

Saudi Arabia Budget 2009

Saudi Arabia Budgets Fiscal Deficit of SR65bn in 2009

The Kingdom of Saudi Arabia on Monday, December 22, 2008 announced the national budget for fiscal year 2009. Saudi Arabia, the world's largest oil producer, made windfall oil revenues in the latest oil boom projecting the total revenues of SR1,100bn (US\$293.3bn) in 2008 (i.e. an annual increase of 71% over actual 2007 total revenues) and a record budget surplus of SR590bn (US\$157.3bn). The last half of the year 2008 overshadowed by a severe global economic slowdown and extreme volatility in oil prices, has dramatically changed global economic outlook, also affecting Saudi Arabia that has budgeted the fiscal deficit of SR65bn (US\$17.3bn) in 2009. However, the Kingdom draws support from its reserves that are believed to be adequate for covering the estimated budget deficit for 2009.

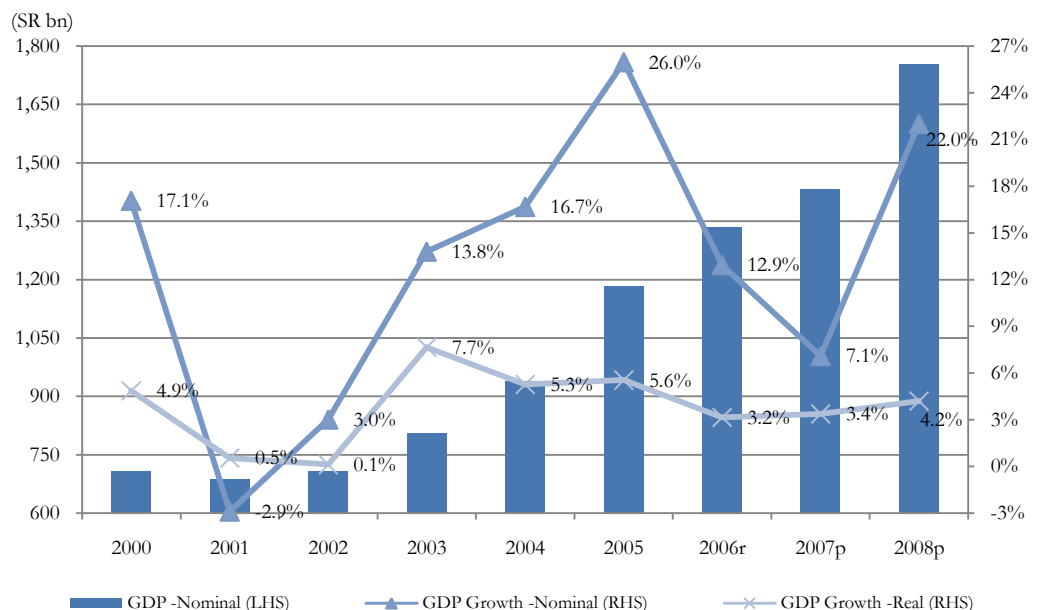
2008: A record year

The year 2008 was a historic year that witnessed the global economic landscape changing drastically from the beginning of the year to the end. Thus, largely affecting the global economic outlook. As per the latest (Dec 2008) World Bank report, a dismal picture of the global economy in 2009 is forecasted, with growth weakening to a meager 0.9%. During 2008, the oil prices also experienced high volatility that after touching the record high of US\$147 per barrel in Jul 2008 are currently between US\$30-40 per barrel.

Saudi Arabia as per International Finance Corporation -World Bank 2009 Report on Ease of Doing Business was ranked at 16 among 181 countries globally, and no.1 in MENA region. The Kingdom largely benefited from the recent high oil prices and is projecting the nominal GDP of SR1.7trillion (US\$467.5bn) with the nominal GDP growth of 22.0% and real GDP growth of 4.2% in 2008, as compared to 2007 nominal GDP growth of 7.1% and real GDP growth of 3.4%.

Another preliminary estimate that shows an encouraging fiscal position indicated the public debt to GDP ratio to drop from 18.7% in 2007 to 13.5% in 2008 with public debt (being completely domestic) closing at SR237bn (US\$63.2bn) in 2008.

Real and Nominal GDP



Source: Ministry of Economy & Planning, Ministry of Finance, & SAMA

On the current account front, the year 2008 is projected to record current account surplus of SR564.8bn (US\$150.6bn) and trade surplus of SR820.2bn (US\$218.7bn), posting an increase of 59.4% and 45.8%, respectively.

During the first ten months of 2008, the broad money supply recorded a growth of 14.0% as compared to 13.5% in ten months 2007. The inflation as measured by the cost of living index is estimated at 9.2% in 2008.

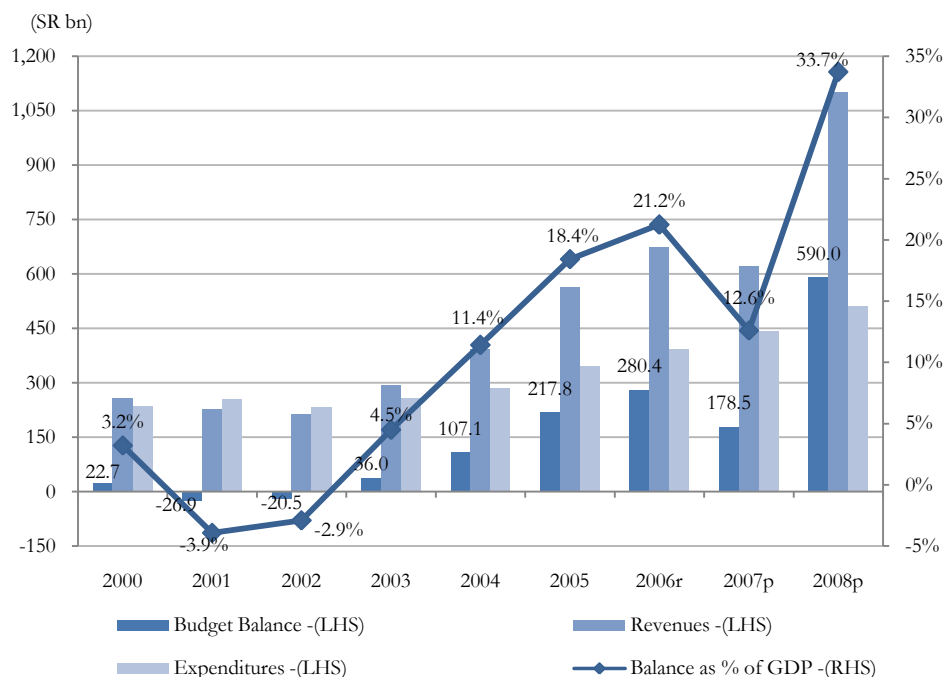
The bank deposits during the first ten months of 2008 grew by 14.1% and total bank claims on public & private sectors increased by 30.0% as compared to 15.0% and 12.7%, respectively in the same period of 2007.

Kingdom spending remains unabated in 2009

Despite the decline in oil price in the past few months, which contributes more than 85% to the government revenues, the Saudi budget presented the Kingdom's continued commitment to focus on optimizing the use of available resources and giving priority to projects that ensure sustainable and balanced development as well as more employment opportunities and job creation.

Although the Kingdom forecasts 2009 budgeted revenue of SR410bn (US\$109.3bn) which is lower by 8.9% in comparison to 2008 budgeted revenue of SR450bn (US\$120.0bn), the budget expenditure showed an increase of 15.9% from SR410bn (US\$109.3bn) in 2008 to SR475bn (US\$126.7bn) in 2009. Thus, as per the budget estimates the Kingdom is expected to record a budget deficit of SR65bn (US\$17.3bn) in 2009 as compared to a budget surplus of SR40bn (US\$10.7bn) in 2008. The budget estimates do reflect the repercussions of global slowdown on Saudi Arabia, the world's top oil exporter and the largest middle eastern economy, but its announcements to boost spending and the expectations to have build up significant reserves from the recent oil boom provides confidence in the Saudi economy to adequately manage the global recessionary pressures. It is also noteworthy that Saudi Arabia like other Arab oil-producing countries has traditionally presented conservative government budget estimates based on lower oil prices.

Budget Revenues and Expenses



Source: Ministry of Economy & Planning, Ministry of Finance, & SAMA

An announced budget surplus of SR40bn (US\$10.7bn) in 2008 had an actual outcome of SR590bn (US\$157.3bn) posting an exponential increase of more than 1,300% over the budgeted estimates.

Besides the conservative oil price estimates by the government to calculate its budgetary figures, the significantly higher budget surplus could be mainly attributed to the outstanding increase in oil prices during the first seven months of 2008. The 2009 budgeted expenditure of SR475bn (US\$126.7bn) seems to be a more conservative estimate as the actual government expenditure of SR510bn (US\$136.0bn) in 2008 was still higher by 7.4% of the budgeted figure for 2009. Although the economic slowdown across the world does not portray a very optimistic picture for oil prices touching new record highs in the near future, we believe that most likely the actual outcome for 2009 may not be a budget deficit as our preliminary forecast suggests the results exceeding the budgetary levels turning the budget deficit into a surplus.

Conservative Budgeting

(amounts in SR bn)	Revenue			Expenditure		
	Budget	Actual	% change (Actual - Budget)	Budget	Actual	% change (Actual - Budget)
2000	157	258	64.3%	185	235	27.0%
2001	215	228	6.0%	215	255	18.6%
2002	157	213	35.7%	202	233	15.3%
2003	170	293	72.4%	209	257	23.0%
2004	200	392	96.0%	230	285	23.9%
2005	280	564	101.4%	280	346	23.6%
2006	390	673	72.6%	335	393	17.3%
2007	400	642	60.5%	380	466	22.6%
2008	450	1,100	144.4%	410	510	24.4%
2009	410	-	-	475	-	-

Source: Ministry of Finance, & SAMIA

The practice of setting conservative budget revenues have been from the time (1980s) of high government debt, fiscal imbalances, and minimal surpluses. Therefore, besides such an approach being prudent, it has led to positive surprises in the year-end economic performance and have also facilitated the country in building large reserves. Such practice is expected to continue for the near future.

Capital Budget rose significantly

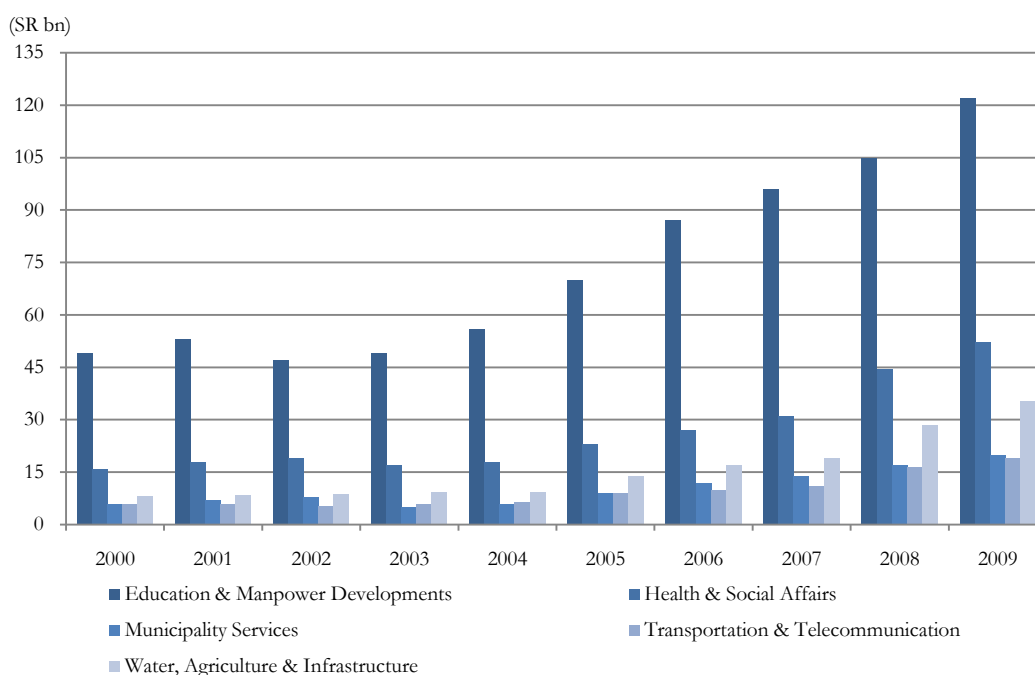
With increased spending across the board, the budget allocations were assigned for new projects and higher appropriations for existing projects. The kingdom has committed total new capital budget of SR225bn (US\$60.0bn), which shows an increase of 36.3% over 2008 budget. The capital budget for 2009 at 47.3% of the total budgeted expenditure was proportionally higher as compared to 40.2% in 2008.

Education and manpower development dominates the current budget sector allocations with the total expenditure of SR122.1bn (US\$32.6bn) which showed an increase of 16.2% over 2008 budget figure of SR105bn (US\$28.0bn). The increase was almost double as compared to 8.5% rise between 2007 and 2008 budgets. The education allocation comprised of the implementation plans of King Abdullah Project for Education Development and the creation of the recently approved Education Development Holding Company. The emphasis on new education projects (1,500 new schools) and rehabilitation of existing school buildings was also part of the new package. As part of the government's efforts for providing better higher education facilities and more opportunities to females, the current budget includes appropriations for the construction of the new female university campus (Princess Norah University) in Riyadh, and the Medical City for King Saud University. Saudi Arabia with population expected to reach around 25mn by 2009 (an estimated annual growth rate of 2.3% during 2004-2015) has one of the fastest population growth rate amongst the Arab countries. The number of Saudis below 30 years of age represent more than 60% of the total Saudi population, who are expected to generate a considerable housing demand once they join the workforce.

Health and social affairs spending increased by 17.8% in 2009 budget, rising from SR44.4bn (US\$11.8bn) in 2008 to SR52.3bn (US\$13.9bn) in 2009. The majority of the new health budget appears to be focusing on providing wider health facilities by the addition of 86 new hospitals, primary care centers throughout the Kingdom, and the development of the Saudi Red Crescent. The social programs besides planning for new social centers and social welfare offices, offers support for poverty reduction programs.

Water, agriculture and infrastructure allocation also witnessed an increase of 24.2% (from SR28.5bn in 2008 to SR35.4bn in 2009 budget). The proportion of the spending for this category increased from 6.9% to 7.4% of total expenditures from 2008 to 2009. The appropriations (not disclosed) were also provided for the two industrial cities of Jubail and Yanbu.

Budget Allocation by Sectors



Source: Ministry of Finance, & SAMA

Transportation and telecommunications received SR19.2bn (US\$5.2bn) which was higher by 17.1% from the last year and constituted 4.0% of the total expenditure. This increased allocation reflects the government's continued focus to improve and enhance the Kingdom's ports, airports, rail networks, roads and communications facilities that will provide invaluable support for the Kingdom's future economic growth plans.

Municipality services spending increased to SR19.8bn (US\$5.3bn) in 2009 budget as compared to SR17bn (US\$4.5bn) in 2008.

Specialized Credit Development Institutions and Government financing programs also remained under budget consideration. They mainly constituted of revitalizing the resources of the Real Estate Development Fund by SR25.0bn (US\$6.7bn) over a period of five years, and estimated disbursements of SR40.0bn (US\$10.7bn) by Government Specialized Credit Institutions to the beneficiaries of their lending programs.

2009 Still Holds High Chances of Budget Surplus

Based on the Kingdom's inherent strengths and our economic forecast for 2009, we are confident that although the year ahead will see a softening of the Saudi economy, the budgeted fiscal deficit has high chances of being converted into a fiscal surplus. In addition to the government's continuing efforts and commitment, the factors like easing of inflation, low debt to GDP ratio, strong banking system and domestic demographic consumption demand will largely facilitate the Kingdom in continuation with its robust economic growth plan for the Saudi economy.

Going forward, we have estimated three different scenarios for government finances for the next fiscal year 2009. Generally, all our scenarios are conservative taking into account the current downturn in oil prices and production levels as per OPEC. Our scenario analysis ranges from the worst to best case, with oil output levels expected to vary from 7.5mn bpd in worst case to 8.5mn bpd in best case during 2009. We also estimate that Arab Light Oil prices could vary over the range of US\$55 to US\$65 per bbl (worst case up-to best case scenarios). The total expenditure forecasted in this analysis varies between the range of 25% to 27% above the 2009 budgeted government expenditure.

Scenarios for FY 2009 Budget Outcome

(SR mn)	Worst Case	Most Likely	Best Case
Arab Light Price (US\$/b)	55.0	58.0	65.0
Production (mn b/d)	7.5	8.0	8.5
Oil Revenues	531,759.4	600,060.0	719,004.4
Other receipts	69,128.7	78,007.8	93,470.6
Total Revenue	600,888.1	678,067.8	812,474.9
Total Expenditure	603,250.0	598,500.0	593,750.0
Surplus/(Deficit)	(2,361.9)	79,567.8	218,724.9

Source: SAMLA, OPEC, & Global Research

Therefore, based on our forecasts for three different scenarios, Saudi Arabia could report a deficit of SR2.3bn in worst case scenario, while it could report fiscal surplus between the range of SR79.5bn to SR218.7bn in the most likely and best case scenarios, respectively. From these results although we derive confidence that the Kingdom will be able to fulfill its targeted economic growth objectives for 2009, the economy will definitely slow down as compared to the last year.

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