II. THE ECONOMY AND SOCIETY OF TODAY

II. The Economy and Society of Today

The general objectives of economic and social development policy for Saudi Arabia in the first development plan were to maintain its religious and moral values, and to raise the living standards of its people, while providing for national security and maintaining economic and social stability. This chapter reviews progress toward these goals, reports the growth of the labor force and of the economy over the period, and sets out the highlights of sectoral development under the first plan.

A. DEVELOPMENT PROGRESS

The most important features of development over the past five years have been the success achieved, through the Organization of Petroleum Exporting Countries (OPEC) and the Organization of Arab Petroleum Exporting Countries (OAPEC), in raising revenues from oil, and the acquisition of an increasing share of the ownership of the oil production industry of the Kingdom.

The first development plan was prepared in the prospect of severe financial constraint. Revenues began to improve during the first year of the plan and, by the second year, it became clear that financial resources should no longer be considered a constraint on development. A policy was then adopted of accelerating implementation of the plan and expanding it with new programs and projects that were consistent with the objectives of the plan and were economically and socially feasible.

The financial constraint existing when the budget for the first year of the plan was prepared led to severe restrictions being placed on new projects. As a result, growth of the non-oil-sectors in 1390–91 showedonly a modest improvement over the depressed rate of growth of the previous year and was well below target. This was more than offset by higher-than-expected growth in oil production and the first of a series of increases in posted prices.

The policy of accelerating plan implementation began to make a modest impact on the non–oil sectors in the second year of the plan and by the third the target growth rate for these sectors was being exceeded. Growth continued to accelerate in the fourth and final years of the plan and, during this last year, began to add domestic inflationary pressures to the inflation already being imported in the form of rising prices for food and industrial supplies. Meanwhile, oil production increased to almost 8.5 million barrels per day in 1974 and oil prices and revenues were raised by a series of increases culminating in a posted price of US $ 10.46 per barrel (Arabian Light — Ras Tanura) established on 1 November, 1974.

Progress under the first plan has been mixed. Many targets have been achieved and some have been exceeded, for instance, in girls' education and some other educational programs. Targets in some sectors, notably telecommunications, were not set high enough in relation to demands for services and were raised during the plan. Other targets have not been met, in particular those for hydrocarbon-based industry; and some programs, including the intra-Kingdom telecommunication network and the national health network, have fallen behind schedule. Others again, for example, road construction targets, were found to be unrealistic to implement in the time given.

Some of the difficulties encountered in meeting targets were expected and mentioned in the plan, in particular, problems relating to manpower and the uncertainties associated with the establishment of large-scale hydrocarbon-based industrial enterprises.

Many of the programs completed or in progress during the first plan will greatly assist implementation of the second Plan; among these are the population census, the national transport survey, regional socio-economic and physical planning studies, the human resources development study, the Jubail industrial complex study, and numerous feasibility and design studies at the sectoral and program levels.

B. GROWTH OF THE LABOR FORCE

A complete census or the Kingdom's population and housing was conducted in Shaban 1394, and the results are expected in 1395. It will then be possible to prepare an up-to-date profile of Saudi Arabia's population and labor force including analysis of participation rates, regional populations, urbanization and migration, and the structure of employment by occupational group and economic activity. Meanwhile, the analysis of the growth of the labor force presented below has been based largely on a demographic survey of 1386, subsequent analyses by the Central Department of Statistics, and data collected by various ministries for their specific purposes.

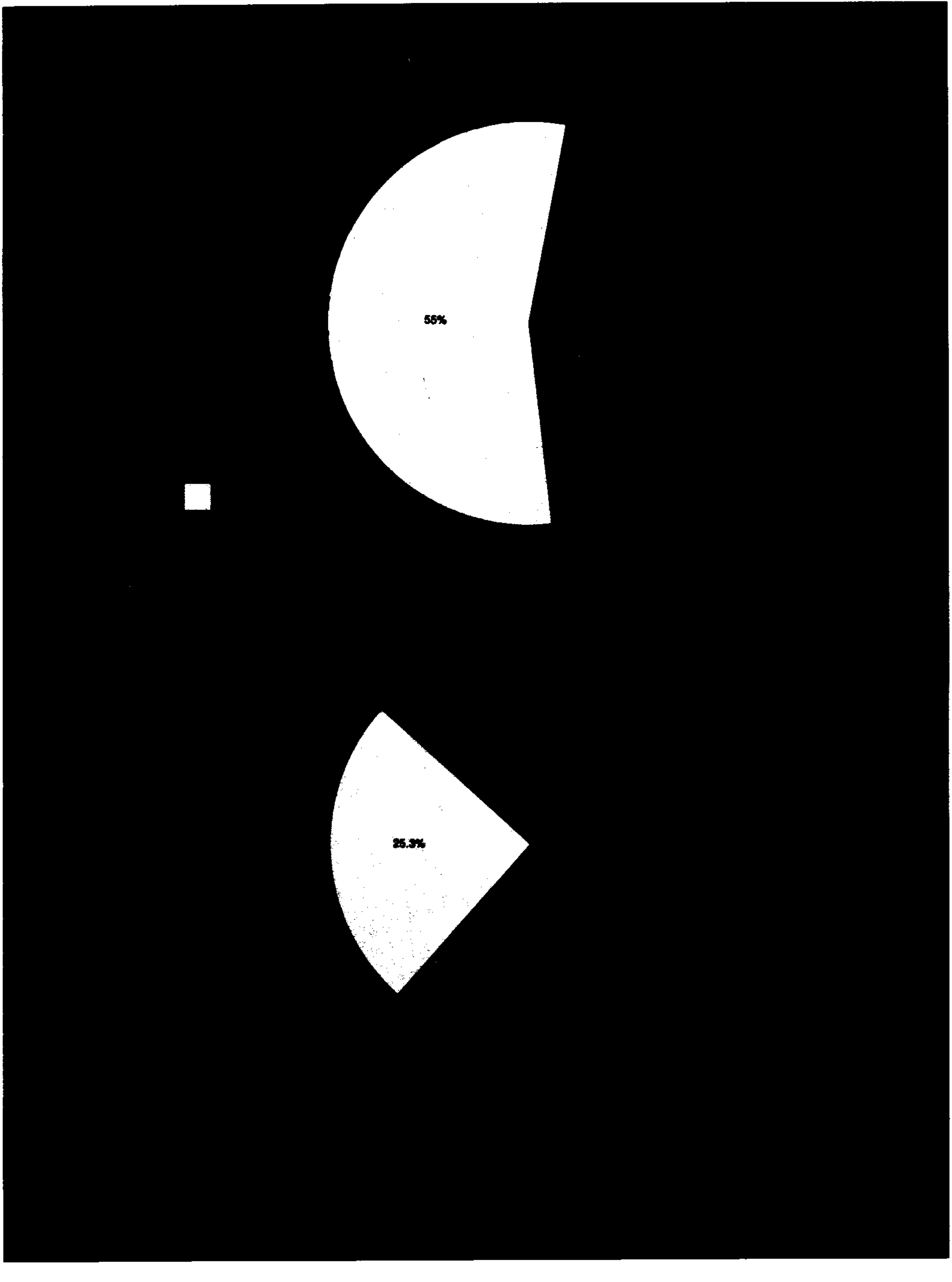
During the first plan period, Saudi Arabia's labor force has grown by an estimated 3.8 percent each year, from 1,328,000 in 1390 to 1,600,000 in 1395. The growth rate for Saudis was lower than for non-Saudis–3.7 percent compared with 4.2 percent–but Saudis still comprise about 80 percent of the labor force in 1395. The proportion of the total Saudi population participating in the labor force rose from 22.2 to 23.3 percent over the five years of the first development plan. The participation rate for Saudi men changed from 43.3 to 45.1 percent, and for Saudi women it rose from 0.5 to 1.0 percent. The rate for non-Saudi men grew very slightly, from 67.3 to 67.4 percent and for non-Saudi women from 3.6 to 3.8 percent.

The large group of adults outside the labor force is composed mostly of women but includes also people in school, those who are ill or disabled, the retired, and the like.

Interregional Shifts of Workers

Migration of both Saudis and non-Saudis over the past ten years has lessened somewhat the dominance of the Western and Central regions as workers moved into the Eastern Region: immigrants with less than one year of residence in a region are predominantly in the Eastern Region. However, most of these are Saudi migrants; non-Saudis are still moving into the Western, Central, and Eastern regions.

A comparison of Saudi and non-Saudi workers in private establishments, who have less than one year of residence in each region, is shown in Figure II-1. Non-Saudi immigrants are about double the number of Saudi immigrants working in private establishments during the 1392-93 Survey of Employees. However, the proportion of the Saudis working in the Eastern Region is 55 percent compared with only 25.3 percent of the non-Saudi immigrants located in the Eastern Region.


55%
25.3%

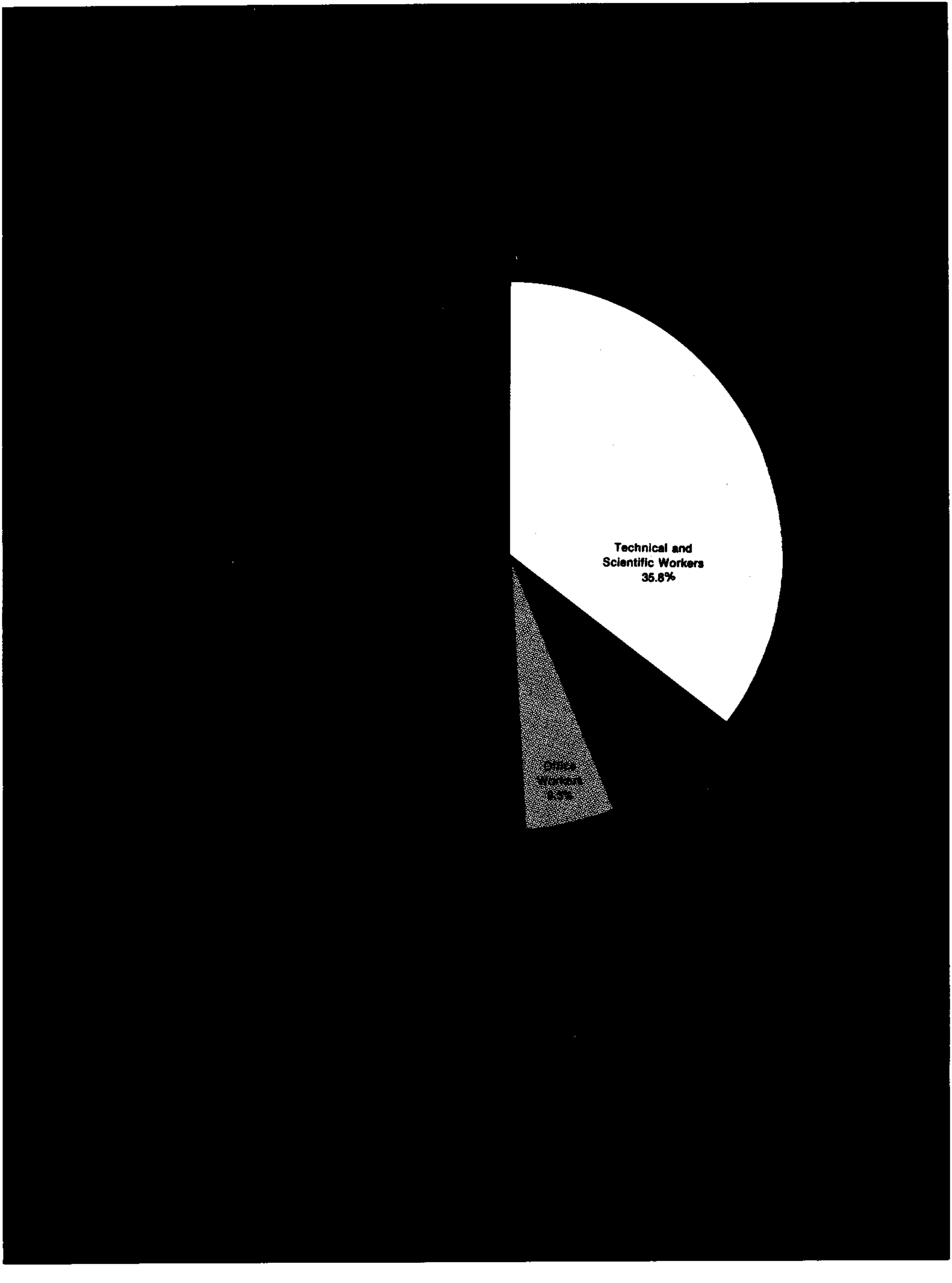
Sources of Foreign Workers by Occupational Group

Foreign workers entering the Kingdom are an important source of labor at all occupational levels. Data on workers entering from other Arabian peninsula countries are unreliable since this group is not required to obtain work permits. Data from the Ministry of Labor indicate that other foreign workers entering the private sector (in 1393) were predominantly skilled operational and equipment workers, and technical and scientific workers. Figure II-2 shows the occupational structure of the foreign workers entering the private-sector labor force in 1393. Arabs from outside the Peninsula hold the largest share of the jobs in four of the seven categories: skilled operational and equipment, service, sales, and agricultural. Europeans dominate two other categories: technical and scientific, and management. Asians account for the largest share of the office workers.

Employment Changes by Economic Activity

The structure of the labor force is changing, as shown in Table II-1. Since 1390 there has been a marked decline in the agriculture sector and a sharp rise in the construction sector. The agricultural sector had a 40.4 percent share of total employment in 1390 but at present accounts for only about 28 percent. In contrast, the construction sector more than doubled and now accounts for 20.6 percent of the Kingdom's employment. Total private-sector employment grew at an average annual rate of 6.4 percent over the first plan while the public sector grew at 8.4 percent Total employment in the Kingdom increased by about 418,300 in the past five years—an average annual rate of 6.6 percent.

Wages are rising more rapidly in the private sector than in the government sector. The last two government wage increases were in 1393 and at the beginning of 1395. The first increase averaged about 15 percent. In 1395, the raise was 30 percent on salaries not exceeding SR 1,000 per month, 26 percent on salaries not exceeding SR 2,000 and 20 percent on salaries above SR 2,000 per month.



Technical and
Scientific Workers
35.8%
Office
Workers

Table II–1
EMPLOYMENT BY ECONOMIC ACTIVITY, 1390 AND 1395

Activity	Number Employed (thousands) 1390	1395	Percent Change 1390–95	Percent Distribution 1390	1395
Agriculture, fishing					
Settled, fishing	311.9	311.2	(0.2)	28.3	20.5
Nomadic	133.9	114.9	(14.2)	12.1	7.5
	445.8	426.1	(4.4)	40.4	28.0
Mining and quarrying					
Crude petroleum, natural gas	12.0	19.2	60.0	1.1	1.3
Other	13.7	26.4	92.7	1.2	1.7
	25.7	45.6	77.4	2.3	3.0
Manufacturing					
Petroleum refining	1.4	2.1	50.0	0.1	0.1
Other	34.7	44.4	28.0	3.1	2.9
	36.1	46.5	28.8	3.2	3.0
Utilities	12.2	18.3	50.0	1.1	1.2
Construction	141.5	314.2	122.0	12.8	20.6
Commerce					
Trade, restaurants, hotels	114.3	191.7	67.7	10.4	12.6
Finance, insurance, real estate, business services	15.9	19.3	21.4	1.4	1.3
	130.2	211.0	62.1	11.8	13.9
Transport, communications, storage	62.1	103.2	66.2	5.6	6.8
Community, social and personal services	137.5	188.4	37.0	12.5	12.4
Subtotal private sector	991.1	1,353.3	36.5	89.8	88.9
Public Administration*	60.8	85.2	40.1	5.5	5.6
Education	38.5	62.5	62.3	3.5	4.1
Health	13.4	21.1	57.5	1.2	1.4
Subtotal public sector	112.7	168.8	49.8	10.2	11.1
Total	1,103.8	1,522.1	37.9	100.0	100.0

* Includes civilian Defense employees.

C. GROWTH OF THE ECONOMY

The first development plan states that the Kingdom's national policy objectives will be achieved by:

- ☆ Increasing the rate of growth of gross domestic product.
- ☆ Developing human resources.
- ☆ Diversifying sources of national income and reducing dependence on oil.

The first of these goals has been achieved beyond all expectations. In 1389-90, the year prior to the first plan, gross domestic product (GDP) at market prices was SR 17,149 million in current prices (excluding import duties). In 1392-93, just three years later, GDP was SR 39,952 million.

In terms of constant prices, the growth rate in GDP increased from 13.1 percent in 1389-90 to an average annual compound rate of 20.5 percent during the first three years of the development plan.

With respect to the third goal listed above, the contribution to GDP by the non-oil sectors of the economy stood at SR 7,802 million at current prices in 1389-90 and reached SR 11,857 million in 1392-93. The combined real growth of these sectors leaped from 3.9 percent in 1389-90 to an average annual rate of 9.9 percent over the next three years. Thus, despite the increasing dominance of oil, the increase in the rate of growth was relatively higher in the total of the non-oil sectors.

From the information currently available, it is clear that 1393-94 and the current year, 1394-95, will show substantially larger increases in both non-oil and total GDP. To bring the picture of the Kingdom's economy up-to-date, the Central Planning Organization has estimated value-added, by individual sector of industrial origin, to derive GDP for these last two years in current prices and in constant 1394-95 prices.

Size of the Economy

The data on GDP presented in Tables II-2, II-3, and II-4, indicate the magnitude of the changes anticipated during the complete period of the first plan. They also provide a base for the second plan projections discussed in the next chapter.

As already noted, GDP in current prices grew from SR 17,149 million in 1389-90 to SR 39,952 million in 1392-93. While this is a staggering increase in just three years, the GDP estimates for 1393-94 and 1394-95 are even more dramatic — SR 95,022 million and SR 148,717 million, respectively. GDP per capita is estimated to have risen from SR 3,185 in 1389-90 to SR 23,980 in 1394-95.

Table II-2
GROSS DOMESTIC PRODUCT IN CURRENT PRICES, 1390–95
(SR Millions at Producers' Values)

	1389–90	*1390–91*	*1391–92*	*1392–93*	*1393–94*	*1394–95*
Private						
Agriculture	984.1	1,015.5	1,058.7	1,138.7	1,243.1	1,409.0
Crude petroleum and natural gas	8,106.3	12,581.3	16,931.5	26,284.3	74,634.0	121,232.0
Other mining and quarrying	46.7	50.3	58.7	90.4	125.8	175.3
Petroleum refining	1,240.9	1,474.2	1,441.6	1,810.8	5,215.8	7,494.7
Other manufacturing	431.2	483.6	543.0	617.1	738.1	901.8
Electricity, gas, water, and sanitary services	273.1	297.9	302.2	319.1	353.6	333.3
Construction	933.9	1,007.0	1,173.8	1,808.9	2,791.7	4,362.0
Wholesale and retail trade, restaurants, and hotels	1,007.5	1,067.5	1,177.0	1,553.5	2,037.9	2,580.0
Transport, communications, and storage	1,242.5	1,479.3	1,567.4	2,121.3	2,787.6	3,637.8
Ownership of dwellings	661.0	727.0	800.0	1,000.0	1,293.6	1,636.7
Finance, insurance, real estate, and other business services	354.7	376.6	411.4	522.5	681.8	895.2
Community, social, and personal services	238.3	265.4	297.1	338.9	410.7	522.4
Less imputed bank service charges	(46.0)	(49.6)	(50.0)	(51.0)	(56.7)	(63.0)
Total private	15,474.2	20,776.0	25,712.4	37,554.5	92,257.0	145,117.2
Government						
Public Administration	657.8	693.2	827.6	934.9	1,055.3	1,291.4
Education	378.4	414.9	501.4	621.9	735.5	1,026.8
Health	89.3	98.2	102.1	136.7	160.9	256.5
Subtotal	1,125.5	1,206.3	1,431.1	1,693.5	1,951.7	2,574.7
Defense	549.5	584.5	641.1	704.0	813.6	1,025.4
Total government	1,675.0	1,790.8	2,072.2	2,397.5	2,765.3	3,600.1
GROSS DOMESTIC PRODUCT (excluding import duties)	17,149.2	22,566.8	27,784.6	39,952.0	95,022.3	148,717.3
Import duties	246.0	340.1	400.0	463.5	550.0	82.7
GDP (at market prices)	17,395.2	22,906.9	28,184.6	40,415.5	95,572.3	148,800.0
Summary						
Private sector						
Oil	9,347.2	14,055.5	18,373.1	28,095.1	79,849.8	128,726.7
Non-oil	6,127.0	6,720.5	7,339.3	9,459.4	12,407.2	16,390.5
Government sector	1,675.0	1,790.8	2,072.2	2,397.5	2,765.3	3,600.1
Total non-oil	7,802.0	8,511.3	9,411.5	11,856.9	15,172.5	19,990.6

Sources: The Central Department of Statistics is the source of the data for 1389–90 through 1392–93; all subsequent data are projections by the Central Planning Organization. The CPO has made some minor adjustments in the estimates for the government sectors throughout the series that have not yet been reviewed or approved by CDS.

Table II-3
IMPLICIT PRICE DEFLATORS
(1394–95 = 100.00)*

	1389–90	*1390–91*	*1391–92*	*1392–93*	*1393–94*
Private					
Agriculture	83.33	83.14	84.02	87.16	91.67
Crude petroleum and natural gas	15.53	19.69	21.15	26.24	67.73
Other mining and quarrying	68.97	71.08	73.21	80.55	89.66
Petroleum refining	20.28	22.06	22.41	26.64	73.08
Other manufacturing	83.33	83.33	83.33	85.84	91.67
Electricity, gas, water, and sanitary services	153.85	153.85	141.49	128.85	123.08
Construction	50.00	52.60	55.75	64.80	80.00
Wholesale and retail trade, restaurants, and hotels	68.97	70.03	70.83	78.93	90.84
Transport, communications, and storage	68.97	69.51	69.99	79.14	89.65
Ownership of dwellings	54.05	56.71	59.08	68.65	83.78
Finance, insurance, real estate, and other business services	58.82	61.48	64.09	73.21	85.29
Community, social, and personal services	68.97	72.34	75.39	81.38	88.06
Less imputed bank service charges	66.67	69.32	72.47	81.15	90.00
Total private	22.93	25.84	26.63	31.47	70.16
Government					
Public Administration	71.43	73.09	75.25	80.86	86.90
Education	71.43	74.51	78.57	82.46	86.53
Health	74.07	75.38	77.17	81.40	85.86
Subtotal	71.63	73.76	76.52	81.48	86.69
Defense	71.43	73.09	75.25	80.86	86.90
Total government	71.57	73.53	76.12	81.30	86.75
GROSS DOMESTIC PRODUCT (excluding import duties)	24.56	27.24	27.98	32.68	70.55
Import duties	71.43	73.09	75.25	80.86	86.90
GDP (at market prices)	24.79	27.50	28.23	32.90	70.63
Summary					
Private sector					
Oil	16.03	19.91	21.36	26.27	68.05
Non-oil	66.77	68.42	69.68	76.60	87.51
Government sector	71.57	73.53	76.12	81.30	86.75
Total non-oil	67.75	69.43	71.00	77.51	87.37

* For some sectors the CDS does not have the information necessary to construct deflators with all the desired characteristics. In these instances, substitute estimating equations have been used that may, on occasion, yield suspect results. Surveys will be conducted in the near future to improve the quality of this series. Also, in some instances the deflator was derived from given absolute estimates in current and constant prices and, because of rounding, the results are not exactly reversible.

Sources: As previous table.

Table II–4
GROSS DOMESTIC PRODUCT IN CONSTANT 1394–95 PRICES, 1390–95
(SR Millions at Producers' Values)

	1389–90	*1390–91*	*1391–92*	*1392–93*	*1393–94*	*1394–95*
Private						
Agriculture	1,181.0	1,221.4	1,260.1	1,306.4	1,356.1	1,409.0
Crude petroleum and natural gas	52,197.7	63,896.9	80,054.4	100,168.8	110,185.7	121,232.0
Other mining and quarrying	67.7	70.8	80.2	112.2	140.3	175.3
Petroleum refining	6,118.8	6,682.7	5,981.7	6,797.3	7,137.2	7,494.7
Other manufacturing	517.5	580.3	651.6	718.9	805.2	901.8
Electricity, gas, water, and sanitary services	177.5	193.6	213.6	247.7	287.3	333.3
Construction	1,867.8	1,914.4	2,105.5	2,791.5	3,489.4	4,362.0
Wholesale and retail trade, restaurants, and hotels	1,460.8	1,524.3	1,661.7	1,968.3	2,243.5	2,580.0
Transport, communications, and storage	1,801.5	2,128.2	2,239.5	2,680.4	3,109.3	3,637.8
Ownership of dwellings	1,222.9	1,282.0	1,354.1	1,456.7	1,544.1	1,636.7
Finance, insurance, real estate, and other business services	603.0	612.6	641.9	713.7	799.3	895.2
Community, social, and personal services	345.5	366.9	394.1	416.4	466.4	522.4
Less imputed bank service charges	(69.0)	(71.6)	(69.0)	(62.8)	(63.0)	(63.0)
Total private	67,492.7	80,402.5	96,569.4	119,315.5	131,500.7	145,117.2
Government						
Public Administration	920.9	948.4	1,099.8	1,156.2	1,214.0	1,291.4
Education	529.7	556.8	638.2	754.2	850.0	1,026.8
Health	120.6	130.3	132.3	167.9	187.3	256.5
Subtotal	1,571.2	1,635.5	1,870.3	2,078.3	2,251.3	2,574.7
Defense	769.3	800.0	852.0	870.6	936.2	1,025.4
Total government	2,340.5	2,435.5	2,722.3	2,948.9	3,187.5	3,600.1
GROSS DOMESTIC PRODUCT (excluding import duties)	69,833.2	82,838.0	99,291.7	122,264.4	134,688.2	148,717.3
Import duties	344.4	465.3	531.6	573.2	632.9	82.7
GDP (at market prices)	70,177.6	83,303.3	99,823.3	122,837.6	135,321.1	148,800.0
Summary						
Private sector						
Oil	58,316.5	70,579.6	86,036.1	106,966.1	117,322.9	128,726.7
Non-oil	9,176.2	9,822.9	10,533.3	12,349.4	14,177.8	16,390.5
Government sector	2,340.5	2,435.5	2,722.3	2,948.9	3,187.5	3,600.1
Total non-oil	11,516.7	12,258.4	13,255.6	15,298.3	17,365.3	19,990.6

Sources: As previous tables.

1,7
6,1
9,3
1.8
6.7
14.1
2.1
7.3
18.4
2.4
9.5
28.1
2.8
12.4
79.8
3.6
16.4
128.7
GOVERNMENT
OIL

Figure II-3 demonstrates clearly the dominant role of oil in the economy. However, the non-oil sectors of the economy now total more than the complete GDP did in 1389-90, and their total is now more than two and a half times what it was in 1389-90— SR 19,991 million in 1394-95 compared with SR 7,802 million then.

While inflation plays a significant role in this picture, it is considerably different from the inflation typical in industrial countries. In Saudi Arabia, all sectors except utilities have experienced some degree of inflation. The most severe price increases, however, have been in the sectors of crude oil production and petroleum, and practically all of the output of these sectors is exported*

The standard method of calculating real growth (by deflating a current price series to produce a constant price series which is a quantity index expressed in prices of a given year) would, in the case of Saudi Arabia, greatly understate crude and refined petroleum's actual contribution to the real growth of the economy. Because the great bulk of these products is exported, price increases in these products result in greater import purchasing power. Illustrating the importance of this impact, Table II-5 shows what happens when national income, expressed in constant prices, is adjusted by a "terms-of-trade effect". (The terms-of-trade effect is the difference between the value of exports deflated by an imports-price index and the value of exports deflated by an exports-price index): $V_x\left(\frac{1}{P_m}-\frac{1}{P_x}\right)$.

Table II–5

REAL NATIONAL INCOME**
(SR Millions in 1389–90 Equivalent Prices)

	1389–90	*1390–91*	*1391–92*	*1392–93*	*1393–94*	*1394–95*
Constant 1389–90 prices	13,573.7	14,794.4	16,732.0	20,405.8	29,004.2	33,086.6
Terms of trade effect	–	1,198.1	2,441.2	4,732.5	33,956.2	53,348.6
Real national income	13,573.7	15,992.5	19,173.2	25,138.3	62,960.4	86,435.2
Annual rate of increase (percent)	–	17.8	19.9	31.1	150.5	37.3
Average annual rate of increase (percent)	44.8					

* After more than a decade of imposed, artificially low prices, the OPEC nations have secured a number of successive agreements with the producing companies that have yielded more equitable returns to the host countries.

** This table has been calculated in terms of 1389–90 prices to illustrate the positive effect of the more rapid increase in petroleum prices vis-a-vis import prices. If calculated in 1394–95 prices, the terms of trade effect would appear as negative amounts for the years prior to 1394–95.

Source: CDS preliminary estimates and projections.

The average annual growth rate of 44.8 percent in real national income is a far better measure of the real change in the Kingdom's economic wealth during the first plan than the 19.5 percent growth rate yielded by the standard method of measuring output in constant prices. It should be recognized, however, that the "terms-of-trade effect" is double-edged. Continued rapid inflation in the price of imported goods, if not matched by an upward adjustment in oil prices, could eventually have a negative impact on the measurement of real national income.

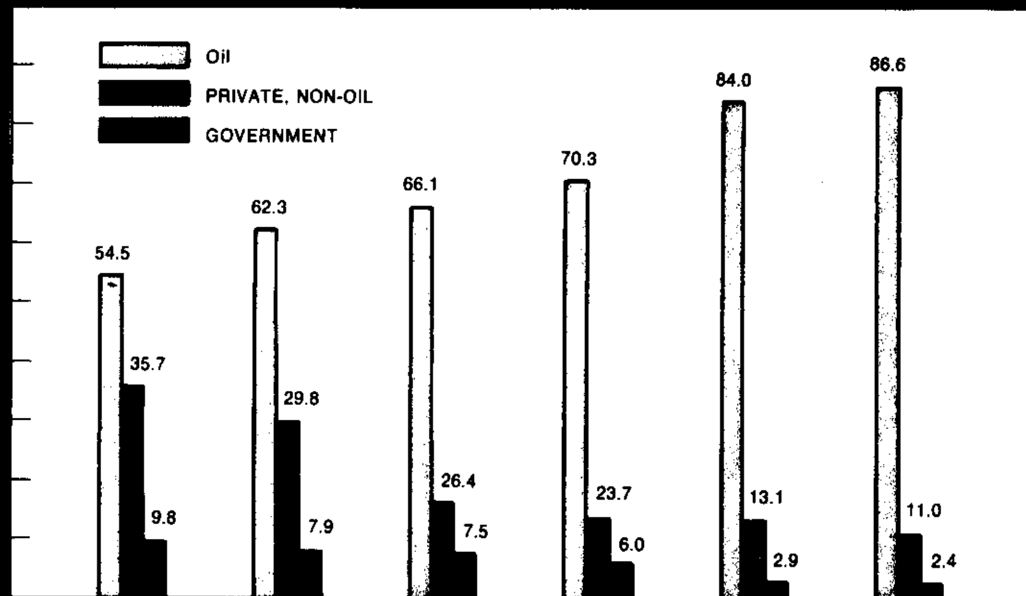
Structure of the Economy

Estimates of relative shares in total value added, summarized below and illustrated in Figure II-4, show the increasing dominance of oil in the total economic picture. The relative shares of GDP at current prices are as follows (percent):

	Actual		*Estimated*
	1389-90	*1392-93*	*1394-95*
Oil	54.5	70.3	86.6
Private, non-oil	35.7	23.7	11.0
Government	9.8	6.0	2.4
Total	100.0	100.0	100.0

However, when the rates of growth shown in Figure II-5 for the same three divisions are examined, it is clear that 1394-95 probably marks the peaking of oil's dominance of the Saudi economy. These percentages, based on constant prices, are:

	Actual		*Estimated*
	1389-90	*1392-93*	*1394-95*
Oil	15.1	24.3	9.7
Private, non-oil	3.3	17.2	15.6
Government	6.1	8.3	12.9
Total	13.1	23.1	10.4


Oil
PRIVATE, NON-OIL
GOVERNMENT
54.5
35.7
9.8
62.3
29.8
7.9
66.1
26.4
7.5
70.3
23.7
6.0
84.0
13.1
2.9
86.6
11.0
2.4

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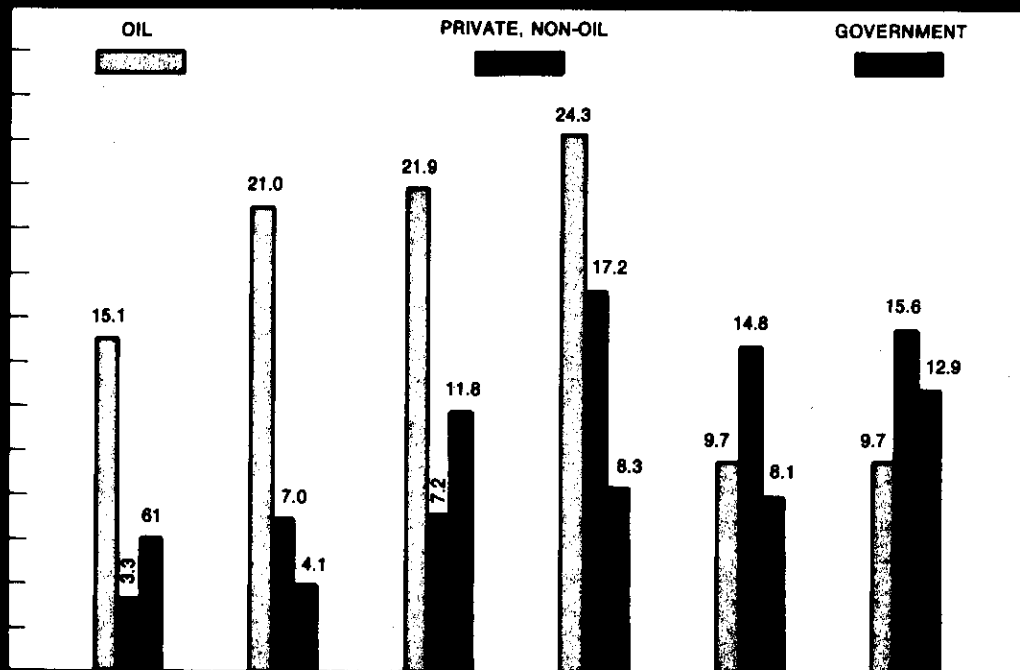


OIL
PRIVATE, NON-OIL
GOVERNMENT
15.1
3.3
61
21.0
7.0
4.1
21.9
7.2
11.8
24.3
17.2
8.3
9.7
14.8
8.1
9.7
15.6
12.9

[redacted]

The Government's policy of using its oil revenues for the purpose of economic and social development has greatly stimulated all economic activity over the past few years. Figure II-6 shows that the sectors in the private, non-oil sphere with the highest rates of growth are mining and quarrying, manufacturing, utilities, construction, trade, and transport and communications. Of these, the most important in terms of size are transport and communications, trade, and construction. Table II-6 shows the relative shares of the sectors which comprise private, non-oil GDP (based on current prices).

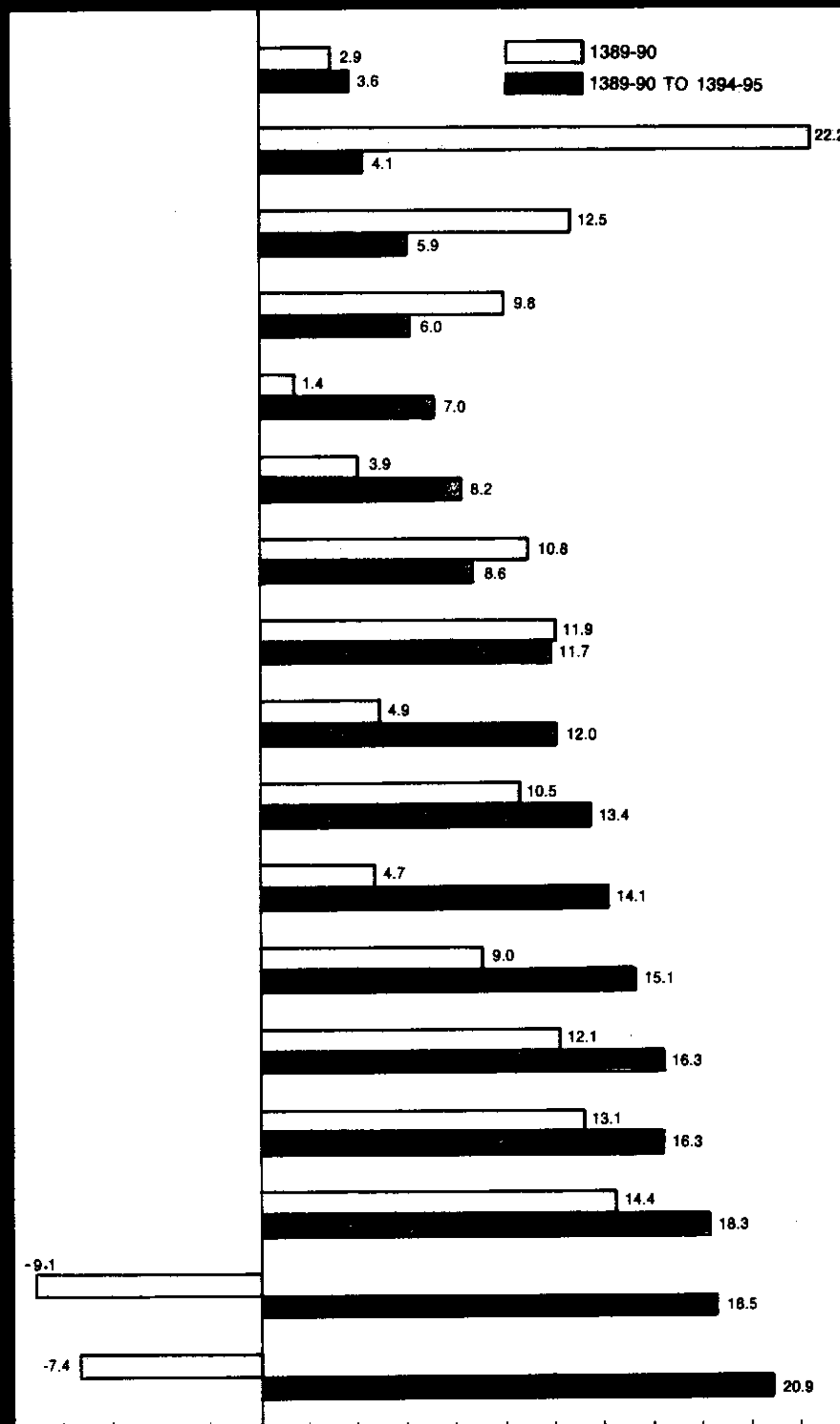
Table II-6
SHARES IN PRIVATE, NON-OIL GROSS DOMESTIC PRODUCT BY SECTOR
(Percentages Based on Current Prices)*

	Actual		*Estimated*
	1389-90	*1392-93*	*1394-95*
Agriculture	16.1	12.0	8.6
Mining and quarrying (excluding oil)	0.8	1.0	1.1
Manufacturing (excluding refining)	7.0	6.5	5.5
Electricity, gas, water, and sanitary services	4.5	3.4	2.0
Construction	15.2	19.1	26.6
Wholesale and retail trade, restaurants, and hotels	16.4	16.4	15.7
Transport, communications, and storage	20.3	22.4	22.2
Ownership of dwellings	10.8	10.6	10.0
Finance, insurance, real estate, and other business services	5.8	5.5	5.5
Community, social, and personal services	3.9	3.6	3.2
Less imputed bank service charges	(0.8)	(0.6)	(0.4)
Total	100.0	100.0	100.0

In keeping with the first plan's objectives, most of the growth in the non-oil parts of the economy has been in the private sphere. The estimates show an average annual growth rate for the private, non-oil sectors during the plan period of 12.3 percent, compared with only 3.3 percent in 1389-90.

The growth in value-added in the public sector was more modest — from 6.1 percent in 1389-90 to an estimated average annual rate of 9.0 percent for the whole plan period. In this connection, it is important to note that the average annual rates of increase over the first plan period estimated for General Administration and for Defense are only 7.0 percent and 5.9 percent respectively, whereas, for health and education, the estimated average annual rates are 16.3 percent and 14.1 percent respectively. It is clear from this that the Government's attention is being focused on the two areas most crucial to future welfare and progress.

* Source: Central Department of Statistics (no constant price series is available).



1389-90
1389-90 TO 1394-95
2.9
3.6
22.2
4.1
12.5
5.9
9.8
6.0
1.4
7.0
3.9
8.2
10.8
8.6
11.9
11.7
4.9
12.0
10.5
13.4
4.7
14.1
9.0
15.1
12.1
16.3
13.1
16.3
14.4
18.3
-9.1
18.5
-7.4
20.9

Capital Formation

After registering a small decline (1.3 percent) in 1389-90, gross fixed capital formation has followed the general pattern of accelerating growth, as the data* below show (SR millions in current prices):

	1389-90	*1390-91*	*1391-92*	*1392-93*
Government	1,213.9	1,203.9	1,442.6	1,985.2
Private non-oil	1,055.7	1,150.4	1,289.6	1,669.1
Oil	327.4	577.4	670.7	2,039.5
Total	2,597.0	2,931.7	3,402.9	5,693.8

To present a more current picture of this fundamental indicator of economic trends, and to provide a basis for discussing future developments in the next chapter, the above historical series has been projected for 1394-95 by relating it to the value-added estimates for construction as follows (SR millions, current prices)*:

	Actual				*Derived*	
	1389-90	*1390-91*	*1391-92*	*1392-93*	*1393-94*	*1394-95*
Construction value added	933.9	1,007.0	1,173.8	1,808.9	2,791.7	4,362.0
Percentage of capital formation	36.0	34.3	34.5	31.8	—— 34.15 ——	
Fixed capital formation	2,597.0	2,931.7	3,402.9	5,693.8	8,174.8	12,773.1

Note: The drop in construction to 31.8 percent of total capital formation in 1392-93 reflects the very large jump in oil construction for which materials are a larger share of total costs than in other types of construction. Since oil construction is expected to be high over the next two years, but less proportionately, the average figure of 34.15 percent was used to derive fixed capital formation from construction value-added as estimated in an earlier table.

While the totals estimated for fixed capital formation for the last two years are only 8.6 percent of GDP in both years, it is estimated that the rate of real growth in capital formation — that is, in constant prices — has been significantly higher than the rate in the overall economy. It has probably equalled the real growth in the construction sector, estimated to average 18.5 percent annually over the plan period.

* Source: CDS for 1389-90 to 1392-93 data; CPO for later estimates.

Over the past seven years (since 1386-87), construction has accounted for about 76.5 percent of total fixed capital formation. Applying this factor to the SR 12,773.1 million estimated above for gross capital formation in 1394-95 yields a gross output value for the construction sector of the economy of SR9,771 million for that year. A similar result is obtained by using a standard rule-of-thumb factor for estimating total construction value on the basis that value-added comprises 45 percent of the total. This formula applied to value-added in 1394-95 yields a value of SR 9,693 million for 1394-95. Both of these results agree basically with the estimate of SR 10,000 million in the construction section which was arrived at independently. Despite the absence of financial constraints, the requirements for additional materials and people — mostly from foreign sources — is awesome indeed if a real growth rate of 15 to 20 percent in construction output is to be sustained.

Foreign Trade and Balance of Payments

Oil exports accounted for almost 95 percent of the Kingdom's foreign exchange current account receipts in 1973, the last year for which complete balance of payments statistics are available.

The increase in foreign exchange earnings from oil exports is due to increases in both prices and production rates. In 1970, the average posted price per barrel (Aramco) was US $ 1.78; in 1973, it was US$3.28; and in 1974 it averaged approximately US$ 11.70; on 1 November 1974, the posted price of Arabian Light (Ras Tanura) was set at US$ 10.46. Average daily production during the first six months of 1974 was 8.34 million barrels compared with 7.45 during the first six months of 1973 and only 3.80 in 1970.

In December 1974, Aramco's production had declined to 7.8 million barrels per calendar day. Despite further declines to 7.4 mbpcd in January 1975, 6.5 mbpcd in February, and 6.4 mbpcd in March, receipts on current account from oil exports are running at a far higher rate than in 1973.

The payments side of the balance of payments ledger has also been growing at a prodigious rate. Rapid increases in foreign prices and the increasing acceleration of economic activity within Saudi Arabia have resulted in a growth in commodity imports of an estimated 60 percent in 1974 over 1973. This general trend will probably continue in 1975. If the Kingdom's port capacity and materials-handling capabilities permitted, the rate of expansion would be far higher.

Imports of goods and services combined are estimated as follows (SR millions in current prices, excluding factor income payments to abroad)*:

	1389-90	*1390-91*	*1391-92*	*1392-93*	*1393-94*	*1394-95*
Total	4,990.3	5,204.8	6,302.6	8,271.9	12,407.9	18,611.9
Percent increase	—	4.2	21.2	31.2	50.0	50.0

The rapid increase in investment income payments — from SR 6,446 million in 1971 to SR 8,496 million in 1972 and to SR 12,350 in 1973 — reflect, primarily, the repatriation of profits by foreign oil companies. As Saudi Arabia assumes an increasing share in the ownership and oil companies' profits fall, these payments will decline. However, many new ventures involving foreign capital, now in the discussion stage, could lead to substantial increases in this payment category in the future. Presumably, these would be more than matched — as in the case of oil — by even greater export earnings: the Saudi government is just now beginning to receive substantial returns on its foreign investments. This will be a significant — and could be the dominant — feature in future balance-of-payments accounting.

Government expenditures abroad, which include foreign exchange expenditures on various projects, aid to Arab countries, and other foreign transfers are the largest of the remaining payments items. These increased to almost SR 3,000 million in 1973. It is estimated that these payments will be substantially larger in 1974 and 1975.

The next largest item is "Other Services," about three-fourths of which is repatriation of earnings of foreign workers in the Kingdom. This item increased by 70 percent in 1973, from SR 1,138 million in 1972 to SR 1,932 million in 1973. Undoubtedly, substantial increases in these payments will be recorded for 1974 and 1975.

Table II-7 summarizes the balance-of-payments estimates for 1972 and 1973, including the Capital and Financing Account. Estimates for 1974 are not available. This is unfortunate because both receipts and payments will no doubt have increased enormously, and it would be extremely useful to know by just how much. In 1975, it is clear that payments will continue to grow at a substantial rate; however, it is difficult to predict what will happen to receipts, although they have been estimated to be about the same as in 1974. Despite this uncertainty and the anticipated rapid increase in payments, the Kingdom should record a substantial surplus in its balance-of-payments again in 1975.

* Sources: CDS for 1389-90 to 1392-93 inclusive; CPO estimates for years 1393-94 and 1394-95. Imports of goods and services are estimated by the CDS on a Hijra year basis whereas commodity imports are taken from balance of payments data which are on a Gregorian year basis. The import of services is embodied in other payments categories in the balance-of-payments statements.

Table II–7
BALANCE OF PAYMENTS ESTIMATES, 1971–73
(SR Millions)

	1971	1972	1973
Current Account			
Receipts			
Exports, f.o.b.	16,294[a]	21,795[a]	33,409[a]
Oil revenues from companies other than Aramco	353	420	448
Pilgrimage	485	653	909
Miscellaneous	478	655	1,123
Total receipts	17,610	23,523	35,889
Payments			
Imports, c.i.f.	4,226	5,769	7,359[b]
Non-monetary gold	42	40	50
Investment income payments	6,446	8,496	12,350
Government expenditures abroad, n.i.e.	1,232[c]	1,240[c]	2,986[c]
Travel and personal transportation, n.i.e.	649	793	1,050
Tapline expenditures abroad	212	195	180
Other services	798	1,138	1,932
Total payments	13,605	17,671	25,907
Current Accout surplus	4,005	5,852	9,982
Capital and Financing Account			
Direct investment(–indicates inflow)	–490	–1,487	–220[d]
Other capital (+indicates increase in foreign assets)	+762	+1,050	+3,978
Gold, foreign exchange holding, and investments of SAMA (+indicates increase)	+3,573	+5,480	+6,044
Commercial Banks' net foreign position (+indicates increase, –indicates decrease)	+103	+741	+125
Errors And Ommissions	+57	+68	+55

a On the basis of realized prices.
b Provisional.
c Including the aid granted by Saudi Arabia.
d Netted against compensation paid to Aramco for 25 percent participation in its oil production facilities.

Note: The US dollar/riyal parity prevailing in 1971 and 1972 was SR 4.50/$ and SR 4.145/$ respectively. In 1973, however, the parity changed twice; therefore, the trade conversion factor used for 1973 is SR 3.70/$ which is based on the daily average of the prevailing official parity with the dollar. Capital transactions are, however, at the year-end parities but for consistency necessary adjustments have been incorporated in the foreign assets of both the Monetary Agency and the commercial banks.

Source: SAMA Annual Report, 1392–93 A.H.

D. FISCAL AND MONETARY MANAGEMENT

The principal objective of fiscal management in the first plan was to evolve and implement policies and strategies that would provide the necessary resources to finance development while maintaining a stable and open economy. Other objectives and supporting policies reviewed below are the following:

☆ Maintaining foreign reserves equal to the value of imports for one and a half years.
☆ Obtaining a high rate of economic growth without adverse inflationary effects.
☆ Encouraging private enterprise.

When the first development plan was being prepared the Kingdom's ability to provide adequate financial resources to carry out all programs and projects was a matter of deep concern. At that time, 1389-90, the balance of payments had been showing a deficit for two years and the Government was drawing on its reserves to meet its budget commitments. Oil revenues had not increased appreciably since 1386-87.

During the first year of the plan, this picture changed significantly. Crude oil production grew by over 22 percent, the posted price (for Arabian Light) increased from US$1.80 to US$2.18, and then to US$2.285, and income taxes on oil were raised from 50 percent to 55 percent. Consequently, revenues from oil jumped almost 40 percent in 1390-91. Since then, oil production and prices have continued their upward surge, income taxes on oil have risen to 85 percent and royalties to 20 percent, and the Government has acquired a 60 percent equity in Aramco — and negotiations are in progress with respect to increasing this equity.

The remarkable increases in revenues during the plan period are shown below (SR Millions):

	Oil	*All Other*	*Total*
Base year (1389-90)	5,119	549	5,668
Plan years:			
1390-91	7,122	818	7,940
1391-92	9,685	1,435	11,120
1392-93*	13,206	2,162	15,368
1393-94*	38,400	2,900	41,300
1394-95*	94,432	3,815	98,247
Total plan period	162,845	11,130	173,975

Thus, the revenues actually received during the first plan period greatly exceeded the

* Provisional.

Source: Saudi Arabian Monetary Agency for data through 1392-93; CPO estimate for 1393-94; annual budget estimate for 1394-95, which does not reflect changes since 1 Rajab 1394 in the domestic tax structure or in posted prices and oil taxes.

amount estimated when the plan was prepared. This was not anticipated, however, when the budget was being prepared for the first year of the plan, and many projects were deferred during that year because of anticipated financial constraints. As a consequence, growth in the non-oil sectors of the economy was less than anticipated.

In preparing the budget for 1390-91 revenues were estimated at SR 6,380 million. After deducting SR 420 million* for aid to Arab countries, the appropriations for 1390-91 were practically the same as for 1389-90. Although actual revenues totalled SR 7,940 million in 1390-91, this did not become apparent until well into the fiscal year. As a consequence, actual expenditures out of the budget (excluding aid to Arab countries) totalled only SR 5,756 million, and the GDP of the non-oil sectors grew by only 6.4 percent in real terms.

In 1391-92, estimated revenues and appropriations totalled SR 10,782 million, of which SR 4,978 million was for economic and social development purposes, compared with only SR2,805 million the previous year. Actual expenditures from the budget (excluding Arab aid) reached SR 7,291 million, and real non-oil GDP increased by 8.1 percent.

In 1392-93, appropriations for economic and social development purposes were SR 6,317 million.**Total actual expenditures from the budget (excluding Arab aid) increased by 26.8 percent to SR 9,246 million, and non-oil GDP grew by 14.7 percent in constant prices.

Much of this greatly accelerated growth was due to the tremendous progress in construction activity, transportation, and trade — increases of 32.6 percent, 19.7 percent, and 18.5 percent respectively, all in terms of constant prices.

In 1393-94, estimated appropriations and revenues both totalled SR 22,180 million. Developmental appropriations rose by over 57 percent to SR 9,923 million.***Total budgetary expenditures (excluding Arab aid) are estimated to have been SR 11,715 million, an increase of 26.7 percent over the previous year. Non-oil GDP is estimated to have grown by 13.5 percent in real terms.

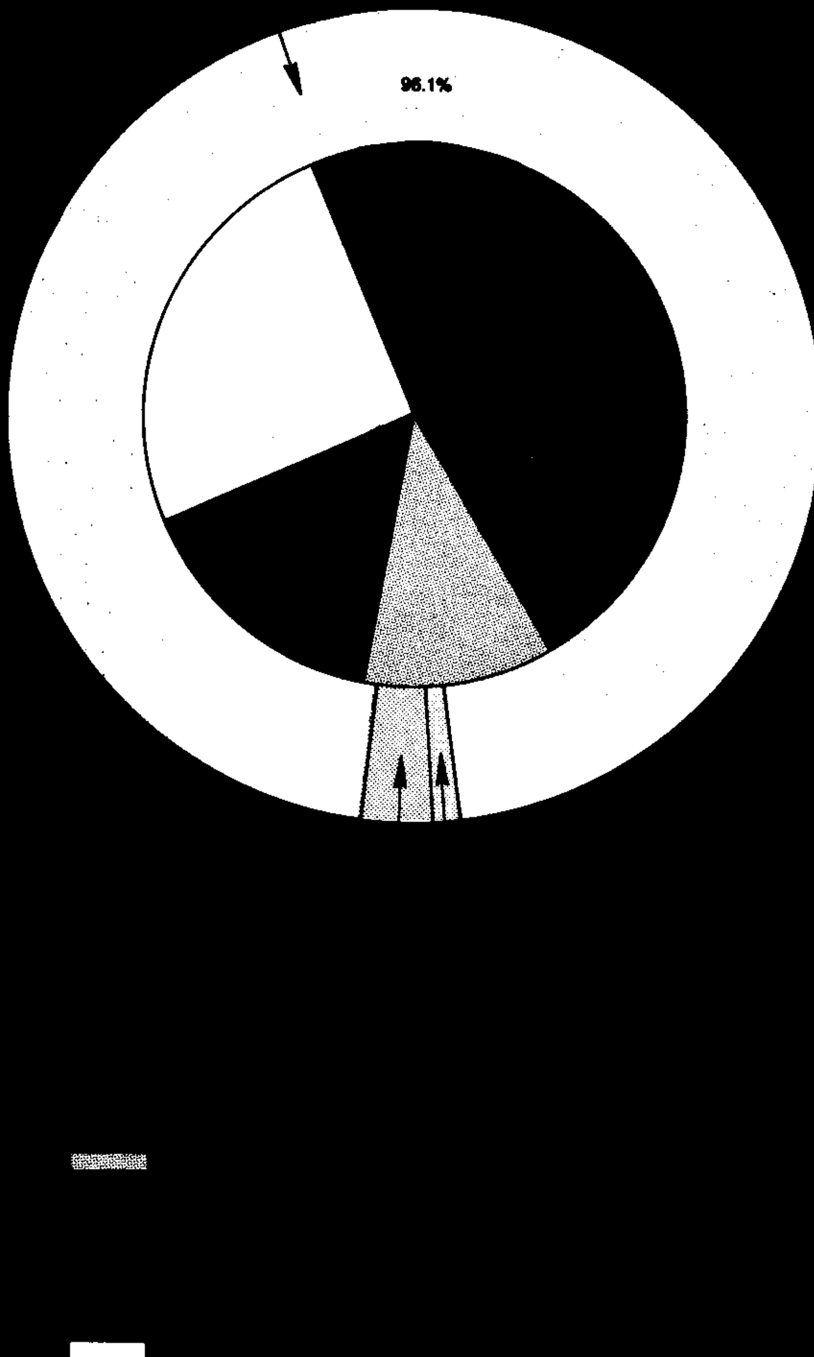
Compared with estimated revenues of SR 98,247 million for 1394-95, appropriations total SR 45,743 million. The balance is available for financing large-scale agricultural and industrial projects in the second Development Plan. Appropriations for normal budget purposes are SR 33,488 million and appropriations for developmental activities increased 85.7 percent over1393-94 to a total of SR 18,428 million. Figure II-7 compares revenues with appropriation and the distribution of the latter among the major activity categories.

If total normal budgetary expenditures (excluding Arab aid and other foreign transfers, and domestic transfers to reserves and special funds) increase by 26.7 percent over those estimated for 1393-94, they will reach SR 14,843 million in 1394-95. The corresponding estimated real growth in non-oil GDP is 15.1 percent.

* A further SR 242 million in aid to Arab countries was paid as an extra-budgetary expenditure out of surplus.

** Excluding appropriations to the Public Investment Fund.

*** This does not include the SR 3,204.6 million appropriated to purchase 25 percent participation in Aramco and to special funds, such as the Public Investment Fund and Items of Emergency Expenditure.


96.1%

As should be expected under these circumstances of rapidly rising revenues, appropriations have increased at a faster rate than actual expenditures. The growth in expenditures since 1390-91 is, however, an excellent achievement by any standards.

In addition to financing the development plan, the Government was committed to maintaining an open and stable economy without exchange or import restrictions. Since almost all of the Government's ample revenues are in the form of foreign exchange, maintaining the international stability of the riyal without exchange or import restrictions has not been a problem.

Important too, is that, despite the continuing crises in the international monetary system since the late 1960s, the Kingdom has carefully avoided any over-reactions that might have contributed to further instability, such as large purchases of gold, shifting of deposits, or radical changes in currency parities.

As an adjustment to changes initiated by the United States, the Government, in December 1971 and again in February 1973, changed its riyal/dollar parity only enough to reflect exactly the change in the dollar/gold parity. In August 1973, after substantial weakness in the dollar vis-a-vis several other major currencies, the riyal was revalued unilaterally by a modest 5.07 percent.

Continued weakness in the dollar led to mounting pressures for a further revaluation of the riyal. The Government responded in March 1975 by linking the riyal to the International Monetary Fund's special drawing rights (SDRs). The purpose of this action was to free the riyal from potential radical swings in the value of any single currency: the method of valuing the SDRs moderates even considerable fluctuations in the value of any of the individual currencies. Again, the change in the riyal/dollar parity was relatively minor–2.3 percent.

The cumulative effect of all changes during the past four years has been from a parity of US$ 1 = SR 4.50 to US$ 1 = SR 3.47, that is, the dollar has declined by 29.68 percent against the riyal. With respect to the German Deutschemark, in the same period the dollar has declined by 73.91 percent — from US$ 1 = DM 4.00 to US$ 1 = DM 2.30.*

As to internal monetary management, the money supply has increased quite rapidly (SR millions):

At End of Financial year	*Currency in Circulation*	*Demand Deposits*	*Total*	*Percent Increase*
1389-90	1,528.3	795.5	2,323.8	—
1390-91	1,641.6	944.9	2,586.5	11.3
1391-92	1,951.2	1,274.8	3,226.0	24.7
1392-93	2,487.8	2,191.3	4,679.1	45.0
1393-94	3,374.4	3,004.9	6,379.3	35.3

* Decline in value is based on the amount of extra dollars now required to purchase a given amount of foreign currency compared to a previous situation.

Source · SAMA Annual Report, 1392-93 A.H. and SAMA Statistical Summary, First Issue, 1394-95.

While much of the world has seen a decline in economic activity during the past year, the Kingdom's economy is rapidly accelerating. Ample evidence of this increased activity can be found not only in the rapid increase in the money supply, but in the number of checks cleared and their value. Check clearings increased from 413,522 totalling SR 7,610 million in 1392-93 to 532,335 totalling SR 14,860 million in 1393-94.

This rapid growth in money supply and in usage of checks reflects the substantial expansion of Government spending and general economic activity, and increased public reliance on the banking system.

In keeping with this general policy of emphasizing fiscal stability, Saudi law requires that all currency issued be backed 100 percent by gold or foreign exchange convertible into gold. Also, the first plan called for maintaining foreign reserves equal to one and a half year's imports. In the interests of international monetary stability, the Kingdom has refrained from increasing its stock of gold. At the end of 1392-93, gold holdings (including the Kingdom's subscription in the International Monetary Fund) totalled SR 574 million. In the next quarter, the total declined to SR 546 million and has remained at that level.

Other international reserves of the Saudi Arabian Monetary Agency (SAMA) have greatly increased in recent years (SR millions):

At End of Year	*Gold*	*Foreign Exchange*	*Foreign Investments*	*Total*
1390	574	2,909	785	4,268
1391	574	5,515	764	6,853
1392	574	10,833	983	12,390
1393	546	13,094	2,293	15,933
1394*	546	56,413	20,109	77,068

It is difficult to forecast just what the reserves situation will be at the end of 1394-95 (a little over six months after the last total shown above). Oil production has declined from approximately 8.5 to 6.4 million barrels per calendar day in March 1975. It is not easy to predict what level of oil production and export will be maintained over the next three months.

SAMA's preliminary estimate of total expenditures for 1393-94 is SR 19,500 million. This estimate suggests that other (non-budget) payments, transfers and foreign aid totalled some SR 7,785 million in 1393-94 (based on the estimate of normal budgetary expenditures of SR 11,715 million**). However, there is no adequate basis for projecting these types of outlays for 1394-95.

Given these uncertainties, it is obvious that the estimate of future reserves is highly tentative. However, barring any unforeseen, large-scale cuts in oil production or prices over the next few months, revenues will continue to exceed expenditures, and the difference will

* As of 5 Dhul Hijjah.

** Because total expenditures have been estimated by SAMA at SR 19,500 million, this estimate of normal budgetary expenditures may be low. However, it is based on an average annual rate of increase of 26.7 percent, which yields a growth of almost 160 percent in just four years. Even with rapid increases in prices, this is a very high rate of sustained increase.

Source: SAMA Annual Reports and interim statement for 5 Dhul Hijjah 1394.

manifest itself mainly in the further accumulation of international reserves. Therefore, reserves at the end of the first plan period could total as much as SR 100,000 million.

In the attempt to encourage a high rate of growth without adverse inflationary effects, it has not been possible to avoid widespread price increases. Because of its dependence on imports, and domestic shortages in housing and labor, Saudi Arabia exprienced a fairly high degree of inflation in the past two years (between 15 and 20 percent annually). The Government, in keeping with its prime objective of improving the well-being of its people, has undertaken a number of measures to mitigate this situation. It has eliminated a number of taxes and reduced others as rising oil revenues have rendered taxation for revenue purposes unnecessary. The road tax (a 2 percent levy on all personal incomes) and taxes on domestic petroleum products have been eliminated. Many customs duties and the 10 percent surcharge have been eliminated, and tariffs on the balance reduced to a token 3 percent.

Other important measures taken either to reduce or to offset the rise in living costs include a number of import subsidies: milk and milk products, flour, rice, sugar, meats, vegetable oils and fats, and medicines.The Government also has a program for encouraging bulk imports of certain products to reduce pressure on price increases.

The Government reduced electric rates from 20 halalahs to 14 halalahs per kWh and, on 1 Shaban 1394 (19 August 1974),to 7 halalahs (US$ .02) for normal consumption and 5 halalahs for industrial consumption. The electric companies are assured a reasonable profit margin through subsidies.

In accord with the target specified in the first plan, the Government has established a Real Estate Development Fund to provide interest-free loans of up to 70 percent of costs for housing construction by limited-income persons and up to 50 percent of costs for multi-housing units for commercial use and holtels. This program became operational during Rabi I, 1395.

The Saudi Credit Bank, also known as the Bank for People of Small Means, became operational in 1393. The purpose of this bank is to provide interest-free loans of up to SR 7,500 to people with limited incomes to meet urgent social needs (e.g., marriage) or unusual financial difficulties that may occur.

At the beginning of 1393 and again at the beginning of 1395, the Government granted substantial wage increases throughout the public sector. In percentage terms, the higher increases went to the lower-paid categories. These increases have stimulated wage increases in the private sector as well.

Other government measures designed to reduce inflation, increase family incomes, or expand welfare are discussed in later chapters.

In the long run, increased production of goods and services and higher productivity per worker are the only effective means of achieving a high rate of growth without adverse inflationary effects. The national Development Plan is the principal vehicle for achieving this long-term objective. In addition, the Government has established several reserve funds for special programs and projects, and for emergencies that may arise which could not be specifically anticipated at the time the annual budgets were prepared. The availability of these funds reduces the implementation time of the activity to be undertaken.

Despite the preponderant role of the Government in this stage of Saudi Arabia's development, the Kingdom's fundamental philosophic commitment is to private enterprise. Eventually, it is anticipated that the Government's role in economic activity will be a far more modest one than today. In the interim, the Government must provide the infrastructure and other economic incentives to encourage and stimulate the private sector to play an ever larger role in productive activities.

Principal measures taken to encourage private sector development included revisions to the Mining Code — designed to encourage mineral exploration and development; publication of a statement of Saudi Arabian Industrial Policy — setting forth the many incentives offered to promote industrialization; issue of a comprehensive Guide for Industrial Investments; changes in the provisions for protection of domestic industries and encouragement of foreign-capital participation; the launching of the Industrial Development Fund to provide capital loans to industrial ventures; implementation of industrial estates at Jiddah, Riyadh, and Dammam where serviced land for industry can be obtained at nominal rents; and the provision of credit and a range of input and output subsidies to stimulate agricultural production.

Because of the financial constraints at the time of preparing the first plan, and because there was already an existing commitment to aid Arab countries — SR 662 million annually — the first Development Plan did not include any specific provisions for additional aid programs. However, with the large increase in revenues, the Government has taken a number of far-reaching steps to assist other nations in fulfilling their development aspirations. These actions include increasing Saudi Arabia's participation in the International Monetary Fund, making loans and outright gifts, and giving direct technical and financial assistance in foreign development projects. Some of the major institutions* established to handle such programs are:

☆ The Saudi Arabian Development Fund (For Foreign Aid) established 1974.
Capital: SR 10,000 million.
To contribute to the financing by loan of development projects in friendly countries.

☆ Islamic Development Bank, being established.
Capital: Islamic Dinar 2,000 million (equivalent to US Dollars 2,400 million).
Share of the Kingdom: Islamic Dinar 200 million.
To support and promote the economic development and social progress of Islamic

* For further details see recent Ministry of Finance and National Economy publication "The Government Credit Programs in the Kingdom of Saudi Arabia and the Regional and International Companies and Corporations — Contributed to by the Kingdom of Saudi Arabia."

countries and communities by financing productive projects, assisting in promoting trade among the member states, providing aid to Islamic communities in non-member states, and providing technical assistance and training to member states.

☆ The Arab Bank for Economic Development in Africa, established in 1974.
Capital: US Dollars 206 million.
Share of the Kingdom: US Dollars 25 million.
To promote and support economic, financial, and moral cooperation between African and Arab countries through financing economic development of African countries, encouraging Arab funds to take part in African development, and contributing to technical assistance for the development of Africa.

☆ The Arab Company for Investments, established in 1974.
Capital: US Dollars 200 million.
Share of the Kingdom: US Dollars 30 million.
To invest Arab funds for the development of Arab resources through the implementation of productive projects in agriculture, industry, commerce, communications, and services.

☆ The Arab Fund for Economic and Social Development, established in 1968.
Capital: Kuwaiti Dinar 102 million.
Share of the Kingdom: Kuwaiti Dinar 18.8 million.
To take part in and promote the financing of economic and social development projects in Arab countries and provide technical expertise and aid in the various fields of economic development.

☆ Arab Company for Petroleum Investments, being established.
Capital: SR 3,600 million.
Share of the Kingdom: SR 204 million.
To participate in financing petroleum projects and industries and related activities for the benefit of member countries.

☆ The Arab Marine Company for Petroleum Transport, established in 1973.
Capital: US Dollars 500 million.
Share of the Kingdom: US Dollars 67.9 million.
To undertake marine transport of hydrocarbons and related activities.

☆ The Arab Company for Building and RepairingVessels, established 1973.
Capital: US Dollars 100 million.
To construct, repair, and maintain vessels, tankers, and marine transportation facilities for hydrocarbons.

☆ The Egyptian Suez Gulf Pipeline Company, established 1973.
Capital: US Dollars 440 million.

Share of the Kingdom: US Dollars 60 million.
To construct and operate a pipeline to transport petroleum from the Suez Gulf to the Mediterranean Sea.

☆ Saudi-Egyptian Company for Industrial Investments, being established.
Capital: SR 200 million.
To establish projects in Egypt either by Egypt alone or in collaboration with Arab or international partners.

☆ Saudi-Egyptian Company for Reconstruction, being established.
Capital: US Dollars 50 million.
To invest in real estate projects in Egypt, especially in the Suez area.

E. HIGHLIGHTS OF DEVELOPMENT 1390-95

The main features of development over the period of the first plan are summarized below. More detailed discussions are given in the "Present Conditions" sections of Chapters IV to VIII.

Numerous groundwater investigations were undertaken and an extensive program of hydrological data collection and analysis was continued to further define the *water* resources of the Kingdom.

Water supply projects for six major cities were undertaken, and about 1,000 wells were dug or restored and many distribution systems constructed to meet the immediate needs for water in other localities. Over 20 small dams for storage of surface runoff, flood protection, and aquifer recharge were constructed or approved for construction.

Five desalination plants on the Red Sea coast and two on the Arabian Gulf started operation and are together capable of producing almost 50,000 cubic meters of water per day and 60 megawatts of electricity. Other plants at various stages of planning and implementation are designed to produce over 330,000 cubic meters of water per day and 905 megawatts of electricity.

Production in *agriculture* continued to grow slowly in face of the many problems inhibiting rapid agricultural development. Subsidies on farm inputs and outputs were introduced to supplement research and extension programs in stimulating agricultural production.

Agricultural credit expanded significantly over the plan period; in 1393-94 the Agricultural Bank granted 5,414 new loans amounting to SR 36.3 million.

Production of crude *petroleum* increased to an average level of 8.5 million barrels per day in 1394 and has since shown some decline, while posted prices of crude (Arabian Light—Ras Tanura) were raised from US$ 1.80 at the beginning of the plan to US$ 10.46 (set 1 November 1974). A vigorous program to expand output was implemented by increasing exploration and drilling activities, installing new pipelines, and adding new gas-oil separator capacity, water-injection facilities, natural gas liquid processing plants, and supporting facilities.

Four licenses for the exploration and development of *mineral* resources were issued to private mining companies. Present exploration of deposits is expected to lead to commercialization after some years. Minerals in these deposits include copper, lead, zinc, nickel, gold and silver. Other promising deposits of metallic minerals are being investigated.

An extensive program to inventory non-metallic mineral resources is in progress to locate additional material needed for construction programs.

Actions taken to improve the *electricity* system include establishment of the Electrical Services Department to plan and coordinate its development, and specification of standardized voltage (127/220v) and frequency (60 hz), though consumers will continue to be served with other voltages and frequencies where these are already in use. Total generating capacity is 1,256 megawatts and the system is serving an estimated 2.2 million people. Electricity tariffs were reduced by decree in 1394 to 7 and 5 halalahs per kilowatt-hour for residential and industrial consumers respectively.

Expansion of *manufacturing* not based on hydrocarbons exceeded the target set in the first development plan but petroleum refining and hydrocarbon-based industry fell short of their respective plan targets. A refinery was established in Riyadh, cement production more than doubled, and many new industries were established in accord with the objective of achieving a diversified manufacturing structure. A statement of Saudi Arabian Industrial Policy was issued and the Industrial Development Fund was established and began making loans to industrial enterprises.

Total *construction* activity more than doubled over the period of the plan as programs in all sectors were implemented.

All sectors within *commerce* grew rapidly in the first plan period — trade, transport and storage, finance, real estate, and business and personal services — reflecting the quickening tempo of development.

The main features of *manpower* development were a growth in the labor force of about 20 percent to a level of 1.6 million persons in 1395, and improvement in the educational levels of new entrants as a result of expansion of the educational system.

The *education* system has established a strong base from which to move toward further development. Almost 800,000 students are enrolled full-time in public schools and another 12,000 are attending colleges and universities. With night schools, part-time classes, and adult literacy programs having close to 90,000 enrollees, approximately one out of every seven persons in the Kingdom is participating in an organized educational program.

This achievement has required an unprecedented expansion of physical facilities — schools, class-rooms, special-purpose rooms—to avoid excessive congestion, multistreaming or double-sessions (phenomena usually associated with rapid growth of this order). While more and more Saudis are entering the teaching profession, substantial numbers of contract teachers have been engaged to meet the enrollment growth.

Most important is that expansion has occurred throughout the structure of the educational system. Each level has been developed to ensure opportunities for all students to continue their education to the extent their ability and interest allows.

Information services have developed rapidly in recent years. Two radio complexes equipped with studios and transmitters are located in Riyadh and Jiddah and broadcast Arabic programs 20 hours daily. Half the population now receives the television signal, from seven television stations, about 50 percent of the programs transmitted being produced locally. A contract has recently been signed with the Government of France for the installation of a SECAM color television system throughout the Kingdom. A news-agency service was established in 1390 for collection and dissemination of news both domestically and externally.

Despite great difficulties in procuring the necessary qualified manpower, the *health* system has expanded steadily in quantitative terms in the past five years. Within the Ministry of Health, the number of hospitals has increased from 47 to 62, an addition of 569 beds; the numbers of doctors and nurses have expanded by 140 percent and 75 percent respectively.

In the later years of the first plan, a number of measures designed to ameliorate the quality of health services were undertaken and will provide an important impetus for implementation of the second Development Plan. These included establishment of a program for training in hospital management, specification of a series of standardized designs for hospital construction, and the establishment of a central group within the Ministry of Health for health service planning, coordination and program follow-up.

The Red Crescent Society has opened a number of new first-aid centers, established a First-Aid Training Institute, and continued to contribute to the provision of health services in the Hajj areas at the time of the Pilgrimage.

Delivery of social assistance through the *Social Security and Social Affairs* programs expanded significantly throughout the first development plan. Social Security benefits were increased substantially in 1394. The maximum benefit for a family of 7 persons is now SR 5,400 per year. In 1393-94 approximately 110,000 persons were receiving pension benefits and3,700 were receiving grants-in-aid.To ensure that as many as possible of those eligible for pensions received them, the number of branch offices was increased from 40 to 46.

The number of institutions run by the Social Welfare Department increased from 15 to 31 between 1390 and 1395. These offer institutional care to the aged, orphans, foundlings, problem or delinquent children, and others in need. The foster and alternate family care program has also increased significantly with the result that the number of children being cared for under this program has increased more than fourfold in five years.

A new range of activities was initiated in 1393-94 with the establishment of a rehabilitation department under Social Affairs. The department's first project was the establishment of a rehabilitation center in Riyadh which, six months later, was serving 42 persons.

Targets for expansion of the cooperative program in the first plan included expansion of their number from 39 to 76. By the end of the plan, this target had been exceeded and 83 registered cooperatives were in existence.

Expansion of Community Development Center activities included establishment of mother and child care centers, home economics classes, schemes for sanitary improvement, and literacy classes. A research project to evaluate the effectiveness of community development is now nearing completion.

Enforcement of the *Social Insurance* Law began in 1393. It is being enforced in a number of stages beginning with the contributory annuities program covering disability, old age, and death benefits. By the end of the plan, annuities coverage had been extended to 199,400 persons who worked in 770 private and public organizations employing more than 20 persons. The General Organization for Social Insurance is currently preparing to bring in an occupational hazards scheme which, like the annuities program, will be introduced in stages.

To give stronger guidance and coordination to *youth welfare* programs, the General Presidency for Youth Welfare was founded in 1394 as the successor to the Youth Welfare Department of the Ministry of Labor and Social Affairs. In spite of slow progress with the construction of youth centers, youth activities have been expanded in many areas. Nine national societies for various sports were officially recognized and appropriate area and national championships were held. As well as participating in the Munich Olympic Games, the Kingdom participated in many international sports events. On the cultural side, numerous activities were held including acting, reading and painting exhibitions, lectures, and knowledge-exchange trips for the youth of different areas. Public service activities and voluntary labor camps have also become increasingly popular.

The major objective for the *transportation* sector in the first plan was to provide the basic transport network needed to support economic and social development. This objective has generally been achieved. All major commercial and administrative centers within the Kingdom are interconnected with roads and air routes.

There are now more than 11,000kms. of paved roads and a large construction program is under way. 42 teams are engaged in construction and maintenance of rural earth roads of which 8,000 kilometers have been constructed. There are more than 200,000 motor vehicles in the Kingdom and this number is expanding rapidly.

20 domestic airports are served on a scheduled basis by SAUDIA and foreign carriers. In 1393, 350,000 international and 800,600 domestic passenger departures were recorded. About 350,000 pilgrims arrived by air. SAUDIA also serves 28 foreign destinations in Europe, Asia, Africa, and the Middle East.

The major ports of Jiddah and Dammam have been expanded. Jiddah now has ten new and two old berths with seven more approved, and Dammam seven new, two old, and seven under construction.

Progress in developing a national *telecommunications* system has not kept pace with the growth in demand for services. At the end of 1394, there were 93,600 lines of automatic telephone exchange equipment in ten cities across the Kingdom; completion of 23 telephone office switch projects in the next three years will provide an additional 105,200 lines. In addition, two portable earth stations for satellite communication were installed, one at

Riyadh and the second at Jiddah. Implementation of the intra-Kingdom telecommunications network has fallen behind schedule.

The Postal Service has speeded up mail deliveries within the Kingdom, and is now approaching its goal of 24-hour service for inland mail. Although the morale of postal workers has improved with the implementation of performance reviews, the Service is still handicapped by shortages of trained manpower, a lack of modern mail-handling procedures and equipment, and inadequate facilities for the rapidly growing volumes of inland and international mail.

Substantial progress has been made in the development of *municipalities* during the first plan. The number of communities with municipality status grew from 54 to 85, thus bringing a wide range of amenities to a much broader section of the Kingdom's population. Achievement in the implementation of municipal projects was, in a number of cases, considerably in excess of plan targets, but implementation of street asphalting and drainage network construction projects has fallen short of plan expectations.

An important aspect of the Kingdom's urban development has been the preparation of town plans. Regional physical plans for all five of the physical planning regions were initiated; they include the preparation of master plans for the Kingdom's principal cities. Implementation of several of these master plans has already begun.

Housing construction has not kept pace with urban growth. Approximately 75,000 standard or better urban dwellings were constructed during the first plan period compared with an estimated need for new and replacement units of 154,000. Shortages or rising costs of labor, land, and materials have been largely responsible for the slow growth in housing supply, but lack of construction and mortgage financing has also been a major factor.

The General Housing Department was established in 1391 under the Ministry of Finance and National Economy. The Department is at present constructing 2,500 public housing units for low- and moderate-income families, developing 1,000 serviced plots for immigrant households and those displaced by urban renewal, and preparing to let contracts for the construction of 31,000 additional housing units.

The Real Estate Development Fund was established in 1394 for the purpose of making loans to individuals and companies for housing construction and residential and commercial development.

The number of pilgrims arriving for *the Hajj* increased by more than 40 percent over the period of the first plan. Close to 1.5 million persons now make the pilgrimage each year, more than 900,000 of these from foreign countries. The Hajj is undoubtedly the world's largest regular gathering of people. While much has been done to alleviate the enormous logistical, administrative and sanitary problems posed by such a large gathering, the urgent need for planned development of the physical infrastructure and services of the Hajj is fully recognized. Action to this end has already been initiated under the direction of a Royal Commission.

The *management and implementation* of the first plan has provided ministries and agencies and the Central Planning Organization with experience of both the value and the problems of effective planning. This experience, and the completion of five regional planning studies, has guided and informed the preparation of the second Development Plan.