

# Energy, aid and economic growth

## INTERVIEW WITH HE IBRAHIM AL-ASSAF

MINISTER OF FINANCE, 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 he was minister of State and member of the Council of Ministers 1995-6. He became minister of finance and economy in 1996.

### Do you believe that accessibility to energy is a prerequisite for poverty reduction?

Adequate supplies of commercial energy are an essential driver of, and in turn reflect, the entire development process. The shortfall in global development is thus evident from the continued lack of access to modern commercial energy of as many as 1.6 billion of the world's poorest people who do not even have electricity. Even worse, over 2.4 billion people use traditional biomass fuels. These have severe adverse health effects through indoor air pollution, while the burden of daily foraging for fuel wood supplies literally falls disproportionately on the shoulders of women and girls. I call for a renewed effort to help the poorer countries better address this key issue of access to modern energy.

### Given this – how do you see the future of the energy mix developing?

I urge an appropriate sense of realism in considering energy sources going forward. While scenarios for future energy use will understandably vary in detail, there remains a combination of coal, gas and oil accounting together for 75-85 per cent of the total. This inescapably implies a high carbon economy, not a low carbon economy. Let me stress here that, while the developed countries have many options for transportation systems, those choices are very limited for the poorer countries. Also, the ability to cover their basic energy needs is critical for the productive capacity of the poor. Against that background, efforts should be, in my view, to help countries focus on the production of energy in a clean and technically efficient manner, whatever the source, using processes that have proved to be sustainable.

### What about alternative energy sources and the issue of environmental protection and climate change?

I see a danger in focusing more on alternative energy sources, that are not commercially viable, while neglecting the bigger picture of aiming for cleaner and more efficient traditional energy sources according to their respective comparative advantages. Such an approach runs the risk of distorting energy markets and providing negative signals to those considering investments in oil supply both upstream and downstream.

It is easy to entangle local energy and environmental issues with the separate issue of global climate change and who should do what to either mitigate or adapt to it. This topic involves a complex, largely unresolved, and often contentious set of issues. The views of oil producers on being compensated for revenue losses resulting from climate mitigation measures by the industrialised countries are well known. Otherwise we run the danger of derailing our potentially more productive discussions of cleaner and more efficient energy supply, where broad consensus seems attainable.

### The Kingdom of Saudi Arabia is a generous source of international aid. What is the current level?

Over the last quarter of past century, Saudi Arabia's development assistance has accounted for close to 4 per cent of GDP, the highest ODA to GDP ratio among all donors, including OECD countries, bearing in mind that Saudi Arabia is itself a developing country. Saudi Arabia's development assistance has accounted for over 1.3 per cent of GDP over the past five years.

### Key Economic Indicators

	2004	2005	2006	2007	2008	2009	2010
Nominal GDP (\$ '000 million)	251	314	340	354	368	386	405
Real GDP (% change)	5.2	6.5	5.8	5.4	4.0	3.5	3.5
Inflation (% change)	0.3	1.0	1.3	1.0	0.8	0.5	0.5
Current account balance (% of GDP)	20.5	27.7	24.4	19.5	17.0	15.0	12.0
Fiscal balance (% of GDP)	10.4	17.0	16.5	11.0	8.0	6.0	5.0

Source: Standard Chartered Bank, March 2006

**What is your assessment of the current global approaches to improved governance and transparency?**

I believe that the global approaches to improved governance, including efforts for enhanced law enforcement, anti-corruption treaties, and greater international transparency, should focus on assisting individual countries with their own efforts to bring about improvements in this issue. It should be noted that, while improved governance is indeed important for success of the development effort, the central challenge is to find more effective ways of helping countries to channel the available aid in an environment of greater accountability and transparency. This requires donor vigilance on appropriate use of resources as well as steps by recipient countries to strengthen national accountability systems.

**The Saudi stock market has been volatile this year. To what extent does the Supreme Economic Council monitor it's performance?**

The SEC discusses various factors affecting the Saudi stock market and ways to help investors benefit from opportunities, especially in companies with sound financial statements. These factors include allowing non-Saudi expatriates to invest directly in the stock market instead of being restricted to mutual funds, as well as cutting the nominal value of shares, which paves the way for share splits. King Abdullah has directed that all these ideas should be studied and the necessary measures taken and has also stressed that investing in the Saudi economy and Saudi companies represents an investment in the country's future, and has urged the business sector to do so.

**How is the Saudi economy currently performing and how do you see the prospects?**

We estimate that the Kingdom's oil exports this year will be SR580 billion. Non-oil exports in 2005 reached SR69 billion, registering a 20 per cent increase and this figure shows that the Kingdom's diversification drive is yielding fruits.

Our current account is projected to record a surplus this year of SR326.5 billion, compared to

SR194.7 billion last year. This represents an increase of 67.7 per cent. We announced in the 2006 budget our projected expenditures of SR335 billion and revenues at SR390 billion, the largest in our history. The country is expected to post a record budget surplus of SR214 billion this year on the back of surging crude prices.

The Kingdom's economy is in good shape, thanks to the wise policies adopted by the government. Custodian of the Two Holy Mosques King Abdullah has ordered the swift implementation of the welfare projects for which allocations have been made from the budget surplus.

Surging government revenues have allowed the Kingdom to trim public debt – all of which is owed to local institutions. Debt should fall this year to SR475 billion or 40 per cent of GDP. SR141 billion of this year's surplus would be spent on paying down debt. In 2006 debt will continue to be a priority and inflation remains tightly controlled despite the economic boom, with the cost of living index rising just 0.4 per cent this year and non-oil GDP deflator. But we have to be vigilant on inflation, given the large growth in government and private sector spending.

**What were the factors behind changing the annual revenue projections?**

This was principally due to fluctuating oil prices. We initially predicted that revenues will reach SR280 billion this year but this did not affect implementation of the development programs. The Kingdom's oil sector grew by six to seven per cent this year at fixed prices and 27.5 per cent at current prices as a result of oil prices. The finance minister estimates that the non-oil industry sector – which the government has targeted for growth to reduce dependence on oil revenues – would expand by 7.4 per cent this year.

**What effect do you expect WTO accession to have on the Saudi economy?**

It will reduce the Kingdom's revenues from customs tariff by SR300 million in the first year. However, WTO membership will have a limited effect on the budget. **F**

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