

Consolidating economic growth

INTERVIEW WITH HE IBRAHIM AL-ASSAF

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*Source: World Economic Factbook
International Marketing Data and
Statistics Future Demographic*

What are the projections for the fiscal year 2010 and how is expenditure being developed?

I expect that the Gross Domestic Product (GDP) for 2010 is expected to reach SR 1.36 trillion, reflecting an increase of 16.6 per cent over 2010 as a result of 25 per cent growth in the petroleum sector. Public and private non-oil sectors GDP is expected to increase by 9.2 per cent. The public sector is projected to grow by 15.7 per cent and the private sector by 5.3 per cent, at current prices.

In terms of fixed prices, the GDP is projected to grow by 3.8 per cent, the oil sector by 2.1 per cent, and the non-oil sector by 4.4 per cent. The public sector is projected to grow by 5.9 per cent and the private sector by 3.7 per cent. The contribution of the private sector to the GDP reached 47.8 per cent. All economic activities constituting the GDP of the non-oil sectors have achieved positive growth. The real growth in non-oil manufacturing is estimated to be 5 per cent; communications, transport and storage 5.6 per cent; electricity, gas and water 6 per cent; construction 3.7 per cent; wholesale and retail trade, restaurants and hotels 4.4 per cent; and finance, insurance and real estate 1.4 per cent.

Demographic and Economic Indicators			
	2008	2009	2010
Consumer expenditure (US\$ million)	122,878.72	131,979.61	140,811.32
Annual disposable income (US\$ million)	347,635.28	280,802.39	316,208.96
Consumer expenditure on food (US\$ million)	21,142.5	22,668.2	24,096.1
Internet users ('000)	7,200.00	8,253.63	9,220.80

What will be the focus of the National Budget for 2010? Is the promotion of economic development and infrastructure projects a key priority?

The 2010 national budget will continue to focus on enhancing economic development and improving the investment environment that supports strong and balanced economic growth. This year's budget includes SR260 bn for investment projects, a 16 per cent increase over 2009 budget, an increase of about 16 per cent over the last year's budget, which was the largest historically, and about three times the level in 2005, the first year in the current 8th Development Plan. The budget gives high emphasis to projects that ensure sustainable and balanced development as well as job creation. Specifically, the focus continues to be on education, health, social and security services, municipal services, water and sewage services, and roads and highways. Moreover, the budget attaches a particular importance to projects related to research and development (R&D) as well as science and technology projects and the e-government.

What are the key projections for the 2010 budget?

Total revenues for fiscal year 2010 are projected at SR47.0 (US\$125.3) bn. Government expenditures for fiscal year 2010 are budgeted at SR540 (US\$144.0) bn and the fiscal deficit for 2010 is projected at SR70 (US\$18.7) bn.

In reviewing economic developments in 2009, what are the key trends for GDP? What are the effects of the Government's stimulus package.

According to the Central Department of Statistics and Information, GDP is estimated in 2009 to be SR1,384.4 (US\$369.2) bn in current prices, reflecting a contraction of about 22.0 per cent compared to 2008. Non-oil GDP is estimated to grow by 5.5 per cent. This growth is mainly attributed to the government stimulus programme. Private sector is estimated to grow by 2.85 per cent in current prices in 2009.

In real terms, overall GDP is estimated to grow by 0.15 per cent. However, non-oil GDP is estimated to grow by 3 per cent, with government sector growing by 4 per cent and private sector by 2.54 per cent in 2009. All components of the GDP recorded positive growth in 2009, except the oil sector. In particular, the industrial sector is estimated to grow by 1.10 per cent; construction sector by 3.90 per cent; electricity, gas, and water sector by 3.35 per cent; transport and communication sector by

New fiscal, institutional and structural reforms have been introduced in 2009

6 per cent; wholesale, retail, restaurants, and hotels by 2 per cent; and finance, insurance and real estate by 1.80 in constant prices. In addition, private sector contribution to GDP is projected to be 47.80 per cent in constant prices.

Inflation, as measured by the cost of living index, is estimated at 4.40 per cent in 2009, while the non-oil GDP deflator showed an increase of 2.40 per cent.

To what extent has the global financial crisis affected Foreign Trade and the Balance of Payments?

The Saudi Arabian Monetary Agency [SAMA] estimates the total value of exports of goods and services at SR692.6 (US\$184.4) bn in 2009, representing a contraction of about 41 per cent compared to 2008. Non-oil exports of goods are estimated at SR101.8 (US\$27.1) bn, reflecting a decline of 16.4 per cent and representing 15 per cent of total goods exported. Total imports of goods are estimated at SR301.3 (US\$80.4) bn in 2009, representing a decline of 21 per cent compared to 2008.

According to SAMA preliminary data, the trade balance is estimated to record a surplus of SR390.3 (US\$104.1) bn in 2009, a decline of 50.9 per cent compared to last year, as a result of the decline in oil prices and quantity as well as non oil exports. The current account is estimated to record a surplus amounting to SR76.7 (US\$20.5) bn in 2009 compared to SR496.2 (US\$132.2) bn in 2008, a decline of 84.5 per cent.

And the money supply?

The broad money supply during the first ten months of FY 2010 grew by 8 per cent. Bank deposits recorded a growth rate of 8.2 per cent and total banks claims on public and private sectors declined by 5.7 per cent. Banks' capital and reserves increased by 24.1 per cent reaching SR163.6 (US\$43.63) bn.

How have the Capital Markets performed?

The Capital Market Authority [CMA] continued its efforts to develop the bonds market and improve the transparency, fairness, and investors' protection. On deepening the financial market and providing more investment opportunities, the CMA has approved 10 IPOs totally about SR26.6 bn. It has licensed 24 mutual funds and 14 new brokerage and portfolio management firms, increasing the number of licensed firms to 124.

How do you view prospects for the Saudi economy in the medium term and what role have the fiscal, institutional and structural reforms played?

The Article IV Consultation at the IMF with Saudi Arabia concluded that the prospects for Saudi Arabia's economy is positive and the performance of non-oil sector will remain strong. Standard and Poor's (S&P) Ratings maintained Saudi Arabia's sovereign rating at (AA-) and the IFC 2010 Report on *Ease of Doing Business*

ranked Saudi Arabia at 13 among 183 countries, up from rank 15 in 2009 Report.

New fiscal, institutional and structural reforms have been introduced in 2010. These included restructuring of the Agriculture Development Fund, the creation of the National Committee for Clean Energy Development, the National Plan for Nuclear and Radiation Emergency, Tax Incentives for Investment in Some Geographical Areas, By-Laws for non-profit Technical and Vocational Training, and rules for dealing with national employees in sectors identified for privatisation, among others.

Has the global financial crisis affected the government's plans to privatise those sectors which have already been identified in the programme?

The privatisation programme is proceeding according to plan and there is no doubt that the current crisis imposes itself when such issues are discussed but this has not impeded the programme. For example, the cabinet approved the establishment of a holding Saudi company called the 'Holding Water and Electricity Company' for the purpose of investing in water and electricity generating projects which are owned by the General Investment Fund – the Saudi Government's investment arm – or in which it has shares. This is the best evidence that the government is continuing with its privatisation programme and its enthusiasm for its success by providing the technical and economic elements for its success. The aim is not just to transfer ownership from the government or management to the private sector but to have more revenues than if the government continued to have ownership or management or both. **E**

Demographic and Economic Indicators

	2008	2009	2010
GDP measured at purchasing power parity (million international \$)	592,917.71	596,902.98	630,477.19
Real GDP growth (% growth)	4.45	-0.88	4.04
Inflation (% growth)	9.87	4.89	4.00
Annual gross income (US\$ million)	374,041.03	302,178.76	340,043.00

Source: World Economic Factbook International Marketing Data and Statistics Future Demographic