

**Speech by H.E. the Governor to the
Custodian of the Two Holy Mosques on the
Occasion of Presenting the Fortieth Annual Report of the
Saudi Arabian Monetary Agency**

Custodian of the Two Holy Mosques,

It gives me great pleasure to present the fortieth annual report of the Saudi Arabian Monetary Agency. The report reviews most prominent domestic economic developments in the Kingdom during fiscal year 1423/24H (2003G) and also the developments so far in the current fiscal year 2004G.

During 2003G (1423/24H), the national economy continued to make good progress for the second consecutive year. The nominal GDP grew by 13.7 percent compared to 3.0 percent in the preceding year. This was attributable to the improvement in crude oil prices and expansion in the private sector activity which increased by 4.4 percent. This growth was accompanied by remarkable improvement in the State budget which recorded a surplus of R1s 36 billion compared to a deficit of R1s 20.5 billion in the preceding year. This was the result of the rationalization of expenditures and the improvement in revenues, including non-oil revenues. The balance of payments denoted a surplus for the fifth consecutive year, registering a record surplus of R1s 111.2 billion that was never registered for more than two decades, compared to a surplus of R1s 44.5 billion in the preceding year. These positive developments were achieved within an environment characterized by domestic price stability. The general cost of living index grew by 0.6 percent. These indicators reflect the strength of the Saudi economy and its capacity to overcome the negative effects of the crises witnessed by the region and the malicious terrorist explosions that occurred in our dear country

aimed at undermining the social and economic stability and security of our blessed country.

During the current year, the national economy will make greater progress than that in the preceding year in view of the current levels of crude oil prices, continued expansion in the private sector activity and continued improvement and development of the local investment environment. This development would not have been possible without the concerted efforts of the wise leadership and the State officials.

Custodian of the Two Holy Mosques,

In pursuance of the Kingdom's ceaseless efforts to achieve sustainable economic development consistent with available resources and capable of confronting current and future challenges, Your government continued during 2003 and the current year to take a number of important decisions in the area of restructuring the national economy and updating laws. Also, the specialized councils took a number of decisions that contributed to supporting economic development. The kingdom has made good progress for accession to the World Trade Organization (WTO). These sincere efforts will contribute to enhancing the role of the private sector in the national economy, the diversification of the economic and production base, and increasing job opportunities.

Custodian of the Two Holy Mosques,

Since its foundation, the Kingdom's oil policy has constantly sought to meet the world demand for oil and achieve stability in world oil markets at favorable prices for the interests of both producing and consuming countries. Since the mid of 2004, oil prices have risen to relatively high levels despite the availability of sufficient supply of oil to meet world demand. The rise in oil prices was due to a number of factors beyond OPEC's control. The high levels of oil prices would contribute to enhancing the oil revenues of the Kingdom during the current year which may be exploited to support the diversification of the economic

base and the development of human resources. It is expected that there will be a surplus in the State budget and the bulk of this surplus, as His Royal Highness the crown prince pointed out in an interview with the Saudi News Agency, will be directed towards the repayment of the public debt. The remainder will be utilized for increasing the capital of the Real Estate Development Fund and the Saudi Credit Bank, besides allocating Rls 30 billion for socio- economic sectors, which directly affect the daily life of citizens in the various parts of the Kingdom, and making budgetary appropriations for the annual State budget. I would like to stress that this endeavor to amortize the public debt will positively reflect on the kingdom's public finance position and macro-economic stability. I also would like to laud the efforts aimed at consolidating the State budget and restoring the balance achieved in the previous year through rationalizing and scheduling public expenditures, and increasing the volume and channels of non-oil public revenues. These efforts have enhanced the achievement of positive results in amortizing the public debt and have had their impact on boosting the march of comprehensive economic development.

Custodian of the Two Holy Mosques,

In the successive five-year development plans, Your government has paid considerable attention to the diversification of the economic base as a strategic option to achieve sustainable growth and stability in the various sectors of the economy and gradually reduce reliance on oil as an important source of income and wealth. Marked achievements have been made in this area. The contribution of the non-oil sector to the GDP has increased, with non-oil exports and other revenues having risen notably. Manufacturing industries and agricultural production have developed. However, accelerated economic and social developments witnessed by the Kingdom would require acceleration of the efforts aimed at increasing the private sector's contribution to economic activity. This would be possible by achieving balanced growth in the various economic sectors, promoting and developing industries and small and medium enterprises, developing Saudi cadres, improving the climate and

environment of domestic and foreign investment and activating privatization programs at a higher pace.

Custodian of the Two Holy Mosques,

Since its establishment, the Kingdom has adopted the principle of integrated development and economic freedom that would help create a climate appropriate for the private sector to perform most economic activities. To this end, a modern and comprehensive infrastructure has been built on which massive funds have been spent over the last three decades. In 2002, a privatization strategy was approved aimed at increasing the participation of the private sector to provide a number of public services and activities more effectively on a sound and commercial basis. The success of this privatization program would certainly help reduce the fiscal burden on the State budget, improve the utilization of available resources and boost the quality of services. Moreover, it would enhance the opportunities of domestic and foreign private investment.

Custodian of the Two Holy Mosques,

The employment of the Saudi youth is one of the most prominent challenges facing the national economy and the decision makers in the Kingdom. The challenge has arisen from many factors such as the high population growth rate, especially in the youth group, massive recruitment of foreign manpower, and the slow pace of the compatibility of education and training curricula with the demands of the market. The Kingdom has succeeded in Saudizing most of government jobs and has, since a few years, started to gradually Saudize jobs at the private sector. However, the results achieved so far are still not up to the cherished ambitions. Therefore, the current efforts need to be intensified to set a long-term strategy for investment in human resources with the effective participation of the private and public sectors. Necessary regulations for maintaining the rights of employees and employers need to be in place, and recruitment of foreign manpower need to be rationalized.

Furthermore, spending on human resources development projects and programs should be increased. The general, technical and professional education programs should be streamlined, and the capacity of specialized institutions and colleges and universities need to be expanded. The youth also need to be educated in the importance of respecting professions and discipline in work. The government's wise decision of establishing an independent ministry of labor, and increasing job opportunities and areas of work for women have certainly highlighted the determination of the government to find suitable and effective solutions for this challenge.

Custodian of the Two Holy Mosques,

It is a great pleasure for me to extend my congratulation on the issuance of a royal decree for constituting the Capital Market Authority Board which is a complementary step to "the Capital Market Law" previously approved by the Council of Ministers. These decisions will contribute to the restructuring of the market to operate on new and more developed foundations. This will create and expand effective instruments for investing savings, and provide a regulatory framework for the implementation of all activities related to the security market, increase the depth of the market and enhance its level of transparency. As a result of several factors, the share price index rose by 76.2 percent during 2003 and by 48.6 percent during the first nine months of this year. This will enhance the confidence of investors in the market and the domestic economy. I would like to avail of this occasion to call upon investors, especially new ones to be fully aware of the sound foundations and principles of investment in stock companies and to beware of rumors from which security markets all over the world often suffer.

Custodian of the Two Holy Mosques,

In conclusion, let me review briefly the salient and latest monetary and banking developments. The Kingdom's monetary policy has continued to maintain the stability of the national currency and domestic

prices, and to ensure the soundness and strength of the domestic monetary and the banking system. This stability is an essential prerequisite for supporting economic growth. During the first nine months of 2004, money supply went up by 9.7 percent, and bank deposits increased by 11.1 percent. Commercial bank claims on the private sector rose by 27.5 percent. Moreover, banks enhanced their capital base, developed their banking services and intensified their use of modern technology. This contributed to an increase in their profits and a high solvency ratio of 17.8 percent compared with 8 percent prescribed by Basel Committee. Furthermore, the Council of Ministers has issued its approval for a number of Gulf and international banks to open branches in the Kingdom, after ensuring the strength of the banking sector and its capability to accommodate new banks and cope with severe competition in providing modern and sophisticated financial and banking services.

May Allah bless you and guide Your path to greater prosperity !