



SAUDI ARABIA

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

August 2022

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 2022 Article IV consultation with Saudi Arabia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 27, 2022, consideration of the staff report that concluded the Article IV consultation with Saudi Arabia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 27, 2022, following discussions that ended on June 7, 2022, 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 July 14, 2022.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

- **Selected Issues**

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

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**International Monetary Fund
Washington, D.C.**



IMF Executive Board Concludes 2022 Article IV Consultation with Saudi Arabia

FOR IMMEDIATE RELEASE

Washington, DC – August 17, 2022: On July 27, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation¹ with Saudi Arabia.

Saudi Arabia is recovering strongly following a deep pandemic-induced recession. Liquidity and fiscal support, reform momentum under Vision 2030, and high oil prices and production helped the economy recover with a robust growth, contained inflation and a resilient financial sector. The receding effects of the pandemic, rising oil production/prices and a strengthening economy have improved the fiscal and external positions.

Overall growth was robust at 3.2 percent in 2021, in particular driven by a rebounding non-oil sector—supported by higher employment for Saudi nationals, particularly women—and is expected to increase significantly to 7.6 percent in 2022 despite monetary policy tightening and fiscal consolidation, and a, thus far, limited fall-out from the war in Ukraine. Over the medium term, growth is expected to accelerate as continued implementation of the reform agenda and the National Investment Strategy, supported by Public Investment Fund interventions, yields dividends.

Inflation remained contained at 3.1 percent in 2021 as the base effect of the mid-2020 VAT hike dissipated coupled with a low passthrough of international food and commodity prices. The low passthrough is expected to help contain inflation at 2.8 percent in 2022, despite some inflationary pressures expected from double-digit wholesale price inflation and increasing shipping costs.

Banks remain liquid, well capitalized, and their profitability—which declined during the COVID-19 pandemic—rebounded strongly in 2021 as net interest margins recovered. Credit to the private sector expanded by 15.4 percent in 2021, mainly driven by mortgages and SME lending. Saudi financial markets surged earlier this year, albeit most of this surge was reversed over the past two months in line with recent global developments.

The overall fiscal balance increased by almost 9 percentage points of GDP to a 2.3 percent of GDP deficit in 2021, mainly reflecting oil revenues and non-oil tax revenues supported by a rebounding economy and the full-year effect of the tripling of the VAT rate to 15 percent in mid-2020.

Higher oil prices and stepped-up oil production improved the current account by 8.5 percentage points in 2021, registering a surplus of 5.3 percent of GDP as strong oil-driven exports surpassed growing imports and large remittance outflows. While reserves increased, net foreign assets declined, although remaining at very comfortable levels at 22 months of imports in 2021 and are expected to increase significantly in the wake of rising oil export revenues over the medium term.

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.

Risks to the outlook are balanced. On the upside, a successful implementation of the National Investment Strategy and labor market reforms, or further increases in oil production could further improve the outlook. On the downside, key risks stem from pressures to spend oil windfalls and deviate from the reform agenda, inflationary pressures, another COVID surge (domestic or abroad), lower oil prices due to lower global activity if the war in Ukraine has lasting effects, and an abrupt slowdown in China.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Saudi Arabia's substantial growth rebound, contained inflation, and strengthened external position, supported by the authorities' swift pandemic policy response, strong reform momentum, and higher oil prices and production. Against the backdrop of the positive economic outlook, with balanced risks, they underscored the need to continue implementing the Vision 2030 reform agenda, which will serve to diversify the economy and promote strong, inclusive, and greener growth.

Directors welcomed the authorities' fiscal discipline and their adherence to the 2022 budget ceilings despite higher oil prices. To support fiscal consolidation and transition to a greener economy, Directors underscored the need to sustain energy price reforms, including reconsideration of the cap on gasoline prices, and welcomed the authorities' commitment to reach market energy prices by 2030. They called for further efforts to strengthen non-oil revenue mobilization through tax policy measures—including by maintaining the current VAT rate—and enhancing revenue administration. Directors commended the authorities for ongoing reforms to strengthen social safety nets through targeted schemes, which should help sustain energy price reforms.

Directors welcomed the continued improvements in public financial management and encouraged further efforts to increase fiscal transparency. Given the increasing role of the Public Investment Fund, they encouraged quick completion of the ongoing work to establish a sovereign-asset liability management framework. Directors welcomed the authorities' efforts to develop a fiscal rule, based on a long-term fiscal anchor and encouraged broader coverage of the public sector, to help reinforce their commitment to fiscal sustainability.

Directors welcomed the continued resilience of the financial sector and central bank's strong supervision. They welcomed the progress in line with the internationally agreed timeline toward implementing the Basel III standards and encouraged further enhancing supervisory scrutiny of credit risks, as warranted, including from rising mortgage lending, and continued strengthening of the AML/CFT framework. Directors agreed that the exchange rate peg to the U.S. dollar continues to serve Saudi Arabia's economy well given the current economic structure.

Directors commended the authorities for the significant progress in implementing their ambitious structural reform agenda. They welcomed the impressive pace of labor market reforms, particularly the doubling of female labor force participation, and encouraged continued actions in this area. Directors advised continued efforts to improve the regulatory and business environment, promote private investment, boost productivity, and address corruption. They welcomed the authorities' ambitious climate commitments outlined in the Green Initiative and looked forward to the specific steps to achieve its goals. Directors also reiterated the importance of continuing to improve data quality and availability.

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

It is expected that the next Article IV consultation with Saudi Arabia will be held on the standard 12-month cycle.

Saudi Arabia: Selected Economic Indicators, 2020–23

Population: 34.1 million (2021)

Quota: SDR 9,992.6 million (2.10% of total)

Main products and exports: Oil and oil products (73%)

Key export markets: Asia, U.S., and Europe

	2020	2021	Proj. 2022	Proj. 2023
Output				
Real GDP growth	-4.1	3.2	7.6	3.7
Non-oil GDP growth	-2.5	4.9	4.2	3.8
Prices				
CPI Inflation (avg, %)	3.4	3.1	2.8	2.2
Central government finances				
Revenue (% GDP)	29.6	30.9	31.8	32.0
Expenditure (% GDP)	40.8	33.2	26.4	27.1
Fiscal balance (% GDP)	-11.2	-2.3	5.5	4.9
Public debt (% GDP)	32.4	30.0	24.3	24.5
Non-exported oil primary balance (% Nonoil GDP)	-37.6	-29.0	-24.8	-22.0
Money and credit				
Broad money (% change)	8.3	7.4	8.5	7.6
Credit to the private sector (% change)	14.0	15.4	13.4	12.8
Balance of payments				
Current account (% GDP)	-3.2	5.3	17.2	13.8
FDI (% GDP)	0.8	2.3	0.8	0.8
Reserves (months imports) ¹	25.3	22.1	25.3	26.8
External debt (% GDP)	33.8	34.4	28.5	29.0
Exchange rate				
REER (% change) ²	1.0	0.9	4.8	...
Unemployment rate				
Overall (% total labor force) ²	7.4	6.9	6.0	...
Nationals (% total labor force) ²	12.6	11.0	10.1	...

Sources: Country authorities and IMF staff estimates and projections.

¹ Imports of goods and services.

² For 2022, data is latest available.



SAUDI ARABIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

July 14, 2022

KEY ISSUES

Context. Saudi Arabia is recovering strongly from the pandemic-induced recession. Higher oil prices provide an opportunity for accelerating further the strong reform drive brought about under Vision 2030.

Outlook and risks. Growth, driven by both oil production expansion and a continued robust non-oil recovery, is expected to pick up strongly this year, and inflation is contained despite increased international commodity prices. On the back of sustained oil output, higher oil prices than previously forecasted and strong reform implementation will support non-oil growth over the medium term. Risks to the outlook are balanced.

The **external position** is expected to strengthen substantially. The exchange rate peg to the U.S. dollar continues to serve Saudi Arabia well given the structure of the economy.

Fiscal policy. The 2022 fiscal outturn will overperform the budget, with the spending ceilings specified under the medium-term fiscal framework remaining appropriate to sustain the fiscal adjustment while allowing for increased and targeted social spending. Fiscal consolidation should continue to be pursued through non-oil revenue mobilization, energy price reforms, and the continued rollout of transformative structural fiscal reforms already initiated under vision 2030. Implementing a fiscal rule would help sustain a fiscal anchor over the medium term. An integrated asset-liability management framework would help the government assess Saudi Arabia's fiscal stance and position.

Financial sector. Macro-financial systemic risks are low, and continued improvements in Saudi Arabia's financial sector regulatory framework would be important.

Structural reforms. Significant steps have been taken to improve the regulatory and business environment, attract foreign investment, and create private sector employment. Priorities to foster a more inclusive and green economy include increasing further women labor force participation, making sure PIF interventions play a catalytic role, strengthening governance, and rolling out the Saudi green initiative.

Approved By
Zeine Zeidane and
Delia Velculescu

Discussions were held in Riyadh during May 23-June 6, 2022. The team comprised Amine Mati (head), Jerome Vacher, Sidra Rehman, Fozan Fareed, Nordine Abidi (all MCD) and Flavien Moreau (FIN). Zeine Zeidane (MCD) also joined the mission for some opening meetings and Jihad Azour (MCD) participated in the concluding meetings. Alternate Executive Director for Saudi Arabia, Mr. Mohamed Ahmed Alrashed, accompanied the mission and the Executive Director for Saudi Arabia, Mr. Abdullah BinZarah, joined for the concluding meetings. The team met with Minister of Finance Al Jadaan, Governor of the Saudi Central Bank (SAMA) Al Mubarak, Minister of Energy Al Saud, Minister of Investment Alfalih, Advisor to the Saudi Royal Court and the Secretary General of the Vision 2030 Strategic Management Office Toonsi, and other senior officials, as well as representatives of the Shura council, private sector and academics. Olivier Basdevant (FAD), Esther George (MCD) and Tian Zhang (MCD) provided support from headquarters and contributed to the report.

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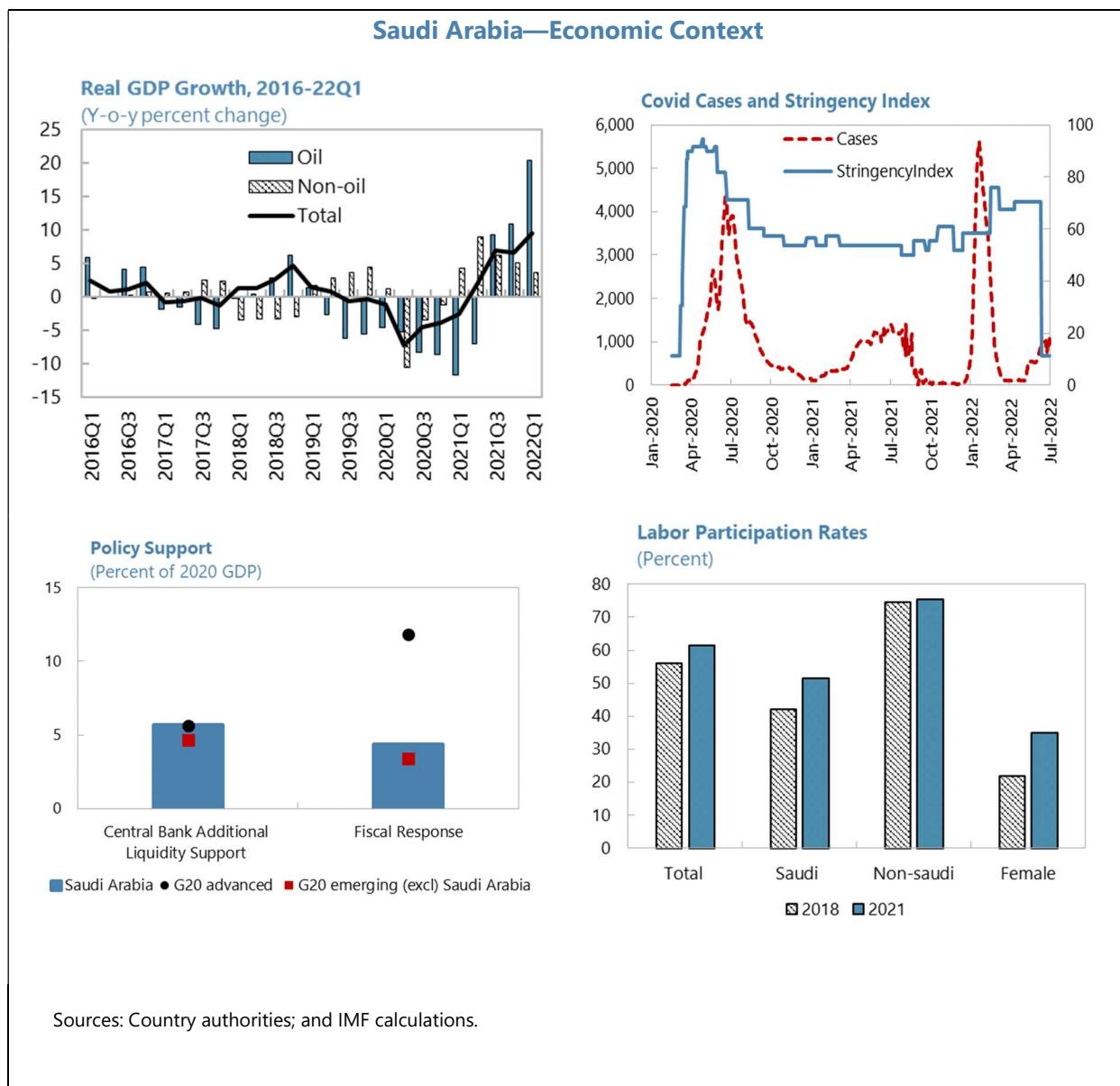
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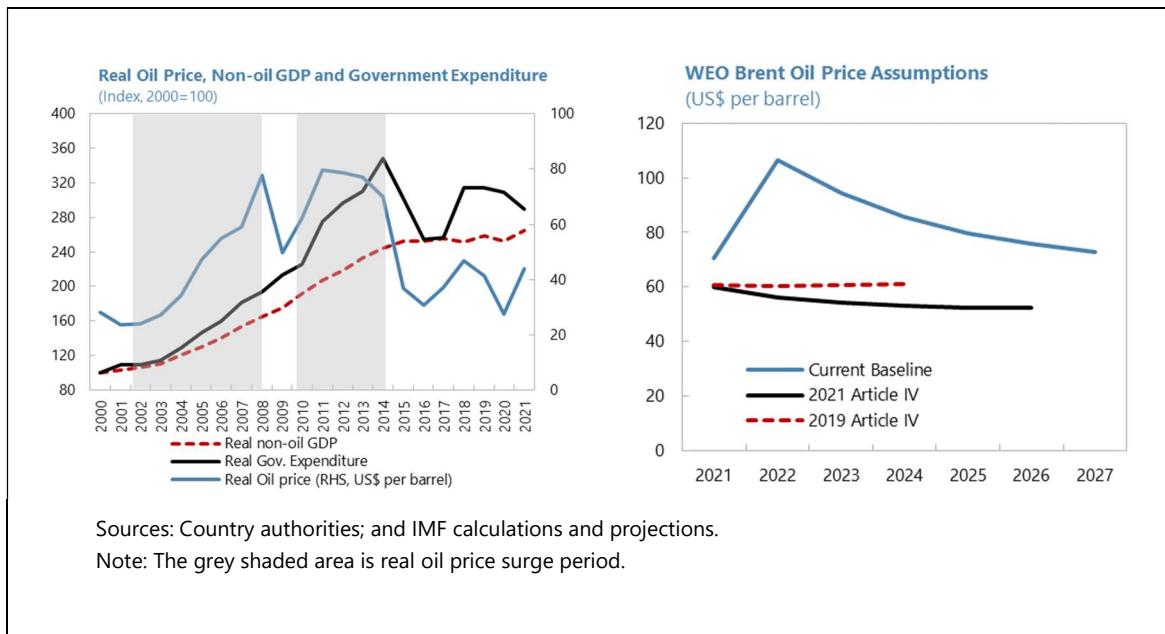
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BACKGROUND

1. Saudi Arabia is recovering strongly from a deep-pandemic induced recession. Liquidity and fiscal support above or comparable to what was provided by G20 emerging economies, reform momentum and recovery in oil prices and production have helped the country recover swiftly and move to more sustained growth. With a high vaccination rate, the latest Omicron-COVID-19 wave has been short-lived, allowing the authorities to remove restrictions on domestic movement and international travel. Scarring remains limited, with shifts in the labor market through departures of expatriates at the height of COVID-19 offset by increased labor force participation of nationals.

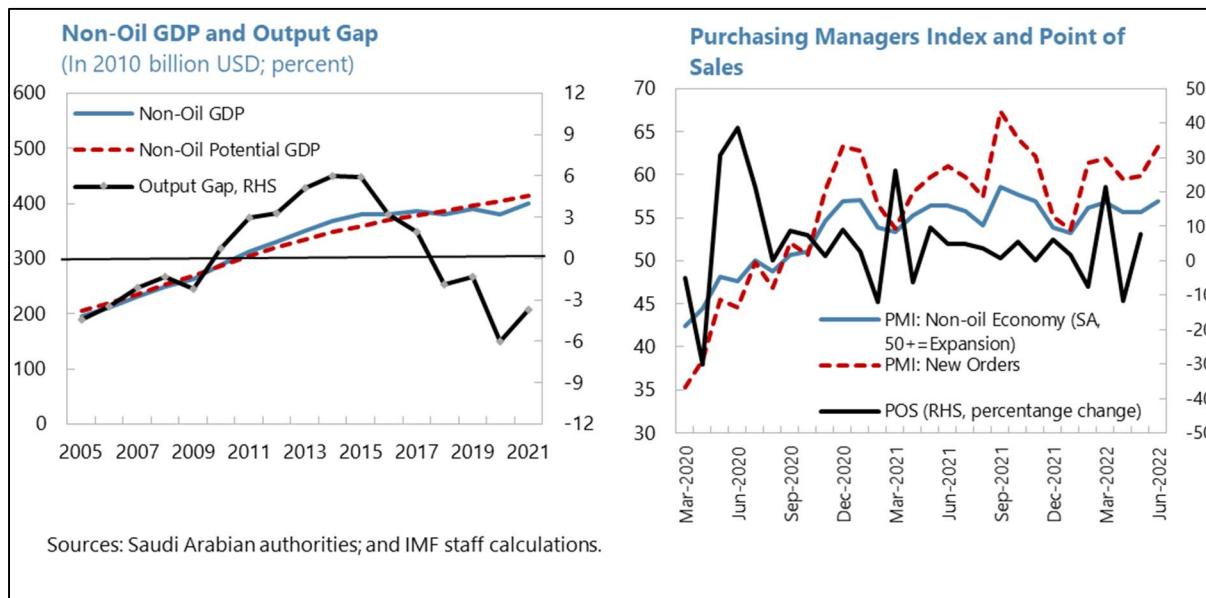


2. The war in Ukraine has further increased commodity prices, which should not slow down or reverse efforts to continue diversifying the Saudi economy. With oil prices high and considerably above previous forecasts over the medium term, policies in line with the "2030 Vision" to open and diversify the economy—and supported by a national investment strategy—will help avoid procyclicality associated with past oil-driven boom and bust cycles. The take-up of the most recent Article IV recommendations is also indicative of this effort—which has also benefited from IMF technical assistance (Annex I).



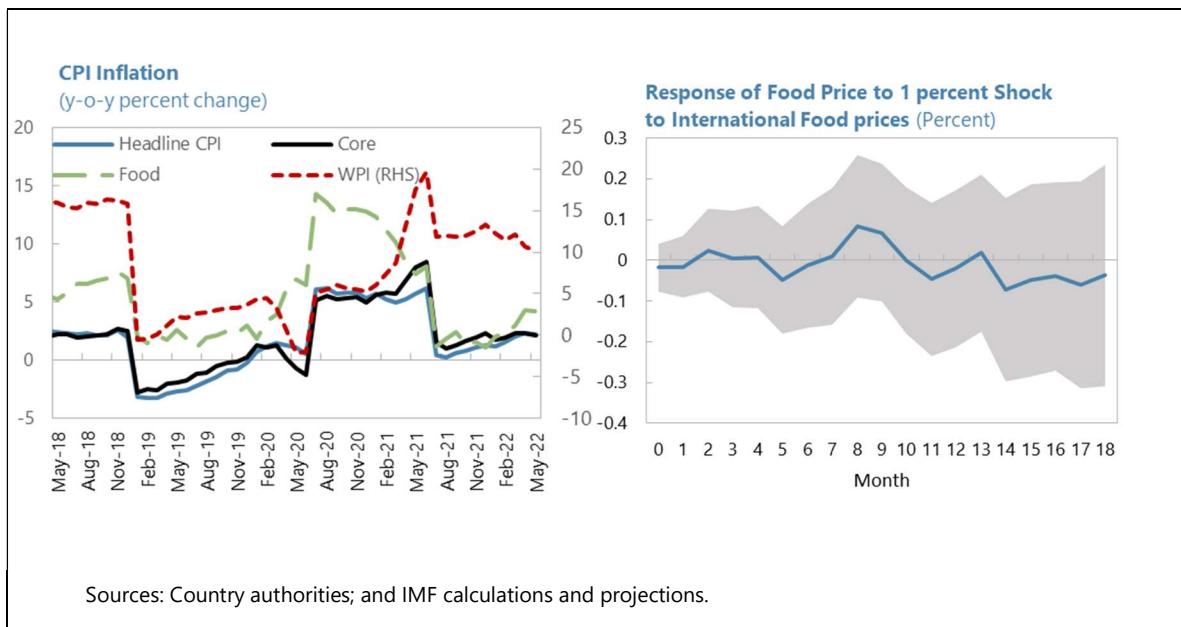
RECENT DEVELOPMENTS

3. The recovery continues with strong cyclical momentum going into 2022. Swift and decisive measures at the outset of the pandemic resulted in a rebound in non-oil activity in the second half of 2020, which continued in 2021 (Figures 1 and 2). Non-oil real GDP grew by 4.9 percent in 2021—driven mostly by retail (including e-commerce), trade and manufacturing, while oil production remained relatively flat as increases in the second half of 2021 were not enough to offset production hold-backs due to subdued global demand in 2020 and early 2021. High frequency indicators—and a 9.9 percent y-o-y growth in Q1 2022—continue to indicate a strong recovery. Consequently, the Saudi unemployment rate fell to 10.1 percent by Q1 2022—a 1.6 percentage point drop from Q1 2021, mainly owing to higher employment for Saudi nationals in the private sector, particularly on the back of effective initiatives (see below) to raise women labor force participation.



4. CPI inflation has been contained, but inflationary pressures appear to be rising

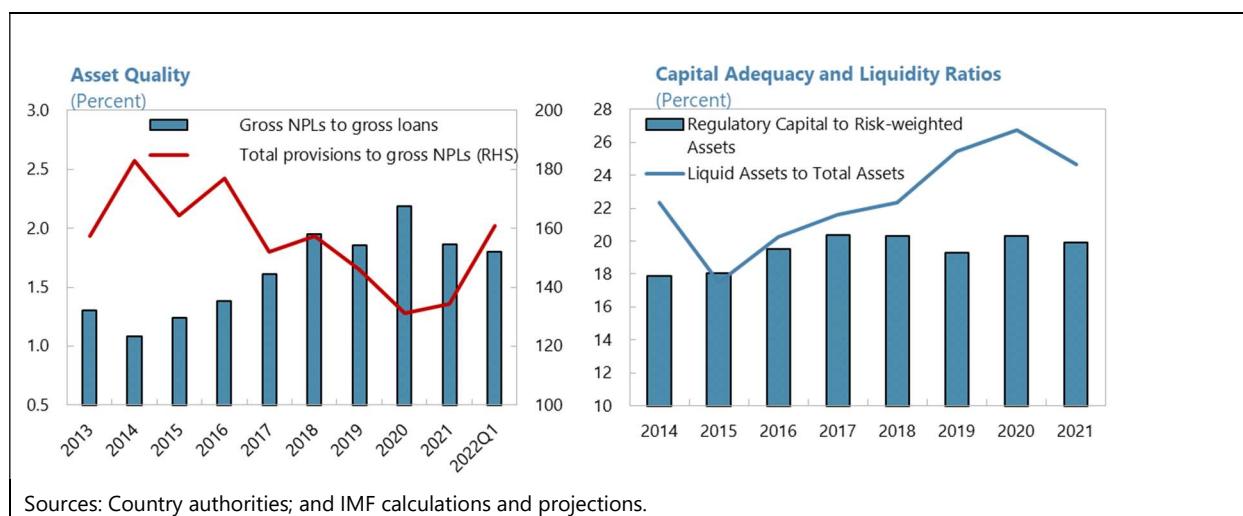
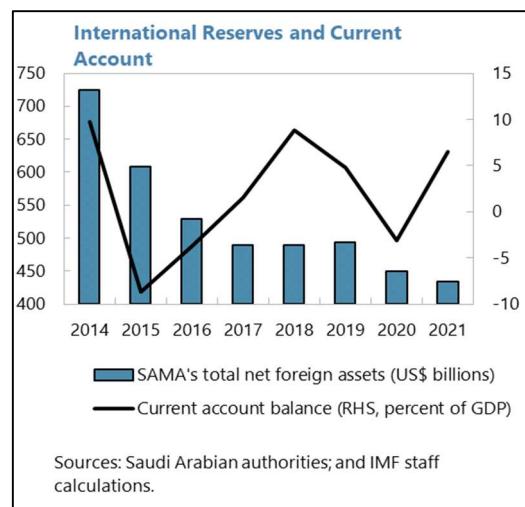
(Annex II). Average inflation was 3.1 percent in 2021 and has been low since mid-2021 as the base effect of the mid-2020 VAT hike dissipated, despite some pressures from higher food and gasoline prices, which led to a cap on local gasoline prices in July 2021. Low pass-through of international food and commodity prices due to some subsidies, appreciation of the US dollar, as well as stable rents (about 21 percent of the CPI basket) explain inflation staying low at 2.2 percent (y/y) in May 2022. That said, double-digit wholesale price inflation, increasing commodity prices, and rising shipping/logistics costs suggest a pick-up in inflation in the latter part of 2022.



5. Higher oil prices and stepped-up oil production improved the current account. The current account registered a 5.3 percent of GDP surplus in 2021 as strong oil-driven exports surpassed growing imports and large remittance outflows. While foreign reserves increased by US\$1.7 billion, net foreign assets declined by US\$11 billion largely due to an increase in foreign liabilities, with the net foreign asset position settling at 22.1 months of imports (down from 25.3 in 2020).¹

6. The banking system remains resilient.

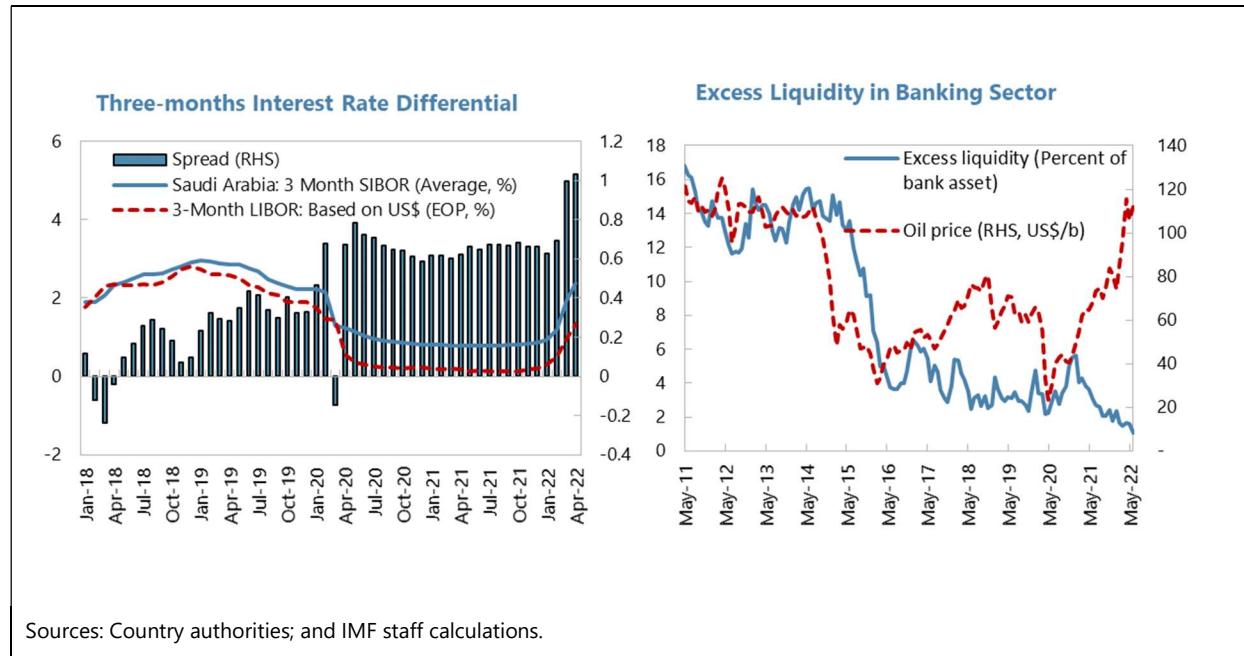
Banks are liquid and well capitalized, and their profitability—which declined during the COVID-19 pandemic—rebounded strongly in 2021 as net interest margins started to recover. Deposits have continued to grow while credit to the private sector expanded by 13.9 percent (y/y) in May 2022, mainly driven by mortgages and SME lending. The non-performing loan ratio—which remains low at 1.8 percent as of end-March 2022, with provisioning exceeding 160 percent—has not increased even after the expiration of the COVID-19 support deferred loan programs that have been phased out in March 2022 (3 percent of GDP). The Guaranteed Financing Program for SMEs (0.3 percent of GDP) has been extended until March 2023.



7. While liquidity remains adequate, the excess liquidity in the banking system has recently declined despite rising oil prices. Deposits grew by 8.9 percent (yoy) by end-May 2022, in line with the average for 2021. However, the link between excess liquidity and oil prices seems to have weakened more recently, particularly as the government maintains fiscal discipline. This contributed to a higher premium than has historically been the case between the money market

¹ The special SDR allocation is held as reserves. Saudi Arabia has pledged to contribute SDR550 million of its SDR allocation to PRGT loan resources while assessing additional voluntary contributions for vulnerable countries.

interest rate, i.e., the benchmark three-month Saudi interbank offered rate (SAIBOR) and the three-month US LIBOR rate. In response, in June, SAMA has reportedly deposited SAR50 bn (\$13 bn) with commercial banks and lengthened the maturity of its repo instruments.

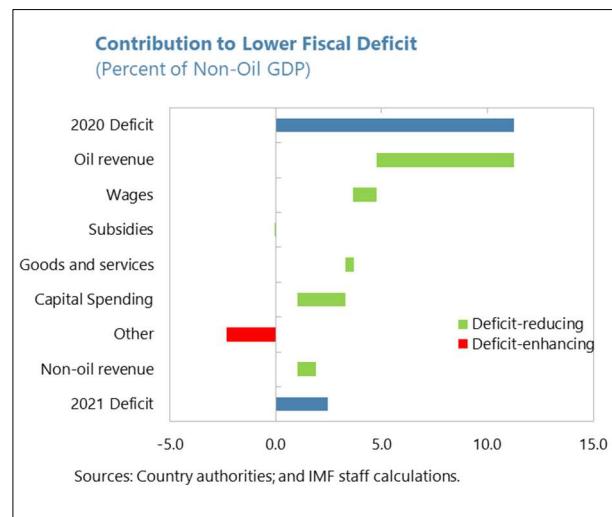


8. Saudi financial markets surged earlier this year before a reversal over the past two months, mostly reflecting global developments.

The Tadawul All Share Index (TASI) increased significantly by more than 31 percent by end-April (yoY), helped by new IPOs and record non-resident equity inflows that reflect Saudi Arabia's strong fundamentals, as well as portfolio rebalancing in the MSCI index after the exclusion of Russia. However, over the past two months, most of the gains were reversed as investors' concerns on a potential global economic slowdown rose. Despite turmoil in global markets, sovereign spreads have hovered around 95-125 basis points over the past year.



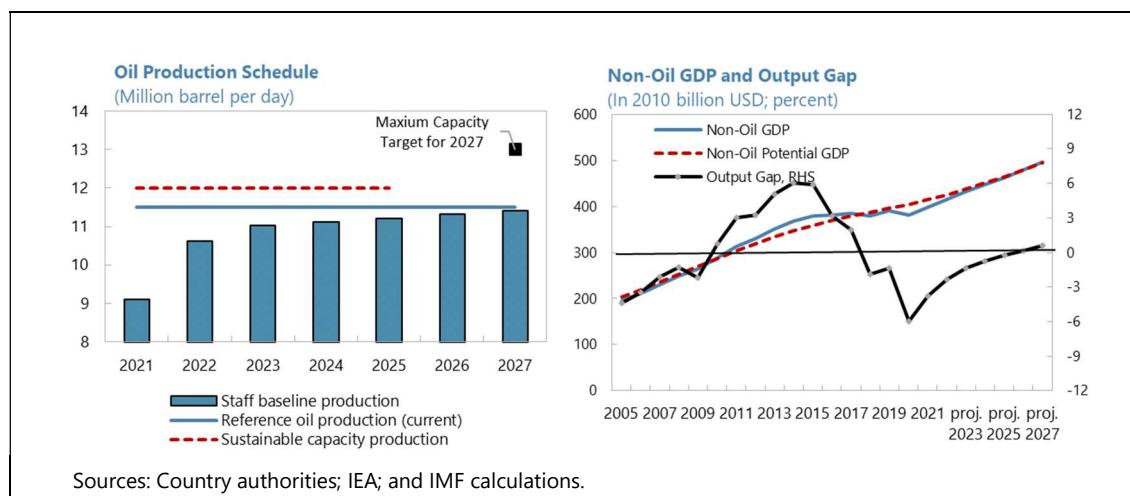
9. The receding effects of the pandemic, rising oil prices and a strengthening economy have led to a rapid turnaround in the fiscal position. The overall fiscal balance improved by almost 9 percentage points of GDP to a 2.3 percent of GDP deficit in 2021, mainly reflecting oil revenues and non-oil tax revenues supported by a rebounding economy and the full-year effect of the tripling of the VAT rate to 15 percent in mid-2020. Total expenditures declined on account of lower capital expenditure, while current expenditure stayed flat. However, relative to the 2021 budget, overall expenditures were about 1½ percent of GDP higher, reflecting higher-than-expected COVID-19 spending, subsidies for higher oil and food prices (including costs for advance stocking of wheat), and stronger implementation of investment projects.



OUTLOOK AND RISKS

10. Outlook prospects are strong, supported by higher oil revenues and reform implementation.

- Growth is projected to pick up strongly this year.** With oil production increasing in line with the OPEC+ schedule, wholesale and retail trade rebounding strongly, ample liquidity, and momentum from a returning Umrah and Hajj pilgrims, overall GDP is projected to grow by 7.6 percent in 2022 despite the global monetary policy tightening cycle assumed under the baseline (Selected Issues Paper II). Non-oil growth will increase to 4.2 percent in 2022 before returning to its medium-term potential of 4 percent as the output gap closes and investment projects and reforms continue to yield dividends.



- **Headline inflation** is expected to pick up to 4 percent (yoY) in the second half of the year and remain contained at 2.8 percent on average, while core inflation remains at 2.4 percent. A strong dollar, subsidies and price caps on certain products (e.g., some food products, water, electricity, gasoline), subdued rent prices amidst higher supply and increased home ownership, and continued labor market slack help contain pressure from supply-side shocks. Over the medium term, inflation would moderate to about 2 percent—a forecast that is aligned with consensus forecasts (the only proxy for Saudi Arabia's inflation expectations)—as global inflationary pressures ease.
- The **external position is expected to improve** dramatically. As oil exports more than offset rebounding imports, the current account surplus is expected to triple to around 17.2 percent of GDP in 2022—a level not reached since 2012 when oil prices were also above \$100 per barrel. Although gradually declining, surpluses are expected to continue over the medium term. Net foreign assets are expected to increase by 22 percent in 2022 reaching a cover of 25.3 months of imports and the equivalent of 52 percent of GDP, with reserve buffers eventually stabilizing at about 27 months of imports in the medium term.

Selected Economic Indicators, 2022–27 (In percent unless otherwise indicated)						
	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
Real GDP	7.6	3.7	2.9	2.9	2.9	3.0
Non-oil real GDP	4.2	3.8	4.0	4.0	4.0	4.0
Consumer price index (average)	2.8	2.2	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	17.2	13.8	10.8	7.9	5.4	2.9
SAMA's total net foreign assets (US\$ billions)	535.5	610.3	685.5	743.1	780.6	800.7
In months of imports of goods and services ¹	25.3	26.8	28.0	28.1	27.1	26.8

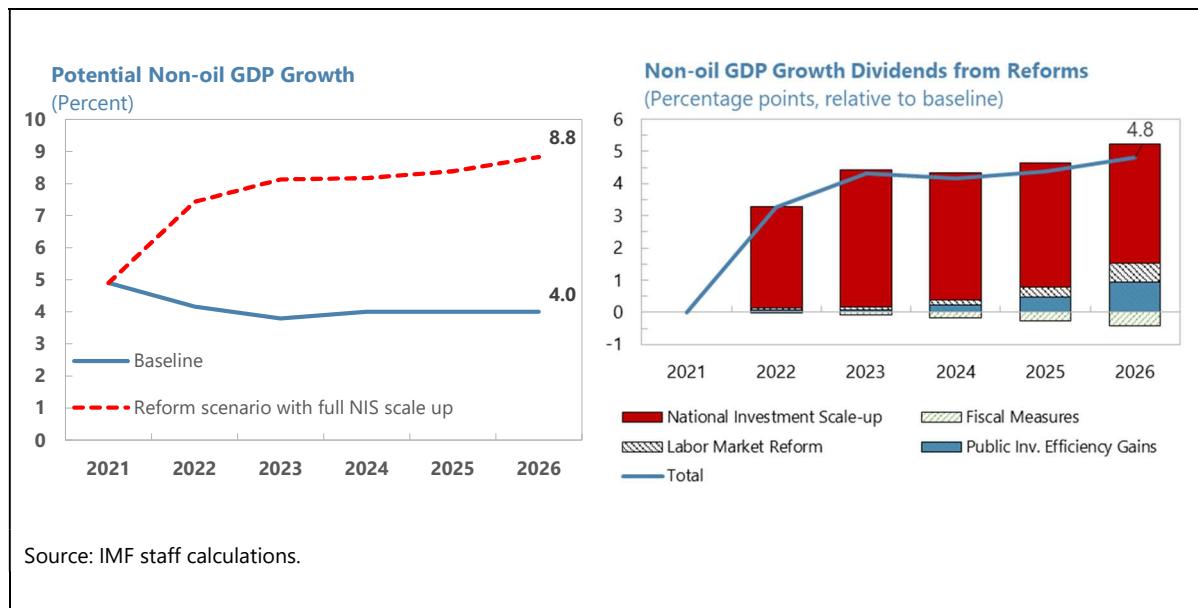
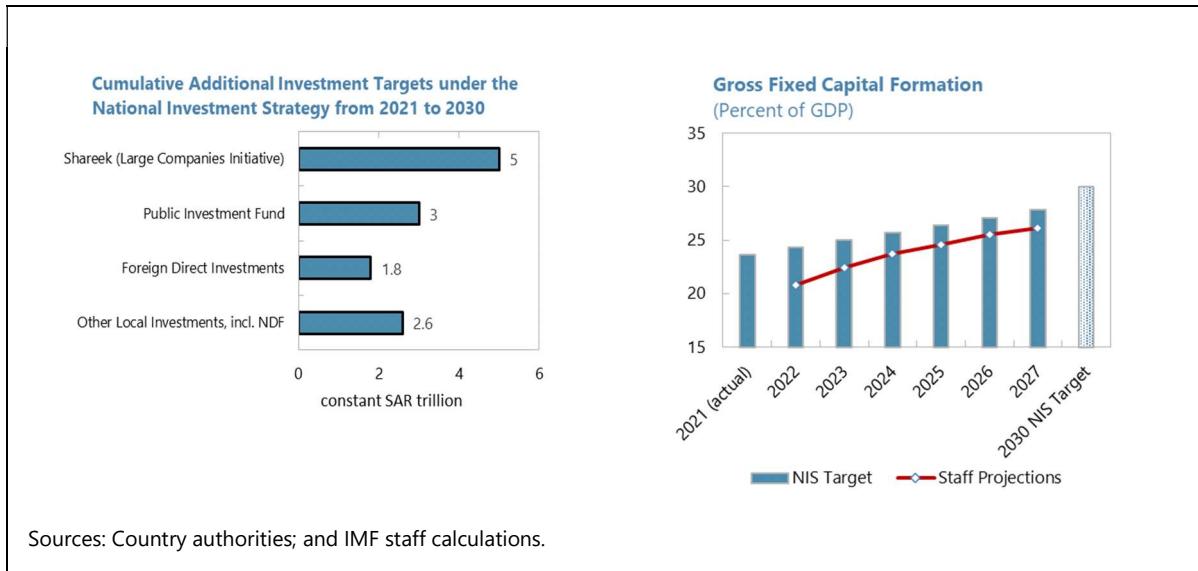
Sources: Saudi Arabian authorities; and IMF staff estimates and projections.

¹ Next 12 months.

11. Risks to the outlook are balanced, with policies pursued by the authorities and advocated by staff—most notably on fiscal consolidation, public financial management, and structural reforms—helping mitigate the downside risks identified (Annex III):

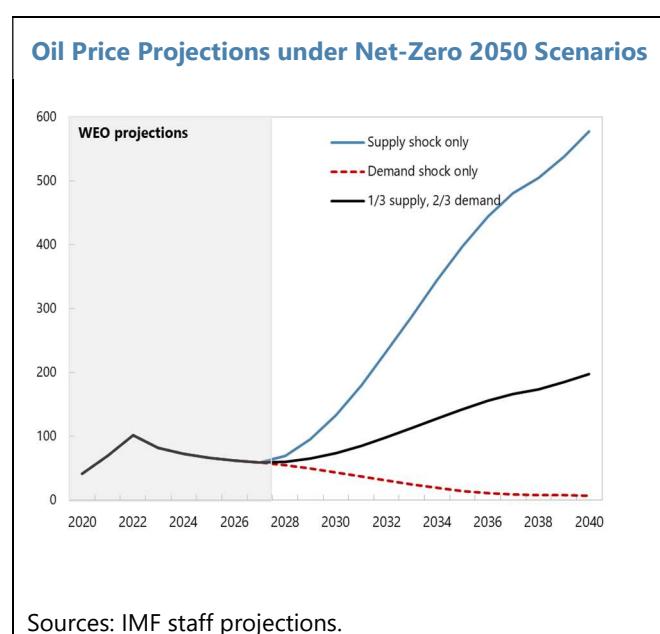
- On the **upside**, higher than expected oil production and accelerated implementation of structural reforms and investments under Vision 2030 could further improve the outlook. The mission's baseline scenario remains relatively conservative, as it does not take into account the full potential impact of the National Investment Strategy (NIS) on the economy. If well-executed, the SAR12.4 trillion NIS investment ramp-up combined with improvements in public investment efficiency, a modest improvement of the fiscal balance and growth dividends from the

deepening of ongoing labor market reforms could deliver a sustainable rise in non-oil potential GDP growth to about 8.8 percent by 2025 (Selected Issues Paper III).



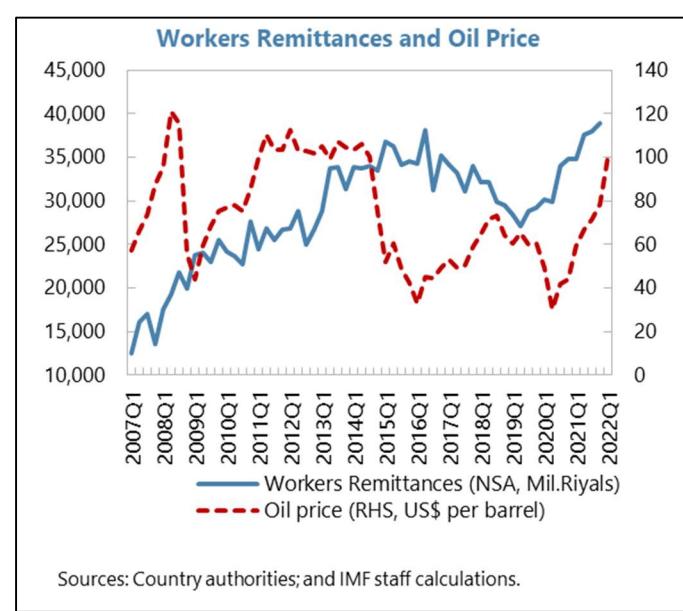
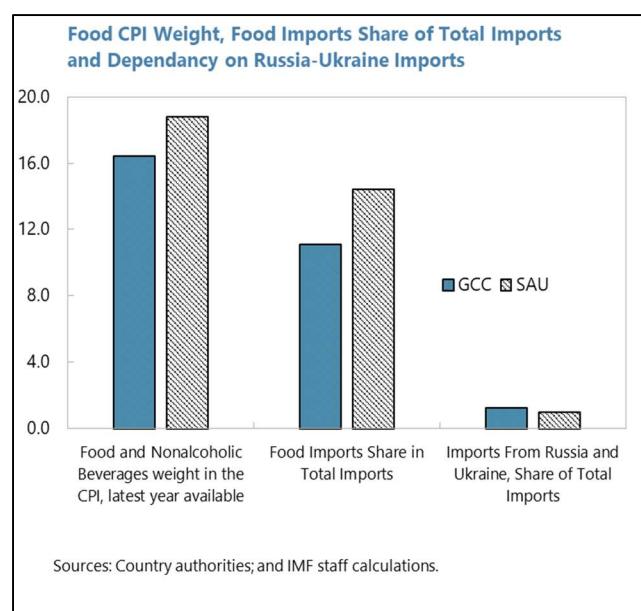
- On the **downside**, risks include another COVID surge, domestically or abroad, lower oil prices due to lower global activity if the war in Ukraine has lasting effects, even tighter-than-expected global financial conditions, risks of an abrupt slowdown in China, pressures to spend oil windfalls and deviate from fiscal prudence (including through the PIF or National Development Fund (NDF), and risks to the reform agenda including due to inflationary pressures. Further global supply chain pressures could also constrain investment imports and thus hamper the rolling out of the NIS.

- Climate change risks.** While Saudi Arabia's national oil company (Aramco) has signaled its commitment to significant investment supporting a stabilization of the oil market and to ensure energy security, Saudi Arabia faces energy transition risks (as well as other climate-related risks such as drought) as the world moves towards a net zero emissions target. It is likely that achieving the emissions target will require a combination of both supply (restricting investment flows into oil without CO₂ carbon capture and storage) and demand policies (e.g., shift to low-carbon consumption), which would imply a more favorable oil price that would allow for more fiscal space (text chart).



12. Direct adverse spillovers on Saudi Arabia from the war in Ukraine are negligible.

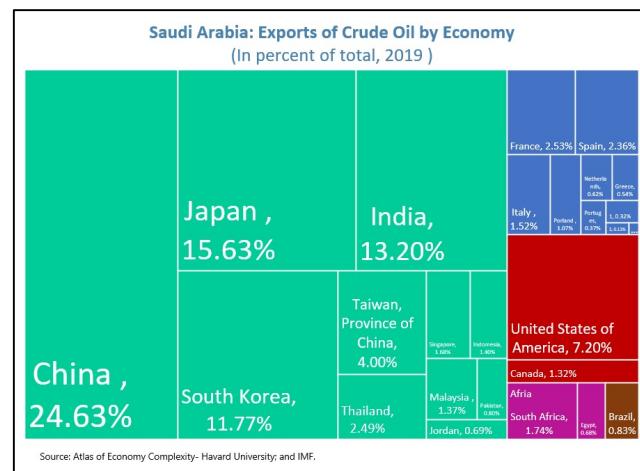
Increased oil prices are positively impacting Saudi Arabia, notably through oil revenue and capital flows, while there are limited direct trade and financial links with Russia and Ukraine, negligible direct exposure through the PIF's equity and strategic investments and virtually no direct links with the financial sector (Box 1). However, the war in Ukraine will have an impact on some of Saudi Arabia's trading partners, potentially affecting demand for oil in the short term, or triggering a quicker shift away from hydrocarbon resources. Increased international food prices will impact the economy even though imports from Ukraine and Russia are limited.



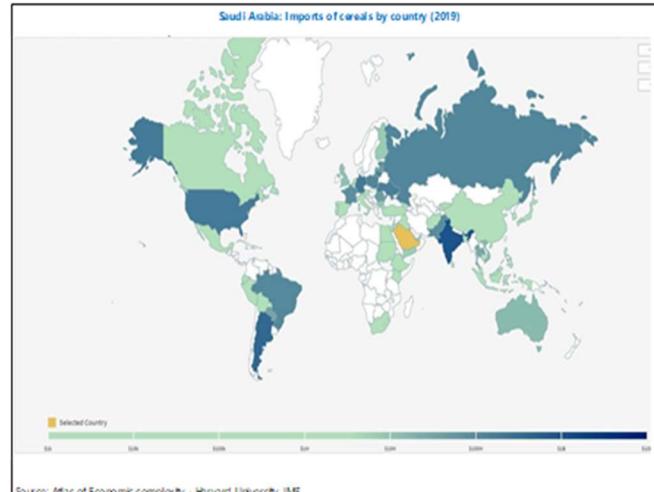
Box 1. Impact of the War in Ukraine on Saudi Arabia

The main impact for Saudi Arabia of the war in Ukraine is a spillover through higher oil prices.

Preliminary estimates—using past patterns of government spending—suggest that a \$10 per barrel increase in international oil prices could increase non-oil GDP by about ½ percentage points, though this impact could be lower going forward if fiscal expenditures respond less than in the past to shifts in oil prices. Second round effects in the near term can affect adversely demand for Saudi crude through a deeper and wider slowdown in major economies. The fiscal position will improve significantly, even if accompanied by higher “implicit” energy subsidies. Prices on fuel products are regulated limiting the fallout on consumers (see Annex IV).



Imports of grain and similar commodities from Ukraine and Russia - both countries not major trade partners of Saudi Arabia - are relatively limited. Wheat imports account for only 2.7 percent of all Saudi imports, with Russia and Ukraine each accounted for about 2 and 3 percent respectively of the total of Saudi agricultural and food imports in 2021 (but a combined 41 percent of imports of wheat, 25 percent of barley and 20 percent of maize). Overall, at the end of 2021, Ukraine was the 58th export destination of Saudi Arabia and Russia the 68th. Russia is Saudi Arabia's 19th provider of imports (1.5 percent of total imports, about half being base metals), Ukraine the 32nd (0.7 percent of total imports, mostly agricultural products). On Saudi Arabia's non-oil exports, there could also be an impact (mostly positive) on phosphate production and the fertilizer industry.



Though Saudi Arabia is not completely insulated from global price developments. food price inflation (at 4½ percent in May) has been contained so far. Food accounts for 18.8 percent of the CPI with price regulation for food items covering three main items: wheat flour, barley and infant milk (the latter recently replaced by targeted programs). Saudi Arabia has subsidy mechanisms to support domestic producers of wheat, with overall food and agricultural subsidies at 0.4 percent of GDP. During the last quarter of 2021, food and agricultural subsidies increased mostly due to a one-off advance purchase of wheat, which acted later as a buffer.

Financial links—mostly through the Saudi SWF Public Investment Fund (PIF)—are small. The Saudi SWF PIF had developed investment relations with Russia since 2015 (mostly initially with Russia's Direct Investment Fund) which remained at an incipient stage, with an exposure at less than ½ percent of its assets under management. Links through foreign direct investment appear also small (though the Coordinated Direct Investment Survey offers limited information). Finally, Saudi Arabia does not have Russian bank presence and is not a jurisdiction harboring significant Russian assets. Local financial markets (Tadawul) were not affected in a major way by the start of the conflict (on the contrary, stocks initially surged on the back of higher oil prices).

Authorities' Views

The authorities agreed with staff's projections for 2022 growth, noting that the strong reform momentum and the removal of all Covid-19 related restrictions will result in a sustained rebound in non-oil economic activity. Over the medium term, they remain confident that full implementation of the NIS and PIF strategy, coupled with the continued strong implementation of the Vision 2030 reform agenda that was unaffected by the Covid-19 pandemic, would boost non-oil growth considerably above staff's conservative baseline forecast. They agreed with staff that inflation—as measured by the current basket—will remain contained while emphasizing the significant strengthening of the external position expected this year and over the medium term. On the increasing premium between SAIBOR and LIBOR rates, they highlighted that the phenomenon is temporary, with liquidity ample and not impacted by the end of the Covid-19 deferral loan program.

POLICIES

Policy discussions have focused on managing higher oil revenue in a sustainable way to allow for a more diversified and green economy. Priorities include: (i) maintaining fiscal discipline through broad-based fiscal consolidation; (ii) ensuring financial stability post-COVID; and (iii) implementing structural reforms to support strong, sustainable, and inclusive growth.

A. Fiscal Policy

13. The fiscal performance in 2022 will outperform the budget. For the first time since 2013, a fiscal surplus of 5.5 percent of GDP is expected in 2022. This reflects higher oil prices and production, a rebounding non-oil economy boosting revenues, especially from VAT, continued restraint on capital expenditure (facilitated by the completion of large investment projects funded directly by the central government) as well as reduced current spending reflecting savings from greater private sector participation, efficiency improvements including on the wage bill and phasing out of COVID-19 related measures. Staff assesses that there is some fiscal

	Budget and IMF Staff Central Government Operations Projections (in billions of Riyals)		
	Budget	IMF	
	2021	2022	
Revenues			
Non oil tax revenues	965	1045	1229
Other revenues	283	283	305
Expenditures	682	763	924
Expenses	1,039	955	1018
Of which:			
Employee compensation	922	863	912
Use of goods and services	496	498	501
Support (subsidies)	205	160	180
Social benefits	30	24	35
Net acquisition of non-financial assets	70	63	73
Net acquisition of non-financial assets	117	92	106
Net lending (+)/borrowing (-)	-73	90	211
Net lending (+)/borrowing (-) (in percent of GDP)	-2.3	2.3	5.5

Source: IMF Staff estimates

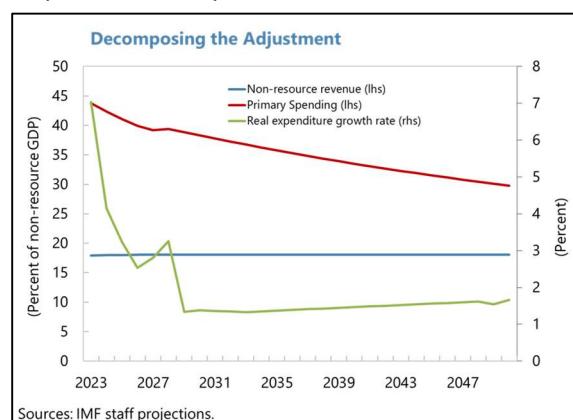
space, with meaningful temporary fiscal measures possible (such as increases in social spending, preferably targeted). With higher oil prices, the fiscal surplus will remain significantly higher than budgeted, even after accounting for the July decision to extend provisions for social safety nets across the board and allow for increased food subsidies and the restocking of basic commodities (in total, ½ percent of GDP; text table).

Royal Decree Measures to Address Repercussions of Rising Global Prices (July 2022, in percent of GDP)			
Social benefits		Subsidies	
Additional one time salary to social insurance beneficiaries	0.05	Restocking of basic commodities	0.26
Additional support to beneficiaries of Citizens Account Program	0.21	Additional support for small livestock breeders program	0.01
Source: Saudi authorities, IMF staff estimates			

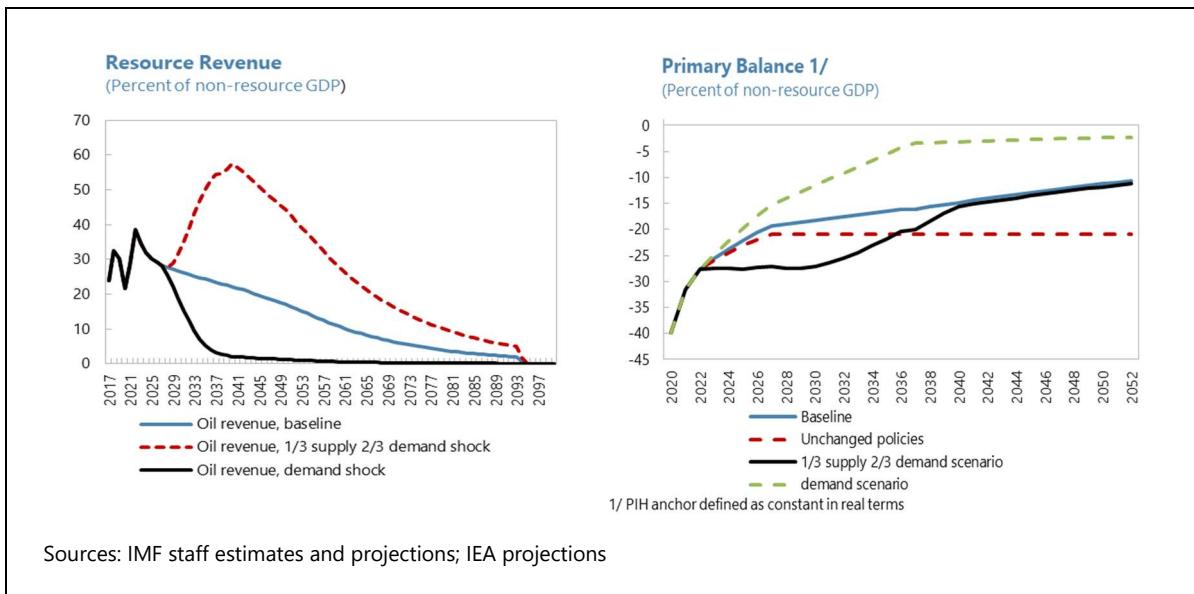
14. The mission's baseline relies on the policies underpinning the Kingdom's budget statement and spending ceilings specified under the medium-term fiscal framework. Now that the VAT rate has been tripled, most of the nonoil-related fiscal adjustment is expected through expenditure cuts, half of which is being frontloaded over the next two years, largely reflecting the phasing out of COVID-19 spending, the finalization of some one-off programs, and identified efficiency gains. Sustaining that over the medium term will require continued rationalization of the wage bill as shown in the authorities' medium-term plans, including through a combination of strategic workforce planning and review under the stewardship of a wage bill rationalization committee, gradual workforce attrition and wage moderation, as well as greater efficiency in public investment and spending, through applying PIMA principles, regular spending reviews and full utilization of the ETIMAD online platform to improve the procurement process.

Budgetary Central Government Operations, 2020-27								
	2020	2021	2022	2023	Proj.	Proj.	Proj.	Proj.
	(In percent of non oil GDP)							
Revenue	41.0	48.3	57.2	54.8	51.5	48.9	47.1	46.0
Oil	21.6	28.1	38.4	36.0	32.6	30.1	28.2	27.1
Non-oil	19.3	20.2	18.8	18.8	18.8	18.9	18.9	18.9
Tax revenues	9.9	14.2	14.2	14.2	14.2	14.3	14.3	14.4
Non-oil non-tax revenues	9.4	6.0	4.7	4.6	4.6	4.6	4.6	4.6
Expenditure	56.4	52.0	47.3	45.4	43.8	42.5	41.2	40.1
Expenses	48.2	46.1	42.3	40.4	38.9	37.5	36.3	35.2
Of which:								
Employee compensation	25.9	24.8	23.2	22.2	21.2	20.3	19.4	18.7
Use of goods and services	10.6	10.2	8.3	7.9	7.6	7.3	7.1	6.8
Support (subsidies)	1.5	1.5	1.6	1.4	1.3	1.2	1.1	1.0
Social benefits	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Net acquisition of non-financial assets	8.1	5.9	4.9	4.9	4.9	4.9	4.9	4.9
Net lending (+)/borrowing (-)	-15.4	-3.7	10.0	9.4	7.6	6.4	5.9	5.9
Non oil primary balance/non-oil GDP	-39.7	-31.4	-27.8	-26.0	-24.5	-23.1	-21.8	-20.7
Source: IMF Staff estimates								

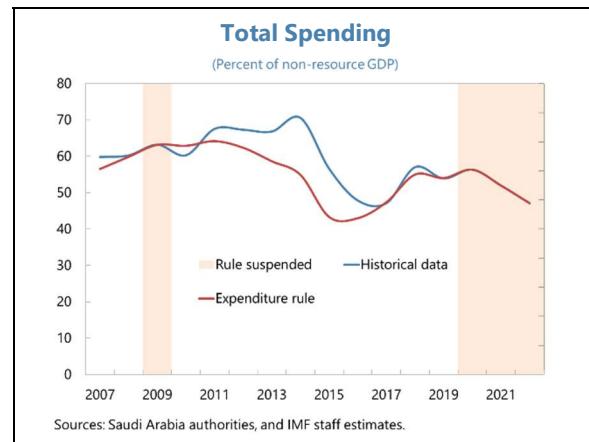
15. Staff's medium-term fiscal stance remains consistent with stabilizing the CGNFA ratio and intergenerational equity. The authorities' announced policies are broadly consistent with achieving intergenerational equity in line with the Permanent Income Hypothesis (PIH) over the medium term. The non-oil primary deficit would reach about 20 percent of non-oil GDP by 2027 and the CGNFA would turn positive by 2024 (and then stabilize in real terms). However, beyond



2027, a gradual adjustment of $\frac{1}{2}$ percent of GDP a year would be needed to reach and keep applying consistently the PIH norm (computed as an annuity constant in real terms). This could be achieved by capping expenditure growth and allowing large savings during periods of high oil revenue (see below and SIP I). Stress scenarios—including in cases of oil price declines (Figure 10)—call for maintaining prudent assumptions when formulating the budget.



16. To support an appropriate path over the medium and long term, staff proposes a fiscal rule that sets a spending ceiling delinked from oil price fluctuations. Staff proposed an expenditure rule setting $1\frac{1}{2}$ -2 percent real growth in spending, based on a fiscal anchor derived from the PIH, with a norm based on prudent assumptions. Staff views this as optimal as it is being derived from a long-term fiscal anchor that offers clearer guidance for policymakers and economic agents on the long-term objectives for fiscal policy. It also would have performed well in view of developments in oil prices in the past few years (this rule would have set spending ceilings that were close to actuals and would have prevented pro cyclical expenditure growth during high oil price years—text chart). It may best serve Saudi Arabia in reconciling its growth and stabilization objectives with net wealth preservation while maintaining budget credibility (see Selected Issues Paper I).

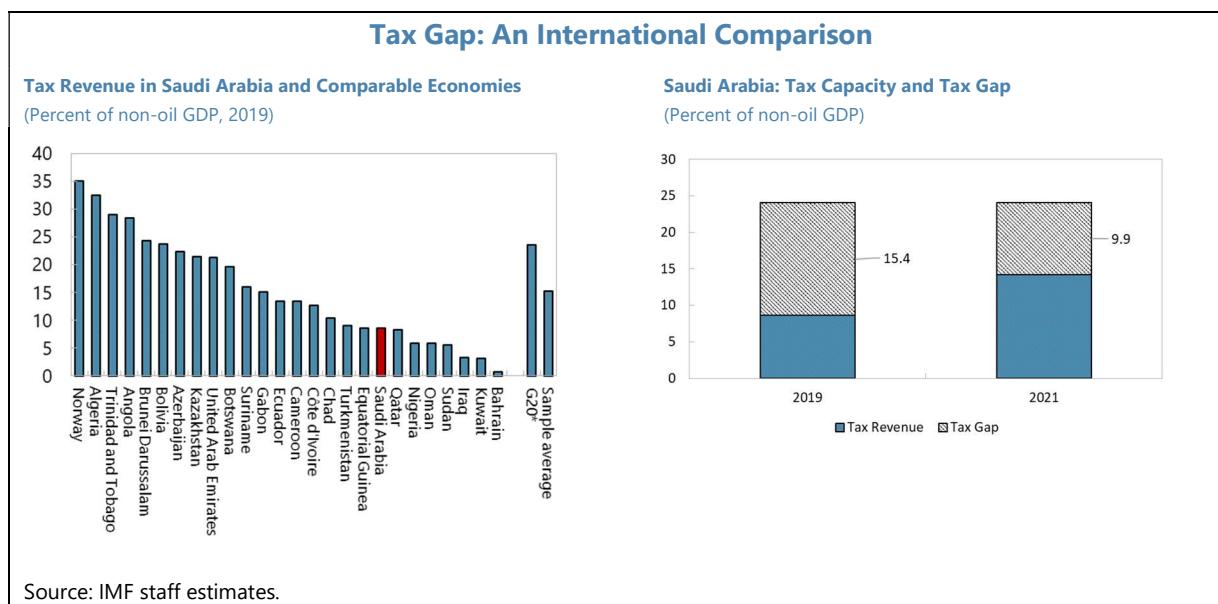


17. Assessing the fiscal stance or operationalizing a fiscal rule would only work if accompanied by broader institutional coverage. The increasing role of the PIF, NDF and other entities in capital expenditures (e.g., for the second year in a row PIF is expected to undertake more investment in 2022 than the central government) makes incorporating and regularly monitoring the

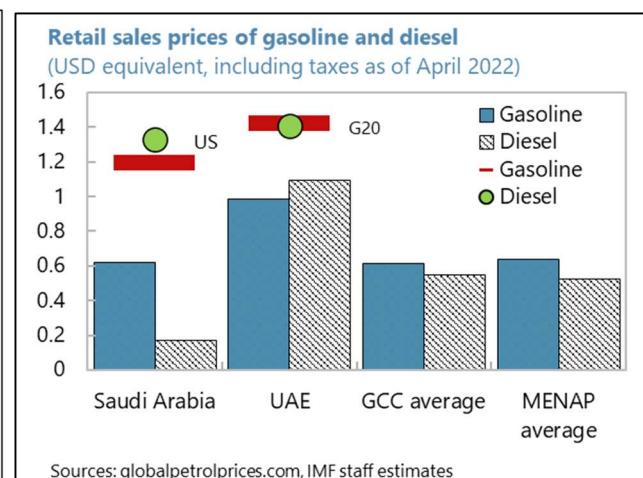
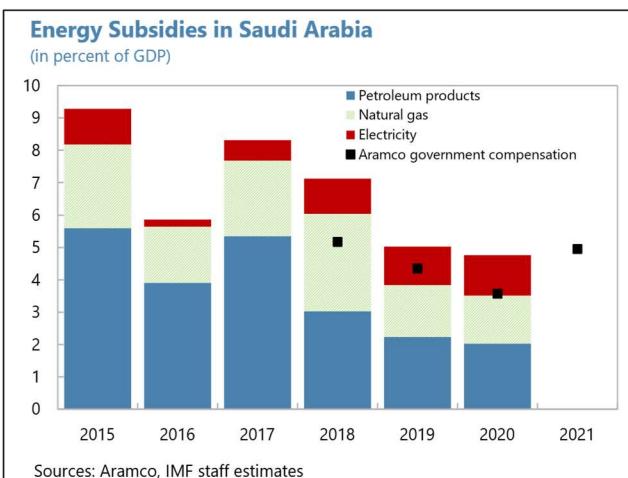
activities of these entities necessary to fully assess Saudi Arabia's fiscal stance and position. Recent efforts as well as recent credit ratings of the PIF have helped enhance disclosure, but much remains to be done. To address this concern, staff and the authorities agreed on the need to accelerate work towards developing a sovereign asset and liability management framework, including through an asset liability management committee, and which should be based on a sound understanding of the public sector balance sheet that encompasses the NDF and PIF (currently recorded as private), the government reserves at SAMA and other components. Elements of the PIF and NDF spending plans, expected to invest SAR 150bn and 50bn annually (or about 3¾ and 1¼ percent of 2022 GDP respectively) in the Saudi economy should also inform a finer assessment of the appropriate fiscal anchor and design of the appropriate fiscal rule.

18. The long-term fiscal consolidation will require continued implementation of transformative initiatives already started. These measures will need to allow for a broader based adjustment, including to increase spending for social safety nets and other critical capital spending, and thus reduce the cap on expenditure growth necessary to reach the PIH norm:

- **Non-oil revenue** has doubled over the past four years to reach 12.8 percent of GDP in 2021, which remains well-below the G20 average, while the tax gap with Saudi Arabia's estimated tax capacity (defined as maximum level of tax revenues observed in countries with the same set of economic characteristics) was reduced to around 10 percent of non-oil GDP (from 15 percent in 2019). Staff welcomes the authorities' ongoing efforts to develop a revenue strategy to further improve revenue diversification and mobilize non-oil revenue. It recommended maintaining the new 15 percent VAT rate—introduced during the COVID-19 crisis—while broadening reform plans to excises/customs duties, corporate income taxation, expat levies and property taxation. Staff encouraged the authorities to also maximize potential gains from revenue administration, stressing the need for a full-fledged revenue administration strategy clearly laying out targets and costing of detailed revenue initiatives (such as taxpayer registration, compliance improvement activities, arrears management).



- **Energy price reforms** initiated in 2016 and 2018 have played an important role in halving subsidies between 2010 and 2020. With the increase in international oil prices and a cap on gasoline prices established in July, compensation for energy products is rising, with Aramco's financial statements already implying compensation in 2021 of almost 5 percent of GDP—a level that had declined in 2020 in the wake of low oil prices at the peak of COVID. Staff welcomes measures taken at the end of 2021, such as increasing prices for heavily subsidized diesel (by a step increase of 21 percent) and asphalt, and fully support additional increases envisaged on four products in the course of 2022. As part of Vision 2030, the objective is to have domestic prices gradually reach market prices for all energy products by 2030—a feat that has been made more challenging by the recent increase in international prices. Staff recommends going further in this reform, by lifting the cap on gasoline prices and adjusting the current formula being applied to allow faster increases for other fuel prices, as well as water and electricity, so as to reduce the gap with international oil prices. Estimates of yields arising from energy price reforms should also be disclosed regularly in the budget and monitored.



- **Strengthening the social safety net.** In conjunction with energy price and tax reforms, the increase in targeted social spending should be stepped up, including through the Damaan program introduced in November 2021 to provide minimum income support and the Citizens' Account Program (see Box 2). Staff welcomed the efforts made to identify gaps and overlaps with other subsidy programs to create a more streamlined system as part of the overall strategy—which has been submitted to the Council of Ministers. Plans underway to provide food support through school meals and food banks in consultation with civil society organizations are also welcome.

Box. 2. Social Safety Nets

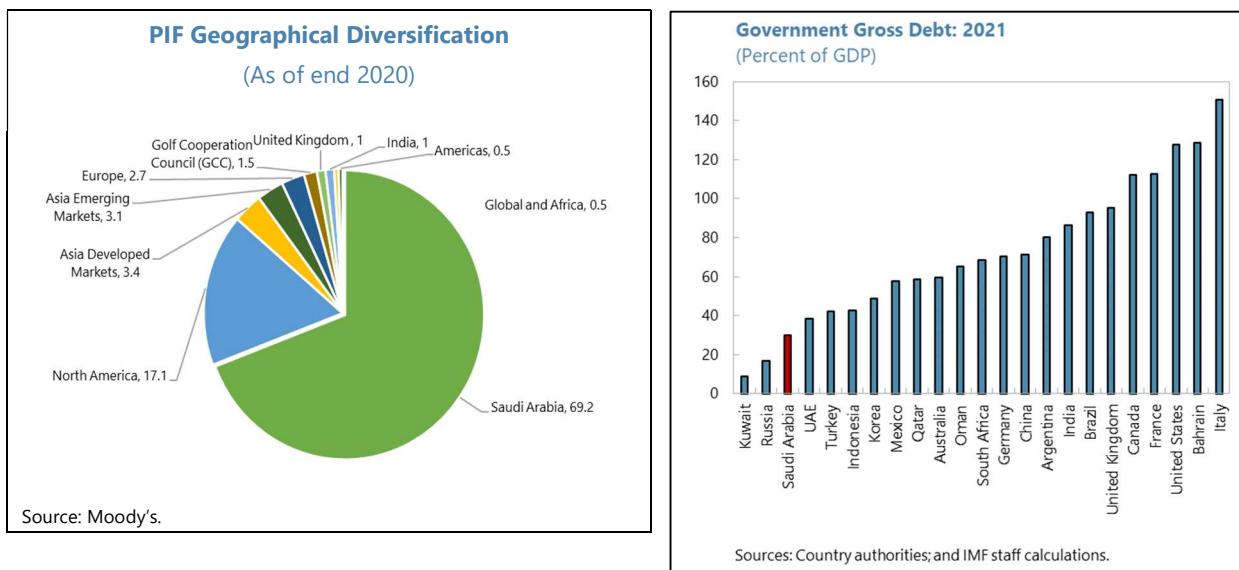
A number of social safety nets have been implemented, with the current strategy aimed at identifying gaps and overlaps with other subsidy programs to create a more streamlined system. The creation of a unique social registry to ensure that income support is needs-based will broaden the safety net while generating fiscal gains.

The authorities have submitted a newly revised strategy on social support benefits (in line with IMF classification and GFS coding) to the Council of Ministers. The strategy has adopted a life-cycle risk framework to identify gaps in existing programs and to adopt a comprehensive approach to address poverty and vulnerability. This will help minimize inclusion errors and ensure that program beneficiaries are identified with well-defined eligibility criteria. The overall strategy endeavors to mitigate any labor market distinctives that may be generated by placing conditions and limits on participation. In addition to free health and education support programs, the following “targeted” programs have been established:

- **Citizens' Account Program**, which is a national unconditional cash-transfer program aimed at providing support to Saudi citizens to mitigate the direct and indirect impact stemming from the government's structural economic reforms, including higher energy prices, VAT, and the expatriate levy. The cash transfers are deposited directly in the accounts of beneficiaries on a monthly basis, which includes up to 2.8 million households covering about 13.1 million citizens. Currently, only 77 percent of those eligible are benefiting from the program and SAR23 billion was disbursed under the program.
- The reformed **Damaan** program is a conditional cash transfer program, which was launched in November 2021 to provide guaranteed minimum income support with the objective of providing the cost of basic needs to lift people out of poverty. This marks a shift from the previous approach, which was categorical in nature as it identified beneficiaries based on social status such as widowed or divorced women, orphans, elderly and disabled. Currently, the Damaan program targets 394,301 households and it is expected that the program will be fully functional based on the new eligibility criteria by mid-2023. The program includes monitoring and evaluation that is enhanced by an integrated information system and registry.
- **Hafiz** is an innovative incentive-based program, aimed at providing support in finding jobs, including by equipping beneficiaries with the skills and resources necessary.
- **Saned** is an unemployment insurance scheme, that falls under the social protection system, for Saudi beneficiaries under the age of fifty-nine who have lost their employment. The program is intended to bridge the transitional gap between the previous job and the opportunity to obtain a new job, by providing a minimum income allowing a decent living and providing the necessary training.

As for **non-Saudi citizens**, they benefit from the occupational hazard program which, *inter alia*, includes medical care coverage, a daily allowance, and compensation for disability. Notwithstanding the progress achieved, it would be useful to publish data on poverty to monitor progress in line with Sustainable Development Goals, and the government's own KPIs.

19. Sound debt management should continue to support fiscal policy and capital market development. Public debt remains low and is sustainable. Over the medium term, it is expected to remain constant in nominal terms as the Kingdom plans to refinance existing debt instead of using revenue windfalls for repaying debt, as was the case during the 2000-2008 oil price boom (Annex V). Staff supports this strategy, which includes lengthening debt maturities, reducing refinancing costs, pre-financing in favorable times, and building a yield curve in domestic and international markets. Saudi Arabia's plans to develop a framework for assessing and monitoring its guarantees and other potential contingent liabilities linked to increased private sector participation are welcome. While PIF monitors its leverage, liquidity and interest coverage ratios independently, its diversification strategy should ensure its returns exceed the cost of debt for the Kingdom.



20. Ensuring a sustained fiscal position and fiscal rule will require the continued rollout of structural fiscal reforms outlined in the Vision 2030 reform program. Most of the following steps should be considered as pre-requisites for an effective fiscal rule:

- **Anchoring fiscal policy in a medium-term fiscal framework (MTFF).** The authorities' progress in this area is welcome, with the preparation of a robust medium-term fiscal framework that clearly incorporates the multi-year revenue initiatives currently planned and spending priorities (including capex plans currently known as well as cost-saving initiatives being identified). Moving to a medium-term budget framework will help improve expenditure prioritization and move the country towards introducing performance-based budgeting by 2027—a task facilitated by the ongoing work on the unified chart of accounts.
- **Strengthening public financial management reforms.** Moving towards a Treasury Single Account (TSA) has led to the rationalization of 10,000 bank accounts since 2019. The enrolment within the TSA of 188 entities by Q2 2023 will help cash management and strengthen coordination with debt management. Active users of the ETIMAD platform have increased by 80

percent over the past year, and the government should continue requiring that all entities use the platform, which would help enhance transparency and provide a clearer view of the status of actual budget execution. To further enhance credibility and economic operators' expectations, regular communication on the fiscal year management of oil revenues and their handling in government accounts at SAMA, and its impact on reserves and domestic liquidity would be beneficial.

- **Accounting for fiscal risks.** Staff welcomes the authorities' preparation of an internal report on fiscal risks, which would be essential to help monitor risks—including from contingent liabilities from PPPs and credit guarantees.
- **Enhancing budget disclosure requirements.** Significant progress has been made in fiscal transparency through the expanded Budget Statement and regular publication of the pre-budget statement, quarterly budget reports, mid-year review and year-end report. Staff encourages the authorities to continue these efforts, including by providing additional details on revenue and expenditure items, continuing to gradually extend institutional coverage, and reporting systemic explanation of the deviations between budget outcomes and plans (which have declined significantly over the past few years). Further improvement in the disclosure of fiscal risks in the Budget Statement (such as different revenue scenarios presented for the first time in the 2022 Budget Statement), including more granular and quantified analyses, would also strengthen existing reforms and help promote the true state of public finances.

Authorities' Views

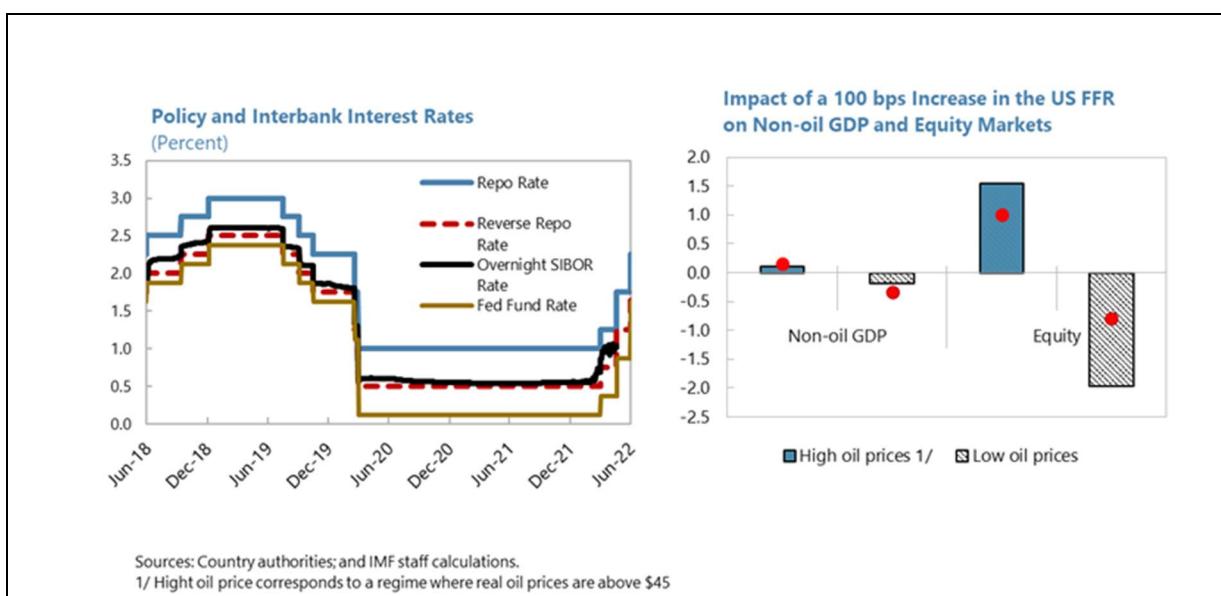
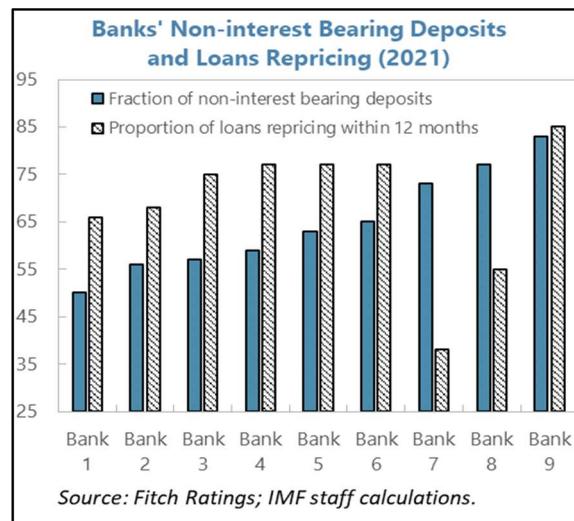
The authorities emphasized that fiscal discipline remains a core focus of their strategy, reiterating that the medium-term fiscal framework is not impacted by oil price booms and bust. They agreed on accelerating the work on an asset liability management framework, which is progressing well. They noted that they are working on establishing a fiscal rule that establishes expenditure ceilings delinked from oil prices and with clear criteria for surplus allocation and that non-oil revenue mobilization remains a key anchor of their fiscal sustainability strategy. For this fiscal year, they agree that a surplus will materialize despite modest planned increases on some budget items such as food subsidies to offset the impact of higher international food prices and expedited execution on some strategic projects that are related to Vision 2030. They highlighted that PIF investment plans are independent of oil revenues and any increases in PIF/NDF spending should be seen as private investment and not as a way to circumvent fiscal discipline. They emphasized that reforms put in place to enhance budget disclosure—including on fiscal risks—establish a TSA, and move towards MTFF, will help sustain fiscal sustainability.

On energy subsidies, the authorities noted that their reform is continuing unabated through planned step price increases that will lead to their elimination by 2030. They disagreed on lifting the cap on gasoline prices, noting the importance of keeping social cohesion and ensuring that costs for industries remain manageable as the country tries to enhance private sector development. They note that while targeted social safety net programs are being developed and mechanisms in place to limit leakages already implemented, scaling them up is too early, including because a decision is yet to be made on what part of the population will need to be compensated.

B. Monetary and Exchange Rate Policy

21. The impact of tighter global monetary policy conditions is expected to be generally positive for the banking sector and limited for the economy more generally in an environment of high liquidity and oil prices.

SAMA raised its policy rates by 125 basis points since March 2022 and further hikes are expected in line with the US monetary policy tightening cycle. A banking structure with low wholesale funding and 65 percent non-interest-bearing deposits is expected to improve banks' net interest margins, particularly as corporate sector borrowing is at variable rates reset every 3 to 6 months. In addition to rising profitability, staff's analysis indicates that further tightening is likely to have a limited impact on non-oil GDP growth, credit growth and asset quality in a high oil price environment that increases liquidity in the system (Selected Issues Paper II).



22. The currency peg to the U.S. dollar remains appropriate given the structure of the economy. It is a policy that has been serving the country well to support monetary stability. However, the peg should continue to be reviewed regularly to ensure it remains appropriate and does not hinder competitiveness. Reforms to deepen money and capital markets and further strengthen the monetary policy framework should continue to ensure institutions are in place to support a more independent monetary policy in the future if this becomes appropriate. Saudi Arabia's external position remains broadly in line with medium-term fundamentals and desirable policies, and it has adequate buffers to maintain the peg (Annex VI). Fiscal consolidation and competitiveness-enhancing structural reforms will help strengthen the external position further.

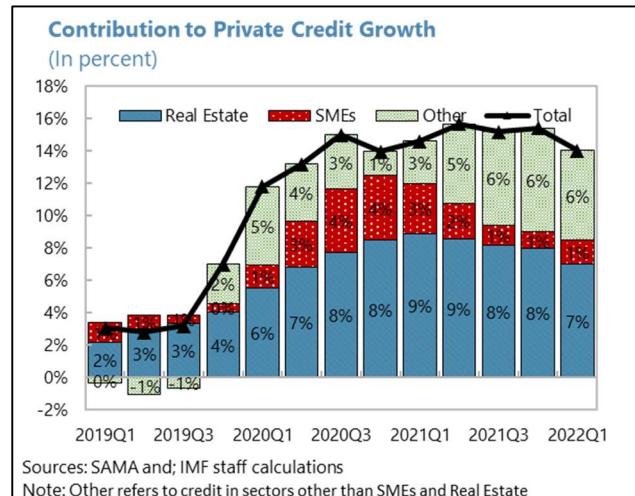
Authorities' Views

The authorities agreed with staff's views on the impact of tighter global financial conditions on Saudi Arabia in a context of high oil prices and liquidity. They noted that domestic policy rates are adjusted broadly in line with the Fed tightening cycle to maintain the credibility of the peg, which they see as the appropriate exchange rate policy as it is a credible monetary anchor. The authorities highlighted that the peg remains consistent with inclusive growth and macroeconomic stability.

C. Financial Sector Policies

23. Macro-financial systemic risks are low, but continued vigilance is needed. NPLs are currently at low levels, with the deterioration in asset quality for micro, small and medium-sized enterprises that benefited from deferred payments and loan restructurings not materializing even after their expiration. Mortgage lending has grown by 41 percent over the past year—a third year of strong growth—with risks limited by tighter prudential requirements imposing debt service limits on borrowers, a low loan-to-value ratio, and most repayments being made by salary assignments from public sector employees. To further contain risks from materializing, staff supports the authorities' ongoing efforts to:

- **Enhance supervisory scrutiny of banks' credit risks,** including through regular thematic inspections in banks and continued in-depth assessments of loan portfolios and provisioning practices. The mission also encourages regular reporting on the stock of restructured or guaranteed financing program for SMEs, particularly with the latter (about 0.3 percent of GDP) introduced during COVID-19 only set to expire in 2023. Moreover, the need to continue with the guaranteed financing program should be assessed regularly based on SMEs' updated financial information.



- **Continue the close monitoring of rising mortgage lending,** including by setting up a specific surveillance system that will help identify any build-up of vulnerabilities.
- **Build on a risk-based supervisory approach,** by relying continuously on regular ICAAP results. Staff also welcomed the authorities' conduct of stress test scenarios that include full macroeconomic scenarios.

24. Saudi Arabia's financial sector and legal regulatory framework is being further revised with the goal of bringing it closer in line with best international practices (Annex VII). In addition to the banking resolution framework and laws governing payment systems and services, systemically important financial institutions and the central bank law, good progress has been made in:

- **Basel III post-crisis reforms.** SAMA finalized its issuance of policies ahead of the effective date. The frameworks for leverage, operational risk and market risk were issued in Q3 2021 and credit risk, counterparty credit risk and disclosure requirements issued in Q1 2022, which give ample time for banks to implement and update their internal policies and systems before the planned effective implementation date (early 2023).
- **Strengthening the legal and regulatory frameworks for Islamic banks.** In line with the standards set by the Islamic Financial Services Board (IFSB), SAMA finalized its issuance of the Shari'ah Governance Framework in 2020 followed by the risk management framework for Shari'ah compliant banking in December 2021. Ongoing work to further strengthen liquidity and capital adequacy standards in line with IFSB is welcome, with the authorities aiming to address all key prudential risk areas, including capital, liquidity and appropriate management of Islamic window operation by Q4 2023.
- **Updating the Banking Control law.** Work is ongoing, with the draft law currently being reviewed internally before submission for public consultations. Adoption of this law is expected to help reduce redundant provisions in the legislation but also to remove the exemption allowing a bank to be exempted from regulations, even under exceptional circumstances.²
- **Strengthen AML/CFT.** Since becoming a full member of FATF in June 2019, Saudi Arabia has significantly improved its level of technical compliance with the international standard and is now compliant or largely compliant with 38 out of 40 recommendations. Progress in the exchange of information with foreign counterparts and competent authorities, and the establishment of dedicated units for financial investigation and prosecution of ML crimes, are welcome. Further efforts are nevertheless needed to increase the effectiveness of the AML/CFT framework. Swift implementation of the authorities' ongoing action plan to address the deficiencies identified in the 2018 mutual evaluation will help in that respect. In particular, the authorities should finalize the update of the ML/TF risk assessment, and in that context assess the ML/TF risks related to virtual assets. Further efforts are needed to strengthen the framework for the confiscation of major proceeds of crime and the capacity of various AML/CFT stakeholders including the FIU

² There has been no actual reported case in which Article (21) of the Banking Control Law has been used to exempt any bank from regulations.

25. Digitalization of the financial system is proceeding at a fast pace, exceeding targets originally set under Vision 2030. The number of active fintech companies grew by about 37 percent in 2021 to about 82 companies, 3 digital banks have already been licensed by SAMA, and the share of electronic payments in retail has exceeded 57 percent of total transactions conducted in 2021. These developments—along with a surge in digital account opening—helped propel financial inclusion, with 83 percent of the adult population now owning a bank account (up from 71 percent in 2019). Developing the proper regulatory framework to keep pace with the Fintech ecosystem should continue to be a priority, including by ensuring adequate consumer protection without stifling innovation. SAMA's CBDC project which is currently at an early stage will also require careful monitoring of risks associated with monetary policy implications (non-interest bearing CBDC), technical constraints (cyber risks) and socio-economic challenges (low adoption and financial illiteracy).

26. The capital market has continued to develop after being affected by the COVID pandemic in 2020. Various regulatory initiatives in 2021 including the Financial Sector Development Program and the updated Capital Market Authority (CMA) capital market framework have helped increase the number of qualified foreign investors. Credit markets are also developing, with Saudi Arabia becoming the world's largest issuer of Sukuk, which issuance increased by about 19 percent (yoY) in 2021. The plans related to the creation of an investment funds indicator, the new link to access Euroclear for the sovereign sukuk market and the implementation of the legal framework for Saudi capital market infrastructure institutions, will further help attract more investors.

Authorities' Views

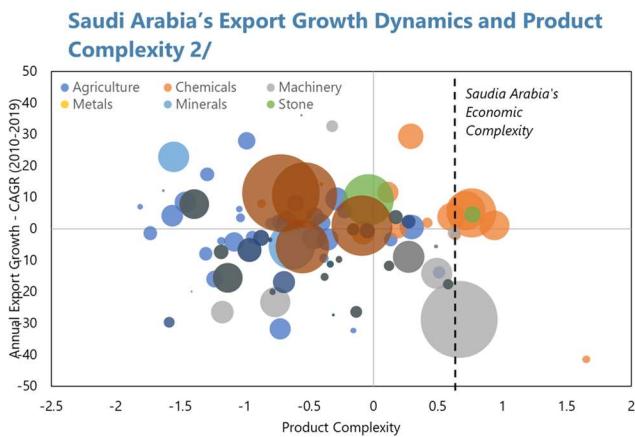
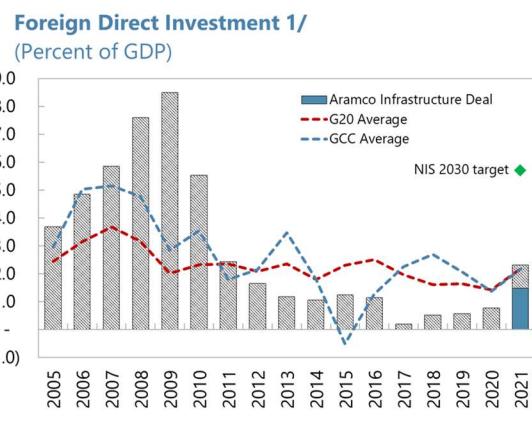
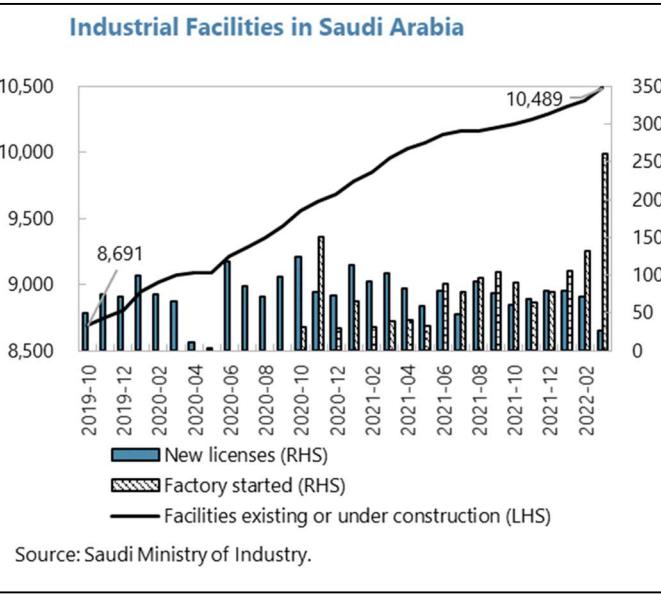
The authorities emphasized that financial stability risks are low, with SAMA continuing to monitor rigorously credit risks and the expanding mortgage lending. Implementation of Basel III reforms, which is proceeding as per the internationally agreed timeline, will continue to keep Saudi Arabia's regulatory system in line with international standards. On AML/CFT, the authorities noted the progress presented in the last FATF committee and highlighted that the capacity of various institutions, including the FIU, has been significantly strengthened. They also noted that Fintech initiatives are helping enhance financial inclusion and would require regulations to keep pace.

D. Structural Reforms

27. Continued implementation of the ambitious structural reform agenda under Vision 2030 is essential to diversify Saudi Arabia's economy and boost growth.

Important steps have been taken to improve the regulatory and business environment and attract foreign investment, including by enacting more than 300 initiatives and regulations since inception. The National Competitiveness Center focuses on, *inter alia*, reducing costs associated with setting up a business and enhancing competitiveness by developing financial policies to support investment.

These initiatives, combined with broad-based efforts to improve governance and reform labor markets, have helped increase female labor participation, improve ease of doing business (one-stop shop to register a business in 3 minutes), increase the number of industrial facilities, enhance digitalization of government operations, and increase investment in line with the NIS. However, despite the significant increase in FDI inflows in 2021 (which also reflect the 2021 Aramco deal), FDI inflows remain low so far and diversification into more sophisticated products is limited (Annex VIII).



Sources: Country authorities; and IMF staff calculations.

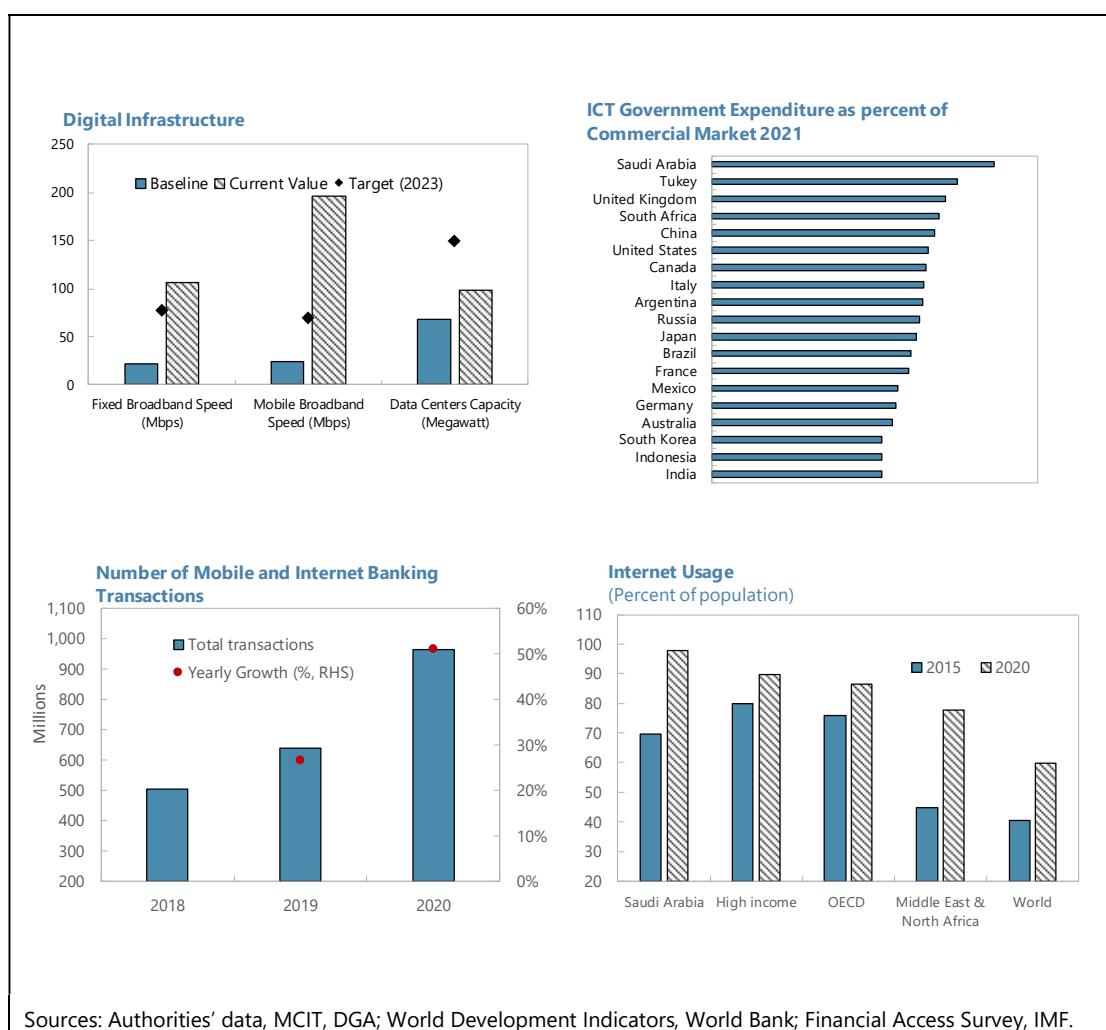
1/ The sharp increase in net FDI inflows in 2021 attributable to \$12.4 billion infrastructure deal by Aramco with a global investor consortium.

2/ The vertical axis shows the annual export growth rate of each sector (circle), and the horizontal axis shows the Product Complexity Index (PCI). The size of the circle corresponds to the global trade in that sector. The color of the circle indicates the broader sectoral category (see legend).

28. Further enhancing private sector development and confidence will require decisive progress in the following areas:

- **PPPs/asset sales.** The private sector participation (PSP) program, launched in 2017, has entered its expansion phase, with a National Privatization Strategy pending approval and expected to provide more visibility on privatization and asset sales. About 211 projects for private sector participation (mostly through PPPs) have so far been identified and are at various stages of development. Staff welcomes maximum liability caps specified in each contract, which will help reduce potential contingent liabilities. Ongoing efforts to build a framework for monitoring and containing potential contingent liabilities should be accelerated to ensure such a framework is in place as investment and PPPs pick up.
- **PIF interventions.** While recognizing the catalytic role that the PIF can play in kick-starting new sectors, and PIF's initiatives to increase private sector participation, including through exit plans, there is a risk that PIF interventions can create an uneven playing field. PIF interventions—including in Giga projects—should continue to be subjected to rigorous cost-benefit analysis to ensure that PIF risk-adjusted returns remain high and generate greater private sector involvement.
- **Enhancing SME and local content development,** including through improved access to finance (e.g., through the guaranteed financing program, supply chain financing initiatives), rationalizing all subsidized SME funding initiatives under the SME bank, adoption of the Companies' law to help simplify entry requirements, streamlining fees charged by various government entities, and important digitalization efforts for procurement and payment systems. It is however important that undue costs to the consumers be avoided, with staff believing that the recent increases in customs duties in certain nascent sectors last year and in June 2022 are not helpful (even if remaining aligned with WTO rules and regulations). It would instead be preferable to address directly the competitiveness of local production, including by developing local procurement strategies jointly with complementary policies such as those aimed at removing impediments to foreign competition and ensuring that the enabling conditions, such as a high stock of human capital and the necessary infrastructure, are in place (Annex VIII).
- **Strengthening governance.** Staff welcomed the authorities' ongoing efforts to combat corruption through the Oversight and Anti-corruption authority (Nazaha), which have resulted in an increased number of investigations and prosecutions. The mission encouraged the swift adoption of the anti-corruption strategy currently under preparation and noted that steps taken to strengthen the transparency of public procurement—which includes measures planned to collect information on beneficial ownership—and e-government in general are an important contribution to Saudi Arabia's fight against corruption. While waiting for the approval of its by-laws, Nazaha is also preparing an asset declaration framework for officials at high risk of corruption, and a whistleblowers protection law that would codify and enhance existing regulations. Nazaha's international initiatives, in particular its leading role in developing the GlobE Network of Anti-Corruption Law Enforcement Agencies and its intention to participate in the IMF's round of voluntary assessment of supply and concealment of corruption next year are welcome.

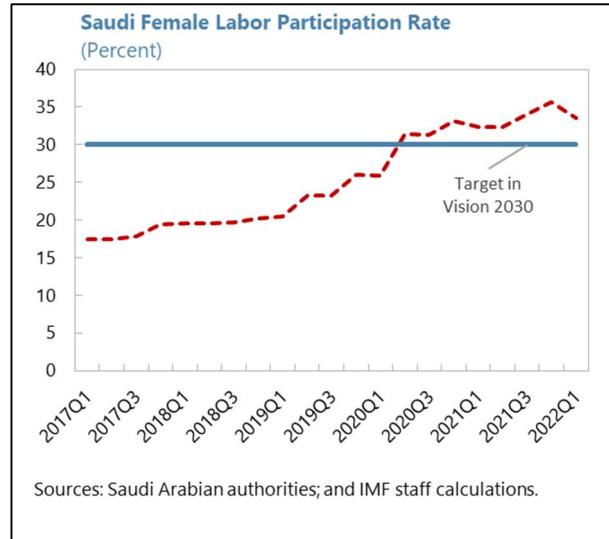
- **Digitalization.** The growing role of digitalization, e-government and e-commerce have the potential to boost productivity given the young and tech-savvy population and the newly established national regulator of the digital government sector. Spurred by the implementation of the National Digital Transformation Strategy (NDTS), the digitalization agenda accelerated during the COVID pandemic, with progress on key targets, and led to the adoption of e-Health (Sehati), virtual court (Najiz), distance learning (Madrasati), and ease of doing business for enterprises (Etimad and Fasah). Key priorities over the next year include fostering the digital government sector as a prime catalyst for national digitalization (97 percent of government services are now delivered digitally), monitoring compliance of government agencies, improving digital literacy and skills, further deployment of high-speed internet access (70 percent of households already have fiber access) and activating e-participation for all segments of the population.



29. Deepening labor market reforms remains key. Saudi Arabia's labor market policy, which aims at transforming its human capital by leveraging policies on Saudization. Key priorities include:

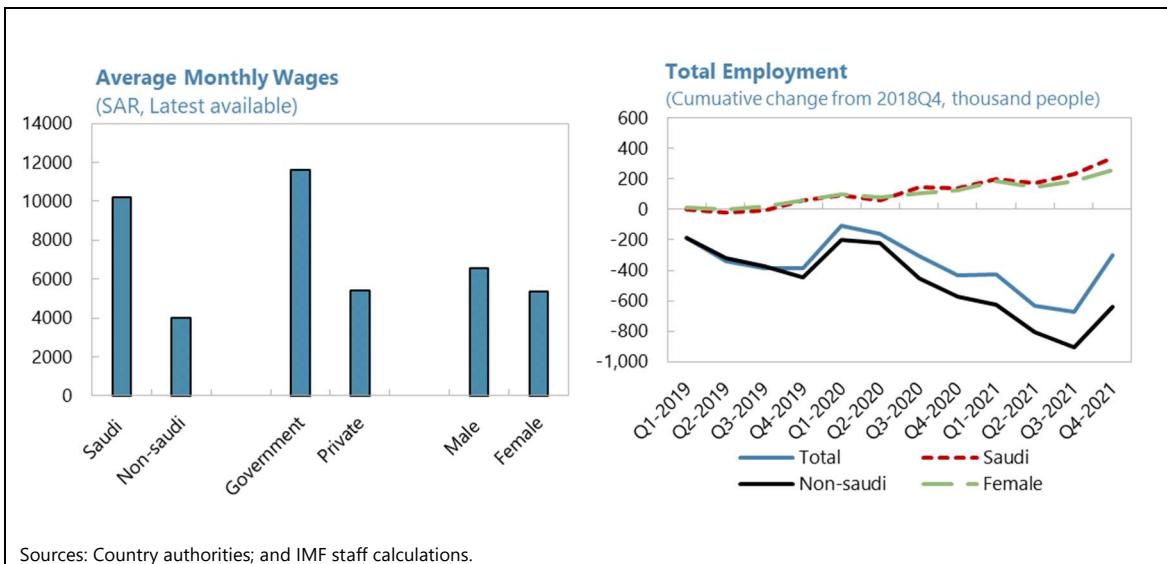
- **Increasing female labor force participation.**

In addition to the removal of formal restrictions and legislation ensuring equality of employment, a host of initiatives taken over the past few years—including transportation subsidies of up to 80 percent for the cost of taxi services under the Wusool program, employer incentive schemes, a premium on Saudization score for each woman hired, paid maternity leaves and childcare support—have helped boost female participation for nationals to 33.6 percent as of Q1 2022—a doubling over the past three years that helped surpass the 30 percent Vision 2030 objective. Staff supports the authorities' intentions to further increase the 2030 target, with the elevation of more women to senior public and private positions helping to build additional momentum.



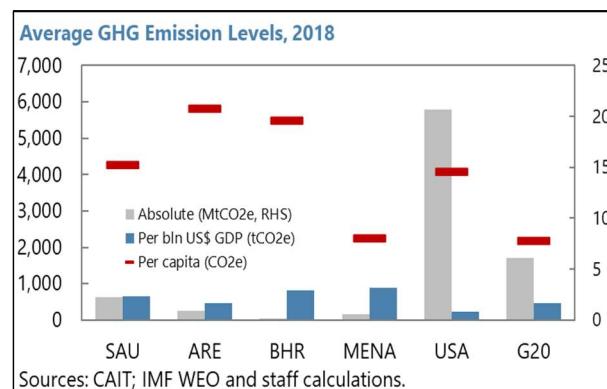
Sources: Saudi Arabian authorities; and IMF staff calculations.

- **Continue containing public sector employment,** including by limiting opportunities in the sector with more stringent rules that consider experience as an essential prerequisite, which will help reset high public sector wage expectations in line with productivity. Adapting education programs to reduce skills mismatches and provision of more vocational training programs would also help the ongoing shift towards more private sector employment, which will benefit from ongoing assessments of labor market developments, electronic workforce management services, and streamlined visa procedures for women and specialized professions.
- **Reforming expatriate labor employment.** Reforms to the Kafala system will provide greater freedom of mobility allowing expatriates to freely enter and exit the country and to change employers. Plans are underway to develop a skills-based migrant visa system. The Premium Residency Center has issued permits to high-skill applicants, including doctors and investors. These changes will serve to benefit the wages and productivity of expatriates, attract higher skilled migrants, and reduce incentives for firms to employ expatriates over nationals.



30. The Kingdom's efforts on climate policies, both on mitigation and adaptation are encouraging, with further room to grow.

Achieving the Green Initiative's objectives (Box) will require detailing how these will be reached, including the magnitude of the investment necessary and feasibility through technology. In particular, a coherent National Hydrogen Strategy to be published this year would help support the Kingdom's ambition to become a global leader in that field. Plans to develop a circular carbon economy would also contribute to improve energy efficiency and reduce emissions. This will also need to be articulated with efforts made on climate adaptation given Saudi Arabia's specific vulnerabilities to climate change, in particular due to water scarcity, intimately tied to agriculture (80 percent of water consumption) and food security. Regarding green finance, after a first SAR-denominated "green" loan in 2021, green bond issuance is envisaged by PIF as well as the central government. PIF has also introduced a Green Finance Framework and jointly with Tadawul is establishing a voluntary exchange platform for carbon credit within MENA. Finally, it is important to ensure that the overall strategy to reduce emissions includes stepped up energy and water price reforms.



Box 3. Saudi Arabia's Green Initiative

The Saudi Green Initiative was announced in 2021 and is centered around three main objectives supported by more than 30 initiatives (see table below). Ambitious targets include installing 27.3GW of renewable capacity by 2025, and then 57.8GW by 2030 (0.3GW are installed as of 2020) and becoming a global leader in hydrogen generation with an ambition of producing 4 Mtpa by the year 2030, Saudi Arabia aims to increase the capacity share of renewable energy up to 50 percent of its energy mix for electricity generation, while the remaining will come from natural gas. Further details on the progress under the Saudi Green initiative is expected to be announced in the next Saudi Green Initiative Forum in late 2022.

Saudi Arabia submitted its updated Nationally Determined Contributions (NDC) to the United Nations Framework Convention of Climate Change (UNFCCC) in November 2021. It sets an objective of reducing, capturing and removing emissions by 278mtpa of CO₂eq relative to a "dynamic baseline". The Kingdom is aiming to reach net zero GHG emissions by 2060 and Saudi Aramco, the country's main oil producer, to achieve net zero Scope 1 and Scope 2 emissions by 2050 through the Circular Carbon Economy approach. Saudi Arabia has also joined the Global Methane Pledge to cut methane emissions by 30 percent by 2030.

Through PIF's ownership of California-based electric vehicle company Lucid Motors as well as public procurement contracts the Kingdom is accelerating the deployment of EV. The Saudi Arabian government has placed an order for up to 100,000 EV within the next ten years from Lucid Motors, whose Saudi factory would be completed by 2025 or 2026, with an eventual annual capacity of 150,000 EV. 85 percent of the production will be exported. Saudi Arabia is also exploring other sustainable mobility solutions with eight MoUs were signed with a number of entities tasked with implementing pilot projects for hydrogen -based mobility applications and sustainable jet fuel production.

	Targets by 2030	Selected initiatives
Reducing emissions	Reducing carbon emissions by 278 mtpa Through more than 5 initiatives	Enhance Energy Efficiency Program (2025) Change the energy mix towards a more sustainable one (generate 50 percent of electricity through renewables by 2030 vs. less than 1 percent now; with 60-100 bn USD in additional annual capital expenditures) Use captured carbon to produce chemicals and synthetic fuels (2030) Become the world's leading hydrogen producer and exporter (2030)
Greening Saudi Arabia	Plant 10 billion trees across Saudi Arabia Through 24 initiatives	Study on 10 billion trees program (2023) Green Mosques (2023) Mangrove Plantation pilot at Jeddah Port (2023)
Protecting land and sea	Raise protected areas to more than 30 percent of terrestrial and marine areas Through at least 4 initiatives	Establish nature reserves (2023) Desert Preservation Initiative (2025) Designate 10 biodiversity protection areas of 977 sq.km (2025)

Source: Saudi Green Initiative

Authorities' Views

The authorities emphasized that continued strong implementation of Vision 2030 will continue unabated irrespective of developments in oil markets. They pointed out the significant progress made in removing barriers to doing business, increasing private sector employment and the number of new industrial firms. They highlighted that the PIF is a commercially driven institution that is utilizing its strong asset base and strategic economic partnerships to unlock new sectors, with each investment opportunity undergoing a rigorous assessment through a committee driven decision-making process. They see no risks of crowding out, but rather new private sector industries emerging.

On climate change, they emphasized that implementation of the Saudi Green initiative will deliver on its commitments, including to reach a net zero emissions target. They reiterated that energy transition should not forfeit energy security and highlighted that high impact solutions such as Carbon Capture, Utilization and Storage (CCUS) are essential to reduce and redirect carbon emissions.

E. Statistical Issues

31. Data provision to the Fund has some shortcomings but is broadly adequate for surveillance. The updated classification of national accounts to reflect a more accurate presentation of oil and non-oil activities, including the disaggregation of non-oil private sector activities and government activities, is welcome. The completion of the census in 2022 will help update socioeconomic indicators and rebase the CPI basket. Staff also supports efforts to conduct surveys (and use of financial statements) to collect FDI data by GASTAT and planned moves to accrual budgeting and reporting. Needed improvements on external statistics include widening the coverage of private sector and sectoral breakdown on IIP statistics by institutional investors.

STAFF APPRAISAL

32. The authorities' pandemic policy response and implementation of their 2030 vision—supported by favorable global commodity prices—have succeeded in fostering a fast-paced recovery post-Covid. The economy is recovering swiftly from the pandemic-induced recession with a substantial pick-up in growth this year, inflation is contained, and the external position has strengthened—supported by higher oil production and international commodity prices. The economic outlook in the near-to-medium term is overall positive, with balanced risks.

33. Fiscal prudence remains necessary to ensure a sustainable recovery. Staff welcomes the authorities' plans to maintain fiscal discipline by adhering to the 2022 budget ceilings despite higher oil prices. With the strengthening of the budget position, staff support some increases in targeted social safety nets or food subsidies to support low-income households this year.

34. Fiscal consolidation should be supported by stepping up efforts on non-oil revenue mobilization and energy price reforms while moving ahead with strengthening social safety nets. Impressive efforts made to double non-oil revenues should be stepped up to close the remaining tax gap, including by maintaining the current VAT rate and by broadening potential revenue gains through new tax policy measures and strengthened revenue administration. Energy price reforms—which have continued this year for a number of products—should be accelerated, including by removing the cap on gasoline prices and other products, which would help remove price signals critical to energy conservation and the green transition. Ongoing reforms to strengthen social safety nets—including through new targeted schemes providing a guaranteed minimum income—are welcome and would also help sustain energy price reforms. Increased support through such programs and the Citizens account should be stepped up and not await the transition until the full reform is in place.

35. The authorities' commitment to fiscal sustainability is welcome but needs to be accompanied over the medium term by a fiscal rule supported by a broader coverage of the public sector. Staff supports the government's efforts to avoid procyclicality and recommends the establishment of an expenditure rule that is based on a long-term fiscal anchor that best helps Saudi Arabia serve its growth and stabilization objectives, while giving appropriate guidance on fiscal policies. The ongoing work towards developing a sovereign-asset liability management framework should remain a high priority.

36. Continued improvements in public financial management are welcome. Important steps taken by the authorities towards establishing a robust medium-term fiscal framework, moving towards performance-based budgeting, preparing for a treasury single account, and enhancing budget disclosure requirements should be continued. Careful monitoring and disclosure of guarantees and contingent liabilities is needed, particularly now that PPP projects are expected to increase.

37. Sound debt management continues to support fiscal policy and capital market development. Public debt remains sustainable and staff supports the authorities' strategy, which includes lengthening debt maturities, reducing refinancing costs and building a yield curve. Efforts to develop the capital markets are also welcome.

38. The exchange rate peg continues to serve Saudi Arabia well given the current economic structure. SAMA reserves are at comfortable levels and the external position in 2021 was broadly in line with medium-term fundamentals and desirable policies. Fiscal consolidation and structural reforms to enhance competitiveness will help further strengthen reserve buffers in a sustained manner.

39. Financial system risks are low. Banks are profitable, well-capitalized and liquid. The expiration of the loan deferral program did not lead to a material rise in NPLs as initially feared. Tight prudential requirements and a regulatory framework that is moving in line with best international practices help mitigate risks. However, to further contain risks, SAMA should continue to enhance supervisory scrutiny of credit risks and carefully monitor rising mortgage lending. Efforts to move towards Basel III standards, strengthen the legal framework for Islamic banks and increase focus on managing risks associated with cyber security and data protection are welcome.

40. Structural reforms should continue to be implemented in a steadfast manner to generate more inclusive, broad based and sustained growth. Steps taken to improve the regulatory and business environment, align business procedures with international standards and reduce costs associated with setting up a business are welcome. The impressive pace of digitalization—as shown by the growing role of e-government and e-commerce—have a potential to boost productivity and growth. Ongoing efforts to rationalize and unify initiatives to support SMEs are welcome.

41. The structural reform agenda which centers on private sector led growth bolstered by the PIF should continue to be implemented with a focus on efficiency and catalyzing private investment. Utilizing its strong asset base and strategic economic partnerships, PIF is committed to unlocking new sectors in the Kingdom. However, its interventions—including in Giga projects—

should continue to be subjected to rigorous cost-benefit analysis to ensure high returns and avoid crowding out private investment. Public sector interventions should have an announced timeframe, a clear exit strategy, and focus on transparency and accountability to minimize governance risks.

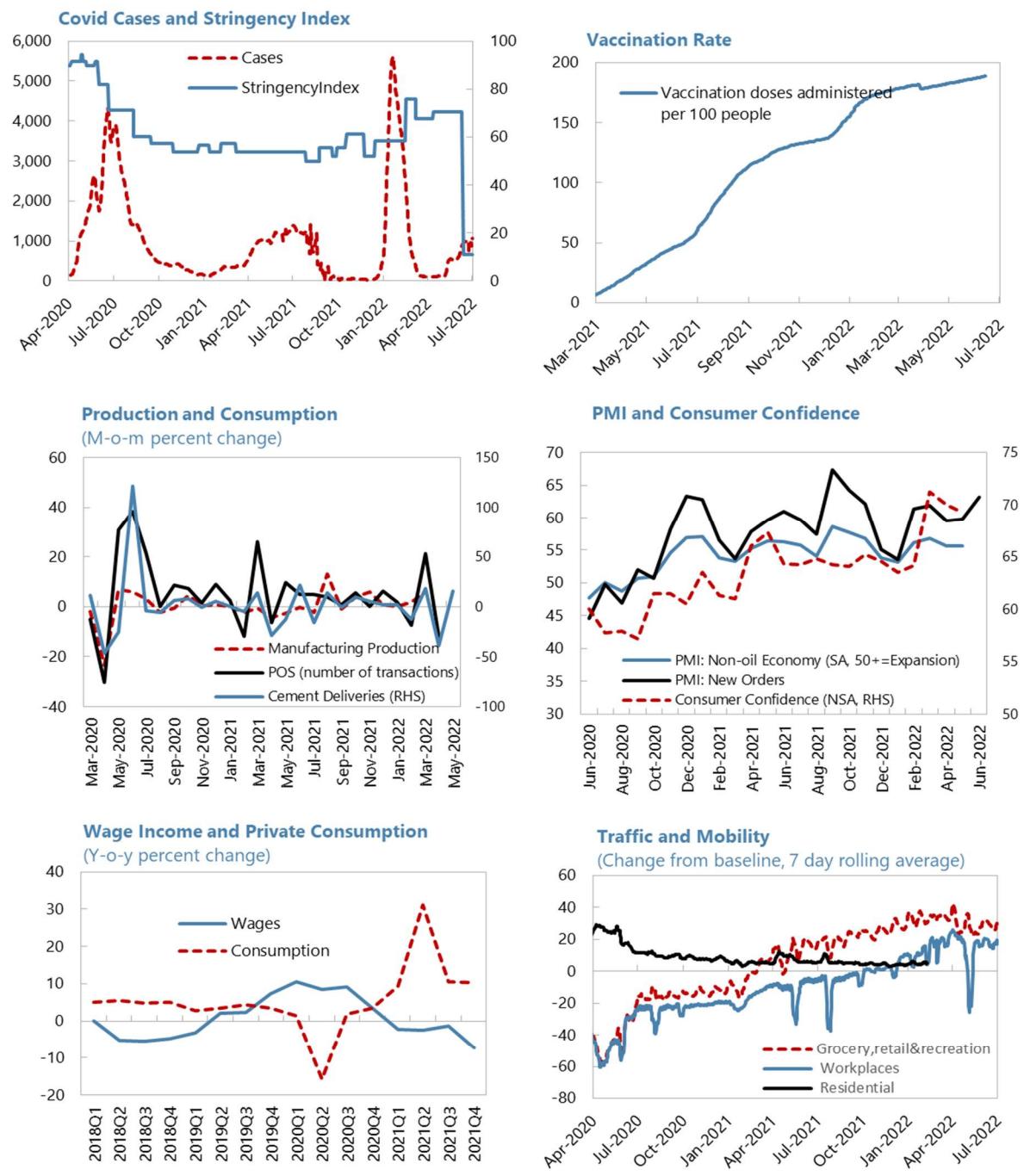
42. Adoption of the anti-corruption strategy, an asset declaration framework and a whistleblowers protection law, which are all under preparation, will further support Saudi Arabia's anti-corruption drive. The Oversight and Anti-corruption authority (Nazaha)'s proactive stance has resulted in an increased number of investigations and prosecutions. Progress on AML/CFT should continue, including by incorporating money laundering risks related to virtual assets and strengthening the framework for the confiscation of major proceeds of crime.

43. The authorities should continue the important progress made on labor market reforms to boost productivity. A robust female labor participation rate supported by the removal of formal restrictions and a host of initiatives, including paid maternity leaves and childcare support are welcome. Reforms to the Kafala system will provide greater mobility to expatriate workers. Continuing to contain public employment, reducing skill mismatches and further raising female employment will help the ongoing shift towards more private sector employment.

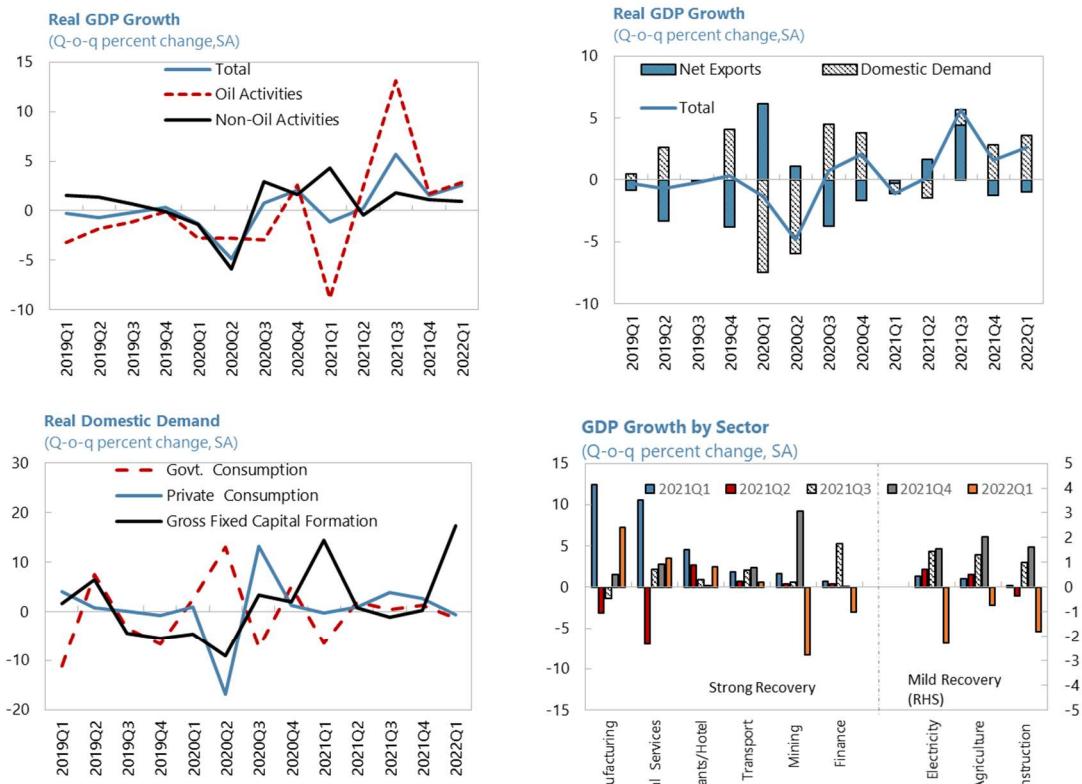
44. The Kingdom's efforts on climate policies, both on mitigation and adaptation are welcome. Saudi Arabia's ambitious commitments outlined in its green initiative, including to reduce emissions by increasing the share of renewables in its energy mix and enhance vegetation, as well as plans to develop a circular carbon economy are welcome. However, this will require articulating a detailed roadmap, including on the magnitude of the investment necessary and feasibility.

45. Improvements in economic data are welcome, but gaps remain. Continued improvements in national accounts, CPI compilation and external statistics are priorities. Ongoing work to complete the 2022 census and update the household survey are welcome.

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

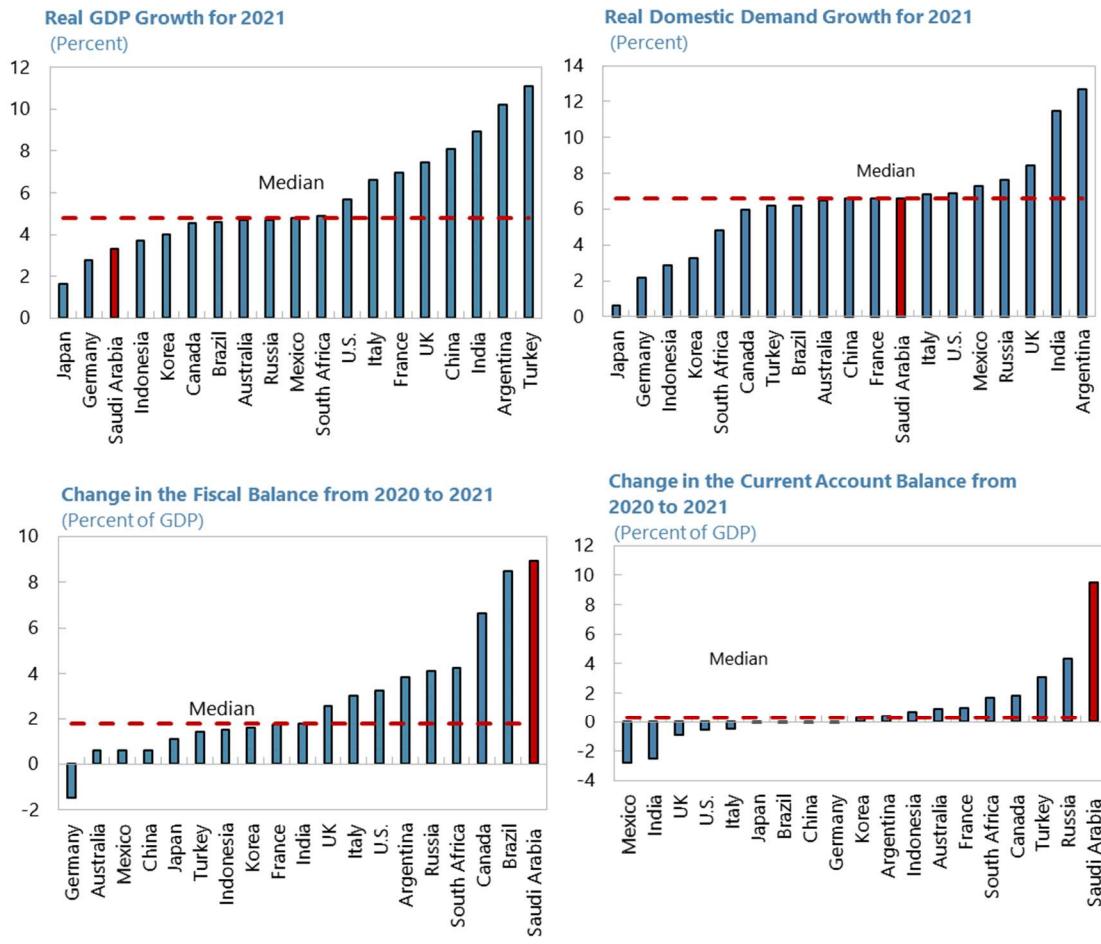
Figure 1. Saudi Arabia: COVID-19 and Short-Term Economic Indicators

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

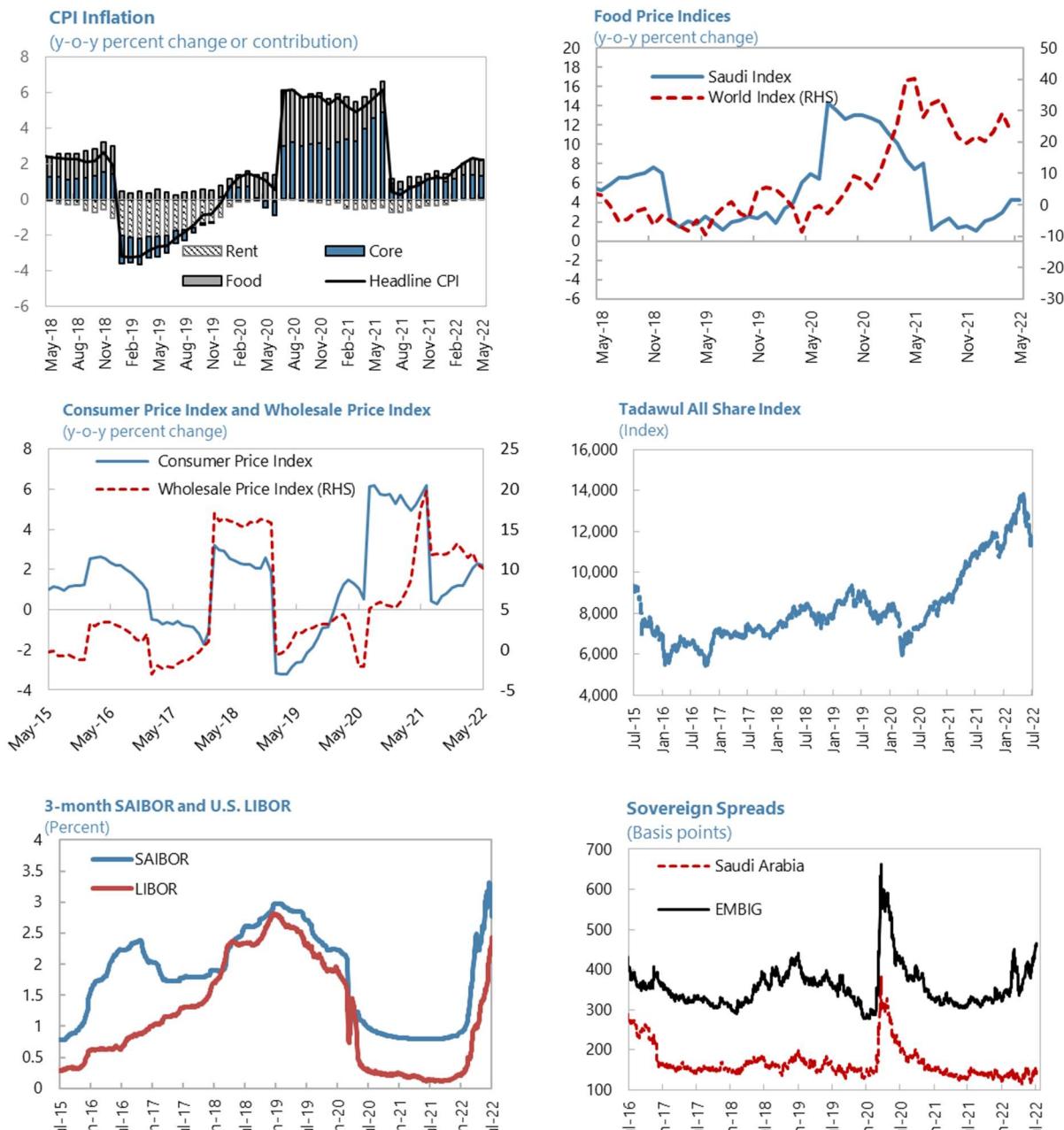
Figure 2. Saudi Arabia: Quarterly GDP

Sources: Country authorities and IMF staff calculations.

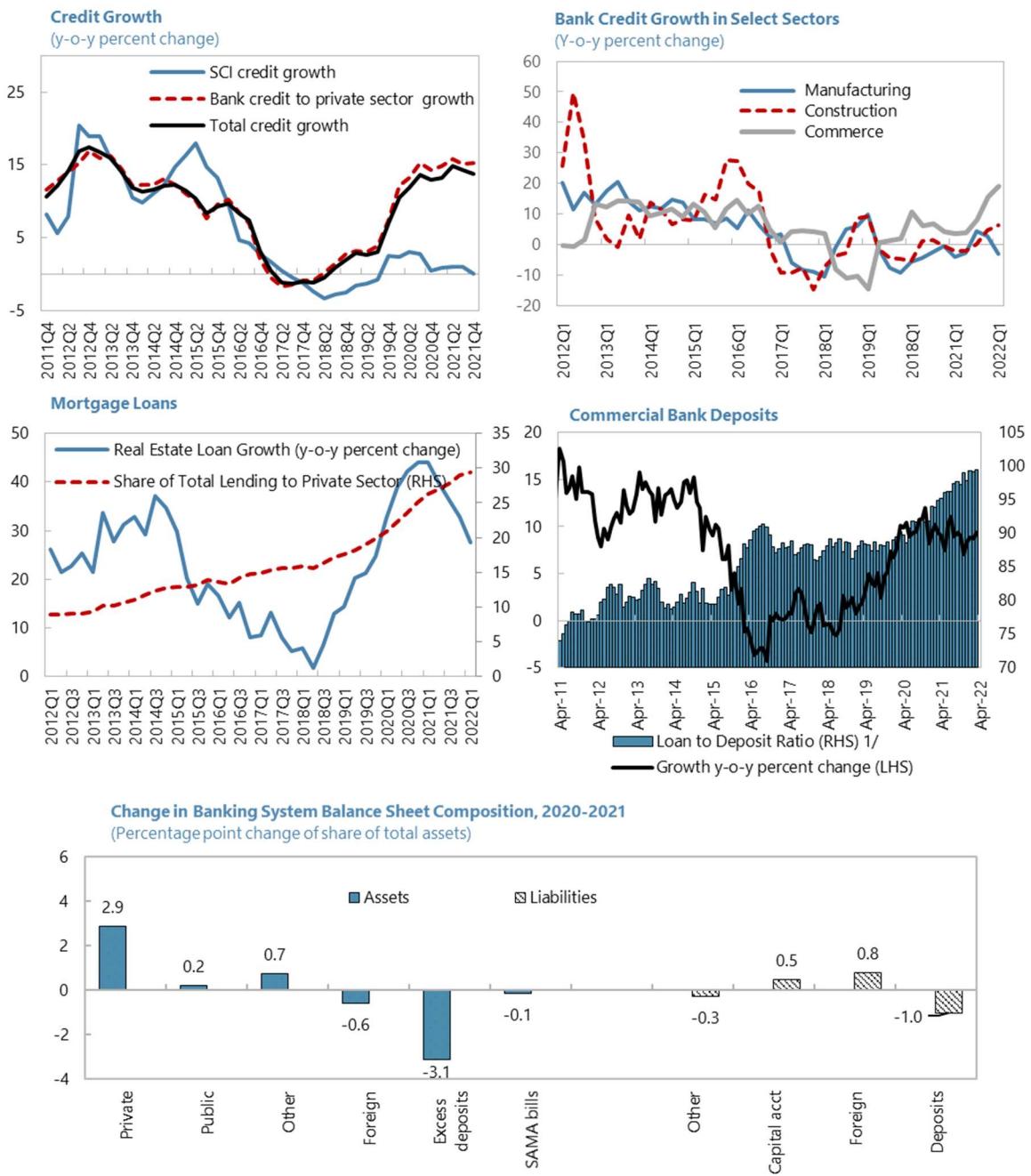
Figure 3. Saudi Arabia: Growth, Fiscal, and Current Account Outcomes in Saudi Arabia and the G20



Sources: Country authorities and IMF staff calculations.

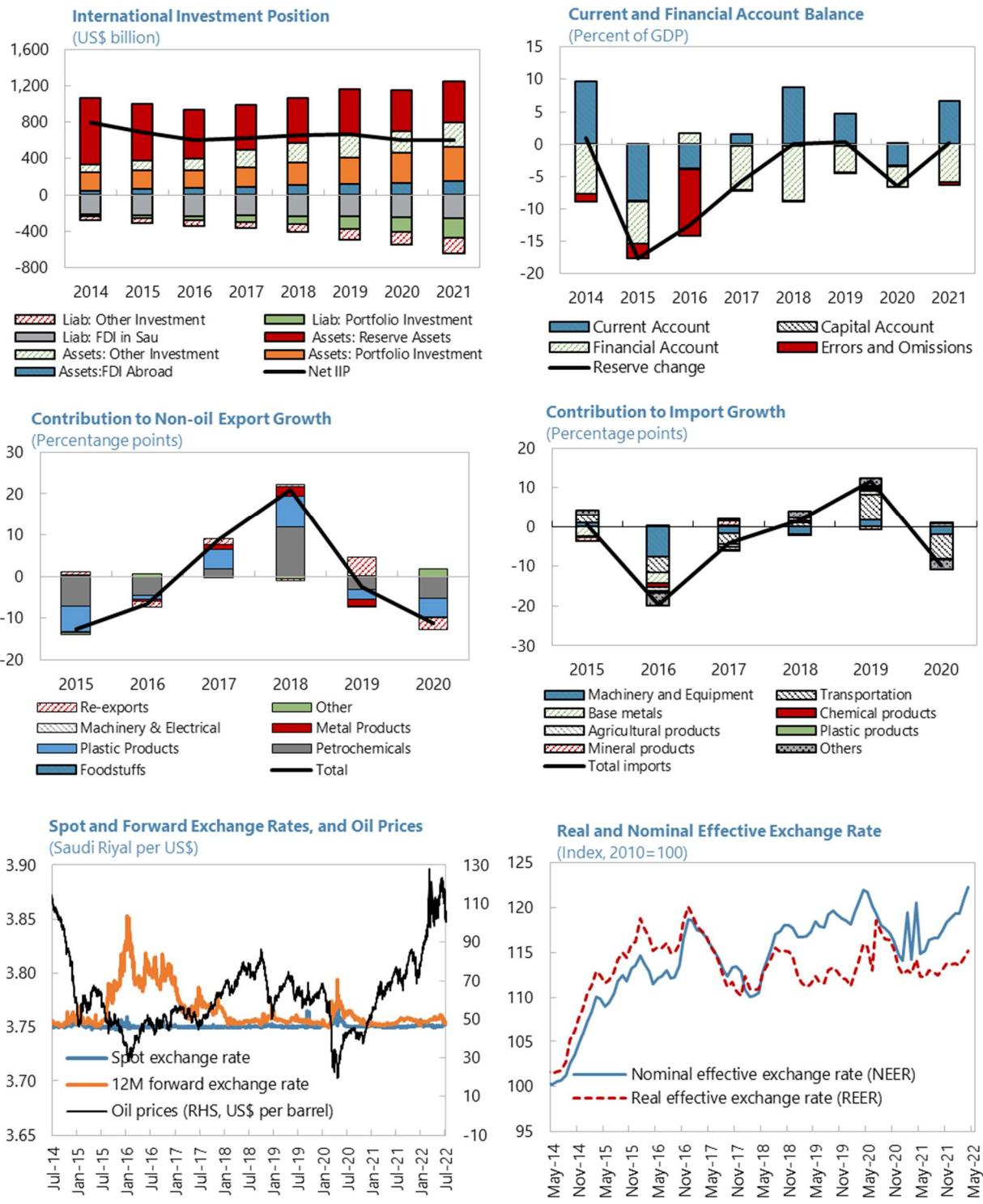
Figure 4. Saudi Arabia: Inflation and Financial Market Developments

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

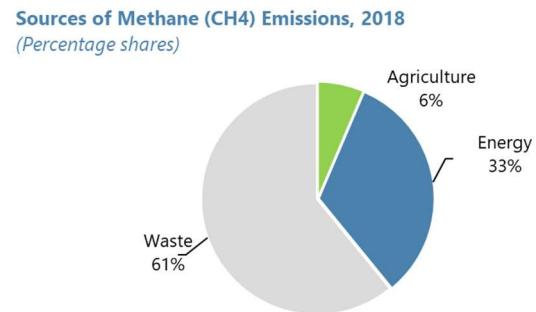
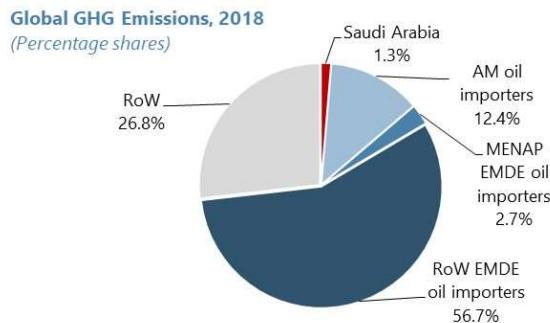
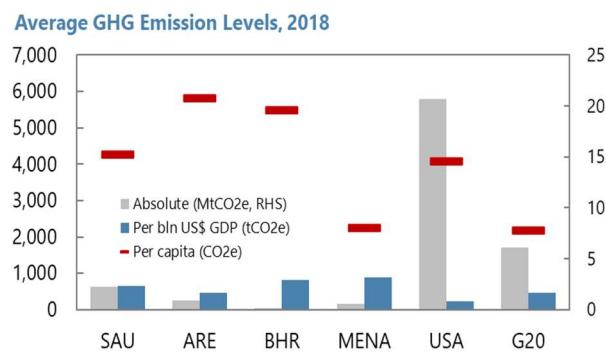
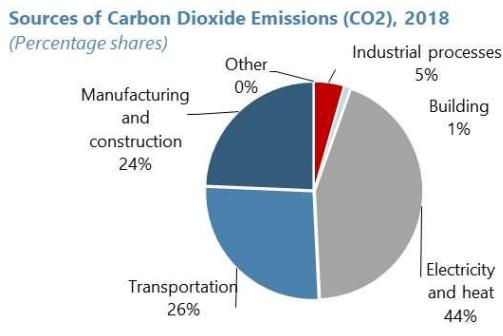
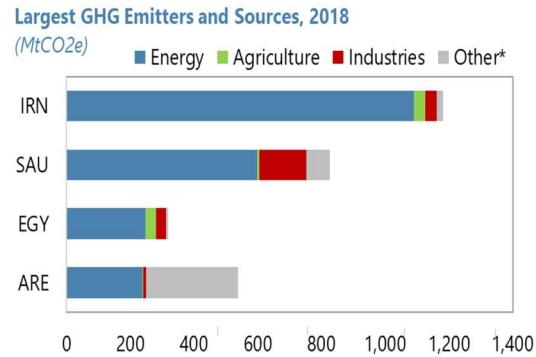
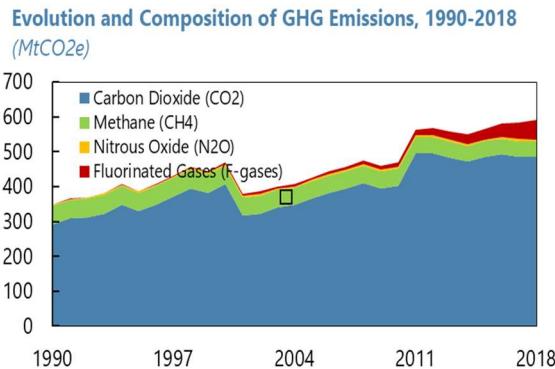
Figure 5. Saudi Arabia: Monetary Developments

Sources: Haver; Reuters; and IMF staff calculations.

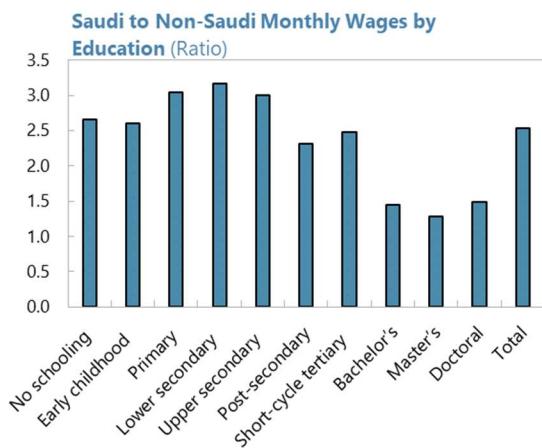
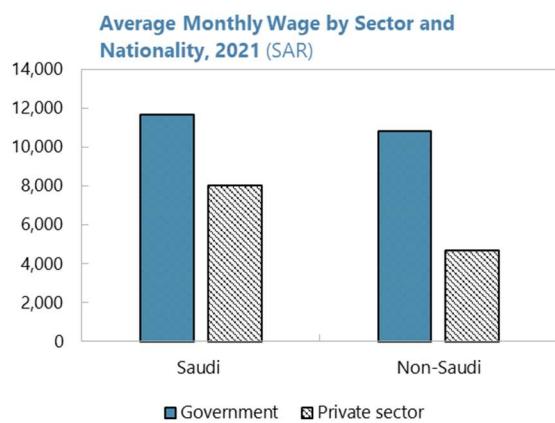
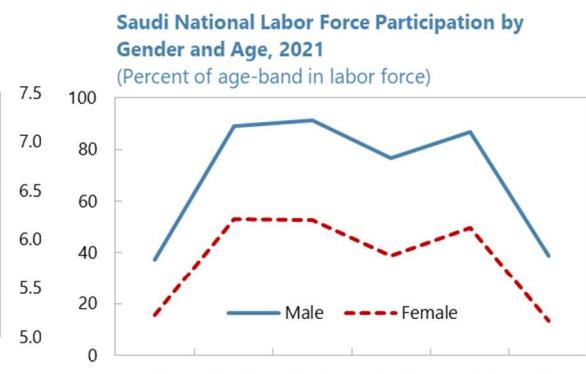
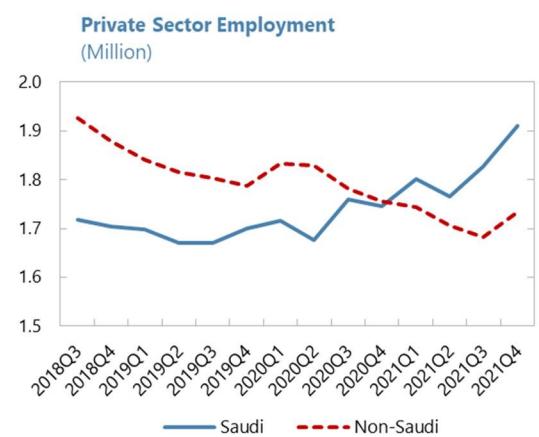
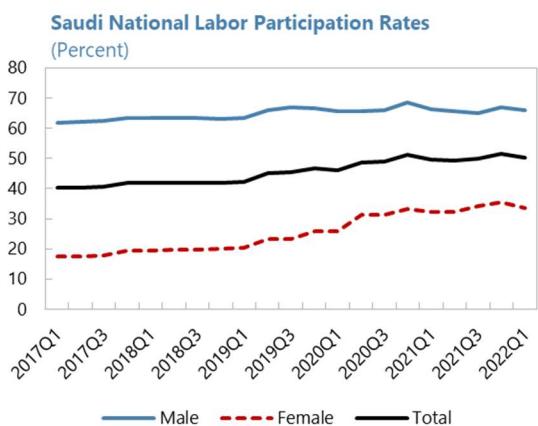
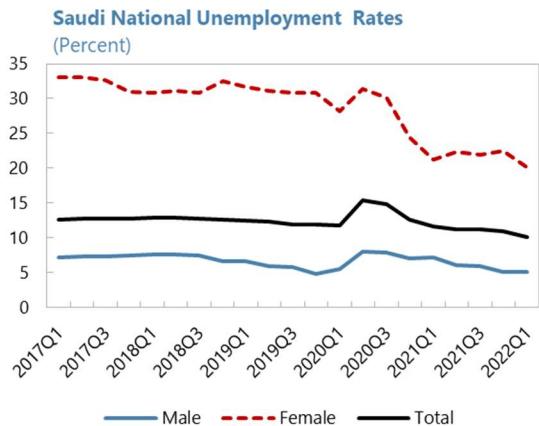
1/ Loan to deposit ratio is calculated by staff as the ratio of total bank credit to total bank deposits.

Figure 6. Saudi Arabia: External Developments

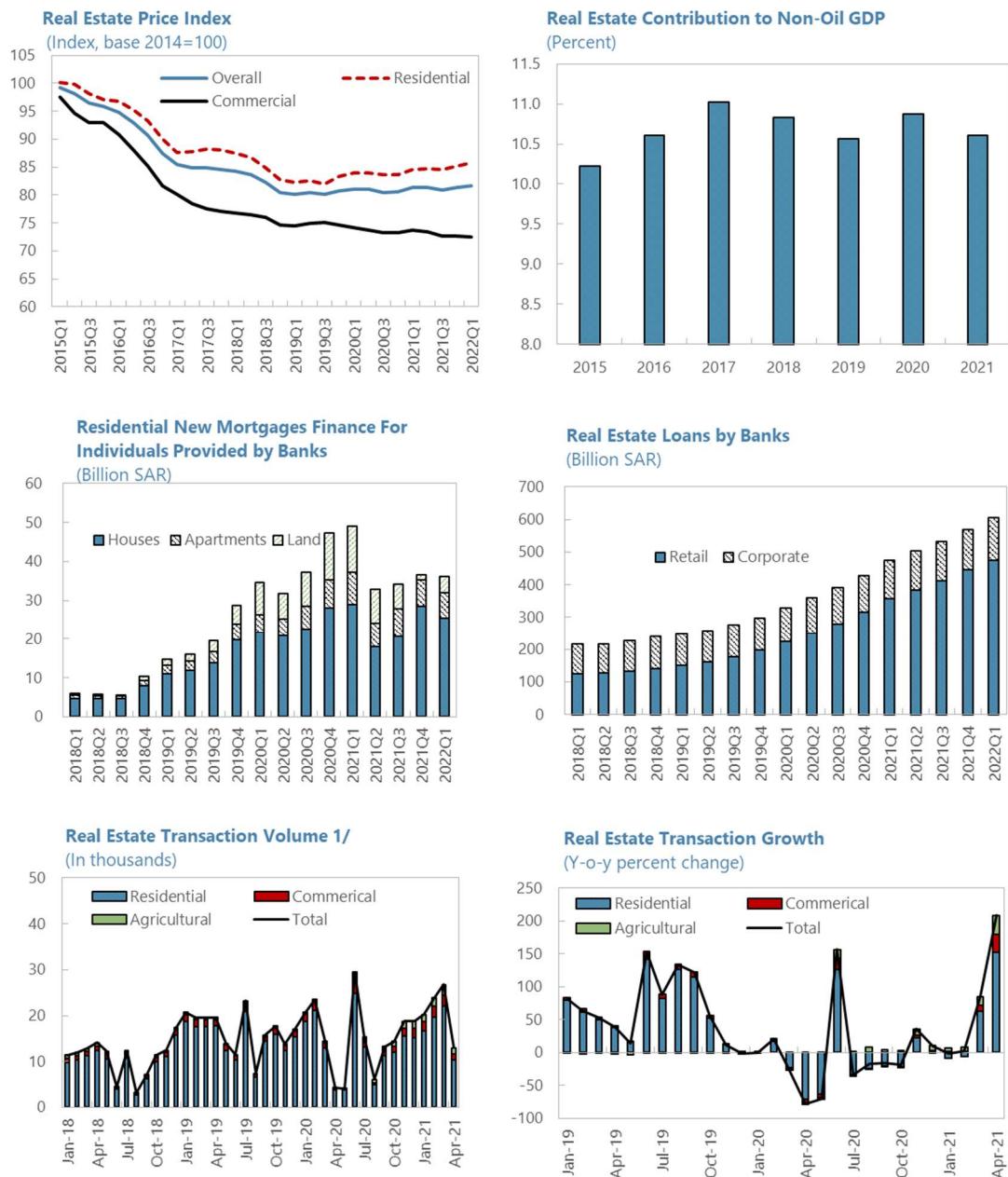
Sources: Haver; country authorities; and IMF staff calculations.

Figure 7. Saudi Arabia: Climate Change

Sources: CAIT; IMF WEO and staff calculations.

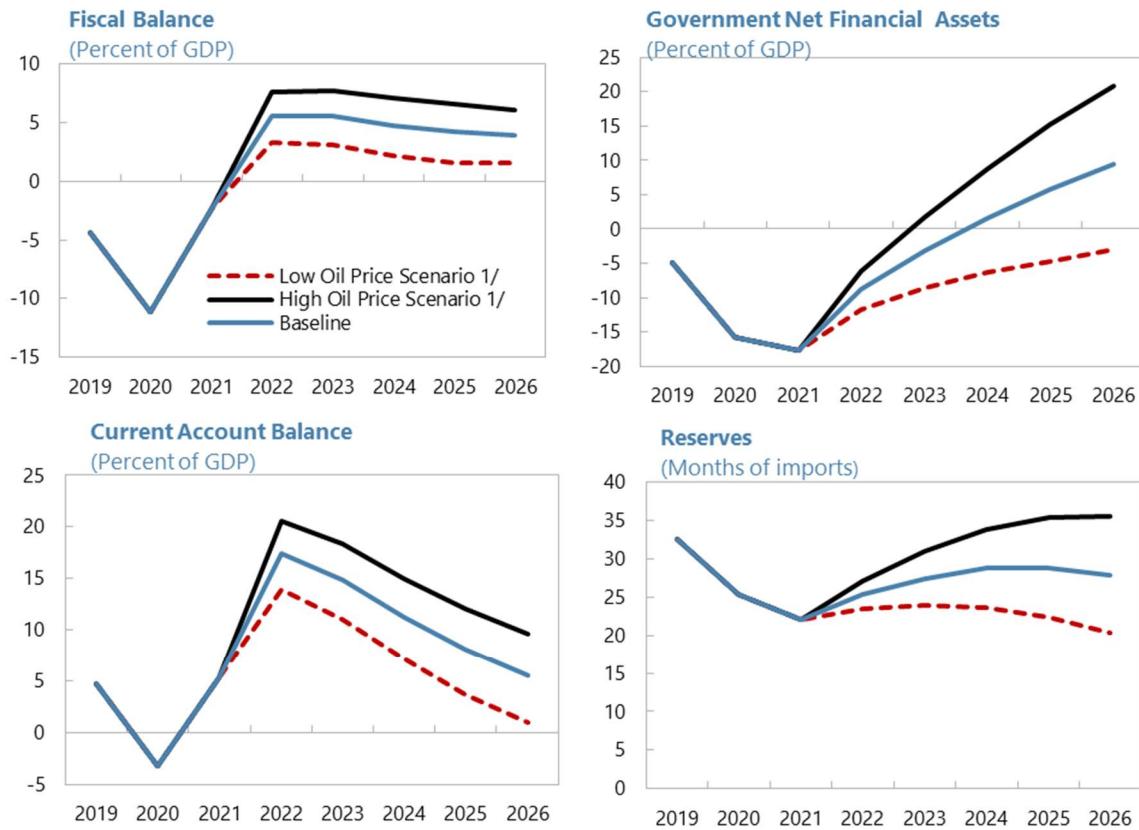
Figure 8. Labor Market Developments

Sources: Haver; country authorities; and IMF staff calculations.

Figure 9. Real Estate Sector Developments

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

1/ Real estate transactions are calculated by aggregating the data from seven districts.

Figure 10. Upside/Downside Oil Price Scenarios 1/

Source: IMF staff calculations.

1/ The low/high oil price scenario assumes the oil price is one standard deviation for period 2022-2027 below/above the WEO oil price throughout the projection years. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

Table 1. Saudi Arabia: Selected Economic Indicators, 2019–27

	2019	2020	2021	2022	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change; unless otherwise indicated)									
National income and prices										
Crude oil production (million of barrels per day)	9.8	9.2	9.1	10.6	11.0	11.1	11.2	11.3	11.4	
Average oil export price (U.S. dollars per barrel) ¹	65.9	42.7	74.1	105.9	91.1	82.3	76.3	72.3	69.9	
Nominal GDP (SAR billions)	3,014	2,638	3,126	3,860	3,823	3,848	3,921	4,031	4,174	
Nominal GDP (US\$ billions)	804	703	834	1,029	1,020	1,026	1,046	1,075	1,113	
Nominal non-oil GDP (SAR billions)	1,964	1,908	1,998	2,154	2,282	2,414	2,552	2,698	2,854	
Nominal GDP per capita (US\$)	23,485	20,089	23,507	28,458	27,638	27,271	27,243	27,456	27,872	
Real GDP	0.3	-4.1	3.2	7.6	3.7	2.9	2.9	2.9	3.0	
Oil	-3.3	-6.6	0.2	13.1	3.3	1.3	1.4	1.5	1.6	
Non-oil ²	2.8	-2.5	4.9	4.2	3.8	4.0	4.0	4.0	4.0	
Real GDP—public sector	2.0	-0.6	1.9	0.4	0.4	0.4	0.3	0.3	0.3	
Real GDP—private sector	3.1	-3.4	6.2	5.8	5.3	5.4	5.3	5.3	5.3	
Consumer price index (avg.)	-2.1	3.4	3.1	2.8	2.2	2.0	2.0	2.0	2.0	
External sector										
Exports f.o.b.	-11.1	-33.5	58.9	54.3	-8.0	-6.3	-3.9	-2.3	-1.0	
Oil	-13.4	-40.5	69.4	71.9	-10.4	-8.9	-6.5	-4.5	-2.9	
Imports f.o.b.	11.7	-10.2	11.0	12.8	9.2	9.9	10.4	10.6	10.9	
Current account balance (percent of GDP)	4.8	-3.2	5.3	17.2	13.8	10.8	7.9	5.4	2.9	
Export volume	-6.4	-5.1	4.1	6.9	5.3	3.3	3.5	3.1	2.7	
Import volume	10.0	-9.5	0.3	1.9	7.5	8.5	9.1	9.5	9.8	
Terms of trade	-5.6	-34.1	48.4	37.0	-16.0	-11.5	-9.0	-6.7	-4.8	
Money and credit										
Net foreign assets	-1.7	-8.9	-4.5	20.6	13.7	12.1	8.2	4.9	2.6	
Net domestic assets	17.8	26.0	20.7	2.2	3.7	5.4	6.8	8.8	9.7	
Of which: claims on private sector	7.0	14.0	15.4	13.4	12.8	12.3	12.1	12.1	12.1	
Money and quasi-money (M3)	7.1	8.3	7.4	8.5	7.6	7.2	6.1	6.1	6.1	
3-month Interbank rate (percent p.a.) ³	2.3	0.8	0.9	
Central government finances										
Revenue	30.8	29.6	30.9	31.8	32.0	32.0	31.8	31.5	31.4	(Percent of GDP)
Of which: oil	19.7	15.7	18.0	21.3	20.8	20.2	19.5	18.8	18.4	
Expenditure	35.1	40.8	33.2	26.4	27.1	27.5	27.7	27.6	27.4	
Expense	29.5	34.9	29.5	23.6	24.1	24.4	24.4	24.3	24.0	
Net acquisition of non-financial assets	5.6	5.9	3.8	2.8	2.9	3.1	3.2	3.3	3.4	
Net lending (+)/borrowing (-)	-4.4	-11.2	-2.3	5.5	4.9	4.5	4.1	3.9	4.0	
Excluding oil revenue	-24.1	-26.8	-20.3	-15.9	-15.9	-15.7	-15.4	-14.9	-14.5	
Non-oil primary balance/non-oil GDP	-37.1	-39.7	-31.4	-27.9	-26.1	-24.5	-23.1	-21.8	-20.7	
Non-exported oil primary balance/non-oil GDP	-34.6	-37.6	-29.0	-24.8	-22.0	-19.5	-17.7	-16.3	-14.4	
Central government deposits at SAMA	17.6	16.6	12.3	15.4	20.5	24.9	28.5	31.6	34.5	
Central government gross debt	22.5	32.4	30.0	24.3	24.5	24.4	23.9	23.3	22.5	
Central government net financial assets	-4.9	-15.9	-17.7	-8.9	-4.0	0.5	4.6	8.4	12.0	
Memorandum items:										
SAMA's total net foreign assets (US\$ billions)	494.0	449.2	438.2	535.5	610.3	685.5	743.1	780.6	800.7	
In months of imports of goods and services ⁴	32.5	25.3	22.1	25.3	26.8	28.0	28.1	27.1	26.8	
Imports goods & services/GDP	27.2	25.9	25.6	23.2	24.9	26.6	28.1	29.6	31.0	
Real effective exchange rate (2010=100, end of period) ³	113.4	113.3	114.3	117.7	
Average exchange rate Saudi riyal/U.S. dollar ³	3.75	3.75	3.75	3.75	
Population (millions)	34.2	35.0	35.5	36.2	36.9	37.6	38.4	39.1	39.9	
Unemployment rate (nationals)	12.0	12.6	11.0	10.1	
Unemployment rate (overall)	5.7	7.4	6.9	6.0	
All-Shares Price Index (TASI) ³	8,389	8,760	11,282	11,417	

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

¹ Includes refined products.² Recent reclassification of national accounts is not yet fully reflected.³ For 2022, data is latest available.⁴ Next 12 months.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2019–27

	2019	2020	2021	2022	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Billions of Saudi Arabian riyals)									
Revenue	927	782	965	1,229	1,224	1,231	1,246	1,269	1,310	
Oil	594	413	562	824	795	776	765	759	770	
Non-oil	332	369	403	405	429	454	481	510	540	
Tax revenues	175	189	283	305	324	343	364	386	410	
Taxes on income, profits, and capital gains	17	18	18	18	19	20	21	22	24	
Taxes on goods and services (includes excises)	110	126	217	234	248	263	278	294	311	
Taxes on international trade and transactions	17	18	19	21	23	25	28	31	34	
Other taxes	30	27	29	31	33	35	37	39	42	
Non-oil non-tax revenues	157	179	120	100	106	111	117	123	130	
Property income (excluding oil)	22	74	20	20	20	20	20	20	20	
Sales of goods and services	33	26	30	28	29	31	33	35	36	
Fines, penalties, and forfeits	10	9	11	12	13	13	14	15	16	
Other revenues	92	70	59	41	44	47	50	54	58	
Expenditure	1,059	1,076	1,039	1,018	1,036	1,058	1,084	1,112	1,145	
Expense	890	921	922	912	923	939	958	978	1,004	
Employee compensation ¹	505	495	496	501	506	512	518	524	534	
Use of goods and services	161	203	205	180	181	183	187	191	194	
Interest payments	21	24	27	33	32	33	33	33	33	
Domestic	11	13	15	19	17	18	18	18	18	
Foreign	10	11	13	14	15	15	15	15	15	
Support (subsidies)	23	28	30	35	31	30	30	29	29	
Social benefits ²	82	69	70	73	77	82	86	91	97	
Grants	1	4	3	2	3	3	3	3	4	
Other expenses	97	97	91	89	92	96	101	107	113	
Net acquisition of non-financial assets	169	155	117	106	113	119	126	133	141	
Net lending (+)/borrowing (-)	-132.6	-294	-73	211	188	173	162	157	165	
(In percent of GDP)										
Revenue	30.8	29.6	30.9	31.8	32.0	32.0	31.8	31.5	31.4	
Oil	19.7	15.7	18.0	21.3	20.8	20.2	19.5	18.8	18.4	
Non-oil	11.0	14.0	12.9	10.5	11.2	11.8	12.3	12.6	12.9	
Tax revenues	5.8	7.2	9.1	7.9	8.5	8.9	9.3	9.6	9.8	
Taxes on income, profits, and capital gains	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.6	0.6	
Taxes on goods and services (includes excises)	3.7	4.8	7.0	6.1	6.5	6.8	7.1	7.3	7.4	
Taxes on international trade and transactions	0.6	0.7	0.6	0.5	0.6	0.7	0.7	0.8	0.8	
Other taxes	1.0	1.0	0.9	0.8	0.9	0.9	1.0	1.0	1.0	
Non-oil non-tax revenues	5.2	6.8	3.8	2.6	2.8	2.9	3.0	3.1	3.1	
Property income (excluding oil)	0.7	2.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	
Sales of goods and services	1.1	1.0	1.0	0.7	0.8	0.8	0.8	0.9	0.9	
Fines, penalties, and forfeits	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.4	
Other revenues	3.1	2.7	1.9	1.1	1.1	1.2	1.3	1.3	1.4	
Expenditure	35.1	40.8	33.2	26.4	27.1	27.5	27.7	27.6	27.4	
Expenses	29.5	34.9	29.5	23.6	24.1	24.4	24.4	24.3	24.0	
Employee compensation ¹	16.8	18.8	15.9	13.0	13.2	13.3	13.2	13.0	12.8	
Use of goods and services	5.3	7.7	6.5	4.7	4.7	4.8	4.8	4.7	4.7	
Interest payments	0.7	0.9	0.9	0.9	0.8	0.9	0.8	0.8	0.8	
Domestic	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.4	
Foreign	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Support (subsidies)	0.8	1.1	1.0	0.9	0.8	0.8	0.8	0.7	0.7	
Social benefits ²	2.7	2.6	2.2	1.9	2.0	2.1	2.2	2.3	2.3	
Grants	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other expenses	3.2	3.7	2.9	2.3	2.4	2.5	2.6	2.7	2.7	
Net acquisition of non-financial assets	5.6	5.9	3.8	2.8	2.9	3.1	3.2	3.3	3.4	
Net lending (+)/borrowing (-)	-4.4	-11.2	-2.3	5.5	4.9	4.5	4.1	3.9	4.0	
Non-exported oil primary balance/non-oil GDP	-34.6	-37.6	-29.0	-24.8	-22.0	-19.5	-17.7	-16.3	-14.4	

Sources: Ministry of Finance; and IMF staff projections.

¹ Including the extra month salary according to Hijri calendar in 2016.² Zakat charity transfers, social welfare payments and Hafiz Job-seekers allowance.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2019–27 (concluded)

	2019	2020	2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027
(Billions of Saudi Arabian riyals)									
Net lending (+)/borrowing (-)	-133	-294	-73	211	188	173	162	157	165
Financing	143	271	138	-211	-188	-173	-162	-157	-165
Net acquisition of financial assets	-25	-96	-54	211	188	173	162	157	165
Domestic	-27	-96	-54	211	188	173	162	157	164
Deposits at SAMA (+, buildup)	-33	-93	-51	211	188	173	162	157	164
Loans and equity	6	-3	-3	0	0	0	0	0	0
Foreign	2	0	0	0	0	0	0	0	1
Net incurrence of liabilities (- = repayment)	118	176	83	0	0	0	0	0	0
Domestic	70	173	76	0	40	41	46	91	96
Banks	10	119	23	0	0	0	0	41	46
Nonbanks	60	54	53	0	41	41	46	50	50
Foreign	50	47	49	43	77	0	26	21	22
Amortization	-2	-44	-41	-43	-117	-41	-72	-112	-117
Domestic	-2	-44	-21	-26	-46	-41	-46	-91	-91
Foreign	0	0	-21	-17	-71	0	-26	-21	-26
Residual/ Gap (+ve = overfinancing)	10	-23	64	0	0	0	0	0	0
(In percent of GDP)									
Net lending (+)/borrowing (-)	-4.4	-11.2	-2.3	5.5	4.9	4.5	4.1	3.9	4.0
Financing	4.7	10.3	4.4	-5.5	-4.9	-4.5	-4.1	-3.9	-4.0
Net acquisition of financial assets	-0.8	-3.6	-1.7	5.5	4.9	4.5	4.1	3.9	4.0
Domestic	-0.9	-3.6	-1.7	5.5	4.9	4.5	4.1	3.9	3.9
Deposits at SAMA (+, buildup)	-1.1	-3.5	-1.6	5.5	4.9	4.5	4.1	3.9	3.9
Loans and equity	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (- = repayment)	3.9	6.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.3	6.6	2.4	0.0	1.1	1.1	1.2	2.3	2.3
Banks	0.3	4.5	0.7	0.0	0.0	0.0	0.0	1.0	1.1
Nonbanks	2.0	2.0	1.7	0.0	1.1	1.1	1.2	1.2	1.2
Foreign	1.7	1.8	1.6	1.1	2.0	0.0	0.7	0.5	0.5
Amortization	-0.1	-1.7	-1.3	-1.1	-3.1	-1.1	-1.8	-2.8	-2.8
Domestic	-0.1	-1.7	-0.7	-0.7	-1.2	-1.1	-1.2	-2.3	-2.2
Foreign	0.0	0.0	-0.7	-0.4	-1.9	0.0	-0.7	-0.5	-0.6
Residual/ Gap (+ve = overfinancing)	0.3	-0.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Non-oil overall balance	-727	-707	-636	-613	-607	-604	-603	-602	-604
Non-oil primary balance	-728	-757	-628	-600	-595	-591	-590	-589	-591
Non-oil revenue/non-oil GDP	16.9	19.3	20.2	18.8	18.8	18.8	18.9	18.9	18.9
Tax revenue)/non-oil GDP	8.9	9.9	14.2	14.2	14.2	14.2	14.3	14.3	14.4
Current balance	37	-139	44	317	301	292	288	290	306
Non-oil primary balance/non-oil GDP	-37.1	-39.7	-31.4	-27.9	-26.1	-24.5	-23.1	-21.8	-20.7
Government gross domestic debt/GDP	12.4	19.1	17.8	13.8	13.8	13.7	13.4	13.0	12.7
Government foreign issued debt/GDP	10.1	13.3	12.2	10.5	10.8	10.7	10.5	10.2	9.8
Government gross debt/GDP	22.5	32.4	30.0	24.3	24.5	24.4	23.9	23.3	22.5
Government deposits at SAMA/GDP	17.6	16.6	12.3	15.4	20.5	24.9	28.5	31.6	34.5
Government net financial assets/GDP	-4.9	-15.9	-17.7	-8.9	-4.0	0.5	4.6	8.4	12.0
Government Deposits at SAMA (SAR billions)	529	437	385	596	784	957	1,118	1,275	1,440
GDP market prices (SAR billions)	3,014	2,638	3,126	3,860	3,823	3,848	3,921	4,031	4,174
Non-oil GDP (SAR billions)	1,964	1,908	1,998	2,154	2,282	2,414	2,552	2,698	2,854
Average oil export price	65.9	42.7	74.1	105.9	91.1	82.3	76.3	72.3	69.9

Sources: Ministry of Finance; and IMF staff projections.

Table 3. Saudi Arabia: Balance of Payments, 2019–27
(\$ billions)

	2019	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account (Percent of GDP)	38.2 4.8	-22.8 -3.2	44.3 5.3	177.3 17.2	141.1 13.8	110.7 10.8	82.8 7.9	58.1 5.4	32.1 2.9
Trade balance	121.3	47.9	136.5	268.5	219.9	178.3	144.2	114.0	85.6
Exports	261.6	173.9	276.2	426.1	392.2	367.6	353.2	345.1	341.7
Oil exports	200.5	119.4	202.2	347.6	311.3	283.7	265.4	253.5	246.2
Other exports	61.1	54.5	74.0	78.6	80.9	84.0	87.8	91.5	95.6
Imports (f.o.b.)	-140.3	-125.9	-139.7	-157.7	-172.2	-189.3	-208.9	-231.0	-256.2
Services	-54.4	-47.3	-63.0	-57.3	-47.9	-38.9	-34.2	-29.7	-27.5
Transportation	-12.9	-12.9	-14.1	-10.7	-7.4	-3.8	-2.0	-0.2	0.7
Travel	1.3	-4.8	-8.4	-4.7	-1.5	1.7	3.1	4.6	5.1
Other services	-42.8	-29.6	-40.5	-41.9	-39.0	-36.9	-35.3	-34.1	-33.3
Income	7.9	13.9	15.2	13.4	17.1	20.1	22.5	24.3	25.6
Of which: Investment income ¹	8.5	13.9	15.8	14.0	17.7	20.7	23.1	24.9	26.2
Current transfers	-36.6	-37.4	-44.4	-47.2	-48.0	-48.9	-49.7	-50.6	-51.5
Of which: Workers' remittances	-30.3	-34.3	-39.8	-42.7	-43.4	-44.3	-45.2	-46.1	-47.0
Capital Account	-1.7	-1.8	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-33.2	-21.9	-39.9	-80.0	-66.3	-35.5	-25.2	-20.5	-12.0
Direct Investment	-9.0	0.5	-4.6	-5.1	-2.9	-0.9	0.9	2.5	4.1
Abroad	-13.5	-4.9	-23.9	-13.3	-11.2	-9.6	-8.3	-7.3	-6.5
In Saudi economy	4.6	5.4	19.3	8.2	8.3	8.7	9.2	9.8	10.6
Portfolio investments	11.5	-23.7	-38.5	-25.4	-19.7	-16.7	-12.8	-11.6	-6.2
Assets	-34.6	-53.6	-55.6	-69.4	-52.1	-41.7	-33.3	-26.7	-21.4
Liabilities	46.1	29.9	17.1	44.0	32.4	25.0	20.6	15.1	15.2
Other investments	-35.7	1.3	3.2	-49.5	-43.7	-17.9	-13.3	-11.5	-9.8
Assets	-55.7	-4.9	-22.3	-54.5	-32.7	-22.9	-18.3	-16.5	-14.8
Liabilities	20.0	6.2	25.5	5.0	-11.0	5.0	5.0	5.0	5.0
Net errors and omissions	-0.3	0.6	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.0	-45.9	1.7	97.3	74.8	75.2	57.6	37.5	20.1
Financing	-3.0	45.9	-1.7	-97.3	-74.8	-75.2	-57.6	-37.5	-20.1
Change in SAMA's NFA (- increase)	-4.5	44.9	11.0	-97.3	-74.8	-75.2	-57.6	-37.5	-20.1
Memorandum items:									
SAMA's total net foreign assets	494.0	449.2	438.2	535.5	610.3	685.5	743.1	780.6	800.7
(In months of imports) ²	32.5	25.3	22.1	25.3	26.8	28.0	28.1	27.1	26.8
Net International Investment Position (% GDP)	83.5	85.2	73.5	74.5	89.1	99.3	105.4	107.9	107.1
Non-oil current account(% GDP)	-20.2	-20.2	-18.9	-16.5	-16.7	-16.9	-17.5	-18.2	-19.2
External debt (% GDP)	23.2	33.8	34.4	28.5	29.0	28.8	28.5	27.7	26.8
Oil price (US\$/barrel) ³	61.4	41.3	69.1	103.9	91.1	82.3	76.3	72.3	69.9
Average Saudi oil export price (US\$/barrel)	65.9	42.7	74.1	105.9	91.1	82.3	76.3	72.3	69.9
Oil production (mbd)	9.8	9.2	9.1	10.6	11.0	11.1	11.2	11.3	11.4
Oil exports (mbd)	8.3	7.7	7.5	9.0	9.4	9.4	9.5	9.6	9.6
Oil exports/total exports	76.6	68.7	73.2	81.6	79.4	77.2	75.1	73.5	72.0
Imports of goods/GDP	17.5	17.9	16.8	15.3	16.9	18.4	20.0	21.5	23.0
GDP (US\$ billion)	803.6	703.4	833.5	1,029.3	1,019.6	1,026.2	1,045.6	1,074.9	1,113.0
Government foreign issued debt (US\$ billion)	81.4	93.9	101.4	108.5	109.9	109.9	109.9	109.9	108.7
US 6-month LIBOR (Percent)	2.3	0.7	0.2	2.4	4.6	4.4	3.4	2.9	2.9

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

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

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

³ The average price of Brent, WTI, and Dubai oil prices derived from futures prices during July 2022.

Table 4. Saudi Arabia: Monetary Survey, 2019–27

	2019	2020	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
			2021	2022	2023	2024	2025	2026
(Billions of Saudi Arabian riyals)								
Foreign assets (net)	1,923	1,752	1,673	2,033	2,309	2,585	2,796	2,932
SAMA	1,853	1,684	1,643	2,008	2,289	2,571	2,787	2,927
Commercial banks	70	68	30	25	20	15	10	5
Domestic credit (net)	1,463	1,843	2,225	2,273	2,358	2,485	2,653	2,888
Net claims on government	-146	2	95	-128	-339	-532	-717	-879
Claims on government	384	438	481	468	445	424	401	397
Government deposits with SAMA	-529	-437	-385	-596	-784	-957	-1,118	-1,275
Claims on state enterprises	62	79	95	95	95	95	95	95
Claims on private sector	1,547	1,762	2,034	2,307	2,602	2,922	3,275	3,672
Money and quasi-money (M3)	1,985	2,149	2,309	2,505	2,695	2,889	3,066	3,253
Money (M1)	1,288	1,489	1,564	1,611	1,734	1,859	1,972	2,092
Currency outside banks	189	206	204	236	254	273	289	307
Demand deposits	1,099	1,283	1,360	1,375	1,480	1,586	1,683	1,785
Quasi-money	697	660	744	894	961	1,031	1,094	1,160
Other quasi-money deposits	195	186	249	299	322	345	366	388
Other items (net liabilities)	1,401	1,446	1,589	1,785	1,955	2,165	2,368	2,552
(Changes in percent of beginning broad money stock)								
Foreign assets (net)	-1.8	-8.6	-3.7	14.9	11.0	10.3	7.3	4.4
Domestic credit (net)	11.9	19.2	17.7	2.1	3.4	4.7	5.8	7.7
Net claims on government	6.0	7.4	4.4	-9.7	-8.4	-7.2	-6.4	-5.3
Claims on government	4.2	2.8	2.0	-0.6	-0.9	-0.8	-0.8	-0.1
Government deposits (increase -)	1.8	4.7	2.4	-9.1	-7.5	-6.4	-5.6	-5.1
Claims on state enterprises	0.4	0.9	0.7	0.0	0.0	0.0	0.0	0.0
Claims on private sector	5.5	10.9	12.6	11.8	11.8	11.9	12.2	12.9
Money and Quasi-money	7.1	8.3	7.4	8.5	7.6	7.2	6.1	6.1
Other items (net liabilities)	3.0	2.3	6.6	8.5	6.8	7.8	7.0	6.0
(Percent change; unless otherwise indicated)								
Foreign assets (net)	-1.7	-8.9	-4.5	20.6	13.7	12.1	8.2	4.9
Domestic credit (net)	17.8	26.0	20.7	2.2	3.7	5.4	6.8	8.8
Of which: claims on private sector	7.0	14.0	15.4	13.4	12.8	12.3	12.1	12.1
Money and quasi-money	7.1	8.3	7.4	8.5	7.6	7.2	6.1	6.1
Other items (net liabilities)	4.1	3.3	9.8	12.4	9.5	10.7	9.4	7.7
(Percent; unless otherwise indicated)								
Memorandum items:								
Specialized Credit Institutions credit (SAR billions) ¹	236.4	237.4
Ratio of M3-to-GDP	65.9	81.5	73.9	64.9	70.5	75.1	78.2	80.7
Ratio of Claims on private sector-to-non-oil GDP	78.8	92.4	101.8	107.1	114.0	121.0	128.3	136.1

Sources: Saudi Central Bank (SAMA); and IMF staff estimates.

¹ For 2020, data is latest available.

Table 5. Saudi Arabia: Financial Soundness Indicators, 2016–2021
(Percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
Banking sector						
Structure of the banking sector						
Number of licensed banks	24	25	29	25	25	26
Number of banks accounting for:						
25 percent of total assets	2	2	2	2	2	1
75 percent of total assets	6	6	6	6	6	6
Total assets (percent of GDP)	93.3	89.3	80.1	88.5	113.0	104.9
Of which: Foreign currency-denominated (as percent of total)	10.0	10.5	9.4	9.3	8.4	7.8
Total loans (percent of GDP)	57.9	53.7	48.3	52.2	67.6	65.9
Credit to private sector (percent of GDP)	55.9	51.9	46.7	50.1	64.6	62.8
Total deposits, excluding interbank (as percent of GDP)	66.9	62.7	56.3	60.4	73.7	67.3
Capital adequacy						
Regulatory capital to risk-weighted assets	19.5	20.4	20.3	19.3	20.3	19.9
Tier-1 capital to risk-weighted assets	17.5	18.3	18.5	18.0	18.7	18.2
Asset quality						
Net loans to total assets	62.8	62.2	62.6	66.0	68.1	68.9
Gross NPLs to gross loans	1.4	1.6	2.0	1.9	2.2	1.9
Total provisions to gross NPLs	177.0	151.9	157.2	146.1	131.1	134.4
Net NPLs to total capital	1.0	1.7	1.1	1.6	2.5	2.5
Total provisions for loan losses (as percent of total loans)	2.6	2.6	3.2	2.9	3.0	2.6
Loans to property and construction sector to total loans	7.5	6.5	6.8	6.0	5.2	4.7
Loans to domestic manufacturing sector to total loans	12.8	11.8	12.1	10.1	8.8	7.8
Contingent and off-balance sheet accounts to total assets	84.2	76.2	71.3	69.3	64.4	58.8
Profitability						
Profits (percent change)	-4.8	8.6	9.8	4.5	-23.1	39.2
Average pretax return on assets	1.8	2.0	2.1	2.1	1.5	1.8
Return on equity	12.6	12.9	13.8	12.1	8.6	10.8
Noninterest expenses to total income ¹	38.0	36.6	36.3	35.9	36.2	36.1
Average lending spread	3.5	3.5	3.9	3.9	3.5	3.2
Liquidity						
Liquid assets to total assets	20.3	21.6	22.3	25.4	26.8	24.7
Liquid assets to short-term liabilities ²	31.8	34.6	35.5	41.3	43.8	41.3
Customer deposits to net loans	115.7	117.9	115.6	115.0	109.6	102.6
Demand deposits to total deposits	59.9	61.4	62.2	61.2	66.0	64.6
Sensitivity to market risk						
Foreign currency-denominated deposits to total deposits	7.6	8.6	8.7	8.6	7.4	9.5
Foreign currency-denominated loans to total loans	8.2	8.0	8.4	8.9	8.6	7.50
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	28.3	27.1	27.1	27.5	28.0	27.1
Net open foreign currency position to capital	2.6	4.0	6.4	7.1	7.9	-0.1
Stock market						
Stock market capitalization (percent of GDP)	69.5	65.4	63.0	303.5	345.1	379.4
Overall stock market price index (change in percent)	4.3	0.2	8.3	7.2	3.6	29.8
Bank stock price index (change in percent)	-67.4	8.2	31.1	12.4	-6.4	61.0

Source: Saudi Central Bank (SAMA).

¹ Total income includes net interest income and gross noninterest

² Short-term liabilities include demand deposits maturing in 90 days or less. Liquid assets include cash, gold, Saudi government bonds and treasury bills and interbank deposits maturing within 30 days.

Annex I. Status of Staff Recommendations Made During the 2021 Article IV Consultation

Recommendation	Status
Fiscal consolidation is needed in the short and medium-term to reduce medium-term fiscal vulnerabilities.	The fiscal balance improved by almost 9 percent of GDP in 2021 helped by rising oil prices and the full-year effect of the tripling of the VAT rate to 15 percent in mid-2020. Current expenditure stayed essentially flat compared to 2020, and the 2022 budget projects a decline for 2022 and continued expenditure restraint over the medium-term.
Social safety net spending needs to increase to further support low-income households and help offset the loss of purchasing power from the VAT increase and COLA removal.	Spending on social benefits in 2021 did exceed the budget and the reform of the social safety net is advancing and will result in a move to a needs-based system with a guaranteed minimum income. However, it is not clear to what extent lower-income households have been compensated for the VAT increase and COLA removal. The July 2022 measures to address the repercussions of increased global prices include an allocation (for 1/4 percent of GDP) to the Citizen's Account Program. Future potential measures could take advantage of the progress made through different programs in targeting subsidies.
The wage bill remains high and needs to be rationalized.	The wage bill increased only marginally in 2021 but exceeded the budget. Continued efforts are needed to contain and rationalize the wage bill over the medium term as envisaged in the 2022 budget. A royal decree has been issued to form a ministerial committee to look into opportunities to rationalize the civil service wage bill. It is encouraging that the new employment growth is coming mainly from the private sector and not the government.
Further progress is needed in fiscal transparency to strengthen governance.	Progress has continued, including moving to a Treasury Single Account, an expanded Budget Statement, and regular publication of the pre-budget statement, mid-year review and year-end report. More needs to be done, including by providing additional details on revenue and expenditure items, providing more information on public investment entities, and reporting of systemic explanation of the deviations between budget outcomes and plans.
There is a need to further build on recent progress to increase the accountability and transparency of the public procurement framework.	Active users of the Etihad platform have increased by 80 percent over the past year, and the government should continue requiring that all entities use the platform, which would help enhance transparency and provide a clearer view of the status of actual budget execution. More needs to be done to ensure the transparency of public procurement including through greater information on beneficial ownership.
The growing role of the PIF hastens the need for a sovereign asset-liability management framework which should continue to be developed with fiscal transparency further improved.	Moving to a public balance sheet approach is essential and the work towards developing a sovereign asset liability management framework is ongoing but needs to accelerate. The February credit rating of the PIF has helped enhance disclosure, and additional reporting, including on regular investments of PIF and other entities, would better help assess risks to public finances.
Private sector financial support measures should be carefully withdrawn to ensure a smooth recovery.	Support measures provided important breathing space to the private sector during the pandemic and most of them have been gradually withdrawn already, except the Guaranteed Financing Program that has been extended until March 2023 to provide support to micro and SME businesses.
Improve financial inclusion, particularly for SMEs and women, while maintaining financial stability.	Several SME support programs have been introduced or expanded and bank lending to SMEs has increased to 8 percent of total loans in 2021 (6 percent in 2019). The surge in digital account openings and online mobile financial transactions during the pandemic have helped in improving financial inclusion — 83 percent of the adult population now own a bank account as of 2021 (up from 71 percent in 2019).
Policy measures are needed to reduce Green House Gas (GHG) emissions and support greener growth.	The Saudi Green Initiative was launched in 2021 along with over 60 initiatives to combat climate change. Achieving these plans will require detailing how they will be reached, including the magnitude of the investment necessary and feasibility through technology.
Labor market reforms need to be fully implemented to promote female employment, increase incentives for nationals to work for private sector, and for expatriates to have greater mobility.	Progress has continued. Formal restrictions on female employment have been removed and additional anti-discrimination regulation along with a number of initiatives to facilitate female employment (e.g. transportation subsidy, maternity leaves and childcare support) have been introduced. Female labor participation rose to 34.9 percent in 2021 compared to 32.1 percent in 2020. A record number of 1.9 million Saudi workers are now employed in the private sector as of end-2021. The reforms to the Kafala sponsorship system for expatriates working in the private sector will create a more competitive labor market.
The potential of digitalization should continue to be further developed.	Government continues to put a lot of emphasis on digitalization and a number of electronic platforms and applications have been launched or upscaled in the past year.
Structural reforms should continue to focus on improving the environment for private sector investments, filling gaps in the legal infrastructure and tackling corruption.	Progress has continued, including the approval of the private sector participation law last year. Together with other recent reforms such as the judicial costs law, personal status law, and bankruptcy law, this will further strengthen the legal infrastructure and improve the environment for business. Progress should continue on rule of law (transparency of judgments, insolvency procedures) and on preparing an anti-corruption strategy, including with a framework for asset declaration.
Further improvements are needed in labor market and FDI statistics.	Efforts are ongoing to further improve these statistics as gaps remain.

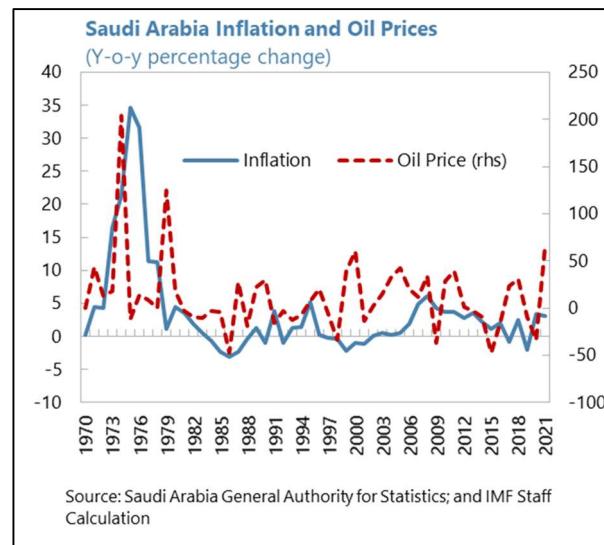
Annex II. Inflation Developments and Passthrough Analysis of External Factor¹

Inflation in Saudi Arabia has remained relatively stable over the past decade and has hovered around 2 percent. Although CPI inflation remains broadly contained, inflationary pressures appear to be rising as food and transport prices have started to pick up recently. Our results suggest that low pass-through of international food and commodity prices, due to some price caps and subsidies, the appreciation of the nominal effective exchange rate and the composition of the CPI basket have helped keep inflation in check. We expect inflation to remain broadly contained, however, prolonged supply chain disruptions might adversely impact inflation over the medium term, although the magnitude of this effect is estimated to be relatively small.

1. Inflation has remained relatively stable over the past decades despite challenges posed by fluctuations in international commodity prices.

Since 2000, average inflation in Saudi Arabia hovered around 2 percent a year and inflation volatility has also been relatively moderate, notwithstanding oil price volatility. In the past, positive oil price shocks have often been associated with increased government spending resulting from higher oil revenues while exerting upward pressure on consumer prices. Given that Saudi Arabia is a fiscally dominant economy and changes in exchange rates do not affect the volume of exports,² its monetary policy

framework targeting a stable exchange rate has contributed to stabilizing inflation.



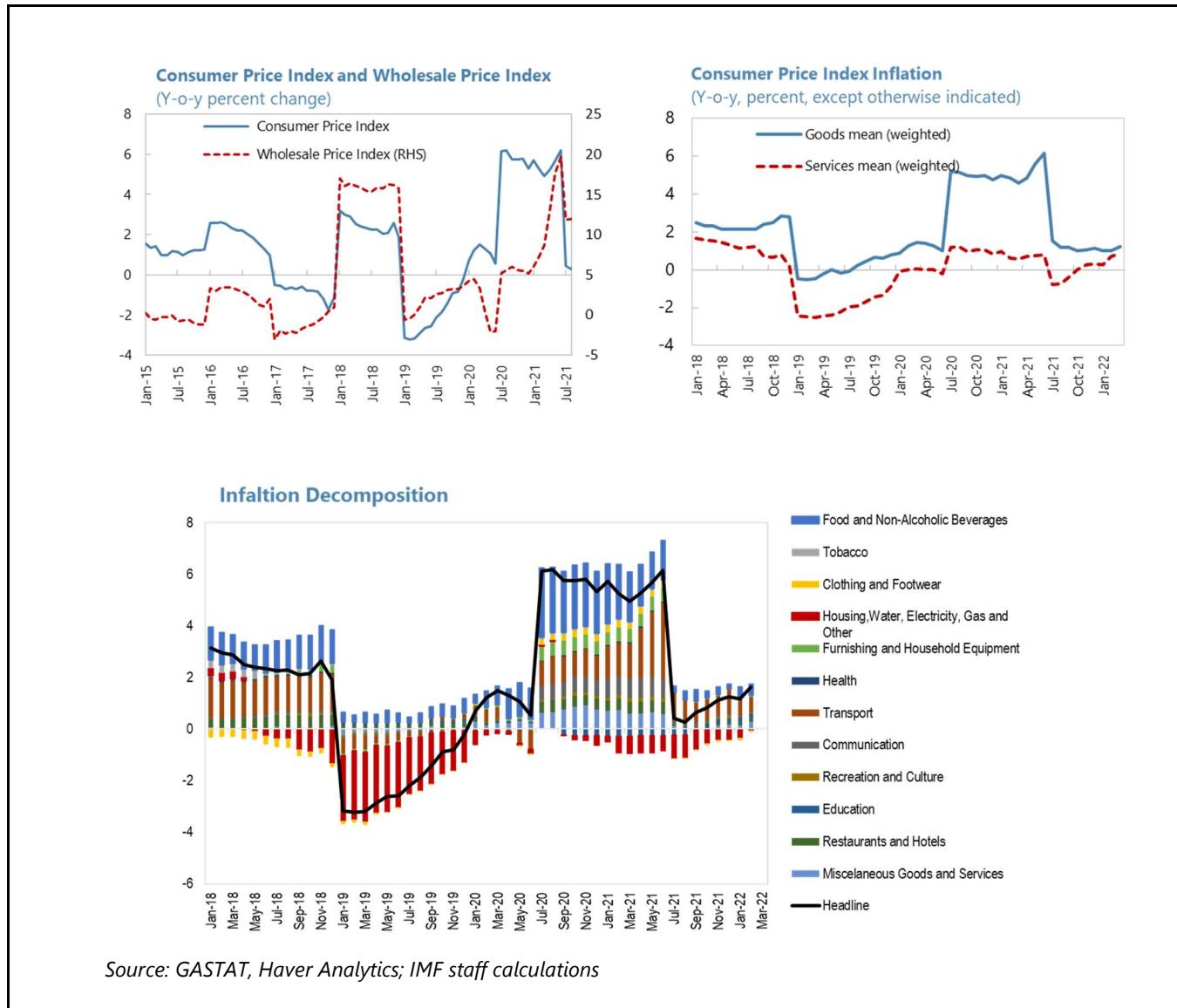
2. During the Covid-19 pandemic, inflation surged in Saudi Arabia because of a VAT rate increase.

Following the VAT rate increase from 5 to 15 percent in July 2020, CPI inflation jumped significantly, especially on items in the goods basket, but then settled slightly above zero (m/m). In the recent episode, inflation remains relatively contained, despite the supply-side disruptions, sharp increase in international commodity prices, and double-digit wholesale inflation.³

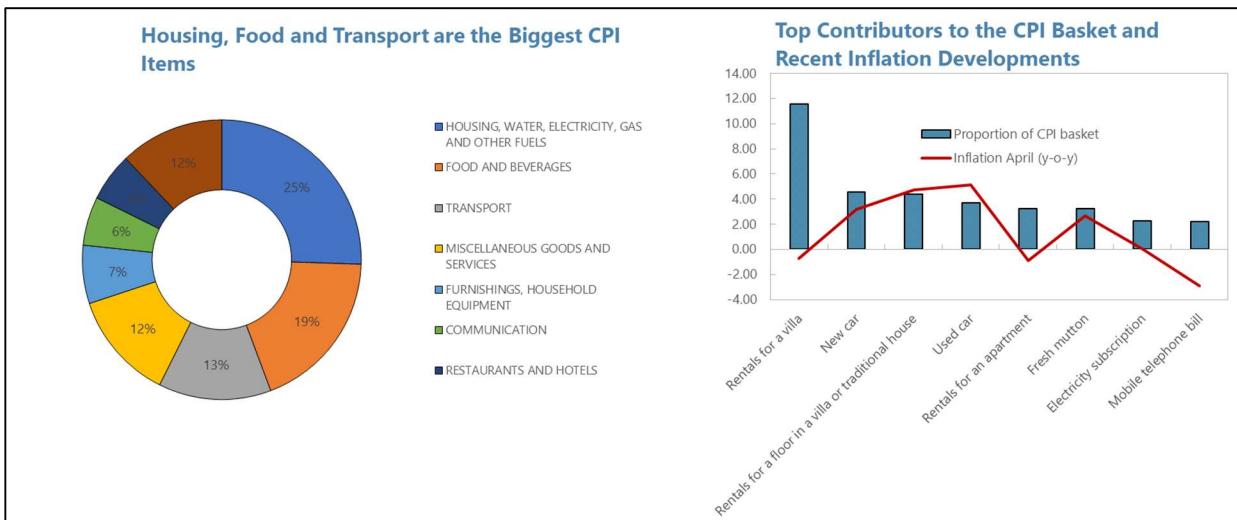
¹ Prepared by Nordine Abidi and Fozan Fareed.

² BIS, 2016 "Inflation mechanisms, expectations and monetary policy in Saudi Arabia."

³ The relationship between wholesale price index and CPI appears limited, especially over the last few months, perhaps because of the composition of both baskets. It might be helpful to develop a producer price index (PPI) to better reflect supply chain disruptions.



3. The composition of the CPI basket in Saudi Arabia could explain the low inflation in recent times to some extent. The housing rental component is about 21 percent of the overall CPI basket, which has either stayed constant or even declined slightly in the recent past. Within this rental component, rent for a villa is 11.5 percent of the total CPI basket and rent for a floor in the villa is 4.4 percent of the total CPI basket, both of those have seen a decline in recent times which could partly explain the low levels of inflation.



4. The recent increase in inflation, while still contained, seems to be mainly driven by food and transport⁴. It is important to highlight that transport represents about 13 percent of the total CPI basket. Within this basket, the purchase of motor cars represents about 63 percent of the transport basket and have started to pick up in the last few months in line with the increase in international prices of cars. Transport services, mainly international transport by air and travel by sea, seem to have increased in the past two months. Lastly, gasoline prices were capped in July 2021 and therefore put a downward pressure on inflation.

5. Despite the war in Ukraine, the imbalances in global supply-demand and the tightening of monetary policy, consensus forecasts on inflation remain well anchored. Stable inflation expectations⁵ at levels consistent with price stability provide an important nominal anchor for the Saudi economy. They reduce inflation persistence and curb harmful macroeconomic volatility. While more and more items in the CPI basket are in positive growth territory (i.e., about 70 percent), private sector consensus forecasts—the only proxy for measures of inflation expectations⁶—point to an apparent stability for Saudi Arabia's headline inflation, suggesting that the monetary policy credibility of SAMA was not negatively affected by recent turmoil⁷ or rising

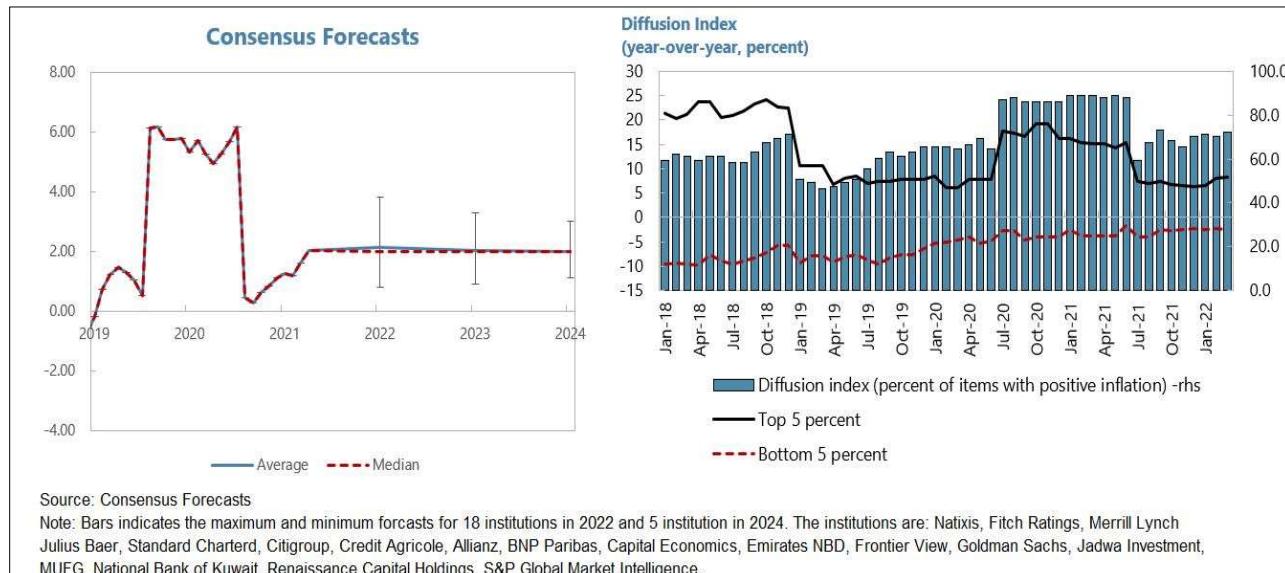
⁴ 4.6 percent y-o-y increase in April for both components.

⁵ Given the data availability, consensus forecast is the only proxy for inflation expectations in Saudi Arabia.

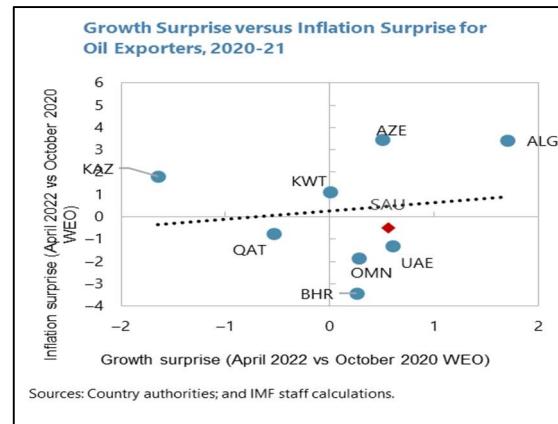
⁶ To measure inflation expectations in Saudi Arabia, we rely on Consensus Economics forecast data. Each month, experts from public and private economic institutions – mostly investment banks and economic research institutes – are surveyed about their projections for the main macroeconomic and financial variables.

⁷ BIS, 2021, "How well-anchored are long-term inflation expectations?" <https://ddd.bis.org/publ/work869.pdf>

wholesale inflation.⁸ Over the medium term, consensus forecasts continue to project inflation in Saudi Arabia settling at around 2 percent, broadly in line with the U.S. price stability objective.

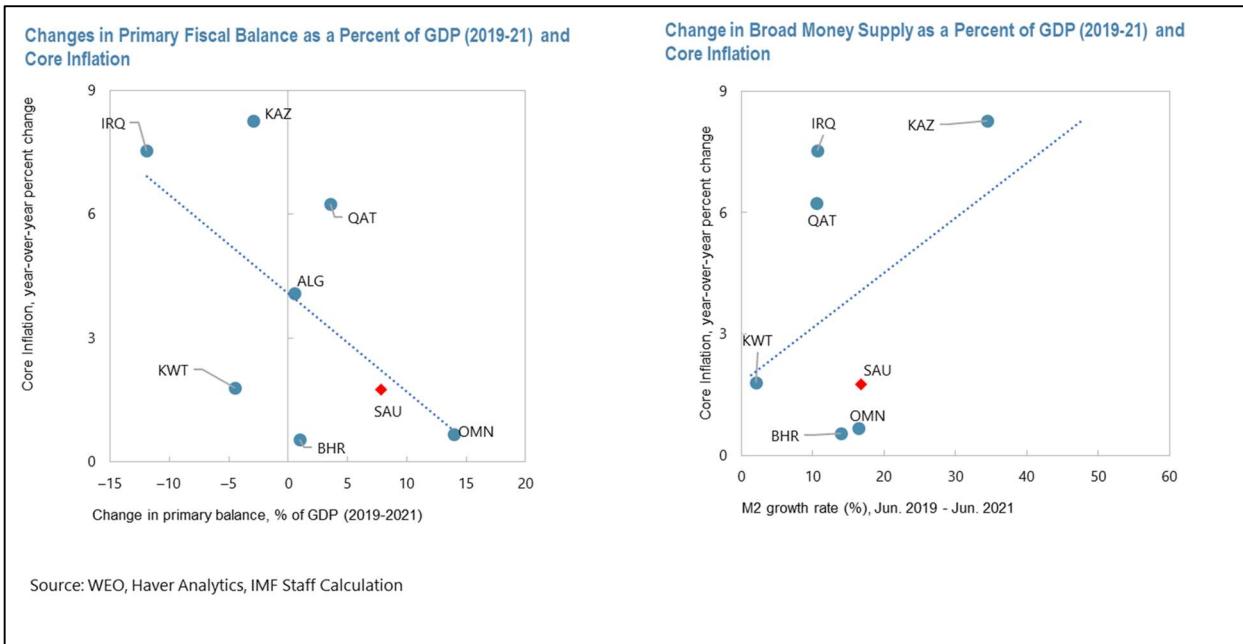


6. There is some suggestive evidence that the strength of the ongoing growth is associated with recent price developments. Oil-exporting countries, which have responded strongly to the Covid-19 pandemic with more expansionary fiscal and monetary policies appear to have had, on average, higher core-inflation. In other GCC countries, specific policies such as the introduction or the rise in value added taxes have also led to temporary increases in inflation (e.g., Oman in 2021).⁹



⁸ Given its weight in the index, “other transportable goods” are driving the recent increase (e.g., refined petroleum products, basic chemicals)

⁹ This result is robust not only for oil exporters but more broadly also for all the Middle east and Central Asian countries (IMF, 2022). To facilitate the analysis, we only report results for the nine oil exporters (OEs) with available data following the classification of the IMF (MCD REO, April2022).



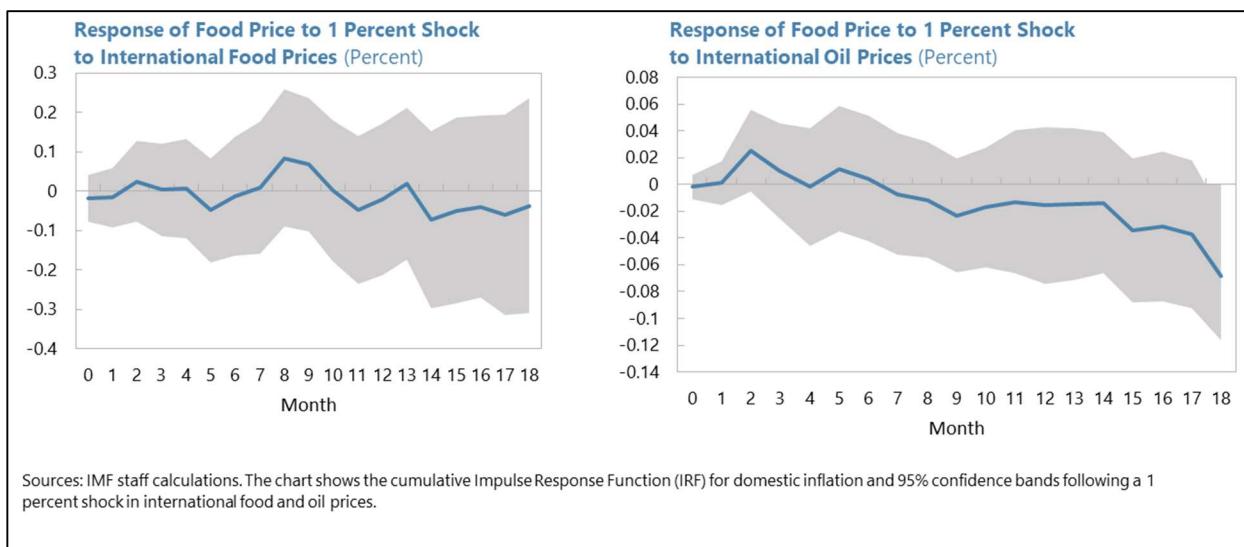
7. To assess the impact of global factors on domestic inflation, we estimate impulse response functions directly from local projections. The estimation period ranges from January 2014 to December 2021. This approach has been advocated by, among others, Jordà (2005), Stock and Watson (2007) and Auerbach and Gorodnichenko (2013) as a flexible alternative that does not impose the dynamic restrictions embedded in vector autoregressive (autoregressive distributed lag) specifications. Specifically, for each period k , the following reduced-form equation is estimated as follows:

$$\pi_{i,t+k} = \alpha_i^k + \sum_{j=1}^l \gamma_j \pi_{i,t-j} + \beta_k x_t + \sum_{j=1}^k \theta_j x_{i,t+j} + \sum_{j=1}^l \vartheta_j x_{i,t-j} + \delta z_{i,t} + \varepsilon_{i,t}$$

where π represents domestic CPI inflation of country i at time t . In our context, we restrict the estimation to Saudi Arabia. Inflation is defined as the month-over-month (log) change in the price index; $x(t)$ is the change in the global factor in month t . Four global factors are considered: oil prices, international food prices, NEER and global supply chain constraints. Each of these factors is shocked in isolation but controlling for the effect of the others. $\beta(k)$ measures the impact of changes in the (shocked) global factor on domestic inflation for each future period k . $\gamma(j,k)$ captures the persistence of domestic CPI inflation. The term $z(i,t)$ contains a list of control variables including month-fixed effects (to account for seasonality in the dependent variable) and global factors not included in $x(t)$. The specification also includes the forward leads of the of global factors between time 0 (the date of the shock) and the end of the forecast horizon (k) to correct the bias in the impulse response

inherent in local projection methods (Teulings and Zubanov, 2014). The number of lags (l) included in the model is 1, but the results are robust to different lag length.¹⁰

8. Low pass-through of international food and oil prices to domestic prices seem to have limited the negative impact on inflation. The estimated pass-through results show that a rise in food or oil prices is not translated, on average, into an increase in domestic inflation. This could be explained either by the food weight in CPI baskets and the food import share (which are relatively small), as well as price controls on some food products (e.g., wheat, bread, water) and regulated fuel prices not increasing in line with international oil prices.¹¹ For the Covid period, some private sector operators reducing the mark up to accommodate reduced purchasing power also helped reduce the effect of the pass-through.¹²



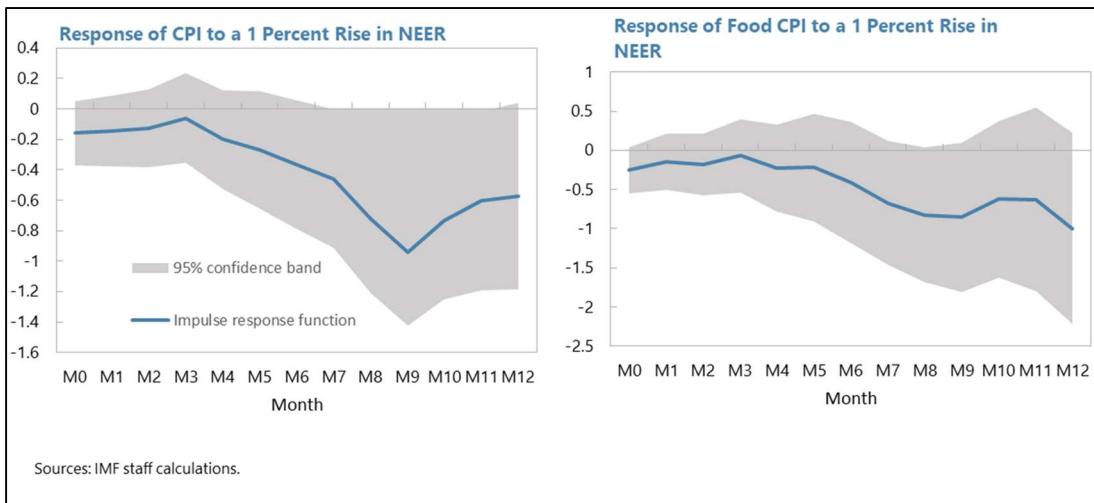
9. The recent appreciation of the nominal effective exchange rate (NEER) also appears to shield Saudi Arabia against inflationary pressures. Following the same local projection methodology as above, our results indicate a significant pass-through of a 1 percent increase in

¹⁰ Global factors are measured as follows: the oil price is the (log difference of the) Brent spot market price in USD (month average); international food prices are measured as the (log difference of the) IMF Primary Commodities Food Price Index (2016 = 100). The index includes Cereal, Vegetable Oils, Meat, Seafood, Sugar, and Other Food (Apple (non-citrus fruit), Bananas, Chana (legumes), Fishmeal, Groundnuts, Milk (dairy), Tomato (vegetables)) Price Indices. We measure global supply chains disruptions with (changes in) the Global Supply Chain Pressure Index (GSCPI) proposed by G. Benigno, J. di Giovanni, J. Groen, and A. Noble (2022). The index is constructed by extracting co-movements in a set of indicators covering cross-border transportation costs (the Baltic Dry Index (BDI), the Harpex index, the U.S. Bureau of Labor Statistics (BLS) measures of air transportation of freight to and from the U.S.) and country level data from the Institute of Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) surveys.

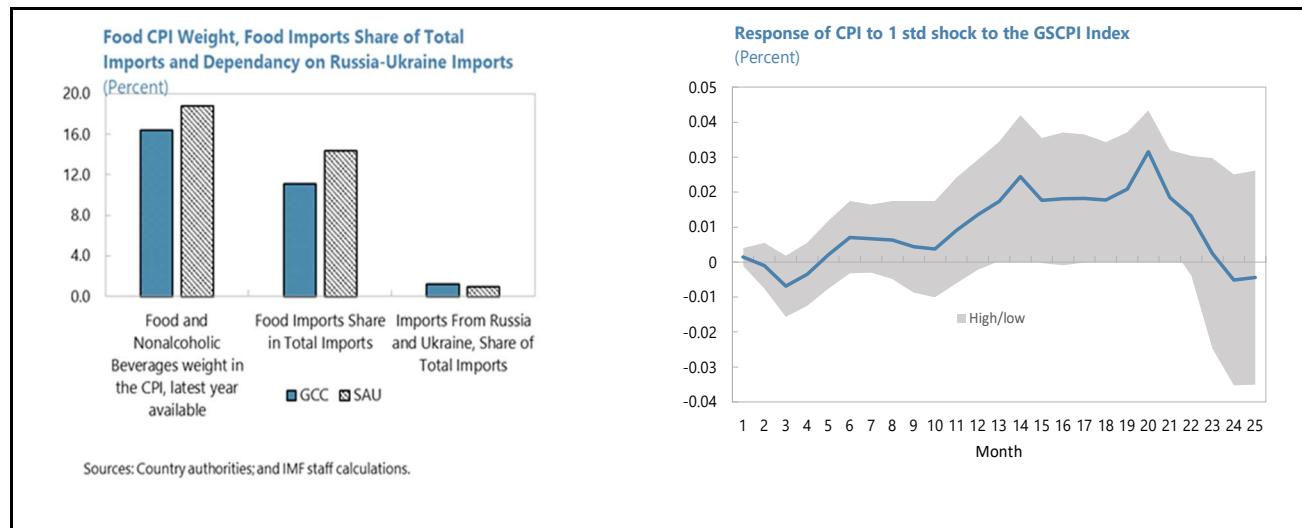
¹¹ In the recent REO (MCD, April 2022), the pass-through of oil prices was significant only for a subset of countries. Pass-through estimates suggest that the extent of the transmission is associated with the food weight in CPI baskets and the food import share.

¹² Please see (Alkhareif et al., 2016) for a similar analysis on the effect of NEER on CPI. Our results are broadly in line with those found by the authors.

NEER to a 0.6 percent decline in inflation after about nine months. The passthrough on food CPI is only statistically significant at 10 percent level. The recent appreciation of the US dollar is expected to help contain inflation.



10. However, supply chain disruptions are likely to affect Saudi Arabia's inflation in the medium term. We use the Global Supply Chain Pressure Index (GSCPI)¹³ to track the extent of disruptions on supply chains. The results indicate that there is a significant albeit small passthrough impact of supply-chain constraints on inflation 12 months after the shock. Specifically, following a 1 standard deviation increase in the GSCPI, domestic inflation is estimated to rise by about 0.02 percentage points. Because of the persistent supply chain constraints, supply-related price pressures will likely extend until the end of 2022 and beyond.



¹³ The GSCPI synthesizes signals relating to supply-side constraints from country-level manufacturing indicators (including PMIs, and Institute for Supply Management data, which are corrected for demand factors) and transportation costs (such as the Baltic Dry and the Harper Petersen indexes). The GSPI represents a more adequate measure of supply-side constraints for ME&CA than indexes solely based on shipping costs (such as the Baltic Dry Index), due to the relatively large number of landlocked countries in the region.

Annex III. Risk Assessment Matrix¹

Nature/source of main risks	Likelihood	Expected impact on the economy if risk is realized	Policy Response
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, the war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	High	High	
		<p>On the upside: Current upwards trend is positive for Saudi Arabia. Food prices in Saudi Arabia have been so far little affected by the war in Ukraine, in particular as the authorities had put in place advance stocks of wheat and also, as a number of key food items have their prices regulated.</p> <p>On the downside: given high volatility, oil prices could fall if supply improves more rapidly than expected and demand moderates in partner countries (e.g. in Asia). A substantial decline in oil prices would lead to a widening of the fiscal deficit and reduced external buffers. If persistent, this would require additional fiscal adjustment with negative consequences for growth, employment, credit, and banking system liquidity and asset quality.</p>	Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Existing buffers together with external borrowing could be used to smooth the fiscal adjustment in the short term in the event of a large shock. There should also be close monitoring of disruptions to banking system liquidity and signs of banking stress. Structural reforms should be accelerated to reduce the impact of oil price fluctuations on the economy over the longer term.
Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	Medium	High	
		<p>On the downside: Though currently moderating renewed bouts in the pandemic would likely affect Saudi Arabia through the global oil market (e.g. with lower demand from the main oil importers) and through the effects on domestic economic/health outcomes. Lower oil demand would negatively affect fiscal and external balances and hurt confidence in the private sector. A resumption of lockdowns, for example in Asia, would delay the recovery as consumption and investment were held back and would likely see a decline in expatriate employment. Faster containment would enable a resumption of Hajj and Umra as currently envisaged—a positive growth development.</p>	In the event of a more prolonged pandemic/lockdown, the government should provide further short-term support to the health sector and economy, including by reallocating spending if revenues decline, while maintaining medium-term fiscal consolidation plans. It should build up on the lessons learned from the previous bouts in Covid and continue its digitalization efforts. In the event of a faster exit from COVID and higher oil prices/stronger economic recovery, additional oil revenues should be saved and recently implemented reforms sustained not reversed. Financial sector support could also be withdrawn more quickly.
The war in Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	High	Low	
		<p>On the upside: Direct spillover channels (trade, food prices, investments, financial sector) are limited for Saudi Arabia, and Saudi Arabia is mostly commodity exporting. Although not threatened at the moment (in particular due to the constitution of advance stocks), food security has always been the focus of the Saudi authorities.</p> <p>On the downside: Waves of third-party trade restrictions (e.g., export bans) and further disruptions of supply chains globally could affect Saudi Arabia primarily through higher import prices.</p>	The needed policy response would depend on the nature of the shock. Fiscal policy could respond, and the authorities would need to ensure adequate liquidity in the banking system.

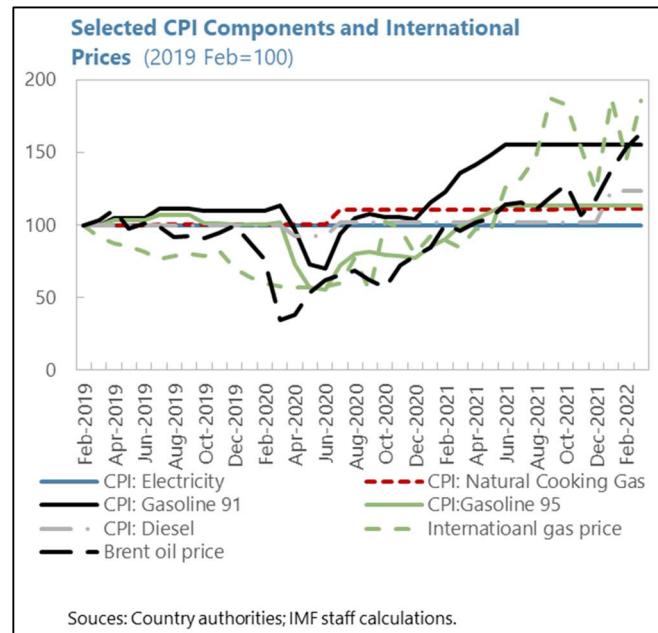
¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent,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

Abrupt growth slowdown in China. A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	Medium	High	
		On the downside: Main channel would be through lower commodity prices and demand for Saudi Arabia fuel, particularly as China is now Saudi Arabia's largest buyer of oil (with 26 percent of its oil exports), China is also a significant non-oil exporter to Saudi Arabia, while Chinese and Saudi companies have developed direct foreign investments, including a large oil refinery facility in China, and a number of joint projects.	Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Existing buffers together with external borrowing could be used to smooth the fiscal adjustment in the short term in the event of a large shock, such as an abrupt growth slowdown that would significantly affect China's demand for Saudi oil exports. There should also be close monitoring of disruptions to banking system liquidity and signs of banking stress. Structural reforms should be accelerated to reduce the impact of oil price fluctuations on the economy over the longer term.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	Medium	Low	
		On the downside: In the context of a peg where monetary policy would have to follow US monetary policy conditions, tighter financial market conditions could cause higher debt service and bank funding costs may also increase, though the direct impact of US monetary policy would be limited on the economy and even positive on banks. Weaker than expected global growth would lead to a decline in oil prices and ultimately a deterioration in external and fiscal balances with adverse effects for growth, employment, and the financial sector (see above).	Continued strong fundamentals would likely prevent excessive volatility in Saudi Arabian financial markets. Large financial cushions are in place to mitigate the impact and external debt is relatively low.
The reforms implemented in recent years may support a stronger recovery. Slippages in the reform agenda, perhaps due to domestic risks or the impact of international shocks such as on prices, would reduce prospects for stronger growth and employment over the medium-term.	High	Low	
		On the upside: There is little experience of how comprehensive reforms as being carried out in Saudi Arabia will affect non-oil growth and diversification in a country heavily reliant on oil exports. It is possible that staff projections underestimate the impact and that risks in this area are tilted to the upside. On the downside: The failure to continue to deliver on the planned fiscal consolidation and ambitious structural reforms would adversely affect growth and employment. The failure to turn reforms into jobs for Saudis in the private sector will lead to pressures to increase public employment with negative implications for fiscal sustainability. Similarly, inflationary pressures should they materialize might lead to a slowing of reforms (e.g., on energy prices and subsidies, VAT).	Continue with structural reforms to boost non-oil growth and labor market reforms to increase the competitiveness of Saudi nationals in the private sector. Implement fiscal adjustment that balances the need to support recovery with the need to rebuild fiscal buffers.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities.	Medium	Medium	
		On the downside: Given the geopolitical tensions in the region, the prominent role of Saudi Arabia, and the rapid digitalization of its economy and society, Saudi Arabia is prone to a high density of cyberattacks. In 2012, 2015, 2017, 2019 and 2020 experienced serious attacks on its critical infrastructure, including targeting Aramco and its oil production facilities.	Saudi Arabia has expanded its capacity to react to cyberthreats notably through the creation of the National Cybersecurity Agency in 2017 that has developed a national cybersecurity strategy with 6 objectives to reach by 2030. It has also developed local capacity skills. Close monitoring and supervision including of the banking and payment system should continue.

Annex IV. Energy Subsidies in Saudi Arabia¹

1. International prices for oil and gas have been increasing again, raising the question of subsidization in an energy intensive hydrocarbon producing country like Saudi Arabia. As part of Vision 2030, Saudi Arabia was already planning to address the issue in the context of the rapid transformation of Saudi Arabia's energy intensive economy. Low prices for energy have been one of the main comparative advantages behind Saudi Arabia's economic diversification strategy and an important benefit for citizens. With the recent increase in oil prices, while benefiting from increased oil revenues, and as in other countries, Saudi Arabia is seeking to smooth the impact on

Saudi Arabia's private sector and households, notably through price caps and subsidies, while keeping its reform path of reaching market energy prices by 2030.



Sources: Country authorities; IMF staff calculations.

2. A bold Energy Price Reform (EPR) took place in two stages called EPR 1 (2016) and EPR 2 (2018). Part of the general reform drive of Vision 2030, but also in the context of the drop in international oil prices of 2016, the reforms consisted of substantial step increases in the price of gasoline (and smaller increases for diesel), accompanied by a broad commitment to gradually increase domestic prices and reach market/export prices. In parallel, a sustained effort has continued since 2018 to continue to align more closely prices for premium and regular gasoline by reducing the gap (text table 1). Electricity prices for residential users below 6000 kWh/month were also increased by 260 percent in 2018. Current EPR 1 and 2 yields are estimated by the authorities at 23 and 25 billion SAR respectively, or a total of 1 ½ percent of GDP in 2021. This is however a cumulative impact and does not allow to disentangle the sole effect of new measures, and counterfactual gains from increases or decreases of international energy prices. As part of Vision 2030, the objective set by the authorities is to achieve gradually by 2030, in an annual or semiannual manner, market prices for all energy products.² This would be accompanied by more targeted social benefits as the authorities have been modernizing, revamping and digitalizing their social safety net.

¹ Prepared by Jerome Vacher.

² The Saudi authorities estimate that they have reduced energy subsidies by close to 60 percent since 2012.

Table 1. EPR 1 and EPR 2 Price Increases for Gasoline

	2015 price (USD)	2016-17 price (USD)	EPR 1 increase (percent)	2018 price (USD)	EPR 2 increase (percent)	Latest since 2018	Increase
Gasoline premium (95)	0.16	0.24	50	0.54	127	0.62	15
Gasoline regular (91)	0.12	0.20	67	0.37	83	0.58	46

Source: ARAMCO, and IMF staff estimates.

3. Subsidies for domestic energy consumption are not recorded in the central government budget, making them more difficult to track and complicating the assessment of the true fiscal stance. Subsidies for domestic energy consumption do not appear as an expenditure in the central government budget. De facto, they are mostly provided through the associated energy SOEs (for oil products, electricity and gas), and constitute foregone revenues for the central government. Subsidies that are recorded as such in the central government budget (30 bn in 2021 or less than 1 percent of GDP) include a number of items mostly for food and agriculture (e.g., wheat), and the compensation of losses through “balancing accounts” for some SOEs (0.4 percent of GDP). The latter are to bridge the gap between regulated and actual revenue and cover the losses of Saudi Electric Company (when selling electricity to final consumers at below cost) and Saudi Railway company (the airline Saudia is also in, but this line covers directly payment for services rendered to the government)³. This however represents only a small part of energy subsidies, when overall most of the energy subsidies are implicit (see below) and not reported as a central government expenditure.

4. Saudi Aramco’s IPO in 2020 and the disclosure of its government compensation mechanism have brought forward more transparency on the “subsidy” amount. The prospectus as well as the subsequent audited financial statements have successfully made public the overall data on the subsidy mechanism operating through Aramco, the main energy producer. According to Aramco, “the Concession requires Saudi Aramco to meet domestic demand for certain hydrocarbons, petroleum products and LPGs through domestic production or imports. In addition, pursuant to the Kingdom’s regulatory regime, Saudi Aramco is required to sell crude oil and certain refined products to third parties in the Kingdom at the Government’s regulated prices. The regulated prices for these products have historically generated less revenue for Saudi Aramco than if the same products had been sold for export. Pursuant to an equalization mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of selling

³ Saudi Electricity Company is the Kingdom’s national electricity utility company and is listed on Tadawul. Saudi Aramco owns 6.9 percent of its outstanding common stock and the PIF owns 75.1 percent. The balancing account (which started operating in 2019) for the Saudi Electric Company alone represented 6.1 bn SAR in 2020, or 0.2 percent of GDP.

these products in the Kingdom at regulated prices. Under this mechanism, Saudi Aramco receives compensation for the difference between regulated prices and equalization prices in respect of such sales.” Effective 1 January 2020, the Government also expanded the equalization mechanism to include LPGs and certain other products.

5. The significant compensation of Aramco for lower domestic energy prices takes place in several stages, recorded in Aramco’s accounts but not in the central government budget:

- The equalization price is set jointly by the Ministry of Energy (in consultation with Aramco and the Ministry of finance): “Prices are established separately by the Ministry of Energy for each relevant product using a combination of either internationally recognized indices or, where relevant, Aramco’s official selling price and, depending on the relevant product, on the basis of export parity, import parity or a combination of both”. The formulas are not public.
- The difference between the equalization price and prices for exports appears as “other income related to sales” in Aramco’s statements, which amounts are substantial, about 5 percent of GDP in 2021 (Text table 2); this amount is theoretically subject to taxation.
- Aramco has the possibility to use those proceeds to pay for what it owes the Saudi government in taxes on its activity.⁴ Once deducted of taxes owed, the amounts left at the end of the year are recorded as a receivable for Aramco in its assets as “due from government.”

Table 2. Compensation of Aramco by the Government	2018	2019	2020	2021
Other income related to sales (compensation)	5.2	4.3	3.6	5.0
Payments to the government				
Income taxes	6.1	5.0	2.8	4.5
Royalties	7.2	5.7	3.1	4.4
Dividends	7.4	9.1	9.8	8.2
Due from the government (end of year receivable)				
From other income related to sales	1.2	1.0	0.9	1.4
From government guarantee	0.4	0.2	0.1	-0.1
Other	0.0	0.0	0.0	0.0

Source: ARAMCO financial statements, and IMF staff estimates.

6. Several other supporting mechanisms are in place that allow for a compensation of lower domestic energy prices:

- Government guarantee mechanism.** Saudi Aramco sells hydrocarbon products to various Government and semi-Government entities, including ministries and other branches of the Government, and separate legal entities in which the Government has share ownership or control. The Government guarantees amounts due to Saudi Aramco from these entities, subject to a limit

⁴ The oil revenue of the government comes from the payment of royalties, dividends and corporate income taxes, and has reached 181.6 bn SAR (48.4 bn USD) in Q1 2022 according to Aramco’s financial statements (up 57 percent compared to Q1 2021).

on the amount of the guarantee for each entity (e.g., in 2019, it represented about 0.9 percent of GDP).

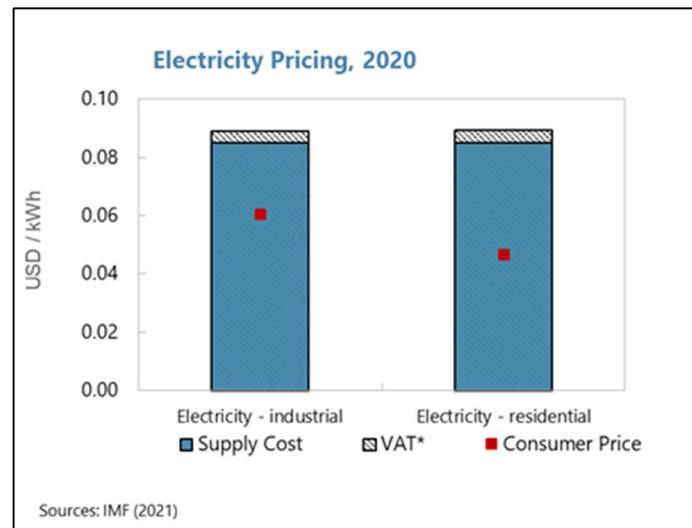
- **Sales to the Saudi Electric company.** Saudi Aramco has entered into several oil and gas supply agreements with Saudi Electricity Company pursuant to which Saudi Aramco supplies crude oil, gas and other products, including condensate, fuel oil and diesel, to certain of Saudi Electricity Company's power plants. These represented about 0.3 percent of GDP in 2019. In parallel to the implementation of the balancing account for the difference in electricity prices, the authorities also modified the structure of the balance sheet of the Saudi Electric Company in 2020 through a debt-to-equity conversion for the equivalent of 6 percent of GDP and covering for past obligations of the Saudi Electricity Company with both Aramco and the government (text Table 3).

	in bn SAR	in percent of GDP (2020)
Liabilities of Saudi Electricity Company		
Loans from the government	50.6	1.9
Deferred government grant	41.7	1.6
Government payables (transferred from Aramco)	110.3	4.2
Other payables	2.3	0.1
Dividend payable to Aramco	3.4	0.1
Assets of Saudi Electric Company		
Retained earnings	-8.0	-0.3
Receivables from consumption of electricity - government	-32.4	-1.2
Conversion into Mudaraba (quasi equity instrument)	167.9	6.4

Source: Saudi Electric Company, IMF staff estimates

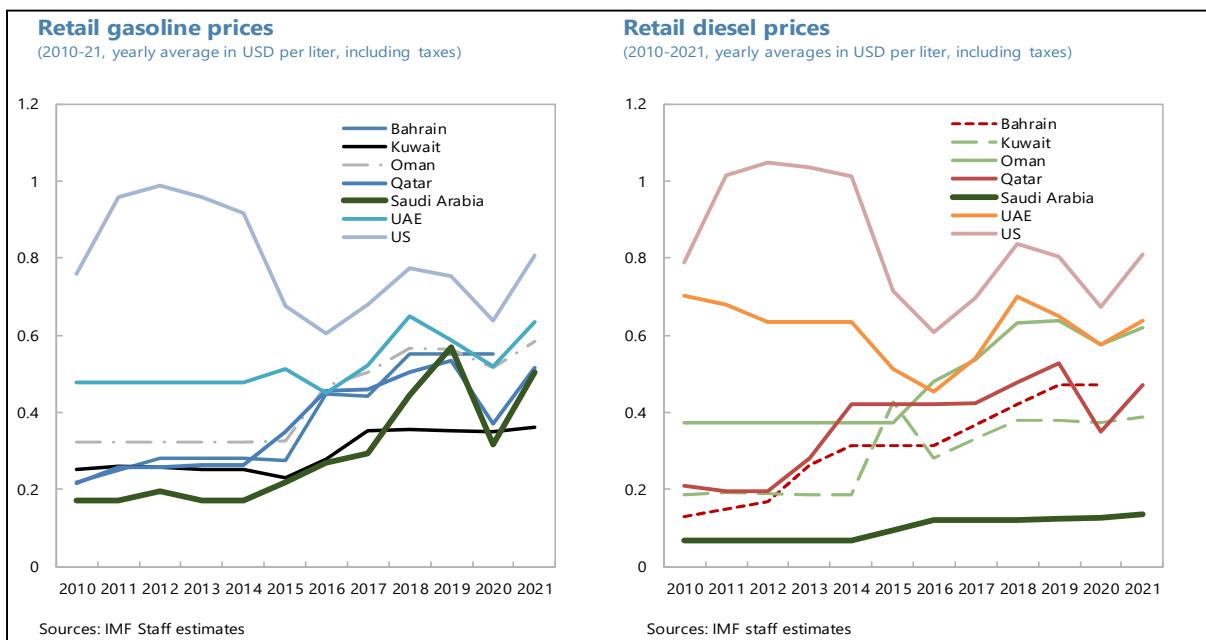
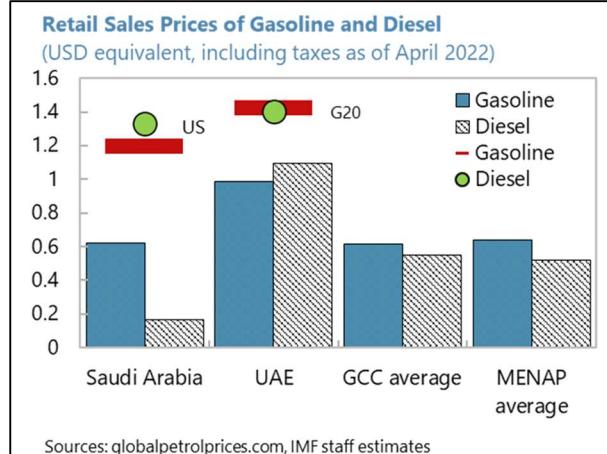
- Finally, going forward, with the purchase and integration of the chemical company Sabic in the perimeter of Aramco, compensated prices for Sabic may not appear as transactions with third parties but as intra-group and not compensated.

7. Although domestic prices have converged closer to international reference prices with the two EPRs in 2020, significant differences remain for petroleum products, electricity and to a lesser extent natural gas. Both industrial and residential electricity prices remain below supply costs (by an estimated 37 percent for residential and 25 percent for industrial in 2020)⁵. This is also true of natural gas (for industrial and power), gasoline, diesel, kerosene and LPG. All before the recent increase in international prices led to a widening of the differential between domestic and international prices or supply costs.



⁵ For a non-tradable product (e.g., coal), the supply cost is the domestic production cost, inclusive of any costs to deliver the energy to the consumer, such as distribution costs and margins. In contrast, for an internationally tradable product (e.g., oil), the supply cost is the opportunity cost of consuming the product domestically rather than selling it abroad plus any costs to deliver the energy to the consumer.

8. With gasoline prices capped since July 2021, energy subsidies are increasing again in line with the surge in international prices. The compensation due to Aramco to offset the difference between local retail fuel prices and the international reference price is likely to rise today as gasoline prices have been capped in July 2021 at \$0.62 a liter.⁶ This is about 50-75 percent of international gasoline prices, half the retail price in the US.⁷ For gasoline, retail prices are comparable to other countries in the region, with the exception of the UAE which has liberalized prices at the pump and also has no sales taxes on gasoline (gasoline is currently at an average of 0.99\$/liter in the UAE vs. 0.62\$/liter in Saudi Arabia). Though mostly used for commercial vehicles and less relevant in the market, diesel's retail prices in Saudi Arabia have been consistently lower than the average of countries in the region, resulting in a very costly subsidy, despite a 21 percent step increase in January 2022.

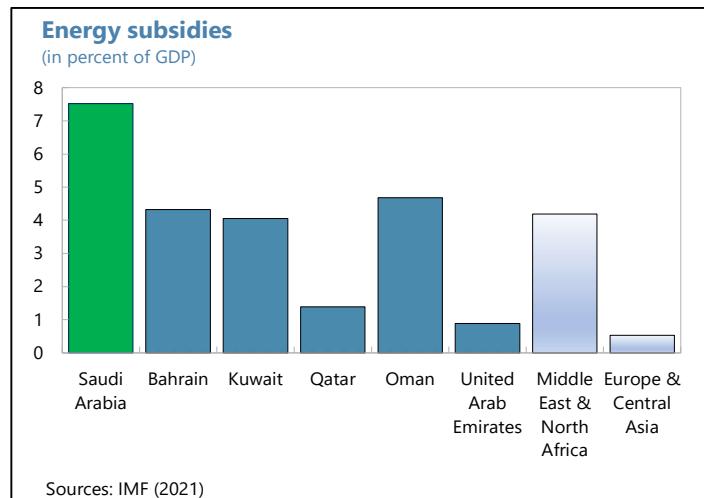


⁶ Aramco's other income related to sales has reached 49.9 bn SAR (13.3 bn USD) in Q1 2022, an increase of 78 percent compared to Q1 2021.

⁷ Retail prices include taxes (excise and others) and also reflect individual countries' policies on the taxation of gasoline consumption with significant variations across countries as a result (e.g., in the US federal taxation only is 18 percent).

9. IMF estimates taking into account both explicit and implicit subsidies suggest a high level of effective subsidization, mostly on oil products.⁸ For Saudi Arabia, recorded subsidies are higher than in the GCC and MENA region and mostly for oil related products, while relatively lower for electricity and coal. The latest cross-country estimate available is for 2020 a year of low demand and oil prices in the wake of the Covid 19 shock, suggesting this level of subsidization could be higher

in a period of higher domestic consumption and international oil prices. The level of estimated subsidies –at around 7 percent of GDP for all fuels, natural gas and electricity- is high compared to the region (both GCC and the wider Middle East and North Africa). In percent of GDP, the highest levels of recorded subsidies are for diesel, followed by electricity and gasoline.



10. Going forward, the authorities' energy price reforms should be continued. The Government further increased prices of diesel and asphalt at the end of 2021 and is considering increases for four products in 2022. The main indication from the authorities is that there is a list of energy products that are planned for a gradual price increase each year to reach global reference prices by 2030. Among liquid fuel products, this list includes the following:

- Arabian Light Crude Oil
- Arabian Heavy Crude Oil
- Natural Gas
- Ethane
- Diesel
- Fuel Oil (360)
- Asphalt
- Liquefied Petroleum Gas
- Kerosene

Expected cumulative gains from EPR in 2025 would represent 3 ½ percent of GDP. This gradual path will be accompanied by more targeted social spending for households most affected by domestic energy prices.

11. Staff supports energy price reforms initiated by the authorities, which should resume their pace towards returning energy prices to international levels. This would help reduce leakages to the well-off and support the authorities' climate change objectives as laid out in the Saudi green initiative. Of course, this should go hand in hand with providing additional spending for

⁸ [Fossil Fuel Subsidies \(imf.org\)](#) and Parry, Black and Vernon (2021) [Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies \(imf.org\)](#)

the social safety net to help offset the impact on the vulnerable, but this is largely feasible now that Saudi Arabia has developed its social safety nets, has more granular information and ways to reach the relevant households, including through digitalization. The reform should also be fully implemented for other fuel products as well as water and electricity, while full disclosure early on regarding the cost of subsidization in the budget process would help evaluate policy trade-offs and would be a first important step.

Annex V. Debt Sustainability Analysis

Saudi Arabia: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario										
(in percent of GDP unless otherwise indicated)										
Debt, Economic and Market Indicators ^{1/}										
	Actual	Projections					As of July 08, 2022			
	2011-2015 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027	
Nominal gross public debt	9.9	32.4	30.0	24.3	24.5	24.4	23.9	23.3	22.5	Sovereign Spreads EMBIG (bp) ^{3/} 141
Public gross financing needs	3.3	12.8	3.7	-4.3	-1.9	-3.5	-2.3	-1.2	-1.2	5Y CDS (bp) 72
Net public debt				24.2						
Real GDP growth (in percent)	3.3	-4.1	3.2	7.6	3.7	2.9	2.9	2.9	3.0	Ratings Moody's A1 A1
Inflation (GDP deflator, in percent)	1.9	-8.7	14.8	14.8	-4.4	-2.2	-1.0	-0.1	0.5	S&Ps A- A-
Nominal GDP growth (in percent)	5.4	-12.5	18.5	23.5	-0.9	0.6	1.9	2.8	3.5	Fitch A A
Effective interest rate (in percent) ^{4/}	4.4	3.6	3.2	3.5	3.3	3.4	3.4	3.4	3.4	
Contribution to Changes in Public Debt										
	Actual	Projections					cumulative debt-stabilizing primary balance ^{9/}			
	2011-2015	2020	2021	2022	2023	2024	2025	2026	2027	
Change in gross public sector debt	1.6	9.9	-2.4	-5.7	0.2	-0.2	-0.5	-0.7	-0.8	-7.7
Identified debt-creating flows	2.1	13.5	-3.8	-5.2	0.7	0.3	0.0	-0.2	-0.4	-4.6
Primary deficit	3.7	13.0	2.1	-5.8	-5.2	-4.8	-4.5	-4.2	-4.3	-28.8
Primary (noninterest) revenue and grants	31.8	26.8	30.2	31.3	31.5	31.5	31.3	31.0	30.9	187.4
Primary (noninterest) expenditure	35.5	39.9	32.4	25.5	26.3	26.6	26.8	26.6	158.6	
Automatic debt dynamics ^{5/}	-0.3	4.1	-4.2	-4.9	1.0	0.7	0.4	0.1	0.0	-2.6
Interest rate/growth differential ^{6/}	-0.3	4.1	-4.2	-4.9	1.0	0.7	0.4	0.1	0.0	-2.6
Of which: real interest rate	-0.1	3.1	-3.3	-3.0	1.9	1.4	1.1	0.8	0.7	2.9
Of which: real GDP growth	-0.2	1.1	-0.9	-1.8	-0.9	-0.7	-0.7	-0.7	-0.7	-5.5
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	
Other identified debt-creating flows	-1.3	-3.6	-1.7	5.5	4.9	4.5	4.1	3.9	3.9	26.8
Accumulation of deposits (negative)	-1.7	-3.5	-1.6	5.5	4.9	4.5	4.1	3.9	3.9	26.8
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and equity	0.5	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes ^{8/}	-0.5	-3.6	1.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-3.0

Debt-Creating Flows (in percent of GDP)

Legend: Primary deficit (yellow), Exchange rate depreciation (purple), Real GDP growth (red), Other debt-creating flows (teal), Residual (grey), Real interest rate (green).

cumulative

Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

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

Saudi Arabia: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

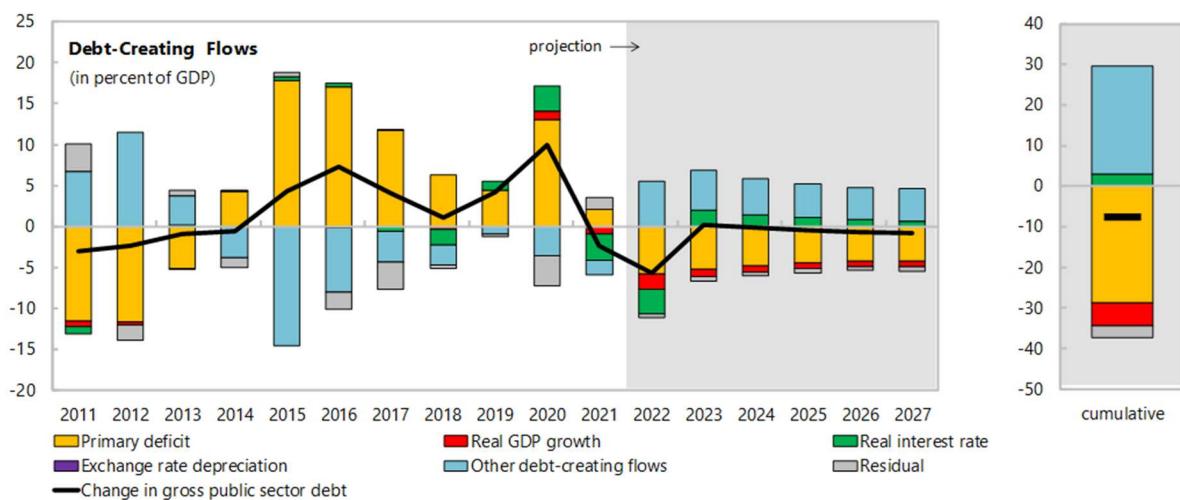
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators^{1/}

	Actual			Projections						As of July 08, 2022		
	2011-2019 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads	EMBIG (bp) ^{3/}	141
Nominal gross public debt	9.9	32.4	30.0	24.3	24.5	24.4	23.9	23.3	22.5			
Public gross financing needs	3.3	12.8	3.7	-4.3	-1.9	-3.5	-2.3	-1.2	-1.2	5Y CDS (bp)		72
Net public debt				24.2								
Real GDP growth (in percent)	3.3	-4.1	3.2	7.6	3.7	2.9	2.9	2.9	3.0	Ratings	Moody's	A1
Inflation (GDP deflator, in percent)	1.9	-8.7	14.8	14.8	-4.4	-2.2	-1.0	-0.1	0.5	Foreign	A1	A1
Nominal GDP growth (in percent)	5.4	-12.5	18.5	23.5	-0.9	0.6	1.9	2.8	3.5	S&Ps	A-	A-
Effective interest rate (in percent) ^{4/}	4.4	3.6	3.2	3.5	3.3	3.4	3.4	3.4	3.4	Fitch	A	A

Contribution to Changes in Public Debt

	Actual			Projections						cumulative debt-stabilizing primary balance ^{9/}
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	
Change in gross public sector debt	1.6	9.9	-2.4	-5.7	0.2	-0.2	-0.5	-0.7	-0.8	-7.7
Identified debt-creating flows	2.1	13.5	-3.8	-5.2	0.7	0.3	0.0	-0.2	-0.4	-4.6
Primary deficit	3.7	13.0	2.1	-5.8	-5.2	-4.8	-4.5	-4.2	-4.3	-28.8
Primary (noninterest) revenue and grants	31.8	26.8	30.2	31.3	31.5	31.5	31.3	31.0	30.9	187.4
Primary (noninterest) expenditure	35.5	39.9	32.4	25.5	26.3	26.6	26.8	26.8	26.6	158.6
Automatic debt dynamics ^{5/}	-0.3	4.1	-4.2	-4.9	1.0	0.7	0.4	0.1	0.0	-2.6
Interest rate/growth differential ^{6/}	-0.3	4.1	-4.2	-4.9	1.0	0.7	0.4	0.1	0.0	-2.6
Of which: real interest rate	-0.1	3.1	-3.3	-3.0	1.9	1.4	1.1	0.8	0.7	2.9
Of which: real GDP growth	-0.2	1.1	-0.9	-1.8	-0.9	-0.7	-0.7	-0.7	-0.7	-5.5
Exchange rate depreciation ^{7/}	0.0	0.0	0.0
Other identified debt-creating flows	-1.3	-3.6	-1.7	5.5	4.9	4.5	4.1	3.9	3.9	26.8
Accumulation of deposits (negative)	-1.7	-3.5	-1.6	5.5	4.9	4.5	4.1	3.9	3.9	26.8
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and equity	0.5	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes ^{8/}	-0.5	-3.6	1.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-3.0



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

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

Annex VI. External Sector Assessment¹

Overall Assessment:						
<p><i>The external position in 2021 was broadly in line with medium-term fundamentals and desirable policies. The external balance sheet remains strong. Reserves remain adequate considering standard IMF metrics. Under the current fiscal balance path, the central government's non-oil primary balance would be on an improving trend while the net financial asset position would turn positive in 2024, earlier than expected. The pegged exchange rate continues to provide Saudi Arabia with a credible policy anchor. Given the close link between the fiscal and external balance and the structure of the economy, external adjustment will be driven primarily by fiscal policy.</i></p>						
<p>Potential Policy Responses: Continued fiscal consolidation will help align the CA with its norm, including by delinking spending decisions from international oil price fluctuations. This should be supported by continued implementation of important structural fiscal reforms that have been initiated over the past few years, including the VAT rate increase, broad-based improvement of public financial management, and energy price reform. The authorities have announced their intention to continue with most of those policies while pursuing ambitious structural reforms to help diversify the economy and boost the non-oil tradable sector, which will be necessary to keep the external position in balance.</p>						
Foreign Asset and Liability Position and Trajectory	<p>Background. Net external assets are estimated at 73.5 percent of GDP at the end of 2021, down from 85.2 percent of GDP in 2020 and down from 105.4 percent in 2015. Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves, and FDI respectively account for 51 percent, 37 percent, and 12 percent of total external assets.</p> <p>Assessment. The external balance sheet remains very strong. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and savings of exhaustible resource revenues for future generations.</p>					
2021 (% GDP)	NIIP: 73.5	Gross Assets: 150.3	Res. Assets: 54.6	Gross Liab.: 76.8	Debt Liab.: 34.4	
Current Account	<p>Background. The CA balance registered a surplus of 5.3 percent of GDP in 2021, compared to a deficit of 3.2 percent in 2020 (which itself followed a surplus of 4.8 percent of GDP in 2019). The trade balance is estimated to have improved by 9.6 percent of GDP as the price and volume of oil exports increased. For the projections, oil production is assumed to follow the OPEC+ Agreement. Oil prices are assumed to be US\$105.9 a barrel in 2022. The terms of trade are estimated to have improved by 48.4 percent. The CA is expected to register a large surplus in 2022 (17.2 percent of GDP) as oil revenues further increase in part due to higher oil price projections linked to the war in Ukraine (the terms of trade are projected to improve by 37 percent).</p> <p>Assessment. Saudi Arabia's reliance on oil further complicates the application of standard external assessment methodologies, given the wide swings of oil prices in 2020 and 2021. The EBA-Lite methodology estimates a CA gap of -1.0 percent of GDP using the CA regression approach. An upward adjustor is applied to the CA to account for the temporary impact of the COVID-19 crisis of 1.1 percent of GDP regarding travel services trade (0.87 percent of GDP), transportation (0.05 percent of GDP), and a shift of consumption towards tradable goods (0.19 percent of GDP). The Consumption Allocation Rules suggest a CA gap of 4.3 percent of GDP for constant real annuity rules and 0.1 percent of GDP for constant real per capita annuity allocation rules. The Investment Needs Model suggests a CA gap of 5.2 percent of GDP. IMF staff assess a CA gap of -1.0 percent of GDP, with a range from -2.8 to 0.8 percent of GDP in 2021.¹</p>					
2021 (% GDP)	CA: 5.3.	Cycl. Adj. CA: 5.4	EBA Norm: –	EBA Gap: –	COVID-19 Adj.: 1.1	Other Adj.: – Staff Gap: -1.0
Real Exchange Rate	<p>Background. The riyal has been pegged to the US dollar at a rate of 3.75 since 1986. The REER depreciated by 1.9 percent in 2021 and was 4 percent above its 10-year average. The REER depreciation was driven by the decline of the US dollar versus trading partner currencies, with the inflation differential remaining contained. As of May 2022, the REER was 4.1 percent above the 2021 average.</p> <p>Assessment. Exchange rate movements have a limited impact on competitiveness in the short run, as most exports are oil or oil-related products and there is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate input content. Consistent with the IMF staff CA gap and based on an elasticity of 0.2, the IMF staff assesses the REER to be overvalued by 4.1 percent, with a range of -4.9 and 13.1 percent.</p>					

¹ Prepared by Sidra Rehman

Capital and Financial Accounts: Flows and Policy Measures	<p>Background. Net financial outflows continued in 2021 as the PIF and other entities invested abroad. The equity market saw inflows as oil prices recovered and prospects regarding COVID-19 improved towards the end of 2021.</p> <p>Assessment. Analysis of the financial account is complicated by the lack of detailed information on the nature of financial flows. The strong reserves position limits risks and vulnerabilities to capital flows.</p>
FX Intervention and Reserves Level	<p>Background. Total reserves assets declined to US\$453.7 billion at the end of 2020, down from US\$499.6 billion by the end of 2019, and from US\$732.4 billion in 2014. This trend was largely driven by the 2014–2016 oil price decline and subsequent oil price shocks until the COVID-19 pandemic in 2020, as well as transfers from SAMA to the Public Investment Fund in 2020. While total reserves increased during 2021, reaching US\$455.4 billion, net foreign assets declined from US\$449.2 billion to US\$438.2 billion (52.6 percent of GDP, 22 months of imports, and 254 percent of the ARA metric), largely due to an increase in foreign liabilities. Going forward, reserves are expected to increase significantly in the wake of rising oil export revenues.²</p> <p>Assessment. Reserves play a dual role: they are savings for both precautionary motives and for future generations. Reserves are adequate for precautionary purposes (measured by the IMF's metrics). Nevertheless, fiscal prudence is needed over the medium term to strengthen the CA and increase savings for future generations.</p>
	<p>¹EBA models do not include Saudi Arabia. Staff considered three approaches in the EBA-Lite methodology, including two that incorporate the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a very high share of output and exports. Using the CA regression approach, the cyclically adjusted CA norm is estimated at 7.5 percent of GDP (slightly higher than the CA norm of 6.5 percent of GDP in 2020). The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports. Estimated CA norms from the Consumption Allocation Rules were 1.0 percent of GDP and 5.2 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The Investment Needs Model takes account of the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which was not explicitly considered by the consumption-based model and produced a CA gap of 5.2 percent over the medium-term. The reliance of the consumption and investment models on projected oil prices beyond the medium-term macro-framework subjects the results to a high degree of uncertainty. The CA gap in 2021 of -1.0 percent of GDP represents staff's overall assessment which is anchored on the CA-regression based approach. The range for the gap is calculated using the estimates from Norway, a comparable oil-rich economy in the EBA sample.</p> <p>²Total reserves include gold at national valuation.</p>

Annex VII. Progress in Implementing the Key 2017 FSSA Recommendations

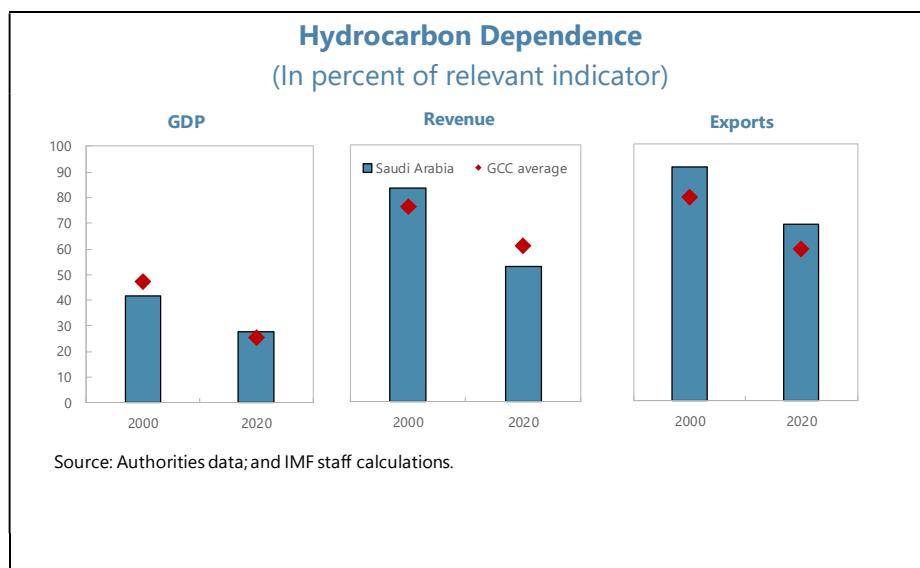
Recommendation	Progress Made
<i>Banking Oversight</i>	
Update the Banking Charter and Banking Control Law to delete contradictory and redundant provisions and revoke Article 21 on the power of the Minister of Finance, under exceptional circumstances, to exempt any bank from regulation.	The new central bank law has been issued in November 2020. Among other amendments, the new law creates a direct reporting channel to the King and also establishes its authority over all covered financial institutions. A draft of the Banking Control Law has been prepared and is being reviewed internally in preparation of its submission to the public for consultation before the submission to the legislative body.
Codify and publish all bank legislative circulars and eliminate those superseded.	SAMA officially launched its Circulars Portal in December 2020.
Strengthen the supervisory approach by refining the determination of banks' risk and control ratings, aligning the supervisory planning with banks' risk profiles, and enhancing the documentation relating to the loan examination process.	The new risk-based banking supervisory framework has been rolled out. A banks' risk rating is now based on a combination of its inherent risk rating and its control rating. The supervisory planning process for on and off-site supervision is now based on a bank's risk profile. In terms of loan examinations, documentation has been enhanced.
Develop a licensing manual for banks and publish guiding principles for bank licensing.	Revised licensing requirements and guidelines were published on SAMA's website in January 2019.
Provide guidance to banks on mapping the risk profiles of Islamic products to the Basel framework.	SAMA finalized its issuance of the Shari'ah Governance Framework in 2020 followed by the risk management framework for Shari'ah compliant banking in December 2021. Work to further strengthen liquidity and capital adequacy standards in line with IFSB is ongoing.
Adopt the draft regulation on loan classification and ensure regular, comprehensive reporting on the size of rescheduled and restructured loans.	SAMA has adopted IFRS-9 requirements which address loans classification and provisioning from an accounting perspective and banks are compliant with these requirements since 2018. SAMA has also implemented BCBS Guidelines on "Prudential treatment of problem assets – definitions of non-performing exposures and forbearance". The central bank is now in the process of issuing its own prudential requirements with regards to loans classification and provisioning which will serve as additional requirements aiming to further strengthen the existing framework.
Require banks to establish formal policies and procedures for loan rescheduling, refinancing, and restructuring and to submit prudential returns on such loans.	SAMA issued rules and guidelines on management of problem loans in January 2020 that requires banks to establish policies and procedures for rescheduling and restructuring of existing exposures.
Strengthen cross-border cooperation by entering into MoUs with foreign regulators.	SAMA has signed an MoU with the Korean Financial Services Commission and Financial Supervisory Service in the area of financial institutions supervision. Another MoU in the areas of financial services and market cooperation has been signed with the UAE. Moreover, SAMA signed an MoU with the Dubai Financial Services Authority to work in the area of financial services.

Liquidity Management	
Establish a liquidity-forecasting framework to guide money market operations.	A liquidity forecasting model has been developed and it is regularly reviewed, tested and updated by SAMA.
Financial Safety Nets	
Adopt and implement the Draft Resolution Law (DRL).	The resolution of systemically important financial institutions law was issued in December 2020.
Establish an Emergency Liquidity Assistance (ELA) framework.	SAMA has developed a general ELA framework. However, there is a need for coordination amongst external stakeholders to fulfill data requirements pertaining to exogenous factors that influence liquidity conditions, such as the information on government's plans on frequent basis. This would help SAMA further improve the framework.
Establish a timeframe for DPF deposit payouts and ensure a back-up funding line.	In progress. The new proposed deposit protection framework will consider the timeframe for paying out insured deposits within a period of less than 30 days. In addition, the back-up funding line will be considered within any proposed safety net mechanism.
Macroprudential Policy	
Broaden the definition of debt service to income in the regulations to include all types of debt and income.	The principles that set the debt service to income ratio were issued in May 2018 and fully implemented in August 2018.
Strengthen data collection and use for the household, corporate, and real estate sectors	Monthly data on new residential mortgages and SMEs finance are now published. Work is ongoing to further strengthen data collection.

Annex VIII. Diversification in Saudi Arabia¹

Vision 2030 espouses an ambitious plan to diversify Saudi Arabia's economy away from the hydrocarbon sector. The Kingdom has made progress towards diversifying into sophisticated manufacturing goods such as plastics, and into services such as travel and tourism. However, to achieve its goals, a well-sequenced structural reform agenda complemented with institutional reforms will need to continue being implemented under the Vision 2030.

1. Economic diversification is fundamental to economic development, particularly in GCC countries that predominantly rely on hydrocarbons. This entails a movement toward a more diverse production and trade structure, and consequently a diversified revenue base. A lack thereof is often associated with increased vulnerability to external shocks that invariably undermine prospects for longer-term economic growth. A related phenomenon is structural transformation, a reallocation of factors of production towards more productive sectors. Together, this can boost productivity, create jobs and provide a foundation for sustained and inclusive growth. The dependence on oil also presents challenges as competitive renewable energy sources and technologies emerge. Furthermore, with the specter of climate change, this has become more urgent than ever in order to help reduce carbon emissions, which is aligned with the Kingdom's goal of achieving net zero emissions by 2060.



2. Saudi Arabia launched 'Saudi Vision 2030' with the aim to diversify its economy and reduce its dependence on the hydrocarbon sector. Saudi Arabia's economic model has been driven by the hydrocarbon sector evidenced by the high contribution of the hydrocarbon sector in its GDP, trade and revenues. In fact, since the first development plan in 1970, economic diversification has always been a dominant objective of all the development plans; however, the

¹ Prepared by Sidra Rehman.

dependence on oil continued to remain critical. Vision 2030 aims to diversify the economy by boosting Saudi Arabia's manufacturing sector, with a focus on high-value industries such as defense and aerospace, automotive, food manufacturing, and into the services sector including by transforming Saudi Arabia into an ICT, and transport and logistics hub.

3. The Vision is underpinned by economic, structural and institutional reforms based on Vision Realization Programs and robust metrics to monitor progress.

It is built on three key pillars of an ambitious nation, building a thriving economy and a vibrant society of which the second pillar focuses on diversification. The vision, supported by 11 Vision

Realization Programs (VRPs), envisages,

inter alia, that by 2030, SMEs will account for 35 percent of GDP from the current 20 percent, the private sector will contribute 65 percent of the GDP from its present 40 percent. Also, the vision targets to increase foreign direct investment from 3.8 percent to the international level of 5.7 percent of GDP. An important economic goal is raising the share of non-oil exports in non-oil GDP from 16 percent to 50 percent. The structural reform agenda centers on industrial policies which aim to direct investment towards what authorities view as strategic sectors, including through the Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF), and build local supply chains guided by a local procurement policy as well as the implementation of import duties on certain products while ensuring alignment with WTO rules and regulations, that there be no hindrance to foreign competition.

4. Saudi Arabia has successfully diversified its economy in the past decade, while surpassing its GCC comparators.

The Kingdom has started diversifying away from hydrocarbons, with an acceleration witnessed since 2016, and has witnessed a reduction of the oil sector's contribution across revenue, export and output dimensions. The progress can be attributed to the multifocal reforms which underpin the Vision unveiled in 2016.

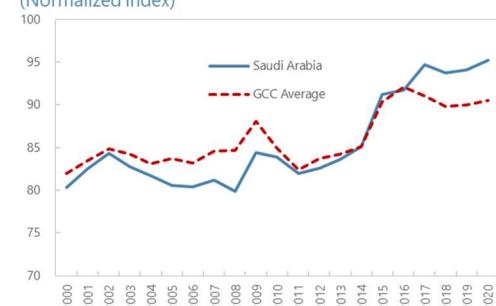
5. Saudi Arabia's has been able to diversify into some sophisticated products.

Economies tend to grow by upgrading their export baskets to focus on sophisticated industries, i.e., industries conducive to productivity gains and spillovers. On a cross-country basis,

Table 1. Saudi Vision 2030

Main Pillars	Vision Realization Programs
1. An Ambitious Nation	1. Public Investment Fund Program 2. Housing Program 3. Pilgrim Experience Program 4. Fiscal Sustainability Program 5. Human Capability Development Program 6. Quality of Life Program
2. Building a thriving economy	7. National Transformation Program 8. Privatization Program 9. Health Sector Transformation Program 10. Financial Sector Development Program
3. A Vibrant Society	11. National Industrial Development and Logistics Program

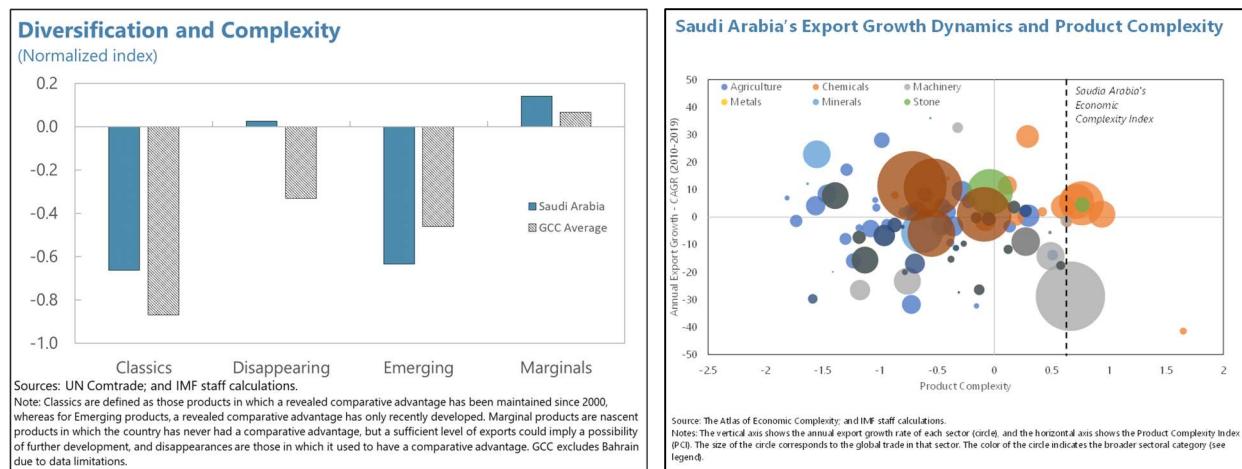
Overall Diversification
(Normalized index)



Source: Prasad A., Refass S., Saidi N., Salem F., Shepherd B., Global Economic Diversification Index 2022. Dubai: Mohammed bin Rashid School of Government.

Note: The series are based on a multidimensional index which quantifies diversification across three angles: trade; output and revenue as well as an overall weighted index. An increase in the index is interpreted as an increase in diversification for the relevant indicator.

there is a dynamic link between export product sophistication and economic growth². In the past two decades, Saudi Arabia has reinforced its position as a global player in the export of oil and chemicals, the latter being a byproduct of its oil sector. The Kingdom has also been able to diversify into some sophisticated products and has been leading its GCC comparators by developing a revealed comparative advantage (RCA)³ in complex goods.



6. Saudi Arabia's positioning in the product space signals diversification into new avenues, although with limited connectivity. The product space⁴ offers a deep dive into the evolution of Saudi Arabia's export basket and potential, and helps identify diversification paths. Research⁵ finds that countries tend to diversify by moving into nearby and related products (i.e., products that share most of the requisite capabilities) or into those that require similar knowhow to build on existing capabilities. While Saudi Arabia has diversified into chemicals, plastics, manufacturing material and food-related manufactured products, its positioning in the periphery of the product space offers limited connectivity to the core, which is densely occupied by more sophisticated products. Its navigation in the product space will require the necessary capabilities and

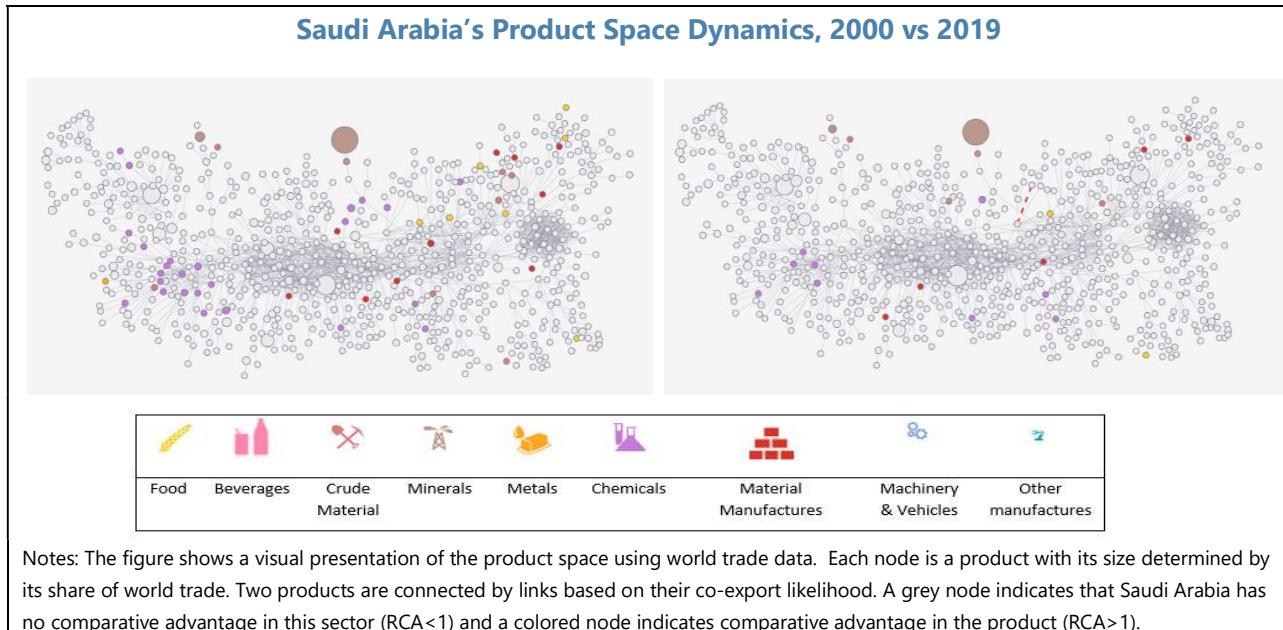
² See Cherif and Hasanov (2019) [The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy](#), Hausmann et. al. (2007), [What You Export Matters](#) and (2011) [The Atlas of Economic Complexity](#).

³ RCA for a product in a country is calculated following Balassa (1977) [Revealed Comparative Advantage Revisited: An Analysis of Relative Export Shares of the Industrial Countries](#). It is the ratio of the share of the relevant product in the total exports of a country, to the share of world exports of said product in total world exports.

⁴ Countries tend to diversify by moving into products that require similar knowhow to existing capabilities. The Product Space represents the *relatedness* of over 800 goods using real world data. Empirically, a pair of products is more similar/related (and require roughly the same knowledge) if the probability that they are co-exported by countries is higher. The product space dynamics charts show the visual representation of the product space using international trade data. Each node is a product with its size determined by its share of world trade. Two products are connected by links based on their co-export likelihood. There are multiple product "communities," collections of products which naturally group together as they tend to be connected to each other more frequently than to others outside the community. Communities that located in the most central and dense areas have high "connectedness", which means that entering these communities offers opportunities to diversify into more products and into products with higher global demand.

⁵ See Hausmann and Klinger (2006) [Structural Transformation and Patterns of Comparative Advantage in the Product Space](#) and Hidalgo et al. (2007) [The Product Space Conditions the Development of Nations](#).

enabling conditions, including local content and domestic value chains, high stock of human capital and the necessary infrastructure.



7. Further gains will hinge on continued implementation of the structural reform agenda.

Sustained growth requires continuing to address bottlenecks and frictions currently enshrined in Vision 2030, to help jump into related industries. The Vision aims to boost manufacturing value added GDP and in order to guide policies on domestic value chains, including capturing more value domestically and increasing downstream activities, a petrochemical value chain integration committee has been established. Furthermore, utilizing its strong asset base and strategic economic partnerships, PIF is committed to unlocking new sectors in the Kingdom, and by utilizing its position as a leading global asset manager, PIF aspires to localize cutting-edge technology and knowledge through its diverse international strategic investments.

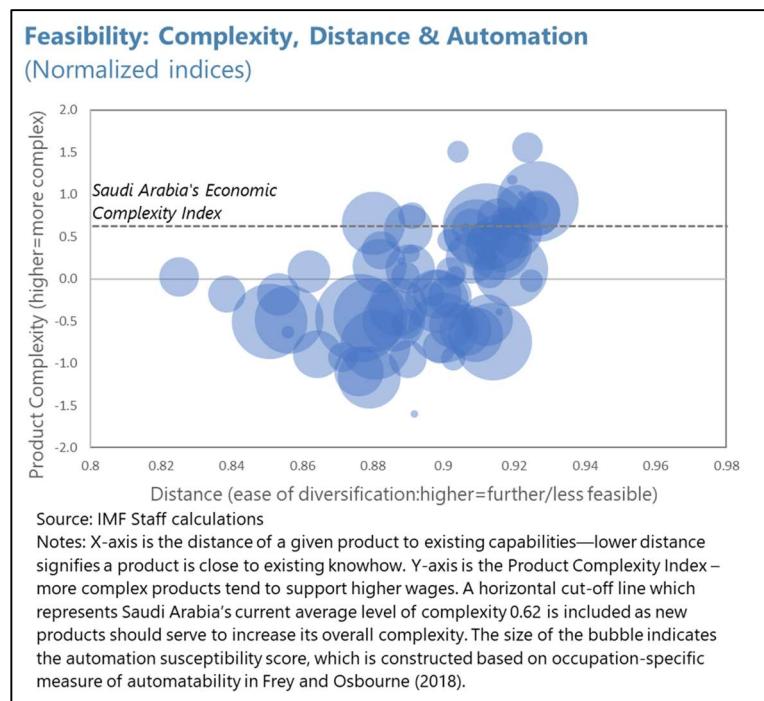
8. As Saudi Arabia charts its diversification, it should consider branching out into more complex products.

The complexity and distance measures can be used to map Saudi Arabia's efficiency frontier as shown by the feasibility chart below. The chart plots each product where its position (dots) is defined by its complexity (vertical axis) and its distance from the current productive knowledge of Saudi Arabia (horizontal axis). According to the product space diagnostic tool⁶, the strategy should be aimed at balancing the desire to increase the diversification and complexity of production, while not over-stretching existing capabilities. The low-hanging fruit lies in the top left corner of this figure – high complexity, while also close to Saudi Arabia's current knowhow. The sectors that show high potential for expansion are products related to sectors for value-added agricultural manufacturing, machinery, and pharmaceuticals.

⁶ See Hausmann et al. (2011) [The Atlas of Economic Complexity](#).

9. Automation is advancing at an increasing pace whereby manufacturing jobs can be replaced by mechanization and robotization, thus hindering job creation. Tapping into the demographic dividend will crucially depend on creating jobs for the large number of young Saudis entering the labor market. An important dimension that should be taken into consideration is the sector's prospect in job creation, particularly in this current period of disruptive technological change – automation and digitalization. Many of the frontier sectors may be vulnerable to automation and the job creation traditionally linked to diversifying into the manufacturing sector may not

materialize (text chart). However, while this could have negative implications for the employment of expatriates in the low-skill sector, it may present an opportunity to create high-skill employment for locals, which is aligned with the Saudization program.



10. Successful diversification will hinge on continued implementation of the ambitious reform agenda, while minimizing inefficiencies that accompany industrial policies and ensuring the availability of skilled labor. Properly formulated industrial policies can play an important role in the Kingdom's diversification strategy. However, to maximize the benefits to economic growth and minimize the risks, incentives should be carefully designed with a focus on transparency and accountability to minimize governance risks, and with due consideration to the following basic principles that the literature generally agrees on:

- **Special emphasis on export orientation** rather than import substitution with a focus on technology and innovation, and hold firms accountable for the support received, such as on the basis of strict performance criteria. In the "Asian miracle economies", the government intervened early on to support domestic firms in sophisticated sectors while ensuring fierce competition. While import tariffs can protect nascent sectors ("infant industry argument"), they can also lead to misallocation of resources, rent seeking and lack of competition. Moreover, the global trading regime restricts the use of such instruments, and other measures can be considered to promote

exports such as differential tax rates for profits from export sales and import-tariff rebates on imported intermediates.⁷

- **Well-coordinated policies to foster backward linkages**, such as through high domestic value added, and forward linkages with a focus on downstream activities. High linkages and associated spillovers induce agglomeration effects and clusters which, through feeding back into productivity gains, can support sustained employment. For example, SEZs can make important contributions to growth and development by helping to attract investment, create jobs and boost exports – both directly and indirectly when they succeed in building linkages with the broader economy and when accompanied by an integrated strategy, including a conducive business environment, technology upgrading and skills training. Care should be taken to minimize fiscal risks from tax exemptions by instituting strict exit criteria, sunset clauses and ensuring incentives are time-bound. Furthermore, other industrial policy instruments such as local procurement strategies need to be developed jointly with other policies while ensuring there is no hindrance to foreign competition.⁸
- **Upskilling and reskilling the current workforce** to remove skills gaps and mismatches and better aligning educational programs with employer needs. Additionally, improving the quantity and quality of education at all levels, including vocational training for middle-aged workers, will create a more productive workforce. Furthermore, reducing the public-private wage gap will boost employment in the private sector, while addressing the productivity-wage gap will ensure competitive wages.

⁷ See Cherif and Hasanov (2019) [The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy](#) and Cherif et al. (2022, forthcoming) Industrial Policy for Growth and Diversification: A Conceptual Framework, IMF Departmental Paper.

⁸ See UNCTAD (2019) [World Investment Report 2019: Special Economic Zones](#), UNIDO (2016) [The Role of Local Content Policies in Manufacturing and Mining in low- and Middle-Income countries](#), Cherif and Hasanov (2019) [The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy](#) and Cherif et al. (2022, forthcoming) Industrial Policy for Growth and Diversification: A Conceptual Framework, IMF Departmental Paper.



SAUDI ARABIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 14, 2022

Prepared By

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

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FUND RELATIONS

(As of May 31, 2022)

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

General Resources Account:	SDR Million	Percent Quota
Quota	9,992.60	100.00
Fund holdings of currency	7,194.05	71.99
Reserve tranche position	2,798.56	28.01
Lending to the Fund		
New Arrangement to Borrow	75.37	

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	16,259.95	100.00
Holdings	15,423.02	94.85

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)

	2022	2023	2024	2025	2026
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	2.59	5.46	5.47	5.46	5.46
Total	2.59	5.46	5.47	5.46	5.46

Lending to the Fund and Grants:

Saudi Arabia is a participant of the New Arrangements to Borrow (NAB), whose credit arrangement under the NAB amounts to about SDR 11.31 billion. The outstanding amount under the credit arrangement as of May 31, 2022 is about SDR 75.37 million. In October 2012, Saudi Arabia entered into a note purchase agreement with the Fund under the 2012 Borrowing Agreements in the amount of SDR 9.71 billion, to provide a third line of defense after quota and NAB resources. In December 2016, this agreement was renewed under the 2016 Borrowing Agreements, this time with an amount of \$15 billion. In January 2021, the agreement was again renewed under the 2020 Borrowing Agreements in the amount of about \$6.46 billion.

In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with deposit contributions totaling SDR 94.4 million, of which SDR 16.71 million was contributed by the Kingdom of Saudi Arabia ("Saudi Arabia") and SDR 77.67 million by Saudi Fund for Development ("SFD"). In April 2006, these deposits were extended to end-December 2021 with an additional deposit of SDR 38.2 million from SFD, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the

Exogenous Shocks Facility. Saudi Arabia's deposit of SDR 16.71 million that matured on December 31, 2021, was transferred as grant contribution to the PRGT General Subsidy Account. SFD's aggregate deposit amount of SDR 115.87 million was most recently extended to mature on September 30, 2022 (effective on June 30, 2022, and after completion of internal formalities).

Additionally, in April 2005, Saudi Arabia agreed to provide a grant contribution of \$4 million (equivalent to SDR 2.6 million) to subsidize Emergency Natural Disaster Assistance to low-income countries. In May 2012, Saudi Arabia pledged a new grant contribution of SDR 16.7 million in subsidy resources to the PRGT, which was received on December 31, 2021. In October 2012 and October 2013, Saudi Arabia provided subsidy resources to the PRGT through the transfer of its full share in the distributions of the general reserve attributed to windfall gold sale profits, totaling SDR 71.87 million.

Regarding loan resources, the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement of SDR 500 million with the Saudi Central Bank (SAMA) in May 2011 and the full amount had been drawn in May 2020. In February 2018, Saudi Arabia pledged to contribute \$2 million (equivalent to SDR 2.8 million) to the Financial Sector Stability Fund, supporting financial sector stability, inclusion, and deepening, focused on low- and lower-middle income countries.

Exchange Rate Arrangement

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

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held virtually during April 4- April 22, 2021. The staff report was considered by the Executive Board on June 30, 2021 and published on July 8, 2021.

(<https://www.imf.org/en/Publications/CR/Issues/2021/07/07/Saudi-Arabia-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-461736>).

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of July 1, 2022)

World Bank Country Page:

<https://www.worldbank.org/en/country/saudiarabia>

STATISTICAL ISSUES

(As of July 1, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision to the Fund has some shortcomings but is broadly adequate for surveillance. Progress has accelerated on national accounts and monetary statistics but there are areas for improvements in price statistics and external sector statistics.
Real sector statistics:
National accounts: The General Authority for Statistics (GASTAT) compiles annual and quarterly production and expenditure-based GDP estimates with 2010 as base year. The classification of national accounts was updated in 2021 to reflect a more accurate representation of oil and non-oil activities. GASTAT also compiles annual supply and use tables, and recently published tables for 2018–2020 on the new classification; however, these are constrained to published GDP levels rather than being used to determine them. A new producer price index is being developed, which will allow improved deflation techniques. GASTAT also compiles and publishes an industrial production index with improved periodicity (from quarterly in 2016 to monthly since January 2019).
Price statistics: CPI data is published monthly using a fixed basket of goods and services consisting of 490 items based on the 2018 expenditure and income survey. The completion of the ongoing census in 2022 will allow for the production of a new household survey, which will help update socioeconomic indicators and rebase the CPI basket using more updated weights. There are plans from GASTAT to introduce scanner data and administered data for rents to improve the quality of the CPI. The weight reference period for the wholesale price index was updated to 2014 though sample coverage remains limited to three cities. A quarterly real estate price index is also published. A new PPI was planned with IMF TA in 2019 and is still under construction.
Labor market statistics: Data providing a breakdown of employment between the private and public sector is available from 2018Q3. The statistical agency has stopped publishing absolute employment numbers from the labor force survey (LFS) but continues to provide rates. Absolute employment numbers are published based on administrative data from private sector social insurance records (GOSI) and data from the Ministry of Human Resources and Social Development, which is available from 2016Q3. The switch from in-person to phone interviews for the Labor Force Survey (LFS) during COVID-19 may have impacted the respondent coverage, resulting in a higher number of female respondents. There are currently ongoing efforts to further improve the Labor Force Survey, with the aim to improve its quality and align it with best practices. In addition, the extent of the informal economy is currently being assessed.
Government finance statistics: The authorities have reclassified the budget in line with <i>GFSM 2014</i> . The <i>GFSM 2014</i> framework is being used to report and publish fiscal data. Work on accrual data statistics is ongoing.
Monetary and financial statistics: The quality of monetary data has improved and information is made available in the Saudi Central Bank (SAMA) Monthly Statistical Bulletin. Detailed data providing a breakdown of corporate and household deposits is not available. Furthermore, SAMA's published balance sheet has a large and growing "other liabilities" item that hinders analysis. SAMA has submitted to STA the preliminary monetary and financial statistics based on the IMF's Standardized Report Forms (SRFs). STA reviewed the data and found that some data issues should be addressed to conform with the methodology prescribed in the IMF's Monetary and Financial Statistics Manual and Compilation Guide. SAMA also reports some basic series and indicators of

the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: SAMA reports quarterly financial soundness indicators (FSIs) to the IMF, which are published on the IMF's FSI website (<https://data.imf.org/FSI>). The reported FSIs comprising all 12 core FSIs and 8 encouraged FSIs for deposit takers.

External sector statistics: Quarterly balance of payments (BOP) and international investment position (IIP) data are published according to the latest international standard (the sixth edition of the *Balance of Payments and International Investment Position Manual*). SAMA compiles external debt statistics quarterly and the Reserves Data Template monthly. However, data in the financial account of BOP and IIP are highly aggregated without breakdown by institutional sectors. At the same time the sectoral breakdown is available for the external debt. The coverage for the private sector needs to be improved. SAMA participates in the IMF's Coordinated Portfolio Investment Survey (CPIS), although not in the IMF's Coordinated Direct investment Survey (CDIS). Direct investment data in BOP and IIP need improvements, which will also enable SAMA to participate in the CDIS. Moreover, there are ongoing efforts to conduct surveys (and use of financial statements) to collect FDI data by GASTAT, which would allow to participate in the IMF's Coordinated Direct Investment Survey.

II. Data Standards and Quality

Saudi Arabia subscribed to the Special Data Dissemination Standard (SDDS) on September 18, 2019.

No data ROSC is available.

Table of Common Indicators Required for Surveillance
(As of July 14, 2022)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange rates	6/30/2022	6/30/2022	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	5/2022	6/28/2022	M	M	M
Reserve/base money	5/2022	6/28/2022	M	M	M
Broad Money	5/2022	6/28/2022	M	M	M
Central Bank balance sheet	5/2022	6/28/2022	M	M	M
Consolidated balance sheet of the banking system	5/2022	6/28/2022	M	M	M
Interest rates ²	6/30/2022	6/30/2022	D	D	D
Consumer price index	5/2022	6/15/2022	M	M	M
Revenue, expenditure, balance and composition of financing ³ —Central Government	Q1 2022	5/15/2022	Q	Q	Q
Revenue, expenditure, balance and composition of financing ³ —General Government	2021	7/13/2022	A	A	A
Stocks of central government and central government-guaranteed debt ⁴	Q1 2022	5/15/2022	Q	Q	Q
External current account balance	Q1 2022	6/28/2022	Q	Q	Q
Exports and imports of goods	4/2022	6/23/2022	M	M	M
GDP/GNP	Q1 2022	6/7/2022	Q	Q	Q
Gross external debt	Q1 2022	6/28/2022	Q	Q	Q
International investment position ⁵	Q1 2022	6/28/2022	Q	Q	Q

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

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

³Foreign, domestic bank and domestic nonbank financing.

⁴Including currency composition.

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

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