Date: 4th Feb, 2018

GCC Budgets – 2018

- **Expansionary budget announcements by all GCC members**
- **Revenue budgeted at USD345bn, compared with USD311bn in 2017, increase of 11%**
- **Revenue budgeted by most at USD 50/bbl.; Only Qatar budgeted oil price of USD45/bbl.**
- **Spending budgeted at USD430bn, increase of 7%**
- **Fiscal Breakeven oil price range between USD 47 - 95/bbl; Kuwait being the lowest while Bahrain at the highest**
- **Deficit projected to be at USD84bn, drop of 6.6%**
- **Budget deficit to Nominal GDP for 2018 to be at 5.6% of the GDP**
- **Forex reserves of GCC at USD673bn; 46.5% of the GDP**
- **IMF estimates current account to balance in GCC by 2018**

GCC announced its largest ever budgeted spending for the year 2018 despite oil price still faring way below the booming year averages. Governments shifted their strategy to expansionary budgets after exercising belt tightening in last couple of years. With almost all countries (excluding Bahrain) announcing the budgets, overall budgeted spending of the GCC stands at USD 430bn compared to USD 411bn in 2017, growth of 7%. Revenue budgeted stands at USD 345bn versus USD 311bn in 2017, up by 11%. Growth in revenue has been largely because of higher oil price estimated this year compared to 2017. In 2018, oil price assumed by most of the countries stand at USD 50/bbl. Only Qatar has assumed an oil price of USD 45/bbl while UAE did not announce budgeted oil price for its federal budget.

Despite expansionary budgets, deficit is expected to drop by 6.6% to USD 84bn. Deficit to nominal GDP of GCC is expected to drop to 5.6% compared to 6.4% in 2017. Drop in deficit to GDP would be a combination of both i.e. increase in the denominator (Nominal GDP) and drop in deficit because of higher revenue.

GCC Budget - 2018

(USD bn)	Kuwait	Oman	Qatar	Saudi Arabia	UAE - Federal	GCC	YoY
Revenue	**49.5**	**24.7**	**48.1**	**209.1**	**14.0**	**345.4**	**11.1%**
Oil & Gas Revenue	43.9	17.6	*33.7*	131.4	*NA*		
Non Oil	5.6	7.1	*14.4*	77.7	*NA*		
Expenditure	**66.0**	**32.5**	**55.8**	**261.1**	**14.0**	**429.5**	**7.2%**
Deficit	**(16.5)**	**(7.8)**	**(7.7)**	**(52.1)**	**-**	**(84.1)**	**-6.6%**
Budgeted Oil Price	**50.0**	**50.0**	**45.0**	**50.0**	**-**		
Oil Revenue / Total Revenue	*88.7%*	*71.4%*	*70%**	*62.8%*	-		
Non Oil Revenue / Total Revenue	*11.3%*	*28.6%*	*30%**	*37.2%*	-		
Budget Deficit % of Nominal GDP	*-13.1%*	*-10.4%*	*-4.3%*	*-7.3%*	-	-5.6%	

Source: Respective Country MOF Website, Bloomberg, IMF, Reuters & U Capital

** Assumed as per last year breakup*

Note: Bahrain has been excluded as last year it announced Budget in June

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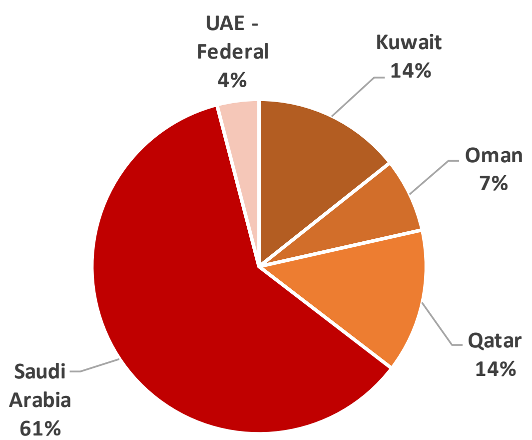
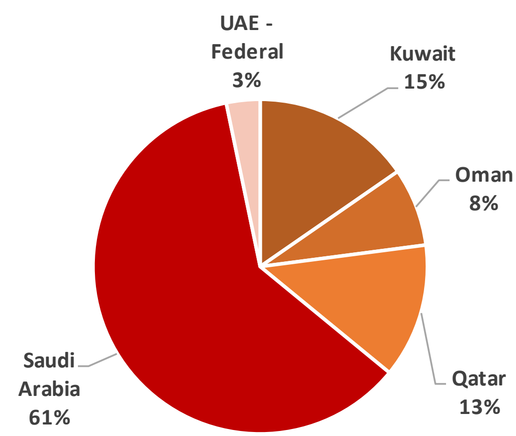
The governments have announced increased budgets for 2018 for sector such as health care, education and infrastructure and have also budgeted to go on large scale infrastructure and construction spending. Governments have also tried to strike a balance between the need for higher expenditure and reducing budget deficits, which had been rare over the previous decade when oil was above the USD100/bbl. At the same time, greater focus has been given to re-alignment of non-oil sectors in the economy and its greater contribution going forward.

In terms of revenue compositions, most of it would be contributed by Saudi Arabia at 61%, followed by Kuwait and Qatar at 14.3% and 13.9%, respectively. On an average contribution from the non-oil sources is estimated at 27% compared to 25.6% in 2017. Amongst the countries who gave proper disclosure of their contribution non-oil sources, Saudi Arabia stood the highest at 37.2% followed by Oman at 28.6%. Oil revenue contribution the total stands at the highest in Kuwait at 88.7%.

GCC Budgeted Revenue Composition



GCC Budgeted Spending Composition

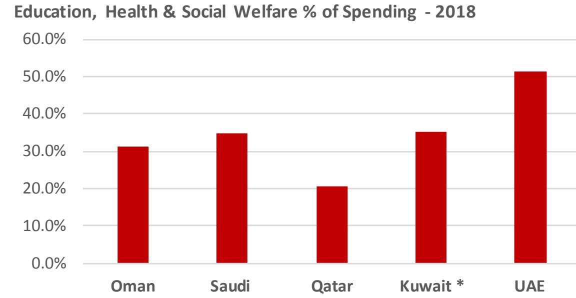


Source: Respective Govt MoF

In terms of spending compositions, most of it would from Saudi Arabia at 61%, followed by Kuwait and Qatar at 15% and 13%, respectively. While at the deficit level, only UAE is budgeted to breakeven while all others are estimated to report a deficit ranging between USD 7.7-52.0bn. Saudi being the highest while Qatar being the lowest. In terms of deficit to GDP, Kuwait will be the highest at 13.1% while Qatar being lowest at 4.3%. We believe, the actual deficit in 2018 to be much lower than the budgeted one as oil price estimate taken by all the governments stands very conservative compared to current and expected oil price of USD 60-65/bbl.

The governments have announced increased budgets for 2018 for sector such as health care, education and social segments of the GCC. Education in particular has become more and more important lately as Governments across GCC wish to foster inclusive growth and create job opportunities for their future generations. Overall, GCC have budgeted USD 143bn for these sectors in 2018. Saudi Arabia allocated the highest amount at USD 91bn. In terms of composition, UAE has allocated the highest at 51% from its total budget while Qatar allocation stands at 20.5%.

Education, Health & Social Welfare % of Spending - 2018



Source: Respective Country MOF Website, IMF & Media

** Data for Kuwait has been estimated (Media & Previous Ann.)*

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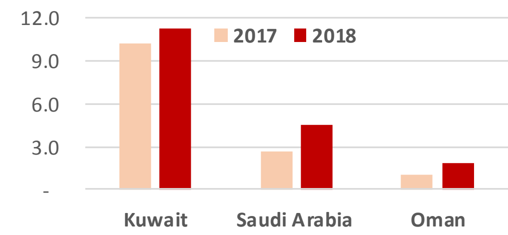
In light of increasing oil prices, government also took into account increasing provisions to low income segments and budgeted a hike in government subsidies and grants. Subsidies were mainly focused on fuel, electricity, water. As per the disclosures announced, Subsidies in Kuwait have been budgeted to be highest at USD 11.2bn in 2018 compared to USD 4.5bn in Saudi Arabia and USD 1.9bn in Oman. The same last year in Kuwait, Saudi Arabia and Oman stood at USD 10.2bn, USD 2.7bn and USD 1.0bn, respectively.

Subsidy in Select Countries (USD bn)



Source: Budget Documents & Media

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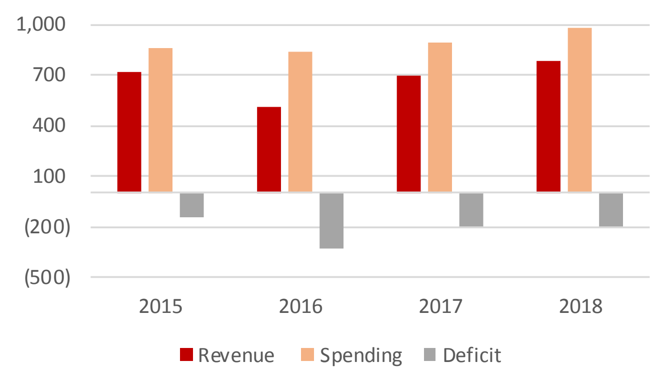
Country Budgets:

Saudi Arabia:

The budgeted revenue for fiscal 2018 is SAR783bn, compared with SAR692bn budgeted in the previous fiscal year, increase of 13.2%. Oil revenue is estimated to grow to SAR492bn compared to budgeted numbers of SAR480bn in 2017. Non-oil revenue has been projected at SAR291bn, 37% higher than the budgeted numbers for 2017. The budgeted expenditure of SAR 978bn for 2018 is higher by 5.6% when compared to the actuals of 2017. With revenue of SAR 783bn and spending's of SAR 978bn, the projected budget deficit comes out to be SAR 195bn for 2018, lower than the budgeted estimate of SAR 198bn in 2017 and also lower than the actual deficit of SAR 230bn in 2017.

KSA Budget - SAR bn

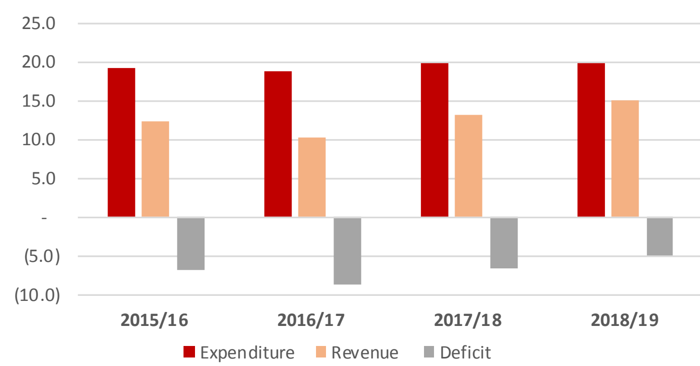


Source: MOF, Argaam

Kuwait:

Kuwait budget projects spending at KWD 20bn and revenues at KWD 15bn. Oil revenues are expected to reach KWD 13.3bn, up from KWD 11.7bn a year ago. Non-oil income is projected to remain almost flat at KWD 1.6bn. As per Kuwait's Finance Minister the budget is based on an average oil price of USD 50/bbl. and that the deficit would be financed by borrowing and using reserves. The KWD 5bn deficit would be before the transfer of 10% of revenues to Kuwait's sovereign wealth fund. The budget deficit for the current fiscal year, which ends on March 31, 2018, was estimated at KWD 6.5bn before the 10% deposit into the sovereign wealth fund.

Kuwait Budget - KWD bn

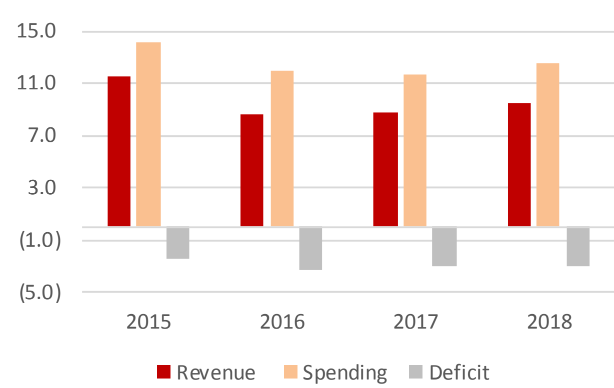


Source: Ministry of Finance, Kuwait

Oman:

Oman government expects to earn revenue of OMR9.5bn in 2018 which is 9.2% higher than the budgeted revenue last year, on account of 11% increase in the oil and gas revenue and 5.0% increase in the non-oil revenue. Budgeted oil revenue for 2018 is OMR4.87bn, higher by 9.4% compared to the budgeted amount of OMR4.45bn in 2017. Gas revenue for the year 2018 has been budgeted higher by 15% to OMR1.91bn compared to OMR1.66bn in 2017. This is the highest ever budgeted gas revenue and major thrust to it has come because of the Khazzan Gas project. Non-oil revenue budgeted for the year 2018 stands at OMR2.72bn compared to budgeted 2017 number of OMR2.59bn, higher by 5%. Oman government has budgeted spending of OMR12.5bn in 2018 which is 6.8% YoY. While the budget deficit for 2018 is estimated at OMR3bn.

Oman Budget - OMR bn



Source: Budget Statement

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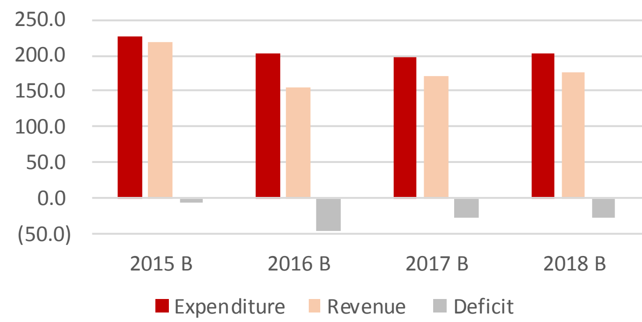
Qatar:

The budgeted revenue for fiscal 2018 is QAR175.1bn, compared with QAR170.1bn in the previous fiscal year, increase of 2.9%. The hike in revenue although not revealed would be largely because of recovery in oil and gas prices and also because of introduction of VAT which will increase the tax based revenue. Spending is expected to total QAR 203.2bn, up 2.4% from the budget plan for 2017. With revenue of QAR 175.1bn and spending's of QAR 203.2bn, the projected budget deficit comes out to be QAR 28.1bn for 2018.

Qatar Budget - QAR bn

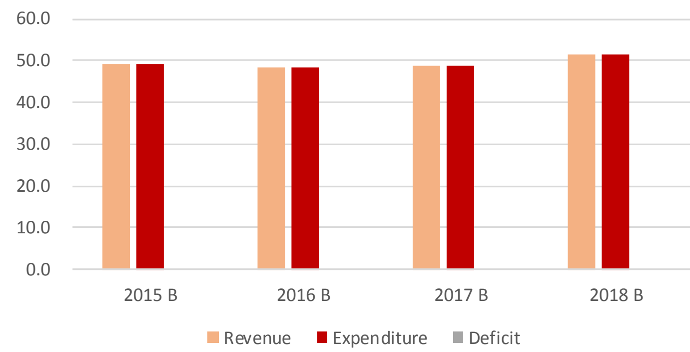


Source: MOF & Media

UAE:

The UAE announced a record AED51.4bn federal budget for next year with a focus on education, healthcare, and community wellbeing as the country boosts spending off the back of stronger economic activity and a higher oil price. The lion's share of next year's budget, AED26.3bn or 43.5% of the total, is dedicated to social development program. AED10.4bn is allocated for general education and higher education, totaling 17.1% of the overall budget and AED4.5bn or 7.4% is earmarked for the health sector.

UAE Federal Budget (AED bn)



Source: MOF UAE

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Appendix

1)

GCC Budgets - 2017

(USD bn)	Kuwait	Oman	Qatar	Saudi Arabia	UAE - Federal	Bahrain	GCC
Revenue	**43.6**	**22.6**	**46.7**	**184.5**	**13.3**	**5.8**	**316.6**
Oil & Gas Revenue	38.4	15.9	32.7	128.0	*NA*	4.5	
Non Oil	5.2	6.7	14.0	56.5	*NA*	1.3	
Expenditure	**65.2**	**30.4**	**54.5**	**237.3**	**13.3**	**9.3**	**410.1**
Deficit	**(21.6)**	**(7.8)**	**(7.8)**	**(52.8)**	**-**	**(3.5)**	**(93.5)**
Budgeted Oil Price	**45.0**	**45.0**	**45.0**	**NA**	**NA**	**55.0**	
Oil Revenue / Total Revenue	*88.0%*	*70.2%*	*70.0%*	*69.4%*	-	*77.4%*	
Non Oil Revenue / Total Revenue	*12.0%*	*29.8%*	*30.0%*	*30.6%*	-	*22.6%*	
Budget Deficit % of Nominal GDP	*-17.3%*	*-11.9%*	*-4.6%*	*-7.7%*	-	*-10.1%*	

Source: Respective Country MOF Website, Bloomberg, IMF, Reuters & U Capital

2)

Fiscal and External Breakeven Oil Prices

	Average 2009–14	2015	2016	Projections 2017	Projections 2018	Average 2009–14	2015	2016	Projections 2017	Projections 2018
	Non-Oil Fiscal Balance *(Percent of non-oil GDP)*					Non-Oil Revenue *(Percent of non-oil GDP)*				
Bahrain[1]	–33.8	–37.1	–33.7	–30.6	–28.5	3.7	4.1	4.0	4.9	6.4
Saudi Arabia[1]	–58.9	–47.1	–40.6	–35.9	–32.6	7.5	9.4	11.4	10.9	15.4
United Arab Emirates[3]	–33.2	–22.6	–17.8	–18.3	–16.1	15.5	18.8	21.2	18.6	19.5
Kuwait[1]	–78.7	–67.6	–58.3	–55.5	–54.4	32.5	32.4	30.6	29.4	28.0
Qatar	–51.9	–52.5	–32.4	–26.6	–22.6	15.0	15.1	19.7	21.5	22.2
Oman[1]	–65.3	–59.1	–50.0	–44.5	–41.7	13.5	9.9	12.0	11.6	12.9
	Fiscal Breakeven Oil Price[6] *(US dollars per barrel)*					External Breakeven Oil Prices[7] *(US dollars per barrel)*				
Bahrain	113.5	118.7	105.7	99.0	95.2	66.0	60.8	64.6	70.7	69.5
Saudi Arabia	82.3	94.0	96.6	73.1	70.0	57.7	69.7	49.8	48.2	49.4
United Arab Emirates	82.2	64.7	60.7	68.0	61.7	58.3	38.2	36.8	44.2	44.0
Kuwait	45.1	47.2	43.1	46.5	47.1	33.8	45.0	46.8	49.9	50.8
Qatar	61.7	50.9	50.0	46.8	47.2	52.3	39.3	48.6	44.2	46.0
Oman	78.9	101.9	88.9	83.6	76.3	69.7	85.7	65.2	74.7	75.1

Sources: National authorities; and IMF staff estimates and projections.
[1] Central government.
[2] Includes National Development Fund but excludes Targeted Subsidy Organization.
[3] Consolidated accounts of the federal government and the emirates Abu Dhabi, Dubai, and Sharjah.
[4] Yemen is a net oil importer in 2015, 2016, and 2017.
[5] State government.
[6] The oil price at which the fiscal balance is zero.
[7] The oil price at which the current account balance is zero.

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3)

Forex Reserves to GDP - 2017

	Forex Reserves	Nominal GDP	Reserves / GDP
	(USD bn)	(USD bn)	%
Bahrain	2.80	33.87	8.3%
Kuwait	29.76	118.27	25.2%
Oman	15.66	71.93	21.8%
Qatar	37.66	166.35	22.6%
Saudi Arabia	497.04	678.54	73.3%
UAE	89.85	378.66	23.7%
GCC	**672.77**	**1,447.62**	**46.5%**

Source: Central Banks of Respective Countries & Trading Economics

Note: Latest Data for Forex (Nov & Dec 2017 mostly)

4)

Current Account Balance to GDP - 2018

	Current Account	Nominal GDP	CA / GDP
	(USD bn)	(USD bn)	%
Bahrain	(1.47)	35.37	-4.2%
Kuwait	(1.71)	125.86	-1.4%
Oman	(9.90)	75.26	-13.2%
Qatar	1.82	180.91	1.0%
Saudi Arabia	2.82	708.49	0.4%
UAE	8.46	400.90	2.1%
GCC	**0.00**	**1,526.79**	**0.0%**

Source: IMF

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