



## A fiscal surplus!

- Government revenue totaled SR243 billion in Q3 2021, up 13 percent, or SR28 billion, year-on-year. An improvement in global oil prices led to oil revenue rising 60 percent on a yearly basis, resulting in this segment's contribution rising to 61 percent of total revenue during the quarter.
- Recently published Q3 2021 financial results for Aramco showed that dividends made up 47 percent (or SR70 billion) of total government oil revenue during the quarter. Looking ahead, with Brent oil prices currently trading above \$80 per barrel, there is a strong possibility that full year 2021 government oil revenue could surpass our current estimate of SR528 billion.
- Value added tax (VAT) revenue remains a key component of non-oil revenue, which is highlighted by the fact that 'taxes on goods and services' made up 70 percent of non-oil revenue during Q3.
- Government expenses declined 8 percent year-on-year in Q3 2021, totaling SR237 billion. The less growth enhancing current expenditure declined by 6 percent year-on-year. That said, 'Compensation of Employees' increased by 3 percent year-on-year, the first yearly rise since Q1 2020.
- The Kingdom registered a fiscal surplus amounting to SR6.7 billion in Q3, with the year-to-Q3 2021 deficit at -SR5.4 billion. The Ministry of Finance (MoF) recently outlined that the fiscal deficit is expected to hit -SR85 billion (or -2.7 percent of GDP) in full year 2021, although we expect it to be even lower, at around -SR67 billion (or -2.1 percent of GDP).

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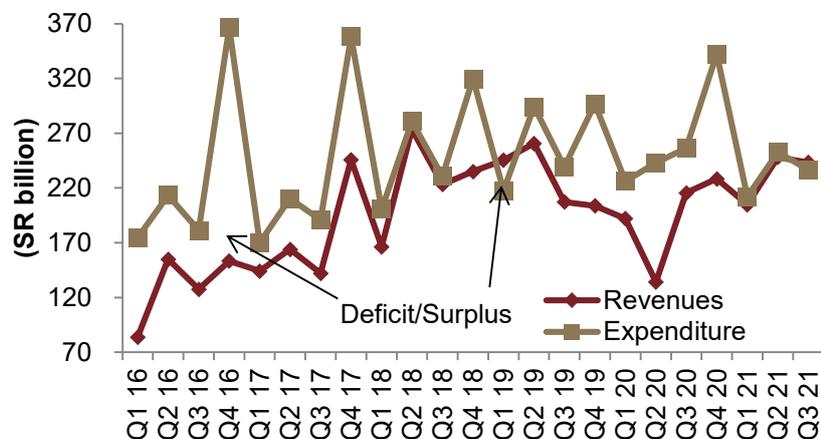
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Figure 1: Q3 2021 saw a modest fiscal surplus of SR6.7 billion





**Revenue:**

**Table 1: Government Revenue (SR million)**

Revenues	Q3 2020	Q3 2021	Change (%)
Oil revenue	92,582	147,975	60
Non-oil revenues, of which;	122,995	95,406	-22
-Taxes on income, profits and capital gains	7,230	3,498	-52
-Taxes on goods and services (including petroleum product charges and harmful product tax)	51,572	66,096	28
-Taxes on trade and transactions (customs duties)	4,548	4,718	4
-Other Taxes (including Zakat)	12,017	2,781	-77
-Other revenues	47,627	18,313	-62
<b>Total</b>	<b>215,577</b>	<b>243,381</b>	<b>13</b>

Government revenue totaled SR243 billion in Q3 2021, up 13 percent, or SR28 billion, year-on-year.

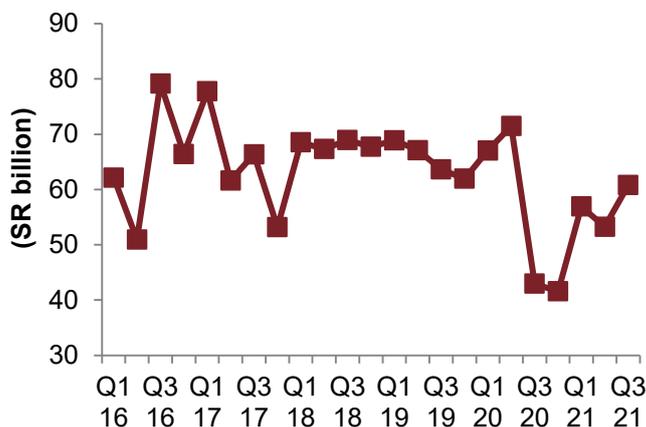
Government revenue totaled SR243 billion in Q3 2021, up 13 percent, or SR28 billion, year-on-year (Table 1). An improvement in global oil prices led to **oil revenue** rising 60 percent on a yearly basis, resulting in this segment's contribution rising to 61 percent of total revenue during the quarter (Figure 2, Box 1). Meanwhile, **non-oil revenue** declined by 22 percent, or SR27.6 billion, compared to the same period last year, with a sizable decline in 'Other Revenue' dragging this segment down (Figure 3).

**Box 1: Oil revenue**

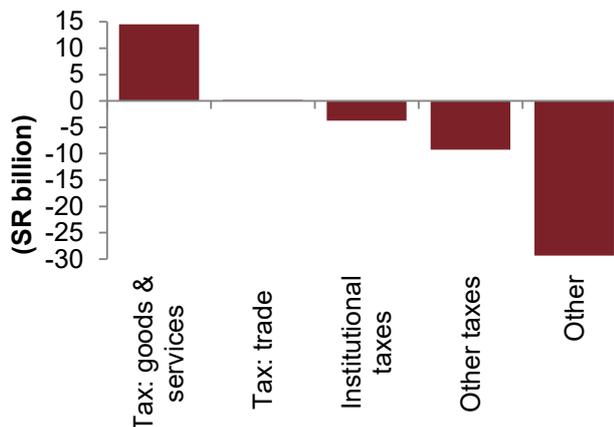
Recently published Q3 2021 financial results for Aramco showed that dividends made up 47 percent (or SR70 billion) of total government oil revenue during the quarter. We note that a higher level of marginal tax will have been applied as oil prices averaged above \$70 pb during Q3 (with the royalty rate rising to 45 percent on Brent prices between \$70-100 per barrel (pb) versus 15 percent at levels below \$70 pb). Looking ahead, with Brent oil prices currently trading above \$80 pb, there is a strong possibility that full year 2021 government oil revenue could surpass our current estimate of SR528 billion, especially so if oil prices trend higher towards \$100 pb (please see our latest [Oil Update](#) for more detail).

An improvement in global oil prices led to oil revenue rising 60 percent on a yearly basis

**Figure 2: Oil revenue's contribution to total revenue rebounding in-line with global oil prices**



**Figure 3: Sizable yearly decline in Q3 2021 'Other revenue' a drag on non-oil revenue**



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



Value added tax (VAT) revenue remains a key component of non-oil revenue.

'Other revenue' declined a sizable 62 percent year-on-year in Q3...

...and we note the year-to-Q3 total is a third lower than the same period last year.

Value added tax (VAT) revenue remains a key component of non-oil revenue, which is highlighted by the fact that 'taxes on goods and services' made up 70 percent of non-oil revenue during Q3. In fact, we see at least 50 percent of the SR40 billion upward revision in tax revenue for full year 2021 (*highlighted in the recent [2022 preliminary budget](#)*) coming from higher than budgeted VAT revenue. As such, we estimate that income from VAT will contribute around 43 percent of full year 2021 non-oil revenue, up from 25 percent last year and 14 percent in 2019 (Figure 4).

'Other revenue' declined a sizable 62 percent year-on-year in Q3, and we note the year-to-Q3 total is a third lower than the same period last year. Due to the number of miscellaneous items included within this segment, 'other revenue' is less predictable than non-oil tax revenue. That said, we note that this segment includes asset sales and public-private partnerships (PPP), and, as such, is likely to be negatively affected by the suspension of some privatization deals (such as the Ras Al Khair desalination and power plant). This, in turn, will likely impact the targeted SR26 billion in asset sales and PPPs expected to be finalized this year (*please refer to the [2022 preliminary budget](#) for more details*).

**Expenditure:**

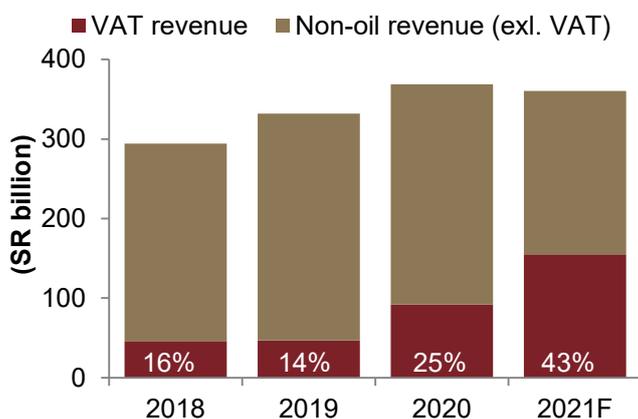
**Table 2: Government Expenditure (SR million)**

Expenses	Q3 2020	Q3 2021	Change (%)
Compensation of Employees	120,266	123,453	3
Goods & Services	45,950	41,156	-10
Financing Expenses	5,430	6,542	20
Subsidies	8,189	4,342	-47
Grants	477	175	-63
Social Benefits	21,164	12,402	-41
Other Expenses	22,430	21,466	-4
Non-Financial Assets (Capital)	32,439	27,161	-16
<b>Total</b>	<b>256,345</b>	<b>236,697</b>	<b>-8</b>

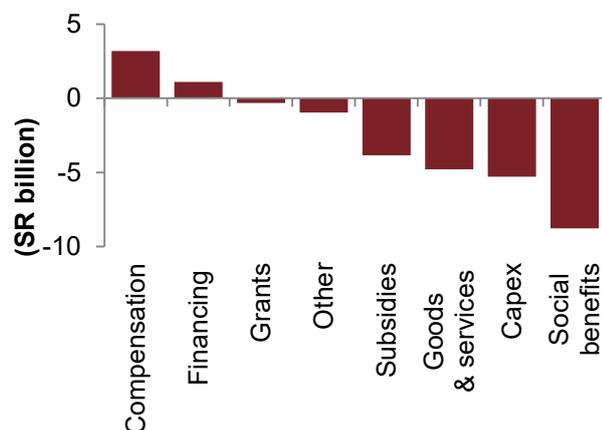
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**Figure 4: We expect VAT to contribute around 43 percent to full year 2021 non-oil revenue**



**Figure 5: Yearly change in Q3 2021 government expenditure**





*The less growth enhancing current expenditure declined by 6 percent year-on-year.*

*That said, 'Compensation of Employees' increased by 3 percent year-on-year, the first yearly rise since Q1 2020.*

*Total debt stood at SR957 billion at the end of October 2021.*

*The Kingdom registered a fiscal surplus amounting to SR6.7 billion in Q3, with the year-to-Q3 2021 deficit at -SR5.4 billion.*

segment showed yearly declines (Figure 5).

As per the recent preliminary budget, full year government expenditure was revised upwards by SR25 billion (or 3 percent) at a total of SR1.015 trillion. Both capital (capex) and operational (current) expenditure are expected to see rises over budgeted levels, with the former being 11.6 percent or SR11 billion higher than budgeted and the latter being 1.5 percent or SR13.7 billion higher. In fact, almost half of the revision in current expenditure (SR6 billion) has been allocated to 'Compensation of Employees', the largest expenditure item. In Q3 2021, this segment increased by 3 percent year-on-year, the first yearly rise since Q1 2020. That said, for full year 2021, this segment is expected to show only nominal rises (of 0.4 percent) over last year's total (Figure 6). Meanwhile, despite full year upward revision to capital expenditure, this segment is still expected to decline by 28 percent year-on-year, with declines of 16 percent year-on-year seen in Q3.

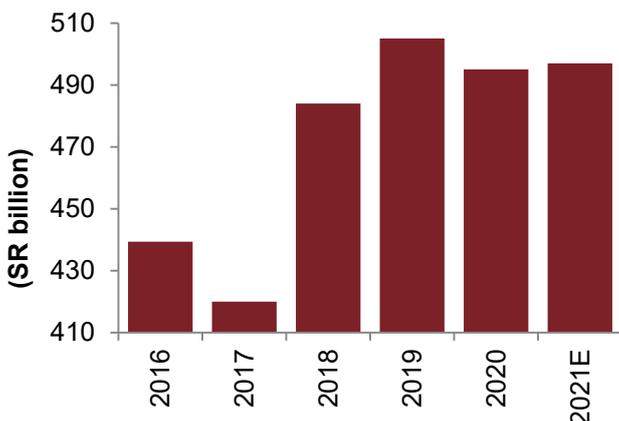
**Public Debt:**

According to the National Debt Management Centre (NDMC), the Kingdom issued SR103 billion in debt in the year-to-Q3. Since then, another domestic sukuk worth SR8.5 billion was issued in October, and SR33 billion was refinanced during the same month. Taking into account SR7.8 billion principal repayment, this puts total gross debt issuance at SR128 billion so far this year. Looking ahead, any repayments in the final two months of this year will have to be larger than the planned domestic sukuk issuances in order to hit the NDMC's stated annual gross debt issuance target of SR124 billion (Figure 7).

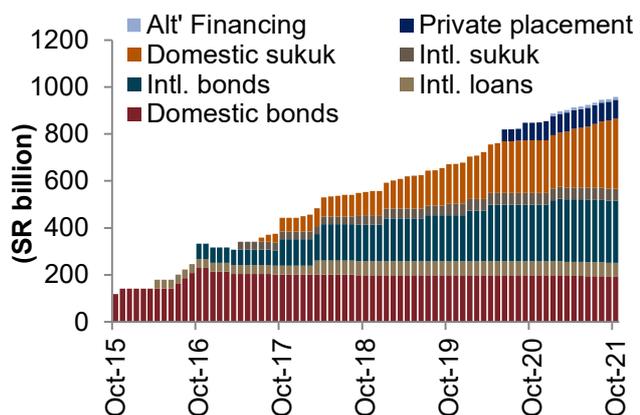
**Deficit:**

The Kingdom registered a fiscal surplus amounting to SR6.7 billion in Q3, with the year-to-Q3 2021 deficit at -SR5.4 billion. The Ministry of Finance (MoF) recently outlined that the fiscal deficit is expected to hit -SR85 billion (or -2.7 percent of GDP) in full year 2021, although we expect it to be even lower, at around -SR67 billion (or -2.1 percent of GDP).

**Figure 6: 'Compensation of Employees' expected to show only nominal rises over last year's total**



**Figure 7: Total debt stood at SR957 billion at the end of October 2021**





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