Jadwa Investment
جدوى للإستثمار

December 2020

Saudi Arabia's 2021 Fiscal Budget

The government's budget for the 2021 fiscal year was endorsed by the Council of Ministers on 15th December and was in-line with the recently released preliminary budget:

- As outlined in the preliminary fiscal budget in September, budgeted government expenditure will total SR990 billion in 2021. Based on revenue of SR849 billion, the government is budgeting for a lower year-on-year deficit at SR141 billion in 2021 (-4.9 percent of GDP), compared to SR298 billion in 2020 (-12 percent of GDP).

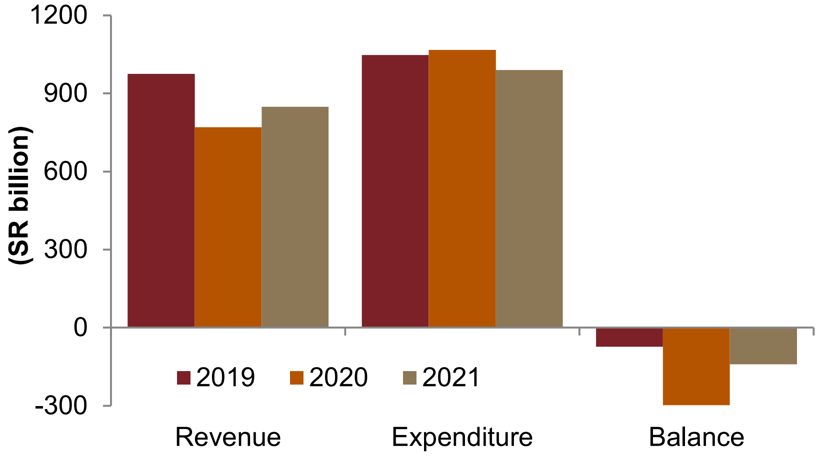
- A lower fiscal deficit is expected to translate into lower levels of new debt. According to the budget statement, total debt requirement for next year will be SR83 billion, which is expected to push up total debt to SR937 billion by end of 2021, equivalent to 32.7 percent of GDP.

- Looking at the budget from a sectorial level, 'education' remains the largest portion of budgeted expenditure, at 19 percent of the total. Meanwhile, 'healthcare and social development' expenditure makes up 18 percent of the total, at SR175 billion, the highest budgeted expenditure on record for this segment. Whilst 'military' expenditure also makes up 18 percent of budgeted expenditure, it sees a third consecutive yearly decline.

- Budgeted capital spending will amount to SR101 billion in 2021, compared to SR137 billion in 2020. According to the statement, the sizable yearly decline of 26 percent is due to i) higher investment on infrastructure during the past few years and ii) expectation of wider participation from the private sector in investment projects moving forward.

- Additionally, as highlighted in our recent *macroeconomic update*, capital injections will be boosted by the Public Investment Fund (PIF). As a part of its continued efforts in strengthening and diversifying the economy, the PIF is expected to inject around SR150 billion per year into the local economy in both 2021 and 2022, resulting in SR611 billion worth of cumulative investments into local economy between 2017-22.

Figure 1: Fiscal data in line with recent preliminary budget data



2019 & 2020 actuals versus 2021 budgeted

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As outlined in the preliminary fiscal budget in September…

- Meanwhile, current spending (the more rigid part of expenditure) is expected to decline by 5 percent, year-on-year, to a budgeted total of SR889 billion. At the same time, despite the compensation of employees (wage bill) being flat on a year-on-year basis, it is expected to make up half of total expenditure (at SR491 billion), compared to 46 percent in 2020.

...budgeted government expenditure will total SR990 billion in 2021.

- The statement expects SR257 billion in tax revenue in 2021, showing growth of 31 percent over 2020's expected total of SR196 billion. The rises are expected to come about largely as a result of the full year effects of higher VAT, which, in turn, is expected to lift 'taxes on goods and services' 48 percent year-on-year.

Based on revenue of SR849 billion…

- For the first time ever, the budget statement did not outline government oil revenue, but instead combined it with other forms of revenue which includes investment income, sales of goods and services and collection of fines & penalties, thereby making the calculation for budget oil price more complicated. This 'other revenue' segment is expected to rise by 3.2 percent year-on-year in 2021, to SR592 billion.

...the government is budgeting for a lower year-on-year deficit at SR141 billion in 2021 (-4.9 percent of GDP).

A lower fiscal deficit is expected to translate into lower levels of debt.

- Brent oil is currently trading around $50 per barrel (pb), with the year-to-date average at $41 pb, versus our forecast of $43 pb. Looking ahead, we see gradual upside to oil prices during next year as the roll-out of COVID-19 vaccine helps boost oil demand recovery, especially so in H2 2021. Overall, we expect Brent oil prices to average $55 pb in full year 2021, which will, according to our forecast, push up oil revenue by 8 percent year-on-year. Additionally, as we outlined in our Preliminary Budget Update, if Aramco were to continue paying dividends to government at levels similar to this year, we would expect to see a reasonably higher oil revenue than currently projected, at around SR500 billion.

According to the budget statement, total debt requirement for next year will be SR83 billion…

...which is expected to push up total debt to SR937 billion by end of 2021, equivalent to 32.7 percent of GDP.

- Looking at the performance of 2020's budget, government revenue came in 8 percent lower than budgeted, at SR770 billion (versus SR833 billion). The main reason for lower than budgeted revenues was lower oil revenue. Oil revenue was down significantly by 31 percent year-on-year at SR412 billion, and 20 percent lower than the budgeted SR513 billion. The decline in yearly oil revenue was marginally better than the decline in yearly Brent oil (circa 37 percent) because of the sizable dividend of around SR277 billion received by the Ministry of Finance (MoF) from Aramco during the year.

Provisional 2020 real GDP estimates in the budget statement point to a decline of -3.7 percent…

- On the expenditure side, due to the unprecedented events of 2020, and the roll-out of a number of fiscal measures to support the private sector plus additional healthcare expenditure, meant that actual expenditure exceeded budget levels by 5 percent at SR1.07 trillion. As a result, the statement shows that fiscal deficit totaled SR298 billion, compared to an originally budgeted SR187 billion.

...(compared to our forecast of -3.6 percent).

In 2021, GDP growth is expected to rebound to 3.2 percent…

...(compared to our current forecast of 3.4 percent).

- Lastly, provisional 2020 real GDP estimates in the budget statement point to a decline of -3.7 percent (compared to our forecast of -3.6 percent). In 2021, GDP growth is expected to rebound to 3.2 percent (compared to our current forecast of 3.4 percent). The statement also outlined that inflation is expected to average 3.7 and 2.9 percent in 2020 and 2021, respectively (compared to our forecast of 3 and 3.7 percent).

Total expenditure is budgeted at SR990 billion in 2021…

...down 2.9 percent from the 2020 budgeted expenditure of SR1.02 trillion…

...and down 7 percent from 2020 actual expenditure of SR1.07 trillion.

Budgeted capital spending will amount to SR101 billion in 2021, compared to SR137 billion in 2020.

Current spending is expected to decline by 5 percent, year-on-year, to a budgeted total of SR889 billion.

Overall only 'health & social development', and 'general items' are expected to show yearly rises.

The 2021 Budget

Expenditure:

Total expenditure is budgeted at SR990 billion in 2021, down 2.9 percent from the 2020 budgeted expenditure of SR1.02 trillion and down 7 percent from 2020 actual expenditure of SR1.07 trillion.

Budgeted capital spending will amount to SR101 billion in 2021, compared to SR137 billion in 2020. According to the statement, the sizable yearly decline of 26 percent is due to i) higher investment on infrastructure during the past few years and ii) expectation of wider participation from the private sector in investment projects moving forward.

Additionally, as highlighted in our recent macroeconomic update, capital injections will be boosted by the Public Investment Fund (PIF). As a part of its continued efforts in strengthening and diversifying the economy, the PIF is expected to inject around SR150 billion per year into the local economy in both 2021 and 2022, resulting in SR611 billion worth of cumulative investments into local economy between 2017-22 (Figure 2).

Meanwhile, current spending (the more rigid part of expenditure) is expected to decline by 5 percent, year-on-year, to a budgeted total of SR889 billion. At the same time, despite the compensation of employees (wage bill) being flat on a year-on-year basis, it is expected to make up half of total expenditure (at SR491 billion), compared to 46 percent in 2020. At the time of writing, there was no mention of a reinstatement in the public sector's inflation allowance.

Looking at the budget from a sectorial level, 'education' remains the largest portion of budgeted expenditure, at 19 percent of the total. Meanwhile, 'healthcare and social development' expenditure makes up 18 percent of the total, at SR175 billion, the highest budgeted expenditure on record for this segment (Figure 3). Whilst 'military' expenditure also makes up 18 percent of budgeted expenditure, it sees a third consecutive year of decline.

Overall only 'health & social development', and 'general items' (which includes different sub-items such as spending on government pensions, social insurance and financing costs) are expected to show yearly rises between actual 2020 and budgeted 2021 expenditure (Table 1).

Figure 2: PIF's investment into local economy expected to total SR150 billion in 2021

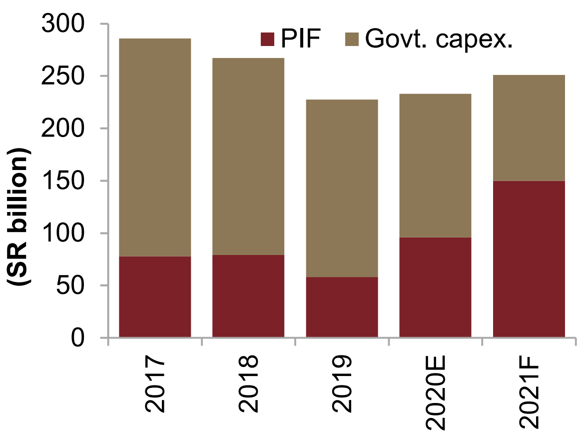

Figure 3: Budgeted 'Health & Social Development' expenditure the highest on record

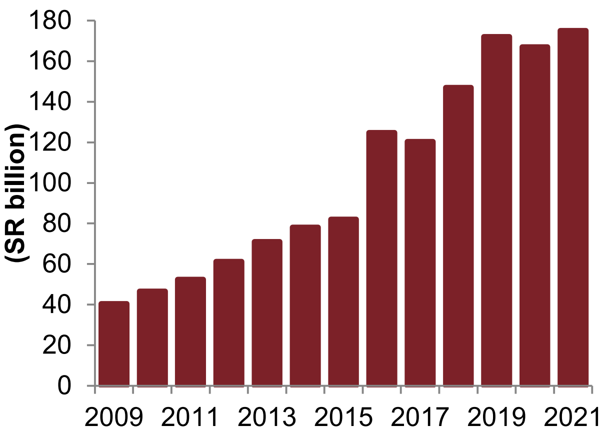

Table 1. 2021 Budget Allocation
(SR billion)

Budget Allocation	2020 B	2020 A	2021 B	Difference (2020A-2021B)
Expenditure	1020	1068	990	-7%
Education	193	205	186	-9%
Health & Social Development	167	174	175	1%
Municipality Services	54	52	51	-2%
Military	182	195	175	-10%
Infrastructure & Transport	56	59	46	-22%
Economic Resources	98	84	72	-14%
Public Administration	28	40	34	-15%
Security & Regional Admin.	102	111	101	-9%
General Items	141	147	151	3%

Note: "B" refers to budgeted spending, "A" refers to actual spending

Revenue:

Total government revenue for 2021 was budgeted at SR849 billion according to the statement.

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For the first time ever, the budget statement did not outline government oil revenue.

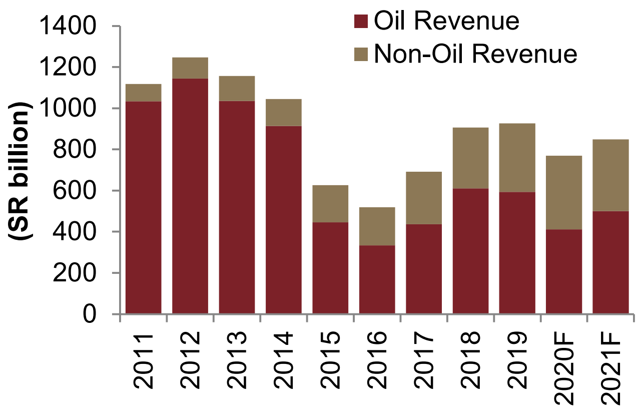
Brent oil is currently trading around $50 per barrel (pb), with the year-to-date average at $41 pb, versus our forecast of $43 pb. Looking ahead, we see gradual upside to oil prices during next year as the roll-out of COVID-19 vaccine helps boost oil demand recovery, especially so in H2 2021. Overall, we expect Brent oil prices to average $55 pb in full year 2021, which will, according to our forecasts, push up oil revenue by 8 percent year-on-year. Additionally, as we outlined in our *Preliminary Budget Update*, if Aramco were to continue paying dividends to government at levels similar to this year, we would expect to see a reasonably higher oil revenue than currently projected, at around SR500 billion (Figure 4)

If Aramco were to continue paying dividends to government at levels similar to this year…

...we would expect to see a reasonably higher oil revenue than currently projected, at around SR500 billion.

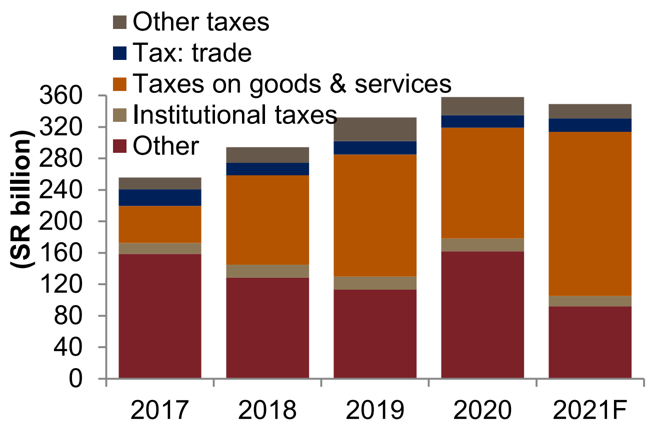
The statement expects SR257 billion in tax revenue in 2021, showing growth of 31 percent over 2020's expected total of SR196 billion. The rises are expected to come about largely as a result of the full year effects of higher VAT, which, in turn, is expected to lift 'taxes on goods and services' 48 percent year-on-year (Figure 5).

Figure 4: Government revenue by type*



*Jadwa estimates for 2021

Figure 5: Non-oil revenue by type*



*Jadwa estimates for 2021
Other taxes = 'Other Taxes (including Zakat)'
Tax: trade = 'Taxes on trade and transactions (customs duties)'
Institutional taxes = 'Taxes on income, profits and capital gains'
Other = 'Other revenues (including returns from SAMA and PIF)'

Due to the unprecedented events of 2020, and the roll-out of a number of fiscal measures to support the private sector…

...plus additional healthcare expenses…

...meant actual expenditure in 2020 exceeded budgeted levels by 5 percent at SR1.07 trillion

Oil revenue was down significantly by 31 percent year-on-year at SR412 billion, and 20 percent lower than the budgeted SR513 billion.

On the non-oil revenue side, this segment was up by 8 percent year-on-year in 2020, mainly as a result of yearly increase in 'other revenues'.

Budgetary Performance in 2020

Due to the unprecedented events of 2020, and the roll-out of a number 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, meant actual expenditure in 2020 exceeded budgeted levels by 5 percent at SR1.07 trillion (Figure 6). Despite this, the compensation of employees (wage bill) remained the major component of total expenditure. In 2020, the wage bill constituted 46 percent of total expenditure (at SR492 billion), but declined 2.6 percent year-on-year compared to 2019.

Meanwhile, government revenue came in 8 percent lower than budgeted levels at SR770 billion. The main reason for lower than budgeted revenues was lower oil revenue. Oil revenue was down significantly by 31 percent year-on-year at SR412 billion, and 20 percent lower than the budgeted SR513 billion. The decline in yearly oil revenue was marginally better than the decline in yearly Brent oil (circa 37 percent) because of the sizable dividend of around SR277 billion received by the MoF from Aramco during the year.

On the non-oil revenue side, this segment was up by 8 percent year-on-year in 2020, mainly as a result of yearly increase in 'other revenues', which rose by 43 percent year-on-year to SR162 billion. The statement pointed out that the rise was a result of 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. In fact, the MoF stated that it had raised SR15 billion in revenue from privatization deals this year, although no additional details were provided.

Taking into the account the sizable adjustment in both revenue and expenditure in 2020, the fiscal deficit hit SR298 billion (-12 percent of GDP), compared to SR187 billion (-6.4 percent of GDP) originally budgeted.

Economic Performance and Outlook

According to the budget statement, real GDP growth is expected to have declined by -3.7 percent year-on-year in 2020 compared to our forecast of -3.6 percent and compared to a rise by 0.3 percent year-on-year in 2019 (Figure 7). GDP in 2020 was affected by a decline in both the oil and non-oil sector. In fact, Saudi crude oil production is

Figure 6: Actual versus budgeted expenditure

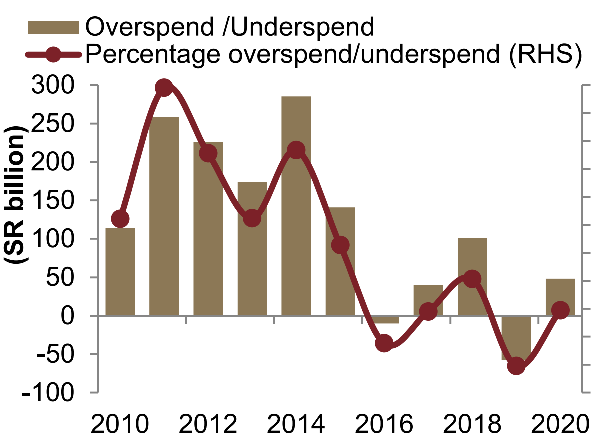
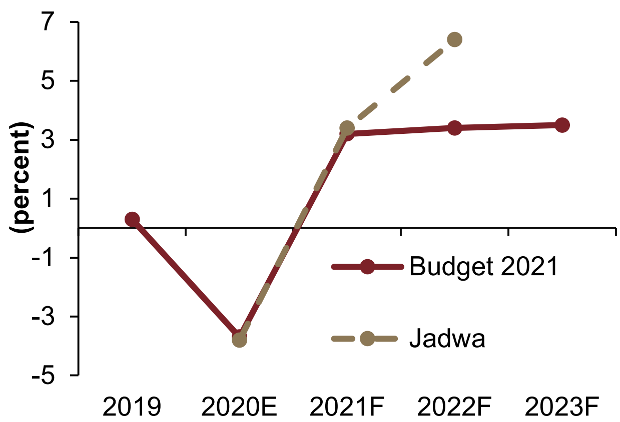


Figure 7: Real GDP forecasts



Provisional 2020 real GDP estimates in the budget statement point to a decline of -3.7 percent…

...(compared to our forecast of -3.6 percent).

In 2021, GDP growth is expected to rebound to 3.2 percent (compared to our current forecast of 3.4 percent).

The statement also outlined that inflation is expected to average 3.7 and 2.9 percent in 2020 and 2021, respectively.

expected to average 9.2 million barrels per day (mbpd) in 2020, compared to 9.8 mbpd during the same period last year. The reduction in output is reflective of Saudi Arabia's commitment to the OPEC and non-OPEC (OPEC+) agreement. Meanwhile, as we highlighted in our recent *macroeconomic update*, non-oil GDP was likely to perform better than we initially anticipated, with our non-oil private sector composite index showing a sharp rebound in economic activity within the Kingdom.

Looking out into 2021, we do expect a broad-based recovery next year. The current time-line embedded in our forecast assumes a sizable roll-out of a vaccine by mid-2021 (with the Saudi Ministry of Health (MoH) recently opening up free registration of coronavirus vaccine for both citizens and expats). As such, we see a sequential quarter-on-quarter improvement in the Saudi economy over the remainder of the Q4 2020 and next year, with this recovery being more vigorous in the second half of 2021. On the oil side, despite OPEC+ recently deciding not to raise oil production by the full 1.9 mbpd immediately in 2021, we do expect the alliance to gradually reach this level by the end of Q1 2021, resulting in Saudi crude oil production rising gradually over the same period. Overall, in 2021, the statement outlines that GDP is expected to rebound to growth of 3.2 percent (compared to our forecast of 3.4 percent).

Meanwhile, inflation for full year 2020 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 & 3.7 percent, respectively).