Public finance

Saudi Arabia unveils largest ever budget to stimulate non-oil economy in 2018

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Highlights

- **Saudi Arabia adopts expansionary fiscal stance with largest ever budget for 2018 to support domestic consumption and stimulate private sector growth as per the Saudi Vision 2030.**
- **Expenditures are projected to rise by 5.6% in 2018 to SR 978 billion while revenues are expected to increase by 12.5% to SR 783 billion.**
- **Revenues and expenditure outlays in 2017 came in above budget.**
- **Non-oil growth reached a better-than-expected 1.5% in 2017; oil sector GDP contracted by 3.1%.**

Saudi government unveils largest ever budget for 2018

The Saudi authorities have unveiled for 2018 their second consecutive expansionary budget, with spending set to rise by 5.6% next year to SR 978 billion ($260 billion) and revenues projected to increase by 12.5% to SR 783 billion ($208 billion). (Chart 1.)

Based on these projections, the government is budgeting for a fourth consecutive fiscal deficit in 2018, albeit a narrowing one, at 7.3% of GDP (SR 195 billion). This is a slight improvement on 2017's deficit of 8.9% of GDP, which is close to our own projection of 7.3% of GDP.

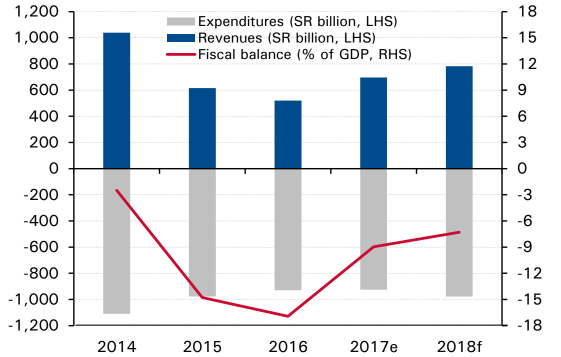
Moreover, the expansionary budget will also be supplemented by an additional SR133 billion ($35 billion) from the Public Investment Fund (PIF) and the National Development Fund (NDF). Revenue projections appear to be based on an oil price of $59/bbl (Brent), with minimal scope for crude production gains given Saudi Arabia's commitment to an extension of the OPEC production cut agreement to end-2018.

As a statement of intent, the 2018 budget is a powerful one. Not only is this the largest ever budget – more than a trillion Saudi riyals if the PIF/NDF outlays are included – but it is also one designed to send a strong signal to economic actors both inside and outside the kingdom that the government is serious about supporting the economy, especially the non-oil sector, and pursuing its Vision 2030 strategic objectives.

The authorities have recognized that they must slow down the pace of austerity so as not to imperil the economic recovery. With SR 655 billion ($175 billion) in government deposits at SAMA and $493 billion in foreign reserve assets (SAMA) as of October 2017 as well as a burgeoning domestic and international bond and sukuk program, the kingdom has the space to adopt an expansionary fiscal stance and slow down the pace of austerity. This is in effect what the IMF has prescribed in its consultations with the authorities.

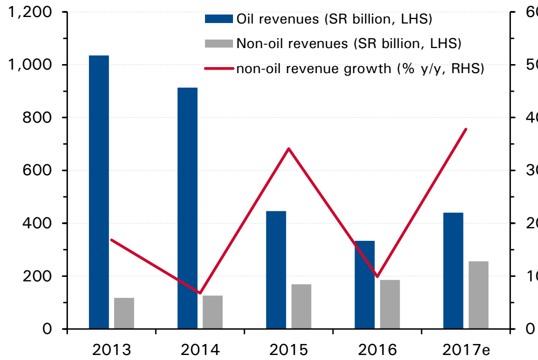
The 2018 budget will mitigate some of the impact on discretionary spending that the introduction of VAT and the removal of subsidies is having. At the same time, the authorities aim to ramp up capital spending and stimulate the private sector (through 16 initiatives directed at the

Chart 1: Budget



Source: Saudi Ministry of Finance (MOF), SAMA

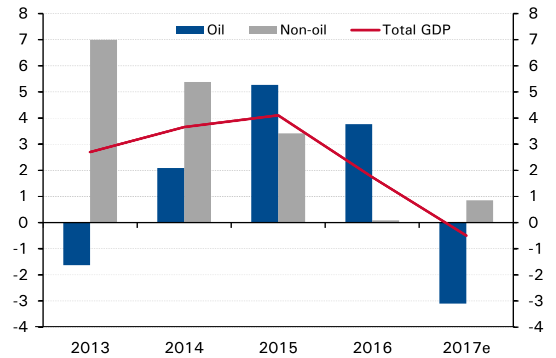
Chart 2: Fiscal revenues



Source: Saudi MOF, SAMA

Chart 3: Real GDP growth

(% y/y)



Source: Saudi MOF, General Authority for Statistics (GASTAT) real estate, manufacturing and export sectors, worth SR 72 billion, or $19.2 billion in 2018). Boosting employment in the private sector is a key medium-term target.

Both expenditures and revenues in 2017 came in above budget

Actual spending in 2017 came in 4% above budget and 12% higher than in 2016 at SR 926 billion ($246 billion); capital spending declined by 2% y/y to its lowest level as a share of total expenditures (19%) since 2006, after the government rationalized infrastructure projects and improved efficiency. Actual revenues in 2017 came in marginally higher than budgeted and 34% higher than in 2016 at SR 696 billion ($185 billion); non-oil revenues rose by a sizable 38% y/y to SR 256 billion ($68 billion) as a result of increases in investment income and taxes and duties, such as the excise and expatriate dependents' tax. (Chart 2.) Oil revenues were up 32% in 2017 following a rise of 27% in the oil export price.

Non-oil sector rebounds in 2017 to grow by 1.5%

Real growth in 2017 is estimated at -0.5% y/y (vs. NBK's forecast of -1.3% y/y), with oil GDP declining by 3.1% y/y (vs. NBK's -3.7% y/y) and non-oil GDP growing by 1.5% y/y (vs. NBK's 0.5% y/y). (Chart 3.) In 2018, the authorities expect the economy to expand by 2.7%, driven by the non-oil sector, which is projected to grow by 3.7%.

2017 marked by deflation in consumer prices

Inflation is expected at -0.1% in 2017 (vs. NBK's forecast of -0.2%) and 5.7% in 2018 (vs. NBK's 2.9%), following the imposition of VAT at 5% and a further round of energy price hikes, which was recently announced.

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