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May 29, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Saudi Arabia - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Saudi Arabia, which has been tentatively scheduled for discussion on Monday, June 30, 1986.

Mr. Taha (ext. 4533) 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 1986 Article IV Consultation

Prepared by the Staff Representatives for the 1986 Article IV Consultation with Saudi Arabia

Approved by A.S. Shaalan and J.T. Boorman

May 28, 1986

## I. Introduction

The 1986 Article IV consultation discussions with Saudi Arabia were held in Riyadh during the period April 7-21, 1986. The Saudi Arabian representatives were led by H.E. Sheikh Hamad Al-Sayari, Governor of the Saudi Arabian Monetary Agency (SAMA), and included senior officials of the Ministry of Finance and National Economy and other government departments. The staff representatives were Messrs. A.S. Shaalan (Head), Z. Iqbal, B.A. Karamali, E. Taha, S. von Post, and Ms. M. Pirret (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's Articles of Agreement on March 22, 1961. The last consultation discussions were held in April/May 1985 and the Staff Report (SM/85/187), together with the report on Recent Economic Developments (SM/85/197), was considered by the Executive Board on July 26, 1985. Relations with the Fund are outlined in Appendix I. The IBRD has since 1975 an ongoing technical assistance program in Saudi Arabia. The size of assistance has grown from 20 man-years in fiscal year 1975 to 29 man-years in fiscal year 1986. The bulk of technical assistance relates to computerized cost analysis and management systems, and also the development of human resources.

## II. Background

Saudi Arabia's annual average crude oil production was reduced from 9.8 million barrels a day (mbd) in 1981 to about 3.2 mbd in 1985, its lowest level since the late 1960s (Chart 1). As the average export price also declined by about 17 percent over this period, oil export earnings dropped by more than three fourths from a peak of US$111 billion in 1981 to only about US$26 billion in 1985. These developments reflected primarily the considerable decline in world oil consumption which, in combination with the rise in non-OPEC production and a downward adjustment in world oil inventories from the unusually high level in 1981, led to a sharp reduction in world demand for oil from the members of OPEC. Virtually all of this reduction was absorbed by Saudi Arabia, which was assigned the role of swing producer under the production sharing agreement reached by the members of OPEC in March 1983. 1/ When the members of OPEC in October 1984 decided to reduce the ceiling on total OPEC production from 17 1/2 mbd to 16 mbd, Saudi Arabia was allocated a production quota of 4.353 mbd. However, in practice Saudi Arabia continued to perform the function of swing producer through the summer of 1985. Whereas several other OPEC members had been providing discounts from the official export prices in various direct and indirect ways, Saudi Arabia continued to adhere to these prices and, as a result, experienced a very large loss in market share. During the period from 1981 to 1985, its share in annual OPEC production fell from 43 percent to 20 percent, while its share in world oil output dropped from about 17 percent to less than 6 percent.

The sharp fall in oil income led to a shift in the Government's overall budgetary position from large surpluses in 1980/81 and 1981/82 to approximate balance in 1982/83 and to deficits equivalent to 6 percent of GDP in 1983/84 and 13 percent in 1984/85. 2/ Cutbacks in government expenditures helped to contain these deficits which were financed by a drawdown of government deposits with SAMA. In 1985/86 expenditure policy was tightened further in the face of the continued decline in oil revenue. 3/ Total expenditure was reduced by 16 percent compared with cuts of 6 percent in each of the two previous years. Almost all of the reductions in these three years were made in outlays for projects and maintenance, whereas current expenditure declined only slightly. Despite the considerable curtailment of government spending, the overall budget deficit widened further to 17 percent of GDP in 1985/86.

Reflecting the decline in growth impulses stemming from government domestic expenditure, growth of the non-oil sector slackened from about 11 percent in 1981/82 to 7 percent in 1982/83 and further to less than 3 percent in 1983/84. While a reduction of the previous high growth rate was to be expected with the completion of infrastructural facilities, the sharp fall in oil income and the resultant substantial decline in government spending has accentuated the economic slowdown. Non-oil GDP in real terms is estimated to have declined by about 1 percent in 1984/85 and by about 3 1/2 percent in 1985/86.

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1/ The main elements of this agreement were a reduction of the price of the benchmark (or "marker") crude oil from US$34 a barrel to US$29 a barrel and the establishment of a ceiling on total OPEC production of 17 1/2 mbd. Production quotas totaling 12 1/2 mbd were assigned to the 12 OPEC member countries other than Saudi Arabia, which was not allocated a specific quota.

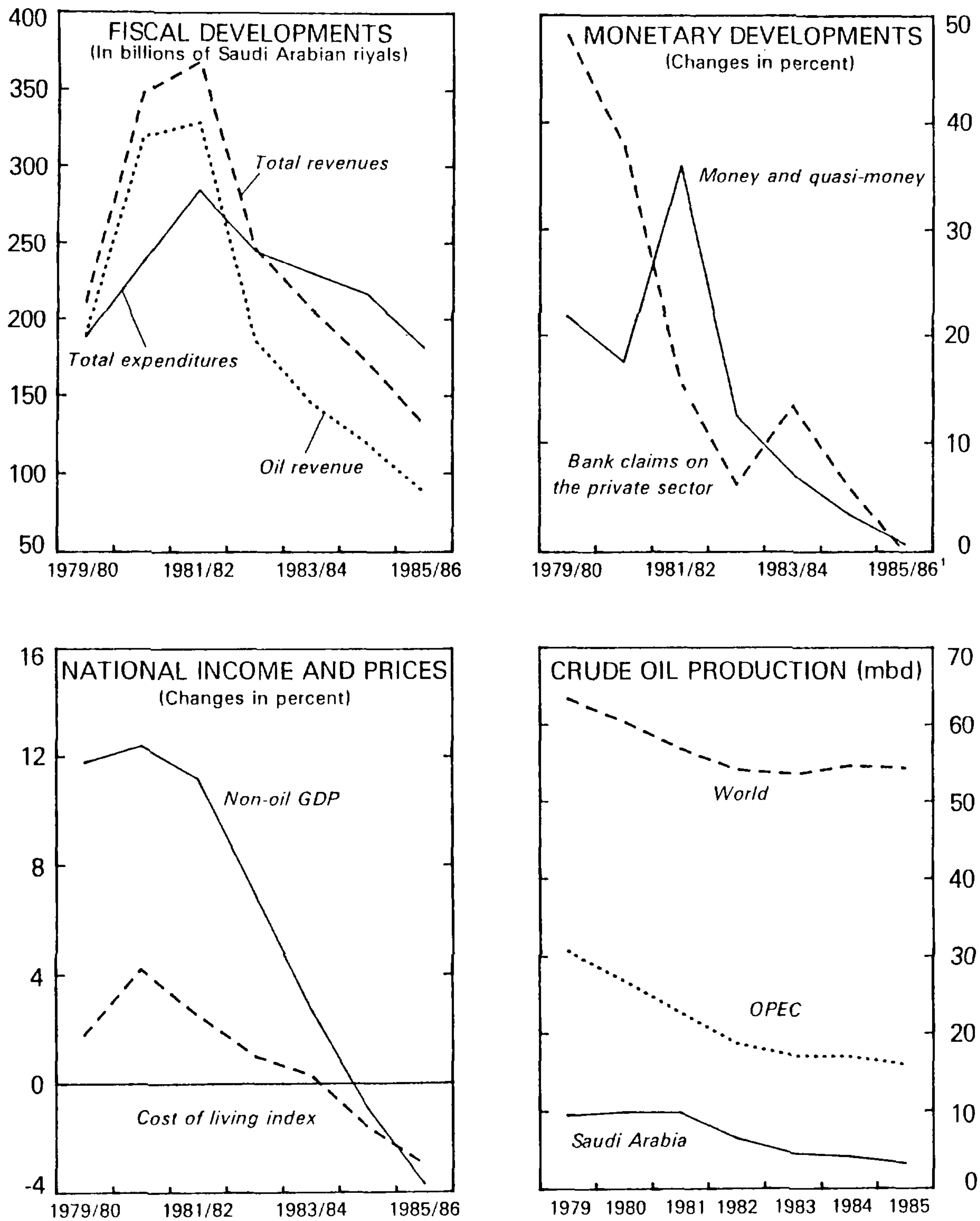
2/ Fiscal year 1984/85 ended March 21, 1985.

3/ Fiscal year 1985/86 ended March 10, 1986.

CHART 1

SAUDI ARABIA

# SELECTED DOMESTIC ECONOMIC INDICATORS




Sources: Data provided by the Saudi Arabian authorities.
[1] Staff estimates.

The economic contraction, increased domestic competition, and lower import prices contributed to the elimination of domestic inflation in the recent past. In 1985/86 both the non-oil GDP deflator and the cost of living index fell by about 3 percent. The further decline in the cost of living index was due mainly to lower rents reflecting excess supply of residential and commercial accommodation. Wages of both Saudi Arabian and expatriate workers are also believed to have fallen in 1985. The decline in wages was particularly pronounced in the construction and services sectors. Allowances for civil service employees were cut substantially. There has also been a reduction in profits owing to the economic slowdown and increased competition. These developments have contributed to a cutback in costs and encouraged efficiency in the private sector.

The growth of money and quasi-money slowed down to 7 percent in 1983/84 from an average of 22 percent in the previous three years. In 1984/85 domestic liquidity grew by only 3.5 percent owing mainly to lower government expenditures and the consequent fall in economic activity. For the same reasons, the growth in banks' claims on the private sector fell by more than one half to about 6 percent in 1984/85 and net lending by specialized credit institutions was sharply lower. These trends continued in 1985/86 when both domestic liquidity and credit to the private sector are estimated to have remained virtually unchanged. There was a notable shift in the composition of commercial banks' deposit liabilities from demand deposits to income earning time, savings, and foreign currency deposits, which added to the operating costs of banks at a time when their profits were declining owing to the economic slowdown. With the stagnation in domestic lending, commercial banks' dependence on foreign assets continued to be high. Some delays in loan repayments have also weakened the quality of commercial banks' domestic loan portfolios.

Changes in Saudi Arabia's balance of payments position in recent years have reflected essentially the large and continuous fall in oil export earnings since 1981 and the considerable reduction in domestic absorption which has served to contain the current account and overall deficits within manageable limits. The current account position (excluding foreign aid) shifted from a surplus of more than US$48 billion in 1981 to deficits averaging about US$12 billion during 1983-85 (Chart 2). Despite a larger decline in oil export earnings than in 1984, the current account deficit narrowed by about US$6 billion to less than US$10 billion in 1985 as imports of both goods and services fell sharply in response mainly to the substantial curtailment of government spending, a shift from foreign to domestic expenditure associated primarily with the completion of large projects with a high import content, and a considerable drawdown of inventories in response to the reduced level of domestic demand. Official foreign assets declined by about US$35 billion over the 1983-85 period and amounted to US$99.5 billion as of January 10, 1986, the equivalent of more than four years of merchandise imports at the 1985 level. It should be noted, however, that a portion of the official foreign assets is not readily available for financing balance of payments deficits and that the downward trend in these assets is projected to continue in the near term. 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. Even though formally pegged to the SDR, the Saudi Arabian riyal has in practice been effectively tied to the U.S. dollar in the recent past. 2/ After fluctuating in a narrow range over the past several years, the riyal depreciated in real effective terms by about 26 percent during the twelve-month period ended March 1986 (Chart 3). 3/ This reflected primarily the weakening of the U.S. dollar and a decline in consumer prices in Saudi Arabia relative to its major trading partners. Commercial policy accords protection to import-substituting activities through selective tariffs, rules regulating government procurement and subcontracting, and changes in administered prices of imports which are subject to subsidization.

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 from 1969/70 to 1979/80. A task force is looking into 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 than supplied at present would be helpful in the analysis of monetary and financial developments in Saudi Arabia. Balance of payments data are available only in a highly aggregated form which has limited the scope for analysis of factors underlying recent changes in the external accounts.

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1/ The Saudi Arabian representatives informed the staff that the official assets include total foreign assets managed by SAMA on behalf of the Government and other institutions. In addition to foreign assets of the Government and SAMA's own foreign assets, total official foreign assets include assets of the Pension Fund, the General Organization for Social Insurance, the specialized credit institutions, the Saudi Fund for Development, and semipublic corporations such as the Saudi Arabian Basic Industries Corporation and also part of the commercial banks' foreign assets.

2/ The mid-point of SAMA's official buying and selling rates for the U.S. dollar was adjusted from SRls 3.605 to SRls 3.645 on June 10, 1985, and has remained unchanged thereafter.

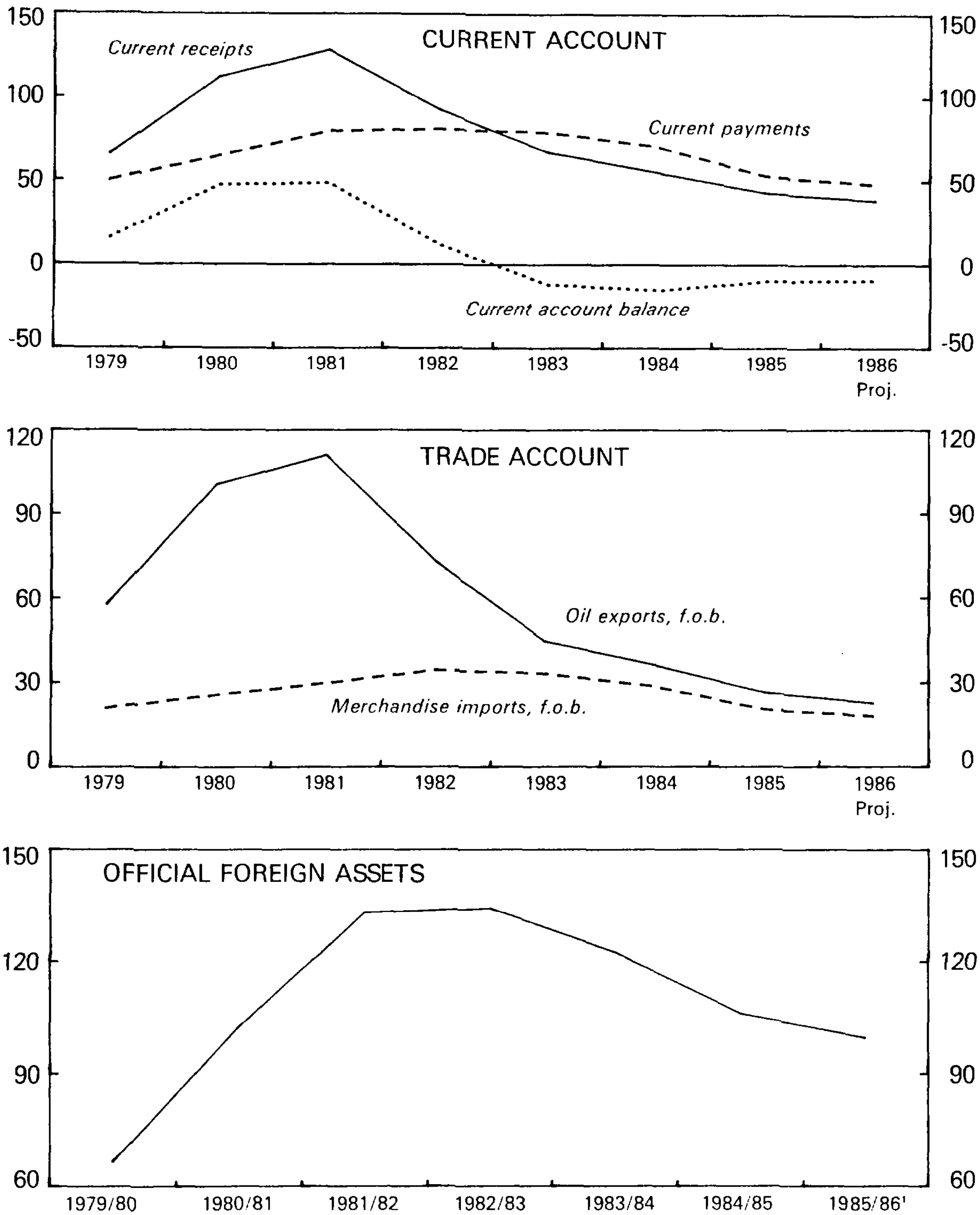
3/ An Information Notice was issued (EBS/86/58, 3/11/86) notifying the Executive Board of the change in the real effective exchange rate of the Saudi Arabian riyal in the second half of 1985.

CHART 2

SAUDI ARABIA

# SELECTED EXTERNAL ECONOMIC INDICATORS

*(In billions of U.S. dollars)*




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

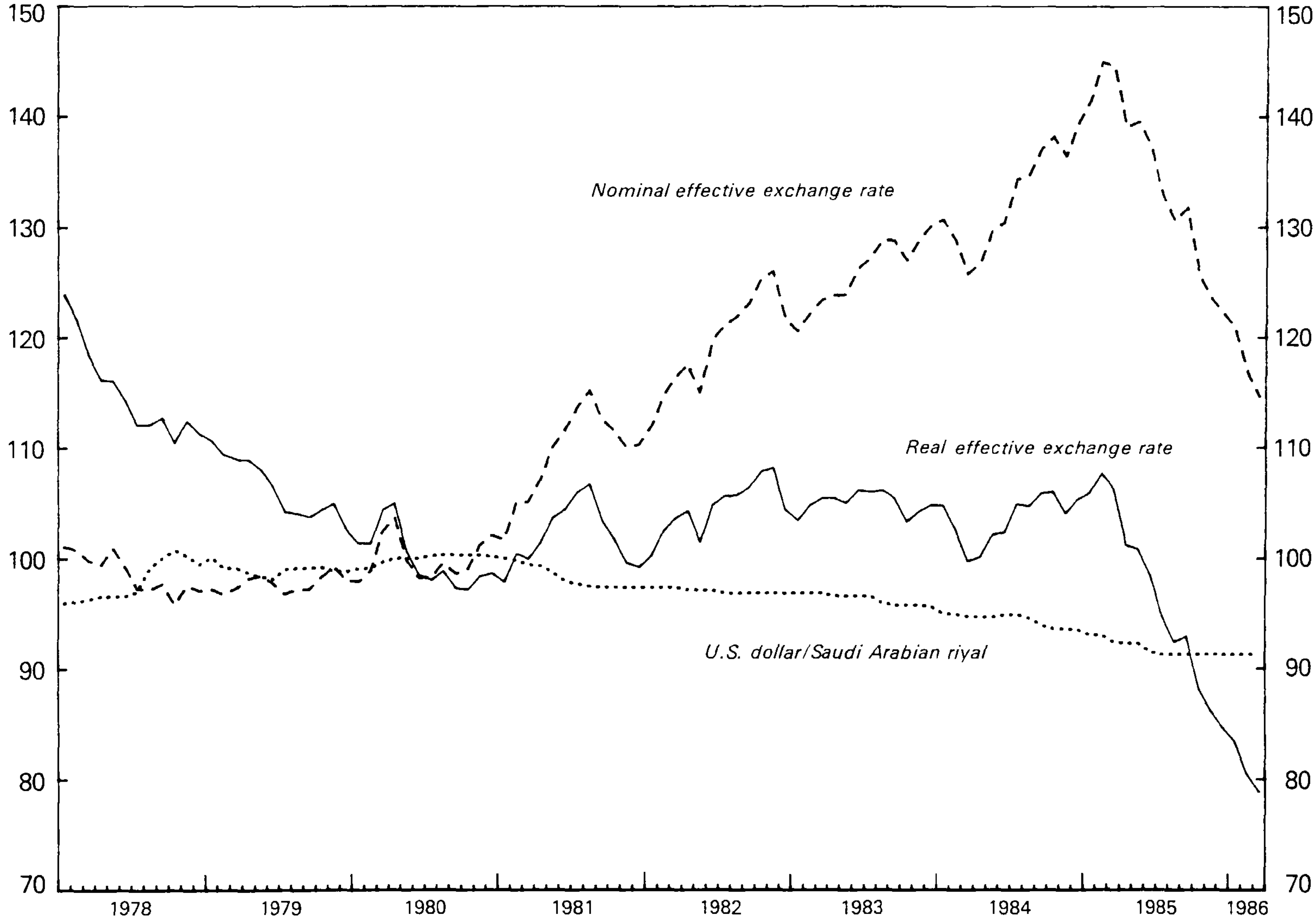
[1] As of January 10, 1986.

CHART 3

SAUDI ARABIA

# EXCHANGE RATE INDICES

(1980 = 100)



## III. Policies and Prospects

Saudi Arabia has adjusted well to the steep decline in oil exports since 1981. The adjustment was pursued in an orderly fashion and was facilitated by the drawdown of official foreign assets and the completion of major development projects. In the changed environment, the focus of government policy shifted toward the achievement of the twin objectives of enhancing private sector activity--to take up the slack generated by lower government domestic expenditure--and containing the loss of official foreign assets. It was recognized that the high growth rates of the past several years in the non-oil sector were exceptional and could not be sustained by the private sector. The recent fall in oil receipts and the limited prospects for any significant recovery in the near future have rendered the task of achieving these objectives even more difficult. The consultation discussions aimed at examining the various policy options available to the authorities under the changed circumstances, but were constrained by the uncertainties surrounding the oil situation and related economic and financial policies.

### 1. The petroleum sector

Following a moderate recovery in the first half of 1984, world oil demand declined again in the latter part of that year and during the first nine months of 1985 reflecting mainly the slackening of economic activity in major oil importing countries. While several other OPEC members maintained their output, in some cases at levels above the production quotas, Saudi Arabia's production continued to fall markedly. By the summer of 1985 output had reached only about 2-2 1/2 mbd, or some 15 percent of total OPEC production. In addition to bringing about a steep fall in foreign exchange earnings and budgetary revenue, the fall in oil production had at that time begun to impinge on Saudi Arabia's requirements of associated gas (produced in conjunction with crude oil).

In response to these developments, a major shift in Saudi Arabia's oil policy took place in the third quarter of 1985 with the primary aim of regaining a market share consistent with its OPEC production quota. The major elements of the policy shift were the abandonment of Saudi Arabia's de facto role as the swing producer and a change in the previous practice of selling crude oil only at the official selling prices. Mainly through increasing reliance on crude oil sales at prices linked to the spot market prices of refined products ("netback" prices), Saudi Arabia's oil production recovered to more than 4 mbd in the fourth quarter of 1985 and remained at a similar level in the first quarter of 1986. Nevertheless, the value of oil exports, after having increased significantly in the latter part of 1985, fell back in the first quarter of 1986 when the international price of oil dropped sharply.

The Saudi Arabian authorities view the current situation in the world oil market as being the consequence primarily of the policies pursued by most non-OPEC oil exporting countries to produce at maximum capacity levels and of the failure of several OPEC member countries to adhere to agreed production quotas and official selling prices. The authorities stated that despite the recent changes in oil marketing practices and the abandonment of the swing producer role, the basic objectives of Saudi Arabia's oil policy remain unchanged. These objectives include securing reasonable oil revenue for the Kingdom in the long run and maintaining orderly and stable conditions in the world oil market, taking due account of the interests of both producers and consumers.

The Saudi Arabian authorities consider that the price of oil has fallen to a level that would have serious economic consequences for oil exporting countries (including Saudi Arabia) and that would also have an adverse impact on the energy market in the long run. They believe that in order to restore the price to a more reasonable level on a lasting basis, it is imperative for all major oil exporting countries to reach agreement on production and export levels. As the members of OPEC, in view of the sharp decline in their combined market share in recent years, cannot accomplish this objective alone, it will be necessary for non-OPEC producers, particularly the important oil exporting countries in this group, to cooperate in any effort to restore oil market stability at reasonable prices. Saudi Arabia, on its part, is willing to cooperate in any such effort. Although the authorities feel that Saudi Arabia's market share--taking account of the size of crude oil reserves and past levels of production--should be higher than 4.353 mbd, they are willing to accept a production quota of this size relative to a ceiling on total OPEC production of 16 mbd. Pending a market sharing agreement, Saudi Arabia will continue to produce crude oil within the ceiling of 4.353 mbd, which is far below the Kingdom's maximum sustainable output level. With regard to prices, the authorities are of the view that, in the absence of an agreement, the price will remain volatile. In the current situation, it is not possible to project Saudi Arabia's oil export earnings with any degree of certainty, a circumstance that is complicating the task of financial planning in Saudi Arabia.

## 2. Fiscal policy

The macroeconomic adjustment to the substantial fall in oil revenue has been effected through a combination of reduction in government expenditure and a drawdown of official foreign assets. Although the budget for 1985/86 (March 22, 1985-March 10, 1986) anticipated that revenue and expenditures would be balanced at SRls 200 billion, a deficit of SRls 50 billion was realized as only two thirds of budgeted revenue materialized while the reduction in expenditure was a modest 9 percent. Compared with the 1984/85 actuals, total revenue fell by 23 percent, and total expenditure was reduced by 16 percent (considerably more than in the two previous years) as the authorities attempted to minimize the drawdown in official foreign assets while cushioning the contraction in non-oil GDP. 1/

The Saudi Arabian authorities have not announced a budget for fiscal year 1986/87 (which began on March 11, 1986) partly because the uncertainties in the oil market have made it difficult to estimate oil revenues but also because the authorities are considering a change in the fiscal year. Monthly expenditure appropriations in the interim period, which may extend to five months, will be based on one twelfth of actual expenditures in 1985/86. The thrust of fiscal policy remains largely unchanged with a major objective being the containment of the drawdown of official foreign assets.

Noting that official foreign assets had been drawn down by US$35 billion over the 1983-85 period, the staff representatives concurred that it would be desirable to avoid use of official foreign assets at this rate. Saudi Arabia needs to maintain a relatively high level of such assets in view of its overwhelming dependence on petroleum receipts and the volatility of such receipts. Besides emphasizing the need for further restraint in total government spending, the staff representatives urged the authorities to reduce subsidies, to move toward full cost recovery of some of the services rendered by the Government, and to take further steps to liquidate price support programs and other producer subsidies. Action along these lines would not only reduce the burden on the budget but would also provide an appropriate base for longer-term development of the private sector.

The Saudi Arabian representatives indicated their agreement, in principle, with these proposals. They noted that some progress had already been made and that further progress could be achieved. With regard to the level of government spending, the Saudi Arabian representatives indicated that project expenditures would decline further as no major projects would be started. Efforts would also be made to curtail other expenditures, e.g., through improving the efficiency of maintenance outlays and achieving economies in other areas, such as government procurement.

The restrained fiscal policy had led to a contraction in the size of the private sector in the past two years. The staff representatives stated that in order to ameliorate the conflict between the internal and external objectives, there was a need to encourage private sector investment without raising the level of government expenditures. Steps to promote the channeling of ample private sector assets held abroad into domestic investment would not only cushion the adverse impact of lower government expenditure and contribute to self-sustaining growth

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1/ Both the decline in oil revenue and the overall budget deficit in 1985/86 would have been somewhat lower if the twelfth oil monthly payment, which was received on March 15, 1986, had fallen within the fiscal year.

of the private sector but would also ease pressures on official foreign assets. While recognizing the difficulties of projecting oil revenues, the staff representatives observed that in order to provide a more stable framework for private sector savings and investment decisions, it would be helpful if expenditure policy could be formulated in a medium-term context on the basis of estimated revenues and planned changes in official foreign assets over a period of years. The Saudi Arabian representatives indicated that such action would be feasible once the uncertainties in the oil market had been reduced and the adjustment of private sector activity to a sustainable level had been completed.

Responding to a query from the staff representatives regarding reported delays in payments to contractors, the Saudi Arabian representatives said that in earlier years, the primary objective was to speed project implementation so as to alleviate supply bottlenecks; hence payments were made even where doubts existed about adherence to the specifications of the contracts. It was also pointed out that in the recent past when there was a succession of projects, the typical contractor received his "initial" payment for a new project so that he did not encounter a cash squeeze owing to the time lag associated with the receipt of the "final" payment for the preceding project. However, the environment had changed with the sharp reduction in the number of new projects and more attention was paid to ensure full adherence to the terms and conditions of contracts. Now, the Government's objective is to avoid delays in payments while ensuring that the terms and conditions of contracts were fulfilled before making these payments. Consequently, existing procedures required a thorough check prior to making the last payment. Furthermore, some contractors are facing difficulties in settling their obligations to their creditors for two reasons: firstly, as fewer new projects are being contracted out, some contractors are unable to draw upon "initial" payments to compensate for delays in the "final" payments of completed projects; secondly, the increased caution on the part of commercial banks to provide credit to the private sector, especially to the construction sector, may have played some role. The Saudi Arabian representatives were of the opinion that delays in payments by the private sector should not be attributed to government policy. The authorities were, however, making every effort to expedite verification procedures and the settlement of "final" payments.

### 3. Monetary policy

Government domestic expenditure is the main determinant of private sector economic activity and the pace of monetary expansion. Given the openness of the economy and the relatively stable exchange rate, monetary policy has played only a limited role. While this role has remained largely unchanged, the introduction of the Bankers' Security Deposit Account (BSDA) scheme in 1984 represented a notable development. Commercial banks' holdings of BSDAs rose significantly in 1985/86.

The authorities believe that there is room for the development of a secondary market in BSDAs which might permit SAMA to undertake open-market operations in the future.

The considerable slowing of monetary expansion in the last two years has been accompanied by some notable changes in the financial sector. Commercial banks have become more cautious in their lending operations as a result of a buildup of nonperforming loans. At the same time, there has been a reduction in net lending by the specialized credit institutions. The combined effect of these developments was a sharp decline in total credit to the private sector. In the current transitional phase of the economy when demand is declining, wage costs are down, and increased competition is generating pressure for a leaner and more efficient private sector, the demand for new credit is likely to be low.

Regarding the quality of banks' asset portfolios, the Saudi Arabian representatives indicated that a limited deterioration had occurred as a result of the general economic slowdown, particularly in the construction sector. However, they stressed that the overall situation was not a cause for concern and that they were closely monitoring the portfolios of individual banks. The authorities were of the view that emerging difficulties due to nonperforming loans had been well contained through adequate provisioning for bad loans. It was pointed out that while the profits of commercial banks had dropped from the unusually high levels prevailing in the past, their earning ratios still compared favorably with those of banks operating in many other countries. Returns on assets (net profits/total assets) which stood at about 2 percent in 1982 declined to 1.3 percent in 1984 and may have declined further in 1985 on account of increased provisioning for nonperforming loans.

The authorities believe that in view of their generally strong capitalization and liquidity position, banks were well-equipped to weather the current difficulties. The capital/loans ratio has risen steadily over the last several years and was about 22 percent as of January 10, 1986, while the advances/deposits ratio has continued to be over 50 percent. A Credit Risk Information System is being established in SAMA to facilitate credit risk analysis by commercial banks. The authorities have also established procedures to resolve disputes between banks and borrowers and to facilitate lending on sounder foundations. In this context, the Commission for the Settlement of Commercial Disputes in the Ministry of Commerce, which is the highest commercial dispute settlement authority, has been authorized to arbitrate domestic disputes relating to both principal and interest payments. Procedures for the reporting and prosecution of financial disputes, including those relating to nonpayment of loans, have been established. Steps have also been taken to define criteria to be followed before calling banks' guarantees to contractors; to the extent that these criteria make it difficult to call guarantees, the banks' asset position would not be adversely affected.

With respect to the specialized credit institutions, the Saudi Arabian representatives noted that the contraction in their net lending reflected mainly the adjustment of private sector activity to a more sustainable level. They were mindful of the need to promote private sector investment and emphasized that the specialized credit institutions would continue to play an active role. In this context, the staff representatives suggested that consideration be given to allowing some of these institutions to engage in equity participation with the private sector.

## 4. Development policies and the private sector

The emphasis of Saudi Arabia's development effort has changed significantly in the past few years. With the completion of major infrastructural facilities, the Fourth Five-Year Plan (1985/86-1989/90) accords increased priority to the expansion of the commodity producing sectors, to further improvements in social services, and to the development of Saudi Arabia's indigenous manpower resources. Increased emphasis is also being given to cost efficiency in government programs and to the efficient operation and maintenance of completed projects. As the growth impulses emanating from government expenditure would be reduced, a major objective of the Fourth Plan is the promotion of the private sector as a primary source of economic growth. With the important changes in the macroeconomic environment in the recent past, some of the targets of the Fourth Plan will materialize more slowly. Nevertheless, the authorities will maintain the basic thrust of the Plan and intend to implement it flexibly on the basis of budget realities. A formal revision of the Plan is not being considered at the present time.

While the sharp contraction in oil income has necessitated a larger reduction in government spending than had been envisaged, thereby diminishing private sector investment opportunities in the short run, the planned transformation of the Saudi Arabian economy toward greater reliance on self-sustaining growth of the private sector has at the same time become more urgent. The authorities recognize that the high rates of growth experienced by the non-oil sector in the 1970s and early 1980s were clearly not sustainable and were associated, to some extent, with the development of less efficient production. A major objective of current development policies is, therefore, the promotion of more efficient private sector investments.

In the current phase of declining government expenditures, more time will be required for the private sector to realize its full potential. While non-oil output is not expected to pick up in the near future, the authorities are hopeful that the growth of the private sector in the longer run would depend on investment opportunities and decisions that were less closely linked to government expenditure. The enlargement of the market associated with the establishment of the Cooperation Council for the Arab States of the Gulf (GCC) would facilitate this process. The authorities believe that with the maintenance of a free market economy, with an adequate infrastructure in place, with a legal and administrative framework that encouraged private initiative, and with the provision of appropriate financial, tax, and tariff incentives, private domestic investments will eventually begin to rise. Moreover, the development of the two industrial cities at Jubail and Yanbu would go a long way in providing new opportunities for private investment.

The staff representatives concurred with the emphasis placed on expanding the role of the private sector in the development effort. The private sector's perceptions about investment prospects in Saudi Arabia relative to those abroad can be influenced by concerted action on a wide spectrum of economic policy measures and institutional reforms encompassing incentives, sector-specific measures, labor and manpower, exchange rate and protective policies. While time is needed to bring about a major transformation of the investment climate, the authorities can take a number of specific steps to eliminate some immediate impediments to private sector growth. In this context, steps to regularize private sector loan servicing to commercial banks would facilitate availability of financial resources for economic expansion. The elimination of legal and institutional obstacles to lending would go a long way in enhancing the participation of financial institutions in the growth process. The continuation of the current policy of depreciating the riyal in real effective terms would also be helpful for the growth of the private sector.

The staff representatives cautioned against according excessive protection to domestic producers from foreign competition and encouraged the authorities to reduce subsidies, both explicit and implicit, so as to improve private sector efficiency and resource allocation. There is a need for further reductions in subsidies in respect of agricultural and manufacturing inputs, energy, water, and credit provided by specialized credit institutions. The Saudi Arabian representatives stated that budgetary expenditures on subsidies had declined in recent years and were aimed mainly at consumption, price support, and social relief programs. They also observed that the present selective protective tariff of 20 percent was not excessive, particularly as it applied to only about 5 percent of total imports in the past two years. The staff representatives noted that in view of the low domestic value added, the existing nominal protection implied a much higher level of effective protection.

The authorities recognize that labor and manpower policies have an important bearing on the evolution of the private sector. The current Plan envisaged a gradual reduction in dependence on expatriate labor over the Plan period. However, the recent economic contraction, which was not anticipated when the Plan was prepared, has led to a relatively faster repatriation of foreign workers. In order to ensure that no labor shortages and upward pressures on wages are created, the staff representatives underscored the importance of continued flexible policies with respect to foreign workers. At the same time, increased emphasis on the development of the indigenous labor force was important.

5. Balance of payments prospects

Given the uncertain outlook for the world oil market and the postponement of the budget for 1986/87, Saudi Arabia's balance of payments prospects cannot be assessed with any degree of confidence either in the short or in the medium term. The Saudi Arabian representatives felt that it would not be possible, in current circumstances, to make any meaningful projections beyond 1987.

Tentative balance of payments projections for 1986 and 1987, based on the assumptions that Saudi Arabia's crude oil output would average about 4.3 mbd in both years and that the export price would average US$16 a barrel in 1986 and US$15 a barrel in 1987, indicate that the value of oil exports will decline by about US$3.5 billion in 1986 and further by US$1 billion in 1987 (Table 1). Imports of goods and services are also likely to continue to decline because of the lagged impact of the considerable reduction in government spending in 1985/86, the expectation that the authorities will maintain a restrictive expenditure stance, the completion of major development projects with a high import content, and the impact of the effective depreciation of the Saudi Arabian riyal. However, as the adjustment of the inventory position may have been largely completed in 1985, and as the scope for further reduction in government spending is becoming smaller, imports are likely to decline at a slower pace in 1986-87 than during 1985. On the basis of these considerations, and taking account of an expected rise in import prices (in U.S. dollar and riyal terms), the import value (in U.S. dollars) is projected to decline by about 12 percent in 1986 and by about 5-6 percent in 1987. 1/ This would imply a gradual reduction in the rate of decline in real imports from about 28 percent in 1985 to about 20 percent in 1986 and some 10 percent in 1987. The Saudi Arabian representatives expressed broad agreement with these projections, but emphasized that they should be considered as staff estimates. Exports of petrochemical products are likely to increase only moderately in 1986 and 1987 despite the increase in the capacity of Saudi Arabia's petrochemical industry, whereas investment income receipts as well as remittances by expatriate workers are expected to decline significantly in both years. 2/

On the basis of these expectations, the current account deficit in 1986 may remain at approximately the same level as in 1985 (about US$9.5 billion) and decline to US$8.5 billion in 1987. With a further moderate decline in official foreign aid and little change in other capital transactions, official foreign assets are projected to fall by similar amounts, but would remain at the equivalent of more than four years of merchandise imports (as projected for 1987).

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1/ On the assumption that the riyal/U.S. dollar rate will remain unchanged.

2/ The value of petrochemical exports in the near future is expected to be smaller than anticipated earlier in view of the weakening of international prices of petrochemical products.

Table 1. Saudi Arabia: Balance of Payments Estimates, 1983-87

(In billions of U.S. dollars)

| | 1983 | 1984 | Prel. 1985 | Projections 1986 | 1987 |
|---|---|---|---|---|---|
| 1. Merchandise trade, f.o.b. | 12.5 | 8.9 | 7.6 | 6.5 | 6.7 |
| Oil exports 1/ | 44.7 | 36.2 | 26.4 | 22.7 | 21.5 |
| Other exports | 1.0 | 1.3 | 1.5 | 1.8 | 2.2 |
| Imports | -33.2 | -28.6 | -20.4 | -18.0 | -17.0 |
| 2. Services and private transfers | -24.5 | -24.3 | -17.3 | -15.9 | -15.2 |
| Receipts | 21.3 | 17.6 | 15.3 | 14.1 | 13.4 |
| Of which: Investment income | (15.9) | (13.4) | (12.4) | (11.2) | (10.4) |
| Payments | -45.8 | -41.9 | -32.6 | -30.0 | -28.6 |
| Of which: Government, n.i.e. | (-20.8) | (-18.7) | (-11.6) | (-10.5) | (-10.0) |
| Other services | (-19.8) | (-17.9) | (-15.8) | (-14.8) | (-14.4) |
| Private transfers | (-5.2) | (-5.3) | (-5.2) | (-4.7) | (-4.2) |
| 3. Goods, services, and private transfers | -12.0 | -15.4 | -9.7 | -9.4 | -8.5 |
| 4. Official foreign aid, other capital movements, and reserves | 12.0 | 15.4 | 9.7 | 9.4 | 8.5 |
| Official foreign aid | -4.0 | -3.6 | -3.3 | -3.0 | -2.7 |
| Oil sector and private capital (including errors and omissions) | 7.0 | 4.0 | 4.4 | 3.5 | 3.0 |
| Commercial banks (net) | -0.2 | -1.1 | -0.9 | -0.5 | -- |
| Official foreign assets (increase -) | 9.2 | 16.1 | 9.4 | 9.4 | 8.2 |

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

1/ Based on the assumptions that crude oil production will average 4.3 mbd in both 1986 and 1987, and that the average export price will be US$16 a barrel in 1986 and US$15 a barrel in 1987.

Despite the sharp decline in foreign exchange earnings in recent years, Saudi Arabia has continued to provide generous amounts of aid to other developing countries. The Saudi Arabian representatives stated that the policy with regard to official foreign aid remained unchanged. Saudi Arabia would continue to provide assistance to multilateral development agencies and bilateral assistance might decline only moderately. A main vehicle for such assistance would be the project loans disbursed by the Saudi Fund for Development.

The Saudi Arabian representatives stated that there had been no significant changes in the policy regarding the management of official foreign assets since the 1985 Article IV consultation discussions. The main considerations continue to be liquidity, the rate of return, and the safety of placements. While the liquidity aspect has always been a major consideration, it has assumed an even greater importance in recent years in view of the large changes in Saudi Arabia's oil export earnings and the possibility that such earnings will remain subject to large shifts.

## 6. Exchange and trade policies

Exchange rate policy has been guided mainly by domestic economic considerations. During the period of inflationary pressures of the 1970s, the containment of imported inflation was a major objective. An increasingly important consideration has been the desire to maintain a stable rate vis-à-vis the currencies of other members of the GCC and to minimize exchange risks so as to facilitate private sector planning. The need to discourage speculation in Saudi Arabian riyals and consequent capital flows has also influenced exchange rate policy.

During the period January 1980-June 1985 when the U.S. dollar appreciated against other major currencies, the riyal was on occasion depreciated in small steps against the U.S. dollar. However, in contrast, the authorities have since June 1985 maintained a fixed riyal/U.S. dollar rate while the U.S. dollar has weakened significantly. The authorities believe that the changed circumstances of the economy and the need for balance of payments adjustment required adherence to an unchanged riyal/U.S. dollar rate, thus depreciating the riyal in real effective terms by about 17 percent during the nine-month period July 1985-March 1986. The staff believes that the recent exchange rate developments are consistent with the increasing importance that is being attached by the authorities to the diversification of the economy and should facilitate adjustment to the weakening balance of payments situation. The continuation of this policy would discourage imports by raising the riyal cost of imports. In the long run, it should provide opportunities for enlarged private sector investment in import-substituting and export activities.

Protective policy has remained unchanged over the last 12 months. While the authorities wish to see an expansion of import substitution, they are opposed to excessive protection through tariffs which could adversely affect the operation of market forces. The Saudi Arabian representatives expressed strong dissatisfaction with the continued restrictions against their petrochemical exports in certain industrial countries, especially since petrochemical exports are spearheading the Kingdom's diversification efforts.

At the regional level, progress has been made toward closer economic cooperation among members of the GCC. Under an agreement reached in 1983, the member countries began the processes of tariff harmonization and the free movement of capital and indigenous labor. Free movement of goods originating in the GCC countries is already in effect. The Gulf Investment Corporation has been established to undertake joint ventures with the private sector in member countries. The GCC has been studying, with Fund technical assistance, ways of strengthening coordination of financial policies including bank regulation, exchange arrangements, and budgetary procedures.

## IV. Staff Appraisal

Saudi Arabia's adjustment continues to proceed smoothly. Oil export earnings dropped by more than three fourths during the 1982-85 period and a further decline is likely in 1986. The adjustment has taken place in an orderly fashion and was facilitated by the availability of large official foreign assets which have been drawn down in a prudent manner. The authorities should be commended for the flexibility with which fiscal policy was executed in the face of the declining oil revenues. During the period from 1981/82 to 1985/86, total government expenditure was reduced by more than one third in nominal terms. Even though a significant portion of this decline was associated with the completion of major infrastructural projects by the early 1980s--and would have occurred even if oil revenue had not declined--the curtailment of total government spending entailed a considerable effort on the part of the authorities. With the tapering off in growth impulses emanating from government domestic spending, the focus of the development effort has shifted toward the promotion of the private sector as a primary source of growth. The Fourth Development Plan (1985/86-1989/90) aims at the diversification of the production and export base, the development of human resources, and the rationalization of subsidies.

In view of the prevailing uncertain conditions in the oil market, the stance of fiscal policy remains cautious. With the limited prospects for any significant recovery in oil export receipts in the near future, it is becoming increasingly difficult to strike a balance between the authorities' internal and external objectives, viz., the revival of private sector activity and containment of reserve loss. The authorities recognize that in the near term it will not be possible for the private sector to compensate fully for the reduction in government expenditures. In fact, the current contraction of private non-oil output would have some beneficial effects as it would facilitate movement to a sustainable growth path in the medium term. The recent reduction in wage rates, increased competition and the general lowering of the cost structure, coupled with measures to eliminate some institutional bottlenecks (such as those relating to delays in loan repayments to commercial banks), should help promote the evolution of a more efficient private sector. Meanwhile, the authorities should, through the generation of investment opportunities, continue their efforts to create a more favorable environment for the repatriation of the private sector's holdings of foreign assets. Such a policy will not only stimulate private sector growth but will also serve to relieve the pressure on official foreign assets.

The staff endorses the authorities' intention to limit further recourse to official foreign assets in order to finance government expenditure. There is room for additional reductions in government spending, both current and capital. Attempts should be made to effect such cutbacks in a medium-term context. A medium-term expenditure plan would not only establish an appropriate basis for rationalizing and reducing expenditure, but would also provide a stable framework for private sector savings and investment decisions. A reduction in subsidies and a move toward full cost recovery of some services rendered by the public sector--as a means for reducing government expenditure as well as to improve the efficiency of the private sector--would merit the consideration of the authorities. While it would not be realistic to expect a substantial increase in non-oil revenues at the present juncture, consideration should also be given to measures, in the medium-term context, to mobilize additional domestic revenues by broadening the tax base, for example, through increasing the range of commodities subject to import duties or by introducing a general income or sales tax.

The authorities have responded promptly to the deterioration in the quality of commercial banks' domestic loan portfolios and have ensured that adequate provisions are made in respect of nonperforming loans. Furthermore, the extension of the dispute arbitration authority of the Commission for the Settlement of Commercial Disputes to financial disputes relating to both principal and interest should go a long way in preventing the emergence of nonperforming loans. The decision to establish the Credit Risk Information System in SAMA is also a positive development. The efforts of the authorities in this area need to be supplemented by measures aimed at improving lending procedures of commercial banks.

Given the uncertainties in the oil market, it is difficult to prepare meaningful balance of payments projections for the medium term. The near-term prospects are for continued sizable, though slightly declining, external payments deficits and a reduction in official foreign assets of about US$18 billion over the two years, 1986 and 1987. This outlook is not viewed by the staff as cause for significant concern. Despite the weakening in the external account, Saudi Arabia's foreign economic assistance policy remains generous. Saudi Arabia has also continued to pursue responsible reserve management policies.

The staff believes that the direction of exchange rate policy, which during the current phase of a weakening U.S. dollar has been aimed at maintaining a stable riyal/U.S. dollar rate, is appropriate. The continuation of the policy to depreciate the riyal in real effective terms will, through an increase in the cost of imports, allow adjustment to the weakening balance of payments situation. It would result in additional opportunities for private sector investment in import-substituting and export activities without the need for discretionary protection and government incentives. This should promote a better allocation of resources.

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

## Saudi Arabia: Fund Relations

(As of April 30, 1986)

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 1,521.3 million or 47.5 percent of quota |
| (c) Fund credit | None |
| (d) Reserve tranche position | SDR 1,681.1 million |
| (e) Current operational budget (maximum use of currency) | SDR 43.9 million (transfers)<br>SDR 318.0 million (receipts) |

| | Limits | Outstanding | Uncalled |
|---|---|---|---|
| | (In millions of SDRs) | | |
| (f) Lending to the Fund: | | | |
| GAB (associated agreement) | 1,500 | -- | 1,500 |
| Oil facility | 2,250 | -- | -- |
| SFF | 1,934 | 1,389 | -- |
| Enlarged access | 11,000 | 6,488 | 4,200 |

III. Saudi Arabia has not used Fund resources to date.

IV. SDR Department

| | |
|---|---|
| (a) Net cumulative allocation | SDR 195.5 million |
| (b) Holdings | SDR 422.8 million and 216.2 percent of net cumulative allocation |

V. Administered Accounts

| | |
|---|---|
| Subsidy account donations | |
| SFF | 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 3.645 = US$1.

VII. Last Article IV Consultation

April 1985; the Staff Report (SM/85/187) was discussed by the Executive Board (EBM/85/113) on July 26, 1985. 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. A staff team visited Riyadh in June 1981 to assist SAMA staff in establishing an in-house capability for economic modeling and simulation. In conjunction with the 1982 prebudget study mission, the staff also provided technical assistance to SAMA staff aimed at establishing computer programs for compilation 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. The Fund, in collaboration with the IBRD and the IFC, is providing technical assistance in formulating policies for the promotion of the private sector. Staff teams visited Saudi Arabia in December 1984, April 1985, and November-December 1985 to obtain data and hold discussions with the authorities in order to prepare the study. The study will be transmitted to the authorities in June 1986.

## Saudi Arabia - Basic Data

| | |
|---|---|
| Area | 2.24 million square kilometers |
| Population (1984 estimate--IFS) | 10.8 million |
| Per capita GDP (1984) | SRls 33,270 |
| | US$9,440 |

| | 1980 | 1981 | 1982 | 1983 | 1984 | Est. 1985 |
|---|---|---|---|---|---|---|
| | (In millions of barrels per day) | | | | | |
| Crude oil output | 9.90 | 9.81 | 6.48 | 4.54 | 4.08 | 3.18 |
| In percent of: | | | | | | |
| OPEC output | (37) | (43) | (35) | (27) | (24) | (20) |
| World output | (16) | (17) | (12) | (9) | (8) | (6) |

| Fiscal years 1/ | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | Prel. 1985/86 |
|---|---|---|---|---|---|---|
| | (In percent) | | | | | |
| Changes in: | | | | | | |
| Total GDP | | | | | | |
| (at constant prices) | 8.0 | 1.7 | -10.8 | -0.7 | -4.8 | -7.7 |
| Oil sector | 3.3 | -9.2 | -36.1 | -8.8 | -15.0 | -20.0 |
| Non-oil GDP | 12.4 | 11.2 | 7.0 | 2.7 | -0.9 | -3.7 |
| Government | (13.8) | (8.1) | (-1.2) | (-2.8) | (-1.9) | (-8.4) |
| Private sector | (11.8) | (12.8) | (11.0) | (4.8) | (-0.3) | (-1.9) |
| Prices | | | | | | |
| Non-oil GDP deflator | 6.8 | 5.3 | 4.1 | -0.6 | -2.1 | -3.4 |
| Cost of living index 2/ | 4.2 | 2.5 | 1.0 | 0.3 | -1.6 | -3.0 |
| | (In billions of Saudi Arabian riyals) | | | | | |
| | | | | | | Prov. Actual |
| Government finances | | | | | | |
| Total revenues | 348.1 | 368.0 | 246.2 | 206.4 | 171.5 | 131.5 |
| Oil revenue | (319.3) | (328.6) | (186.0) | (145.1) | (104.0) | (63.8) |
| Other oil receipts 3/ | (--) | (--) | (--) | (--) | (15.0) | (23.9) |
| Investment income | (21.4) | (30.2) | (48.0) | (47.0) | (32.0) | (23.0) |
| Domestic revenue | (7.4) | (9.2) | (12.2) | (14.3) | (20.5) | (20.8) |
| Total expenditure | 236.6 | 284.6 | 244.9 | 230.2 | 216.4 | 181.5 |
| Of which: | | | | | | |
| Current expenditure 4/ | (65.1) | (82.7) | (89.9) | (86.9) | (87.7) | (86.3) |
| Project and maintenance | (123.1) | (145.7) | (124.4) | (109.5) | (105.5) | (75.8) |
| Percentage change in total expenditure | (25.6) | (20.3) | (-14.0) | (-6.0) | (-6.0) | (-16.1) |
| Overall balance (deficit -) | 111.5 | 83.4 | 1.3 | -23.8 | -44.9 | -50.0 |
| In percent of GDP in current prices | (21.5) | (16.0) | (0.3) | (-6.5) | (-13.4) | (-17.3) |
| Memorandum item: | | | | | | |
| Public sector expenditure on cash basis 5/ | 229.6 | 267.2 | 253.2 | 239.8 | 222.4 | 195.1 |

Saudi Arabia - Basic Data (Continued)

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | First 10 Months 6/ 1984/85 | 1985/86 |
|---|---|---|---|---|---|---|---|
| | (In billions of Saudi Arabian riyals) | | | | | | |
| Factors affecting monetary expansion | | | | | | | |
| 1. Changes in foreign assets (net) | 135.1 | 124.5 | 22.8 | -32.4 | -49.4 | -40.2 | -13.2 |
| 2. Changes in public sector deposits (increase-) | -118.5 | -100.8 | 6.2 | 33.4 | 37.4 | -1.7 | -15.6 |
| 3. Credit to private sector | 11.0 | 6.3 | 2.8 | 6.6 | 3.3 | 3.6 | 0.3 |
| 4. Other items (net) | -14.4 | 1.5 | -16.8 | 1.9 | 13.7 | 40.9 | 28.9 |
| 5. Government net domestic expenditures | 139.7 | 168.7 | 169.9 | 135.4 | 115.0 | ... | ... |
| 6. Private sector balance of payments position | -123.1 | -145.0 | -140.9 | -134.4 | -127.0 | ... | ... |
| 7. Changes in money and quasi-money 7/ | 13.1 | 31.5 | 15.0 | 9.5 | 5.0 | 2.6 | 0.5 |
| (In percent per annum) | (17.5) | (35.9) | (12.5) | (7.1) | (3.5) | (1.8) | (0.3) |

| | 1981 | 1982 | 1983 | 1984 | Prel. 1985 | Proj. 1986 |
|---|---|---|---|---|---|---|
| | (In billions of U.S. dollars) 8/ | | | | | |
| Balance of payments | | | | | | |
| Merchandise trade, f.o.b. | 82.0 | 39.4 | 12.5 | 8.9 | 7.6 | 6.5 |
| Oil exports | 111.0 | 72.9 | 44.7 | 36.2 | 26.4 | 22.7 9/ |
| Other exports | 0.9 | 1.0 | 1.0 | 1.3 | 1.5 | 1.8 |
| Imports | -29.9 | -34.5 | -33.2 | -28.6 | -20.4 | -18.0 |
| Services and private transfers | -33.5 | -27.4 | -24.5 | -24.3 | -17.3 | -15.9 |
| Receipts | 16.2 | 19.0 | 21.3 | 17.6 | 15.3 | 14.1 |
| Of which: investment income | (11.0) | (14.1) | (15.9) | (13.4) | (12.4) | (11.2) |
| Payments | -49.7 | -46.4 | -45.8 | -41.9 | -32.6 | -30.0 |
| Goods, services, and private transfers | 48.5 | 12.0 | -12.0 | -15.4 | -9.7 | -9.4 |
| Official foreign aid | -5.7 | -4.4 | -4.0 | -3.6 | -3.3 | -3.0 |
| Goods, services, private transfers, and official foreign aid | 42.8 | 7.6 | -16.0 | -19.0 | -13.0 | -12.4 |
| Other capital movements and reserves | -42.8 | -7.6 | 16.0 | 19.0 | 13.0 | 12.4 |
| Oil sector capital transactions (net) and other direct inward investment capital | 6.4 | 11.1 | 5.0 | 5.2 | 2.5 | 3.0 |
| Other private capital and errors and omissions | -4.5 | -5.2 | 2.0 | -1.2 | 1.9 | 0.5 |
| Commercial banks (net) | -6.3 | -3.1 | -0.2 | -1.1 | -0.9 | -0.5 |
| Other capital and reserves (increase-) | -38.5 | -10.3 | 9.2 | 16.1 | 9.4 | 9.4 |

Saudi Arabia - Basic Data (Concluded)

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | First 10 Months 6/ 1984/85 | 1985/86 |
|---|---|---|---|---|---|---|---|
| | (In billions of U.S. dollars) | | | | | | |
| Foreign assets (net) of banking system (end of period) | 112.0 | 146.6 | 151.7 | 140.1 | 123.6 | 126.4 | 116.6 |
| Foreign assets of SAMA | 102.3 | 133.1 | 134.1 | 122.3 | 105.7 | 109.4 | 99.5 |
| Net foreign assets of commercial banks | 9.7 | 13.5 | 17.6 | 17.8 | 17.9 | 17.0 | 17.1 |

1/ Based on the Islamic (Hijri) year. See Appendix Table 15 in the report on Recent Economic Developments, to be issued shortly.
2/ Annual averages for Gregorian calendar years 1980 through 1985.
3/ Transfers from the petroleum sector to the Government.
4/ Includes salaries, wages, allowances; supplies and services; and subsidies.
5/ Budgetary expenditure adjusted for the net operations of specialized credit institutions and timing differences between budgetary and monetary data.
6/ Ending in Rabi (II) corresponding to January 21, 1985 and January 10, 1986.
7/ Equals items 1 through 4 or items 3 through 6.
8/ The following average annual exchange rates (in Saudi Arabian riyals per U.S. dollar) were used: 1981 = 3.3825; 1982 = 3.4282; 1983 = 3.4548; 1984 = 3.5238; and 1985 = 3.6221.
9/ Based on the assumptions that crude oil production will average 4.3 mbd and that the average export price will be US$16 a barrel.

# Saudi Arabia - Statistical Issues

## 1. Outstanding Statistical Issues

### a. General Economic Statistics

Saudi Arabia reports monthly 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. More recent data in IFS on the production of crude petroleum are estimates based on information published in Petroleum Intelligence Weekly.

### b. Government Finance

There is no presentation for Saudi Arabia for government finance statistics in the GFS Yearbook or in IFS.

### c. Monetary Accounts

It is believed that the item "government deposits" in the SAMA accounts includes deposits of nonfinancial public enterprises and nonmonetary financial institutions. The separate reporting of data on the deposits of "autonomous" government agencies is desirable in order that these deposits may be excluded from government deposits (net) in the IFS monetary survey.

Few details are reported on the foreign sector accounts of SAMA. SAMA foreign assets as reported under the monetary accounts are substantially larger than those reported under international liquidity, due mainly to assets in the "Investments" account in the SAMA balance sheet which are not included in International Liquidity. It is not clear whether the series on "Investments" includes (a) SDR holdings, and (b) any or all of the components of the Reserve Position in the Fund (RPF). The current treatment in IFS of SAMA foreign assets assumes that investments include SFF lending, but excludes all other components of RPF (mainly Enlarged Access Resources borrowing, reserve tranche position, and valuation adjustments). These issues were raised with the authorities, who agreed to consider supplying the information on the contents of public sector deposits and on SAMA "investments."

### d. International Banking Statistics

Saudi Arabia has been participating in the International Banking Statistics project and is among the most current reporters in the project.

## 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 1986 issue of IFS. The data are based primarily 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 timely basis; however, improvements should be possible in respect of both the coverage and currentness of data.

### Status of IFS Data

| | | Latest Data in May 1986 IFS |
|---|---|---|
| Real Sector | - National Accounts | 1984 |
| | - Prices: Consumer Price Index | December 1985 |
| | - Production: Crude Petroleum | January 1986 |
| | - Employment | n.a. |
| | - Earnings | n.a. |
| Government Finance | - Deficit/Surplus | n.a. |
| | - Financing | n.a. |
| | - Debt | n.a. |
| Monetary Accounts | - Monetary Authorities | August 1985 |
| | - Deposit Money Banks | December 1985 |
| | - Other Financial Institutions | 1985 |
| Interest Rates | - | n.a. |
| External Sector | - Merchandise Trade | |
| | Values (Exports) | Q4 1984 1/ |
| | (Imports) | 1984 |
| | Export Prices | |
| | (Crude Petroleum) | December 1985 2/ |
| | - Balance of Payments | 1984 |
| | - International Reserves | March 1986 |
| | - Exchange Rates | March 1986 |

1/ Monthly and quarterly data on exports are estimated by taking the data on production of crude petroleum from the Petroleum Intelligence Weekly and the official State Sales Prices. These derived estimates are subsequently adjusted to agree with the reported annual export data.

2/ Weighted average of official State Sales Prices computed by the Bureau of Statistics.