



Key themes

We present the Saudi Government's Q3 fiscal position update.

Saudi Arabia: Q3 2018 fiscal update

Well-positioned for an improved deficit in 2018

- Q3 2018 deficit came at SAR7.3bn and 9M18 deficit at SAR49bn
- We expect deficit of SAR138bn for 2018 as compared to Govt. estimated deficit of SAR148bn (SAR230bn in 2017)
- Our oil revenue estimate is SAR610bn for 2018, based on avg. oil price of around USD70/barrel for Q4
- 31% of SAR1.03tn budgeted exp. is likely to come in Q4 vs. 38% last year
- Bulk of the increase in expenses was pertaining to subsidies/social benefits to Saudi nationals and salaries. Expect infrastructure spending to pick up in Q4
- Given minimal deficit, there was no funding required in Q3
- We expect most Govt. related payables to be resolved before year end

Oil revenues inline: Q3 oil revenue was in-line with our expectation. This reaffirms that the surprise surge in oil revenue we saw in Q2 2018 was more to do with timing of dividends paid by Aramco. Going forward we believe this run-rate of oil revenue witnessed in Q3 could be the more normalized rate. Average Oil price in Q3 was US\$68.6/barrel and taking a month's lag for oil prices and exports of 660mn barrels for Q4, we expect oil revenues at around SAR610bn for 2018. At the start of the year, we estimated that average WTI oil prices need to be USD65/barrel for the Govt to meet its oil revenue target and we are currently above this estimate (avg. YTD at US\$67.2/barrel and Q4 2018e at US\$70/barrel).

Non-oil revenue continues to pick up: In-line with Government's plan, taxes on goods and services, which includes oil product fees and excise tax on harmful products and VAT, more than tripled to SAR83bn, driving non-oil revenues up ~48% y-o-y in 9M18. Other revenues contributed SAR85bn (+9% y-o-y, 9M18) which we believe includes proceeds from SAMA and PIF. The sequential decline in Q3 is more attributable to the seasonal nature of these investments depending on the income/dividends received.

Expenditure to be more balanced: So far in 9M 2018, the Govt has spent ~SAR712bn out of the SAR1030bn allocated (revised) for the year. This implies that ~31% of the budgeted expenditure will be seen in Q4 2018. This balance is better than what we have seen in the past year, where around 38% of the expenditure was realized in the fourth quarter. Looking closer into the expenditure mix, it was the subsidies/social benefits to Saudi nationals and salaries that took bulk of the expenditure. As seen from the budget press release, Health and Social development expenses (+46% y-o-y for 9M18) along with Economic resources expenses increased the most (+116% y/y for 9M18). Military expenses also increased by ~20% y-o-y for 9M18 period. The mix of expenditure implies that a good chunk of infrastructure is yet to be spent. As per the budget, only ~SAR20bn was spent on Infrastructure and Transportation as compared to the budgeted ~SAR54bn.

No financing was required in Q3: The deficit in 9M 2018, being SAR49bn was less than the financing obtained in H1 2018, which was SAR30bn by internal borrowing and SAR22bn in terms of external borrowing and hence there was no funding required in Q3. Overall the net borrowing remains at ~SAR550bn as compared to ~SAR443bn. The Govt expects deficit at 5% of GDP in 2018 and further decrease to 3.7% in 2021. In a nutshell, the deficit puts the Govt. in a comfortable position to increase spending and clear payables by year-end.

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Figure 1 Summary of fiscal position as of Q3 2018

(SARbn)	Q3 2018	Q2 2018	Q3 2017	Chg q-o-q	Chg y-o-y
Revenue	223.3	273.6	142.1	-18.4%	57.1%
Oil	154.0	184.2	94.3	-16.4%	63.2%
Non-oil	69.3	89.4	47.8	-22.5%	45.0%
Expenditure	230.5	281.0	190.9	-17.9%	20.8%
Deficit	7.3	7.4	48.7	-1.0%	-85.0%

Source: Ministry of Finance, Al Rajhi Capital

Figure 2 Summary of fiscal position as of 9M 2018

(SARbn)	9M 2018	9M 2017	Chg y-o-y
Revenue	663.1	450.1	47.3%
Oil	452.1	307.3	47.1%
Non-oil	211.1	142.8	47.8%
Expenditure	712.1	571.6	24.6%
Deficit	49.0	121.5	-59.7%

Source: Ministry of Finance, Al Rajhi Capital

Figure 3 Expenditure breakdown – Q3 2018

(SARbn)	Q3 2018	Q2 2018	Q3 2017	Chg q-o-q	Chg y-o-y
Expenditure	230.5	281.0	190.9	-17.9%	20.8%
Compensation of Employees	109.8	130.8	106.6	-16.1%	2.9%
Use of Goods and Services	28.6	43.3	20.7	-34.1%	38.3%
Financing Expenses	4.6	1.5	1.2	199.0%	295.6%
Subsidies	3.6	4.2	1.7	-15.7%	110.4%
Grants	0.1	1.6	1.2	-95.9%	-94.4%
Social Benefits	19.4	25.4	7.5	-23.6%	157.7%
Other expenses	28.4	25.9	17.1	9.5%	66.2%
Non-Financial Assets (Capital)	36.3	48.1	35.0	-24.6%	3.7%

Source: Ministry of Finance, Al Rajhi Capital

Figure 4 Expenditure breakdown – 9M 2018

(SARbn)	9M 2018	9M 2017	Chg y-o-y
Expenditure	712.1	571.6	24.6%
Compensation of Employees	353.5	303.5	16.5%
Use of Goods and Services	82.2	64.6	27.2%
Financing Expenses	10.2	5.4	88.6%
Subsidies	10.8	2.9	275.2%
Grants	1.7	2.4	-28.1%
Social Benefits	63.6	30.7	106.9%
Other expenses	79.8	64.8	23.2%
Non-Financial Assets (Capital)	110.3	97.3	13.4%

Source: Ministry of Finance, Al Rajhi Capital

Figure 5 Expenditure breakdown by sector – Q3 2018

(SARbn)	Q3 2018	Q2 2018	Q3 2017	Chg q-o-q	Chg y-o-y
Expenditure	230.5	281.0	190.9	-17.9%	20.8%
Public Administration	6.1	8.9	5.7	-31.3%	7.5%
Military	51.7	65.7	53.7	-21.2%	-3.7%
Security and Regional Administration	25.8	26.9	25.0	-3.9%	3.1%
Municipal Services	10.6	9.4	8.3	12.6%	28.2%
Education	45.9	55.1	44.4	-16.6%	3.5%
Health and Social Development	34.0	48.1	24.5	-29.3%	38.8%
Economic Resources	36.1	11.3	9.1	219.3%	294.7%
Infrastructure and Transportation	8.6	7.9	5.5	8.9%	56.5%
General Items	11.6	47.6	14.6	-75.6%	-20.3%

Source: Ministry of Finance, Al Rajhi Capital

Figure 6 Expenditure breakdown by sector – 9M 2018

(SARbn)	9M 2018	9M 2017	Chg y-o-y
Expenditure	712.1	571.6	24.6%
Public Administration	21.4	18.6	15.2%
Military	165.1	138.0	19.6%
Security and Regional Administration	73.7	67.7	8.7%
Municipal Services	27.4	30.2	-9.0%
Education	145.5	140.4	3.6%
Health and Social Development	120.6	82.6	46.1%
Economic Resources	52.0	24.1	116.1%
Infrastructure and Transportation	20.3	17.9	13.7%
General Items	86.0	52.2	64.7%

Source: Ministry of Finance, Al Rajhi Capital

Figure 7 Govt. 2018 spending budget and spending so far

	2018 Budget (SARbn)*	% Spent				
		Q1 2018	Q2 2018	Q3 2018	9M 2018	9M 2017
Expenditure	978.0	20.5%	28.7%	23.6%	72.8%	64.2%
Public Administration	26.2	24.0%	34.1%	23.5%	81.6%	69.5%
Military	210.0	22.7%	31.3%	24.6%	78.6%	72.3%
Security and Regional Administration	100.8	20.8%	26.7%	25.6%	73.1%	70.1%
Municipal Services	53.4	13.8%	17.7%	19.9%	51.4%	62.9%
Education	192.4	23.2%	28.6%	23.9%	75.7%	70.1%
Health and Social Development	146.5	26.3%	32.8%	23.2%	82.3%	68.6%
Economic Resources	105.3	4.4%	10.7%	34.3%	49.4%	50.9%
Infrastructure and Transportation	54.2	7.0%	14.6%	15.9%	37.5%	34.2%
General Items	89.2	29.9%	53.4%	13.0%	96.3%	48.5%

Source: Ministry of Finance, Al Rajhi Capital. * As per press release.



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