



Rapid growth in the Kingdom's foreign assets

For the first time, data on the total foreign assets and liabilities of all components of the Saudi economy (government, companies and individuals) has been published. It shows that their combined foreign assets grew rapidly in recent years to stand at \$707 billion at the end of 2010. With Saudi entities and individuals owing \$213 billion to foreigners, total net foreign assets stood at \$494 billion at the end of 2010. We estimate that the Kingdom's net foreign assets rose to almost \$600 billion at the end of 2011. This is very high and represents a core source of strength for the economy.

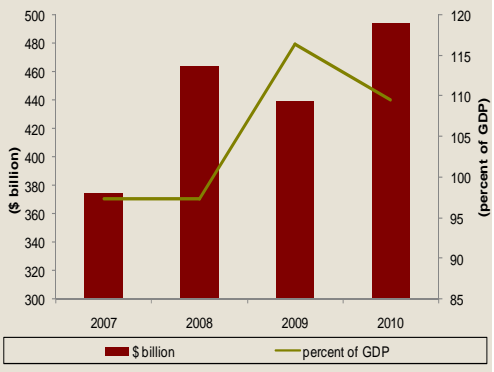
The data, known as the international investment position, gives a full picture of the Kingdom's financial position versus the rest of the world. Produced by SAMA, it shows the value and types of assets that are owned, and the liabilities owed, by all parts of the Kingdom's economy. Data on the position of the government and the banks are reported on a monthly basis by SAMA, but this is the first time that data has been issued which includes the private sector.

The international investment position is an important indicator of the health of an economy in relation to its transactions with the rest of the world. In particular, it gives a guide to the ability to repay debts, absorb external shocks (such as a fall in the oil price) and support the exchange rate. For the Kingdom, the international investment position is an important strength. This is clear from a comparison with other countries.

At the end of 2010, the Kingdom's net international investment position was equivalent to 110 percent of GDP. Of the 42 countries for which the international investment positions are published and easily accessible (primarily in Europe and Asia) only Hong Kong, Singapore, Taiwan and Switzerland had a higher net position. The US and Eurozone both had negative net international investment positions, and Greece, Spain, Ireland and Portugal were among the five countries with the largest shortfall in foreign assets compared to foreign liabilities.

The four years of data that were released by SAMA (see table on page 3) show a consistent improvement in the net international investment position, which climbed to \$494 billion at end-2010 from \$375 billion at the end of 2007. This was driven by higher oil revenues. For most of the period between 2007 and 2010, oil revenues were in excess of government spending, enabling a large build up of reserves in the form of foreign securities and bank deposits. No data is available on the makeup of the government's holdings of foreign securities; we assume that the bulk is comprised of foreign government bonds.

Saudi Arabia's net international investment position



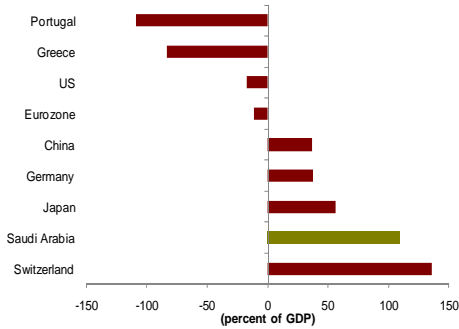
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Comparative net international investment positions



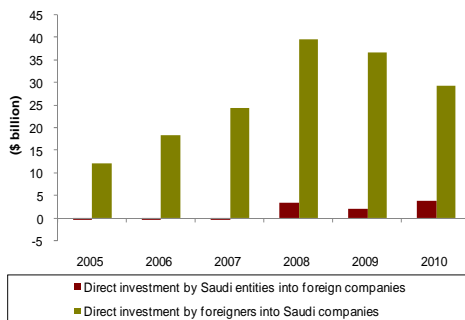
What is an international investment position?

An international investment position examines all the foreign assets a country owns and everything that a country owes to foreigners. It consists of the following elements:

- **Direct investment:** The value of investments (of larger than 10 percent of capital) in foreign businesses held by local entities (an asset) and in local business held by foreign entities (a liability).
- **Portfolio investment:** The value of shares and debt (of less than 10 percent of capital) of foreign companies held by Saudi entities (an asset) and of the shares and debt of Saudi companies held by foreigners (a liability).
- **Other investment:** The value of all other investments, including trade credits, loans and banks deposits, between Saudi entities and those abroad.
- **Reserves:** Reserve assets are controlled by SAMA. The bulk of reserves are investments in foreign securities and deposits in foreign banks, but as they are held by the SAMA they are not captured in the portfolio or other investment categories above.

The difference between total assets and total liabilities is a country's net international investment position.

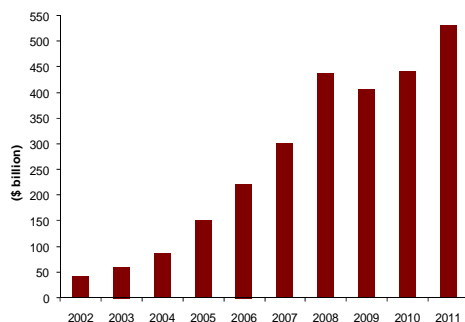
Flows of direct investment



In 2009, when the government drew down its reserves to finance spending during the global recession, the Kingdom's total foreign assets still rose, owing to a jump in investment in foreign equities and bonds by the private sector and an increase in the price of these assets over the year. Direct investment by Saudi companies abroad grew by 56 percent over the three years to end-2010, but at \$26.5 billion it was well below investment by foreign companies into the Kingdom and accounted for only 3.8 percent of total foreign assets.

Liabilities grew at a faster pace than assets, rising by 84 percent between end-2007 and end-2010. This is almost entirely the result of inflows of direct investment. Improvements in the business environment, greater foreign access to local opportunities and the relative attractiveness of the Kingdom compared to other investment destinations caused the total value of foreign direct investment to surge by 132 percent over the three years to end-2010. Foreign portfolio investment was very low, both as a proportion of total liabilities (1.7 percent at end-2010) and compared to the size of the economy (0.8 percent) reflecting the limited foreign access to the local stock market and small amount of debt issued.

SAMA net foreign assets



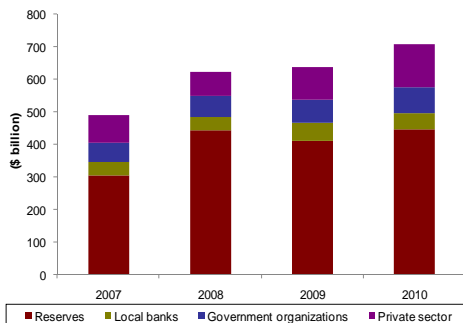
We think the Kingdom's international investment position improved further last year. Data published by SAMA shows that reserves rose by \$96 billion in 2011, to \$541 billion, and the net foreign assets of the banking sector increased by \$9.3 billion. Over the first three quarters of 2011 holdings of foreign assets grew by a greater amount than foreign liabilities (net outflows of portfolio and other investment totaled \$12 billion each, while net inflows of foreign direct investment were \$10 billion). As a result, we assume the Kingdom's total foreign assets exceeded \$800 billion at the end of last year and the net international investment position was almost \$600 billion.



Saudi Arabia's international investment position
(\$ billion)

	2007	2008	2009	2010
Assets	490	622	635	707
Direct investment	17	20	23	27
Portfolio investment	106	97	131	156
Equity securities	56	55	77	101
Debt securities	50	43	54	55
Other investment	61	62	71	79
Loans	3	4	4	3
Currency and deposits	42	40	48	51
Other assets	17	18	20	24
Reserve assets	306	443	410	445
Currency and deposits	93	132	111	117
Securities	211	308	286	315
Other reserve assets	2	3	13	13
Liabilities	116	159	197	213
Direct investment	73	112	147	170
Portfolio investment		3	4	4
Equity securities		2	3	3
Debt securities		1	1	1
Other investment	42	44	46	39
Loans	13	14	13	13
Currency and deposits	28	28	25	25
Other liabilities	1	1	7	1
Net international investment position	375	464	439	494

Foreign assets



A breakdown by the holder of assets and liabilities is not contained in the new data; however, it is possible to derive this from the data. Of the \$707 billion of total foreign assets at the end of 2010, reserves totaled \$445 billion, foreign assets of local banks were \$51 billion and independent government organizations' (such as the pension funds) deposits with foreign banks and investment in foreign securities amounted to \$79 billion. This leaves \$132 billion, which we assume was the value of foreign assets held by the private sector (both businesses and individuals).

Of the liabilities that the Kingdom had to the rest of the world at end-2010, \$25 billion was accounted for by local banks and a further \$3 billion by foreign institutions' deposits at SAMA. This leaves \$185 billion, which we assume to be the amount the private sector owes to the rest of the world. Although this figure is larger than private sector foreign assets, it is primarily direct investment by foreigners, which has been beneficial to the Saudi economy. Furthermore, many independent estimates put the stock of foreign assets of the private sector at well above the level we derive from the new data; measuring these assets is very tricky and it is possible that the new data does not capture everything.

Nonetheless, the publication of the international investment position is another example of the improvement in data dissemination in the Kingdom, with April also seeing the first release of detailed quarterly real GDP data. Bahrain is the only other country in the region that publishes its international investment position. Greater availability of data helps investors in their assessment of the Saudi economy.



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