

Saudi Budget 1437/1438 (2016)

- Saudi Arabia cuts down spending on falling oil prices
- Budgeted revenue stood at SAR513.8bn, 28.1% lower than last year
- Budgeted spending is at SAR840.0bn
- Oil price breached USD40/bbl; breakeven price estimated to be between USD59-65/barrel
- The budgeted deficit in 2016 is SAR326.2bn

Saudi Arabia is in a mood of massive spending cut

In line with the trend of the previous year, Saudi forecasted a deficit of SAR326.2bn with projected revenue of SAR513.8bn and expenditure of SAR840.0bn. The 2016 budget, the first since King Salman took over the country in January, contained significant changes in spending and revenue policy as Saudi Arabia adapted to oil prices that have fallen by more than 60% since mid-2014 to below USD40 per barrel. The budgeted expenditure for 2016 stands at SAR657bn (excluding SAR183bn in a buffer provision; SAR840bn inclusive) as against the budgeted figure of SAR860bn in 2015 and an actual expenditure estimated at SAR975bn; underpinning a steep reduction. Interestingly, the budget allocation also highlights, for the first time, SAR213bn for Military and Security Services, which constitutes 25% of the total expenditure for 2016. The government seems to be focusing more on necessary spending in 2016, evident from curtailment of expenditure. Several measures like issuance of bonds/public borrowing and implementation of new taxes and fees has been done and will be considered to cut down on the expected deficit; the government eyes to review current service fees and fines and impose new fees, value-added taxes etc. and levy additional taxes on carbonated drinks and cigarettes. The government also mulls reducing the huge wages and bonus bill, which represents a major weight of the country's expenditure.

(SAR mn)	2012	2013	2014	2015e	2016b
Oil Production (mb/d)	11.6	11.5	9.7	10.0	
Government revenue	1,383.1	1,303.8	1,156.4	608.0	513.8
Government total expenditure	977.6	1,059.8	994.7	975.0	840.0
Surplus / (Deficit)	405.6	244.0	161.6	(367.0)	(326.2)
Oil Price	106.9	102.4	95.4		

Source: IMF, Saudi Ministry of Finance & Global Research

Government bonds were issued to the local financial market during 2015, amounting SAR98bn. By the end of the current fiscal year 2015, public debt is estimated at SAR142bn, equivalent to 5.8% percent of the expected GDP this year, as compared to the public debt registered at the end of 2014 of SAR44bn, which represented 2% of GDP for the year 2014.

Oil Production (mb/d)	10.0	10.5	11.0
Price for revenue calculation	33.5	31.9	30.5
Breakeven price	65.3	62.2	59.3
Breakeven price w/o BSP*	47.4	45.2	43.1

* Budgetary Support Provision

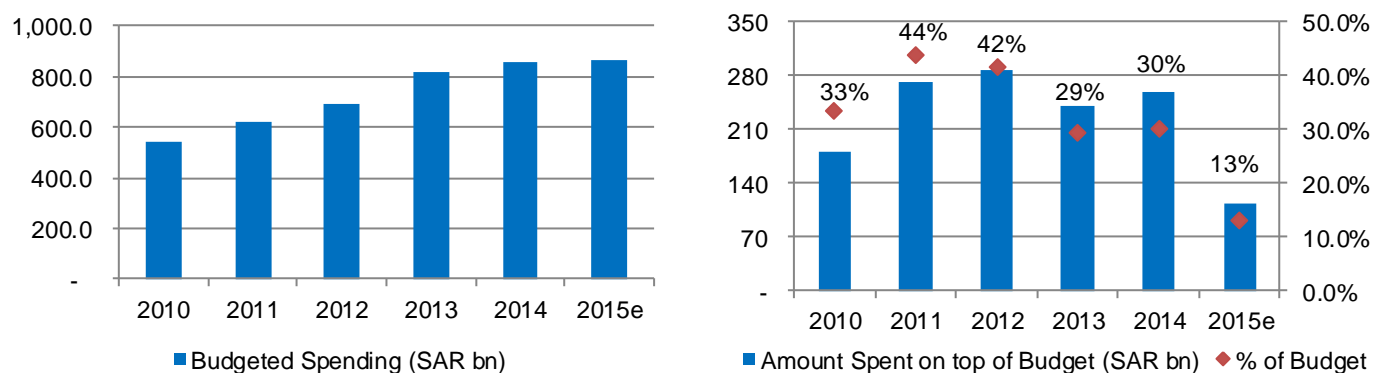
Source: Saudi Ministry of Finance & Global Research

As per Global Research, government has budgeted the revenue at a conservative oil price ranging from USD30 - 35/barrel; to breakeven, the Kingdom needs an average oil price of USD59–65/barrel and upon exclusion of the Budgetary Support Provision of SAR183bn this range reduces to USD43-47/barrel.

2015 budget deficit estimated at SAR367.0bn

Saudi Arabia's government expected to run a record budget deficit of SAR367bn in 2015 because of low oil prices. The deficit exceeded the market expectations on the back of multi-year low crude oil prices. State spending in 2015 totaled SAR975.0bn, exceeding SAR860.0bn of the original planned outlay on the back of extra spending such as a salary bonus for public employees. Revenues totaled at SAR608.0bn in 2015, less than the original target of SAR715.0bn as oil prices, on which the economy depends, fell more than expected. Noteworthy, amount spent over and above the budgeted amount was low at 13% which is nearly one-third of the average (overshot margin) for the past 5 years.

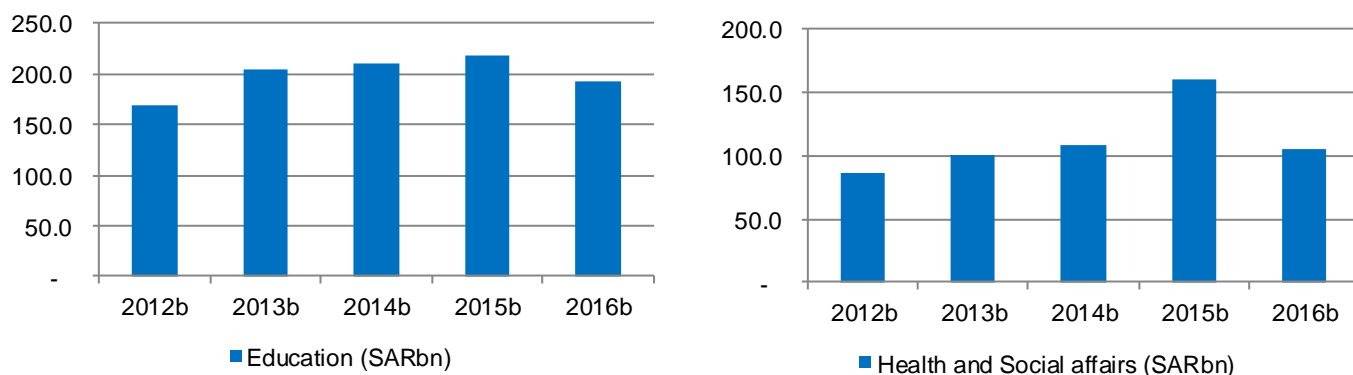
Saudi Budgeted & Actual Spending



Source: IMF, Saudi Ministry of Finance & Global Research

... Education spending drops 11.7% and Health and Social affairs spending declines 34.5%

Government has allocated SAR191.7bn, representing 22.8% of the total. This is 11.7% lower than the budget allocation of SAR217.0bn in the previous year. Similarly, the allocation in Health and Social affairs edged down 34.5% to SAR104.9bn compared to SAR160.0bn in the previous year.



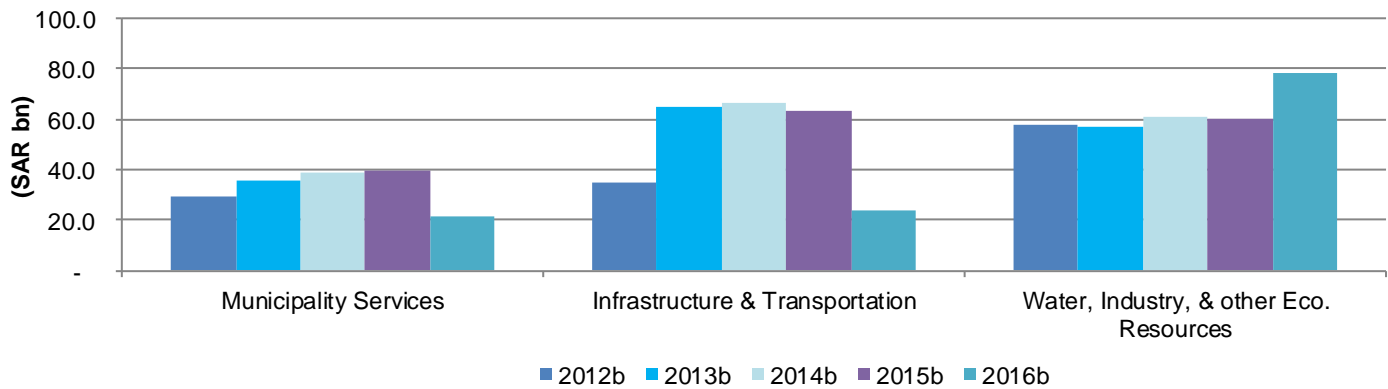
Source: Ministry of Finance, KSA

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...Spending on municipality, transport & water related sectors to drop combinedly by 24.4%

Spending on municipality, transport & water related sectors have been budgeted to drop by 24.4% in 2016 to SAR123.3bn from SAR163.0bn last year. Amongst the three sectors, municipality services spending is budgeted to fall by 46.9% while that on transport is down by 62.1%; however, spending on water/industrial economic resources was raised by 30.2%.

The government has allocated SAR213.4bn to military and security services this year as the last year the actual expenditure outlay was higher than the estimated due to higher spending on the salaries on the civil and military Saudi personnel.



Source: Ministry of Finance, KSA

A provision has been created as a buffer....

Due to the recent excessive volatility of oil prices and to address potentially declining revenues, a budget support provision of SAR183bn has been established to offer increased flexibility to redirect capital expenditures and operating expenditures on both ongoing and new projects according to national developmental priorities and to meet any emerging expenditure needs.

Huge subsidy cut to reduce deficit... petrol price at pump raised by over 50%

The government has also cut down energy subsidies progressively and plans to privatize state entities over the next five years. The price of higher-grade unleaded gasoline has been raised by 50% to SAR0.90 per liter from SAR0.60 per liter. Lower-grade petrol price has been increased by 67% to SAR0.75 per liter from SAR 0.45 per liter. Petrochemical feedstock price increased ranging from 11% to 133%. The price of methane was raised to USD1.25 per MMBTU and ethane to USD1.75; previously, both were at USD0.75. Furthermore, essential utilities like electricity prices for residential, governmental, commercial, agricultural and industrial use were also adjusted in accordance with consumption levels. Prices of fresh water and sewage utilities were adjusted across the board. The government also urged the citizen to pay their utility bills on time.

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