

Pre-Budget Statement

Fiscal year 2023

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List of Abbreviations

Bn	Billion
CAPEX	Capital Expenditure
CPI	Consumer Price Index
FY	Fiscal Year
GASTAT	General Authority for Statistics
GDP	Gross Domestic Product
H1	First half of the year
H2	Second half of the year
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
Mn	Million
NDF	National Development Fund
MOF	Ministry of Finance
NDMC	National Debt Management Center
OPEC	Organization of the Petroleum Exporting Countries
OPEX	Operating Expenditure
PIF	Public Investment Fund
SAMA	Saudi Central Bank
SAR	Saudi Riyal
SAIBOR	Saudi Arabian Interbank Offered Rates
TASI	Tadawul All Share Index
Tn	Trillion
USD	United States dollar
VAT	Value Added Tax
WPI	Wholesale Price Index

Introduction

The Ministry of Finance (MoF) issues the pre-budget statement for the FY 2023 in line with the government's policy to improve budget preparation process by integrating it within the comprehensive fiscal and economic framework for the medium-term and enhance transparency and fiscal disclosure.

This report aims to inform citizens, analysts, and other concerned parties of key domestic and international economic developments that influence the preparation of next year's budget, as well as the key fiscal targets and economic indicators for FY 2023 and for the medium-term. The report also provides a review of the main Strategies and Projects to be implemented during the next fiscal year under the umbrella of the objectives of Saudi Vision 2030.

It should be noted that the budget is usually approved in December, and it may vary from the contents of this document in light of new fiscal and economic developments. The budget classification used in this document follows, on a cash basis, the International Monetary Fund's (IMF) government Finance Statistics Manual (GFSM2014), which is a global standard classification.

Executive Summary

The global economy is facing several challenges that affect the trajectory of its growth and future outlook. The ramifications and impacts of the pandemic are still an influencing factor that affects the global economy. The supply chain crisis is still ongoing despite some indication of recovery. The global economy witnesses rising inflation rates reaching high levels around the world. One of the major drivers of the rise in inflation is the excessive adoption of the economic stimulation policies. In addition, the geopolitical challenges contribute in increasing uncertainty. These factors have led many organizations and international institutions to lower economic growth expectations for this year and the next year.

The objectives of the budget project for FY 2023 are a continuation of the efforts being made to enhance and strengthen the fiscal position of the Kingdom. In view of the changes in the growth outlook and the geopolitical challenges facing the global economy, the fiscal performance demonstrates the tangible improvement in the ability of the Kingdom's economy to face economic challenges and shocks. The proactive structural and fiscal reforms that were implemented under the umbrella of the Kingdom's Vision 2030 are key in enabling the Kingdom to achieve high economic growth rates during the current year, sustaining the decrease in the levels of unemployment among Saudis, and control inflation compared to international rates.

The Kingdom's Government continues to enhance the growth of domestic investment by building partnerships with the private sector on a large scale and enabling it to be engaged in all regions benefiting from the Kingdom's

diverse investment environment, in addition to the improvement and development of legislation and policies that led to the improvement in the Kingdom of Saudi Arabia's ease of doing business indicators, in a manner that ensures the continuity of strong economic performance and growth to achieve the fiscal and economic goals for FY 2023. Key indicators show continuous progress in most economic activities, and this growth is expected to continue in the medium-term.

- The Saudi economy has shown its strength and robustness by achieving high growth rates, after implementing many policies and measures with the aim of protecting the economy from the effects of inflation and supply chain challenges. Accordingly, real GDP growth is expected to reach 8.0% in FY 2022, driven by real GDP growth in oil activities and the sustained levels of growth in the real GDP in non-oil activities, which is expected to record growth of 5.9% in FY 2022. The GDP growth is reinforced by the expectations of growth in investments supported by the efforts and initiatives of many strategies, including the National Investment Strategy (NIS), which contributed to attracting more investment flows into the Kingdom through the signing of several new investment deals in various sectors, in addition to progress in the implementation of the mega projects and the initiatives of the vision programs.
- Preliminary projections indicate that inflation for FY 2022 may be about 2.6%. Despite the increase in global inflation rates, the Kingdom has taken proactive measures through which the Kingdom was able to contain inflation and limit the impact of the increase in prices, such as setting a ceiling on gasoline prices. Moreover, the government has also enhanced the social benefits and subsidies schemes through

the additional support to the beneficiaries of social insurance, the Citizen's Account program, and the Small Livestock Breeders Support Program, in addition to allocating support to increase strategic stocks of commodities and ensure their availability, to be able to face the ramifications of rising global prices. Inflation is expected to return to its normal levels in the medium term.

- Within the framework of the Kingdom's Vision 2030, the Kingdom continues to progress in implementing the Vision's programs and projects, develop promising sectors in the economy, and continue to implement several initiatives that enhance investments, stimulate industries, and Saudi non-oil exports, as well as raise the contribution of local content. In addition, there is the effective and important role of the Public Investment Fund (PIF) and the development funds; the return of the main activities to their normal levels, such as Hajj, Umrah, the Saudi Seasons, and tourism; the continuity of implementing structural reforms within the framework of the Kingdom's Vision 2030; which enhance the growth in non-oil activities at high and sustainable rates over the medium-term.
- The positive estimates for the Saudi economy for FY 2023 reflect the steadiness of improvement as signaled in the actual positive performance during the first half (H1) of FY 2022. The projections of economic growth rates in the Kingdom for FY 2023 were reviewed, and the preliminary projections indicate a real GDP growth of 3.1%, supported by the growth in the GDP of non-oil activities. This indicates that the private sector continues to lead economic growth and its contribution to increasing job creation in the labor market. This also indicates the improvement in the Kingdom's trade balance and the continuance of the implementation of the Vision 2030 realization

programs, as well as showing that the economic activities will maintain positive growth rates during FY 2023 and over the medium-term.

- The noticeable recovery in the Kingdom's economy, and the continuation of the implementation of the initiatives and structural reforms that were implemented during the past years, are estimated to lead to an improvement in fiscal indicators over the medium-term. Total revenues for FY 2023 are estimated to reach around SAR 1,123 bn, and climb to around SAR 1,205 bn in FY 2025. The government's continuous efforts to diversify the economy, will contribute to enhancing the non-oil revenues that are related to economic activity.
- The Saudi economy is going through a phase of transformation to achieve the objectives of the Kingdom's Vision 2030. Thus, the fiscal policy aims to strike a balance between maintaining fiscal sustainability and accelerating the pace of economic growth. The government has succeeded in implementing many supporting initiatives and structural reforms to enable economic transformation, and it intends to continue the implementation of these initiatives and reforms to enhance economic growth and fiscal sustainability, through raising the efficiency and effectiveness of spending and fiscal discipline. The government is also committed to continue the implementation of programs and projects of economic and social return to realize the Kingdom's vision 2030, empowering the private sector in fostering economic diversification through improving business environment and removing impediments towards a more attractive business environment, which lead to increase economic growth for the next year and the medium term.

- The development of the public finances structure in the Kingdom during the past years is worth noting, as the government has succeeded in achieving the main objective of the fiscal reforms in their first phase, which aimed to control the high deficit rates in the medium-term to reach fiscal balance. This is evident with the increase in non-oil revenues and as their percentage of expenditure coverage improved, in addition to maintaining the main fiscal sustainability indicators such as sustainable debt levels and strong financial reserves.
- The second phase of fiscal reform was launched under the “Fiscal Sustainability Program (FSP),” which aims, over the medium- and long-terms, to maintain sustainable fiscal indicators through spending levels that are stable and are directed to strategic spending that supports the structural change in the economy to achieve the objectives of the Kingdom’s Vision 2030. Therefore, total expenditures for FY 2023 are projected to reach around SAR 1,114 bn, and that the expenditure ceiling will reach around SAR 1,134 bn in FY 2025, all within a framework that ensures the preservation of appropriate levels of reserves and guarantees the sustainability of public debt.
- In light of the aforementioned developments, and to continue the process of economic and fiscal reforms under the Kingdom’s Vision 2030, it is estimated that budget for FY 2023 will achieve a surplus of about 0.2% of GDP, with the expectation that budget surpluses will continue to be achieved over the medium-term in a manner consistent with the objectives of fiscal planning and fiscal sustainability indicators. It is worth noting that the amounts of surpluses achieved in the budget will be directed to bolstering government reserves, supporting the national funds and considering the possibility of accelerating the implementation of some strategic programs and projects of economic

and social dimensions, as well as the repayment of part of the debt based on market conditions.

- The government expects that domestic and foreign borrowing activities will continue with the aim of repaying the debt principal that comes due in FY 2023 and over the medium-term and to utilize the available opportunities based on market conditions to proactively implement additional financing activities for principal repayment that is due in the coming years and to finance some strategic projects, in addition to utilizing the opportunities across market to implement government alternative financing activities with the aim of financing transformational spending for capital and infrastructure projects.
- Moreover, the budget for FY 2023 aims to strengthen the government's financial position by maintaining safe levels of government reserves to enhance the Kingdom's ability to address external shocks, as the fiscal policy aims to bolster government reserves at the Saudi Central Bank (SAMA), through transferring part of the expected surpluses.



Pre-Budget
Statement

01

Key Fiscal Targets and Economic Indicators

for FY 2023 and the Medium-Term

A/ Macroeconomic Projections for FY 2023 and the Medium-term

1. Global Economic Developments

After the pandemic's effects on the global economy have started to fade during FY 2021, FY 2022 witnessed several developments that have stemmed from the consequences of the pandemic and affected the global economic growth, which is expected to slow down during FY 2022, as a result of the decline in economic activity in the advanced, emerging, and developing countries, and primarily in the United States and China. This is mainly the result of the geopolitical ramifications, which have particularly reflected in the rise of food and energy prices, thereby driving inflation rates to rise dramatically in many countries around the world. This was also accompanied by the central banks' tightening of monetary policy, which limited the pace of global economic growth. This prompted the International Monetary Fund (IMF), in the July 2022 edition of its World Economic Outlook Report, to reduce its forecast for global economic growth, estimated to be 3.2% in FY 2022 and 2.9% in FY 2023, down from its previous estimates in April of FY 2022 by 0.4 and 0.7 percentage points for the FY 2022 and FY 2023 respectively. Moreover, the IMF has also lowered its forecasts for economic growth in advanced economies, by 0.8 and 1.0 percentage points, to 2.5% and 1.4% for the FY 2022 and FY 2023 respectively. Meanwhile, IMF expectations indicate a rise in the global inflation rate to reach 8.3% for FY 2022. It is also expected that the inflation rate will reach around 6.6% in the advanced economies and 9.5% in the emerging markets and developing economies for FY 2022.

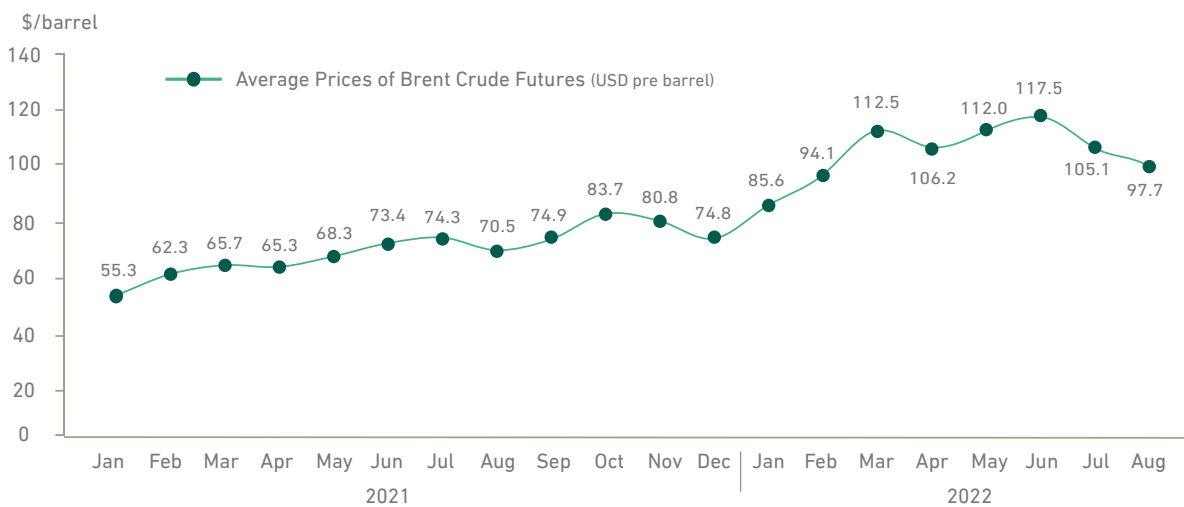
Growth Rates	2020	2021	2022* Projections	2023* Projections
Global Economy	-3.1%	6.1%	3.2%	2.9%
Advanced Economies	-4.5%	5.2%	2.5%	1.4%
Emerging Markets & Developing Economies	-2.0%	6.8%	3.6%	3.9%
USA	-3.4%	5.7%	2.3%	1.0%
China	2.2%	8.1%	3.3%	4.6%
Japan	-4.5%	1.7%	1.7%	1.7%
India	-6.6%	8.7%	7.4%	6.1%
Euro area	-6.3%	5.4%	2.6%	1.2%
Saudi Arabia	-4.1%	3.2%	7.6%	3.7%
Global Inflation	3.2%	4.7%	8.3%	5.7%
Inflation in Developed Economies	0.7%	3.1%	6.6%	3.3%
Inflation in Emerging Markets and Developing Countries	5.2%	5.9%	9.5%	7.3%

Source: IMF - World Economic Outlook (WEO), July 2022

In its June 2022 report on the global economy, the World Bank has indicated that the pandemic will probably continue to limit economic activities in the near-term, in addition to the marked slowdown in advanced economies, including the United States, and emerging markets such as China, which will impact the external demand in the emerging markets and developing countries. Moreover, the World Bank has also indicated that the continued disruption in supply chains, the increase in the levels of inflation, and the impact of geopolitical challenges on energy markets will lead to a further decline in the global economy's growth. The World Bank recommends the necessity of a strong and effective response at the macroeconomic and structural policies fronts at the global and domestic levels.

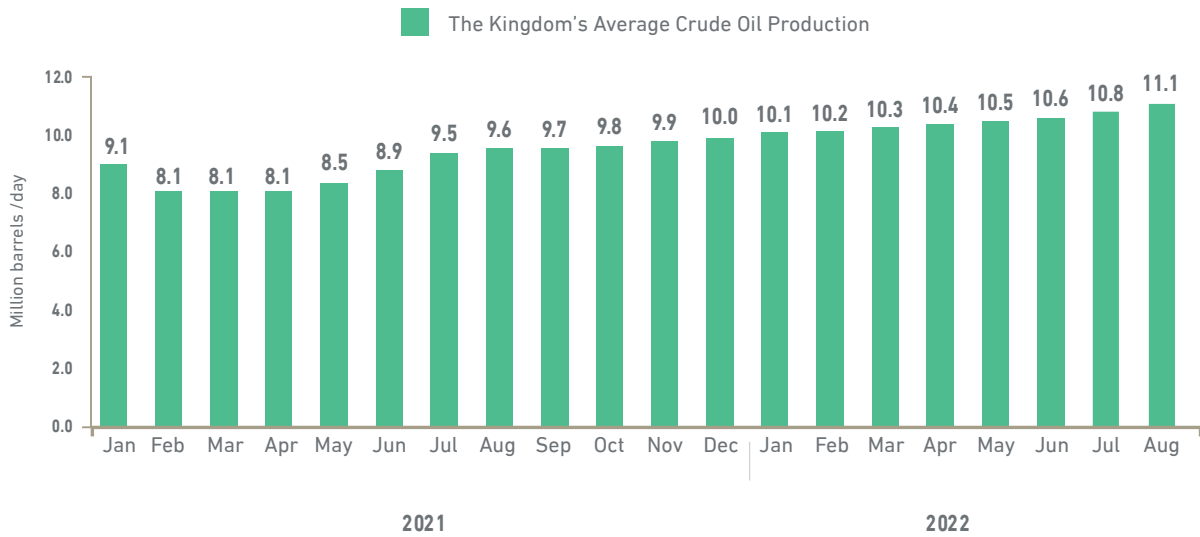
As for the oil markets, the average price of Brent crude futures increased, since the beginning of FY 2022 until the end of August, by 55% to record around USD 104.04 per barrel, compared to USD 67.06 per barrel during the same period last year. The average prices of Brent crude futures have recorded their highest levels

since FY 2008, with the closing price reaching USD 127.98 per barrel on the 8th of March 2022. Despite uncertainty in the global markets during this year in the midst of the geopolitical events, the severe economic concerns and the tightening of the monetary policies to curb inflation around the world, the oil market has been characterized with stability compared to other energy markets such as natural gas, coal, and electricity. The OPEC+ Agreement contributed to supporting the stability of the oil market in particular, and balancing supply with the gradual recovery in global demand for oil after the Coronavirus Pandemic has faded.



Source: Reuters

As for oil supplies, the Kingdom’s average production increased since the beginning of the year until the end of August by 20% to reach around 10.5 million barrels per day, higher by 1.8 million barrels per day compared to the same period last year. This increase is due to the efforts by the OPEC+ Agreement to support market stability and the performance efficiency for the benefit of the participants in the market and the petroleum industry.



Source: JODI

According to the OPEC monthly report on oil markets in August of 2022, global demand for oil is expected to register a growth of 3.1 million barrels per day compared to last year, to reach 100.03 million barrels per day. Global demand for oil in FY 2023 is expected to grow by around 2.7 million barrels per day, to reach 102.72 million barrels per day. It is worth noting that the share of the Non-OECD countries constitutes the largest percentage of the growth in FY 2023, which is around 2.1 million barrels per day. The report attributes this increase to the economic recovery in these countries and the increase in demand for fuel in the transport, industry and petrochemicals sectors.

2. The Domestic Economy

Despite the fears and crises that the world is witnessing including with the associated challenges, and their effect on the slowdown of the global economy impacted by the increase in inflation pressures resulting from the ramifications of the Coronavirus Pandemic and the geopolitical tensions that have cast a negative shadow on global supply chains, the strength and robustness of the Saudi economy enabled the Kingdom to address these crises, as the decline in growth rates during the pandemic was limited compared to the countries around the world during FY 2020. This was followed by the achievement of a positive growth rate of 3.2% during FY 2021 and the growth rate during first half of FY 2022 being the highest in more than 10 years. Achieving positive growth rates is expected to continue in a variety of economic activities due to the measures that the government has undertaken to support and enhance economic activity; reduce the burdens of cost of living through policies and procedures to contain impact of global inflation rates, such as setting a ceiling for gasoline prices; ensuring the ample availability of food products in the domestic markets, which helped instill certainty and reassure citizens; and increasing allocations for social protection programs, all while simultaneously continuing the implementation of the Kingdom's Vision 2030 realization plans and initiatives.

Accordingly, high positive economic growth rates are expected to be maintained throughout FY 2023 and over the medium-term, through two main drivers of economic growth: investment and consumption, reflecting the current efforts in implementing many structural reforms and sectoral strategies within the Kingdom's Vision 2030.

According to estimates for FY 2022, real GDP is expected to register a growth of 8.0%, supported by the growth in both the oil GDP as well as the

non-oil activities GDP. The non-oil GDP is expected to achieve a growth rate of 5.9% in light of the positive economic indicators during first half of the year. This growth is led by the wholesale and retail trade, restaurants, and hotels activity, driven by the decision to lift the precautionary measures related to the pandemic and increase the capacity of economic activities, including the Hajj and Umrah seasons and the Saudi Seasons, which had a positive effect on the private consumption rates, particularly after the increase in the rates of pilgrims and Umrah visitors. Moreover, the activity of manufacturing industries is also expected to grow, driven by the growth in the number of factories that have started production since the beginning of the year until June of FY 2022, which are about 721 factories, with a total investment of SAR 19.1 bn, according to data from the Ministry of Industry and Mineral Resources. This contributed to 43% growth in the exports of non-oil goods by end of second quarter of FY 2022 compared to FY 2021. On the other hand, private investment during first half FY 2022 has achieved annualized growth rate of 21.9%, while foreign direct investment (FDI) achieved annualized growth rate of 9.5% during first quarter of FY 2022. The number of completed investment deals during first half of FY 2022 reached 150 deals, which will reflect positively on the domestic economy.

Preliminary estimates also indicate that the Consumer Price Index (CPI) “the inflation rate” is expected to register an increase of about 2.6% for the FY 2022. This indicates that inflation rates in the Kingdom will remain at acceptable levels compared to global conditions, and this is due to the proactive measures undertaken by the government to contain the rise in prices and ensure ample availability of food stocks, despite the high global inflation rates. The latter is due to the return of business activities to normal levels after the effects of the Pandemic faded causing a steady increase in the pace of demand as a result

of the fiscal expansion in some countries, which is in contrast to the challenges facing the supply side, driven by the effects on global supply chains amid the geopolitical conditions that the world witnessed at the beginning of this year, which led to an increase in the commodities prices and logistic services globally.

Moreover, the improvement in economic performance has also played a major role in the decline in the unemployment rate for Saudis during second quarter of this year, as the rate decreased to 9.7% compared to 11.0% at the end of FY 2021. This is the lowest unemployment rate in the past ten years. It was the result of many initiatives such as the nationalization initiatives and the women's empowerment Initiative, which resulted in increase in women's participation in the labor market to reach 35.6% during Q2 of this year, thereby exceeding the Vision's objective for 2030 which aimed a level of 30%, and compared to the percentage of women's participation in the labor market at the beginning of the Kingdom's vision at 19.3% in FY 2016. In addition, the PIF's contribution in developing new and promising sectors, reflected positively on the employment rates by increasing direct and indirect employment opportunities in these sectors.

The development and diversification of the economy is one of the most important objectives of the Kingdom's Vision 2030, as all government sectors, in partnership with the private sector, seek to achieve the requirements of this objectives. The PIF is one of the pillars for economic diversification in the Kingdom, and it continuously aims to invest in several promising areas and sectors, including the tourism and hospitality sector, such as the "Red Sea" project, which aims to complete its first phase that involves the operation of the airport and 16 hotels during FY 2023, as well as the launch of the "Boutique Group", which specializes in luxury hotel hospitality, in January of FY 2022. This

is in addition to the PIF's investments in the food and agricultural sector in the Kingdom through its expansion of investment in SALIC company, and the launch of the Saudi Coffee Company in May of FY 2022. Moreover, the PIF has also worked to promote digital transformation and develop the domestic real estate sector by launching the National Real Estate Registration Services Company in September of FY 2022.

The strategy of the National Development Fund (NDF) was also launched with the aim of making the NDF an entity supporting the sustainable development of the economic sectors through providing financing to development funds and banks in the long-term, as well as making the fund a funding platform that contributes to diversifying and developing the economy, and raising the contribution of the private sector in real GDP growth.

The positive expectations for the Saudi economy for FY 2023 are reflection of the steadiness of improvement as signaled by the positive actual performance in the first half of FY 2022. The estimates of economic growth rates in the Kingdom for FY 2023 and the medium-term were accordingly reviewed. Preliminary estimates for FY 2023 indicate growth in real GDP of 3.1%, supported by the growth in non-oil activities GDP, as the private sector continues to lead the economic growth and the contribution to job creation in the labor market. This is in addition to the continued improvement in the Kingdom's trade balance, the continued implementation of the Kingdom's Vision 2030 programs, and the estimated positive growth rates in economic activities during FY 2023 and over the medium-term.

Based on the developments in economic activities, it is expected that the National Industrial Development and Logistics Program (NIDLP) and the implementation of the National Transport Strategy initiatives will contribute

to achieving high value addition in the economy. This is in addition to the important role of the investment strategy, which will enhance the contribution of the various types of investors in the investment ecosystem. This will also be in tandem with the new Investment Law, which will be a key catalyst in the investment environment in the Kingdom of Saudi Arabia, as this law provides equality between Saudi and non-Saudi investors and standardizes the procedures for issuing permits. Moreover, continuous efforts are being made for the implementation of the mega projects and announced initiatives such as the establishment of the Saudi Investment Marketing Authority, which aims to encourage investment in Saudi Arabia and highlight investment activities in all sectors. In addition, the “Saudi Green Initiative,” which represents the Kingdom’s approach to combating climate change, will provide major investment opportunities for the private sector. The initiatives also include the “Venture Capital Investment” initiative, which is part of the Financial Sector Development Program (FSDP), and aims to support investments in startups with potential of rapid growth.

Medium-term Macroeconomic Projections

	Actual* 2021	Estimates** 2022	(Percentage, unless otherwise stated) Projections**		
			2023	2024	2025
Economic Indicators					
Real GDP Growth	3.2%	8.0%	3.1%	6.0%	4.5%
Nominal GDP (SAR Billion)	3,126	3,927	3,879	3,966	4,247
Inflation	3.1%	2.6%	2.1%	2.1%	2.0%

* Source: GASTAT

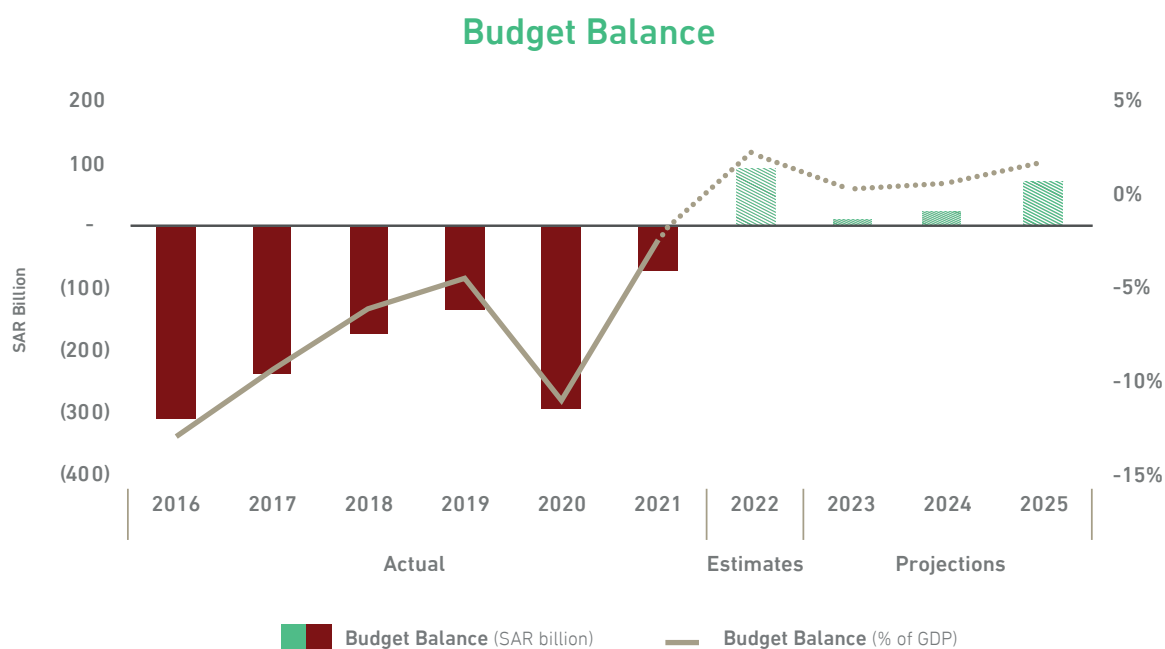
** Preliminary data

B/ Key Fiscal Targets

for FY 2023 and the Medium-term

The Kingdom's Government aims to continue the process of economic and fiscal reforms that it conducted under the umbrella of Vision 2030 and maintaining fiscal sustainability. These reforms include adopting fiscal policies that contribute to maintaining fiscal sustainability, improving public financial management, and raising the quality of fiscal planning to enhance economic growth and the most efficient use of resources. The fiscal policy in the medium-term also aims to strengthen the Kingdom's financial position to encounter external shocks through maintaining government reserves at appropriate levels and the sustainability of public debt indicators.

In this context, the Budget for FY 2023 reflects progress in implementing programs and projects supporting economic growth and diversification, improving public services, and strengthening programs for social benefits and subsidies schemes, all while preserving the gains made in previous years on the public finances front. The FY 2023 Budget is projected to achieve a surplus of around 0.2% of GDP, with the expectation that budget surpluses will continue to be achieved in the medium-term, which will strengthen fiscal sustainability. It is worth noting that the amounts of budget surpluses will be directed to bolstering government reserves, supporting the national funds, considering the possibility of accelerating the implementation of some strategic programs and projects of economic and social dimensions, as well as partially repay the debt based on market conditions; this is within the budget surpluses' utilization mechanism under the FSP.



Source: MoF

Medium-term Fiscal Projections (2021 - 2025)

(SAR Billion, unless otherwise stated)

	Actual 2021	Budget 2022	Estimates 2022	Projections		
				2023	2024	2025
Fiscal						
Total Revenues	965	1,045	1,222	1,123	1,146	1,205
Total Expenditures	1,039	955	1,132	1,114	1,125	1,134
Budget Balance	-73	90	90	9	21	71
As percent to GDP	-2.3%	2.5%	2.3%	0.2%	0.5%	1.7%

Source: MoF

Minor discrepancy may arise due to rounding

1. Revenues

The Government continues its efforts in the implementation of the initiatives and structural reforms, undertaken during the past years, which aim to diversify the economy and enhance the non-oil revenues which are naturally related to economic activity. This is to ensure their sustainability over the medium- and long-terms in a manner that contributes to the execution of economic transformation plans and the financing of development projects and expenditures that have a social and economic dimension. These initiatives and structural transformations, in addition to the continuous efforts to develop tax management and improve collection procedures, have contributed to the improvement in the non-oil revenues to non-oil GDP ratio, since the beginning of the implementation of the programs of the Kingdom's Vision 2030, reaching 18.4% in FY 2021 compared to 9.3% in FY 2015.

Preliminary estimates indicate that the total revenues in FY 2023 will reach approximately SAR 1,123 bn, a decrease of 8.1% from the estimated revenues in the FY 2022. This is due to the direction that the government is adopting in basing the estimates of oil and non-oil revenues in the budget on conservative standards in anticipation of any developments that may occur in the domestic and global economy. When compared to the estimates for FY 2023 during the approved budget for FY 2022, the total revenues in FY 2023 are expected to grow by 7.4% compared to previous estimates as a result of the marked improvement in economic activities, in addition to the fact that the approved budget for FY 2022 was estimated based on conservative criteria due to the state of uncertainty accompanying the pandemic during budget preparation. It is estimated that total revenues will continue to grow to reach around SAR 1,205 bn in FY 2025, supported by the projections of domestic and global economic growth over the

medium-term, in addition to the government’s continuous efforts to diversify the economy, which in turn will contribute to enhancing revenues in accordance with economic growth.

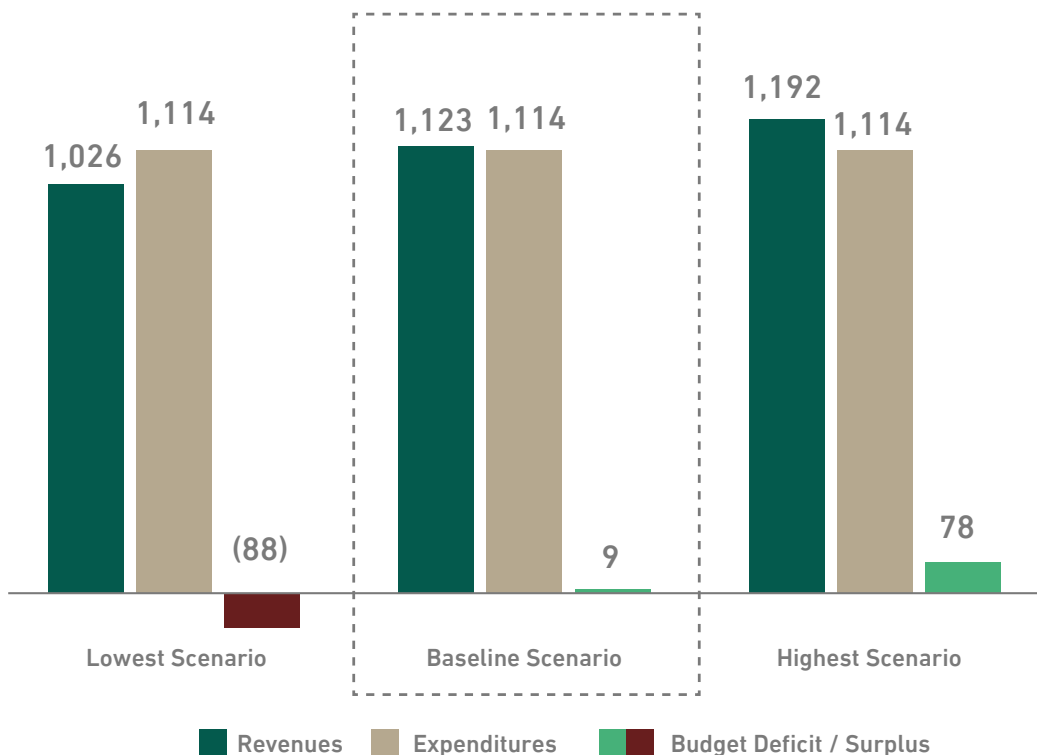
Revenue Scenarios

In light of global and domestic developments, revenue scenarios for FY 2023 have been prepared as follows:

- The Baseline Scenario, which is based on global and domestic developments, and the scenario used to estimate revenues in the budget.
- A scenario that takes into consideration the achievement of lower levels of revenues compared to the Baseline Scenario.
- A scenario that takes into consideration the achievement of higher levels of revenues compared to the Baseline Scenario.

Revenues Scenarios for FY 2023

(SAR bn)



2. Expenditures

Within the framework that the Kingdom's government is executing towards strengthening public finances and achieving developmental and economic objectives, the estimates of expenditure ceilings over the medium-term are continuously reviewed and updated according to the results of the fiscal reforms and economic developments. In view of the increase in non-oil revenues that the Kingdom's economy is witnessing and its positive impact on the fiscal space, expenditure ceilings were reviewed upward over the medium-term to reflect the rise in structural revenues without affecting the achievement of the fiscal sustainability objectives while enabling the acceleration of the implementation of regional and sectoral strategies.

The Government is moving forward with the process of economic and structural reforms aimed at enhancing economic growth and fiscal sustainability, through raising the efficiency and effectiveness of spending and fiscal discipline, taking into consideration the economic conditions the world is witnessing at all levels. The government places great importance on the social support and protection schemes to assure and protect citizens from being affected by domestic and global ramifications. The government is also keen to continue empowering the private sector and stimulating the investment environment in the Kingdom, in addition to implementing the mega projects and programs to achieve the objectives of the Kingdom's Vision 2030 and have an economic and social dimensions and impact. This will also have a positive contribution in achieving higher economic growth in the coming year and over the medium-term. Total expenditures are projected to reach around SAR 1,114 bn in the coming FY 2023, and is estimated to reach around SAR 1,134 bn in 2025.

3. Financing and Debt

To meet the Kingdom's financing needs, the MoF, in cooperation with the National Debt Management Center (NDMC), is working on preparing an annual borrowing plan in accordance with the medium-term debt strategy, which aims to diversify financing between domestic and external sources and access global debt markets to enhance the Kingdom's position in international markets within well-considered frameworks and foundations to manage risk. This strategy also takes into consideration the objectives of the Kingdom's Vision 2030 in promoting the growth of the financial sector and deepening the domestic debt market.

Moreover, the strategy aims to diversify financing tools between the issuance of bonds, sukuk and loans, in addition to continuing exploring new financing markets and instruments through government alternative financing to provide financing for projects, infrastructures and through the Export Credit Agencies (ECAs). This comes within the MoF's strategy to support the continuity and completion of the mega strategic and development projects in the Kingdom.

Despite the expectations of achieving budget surpluses during FY 2023, the government aims to continue borrowing activities from the domestic and external markets with the aim of repaying debt principal that comes due during FY 2023 and over the medium-term; utilizing the available opportunities based on market conditions to proactively make additional financing transactions to repay the debt principal dues for the following years and finance some strategic projects; and to execute alternative financing transactions with the aim of financing capital and infrastructure projects.

It is worth noting that during FY 2022, the NDMC implemented an early redemption transaction to repay part of the domestic debt principal due for the FYs 2023, 2024, and 2026; and issued domestic sukuk in exchange to repay these dues. The center also leveraged the available opportunities during the FY 2022, to reduce the financing needs for FY 2023 by financing in advance. These transactions contribute in reducing the risk of refinancing on debt portfolio, in light of the fluctuations in markets and interest rates and maintaining the average maturity of the portfolio. The average maturity of the debt portfolio increased to 9.5 years at the end of FY 2021, compared to 9.4 years at the end of FY 2020.

The Budget for FY 2023 also aims to strengthen the Government's financial position through maintaining safe levels of government reserves to enhance the Kingdom's ability to deal with external shocks. The fiscal policy aims to enhance government reserves at SAMA with a part of the surpluses expected to be achieved.

02

Main Strategies and Projects over the Medium-term

Strategies

The National Tourism Development Strategy

The National Tourism Development Strategy was launched in 2019 with the aim of developing the tourism sector in the Kingdom. It includes five main pillars to achieve the strategic ambitions of the Kingdom's Vision 2030 in the tourism sector. These pillars are as follows: strengthening the Kingdom's position and promoting it as a global tourist destination, elevating the tourism sector's contribution to the GDP to 10%, achieving 100 million tourist visits, contributing to the efforts to promoting and supporting the private sector and attracting FDI. One of the most prominent achievements FY 2021, was the attraction of 64 million tourist visits, total volume of spending in the tourism sector reaching SAR 81 bn, the creation of approximately 848 thousand direct and indirect job opportunities, and the number of tourist visas reaching one million. These efforts enhance the growth of the tourism sector in the Kingdom, which was reflected in the Kingdom's advancement by ten ranks in the Travel and Tourism Development Index (TTDI), compared to FY 2019, advancing to the 33rd place for FY 2021. In addition, the **"Tourism Pioneers"** program was launched in June of FY 2022. The program is the largest of its kind in the world and aims to develop the capabilities of 100 thousand local talents to support the tourism sector in the Kingdom.

The Financial Technology Strategy

The Financial Technology Strategy was launched in 2022, and it represents one of the pillars of the Financial Sector Development Program (FSDP), which aims to make the Kingdom a home for financial technology and to make innovation in financial services the basis for empowerment of the individual and society. To achieve this, the strategy will work to solidify the Kingdom's position in the financial technology sector, enhance the regulatory framework, develop competencies in the financial technology sector, and develop technological infrastructure, in addition to bolstering local and international partnerships. Among the most prominent objectives is to increase the number of financial technology companies in the Kingdom to reach 250 companies by 2025 and 525 companies by 2030, and to increase the percentage of non-cash transactions (digital transactions) to reach 70% in 2025 and 80% in 2030.

The National Investment Strategy (NIS)

The NIS was launched in 2021 and it aims to increase the quality and volume of investments in the Kingdom, which contributes to advancing economic development and diversifying it within the framework of the Kingdom's Vision 2030. The increase in investment is a main pillar of achieving the more diverse and wider economic and social goals. Among the most prominent objectives of the strategy for 2030 is to achieve cumulative investments of over SAR 12.4 tn, and to increase total fixed capital formation to reach 30% as a percentage of GDP, in addition to increasing FDI flows to 5.7% of GDP. As for the accomplishments of the NIS, the growth of the active foreign investments permits has increased 264% in Q2 of FY 2021 compared to the same period in FY 2015.

The Strategy of the Custodian of the Two Holy Mosques Scholarship Program

The Strategy of the Custodian of the Two Holy Mosques Scholarship Program was launched in 2022. It is a new phase for scholarship, as it contributes to enhancing the competitiveness of citizens to raise the efficiency of human capital through developing the Kingdom's capabilities in research, development, innovation and entrepreneurship in priority areas, and requalifying and enhancing capabilities in various scientific disciplines to provide talented national cadres. The Custodian of the Two Holy Mosques Scholarship Program Strategy includes three strategic pillars. The first pillar is to focus on the awareness and preparation of scholarship students; the second pillar is concerned with developing scholarship tracks and programs and aims to enhance the Kingdom's competitiveness locally and internationally; and the third pillar is concerned with the follow-up and subsequent care for scholarship students through guidance and the development of the services provided to them.

It should be noted that the strategy of the Custodian of the Two Holy Mosques Scholarship Program consists of four tracks, each of which has clear and specific objectives that it is meant to achieve. **The (Pioneers)** Track aims to send students to the best 30 educational institutions in the world according to the internationally approved university rankings in all disciplines. **The (Research and Development)** Track focuses, in order to empower the research and innovation ecosystem, on sending graduate students to the best institutes and universities around the world. **The (Imdad)** Track also works to meet the needs of the labor market in specific disciplines that are updated periodically. This is done by sending 70 thousand male and female citizens on scholarships to

the top 200 universities to ensure that the labor market is provided with the required capabilities. The last of these tracks is **the (Promising) Track**, which aims to send students on scholarships in promising sectors and fields according to the national requirements of the mega projects and promising sectors, such as the industry sector, the tourism sector and other sectors.

The National Strategy for Culture

The National Strategy for Culture was launched in 2019, and it is based on strengthening the identity of the Saudi culture, preserving its cultural heritage and developing the cultural sector within it. The strategy aims to develop the Saudi contribution to arts and culture; in addition to developing and diversifying the entertainment opportunities to meet the needs of the population; preserving and publicizing the Kingdom's Islamic, Arab and National heritage; developing the tourism sector; enriching the religious and cultural experience of pilgrims and Umrah visitors; in addition to taking care of the Arabic language.

Moreover, among the strategy's most important achievements is the Heritage Commission's approval of the registration of 253 new archaeological and historical sites in the National Antiquities Register, as part of its efforts to discover, document, register and preserve archaeological and historical sites in the Kingdom, bringing the total of archaeological sites that have been registered in the Register since its inception to 8,429 sites in various regions of the Kingdom, including 680 sites in Makkah Al-Mukarramah. With regard to global achievements, the "Hama" area in Najran was registered in the UNESCO World Heritage List, becoming the sixth Saudi site in the global list of heritage sites.

The Strategy of the Gaming and Electronic Sports Sector

The Strategy of the Gaming and Electronic Sports Sector was launched as a new step towards prominence and making the Kingdom a global center in this sector by 2030. This contributes to achieving the goals of the Kingdom's Vision 2030 in diversifying the economy; providing job opportunities in various sectors; providing high-level entertainment to the citizens, residents and visitors alike. The strategy includes three main goal that have a direct impact on citizens, the private sector, fans and professionals of electronic sports and games around the world. These goals are raising the quality of life by improving the players' experience and providing new entertainment opportunities; achieving economic impact through contributing around SAR 50 bn to the GDP directly and indirectly and creating more than 39 thousand direct and indirect new job opportunities by 2030; and providing a foundational environment for developing competencies. The strategy also aims to reach global prominence in the field and enhance the Kingdom's position on the international arena, through the production of more than 30 globally competitive games in the Kingdom's studios, and to be among the top three countries in the number of professional electronic sports players.

The National Transport and Logistics Strategy

The National Transport and Logistics Strategy was launched in 2021. Among this strategy's most prominent objectives to achieve the Kingdom's Vision 2030 are the following: solidify the Kingdom's position as a logistics hub to become one of the top 15 countries in the world in the Airport Communications Index, advance in the Logistics Services Index from 49th rank to the 10th, have 3 Saudi cities ranked among the top 100 cities, raise the quality of life in cities in a manner that contributes to achieving the Kingdom's Vision 2030.

It is worth noting that the National Transport and Logistics Strategy aims to solidify the Kingdom's position and make it a global logistics center linking the three continents, elevate all transportation services and means, and enhance integration in the logistics ecosystem and modern modes of transportation to support the comprehensive development process in the Kingdom. Among the achievements of the first year after the launch of the strategy are, the inauguration of the road linking Saudi Arabia and Oman to enhance the interconnectedness of the road network; in addition to the achievement of acquiring advanced positions by four airports in the Kingdom according to the "SkyTrax" global ranking; the Kingdom of Saudi Arabia receiving the Arab Civil Aviation Award for the year 2022; public transportation projects were launched in a number of the regions of the Kingdom; the nationalization of the vehicle routing/steering sector by 100% and the registration of more than three hundred thousand male and female drivers in this sector; and the entry of 3 ports into the top 100 ports in the world, where King Abdullah Port ranks 1st, while Jeddah Islamic Port ranks 8th, and King Abdulaziz Port placed at 14th according to the Container Port Performance Index 2021.

The Mega Projects

The NEOM Project

The project is a future global center for trade, innovation and knowledge to enable leading companies to change the future of sectors such as the energy, transportation and other future sectors. The NEOM project extends in the northwest of the Kingdom and aspires to be a leading city in clean energy, a leading growth engine, and an attractive place to live and work.

The NEOM project will also achieve three main goals under the umbrella of the Kingdom's Vision 2030, which are to achieve exceptional living, a flourishing business environment, and the reinvention of the concept of sustainability. Moreover, the "The Line" project was launched, which is considered a revolution in urban life, as it puts the human element at the top of its priorities by giving people an unprecedented urban living experience while preserving the nature around them. The Line will redefine the concept of urban development and what cities should look like in the future. The Line will be 200 m wide, 170 km long and 500 m above sea level.

The Red Sea Project

The Red Sea, the most ambitious luxury tourism and hospitality destination, is being developed around one of the world's hidden treasures of nature. It is one of the mega projects of which the PIF has full ownership. It should be noted that the Red Sea Project will introduce new standards in renewable tourism and sustainable development, and will create unique tourism experiences. The project extends over an area of 28 thousand km² and includes a number of historical cultural and heritage monuments.

This destination will be powered by an off-grid, renewable energy system; and it will contribute directly to achieving the goals of Saudi Vision 2030, as it works to highlight the Kingdom's abundant capabilities and create new economic, cultural and social opportunities.

The Qiddiya Project

It is one of the PIF's projects inspired by the Kingdom's vision 2030, and it is the future capital of entertainment, sports, culture and the arts, as it will become a unique global destination that offers innovative and immersive experiences in

the fields of entertainment, sports, culture and the arts, near the capital Riyadh. It will extend over an area of 367 million square meters, designed around five components: parks; attractions; sports, transportation and movement; culture and arts; and nature and the environment. Qiddiya seeks to achieve dual economic and social goals, which is to advance the process of economic diversification in the Kingdom.

The Green Riyadh Project

The Green Riyadh Program is one of the largest urban afforestation projects in the world. The project aims to plant more than 7.5 million trees to raise the per capita share of green space in the city of Riyadh, from 1.7 m² to 28 m², an increase that is equivalent to 16 times. It also aims to increase the percentage of total green spaces in the city from 1.5% to 9%, which contributes to improving the quality of life and raising the sustainability and ranking of the city of Riyadh among its counterparts in the cities of the world.

The Green Riyadh Program aims to elevate the urban architectural environment of the city of Riyadh, through the rehabilitation and afforestation of main roads, the development of new major parks in the city, and the rehabilitation of valleys and their tributaries. The planting that the program is implementing covers 120 neighborhoods in Riyadh, including creating 3,331 new parks; planting trees to line streets, the vicinity of mosques and schools; planting to line car parks; and constructing sidewalks to provide shaded walking paths that stimulate healthy movement modes among the city's residents, and enhance accessibility between the neighborhood elements and the public transport network, which enhances the social, sports, and picnic aspects for the residents of Riyadh.

The Green Riyadh Program contributes to reducing temperatures by 1.5 to 2 degrees Celsius at the city level, and by approximately 8 degrees Celsius within the areas of intensive greenery, in addition to improving air quality by lowering carbon dioxide by rates ranging between 3% and 6%; increasing the percentage of oxygen and humidity; and reducing dust in the air; contributing to reducing the consumption of energy; and increasing the city's ability to absorb and utilize rainwater as well as reduce its effects. The program will also contribute to the recycling of renewable water from treated wastewater to be used for irrigation purposes by percentage of 100% through the establishment of new networks in the city.

The Riyadh Art Project

The project was launched in 2019, and is one of the four mega projects that are developed by the Royal Commission for Riyadh City to transform the capital into an environmentally-friendly and sustainable city that provides the highest standards of living and lifestyles, in line with the ambitions of the Kingdom's Vision 2030. The project is a technical initiative aimed at transforming public places into art spaces that allow for artistic expression and stimulate creative participation by all segments of society. The project features more than 1,000 artworks and is supported by two major annual celebrations and will bring an artistic atmosphere to residential neighborhoods, gardens, parks and public spaces. The project also aims to contribute to the development of a vibrant society and a prosperous economy by enriching the lives of residents and visitors with art, which enhances investment in the creative economy, and enhances Riyadh's position as a global city, making it a creative and cultural center. The project also contributes to enhancing the cultural activities on the domestic and global levels

and stimulating the tourism movement and the related economic activities in the cities, as well as the participation of residents and visitors, and raising the quality of life in the city through stimulating the technical and creative aspects. The project aims to attract more than 2 million tourists annually, in addition to providing 24 thousand job opportunities.

The King Salman Park Project

The project strategy was launched in 2019, and it aims to provide a vibrant experience for the residents of the city of Riyadh by providing a variety of environmental, cultural, sports, artistic and entertainment options, which contribute to achieving one of the most important objectives of the Kingdom's Vision 2030, through creating a vibrant community whose members enjoy a healthy lifestyle, and a setting that provides the opportunity of living in an attractive and happy environment. The project also aims to raise Riyadh's ranking globally.

The project is located in a pivotal location in the city of Riyadh, and the park's area exceeds 16 km², making it the largest city park in the world. It offers a wide range of options and activities of a unique quality for the city's residents and visitors, as it includes extended green areas; more than one million trees; open squares with an area of more than 11.6 km²; in addition to The Royal Art Complex; the National Theatre; a 7.2 km pedestrian circular path; the "Wadi" area in the middle of the park; and a group of water elements, landmarks, and artistic icons. The park will contribute significantly to increasing the vegetation cover in the region and raising the rate of per capita green spaces, which will have a direct and positive impact on the quality of the environment and the climate.