Fiscal surplus recorded in Q1 2019

- Government revenue totaled SR245 billion in Q1 2019, up 48 percent, or SR79 billion, year-on-year. Both oil and non-oil revenue saw sizable rises.

- Government oil revenue rose by 48 percent, to SR169 billion, and was boosted by a SR124 billion dividend received from Saudi Aramco in March.

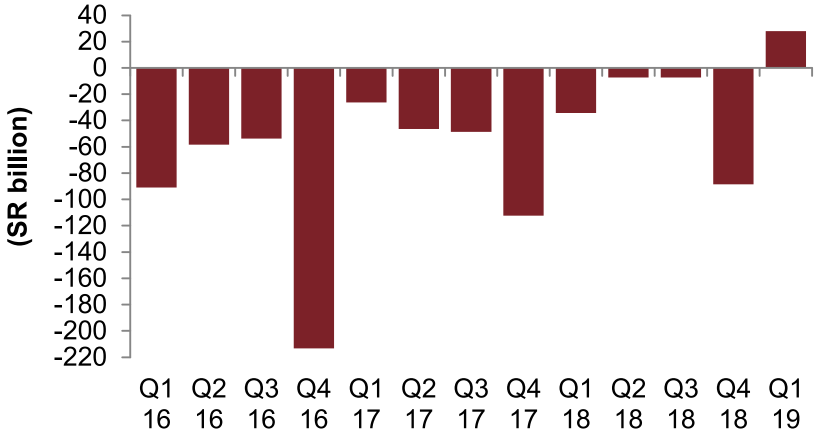
- Non-oil revenue was up by 46 percent year-on-year with 77 percent of the yearly gains coming from 'Taxes on goods and services', which near doubled year-on-year to SR41 billion. We see the vast majority of revenue from this segment coming from rises in expat levies.

- Government expenses rose by 8 percent year-on-year in Q1 2019, to a total of SR217 billion. The largest contributor to expenses, 'Compensation of Employees', increased by 8 percent to SR121.8 billion over the same period last year. Meanwhile, the capital spending side of the expenses was up 12 percent year-on-year to SR29 billion in Q1 2019.

- Public debt totaled SR560 billion at the end of 2018, but had risen to SR611 billion by the end of Q1 2019. Since then, there has been another domestic sukuk issuance totaling SR11.6 billion, pushing total debt to SR622 billion in May 2019.

- A rise in yearly revenue at a much higher rate than expenditure resulted in a fiscal surplus of SR28 billion in Q1 2019 (Figure 1), the first quarterly surplus since at least 2016. That said, taking into account that the fiscal deficit is expected to total SR131 billion (4.2 percent of GDP) by the end of 2019, we do not expect to see any further surpluses in the next three quarters.

Figure 1: Q1 2019 saw the first quarterly fiscal surplus since at least 2016



For comments and queries please contact:

Asad Khan
Head of Economic 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

Released: May-5-2019, 15:30 UTC+3

Government revenue totaled SR245 billion in Q1 2019, up 48 percent, or SR79 billion, year-on-year.

Both oil and non-oil revenue saw sizable rises. Government oil revenue rose by 48 percent, to SR169 billion…

...and was boosted by a SR124 billion dividend received from Saudi Aramco in March.

Looking ahead, calculating government oil revenue will require a lot more information about Saudi Aramco's revenue on a regular basis.

Revenue:

Table 1: Government Revenue (SR million)

Revenues	Q1 2018	Q1 2019	Change (%)
Oil revenues	113,947	169,087	48
Non-oil revenues, of which;	52,316	76,319	46
-Taxes on income, profits and capital gains	2,471	2,742	11
-Taxes on goods and services (including petroleum product charges and harmful product tax)	22,653	41,133	82
-Taxes on trade and transactions (customs duties)	3,786	3,490	-8
-Other Taxes (including Zakat)	3,161	7,071	>100
-Other revenues (including returns from SAMA and PIF)	20,245	21,883	8
Total	**166,263**	**245,406**	**48**

Government revenue totaled SR245 billion in Q1 2019, up 48 percent, or SR79 billion, year-on-year (Table 1). Both oil and non-oil revenue saw sizable rises. Government **oil revenue** rose by 48 percent, to SR169 billion (Figure 2) and was boosted by a SR124 billion dividend received from Saudi Aramco in March (Box 1).

Box 1: Oil revenue

As Saudi Aramco's bond prospectus showed, calculating government oil revenue will require a lot more information about the organization's revenue on a regular basis, since it not only includes sales of oil exports but also other products, such as natural gas, Natural Gas Liquids, oil products and revenue from Aramco's trading arm. Additionally, the exercise in forecasting government oil revenue is further complicated by the equalization payments made by government to Saudi Aramco, which relate to the consumption of oil products within the Kingdom at below international prices.

In short, all the above points make the calculation of oil revenue more complicated and less accurate.

Figure 2: Quarterly government oil revenue

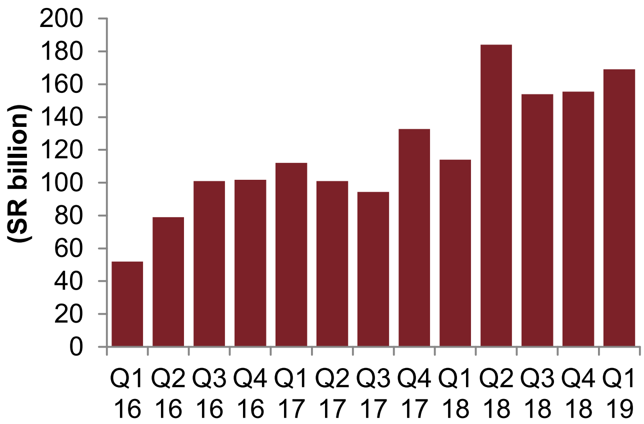
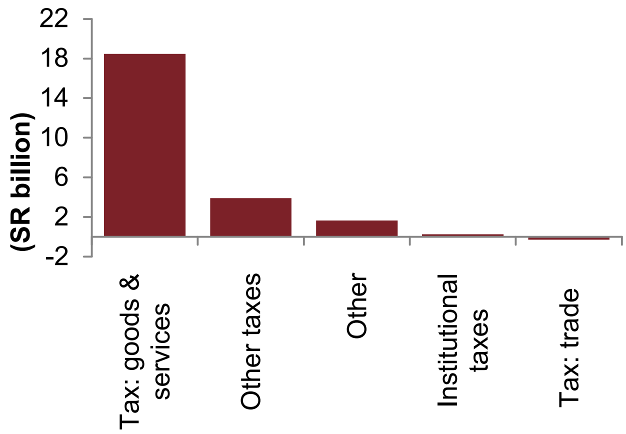


Figure 3: 'Tax on goods & services' made up 77 percent of yearly change in non-oil revenue



Other taxes = 'Other Taxes (including Zakat)'
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)'

In Q1 2019, non-oil revenue was up by 46 percent year-on-year.

Most of these gains came from 'Taxes on goods and services', which near doubled year-on-year to SR41 billion, making up 77 percent of the yearly change.

Meanwhile, the quarterly budget performance report also showed that **non-oil revenue** is still rising. In Q1 2019, non-oil revenue was up by 46 percent year-on-year (Figure 3). Most of these gains came from 'Taxes on goods and services', which near doubled year-on-year to SR41 billion, making up 77 percent of the yearly change in all non-oil revenue during the quarter. We see the vast majority of revenue from this segment coming from rises in expat levies. Indeed, as the 2019 fiscal budget outlined, revenue from expat levies is expected to double in 2019 as a whole, to SR56 billion. So far in 2019, only a rise in expat fees (from SR300 to SR500 with companies that have more Saudis than expats or from SR400 to SR600 with companies that have more expats than Saudis) has been implemented, whilst a rise in expat dependency fees (from SR200 to SR300 per dependent) is expected in mid-2019, which is likely to result in a steeper rise in revenue in H2 2019 (Figure 4) .

Table 2: Government Expenditure (SR million)

Expenses	Q1 2018	Q1 2019	Change (%)
Compensation of Employees	112,922	121,806	8
Goods & Services	10,240	15,442	51
Financing Expenses	4,145	4,354	5
Subsidies	2,993	10,310	>100
Grants	30	30	0
Social Benefits	18,782	17,221	-8
Other Expenses	25,521	19,239	-25
Non-Financial Assets (Capital)	25,959	29,167	12
Total	**200,592**	**217,569**	**8**

Expenditures:

Government expenses rose by 8 percent year-on-year in Q1 2019, to a total of SR218 billion.

Government expenses rose by 8 percent year-on-year in Q1 2019, to a total of SR218 billion (Table 2). **Current expenditure**, the lower economic growth enhancing element of government spending, was also up 8 percent year-on-year mainly as result of higher 'Compensation of Employees' and 'Subsidies' spending (Figure 5). The largest contributor to current expenses, 'Compensation of Employees', increased by 8 percent to SR121.8 billion over the same period last year. This is somewhat surprising considering that this segment is expected to decrease by 4 percent year-on-year to a total

Figure 4: Breakdown of expat levies and revenue

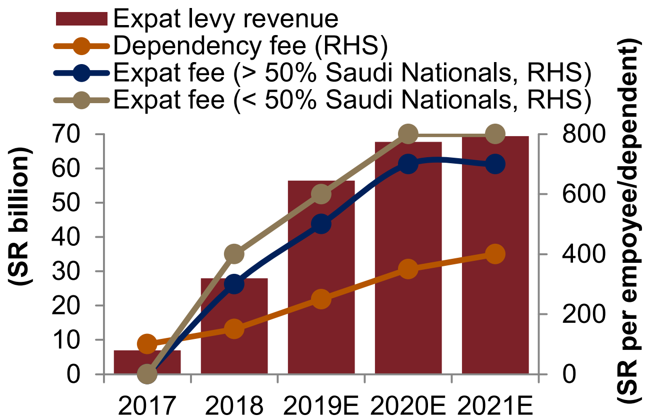
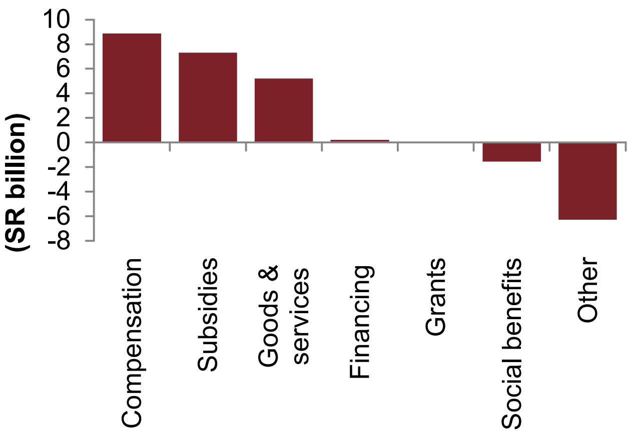


Figure 5: Year-on-year change in Q1 2019 current expenditure



The largest contributor to current expenses, 'Compensation of Employees', increased by 8 percent to SR121.8 billion over the same period last year.

of SR456 billion in 2019. As a result of the rise in Q1, an average yearly reduction of 7 percent is needed in the remaining three quarters of 2019 in order to hit the targeted SR456 billion for the year (Figure 6).

The movement of payments related to Citizen's Account program from 'Subsidies' to 'Social Benefits' led to a large yearly rise in Q1 2019 for the latter. According to the annual fiscal budget, around SR32.4 billion is earmarked for the Citizen's Account program in 2019, of which around SR9.8 billion was disbursed during Q1. Since inception, a total of SR39 billion has been disbursed under the Citizen's Account program (Figure 7).

The capital spending side of the expenses, or 'Non-Financial Assets (Capital)', was up 12 percent year-on-year to SR29 billion in Q1 2019.

The **capital spending** side of the expenses, or 'Non-Financial Assets (Capital)', was up 12 percent year-on-year to SR29 billion in Q1 2019. According to the Ministry of Finance, outlays on development projects are expected to increase during the remainder of the year, particularly on Vision Realization Programs (VRP), and hence we expect this segment to rise sizably in the next quarter.

Public debt totaled SR560 billion at the end of 2018, but had risen to SR611 billion by end of Q1 2019.

<u>Public Debt:</u>

Public debt totaled SR560 billion at the end of 2018, but had risen to SR611 billion by end of Q1 2019. Since then, there has been another domestic sukuk issuance totaling SR11.6 billion, pushing total debt to SR622 billion in May 2019. Of the SR62 billion debt issued in 2019 to date, SR28 billion (45 percent) has been international, whilst SR34 billion (55 percent) has been domestic. According to the fiscal budget, the Kingdom's total debt is expected to reach SR678 billion (22 percent of GDP) by the end of 2019. As such, we expect a further $8 billion (SR30 billion) in international issuances, and SR26 billion in domestic issuance, over the next three quarters, with any debt requirements above the planned SR118 billion for 2019 coming from domestic rather international issuances.

Since then, there has been another domestic sukuk issuance totaling SR11.6 billion, pushing total debt to SR622 billion in May 2019.

<u>Deficit:</u>

A rise in yearly revenue at a much higher rate than expenditure resulted in a fiscal surplus of SR28 billion in Q1 2019.

A rise in yearly revenue at a much higher rate than expenditure resulted in a fiscal surplus of SR28 billion in Q1 2019, the first quarterly surplus since at least 2016. That said, taking into account that the fiscal deficit is expected to total SR131 billion (4.2 percent of GDP) by the end of 2019, we do not expect to see any further surpluses in the next three quarters of the year.

Figure 6: Wage bill
(year-on-year change)

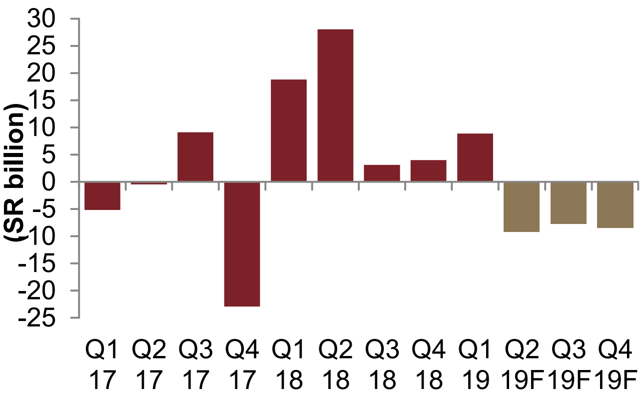
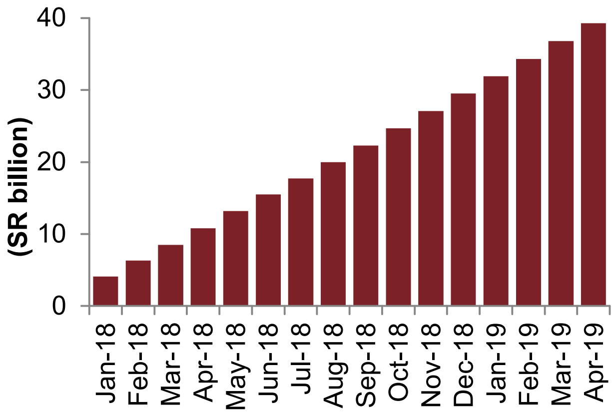


Figure 7: SR39 billion in cumulative payments under the Citizen's Account program



Disclaimer of Liability

The data contained in this research is sourced from SAMA, Gastat, MoF, US Treasury, Thompson Reuters Datastream, Haver Analytics, and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action(s) that may take place in future.