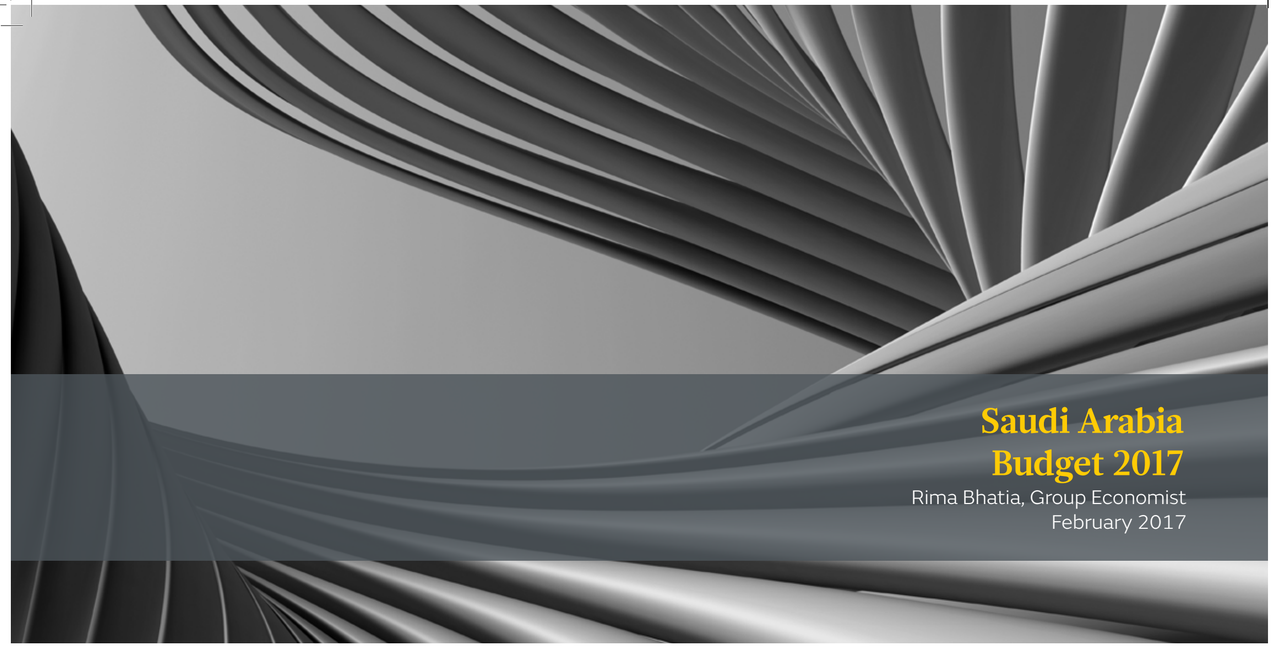

Saudi Arabia Budget 2017

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February 2017

GIB

The Gulf's International Bank

Saudi Arabia Budget 2017

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Main Features of Budget 2017

"This is the most detailed budget in Saudi Arabia's history and it reflects the Kingdom's strong aspirations to diversify the economy; implement Vision 2030 and the NTP; and reduce economic dependence on oil."

US$184 billion

TOTAL REVENUES

- Total Revenues: SR692 billion
- Oil Revenues: SR480 billion (69.4% of total revenues)
- Non-Oil Revenues: SR212 billion (30.6% of total revenues)
- Taxes
  - Selective taxes on tobacco, soft and energy drinks.
  - Value-added tax to be implemented in 2018.
  - Fee on foreign residents.
  - No taxes on nationals and residents.
  - No taxes on Saudi companies.

"The budget is still clearly reliant on oil and oil-related revenues, but it also shows considerable growth in non-oil revenues."

"Introduction of non-oil revenue generating fees and indirect taxes."

US$237 billion

TOTAL SPENDING

- Total Spending: SR890 billion
- Education and Healthcare: SR321 billion (36% of total spending)
- Military and Security & Regional Administration spending: SR287 billion (32% of total spending)
- National Transformation Plan (NTP): SR42 billion (15.7% of SR268 billion through 2020)
- Capital Spending: SR260 billion (which includes SR30 billion of NTP spending)
- Subsidies
  - Cash transfer program for low-and middle-income households: SR25 billion (2017) / SR60 billion (2020).
  - More government support for Saudi industries, mines and energy.

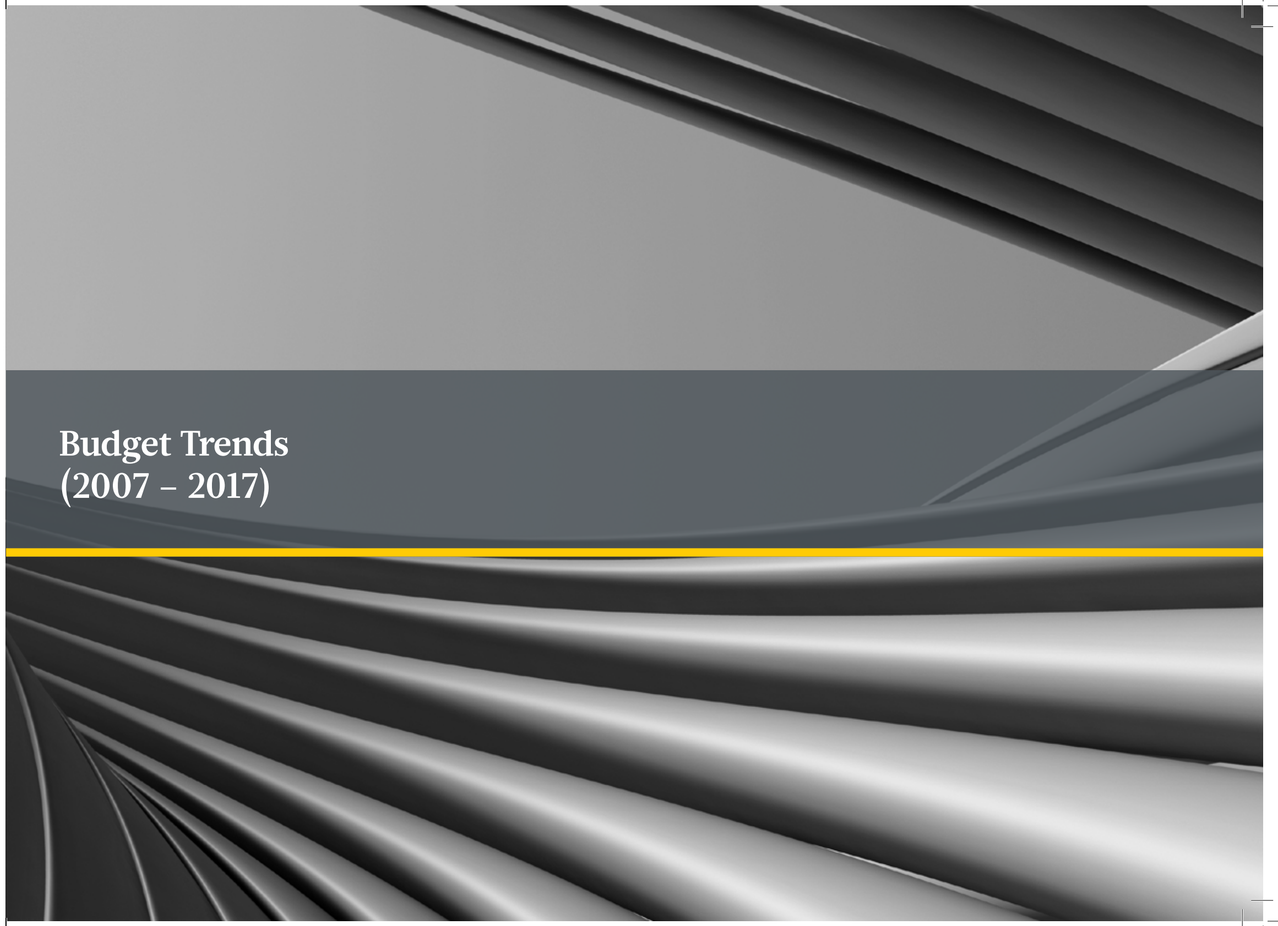
"Spending on military and security & regional administration is 6% lower in Budget 2017 compared to actual spending in 2016."

"Introduction of a program to support Saudi citizens against price increases."

US$52 billion

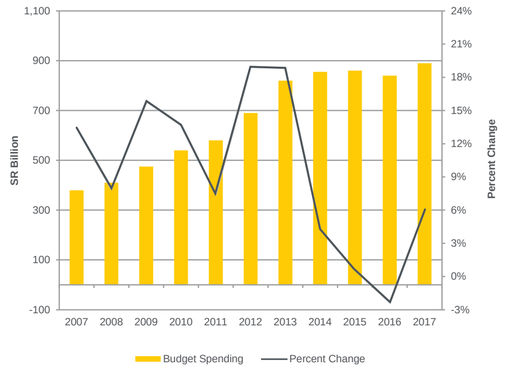
BUDGET DEFICIT

- Total Deficit: SR198 billion (7.7% of GDP)
- Deficits to be financed by multiple sources: drawdown of government deposits; drawdown of foreign exchange reserves; and issuance of domestic and international debt.
- Spending plan based on three scenarios (base, conservative and very conservative) and includes related projections for public debt.
- Public debt ceiling set at 30% by 2020.



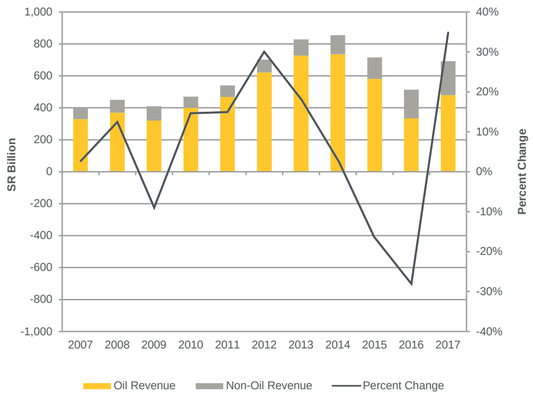
Budgeted Expenditure

"Budget 2017 is expansionary but shifts increases in spending towards fulfilling the goals of the Vision 2030 and the National Transformation Program."



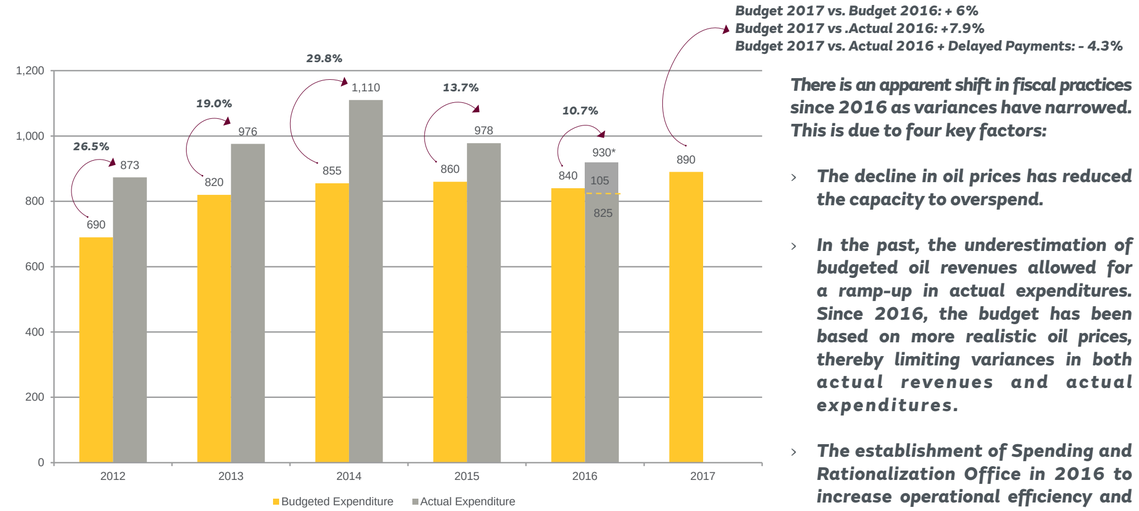
Budgeted Revenue

"Budget 2017 envisages a major ramp-up in non-oil revenues, while oil revenues are also expected to be higher, supported by an improvement in oil prices."



Data Source: Saudi Arabian Monetary Agency & Public Statement Budget 2017

Budget vs. Actual Expenditure (2012 – 2017)



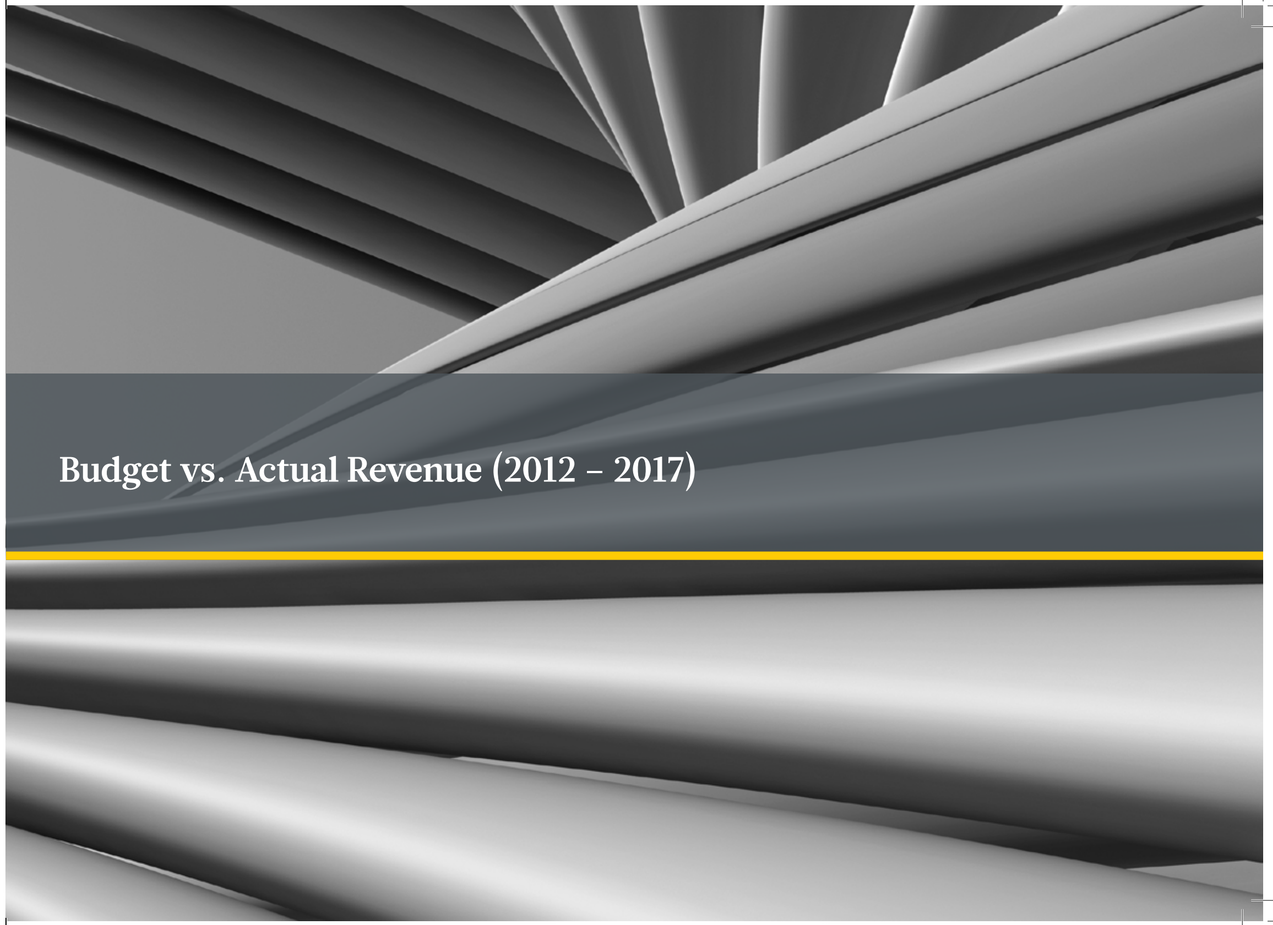
Budget 2017 vs. Budget 2016: + 6%
Budget 2017 vs .Actual 2016: +7.9%
Budget 2017 vs. Actual 2016 + Delayed Payments: - 4.3%

*An additional amount of SR105 billion in revenue was realized, representing payment arrears cleared by the government relating to the prior year's expenditure. This increased the actual revenue to SR930 billion.

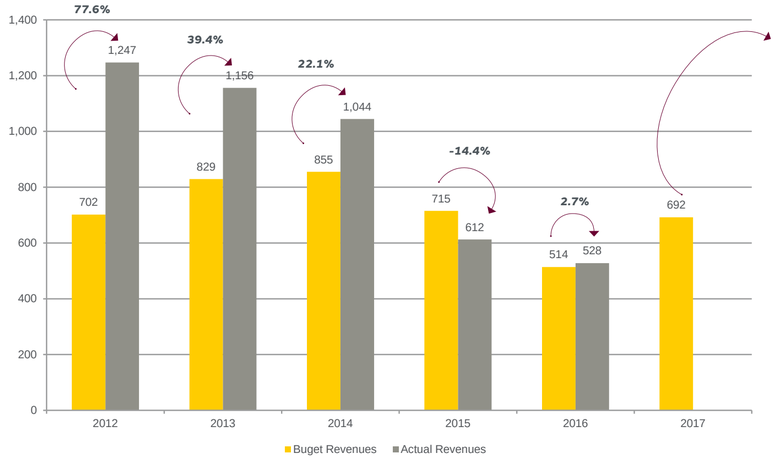
There is an apparent shift in fiscal practices since 2016 as variances have narrowed. This is due to four key factors:

- ***The decline in oil prices has reduced the capacity to overspend.***
- ***In the past, the underestimation of budgeted oil revenues allowed for a ramp-up in actual expenditures. Since 2016, the budget has been based on more realistic oil prices, thereby limiting variances in both actual revenues and actual expenditures.***
- ***The establishment of Spending and Rationalization Office in 2016 to increase operational efficiency and reduce overspending.***
- ***Budget 2017 has reoriented the focus of spending away from a short-term perspective reacting to oil prices, towards a longer view based on meeting the requirements of Vision 2030 and the National Transformation Plan.***

Data Source: Saudi Arabian Monetary Agency & Public Statement Budget 2017



Budget vs. Actual Revenue (2012 – 2017)



Budget 2017 vs. Budget 2016: +34.6%
Budget 2017 vs. Actual 2016: +31.1%

Key Points:

- ***Since 2016, the fiscal budget appears to be based on more realistic oil prices and this has dramatically narrowed the variance between budgeted and actual revenues.***
- ***The underlying budgeted oil price and oil production levels are not disclosed, however it is estimated that the budget is based on an oil price of US$55 a barrel.***
- ***Oil revenues account for 69.4% of total revenues and are projected to increase 46% on actual 2016 oil revenues.***
- ***Non-oil revenues account for 30.6% of total revenues and are projected to increase 6.5% on actual 2016 non-oil revenues.***

Data Source: Saudi Arabian Monetary Agency & Public Statement Budget 2017

Highlights of Budget 2017

"Aims to support the National Transformation Plan (NTP) and Vision 2030 Goals."

Represents a major shift from Saudi Arabia's traditional budget methodology.

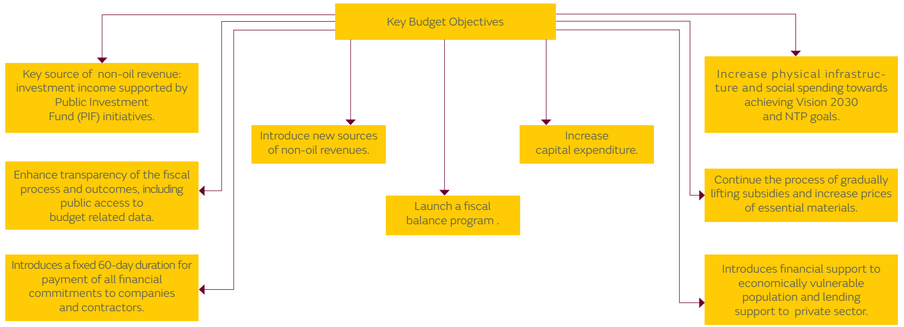
Establishes a financial strategy based on a four-year budgetary cycle for the period 2017–2020.

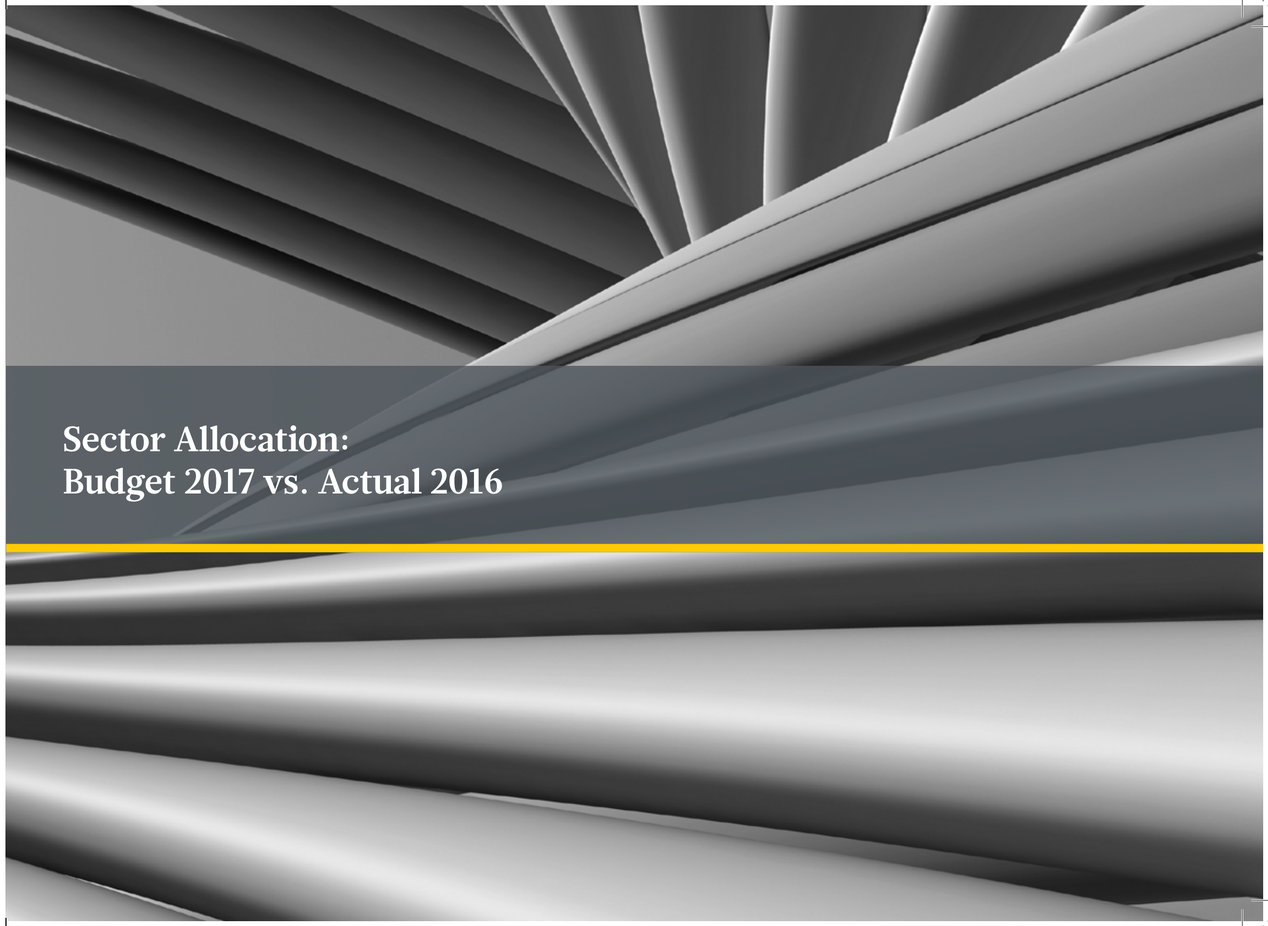
The financial strategy is based on two scenarios: a) Pessimistic Scenario – fiscal balance is attained by 2020 & b) Optimistic Scenario – fiscal balance is attained by 2019.

Undertakes a medium-term view to diversify the economy and revenues base rather than a short-term perspective influenced by the direction of oil prices.

The budget cycle is in line with newly established Ministry of Finance general fiscal unit to ensure expenditure efficiency and non-oil revenue maximization.

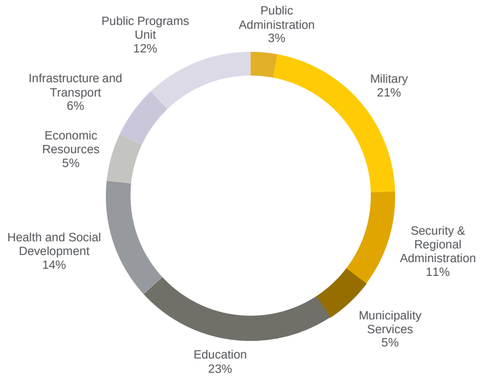
The budget appears to be based on a less conservative and more realistic oil price of an estimated US$55 per barrel. In the period 2010-2014, budgets have tended to be based on oil prices which were far below the market average.



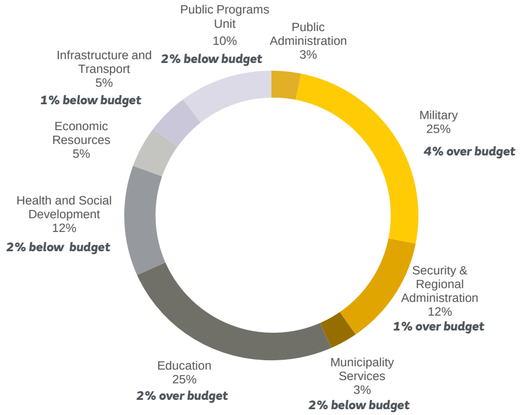


Sector Allocation: Budget 2017 vs. Actual 2016

Budget 2017
Expenditure by Sector



Actual 2016
Expenditure by Sector



Data Source: Public Statement Budget 2017

Gauging the Budget's Economic Impact

Sector	% of Budget 2017 Expenditure	% Growth on Actual 2016	Value of New Projects	Components
Education	22.5% (SR200 billion)	-2.7%	SR2.3 billion	» Public education, higher education and training. » New projects and expansion of existing ones: › King Abdullah Bin Abdulaziz Public Education Development Project. › 1,376 educational facilities and schools. (411 new schools completed in 2016). › Renovation of girls colleges across different universities. › Scholarship programs. › NTP initiatives related to the sector.
Economic Resources and General Programs	17.4% (SR154.9 billion)	+26.2%	SR51 billion	» Expansion of the Grand Mosque, ownership transfer of transport stations and completion of the first ring road around the expansion of the Grand Mosque. » Modernization and expansion of drinking water and sewage systems, supporting renewable energy and building new desalination plants. » Establishment of fishing facilities, and expanding infrastructure of industrial cities, silos and mills.
Health and Social Development	13.5% (SR120.4 billion)	+18.7%	n.a.	» New initiatives and completion of hospitals and healthcare centers: › Build and develop 38 new hospitals and 2 medical cities. (23 new hospitals completed in 2016). › Development of sports cities. › Support Ministry of Labor and Social Development and tackle poverty.
Infrastructure and Transport	5.9% (SR52.2 billion)	+38.8%	SR16.6 billion	» 116 new initiatives to develop roads, ports, railway, airports, postal services and the industrial cities of Jubail and Yanbu, and Ras Al Khair Industrial Mining.
Municipality Services	5.4% (SR 48 billion)	+92.1%	SR1.047 billion	» Includes Ministry of Municipal & Rural Affairs, secretariats and municipalities. » Support new projects and expansion of existing ones related to the NTP: › Develop and improve the Enterprise Management Systems. › Develop Municipal Waste Management systems.
Public Administration	3% (SR 26.7 billion)	-0.2%	SR735 million	» Projects, programs and 46 new initiatives to help implement NTP initiatives related to Ministries of Justice, Hajj and Umrah, and the Civil Service and aims to: › Enhance performance › Increase efficiency › Maximize quality output
National Transformation Plan (NTP)	4.7% (SR42 billion)	+366.6%	SR268 billion	» SR268 billion has been allocated to cover the cost of NTP initiatives until 2020. » SR9 billion was spent in 2016.

"Second largest allocation of budgeted expenditures after military and security services/regional administration."

"Largest value of new project spending."

"Spending on NTP initiatives largely fall under the budgeted allocations of Education, Municipality Services and Public Administration."

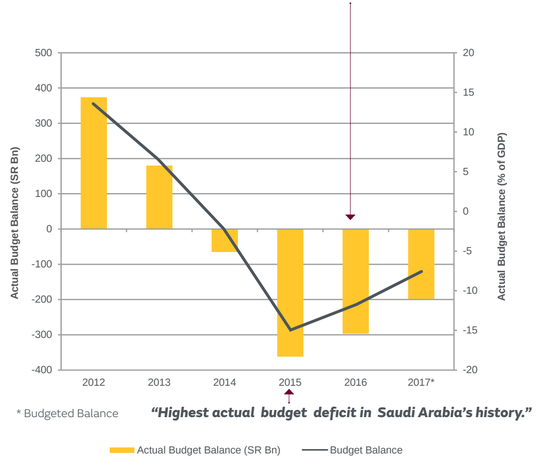
"Significant escalation in NTP related spending."

Data Source: Public Statement Budget 2017

Financing the Deficit

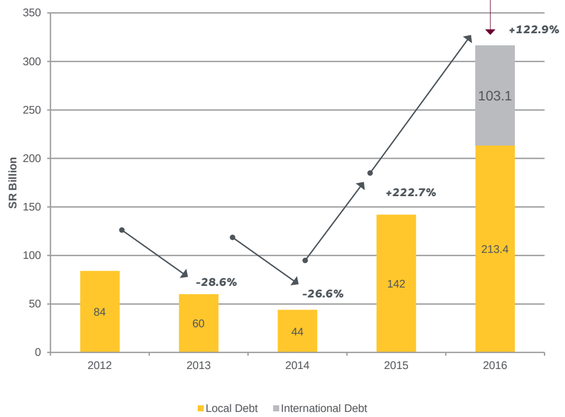
Actual Fiscal Balance (% of GDP)

"In 2016, the implementation of measures to improve expenditure efficiency and overspending lowered actual spending versus the budgeted level. This led to a significant reduction in the actual budget deficit compared to 2015."



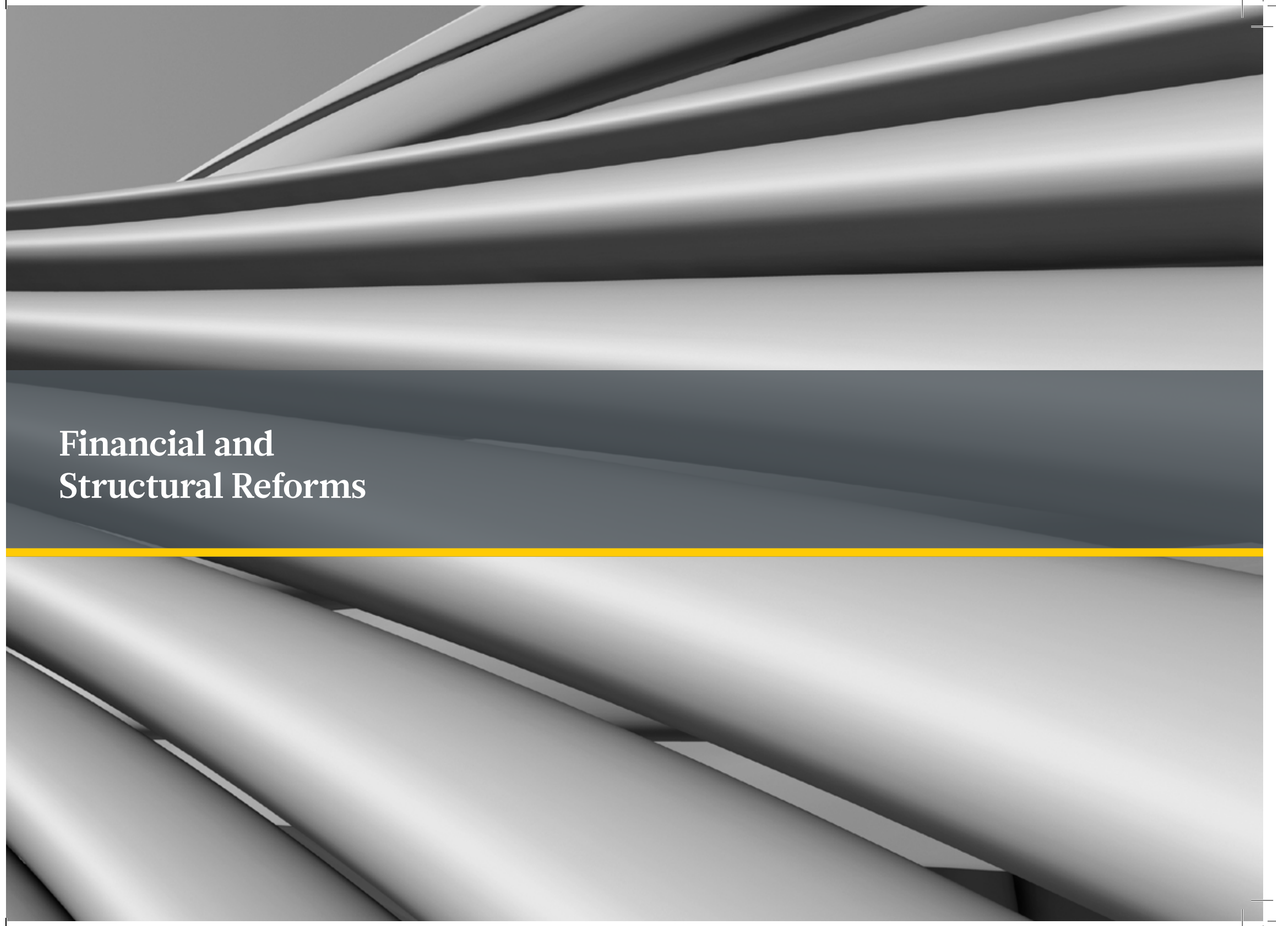
National Public Debt (2012 – 2016)

"In 2016, the fiscal deficit was financed by drawdown of foreign exchange reserves, domestic debt issuance and international sovereign debt issuance."



"Budget 2017 envisages the government to raise a further SR120 billion through issuance of new debt (estimated to include SR70 billion in domestic debt and SR50 billion in international sovereign debt issuance). This implies that total public debt will grow by 38% in 2017 to rea ch around 16.5% of GDP."

Data Source: Saudi Arabian Monetary Agency & Public Statement Budget 2017



Financial and Structural Reforms

Update on reforms outlined for the Ministry of Finance (MoF) in the Budget 2016 statement:

» Financial Strategy:

- Commitment towards a balanced budget by 2020.
- National debt remaining below 30% of GDP.
- Maintaining sovereign credit rating of Aa2.
- Diversify debt issuance to include Sukuk instruments as well as debt in differing currencies.

» Budget Oversight:

- Establishments of General Fiscal Unit within MoF to ensure allocated budget ceilings are adhered to.

» Enhanced Transparency:

- Increasing the level of disclosure related to the budget.

» Expenditure Efficiency:

- Increasing efficiency of operating and capital expenditure.
- Establishment of Spending Rationalization Office to review the five highest spending ministries resulting in savings of an estimated SR80 billion.

» Privatization:

- Increased emphasis on reducing bureaucracy for the private sector while improving its cooperation with the public sector.
- National Center for Privatization (NCP) will identify suitable sectors and economic activities for privatization.

» Government Accounting Practices:

- All government agencies will move to accounting practices based on the accrual principle - recognizing revenues and expenses when they are incurred.

» Development Projects:

- Prioritizing development projects with an emphasis on those benefiting citizens directly in sectors such as education, healthcare, security / social / municipal services, power, water, sewerage, roads, and specific research.

» Review and Evaluation of Government Subsidies:

- Domestic energy prices are planned to be linked to an unspecified benchmark price through to 2020, but no specific hikes in 2017.
- Government establishing a Cash Transfer Program to safeguard low-and middle-income households from effects of energy price reforms.

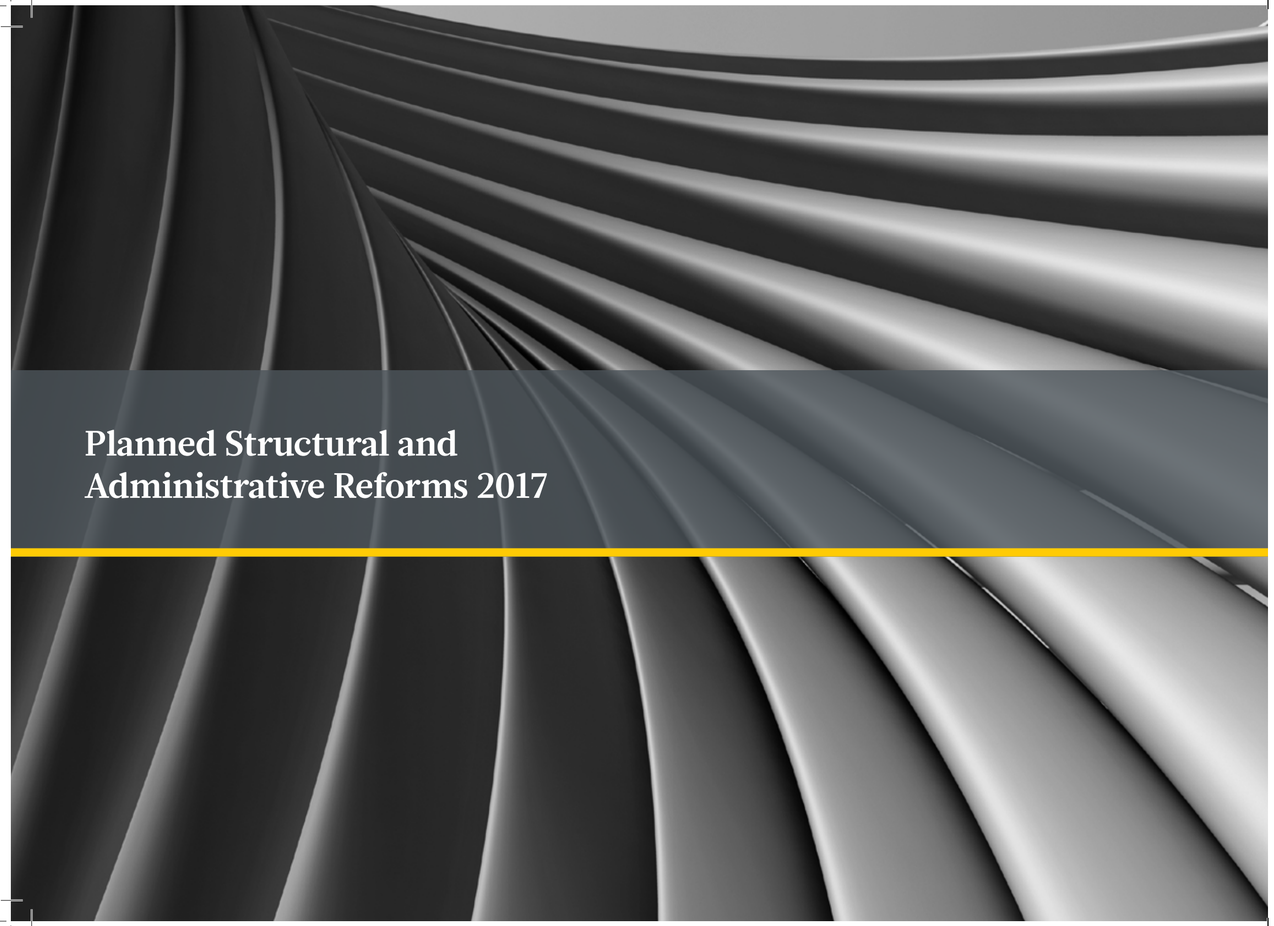
» Taxes, Fees, and Fines:

- Introduction of taxes on tobacco and soft energy drinks.
- Introduction of fees on expatriates.
- Introduction of value added tax (VAT) in 2018.

» Establishment of Public Debt Management Unit at MoF:

- Most notable achievement was the first issuance of international bonds.

"Budget 2017 also included an update on the progress of reforms outlined for the MoF in the previous year's budget. The reforms are aimed at consolidating expenditure and strengthening the fiscal and financial status; and moving towards achieving the economic restructuring as envisioned in the NTP."



Planned Structural and Administrative Reforms 2017

Reforms outlined for Ministry of Finance (MoF) in the Budget 2017 statement:

- The achievement of a fiscal balance program that contributes to the achievement of Vision 2030:
  - Increasing the efficiency of capital and operational expenditures.
  - Increasing non-oil revenues.
  - Improving the efficiency of government support.
  - Promoting and supporting economic growth including the private sector.
  - Supporting industrial sectors of strategic importance and economic potential.
- Continuously improving financial planning procedures by applying international best practices.
  - Plans and models will also be established to facilitate the procedures for preparation of the 2018 and subsequent budgets.
- Developing a transparent vision for managing cash flows in the short- and medium-term in coordination with government agencies and other entities including the Public Pension Agency; General Organization for Social Insurance, the Public Investment Fund, and ministries with high capital expenditures.
- Linking expenditures with outputs to enhance efficiency and rationalization, and developing a regular reporting system to monitor the same.
- Operating in accordance with the mechanisms stated in the NTP.
- Preparing a medium-term expenditure framework in coordination with other government agencies.
- Developing a comprehensive strategy related to official data at the Ministry of Finance to provide an integrated information structure across government ministries and agencies.

Medium-term Prospects (2017 – 2020)

Economic Forecasts by Ministry of Finance (MoF) based on two scenarios:

OPTIMISTIC SCENARIO
(based on the successful implementation of planned reforms outlined in Budget 2017)

	2017	2018	2019	2020
Real GDP	2.0%	2.1%	2.3%	3.5%
Non-Oil GDP	2.5%	2.3%	4.0%	4.4%

PESSIMISTIC SCENARIO
(based on planned reforms outlined in Budget 2017 not being implemented)

	2017	2018	2019	2020
Real GDP	1.2%	0.9%	2.0%	1.8%
Non-Oil GDP	1.6%	1.2%	2.4%	2.5%

National Financial Strategy:

The National Financial Strategy aims to achieve a balanced budget by 2020 and pursue a national debt management strategy. The government plans to achieve these goals based on a comprehensive reform program up to 2020, which aims to increase financial stability and limit the effects of oil price fluctuations through two main objectives:

1) Balanced Budget by 2020

- Reduce government spending.
- Increase non-oil revenues.
- Diversify revenue sources.
- Increase spending efficiency.
- Focus on projects with high returns.
- Apply effective systems for performance monitoring & evaluation.

2) Management of National Debt

- National debt not to exceed 30% of GDP.
- Maintain sovereign credit rating of Aa2 for Saudi Arabia.
- Local and international debt issuance to continue.
- Raise debt at attractive rates on international markets.
- Diversifying debt by issuing Shariah-compliant instruments including Sukuks.
- Diversifying currency denomination of issued debt.

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