

## Saudi Arabia: Economy heading for robust growth

By : Faisal Alsayrafi, President



Saudi Arabia's economy is heading for a robust growth this year as it has embarked on various development projects to keep its economic momentum going. Despite unrest in the region, Saudi Arabia maintained its economic projects intact and continued its economic policies uninterrupted.

The Kingdom's real GDP (gross domestic product) growth is expected to expand by 5.3 percent in 2011 as the expansion in the oil sector is projected to complement the non-oil sector, which will positively contribute to overall growth.

The oil sector remains the core of economic activity in Saudi Arabia, providing the financial underpinning for government expenditure plans and broader economic confidence.

The increase in oil revenues will prop up the fiscal and current account balances to register 3.2 percent and 20.9 percent to GDP, respectively. Real GDP growth is expected to rise by 5.3 percent, largely driven by the vibrant non-oil sector and partially due to the increase in oil production level.

State-driven development has succeeded in getting the Saudi economy back on track after the financial crisis and subsequent drop in oil prices slowed economic growth to just 0.2 percent in 2009.

The series of measures announced by Custodian of the Two Holy Mosques King Abdullah in the first quarter of this year will provide favorable stimulus to the non-oil sector, estimated to grow at 5 percent, with the construction and retail sectors the key beneficiaries.

The additional allocations entailed in the decrees estimated at around SR500 billion, with explicit supplementary spending totaling SR350 billion, are aimed at housing, employment, social security, health care and small and medium-size enterprises (SMEs), according the National Commercial Bank (NCB) report released recently.

The International Monetary Fund is also optimistic about Saudi Arabia's economic growth. The IMF said economic growth in Saudi Arabia is set to increase to 6.5 percent this year, up from 4.1 percent in 2010.

Saudi Arabia's economic strategy is clear as Finance Minister Ibrahim Al-Assaf indicated recently that the Kingdom would invest SR1.44 trillion in the implementation of its development plans for the ninth five-year program till 2014. Saudi Arabia will also overspend its budget by up to 15 percent this year due to supplementary spending on construction and job-creation measures.

Saudi Arabia's pledge to spend an estimated SR487.5 billion, or around 30 percent of its annual economic output, on new houses, creating jobs, unemployment benefits and other measures, will give an added impetus to economic growth.

The Kingdom responded to the global economic crisis with one of the most forceful stimulus packages among the leading economies.

Saudi Arabia has recently taken steps to significantly boost government spending. Although the budgeted 7.4 percent increase in spending took the projected total for 2011 to a record SR580 billion, the increment was the slowest since 2003. The budget continued a well-established pattern of prioritizing capital spending, which was projected to account for a historically high 44 percent of total expenditure. Education remains a spending priority with a 26 percent share of the total, followed by 12 percent to health, social and security services.

Saudi Arabia's monetary policy has contributed positively to attracting local and foreign investments and it also boosted a steady growth in the banking and financial sectors in the Kingdom.

Implementing broad-based structural reforms over recent years has largely improved the Kingdom's business environment and its attractiveness for foreign capital inflows.

The Kingdom is expected to remain the largest FDI (foreign direct investment) recipient in West Asia despite the turmoil in the Middle East. According to the World Investment Report 2010, issued by the United Nations Conference on Trade and Development (UNCTAD), the Kingdom's FDI totaled \$35.5 billion. Furthermore, the World Bank's Doing Business 2011 report ranked the Kingdom 11th out of 183 countries for ease of doing business. The 2010-11 Global Competitiveness Report also ranked Saudi Arabia at 21 out of 139 countries, ahead of China, Turkey, Brazil and India.

Saudi Arabia's monetary policy is also exhibiting a high degree of stability. The Saudi Arabian Monetary Agency (SAMA) is mainly concerned with price stability and money supply dynamics.

SAMA Gov. Muhammad Al-Jasser maintained that Saudi Arabia will keep pegging its riyal currency to the US dollar as long as its economy will remain heavily reliant on oil.

Saudi Arabia pegs its riyal currency to the US dollar based on pure economic interests and government plans to build more housing should reduce inflationary pressures in the future, Al-Jasser said recently.

Kingdom's inflation also showed a declining trend due to solid economic policies and strict monitoring by SAMA. Saudi inflation, which reached 11.1 percent in 2008, which was the peak at the time, is falling now. Inflation stood at 4.8 percent in April.

Saudi Arabia's net foreign assets also showed a rising trend in recent years. Net foreign assets of the central bank expanded by 13.2 percent year on year to SR1.76 trillion (\$468.34 billion), a record and the highest annual growth in two years.

However, the pace of foreign asset growth is likely to slow in the coming months as oil prices stabilize at lower levels and the bill to finance Saudi Arabia's SR485 billion spending program accumulates.

With oil prices around \$100 a barrel and crude oil output gaining, the Kingdom's public revenues are poised to grow 23 percent this year to SR904 billion, providing it plenty of flexibility to finance new initiatives for Saudi citizens, take the lead in building homes and raise public sector wages, Banque Saudi Fransi said in its latest report.

The Kingdom's private sector credit has continued to track higher. Latest official data show that bank lending to the private sector grew by 6.9 percent in the twelve months to April.

The construction momentum that was witnessed during the end of 2010 has continued into this year as the government awarded various mega-projects in sectors such as the transportation, oil & gas and power. The total value of awarded contracts reached SR49.7 billion.