

Muhammad Al-Jasser: Review of the latest economic developments in Saudi Arabia

Speech by His Excellency Dr Muhammad Al-Jasser, Governor of the Saudi Arabian Monetary Agency (SAMA), to the Custodian of the Two Holy Mosques, on the presentation of the 46th Annual Report of the Saudi Arabian Monetary Agency, Riyadh, 25 September 2010.

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It is a great pleasure for me that the celebration of our National Day coincides with the submission of the 46th Annual Report of Saudi Arabian Monetary Agency which reviews the latest economic developments in the Kingdom for fiscal year 1430/1431H. (2009) and the first quarter of the current year.

Custodian of the Two Holy Mosques,

The impact of the global financial crisis on the world economy continued during 2009, with the world production of goods and services recording a downturn of 0.6 percent in 2009. However, economic variables over the past months of the current year indicate positive growth rates. Given that our national economy is characterized by its openness to the external world and high levels of trade integration with it, it is natural to affect and be affected by developments in the global economic system. The growth rate of GDP at constant prices declined to 0.6 percent in the Kingdom during 2009 compared to 4.2 percent in the preceding year. The non-oil sector maintained good growth rates, growing by 3.8 percent in 2009 compared to 4.3 percent in the preceding year.

Several factors have contributed to reduce the impacts of the global financial crisis on our national economy. The most important factors are the strength of our domestic financial sector and increased government spending despite of the decline in crude oil prices. The government spending stood at R1s 596.4 billion in 2009, reaching unprecedented record levels. The balance of payments recorded a surplus for the eleventh consecutive year, amounting to R1s 85.4 billion in 2009. The monetary and banking sector contributed efficiently to enhancing these good results by providing appropriate liquidity to finance economic activity. Money supply increased by 10.7 percent during 2009 and commercial banks expanded in providing modern and miscellaneous banking services. Moreover, positive economic developments included lower levels of domestic inflation, measured by the general cost of living index, standing at 5.1 percent in 2009 compared to 9.9 percent in the preceding year. Currently available economic data indicate an expected and notable improvement in the domestic economic performance for the current year despite of resumed inflationary pressures. The inflation rate stood at 6.1 percent in August 2010 compared to the same month of the preceding year.

I must take the occasion to indicate that some important international reports have commended some of the Kingdom's achievements. One of these reports is the IMF's Executive Board's assessment report of the Kingdom's economic developments which indicated that the Saudi economy was prepared to encounter the global financial crisis due to its adoption of sound supervisory and regulatory frameworks and the prudent and macroeconomic policies followed over the preceding years. The Board commended the Kingdom for taking strong measures and increasing expenditure and for good management of the monetary policy. The Fund appraised the Kingdom's efforts for maintaining the soundness of the banking system, improving the climate of credit and the positive economic outlook in general. It also supported the Kingdom's plans for resuming expenditure at sustainable levels and the government's effort aiming at slowing the growth of domestic consumption of oil products.

Custodian of the Two Holy Mosques,

In pursuance of the government's keenness to avoid the repercussions of the global financial crisis, the Supreme Economic Council held a meeting, chaired by your Majesty, on 16 Shawwal 1428H (16 October 2008) to discuss the global financial crisis and the way to curb its potential effects on the national economy and it called for taking a number of actions to face it. In the area of monetary and banking policies, SAMA followed monetary policy aimed at achieving stability in the financial sector and providing the necessary liquidity to meet domestic demand for credit, by taking a package of proactive measures to enhance the liquidity position and reduce the cost of lending in order to ensure that banks continue their financing role in the development process in the Kingdom. The most prominent measures were: reducing the Statutory Reserve requirements ratio, the Repo and the Reverse Repo Rates several times, enhancing the liquidity position in the banking system by placing long term deposits in local currency and US Dollar with local banks on behalf of government institutions and organizations, reducing the pricing of treasury bills, facilitating foreign exchange swaps in order to provide the necessary liquidity in US Dollar for the local banking system. As for fiscal policy, the government continued the expansion in public expenditure and increasing the pumping of funds to specialized lending institutions by an estimated amount of RIs 40 billion during 2009.

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In spite of the adverse impacts of the successive financial crises, they clearly resulted in combining international efforts to review the global financial system and commence taking reforming measures to perform its role effectively and positively in the global economic activity and international external trade. G20 has set a comprehensive work program to enhance the global financial system, including the establishment of the Financial Stability Board (FSB) in April 2009, attaining significant progress in the regulatory area and capital adequacy standards, liquidity risk management, compensation rules for senior executives in the financial sector, and transparency in registering hedge funds and rating agencies. Hopefully, the application of these standards would enhance significantly the financial positions of global institutions in the coming years. With this background, the Saudi economy has not been affected considerably by the global financial crisis due to conservative and prudent oversight and control policies followed since a long time. For instance, attention is paid to capital adequacy ratios and loan provisions for countercyclicalities.

Custodian of the Two Holy Mosques,

Under Your ongoing patronage and follow-up, the Supreme Economic Counsel continued achieving many developmental steps aiming at reconstructing and organizing the economy and updating laws and legislation in order to promote the level of the economy's efficiency and competitiveness, support the optimum utilization of production factors, and provide sophisticated regulatory and administrative frameworks and an attractive environment to domestic and foreign investments. As a result of these efforts, the economic performance has improved greatly over the recent years. This has been highlighted by the growth of the private sector's real GDP by an annual average of 5.1 percent during the last five years and the increase in non-oil exports by an average of 14.6 percent during the same period. Moreover, the investment environment in Saudi Arabia has improved, and the Kingdom has obtained the eighth rank at the global level for attracting foreign direct investment (FDI), according to the UNCTAD's report.

On the other hand, Saudi Arabia has recently been lauded by FATFS's report issued at the end of last June for its commitment to the nine Special Recommendations related to Terrorism Financing combined with the forty Recommendations on Anti-money laundering. As a result, Saudi Arabia occupies the first rank at the Arab level, and one of the G-20's top

ten positions. The tribute paid to the Kingdom is as an appreciation by the international community of the Saudi efforts in combating the crimes of money laundering and financing of terrorism, and it highlights the soundness of the Saudi stance stemming from its adherence to the tolerant Shari'a, implementation of the resolutions of the UN and Security Council and implementation of the best practices in this field. All these achievements have been accomplished by the grace of Allah Almighty, and then thanks to Your diligence and guidance, may Allah safeguard You. The Kingdom of Saudi Arabia is one of the first countries giving priority to combating the phenomenon of money laundering and financing of terrorism. In addition, it has been in the lead in combating this phenomenon due to its security, social and economic repercussions. Financing of terrorism has been criminalized in Saudi Arabia in compliance with provisions of the Anti-Money Laundering Law issued by a royal decree on 25/6/1424H (23/8/2003).

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The recent positive developments in our national economy represent a solid brick of the economic and social development bricks that you have continued to consolidate in this country since assuming the reins of government on 26 Jumada II 1426H (corresponding to August 1, 2005). One of the most prominent indicators of development is the rise of total government expenditure during the period from 2006 to 2009 to RIs 2.0 trillion. Total government spending in 2009 reached RIs 596.4 billion, the highest in the history of the Kingdom, and you, may Allah bless you, have been keen to take advantage of financial resources to spend effectively on the completion of infrastructure projects and the development of human resources. You have also urged quick completion of projects in the transport, health, education and water sectors for the service of citizens. You – may Allah bless you – have paid special attention to the human element where you have ordered the establishment of a number of universities, opened the door of welfare and development for future generations through the Custodian of the Two Holy Mosques' Program For Foreign Scholarships, and ordered its extension for other five years. This is in line with your attention paid to invest in the most important elements of development, namely, the human element. It is hoped that this will lead, with Allah's grace and guidance, to the preparation of the coming generations armed with science and knowledge that will complement the development process witnessed by our beloved country.

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The Council of Ministers approved on 28th, Sha'aban, 1431H (9th, August, 2010) the Ninth Development Plan of the Kingdom, which covers the period from 1431/1432H to 1435/1436H (2010–2014). You, may Allah bless you, instructed all organs of the State to be very keen on the implementation of their programs and projects and achieving their goals within their set time limit, giving a high priority to those which have direct impact on raising the standard of living of citizens and improving their life quality, especially in light of what have been allocated as an ambitious development expenditure which amounted to RIs 1,444 billion, 67 percent more than the allocations of the Eighth Development Plan. This plan is complementary to the achievements of previous development plans that led to a quantum leap in living standards of citizens and laid solid foundations for the Saudi economy to assume an important position in the global economy. The plan focuses on five main points, namely, continued efforts to improve the standard of living and life quality of citizens, the development and employment of the national manpower, structural development of the Saudi economy, balanced development of the Kingdom's regions and enhancing the competitiveness of the national economy and Saudi products in domestic and overseas markets.

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The endorsement of the Ninth Development plan coincided with the announcement by the Central Department of Statistics and Information of preliminary results of the population census. The population of the Kingdom amounted to 27.1 million, of whom about 18.7 million are Saudis, and 8.4 million are residents. The number of houses stood at 4.6 million. These results support your Royal instructions to exert every effort to achieve the objectives of the Ninth Development Plan in a timely manner, especially with regard to enhancing citizens' welfare, providing housing, employment, education, health care services, and modern facilities needed, and working hard to fight poverty, paying special attention to balanced development in all regions of the Kingdom.

At the regional level, the four member states of the GCC Monetary Union (Bahrain, Saudi Arabia, Qatar and Kuwait) have ratified, at the beginning of this year, the convention of the Monetary Union. By your Royal encouragement and support and that of your brothers the leaders of the Council's states, the Monetary Council began its work as the nucleus of the central bank to be established upon the completion of the main facilities and infrastructure of the Monetary Union. The central banks and monetary agencies, members of the Monetary Council, are doing their utmost to conduct the Council's work in accordance with the guidance of the leaders of the Council's States.

In spite of these bright achievements, there are still many challenges posed to our development march. Such challenges have all been the preoccupation of your majesty, and you have been constantly urging the authorities concerned to overcome them. The most prominent of those challenges are the following:

First: employment of the Saudi youth, which constitutes one of the major challenges facing the national economy. In spite of the good achievements made in the preceding period, estimates indicate that unemployment among Saudis amounted to about 9.6 percent in 2009. Given the rate of population growth and structure, it is important to continue intensifying current efforts to increase investment to develop the human capital with the active participation of the private and public sectors. Efforts should be intensified for Saudizing the jobs in the private sector, and obstacles hindering this process should be considered and eliminated. The percentage of Saudization fit for the nature of each activity and sector needs to be determined, and work should be made to activate the procedures and regulations that respect productivity and safeguard the rights of workers and employers alike.

Second: good utilization of economic resources of our country, most notably oil and gas that represent the most important elements of the economic development of the Kingdom. Figures indicate that the rates of domestic consumption of the Kingdom's oil and gas are growing at high rates, recording an average growth of 5.9 percent during the past five years. This is a high growth rate compared to the population growth and the size of GDP, which calls for investigating the reasons for such an increase and rationalizing it.

Third: provision of adequate housing for citizens which is an issue of diverse dimensions and causes. Perhaps the most prominent of which are the limited availability of developable land within the urban boundary at prices appropriate to the citizen's income, and the weakness of funding sources due to the absence of a regulatory framework. Here lies the importance of issuing financing and mortgage laws.

May Allah bless your majesty and guide your steps along the path of goodness.