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Use of Balance of Payments Statistics: Case of Saudi Arabia

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BY

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Use of Balance of Payments Statistics

I. Introduction

Technically, Balance of Payments (BOP) is an accounting record of the interaction an individual country has with the rest of the world in respect of all economic and financial transactions. Its presentation in the form of an internationally-agreed statement is based on a double-entry book keeping system, which has a fundamental property that net sum of the debit and credit entries is necessarily zero. But this does not mean that not much can be inferred from the BOP statement regarding the strength and weakness of the economy. In fact, such an abstraction in the presentation of BOP arises out of a deliberate attempt to classify all entries into two broad groups, namely, “Autonomous Transactions and Accommodating Transactions”. Obviously, any difference in debit and credit under autonomous transactions, whether positive or negative, has to be counter balanced by opposite difference in debit and credit under accommodating transactions. This provides us with the most commonly-used approach to interpreting BOP in terms of current account and capital account. It is this current account along with its components which serve as an all-comprehensive instrument of analysis for determining the strength/weakness of the economy. The capital account, on the other hand, reveals developments in financial and monetary area.

Current account of the BOP comprises two sub-accounts, one pertaining to merchandise exports and imports (trade account), and the other covering exports and imports of services, both factor and non-factor (services account). Practically, every item in these two sub-accounts reflects real sector activity in the economy, such as, production and consumption of goods and services, cost

competitiveness, labor market trends, etc. In fact, every schedule of foreign exchange demand and supply is a mirror image of the demand and supply schedule of real activity in the economy.

II. Uses of BOP Statistics

Analysis of various components of the current account suggests a number of uses of BOP statistics. Selected uses, which are more relevant for the Saudi economy, are described below.

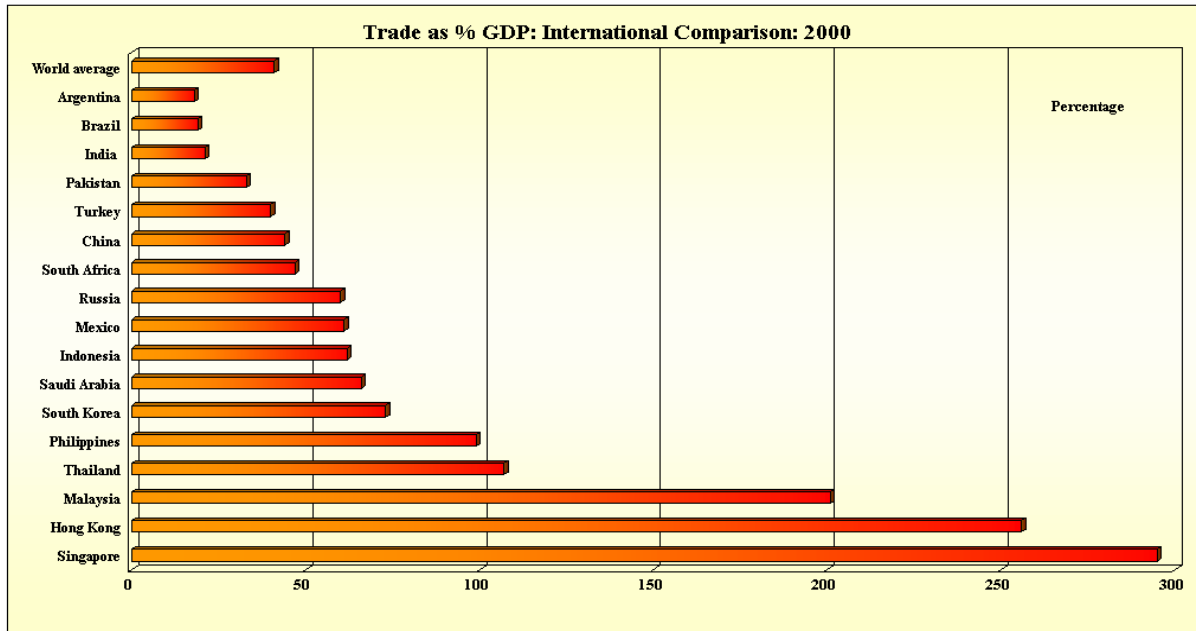
1. Degree of Openness of the Economy

The volume of merchandise trade as a ratio to GDP is considered as one of the (ex-post) measures of openness of the economy or extent of integration with the rest of the world. There is no a priori critical level of the openness. There are cases where the said ratio exceeds 100%. But, central tendency for the emerging economies was found to be around 60% .

Table 1
Trade as % GDP: International Comparison
(2000)

Country	Percentage	Country	Percentage
1. Singapore	295	10. Russia	60
2. Hong Kong	256	11. South Africa	47
3. Malaysia	201	12. China	44
4. Thailand	107	13. Turkey	40
5. Philippines	99	14. Pakistan	33
6. South Korea	73	15. India	21
7. Saudi Arabia	66	16. Brazil	19
8. Indonesia	62	17. Argentina	18
9. Mexico	61	World average	41

Source: World Bank, World Development Indicators, 2002.



Saudi economy by this definition can be classified as open, with its ratio of 66%. Moreover, it is not something that was achieved recently. For some years in the past, the openness has been large, as shown by historical data given in table below.

Table 2
Trade as % of GDP: Saudi Arabia

Year	Percentage	Year	Percentage
1978	74	1990	63
1980	81	1992	65
1982	89	1994	53
1984	66	1996	54
1986	51	1998	45
1988	58		

Source: Central Department of Statistics, Ministry of Planning.

2. Exports and Production Structure

The most common use of BOP statistics relates to merchandise exports as its composition and changing patterns over time reveals production mix and changing comparative advantage of the economy.

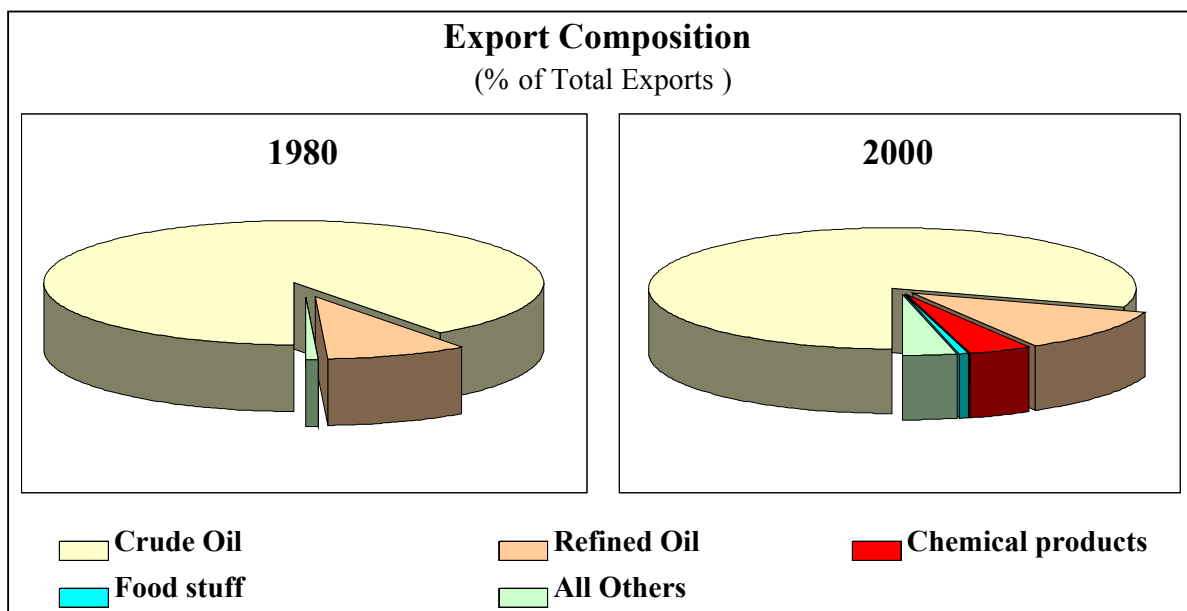
Based on factor endowments, the Saudi economy is primarily an oil economy. Though in terms of production of crude oil per day, Saudi Arabia stands close to USA and USSR, in terms of exports it is the largest exporter of crude oil. Thus, while Saudi exports are predominantly oil oriented, one finds that over time non-oil exports increased with the ongoing diversification of the economy.

Table 3
Export Composition

(% of Total Exports)

Year	Crude Oil	Refined Oil	Chemical products	Food stuff	All Others
1980	90.1	9.0	0.1	0.0	0.8
2000	80.0	11.6	4.2	0.6	3.6

Source: Central Department of Statistics, Ministry of Planning.



3. Private Transfers and Labor Market

With the oil export boom of 1974, the Saudi Government started its plan for developing physical infrastructure. Since it was a small population country, expatriates were invited at attractive remuneration to take up the task. These included manual and semi skilled worker as well as engineers needed largely for construction work. That's how the process of labor inflow from abroad started at the mid 70s.

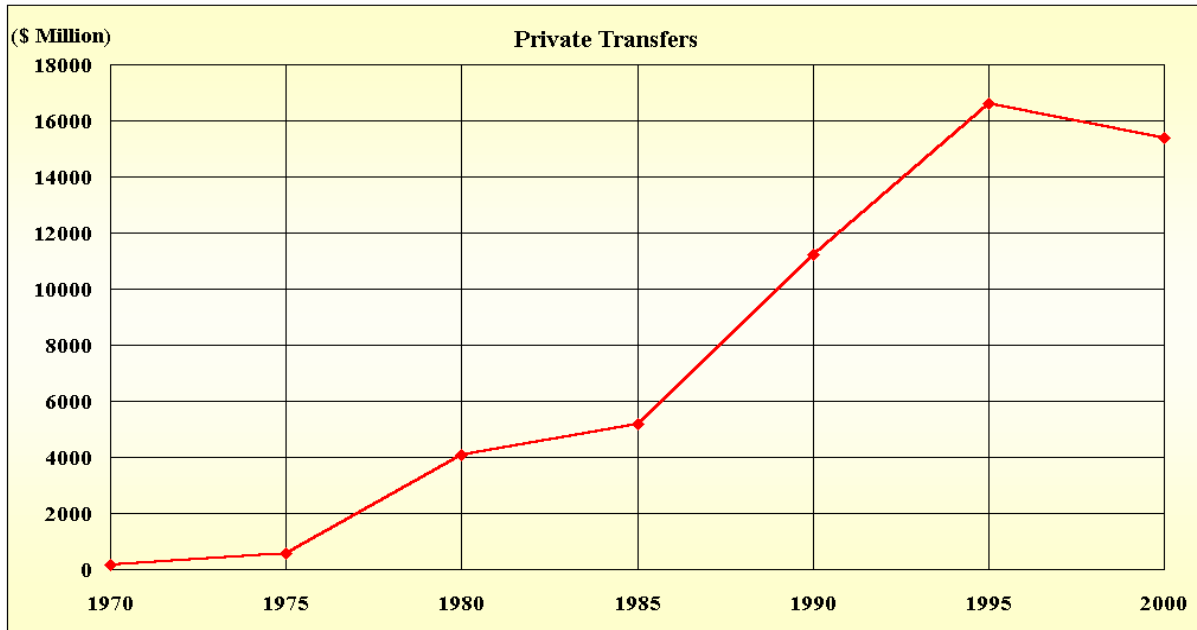
With the increase in Saudi population as well as the rise in demand for services, another jump in labor inflow was witnessed. This time, the new expatriates were of somewhat different category and included house maids, taxi drivers, teachers, office workers, medical doctors, and professionals in other fields.

The heavy inflow of labor from abroad did have an upsetting effect on the balance of payments. Private transfers, which were around half a billion dollar in 1975, rose to \$4 billion by 1980 and further to \$11 billion by 1990. During the 90s, it stood, on average, at \$15 billion per annum.

Table 4
Private Transfers
(\$ million)

1970	1975	1980	1985	1990	1995	2000
183	553	4,093	5,199	11,237	16,616	15,390

Source: Saudi Arabian Monetary Agency (SAMA).



The private transfers centering around \$ 15 billion each year during the 1990s reveal that the labor market has become stable in the sense that its non-Saudi portion has stabilized. This may reflect the improved training and education of the Saudi labor force as well as the authorities' efforts to encourage hiring of Saudis by the private sector.

4. 'Other' Receipts and Payments under Services

Though 'other receipts' under services cover several items, in the case of Saudi Arabia, the bulk of such receipts emanate from religious activities---Pilgrims and Umra. These two together constituted over 60% of other receipts in 2000.

On the other hand, payments on account of 'other private services', which largely reflect traveling of Saudis abroad, have tended to decline. During the last three years (98, 99 and 2000), these payments averaged \$ 7.2 billion per annum as compared to the average of \$ 9.5 billion in the preceding three years (95, 96 and 97). This has been made possible by the Government's concerted efforts to promote and develop internal tourism.

Saudi Arabian Current Account Balance

Year	(\$ billion)	Year	(\$ billion)
1979	12.0	1990	- 4.2
1980	42.7	1991	- 27.6
1981	41.1	1992	- 17.7
1982	7.6	1993	- 17.3
1983	- 16.8	1994	- 10.5
1984	- 18.4	1995	- 5.3
1985	- 12.9	1996	0.7
1986	- 11.8	1997	0.3
1987	- 9.8	1998	- 13.1
1988	- 7.3	1999	0.4
1989	- 9.6	2000	14.3

