

**FOR
AGENDA**

SM/03/282
Supplement 1

CONFIDENTIAL

August 20, 2003

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Saudi Arabia—Staff Report for the 2003 Article IV Consultation—Draft Public Information Notice**

Attached for consideration by the Executive Directors is the draft public information notice for the staff report for the 2003 Article IV consultation with Saudi Arabia (SM/03/282, 8/8/03), which is tentatively scheduled for discussion on **Friday, October 10, 2003**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Saudi Arabia indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Okogu (ext. 37116) and Mr. Thai (ext. 37325) in MED.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, August 28, 2003.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/
FOR IMMEDIATE RELEASE

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Saudi Arabia

On October ..., 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Saudi Arabia.¹

Background

In 2002, overall real growth slowed. Oil output dropped following OPEC-mandated production cuts, and real non-oil GDP growth picked up modestly to 3.6 percent as private investment continued to be weak. Inflation, however, remained negative and involuntary unemployment stood at about 9 percent.

The fiscal position weakened despite some strengthening of fiscal effort. The overall central government budget deficit increased to 6 percent of GDP as oil revenues fell and non-oil revenues showed only a small increase. However, the non-oil primary deficit fell in 2002.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the October ..._, 2003 Executive Board discussion based on the staff report.

Government domestic debt rose to 97 percent of GDP by end-2002. Further, although the external current account registered a comfortable surplus equivalent to 6 percent of GDP, reflecting larger export receipts and little import growth, Saudi Arabian Monetary Agency's (SAMA) net foreign assets fell to the equivalent of 9 months of prospective imports of goods and services due to larger private capital outflows.

Domestic liquidity grew strongly in 2002. Broad money grew by 15 percent as compared with 5 percent in 2001, partly on account of an increased monetization of the fiscal deficit, as well as loans to the private sector and public enterprises. The financial sector continued to perform well and the stock market, bucking the trend in international equity markets, registered gains. The average riyal-U.S. dollar interest rate differential widened in 2002 due to the faster drop in the rates on dollar-denominated assets. In addition, reflecting the depreciation of the U.S. dollar against other major currencies, the Saudi riyal depreciated in real effective terms by about 4 percent.

Progress on structural reforms during 2002 was focused mainly on the establishment of the legal and institutional framework, for promoting private sector investment including foreign direct investment (FDI). Thirty percent of the shares of the Saudi Telecommunication Company (STC) were sold to private investors last December, the privatization strategy listing 20 activities targeted for privatization was approved in June 2002, and the "negative list" for FDI was shortened. Further, the Capital Markets Law was approved in June 2003. In an important step to streamline implementation of reforms, several ministries were merged and restructured in May 2003. Steps continue to be taken to improve the employability of Saudi workers through vocational training and the establishment of specialized educational facilities, while the

Saudiization policy was clarified to ensure maintenance of competitiveness. Following the formal introduction of the GCC customs union in 2002, which reduced the common external tariff from 12 percent to 5 percent for 92 percent of imported items, progress continues to be made toward a currency union by 2010, including by formally pegging the currencies of GCC countries to the U.S. dollar at the start of 2003.

Oil prices have firmed in 2003 and Saudi oil output in the first -half of 2003 has been higher than in recent years; and the macroeconomic position is expected to be better than in 2002. The fiscal accounts would likely be in balance and public debt is projected to decline. The external current account surplus is expected to be higher than in 2002, and SAMA's net foreign assets could rise to the equivalent of 10 months of prospective imports. Real non-oil GDP growth is expected to show a pickup, domestic liquidity is projected to fall towards more normal levels with the improving fiscal balance, and credit to the private sector is expected to moderate.

Executive Board Assessment

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Saudi Arabia: Selected Economic Indicators, 1999–2002

	1999	2000	2001	Prel. 2002
	(Percent change)			
Production and prices				
Real GDP	-0.7	4.9	1.3	1.0
Real oil GDP	-7.6	6.9	-1.5	-4.4
Real non-oil GDP	3.2	4.0	3.4	3.6
Nominal GDP (in billions of U.S. dollars)	161.2	188.7	183.3	188.5
Consumer price index	-1.3	-0.6	-0.8	-0.6
	(In percent of GDP; unless otherwise indicated)			
Financial variables 1/				
Total revenue	24.4	36.5	33.2	30.2
<i>Of which:</i> oil revenue	17.3	30.3	26.8	23.5
Total expenditure	30.5	33.3	37.2	36.1
Fiscal balance (deficit -)	-6.0	3.2	-3.9	-6.0
Change in broad money (in percent)	6.8	4.5	5.0	15.2
Interest rates (in percent) 2/	6.1	6.7	3.9	2.2
	(In billions of U.S. dollars; unless otherwise indicated)			
External sector				
Exports	50.6	77.4	67.9	71.5
<i>Of which</i>				
Oil and refined products	44.8	70.7	59.7	62.8
Imports	-25.7	-27.7	-28.6	-29.6
Current account	0.4	14.3	9.4	11.7
In percent of GDP	0.3	7.6	5.1	6.2
SAMA's net foreign assets 3/	37.9	47.6	48.4	41.9
In months of imports of goods and services	8.1	10.9	11.0	9.2
Real effective exchange rate (percent change)	-4.4	2.2	2.3	-3.5

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Public finance data are on a fiscal year basis, which coincides with the calendar year.

2/ Three-month Saudi Arabian riyal deposits.

3/ Includes liquid assets, gross official reserves, and other foreign assets.