

The 1999 Saudi Budget: Reform in the Face of Acute Problems

by [Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Jan 5, 1999

ABOUT THE AUTHORS



[Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Patrick Clawson is Morningstar senior fellow and director of research at the Washington Institute for Near East Policy.



Brief Analysis

The decline in world oil prices has hit Saudi Arabia hard. The benchmark Saudi crude, Arabian light, fell from \$17 per barrel in 1997 to little more than \$11 in 1998. Gross domestic product (GDP) declined in 1998 to about \$125 billion. That translates into a per capita income of \$8,000 per person -- \$6,000 if the inflated official figures on population are used -- lower than that of Argentina or the former Yugoslav republic of Slovenia. Moreover, Saudi per capita income is 75 percent lower than that in the United States, whereas in 1982 -- at the height of the oil boom -- it was 25 percent higher.

The most acute problem has been the budget. Government revenues from oil sales fell from around \$43 billion in 1997 to less than \$30 billion in 1998, a drop of at least 30 percent. At the same time, the budget deficit ballooned to at least 10 percent of GDP. The government's debt rose to more than 100 percent of GDP, whereas at the end of the Gulf War it was less than 50 percent. Furthermore, the prospects for 1999 are even worse. Kuwait's oil minister warns that the oil price for his country's crude could drop to between \$5 and \$6 a barrel, which would mean the benchmark Saudi Arabian light would be \$7 to \$9. Over the long run, oil prices will come under pressure if the average world growth stays as low as it did in 1998, environmental concerns about global warming intensify, or Iraq is fully reintegrated in to the world economy. Of course, if oil prices do remain low, exploration in more marginal areas -- like Central Asia -- will be curtailed, providing Saudi Arabia an opportunity over time to increase its sales.

Budgetary Austerity: After its weekly cabinet meeting on December 28, the Saudi government released its 1999 budget. The document is another sign of an emerging pragmatism that has been seen over the past few months. In mid-year, the government announced a freeze on government hiring. At the early December Gulf Cooperation Council summit in Abu Dhabi, Crown Prince Abdullah surprised the assembled leaders with his blunt talk, in which he proclaimed, "The years of the boom are over and will not return."

The overall character of this year's budget reveals a general willingness by the Saudi government to adapt its development prerogatives to the economic realities imposed by declining oil prices. Expenditures are forecast at \$44.1 billion and revenues at \$32.3 billion, for a deficit of \$11.8 billion. Defense expenditure has been reduced by 30 percent. Such changes may or may not signal the start of long-overdue economic reforms, but they show that the

crown prince has made some tough choices that, if pursued, could lead the country back to economic health. Unlike the last time budget reforms were enacted -- in 1995, when the country's leaders presented them as temporary and one-time measures -- this time, Saudi leaders are preparing the public for a continuing process of reform. An especially hopeful sign was the statement by the Saudi minister of finance and national economy, Dr. Ibrahim Al-Assaf: "All future windfalls due to an increase in the price of petroleum will go to finance the domestic debt."

Economic Reforms: The movement to reform the economy has been gaining momentum in the last year or so. For instance, after years of agonizing about the matter, the major decision-making elements in the kingdom now admit in principle the need to privatize the public utilities and services sector. Both the crown prince and Prince Sultan, the minister of defense and civil aviation, have expressed on numerous occasions their support for a careful and slow process of privatization. The Council of Ministers has approved the establishment of independent bodies to begin the privatization process. Progress has been made selling off Saudi Telecom and the Saudi Electric Company (the umbrella for the regional SCECOs, or Saudi consolidated electric companies).

Still, the challenge will be to make reforms at a sufficiently quick pace, in the face of sharply deteriorating public finances. Several state-owned enterprises continue to drain government coffers at an impressive rate. The clearest example is Saudia, the kingdom's huge airline. In August, Saudia raised domestic first class fares 50 percent and business class fares 30 percent, but the extra revenue will not reduce state funding -- which remains in 1999 at the \$2.5 billion level of 1998 -- because the company needs to finance a massive plane purchase program if it is to keep up with the high demand for its subsidized domestic services. For perspective, consider that the government's allocation to Saudia is as large as Jordan's entire budgeted state expenditures. An other state-owned company that should be privatized in the near future is the Saline Water Conversion Corporation -- the agency that supervises all the large desalination plants in the kingdom -- which is slated to receive \$640 million this year. The government's moves in regard to these two organizations will reveal much about how far and how fast reform will occur.

In addition to privatization, Saudi Arabia could benefit from diversifying the economy (petrochemicals, technology, and precious metals and mineral exploitation are the most likely candidates for continued expansion), as well as opening gas fields to foreign upstream exploration. Crown Prince Abdullah's recent stances make these and other reforms more likely than at any other time in recent history.

Yet, it would be wrong to assume that changes in the political system are necessary to carry out these economic reforms. The Chinese approach to reform is a case in point. The end of the century has brought political leadership changes and challenges to the country's economy, but the government can readily weather these storms if it pursues and accelerates economic reforms.

Nawaf Obaid, a Saudi national who is a graduate student at Harvard University, is a visiting fellow at The Washington Institute; Patrick Clawson is the Institute's director for research.

Policy #359

RECOMMENDED



BRIEF ANALYSIS

The UAE Formally Ceases to be a Tax-Free Haven

Feb 14, 2022



Sana Quadri,
Hamdullah Baycar

(/policy-analysis/uae-formally-ceases-be-tax-free-haven)



BRIEF ANALYSIS

Iran Takes Next Steps on Rocket Technology

Feb 11, 2022



Farzin Nadimi

(/policy-analysis/iran-takes-next-steps-rocket-technology)



BRIEF ANALYSIS

Saudi Arabia Adjusts Its History, Diminishing the Role of Wahhabism

Feb 11, 2022



Simon Henderson

(/policy-analysis/saudi-arabia-adjusts-its-history-diminishing-role-wahhabism)

TOPICS

Energy & Economics (/policy-analysis/energy-economics)

Gulf & Energy Policy (/policy-analysis/gulf-energy-policy)

REGIONS & COUNTRIES

Gulf States (/policy-analysis/gulf-states)

