تقرير الأداء المالي والاقتصادي
النصف الأول 1443 - 1444هـ
Mid-Year Budget Performance Report
H1 of FY 2022

The Mid-Year Economic and Fiscal Performance Report

FY 2023

وزارة المالية
Ministry of Finance

List of Abbreviations

Bn	Billion
CAPEX	Capital Expenditure
CPI	Consumer Price Index
FBP	Fiscal Balance Program
FSP	Fiscal Sustainability Program
GASTAT	General Authority for Statistics
GDP	Gross Domestic Product
H1	First Half of the Year
H2	Second Half of the Year
NDF	National Development Fund
OPEX	Operational Expenditures
PIF	Public Investment Fund
PMI	Purchasing Manager's Index
SAMA	Saudi Central Bank
SAR	Saudi Arabian Riyal
TASI	The Tadawul All Share Index
Tn	Trillion
USD	United States Dollar
WPI	Wholesale Price Index
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 2023 in line with the Government's effort 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 Saudi Vision 2030.

The report highlights developments of the Kingdom's fiscal and economic performance during the first half of 2023 and presents data and analytics 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 2023 in light of current developments domestically and globally. It should be noted that the projections presented in this report are preliminary and based on information available at the time of its preparation.

Executive Summary

The Kingdom affirms that promoting economic growth through the implementation of sectoral and regional projects, programs, and strategies is one of its most important priorities, and it supports structural reforms initiated since the launch of Saudi Vision 2030. In terms of public finances, the Government has benefited from major reforms completed in the first phase within the Fiscal Balance Program (FBP), which targeted a gradual reduction of the budget deficit through diversification toward non-oil revenues and expenditure rationalization. In addition, enhancing public finance management within a comprehensive fiscal and economic framework over the medium-term. In the current phase of the fiscal reforms within the Fiscal Sustainability Program (FSP), the Kingdom seeks to neutralize the impact of oil price fluctuations on fiscal planning. The FSP is designed to ensure funding continuity for developmental projects and programs, enhance expenditures available for government services provided to citizens and residents, develop infrastructure, and achieve comprehensive development at an accelerated pace. These efforts are governed under a framework that ensures the exploitation of the available fiscal space, taking into account the principles of fiscal sustainability and maintaining a safe level for government reserves and ensuring sustainable public debt levels.

Fiscal and economic indicators developments can be summarized as follows:

- **Real GDP** in H1 of FY 2023, according to data issued by the General Authority for Statistics (GASTAT), achieved a positive growth rate of 2.5% compared to H1 of FY 2022. This is in light of a 1.5% decrease in

real GDP for oil activities in H1 of FY 2023 due to approximately 0.9% decrease in the Kingdom's oil production during the same period, in line with the decision of the OPEC+. Meanwhile, **real GDP of non-oil activities** grew by 5.7% compared to H1 of FY 2022.

- **Real Private Consumption** during H1 of FY 2023 grew by 3.6% compared to H1 of FY 2022. Most **private consumption indicators** also grew during the same period of 2023. **Private investment** grew in H1 of FY 2023, as it reflects the improvement in the performance of the private sector and the development role of the Public Investment Fund (PIF), and the development funds. This is evident as total real gross capital formation which grew by 9.8% in H1 of FY 2023 compared to H1 of FY 2022, and non-government investment grew by 8.5% over the same period.
- The **Consumer Price Index (CPI)** increased by 2.9% in H1 of FY 2023 compared to a 1.9% increase over the same period in FY 2022. The average **Wholesale Price Index (WPI)** also increased by 0.8% during H1 of FY 2023 compared to the same period last year.
- The overall **unemployment rate** decreased slightly by 0.2 percentage point compared to Q1 of FY 2023, to reach 4.9% in Q2 of FY 2023, and the **unemployment rate** for Saudi workers decreased during Q2 of FY 2023 to reach 8.3%, compared to 8.5% in Q1 of FY 2023 according to General Authority for Statistics. It is worth noting that, the number of Saudi private sector employees increased in H1 of FY 2023 by around 153,300 compared to H1 of FY 2022, according to General Organization for social Insurance.
- The improvement in non-oil activities indicators is expected to continue for the entirety of FY 2023, as preliminary estimates indicate **real GDP growth** of around 0.03% for FY 2023, a lower increase than estimated

in the FY 2023 budget by 3.1%. This is driven by the decline in **Oil sector,** while **Non-oil Activities** is expected to continue its growth trajectory at around 5.9% for FY 2023. This was expected, as the growth of non-oil activities reflects the Kingdom's main approach in supporting and diversifying economic activities. In addition, the **CPI** is expected to rise until the end of the year to reach around 2.6% for FY 2023.

- The budget recorded a **deficit** of around SAR 8.2 bn during H1 of FY 2023. This is due to the increase in total expenditures for enhancements in social benefits and subsidies, including the extension of additional support to the Citizen Account Program, as well as the acceleration of programs and projects with an economic and social return that support the objectives of Saudi Vision 2030.
- It is expected that the budget will record a **deficit** of around SAR 82 bn by the end of FY 2023. This deficit is due to the acceleration of the implementation of many government projects and strategies that have an economic and social impact.
- The **total revenues** until June of FY 2023 reached around SAR 596 bn, decreasing by 8.1% compared to the same period in the previous year. This is due to a decline by 17.4% in oil revenues as a result of the decrease in global oil prices compared to the same period in FY 2022. On the other hand, non-oil revenues increased by 10.8% compared to the same period of the previous year, as a result of the improvement in economic activities performance. It is expected that **total revenues** for the entire year will reach around SAR 1,180 bn, an increase of 4.4% compared to the approved budget, driven by the continued improvement of economic activity and the positive impact of the efforts and initiatives undertaken by the Government during recent years to diversify economic activities.

- The **total expenditures** until mid-year of FY 2023 reached around SAR 604 bn, an increase of 17.7% compared to the same period of FY 2022. As a result, the total amount spent until June reached 54.2% of the total approved budget.
- The **total expenditures** for FY 2023 are expected to reach around SAR 1,262 bn, an increase of 13.3% compared to the approved budget of around SAR 1,114 bn. This is due to the Government's priority in diversifying the economic base, through directing spending toward projects and programs that contribute to achieving a sustainable economic return in the medium- and long-term. This will achieve positive structural changes, raise the quality of life for citizens and residents by improving the level of public services, and provide appropriate healthcare. In addition, the Government worked to strengthen social protection programs, including extending additional support to beneficiaries of the Citizen Account Program.
- Financing needs during H1 of the current year reached around SAR 92 bn, represented by the repayment of the debt principal and financing the budget deficit. These needs were financed through domestic and external issuances, bringing the debt stock by the end of H1 of the current year to around SAR 989 bn.
- The total financing activities for the entire year is expected to reach around SAR 163 bn, compared to around SAR 45 bn in the approved borrowing plan for FY 2023. this is to cover financing needs and consider the possibility of entering into additional proactive financing activities according to market conditions, to manage the principal due over the coming period, in addition to the repayment of the budget deficit. Thus, it is expected that the debt stock by the end of the current year will reach around SAR 1,024 bn, representing around 24.8% of GDP.

Actual Performance

During the First Half (H1) of the Year and Projections for FY 2023

First: Domestic Economy Developments and Projections

During FY 2021, the Kingdom's economy witnessed a recovery after the Government was able to limit the spread of the pandemic and to mitigate the severity of its economic and social impacts through balanced policies to maintain fiscal sustainability in the medium- and long-term. This was reflected in the performance of the domestic economy, which saw a recovery in real GDP of 3.9%, led by 7.2% growth in non-oil activities.

After the pandemic receded in the Kingdom, the global economy faced numerous challenges in FY 2022. One of the most notable was the slowdown in the recovery of the global economy from the effects of the pandemic, with inflation rates continuing to rise, which led central banks around the world to tighten their monetary policy by raising interest rates to reduce the rise in the general level of prices. This resulted in a state of economic uncertainty that was reflected in the fluctuations of supply chains globally.

However, these challenges did not significantly impact the Saudi domestic economy due to implementation of comprehensive structural reforms over recent years. This, in turn, demonstrates the extent of the Government's flexibility in dealing with the challenges of the current situation, as well as its proactive and realistic approach in implementing several policies that had positive and tangible impacts on the economic and fiscal levels during FY 2022. This led to the Saudi economy exceeding domestic and international expectations, as the Kingdom's real GDP recorded the highest growth among the G20 countries (8.7% during FY

2022), driven by Non-oil Activities growth of 5.4%. In H1 of FY 2023 that momentum continued in the Kingdom's non-oil sector, as real GDP grew by 2.5%, driven again by the growth in Non-oil Activities of 5.7%.

- The data for H1 of the current year FY 2023 showed a growth in all non-oil economic activities, thus real GDP of non-oil activities grew by 5.7% compared to H1 of FY 2022, while the real GDP of oil activities recorded a decline of around 1.5% during H1 of FY 2023. This is due to the Kingdom's oil production decreasing by approximately 0.9% in H1 of FY 2023 compared to the same period of FY 2022, in line with the OPEC+ decision as the Kingdom announced that it will implement a voluntary reduction of its oil production by 500,000 barrels per day starting from May of FY 2023.
- Real Private Consumption during H1 of FY 2023 recorded a real growth rate of 3.6% compared to H1 of FY 2022. Most private consumption indicators witnessed an increase during H1 of the current year as the value of point-of-sale and e-commerce transactions recorded positive growth from the beginning of the year until June by 11.3% and 34.3%, respectively, compared to the same period of FY 2022.
- Private investment indicators saw positive growth that reflects the continued development of the private sector and the pivotal role of the PIF and other development funds in enhancing total Real Gross Fixed Capital Formation as it increased by 9.8% H1 FY 2023 compared to the same period last year. In addition, an increase in (non-government) investment by 8.5% in H1 of FY 2023 compared to the same period last year. The Purchasing Managers' Index (PMI) also showed positive growth in private sector businesses, as the average index in H1 of the current year reached 59.1 points, compared to an average of 55.8 points in the same period of FY 2022, while in June of FY 2023 the index

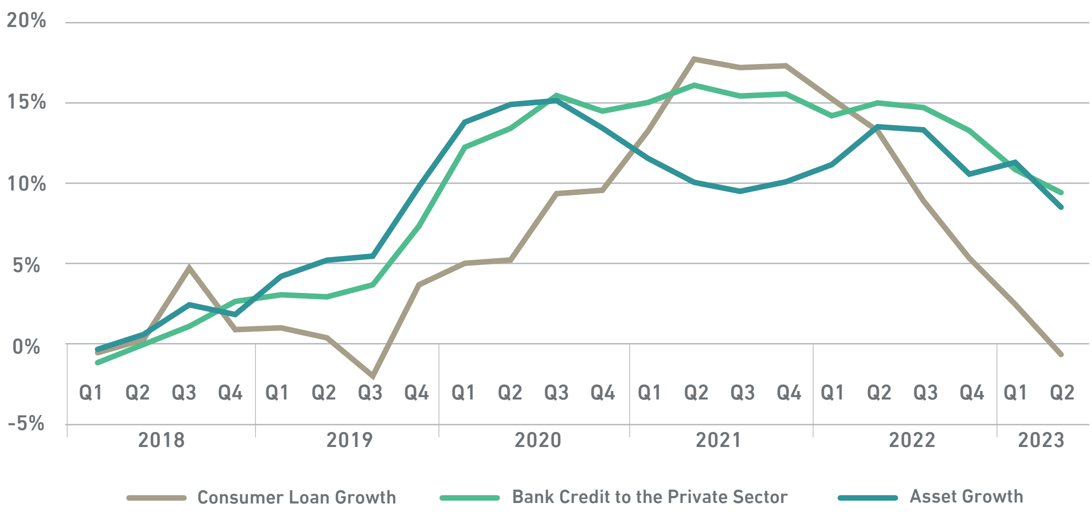
hits to 59.6 points. This year the index was highest in February at 59.8 points, which is the highest level since 2015. Bank credit to the private sector in June of this year recorded an increase of 9.4% compared to June of the previous year.

- The CPI (the main indicator of inflation rates in the Kingdom) increased in H1 of FY 2023 by 2.9% compared to an increase of 1.9% during the same period last year, posting a 2.7% inflation rate in June of FY 2023 compared to June of FY 2022. This increase in FY 2023 is due to an increase in the general level of prices in some sectors (e.g. housing, water, electricity, gas, and other fuels prices increased by 7.8%, and the food and beverages were up 2.1%). Meanwhile, the WPI recorded an increase of 0.8% during H1 of FY 2023 compared to the same period last year. However, it recorded a decrease in June of 2023 of 1.3% compared to June of FY 2022.

- Labor market data issued by GASTAT also showed a slight decrease in the overall unemployment rate of 0.2 percentage point compared to Q1 of FY 2023, reaching 4.9% in Q2 of FY 2023. The unemployment rate also decreased among Saudi workers in Q2 of FY 2023 to reach 8.3% compared to 8.5% in Q1 of FY 2023. This rate is considered low compared to previous years in which the unemployment rate reached more than 10%. The unemployment rate among females decreased to 15.7% in Q2 of FY 2023 compared to 16.1% in Q1 of FY 2023, while the unemployment rate for males stabilized around 4.6% in Q2 of FY 2023. It is worth noting that the number of new jobs in the private sector for Saudis and non-Saudis was estimated at approximately 1,085,000 by the end of Q2 of FY 2023.

- Total bank assets increased by 8.5% during H1 of FY 2023 reaching SAR 3.82 tn, compared to SAR 3.52 tn during the same period last year. This growth supported by the increase in lending, as the loans portfolio represents over 60% of total assets. The loans portfolio shows that bank credit to the private sector has grown by around 9.4% on an annualized basis, which makes it an engine for the growth within bank assets in general. Consumer loans declined by 0.4% at the end of Q2 of FY 2023 compared to the same period last year, and consumer loans now represent 18% of the total loan portfolio. Despite the decline in the consumer loans portfolio due to the rise in interest rates, the continued growth in the credit granted to the private sector is a positive development to ensure the continued growth of the elements of GDP (gross fixed capital formation – private consumption). The credit to the private sector was driven by the growth in real estate loans granted to individuals and companies, as they grew by 15.7% and 10.3% respectively during H1 of FY 2023 compared to the same period last year. Meanwhile, the volume of credit facilities provided by the banking sector to small- medium-and micro-enterprises recorded a growth of 19.3% during H1 of FY 2023, compared to the same period last year.

The graph below shows the annual growth rates for assets, bank credit to the private sector, and consumer loans, through H1 of FY 2023.



Source: Saudi Central Bank (SAMA)

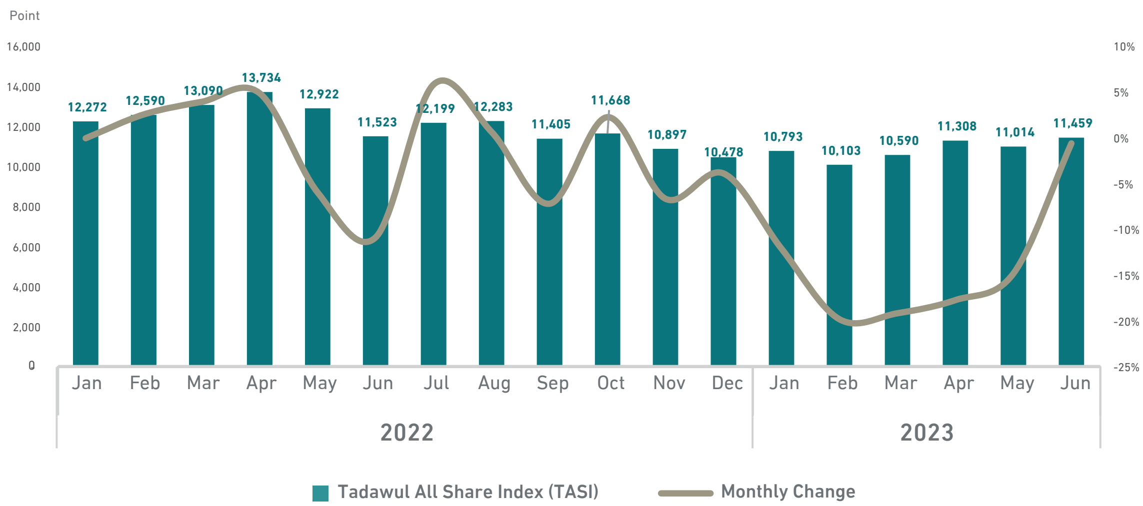
The Developments in the Saudi Stock Exchange (Tadawul)

The Tadawul All Share Index (TASI) decreased 0.56% by the end of H1 of FY 2023 compared to the same period last year, as the index closed at 11,459 points at the end of H1, decreasing by 64.27 points compared to the same period last year. The highest point TASI reached during FY 2023 was on the 14th of June when it closed at 11,533 points.

The number of companies listed on Saudi Exchange Main Market (TASI) increased by the end of H1 of FY 2023 to reach 228 companies compared to 215 listed companies by the end of H1 of FY 2022.

The percentage of shares owned by foreign investors in Saudi Exchange Main Market (TASI) by the end of H1 of FY 2023 reached around 12.57% of the total free floated shares. The percentage of Saudi ownership was 85.88%, whereas GCC ownership was 1.55%.

The following graph shows the TASI performance from the beginning of 2022 until the end of the first half of 2023



Source: Tadawul All Share Index (TASI)

Economic Indicators Projections in FY 2023

The initial estimates of real GDP growth for FY 2023 were revised to 0.03%, which is lower than the 2023 budget estimate of 3.1%. This is a result of the expected decline in the oil sector, while the growth in GDP is attributed to non-oil activities, which is expected to record 5.9% growth for FY 2023. This growth is supported by the continued empowerment of the private sector to lead economic growth and the program implementation for Saudi Vision 2030.

It should be noted that the expected growth in non-oil activities is in line with the Kingdom's main approaches in increasing economic growth rates and diversifying non-oil activities, by transforming the Kingdom into an advanced industrial center and a global logistics hub, and by maximizing tourism and cultural value—with the goal of enhancing the Kingdom's global economic strength. The industrial sector also contributed to supporting this expected growth by creating new job opportunities, as 557 licenses were granted to new factories in H1 of FY 2023, and 505 factories started production, which in turn reflects positively on the levels of employment rates. Positive growth is expected to continue in manufacturing, with projections of a marked growth in these activities in FY 2023 due to the National Strategy for Industry, which aims to triple local content compared to FY 2020 to reach SAR 895 bn in FY 2030, in addition to doubling the value of industrial exports to reach SAR 557 bn in FY 2030.

The PIF and the National Development Fund (NDF) continue to support the progress of the Kingdom's economy, as the PIF invested around SAR 5 bn in four leading local construction companies this year. This is under the PIF's objective to inject up to SAR 1 tn into new projects locally and increase the local content to reach 60% by the end of FY 2025. The PIF plans for a total of SAR 3 tn in local investments until FY 2030. This is in addition to the contribution of the program to enhance partnership with the private sector "Shareek" program, which aims to increase local investments of private sector companies to reach SAR 5 tn by FY 2030. Moreover, there is an important role for the National Investment Strategy, which was accompanied by the National Initiative for Global Supply Chains (Jisri) and the issuance of the new investment law.

The updated estimates take into account the expected increase in private consumption due to the continued improvement in employment rates in FY 2023, especially among Saudis, as the number of Saudi workers in the private sector increased in H1 of FY 2023 compared to H1 of FY 2022 by about 153,300 workers. This was an outcome of the reforms in the labor market, whether on the public or private sector side, through localization plans and the supporting stimulus initiatives. This has had an impact on the increase in average household income, and this in line with the Saudi Vision 2030 objective of reducing the unemployment rate to 7% by FY 2030, led by the growth in employment rates in the private sector, which is expected to be the main driver and largest contributor toward creating job opportunities for citizens.

The Kingdom has also adopted an ambitious program to support the growth of the tourism sector, through which it aims to be a world-leading tourist destination with the goal of attracting approximately 150 million tourists annually by 2030. the number of tourists who visit the Kingdom has increased steadily in recent years, and in 2022 exceeding 94.5 million visits, and approximately more than 16 million international visits. The total tourism spending in Saudi Arabia during 2022 reached around SAR 185 bn, which reflected positively on the travel item in the balance of payments, recording a surplus of SAR 28.4 bn in 2022.

H2 of the current year also witnesses many Saudi Seasons, which are a tourist and entertainment destination for citizens, residents, and visitors from abroad. This is coupled with the positive impact expected from the announcement of amendments to the regulations of visitor visas for the purpose of tourism to include expanding the eligible categories and providing more options for those wishing to visit Saudi Arabia for the purpose of tourism. This reflected on the increase in the number of Umrah performers and visitors to the Prophet's Mosque. Additionally, the total number of pilgrims reached 1.8 million pilgrims for the year 1444 AH, with the economic reform plan in the Kingdom, according to the Saudi Vision 2030, which aims to increase annually Umrah capacity to around 30 million Umrah international visitors by 2030.

One of the elements supporting economic growth is the continued implementation of the Housing Program – one of the programs of the Saudi Vision 2030 – which aims to continue the development and sustainability of the sector. During the next phase, the Housing Program will continue its efforts to raise the percentage of Saudi families owning homes to 70% in 2030.

It is expected that CPI will rise during H2 of FY 2023 compared to the same period last year, as a result of the rise in global inflation rates. In light of these developments, the CPI is expected to rise until the end of the year, reaching around 2.6% on average for FY 2023.

Estimates of Key Economic Indicators

(Percentage, Unless otherwise stated)

	Actual**		Budget	Estimates*
	2021	2022	2023	2023
Economic Indicators				
Real GDP Growth	**3.9%**	**8.7%**	**3.1%**	**0.03%**
Non-oil GDP growth	7.2%	5.4%	5.8%	5.9%
Nominal GDP (SAR Billion)	**3,257**	**4,156**	**3,869**	**4,136**
Nominal GDP Growth	18.3%	27.6%	-2.2%	-0.5%
Inflation	**3.1%**	**2.5%**	**2.1%**	**2.6%**

*MOF Preliminary data

** Source:GASTAT

Second: Fiscal Performance

The Kingdom of Saudi Arabia's government continues to implement initiatives and economic and fiscal structural reforms under Saudi Vision 2030, including the development of public finance by achieving the objectives of the FSP, in addition to adopting fiscal policies that contribute toward realizing stability and sustainability for the budget.

In this context, the Kingdom's economy recorded a slight budget deficit during H1 of the current year FY 2023 due to the acceleration of the pace of spending on developmental and social programs and projects. Despite the decline in oil revenues resulting from the decline in oil prices, the Saudi Vision 2030 programs supporting the non-oil sector and diversifying sources of income have succeeded in playing a prominent role in raising non-oil revenues. This is as a result of improved economic activities in parallel with the Government's efforts to continue implementing Initiatives to develop non-oil revenues, improve spending efficiency, and enhance the role of the private sector. This is also achieved through increasing the national funds participation in capital spending, such as the PIF, which is one of the engines for developing and diversifying the domestic economy.

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Revenue Performance and Year End Projections

Total actual revenues until June of FY 2023 recorded around SAR 596 bn, a decrease of 8.1% compared to the same period last year, as oil revenues decreased by 17.4%, mainly due to the decline in oil prices for the current year by about 25.8% compared to the prices of the previous year. On the other hand, non-oil revenues increased by 10.8% over the same period as a result of improved economic activities. It is also expected that total revenues for FY 2023 will reach approximately SAR 1,180 bn, a decrease of 7.0% compared to last year and an increase of 4.4% compared to the approved budget.

Main Revenue Sources according to Government Finance Statistics (GFS 2014)

Taxes

Tax revenues until June of FY 2023 were recorded at around SAR 191 bn, an increase of 10.5% compared to the same period last year, and tax revenues for FY 2023 are expected to reach around SAR 352 bn, an increase of 9.2% compared to budget estimates. This is a result of the efforts and initiatives undertaken by the Government, which include extending the Cancellation of Fines and Exemption of Penalties initiative for taxpayers subject to all tax laws until December 31, 2023.

This is in addition to efforts undertaken to raise taxpayers' commitment in using technical solutions in the processes of collecting tax revenues through electronic invoicing. This was reflected in an increase in the revenues of Taxes on Income, Profits and Capital Gains of around SAR 24 bn for H1 of FY 2023, an increase of 66.4% over last year. This is due to the increase in corporate income tax revenues, which achieved SAR 17 bn in H1 as a result of improved profit margins in the manufacturing industries sector. Corporate income tax is expected to reach SAR 21 bn by the end of the current year, an increase of 85.5% over budget estimates.

The withholding tax for non-residents was around SAR 7 bn for H1 of the current year, an increase by 44.7% compared to last year. This is due to the increase in the value of payments related to services subject to the withholding tax compared to the same period last year. Withholding tax is expected to reach SAR 14 bn by the end of this year, an increase of 43.5% over the approved budget.

It is expected that Taxes on Income, Profits and Capital Gains will reach approximately SAR 36 bn by the end of the year, recording an increase of 66.0% compared to the estimates in the approved budget. This is an indication of the expected positive growth in economic activity and the increase in private investment, especially in the field of manufacturing industries.

Revenues from Taxes on Goods and Services also recorded around SAR 129 bn for H1 of the current year, increasing by 3.7% compared to the same period of last year. This is mainly due to the growth in economic activities, which has reflected positively on the performance of the items related to the initiatives promoting non-oil revenues. It is also expected that the total Taxes on Goods and Services by the end of the year will reach around SAR 264 bn, an increase of 3.9% over budget estimates, driven by the continued improvement and growth of non-oil activities.

As for Taxes on Trade and International Transactions (customs duties), they reached around SAR 11 bn for H1 of FY 2023, an increase of 2.4%

over the same period last year. This is mainly due to the increase in demand associated with the growth in economic activities. The total value of imported goods until June of FY 2023 has increased by 16% compared to the same period last year, according to GASTAT data. It is expected that revenues from Taxes on Trade and International Transactions (customs duties) will reach around SAR 20 bn by the end of the year, an increase of 12.4% over budget estimates, driven by continued economic growth that contributed to the growth of imports.

Other tax revenues (including zakat) reached around SAR 27 bn, an increase of 16.2% compared to the same period last year, due to the improved performance of economic activities. A large portion of the revenues from this item were collected during H1 of the year. It is expected that other taxes for the entire year will reach around SAR 32 bn, an increase of 12.3% compared to the budget estimate.

Other revenues

Total other revenues until the end of June of FY 2023 reached around SAR 405 bn, a decrease of 14.8% compared to the same period last year. This is due to the decrease in oil revenues, which were around SAR 358 bn until the end of June of the current year, a decrease of 17.4% compared to the same period last year. This is mainly due to the decline in oil prices for the current year compared to H1 of FY 2022, as the average Brent crude futures oil price until June of the current year was about $ 79.6 per barrel, compared to about $ 107.2 per barrel during the same period last year. Moreover, the average oil production was 10.3 million barrels per day until June, compared to around 10.4 million barrels per day for last year. Other Revenues for FY 2023 are expected to reach around SAR 828 bn, an increase of 2.4% compared to budget estimates.

Expenditure Performance and Year End Projections

Total expenditure until the end of June of FY 2023 reached around SAR 604 bn, an increase of 17.7% compared to the same period last year, bringing the total amount spent until June to 54.2% of the total approved budget. The increase was a result of a rise in capital expenditure by 36.6% and an increase in operational expenditures by 15.7% compared to the same period last year.

The government seeks to exploit the available financial resources to develop government services, and to balance between supporting economic growth and achieving fiscal sustainability, as total expenditures for FY 2023 are expected to record an increase of 13.3% over the approved budget to reach SAR 1,262 bn. This increase is in line with the Kingdom's ambitions to achieve a better and more advanced quality of life through investing in its human capital by developing the education and scientific research sector, and by continuing to strengthen the social support and protection system. This is in addition to raising the level of quality of public services and health care, as well as increasing strategic spending in support of structural change that has a developmental effect. This aims to achieve comprehensive development of sectors to ensure the maximum benefit from the Kingdom's resources in all its regions to diversify the economic base and achieve more sustainable economic growth, by accelerating the implementation of projects, programs, and initiatives that have economic and social returns in the medium- and long-term.

Operational Expenditures (OPEX)

Total OPEX until the end of June of FY 2023 reached around SAR 534 bn, an increase of 15.7% compared to the same period last year. This is due to the 19.6% increase in spending on goods and services. This is due to a rise in expenses related to public services and medical supplies, as well as an increase in supporting many programs and strategies such as the gaming and e-sports sector strategy, the sports clubs support strategy, e-sports world cup expenses, and hosting Formula 1, in addition to supporting promising sectors and raising the level of quality of life.

Spending on social benefits also increased by 38.7% compared to the same period last year. This is a result of extending additional support to beneficiaries of the Citizen Account Program and an increase in the number of beneficiaries due to the continued opening of registration in the program, in addition to an increase in the amount allocated to social security financed by zakat revenues and expenses for people with special needs. Subsidies also increased by 19.1% due to supporting food security stocks. Spending on grants also increased by 90.3%, in line with the Kingdom's important role in the humanitarian, economic, and development fields at the regional and global levels.

Compensation of employees also increased by 5.9%, mainly due to the impact of the annual raise, the continued transformation of a number of government agencies from the Civil Service Law to the Labor Law, and the associated financial allocations for future actuarial deficits. Financing expenses also grew 31.2% as a result of the increase in interest rates and the size of the debt stock.

OPEX for the entire year is expected to reach approximately SAR 1,062 bn, an increase of 11.0% over the approved budget. The total expenditure on goods and services is expected to rise by around SAR 48 bn, in support of implementing the strategic development direction in various sectors, achieving the goals of government agencies, as well as spending on maintenance, cleaning and operation of projects.

It is also expected that social benefits will increase by 40.9% compared to the approved budget. This is mainly due to the extension of additional support to beneficiaries of the Citizen Account Program, the continued opening of registration for the program, in addition to the increase in zakat revenues. It is also expected that spending on subsidies will rise by 8.8% as a result of enhancing food security and ensuring the availability of food stocks for basic commodities.

On the other hand, it is expected that compensation of employees will rise by 2.6% as a result of the completion of the readiness of a number of government agencies to transition from the Civil Service Law to the Labor Law, and the costs resulting from this transition. It is also expected that grants will increase by 179.4%, and this is based on the Kingdom's humanitarian and pioneering role towards the international community throughout the world.

Capital Expenditures (CAPEX)

Total CAPEX until the end of June of FY 2023 reached around SAR 69 bn, an increase of 36.6% compared to the same period last year. It is expected that total CAPEX by the end of FY 2023 will reach around SAR 199 bn, an increase of 27.3% from what was approved at the beginning of the year. This is a result of the progress in implementing developmental projects and strategies in the Kingdom at an accelerated pace to achieve comprehensive development and high economic and social returns. These projects include, for example, NEOM, the third expansion of the Holy Mosque, King Salman Park, and Sports Boulevard, in addition to the development of industrial areas. The government also seeks to enhance the human dimension in urban planning and address visual distortion, in addition to localizing military industries and strengthening the municipal services sector.

Sectoral Expenditure

On the actual performance of expenditure at the sector level, the General Items Sector recorded an increase of 49.8%, bringing the actual expenditure in this sector to SAR 103 bn through the first half of the year compared to the same period last year. This is a result of the increase in spending on infrastructure projects and the acceleration in the implementation of Saudi Vision 2030 programs and mega projects.

Spending in the Health and Social Development Sector also increased by 28.5%, as the actual spending until mid-year reached SAR 128 bn compared to the same period last year. The increase in the sector is due to support for social care and protection programs and the continued additional support for the Citizen Account Program to confront the impacts of the rise in prices of basic and food commodities, in addition to the increase in expenditures on medical supplies and medicines. Spending in the Military Sector also increased by 5.8%, bringing the actual expenditure to SAR 111 bn. This is due to continued progress in the localization of military industries.

Spending in the Economic Resources Sector, Public Administration Sector, as well as Security and Administrative Regions Sector increased by 25.6%, 22.7% and 9.8%, respectively, compared to the same period last year.

It is expected that spending in the Health and Social Development Sector will reach around SAR 243 bn, an increase of 28.4% over the approved budget, in addition to an increase in spending in the Military Sector to reach SAR 262 bn, or 1.0% over what was approved at the beginning of the year. Spending on General Items is also expected to increase to reach SAR 210 bn, an increase of 27.3% over the approved amount.

Sectoral Expenditure

(SAR Billion, unless otherwise stated)

Sector	Approved Budget FY 2023	Actual Expenditure for H1 of FY 2023	Expenditure (as % of Budget)	FY 2023 Estimates	Change Percent % (Approved Budget Estimates)
Public Administration	37	22	58.7%	46	23.4%
Military	259	111	42.9%	262	1.0%
Security and Regional Administration	105	54	51.7%	113	6.9%
Municipal Services	63	27	42.2%	79	24.9%
Education	189	103	54.4%	200	6.0%
Health and Social Development	189	128	67.6%	243	28.4%
Economic Resources	72	37	52.0%	75	4.1%
Infrastructure and Transportation	34	19	54.5%	35	1.4%
General Items	165	103	62.5%	210	27.3%
Total	**1114**	**604**	**54.2%**	**1,262**	**13.3%**

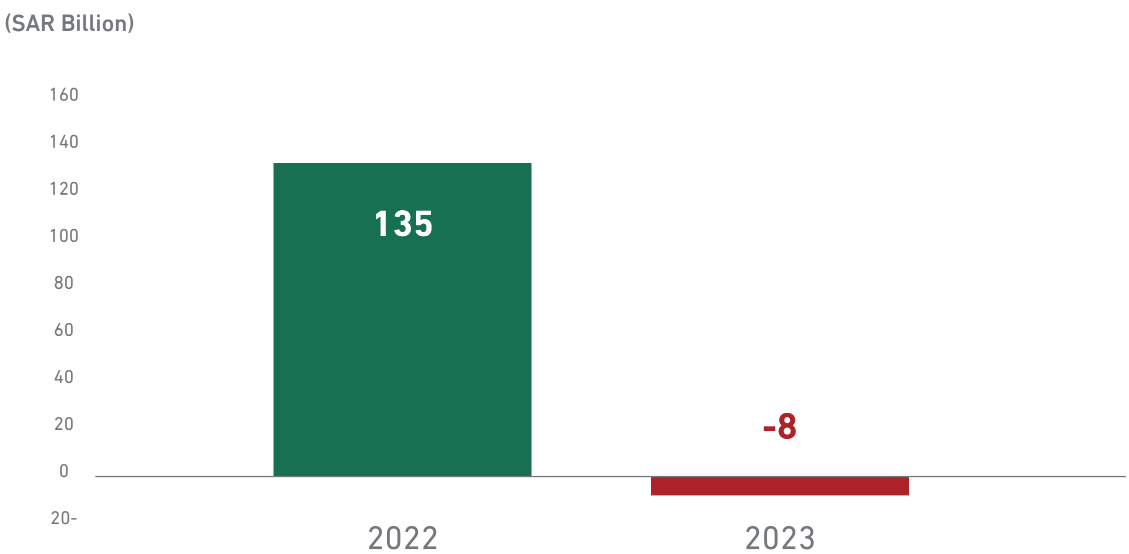
Source: MoF

Minor discrepancy may arise due to rounding

Debt and Financing and Year End Projections

The budget recorded a deficit during H1 of FY 2023 of around SAR 8.2 bn, compared to a surplus of around SAR 135 bn for the same period of FY 2022. This is mainly due to the increase in total expenditure as a result of progress in implementing some projects that support the achievement of economic diversification and increased growth rates.

Budget Surplus/ Deficit
by the End of H1 of FY 2023 Compared to the Same Period of FY 2022

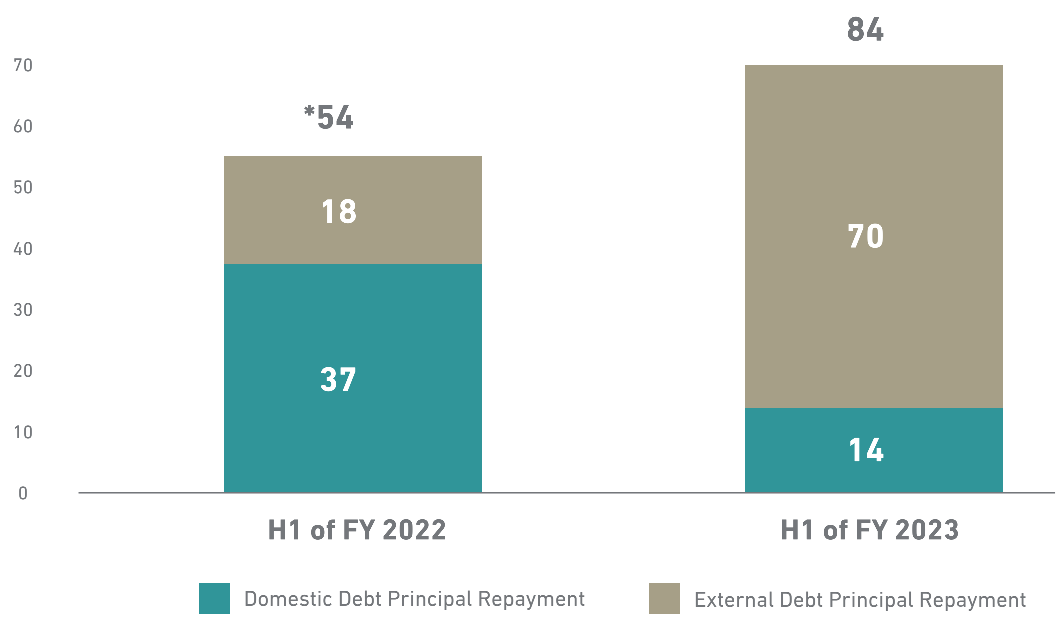


Source: MoF

Government financing activities during H1 of the year reached around SAR 83 bn, of which domestic financing activities of around SAR 23 bn, while external issuances worth around SAR 60 bn. The total repayment of principal during H1 of the year reached around SAR 84 bn, as the repayment of domestic debt principal reached SAR 14 bn, while the repayment of the external debt principal reached around SAR 70 bn. Thus, the debt stock at the end of H1 of FY 2023 reached around SAR 989 bn, compared to the debt stock in H1 of FY 2022, which reached around SAR 967 bn. It's worth noting that during H2 of FY 2022, there were financing activities for the repayment of debt principal for FY 2023, which worth around SAR 108 bn. Proactive financing activities and early repurchase activities were implemented during FY 2022 at around SAR 48 bn and SAR 15 bn, respectively. By the end of February of FY 2023, the remainder of the debt principal due for the year, worth around SAR 45 bn, was covered.

Debt Principal Repayment for FY 2023 Compared to FY 2022

(SAR Billion)

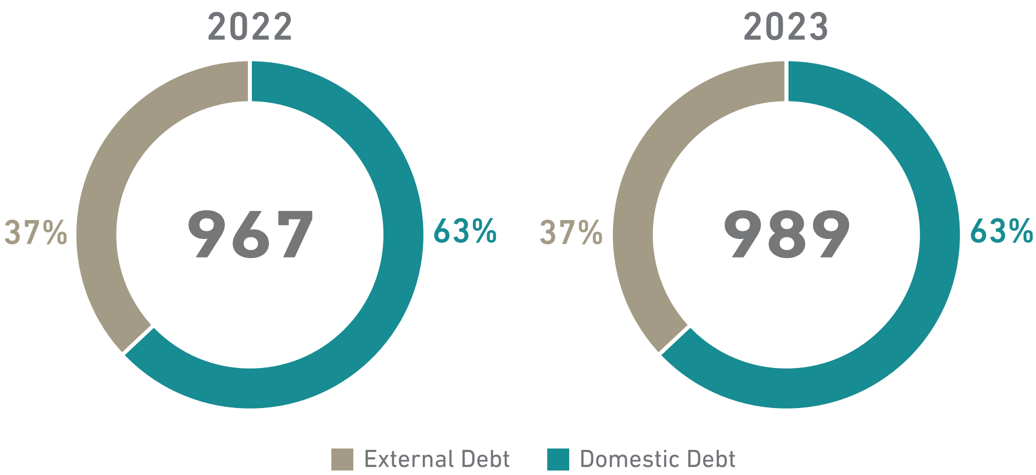


Source: MoF

*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 2023 compared to H1 of FY 2022

(SAR Billion)



Source: MoF

The average coupon rate on domestic and external issuances that were issued during H1 of the current year was around 4.4%, while the average coupon rate on domestic issuances that were issued during H1 of FY 2022 was around 3.2%. The U.S. Federal Reserve, with the aim of reducing inflation rates, raised interest rates three times (by 25 basis points each time) in February, March and May of FY 2023, bringing the total number of interest rate raises to 10 times from March of FY 2022 until H1 of FY 2023. Therefore, and with the objectives of maintaining financial stability, the Saudi Central Bank also raised interest rates in line with the Federal Reserve's increases.

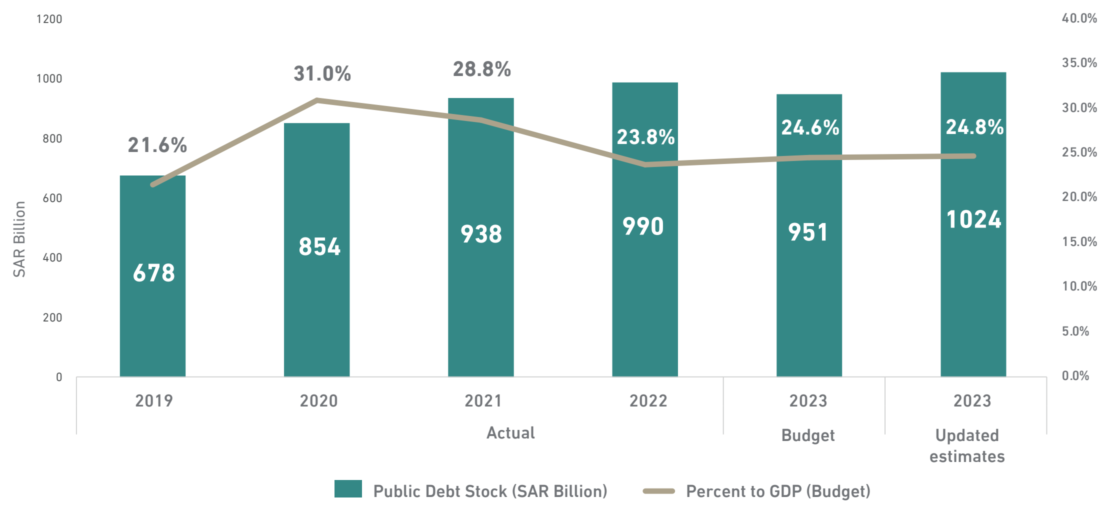
It is not expected that the projections of financing expenses that were estimated in the budget of FY 2023 will be affected by the raise in interest rates. This is because a large proportion of debt issuances were issued at a fixed return basis. Additionally, the budget estimates for financing expenses were built on a conservative basis that takes into account the expected changes in markets.

In light of what occurred in H1 of FY 2023, fiscal policy continues to work to achieve a balance between the goals of promoting economic growth, maintaining fiscal sustainability, developing non-oil revenues, raising the efficiency of spending, and increasing the level of private sector participation in the economy. The updated estimates for the FY 2023 budget indicate a budget deficit of around 82 bn (equivalent to 2.0% of GDP). This level of deficit is among the scenarios on which the budget of FY 2023 was based, and was a result of accelerating the implementation of projects and programs with social and economic returns. Accordingly, the Government continues to execute borrowing activities to meet the expected financing needs for FY 2023 and considers the possibility of entering into additional financing activities in a proactive manner according to market conditions. This aims to manage debt principal repayments for the coming period and enhance the Kingdom's presence in domestic and international debt markets, taking into account the management of the debt portfolio risks. During FY 2023, early redemption of a portion of the outstanding domestic bonds and Sukuk maturing in the years 2024, 2025, and 2026 with a total value of around SAR 36 bn was executed. This is in addition to the issuance of new Sukuk under the Saudi Riyal Sukuk Program with a total value of around SAR 36 bn. Thus, the total financing activities for the entire year are expected to reach SAR 163 bn, compared to around SAR 45 bn according to the approved annual borrowing plan. Accordingly, the debt stock is expected to reach around SAR 1,024 bn by the end of the current year (equivalent to 24.8% of GDP), a slight increase from the percentage estimated in the budget, which is equivalent to 24.6% of GDP.

The balance of government reserves at the Saudi Central Bank at the end of H1 of FY 2023 was around SAR 410 bn, higher than the balance of FY 2022 by about SAR 91 bn, as a result of enhancing the balance with the budget surplus achieved in FY 2022. However, during H1 of the current year, withdraws from Government reserves were made to finance domestic loans as well as foreign deposits. It is expected that the balance of government reserves by the end of FY 2023 will reach around SAR 395 bn (equivalent to 10% of GDP). This comes as a continuation of the fiscal policy's objective of maintaining its financial position and achieving fiscal sustainability.

The following graph shows the actual and estimated public debt for FY 2023 compared to budget estimates.

Actual and Estimated Public Debt for FY 2023



Source: MoF

Fiscal Performance for H1 2023

(SAR Billion, Unless otherwise stated)

	Jan - Jun 2022	Jan - Jun 2023	Annual change
Revenues			
Total Revenues	**648**	**596**	**-8.1%**
Taxes	**172**	**191**	**10.5%**
Taxes on Income, Profits and Capital Gains	14	24	66.4%
Taxes on Goods and Services	125	129	3.7%
Taxes on International Trade and Transactions	10	11	2.4%
Other Taxes	23	27	16.2%
Other Revenues	**476**	**405**	**-14.8%**
Expenditures			
Total Expenditures	**513**	**604**	**17.7%**
Expenses (OPEX)	**462**	**534**	**15.7%**
Compensation of Employees	251	266	5.9%
Use of Goods and Services	97	116	19.6%
Financing Expenses	14	19	31.2%
Subsidies	12	14	19.1%
Grants	2	3	90.3%
Social Benefits	42	58	38.7%
Other Expenses	44	58	31.8%
Non-Financial Assets (CAPEX)	**51**	**69**	**36.6%**
Budget Balance			
Budget Balance	**135**	**-8**	**-**
Percent to GDP*	3.5%	-0.2%	-
Debt and Reserves			
Debt	**967**	**989**	**2%**
Percent to GDP*	23.3%	24.5%	-
Government Reserves at SAMA	**319**	**410**	**-**
Percent to GDP*	7.7%	10.2%	-

Source: MoF

GDP of FY 2022 is according to the General Authority for Statistics (GASTAT) for the updated actual numbers and GDP of FY 2023 is according to the MoF preliminarily estimates.

Minor discrepancy may arise due to rounding

Fiscal Estimates for FY 2023

(SAR Billion, Unless otherwise stated)

	Actual 2022	Budget 2023	Estimates* 2023	Change (Estimates compared to Budget)
Revenues				
Total Revenues	**1,268**	**1,130**	**1,180**	**4.4%**
Taxes	**323**	**322**	**352**	**9.2%**
Taxes on Income, Profits and Capital Gains	24	22	36	66.0%
Taxes on Goods and Services	251	254	264	3.9%
Taxes on International Trade and Transactions	19	18	20	12.4%
Other Taxes	28	28	32	12.3%
Other Revenues	**945**	**808**	**828**	**2.4%**
Expenditures				
Total Expenditures	**1,164**	**1,114**	**1,262**	**13.3%**
Expenses (OPEX)	**1,021**	**957**	**1,062**	**11.0%**
Compensation of Employees	513	514	528	2.6%
Use of Goods and Services	258	218	266	22.1%
Financing Expenses	30	39	38	-2.1%
Subsidies	30	22	24	8.8%
Grants	3	2	6	179.4%
Social Benefits	79	67	94	40.9%
Other Expenses	107	96	107	11.7%
Non-Financial Assets (CAPEX)	**143**	**157**	**199**	**27.3%**
Budget Deficit/Surplus				
Budget Deficit/Surplus	**104**	**16**	**-82**	**-**
Percent of GDP*	**2.5%**	**0.4%**	**-2.0%**	**-**
Debt and Reserves				
Debt	**990**	**951**	**1,024**	**7.7%**
Percent of GDP*	23.8%	24.6%	24.8%	
Government Reserves at SAMA	**318**	**399**	**395**	_
Percent of GDP*	8%	10%	10%	

Source: MoF

GDP of FY 2022 is according to the General Authority for Statistics (GASTAT) for the updated actual numbers and GDP of FY 2023 is according to the MoF preliminarily estimates.
Minor discrepancy may arise due to rounding

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Ministry of Finance