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SM/90/167
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

October 18, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Saudi Arabia - Staff Report for the 1990 Article IV Consultation

The attached Table 1 (page 9) of SM/90/167 (8/20/90) is reissued to correct the composition of expenditures under column 5 headed Budget 1990.

Att: (1)

Other Distribution:
Department Heads

Table 1. Saudi Arabia: Budgetary Developments and Projections, 1987-90

	1987	Prov. Actual 1988	Prel. Actual 1989	Budget		Projections					
				1989	1990	1990	1991	1992	1993	1994	1995
(In billions of Saudi Arabian riyals)											
Revenue	117.2	84.6	114.6	116.0	118.0	118.0	125.5	134.1	143.8	154.5	166.6
Oil 1/	77.4	48.4	75.9	79.0	82.1	82.1	88.5	95.9	104.3	113.6	124.0
Return on investments	18.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Other revenue	21.8	24.2	27.7	26.0	24.9	24.9	26.0	27.2	28.6	30.0	31.6
Expenditure	185.3	134.9	145.0 2/	141.0	143.0	154.5	162.6	170.8	179.8	189.1	199.3
Current	90.3	82.6	93.5	90.1	95.5	100.1	107.4	114.7	122.6	130.6	139.2
Salaries and wages	(54.4)	(56.1)	(59.3)	(58.3)	(60.5)	(61.7)	(64.4)	(67.3)	(70.7)	(74.3)	(78.3)
Supplies and services	(25.6)	(21.4)	(22.4)	(18.0)	(17.9)	(23.3)	(24.3)	(25.4)	(26.7)	(28.0)	(29.6)
Subsidies	(10.4)	(5.1)	(6.9)	(4.8)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)
Service charges on bonds	(--)	(--)	(4.9) 2/	(9.0) 3/	(10.0) 3/	(8.0)	(11.5)	(14.8)	(18.1)	(21.2)	(24.2)
Foreign aid	11.5	7.4	6.3	3.7	3.5	5.6	5.1	4.6	4.1	3.7	3.3
Operations and maintenance	22.8	18.9	18.7	18.6	18.0	19.9	21.2	22.5	24.1	25.8	27.7
Project expenditure	57.6	25.4	26.5	28.6	26.0	29.0	29.0	29.0	29.0	29.0	29.0
Transfers to specialized credit institutions	3.1	0.5	--	--	--	--	--	--	--	--	--
Deficit	-68.1	-50.3	-30.4 2/	-25.0	-25.0	-36.5	-37.1	-36.6	-36.0	-34.5	-32.6
Financing	68.1	50.3	30.4	25.0	25.0	36.5	37.1	36.6	36.0	34.5	32.6
Bond sales (net)	--	42.3	30.4	25.0	25.0	36.5	37.1	36.6	36.0	34.5	32.6
Drawdowns of deposits with SAMA	65.3	12.0	--	--	--	--	--	--	--	--	--
Discrepancy 4/	2.8	-4.0	--	--	--	--	--	--	--	--	--
Memorandum items:											
Total domestic debt	--	42.3	72.7	67.3	92.3	109.2	146.3	183.0	218.9	253.5	286.1
(In percent of GDP)											
Deficit	-25.0	-18.3	-10.3	-8.4	-8.0	-11.7	-11.3	-10.5	-9.8	-8.8	-7.8
Total debt	--	15.4	24.6	22.7	29.6	35.0	44.5	52.6	59.4	64.7	68.5
Expenditure	68.1	49.1	49.0	47.6	45.8	49.5	49.4	49.1	48.8	48.3	47.7
Domestic revenue	8.0	8.8	9.4	8.8	8.0	8.0	7.9	7.8	7.7	7.7	7.6

Sources: Data supplied by the Saudi Arabian authorities; and Fund staff estimates.

1/ Includes "other transfers" from the petroleum sector.

2/ Official figures for debt service charges include SRls 4.5 billion of repayment of principal. The data in this table have been adjusted to exclude this amount. Of course, this would make the expenditure and deficit data presented in this table lower than those in the authorities' presentation.

3/ Includes principal repayments.

4/ Mainly timing differences between budgetary and monetary accounts.

Indications are that the bond market picked up substantially in the first half of 1990 as a consequence of the liberalization of the secondary market and expanded repurchase facilities as well as some improvement in bond yields. Yield premia vis-a-vis comparable U.S. instruments which had been 25 basis points or less, have on occasion approached 1 percent. Another encouraging sign is that banks have been seeking to purchase bonds from the AGIs in an effort to broaden their portfolios in order to operate an efficient secondary market. Overall, during the first four months of 1990, bank holdings of bonds increased by over SRls 5 billion, the public acquired an estimated SRls 2 billion, and the portion of bonds acquired by AGIs in the new issue market, as opposed to direct placements, increased significantly; moreover, the recent increase in bank holdings of bonds did not come at the expense of further liquidation of other short-term official securities (known as Bankers' Security Deposit Accounts), but represented net acquisition.

Welcoming these recent developments in the bond market, the staff team expressed the view that unless further steps were taken to enhance the attractiveness of government bonds to the nongovernment sector--which would entail offering more competitive yields on the bonds--it seemed likely that the portion of bonds that would have to be absorbed by the AGIs would still remain high. Without further improvement, the bond scheme would have only limited effectiveness in broadening the domestic capital market, and in helping reduce the impact of recurrent budget deficits on liquidity creation and on the overall external payments position.

In the area of bank regulation and control, the Banking Disputes Committee, set up three years ago, has achieved notable success in resolving disputes between banks and their clients, in standardizing practices with regard to bank lending, and in strengthening discipline in the market for bank claims. Provisioning by banks is falling accordingly. Also, SAMA has been collaborating with the GCC in developing regulations to apply the capital adequacy standards recommended by the BIS to local banks. The new regulations are expected to take effect in Saudi Arabia in the coming months, perhaps two years ahead of the BIS schedule. The Saudi Arabian representatives said that they expect the BIS standards to be adopted by other GCC countries in the near future, and expressed the view that banks in all GCC countries should be classified by the BIS in the same category as the OECD/GAB group (which included Saudi Arabia).

On a more general plane, the Saudi Arabian representatives confirmed that, in the conduct of monetary policy, there had been no changes in the use of credit controls or selective policy instruments (such as required reserve ratios or margin requirements) since the last