جدوى للإستثمار
Jadwa Investment

November 2020

Q3 2020 Budget Statement

Rise in non-oil revenue

- Government revenue totaled SR216 billion in Q3 2020, up 4 percent, or SR8 billion, year-on-year. Whilst oil revenue declined, non-oil revenue rose sharply.

- Another sizable dividend by Aramco helped push government oil revenue to SR93 billion during the quarter, but still equivalent to a 30 percent decline year-on-year, with oil prices showing similar falls over the same period. Looking ahead, we expect government oil revenue to total around SR450 billion for full year 2020, up from SR317 billion year-to-Q3.

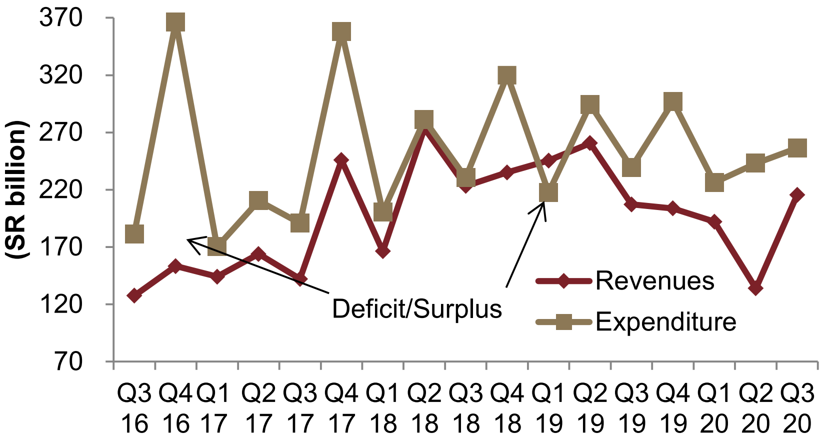
- Deferred taxes from Q2 that were received in Q3 and higher revenue from a hike in VAT helped boost non-oil revenue by 63 percent, or SR48 billion, year-on-year. Non-oil revenue was also helped by a SR22 billion (or 87 percent) year-on-year rise in the 'Other Revenue' segment. We believe this likely relates to what the recently released preliminary budget referred to as the 'collection of exceptional profits from investment'.

- Government expenses rose 7 percent year-on-year in Q3 2020 to SR256 billion. Part of the rise was related to the roll-out of fiscal measures to support the private sector and citizens against the economic fallout related to COVID-19, with 'Subsidies', Grants' and 'Social Benefits' all registering yearly rises of 215, 74 and 26 percent respectively.

- As was the case in Q2, there were a number of private placements during Q3, with around SR25 billion of such issuances seen during the quarter, as public debt totaled SR848 billion at the end of September.

- A fiscal deficit of SR41 billion during Q3 pushed the year-to-date deficit to SR184 billion. The Ministry of Finance (MoF) recently announced that the fiscal deficit for full year 2020 will total SR298 billion, meaning Q4 will see a sizable deficit of SR114 billion.

Figure 1: A fiscal deficit of SR41 billion during Q3 pushed the year-to-date deficit to SR184 billion



For comments and queries please contact:

Asad Khan
Head of Economic 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

Released: November-2-2020, 18:00 UTC+3

Government revenue totaled SR216 billion in Q3 2020, up 4 percent, or SR8 billion, year-on-year.

Revenue:

Table 1: Government Revenue (SR million)

Revenues	**Q3 2019**	**Q3 2020**	**Change (%)**
Oil revenue	131,843	92,582	-30
Non-oil revenues, of which;	75,366	122,995	63
-Taxes on income, profits and capital gains	4,822	7,230	50
-Taxes on goods and services (including petroleum product charges and harmful product tax)	37,596	51,572	37
-Taxes on trade and transactions (customs duties)	4,342	4,548	5
-Other Taxes (including Zakat)	3,130	12,017	284
-Other revenues	25,475	47,627	87
Total	**207,209**	**215,577**	**4**

Whilst oil revenue declined, non-oil revenue rose sharply.

Government revenue totaled SR216 billion in Q3 2020, up 4 percent, or SR8 billion, year-on-year (Table 1). Whilst oil revenue declined, non-oil revenue rose sharply (Figure 2). Government **oil revenue** totaled SR93 billion compared to SR132 billion last year, equivalent to a 30 percent decline year-on-year, with oil prices also declining 30 percent over the same period (Box 1). Meanwhile, on a more positive note, non-oil revenue rose 63 percent, or SR48 billion, compared to the same period last year (Figure 3).

Another sizable dividend by Aramco helped push government oil revenue to SR93 billion during the quarter…

….but still equivalent to a 30 percent decline year-on-year.

Box 1: Oil revenue

With Saudi oil export revenue estimated to total around SR109 billion in Q3, it seems another sizable dividend by Aramco (which will be announced later this week), helped push government oil revenue to SR93 billion during the quarter. In the year-to-Q3 2020, government oil revenue totaled SR317 billion. Looking ahead, and as we highlighted in out recent [2021 preliminary budget report update](), with oil prices likely to remain around current levels of $40 per barrel (pb) during the remainder of the year, combined with continued dividend payments, means we expect government oil revenue to total around SR450 billion for full year 2020.

Figure 2: Government oil and non-oil revenue

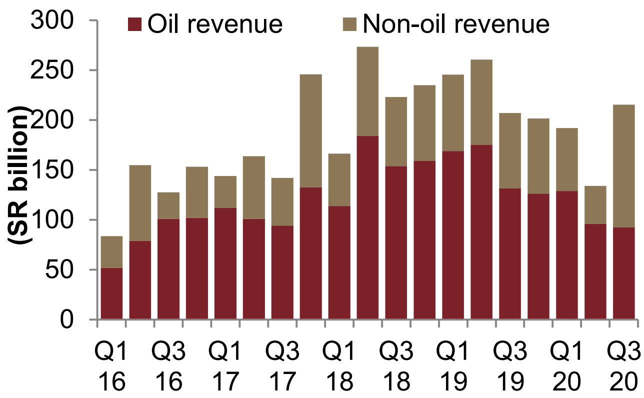
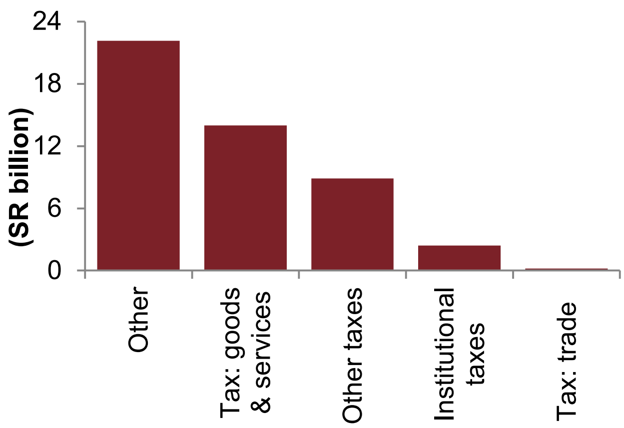


Figure 3: Yearly change in Q3 2020 non-oil revenue



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

Deferred taxes from Q2 that were received in Q3…

Non-oil revenue rose sizably by 63 percent, or SR48 billion, compared to the same period last year (Figure 4). Whilst part of the rise is likely a result of deferred taxes from Q2 being received in Q3 (as detailed in our *Q1 budget statement report*), it also reflects the additional revenue from a hike in VAT (from 5 percent to 15 percent) since 1st July. Meanwhile, the highest proportional rise in overall non-oil revenue came from the 'Other Revenues' segment, which was up SR22 billion (or 87 percent) year-on-year. We believe this likely relates to what the recently released preliminary budget referred to as the 'collection of exceptional profits from investment', although no further details were provided.

...and higher revenue from a hike in VAT helped boost non-oil revenue by 63 percent, or SR48 billion, year-on-year.

Non-oil revenue was also helped by a SR22 billion (or 87 percent) year-on-year rise in the 'Other Revenues' segment.

Looking ahead, whilst tax on goods and services revenue is likely to continue to benefit from higher yearly collection of VAT, especially with most recent data showing consumer spending holding up well (*please see our recent Chartbook*), other tax segments will most likely show yearly declines. So far, in the year-to-Q3, non-oil revenue is down 5 percent year-on-year', and barring any further large 'Other Revenues' receipts, we expect non-oil revenue to decline by 9 percent over budgeted levels in 2020 as a whole (*for more on this please refer to our Q1 Oil Update*).

Expenditure:

Table 2: Government Expenditure (SR million)

Expenses	**Q3 2019**	**Q3 2020**	**Change (%)**
Compensation of Employees	121,276	120,266	-1
Goods & Services	40,543	45,950	13
Financing Expenses	5,879	5,430	-8
Subsidies	2,602	8,189	215
Grants	274	477	74
Social Benefits	16,756	21,164	26
Other Expenses	20,632	22,430	9
Non-Financial Assets (Capital)	31,415	32,439	3
Total	**239,377**	**256,345**	**7**

Government expenses rose 7 percent year-on-year in Q3 2020 to SR256 billion.

Government expenses rose 7 percent year-on-year in Q3 2020 to SR256 billion (Table 2). Whilst **Current expenditure** rose 8 percent year-on-year (Figure 5), **Capital expenditure,** the more growth enhancing element of spending, rose by 3 percent.

Figure 4: Non-oil, non-tax (other) revenue jumped in Q3 2020

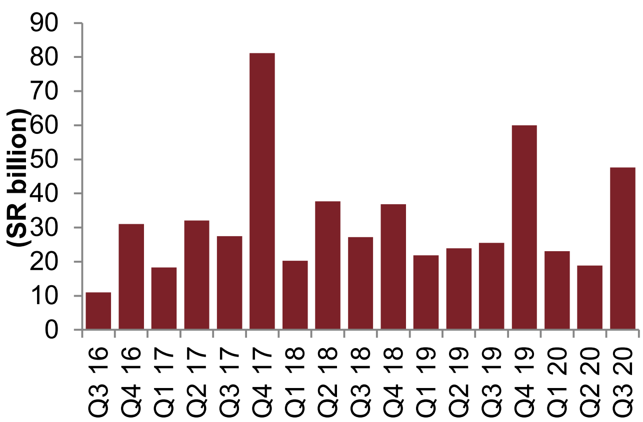
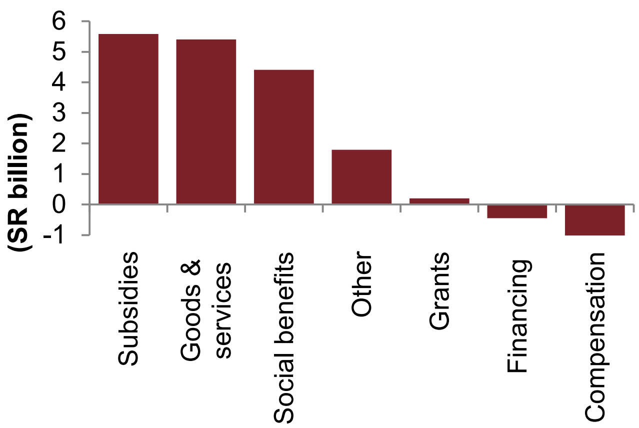


Figure 5: Yearly change in Q3 2020 current expenditure



Part of the rise was related to the roll-out of fiscal measures to support the private sector…

The largest component of this segment, 'Compensation of Employees', declined marginally by 1 percent year-on-year. That said, in the year-to-Q3, this segment has shown little change compared to last year, suggesting that savings associated with the discontinued public sector cost of living allowance (implemented earlier this year) are not likely to be seen until the final quarter of this year. Meanwhile, the roll-out of fiscal measures to support the private sector and citizens against the economic fallout related to COVID-19 meant that 'Subsidies', Grants' and 'Social Benefits' all registered yearly rises of 215, 74 and 26 percent respectively, on a year-on-year basis.

...and citizens against the economic fallout related to COVID-19…

On a sectorial basis, the statement highlighted that 'Healthcare' expenditure was up 16 percent so far this year, on a year-on-year basis, with 'Military' and 'Economic Resources' down 9 and 38 percent respectively. As we pointed out in [Q2 budget statement update](), lower 'Economic Resources' expenditure (which encompasses spending on new projects and expansion of existing ones) is reflective of 'Capital Expenditure' being squeezed in 2020 as a whole, with this segment being down 26 percent year-on-year in the year-to-Q3.

...with 'Subsidies', Grants' and 'Social Benefits' all registering yearly rises of 215, 74 and 26 percent respectively.

Lastly, as the preliminary budget highlighted, total expenditure in 2020 is expected to be SR48 billion (or 5 percent) higher than previously projected, at SR1.068 trillion. As a result, with SR728 billion already expended year-to-date, Q4 should see a significant rise in expenditure in both a yearly (15 percent) and quarterly (33 percent) basis.

Public Debt:

As was the case in Q2, there were a number of private placements during Q3…

Public debt totaled SR848 billion at the end of Q3 2020, versus SR678 billion at the end of 2019 (Figure 6). As was the case in Q2, there were a number of private placements during Q3. More specifically, new 'Issuance and Borrowing' totaled nearly SR28 billion during the quarter, net of refinancing and principle repayments. Once domestic sukuks announced via the MoF website for the quarter are discounted, the remainder (at around SR25 billion) is likely to represent the total value of private placements with autonomous government institutions.

...with around SR25 billion worth of such issuances seen during the quarter.

Looking ahead, we expect a further SR6 billion in new debt (perhaps including an international sukuk issuance), plus circa SR9 billion in refinancing during Q4, thereby pushing total debt issuance and refinancing to SR220 billion during 2020.

Figure 6: Public debt totaled SR848 billion at the end Q3 2020

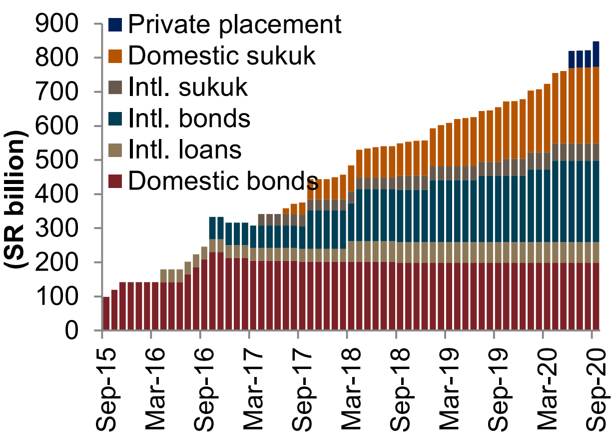
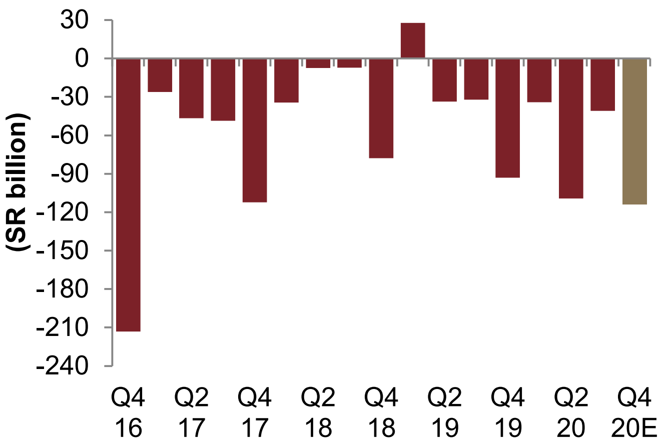


Figure 7: Q4 expected to see a sizable deficit of SR114 billion



A fiscal deficit of SR41 billion during Q3 pushed the year-to-date deficit to SR184 billion.

Deficit:

A fiscal deficit of SR41 billion during Q3 pushed the year-to-date deficit to SR184 billion. The MoF recently announced that the fiscal deficit for the whole of 2020 is expected to total SR298 billion, meaning Q4 will see a sizable deficit of SR114 billion (Figure 7). Looking ahead, SR6 billion in new debt issuances plus SR45 billion of previously unused debt issuances will cover part of the deficit. However, this means SR63 billion or so will have to be financed from either the current account or government reserves. With oil prices currently pressured, as detailed in our recent *Oil Update*, the prospect of current account financing is likely to be limited, hence we see the remaining deficit balance being wholly financed by government reserves in Q4.