The Economic and Energy Transformation in Saudi Arabia
Exploring the Role of Strategic Investments

Majed Almozaini

October 02, 2023 | KS–2023-II09
About KAPSARC

KAPSARC is an advisory think tank within global energy economics and sustainability providing advisory services to entities and authorities in the Saudi energy sector to advance Saudi Arabia’s energy sector and inform global policies through evidence-based advice and applied research.

This publication is also available in Arabic.

Legal Notice

© Copyright 2023 King Abdullah Petroleum Studies and Research Center (“KAPSARC”). This Document (and any information, data or materials contained therein) (the “Document”) shall not be used without the proper attribution to KAPSARC. The Document shall not be reproduced, in whole or in part, without the written permission of KAPSARC. KAPSARC makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that is contained in the Document. Nothing in the Document constitutes or shall be implied to constitute advice, recommendation or option. The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the official views or position of KAPSARC.
This Instant Insight reviews Saudi Arabia’s capital expenditure (central government capital expenditure + public investment fund [PIF] expenditure), which is a key component of its fiscal policy. Capital expenditure stimulates the primary goal of economic diversification, a structural shift in the economy toward higher value-added sectors providing greater opportunities.

Investment in the energy sector is typically considered a capital expenditure. Capital expenditures are long-term investments in physical assets such as buildings, equipment and infrastructure. Such investments are expected to generate returns over a period of several years. Energy sector investments typically involve the construction or expansion of power plants, renewable energy facilities, pipelines and other physical infrastructure that require significant upfront capital expenditures.

Through its strategic investments, the PIF promotes the dynamic evolution of Saudi Arabia’s economy and energy sector. The shift toward more sustainable energy sources, including wind, solar and hydropower, while abandoning conventional fossil-fuel-based energy is known as energy sector transformation. This transformation is driven by awareness of climate change concerns and greenhouse gas emission reduction requirements. Moving to an adaptable and decentralized system is necessary for the efficient management of innovative technology and renewable energy sources. Numerous regions worldwide have already initiated this radical change, and it is presumed that more countries will follow suit in the coming years to achieve their climate change goals.

The PIF invests in a wide range of industries, both in Saudi Arabia and internationally, focusing on strategic investments that support the country’s long-term economic development. However, the government has launched an ambitious program to transform the country’s energy sector with the goal of reducing its reliance on oil and gas and increasing the use of renewable energy sources. The key components of the energy transformation plan include the development of renewable energy projects, expansion of nuclear power and implementation of energy efficiency measures. Overall, the PIF’s focus on energy transformation is an important part of the country’s efforts to build a more diversified, sustainable and resilient economy.
Figure 1. Central government and public investment fund (PIF) capital expenditures: 2017-2023.

Key Insights on Government and PIF Capital Expenditures

Figure 1 shows the capital expenditure in Saudi Arabia from 2017 to 2023. It distinguishes between government and public investment fund (PIF) capital expenditures.

Central government capital expenditures have declined in nominal terms since 2017. This decline corresponds to an effort to reduce the budget deficit, which is in line with the Fiscal Sustainability program, one of the realization programs of Saudi Vision 2030. The decline also reflects policies initiated in 2016, when the Government of the Kingdom of Saudi Arabia launched several reforms and programs that have increased the efficiency of public expenditures and government support. Cuts in central government expenditures in 2020 also correspond to budget adjustments made by the government to cope with the pressures of declining oil.

Total capital spending (including both central government and PIF spending) decreased between 2017 and 2019. However, it picked up in 2020 and stabilized in 2021 at approximately 10.07% of non-oil GDP. During 2022 and 2023, the expected domestic investment in the PIF increases by 56% in nominal terms, offsetting the cut in government capital spending from 2017 to 2021.

Since 2019, the reduction in central government capital expenditures has been accompanied by the transformation of many PIF targets, including diversifying government revenue, opening up new economic sectors and entering into long-term partnerships with the private sector. The national development fund (NDF) has also been a key source of strategic investment in the Kingdom. The NDF is expected to invest approximately 50 billion Saudi riyals (SAR) annually.

In 2021, government expenditures were approximately SAR 117.217 billion, and PIF expenditures reached SAR 84 billion. For the first time, the percentage of PIF capital expenditures exceeded 71.66% of capital expenditures by central government, after an average of 37% from 2017 to 2020. This increase has made the fund one of the main drivers of the growth in the Saudi economy. The International Monetary Fund expects that PIF expenditures will exceed central government expenditures in 2022 and for the years to come (IMF 2022).
According to the 2022 Saudi budget statement, capital expenditures reached SAR 151 billion in 2022, exceeding the 2022 budget target of SAR 92 billion. The large increase in capital spending in 2022 stemmed from surplus budget revenue. The increase in spending accelerated implementation of strategic programs and projects with economic and social dimensions, including infrastructure related to water, agriculture, energy and mineral resources. The increased spending also supported small and medium-sized enterprises, thereby enhancing local conditions.

Capital expenditures for both the PIF and central government are projected to reach approximately SAR 307 billion for fiscal year 2023. Central government capital expenditures are estimated to reach approximately SAR 157 billion, constituting 14.1% of total expenditures; a 3.97% increase in expected capital expenditures compared with fiscal year 2022.

Vision 2030 plans to develop the PIF into the largest sovereign wealth fund in the world, contributing to the diversification of the Kingdom’s economy. By 2030, the PIF will manage financial assets worth $2 trillion, which will serve as a growth engine for the Saudi economy and as a new source of income for Saudi Arabia.

**Capital Spending in Saudi Arabia and the Role of the PIF**

As Saudi Arabia’s sovereign wealth fund, the public investment fund (PIF) is mandated to transform and diversify the country’s economy. In its first vision realization program (VRP), which lasted from 2017 to 2020, the PIF grew from SAR 570 billion in 2015 to SAR 1.8 trillion by the end of 2021. It has unlocked new and sustainable sectors including renewable energy, entertainment and recycling (Metropolitan Planning Organization 2022). It now turns to its second VRP, which will last five years (2021-2025).

During the next five years, the PIF will continue its ambitions to empower the private sector and launch promising sectors. It is committed to investing no less than SAR 150 billion into the local economy by 2025. It also aims to have 60% of local content in the fund and its affiliates, which will contribute to creating 1.8 million direct and indirect jobs. The PIF and its subsidiaries aim to cumulatively contribute SAR 1.2 trillion to the country’s non-oil GDP by the end of 2025. Since its establishment in 1971 by Royal Decree No. M/24, the PIF has funded different projects of strategic importance to the Kingdom of Saudi Arabia (Public Investment Fund 2022).

In 2014 and 2015, several reforms were implemented in the PIF to broaden its role in the pursuit of Vision 2030. These comprehensive changes were devised to allow the PIF to achieve several objectives for the Kingdom, including developing new opportunities for non-oil growth, increasing local content, generating more jobs, improving the quality of life, empowering a thriving private sector and solidifying the leadership position of the Kingdom (Public Investment Fund 2022).

The PIF is dedicated to developing a portfolio of high-quality domestic and international investments that are diversified across sectors. Current sources of funds include capital injections from the government, government assets transferred to fund, loans, debt instruments and retained earnings from investments. It is mandated to invest and reinvest its available funds to ensure the success of its objectives and to benefit Saudis by supporting public welfare and economic development.

Under its strategic plan, the PIF will focus on 13 new sectors that will attract private investment (aerospace and defense; automotive, transport and logistics; food and agriculture; construction and building; components and services; entertainment, leisure and sports; financial services; real estate; utilities and renewables; metals and mining; healthcare, consumer goods and retail; and telecommunications, media and technology). In addition, the PIF uses its strategic economic partnerships to unlock new sectors, with each investment opportunity rigorously evaluated through a committee-driven decision-making process.

**Important Insights on PIF Investments to Transform the Energy Sector**

The PIF’s investments in the renewable energy sector are part of the Saudi government’s broader efforts to diversify the economy and reduce the country’s reliance on oil and gas—as outlined in Saudi Vision 2030 and National Transformation Program 2020. By investing in the local energy sector, the PIF helps create new industries and job opportunities in Saudi Arabia while also supporting the country’s energy security and sustainability goals.

According to the PIF of Saudi Arabia, investing in the energy sector is essential for creating growth and development opportunities. The PIF recognizes the importance of transitioning to a more sustainable energy sector, and it has made significant investments...
in the renewable energy sector to transform the energy landscape.

One of the key insights from the PIF is that investments in renewable energy can drive economic growth and generate revenue. This is supported by the fact that the costs of renewable energy technologies have decreased significantly, making them more competitive with traditional fossil fuels.

Another important insight is that investing in renewable energy can reduce carbon emissions and improve environmental sustainability. The PIF recognizes the importance of reducing greenhouse gas emissions and has made significant investments in renewable energy projects such as wind and solar power.

A third insight is that investing in the energy sector can create job opportunities, particularly in the renewable energy industry. Renewable energy projects require skilled labor and can create job opportunities in areas such as engineering, construction and maintenance.

In summary, the PIF recognizes that investing in the renewable energy sector is essential for transforming the energy landscape and creating sustainable economic growth. By investing in renewable energy, the PIF supports the transition to a more sustainable energy sector, reducing carbon emissions and creating job opportunities.

By taking such measures, Saudi Arabia can materialize its aim of being an environmentally conscious global player while strengthening its economic stability. The energy transformation strategy is anticipated to assist the country’s objectives in terms of social advancement, environmental sustainability and economic progress.

1. PIF’s Energy Vision

   The PIF’s energy vision is aligned with Saudi Arabia’s Vision 2030, which aims to achieve a sustainable, diversified and balanced economy. The PIF’s energy plan includes investments in renewable energy projects such as solar and wind power, as well as clean energy technologies such as carbon capture and storage.

2. Significant Investments

   The PIF has already invested billions of dollars in renewable energy projects worldwide. In 2021, the PIF announced a $10 billion investment in a new green hydrogen plant in NEOM, a futuristic city being built in the Kingdom’s northwest region. The plant is expected to produce up to 650 tonnes of green hydrogen per day, which can be used as fuel for transportation.

3. Reducing Dependence on Oil

   The PIF is focused on renewable energy projects aimed at reducing Saudi Arabia’s dependence on oil exports. The Kingdom has one of the largest oil reserves in the world, but this resource is finite and subject to volatile price fluctuations in global markets. By investing in renewable energy projects, Saudi Arabia hopes to reduce its reliance on oil exports and diversify its economy.

4. Job Creation

   The PIF’s investments in renewable energy projects are expected to create thousands of jobs in Saudi Arabia. The NEOM green hydrogen plant alone is expected to create more than 4,000 jobs during the construction phase and more than 650 permanent jobs once it is operational.

5. Strategic Partnerships

   The PIF has established strategic partnerships with leading global companies in the renewable energy sector such as SoftBank Group, ACWA Power and EDF Renewables. These partnerships provide the PIF with access to cutting-edge technology and expertise, which will help accelerate the Kingdom’s transition to renewable energy. In conclusion, PIF investment in renewable energy projects is a key part of Saudi Arabia’s economic diversification strategy.

PIF Investments to Transform the Energy Sector

The public investment fund (PIF) of Saudi Arabia launched an ambitious plan to transform the Kingdom’s energy sector by investing in renewable energy sources and reducing its dependence on oil. This plan is part of Saudi Arabia’s Vision 2030, which aims to diversify the economy and reduce its reliance on oil exports. Some key insights on PIF investments toward transforming the energy sector are as follows:
Future Projections

The government of the Kingdom of Saudi Arabia’s commitment to diversifying the economy to reduce its dependence on oil is well articulated in Vision 2030. Over the next few years, the public investment fund aims to invest approximately SAR one trillion in the local economy. The PIF, which has continued to inject funds to transform and diversify the economy, intends to invest SAR 150 billion ($40 billion) annually in the domestic economy (Public Investment Fund 2022).

According to the Saudi budget statement for 2023, many projects can be addressed in the context of the government’s capital expenditures and PIF investment spending. Therefore, the upward trajectory of PIF capital expenditure is expected to continue in light of its current endeavors to invest in non-oil sectors and boost national welfare.

This is evidenced by the development of projects such as NEOM and other renewable energy initiatives to boost sustainable growth and employment opportunities and reduce overreliance on oil revenues. Through these initiatives, Saudi Arabia can achieve two key goals: diversifying its earnings and mitigating the negative consequences associated with nonrenewable sources of energy. Overall, this aligns well with the nation’s 2030 objective, making PIF expenditures a crucial component in achieving long-term sustainability ambitions. The future of the energy sector in Saudi Arabia will be heavily impacted by initiatives spearheaded by the Saudi PIF. By supporting the country’s move toward a low-carbon and sustainable economic model (Geddes et al. 2018), this prominent fund assists innovative new ventures in renewable energy and clean technology. Ventures that are capable of generating job opportunities. The anticipated investments by the PIF in renewable energies and technology solutions that benefit streamlined clean-up procedures will end further reliance on traditional gas and oil-based organizations. Consequently, the steps taken by the PIF to diversify the industry create greater resilience to global changes in the energy field. At least one other positive development must not be overlooked as we envisage such a transition: greenhouse gases will inevitably be reduced as a result of investment in cleaner technologies by countries such as Russia or Japan, mitigating international emissions. That is, regulations put in place locally will also be enacted abroad.
References


