Saudi tucks away billions in oil money for next year

Bloomberg Riyadh/London

Saudi Arabia will hold billions of dollars from its oil windfall in a government current account until the end of the year, when it will decide how to distribute it — marking a shift in its strategy from previous boom periods.
In the past, higher oil prices and output would quickly translate into rising foreign reserves and deposits in local banks, and often lead to a swift boost in government spending.
This time, the government won't spend the money until it's rebuilt reserves depleted during eight years of subdued oil prices. It could then use some of the cash to repay debts and pour it into state investment vehicles, including the powerful Public Investment Fund (PIF) and the National Development Fund, which focuses on domestic infrastructure.
"The surplus achieved in Q1 is shown in the government current account and has not yet been deposited to government reserves nor transferred to other groups," Finance Minister Mohamed al-Jadaan said in a statement to Bloomberg. "This allocation will

occur after the surplus is realized, which means after the closing of the fiscal year.”

The government’s current account held at the central bank rose by 70bn riyals ($19bn) in the first quarter of the year, when Saudi Arabia reported a $15bn budget surplus.

The finance ministry’s comments solve a mystery that had stumped some analysts covering Saudi Arabia; they were waiting to find out where those billions of dollars would show up.

The world’s largest crude exporter has seen revenues soar on the back of $100 oil and rising production. Oil gross domestic product is expected to grow 19% this year, al-Jadaan said at the World Economic Forum in Davos, Switzerland.

If crude prices remain that high, Saudi Arabia’s total oil exports are estimated to reach $287bn this year, according to Ziad Daoud, chief emerging markets economist at Bloomberg Economics.

Officials had previously said that much of the extra money would be used to accelerate efforts to diversify the economy away from oil – currently Saudi Arabia’s main source of income.

“The windfall from the additional revenues that we will get from high oil prices will be essentially invested in resilience,” Faisal Alibrahim, Minister of Economy and Planning, told Bloomberg in an interview at Davos. “Whether it’s replenishing reserves, paying off debt or investing in unique transformational projects through our wealth fund, that really helps us accelerate the diversification plans.”

The kingdom’s $600bn sovereign wealth fund, the PIF, is at the heart of Prince Mohamed bin Salman’s plan to overhaul the economy and invest in new non-oil industries like tourism.

It owns most of the kingdom’s mega-projects, including Neom – a $500bn new city – as well as tourism developments on the Red Sea coast and a massive entertainment complex planned near Riyadh.

“The responsibility of boosting growth has shifted to state-owned entities ex-budget, led by PIF,” Mohamed Abu Basha, head of macroeconomic research at Egyptian investment bank EFG

Hermes, wrote in a note. That leaves “the transmission of high oil prices to the economy more indirect than at any time in history.”

Reserves jumped in March, supported by dividend payments from oil giant Aramco. But the increase was smaller than it was in the same period last year, when oil prices averaged above $60 a barrel.

One part of the economy that hasn’t benefited is the domestic banking system. In the past high oil prices would mean an influx of cheap deposits into the Saudi banks, helping to keep local currency lending rates low.

Yet Saudi banks are facing the tightest liquidity conditions since 2016, as measured by the three-month Saudi Interbank Offered Rate, or SAIBOR, despite soaring oil prices. It took off even before an overall 75 basis-point interest rate hike by the US Federal Reserve so far this year.

“The increase in SAIBOR rates reflects some of the lag between the surge in oil prices and the domestic liquidity boost,” said Carla Slim, economist at Standard Chartered Plc. “Excess liquidity in the banking system, as measured by volumes deposited in Saudi Arabian Monetary Authority’s reverse repo facility, has contracted sharply.”

The finance ministry said in its statement that money supply was ample.