



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

Saudi Arabia's Mid-Year Budget Update August 2018

Favorable oil prices coupled with prudent fiscal policies lifted Saudi Arabia's economy during the first half of 2018. The improved conditions allowed the government to cut into its deficit as the fiscal balance reached SAR41.7 billion. Much of the improvement occurred during the second quarter as the deficit was narrowed to SAR7.4 billion versus SAR34.3 billion during the first quarter.

2018 Government Budget (SAR Millions)

Items	Budget 2018	Q1	Q2	H1 2018 Total
Oil Revenues	492,000	113,947	184,165	298,112
Non-Oil Revenues	291,343	52,316	89,423	141,739
Total Revenues	783,343	166,263	273,588	439,851
Total Expenses	978,000	200,592	280,950	481,542
Surplus (Deficit)	(194,657)	(34,329)	(7,361)	(41,690)

Revenues:

Total revenues jumped significantly during H1'18 as both oil and non-oil contributed positively to reach SAR439.8 billion. In comparison to H1'17, oil revenues grew by 40 percent while non-oil revenues grew by 49 percent.

H1 2018 Revenues (SAR Millions)

Revenues	H1 2017	H1 2018	Change %
Oil Revenues	212,993	298,112	40%
Taxes on Income, Profit and Capital Gains	9,232	9,119	-1%
Taxes on Goods & Services	13,774	52,397	280%
Taxes on Trade and Transactions (Customs)	9,477	7,199	-24%
Other Taxes (ZAKAT)	12,153	15,130	24%
Other Revenues	50,353	57,895	15%
Total Non-Oil Revenues	94,989	141,739	49%
Total	307,982	439,851	43%

Source: Ministry of Finance



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Oil Revenues:

The growth in oil revenues during H1'18 was attributed to both an increase in the price of crude oil and an uptick in crude oil production. The price of Arabian Light crude oil grew from approximately \$63.92 per barrel at the end of 2017 and reached \$77.20 by the end of June 2018. Production cuts by several OPEC members, including Libya and Venezuela, and ongoing geopolitical factors involving Iran were the main drivers of the price increases.

Saudi Arabia's crude oil production gradually grew from 9.98 mb/d during Q4'17 to 10.13 mb/d by Q2'18.¹ Strong demand from China, which has witnessed sizeable growth in its economy during 2017 and 2018, helped keep production levels elevated.

Another factor that contributed to strong oil revenues was Saudi Aramco's decision to adjust its dividend payouts on a quarterly basis. The Ministry of Finance noted that the impact of the dividend change would be seen during the second quarter of 2018.

Non-Oil Revenues:

Perhaps the most encouraging development was the noticeable growth in non-oil revenues during H1'18. Most noticeable was the 280 percent jump in 'Taxes on Goods and Services.'² As part of Vision 2030's strategic goal to diversify the country's income streams, the introduction of value added taxes and expatriate levies (also dependent levies) in 2018 has provided a significant source of revenue. Furthermore, the 'Taxes on Goods and Services' has already reached 62 percent of its budgeted revenues for the year, during H1'18.

'Other Revenues' jumped 15 percent from the prior year as likely revenues from the Public Investment Fund (PIF) and the Saudi Arabian Monetary Authority (SAMA) resulting from positive investment returns by the two entities.

¹ OPEC Monthly Oil Market Report – August 2018

² Defined by the IMF as: Commodity or activities taxes and selective taxes (Oil products, tobacco, VAT)



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Expenses:

Total expenses also catapulted during H1'18 to reach SAR481.5 billion. Current expenditures accounted for approximately 85 percent of total expenses while capital expenditures registered a 15 percent share. Compared to H1'17, total expenses grew by 26 percent of which current expenditures accounted for 28 percent growth and capital expenditures registered 19 percent growth.

H1 2018 Expenses (SAR Millions)

Expense	H1 2017	H1 2018	Change %
Compensation of Employees	196,873	243,752	24%
Use of Goods and Services	43,951	53,581	22%
Financing Expenses	4,269	5,669	33%
Subsidies	1,181	7,224	512%
Grants	1,211	1,655	37%
Social Benefits	23,194	44,174	90%
Other Expenses	47,694	51,447	8%
Non-Financial Assets (Capex)	62,337	74,039	19%
Total	380,710	481,542	26%

Source: Ministry of Finance

Historically, the three expenses of 'Compensation of Employees,' 'Use of Goods and Services,' and 'Social Benefits' have placed the most pressure on Saudi Arabia's budget. Through H1'18 the trend continues as several recent regulatory changes, such as King Salman's SAR58 billion Royal Decree in January and the injection of SAR32 billion into the Citizen's Account, have taken place.

The SAR58 billion Royal Decree was added to the 'Compensation of Employees' expense. The plan is to disperse monthly allowances throughout 2018, from which: SAR1,000 is given to all public-sector employees, SAR500 to pensioners, SAR5,000 to military personnel located along the southern border, and a 10 percent raise to student stipends.

The 'Social Benefits' expense received a boost from the introduction and partial spending of SAR32 billion in the Citizen's Account. The allotment is expected to be spread over the entire year to avoid sudden spikes and smoothen its impact on the budget. The Citizen's Account is expected to be a departure from previous implementations of social benefits where assistance was given to all citizens, irrespective of their financial needs. A measured approach was taken to direct the assistance to low and middle-income families in need.



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Capital Expenditures grew by 19 percent compared to H1'17 but accounted only for 36 percent of its 2018 budget through H1'18. Historically, the quantity and value of awarded contracts that pertain to capital expenditures usually gain momentum in the second half of the year. We expect this to be the case for 2018 as numerous projects have been earmarked, especially in the education and healthcare sectors.

H1 2018 Expenses by Sector (SAR Millions)

Sector	H1 2017	H1 2018	Change %
Public Administration	12,849	15,244	19%
Military	84,243	113,365	35%
Security and Regional Administration	42,695	47,840	12%
Municipal Services	21,865	16,810	-23%
Education	96,073	99,643	4%
Health and Social Development	58,085	86,638	49%
Economic Resources	14,939	15,966	7%
Infrastructure and Transportation	12,354	11,687	-5%
General Items	37,607	74,348	98%
Total	380,710	481,542	26%

Source: Ministry of Finance

The 'Health and Social Development' sector witnessed the highest growth in H1'18 compared to H1'17, garnering a 49 percent increase. A number of projects pertaining to the construction of hospitals and primary healthcare centers across the Kingdom commenced as the sector already reached approximately 59 percent of its 2018 budget.

The 'Military' sector grew by 35% compared to H1'17 as a result of allocations for new development programs, military medical services, and military education. Through H1'18 approximately 54 percent of the 'Military' sector's budget has already been spent.

'General Items' grew significantly from H1'17 as indicated by the 98 percent jump. Furthermore, 'General Items' has already accounted for 83 percent of its budgeted expense for 2018. The main reason for this increase pertained to the subsidies and social aid that was directed to the Kingdom's citizens. The 'General Items' includes the government's contributions to the Public Pension Agency, the General Organization for Social Insurance, subsidies, cost of debt, and contingent expenses.



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Outlook:

Given the performance during H1'18, the Saudi Arabian economy is on pace to surpass its budgeted revenues for the remainder of 2018 on the back of better than forecasted oil prices. The budgeted forecast calls for oil revenue to account for 63 percent of all revenues. More recently, Saudi Arabia cut crude oil production by 200,000 bpd in July and OPEC has forecasted demand to decrease from an estimated 32.9 mb/d in 2018 to 32 mb/d in 2019. While there are concerns over demand for OPEC-15 crude and its impact on Saudi Arabia's future oil revenues into 2019, Saudi Arabia's economy is poised to benefit from short-term crude oil price increases.

While Saudi Arabia's expenditures have also relatively increased, the pace at which expenses have been growing are not expected to negatively impact the trajectory of progress that was witnessed during H1'18. Barring new announcements that involve the introductions of new expenditures, the Saudi Arabian economy is poised to cut its deficit at a better than forecasted rate.

Further signs point to an improved economic environment in 2018 as Saudi Arabia emerged from a recession in 2017 whereby real GDP reached -0.9 percent. According to the IMF's recent 2018 Article IV consultation with Saudi Arabia, real GDP growth is expected to increase 1.9 percent in 2018, with non-oil growth strengthening to 2.3 percent. The implementation, and more importantly, the achievement of Vision 2030's diversification plan will better assist the Saudi Arabian economy in building its non-oil sector, as it aims to move away from its heavy reliance on oil revenues.