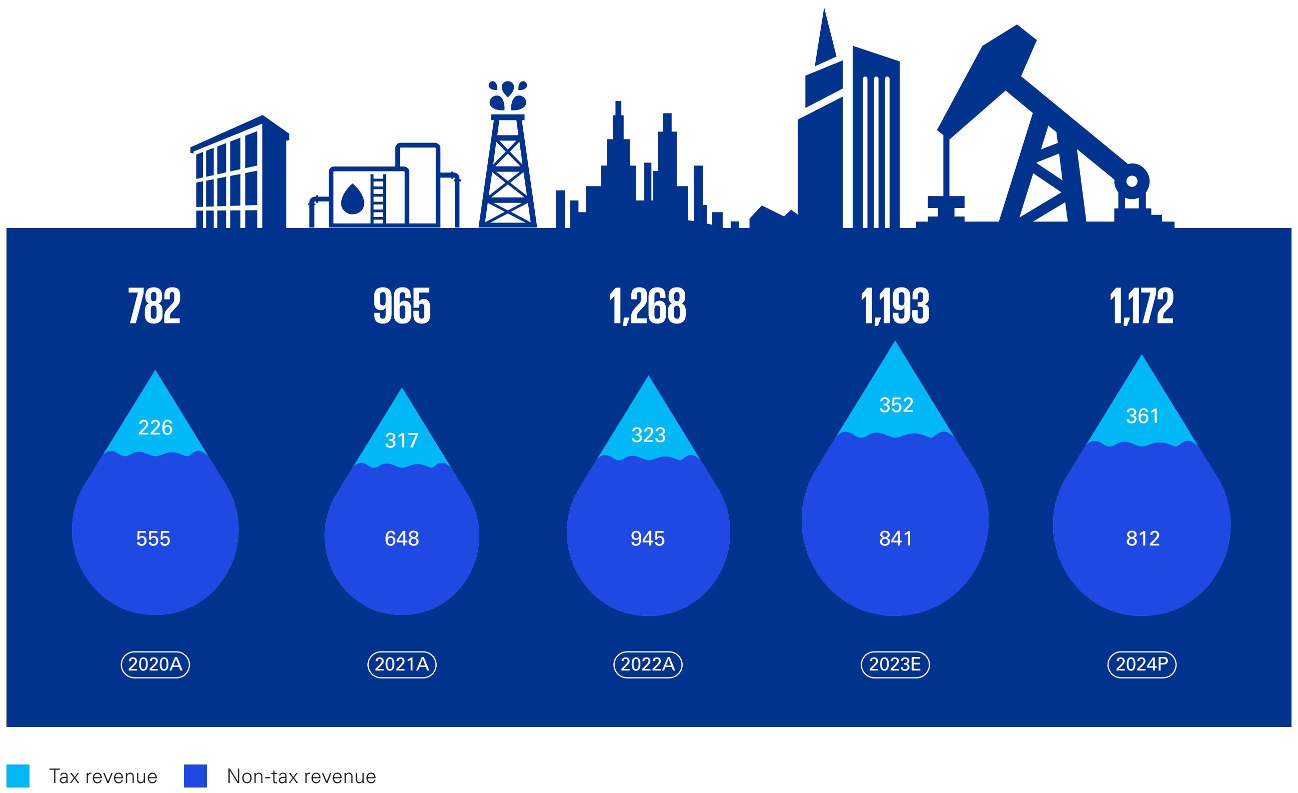
Revenues

The 2024 fiscal year budget statement estimates a 5.9 percent YoY drop in total revenues, to SAR1,193 billion, in the 2023 fiscal year, largely in line with a fall in international oil prices (see figure 3). The out-turn is nevertheless greater than the revenue estimate of SAR1,130 billion targeted in the 2023 fiscal year budget statement.

This higher than budgeted total revenues estimate for 2023, even as international oil prices have weakened, reflects several factors. Strong non-oil GDP growth during 2023 has seen tax revenues rising by 8.9 percent YoY, to SAR352 billion. Other measures that are supporting tax revenue growth include an extension of the Cancellation of Fines and Exemption of Financial Penalties (that has encouraged tax payers to meet their tax obligations before the end of 2023) and ongoing efforts to improve tax compliance. Taxes on income, profits and capital gains are estimated to expand sharply owing to rising corporate taxes as firms pay liabilities related to 2022 incomes, which saw a recovery amid a sharp post-pandemic economic recovery. Finally, healthy private consumption is supporting Taxes on goods and services (the largest source of non-oil public income).

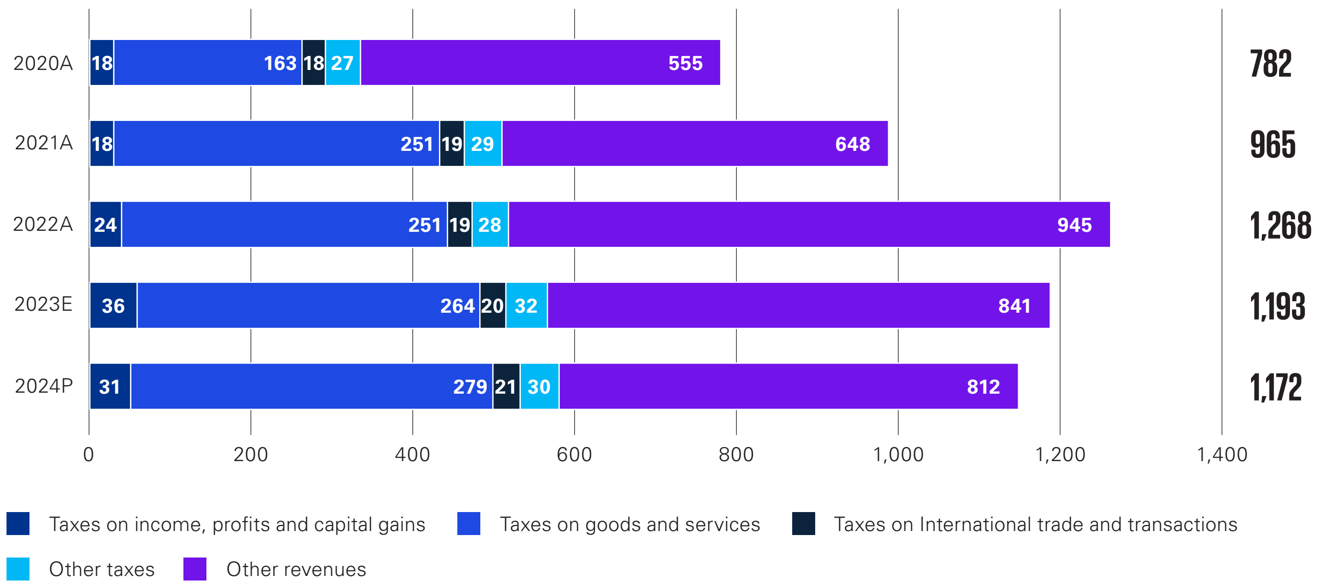
Total revenues are projected to stand at SAR1,172 billion in 2024 (see figure 4), comparable to the final estimated outcome for 2023. The budget for 2024 continues the government's approach of adopting conservative assumptions in relation to revenue growth. Headwinds in 2024 include the fact that international oil prices are expected to remain at

Figure 3: **Public revenue (SAR billion)**



Source: MoF, Budget Statement 2024

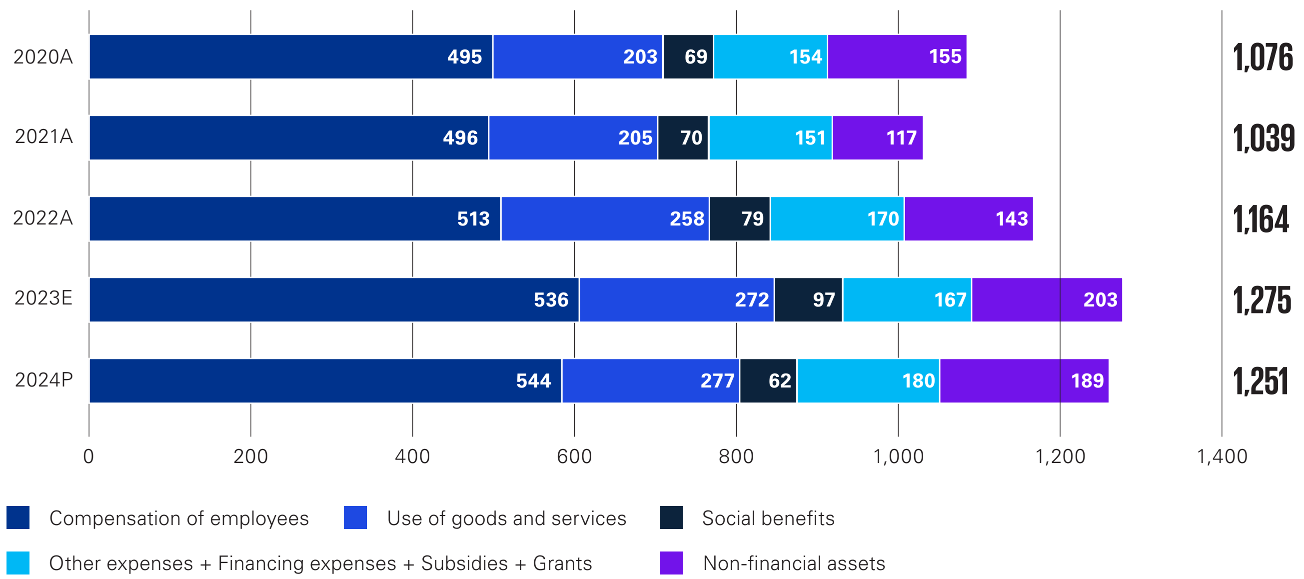
Figure 4: **Revenue components (SAR billion)**



Source: MoF, Budget Statement 2024

levels similar to those witnessed in 2023; oil-related revenues are thus expected to remain close to 2023 fiscal year levels and are unlikely to record a sharp recovery – Saudi Arabia's role as an oil price maker suggests compensating production increases would merely be offset by corresponding falls in international oil prices. Nevertheless, non-oil economic growth will remain broad-based and continue to expand at a healthy rate. Private consumption will remain robust and support related tax income, even as corporate tax revenues in 2024 will be contained by economic weakness in 2023 (corporate taxes are in part a reflection of corporate income in the year prior).

Figure 5: **Expenditure components (SAR billion)**



Source: MoF, Budget Statement 2024

Expenditures

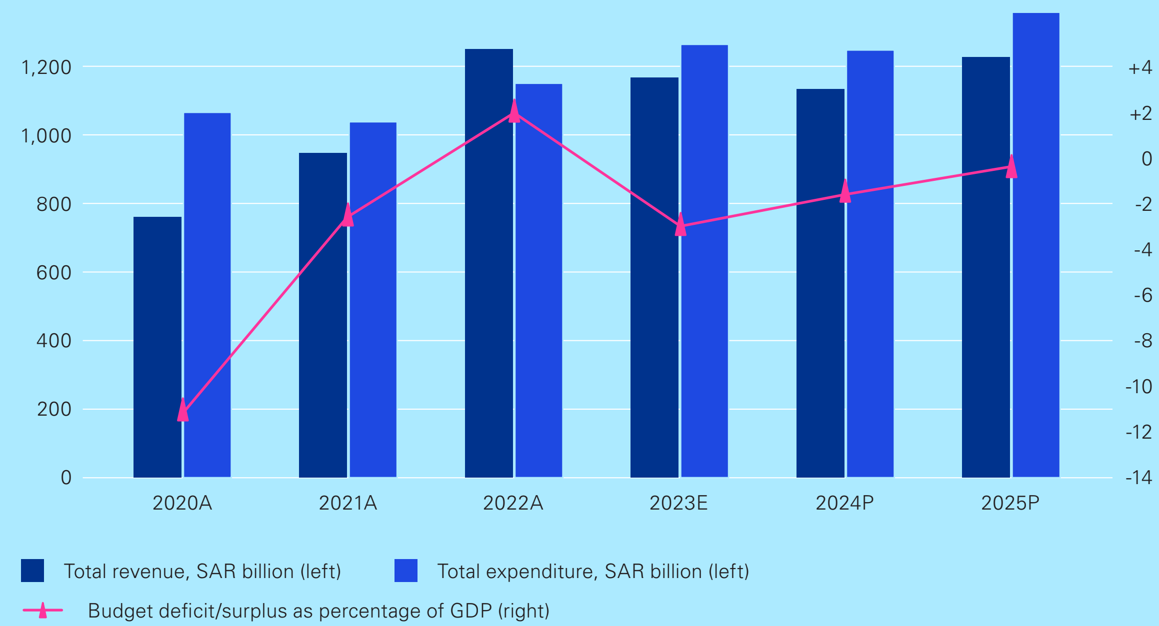
Actual government spending in fiscal year 2023 is estimated at SAR1,275 billion, compared with originally planned spending of SAR1,114 billion (see figures 5 and 6). The greater-than-planned expenditure reflects in part government policies designed to limit the impact of high global inflation on domestic real incomes; an expansion of social support for target groups has been an important pillar of this strategy.

Expenditures on goods and services stand at an estimated SAR272 billion in 2023 versus SAR218 billion that was indicated in the 2023 budget, the highest deviation (in nominal terms) from the planned budget on an operating expenditure (OPEX) basis. Capital expenditure (CAPEX) also saw a significant deviation from the level budgeted in December 2023 – SAR203 billion estimated versus a budgeted SAR157 billion. These over-runs reflect a combination of rising input costs and the authorities' success in the implementation and expansion of initiatives designed to promote economic potential across economic and regional sectors, as well as investment in ongoing mega development projects and broader infrastructure.

Health and social development, Defense, Education and Infrastructure – all saw stability or an increase in their estimated budgets in 2023 (relative to planned spending). Spending in the Health and social development component – the largest sector – is estimated to have risen by 10.3 percent YoY, to SAR250 billion, as the authorities continue policies designed to improve the quality and quantity of healthcare services.

Total spending will fall from an estimated SAR1,275 billion in 2023 to SAR1,251 billion in 2024. The main drivers of contained spending will be broad, with the government aiming to limit increases or cut expenditure on virtually all items on a sectoral expenditure basis; contained spending is also expected on both an OPEX and CAPEX basis.

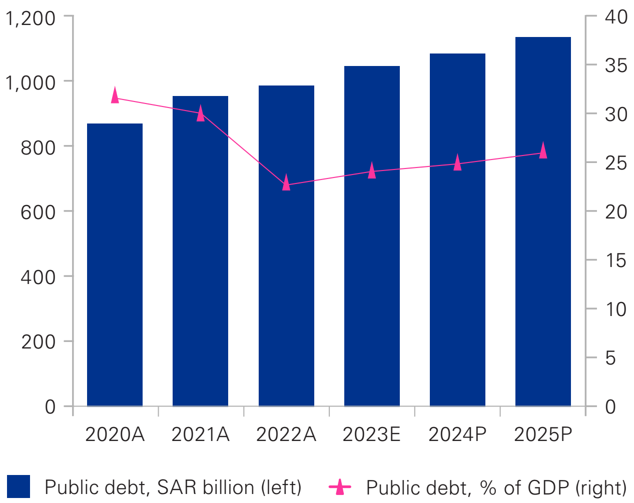
Figure 6: **Fiscal position**



Source: MoF, Budget Statement 2024

The government will remain committed to strategic expenditure on projects that drive its VRPs. As has become the trend in recent years, financing has been focused in areas that include mega and giga projects, regional and sectoral development and economic diversification that supports the growth of the private sector. Overall, the government will seek to balance its fiscal sustainability versus economic and social objectives.

Figure 7: **Public debt**



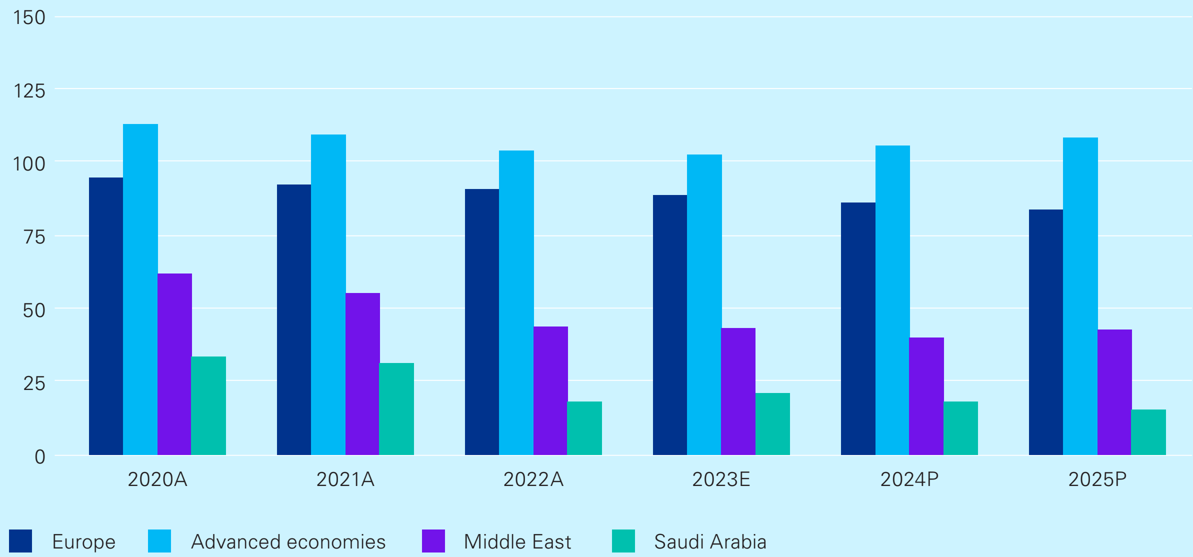
Source: MoF, Budget Statement 2024

Budget deficit and public debt

The 2023 budget position estimate indicates a fiscal deterioration in both nominal terms and as a percentage of GDP, driven by a YoY fall in total revenues, rising total expenditures and a YoY contraction in nominal GDP (the latter being the denominator). The budget position worsened from a surplus of SAR104 billion in 2022 (2.5 percent of GDP) to an estimated deficit of SAR82 billion in 2023 (2 percent of GDP) – the 2023 budget statement had envisaged a surplus of SAR16 billion, or 0.4 percent of GDP.

A number of factors will limit the government's ability to improve the budget position in 2024. Although international oil prices in 2024 are expected to remain stable relative to 2023 levels, the fillip to oil revenues provided by the sharp oil price rises witnessed in 2022 is unlikely to be repeated. As a result, oil revenues are not expected to rise in 2024. This factor will dominate, even as taxes on goods and services continue to expand, benefitting from continued robust private consumption. Meanwhile, total expenditures are expected to be contained at levels similar to the estimate for the 2023 fiscal year. Moreover, only a mild recovery in nominal GDP growth suggests that the denominator will provide no more than mild support to fiscal ratios; the low domestic inflation implied by low nominal GDP growth will act as a further drag on improving tax revenues related to domestic non-oil economic activity.

Figure 8: **Public debt as percentage of GDP**



Source: IMF

The outlook for stability on the revenue side even as the government projects a modest drop in nominal spending in 2024, will contain the budget deficit at levels similar to those recorded in 2023; the budget deficit will stand at SAR79 billion (1.9 percent of GDP) in fiscal year 2024, compared with an estimated deficit of SAR82 billion in fiscal year 2023. We note that the 2024 budget statement reiterates the government's commitment to fiscal sustainability and a policy of adopting conservative assumptions in relation to future public revenues.

A combination of a shift from a budget surplus to a budget deficit and a weak nominal GDP expansion resulted in the public debt stock to GDP ratio rising from 23.8 percent in 2022 to an estimated 24.8 percent in 2023 (see figures 7 and 8). The estimate for 2023 is similar to the 24.6 percent public debt to GDP ratio projected in the original budget statement for the year. The increase in public debt was also evident in nominal terms, rising from SAR990 billion in fiscal year 2022 to an estimated SAR1,024 billion in 2023. We also note that government reserves increased from SAR318 billion in 2022 to an estimated SAR395 billion in 2023, as the authorities seek to maintain cautionary balances that would provide a buffer in the event of financing cost and/or economic shocks.

In 2024, another budget deficit will be the main driver behind a rise in the public debt to GDP ratio to 25.9 percent of GDP. The rise in this ratio even as nominal GDP records a modest pick-up reflects a range of factors, including the fact that the public debt stock in nominal terms will rise by around 10 percent YoY in 2024 and as the government is not expected to fund spending via a drawdown in fiscal reserves.

Saudi Arabia's public debt to GDP ratio has traditionally remained significantly lower than that of advanced economies. The modest rise in the public debt stock projected by the government – we note that the IMF's own forecast for Saudi Arabia's public debt to GDP ratio is more positive than that of the authorities – suggests only a modest rise in this variable in nominal terms and as a proportion of nominal GDP. The country's public debt metrics indicate that this positive performance relative to its peers is set to continue.

Expenditure by sector

Health and social development, Defense, Education and Infrastructure and transportation remain among the most important categories of public expenditure, reflecting a combination of structural trends and the fact these spending components are central to supporting a range of Vision 2030 initiatives.

Healthcare and social development

Spending on the Healthcare and social development component is estimated at SAR250 billion in 2023, up a robust 10.1 percent YoY and substantially higher than the planned spending of SAR189 billion announced in the 2023 budget statement. The overshoot of actual versus planned spending reflected in part increased success in implementing initiatives and higher input costs. Key drivers of spending included an expansion of social support (that helped reduce the risk of cost-of-living challenges) and quality improvements in the health care sector (as part of the government's Vision 2030 objectives). The 2024 budget for Healthcare and social development, at SAR214 billion, is set to remain relatively unchanged. Initiatives that continue recent trends, such as enhancing access to healthcare and related services through investment in health-related physical infrastructure and broader social positive benefits, will continue.

Defense

Defense spending indicates an expansion from SAR228 billion in 2022 to an estimated SAR248 billion in 2023, and is expected to rise further, to SAR269 billion, in 2024. The continued expansion in Defense spending reflects several factors; the government's key policy priority is to increase investment in the short-and medium-term with an objective of achieving forces upgrade and modernization objectives, enhancing capabilities of the domestic defense manufacturing industry and to create a platform to achieve long-term efficiencies. In addition, there are significant long-term programs that are now starting to come on stream.

Education

Spending on Education remained stable in 2023 relative to 2022, standing at SAR202 billion. The 2023 estimate for spending in this category is marginally higher than was originally announced in the 2023 budget statement. The main and ongoing focus of policies includes improving kindergarten participation, expanding school spaces and enhancing the training available to teaching personnel in order to support an improvement in teaching standards. Education spending is set to fall marginally in 2024, to SAR195 billion. The government will remain committed to aligning Education spending to Vision 2030 goals. Investment in its digital strategy and the physical upgrading of schools will continue, even as the authorities seek to further expand training and education that better prepares new entrants into the labor force.

Infrastructure and transportation

Spending on Infrastructure and transportation fell by an estimated 9.8 percent YoY in 2023, to SAR37 billion. A number of transport infrastructure-related projects were completed or progressed. Several large-scale infrastructure projects related to roads and communication networks continued amid the YoY contraction in spending on this component. Spending will rise by only a modest 2 percent YoY in 2024, to SAR38 billion, in part a reflection of the government's efforts to encourage investment into this strategic economic segment by the private sector and public development funds (reducing the need for government financing). The authorities will continue to support developments that enhance the density and quality of Saudi Arabia's transportation, logistics, technology and communications sectors, alongside broader projects that support the government's Vision 2030 agenda.

Risks and challenges

Global inflationary pressures remain high – albeit on a declining trend – and widespread across many advanced and emerging market economies. Persistent upward inflation complicates government policies through a variety of channels. On the fiscal front, price trends can directly undermine government assumptions related to input costs for public investment, goods and services. For oil producers, economic vulnerabilities are exacerbated by the potential monetary policy responses (to upward inflation) of oil-consuming economies; should monetary policy induce recessions in these economies, then demand for oil and thus oil prices are likely to fall further, in turn undermining public revenues in oil producers. (We note that the IMF is already predicting a further slowdown in world economic growth in 2024.) Saudi Arabia's non-oil domestic economy relies in part on oil-related financial inflows that impact the domestic economy through channels such as effects on consumer and investor confidence. Weak non-oil economic activity would in turn undermine government efforts to improve the role of non-oil income in the public revenue mix.

Geopolitical tensions are adding further uncertainty and volatility across real economies and financial markets. This comes at a time when the major central banks have raised interest rates significantly in order to contain domestic inflationary pressures, with such policy rate rises weakening demand in oil-consuming economies. At the same time, successive crises over the last fifteen years – for example, the global financial crisis in 2007-08 and the more recent Covid-19 pandemic – have reduced fiscal space for stimulus in many of these same economies. While Saudi Arabia's healthy fiscal indicators provide a cushion against economic shocks in the short-term, events abroad that further undermine international oil prices would weaken both the country's external and fiscal balance sheets. Financial market instability alongside already high global monetary policy rates could reduce access to financing and in turn complicate spending capacity in relation to Vision 2030; risks would probably be exacerbated by the fact that such instability in global financial markets could imply economic weakness in Saudi Arabia's export markets.

Economic indicators

	2019A	2020A	2021A	2022A	2023E	2024P
Economic output						
Nominal GDP (SAR billion)	3,145	2,754	3,279	4,157	4,136	4,261
Nominal GDP (% change YoY)	-0.9	-12.4	19.1	26.8	-0.5	3.0
Real GDP (% change YoY)	0.8	-4.3	4.3	8.7	0.0	4.4
Budget						
SAR billion						
Total revenue	927	782	965	1,268	1,193	1,172
Oil revenue	594	413	562	857	752	-
Non-oil revenue	332	369	403	411	441	-
Expenditure	1,059	1,076	1,039	1,164	1,275	1,251
Surplus / (Deficit)	-132	-294	-73	104	-82	-79
Gross public debt	678	854	938	990	1,024	1,103
% of GDP						
Total revenue	29.5	28.4	29.4	30.5	28.8	27.5
Oil revenue	18.9	15.0	17.1	20.6	18.2	-
Non-oil revenue	10.6	13.4	12.3	9.9	10.7	-
Expenditure	33.7	39.1	31.7	28.0	30.8	29.4
Surplus/Deficit	-4.2	-10.7	-2.2	2.5	-2.0	-1.9
Gross public debt	22.8	32.5	30.0	23.8	24.8	25.9

A | Actual **E** | Estimated **P** | Projected **-** | N/A

Source: IMF, MoF, Budget Statement 2024

Disclaimer: Figures are rounded up to the nearest billion throughout the report. Some figures may not add up to 100 percent due to rounding.

Contacts

Arvind Singhi
Head of Clients and Markets
KPMG Professional Services
E: asinghi@kpmg.com

Ismail Alani
Head of Government and Public Sector
KPMG Professional Services
E: ialani@kpmg.com

For more information about this report and other regular KPMG publications, contact **Peter Bannink**, Head of Marketing & Thought Leadership: pbannink@kpmg.com.

kpmg.com/sa

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