CHAPTER 2

PROGRESS DURING THE FOURTH DEVELOPMENT PLAN

2. PROGRESS DURING THE FOURTH DEVELOPMENT PLAN

The Fourth Development Plan was implemented during a period of great change in the financial circumstances of the Kingdom. The increase in oil revenues at the end of the Second Plan and in the early years of the Third Plan can be viewed as a short term phenomenon in the context of the overall historic process of development. It provided opportunities for accelerating certain aspects of development, but was not regarded as a permanent feature of the economy. Therefore, it was apparent at the time of the Fourth Plan's preparation that revenues available to the government would be substantially less than during the Third Plan, and, as a result, a more realistic approach had to be adopted in financing both recurrent and project expenditures. This chapter reviews the progress of the Saudi economy during the 1405-1410 period against the background of the Fourth Plan's major objectives.

2.1 FOURTH PLAN OBJECTIVES

The major objectives of the Fourth Plan were to:

- Continue structural change in the economy to diversify the economic base and reduce dependence on crude oil as the main source of national income;
- Encourage the rapid development of the private sector as the principal mechanism for achieving economic diversification;
- Improve the economic efficiency of the government sector;
- Complete the infrastructure projects necessary to achieve long term economic and social development goals;
- Further develop the Kingdom's human resources.

Total government expenditure planned to achieve these objectives during the Fourth Plan was set at SR 1,000 billion, which was about 23 percent below the actual expenditure level for the Third Plan. Nonetheless, the shift in emphasis to economic diversification and a more vigorous private sector were expected to result in continuing expansion of the non-oil economy, which was targeted to grow in real terms at an average annual rate of 2.9 percent.

However, despite the cautious expectations of the Fourth Plan, the further worsening of world oil markets early in the Fourth Plan years caused government revenues to fall short of their anticipated levels. Accordingly, expenditures were rapidly reduced, resulting in overall government spending declining to 20 percent below the Fourth Plan target. This experience re-emphasizes the strategic importance of the fundamental long term goal of economic diversification in reducing dependence on oil revenues.

This shortfall in government expenditures, together with the fluctuations in private sector activity, prevented the Plan's growth targets from being achieved. Nevertheless, the non-oil sector of the economy made progress over the Fourth Plan period as a whole. Although the degree of economic diversification expected in the Plan was not fully attained because of the emergence of certain growth constraints, strong gains were made in some sectors, particularly agriculture and petrochemicals.

Progress was made in achieving other major objectives of the Fourth Plan. Lower levels of expenditure led to a growing concentration on efficiency measures in the government sector. Most infrastructure projects that had been underway at the start of the Fourth Plan period, were completed. Some new projects expected to be implemented during the Plan were postponed, but no significant disruption in the provision of necessary services and utilities resulted. At the same time, the government initiated important structural changes in the economy, which were indeed accelerated by the lower government expenditure and the resulting decline in the construction sector and its associated activities. Slowly growing or declining markets led to more intense competition, and more efficient private sector companies. As a result, the private sector rapidly diversified into new areas, such as consumer goods, with improved standards of service, competitive prices and higher quality, while its traditional dependence on government projects was lessened. Furthermore, a number of new industrial and investment companies were established; Saudi Arabia emerged as a major exporter of petrochemicals and refined oil products; and the foundations for future growth in high technology industries were laid through the Offset programs. Finally, the Kingdom's human resource capabilities expanded substantially through the educational and training achievements of the labor force. Saudi employment grew at a strong pace, despite the slowdown in the economy.

Overall, the performance of the economy can be viewed as positive, considering the adverse conditions that prevailed during the Fourth Plan years. The appropriateness of the fundamental direction of development, based on the private sector's important role in leading and guiding the targeted economic diversification, has been confirmed. The disruptive effects of volatile world oil markets on the economy as a whole, and on important sectors such as construction, trade, and real estate, were less severe than in other major oil exporting countries. Underlying strengths in the economy have been revealed, particularly in agriculture and petrochemicals, which sustained high growth rates throughout the Fourth Plan period. The downturn in the economy reached its lowest point in 1407-08, after which there has been a slow but steady return to growth, indicating that the economy has successfully weathered a very difficult period. At the same time, some new constraints emerged during the Fourth Plan period in the form of the government budget and balance of payments deficits.

2.2 GOVERNMENT REVENUES AND EXPENDITURES

The volatility of oil revenues has had a major impact on the economy throughout the two decades of planning in the Kingdom. Conditions prevailing during the Fourth Plan, then, are best viewed in a longer term perspective. Oil income, which has consistently held the dominant share of total government revenues, peaked in 1401/02 and fell steadily in subsequent years of the Third Plan period. Further declines occurred during the first two years of the Fourth Plan, but this was followed by more stable oil revenues during the last three years.

Non-oil revenues also declined during the Fourth Plan, although they increased as a share of total government revenues. The balance of payments deficits that resulted from the drop in oil income necessitated a drawdown in the Kingdom's overseas financial assets, which in turn led to a shrinkage in foreign investment income. Revenues from customs duties, zakat, and other miscellaneous measures showed an upward trend during the Fourth Plan.

The government implemented a wide range of policies to lessen the impact of the declining oil revenues in 1406/07, the second year of the Plan, when the budget deficit reached SR 69 billion. The program to reduce the annual deficit had many components, all designed to minimize adverse effects on the economy. Instead of a precipitous reduction in spending or large increases in local taxes and fees, foreign reserves were used in the early years of the Plan as a buffer against declining oil revenues. A major budgetary initiative was introduced in the fourth year of the Plan with the issue of government development bonds. In addition, capital spending was reduced and efficiency measures implemented to curb recurrent expenditures. However, the level of direct and indirect subsidies needed for the welfare of citizens and to maintain their living standards, was preserved. Moreover, an expansion in the number of public sector employees was sanctioned to help maintain the level of essential services, and to compensate for the shortage of employment opportunities in the private sector.

The ambitious investment programs in oil refining, petrochemicals and productive infrastructure (such as desalination, telecommunications and electricity) continued. The government endeavored to reduce the impact of lower spending on the economy by replacing foreign suppliers by local suppliers in many contracts, a measure which also realized substantial savings. In addition, the Offset Program was initiated to ensure, among other things, that a sizeable part of the value of military contracts would stimulate economic activity within the Kingdom. In general, the proportionate decline in domestic spending by the government was smaller than the overall budget cuts. As a result of these policies the budget deficit declined in the last year of the Fourth Plan to about SR 25 billion, or 36 percent of its 1407/08 peak.

2.2.1 Recurrent and Project Expenditures

As total government spending declined, a major structural change occurred in the allocation of expenditure (see Figure 2.2). Recurrent expenditures -- on salaries, materials and supplies, operation and maintenance, and subsidies -- fell marginally during the first four years of the Fourth Plan period, before increasing slightly in the last year. Project expenditures, on the other hand, were being reduced rapidly from the middle of the Third Plan, and this decline continued through to the end of the Fourth Plan. Although a reduction in project expenditures had been targeted for the Fourth Plan years, as much of the infrastructure construction begun in earlier years neared completion, the actual reduction was greater than planned, due to circumstances in the international oil markets.

Project expenditures budgeted for the last year of the Fourth Plan were at a relatively low level compared to previous years. A higher level of spending is now needed to fund priority projects that were delayed in recent years, to expand capacity in some government services and infrastructure in response to the needs of a growing population, and to cover replacement needs of installed equipment and facilities. Accordingly, the Fifth Plan sets targets for a substantial increase in these project expenditures, within the overall limit of fiscal balance in the public sector finances.

2.2.2 Development Expenditures

The financial constraints as the Fourth Plan years progressed required a revision of the planned level and distribution of expenditures, and a change in relative priorities (see Table 2.1). The smallest cutback was in the critically important area of human resources development, on which actual expenditure reached 84 percent of its planned levels. To complete ongoing infrastructure projects, actual expenditure on transportation and communications was about two thirds of its planned outlay.

The largest reductions were implemented in economic resources and municipalities and housing, where actual expenditure cuts of around 50 percent of their planned levels were effected. The reduced expenditure on housing did not negatively affect the housing market, because of the oversupply of housing throughout most of the Fourth Plan period. The lower expendi-

Figure 2.1

Government Revenues and Expenditures

1390 - 1410

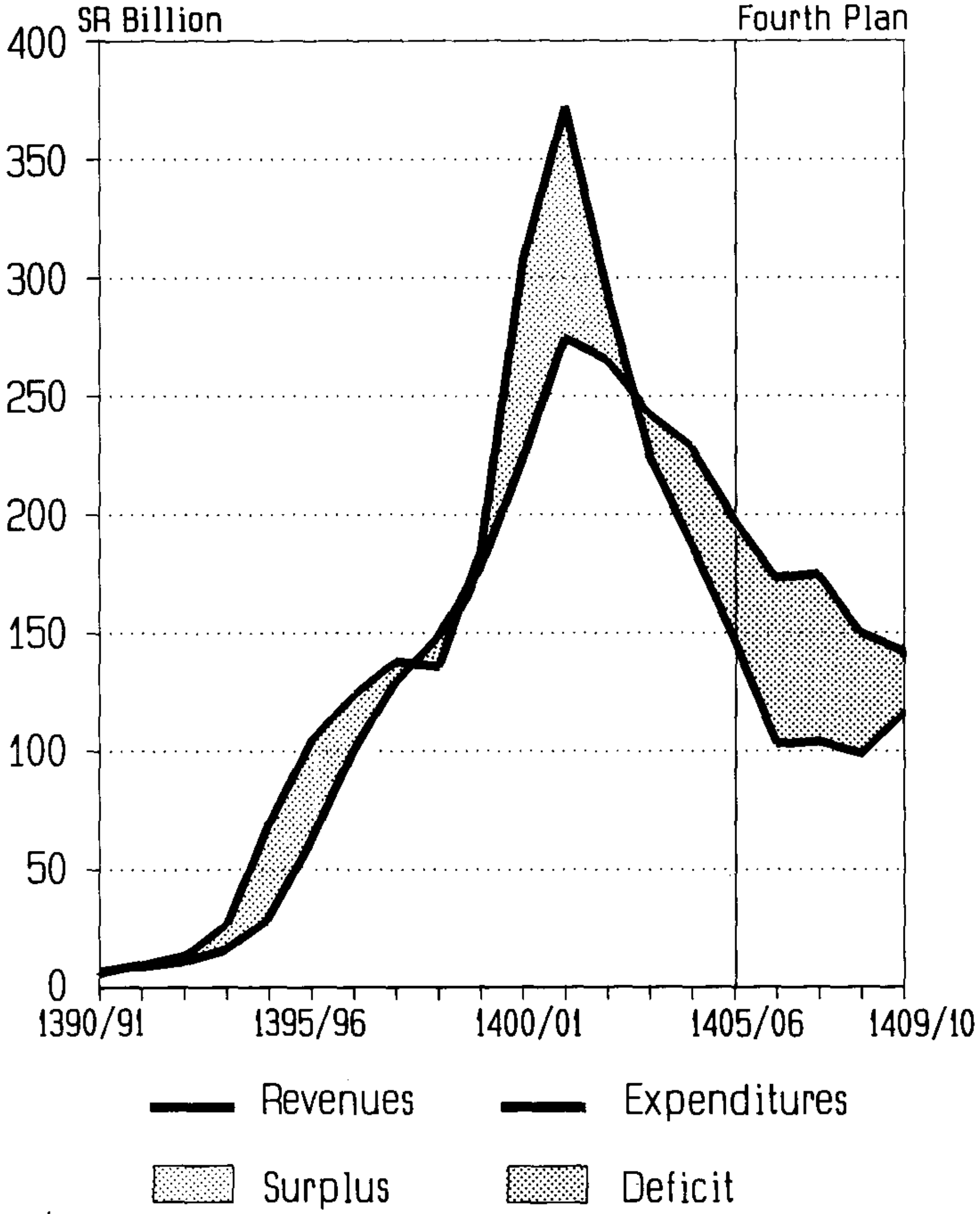
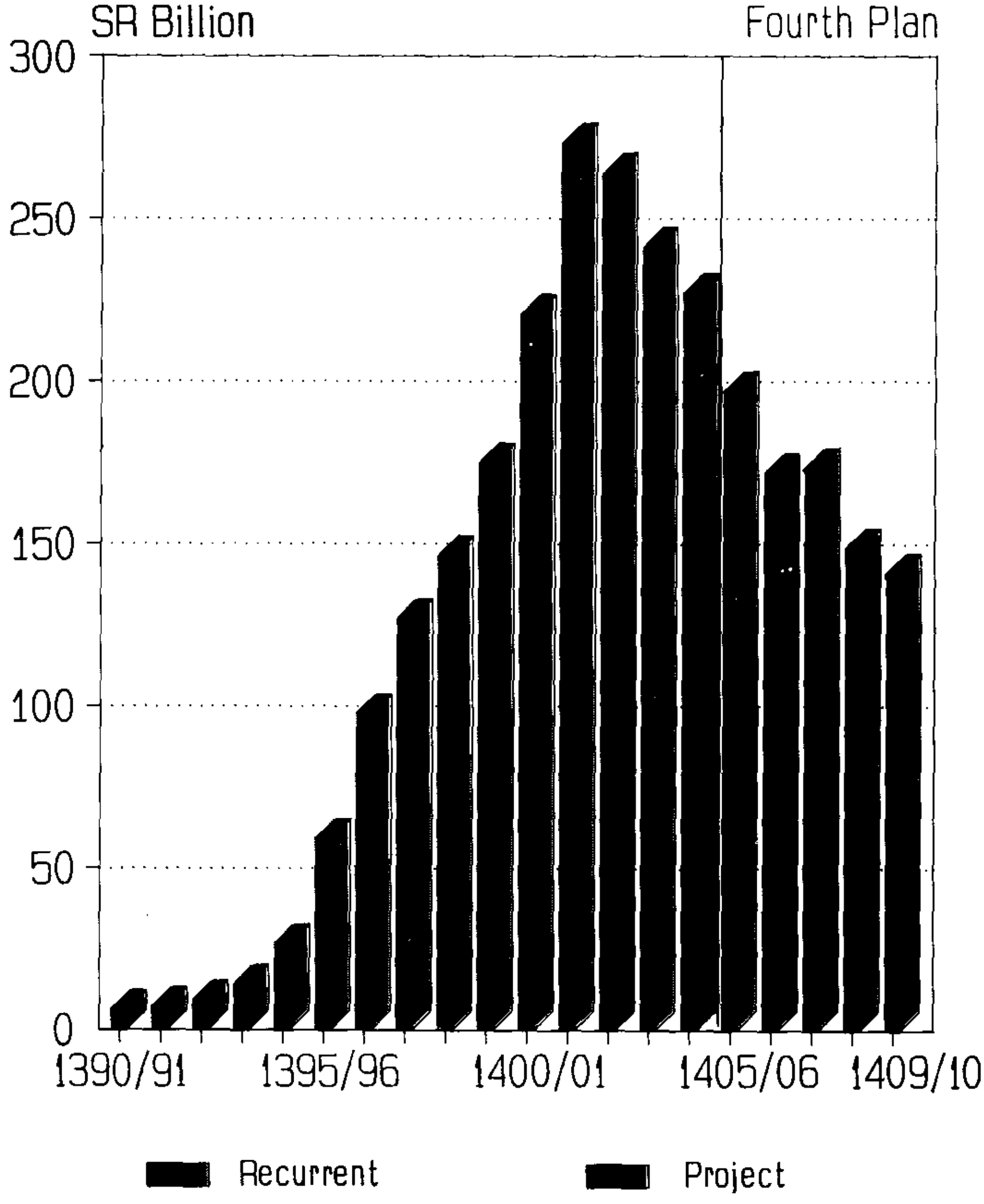


Figure 2.2
Government Expenditures
1390 - 1410



tures did result in some strains for certain sub-sectors in economic resources, municipalities, and communications. Thus, these areas are targeted for higher spending allocations, particularly for priority projects, in the Fifth Plan.

TABLE 2.1

Allocation of Development Expenditures in the Fourth Plan*

	Distribution		Actual Expenditures	
	Plan (%)	Actual** (%)	Value (SR billion)	As Percent of Plan (%)
Economic Resources	26.1	19.9	64.5	49.3
Human Resources	27.1	35.3	114.2	84.4
Health and Social Development	17.9	18.2	59.1	65.9
Transport and Communications	15.4	15.6	50.6	65.8
Municipalities and Housing	13.5	11.0	35.7	53.0
Total	100.0	100.0	324.1	64.8

* Excludes government-owned specialized credit institutions, i.e. REDF, PIF, SIDF, SAAB, Saudi Credit Bank, and the specialized credit schemes.

** Estimates for the last two years of the plan.

2.3 GROSS DOMESTIC PRODUCT IN THE FOURTH PLAN

With the fall in both oil production and prices, Gross Domestic Product fell during the Fourth Plan. However, the decline has now been reversed (see Figure 2.3), and non-oil GDP resumed its positive growth path towards the end of the Fourth Plan period.

Table 2.2 presents aggregate and sectoral growth rates for the Fourth Plan period in constant 1404/05 prices. Non-oil GDP decreased at an average annual rate of 0.8 percent during the Fourth Plan years, compared to a targeted growth rate of 2.9 percent per year in the Plan. Although little net change in non-oil GDP took place between the first and the last years of the Fourth Plan, positive growth was achieved during the last two years of the Plan period. The economy performed quite favorably from 1403/04 to 1406/07 in spite of the significant reduction in government expenditures during that period. The economy has therefore exhibited considerable resilience, and has reached a state of lessened dependence on government spending as its driving force, which was one of the objectives of the Fourth Plan. Over a 15-year period this is reflected in the changing ratio of government expenditure to non-oil GDP, which declined from 1.45 to 1.27 between the Second and Third Plans, and declined even further to 0.79 over the Fourth Plan, thus suggesting that the Kingdom's economy has increased its ability to generate production in the face of a declining stimulus from government expenditure.

TABLE 2.2

Gross Domestic Product by Sector in the Fourth Plan

	Value Added (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
	(SR billion)		(Percent)	
Producing Sectors	**85.3**	**84.5**	**3.7**	**0.7**
Agriculture	11.6	22.8	6.0	13.8
Other Mining	1.9	1.8	3.0	(1.4)
Manufacturing	**27.4**	**25.0**	**10.9**	**3.9**
Petroleum Refining[1]	13.8	9.9	5.6	5.3
Petrochemicals	0.5	5.7	64.1	55.5
Other Manufacturing	13.1	9.4	10.5	(4.6)
Public utilities[2]	(0.6)	0.8	5.0	5.7
Construction	45.0	34.2	(2.8)	(6.7)
Service Sectors	**94.4**	**78.6**	**3.8**	**(2.6)**
Trade	30.4	27.4	2.5	(1.5)
Transport, Communications	23.8	21.4	5.0	(1.9)
Real Estate	13.1	6.1	0.0	(6.5)
Financial and Business Services	17.4	13.7	9.0	(4.8)
Community and Personal Services	9.7	10.0	3.5	0.5
Government Services	52.1	56.8	0.0	1.5
Sub-Total:Non-oil sectors	231.8	220.0	—	—
Crude Oil and Natural Gas Sector	120.3	60.2	5.6	1.0
Gross Domestic Product (excluding import duties)	352.1	280.2	4.0	0.1

1) The combined growth target for crude oil, natural gas and petroleum refining was 5.6 per year.

2) Value added in 1404/05 is negative (operating revenue not covering costs for material inputs).

Figure 2.3

Gross Domestic Product by Main Sector
1390 - 1410

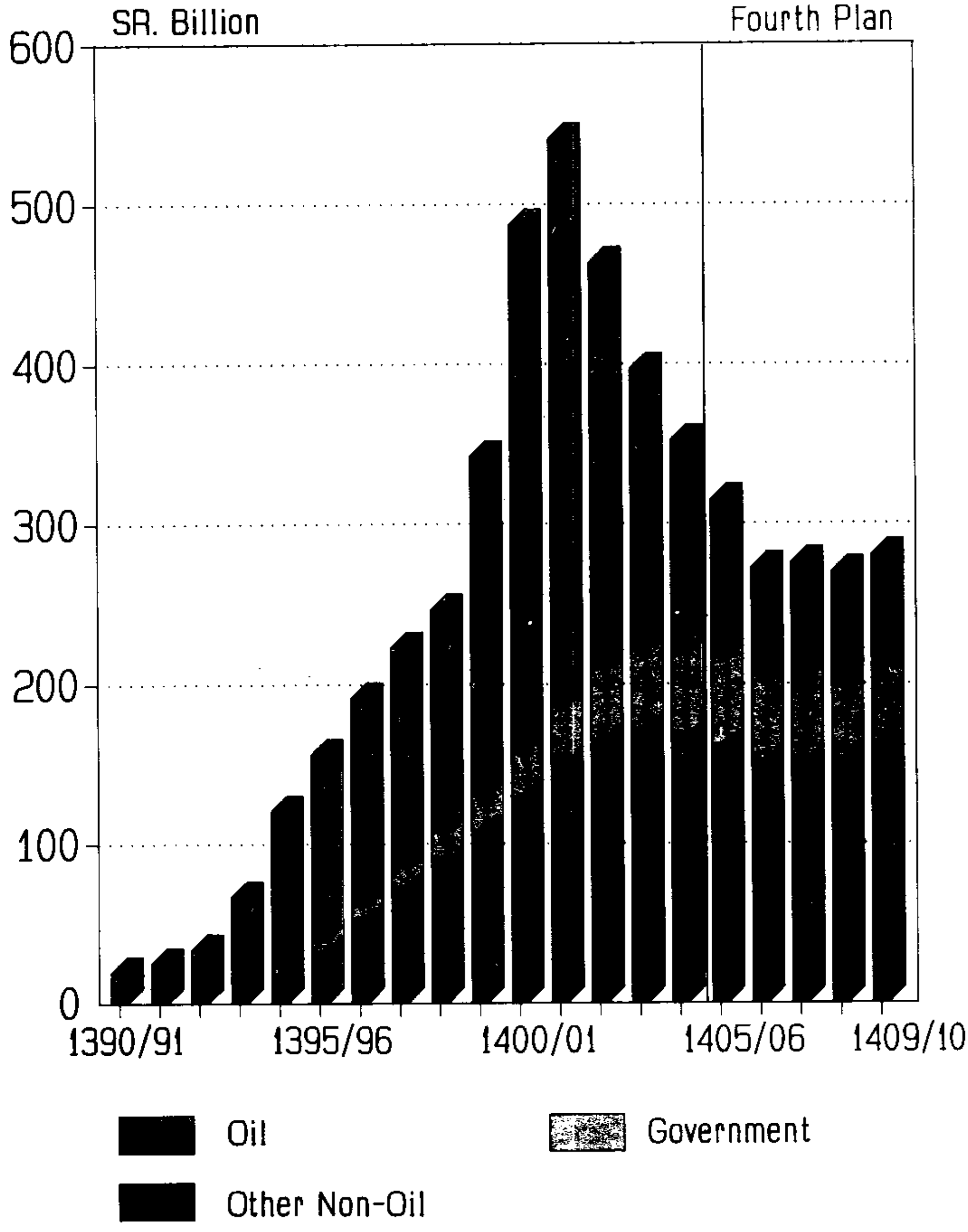


TABLE 2.3

Gross Domestic Product : Oil and Non-oil Sectors

	Value Added (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
	(SR billion)		(Percent)	
Non-Oil Sectors	**218.0**	**210.0**	**2.9**	**(0.8)**
Government Services	52.1	56.8	0.0	1.5
Other Non-Oil Sectors	165.9	153.3	3.8	(1.6)
Oil Sector (1)	134.1	70.1	5.6	0.9
Gross Domestic Product	352.1	280.1	4.0	0.1

1) Including crude oil, natural gas and refined products.

Despite the general stability of the non-oil economy during the Fourth Plan period, the sectoral composition of GDP changed considerably. Agriculture achieved very strong growth, expanding in volume terms by 13.8 percent per year. Petrochemicals output grew even more rapidly, starting from a small base in 1404/05, and now comprises almost one quarter of total manufacturing value added. Other manufacturing, which along with mining is almost entirely in the private sector, declined as domestic demand remained weak. Construction, which had been projected to decline in the Plan, contracted more sharply than anticipated, partly as a result of the unexpected reductions in the government's project spending.

The service sectors experienced a minor aggregate decline. Value added in the government sector expanded at a modest rate as a result of an increase in total government employment. The oil sector also achieved moderate growth, as a consequence of the recovery of oil production from the low levels of the 1404-07 period.

2.4 STRUCTURE OF EXPENDITURE ON GROSS DOMESTIC PRODUCT

Fluctuations in crude oil prices and export volumes have had a considerable impact on government revenues and expenditure during the Fourth Plan period, which, in turn, affected the structure and demand components of Gross Domestic Product. Government sector consumption and fixed capital formation experienced a major decline. The government maintained the volume of Chapter 1 expenditure, which helped minimize the decline in private consumption (see Table 2.4). A significant turnabout during the Fourth Plan period has been the cutback in the balance of payments current account deficit; exports grew at an average annual rate of 2.2 percent, while imports of goods and services fell by 12.1 percent per annum. The increase in exports, especially during the latter part of the Fourth Plan, was the successful outcome of the Kingdom's endeavors to boost non-oil and non-traditional exports, particularly petrochemical products.

TABLE 2.4

Expenditure on Gross Domestic Product in the Fourth Plan

	SR billion (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
			(Percent)	
Consumption	**280.5**	**231.4**	**1.0**	**(3.5)**
Government	121.1	95.2	(2.2)	(4.8)
Private	159.4	136.2	3.0	(2.6)
Gross Fixed Capital Formation	**96.5**	**58.0**	**3.6**	**(10.5)**
Oil	9.6	7.3	4.4	(6.0)
Government	46.3	20.8	(2.4)	(15.5)
Private	40.6	29.9	10.0	(6.8)
Change in Stocks [1]	**20.2**	**3.4**	—	—
Domestic Final Demand	**397.2**	**292.8**	**0.2**	**(6.3)**
Net Exports	**(45.1)**	**(12.6)**	—	—
Exports	145.5	108.6	5.8	2.2
Less Imports	190.6	121.2	(3.0)	(12.1)
Gross Domestic Product	**352.1**	**280.2**	**4.0**	**0.1**

1) Including statistical discrepancy.

As a major component of final demand, total investment over the Fourth Plan period as a whole was equal to 23 percent of GDP. By international standards, this is a favorable performance, especially given the adverse developments in the oil sector and the consequent contraction in government expenditures. Capital investment in the economy has paralleled the path of overall GDP (Figure 2.4). After peaking in 1401/02 and 1402/03, total investment had declined by half by the last two years of the Fourth Plan. The greatest reduction was in the government sector, reflecting the cutback in project expenditures as a result of both the completion of infrastructure projects and budgetary restrictions. Investment in the oil sector fell in the latter part of the Third Plan, but then increased gradually during the Fourth Plan period. Private sector investment fell gradually till the last year of the Plan, when a modest recovery took place. Much of the decline was in the construction sector; non-construction private investment was little changed through the Fourth Plan years and was strongly supported by the government's specialized credit institutions.

2.5 EMPLOYMENT AND PRODUCTIVITY

In spite of lower levels of economic activity during the Fourth Plan period, employment increased at an average annual rate of 1.9 percent (see Table 2.5). Two major structural changes dominated the sectoral composition of employment. The Fourth Plan targets included a significant reduction in employment in the construction sector, as major infrastructure projects were completed. In accordance with the Plan, construction activity declined and the construction sector reduced its work force by nearly 526,000 over the Fourth Plan years. This reduction, however, was more than offset by significant employment increases in community and personal services, and in the trade sector. In the community and personal services sector, employment increased by nearly 790,000, with the great majority of this gain taking place in household employment. In the trade sector, employment increased by nearly 210,000. Trends were less marked in most of the other sectors of the economy, where moderate changes in employment occurred between 1404/05 and 1409/10 in most cases. In the government sector, employment grew at an unanticipated average annual rate of 5.9 percent.

In the agriculture sector, where output has continued to grow at exceptionally high rates, employment increased only modestly -- by just over 31,000, or at an average annual rate of 1.1 percent -- reflecting a high rate of productivity growth, as a result of a decline in the traditional and nomadic farming activities and the growth of modern agriculture activities.

The significant changes in employment in construction, community and personal services, and the trade sectors, caused major shifts in the employment balance between the producing and service sectors. The producing sectors' share of total employment fell from 48.6 percent in 1404/05 to 35.0 percent in 1409/10, while the services sectors' share rose from 41.3 percent to 53.4 percent in the same period. Employment in community and personal services reached almost 32 percent of total employment in 1409/10.

TABLE 2.5

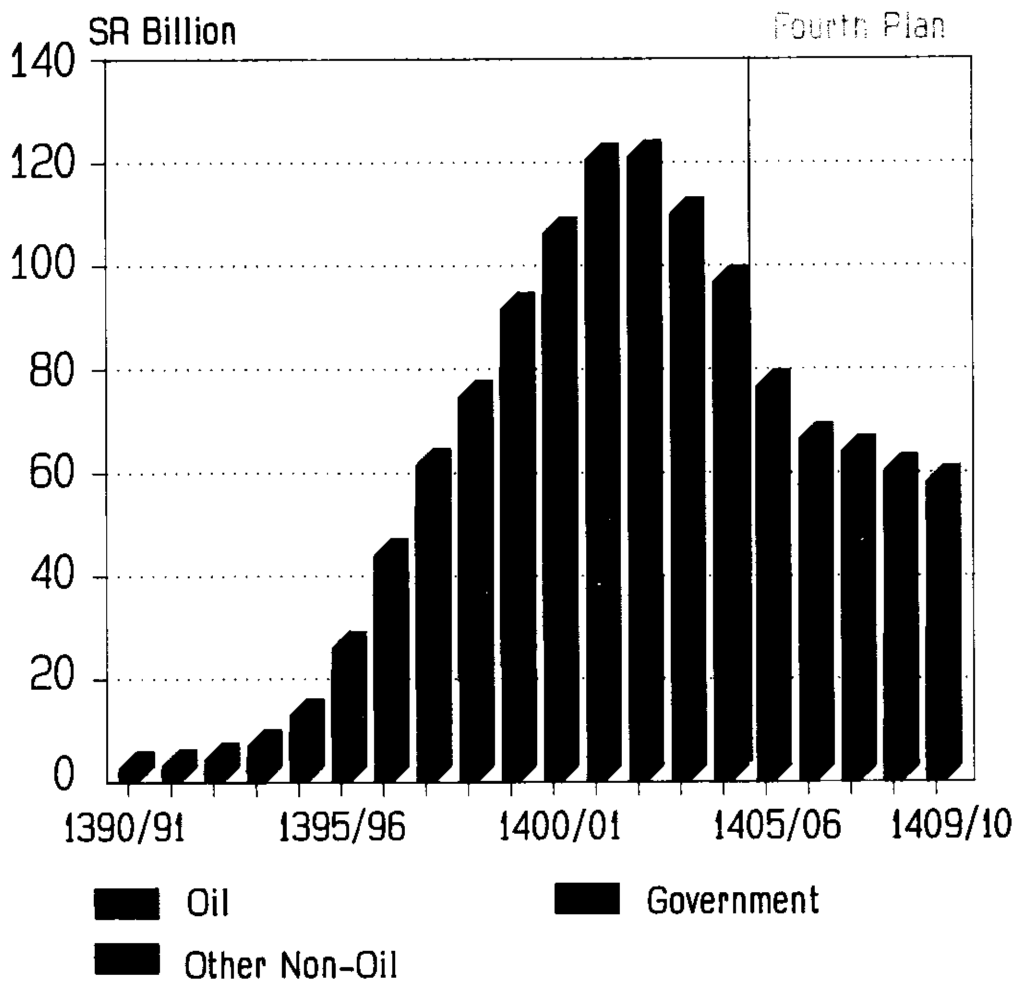
Employment by Sector in the Fourth Plan

	Employment		Percent Distribution		Average Annual Growth
	1404/05 (000)	1409/10 (000)	1404/05 (%)	1409/10 (%)	(Percent)
Producing Sectors					
Agriculture	538.0	569.2	10.3	9.9	1.1
Other Mining	4.2	3.5	0.1	0.1	(3.6)
Manufacturing	424.1	374.9	8.1	6.4	(2.4)
Petroleum Refining	14.0	14.6	0.3	0.2	0.8
Petrochemicals	4.7	6.2	0.1	0.1	5.7
Other Manufacturing	405.4	354.1	7.7	6.1	(2.7)
Public Utilities	112.2	126.9	2.1	2.2	2.5
Construction	1470.0	944.1	28.0	16.4	(8.5)
Sub-total	2,548.5	2,018.6	48.6	35.0	(4.6)
Service Sectors					
Trade	688.7	898.3	13.1	15.6	5.5
Transport, Communications	316.5	262.3	6.0	4.5	(3.7)
Finance, Real Estate	130.0	99.0	2.5	1.7	(5.3)
Community and Personal Services	1,033.1	1,822.0	19.7	31.6	12.0
Sub-total	2,168.3	3,081.6	41.3	53.4	7.3
Government Sector★	469.1	624.8	9.0	10.8	5.9
Non-Oil Sectors	5,185.9	5,725.0	98.9	99.2	2.0
Crude Oil and Natural Gas	58.7	46.8	1.1	0.8	(4.4)
Total	5,244.6	5,771.8	100.0	100.0	1.9

★ Excludes non-civilian employment and includes daily wage workers, not classified as civil servants.

Figure 2.4

Fixed Capital Formation by Main Sector
1390 - 1410



During the Fourth Plan period, many sectors of the economy had positive productivity growth, although the average output per employee for the economy as a whole fell at an average rate of 2.0 percent per year. Overall, the producing sectors experienced a strong improvement in productivity, at an average 5.5 percent per year. Productivity tends to increase most rapidly in sectors with strong output growth, as a result of high levels of capital utilization, new capital investment, and efforts to improve efficiency. This pattern was reflected in the very high rates of productivity growth in the agriculture and petrochemicals industries. Also, despite declining output, the mining, construction, transportation and communications sectors managed to increase productivity, although at more modest rates. In the government sector, in which, by definition, value added equals total employee compensation, significant gains were made in reducing average costs per employee. The value added per worker (cost per worker) in the government sector declined at an average annual rate of 4.1 percent during the Fourth Plan period.

2.6 INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

A surplus in merchandise trade has been sustained every year throughout the past two decades (see Figure 2.5), despite the sharp fall in the value of oil exports since 1401/02. This pattern has been sustained in the Fourth Plan, with the new feature of a significant contribution from non-oil merchandise exports, which increased from SR 2.6 billion in 1405/06 to an estimated SR 15.2 billion in 1409/10. The higher level of non-oil merchandise exports reflects the strong increase in both petrochemicals and agricultural production achieved during the Fourth Plan years. By 1409/10, non-oil products comprised over 16 percent of total merchandise exports. From the middle of the Third Plan through the early years of the Fourth Plan, merchandise imports decreased rapidly, keeping pace with the fall in total exports. Since 1406/07, both exports and imports have recovered moderately, although the increase in imports has been lower.

The decline in imports, which in the 1406-10 period were only about half the levels reached during the 1402-04 years, reflects a positive development, despite the fact that the Kingdom continues to depend on imports for many agricultural, consumer, and capital goods. The drop in imports resulted from increased domestic production of products that are substitutes for imports, as well as from lower demand for construction materials and equipment.

Although the merchandise trade account remained in surplus, the current account of the balance of payments has been in deficit since 1403/04, reflecting the Kingdom's deficit in services and falling investment income from abroad. A positive development during the Fourth Plan period has been the steady decline in the current account deficit, from SR 66 billion (18.5 percent of GDP) in 1404/05 to an estimated SR 27 billion (9.6 percent of GDP) in 1409/10.

Underlying the overall trends in international trade are a number of changes that have occurred in its size and composition. These trends are summarized as follows:

- Exports amounted to 38 percent of GDP in 1409/10 compared to 41 percent at the beginning of the Fourth Plan, reflecting the substantial decline in the value of crude oil exports, which was partly offset by increasing non-oil exports.

- Imports equalled 59 percent of non-oil GDP in 1409/10 compared to 89 percent in 1404/05, indicating the favorable effects of import substitution.

- Overall trade volume as a percentage of GDP remained at a relatively low level of 82 percent in 1409/10, compared to 96 percent in 1404/05, thus underlying the major shift of the Kingdom's economy towards a more appropriate balance between domestic and international demand.

- The current account deficit as a percentage of GDP has been reduced considerably, from 19 percent in 1404/05 to 10 percent in 1409/10.

- The share of crude oil as a percentage of total exports declined from 87 percent in 1404/05 to around 60 percent at the end of the Fourth Plan, while refined products increased their share of total exports from 10 percent to 23 percent over the period.

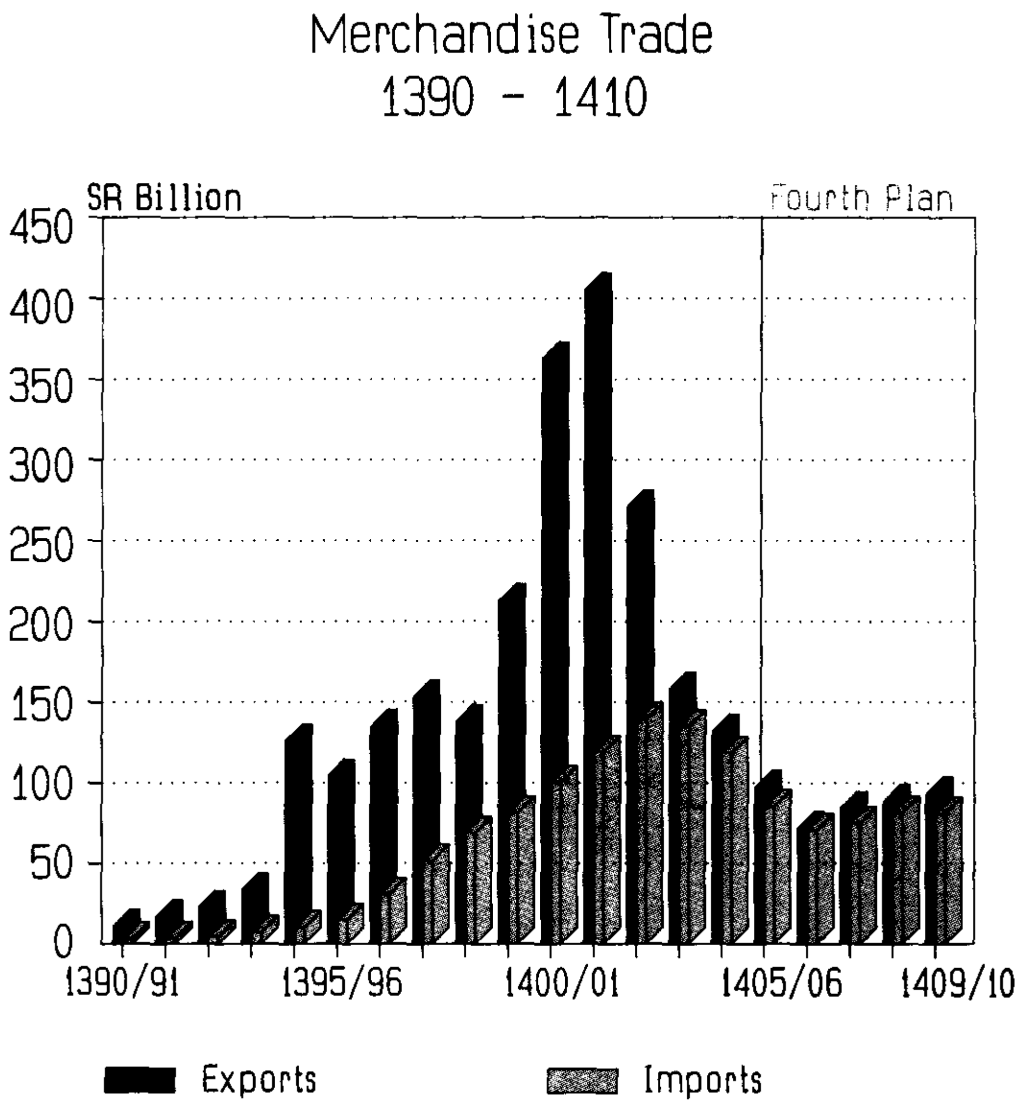
- Exports of petrochemicals increased sharply from SR 1.5 billion in 1404/05 to more than SR 10 billion at the end of the Fourth Plan. Over this period, their share of total exports increased from 1 percent to 11 percent.

- Exports of other manufactured products originating from secondary industries and from agriculture doubled in absolute terms, and their share of total exports increased from less than 2 percent in 1404/05 to over 4 percent in 1409/10.

- The trade flows between the Kingdom and other GCC countries have shown an increasing trend, both in absolute size and in terms of percentage share of total trade. This indicates the growth and expansion of trading linkages between GCC member countries.

- Exports to other Arab countries as a proportion of total exports have increased from 7 percent in 1404/05 to 11 percent at the end of the Fourth Plan, indicating the potential for Saudi exports to these markets.

Figure 2.5


Merchandise Trade
1390 - 1410
SR Billion
Fourth Plan
450
400
350
300
250
200
150
100
50
0
1390/91
1395/96
1400/01
1405/06
1409/10
Exports
Imports

Balance of Payments

Current account deficits must be financed by capital inflows. The economy has benefited, and will continue to do so, from substantial capital inflows from foreign investors and Saudi citizens repatriating funds held outside the country in order to take advantage of investment opportunities in the Kingdom and to finance business operations. However, the deficits of the Fourth Plan years exceeded private capital inflows, thus necessitating a major reduction in the government's foreign asset holdings. Although the current account deficit fell in the last two years of the Fourth Plan, continued reductions are desirable in the Fifth Plan years to prevent further depletion of the Kingdom's external assets. Accordingly, the Fifth Plan establishes a number of policies aimed at improving the current account position, particularly by encouraging further increases in non-oil exports and import substitution.

2.7 INFLATION

As anticipated in the Plan, one of the most significant developments during the Fourth Plan period was the general downward adjustment of factor incomes (wages, profits, rents) through the pressures of increased competition. This effectively eliminated inflationary tendencies in the economy, even in the face of higher import costs due to the declining value of the U.S. dollar. Although the aggregate price level remained virtually unchanged over the Fourth Plan period, there were significant changes in relative prices between sectors. While prices in all the services sectors fell, the decline was particularly steep for commercial and residential rents, which dropped by up to one third over the five year period. In the goods producing sectors price changes varied considerably by product, but overall, prices of goods increased relative to services.

2.8 PRIVATE SECTOR DEVELOPMENT IN THE FOURTH PLAN

The slowdown in economic activity during the Fourth Plan years induced a rapid restructuring of the economy, as envisaged in the Plan. This, in turn, resulted in a stronger, more diversified private sector that is less dependent on government expenditure. Despite the absence of growth in the overall economy, the private sector identified and developed new opportunities. Some examples of these developments during the Fourth Plan period are: the increased investment in agriculture; the regional diversification into the smaller towns and villages, in contrast to the previous concentration on major cities and urban centers, such as Jeddah, Riyadh, and the Eastern province; the formation of new companies dedicated to operations and maintenance, not only for physical infrastructure but also for industrial plant and equipment; the rapid growth of high quality medical services at privately owned hospitals; the investment in consumer goods industries to meet the growing needs of the population, in contrast to the traditional emphasis on building materials for the construction sector. In particular, the private sector has improved its marketing practices, and now strives to compete on service as well as on quality and price.

Moreover, the private sector has considerably strengthened its institutional role in development during the Fourth Plan period. An Export Promotion Council was formed and additional research activities are well under way within the Federated Council of Saudi Chambers of Commerce and Industry in areas such as investment opportunities, trade patterns and development policies. A number of new industrial investment corporations have also been established.

Thus, the private sector has demonstrated its willingness and capacity to take on a wide range of economic activities and development responsibilities that are compatible with commercial principles. In the Fifth Plan period, therefore, the private sector will be able to take over, on a commercial basis, many of the services now provided by the government.

Figure 2.6
Price Indices
1390 - 1410