



Greater fiscal pain to come

- Government revenue totaled SR192 billion in Q1 2020, down 22 percent, or SR53 billion, year-on-year. Declines were seen in both oil and non-oil revenue.
- Government oil revenue totaled SR129 billion in Q1 2020 compared to SR169 billion in Q1 last year, equivalent to a 24 percent decline year-on-year, with oil prices declining 20 percent over the same period. Looking ahead, with Brent oil prices down more than 75 percent year-on-year in April 2020, and likely to remain subdued during the rest of the quarter, government oil revenue will continue to show sizable yearly declines.
- Meanwhile, non-oil revenue declined by 17 percent in Q1, or SR13 billion, compared with the same period last year. Looking ahead, we expect a drastic decline in non-oil revenue recorded across all segments in Q2, reflecting the downturn in economic activity as a result of the preventative measures related to COVID-19.
- Government expenses rose by 4 percent year-on-year in Q1 2020 to a total of SR226 billion. Looking ahead, the roll-out of fiscal measures to support the private sector (such as payment of dues and 60 percent of salaries for the nationals for up to three months) plus a sizable rise in healthcare spending, which includes an additional SR47 billion allocation, will likely result in significant expenditure rises in Q2.
- Despite Q1 fiscal deficit amounting to SR34.1 billion, we expect this to widen significantly in the next three quarters, with our full year fiscal deficit projected at SR422 billion (15.7 percent of GDP) for 2020.
- Public debt currently totals SR755 billion, with SR77 billion debt issued year-to-date. Overall, we expect a further SR99 billion in debt issuance during the remainder of the year (plus SR44 billion in refinancing), thereby pushing total debt to SR854 billion (31.7 percent of GDP) by end of 2020.

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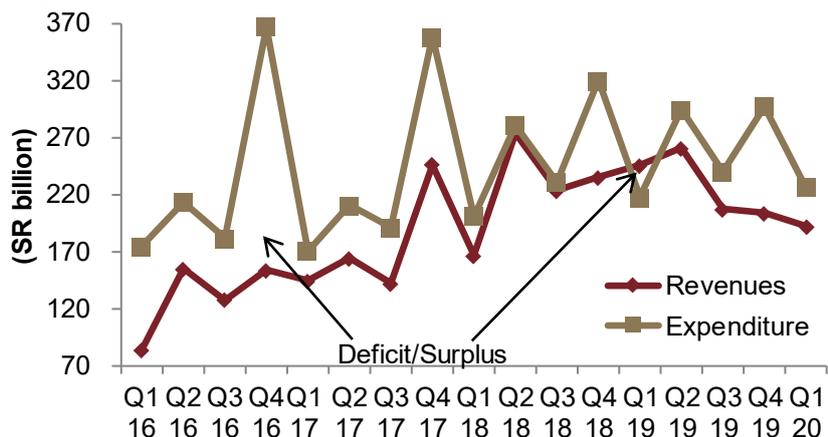
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Figure 1: Q1 2020 fiscal deficit amounted to SR34.1 billion





Government revenue totaled SR192 billion in Q1 2020, down 22 percent, or SR53 billion, year-on-year.

Declines were seen in both oil and non-oil revenue.

Government oil revenue totaled SR129 billion in Q1 2020 compared to SR169 billion in Q1 last year...

...equivalent to a 24 percent decline year-on-year, with oil prices declining 20 percent over the same period.

Revenue:

Table 1: Government Revenue (SR million)

Revenues	Q1 2019	Q1 2020	Change (%)
Oil revenue	169,087	128,771	-24
Non-oil revenues, of which;	76,319	63,301	-17
-Taxes on income, profits and capital gains	2,742	3,569	30
-Taxes on goods and services (including petroleum product charges and harmful product tax)	41,133	30,604	-26
-Taxes on trade and transactions (customs duties)	3,490	4,021	15
-Other Taxes (including Zakat)	7,071	2,060	-71
-Other revenues	21,883	23,047	5
Total	245,406	192,072	-22

Government revenue totaled SR192 billion in Q1 2020, down 22 percent, or SR53 billion, year-on-year (Table 1). Declines were seen in both oil and non-oil revenue. Government **oil revenue** totaled SR129 billion compared to SR169 billion last year, equivalent to a 24 percent decline year-on-year, with oil prices declining 20 percent over the same period (Figure 2, Box 1). Meanwhile, non-oil revenue declined by 17 percent, or SR13 billion, compared with the same period last year.

Box 1: Oil revenue

Q1 2020 government oil revenue is broadly in-line with historical levels. For example, in Q1 2017, when Saudi crude oil production averaged 9.9 million barrels per day (mbpd) and Brent oil prices \$53 per barrel (pb), government oil revenue amounted to SR119 billion. In Q1 2020, crude oil production average 9.8 mbpd and Brent oil \$52 pb, resulting in oil revenue of SR129 billion. Despite slightly lower oil prices and production in Q1 2020 vs. Q1 2017, higher oil revenue is likely a result of higher Aramco dividends (dividends equaled SR188 billion in 2017 vs. an expected SR277 billion this year, with details of the Q1 dividend set to be announced by the company next week).

Figure 2: Government oil revenue

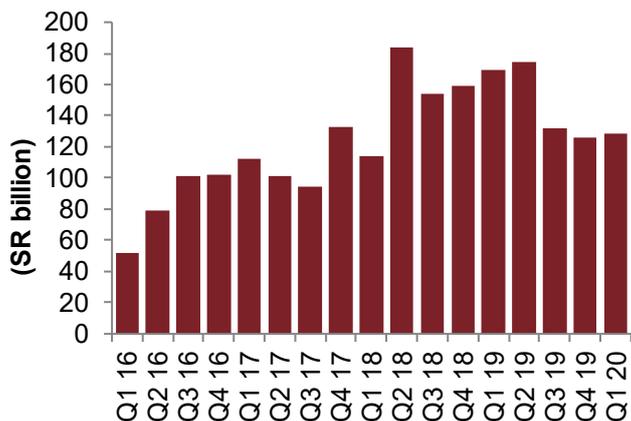
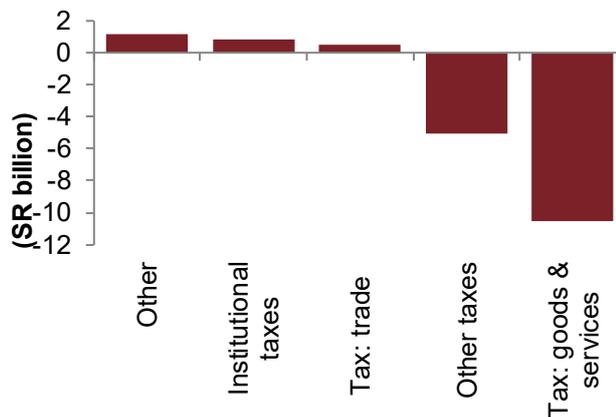


Figure 3: Yearly change in Q1 2020 non-oil revenue



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



Looking ahead, with Brent oil prices down more than 75 percent year-on-year in April 2020...

...and likely to remain subdued during the rest of the quarter...

...government oil revenue will continue to show sizable yearly declines.

Meanwhile, non-oil revenue declined by 17 percent in Q1, or SR13 billion, compared with the same period last year.

Looking ahead, we expect a drastic decline in non-oil revenue recorded across all segments in Q2...

...reflecting the downturn in economic activity as a result of the preventative measures related to COVID-19.

Government expenses rose by 4 percent year-on-year in Q1 2020 to a total of SR226 billion.

Looking ahead, with Brent oil prices down more than 75 percent year-on-year in April 2020, and likely to remain subdued during the rest of the quarter due to the possibility of a build in oil inventory (please refer to our recent [Oil Update](#)), government oil revenue will continue to show sizable yearly declines. Using Q1 2016 data as a very loose indicator, when Saudi crude oil output averaged 10.2 mbpd (compared to an expected 9.7 mbpd in Q2 2020) and Brent oil averaged \$34 pb; government oil revenue, under the old tax regime with Aramco, totaled SR52 billion during the quarter. Again, whilst oil revenue will be shielded somewhat by the continued payment of a sizable dividend by Aramco, Q1 2016's example just serves to highlight the significant challenges around government oil revenue expected in Q2 2020.

Meanwhile, the quarterly budget performance report also showed that **non-oil revenue** declined by 17 percent, or SR13 billion, compared to the same period last year. The decline was primarily a result of a decline in 'Taxes on goods and services' (down SR11 billion or 26 percent year-on-year) and 'Other taxes (including Zakat)' (down SR5 billion or 71 percent year-on-year). Both these segments are likely to have been affected by MoF measures consisting of exemptions and deferrals for a number of government fees, which took effect from 18th March (Table 2 & [April Chartbook](#)).

Table 2: Financial Stimulus Package Initiatives

Exemption	from expat levies for expired Iqama holders from 18 March to 30 June 2020 by extending the Iqama for 3 months with no charge
Enabling	employers to refund the fees of issued work visas not used during the travel ban, or extend for 3 months with no charge
Enabling	employers to extend exit/re-entry visas that were not used during the travel ban for 3 months with no charge
Enabling	firms to postpone the payment of VAT, excise tax, income tax and Zakat declarations from 18 March to 30 June 2020
Postponing	the collection of custom duties on imports from 22 March - 22 June 2020, with extending if needed
Postponing	the payment of some government services fees and municipal fees for 3 months starting 20 March 2020, extending if needed
Authorizing	the minister of finance to approve financing and exemptions from payment of fees and returns on loans til the end of 2020

Looking ahead, we expect a drastic decline in non-oil revenue recorded across all segments in Q2, with the General Authority of Tax and Zakat (GAZT) outlining the payment of various taxes being deferred to Q3 2020. That said, even when taxes are received in Q3, they will be significantly less than the 2019 equivalent, reflecting the downturn in economic activity as a result of the preventative measures around the transmission of COVID-19, including partial lockdowns and curfews. In 2020 as a whole, we expect non-oil revenue to decline by 16 percent over budgeted levels, primarily as a result of lower tax revenue, such as VAT, customs tax and institutional taxes.

Expenditure:

Government expenses rose by 4 percent year-on-year in Q1 2020 to a total of SR226 billion (Table 3). **Current expenditure**, the lower economic growth enhancing element of government spending, was up 5 percent on a year-on-year basis as the largest component of



this segment, 'Compensation of Employees', also showed a rise by 2 percent year-on-year. Meanwhile, 'Goods and Services' and 'Other Expenses' showed the largest yearly rises (Figure 4).

Table 3: Government Expenditure (SR million)

Expenses	Q1 2019	Q1 2020	Change (%)
Compensation of Employees	121,806	124,530	2
Goods & Services	15,442	26,941	74
Financing Expenses	4,354	4,646	7
Subsidies	10,310	3,481	-66
Grants	30	160	>100
Social Benefits	17,221	12,975	-25
Other Expenses	19,239	25,302	32
Non-Financial Assets (Capital)	29,167	28,144	-4
Total	217,570	226,179	4

Looking ahead, the roll-out of fiscal measures to support the private sector...

...plus a sizable rise in healthcare spending...

...will likely result in significant expenditure rises in Q2.

Public debt currently totals SR755 billion...

....overall, we expect a further SR99 billion in debt issuance during the remainder of the year...

Looking ahead, the roll-out of fiscal measures to support the private sector (such as payment of dues and 60 percent of salaries for the nationals for up to three months) plus a sizable rise in healthcare spending, which includes an additional SR47 billion allocation, will likely result in significant expenditure rises in Q2, and beyond (Figure 5). At the same time, we also see the majority of the announced SR50 billion reduction in spending, for 2020 as whole, taking place within this quarter, most likely in 'Non-Financial Assets' (capital expenditure) and 'Goods and Services' segment.

Public Debt:

Public debt totaled SR678 billion at the end of 2019, but had risen to SR723 billion by end of Q1 2020. Since then, there has been another domestic sukuk issuance totaling SR5.5 billion, and a \$7 billion (SR26 billion international bond) pushing total debt to SR755 billion in April 2020 (Figure 6). Of the SR77 billion debt issued in 2020 to date, SR45 billion (58 percent) has been international, whilst SR32 billion (42 percent) has been domestic. We expect a total of SR176 billion in debt issuance during the year (with an additional SR44 billion in refinancing), thereby pushing total debt to SR854 billion (31.7 percent of GDP) by end of 2020. By the end of the year, we expect to see around 60 percent of this year's debt being financed

Figure 4: Yearly change in Q1 2020 current expenditure

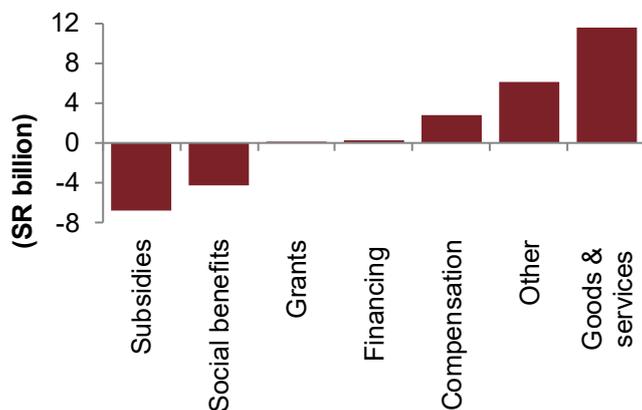
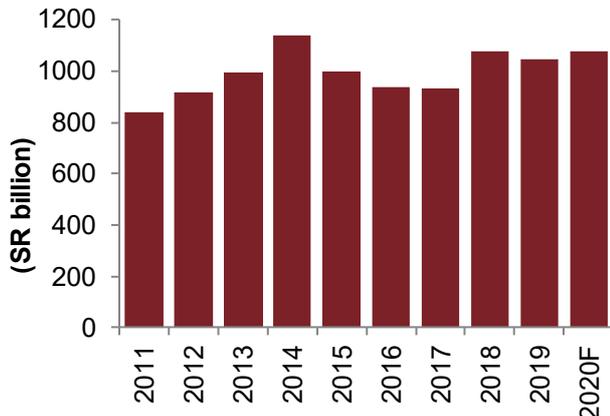


Figure 5: We expect annual expenditure to rise by 2.6 percent year-on-year in 2020 as a whole





...thereby pushing total debt to SR854 billion (31.7 percent of GDP) by end of 2020.

We expect the fiscal deficit to widen significantly in the next three quarters.

from internal borrowing, especially so since domestic funding costs (SAIBOR) are at multi-year lows, whilst international bond yields have widened. As such, we expect a further \$7 billion (SR26 billion) in international issuances, and SR73 billion in domestic issuance, over the next three quarters.

Deficit:

Whilst Q1 fiscal deficit amounted to a modest amount of SR34.1 billion, based in our projections of fiscal deficit reaching SR422 billion (15.7 percent of GDP) at the end of the year (Figure 7), we expect this to widen significantly in the next three quarters.

Figure 6: Total debt stood at SR755 billion in April 2020

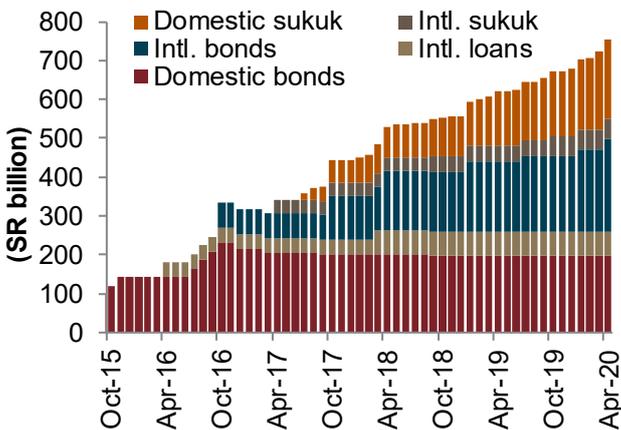
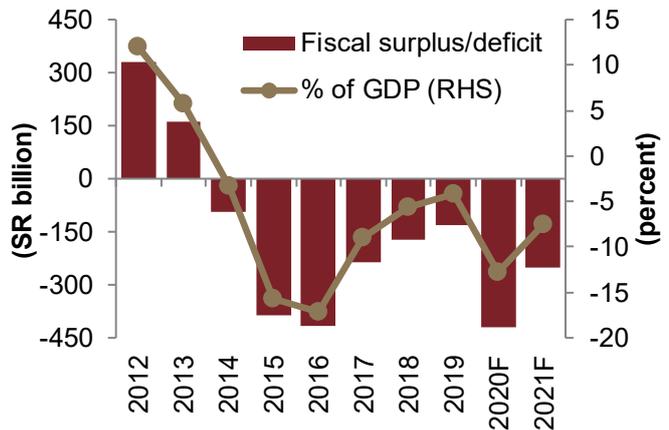


Figure 7: Fiscal deficit to widen to SR422 billion (15.7 percent of GDP) in 2020





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