2021 Preliminary Budget Statement

Based on the Ministry of Finance's (MoF) continued implementation of the Vision 2030, the preliminary budget statement for the 2021 fiscal year was announced on 30th September 2020. Some fiscal and economic indicators were revised for the medium term.

- The main adjustment to Saudi Arabia's fiscal outlook relates to the current year, with significant changes to the revenue, expenditure and the fiscal deficit. Thus, in 2020, revenue is expected to total SR770 billion, around SR63 billion (or 8 percent) lower than the previously budgeted total of SR833 billion in last year's budget statement (Figure 1).

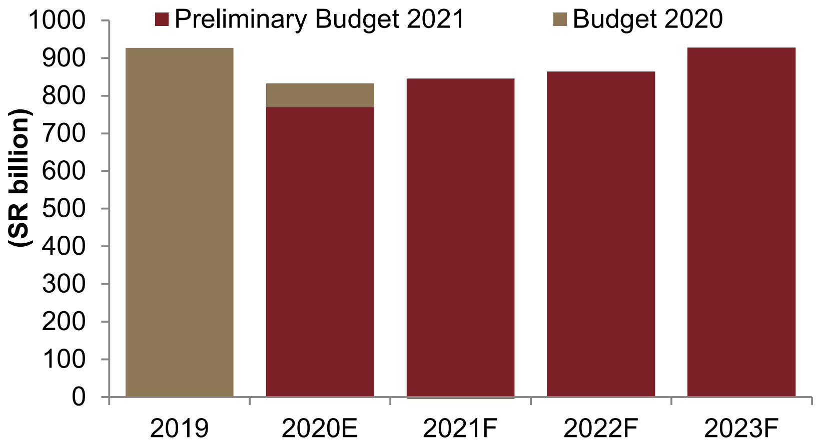
- We see the main factor in the adjustment in overall revenue primarily related to lower than anticipated oil revenue. Brent oil prices have been severely hit by the spread of COVID-19 around the world, with latest OPEC forecasts expecting oil demand to decline by 9 percent year-on-year in 2020 (*please see our latest [Oil Update](#)*). As a result, Brent oil prices are down 37 percent year -to-date compared to same period last year, and are currently trading around the $40 per barrel (pb) mark.

- As of H1 2020, government oil revenue totaled SR224 billion, which had been significantly boosted by Aramco dividends, with circa SR119 billion being paid to the MoF in the first six months of the year. Looking ahead, and taking into account MoF's revised numbers, based on our Brent oil price forecast of $43 pb for full year 2020 plus continued dividend payments for the remainder of the year, we see government oil revenue being at least SR100 billion higher than our current estimate of SR353 billion.

- The statement points out that non-oil revenue for 2020 includes the collection of exceptional profits from investment. We believe this likely refers to (but is not limited to) income derived from privatization of assets during the year. We note that two flour mills were sold earlier this year for a total of SR2.8 billion, and that a further two are currently in the bidding phase.

- Furthermore, the MoF recently stated that it expects SR11 billion in revenue to be collected from privatization deals this year, although no additional details were provided.

Figure 1: Sizable adjustment to government revenue in 2020 only



For comments and queries please contact:

Asad Khan
Head of Research
rkhan@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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In 2020, revenue is expected to total SR770 billion…

- Meanwhile, preliminary 2021-22 government revenue forecasts were virtually unchanged (when compared to last year's budget statement), despite an unplanned rise in VAT from 5 percent to 15 percent between the two statements (we estimate an additional SR78 billion in tax revenue in 2021, assuming VAT remains unchanged, as per our recent *macroeconomic update*).

...around SR63 billion (or 8 percent) lower than previously budgeted total of SR833 billion in last year's budget statement.

- The statement also includes a forecast for 2023, when revenue is expected to reach SR928 billion, up 21 percent over 2020's figure. Whilst our forecast is not too dissimilar, at SR955 billion, we expect non-oil revenue to contribute 41 percent of the total (compared to 34 percent in 2019), largely as a result of the additional tax revenue arising from July's VAT hike. Moreover, our oil revenue projection is based on Brent oil prices of $55 pb and oil production of 11 million barrels per day (mbpd) (Table 1).

Meanwhile, 2021-22 forecasts remained virtually unchanged.

Table 1: Jadwa's forecasts

Indicators	2019	2020E	2021F	2022F	2023F
Brent ($/b)	66	43	55	55	55
Production (million b/d)	9.8	9.2	9.6	10.9	11.0
Government revenue (SR bn)	917	653	856	941	955

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- On the expenditure side, the major change in MoF's forecast relates to 2020 only, with expenditure expected to be SR48 billion (or 5 percent) higher than previously projected, at SR1.068 trillion. The statement highlights that whilst some reductions have taken place within certain segments of the budget, these have been subsequently re-allocated to other segments. More specifically, we see the bulk of the reallocation being included in roll-out of fiscal measures to support the private sector (such as payment of dues and 60 percent of salaries for the nationals) plus an additional SR47 billion for healthcare.

...with expenditure expected to be SR48 billion higher than previously projected, at SR1068 billion…

- In this context, capital expenditure will be squeezed in 2020 as a whole, with this segment being down 36 percent year-on-year in H1 2020, and 'Economic Resources' sector (which encompasses spending on new projects and expansion of existing ones) being 43 percent lower than H1 2019.

...with negligible changes to 2021-22 forecasts.

- Similarly, changes to expenditure were negligible between 2021-22 (Figure 2), although the statement did emphasize that expenditure in 2021 will have to ensure sufficient flexibility in case of any unforeseen risk. Overall, expenditure plans between 2021-23 are expected to continue focusing on the development of mega -projects and on the implementation of Vision Realization

Figure 2: Higher government expenditure in 2020 only

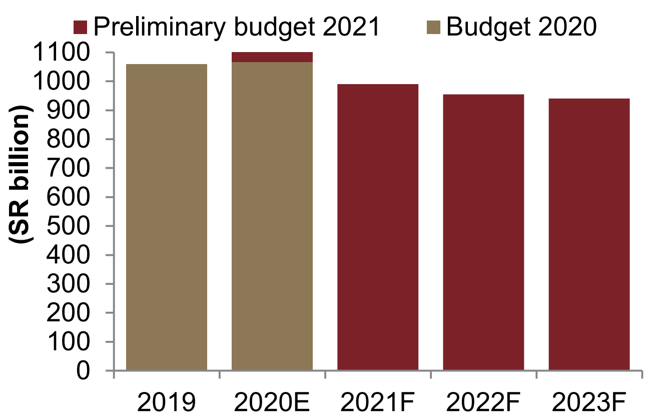
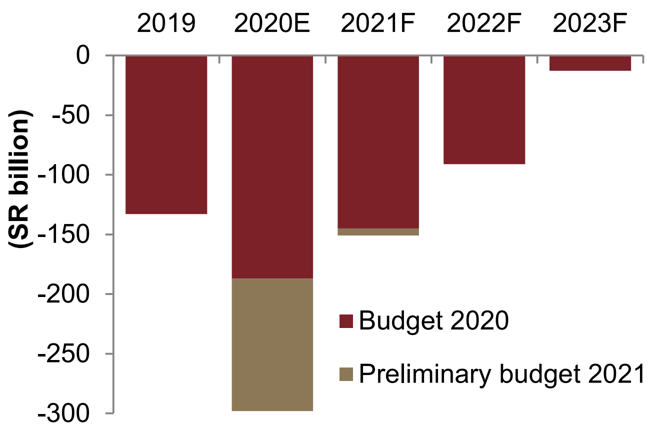


Figure 3: Fiscal deficit still expected to narrow after 2020



As a result, the MoF now expects the fiscal deficit to hit SR298 billion or -12 percent of GDP…

...compared to SR187 billion (-6.4 percent of GDP) previously (versus our forecast of SR366 billion or -13.4 percent of GDP).

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...public debt is expected to grow more or less in line with previous forecasts between 2021-22.

Whilst providing no breakdown between oil and non-oil GDP…

...the MoF's latest forecast points to a contraction of -3.8 percent (versus our forecast of -3.7 percent) in 2020…

...with a rebound in growth next year at 3.2 percent (versus our forecast of 3.3 percent).

Programs (VRP), with the Housing and Quality of Life Programs specifically cited within the statement.

- In addition, the statement highlighted the continued efforts of the Public Investment Fund (PIF) in strengthening and diversifying the economy, as part of its role in the Saudi Vision 2030. The fund, which had assets under management of $360 billion (SR1.35 trillion) at the end of Q2 2020, recently stated that its breakdown between domestic/international holdings stood at 82/18 percent, with an ideal split being around 25/75 percent in the future.

- Taking into the account the sizable adjustment in both revenue and expenditure in 2020, the MoF now expects the fiscal deficit to hit SR298 billion (-12 percent of GDP), compared to SR187 billion (-6.4 percent of GDP) previously (and versus our forecast of SR366 billion or -13.4 percent of GDP). Beyond this year, the MoF still expects the fiscal deficit to progressively narrow to a less than 1 percent by 2023 (Figure 3).

- Despite an upward revision in 2020 total debt issuance (*please see our Q2 Budget Statement report*), public debt is expected to grow more or less in line with previous forecasts between 2021-22, and will total SR1.029 trillion in 2023 (31.8 percent of GDP) according to the statement (Figure 4).

- Whilst providing no breakdown between oil and non-oil GDP, the MoF's latest forecast points to a contraction of -3.8 percent (versus our forecast of -3.7 percent) in 2020, with a rebound in growth next year at 3.2 percent, Figure 5 (versus our forecast of 3.3 percent.

- When comparing the aggregate growth rate between the 2020 fiscal budget statement and the recent preliminary statement, the economic fallout of COVID-19 becomes more apparent. More specifically, according to the MoF, the Saudi economy was expected to expand by an annual average of 2.3 percent between 2020-22 previously, whereas it is now forecasted to grow by 0.9 percent annually, over the same period.

- Lastly, inflation for 2020 as a whole is estimated to rise to 3.7 percent and 2.9 percent in 2021, due to the anticipated impact of the increase in VAT and customs duty on some products (versus our forecast of 3 & 3.2 percent, respectively).

Figure 4: Debt-to-GDP expected to stabilize

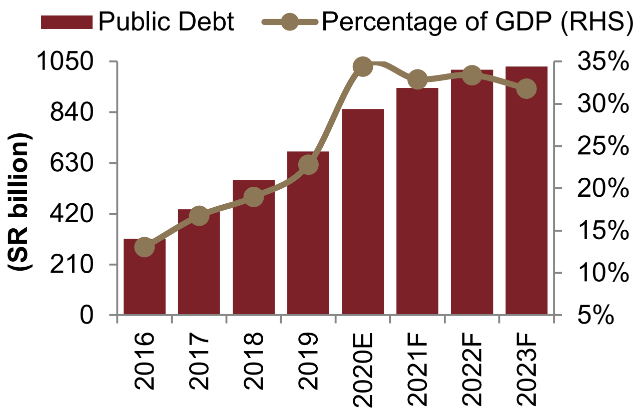
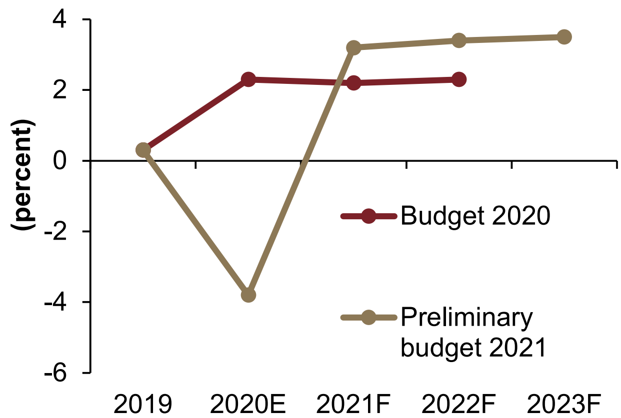


Figure 5: Ministry of Finance Real GDP growth estimates



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The data contained in this research is sourced from SAMA, MoF, Vision 2030, IMF and NTP unless otherwise stated.

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Key Data

	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Nominal GDP									
(SR billion)	2,800	2,836	2,454	2,419	2,582	2,934	3,044	2,722	3,061
($ billion)	747	756	654	645	689	782	812	726	816
(% change)	1.5	1.3	-13.5	-1.4	6.8	13.6	3.7	-10.6	12.5
Real GDP (% change)									
Oil	-1.6	2.1	5.3	3.6	-3.1	3.1	-3.6	-4.8	4.3
Non-oil private sector	7.0	5.4	3.4	0.1	1.5	1.9	3.8	-4.5	3.2
Non-oil government	5.1	3.7	2.7	0.6	0.7	2.9	2.2	0.5	1.5
Total	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-3.7	3.3
Oil indicators (average)									
Brent ($/b)	110	99	52	43	54	71	66	43	55
Production (million b/d)	9.6	9.7	10.2	10.4	10.0	10.3	9.8	9.2	9.6
Budgetary indicators (SR billion)									
Government revenue	1,156	1,044	616	519	692	906	917	653	856
Government expenditure*	994	1,140	1,001	936	930	1,079	1,048	1,019	990
Budget balance	162	-96	-385	-417	-238	-173	-131	-366	-134
(% GDP)	5.8	-3.4	-15.7	-17.2	-9.2	-5.9	-4.3	-13.4	-4.4
Gross public debt	60	44	142	317	443	560	678	854	948
(% GDP)	2.1	1.6	5.8	13.1	17.1	19.1	22.3	31.4	31.0
Monetary indicators (average)									
Inflation (% change)	3.5	2.2	1.2	2.1	-0.8	2.5	-2.1	3	3.2
SAMA base lending rate (%, end year)	2.0	2.0	2.0	2.0	2.0	3.0	2.3	0.50	0.75
External trade indicators ($ billion)									
Oil export revenues	322	285	153	137	171	232	202	132	171
Total export revenues	376	342	204	184	222	294	262	176	218
Imports	153	158	159	128	123	126	132	100	122
Trade balance	223	184	44	56	98	169	129	76	96
Current account balance	135	74	-57	-24	10	72	47	-1.0	22
(% GDP)	18.1	9.8	-8.7	-3.7	1.5	9.2	5.8	-0.1	2.7
Official reserve assets	726	732	616	536	496	497	500	426	429
Social and demographic indicators									
Population (million)	29.6	30.3	31.0	31.7	32.7	32.5	32.6	31.8	32.0
Saudi Unemployment (15+, %)	11.7	11.7	11.5	12.5	12.8	12.7	12.0	12.0	11.8
GDP per capita ($)	25,223	24,962	21,095	20,318	21,048	24,065	24,890	22,794	25,477

Sources: Jadwa Investment forecasts for 2019 and 2020. General Authority for Statistics for GDP and demographic indicators, Saudi Arabian Monetary Agency for monetary and external trade indicators, Ministry of Finance for budgetary indicators.