

**FOR  
AGENDA**

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**CONTAINS CONFIDENTIAL  
INFORMATION**

July 7, 1982

**To: Members of the Executive Board**  
**From: The Secretary**  
**Subject: Saudi Arabia - Staff Report for the 1982 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Saudi Arabia.

This subject has been tentatively scheduled for discussion on Monday, August 9, 1982.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

Staff Report for the 1982 Article IV Consultation

Prepared by the Staff Representatives for the  
1982 Consultation with Saudi Arabia

Approved by A.S. Shaalan and S. Kanesa-Thanan

July 6, 1982

I. Introduction

The 1982 Article IV consultation discussions with Saudi Arabia were held in Riyadh during the period May 29-June 1, 1982. The Saudi Arabian representatives included the Minister of Finance and National Economy, the Vice 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, J. Prust, E. Taha, S. von Post, and Ms. J. Knott (Secretary), all of MED. Mr. Y. Nimatallah, Executive Director for Saudi Arabia, attended the meetings.

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

II. Background

Saudi Arabia, the world's principal oil exporter, plays a key role in the world oil supply system. With tight conditions prevailing in the world oil market during 1979-80, the Saudi Arabian authorities raised the maximum allowable production level of Aramco (which produced all but 0.2 million barrels per day (mbd) of the country's total output in 1981) from 8.5 mbd to 9.5 mbd in 1979 and further to 10.0 mbd in the last quarter of 1980. The increased production levels were accompanied by the maintenance of prices below those of other major oil exporters. Saudi Arabia's total oil production in 1980-81 averaged just under 10.0 mbd and its share in OPEC output rose from 31 per cent in 1979 to 44 per cent in 1981. The oil sector accounts for over 90 per cent of budget revenues and most of foreign exchange receipts.

A primary objective of government policy has been to utilize the financial resources derived from oil exports to expand the productive capacity of the non-oil sectors of the economy. After a period of very rapid economic growth accompanied by intense inflationary pressures, the pace of expansion gradually slackened in the second half of the 1970s

and the rate of inflation also declined. The main reasons were a strict implementation in 1976-78 of the Government's stabilization policies, which consisted essentially of substantial restraints on the growth in government expenditures, the successful elimination of supply constraints affecting the flow of imports, and a liberal issuance of work permits for foreign workers. Following the second round of major oil price increases in 1979-80, budgetary expenditures were again permitted to rise more rapidly; in fiscal years 1979/80 and 1980/81 <sup>1/</sup> these expenditures grew on average by over 25 per cent. As a result, the declining trend in the rate of economic growth was arrested and real non-oil GDP rose by about 12 per cent in both years. However, with supply bottlenecks effectively removed, there was no resurgence of inflation and the higher level of government spending was mainly reflected in import growth. The expansionary monetary impact of government net domestic expenditure was largely offset by the growing private sector external deficit and the inflation rate (as measured by the implicit nonoil GDP deflator) was virtually stable at about 8 per cent in both years (see Chart 1).

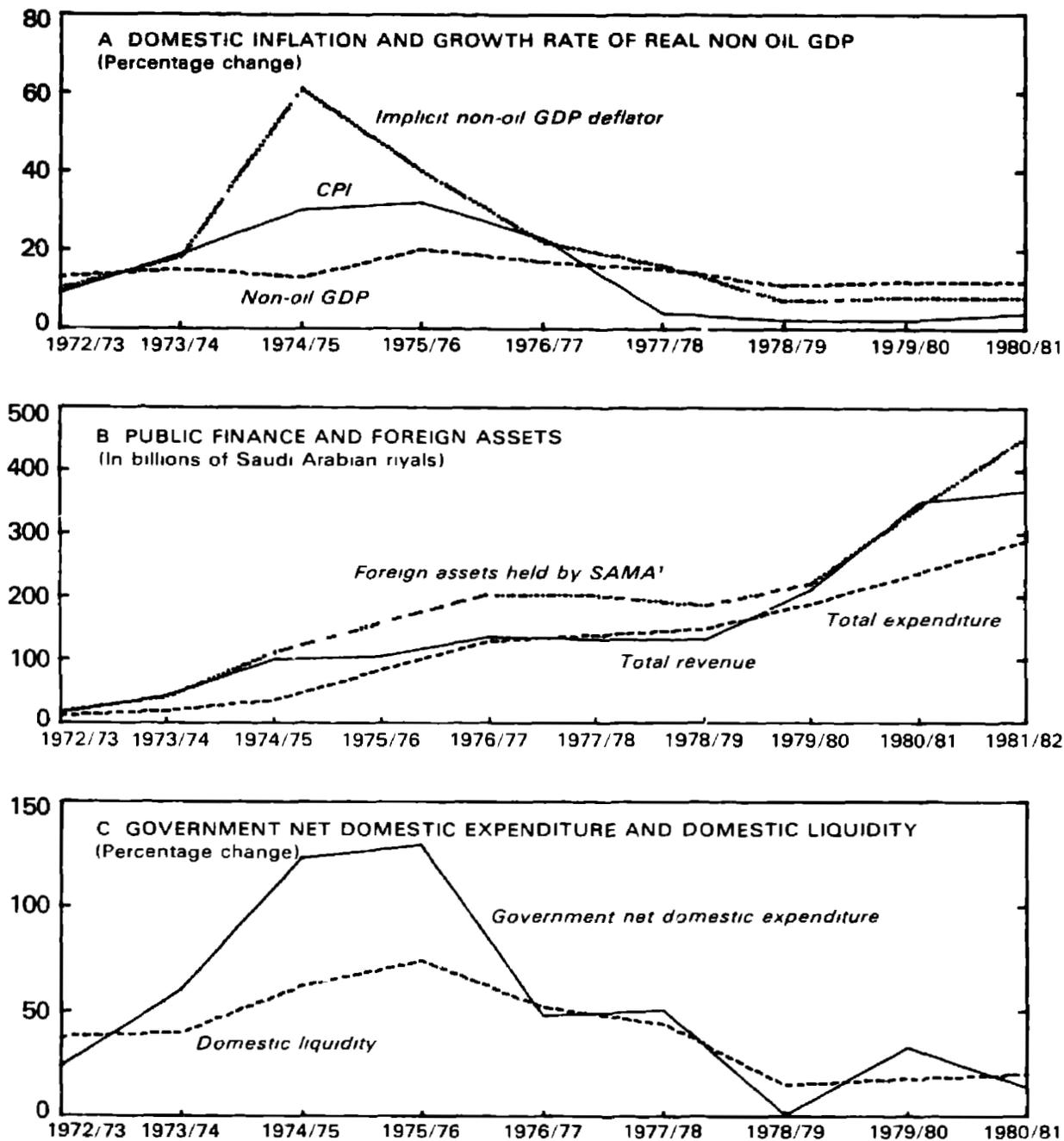
Economic growth in the non-oil sector in the past decade has been concentrated in the services and construction sectors, and occurred mainly in response to the high level of government expenditure. Investment outlays were heavily concentrated in infrastructural projects and the economy's increased manpower needs were met largely by recruitment of expatriate labor. As substantial progress was achieved in completing the country's infrastructural facilities by 1979/80, the Third Five-Year Development Plan (1980/81-1984/85) incorporates a change of emphasis. The share of infrastructural projects in total development outlays is planned to decline and that of the commodity-producing sectors to increase. In pursuance of this objective, major projects in petroleum-related and other heavy industries will absorb a substantial share of investment outlays.

Fiscal spending policy passed through three distinct phases during the decade 1973-82. Following the large increases in the price of oil in 1973-74, government spending, especially for development, rose considerably. However, beginning in 1976/77, financial policies were re-oriented toward the elimination of inflationary pressures and the growth of government spending was curtailed sharply. During the third phase, comprising the three-year period ended in 1981/82, total budgetary expenditures expanded at about 25 per cent annually on the average. Nevertheless, substantial overall fiscal surpluses were recorded in these years because of the very large rise in oil revenue. Because of the dominance of the government sector in the Saudi Arabian economy, the growth in domestic liquidity (money and quasi-money) is determined largely by net government expenditures in the domestic economy financed from oil export receipts. Partly offsetting this expansionary factor is the external deficit on private sector transactions. Until recently, credit to the private sector has grown at a vigorous pace, but its contribution to liquidity expansion was relatively small. In the period 1978/79-1980/81 the growth of broad money averaged about 18 per cent per annum.

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<sup>1/</sup> Saudi Arabia's fiscal year 1980/81 ended May 4, 1981.

CHART 1  
SAUDI ARABIA  
SELECTED ECONOMIC INDICATORS, 1972/73-1981/82



Source: Data provided by the Saudi Arabian authorities  
<sup>1</sup>The 1981/82 data for 11 months

Saudi Arabia's balance of payments current account surplus has shown substantial fluctuations in recent years mainly in response to changes in oil export earnings and in the rate of growth of government spending. With the rapid absorption of the income from higher export earnings after 1973, the considerable current account surplus was virtually eliminated by 1978. In 1979-80, reflecting both oil price and output increases, the current account surplus (excluding foreign aid) rose sharply to about US\$47 billion. Saudi Arabia has provided substantial amounts of foreign aid to developing countries in recent years. With the limited domestic investment opportunities and the high level of interest rates in international capital markets, the outflow of private capital has also been substantial. Nevertheless, total official foreign assets (including reserves and other assets) rose from about US\$61 billion at the end of 1978 to about US\$87 billion at the end of 1980 and further to an estimated level of about US\$123 billion at the end of 1981.

Saudi Arabia maintains no restrictions on the making of 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 SR1s 4.28255 = SDR 1 with margins of 7.25 per cent on either side. However, during most of the period from May 1981 the riyal has been outside these margins. The riyal/dollar exchange rate has been adjusted on a number of occasions during the past two years, the last adjustment took place on June 30, 1982 when the midpoint of the official buying and selling rates was set at SR1s 3.435 per US\$1.

### III. Report on the Discussions

#### 1. Oil production and pricing policies

Saudi Arabia's policies with respect to oil production and prices are guided by the following (1) to ensure adequate supplies of oil to meet the requirements of consuming countries, (2) to maintain, to the extent possible, a unified and orderly price system and stable conditions in the world oil market, and (3) to secure optimum and reasonable revenue for the Kingdom in the long run. During the period from early 1979 until the unification of the oil price structure in October 1981, Saudi Arabia maintained a relatively high level of oil production and charged prices below those of most other oil exporters. This helped to reduce the impact of supply interruptions in other areas, blunted the upward pressure on the price level, and paved the way for the restoration of an orderly and unified pricing system. The achievement of these objectives was initially made difficult because of the destabilizing impact of additional demand for oil to build up inventories during 1979 and 1980.

Saudi Arabia's oil production policy is being implemented mainly in the form of changes in the ceiling on output of Aramco. Following the agreement on price unification, the production ceiling on Aramco was reduced to 8.5 mbd in November 1981. In view of the substantial weakening

of the oil market in early 1982, the ceiling was reduced further to 7.5 mbd in March 1982 and to 7.0 mbd in April 1982. Saudi Arabia's actual production declined from an average of 9.8 mbd in 1981 to about 8.1 mbd in the first quarter of 1982 and to about 6.7 mbd in April 1982. Consistent with the objective of maintaining stable market conditions, the Saudi Arabian representatives stated that the authorities continued to pursue a flexible production policy and were prepared to adjust the oil production ceiling in light of developments in the oil market. They noted that the weakening of the market in the early part of 1982 reflected in part a lower demand for oil due to the recession in the industrial countries and of substantial drawdown of inventories by the oil industry. With a deceleration in the rate of inventory drawdown and some pickup in demand, the authorities expected that total OPEC production would increase in the latter part of 1982. In these circumstances, Aramco's crude oil production might increase to at least 7.0 mbd in this period and, taking account of output in the Divided Zone, Saudi Arabia's crude oil production in 1982 would be somewhat larger.

The Saudi Arabian representatives expressed the belief that the policies pursued by the Kingdom had succeeded in stabilizing oil prices, which was in the interest of both producers and consumers. They added that the authorities believed that the present price level (based on the US\$34 a barrel price for the marker crude) should be maintained for some time, at least through the end of 1982, even though an unchanged nominal price would permit an erosion of the price in real terms. It would not be desirable to reduce the price in nominal terms as such a move could lead to a return to disorderly pricing and market conditions. Moreover, a price reduction would not be in the interest of either producers or consumers of oil as it would have adverse effects on oil conservation and on the development of new energy sources, and thus possibly result in a new round of oil price increases at a later stage. The Saudi Arabian representatives noted that there was a concern in Saudi Arabia about the apparent lack of comprehensive and balanced energy policies on the part of major oil consuming countries, where developments sometimes appeared to be influenced by short-term considerations.

## 2. Developments and prospects in the non-oil sector

Real non-oil GDP rose by over 12 per cent in both 1979/80 and 1980/81 which in part reflected the resumption of relatively high increases in budgetary spending. For 1981/82 only partial and preliminary data are available but it is estimated that real non-oil GDP grew by about 10.5 per cent in that year. This represented some slowing down in growth performance associated mainly with the substantial progress made in the construction of infrastructure. A further indication of a slowdown in the non-oil economy is the reduced rate of expansion in lending by the commercial banks and the specialized credit institutions to the private sector.

Regarding growth prospects for 1982/83, the authorities estimated that in view of the relatively modest planned growth in budgetary expenditure in comparison with the preceding three years, some dampening influence on the growth performance appeared likely. However, there is likely to be a continuing lagged effect from the more rapid growth of budgetary spending in earlier years, and expenditure allocations in 1982/83 might be raised from the presently budgeted level depending on further assessments of revenue prospects during the year. Overall, the present indications were that the real growth of non-oil GDP in 1982/83 would be about 9.5 per cent. The authorities stressed that the development of the non-oil economy continued to be a primary objective of the Government and they noted that the target for investment spending under the Third Five-Year Development Plan will not be affected by revenue considerations.

The rapid economic growth in recent years has been accompanied by a steady decline in the rate of price increases. Inflation, as measured by the non-oil GDP deflator, is provisionally estimated to have fallen to 5-6 per cent in 1981/82 and the two cost-of-living indices have risen by less than 2 per cent during the past 12 months. This very favorable price performance resulted from the well-balanced expenditure policy pursued by the authorities in limiting increases in expenditures to levels consistent with the economy's absorptive capacity. The continuing subsidization of certain commodities and the incidence of administered prices have also helped restrain the rise in the cost of living. Moreover, the virtual stability of 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 general slowing in the rate of increase of international trade prices, were also contributing factors. A further influence had been the sharp decline in the rate of increase of the housing component of the cost-of-living indices reflecting the elimination of excess demand for residential accommodation. Inflation seems likely to remain low in 1982/83 partly reflecting the projected moderate increase in government expenditures.

### 3. Fiscal developments, policies, and prospects

In 1980/81 budgetary revenue, which derives mainly from oil receipts, rose by 65 per cent while expenditures increased by 26 per cent thus resulting in a surplus of SRls 112 billion (21 per cent of GDP). In 1981/82 with revenue growing by only 5 per cent, the continued growth in expenditure, though at a somewhat slower rate of 22 per cent, resulted in a smaller budget surplus of SRls 78 billion. The budget for 1982/83 (ending April 15, 1983) balances revenues and expenditures at SRls 313 billion. Compared with provisional actuals for 1981/82, revenue is projected to decline by 15 per cent and the growth in expenditure has been reduced to less than 9 per cent. The Saudi Arabian representatives stated that if foreign demand for oil picks up and the revenue prospects improve, consideration will be given for additional expenditure allocations in 1982/83.

The mission noted that the fiscal data supplied by the authorities showed fairly large fluctuations in the rate of growth of approved expenditures and suggested that an alternative pattern would be to budget for a steadier growth in public expenditure consistent with revenue expectations over the medium term as well as the authorities' macroeconomic objectives. In this context, the mission inquired whether the authorities had given thought to diversification of budgetary revenue sources and to reviewing the composition of current expenditures, particularly those relating to nonfood subsidies.

The Saudi Arabian representatives responded that in their view there was considerable merit in planning for a sustained moderate growth pattern for public expenditures over the medium term which would be expected to have a stabilizing and beneficial effect on the economy. The uncertainties being experienced at the present time, however, made it difficult to forecast reliably the behavior of oil revenue over a number of years. In view of these uncertainties it is difficult for the authorities to initiate at the present time a multiyear expenditure planning process. Investment expenditures, however, were viewed in terms of the Third Five-Year Plan and these expenditures, the authorities stated, will be implemented as scheduled even if that required financing by a drawdown in the country's reserves. With respect to foreign aid, the authorities emphasized that their policy continued to be guided by maintaining a steady flow of aid to developing countries even when oil revenue was projected to decline as in 1982/83.

The Saudi Arabian representatives added that the authorities recognized the desirability of making a thorough review of budgetary expenditure and revenue policies. Reducing reliance on oil remains a major aim of the Government and the possibility of diversifying revenue resources will be considered. With respect to subsidies, a ministerial committee is studying that question and its recommendations are expected to be finalized in the near future. The authorities explained, however, that the provision of subsidies, in addition to improving the living standard of the population, served the important social objective of closing the gap between the earning power of the present generation, which has not benefited from subsidized education, and the expectations generated by a flow of substantial financial resources to the public treasury. As for pricing of petroleum products, the authorities indicated that it could be approached within the regional context of the Gulf Cooperation Council (GCC) <sup>1/</sup> and in light of neighboring countries' experiences.

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<sup>1/</sup> The GCC was established in May 1981 to coordinate economic, political, and cultural activities of member countries which, beside Saudi Arabia, include Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman. The member countries are aiming at removing barriers to the movement of capital and other factors of production and of nationally-produced goods among themselves, and at an appropriate degree of integration in the investment plans of member states.

#### 4. Monetary developments and policies

Monetary growth has been generally moderate in recent years and has not led to any undue inflationary pressures. The major source of liquidity injection has remained the net domestic expenditures of the Government which, to a large extent, are offset by the balance of payments deficit of the private sector. Bank lending to the private sector continued to account for a relatively minor portion of overall monetary increments. In 1980/81 domestic liquidity increased by about 20 per cent but in 1981/82 this rate is likely to be considerably higher. The increase during the first 11 months of 1981/82 was provisionally estimated at 25 per cent as against 18 per cent in the corresponding period of the previous year. Regarding the rate of monetary expansion in 1982/83, the authorities believed that some slowdown appeared likely in view of the lower growth in budgetary spending.

One notable feature of recent developments in 1981/82 has been sharp fluctuations in the contribution of foreign currency deposits to overall liquidity growth. The Saudi Arabian representatives explained that these changes were in part attributable to variations in the rate at which deposits with the local banking system denominated in Saudi Arabian riyals are remunerated. While in the past a substantial gap existed between domestic rates of remuneration in financial assets and international interest rates, recently the gap has narrowed considerably as a result of some decline in international interest rates in combination with a significant increase in the return on riyal-denominated assets. The latter development reflected in part a more vigorous approach by the Saudized commercial banks which have shown a rapid expansion in branch banking. Another important factor has been exchange rate uncertainties which may have raised doubts regarding the net yield on foreign currency denominated assets. These considerations may also, more generally, have tended to discourage the outflow of private capital from the domestic economy and, in certain instances, capital previously held overseas may have been repatriated. These factors could have resulted in a reduction in the size of the private sector's balance of payments deficit and thus contributed to the more rapid monetary growth in 1981/82.

The increase in the cost of funds to the commercial banks had been reflected in higher charges on bank lending. This development, together with an underlying weakening of demand for credit in certain sectors of the economy, has contributed to a substantial reduction in the rate of increase of bank lending to the private sector. The authorities stated, however, that the genuine liquidity needs of the economy were being met and no tightness in the domestic credit market had been felt. Regarding the portfolio distribution of the commercial banks, the trend of a rising share of foreign assets in total assets continued in 1981/82. The authorities explained that the rapid growth in deposits, the increase in loans provided by the government-sponsored credit institutions, the deceleration in the growth of the non-oil private economy, and the high interest rates which caused a reduction in the demand for credit resulted in the banks having excess investible funds which they employed abroad. They added

that any change in the net return on foreign currency-denominated assets was likely, perhaps with a lag, to be reflected in changes in rates of return on riyal-denominated assets and discourage excessive shifts between currencies by the commercial banks. In any case, the monetary authorities had kept the situation under review and would, if circumstances warranted, take appropriate measures.

Late in 1981 measures were introduced to control the activities of the money changers by decreeing that no new licenses shall be issued for such businesses and that banking operations previously engaged in by money changers (such as accepting deposits and making loans) are to cease within a period of three years. The authorities said that the continuing rapid growth in the money changers' banking-type activities, which were not in any way monitored or regulated, necessitated the regulations introduced in December 1981 to be implemented by SAMA.

##### 5 External sector developments and policies

The balance of payments estimates indicated a large increase in the surplus on current account (including official foreign aid) from about US\$11 billion in 1979 to about US\$41 billion in 1980 and to US\$45 billion in 1981. Excluding estimated foreign aid, the surplus amounted to about US\$52 billion in 1981. The rise in the surplus during the past two years resulted almost entirely from a large increase (more than 90 per cent) in the value of oil exports. Official foreign assets (including reserves and other assets) increased by about US\$26 billion in 1980 and by US\$36 billion in 1981.

The balance of payments projection for 1982 shows a large drop in the current account surplus to about US\$10 billion (about US\$16 billion excluding estimated foreign aid) and less than US\$1 billion increase in official foreign assets. The projected sharp fall in the surplus is expected to result mainly from a decline in the value of oil exports of about US\$24 billion as the rise in the average annual export price (of less than 3 per cent) would provide only a minor offset to the forecast considerable decline in the export volume. Merchandise imports are projected to increase substantially in 1982, even though the rate of growth is forecast to slow down somewhat to about 18 per cent, and the net deficit on the services and private transfers account is expected to rise by about US\$6 billion. Official foreign aid has increased substantially in the past two years and this flow is expected to continue at a high level in 1982. The Saudi Arabian representatives said that there had been no change in Saudi Arabia's policy of providing assistance to other developing countries and the level of aid will not be affected by the fall in oil revenues and the expected decline in the current account surplus in 1982.

The Saudi Arabian representatives informed the mission that there had been no changes with respect to the management of SAMA's foreign assets since the 1981 Article IV consultation. The authorities also stated that the Saudi Arabian riyal remained, in principle, pegged to

the SDR although, as the Fund was informed in July 1981, it has become necessary to suspend temporarily the maximum margin of 7.25 per cent around the peg. During most of the period since May 1981, the riyal has been outside the declared margin of 7.25 per cent (on June 30, 1982 the implicit riyal/SDR rate was SRIs 3.73934 = SDR 1, which represented a divergence of 12.68 per cent from the parity value). The authorities have sought to preserve a fairly stable riyal/dollar exchange rate, and this has been the main reason why the spread vis-a-vis the SDR peg has exceeded the margin. Since late 1980, the riyal has been depreciated in a number of small steps against the dollar, but given the sharp appreciation of the dollar against other currencies, this has nonetheless resulted in an appreciation of the riyal against the SDR to an extent that caused the 7.25 per cent margin to be exceeded.

#### IV. Staff Appraisal

Economic performance in Saudi Arabia has been characterized by rapid economic growth and low price inflation and the prospects appear to be for the continuation of these favorable trends. The primary factor accounting for the good economic performance was the prudent fiscal policy of the Saudi Arabian authorities. With respect to oil production and pricing policy, the authorities have pursued responsible policies and have been persistent in their efforts to stabilize the world oil market. Output levels were expanded substantially in 1979-81 to blunt the upward pressures on the price level and later were cut back considerably in view of the substantial weakening of oil market conditions.

There are considerable uncertainties regarding the prospective demand for oil and, pending the emergence of a clearer view with respect to the prospects for oil revenue, the Saudi Arabian authorities have adopted for the current year's budget a cautious fiscal stance, while at the same time maintaining a flexible attitude regarding possible additional expenditure allocations if the revenue picture improves. In any case, the authorities asserted that despite the reduction in the projected growth rate of public spending in the current fiscal year, neither the targets of the development program nor normal foreign aid level has been affected. While the authorities view with favor medium-term planning for the public spending pattern, for the present they believe that considering the substantial existing uncertainties, 1982/83 is not the appropriate year to set out medium-term fiscal objectives. Similarly, while the authorities are favorably inclined to review the composition of current expenditures, including subsidies, and to look into the feasibility of diversifying the revenue base, they believe that the pace and timing of the review would have to take into account social and political considerations as well as the need to keep in step with the general practices in the region. This latter consideration has gained greater importance with the setting up of the Gulf Cooperation Council to harmonize economic, cultural, and defense policies.

Monetary expansion accelerated in 1981/82, an important cause of which is likely to have been a shift in the preference concerning the placement of deposits by the private sector. Whereas previously there was a growing tendency for the private sector to place deposits directly abroad, in recent months a reversal has occurred and the preference changed in favor of riyal-denominated assets at home. A more vigorous Saudized banking system offering better terms seems to have contributed to this change. Measures have been taken to regulate more effectively the operations of money changers under the supervision of SAMA. The rate of domestic liquidity expansion is anticipated to slow down in 1982/83.

Mainly because of the expected substantial fall in oil export earnings, the large current account and overall balance of payments surpluses experienced by Saudi Arabia in the past two years are expected to be sharply reduced in 1982. However, this should not be cause for concern in view of the comfortable level of official foreign assets. The Saudi Arabian authorities have continued to pursue appropriate external sector policies characterized by responsible reserve management and exchange rate policies and generous foreign aid to developing countries.

Saudi Arabia. Fund Relations 1/

Date of membership:	August 26, 1957.
Status.	Article VIII.
Quota.	SDR 2,100.0 million.
Fund holdings of Saudi Arabian riyals	SDR 977.2 million or 46.5 per cent of quota.
Lending to the Fund.	Saudi Arabia lent the Fund the equivalent of SDR 2,250 million for the oil facility, of this amount, SDR 183.9 million is outstanding. Saudi Arabia agreed to lend the Fund SDR 1.9 billion for the supplementary financing facility, of which SDR 1,000 million has been utilized. In addition, claims equivalent to SDR 225 million under the oil facility and SDR 172 million under the supplementary financing facility were transferred from the Deutsche Bundesbank on November 13, 1980 to SAMA. 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 1,200 million has been drawn.
SDR Department.	Saudi Arabia became a participant on December 8, 1978. Holdings amount to SDR 449.1 million which is equivalent to 229.7 per cent of the net cumulative allocation.
Gold distribution	114,681 ounces
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.
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 12.8 million has been utilized.

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1/ As of June 30, 1982.

**Exchange rate system:**

Since September 1975, the exchange rate of the Saudi Arabian riyal has been pegged to the SDR at the rate of SR1s 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 SR1s 3.435 = 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 1981. A staff team visited Riyadh in June 1981 to assist SAMA staff in establishing an in-house capability for economic modeling and simulation.

**Previous consultations.**

The last Article IV consultation discussions were held in Riyadh during the period March 29-April 1, 1981.

Saudi Arabia - Basic Data

Area	2,240,000 square kilometers					
	<u>1980/81</u>					
	(In per cent of total GDP)					
Origin of GDP at current prices						
Oil sector	69.5					
Non-oil GDP	30.5					
Government sector	(12.8)					
Private sector	(17.7)					
Fiscal years <u>1/</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	Provis. Actuals <u>1981/82</u>
	(In per cent)					
Annual changes in output and prices						
Non-oil GDP at constant (1969/70) prices	16.9	14.5	11.2	12.1	12.3	
Government sector	(12.9)	(13.5)	(13.2)	(10.1)	(6.9)	
Private sector	(18.9)	(15.0)	(10.2)	(13.0)	(14.9)	
Implicit non-oil GDP deflator <u>2/</u>	22.4	16.0	7.3	8.9	7.6	
Cost of living index <u>2/3/</u> (middle income Saudi Arabians)	23.0	4.0	1.5	2.4	3.6	
	(In billions of Saudi Arabian riyals)					
Government finances						
Revenue	<u>135.9</u>	<u>130.7</u>	<u>131.5</u>	<u>211.2</u>	<u>348.1</u>	<u>366.5</u>
Oil revenue	<u>121.2</u>	<u>114.0</u>	<u>115.0</u>	<u>189.3</u>	<u>319.3</u>	<u>327.9</u>
Other revenue	14.8	16.7	16.5	21.9	28.8	38.6
Expenditure	<u>128.2</u>	<u>138.0</u>	<u>148.0</u>	<u>188.4</u>	<u>236.6</u>	<u>288.2</u>
Current expenditure	<u>43.0</u>	<u>70.6</u>	<u>53.8</u>	<u>58.4</u>	<u>89.7</u>	<u>115.7</u>
Project expenditure	54.7	66.6	77.0	104.6	123.1	144.3
Transfers to specialized credit institutions	30.6	0.8	17.2	25.4	23.7	28.2
Surplus or deficit (-)	<u>7.7</u>	<u>-7.3</u>	<u>-16.5</u>	<u>22.8</u>	<u>111.5</u>	<u>78.3</u>
Memorandum item:						
Public sector expenditure on cash basis <u>4/</u>	104.6	145.1	147.0	178.4	229.6	...

Saudi Arabia - Basic Data (Continued)

	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>First Eleven Months 1981/82</u>
<u>(In billions of Saudi Arabian riyals)</u>						
Factors affecting monetary expansion						
1. Changes in foreign assets (net)	48.4	2.4	-18.2	45.9	135.1	126.4
2. Changes in public sector deposits (increase-)	-31.1	14.4	15.5	-32.8	-118.5	-112.0
3. Credit to private sector	-0.1	2.8	8.5	9.5	11.0	6.3
4. Other items (net)	-4.2	-3.3	1.9	-11.4	-12.7	1.1
5. Government net domestic expenditures	62.0	94.4	95.3	126.6	143.7	...
6. Private sector balance of payments position	-45.4	-77.6	-98.0	-113.5	-127.1	...
7. Change in money and quasi-money <sup>5/</sup> (In per cent per annum)	12.9 (52.7)	16.3 (43.6)	7.8 (14.5)	11.3 (18.4)	14.8 (20.4)	21.9 (25.0)

(In billions of U.S. dollars)

Foreign assets (net) of banking system (end of period)	<u>59.0</u>	<u>61.1</u>	<u>58.2</u>	<u>72.1</u>	<u>112.0</u>	<u>147.3</u>
Foreign assets of SAMA	<u>57.4</u>	<u>58.2</u>	<u>56.1</u>	<u>66.7</u>	<u>102.3</u>	<u>133.3</u>
Net foreign assets of commercial banks	1.6	2.9	2.1	5.4	9.7	14.0
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>

(In millions of barrels per day)

Crude oil output	8.58	9.20	8.30	9.53	9.90	9.82
In per cent of OPEC output	(27.9)	(29.3)	(27.7)	(30.9)	(36.7)	(43.5)
World output	(14.4)	(14.8)	(13.2)	(14.7)	(15.9)	(16.8)

Saudi Arabia - Basic Data (Concluded)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Prelim.</u> <u>1981</u>
	<u>(In billions of U.S. dollars)</u>					
Balance of payments <u>6/</u>						
Exports, f.o.b.	35.5	40.2	37.0	58.1	100.8	110.7
Of which: oil exports	(35.4)	(40.1)	(36.9)	(57.9)	(100.6)	(110.5)
Imports, f.o.b.	-10.4	-14.7	-20.0	-23.5	-28.2	-34.0
Services and private transfers (net)	-7.6	-9.8	-15.3	-19.9	-25.5	-24.6
Goods, services, and private transfers	<u>17.6</u>	<u>15.8</u>	<u>1.7</u>	<u>14.6</u>	<u>46.9</u>	<u>52.1</u>
Oil sector capital (net) and other inward direct investment	-0.4	0.8	0.6	-1.4	-3.2	3.4
Other private capital (net) and errors and omissions	-1.3	-1.5	0.9	-7.7	-8.3	-6.2
Commercial banks (net)	-0.5	-0.7	-0.6	-1.6	-3.7	-6.3
Official foreign aid	-3.3	-3.9	-3.9	-3.5	-5.5	-7.0
Other official capital and reserves (increase-)	-12.0	-10.5	1.4	-0.4	-26.2	-36.0

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

2/ Annual averages.

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/ Based partly on staff estimates. The following annual average exchange rates (in Saudi Arabian riyals per U.S. dollar) were used 1976 - SRls 3.53; 1977 - SRls 3.5251, 1978 - SRls 3.3996, 1979 - SRls 3.3608; 1980 - SRls 3.3267, 1981 - SRls 3.3826.