جدوى للإستثمار
Jadwa Investment

October 2018

Saudi Arabia's 2019 Preliminary Fiscal Budget

Based on the Ministry of Finance's (MoF) continued implementation of the Vision 2030 and the strategic objectives under the National Transformation Program 2020 (NTP), the preliminary budget for the 2019 fiscal year was released on 30th September 2018. A number of fiscal indicators were revised upwards in the period from 2018 to 2021. The highlights include:

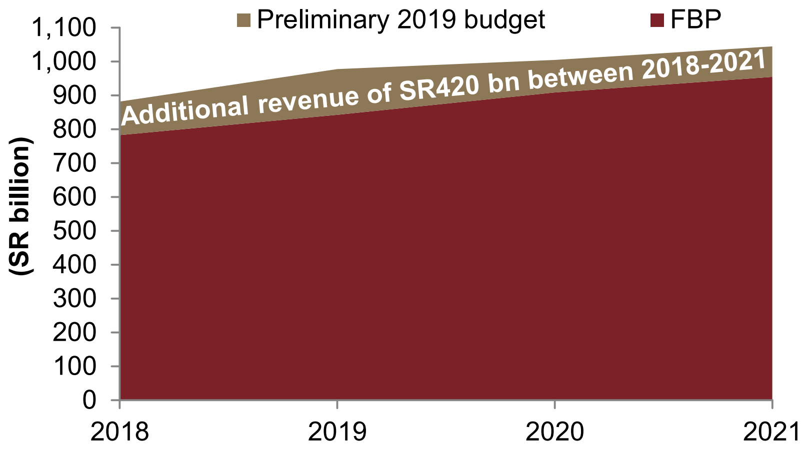
- In the near term, 2018's revenue is expected to total SR882 billion, a rise of SR99 billion compared to budgeted total of SR783 billion. An upward revision in government revenue for 2019, by SR135 billion, to SR978 billion, was also announced. In total, the government is expected to earn SR420 billion more than projected in the updated Fiscal Balance Program (FBP), between 2018 and 2021 (Figure 1).

- Oil prices have recently reached multi year highs and this is expected to reflect in government oil revenue in 2018. In fact, as the most recent quarterly budget statement showed government oil revenue stood at SR298 billion in H1 2018. Assuming that non-oil revenue estimates are unchanged for 2018, at SR291 billion, this would imply government oil revenue of SR591 billion in 2018.

- Due to an absence of a breakdown in oil and non-oil revenue in the preliminary 2019 budget, it is difficult to estimate government oil revenue for next year. That said, using very rough estimates, we can give some indication of the possible breakdown for 2019.

- Using the projections stated in the FBP, and assuming these are unchanged, the government is expecting a yearly rise of SR22 billion in tax revenue in 2019. Adding this to 2018's budgeted non-oil revenue of SR291 billion, and assuming no yearly rises in non-oil/non-tax revenue, this pushes non-oil revenue to SR313 billion in 2019. Deducting this from total revenue of SR978 billion in 2019 implies oil revenue of circa SR665 billion, compared to our current estimate of SR603 billion.

Figure 1: Higher revenue expected in 2018 through to 2021



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Released: October-2-2018, 16:00 UTC+3

An upward revision in government revenue for 2019, by SR135 billion, to SR978 billion, was included in in the announcement.

In total, the government is expected to earn SR420 billion more than projected in the updated FBP, between 2018 and 2021.

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...with a key objective of the government to balance opex with more growth enhancing capex.

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- Rises are also projected on the expenditure side, although, according the preliminary budget, these rises partially relate to;

  i) a Royal Decree that resulted in the reinstatement of annual allowances and a cost of living allowance for citizens during the fiscal year 2018.

  ii) consolidation of revenues which, in turn, will result in assigning budget expenses for some government entities that previously collected their own revenue.

- As outlined in the preliminary budget, a key objective of the government is to balance operating expenses (opex) with more growth enhancing capital expenditures (capex). On the opex side, the focus will be on improving efficiency of spending and achieving savings that can be directed to other projects and expenditures, through the Spending Efficiency Realization Centre (SERC).

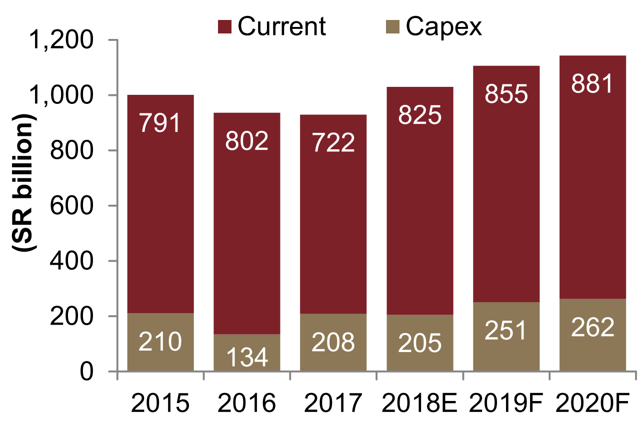
- That said, the compensation of employees (wage bill) is still expected to constitute a substantial level of total expenditure. When applying the wage bill estimates outlined in the updated FBP to the revised expenditure figures, we can see that the wage bill is expected to make up 45 percent of total expenditure by 2020. Despite following a declining trend between 2018 and 2020, it nevertheless exceeds the 40 percent target outlined in the NTP.

- Although a review is currently being conducted, with the help of the World Bank, to identify reforms to improve the cost effectiveness of the civil service, the persistence of a high level of wage bill in overall expenditure underscores the need for a greater level of focus to contain such outlays, going forward.

- According to the report, on the capex side, expenditure will be channeled towards Vision 2030 programs that directly contribute to economic growth and job opportunities for citizens. In this respect, we expect up to a third of the expected rise in total expenditure in 2019 to be allocated to capex. Accordingly, capex could rise by up to SR33 billion, or 15 percent year-on-year in 2019, to reach SR250 billion, versus the previously projected SR218 billion (Figure 2).

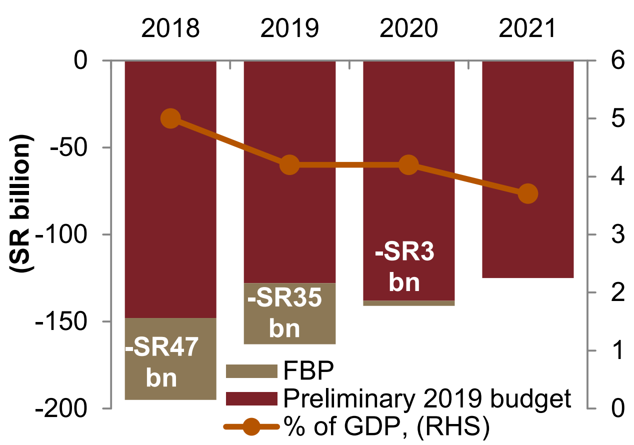
- Due to a higher rate of projected revenue rises vis-a-vis expenditure, the fiscal deficit will be lower than previously projected for 2018 and 2019. Thus, the fiscal deficit is expected to decline to SR148 billion (5 percent of GDP) in 2018, versus

Figure 2: We expect capex to rise by up to 15 percent year-on-year in 2019*



*2019 & 2020 capex and current expenditure = Jadwa estimates

Figure 3: A larger upward revision in revenue than expenditure improves the fiscal deficit



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That said, a higher proportion of the fiscal deficit will be financed through debt.

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SR195 billion (7.9 percent of GDP) previously. The fiscal deficit is expected to continue improving in 2019, to SR128 billion (4.1 percent of GDP) compared to SR163 billion (or 5.9 percent of GDP) in previous projections.

- That said, a higher proportion of the fiscal deficit will be financed through debt, with public debt projections being revised up from SR555/SR805 billion, to SR576/SR848 billion between 2018 to 2021. By the end of 2021, public debt is expected to total 25 percent of GDP, lower than the 30 percent limit outlined under the NTP.
- The Kingdom still enjoys ample domestic liquidity, thus affording it the ability to continue financing part of the additional debt through domestic bonds. As such, we expect around half of 2019's SR102 billion debt requirement to be funded internally, with the remainder from international issuances, in-line with the trend seen in recent years (Figure 4).
- Higher expenditure, especially so through more growth enhancing capex, with a focus on Vision 2030 initiatives, is, according to MoF forecasts, expected to push up overall GDP growth in the next few years. Whilst no breakdown between oil and non-oil GDP is provided, the MoF expects overall growth to average around 2.25 percent over the next four years (Figure 5).
- Overall, the preliminary budget not only highlights the government's continued support for the economy through record budgeted expenditure over the next few years, it also reaffirms the MoF's efforts to provide a fuller and more transparent picture of the impact of fiscal policy on the economy. More specifically, the release of the preliminary budget report relates directly to one target stipulated under the NTP.
- According to the 2017 International Budget Partnership's (IBP) open budget index -a comparative measure of central government budget transparency- Saudi Arabia scored one point out of 100. The target under the NTP, however, stands at 25 points by 2020. That said, we understand that the release of the 2019 preliminary budget, along with the quarterly budget statements, should help push Saudi Arabia's open budget index score closer to ten points.

Figure 4: Public debt is expected to rise to 25 percent of GDP by 2021

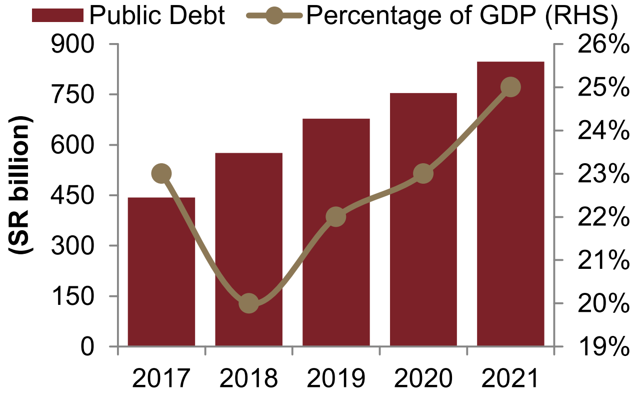
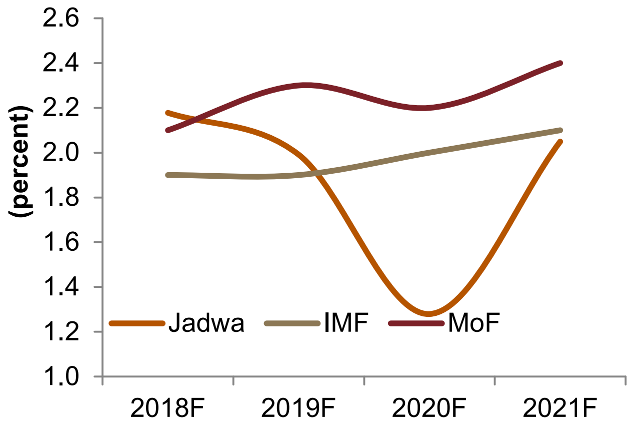


Figure 5: GDP estimates
(year-on-year growth)



...it also reaffirms the MoF's efforts to provide more transparency of the impact of fiscal policy on the economy.

- The IBP's recommendations for improving the overall score, and potentially reaching the NTP target of 25 points, includes producing and publishing an executive budget proposal, a year-end report, and a mid-year review. The IBP also notes that more effort should be made in improving the level of participation from the public in the budget process.