جدوى للإستثمار
Jadwa Investment

December 2023

Saudi Arabia's 2024 Budget

- The government's budget for the 2024 fiscal year was endorsed by the Council of Ministers on 6th December.

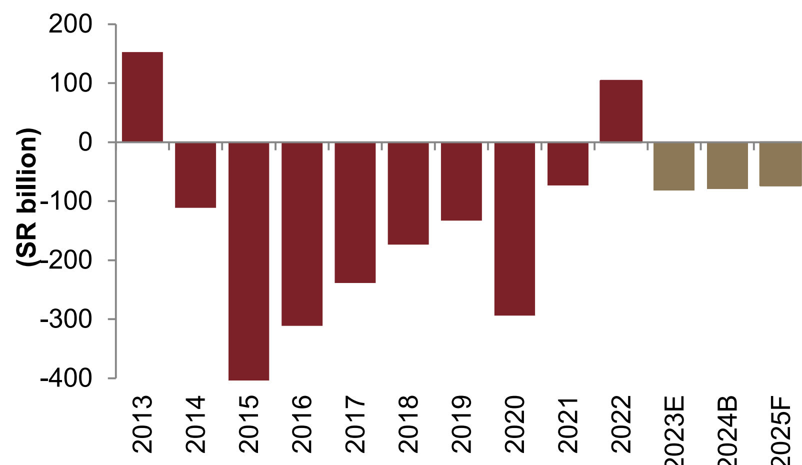
- The government projects total expenditure for 2024 at SR1.25 trillion, which is 11 percent above the projection made in the 2023 budget, when spending was forecast to reach SR1.13 trillion next year. The projection for 2025 also rises—to 1.3 trillion, which is a substantial 15 percent higher than the forecast made last year. Despite this, the authorities expect 2024 spending to fall compared to the estimate of 2023 spending, which has been put at 1.28 trillion.

- Revenue is projected to fall slightly (by less than 2 percent) versus this year's estimate, with lower implied oil earnings the main driver. Revenue is then expected to recover in the following years, reaching SR1.26 trillion in 2026. The budget deficit is forecast to narrow very slightly from 2 percent of GDP this year to 1.9 percent of GDP in 2024 (Figure 1).

- We doubt that spending will actually be cut in 2024: project activity is gathering pace and the recent award of the 2030 World Expo will only add to this momentum. In addition, project input costs (both labor and material) are rising and it will be difficult for the government to reduce capex next year. Moreover, there does not seem to be any pressing need to do so, with both public sector savings and debt headroom substantial.

- In sum, and notwithstanding the projected fall in spending next year (compared to this) the overall spending envelope appears to have increased. We note that the medium-term fiscal projections now involve deficits, unlike the surpluses projected last year, indicating that the central government's priority has shifted away from balancing the budget to V-2030 delivery. That makes sense given the fiscal room for maneuver that the government enjoys.

Figure 1: The fiscal outlook has shifted towards deficits as the government prioritizes Vision-2030 delivery



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The government's budget for the 2024 fiscal year was endorsed by the Council of Ministers on 6th December with only minor changes compared to the pre-budget statement released in September this year.

Expenditure:

Total expenditure for 2024 is budgeted at 1.25 trillion, down 2.3 percent on the official 2023 estimate.

There has been an upward shift in medium-term spending projections. Projected total expenditure for 2024 is SR1.25 trillion, which is an 11 percent increase over last year's outlook when 2024 spending was forecast at SR1.13 trillion. The projection for 2025 also rises—to 1.3 trillion, which is a substantial 15 percent higher than last year's forecast. Despite this, the authorities expect 2024 spending to fall compared to the estimate of 2023 spending, which has been put at SR 1.28 trillion (Figure 2).

Medium-term spending projections have been shifted upwards, however.

There are a couple of points to note from this. First, the 2023 spending estimate is 14.5 percent higher than budgeted, with a rise in social benefits (which saw a full-year of inflation-related support compared with 2022), a 29 percent surge in capex, and higher-than-expected procurement costs the main reasons for this. Second, and given this over-spend, it seems that the 2024 projection is too low. A cut to spending in 2024 cannot be ruled out, but it seems unlikely given that a number of interim Vision targets for 2025 are beginning to loom, and project inputs (wages, materials) are rising sharply.

In our view, there is scope for a pick-up in spending next year.

Moreover, there is scope for an increase in spending: based on the budget, 2024 spending would amount to 41.4 percent of non-oil GDP, about 4.5 percentage points lower than 2023 spending (Figure 3). In addition, there is plenty of scope for additional debt issuance to fund this, with central government debt currently below 25 percent of GDP.

Central government capex surged by 29 percent over budget this year. It is earmarked to decline by around 7 percent in 2024, though this might be difficult to achieve given a very tight projects market.

Meanwhile, capex is set to fall to SR189 billion in 2024, down 6.9 percent from this year's estimate. On one level, a decline is plausible given that the spike in 2023 capex was partly a result of the delivery of Covid-19-delayed infrastructure projects; indeed, the projection for 2024 is still high in recent historical terms. A reduction in budgeted capex is also understandable given the current oil price environment. That said, our bias is towards higher-than-budgeted capex next year given the welter of outstanding projects to be delivered.

Current spending has been budgeted at SR1,062 billion, around 1 percent lower than this year's estimate, though most line items are budgeted to increase. Employee compensation is set to rise by 1.5 percent, following this year's 4.3 percent rise. Holding growth in compensation to 1.5 percent will be tricky given a tight jobs market, featuring increased private sector competition for Saudi talent.

Figure 2: The government expects spending to shrink slightly next year

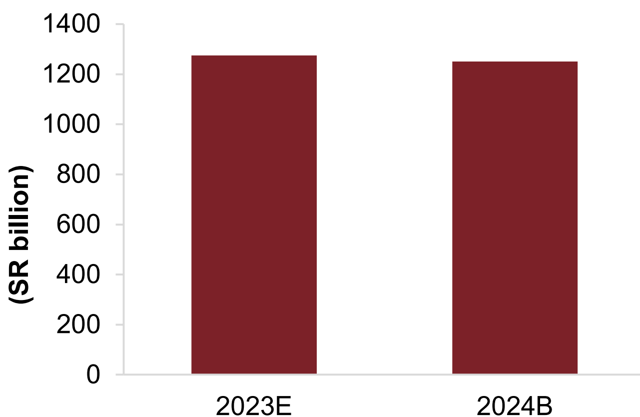
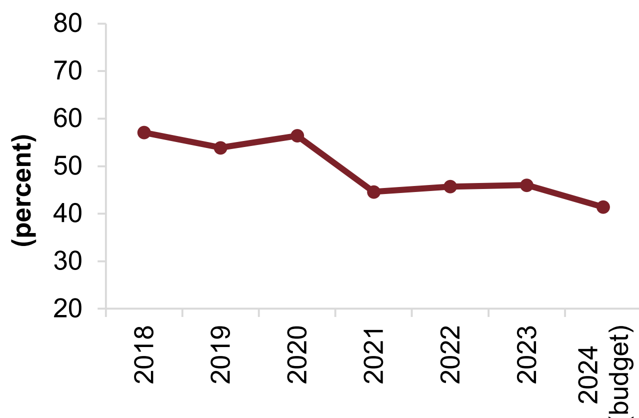


Figure 3: Spending as a share of non-oil GDP continues to trend down



Employee compensation is budgeted to rise by 1.5 percent in 2024. Again, this might be optimistic given a tight labor market.

Yet this element of spending—while large in nominal terms—has fallen as a share of non-oil GDP from 26.5 percent in 2018 to 19.3 percent this year. A further fall, to 18 percent of non-oil GDP, would be in store next year assuming compensation is held to the budgeted level (Figure 4). Even if spending on this item rose by another 4.3 percent, the ratio would still ease to 18.5 percent.

The outlook for procurement costs is balanced.

Use of goods and services sees a small budgeted increase compared with this year (less than 2 percent). This item was well over budget in 2023 (by 25 percent) reflecting in part the surge in capex, since much of the goods and services are associated with project spending. Growth in the cost of imported inputs should moderate in line with softer global inflation in 2024, but local costs seem set to rise again given tightness in the project market.

Spending on social benefits is set for a substantial decline, though this assumes that various inflation-related benefits will not be rolled over again.

Spending on social benefits is set to decline by 36 percent. This is presumably based on the assumption that the inflation allowance and other measures to help vulnerable households will end in December 2023 and not be extended. However, given that such measures *do* tend to get rolled over, this represents upside risk to the spending outlook.

The Military remains the biggest single sector of spending, and sees a 21 percent rise in budgeted spending. A lot of the earmarked spending is likely to be related to the localization drive.

Looking at the budget from a sectoral level, 'Military' remains the largest element of spending and is set for a further sizeable increase in 2024 (up 8.5 percent on this year's estimate) (Table 1, Figure 5).

Table 1. 2024 Budget Allocation

(SR billion)

Budget Allocation	2023B	2023E	2024B	Difference (2024B-2023E)
Expenditure	1114	1275	1251	-24
Public Administration	37	45	43	-2
Military	259	248	269	21
Security & Regional Amin.	105	110	112	2
Municipality Services	63	87	81	-6
Education	189	202	195	-7
Health & Social Development	189	250	214	-36
Economic Resources	72	80	84	4
Infrastructure & Transport	34	37	38	1
General Items	165	216	216	0

Note: "B" refers to budgeted spending, "E" refers to estimated spending

Figure 4: Recent years have seen a decline in the relative size of spending on wages & salaries

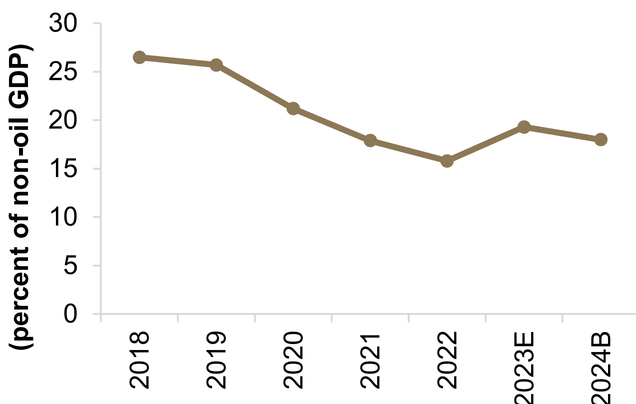
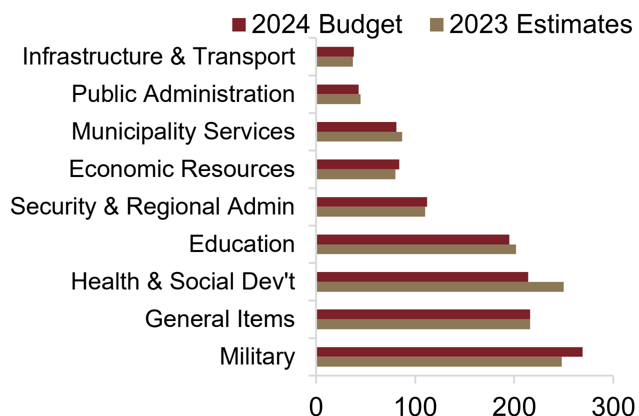


Figure 5: Yearly Change in Spending by Sector
(estimates of 2023 versus budgeted 2024)



Box 1: Government spending shifting higher

The new budget sees an upward shift in the medium-term spending outlook.

The past two years have seen a pronounced upward shift in spending. This can be seen both in the percentage change in nominal spending (an annual average of over 10 percent) and in the divergence between actual and budgeted spending (Figure 6).

During the "boom" years of 2010-2014 actual spending outstripped the budget by an annual average of SR210 billion, or 8 percent of average GDP. These were the years of high and rising oil prices and limited oversight of ministries' spending. The oil price crash of late 2014 did not affect 2015 spending very much, but by 2016 the government was in retrenchment mode. Spending that year was slightly below budget (and a whopping 17 percent below the previous year's actual spending). With the advent of Vision 2030 a new, more disciplined approach to budgeting and spending was instituted. Thus, the average annual overspend in the 2016-21 period was SR31 billion, or just 1 percent of GDP.

While two years of data do not indicate a trend, the divergence between budgeted and actual spending has begun to grow again. The average gap for 2022 and 2023 is just under SR180 billion, or 4.5 percent of GDP. Unanticipated global inflation has certainly contributed, but a shift in emphasis towards Vision-2030 project rollout and away from budget balance is also in play. There has also been an understandable effort to offset quite restrictive monetary conditions through fiscal looseness.

The government now appears to be willing to tolerate modest fiscal deficits in order to ensure that the Vision 2030 agenda is delivered.

The upshot is that whereas the 2023 budget foresaw small fiscal surpluses in the 2023-25 period, the projection now is for deficits. This suggests that the priority is to deliver the 2030 project agenda, with an implied tolerance for fiscal deficits if that is what it takes. Nevertheless, it is notable that the "excess" spending is not pressurizing important ratios, most notably spending-to-non-oil GDP.

Most other sectors see budgeted declines, most notably 'Health and Social Development'.

Efforts to localize military industries explain much of this increase, with a target of 50 percent of military purchases from the local market by 2030. That said, heightened regional tensions might also have played a role in the budget increase. Most of the other sectors see budgeted declines. Notably, 'Health and Social Development' is earmarked for a 14 percent fall, albeit following an outsized gain in 2023. Keeping spending on this item in check is a struggle for many countries given the growing prevalence of "lifestyle diseases", though the Kingdom's rapidly developing private health system should help to take some of the strain.

Figure 6: There has been an upward shift in spending projections

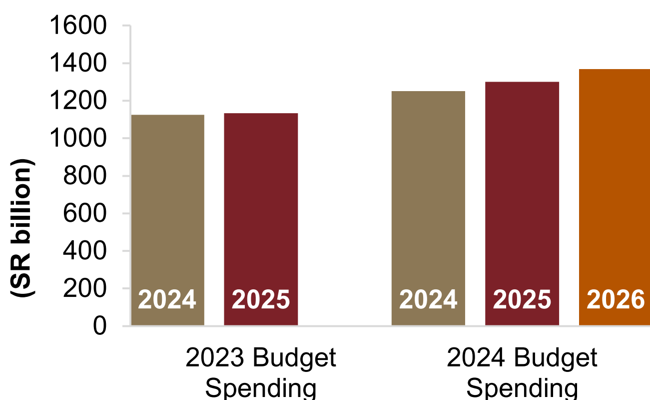
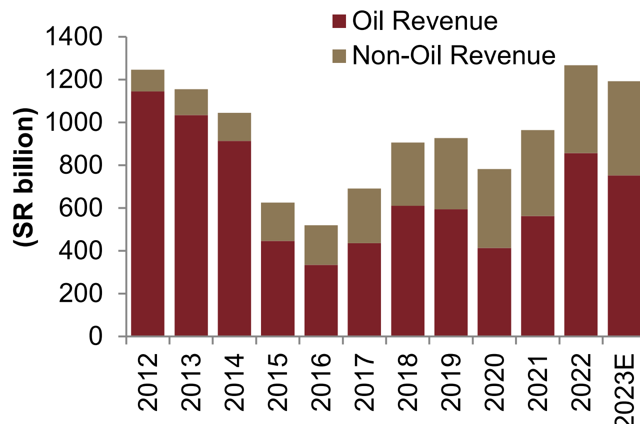


Figure 7: Actual Revenue by Type



Revenue:

Revenue is budgeted to fall compared with the 2023 estimate.

Total revenue is forecast to reach SR1.17 trillion in 2024, only 2.3 percent higher than the projection made in the 2023 budget. From there, revenue is expected to reach SR1.26 trillion in 2026, some 4.5 percent higher than last year's projection. As with spending, revenue is projected to fall compared with the 2023 estimate. The government puts this at SR1.19 trillion, meaning that revenue is set to decline by around 2 percent next year (Figure 7).

The oil revenue outlook is improved with the inclusion of Aramco's "performance-related" dividends.

As ever, much hinges on the oil revenue outlook. Naturally enough, the authorities do not reveal oil revenue assumptions (the figure is subsumed within 'other revenue'). However, it appears from the 2023 oil revenue estimate that the authorities are including Aramco's "performance-related" dividend in their oil revenue assumption (rather than treating it as a means of deficit financing) (Figure 8). Although these dividends are obviously variable, Aramco's free cash flow is structurally large enough that one can expect SR150 billion in performance-related dividends next year. In effect, these dividends raise the central's government share of oil export earnings from around 70 percent in 2022 to almost 90 percent in 2024. Our rough calculation is that the government used a price of $76 pb (Brent) for their 2024 revenue calculations (this is based on our assumption that the Kingdom's oil production cuts will be rolled over until H2-24).

VAT proceeds are budgeted to increase by 6 percent, though the actual growth rate could well be higher than this.

Meanwhile, the main non-oil revenue item, VAT, is projected to rise by just under 6 percent. This seems a bit on the low side given that Wholesale & Retail Trade nominal GDP rose by 12 percent in the first nine months of 2023, year-on-year, and can be expected to post a similar gain in 2024 (Figure 9). Similarly, the budgeted decline in taxes on foreign firms may also be unduly pessimistic given intensified efforts to attract regional firms to locate their headquarters in the Kingdom.

The government sees the deficit narrowing very slightly to 1.9 percent of GDP next year.

These spending and revenue projections give a modest budget deficit of SR79 billion in 2024, or 1.9 percent of GDP. This is just slightly lower than the estimated deficit for 2023, which is pegged at 2 percent of GDP. The government projects this deficit to be financed by debt, which is earmarked to reach SR1.1 trillion, or 26 percent of GDP in 2024.

Figure 8: Inclusion of Aramco's "performance-related" dividend helps the fiscal outlook

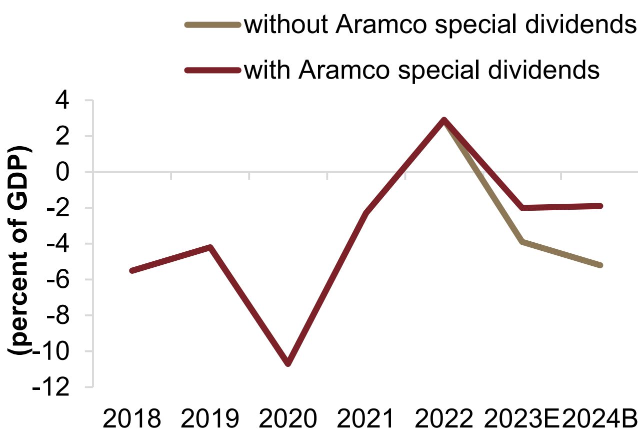
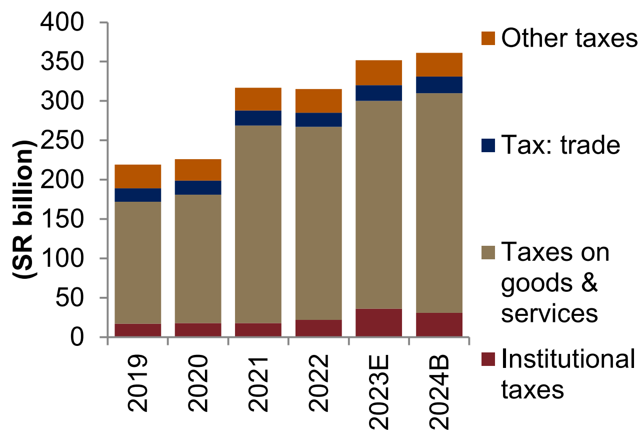


Figure 9: Non-oil Tax Revenue by Type



Other taxes = 'Other Taxes (including Zakat)'
Tax: trade = 'Taxes on trade and transactions (customs duties)'
Institutional taxes = 'Taxes on income, profits and capital gains'

Central government debt is projected to reach 26 percent of GDP next year.

Budgetary Performance in 2023

As per the budget report, total revenue is estimated at SR1,193 billion in 2023, around 5.6 percent higher than budgeted, but some 7 percent below 2022 actual revenue. As the budget report states, the increase in revenue over budget is mainly thanks to higher non-oil revenues, which have expanded in line with robust domestic activity. Tax revenues were also supported by improvements to the tax net. The overall fall in revenue compared with 2022 is mainly a function of oil earnings, which were hit by cuts to output (2022 was also an exceptional year for oil earnings). Note that the oil-revenue decline was staunched by the inclusion of the Aramco performance-related dividends (worth SR75 billion), which were paid from H2 onwards. As noted above, spending this year is estimated to be 14.5 percent over budget, driven in large part by a 29 percent overshoot in capex. This speaks to the intensity of project work currently underway, with the central government having to compete for scarce resources with the PIF and Aramco, as well as private investors.

The 2023 fiscal performance was hampered by a sharp downturn in oil revenue, as both oil prices and production fell.

Spending was well over-budget as the project market tightened significantly and global inflation remained high.

The deficit was kept in check by another strong showing from tax revenues.

Given the above, the authorities see the budget returning to deficit this year, albeit a small one worth just 1.9 percent of GDP. All in all, this is not a bad performance given the demand and price pressures both globally and in the Kingdom. Moreover, we note the ample scope for debt financing, as well as substantial public sector savings (not least in the National Development Fund).

Economic Performance and Outlook

Non-oil growth has been strong this year, though the precise outcome will depend on the Q4 performance.

The budget statement puts overall real GDP growth at 0.03 percent for 2023. This is somewhat above consensus, with most forecasters expecting a contraction given the substantial cuts to oil production. Yet the focus should be on non-oil GDP which, if nothing else, is the engine of job-creation. Here, the authorities expect non-oil GDP to expand by 5.9 percent this year. This is plausible, though much will depend on Q4 performance. Early indicators are encouraging.

The government's 2024 overall GDP forecast of 4.4 percent growth implies a surge in non-oil GDP growth.

Looking to 2024, the budget statement expects GDP growth to pick up sharply next year to 4.4 percent. If, as seems likely, oil production is either flat or slightly lower next year, then this would imply a very robust surge in non-oil GDP—7 percent-plus if the working assumption was for flat oil GDP. While domestic activity is expected to remain very brisk, this seems excessive. Clearly, much depends on the oil production scenario, and it may well be that the budget was

Figure 10: Change in Real GDP

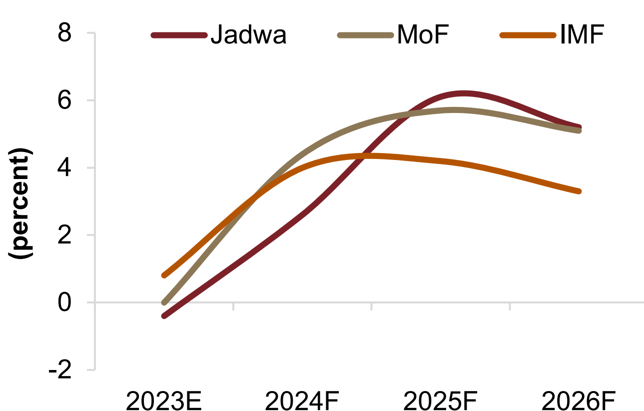
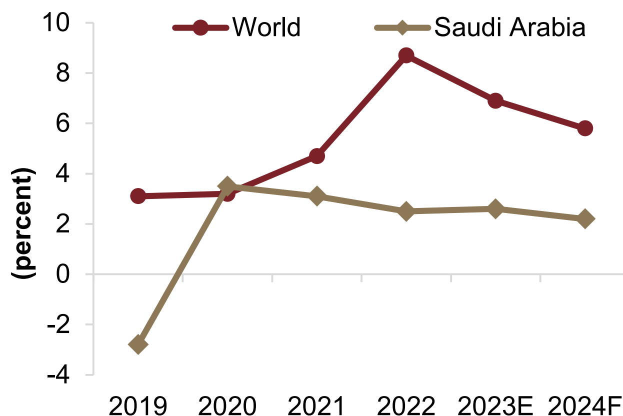


Figure 11: Saudi inflation should remain contained



Inflationary pressures should continue to subside.

drawn up at a time when a production increase seemed a realistic prospect (Figure 10).

Saudi inflationary pressures should continue to subside (Figure 11). A stronger-than-expected dollar has helped to take the edge off imported price pressures from China and the eurozone, and even if the dollar begins to weaken next year (which is plausible given likely interest rate cuts) well-targeted subsidies should prevent a sharper pass-through to Saudi consumers. Competition among domestic firms is fierce and most are unwilling to pass on rising input costs to consumers. This seems unlikely to change next year.

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