



Fiscal deficit remains contained

- Government revenue totaled SR248 billion in Q2 2021, up a sizable 85 percent, or SR114 billion, year-on-year (Table 1). Looking at the breakdown, both oil revenue (up 38 percent year-on-year) and non-oil revenue rose sharply (up 203 percent year-on-year).
- Recently published Q2 2021 financial results for Aramco show that dividends made up 53 percent (or SR70 billion) of total government oil revenue during the quarter. We note that a higher level of marginal tax will have been applied as oil prices rose above \$70 per barrel (pb) during some part of Q2 (in line with tax changes implemented back in November 2019).
- Non-oil revenue rose by a staggering 203 percent, or SR78 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 yet again.
- Government expenses were 4 percent higher year-on-year in Q2 2021, totaling SR253 billion. The less growth enhancing current expenditure rose by 8 percent year-on-year, primarily as a result of ‘social benefits’ doubling and ‘goods and services’ rising by 30 percent over the same period last year. ‘Compensation of Employees’, the largest expenditure item, continued to decline on a yearly basis, by 2 percent.
- Q2 saw a modest fiscal deficit of SR4.6 billion, bringing H1 2021 deficit to SR12 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 H2.

For comments and queries please contact:

Asad Khan
Chief Economist & Head of Research
rkhan@jadwa.com

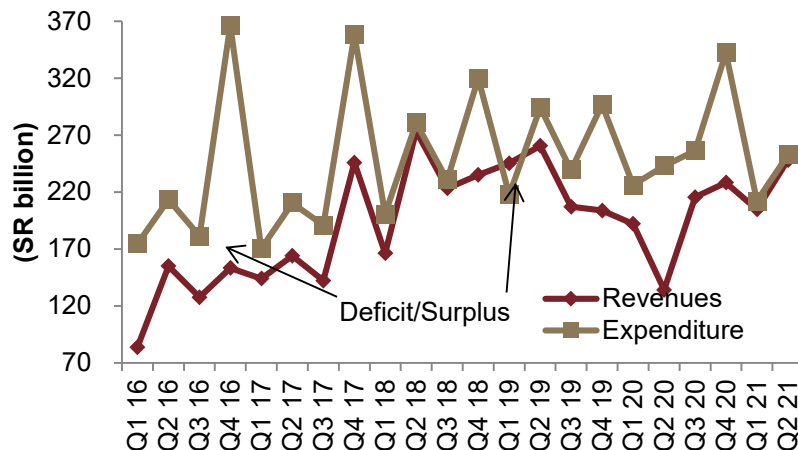
Head office:

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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Figure 1: Q2 2021 saw a modest fiscal deficit of SR4.6 billion





Revenue:

Table 1: Government Revenue (SR million)

Revenues	Q2 2020	Q2 2021	Change (%)
Oil revenue	95,718	132,150	38
Non-oil revenues, of which;	38,227	115,956	203
-Taxes on income, profits and capital gains	1,645	7,183	337
-Taxes on goods and services (including petroleum product charges and harmful product tax)	10,558	67,984	544
-Taxes on trade and transactions (customs duties)	3,796	4,321	14
-Other Taxes (including Zakat)	3,362	19,603	483
-Other revenues	18,866	16,865	-11
Total	133,945	248,106	85

Government revenue totaled SR248 billion in Q2 2021...

...up a sizable 85 percent, or SR114 billion, year-on-year.

Aramco dividends made up 53 percent of total government oil revenue during the quarter.

Government revenue totaled SR248 billion in Q2 2021, up a sizable 85 percent, or SR114 billion, year-on-year (Table 1). Looking at the breakdown, both oil revenue (up 38 percent year-on-year) and non-oil revenue (up 203 percent year-on-year) rose sharply (Figure 2). Government **oil revenue** totaled SR132 billion compared to SR96 billion last year as oil prices surged 150 percent higher over the same period (Box 1). Meanwhile, non-oil revenue rose by SR78 billion compared to the same period last year, primarily as a result of higher tax revenue (Figure 3).

Box 1: Oil revenue

Recently published Q2 2021 financial results for Aramco show that dividends made up 53 percent (or SR70 billion) of total government oil revenue during the quarter. We note that a higher level of marginal tax will have been applied as oil prices rose above \$70 pb (see our latest [Oil Update](#) for more details) during some part of Q2 (in line with tax changes implemented back in November 2019), thus helping push oil revenue even higher during Q2. Overall for full year 2021, we expect SR282 billion in Aramco dividends will contribute in raising government oil revenue to SR528 billion, equivalent to a 28 percent rise over last year's annual total.

Figure 2: Government oil and non-oil revenue

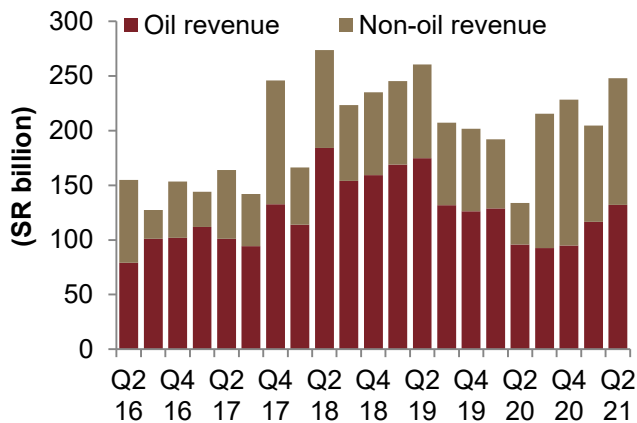
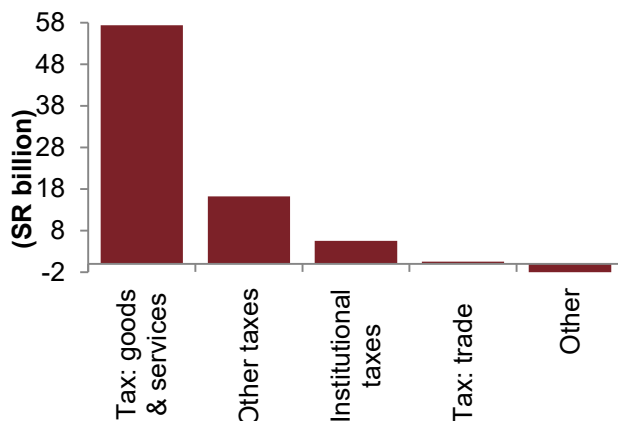


Figure 3: Yearly change in Q2 2021 non-oil revenue



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



Non-oil revenue rose by a staggering 203 percent compared to the same period last year...

...the rise was primarily due to a hike in VAT back in July of last year.

Non-oil revenue rose by a staggering 203 percent, or SR78 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 yet again (Figure 4). Looking ahead, we expect 'taxes on goods and services' yearly rises will not be as impressive in the second half of the year, although 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 targeted herd immunity by Q4 2021 (see our recent [Inflation](#) update for more details).

Expenditure:

Table 2: Government Expenditure (SR million)

Expenses	Q2 2020	Q2 2021	Change (%)
Compensation of Employees	124,738	122,819	-2
Goods & Services	35,000	45,531	30
Financing Expenses	6,777	7,434	10
Subsidies	9,859	4,230	-57
Grants	2,208	459	-79
Social Benefits	14,661	29,498	101
Other Expenses	20,679	20,842	1
Non-Financial Assets (Capital)	29,259	21,905	-25
Total	243,181	252,718	4

Government expenses were 4 percent higher year-on-year in Q2 2021, totaling SR253 billion...

...the less growth enhancing current expenditure rose by 8 percent year-on-year.

Government expenses were 4 percent higher year-on-year in Q2 2021, totaling SR253 billion (Table 2). The less growth enhancing current expenditure rose by 8 percent year-on-year, primarily as a result of 'social benefits' expenditure doubling and 'goods and services' rising by 30 percent over the same period last year. 'Compensation of Employees', the largest expenditure item, continued to decline on a yearly basis, by 2 percent. More significantly, **capital expenditure**, dropped by a sizable 25 percent year-on-year (Figure 5).

Looking ahead, we expect a pick-up in outlays on development projects during the remainder of the year, particularly on Vision

Figure 4: 'Taxes on goods & services' rose to a record high in Q2 2021

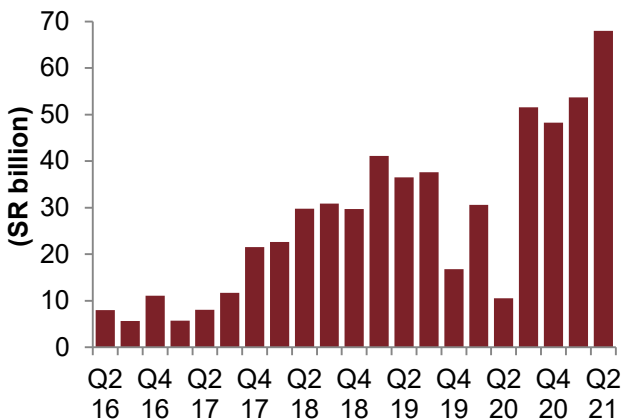
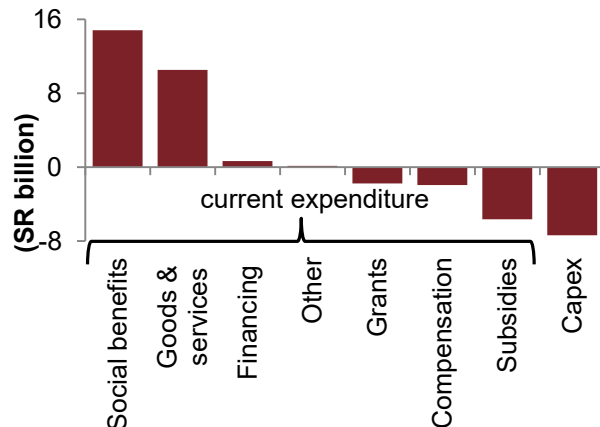


Figure 5: Yearly change in Q2 2021 government expenditure





We do not expect any further international bond issuances...

...meaning the remaining SR9 billion in new debt will likely be made up of domestic issuances and/or private placements.

Q2 saw a modest fiscal deficit of SR4.6 billion, bringing H1 2021 deficit to SR12 billion.

Realization Programs, to raise capital expenditure. As noted previously (in our [Q1 Budget Statement report](#)) 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 SR923 billion at the end of Q2 2021, versus SR854 billion at the end of 2020, with a SR4.7 billion principal repayment made during the quarter (Figure 6). International and domestic issuances make up an equal share of the SR74 billion gross debt issued so far in 2021. Looking ahead, we do not expect any further international bond issuances, meaning the remaining SR9 billion in new debt will likely be made up of domestic issuances and/or private placements.

Deficit:

Q2 saw a modest fiscal deficit of SR4.6 billion, bringing H1 2021 deficit to SR12 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 H2 (Figure 7).

Figure 6: Total debt stood at SR923 billion at the end of June 2021

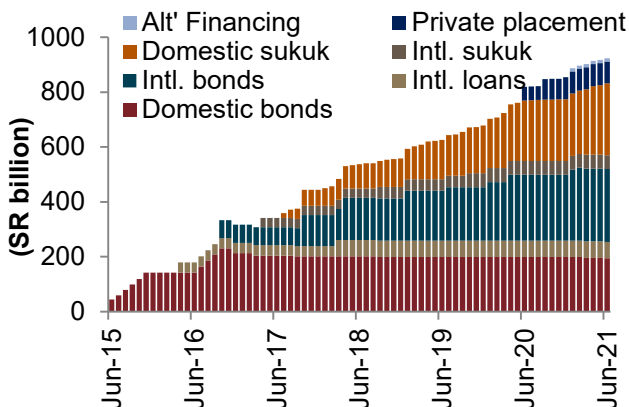
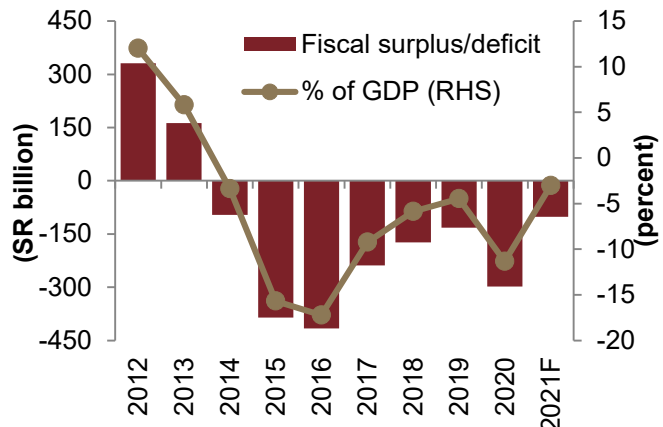


Figure 7: We expect a fiscal deficit of SR102 billion (-3.3 percent of GDP) in full year 2021





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