The Economy and Finances of Saudi Arabia

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TO APPRECIATE the emergence of Saudi Arabia as a major financial force on the world monetary scene, it is appropriate to review the history of the country's economic and financial developments. In addition to providing background information on Saudi Arabia, this paper illustrates the main characteristics of a typical oil economy.

The Kingdom of Saudi Arabia was established in 1932, following a period of unification of most of the Arabian Peninsula by King Abdal-Aziz ibn Al Saud. It covers an area of 2.23 million square kilometers, with a population estimated at about 7.2 million. The terrain is largely desert, receiving little or no rainfall, but mountain ranges in the western and southwestern regions support some agricultural production.

Saudi Arabia's single most important resource is oil, which was discovered in commercial quantities in 1938; its oil reserves are estimated to be the largest in the world. In 1972 when oil revenues totaled \$2.8 billion, the oil sector accounted for nearly 64 per cent of gross domestic product (GDP), 90 per cent of the Government's budget revenue, and more than 90 per cent of its foreign exchange receipts.

During the mid-1950s, Saudi Arabia's oil revenue grew only moderately in relation to the rapidly growing government expenditures. Recurring fiscal deficits resulted in depletion of foreign exchange reserves, and the Saudi Arabian riyal depreciated in the free exchange market. Late in 1958, the authorities initiated strict stabilization policies, which

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The authors have in the main used Saudi Arabian sources for this paper, with special reliance on the annual reports of the Saudi Arabian Monetary Agency (the central bank).

eliminated the fiscal deficits and led to substantial improvement in the external payments position. By the early 1960s, the success of the stabilization program permitted the authorities to abolish all restrictions on trade and payments, to establish a par value for the riyal, and to accept the obligations of Article VIII of the International Monetary Fund's Articles of Agreement. During the 1960s, a period of consolidation, sound fiscal policies achieved moderate balance of payments surpluses. At the same time, the authorities accelerated economic development and administrative reform.

Since 1970, however, the sharp rise in both production and prices of oil, as well as increasingly better terms of agreement with the oil companies, has considerably strengthened Saudi Arabia's fiscal and external payments positions. Official reserves increased by nearly SDR 2 billion during 1971–72, and the sharp rise in the balance of payments surplus continued in 1973. More recent developments—mainly, the sharply higher prices, effective from the beginning of 1974, imposed by oil producers and the limitations placed by the Government on production—seem to have ushered in a completely new era in international oil trade. The long-term impact of these developments on world trade and on the international monetary system is still undergoing considerable scrutiny and discussion.

I. The Oil Sector

CONCESSIONS, DISCOVERIES, AND RESERVES

Oil exploration in Saudi Arabia began in 1923, when a British company, Eastern and General Syndicate Ltd., obtained a concession in the eastern region. However, as the company did not exercise its rights, the agreement was nullified in 1927. In May 1933 the Saudi Arabian Government concluded a 66-year concessionary agreement with Standard Oil Company of California (SOCAL), covering an area of 920,000 square kilometers. After SOCAL sold half of its interest in the concession to the Texas Oil Company in 1936, the California Texas Oil Company (CALTEX) was formed to carry out marketing activities. In 1939, a supplementary agreement enlarged the concession area by nearly 200,000 square kilometers, including the Saudi Arabian half interests in the neutral zones on Saudi Arabia's borders with Iraq and Kuwait. In 1944, CALTEX was renamed the Arabian American Oil Company (ARAMCO), and four years later it sold an interest of 30 per cent to Standard Oil of New Jersey and 10 per cent to Socony Vacuum

(MOBIL). This pattern of ownership was maintained until January 1, 1973, when the Saudi Arabian Government acquired 25 per cent ownership under the provisions of the General Agreement on Participation of December 20, 1972.

In addition to ARAMCO, there are two other producing concessionaires. In 1949, the Getty Oil Company obtained a concession on the Saudi Arabian half of the Kuwait-Saudi Arabia Neutral Zone after it had been relinquished by ARAMCO the year before. The Getty Oil Company then concluded an agreement with the American Independent Oil Company, which had acquired a concession on the Kuwait half of the Neutral Zone, and the two companies jointly undertook exploration. Oil was struck at Wafrah in 1953, and exports commenced in 1954. In 1957 the Japanese-owned Arabian Oil Company (AOC) obtained a concession covering the offshore areas of the Neutral Zone. Drilling started in 1959, and oil was discovered in January 1960.

Nonproducing concessions include the one granted in 1965 to the French-owned Société Auxiliare de la Régie Autonome des Petroles (AUXIRAP) which, in partnership with Tenneco Oil, has been exploring an area of 26,800 square kilometers along the northern shore of the Red Sea. PETROMIN, the General Petroleum and Mineral Organization established by the Government in 1962, holds a 40 per cent interest in this venture. Exploration activities are also being carried out by the Agenzia Generale Italiana Petroli (AGIP, Italy's subsidiary of Ente Nazionale Idrocarburai) and Phillips Petroleum Company in the Rub al Khali desert in Southern Arabia and by the Sun Oil Company, in partnership with PETROMIN, in two areas north and south of Jidda along the Red Sea.

The currently active exploration and production areas cover 287,000 square kilometers and are concentrated in the eastern part of the country. The Red Sea coastal area, opened up more recently, is undergoing intensive exploration but no significant deposits have yet been discovered.

The bulk of ARAMCO's production comes from four major fields (Table 1) located south and west of Ras Tanura (see map). Farthest south is the Ghawar field, the world's largest oil field, which is divided into several sections linked by a pipeline 190 km long. To the northeast lies Abqaiq, Saudi Arabia's second largest field, which is linked to two smaller fields by a system of pipelines extending to Ras Tanura. To the west of Ghawar lies the Khurays field, which is linked to the northern end of the Ghawar pipeline system. Another group of fields located to the north of Ras Tanura include Saffaniyah, the world's largest offshore

TABLE 1. SAUDI ARABIA: MAJOR PRODUCING OIL FIELDS, END OF 1972

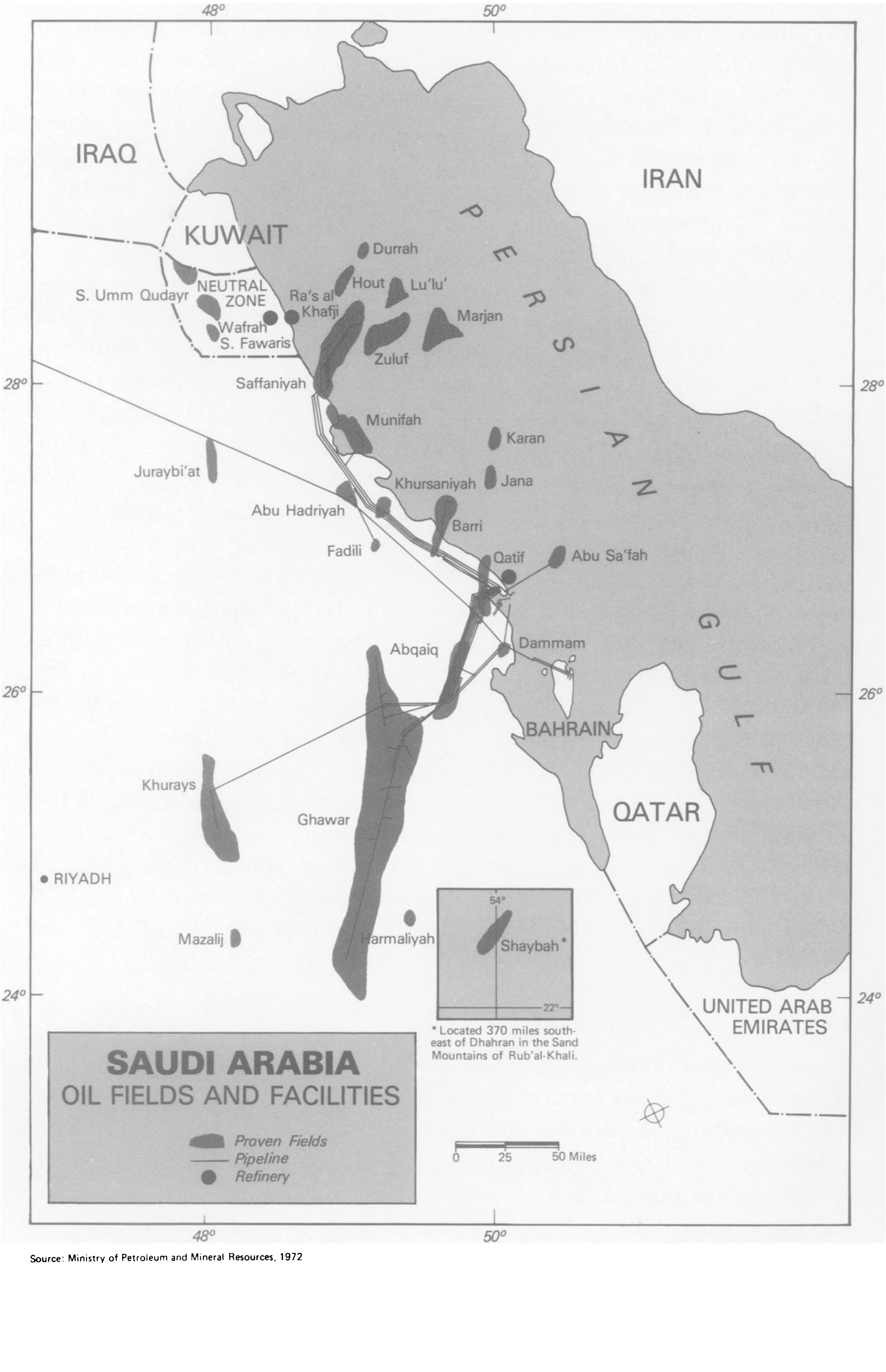
(Amounts in millions of barrels)

Field	Year of Discovery	Number of Producing Wells	Production for 1972	Cumulative Production	Remaining Reserves [1]	Ratio of Remaining Reserves to Production for 1972
Abqaiq	1940	78	370	4,087	4,357	11.8
Abu Hadriya	1940	8	36	231	825 [2]	22.9
Abu Sa'fah	1963	10	34	165	3,091	90.9
Barri	1964	30	164	273	7,030 [2]	42.9
Dammam	1938	21	9	522	125	13.9
Fadili	1949	4	20	122	837	41.9
Ghawar	1948–57	230	999	7,641	72,827	72.9
Ra's al Khafji	1960	42	73	507	2,717 [3]	37.2
Khurays	1957	9	8	32	7,621	952.6
Khursaniyah	1956	11	45	393	2,285	50.8
Munifah	1957	5	18	98	7,102	394.6
Qatif	1945	19	47	378	4,326	92.0
Saffaniyah	1951	81	350	2,325	18,193	52.0
Total		548	2,173	16,774	131,336	60.4

Source: Ministry of Petroleum and Mineral Resources.
[1] Estimates by the Ministry, unless otherwise indicated.
[2] Estimates by the operating companies.
[3] Saudi Arabian share only.

oil field. Saffaniyah is linked to the Ras Tanura terminal by a pipeline system which also collects oil from other fields. In addition, crude oil from a group of fields to the northwest of Ras Tanura along the Qaysumah Trans-Arabian Pipeline (TAPline) is exported through the TAPline to the East Mediterranean. Two major offshore fields, Zuluf and Marjan (discovered in 1965 and 1971, respectively), are in the process of being brought on line. To the east of Ras Tanura lies the Abu Sa'fah offshore field, in which Saudi Arabia shares production with Bahrain. Recent discoveries include the Harmaliyah field (east of Ghawar), which began production in August 1973, and three new fields southeast of the Khurays field; the latter have prompted speculation that the Khurays field may extend tens of kilometers to the south and may even be comparable to the great Ghawar field.

In addition to ARAMCO's operations in Saudi Arabia, the Getty Oil Company and AOC produce and export oil from the Kuwait-Saudi Arabia Neutral Zone. Onshore production in the Neutral Zone is carried out by Getty Oil from Wafrah and South Fawaris fields and, since 1968,



Source: Ministry of Petroleum and Mineral Resources, 1972 from the South Umm Qudayr field. The Saudi Arabian share of crude oil is pumped through a pipeline to Mina' Saud, where some of it is refined for export at the rate of 50,000 barrels per day (b/d) and the remainder is exported as crude oil. The offshore fields, Ra's al Khafji and Hout, are operated by AOC, which transports the crude oil to Ra's al Khafji for export, nearly all of it going to Japan. A refinery with a capacity of 30,000 b/d, located at Ra's al Khafji, provides AOC with bunker fuel and other refined products for its local needs.

Estimates of proven oil reserves in Saudi Arabia differ widely, ranging from estimates by ARAMCO and the other companies of about 100 billion barrels to figures exceeding 150 billion barrels. In 1969, two U. S. firms commissioned by the Saudi Arabian Government completed studies of the country's oil reserves, estimating 126.4 billion barrels for the fields surveyed. The oil companies' own estimate of reserves in fields not included in the study was 20.2 billion barrels. Thus, Saudi Arabia's total oil reserves in 1969 were estimated at 146.6 billion barrels.

This estimate contrasts sharply with the much lower figures published previously (91.9 billion barrels in 1968) and even with those published by the oil companies since that time. Independent estimates tend to be even higher than the official figures. According to the official data, Saudi Arabia's oil reserves constitute about 40 per cent of those of the Middle East and about 28 per cent of the world's total proven reserves (excluding those of the People's Republic of China, Eastern Europe, and the Union of Soviet Socialist Republics). Saudi Arabia's crude oil reserves are the largest in the world. Furthermore, Saudi Arabia is the only major oil producing country where annual additions to proven reserves have consistently exceeded production levels. During the 13 years 1960 to 1972, the cumulative production of ARAMCO totaled 12.5 billion barrels, while at the same time the proven reserves of ARAMCO are estimated to have increased by 47 billion barrels (Table 2).

PRODUCTION AND EXPORTS

Growth of oil production in Saudi Arabia has been determined largely by exogenous factors connected with the growth of world demand for oil and fluctuations in supplies from other producing areas. During the 13 years ended in 1973 the crude oil production of Saudi Arabia increased at an average annual rate of 14.7 per cent (Table 3). The actual anual growth rate varied between a low of 5 per cent in 1969 and a high of 26 per cent in 1971, 1972, and 1973. While it is difficult to explain annual changes in production levels, two factors seem to be clear. First, the steep decline in the rate of increase in Saudi Arabian output during

TABLE 2. SAUDI ARABIA: ARAMCO'S OIL PRODUCTION AND RESERVES, 1960–72

(In millions of barrels)

Year	Reserves at Beginning of Year	Production	Reserves at End of Year
1960	38,609	456	45,598
1961	45,598	508	47,695
1962	47,695	555	56,884
1963	56,884	595	57,811
1964	57,811	628	59,172
1965	59,172	739	63,707
1966	63,707	873	74,744
1967	74,744	948	77,002
1968	77,002	1,036	84,371
1969	84,371	1,092	86,003
1970	86,003	1,295	86,422
1971	86,422	1,641	90,157
1972	90,157	2,099	92,992

Source: ARAMCO, *Annual Report*, various issues.

the three years following 1966 was probably related to the closure of the Suez Canal in mid-1967 (with the extended closure of the TAPline) and to a shortage of tanker capacity. Secondly, the very steep rise in the rate of increase in output since 1970 reflects the increasing demand for oil from Saudi Arabia as production leveled off or declined for certain major producers (Venezuela, the Libyan Arab Republic, and Kuwait).

With minor exceptions, as the growth in the output rate of crude oil in Saudi Arabia has consistently outstripped the increase in the output rate in the Middle East, as well as the rate of increase in total world supply, the share of Saudi Arabia in Middle East and world totals has risen. In 1960, Saudi Arabia accounted for 24.6 per cent of all crude oil produced in the Middle East; by the end of the first half of 1973 the ratio had risen to 35.7 per cent, with especially sharp increases since 1970. In relation to total world production of crude oil, the rise in Saudi Arabia's share is even more dramatic, because the growth rate of world production lagged behind that of the Middle East and of Saudi Arabia. In the period 1960 to mid-1973, world production grew at an annual average rate of 8.2 per cent, that of the Middle East at 12 per cent, and that of Saudi Arabia at 15.5 per cent. Consequently, Saudi Arabia's share of world total production increased from 7.5 per cent in 1960 to 16.3 per cent in the first half of 1973.

ARAMCO is by far the principal producer of crude oil in Saudi Arabia, accounting in 1973 for over 96 per cent of the total; AOC and Getty Oil Company accounted for 2.6 per cent and 0.8 per cent, respectively (see Table 3). About 80 per cent of ARAMCO's production in 1972 was

TABLE 3. SAUDI ARABIA: ANNUAL PRODUCTION OF OIL, 1948–73

(*In millions of barrels*)

Year	ARAMCO	Getty Oil	Arabian Oil	Total	Annual Rate of Increase
					(*Per cent*)
1948	142.8	—	—	142.8	—
1949	174.0	—	—	174.0	22
1950	199.5	—	—	199.5	15
1951	278.0	—	—	278.0	39
1952	301.9	—	—	301.9	9
1953	308.3	—	—	308.3	2
1954	347.8	3.0	—	350.8	14
1955	352.2	4.4	—	356.6	2
1956	360.9	5.8	—	366.7	3
1957	362.1	11.6	—	373.7	2
1958	370.5	14.7	—	385.2	3
1959	399.8	21.2	—	421.0	9
1960	456.4	24.9	—	481.3	14
1961	508.3	28.7	3.7	540.7	12
1962	555.0	33.7	11.0	599.7	11
1963	594.6	33.1	24.0	651.7	9
1964	628.1	34.4	31.8	694.3	7
1965	739.1	32.6	33.1	804.8	16
1966	873.3	30.2	46.5	950.0	18
1967	948.1	25.1	50.6	1,023.8	8
1968	1,035.8	23.2	55.1	1,114.1	9
1969	1,092.3	22.7	58.8	1,173.8	5
1970	1,295.3	28.7	62.7	1,386.7	18
1971	1,641.6	33.7	65.5	1,740.8	26
1972	2,098.5	28.3	75.0	2,201.8	26
1973	2,677.4	23.4	71.9	2,772.7	26

Sources: Ministry of Petroleum and Mineral Resources; and Saudi Arabian Monetary Agency.

exported as crude oil from the Ras Tanura terminal, while 9 per cent was processed through the refinery there; about 8 per cent was pumped through a pipeline 500 kilometers to Qaysumah in Saudi Arabia and from there through the TAPline 1,200 kilometers to Sidon, on the Mediterranean coast of Lebanon; the remaining 3 per cent was pumped through a twin submarine pipeline for processing in the Bahrain refinery.

The growth in oil exports since 1960 has paralleled the pattern of increases in production; it is also characterized by a sharp jump in the rate since 1970. Crude oil exports grew from 1.08 million b/d in 1960 to 2.79 million b/d in 1969 and to 6.78 million b/d in mid-1973. Until 1969 the overall rate of growth was 11 per cent, but since 1970 it has been 25 per cent and has made Saudi Arabia the largest single exporter of crude oil in the world. Exports of refined oil products grew steadily at about 9 per cent a year throughout the period.

FINANCIAL ARRANGEMENTS

Agreements prior to 1970

The 1933 agreement between the Saudi Arabian Government and the Standard Oil Company of California stipulated a royalty payment to the Government of four gold shillings per ton of oil produced. Following the discovery of oil in 1938, a supplementary agreement provided for the payment to the Government of modest amounts of bonuses and rentals in addition to the original royalty fee. In 1948, the Government and ARAMCO concluded an agreement which raised the royalty by 5 U. S. cents a barrel. In addition, the company agreed to relinquish its onshore part of the concession in the Kuwait-Saudi Arabia Neutral Zone and to pay $2 million in annual rental for the offshore area until oil was discovered and thereafter at least $2 million in annual royalties.

In December 1950 the Saudi Arabian Government imposed an income tax at the rate of 50 per cent on the net operating income of oil companies. ARAMCO was allowed, however, to deduct from its Saudi income tax liability all direct payments to the Saudi Arabian Government in rental and royalties, as well as other taxes paid to foreign governments. That agreement of 1950 introduced the 50:50 profit-sharing formula to the Middle East. In 1954 discounts to parent companies were abolished by agreement, but the Government would accept the actual sale price (even if lower than the posted price) as a basis for computing government revenue in transactions involving third parties. In 1956 ARAMCO agreed to subject its net revenue from the oil refinery at Ras Tanura to the 50 per cent tax applied to net profits from oil production.

Since 1960 most negotiations and agreements between Saudi Arabia and ARAMCO have been concluded within the framework of the Organization of Petroleum Exporting Countries (OPEC), established in that year by Saudi Arabia, Iran, Iraq, Kuwait, and Venezuela. Four important agreements were concluded during the 1960s. In the first agreement, signed in March 1963, ARAMCO agreed to use the posted prices of oil at Sidon (East Mediterranean) rather than those at Ras Tanura (Persian Gulf) as the basis for profit calculations on oil exports shipped through the TAPline. ARAMCO also agreed to accelerate its tax payments through progressive advancements in the filing dates of estimated tax declarations from July 15 for the 1963 taxable year to March 15 for the 1967 taxable year. In August 1963 ARAMCO agreed to reduce its marketing allowance [1] from about 4.2 to 0.5 U. S. cents

[1] The companies had deducted marketing allowances from their net taxable income in producing countries, when in fact such expenses were associated with marketing activities outside these countries.

per barrel, retroactive to January 1, 1962, and in December 1965 it agreed to eliminate the allowance completely.

In January 1965, an agreement was concluded whereby royalty payments were to be treated as an expense to be assumed by the company and not as an advance payment against the Government's tax on profits.[2] Finally, in September 1966 virtually all discounts and rebates with respect to third party transactions were eliminated.

Agreements since 1970

Since 1970, a number of important agreements governing posted prices and government revenue have been concluded between the producing countries and the oil companies. In September 1970, following several months of negotiations, the Libyan Arab Republic raised the posted price of its crude oil by 30 U. S. cents a barrel (for 40° API crude) and the tax rate on net income from 50 per cent to a range of 54.0 to 55.5 per cent. It had negotiated the agreement outside the OPEC framework, but the accord had an almost immediate impact on oil prices and tax rates of other oil producing countries. On November 14, producers on the Persian Gulf succeeded in obtaining some increases in posted prices and in raising the tax rate to 55 per cent.

Negotiations between the international oil companies and the oil producers continued, however, and on February 14, 1971 an agreement was concluded in Teheran between 22 international oil companies and 6 states on the Persian Gulf, whereby the tax rate was uniformly established at 55 per cent and the posted price of 40° API crude oil was increased by 33 U. S. cents plus 2 U. S. cents in settlement of freight disparities. For crude oil of gravity less than 40° API a reduction of 1.5 U. S. cents per degree became applicable instead of the differential of 2 U. S. cents prevailing previously. The agreement also abolished all remaining marketing, gravity, and percentage allowances. In an attempt to protect the purchasing power of the government oil revenues against inflation, a schedule for the escalation of posted prices was established—mainly consisting of 2.5 per cent increase on the immediately prevailing posted prices plus 5 U. S. cents a barrel per year for the duration of the agreement, ending in 1975.

Following the realignment of currencies in the Smithsonian Agreement of December 1971, negotiations between the oil producing countries and the oil companies were initiated, with the object of adjusting

[2] Thus the distinction between economic rent (royalty) and tax liability was introduced.

posted prices (which are denominated in U. S. dollars) to offset the impact of the dollar devaluation on the purchasing power of the government oil revenues. On January 20, 1972 the Geneva Agreement was signed, providing for a rise of 8.49 per cent in posted prices. The Agreement also established a formula for future adjustment in prices based on the movement of a simple average of nine currencies [3] against the U. S. dollar from the rate prevailing on April 30, 1971 (termed the "effective rate"). On the date of the Agreement (January 20, 1972), the change in the average rate for the nine currencies was determined to have been equivalent to an appreciation of 11.02 per cent. Thus, a "starting average" of 11.02 per cent was assumed in subsequent calculations. The adjustment in the posted prices would henceforth be triggered whenever the index moved at least 2 percentage points in either direction in any three-month period. The new posted price would be computed according to the formula:

$$P_t = P_{t-1} + 0.0849P_0\left[\frac{R_t - R_0}{R_0}\right]$$

where P_t = posted price at time t

P_{t-1} = most recent posted price

P_0 = posted price on the eve of the agreement (January 19, 1972)

R_t = arithmetic average exchange rate of the nine currencies at time t

R_0 = starting average exchange rate.

Thus the application of this formula to the price of Saudi Arabian 34° API crude oil in the period January 1 through April 1, 1973 resulted in an increase from \$2.591 to \$2.755 (Table 4). No adjustment had been undertaken in 1972.

The instability of exchange rates in 1973 resulted in pressures within OPEC for prompt revision of the Geneva Agreement. On June 2, 1973 a Supplementary Agreement revising the original terms was concluded. With effect from June 1, 1973 posted prices were adjusted upward by about 11.9 per cent in relation to the posting in effect immediately prior to the February 1973 announcement of the intention of a dollar devaluation and almost 6 per cent in relation to the postings in effect

[3] The currencies are those of Belgium, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom.

TABLE 4. SAUDI ARABIA: CONSEQUENCES OF THE TEHERAN AND GENEVA AGREEMENTS AND OF RECENT PRICE ANNOUNCEMENTS BY THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES ON THE POSTED PRICE AND TAXES FOR SAUDI ARABIAN 34° API CRUDE OIL

(*In U. S. dollars per barrel*)

	Through Nov. 13, 1970	From Nov. 14, 1970	Feb. 15, 1971	June 1, 1971	Jan. 20 Through Dec. 31, 1972	Jan. 1, 1973	April 1, 1973	June 1, 1973	July 1, 1973	Aug. 1, 1973	Oct. 1, 1973	Oct. 16, 1973	Nov. 1, 1973	Dec. 1, 1973	Jan. 1, 1974
Tax calculation															
Base fiscal export price	1.800	1.800	2.180	2.180	2.180	2.479	2.591	2.755	2.898	2.955	3.066	5.119	5.119	5.176	11.651
2.5% adjustment for inflation	—	—	—	0.055	0.055	0.062	—	—	—	—	—	—	—	—	—
5 U. S. cents adjustment for demand growth	—	—	—	0.050	0.050	0.050	—	—	—	—	—	—	—	—	—
8.49% adjustment for U. S. dollar devaluation	—	—	—	—	0.185	—	—	—	—	—	—	—	—	—	—
Adjustment for exchange rates changes	—	—	—	—	—	—	0.164	0.143	0.057	0.111	−0.055	—	0.057	−0.140	—
Posted price	1.800	1.800	2.180	2.285	2.479	2.591	2.755[1]	2.898	2.955	3.066	3.011	5.119[2]	5.176	5.036	11.651[3]
Royalty, 12.5 per cent	(0.225)	(0.225)	(0.273)	(0.286)	(0.310)	(0.324)	(0.344)	(0.362)	(0.369)	(0.383)	(0.376)	(0.640)	(0.647)	(0.629)	(1.456)
Royalty expensing discount	(0.094)	(0.071)[4]	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Marketing discout	(0.005)	(0.005)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Production costs	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)
Taxable income	1.356	1.379	1.787	1.879	2.049	2.147	2.291	2.416	2.466	2.563	2.515	4.359	4.409	4.287	10.075
Income tax [5]	0.678	0.758	0.983	1.033	1.127	1.181	1.260	1.329	1.356	1.410	1.383	2.397	2.425	2.358	5.541
Government revenue	*0.903*	*0.983*	*1.256*	*1.319*	*1.437*	*1.505*	*1.604*	*1.691*	*1.725*	*1.793*	*1.759*	*3.037*	*3.072*	*2.987*	*6.997*
Royalty	0.225	0.225	0.273	0.286	0.310	0.324	0.344	0.362	0.369	0.383	0.376	0.640	0.647	0.629	1.456
Income tax	0.678	0.758	0.983	1.033	1.127	1.181	1.260	1.329	1.356	1.410	1.383	2.397	2.425	2 358	5.541
Tax paid costs	*1.023*	*1.103*	*1.376*	*1.439*	*1.557*	*1.625*	*1.724*	*1.811*	*1.845*	*1.913*	*1.879*	*3.157*	*3.192*	*3.107*	*7.117*
Increase in government revenue															
Over November 13, 1970	—	0.080	0.353	0.416	0.534	0.602	0.791	0.788	0.822	0.890	0.856	2.134	2.169	2.084	6.094
Over November 14, 1970	—	—	0.273	0.336	0.454	0.522	0.621	0.708	0.742	0.810	0.776	2.054	2.089	2.004	6.014
Over previous period	—	0.080	0.273	0.063	0.118	0.068	0.099	0.087	0.034	0.068	−0.034	1.278	0.035	−0.085	4.010

NOTE: The Teheran Agreement was signed on February 14, 1971, the Geneva Agreement on January 20, 1972, and the Supplemental Geneva Agreement (Geneva II) on June 2, 1973.

Source: Fund staff calculations.

[1] Posted price effective from April 1 through May 31 retroactively on the basis of the Geneva II Agreement.

[2] On the basis of the announcement of October 16, 1973 of an increase in market price of Arabian Light to $3.65 per barrel and the fixing of the posted price at 40 per cent above market price.

[3] As announced in Teheran on December 23, 1973, effective January 1, 1974.

[4] As of January 1, 1971.

[5] The tax rate was 50 per cent until November 14, 1970 and 55 per cent thereafter.

on April 1, 1973. Two additional currencies were included in computing the movement in the average exchange rate (those of Australia and Canada), and the trigger percentage change was reduced to 1 percentage point in either direction (compared with 2 percentage points previously) occurring in any one-month period (compared with three months previously). Thus the Supplementary (Geneva II) Agreement allowed for greater sensitivity and promptness of changes in posted prices in response to movements in exchange rates. The basic structure of the adjustment formula was retained, although the "starting" and "effective" average rates were redefined in terms of the exchange rates prevailing in the two weeks preceding the date of the Agreement.

The General Agreement on Participation was signed on December 20, 1972, to become effective on January 1, 1973. This Agreement was negotiated by Saudi Arabia on behalf of the several Arabian oil producing countries and resulted in the acquisition by Saudi Arabia of 25 per cent equity in the operating oil companies. Saudi Arabia ratified the Agreement by Royal Decree No. M/1 of February 21, 1973. The initial equity share of 25 per cent is scheduled to rise to 30 per cent on January 1, 1978 and to increase by 5 percentage points each year thereafter until 1982, when it will rise by 6 percentage points to 51 per cent.[4] Compensation to the oil companies was to be on the basis of updated book values of their assets. In the case of Saudi Arabia, the government-established oil and mineral agency (PETROMIN) has undertaken to implement this Agreement on behalf of the Government. PETROMIN has sole responsibility to market the Saudi Arabian Government's share of oil production, as well as to participate in all phases of exploration and development of petroleum resources in the country.

In order to enable the oil companies to fulfill their prior commitments to downstream buyers, the General Agreement on Participation stipulates that a certain percentage of the Saudi Arabian Government's share shall be sold to the oil companies through 1975. This is termed "bridging crude" and is being provided to the companies in three declining percentage ratios of total production. In addition, the companies are obliged to buy from PETROMIN specified percentages of the Saudi Arabian Government's participation crude oil for the duration of the Agreement. PETROMIN is not compelled to sell this "phase-in" crude oil to the companies and, subject to certain conditions, can market it directly, if this alternative is preferred. In addition to the prescribed percentages

[4] The description here is based on the original General Agreement on Participation of December 1972. More recently, there have been reports that Saudi Arabia is seeking a revision of this Agreement.

applicable to the initial 25 per cent participation share ("initial phase-in crude"), PETROMIN has the option of selling to the companies specified ratios of the additional participation oil acquired in 1978 and later ("optional phase-in crude"). The "phase-in" arrangement is intended to allow PETROMIN to develop its marketing capabilities over an extended period as it continues to market an increasing share of the country's oil production.

In May 1973, PETROMIN announced the sale of the entire amount of its participation crude oil for 1973 and slightly less than half of its expected shares for 1974 and 1975. The sale totaled about 70 million barrels and was diversified among a large number of buyers. It was concluded on the basis of announced policy of selling participation crude oil only to buyer-users and not to brokers or middlemen.

OIL PRICES

Average realized export prices of Saudi Arabian crude oil declined steadily during the five years ended in 1970, then began rising in 1971 and rose to about $1.90 per barrel in 1972. Posted prices had been fixed at $1.80 throughout the 1960s, but they started to rise in 1971 after the Teheran Agreement and continued to rise in accordance with the terms of the later agreements mentioned above. The effects of these agreements on the posted prices are shown in Table 4. It is important to note, however, that while the increases resulting from the Teheran Agreement are real, those resulting from the Geneva Agreement are mainly offsets for significant changes in the exchange rate of the dollar against other major currencies. In terms of the Saudi Arabian riyal or in terms of special drawing rights, changes in the posted prices resulting from the Geneva Agreement have been insignificant.

In addition to posted prices, which are merely reference prices for tax purposes, a new set of prices emerged in 1973 as a result of the General Agreement on Participation. PETROMIN was therefore able to market directly a share of its participation crude oil and to sell the remaining amounts to the concessionary companies. The prices of "bridging crudes" were initially set at the then prevailing market prices which were mutually agreed to be the quarter-way price (QWP)[5] plus 19 U. S. cents for Arabian light (34° API), QWP plus 14 U. S. cents for Arabian medium (31° API) and QWP plus 12 U. S. cents for

[5] The quarter-way price is the price that is above the tax-paid cost (TPC) by one quarter of the difference between the TPC and the posted price. The TPC is the sum of production costs, royalty fees, and tax payments.

Arabian heavy (27° API). In terms of prices on April 1, 1973, the buy-back prices of bridging crude for these three types of oil were \$2.053, \$1.926 and \$1.823 per barrel, respectively. In the case of "phase-in" crude, the buy-back price was set at tax-paid cost (TPC) plus 35 U. S. cents for Arabian light, TPC plus 29 U. S. cents for Arabian medium, and TPC plus 21 U. S. cents for Arabian heavy. In terms of prices on April 1, 1973, these would be \$1.970, \$1.844 and \$1.699 per barrel, respectively.[6]

In October 1973, the producing countries on the Persian Gulf announced increases in export prices of crude petroleum. The market price of Arabian light was raised to \$3.65 per barrel. The corresponding posted price was raised to \$5.12 per barrel—a level 40 per cent higher than the market price, a relationship that had been in effect when the Teheran Agreement was concluded. The decision by these producers to fix prices unilaterally represented a departure from the traditional procedures of fixing crude oil prices in the Middle East through agreements between the producers and the concessionary companies. On December 23, 1973 at a Teheran meeting of producers on the Persian Gulf, posted prices were raised again. The price of Arabian light crude was posted at \$11.65 a barrel, and other crude prices were set correspondingly. Furthermore, the 40 per cent differential between posted and market prices, which had been set by the October announcement, seemed to have been abandoned. However, Saudi Arabia maintained its policy of selling government-owned crude oil at 93 per cent of the posted prices.

GOVERNMENT REVENUES

While the Saudi Arabian Government's oil revenues increased throughout the 1960s, the rate of increase has accelerated since 1970. Until 1969 the annual compound growth rate was 12 per cent, with revenues rising from \$334 million in 1960 to \$949 million in 1969. In 1970 the growth rate of oil revenues was 21 per cent; in 1971 it rose to 69 per cent; and in 1972 it declined to 43 per cent. Oil revenues in 1972 totaled \$2,779 million and were estimated at \$4,300 million in 1973 (Table 5). The sharp rise in the rate of increase is due to the rise in production as well as to the higher prices negotiated in recent agreements.

[6] The buy-back prices have been subject to renegotiation recently, and indications are that the new prices for both bridging and phase-in crude will be set close to prevailing market prices.

TABLE 5. SAUDI ARABIA: GOVERNMENT OIL REVENUE BY SOURCE, 1948–73

(In millions of U.S. dollars)

Year	ARAMCO	Getty Oil	Arabian Oil	Other Oil Companies	Total
1948	52.5	—	—	—	52.5
1949	39.1	—	—	—	39.1
1950	56.7	—	—	—	56.7
1951	110.0	—	—	—	110.0
1952	212.2	—	—	—	212.2
1953	169.8	—	—	—	169.8
1954	234.8	1.5	—	—	236.3
1955	338.2	2.6	—	—	340.8
1956	286.8	3.4	—	—	290.2
1957	286.5	9.8	—	—	296.3
1958	287.4	10.2	—	—	297.6
1959	295.3	15.3	2.5	—	313.1
1960	312.8	18.4	2.5	—	333.7
1961	352.2	22.9	2.5	—	377.6
1962	381.7	25.0	3.0	—	409.7
1963	571.0 [1]	23.0	13.6	—	607.6
1964	482.1	23.7	17.4	—	523.2
1965	618.4 [2]	23.8	20.4	—	662.6
1966	745.5 [2]	20.6	22.3	1.3	789.7
1967	859.4 [2]	17.8	31.8	0.1	909.1
1968	872.0	13.6	34.3	6.9	926.8
1969	895.2	15.2	37.1	1.5	949.0
1970	1,088.4	17.2	40.3	3.8	1,149.7
1971	1,866.4	20.6	44.2	13.7	1,944.9
1972	2,677.9 [3]	28.0	68.7	4.7	2,779.3
1973	4,215.5 [3]	...	...	...	...

Source: Ministry of Petroleum and Mineral Resources.

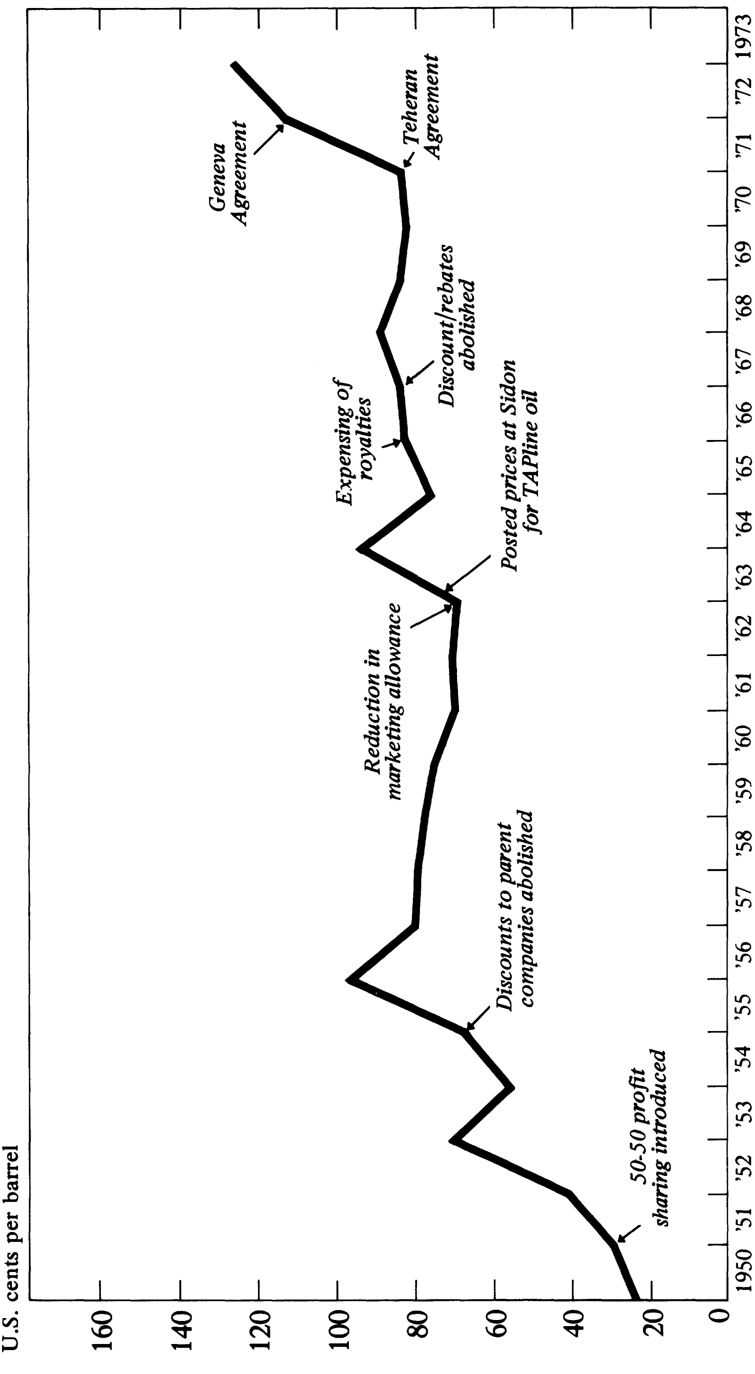
[1] Including special tax payments of $152.5 million made under the March 1963 agreement.

[2] Including special payments of $46 million in 1965, $29.4 million in 1966, and $29.3 million in 1967.

[3] Including value of royalty oil delivered to PETROMIN of $45.2 million in 1972 and $27.1 million in the first half of 1973.

Chart 1 shows the effects of revision in agreements and changes in prices on the Saudi Arabian Government's revenue per barrel. The impact of the introduction of the 50 per cent income tax rate contributed materially to the sharp rise in unit revenue from 22.5 U. S. cents in 1949, to 70.3 U. S. cents in 1952, and to 90.5 U. S. cents in 1955. Then the revenue per barrel showed a steady decline until 1962. The later agreements of the 1960s served to counter this downward trend somewhat and caused a gradual rise in government unit revenue, but the revenue per barrel in 1970 (82.9 U. S. cents) was still below the peak of 1955. Since 1970, unit revenues have risen sharply as a

CHART 1. IMPACT OF OIL AGREEMENTS ON SAUDI ARABIA'S UNIT REVENUE FROM OIL, 1950–73



Source: Computations by Fund staff, based on data from the Ministry of Petroleum and Mineral Resources.

result of the Geneva and Teheran Agreements and especially after the October and December 1973 announcements of oil price increases; the estimated unit revenue to Saudi Arabia in 1973 (about $1.55 a barrel), was almost double the corresponding rate of 1971.

II. Other Producing Sectors

Industrial and agricultural development in Saudi Arabia has been constrained by the scarcity of natural resources, other than oil. Agricultural and fishery resources can be potentially significant, but only recently have they been systematically explored. Industrial development, other than petrochemicals, is still in its early stages and the possibilities for further growth and diversification can be expected to improve with the expansion of the domestic market, with a more complete assessment of mineral and other resources, and with the sustained public investments in social and economic infrastructure.

PETROCHEMICAL INDUSTRIES

Based on a clear comparative advantage in the supply of oil and natural gas, industrial development in Saudi Arabia is proceeding from oil production and refining to petrochemicals and to other energy-intensive industries. The industrialization drive is spearheaded by the government agency for oil and minerals, PETROMIN, which has taken the initiative in all major industrial projects to date, generally with some participation from the private sector. The industries include petroleum refining, petrochemical industries, a steel-rolling mill, and marine construction and transportation facilities.

Refining of crude oil for export and for domestic use is carried out at four refineries: ARAMCO's refinery at Ras Tanura with a capacity of 584,000 b/d, about half of its total production being exported; Getty Oil's refinery operating at 50,000 b/d, with products used in exports and for bunker fuel; AOC's Ra's al Khafji refinery of 30,000 b/d, the oil being used primarily for bunker fuel; and the Jidda refinery of 12,000 b/d, the products being distributed for local use in the western region. The Jidda refinery is now undergoing expansion to a capacity of 45,000 b/d by the end of 1974. In addition, a refinery to produce 15,000 b/d is under construction near Riyadh, and it is expected to be in operation by August 1974. The expanded Jidda refinery, together with the Riyadh refinery, will almost meet the domestic requirements for refined products, and the Ras Tanura refinery will supply additional amounts that may be needed. Refining capacity in Saudi Arabia has expanded rapidly and by the end of 1974 is expected to be at least twice the 1966 level. About 50 per cent of the total volume of refined products is exported, 10 percent is used domestically, and the remainder is utilized in the oil production and shipping operations.

Another of PETROMIN's industrial projects is the Saudi Arabian Fertilizer Company, which began production in March 1969. PETROMIN holds a 51 per cent equity share, and the remainder is held by private Saudi investors. The plant is managed and operated by Occidental Petroleum Corporation, and the marketing is carried out by a subsidiary, International Ore and Fertilizer Company. The daily production capacity of the plant is 1,100 tons of urea, 600 tons of ammonia, and 35–50 tons of liquid sulphuric acid. Recurring technical difficulties have caused the plant to produce at low capacity—20,000 tons in 1970, 92,250 tons in 1971, and 75,187 tons in 1972. Nearly all the output is exported to countries in the Middle East and Far East. Other petrochemical projects include a lubricating oil plant in Jidda and a sulphuric acid factory at Dammam. The lubricants manufacturing plant has a capacity of 75,000 barrels, about 45 per cent of domestic demand at the 1972 level; total production in 1972 was about 41,000 barrels. The sulphuric acid plant began operating in June 1971 and produced 5,700 tons in 1972, about half of which was used domestically. Table 6 shows the production of cement, gypsum, sulphuric acid, iron bars, and fertilizer from 1965 to 1972.

OTHER INDUSTRIES, UTILITIES, AND CONSTRUCTION

PETROMIN also operates the steel-rolling mill which was established in Jidda in December 1967. Although the mill has a maximum capacity of 45,000 tons, it has been operating at less than full capacity. PETROMIN

TABLE 6. SAUDI ARABIA: PRODUCTION OF SELECTED INDUSTRIAL PRODUCTS, 1965–72

(In thousand tons)

	1965	1966	1967	1968	1969	1970	1971	1972
Cement	250.2	323.2	417.6	510.8	574.1	669.9	703.4	911.1
Gypsum	—	27.8	33.8	33.4	47.1	40.7	35.9	35.9
Sulphuric acid	—	—	—	—	—	—	—	5.7
Iron bars	—	—	—	4.7	4.4	8.5	9.1	10.1
Fertilizer	—	—	—	—	—	20.0	92.3	75.2

Sources: Central Department of Statistics, Ministry of Finance and National Economy; and PETROMIN.

has been studying the feasibility of expanding the plant's capacity to 70,000 tons annually. PETROMIN has also undertaken preliminary studies of an iron and steel complex to be established near Dammam. In addition to its manufacturing activities, PETROMIN has also established subsidiaries in other oil-related fields, such as marine construction, oil shipping, and mineral exploration.

In addition to the industrial ventures of PETROMIN, a number of manufacturing industries are also in operation. A survey of the industrial sector (prepared in 1968 in connection with the formulation of the first Five-Year Plan) indicated the existence of 9,163 industrial establishments, employing 30,000 workers and producing a gross output valued at SRls 487 million. The average employment of 3.3 workers and the average gross output of SRls 53,000 per establishment would indicate that the industrial sector is dominated by a large number of small-scale establishments. A more recent survey in 1970[7] of 294 larger establishments indicated that the bulk of the industries is concentrated in and around the cities of Dammam in the east and Jidda on the Red Sea. Industries in the oil-dominated Damman area (eastern region) tend to be more capital-intensive, employing nearly 70 per cent of the capital and 34 per cent of the labor for the 294 industries surveyed, while industries in the Jidda area (western region) employ 24 per cent of the capital and 45 per cent of the labor (Table 7). The largest group in the 294 industries surveyed was in the food and beverage category (77), followed by nonmetallic minerals (66), metals and machinery (62), paper and printing (33), wood and wood products (29), chemicals and petroleum refining (15), and others (10). The chemicals and petroleum refining category includes three refineries which, although employing only 12 per cent of the labor, accounted for about 54 per cent of the capital employed.[8] Among the remaining industrial establishments are the three cement plants, which produced a total of 911,000 tons in 1972, about one half of total domestic demand (see Table 6). The survey also highlights one pervasive feature of the industries studied—namely, the low rate of capacity utilization, which was 64 per cent for the 271 plants surveyed. Although it is difficult to identify the reasons for this phenomenon, factors that could be involved include shortages of skilled manpower or raw materials;

[7] This, as well as the 1968 survey, was carried out by the Industrial Studies and Development Center, in cooperation with the Central Department of Statistics.

[8] Industrial Studies and Development Center, *Techno-Economic Industrial Structure and Growth Prospects in Saudi Arabia,* Part 2 (February 1973).

TABLE 7. SAUDI ARABIA: REGIONAL DISTRIBUTION AND CAPITAL STRUCTURE OF INDUSTRIES, 1970

Region	Establishments Employing Ten Workers or More		Paid-up Capital		Total Employed Capital		Employment	
	No. of units	Per cent	Thousand riyals	Per cent	Thousand riyals	Per cent	No. of workers	Per cent
Central	85	29	96,843	13	106,464	7	2,574	20
Western	149	50	221,560	29	353,783	24	5,666	45
Eastern	55	19	443,290	58	1,010,255	69	4,304	34
Other areas	5	2	87	—	90	—	61	1
Total	294	100	761,780	100	1,470,592	100	12,605	100

Source: Industrial Studies and Development Center.

the small size of the product market; and intense competition from imports.

In addition to manufacturing, the Saudi Arabian Government has emphasized the rapid expansion of infrastructure facilities, particularly those for transportation, communications, water desalination, and power generation. By the end of 1972, there were nearly 10,000 kilometers of paved roads in Saudi Arabia, connecting all the key population centers as well as the agricultural areas with the consuming markets; this is nearly double the total for 1965 and current expansion is about 800 kilometers a year. Three ports handle the bulk of the shipping tonnage in Saudi Arabia: Jidda, the main port on the Red Sea; Dammam, the primary seaport on the Persian Gulf; and Yanbu, on the northern coast of the Red Sea. In 1971 these ports handled a total of 2.3 million tons. By January 1972, capacity of the port at Jidda had tripled to 1.8 million tons, and a contract was awarded to expand the port of Dammam in April 1972. In addition, the port of Jizan, on the southern coast of the Red Sea, is undergoing expansion, while several smaller ports, both on the east and west coasts, are being improved.

The generation of electricity has also increased steadily, from 422 million kilowatt hours (kwh) in 1967 to 978 million kwh in 1972. The water desalination plant at Jidda, begun in December 1967 and completed in 1971, is currently producing 5 million gallons a day (mgd). Three smaller desalination plants are in operation at Wajh, Ziba on the Red Sea, and Ra's al Khafji in the Kuwait-Saudi Arabia Neutral Zone, while a fifth plant with a capacity of 7.5 mgd at Khubar is being completed in 1974.

No accurate data are available on housing and other construction, but in view of rapidly rising incomes, the substantial government expenditures on infrastructure, and the accelerating consumption of cement and building materials, the housing construction industry also appears to be undergoing rapid expansion.

AGRICULTURE

Saudi Arabia is a vast country with widely dispersed settled areas. Potentially arable land probably constitutes no more than 10–15 per cent of the total area. Recent surveys have indicated substantial underground water resources in some parts of the country, but their effective utilization for economic development is likely to be a slow and costly process. Approximately one half of the labor force and about two thirds of the population are engaged in agriculture, cultivating about 1 million acres of agricultural land. In addition, vast areas of the country, about one quarter of the total area, receive occasional rainfall and support some grazing of animal herds, mainly sheep and goats. About two thirds of the 4.2 million donums (4 donums = 1 acre) under cultivation is rainfed, while the bulk of the remainder is irrigated by wells. Most of the rainfed cultivation is found in the southwest (in the Asir region and around the city of Jizan) and in the coastal plain of Tihamah, south of Mecca along the Red Sea. Irrigated cultivation is found in several scattered areas in the Hijaz and Najd regions and, to a lesser extent, in the eastern region around Hufuf, Qatif, and Yabrin.

Agricultural statistics are tentative and out of date. A comprehensive agricultural survey of land and water resources was initiated in 1961 and was completed only six years later. However, the resulting statistics on areas and crops must be treated with caution, as Saudi Arabia experienced an extended drought during the entire period. According to these statistics, about 90 per cent of the cultivated area produces field crops, while the remainder produces vegetables and fruits, primarily dates (Table 8). The principal crops are wheat, barley, corn, millet, sorghum, sesame, lentils, rice, and alfalfa. Coffee is being produced in increasing amounts in the Asir highlands in the southwest. The principal livestock consists of sheep, goats, cows, and camels. Poultry is also extensively raised.

The Saudi Arabian authorities have sought to foster agricultural development through the construction of infrastructure facilities, land distribution, direct subsidies, and the provision of technical assistance. Extensive underground water surveys were initiated in 1965, and nearly

TABLE 8. LAND USE OF AGRICULTURAL HOLDINGS [1]

(*In thousand donums*) [2]

Region	Permanent Crops	Field Crops	Vegetables	Total
Northern	27.6	75.9	7.8	111.3
Eastern	14.9	8.8	8.9	32.6
Western	50.6	166.5	40.1	257.2
Southern (interior)	102.8	366.0	14.1	482.9
Southern (coastal)	3.6	2,630.7	2.8	2,637.1
Qasim	105.0	186.3	83.0	374.3
Central	136.1	329.2	152.3	617.7
Total	440.6	3,763.4	309.0	4,513.1

Source: Ministry of Agriculture.
[1] Data collected over the period 1961–67.
[2] Four donums equal one acre.

two thirds of the country has been surveyed to date. The Asir area in the south is being developed through the construction of dams at Jizan and Abha and the development of extensive networks of irrigation canals in that region and elsewhere. According to a decree issued in 1968, the distribution of fallow, but cultivable, land to farmers was initiated; 304,000 donums had already been distributed by 1973, with an additional 4 million donums scheduled for future distribution. Subsidies to farmers are provided on machinery purchases (25 per cent to individual farmers and 50 per cent to cooperatives) and on fertilizers (50 per cent). In addition, the Agricultural Credit Bank has expanded its operations steadily in recent years; at the end of fiscal year 1971/72 the total value of loans it granted was SRls 16.6 million, nearly half of which financed the purchase of agricultural machinery and equipment.

III. Prices and Employment

PRICES

Data on prices are collected and published by the Central Department of Statistics (CDS), the Saudi Arabian Monetary Agency (SAMA), and the Ministry of Agriculture. In January 1973, the CDS began publishing data on retail prices in five major cities and covering 250 commodities. The nature of the CDS sample is not clear, however, and the absence of weights makes a meaningful interpretation of such data rather difficult. SAMA prepared data on quarterly retail and wholesale prices of 79 commodities in the city of Jidda. The Ministry of Agriculture prepares periodical retail price statistics on selected agricultural commodities, distinguishing between imported and locally produced goods. Mainly on the basis of these data, the CDS prepares annual estimates of wholesale price and cost of living indices. The data indicate a very mild rate of inflation of about 1.8 per cent per year in the wholesale price index for the period 1963/64–1971/72 (Table 9). Within this index, the prices of food and construction materials seem to have risen at the fastest pace—annual average rates being 2.3 and 2.4 per cent, respectively. The cost of living index seems to have risen at about 1.5 per cent per year, with food items rising at slightly higher rates. However, these indices probably underestimate the price increases, especially in the more recent years when rates of inflation abroad accelerated. Large increases in the prices of imported goods significantly influenced the decisions of the authorities to reduce tariffs in May 1973 and to effect a 5.1 per cent revaluation of the Saudi Arabian riyal in August 1973.

TABLE 9. SAUDI ARABIA: PRICE INDICES, 1963/64–1971/72

(1962/63 = 100)

Year	Cost of Living Index [1]	Wholesale Price
1963/64	102.8	101.7
1964/65	103.2	101.7
1965/66	104.8	103.7
1966/67	107.0	108.5
1967/68	108.7	109.2
1968/69	112.5	110.7
1969/70	112.7	114.2
1970/71	113.8	116.1
1971/72	...	117.1 [2]

Source: Central Department of Statistics, Ministry of Finance and National Economy.
[1] For households with an average income of SRls 600 per month.
[2] Provisional figure.

EMPLOYMENT

No systematic, comprehensive data on employment are available, but it is possible to reach some tentative conclusions regarding the size and sectoral distribution of the labor force on the basis of partial surveys. A demographic survey carried out by the CDS in 1965 indicated a total labor force of about 1 million workers. At that time, about 46 per cent of the work force was engaged in agriculture, 7 per cent in mining and manufacturing, 10 per cent in construction, and the remaining 37 per cent in services (Table 10).

TABLE 10. SAUDI ARABIA: DISTRIBUTION OF LABOR FORCE BY ECONOMIC ACTIVITY AND REGION, 1966

(In thousands of workers)

Type of Activity	Region					Total	Per Cent of Total
	Central	East	West	North	South		
Agriculture, fishing, livestock, and Bedouin	83.3	33.8	78.2	55.5	213.9	464.7	46.2
Mining and quarrying	0.3	23.9	0.2	0.3	0.5	25.2	2.5
Manufacturing	7.2	7.3	18.7	1.0	6.8	41.0	4.1
Construction	32.1	11.2	46.5	3.5	10.8	104.1	10.3
Electricity, gas, and water	0.9	1.4	3.4	0.2	2.6	8.5	0.8
Commerce	18.3	10.7	41.4	5.5	19.9	95.8	9.5
Transportation, communication, and storage	10.5	7.8	18.4	1.6	5.6	43.9	4.4
Services	60.7	24.9	87.9	18.4	27.0	218.9	21.8
Activities not adequately defined	2.2	0.8	1.0	—	0.5	4.5	0.4
Total	215.5	121.8	295.7	86.0	287.6	1,006.6	100.0

Source: Central Department of Statistics, *Demographic Survey 1385/86 AH*, (1965/66).

Other available data on employment include employment in government service, in the oil sector, and in registered nonagricultural establishments in selected cities. Public sector employment data for the four years ended 1969/70 indicate a rapid growth from 69,000 to 138,000 workers. Employment in the oil sector has remained more or less static throughout the last ten years, despite the phenomenal expansion of oil production. By the end of 1972, the total oil sector employment of 14,694 workers was virtually unchanged from its 1963 level (Table 11). There was a drop in employment by ARAMCO, but this was offset by an expansion in the work force of the government-established oil and minerals agency (PETROMIN) and the Arabian Oil Company.

Finally, the CDS conducted two surveys of industrial and commercial establishments (excluding agriculture) in 1967 and 1971, the former in 25 cities and the latter in 61 cities. The coverage, however, is not very comprehensive, and the reliability of the data is uncertain. In the latter survey, the 61,000 establishments covered employed about 146,000 workers; only 179 employed more than 50 workers each and 60,000 establishments employed less than 10 workers each.[9]

Some tentative conclusions may be drawn from these disparate sets of data. First, about half of the labor force is engaged in agriculture,

[9] Central Department of Statistics, Ministry of Finance and National Economy, *Statistical Yearbook, 1392* (1972).

TABLE 11. SAUDI ARABIA: EMPLOYMENT IN THE OIL SECTOR, 1963–72

(Number of workers)

Employer	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
ARAMCO	12,988	12,880	12,783	12,664	12,073	11,531	10,865	9,782	10,139	10,362
PETROMIN	65	101	144	424	746	1,285	1,608	1,660	2,049	2,158
Arabian Oil Company	745	903	928	1,027	1,092	1,165	1,244	1,241	1,326	1,345
Getty Oil Company	894	988	963	953	945	935	924	920	859	829
Total	14,692	14,872	14,818	15,068	14,856	14,916	14,641	13,603	14,373	14,694

Source: Ministry of Petroleum and Mineral Resources.

and this ratio has probably fallen somewhat in recent years. Second, the services sectors employ between 30 and 40 per cent of the labor force, with the ratio probably rising on account of the high employment growth rates in government services and in wholesale and retail trade. Third, the construction sector employs about 10 per cent of the labor force, and its share is probably also rising. Fourth, the nonoil manufacturing sector probably employs about 3-4 per cent of the labor force, and its share is probably static. Finally, the predominant oil sector, being highly capital-intensive, employs between 1 and 2 per cent, and the ratio is likely to remain stable.

IV. Overall Level of Economic Activity [10]

The Saudi Arabian economy is dominated by the oil sector, which contributes more than 60 per cent of GDP and generally sets the pace for the overall level of economic and financial activity. GDP in 1971/72 was estimated at SRls 26.2 billion at current factor cost, exactly double its value of five years earlier. GNP for the same year was SRls 19.2 billion (Table 12). The Saudi Arabian economy, like other oil-based economies in the Middle East, is characterized by large net factor payments abroad which amounted to 27 per cent of GDP in 1971/72. These represent, for the most part, oil company profits repatriated abroad. Increased oil production and improved oil prices since 1970 seem to have contributed to a rise in oil company profits and may have caused the rise in the ratio of net factor payments in GDP from 23 per cent in 1969/70 to 27 per cent in 1971/72. On the basis of a population estimate of 7.2 million,[11] the per capita GNP in 1971/72 would have been about SRls 2,700 or $650.

Between 1965/66 and 1971/72, the annual rate of growth of GDP averaged 14.3 per cent in nominal terms and 10.5 per cent in real terms (Tables 12 and 13). The rate of growth was not uniform, however; until 1969/70 the annual rate of growth of nominal GDP averaged 10.2 per cent, while the average for 1970/71 and 1971/72 was 22.8

[10] The analysis in this section is based on the most recent available national income statistics. As the data were considered to be subject to certain deficiencies, the United Nations National Income Accounts Office has recently revised the estimates. However, the revised figures are not yet available, and the old series is used in this paper as indicative of the general direction and trends in the national accounts.

[11] There are no accurate population statistics for Saudi Arabia. The figure of 7.2 million is generally thought to be near the upper range of available estimates.

TABLE 12. SAUDI ARABIA: GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN, 1965/66–1971/72

(*At current factor cost; in millions of Saudi Arabian riyals*)

Origin of GNP	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72
Agriculture, forestry, and fishing	839.4	862.4	895.7	974.4	1,002.7	1,935.9	1,084.7
Mining and quarrying							
Crude petroleum	5,441.5	6,052.2	6,772.9	7,201.0	8,238.0	11,350.3	15,235.1
Other	31.7	35.4	39.8	41.9	42.1	44.5	52.6
Manufacturing							
Petroleum refining	698.2	736.2	870.6	946.5	1,207.8	1,440.5	1,483.9
Other manufacturing	212.4	237.0	265.6	299.0	332.0	371.8	428.5
Construction	633.4	707.1	796.1	837.8	841.4	890.0	1,051.6
Electricity, gas, and water	150.3	166.9	181.3	196.0	212.5	231.6	241.3
Transport and communications	855.5	976.4	1,060.1	1,198.1	1,307.1	1,433.7	1,584.9
Wholesale and retail trade	823.2	876.3	988.9	1,180.4	1,252.3	1,322.7	1,477.4
Banking, insurance, and real estate	68.3	81.9	93.0	102.7	109.7	117.7	138.7
Ownership of dwellings	462.0	494.0	545.0	601.0	654.5	712.8	790.2
Public administration and defense	900.2	1,079.5	1,096.3	1,195.1	1,247.0	1,313.3	1,445.3
Services	659.5	773.3	852.8	886.8	924.0	1,011.5	1,175.5
Gross domestic product (at factor cost)	11,775.6	13,078.6	14,458.1	15,660.7	17,371.1	21,276.3	26,189.7
Less net factor payments abroad	2,839.0	2,961.0	3,204.0	3,390.3	3,961.0	5,346.6	6,988.5
Gross national product	8,936.6	10,117.6	11,254.1	12,270.4	13,410.1	15,929.7	19,201.2

Source: Central Department of Statistics, Ministry of Finance and National Economy.

TABLE 13. SAUDI ARABIA: REAL GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN, 1965/66–1971/72

(At constant 1966/67 prices; in millions of Saudi Arabian riyals)

Origin of Real GNP	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72[1]
Agriculture	877.4	862.4	897.4	923.9	952.7	986.6	1,021.8
Mining and quarrying							
Crude petroleum	5,501.4	6,052.2	6,572.7	6,957.6	7,964.5	9,747.9	12,204.5
Other	32.6	35.4	38.6	39.5	38.5	39.6	45.4
Manufacturing							
Petroleum	689.7	736.2	872.2	952.7	1,175.4	1,241.8	1,240.0
Other manufacturing	212.4	237.0	265.6	299.0	332.0	371.8	420.1
Construction	666.3	707.1	756.7	756.8	722.3	727.7	781.9
Electricity, gas, and water	148.0	166.9	187.2	211.9	231.0	253.1	278.2
Transport and communication	855.5	976.4	1,060.1	1,198.7	1,307.1	1,433.7	1,584.9
Wholesale and retail trade	858.5	876.3	987.3	1,157.3	1,177.7	1,212.1	1,311.6
Banking, insurance, and real estate	70.6	81.9	89.9	95.7	98.3	101.3	121.2
Ownership of dwellings	471.4	494.0	534.3	577.9	617.9	659.3	705.5
Public administration and defense	938.7	1,079.5	1,052.1	1,099.4	1,100.6	1,112.0	1,174.1
Services	681.7	773.3	818.0	822.0	829.6	880.0	970.8
Gross domestic product (at factor cost)	12,004.2	13,078.6	14,132.1	15,092.4	16,547.6	18,766.9	21,860.0
Less net factor payments abroad	2,894.1	2,961.0	3,132.1	3,266.2	3,772.4	4,714.8	5,833.5
Gross national product	9,110.1	10,117.6	11,000.0	11,826.2	12,775.2	14,052.1	16,026.5

Sources: Central Planning Organization; Central Department of Statistics, Ministry of Finance and National Economy.

[1] Provisional estimates.

per cent (Table 14). This jump is mainly due to the rapid expansion in the oil sector, which grew at an average rate of 33 per cent a year in the last two years. It is worth noting that the rate of growth of the nonoil sectors shows no sharp increase in the last two years; the small rise in the average annual rate from 8.9 to 9.3 per cent is probably due to the secondary effects of the expansion in the oil sector. The contribution of the nonoil sectors to GDP has, in fact, declined during the period. Agricultural production rose in absolute terms, but its share in GDP declined from 7.1 per cent in 1965/66 to 4.1 per cent in 1971/72. Production in the manufacturing sector varied between 7 and 8 per cent, while construction output declined from 5.4 to 4 per cent over the six-year period. The services sectors contributed exactly one third of GDP in 1965/66 and 26 per cent in 1971/72.

The first Five-Year Development Plan was prepared in 1969 for the period 1970/71–1974/75. The Plan set out three broad socioeconomic objectives: a sustained rate of growth of GNP of 9.8 per cent per year in real terms, the accelerated development of human resources through manpower planning and investment in social infrastructure, and, finally, the diversification of the structure of production in order to lessen the country's dependence on oil production. The overall growth target of 9.8 per cent a year represented a small increase from historical growth rates; it was to be achieved through increased production in all sectors but especially in agriculture, nonoil mining and manufacturing, and construction activity.

The individual sector growth targets are indicated in Table 15, together with the corresponding actual growth rates for 1969/70–1971/72. The actual results indicate an overall growth rate of 13.2 per cent a year, a figure exceeding the planned and the historical growth rates.

TABLE 14. SAUDI ARABIA: AVERAGE ANNUAL GROWTH RATES OF GROSS NATIONAL PRODUCT AND GROSS DOMESTIC PRODUCT, 1965/66–1971/72

(In per cent)

Growth Rates	1965/66–1969/70	1970/71–1971/72
In nominal terms		
Gross domestic product	10.2	22.8
Gross national product	10.7	19.7
Oil sector	11.4	33.1
Nonoil sectors	8.9	9.3
In real terms		
Gross domestic product	8.3	15.0
Gross national product	8.8	12.0

Sources: Tables 12 and 13.

TABLE 15. SAUDI ARABIA: AVERAGE ANNUAL GROWTH RATES OF VALUE ADDED, BY SECTOR, 1969/70–1971/72

(In per cent at constant 1966/67 prices)

		Planned	Actual
Sector	1965/66–1968/69	1970/71–1974/75	1969/70–1971/72
Agriculture	1.7	4.6	3.4
Crude oil production	8.2	9.1	20.7
Other mining and quarrying	6.4	23.3	5.0
Petroleum refining	11.7	9.1	9.6
Manufacturing	12.1	14.0	12.0
Construction	4.2	10.4	1.2
Electricity, gas, and water	12.1	13.2	9.7
Transport and communication	11.1	12.9	9.7
Wholesale and retail trade	10.3	12.8	4.3
Banking, insurance, and real estate	10.7	11.0	8.5
Ownership of dwellings	7.0	8.6	6.9
Public administration and defense	5.4	5.0	2.2
Other services	6.6	15.0	5.8
Gross domestic product	7.9	9.8	13.2

Sources: Data for 1965/66–1968/69 and for the Plan period are from Central Planning Organization, *Development Plan, 1390* (1970). Actuals for 1969/70–1971/72 are computed for provisional national income statistics shown in Table 13.

The decisive contribution to this high rate of growth, however, came from the oil sector, the only sector to record growth rates higher than those planned. Crude oil production grew at 21 per cent instead of 9.1 per cent, while oil refining grew at 9.6 per cent instead of a planned rate of 9.1 per cent annually. Since these two activities account for about 60 per cent of total production, their impact on the overall growth rate was crucial; all other sectors achieved lower growth rates than were planned, especially agriculture (3.4 per cent instead of 4.6 per cent), nonoil manufacturing (12 per cent instead of 14 per cent) and construction (1.2 per cent instead of 10.4 per cent). The importance of the contribution of the oil sector is further emphasized by the fact that the large rises in petroleum export prices improved Saudi Arabia's terms of trade, resulting in a considerable increase in the resources available for consumption and investment.

V. Public Finances and Economic Development

Early in the 1950s it became evident that the traditional way of handling the Kingdom's finances was inadequate. The phenomenal growth in the Saudi Arabian Government's oil income called for the reorganization of government financial structure. In 1952 the Saudi Arabian Monetary Agency (SAMA) was set up and charged with the function of assisting the Ministry of Finance and National Economy in centralizing government receipts and disbursements authorized by the budget.

In 1954 the Ministry of Finance and National Economy was given greater control over government finances, including the power to supervise the accounts of other ministries, in order to ensure close adherence to official budgets and to scrutinize the receipts and expenditures of public funds. Revenues collected by each ministry were to be deposited in its name with SAMA and withdrawn only by means of checks countersigned by the Ministry of Finance for purposes authorized in the budget. It was the responsibility of the Ministry of Finance to audit all revenues and expenditures by assigning to each ministry an auditor who would authorize disbursements of funds according to the approved budget. In practice, however, this structure of control was not applied rigorously, and the Kingdom's finances deteriorated until the adoption of the stabilization program in 1958. One of the major reforms undertaken since 1958 was the institution of effecttive accounting and auditing procedures and of supervision over all receipts and expenditures to ensure adherence to the official budget.

BUDGET AND DEVELOPMENT PLANNING

Saudi Arabia adopted its first formal budget in the fiscal year 1947/48, and during the following decade (1948–57) budgets were published in four additional years. Figures in these early budgets were no more than rough estimates of receipts and expenditures, and it is likely that they were not adhered to very strictly. After the budgetary reforms that were implemented as part of the stabilization program of 1958, the Ministry of Finance and National Economy issued annual estimates of budget revenues and expenditures at the beginning of each fiscal year, usually indicating revenues by principal source and total expenditures by ministry. No detailed breakdown of current and capital expenditures is given, but the Ministry issues an explanatory memorandum to clarify current and capital expenditures by major functional categories. In addition, SAMA publishes estimates of annual development expenditures by economic sector in its annual reports. SAMA has also published total actual revenues and expenditures for recent years.

The Ministry of Finance has overall responsibility for the preparation of the annual budget. The budgeting process usually begins with a memorandum to all ministries requesting detailed budget estimates according to four major categories: personnel, supplies and services, subsidies and other current expenditures, and capital expenditures. The estimates are sent to the Ministry of Finance during the fifth month of the fiscal year.[12] The Ministry of Finance then reviews these requests with each of the ministries, keeping in mind the expected totals of revenues and expenditures as well as previous budget requests. In the case of capital expenditures, representatives from the Central Planning Organization are involved in the review, as well as specialized staff members from the Ministry's Budgeting Division. Proposed project expenditures are justified in terms of their relationship to the Develop-

[12] Most Saudi Arabian statistics are compiled on the basis of the Hijri (Moslem) calendar, and some data (mostly fiscal accounts) are compiled on the basis of fiscal years based on this calendar. Hijri calendar year-ends correspond to the following Gregorian calendar year-ends:

Hijri Calendar Year	Gregorian Calendar Date of End of Hijri Calendar Year
1383	May 11, 1964
1384	April 30, 1965
1385	April 20, 1966
1386	April 10, 1967
1387	March 29, 1968
1388	March 18, 1969
1389	March 8, 1970
1390	February 25, 1971
1391	February 15, 1972
1392	February 4, 1973
1393	January 24, 1974

Fiscal years begin with the seventh month of the Hijri year. Fiscal year-ends correspond to the following Gregorian calendar dates:

Hijri Fiscal Year	Gregorian Calendar Date of End of Hijri Fiscal Year
1382/83	November 16, 1963
1383/84	November 4, 1964
1384/85	October 24, 1965
1385/86	October 14, 1966
1386/87	October 3, 1967
1387/88	September 22, 1968
1388/89	September 11, 1969
1389/90	September 1, 1970
1390/91	August 21, 1971
1391/92	August 9, 1972
1392/93	July 30, 1973
1393/94	July 20, 1974

Oil sector tables (Tables 1–5), external sector Table 23, and Tables 24, 25, and 26 were compiled on the basis of the Gregorian calendar year. Monetary statistics tables (Tables 21 and 22) were compiled from Hijri monthly data and the dates were chosen so as to correspond to the end of the nearest Gregorian year (or month). All other tables were converted to the nearest corresponding Gregorian years.

ment Plan; detailed justification memoranda (including benefit-cost analyses) are prepared for review by the Deputy Minister for Budgeting, who in turn prepares final recommendations on all proposed projects to the Minister. The budget is ultimately approved by the Council of Ministers, and a Royal Decree is issued giving revenue estimates by source and expenditure estimates by ministry, together with highlights and comparisons with the preceding year.

Development planning was initiated in the summer of 1959, when an Economic Development Committee was set up and a mission from the International Bank for Reconstruction and Development (World Bank) was invited to explore possibilities for Saudi Arabian economic development. The World Bank mission visited Saudi Arabia in spring 1960 and submitted its report to the Saudi Arabian Government in September 1960.[13] On February 4, 1961 a Royal Decree was issued dissolving the Economic Development Committee and setting up a Supreme Planning Council, to be presided over by the Prime Minister and to consist of the Ministers of Finance and National Economy, Transport and Communication, Trade, Agriculture, and Petroleum and Mineral Resources as members. The Council staff, headed by a Secretary General, was to be responsible for planning and supervising the execution of projects.

In January 1965 the planning machinery was reorganized in line with a general governmental reorganization. The Supreme Planning Council was replaced by a new planning organization called the Central Planning Organization, to be headed by a President of ministerial rank who reports directly to the King. The functions of the Central Planning Organization were defined as follows: (1) preparation of periodic economic reports concerning the scope, progress, and prospects of economic development; (2) preparation of economic development plans for the consideration of the Council of Ministers; (3) preparation of estimates of costs of development projects to assist the Ministry of Finance in preparing the various budgets; (4) conduct of economic studies; (5) assistance to the ministries and independent agencies in their planning affairs; and (6) submission of technical advice to the King.

In 1969 the Central Planning Organization prepared the first Five-Year Development Plan for 1970/71–1974/75. The Plan was formulated at a time when the budget was in deficit and foreign exchange reserves were relatively modest. Since then the growth of oil income has vastly increased the country's capacity to finance domestic develop-

[13] The report, entitled "An Approach to the Economic Development of Saudi Arabia," was issued for internal purposes on November 1, 1960.

ment expenditures, but no overall revision of the Plan has been issued. However, the Central Planning Organization and the ministries have sought to expedite previously planned projects, while concentrating on formulating the second Five-Year Development Plan, to begin in 1975/76.

STRUCTURE AND TRENDS OF BUDGET REVENUES

Budget receipts are dominated by oil revenues, consisting of royalty fees and income taxes on oil operations, which account for about 90 per cent of total revenue. Other revenues consist of customs duties, public service fees, and other indirect taxes. Taxes on individuals are imposed in three forms: the Zakat, payable by Saudi Arabian nationals and firms; an income tax payable by non-Saudi Arabians; and a road tax of 2 per cent of salaries and wages, payable by all persons earning in excess of SRls 400 per month. Businesses are generally liable to a graduated income tax as well.

The Zakat, introduced by decree in 1950 and amended in 1956 and 1961, is paid in accordance with the *sharia* (Moslem law) and is levied at a rate of 2.5 per cent on the basis of net worth, with an adjustment allowed for fixed assets. The total amount collected remains small, however. Income tax is payable by non-Saudi Arabians only, at a rate which rises from 5 per cent for annual incomes of less than SRls 16,000 to 30 per cent for incomes in excess of SRls 66,000. Business taxes are payable by foreign companies and by foreign shareholders of Saudi Arabian companies at rates which start at 25 per cent for net incomes less than SRls 100,000 and rise to 45 per cent for incomes in excess of SRls 1 million (except for oil companies, which are taxed at a uniform rate of 55 per cent). However, companies formed under the provisions of the Foreign Capital Investment Regulations with Saudi Arabian participation of no less than 25 per cent are exempt from paying income taxes for five years from the date they start production. Customs duties range between 5 and 40 percent, with numerous exemptions allowed; most imports are taxed at low rates or not taxed at all.

Data on actual collections of total revenues are available for fiscal years 1960 through 1973 (Table 16). Total revenues increased from SRls 1.8 billion in fiscal year 1960 to SRls 16 billion in fiscal year 1973, representing an annual growth rate of 18 per cent during the 13-year period. However, the growth rate was sharply higher after fiscal year 1970; during the ten years ended in fiscal year 1970, revenues rose by 220 per cent but during the succeeding three years they increased by

TABLE 16. SAUDI ARABIA: SUMMARY OF FISCAL YEAR ACCOUNTS, 1959–73 [1]

(In millions of Saudi Arabian riyals)

Item	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
							Budgetary Estimates [2]								
Revenues	*1,390*	*1,639*	*1,786*	*2,007*	*2,267*	*2,626*	*2,962*	*3,961*	*5,025*	*4,937*	*5,535*	*5,966*	*6,380*	*10,782*	*13,200*
Oil revenues	1,145	1,150	1,410	1,682	1,951	2,284	2,607	3,179	3,987	3,560	4,242	4,848	5,536	9,956	12,203
Custom duties	120	120	155	149	136	136	142	165	175	192	243	242	292	313	315
Other revenues	125	369	221	176	180	206	213	617	863	1,185	1,050	876	552	513	682
Expenditures	*1,230*	*1,404*	*1,561*	*1,941*	*2,437*	*2,686*	*3,112*	*3,961*	*5,025*	*4,937*	*5,885*	*5,966*	*6,542*	*10,182*	*13,118*
Current	1,175	1,294	1,270	1,541	1,887	2,136	2,350	2,559	3,308	2,791	3,325	3,284	3,946	5,146	6,400
Development	55	110	291	400	550	550	762	1,402	1,717	2,146	2,560	2,682	2,596	5,036	6,718
Surplus or deficit (−)	*160*	*235*	*225*	*66*	*−170*	*−60*	*−150*	—	—	—	*−350*	—	*−162*	*600*	*82*
							Estimates of Actuals								
Revenues [3]	...	*1,774*	*1,898*	*2,164*	*2,491*	*2,583*	*3,644*	*4,358*	*4,823*	*5,137*	*4,957*	*5,668*	*7,940*	*11,120*	*15,790*
Expenditures [4]	...	*1,464*	*1,575*	*1,654*	*2,203*	*2,402*	*3,389*	*4,325*	*4,570*	*5,374*	*5,602*	*6,079*	*6,418*	*8,303*	*10,025*
Current	...	...	...	...	...	2,139	3,026	3,591	3,782	3,040	3,080	3,254	3,483	4,263	...
Development	...	...	...	...	...	263	363	734	788	1,704	1,860	2,163	2,273	3,378	...
Aid to Arab countries	...	...	...	...	...	...	...	...	...	630	662	662	662	662	600
Surplus or deficit (−)	...	*310*	*323*	*510*	*288*	*181*	*255*	*33*	*253*	*−237*	*−645*	*−411*	*1,522*	*2,817*	*5,765*

Source: Fund staff compilation based on data provided by the Saudi Arabian Monetary Agency.

[1] For fiscal year dates, see footnote 12 in the text.
[2] Saudi Arabian Monetary Agency, *Annual Report*, various issues.
[3] Data through 1963 are Fund staff estimates based on SAMA accounts; data for 1964–69 and for 1973 were provided by SAMA; 1970–72 figures are from SAMA, *Annual Report*, 1391/92 (1971–72).
[4] Data through 1963 are Fund staff estimates; data for 1964–72 are from SAMA, *Annual Reports*, 1390/91 (1970–71) and 1391/92 (1971–72). The 1973 figure was provided by SAMA.

179 per cent. The acceleration in the rate of increase of revenues reflects mainly the steep growth in oil income. The breakdown of revenues is not available, but the share of oil revenues in total budget receipts is estimated to have increased from about 80 per cent in fiscal 1966 to 92 per cent in fiscal 1973. Nonoil revenues have risen in absolute terms, but their share of the total has declined correspondingly.

EXPENDITURES

Current expenditures

Since data on actual current expenditures are available only for total amounts, no distinction as to functional classifications is possible. Actual current expenditures (excluding aid payments to Arab countries) rose at the average annual rate of 9 per cent during the period 1963–72, rising from SRls 2.1 billion to SRls 4.3 billion, but their share in total expenditures (excluding aid transfers) declined from 89 to 56 per cent over the eight-year period. For several years prior to fiscal year 1972 there was a policy of restraint on the growth in current expenditures, as revenues had been growing relatively slowly and, at the same time, substantial aid payments were being made to Arab countries. The improved revenue situation in fiscal year 1972 permitted relaxation of this policy, and consequently the growth of current expenditures rose sharply in that year (22 per cent, against an average of 8.5 per cent a year in the preceding seven years).

Data on actual expenditures by functional categories are not available. Using budget estimates for recent years, it appears that the largest share went to general administration, which accounted for between 25 and 30 per cent of total allocations (Table 17). Defense and public security were allocated about 22 per cent. The share of education has risen from 15 to 22 per cent, while the shares of health and social welfare remained more or less stable at about 10–11 per cent. The current expenditure estimates show no clear shifts over the past seven-year period, except for the steady rise in allocations to education. Since fiscal year 1968 Saudi Arabia has made annual aid payments to Arab countries of about SRls 650 million.

Development expenditures

Actual capital expenditures have increased rapidly in recent years, rising from SRls 263 million in fiscal year 1964 to SRls 3.4 billion in fiscal year 1972—an annual growth rate of 38 per cent. There was

TABLE 17. SAUDI ARABIA: BUDGET ESTIMATES OF EXPENDITURES BY FUNCTION, 1965/66–1973/74

(In millions of Saudi Arabian riyals)

Function	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
Agriculture and industry	406	427	537	577	468	380	706	856	1,297
Infrastructure	841	1,135	1,054	1,204	1,059	902	2,049	2,299	4,299
Education, health, and social affairs	960	1,092	944	994	1,045	1,119	1,823	2,465	3,284
National defense	572	1,163	743	871	851	945	2,695	3,951	5,716
Administration [1]	1,441	1,479	1,659	2,239	2,543	3,196	2,909	3,547	5,210
Total	4,220	5,296	4,937	5,885	5,966	6,542	10,182	13,118	19,806

Source: Saudi Arabian Monetary Agency.

[1] Includes some defense expenditures through 1970/71, as well as expenditures unallocable under other items.

an especially large increase in fiscal year 1968, when capital expenditures more than doubled because of increased outlays on infrastructure facilities. Since then the rate of growth has been maintained at about 18 per cent a year. The rate of growth of development expenditures has persistently exceeded that of current outlays, so much so that the share of the former in the total rose from 12 to 41 per cent over the eight-year period ended in fiscal year 1972.

No details are available on the functional breakdown of actual capital expenditures, although budget allocations by sector are published annually. Based on the budget estimates, the largest recipient of capital outlays has been national defense but separate data are available only for 1972 and 1973 when this sector received SRls 1.6 billion and SRls 2.5 billion, or 31 and 38 per cent, respectively, of total capital outlays. The construction of infrastructure facilities has also received a considerable share of project allocations, accounting for SRls 2.2 billion, or 31 per cent of the total in fiscal year 1973. The bulk of these expenditures was allocated to the construction of roads, ports, and airports and to the expansion of communication facilities, while a substantial portion was granted to municipalities for the construction of streets and urban water and sewer systems.

Allocations for the development of agriculture and water resources also increased from SRls 204 million in fiscal year 1964 to SRls 572 million in fiscal year 1973, the bulk of which went for the construction of dams and irrigation systems, the development of model and experimental farms, the completion of underground water surveys, and the digging of wells. Educational and informational facilities received SRls 337 million in 1973, or 5 per cent of the total. Mineral exploration and industrial projects continued to receive between 2 and 3 per cent of total allocations, while similar amounts were allocated to health and welfare facilities. It is difficult to discern long-term trends in project allocations because of the lack of uniformity in the classification of expenditure items, but it is evident that the predominant and rising allocations to defense and to infrastructure have overshadowed all other increases. Thus, despite the sustained increases in allocations to agriculture, industry, health and education, the share of these sectors in the total declined from 31 per cent in fiscal year 1966 to 16 per cent in fiscal year 1973.

Since fiscal year 1971, development expenditures have been made in accordance with the first Five-Year Plan for 1970/71–1974/75. The financial allocations of the Plan were initially estimated at a total of SRls 41.3 billion, of which SRls 18.4 billion (44.5 per cent) was to be for capital projects (Table 18). In terms of total allocations, defense and administration received the largest shares (23 and 19 per cent, respectively), followed by education and manpower development (18 per cent), transport and communication (18 per cent), public utilities (11 per cent), health and social affairs (5 per cent), agriculture (4 per cent), and industry (3 per cent). On the basis of project allocations only, transport and communication received 31 per cent; defense, 30 per cent; public utilities, 18 per cent; and the remaining sectors, smaller percentages. The sectors of education, manpower, and health and social affairs received slightly less than 20 per cent of the capital expenditure allocations.

Table 19 compares the financial allocations of the Plan with the subsequent budgetary allocations and with actual budget expenditures

TABLE 18. SAUDI ARABIA: SUMMARY OF FINANCIAL ALLOCATIONS FOR THE FIRST FIVE-YEAR DEVELOPMENT PLAN, 1970/71–1974/75

(In millions of Saudi Arabian riyals)

Item	Recurrent	Project	Total Amount	Total Per cent
Administration	6,794.6	922.8	7,717.4	18.6
Defense	3,980.0	5,575.0	9,555.0	23.1
Education, vocational training, and cultural affairs	6,150.2	1,227.5	7,377.7	17.8
Health and social affairs	1,612.9	308.2	1,921.1	4.7
Public utilities and urban development	1,246.9	3,325.4	4,572.3	11.1
Transport and communication	1,767.3	5,709.2	7,476.5	18.1
Industry	321.8	776.7	1,098.5	2.7
Agriculture	973.8	493.9	1,467.7	3.6
Trade and services	83.5	43.8	127.3	0.3
Total	22,931.0	18,382.5	41,313.5	100.0

Source: Central Planning Organization, *Development Plan, 1390* (1970).

TABLE 19. SAUDI ARABIA: PLAN AND BUDGET ALLOCATIONS, 1970/71–1974/75

(In millions of Saudi Arabian riyals)

	Current	Capital	Total
Planned (Five years)	22,931	18,382	41,313
Budgeted (Three years)	15,492	14,350	29,842
Actual (Three years)	14,057	10,689 [1]	24,746

Sources: Table 18 and Saudi Arabian Monetary Agency.

[1] Assumes 75 per cent project completion rate for 1972/73.

for the years for which data are available. In terms of total allocations, about 72 per cent of the financial requirements of the Plan have been budgeted in the first three years. The corresponding ratio for current expenditures is 68 per cent and for development projects is 78 per cent. Clearly, the budgetary process seems to have responded positively to increased revenues, so that financial allocations were augmented to levels exceeding the initial estimates of the Plan. In terms of actual expenditures, however, exactly 60 per cent of the total financial allocations of the Plan were spent by the end of the third year.

OVERALL FISCAL POSITION

In the mid-1950s Saudi Arabian oil revenues stagnated, partly because of a slowdown in the increase in production and partly because of falling prices. On the other hand, increases in government expenditure continued unchecked. In order to finance the resulting budgetary deficits, the Government resorted to both internal and external borrowing. By June 1958 its total indebtedness amounted to about SRls 1.8 billion, the equivalent of about one year's revenue. Slightly less than half of the total debt was external, and most of the internal debt was to the Saudi Arabian Monetary Agency.

With the introduction of the Government's stabilization program in June 1958, the liquidation of the debt received priority. Although complete data for that period are not available, it is nevertheless possible to trace the broad outlines of fiscal developments following the introduction of stabilization policies. Through fiscal 1961 the budgeted increase in expenditures was held well below the anticipated increase in revenues. The cumulative surpluses budgeted through 1961 amounted to SRls 620 million, and the estimated actual surplus amounted to more than SRls 1.1 billion. The discrepancy is due primarily to the greater than expected increases in oil revenues, while actual expenditures were held down to the budgeted levels. By early 1960 the Government had repaid virtually all of its debt to SAMA; by the end of 1961 practically all of the internal debt had been liquidated, and a beginning had been made in repayment of the external debt.

After the stabilization policies had proved successful, the Government permitted considerable increases in expenditures, particularly for development. On the whole the budget estimates provided for a balance between revenues and expenditures. The actual results were that through fiscal year 1970 the government budget experienced moderate surpluses or deficits, the net fiscal position for 1964–70 being an accumulated deficit of only SRls 571 million (see Table 16). In the three years ended in fiscal year 1973, however, the budget had persistent and widening surpluses. The surplus increased from SRls 1.5 billion to SRls 2.8 billion between 1971 and 1972 and then more than doubled in the following year. The rising budget surpluses have been brought about by the dramatic growth of oil revenues since 1971, combined with comparatively less rapid rates in the growth of expenditures.

The overall fiscal results are, on the whole, corroborated by net changes in the Government's position vis-à-vis the banking system. However, discrepancies arise from the fact that the fiscal accounts are not kept on a strictly cash basis. Furthermore, in certain years timing differences complicate the accounts, as the oil companies keep their accounts on the basis of the Gregorian year while the budget is kept on the basis of the Islamic Hijri year (see footnote 12).

While the sharp growth in the fiscal surplus would appear to suggest that the budget was tending to exert a contractionary impact on domestic activity, in fact it has been strongly expansionary. This expansionary impact is due to the very steep increases in government domestic expenditures financed by the oil revenues which are derived from the export sector of the economy. Precise data to classify government revenues and expenditures as domestic or foreign are not available. Available estimates place government domestic expenditures between 75 and 80 per cent of the budget expenditures, although these may have declined slightly relative to the expenditures in foreign exchange. Recorded direct government imports increased from SRls 674 million in 1966/67 to SRls 1,590 million in 1971/72, increasing their proportion in total government expenditures from 15 to 19 per cent over the five-year period.

Budget estimates are compared with the actual fiscal results in Table 20. The underestimation of surpluses is due largely to the understatement of budget revenues, especially in the last three years, as well as to the overstatement of capital expenditures. Until fiscal year 1970 the estimates of revenues and expenditures were relatively close to the actual levels, but the rapid rise in revenues since then has left expenditures lagging somewhat, especially in the case of capital expenditures, which normally require longer lead times than other expenditures. The ratio of actual expenditures to allocations for development projects rose steadily from 79 per cent in fiscal year 1968 to 88 per cent in fiscal year 1971, then dropped to 67 per cent in fiscal year

TABLE 20. SAUDI ARABIA: ESTIMATED AND ACTUAL BUDGET REVENUES AND EXPENDITURES, 1967/68–1972/73

(*In millions of Saudi Arabian riyals*)

			Expenditures [1]							
	Revenues		Current		Capital		Total		Surplus or Deficit (−)	
Year	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
1967/68	4,937	5,137	2,791	3,670	2,146	1,704	4,937	5,374	—	−237
1968/69	5,535	4,957	3,315	3,742	2,570	1,860	5,885	5,602	−350	−645
1969/70	5,966	5,668	3,284	3,916	2,682	2,163	5,966	6,079	—	−411
1970/71	6,380	7,940	3,946	4,145	2,596	2,273	6,542	6,418	−162	1,522
1971/72	10,782	11,120	5,146	4,925	5,036	3,378	10,182	8,303	600	2,817
1972/73	13,200	15,790	6,400	...	6,718	...	13,118	10,025	82	5,765

Sources: Tables 16 and 17.

[1] Expenditures include aid to Arab countries and other official transfers.

1972, despite the fact that actual project expenditures rose by nearly 50 per cent. The accumulated budget surplus for the period 1964–73 amounted to SRls 10 billion, all of it accruing in 1971–73.

VI. Money and Banking

THE INSTITUTIONAL FRAMEWORK

The banking system in Saudi Arabia consists of the Saudi Arabian Monetary Agency (SAMA, the central bank), 13 commercial banks (3 Saudi-Arabian owned and 10 foreign-owned, of which 3 are Arab-owned) and 2 specialized banks. While in recent years the number of commercial banks in Saudi Arabia has increased by only one (since 1964 one Arab bank terminated its activities in Saudi Arabia and two foreign banks set up offices), there has been a considerable increase in the number of branches. Over one half of the branches are connected to the two largest Saudi Arabian banks—the National Commercial Bank and the Riyadh Bank. The specialized banks are government-owned; the Agricultural Bank was established in 1963 and the Saudi Assistance Credit Bank was approved in 1971.

The legal framework of the monetary system of Saudi Arabia consists essentially of the charter of SAMA, the currency reform statutes of 1960, and the Banking Control Law of 1966. SAMA was established in 1952 and its charter was amended several times during the 1950s. The legislation issued during the 1960s was needed to spell out in detail the currency arrangements and banking control powers implicit in the charter of SAMA.

Two royal decrees, on April 20 and August 5, 1952, established the Saudi Arabian Monetary Agency (SAMA), which was conceived as a "modified central bank," with the following objectives as stated in its charter:

> (1) To strengthen the currency of Saudi Arabia and to stabilize it in relation to foreign currencies, and to avoid the losses from fluctuations in the exchange value of Saudi Arabian coins . . .
> (2) To aid the Ministry of Finance in centralizing the receipts and expenditures of the Government in accordance with the items of the authorized budget and in controlling payments so that all branches of the Government shall abide by the budget.

The monetary functions of SAMA included the stabilization and the maintenance of the external and internal value of the currency; the management of monetary reserve funds as separate funds earmarked for monetary purposes only; the buying and selling of gold, silver coins, and bullion for the government account; and appropriate regulation of commercial banks, exchange dealers, and money changers.

The fiscal role of SAMA consisted of aiding the Ministry of Finance. To this end it was designated to act as a depository for all government funds, maintaining deposit accounts under such heads as the Minister of Finance might direct, and to act as agent for the Government in paying out funds for purposes duly approved by the Government through the Minister of Finance.

This early legislation stipulated that SAMA would conform in all its actions with the teachings of Islamic law. SAMA was not to be a profit-making institution, and it was not permitted to pay or receive interest; to make advances to the Government or to private entities; to engage in trade; or to have any interest in any commercial, industrial, or agricultural enterprise. It could not buy or hold fixed property (except for its own uses), and it was not permitted to issue currency notes. The original capital was set at SRls 20 million, provided in full by the Government before SAMA began its operations. According to the charter, SAMA was placed under the control of a Board of Directors, comprising a president, a vice-president, the governor of the Agency, and two other members.

Before the establishment of SAMA in 1952, a variety of silver and gold coins had circulated in Saudi Arabia, in addition to the official coins of the realm—the silver riyal and its denominations. As the Saudi Arabian riyal was a full-bodied coin, problems had arisen with regard to maintaining its exchange value vis-à-vis the British sovereign (the more or less accepted standard of value in the area at that time) and preventing the smuggling of the riyal out of the country (or its counterfeits into it) in response to fluctuations in the world prices of gold and silver. Paper currency was introduced in 1953 as "pilgrims' receipts," which were intended to facilitate the handling of money during the pilgrimage (Hajj) season and to give flexibility to the monetary system. During the pilgrimage season the increased demand for the riyal tended to raise its exchange value, but with the introduction of paper receipts SAMA was able to stabilize the exchange value and, in addition, familiarize the Saudi Arabian people with the use of paper money.

In January 1960, a number of decrees were promulgated to provide the legal framework for monetary reform. Decree No. 6 (known as the Currency Statute) represented a codification of Saudi Arabia's currency system. Briefly, this decree designated the Saudi Arabian riyal as the currency unit and legal tender, with the parity fixed at the equivalent of 0.197482 gram of fine gold (or SRls 4.50 = SDR 1).[14] The riyal was divided into 20 piasters (instead of 22 previously), and each piaster was subdivided into 5 halalas. A new paper currency was to be issued by SAMA to replace the pilgrims' receipts in circulation,[15] subject to regulations and decisions of the Council of Ministers. The riyal was to have 100 per cent cover in gold and convertible foreign exchange. The cover was to be valued at the new par value. Outstanding Saudi Arabian gold sovereigns were to be withdrawn from circulation, and holders of these coins could exchange them for riyals at the rate of 40 riyals to the sovereign within a period of two months from the date of publication of the decree. SAMA was required to publish in the *Official Gazette* a fortnightly statement containing information on the amount of currency issued and its cover. In addition, it was to publish an annual report on its operations and position, together with authenticated accounts. A new feature of the decree was the provision allowing SAMA to invest its exchange holdings in foreign government securities. Decree No. 8 provided for the revaluation of foreign assets held by SAMA on the basis of the new par value, which replaced the previous official rate of SRls 3.75 = US$1. Some of the profits accruing from the revaluation were to be used as partial payment for the increase in Saudi Arabia's quota in the Fund and subscription to the capital of the World Bank. The balance of the revaluation profits was to be credited to the general government reserves. Decree No. 10 amended the charter of SAMA by empowering it to buy and sell gold and foreign exchange in the market whenever it deemed such action necessary to stabilize the national currency.

The charter of SAMA stipulates that the Agency shall regulate commercial banks and exchange dealers as may be found appropriate. Apart from a provision requiring the banks to provide SAMA with financial statements and from a provision permitting SAMA to impose reserve requirements, the charter does not spell out in detail its banking control powers. In order to remedy this deficiency, the Banking Control Law was issued in November 1966 as Royal Decree No. M/5. The law provides that banks must be licensed by the Minister of Finance and National Economy after approval of the Council of Ministers. Applica-

[14] This parity rate was concurred in by the Fund as the initial par value of the Saudi Arabian riyal on January 8, 1960. For subsequent exchange developments and the establishment of a new par value, see the section EXCHANGE AND TRADE SYSTEM below.

[15] In June 1961, SAMA began issuing the paper riyal replacing the pilgrims' receipts.

tions for licenses are to be submitted to SAMA, which studies the application and submits a recommendation to the Minister of Finance. Saudi Arabian banks may be licensed only as joint stock companies with a minimum of paid-up capital of SRls 2.5 million. Foreign banks wishing to open up a branch in Saudi Arabia may be granted a license subject to appropriate conditions to be laid down by the Council of Ministers. All banks operating in Saudi Arabia when this law was promulgated were considered as having been licensed. Exchange dealers were to be permitted to continue engaging in the money-changing business, but they were prohibited from undertaking any banking business.

The law stipulates that deposit liabilities of a bank may not exceed 15 times its reserves and paid-up capital; when deposits exceed this ratio the bank must, within one month, deposit 50 per cent of the excess with SAMA. The banks are required to maintain with SAMA deposits equivalent to 15 per cent of their total deposit liabilities;[16] this action may be varied within the range of 10 to 17.5 per cent, or by more than these limits with the approval of the Minister of Finance. In addition to the statutory deposit, banks are required to maintain liquid assets equivalent to not less than 15 per cent of their total deposit liabilities; SAMA may increase this ratio up to 20 per cent. The law permits SAMA to place restrictions on the volume and uses of credit and to specify the conditions and terms of credit. The law specifies what transactions may not be undertaken by banks and provides for submission of all information requested by SAMA, for auditing of their accounts, and for penalties in cases of contravention of the law.

THE MONETARY POLICY OF SAMA

The legislation promulgated in the 1960s confirmed SAMA's major central banking functions: issuance of the currency, management of the foreign reserves, and control of the commercial banks. Some important restrictions on SAMA remain: it may not extend credit to the Government or to private entities (including banks), and because it may not contravene Islamic laws, it may not use the discount rate as an instrument of monetary policy. These restrictions obviously place limitations on SAMA in implementing its monetary policy and are reflected in the structure of its assets and liabilities. At the end of

[16] SAMA may impose different reserve requirements for the various deposit liabilities.

June 1973 foreign assets constituted 93 per cent of the total assets of SAMA. Its domestic assets consisted mainly of deposits with certain banks. Since SAMA is barred from lending to the banks, or from rediscounting commercial papers, the only way it, as a central bank, can provide accommodation to a commercial bank, where appropriate, is to place a deposit with that bank. On the liabilities side, at the end of June 1973, 70 per cent of its liabilities were in the form of government deposits. Other liabilities consisted of the currency issue of the deposits of commercial banks, which was made up of reserve requirements equal to 10 per cent for demand deposits and 5 per cent for time and savings deposits, as well as the special deposits of certain banks whose deposit liabilities exceeded 15 times their capital.

In recent years SAMA has pursued a neutral monetary policy in the sense of permitting private demand for credit to find its own level. On the other hand, SAMA has placed strong emphasis on close supervision of the banks in order to ensure sound banking practices.

THE COMMERCIAL BANKS AND THE SPECIALIZED BANKS

Commercial banking activity has expanded at a rapid pace in recent years. The total assets and liabilities of the commercial banks have increased from SRls 1.5 billion at the end of December 1965 to SRls 4.4 billion at the end of June 1973. The large growth in the Government's domestic expenditures since 1970 and the associated expansion in private incomes have exerted a major impact on banking operations in Saudi Arabia.

Total deposits with banks, which increased by SRls 668 million during the five years ended December 1970, jumped to SRls 1,765 million during the 30 months ended June 1973. The flood of deposits to the banks has reduced the return to depositors to a range of 1.5 to 3 per cent for time and savings deposits.[17] Some banks are even refusing to accept new deposits. The limitation on deposits has been necessitated by the inability to find suitable domestic outlets for investments of the new funds. The banks have increased their investments abroad considerably, but they are reluctant to expand such investments further in view of the risks inherent in the unsettled international monetary situation. With respect to domestic lending, despite the relatively low cost of borrowing (6–8 per cent), the demand for

[17] Islamic law prohibits the payment or receipt of interest, and the banks formally act in compliance with the law. However, indirectly, depositors receive a return on their deposits, and borrowers bear the cost of borrowing.

credit by the private sector has increased only by 6 per cent during 1971 to SRls 1.8 billion (Table 21) and remained at that level up to June 1973 (the latest date for which data are available). The low demand for credit by the private sector, despite a high level of activity, probably reflects a substantial degree of liquidity in private hands as well as the practice of advance payments by the Government to contractors undertaking public development projects. The continuing increase in deposits, coupled with the stagnation in advances, has resulted in a substantial increase in the liquidity position of the banks. The ratio of reserves and foreign assets of the banks to their liabilities (excluding capital and unclassified liabilities), which increased from 35 per cent at the end of 1965 to 38 per cent at the end of 1970, rose further to 46 per cent at the end of December 1972 and to 71 per cent at the end of June 1973.

Regarding the distribution of credit to the private sector, it is estimated that import financing usually accounts for about one half of total credit extended to the private sector, advances to contractors account for about 20 per cent, and advances to industry as well as financing for other activities account for the remainder (about 30 per cent).

The Agricultural Bank, established in 1963 with a capital of SRls 10 million, has expanded its credit operations steadily in recent years. At the end of 1971/72 its capital stood at SRls 53 million, and the total value of loans granted since its inception exceeded SRls 100 million. In 1971/72 the Bank extended 2,300 loans at a value of SRls 16.6 million, the bulk of the credit going to small farmers on a medium-term basis. About one third of the Bank's loans are used by farmers for the purchase of agricultural machinery, but an increasing share is being employed in developing livestock and poultry farms and agricultural infrastructure. The Bank has undertaken a review of its operations to date with the idea of improving and expanding its credit operations in the agricultural sector.

In November 1971 the Saudi Credit Assistance Bank was established to extend interest-free loans to Saudi Arabians of limited means. The Bank is governed by a seven-member Board of Directors, which is in the process of finalizing the Bank's regulations and recruiting its senior staff. The initial capital of the Bank is SRls 5 million, to be supplemented by additional resources from the Government and SAMA.

OVERALL MONETARY DEVELOPMENTS

The rate of expansion in private liquidity (money plus quasi-money) averaged 15.5 per cent during the six years ended in 1972 (Table 22).

TABLE 21. SAUDI ARABIA: MONETARY SURVEY, 1960–JUNE 1973 [1]

(*In millions of Saudi Arabian riyals*)

														First Half	
	1960	1961	1962	1963	1964	1965	1966	1937	1968	1969	1970	1971	1972	1972	1973
Foreign assets (net)	*705*	*1,072*	*1,152*	*2,444*	*2,814*	*3,402*	*3,595*	*4,311*	*4,008*	*3,706*	*4,308*	*7,353*	*13,139*	*9,760*	*16,127*
SAMA	830	1,072	1,205	2,347	2,683	3,396	3,658	4,248	3,915	3,534	4,021	6,996	12,041	8,980	15,444
Commercial banks (net)	−125	—	−53	97	131	6	−63	63	93	172	287	357	1,098	780	683
Claims on private sector	*549*	*632*	*734*	*694*	*832*	*1,032*	*1,239*	*1,232*	*1,386*	*1,613*	*1,710*	*1,816*	*1,832*	*1,739*	*1,825*
Assets = liabilities	*1,254*	*1,704*	*1,886*	*3,138*	*3,646*	*4,434*	*4,838*	*5,544*	*5,393*	*5,318*	*6,017*	*9,169*	*14,963*	*11,499*	*17,951*
Money	*921*	*969*	*1,082*	*1,308*	*1,373*	*1,495*	*1,723*	*1,920*	*2,202*	*2,324*	*2,404*	*2,650*	*3,777*	*3,057*	*4,419*
Currency in circulation	515	589	663	824	850	942	1,062	1,204	1,454	1,558	1,630	1,669	2,418	1,915	2,450
Demand deposits	406	380	419	484	523	553	661	716	748	766	774	981	1,359	1,142	1,969
Quasi-money	*88*	*128*	*142*	*167*	*227*	*293*	*395*	*500*	*599*	*641*	*740*	*936*	*1,265*	*1,065*	*1,308*
Government deposits	*173*	*400*	*425*	*1,306*	*1,541*	*2,011*	*1,984*	*2,382*	*1,729*	*1,161*	*1,476*	*3,812*	*8,438*	*5,887*	*11,099*
SAMA	173	380	390	1,256	1,483	1,961	1,948	2,440	1,833	1,086	1,384	3,696	8,314	5,774	11,003
Commercial banks (net)	. . .	20	35	50	58	50	36	−58	−104	75	92	116	124	113	96
Capital accounts	*72*	*207*	*237*	*357*	*505*	*159*	*160*	*162*	*166*	*194*	*188*	*209*	*226*	*1,490*	*1,125*
Other items (net)						*476*	*576*	*580*	*697*	*998*	*1,209*	*1,562*	*1,257*		

Source: Saudi Arabian Monetary Agency.

[1] Approximate end of year or half-year.

TABLE 22. SAUDI ARABIA: FACTORS AFFECTING CHANGES IN PRIVATE LIQUIDITY, 1961–JUNE 1973

(*In millions of Saudi Arabian riyals*)

Factor	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	First Half 1972	First Half 1973
Money and quasi-money	*88*	*127*	*251*	*125*	*190*	*330*	*302*	*382*	*164*	*179*	*442*	*1,456*	*536*	*685*
Money	48	113	226	65	125	228	197	283	122	80	246	1,127	407	642
Quasi-money	40	14	25	60	65	102	105	99	42	99	196	329	129	43
Net foreign assets	*367*	*80*	*1,292*	*370*	*588*	*193*	*716*	*−303*	*−302*	*602*	*3,045*	*5,786*	*2,307*	*2,988*
Net domestic assets	*−279*	*47*	*−1,041*	*−245*	*−400*	*133*	*−411*	*684*	*467*	*−422*	*−2,607*	*−4,329*	*−2,240*	*−2,511*
Claims on private sector	83	102	−40	138	200	207	−7	154	227	97	106	7	−77	2
Government deposits (net)	−227	−25	−881	−235	−470	27	−398	653	568	−315	−2,336	−4,626	−2,075	−2,661
Other items (net)	−135	−30	−120	−148	−130	−101	−6	−123	−329	−204	−377	290	−88	148
							Percentage change							
Money	5.2	11.7	20.9	5.0	9.1	15.2	11.4	14.7	5.5	3.4	10.2	42.5	15.4	17.0
Quasi-money	45.5	10.9	17.6	35.9	28.6	34.8	26.6	19.8	7.0	13.4	26.5	35.1	13.8	3.4
Money and quasi-money	8.7	11.6	20.5	8.5	11.7	18.5	14.3	15.8	5.9	6.0	14.1	40.6	14.9	13.6
Claims on private sector	15.1	16.1	9.5	19.9	24.0	20.1	−0.6	12.5	16.4	6.0	6.2	0.4	−4.2	0.1

Source: Data provided by the Saudi Arabian Monetary Agency.

The average growth rate for the four years ended in 1970 was over 10 per cent; in 1971 and 1972 private liquidity increased by 14 and 41 per cent, respectively. The growth rate in money and quasi-money was in line with the rate of growth of GDP at current prices, which expanded at an average annual rate of 14.3 per cent during the six years ended July 1972. The average annual growth in GDP at current prices was about 10 per cent until mid-1970 and nearly 23 per cent for 1970/71–1971/72. The sharp increase in liquidity in 1972 was mainly composed of a large increase in money (particularly currency), which possibly reflected increased hoarding of Saudi Arabian riyals. The rate of expansion in liquidity was 14 per cent during the first six months of 1973, compared with 15 per cent in the corresponding period of 1972.

There is a stable pattern of factors affecting changes in private liquidity. In most recent years, the increase in net foreign assets constituted the expansionary factor, which was partially offset by the contractionary impact of the growth in government deposits. However, this formal accounting description concealed the fact that it was the Government's fiscal operations that constituted the primary determinants of changes in private liquidity in Saudi Arabia. This was the case, because in Saudi Arabia the Government's oil revenues constituted the major source of foreign exchange receipts for the economy as well as the primary component of government revenue. It was only to the extent that the Government injected, through its domestic expenditures, this revenue into the domestic income stream that the inflow of foreign exchange was translated into domestic liquidity. Conversely, the Government's cash surpluses or deficits are reflected as the major component of the balance of payments surpluses or deficits.

VII. The External Sector

STRUCTURE AND RECENT TRENDS OF BALANCE OF PAYMENTS

The structure of Saudi Arabia's balance of payments reflects three basic features. First, the external payments position is overwhelmingly determined by developments on the current account. In 1972 net transfers and net capital movements were equal to 19 and 6 per cent, respectively, of the net balance on goods and services. Secondly, the overall payments result represents the outcome of the balance between the net surplus of the oil sector against the net deficit of the nonoil sector. In 1972 the net surplus of the oil sector totaled SDR 2.9 billion, while the net deficit of the nonoil sector amounted to SDR 1.4

billion. Thirdly, the net surplus of the oil sector accrues predominantly to the public sector, while the net deficit of the nonoil sector originates mainly in the private sector. These features reflect the structure of the balance of payments of an oil economy with a limited home production base. The Government's oil revenue constitutes the economy's principal source of foreign exchange. The oil revenues are injected into the domestic income stream through the Government's domestic expenditures. Given the limited supply of domestically produced goods and services, as well as the fact that Saudi Arabia has an open economy, a substantial amount of private income gets translated quickly into demand for foreign goods and services. As in similar economies, in Saudi Arabia there is a close parallel relationship between fiscal and balance of payments results.

Saudi Arabia's balance of payments position came under pressure in the mid-1950s as a result of expansionary fiscal policies coinciding with a leveling off in the oil revenues. Balance of payments deficits were incurred, and the exchange value of the Saudi Arabian riyal depreciated in the free exchange market.

On June 3, 1958 the Saudi Arabian Government announced the introduction of a stabilization program and expressed its determination to restore monetary stability. The two objectives of this program were to hold inflation in check through the control of government expenditures and to siphon off as rapidly as possible the existing excess purchasing power in the economy. Budgetary surpluses were achieved, and priority was given to the repayment of the government debt to SAMA. Also, exchange and trade controls were adopted. Only government exchange transactions and essential imports (such as foodgrains, drugs, and medicines) were to be licensed at the official rate of exchange. All other transactions were to take place openly in the free market, which SAMA was to stabilize. The profits accruing from sales of exchange by the Agency in the free market were to be utilized solely for the repayment of the government debt and were not to be made available to the Government for current expenditures. In view of the low level of reserves, imports of automobiles, constituting a fairly large item, were prohibited for an initial period of six months, and the ban could be extended for a further period of six months. Allocations for imports subject to licensing were determined on the basis of quantities imported in the past, and the licenses were issued by regional licensing directors.

The stabilization program was implemented with determination. The rapid progress toward the restoration of monetary stability resulted in a substantial improvement in Saudi Arabia's external payments position as well as in a gradual appreciation of the Saudi Arabian riyal in the free exchange market.

During the decade 1961–70, Saudi Arabia's balance of payments position recorded surpluses in all years except 1968 and 1969. In 1971 and 1972 very large balance of payments surpluses were achieved (Table 23). The deficits in 1968 and 1969 resulted from a relatively slow growth in the oil income, while imports and government-aid payments to other Arab countries increased considerably. Between 1964 and 1970, the overall balance of payments position has been remarkably stable. The largest swings in the payments position took place between 1969 and 1970 and totaled only SDR 227 million. Surpluses or deficits in each year were moderate and fluctuated around SDR 100 million. In 1971 and 1972 a very marked change in the external payments position occurred.

In 1971 the overall surplus jumped by over SDR 700 million to more than SDR 800 million and a further large increase in the surplus occurred in 1972, when the rise in net foreign assets totaled nearly SDR 1.3 billion. Although import payments increased by 43 per cent during these two years, the steep increase in the balance of payments surplus position reflected the 125 per cent growth in the value of oil exports, resulting from the large expansion in the volume exported as well as the sharp increase in prices.

GOODS AND SERVICES

Saudi Arabia's balance of goods and services has consistently been in surplus, reflecting a larger surplus on the trade account than the deficit on the net services account. The annual surplus on goods and services approximated SDR 200 million during the period 1964–67, dropped to less than SDR 150 million during 1968–69, and rose very steeply during the first three years of the 1970s, reaching SDR 1.6 billion in 1972 (see Table 23). The strong performance in recent years resulted from the sharp growth in oil exports.

Virtually all of Saudi Arabia's exports consist of petroleum products, mainly crude oil. Nonoil exports have averaged about SDR 7 million in recent years and have consisted of agricultural products such as dates and onions. Re-exports have generally been insignificant. Total exports in 1972 were equal to about 80 per cent of the GDP in current prices. Exports have risen at an average annual rate of nearly 24 per cent during the eight years ended 1972. During the same period the volume of oil exports expanded by 17 per cent annually. Between 1964 and

TABLE 23. SAUDI ARABIA: BALANCE OF PAYMENTS ESTIMATES, 1960–72

(In millions of SDRs)

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
A Goods and services	*255*	*250*	*204*	*206*	*195*	*215*	*205*	*218*	*125*	*141*	*334*	*1,179*	*1,593*
Trade balance	588	628	677	723	642	681	899	906	939	960	1,260	2,632	3,515
Exports	(808)	(875)	(971)	(1,034)	(1,016)	(1,161)	(1,503)	(1,522)	(1,725)	(1,785)	(2,089)	(3,495)	(4,699)
Imports	(−220)	(−247)	(−294)	(−311)	(−374)	(−480)	(−604)	(−616)	(−786)	(−825)	(−829)	(−863)	(−1,184)
Net services	−333	−378	−473	−517	−447	−466	−694	−688	−814	−819	−926	−1,453	−1,922
Freight and insurance	(−21)	(−24)	(−28)	(−29)	(−36)	(−45)	(−57)	(−59)	(−78)	(−81)	(−81)	(−85)	(−117)
Other transportation and travel (net)	(63)	(56)	(45)	(37)	(51)	(55)	(52)	(55)	(60)	(74)	(93)	(125)	(157)
Investment income: private	(−337)	(−369)	(−410)	(−457)	(−385)	(−441)	(−606)	(−607)	(−696)	(−724)	(−895)	(−1,435)	(−1,888)
Investment income: SAMA	—	—	—	(7)	(15)	(24)	(29)	(47)	(51)	(51)	(60)	(67)	(99)
Other government	(−19)	(−13)	(−36)	(−47)	(−62)	(−27)	(−68)	(−84)	(−108)	(−100)	(−103)	(−108)	(−123)
Other private	(−19)	(−28)	(−44)	(−28)	(−30)	(−32)	(−44)	(−40)	(−43)	(−39)	(—)	(−17)	(−50)
B. Unrequited transfers	*−32*	*−32*	*−24*	*−13*	*−15*	*−82*	*−77*	*−120*	*−217*	*−227*	*−264*	*−275*	*−298*
Private	−65	−64	−52	−51	−56	−126	−121	−135	−132	−134	−183	−207	−246
Government (net)	33	32	28	38	41	44	44	15	−85	−93	−81	−68	−52
Inward transfers	(—)	(—)	(—)	(—)	(—)	(44)	(44)	(50)	(55)	(54)	(66)	(79)	(93)
Outward transfers	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(−35)	(−140)	(−147)	(−147)	(−147)	(−145)
C. Nonmonetary capital	*−76*	*−67*	*−130*	*135*	*2*	*88*	*94*	*103*	*127*	*21*	*109*	*−34*	*92*
Private	−34	−17	−33	135	−1	88	38	100	117	12	116	−25	86
Direct investment	(−38)	(−15)	(−33)	(128)	(−16)	(75)	(43)	(96)	(−14)	(−37)	(20)	(−114)	(64)
Other private long-term	(6)	(2)	(1)	(2)	(9)	(—)	(1)	(−1)	(120)	(42)	(84)	(−9)	(22)
Other private short-term	(−2)	(−4)	(−1)	(5)	(6)	(13)	(−6)	(5)	(11)	(7)	(12)	(98)	(—)
Government (net)	−42	−50	−97	0	3	—	56	3	10	9	−7	−9	6
D. Net errors and omissions	*−146*	*−64*	*−40*	*−53*	*−79*	*−108*	*−125*	*−93*	*−103*	*−52*	*−69*	*−53*	*−129*
Total (A through D)	*1*	*87*	*10*	*275*	*103*	*113*	*97*	*108*	*−68*	*−117*	*110*	*817*	*1,258*
Monetary movements	*−1*	*−87*	*−10*	*−275*	*−103*	*−113*	*−97*	*−108*	*68*	*117*	*−110*	*−817*	*−1,258*
SAMA	−2	−59	−22	−242	−95	−140	−113	−60	56	127	−87	−794	−1,093
Monetary gold	(—)	(−47)	(−13)	(—)	(—)	(5)	(4)	(—)	(−50)	(—)	(—)	(11)	(—)
Reserve position in Fund	(−11)	(—)	(—)	(—)	(—)	(−4)	(−5)	(—)	(—)	(—)	(—)	(−11)	(—)
Foreign exchange	(9)	(−12)	(−9)	(−242)	(—)	(−141)	(−112)	(—)	(106)	(—)	(—)	(−794)	(−1,093)
Commercial banks' claims	1	−28	12	−33	−8	27	16	−48	12	−10	−23	−23	−165

Sources: Saudi Arabian Monetary Agency and International Monetary Fund, Balance of Payments Division.

1970 exports doubled, and the average growth rate was approximately the same both in terms of volume and value. During the two-year period ended 1972 exports rose by 71 per cent in terms of volume and by 125 per cent in terms of value, reflecting mainly the increase in oil prices. In 1972, 53 per cent of oil exports were marketed in Western Europe, 15 per cent in Japan, 5 per cent in South America, and about 3 per cent each in the United States, the Middle East, and Africa (Table 24).

Imports have increased at an average annual rate of 15.5 per cent during the eight years ended in 1972 [18] reaching SDR 1.2 billion in that year. Saudi Arabia imports a broad variety of goods (Table 25). In 1972 foodstuffs accounted for 26 per cent of total imports, machinery and transport equapment accounted for 36 per cent and building materials for 10 per cent. Western Europe was the principal supplier of Saudi Arabia, accounting in 1972 for 29 per cent of total imports, with the Middle East accounting for 22 per cent, the United States for 20 per cent, and Japan for 14 per cent (Table 26).

The services account is dominated by the investment income of the oil producing companies, which has increased from under SDR 400 million in 1964 to nearly SDR 1.9 billion in 1972. In recent years the net deficit on the services account was approximately equal to the investment income of the oil companies, with all other entries in the services account more or less offsetting. Excluding the investment income of the oil companies, the main factors affecting the services account are: on the debit side, freight and insurance and government invisible expenditures abroad; and on the credit side, receipts from the pilgrimage, and the investment income on SAMA's reserves (Table 23).

UNREQUITED TRANSFERS AND NONMONETARY CAPITAL

Private unrequited transfers have risen steadily, reflecting the growth in income of foreigners working in Saudi Arabia and the higher level of their savings transferred abroad. Private transfers have increased from SDR 56 million in 1964 to SDR 246 million in 1972. Inward public transfers consist of payment of taxes by companies operating in the Kuwait-Saudi Arabia Neutral Zone and its offshore area.[19] Outward public transfers consist of aid payments by Saudi Arabia to Egypt and

[18] According to balance of payments data, which are different from the trade statistics in Tables 25 and 26.

[19] In Saudi Arabia's balance of payments statistics, ARAMCO is considered as resident, while the companies operating in the Neutral Zone and its offshore area are considered as nonresident.

TABLE 24. SAUDI ARABIA: DIRECTION OF EXPORTS, 1968–72

(In millions of Saudi Arabian riyals)

Direction of Exports	1968	1969	1970	1971	1972 [1]
North America	*363.9*	*320.3*	*146.4*	*733.3*	*956.1*
United States	292.3	253.5	97.8	589.5	772.0
Canada	71.6	66.8	48.6	143.8	184.1
Western Europe	*4,039.1*	*4,084.7*	*4,820.3*	*8,386.1*	*12,003.4*
United Kingdom	588.3	778.4	827.6	1,510.2	1,842.2
France	381.9	415.6	691.6	1,661.8	2,107.3
Germany	378.2	242.4	222.3	577.8	754.9
Italy	935.6	939.8	1,178.6	1,767.4	2,542.8
Netherlands	533.7	703.0	992.5	1,568.8	2,704.7
Spain	598.2	447.1	465.7	543.1	954.0
Others	623.2	558.4	442.0	757.0	1,097.5
Eastern Europe	—	*4.9*	—	—	—
Middle East	*581.6*	*594.3*	*608.6*	*805.7*	*751.7*
Lebanon	61.9	64.3	30.4	69.9	72.3
Bahrain	449.6	467.2	511.7	646.4	613.4
Jordan	27.2	33.2	31.5	51.6	32.5
Others	42.9	29.6	35.0	37.8	33.5
Africa	*279.8*	*277.3*	*473.7*	*758.9*	*687.7*
Asia	*2,559.3*	*2,962.6*	*3,339.4*	*4,413.7*	*5,945.2*
Japan	1,974.0	2,220.3	2,323.4	2,783.1	3,500.1
India	118.7	82.1	130.9	222.1	226.0
Others	466.6	660.2	885.1	1,408.5	2,219.1
South America	*298.2*	*292.0*	*445.0*	*973.9*	*1,207.0*
Oceania	*271.6*	*265.2*	*308.7*	*254.1*	*213.4*
Others	*724.7*	*694.9*	*765.1*	*977.0*	*997.8*
Total	*9,118.2*	*9,496.2*	*10,907.2*	*17,302.7*	*22,762.3*

Source: Saudi Arabian Monetary Agency.

[1] Represents oil exports only.

TABLE 25. SAUDI ARABIA: COMPOSITION OF IMPORTS, 1968–72

(In millions of Saudi Arabian riyals)

Commodity	1968	1969	1970	1971	1972
Foodstuffs	796	926	1,011	1,097	1,222
Textiles and clothing	153	172	142	203	344
Building materials	303	429	384	463	480
Machinery and transport equipment	846	1,084	1,018	1,099	1,686
Chemicals	137	259	180	240	244
Other	343	507	462	565	732
Total	2,578	3,377	3,197	3,667	4,708

Source: Saudi Arabian Monetary Agency.

TABLE 26. SAUDI ARABIA: IMPORTS BY ORIGIN, 1968–72

(In millions of Saudi Arabian riyals)

Origin of Imports	1968	1969	1968	1971	1972
North America	*574.9*	*626.9*	*575.6*	*629.2*	*924.9*
United States	570.7	622.4	568.5	615.1	916.7
Canada	4.2	4.5	7.1	14.1	8.2
Western Europe	*769.5*	*1,228.6*	*1,080.8*	*1,218.3*	*1,345.5*
United Kingdom	191.5	301.3	230.9	327.7	345.0
France	65.3	123.4	88.0	78.6	107.5
Germany	173.6	267.2	312.8	289.0	293.8
Italy	114.8	176.6	142.8	161.0	190.6
Netherlands	119.4	169.5	139.7	169.3	198.0
Belgium	56.7	82.2	65.0	90.6	85.6
Others	48.2	108.4	101.6	102.1	125.0
Eastern Europe	*37.3*	*52.4*	*69.3*	*77.1*	*93.1*
Middle East	*554.2*	*629.7*	*636.2*	*810.0*	*1,036.6*
Lebanon	266.7	334.0	362.9	473.8	578.9
Syrian Arab Republic	49.4	53.2	51.2	54.5	96.6
Kuwait	41.7	46.4	63.4	86.4	136.2
Bahrain	29.6	43.8	46.8	78.7	91.6
Jordan	43.7	64.2	45.5	40.7	50.0
Egypt	26.2	25.4	16.7	21.7	23.6
Sudan	67.8	31.7	25.2	33.5	35.0
Others	29.1	31.0	24.5	20.7	24.7
Africa	*145.1*	*152.0*	*127.4*	*152.4*	*180.2*
Asia	*463.1*	*625.1*	*610.8*	*711.9*	*1,033.1*
Japan	233.9	347.6	314.2	414.2	675.7
India	47.4	93.2	102.1	68.5	83.6
Pakistan	54.7	44.0	30.9	48.0	50.1
Others	127.1	140.3	163.6	181.2	223.7
Oceania	*30.6*	*62.1*	*94.6*	*65.9*	*85.7*
Others	*3.6*	*0.2*	*1.5*	*1.7*	*0.2*
Total	*2,578.3*	*3,377.0*	*3,196.2*	*3,666.5*	*4,708.3*

Source: Saudi Arabian Monetary Agency.

Jordan; through 1972 these have averaged a little under SDR 150 million.

Movements in nonmonetary capital have varied from year to year depending mainly upon changes in direct investments by the oil companies. There was a large private inflow in 1971 in anticipation of the revaluation of the Saudi Arabian riyal in December.[20] Net errors and

[20] After August 15, 1971 the Saudi Arabian riyal continued to be pegged to the U.S. dollar at the rate of SRls 4.5 = US$1, but in December 1971 the gold content of the Saudi Arabian riyal was maintained and the riyal appreciated vis-à-vis the dollar.

omissions have been consistently a significant negative figure, probably reflecting private capital outflows for the most part.

INTERNATIONAL RESERVES

Prior to 1968 Saudi Arabia's balance of payments surpluses tended to be reflected mainly in increases in the foreign assets holdings of SAMA, while changes in the net foreign assets position of the commercial banks tended to be small. The balance of payments deficits of 1968 and 1969 were financed entirely by decreases in the official foreign assets; however, the surplus in the external accounts in 1970 restored SAMA's foreign assets to approximately the level attained at the end of 1966. The very large balance of payments surpluses achieved in 1971 and 1972 resulted in a steep growth in SAMA's foreign assets as well as in a considerable increase in the foreign assets of the commercial banks.

SAMA's foreign assets consist of liquid foreign reserves and of investments, the latter component accounting for a little less than 10 per cent of the total official foreign assets. The reserves consist almost exclusively of foreign exchange assets. In recent years Saudi Arabia purchased only the equivalent of SDR 61 million in gold for monetary purposes; the equivalent of SDR 50 million in gold was added to official reserves in 1968; and the equivalent of SDR 11 million was used in 1971 to finance the gold subscription of an increase in quota in the Fund. At the end of June 1973 foreign exchange accounted for 95 per cent of total official reserves, gold for 4 per cent, and the gold tranche position in the Fund for 1 per cent. Saudi Arabia is not a participant in the SDR account. During 1972 Saudi Arabia's import bill averaged about SDR 100 million per month; at this rate the total official foreign assets (including investments) were equivalent to 32 months of imports at the end of June 1973.

SAMA does not have any foreign liabilities. The foreign liabilities of the commercial banks have averaged about SDR 50 million in recent years. Since 1970 the foreign assets of the banks have increased considerably, reflecting growth in deposits far exceeding investment opportunities in the domestic market.

EXCHANGE AND TRADE SYSTEM

The initial par value for the Saudi Arabian riyal was established, with Fund concurrence, on January 8, 1960 at SDR 1 = SRls 4.50, equivalent to 0.197482 gram of fine gold per Saudi Arabian riyal. The par value replaced the official rate of SRls 3.75 = US$1 as well as the free market rate for the dollar.[21] In December 1971 and in February 1973 Saudi Arabia maintained the par value of its riyal. The rate for the U. S. dollar changed to SRls 4.14 in December 1971 and to SRls 3.73 in February 1973. On August 10, 1973 the par value of the Saudi Arabian riyal was changed, with Fund concurrence, to SRls 4.28255 = SDR 1, equivalent to 0.207510 gram of fine gold per Saudi Arabian riyal. The change represented an appreciation of the Saudi Arabian riyal by 5.1 per cent in terms of SDRs but did not result in any significant change in the Saudi Arabian riyal rate vis-à-vis the currencies of Saudi Arabia's principal trading partners, as compared to the relationship existing immediately after the announcement by the United States on February 12, 1973 of its intention to devalue the dollar. Saudi Arabia avails itself of wider margins under paragraph 1 of Executive Board Decision No. 3463-(71/126), adopted December 18, 1971.[22]

In January 1960 Saudi Arabia abolished all restrictions on imports and on payments, and on March 22, 1961 accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.[23] There are no restrictions on exchange transactions for current and/or capital purposes by residents or nonresidents. Neither import nor export licenses are required. Foreign exchange for external payments is freely obtainable, and export proceeds may be disposed of freely. Importers, exporters, and residents may effect payments to or from nonresidents without restrictions as to the currency used. All imports from, or exports to, Israel, Rhodesia, and South Africa are prohibited, as well as the use of their currencies.

Very few changes have been introduced in the exchange and trade system of Saudi Arabia since 1960. Following the introduction of the initial par value, the Government began granting cash subsidies for certain imported foodstuffs previously financed at the official rate. These subsidies were reduced in 1966, 1968, and 1969 and were totally eliminated in 1970. Import duties were reduced in 1968, 1972, and 1973.

[21] Owing to inflationary policies pursued during the period 1956–58, the Saudi Arabian currency depreciated in the free market, reaching SR1s 6.25 per US$1 in early 1958. The successful implementation of stabilization policies, initiated in June 1958, resulted in the gradual appreciation of the Saudi Arabian currency in the free market. By December 1959 the Saudi Arabian riyal had appreciated to about SR1s 4.50 per U.S. dollar.

[22] See *Selected Decisions of the International Monetary Fund and Selected Documents,* Sixth Issue (Washington, September 30, 1972), pp. 12–13.

[23] See *Articles of Agreement of the International Monetary Fund* (Washington), pp. 20–21.