Saudi Arabia: Spending the Revenue Windfall [redacted]

Saudi Arabia will gain little economic benefit from higher domestic oil production and world oil prices, at least as long as the Kuwait crisis continues. Since August, crisis-related demands have consumed most of the Saudis' estimated $14 billion windfall in oil revenue, and we expect Riyadh to continue spending most of its profit to maintain the coalition defending it. Even after the crisis is resolved, however, we believe Saudi Arabia will face a tight fiscal picture because crisis-related demands on its resources are likely to persist and oil revenues may decline. As a result, Riyadh probably will be unwilling to make many new long-term financial commitments, be less accommodating to foreign aid requests, and will seek to maintain high levels of oil production. [redacted]

Riyadh Scrambles To Meet Financial Demands

The crisis has placed immediate and massive demands on Saudi Arabia's treasury. Senior officials in the ministries of finance and foreign affairs said that Riyadh has made commitments of over $20 billion since the start of the crisis, [redacted] We estimate Sau[redacted] up to $15 billion in supplemental, crisis-related expenditures through December 1990, including:

- Over $4.6 billion to support the nonwestern multinational forces and to mobilize its own domestic force mobilization.
- Nearly $3 billion in cash and oil aid to several countries that have provided military or political support to Saudi Arabia, including cash grants to Egypt, Syria, and Morocco and oil assistance to Turkey.
- Roughly $2 billion to provide fuel, local transportation, water, and housing to US troops.
- About $560 million in aid to Kuwaiti refugees. [redacted]

Saudi Arabia: Budget and Current Account, 1986-90 *Billion US $*

	1986 [a]	1987	1988	1989	1990 [b]
Budget	**−16.5**	**−18.2**	**−13.4**	**−9.2**	**−12.0**
Revenues	21.6	31.3	26.3	30.7	46.0
Oil	12.4	20.7	16.7	20.2	36.0
Other	9.2	10.6	9.7	10.5	10.0
Expenditures	38.1	49.5	39.8	39.9	58.0
Current Account	**−11.8**	**−9.8**	**−6.8**	**−5.0**	**6.0**
Exports	20.1	23.1	24.3	28.3	49.0
Oil	18.0	20.4	20.1	24.0	45.0
Nonoil	2.1	2.8	4.2	4.3	4.0
Imports	17.1	18.3	19.8	19.2	23.0
Trade balance	3.1	4.9	4.5	9.1	26.0
Services, net	−14.9	−14.6	−11.3	−14.0	−20.0

[a] Covers the period 11 March–30 December 1986 for budget only.
[b] Estimated.

[redacted]

Paying for many of these obligations is worsening cash-flow problems for the Saudi Arabian Monetary Agency. For example, the $2 billion in oil revenues in August were inadequate to meet Saudi foreign assistance commitments, distribute aid to Kuwaiti refugees, and pay for Saudi troop mobilization. To finance this shortfall, Riyadh tapped local and foreign accounts; Saudi foreign exchange reserves fell by over $3.2 billion in August, according to International Monetary Fund data. The receipt of windfall oil revenues, which lags behind the lifting date by roughly two months, will eliminate the cash-flow problem by early next year [redacted]

Nonetheless, crisis-related expenditures will claim most of the higher oil revenue Riyadh will receive in 1990, according to our estimates. We project Saudi

Arabia will record a $12 billion budget deficit in 1990—11 percent of GDP and a 30-percent increase from the 1989 shortfall [redacted]

Financial Pinch Will Continue

We believe Saudi Arabia will face an uncertain and tight fiscal situation, at least until the crisis is resolved. Riyadh probably will be unable to anticipate fully the outlays needed for the foreign troop deployment, domestic mobilization, new weapons packages, and local services. In addition, the Saudis may have to make new foreign aid disbursements to maintain or expand the coalition. At the same time, the Saudis cannot count on continued high windfall oil revenues. Oil prices could continue to drop if the threat of war recedes because other producers have replaced Kuwaiti and Iraqi production. Every dollar decline in oil prices means a $200 million per month drop in income for the Saudi treasury. [redacted]

Because of this fiscal uncertainty, we believe Riyadh will conserve its financial resources whenever possible and operate on a pay as you go basis. We believe Riyadh probably will use the surpluses to increase its liquidity and enable it to meet unanticipated expenditures and avoid future cash-flow problems. In addition, Saudi Arabia is also likely to expand its liquid holdings as a contingency fund for the reconstruction of any vital economic infrastructure—oil and petrochemical facilities and water desalinization plants—that could be damaged during hostilities. Because repairs to damaged oil production and export facilities would squeeze revenues, Riyadh hopes that by increasing its reserves it may be able to avoid having to liquidate the long term, high yield foreign bonds it holds in its portfolio. [redacted]

An Uncertain Future

Saudi Arabia probably will continue to face a tight fiscal picture after the crisis is resolved. Although Riyadh's revenues will depend on future world oil prices and output decisions, we estimate that government revenues could range from $40 billion to $70 billion for 1991. [redacted]

[redacted]

Meanwhile, we believe Saudi Arabia will have to maintain many of the higher expenditures, althoug their size will depend on the outcome of the crisis. Riyadh may face the need to keep and finance sor foreign military presence and to use checkbook dip macy to sustain the coalition. At the same time, Sa programs to expand its military capabilities will pl additional burdens on the Saudi budget. Some Sau officials are proposing doubling the size of the arm forces, for example. According to our estimates, th

Saudi Government faces expenditures of $50 to $75 billion for 1991, assuming no significant outlays are needed to repair damaged economic infrastructure. [redacted]

We believe Riyadh will face major financial risks during 1991, balancing its large obligations against the uncertain income. In light of the uncertainty over its future budget requirements, the Saudis probably will be unwilling to make many new long-term financial commitments, such as multiyear aid packages or reconstruction funds. In addition, we believe Saudi Arabia will be largely unaccommodating to foreign requests for aid, unless Riyadh considers these obligations as critical to its national interest and that they place little additional strain on the kingdom's financial resources. Meanwhile, we believe Saudi Arabia will likely seek to keep oil production as high as possible—after cutting output to allow for the future resumption of Iraqi and Kuwaiti production—because of the kingdom's revenue needs and recently accelerated spending to expand its oil production capacity. [redacted]

[redacted]