ECONOMIC INDICATORS

AN INTRODUCTION ON PLANNING AND ACHIEVEMENTS OF DEVELOPMENT

Since 1389/90 (1969) the Kingdom of Saudi Arabia has started the adoption of a well defined methodology on development planning. The adopted methodology has rested, in principle, upon the bases and mechanisms of market economy and upon the preparation and implementation of medium-term plans, the first of which was the First Development Plan 1390/91-1394/95 (1970-1974). The importance of government development efforts increased in line with establishing of large projects in 1367 (1948) as a result of the increase in oil revenues and the need to mobilize the existing resources and organize their distribution over the various fields of development, following the preparation of the Kingdom's first fiscal budget that year.

Ever since, the government and the private sector along with citizens' participation contributed in mobilizing and utilization of the Kingdom's resources to realize many of the general socio-economic objectives. In the first phase, the first three development plans 1390/91-1404/05 (1970-1984) these objectives were actualized in completing the infrastructure, diversifying the economic base and the sources of national income, paying attention to development of human resources, and encouraging the private sector to step up its role in the economy.

The subsequent phase, the Fourth – Seventh Development Plans 1405/06-1424/25 (1985-2004) witnessed financial constraints on economic and developmental activity due to the state of instability that impacted the global oil market and caused a decrease in oil prices and consequently a decline in oil revenues. Nonetheless, development work was maintained to build infrastructure projects, expand public services, increase economic diversification, and boosted private sector's role in the areas of production and investment. At the same time these plans had focused on rationalizing public expenditure.

Indeed the development plans have realized immense developmental achievements over the past thirty-six years. These achievements shifted the levels of development in the Kingdom to a higher status in terms of economic standards such as volume of GDP as well as in terms of social standards such as health and educational services, and in terms of environmental standards such as the development of water resources, and in terms of technological standards such as establishing advanced industries.

While government efforts are being continued to expand the scope of these achievements and develop them through increasing the public resources allocated for development so as to complete the economic (physical), social and environmental infrastructure of the Kingdom through improving development planning operations and techniques, the review and evaluation of past operations are also improving in terms of relevant information and data and in terms of technical capability to monitor and analyze the various factors affecting this progress, particularly as national and institutional awareness regarding knowledge about the dimensions of the various development issues is continuously increasing.

It is evident that the economic, financial, technological and political developments witnessed by the world during the past years (particularly in the mid nineties) have posed new challenges to both government and private development efforts. These challenges, in turn, called for exerting greater efforts to promote development planning operations not only in terms of volume of resources, but also in terms of approach and skill in conducting follow-up and analysis as well as skilled adaptation of policies. Perhaps the prominent feature of the Kingdom's development planning experience is that it is based on the principles of market economy and assigning big role to the private sector economic activity. The Kingdom's development experie-nce recognizes the importance of the role of the state in management of the economy by virtue of the characteristics of the national economy and on account of the country's general development. It is also noticeable that the Kingdom's general experience is characterized by flexibility in adapting to requirements of the current changes as demonstrated in the emergence of new concepts with respect to planning practices at macro, sectoral and micro levels. Examples of such new concepts are: increased emphasis on indicative planning, (comprehensive) strategic planning, formulating and implementing the strategy of raising citizens' standard of living and fighting poverty.

These planning dimensions have given the process of development expansive and new horizons and have helped in rationalizing the utilization of the existing economic and financial resources and improving quality of life in the Kingdom. Consequently, these developments have contributed in realization of the major strategic developmental efforts, foremost of which are the increase in economic growth, increase in employment opportunities, diversification of the economic base, continuity of human resources development, increased role of the private sector, and fulfillment of the working conditions of market economy and competition.

In the process of evaluating the realized achievements (a task that should always be taken seriously) it is essential to determine the objective and subjective factors that have contributed in realizing the current progress and to determine the comparative importance of each factor. In this respect, objective analysis of the progress of the developmental experience shows that government development planning efforts have been some of the significant factors in brining about the realized achievements over last thirty-six years. Development planning practices have evolved from the individual planning and implementation of public projects to programs planning which includes consistent clusters of projects. Programs planning, in turn, based on comprehensive strategic planning and attaching special emphasis to overall details, policies and economic procedures as well as have taken into consideration balanced regional development. These developments have contributed in setting the Kingdom on the path of development in a manner that conforms to the nature of the economic, social, environmental and technological circumstances prevailing in the Kingdom throughout the review period. It is to be noted that during the period 1390/91-1404/05 (1970-1984) development efforts relied heavily on the public financial revenues obtained from the export of crude oil. Moreover, the Kingdom was in dire need for building its infrastructure and establishing public facilities and services. It was, therefore, essential to expand public expenditure, extend support to the private sector through development funds which provided easy-term loans, along with direct and indirect subsidies to the different industrial and agricultural projects. Under the circumstances of increased oil production and exports, and the low level of economic development during that period, there was no practical significance to introduce substantial structural economic changes that would allow reducing reliance on the oil sector in generating the Gross Domestic Product (GDP). During the subsequent period the objectives of development planning were promoted to include concentration on rationalizing public expenditure and improving the performance of public institutions so as to cope with the relative decline in oil revenues. However, review discloses that government efforts throughout the past thirty-six years have resulted in providing a good standard of health and educational services to citizens.

At the institutional level a number of significant changes were made during the past in order to promote efforts aimed at simultaneously improving the investment climate and providing public utilities and services.

As will be presented later-on, oil revenues were one of the most important strategic factors of the socio-economic progress realized during the past decades. Oil revenues had determined the content and directions of development and hence one of the most significant conclusions derived from the general analysis of the evolution of development in general and from the general analysis of the characteristics of the economy in particular is that the oil sector has played the leading role in economic development. This signifies that strategic necessity requires enhancing the efforts aimed at the diversification of the sources of production and national income through increasing the volume of investment in non-oil sectors and activities along with increasing non-oil national exports.

While efforts are being increased in the direction of liberalizing national economy and expanding their integration with the global economy, government development planning remains essential on account of the limited participation of the private sector in realizing the ambitious objectives of socio-economic development. The economic and developmental role of the state has been an important factor. Even in its early stages of development planning in the Kingdom paid special attention to the issue of encouraging the private sector. In recent years this issue acquired priority in setting up development plans strategies, policies and procedures. In fact, the Economic Development Commission, which was established in 1378 (1958), had outlined the state's economic policy with regard to supporting the private sector and emphasized that government investments should be active in projects which the private sector can not implement. The role of the state will continue to be an objective agent of development until the desired and targeted diversification of the economic base is completed and the heavy reliance on oil revenues for financing public expenditure and imports is reduced.

In order to recognize the substantial

government efforts that are being exerted in preparing the development plans, a quick review of such efforts will show the participation of numerous government officials in preparing and evaluating these plans. Through coordination of the Ministry of Economy and Planning employees with all ministries and government agencies to prepare the necessary basic, supporting, sectoral and micro studies. They also propose projects and evaluate their feasibility and come up with conclusions derived from reviewing the developments taking place in the national economy in order to determine the priorities of the general and detailed objectives, the development programs and projects and the formulation of the strategies and policies required for their realization. These employees also work out the estimations of the financial resources required for the process of development and they specify the requirements of manpower and employment opportunities.

The preparation of development plans involves the preparation of operational plans of government agencies which include the programs and projects that the state plans to implement. In the process of preparation, reports coming from the Kingdom's thirteen regions are taken into consideration in determining the projects and formulating the policies relevant to the realization of balanced regional development.

The existing positive relation between government development planning and the actual achievements of development has in fact the reality of socio-economic development in the Kingdom, may justify and confirm its importance. In this regards, it would be useful to review the most important achievements realized in the Kingdom during the past decades, as this provides the information and data required for evaluating and shedding light on the major issues and problems which accompanied the progress of socio-economic development during the past thirty-six years. This is considered as one of the benefits of publishing this book. The importance attached to showing the positive results of national development efforts in improving the standard of living and promoting the quality of life in the Kingdom and establishing a solid economic base for future progress is equal to the importance of presenting the indicators demonstrating these results because these indicators, and the implicit analysis they contain would help in promoting national development efforts in the future.

CHAPTER ONE

SOCIO-ECONOMIC PROGRESS
AND
THE DEVELOPMENT PLANS

1. SOCIO-ECONOMIC PROGRESS AND THE DEVELOPMENT PLANS

The development plans implemented in the Kingdom since 1390/91 (1970) have succeeded in increasing the rates of economic growth and work opportunities. These plans have also succeeded in establishing an integrated base of infrastructure and institutions capable of bolstering economic activities, implementing progress and modernization along with transferring advanced technology, realizing high standards of educational, health and social services. These achievements have been clearly reflected in the improvement of standards of living for all citizens.

The value of GDP increased by over 4.9 folds at the constant prices of 1419/20 (1999), where its value increased form about SR 156.7 billion in 1389/90 (1969) to SR 767.7 billion in 1425/26 (2005). This jump serves as an indicator demonstrating the remarkable economic achievement realized to date. Private consumption also increased from SR 27.9 billion in 1389/90 (1969) to SR 299 billion in 1425/26 (2005). On average the annual growth rate of private consumption reached around 6.8%.

With the exception of the seventies, modern economic growth of the Kingdom was marked by general economic stability, reduction in inflation rates and maintaining of the Saudi Riyal purchasing power. This healthy status of the economy has helped in improving the efficiency of economic decisions of producers, investors and consumers. The average annual rate of increase in the general consumer price index which was 12.8% during the 1389/90-1399/1400 (1969-1979) period, dropped to 0.7% during the 1399/1400-1425/26 (1979-2005) period.

The development plans have succeeded in bringing about significant changes in the characteristics of the national economy which had depended immensely upon crude oil exports. However, the development plans over the past years have succeeded in making remarkable changes through the diversification of economic activities, increasing the contribution of non-oil sectors as well as increasing the role of the private sector in production, investment and employment, improving the private sector's capability to rid itself from the notion of relying upon government spending and the impact of expansion or shrinkage of such spending under the effect of external factors surrounding the global oil market. In addition, the rate of non-oil revenues contribution to total government revenues increased from about 10% in 1389/90 (1969) to around 11.5% in 1425/26 (2005).

1.1 GENERAL ECONOMIC ACHIEVEMENT INDICATORS

The value of Gross Domestic Product (GDP) at current prices, rose from SR 20.2 billion in 1389/90 (1969) to SR 939.4 billion in 1424/25 (2004). If we distinguish between two phases of economic development in the Kingdom on the basis of realized growth rates, the first phase which covered the period of the first three development plans 1390/91-1404/05 (1970-1984) witnessed high growth rates in GDP which annually averaged 23.2% while the second phase which covered the period of the (Forth-Seventh Development Plans witnessed lower growth rates in GDP which annually averaged 4.1%. Nonetheless, growth rate averaged 11.9% during the seven development plans and up to the first year of the Eighth Development Plan was good by all general domestic and international standards.

The progress was coupled with a rise in the value of exports from SR 9.7 billion in 1389/90 (1969) to SR 678.5 billion in 1425/26 (2005). In the context of this remarkable progress the value of non-oil commodity exports rose from around SR about 28 million in 1390/91 (1970) to around SR 71.3 billion in 1425/26 (2005).

This progress was made possible as a result of massive investments by the government and the private sector as well as a result of the effectiveness of the economic and developmental policies pursued by the government within the framework of development plans. Comparison between the objectives of the development plans and the governmental financial resources spent during these plan periods on the one hand, and the actual results on the other demonstrate the importance of these plans in realizing the economic and social achievements. The First Development Plan 1390/91-1394/95(1970-1974) had targeted the realization of an average annual growth rate in real GDP at 9.8%. What was achieved; however, almost double the targeted rate since the actually realized rate amounted to 18.7% as an annual average during that period. The realization of this great success was made possible by favorable circumstances that led to an increase in oil revenues which in turn increased government spending from SR 41.3

billion to SR 75.5 billion during the plan period i.e. increased at the rate of 82.8% of the planned government spending. The increase in government spending persisted during the Second Development Plan 1395/96-1399/1400 (1975-1979) where total government spending amounted to SR 684.4 billion. This amount was 9.1-folds greater than government spending during the First Development Plan. The increase in government spending was coupled with a rise in GDP growth rate at constant prices of 1419/1420 (1999) at an average annual growth of 5.6%. This was reflected clearly in the increase of real growth rates in non-oil sectors where their average annual growth rate reached 8.9% during the Second Development Plan while average annual growth rate in the oil sector registered 2.4%. The government sector also realized real growth rates that amounted to 5.5% while the private sector realized a noticeable real growth rate of 10.1%. With the substantial increase in government spending the major directions of development during the First Development Plan were deepened and their average annual growth rate reached 42.5% while the real growth rate in value added of the government sector reached about 5.5%.

On implementing the Third Development Plan 1400/01-1404/05 (1980-1984) the planned total government spending amounted to SR1200 billion. This amount was nearly twice the value of actual spending during the Second Development Plan. By the end of the Third Development Plan government actual spending amounted to SR 1213 billion due to the increase in government revenues. During that period the role of the private sector became stronger and its share in gross fixed capital formation at current prices, increased from SR 37.7 billion in 1400/01 (1989) to SR 50.2 billion in 1404/1405) (1984). The total value of these contributions amounted to about SR 233.1 billion during the five years of the plan i.e. realized an increase in private investment at the rate of 10.3% compared to the Second Development Plan. The realization of this success was helped by implementing economic policies aimed at expanding easy-term financing to motivate private investment.

Following these rapid positive developments, the Fourth Development Plan witnessed a substantial decline in oil revenues on account of lower oil prices in the global market. This was reflected in the relative decrease in total government spending of the state budget where total government spending stood at SR 779.3 billion instead of the planned amount of SR 1000 billion. The impact of this decline was reflected in GDP growth rates, where the real average growth rate at 1419/1420 (1999) constant prices reached 0.7% only during the plan period. Nonetheless, development efforts were capable of continuing to extend support to the different economic sectors, foremost of which was the agricultural sector which realized high growth rates that reached 13.4% as annual average. Likewise the petrochemical industries sector made a substantial leap at an average annual growth rate of 47.3%. Public utilities realized an average annual growth rate of 5.9% while the oil and natural gas sector realized an average annual growth rate of 4.4% during the Fourth Plan period.

The Fourth Development Plan 1405/06-1409/10 (1985-1989) focused on a new strategic direction aimed at increasing the value added by the oil and natural gas sector. At the time it had also become evident that it was necessary to concentrate on petrochemical industries, which enjoy comparative advantage and high value added. Accordingly, priority was given to petrochemical industries and the investments to develop these industries were made available. The Fourth Plan also witnessed positive indicators as represented in increasing the real average annual growth rate of non-oil exports, which rose from 18.0% during the Third Development Plan to 29.3% during the Fourth Development Plan against a decrease in imports at the rate of -7.8% as an annual average over the Fourth Development Plan. During that period domestic production increased especially as compared to consumption and agricultural commodities, and the rate of import substitution of these commodities also increased. On the other hand, the private sector's share of total investments increased to constitute about 54.9 per cent during the Fourth Development Plan and amounted to SR 239.2 billion at constant prices of 1419/1420 (1999).

During the Fifth Development Plan 1410/11-1414/15 (1990-1994) GDP realized a real average annual growth rate of 4.4%, and the private sector realized an average annual growth of 2.1%, the growth rate of the government sector increased by 2.9% while the oil sector increased by 9.7%. This increase in growth is attributed to the noticeable increase in oil revenues during those years.

The total value of private investments

at 1999 constant prices amounted to SR 283 billion i.e. at a real average annual growth rate of 5.9% while government investments amounted to SR 178.8 billion. The value of total government spending, amounted to SR 1020.5 billion mainly due to improvement in oil revenues. During the plan period the balance of trade realized a surplus of around 15.6% of GDP.

In general, actual spending on development agencies (sectors) during the first five development plans reflects the state's keenness to continue providing the expenditure required for development in its major sectors. In this respect, government spending at current prices jumped from SR 34.1 billion in the First Development Plan to SR 347.2 billion in the Second Development Plan and was about doubled to SR 625.2 billion in the Third Development Plan to meet the increasing requirements of development at a large scale. However, the value of actual government spending relatively decreased to SR 348.9 billion during the Fourth Development Plan and to SR 340.9 billion during the Fifth Development Plan.

It is noticed that a new phase in progress and development has started with the implementation of the Fifth Development Plan 1410/11-1414/15 (1990-1994). The objectives of that plan concentrated on modern requirements foremost of which were: accelerating the development of science and technology, improving the quality of production, raising the efficiency performance of institutions, bolstering competitiveness, concentrating on changing the economic structure, diversifying economic activities, establishing organizational development, maintaining the welfare and quality of life of the society, paying enormous care to environmental standards and to the requirements of securing a safe environment, and realizing balanced regional development. The Fifth Development Plan paid attention to the development of productive sectors, basic industries, petrochemicals industry, agricultural and agro-industry figured prominently. Moreover, greater attention was given to the role of the private sector in increasing the volume of investments and expanding the productive capacity of the Kingdom.

Over the Sixth Development Plan 1415/16-1419/20 (1995-1999) the strategic directions focused on development of human resources and improvement of the living standard of citizens. Actual expenditure on development sectors amounted to SR 420.4 billion of which SR 216.6 billion were spent on development of human resources, representing 51.5% of total expenditure. The Plan also maintained the stability of consumer prices and the value of the national currency which has been a unique feature of the Kingdom over the past two decades. Inflation rate averaged 1.2% per year, which is a low rate that reflects the general economic stability of the Kingdom. The Plan also concentrated on the strategic direction aimed at increasing the contribution of non-oil sectors as a share of GDP. This share rose from 51.1% of GDP in 1389/90 (1969), at constant prices of 1419/20 (1999) to around 69.7% in 1419/20 (1999) by the end of the Sixth Development Plan, and reached 70.6% in 1424/25 (2004) by the end of the Seventh Development Plan. It is to be noticed that the last year of the Seventh Development Plan witnessed important developments related to global oil market and prices. On the other hand, private sector investments grew during the Sixth Development Plan at real average annual rate of about 9.3% while this rate reached 3.5% during the period of the Seventh Development Plan. Government expenditure averaged about 2.3% per year during the Sixth Development Plan and reached 9.2% over the period of the Seventh Development Plan. It's to be indicated, at this point, that the improvement in oil revenues in 1424/25 (2004) helped to increase government spending to around SR 285.2 billion i.e. the equivalent of 72.7% of the realized total revenues.

Several of the strategic developmental objectives were realized during the Seventh Development Plan as a result of increase in development oriented government expenditure. The actual government total development expen-ditures during the plan amounted to SR 485.3 billion of which SR 276.9 billion was allocated for human resources development i.e. at the rate of 57.1%; SR 92.6 billion, or 19.1%, for social and health development; SR 61.4 billion, or 12.6%, for infrastructure; SR 54.4 billion for economic resources development, at the rate of 11.2%. Accordingly, the total actual expenditure on development sectors rose at the rate of about 15.4% of the actual expenditure on development sectors during the Sixth Development Plan.

In determining economic and developmental objectives of the Seventh Development Plan had relied on the developmental achievements of the previous plans so as to be in line with the requirements of the transitional stage. Most prominent of those objectives realized are: concentration on encouraging non-oil private sector to realize an average annual growth rate of 4.28%, realization of a real average annual growth rate in investment at the rate of 3.5%, improvement of the status of the current account in the balance of payments to a point where it realized a surplus estimated at the rate of 20.7% of GDP by the end of the plan in 1424/25 (2004).

1.2 DEVELOPMENT OF NON-OIL SECTORS, CONTRIBUTION TO GDP

For a long time economic development in the Kingdom was marked by the big role played by the oil sector in generating GDP and financing government expenditure to establish the infrastructure and provide public services to citizens. In response to this situation, the top priority of the successive development plans have persistently focused on diversification of economic activities and boosting role of the private sector. Important accomplishments were made in this area as testified by the high rise in growth rates of the non-oil sectors to which the private sector contributes a large share. Non-oil GDP at 1999 constant prices increased at an average annual rate of 5.5% over the period 1389/90-1425/26 (1969-2005) i.e. its value increased by about seven folds. This increase reflects the great success realized as a result of implementing the policy of diversification of the economic base of the kingdom.

At the Sectoral level during the period 1389/90-1425/26 (1969-2005) the real average annual growth of other manufacturing industries reached 8.4% at constant prices of 1419/20 (1999), about 5.6% as regards the agricultural sector, and about 5.2% in the services sector. During the same period, the value of industrial GDP rose to around SR 86.3 billion against SR 8.3 billion at the beginning of the period. During the First Development Plan the average annual growth rate of the industrial sector was around 12.9%, 6.4% over the period of the Second Development Plan and 9.3% during the Third Development Plan. The growth rate, however, dropped to 3.6% during the Fourth Development Plan. The same rate was realized during the Fifth Development Plan but went up to 6.4% during the Sixth Development Plan. Over the period of the Seventh Development Plan, the average annual growth rate stood at 5.1%. During the first year of the Eighth Development

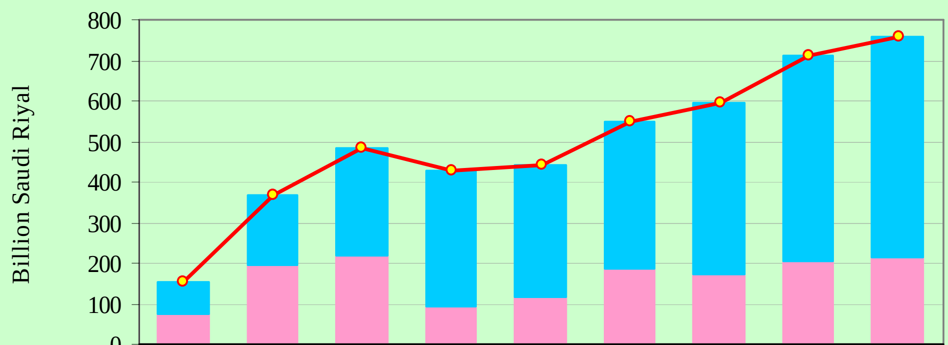
Plan 1425/26 (2005), the industrial sector grew at an annual average rate of 7.4%.

The value of agricultural GDP rose to around SR 39.5 billion in 1425/26 (2005) against SR 5.51 billion in 1389/90 (1969), realizing a progressive increase in growth rates which reached 4.1% during the First Development Plan, increased to 6.4% over the Second Development Plan, jumped to 10.5% and 13.4% during the Third and Fourth Development Plans respectively. As regards the periods of the Fifth, the Sixth and the Seventh Development Plans the growth rates declined to 2.5%, 1.4% and 1.9% respectively. It is worth noting that the decline in agricultural growth rate during the recent years is in conformity with the development direction which had aimed at adapting agricultural expansion to the existing water resources.

Growth indicators in the services sector, to which the private sector contributes substantially and provides work opportunities, reflect the realization of an evident progress. The value of this sector's GDP increased from SR 56 billion in 1389/90 (1969), at constant prices of 1419/20 (1999), to SR 327.7 billion in 1424/25 (2004) and to about SR 350.8 billion in 1425/26 (2005).

Those positive developments were reflected in the increased contribution of the private sector to the real GDP at

Figure 1 **Development of Gross Domestic Product by Oil & Non-Oil Sectors - At 1419/20 (1999) Constant Prices**



	1389/90 (1969)	1394/95 (1974)	1399/00 (1979)	1404/05 (1984)	1409/10 (1989)	1414/15 (1994)	1419/20 (1999)	1424/25 (2004)	1425/26 (2005)
Non-oil Sectors	80.1	172.0	263.9	335.6	326.5	365.5	420.9	508.3	542.6
Oil Sector	73.6	194.0	218.1	93.6	115.9	184.2	173.1	203.8	216.3
GDP	153.7	366.0	482.0	429.2	442.4	549.7	594.0	712.1	758.9

the constant prices of 1419/20 (1999), from about SR 54.3 billion in 1389/90 (1969) to SR 376.2 billion in 1424/25 (2004), and about 401.1 billion in 1425/26 (2005).

1.3 DEVELOPMENT OF THE OIL SECTOR'S CONTRIBUTION IN GDP

The successive development plans have devoted considerable attention to the development and modernization of the oil sector with a view to increase oil production and revenues. Thus, industrial development has, since its early stage, been linked with expansion in crude oil production along with utilization of natural gas resources. This has been accomplished through establishment of refining facilities and petrochemical industries as well as other industries capable of increasing the value added of oil and natural gas resources. Due to the attention given to the oil sector, production of crude oil in the Kingdom went up from about 3.2 mbd in 1389/90 (1969) to 8.9 mbd in 1424/25 (2004). This has been resulted in the increase of the value of real GDP of the oil sector at constant prices of 1419/20 (1999) from SR 73.6 billion in 1389/90 (1969) to about SR 216.3 billion in 1425/26 (2005). It is noteworthy that the development of the value of the oil sector's GDP at current prices reflects the tangible increase in the global oil prices particularly over the past two years when this value reached about SR 393.5 billion and SR 549.2 billion, compared to SR 203.8 billion and SR 216.3 billion respectively at constant prices over the last two years.

1.4 DEVELOPMENT OF THE PRIVATE SECTOR'S CONTRIBUTION IN GDP

The private sector has become more capable in relying on its economic efficiency to continue its increasingly important role in the process of economic development. The sector's generated value added increased from SR 54.3 billion in 1389/90 (1969) or by 34.6% share of real GDP value of about SR 156.7 billion, to about SR 401.1 billion in 1425/26 (2005) or 52.2% share of GDP (value of about SR 767.7 billion) at 1999 constant prices. The contribution of the private sector in non-oil economic activities went up from 67.7% to about 73.9% over the same period. These developments reflect the extent of the change taking place, which is generally positive, in the structure and features of the national economy during that period.

This development in the role of the

private sector, coupled with its increased contribution in GDP, is among the outstanding economic achievements realized during the Kingdom's successive development plans. The annual growth rate of the private sector's generated value added, at 1419/20 (1999) constant prices, averaged about 5.7% during 1389/90-1425/26 (1969-2005). This rate is higher than the average annual growth rate of real GDP over the same period which stood at about 4.5%.

1.5 SOCIAL DEVELOPMENT INDICATORS

The progress of human and social development indicators underscores the successful achievements made by the development plans in this field. The Kingdom made significant achievements in the provision of public services, foremost among which are education, health, housing services as well as vital facilities such as electricity, water, roads, transport and communications. This has significantly contributed towards raising the standard of living and improving the quality of life of the citizens.

Life expectancy at birth for Saudi citizen reached 74.3 years in 1426 (2005) compared to 53 years in 1390 (1970), reflecting substantial improvement of the standard of living. This is evidenced by the indicators of private consumption of goods and services which realized an average annual growth rate of about 11%, at current prices, during the past 36 years, 1389/90-1425/26 (1969-2005). Citizens' care is also provided through social security pensions which reached about SR 2.5 billion in 1425/26 (2005) compared to SR 39.4 million in 1389/90 (1969), or more than 65 folds over the past 36 years of development planning. Furthermore, temporary assistance is also provided to citizens, which went up from SR 2.3 million to SR 436.1 million over the same period. The value of social security pensions amounted to about SR 3.01 billion in 1425/26 (2005).

The process of economic development has also been accompanied by provision of job opportunities to Saudi labor force. The number of Saudi workers in the Kingdom went up from about 1.2 million in 1389/90 (1969) to about 3.7 million in 1425/26 (2005), or at an average annual growth rate of 3.2%.

1.6 DEVELOPMENT OF INVESTMENTS

The socio-economic achievements realized by the Kingdom are attributed to the increase in investments at substantial rates. The average annual growth rate of investments (Gross Fixed Capital Formation), at 1419/20 (1999) constant prices, reached about 6.4% during the past 36 years. While the average annual growth rate of the private sector investments accounted for 8.3%, government sector investments 2.9%, and oil and gas sector amounted 6.2%. The value of gross fixed capital formation at 1999 constant prices, went up from about SR 18.1 billion in 1390/91 (1970) or 10.4% of the value of GDP to about SR 168.1 billion in 1425/26 (2005) or 21.9 % of GDP. In this respect it is noticed that the private sector's share in gross fixed capital formation increased from 38.3% in 1390/91 (1970) to 74.4% in 1425/26 (2005), reflecting the continuous need to encourage the private sector to increase its investment activities.

Evaluation and analysis of the development that took place over the past three decades show the successful completion of most of the public investment programs in the national economy related to physical infrastructure and provision of public services, especially education, health and social services to the citizens.

The Seventh Development Plan particularly aimed at increasing private investments –national and foreign- along with improving investment climate and pertinent regulations and mechanisms. Thus, the Foreign Investment Law has been issued according to which the Saudi Arabian General Investment Authority (SAGIA) was established. This law encompasses provision of several incentives, benefits and exemptions for investors. Furthermore, the Supreme Economic Council has been established to be entrusted with proposal of policies and measures necessary for improvement of economic climate and enhancement of private investments. The Seventh Development Plan achievements in this regard included efficiency improvement of government services, development of administrative organization, restructuring government agencies to improve the quality of public services and ensure meeting the growing need for such services. During this plan period, attention has been given to automation of government transactions, to upgrade business efficiency and facilitation of the procedures to ensure their finalization within short and specified periods with a view to keep abreast to global developments in the domain of telecommunications and information technology.

1.7 PUBLIC FINANCIAL RESOURCES AND THE PATTERN OF THEIR ALLOCATION AMONG VARIOUS SECTORS

Investment is the crucial factor for economic growth and social development, the public financial resources is the main factor for increasing volume of investment in the Kingdom and meeting pertinent requirements including domestic and imported goods and products. The main sources of public finance are financial resources and returns of foreign currencies generated from export of crude oil. During the period 1390/91-1425/26 (1970-2005), the contribution of oil revenues in total public revenues has been effected due to the change in oil prices in the international oil market. In 1970, oil revenues amounted to SR 7.1 billion or 89.7% of total public revenues at that time. The absolute and relative value of these revenues started to decline during the 1980s to reach its minimum level of SR 48.4 billion in 1988 or 57.2% of the total public revenues which amounted to about SR 84.6 billion during that period. Since then and up to 1423/24 (2003), oil revenues oscillated, then went up again in 1424/25 (2004) to reach SR 330 billion or 84.1% of total public revenues, and continued this trend in 1425/26 (2005) to reach about SR 491 billion, or 88.5% of the total public revenues.

The value of other public revenues stood at about SR 0.82 billion in 1390/91 (1970), increased to SR 61.3 billion in 1403/04 (1983) thereafter started fluctuating, remained at a stable level of SR 44 billion in 1420/21 & 1421/22 (2000 & 2001), then rose in a progressive manner to about SR 62.3 billion in 1424/25 (2004), and about SR 64 billion in the first year of the Eighth Development Plan.

The total public expenditure stood at SR 6.4 billion in 1390/91 (1970), increased to SR 244.9 billion in 1402/03 (1982), and witnessed a general trend of decline during the past decades to reach SR 233.5 billion in 1422/23 (2002). This trend has changed over the ensuing years and the total public expenditure reached SR 341 billion in 1425/26 (2005). With this context of revenues instability and fluctuation, and the status of public expenditure, the state budget witnessed a continuous deficit during 1403/04-1422/23 (1983-2002), with the exception of 1420/21 (2000). The state budget then realized a surplus that peaked in 1425/26 (2005) to reach about SR 214 billion. It is obvious that the state budget was greatly influenced by the sharp oscillation in international oil markets and prices, particularly the drop cases which peaked in 1418/19 (1998) when the price of oil decreased to about $ 11 per barrel compared to an average of $26 per barrel in 1405/06 (1985), as well as the higher prices at present.

Concerning the pattern of public revenues allocation, the share of development agencies (sectors) in total public revenues reached SR 34.1 billion during the First Development Plan, or 45.2% of the plan's total financial requirements. This value went up to SR 347.2 billion during the Second Development Plan, or 50.7% of the total approved state budget. During the Third Development Plan, the value of resources allocated for development agencies amounted to SR 625.2 billion or 51.6% of the total public financial resources. There has been a clear impact of the decline of oil revenues on the value of financial resources allocated for development agencies in the Fourth, Fifth, Sixth and Seventh Plans as their values amounted to SR 348.9 billion, SR 340.9 billion, SR 420.4 billion and SR 485.3 billion respectively. During the Eighth Plan, the financial allocations of development agencies reached SR 614.6 billion, or 49.8% of total approved public financial resources.

1.7.1 Government Revenues

The First and Second Development Plans have been characterized by a significant increase of public revenues due to the favorable conditions in the international oil markets coupled with the increased prices of oil. Total value of the government revenues increased from SR 7.9 billion in 1390/91 (1970) to SR 100 billion in 1394/95 (1974) and to SR 211.2 billion in 1399/1400 (1979). The average annual growth rate of public revenues during the First Development Plan reached 77.6% and 16.1% during the Second Plan. during the Third Plan period, the international oil markets experienced adverse changes that lead to the decline of oil revenues to an extent where the average annual growth rate of public revenues dropped by -4.1%. The total public revenues declined from SR 348.1 billion in 1400/01 (1980) to SR 171.5 billion in 1404/05 (1984). This decline continued during the Fourth and Fifth Plans when public revenues reached SR 133.6 billion in 1405/06 (1985) and declined to SR 114.6 billion in 1409/10 (1989), at an average annual decline rate of -7.7% during the Plan period.

During the Fifth Plan, public revenues

increased by an average annual rate of 2.4%, and continued to increase during the Sixth Plan at an average annual growth rate of 2.7%. The public revenues recorded the highest increase in 1417/18 (1997) to reach 205.5 billion, then declined to SR 147.5 billion in 1419/20 (1999). Public revenues increased once again in 1420/21 (2000) to SR 258.1 billion at the beginning of the Seventh Plan due to increased oil revenues. Out of these revenues, oil revenues amounted to SR 214.42 billion, in 1421/22 (2001) public revenues stood at SR 228.2 billion, of which oil revenues accounted for SR 183.9 billion. In the fourth year of the Seventh Plan, 1423/24 (2003), public revenues reached about SR 293 billion, of which the share of oil revenues accounted for 78.8%. During the last year of the Seventh Plan, 1424/25 (2004), owing to batter global oil market and increased production, public revenues rose further to SR 392.3 billion, of which the share of oil revenues amounted to 84.1%. Public revenues continued to increase in the first year of the Eighth Plan to reach about SR 555 billion.

1.7.2 Non-Oil Public Revenues

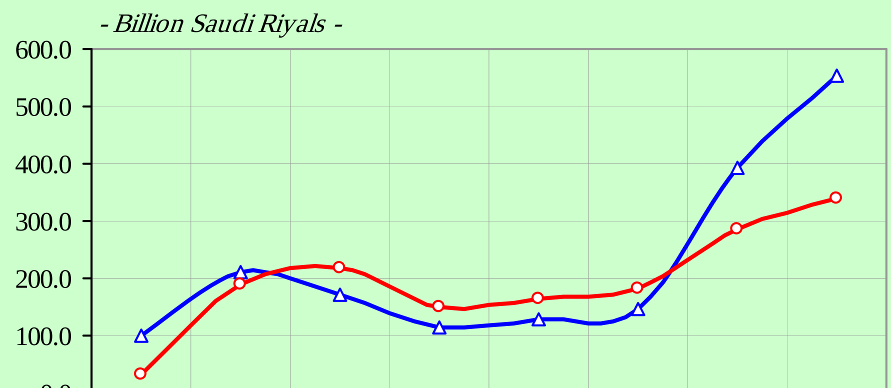
Non-oil public revenues have increased with the increase of economic activity and expansion of the production and service base in the country. These revenues went up from about SR 818 million in 1390/91 (1970) to about SR 50.16 billion in 1404/05 (1984), then started to oscillate to reach about SR 62.3 billion in 1424/25 (2004) and SR 64 billion in the first year of the Eighth Plan. This is attributed to the fluctuations that occurred in some items of revenues such as custom revenues, port and airport service fees as well as selling and renting of real-estate. These items declined in a tangible manner since 1404/05 (1984).

1.7.3 Public Expenditure

Since the early phases, the development plans have stressed on preparing resources necessary for increasing economic growth rates and financing expansion projects in public facilities and services with a view to raise the standard of living of citizens. Thus, the public expenditures in the state budget increased from SR 6.4 billion in 1390/91 (1970) to SR 8.3 billion in 1391/92 (1971) and increased by about five folds by the end of the First Plan to reach about SR 32 billion 1394/1395 (1974) public expenditure continued to increase to reach SR 188.4 billion in 1399/1400 (1979). This increase is about six folds of the level in 1394/95 (1974). Furthermore, public expenditure continued to increase to reach SR 216.4 billion in 1404/05 (1984) due to continuous finance of the projects pertaining to improvement of education, health, housing, transport and telecommunication services. This expenditure helped in supporting human development projects and programs and realizing the objectives of sectoral growth in the Plan. The average annual growth rate of actual government expenditure during the First, Second and Third Plans reached 49.5%, 42.5% and 2.8% respectively. The expansion in public expenditure during the first three plans lead to the accomplishment of many economic and social achievements. The national economy has expanded in terms of volume, and acquired new capacities that have been further boosted by construction of modern infrastructure in transport, telecommunications, education, health, housing, agriculture and industrial sectors.

During the Fourth Plan, public expenditure declined by an average annual rate of -7.1%. This decline has not only resulted from the decline of public revenues, but also as a result of completion of most infrastructural (municipal) projects. Public expenditure decreased from about SR 184 billion in 1405/06 (1985) to SR 149.5 billion in 1409/10 (1989). During 1990 and 1991, public expenditure oscillated, although moderately, to increase in 1420/21 (2000) reaching SR 235.3 billion, then went up to SR 255.1

Figure 2 **Development of Public Revenues & Expenditures**



	1394/95 (1974)	1399/00 (1979)	1404/05 (1984)	1409/10 (1989)	1414/15 (1994)	1419/20 (1999)	1424/25 (2004)	1425/26 (2005)
Revenues	100.1	211.2	171.5	114.6	129.0	147.5	392.3	555.0
Expenditures	32.0	188.4	216.4	149.5	163.8	183.8	285.2	341.0

billion in 1421/22 (2001). In 1423/24 (2003), actual public expenditure reached about SR 257 billion then increased in 1424/25 (2004) to SR 285.2 billion. Public expenditure continued to increase in the first year of the Eighth Plan to reach SR 341 billion.

1.7.4 Government Credit Institutions

The development plans have placed due emphasis on provision of soft loans to the national private sector with a view to increase investments in all sectors of the economy. This policy has contributed towards support of industrial and agricultural development as well as the activity of the whole services sector. The private sector's activity has expanded in several fields such as private hospitals, clinics, hotels, bakeries, domestic and foreign trade, transport and telecommunication sector … etc. Furthermore , these loans played a major role in the development of real-estate sector, particularly provision of housing, acceleration of urban development, modernization of old residential areas as well as addition of new residential and commercial complexes that absorb the increasing number of population and meet the requirements of general development.

The value of loans provided by specialized government credit institutions since their establishment and up to 1423/24 (2003) reached about SR 319.6 billion, which increased to SR 325.5 billion in 1424/25 (2004), and then to SR 331.6 billion in 1425/26 (2005).

Among the key institutions which play a substantial role in this field is the Real Estate Development Fund (REDF), which was established in 1974 to finance individuals and establishments in building real estate projects for personal use as housing or commercial purposes such as private hospitals, hotels and bakeries, played a major role in the development of real estate sector and expansion of property ownership. REDF's contribution came on top of the government credit institutions. The value of loans extended by REDF for construction of private houses and investment buildings reached about SR 130.5 billion up to 1423/24 (2003). The Fund's value of loans increased to about SR 132.3 billion in 1424/25 (2004), and to SR 134.8 billion in 1425/26 (2005), or 40.7% of the total loans provided by the specialized government credit institutions. The Fund started its activity with a capital of SR 250 million which was increased to reach SR 73.8 billion in 1412/13 (1992). The Fund continued to rely on its own resources in the provision of loans until fiscal year 1422/23 (2002) when its capital was supported with additional SR 2.0 billion. The funds capitals was again supported with about SR 18 billion the surplus of 1424/25 (2004) and 1425/26 (2005) budgets. To demonstrate the important role of the Fund in the development process, it is worth mentioning that its services covered 3694 cities, villages and higar. Since it started activity and up to 1425/26 (2005), the Fund extended about 488 thousand private and investment loans at a value of SR 134.8 billion, of which about SR 131 billion (79.2%) was disbursed which contributed in the construction of about 615 thousand housing units. Moreover, the Fund provided about 485.5 thousand private loans with a value of SR 129.6 billion which contributed in the construction of about 586 thousand housing units over the same period. It also provided about 2.5 thousand investment loans at the value of SR 5.2 billion which contributed to the construction of 29,390 housing units, 5,159 commercial stores and 2,857 offices. It also distributed 21,211 units of its housing projects as a substitute for cash loans in various regions of the Kingdom.

The Saudi Industrial Development Fund (SIDF) was established in 1394/95 (1974) to undertake management of financial programs for electricity companies, cold stores and date processing for a specific period of time. It continued extending loans to national and foreign industrial projects in light of a number of investment criteria such as adequate return, high value added, import substitution, enhancement of exports, achievement of industrial integration, provision of job opportunities to Saudis, use of domestic raw materials and transfer of advanced technology. The Fund ranked second as it extended loans to the value of SR 73.1 billion, or 22.1% of total loans provided by government credit institutions till 1425/26 (2005). The government supported the capital of the fund with about SR 13 billion from the budget surplus of the last year of the Seventh Plan and that of the first year of the Eighth Plan.

The Public Investment Fund (PIF) ranked third in terms of the value of loans extended to the private sector and citizens up to 1425/26 (2005), which amounted to SR 71.8 billion, or 21.7% of total loans provided by the government institutions up to that year. The Fund, which was established in 1391 (1971), assumed an important role in investment finance of government business-oriented enterprises, industrial lending institutions or public corporations. The value of annual loans provided by the Fund to public and quasi-public enterprises increased from SR 603 million in 1394/95 (1974) to SR 3.7 billion in 1404/05 (1984), then declined to SR 6 million in 1413/14 (1993). In 1420/21 (2000), the value of these loans went up to about SR 1.1 billion with emphasis being placed on modernization processes, increase of production capacities and upgrading competitiveness of basic industries. In 1425/26 (2005), the value of the loans reached about SR 2.6 billion.

The Saudi Arabian Agriculture Bank extends interest-free short and medium term agricultural loans for agricultural investments as well as subsidies to farmers to support cost of agricultural inputs including machinery, pumps, poultry production equipment and cows' transportation. The Bank ranked fourth among government credit institutions as it extended loans at a total value of over SR 37.9 billion or 11.4% of total loans of all these institutions till 1425/26 (2005).

Other government institutions provided loans at the value of SR 13.9 billion or 4.2% of total loans provided by government credit institutions, in 1425/26 (2005).

1.7.5 Government Subsidies

Development efforts in the Kingdom covered government support to private economic activity and social subsidies throughout the development plans which have been implemented. The goal of these subsidies is to enhance the economic capabilities of individuals and some social segments to assist them to generate their independent income and raise the standard of living of low income groups.

The development plans provided financial resources for interest-free soft loans as well as social subsidies for eligible groups. This trend is boosted by government efforts in the provision of basic public facilities and services.

Social subsidies, which the government started to provide since 1390/91 (1970), increased from SR 49 million in 1970 to SR 12.1 billion in 1404/05 (1984) and reached to SR 12.9 billion in 1408/09 (1988). The value of these subsidies declined in 1420/21 (2000) to SR 6.4 billion then increased to SR 10.3 billion in 1424/25 (2004), and amounted to about SR 7.8 billion in the first year of the Eighth Plan.

In the field of supporting private

economic activity, the development plans have contributed in supporting farmers through provision of subsidies for domestic production of wheat and barely, electricity facilities and public transport. Subsidies provided to farmers amounted to SR 68.5 million in 1394/95 (1974) and increased to SR 1.5 billion in 1404/05 (1984) then declined to SR 22.9 million in 1415/16 (1995). The value of these subsidies increased once again in 1420/21 (2000) to SR 266.5 million and to SR 287.4 million in 1421/22 (2001), then to SR 296.2 million in the last year of the Seventh Plan 1424/25 (2004), and to SR 299.5 million in the first year of the Eighth Plan 1425/26 (2005). Subsidies for domestic wheat and barely increased from SR 45.2 million in 1399/1400 (1979) to around SR 3 billion in 1404/05 (1984) and declined to SR 1.8 billion in 1420/21 (2000) then reached SR 1.04 billion in 1425/26 (2005). Subsidies provided to electricity companies went up from SR 2 million in 1394/95 (1975) to about SR 2.8 billion in 1404/05 (1984) then fluctuated to reach SR 210 million in 1414/15 (1994) and maintained the same level up to 1416/17 (1996). However, the value of these subsidies increased to 746 million in 1417/18 (1997) then returned to the level of SR 210 million in 1418/19 and 1419/20 (1998 and 1999). This value declined to SR 70 million in 1420/21 (2000) with the application of electricity prices reform policies and the decisions of the new electricity prices when the social dimensions and conditions of consumers have been taken into consideration through consumption segments system and reduction of lower consumption segment prices.

To realize the same goal, government subsidies to provision of foodstuff at affordable prices to citizens increased from SR 750 million in 1394/95 (1974) to SR 1.4 billion in 1399/1400 (1979) then reached SR 2.6 billion in 1404/05 (1984). However, the value of this subsidy declined relatively to SR 16 million in 1420/21 (2000) and stood at SR 20 million in 1424/25 (2004), and about SR 26.7 million in 1425/26 (2005).

Social security subsidies increased generally from SR 49 million in 1390/91 (1970) to about SR 1.5 billion in 1404/05 (1984) then declined to reach SR 1.3 billion in 1412/13 (1992). However, the value of these subsidies increased in 1413/14 (1993) to SR 2.5 billion and to about SR 3 billion in 1422/23 (2002), and maintained the same level in 1425/26 (2005) reflecting the government continuous attention given to the social dimensions of development.

The government's support and subsidy policies over the past decades contributed towards the achievement of significant developmental objectives, particularly in the field of agricultural development, as the country realized self-sufficiency in the strategic commodity of wheat. These policies also helped in expansion of social security umbrella to cover all needy segments of the society, in addition to the provision of care and services to youth clubs and public transport.

1.8 EFFECTIVENESS OF ECONOMIC POLICIES OF THE DEVELOPMENT PLANS

During the past 36 years, including the first year of the Eighth Plan, development efforts resulted in the accomplishment of several significant economic and developmental achievements. These achievements are reflected in the increased rates of economic growth, job opportunities made available, diversified economic activities and creation of tangible and positive shifts in the economic structure. These accomplishments are also manifested in the increased role of the private sector in production and investment activity, improved business conditions in market economy which is based on competition. During the same period, the effectiveness and significance of economic, fiscal, monetary, investment and trade policies varied in line with the nature of the general conditions prevailing at that period. During the First and Second Plans 1390/91-1400/01 (1970-1980), which concentrated on laying strong foundations of infrastructure, large public expenditure brought about the phenomenon of price inflation which peaked to reach 31.2% in 1396/97 (1976) as well as increased numbers of foreign labor force in the country. In the context of addressing this phenomenon, fiscal policy was adjusted when it was decided to stop increase in public expenditure in 1399/00 & 1400/01 (1979 & 1980). On the other hand, public expenditure increased in areas of national manpower training and started working on application of Saudization policy with the commencement of the Fourth Plan's implementation process. It should be noted that attention given to economic policies and their integration became more evident during the Fourth to the Eighth Development Plans. In general, economic and development policies gained further efficiency not only in achieving general economic stability internally and externally, which marked development process over the past twenty one years, but also in the execution of economic, social and environmental infrastructure projects, as well as in the provision of better education, health and environmental services to citizens. This has helped in expansion of economic activity and acceleration of social development in general. Moreover, business conditions improved in the market economy while efficiency performance has been enhanced in particular.

1.8.1 Fiscal and Monetary Policy

The fiscal policy constituted a pivotal element of the Kingdom's economic policy due to the importance of public expenditures in financing investment and consumption activity, and due to its role in meeting the growing need for public social services. On the other hand, decline of tax rate and exemption from most taxes has contributed to increasing of investment and eventually aggregate demand. Demand levels, and hence ensuring continuity of consumption, production and investment. It is well known that oil revenues constitute the largest portion in the state budget revenues.

The value of public revenues increased from about SR 7.9 billion in 1390/91 (1970) to SR 555 billion in 1425/26 (2005). Oil revenues went up from about SR 7.1 billion in 1390/91 (1970) to about SR 491 billion in 1425/26 (2005). This represents 88.5% of total public revenues in 1425/26 (2005) compared to 89.7% in 1390/91 (1970). This ratio remained high despite the slight improvement of non-oil public revenues. Thus, the public finance remained significantly dependent on oil revenues which continued to play a vital role in determining the state budget balance (surplus-deficit) during the same period.

Therefore, the fiscal policy is closely linked with exporting oil and increasing its revenues in a way that would enable the general level of economic activity in the country until successful creation of new sources of national income. Thus, the government is keen to continue application of the fiscal policy that ensures finance necessary for running public affairs and development of pertinent services on the one hand, and implementation of the development plans' programs and projects on the other. The government had exerted significant efforts in this respect to surpass the sharp fluctuations in world oil markets and avoid their adverse impacts on the balance of state budget.

Since the beginning of 1980s, fiscal policies ensured finance necessary for implementation of the country's commitment to continue with execution of development projects and maintaining the general standard of economic activity and boosting aggregate demand, albeit leading to accumulation of public debt during some years of that period. The government succeeded recently in reducing public debt to internationally acceptable ratios.

Evaluation of the developments that accompanied implementation of the Seventh Development Plan and the first year of the Eighth Plan shows the significant impact of price fluctuations at the international oil markets on the public revenues in the Kingdom in particular, and on economic activity in general. In the first year of the Seventh Plan, the state budget realized a surplus of SR 22.74 billion following stability of oil markets after experiencing a state of imbalance by the end of 1990s.

However, the volatility of oil markets in 1421/22-1422/23 (2001-2002) due to economic recession and global political events lead to state budget deficit of SR 26.98 billion and SR 20.50 billion in 2001 and 2002 respectively. With the improved conditions of oil and energy market in the last year of the Seventh Plan and the first year of the Eighth Plan, surplus of SR 107.1 billion and SR 214 billion were achieved in the state budget in 1424/25 (2004) and 1425/26 (2005) respectively. Such facts made it important for the fiscal policy to ensure stability of public finance and rapid adaptation to any potentials or impacts which may be brought about, in the national economy, by the developments of international oil market.

The Kingdom's fiscal policy has persistently taken into consideration the social aspect in the development process. It has been imperative to distribute public expenditure effectively among funding the government's public, administrative, security and social functions to run them efficiently on the one hand, and funding operation of public educational, health and social services and public utilities on the other. In the light of functional classification of the budget, available resources provided means to expand public services in order to meet the on-going increase of demand for them due to increase in population and higher level of standard of living, as well as provision of direct subsidies to the poor and needy segments of the society within the framework of social security provided to the citizens.

Moreover, the Kingdom's fiscal policy is also closely linked with the monetary policy through many channels including government expenditures, the increase of which lead to increase of local liquidity and public debt related transaction such as buying or selling of government securities. The impacts on the trend of local liquidity affect the level of economic activity and the general prices trend. The monetary policy realized concrete achievements during the past decades in terms of ensuring monetary stability, controlling inflationary pressures, and maintaining stability of purchasing power of the currency as well as relative stability of the exchange rate of the Saudi Riyal against the US Dollar. This has provided favorable economic environment in terms of making rational investment, production and consumption decisions regarding all economic business factions in the Kingdom.

1.8.2 Fiscal Policy and Public Debt

Public expenditure in the Kingdom increased at accelerated rates during the past few decades. In 1390/91 (1970), total public expenditure amounted to SR 6.4 billion and increased to SR 341 billion in 1425/26 (2005). Public revenues increased from SR 7.9 billion in 1390/91 (1970) to SR 555 billion in 1425/26 (2005) with fluctuations seen in the size and growth rate of public revenues. To maintain the level of economic activity and avoid difficulties associated with development efforts, it has always been imperative to maintain the level of expenditure, or raise it along with providing necessary finance through the state budget. This clarifies the phenomenon of increased public debt in the Kingdom mainly as a direct result of international oil market fluctuations and the consequent relative decline in oil revenues. Thus, fiscal policy placed special emphasis on the issue of public debt and on endeavors to reduce accumulated debt to adequate limits. Issuance of Shourah Council's Resolution (50/48) dated 2/11/1423 (2003), which stressed the importance of developing a program for reducing public debt to the tune of 60% of GDP confirms the significance of reducing public debt in particular and realizing fiscal and economic stability in general. However, the Kingdom witnessed a state of economic and fiscal stability. The outcomes of last two years' budget show that achievement of the objective of reducing public debt has become possible. Effective steps have been made to reduce public dept through utilization of the budget surplus for the fiscal years 1424/25 and 1425/26 (2004 and 2005).

1.8.3 Investment Policy

In the context of the Kingdom's experience over the past three decades, implementation of investment policy took place in two fields. The first one is confined to funding investment and development projects by the government as necessary resources are allocated in the annual state budget. Chapter (4) of the budget encompasses programs and projects of development agencies (sectors) which include: development of human resources, social and health development, development of economic resources, transport and telecommunications, municipal and housing services. Financial resources spent on these sectors increased from SR 34.1 billion in the First Plan 1390/91-1394/95 (1970-1974) to SR 485.3 billion in the Seventh Plan (2000-2004), it is expected to reach SR 614.6 billion in the Eighth Plan. It is noted in the pattern of allocation of these expenditures among the said sectors, that development of human resources- which ranked third in terms of its allocations in the First, Second and Third Plans- ranked first regarding the share of its allocations from the total public expenditure on development agencies in the Fourth through the Seventh Plans. The Eighth Plan maintains this trend. In the Seventh Plan, allocations of human resources development accounted for about 57.1% of total expenditure on all development agencies. The situation has changed regarding resources allocated for funding infrastructural projects which ranked first concerning total allocations of the four development agencies in the First, Second and Third Plans then ranked second in the Fourth and Fifth Plans, then ranked third in the Sixth and Seventh Plans. This change in the pattern of allocating financial resources among development agencies, reflect the nature of progress in the country's socio-economic development over the past period. The situation continued to change due to the need for building physical infrastructure during the 1970s and 1980s, to expanding education, acquiring skills and training national manpower to make use of available job opportunities and keep abreast of the rapid economic and technological development witnessed by the Kingdom since the 1980s up to now.

The second field of the public investment policy relates with encouraging national and foreign private investment through completion, by the government, of infrastructural projects particularly roads, electricity, potable water, water for civil purposes, telecommunications … etc as well as adoption of regulations and measures that provide adequate environment for attraction of capital to be utilized in investment projects in all economic sectors. The Kingdom has made substantial progress in construction of infrastructure, completion of organizational structures and development of adequate investment regulations.

1.9 ECONOMIC AND REGULATORY REFORMS

A key economic target of the successive development plans has been to improve economic efficiency in mobilizing and utilization of resources to increase production and income. Towards this end, persistent endeavors were made to create adequate environment for domestic and foreign investment through completion of physical infrastructure, enhancement of integration of economic policies, revision of the government's administrative structure and development of rules and regulations to streamline procedures and overcome administrative constraints in particular, and keep abreast of local, regional and international economic developments in general. Since the commencement of the Sixth Plan's implementation process, efforts were intensified to prepare adequate investment climate and develop supporting rules and regulations, particularly in the domain of formulating and implementing the privatization policy with the aim of expanding the private sector's role in the national economy and attracting more foreign investments. In its strategic principles, the Sixth Plan called for accelerated revision of regulations and procedures pertaining to the activities of the private sector with a view to streamline them. In this context, the council of Ministers took several decisions and endorsed a number of regulations related to privatization of certain vital facilities. The Council approved, through its Resolution (74) dated 5/3/1422, the "Telecommunications Law" and the "Commission for Telecommunication Regulation and Technical Information". The Council's Resolution (78) of 29/3/1423 stated transformation of postal utility (General Directorate of Posts) to a public corporation titled "Saudi Posts Corporation" with legal entity and financial autonomy. The Board of Directors of this corporation comprises of members from both public and private sectors. It also operates on commercial basis and enjoys powers that enable it to carry out its tasks in a manner that would prepare it for privatization at a later stage. The said resolution also stipulated establishment of a holding company named "Petroleum Services Company" in partnership between public and private sectors to serve oil, gas and petrochemicals sector and other similar sectors, as well as establishment of pertinent industries.

In the context of implementation of privatization policy, the council of Ministers approved, in its session held on 29/3/1423 (2002), principles pertaining to the private sector's participation in desalination projects as well as criteria of such participation. The Council of Ministers' Resolution (78) of 29/3/1423 also approved the implementation program regarding expansion of the railways network the projects of which will be tendered for the private sector. The Kingdom issued a list of the facilities and activities to be privatized dated 6/9/1423 (11/11/2002), Box (1.1).

The first year of the Seventh Plan 1420/21 (2000) represented the starting point of implementing a comprehensive strategy for privatization when objectives, policies and priorities were determined regarding public enterprises

Box (1.1): Facilities and Activities Targeted for Privatization

The Council of Ministers' Resolution # 219, dated 6/9/1423 (11/11/2002) listed the facilities and activities to be privatized as follows:

Water and sewage, desalination, telecommunications, air transport and related services, railways, roads, (management, operation and maintenance of express roads which have alternatives; construction and operation of new express roads), airport services, postal services, grain silos and flour mills, seaports services, industrial cities services, government shares in the stock companies such as the Saudi Electricity Company, SABIC, the banks, MA'ADEN, STC, the government share in domestic refineries and in the capital of the joint Arab and Islamic investment companies, government hotels, sports clubs, municipal services (construction and operation of slaughterhouses, public parks, public markets, transport and traffic services and collection of municipal revenues, cleaning and waste disposal services), education services (construction and maintenance of school buildings, printing of textbooks, school related transport, leasing and operation of school and university facilities), social services (management and operation of social care services institutions, services related to employment of Saudi nationals in the private sector), agricultural services (quarantine services, veterinary clinics and laboratories), health services (construction and operation of health facilities and transportation of patients).

It is noteworthy in this context that the privatization path in the Kingdom witnessed a significant progress in the electricity, telecommunications, mineral resources, air transport and insurance sectors. The private sector is allowed to assume a greater role whether through sale of shares, operation and management contracts, leasing contracts or "build-operate-transfer" modes.

nominated for privatization. In fact, development plans witnessed since earlier stages, practical steps aimed at expanding participation of the private sector and foreign investments in ownership and management of public enterprises. Among the prominent examples of this trend are procedures pertaining to privatization of SABIC and selling of 30% of government owned shares. Furthermore, electricity and water sector has been privatized in addition to privatization of about 30% of the telecommunication sector during the first and second years of the Seventh Plan. The various activities of MOMRA and municipal works are among the most important areas of privatization, as well as activities and projects of the Ports Authority. Concrete steps have already been taken in preparing telecommunication projects for privatization. A general supervisory commission "Commission for Telecommunication Regulation and Technical Information" was established dated 5/3/1422 (2001) after the Post Facility (Telephone and Telegram) was transformed to a public company, namely "Saudi Telecommunication Company". Furthermore, the electricity sector has been privatized while the consolidated electricity companies in the Kingdom's various regions have been merged in a sole body and named the Saudi Electricity Company". This step has been accompanied by establishment of the Electricity Services Organization dated 7/8/1422 (2001) to supervise and follow up implementation of pertinent policies.

Privatization Policies are expected to enter an important stage in the near future with the finalization of studies pertaining to privatization of SAUDIA. Significant steps are also underway towards privatization of the Saudi Railways Organization in a way that would ensure realization of the ambitious objective of the plans for laying railroad networks along the main part of the Kingdom's vast geographical area, and provide the required huge investments the impacts of which will be directly reflected on the socio-economic development in all sectors.

The comprehensive strategy and main policies of the privatization program aim at supporting the directions of the market economy, stimulating the national private sector's participation in the country's economic and developmental activity in addition to attracting foreign investments and their participation in efforts of modernization and transfer of advanced technology, which are being exerted since long.

Privatization Policy is expected to lead the improvement of efficiency and competitiveness of the Saudi economy at all levels in addition to the provision of ambitious investments to raise growth and employment rates along with realization of additional government revenues, thus paving the way for expansion of public current and investment expenditures.

The issuance of the Royal Decree stipulating establishment of the Supreme Economic Council on 17/5/1420 (1999), is an important step to towards addressing constraints resulting from multiplicity of agencies related with economic affairs, ensure coordination and integration of their tasks in such a way that leads to efficient and rapid decision making along with contribution towards formulation of economic policies and adequate alternatives. Among the Council's tasks are follow up of implementation process, studying the general framework of development plans and their projects and follow up reports along with financial policy, principles of preparing the draft budgets and priorities of expenditure. The Council is also entrusted with follow up of trade policy at both domestic and international levels, rules and regulations governing labor market and stock markets and draft regulations pertaining to economic affairs and environmental issues and affairs in addition to supervision of privatization program and follow up of its implementation process. Since then, the Council made a number of significant steps to boost adequate investment climate, foremost among which are: endorsement of Foreign Investment Law, SAGIA's Regulation, non-Saudi ownership of real estate and investment therein, establishment of the Human Resources Development Fund and decisions related to the reduction of custom duties on imported commodities. The achievements of the Council also include Telecommunications Law, Telecommunication Commission Regulation and enforcement of the principle of transparency as well as periodical issuance of economic and financial data in addition to the approval of the privatization strategy.

The Supreme Council for Petroleum and Mineral Affairs was established by a Council of Ministers' Resolution dated 19/7/1421 (2000) to assume several responsibilities of significant importance to the Saudi economy. This is attributed to the importance of the oil and mineral resources sector in the economy and development process as well. Key among these responsibilities are: identification and approval of policies and strategies of oil, gas and other hydrocarbons in line with prevailing conditions and national interests, identification of production volume and plans for fuel and feedstock in the Kingdom, developing ARAMCO's general policy including its five-year work plan. This plan encompasses the company's program regarding production of crude oil as well as exploration and development of new reserves of hydrocarbon materials in addition to endorsement of the five-year program for the company's future capital investments. The Council has already finalized the Kingdom's petroleum strategy in coordination and collaboration with the country's development plans.

The establishment of the Saudi Arabian General Investment Authority (SAGIA) as per a Council of Ministers' Resolution dated 5/10/1421 (2000), came as a significant step in implementation of the new foreign investment law which aims at encouragement of foreign investments in the Kingdom. The Authority's establishment resolution called for establishment of the "one-stop-shop" comprising representatives from all government departments related with investment to ensure facilitating procedures and speeding up issuance of licenses, approvals, visas and residence permits (Iqamas). SAGIA is responsible for preparation of the country's policies in the fields of development of foreign investment and submission to the Supreme Economic Council, proposal of implementation plans and procedures related with preparation of investment climate in the Kingdom and submission to the Supreme Economic Council, approval or cancellation of investment applications, follow-up and evaluation of domestic and foreign investment as well as promotion of investment opportunities in the Kingdom.

Royal Decree dated 5/1/1421 (10/04/2000) represents a significant progress in the incentives and exemptions system included in the Foreign Investment Law issued on 2/2/1399 (01/01/1979). In the context of the New Foreign Investment Law, the foreign investor is allowed to obtain more than one license in different business activities in addition to the fact that foreign investments can be in the form of enterprises owned by a local and foreign investors, or fully owned by foreign investor. The foreign investor also enjoys all benefits, incentives and guarantees offered to the local investor. He can also transfer his proceeds from selling his share, or from surplus of liquidation or profits. He can also transfer amounts necessary to fulfill any contractual obligations related to the project. The Law has contributed in overcoming constraints related with issues of real estate ownership and sponsorship. Foreign enterprises are allowed to own real estate whether to practice business or for staff accommodation. The sponsorship of the foreign investor and his employees (non-Saudis) has become the responsibility of the licensed enterprise (as per Article Nine).

The Law on Real Estate Ownership and Investment by non-Saudis, issued by Royal Decree dated 17/4/1421, gave a significant momentum to boost investment environment and attract foreign capital. The Law allows non-Saudi investors natural or legal entity, who are licensed to practice any vocational, trade or economic activity, to own necessary real estate to practice such activity following obtaining approval from the authority entrusted with issuance of such license. The law also allows non-Saudis legally residing in the Kingdom to own real estate for residence after obtaining necessary licenses.

The Supreme Commission for Tourism was established as per Council of Ministers' Resolution (107) dated 12/1/1421 (2000) to contribute in diversification of income sources, rationalize utilization of the Kingdom's natural and economic resources, provision of better chances for tourism development through encouraging the private sector's participation in establishment of tourism and investment facilities. The Commission completed the general strategy for sustainable tourism development, while work has already started on field survey of tourism sites in the Kingdom as well as establishment of a comprehensive data base for the economic, social, cultural and environmental aspects in the Kingdom.

The Human Resources Development Fund was established as per the Council of Ministers' Resolution (107) dated 29/4/1421 (2000) to facilitate employment of Saudis, provide them with training and encourage them to join the private sector. The Fund aims at supporting efforts exerted to train and employ national workforce in the private sector enterprises and activities through providing adequate incentives and sharing costs of training national manpower. The Fund also pays portion of the salaries of those who join the private sector enterprises after being trained. The Fund also supports funding field programs and projects in accordance with studies aimed at employment of Saudis to replace foreign workforce, provide loans to new enterprises established in the Kingdom which are involved in training national workforce as well as existing enterprises with a view to expand the scope of their activities or introduce modern techniques.

The Council of Ministers' Resolution (235) dated 27/8/1422 (2001) approved establishment of the Saudi Authority for Industrial Cities and Technology Zones (SAICTZ). The main purpose of the establishment of this Authority is to plan, develop, manage, maintain and supervise industrial cities. The tasks of the Authority include implementation of industrial cities' development strategy, formulation of regulations governing activities of these cities, coordination with agencies concerned to provide necessary services and facilities and encouragement of the privates sector to establish develop, manage, operate and maintain such cities. The Board of Directors of the Authority comprises representatives from concerned government agencies and six members from the private sector.

The efficiency of these procedures and regulations are further boosted by the issuance of the general law of environment to ensure environment conservation. This law was issued as per the Council of Ministers' Resolution (143) dated 7/7/1422 (2001). The law aims at conservation, protection and development of environment and prevention of environmental pollution. It also aims at conservation and development of natural resources, rationalization and utilizing such resources and making environmental planning as part of overall planning for development in all industrial, agricultural and urban aspects. Moreover, the law aims at raising public awareness on environment issues and deep rooting responsibility on the part of individual and community in order to maintain and improve environment.

To ensure transparency regarding performance of the various concerned economic and financial sectors and government policies, the Council of Ministries' Resolution (76) of 5/3/1422 (2001) was issued regarding publication of economic and financial data. The resolution instructs government agencies to publish the economic and financial data related to the Kingdom in a regular and timely manner due to their importance to investors, businessmen and experts at both local and international levels about the Kingdom's directions towards laying the foundations of transparency. These data include: National Accounts estimates, GDP, price index, government accounts including government revenues and expenditure, financing budget deficit, government debt, foreign trade sector, manpower statistics, wages, foreign investment flow statistics, private sector statistics and indicators… etc. The law also directs government agencies to complete establishment of integrated information base about economic and financial data and other information related with the Kingdom along with follow-up of updating these data base.

At the administrative level, the Civil Service Bureau has been transformed to a ministry to confirm the priority of modernizing government administration and providing relevant needs and requirements.