IMF Country Report No. 21/149

SAUDI ARABIA

July 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Saudi Arabia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 30, 2021 consideration of the staff report that concluded the Article IV consultation with Saudi Arabia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2021, following discussions that ended on April 22, 2021, with the officials of Saudi Arabia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 24, 2021.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Saudi Arabia

FOR IMMEDIATE RELEASE

Washington, DC – July 8, 2021: On June 30, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the 2021 Article IV consultation[1] with Saudi Arabia.

The Saudi economy entered the COVID-19 pandemic with strong policy buffers and reform momentum. The authorities responded quickly and decisively to the crisis with a range of fiscal, financial, and employment support programs that helped cushion the impact of the pandemic on the private sector. As the lockdown eased and the economy recovered in the second half of 2020, the government withdrew or increasingly targeted the temporary fiscal and employment support. SAMA's borrower support has been retained.

The economy is recovering well. The non-oil recovery that started in the second half of 2020 is expected to continue with non-oil growth projected at 4.3 percent this year. While central government fiscal consolidation will be a drag on growth, it is expected to be offset by higher Public Investment Fund investment and strong private demand. Real oil GDP growth is projected at -0.4 percent in 2021 as production is assumed to remain in line with the OPEC+ agreement and overall real GDP is expected to grow by 2.4 percent. Over the medium-term, growth is expected to accelerate as the economic reform agenda begins to pay dividends.

Inflation is expected at 3.2 percent in 2021 (annual average). Credit to the private sector has been very strong, boosted by programs to encourage mortgage and SME lending. Banks remain liquid, well capitalized, and well-regulated and supervised.

The fiscal deficit widened in 2020 to 11.3 percent of GDP mostly driven by a 30 percent decline in oil revenues. Non-oil revenues increased, including because of the VAT rate increase from 5 to 15 percent in July 2020. Expenditures increased modestly as the removal of cost of living allowances in June 2020 and lower capital spending largely offset COVID-19 related spending and other one-off spending.

Strong reform momentum is continuing. The rapid increase in labor market participation of Saudi females and reforms to the Kafala sponsorship system for expatriate workers are very important to boost growth, productivity, and household incomes. Further, the program to codify legal practices, the PPP/asset sales program, the deepening of the domestic capital markets, reforms for e-government and to harness the potential of digitalization, and the support to SMEs and entrepreneurs are all important to support a more diversified and inclusive recovery.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They highlighted that Saudi Arabia entered the COVID-19 pandemic with strong policy buffers and a positive reform momentum and commended the authorities for their quick and decisive policy response, which helped cushion the pandemic's impact. Noting the economic rebound in the non-oil sector, they stressed that the remaining pandemic-related policy support should be carefully withdrawn to continue supporting the ongoing recovery, while the Vision 2030 reform agenda should continue to be implemented to promote strong, sustained, diversified, inclusive, and greener growth.

Directors supported the authorities' planned medium-term fiscal consolidation but emphasized the need to continue enhancing the social safety net in the near term to support low-income households. They encouraged the authorities to maintain the fiscal reforms introduced last year, press ahead with planned energy and water price reforms, and consider ways to rationalize the government's wage bill.

Directors encouraged the authorities to continue developing the Fiscal Sustainability Program to reduce fiscal policy procyclicality. They underscored the importance of monitoring fiscal risks and developing a robust sovereign asset-liability management framework given the growing role of the Public Investment Fund and public-private partnerships (PPP) in the economy. Directors recommended further strengthening expenditure management, public procurement, and fiscal transparency.

Directors welcomed the continued resilience of the financial sector and the strong supervision by the Saudi Central Bank. They recommended carefully monitoring mortgage lending as well as regularly assessing the appropriateness of the deferred payments program and ensuring that banks assess borrowers' creditworthiness under this program. Directors welcomed efforts to strengthen the financial sector's legal and regulatory framework, the impressive capital market reforms, and the enhancement of the AML/CFT framework.

Directors underscored that structural reforms should continue to be implemented to diversify the economy and promote sustainable, inclusive growth. In this context, they supported recent reforms to increase female employment and to enhance the job mobility of expatriate workers. Directors welcomed the ongoing efforts to strengthen the legal framework, accelerate privatization and PPP programs, strengthen governance, and accelerate digitalization. Noting the ambitious National Investment Strategy, Directors recommended fully assessing its macroeconomic impact and the potential risks of crowding out private investment. Directors also welcomed Saudi Arabia's subscription to the SDDS and reiterated the importance of further improving data quality and availability.

Directors commended the announcement of the Saudi Climate Strategy and the commitment to reducing greenhouse gas emissions. They looked forward to more details on the authorities' plans to meet their climate commitments.

Directors agreed that the exchange rate peg to the U.S. dollar continues to serve the economy well given the current economic structure. While fully agreeing with this, many Directors also

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

encouraged the authorities to review the peg over the medium term to ensure that it remains appropriate given the plans for economic diversification.

Table 1. Saudi Arabia: Selected Economic Indicators, 2019–22

Population: 35.0 million (2020)
Quota: SDR 9,992.6 million (2.10% of total) Literacy: 95% (2017, adults)
Main products and exports: Oil and oil products (69%)
Key export markets: Asia, U.S., and Europe

	2019	2020	Proj. 2021	Proj. 2022
Output				
Real GDP growth	0.3	-4.1	2.4	4.8
Non-oil GDP growth	3.3	-2.3	4.3	3.6
Prices				
CPI Inflation (%)	-2.1	3.4	3.2	2.1
Central government finances				
Revenue (% GDP)	31.2	29.7	28.6	28.8
Expenditure (% GDP)	35.6	41.0	32.0	30.7
Fiscal balance (% GDP)	-4.5	-11.3	-3.5	-1.9
Public debt (% GDP)	22.8	32.5	30.0	30.4
Non-exported oil primary balance (% Nonoil GDP)	-33.5	-36.1	-25.9	-22.5
Money and credit				
Broad money (% change)	7.1	8.3	6.8	4.0
Credit to the private sector (% change)	7.0	14.0	11.7	4.5
Balance of payments				
Current account (% GDP)	4.8	-2.8	3.9	3.9
FDI (% GDP)	0.6	0.8	0.8	0.8
Reserves (months imports)[1]	33.0	25.1	24.8	24.8
External debt (% GDP)	23.5	34.1	29.9	29.7
Exchange rate				
REER (% change) [2]	-2.0	1.1	-2.6	…
Unemployment rate				
Overall (% total labor force)	5.5	7.4	…	…
Nationals (% total labor force)	12.0	12.6	…	…

[1] Imports of goods and services.
[2] For 2021, data is latest available.

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

June 24, 2021

KEY ISSUES

Context. The authorities responded quickly and decisively to the COVID-19 crisis and the economy is recovering. COVID-19 cases are well below the 2020 peak and vaccination is progressing. The exit from the remaining COVID-related policy support needs to be carefully managed and the Vision 2030 reform agenda continued.

Outlook and risks. GDP growth is expected to strengthen this year and over the medium term. Risks to the outlook are broadly balanced.

Fiscal policy. Fiscal consolidation is needed, but a slower pace of adjustment could be considered this year. Spending on the social safety net should be increased and there is scope to increase health spending and slow the pace of adjustment in capital spending if needed. A sovereign asset-liability management framework should continue to be developed and fiscal transparency increased.

Financial sector. The private sector financial support measures should be withdrawn carefully. The banking sector is well-capitalized and liquid. Continued close monitoring of borrowers including through regular stress-tests are essential as the support program may have masked emerging vulnerabilities. Loan-loss provisions should be increased further if necessary.

External sector. The peg to the U.S. dollar continues to serve Saudi Arabia well given the structure of the economy.

Supporting growth. Structural reforms need to be implemented to ensure there are no longer-term output losses from the COVID crisis and to diversify the economy. The rapid increase in labor market participation of Saudi females and recent reforms to the Kafala sponsorship system for expatriate workers are welcome. Public sector interventions to spur the development of new sectors need to be carefully implemented and not crowd out the private sector.

Approved By
Zeine Zeidane and Delia Velculescu

Discussions were held virtually during April 4- April 22, 2021. The team comprised Tim Callen (head), Imen Benmohamed, Erik Lundback, and Yang Yang (all MCD). Boele Bonthuis (FAD) and Arz Murr (LEG) participated in some of the meetings. Jihad Azour and Zeine Zeidane (MCD) attended the concluding meeting. Executive Director for Saudi Arabia, Mr. Maher Mouminah, Alternate Executive Director for Saudi Arabia Mr. Bandr Alhomaly, and Advisor to the Executive Director Ms. Jwaher Al Saud accompanied the mission. The team met with Minister of Finance Aljadaan, Governor of the Saudi Central Bank (SAMA) Almubarak, Advisor to the Saudi Royal Court and the Secretary General of the Vision 2030 Strategic Management Office Toonsi, Chairman of the Capital Market Authority Elkuwaiz, President of the General Authority for Statistics Pesendorfer, Governor of the National Development Fund Groff, and other senior officials, as well as representatives of the private sector and academics. Esther George and Tian Zhang (both MCD) provided support from headquarters and contributed to the report.

CONTENTS

TABLES

APPENDICES

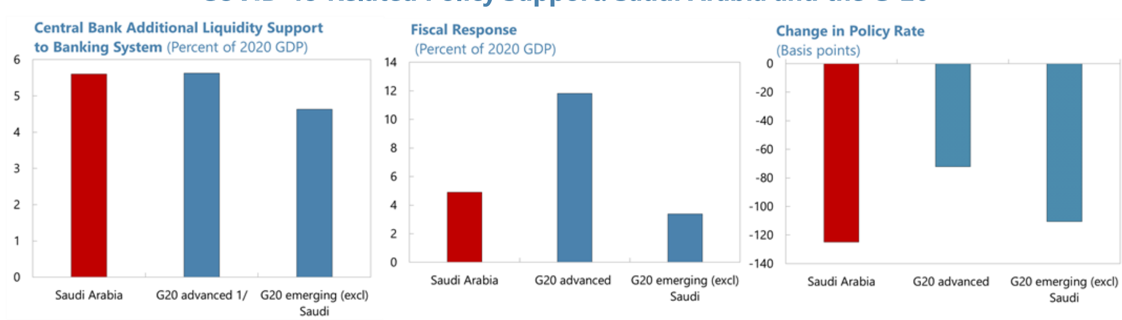
THE COVID-19 CRISIS, THE RECOVERY, AND RISKS TO THE OUTLOOK

1. **The Saudi economy entered the COVID-19 pandemic with robust non-oil growth, strong policy buffers, and positive reform momentum** (Table 1). Despite fiscal deficits since 2014, fiscal space was available due to low government debt and significant asset holdings (Tables 2 and 3). External buffers were sizable and the banking system well capitalized and liquid (Tables 4 and 5). Reforms under Vision 2030 were advancing and many of the staff recommendations from the 2019 Article IV have been implemented.

2. **The authorities responded quickly and decisively to the COVID-19 crisis**. The early creation of a Supreme Crisis Committee to direct the health and economic policy response was central to effectively managing the crisis. Strict early containment and health mitigation measures limited cases and fatalities. Daily infections peaked at almost 5,000 in mid-June 2020, fell to around 100 in January 2021, and stand around 1,200 currently (Figure 1). Free-of-charge testing and healthcare are available to all residents with a target to complete the vaccination of those above 17 years old by year-end. Around 16 million vaccines had been administered by mid-June (about 47 doses per 100 people). A gradual economic reopening took place from 2020H2 and international travel has recently re-started.

3. **Fiscal, financial, and employment support programs (13.9 percent of non-oil GDP) helped cushion the impact of the pandemic on the private sector** (Box 1). The Saudi Central Bank (SAMA) also reduced its policy rate twice in March 2020 by 125 basis points in total. The financial support measures were somewhat larger than the fiscal measures, particularly on a net basis after the expenditure savings and new revenue measures implemented in mid-2020 (VAT and removal of the cost-of-living allowances (COLA)) are accounted for (paragraph 18). The tax deferrals and wage subsidies to support employment through the SANED unemployment insurance fund were initially broad-based, while the private-sector support programs through SAMA were focused on SMEs. Support has also focused on Mecca and Medina where travel restrictions have curtailed Hajj and Umrah activities.

COVID-19 Related Policy Support: Saudi Arabia and the G-20



Sources: IMF COVID Policy Tracker; and IMF staff calculations.
1/ Euro countries are excluded.

Status of Staff Recommendations Made During the 2019 Article IV Consultation

Recommendation	Status
Fiscal consolidation is needed to rebuild fiscal buffers and reduce medium-term fiscal vulnerabilities.	The government appropriately eased fiscal policy in 2020Q2 at the height of the COVID-19 crisis and the lockdowns. It has re-established its plan for fiscal consolidation over the medium-term (in the 2021 Budget).
New fiscal measures need to be identified to achieve consolidation over the medium-term.	This has been done with the VAT rate increased from July 2020 and the removal of Cost-Of-Living Allowances (COLA) in June 2020. On-budget capital spending has been reduced to bring it more into in line with peer countries.
Continued increases in energy prices are needed.	Octane 91 gasoline prices were raised to 100 percent of export prices in early 2020 and all gasoline prices are now indexed on a monthly basis to export prices. Further increases in other energy prices are still needed to bring them to export/reference prices. The government plans to raise some prices further this year.
Reforms should be inclusive and lower-income households protected from any negative effects of reforms.	The reform of the social safety net is advancing and will result in a move to a needs-based system with a guaranteed minimum income. Payments to low-income households, however, have not been increased following the VAT rate increase.
Develop an integrated asset-liability management framework and improve fiscal transparency.	A high-level committee has been established to coordinate asset-liability management decisions and a working group is in the process of collecting the relevant data to support decisions. While Saudi Arabia's score in the Open Budget Index (OBI) has increased, fiscal data and transparency need further improvement to bring them to levels in G20 peers.
Continue to develop domestic capital markets	Further reforms have been introduced to increase liquidity and depth in local equity and bond markets including giving greater access to foreign investors and introducing derivative equity products. The Aramco IPO took place in December 2019.
Support financial inclusion for SMEs, women, and youth.	Several SME financial support programs have been introduced or expanded and bank lending to SMEs has increased to 8 percent of total loans in 2020 (6 percent at the time of 2019 Article IV). The surge in digital account openings and online mobile financial transactions during COVID should have increased financial inclusion.
Labor market reforms are needed to encourage greater employment of Saudis in the private sector.	Formal restrictions on female employment have been removed and female labor force participation rates have continued to rise (31.3 percent at end-2020 compared to 23.2 percent at the time of the 2019 Article IV). The Kafala sponsorship system for expatriates working in the private sector is being reformed. Over time this will create a more competitive labor market.
Structural reforms should continue to focus on reducing the costs of doing business, filling gaps in the legal infrastructure, tackling corruption and improving governance	A program has been announced to codify legal practices to create more consistency and certainty of legal outcomes. Together with previous reforms, such as the introduction of a bankruptcy law, this will strengthen the legal infrastructure for business.

Box 1. COVID-Related Policy Support Measures[1]

The authorities responded quickly and decisively to the COVID-19 crisis with a range of fiscal, employment, monetary, and financial support measures totaling 13.9 percent of non-oil GDP (Table). On the fiscal side, some of the direct COVID support was offset in the second half of 2020 by new revenue raising and expenditure reducing measures.

***Financial and monetary measures:* In March, SAMA introduced programs to support the private sector, particularly SMEs**. Total support has amounted to SAR 130.6 billion or 6.5 percent of non-oil GDP. It included four main initiatives: (i) Deferred Payments Program to delay payment of dues to the financial sector from SMEs; (ii) Guaranteed Facility Program for concessional finance to SMEs; (iii) Loan Guarantee Program for SMEs from the KAFALA guarantee program, and (iv) Point of Sales and E-Commerce Service Fee Support Program. The Deferred Payments and Guaranteed Facility programs have been extended until June 2021 and March 2022, respectively, and the other two have been ended. In parallel, SAMA injected about SAR 66 billion through deposits to support banking liquidity. On top of the SAMA programs, the institutions under the National Development Fund made SAR 18.5 billion or 0.9 percent of non-oil GDP available for financing to the private sector. SAMA also reduced its policy rates twice in March, lowering its reverse repo and repo rates by a combined 1.25 pp to 0.5 and 1 percent respectively.

***Fiscal measures:* COVID budget support totaled SAR 116.5 billion or 5.8 percent of non-oil GDP.** There was additional spending of SAR 74 billion (4.5 percent of non-oil GDP) of which about SAR 40 billion was allocated to health and SAR 30 billion to spending to ease the impact of COVID-19 on the private sector and households (e.g., expansion of IT infrastructure, support to e-learning, provision of basic needs to households during the lockdown, help in easing crowded accommodations for expatriate workers, and a grant to the World Health Organization). Another SAR 4 billion was spent on accelerating payments to the private sector (given the cash basis of the budget this increased spending in 2020). On the revenue side, SAR 38.5 billion of tax payments were deferred between mid-March and end-June, but were paid by end-2020, while SAR 4 billion of expat levies were exempted, totaling SAR 42.5 billion (2.1 percent of non-oil GDP).

***Labor market support:* In April 2020, the government authorized the use of the unemployment insurance fund (SANED) to provide support for wage payments.** Private sector companies who retained their Saudi staff (limited to a maximum of 70 percent and then reduced to 50 percent of Saudi workers per establishment) could get 60 percent of the wages paid from SANED. The program has now been narrowed to focus on sectors that are still being affected by COVID-19 and has been extended through July 2021. In 2020 total support was about 6 billion (0.3 percent of non-oil GDP). Another SAR 5.4 billion (0.2 percent of non-oil GDP) was provided through the Human Resources Development Fund (HRDF) for employment subsidies and training support.

1/ Prepared by Erik Lundback.

Box 1. COVID-Related Policy Support Measures (concluded)
Table. Financial and Fiscal Support Measures in 2020

Measures	Cost / Saving (SAR, billions)		Status
	peak	current	
***I. Financial and borrower support measures*[1]**	**149.1**	**147.7**	
Deferred payment program	124	124	Temporary, March 14, 2020 to end-June 2021.
Guaranteed facility program	5.2	5.2	Temporary, March 14, 2020 to end-March 2022.
Loan guarantee program	0.14	0	Temporary, March 14 to end-December.
Supporting fees of points of sale and e-commerce	1.3	0	Temporary, March 14 to end-September.
National Development Fund financing support[2]	18.5	18.5	Temporary, March to end-2020.
II. Fiscal measures	**116.5**	**14**	
Additional on-budget spending	**74**	**14**	
Healthcare and other spending	70	14	Temporary.
Expedited transfers and payments between entities	4	0	Temporary.
Revenue support measures	**42.5**	**0**	
Tax deferrals	38.5	0	Temporary, March 18 to end-June.
Expat levy exemption	4	0	Temporary, March 20 to end-September.
III. Labor market support	**11.4**	**7.4**	
Employees compensation schemes through SANED	6	2	Temporary, announced April 2020. Continuing for hard-hit sectors
Employment subsides and training support through HRDF	5.4	5.4	Temporary.

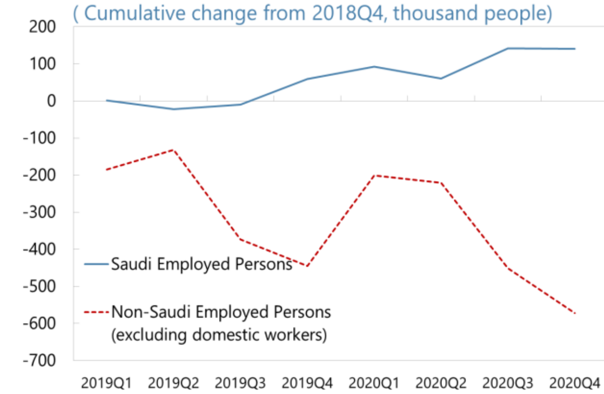
Memo items - cost savings and additional revenue 2020

Removal of the cost-of-living allowance (COLA)	25
VRPs	11
Scaling back the Citizens Account	7
Other savings	14
Tripling the VAT rate (real estate transactions exempt and subject to 5 percent RETT)	45
Increase of Customs duties (staff estimate)	2

1/ SAMA deposits with banks of SAR 66 billion supported the payment deferrals.
2/ Amounts are approved and committed but not necessarily lent.

4. After contracting sharply in 2020Q2, non-oil growth rebounded as the lockdown eased. Real non-oil GDP declined by 2.3 percent in 2020 but grew by 5.6 percent in 2020H2 (compared to 2020H1) and by 2.9 percent (y/y) in 2021Q1. Travel and contact-sensitive sectors fared the worst in 2020Q2 but rebounded the most strongly in 2020H2 and continued to recover in 2021Q1. The growth rebound was driven by private consumption as the lockdown eased (despite the higher VAT rate and cuts to allowances) and some recovery in investment. Domestic demand contracted by 7.7 percent in 2020 but rebounded strongly in 2020H2 (5.9 percent growth compared to H1), and expanded by 3.6 percent (y/y) in 2021Q1. Profitability of listed companies in the transportation, hotels, and tourism sectors was hit hard by the crisis (Figure 2). Real oil GDP contracted by 6.7 percent in 2020 and declined by 11.7 percent (y/y) in 2021Q1 as OPEC+ cut production substantially to help rebalance the market. Overall real GDP contracted by 4.1 percent in 2020 and by 3 percent (y/y) in 2021Q1.

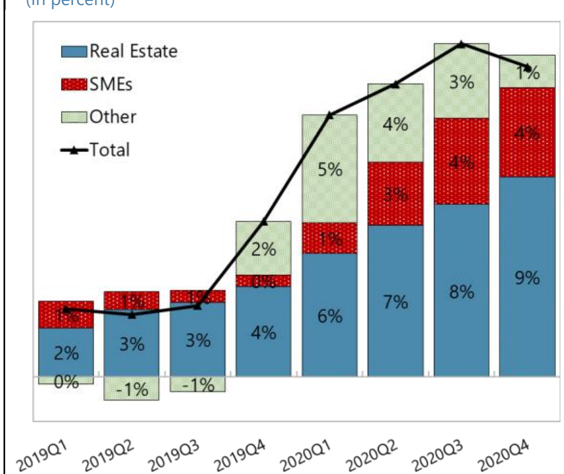
Total Employment, Saudi and Non-Saudi
(Cumulative change from 2018Q4, thousand people)



Sources: Country authorities; and IMF staff calculations

5. Unemployment rose at the height of the crisis but has subsequently fallen. The unemployment rate increased to 9 percent in 2020Q2 from 5.7 percent in 2020Q1, before declining to 7.4 percent in 2020Q4. For Saudi nationals, these rates were 11.8 percent, 15.4 percent, and 12.5 percent respectively. Youth unemployment declined from 31.3 percent in 2020Q1 to 28 percent in 2020Q4 after a peak of 34.2 percent in 2020Q3. Employment in the private sector fell by 4.3 percent between 2020Q1-Q4—expatriate employment declined by 5.9 percent and Saudi employment increased by 1.7 percent.[1] The increase in the unemployment rate, however, was driven mainly by higher participation of Saudi females—from 25.9 percent to 33.2 percent.

Contributions to Credit Growth
(In percent)



Sources: Country authorities; and IMF Staff Calculations

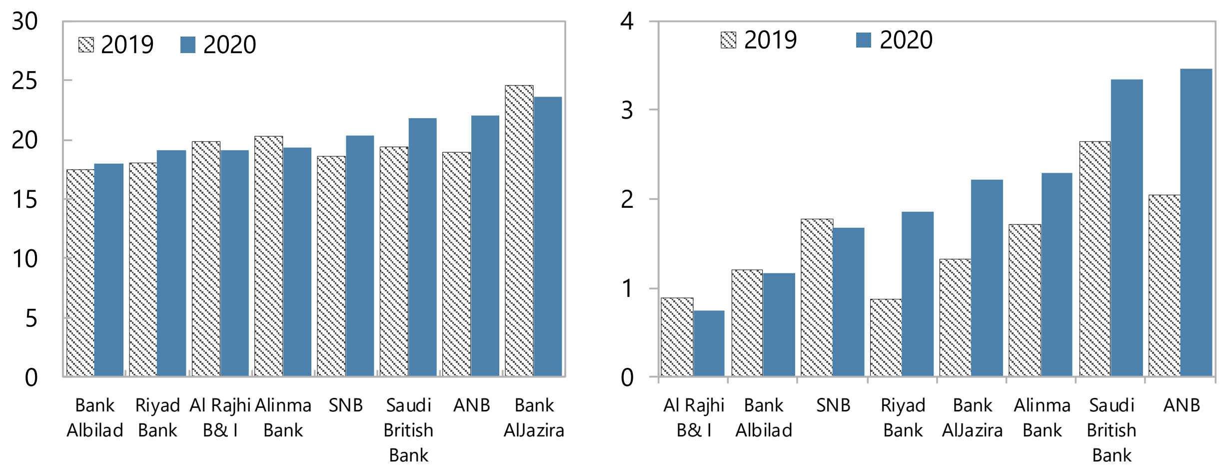
6. Bank profitability declined during the crisis, but banks remained liquid and well capitalized and continue to be positioned to support the economy. NPLs have risen, more for banks with a higher exposure to corporate borrowers as most retail customers have secure

[1] The labor market data is difficult to interpret. Published employment data is from the administrative records of the private pension fund (GOSI) and the Ministry of Human Resources and Social Development while the participation and unemployment data are from the Labor Force Survey conducted by the General Authority for Statistics (GASTAT). The switch from in-person to phone interviews for this survey during COVID may have affected the results, possibly correcting a downward bias in female participation under the in-person interview method.

public sector jobs, but the NPL ratio remains low. The aggregate bank capital adequacy ratio, at 20.3 percent in 2020, is slightly higher than its pre-COVID level, as several banks raised additional capital. Bank liquidity increased in 2020H2 and is at comfortable levels. Deposits into banks from SAMA and reduced consumption opportunities during the lockdown have driven strong M3 growth (8.3 percent y/y in April 2021). Credit to the private sector is growing strongly (14.4 percent y/y in April 2021), boosted by lending for housing (mostly under subsidized government home ownership programs) and to SMEs (helped by the expansion of the Kafala loan guarantee program) (Figure 3; Table 6).

Bank Capital Adequacy and Asset Quality

Regulatory Capital to Risk-Weighted Assets (In percent) | **Non-performing Loans (NPLs)** (In percent)



Source: S&P Capital IQ; and IMF staff calculations.

7. **The current account moved into deficit of 2.8 percent of GDP in 2020 as oil revenues fell** (Figure 4). Imports also declined as domestic demand contracted. The services deficit narrowed due to lower spending on government services and transportation, while remittances rose as expatriates increased support to home countries. SAMA reserves declined due to a $40 billion transfer to the Public Investment Fund (PIF) but remain at a comfortable level (64.2 percent of GDP, 25.1 months of imports, and 327 percent of the IMF's Assessment of Reserve Adequacy metric at end-2020). The net international investment position (NIIP) remains strong (88.8 percent of GDP at end-2020). Staff assesses the external position in 2020 as having been moderately weaker than warranted by fundamentals and desirable policies (Appendix I).

8. **As the non-oil economy recovered, the government withdrew or increasingly targeted the temporary fiscal and employment support** (Figure 5). Broad-based support became less necessary as the lockdown ended and growth, corporate cashflows, and labor demand rebounded. The tax deferrals, which peaked at end-June 2020, were almost entirely repaid by year-end and the employment support was refocused on the sectors that continued to be hardest-hit by the pandemic (transportation, hospitality). The borrower support has been retained until at least end-June 2021 given the difficulties still faced by many SMEs.

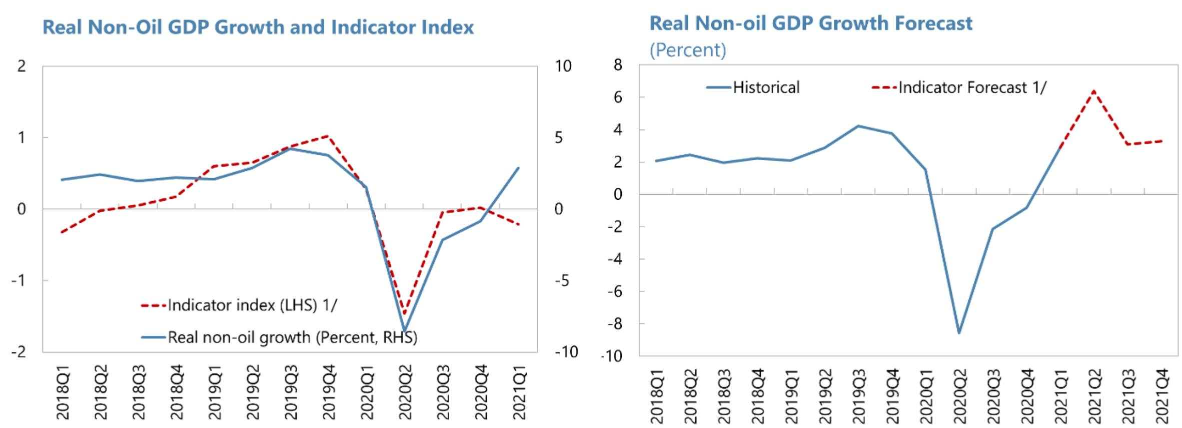
9. Policies to support the non-oil economy have been successful. The contraction in non-oil real GDP in 2020 was less than the G20 median real GDP contraction and less than projected by staff in the June 2020 World Economic Outlook (WEO) (Figure 6). Further, employment of Saudis in the private sector declined only slightly during the peak of the crisis and has rebounded suggesting that the employment support was successful. Nevertheless, the longer-term effects of the support policies are yet to be seen. The effect of the loan deferral program on bank asset quality will only become evident once the program ends.

10. The recovery is expected to continue.

- ***Non-oil GDP growth*** is projected at 4.3 percent in 2021 and 3.6 percent in 2022. Recent high frequency indicators including the purchasing managers' index (PMI) and credit growth have generally been favorable. Central government fiscal consolidation will be a drag on growth in 2021 but is expected to be offset by higher PIF investment and strong private demand as credit growth remains robust and household savings accumulated during the crisis are rundown. Mortgage lending is expected to continue to grow robustly.

- ***Oil GDP growth*** is projected at -0.4 percent in 2021. Crude production is expected to follow the path agreed by OPEC+ while refinery production is expected to grow as global demand recovers. Oil GDP growth is projected at 6.8 percent in 2022 on the assumption that the OPEC+ production cuts end as announced.

Real Non-Oil GDP Forecast



Sources: Country Authorities; World Economic Outlook; Haver; and IMF staff calculations.
1/ The Indicator Index is constructed using cement sales, import letters of credit, ATM withdrawals, and the new orders component of PMI. Local projection specifications based on this index, the WEO oil price baseline, and lagged non-oil growth and world demand are used for the forecast.

- ***Overall GDP growth*** of 2.4 percent is projected this year, rising to 4.8 percent in 2022.

- **Medium-term growth**. Non-oil growth is projected to settle at 3.5 percent a year and overall growth at 2.8 percent. The negative non-oil output gap is expected to close by 2026 even as potential non-oil GDP growth accelerates as the reform agenda continues to pay dividends.

11. The current account is projected to be in surplus in 2021-24, before moving to a small deficit over the medium-term. This is driven by oil exports, with imports growing as domestic demand recovers, although the elasticity of imports to domestic demand is expected to be reduced as local content efforts increase. The financial account deficit is projected to eventually turn to surplus as foreign investments by the PIF slow, some foreign assets are repatriated, and FDI picks up.

12. Inflation is expected to average 3.2 percent in 2021 (Figure 7). Following the VAT rate increase in July 2020, CPI inflation jumped higher, but then settled around zero (m/m). In April and May, however, food price inflation picked up adding to pressures since the turn of the year from higher gasoline prices which have only partly been offset by the continued decline in rents as housing supply increases. Over the medium-term, inflation is projected to settle around 2 percent, broadly in line with the US.

13. Risks to the outlook are balanced (Appendix II).

- On the *upside*, faster containment of the pandemic, a further rise in oil prices, and continued implementation of structural reforms could boost non-oil growth.
- On the *downside*, risks include: renewed lockdown measures if COVID cases increase as new strains emerge and/or vaccine rollout slows in the face of limited global supplies; the oil market weakens either if the global recovery disappoints or due to policies that discourage the use of fossil fuels; a rise in global risk premia and tighter global financial conditions if inflation pressures rise, resulting in a monetary tightening in Saudi Arabia; and uncertainties about the regional geopolitical situation.

14. Spillovers to the global economy from Saudi Arabia are mainly through the oil market. Saudi Arabia is playing a key role in the OPEC+ agreement. Recorded remittance outflows from expatriates have increased during the crisis. Financial assistance is being provided to several countries and international organizations including the WHO. Real spillovers are significant for Bahrain—until the recent re-opening, the closure of the causeway between the countries had adversely affected the Bahraini economy.

15. The authorities are confident about the economic outlook. They emphasized that the Vision 2030 reforms and the swift policy response to the COVID crisis dampened the negative effects of the pandemic, propelled a rapid rebound from 2020H2, and have set the stage for robust and inclusive growth. They stressed that the COVID crisis has not affected reform momentum and believed that their investment initiatives, privatization and public-private partnerships (PPPs), and other structural reforms could boost non-oil growth above the staff's baseline projections. The authorities emphasized the strength of the external position as reflected in the large reserves and strong NIIP. They also noted that the drop in FX reserves in 2020 was due to the $40 billion transfer to the PIF and that the assets remain part of Saudi Arabia's robust NIIP.

POLICIES FOR GROWTH AND STABILITY IN THE POST-COVID WORLD

16. The economic policy challenge is to manage the exit from the remaining COVID-related support, resume medium-term fiscal consolidation, and continue structural reforms to spur more diversified growth. The withdrawal of the remaining employment and financial support should continue to be carefully calibrated to ensure the burden on businesses and vulnerable groups is manageable and the recovery continues. Continued strong interagency coordination will be needed.

17. The authorities stressed that they are closely and continuously monitoring developments, and policies are being flexibly adjusted as needed. The Supreme Crisis Committee has ensured effective coordination and collaboration during the COVID-19 crisis. Going forward, government policies will be geared towards ensuring fiscal sustainability within a robust medium-term fiscal policy framework and continuing the ambitious Vision 2030 reforms to promote strong, sustained, diversified, and inclusive growth.

A. Fiscal Policy—Balancing Short-Term Support and Medium-Term Consolidation

Fiscal Adjustment in the Short and Medium-Term

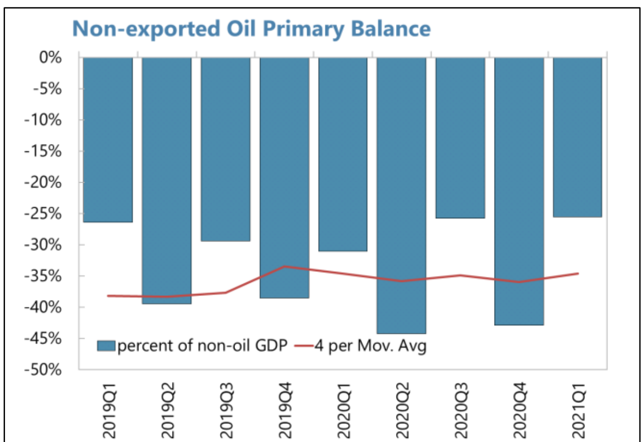
18. The fiscal deficit widened to 11.3 percent of GDP in 2020 from 4.5 percent of GDP in 2019. This was mostly driven by non-policy factors, including a 30 percent decline in oil revenues. Policy factors largely offset each other. COVID-19 spending widened the deficit by 2.8 percent of GDP but overall spending increased only modestly, as the removal of the COLA in June 2020 and lower capital spending partially offset this spending and non-COVID-related one-offs (the settlement of previously disputed payments to contractors and utilities). Non-oil revenues increased as the VAT rate was raised from 5 to 15 percent in July 2020, customs duties were increased in June 2020, and extra dividends were paid by SAMA and the PIF. The non-exported oil primary deficit (NEOPD)—staff's preferred measure of the fiscal stance—

Impact of COVID-19 on the 2020 Fiscal Balance

Change in the Non-Exported Oil Primary Balance 2019 to 2020
(percent of non-oil GDP)

Non-Exported oil primary balance	
pre-COVID baseline	1.8
outcome	-2.6
Difference	-4.4
GDP effect (denominator)	-1.7
COVID Spending	-3.7
Other	1.0
Capital expenditure	0.9
Revenue reform - VAT and Customs increase	1.6
Non-COVID related one-offs	-2.2
Other	0.7

Source: IMF staff estimates.

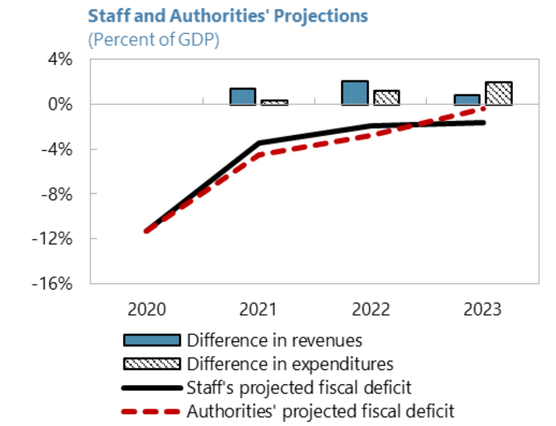


Sources: Country authorities; and IMF Staff Calculations.

widened by 2.6 percentage points to 36.1 percent of non-oil GDP in 2020, but if the non-COVID related payments are excluded, the NEOPD was broadly unchanged from 2019. The fiscal stance eased substantially in 2020Q2 as spending increased and tax deferrals were implemented but tightened from 2020Q3 as the tax deferrals were unwound and the VAT and COLA reforms implemented.

19. The fiscal deficit was financed by domestic and external borrowing and drawdown of deposits at SAMA. Central government debt increased to 32.5 percent of GDP at end-2020 (22.8 percent of GDP at end-2019) and central government net financial assets (CGNFA)—government deposits at SAMA less gross debt—declined from -5 percent of GDP in 2019 to -15.9 percent of GDP in 2020.

20. The authorities' budget aims to substantially reduce the fiscal deficit in 2021 and to almost eliminate it by 2023. The budget projects a 4.9 percent of GDP deficit in 2021 as oil and non-oil tax revenues recover (including the full-year effects of the VAT increase) and expenditure declines from the full year impact of the COLA removal, the ending of some of the temporary COVID-related spending, and a budgeted decline in capital spending.[2] The latter is due to the completion of several large projects, a greater role for the PIF in the Vision 2030 projects, and the increased use of PPPs. The authorities expect the budget to be in broad balance in 2023 as revenues increase further (including privatization proceeds which the budget includes as revenues) and nominal spending continues to decline. Beyond 2023, the authorities aim to keep the growth rate of nominal spending below that of nominal non-oil GDP.



Sources: Country authorities; and IMF staff projection.

Decomposition of Changes in the Non-Exported Oil Primary Balance

Change in the Non-Exported Oil Primary Balance 2020 to 2021
(percent of 2021 non-oil GDP)

Non-Exported oil primary balance excluding non-COVID related one-offs	8.0
Reforms and discretionary	6.5
Revenue reform - VAT and Customs increase	2.1
Spending	4.3
COVID	2.7
non-COVID	1.7
Non-discretionary	-3.6
Capital expenditure	2.5
GDP effect (denominator)	2.6

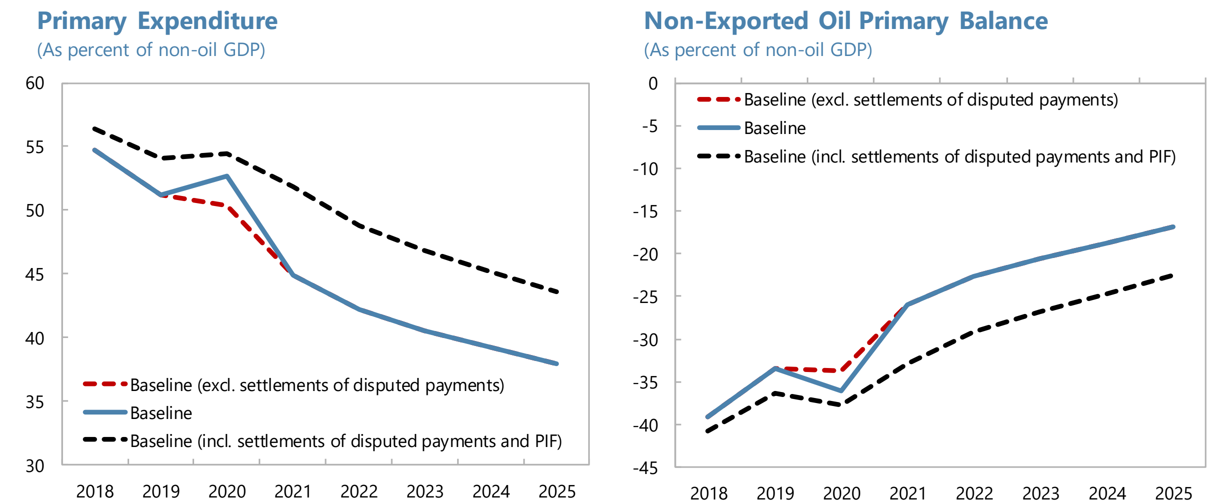
Source: IMF staff estimates.

21. Staff projects a smaller deficit in 2021, but a slower pace of consolidation over the medium-term. For 2021, staff forecasts the fiscal deficit at 3.5 percent of GDP with the difference from budget driven mostly by somewhat higher VAT projections based on a quicker return to pre-COVID collection efficiency and a larger GDP base. Oil revenues may also be higher, although the authorities do not

[2] The budget for COVID-related health spending includes allocations for the procurement and administration of vaccines and a SAR 10 billion contingency.

disclose budgeted oil revenues. Staff expects expenditures similar to the budget, assuming that the planned reduction in capital spending is achieved. Staff judges the 2021Q1 fiscal outturn as being consistent with its projections. Staff's revenue projections for 2022-23 are in line with the budget and assume the VAT rate is maintained at 15 percent and Aramco continues to pay an annual dividend to its shareholders of $75 billion. The projected current spending path, however, is higher as it is not fully clear how the reduction laid out in the budget will be achieved. Staff projects a fiscal deficit of 1.6 percent of GDP in 2023, reaching balance by 2026. The NEOPD is projected to narrow by 10.2 percentage points of non-oil GDP in 2021 and by around 2 percentage points of non-oil GDP a year during 2022-26. Including the planned investments by the PIF in spending, the tightening would be around 5 percent of non-oil GDP in 2021.

Fiscal Adjustment in the Medium Term[1]

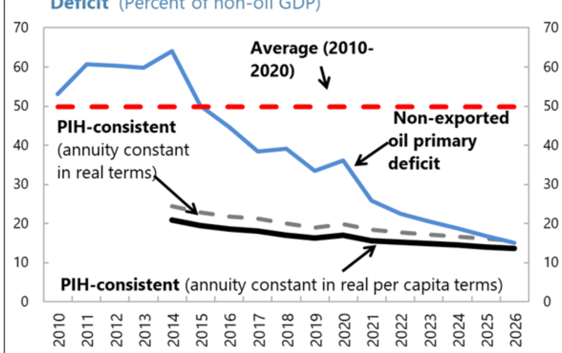


Sources: Ministry of Finance and IMF Staff estimates.

[1] The figure assumes that the PIF spends what it has announced, i.e. the implementation rate is 100 percent. This may be optimistic as the rate was less than 40 percent in 2020, although this was affected by COVID-19.

22. Staff's fiscal baseline is consistent with stabilizing the CGNFA ratio and moving close to achieving intergenerational equity by 2026.[3] The NEOPD declines from 36.1 percent of non-oil GDP in 2020 to 15.1 percent of non-oil GDP in 2026, which would stabilize the CGNFA ratio at around -19 percent of GDP (Appendix III). This outcome would reduce vulnerabilities to a future decline in oil prices (Figure 8).

Projected and Sustainable Non-exported Oil Primary Deficit (Percent of non-oil GDP)



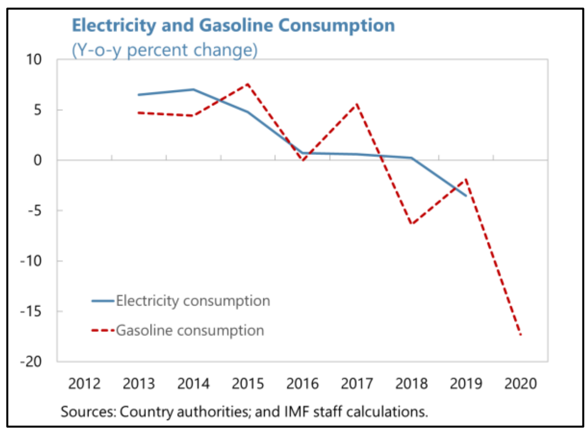
Source: IMF staff estimates.

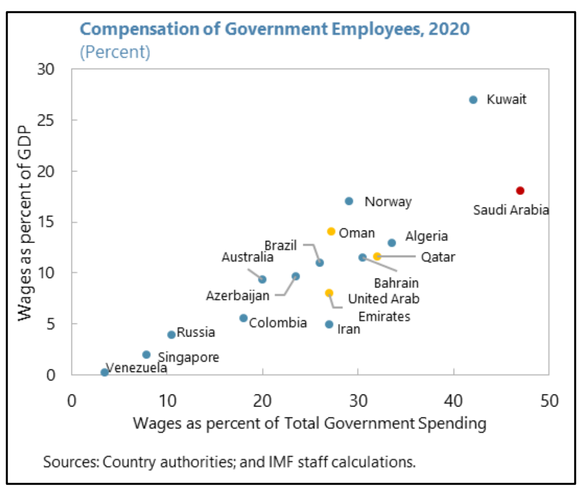
[3] Intergenerational equity is calculated from the Permanent Income Hypothesis (PIH).

23. Staff fully supports the authorities' planned medium-term fiscal consolidation but believes the pace of adjustment could be somewhat slower this year than implied under staff's baseline projections. The VAT rate increase, the removal of the COLA, the increased focus on the efficiency of capital spending, and planned further domestic energy price reforms are all important contributors to the fiscal adjustment and should not be reversed or delayed. Staff, however, assesses that there is some fiscal space available and believes there is room under the baseline to increase social safety net spending to further support low-income households and help offset the loss of purchasing power they experienced from the VAT rate increase and the COLA removal last year. Staff estimates that this additional social safety net spending would cost about 0.5 percent of GDP, implying a deficit of 4 percent of GDP this year. Some further spending to support health and structural reforms (e.g. to further expand transportation and childcare options) could also be accommodated if needed under the baseline. If the recovery stalls, staff sees scope to slow the planned reduction in capital spending while keeping the medium-term capital spending envelope unchanged and off-budget programs, including the SANED employment support, could be expanded again.

24. As well as maintaining the fiscal reforms introduced last year, the medium-term fiscal consolidation requires announced policies to be implemented and contingency plans developed:

- ***Energy and water price reforms***. Gasoline and electricity prices have been increased and the focus is now on other energy products and water to support a greener recovery. The authorities plan to continue reforms for other fuel products this year and final decisions on timing will depend on how the recovery proceeds. Staff supports these reforms and where they affect low-income households, the social safety net should be further strengthened, and temporary support may be needed for companies to aid their adjustment to higher input prices.





- ***Expenditure restraint***. The wage bill remains high and needs to be rationalized. The size of the civil service should be reduced by not replacing non-essential staff as they retire/leave and reviewing allowances to ensure they are consistent with the needs of a modern civil service. The planned reduction in capital spending over the medium-term is welcome and will bring it in line with countries with similar levels of infrastructure development. Future budget costs of service contracts under PPPs need to be fully accounted for in the budget planning

- ***Contingency plans***. The increase in the VAT rate to 15 percent and the stability of the dividend from Aramco are key components of the planned fiscal consolidation. If either of these pillars of the adjustment were changed, new revenue sources or expenditure savings would need to be identified.

25. The COVID crisis has emphasized the importance of protecting the less well-off. While the parameters of the system are being finalized, the new social security law appears to be an important step to strengthen the framework for income support and is planned to be budget neutral or even generate savings thanks to improved targeting. There will be a guaranteed basic income based on the cost of basic needs for low income households (the bottom 20 percent of the income distribution). Benefits will not be fully withdrawn against income to increase incentives for employment. Staff welcomed these reforms and emphasized that indexation of benefits will be needed on a regular basis (at least annually) to reflect changes in living costs of low-income households. The interactions between the social safety net and other programs such as the Citizens Account Program (CAP) will need to be managed to avoid duplications and ensure consistency. As part of the reforms, other support programs including the CAP and the housing program could be better targeted at low-income households. Finally, while these planned reforms are welcome, increased financial support through the CAP to help offset the VAT rate increase and COLA removal should not await the transition to this system.

26. The authorities emphasized that fiscal sustainability is now the focus of policy and noted that central government debt remains low compared to peers. They were confident that they were on course to achieve budget balance by 2023 due to expenditure restraint, including on the wage bill, further energy and water price reforms, and lower capital spending, while non-oil revenues would increase with an expanding economy. The authorities did not see a case for less fiscal consolidation this year, emphasizing the need to quickly re-establish fiscal sustainability given the challenges that lie ahead. They believed the recovery was well established and the economy is in a strong position to absorb the planned fiscal adjustment. They did not see a need for additional social safety net spending in the near-term as the implementation of the new Social Security Law will take place before year-end and the minimum guaranteed income will reflect the impact of the VAT increase on low-income households. They also noted that support to protect the income of workers had been provided during the crisis through SANED.

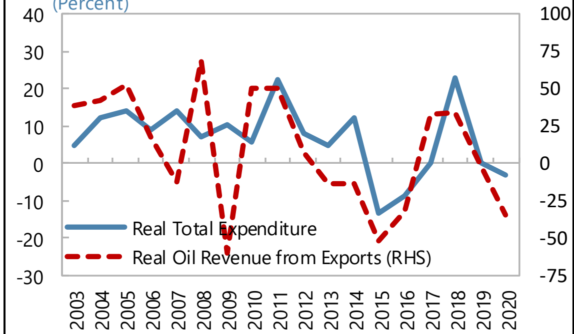
The Fiscal Framework, Transparency, and Governance

27. The fiscal policy framework is developing and can be further strengthened to:

- ***Reduce the procyclicality of fiscal policy.*** In the past, as oil prices have increased so has spending which has added to volatility in the non-oil economy. Greater emphasis on the NEOPD would help delink fiscal policy from oil price volatility. The authorities responded that they are developing a Fiscal Sustainability Program that will delink spending decisions from cyclical variations in oil and non-oil revenues and minimum financial deposit levels for the central government.

- ***Improve expenditure management***. Budget execution has improved, but expenditure variation between budget and outturn was still significant during 2017-19. Moving toward a robust medium-term budget framework is important to strengthen fiscal decision-making, including forward estimates and multiyear costing of new initiatives. The authorities stressed that in addition to continued efforts to raise spending efficiency, significant progress has been made in adopting a medium-term fiscal framework, with technical support from the Fund, and that complementary reforms such as the Treasury Single Account and the Etimad platform for public financial management are supporting fiscal management.

Real Government Expenditure and Exported Oil Revenue Growth
(Percent)



Sources: Country authorities; and IMF staff calculations.

- ***Account for fiscal risks***. Fiscal risks should continue to be closely monitored, including potential contingent liabilities from PPPs and credit guarantees in housing and SME programs.

28. Further progress in fiscal transparency is needed to strengthen governance. This includes revenue and expenditure details, reconciliation between budget and outcomes, and improved data on sectoral spending. Little information has been reported publicly on COVID spending and published fiscal information is more limited than most G20 countries. Data on the broader public sector is needed. While Aramco is now disclosing its financial and operational information, the PIF remains opaque and the lack of disclosure hampers analysis of their operations. The authorities emphasized that they have made considerable strides in improving fiscal transparency including through the ongoing transition from cash to accrual accounting and increased public communication of fiscal developments.

29. The authorities should build on recent progress to increase the accountability and transparency of the public procurement framework. The new public procurement law and its implementing regulations are in effect but some procurement is exempt from the law and these exceptions should be removed as soon as possible. The Etimad platform publishes information on the legal ownership of entities awarded government contracts and is currently limited to users in Saudi Arabia. The authorities should publish information on the beneficial ownership, as defined in the Anti-Money Laundering law, of these entities, alongside a copy of the awarded contracts and provide wider access to such information to increase transparency.

30. The growing role of the PIF hastens the need for a sovereign asset-liability management (SALM) framework. With most public sector assets held outside the central government, the role of the PIF in domestic and foreign investment growing, and financial resources increasingly being transferred between public entities, the characteristics of the public sector balance sheet are changing (Appendix IV). The constitution of an Asset-Liability Management Committee to oversee this work is welcome. The authorities stressed that the development of the SALM framework is a high priority and that they are collecting and analyzing the needed information from key entities.

B. Maintaining Financial Stability While Increasing Financial Access

31. The borrower support programs that SAMA and banks implemented have provided important breathing space to SMEs. SAMA explained that they are regularly assessing the need to continue with the deferred payments program based on the economic and financial situation facing SMEs. This is welcome and staff agreed that announcements of any changes in the program should continue to be made well in advance to allow businesses time to adjust. With the level of non-oil activity now above its pre-COVID level, the need for continued broad-based support to SMEs is becoming less apparent, although staff does not have information for a detailed assessment of the financial situation of SMEs. Nevertheless, with continued uncertainty about the outlook for hard-hit priority sectors such as tourism and hospitality, more targeted support focused on viable SMEs in these sectors may still be needed.

32. The deferred payments program may have masked financial vulnerabilities given the instructions to banks not to change the classification of these loans. The effects on bank asset quality will only become evident once the program ends. Some viable borrowers pre-COVID may face significant challenges due to structural shifts during the pandemic (e.g. more e-commerce). Difficult decisions may be needed in sectors the government is trying to develop such as tourism where recovery could take longer. The authorities noted that the deferred payments program was only available to stage 1 and stage 2 loans (under IFRS9) which gave them comfort about the underlying quality of the SMEs covered. They also emphasized that banks are in a strong position with very low NPLs, robust capital buffers that provide loss-absorbing capacity, and that banks have already increased provisions. SAMA agreed with staff that it will be important to keep stress testing banks and ensure that they carefully assess borrower creditworthiness and provision appropriately. SAMA had introduced open market operations (OMOs) in addition to the issuance of SAMA bills to enhance short-term liquidity management, but bank liquidity remained comfortable during the crisis and little use of OMOs was made.

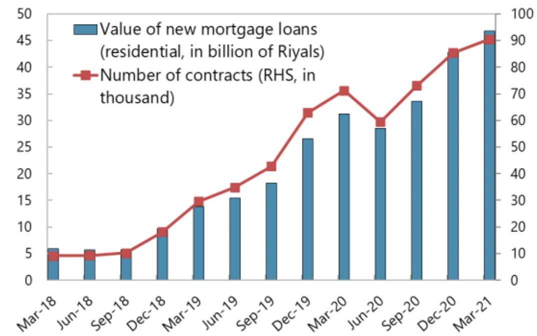
33. Mortgage lending has continued to grow rapidly as government programs have supported housing demand and supply (Figure 9; Box 2). Retail mortgage lending has more than doubled over the past two years to around 18 percent of total bank credit. SAMA and staff agreed that risks to banks still appear limited given debt service limits on borrowers, the low average loan-to-value ratio, and the fact that most repayments are made by salary assignment from borrowers employed in the public sector. Nevertheless, risks need to be carefully monitored and SAMA stressed that they carefully monitor banks and have surveillance systems in place to identify any build-up of vulnerabilities to inform macroprudential policy.

Box 2. The Real Estate Market[1]

The government has introduced programs to raise home ownership rates. Mortgage lending is growing rapidly. At this stage, risks to banks appear limited, but careful monitoring is needed to ensure this remains the case.

The Housing Program is one of the key Vision Realization Programs. It aims to "offer solutions to enable Saudi households to own or benefit from housing according to their needs and finances." The program seeks to increase the supply of housing, particularly affordable housing for lower and middle-income families, develop financing options through banks and finance companies, and improve regulation of the housing market including by reducing the time needed to acquire building permits. The aim under Vision 2030 was to raise the home ownership rate from 47 percent in 2016 to 60 percent by 2020 and further to 70 percent by 2030. The home ownership rate in 2020 was 62 percent.

New Residential Mortgage Loans by Banks



Sources: Saudi Central Bank (SAMA), and IMF staff calculations.

The housing initiatives support both supply and demand and enhance market regulation.

- ***Real estate supply has grown***. Real estate developers added around 344,000 new housing units in 2020—an increase of 4.1 percent from 2019 of which 30 percent was supplied through the partnership with the private sector program (Shrakat) and the developers' platform Etmam (Figure 9). These initiatives ensure access of qualified developers to interest-free financing, provide subsidized or free land for construction, and facilitate licensing and legal permits.

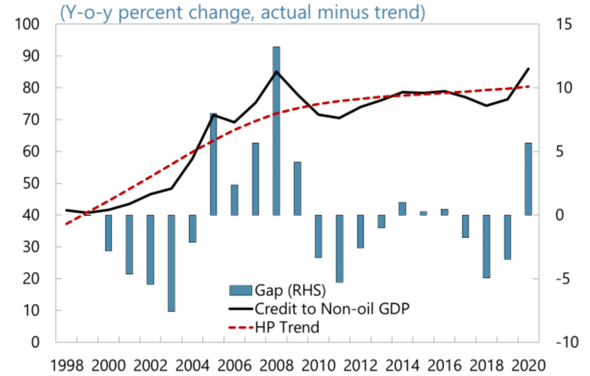
- ***Financing programs have increased.*** The Sakani program provided around 266,000 residential loans and free land packages in 2020. Under this program, beneficiaries can obtain subsidized mortgage loans up to SAR 500,000—they receive a subsidy on the interest ("profit") payment to the lender not on the principal payment according to income level and family size. Low income households can obtain a mortgage guarantee and subsidized loan up to SAR 500,000 or free land parcels. The value of new residential mortgage contracts increased by 84 percent in 2020 to reach SAR 136 billion, of which 96 percent were government subsidized loans. Real estate prices have stabilized in 2020 after falling sharply during 2015-19.

- ***Taxation.*** First home purchases up to SAR 1 million are exempt from the Real Estate Transactions Tax (REET). This 5 percent tax replaced the VAT on real estate transactions in October 2020.

- ***Other initiatives to enhance market regulation and efficiency.*** Digital solutions for homebuyers have speeded eligibility checks and applications and allow easier access to financial products for homebuyers. The Ijar initiative provides digital solutions for the rental market to increase transparency and efficiency, through standardizing electronic rental contracts, establishing the regulatory framework for real estate brokerage firms and providing a digital matching platform.

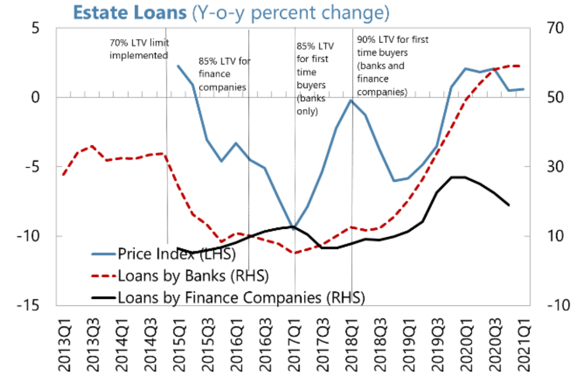
1/ Prepared by Imen Benmohamed.

Bank Credit to Non-oil GDP
(Y-o-y percent change, actual minus trend)



Sources: Country authorities; and IMF staff calculations.

Residential Real Estate Price Index and Retail Real Estate Loans (Y-o-y percent change)



Sources: Country authorities; and IMF staff calculations.

34. In terms of regulatory and legal reforms affecting the central bank and the banking sector (Appendix V):

- **The new central bank law** confirms SAMA's authority over financial institutions under its supervision (not just banks and money exchangers as previously), confirms that SAMA staff cannot be held liable for performing the legal tasks of the institution, establishes a reporting line to the King, and expands SAMA's mandate to include "supporting growth". Many central banks have a dual mandate, and it is important based on international best practices, that price stability is the primary objective followed by financial and economic stability. SAMA staff confirmed that this is indeed the priority ordering of the objectives. The law could also set transparent financial reporting standard (e.g. IFRS) and require that SAMA's accounts be audited in accordance with international financial auditing standards (e.g. IAS).

- **The resolution of systemically important financial institutions law.** The authorities have sought to align the new law with international best practices. Implementing regulations are currently being developed. The new law is a welcome step to strengthen the financial institutions resolution framework and its coverage could be expanded to the entire banking sector with the aim of broadening SAMA's toolkit for dealing swiftly with any bank that may become distressed The law could also clearly establish the relationship between SAMA and the Capital Market Authority (CMA) for financial groups that fall under both entities' control directly rather than leaving this to the implementing regulations. SAMA explained that a bank outside the resolution law could *ex-post* be brought under it in case it contributes to systemic distress and that SAMA and the CMA are working through the implementing regulations to determine lead responsibilities for financial groups.

- **The regulatory and legal framework for Islamic banks.** SAMA is strengthening the legal and regulatory frameworks for Islamic banks operating in the Kingdom to align them with international practices and aim to complete the issuance of revised regulations by 2023. SAMA's review includes ensuring risk and liquidity management and capital adequacy are in line with standards set by the Islamic Financial Services Board.

- **Basel III reforms.** Risk-weights for SME lending were reduced from 100 to 85 percent in September 2020 and it is important that SAMA continues to move ahead with other steps to complete the Basel III reforms within the revised timeline.

- **Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).** Saudi Arabia was granted full membership in FATF in June 2019. The authorities are now implementing an action plan to strengthen the AML/CFT framework and update the national assessment of the ML/TF risks. They are strengthening the monitoring of risks related to the payments system as new non-bank entities enter this market and are considering how to deal with ML/TF risks related to virtual assets. The Public Prosecutors Office has established a department dedicated to ML cases and has issued a manual on how to prosecute such cases. The authorities should continue with their efforts to understand evolving ML/TF risks and strengthen the framework for the confiscation of major proceeds of crime.

35. The impressive pace of capital market reforms has continued (Box 3). The reforms are increasing capital raising options for companies and investment opportunities for savers. The Aramco IPO took place in late-2019, equity derivative products are now permitted, foreign investors can directly trade in domestic debt instruments, and government sukuk issuance has built-out a sovereign yield curve.

36. SAMA and the CMA are supporting the development of Fintech which is maturing rapidly. After graduating from the regulatory sandboxes created by the two entities, 31 companies have received licenses, with an initial focus on payment technologies and equity crowd funding. Staff believe these developments together with the shift toward online banking during the pandemic are creating important opportunities for increasing financial inclusion. At the same time, regulation and supervision of Fintech will need to continue to balance risks and opportunities.

C. The Exchange Rate and External Adjustment

37. Staff agreed with the authorities that the peg remains the best exchange rate option. A more flexible exchange rate could over time support the development of the non-oil tradable sector, enable SAMA to follow a more independent interest rate policy, and enable the real exchange rate to move more closely with the terms of trade. However, a move away from the peg would remove a credible monetary anchor, increase uncertainty, and unnecessarily front-load fiscal adjustment and dent household real incomes with limited competitiveness gains in the near term. External buffers are more than adequate to maintain the peg and fiscal consolidation and competitiveness-enhancing reforms will help strengthen the external position further. The peg should, however, be reviewed regularly to ensure it remains appropriate, and reforms continued to deepen money and capital markets to support a more flexible regime in the future if this becomes appropriate.

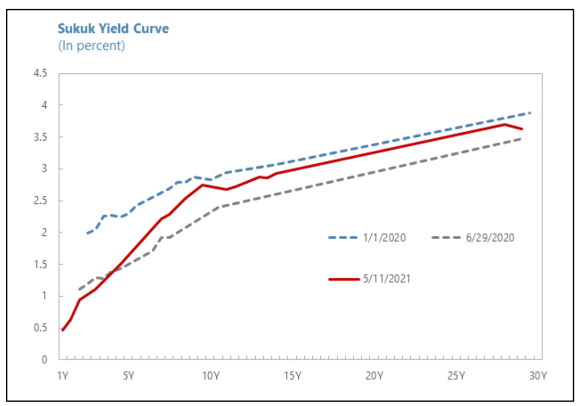
Box 3. Capital Market Reform[1]

Led by the Capital Market Authority and the National Debt Management Center (NDMC), Saudi Arabia has undertaken significant reforms to its equity and debt markets.

Equity market: Foreign investor participation in the Tadawul, the main equity market, has been liberalized since 2015. The market was initially opened in a limited way and over time the rules have been gradually eased to allow a broader range of foreign investors and to increase ownership limits. Now, foreign investors can take controlling stakes in listed companies (subject to approval by the regulator in some sectors and pre-existing restrictions on real estate investments in Mecca/Medina). Market infrastructure has been strengthened including by moving to T+2 settlement, the range of instruments broadened to include derivatives (futures at present, with other derivative instruments planned) and REITs, short selling and borrowing/lending of securities permitted, corporate governance requirements strengthened, transparency enhanced, and issuance processes streamlined. Foreign companies can now list on the Tadawul. A market with less stringent listing requirements (Nomu) was opened for smaller companies in 2017. In December 2019, the world's largest IPO was completed on Tadawul as Aramco listed 1.7 percent of its equity.

Debt market: The Debt Management Office which later became the NDMC was established in 2016 to spearhead the government's debt issuance strategy and to develop the government debt market. The government re-started issuing domestic bonds/sukuk in 2016 and has been issuing bonds and sukuk in global markets. Substantial reforms have been implemented to ensure the success of the domestic issuance program. These include listing government bonds/sukuk on the Tadawul since 2017, establishing a primary dealers network in 2018, publishing an Annual Borrowing Plan (ABP) since 2019 and a monthly issuance calendar, allowing foreigners to invest directly in the market, encouraging retail investors by reducing the minimum denomination size, reducing trading costs, establishing a government sukuk and bond index on Tadawul (FTSE/Russell has also launched a local currency Saudi government bond market index), and encouraging the establishment of debt mutual funds and ETFs. For the corporate market, issuance criteria and cost have been simplified/reduced, including by allowing medium-term note programs. Previous uncertainty about the treatment of sukuk for Zakat purposes has been resolved by the tax authority.

A well-functioning and increasingly liquid government debt market has been developed. Government debt has increased from less than 2 percent of GDP at end-2014 to 31 percent of GDP at end-2020, with around 60 percent being issued domestically mostly in the form of sukuk. The government has issued sukuk at longer maturity (a 30-year sukuk was issued in 2019) and a sukuk yield curve has been established (Figure). A secondary market in government securities is developing with the value of trading increasing to SAR 70 billion in 2020 from SAR 10 billion in 2019. On the corporate side, progress has been limited. Sukuk issuance has been solely in the private placement market in recent years.



There are signs that equity financing is becoming more attractive. Since 2017, 24 companies have listed (13 on the main market and 11 on Nomu) compared to 18 companies during 2013-16. Saudi Arabia is now (since 2019) included in the FTSE/Russell Global Equity Index and the MSCI Emerging Market Index. 17 REITs are listed helping broaden the investor base in the real estate market. There has been an increase in foreign ownership in the Tadawul from 8 percent of market value at end-2018 to 12 percent currently.

1/ Prepared by Tim Callen.

D. Reforms for Strong, Sustained, Inclusive, and Green Growth Post-COVID

38. Planned structural reforms will need to be fully implemented. Such reforms would limit the risk of any longer-term output losses from the COVID crisis, raise potential output, and help diversify and green the economy (Appendix VI). Reforms focused on boosting productivity and raising labor inputs will be particularly important as these inputs have contributed less to growth than capital accumulation in recent years.

39. The government has announced a National Investment Strategy (NIS) to boost investment. The NIS targets SAR 12 trillion of domestic investment over the next 10 years (to 2030) from a combination of increased investments by the PIF, large Saudi companies (Aramco, SABIC, and others), other local companies, and by attracting FDI. With the full details of the NIS still to be announced, staff was not able to do an analysis of the program but emphasized the importance of assessing the full macroeconomic impact including on the fiscal and external accounts. The staff's projections do not account for the potential impact of the NIS.

40. Public sector interventions can help overcome the reluctance of private companies to enter new or riskier sectors but need to be carefully implemented. Public companies have the financial firepower and political support to make large investments and take risks that the private sector is unable or unwilling to do. At the same time, there is often no market test before large-scale public interventions are made and public sector involvement may crowd out private investment. A careful balance needs to be struck. Staff, based on analysis in the 2019 Article IV report, emphasized the importance of any public sector involvement having an announced timeframe and clear exit plan to encourage private involvement. The authorities concurred and said the PIF Board has set a 5-year horizon after which it will exit its investments in domestic companies and sectors.

41. The focus of structural reforms should remain on improving the environment for private sector investment. Specifically:

- ***A stronger legal environment.*** The announced program to codify legal practices to create more consistency and certainty of legal outcomes is welcome and will strengthen the legal infrastructure for businesses and individuals.

- ***The PPP/privatization*.** The government is aiming to increase the volume of PPPs and has identified existing assets for potential sale. The aim is to increase the private sector involvement in 16 key industries, infrastructure projects, and public services. The Private Sector Participation Law was passed in March 2021 with implementation from July. The Law provides a regulatory framework for PPPs and privatizations, including by offering protections for private companies and foreign investors, and it exempts privatizations from employment nationalization requirements. The program should increase the efficiency of capital allocation and service provision for the government, but contingent fiscal risks should be identified and managed.

- ***The potential of digitalization should continue to be developed***. Ensuring high speed internet access for all segments of the population and areas of the country is important to maximize the benefits.

- ***Governance and anti-corruption policies***. Responsibilities and powers to combat corruption have been consolidated within the Oversight and Anti-Corruption Authority (Nazaha). An anti-corruption strategy is being developed, and the risks of corruption are being assessed according to a recently developed methodology. Ongoing efforts to strengthen the anti-corruption legal framework and to sharpen the understanding of evolving risks of corruption and to shape the national anti-corruption strategy accordingly should continue. An asset declaration law should be enacted.

- ***SME and local content development***. Staff supports ongoing initiatives to help SMEs and new entrepreneurs including by strengthening the ecosystem and improving access to finance, but contingent fiscal risks need to be monitored. Benefits and costs will need to be managed to avoid undue costs to the consumer. In this regard, although overall tariffs remain low, staff does not believe that the custom duty increases last year are helpful; instead the competitiveness of local production needs to be addressed directly.

42. The authorities emphasized that they remain fully committed to the Vision 2030 reforms. They believed that the benefits of the reforms over the past 5 years were evident in the resilience of the economy to the COVID-19 pandemic. While acknowledging that the large transformation envisaged under Vision 2030 entails uncertainties, they believed that the private sector has gained confidence in the reforms and welcome the direction they are going. They noted the strong partnership between the public and private sectors as envisaged in the "Shareek" program which will encourage investments under the NIS through investment tax credits, access to low-cost financing, and regulatory reforms, and did not see risks of crowding-out. Rather, they believed that as the public sector leads the development on new sectors this will create opportunities for the private sector in the emerging supply chains.

43. Policy measures are needed to reduce Green House Gas (GHG) emissions and support greener growth. The high-level announcement of the Saudi Climate Strategy is a welcome commitment to reducing GHG emissions although at this stage specific plans are not available. Emissions in the power and transport sectors have declined in recent years, but data is not available for other sectors (Figure 10; Box 4). In addition to further reducing energy price subsidies, stepped-up green investments are planned, including investments to switch inputs to electricity generation from oil to a gas/renewables mix and to develop alternate low-carbon energy sources for domestic use and export. The authorities indicated that the detailed climate strategy would be released by year-end. They emphasized that the approach to reducing GHG emissions would need to vary across countries depending on circumstances. They believed that the reforms they are embarking on to create a Circular Carbon Economy, as endorsed by the G20, will play a key role in reducing GHG emissions.

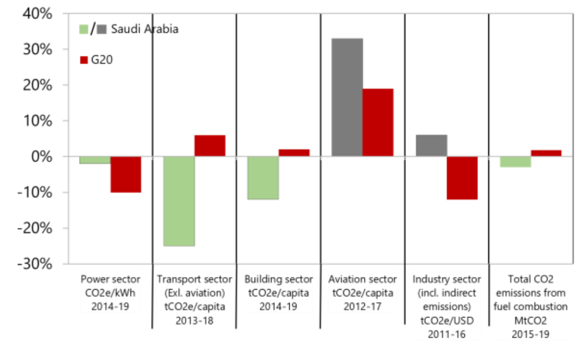
Box 4. Climate Actions and Green Growth[1]

A range of actions have been announced to reduce greenhouse gas emissions (GHG) and support greener growth. *The decline in GHG emissions is encouraging, but emissions remain high on a per capita basis. The scope for further policy action is large.*

Climate actions have accelerated since 2018, leading to lower carbon emissions. These actions have targeted the energy (renewables, Carbon Capture, Utilization and Storage by Aramco), industry, transportation, building, and water and agriculture sectors. Further, energy price reforms, which were started in 2016, have continued. Emissions from fuel combustion, which accounts for the bulk of GHG emissions in Saudi Arabia, declined by 3 percent during 2015-19 against an increase by 2 percent in the G20 countries. This was driven by a faster decline in emissions in transportation and building sectors. Carbon emissions in these sectors dropped by 25 percent and 12 percent, respectively, while increasing by 6 percent and 2 percent in the G20 countries. Yet, per capita GHG emissions in Saudi Arabia remain above the G-20 and OECD averages.

Recent trends in energy-related carbon emissions

(In percent, by sector)



Sources: Enerdata, 2020

Renewable energy projects account for the bulk of climate actions in 2019-20. With the announcement of the third procurement round in 2020, investments in renewable energy are expected to reach $50 billion by 2023 and meet 49 percent of domestically needed electricity in 2030 (0.2 percent in 2019). This is part of the Liquid Displacement Program that aims to shift the energy mix towards renewables by phasing out 1 million b/d of domestic oil consumption by 2030, which will help reduce GHG emissions and meet the increasing domestic demand for electricity in a more climate-friendly way. On financing, the Saudi Industrial Development Fund (SIDF) launched a credit facility program of $28 billion (1.4 percent of non-oil GDP) in September 2019 to support Saudi companies investing in renewable energy.

The scope for further action remains large. The Saudi Climate Strategy has recently been launched which aims to reduce carbon emissions through clean hydrocarbon technologies. This complements the government's efforts to reduce fossil fuels subsidies which declined by 60 percent since 2012 to reach $28.7 billion in 2019 (Figure 10). Further actions to improve energy efficiency in residential buildings and industry, develop water protection and conservation regulations, increase resilience of infrastructure to extreme weather events, and upgrade the regulatory framework for green financing and renewable energy are warranted. With the depletion of natural sources of water and the high cost of desalination, Saudi Arabia will need to improve the efficiency of water desalination plants through investment in the latest technology, expand their capacity, and restart water price reforms to reduce consumption. In 2019, the government launched the Qatrah program to rationalize water usage with the target of reducing daily per capita consumption by 43 percent by 2030[2] and aims to add around 30 new seawater plants by 2030.

____

1/ Prepared by Imen Benmohamed.

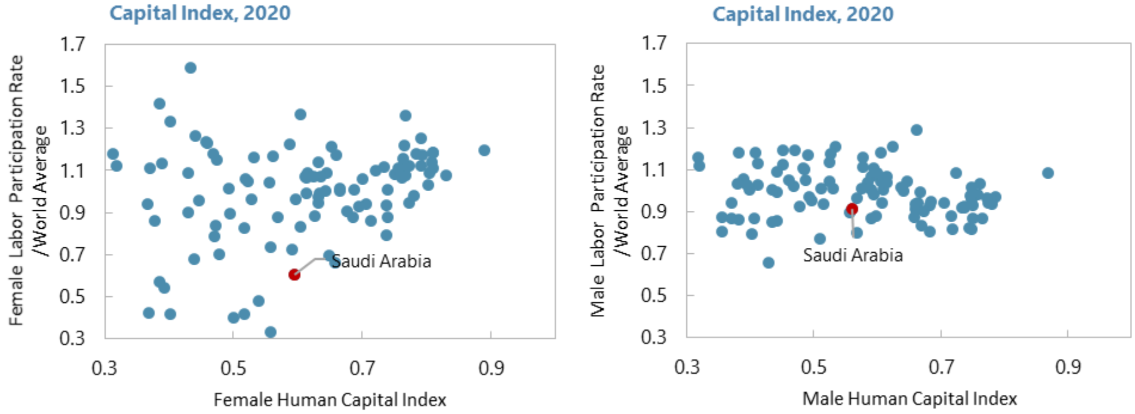
2/ Saudi Arabia is the world's third largest per capita consumer of water.

44. Announced labor market reforms should be fully implemented and reforms to strengthen human capital accelerated. In particular:

- **Female labor participation.** The Saudi female labor force participation rate is estimated to have increased by 13 percentage points to over 33 percent over the past two years. With formal restrictions removed and legislation establishing the equality of women in the workplace implemented, elevating more women to senior public and private sector positions will continue to build momentum for increased female labor force participation. Mandatory maternity leave benefits (10 weeks of paid leave at present) could be raised and programs offering subsidized transportation and childcare to lower income women expanded as needed.

Labor Force Participation Rates and Per Capita GDP

Female Labor Force Participation and Human Capital Index, 2020 | **Male Labor Force Participation and Human Capital Index, 2020**

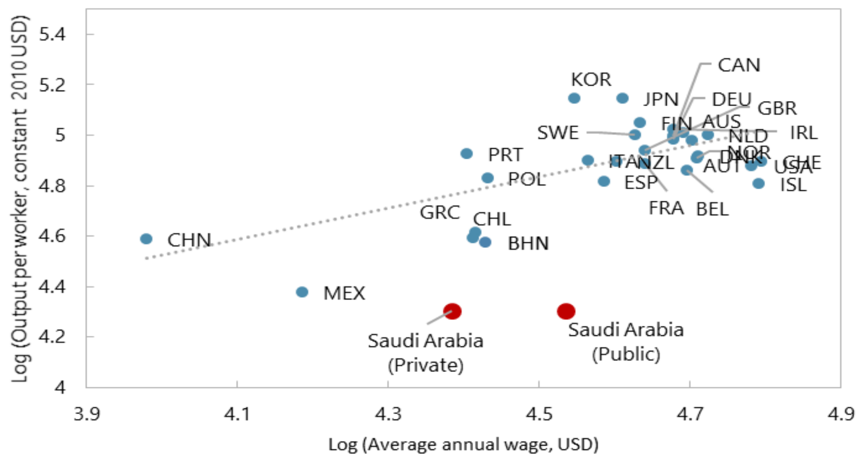


Source: World Bank Human Capital Index, WEO, and IMF staff calculations.
Note: These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations. The Human Capital Index is based on expected years of schooling, performance on international student tests (TIMSS), and the health environment of youth. TIMSS is an international assessment of the mathematics and science knowledge of students around the world, conducted by the International Association for the Evaluation of Educational Achievement (IEA) every four years since 1995.

- ***Increase mobility of expatriate labor.*** Reforms to the Kafala sponsorship system for expatriate workers in the private sector are very important. With strong enforcement, the new regulations will give foreign workers greater freedom of movement which will benefit their wages and productivity, attract higher skilled expatriates, and reduce incentives for firms to employ expatriates over nationals.

- ***Increase competitiveness of Saudi workers.*** Wage expectations of Saudis are not in line with productivity. Developing a competitive and diversified private sector will be difficult unless this is addressed. The government should clearly communicate that public sector jobs will be limited in the future to reduce the reservation wage for nationals to take private sector jobs. Educational outcomes need to be improved by focusing on improved delivery within the existing (or lower) spending envelope.

Average Annual Wage and Productivity 1/



Sources: OECD; International Labor Organization; World Bank; country authorities; and IMF staff calculations.

1/ Productivity for Saudi Arabia and Bahrain is estimated using the relationship between the quality of human capital (based on the World Bank's Human Capital Index) and productivity in the sample of countries shown, as direct data on productivity of nationals in Saudi Arabia and Bahrain is not available.

45. **The authorities emphasized that increasing the employment of Saudis in the private sector is a top policy priority.** Reforms to boost job opportunities for Saudis would continue with the aim of further increasing female labor force participation rates and reducing unemployment, particularly of women and youth.

E. Statistical Issues

46. **The availability of economic data continues to improve and Saudi Arabia's subscription to SDDS in September 2019 is very welcome.** Data provision to the Fund is adequate for surveillance. Nevertheless, there are areas that need further improvements including labor market, foreign direct investment, and monetary statistics.

STAFF APPRAISAL

47. **The authorities responded quickly and decisively to the COVID-19 crisis and the economic recovery is ongoing.** Past reforms played a key role in helping the economy to manage the crisis, while fiscal, financial, and employment support programs introduced in March/April 2020 helped cushion the impact of the pandemic on businesses and workers. The recovery is expected to continue and risks to the growth outlook are balanced. Policymakers need to continue to carefully manage the exit from the remaining COVID-related support and continue the Vision 2030 reform agenda to secure strong, sustained, diversified, inclusive, and green growth.

48. **Fiscal consolidation is necessary but should be carefully calibrated in the short-term to continue to support the ongoing recovery**. Important structural fiscal reforms have been implemented over the past year including the VAT rate increase, the removal of the COLA, the

increased focus on capital spending efficiency, and further domestic energy price reforms. These reforms should not be reversed. Nevertheless, the pace of fiscal consolidation could be slowed moderately this year by increasing spending on the social safety net to support low-income households. The planned reforms to the social safety net to introduce a minimum guaranteed income for lower income households are welcome but increased financial support to low-income households through the Citizens Account Program should not await the transition to this system. There is also fiscal space to increase healthcare spending if needed, while if the recovery stalls, the planned reduction in government capital spending could be slowed, while keeping the medium-term capital spending envelope unchanged and off-budget programs, including the SANED employment support, could be expanded again.

49. The medium-term fiscal and public financial management frameworks should continue to be strengthened. The establishment of a high-level Sovereign Asset Liability Management Committee is welcome and the development of the SALM framework should remain a high priority. Steps to further strengthen fiscal transparency are needed, including by publishing more detailed budget information and broadening the coverage of fiscal data beyond the central government. Fiscal risks should continue to be monitored. The introduction of Etimad and the public procurement law have strengthened government financial management. Remaining exemptions to the public procurement law should be removed.

50. SAMA's support measures provided important breathing space to SMEs during the crisis. The need to continue with the deferred payments program should continue to be assessed regularly based on incoming information on the economic and financial situation of SMEs. With the level of non-oil activity now above its pre-COVID level, the need for continued broad-based support to SMEs is becoming less apparent, although targeted support to viable companies in hard-hit priority sectors such as tourism and hospitality may continue to be needed.

51. Banks are well-capitalized and liquid, and the financial sector continues to be well-regulated and supervised by SAMA. Nevertheless, the loan deferral program will likely have masked some financial vulnerabilities and SAMA will need to continue to ensure that banks carefully assess borrower creditworthiness, conduct stress-tests, and further increase provisioning if needed. Efforts to strengthen the financial sector legal and regulatory frameworks are welcome. The impressive pace of capital market reforms has continued, increasing capital raising options for companies and investment opportunities for savers. Fintech is showing promise in delivering innovative financial solutions that benefit SMEs and others who are less well-served by banks.

52. The exchange rate peg continues to serve Saudi Arabia well given the current economic structure. The external balance sheet remains strong and SAMA's foreign exchange reserves are at very comfortable levels. The external position in 2020 was moderately weaker than warranted by medium-term fundamentals and desirable policies. Fiscal consolidation and competitiveness-enhancing reforms will help strengthen the external position.

53. Structural reforms should continue to be implemented to secure strong, sustained, inclusive, diversified, and greener growth. The program to codify legal practices is welcome. The

PPP/asset sales program can increase the efficiency of capital allocation and service provision for the government, but potential contingent liabilities need to be carefully monitored. The growing role of digitalization and the move to e-government and e-commerce have the potential to boost productivity given the young and tech-savvy population. Ongoing initiatives to support SMEs and entrepreneurs are welcome.

54. Public sector interventions to develop new sectors need to be carefully implemented. Public companies can make large investments and take risks that the private sector is unable or unwilling to do but there is often no market test before large-scale public interventions while public sector involvement may crowd-out private investment. A careful balance needs to be struck. Public sector involvement should have an announced timeframe and a clear exit plan. The macroeconomic implications of the ambitious NIS program will need to be carefully assessed.

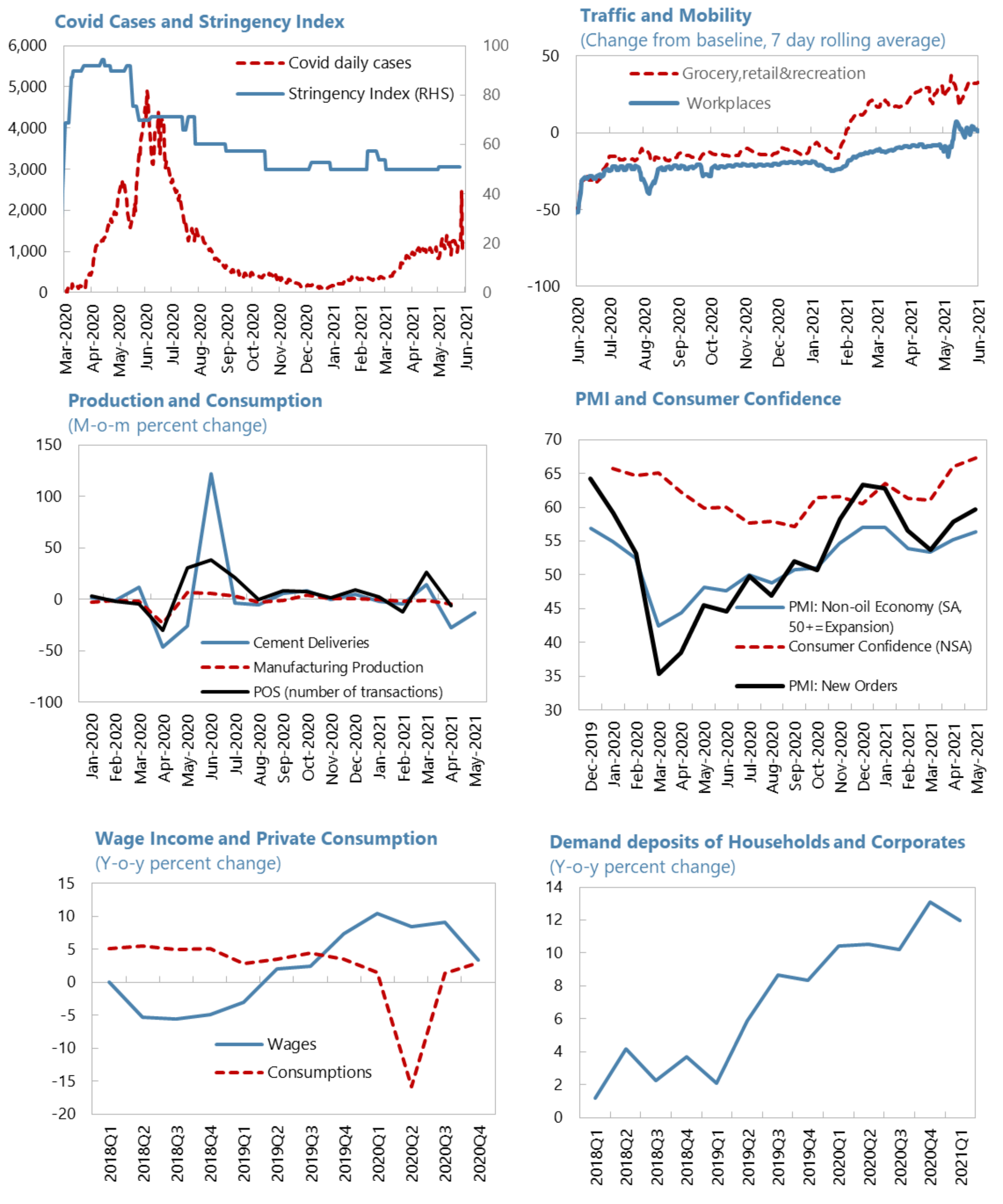
55. Investments and other policy measures are needed to support greener growth and reduce GHGs. The Saudi Arabia Green Initiative is a welcome commitment to reduce emissions, but more specific plans on how Saudi Arabia plans to meet its commitments are needed. In addition to continuing to reduce domestic energy and water price subsidies, stepped-up green investments have the potential to boost growth and employment and reduce GHG emissions. The potential of renewable energy is large and should attract domestic and foreign investors given the right regulatory and financial environments.

56. Important labor market reforms are continuing. The rapid increase in labor market participation of Saudi females will help boost productivity, growth, and household incomes. Reforms to the Kafala sponsorship system for expatriate workers in the private sector are very welcome. With strong enforcement, the new regulations will give foreign workers greater freedom of movement which will benefit their wages and productivity. Increasing the competitiveness of Saudi workers in the private sector is key to the success of reform agenda. Improving education and vocational training needs to be a continued focus of policy while a clear message from policymakers that future job opportunities in the public sector will be limited will reduce the reservation wage of Saudi workers in the private sector.

57. Improvements in economic data are welcome, but gaps remain. Labor market, foreign direct investment, and monetary statistics are priority areas.

58. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Saudi Arabia: Economic and Health Impact of COVID-19



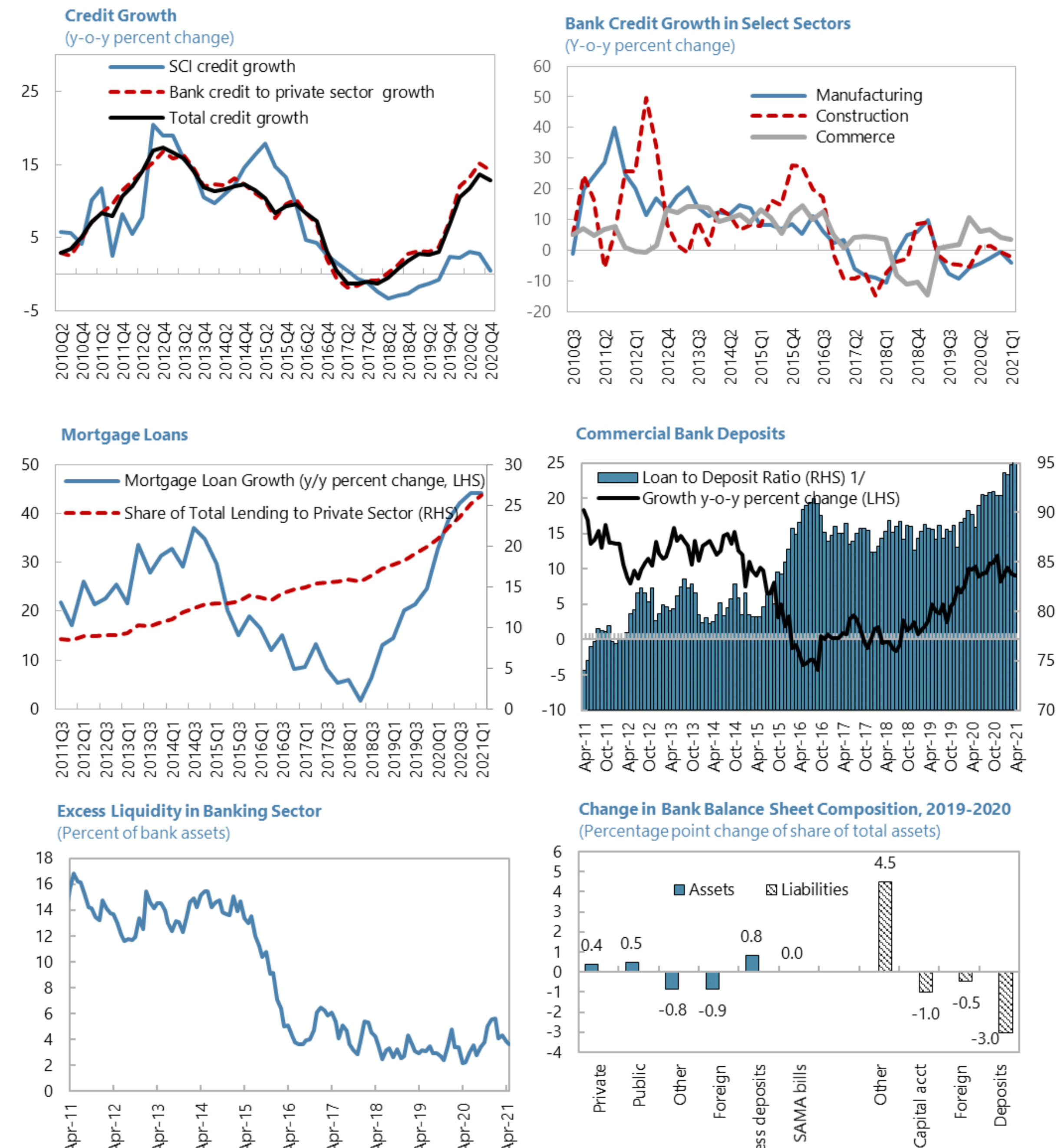
Sources: Google; Oxford University, Johns Hopkins University; IHS Markit; IPSOS; Country authorities and IMF staff calculations.

Figure 2. Saudi Arabia: Corporate Sector Indicators

Sources: S&P Capital IQ; and IMF staff calculations.

1/ Not including Saudi Aramco.

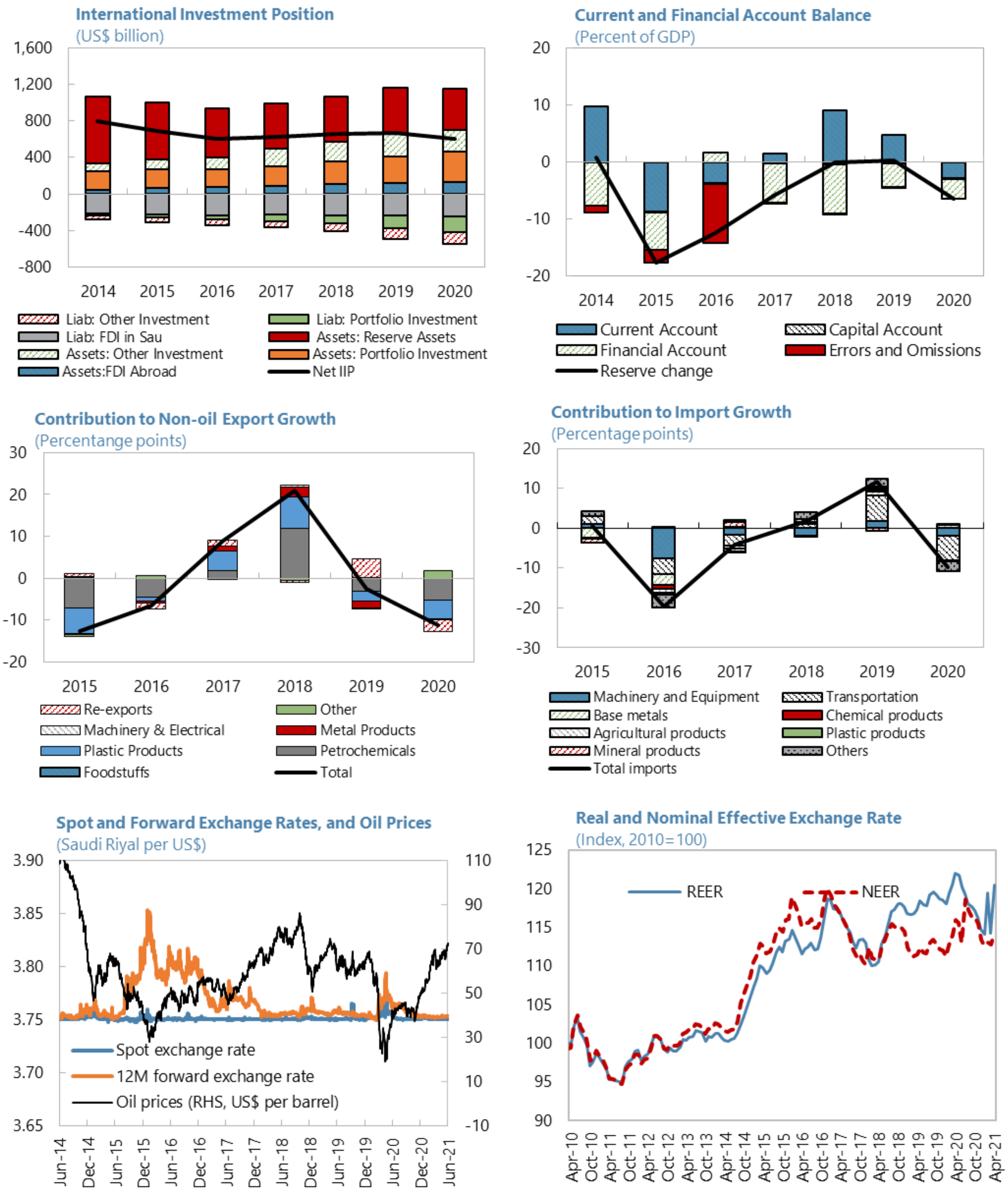
Figure 3. Saudi Arabia: Money and Credit Developments



Sources: Haver; Reuters; and IMF staff calculations.

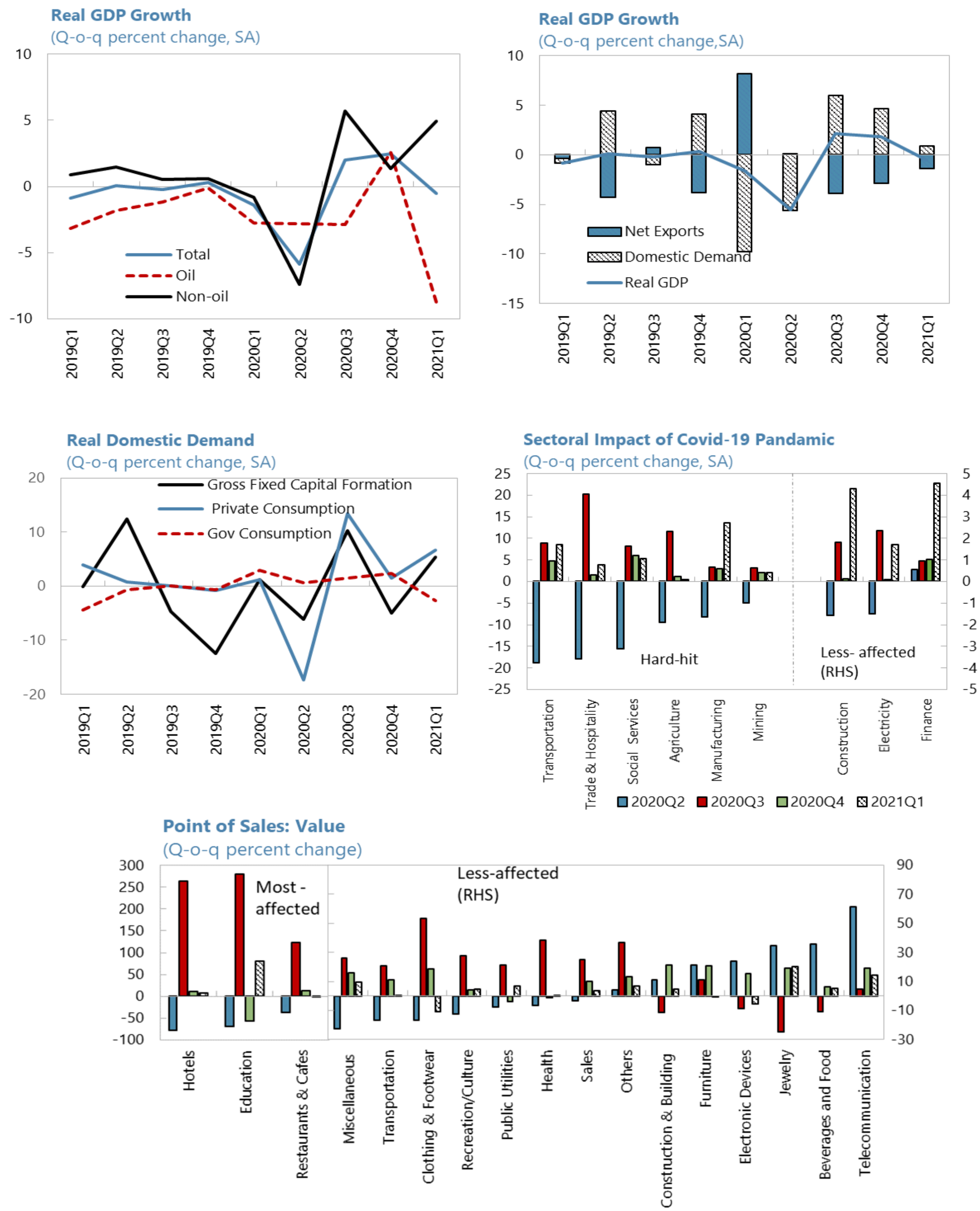
1/ Loan to deposit ratio is calculated by staff as the ratio of total bank credit to total bank deposits.

Figure 4. Saudi Arabia: External Sector Developments



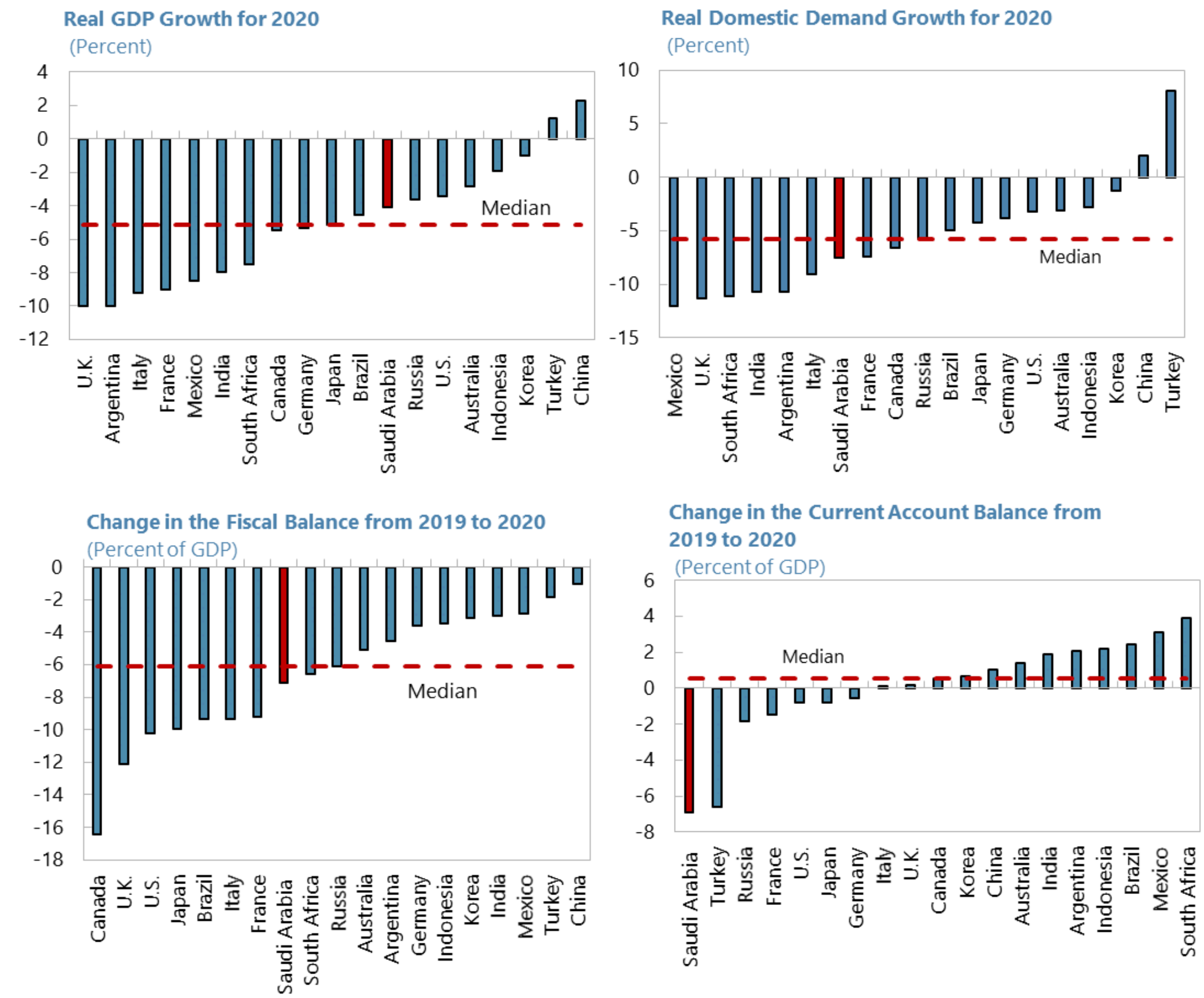
Sources: Country authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Figure 5. Saudi Arabia: How COVID Affected GDP



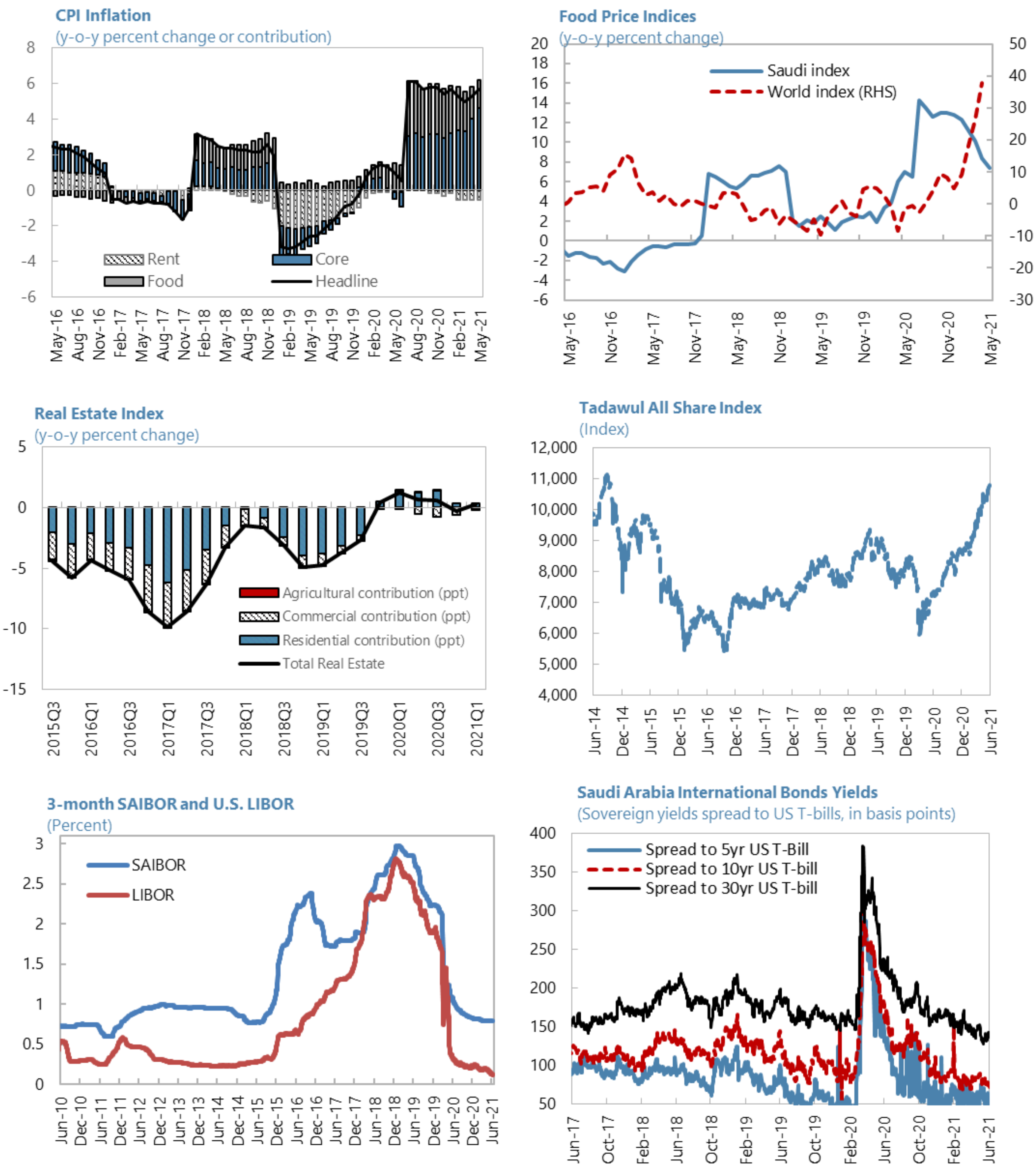
Sources: Country authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Figure 6. Saudi Arabia: Growth, Fiscal, and Current Account Outcomes in Saudi Arabia and the G20



Sources: Country authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

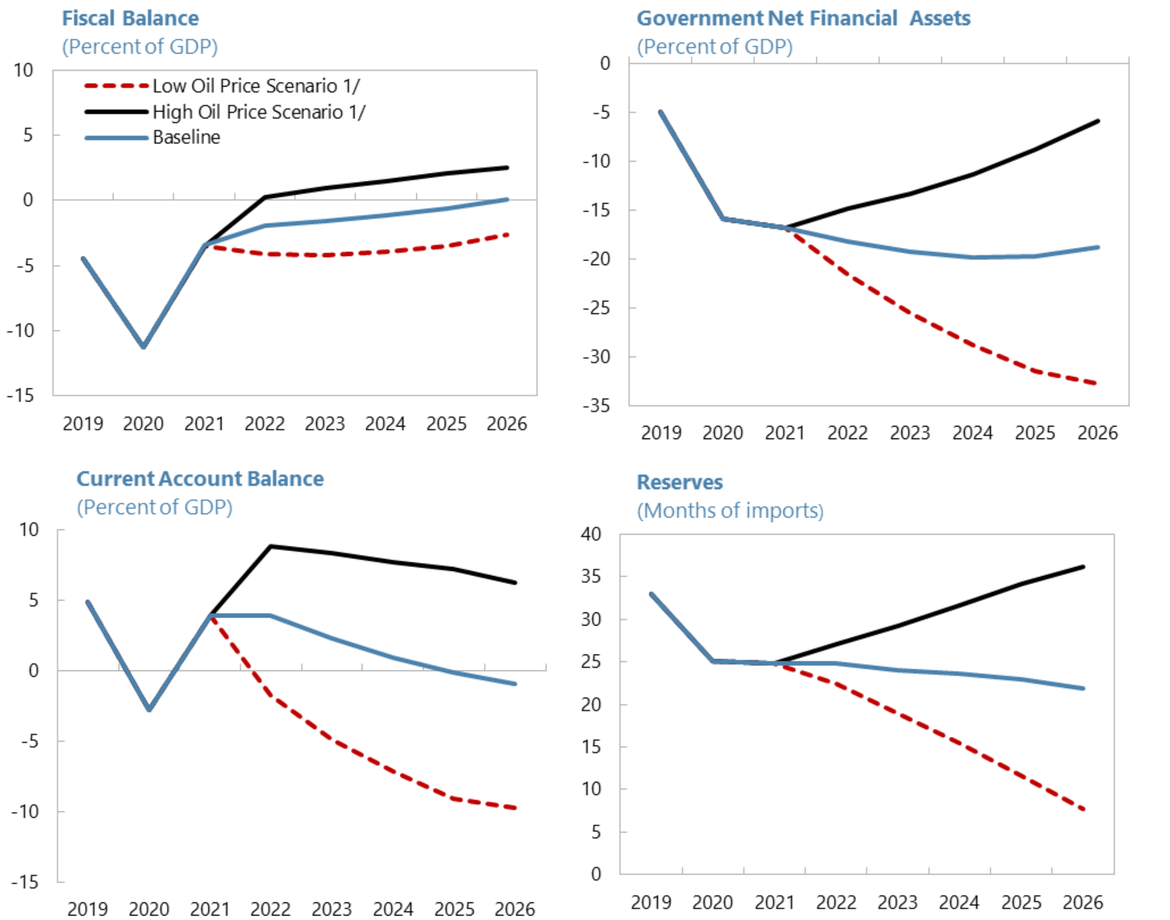
Figure 7. Saudi Arabia: Inflation and Financial Market Developments



Sources:

Country authorities; Haver Analytics; Markit; Bloomberg; and IMF staff calculations.

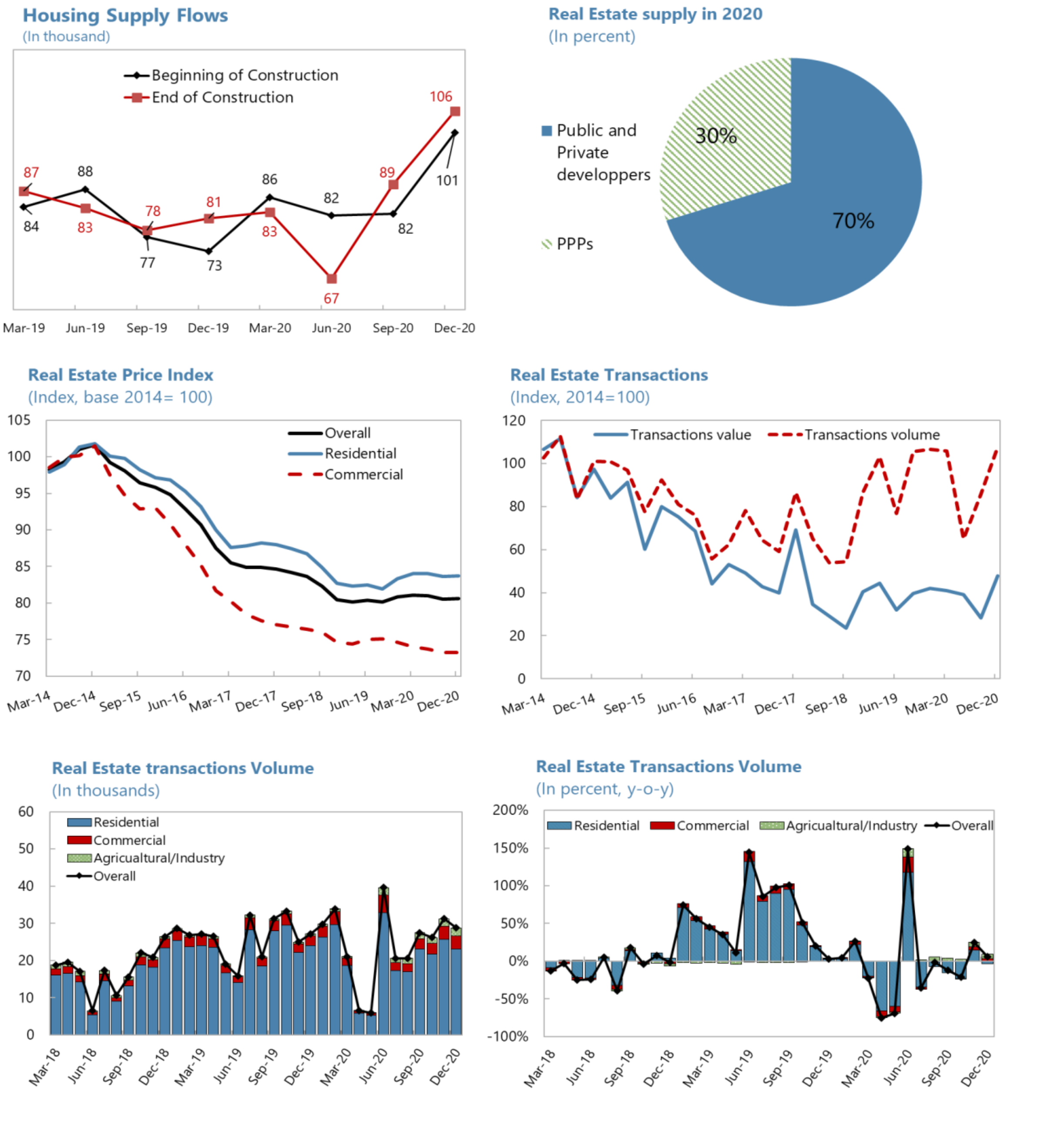
Figure 8. Saudi Arabia: Upside/Downside Oil Price Scenarios 1/



Source: IMF staff calculations.

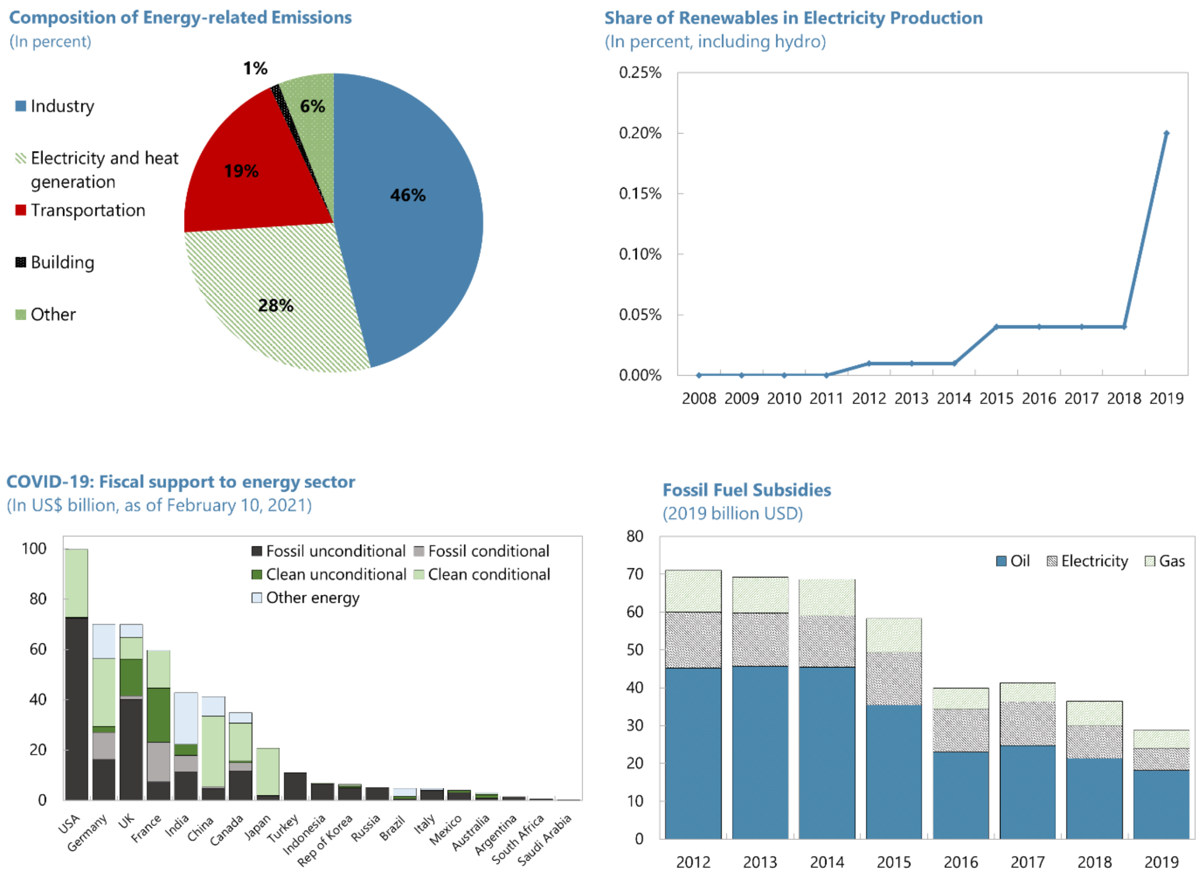
1/ The low oil price scenario assumes the oil price is one standard deviation below the WEO oil price from 2022 to 2026. The high oil price scenario assumes the oil price is one standard deviation above the WEO oil price for that same time period. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

Figure 9. Saudi Arabia: Housing Market Developments



Sources: Ministry of Justice; Ministry of Housing; GASTAT; SAMA; and IMF staff calculations.

Figure 10. Saudi Arabia: Trends in Carbon Emissions and Energy Sector Subsidies



Sources: IEA; Enervate, 2020; Energy Policy Tracker; and IMF staff calculations

Table 1. Saudi Arabia: Selected Economic Indicators, 2019–26

	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
			(Percent change; unless otherwise indicated)					
National income and prices								
Crude oil production (million of barrels per day)	9.8	9.2	9.0	9.8	10.0	10.1	10.3	10.4
Average oil export price (U.S. dollars per barrel)[1]	65.9	42.7	67.4	63.0	59.8	57.7	56.4	55.7
Nominal GDP (SAR billions)	2,974	2,625	3,122	3,230	3,317	3,431	3,563	3,721
Nominal GDP (US$ billions)	793	700	833	861	884	915	950	992
Nominal non-oil GDP (SAR billions)	2,026	1,996	2,164	2,276	2,395	2,525	2,661	2,805
Nominal GDP per capita (US$)	23,174	19,996	23,480	23,816	23,975	24,317	24,755	25,348
Real GDP	0.3	-4.1	2.4	4.8	2.8	2.8	2.8	2.8
Oil	-3.6	-6.7	-0.4	6.8	1.8	1.8	1.7	1.7
Non-oil	3.3	-2.3	4.3	3.6	3.5	3.5	3.5	3.5
Real GDP—public sector	2.2	-0.5	0.7	0.7	0.7	0.7	0.7	0.7
Real GDP—private sector	3.8	-3.1	5.8	4.8	4.7	4.6	4.5	4.5
Consumer price index (avg)	-2.1	3.4	3.2	2.1	2.0	2.0	2.0	2.0
External sector								
Exports f.o.b.	-11.1	-33.5	43.3	2.5	-2.6	-1.0	0.0	0.9
Oil	-13.4	-40.5	54.9	3.2	-3.6	-1.9	-0.8	0.1
Imports f.o.b.	11.7	-10.2	10.5	3.9	4.6	5.7	5.7	5.5
Current account balance (percent of GDP)	4.8	-2.8	3.9	3.9	2.3	0.9	-0.1	-1.0
Export volume	-6.4	-5.1	-0.9	6.4	1.7	2.1	2.1	2.3
Import volume	10.1	-9.7	0.4	4.5	4.2	4.1	4.1	4.2
Terms of trade	-5.6	-34.2	40.7	-4.9	-5.5	-5.0	-3.8	-2.7
Money and credit								
Net foreign assets	-1.7	-8.9	0.8	2.7	0.8	1.6	0.2	-0.9
Net domestic assets	17.8	26.2	13.9	5.5	6.5	3.9	4.7	4.5
Of which: claims on private sector	7.0	14.0	11.7	4.5	4.9	5.2	5.6	5.6
Money and quasi-money (M3)	7.1	8.3	6.8	4.0	4.8	5.1	5.3	5.3
3-month Interbank rate (percent p.a.)[2]	2.2	0.9	0.8	...	...	...	...	...
			(Percent of GDP)					
Central government finances								
Revenue	31.2	29.7	28.6	28.8	28.8	28.8	28.9	28.9
Of which: oil	20.0	15.7	16.4	16.6	16.3	16.1	16.0	15.9
Expenditure	35.6	41.0	32.0	30.7	30.4	30.0	29.5	28.9
Expense	29.9	35.1	28.8	27.9	27.7	27.2	26.7	26.1
Net acquisition of non-financial assets	5.7	5.9	3.2	2.8	2.7	2.8	2.8	2.8
Net lending (+)/borrowing (-)	-4.5	-11.3	-3.5	-1.9	-1.6	-1.2	-0.6	0.0
Excluding oil revenue	-24.4	-27.0	-19.9	-18.5	-17.9	-17.2	-16.6	-15.9
Non-oil primary balance/non-oil GDP	-35.9	-38.1	-28.2	-25.7	-24.0	-22.7	-21.4	-20.2
Non-exported oil primary balance/non-oil GDP	-33.5	-36.1	-25.9	-22.5	-20.5	-18.7	-16.9	-15.1
Central government deposits at SAMA	17.8	16.6	13.2	12.2	10.7	11.5	11.8	11.5
Central government gross debt	22.8	32.5	30.0	30.4	30.0	31.3	31.5	30.4
Central government net financial assets	-5.0	-15.9	-16.8	-18.2	-19.3	-19.8	-19.7	-18.8
Memorandum items:								
SAMA's total net foreign assets (US$ billions)	494.0	449.2	455.5	470.7	477.3	487.9	491.7	489.9
In months of imports of goods and services[3]	33.0	25.1	24.8	24.8	24.1	23.6	22.9	21.9
Imports goods & services/GDP	27.6	25.7	25.8	25.6	25.8	26.0	26.1	26.1
Real effective exchange rate (2010=100, end of period)[2]	113.4	113.4	112.6	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar[2]	3.75	3.75	3.75	...	...	...	...	...
Population (millions)	34.2	35.0	35.5	36.2	36.9	37.6	38.4	39.1
Unemployment rate (nationals)	12.0	12.6	...	...	...	...	...	...
Unemployment rate (overall)	5.7	7.4	...	...	...	...	...	...
Employment growth (percent change)	6.8	-0.5	...	...	...	...	...	...
All-Shares Price Index (TASI)[2]	8,389	8,760	10,790	...	...	...	...	...

Sources: Saudi Arabian authorities; and IMF staff estimates and projections.

[1] Includes refined products.

[2] For 2021, data is latest available.

[3] Next 12 months.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2019–26

	2019	2020	Budget 2021	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
				(Billions of Saudi Arabian riyals)					
Revenue	927	779	849	892	931	955	989	1,030	1,077
Oil	594	413		512	536	540	552	570	592
Oil revenues from exports	545	373		460	464	456	451	450	449
Oil revenues from energy price reforms	49	40		52	71	84	100	120	143
Non-oil	333	366		380	395	415	437	460	485
Tax revenues	175	189	257	259	279	293	309	326	344
Taxes on income, profits, and capital gains	17	18	13	16	19	20	21	22	23
Taxes on goods and services (includes excises)	110	126	209	202	212	223	235	247	261
Taxes on international trade and transactions	17	18	17	23	24	25	26	28	29
Other taxes (including ZAKAT)	30	27	18	18	25	26	28	29	31
Non-oil non-tax revenues	158	176		121	116	122	128	134	141
Property income (excluding oil)	22	74		20	20	20	20	20	20
Sales of goods and services	33	26		27	28	30	31	33	35
Fines, penalties, and forfeits	10	9		11	11	12	12	13	14
Other revenues	93	67		64	57	60	64	68	73
Expenditure	1,059	1,076	990	1,000	993	1,007	1,028	1,053	1,076
Expense	890	921	888	899	901	917	934	953	971
Employee compensation [1]	505	495	491	497	501	506	512	517	523
Use of goods and services	161	203	192	192	184	186	188	190	192
Interest payments	21	24	37	29	34	37	39	43	46
Domestic	11	13		16	20	22	24	26	28
Foreign	10	11		13	14	15	15	17	18
Support (subsidies)	23	28	22	26	24	23	24	24	25
Social benefits [2]	82	69	63	68	71	75	79	83	88
Grants	1	4	0	3	1	1	1	1	1
Other expenses	97	97	83	85	87	89	92	94	97
Net acquisition of non-financial assets	169	155	101	101	92	90	95	100	105
Net lending (+)/borrowing (-)	**-132.4**	**-297**	**-141**	**-108**	**-63**	**-53**	**-40**	**-23**	**1**
				(In percent of GDP)					
Revenue	31.2	29.7	29.6	28.6	28.8	28.8	28.8	28.9	28.9
Oil	20.0	15.7		16.4	16.6	16.3	16.1	16.0	15.9
Oil revenues from exports	18.3	14.2		14.7	14.4	13.7	13.1	12.6	12.1
Oil revenues from energy price reforms	1.6	1.5		1.7	2.2	2.5	2.9	3.4	3.8
Non-oil	11.2	13.9		12.2	12.2	12.5	12.7	12.9	13.0
Tax revenues	5.9	7.2	9.0	8.3	8.6	8.8	9.0	9.2	9.2
Taxes on income, profits, and capital gains	0.6	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Taxes on goods and services (includes excises)	3.7	4.8	7.3	6.5	6.6	6.7	6.8	6.9	7.0
Taxes on international trade and transactions	0.6	0.7	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Other taxes (including ZAKAT)	1.0	1.0	0.6	0.6	0.8	0.8	0.8	0.8	0.8
Non-oil non-tax revenues	5.3	6.7		3.9	3.6	3.7	3.7	3.8	3.8
Property income (excluding oil)	0.7	2.8		0.6	0.6	0.6	0.6	0.6	0.5
Sales of goods and services	1.1	1.0		0.9	0.9	0.9	0.9	0.9	0.9
Fines, penalties, and forfeits	0.3	0.3		0.3	0.3	0.4	0.4	0.4	0.4
Other revenues	3.1	2.6		2.0	1.8	1.8	1.9	1.9	1.9
Expenditure	35.6	41.0	34.5	32.0	30.7	30.4	30.0	29.5	28.9
Expenses	29.9	35.1	31.0	28.8	27.9	27.7	27.2	26.7	26.1
Employee compensation [1]	17.0	18.8	17.1	15.9	15.5	15.3	14.9	14.5	14.1
Use of goods and services	5.4	7.7	6.7	6.1	5.7	5.6	5.5	5.3	5.1
Interest payments	0.7	0.9	1.3	0.9	1.0	1.1	1.1	1.2	1.2
Domestic	0.4	0.5		0.5	0.6	0.7	0.7	0.7	0.8
Foreign	0.3	0.4		0.4	0.4	0.4	0.4	0.5	0.5
Support (subsidies)	0.8	1.1	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Social benefits [2]	2.8	2.6	2.2	2.2	2.2	2.3	2.3	2.3	2.4
Grants	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Other expenses	3.3	3.7	2.9	2.7	2.7	2.7	2.7	2.6	2.6
Net acquisition of non-financial assets	5.7	5.9	3.5	3.2	2.8	2.7	2.8	2.8	2.8
Net lending (+)/borrowing (-)	**-4.5**	**-11.3**	**-4.9**	**-3.5**	**-1.9**	**-1.6**	**-1.2**	**-0.6**	**0.0**
Non-exported oil primary balance/non-oil GDP	-33.5	-36.1		-25.9	-22.5	-20.5	-18.7	-16.9	-15.1

Sources: Ministry of Finance; and IMF staff projections.

[1] Including the extra month salary according to Hijri calendar in 2016.

[2] Zakat charity transfers, social welfare payments and Hafiz Job-seekers allowance.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2019–26 (concluded)

	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
			(Billions of Saudi Arabian riyals)					
Net lending (+)/borrowing (-)	**-132**	**-297**	**-108**	**-63**	**-53**	**-40**	**-23**	**1**
Financing	**143**	**271**	**108**	**63**	**53**	**40**	**23**	**-1**
Net acquisition of financial assets	-25	-96	-25	-17	-40	39	25	9
Domestic	-27	-96	-25	-17	-40	39	25	9
Deposits at SAMA (+, buildup)	-33	-93	-25	-17	-40	39	25	9
Loans and equity	6	-3	0	0	0	0	0	0
Foreign	2	0	0	0	0	0	0	0
Net incurrence of liabilities (- = repayment)	118	176	83	46	13	79	48	8
Domestic	70	86	72	79	45	79	73	73
Banks	60	26	36	39	23	39	37	37
Nonbanks	10	60	36	39	23	39	37	37
Foreign	50	45	53	41	75	41	47	47
Amortization	-2	44	-41	-74	-107	-41	-72	-112
Domestic	-2	44	-20	-57	-36	-41	-46	-91
Foreign	0	0	-21	-17	-71	0	-26	-21
Residual/ Gap (+ve = overfinancing)	**11**	**-26**	**0**	**0**	**0**	**0**	**0**	**0**
				(In percent of GDP)				
Net lending (+)/borrowing (-)	**-4.5**	**-11.3**	**-3.5**	**-1.9**	**-1.6**	**-1.2**	**-0.6**	**0.0**
Financing	**4.8**	**10.3**	**3.5**	**1.9**	**1.6**	**1.2**	**0.6**	**0.0**
Net acquisition of financial assets	-0.8	-3.6	-0.8	-0.5	-1.2	1.1	0.7	0.3
Domestic	-0.9	-3.6	-0.8	-0.5	-1.2	1.1	0.7	0.3
Deposits at SAMA (+, buildup)	-1.1	-3.5	-0.8	-0.5	-1.2	1.1	0.7	0.3
Loans and equity	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (- = repayment)	4.0	6.7	2.7	1.4	0.4	2.3	1.3	0.2
Domestic	2.3	3.3	2.3	2.4	1.4	2.3	2.1	2.0
Banks	2.0	1.0	1.1	1.2	0.7	1.1	1.0	1.0
Nonbanks	0.3	2.3	1.1	1.2	0.7	1.1	1.0	1.0
Foreign	1.7	1.7	1.7	1.3	2.3	1.2	1.3	1.3
Amortization	-0.1	1.7	-1.3	-2.3	-3.2	-1.2	-2.0	-3.0
Domestic	-0.1	1.7	-0.6	-1.8	-1.1	-1.2	-1.3	-2.4
Foreign	0.0	0.0	-0.7	-0.5	-2.1	0.0	-0.7	-0.6
Residual/ Gap (+ve = overfinancing)	**0.4**	**-1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Non-oil overall balance	-726	-710	-620	-598	-592	-592	-592	-591
Non-oil primary balance	-727	-759	-611	-585	-575	-573	-569	-566
Non-oil revenue (excl. investment income)/non-oil GDP	15.3	14.6	16.6	16.5	16.5	16.5	16.5	16.6
Current balance	37	-142	-7	29	37	55	77	106
Non-oil primary balance/non-oil GDP	-35.9	-38.1	-28.2	-25.7	-24.0	-22.7	-21.4	-20.2
Government gross domestic debt/GDP	12.5	19.2	17.8	17.8	17.6	18.2	18.2	17.0
Government foreign issued debt/GDP	10.3	13.3	12.2	12.6	12.4	13.2	13.2	13.4
Government gross debt/GDP	22.8	32.5	30.0	30.4	30.0	31.3	31.5	30.4
Government deposits at SAMA/GDP	17.8	16.6	13.2	12.2	10.7	11.5	11.8	11.5
Government net financial assets/GDP	-5.0	-15.9	-16.8	-18.2	-19.3	-19.8	-19.7	-18.8
Government Deposits at SAMA (SAR billions)	529	437	412	395	355	395	420	429
GDP market prices (SAR billions)	2,974	2,625	3,122	3,230	3,317	3,431	3,563	3,721
Non-oil GDP (SAR billions)	2,026	1,996	2,164	2,276	2,395	2,525	2,661	2,805
Average oil export price	65.9	42.7	67.4	63.0	59.8	57.7	56.4	55.7

Sources: Ministry of Finance; and IMF staff projections.

Table 3. Saudi Arabia: Fiscal Operations of the Budgetary Central Government and AGIs, 2015–20

(Percent of GDP)

	2015	2016	2017	2018	2019	2020
I. Budgetary central government						
Revenue	25.0	21.5	24.1	30.7	31.2	29.7
Expenditure	40.8	38.7	33.3	36.6	35.6	41.0
Of which: Non-interest expenditure	40.7	38.5	33.0	36.1	34.9	40.0
Overall balance	-15.8	-17.2	-9.2	-5.9	-4.5	-11.3
Primary balance	-17.9	-20.2	-11.1	-6.5	-4.5	-13.2
II. Autonomous Government Institutions (AGIs)						
Public Pension Agency (PPA)						
Revenue	1.3	3.0	3.1	2.0	3.2	3.4
Expenditure	2.3	2.7	2.6	2.7	2.6	3.2
Overall balance	-0.9	0.2	0.5	-0.8	0.6	0.2
General Organization for Social Insurance (GOSI)						
Revenue	2.0	2.1	2.4	2.2	2.3	2.7
Expenditure	0.8	0.9	1.0	0.9	1.0	1.3
Overall balance	1.2	1.2	1.4	1.3	1.3	1.4
III. Total (=I+II)						
Overall balance	-15.5	-15.8	-7.4	-5.3	-2.6	-9.7
Memorandum items: net assets(+)/debt (-)						
i. Central government debt	-5.8	-13.1	-17.2	-19.0	-22.8	-32.5
ii. Autonomous government institutions[1]	37.6	39.4	39.7	33.6	38.0	44.9
Of which: PPA	19.4	19.4	18.2	13.6	14.7	17.1
Of which: GOSI	18.2	20.1	21.4	19.9	23.4	27.8
iv. Total (=i+ ii+iii)	31.8	26.4	22.5	14.6	15.2	12.4
v. Central government deposits at SAMA	41.7	30.2	24.8	19.1	17.8	16.6
vi. Net assets (iv + v)	73.5	56.6	47.3	33.6	33.0	29.0

Sources: Ministry of Finance; PPA; GOSI; and IMF staff estimates.

[1] Does not account for future pension liabilities.

Table 4. Saudi Arabia: Balance of Payments, 2019–26

($ billions)

	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
Current account	38.2	-19.6	32.2	33.6	20.2	8.6	-1.3	-9.5
(Percent of GDP)	4.8	-2.8	3.9	3.9	2.3	0.9	-0.1	-1.0
Trade balance	121.3	47.9	110.0	110.9	97.7	86.7	77.6	70.4
Exports	261.6	173.9	249.2	255.5	248.9	246.5	246.6	248.7
Oil exports	200.5	119.4	184.9	190.8	184.0	180.4	179.0	179.1
Other exports	61.1	54.5	64.3	64.7	65.0	66.1	67.6	69.6
Imports (f.o.b.)	-140.3	-125.9	-139.1	-144.6	-151.3	-159.9	-169.0	-178.2
Services	-54.4	-43.6	-50.7	-49.6	-49.4	-49.2	-49.0	-48.8
Transportation	-12.9	-11.5	-11.9	-11.9	-11.7	-11.3	-10.9	-10.5
Travel	1.3	-4.5	1.3	1.9	2.4	2.9	3.5	4.1
Other services	-42.8	-27.6	-40.1	-39.6	-40.1	-40.8	-41.7	-42.5
Income	7.9	15.4	13.0	13.1	13.2	13.0	12.5	11.8
Of which: Investment income [1]	8.5	15.4	13.0	13.0	13.1	12.9	12.5	11.8
Current transfers	-36.6	-39.4	-40.2	-40.7	-41.3	-41.8	-42.4	-43.0
Of which : Workers' remittances	-30.3	-34.3	-35.1	-35.7	-36.2	-36.8	-37.3	-37.9
Capital Account	-1.7	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-33.2	-24.3	-25.9	-18.4	-13.6	1.9	5.1	7.7
Direct Investment	-9.0	0.6	1.6	2.6	3.5	4.3	5.2	6.0
Abroad	-13.5	-4.9	-5.0	-4.5	-3.9	-3.5	-3.1	-2.7
In Saudi economy	4.6	5.5	6.6	7.0	7.4	7.8	8.2	8.8
Portfolio investments	11.5	-20.6	-19.9	-16.5	0.3	-1.3	-1.0	-0.1
Assets	-34.6	-50.3	-30.4	-23.0	-16.7	-12.3	-9.0	-7.2
Liabilities	46.1	29.8	10.6	6.5	17.0	11.0	8.0	7.1
Other investments	-35.7	-4.4	-7.6	-4.5	-17.3	-1.1	0.9	1.8
Assets	-55.7	-10.6	-12.6	-9.5	-6.3	-6.1	-4.1	-3.2
Liabilities	20.0	6.2	5.0	5.0	-11.0	5.0	5.0	5.0
Net errors and omissions	-0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.0	-45.9	6.3	15.2	6.6	10.5	3.8	-1.8
Financing	-3.0	45.9	-6.3	-15.2	-6.6	-10.5	-3.8	1.8
Change in SAMA's NFA (- increase)	-3.2	45.9	-6.3	-15.2	-6.6	-10.5	-3.8	1.8
Memorandum items:								
SAMA's total net foreign assets	494.0	449.2	455.5	470.7	477.3	487.9	491.7	489.9
(In months of imports) [2]	33.0	25.1	24.8	24.8	24.1	23.6	22.9	21.9
Net International Investment Position (% GDP)	84.6	88.8	78.3	79.6	79.8	78.1	75.1	70.9
Non-oil current account(% GDP)	-20.5	-19.9	-18.3	-18.2	-18.5	-18.8	-19.0	-19.0
External debt (% GDP)	23.5	34.1	29.9	29.7	29.0	29.2	29.0	28.5
Oil price (US$/barrel) [3]	61.4	41.3	64.7	63.0	59.8	57.7	56.4	55.7
Average Saudi oil export price (US$/barrel)	65.9	42.7	67.4	63.0	59.8	57.7	56.4	55.7
Oil production (mbd)	9.8	9.2	9.0	9.8	10.0	10.1	10.3	10.4
Oil exports (mbd)	8.3	7.7	7.5	8.3	8.4	8.6	8.7	8.8
Oil exports/total exports	76.6	68.7	74.2	74.7	73.9	73.2	72.6	72.0
Imports of goods/GDP	17.7	18.0	16.7	16.8	17.1	17.5	17.8	18.0
GDP (US$ billion)	793.0	700.1	832.6	861.4	884.5	915.0	950.1	992.4
Government foreign issued debt (US$ billion)	81.4	93.4	101.9	108.4	109.4	120.4	125.9	132.9
US 6-month LIBOR (Percent)	2.3	0.7	0.3	0.4	0.9	1.4	2.2	2.6

Sources: Saudi Arabian Monetary Authority, and IMF staff estimates and projections.

[1] Represents the return on NFA of SAMA, AGIs, and private sector.

[2] Imports of goods and services over the next 12 months excluding imports for transit trade.

[3] The average price of Brent, WTI, and Dubai oil prices derived from futures prices during May 2021.

Table 5. Saudi Arabia: Financial Soundness Indicators, 2015–20

(Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020
Banking sector						
Structure of the banking sector						
Number of licensed banks	23	24	25	29	25	25
Number of banks accounting for:						
25 percent of total assets	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6
Total assets (percent of GDP)	90.0	93.3	89.9	80.5	88.5	115.8
Of which: Foreign currency-denominated (as percent of total assets)	14.3	10.0	10.5	9.4	9.3	8.4
Total loans (percent of GDP)	55.5	57.9	54.1	48.6	52.2	67.9
Credit to private sector (percent of GDP)	53.9	55.9	52.2	47.0	52.0	64.9
Total deposits, excluding interbank (as percent of GDP)	65.4	66.9	63.1	56.6	60.4	74.0
Capital adequacy						
Regulatory capital to risk-weighted assets	18.1	19.5	20.4	20.3	19.4	20.3
Tier-1 capital to risk-weighted assets					18.1	18.7
Asset quality						
Net loans to total assets	62.4	62.8	62.2	62.6	66.0	68.1
Gross NPLs to gross loans	1.2	1.4	1.6	2.0	1.9	2.2
Total provisions to gross NPLs	164.4	177.0	151.9	157.2	146.1	131.1
Net NPLs to total capital [1]	-3.7	-4.7	-3.4	-4.8	-3.6	-3.0
Total provisions for loan losses (as percent of total loans)	2.2	2.6	2.6	3.2	2.9	3.0
Loans to property and construction sector to total loans	7.8	7.5	6.4	6.8	6.0	5.2
Loans to domestic manufacturing sector to total loans	12.7	12.6	11.6	11.9	2.7	8.8
Contingent and off-balance sheet accounts to total assets	100.8	84.2	76.2	71.3	69.3	64.4
Profitability						
Profits (percent change)	6.3	-5.4	8.2	10.7	4.5	-23.1
Average pretax return on assets	2.0	1.8	2.0	2.1	1.8	1.2
Return on equity	14.4	12.5	12.9	13.9	11.9	8.6
Noninterest expenses to total income [2]	37.1	38.0	36.6	36.3	35.9	36.2
Average lending spread	3.4	3.5	3.5	3.9	3.9	3.5
Liquidity						
Liquid assets to total assets	17.5	20.3	21.6	22.3	25.4	26.8
Liquid assets to short-term liabilities [3]	27.3	31.8	34.6	35.5	41.3	43.8
Customer deposits to net loans	121.7	119.5	119.4	123.0	129.5	131.2
Demand deposits to total deposits	60.8	60.2	61.8	62.5	61.2	66.0
Sensitivity to market risk						
Foreign currency-denominated deposits to total deposits	10.0	7.6	8.6	8.7	8.6	7.4
Foreign currency-denominated loans to total loans	8.9	8.2	8.0	8.4	8.9	8.6
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	35.3	28.3	27.1	27.1	27.5	28.0
Net open foreign currency position to capital	4.0	2.6	4.0	6.4	7.1	7.9
Stock market						
Stock market capitalization (percent of GDP)	64.4	69.5	65.9	63.4	303.5	346.7
Overall stock market price index (change in percent)	-17.1	4.3	0.2	8.5	7.2	3.6
Bank stock price index (change in percent)	-14.9	-67.4	8.2	31.1	-39.6	74.3

Source: Saudi Arabian Monetary Authority.

[1] The negative sign reflects that provisions exceed gross NPLs.

[2] Total income includes net interest income and gross noninterest income.

[3] Short-term liabilities include demand deposits maturing in 90 days or less. Liquid assets include cash, gold, Saudi government bonds and treasury bills and interbank deposits maturing within 30 days.

Table 6. Saudi Arabia: Monetary Survey, 2019–26

	2019	2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
(Billions of Saudi Arabian riyals)								
Foreign assets (net)	1,923	1,752	1,766	1,813	1,828	1,857	1,861	1,845
SAMA	1,853	1,684	1,708	1,765	1,790	1,830	1,844	1,837
Commercial banks	70	68	58	48	38	28	18	8
Domestic credit (net)	1,463	1,845	2,102	2,219	2,364	2,455	2,571	2,687
Net claims on government	-146	3	54	81	126	105	94	76
Claims on government	384	440	466	477	481	500	514	505
Government deposits with SAMA	-529	-437	-412	-395	-355	-395	-420	-429
Claims on state enterprises	62	79	79	79	79	79	79	79
Claims on private sector	1,547	1,763	1,969	2,058	2,159	2,270	2,398	2,532
Money and quasi-money (M3)	1,985	2,149	2,295	2,387	2,502	2,629	2,769	2,916
Money (M1)	1,288	1,489	1,477	1,536	1,609	1,691	1,781	1,876
Currency outside banks	189	206	217	225	236	248	261	275
Demand deposits	1,099	1,283	1,260	1,310	1,373	1,443	1,520	1,600
Quasi-money	697	660	819	852	892	938	988	1,040
Other quasi-money deposits	195	186	231	240	252	265	279	294
Other items (net liabilities)	1,401	1,448	1,572	1,644	1,689	1,683	1,663	1,616
(Changes in percent of beginning broad money stock)								
Foreign assets (net)	-1.8	-8.6	0.6	2.1	0.6	1.2	0.2	-0.6
Domestic credit (net)	11.9	19.3	12.0	5.1	6.1	3.6	4.4	4.2
Net claims on government	6.0	7.5	2.3	1.2	1.9	-0.8	-0.4	-0.7
Claims on government	4.2	2.8	1.2	0.5	0.2	0.8	0.5	-0.3
Government deposits (increase -)	1.8	4.7	1.2	0.7	1.7	-1.6	-1.0	-0.3
Claims on state enterprises	0.4	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	5.5	10.9	9.6	3.9	4.2	4.5	4.8	4.9
Money and Quasi-money	7.1	8.3	6.8	4.0	4.8	5.1	5.3	5.3
Other items (net liabilities)	3.0	2.4	5.8	3.1	1.9	-0.3	-0.7	-1.7
(Percent change; unless otherwise indicated)								
Foreign assets (net)	-1.7	-8.9	0.8	2.7	0.8	1.6	0.2	-0.9
Domestic credit (net)	17.8	26.2	13.9	5.5	6.5	3.9	4.7	4.5
Of which: claims on private sector	7.0	14.0	11.7	4.5	4.9	5.2	5.6	5.6
Money and quasi-money	7.1	8.3	6.8	4.0	4.8	5.1	5.3	5.3
Other items (net liabilities)	4.1	3.4	8.6	4.6	2.8	-0.4	-1.2	-2.8
(Percent; unless otherwise indicated)								
Memorandum items:								
Specialized Credit Institutions credit (SAR billions) [1]	236.4	235.0	...	...	...	...	...	...
Ratio of M3-to-GDP	66.8	81.9	73.5	73.9	75.4	76.6	77.7	78.3
Ratio of Claims on private sector-to-non-oil GDP	76.3	88.3	91.0	90.4	90.2	89.9	90.1	90.3

Sources: Saudi Arabian Monetary Authority (SAMA); and IMF staff estimates.

[1] For 2020, data is latest available.

Appendix I. External Sector Assessment[1]

Overall Assessment: The external position in 2020 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The external balance sheet remains strong. Reserves remain adequate when judged against standard Fund metrics, although external savings are not sufficient from an intergenerational equity perspective. The pegged exchange rate provides Saudi Arabia with a credible policy anchor. Given the close link between the fiscal and external balance and the structure of the economy, external adjustment will be driven primarily by fiscal policy.

Potential Policy Responses: In the near-term, withdrawal of remaining policy support should be carefully managed to ensure the ongoing recovery continues. Over the medium term, fiscal consolidation could bring the current account balance closer to its norm. The increase in the VAT rate, the termination of the cost of living allowances, and the reduction in capital spending in 2020 have significantly strengthened the medium-term fiscal position. Other policies announced by the government—energy price reforms and restraint of current spending—if fully implemented, should deliver the additional needed fiscal adjustment at the central government level. Structural reforms that help diversify the economy and boost the non-oil tradeable sector could also help bring the CA closer to its norm.

Foreign Asset and Liability Position and Trajectory	**Background.** Net external assets are estimated at 89 percent of GDP at end-2020, up from 85 percent of GDP in 2019 but down from 105 percent in 2015. Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves and FDI account for 50 percent, 39 percent, and 11 percent of total external assets, respectively. **Assessment.** The external balance sheet remains very strong. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and savings of exhaustible resource revenues for future generations.

2020 (% GDP)	NIIP: 88.8	Gross Assets: 164.5	Res. Assets: 64.8	Gross Liab.: 75.6	Debt Liab.: 34.1

Current Account	**Background.** The CA balance is estimated to have registered a deficit of 2.8 percent of GDP in 2020, compared to a surplus of 4.8 percent in 2019. The trade balance is estimated to have decreased by 8.5 percent of GDP as the price and volume of oil exports declined. The terms of trade are estimated to have deteriorated by 34.2 percent. The current account is expected to be in surplus in 2021 as oil revenues recover (the terms of trade are projected to improve by 40.7 percent).[1] **Assessment.** Saudi Arabia's reliance on oil complicates the application of standard external assessment methodologies given the wide swings of oil prices in 2020. The EBA-Lite methodology generally estimates a negative CA gap, although the size of the estimated gap varies by approach. The estimated CA gap in 2020 is –2.2 percent of GDP using the CA-regression approach. An upward adjustment of 5.6 percent of GDP is applied to the CA to account for the temporary impact of the COVID-19 crisis regarding oil trade (5.3 percent of GDP), travel services trade, including tourism (0.1 percent of GDP) and a shift of consumption towards tradable goods (0.2 percent of GDP). The Consumption Allocation Rules suggest a CA gap of 0.2 percent of GDP and –3.1 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The Investment Needs Model suggests a CA gap of –0.8 percent of GDP. Staff assesses a CA gap of –1.5 percent of GDP with a range from –2.7 to –0.3 percent of GDP in 2020.[2]

2020 (% GDP)	CA: -2.8	Cycl. Adj. CA: -1.3	EBA Norm: —	EBA Gap: —	COVID-19 Adj.: 5.6	Other Adj.: —	Staff Gap: -1.5

Real Exchange Rate	**Background.** The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. On average, the REER appreciated by 2.7 percent in 2020 and was 7.5 percent above its 10-year average. However, the REER appreciation was mainly driven by the impact of the VAT increase on inflation (the NEER only appreciated by 0.6 percent on average in 2020 and depreciated by 6 percent from its peak in April). As exports are not subject to VAT, the impact of the REER appreciation on competitiveness is limited unless there is a strong pass-through to costs of labor and intermediate inputs. **Assessment.** Exchange rate movements have a limited impact on competitiveness in the short-run as most exports are oil or oil-related products and there is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate input content. Consistent with the staff CA gap and based on an elasticity of 0.2, staff assesses the REER to be overvalued by about 7 percent with a range of 1 to 13 percent.

[1] Prepared by Yang Yang.

Capital and Financial Accounts: Flows and Policy Measures	**Background.** Net financial outflows continued in 2020 as the PIF invested abroad, although net outflows were smaller than in 2019. The equity market saw large outflows in March 2020 as oil prices declined and COVID-19 struck global financial markets but has rebounded since April. FX reserves decreased by $45.9 billion mainly due to SAMA's transfer of $40 billion to the PIF. Reserves are expected to stabilize in 2021 as investments overseas by public sector institutions start to slow. **Assessment.** Analysis of the financial account is complicated by the lack of detailed information on the nature of the financial flows. The strong reserves position limits risks and vulnerabilities to capital flows.
FX Intervention and Reserves Level	**Background.** The investments of the PIF are increasing although most of the government's foreign assets are still held at the central bank within international reserves. Net FX reserves declined to $449 billion (64 percent of GDP, 25.1 months of imports and 327 percent of the Fund's reserve adequacy metric) at end-2020 from $494 billion at end-2019 ($724 billion in 2014). This is mainly driven by transfers of foreign assets from SAMA to PIF. **Assessment.** Reserves play a dual role—savings for both precautionary motives and for future generations. Reserves are adequate for precautionary purposes (measured by the Fund's metrics). Nevertheless, fiscal adjustment is needed over the medium term to strengthen the CA and increase savings for future generations.

[1] At current oil exports, a $1 change in the oil price results in a 0.5 percent of GDP first-round change in the CA balance. The average oil export price is assumed to be $67.4 a barrel in 2021 ($42.7 a barrel in 2020). Oil export volumes are expected to decrease by 1.9 percent in 2021.

[2] EBA models do not include Saudi Arabia. Staff considered three approaches in the EBA-Lite methodology, including two that incorporate the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a very high share of output and exports. Using the CA regression approach, the cyclically-adjusted CA norm is estimated at 6.5 percent of GDP (slightly higher than the CA norm of 6.3 percent of GDP in 2019). The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports. Estimated CA norms from the Consumption Allocation Rules were –3.0 percent of GDP and 0.2 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The Investment Needs Model takes account of the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which was not explicitly considered by the consumption-based model and produced a CA gap of –0.8 percent over the medium-term. The CA gap in 2020 (–1.5 percent of GDP) represents staff's overall assessment taking into account estimates from the three approaches.

Appendix II. Risk Assessment Matrix[1]

Nature/source of main risks	Likelihood	*Expected impact on the economy if risk is realized*	Policy Response
Oversupply and volatility in the oil market. Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID) lead to renewed weakness in energy prices.	**Medium**	***High*** A substantial decline in oil prices would lead to a widening of the fiscal deficit. If the price decline is persistent, additional fiscal adjustment would be needed with negative consequences for growth, employment, credit, and banking system liquidity and asset quality. A higher oil price would lead to a stronger fiscal position and higher growth and employment effects. However, if accompanied by a further increase in spending, fiscal vulnerabilities would rise over the medium-term.	Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Existing buffers together with external borrowing could be used to smooth the fiscal adjustment in the short term in the event of a large shock. There should also be close monitoring of disruptions to banking system liquidity and signs of banking stress. Structural reforms should be accelerated to reduce the impact of oil price fluctuations on the economy over the longer term.
Unexpected shifts in the COVID-19 pandemic *Prolonged pandemic.* The disease proves harder to eradicate. *Faster containment.* Pandemic is contained faster than expected boosting confidence and economic activity	**Medium**	***High*** Shifts in the pandemic would likely affect Saudi Arabia through the global oil market and through the effects on domestic economic/health outcomes. Lower/higher oil demand would negatively/positively affect fiscal and external balances and hurt/boost confidence in the private sector. A resumption of lockdowns would delay the recovery as consumption and investment were held back and would likely see a decline in expatriate employment. Faster containment would enable a larger 2021 Hajj which would be positive for growth.	In the event of a more prolonged pandemic/lockdown, the government should provide further short-term support to the health sector and economy, including by reallocating spending if revenues decline, while maintaining medium-term fiscal consolidation plans. In the event of a faster exit from COVID and higher oil prices/stronger economic recovery, additional oil revenues should be saved and recently implemented reforms sustained not reversed. Financial sector support could also be withdrawn more quickly.
Reforms implemented in Saudi Arabia in recent years may support a stronger recovery. Slippages in the domestic reform agenda would reduce prospects for stronger growth and employment over the medium-term.	**Medium**	***High*** There is little experience of how comprehensive reforms as being carried out in Saudi Arabia will affect non-oil growth and diversification in a country heavily reliant on oil exports. It is possible that staff projections underestimate the impact. The failure to continue to deliver on the planned fiscal consolidation and ambitious structural reforms would adversely affect growth and employment. The failure to turn reforms into jobs for Saudis in the private sector will lead to pressures to increase public employment with negative implications for fiscal sustainability.	Continue with structural reforms to boost non-oil growth and labor market reforms to increase the competitiveness of Saudi nationals in the private sector. Implement fiscal adjustment that balances the need to support recovery with the need to rebuild fiscal buffers.
Intensified geopolitical tensions and security risks cause economic / political disruption, higher volatility in commodity price volatility, and lower confidence.	**High**	***Low*** The impact would depend on the nature of the event. An impact through global oil markets is one potential transmission channel while an escalation of regional tensions would hurt confidence. The Al-Ula reconciliation agreement has reduced political tensions in the GCC.	The needed policy response would depend on the nature of the shock. Fiscal policy could respond, and the authorities would need to ensure adequate liquidity in the banking system.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. Risk asset prices fall sharply and volatility spikes. Higher risk premia generate financing difficulties for firms, households, and sovereigns	**Medium**	***Low*** Tighter financial market conditions could cause higher debt service and financing risks and bank funding costs may also increase. Weaker than expected global growth would lead to a decline in oil prices and ultimately a deterioration in external and fiscal balances with adverse effects for growth, employment, and the financial sector (see above).	Continued strong fundamentals would likely prevent excessive volatility in Saudi Arabian financial markets. Large financial cushions are in place to mitigate the impact and external debt is relatively low.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix III. Public Debt Sustainability Analysis[1]

Figure 1. Public Sector Debt Sustainability Analysis – Baseline Scenario
(In percent of GDP unless otherwise indicated)

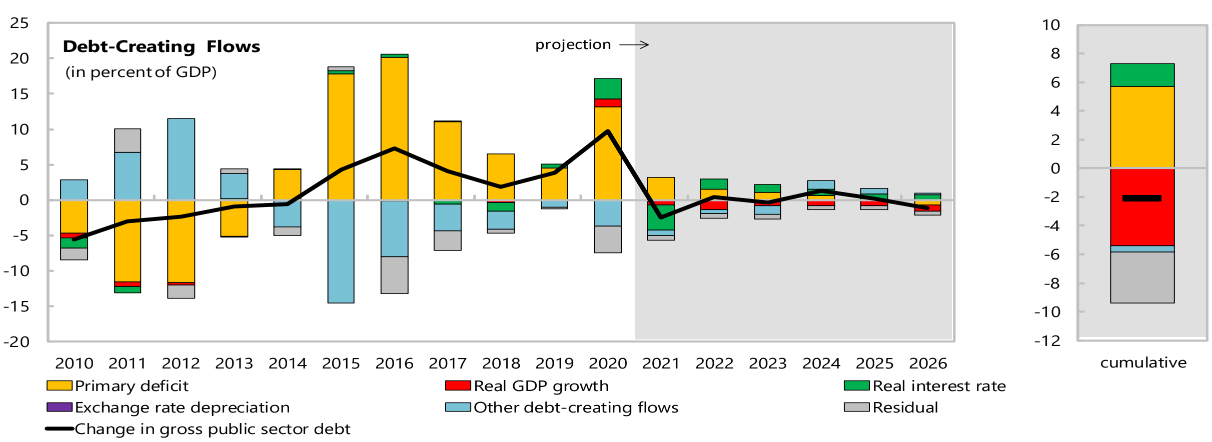
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	8.4	22.8	32.5	30.0	30.4	30.0	31.3	31.5	30.4
Public gross financing needs	3.1	4.5	9.6	4.8	4.2	4.8	2.4	2.7	3.0
Net public debt									
Real GDP growth (in percent)	3.8	0.3	-4.1	2.4	4.8	2.8	2.8	2.8	2.8
Inflation (GDP deflator, in percent)	3.6	0.5	-7.9	16.1	-1.3	-0.1	0.6	1.0	1.6
Nominal GDP growth (in percent)	7.6	0.8	-11.7	18.8	3.5	2.7	3.5	3.8	4.4
Effective interest rate (in percent) [4/]	4.6	3.8	3.6	3.4	3.6	3.8	3.9	4.0	4.1

As of April 15, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		124
5Y CDS (bp)		N/A
Ratings	Foreign	Local
Moody's	A1	A1
S&Ps	A-	A-
Fitch	A	A

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.6	3.8	9.7	-2.5	0.4	-0.4	1.3	0.2	-1.1	-2.1	
Identified debt-creating flows	1.5	4.1	13.5	-1.8	1.0	0.2	1.9	0.7	-0.6	1.5	
Primary deficit	3.0	4.5	13.2	3.2	1.5	1.1	0.6	0.0	-0.7	5.7	0.1
Primary (noninterest) revenue and grants	32.8	30.4	26.8	27.9	28.2	28.2	28.2	28.4	28.4	169.4	
Primary (noninterest) expenditure	35.7	34.9	40.0	31.1	29.7	29.3	28.9	28.4	27.7	175.0	
Automatic debt dynamics [5/]	-0.6	0.6	4.0	-4.2	0.0	0.3	0.1	0.1	-0.1	-3.8	
Interest rate/growth differential [6/]	-0.6	0.6	4.0	-4.2	0.0	0.3	0.1	0.1	-0.1	-3.8	
Of which: real interest rate	-0.3	0.6	2.9	-3.6	1.4	1.2	1.0	0.9	0.7	1.6	
Of which: real GDP growth	-0.2	-0.1	1.1	-0.6	-1.4	-0.8	-0.8	-0.8	-0.8	-5.4	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.9	-0.9	-3.6	-0.8	-0.5	-1.2	1.1	0.7	0.2	-0.4	
Accumulation of deposits (negative)	-1.3	-1.1	-3.5	-0.8	-0.5	-1.2	1.1	0.7	0.2	-0.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans and equity	0.4	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-1.0	-0.3	-3.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-3.5	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

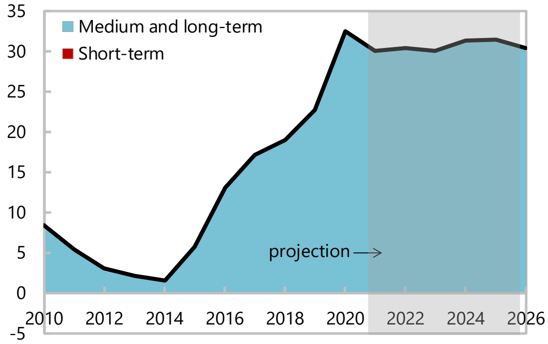
[1] Prepared by Erik Lundback and Tian Zhang

Figure 2. DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

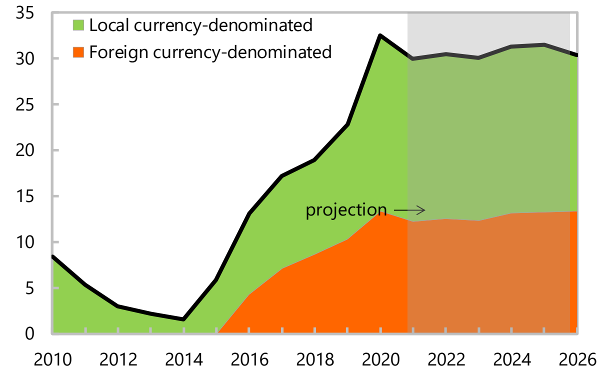
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

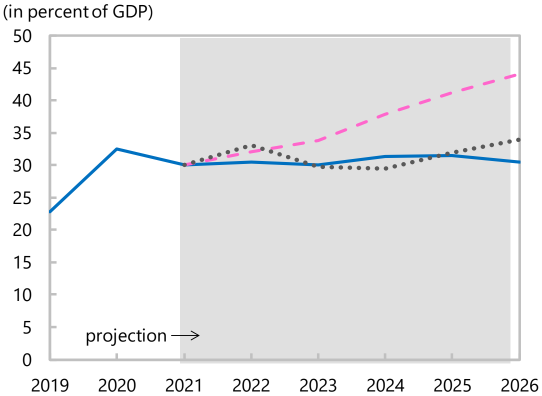


Alternative Scenarios

Baseline Historical Constant Primary Balance

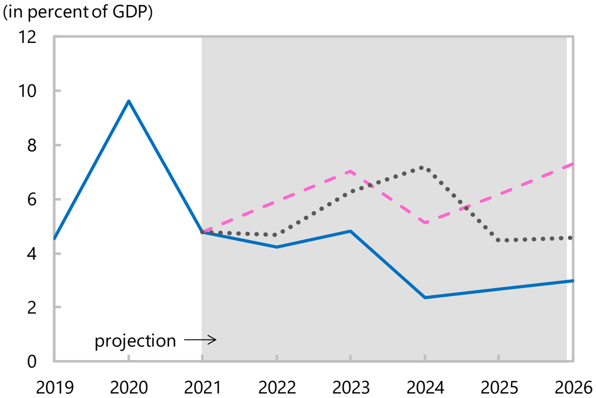
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.4	4.8	2.8	2.8	2.8	2.8
Inflation	16.1	-1.3	-0.1	0.6	1.0	1.6
Primary Balance	-3.2	-1.5	-1.1	-0.6	0.0	0.7
Effective interest rate	3.4	3.6	3.8	3.9	4.0	4.1
Constant Primary Balance Scenario						
Real GDP growth	2.4	4.8	2.8	2.8	2.8	2.8
Inflation	16.1	-1.3	-0.1	0.6	1.0	1.6
Primary Balance	-3.2	-3.2	-3.2	-3.2	-3.2	-3.2
Effective interest rate	3.4	3.6	3.9	4.0	4.1	4.2

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.4	2.5	2.5	2.5	2.5	2.5
Inflation	16.1	-1.3	-0.1	0.6	1.0	1.6
Primary Balance	-3.2	-4.9	-4.9	-4.9	-4.9	-4.9
Effective interest rate	3.4	3.3	3.2	3.1	2.8	2.6

Source: IMF staff calculations.

Appendix IV. Public Sector Balance Sheet[1]

Broadening the coverage of fiscal data and analysis beyond the central government and constructing a public sector balance sheet are becoming increasingly important. This note attempts to put together a public sector balance sheet from publicly available information. The net asset position of the public sector is very strong (estimated at about 500 percent of GDP at end-2020) although it is heavily reliant on oil assets.

1. Looking beyond the central government is important given the size of assets and liabilities held by other public sector entities. Indeed, this importance is increasing given the growing role of the PIF. A clear picture of the public sector balance sheet is critical to support fiscal decisions and understand the implications and risks of policies. Information is not available to put together a truly consolidated balance sheet, but this appendix attempts to provide a broad picture of the assets and liabilities of the public sector based on publicly available information.

2. The estimates of public sector assets and liabilities include the following: (i) Central Government; (ii) Social Security Funds (iii) Non-Financial Public Corporations; and (iv) Financial Public Corporations. Below are brief descriptions of the estimation methodology of the assets and liabilities of these entities:

- **(i) Central government.** Financial assets consist of deposits with the Saudi Central Bank (SAMA). Estimates of fixed non-financial assets are based on the IMF Capital Stock Database that applies a perpetual inventory method to estimate capital stocks through 2017. The estimates are updated to 2020 using central government capital expenditure for 2018-2020.[2] Liabilities are central government debt and sukuk (domestic and external) as published by the National Debt Management Center.[3]

- **(ii) Social Security Institutions.** For the two social security institutions, the Public Pension Agency (PPA) and the General Organization for Social Insurance (GOSI) is as reported by the authorities to staff. Actuarial liabilities are not known and are not included.

- **(iii) Non-Financial Public Corporations.** The government has significant ownership in non-financial corporations, both listed and unlisted. The main asset is Aramco, the national oil company, in which the government owns 98.2 percent after the December 2019 IPO.[4] The

[1] Prepared by Erik Lundback and Tian Zhang.

[2] The perpetual inventory equation models data for investment series from OECD Analytical Database, the Penn World Tables PWT, IMF World Economic Outlook, The World Bank, and the European, Investment Bank OECD, Penn World Tables, see [Estimating the stock of public capital in 170 countries](#).

[3] Liabilities should in principle include "accounts payable" but there is no information available.

[4] This includes a 70 percent share in petrochemicals company Saudi Basic Industries (SABIC) which was acquired from the PIF on June 16, 2020, and SABIC's financial results are fully consolidated into Aramco's financial statements. The

(continued)

stock is listed on the Tadawul and the value of the government's equity share at end-2020 is used as the net value of the asset.[5] In addition, PPA, and GOSI have stakes in listed companies. The asset value for end-2020 is calculated using the ownership share and the market capitalization. The government also has direct ownership stakes in other companies/assets, but information is not available.

(iv) **Public Financial Corporations.** These consist of the PIF, SAMA, and Special Credit Institutions (SCIs).

- The *PIF* does not publish a financial report. The information on assets is therefore taken from public announcements in the context of the PIF 2021-2025 Strategy that was announced in early 2021.[6] Total assets at end-2020 were reported at SAR 1.5 trillion of which about 30 percent were invested in foreign assets.[7] The PIF has significant holdings in listed companies, domestically and in overseas, accounting for 19½ percent and more than 3 percent of reported total assets respectively at end-2020 (Table 4). In addition, the PIF has large stakes in the electric car company, Lucid (to be listed on Nasdaq once its merger with Churchill Capital Corp IV is complete), and the SoftBank Vision Fund 1. These identified assets account for about 40 percent of the reported PIF asset value. Current borrowing is estimated at SAR 41 billion which is what the PIF is reported to have borrowed in 2018 (a $15 billion revolving credit facility was signed in March 2021).

- *SAMA* net-assets at end-2020 are measured as total assets net of deposits, outstanding SAMA bills and REPOS, and currency in circulation.

- *SCI* net assets are calculated as reported capital plus reserves as of end-2020.

3. Total net assets of the public sector are estimated at about SAR 13 trillion or 501 percent of 2020 GDP (Tables 1-3). Financial assets are estimated at 419 percent of GDP, non-financial assets at 116 percent of GDP, and financial liabilities at 34 percent of GDP. Of net assets, 9 percent are in the social security funds and almost 8 percent in Financial Public Corporations, excluding the PIF. The PIF accounts for 11 percent of net assets. Finally, the public sector's stake in Aramco represents more than half (about 52 percent) of estimated net assets (and about 68 percent if fixed central government assets are excluded), reflecting Saudi Arabia's reliance on oil resources.

---

purchase price amount is to be paid over several installments pursuant to a seller loan provided by PIF with the last payment in 2028 (see the 2020 third quarter interim report p. 18). It is assumed that this is reflected in the Aramco stock market price and in the asset value reported by the PIF (see below).

[5] This assumes that the government could sell its 98.3 percent share of Aramco at the end-2020 price which may not be the case.

[6] Saudi Crown Prince announcement video January 24, 2021 and PIF press release January 23, 2021

[7] H.E. Yasir Al-Rumayyan's Interview with CNBC January 26, 2021 from the PIF website.

4. There are important caveats and gaps with these estimates:

- The estimates are based on incomplete information as the data needed to make more accurate estimates is not publicly available. This includes the ability to do a full consolidation of assets and liabilities across and between entities.

- Equity holdings in publicly listed companies, including Aramco, are valued at current market prices. While this is appropriate from a balance sheet perspective, it may be difficult to realize these valuations if the domestic assets are sold. The size of the shareholdings of the public sector entities are large relative to market size and the assets may be less liquid than they appear.

- The identification and valuation of non-financial assets can be improved. In this context, all of the natural resource wealth is assumed to be reflected in Aramco's valuation. However, the company's rights with respect to the country's hydrocarbons have term limits, albeit long-term (40 plus 20 years effective December 2017) and the concession may be extended.[8] There may therefore, in principle, be additional value in the oil reserves.

- Contingent liabilities are not included. Ultimately, when information is collected, these could either be reflected on the balance sheet based on their probability of becoming direct liabilities or otherwise be included as memo items.[9]

- The value of public holdings outside the PIF, PPA, and GOSI of companies listed on Tadawul, other than Aramco, are not known. Likewise, the value of unlisted companies with state ownership are not well understood and documented.

- Actuarial liabilities of the PPA and GOSI are not reflected.

5. The government is making important progress in developing a Sovereign Asset-Liability Management (SALM) framework to help manage the public sector balance sheet, assess risks, and develop a broader picture of the financing needs of the public sector. With such a large balance sheet, financial resources being transferred between public entities, the role of the PIF expanding, and the characteristics of the public sector balance sheet changing, the SALM is an important initiative. The authorities are engaging with the Fund to develop the SALM framework and recent institutional changes are facilitating a more comprehensive approach to borrowing and investment decisions, including through the high-level Finance Committee. Reliable data on assets and liabilities from the key public entities is a short-term priority for the SALM framework. A SALM

[8] Aramco's prospectus for the initial public offering on Tadawul, p.52.

[9] The central government has provided a guarantee on a bond issued by the General Authority of Civil Aviation (GACA), but other contingent liabilities are not known including those through ongoing programs to support the housing market and SME sector.

Oversight Committee has been formed which will help integrate the SALM within the broader policy framework.

Table 1a. Saudi Arabia: Government Balance Sheet
(SAR billions)

	Budgetary Central Government	Social Security Funds	Aramco	Financial Public Corporations (FPC)		Public Sector
				PIF	Other	
Assets	**3,479**	**1,178**	**6,882**	**1,500**	**1,011**	**14,050**
Non-Financial Assets	3,043					3,043
Fixed assets	3,043 [1/]					3,043
Government Deposits at SAMA	437	…	…	…	…	437
Equity and Investments						
o/w: Listed		47 [2/]	6,882 [3/]			6,929
Non-listed and other			…		1,011	1,011
Liabilities	**853**			**41**		**894**
By instruments	853					853
loans	60					60
Securities	793					793
By debt holder	853					853
Domestic	503					503
External	350					350
Net Assets	**2,626**	**1,178**	**6,882**	**1,459**	**1,011**	**13,156**

Sources: Country authorities, and IMF staff calculations and estimates.
1/ IMF staff estimate using the perpetual inventory method – see Estimating the stock of public capital in 170 countries
2/ According to Tadawul shareholder information, see Table 3.
3/ Equity share in companies listed on Tadawul net of shareholding of PIF, PPA, and GOSI.

Table 1b. Saudi Arabia: Government Balance Sheet
(percent of GDP)

	Budgetary Central Government		Social Security Funds	Aramco	Financial Public Corporations (FPC)		Public Sector
					PIF	Other	
Assets	**132.5**		**44.9**	**262.1**	**57.1**	**38.5**	**535.1**
Non-Financial Assets	**115.9**						**115.9**
Fixed assets	**115.9**	1/					**115.9**
Financial Assets	**16.6**		**44.9**	**262.1**	**57.1**	**38.5**	**419.3**
Government Deposits at SAMA	16.6		...	...	... ...	...	16.6
Equity and Investments							
o/w: Listed			1.8 2/	262.1 3/			263.9
Non-listed and other				...		38.5	38.5
Liabilities	**32.5**				**1.6**		**34.1**
By instruments	32.5						32.5
loans	2.3						2.3
Securities	30.2						30.2
By debt holder	32.5						32.5
Domestic	19.2						19.2
External	13.3						13.3
Net Assets	**100.0**		**44.9**	**262.1**	**55.6**	**38.5**	**501.1**

Sources: Country authorities; and IMF staff calculations and estimates.
1/ IMF staff estimate using the perpetual inventory method – see Estimating the stock of public capital in 170 countries
2/ According to Tadawul shareholder information, see Table 3.
3/ Equity share in companies listed on Tadawul net of shareholding of PIF, PPA, and GOSI.

Table 2. Saudi Arabia: Equity and Investment
(SAR billions)

Social Security Funds		Financial Public Corporations (FPC)			
PPA	449	PIF	1,500	SAMA	723
GOSI	729			SCIs	288
	1,178		1,500		1,011

Sources: Country authorities; and IMF staff calculations and estimates.

Table 3. Saudi Arabia: Government Companies Listed on Tadawul

	Market Capitalization	Total		Government Share				Government Share			
				PIF	PPA	GOSI	Aramco	PIF	PPA	GOSI	Aramco
	(SAR billions)	(Percent)	(SAR billions)	(Percent)	(Percent)	(Percent)	(Percent)	(SAR billions)	(SAR billions)	(SAR billions)	(SAR billions)
Financial Corporations	294		126.3					88	15	23	0
National Commercial Bank	130	55	71.0	44	5	5	0	57	7	7	0
Samba Financial Group	61	42	25.4	23	12	7	0	14	7	4	0
Riyad Bank	61	38	23.3	22	0	17	0	13	0	10	0
Saudi Investment Bank	11	31	3.3	0	14	17	0	0	2	2	0
Alinma Bank	32	10	3.2	10	0	0	0	3	0	0	0
Non Financial Corporations excluding Aramco			275.6					257	2	6	11
Saudi Telecom Co.	212	70	148.3	70	0	0	0	148	0	0	0
Saudi Electricity Co.	89	81	72.1	74	0	0	7	66	0	0	6
Saudi Arabian Mining Co.	50	67	33.5	67	0	0	0	33	0	0	0
Southern Province Cement Co.	12	48	5.7	37	0	11	0	4	0	1	0
Qassim Cement Co.	7	33	2.4	23	0	10	0	2	0	1	0
Saudi Fisheries Co.	2	40	0.9	40	0	0	0	1	0	0	0
Rabigh Refining and Petrochemical Co.	12	38	4.5	0	0	0	38	0	0	0	5
National Petrochemical Co.	16	25	4.0	0	14	11	0	0	2	2	0
Yanbu Cement Co.	6	17	1.1	10	0	7	0	1	0	0	0
Eastern Province Cement Co.	4	16	0.6	10	6	0	0	0	0	0	0
Savola Group	23	7	1.5	0	0	7	0	0	0	2	0
National Gas and Industrialization Co.	2	11	0.2	11	0	0	0	0	0	0	0
Dur Hospitality Co.	3	17	0.5	17	0	0	0	0	0	0	0
Saudi Arabia Public Transport Co.	2	16	0.4	16	0	0	0	0	0	0	0

Sources: Country authorities; and IMF staff calculations and estimates.

Table 4. Saudi Arabia: PIF Equity Holding

Company Name	PIF's Share of Total (Percent)	Market Value of PIF's Share (SAR billions)
Domestic		**292.2**
National Commercial Bank	44.3	5.0
Samba Financial Group	22.9	14.0
Riyad Bank	21.8	13.2
Alinma Bank	10.0	3.2
Saudi Telecom Co.	70.0	148.3
Saudi Electricity Co.	74.3	65.9
Saudi Arabian Mining Co.	67.2	33.5
Southern Province Cement Co.	37.4	4.4
Qassim Cement Co.	23.4	1.7
Saudi Fisheries Co.	40.0	0.9
Yanbu Cement Co.	10.0	0.6
Eastern Province Cement Co.	10.0	0.4
National Gas and Industrialization Co.	10.9	0.2
Dur Hospitality Co.	16.6	0.5
Saudi Arabia Public Transport Co.	15.7	0.4
US		**167.9**
Uber Technologies Inc		13.9
Take-two Incteractive Software		3.1
Select Sector Spdr Tr		7.8
Suncor Energy Inc		3.2
Novagold Res Inc		0.6
Multiplan Corporation		1.5
Electronic Arts Inc		4.0
Live Nation Entertalncment Inc		3.5
Carnival Corp		4.1
Automatic Data ProcessIncg Inc		1.0
Activision Blizzard Inc		5.2
Lucid 1/		120.0
Japan		**128.9**
Vision Fund 2/		128.9
Total		**589.0**

Sources: Tadawul; U.S. Securities and Exchange Commission; news reports, and IMF staff calculations and estimates.
1/ www.menabytes.com
2/ Based on PIF's share initial investment and Vision Fund's market valuation as of Q3 2020, www.reuters.com .

Appendix V. Progress in Implementing the Key 2017 FSSA Recommendations[1]

Recommendation	Progress Made
Banking Oversight	
Update the Banking Charter and Banking Control Law to delete contradictory and redundant provisions and revoke Article 21 on the power of the Minister of Finance, under exceptional circumstances, to exempt any bank from regulation.	The new central bank law has been issued in November 2020. Among other amendments, the new law includes changing the name of the Saudi Arabian Monetary Authority (SAMA) to the Saudi Central Bank with direct reporting to the King and establishing its authority over all financial institutions. A draft Banking Control Law has been finalized and will be submitted for public consultation before its approval by the legislative body.
Codify and publish all bank legislative circulars and eliminate those superseded.	SAMA officially launched its Circulars Portal in December 2020.
Strengthen the supervisory approach by refining the determination of banks' risk and control ratings, aligning the supervisory planning with banks' risk profiles, and enhancing the documentation relating to the loan examination process.	The new risk-based banking supervisory framework has been rolled out. A banks' risk rating is now based on a combination of its inherent risk rating and its control rating. The supervisory planning process for on and off-site supervision is now based on a bank's risk profile. In terms of loan examinations, documentation has been enhanced.
Develop a licensing manual for banks and publish guiding principles for bank licensing.	Revised licensing requirements and guidelines were published on SAMA's website in January 2019.
Provide guidance to banks on mapping the risk profiles of Islamic products to the Basel framework.	SAMA is currently in the process of issuing a Risk Management Framework for Islamic banks in line with IFSB standards. This new framework covers guidelines for mapping the risk profile of Islamic products to the Basel framework.
Adopt the draft regulation on loan classification and ensure regular, comprehensive reporting on the size of rescheduled and restructured loans.	SAMA has finalized the modification of loans classification and provisioning rules. The issuance of these rules has been on hold due to the pandemic.
Require banks to establish formal policies and procedures for loan rescheduling, refinancing, and restructuring and to submit prudential returns on such loans.	SAMA issued loans restructuring guidelines along with prudential returns in January 2020.
Strengthen cross-border cooperation by entering into MoUs with foreign regulators.	SAMA has signed an MoU with the FSC and the FSS in the Republic of Korea in the area of financial institutions supervision. Another MoU with the United Arab Emirates in the areas of Financial Services and Market cooperation has been signed.

[1]Prepared by Imen Benmohamed with input from Saudi Central Bank staff.

Liquidity Management	
Establish a liquidity-forecasting framework to guide money market operations.	A liquidity forecasting model has been developed and tested. The results were presented to the Monetary policy committee. The forecast is now added to the regular monetary policy update.
Financial Safety Nets	
Adopt and implement the Draft Resolution Law (DRL).	The resolution of systematically important financial institutions law was issued in December 2020.
Establish an Emergency Liquidity Assistance (ELA) framework.	In progress.
Establish a timeframe for DPF deposit payouts and ensure a back-up funding line.	A technical Assistance has already been provided by the World Bank during the first half of 2020. This resulted in recommendations to enhance payouts and ensure a back-up funding line, which will be included in the new proposed deposit protection framework.
Macroprudential Policy	
Broaden the definition of debt service to income in the regulations to include all types of debt and income.	The principles that set the debt service to income ratio were issued in May 2018 and fully implemented in August 2018.
Strengthen data collection and use for the household, corporate, and real estate sectors.	Work is ongoing to strengthen data collection. Monthly data on new residential mortgages and SMEs finance are now published.

Appendix VI. Potential Output Post-COVID[1]

Risks of scarring on medium-term output from the COVID crisis are limited and could be offset by continued implementation of structural reforms. Travel and hospitality sectors are likely to be most affected in the near-term. Investment, labor inputs, and human capital may also be affected. Past oil price shocks have led to lower subsequent non-oil growth. The careful withdrawal of remaining policy support and the full implementation of announced reforms in the labor market and to improve the business environment will reduce the risks of output being permanently affected by the crisis.

1. **The COVID crisis is expected to reduce potential output in many countries over the medium term** (see Chapter 2 of the April 2021 World Economic Outlook). First, activities in contact-intensive sectors are likely to remain weak in the aftermath of the crisis. The IMF estimates that the COVID-19 shock to the hotel and restaurant sector will affect GDP through 2023, with tourism-dependent countries most affected. Second, impaired corporate balance sheets and elevated uncertainty could hinder investment including in R&D, which will reduce productivity growth and capital accumulation. Third, sectoral shifts following the crisis could lead to higher unemployment and declining labor force participation. Fourth, loss of learning due to schooling disruptions could adversely affect human capital accumulation.

2. **For Saudi Arabia, some of these channels will be important, but its economic structure suggests that the oil market will be the key channel through which future growth could be affected**. Corporate balance sheets were generally in good shape going into the crisis and government policies have limited the job losses among Saudi nationals during the crisis. Further, social shifts with more women entering the labor market will ensure continued increases in labor force participation rates among nationals in the coming years. Key channels through which scarring could occur in Saudi Arabia include:

- **Impact on contact-intensive sectors.** While the most affected sectors in 2020Q2 saw the biggest rebounds in 2020Q3-Q4, sectors most reliant on foreign travel are exceptions. The state-owned airline is running large losses and businesses in Mecca and Medina have been hard-hit as travel for Umrah and Hajj has been disrupted. Considerable support is being targeted at businesses in the two cities and high pent-up demand to perform Umrah and Hajj means religious tourism will likely rebound quickly once international travel restrictions are eased. Nevertheless, efforts to develop the non-religious tourism and hospitality sectors are a central piece of Saudi Arabia's diversification plan and will likely be delayed and pre-COVID expectations of tourist arrivals will need to be reassessed. Offsetting this is that domestic tourism has picked-up during the pandemic and this may continue as tourism infrastructure is developed and Saudis reassess the merits of domestic and international travel.

- **Lower human capital accumulation.** School closures interrupt learning opportunities and reduce human capital accumulation (see Chapter 1 of the April 2021 World Economic Outlook).

[1] Prepared by Yang Yang.

Studies of past school closures emphasize increased dropouts, decreased learning quality because of inefficient remote teaching methods, and exacerbating pre-existing mental health issues related to social isolation. This suggests COVID-19 could leave scars on human capital accumulation.[2] While education losses should be mitigated in Saudi Arabia by its well-established infrastructure—it scores high in both electricity access and Internet usage (Figure 1) which are both critical for facilitating online learning—it remains unclear whether this is sufficient to offset the losses from in-person learning.

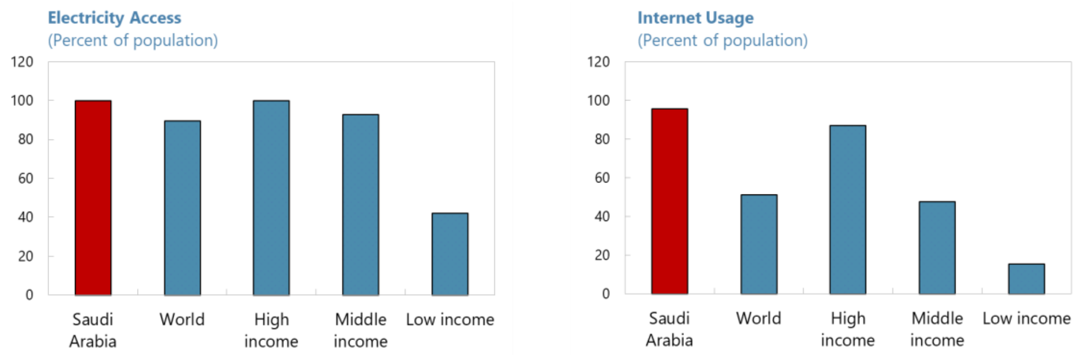
- **Oil revenue outlook**. Global oil demand may stay below pre-COVID expectations (Figure 2). If global oil demand is permanently reduced, lower oil revenues will constrain the ability of the public sector to invest to support diversification and may reduce the attractiveness of the country for FDI. The oil shock in 2014, for example, triggered a substantial reduction in fiscal revenues, government investment, and non-oil GDP (level and growth rate) relative to expectations and outcomes before the price drop (Figure 2). The global financial crisis (GFC) resulted in a more modest slowing in non-oil GDP growth.

- **Expatriate labor inflows.** If uncertainty about economic, health, and travel prospects remain elevated in the post-COVID environment, it may be harder to attract foreign labor, particularly skilled workers.

3. **Lower capital accumulation—both public and private—and lower growth in labor input may slow potential growth without offsetting policy actions.** The growth impact of the global financial crisis (GFC) on Saudi Arabia was relatively mild compared to other oil exporters and other countries. While growth of labor and total factor productivity (TFP) did decline somewhat after the GFC, capital accumulation recovered quickly driven by government investment (Figure 3). However, Saudi Arabia and other oil exporters experienced a significant slowing in non-oil growth after the oil price shock in 2014, while growth in other countries was not affected. In Saudi Arabia, TFP, labor, and capital all experienced structural declines (Figure 3). While the longer-term impact of COVID on oil revenues may be much smaller than the oil price shock of 2014 (judged from futures prices and staff forecasts of Saudi oil production), oil revenues are still expected to be 3.9 percent lower than the pre-COVID expectation in 2025 (based on the January 2020 World Economic Outlook projections).

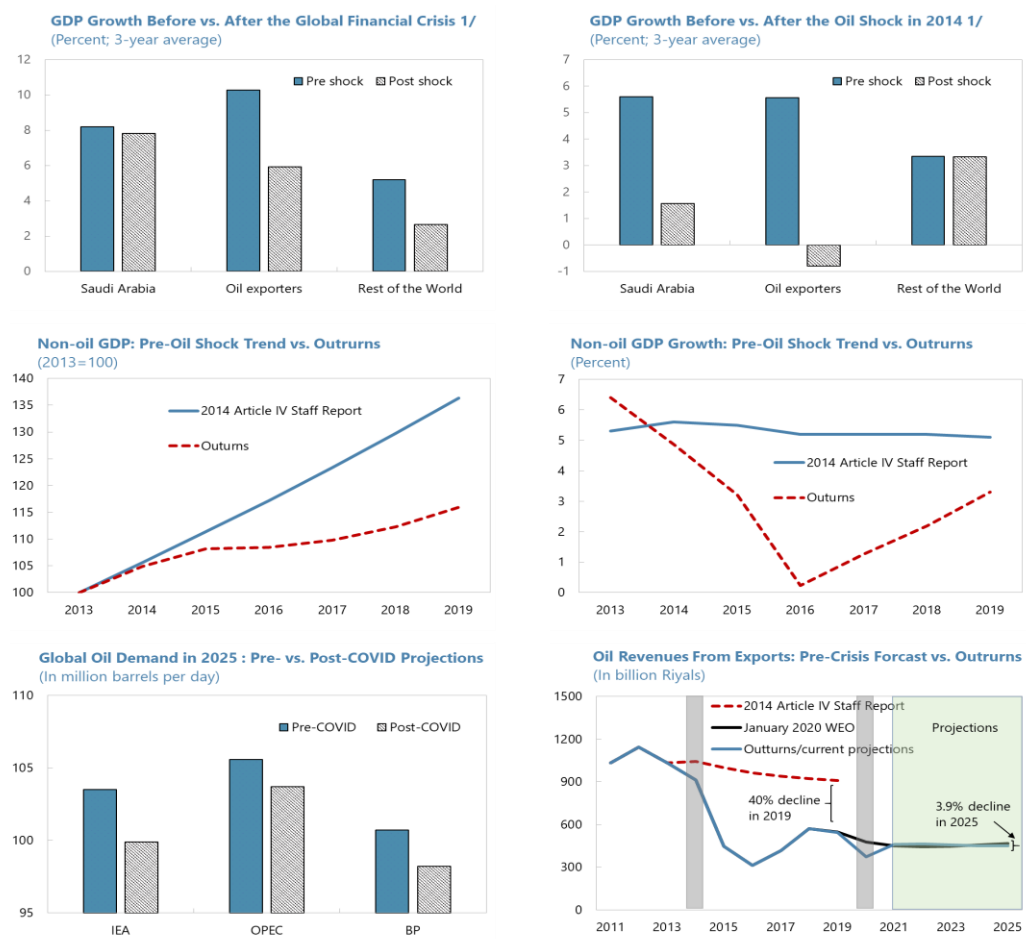
[2] Fuchs-Schündeln et al. (2020) estimate that the share of college-educated children falls by 2.6 percent and the share of high school dropouts increases by 4.1 percent in the US due to COVID-19. Agostinelli et al. (2020) find that in the US, high school students from poor neighborhoods suffer a learning loss of 0.4 standard deviations, whereas students from rich neighborhoods remain unaffected. Engzell et al. (2020) show that the 8-week school closure in the Netherlands led to a learning loss of about 0.08 standard deviations and the losses are up to 60 percent larger among students from less-educated homes.

Figure 1. Electricity and Internet Access



Source: World Bank and IMF staff calculations.

Figure 2. Scarring from Oil Shocks



Source: IEA; BP; OPEC; and IMF staff calculations.

1/ Non-oil GDP growth for oil exporters.

4. Policy support and structural reforms are critical for reducing the risks of scarring. Labor market reforms need to continue to incentivize participation of Saudi nationals in the private sector, further develop their human capital, and ease labor mobility between declining and expanding sectors which will be supported by the reforms to the Kafala system. Reforms should also strengthen the investment environment to attract FDI and Saudi capital that is currently invested overseas back into the country. The scaling-up of investment by the PIF, supported by a strong public sector balance sheet, will aid growth but should eventually pave the way for private sector participation in these emerging sectors. Investment in digital infrastructure and technology is critical for increasing productivity growth in the post-pandemic era.

5. In the staff's baseline, non-oil GDP is projected to rebound relatively robustly in the coming years, but to remain below the pre-pandemic path. The output gap is estimated at -5.2 percent in 2020 but will close over the medium term (Figure 3). Real non-oil GDP is expected to be 2.2 percent lower than the level projected pre-pandemic in 2025 (Figure 4). This compares with an average GDP (level) loss of 0.9 percent for G20 advanced economies and 3.9 percent for other G20 emerging markets in 2025 (from the April 2021 WEO). Saudi Arabia's reliance on oil revenues means the risk through this channel is the most significant, but it is in a stronger position than many other countries when it comes to limiting job losses during the pandemic, the speed of vaccine rollout and health care availability generally, and the quality of digital infrastructure and availability of digital services. In terms of growth, non-oil GDP is expected to grow faster than its post-2014 oil shock but pre-pandemic trend (2015-19) as the economy recovers from the COVID crisis until the output gap is closed.

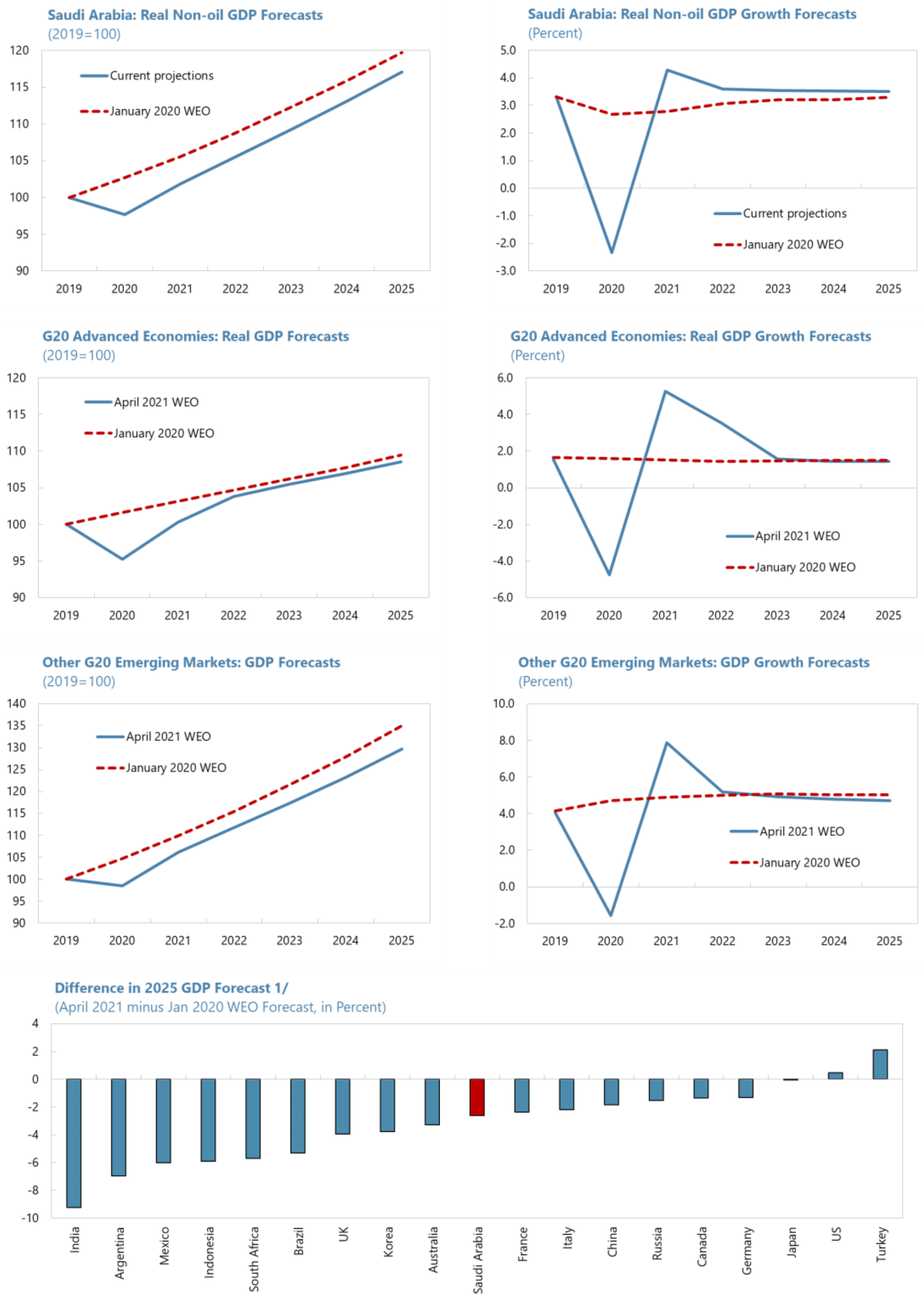
6. Structural reforms are expected to have a positive impact on non-oil growth, supporting an increase in potential non-oil growth to about 2.8 percent over the medium term. Increases in the Saudi working-age population and a continued rise in female labor force participation will lead to an increase in employment of Saudi nationals. Expatriate labor, on the other hand, is expected to grow only modestly in the post-pandemic era as international travel remains highly uncertain.[3] The new labor market initiatives introduced in March 2021, however, are expected to facilitate the mobility of expatriate labor and have a positive impact on growth through labor reallocation. Initiatives in areas of digital infrastructure, fintech, and privatization are also expected to boost TFP growth, reversing the trend of declining TFP growth over the past decade. The contribution of capital to non-oil growth is projected to decline over time as fiscal consolidation takes place but remain the largest among the three factors of production.

[3] The Saudi working-age population is projected to grow by 2 percent per year. Female labor force participation rate is expected to continue to increase by 1 percent per year while male participation remaining unchanged. Expatriate labor is projected to be flat in the short term and grow by 1 percent per year over the medium term.

Figure 3. Potential Output and Output Gap

Source: IMF staff calculations.

Figure 4. Scarring—GDP Levels and Growth Rates Post-Pandemic



Source: IMF staff calculations.

1/ For Saudi Arabia, Staff's latest forecast for non-oil GDP growth in 2025 minus the January 2020 WEO forecast is shown in the figure.

References

Agostinelli, Francesco, Matthias Doepke, Giuseppe Sorrenti, and Fabrizio Zilibotti. "When the Great Equalizer Shuts Down: Schools, Peers, and Parents in Pandemic Times." No. w28264. National Bureau of Economic Research, 2020.

Engzell, Per, Arun Frey, and Mark D. Verhagen. 2020. "Learning Loss Due to School Closures During the COVID-19 Pandemic." SocArXiv. October 29. doi:10.31235/osf.io/ve4z7.

Fuchs-Schündeln, Nicola, Dirk Krueger, Alexander Ludwig, and Irina Popova. "The long-term distributional and welfare effects of Covid-19 school closures." No. w27773. National Bureau of Economic Research, 2020.

International Monetary Fund (IMF). 2021. "World Economic Outlook." Washington, D.C.

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

June 24, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of May 31, 2021)

Membership Status: Joined August 26, 1957; Article VIII.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	9,992.60	100.00
Fund holdings of currency	7,709.34	77.15
Reserve tranche position	2,283.28	22.85
Lending to the Fund		
New Arrangement to Borrow	161.67	

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,682.50	100.00
Holdings	5,827.64	87.21

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2021	2022	2023	2024	2025
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.22	0.54	0.54	0.54	0.54
Total	0.22	0.54	0.54	0.54	0.54

Lending to the Fund and Grants:

Saudi Arabia is a participant of the New Arrangements to Borrow (NAB), whose credit arrangement under the NAB amounts to about SDR 11.31 billion. The outstanding amount under the credit arrangement as of April 30, 2021 is about SDR 161.67 million. In October 2012, Saudi Arabia entered into a note purchase agreement with the Fund under the 2012 Borrowing Agreements in the amount of SDR 9.71 billion, to provide a third line of defense after quota and NAB resources. In December 2016, this agreement was renewed under the 2016 Borrowing Agreements, this time with an amount of $15 billion. In January 2021, the agreement was again renewed under the 2020 Borrowing Agreements in the amount of about $6.46 billion. In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with investments totaling SDR 94.4 million. In April 2006, these investments were extended to end-December 2021 with an additional investment of SDR 38.2 million, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. Additionally, in April 2005, Saudi Arabia agreed to provide a grant contribution of $4 million (equivalent to SDR 2.6 million) to subsidize Emergency Natural Disaster

Assistance to low-income countries. In May 2012, Saudi Arabia pledged a new grant contribution of SDR 16.7 million in subsidy resources to the PRGT, which will be disbursed at end-December 2021. In October 2012 and October 2013, Saudi Arabia provided subsidy resources to the PRGT through the transfer of its full share in the distributions of the general reserve attributed to windfall gold sale profits, totaling SDR 71.87 million. Regarding loan resources, the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement of SDR 500 million with the Saudi Central Bank (SAMA) in May 2011 and the full amount had been drawn by end-May 2021. In February 2018, Saudi Arabia pledged to contribute $2 million (equivalent to SDR 2.8 million) to the Financial Sector Stability Fund, supporting financial sector stability, inclusion, and deepening, focused on low- and lower-middle income countries.

Exchange Rate Arrangement

Saudi Arabia maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions, and multiple currency practices. The Saudi Arabian Riyal was formally pegged to the U.S. dollar, effective January 2003 and the exchange arrangement is classified as a conventional peg. Prior to that, it was officially pegged to the SDR at the rate of SAR 5.2625=SDR 1, with margins of 7.25 percent even though in practice it has been pegged to the U.S. dollar since 1986, with a middle rate of SAR 3.7450=$1. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373.

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during April 23–May 5, 2019 in Riyadh. The staff report was considered by the Executive Board on July 10, 2019 and published on September 9, 2019 (http://www.imf.org/external/pubs/cat/longres.aspx?sk=48659).

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of June 16, 2021)

World Bank Country Page:

https://www.worldbank.org/en/country/gcc/brief/saudi-arabia-country-program

STATISTICAL ISSUES

(As of June 16, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Progress has accelerated on national account and price statistics. Most affected areas are: government finance, labor market, monetary and financial, and external sector statistics.
Real sector statistics: **National accounts:** The General Authority for Statistics (GASTAT) compiles annual and quarterly production and expenditure-based GDP estimates with 2010 as base year. Current and constant price production-based GDP estimates are available from 2010Q1 to 2020Q4. Expenditure based estimates are available from 2011 to 2020. A new producer price index is being developed, which will allow improved deflation techniques. GASTAT is making progress on development of sectoral accounts. GASTAT also compiles and publishes an industrial price index with improved periodicity (from quarterly in 2016 to monthly since January 2019). **Price statistics:** The CPI has been rebased to 2018. The weight reference period for the wholesale price index has recently been updated to 2014 though sample coverage is limited to three cities. In March 2019 a detailed work plan for creating a new PPI was developed and agreed with the authorities. The new PPI is under development. A quarterly real estate price index is now published. **Labor market statistics:** Data providing a breakdown of employment between the private and public sector is only available from 2018Q3. A new classification for economic activity and a new employment series were introduced in 2016Q4. However, data prior to 2016Q4 has not yet been revised to make it consistent with the new series. The statistical agency has stopped publishing employment data from the labor force survey (LFS) since 2018Q3. Instead, it is publishing employment data based on contributors to the private sector pension fund and data from the Ministry of Human Resources and Social Development, which is only available from 2016Q3.
Government finance statistics: The authorities have reclassified the budget in line with *GFSM 2014*. The *GFSM 2014* framework is being used to report and publish fiscal data.
Monetary and financial statistics: The quality of monetary data has improved and information is made available in the Saudi Central Bank (SAMA) Monthly Statistical Bulletin. Detailed data providing a breakdown of corporate and household deposits is not available. Furthermore, SAMA's published balance sheet has a large and growing "other liabilities" item that hinders analysis. SAMA has submitted the preliminary monetary and financial statistics based on the Standardized Report Forms (SRFs), as recommended in the Monetary and Financial Statistics Manual and Compilation Guide, for review by Statistics Department. SAMA also reports some basic series and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: SAMA reports quarterly financial soundness indicators (FSIs) to the IMF, which are published on the IMF's FSI website (https://data.imf.org/FSI). The reported FSIs comprise all 12 core FSIs and 8 encouraged FSIs for deposit takers.
External sector statistics: Quarterly balance of payments (BOP) and international investment position (IIP) data are published according to the latest international standard (the sixth edition of the *Balance of Payments and International Investment Position Manual*). However, data in the financial account of BOP and IIP are highly aggregated without breakdown by institutional sectors. The coverage for the private sector needs to be

improved. SAMA participates in the IMF's Coordinated Portfolio Investment Survey (CPIS), although not in the IMF's Coordinated Direct investment Survey (CDIS). Direct investment data in BOP and IIP need improvements, which will also enable SAMA to participate in the CDIS. SAMA compiles external debt statistics quarterly and the Reserves Data Template monthly.	
II. Data Standards and Quality	
Saudi Arabia subscribed to the Special Data Dissemination Standard (SDDS) on September 18, 2019.	No data ROSC is available.

Table of Common Indicators Required for Surveillance (As of June 16, 2021)					
	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange rates	6/16/2021	6/16/2021	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	4/2021	5/31/2021	M	M	M
Reserve/base money	4/2021	5/31/2021	M	M	M
Broad Money	4/2021	5/31/2021	M	M	M
Central Bank balance sheet	4/2021	5/31/2021	M	M	M
Consolidated balance sheet of the banking system	4/2021	5/31/2021	M	M	M
Interest rates[2]	6/16/2021	6/16/2021	D	D	D
Consumer price index	5/2021	6/15/2021	M	M	M
Revenue, expenditure, balance and composition of financing[3]—central government	Q1 2021	5/4/2021	Q	Q	Q
Stocks of central government and central government-guaranteed debt[4]	Q1 2021	5/4/2021	Q	Q	Q
External current account balance	Q4 2020	3/28/2021	Q	Q	Q
Exports and imports of goods	3/2021	5/26/2021	M	M	M
GDP/GNP	Q1 2021	6/14/2021	Q	Q	Q
Gross external debt	Q4 2020	3/28/2021	Q	Q	Q
International investment position[5]	Q4 2020	3/28/2021	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by means as well as the notional values of derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank and domestic nonbank financing.

[4] Including currency composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[6] Daily (D), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).