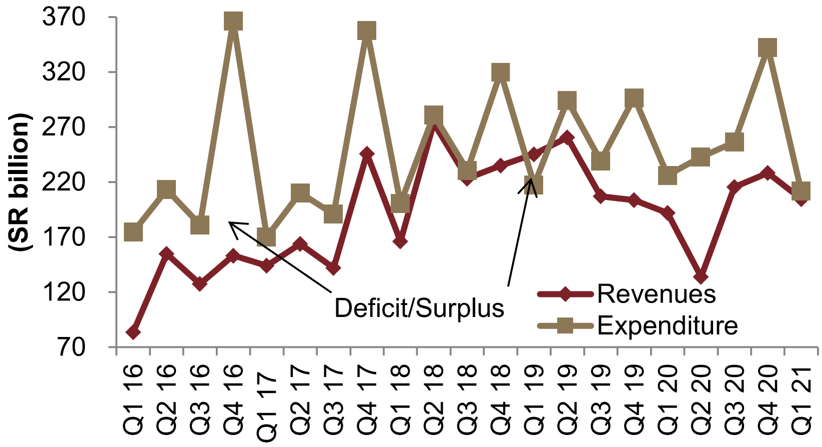
Q1 2021 Budget Performance Report

VAT makes a difference

- Government revenue totaled SR205 billion in Q1 2021, up 7 percent, or SR13 billion, year-on-year. Looking at the breakdown, oil revenue declined 9 percent year-on-year whilst non-oil revenue rose 39 percent compared to the same period last year.
- Recently published Q1 2021 financial results for Aramco show that dividends made up 60 percent (or SR71 billion) of total government oil revenue during the quarter. Overall in 2021, we expect continued Aramco dividends plus Brent oil price of $62 per barrel (pb) and crude oil production of 9 million barrels per day (mbpd) to result in government oil revenue of SR528 billion.
- The rise in non-oil revenue was primarily due to yearly rises in ‘taxes on goods and services’, which were bolstered by a hike in VAT (from 5 percent to 15 percent) back in July 2020. Looking ahead, we expect ‘taxes on goods and services’ to continue exhibiting higher yearly rises in Q2. Beyond that, whilst yearly rises will not be as impressive, we still expect this segment to show a decent level of growth as consumer spending on goods and services continues to improve during H2 2021.
- Government expenses declined by 6 percent year-on-year in Q1 2021 to SR212 billion. The decline was wholly a result of lower capital expenditure, which dropped by a sizable 47 percent year-on-year, whilst current expenditure showed no change. Looking ahead, we expect a pick-up in outlays on development projects during the remainder of the year, particularly on Vision Realization Programs, to raise capital expenditure.
- Q1 saw a modest fiscal deficit of SR7.4 billion. Looking ahead, taking into account our forecasted full year fiscal deficit of SR102 billion (-3.3 percent of GDP), we naturally expect the deficit to be sizably larger in the next three quarters of the year.

Figure 1: Q1 2021 saw a modest fiscal deficit of SR7.4 billion



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Revenue:

Table 1: Government Revenue (SR million)

Revenues	Q1 2020	Q1 2021	Change (%)
Oil revenue	128,771	116,576	-9
Non-oil revenues, of which;	63,301	88,185	39
-Taxes on income, profits and capital gains	3,569	3,222	-10
-Taxes on goods and services (including petroleum product charges and harmful product tax)	30,604	53,672	75
-Taxes on trade and transactions (customs duties)	4,021	4,016	-0.1
-Other Taxes (including Zakat)	2,060	2,999	46
-Other revenues	23,047	24,276	5
Total	**192,072**	**204,761**	**7**

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Government revenue totaled SR205 billion in Q1 2021, up 7 percent, or SR13 billion, year-on-year (Table 1). Looking at the breakdown, oil revenue declined on yearly basis whilst non-oil revenue rose sharply (Figure 2). Government **oil revenue** totaled SR117 billion compared to SR129 billion last year, down 9 percent year-on-year, despite oil prices being 20 percent higher over the same period (Box 1). Meanwhile, non-oil revenue rose 39 percent, or SR25 billion, compared to the same period last year (Figure 3).

Box 1: Oil revenue

Aramco dividends made up 60 percent (or SR71 billion) of total government oil revenue during Q1.

Recently published Q1 2021 financial results for Aramco show that dividends made up 60 percent (or SR71 billion) of total government oil revenue during the quarter. Looking ahead, we expect a rise in government oil revenue in Q2 as dividends hold steady at Q1 levels, but oil prices and crude oil production trend higher (*please refer our latest Oil Market Update for more details*). Overall for full year 2021, we expect SR282 billion in Aramco dividends plus Brent oil price of $62 pb and crude oil production of 9 mbpd to result in government oil revenue of SR528 billion, equivalent to a 28 percent rise over last year's total.

Figure 2: Government oil and non-oil revenue

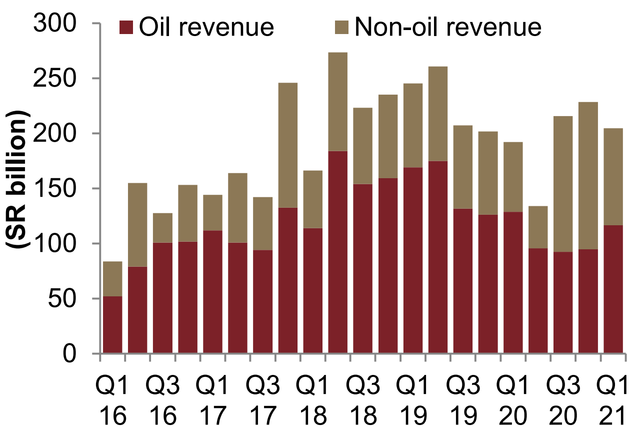
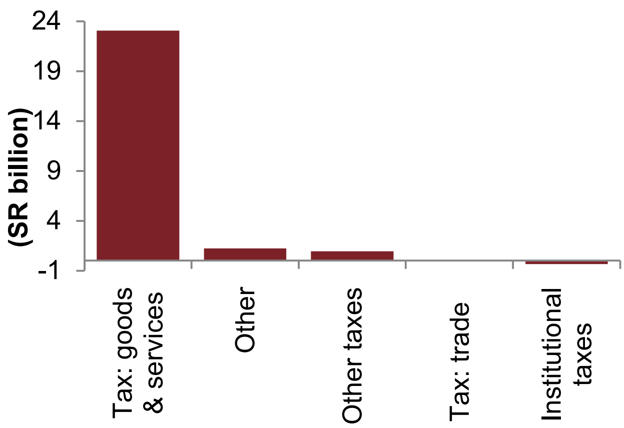


Figure 3: Yearly change in Q1 2021 non-oil revenue



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

The rise in non-oil revenue was primarily due to yearly rises in 'taxes on goods and services',…

Non-oil revenue rose by 39 percent, or SR25 billion, compared to the same period last year. The rise was primarily due to a hike in VAT (from 5 percent to 15 percent) back in July of last year, which, in turn, resulted in the 'taxes on goods and services' segment posting its highest quarterly total on record (Figure 4). Looking ahead, we expect 'taxes on goods and services' to continue exhibiting higher yearly rises in Q2, due to base effects of lower VAT. Beyond that, whilst yearly rises will not be as impressive, we still expect this segment to show a decent level of growth as consumer spending on goods and services rises during H2 2021, especially as restrictions around social distancing are gradually relaxed, in-line with a wider vaccine roll-out (*see our recent Inflation update for more details*).

...which were bolstered by a hike in VAT (from 5 percent to 15 percent) back in July 2020.

Expenditure:

Table 2: Government Expenditure (SR million)

Expenses	Q1 2020	Q1 2021	Change (%)
Compensation of Employees	124,530	122,902	-1
Goods & Services	26,941	27,606	2
Financing Expenses	4,646	5,759	24
Subsidies	3,481	5,422	56
Grants	160	2,759	>100
Social Benefits	12,975	12,276	-5
Other Expenses	25,302	20,541	-19
Non-Financial Assets (Capital)	28,144	14,939	-47
Total	**226,179**	**212,204**	**-6**

Government expenses declined by 6 percent year-on-year in Q1 2021 to SR212 billion…

Government expenses declined 6 percent year-on-year in Q1 2021 to SR212 billion (Table 2). The decline was wholly a result of lower **capital expenditure**, which dropped by a sizable 47 percent year-on-year, whilst current expenditure showed no change (Figure 5). Within the latter, 'Compensation of Employees' continued to decline on a yearly basis, albeit marginally by 1 percent year-on-year. Meanwhile, the ongoing roll-out of fiscal measures to support the private sector and citizens from the economic fallout related to Covid-19 meant 'Subsidies' rose by 56 percent year-on-year. We also note a 17 fold rise in 'Grants' in Q1 2021 versus last year's total, with donations to international organizations (such as the World Health Organization), being recorded in this item. Meanwhile, 'Social

...the decline was wholly a result of lower capital expenditure.

Figure 4: 'Taxes on goods & services' rose to a record high in Q1 2021

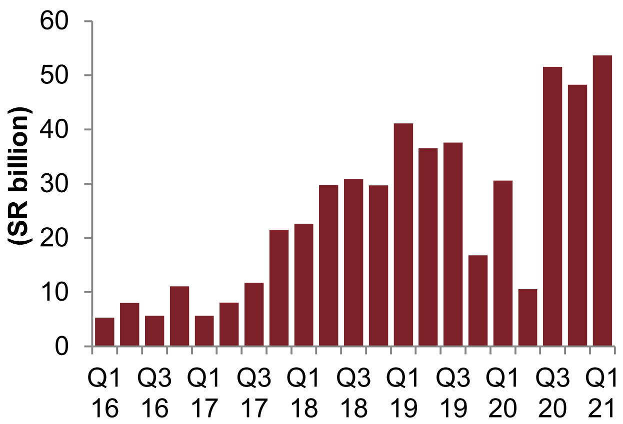
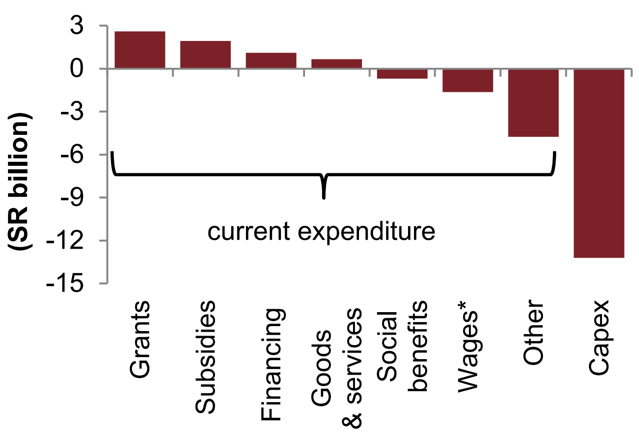


Figure 5: Yearly change in Q1 2021 government expenditure



*Wages: 'Compensation of Employees'

Looking ahead, we expect a pick-up in outlays on development projects to raise capital expenditure.

We do not expect any further international bond issuances…

…meaning the remaining SR21 billion in new debt will likely be made up of domestic issuances and/or private placements.

Q1 saw a modest fiscal deficit of SR7.4 billion.

Benefits' declined 5 percent year-on-year, which is in-line with the expected annual reduction in this segment, as detailed in the 2021 fiscal budget statement late last year. More specifically, according to the statement, a reduction in this segment was made possible due to retrospective Zakat settlements with banks in previous years.

Looking ahead, we expect a pick-up in outlays on development projects during the remainder of the year, particularly on Vision Realization Programs (*for more on this please refer to our latest Chartbook*). As such, we expect capital expenditure to show sizable rises on a quarterly basis, but not necessarily on an annual basis, considering this item is expected to decline 26 percent over last year's total.

Public Debt:

Public debt totaled SR901 billion at the end of Q1 2021, versus SR854 billion at the end of 2020, with a SR2.7 billion principal repayment made during the quarter (Figure 6). Since then, another domestic sukuk issuance of SR11.7 billion has pushed total debt to SR913 billion. Of the circa SR62 billion gross debt issued in 2021 to date, SR37 billion (59 percent) has been international (which includes a long-term financing agreement between the Ministry of Finance (MoF) and Korea Trade Insurance Corporation), whilst SR26 billion (41 percent) has been domestic.

According to the fiscal budget, the Kingdom is expected to issue SR83 billion in new debt during full year 2021. Looking ahead, we do not expect any further international bond issuances, meaning the remaining SR21 billion in new debt will likely be made up of domestic issuances and/or private placements over the next three quarters.

Deficit:

Q1 saw a modest fiscal deficit of SR7.4 billion. Looking ahead, taking into account our forecasted full year fiscal deficit of SR102 billion (-3.3 percent of GDP), we naturally expect the deficit to be sizably larger in the next three quarters of the year.

Figure 6: Total debt stood at SR913 billion at the end of April 2021

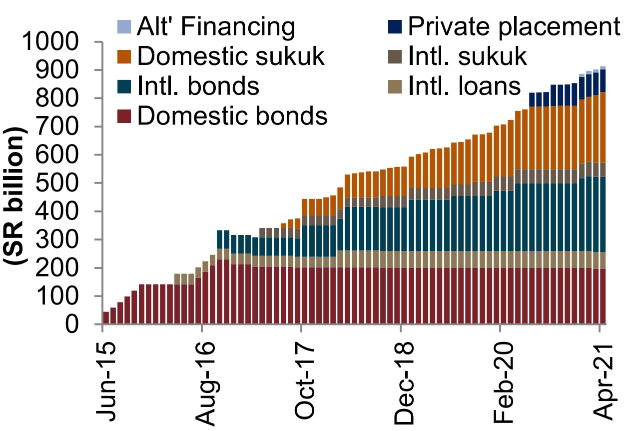
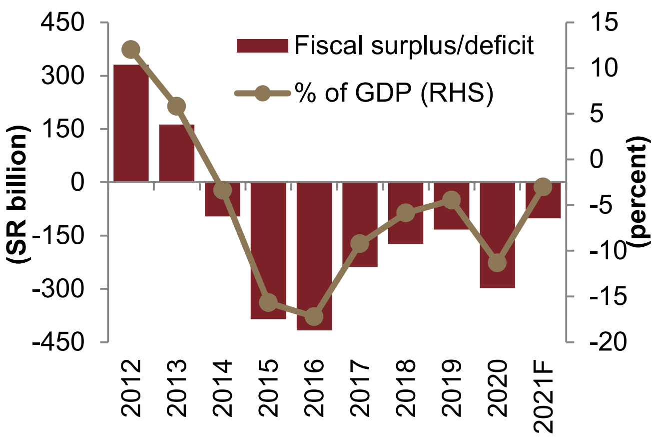


Figure 7: We expect a fiscal deficit of SR102 billion (-3.3 percent of GDP) in full year 2021



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