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SAUDI ARABIA SURPLUS FISCAL FUNDS

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Abstract

The major source of revenue for financing government expenditures in oil-exporting countries is oil revenues. As a result, governments became more and more dependent on oil revenues to finance their increasing development and recurrent expenditures. However, oil revenues cannot grow forever, since there are limits to the growth of oil exports. Market demand is one limit that could decrease the price of oil and oil revenues. For that reason, a growing number of oil-exporting countries have established stabilization and savings funds as a measure of self-protection to deal with volatile oil revenues. A stabilization fund is intended to stabilize revenue flows and hence expenditure. A savings fund, on the other hand, is designed to build a store of wealth for future generations by converting a depletable revenue stream into a perpetual flow of income.

The Kingdom of Saudi Arabia is no exception. It is quite dependent upon oil revenues to finance its expenditures and fuel its economy in the face of fluctuating oil prices and oil revenues. If government expenditures follow closely government oil revenues, an expansion in spending during booms and a contraction during busts, the fluctuations in government expenditure would result. This pro-cyclical expenditure creates problems for the Saudi government and its fiscal policy management. Furthermore, it has developmental implications, especially for public investments. Therefore, Managing oil booms and busts through expenditure restraint and Expenditure-smoothing, and de-linking government spending from volatile oil revenues are crucial.

The purpose of this paper is to look at these issues in some details and to investigate what are the policy alternatives that are available to the government and the role the stabilization fund can play in its fiscal management.