تقرير الأداء المالي والاقتصادي
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Mid-Year Budget Performance Report
H1 of FY 2022

The Mid-Year Economic and Fiscal Performance Report

FY 2022

وزارة المالية
Ministry of Finance

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC VERSION

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 Mid-Year Economic and Fiscal Performance Report FY 2022 in line with the government's policy to enhance the budget preparation process by integrating it within a comprehensive fiscal and economic framework. This is in support of the initiatives of disclosure and transparency in public finances that the Government is adopting in accordance with the objectives of the Kingdom's Vision 2030.

The report highlights developments in the Kingdom's fiscal and economic performance during the first half of this year and presents data and analysis of the key fiscal and economic performance indicators. It also presents an update and analysis of fiscal projections until the end of the year and the key macroeconomic indicators for FY 2022 in light of the current developments domestically and globally. It should be noted that the projections presented in this report are preliminary and based on the available information at the time of its preparation. The budget classification used in this document follows on a cash basis, the International Monetary Fund's (IMF) government Finance Statistics Manual (GFSM 2014), which is a global standard classification.

Executive Summary

The Kingdom's economy continued positive fiscal performance and economic growth at faster pace than the projected rates, during first half (H1) of FY 2022, budget registered a surplus supported by increase in oil and non-oil revenues, amid expectation of continued improvement in fiscal and economic performance during the second half of the year. Despite the key challenges facing the global economy, as a result of the geopolitical conditions and global inflation concerns which are expected to continue in the short term, the Kingdom demonstrated the effectiveness of the measures that have been taken in containing their effects domestically.

The implemented measures included preemptive steps to strengthen food security to address the food and supply chain crisis globally and to set ceilings on the prices of some petroleum products (gasoline). These steps contributed to the mitigation of effects related to the increase in global inflation, while sustaining provisions to ensure the availability of the basic services to citizens and residents, at the needed levels, and the ongoing appropriations for commodities and basic services as well as maintaining the reforms momentum launched under the Kingdom's Vision 2030. This reflects the Government's resilience and flexibility in addressing the dimensional impact of the current global challenges, expected to endure over the short and medium-terms, and ensure stability.

- According to the General Authority for Statistics (GASTAT), **real GDP** registered annualized growth of 11.0% during the H1 of FY 2022 compared to the H1 of FY 2021. This is the highest growth rate in the past 11 years. **The real oil GDP** recorded average growth of 21.6% during the H1 of FY 2022.

The data from H1 of the current year indicates **The real non-oil activities GDP** recorded levels that exceeded its levels prior to the pandemic by with positive growth in all non-oil economic activities and registering average growth of 5.9% during H1 of FY 2022 compared to H1 of FY 2021.

- **Private Consumption** during H1 of FY 2022 witnessed real growth of 6.3% compared to H1 of FY 2021. Most **private consumption indicators** showed an increase during H1 of this year, and **private investment** indicators showed significant recovery during H1 of FY 2022 compared to the same period of the preceding year. This reflects improvement in the performance of the private sector and the developmental role undertaken by the Public Investment Fund (PIF) and the development funds, as real gross capital formation registered annualized real growth of 23.7% during H1 of this year.

- Although global inflation rates have registered high levels of increase, it has largely been contained in the Kingdom as **the Consumer Price Index (CPI)** increased by only 1.9% during H1 of FY 2022 compared to 5.5% increase during H1 2021 and average inflation rate of 7.9% in the G20 countries during H1 of 2022. Meanwhile, the average **Wholesale Price Index (WPI)** has continued to rise during H1 of FY 2022 compared to the period last year, posting increase of 10.8%.

- The **unemployment rate** of Saudi workers during the second quarter (Q2) of FY 2022 has decreased to 9.7% from 11.0% during the fourth quarter (Q4) of FY 2021. It is the lowest unemployment rate for Saudi workers in the past 10 years as shown in the Labor Force Survey published by GASTAT. The total unemployment rate reached 5.8% during Q2 FY 2022.

- Given the positive results of the economic performance during H1, macroeconomic indicators are projected to continue to improve during H2 of FY 2022. Preliminary projections indicate 8.0% growth in **real GDP** for FY 2022 driven by the growth in **the GDP of oil and non-oil activities,** that shall exceed the initial projection of 7.4% for FY 2022 in the budget. On the other hand, **the CPI** is projected to witness a slight increase to reach 2.6% on average in FY 2022 compere to FY 2021, as a result of the large increase in global price levels. This remains significantly lower compared to global inflation projections as per the International Monetary Fund (IMF) in the July 2022 edition of World Economic Outlook Report, which estimates that the global CPI would reach 8.3% during FY 2022.

- The economic developments have reflected positively on fiscal performance. The overall **budget had a surplus** of SAR 135 bn during H1 of FY 2022 compared to a deficit of SAR 12 bn in the same period last year. By the end of the year, a surplus of around SAR 90 bn (2.3% of GDP) is projected in the budget of FY 2022. As the government aims to maintain the surplus as estimated in the budget, spending on strategic projects with high expected economic returns, whose implementation plans were affected during the pandemic period, was accelerated.

- **Total revenues** in H1 of FY 2022 reached around SAR 648 bn, an increase of 43.2% compared to the same period last year, as non-oil revenues increased by 5.0% over the same period due to the improvement in economic activities and recovery. Oil revenues increased by 74.5% as a result of the rise in global oil prices during the current year compared to the same period in FY 2021. Given the positive actual performance of H1 of this year and the continued improvement in the economic activities, total revenues for FY 2022 are projected to reach approximately SAR 1,222 bn, an increase of 16.9% compared to initial budget projection for FY 2022. This increase is due to the positive impact of implanting initiatives to develop non-oil revenues over the past years in addition to the developments in the oil markets.

- **Total expenditure** during H1 of FY 2022 reached approximately SAR 513 bn, an increase of 10.3% (around SAR 48 bn), compared to the same period last year. The total expenditure until June amounted to 53.7% of the approved budget.

- **Total expenditure** for FY 2022 is projected to reach around SAR 1,132 bn, an increase of 18.5% over the approved budget of SAR 955 bn that is equal to 28.8% of GDP. This increase is due to enhance the Social Benefits and Subsidies Schemes due to the additional support to the beneficiaries of Social Insurance, Citizen Account program, Small Livestock Breeders' program, and basic services meant to minimize the impact of the global rise in inflation rate. This increase also accounts for accelerating the implementation of some of the programs and projects that have economic and social returns and are enablers of the Kingdom's Vision 2030, and whose implementation plans were affected during the pandemic period.

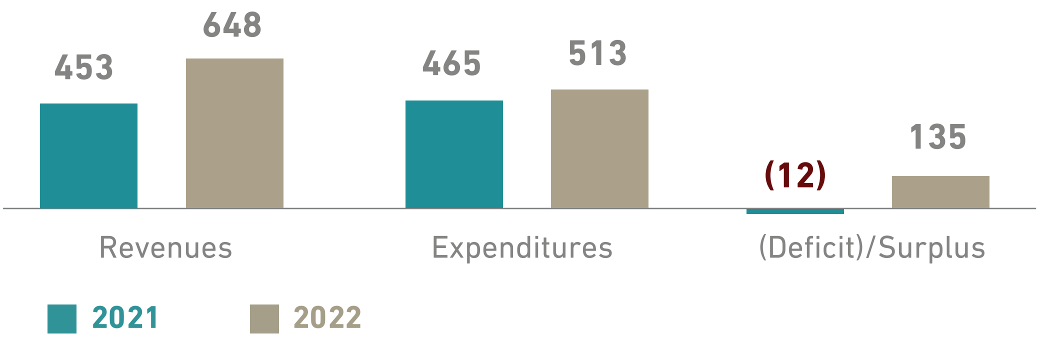
- Financing needs until end of H1 of FY 2022 have reached around SAR 54 bn of **debt principal repayment**, which were financed through domestic issuances.

- Total issuances for the whole year are expected to reach SAR 115 bn compared to around SAR 43 bn as budgeted. The government has utilized the opportunities available during the current year to reduce financing needs of FY 2023 by completing financing transaction earlier than planned and reduced refinancing risks in light of the expected volatility in markets and interest rates. During H1 of FY 2022, SAR 83 bn were borrowed and additional borrowing of around SAR 32 bn is expected during H2 of FY 2022, including the Government alternative financing, based on the available opportunities and market conditions.

- Accordingly, total debt stock is projected to reach SAR 985 bn (25.1% of GDP) by the end of the year, which is lower than the budget projection of 25.9%.

Summary of Fiscal Performance in H1

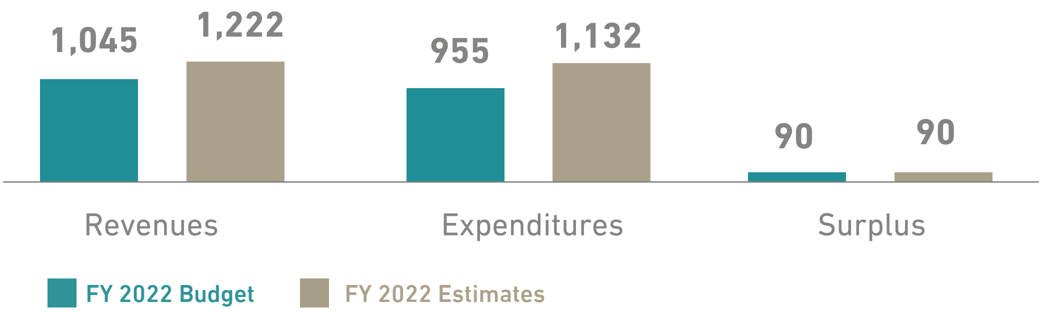
(SAR Billion)



Source: MoF

Summary of FY 2022 Estimated Fiscal Performance

(SAR Billion)



Source: MoF

Actual Performance

During the First Half of the Year and Projections for FY 2022

First: Macroeconomic Developments and Year End Projections

As a result of the COVID-19 crisis, the Kingdom's economy witnessed a decline of 4.1% in GDP and 3.4% in non-oil activities during FY 2020. This decrease is still less than what was witnessed in advanced economies, which registered a decrease of 4.5%. This was due to the successful precautionary procedures and measures that the Kingdom took to stimulate the economy, which accelerated the return of economic activities to their pre-pandemic levels. The economic recovery has been sustained as reflected in the performance of the economic activities in FY 2021 when real GDP registered a growth of 3.2% driven by the growth in real non-oil activities that reached 6.1%. The first half of FY 2022 witnessed continued strong economic recovery, as growth rate reached 11.0% driven by the growth in both oil and non-oil activities.

- **Real GDP** witnessed annualized growth of 11.0% during H1 of FY 2022 compared to H1 of FY 2021. **Real GDP growth of oil activities** was 21.6% in H1 of FY 2022 compared to the same period of the last year. This was due to the increase in the Kingdom's oil production pursuant to the OPEC+ Agreement by around 22.2% during H1 of FY 2022 compared to the same period last year. During first half of FY 2022 **real GDP of non-oil activities** registered annualized growth of 5.9% compared to H1 of FY 2021.
- **Private consumption** during H1 of FY 2022 registered real growth of 6.3% compared to H1 of FY 2021. Most **private consumption** indicators witnessed an increase during H1 of this year, as the value of **points of sale and electronic transactions** registered a growth of 19.3% and 80.4% respectively, during the H1 of the year compared to the same period in FY 2021.
- **Private investment** indicators have also shown strong recovery reflecting the improved performance of the private sector, and the developmental role undertaken by the PIF and other development funds in boosting real gross capital formation, which increased by an annualized 23.7% during H1 of FY 2022. **The Purchasing**

Managers' Index (PMI) has shown growth in the private sector business, posting an average of 55.8 points for H1 of FY 2022 compared to 55.4 for H1 of FY 2021. The peak was observed in June 2022, at 57 points. **Bank credit to the private sector** in June this year registered annualized growth of 14.8% compared to June 2021.

- **The CPI** (the main inflation indicator in the Kingdom) has increased by an average of 1.9% during H1 of FY 2022, compared to 5.5% during the same period last year. Inflation registered a 2.3% increase in the month of June 2022 compared to the same period in 2021. The increase in **the inflation rate** in H1 of FY 2022 is due to inflation pressures in a number of sectors (such as food and beverages, housing, water and electricity, and transportation). **The average of the WPI** has continued its upward trajectory posting 10.8%, increase during H1 of FY 2022 compared to the same period last year. The index was 8.1% higher during June of this year compared to the same period in 2021.

- As for the labor market, GASTAT data shows decline in the unemployment rate of Saudi workers, registering the lowest rate of the past 10 years at 9.7% during the second quarter of FY 2022, compared to 11.0% during fourth quarter of FY 2021. The unemployment rate of [Saudi] female workers registered a decline reaching 19.3% during the second quarter of FY 2022 compared to 22.5% during fourth quarter of FY 2021. The unemployment rate of Saudi male workers also decreased reaching 4.7% during the second quarter of FY 2022 compared to 5.2% during fourth quarter FY 2021.

- **Total bank assets** during H1 of FY 2022 increased by 13.3%, reaching SAR 3.5 tn compared to SAR 3.1 tn for the same period last year. This growth supported the increase in lending, as the loans portfolio represents over 62% of total assets. Examining the loan portfolio reveals that bank credit to the private sector has grown 14.8% on an annualized basis. Bank credit to the private sector represents over 67% of the total loans portfolio, making it a driver of growth in bank assets in general. Consumer loans, which represent 15% of the total loans portfolio, have also grown 13.1% at the end of Q2 compared to the same period of the last year. The continued growth in the banking credit to the private sector and consumer loans is reassuring and has positive effect on the growth of GDP elements (gross capital formation – private consumption).

- **The following graph shows the annual growth rates of (assets – bank credit to the private sector – consumer loans) until H1 of FY 2022:**

Source:SAMA

The Developments in the Saudi Stock Exchange (Tadawul)

The Tadawul All Share Index (TASI) increased 4.9% by the end of H1 of FY 2022 compared to the same period last year, as the index closed at 11,523 points at the end of H1 reaching 539 points higher compared to last year. The highest point TASI reached during FY 2022 was on 8 May when it closed at 13,820 points.

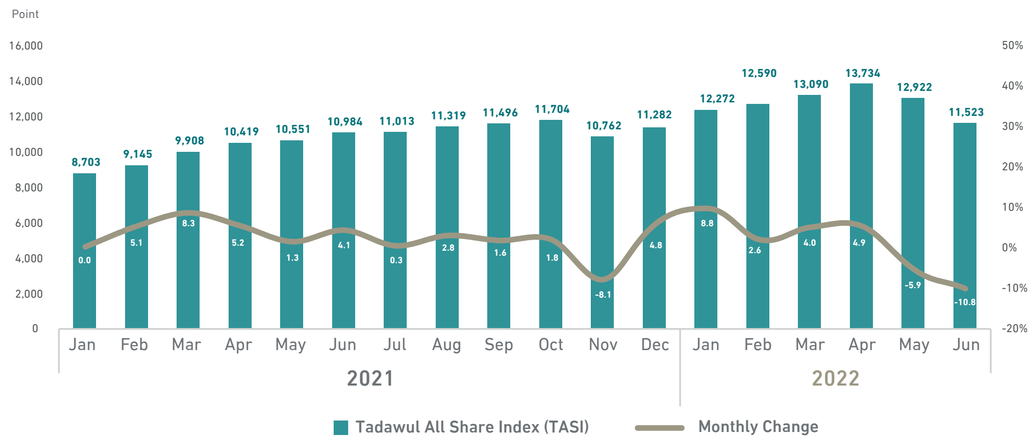
Meanwhile, **total equity market capitalization at the end of H1 of FY 2022** reached SAR 11,445 bn, an increase of 17.7% compared to end of H1 of last year. **The total value of shares traded during H1 of FY 2022** was SAR 1,038 bn, a decrease of approximately 22.5% compared to H1of FY 2021.

The total number of shares traded during H1 of FY 2022 decreased by approximately 41.9% compared to H1 of last year, as the number of shared traded was approximately 25.3 billion shares, compared to 43.6 billion shares traded during H1 of the last year.

The number of companies listed on Saudi Stock Exchange (Tadawul) increased by the end of H1 of FY 2022 to reach 215 companies compared to 203 listed companies by the end of H1 of FY 2021.

The percentage of shares owned by foreign investors in the Saudi Stock Exchange (Tadawul) by the end of H1 of FY 2022 reached 13.2% of the total free floated shares. The percentage of Saudi ownership was 85.1%, whereas GCC ownership was 1.7%.

The TASI during H1 of FY 2022



Economic Indicators Projections in FY 2022

Given the recent domestic and global economic developments, the challenges facing the global economy and the continuing recovery from the COVID-19 crisis, macroeconomic indicators are expected to continue improving FY 2022. Preliminary projections indicate growth in **real GDP** of around 8.0% during FY 2022 compared to the 7.4% projected in the Budget Statement 2022. This is driven by growth in both non-oil activities and oil activities.

Preliminary projections indicate growth in **the real GDP of non-oil activities** to be in line with the actual positive performance of most of the economic activities during the H1 of FY 2022. Moreover, the growth rates during FY 2022 and over the medium term are expected to continue to increase as economic activities continue their recovery. It is estimated that **employment rates** will increase in the coming years, in accordance with the objective of the Kingdom's Vision 2030 of 7% unemployment rate among Saudi workers. This shall be driven by the growth in employment in the private sector, which is expected to be the main contributor of the economic growth in the coming years. Consequently, the increase in the numbers of workers will play a positive role in the improvement in **private consumption** over the medium term through the increase in average household incomes.

The growth in **non-oil economic activities** also influenced by the opening the Kingdom's borders to all travelers irrespective of their vaccination status pursuant to the decision by the Ministry of Health. Thus, flights to and from many destinations were resumed, and the number of pilgrims reached over 899 thousand, of which 87% came from abroad through different entry points after a two-year absence due to the COVID-19 Pandemic.

Additionally, in line with the objective of making the Kingdom a leading tourism destination through offering a wide array of entertainment and tourism events, the second half of the current year will witness the commencement of several Saudi Seasons full of world-class events. These seasons will start with the Riyadh Season, which is planned to be launched in October 2022 and is expected to attract over 20 million visitors compared to the 2021 Riyadh Season which had over 14 million visitors. The Diryyah Season follows in November, whereas the Al-Ula Season will begin towards the end of the year in December. All these activities are part of the key drivers to enhance economic growth and to diversify non-oil activities by promoting the Kingdom's antiquities, history, and landmarks pursuant to the Vision 2030's objective of attracting about 100 million tourists to the Kingdom's tourism destinations by 2030.

Moreover, there is the effective role of the outlays for the investment arms namely the PIF and the National Development Fund (NDF). The PIF targets domestic investments of approximately SAR 150 bn in FY 2022, after having invested over SAR 84 bn domestically during FY 2021. The total domestic investments that the PIF is planning until FY 2030 is SAR 3 tn, compared with domestic investment of SAR 11.2 bn in FY 2016. This is in addition to the partnerships with the private sector mainly through the Shareek Program, which aims to launch up to SAR 2 tn worth of private sector investments until FY 2025 and SAR 5 tn until FY 2030.

The CPI is projected to rise during the second Half of FY 2022 compared to the same period last year as a result of the rise in global inflation rates; the sustained rise in the prices of food and transportation; the persistence of the supply chain crisis; and the rise in energy prices since the beginning of 2022.

Given these developments, the CPI is expected to reach approximately 2.6% , on average, by the end of FY 2022 compared to 1.3% that was published in the Budget Statement, though it will still be lower than the realized rate of increase of 3.1% for the FY 2021.

Estimates of Key Economic Indicators

(Percentage, Unless otherwise stated)

	Actual**		Budget	Estimates*
	2020	2021	2022	2022
Economic Indicators				
Real GDP Growth	**-4.1%**	**3.2%**	**7.4%**	**8.0%**
Non-oil GDP growth	-3.4%	6.1%	4.9%	5.9%
Nominal GDP (SAR Billion)	**2,638**	**3,126**	**3,615**	**3,927**
Nominal GDP Growth	-12.5%	18.5%	15.6%	25.7%
Inflation	**3.4%**	**3.1%**	**1.3%**	**2.6%**

*MOF Preliminary data

** Source:GASTAT

Second:

Fiscal Performance
and Year End Projections

The Kingdom aims to continue the efforts of economic and fiscal reforms under the Kingdom's Vision 2030. These reforms include the improvement of public finances through achieving the objectives of the Fiscal Sustainability Program, in addition to adopting fiscal policies that are conducive to growth and maintaining budget stability and sustainability.

In this context of fiscal performance, the Kingdom's economy witnessed growth as surpluses were achieved in the budget during H1 of FY 2022 driven mainly by the increase in oil revenues resulting from the rise in oil prices, as well as the improvement in economic activities resulting in strong economic recovery. This is in addition to the Government's continued efforts to implement initiatives aimed at developing non-oil revenues, raising the levels of spending efficiency, enhancing the role of the private sector by increasing its participation in capital spending as well as the contribution from national funds such as the PIF, which represents an effective mobilizer for the development and diversification of the Saudi economy.

Revenue Performance
and Year End Projections

01

Total actual revenues until June 2022 reached approximately SAR 648 bn, a 43.2% increase compared to the same period last year, as oil revenues increased by 74.5% as a result of the increase in oil prices this year by 65.2% compared to last year. Non-oil revenues increased by 5.0% over the same period last year due to the improvement in economic activities and the economic recovery. When the non-recurrent revenues are excluded for both years, the growth percentage reaches 21.2% in FY 2022 compared to the same period of the previous year. Total revenues for FY 2022 are projected to reach around SAR 1,222 bn, an increase of 26.6% compared to the last year and an increase of 16.9% compared to the budget. This increase is due to the positive impact of the initiatives to develop the non-oil revenues implemented during the past years in addition to the developments in oil markets.

The Following is an Explanation of the Main Revenue Sources According to Government Finance Statistics (GFS 2014):

Taxes

Tax revenue until June of FY 2022 reached approximately SAR 172 bn, an increase of 5.8% compared to the same period last year. Tax revenue is projected to reach SAR 315 bn for FY 2022, an increase of 11.3% over budget, based on the expectation that the gradual recovery in economic activity will continue in addition to the efforts and initiatives that the Government has implemented, which includes the National Program to Combat Commercial Concealment aimed at curtailing the volume of the hidden economy transactions and bolstering fair competition. Government efforts also include decreasing tax evasion by employing technological solutions in the processes of collecting taxes through electronic invoicing. This has reflected on the following:

The revenues of Taxes on Income, Profits, and Capital Gains have increased reaching around SAR 14 bn for H1 of

2022, a 37.9% increase over same period of last year. This is due to the increase in Corporate Income Taxes, achieving SAR 9 bn in H1 of FY 2022, which is an increase of 92.6% compared to the same period last year. This is the result of the improvement in the performance of the economic sectors, mainly the manufacturing industries sector. Corporate Income Taxes are expected to reach SAR 12 bn by the end of the year, an increase of 66.4% over budget projections.

Withholding tax for non-residents recorded about SAR 5 bn for H1 of FY 2022, decreasing 9.3% compared to the last year due to the decrease in the value of payments for services that are subject to withholding tax compared to the same period. Moreover, non-recurrent amounts worth approximately SAR 2 bn were collected throughout last year as a result of the increase in cash proceeds for past dues, in addition to the impact of the initiative to exempt fines. Withholding tax is expected to reach SAR 10 bn at the end of the year, an 18.8% increase over the approved budget.

Consequently, **Taxes on Income, Profits, and Capital Gains** are expected to reach around SAR 22 bn by the end of the year, posting an increase of 40.6% compared to the projections in the approved budget. This is an indicator of the expected growth in economic activity and the increase in private investment as a result of the efforts within the framework of the National Investment Strategy to improve the investment environment.

Revenues from **Taxes on Goods and Services** reached around SAR 125 bn for H1 of FY 2022, increasing 2.5% compared to the same period last year. This is mainly due to the improvement in the performance of the items of non-oil revenue initiatives related to economic activity.

Total taxes on goods and services are projected to reach SAR 245 bn by the end of the year, a 9.5% increase over budget projections, as these projections were conservative due to the state of uncertainty surrounding the pandemic and its impact on FY 2022. This is in addition to the expected positive impact of the better than projected recovery in economic activity for the whole year, and the sustained improvement in consumption and investment indicators.

Taxes on International Trade and Transactions (Customs Duties) reached around SAR 10 bn for H1 of the year, increasing 25.8% over the same period last year. This is mainly due to the increase in the value of some imported goods as economic activity improved in addition to the effect of global inflation. The total value of imported goods during H1 of FY 2022 has increased 17.4% compared to the same period last year according to GASTAT data. **Taxes on International Trade and Transactions (Customs Duties)** are projected to reach around SAR 18 bn in FY 2022, which is close to budget projections.

Revenues of other taxes (including Zakat) reached SAR 23 bn, an increase of 1.9% compared to the same period last year due to the improvement in the performance of the economic sectors. A large portion of these revenues was collected during H1 of the year. Also, **other taxes** are expected to reach around SAR 30 bn in total this year, an increase of 17.1% compared to budget projections. This is due to the improvement in economic activity being better than expected at the beginning of the year.

Other revenue

The total other revenues until end of June of FY 2022 has reached around SAR 476 bn, an increase of 64.2% compared to the same period last year. This is due to the increase in oil revenue, which registered around SAR 434 bn until the end of June of this year, an increase of 74.5% compared to the same period last year. This has resulted mainly from the increase in oil prices this year compared to last year, as the average price of Brent crude futures until June of this year reached around $104.7 per barrel compared to around $65.1 per barrel during the same period last year. The average of oil production reached 10.4 million barrels per day until June, an increase of 22.2% over last year. **Other revenues** for FY 2022 are projected to reach around SAR 908 bn, increasing by around 19.0% compared to budget projections. This mainly due to the increase in oil prices this year.

Expenditure Performance
and Year End Projections

02

Total expenditures for the H1 of FY 2022 reached around SAR 513 bn, increasing by 10.3%, around SAR 48 bn, compared to the same period of the last year. Thus, total expenditures until June amounts to 53.7% of the total approved budget, compared to around 47.0% during the same period of the last year. The increase is the result of the rise in CAPEX by 38.0% (around SAR 14 bn) and the rise in operational expenditures (OPEX) by 7.9% (around SAR 34 bn) compared to the same period last year.

Total expenditures for FY 2022 are projected to register an increase of 18.5% over the approved budget to reach SAR 1,132 bn. Underlying this increase are allocations to enhance the Social Benefits and Subsidies Schemes, including additional support to Social Insurance, the Citizen Account Program and the increase in the number of beneficiaries. This is also due to the economic conditions around the globe and their impact on domestic economy in the form of inflationary pressures and the increase in commodity prices; the increase in food prices which is expected to continue in the short term; the effects of the COVID-19 Pandemic and geopolitical challenges on global supply chains; maintaining of the provision of basic services to citizens and residents at the needed levels; the continued support to imported commodities and basic services; and the acceleration of the implementation of some programs and projects having economic returns, which were halted during the pandemic.

OPEX

Total OPEX have registered around SAR 462 bn during H1, an increase of 7.9% (SAR 34 bn) compared to the same period last year. This is due to increase in expenditure on goods and services by SAR 24 bn, as a result of global inflation, especially for commodities; the impact on supply chains; the increase in spending on public services and medical supplies. This is in addition to the initiatives that incentivize the private sector to expand the percentage of nationalization, raising the participation levels of nationals in the labor market, and developing the Government's digital systems and improving the services provided to citizens. Moreover, there is an increase in spending on maintenance, cleaning, and operation which is due to several reasons such as the management, operation, and maintenance of the Haramain Railway; the project of planting trees to line streets and squares; and the initiative to limit visual defacement in cities.

Expenditure on the compensation of employees has also increased 2.2%, mainly due to the impact of the annual raise. Meanwhile, expenditure on subsidies increased by 19.9% (SAR 2 bn approximately) compared to the same period last year due to the advance support to purchase wheat at the beginning of FY 2022 and the rise in wheat prices globally. This is in addition to providing financial support for the beneficiaries of housing support.

Given the developments in actual performance, and in order to address the ramifications of global inflation, OPEX for the whole year is expected to reach around SAR 981 bn, increasing 13.6% (SAR 117 bn) over the approved budget. The increase in total expenditure on goods and services is projected to reach around SAR 78 bn, which includes medical expenditures; operational expenditures for maintenance, cleaning, and operation (including school buildings); the development of the Government's digital systems; the improvement of the services provided to citizens; as well as training and incentivizing the private sector to nationalize jobs.

Social benefits are projected to rise 11.3% (around SAR 7 bn) compared to the approved budget, with the increase in the allocations for expenditure on the Social Benefits and Subsidies Schemes, which targets the eligible families and individuals. This is along with the allocation of an additional amount for Social Insurance and the beneficiaries of the Citizen Account Program.

Spending on the Citizen Account Program is expected to rise following the Royal Order to allocate an additional amount of SAR 8 bn for the beneficiaries of the program. Since the program's launch, over SAR 118 bn were deposited into accounts of beneficiaries until June of FY 2022, aiding more than 1.8 million heads of households and around

8.1 million dependents. The number of single beneficiaries reached over 120 thousand.

Expenditure on subsidies is projected to rise 11.3% (SAR 3 bn) to address inflation pressures, with subsidies for the purchase of wheat, as well as fodder subsidies, expected to continue. Moreover, this includes the Royal Order to allocate SAR 0.4 bn for the financial support of small livestock breeders. This item has also witnessed the rise in the financial support provided to those who qualify for housing support as well as the support to the partnerships and investments with the private sector to incentivize the development of housing products.

Grants are expected to increase over budget allocation by 8.6% (around SAR 0.2 bn), due to the increase in aid provided by the King Salman Humanitarian Aid & Relief Center, as part of the humanitarian aid and relief that the Kingdom provides for countries, which reflects the Kingdom's role as one the highest-contributing nations in the area of global aid.

CAPEX

Total CAPEX by the end of H1 of FY 2022 has reached SAR 51 bn, an increase of 38.0% (SAR 14 bn) compared to the same period last year. This is due to reinforcing the implementation of the vision realization programs and the mega projects in various sectors and supporting the Kingdom's move towards adopting the green economy approach and activating the "Saudi Green Initiative" to address the effects of climate change and develop the vegetation cover. This is also due to increasing expenditure on creating public spaces such as squares and parks, the King Salman Park project, the Sports Boulevard, and railroads and train stations. Moreover, this includes connecting electricity to the lands allocated to the Ministry of Housing, providing sewage services, as well as the rise in expenditure on health facilities.

The Government continues the process of reforms and economic transformation, as well as increasing the levels of economic diversification. It targets the available opportunities to accelerate the implementation of some programs and projects that will have a high economic and social return in addition to a positive fiscal impact over the medium term. CAPEX is projected to reach around SAR 151 bn by the end of the year, rising above the approved allocation at the beginning of the year by 64.9% (around SAR 60 bn). This includes some projects where spending is planned to increase and the implementation is intended to be accelerated such as the Sports Boulevard and the King Salman Park, among others. This also includes connecting electricity to the lands allocated to the Ministry of Housing; rainwater drainage; torrents prevention; and establishing water connection, tanks, and plants to enhance the sources of desalinated water.

Sectoral Expenditures

Since the beginning of the FY 2022, the expenditure in the Health and Social Development Sector grew by 8.4% compared to the same period last year, posting SAR 100 bn. This is due to the increase in expenditure on treatment costs, medical supplies, and medications. Moreover, this is also the result of the continued support to social welfare and protection programs. Additionally, spending on the Municipal Services Sector increased due to the rise in budget spending on railroads and train stations, as well as addressing visual defacement in key locations. This also included the development, preparation and creation of gardens, municipal squares, and green surfaces. Actual expenditure on this sector increased by 75.4% posting SAR 25 bn until the middle of the year compared to the same period last year.

Expenditure on the Education Sector, the General Items Sector, the Security and Regional Administration Sector also increased by 7.9%, 7.7%, and 8.6% respectively.

Expenditure on the Health and Social Development Sector is projected to reach SAR 198 bn, an increase of 43.5% (SAR 60 bn) compared to the budget. In addition, the expenditure on the Military Sector is projected to reach SAR 245 bn, an increase of 43.4% (SAR 74 bn) over the budget. Meanwhile, expenditure on General Items has decreased to SAR 166 bn, 8.9% (SAR 16 bn) below the approved allocation.

Sectoral Expenditure

(SAR Billion, unless otherwise stated)

Sector	Budget FY 2022	H1 2022	H1 2022 Actual (% of Budget)	FY 2022 Estimates	Change (Estimates compared to Budget)
Public Administration	32	18	54.8%	36	10.1%
Military	171	105	61.5%	245	43.4%
Security and Regional Administration	101	50	49.0%	110	8.3%
Municipal Services	50	25	50.4%	61	23.5%
Education	185	98	53.1%	195	5.5%
Health and Social Development	138	100	72.0%	198	43.5%
Economic Resources	54	30	55.5%	75	39.0%
Infrastructure and Transportation	42	19	45.2%	47	10.7%
General Items	182	69	37.9%	166	-8.9%
Total	**955**	**513**	**53.7%**	**1,132**	**18.5%**

Source: MoF

Minor discrepancy may arise due to rounding

Debt and Financing
and Year End Projections

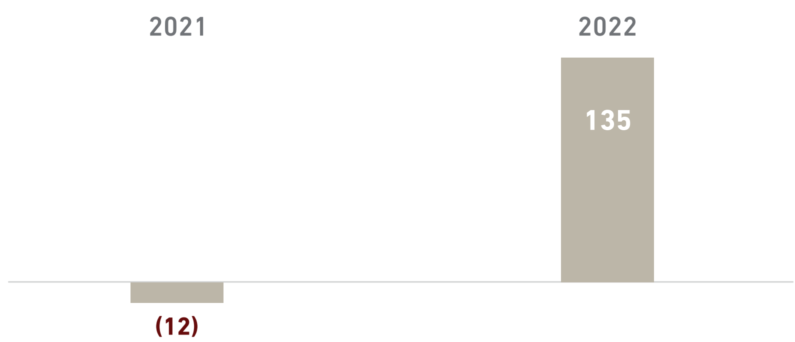
03

Budget balance by end of H1 of FY 2022 has registered a surplus, this is due to improvement in the fiscal performance and the Kingdom's economic growth. After 8 years of budget deficits, it is projected that the budget will achieve a surplus by the end of FY 2022. Despite achieving budget surplus during H1 of FY 2022, the Government continued its borrowing activities in accordance with the approved annual borrowing plan with the objective of repaying principal that is due this year and to benefit from the opportunities available in the markets to proactively implement additional financing activities for principal repayment that comes due in 2023 and the coming years, in addition to utilizing market opportunities to implement Government alternative financing, that aims to finance capital and infrastructure projects. Accordingly, debt stock by the end of FY 2022 is expected to be at higher levels than projected in the budget, due to the completion of financing transactions, earlier than planned, to lower the size of financing needs in for FY 2023, and the completion of part of the Government alternative financing during the year. Government reserves are expected to increase by the end of FY 2022, compared to budget projections. This shall solidify the Government's fiscal position and maintain safe levels of Government reserves.

The budget registered a surplus of SAR 135 bn during H1 of FY 2022 compared to a deficit of SAR 12 bn for the same period in FY 2021. This is mainly due to the improvement in oil prices, which in turn contributed to a significant increase in oil revenues.

Budget Balance (H1 FY2022 Vs. H1 FY2021)

(SAR Billion, unless otherwise stated)

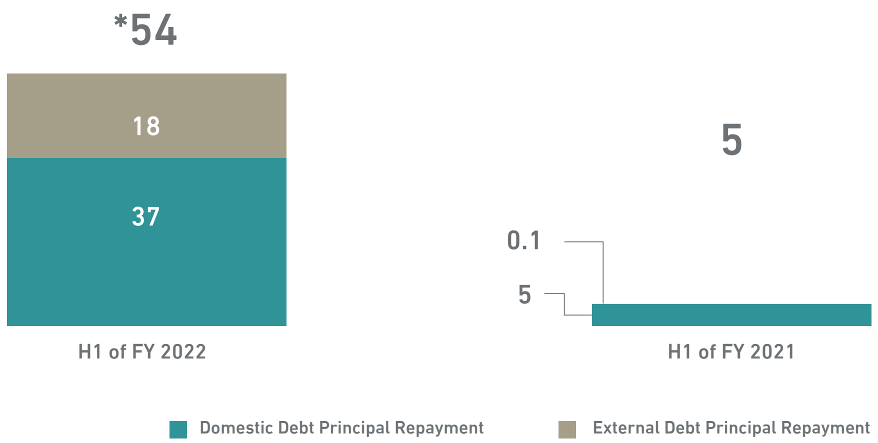


Source: MoF

Government funding activities during H1 of the year reached SAR 83 bn, which were all domestic debt issuances. Total debt principal repayment during H1 of FY 2022 reached SAR 54 bn, comprising of domestic debt principal repayment amounted to SAR 37 bn and external debt principal repayment amounted to SAR 18 bn. It is worth mentioning that during H1 of FY 2022, early redemption of a portion of the outstanding domestic bonds and Sukuk maturing in the years 2023, 2024, and 2026 with a total value exceeding SAR 25 bn was executed, simultaneously with the issuance of a new Sukuk under the Saudi Riyal Sukuk Programme with total value of around SAR 26 bn. The aim of this transaction were managing liabilities, reducing refinancing risks, and unifying the Kingdom's domestic issuances under the Sukuk Issuance Programme in Saudi Riyal.

Moreover, around SAR 15 bn were borrowed as early financing for the partial repayment of debt principal due in FY 2023. Thus, debt stock reached SAR 967 bn by the end of H1 of FY 2022, whereas it was SAR 923 bn at the end of H1 of 2021.

Debt Principal Repayment for FY 2022 Compared to FY 2021

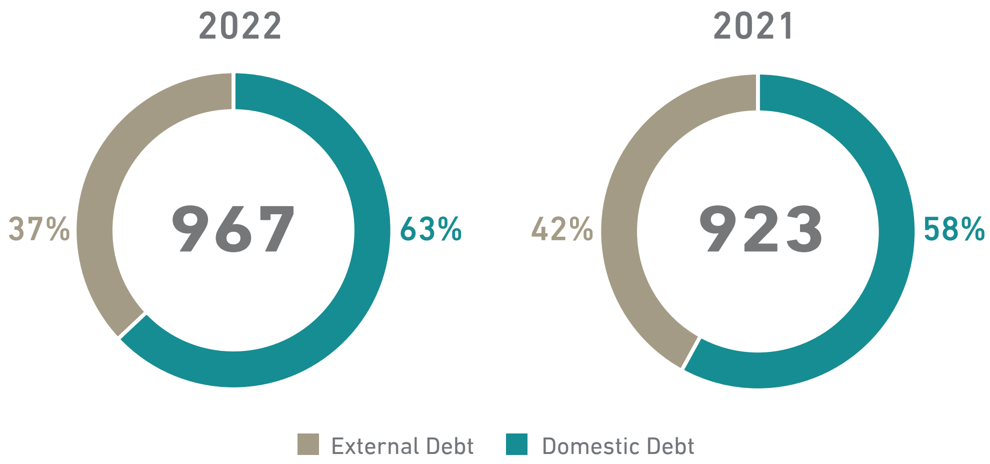


Source: MoF

*Includes an early redemption of a portion of outstanding domestic bonds and sukuk maturing in the years 2023, 2024, and 2026

Debt by the End of H1 of FY 2022 compared to H1 of FY 2021

(SAR Billion)



Source: MoF

The average financing cost on the domestic Sukuk issued during H1 of this year reached 3.2%, whereas the average financing cost on bonds and Sukuk issued during H1 of 2021 was 2.0%, as the three-months (SAIBOR) increased at an accelerating pace since the beginning of the year to reach around 3% by the end of June 2022, compared to the lower rate of around 0.79% during the same period last year. The Saudi Central Bank (SAMA) has increased the interest rates by 50 basis points in June, which is the third hike during the first half of the current year. As rates were raised in March and May in line with the Federal Reserve raising interest rates with the aim of controlling inflation. The Fed raised US interest rates by 75 basis points in June, which is the third raise during the H1 of FY 2022. The Federal Reserve is expected to keep raising rates during H2 of FY 2022, with interest rates projected to range from 3.25% to 3.5% by the end of the year.

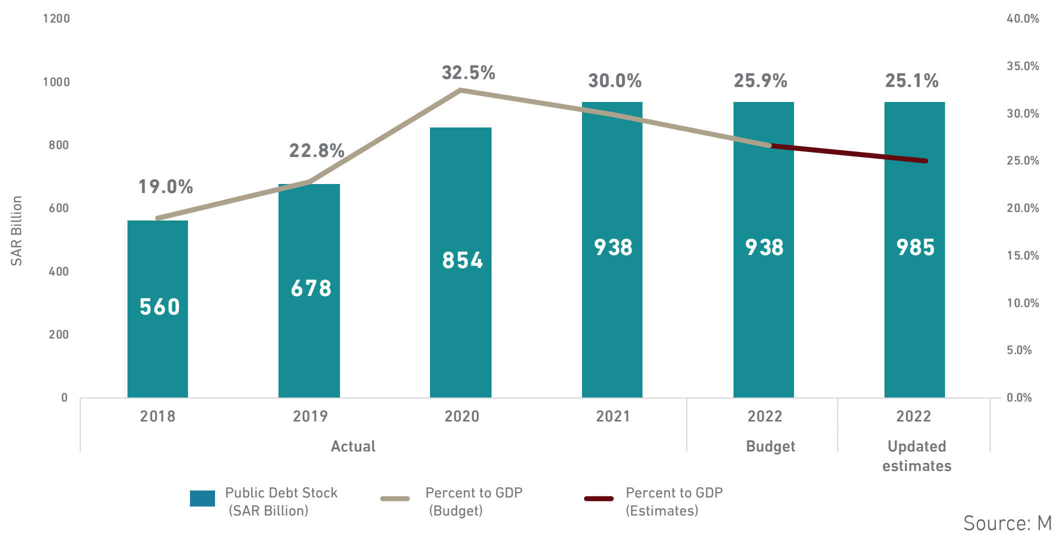
Financing expenses (as estimated in the budget) are not expected to be impacted by the increase in interest rates during 2022, taking into consideration that a large share of Government debt was issued at fixed rates. Also, the expected global market changes were considered when the budget was estimated.

Fiscal policies proved effective in the success of the economic reform initiatives which the Government has taken over the past years, despite the global financial and economic developments to address the global food and supply chain crisis, the increase in spending to enhance the Social Benefits and Subsidies Schemes, and to accelerate the implementation of some programs and projects of high economic and social returns, infrastructure and strategic projects. Updated projections indicate the achievement of a budget surplus of SAR 90 bn by the end of the year (2.3% of GDP), as the government aims to maintain the surplus as estimated in the budget. Accordingly, spending on strategic projects with high economic returns, whose implementation plans were affected during the pandemic period, was accelerated.

Gross financing needs by the end of FY 2022 are expected to reach around SAR 73 bn for the repayment of debt principal and supporting private sector stimulus package initiatives. Total issuances for the whole year are expected to reach SAR 115 bn compared to around SAR 43 bn as budgeted. The National Debt Management Center (NDMC) has utilized the opportunities available during the current year to reduce financing needs of FY 2023 by completing early financing transactions, that contributes to reducing refinancing risks in light of the fluctuations in markets and interest rates. During the H1, SAR 83 bn were borrowed and additional borrowings worth around SAR 32 bn are expected during H2 of FY 2022, including the Government alternative financing, based on the available opportunities and subject to market conditions. Accordingly, total debt stock is projected to reach SAR 985 bn (25.1% of GDP) by the end of the year, which shall be lower than the budget projection of 25.9% of GDP.

Government reserves at SAMA were SAR 319 bn by the end of H1 of this year. Around SAR 30 bn were withdrawn to repay domestic loan installments and foreign deposits, and around SAR 1 bn was spent on the private sector stimulus package initiatives, with an additional SAR 3 bn expected to be withdrawn from Government reserves during the remainder of this year to continue the support of the private sector stimulus package initiatives. Government reserves will be bolstered with some of the projected surpluses, to reach SAR 394 bn (10.0% of GDP) by the end of FY 2022.

Actual and Estimated Public Debt for FY 2022



Source: MoF

Fiscal Performance for H1 2022

(SAR Billion, Unless otherwise stated)

	Jan - Jun 2021	Jan - Jun 2022	Annual change
Revenues			
Total Revenues	**453**	**648**	**43.2%**
Taxes	**163**	**172**	**5.8%**
Taxes on Income, Profits and Capital Gains	10	14	37.9%
Taxes on Goods and Services	122	125	2.5%
Taxes on International Trade and Transactions	8	10	25.8%
Other Taxes	23	23	1.9%
Other Revenues	**290**	**476**	**64.2%**
Expenditures			
Total Expenditures	**465**	**513**	**%10.3**
Expenses (OPEX)	**428**	**462**	**7.9%**
Compensation of Employees	246	251	2.2%
Use of Goods and Services	73	97	32.8%
Financing Expenses	13	14	7.6%
Subsidies	10	12	19.9%
Grants	3	2	-47.1%
Social Benefits	42	42	0.5%
Other Expenses	41	44	%7.3
Non-Financial Assets (CAPEX)	**37**	**51**	**38.0%**
Budget Balance			
Budget Balance	**-12**	**135**	**-**
Percent to GDP*	-0.4%	3.4%	-
Debt and Reserves			
Debt	**923**	**967**	**4.7%**
Percent to GDP*	29.5%	24.6%	-
Government Reserves at SAMA	**355**	**319**	**-**
Percent to GDP*	11.4%	8.1%	-

Source: MoF

* Estimated GDP for FY 2022

Minor discrepancy may arise due to rounding

Fiscal Estimates for FY 2022

(SAR Billion, Unless otherwise stated)

	Actual 2021	Budget 2022	Estimates* 2022	Change (Estimates compared to Budget)
Revenues				
Total Revenues	**965**	**1,045**	**1,222**	**16.9%**
Taxes	**317**	**283**	**315**	**11.3%**
Taxes on Income, Profits and Capital Gains	18	16	22	40.6%
Taxes on Goods and Services	251	223	245	9.5%
Taxes on International Trade and Transactions	19	18	18	-0.1%
Other Taxes	29	26	30	17.1%
Other Revenues	**648**	**763**	**908**	**19.0%**
Expenditures				
Total Expenditures	**1,039**	**955**	**1,132**	**18.5%**
Expenses (OPEX)	**922**	**863**	**981**	13.6%
Compensation of Employees	496	498	506	1.6%
Use of Goods and Services	205	160	238	48.4%
Financing Expenses	27	33	32	-1.5%
Subsidies	30	24	27	11.3%
Grants	3	2	2	8.6%
Social Benefits	70	63	70	11.3%
Other Expenses	91	83	105	26.9%
Non-Financial Assets (CAPEX)	**117**	**92**	**151**	**64.9%**
Budget Deficit/Surplus				
Budget Deficit/Surplus	**-73**	**90**	**90**	**-**
Percent of GDP*	**-2.3%**	**2.5%**	**2.3%**	-
Debt and Reserves				
Debt	**938**	**938**	**985**	**5.0%**
Percent of GDP*	30.0%	25.9%	25.1%	
Government Reserves at SAMA	**347**	**381**	**394**	-
Percent of GDP*	11.1%	10.5%	10.0%	

Source: MoF

*MoF Preliminary Estimates.

Minor discrepancy may arise due to rounding

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