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June 10, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Saudi Arabia - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Saudi Arabia, which has been tentatively scheduled for discussion on Wednesday, July 8, 1987.

Mr. Handy (ext. 7073) or Mr. Iqbal (ext. 4534) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

SAUDI ARABIA

# Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the
1987 Article IV Consultation with Saudi Arabia

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

June 9, 1987

## I. Introduction

The 1987 Article IV consultation discussions with Saudi Arabia were held in Riyadh during the period April 11-22, 1987. The Saudi Arabian representatives were led by the Minister of Finance and National Economy, H. E. Sheikh Mohammed Abalkhail, and included the Governor of the Saudi Arabian Monetary Agency (SAMA), H. E. Sheikh Hamad Al-Sayari, and other senior officials. The staff representatives were Messrs. A. S. Shaalan (Head), H. Handy, Z. Iqbal, M. Melhem, S. von Post, and Mrs. R. Rathnam (Secretary) (all of MED). Mr. Y. Nimatallah, Executive Director for Saudi Arabia, and Mr. A. Al-Abdullatif, Technical Assistant to Mr. Nimatallah, participated in 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. The last consultation discussions were held in April 1986 and the Staff Report (SM/86/118), together with the report on Recent Economic Developments (SM/86/131), was considered by the Executive Board on June 30, 1986. Relations with the Fund are outlined in Appendix I, and a summary of basic data is provided in Appendix II. Statistical Issues are surveyed in Appendix III. The World Bank has been implementing a technical assistance program in Saudi Arabia since 1975, largely in the fields of computerized cost analysis and management systems, and the development of human resources. Over the years this assistance has increased, and it amounted to the equivalent of 24 man-years in fiscal year 1987.

## II. Background and Recent Developments

In recent years, Saudi Arabia has made great progress toward the development and diversification of its economy. Growth of the non-oil sector, which averaged more than 13 percent annually during the 1970s, continued at 6½ percent in the first half of the present decade. The rapid development of the economy encompassed the setting up of a modern and comprehensive infrastructure; the establishment of basic industries, including large export-oriented petrochemical projects and downstream activities; and the emergence of agriculture and a flourishing and diversified services sector. Manufacturing output now accounts for about 20 percent of domestic demand for manufactured goods, while non-oil exports, which were negligible in the late 1970s, reached $2 billion in 1986 or the equivalent of 10 percent of total exports in that year.

Notwithstanding this diversification, the economy remains predominantly oil-based. Oil receipts account for the bulk of export earnings and for two thirds of government revenues. Export earnings from oil peaked at $111 billion in 1981 and have since been declining. Initially, the reduction in oil exports reflected Saudi Arabia's role of swing producer in support of OPEC's officially announced export prices. This involved a sharp cutback in oil output in order to absorb lower world demand for OPEC oil. Thus, while the world market price of oil fell by about 21 percent in dollar terms from 1981 to 1985, Saudi Arabia's annual crude oil output was cut from almost 10 million barrels a day (mbd) in 1981 to about 3.2 mbd in 1985 (Chart 1). 1/ As a result, Saudi Arabia's share in total OPEC production fell from a high of 43 percent in 1981 to about 20 percent in 1985, while its share in world oil output declined from about 17 percent to 6 percent in the period.

With other OPEC members already producing in excess of their quotas and providing effective discounts on the official export prices, Saudi Arabia's policy--along with that of OPEC as a whole--changed in the latter part of 1985 with the aim of raising output and regaining market share. Mainly through increasing reliance on sales at prices linked to the market prices of refined products (netback prices), Saudi Arabia's oil production recovered significantly in the latter part of 1985 and continued to rise during most of 1986. On an annual basis, total production increased to an estimated 4½ mbd in 1986, or by about 40 percent over its 1985 level. At the same time Saudi Arabia's share in total OPEC and world crude oil production recovered to about 25 percent and about 8 percent, respectively. Nevertheless, the rise in export volume only partly offset a sharp fall in prices with the result that oil export earnings continued to decline (by about 30 percent) from almost $26 billion in 1985 to $18 billion in 1986, less than one sixth of their level in 1981.

Faced with declining earnings from the oil sector, and in an effort to contain the loss of foreign reserves, the authorities have implemented adjustment policies based on fiscal restraint. From 1981/82 to 1985/86, total government expenditures were cut by 35 percent in nominal terms, and the thrust of expenditure restraint policies continued in

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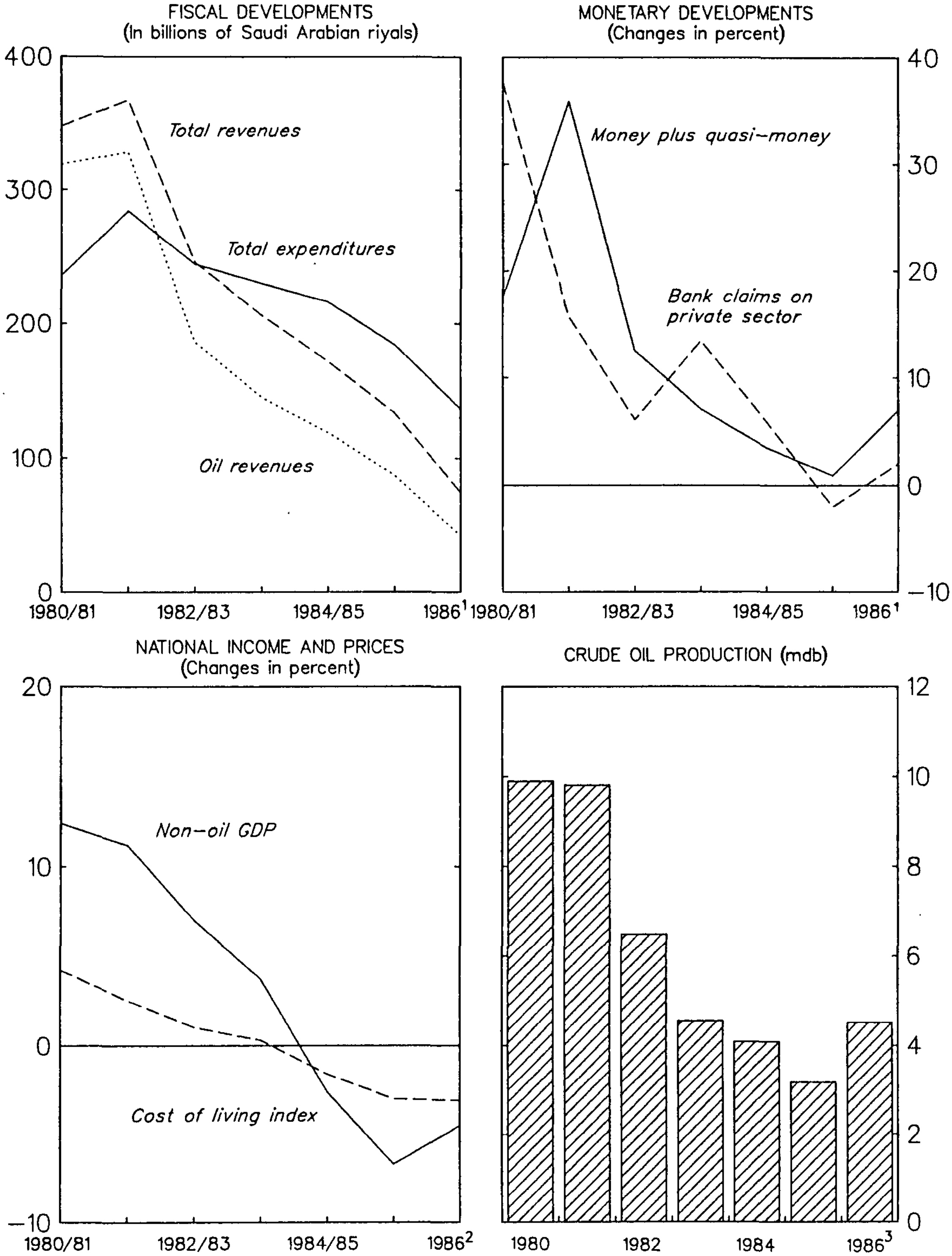
1/ By mid-1985, Saudi Arabia's crude oil output had fallen to only about 2-2½ mbd, a level that fell short of domestic requirements of associated gas (produced in conjunction with crude oil). Subsequently, the development of nonassociated gas has provided the authorities with greater flexibility in their oil production policy.

CHART 1

SAUDI ARABIA

## SELECTED DOMESTIC ECONOMIC INDICATORS




Source: Data supplied by the Saudi Arabian authorities.

[1] Covering the ten months period, March−December 1986.

[2] On an annual basis.

[3] Estimates.

1986. 1/ The continuing reduction in government expenditures reflected cutbacks in expenditure on projects which included revisions in investment priorities and delays in project implementation. As a result, capital expenditures (defined to include operations and maintenance outlays) were roughly halved over the period. This process was facilitated by the completion of much of the country's infrastructure. Current expenditures, after an initial rise, showed little fluctuation over the period, though their composition changed somewhat; in particular, the share of wages and salaries increased while that of supplies and services declined. On the revenue side, despite good progress in expanding revenue from domestic sources (with such receipts more than doubling between 1981/82 and 1985/86), total revenues fell precipitously over the period because of the fall in oil revenues. Overall, the budget shifted from a surplus at the beginning of the period to widening deficits after 1982/83, with the deficits being financed through a drawdown of government deposits with SAMA.

Despite the rising budget deficits, however, the expansionary impact of the budget on the domestic economy steadily diminished over the period as net domestic government expenditures--the primary stimulus to growth in the economy--were reduced. 2/ As a consequence, the exceptionally high rates of growth of the non-oil sector, which had been a feature of the late 1970s and early 1980s, began tapering off after 1982. Over the past three years, non-oil GDP in real terms has been shrinking, with the decline in 1986 estimated at about 5 percent. Associated with this, wage earnings have declined and profits have been squeezed. The labor market has weakened leading to the departure of redundant expatriate workers.

The authorities have been conscious of the adverse implications of reduced growth impulses from the Government on the private sector and, hence, for their goals of fostering development of the private sector and diversifying the economy. Moreover, there have been pressures from the private sector for increased government support and higher protection. However the authorities have refrained from taking such action, lest it should impede the adjustment process. In particular, it is noteworthy, that trade protection has not been increased, and that budgetary subsidies, though still about 12 percent of current expenditures in 1985/86, were on a declining trend after 1981/82.

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1/ The fiscal year 1985/86 ended March 10, 1986. The authorities postponed announcement of a budget for 1986/87 because of uncertainties in the oil market and a desire to change the fiscal year. Instead, during the period March-December 1986, fiscal policy was implemented in accordance with certain expenditure guidelines. The discontinuity in the fiscal cycle in 1986 makes it somewhat difficult to assess recent trends. The present budget covers the period December 31, 1986 to December 30, 1987.

2/ Net domestic government expenditures are defined as total government spending domestically minus total revenues from domestic sources.

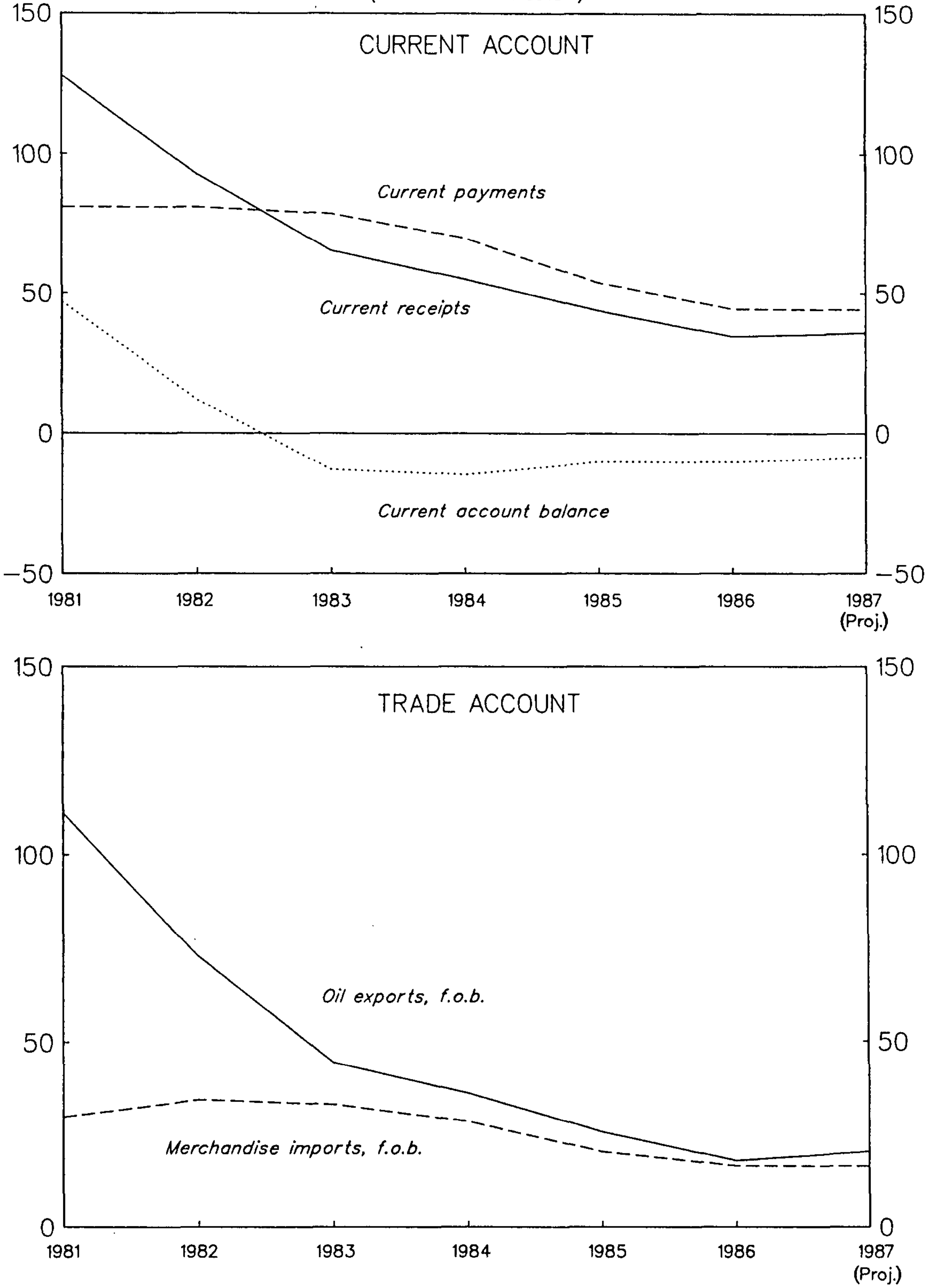
Restrained government expenditure along with the contraction of the non-oil sector and declining domestic prices, have contributed to sluggish liquidity growth over the past few years. In 1986 domestic liquidity growth picked up to about 8 percent, but much of the increase was attributable to a surge in foreign currency deposits with domestic banks (44 percent). These developments may have reflected a number of factors including liquidation of stocks as well as some repatriation of capital from abroad. The latter, in turn, may be partly explained by the fact that lending by the domestic banking system to the private sector has come to a standstill in the past two years in an environment marked not only by recession but also by uncertainties relating to debtor/creditor relations. In order to deal with this situation, SAMA has taken a number of steps in the regulatory domain which are discussed in Section III, below.

In the external sector, the steep and continuous decline in oil export earnings over the past five years posed a major adjustment challenge. Largely through reductions in government spending, the development of import-substituting domestic production, and a substantial depreciation of the riyal in real effective terms, merchandise imports were steadily reduced with the result that, in 1986 they stood at about half of their dollar value in 1981-82; payments for services also declined sharply over the period (Chart 2). Though the external current account (excluding official transfers) swung from a surplus of about $47 billion in 1981 to a deficit after 1982, the deterioration in the external current account position was considerably smaller than the fall in oil export earnings because of the marked reduction in domestic absorption, and the deficits (averaging $12 billion annually during 1983-86) were well within manageable bounds. Since 1983, the overall balance of payments has been in deficit leading to a cumulative drawdown of official foreign assets of about $44 billion through 1986. However, this decline in foreign assets only partly offset the buildup that had taken place in the preceding four years (about $79 billion).

Of total foreign assets under SAMA's management as of end-1986, $30.2 billion of assets of varying maturity are held on account of the Government. A further $27.9 billion of foreign assets is held for Saudi riyal accounts of commercial banks and as cover for currency in circulation, while $30.4 billion is held on behalf of the pension fund, the social security fund, and development funds. Accordingly, official foreign assets available for balance of payments financing are substantially less than SAMA's total holdings of $88.5 billion.

Exchange rate policy was modified in 1985-86 in order to support the adjustment process. In earlier years, though formally pegged to the SDR, the riyal had generally moved pro tanto with the U.S. dollar when the latter appreciated, but did not necessarily depreciate with the dollar. Initially, this policy had been aimed primarily at limiting imported inflation. However, since early 1985, exchange rate policy has been to depreciate the riyal in line with the U.S. dollar; in addition, in June 1986, the riyal was devalued by 2.7 percent against the U.S.

CHART 2
SAUDI ARABIA
# SELECTED EXTERNAL ECONOMIC INDICATORS
(In billions of U.S. dollars)




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

dollar. Allowing also for the fact that Saudi Arabia's consumer prices relative to its major trading partners have been declining, the riyal depreciated in real effective terms by 38 percent in the two years ended in March 1987 (Chart 3). 1/ Saudi Arabia does not maintain restrictions on payments and transfers for international transactions and does not impose restrictions on imports for balance of payments reasons.

In the area of statistics, progress has been made toward improving several data series: the cost of living index has become more current; national account statistics are being revised by shifting the base year to 1979/80 from 1969/70; and work has been under way toward coordinating the preparation of SAMA accounts with the accounts of the Ministry of Finance and National Economy so as to improve the currentness of SAMA's balance sheet and data on foreign assets. A more disaggregated balance sheet for SAMA accounts would be helpful in the analysis of economic and financial developments in Saudi Arabia. Balance of payments data are available only in a highly aggregated form, and this has limited analysis of recent changes in the external accounts.

## III. Policies and Prospects

In concluding the last consultation with Saudi Arabia (EBM/86/106, 6/30/86), Executive Directors commended the authorities highly for the smooth and orderly adjustment to sharply reduced oil export earnings over the preceding few years. Given what appeared as limited prospects for any significant recovery in oil receipts in the immediate future, Directors emphasized that it would be important for the authorities to strike a delicate balance between their twin objectives of reviving private sector activity and containing the drawdown of official foreign assets. To this end, Directors supported the authorities' emphasis on encouraging the development of a leaner and more efficient private sector, and recommended pursuit of sound macroeconomic policies--including a continuation of fiscal restraint--a price structure that would closely approximate the true costs of inputs, and development of the domestic labor force.

In the period since the last consultation, policy implementation has, in the view of the staff, been broadly in line with these conclusions and recommendations. The authorities are continuing to place emphasis on fostering private sector growth, consistent with improvements in efficiency and prudent external objectives, in a climate marked by increasing protectionist pressures in major industrial countries and uncertainties in the world oil market. Against this background, policy discussions ranged over the following broad areas: developments and prospects for the world oil market, and Saudi Arabia's oil production

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1/ An information notice (EBS/87/76, 4/13/87) notified the Executive Board of the depreciation of the riyal in real effective terms during the seven months ended in January 1987.

and pricing policies; the authorities' objectives and priorities regarding the domestic economy and external reserves; and the thrust of economic and financial policies in light of those goals.

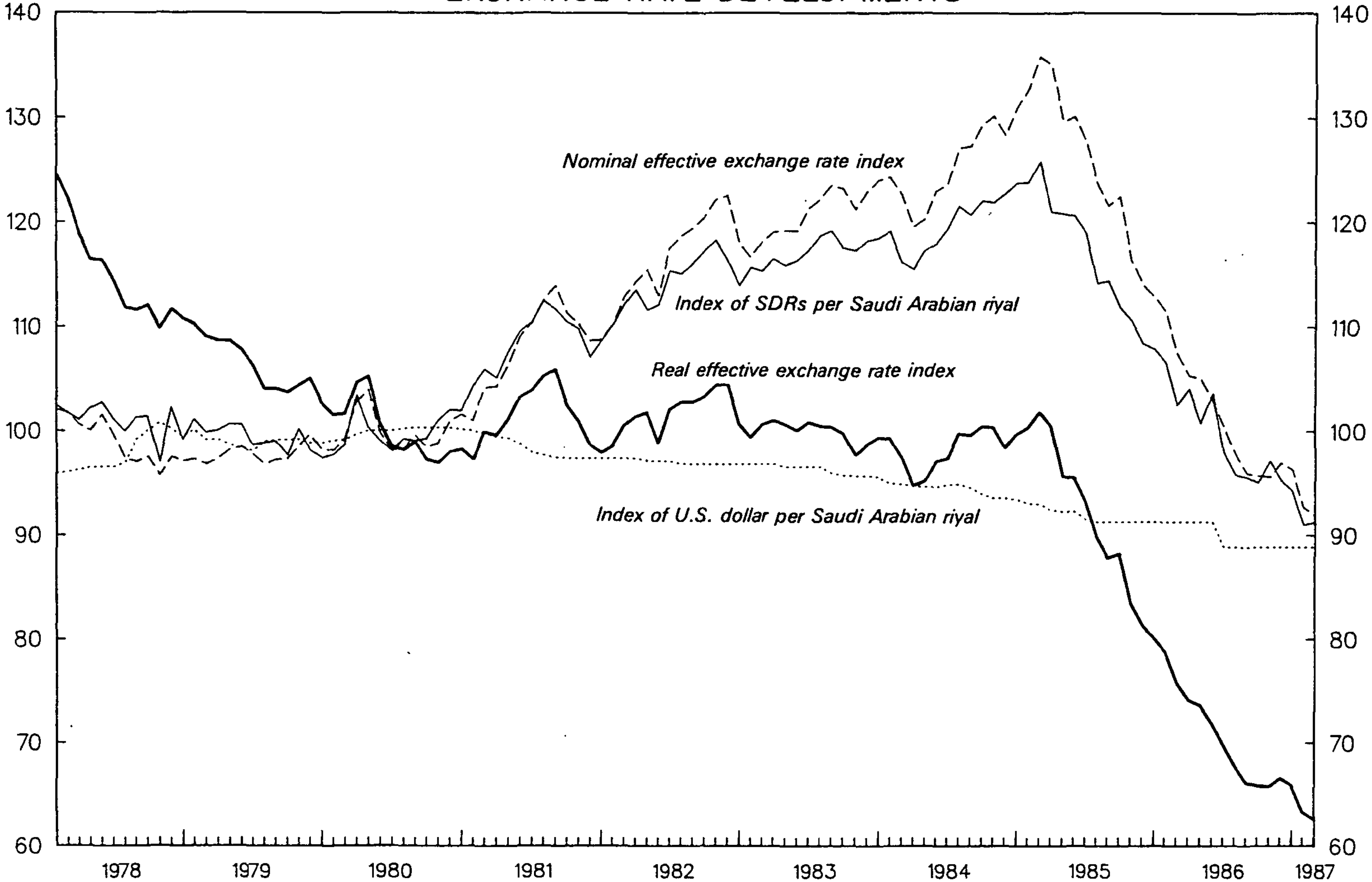
1. The petroleum sector

In the view of the Saudi Arabian authorities, the decline in OPEC output and market share during the first half of the 1980s was largely the consequence of most non-OPEC countries producing at maximum capacity. Recognizing that they had become unable to defend the price structure without cooperation from other countries, OPEC members decided in December 1985 to change their strategy and "...to secure and defend for OPEC a fair share in the world oil market...." This decision represented a de facto abandonment of the previous policy of concerted output restraint in support of agreed official export prices. With the subsequent large rise in OPEC oil production, spot market prices for representative crude oils fell from about $27-31 a barrel in late 1985 to $8-10 a barrel in July 1986. Prices in this period were also highly volatile, being influenced by speculative trading activities and other transitory factors.

In light of these developments, Saudi Arabia took a leading role during 1986 in the efforts of oil exporting countries (inside and outside OPEC) to bring about a recovery of oil prices and a restoration of more orderly market conditions. With cooperation from several important non-OPEC exporters, these goals began to be realized in the latter part of 1986. Under the OPEC agreement of December 1986, new production quotas were established for the first half of 1987 and official export prices were reintroduced. Saudi Arabia's new official export prices--which have been in effect since February 1, 1987 and correspond to the OPEC reference price of $18 a barrel--result in an average crude oil export price of about $17.15 a barrel. If the new prices remain in effect through the end of 1987, Saudi Arabia's average export price would be about 26 percent above its 1986 level in nominal (U.S. dollar) terms. When deflated by the import price index, however, the increase would be considerably smaller (about 14.5 percent) reflecting the large depreciation of the U.S. dollar.

The Saudi Arabian authorities believe that the recent OPEC agreement will be beneficial to both producers and consumers of oil as it should result in more stable oil prices, which they feel have been set at a reasonable and sustainable level. They are determined to maintain the new price structure and to adhere strictly to the production quota as long as all the major elements of the recent OPEC agreement are also respected by other OPEC members. They are hopeful that the agreement will be adhered to, particularly in view of the cooperation that is currently forthcoming from most leading oil exporters outside OPEC. However, as underlying demand and supply

CHART 3
SAUDI ARABIA
## EXCHANGE RATE DEVELOPMENTS




Sources: IMF, Information Notice System, *International Financial Statistics.*

conditions remain uncertain, the authorities believe that it will be necessary for the oil exporting countries to continue to cooperate closely.

Maintenance of the new price structure, in fact, necessitated a significant reduction in Saudi Arabia's crude oil production, as well as that of some other OPEC members, in the early part of 1987. Saudi Arabia's output is estimated to have averaged about 3½ mbd in the first quarter of 1987 and to have fallen to close to 3 mbd in March 1987, or well below its quota of 4.133 mbd for the first half of this year. Although world oil consumption is projected to show a smaller rise in 1987 than in 1986, it is likely that the demand for oil from OPEC countries will pick up once the present inventory rundown has run its course. The Saudi Arabian representatives expected, therefore, that Saudi Arabia's annual average crude oil production in 1987 would reach 4.15 mbd. 1/

Provided that economic expansion in major oil consuming countries is maintained at about the rate envisaged in the recent World Economic Outlook, a moderate rise in oil production and exports can be expected for 1988 and 1989. On the assumptions that Saudi Arabia's crude oil production will increase to 4.3 mbd in 1988 and 4.6 mbd in 1989, and that the present official export prices are maintained through 1988 and increase by 3 percent in 1989, Saudi Arabia's oil export earnings are projected to rise from $18 billion in 1986 to about $20.5 billion in 1987 and to about $26 billion in 1989. These projections are, of course, subject to a wide margin of error. Because of these uncertainties, the authorities regard budgeting in a medium-term framework as impracticable; however, they plan to give further consideration to this matter in the near future.

2. The non-oil sector

Since the early 1970s, Saudi Arabia has attached high priority to diversification of the economy and to the development of the private sector. Although real output in the non-oil sector virtually doubled in the six years ended 1982/83, it has contracted over the past few years as it adjusted to a new plateau. In part, this can be attributed to the fact that government expenditures, historically the leading source of stimulus for the economy, have been declining. In addition, however, the completion of much of the country's infrastructure, together with an inevitable slowing in activity in certain earlier high-growth sectors--services, trade, and construction--suggest that potential growth rates over the medium term are necessarily lower than the exceptional rates recorded in the late 1970s. For these reasons, the staff commended the authorities for having avoided recourse to infusions of government spending aimed at reviving the private sector, since such measures would

1/ The OPEC agreement of December 1986 provides for quota increases in the second half of 1987 if market conditions permit.

be much less productive than in the past, and would risk unnecessary pressures on the balance of payments. With these considerations in mind, the staff suggested that, in the future, the emphasis should be placed on the composition rather than the level of government expenditures with a view to improving resource allocation and thus achieving gains in efficiency and productivity.

The authorities were broadly in agreement with these views. They pointed out that the decline in government expenditures in recent years had encouraged the introduction of much needed economies and productivity gains both in the public and private sectors. The private sector, particularly in the areas of construction and services where the slowdown had been most marked, had achieved a considerable reduction in costs, including wages. At the same time, a squeeze on profits had resulted in disinvestment or closures among marginal or inefficient firms. While this adjustment was still ongoing, the Saudi Arabian authorities envisaged the process bottoming out in 1987, with perhaps only a small decline in non-oil GDP, to be followed by a resumption of a positive growth path in the coming years. Already, the authorities perceived signs of a recovery in construction and believed the private sector generally was exhibiting renewed confidence in the domestic economy as well as in seeking to exploit expanding investment opportunities regionally in the GCC area. 1/ While the liquidity position of the private sector had improved, partly as a result of some repatriation of funds from abroad, the authorities had laid the basis for a resumption of new bank lending to the private sector through a number of initiatives aimed at putting debtor/creditor relationships on a sounder footing.

Turning to prevailing policies for encouraging the private sector, the Saudi Arabian representatives noted that for a product to be eligible for tariff protection, it was required to have a minimum domestic value-added of 40 percent, and to meet other criteria as to competitiveness as well. They also said that the authorities were exploring the possibility of reallocating effective protection so as to encourage the transfer of resources to activities in which Saudi Arabia has greater comparative advantage.

Subsidies continue to be provided in various forms both directly through the budget and indirectly through below-market prices for public utilities and energy, and interest-free capital. It is expected that a planned reduction in the official procurement price for wheat (from SRls 3.50 per kg to SRls 2.00 per kg) will be implemented fully in the current procurement period, leading to a sharp reduction in the effective subsidy on wheat through the budget. Also, the authorities have called upon farmers to reduce wheat production in favor of barley which, inter alia, requires less water. Largely as a consequence of these changes, the 1987 budget envisages a 42 percent reduction in

1/ The Cooperation Council for the Arab States of the Gulf (GCC).

subsidies compared with 1985/86. While no adjustments are presently contemplated in prices of public services and utilities, steps that have been taken to achieve economies and greater efficiency in these areas are expected to result in important savings and thus in a reduction in budgetary transfers to these entities.

The authorities recognize that incentives, trade policies, and subsidies need to be evaluated carefully so as to ensure that the economy is not saddled with nonviable activities. To this end, Saudi Arabia has collaborated with other GCC member countries on the development of a coordinated incentives policy for the industrial sector, including a unified external tariff. Also, the Saudi Industrial Development Fund (SIDF), with technical assistance from the Joint Economic Commission of Saudi Arabia and the United States (JECOR), is planning to assist private investors in identifying and implementing sound industrial projects.

Due to the weakness in domestic activity, widespread measures to effect labor economies, and a continued fall in the domestic price level--the cost of living index fell by 3 percent in 1986 bringing the cumulative decline to 8 percent over the past three years--conditions in the labor market have weakened. Average wage earnings have fallen and employment has contracted by 7 percent over the past two years. The decline in expatriate employment, both in absolute terms and as a share of the total labor force, is moving in the direction envisaged in the current development plan which covers the period up to 1990.

## 3. Financial policies

The stance of fiscal policy, as revealed in the 1987 budget, continues to be geared toward promoting an orderly adjustment process. Total expenditures are budgeted to decline by 8 percent from their actual level in 1985/86 (the last full fiscal year). This goes most of the way toward making up for the projected decline in total revenues, leaving a deficit of SRls 52.7 billion, only slightly above its nominal level in the earlier year.

While oil revenues are expected to show some recovery this year, other transfers from the oil companies (largely of a capital nature) will be lower than in 1985/86. At the same time the projected decline in domestic revenues reflects lower domestic activity and reduced imports. On the expenditure side, budgeted current expenditures are slightly below their actual levels in 1985/86 due to a sharp decline in projected subsidies, mainly reflecting cuts in the wheat procurement price noted above. In the capital budget, project spending is to remain broadly unchanged from its 1985/86 level, but operations and maintenance outlays are to fall by 17 percent compared with their earlier level. The latter savings, which should be seen in the context of the large capital spending program of past years, reflect the emphasis being placed by the authorities on achieving economies in this area. Careful scrutiny of operations and maintenance contracts has revealed considerable scope for streamlining government procedures and economizing on labor; indeed the authorities believe that further cost reductions are possible in this area next year.

In light of the continued budgetary cuts, the mission inquired if payments continued in all cases to be current, recalling that certain reports of payments delays had been discussed at the time of the last mission. The Saudi Arabian representatives confirmed that any such reports were unfounded. Disputes had, however, arisen in certain cases where contractors had failed to meet specifications, where projects had not been completed on time, or where satisfactory evidence had not been provided to the authorities that income tax and other obligations had been met by the contractor. In such cases the authorities had withheld final payments (usually 10-15 percent of the total contract amount) pending a resolution of the dispute. Since these matters frequently became the subject of arbitration, the process of settlement could, of necessity, take time.

Given that fiscal policy is the principal determinant of the monetary aggregates, as well as the narrow range of monetary policy instruments, the scope for monetary policy remains limited. The authorities have, however, taken steps to enhance the flexibility and liquidity of Bankers' Security Deposit Accounts (BSDAs) as an instrument of monetary control. Rediscount facilities have now been extended to BSDAs of all maturities. As a result, these instruments appear to have become more attractive to banks, with holdings having increased from SRls 7 billion in November 1986 to about SRls 10 billion in April 1987 (the equivalent of about 6 percent of total commercial bank assets). This suggests that there exists greater scope for utilizing BSDAs in regulating domestic liquidity, discouraging capital outflow, and aligning domestic interest rates with those prevailing in world capital markets. The authorities believe that the enhanced liquidity of BSDAs could encourage the development of a secondary market and, ultimately, facilitate the introduction of open market operations by SAMA. However, they intend to proceed cautiously and gradually, concentrating in the immediate future on strengthening the BSDA scheme in its present role.

Commenting on the fact that bank claims on the private sector had shown little or no growth over the past two years, the Saudi Arabian representatives noted that an important factor in this development had been the decline in demand for credit associated with shrinking domestic economic activity, especially in the construction sector. In addition, the commercial banks had displayed an increasingly conservative attitude toward domestic lending in view of the buildup of nonperforming loans. The authorities have taken firm action to deal with this problem. In the first place, bank supervision has been tightened, and banks have been authorized to make tax-deductible provisions for bad debts. Second, a credit risk information system for the benefit of commercial banks has become fully operational within SAMA; this has been supplemented by informal arrangements to facilitate the exchange of information among banks on recalcitrant borrowers. Third, banks have been authorized to provide asset-backed loans and to seize collateral in the event of default. Finally, a committee is being established under the auspices of SAMA, to provide for compulsory arbitration in the event of disputes between banks and their clients.

The staff team commended the authorities for the comprehensive actions taken to ensure the continued financial strength of the banking system and to establish a better climate for debtor/creditor relations and the resolution of disputes. They also welcomed the abolition of a withholding tax on bank interest paid to non-Saudi entities in an effort to improve the competitive position of local banks vis-a-vis offshore banks in domestic financing.

### 4. Balance of payments prospects

Balance of payments prospects for 1987 and beyond will, as in the past, depend crucially on oil export earnings. Based on the assumptions noted above, the value of oil exports would increase by about $2.5 billion in 1987 and further by about $3 billion in both 1988 and 1989, reaching $26 billion in the latter year (Table 1). Earnings from petrochemical exports are expected to increase further in the 1987-89 period, while investment income on foreign assets is projected to continue to fall in line with the reduction in foreign assets.

On the payments side, imports of goods and services are likely to continue to fall in real terms in 1987-88, reflecting mainly the development of import-substituting production as well as the lagged impact of the recent steep reduction in government spending and the real effective depreciation of the riyal. However, with the drawdown of domestic inventories now virtually complete, and with some room for a moderate rise in government spending in 1988-89 as a consequence of the expected recovery in oil income, the decline in the volume of imports is expected to slow markedly in 1987-88. As import prices (in U.S. dollar terms) are projected to continue to rise (by 10 percent in 1987 and 5 percent in 1988), import payments are expected to remain virtually unchanged in 1987 and to increase slightly in the following two years. Remittances by expatriate workers are expected to continue to decline in the 1987-89 period; however, the decline is perhaps less marked than might be indicated by the reduction in the foreign labor force and lower wages and salaries, on account of the prospective repayment of social insurance contributions to expatriates and the transfer of savings by foreign workers leaving the country. 1/

On the basis of these expectations, the current account deficit is projected to decline from $10 billion in 1986 to about $8.5 billion in 1987 and further to about $5.5 billion by 1989. With a moderate decline

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1/ Expatriates are to receive reimbursement of social insurance contributions following the termination of the General Organization of Social Insurance (GOSI) scheme for expatriate workers.

Table 1. Saudi Arabia: Balance of Payments Estimates, 1984-89

(In billions of U.S. dollars)

| | 1984 | 1985 | Prel. 1986 | Projections 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| Merchandise trade, f.o.b. | 8.9 | 7.0 | 3.4 | 6.5 | 8.8 | 11.5 |
| Oil exports 1/ | 36.2 | 25.8 | 18.0 | 20.5 | 23.0 | 26.0 |
| Other exports | 1.3 | 1.5 | 2.0 | 2.5 | 2.8 | 3.0 |
| Imports | -28.6 | -20.4 | -16.6 | -16.5 | -17.0 | -17.5 |
| Services and private transfers | -23.7 | -17.0 | -13.4 | -14.9 | -15.9 | -17.2 |
| Receipts | 17.6 | 16.5 | 14.4 | 12.8 | 12.3 | 12.2 |
| Investment income | (13.4) | (12.4) | (11.2) | (9.7) | (9.0) | (8.6) |
| Other receipts | (4.2) | (4.1) | (3.2) | (3.1) | (3.3) | (3.6) |
| Payments | -41.3 | -33.5 | -27.8 | -27.7 | -28.2 | -29.4 |
| Government, n.i.e. | (-18.7) | (-12.0) | (-10.4) | (-11.7) | (-12.0) | (-12.7) |
| Other services | (-17.3) | (-16.3) | (-12.6) | (-11.7) | (-12.3) | (-13.1) |
| Private transfers | (-5.3) | (-5.2) | (-4.8) | (-4.3) | (-3.9) | (-3.6) |
| Goods, services, and private transfers | -14.8 | -10.0 | -10.0 | -8.4 | -7.1 | -5.7 |
| Official foreign aid, other capital movement, and reserves | 14.8 | 10.0 | 10.0 | 8.4 | 7.1 | 5.7 |
| Official foreign aid | -3.6 | -3.3 | -3.0 | -2.8 | -2.6 | -2.5 |
| Oil sector and private capital (including errors and omissions) | 3.3 | 4.7 | 6.3) | 2.7 | 3.0 | 3.5 |
| Commercial banks (net) | -1.0 | -0.9 | -2.7) | | | |
| Official foreign assets (increase -) 2/ | 16.1 | 9.4 | 9.4 | 8.5 | 6.7 | 4.7 |

Sources: Saudi Arabian Monetary Agency; Ministry of Finance and National Economy; and staff estimates.

1/ The projected oil export values for 1987-89 are based upon the following main assumptions: (1) Crude oil production will average 4.15 mbd in 1987, 4.3 mbd in 1988, and 4.6 mbd in 1989; (2) the present official export prices will be maintained through 1988; and (3) the average oil export price will increase by 3 percent in 1989.

2/ Changes in reserves and other (mainly long-term) official foreign assets (held by SAMA and autonomous government agencies). Includes some loans to developing countries.

in official foreign aid and little change in other capital transactions, the drawdown in official foreign assets is expected to be reduced to $4-5 billion by 1989 and to amount to about $20 billion in total over the three years 1987-89. Given the uncertainties surrounding prospective oil export receipts, the balance of payments projections for 1987-89 are subject to a significant margin of error. On different assumptions regarding oil export earnings, the change in official foreign assets over the 1987-89 period could be about $10 billion higher or lower than the base case estimates. A drawdown of foreign assets in this range should not be cause for concern, in view of the still comfortable level of such assets, the absence of any official foreign debt, and relatively favorable longer-term prospects.

The Saudi Arabian representatives confirmed that reserve management policy continued to be guided mainly by such considerations as safety of placements, liquidity, and rate of return. There have been no important changes in reserve management policy since the last consultation discussion. While some diversification has taken place, this has been effected in a prudent manner, taking account of the need to avoid large or sudden shifts of assets between currencies. In view of the potential variability of oil export earnings, the authorities continue to believe that there is a need for Saudi Arabia to hold relatively large external assets and to maintain a high degree of liquidity of those assets.

Saudi Arabia has provided generous amounts of concessional economic assistance to other developing countries in all regions of the world in recent years and such aid has declined only moderately despite the sharp drop in export earnings. As a percentage of total current account receipts, foreign aid has, in fact, increased considerably from 1981 to 1986; with foreign assistance equivalent to more than 4 percent of estimated GNP in 1986, Saudi Arabia remains the largest aid donor. The Saudi Arabian representatives stated that there would be no change in official foreign aid policy and that in absolute terms foreign aid would decline only moderately in the near future.

## 5. Exchange and trade policies

The authorities indicated that the recent substantial depreciation of the riyal in real effective terms was a deliberate policy motivated by balance of payments considerations and a desire to assure competitiveness of the private sector. They pointed out that exchange rate policy would continue to be guided by these considerations. In the view of the staff, the recent evolution of the exchange rate is consistent with the authorities' domestic and external objectives, including a rationalization of resource allocation, the promotion of the private sector, and a sound external payments position.

The authorities also noted that Saudi Arabia has been engaged in discussions with its GCC partners on the possible introduction of a unified exchange arrangement for the GCC area. They pointed out that while agreement had been reached in principle, the possible form and modalities of operation of such an arrangement were still being discussed at the political level. More generally, progress is being made on a broad front toward closer economic cooperation among members of the GCC. In addition to steps toward a unified external tariff mentioned above, free movement of goods originating in GCC countries is already in effect within the area. Also, steps have been taken to lift restrictions on retail and wholesale trade and to permit trading in stocks of GCC-based corporations in all GCC countries. The Gulf Investment Corporation (GIC) is shortly expected to approve joint ventures totaling $600 million. Negotiations for a trade and cooperation agreement between the GCC and the European Community are scheduled to resume in mid-1987.

Apart from certain minor changes, trade policy has not been altered over the past twelve months and continues to be liberal. Aside from tariffs, protection is provided for certain import-substituting industries through regulations governing domestic procurement and subcontracting, and official pricing policies. However, as noted above, the authorities intend to avoid excessive protection.

In the discussions of trade policy, the Saudi Arabian representatives expressed serious concerns over mounting protectionist pressures in major industrial countries against Saudi Arabia's exports of petrochemicals--an area in which the country is highly efficient and where considerable progress has been made in recent years. Under the threat of restrictive measures, Saudi Arabia has ceased exporting urea to the EEC, and, following the imposition of countervailing duties, steel exports to the United States have been stopped. In addition, the authorities point out that the EEC has begun to apply strict limits to imports from Saudi Arabia that are eligible for preferential treatment under the Generalized System of Preferences, subjecting the remainder to most-favored-nation tariffs; as more flexible treatment is being accorded to imports from certain other countries, this treatment is regarded by the authorities as discriminatory and therefore restrictive. Finally, legislation under consideration in the United States is seen as posing an imminent threat of higher restrictions.

The Saudi Arabian representatives stressed that, in view of the limited size of their domestic market, unrestricted access to international markets was essential if their program of diversification was to succeed. They firmly believe that Saudi Arabia's interest lies in establishing liberal, bilateral, and duly codified trading arrangements with major industrial countries--the United States, EEC, and Japan--so as to assure long-term access to these markets. They were prepared to cooperate with these countries in order to minimize possible injury to producers in importing countries and to provide for orderly trading arrangements.

## IV. Staff Appraisal

Spurred by the fall in oil prices over the past several years, Saudi Arabia has been engaged in a major adjustment. The thrust of that adjustment has taken the form of cuts in budgetary expenditures aimed at moderating the loss of foreign reserves. This policy, which has been tempered by a simultaneous desire to minimize its adverse effects on domestic activity and diversification, has been reinforced by a more active exchange rate policy over the past two years. The authorities are to be commended for the magnitude of the fiscal adjustment that has been achieved, the orderly manner in which it has been implemented, and for the flexibility that has been introduced in exchange rate policy.

While the contraction of government spending has succeeded in containing the drain on official foreign assets--leaving them still at a comfortable level--it has had wide ranging repercussions on the non-oil sector. Employment, especially of expatriates, has been falling over the past two years, earnings have declined, and profits have been squeezed. Real non-oil GDP fell in 1986 for the third successive year, representing an inevitable, but orderly, contraction of the non-oil sector toward a more normal and sustainable growth path. However, this has prompted increasing pressure from the private sector for further government support. The authorities have resisted these demands, believing that important gains in efficiency and productivity have been realized. Fiscal restraint is being continued in 1987. Moreover, a start has been made in reducing the extensive support accorded to the private sector. In particular, planned cuts in subsidies are now expected to be implemented. Also, the criteria for protection are being more rigorously defined, and steps are being taken to effect economies in manpower in the public enterprises as well as other cost saving measures.

In the view of the staff, these steps are timely and go in the right direction. In the first place, much of the earlier rapid growth took the form of a once-for-all catching up of the economy to the energy price adjustments of the 1970s and early 1980s, and many of the earlier high-growth sectors have decidedly less potential for expansion in the years ahead. Accordingly, any infusions of government spending are likely to have a more limited domestic impact than in past years. In the second place, as the authorities rightly recognize, there is further scope for enhancing productivity and efficiency, and to these ends the staff believes that important gains can be realized through a shift in the composition of government expenditures with a view to improving the quality of growth. Thus, the staff supports the intention of the authorities to press ahead with their efforts to foster improvements in resource allocation and efficiency by ensuring that government investment is efficiently allocated and that assistance accorded to the private sector through subsidies, incentives, and protection is directed only to those activities in which Saudi Arabia ultimately has comparative advantage.

Regarding Saudi Arabia's access to foreign markets, the authorities are apprehensive of mounting pressures for protection in major industrial countries which potentially threaten Saudi Arabia's petrochemical exports. Though actual restraints have been limited, such concerns, if aggravated by new restrictive trade actions, could jeopardize the continued growth of a major sector in which Saudi Arabia has comparative advantage.

In the realm of monetary policy, the authorities have taken a number of important initiatives. The range and flexibility of instruments offered to banks by SAMA have been expanded with a view to giving the authorities greater control over domestic liquidity. In addition, decisive steps have been taken to regularize debtor/creditor relationships and to strengthen the basis for a recovery of new bank lending to the private sector. To these ends, the authorities have acted firmly and comprehensively in strengthening supervision, encouraging the banks to provision adequately, and in establishing new procedures and institutions to maintain the strength and the effectiveness of the financial sector.

Given the continued uncertainties in the oil market, the authorities are understandably reluctant to commit themselves to any medium-term balance of payments projections or scenarios. Tentative projections prepared by the staff, however, point to gradually declining current external deficits and a manageable overall position. Despite the uncertainties in the short- and medium-term picture, prospective developments in global oil supply and demand point toward a firming of market conditions over the next decade. In particular, the expected decline in oil supplies from some other countries suggests that the demand for oil from Saudi Arabia may increase significantly in the longer run. In view of the country's large oil reserves, its modern infrastructure, and the thrust of economic and financial policies, it would appear that Saudi Arabia will be in a relatively favorable position to take advantage of such a development.

The staff believes that recent exchange rate developments are appropriate and consistent with the continued importance that is being attached by the authorities to the efficient development of the non-oil and private sectors and a rationalization of the resource allocation. Exchange rate policy has also facilitated external adjustment in contributing to limiting the current and overall external payments deficits over the past few years. The staff also endorses the intention of the authorities to continue with their policy of implementing exchange rate policy in a flexible manner in order to facilitate the achievement of their domestic and external objectives. Finally, the staff commmends the authorities for maintaining a substantial aid effort at a time when the external current account has been in deficit.

With the concurrence of the authorities, the staff recommends that the next Article IV consultation with Saudi Arabia be held on the standard twelve-month cycle.

## Saudi Arabia: Fund Relations

(As of April 30, 1987)

I. Membership Status

| | |
|---|---|
| Date of membership | August 26, 1957 |
| Status | Article VIII |

### A. Financial Relations

II. General Department (General Resources Account)

| | |
|---|---|
| (a) Quota | SDR 3,202.4 million |
| (b) Total Fund holdings of Saudi Arabian riyals | SDR 2,239.8 million or 69.9 percent of quota |
| (c) Fund credit | None |
| (d) Reserve tranche position | SDR 962.6 million |
| (e) Current operational budget (maximum use of currency) | SDR 20.3 million (transfers)<br>SDR 155.8 million (receipts) |

| | Limits | Outstanding | Uncalled |
|---|---|---|---|
| | | (In millions of SDRs) | |
| (f) Lending to the Fund: | | | |
| GAB (associated agreement) | 1,500 | -- | 1,500 |
| SFF | 1,934 | 986.6 | -- |
| Enlarged access | 11,000 | 6,498.0 | 3,100 |

III. Saudi Arabia has not used Fund resources to date

IV. SDR Department

| | |
|---|---|
| (a) Net cumulative allocation | SDR 195.5 million |
| (b) Holdings | SDR 375.1 million and 191.9 percent of net cumulative allocation |

V. Administered Accounts

| | |
|---|---|
| SFF subsidy account donations | SDR 32 million |

## B. Nonfinancial Relations

### VI. Exchange Rate Arrangement

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 percent. Since mid-1981 observance of these margins has been suspended. The midpoint between the buying and selling rates for the riyal against the U.S. dollar is SRls 3.745 = US$1.

### VII. Last Article IV Consultation

April 1986; the Staff Report (SM/86/118) was discussed by the Executive Board (EBM/86/106) on June 30, 1986. The summing up indicated that the next Article IV consultation would be held on the standard 12-month cycle.

### VIII. Technical Assistance

Since 1975 the Fund has provided Saudi Arabia with seven prebudget technical assistance studies, the latest of which was prepared by the missions that visited Saudi Arabia in November 1983 and March 1984. An abbreviated version of the prebudget study for 1985/86 was prepared by a mission that visited Saudi Arabia in December 1984 in connection with the private sector study (see below). A staff team visited Riyadh in June 1981 to assist SAMA staff in establishing an in-house capability of certain statistical series. A technical assistance mission visited Saudi Arabia during April-May 1984 to assist the authorities in developing statistical table formats designed to enable the authorities to monitor and analyze economic and financial developments. Two staff teams visited Saudi Arabia in May-June 1984 and October 1984 in response to a request for technical assistance in computerizing the government accounting and financial information system. During 1985-86 the Fund, in collaboration with the IBRD and the IFC, provided technical assistance in formulating policies for the promotion of the private sector. In that connection, staff teams visited Saudi Arabia in December 1984, April 1985, and November-December 1985; the study was transmitted to the authorities in June 1986.

# Saudi Arabia - Basic Data

## I. Social and Demographic Indicators 1/

| Area | Population | Density (1984) |
|---|---|---|
| 2,150 thousand sq km | 11.1 million (1984)<br>Rate of growth: 6.7 percent (1984) | 5.2 per sq km |

GNP per capita (1984) US$10,530

| Population Characteristics (1984) | | Health (1981) | |
|---|---|---|---|
| Life expectancy at birth | | Population per physician | 1,800 |
| Male | 60 years | | |
| Female | 64 years | Energy consumption (1984) | |
| Infant mortality (aged under 1 year, in percent) | 6.1 | Energy consumption per capita (kg of oil equivalent) | 3,602 |
| Child death rate (aged 1-4 years, in percent) | 0.4 | Access to electricity (in percent) | 90.0 |
| **Nutrition (1983)** | | **Education (1983)** | |
| Calorie intake as percent of requirements | 134.0 | Primary school enrollment in percent of age group) | |
| Per capita protein intake (grams per day) | 103.0 | Total | 69.0 |
| | | Male | 81.0 |
| | | Female | 56.0 |

## II. Economic and Financial Indicators

| | 1981 | 1982 | 1983 | 1984 | 1985 | Estimate 1986 |
|---|---|---|---|---|---|---|
| | (In millions of barrels per day) | | | | | |
| Crude oil output | 9.81 | 6.48 | 4.54 | 4.08 | 3.17 | 4.50 |
| In percent of: | | | | | | |
| OPEC output | (43) | (35) | (27) | (24) | (20) | (25) |
| World output | (17) | (12) | (9) | (8) | (6) | (8) |

| Fiscal years 2/ | 1981/82 | 1982/83 | Revised 1983/84 | Revised 1984/85 | Preliminary 1985/86 | Preliminary 1986 3/ |
|---|---|---|---|---|---|---|
| | (In percent) | | | | | |
| Changes in: | | | | | | |
| Total GDP (at constant prices) | 1.7 | -10.8 | -0.1 | -6.4 | -8.7 | 2.3 |
| Oil sector | -9.2 | -36.1 | -8.9 | -16.5 | -15.1 | 25.5 |
| Non-oil GDP | 11.2 | 7.0 | 3.7 | -2.6 | -6.7 | -4.5 |
| Government | (8.1) | (-1.2) | (-1.4) | (-4.5) | (-3.7) | (-1.3) |
| Private sector | (12.8) | (11.0) | (5.9) | (-1.9) | (-7.8) | (-5.8) |
| Prices | | | | | | |
| Non-oil GDP deflator | 5.3 | 4.1 | -1.2 | -1.6 | -0.2 | -0.6 |
| Cost of living index 4/ | 2.5 | 1.0 | 0.3 | -1.6 | -3.0 | -3.2 |
| Share in GDP | | | | | | |
| Mining, including oil | 37.7 | 25.3 | 22.1 | 18.8 | 16.7 | ... |
| Construction | 11.5 | 12.1 | 11.0 | 11.1 | 8.8 | ... |
| Trade | 13.5 | 17.0 | 17.3 | 17.9 | 17.4 | ... |
| Financial services | 9.4 | 11.2 | 11.5 | 10.8 | 10.4 | ... |
| Manufacturing | 6.8 | 8.4 | 9.5 | 9.7 | 10.6 | ... |
| Agriculture | 3.4 | 4.2 | 4.7 | 5.7 | 7.1 | ... |

Saudi Arabia - Basic Data (continued)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | Prov. Actual 1986 3/ | Budget 1987 |
|---|---|---|---|---|---|---|---|
| | (In billions of Saudi Arabian riyals) | | | | | | |
| Government finances | | | | | | | |
| Total revenues | 368.0 | 246.2 | 206.4 | 171.5 | 133.6 | 74.3 | 117.3 |
| Oil revenue | (328.6) | (186.0) | (145.1) | (103.9) | (61.2) | (35.5) | (63.3) |
| Other oil receipts 5/ | (--) | (--) | (--) | (15.1) | (26.0) | (6.4) | (16.0) |
| Investment income | (30.2) | (48.0) | (47.0) | (32.0) | (23.0) | (17.5) | (18.0) |
| Domestic revenue | (9.2) | (12.2) | (14.3) | (20.5) | (23.4) | (14.9) | (20.0) |
| Total expenditure | 284.6 | 244.9 | 230.2 | 216.4 | 184.0 | 136.7 | 170.0 |
| of which: | | | | | | | |
| Current expenditure 6/ | (82.7) | (89.9) | (86.9) | (87.7) | (88.4) | (76.2) | (87.0) |
| Project and maintenance | (145.7) | (124.4) | (109.5) | (105.5) | (77.7) | (48.7) | (72.3) |
| Percentage change in total expenditure | 20.3 | -14.0 | -6.0 | -6.0 | -15.0 | -10.8 7/ | ... |
| Overall balance (deficit -) | 83.4 | 1.3 | -23.8 | -44.9 | -50.4 | -62.5 | -52.7 |
| (In percent of GDP in current prices) | 16.0 | 0.3 | -6.5 | -13.4 | -17.8 | -25.1 | ... |
| Factors affecting monetary expansion | | | | | | | |
| 1. Changes in foreign assets (net) | 124.5 | 22.8 | -32.4 | -49.4 | -14.4 | -24.5 | |
| 2. Changes in public sector deposits (increase -) | -100.8 | 6.2 | 33.4 | 37.4 | ... | 55.2 | |
| 3. Credit to private sector | 6.3 | 2.8 | 6.6 | 3.3 | -1.2 | 1.2 | |
| 4. Other items (net) | 1.0 | -13.8 | 0.5 | 14.5 | ... | -21.4 | |
| 5. Government net domestic expenditures | 168.7 | 169.9 | 135.4 | 104.4 | ... | 96.6 | |
| 6. Private sector balance of payments position | 144.5 | -143.9 | -133.0 | -117.2 | -86.2 | -65.9 | |
| 7. Changes in money and quasi-money 8/ | 31.5 | 15.0 | 9.5 | 5.0 | 1.3 | 10.5 | |
| (In percent per annum) | (35.9) | (12.5) | (7.1) | (3.5) | (0.9) | (7.0) | |

Saudi Arabia - Basic Data (concluded)

| | 1982 | 1983 | 1984 | 1985 | Prel. 1986 | Proj. 1987 |
|---|---|---|---|---|---|---|
| | (In billions of U.S. dollars) 9/ | | | | | |
| Balance of payments | | | | | | |
| Merchandise trade, f.o.b. | 39.4 | 12.4 | 8.9 | 7.0 | 3.4 | 6.5 |
| Oil exports | 72.9 | 44.6 | 36.2 | 25.8 | 18.0 | 20.5 |
| Other exports | 1.0 | 1.0 | 1.3 | 1.5 | 2.0 | 2.5 |
| Imports | -34.5 | -33.2 | -28.6 | -20.4 | -16.6 | -16.5 |
| Services and private transfers | -27.4 | -25.3 | -23.7 | -17.0 | -13.4 | -14.9 |
| Receipts | 19.0 | 20.1 | 17.6 | 16.5 | 14.4 | 12.8 |
| Of which: investment income | (14.1) | (15.9) | (13.4) | (12.4) | (11.2) | (9.7) |
| Payments | -46.4 | -45.4 | -41.3 | -33.5 | -27.8 | -27.7 |
| Goods and services and private transfers | 12.0 | -12.9 | -14.8 | -10.0 | -10.0 | -8.4 |
| Official foreign aid | -4.4 | -4.0 | -3.6 | -3.3 | -3.0 | -2.8 |
| Goods, services, private transfers and official foreign aid | 7.6 | -16.9 | -18.4 | -13.3 | -13.0 | -11.2 |
| Other capital movements and reserves | -7.6 | 16.9 | 18.4 | 13.3 | 13.0 | 11.2 |
| Oil sector capital transactions (net) and other direct inward investment capital | 11.1 | 4.9 | 4.8 | 1.4 | 2.1 ) | |
| Other private capital and errors and omissions | -5.2 | 3.0 | -1.5 | 3.3 | 4.2 ) | 2.7 |
| Commercial banks (net) | -3.1 | -0.2 | -1.0 | -0.9 | -2.7 ) | |
| Other capital and reserves (increase-) | -10.3 | 9.2 | 16.1 | 9.4 | 9.4 | 8.5 |

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986 3/ |
|---|---|---|---|---|---|---|
| | (In billions of U.S. dollars) | | | | | |
| Foreign assets (net) (end of period) | 146.6 | 151.7 | 140.1 | 123.6 | 116.0 | 107.8 |
| Foreign assets of SAMA 10/ | 133.1 | 134.1 | 122.3 | 105.7 | 99.1 | 58.1 |
| Other foreign assets | ... | ... | ... | ... | ... | 30.4 |
| Net foreign assets of commercial banks | 13.5 | 17.6 | 17.8 | 17.9 | 16.9 | 19.3 |

1/ Derived from the World Bank, World Development Report, 1986.
2/ Based on the Islamic (Hijri) year. See Appendix Table 15 in the report on Recent Economic Developments, to be issued shortly.
3/ Covering the ten-month period, March 10-December 31, 1986, corresponding to Rajab 1406-Rabi (II) 1407. Data on changes in GDP are on an annual basis.
4/ Annual averages for Gregorian calendar years 1981 through 1986.
5/ Transfers from the petroleum sector to the Government.
6/ Includes salaries, wages, allowances; supplies and services; and subsidies.
7/ On the annualized basis.
8/ Equals items 1 through 4 or items 3 through 6.
9/ The following average annual exchange rates (in Saudi Arabian riyals per U.S. dollar) were used: 1982 = 3.4282; 1983 = 3.4548; 1984 = 3.5238; 1985 = 3.6226, and 1986 = 3.7036.
10/ Includes foreign assets (managed by SAMA) of the pension fund, the social security fund, and development funds, except for 1986 which are included in other foreign assets.

## Saudi Arabia: Statistical Issues

### 1. Outstanding Statistical Issues

#### a. General economic data

Saudi Arabia reports montly data to the Bureau of Statistics on a regular basis only on the consumer price index. Quarterly data on petroleum production have been made available through the second quarter of 1983 and monthly data on official crude petroleum prices through October 1984. More recent data in IFS on the production, prices, and exports of crude petroleum are estimates based on information published in Petroleum Intelligence Weekly.

#### b. Government finance

It has not been possible to prepare a presentation for Saudi Arabia in the GFS Yearbook or in IFS because no responses have been received to GFS questionnaires.

### 2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Saudi Arabia in the May 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Saudi Arabian Monetary Agency, which during the past year have been provided on a fairly regular basis; however, there are inadequacies in the coverage and currentness of data.

Status of IFS Data

| | | Latest Data in May 1987 IFS |
|---|---|---|
| Real Sector | - National Accounts | 1985 |
| | - Prices: CPI | December 1986 |
| | Production: Crude Petroleum | September 1986 |
| | - Employment | n.a. |
| | - Earnings | n.a. |
| Government Finance | - Deficit/Surplus | n.a. |
| | - Financing | n.a. |
| | - Debt | n.a. |
| Monetary Accounts | - Monetary Authorities | Q1 1986 |
| | - Deposit Money Banks | September 1986 |
| | - Other Financial Institutions | 1985 |

| | | |
|---|---|---|
| Interest Rates | - Discount Rate | n.a. |
| | - Bank Lending/Deposit Rates | n.a. |
| | - Bond Yields | n.a. |
| External Sector | - Merchandise Trade: | |
| | Values: Export | Q4 1984 |
| | Import | AA 1984 |
| | Prices: (Crude petroleum exports) | Q4 1985 |
| | - Balance of Payments | 1985 |
| | - International Reserves | March 1987 |
| | - Exchange Rates | March 1987 |