



بنك الإمارات دبي الوطني  
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Economics  
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## Saudi Arabia: Budget 2017

### 2016 budget deficit estimated at SAR 402bn (-16.7% GDP)

The official Saudi estimates for the 2016 budget put the deficit at **-SAR 402bn or -16.7% of GDP**. This is higher than our own forecast of -SAR 325bn (-13.5% of GDP) largely due to lower than forecast oil revenue. The government estimated oil revenues at just SAR 329bn in 2016, lower than our estimate of SAR385bn.

With the average oil price at USD 45/b and average oil production of 10.4mn bpd last year, the government's estimate implies only a 50% pass-through from crude oil produced to the budget. In 2015, this figure was 60% and in 2010-2014 the average pass-through was 73%. We think the initial estimate is too low, and expect the oil revenue figure to be revised higher in due course. Consequently, we estimate an overall budget deficit of **-SAR 345bn (-14.4% GDP)** in 2016.

### Cash or accrual budget?

Expenditure was lower than we had forecast at SAR 930bn, but this was still a 10.7% overspend on the SAR 840bn budget. While government spending was more than budgeted last year, it was nevertheless nearly -5% lower than 2015. The budget statement noted that SAR 105bn of the total SAR 930bn spending was actually settlement of accounts from 2015 (SAR 80bn) and spending related to infrastructure projects for which funding had already been earmarked (SAR 25bn). The 'true' spending for the fiscal year on an accrual basis was thus just SAR 825bn according to the budget statement.

However, the budget has always typically been reported on a cash basis, so if SAR 80bn is deducted from the 2016 expenditure figure as an accrued expense from the previous year, then it should be added to the 2015 expenditure figure (which it hasn't been). Similarly, it's not clear that the funding set aside for infrastructure investment projects in the government's reserve accounts has actually been put through as expenditure in previous budgets (which were prepared on a cash basis). **We think it makes sense to look at the cash budget analysis for the time being, as these are substantial sums of money, and the transition to a full accrual basis for the budget is only likely to be achieved by 2020.**

### Saudi Arabia: Budgets and outcomes (SARbn)

	2016		January 2017		2017	
	Official budget	ENBD forecast	Official estimate (FY 2016)	ENBD estimate (FY 2016)	Official budget	ENBD forecast
Revenue	513.8	645.0	528.0	584.4	692.0	694.0
Expenditure	840.0	970.0	930.0	930.0	890.0	950.0
Balance	-326.2	-325.0	-402.0	-345.0	-198.0	-256.0
% GDP		-13.5%	-16.7%	-14.4%	-7.4%	-9.6%

Source: Saudi Ministry of Finance, Emirates NBD Research

## 2017 budget isn't really expansionary

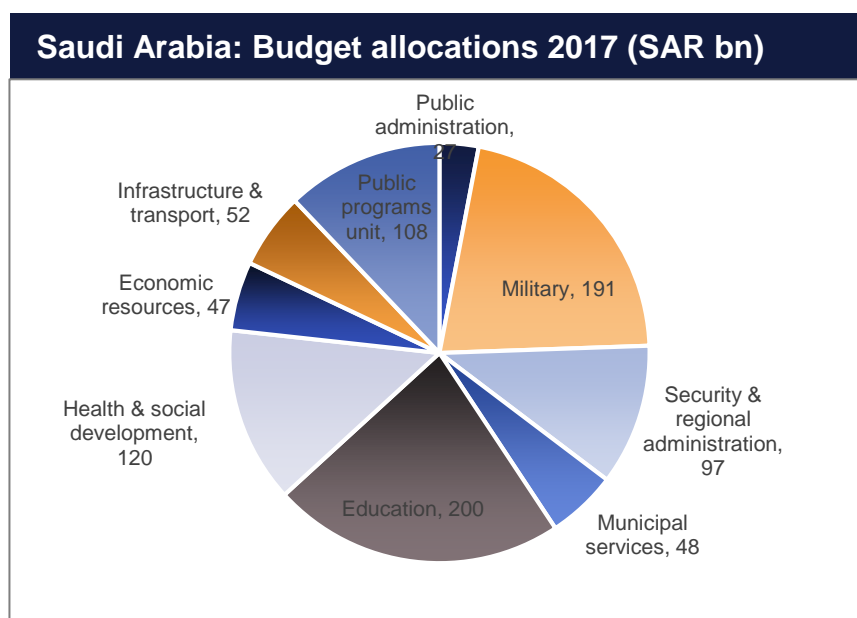
The official budget statement indicates a 7.8% increase in spending from 2016, with total spending forecast at SAR 890bn. However, if we use the cash approach, the official budget projects a -4.3% cut in spending. As is usually the case however, we expect some overspend this year. **We have conservatively forecast government spending at SAR 950bn in 2017, 6.7% higher than the budget and 2.1% higher than actual spending in 2016.**

For the first time, the budget statement provides a specific figure for oil revenues, SAR 480bn. Assuming oil production averages 10.1mn bpd in 2017, **the budget seems to be based on average oil price of USD 53/b in 2017**; not far off our own forecast of USD 55/b. We forecast the budget deficit narrowing to -9.6% of GDP this year from our estimate of -14.4% in 2016.

## Defense and Education remain biggest component of budget

Military spending and education accounted for half of total budget spending in 2016. Spending on defense was nearly 15% over the budget allocation, while municipal services and health & social development spent less than they were allocated.

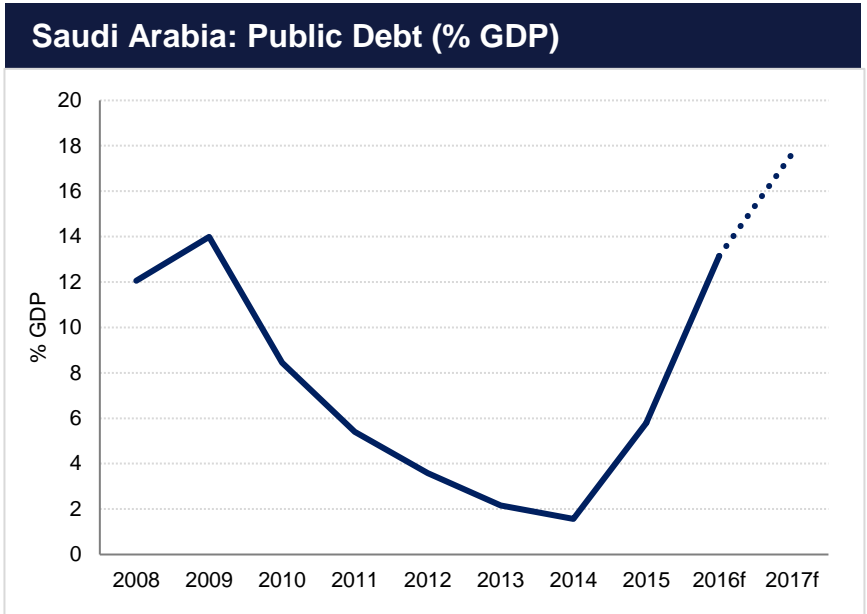
In 2017, the military has been allocated 21.4% of the budget with security and regional administration another 10.9%. Education will get 22.5% of total spending, with health & social development and public programs also taking sizeable chunks of the pie. These figures again presumably exclude the special infrastructure projects for which funds have already been set aside in the government's reserve accounts (from previous years' budget surpluses).



Source: Saudi Ministry of Finance, Emirates NBD Research

## Financing the deficit

The budget statement indicates that the deficit will again be financed through a mix of debt and drawing down of reserves. In 2016, the stock of public debt increased to SAR 316.5bn (13.1% of GDP by our estimates) from SAR 142bn (5.8% of GDP in 2015). In its budget statement, the government indicated that it would limit the stock of public debt to 30% of GDP. If we assume that about 60% of this year's deficit is financed by borrowing (similar to 2016), then this would imply a further increase in the debt stock by SAR 155bn to around 18% of GDP.



Source: Haver Analytics, Saudi Ministry of Finance, Emirates NBD Research

### Conclusion

**Overall, we don't expect a significant boost to growth from increased spending in 2017.** However, the drag on growth from last year's spending cuts is also unlikely to be repeated, if the oil price meets our forecast of USD 55/b this year. The budget statement indicated that real GDP growth slowed to 1.4% in 2016, from 3.4% in 2015 and exactly in line with our forecast. **Following the 2017 budget statement, we retain our GDP growth forecast of 1.8% this year.**

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