FOR AGENDA

SM/83/168

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INFORMATION

August 1, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Saudi Arabia - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Saudi Arabia, which has been tentatively scheduled for discussion on Monday, August 29, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. von Post, ext. 76412.

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INTERNATIONAL MONETARY FUND

SAUDI ARABIA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representations for the
1983 Article IV Consultation with Saudi Arabia

Approved by A.S. Shaalan and Subimal Mookerjee

August 1, 1983

I. Introduction

The 1983 Article IV consultation discussions with Saudi Arabia were held in Riyadh during the period June 7-8, 1983. The Saudi Arabian representatives were led by the Minister of Finance and National Economy and included the Acting Governor of the Saudi Arabian Monetary Agency (SAMA), the Deputy Minister of Finance and National Economy, and other senior officials of these and other government agencies. The mission was composed of Messrs. A.S. Shaalan (Head), S. Hitti, Z. Iqbal, E. Taha, and S. von Post, all of MED, and Ms. C.R. Wright (Secretary-SEC). Mr. Y. Nimatallah, Executive Director for Saudi Arabia, and Mr. J. Suraisry, Alternate Executive Director, attended the meetings.

Saudi Arabia accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement on March 22, 1961.

II. Background

Saudi Arabia is the world's largest oil exporter and the third largest producer. In recent years production levels have fluctuated substantially in response to the changes in world demand and the authorities' policy aimed at preventing excessive changes in prices in order to maintain stable conditions in the world oil market. During the 1979-81 period the Saudi Arabian authorities maintained a high level of production which helped to contain the upward pressure on oil prices and to reduce the impact of interruptions in oil supplies from other areas. Total annual crude oil production rose from 8.3 million barrels per day (mbd) in 1978 to close to 10.0 mbd in 1980-81. The increased production levels were accompanied by maintenance of oil prices below those of other major exporters. Following the agreement on price unification reached by the members of the Organization of Petroleum Exporting Countries (OPEC) in October 1981, which entailed an increase in Saudi Arabia's price for the "marker" crude by US$2 per barrel to US$34, the ceiling on crude oil production of Aramco (accounting for over 97 per cent of Saudi Arabia's oil output) was reduced in steps from 10.0 mbd to 7.0 mbd effective April 1982. With the further decline in world oil consumption and a large drawdown of inventories, Saudi Arabia's actual production fell by about one third from an average of 9.8 mbd in 1981 to about 6.5 mbd in 1982.

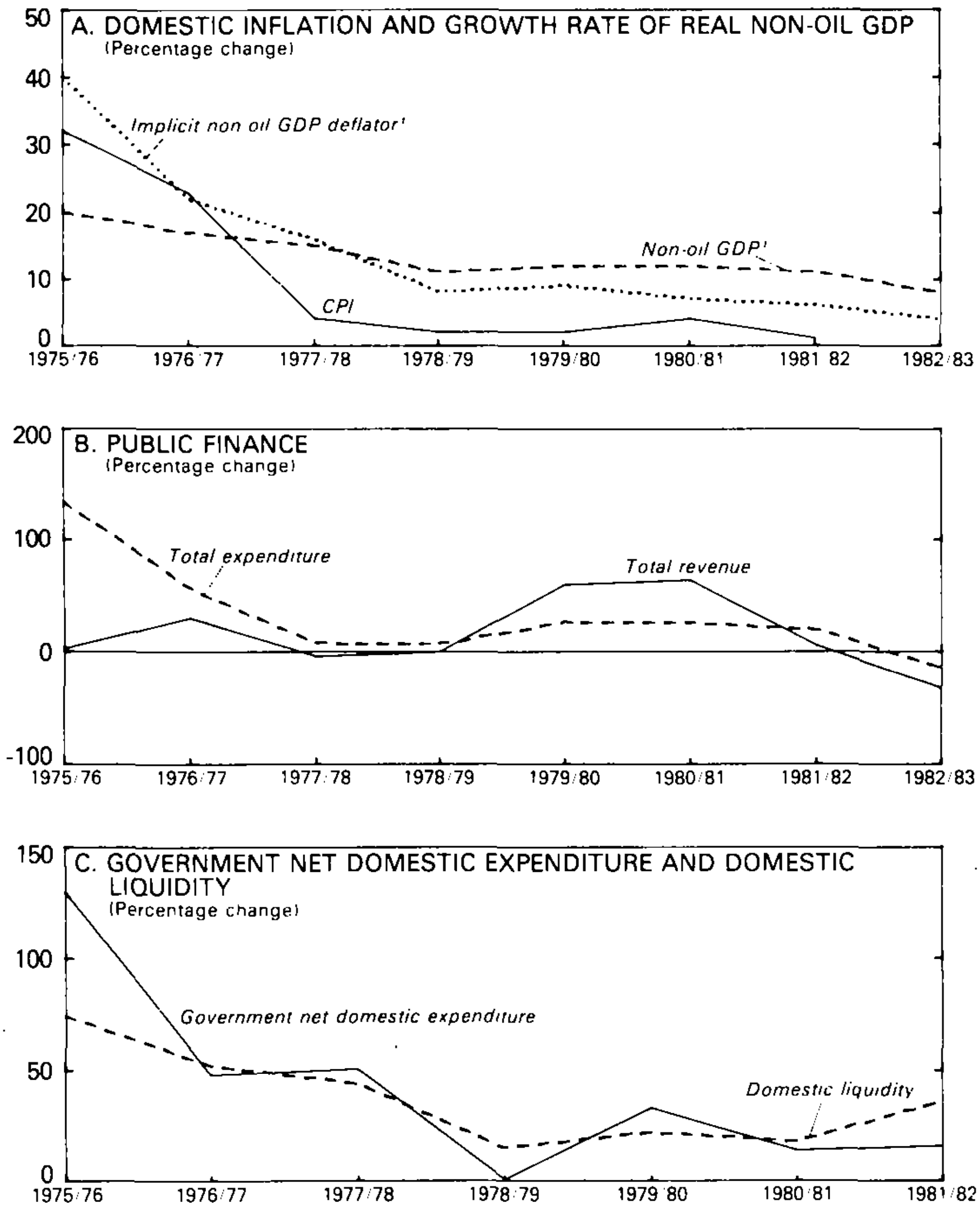
Saudi Arabia's development policies have emphasized expansion of the country's physical infrastructure and social services as well as encouragement of private sector participation in the development effort through provision of financial and other incentives. As substantial progress had been made in developing the country's infrastructural facilities by 1979/80 (fiscal year ended May 14, 1980), the Third Five-Year Development Plan (1980/81-1984/85) provided, inter alia, for a significant shift in investment priorities in favor of producing sectors, including capital-intensive industries based on petroleum resources. In 1979/80-1980/81 oil revenue rose sharply and budgetary expenditures were allowed to increase at an average annual rate of 26 per cent. Because of the very large rise in oil revenue, overall fiscal surpluses were realized equivalent to about 6 per cent of GDP in 1979/80 and over 21 per cent of GDP in 1980/81. In response to the increase in government expenditure, real non-oil GDP grew by about 12 per cent in both years. The annual inflation rate, as measured by the non-oil GDP deflator, averaged 8 per cent as the higher level of government spending was reflected mainly in growth in imports of goods and services facilitated by greatly improved supply conditions and a liberal labor policy. Import prices were moderated by lower inflation rates abroad and by an appreciation of the Saudi Arabian riyal along with the U.S. dollar. The expansionary monetary impact of increased government net domestic expenditure (i.e., domestic spending in excess of domestic revenue) was largely offset by the growing private sector external deficit. In the period 1979/80-1980/81 the growth in money and quasi-money moderated, averaging about 20 per cent per annum.

In 1981/82, with total budget revenue growing by only 6 per cent, the continued increase in expenditures, though at a somewhat slower rate of 20 per cent, resulted in a relatively smaller budget surplus than in the previous year, equivalent to 16 per cent of GDP. Both current and project outlays rose. Current expenditure rose by 22 per cent led by a 40 per cent increase in salaries, wages, and related allowances. Transfers to specialized credit institutions and other public entities were increased by 35 per cent for financing private sector investments. Project expenditures rose by 18 per cent, the same rate as in the previous year. Growth of non-oil GDP slowed down slightly to about 11 per cent (Chart 1). The rate of inflation declined further to under 6 per cent, partly reflecting the moderation in government spending and also due to a leveling off in the index of riyal import prices which, in part, reflected the appreciation of the riyal with the U.S. dollar against other major currencies.

CHART 1

SAUDIA ARABIA

SELECTED ECONOMIC INDICATORS, 1975/76-1982/83



Source: Data provided by the Saudi Arabian authorities

[1] Data for 1981/82 and 1982/83 are preliminary

Monetary expansion accelerated as the expansionary impact of the government domestic expenditure net of the private sector balance of payments deficit increased. Commercial bank claims on the private sector, however, rose by only 16 per cent compared with 38 per cent in the previous year as most of the credit needs were met through the specialized credit institutions. The increase in money and quasi-money was, in part, reflected in a buildup of time and savings deposits as the private sector shifted its preference toward domestic deposits in response to improved terms offered by commercial banks.

Reflecting both oil price and output increases, Saudi Arabia's balance of payments current account surplus (excluding foreign aid) rose sharply from about US$16 billion in calendar 1979 to an average of US$46 billion in the following two years. Saudi Arabia has provided substantial amounts of foreign aid to developing countries. Notwithstanding large outflows of private capital particularly in 1979-80, total official foreign assets (including reserves and other assets) rose by about US$67 billion during 1979-81 to about US$128 billion at the end of 1981.

Saudi Arabia maintains no restrictions on payments and transfers for international transactions and does not impose restrictions on imports for balance of payments reasons. Since September 1975 the exchange rate of the Saudi Arabian riyal has been pegged to the SDR at a rate of SRls 4.28255 = SDR 1, with margins of 7.25 per cent on either side. However, since 1980 the riyal has been allowed to appreciate along with the U.S. dollar, moving it outside the margins, and on July 22, 1981 the margins were temporarily suspended. The riyal/dollar exchange rate has been adjusted on a number of occasions during the past three years; the last adjustment took place on March 30, 1983 when the midpoint of the official buying and selling rates was set at SRls 3.445 per US$1.

III. Report on the Discussions

1. Oil sector developments and policies

Saudi Arabia's policies with respect to oil production and prices continued to be guided by the following main objectives: (1) to ensure adequate supplies of oil to meet the legitimate requirements of consuming countries; (2) to maintain, to the extent possible, a unified and orderly price structure and stable conditions in the world oil market; (3) to secure optimum and reasonable revenue in the long run; and (4) to preserve the country's depletable oil wealth. The Saudi Arabian representatives emphasized that the long-term interests of Saudi Arabia, which possessed very large oil reserves, underscored the desirability of stabilizing oil prices to maintain the share of oil in the energy market in the long run. Because of the continuing decline in world oil consumption which had been reinforced since mid-1981 by the large drawdown of global oil inventories, the achievement of a unified and orderly price structure and stable conditions in the world oil market meant allowing a large reduction in

Saudi Arabia's oil production from the high levels maintained during most of the 1979-81 period. With a further decline in output to only about 4 mbd in the first quarter of 1983, Saudi Arabia's share in OPEC production fell to less than 25 per cent from a peak of 43 per cent in 1981.

Following the agreement reached by the members of OPEC in mid-March 1983, Saudi Arabia reduced its oil prices by US$5 per barrel. Under the OPEC agreement, Saudi Arabia was designated as the "swing" producer "to supply the balancing quantities to meet market requirements" subject to the overall ceiling on OPEC production of 17.5 mbd. On the assumption that other OPEC members produced at their agreed ceilings (totaling 12.5 mbd), Saudi Arabia's oil production will be subject to a notional limit of 5 mbd. The Saudi Arabian representatives expressed the belief that the recent OPEC agreement was working effectively, as indicated by the restoration of orderly and stable market conditions, which was in the interest of both producers and consumers. They said that Saudi Arabia would continue to defend the present price level and felt that it would be maintained for an extended period of time. The authorities intended to continue pursuing a flexible production policy aimed at adjusting production limits in light of developments in the oil market. The oil market has recently firmed somewhat, thus contributing to an increase in Saudi Arabia's production from a low of 3.7 mbd in February-March 1983 to some 4.5 mbd in May 1983. Although the Saudi Arabian representatives felt that the recovery in world oil demand might not be very large, they expected that Saudi Arabia's production would increase further in the second half of 1983 and in 1984. However, given Saudi Arabia's role as a "swing" producer and the uncertainties surrounding prospective demand as well as output of other producers, it is difficult to project the country's oil production level.

2. Fiscal developments and policies

The Saudi Arabian authorities applied considerable restraint on government expenditure in fiscal 1982/83 (ended April 13, 1983). The principal measures included: (1) reduction in the advance payment to contractors for major projects from 20 per cent to 10 per cent of total cost and such payments were also made subject to a ceiling of SRls 50 million; furthermore, the advance payment previously made to extensions of ongoing projects and for service contracts was eliminated; (2) postponement of certain projects that had not been started; and (3) reduction in transfers to the specialized credit institutions. The result was that actual total expenditures in 1982/83 were 22 per cent below budgetary allocations and 14 per cent less than actual expenditures in 1981/82. The successful restraining of expenditures in 1982/83 resulted in a balanced overall fiscal position despite a one third decrease in budgetary revenues.

In view of the recent drop in oil prices and the uncertainty regarding prospective world demand for oil, the Saudi Arabian authorities intend to continue the relatively tight fiscal stance in 1983/84 (fiscal year started April 14, 1983). Total expenditure allocations, at SRls 260 billion, are 7 per cent higher than the actual expenditure level in 1982/83. The modest budgeted expenditure growth is mainly for operations and maintenance of existing public investments and partly for allocations to specialized credit institutions, including the Saudi Fund for Development. Expenditures for foreign aid, salaries, wages, and subsidies are largely the same as in the previous year. However, the budget provides for continuing the implementation of the major ongoing projects and the authorities stated that new projects might be started depending upon a possible improvement in the revenue prospects. The 1983/84 budget estimate of oil revenue, which is 16 per cent below the previous year's actual, is based on an average output of 5 mbd and no change in the present oil price structure. Non-oil revenues (not including investment income) are projected to rise by 42 per cent on the assumption that Saudi Arabia, in coordination with other Gulf Cooperation Council countries, 1/ will be taking several measures, such as raising customs duty rates and domestic gasoline prices as well as rates, charges, and fees for various public utilities and services. No specific measures have yet been announced. Overall, the budget provides for a deficit of SRls 35 billion (about US$10 billion).

The Saudi Arabian representatives envisaged the possibility that starting in 1983/84 the expenditure pattern might be planned to follow a steady growth path consistent with prudent revenue expectations as well as macroeconomic objectives of the authorities over the medium term. With the completion or near completion of most of the major public investments in infrastructure, the composition of government expenditure was bound to shift, at least for an interim period, toward operations and maintenance of public investments already in place. About SRls 30 billion had been allocated for that purpose in the 1983/84 budget. The authorities noted, however, that major new projects would be initiated in the future. Meanwhile, aggregate demand in the economy would be sustained through continuing increases in government expenditures supplemented by expanding private sector investments. In view of that sector's strong growth performance in the recent past, the authorities are of the opinion that it could play a larger role in the future.

3. Non-oil output, prices, and investment

The adjustment in the Government's expenditure stance in 1982/83 and the prospect of moderate and sustained growth in these expenditures in 1983/84, and possibly over the medium term, appear to set the stage for a growth path of the non-oil sector in the range of 6-8 per cent per annum. In 1982/83 non-oil GDP real growth was about 7.5 per cent while the inflation rate as measured by the non-oil GDP deflator continued its downward trend and fell to less than 4 per cent. The decline in import prices in riyal terms, which was due to the appreciation of the riyal against major currencies (other than the U.S. dollar), and a continued slowdown in the rates of inflation abroad, contributed to the containment

1/ Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates.

of domestic inflation in Saudi Arabia. Regarding growth prospects for 1983/84, staff estimates indicate that a full implementation of the 1983/84 budget expenditures would result in a non-oil GDP growth rate of 6-7 per cent. Inflation was expected to remain in the 4-5 per cent range, but a modest increase in the non-oil GDP deflator might occur if the Saudi Arabian riyal did not appreciate further, thus allowing the expected increase in import prices to be reflected more fully in the deflator.

The Saudi Arabian representatives indicated that in the coming years a greater degree of responsibility will fall on the private sector for maintaining non-oil sector growth. The authorities believe that this would be feasible as indicated by that sector's vibrant performance in the recent past. Moreover, the substantial infrastructural investments undertaken by the Government should facilitate further rapid expansion of private activity. In addition, the authorities were in the process of developing suitable policies to foster the shift toward greater private sector participation. Certain steps have been taken recently to make private investment more attractive, including a provision that calls on foreign contractors to subcontract at least 30 per cent of government-awarded contracts to Saudi Arabian companies. Similarly, contractors are required to take advantage of all services supplied by local sources, including banking and insurance, for such contracts; imports required for implementation of contracts must also be carried out through local companies.

Saudi Arabia continues to pursue a liberal policy toward employment of expatriate labor. However, the projected slowdown in non-oil GDP growth is expected to weaken the demand for expatriate labor.

4. Monetary and credit developments and policies

After increasing sharply by about 36 per cent in 1981/82, the growth of money and quasi-money was estimated by SAMA to have slowed down to 16 per cent in 1982/83, largely in response to the slowdown in government expenditure and a slackening in the demand for credit by the private sector. It is, however, difficult to analyze the sources of monetary growth in 1982/83 because complete monetary data are available only for the first five months of the year. Based on the official estimates of overall liquidity expansion and data for commercial banks which covered the first ten months of the fiscal year, the expansionary impulses appeared to have emanated largely from the drawdown of public sector deposits with SAMA. Reflecting slackening growth in the non-oil sector, credit to the private sector was estimated to have grown by only 5 per cent, compared with 16 per cent in the previous year.

An increase in the demand for domestic liquidity in 1983/84 of about 16 per cent would be consistent with a 6-7 per cent real growth in the non-oil GDP and an increase of about 5 per cent in the non-oil GDP deflator. However, it appeared that the expansionary impact of the emerging budgetary deficit would be almost fully offset by the contractionary impact of the projected overall balance of payments deficit. In this situation, domestic liquidity expansion will be reliant to a greater degree than recently on expansion in commercial bank credit to the private sector. The Saudi Arabian representatives viewed such a development as complementary to the envisaged general policy of shifting roles between the public and the private sectors. The banks were liquid and could draw on their accumulated foreign assets. The private sector also possessed liquid resources abroad which could be repatriated.

Regarding the changes in the composition of the commercial banks' assets, the Saudi Arabian representatives stated that a number of factors explained the sharp increase in the proportion of foreign assets. These included the slowdown in economic activity which reduced the growth of private sector demand for credit and also perhaps a much larger saving capacity than the available domestic investment opportunities at present. Moreover, most of the local demand for credit was being met by the specialized credit institutions. Another important factor in this context had been more attractive rates of return abroad relative to those available domestically. Moreover, the international interbank market had been very active recently, especially in Bahrain, which prompted the buildup of foreign assets by banks. However, the Saudi Arabian representatives believed that new investment opportunities were developing and this would encourage a reversal in the process and eventually reduce the high ratio of foreign assets to total assets. In their opinion, any attempt to attract these assets for domestic use without the generation of commensurate investment opportunities would needlessly overheat the economy, leading to real estate speculation and inflation which should be avoided.

5. External sector developments and policies

Saudi Arabia's balance of payments position weakened in 1982 as a result of a decline in oil export earnings of about one third. The surplus on current account (excluding official foreign aid) fell sharply from US$44 billion in 1981 to US$2 billion in 1982 (including official foreign aid, a deficit of US$2 billion was recorded). However, official foreign assets (including reserves and other assets) rose by US$9 billion to about US$143 billion in September 1982, the latest month for which actual data are available, or the equivalent of about four years of 1982 merchandise imports, f.o.b.

The authorities' forecast shows that the balance of payments position is expected to continue weakening in 1983 because of the further large decline in the volume of oil exports and the 15 per cent reduction in export prices announced after the OPEC meeting in March 1983. Although the export volume is expected to recover moderately in the second half of the year, the balance of payments projection prepared by SAMA indicates that the value of oil exports is expected to decline again by about one third in 1983. The growth in merchandise imports is projected to decelerate from about 15 per cent in 1982 to 5 per cent in 1983, in response mainly to the lagged effect of the reduction in government spending in 1982/83 and the continuation of a tight fiscal policy stance in 1983/84. On the basis of these estimates, the current account (excluding foreign aid) is projected to shift into a deficit of about US$15 billion in 1983. With an expected continued inflow of private capital, official foreign assets are projected to decline by about US$12 billion in 1983. Tentative projections prepared by SAMA for 1984 indicate a reduction in the current account deficit to about US$10 billion and a smaller loss of official foreign assets (about US$7 billion) than in 1983. The improvement is expected to result mainly from a moderate recovery in oil export earnings and the anticipation of continued restrained demand management policies resulting in imports remaining unchanged. Saudi Arabia has provided generous amounts of foreign aid to developing countries in recent years. Such aid amounted to about US$7 billion per annum in 1980/81 and 1981/82 or about 5 per cent of GDP. Despite the sharp decline in the current account surplus in calendar 1982, aid disbursements amounted to about US$4.4 billion in that year. The Saudi Arabian representatives stated that foreign aid in 1983 would remain at approximately the 1982 level.

The Saudi Arabian representatives confirmed that the policy governing the management of SAMA's foreign assets continued to be guided by the considerations of the preservation of the real value of assets, liquidity, and the rate of return. There had been some shift toward shorter maturities during the past year in response to increased need for holdings of liquid assets in view of the large changes in oil export earnings. The Saudi Arabian representatives noted that, given the country's role as a "swing" oil producer, it was to be expected that the official foreign assets would be subjected to relatively large changes. In these circumstances, the stock of foreign assets would need to be sufficiently large to permit the insulation of domestic policies from the impact of fluctuations in external receipts. The Saudi Arabian representatives said that the authorities had continued to pursue responsible policies taking account of the interests of the international community. There had been a continued geographical and currency diversification of assets, reflecting in part the shifts in payments positions among the industrial countries. However, such diversification had been implemented in the form of new placements and government policy continued to aim at avoiding large or sudden shifts of assets between currencies. The drawdown of foreign assets in recent months had also been effected in a balanced manner.

The Saudi Arabian representatives stated that, while in principle the riyal was still pegged to the SDR, the 7.25 per cent margins were suspended in July 1982. Since then, a relatively stable exchange rate with the U.S. dollar, the intervention currency, had been maintained. The authorities recognized that persistent appreciation of the riyal might impede economic diversification. Moreover, with inflation no longer a problem, greater emphasis might be given to the role of the exchange rate as a guide to resource allocation. The Saudi Arabian representatives said that these were policy issues which would merit careful consideration as non-oil private activity developed.

Regarding protection of domestic activities from imports, the Saudi Arabian representatives stressed that excessive protection was not being accorded. The basic instruments of protection being used in Saudi Arabia included a 20 per cent import duty, variations in administered prices, and rules regulating government procurement.

IV. Staff Appraisal

Saudi Arabia's economic and financial policies have been affected by the substantial weakening in world demand for OPEC oil. With regard to its oil production and price policies, Saudi Arabia continued to accord high priority to maintaining stable world market conditions in the context of a realistic pricing structure. To achieve these objectives, Saudi Arabia has allowed its oil production to decrease steeply and, in cooperation with other major oil producers, worked out a downward adjustment in the price of oil. As the designated "swing" producer, Saudi Arabia's oil output could be expected to vary more widely than that of other producers. In essence, these circumstances have meant a much lower oil income and the possibility of continued large fluctuations in such income. Economic and financial policies have been adjusted to deal with the new situation.

Responding to the sharp decline in revenue, the authorities successfully implemented considerable restraint on expenditure policy in fiscal year 1982/83. As government spending declined, non-oil GDP growth moderated from the very high rates experienced previously, and the rate of inflation--which was already low--declined further. The staff believes that the Saudi Arabian authorities' policy responses were appropriate and the authorities should be complimented on their effective implementation. The continued restraint on expenditure embodied in the 1983/84 budget is also appropriate. The new revenue measures contemplated for 1983/84 should be implemented as constituting a good beginning in diversifying the revenue base. As oil revenues are likely to fluctuate widely, the authorities are favorably disposed to formulating an expenditure policy for the medium term based on realistically perceived revenue prospects and in line with the Government's macroeconomic objectives. The staff encourages the authorities to develop the mechanism of casting the public expenditure pattern in a medium-term context.

With the completion of the country's major infrastructural facilities, the stage has been set for a larger role for the private sector consonant with Saudi Arabia's liberal economic philosophy. While budgetary expenditures will continue to provide the primary stimulus for economic growth, a greater degree of responsibility is expected to fall on the private sector for maintaining non-oil sector growth in the medium term. The authorities believe that this is feasible and are considering what policies need to be adopted in the support of the private sector. The staff favors the shift toward greater emphasis on the private sector where viable domestic investment opportunities exist.

The staff agrees with the authorities that a limited degree of official support might also be feasible but it will be important to continue avoiding excessive protection and permanent subsidies. Exchange rate policy can appropriately be allowed to enhance the viability of export-oriented and import-competing industries and a larger role for commercial bank credit to the private sector might be needed. The authorities indicated that careful consideration was being given to such policies in formulating their strategy of fostering the shift toward greater private sector domestic investment activity.

Saudi Arabia's balance of payments position is expected to weaken further in 1983 because of the projected decline in oil export earnings. The current account, which was approximately in balance in 1982, is projected to shift into a deficit this year. As for 1984, a moderate recovery in oil export earnings and the continued restrained demand management policies are expected to generate a decline in the current account deficit and a smaller loss of official foreign assets than in 1983. The reserves losses projected for 1983-84 should not be cause for concern in view of Saudi Arabia's comfortable level of official foreign assets. The anticipated reduction in these assets in 1983-84 is estimated to be equal to one fourth of the gain achieved in the period 1979-82. The Saudi Arabian authorities have continued to pursue appropriate exchange rate and reserve management policies and to provide generous aid to developing countries.

It is recommended that the next Article IV consultation with Saudi Arabia be held on the standard 12-month cycle.

Saudi Arabia: Fund Relations 1/

Date of membership:	August 26, 1957.
Status:	Article VIII.
Quota:	SDR 2,100.0 million. Quota proposed under the Eighth General Review: SDR 3,202.4 million.
Fund holdings of Saudi Arabian riyals	SDR 396.3 million or 18.9 per cent of quota.
Lending to the Fund:	Saudi Arabia lent the Fund the equivalent of SDR 2,250 million for the oil facility, all of which has been repaid. In addition, the equivalent of SDR 225 million of oil facility claims transferred to SAMA from the Deutsche Bundesbank on November 13, 1980 has also been repaid. Saudi Arabia agreed to lend the Fund SDR 1.9 billion for the supplementary financing facility, of which SDR 1,737 million has been utilized. In addition, the equivalent of SDR 172 million of supplementary financing facility was transferred from the Deutsche Bundesbank on November 13, 1980 to SAMA. Approximately SDR 27 million of supplementary financing facility claims has been repaid. A loan agreement under which the Fund may borrow up to the equivalent of SDR 8 billion over two years from SAMA to finance the Fund's policy of enlarged access was signed on May 7, 1981. A total of SDR 4,000 million has been drawn.
SDR Department:	Saudi Arabia became a participant on December 8, 1978. Holdings amount to SDR 719.8 million which is equivalent to 368.1 per cent of the net cumulative allocation.
Gold distribution:	Saudi Arabia acquired 114,680.7 fine ounces of gold.
Direct distribution of profits from gold sales:	Saudi Arabia ceded to the Trust Fund its share of profits from gold sales amounting to US$21.3 million.

1/ As of June 30, 1983.

Contribution to Subsidy Accounts:	Saudi Arabia contributed SDR 40 million to the oil facility subsidy account. It has made a commitment to contribute US$52 million to the SFF subsidy account, of which the equivalent of SDR 17.4 million has been utilized.
Exchange rate system:	Since September 1975, the exchange rate of the Saudi Arabian riyal has been pegged to the SDR at the rate of SRls 4.28255 = SDR 1, with margins of 7.25 per cent. Since mid-1981 observance of these margins has been temporarily suspended. The midpoint between the buying and selling rates for the riyal against the U.S. dollar is SRls 3.445 = US$1.
Technical assistance:	Since 1975 the Fund has provided Saudi Arabia with seven prebudget technical assistance studies, the latest of which was prepared by the mission that visited Saudi Arabia in November 1982. A staff team visited Riyadh in June 1981 to assist SAMA staff in establishing an in-house capability for economic modeling and simulation. In conjunction with the latest prebudget study mission, the staff also provided technical assistance to SAMA staff aimed at establishing computer programs for compilation of certain statistical series.
Last Article IV consultation:	May 29-June 1, 1982; the staff report (SM/82/131) was discussed by the Executive Board on August 9, 1982 (EBM/82/104).

Saudi Arabia - Basic Data

Area 2,240,000 square kilometers

Fiscal years 1/	1977/78	1978/79	1979/80	1980/81	1981/82	Prov. Actuals 1982/83
			(In per cent)			
Annual changes in output and prices						
Non-oil GDP at constant (1969/70) prices	14.5	11.2	11.8	12.4	11.1	7.5
Government sector	(13.5)	(13.2)	(10.1)	(13.8)	(8.1)	(6.3)
Private sector	(15.0)	(10.2)	(12.7)	(11.8)	(12.6)	(8.1)
Implicit non-oil GDP deflator	16.0	7.3	9.1	6.9	5.5	3.8
Cost of living index 2/3/	4.0	1.5	2.4	4.3	1.4	...
			(In billions of Saudi Arabian riyals)			
Government finances						
Revenue	130.7	131.5	211.2	348.1	368.0	246.3
Oil revenue	114.0	115.1	189.3	319.3	328.6	186.6
Investment income	11.7	10.0	14.7	21.4	30.2	43.0
Other revenue	5.0	6.4	7.2	7.4	9.2	16.7
Expenditure	138.0	148.0	188.4	236.6	284.6	243.8
Current expenditure	70.6	53.8	58.4	89.8	106.9	98.6
Project expenditure	66.6	77.0	104.5	123.1	145.7	128.2
Transfers to specialized credit institutions	0.8	17.2	25.4	23.7	32.0	17.0
Surplus or deficit (-)	-7.3	-16.5	22.8	111.5	83.4	2.5
(In per cent of GDP in current prices)	(3.3)	(6.7)	(5.9)	(21.5)	(16.0)	(0.1)
Memorandum item:						
Public sector expenditure on cash basis 4/	145.1	147.0	178.4	229.6	264.6	...

Saudi Arabia - Basic Data (continued)

	1977/78	1978/79	1979/80	1980/81	1981/82	Est. 1982/83
	(In billions of Saudi Arabian riyals)					
Factors affecting monetary expansion						
1. Changes in foreign assets (net)	2.4	-18.2	45.9	135.1	124.5	6.8
2. Changes in public sector deposits (increase-)	14.4	15.5	-32.8	-118.5	-103.5	4.5
3. Credit to private sector	2.8	8.5	9.5	11.0	6.3	2.5
4. Other items (net)	-3.3	1.9	-9.3	-14.4	4.2	5.2
5. Government net domestic expenditures	94.4	95.3	126.6	143.7	166.1	...
6. Private sector balance of payments position	-77.6	-98.0	-113.5	-127.1	-145.1	...
7. Change in money and quasi-money 5/	16.3	7.8	13.4	13.1	31.5	19.0
(In per cent per annum)	(43.6)	(14.5)	(21.8)	(17.5)	(35.9)	(16.0)
	(In billions of U.S. dollars)					
Foreign assets (net) of banking system (end of period)	61.1	58.2	72.1	112.0	146.6	156.4 6/
Foreign assets of SAMA	58.2	56.1	66.7	102.3	133.1	142.6
Net foreign assets of commercial banks	2.9	2.1	5.4	9.7	13.5	13.8
	1977	1978	1979	1980	1981	1982
	(In millions of barrels per day)					
Crude oil output	9.20	8.30	9.53	9.90	9.82	6.48
In per cent of:						
OPEC output	(29.3)	(27.7)	(30.9)	(36.5)	(43.3)	(34.5)
World output	(14.8)	(13.2)	(14.7)	(15.9)	(16.8)	(11.6)

Saudi Arabia - Basic Data (concluded)

	1977	1978	1979	1980	1981	Prelim. 1982
	(In billions of U.S. dollars)					
Balance of payments 7/						
Exports, f.o.b.	40.2	37.0	58.1	100.8	111.2	73.1
Of which: oil exports	(40.1)	(36.9)	(57.9)	(100.6)	(111.0)	(72.9)
Imports, f.o.b.	-12.4	-17.2	-20.7	-25.6	-29.9	-34.5
Services and private transfers (net)	-12.8	-16.5	-21.8	-27.8	-37.2	-36.5
Goods, services, and private transfers	15.0	3.3	15.6	47.3	44.1	2.2
Official foreign aid	-3.1	-5.5	-4.6	-5.9	-5.7	-4.4
Goods, services, private transfers, and official foreign aid	11.9	-2.2	11.0	41.4	38.4	-2.2
Other capital movements and reserves	-11.9	2.2	-11.0	-41.4	-38.4	2.2
Oil sector capital transactions (net) and other inward direct investment capital	0.8	0.6	-1.4	-3.2	6.4	11.1
Other private capital and errors and omissions	-1.5	0.9	-7.6	-8.3	1.5	3.4
Commercial banks (net)	-0.7	-0.6	-1.6	-3.7	-6.3	-3.1
Other official capital and reserves (increase-)	-10.5	1.4	-0.4	-26.2	-40.0	-9.2

1/ Based on the Islamic (Hijri) year. See report on Recent Economic Developments, to be issued shortly.

2/ Annual averages. Up to 1979/80 middle-income Saudi Arabian households index; thereafter, all cities cost of living index.

3/ The method for calculating the cost of living index has been changed on a number of occasions in recent years. The data shown are based on the splicing of successive indices.

4/ Budgetary expenditure adjusted for the net operations of specialized credit institutions and timing differences between budgetary and monetary data.

5/ Equals items 1 through 4 or items 3 through 6.

6/ September 1982.

7/ Revised official data. The following average annual exchange rates (in Saudi Arabian riyals per U.S. dollar) were used: 1977 - SRls 3.5251; 1978 - SRls 3.3996; 1979 - SRls 3.3608; 1980 - SRls 3.3267; 1981 - SRls 3.3826; and 1982 - SRls 3.4274.