Saudi Arabia 2017 Budget: Breather from fiscal austerity, but moderate support to GDP growth

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Contents

Planned spending slated to increase 6% from 2016 budget

Saudi Arabia announced an expansionary budget for 2017 after a sharp fiscal retrenchment in 2016. The 2017 budget sees planned expenditure rising by 6%, from the 2016 budget. However, we believe that actual spending could moderately contract in 2017 when we take into account total government spending in 2016, including delayed payments. We forecast a -2% drop in government spending in 2017 as the impact of delayed payments subsides. Nevertheless, we believe that there will be some support for growth as the government looks to progress with key projects and reduce the pace of fiscal austerity. We think that Saudi Arabia's push to secure the OPEC and non-OPEC oil production cut deal was likely aimed at reducing the degree of fiscal retrenchment required after the painful experience in 2016. Moreover, no further changes in subsidy prices were announced in conjunction with the 2017 budget, unlike with the 2016 budget. However, further subsidy reforms could occur in 2H2017 once the cash transfer mechanism to support low- and middle-income families is in place.

Fiscal deficit forecast to narrow to -10.9% of GDP in 2017

We forecast that Saudi Arabia's fiscal deficit will narrow to c.-10.9% of GDP in 2017 from -16.8% in 2016, supported by the higher oil price and weaker spending. Our oil revenue assumptions are based on an average Brent crude price of USD55 per barrel (p/b) and production of 10.1 million barrels per day (bpd) for 2017. Our oil production assumption is in line with Saudi Arabia's output quota under the recent OPEC agreement, though we see upside risks to the oil price estimate. We will take a cautious approach to the oil price outlook until we see signs of compliance with the deal. We believe the oil revenue assumption in the 2017 budget is optimistic. The government is forecasting a substantially lower deficit of c.-7.7% of our 2017 GDP estimates. Further increases in the oil price are required if Saudi Arabia is to meet its medium-term fiscal objectives.

Very moderate stimulus; growth to remain weak

We see fiscal support to the economy increasing in 2017, albeit remaining relatively weak. We see real non-oil GDP strengthening to 1.4% in 2017 on the back of greater government spending in certain areas and slower subsidy reforms. This should provide the private sector some vital breathing space. We believe that the multiplier of government spending will be moderate, with the 2016 fiscal reforms still requiring balance-sheet adjustments from the private sector. Moreover, we expect private sector investment to remain soft amid a still-weak demand backdrop. Weak jobs and wage growth (public and private sector) will likely limit the recovery in consumer spending.

I. 2017 expenditure outlook

A. Government spending could fall for third consecutive year

Government spending could fall despite expansionary budget

Saudi Arabia announced its 2017 budget containing its fiscal objectives and projections. Government spending in the 2017 budget is projected to be 6% higher than in the 2016 budget, implying an expansionary stance. However, we believe that actual spending in 2017 could in fact fall from total expenditure in 2016, when including delayed payments. The 2017 budget provided two spending levels for 2016:

Two spending scenarios provided for 2016

i) **SAR825 billion** This figure highlights the deep fiscal retrenchment in 2016, alongside the fiscal reforms. The fact that expenditure was reduced by such a degree shows the deep pace of retrenchment. Spending at this level is down -15.7% from 2015 and would result in a deficit of -12.4% of GDP for 2016. Municipal services and public programmes saw the greatest falls in spending in 2016, whist infrastructure and military expenditure rose (Fig. 4). However, the figure excludes delayed payments from previous years.

We use the scenario including delayed payments for our estimates

ii) **SAR930 billion** This figure includes delayed payments from previous years made in 2016 (SAR80 billion) and "surplus projects" (SAR25 billion) mainly in the transport and housing sectors. This implies a weaker fall in government spending in 2016 of -4.9% and a fiscal deficit of -16.8% of GDP. We believe that most of the delayed payments were most likely made in 4Q2016, supported by the higher oil price, the space provided by the retrenchment in spending and the large sovereign bond issuance. We had highlighted the risk to our 2016 fiscal deficit forecast with the payments to contractors in 4Q2016 in our research (**Global Data Watch 5-9 December 2916**).

Fig. 1. Budgeted government revenue and expenditure against actual fiscal outcomes

SAR billion, unless otherwise stated

	Budgeted	Actual	% Difference*
2015			
Revenue	715	616	(13.9)
Expenditure	860	978	13.7
Fiscal balance	(145)	(362)	149.8
2016		**Preliminary**	
Revenue	513	528.0	2.9
Expenditure	840	930.0	10.7
Fiscal balance	(327)	(402.0)	22.9
2017		**ADCB estimates**	
Revenue	692	630.8	(8.8)
Expenditure	890	911.4	2.4
Fiscal balance	(198)	(280.6)	41.7

Difference between budgeted and actual fiscal outturn

Source: SAMA, Budget Statements, ADCB estimates

Higher oil price allows more moderate approach in short term

Even though we see the possibility of another fall in government spending in 2017, we still see the 2017 budget as a move away from the deep fiscal consolidation stance of 2016. We believe that the budget looks to increase government expenditure in key areas (social infrastructure) and put in place measures to support private sector growth (consumer and corporate). This will provide a breather from the painful impact on economic activity of the sharp fiscal consolidation in 2016 (pull back in spending, subsidies, public sector wages and benefits). We think that Saudi Arabia's push to secure the OPEC and non-OPEC oil production cut was likely aimed at reducing the degree of fiscal austerity required. However, the fiscal deficit remains high, requiring medium-term reforms to lower the deficit to sustainable levels.

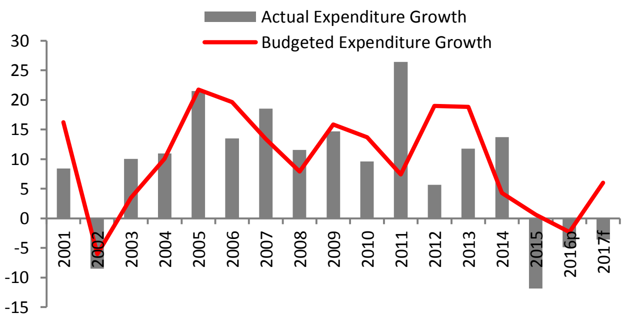
B. Budgeted expenditure to rise by 6% in 2017

We assume a -2% decrease in government spending in 2017 vs total spending in 2016

Total expenditure in the 2017 budget is slated at SAR890 billion, 6% higher than in the 2016 budget. However, as total actual expenditure in 2016 has exceeded the budgeted amount, including delayed payments, we believe that expenditure could contract by -2% in 2017. This is because the scale of the delayed payments (these had built up) in 2016 will not be repeated, though c.SAR30 billion in outstanding payments remain and are likely to be paid in the next two months. Saudi Arabia has indicated that from now on it will pay private sector bills in 60 days, which will be positive for private sector growth.

Fig. 2. We believe that actual spending in 2017 could be less than in 2016 despite the budget pointing to a rise

% change

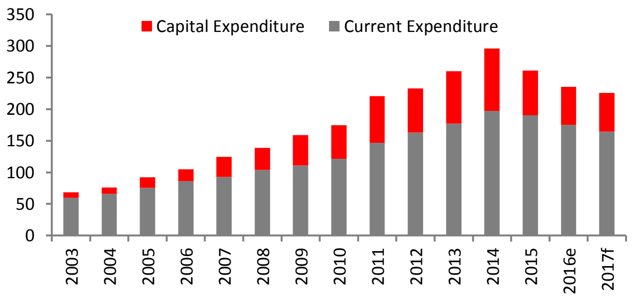


* 2016 actual expenditure data includes delayed payments made

Source: SAMA, Budget Statements, ADCB estimates Source:

Fig. 3. We expect current expenditure to fall again in 2017, with a moderate rise in capital spending

Actual spending, USD billion



Source: SAMA, Budget Statements, ADCB estimates

2017 budget also includes additional funding to support the National Transformation Plan

We expect a gradual rise in capital expenditure in 2017, though with current expenditure seeing a moderate fall. We expect a rise in capital as the government looks to make progress with social projects (education and health). The 2017 budget also includes additional funding for the National Transformation Plan (c.SAR42 billion), including associated projects and funding to support private sector growth. On the current side, we believe that Saudi Arabia will still look to further rationalise recurring expenditure. Moreover, some of the fiscal reforms introduced in 2016 such as the changes to wages and benefits introduced in October 2016 will continue to feed into lower spending in certain areas in 2017.

Capital expenditure likely to see an increase in 2017

Investment activity needs to increase to meet economic objectives

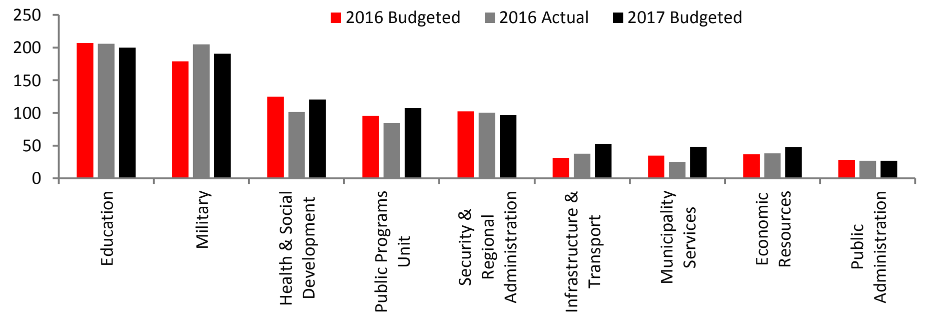
Our fiscal forecasts assume a 3% increase in capital spending in 2017. This follows signs of a sharp pullback in investment activity in 2016, with projects placed on hold as the government reviewed its investments. There are indications that the government will look to progress with some key projects in prioritised areas in 2017. The National Transformation Plan, approved in June 2016, includes SAR268 billion of projects and initiatives to support economic and social development (40% funded by the private sector and 60% by the government).

Investment in social projects likely to be prioritised

We believe that investment in social areas (education and health) will be the focus and will see greater expenditure. The education and manpower sector will continue to receive the largest spending allocation in 2017, equivalent to 22% of total planned expenditure, while spending on healthcare projects accounts for 12% of the total. The shortage in housing for nationals remains substantial and will likely continue to be targeted by government. However, any solution is likely to be implemented by the private sector in the new economic structure. We see the move to increase capital expenditure in some areas as positive given the infrastructural bottlenecks.

Fig. 4. Social expenditure prioritised in the budget (current and capital) and will likely see increase

SAR billion



Source: Budget Statements

Greater private sector involvement to meet Saudi Arabia's medium-term development requirements

Recent official comments also suggest that the funding base of key government credit agencies are likely to increase, aimed at supporting investment in key areas (including for the Saudi Industrial Development Fund, SIDF). We believe that the budgets for the government's specialised credit agencies will likely increase in 2017. The budget also highlights funding and initiatives to boost private sector activity. The private sector will need to play an increasing role in Saudi Arabia's medium-term development and in meeting infrastructure objectives. We expect further moves to promote private investment. These could include independent water and power project (IWPP) structures for utility development or public-private partnerships (PPP), which would reduce pressure on government balance sheets. We believe that the creation of a framework to support public-private partnerships will be critical for stronger economic activity. There is a vital need for Saudi Arabia to proceed with its social development investment plans (especially education given the need for its young population to find employment) and infrastructure upgrades (including areas such as utility and housing).

Current expenditure: One-off measures to disappear

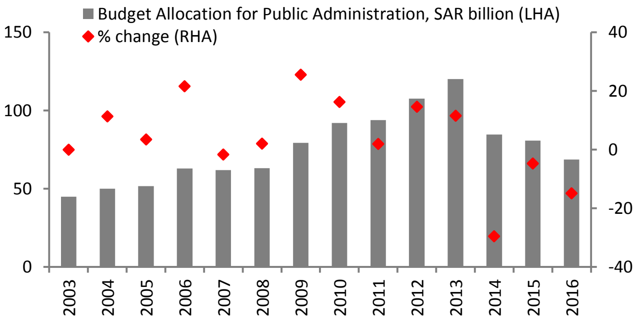
Focus will remain on cutting non-essential recurring expenditure – wage cuts to continue to feed into 2017 spending

Current spending continues to dominate overall spending. We are forecasting a -3.6% fall in actual current expenditure in 2017. Alongside the impact of the delayed payments, we believe that the government will continue to look to cut non-essential spending on goods and services. We also expect tighter fiscal controls on ministries and government bodies to ensure that spending stays closer to the budgeted levels, as was the case in 2016. Moreover, we believe that the cuts to public sector salaries and benefits in October

2016 will lower the government's wage bill in 2017 (full-year impact versus three-months in 2016). The 2017 budget does not give any indication of additional cuts to overall wage packages. We assume that overall wage packages will remain steady from October levels, though we could see further reductions in discretionary allowances/benefits. The October 2016 wage cuts largely affect senior government officials, while lower-ranking civil servants will see wage increases suspended.

Fig. 5. Government has been looking to reduce non-essential and administrative costs

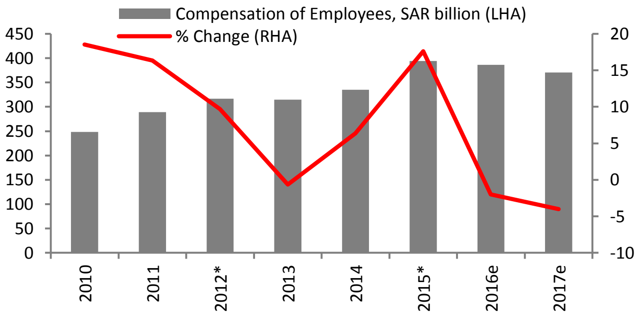
SAR billion (LHA); % change (RHA)



Source: SAMA, Budget Statements

Fig. 6. Total wage spending expected to fall in 2017 with the salary reforms introduced in October 2016

SAR billion (LHA); % change (RHA



Source: IMF, ADCB estimates

Higher oil prices to increase the subsidy bill in 2017

However, the fall in current expenditure will be moderated by the higher expected oil prices and measures to support low- and middle-income households. Despite the subsidy reforms so far, utility and fuel prices are still not fully liberalised. Thus, higher prices will lead to an increase in the subsidy bill. Official comments indicate that Saudi Arabia is looking to liberalise prices to market levels in 2017-20. However, no further subsidy reforms have been announced concurrently with the 2017 budget, unlike in 2016.

Payments to support low- and middle-income families from mod-2017

We believe that the government could wait until 2H2017 before introducing further subsidy reforms, once the cash transfer mechanism to support low- and middle income families is in place. The government will provide cash payouts to compensate for the reduction in subsidies. The degree of payments will be means tested and registration for the programme is expected to open in February, with payments starting in June 2017. We assume that these payments will be categorised in the current account segment of the budget.

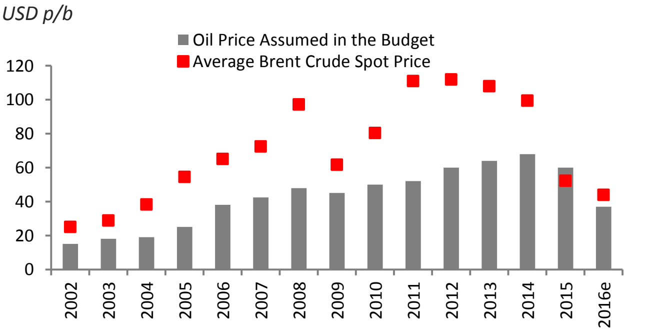
II. Government revenue

The 2017 budget projects revenues of SAR692 billion, up c.35% from the 2016 budget. The budget does not provide its oil price and production assumptions, but we believe that the oil revenue projection in the budget is optimistic. The 2017 budget envisages a 46% increase in oil revenues to SAR480 billion, which we believe looks optimistic. Our 2017 oil revenue forecast is lower, especially as we see average oil production contracting following the recent OPEC deal. Historically, Saudi Arabia has tended to be conservative in its oil price outlook, which we believe is no longer the case in 2017.

The budget sees a 46% rise in oil revenue in 2017, which we see as optimistic

Fig. 7. Oil revenue assumptions in Saudi budgets tend to be conservative

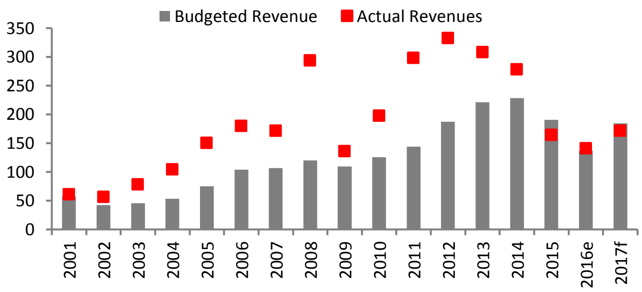
USD p/b



Source: MEES, ADCB estimates

Fig. 8. We believe that actual revenue in 2017 could be weaker than budgeted due to oil revenues

USD billion



Source: SAMA, Budget Statements, ADCB estimates

Non-oil revenue to increase further in 2017

Preliminary fiscal data for 2016 shows that non-oil revenue jumped by a notable 17.4% in 2016, which was partly a result of the changes to administered prices and increases in government fees (see Fig. 11). Reflecting the higher fees, there were increase in visa fees, telecoms royalties and tobacco tariffs. As some of these were only introduced in October 2016, their impact on boosting non-oil revenues will be felt more in 2017. Non-oil revenue rose to SAR199 billion, equivalent to 37% of total revenue. However, one of the key factors behind the strong rise in 2016 non-oil revenue was the increase in returns from SAMA (of over 75%). Consequently, returns from SAMA accounted for 31% of non-oil revenue in 2016, up from 21% in 2015..

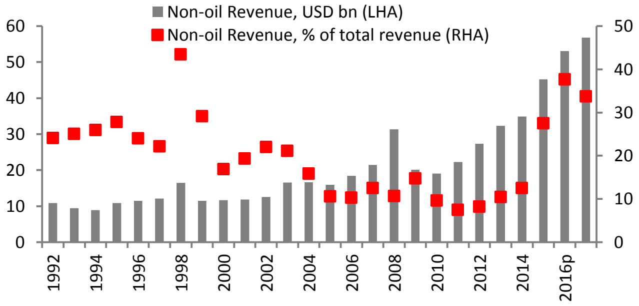
Non-oil revenue jumps by 17% in 2016, in part supported by reform measures

We believe that reforms to raise non-oil revenue will be a key ongoing objective of the government. The budget see a 7% increase in non-oil revenue in 2017, which we believe will include further reforms. We see the possibility of further reforms later in 2017, including increases in government fees, the introduction of new fees and duties and reductions in subsidies (including fuel). Meanwhile, a new fee of SAR100 per month was introduced on expatriates working in the commercial sector. The fees is expected to raise c. SAR1 billion per annum). The government should also start receiving revenue from the undeveloped land tax of 2.5%. Initially, the tax will be levied on plots exceeding 10K sqm. The law aims to increase non-oil revenues and boost housing investment. VAT of 5% on goods and services is due to be introduced in January 2018, while privatisation has also been slated. The government will also gradually increase monthly fees paid by companies to employ foreigners from 2018. The level of fees will depend on the proportion of expatriates within the company.

Reforms to further increase non-oil revenue will likely be a medium-term objective

Fig. 9. Non-oil revenue has risen strongly in 2016, growing by 17.4%, partly due to fiscal reforms

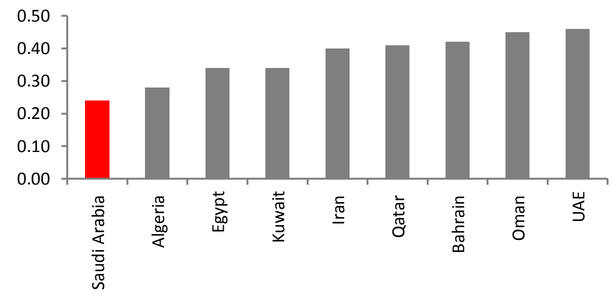
USD billion (LHA); % of total revenue (RHA)



Source: SAMA, Budget Statements, ADCB estimates

Fig. 10. Saudi gasoline prices remain below fully liberalised prices (UAE and Oman)

USD per litre



Source: Global Petrol Price, ADCB estimates

Key fiscal reforms

We estimate that the reform measures introduced in 2016 amounted to around 1.5-2% of GDP in 2016. These were reflected in both the revenue and expenditure sides of the budgets.

Fig. 11. Saudi Arabia: Summary of fiscal reform measures

Jul-10	Average price of electricity sold to non-individual users raised more than 20%. Some 43% of total consumption impacted.
Dec-15	Price of water raised to SAR9 per cubic metre from SAR4 for corporate, industrial and government entities. Fuel prices raised, including 95 octane gasoline by 50% to USD0.24 per litre and lower-grade 91 octane by 67%.
Jan-16	Prices of natural gas, kerosene, crude oil, heavy fuel oil, ethane and butane increased. Electricity tariff rates for residential, commercial and government users raised by an average of roughly 43%. Low-consumption users exempt.
Jun-16	Saudi Arabia's cabinet approved a tax on undeveloped urban land, which had been under discussion for over a year. A 2.5% tax will be levied on plots exceeding 10K sqm. The Ministry of Housing will specify which land falls under the new tax law, and a fair value for the land will be determined by a committee. Land owners are required to register their plots within six months of the release of the final regulations of the tax. We do not expect the tax to boost government revenues in 2016 due to the six-month registration period.
Oct-16	Fees increased for a number of government services. This included raising the costs of ports, passports, car driving licences, car transfers to new buyers, traffic violations, renewal of residence permits for domestic workers, and customs tariff protection for 193 commodities. Moreover, the price of a three-month multi-entry visa was increased to SAR500, which was previously the cost for a six-month visa. The fee for a two-year multi-entry visa was raised to SAR8,000 (USD2,133).
Oct-16	Changes to public sector wages and benefits: - Salaries of ministers (or those of ministerial rank) have been reduced by 20%; - A 15% reduction in the annual subsidy granted to Shoura Council members for housing and furnishing; - A 15% reduction in the lump sum paid to Shoura Council members for their car maintenance and fuel costs for four years; - Overtime bonuses were curbed at between 25-50% of basic salaries; - No annual increment for next year; - Hiring and renewal of contracts for expatriate workers in non-essential sectors suspended; - All appointments to vacant posts halted; - Provision of vehicles for senior officials suspended until next year; - Annual leave may no longer exceed 30 days; - Monthly transportation allowance for employees during vacation days stopped.

Source: SPA, various media sources, ADCB estimates

III. Fiscal deficit to narrow in 2017

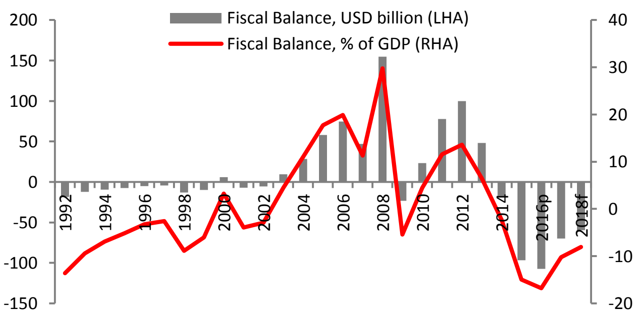
A. Fiscal deficit to remain in double digits

We forecast that the fiscal deficit will narrow to -10.9% of GDP in 2017, down from -16.8% in 2015

We forecast that Saudi Arabia's fiscal deficit will narrow to c. -SAR262 billion, equivalent to -10.9% of GDP, in 2017 (from -16.8% in 2016). The lower deficit will largely be due to the higher oil price and weaker spending. As noted earlier, we do however see the possibility of more fiscal reforms being introduced later in 2017 (included in our forecasts). Our deficit forecast is higher than the budgeted assumption of SAR198 billion, equivalent to -7.7% of our 2017 nominal GDP estimate. Our oil revenue estimate is based on an average Brent crude price of USD55 per barrel (p/b) for 2017. We highlight upside risks to the oil price outlook, though we are taking a cautious approach until we see signs of compliance with the joint OPEC and non-OPEC production deal. Higher regional spending by Saudi Arabia also remains a risk on the expenditure side.

Fig. 12. Fiscal deficit forecast to narrow to -10.9% of GDP in 2017 and -8.1% of GDP in 2018

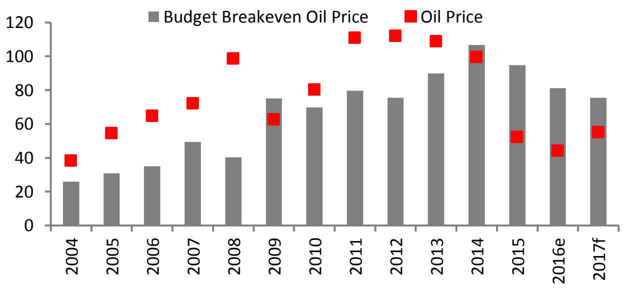
USD billion (LHA); % of GDP (RHA)



Source: SAMA, Budget Statements, ADCB estimates

Fig. 13. Saudi Arabia's budget breakeven oil price to moderate further in 2017 but further reduction required

USD p/b



Source: SAMA, ADCB estimates

We see Saudi Arabia's budget breakeven oil price at USD77 p/b in 2017 – further fiscal adjustment required

Nevertheless, Saudi Arabia's deficit will remain high in 2017, in absolute and percentage terms. As a result, further fiscal reforms and a pull back in expenditure are required to bring the deficit to a more sustainable level. This is especially important as the medium-term outlook for oil remains weak (compared to pre-2014 levels), with a rise in prices leading to increased US shale production. We believe that oil prices are unlikely to rise sustainably above USD65-70 p/b in the medium term. We estimate that Saudi Arabia's budget breakeven (BBE) oil price will moderate to USD77 p/b in 2017, down from USD81 p/b in 2016. However, much of the improvement in 2016 was due to the support from SAMA's returns to non-oil revenue. Nevertheless, the BBE is down from a peak of USD106.6 p/b in 2014.

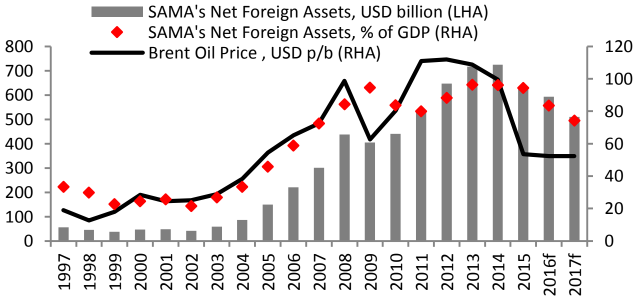
B. Funding of the deficit – multiple funding sources

We continue to see Saudi Arabia using multiple funding options to cover the fiscal deficit in 2017 and beyond. This would largely include drawdown of FX reserves, debt issuance and utilisation of government deposits in the banking sector. Significant fiscal buffers remain, especially compared to previous oil price downturns in the 1980s and late 1990s. The fiscal surpluses between 2003 and 2014 were used to build up FX reserves and lower debt levels.

FX reserve and debt issuance to continue to be utilised in 2015

Fig. 14. SAMA's NFAs continue to see sharp fall in 2016 but remain comfortable on historical basis

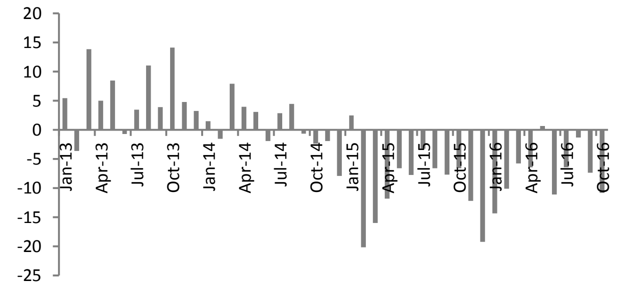
USD billion (LHA); % of GDP and USD p/b (RHA)



Source: SAMA, Reuters, ADCB estimates

Fig. 15. Pace of SAMA's FX drawdowns high in 1Q2016; October drawdown implies a pick-up in spending

USD billion, change in SAMA's NFA position



Source: SAMA

FX reserve position remains strong; pace of drawdown slowing

Saudi Arabia's FX reserve position saw another significant fall in 2016, but it remained comfortable on a historical basis. Net foreign assets (NFA) held by SAMA fell from a peak of USD737.1 billion in August 2014 to USD535.9 billion in October 2016, their lowest level since December 2011.

SAMA's FX reserves down 16.3% y-o-y in October 2016

The monthly NFA drawdown averaged -USD7.3 billion in 10M2016, down from -USD9.6 billion in 2015. The monthly drawdowns were particularly strong in 1Q2016 when oil prices were low. Moreover, the sharp fall in the October level implies a marked pickup in government spending in 4Q2016, especially considering the international bond issuance that month. We expect the pace of average monthly reserve drawdown to moderate in 2017 to around -USD5 billion with the narrowing in the fiscal deficit and greater debt issuance. We estimate that SAMA's NFAs will stand at around 73% of GDP at the end of 2017. This compares to just 17% of GDP in 1981, right before oil prices collapsed and Saudi Arabia entered a multi-year retrenchment cycle.

Average monthly drawdown of FX reserves forecast to fall in 2017 to –USD5 billion

Further space to increase debt; external borrowing vital for reducing pressure on domestic liquidity

Saudi Arabia's government debt rose sharply in 2016, albeit remaining low by international standards. Preliminary budget data indicates that government debt rose to SAR316.5 billion in 2016 (SAR213 billion local and SAR103.1 billion international), equivalent to 13.2% of GDP. This is up from 5.9% of GDP in 2015. We had expected a

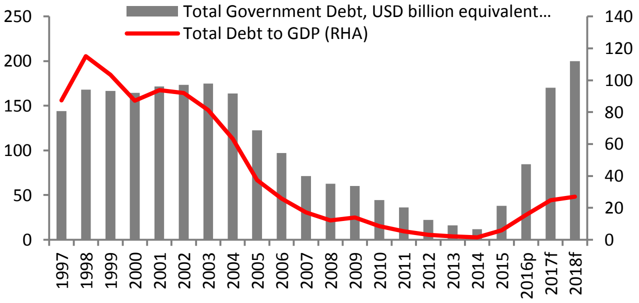
Saudi government debt rises to 13.2% of GDP in 2016; first international debt issuance this year slightly higher debt level of around c.17% of GDP. We believe that the rise in local debt looks low, especially when compared to SAMA data (Saudi Arabia resumed the issuance of domestic bonds in mid-2015). Notably, the Saudi Arabian government started borrowing internationally for the first time in 2016. The issuance of international debt would be a seminal departure for Saudi Arabia, which has thus far only issued domestic sovereign debt. Saudi Arabia raised a USD10 billion syndicated loan in May 2016 and USD17.5 billion through a sovereign bond issued in October 2016. Saudi Arabia's sovereign bond was particularly vital in improving liquidity in the banking system, with domestic funding sources stretched. Meanwhile, domestic debt in 2016 stood at SAR213.4 billion (USD56.9 billion).

Saudi considering using a number of debt instruments– including Islamic sukuks

We expect the government to raise external debt again in 2017 to help reduce the pressure on domestic funding sources and help ease banking sector liquidity conditions. We believe foreign demand for Saudi Arabia's debt will be supported by the SAR's peg to the USD, supported in part by the USD strength. It will also provide a benchmark for foreign corporate issuances, which as yet remain limited. The government has indicated that the debt ceiling will be set at 30% of GDP by 2020 and is looking to use a variety of debt instruments, including sukuks. Official statements indicate that Saudi Arabia could return to the debt market in end-1Q2017.

Fig. 16. Government debt rises to 13.2% of GDP in 2016, up from 5.9% in 2015

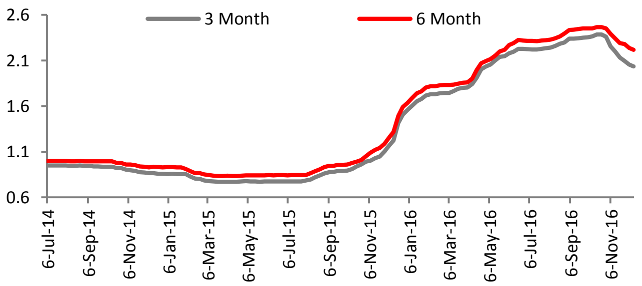
USD billion (LHA); % of GDP (RHA)



Source: SAMA, Budget Statements, ADCB estimates

Fig. 17. Saudi interbank rates have moderated following the USD17.5 billion international bond in October

%



Source: Bloomberg

Government deposits in banking sector

Net deposits in banking sector around 41% of GDP in October 2016

We expect the Saudi government to continue partly utilising its deposits in the commercial banking system, although much will depend on domestic liquidity conditions. Government deposits in the banking system were down c.18% y-o-y in October 2016, albeit still standing at 41% of 2016 GDP.

IV. Economic outlook for 2017

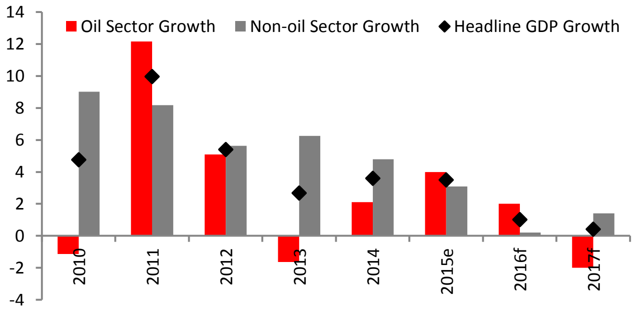
A. Real non-oil GDP growth to pick up in 2017

Real non-oil GDP growth expected to pick up in 2017 with higher government spending

We forecast real non-oil GDP growth picking up to 1.4% in 2017, with some support from government spending. However, the oil sector will be a drag on real GDP growth as Saudi Arabia reduces oil production in line with the OPEC agreement. Saudi Arabia will have to reduce oil output by c.-4.6% in January from the October 2016 levels. The contraction in the oil sector is the main factor behind our lower headline real GDP growth forecast of just 0.4% in 2017.

Fig. 18. Real headline GDP growth to moderate in 2017 as oil sector expected to contract with output cuts

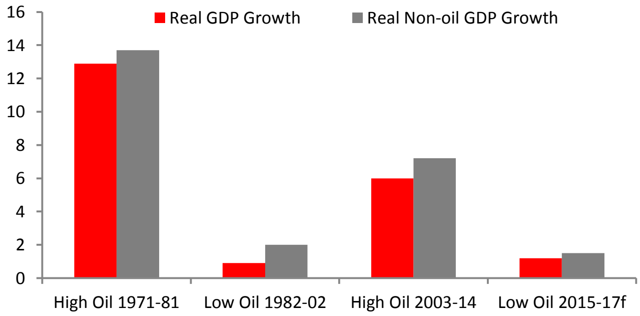
% change



Source: SAMA, ADCB estimates

Fig. 19. Non-oil GDP growth expected to remain weak with ongoing fiscal reforms required

% change, period average



Source: SAMA, ADCB estimates

B. Fiscal stimulus to be mild in 2017

Government spending a key driver of domestic demand

Government expenditure is a key driver of private sector activity and the main conduit for oil revenue to enter the domestic economy (alongside government deposits in the banking sector, to a lesser degree). The higher expected oil price in 2017 will also be moderately positive for private sentiment. Government spending accounted for over 60% of non-oil GDP (nominal) between 2010 and 2014. However, in the last few years, this ratio has been boosted by increased regional expenditure, while domestic support has moderated with a pullback in spending.

Signs that the government increased expenditure in 4Q2016

There are signs that the government increased spending at end-2016 to repay arrears to contactors and service providers, which was essential for injecting funds into the economy and supporting banking sector liquidity. According to official sources, SAR80 billion of payments were made to contractors at end-2016. With this increased expenditure, we believe that real non-oil GDP could see moderate growth of 0.2% in 2016, up from our earlier estimate of a contraction (-0.4%). Nevertheless, we believe that the support to growth in 2016 will be largely statistical – higher government spending would have also likely resulted in the private sector paying off its arrears – rather than supporting new activity. Conditions on the ground would have felt like a recession in 2016, especially in 9M2016. We expect more support to real economic activity from this injections of funds and improved liquidity in early-2017.

Weak and below-trend non-oil sector recovery in 2017

Furthermore, we see real non-oil GDP strengthening on the back of greater government spending and investment in certain areas. The weaker subsidy reform (relative to 2016) will also be positive for private consumption; we see weaker inflation in 2017 due to the more limited reforms. However, we believe the fiscal support for growth will be relatively weak, with a limited multiplier. Thus, we expect real non-oil GDP growth to remain weak in 2017, substantially below trend level. The fiscal reforms of 2016 will still require adjustments from the private sector in 2017. Moreover, we expect private investment to remain weak amid the still-soft domestic demand backdrop. We do not expect a marked increase in private investment 2017 due to government initiatives. Meanwhile, weak jobs and wage growth (public and private sector), and the introduction of a fee on expatriate labour will likely limit the recovery in consumer spending.

V. Macroeconomic Indicators

Fig. 20. Saudi Arabia: Economic Indicators and Forecasts

	2013	2014	2015	2016e	2017f	2018f
Real Economy						
Average Brent Crude Spot Price, USD p/b	108.8	99.5	52.3	44	55	60
Average Oil Production, mn bpd	9.7	9.7	10.2	10.3	10.1	10.2
GDP at Current Market Prices, SAR bn	2,791.3	2,826.9	2,422.5	2,396.4	2,574.6	2,770.6
GDP at Current Market Prices, USD bn	744.3	753.8	646	639	686.6	738.8
Real GDP Growth Rate, %	2.7	3.6	3.5	1.0	0.4	1
Real Non-Oil GDP Growth Rate, %	6.2	4.8	3.6	0.2	1.4	1.2
Population, mn	30	30.8	31.4	32.0	32.7	33.3
GDP / Capita, USD	24,816	24,499	20,582	19,962	21,025	22,182
CPI Inflation, % average	3.5	2.7	2.2	3.8	1.6	4.8
Fiscal Indicators						
Budget Balance, USD bn	48.2	(17.5)	(96.7)	(107.3)	(74.9)	(65)
Budget Balance, % of GDP	6.5	(2.3)	(15.0)	(16.8)	(10.9)	(8.8)
Gross Government Debt, % of GDP	2	2	5.9	16	24.8	27.1
Net Banking Sector Claims on the Government, USD bn	(424.2)	(402)	(287)	(210)	(190)	(165)
External Indicators						
Trade Balance, USD billion	222.7	184.1	50.3	34.9	57.3	57.4
Current Account Balance, USD bn	135.6	77.1	(50.4)	(40.7)	(17.2)	(17)
Current Account, % of GDP	18.2	10.2	(7.8)	(6.4)	(2.5)	(2.3)
FDI, USD bn	8.9	8.1	8.1	6.5	6.9	7.5
Total Net Foreign Assets, USD bn	753.1	766.8	699	561.3	501	450
Financial Indicators						
Growth Rate in Broad Money, %	11.1	14.6	14.2	0.7	1.5	2.7
Growth in Credit to the Private Sector, %	12.5	11.6	9.2	7	7.2	8
Benchmark Lending Rate, end-of-period, %	2	2	2	2	2	2.25
USD/SAR Exchange Rate, annual average	3.75	3.75	3.75	3.75	3.75	3.75

Source: General Authority of Statistics, SAMA, IMF, UNCTAD, ADCB estimates

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