Dear all,

Saudi Arabia’s King Abdullah unveiled on Friday additional financial support measures estimated to cost SR350 billion. An estimated SR135 billion worth of measures were announced some three weeks ago. The latest measures (21 Royal Orders in total) are significant in size as they amount to 21% of the country's 2010 GDP or 56% of last year's actual budgetary expenditures. In total, both measures amount to 29.7% of last year's GDP and more than half of the $203.2 billion in oil export revenues accrued during the past year. We believe the measures can be comfortably sustained as WTI is above $103 a barrel and Brent crude climbing to more than $113 a barrel this week. High oil revenues could be used to support the announced spending as well as tapping into the country's $444.5 billion in foreign assets.

The authorities are aware that both measures cannot be carried out in their totality over a year or two. Some are short term and others will take time to unfold. Due to the size of the announcements, we expect some measures to be carried out over some years. For example, the announced housing measures will take some time to implement and they will require additional coordination between the government bodies, contractors and developers. Bonuses and other current expenditure measures will be implemented immediately and/or during the near term. Moreover, we believe the authorities are aware that expenditures of this magnitude if carried out over a short period would have significant inflationary pressures. Wage increases always have some inflationary pass through effect as they can directly impact consumption. We do believe inflationary pressures are on the increase due to global commodity price pressures that will be reflected later this year. Wage benefits and bonuses as well as an increase in the total civil service will add to some inflationary pressures.

The measures are geared to support the economic inclusiveness of the population and increase the filtering down process. Some of the measures have a direct hand out character but others such as housing and medical services are attempting to address essential sustainability issues. The announced social policies are designed to ease the burden of high property prices and housing market imbalances, while helping its young population cope with a mounting unemployment challenge. We find the additional housing benefits for those in need to be well timed and place. Some SR250 billion will be allocated for housing measures (to the General
Housing Authority) as well as ordering the building of 500,000 housing units. However, we do not have any clarity about the beneficiaries of planned housing units. Also building half a million units takes time. The Real Estate Development Fund will increase the maximum facilities provided from SR300,000 to SR500,000. We believe housing is a very crucial component of the economy even if the half a million units will not be constructed in one year. The Real Estate Development Fund has received an injection of fresh capital of SR40 billion as part of the February measures.

Additional measures include, two months bonus for all civil servants, students (in public universities and part of the 106,000 studying abroad under King Abdullah’s scholarship program), as well as all armed forces personnel (active and retired). The King ordered the creation of 60,000 new security jobs within the Ministry of Interior. Unemployment benefits of SR2,000 for those seeking jobs in the public and private sector. Benefits will start in the new Hijri year. A SR3,000 is set as the minimum wage for public sector employees. The previous minimum wage was SR2,185. The creation of a national body to fight corruption and for all government projects to be checked by the anti-corruption body are important steps in order to control public corruption. Additional measures included additional spending on medical facilities (SR16 billion), building religious police facilities (SR200 million), refurbishing and building mosques (SR500 million), increasing the maximum loan facilities for private hospitals (from SR50 million to SR200 million) and higher penalties for merchants who engage in price manipulation.

The initiatives announced on Friday appear to target a comprehensive range of concerns among Saudi citizens and lend support particularly to those in lower income brackets who would benefit tremendously from an expansion in social security benefits and housing. The government must continue to make targeted efforts to entice and support those most in need of assistance. The changes required are structural and require long-term planning. Housing cannot be fixed in one or two years but the attention given by the government at this stage is on the right track. We do believe more economic measures will be announced in the following weeks, including a cabinet reshuffle.

Kind regards,

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