Planning for the future

INTERVIEW WITH HE IBRAHIM AL-ASAF
MINISTER OF FINANCE, KINGDOM OF SAUDI ARABIA

IBRAHIM AL-ASSAF has a bachelors degree in economics and political science, a masters in economics from the King Saud University, Riyadh and a PhD in economics from Denver University, Colorado. He was associate professor of economics and head of the department of administrative sciences at King Abdul Aziz Military College in Riyadh. He was alternate Saudi executive director at the International Monetary Fund (IMF)1986-9 and at the World Bank Group 1989-95. He was vice-governor of the Saudi Monetary Agency and was minister of State and member of the Council of Ministers 1995-6. He became minister of finance and economy in 1996.

The current energy market is characterised by high volatility. As a major producing country, how do you view this issue?

Saudi Arabia has had long-standing concerns that the volatility and levels of oil prices do not reflect supply and demand fundamentals alone, but also reflect such factors as the flow of speculative funds into commodity markets, refining limitations, and geopolitical tensions. We remain committed to ensuring that the oil market is well supplied. For those countries that have already been adversely impacted by higher energy prices, I welcome the proposals advanced by King Abdullah at the Jeddah Energy Conference for the Energy for the Poor Initiative. This can assist in addressing immediate needs, and in the longer-term to increase the resilience of countries and households. Included would be the provision of sustainable energy access for the poor, and efficiency gains in energy consumption and supply. For its part, Saudi Arabia confirms its willingness to support this effort and urges others to join in the partnership.

What will be the impact of lower oil prices on the Kingdom's development plans?

What is expected is that markets, oil and other, are going through a temporary phase which could last one year, a little less or a little more. I project public spending in 2009 to be higher than in 2008. There will definitely not be any impact from the oil price decline on the government's development programme. The slump in the price of oil had proven the effectiveness of the Kingdom's policy of maintaining sufficient reserves to make its development projects immune to revenue fluctuations.

It was said that our reserves were too high, but the current experience shows that the size of these reserves is adequate to enable us to continue in our development programs even with lower oil prices. As the Custodian of the Two Holy Mosques King Abdullah told leaders at the G-20 meeting in Washington, investment by the public and the state-controlled oil sector is set to exceed US$400 billion over the next five years. About half of the US$400 billion will be budgeted over the next five years. About a quarter has already been budgeted but has yet to be deployed and a quarter will go to the oil sector. To mitigate the impact of the crisis, we are examining new measures that should provide the necessary financing for planned projects.

How would you assess the current difficulties being experienced by global markets and what is the likely impact on global development?

There are certainly difficult challenges to global development prospects. The crisis in the financial system has intensified dramatically. Its resolution is, rightly, largely a matter for policymakers in the countries where it originated. It is also worth noting that the continued

Saudi Arabia: Selected Economic Indicators, 2004-08

	2004	2005	2006	Prel. 2007	Proj. 2008
Production and prices			(percentage change)		
Real GDP	5.3	5.6	3.0	3.5	5.0
Real oil GDP	6.7	6.2	-0.8	0.5	4.3
Real non-oil GDP	4.6	5.2	5.1	4.8	5.3
Nominal GDP (in billions of US dollars)	251	316	357	382	540
Consumer price index	0.4	0.6	2.3	4.1	10.6
Fiscal and financial variables			(in per cent of GDP)		
Central Government revenue	42.2	48.0	50.8	44.9	56.5
of which: oil revenue	35.2	42.7	45.3	39.3	50.7
Central Government expenditure	32.1	29.6	29.8	32.6	26.0
Fiscal balance (deficit -)	10.0	18.4	21.0	12.3	30.4
Change in broad money (in per cent)	18.8	11.6	19.3	19.6	24.6
Interest rates (in per cent) 1/	1.7	3.8	5.0	4.8	2.2

Source: International monetary fund

robust growth in developing country economies has helped alleviate the global impact of a deceleration in the advanced economics. Sustaining such dynamics will indeed require continued policy vigilance. In the current situation, however, we have to consider whether longer-term development prospects are under threat from such external factors. This would be in spite of the encouraging and commendable record of sustained economic reforms within the countries recording strong growth rates.

What global policy and financial architecture will be required to support climate change action in developing countries?

Of paramount importance is greater access to modern, least-cost energy sources. This is essential if development in the poorer countries is to be successful. Also important is the transfer of technology. Here, the test is of economic viability in the longer-term. It must be emphasised that technological mitigation options are the way forward, in particular the Carbon Capture and Storage (CCS). CCS must be considered as a viable option under the Kyoto Protocol or any future regime and be applicable as CDM activity. This will help greatly the mitigation efforts to combat climate change. Equally important is a focus on energy efficiency, a significant topic in its own right, distinct from renewable energy. It makes economic sense for everyone everywhere. I strongly believe that energy efficiency is a 'low-hanging fruit'. Many efficiency gains are possible on the supply side through the use of cutting-edge technology. There is also a great potential that could be harnessed on the demand side. Given the expected continued preponderance of fossil fuels in the energy mix, such efficiency gains can meaningfully contribute to improving energy access while reducing emissions. This is win-win situation that must be realised to the fullest extent.

What is your view on the issue of biofuel production and the effect on agricultural prices?

The diversion of agricultural activities to produce biofuels remains a matter of concern, given the impact on food prices and the role of food expenditure in the consumption patterns of the poor countries. We should not forget that advanced countries also have responsibilities, as agricultural subsidies and restrictions on the imports of developing country products have contributed to the underdevelopment of this sector in those countries and increased their own dependence on food imports. The failure to come to an acceptable conclusion to the Doha round further exacerbates the situation. To move matters forward, I have called for the World Bank to come up with innovative financing mechanisms in support of the agricultural sector to boost food production in developing countries. The IFC can intensify its role here in seeking out private and public sector partners, as well as South-South initiatives.

British Prime Minister Gordon Brown called for Saudi Arabia to make a greater contribution to the IMF budget. Is this a possibility?

We are not going to pay more or less than others. We have been playing our role responsibly and we will continue to play our role, but we are not going to finance the institution just because we have large reserves. These reserves are for the development of the Kingdom of Saudi Arabia and there is no specific emergency fund for the IMF or any other institution. It is also worth noting that our policy with regard to the oil market is very important and responsible when we invest in increasing our capacity in order to maintain stability in the oil market, which of course is reflected in the stability of the financial markets as well as the global economy at large. F

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	2004	2005	2006	Prel. 2007	Proj. 2008
External sector	(in billions of US dollars)				
Exports	126.5	180.8	211.3	234.3	377.7
of which: oil and refined products	110.9	161.8	188.5	206.4	344.2
Imports	-41.1	-54.6	-63.9	-82.7	-107.8
Current account	52.1	90.6	99.6	95.8	191.7
Current account (in per cent of GDP)	20.8	28.7	27.9	25.1	35.5
SAMA's net foreign assets	86.5	150.5	221.4	301.3	437.5
SAMA's net foreign assets (in months of imports of goods and services)	11.8	15.8	18.2	19.0	23.1

Source: International monetary fund