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EBS/88/58

CONFIDENTIAL

March 15, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Saudi Arabia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Saudi Arabian riyal.

Mr. Yandle (ext. 8769) or Mr. Leipold (ext. 8672) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

Real Effective Exchange Rate - Information Notice

Prepared by the Middle Eastern Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by P. Chabrier and J.T. Boorman

March 14, 1988

The recent evolution of Saudi Arabia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of December 1987, the Saudi Arabian riyal has depreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss developments in Saudi Arabia's exchange rate--the 1987 Article IV consultation in July 1987. 1/

Saudi Arabia's exchange rate policy and exchange system have remained unchanged since the last Board review. 2/ In particular, the need to adjust to the weakened balance of payments situation has guided Saudi Arabian exchange rate policy over the past year. Moreover, the desire to maintain broadly stable rates vis-à-vis currencies of other members of the Cooperation Council for the Arab States of the Gulf (GCC), and the desire to minimize exchange risks for and to maintain the competitiveness of the private sector have continued to be important determinants of exchange rate policy. The real effective depreciation of the Saudi Arabian riyal during the six months, July-December 1987, reflects primarily a weakening of the riyal along with the U.S. dollar against major currencies. Though formally pegged to the SDR, the Saudi Arabian riyal was, as in the recent past, allowed to depreciate with the U.S. dollar, the intervention currency. The rate against the U.S. dollar has remained unchanged at SRIs 3.745 since June 1986. Over the six months under review, the U.S. dollar depreciated against the SDR by about 11.9 percent; in the process the riyal registered a nominal effective depreciation of 8.9 percent. Over the same period, consumer prices in Saudi Arabia relative to its major trading partners declined

1/ The Chairman's Summing Up was circulated as SUR/87/62 (7/13/87).

2/ For a detailed description of the exchange system, see "Saudi Arabia--Staff Report for the 1987 Article IV Consultation" (SM/87/131, 6/10/87) and "Saudi Arabia--Recent Economic Developments" (SM/87/134, 6/17/87).

by 1.4 percent, yielding a real effective depreciation estimated at 10.2 percent.

The current account deficit of the balance of payments is estimated to have amounted to about US\$7 billion in 1987 as compared with US\$9 billion in the previous year, or the equivalent of about 10 percent of estimated GDP. Official foreign assets stood at US\$88 billion at the end of 1986 (the latest period for which relevant data are available) or the equivalent of over five years of merchandise imports at the estimated 1987 level. The current account is expected to remain in deficit for the next two to three years as oil export earnings are expected to increase only modestly.

Staff Appraisal

The staff believes that the depreciation of the riyal in real effective terms is consistent with the need to facilitate external adjustment to the sharply reduced oil export earnings and with the authorities' objectives of rationalizing resource allocation, fostering growth of the private sector, and diversifying the economy in an efficient manner. This general view was endorsed by Executive Directors in concluding the 1987 Article IV consultation with Saudi Arabia.

Recent exchange rate developments and their implications for the achievement of the authorities' internal and external objectives will be reviewed with the Saudi Arabian authorities during the 1988 Article IV consultation discussions which are scheduled for mid-March 1988.

Table 1. Saudi Arabia: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	100.1	112.5	88.9	97.4	102.3	102.3
II	100.8	115.4	87.4	97.1	101.9	101.8
III	102.9	119.6	86.0	96.8	102.1	101.9
IV	103.1	121.0	85.2	96.8	102.2	102.3
1983						
I	100.2	118.0	84.9	96.8	102.8	102.9
II	100.4	119.9	83.7	96.6	102.5	102.5
III	100.1	123.0	81.4	96.1	100.3	100.1
IV	98.5	122.8	80.2	95.7	100.3	100.5
1984						
I	97.0	122.2	79.4	94.9	100.4	100.5
II	96.4	122.3	78.8	94.7	100.6	100.7
III	99.9	128.0	78.0	94.5	100.6	100.3
IV	99.3	129.9	76.5	93.5	99.6	99.7
1985						
I	100.7	134.6	74.9	92.8	98.4	98.4
II	94.7	129.2	73.3	92.0	97.3	97.4
III	88.6	122.6	72.2	91.3	96.5	96.2
IV	81.5	114.4	71.2	91.3	95.9	96.0
1986						
I	76.0	108.1	70.3	91.3	95.2	95.3
II	71.6	102.8	69.7	90.5	94.3	94.4
III	66.5	96.5	68.9	88.8	93.6	93.2
IV	66.0	96.3	68.6	88.8	93.5	93.6
1987						
I	62.6	92.0	68.1	88.8	93.5	93.6
II	60.3	89.1	67.7	88.8	93.7	93.7
III	60.4	90.2	67.0	88.8	93.3	92.9
IV	56.8	85.5	66.5	88.8	93.2	
1988						
I					93.1	
Monthly						
1987						
Jul. <u>3/</u>	61.2	90.9	67.3	88.8	93.4	...
Aug.	60.7	90.7	66.9	88.8	93.3	...
Sep.	59.4	89.0	66.7	88.8	93.3	...
Oct.	59.1	88.7	66.6	88.8	93.2	...
Nov.	56.5	85.0	66.4	88.8	93.2	...
Dec.	54.9	82.8	66.3	88.8	93.2	...
Percentage change						
Jul. - Dec. 1987	-10.2	-8.9	-1.4	—	-0.3	

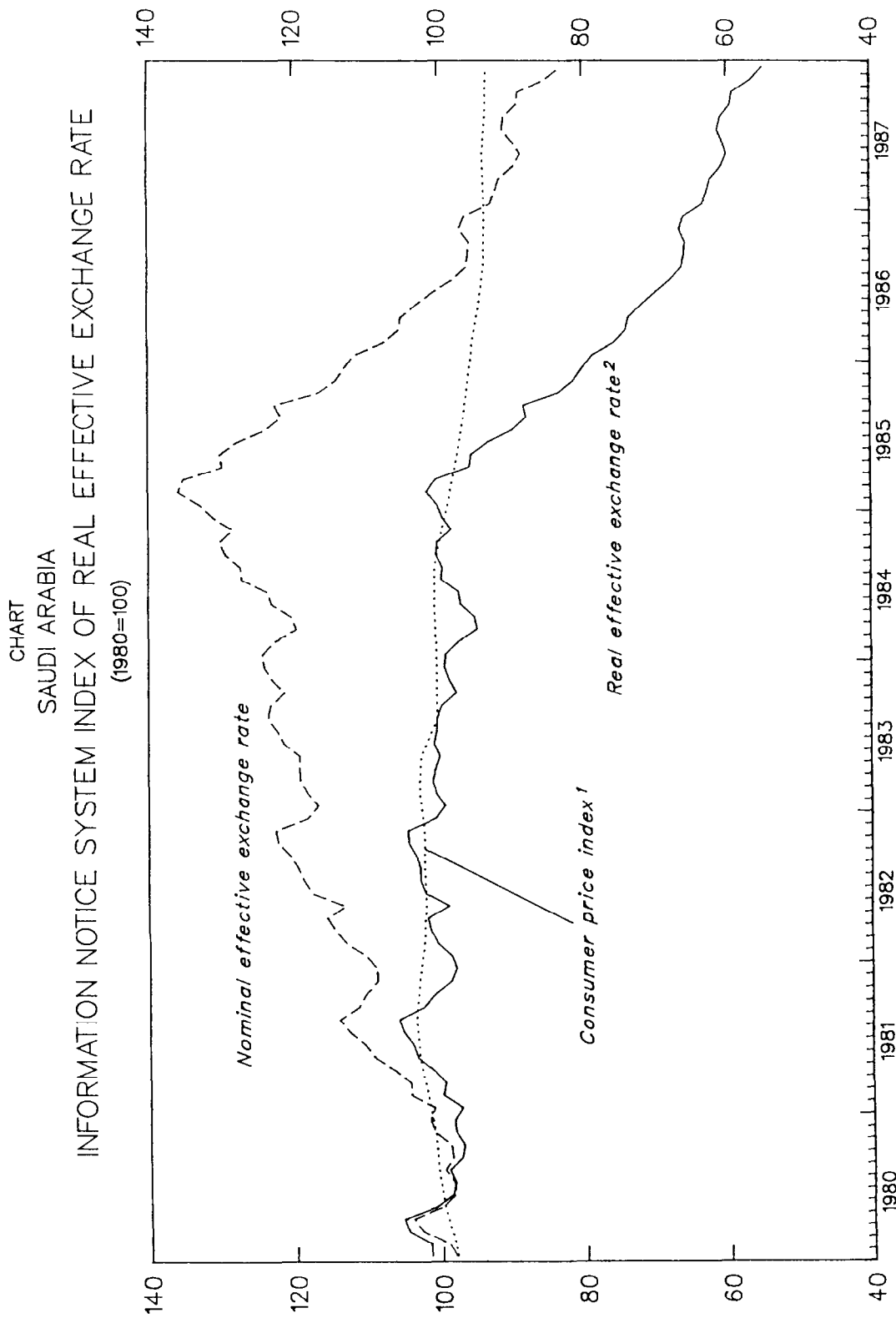
Source: Information Notice System.

- 1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.

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Source: Information Notice System.
1Seasonally adjusted.
2Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, increases mean appreciation.

