



Budget Analysis Q3-2021

Asset Management Department

November 2021

Saudi Arabia Budget Highlights Q3-2021

Elevated oil prices bolster the already strong recovery seen across the economy as the Kingdom comes back strong. Budget surplus at the end of Q3 2021.

The Q3 2021 budget solidifies the base for a stellar recovery in the Kingdom driven by rampant oil price elevation, increased output across various industries and due to higher commodity prices stemming from the ongoing supply chain related bottlenecks.

- **Oil revenues:** Rise of 60% YoY mainly stemming from a 72% YoY jump in crude oil prices.
- **Non-Oil revenues:** Decline of 22% YoY despite robust growth in indirect taxes, as the other revenues such as sales performed by other entities (income from advertising and fees from port services, administrative fees, fines, penalties and confiscations).
- **Current Expenditure:** Decreased 6% YoY with significant drops seen in social benefits and subsidies during the quarter.
- **Capital Expenditure:** Capex further dropped 16% YoY in line with the overall guidance provided during the post lockdown estimates. The overall result has helped improve the budget balance, though we expect capex to ramp up steadily with the recent announcements around the Green initiative and other climate goals.

Budget Balance:

- The budget moved to a surplus in Q321 with a surplus of SAR 6.68 Bn for 9M-21, against an SAR 40.77 Bn deficit seen in 9M-20.
- The above can be largely attributed to both, rise in oil revenue, and maintaining checks on overall spending during the period.
- Given the current oil boom, the budget balance is tracking far more favorable than initial 2021 estimates

November 2021

Debt levels:

- Total debt is up 11% from FY2020 levels with a balance of SAR 948.3 Bn. However, total debt has increased 2.8% QoQ.
- The government has tapped both, the domestic and international market for borrowings during the year with SAR 65.7 Bn coming from domestic sources and SAR 36.96 Bn through international issuances.

Outlook:

- Oil markets are better placed with OPEC+ seeing recovery in demand amid further vaccination, supply side tailwinds and travel fully coming back online. Additionally, current market conditions leading to strong appreciation in oil and commodities-based businesses
- Non-oil exports recorded an increase of 52.1%, reaching SR65.7 billion while compared to SR43.2 billion in the second quarter of 2020.
- Consumer and business sentiments improving, along with monetary and credit environment. Inflation eased in September to 0.6% from 2.7% in July, indicating that increased costs due to VAT impact has started to fade
- Capex spending being limited to essential projects for the year, maximizing free cash flow for further reinvestment. Focus is on reducing the fiscal deficit to 1.6% in 2022e and a budget surplus in 2023e.
- Budget spending is expected to drop by 6% in 2021e, partly due to improved spending efficiency and higher participation of the private sector in investment spending (through various programs like the recently initiated Shareek program) and through increased investment and value unlocking through PIF
- Mortgage growth which has weakened in Q221 has strongly picked up pace in Q321. We expect the mortgage story to continue bring strong in H221. It is estimated that the home ownership should reach ~66% by 2021e and reach ~70% by 2022e
- The unemployment rate has fallen to 11.3% in Q221 from 11.3% in the previous quarter, the lowest in a decade. Saudi women labor force participation increased to 32.4% in Q221 and already surpassed the 30% target under Vision 2030. This will continue propping the consumption sentiment.

November 2021

- Banking sector is performing well with increased credit uptake from the corporate segment as well from the retail, mainly led by mortgage. First of the rate hikes is expected at the end of 2022e, with more hikes down the line.
- The Saudi capital markets are going through one of their best periods in terms of listing as well as investor demand. The oversubscribed IPOs also signal towards the strong growth profiles of the IPO companies and the broader economic sectors by extension.

The 2022 Budget estimates some moderation in oil prices from current elevated levels with easing global inflation and recovery in supply chain bottlenecks. At the same time, there is likely an expected reduction in overall expenditure, leading to an improved budget position. The government expects to continue the housing push and provide continued support to the Housing program, investment in mega projects and Saudi Vision 2030 programs, while supporting private sector growth programs. Privatization programs will also continue thereby providing impetus to private sector growth. We see the coming months of 2021 and the upcoming years to be very positive for the Kingdom, from both, an economic activity point of view as well as larger interest in the Kingdom's financial markets.

Figure 1: Budget highlights for 3Q21

In SAR Mn	3Q20	2Q21	3Q21	YoY
Total Revenues	215,576	248,106	243,381	12.9%
Oil revenues	92,582	132,150	147,975	59.8%
Non-oil revenues	122,994	115,956	95,406	-22.4%
Taxes on income, profit and capital gains	7,230	7,183	3,498	-51.6%
Taxes on goods and services	51,572	67,984	66,096	28.2%
Customs	4,548	4,321	4,718	3.7%
Other taxes	12,017	19,603	2,781	-76.9%
Other revenues	47,627	16,865	18,313	-61.5%
Total expenditures	256,345	252,718	236,697	-7.7%
Current expenditure	223,906	230,813	209,536	-6.4%
Compensation of employees	120,266	122,819	123,453	2.6%
Use of goods & services	45,950	45,531	41,156	-10.4%
Financing expenses	5,430	7,434	6,542	20.5%

November 2021

Subsidies	8,189	4,230	4,342	-47.0%
Grants	477	459	175	-63.3%
Social benefits	21,164	29,498	12,402	-41.4%
Other expenses	22,430	20,842	21,466	-4.3%
Non-financial assets (Capital)	32,439	21,905	27,161	-16.3%
Overall balance	(40,769)	(4,612)	6,684	
Non-oil balance	(133,351)	(136,762)	(141,291)	

Figure 2: Budget highlights for 9M21

in SAR Mn	9M20	9M21	YoY
Total Revenues	541,593	696,247	28.6%
Oil revenues	317,070	396,701	25.1%
Non-oil revenues	224,523	299,546	33.4%
Taxes on income, profit and capital gains	12,444	13,903	11.7%
Taxes on goods and services	92,734	187,752	102.5%
Customs	12,365	13,055	5.6%
Other taxes	17,439	25,382	45.5%
Other revenues	89,541	59,454	-33.6%
Total expenditures	725,706	701,619	-3.3%
Current expenditure	635,864	637,614	0.3%
Compensation of employees	369,534	369,173	-0.1%
Use of goods & services	107,891	114,293	5.9%
Financing expenses	16,853	19,736	17.1%
Subsidies	21,529	13,994	-35.0%
Grants	2,845	3,392	19.2%
Social benefits	48,800	54,176	11.0%
Other expenses	68,412	62,850	-8.1%
Non-financial assets (Capital)	89,842	64,005	-28.8%
Overall balance	(184,113)	(5,372)	
Non-oil balance	(501,183)	(402,073)	

November 2021

Figure 3: Spending Break-up

in SAR Mn	3Q20	2Q21	3Q21	QoQ	YoY
Public Administration	10,074	7,768	7,102	-8.6%	-29.5%
Military	41,215	50,372	40,521	-19.6%	-1.7%
Security and Regional Administration	30,835	23,361	28,171	20.6%	-8.6%
Municipal Services	14,631	7,383	8,443	14.4%	-42.3%
Education	53,019	46,142	46,412	0.6%	-12.5%
Health & Social Development	47,987	57,435	41,286	-28.1%	-14.0%
Economic Resources	12,385	15,654	14,103	-9.9%	13.9%
Infrastructure and Transportation	11,082	11,829	12,859	8.7%	16.0%
General Items	35,118	32,777	37,800	15.3%	7.6%
Total	256,344	252,719	236,698	-6.3%	-7.7%

in SAR Mn	9M20	9M21	YoY
Public Administration	24,888	21,964	-11.7%
Military	136,850	134,426	-1.8%
Security and Regional Administration	80,840	73,860	-8.6%
Municipal Services	33,535	22,695	-32.3%
Education	148,956	137,522	-7.7%
Health & Social Development*	124,370	133,126	7.0%
Economic Resources	37,262	41,245	10.7%
Infrastructure and Transportation	38,391	34,974	-8.9%
General Items	100,612	101,809	1.2%
Total	725,704	701,621	-3.3%

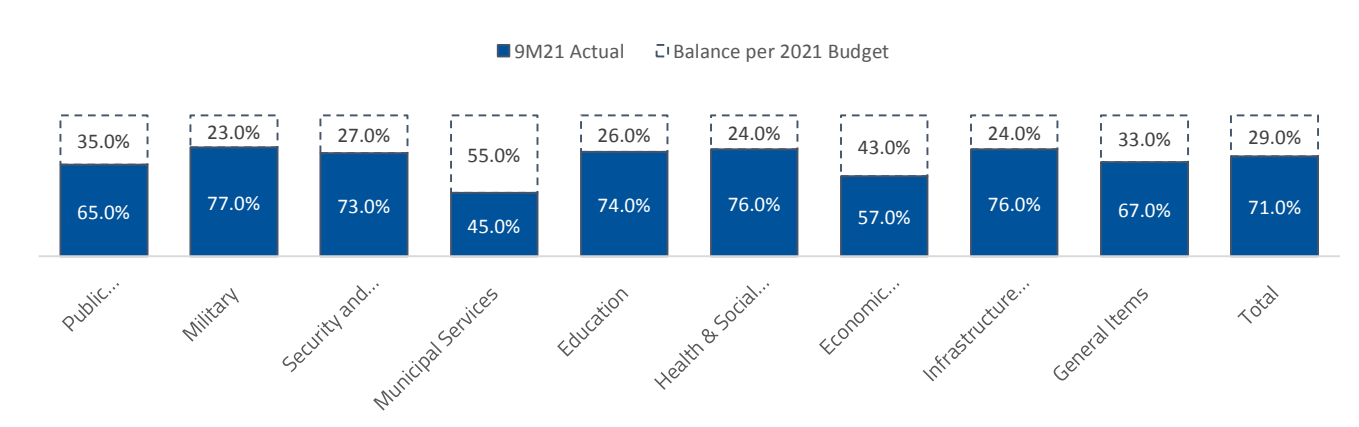
November 2021

Figure 4: Deficit and Financing

in SAR Mn	3Q20	2Q21	3Q21	YTD 2021
Deficit	(40,769)	(4,612)	6,684	(5,373)
Financing Sources:				
Current Account	0	0	0	
Government Reserves	1,332	0	0	
Domestic Borrowing	41,990	17,666	0	23,795
External Borrowing	0	3,876	0	27,296
Total Financing	43,322	21,542	0	51,091*

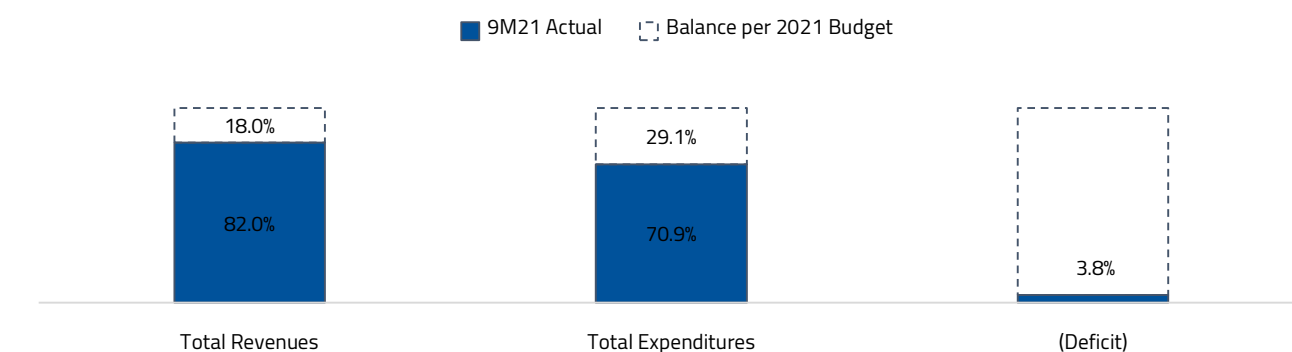
* Over financing Unital Q3 will be used to fulfill the financing needs for the rest of the fiscal year.

Figure 5: 2020 Budget Expenditure vs 9M21 Actuals



Source: MoF

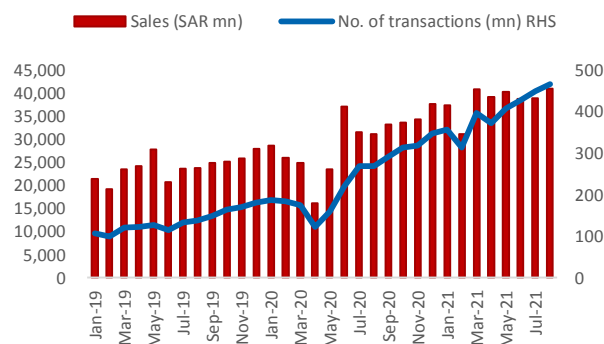
Figure 6: 2020 Budget Highlights vs 9M21 Actuals



Source: MoF

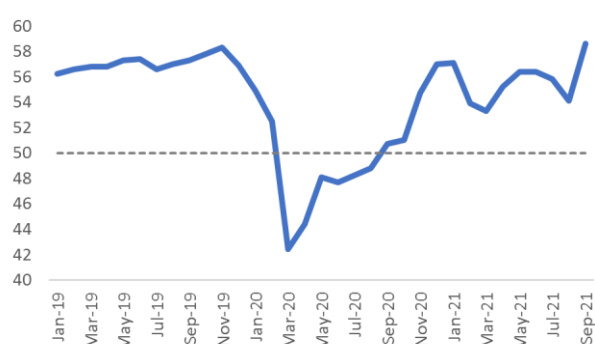
Key Statistics:

Exhibit 1: Point of Sales transactions seeing solid recovery



Source: SAMA

Exhibit 2: PMI back at healthy levels



Source: IHS Marki