S&P Affirms Ratings on **Saudi Arabia**
Reuters
LONDON, 24 April **2004** - Standard & Poor's Ratings Services said yesterday it affirmed its 'A/A-1' foreign currency and 'A+/A-1' local currency sovereign credit ratings on the Kingdom of **Saudi Arabia**. The outlook is stable.

According to Standard & Poor's credit analyst Ala'a AI-Yousuf, the ratings on **Saudi Arabia** reflect the consolidated general government's favorable balance and net asset position, and strong external liquidity.

"The general government's balance shows surpluses estimated at 6.7 percent and 3.8 percent of GDP in 2003 and **2004**, respectively, swinging into deficits of about 2 percent during 2005-2007, largely because of projected softening of oil prices," said AI-Yousuf. "Furthermore, its net asset position is expected to remain broadly stable at about 50 percent of GDP over the medium term. Underlying this, the general government's gross debt is expected to remain at about 22 percent of GDP, as future borrowing needs will be largely met by the autonomous government institutions such as the pension funds."

Strong external liquidity means foreign reserves of the **Saudi** Arabian Monetary Agency are projected to increase to $65.4 billion in 2004, from $62.4 billion in 2003, sufficient to cover 10 months of current account payments (including private transfers). Standard & Poor's expects this reserve position to be maintained in the future. The government has no external debt, nor plans to incur any.

The Kingdom has maintained stability in its highly open economy - in particular, a stable exchange rate, low inflation, and a sound banking system.

The government is implementing a program of structural reforms to attract more foreign direct investment, develop a domestic capital market, reform the labor market, and prepare the economy for accession to the World Trade Organization by the end of 2004.

The Kingdom also has limited fiscal flexibility. Oil revenues, which account for about 80 percent of total revenues, are largely determined by oil market conditions. The government therefore relies on conservative budgeting of oil revenues to cap spending pressures. The non-oil private sector, meanwhile, accounts for less than 40 percent of GDP and is highly dependent on economic activity in the oil and gas sector, fiscal stimulus, foreign labor, and cheap energy.