



Saudi Arabia's 2008 national Budget Highlights and Analysis

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Saudi Arabia's 2008 National Budget (Highlights and Analysis)

The government's budget for 2008 fiscal year was endorsed by the Council of Ministers chaired by the Custodian of the Two Holy Mosques, King Abdullah Ibn Abdulaziz on December 10, 2007. The 2008 budget is Saudi Arabia's largest budget in history, earmarking expenditures at SR410 billion and revenues at SR450 billion, with an estimated surplus of SR 40 billion.

Trends and indicators:

Per the instructions of the Custodian of the Two Holy Mosques the budget was prepared in accordance with a set of mentors placing the focus on optimum investments of the available financial resources to achieve the requirements for comprehensive and sustainable development with priority given to services that directly affect citizens; including education, health services, social affairs, municipal services, water and sewage, roads and electronic transactions; and to support the efforts of scientific research in accordance with the Strategic Plan for Science and Technology, and to further develop infrastructure projects; within the framework of the policies and objectives of the Eighth Development Plan and its approved set of priorities, taking into account the implementation of development programs and projects, particularly those that provide key services to citizens while continuing to trim down the size of the public debt.

Economic Performance (2007):

According to the 2008 budget statement, the Gross Domestic Product of 2007 amounted to SR 1414 billion in current prices as estimated by the Central Department of Statistics, thus achieving an annual growth rate of (7.1%). The Oil Sector is expected to achieve a growth rate of (8%) in current prices, while the private sector is expected to have grown at a rate of (7.6%) in current prices.

Estimates also show that the GDP has achieved an annual growth rate of (3.5%) in constant prices. The growth of government sector at constant prices is estimated at (3.1%), while private sector growth is estimated at (5.9%). According to the available indicators all sectoral activities achieved positive growth. Real growth in the non-petroleum manufacturing sector is estimated at a rate of (8.6%), communications, transportation and storage (10.6%), construction (6.9%), electricity, gas and water (4.4%), wholesale and retail trade, restaurants and hotels (6%), while finance and business services, insurance and real estate recorded a (4%) rate.



Contribution of the private sector in real GDP also increased to (46.1%) as a result of the relative broadened base and diversification of the national economy.

According to available statistical estimates, the rate of inflation measured on the basis of the Cost of Living index in 2007 stood at (3.1%), and on the basis of the GDP deflator of non-Oil sector the inflation rate has reached (1.6%).

According to published statistics total value of commodity and services exports in 2007 will be over SR 900.76 billion representing an annual increase of (6.7%); while non-Oil commodity exports are estimated at about SR 106.82 billion with an annual increase of (24.9%). Non-Oil commodity exports represents (12.4%) of total commodity exports. Commodity and service imports are estimated to reach SR 512.1 billion for the same year, with an annual increase of (20.5%). Preliminary estimates of the Saudi Arabian Monetary Agency indicate that the trade balance in 2007 will have a surplus of SR 555.6 billion, at an annual increase of (1.1%). The current account of the balance of payments is expected to achieve a surplus of SR 344.4 billion, declining by (7.2%) as compared to 2006.

The budget report noted that the fiscal and monetary policies aimed at maintaining an adequate level of liquidity to meet the requirements of the national economy and enhanced growth, with the money supply (M3) growing at (13.5%) during the first ten months of the fiscal year 2007. Bank deposits also rose during the same period by (15%), and total bank loans to the public and private sectors rose by (12.7%). Banks continued to strengthen their financial capabilities as their capital and reserves increased by (30.9%) during the same period to SR 104.67 billion.

The stock market improved in performance, as witnessed by the rise in the general index TASI during the current fiscal year compared to levels recorded after the sudden retreat in February 2006. The market closed at 9892 points on Wednesday 5/12/2007 versus 7933 at the close of last fiscal year with an increase of (24.7%).

Reports published by international economic organizations continue to praise the overall performance of Saudi Arabia, its free trading system and its role in the stability of the Oil market through the implementation of investment programs to increase Oil production and refining capacities and the expansion of the gas treatment facilities, as well as its ongoing structural reforms targeted to enable the non-Oil private sector to achieve strong growth. The report of the World Bank on the investment climate in 2008 ranked the Kingdom twenty-third among (178) countries following an evaluation of its regulations and law governing investment climate. The report placed the Kingdom as one of ten countries that introduced reforms to investment regulations during the year. S&P raised its foreign and local currency long-term sovereign credit ratings on Saudi Arabia from “A+” to “AA-”.

The 2007 Actual Budget:

Revenues are expected to reach SR 621.5 billion by the end of the fiscal year 2007 at an increase of SR 221.5 billion from what was appropriated in the budget. Actual expenditures at the end of the fiscal year amounted to SR 443.0 billion, with an increase of SR 63 billion over budget estimates.

Based on a Royal Decree SR 25 billion of the surplus revenue will be allocated to the Real Estate Development Fund to be equally distributed over a span of five financial



years to come, SR 100 billion will be allocated to the government reserve while the remainder was directed to retire a further part of the public debt. The net size of the public debt is expected to be reduced to SR 267 billion by the end of the fiscal year, down to (19%) of the projected GDP compared with (28%) at the end of the previous year.

The 2008 Budget

The 2008 budget provided for the following revenues and expenditures:

Revenue:

Total government revenue for 2008 is budgeted at SR450 billion. It is believed that the revenue had been calculated based on expectations that the average price of Oil during 2007 will fall within the range of 38 dollars a barrel, and a production level of 8.5 million barrels per day. In light of the market conditions that are conducive to petroleum Oil prices remaining high during the next year ranging from \$ 50 to \$ 60 per barrel on average, the budget seems to have been prepared on the basis of a prudent price forecasts ranging between 40 and 45 dollars a barrel and production volume of less than 9 million barrels daily.

Expenditures:

Total expenditure for 2008 is budgeted at SR410 billion, which shows an 8% increase of the SR380 billion appropriated in the budget of last year, making it the highest budget ever in the history of the Kingdom of Saudi Arabia.

On functional basis, the new budget introduced a number of new programs and projects that had already been approved at a total cost of over SR 165 billion. Allocations for the major sectors are as follows:

1. Education and training:

SR 105 billion has been allocated for the general and higher education sector, and manpower training in order to provide the proper environment for education and increase the capacity of schools, universities and specialized colleges. The new budget allocates SR 39 billion to new projects and additions to previously approved projects. In the area of general education, work is currently ongoing on the selection of qualified consulting firms to oversee the implementation of the project of King Abdullah Bin Abdul Aziz for the development of education "Tatweer", at an estimated cost of SR 9 billion. Funding has been put in place for (2074) new schools for boys and girls throughout the different regions of the Kingdom, in addition to (4352) schools currently under construction; and the rehabilitation and provision of safety means and standards to (2000) school buildings, and the addition of classrooms to existing schools, furnishing and equipping of schools and the provision of educational aids, labs and computers, as well as the establishment of administrative buildings for the general education sector.



In the area of higher education, funds has been allocated to the Northern Border University, and infrastructure projects for the Girls University in Riyadh, and the completion of university campuses for existing universities and furnishing of labs. 41 new Colleges have been opened and operated. The government continues to send students to study abroad in the disciplines of medicine, engineering, computer, accounting and law within the framework of the Custodian of the Two Holy Mosques education initiative.

To increase the enrollment capacity of the colleges, institutes and training centers of the General Organization for Technical and Vocational Training, seven higher technical institutes for girls and (16) vocational training institutes are planned in the budget.

2. Health Services and Social Welfare:

The Health Services and Social Welfare sector has been allocated with SR 44.4 billion. The budget provided for the inclusion of new health projects, including establishment and furnishing of over (250) primary health care centers throughout the Kingdom, and eight (8) hospitals with large beds capacity, the completion of furnishing and equipping of existing health facilities with some further additions to existing projects, the development of the health information system and the establishment of King Abdullah Tumors and Liver Diseases Center (of the King Faisal Specialist Hospital in Riyadh). The budget estimated the costs of these projects at about SR 6.3 billion. 79 new hospitals with a total capacity of (9850) beds and spanning all the regions of the Kingdom are currently under construction.

In the area of social services the new budget listed projects for the establishment of sports clubs and cities, social observation and rehabilitation facilities, labor and social security offices. The budget also targeted an allocation of SR 10 billion to completion of the housing projects in all regions of the Kingdom. Funds have been allocated to the Public Housing Authority as its first budget, in addition to the allocations needed to support programs to address poverty and the National Charity Fund. The budget also increased the annual budgetary allocations for orphans and people with special needs.

3. Municipal services:

SR 17 billions have been allocated for the municipal services sector, including the Ministry of Municipal and Rural Affairs, municipalities and village clusters of which SR 2.1 billion was financed from the revenues of municipalities and village clusters. The budget included new municipal projects, in additions to some existing municipal projects, at an estimated implementation cost of about SR 14 billion, allocated for the construction of tunnels, bridges and intersections of some new roads and streets in cities, and for improving and developing existing ones to ensure the flow of traffic. Funds will also be used to complete existing roads, water drainage, waste disposal and improvement of sea coasts.



4. Transport and Communications:

Transportation and Telecommunications receives an allotment of SR16.4 billion in the new budget. The allocations include financing of new projects and additions to previously approved projects of roads, ports and railway lines, airports, and postal services at an estimated cost of over SR 14.6 billion. Roads totaling 7,300 kilometers are to be added at an estimated cost of SR 7.9 billion including highways, ring roads and maintenance of existing road network. Design and studies of new roads at a length of over 2200 km will be accomplished. This will be added to the 24,000 kilometers of roads currently under construction. The length of the existing paved road network in the Kingdom is now over 45,000 kilometers.

5. Water, Agriculture and Infrastructure:

Allocations to the sectors of water, industry, agriculture, infrastructure and other economic sectors are around SR 28.5 billion. The budget included new projects and additions to approved projects in various parts of the Kingdom at an estimated cost of about SR 13.3 billion to provide drinking water and development of water sources, the provision of sanitation services, dams, wells, repair of facilities associated with desalination plants, mechanisms for implementation of the national strategy for industrial development, and others.

For the purpose of promoting domestic investment and attracting foreign investment, the budget included new projects in the industrial cities of Jubail and Yanbu for the development of industrial infrastructure (Jubail 2, Yanbu 2). It also included additional ports docks, power transformation and distribution and telecom networks, in addition to the development and expansion of petrochemical industries on a total area of (87) million square meters, and the delivery of services to other industrial city boundaries, as well as environment conservation projects and wildlife protection, standards and specifications, and safety of food and medicine, at an estimated cost of R 7.6 billion.

6. Specialized Development Funds and Government Financing Programs:

The Real Estate Development Fund has been further boosted with SR25 billion distributed equally over a five fiscal years period to provide further loans in the areas of real estate, to post loans to citizens along with other specialized development funds that finance industry, agriculture, and small and emerging enterprises covered by the new system of the Saudi Credit Bank. Beneficiaries of these loans are expected to receive funds of over SR 16.2 billion during the next fiscal year.

7. Other sectors:

SR 7 billion has been allocated for the development of the judiciary system. The National Plan for Science and Technology has been launched with an expected cost of over SR 8 billion and is expected to achieve a significant leap in support of scientific research, technical development and technology transfer. The National Plan for Communications and Information Technology has been approved as one of the most important tributaries of the "National Project of Electronic Government ", which was



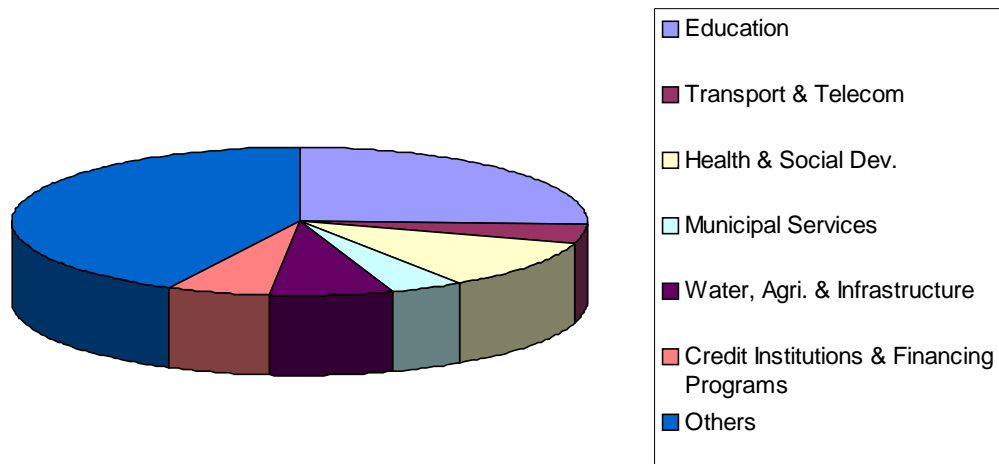
launched during the previous fiscal year at a cost of SR 3 billion. The comprehensive telecom service initiative has been launched, including the establishment of a fund for this service aiming at accelerating the provision of telecom services to all citizens and residents in areas which are currently out of range.

The table below shows the budgetary allocations of major sectors:

Sector	Allocation (SR billion)	%
Education	105	25.6
Transportation & Telecom.	16.4	4.0
Health & Social Welfare	44.4	10.8
Municipal Services	17.0	4.1
Water, Agriculture & Infrastructure	28.5	7.0
Credit Institutions & Financing Programs	25.0	6.1
Others	173.7	42.4
Total	410.0	100.0

The Pie figure reflects the relative importance of each sector according to the proportion of allocated funds:

Budget Allocations to Major Sector



The figure shows that human resource development came second in importance after "Other" sectors, which include defense and national security, in terms of allocations, followed by health and social welfare.



Compared with the allocation for the various sectors in the previous budget of 2007, the allocation for education has grown at a rate of 8.6%, from SR 96.7 billion to 105 billion representing 25.6% of the total, as a clear expression of the intensified efforts directed to support this vital sector. Allocations for health and social development registered a growth rate of 12.4% rising from 39.5 billion in 2007 to 44.4 billion in 2008, comprising a 10.8% of total budget allocations. The transportation and telecom sector experienced a significant growth rate of 20.6%, while allocations of municipal services grew by 9.5%, as well as those directed to the water, agriculture and infrastructure sector which rose by 14.9% to constitute 7% of total budget allocations. The Specialized Development Funds experienced the biggest leap in allocations growing by 25% between the two budgets.

Budget Deficit and Public Debt

A projected SR 40 billion budget surplus is forecasted for 2008. The expectations for the past fiscal year 2007 indicated that the actual surplus reached SR 178.5 billion as compared to the SR 20 billion that was estimated in the appropriated budget of the same year. (See the table below which illustrates revenues, public expenditures, and the deficit in the years 2007 and 2008).

Government Revenue, Expenditure &

Budget Surplus (SR billion)

Year	2007			2008		
	Revenue	Expenditure	Surplus	Revenue	Expenditure	Surplus
Planned	400	380	20	450	410	40
Actual	621.5	443	178.5			
Difference	221.5	63	158.5			

Figures shown for the 2008 budget indicate that actual expenditures for 2008 will follow the same trend experienced in the past few years; in that actual expenditures will exceed appropriated expenditures so long as government estimates are based on a prudent Oil price assumption. The reservation in estimating Oil revenues was justified during the years with fiscal government budget deficits and when the Oil market conditions were very different and prices were volatile at relatively low levels, but current prevailing conditions show that Oil demand is continuing to grow and production worldwide is approaching its maximum capacity.

It should also be noted that in light of the 2008 budget data, the budget is clearly contractionary on the expenditures side when compared to the actual figures of previous year's budget. The appropriated expenditures of the 2008 budget show a trend towards spending reductions because of the initial conservative estimate of Oil revenues, and the government's efforts towards controlling the inflationary pressures that has begun to creep since the end of 2006. As indicated above, we expect that actual expenditures of 2008 will be higher than appropriated expenditures, but, its level is expected to be less than that of 2007 (SR 443 billion). Thus, unlike the past four years, the actual budget of 2008 is likely to be contractionary. Over the past four years experience, actual government expenditures have been higher than the appropriated expenditures as Oil revenues have been exceeding the budgets



estimations. Indeed, when we compare actual and planned budgets for the Kingdom over the past two decades, we find that actual expenditures become higher than planned expenditures when Oil revenues exceed projections and vice versa.

It is also clear from the 2008 budget, as well as budgets for the preceding two years (2006 and 2007) that there is a policy towards controlling and reducing the size of public debt. A surplus of SR 22.7 billion was achieved in the budget of 2000 for the first time in almost two decades when public revenues rose significantly, but the deficit resumed its appearance again in 2001 and continued in 2002. Since 2003 the government adopted a policy of reducing the public debt in light of the improvement of the Oil market, the increase in Oil revenues and the consequent massive rise in overall government revenues. This was clear in 2004 when SR 46 billion were transferred to retire the public debt account to 614 billion, further again in 2005 to SR 460 billion, and yet again in 2006 to SR 363 billion constituting a rate of 28% of GDP. According to the budget statement, the public debt decreased during the past year 2007 by SR 96 billion to reach 267 billion Riyals - a rate of 19% of GDP.

There is no doubt that controlling the public debt will reduce the size of government expenditures directed towards repayment of debt services (secondary deficit), and would help to avoid negative impacts on the national economy and the economic reform policies being pursued by the Kingdom, through privatization, mechanisms to stimulate foreign investment and improving market efficiency, plus the Saudization program. Thus, the practice pursued by the government would release more financial resources to meet the funding needs of private sector investments and hence stimulate domestic economic growth. But, on the other hand, this practice is likely to inject more inflationary pressures in the economy. Furthermore, there is a need to continue maintaining certain level of public debt as it can be utilized to effect money supply in the domestic economy and therefore the volume of aggregate economic activity through government financing mechanisms and instruments including bonds and others. It may thus be advisable to maintain 'an acceptable' level of public debt that would enable its use as a viable monetary policy tool even in the presence of substantial financial surpluses.