



USSBC Economic Brief: Saudi Arabia's 2021 Budget Review

Key Findings:

2020 Performance:

- ◆ The budgeted deficit for 2020 is estimated to reach SAR298 (\$79.5 billion) or 12 percent of GDP compared to SAR133 billion (\$35.5 billion) or 4.5 percent of GDP in 2019.
- ◆ Total revenues declined to an estimated SAR770 billion (\$205 billion), marking a 17 percent drop compared to 2019, which saw SAR927 billion (\$247 billion) in total revenues. The government enacted a number of initiatives to combat the reduction in revenues by increasing the VAT rate from 5 percent to 15 percent in July while keeping the VAT rate at 5 percent for real estate transactions to stimulate demand.
- ◆ Other revenues accounted for 75 percent of total revenues in 2020 compared to 76 percent in 2019. This category was propped up by income received from investment returns by SAMA and the PIF, as oil income declined by 31 percent in 2020.
- ◆ Total government expenditures in 2020 are expected to reach SAR1,068 billion (\$285 billion) compared to 2019, which reached SAR1,059 billion (\$282 billion) representing a marginal 0.8 percent increase.
- ◆ Domestic debt issuances were the favored strategy as they accounted for 78 percent compared to 22 percent for international issuances. Total public debt is expected to reach SAR854 billion (\$228 billion), or 34 percent of GDP by the end of 2020 compared to SAR678 billion (\$181 billion) or 23 percent of GDP in 2019.



2021 Budget:

- ◆ The budget deficit in 2021 is expected to be reduced to reach SAR141 billion (\$38 billion), equivalent to 4.9 percent of GDP, declining by 7.1 percent of GDP compared to the estimated deficit for 2020.
- ◆ The decline in the deficit is attributed to a 10 percent increase in total revenues in 2021 as the government forecasts SAR849 billion (\$226 billion) in revenues versus SAR770 billion (\$205 billion) for 2020.
- ◆ Total expenditures are expected to decrease by 7 percent in 2021 compared to 2020. Total expenditures are expected to fall from SAR1,068 billion (\$285 billion) in 2020 to SAR990 billion (\$264 billion) in 2021.
- ◆ The pandemic caused delays to a number of Vision Realization Programs (VRPs) spending plans in 2020, yet the government is keen on delivering its Vision 2030 mandate. The private sector will play a prominent role in developing the economy coupled with significant support from the Public Investment Fund, which has already committed SAR300 billion to the domestic economy for 2021 and 2022.
- ◆ In terms of the 2021 budgetary allocations by sector, there is a notable decline across most of the sectors reflecting the reduction in total expenditures for 2021. However, public administration, municipal services, and general items are expected to increase in 2021.
- ◆ In order to fund the budgeted SAR141 billion (\$38 billion) deficit in 2021, the government will continue its strategy of going to domestic and international debt markets in addition to drawing down its reserves.
- ◆ Total public debt is expected to reach SAR937 billion (\$250 billion), or 32.7 percent of GDP in 2021 while reaching SAR1,026 billion (\$274 billion) or 31.7 percent in 2023.
- ◆ Despite the economic downturn stemming from COVID-19, the government has stood firm on its desire to enhance both its physical and social infrastructure. Moreover, the recent announcement that the Public Investment Fund will inject SAR150 (\$40 billion) annually into the economy in 2021 and 2022 is a positive development.
- ◆ Improved oil prices coupled with a growing non-oil sector will boost the economy's rebound in 2021. Oil production is expected to increase as per OPEC+ agreement to gradually increase supply through the first quarter of 2021.

Table 1 - Economic Medium-Term Growth Rates (2019-2023)

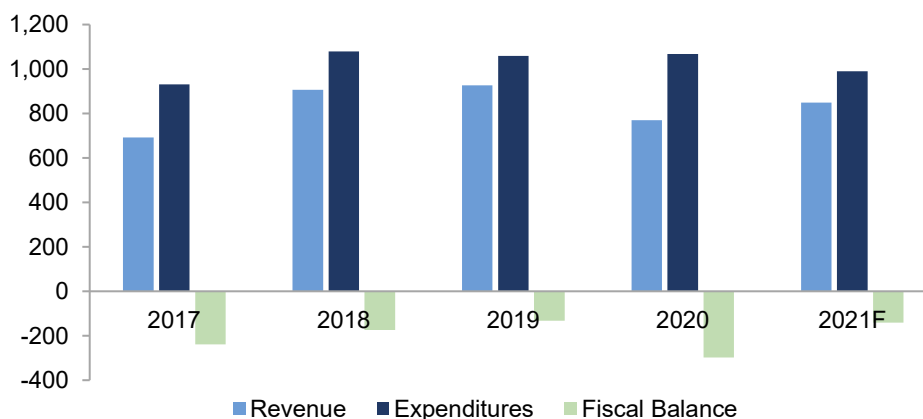
	Actual	Estimates	Projections		
	2019	2020	2021	2022	2023
Real GDP Growth	0.3%	-3.7%	3.2%	3.4%	3.5%
Nominal GDP Growth (SAR billion)	2,974	2,486	2,866	3,042	3,232
Nominal GDP Growth	0.8%	-16.4%	15.3%	6.1%	6.3%
Inflation	-2.1%	3.7%	2.9%	2.0%	2.0%

Source: Ministry of Finance, USSBC

Fiscal Performance in 2020

The Kingdom faced twin challenges stemming from the coronavirus pandemic. The impact on oil markets, which saw oil future contracts dip as low as -\$37 for WTI in April heavily impacted Saudi Arabia's revenues. The non-oil sector also witnessed a contraction as subdued economic activity pushed tax revenues lower. Consequently, the budgeted deficit for 2020 is estimated to reach SAR298 (\$79.5 billion) or 12 percent of GDP compared to SAR133 billion (\$35.5 billion) or 4.5 percent of GDP in 2019.

Chart 1 - Fiscal Balance (SAR Billions)



Source: Ministry of Finance, USSBC

Revenues

Total revenues declined to an estimated SAR770 billion (\$205 billion), marking a 16.9 percent drop compared to 2019, which saw SAR927 billion (\$247 billion) in total revenues. The government enacted a number of initiatives to combat the reduction in revenues by increasing the VAT rate from 5 percent to 15 percent in July while keeping the VAT rate at 5 percent for real estate transactions to stimulate demand. While these initiatives helped reduce the windfall in revenues, all revenues categories decreased compared to 2019. Tax revenues declined by 10.7 percent to reach SAR196 billion (\$52 billion) compared to SAR220 billion (\$59 billion) in 2019. Other revenues, which includes oil income, suffered substantial reductions as an estimated SAR574 billion (153 billion) was achieved in 2020 compared to SAR707 billion

(\$189 billion), an 18.9 percent drop.

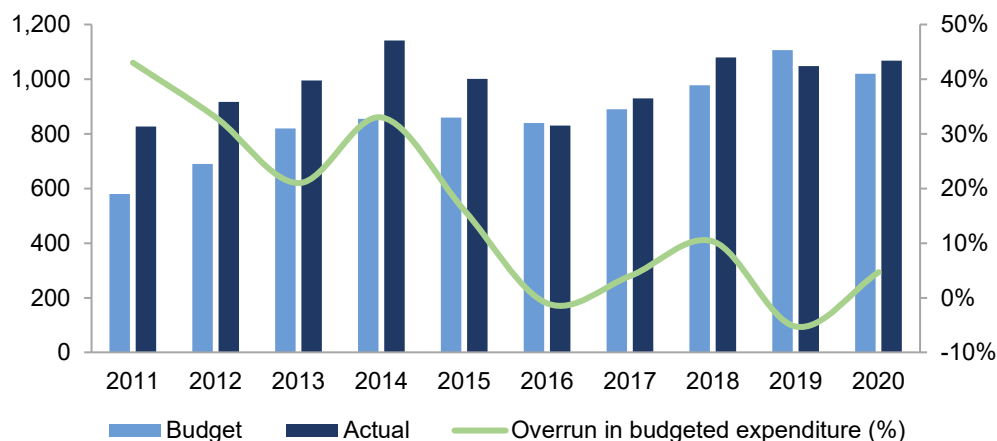
Revenues from tax collection accounted for approximately 25 percent of total revenues. Approximately 72 percent of tax revenues came from taxes on goods and services in 2020, an increase over 2019, which registered a 70 percent contribution. The decision to raise the VAT rate from 5 percent to 15 percent in an effort to insulate the Kingdom from changes in oil revenues is a prudent one that will allow the Kingdom to realize growing revenues in the medium-term. However, the immediate impact of the VAT increase translated into higher inflation for 2020, which is expected to reach 3.7 percent.

Other revenues accounted for 75 percent of total revenues in 2020 compared to 76 percent in 2019. This category was propped up by income received from investment returns by SAMA and the PIF, as oil income declined by 30.7 percent in 2020. The drop in oil prices and production, which averaged \$41 per barrel and 9.2 million barrels per day (mbpd), respectively caused total oil revenues to decline to SAR412 billion (\$110 billion). This is a stark difference compared to last year, when oil prices averaged \$64 per barrel and production was 5.7 percent higher. The OPEC+ agreed to cut production by 9.8 mbpd in May, followed by a reduction to 7.7 mbpd in August and a 5.8 mbpd reduction in January of 2021. However the most recent OPEC+ meeting concluded with limiting production increases to 500,000 barrels per day versus the 2 mbpd through April 2021.

Expenditures

Total government expenditures in 2020 are expected to reach SAR1,068 billion (\$285 billion) compared to 2019, which reached SAR1,059 billion (\$282 billion) representing a marginal 0.8 percent increase. The government expenditures to combat the pandemic were sizeable as additional allocations above the budget totaled approximately SAR159 billion (\$42 billion) since the onset of COVID-19. These allocations served to stabilize the healthcare sector as well as keeping the private sector buoyant. However, the increases in spending were offset by a reduction of SAR111 (\$30 billion) in operational and capital expenditures that necessitated project delays and cancellations.

Chart 2 - Budget Overruns (SAR Billions)



Source: Ministry of Finance, USSBC



Current expenditures are expected to account for approximately 87 percent of total expenditures, which the remaining 13 percent is attributed to capital expenditures in 2020. The employee compensations category occupies the largest share of any category as it is anticipated to reach SAR492 billion (\$131 billion) in 2020, which is a 2.6 percent decrease compared to 2019. Employee compensations will account for approximately 53 percent of current expenditures and nearly 46 percent of total expenditures. The increase in this category resulted from annual raises and higher contributions to the state pension fund for public employees. The decrease is mainly attributed to the suspension of the cost of living allowances for public employees that took place in June.

Capital expenditures notably decreased from the budgeted SAR173 billion (\$46 billion) to an expected SAR137 billion (\$37 billion) for 2020, marking a 21 percent drop. Compared to 2019, capital expenditures also decreased, signifying a 19 percent slip. The coronavirus pandemic impacted capital projects, especially Vision Realization Programs (VRPs) as numerous cancellations and delays took place. Furthermore, the government opted for a more targeted approach with its capital expenditures as it focused on developmental needs while improving its efficiency and effectiveness.

Debt and Financing

Since 2014, the government has embarked on a two-prong strategy of covering the funding gap via debt issuances and drawing down its reserves. Debt issuances were the preferred option that was adopted by the government in 2020 to fund its expenditures. The Debt Management Office (DMO) within the Ministry of Finance has diversified its domestic and international financing by issuing debt worth SAR220 billion (\$59 billion). Domestic debt issuances were the favored strategy as they accounted for 78 percent compared to 22 percent for international issuances. Total public debt is expected to reach SAR854 billion (\$228 billion), or 34 percent of GDP by the end of 2020 compared to SAR678 billion (\$181 billion) or 23 percent of GDP in 2019.

Alternatively, total withdrawals of government reserves to cover financing needs, including loans granted to the private sector stimulus plan, are expected to reach SAR123 billion (\$33 billion) by the end of 2020. The balance of reserves is expected to level at SAR346 billion (\$92 billion) by the end of 2020.

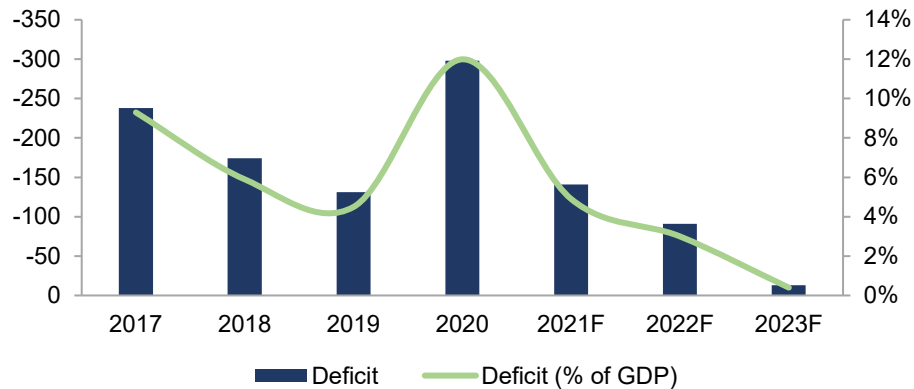
Fiscal Budget 2021

The budget deficit in 2021 is expected to be reduced to reach SAR141 billion (\$38 billion), equivalent to 4.9 percent of GDP, declining by 7.1 percent of GDP compared to the estimated deficit for 2020. Compared to 2020's figure of 34.3 percent, the debt to GDP is expected to decline to 32.7 percent in 2021, and will increase in 2022 to 33.3 percent before dropping to 31.7 percent in 2023. The decline in the deficit is attributed to a 10 percent increase in total revenues in 2021 as the government forecasts SAR849 billion (\$226 billion) in revenues versus SAR770 billion (\$205 billion) for 2020. The improvement is largely due to improved oil revenues resulting from higher expected oil prices in 2021 along with an increase in crude production. Total expenditures are expected to decrease by 7 percent in 2021 compared to 2020. Total expenditures are expected to fall from SAR1,068 billion (\$285 billion) in 2020 to SAR990 billion (\$264 billion) in 2021.

Revenues

Budgeted revenues are projected to reach SAR849 billion (\$226 billion), of which 70 percent or SAR592 billion (\$158 billion) will derive from other revenues (oil revenues are included in other revenues but the government did not provide specific oil revenue estimates). Brent oil has averaged approximately \$43 in 2020 and are forecasted to increase to \$49 in 2021, according to the EIA. Additionally, the expected

Chart 3 - Budget Deficits (SAR Billions)



Source: Ministry of Finance, USSBC

Aramco dividend payment of \$75 billion, of which \$73.7 billion will be remitted to the government, indicates budgeted oil revenues are in line with a moderate estimate. An important factor in oil revenues is the continuation of Saudi Aramco's dividend payments similar to 2020. With expected higher oil prices, other revenues, which include oil revenues, government profits from investments, sales of goods and services, and collection of fines and penalties, are expected to increase by 3 percent over 2020.

Non-oil revenues are budgeted to reach SAR257 billion (\$69 billion) in 2021 accounting for 30 percent of total revenues. It also marks an increase of 31 percent compared to 2020. Compared to 2020, tax revenues will decrease by 1.2 percent in 2020. The VAT and import customs increase will be the driving force in the growth of non-oil revenues.

The main driver of tax revenues is the category of taxes on good and services which will account for 81 percent of all tax revenues. This category is budgeted to marginally increase by SAR68 billion (\$18 billion) or 48 percent compared to 2020. Income from VAT is expected to increase as indicated by the unprecedented growth to POS and SADAD transactions following the stay at home orders and shifts in consumer behaviors stemming from COVID-19.

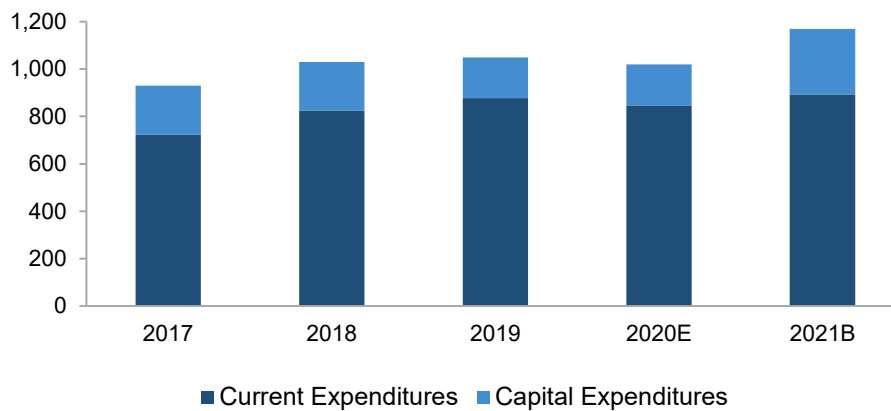
Expenditures

Total expenditures in 2021 are budgeted to reach SAR990 billion (\$264 billion), marking a 7 percent reduction compared to 2020 estimates. The government has put forth a plan to maintain its flexibility in dealing with a possible extended COVID-19 outbreak in 2021. Ensuring social benefits and subsidies to its citizens is a hallmark of the Kingdom's spending plans. The government has also adopted to take less of a role compared to previous years in allowing the private sector to shoulder some of the burden associated with capital projects and VRPs. The role the private sector will play in building the Kingdoms

infrastructure capabilities will be vital for years to come. This confidence in the private sector is noticeable in the reduction of the government's capital expenditures for 2021.

Current expenditures are budgeted to reach SAR889 billion (\$237 billion) or 90 percent of total expenditures, representing a 4.5 percent decline compared to 2020. Current expenditures represent the more stringent part of expenditures, owing mostly to the compensation of employees category. Compensation of employees is budgeted to slightly decrease to SAR491 billion (\$13 billion) for 2021 and will account for 50 percent of total expenditures. Although this category is budgeted to remain similar in 2020, it accounts for 4 percent higher as a proportion of total expenditures compared to 2020.

**Chart 4 - Current and Capital Expenditures
(SAR Billions)**



Source: Ministry of Finance, USSBC

Capital expenditures are budgeted to reach SAR101 billion (\$27 billion) in 2021, representing a 26 percent decline compared to 2020. While the decline may seem considerable at first glance, the government noted that heavy investments in prior years to develop its infrastructure capabilities warranted a slowdown in its own spending while allowing the private sector to continue its growing involvement in the development of the country. The pandemic caused delays to a number of VRP spending plans in 2020, yet the government is keen on delivering on its Vision 2030 mandate. The private sector will play a prominent role in developing the economy coupled with significant support from the Public Investment Fund, which has already committed SAR300 billion to the domestic economy for 2021 and 2022.

In terms of the 2021 budgetary allocations by sector, there is a notable decline across most of the sectors reflecting the reduction in total expenditures for 2021. However, public administration, municipal services, and general items are expected to increase in 2021. General items include spending on government pensions, social insurances, financing cost, budget support provisions, contributions to international organizations, government programs and facilities, subsidies, and emergency expenses. The following table breaks down the projected expenditures in 2020 and 2021.

Table 2 - Expenditures by Sector (SAR billions)

Sector	2019 Actual	2020 Estimates	2021 Budget	% Growth (2020-21)
Public Administration	31	40	34	-15.0%
Military	208	195	175	-10.3%
Security and Regional Administration	114	111	101	-9.0%
Municipal Services	50	52	51	-1.9%
Education	202	205	186	-9.3%
Health & Social Development	190	174	175	0.6%
Economic Resources	94	84	72	-14.3%
Infrastructure and Transportation	59	59	46	-22.0%
General Items	113	147	151	2.7%
Total	1,059	1,068	990	-7.3%

Source: Ministry of Finance, USSBC

Debt and Financing

In order to fund the budgeted SAR141 billion (\$38 billion) deficit in 2021, the government will continue its strategy of going to domestic and international debt markets in addition to drawing down its reserves. As stated in the budget statement, the size of debt issuances is dependent on the balance between debt issuance options and withdrawals from government deposits and reserves. Total public debt is expected to reach SAR937 billion (\$250 billion), or 32.7 percent of GDP in 2021 while reaching SAR1,026 billion (\$274 billion) or 31.7 percent in 2023. Moreover, government reserves are expected to reach SAR280 billion (\$75 billion) by the end of 2021 and SAR265 billion (\$71 billion) in 2023.

2021 Outlook

Looking ahead, the Saudi economy appears promising as the number of COVID-19 cases have sharply decreased coupled with the recent news that vaccines are showing promising results and are reported to be available by the middle of 2021. Furthermore, while numerous projects have been delayed because of the pandemic, the government has stated that there will be a continued focus on mega-projects especially those that relate to Vision 2030's VRPs. Barring a resurgence in COVID-19 cases globally without vaccines, the non-oil sector and the economy as a whole should gradually revert back to their pre-pandemic form.

Despite the economic downturn stemming from COVID-19, the government has stood firm on its desire to enhance both its physical and social infrastructure. Moreover, the recent announcement that the Public Investment Fund will inject SAR150 (\$40 billion) annually into the economy in 2021 and 2022 is a positive development. The PIF's role in keeping the economy buoyant in the face of a global downturn will be pivotal in progressing through Vision 2030's mandates. Furthermore, the Saudi Contractors Authority has maintained that the government's mega-projects related to Vision 2030 will continue to be its focal point in the near-term.

The Ministry of Finance forecasts GDP to rebound 3.2 percent in 2021 after witnessing an estimated -3.4 percent slide in 2020. Improved oil prices coupled with a growing non-oil sector will boost the economy's rebound in 2021. Oil production is expected to increase as per OPEC+ agreement to gradually increase



supply through the first quarter of 2021. Oil prices are expected to rebound to a \$49-\$55 range in 2021 which bodes well for supplementing the Kingdom's foreign reserves. The increase in VAT income will prop up non-oil revenues while the private sector becomes a larger contributor to the development of the country.

Annex 1: Budgetary Allocations 2019-2021

Fiscal Performance (2019-2021), (SAR billions)

	2019 Actual	2020 Budget	2020 Estimate	2021 Budget
Revenues				
Total Revenues	927	833	770	849
Tax	220	200	196	257
Taxes on Income, Profits, and Capital Gains	17	16	16	13
Taxes on Goods and Services	155	142	141	209
Taxes on International Trade and Transactions	17	16	16	17
Other Taxes	30	26	23	18
Other Revenues	707	633	574	592
Expenditures				
Total Expenditures	1,059	1020	1,068	990
Expenses (OPEX)	890	847	931	889
Compensation of Employees	505	504	492	491
Goods and Services	161	140	188	192
Financing Expenses	21	31	31	37
Subsidies	23	17	28	22
Grants	1	1	6	0.4
Social Benefits	82	69	67	63
Other Expenses	97	85	119	83
Non-Financial Assets (CAPEX)	169	173	137	101
Budget Deficit/Surplus				
Budget Deficit/Surplus	-133	-187	-298	-141
Ratio of GDP	-4.5%	-6.4%	-12%	-4.9%
Debt and Assets				
Debt	678	754	854	937
Ratio of GDP	22.8%	26.0%	34.3%	32.7%
Government Reserves	470	346	346	280



Annex 2: Detailed 2021 Budgetary Allocations by Sector

The 2021 budget estimates total revenues at SAR849 billion (\$226 billion) and total expenditures at SAR990 billion (\$264 billion), resulting in a deficit of SAR141 billion (\$38 billion). The table below summarizes the key budgetary allocations as presented in the official budget release.

Sector	Allocation
Public Administration	Public administration expenditures are expected to total SAR34 billion (\$9 billion) in 2021, declining 15 percent compared to 2020 levels. In the year ahead, public administration spending will aim to create 115,000 high-priority jobs including boosting the total number of industrial sector jobs towards 1.3 million by 2030. The sector mandate includes civil service, courts, maintenance of the Two Holy Mosques, and various administrative and legislative bodies.
Military	Military expenditures will total SAR175 billion (\$47 billion) in 2021, declining 10.3 percent compared to 2020. During 2020, key projects included construction of King Salman Airbase facilities, increased capacity at medical cities, and continuing to implement the strategy to nationalize 50 percent of military spending by 2030. Key projects for the year ahead include the implementation of the new five-year plan starting FY2021 and the second and final phase of the King Salman Base and King Faisal Air Academy projects..
Security and Regional Administration	Expenditures in security and regional administration are projected to total SAR101 billion (\$27 billion) in 2021, falling 9 percent compared to 2020. Spending projects during 2020 included training and skill development in cybersecurity across 26 Saudi universities and colleges, traffic safety reforms, and development of a security headquarters in five regions across Saudi Arabia. Spending in 2021 will entail continued investment in cybersecurity defense, further digitization of civil affairs services, and various spending relating to border security and combating drugs, terrorism, and crime.
Municipal Services	Municipal services expenditures will be SAR51 billion (\$13.6 billion) in 2021, declining 1.9 percent compared to 2020 levels. The sector mandate includes further development and maintenance of Saudi cities, including entertainment, sanitation, beautification, ease of use, residential and commercial development. Municipal services encompasses 295 different governmental bodies.
Education	Education expenditures will total SAR186 billion (\$50 billion) in 2021, a 9.3 percent decrease compared to 2020 spending. The sector's mandate includes development and management of Saudi schools and universities, external scholarship programs, and university hospitals. Key projects for the year ahead include attracting more foreign universities to open branches with Saudi Arabia, expand existing scholarship offerings, and shift towards digital education.
Health and Social Development	Expenditures in the health and social development sector are projected to total SAR175 billion (\$47 billion), increasing 0.6 percent YoY. Health spending will include COVID-19 testing and vaccination, further development of health tech infrastructure, social care services for the elderly, and additional specialized treatment centers.
Economic Resources	Economic resources expenditures will total SAR72 billion (\$19 billion) in 2021, declining 14.3 percent compared to 2020 levels. Key projects in 2020 included the Grand Mosque expansion, lending to the private sector amid the COVID-19 pandemic, expansion of water services coverage, increase of local content requirement across government projects, and the privatization of the flour milling sector. In 2021, 'economic resources' expenditures will be put towards water sanitation and treatment stations, attracting private investment for the construction of educational buildings, and implementing the national program for cloud seeding.
Infrastructure and Transportation	Expenditures in infrastructure and transportation are projected to total SAR46 billion (\$12 billion), falling 22 percent compared to 2019. Spending in 2021 will aim to expand existing terminal capacity at Saudi airports, continue to provide financing for mortgage loans, enhance road safety and automate road monitoring for traffic violations. The sector mandate includes all major ports over land, sea, and air, along with postal services and the industrial cities across 17 government bodies.
General Items	Spending across 'General items' is projected to increase 2.7 percent YoY to reach SAR151 billion (\$40 billion) in 2021. The sector includes government contribution to pension funds and social insurance, contributions to international organization, and other various subsidies and contingency provisions.



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