

Hamad Al-Sayari: Recent economic and financial developments in Saudi Arabia

Speech by His Excellency Hamad Al-Sayari, Governor of the Saudi Arabian Monetary Agency, to the Custodian of the Two Holy Mosques on the occasion of presenting the 44th Annual Report of the Saudi Arabian Monetary Agency, Riyadh, 11 October 2008.

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It is a great pleasure for me to present to you the 44th Annual Report of the Saudi Arabian Monetary Agency which reviews the latest economic and financial developments in the Kingdom.

Custodian of the Two Holy Mosques,

During 2007, the national economy continued its strong growth for the fifth consecutive year, with real GDP increasing by 3.4 percent. The roles of the private and the government sectors in the development process were enhanced, recording growth rates of 5.8 percent and 2.7 percent respectively.

The State budget witnessed remarkable improvement in 2007, resulting in a surplus for the fifth consecutive year amounting to 12.3 percent of GDP. The balance of payments registered a surplus for the ninth consecutive year which stood at 24.9 percent of GDP. The monetary and banking sector also contributed effectively to the economy by providing adequate liquidity to finance growing and accelerated activities. Financial institutions played a significant role in the growth of the economy by providing various modern financial services.

Custodian of the Two Holy Mosques,

With the establishment of the Supreme Economic Council (SEC) under your wise leadership, the Saudi economy has witnessed a dramatic transformation. The Council has taken a broad range of decisions and measures aimed at restructuring and regulating the economy and streamlining regulations and legislation which would help to upgrade the level of efficiency and competitiveness of the economy and support optimum operation of production factors. The objective has been to provide an advanced regulatory and administrative framework and an environment attractive to domestic and foreign investments. Since the establishment of the Council, more than 60 major restructuring reform decisions have been taken in addition to more than 130 decisions for regulatory, procedural and administrative development. Fortunately, these developments have been accompanied by remarkable improvement in the State budget and in the world oil markets. Consequently, economic performance has obviously improved in recent years. An indicator of this improvement is the private sector's average annual real growth rate of 5.0 percent and the rise in other non-oil exports by an average annual rate of 23.1 percent to 7.3 percent of GDP at the end of 2007. As a result of these reforms, the Kingdom has gained a high sovereign rating for its financial solvency and also won the United Nations Public Service Award for the year 2008 for developing SADAD (Bill Presentment and Payment System). Moreover, the Kingdom ranked sixteenth among 181 countries worldwide in terms of competition in business and investment performance environment according to Doing Business 2009 Report published recently by IFC and the World Bank. Given the economy's current position and its performance indicators, it is expected to continue its strong and comprehensive growth in the coming years.

Custodian of the Two Holy Mosques,

Inflation, which many countries suffer from, is a global phenomenon and it is also a natural and inevitable result of strong economic growth. In the Kingdom, inflation growth rates accelerated to 4.1 percent in 2007 and to 11.1 percent in July 2008, but then, it decreased to 10.9 percent in August 2008. This has posed a difficult challenge due to the contradiction

between measures that control inflation, i.e. strict tightening of domestic liquidity and public spending, and the ambitious goals of enhancing economic growth fundamentals that require expansionary fiscal policies to build and complete the various development projects and improve citizens' standard of living. After having witnessed low levels of inflation, accompanied by moderate and sometimes low economic growth in the past decades, the economy began to grow strongly in response to restructuring reform policies adopted by your wise government since about seven years.

Inflationary signs have not shown up until 2006 when the demand side for goods and services began to exceed supply, impacting prices. The wave of high prices worldwide along with high expectations of individuals and institutions have played a role in increasing pressures on available resources and, consequently, higher inflation especially following the considerable improvement in the government income. The phenomenon of inflation has become at the top of your concerns. Accordingly, you have instructed the various appropriate authorities and bodies to combat it and reduce its effects on the society, while maintaining the momentum of development achievements. The package of the various procedures, introduced by the government at the beginning of this year, is an appropriate preliminary step aimed at addressing inflation sources that directly affect the society segments who are less able to bear its impacts. As for the monetary policy, the Saudi Arabian Monetary Agency (SAMA) has taken steps to control excess domestic liquidity by increasing rates of reserve requirements many times. However, because of the dominance of the fiscal policy over the economy, the greater burden falls on reviewing spending priorities and its programming to be in harmony with the absorptive capacity of the national economy and its ambitious development objectives. It is hoped that these procedures, along with reviewing the expansion in government spending, will achieve the targeted goals, and inflation will resume its pace and stabilize at appropriate levels in the near future.

Custodian of the Two Holy Mosques,

The world is experiencing a crisis that threatens economic growth and financial stability in several major countries of the world. This crisis has prompted authorities in these countries not only to take unusual measures to protect their financial stability but also to review their supervisory and control regulations of the financial system, while economic policies are being affected by competitive goals, namely, maintaining economic growth, controlling inflation and maintaining financial stability. In the Kingdom, the conservative policies and prudential measures taken by SAMA, to ensure the strength and stability of the national financial system, have had a great role in protecting the financial system from being affected by shocks that it may face due to domestic or international developments. The value of such measures may not be felt or appreciated unless the need arises.

May Allah guide your steps to greater success.