INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/271

SAUDI ARABIA

2012 ARTICLE IV CONSULTATION

September 2012

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 2012 Article IV consultation with Saudi Arabia, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 26, 2012, 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 13, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Staff Statement** of June 26, 2012
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its July 2, 2012 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
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SAUDI ARABIA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

June 13, 2012

KEY ISSUES

Context. Saudi Arabia is the world's largest oil exporter and has employed its spare capacity to help stabilize the global oil market, providing important support to the global economy. The associated increase in oil revenues has resulted in sharply higher fiscal and current account surpluses and provided room to accelerate initiatives to address pressing social issues, including a shortage of affordable housing and unemployment. Spillovers from higher growth and fiscal spending, together with increased financial assistance, have positively impacted the region.

Outlook and risks. Economic prospects are strong. Growth is expected to remain high—led by the private sector—with large fiscal and external surpluses due to increased prices and production of oil. The oil market remains the main source of risk, with the economy showing little direct impact from the euro area crisis and few signs of overheating.

Fiscal policy. The expansionary fiscal stance is appropriate, but the level and composition of expenditures needs to be carefully controlled to ensure that expenditures can be contained over the medium-term.

Macroeconomic policy framework. Strong fiscal institutions and macroprudential tools can help ensure economic stability in the face of increased oil price volatility. While the exchange rate peg remains appropriate, there are increased policy tensions due to diverging conditions in the U.S. economy and the global oil market.

Growth and employment creation. Labor market initiatives to create more employment opportunities for Saudi nationals need to go hand in hand with ongoing initiatives to ensure an adequate supply of Saudi nationals equipped to take up positions created. Improving productivity will be key to sustaining the current growth momentum.

Approved By
Alfred Kammer and David Marston

Discussions were held in Riyadh during May 14-26, 2012. The staff team comprised David O. Robinson (head), Ghada Fayad, Tobias Rasmussen, Niklas Westelius (all MCD) and Jimmy McHugh (FAD). Ahmed Alkholifey and Sadok Rouai (OED) accompanied the mission. The team met with Minister of Finance Al-Assaf, Minister of Economy and Planning Al-Jasser, Governor of SAMA Al-Mubarak, and other senior officials and representatives of the private sector. Masood Ahmed (MCD) participated in the concluding meetings during May 24–26.

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CONTEXT: ADVANCING NATIONAL DEVELOPMENT OBJECTIVES WHILE RESPONDING TO ELEVATED GLOBAL AND REGIONAL UNCERTAINTIES

1. **Saudi Arabia has provided important support to the global economy during a period of high uncertainty, including through its actions in stabilizing the global oil market**. Global risks—both from the ongoing euro area crisis and broader geopolitical tensions—have created substantial uncertainty with respect to the global growth outlook. Reflecting its systemic role in the global oil market—not only as the world's largest oil exporter but also the only country with significant spare capacity—Saudi Arabia has, in line with its longstanding commitment, increased its oil production to ease upward pressures on global oil prices. The commitment to provide $15 billion in additional resources for the IMF has also contributed to global stability by increasing the funding available for all countries encountering financing needs.

2. **High oil revenues have been used to accelerate progress on domestic developmental objectives, as well as to support other economies in the region**. New initiatives were announced in 2011 to accelerate progress in addressing pressing social issues, including employment, the availability of affordable housing, and SME financing. Regional support has come both in the form of substantial new pledges of financial assistance and indirectly, as fiscal expansion in Saudi Arabia creates increased demand for imports and also raises remittances from foreign labor employed in the Kingdom.

Regional Financial Aid
New Commitments Januay 1, 2011 to June 1, 2012
(US$ billions)

Country	Pledged	Disbursed	Comment
Bahrain and Oman	5.00	…	GCC package of $20 billion split between Kuwait, Qatar, Saudi Arabia, and the UAE
Egypt	3.99	1.54	A combination of budget support, central bank deposits, project financing, and trade credit.
Yemen	3.60	0.35	Total pledge including diesel and crude oil grants
Jordan	2.65	1.40	$1.4 billion in budgetary support and a GCC package of $5 billion split equally between Kuwait, Qatar, Saudi Arabia, and the UAE
Morocco	1.25	…	GCC package of $5 billion split equally between Kuwait, Qatar, Saudi Arabia and the UAE
Tunisia	0.75	…	$0.5 billion for project financing and $0.25 billion for export financing
West Bank and Gaza	0.34	0.28	Budgetary support
Sudan	0.24	0.08	Infrastructure loan
Djibouti	0.04	0.01	Budget support and project loans
Total	17.86	3.66	

Source: Ministry of Finance.

3. **A key challenge is to ensure that the opportunity provided by the spike in oil revenues is used efficiently to enhance social outcomes and improve the productivity of the economy**. In the late 1970s—with oil prices at similar levels in real terms—surging oil revenues were channeled into a multifaceted effort to transform the nation into a diversified and modern economy. But this effort was impacted by the sharp and sustained dip in oil prices beginning in the early 1980s that left the economy with a debt to GDP-ratio above 100 percent by the end of the 1990s. Public investments over the past several decades have contributed to strong improvements in social

outcomes, such as in education. While the contribution of private sector to GDP is expected to exceed 48 percent, the economy remains largely dependent on hydrocarbons and non-oil growth driven by factor accumulation, with a minor role for productivity growth. Policy buffers are higher than in the late 1970's, but going forward it is important to ensure that on-going policy initiatives are carefully designed and implemented.

RECENT DEVELOPMENTS

4. **The economic impact of regional unrest and the protracted euro area crisis has been offset by sharply higher oil revenues.** Saudi Arabia helped stabilize the global oil market and contain the increase in the price of oil by increasing its oil production in mid-2011 to offset supply shortfalls from Libya, and again in early 2012 in response to increased supply uncertainties stemming from elevated geopolitical tensions. Oil revenues increased sharply, resulting in substantial fiscal and external surpluses despite large new domestic fiscal spending initiatives. International reserves, which constitute the principal savings component of oil wealth, surpassed half a trillion dollars (94 percent of 2011 GDP).

5. **With increased fiscal space, government spending accelerated in 2011 and the non-oil economy expanded at the highest rate in three decades**. New initiatives to address pressing social issues translated into real government spending growth of 20 percent. The expansionary fiscal stance along with accommodative monetary policy and stronger non-oil exports, supported 8 percent growth in the non-oil economy—the highest since 1981—with the construction and manufacturing sectors providing the largest lifts. Quarterly real GDP data show non-oil private sector growth accelerating through the year, reaching about 10 percent (y-o-y) in the fourth quarter. The latest PMI and point of sale transaction data point to continued rapid growth in the first four months of 2012.

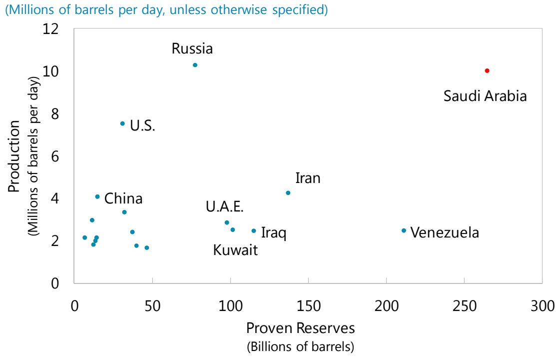
6. **Despite the strong economic expansion, headline inflation stabilized in 2011 as international food inflation subsided, but core inflation rose**. Headline inflation (y-o-y) fell in the first half of 2011 but began to rise in the third quarter and ended the year at 5.3 percent. While food inflation declined throughout the year, rent inflation together with other components (home furniture and services) started to gain momentum in the second half, pushing annual core inflation up to 5 percent for 2011. Data for the first quarter of 2012, however, indicate a slight reversal with food inflation picking up and core inflation falling.

7. **SAMA left policy rates unchanged in 2011**. Consistent with the commitment to the exchange rate peg and reflecting the monetary policy stance in the U.S., SAMA has not adjusted its interest rate corridor since 2009, keeping the repo and reverse repo rates constant at 2 and 0.25 percent, respectively. Fiscal spending contributed to strong growth in the monetary base of 22 percent (up from 10 percent in 2010). SAMA absorbed some of the excess liquidity through the issuance of central bank bills and its reverse repo facility, limiting broad money growth to 13 percent and smoothing credit dynamics throughout the year.

Figure 1. Context and Recent Developments

Oil Production and Proven Reserves, 2010

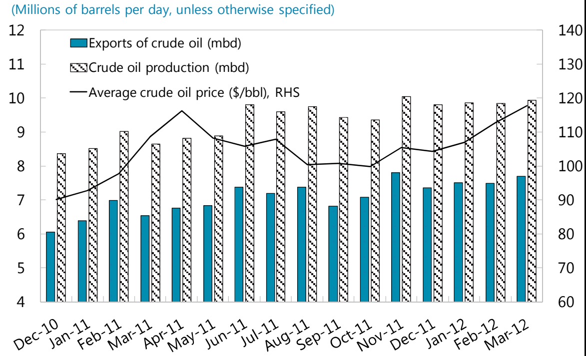
(Millions of barrels per day, unless otherwise specified)



Source: BP Statistical Review of World Energy 2011.

Oil Price and Production, 2010–12

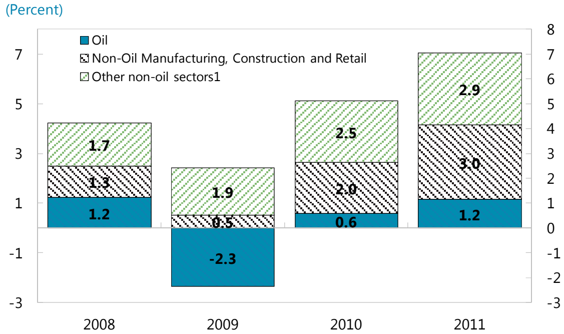
(Millions of barrels per day, unless otherwise specified)



Sources: WEO database; and JODI.

Contributions to Overall GDP Growth, 2008–11

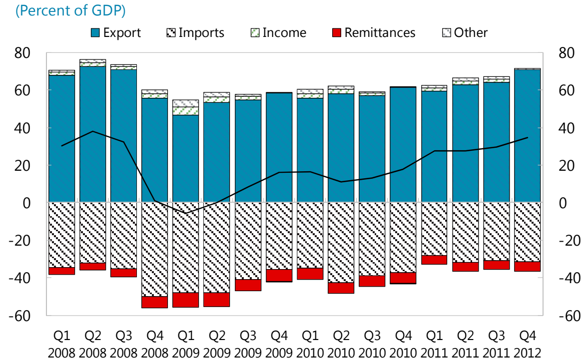
(Percent)



Sources: National authorities; and IMF staff calculations.
[1]Other non-oil sectors include government services, financial services, utilities, and transportation.

Current Account Balance, 2008–11

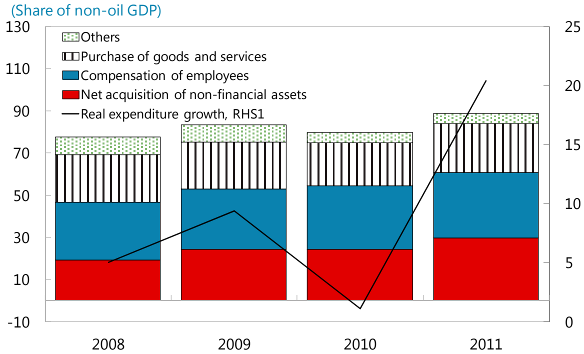
(Percent of GDP)



Source: National authorities.

Fiscal Spending, 2008–11

(Share of non-oil GDP)



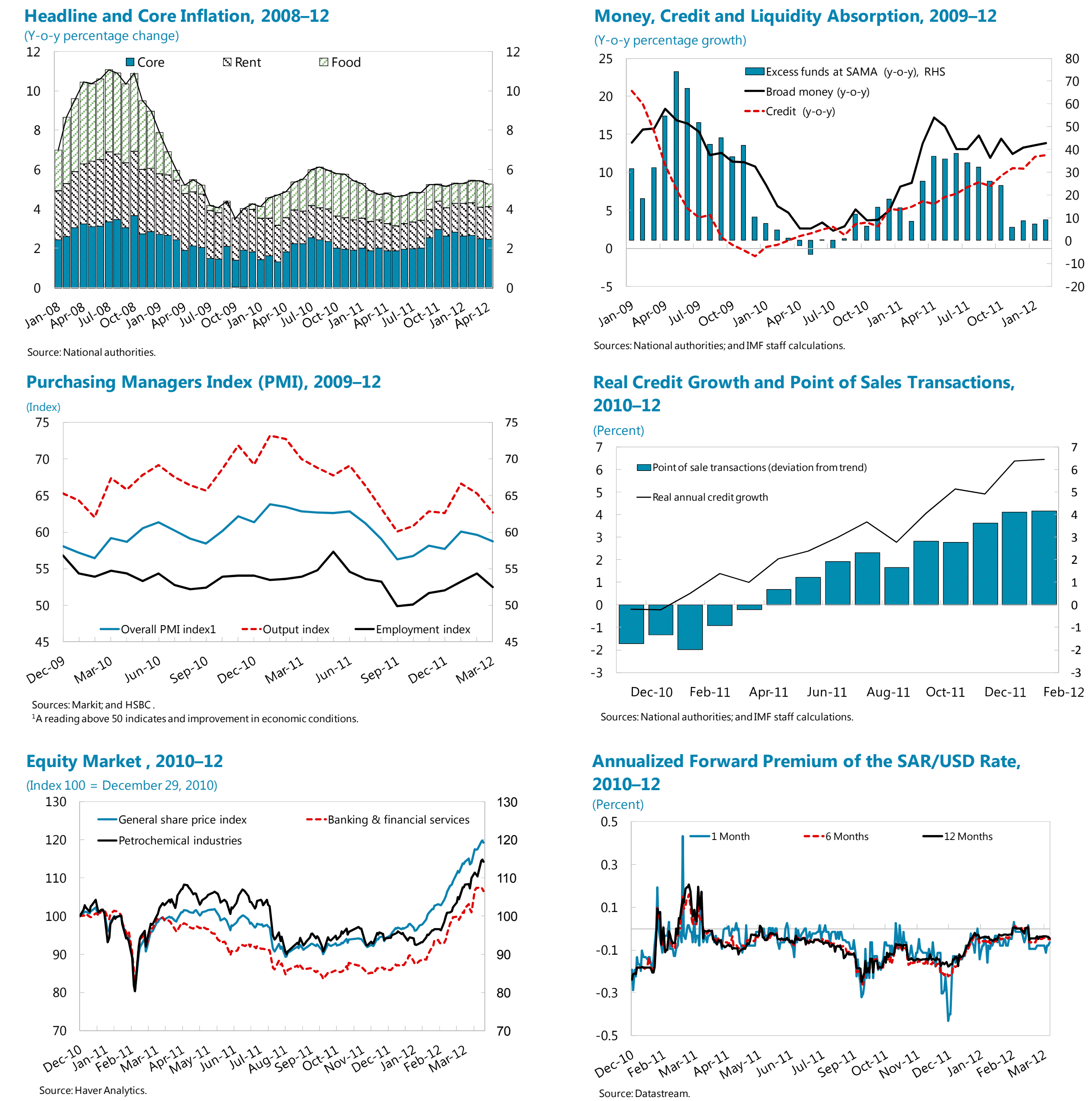
Sources: National authorities; and IMF staff estimates.
[1]Real expenditures are deflated with the CPI index (100=1999).

Unemployment Rate, 1999–2010

(Percent)

Sources: National authorities; and Haver Analytics.

Figure 1. Context and Recent Developments (concluded)



8. **The banking sector remains highly capitalized and liquid, with improved profitability**. Bank profits increased by 18 percent in 2011 as the return on assets rose and bank leverage increased. Credit to the private sector grew by 11 percent (compared to 5 percent in 2010) with consumer loans and credit to the manufacturing sector constituting the main contributors. The banking system remained well capitalized and highly liquid at end-2011, with a Capital Adequacy Ratio (CAR) of 17.4 percent and with excess funds at SAMA amounting to over 20 percent of the deposit base.

9. **Structural reforms gained new momentum in 2011.** New initiatives approved in February and March, 2011 seek to accelerate progress in addressing pressing social issues, including improvements in access to affordable housing, employment, and SME financing.

- *Housing finance*. Almost two thirds of a combined $110 billion fiscal package was allocated to a multi-year project to construct half a million new affordable housing units. An additional $11 billion were allocated to the Real Estate Development Fund (REDF)—to increase the availability of housing loans.
- *Employment.* A new jobseekers' allowance (*Hafiz*) and a new Saudization program (*Nitaqat*) to increase the employment of nationals in the private sector came into effect in late 2011. These programs have been supported by expanded job placement and training schemes.
- *SME financing.* About $5 billion were allocated to the government-operated Saudi Credit and Savings Bank, with the intention of expanding SME financing. A similar amount is due to be transferred to the Saudi Industrial Development Fund to support bank credit to SMEs (*Kafala*) and other lending.

OUTLOOK

The macroeconomic outlook remains very strong, but subject to an unusually large degree of uncertainty. Elevated geopolitical risks have generated higher oil prices that along with higher oil production imply continued large fiscal and external surpluses. But a weaker oil price scenario could materialize, for example if the pressures in the euro area lead to weaker global demand. The projected trend decline in oil prices over the medium-term will reduce the surpluses, with the fiscal balance expected to turn into a small deficit by 2017.

10. **Elevated geopolitical risks and associated oil price volatility have increased the expected volatility of external and fiscal balances.** In response to heightened oil market uncertainty in early 2012, Saudi Arabia increased oil production (including condensates) to 10 mbd, a 30 year high, consistent with its commitment to stabilize the global oil market.[1] Combining this output uncertainty with the price uncertainty imbedded in oil derivatives contracts (using a band of one standard deviation on the oil price), uncertainty with respect to the evolution of fiscal and external balances is substantial (see Figure 2).

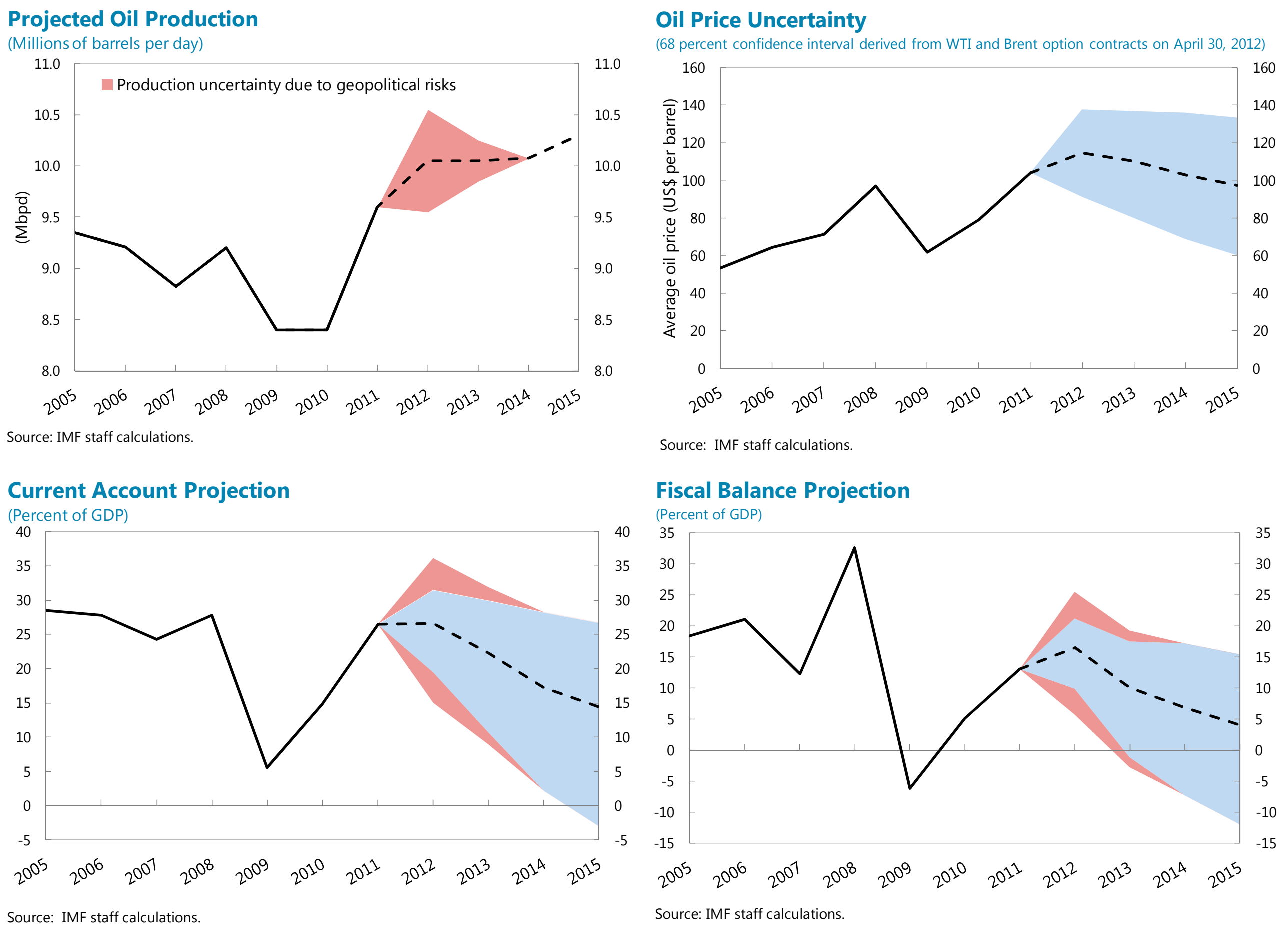
- *Current account*: Under the baseline scenario, the current account balance is projected at 26.5 percent of GDP in 2012, but would decline throughout the medium term, reaching

[1] The baseline scenario assumes Saudi oil production (including condensates) of 10.1 mbd in 2012 (compared to 9.6 mbd in 2011 and approximately the same production volume as in Q1 2012). The 9.5 to 10.5 range reflects on the upper end potential global supply disturbances and on the lower end a slowdown in global demand if the euro area crisis intensifies.

12 percent of GDP by 2017.[2] However, the risk profile suggests that the current account outcome by 2015 may range from a deficit of 3 percent of GDP to a 27 percent surplus.

- *Fiscal balance*: Overall spending growth is projected to moderate somewhat to about 7 percent per annum over the medium term. Under the baseline scenario, the fiscal surplus is expected to narrow gradually, before turning into deficit in 2017. The risk profile suggests a wide range for the fiscal balance, from a 15 percent of GDP surplus to a 12 percent of GDP deficit by 2015.

Figure 2. Risk Profile of Fiscal and External Balances Given Geopolitical Risk and Oil Price Uncertainty



[2] Errors and omissions in the balance of payments during 2005–11 range between -4.1 percent of GDP and -16.1 percent of GDP. The authorities are working with STA to improve the coverage of the balance of payments, but the magnitude of the errors and omissions suggests some uncertainty on the measurement of the current account surplus.

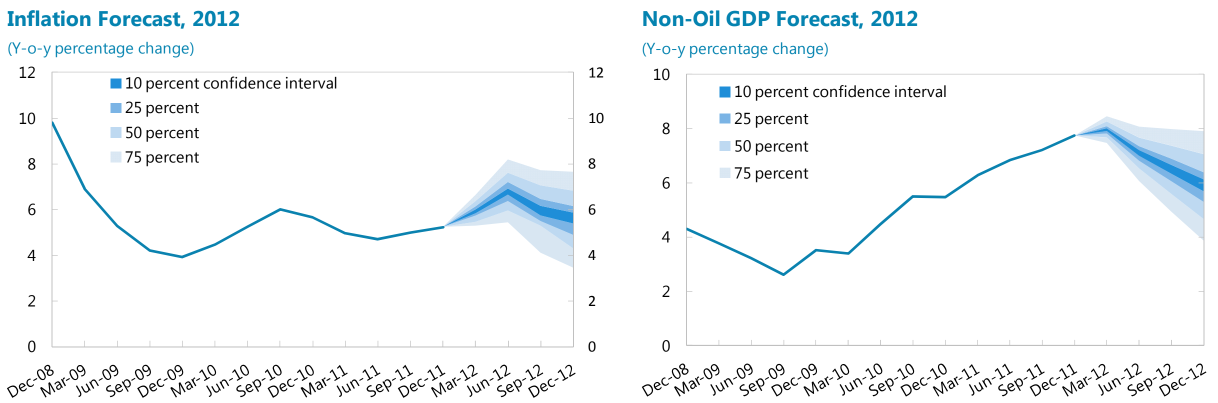
POLICY DISCUSSIONS

Discussions focused on four main areas: (i) the macroeconomic policy stance and key risks; (ii) the macroeconomic policy framework and supporting institutions and policy tools; (iii) growth and job creation; and (iv) financial sector development.

A. The Macroeconomic Policy Stance and Key Risks

11. **There was broad agreement on the baseline forecasts for continued strong growth and modest inflation**. Non-oil activity is expected to slow down in the second half of 2012, reaching 6.5 percent by the end of the year. Inflation is projected to remain broadly stable, increasing slightly in the first half of 2012—consistent with the projected strong non-oil growth in the first quarter—and ending the year at around 5 percent.

Figure 3. Quarterly VAR Forecasts of Non-Oil Growth and Inflation for 2012[1]



Source: IMF staff calculations.

Source: IMF staff calculations.

[1]The VAR model consists of three endogenous variables (credit, CPI and non-oil GDP) and five exogenous variables (nominal government spending, NEER, international food prices, average oil price and 3-month LIBOR). The quarterly non-oil GDP series is interpolated using quarterly sales transaction data.

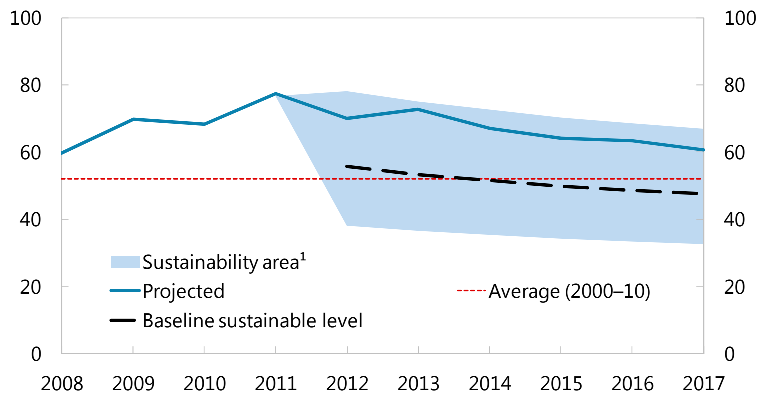
12. **There are few signs that the economy is overheating**. The authorities noted that inflation remains driven primarily by food prices (largely externally determined given the weight of imports) and rents (determined by structural factors). Housing pressures were being addressed through the initiatives to expand housing supply and improve access to financing, while the open capital and labor markets as well as investments in infrastructure served to reduce the incidence of structural bottlenecks often seen in fast growing economies.

13. **Nevertheless, inflation risks are tilted to the upside,** given elevated fiscal spending, accelerating credit growth, and an accommodative monetary policy consistent with the peg to the U.S. dollar. In the event that inflation risks materialize, it was agreed that a coordinated policy response by the fiscal authorities and SAMA would be needed. Containing inflationary pressures would require a combination of slowing the pace of fiscal spending and use of SAMA's policy tools—the authorities noted that, in the past, reserve requirements and loan to deposit ratios had proven effective.

14. **While the expansionary fiscal stance is appropriate in the near-term, staff stressed that it should be contained over the medium-term to a level consistent with inter-generational equity in the consumption of oil wealth and to reduce vulnerabilities to oil prices**. Recent fiscal initiatives—focused on addressing unmet social and development needs—have provided important support for growth and social welfare. In addition, increased fiscal spending by Saudi Arabia has a significant positive spillover effect to the region, particularly important given the difficult economic situation in several countries (Box 1). But, the elevated medium term spending profile implies vulnerability to a sustained drop in oil prices has increased and that the medium term non-oil primary deficit is above the level consistent with intergenerational equity by about 10 percent of non-oil GDP. Taking into account oil price uncertainty implied by oil derivatives contracts, the non-oil primary deficit is close to the upper bound of the sustainability range.

Projected and Sustainable Non-Oil Primary Deficit, 2008–17

(Percent of non-oil GDP)



Source: IMF staff estimates.
[1]Based on the 68 percent confidence interval for oil prices displayed in Figure 2.

15. **Staff recommended putting in place plans to ensure a clear downward trend in the non-oil deficit ratio to non-oil GDP.** Focusing spending on well-defined capital projects and curtailing increases in current spending would support economic growth and allow for a reduction in spending once the current phase of investment is completed. In addition, moving ahead with the GCC-wide VAT and reforming domestic pricing of energy products would help broaden the tax base and reduce dependence on volatile oil export revenues.

16. **The authorities considered the staff's spending projections to be on the high side, and noted that there was room to contain fiscal balances going forward, if needed**. Key components were:

- *Composition of expenditures*. The authorities stressed that recent expenditure increases had emphasized capital projects, including both housing and various infrastructure projects. Current spending increases included important new social initiatives such as the jobseekers' allowance (*Hafiz*) that represented both an important extension of the social safety net and a step in assisting Saudis to enter the labor force. Permanent entitlement increases, however, remained limited.

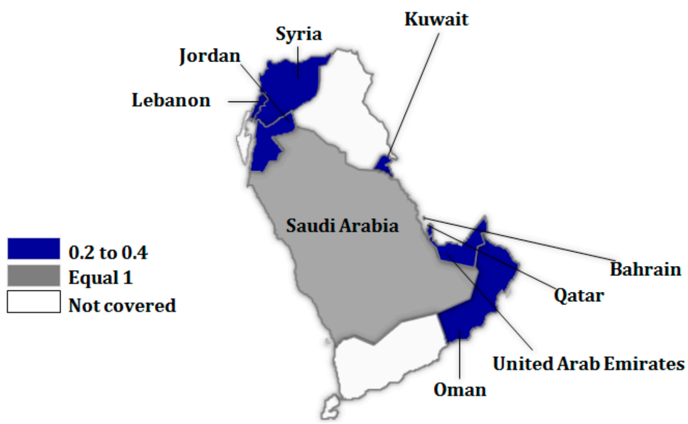
- *Revenues:* Recently approved legislation had provided a comprehensive legal framework for the administration of non-oil revenues. The authorities noted that the introduction of a GCC-wide VAT was still being studied, but that other options—such as adjusting excises to discourage consumption of certain products (e.g. tobacco)—were also under discussion.

Box 1. Spillovers from Saudi Arabia

Global spillovers from Saudi Arabia largely relate to its role in stabilizing the global oil market. Saudi Arabia's non-oil economy represents less than 0.5 percent of world GDP and the impact of Saudi non-oil activity on the global economy is therefore fairly modest. Reflecting trade linkages and the high import content of Saudi consumption, emerging Asia would see some of the largest spillovers even as a 10 percent of GDP fiscal expansion in Saudi Arabia is estimated to increase this region's GDP by less than 0.1 percent—see Chapter VI of MCD DP 11/01 "*Enhancing Economic Outcomes in an Uncertain Global Economy*" *by* Beidas-Strom, Rasmussen, and Robinson (2011).

From a regional perspective, however, there are sizable positive spillover effects from non-oil activity in Saudi Arabia. Relative to the size of their own economies, linkages to Saudi Arabia's economy are strongest in its immediate neighbors, with the main channels including trade, remittances, FDI, external assistance, and financial markets. Using a GVAR model developed by Cashin, Mohaddes, and Raissi (2012), a one percent increase in Saudi non-oil GDP is estimated to increase GDP in Jordan, Lebanon, Syria, and in other GCC countries by between 0.2 and 0.4 percent (see SIP, Chapter IV).

Regional Spillovers from a one percent Increase in Saudi Non-Oil GDP



Among the different channels, spillovers via non-oil goods trade would be especially important for Egypt, Ethiopia, and Jordan (the three countries where exports to Saudi Arabia comprise the largest share of total exports). Linkages to other GCC countries include services trade and financial markets, while spillovers via remittances would be especially important for Jordan, Sudan, and Yemen (the three countries where remittances from Saudi Arabia represent the largest share of GDP). In absolute terms, spillovers via outward remittances (which have averaged over 6 percent of Saudi GDP over the past decade) would be particularly important for India, the Philippines and Bangladesh—the three largest recipients.

Economic Linkages to Saudi Arabia

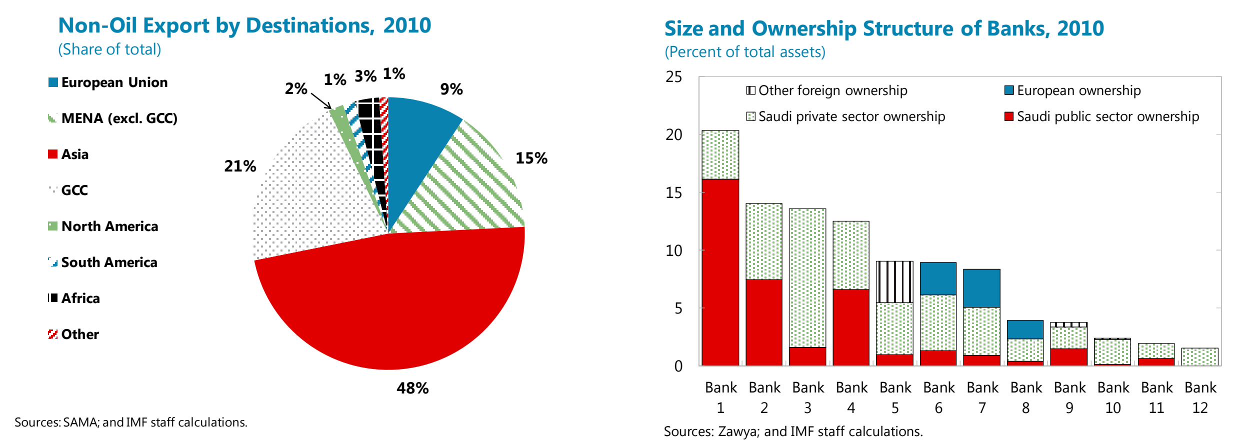
	Exports to SA[1]	Imports from SA[1]	Remittances from SA[2]	FDI from SA[3]
Egypt	6.0	4.0	0.9	0.1
Jordan	10.7	19.8	3.3	0.7
Lebanon	5.8	2.3	1.6	1.2
Syria	5.5	11.7	0.3	0.3

Sources: IMF, Direction of Trade Statistics; World Bank, Bilateral Remittances Matrix; and Arab Investment and Export Credit Guarantee Corporation.
[1] Merchandise, in percent of total, 2010.
[2] In percent of GDP, 2010.
[3] In percent of GDP, 1985–2009.

17. **The key risk facing the economy is the oil market**. A large and sustained dip in oil prices—as occurred in the 1980's and 90's—would present significant challenges to the economy. The authorities stressed that given the policy buffers that have been built up in recent years, Saudi Arabia is in a position to sustain expenditures at levels consistent with medium-term objectives for some time. In addition, they stressed that the economy is more resilient now—due to a greater degree of economic diversification, more developed financial markets, and better public infrastructure. Stress tests, undertaken during the 2011 FSAP Update, had also indicated that the banking system could absorb a large decline in oil prices.

18. **Apart from the oil market, spillover channels from the euro area—non-oil exports and financial linkages—appear limited** (see SIP, Chapter IV).[3] Non-oil exports to the euro area are relatively small and likely to constitute a minor spillover channel. Financial cross-border spillover effects appear minor, but information on the geographical distribution of foreign assets and liabilities is limited. While three major European banks have significant ownership in three domestic banks (that together account for one-fifth of the Saudi banking system's total assets), the strong performance of these Saudi intermediaries has been a source of strength for the parent institutions. Additionally, cross-holdings in Europe of Saudi Arabian corporate conglomerates could comprise another spillover channel, and private sector projects dependent on foreign financing could be delayed (as witnessed in 2008–09) if the availability of external funds dries up.

Figure 4. Non-oil Trade and Financial Linkages to the European Union



[3] Empirical spillover models also point to a limited growth impact from a slowdown in the euro area on Saudi Arabia. These models suggest that the more significant impact would come via a slowdown in China—a one standard deviation shock to growth in China is estimated to reduce growth in Saudi Arabia by 0.5 percent.

Saudi Arabia: Risk Assessment Matrix[1]		
Nature/source of main threats	**Likelihood of realization in the next three years**	**Expected impact on the economy if risk is realized**
Overheating	**Medium** The private sector is growing at its fastest pace in 30 years, and fiscal and monetary policy remains expansionary, creating potential for intensifying price pressures	**Low to Medium** Open capital and labor markets have eased structural bottlenecks. With monetary policy likely to remain accommodative due to the U.S dollar peg, it is essential that fiscal policy and the use of instruments available to SAMA are coordinated to offset domestic demand pressures.
Strong intensification of the euro area crisis	**Medium** Heightened financial stress could adversely alter the outlook for the euro area.	**Low** Direct financial linkages are relatively modest, although three large European banks have significant ownership in three domestic banks that together account for one fifth of the banking system's assets. Banks do not rely on wholesale funding and total credit exposure to Europe is less than 5 percent of total assets. Contagion risks within the Saudi banking system are very limited, with interbank exposures low relative to capital. Cross-holdings in Europe of Saudi corporate conglomerates could comprise another spillover channel.
Socio-economic issues	**Low to Medium** Youth unemployment among nationals is high and there is a shortage of affordable housing.	**Medium** A range of programs are underway, but will take time to fully come into effect. Excessive short-term focus could jeopardize longer-term objectives.
Large and prolonged decline in oil prices	**Low** A global recession followed by protracted slow growth would depress demand for energy and could lead to a sharp and sustained decline in oil prices.	**Medium to High** The government has significant buffers to maintain key expenditures in line with strategic objectives. Impact on the banking system—as confirmed by recent stress tests—should be small given that capitalization ratios are currently well above regulatory norms and high levels of liquidity. Should the oil price remain low for an extended multi-year period, however, the depletion of buffers would entail a more negative impact.
Geopolitical risks	**Low** Increased tensions elsewhere in the region could disrupt shipping through the Hormuz strait.	**Medium** The impact on exports revenues would be mitigated by existing alternative transportation routes (e.g., east-west pipeline), external stockpiles, and a likely increase in global oil prices.

[1] The RAM shows events that could materially alter the baseline-path—the scenario most likely to materialize in the view of the staff.

B. Strengthening Macroeconomic Management

The challenges facing macroeconomic policy-makers in Saudi Arabia are evolving. The oil price—traditionally the driver of the fiscal stance—is increasingly being determined by developments in emerging market economies, particularly China. Financial market deepening in Saudi Arabia means that the impact of US monetary policy on the economy has increased. Thus the potential for the oil cycle to diverge from the US business cycle—as happened in 2007/08—is increasing, raising the potential for policy tensions. Such tensions highlight the need for strong macroeconomic institutions and a broader range of policy tools (see SIP Chapter III).

19. **While the link between fiscal spending and oil revenues has weakened, insulating fiscal policy from oil price volatility remains a key challenge.** Fiscal spending volatility has fallen over the past decade and the correlation between spending and oil revenue growth has declined. Nevertheless, it was agreed that further strengthening fiscal institutions (Box 2) could enhance the stability, quality, and efficiency of spending while ensuring adequate controls. Options include:

Volatility and Correlation of Oil Revenue, Spending and Non-oil Growth, 1980–2010

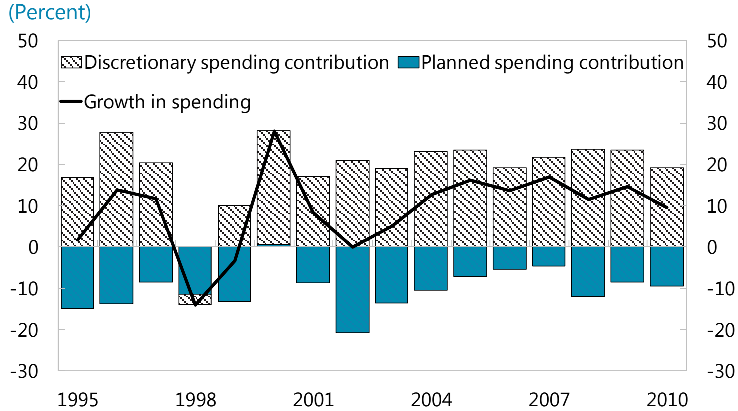
	Oil Revenue Growth Volatility (std)	Spending Growth Volatility (std)	Correlation Between Oil Revenue and Spending	Non-oil Growth Volatility (std)
1980s	44.4	19.8	0.9	4.6
1990s	21.1	16.2	0.7	1.6
2000s	38.5	6.4	0.2	0.7

Source: IMF staff calculations.

- *Strengthening the medium-term budget framework*. Staff noted that while the national development plan includes five-year projections of revenues and a limited breakdown of expenditures, these projections could be usefully updated annually and included in the published budget documentation.

Commitment vs. Discretion in the Budget Process, 1995–2010

(Percent)



Sources: National authorities; and IMF staff calculations.

Budgetary practices: Each year the budget is approved based on a conservative oil price and with spending typically below the previous year's actual outcome. Realized spending in most years has exceeded the spending in the initial budget by a wide margin. The authorities noted that while actual spending levels were generally above the budget statement, a careful review process was undertaken in determining additional allocations that were approved via supplementary budgets.

- *Control, quality, and efficiency of spending*: The authorities noted that budgetary preparation and controls at line ministries could be strengthened—and discussions on these issues were underway with the assistance of both FAD and the World Bank. These efforts would also be facilitated by finalizing the adoption of GFSM2001.

Box 2. Budget Institutions

Saudi Arabia has long-established budget institutions that have served the country well. A large quantity of fiscal data is collected, but only limited information about fiscal developments is disseminated. A formal medium term framework and disclosure of fiscal risks could be developed. The Ministry of Finance is implementing reforms to strengthen budget reporting and data dissemination.

The Council of Ministers acts both as the executive and legislative wings of the government. It approves expenditures and reviews budgetary performance. The Ministry of Finance exercises controls by comparing expenditures against budgetary allocations.

The Ministry of Planning and Economy produces a five year development plan, which includes long term macroeconomic and fiscal projections. New expenditure requests by line ministries must be first articulated in the plan before they can be approved, while the annual budget sets rolling three year ceilings on public sector investments. The relationship between the plan and annual budgetary planning could be enhanced with a medium term fiscal framework covering both capital and current expenditures.

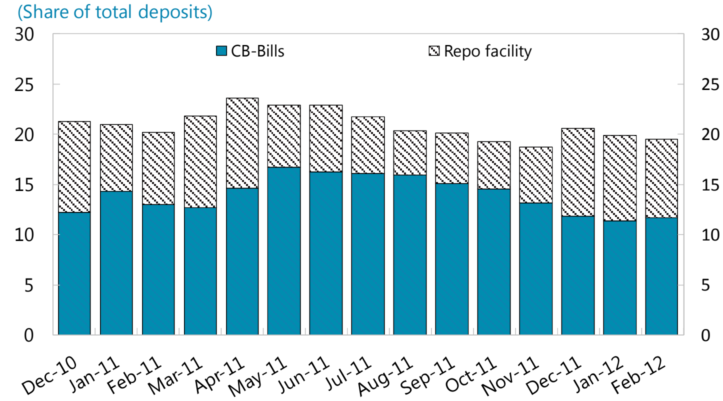
The Ministry of Finance is working on reforms to modernize accounting and reporting, including the reclassification of data based on the GFSM 2001. Timely data are published for annual revenue performance and expenditure out-turns. Quarterly fiscal performance reports are prepared by the ministry of finance and circulated internally. The Ministry of Finance publishes data on government contracts as well as the income and balance sheets of government investment funds.

While there is no formal identification of fiscal risks, there is a keen awareness of the risks to revenues associated with oil prices. To counter fluctuations in government revenues, the authorities have built up sizable fiscal buffers to smooth expenditures. On the expenditure side, a comprehensive risk assessment could be undertaken.

Going forward, the authorities are focusing on the quality of spending in order to achieve their stated developmental goals. Predictable budgets would allow ministries to focus on planning and enhancing efficiency within a given amount of resources.

20. **The strong commitment to the currency peg coupled with a deepening financial system implies an increasingly important role for macro-prudential and liquidity management policies.** Financial intermediation has increased significantly over the past decade and the influence of U.S. monetary policy through the exchange rate peg has strengthened. Furthermore, with the recent surge in oil revenues and continued fiscal expansion, the banking system is flooded with liquidity. It was agreed that macro-prudential policies and liquidity management were thus key for containing systemic risk in the financial system and inflationary pressure.

Excess Liquidity held at SAMA by Commercial Banks, 2010–12
(Share of total deposits)



Sources: National authorities; and IMF staff calculations.

- *Macro-prudential policies*: SAMA has an extensive set of macroprudential tools. The authorities noted that reflecting the difficulties in defining underlying triggers in an oil dependent economy—such as thresholds for cyclical provisions—implementation has tended to emphasize consultations with banks rather than strict reliance on automatic rules. And they noted that banks have overprovisioned when profits were increasing—as per SAMA advice. They were however continuing to work closely with the relevant standard setting bodies in establishing relevant rules appropriate for the risks faced in Saudi Arabia. Staff noted that while provisioning and capital buffers have been countercyclical with respect to non-oil GDP growth, banks may not have provisioned enough during periods of credit expansions (Box 3). The authorities noted that the risk associated with credit expansion was partially offset by the fact that a large part of credit relates to personal loans that are secured against salaries.

- *Liquidity management:* The authorities noted that, consistent with the 2011 FSAP Update recommendations (see Appendix I), options to enhance the management of systemic liquidity, potentially including a formal liquidity forecasting framework, were being explored.

21. **The exchange rate regime remains appropriate.** The large role of imports and the generally open economy means that the domestic price level and hence the real exchange rate have been relatively unaffected by terms of trade shocks stemming from oil price volatility. While the possibility of policy tensions has increased, it was agreed that the pegged exchange rate regime continues to serve as an anchor for market expectations, facilitating financial sector development and investment decisions, with the choice of currency appropriately aligned with the numeraire for the dominant export. Ongoing deepening of financial markets, while supporting growth, will also provide options over the medium-term for considering alternative exchange rate regimes—for example at the time of the introduction of the GCC common currency. Models for assessing the real exchange rate suggest that it is broadly in line with fundamentals (see Appendix II).

Box 3. Countercyclical Capital Buffers and Dynamic Provisioning

With a fixed exchange rate and a relatively open capital account, interest rates in Saudi Arabia will largely move in line with those in the United States. SAMA still plays an important role in establishing prudential policies to limit system-wide risk associated with excess swings in credit growth.

Two countercyclical macro-prudential policy regulations have been highlighted in Basel III, (i) countercyclical capital buffering, and (ii) dynamic (or forward-looking) provisioning. The former is designed to protect against *unexpected* losses while the latter deal with the need to protect against *expected* losses.

A bank level panel regression was specified using annual data between 1995 and 2011 to examine the degree to which capital and provisioning has been counter-cyclical. The model suggests that while capital and provisioning have been countercyclical with respect to non-oil GDP growth, and capital has increased with earnings, capital has been pro-cyclical with respect to the aggregate credit cycle and provisioning with respect to bank specific real lending growth.

Countercyclicality of Capital and Provisioning in Saudi Arabia

	Tier 1 Regulatory Capital			Provision to Loan Ratio		
Macro variables						
Credit to GDP Gap	-0.05	-0.08 **	…	0.00	-0.02	…
Non-oil GDP growth	0.42	…	0.53 **	0.19 **	…	0.194 **
Bank level						
Earnings	0.70 ***	0.78 ***	0.67 ***	-0.05	0.00	-0.466
Real loan growth	-0.03	0.01	-0.04 *	-0.02 **	0.00	-0.021 **

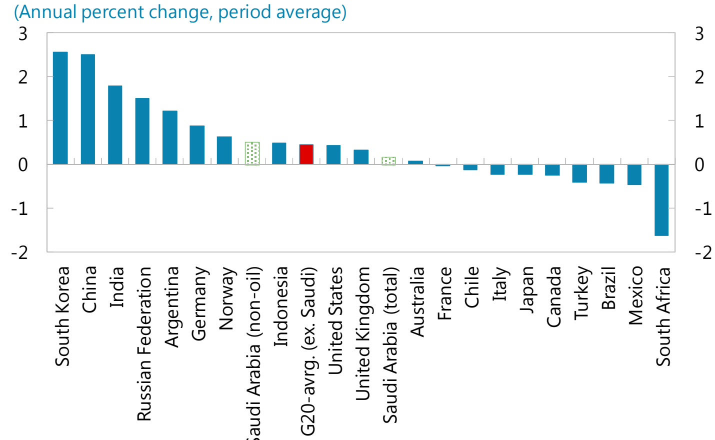
Source: IMF staff calculations.
*** p<0.01, ** p<0.05, * p<0.1

C. Growth and Job Creation

Despite diversification plans, the Saudi economy remains heavily dependent on oil exports with non-oil growth lagging other emerging market economies and still driven by factor accumulation rather than productivity growth (see SIP Chapter I). Enabling a more dynamic private sector through product and labor market reforms, while better positioning Saudi nationals to fill the employment opportunities created, would help address unemployment among nationals (see SIP Chapter II).

22. **Saudi Arabia scores well on business environment surveys, but growth continues to be driven by factor accumulation rather than productivity**. Saudi Arabia was ranked 12th on the 2012 World Bank *Doing Business Indicators* and 17th on the WEF's *Global Competitiveness Report*. Improvements in the overall business climate along with WTO accession in 2005 have supported a sharp increase

TFP Growth, 1990–2009
(Annual percent change, period average)



Sources: The Conference Board Total Economy Database; CDSI; and IMF staff estimates.

in foreign direct investment (FDI) from 0.4 to 10 percent of GDP between 2003 and 2009. Real non-oil growth averaged 3.4 percent per annum between 1990 and 2009, but productivity improvements accounted for 0.5 percentage points while labor and capital accumulation accounted for close to 1.5 percentage points each. There is thus room to boost productivity through more efficient use of factors of production.

23. **Very low domestic energy prices create a clear distortion in the growth model**. Staff noted that while the natural resource endowment provides Saudi Arabia with a natural comparative advantage in the production of energy-intensive products, the existing pricing structure for a range of products—such as petroleum products, natural gas, electricity, and water—is significantly below international levels. Indeed, over 85 percent of FDI flows to the manufacturing sector have gone to industries that are large users of low priced feedstock (refined oil, chemical, and petrochemical products). The authorities agreed that the existing price structure provided an incentive for energy-intensive industries. The authorities noted that any adjustment would need to be carefully planned and involve not only targeted support to low income groups but would also need to be preceded by the establishment of a public transportation system. In this regard they noted that projects to create public transportation networks had recently been approved in a number of key cities.

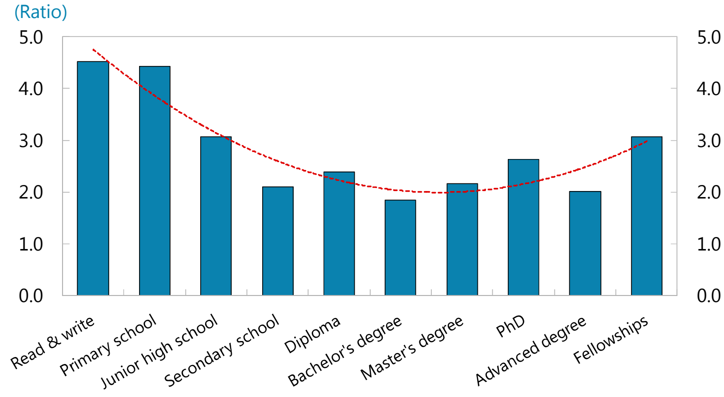
Gasoline Prices, February 2012
(Retail, in U.S. cents per liter)

United States	95
Countries with lowest prices	
Algeria	32
Oman	32
Egypt	30
Qatar	24
Kuwait	22
Bahrain	21
Turkmenistan	19
Libya	14
Saudi Arabia	13
Venezuela	5

Sources: FRED; Stanley Head.

24. **Generating private sector employment for nationals, without severely impacting competitiveness, requires tackling the underlying distortions in the labor market**. The labor market is highly segmented, with nationals accounting for only about 10 percent of employment in the private sector and large wage differences between Saudis and expatriates. Staff noted that skills mismatches and high reservation wages for nationals—in part due to the availability of secure employment and a generous compensation package in the public sector—alongside a ready supply of expatriates have created an unemployment problem for Saudi nationals, especially among the youth. It was agreed that the process of creating lasting employment opportunities for Saudi nationals will not be achieved through forced substitution of nationals for foreign labor but must also include efforts to ensure the supply of appropriately skilled

Saudi to Non-Saudi Monthly Wages in the Private Sector by Education, 2009
(Ratio)



Source: Ministry of Labor Statistics of 2009.

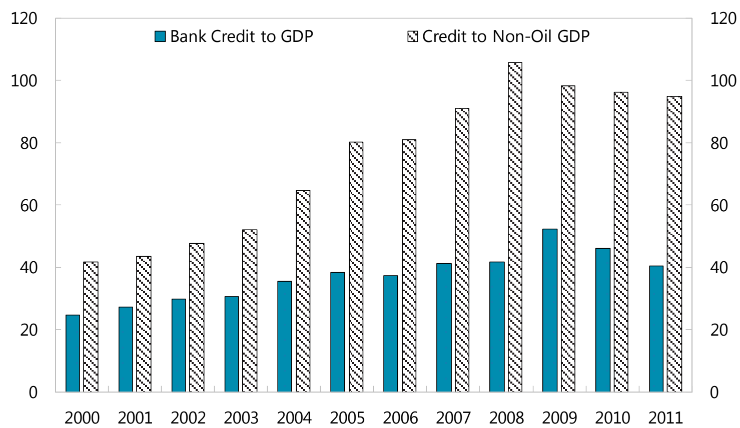
Saudi nationals to take up such positions. Indeed, the authorities stressed that the new labor market initiatives introduced in 2011 should be viewed as a package to create both a demand for Saudi nationals and a supply of Saudi nationals equipped to productively assume the positions created. They also noted, however, that sufficient information was not yet available to assess the success of the new initiatives.

D. Financial Sector Development

Financial sector development has focused on stability resulting in a low risk system that has endured significant shocks. The 2011 FSAP Update provided a number of options for advancing capital market development and expanding access to finance (Appendix I). Good progress has been made in implementing Basel III, and it is important to continue to ensure appropriate monitoring of emerging risks—for example in the areas of housing finance and SME lending—and that new state funded initiatives to accelerate progress in some segments of the financial markets serve to complement not substitute private market development.

25. **Financial sector development has accelerated in the past decade, but important segments of the financial system remain underdeveloped**. Credit to non-oil GDP increased from 39 to 91 percent between 2000 and 2011 and stock market capitalization grew from 32 to 59 percent of GDP over the same time period. Certain segments of the financial system, such as fixed income securities, SME financing, and mortgage lending, remain relatively underdeveloped.

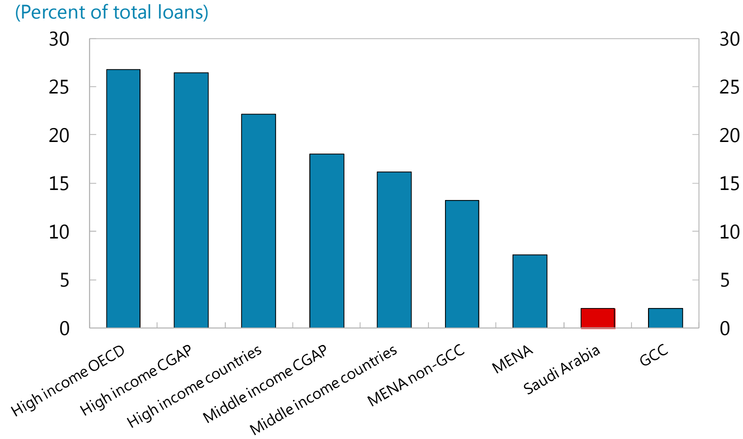
Financial Developments, 2000–11
(Percent)



Sources: National authorities; and IMF staff calculations.

26. **Supporting the emergence of a strong SME sector—in a manner that facilitates a transition to regular financing sources—is a priority**. The share of bank loans going to SMEs is significantly below the levels in other countries. The authorities stressed that the SME support schemes that are in place contain options for training in management and accounting in addition to partial credit guarantees that would assist SMEs to transition from specialized to regular lending facilities. The credit

Bank Loans to SMEs (Average), 2005–09
(Percent of total loans)



Sources: World Development Indicators & Global Development Finance.

bureau is also playing an increasingly important role in facilitating SME access to commercial bank financing.

27. **Housing finance is an important emerging sector and the regulatory regime will need to stay on top of the risks inherent in the various financing vehicles**. The mortgage law (and the accompanying enforcement provisions), have been approved by the Shura Council, but await final passage into law. In the meantime, housing finance is emerging—while only about 2 percent of commercial bank loans are classified as mortgages, real estate exposures are increasing through the use of dedicated housing finance companies. A new business model of the Real Estate Development Fund (REDF) is also in progress, including agreements with selected commercial banks to provide bridge-financing for those awaiting loans from REDF.[4] The mission urged SAMA to prioritize its work on evaluating appropriate regulatory norms for the housing market to ensure that exposures are contained and to capture in the regulatory and supervisory perimeter all entities and products involved in the housing finance market which may give rise to risks for the financial system.

28. **Capital markets are deepening**. The authorities noted that while domestic debt markets remain thin—with minimal levels of secondary market trading—there had been an uptick in corporate issuance, including by banks seeking to reduce maturity mismatches on their balance sheets. The authorities continue to consider that the market will develop absent a sovereign yield curve. The equity market has also seen renewed growth, but remains dominated by individual investors and state institutions. Private institutional investors (such as mutual funds and insurance companies) are relatively small, but starting to emerge. The authorities noted that the initial opening of the market to foreign investors had generated benefits in terms of an expansion in the number of companies listed and in strengthening disclosures. A further gradual opening is under consideration, but it was agreed that this would need to be handled carefully given the uncertainties in global financial markets.

29. **Saudi Arabia has taken several corrective actions to address deficiencies identified in the AML/CTF mutual assessment report in 2010**. Saudi Arabia reported to MENAFATF in May 2012 that several amendments to the AML law were approved in 2012 enhancing coverage and adding new AML related provisions and that a draft CTF law is being developed. The authorities strengthened the capacity of supervisory authorities of financial institutions and extended AML/CFT supervision to nonfinancial institutions.

[4] The REDF provides housing loans to Saudis citizens in the amount of SAR 500,000 (with the requirement that they already own a piece of land). Currently the waiting time is over 10 years.

E. Statistics

30. **Significant progress has been made in strengthening statistical systems and addressing identified shortcomings**. Recent accomplishments include the publication of the annual International Investment Position for 2007–10 and of quarterly real GDP data. Additional steps are also underway: SAMA is in the process of submitting quarterly Financial Soundness Indicators to the IMF as well as locational and consolidated bank data to the BIS; CPIS and CDIS data are under preparation; and the compilation practices and coverage of the national accounts data are being strengthened with assistance from STA with a view to implementing the 2008 SNA. Improvements to fiscal data—including the compilation of data using GFSM 2001—are also under discussion with both STA and the World Bank. The mission fully supports the ongoing initiatives as well as the authorities' interest in subscribing to the Special Data Dissemination Standard (SDDS) in the medium term, which provides a suitable objective for the ongoing initiatives to enhance timeliness and coverage of economic statistics.

STAFF APPRAISAL

31. **Economic outcomes have been very strong**. Buoyant oil revenues have—despite an expansionary fiscal stance—resulted in large fiscal and external surpluses as a portion of the extra revenues has, appropriately, been saved for future generations. Growth has picked up and is, importantly, being driven by the private sector. Saudi Arabia's actions to calm global oil markets by increasing oil production in response to supply uncertainties have provided important support to the global economy.

32. **Higher oil revenues have been used to address domestic developmental objectives with positive spillovers to the region**. Higher fiscal spending has been targeted to pressing social needs—including housing and the introduction of new schemes to support jobseekers—that should improve social outcomes. Financial assistance to the region has also been substantially scaled up, with support to economies in the region and beyond also coming via increased remittances and trade and investment flows.

33. **The outlook remains strong but subject to unusual uncertainty, emphasizing the need to preserve flexibility in spending and to continue to ensure adequate policy space**. While strong growth has so far not led to overheating, if inflations risks materialize it will be important to respond with a combination of tighter fiscal policy and proactive use of SAMA's policy tools—principally reserve requirements and the loan to deposit ratio. The level of fiscal spending is currently above the level consistent with intergenerational equity in the consumption of oil wealth and has raised vulnerabilities in the event that oil revenues decline. While there is significant policy space, care should be taken to ensure both the efficiency of spending and that the composition of spending is such as to preserve flexibility over the medium-term. Limiting increases in entitlement

spending and moving ahead with the VAT or other measures to broaden the tax base would strengthen underlying fiscal balances and help ensure fiscal sustainability.

34. **The key risk to the outlook is the global oil market**. Given the substantial oil reserves, and notwithstanding efforts to diversify the economy, oil will be the cornerstone of the Saudi economy—as well as the dominant source of fiscal and foreign exchange revenues—for many years to come. The oil market poses both upside and downside risks, calling for strong budgetary and financial institutions. While there has been significant progress in this area, further reducing the link between fiscal spending and the oil price cycle would help provide economic stability. Accordingly, efforts to strengthen budgetary institutions should continue, including through careful screening of supplementary budgetary expenditures, establishing a macro-fiscal unit at the Ministry of Finance, and ensuring that spending decisions are taken with respect to medium term priorities.

35. **The recent acceleration in private sector growth is welcome, but initiatives to increase employment of Saudi nationals need to be managed carefully to limit the potentially adverse effects on productivity**. A dynamic private sector is key for creating sustainable employment opportunities for the growing labor force. Recent labor market initiatives combine both tighter regulations with new incentives to enhance the demand for Saudi employees, but the supply side initiatives—training, job skills—are equally important to ensure that Saudi nationals are well positioned to take up the new opportunities. Adjusting domestic energy prices, combined with measures to protect the lower income groups, would enhance the efficiency with which energy resources are used and also limit the bias in the growth strategy, which attracts investment in energy-intensive sectors but creates little extra employment.

36. **Staff supports the fixed exchange rate regime and encourages steps to further strengthen macroprudential instruments.** The exchange rate peg to the U.S. dollar has provided stability to support financial sector development and foster trade and investment. Staff estimates suggest that the exchange rate is currently broadly in line with fundamentals. The combination of the exchange rate peg and a relatively open capital account implies that there is limited scope for interest rates to diverge from U.S. interest rates, placing a premium on effective macroprudential instruments and liquidity management to help smooth credit in the event of divergences between the U.S. and Saudi business cycles.

37. **The banking sector remains well capitalized and resilient to shocks**. Prudent supervision and the continued strengthening of risk management practices, consistent with the implementation of Basel III, has resulted in a banking system that has withstood large shocks—oil price swings, the stock market correction in 2006, the global financial crisis, and the crisis in the euro area. Financial sector supervision needs though to stay on top of emerging risks—including those beyond the banking system—such as in housing finance—and staff encouraged continued progress on implementing the 2011 FSAP Update recommendations. In the AML/CFT area, following progress made in the past year, the authorities should adopt a comprehensive CFT Law while pursuing their AML implementation efforts.

38. **There has been a significant improvement in the statistical database.** The publication of the IIP and quarterly real GDP data, as well as the numerous ongoing initiatives to strengthen financial sector data is a significant advance. Efforts should continue to enhance the quality and timely dissemination of fiscal data, including through the full adoption of GFSM2001 and to enhance the quality of available data, particularly regarding the balance of payments.

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

Table 1. Saudi Arabia: Selected Economic Indicators, 2010–17

		Prel.	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017
			(Percent change; unless otherwise indicated)					
National income and prices								
Crude oil production (million of barrels per day) [1]	8.4	9.6	10.1	10.1	10.1	10.3	10.5	10.7
Average oil export price (U.S. dollars per barrel) [2]	75.8	99.7	109.9	105.4	98.5	93.1	89.5	87.2
Nominal GDP (billions of Saudi riyals)	1,710	2,239	2,528	2,587	2,620	2,697	2,800	2,926
Nominal GDP (billions of U.S. dollars)	457	598	675	691	700	720	748	781
Real GDP	5.1	7.1	6.0	4.2	3.8	4.3	4.3	4.2
Oil	2.4	4.6	4.5	0.0	0.2	2.0	1.7	1.4
Non-oil	6.2	8.0	6.5	5.6	5.0	5.0	5.1	5.0
Real GDP—public sector	7.1	7.0	4.5	3.9	3.9	3.9	3.9	3.9
Real GDP—private sector	5.7	8.5	7.5	6.4	5.5	5.6	5.6	5.5
Consumer price index (all cities index)	5.4	5.0	5.2	4.6	4.3	4.0	4.0	4.0
External sector								
Exports f.o.b.	30.6	45.2	12.7	-3.1	-4.7	-1.6	-0.3	0.8
Oil	32.0	47.5	13.6	-4.7	-6.9	-3.7	-2.5	-1.4
Non-oil	22.8	31.3	6.8	9.1	9.3	9.6	9.7	9.7
Imports f.o.b.	11.9	23.2	12.1	5.2	6.3	6.6	7.0	7.2
Current account balance (percent of GDP)	14.6	26.5	26.5	22.3	17.2	14.4	12.4	12.4
Export volume	7.7	13.5	9.7	2.3	1.8	3.5	3.8	4.1
Import volume	5.8	11.8	13.2	5.6	6.6	6.8	6.9	6.8
Terms of trade	18.1	16.7	10.1	-3.2	-5.5	-4.5	-3.5	-2.5
FDI (billions of U.S. dollars)	29.3	16.4	17.3	18.1	18.9	19.7	20.5	21.4
Money and credit								
Net foreign assets	7.3	22.3	29.7	19.6	…	…	…	…
Claims on government (net)	6.0	24.1	39.4	17.1	…	…	…	…
Claims on private sector	5.7	10.6	14.5	10.4	…	…	…	…
Bank claims on state enterprises	14.7	-1.4	7.8	6.5	…	…	…	…
Money and quasi-money (M3)	5.0	13.3	12.2	10.2	…	…	…	…
Deposit interest rate (percent) [3]	0.7	0.8	1.0	1.0	…	…	…	…
			(Percent of GDP)					
Central government finances								
Revenue	43.4	49.9	50.6	47.7	44.4	41.8	40.2	37.3
Of which: oil	39.2	46.2	46.0	42.8	39.3	36.8	35.2	32.4
Expenditure	38.2	36.9	34.1	37.7	37.5	37.8	38.8	38.6
Expense	26.6	24.6	22.8	23.8	23.7	24.1	25.2	25.2
Net acquisition of non-financial assets	11.6	12.3	11.3	13.9	13.8	13.7	13.6	13.4
Net lending (+)/borrowing (-)	5.1	13.0	16.5	10.0	6.9	4.1	1.4	-1.3
Excluding oil revenue	-34.1	-33.2	-29.5	-32.8	-32.5	-32.7	-33.8	-33.7
Non-oil primary deficit/non-oil GDP	-68.2	-77.4	-70.1	-72.8	-67.1	-64.2	-63.4	-60.7
Central government's gross domestic debt	9.8	6.1	5.4	5.3	5.2	5.1	4.9	4.7
Resource balance								
Gross investment [4]	22.6	21.1	20.6	23.6	24.5	25.1	25.8	25.2
Government	8.5	7.7	7.1	8.7	8.7	8.6	8.5	8.4
Private	13.2	11.4	11.8	13.2	14.2	14.9	15.7	15.3
National saving	37.2	47.4	47.1	45.9	41.7	39.4	38.2	37.6
Government	16.8	25.3	27.8	23.9	20.7	17.8	15.0	12.1
Private	20.4	22.0	19.4	22.0	21.1	21.7	23.3	25.5
			(Billions of U.S. dollars; unless otherwise indicated)					
Memorandum items:								
SAMA's total net foreign assets	441.0	535.9	701.8	843.5	953.6	1046.3	1128.8	1213.9
In months of imports of goods and services [5]	26.2	29.2	36.2	41.2	43.6	44.7	45.1	45.3
Total external debt [6]	93.8	93.9	…	…	…	…	…	…
Of which: short-term debt [6]	43.1	43.7	…	…	…	…	…	…
Imports goods & services/GDP	38.2	33.2	32.7	33.6	35.2	36.4	37.5	38.4
Real effective exchange rate (2000=100)	104.9	102.4	…	…	…	…	…	…
Average exchange rate Saudi riyal/U.S. dollar	3.75	3.75	…	…	…	…	…	…
All-Shares Price Index (TASI)	6621	6418	…	…	…	…	…	…

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

[1] Includes production from the Neutral Zone and condensate.
[2] Includes refined products.
[3] Three-month Saudi Arabian riyal deposits.
[4] Includes changes in inventories.
[5] Next 12 months.
[6] BIS-IMF-OECD-World Bank external debt database. Starting in 2004, coverage of bilateral loans and trade credit is less comprehensive.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2010–17

	Budget		Budget	Prel.	Budget	Proj.					
	2010	2010	2011	2011	2012	2012	2013	2014	2015	2016	2017
	(Billions of Saudi Arabian riyals)										
Revenue	470.0	741.6	540.0	1,117.8	702.0	1,278.4	1,234.5	1,162.1	1,128.4	1,125.1	1,091.8
Oil	400.0	670.3	468.0	1,034.4	621.0	1,162.5	1,107.4	1,030.7	992.7	985.3	946.9
Non-oil	70.0	71.4	72.0	83.4	81.0	115.9	127.1	131.4	135.7	139.8	145.0
Investment income	5.2	2.9	6.0	4.9	10.0	6.9	6.9	7.1	8.1	8.4	9.5
Taxes on income and Profits [1]	6.4	7.1	6.9	9.5	7.0	10.7	11.9	13.1	14.2	15.4	16.8
Fees and charges	33.5	30.9	40.6	33.1	33.4	35.7	36.8	37.7	37.6	38.7	39.9
Taxes on international trade	14.0	14.7	14.0	17.3	15.8	19.4	19.4	19.6	19.9	19.5	19.1
Other revenues [2]	11.0	15.7	4.6	18.6	14.8	43.1	52.1	54.0	55.9	57.7	59.7
Non-tax revenues	11.0	15.7	4.6	18.6	14.8	31.1	32.1	33.0	34.0	35.1	36.1
Emp. Contrib. jobseekers allowance	0.0	0.0	0.0	0.0	0.0	12.0	20.0	20.9	21.8	22.7	23.6
Expenditure	540.0	653.9	579.9	826.7	690.0	861.8	975.2	982.1	1,018.6	1,086.4	1,130.3
Expense	372.8	455.0	397.0	550.5	467.5	575.9	616.5	620.8	649.4	705.9	737.9
Compensation of employees [3]	223.9	248.4	236.9	289.0	268.5	277.1	312.2	299.9	311.9	350.9	364.1
Purchase of goods and services	60.8	114.8	68.2	156.5	89.2	154.6	161.8	168.7	175.4	182.3	189.6
Subsidies	6.6	5.9	6.6	10.6	8.2	10.7	10.8	10.9	10.9	10.9	10.9
Social benefits [4]	14.2	20.6	15.8	24.8	24.6	55.8	47.2	49.3	51.5	53.5	55.6
Social welfare payments	14.2	20.6	15.8	24.8	24.6	25.8	27.2	28.4	29.6	30.8	32.0
Job seekers allowance						30.0	20.0	20.9	21.8	22.7	23.6
Foreign aid	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Interest payments	12.5	10.9	8.6	7.8	6.4	6.3	6.3	6.4	6.4	6.4	6.4
Domestic	12.5	10.9	8.6	7.8	6.4	6.3	6.3	6.4	6.4	6.4	6.4
Operations and maintenance	54.1	53.8	60.1	61.0	69.7	70.6	77.5	84.9	92.7	101.2	110.5
Net acquisition of non-financial assets [5]	167.2	198.8	183.0	276.2	222.5	285.9	358.7	361.3	369.1	380.5	392.4
Gross operating balance	97.2	286.6	143.0	567.3	234.5	702.5	618.0	541.3	478.9	419.2	353.9
Net lending (+)/borrowing (-)	**-70.0**	**87.7**	**-39.9**	**291.1**	**12.0**	**416.6**	**259.3**	**180.0**	**109.8**	**38.7**	**-38.4**
	(Percent of GDP)										
Revenue	33.3	43.4	24.1	49.9	27.8	50.6	47.7	44.4	41.8	40.2	37.3
Oil	28.3	39.2	20.9	46.2	24.6	46.0	42.8	39.3	36.8	35.2	32.4
Non-oil	5.0	4.2	3.2	3.7	3.2	4.6	4.9	5.0	5.0	5.0	5.0
Expenditure	38.2	38.2	25.9	36.9	27.3	34.1	37.7	37.5	37.8	38.8	38.6
Expense	26.4	26.6	17.7	24.6	18.5	22.8	23.8	23.7	24.1	25.2	25.2
Compensation of employees [3]	15.9	14.5	10.6	12.9	10.6	11.0	12.1	11.4	11.6	12.5	12.4
Purchase of goods and services	4.3	6.7	3.0	7.0	3.5	6.1	6.3	6.4	6.5	6.5	6.5
Subsidies	0.5	0.3	0.3	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Social benefits [4]	1.0	1.2	0.7	1.1	1.0	2.2	1.8	1.9	1.9	1.9	1.9
Social welfare payments	1.0	1.2	0.7	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Job seekers allowance						1.2	0.8	0.8	0.8	0.8	0.8
Interest payments	0.9	0.6	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Operations and maintenance	3.8	3.1	2.7	2.7	2.8	2.8	3.0	3.2	3.4	3.6	3.8
Net acquisition of non-financial assets [5]	11.8	11.6	8.2	12.3	8.8	11.3	13.9	13.8	13.7	13.6	13.4
Gross operating balance	6.9	16.8	6.4	25.3	9.3	27.8	23.9	20.7	17.8	15.0	12.1
Net lending (+)/borrowing (-)	**-5.0**	**5.1**	**-1.8**	**13.0**	**0.5**	**16.5**	**10.0**	**6.9**	**4.1**	**1.4**	**-1.3**
(excl. oil revenue)	-33.3	-34.1	-22.7	-33.2	-24.1	-29.5	-32.8	-32.5	-32.7	-33.8	-33.7
Memorandum items:											
Non-oil revenue (excl. investment income)/ non-oil GDP	7.7	8.2	6.9	8.3	6.7	10.3	10.4	9.9	9.3	8.9	8.4
Primary balance (excl. interest payments)/GDP	-4.1	5.8	-1.4	13.4	0.7	16.7	10.3	7.1	4.3	1.6	-1.1
Non-oil primary balance/non-oil GDP	-54.6	-68.2	-52.5	-77.4	-57.1	-70.1	-72.8	-67.1	-64.2	-63.4	-60.7
Gross domestic debt /GDP	…	9.8	…	6.1		5.4	5.3	5.2	5.1	4.9	4.7
GDP market prices (SRL billions)	1,412.6	1,709.7	2,239.1	2,239.1	2,528.0	2,528.0	2,587.0	2,619.8	2,697.0	2,799.9	2,926.2
Non-oil GDP (SRL billions)	837.5	837.5	950.5	950.5	1,054.4	1,054.4	1,155.9	1,257.6	1,365.0	1,483.0	1,611.7

Sources: Ministry of Finance; and IMF staff projections.

[1] Includes Zakat revenue.
[2] Includes employers contribution to Hafiz jobseekers allowances.
[3] Including the extra month salary according to Hijri calendar in 2010, 2013, and 2016.
[4] Includes Zakat charity transfers, social welfare payments and Hafiz Job-seekers allowance.
[5] Includes capital transfers to REDF and Saudi Credit and Savings Bank in 2011.

Table 3. Saudi Arabia: Fiscal Operations of the General Government, 2006–11

(Percent of GDP)

	2006	2007	2008	2009	2010	2011
I. Budgetary central government						
Revenue	50.8	44.6	61.6	36.1	43.4	49.9
Expenditure	29.0	32.1	29.9	43.4	38.2	36.9
Overall balance	21.9	12.5	31.7	-7.4	5.1	13.0
Primary balance	23.9	14.0	32.7	-6.4	5.8	13.4
II. Autonomous Government Institutions (AGIs)						
Public Pension Agency (PPA)						
Revenue	2.8	2.9	2.2	2.7	2.2	1.5
Of which: government contribution	0.8	0.9	0.7	1.0	0.9	0.8
Expenditure	1.6	1.8	1.6	2.2	2.2	1.7
Overall balance	1.2	1.1	0.6	0.5	0.0	-0.2
General Organization for Social Insurance (GOSI)						
Revenue	1.4	1.6	1.1	1.4	1.5	1.1
Expenditure	0.4	0.4	0.4	0.5	0.6	0.4
Overall balance	1.0	1.1	0.6	0.8	0.9	0.7
III. Public Investment Fund (PIF)						
Revenue	1.5	1.3	1.1	0.8	1.0	0.7
Expenditure	0.1	0.0	0.5	0.6	3.6	0.2
Of which: transfer to the budget	0.1	0.0	0.0	0.1	0.0	0.0
Overall Balance	1.4	1.3	0.6	0.2	-2.6	0.5
IV. General Government (=I+II+III)						
Overall balance	25.5	16.0	33.7	-5.9	3.5	14.0
Primary balance	27.6	17.5	34.7	-4.9	4.1	14.3
Memorandum items: net assets(+)/debt (-)						
i. Central government	-1.7	17.1	45.8	50.2	49.2	47.7
ii. Autonomous government institutions	45.2	50.7	35.5	48.8	45.0	34.8
Of which: PPA	27.8	28.8	19.8	27.3	24.6	19.2
Of which: GOSI	17.4	21.9	15.8	21.5	20.3	15.6
iii. Public Investment Fund	9.6	11.6	10.0	12.8	11.5	9.3
iv. General government (=i+ ii+iii)	53.1	79.4	91.3	111.8	105.7	91.7
v. Saudi Arabian Monetary Agency	9.7	13.8	9.4	17.3	14.7	13.2
vi. Specialized credit institutions (excluding PIF)	9.8	8.3	6.0	8.0	6.4	10.0
vii. Net consolidated assets of the general government and the financial public sector (=iv+v+vi)	72.5	101.6	106.7	137.1	126.8	114.9

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

Table 4. Saudi Arabia: Summary Balance of Payments, 2009–17

(US$ Billions)

	2009	2010	Prel. 2011	Proj. 2012	2013	2014	2015	2016	2017
Current account	21.0	66.8	158.5	179.2	153.8	120.6	103.4	93.0	96.7
(percent of GDP)	5.6	14.6	26.5	26.5	22.3	17.2	14.4	12.4	12.4
Trade balance	105.4	153.9	244.9	276.6	257.0	229.4	213.5	201.0	191.5
Exports	192.6	251.5	365.0	411.3	398.8	380.2	374.1	372.9	375.8
Oil exports [1]	163.3	215.5	317.9	361.0	343.8	320.1	308.3	300.7	296.5
Other exports and re-exports	29.3	36.0	47.2	50.4	55.0	60.1	65.8	72.2	79.3
Re-exports	6.3	5.2	5.2	6.0	6.5	7.2	7.8	8.6	9.4
Other exports	22.9	30.7	41.9	44.4	48.4	52.9	58.0	63.6	69.8
Imports (f.o.b.)	-87.2	-97.6	-120.2	-134.8	-141.8	-150.7	-160.6	-171.9	-184.3
Services, income, and transfers	-84.4	-87.1	-86.4	-97.4	-103.2	-108.8	-110.2	-108.1	-94.8
Receipts	19.2	18.6	22.1	17.7	19.4	21.1	29.3	41.5	65.6
Investment income [2]	9.2	7.7	10.3	4.7	5.9	7.1	14.4	25.5	48.1
Other	10.0	10.9	11.7	13.0	13.4	14.0	14.9	16.0	17.5
Payments	-103.6	-105.7	-108.4	-115.0	-122.6	-129.9	-139.4	-149.6	-160.4
Freight and insurance	-12.9	-14.4	-17.3	-18.4	-19.4	-20.3	-21.7	-23.2	-24.8
Other private services	-35.0	-37.5	-38.6	-41.1	-43.4	-45.7	-48.8	-52.1	-55.7
Other government services	-29.9	-27.5	-24.7	-26.3	-27.8	-29.2	-31.2	-33.4	-35.7
Private transfers (net)	-25.8	-26.3	-27.8	-29.2	-32.0	-34.7	-37.6	-40.8	-44.3
Capital and financial account (net)	7.2	2.7	-14.0	-13.0	-11.8	-10.2	-10.5	-10.3	-11.6
Direct Investment	34.3	25.3	13.2	13.8	14.3	14.7	15.2	15.6	16.1
Abroad	-2.2	-3.9	-3.2	-3.5	-3.8	-4.2	-4.5	-4.9	-5.3
In Saudi economy	36.5	29.2	16.4	17.3	18.1	18.9	19.7	20.5	21.4
Portfolio investments	-20.1	-15.2	-16.2	-18.2	-15.8	-12.6	-10.9	-9.9	-10.4
Assets	-20.1	-16.7	-15.4	-17.4	-15.0	-11.7	-10.0	-9.0	-9.4
Liabilities	0.0	1.5	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-1.0
Other investments	-6.9	-7.5	-11.1	-8.6	-10.3	-12.3	-14.7	-16.0	-17.3
Assets	-9.5	-6.5	-7.1	-8.6	-10.4	-12.4	-14.8	-16.1	-17.4
Liabilities	2.6	-1.0	-4.0	0.1	0.1	0.1	0.1	0.1	0.1
Net errors and omissions	-60.8	-34.4	-48.5						
Overall balance	-32.6	35.1	96.0	166.2	142.0	110.4	92.9	82.7	85.1
(percent of GDP)	-8.6	7.7	16.1	24.6	20.6	15.8	12.9	11.1	10.9
Financing	32.6	-35.1	-96.0	-166.2	-142.0	-110.4	-92.9	-82.7	-85.1
Change in SAMA's NFA (- increase)	32.6	-35.1	-94.8	-166.2	-142.0	-110.4	-92.9	-82.7	-85.1
Memorandum items:									
SAMA's gross foreign assets	408.6	443.7	536.9	702.8	844.5	954.7	1047.3	1129.8	1214.6
(In months of imports) [3]	27.7	26.5	29.2	36.3	41.2	43.7	44.8	45.1	45.3
WEO oil price (US$/barrel)	61.8	79.0	104.0	114.7	110.0	102.8	97.2	93.3	91.0
Average Saudi oil price (US$/barrel) [4]	59.2	75.8	99.7	109.9	105.4	98.5	93.1	89.5	87.2
Oil production (mbd)	8.4	8.4	9.6	10.1	10.1	10.1	10.3	10.5	10.7
Oil exports (mbd)	7.3	7.6	8.6	9.0	8.9	8.9	9.1	9.2	9.3
Oil exports/total exports	84.8	85.7	87.1	87.8	86.2	84.2	82.4	80.6	78.9
Imports/GDP	23.1	21.4	20.1	20.0	20.5	21.5	22.3	23.0	23.6
GDP (billions of US$)	377.2	456.5	597.9	675.0	690.8	699.5	720.2	747.6	781.4
Annual change (percent)									
Non-oil exports	-9.9	22.8	31.3	6.8	9.1	9.3	9.6	9.7	9.7
Imports of goods	-14.2	11.9	23.2	12.1	5.2	6.3	6.6	7.0	7.2

Sources: Saudi Arabian Monetary Agency; and IMF staff estimates and projections.

[1] Excluding bunker oil exports.
[2] Represents the return on NFA of SAMA, AGIs, and private sector.
[3] Imports of goods and services over the next 12 months excluding imports for transit trade.
[4] The average price of all oil exports, including refined products.

Table 5. Saudi Arabia: Monetary Survey, 2009–13

	2009	2010	Prel. 2011	Proj 2012	Proj 2013
Foreign assets (net)	1,631.3	1,749.9	2,140.4	2,776.1	3,320.6
SAMA	1,520.0	1,651.5	2,007.1	2,628.2	3,158.9
Commercial banks	111.2	98.4	133.3	147.9	161.8
Domestic credit (net)	-17.4	-18.2	-135.5	-412.3	-552.2
Net claims on government	-779.7	-826.2	-1,025.7	-1,429.8	-1,673.8
Claims on government	154.2	182.0	177.8	160.0	144.0
Government deposits at SAMA [1]	-933.9	-1,008.3	-1,203.5	-1,589.8	-1,817.8
Claims on state enterprises	28.1	32.3	31.8	34.3	36.5
Claims on private sector	734.2	775.8	858.4	983.2	1,085.0
Money and quasi-money (M3)	1,028.9	1,080.4	1,223.6	1,373.1	1,513.2
Money (M1)	521.6	625.6	761.0	770.3	835.3
Currency outside banks	88.4	95.5	119.9	130.6	141.6
Demand deposits	433.2	530.1	641.1	639.8	693.7
Quasi-money	507.4	454.8	462.6	602.8	677.9
Time and savings deposits	323.4	298.3	305.4	398.0	447.6
Other quasi-money deposits	184.0	156.5	157.1	204.8	230.3
Other items (net liabilities)	585.0	651.4	781.3	990.7	1,255.2
Memorandum items:					
AGI's net foreign assets of	257.5	296.9	327.5	353.4	343.9
	(Percent changes, unless otherwise indicated)				
Foreign assets (net)	-3.1	7.3	22.3	29.7	19.6
Domestic credit (net)	-77.1	4.7	645.9	204.3	33.9
Net claims on government	-7.4	6.0	24.1	39.4	17.1
Government deposits at SAMA (increase -)[1]	11.3	-8.0	-19.4	-32.1	-14.3
Claims on state enterprises	-12.3	14.7	-1.4	7.8	6.5
Claims on private sector	0.0	5.7	10.6	14.5	10.4
Money and quasi-money	10.7	5.0	13.3	12.2	10.2
Other items (net liabilities)	-13.8	11.4	19.9	26.8	26.7
	(Percent; unless otherwise indicated)				
Memorandum items:					
Specialized Credit Institutions credit (in billions of Saudi Arabian riyals)	178.0	192.2	208.4	…	…
Ratio of M3-to-GDP	72.8	63.2	54.6	54.3	58.5
Ratio of M3-to-non-oil GDP	139.5	131.3	131.1	132.6	133.3
Ratio of Claims on private sector-to-non-oil GDP	99.6	94.3	92.0	95.0	95.6

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

[1] Includes deposits other than the central government.

Table 6. Saudi Arabia: Financial Soundness Indicators, 2006–11

(Percent, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011
Banking sector						
Structure of the banking sector						
Number of licensed banks	16	22	22	23	23	23
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)	65.0	75.1	73.5	97.9	84.5	71.9
Of which: Foreign currency-denominated (as percent of total asset	15.1	13.7	11.8	15.4	13.6	13.5
Total loans (percent of GDP)	37.5	41.6	42.1	52.6	46.3	39.9
Credit to private sector (percent of GDP)	34.9	39.0	40.2	50.6	44.3	38.4
Total deposits, excluding interbank (as percent of GDP)	44.6	50.2	47.8	67.9	58.8	51.4
Central bank credit to banks (as percent of GDP)	0.4	---	---	---	---	---
Capital adequacy						
Regulatory capital to risk-weighted assets	21.9	20.6	16.0	16.5	17.1	17.4
Asset quality						
Net loans to total assets	54.2	52.0	57.9	57.4	55.2	55.8
Gross NPLs to net loans	2.0	2.1	1.4	3.3	3.0	2.3
Total provisions to gross NPLs	182.3	142.9	153.3	89.8	115.7	132.8
Net NPLs to total capital [1]	-6.2	-3.5	-3.8	1.4	-2.7	-3.0
Total provisions for loan losses (as percent of total loans)	3.6	3.0	2.1	3.0	3.5	3.1
Loans to property and construction sector to total loans	7.6	7.3	7.3	6.1	7.2	8.1
Loans to domestic manufacturing sector to total loans	7.6	9.1	10.7	10.2	11.6	13.0
Contingent and off-balance sheet accounts to total assets	91.5	96.6	96.0	81.0	91.4	96.2
Profitability						
Profits (percent change)	35.3	-12.7	-1.1	-10.4	-2.6	18.4
Average pretax return on assets	4.3	2.8	2.7	1.9	1.9	2.0
Return on equity	30.4	22.2	20.4	13.7	13.6	14.5
Noninterest expenses to total income [2]	31.0	38.7	51.1	55.4	52.7	46.9
Average lending spread	4.1	3.2	4.0	4.4	4.3	4.4
Liquidity						
Liquid assets to total assets	25.4	22.2	22.8	25.3	24.7	22.6
Liquid assets to short-term liabilities [3]	40.0	38.3	39.7	40.6	39.7	37.0
Customer deposits to net loans	137.4	136.4	123.9	128.6	136.0	135.9
Demand deposits to total deposits	41.2	43.4	40.5	46.1	53.8	58.1
Sensitivity to market risk						
Foreign currency-denominated deposits to total deposits	19.3	15.4	15.5	16.1	13.0	14.6
Foreign currency-denominated loans to total loans	8.7	11.4	13.4	13.9	13.3	12.3
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	49.2	53.0	54.5	39.2	42.2	47.9
Net open foreign currency position to capital	3.0	3.1	4.5	8.6	10.2	6.7
Stock market						
Stock market capitalization (percent of GDP)	92.6	136.0	52.2	85.4	79.1	59.2
Overall stock market price index (Change in percent)	-52.5	39.1	-56.5	27.5	8.2	-3.1
Bank stock price index (change in percent)	-42.7	31.0	-55.6	15.3	6.6	-12.7

Source: Saudi Arabian Monetary Agency.

[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 and interbank deposits. Liquid assets include cash, gold, Saudi government bonds and treasury bills, and interbank deposits maturing within 30 days.

Appendix I. Progress with Respect to the Key Recommendations of the FSAP Update

Recommendation	Progress
Bank and Securities Regulation	
• Update the BCL and remove need for ministerial approval of certain SAMA decisions.	SAMA's assessment is that the existing BCL has provided a strong basis for effective supervision. Ministerial approval is only required in times of extreme stress and is viewed by SAMA as a means of ensuring communication with Cabinet.
• No longer allow large exposure up to 50 percent of bank's own capital.	There have been no changes in the legislation. However, SAMA expects banks to ensure that their single exposure limit should not exceed 15 percent of capital and reserves.
• Strengthen the CMA's regulatory transparency by fully disclosing all enforcement actions, interpretation, and funding rules.	The CMA has established an internal committee to discuss relevant FSAP recommendations, including disclosure policies.
Systemic Stability	
• Introduce a formal liquidity forecasting framework.	SAMA is currently assessing the need for a formal liquidity forecasting model.
• Enhance data on cross-border financial activities of banks and corporate.	SAMA published the International Investment Position in 2012 (annual basis), and is planning to submit locational and consolidated bank data to the BIS as well as a subset of quarterly FSI data to the IMF by the end of 2012.
• Maintain a stable stock of government securities and regular issues to help anchor a robust yield curve	There are no plans to increase and maintain a stable stock of government securities. However, public sector entities have recently increased sukuk issuance.
• Introduce a payment system law.	The authorities believe that the current legal framework is adequate and serving the purpose well.
• Conduct stress tests with a wider range of shocks, including liquidity shocks, on regular basis and incorporate lessons into supervision.	Detailed rules on stress testing were issued in November 2011, making stress testing mandatory. SAMA has also developed a system-wide stress test, covering credit, market, operational and liquidity risks.
• Establish a formal early warning system (EWS) for the banking sector.	SAMA considers that its current off-site surveillance system is adequate as a EWS.
• Develop a more formal and transparent macroprudential policy framework, drawing on work in international fora.	SAMA is actively participating in the international fora on macro-prudential frameworks and will review its framework in line with emerging best practices.
• Strengthen the legal framework for bank resolution	The authorities will assess the need for any further steps required to strengthen the existing bank resolution framework.

Recommendation	Progress
Expanding Access to Finance and Preserving Financial Stability	
• As housing finance expands in the future, ensure loan soundness through strong prudential measures, notably lowering permissible loan-to-value and debt service ratios.	Although the housing loans continue to grow, SAMA believes that the current prudential measures that are in place will ensure that banks are managing the associated risks prudently.
• Contract banks to manage both the existing and new Real Estate Development Fund (REDF) portfolio.	As of now there are no plans to allow banks to manage the portfolio of REDF.
• Complement mortgage reform by establishing a housing market observatory, developing consumer guidance options, and strengthening the developer industry.	A separate Ministry of Housing has been established, which will look into these and any other related issues.
• Prepare long-term funding solution for mortgage finance, starting with a refinance facility.	REDF is considering several options to enhance its integration with the banking sector, including long-term funding facility.
• Create a modern, electronic and unified registry for movable collateral.	The authorities will assess the need to further study the proposal.
• Enact and implement the draft Enforcement law that introduces specialized enforcement courts operating with strict time-bound procedures.	The Mortgage Law, which includes the Enforcement Law, was approved by the Shoura Council in 2011, and still is in the process of final approval.
• Closely supervise the quality of SME units in the banks, including the robustness or their internal rating systems and automated procedures.	All banks have been required to set up their own separate SME units in order to more effectively deal with SME financing.
Insurance, Institutional Investors, and Capital Markets	
• Finalize and issue the outstanding functional regulations for insurance	Several regulations were passed in 2011 and 2012, including the investment, reinsurance, online transactions, AML/CFT, motor insurance, and intermediaries regulations.
• Improve enforcement of mandatory motor third party liability insurance	The authorities have formed a joint Working Group to look into this proposal.
• Disclose the investment policies, portfolio, and portfolio performance of the Public Pension Agency (PPA) and General Organization for Social Insurance (GOSI).	There have been no changes in the disclosure policies of PPA and GOSI. GOSI have established a committee to discus disclosure issues.
• Further outsource the management of portfolio of the PPA and GOSI.	PPA and GOSI have no plans to outsource part of their domestic portfolio. The foreign portfolios are outsourced to a large degree.
• Permit foreign international investors to invest directly in Tadawul.	The CMA has no immediate plans to allow foreign investors to invest directly in the equity market. A step as such would be adopted carefully and gradually.

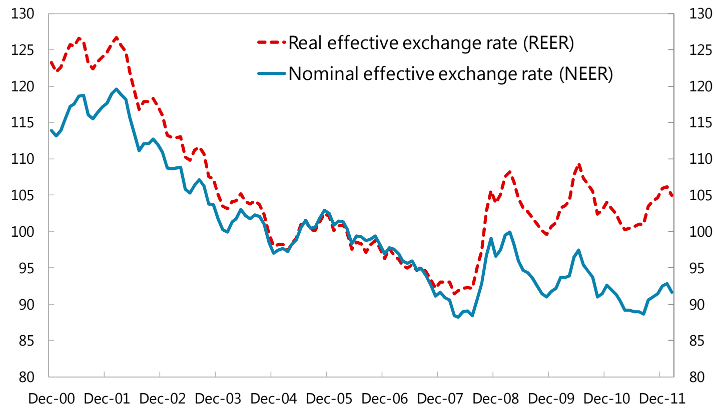
Appendix II: External Sustainability and Exchange Rate Assessment

Preliminary estimates from CGER-type methodologies – tailored to oil exporters – indicate that the current account and the real effective exchange rate are broadly in line with fundamentals, with some evidence of undervaluation from the external sustainability models.

1. **Despite terms of trade gains, the real exchange rate has appreciated by only 1 percent since the end of 2008.**[1] Following a period of an annual average depreciation of 4 percent between 2002 and 2007, the trade-weighted real effective exchange rate (REER) index appreciated by 11 percent in 2008. The nominal effective exchange rate closely followed the REER trend until 2008, when it began to diverge owing to higher inflation relative to trading partners—in part due to the relatively high weight on food in the Saudi CPI basket.

Real and Nominal Effective Exchange Rates, 2000–11

(Index, 2005=100; increase represent an appreciation)

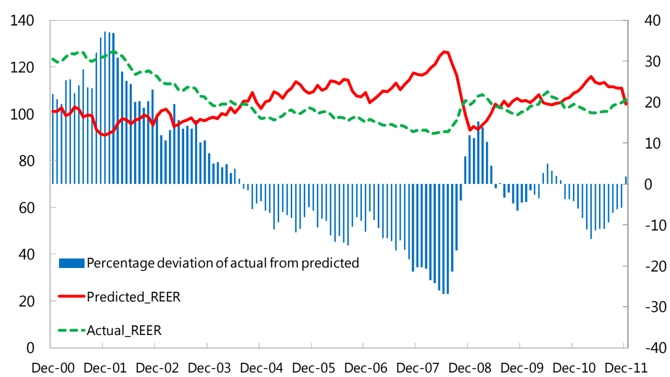


Sources: National authorities; and IMF staff estimates.

2. **The equilibrium real exchange rate (ERER) approach suggests that the riyal is in line with fundamentals.** A high frequency estimation of the cointegrating relationship between the real exchange rate and real oil prices (as the only explanatory variable) shows that they are cointegrated.[2] The estimation suggests that while the riyal was moderately overvalued during the earlier part of this decade, switching into a moderate undervaluation during mid-2004, it is presently not misaligned.

High Frequency ERER Estimation 2000–11

(Index)



Source: IMF staff estimates.

[1] Inflation measures, and therefore the estimated real exchange rate, are affected by the presence of a range of subsidies—fuel, electricity, water, and certain food items

[2] Cashin, Ouliaris and Poghosyan (forthcoming).

3. **The macroeconomic balance approach suggests the current account is within the range of estimated medium term norms**. The macroeconomic balance approach estimates four main specifications of the equilibrium current account (norm) from a set of fundamentals (non-oil and gas fiscal balance, oil and gas reserves, old-age dependency ratio, population growth rate, initial net foreign assets (NFA) net of external debt, oil trade balance, growth rate of real per capita GDP, relative income, and lagged dependent current account) employing a generalized method of moments (GMM) technique. As shown (in the table below), the estimation yields a range of current account norms for Saudi Arabia from a surplus of about 8 to 21 percent of GDP in 2017. The projected current account position in 2017 is a surplus of 12 percent of GDP, which lies well within the estimated range of current account norms.

Current Account-GMM Estimation and Implied Norm for Net-Oil Exporters: Saudi Arabia

(Dependent variable: current account balance, as a share of GDP)

	Specification I		Specification II		Specification III		Specification IV	
	GMM Coefficients	Contribution to CA Norm[1]	GMM Coefficients	Contribution to CA norm[1]	GMM Coefficients	Contribution to CA Norm[1]	GMM Coefficients	Contribution to CA Norm[1]
Core CGER regressors								
Constant	0.039	3.9%	0..35	3.5%	0.043	4.3%	0.044	4.4%
Lagged dependent	0.330	6.1%					0.383	7.1%
Fiscal balance/Non-oil fiscal balance GDP	0.851	-2.6%	0.385	-13.0%	0.363	-12.2%	0.391	-13.2%
Oil trade balance/GDP			0.454	21.8%	0.469	22.6%	0.459	22.1%
Old age dependency	-0.053	-0.2%	-0.059	-0.3%	-0.034	-0.2%	-0.034	-0.2%
Population growth	-0.693	-1.4%	-0.930	-1.9%	-0.632	-1.3%	-0.589	-1.2%
NFA/GDP	0.023	3.4%	0.022	3.2%				
Relative income	-0.017	-0.9%	0.044	2.2%	0.071	3.6%	0.073	3.7%
Economic growth	-0.053	-0.2%	-0.069	-0.3%	-0.064	-0.3%	-0.056	-0.2%
Net oil-exporter specific regressors								
Oil wealth			0.000	0.7%	0.001	2.0%	0.000	-1.4%
Degree of maturity in oil production					0.160	2.8%	0.170	-2.9%
Additional regressors								
REER	0.073	0.7%						
Terms of trade	4.269	-1.1%						
Estimated current account norm (2017)		**7.8%**		**16.0%**		**21.3%**		**18.3%**
Underlying current account					**12.4%**			
Hansen's J test of over identifying restrictions		0.46		0.61		0.64		0.62
Arellano-Bond test for AR(1)		0.07		0.09		0.07		0.08
Arellano-Bond test for AR(2)		0.67		0.71		0.7		0.69
Number of instruments		6		5		5		6
Number of countries		24		24		24		24
Observations		82		82		82		82

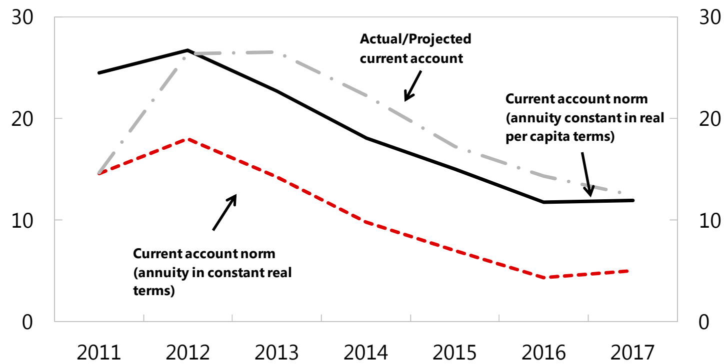
Sources: Beidas-Strom and Cashin, "Are Middle Eastern Current Account Imbalances Excessive?", IMF Working Paper 11/195, 2011.

[1]Contribution to CA norm=coefficient*medium-term projection/steady state value (in percent).

4. **The external sustainability approach suggests that the current account is on the stronger side of fundamentals.** The underpinning of this approach is that the sustainability of the current account 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. Subject to this constraint, the government would choose a path for imports, and hence a current account norm, that would support intergenerational equity—and some precautionary savings in view of volatile oil prices—through an appropriate pace of accumulation of net foreign assets. Estimating Saudi Arabia's oil wealth at $6.6 trillion,[3] import trajectories "(annuities or allocation rules)" are calculated under two different policy scenarios: (i) constant real per capita annuity; and (ii) constant real annuity. Both types of annuities are used in the literature,[4] and can be derived from the optimization of plausible government utility functions. Both rules suggest that the current account balance is on the strong side of the fundamentals with: rule (i) implying a current account norm surplus of 12 percent of GDP, while the less generous rule (ii) implies a current account norm of 5 percent of GDP. These results are very sensitive to the assumed parameters.

External Sustainability Approach: Current Account Norm vs. Actual/Projected Current Account, 2011–17

(Percent of GDP)



Source: IMF staff estimates.

[3] Assuming for illustrative purposes 267 billion barrels of reserves, a 77 percent recovery rate, oil production would peak at 11.8 million barrels in 2029 before declining gradually (2.0 percent). Domestic consumption and production costs include imports to develop and maintain production valued at 8 percent of the value of oil production (WEO prices). Oil prices and the GDP deflator increase by 2 percent after 2015, and real non-oil GDP grows by 5 percent while total real growth is assumed to be 3 percent. Future oil revenues are nominally discounted at 6 percent, the assumed rate of return on externally held financial wealth/NFA, while population growth is 1 percent.

[4] See Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281.

SAUDI ARABIA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 13, 2012

Prepared By: Middle East and Central Asia Department

CONTENTS

ANNEX I. FUND RELATIONS

(As of May 31, 2012)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	6,985.50	100.00
Fund holdings of currency	4,583.70	65.62
Reserve position in Fund	2,401.81	34.38
Lending to the Fund		
New Arrangement to Borrow	1,135.40	

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,682.50	100.00
Holdings	6,553.97	98.06

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				
	2012	2013	2014	2015	2016
Principal					
Charges/interest	0.08	0.24	0.25	0.25	0.25
Total	0.08	0.24	0.25	0.25	0.25

Lending to the Fund and Grants:

Saudi Arabia has consented to the amendments of the NAB Decision and the increases of credit arrangements of participants as approved by the Executive Board on April 12, 2010 (Executive Board Decision No. 14577-(10/35), increasing its own credit arrangement in the expanded NAB to SDR 11.13 billion, from SDR 1.76 billion. The current outstanding amount as of April 30, 2012 is SDR 1,135.40 million. The Fund also has a borrowing agreement with Saudi Arabia in association with the General Arrangements to Borrow (GAB), for an amount equivalent to SDR 1.5 billion, which was renewed for another five-year period from December 26, 2008. The Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement with the Saudi Arabian Monetary Agency in May 2011, by which Saudi Arabia would provide new loan resources of up to SDR 500 million. 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, and also provided assurance for additional subsidy contribution to the PRGT through the transfer of its full share in the distribution of the general reserve attributed to windfall gold sale profits. 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 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. In February 1989, Saudi Fund for Development disbursed SDR 49.5 million in PRGT loan resources, which were fully drawn and repaid by September 2004.

Exchange Rate Arrangement

Saudi Arabia maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions. The Saudi Arabian riyal was formally pegged to the U.S. dollar, effective January 2003. Prior to that, it was officially pegged to the SDR at the rate of SRls 4.28255=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 SRls 3.7450=$1. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373. These security-related restrictions should be notified to the Fund pursuant to Decision No.144-(52/51).

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during May 10–25, 2011 in Riyadh. The staff report was considered by the Executive Board on July 18, 2011 and published on September 21, 2011.
(http://www.imf.org/external/pubs/ft/scr/2011/cr11292.pdf)

Technical Assistance:

STA GDDS Meta Data Development January 26–February 6, 2008.
G20 Data Gap Initiative, January 22–23, 2011.
Balance of Payment Statistics, March 12–23, 2011.
National Accounts Statistics, April 8-18, 2012.

MCM Stress testing, January 9–21, 2010.

FAD Options for Indirect Taxation, February 25–March 11, 2006.
Public Financial Management and Statistics, jointly with STA, September 16–30, 2006.
Tax Administration, November 6–19, 2006.
Enhancing Budget Process Reforms January 22–February 2, 2008.
Budget Institutions and GFSM2001 (with participation of STA), June 2-5, 2012.

FSAP The main FSAP mission took place in January 2004.
The FSSA was published on June 5, 2006.
(http://www.imf.org/external/pubs/ft/scr/2006/cr06199.pdf)
FSAP-update, April 16–30, 2011. The FSSA-update was published on April 18, 2012.
(http://www.imf.org/external/pubs/ft/scr/2012/cr1292.pdf)

Resident Representative

No resident representative is stationed in Saudi Arabia.

ANNEX II. RELATIONS WITH THE WORLD BANK

The World Bank's Technical Cooperation Program (TCP) has been providing policy advice, capacity development, and implementation support to development efforts in Saudi Arabia on a reimbursable basis since 1975. In 2006, Saudi authorities agreed to move the program from an annual to a three year planning horizon in order to promote a programmatic engagement in certain areas.

The TCP aims to assist Saudi Arabia in addressing its development challenges of generating productive jobs for a fast growing population; improving the performance of its health system to meet evolving needs; strengthening social safety net mechanisms; enhancing the provision of public services including water, electricity, transport, health and education; and strengthening capacity in national and municipal organizations.

Among priority activities in the FY13–15 program are: work on unemployment assistance and unemployment insurance; work with credit and savings bank on developing their strategy, savings schemes and capacity development for potential SME entrepreneurs in business plan formulation, accounting and marketing; education indicators and bench marking; analytical work on the costs and benefits of developing renewable energy; develop the strategic program for the newly created Council for health services; updating the water sector strategy and building a national consensus around it; developing links with civil society to complement public sector social safety net efforts; and updating a national ports strategy.

Since 2007, the IFC Office has been co-located with the World Bank Office in Riyadh. IFC activities in the country, as well as with Saudi investors outside the country, have increased significantly. They are in line with the following three objectives:

Promote Selective Business in Saudi Arabia

IFC's strategy for investments in Saudi Arabia is to invest in selective transactions that can add value in terms of institution building, development of new financial instruments and SME development. Specific investments in the financial sector include housing finance, insurance, leasing, microfinance and a student loan program (with total commitments around $200 million). IFC also provides Advisory Services in mortgage finance, SME finance, corporate governance, risk management and PPP transactions.

Promote South-South Investments from Saudi Arabia

Many Saudi investors are looking to expand outside of their home-base. This is an opportunity for IFC to work with such companies and invest with them inside and outside the MENA region. IFC Riyadh office increased its activity, especially in facilitating south-south investments that reached around $1.1 billion in IDA and middle income countries (Pakistan, Egypt, Yemen, Ethiopia, Ghana, etc.). IFC continues to work closely with Saudi sponsors to further facilitate cross border investment in the region.

Mobilize Funds from Saudi Public Sector

IFC is working closely with the Saudi Public Institutions to undertake global initiatives that benefit private sector activities in developing countries. So far, these efforts have resulted in obtaining commitments of over US$ 500 million. The current commitments include US$ 300 million from Saudi Fund for Development (SFD) for Global Trade Liquidity Program (GTLP), US$100 million from the Public Investment Fund (PIF) for IFC Africa, Latin America & Caribbean Fund and US$ 100 million from OPEC Fund for International Development (OFID) for GTLP, Microfinance Fund and Africa Capitalization Fund. In addition, IsDB contributed US$5 million to IFC's Advisory Services program, and has agreed to a new contribution of $2 million. IsDB has also contributed $1 million for IFC's Education for Employment (E4E) initiative. Recently IsDB signed the Subscription Agreement with IFC for the Arab Financing Facility for Infrastructure (AFFI) initiative where IsDB will participate with $50 million and IFC with another $50 million in this fund (total fund size expected at $300 million).

ANNEX III. STATISTICAL ISSUES

(As of May 30, 2012)

Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, government finance statistics, and balance of payments.	
National Accounts: Annual and quarterly estimates of GDP are calculated at current and constant prices (with 1999 as a base year). However, incomplete coverage and reliance on the consumer price index to deflate value added for non-oil activities could affect the accuracy and reliability of estimates.	
Government finance statistics: The authorities are reclassifying the budget in line with *GFSM 2001*. Most chapters have been completed and the Ministry of Finance is planning on using the *GFSM 2001* framework to report fiscal data.	
Balance of Payments: The authorities are now publishing an annual IIP. However, the coverage in the capital and financial accounts, particularly for the private sector, needs to be improved, and the errors and omissions remain sizable.	
Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since 2008.	No data ROSC is available.

SAUDI ARABIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of May 31, 2011)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological Soundness[7]	Memo Items: Data Quality – Accuracy and Reliability[8]
Exchange Rates	5/30/2012	5/31/2012	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/2012	5/26/2012	M	M	M		
Reserve/Base Money	4/2012	5/26/2012	M	M	M		
Broad Money	4/2012	5/30/2012	W	W	W		
Central Bank Balance Sheet	4/2012	5/26/2012	M	M	M		
Consolidated Balance Sheet of the Banking System	4/2012	5/26/2012	M	M	M		
Interest Rates[2]	4/2012	5/26/2012	M	M	M		
Consumer Price Index	4/2012	5/26/2012	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2011	5/14/2011	A	A	A		
Stocks of Central Government and Central Government-Guaranteed Debt[4]	2011	5/14/2012	A	A	A		
External Current Account Balance	Q4 2011	5/12/2012	Q	Q	Q		
Exports and Imports of Goods and Services	Q4 2011	5/14/2012	Q	Q	Q		
GDP/GNP	Q4 2011	5/11/2011	Q	Q	Q		
Gross External Debt (BIS)	2010		Q	Q	Q		
International Investment Position[5]	2010	4/4/2012	A	A	A		

[1] Any reserve assets that are pledge 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 and maturity composition.

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

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

[7] Reflects the assessment provided in the data ROSC published in December 2005, and based on the findings of the mission that took place during February 8–23, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[8] Same as footnote 7, except referring to international standards concerning source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the Staff Representative on Saudi Arabia
June 26, 2012

The information below has become available following the issuance of the staff report. It does not alter the thrust of the staff appraisal.

As of mid-June, oil prices—spot and futures—have weakened, implying smaller fiscal and current account surpluses and reinforcing the importance of strong budgetary institutions. As shown in table below, assuming unchanged oil production and fiscal spending levels, the lower oil prices will reduce both fiscal and current account surpluses by about 4½ percent of GDP in 2012, with the impact declining over the medium-term. Both fiscal and external accounts remain in surplus, although the reduced fiscal surpluses highlight the need to ensure that expenditure policies remain consistent with medium and long-term objectives.

Saudi Arabia is now a participant in the Coordinated Direct Investment Survey. Data on the sources of inward foreign direct investment are now available on http://cdis.imf.org/.

Saudi Arabia: Updated Fiscal and External Balances Based on Revised Oil Price Projections, 2010–17

		Prel.	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017
Average Saudi oil price ($/bbl)								
2012 Art. IV staff report	75.8	99.7	109.9	105.4	98.5	93.1	89.5	87.2
Mid-June update	75.8	99.7	97.6	90.3	87.8	86.4	84.5	84.0
Fiscal sector								
Net lending/borrowing (percent of GDP)								
2012 Art. IV staff report	5.1	13.0	16.5	10.0	6.9	4.1	1.4	-1.3
Mid-June update	5.1	13.0	12.0	4.1	2.7	1.5	-0.6	-2.5
External sector								
Current account balance								
2012 Art. IV staff report								
US$ billions	66.8	158.5	179.2	153.8	120.6	103.4	93.0	96.7
Percent of GDP	14.6	26.5	26.5	22.3	17.2	14.4	12.4	12.4
Mid-June update								
US$ billions	66.8	158.5	138.5	104.0	85.3	79.6	73.3	79.8
Percent of GDP	14.6	26.5	21.7	16.2	12.8	11.4	10.0	10.4

Sources: Ministry of Finance, Saudi Arabian Monetary Agency, and IMF staff projections.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 12/97
FOR IMMEDIATE RELEASE
August 7, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes the 2012 Article IV Consultation with Saudi Arabia

On July 2, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Saudi Arabia.[1]

Background

Saudi Arabia provided important support to the global economy in 2011 by raising oil production to help stabilize global oil markets. The commitment to provide $15 billion in additional resources for the IMF has also contributed to global stability. Adverse spillovers from unrest in the region and the euro area crisis have been limited so far. Higher oil revenues have been used to accelerate domestic developmental objectives as well as to support other economies in the region and beyond.

The pace of economic expansion accelerated in 2011. Overall real GDP growth reached 7.1 percent, and the non-oil economy grew by 8 percent—the highest since 1981. Despite increased economic activity, inflation stabilized at 5 percent as food inflation subsided and imports of capital goods and labor helped prevent bottlenecks from emerging.

New initiatives to address pressing social issues such as unemployment, availability of affordable housing, and SME financing, translated into an increase in real government spending of 20 percent. Nevertheless, despite increased spending and strong import growth, fiscal and external surpluses strengthened further in 2011 as oil revenues rose. Monetary aggregates grew strongly in 2011 and credit growth reached double digits as the economic expansion translated into increased demand for credit. Consistent with the peg to the U.S. dollar, monetary

[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. 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 summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

policy remained accommodative and policy rates remained unchanged. The banking system remained highly capitalized and liquid with improved profitability.

Executive Board Assessment

Executive Directors welcomed the authorities' efforts to stabilize oil markets and noted the positive spillover to the region from Saudi Arabia's higher growth, public spending, and expanded financial assistance. Higher oil revenues have strengthened fiscal and external balances and have boosted social spending and savings for future generations. The near-term economic outlook is broadly favorable, although geopolitical risks and oil prices remain sources of volatility.

Directors stressed the need to forestall any inflation pressures engendered by robust growth through a proactive use of liquidity and macroprudential policy tools. They also noted that, while the government has built significant policy buffers, fiscal spending is above the level consistent with an intergenerationally equitable drawdown of oil wealth. Accordingly, they highlighted the importance of preserving flexibility in entitlements, ensuring efficiency in spending, and broadening the tax base.

Directors welcomed the authorities' efforts to strengthen budget institutions and further delink fiscal spending from oil price developments. They encouraged the authorities to continue to improve the budgetary process, including by carefully screening supplementary budgetary expenditures, establishing a macro-fiscal unit, and anchoring spending decisions in a multi-year framework.

Directors noted the recent initiatives to increase employment of Saudi nationals in the private sector and the complementary supply-side efforts to boost their skills. Adjusting domestic energy prices would enhance the efficiency of resource use and could also have beneficial employment effects, while facilitating economic diversification.

Directors agreed that the fixed exchange rate continues to serve Saudi Arabia well. Since the peg limits the scope for monetary policy conduct, the use of macroprudential and liquidity management tools remains key to effective policymaking.

Directors commended the authorities' efforts to strengthen financial supervision and risk management, as well as their progress toward adopting Basel III standards. They encouraged continued implementation of the FSAP Update recommendations and welcomed improvements in the AML/CFT regime. Directors also welcomed progress made in strengthening the statistical system, but called for further measures to improve data quality, availability, and timeliness.

Saudi Arabia: Selected Economic Indicators

	2008	2009	2010	Prel. 2011	Proj. 2012
			(Percentage change)		
Production and prices					
Real GDP	4.2	0.1	5.1	7.1	6.0
Real oil GDP	4.2	-7.8	2.4	4.6	4.5
Real non-oil GDP	4.3	3.5	6.2	8.0	6.5
Nominal GDP (US$ billions)	477	377	457	598	675
Consumer price index	9.9	5.1	5.4	5.0	5.2
			(Percent of GDP)		
Fiscal and financial variables					
Central government revenue	61.6	36.1	43.4	49.9	50.6
Of which: oil revenue	55.1	30.8	39.2	46.2	46.0
Central government expenditure	29.9	43.4	38.2	36.9	34.1
Fiscal balance (deficit -)	31.7	-7.4	5.1	13.0	16.5
Non-oil primary balance (percent of non-oil GDP)	-59.6	-69.9	-68.2	-77.4	-70.1
Change in broad money (percent)	17.6	10.7	5.0	13.3	12.2
			(US$ billions)		
External sector					
Exports	313.9	192.6	251.5	365.0	411.3
Of which: oil and refined products	281.4	163.3	215.5	317.9	361.0
Imports	-101.6	-87.2	-97.6	-120.2	-134.8
Current account	132.5	21.0	66.8	158.5	179.2
Current account (percent of GDP)	27.8	5.6	14.6	26.5	26.5
SAMA’s net foreign assets	438.5	405.9	441.0	535.9	701.8
SAMA's net foreign assets (in months of imports of goods and services)	31.9	27.5	26.2	29.2	36.2
Real effective exchange rate (percent change)	1.1	7.7	1.4	-2.4	…

Sources: Data provided by the authorities; and IMF staff estimates and projections.