

Marmore First Take

Saudi Arabia sets record budget in 2018

December 2017

Highlights

- Saudi Arabia has announced plans to boost spending to record levels of USD 261BN in 2018 in its budget directed to pull the economy out of recession. The budget continues to support the goals of the Vision 2030, with focus on supporting economic diversification, shielding economically vulnerable households from necessary energy price reforms, and spending on key physical and social infrastructure.
- The government maintained an expansionary policy, both for 2017 (USD 247bn actual vs. USD 237bn estimate) as well as 2018 (up 5.6% y-o-y; and USD 296bn including PIF and National Development Funds spending).
- The budget statement states that the Saudi economy will grow by 2.7 percent in 2018, with non-oil GDP growth at 3.7 percent. In 2017, overall economy contracted 0.5 percent; oil GDP shrank 4.3 percent, non-oil GDP rose 1.5 percent. Inflation is expected to pick up dramatically in 2018 at 5.7 percent as the combined effects from the implementation of VAT, and energy price reform is enacted.
- Budgeted capital spending, will amount to USD 54.7bn in 2018, compared to USD 48bn in 2017. This shows a renewed emphasis by government to support growth in the private sector.
- Total revenue is budgeted at USD 208.8bn. Going forward, oil revenue representing 63% of total revenue (USD 131bn in 2018, up 11.8% y-o-y) will have tailwinds from likely better oil prices over the next few years as OPEC and other oil producing nations extended their production cut agreement to 2018 end. Budgeted oil price was not specified in the budgetary documents. However, to balance the budget, Saudi Arabia needs an oil price of USD 87 per barrel next year, according to Bloomberg.
- The government has budgeted for non-oil revenues to reach USD 77.6bn in 2018, showing a strong growth of 14 percent over 2017 actual figures. Rises in non-oil revenue will come from expat dependent fees and the introduction of expat levies, the introduction of VAT, receipts from white land tax and from improvements in investment income due to the PIF active approach in managing sovereign wealth.
- At the end of 2017 the total deficit reached USD 61.3bn, or 8.9 percent of GDP. Further, 2018 fiscal deficit is projected at USD 52bn, or 7.2 percent of GDP, down only by 15% y-o-y.
- The budget also disclosed revenue and expense projections to 2023, with oil revenues set to decrease as a proportion of total revenue, from 58 percent in 2017, to 42 percent by 2023. On the expenditure side, the Kingdom is expected to see an expansionary budget stance until 2023, reaching approximately USD 357bn in

2023. However, according to the budget statement, debt to GDP ratio will not be allowed to exceed 25 percent over the balancing phase.

- While budgeted expenditure in 2018 spans all sectors, following sectors had the largest share; Military & Security Services USD 83bn; Education and Training USD 51.2bn; Health & social development USD 39.2bn; Economic resources USD 28bn and Public Programs unit USD 23.7bn
- Public debt is budgeted at USD 148bn, or 21 percent of GDP in 2018 with debt issuance

target of USD 31.2bn, from USD 35.7bn in 2017. Debt stood at USD 116.8bn, or 17 percent of GDP in 2017.

- The Saudi budget marks a break with the earlier strategy of substantial deficit reduction. This is logical and will substantially help the economy grow somewhat faster next year. The finance ministry has pushed back its target to balance the budget from 2020 to 2023. The move comes after the IMF urged the government to scale back the pace of austerity measures to boost growth.

Saudi Budget 2018, Key Numbers

Values in SAR bn	2013	2014	2015	2016	2017a	2018e
Oil Revenue	1,035	913	446	324	440	492
Non-Oil Revenue	121	131	169	195	256	291
Total Revenues	1,156	1,044	616	519	696	783
Current Expenditure	664	740	714	696	746	773
Capital Expenditure	312	370	264	134	180	205
Total Expenditure	976	1,110	978	830	926	978
Budget Surplus/ (Deficit)	180	(66)	(362)	(311)	(230)	(195)
as % of GDP	13.6%	6.4%	-2.3%	-14.8%	-12.8%	-8.9%

Segmental Expenditure (SAR bn)

Categories	2016a	2017a	2018e	YoY, %
Military & Security Services	206	224	210	-6.3%
Education & Training	207	228	192	-15.8%
Security & Regional administration	101	110	101	-8.2%
Health & Social Development	101	133	147	10.5%
Economic Resources	38	39	105	169.2%
Infrastructure & Transport	38	29	54	86.2%
Public Administration	27	30	26	-13.3%
Municipality Services	25	49	53	8.2%
General Items	85	85	89	4.7%
Total	825	926	978	5.6%

Source: Ministry of Finance

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