Saudi Arabia: 2019 Article IV Consultation-Press Release; and Staff Report

SAUDI ARABIA

2019 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2019

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 2019 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 10, 2019 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 10, 2019, following discussions that ended on May 5, 2019, with the officials of Saudi Arabia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 21, 2019.
- 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.

Copies of this report are available to the public from

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

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

Press Release No. 19/287
FOR IMMEDIATE RELEASE
July 18, 2019

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

IMF Executive Board Concludes 2019 Article IV Consultation with Saudi Arabia

On July 10, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation¹ with Saudi Arabia.

Real non-oil growth is expected to strengthen to 2.9 percent in 2019 as government spending and confidence increase, but real GDP growth is projected to slow to 1.9 percent as real oil growth slows to 0.7 percent with the implementation of the OPEC+ agreement. Growth is expected to pick-up over the medium-term as ongoing reforms take hold. The unemployment rate among Saudi nationals has moved down but remains high at 12.5 percent.

The fiscal deficit is projected to widen to 6.5 percent of GDP in 2019 from 5.9 percent of GDP in 2018 as spending is projected to increase and exceed the budgeted amount and offset an increase in non-oil revenues. The deficit is then projected to decline to 5.1 percent of GDP in 2020. With oil prices implied by futures markets declining over the medium-term, the deficit is then projected to widen. The current account surplus is projected to narrow to 6.9 percent of GDP in 2019 from 9.2 percent of GDP in 2018 as oil export revenues moderates and import growth picks up.

CPI inflation has declined in recent months, mainly due to falling rents, and is forecast to decline by 1.1 percent in 2019, before turning positive in 2020 as further energy price increases are implemented. Credit growth is expected to strengthen with the stronger non-oil economy and bank liquidity should remain comfortable.

The authorities are continuing to implement their reform agenda. Fiscal reforms include lowering the registration threshold for the VAT, adjusting gasoline prices on a quarterly basis, and increasing fiscal transparency. Reforms to the capital markets, legal framework, business environment, and SME sector are ongoing.

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

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the progress in implementing their economic and social reform agenda, including the introduction of the value-added tax and energy price reforms. Directors noted that reforms have started to yield results and that the outlook for the economy is positive; however, volatility in global oil prices poses uncertainty. They emphasized that continued commitment to prudent macroeconomic policies and appropriate prioritization of reforms will be key to promoting non-oil growth, creating jobs for nationals, and achieving the objectives of the authorities' Vision 2030 agenda.

Directors underscored that fiscal consolidation is key to rebuilding fiscal buffers and reducing medium-term fiscal vulnerabilities. They encouraged the authorities to build on their fiscal reforms, including by continuing with the planned energy and water price reforms and increases in expatriate labor fees. Directors considered that additional fiscal measures would also be needed and highlighted that containing the government wage bill and a more measured increase in capital spending could yield fiscal savings. They also acknowledged that the authorities have committed to introduce further fiscal measures if needed.

Directors encouraged the authorities to continue to improve expenditure management and strengthen the fiscal framework, noting that, despite important reforms, spending has increased. They welcomed reforms to strengthen public procurement, which will help improve the efficiency of government spending and reduce the risks of corruption in procurement. Directors welcomed the efforts to enhance fiscal transparency. However, they considered that publishing more detailed budget and spending execution data would further increase fiscal transparency and viewed a robust asset-liability management framework as essential to guide analysis of the public sector balance sheet, cash flows, and risk/return tradeoffs.

Directors welcomed the authorities' ambitious reforms to develop the non-oil economy. They noted the ongoing efforts to strengthen the business environment and considered that careful implementation of industrial policies could encourage the development of new sectors of the economy. Directors emphasized that any government support should be made available at the sectoral level, be time bound, and have strict performance criteria attached.

Directors considered that policies to develop new economic sectors will be successful if Saudi workers have the needed skills for the private sector and the incentives to offer them at competitive wages. They emphasized the need to ensure that wages and productivity are well

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

aligned and that labor market policies should focus on setting clear expectations about the limited employment prospects in the public sector, strengthening education and training, and increasing female employment.

Directors underscored that reforms should be inclusive and vulnerable households protected from any negative effects. They welcomed the review of social assistance programs to ensure they provide adequate support to those in need and are well targeted.

Directors welcomed the continued resilience of the financial sector and ongoing capital market reforms. They agreed that the development of agency banking and Fintech could help broaden the channels of financial access. Directors agreed that improving financial access for young and growing companies, women, and youth are important, but emphasized that specific sector lending targets should be avoided. They welcomed Saudi Arabia's ongoing strengthening of the AML/CFT framework and its recent membership of the Financial Action Task Force.

Directors agreed that given the current structure of the economy, the exchange rate peg to the U.S. dollar continues to serve the economy well.

Directors emphasized that further improving the quality and availability of data is important and were encouraged by the authorities' commitment to subscribe to the Fund's SDDS by the end of the year.

Saudi Arabia: Selected Economic Indicators, 2017–20

Population: 33.4 million (2018)

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

Literacy: 95% (2015, adults)

Main products and exports: Oil and oil products (79%)

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

		<u>Prelim.</u>	<u>Proj.</u>	<u>Proj.</u>
	2017	2018	2019	2020
Output				
Real GDP growth	-0.7	2.2	1.9	3.0
Prices				
CPI Inflation (%)	-0.9	2.5	-1.1	2.2
Central government finances				
Revenue (% GDP)	24.1	30.9	33.2	33.2
Expenditure (% GDP)	33.3	36.8	39.7	38.2
Fiscal balance (% GDP)	-9.2	-5.9	-6.5	-5.1
Public debt (% GDP)	17.2	19.1	23.0	24.7
Non-exported oil primary balance (% Nonoil GDP)	-38.5	-39.5	-38.4	-34.6
Money and credit				
Broad money (% change)	0.2	2.8	3.0	3.5
Credit to the private sector (% change)	-0.8	3.0	3.3	3.4
Balance of payments				
Current account (% GDP)	1.5	9.2	6.9	6.0
FDI (% GDP)	0.2	0.4	0.4	0.4
Reserves (months imports) ¹	27.9	26.7	26.5	25.8
External debt (% GDP)	34.8	37.0	40.2	42.2
Exchange rate				
REER (% change) ²	-6.5	4.1	1.1	...
Unemployment rate				
Overall (% total labor force) ²	6.0	6.0	5.7	...
Nationals (% total labor force) ²	12.8	12.7	12.5	...

Sources: Country authorities and IMF staff estimates and projections.

¹ Imports of goods and services.

² For 2019, data is latest available.

SAUDI ARABIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

June 21, 2019

KEY ISSUES

Context. Reforms are starting to yield positive results. Oil prices and production have been volatile, and uncertainties in the global oil market continue. Promoting non-oil growth and creating jobs for Saudi nationals remain key challenges.

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

Fiscal policy. The fiscal deficit declined in 2018, but higher government spending has increased medium-term fiscal vulnerabilities to a decline in oil prices. Fiscal consolidation is needed to reduce these vulnerabilities. The fiscal framework should be further strengthened to help reduce the procyclicality of government spending. The forthcoming public procurement law and associated reforms will likely improve the efficiency of government spending and reduce risks of corruption.

Growth and employment enhancing reforms. Reforms to improve the business environment are proceeding but need to be complemented by efforts to increase the cost competitiveness of Saudi labor. Government support to develop sectors of the economy should crowd in the private sector and be timebound and linked to performance.

Financial sector stability and development. The banking system is well capitalized and liquid. A careful eye should be kept on rapidly growing mortgage lending. Capital market reforms have resulted in Saudi Arabia's inclusion in global equity and bond market indices.

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

Approved By
**Juha Kähkönen and
 Sanjaya Panth**

Discussions were held in Riyadh during April 23–May 5, 2019. The staff team comprised Tim Callen (head), Nabil Ben Ltaifa, Divya Kirti, Anta Ndoeye, and Yang Yang (all MCD). Executive Director for Saudi Arabia, Mr. Maher Mouminah, and Alternate Executive Director for Saudi Arabia, Mr. Ryadh Alkhareif, accompanied the mission. The team met with Minister of Finance Aljadaan, Minister of Civil Service Al-Hamdan, Minister of Housing Al-Hogail, Advisor at the Royal Court Tunisi, Governor of SAMA Alkholfey, Chairman of the Capital Market Authority El-Kuwaiz, President of NAZAHA Al-Muhaisen, Governor of the General Authority of Zakat and Tax Aba Numi, and other senior officials, as well as representatives of the Shura council and the private sector. Diana Kargbo-Sical and Tian Zhang (both MCD) provided support from headquarters and contributed to the report.

CONTENTS

CONTEXT	4
MACROECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS	4
A. Recent Developments	4
B. Outlook	10
C. Risks and Spillovers	11
POLICY DISCUSSIONS	12
A. Delivering Fiscal Consolidation and Reducing the Procyclicality of Government Spending	13
B. Structural Reforms to Support Diversification, Inclusive Growth, and Job Creation	20
C. Financial Sector Stability and Development	26
D. The Exchange Rate and External Adjustment	29
E. Statistical Issues	29
STAFF APPRAISAL	30
BOXES	
1. Impact of Rising Interest Rates on Banks	9
2. Social Assistance Programs	16
3. Public Procurement	18
4. Next Steps in Strengthening Fiscal Transparency	19
5. Enhancing the Role of SMEs and Entrepreneurship	25
6. The Housing Market	27
7. The Possible Effects of Common Ownership in Banks	28

FIGURES

1. Real Sector Developments	33
2. Fiscal Developments	34
3. External Sector Developments	35
4. Monetary Developments	36
5. Inflation and Financial Market Developments	37
6. Oil Market Developments	38
7. Upside/Downside Oil Price Scenarios	39
8. Baseline and Fiscal Adjustment Scenarios	40
9. Social Spending	41
10. Labor Market Developments	42
11. The SME Sector and the Real Estate Market	43

TABLES

1. Selected Economic Indicators, 2016–24	44
2. Budgetary Central Government Operations, 2016–24	45
3. Fiscal Operations of the Budgetary Central Government, AGIs, and Public Investment Fund, 2011–18	47
4. Balance of Payments, 2016–24	48
5. Monetary Survey, 2016–24	49
6. Financial Soundness Indicators, 2011–18	50
7. Inclusive Growth Indicators	51
8. Selected SWF and NOC Financial Information Disclosure Practices	52

APPENDICES

I. Risk Assessment Matrix	53
II. Productivity Growth in Saudi Arabia	54
III. Fiscal and External DSAs	60
IV. Progress in Implementing the Key 2017 FSSA Recommendations	64
V. External Sustainability Assessment	66

CONTEXT

1. The government is continuing to implement economic and social reforms. The Vision Realization Programs (VRPs) that underpin *Vision 2030* are moving from design to implementation. Reforms are beginning to have a positive impact on the economy and non-oil growth is picking up, although more jobs need to be created to reduce unemployment and absorb new labor market entrants. The government has implemented many of the recommendations from the 2018 Article IV and 2017 FSSA reports. The Fund has provided technical assistance in key reform areas such as the fiscal framework, tax administration, liquidity management, bank regulation, AML/CFT issues, and economic statistics.

2. Oil markets have been volatile. The Brent oil price peaked at \$85 a barrel in October 2018, fell to \$55 a barrel in December, rebounded to close to \$75 a barrel in April, and is currently trading around \$60–65 a barrel. Saudi Arabia's oil output rose by 1 mb/d from May to November 2018 to a record 11.1 mb/d and declined to 9.8 mb/d in April 2019.

MACROECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

3. Real GDP growth rebounded to 2.2 percent in 2018 after contracting in 2017 (Figure 1; Table 1). Real oil GDP grew by 2.8 percent (3.1 percent decline in 2017) while non-oil GDP growth rose to 2.1 percent (1.3 percent in 2017). Non-oil growth was boosted by an increase in government spending, a pickup in confidence, and improved liquidity and credit conditions, but the increase in

Status of Staff Recommendations Made During the 2018 Article IV Consultation	
Recommendation	Status
Targeting budget balance by 2023 is appropriate. Delivering on this objective will require fully implementing the revenue and energy price reforms and limiting future growth of government spending.	The 2019 budget set out a medium-term consolidation path that still aims to balance the budget in 2023. However, spending increased substantially in 2018 and a further increase is expected in 2019. Non-oil revenue reforms have continued. In staff's view, the authorities' plan to achieve its balanced budget objective is overly reliant on the assumption of high oil prices.
Lower the VAT registration threshold in line with the GCC agreement.	The lower registration threshold went into effect as planned in January 2019.
Further gradual increases in energy prices are needed. The Citizens' Account Program should be reviewed to ensure compensation is adequate for low and middle-income households.	Gasoline prices have been indexed to international benchmark prices and are being adjusted quarterly, although other energy price increases have paused. The Citizens' Account Program now provides payments to around 3.5 million households, with the size and income of the household determining the level of entitlement.
A greater focus is needed on containing current outlays. The ongoing civil service review should help identify reforms to contain the wage bill. The cost-of-living allowances should be allowed to expire at end-2018.	While civil service employment has continued to decline, the cost of living allowances introduced in January 2018 were extended to end-2019.
Develop an integrated asset-liability management framework to guide the government's borrowing and investment decisions.	Borrowing and investment decisions, including for the Public Investment Fund (PIF), are now being discussed by the Finance Committee. The Debt Management Office (DMO) is coordinating closely with SAMA and other public entities on external and domestic debt issuances.
Strengthen the fiscal framework and improve fiscal transparency.	Fiscal transparency is increasing including with the publication of a first-ever pre-budget statement in 2018. The publication of financial data by Aramco in its bond prospectus is a big step forward. Nevertheless, fiscal data and fiscal transparency need continued improvement.
Structural reforms should continue to focus on reducing the costs of doing business, filling gaps in the legal infrastructure, tackling corruption and improving governance.	The bankruptcy law was enacted in August 2018 and 13 cases are currently underway. The new public procurement law is expected to be enacted in July and the updated Competition Law has been approved by Council of Ministers. The anti-bribery law has been amended to eliminate the statute of limitations on prosecutions and grant powers to the Public Prosecutor to prosecute foreign corrupt acts in Saudi Arabia.
Labor market reforms are needed to increase the competitiveness of Saudi nationals in the private sector and to encourage female and youth employment.	Saudization in the retail sector was introduced but some of the initiatives have been scaled back. Programs to help with transportation and childcare costs for female employees are continuing. A new visa and residency program for skilled foreign workers and owners of capital was recently approved by Council of Ministers.
Support financial inclusion for SMEs and women. Review level of competition in the banking sector.	Bank lending to SMEs has increased. The Small and Medium Enterprises Authority has launched several initiatives to boost access to finance for SMEs. Five new foreign banks have been licensed since 2018.

expatriate fees and weakness in the construction sector (which contracted for the third successive year in 2018) led to the departure from the country of many expatriates, particularly among those working in construction. These departures weighed on consumption, inflation, remittance outflows, and the real estate market.¹ While the recent expansion of house building programs has helped some construction companies, government capital spending has remained relatively subdued. The smallest companies have seen revenue and employment contract over the past year.

4. The unemployment rate of nationals has declined but remains high at 12.5 percent in 2019Q1. The female and male unemployment rates are 31.7 percent and 6.6 percent, respectively. The female participation rate has continued to increase, reaching 20.5 percent in 2019Q1. Expatriate employment (excluding domestic workers) fell by 10 percent (0.75 million) in the year to 2019Q1 while the employment of nationals declined by 1.2 percent.²

¹ Staff estimates that the departure of expatriates could have reduced real GDP growth by ½-¾ percentage points in 2018.

² In the official labor market statistics reported by staff, participation and unemployment rates are from the Labor Force Survey (LFS) and employment data is from the Ministry of Civil Service, Ministry of Labor and Social Development, and the General Organization of Social Insurance.

5. The fiscal deficit narrowed to 5.9 percent of GDP in 2018 from 9.2 percent of GDP in 2017 (Figure 2; Tables 2–3). Oil and non-oil revenues increased by 40 percent and 59 percent, respectively, the latter buoyed by the VAT, excises, expatriate levy, and proceeds from the settlement agreements.³ Current expenditures increased by 23 percent due to the January 2018 Royal Decree allowances (1.4 percent of GDP) and higher social benefits through the Citizens' Account Program (1 percent of GDP), while capital spending weakened relative to 2017 (excluding the land sale which was recorded as a disposal of a non-financial asset in 2017). The non-exported oil primary deficit (NEOPD)—the staff's preferred measure of the fiscal stance—increased to 39.5 percent of non-oil GDP in 2018 from 38.5 percent in 2017. In addition, the Public Investment Fund (PIF) invested SAR 32 billion (just over 1 percent of GDP) during 2018–19Q1 in the domestic economy. In 2019Q1, strong revenue performance and modest growth in expenditures resulted in a budget surplus.

Total Employment, Saudi and Non-Saudi
(Cumulative Change from 2016Q4, thousand people)

Sources: Country authorities; and IMF staff calculations.
1/ Includes non-Saudis working in the government and private sector.

Fiscal Developments, 2015–24

	2015	2016	2017	2018	Proj. 2019	Proj. 2024	2015	2016	2017	2018	Proj. 2019	Proj. 2024	Adjustment	
	(Percent of GDP)						(Percent of non-oil GDP)						2015-18	2018-24
Revenue	25.0	21.5	24.1	30.9	33.2	31.0	34.7	28.9	34.1	46.9	49.6	42.6	12.3	-4.3
Oil	18.2	13.8	16.9	20.8	20.9	21.1	25.3	18.6	23.9	31.6	31.3	29.0	6.4	-2.6
Non-oil	6.8	7.7	7.2	10.1	12.2	9.9	9.4	10.3	10.2	15.3	18.3	13.6	5.9	-1.7
Expenditure	40.8	38.7	33.3	36.8	39.7	36.7	56.6	52.1	47.2	55.9	59.4	50.4	-0.7	-5.5
Current	32.2	30.0	28.0	30.4	31.8	28.9	44.7	40.4	39.6	46.2	47.5	39.7	1.5	-6.5
Capital	8.6	8.6	5.3	6.4	7.9	7.8	11.9	11.6	7.6	9.7	11.9	10.7	-2.2	1.0
Overall Balance	-15.8	-17.2	-9.2	-5.9	-6.5	-5.7	-22.0	-23.2	-13.1	-9.0	-9.8	-7.8	13.0	1.2
NEOPB 1/	-36.1	-33.2	-27.2	-26.0	-25.7	-19.4	-50.0	-44.6	-38.5	-39.5	-38.4	-26.6	10.5	12.9
NEOPB (excluding land sale) 2/	-36.1	-33.2	-29.9	-26.0	-25.7	-19.4	-50.0	-44.6	-42.4	-39.5	-38.4	-26.6	10.5	12.9
NEOPB (excluding land sale and settlement agreements) 3/	-36.1	-33.2	-29.9	-27.8	-27.4	-19.4	-50.0	-44.6	-42.4	-42.4	-40.9	-26.6	7.7	15.7
Memo items:														
Nominal GDP (SARs billions)	2,454	2,419	2,582	2,934	2,947	3,458								
Nominal Non-oil GDP (SARs billions)	1,768	1,797	1,824	1,929	1,971	2,517								

Sources: Country authorities; and IMF staff calculations.

1/ NEOPB refers to Non-exported oil primary balance

2/ Land sale amounting to SAR 70 billion (2.7 percent of GDP) took place in 2017

3/ Land sale amounting to SAR 70 billion (2.7 percent of GDP) took place in 2017, and proceeds from settlement agreements are estimated at SAR 55 billion and SAR 50 billions in 2018 and 2019 respectively.

³ The settlement agreements were reached with individuals by the anti-corruption committee.

6. The current account surplus increased to 9.2 percent of GDP in 2018 (Table 4; Figure 3). This reflected higher oil exports and lower remittance outflows, which were partly offset by increased service imports. In the financial account, large overseas investments, mainly due to public institutions and enterprises as they diversified their investment portfolios, were partly offset by government and PIF external borrowing. SAMA's NFA increased slightly to \$490 billion (26.7 months of imports) at end-2018.

Balance of Payments, 2016–18			
	2016	2017	2018
	(\$ billions)		
Current account	-23.8	10.5	72.3
Capital account	-0.9	-1.8	-1.5
Financial account (net)	10.7	-46.8	-65.8
Direct investment	-1.5	-5.9	-18.0
Portfolio investment	11.4	2.5	-6.6
Other investment	0.8	-43.5	-41.2
Errors and omissions	-66.6	-1.2	-4.9
Memorandum items:			
Public Institutions and enterprises borrowing	27.5	22.0	30.0
Public Institutions and enterprises outflows (gross)	...	-44.5	-69.6
Private sector outflows (gross)	...	-29.6	-24.5
Change in reserves	-80.3	-39.7	0.7

Sources: Country authorities; and IMF staff calculations.

7. Credit growth has picked up with a recovery in lending for construction and manufacturing and robust growth in mortgage lending (Table 5; Figure 4). Bank NPLs edged up to 2 percent in 2018Q4 but remain low, while bank capital and return on assets are strong (Table 6). IFRS9 has had no significant impact on banks' balance sheets. SAMA increased the reverse repo and repo rates four times in 2018, to 2.5 percent and 3 percent, respectively, and interbank rates moved up. Bank profitability does not appear sensitive to changes in policy rates (Box 1).

8. The CPI and real estate prices are declining.

In May 2019, the CPI fell by 1.5 percent (y/y) largely due to rents which fell by 8.5 percent (y/y)—excluding rents, the CPI increased by 0.1 percent (y/y) (Figure 5).

Residential real estate prices fell by 5.8 percent (y/y) in 2019Q1 and are down 19 percent since end-2014.

Slower non-oil GDP growth (compared to the pre-2014 period), increasing supply from the government housing programs more recently, and reduced demand from expatriates are all contributing factors. Commercial real estate prices have also declined given the oversupply in major cities.

Box 1. Impact of Rising Interest Rates on Banks¹

Banks that see their cost of funding rise with policy rates pass on higher interest rates to borrowers. Despite substantial differences in funding structures, bank profitability is insulated from shifts in policy rates.

Assessing the impact of monetary policy on Saudi banks is challenging.² As the Saudi Riyal is pegged to the U.S. dollar, SAMA generally adjusts its policy rate to match actions taken by the Federal Reserve (Fed). In 2018, SAMA matched all four Fed hikes. Saudi banks' liability and asset rates tend to move with Fed and SAMA policy (their correlation with the U.S. Federal Funds Rate is around 0.85). However, tracing the impact of shifts in policy rates on Saudi banks is not straightforward due to the presence of coinciding macroeconomic shocks.

The substantial variation in banks' funding structures can help tease out the impact of Fed policy. Some banks finance their operations almost entirely through uncompensated deposits and are highly profitable. Others see their cost of funding oscillate with policy rates. Observing how policy differentially affects banks with more sensitive liabilities, but the same exposure to macroeconomic shocks, provides a way to isolate its impact.

When Fed policy tightens, Saudi banks offset higher funding costs by raising asset rates, insulating profitability. Compare, for instance, National Commercial Bank (NCB, a less sensitive bank) and Alawwal (a more sensitive bank with a larger fraction of compensated deposits). Alawwal's funding costs depend more on policy rates, but so do its asset rates. As a result, profitability has remained stable for both banks over a period where U.S. rates have varied substantially. Regressions controlling for bank characteristics and economy-wide developments confirm that banks with more compensated deposits raise asset rates when Fed policy tightens and hence see little impact on their profitability despite higher funding costs. Regressions show little impact of tighter Fed policy on loan quantities for banks with more compensated deposits.

¹Prepared by Divya Kirti.

² This box draws on Adedeji, Alatrash, and Kirti (forthcoming), "How Do Rising U.S. Interest Rates Affect Banks in the Gulf Cooperation Council (GCC) Countries?". Compensation provided and received on Islamic banking products is included in the implied interest rates used here.

B. Outlook

9. Staff projects the fiscal deficit to widen to 6.5 percent of GDP in 2019 and the NEOPD to narrow to 38.4 percent of non-oil GDP. Oil revenues are expected to be broadly unchanged from 2018, while non-oil revenues are projected to increase due to higher VAT revenues, a further increase in the expatriate levy, and because previously earmarked revenues are being brought on budget (0.8 percent of GDP; offset by an equivalent spending increase). Budget proceeds from the settlement agreements are estimated by the authorities at 1.7 percent of GDP in 2019. Expenditures are projected to rise by 8.5 percent, reflecting an expected pickup in capital spending as implementation of the VRPs accelerates and increased spending to support the economy through the Private Sector Stimulus Program.

10. Over the medium term, fiscal consolidation is assumed to take place. Staff assumes that the increases in energy prices and the expatriate levies that were announced in the Fiscal Balance Program take place, and that the Royal Decree allowances expire at end-2019 as announced. Wage bill growth is assumed to be restrained as the government contains civil service employment, and capital spending declines after 2022 as the VRPs begin to be completed. Revenues from oil exports, however, decline over the projection period given the oil price path embedded in financial markets.⁴ The overall fiscal deficit is projected to narrow to 5.7 percent of GDP and the NEOPD to 26.6 percent of non-oil GDP in 2024. This fiscal outlook is less favorable than at the time of the 2018 Article IV mainly because of the higher path of government spending. The authorities project stronger revenues and more limited expenditure growth than staff and expect to balance the budget in 2023.

11. The recovery in non-oil growth is expected to continue in 2019. Recent monthly indicators have been positive, and staff expects non-oil growth to accelerate to 2.9 percent in 2019. Increased government spending and improved confidence will support activity, while the departure of expatriates is expected to become less of a drag on growth, inflation, and the real estate market. Real GDP growth, however, is projected to slow to 1.9 percent as real oil GDP growth eases to 0.7 percent with the assumed continued implementation of the OPEC+ agreement. For 2020, real oil GDP growth is projected to rise as crude oil production increases and the Jizan refinery becomes fully operational, while non-oil growth slows with fiscal consolidation. In the medium term, non-oil

⁴ A \$10 a barrel change in the oil price in 2019 would change oil revenues from exports received by the budget by close to 3 percent of GDP while a 0.5 mb/d change in oil exports would change oil revenues by around 1 percent of GDP.

growth is projected to strengthen to 3–3¼ percent as reforms yield dividends and real GDP growth to settle around 2½ percent.

12. Inflation is projected to be negative in 2019 and credit growth to strengthen. The CPI is expected to decline by 1.1 percent this year as declining rents offset the effects of stronger non-oil growth. Inflation is expected to turn positive in 2020 driven by increases in domestic energy prices and continued non-oil growth. The demand for credit should increase with the stronger non-oil economy and bank liquidity remain comfortable.

13. The current account surplus is projected to narrow in 2019 and over the medium term. Oil export revenues decline, while imports pick-up with stronger non-oil growth. Net financial outflows are expected to continue albeit at a slower pace than in 2017–18. SAMA's NFA (in months of imports) is projected to decline but remain at a very comfortable level.

C. Risks and Spillovers

14. Staff sees risks to the growth outlook as being broadly balanced (Appendix I).

- **Global.** The main risk is uncertainty in global oil markets (Figure 6). Downside risks to oil prices and production could materialize if U.S. production exceeds expectations or global trade tensions result in a sharp slowing in global oil demand. Geopolitical risks and declining output in some key oil exporting countries could, however, push oil prices higher. If Saudi Arabia's oil production and/or oil prices are higher than assumed in staff's baseline this would boost oil and overall GDP growth and support fiscal and external balances. The economic effects from geopolitical tensions have so far been limited, with sales of equities by foreign investors proving temporary and the appetite for Saudi bond issuances remaining strong.

- **Domestic.** Reforms could have a bigger growth impact than assumed in staff projections as it is difficult to gauge the reform impact. Continued relatively weak growth and job creation could encourage fiscal expansion which, while supporting short-term growth, would undermine medium-term fiscal sustainability. The departure of expatriate workers and their dependents could have a larger impact on growth in the short term, while the significant role of the public sector could crowd out the private sector.

15. Spillovers from Saudi Arabia are important globally and regionally. Saudi Arabia is taking a leading role in managing oil production adjustments under the OPEC+ agreements. Regionally, Saudi Arabia is providing financial assistance to many countries. Real spillovers from Saudi Arabia are significant for Bahrain, while equity market spillovers affect all GCC countries.⁵ The decline in remittance outflows in 2018 have affected some countries in the MENA region.

POLICY DISCUSSIONS

Discussions focused on: (i) policies to achieve fiscal consolidation and reduce the procyclicality of government spending; (ii) reforms to support diversification, job creation, and inclusive growth; (iii) financial sector development, inclusion, and stability; and (iv) external stability.

16. The authorities emphasized that reform momentum has accelerated as the VRPs have moved from design to implementation. They noted that the reforms are having a significant impact. Growth is accelerating, female participation rates and non-oil budget revenues are increasing, and gasoline and electricity consumption have fallen following the energy price reforms. Gasoline prices are now being adjusted quarterly in line with international benchmark prices. Confidence is increasing, and the authorities viewed the staff's growth projections as being too low. Adjustments to the reform programs are being made as needed. For example, upgrading skills and boosting productivity are central to many of the reforms and a specific VRP on Human Resource Development is being prepared. Further, the authorities are cognizant that many reforms were introduced during 2018 which had an impact on businesses and they have decided to focus more on supporting the corporate sector this year. The authorities emphasized that protecting low and middle-income households from the effects of reforms is critical and noted that improvements are occurring on inclusive growth indicators (Table 7). Staff welcomed the progress in implementing the reforms, while noting that important challenges remain including the need to accelerate job creation and improve productivity performance (Appendix II). Staff emphasized the

Electricity and Gasoline Consumption
(Y-o-y percent change)

Sources: Country authorities; and IMF staff calculations.

⁵ See "Saudi Arabia's Growth and Financial Spillovers to the Other GCC Countries: An Empirical Analysis", IMF Working Paper No. 18/278.

importance of synergies across policies. For example, containing the government wage bill and improving public procurement will support private sector growth, while labor reforms and an improved environment for SMEs will increase employment opportunities outside the government sector.

A. Delivering Fiscal Consolidation and Reducing the Procyclicality of Government Spending

17. While recognizing the fiscal policy trade-offs the government faces, staff thought the fiscal pendulum had swung too far toward supporting near-term growth and reform implementation.

Significant non-oil revenue reforms took place in 2018, but with a large increase in spending, fiscal policy turned expansionary as measured by the NEOPD. The authorities' ability to balance the budget in 2023 appears reliant on relatively optimistic oil price assumptions and assumed spending restraint that has not been evident in the past two years. While higher oil prices would result in a stronger budget and central government net financial asset (CGNFA) position (defined as government deposits at the central bank less gross debt), if oil prices fall sharply, the country would face large fiscal deficits, but with weaker fiscal buffers than in 2014 (Figure 7; Appendix III).⁶ At end-2018, the central government debt-to-GDP ratio was 19.1 percent and the CGNFA was 0.1 percent of GDP. While still enviable in a global context, these ratios were below 2 percent and around 50 percent of GDP, respectively, at end-2014. Against this background, staff assesses that while some fiscal space is available, it is substantially less than at the time of the 2018 Article IV consultation.

Additional Revenues from Reforms, 2018–24 1/
(Percent of GDP)

Sources: Country authorities; and IMF staff estimates.
1/ Includes revenues from electricity reforms starting in 2022.

Projected and PIH-Consistent Non-Exported Oil Primary Deficit
(Percent of non-oil GDP)

Source: IMF staff estimates.

⁶ A one standard deviation decline in the oil price relative to baseline would see the CGNFA decline to just under –70 percent of GDP in 2024 and gross financing needs peak at 17.8 percent of GDP in 2023. In the adjustment scenario described in paragraph 18, under the same shock the CGNFA would be –56 percent of GDP in 2024 and gross financing needs would peak at 13.8 percent of GDP in 2023.

18. Staff believes that a tighter fiscal policy is needed. A larger reduction in the NEOPD than projected in the baseline would reduce fiscal vulnerabilities and create additional fiscal space, still accommodate an increase in capital spending to support growth and diversification if the adjustment is focused on current spending and non-oil revenues, and move the fiscal position toward that consistent with intergenerational equity (Figure 8). Staff suggested additional fiscal measures of 0.9 percent of GDP (1.3 percent of non-oil GDP) a year during 2020–24 relative to the baseline to achieve this adjustment. While this would have an impact on non-oil growth (of around 0.4 percent) in 2020–21, it would support stronger growth over the medium term.

19. The implementation of announced fiscal measures is a first priority. These include further energy price reforms, increases in the expatriate levies, and allowing the 2018 cost-of-living allowances to expire at end-2019 as planned. These measures are incorporated in the staff's projections with a fiscal impact of 6 percent of GDP by 2024 and need to proceed, although the increase in labor fees could be phased-in gradually over 2020–22 to mitigate the impact on businesses and the economy.

20. Additional fiscal measures could include:

- **Non-oil revenues:** The introduction of the VAT in January 2018 was a landmark achievement, with revenue collections exceeding expectations. The reduction in the registration threshold at the beginning of 2019 has also gone smoothly.⁷ Staff suggested that consideration be given to raising the VAT rate from 5 to 10 percent, in consultation with the GCC. It was recently been announced that excise taxes will be broadened to include sugar-sweetened beverages and e-cigarettes in December 2019.

Government Spending

Compensation of Employees, 2017

Sources: Country authorities; and IMF staff calculations.

Infrastructure Quality Score and Capital Expenditure

Source: IMF staff calculations; WEF Global Competitiveness Report 2018–2019s. Note: The World Economic Forum's Global Competitiveness indicators combine both official data and survey responses from business executives. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations. The infrastructure quality score measures the quality and extension of transport infrastructure (road, rail, water and air) and utility infrastructure.

Estimated Impact of Proposed Fiscal Measures (Percent of GDP)

	2024
VAT rate Increase	2.0
Water price reforms	0.7
Wage bill reforms	1.0
Capital spending savings	0.5
Interest payments savings	0.2
Total impact of reforms	4.3

Sources: Country authorities; and IMF staff calculations

⁷ See the Selected Issues Paper on "Non-oil Revenue Reforms—Initial Assessment of the Fiscal and Economic Impact."

- **Water price reforms:** With initial problems in billing and metering sorted out, the government should move ahead with plans to raise water prices to cost recovery levels while compensating low and middle-income households through the Citizens' Account Program.
- **Government wage bill:** The wage bill has continued to increase and is high in a global context. The civil service review should be used to map out a strategy that encompasses a review of allowances and benefits to contain the wage bill and bring civil service staffing and pay in line with that needed for efficient service delivery.
- **Capital spending:** Capital spending is high given the level and quality of existing infrastructure. Staff welcomed the work of the Spending Efficiency Realization Center to generate savings and strengthen the public investment management framework and suggested that capital spending be scaled up gradually given that the new framework has not yet been tested over full project cycles.
- **Social assistance programs:** Staff welcomed the ongoing review of social assistance programs (Box 2; Figure 9). While ensuring these programs adequately protect the less well-off should be the main goal of the review, there may be fiscal savings from better targeting. It will be important to establish a commonly agreed poverty line based on reliable information on the distribution of income to inform this process. The Citizens' Account Program could be strengthened by bringing assets into the compensation calculation and removing opportunities for double dipping.

21. The authorities disagreed with the staff's fiscal outlook. They noted that the fiscal deficit in 2018 was lower than budgeted and that the budget was in surplus in 2019Q1. The authorities felt that the oil price assumptions in the staff's baseline were on the pessimistic side. They noted that if oil prices turned out to be lower than assumed in the budget, they could re-phase some of their planned spending to later years and receive higher dividends from public entities (rather than having these entities re-invest their investment returns). Relatedly, they noted that they had used the opportunity of higher oil revenues over the past two years to accelerate spending in priority areas, and they had already identified spending that would be delayed in the event of lower oil prices. Lastly, they believed that available fiscal buffers and fiscal space were larger than assessed by staff because of the substantial financial assets available beyond the budgetary central government and that they would not necessarily need to use their deposits at SAMA to finance the fiscal position as assumed in staff's baseline.

22. The authorities reiterated their commitment to balancing the budget in 2023 and believed the policies were in place to do this. They explained that they would be able to contain the wage bill by controlling wage inflation, by continuing to modestly reduce the size of the civil service (by not replacing all retiring employees), and replacing employees who leave with new hires who would initially receive lower wages. A new performance management system for civil servants is also being introduced. On capital spending, the authorities were confident that the new public investment management process has improved investment efficiency. They noted, however, that if further measures are needed to meet their fiscal targets, they would be identified and implemented.

Box 2. Social Assistance Programs¹

A review of social assistance programs is ongoing. Improvements to consolidate, streamline, and monitor programs could help program operation and generate fiscal savings.

The social assistance system in Saudi Arabia has expanded over time.² These programs cover a wide range of beneficiaries and the fiscal cost of non-contributory schemes is estimated to have been about 2.9 percent of GDP in 2018 (table). In addition to the programs listed below, Saudi citizens also benefit from free education and healthcare, while pension systems are generous with many people retiring around 50 years of age.

- **Standard social safety net programs:** These programs are non-contributory and provide cash transfers or in-kind benefits. They include: (i) the Income Guarantee Program, a financial assistance program funded through Zakat collections (60 percent) and by the government (40 percent) for impoverished households, people with disabilities, and unsupported families; (ii) social care programs for orphans and people with disabilities; and (iii) the national school program (Takaful).
- **Citizens' Account Program:** This targeted cash transfer system to compensate Saudi households for the cost of higher energy prices, VAT, and the expatriate levy was introduced in December 2017. The size of the monthly allowance depends on income and household size. Around 3.5 million households (covering 14.3 million individuals) are receiving monthly payments.
- **Support for charities:** The Ministry of Labor and Social Development supervises nearly 650 charitable associations with a focus on family affairs and services for disabled people.
- **Social housing program:** A new social housing program was introduced in 2018 to boost home ownership by Saudis that are in need, including those receiving assistance through the Income Guarantee Program.
- **The King announced a new "cost of living" allowance in January 2018.** This monthly allowance for public sector workers, retirees, students, and those on social benefits has been extended to end-2019.

A review of the social assistance programs is underway. The authorities believe the current benefit system is fragmented, expensive, and poorly targeted. Social programs are often targeted at groups, rather than being based on need, and are run by multiple government entities. It is important to assess the social assistance system with respect to the adequacy of income provided and coverage of low and middle-income groups and to ensure minimal leakage to higher income groups. Efforts should also focus on improving the administrative system to consolidate, streamline, and monitor programs as well as on developing a single beneficiary registry system. Lastly, data on poverty is not published and there is no official poverty line, which is crucial for monitoring and evaluating pro-poor policies.

Social Assistance Spending	
Programs	Spending (2018)
	(In percent of GDP)
Income Guarantee Program	0.8
Cost of living allowance	0.1
Social Care Programs	0.2
School Programs (Takaful)	0.2
Citizen's Account	1.0
Support for Charities	n.a
Other programs	0.6
Total	2.9
Memorandum items:	
Royal Decree Allowances	1.4
Sources: Aspire Database (World Bank); Ministry of Labor and Social Development; Staff estimates.	

¹Prepared by Anta Ndoye.

²Social assistance policies (e.g., universal and targeted transfers) aim to protect households against poverty. Social insurance policies (e.g., unemployment insurance and pensions) that aim to protect populations from shocks that adversely affect household incomes and welfare are not considered in the box.

23. Progress has been made in strengthening the fiscal framework, but the procyclicality of government spending should be reduced. Important reforms have been implemented to strengthen the budget process, develop a medium-term fiscal framework, and introduce an online expenditure management system (Etimad). Fiscal risk analysis is also being strengthened. Staff welcomed these reforms, including plans to roll out Etimad across the government, but noted that spending has increased with higher oil prices over the past two years. The fiscal framework and expenditure

management processes need to be able to maintain spending at a sustainable level across different oil price environments. Otherwise large adjustments in spending will be needed during times of low oil prices, which causes undue volatility in growth. In this regard, staff expressed concern about the government's policy of increasing spending as revenues increase and suggested that a greater emphasis be placed on the NEOPD to better delink spending from oil price volatility and rebuild fiscal buffers during periods of higher oil prices. The authorities noted that they are committed to further strengthening expenditure management and budgeting and were confident that the reforms will enable them to deliver on their medium-term spending targets.

24. Staff welcomed the new public procurement law and emphasized that no exemptions should be granted for any entities or projects that use budget funds. The authorities and staff agreed that strengthening public procurement and accountability are essential to improve spending efficiency and reduce the risks of corruption. The authorities explained that the new public procurement law and implementing regulations are expected to come into effect in July and that other improvements in procurement processes are already in place (Box 3). Staff also noted the importance of being transparent about preferences for SMEs/local content in procurement and fully assessing their cost.

25. The Macro-Fiscal Policy Unit has taken important steps to improve fiscal transparency and macro-fiscal policy analysis (Box 4). Staff underscored that further “quick wins” could be achieved including by publishing more detailed budget and spending execution data and reconciling budget projections with outcomes. The authorities expressed their commitment to continuing to improve fiscal transparency and said they will publish a midyear budget update for the first time this year. They also noted that the transparency of Aramco’s operations has improved significantly with the publication of its bond prospectus in April 2019. Transparency of the PIF’s operations is still limited (Table 8). Without information on the structure of the PIF’s assets, it is not possible to know how liquid they are and how they affect the size of available fiscal buffers.

Box 3. Public Procurement¹

The new public procurement law and reforms to the procurement process should strengthen spending efficiency and reduce risks of corruption. It is important that all government procurement is covered by the reforms.

Effective public procurement is essential to limit risks of corruption and ensure the government gets value for money from its spending. The key weaknesses in procurement that have been identified in Saudi

Arabia are mostly in the areas of bid preparation and tendering, bid evaluation and awarding, and timeliness of payments; the latter has become more prominent with the government payment arrears in 2015–16. The law is also not applied universally with mega-projects, defense spending, and some health and education providers granted exemptions.

The government is putting emphasis on

improving budget execution.

The new public procurement law will provide the backbone of the reforms. The law—which is expected to come into effect in July—will modernize procurement procedures and practices, establish the required institutional arrangements, and institute new transparency and accountability mechanisms. The law will strengthen the role of the Ministry of Finance in procurement—assigning it the central policy and oversight functions—and mandate the establishment of the Strategic Procurement Unit (SPU) to take the lead in standardizing

procurement on common use items, formulating standard procurement templates, and promoting development objectives (including local content and promotion of SMEs). Further, Eitmad will help foster new transparency and accountability mechanisms, including the establishment of a mechanism for independent administrative review and complaints.

To be effective, the law, implementing regulations, and new procurement procedures should cover all public procurement contracts and all entities that receive budget funds. It will also be crucial that procurement is implemented through Eitmad. Procurement for the defense sector will be handled by the newly formed General Authority of Defense Industries (GAMI) and will be subject to the same principles as under the law (although it is not clear if it will be subject to the law).

Saudi Arabia: Average Public Procurement Indicators, 2017 1/ 2/
(Higher score indicates better public procurement)

Sources: World Bank Benchmarking Public Procurement, 2017.

1/ Score is an average of 6 indicators where points are assessed based on responses to questionnaires.

2/ The World Bank's public procurement indicators are based on primary data collected from surveys administered to expert contributors in 180 economies. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations.

¹Prepared by Nabil Ben Ltaifa, Tim Callen (both IMF), Simeon Sahaydachny and Yolanda Taylor (both World Bank).

Box 4. Next Steps in Strengthening Fiscal Transparency¹

Fiscal transparency has improved. Further gains could be made by providing more detailed data on budget projections, outturns, and fiscal risks and by broadening the institutional coverage of fiscal reporting.

Fiscal transparency is critical to support the efficient allocation of government resources, ensure government accountability, and reduce the risks of corruption. Important steps have been taken to improve fiscal transparency. The MOF published the Fiscal Balance Program (FBP) in 2016, outlining for the first time its medium-term fiscal strategy, and has published updates since. The Budget Statements for 2018 and 2019 reported on progress in implementing the updated FBP. The Budget Statement for 2018 presented, for the first time, medium term fiscal projections and a qualitative discussion of some risks to the outlook. Other firsts include publication in 2018 of a Pre-Budget Statement and a Citizens Budget for 2019. On budget execution, the MoF has published quarterly budget performance reports since 2017 and published the first End-of-Year Budget Report for 2017 in January 2019. A Mid-Year Budget Review will be published in 2019. The MoF has implemented GFSM 2014 and is working to move to accrual accounting under International Public Sector Accounting Standards. A digital platform, Etimad, has been introduced to improve budget execution especially in relation to procurement, contract, and payment management.

Opportunities remain to further enhance fiscal disclosure. The Budget Statement should provide outturns and projections for revenues and expenditures by economic category and by ministry or program, decomposing and explaining the variances between outturns and projections, providing the costing of new policy proposals, and detailing the impact of budget financing on the composition and cost of debt. Fiscal risk analysis and disclosure could quantify the potential impact of different macroeconomic assumptions on fiscal outcomes and by presenting information on contingent liabilities. Fiscal reporting could be improved by publishing more detailed annual final or audited financial statements for the budgetary central government while preparations are made to expand publication to important extrabudgetary funds and public corporations.

Medium-term measures should aim to bring Saudi Arabia's fiscal management and disclosure practices more in line with international standards. Focus should be placed on strengthening the legal framework for public financial management with a comprehensive law to formalize the budget preparation, approval, and execution processes, codify the budget documentation and fiscal reporting requirements, and institutionalize the external audit arrangements. Institutional coverage of budget documentation, in-year fiscal reporting, and annual financial reporting should be expanded over time, with the aim of consolidating the entire public sector.

In this regard, the IMF's [Fiscal Transparency Code \(FTC\) 2019](#) suggests minimum levels of transparency in the operations of sovereign wealth funds (SWFs) and national oil companies (NOCs). Pillar IV of the FTC requires that the governance arrangements and operational rules of natural resource funds and national resource companies be specified in law, and that an annual report on their operations, finances, and investment performance be published. Aramco, the national oil company, has recently disclosed substantial financial and operational information in its bond prospectus, including audited financial statements. Going forward, this information should be updated regularly. This together with improved disclosure by the PIF would further signal major progress in fiscal transparency.

¹Prepared by Ashni Kumar Singh (FAD) and Nabil Ben Ltaifa (MCD).

26. Staff reiterated the importance of a robust sovereign asset/liability management framework. This will ensure that the impact of investment and financing decisions on the public sector balance sheet and cash flows are accounted for and that risk and return considerations are fully assessed. The authorities responded that the Debt Management Office (DMO) has made significant progress in developing the debt management framework and is coordinating borrowing decisions with other government entities. Further, asset and liability decisions of the government and government-related entities are coordinated by the high-level Finance Committee.

B. Structural Reforms to Support Diversification, Inclusive Growth, and Job Creation

27. Oil-exporting countries have struggled to develop diversified non-oil sectors while their oil resources remain abundant. In Saudi Arabia, government spending affects incentives for companies and workers. Companies prefer to produce non-tradeable goods and services aimed at the government market (contracts and public sector employee consumption) rather than riskier tradeable goods while employing low-wage expatriate labor. Workers prefer employment in the government rather than private sector because wages and working conditions are generally better.

28. Vision 2030 recognizes the need to diversify the economy and a broad range of policies are being implemented to achieve this objective. The authorities explained that they will continue their efforts to improve the business environment, develop new economic sectors, broaden financing options for businesses, and strengthen the human capital of Saudi nationals. Staff welcomed these efforts and suggested that more needs to be done to change the current incentives for workers and businesses and improve the cost competitiveness of Saudi labor. Further, it is important that the public sector does not crowd out the private sector. The economic footprint of the public sector has expanded through higher government spending, the increased role of the PIF, and numerous other programs, including subsidies for housing, mortgages, and SME development. The authorities responded that their policies were designed to crowd in the private sector and government interventions were only taking place in areas where the private sector was unwilling to enter on its own.

29. Government interventions can help overcome the reluctance of private companies to enter new or riskier sectors, but these need to be carefully implemented. The National Industrial Development and Logistics Program (NIDLP) sets out a plan to develop the industrial, mining, energy, and logistics sectors in the country. In staff's view, successful country experiences with such policies suggest that developing human capital and working with foreign partners is essential, while

policies work best when government support is made available to priority sectors rather than specific companies, is time bound, and has strict performance criteria attached.⁸

Structural Reforms: July 2018–Present		
Category	Reform measure	Implementation Date
Capital markets	Primary dealer agreements with five domestic banks	August 2018
	Sukuk issued to finance Saudi Real Estate Refinancing Company	December 2018
	Trading of sovereign debt by first approved Qualified Foreign Investor	March 2019
	Issuance of first domestic sovereign 30-year sukuk	April 2019
	Reduction of denomination size for government listed debt and reduction of trading fees for listed debt to encourage retail participation and sukuk funds	June 2019
Foreign investment	Foreign investment restrictions removed for five sectors: recruitment, real estate brokerage, media services, commission agents, land transport services	October 2018
	Entry of five new foreign banks	October 2018–April 2019
Legal framework	Bankruptcy Law (13 cases under way as of May 2019)	August 2018
	Public Procurement Law	Expected to be in effect from July 2019
	Draft Private Sector Participation Law released for public comment	July 2018
Doing Business	Updated Competition Law approved by Council of Ministers	March 2019
	Franchise Law	Ongoing
	New regime for permanent and renewable residence permits for expatriates approved by Council of Ministers	May 2019
SMEs	Access to expatriate visas for Saudi entrepreneurs that work full time at their new firm	February 2019
	20 venture capital firms licensed to enter Saudi Arabia	April 2019

30. Improved cost competitiveness will be needed to support a diversified private sector that employs Saudis. Staff estimates suggest that the wages of Saudi workers are above those consistent with their productivity and it may therefore be difficult for a private sector that primarily employs Saudis to be internationally competitive. Staff suggested that the productivity-wage gap for nationals will need to be narrowed if the benefits of other reforms are to be fully harnessed. The authorities emphasized that their plan is to boost the productivity of Saudi workers including by strengthening education and training. Staff welcomed this focus—spending on education is high, but outcomes are not commensurate with this spending—and suggested that companies need to play their part by ensuring that career development is a high priority in their human resource policies. They emphasized, however, that additional reforms would be needed, particularly as improving human capital is a long-term endeavor.

⁸ See the Selected Issues paper on “Policies to Drive Diversification for Saudi Arabia.”

31. Labor market reforms should focus on improving the competitiveness of nationals for jobs in the private sector (Figure 10). In staff's view, reforms need to comprise the following elements in addition to developing human capital:

- **Reducing the availability and attractiveness of government work.** A first step is to clearly signal that government employment will not increase in the future so that reservation wages for nationals to work in the private sector are reduced. Consideration will also need to be given to how government spending affects incentives and how this could be adjusted to improve incentives for private sector employment.
- **Ensuring the effectiveness of active labor market programs.** Wage subsidies can support private sector employment but should be well targeted and integrated with social assistance programs and their outcomes closely monitored.
- **Increasing the mobility of expatriate workers through reform of the visa system.** Enabling expatriates to move freely between jobs would increase expatriate wages, reducing existing wage differentials with nationals. After the mission concluded, the authorities announced a new visa and residency program for skilled foreign workers and owners of capital.

32. The authorities emphasized the importance they place on increasing female employment. This is essential to fully utilize the skills of the population and boost productivity, growth, and incomes. Staff suggested that regulations be reviewed to ensure there are no impediments to female employment, and consideration be given to creating programs for female entrepreneurs under SME initiatives and to expanding existing programs to defer transportation and childcare costs if needed.

33. Staff welcomed ongoing steps to enhance the governance and anti-corruption framework and underscored the importance of continuing reforms in this area. The authorities have adopted a new anti-corruption strategy and have amended the anti-bribery law to eliminate the statute of limitations on prosecutions of current and former ministers and grant powers to the Public Prosecutor to prosecute foreign corrupt acts in Saudi Arabia. Work, however, is still needed to enhance the anti-corruption commission's ability to detect and investigate corruption offenses and the Public Prosecutor's Office to prosecute cases and seize illegal assets. Further, a financial disclosure policy for senior public officials and procuring officers in the government is needed and the bribery of foreign officials should be covered in the anti-bribery law. Streamlining the regulatory framework, improving fiscal transparency, and strengthening public procurement will also help reduce potential corruption risks.

34. The authorities have taken important steps to strengthen the legal framework and reduce barriers to doing business. The bankruptcy and commercial pledge laws have filled important gaps in the legal infrastructure. Thirteen cases are moving through the bankruptcy process. FDI licensing requirements and procedures for starting a business have been streamlined, the negative investment list narrowed to accommodate priority investments under Vision 2030, and the efficiency of port clearance improved. The competition policy law has been approved and will become effective later this year and will cover all sectors and firms. Going forward, it will be important that the private sector participation law is passed. Further, the privatization and PPP programs, which have recently seen some transactions start to move forward, should be accelerated and fiscal risks that could emerge from PPPs carefully managed.

35. The authorities want the SME sector to play a more significant role in the economy (Box 5). The contribution of SMEs to GDP and employment is relatively small in Saudi Arabia and the entry of new firms is low (Figure 11). Staff supported initiatives to help young firms and new entrepreneurs who bring added dynamism to the economy by strengthening the ecosystem and improving access to finance and cautioned against schemes that may support less efficient SMEs and could raise contingent fiscal risks for the government.

36. Boosting home ownership is a key pillar of the government's program to boost inclusiveness. The government has developed policies to: (i) provide mortgage guarantee and interest subsidy schemes for first-time buyers; (ii) provide developers access to land and financing; (iii) strengthen and streamline regulations including for construction permits; and (iv) partner with NGOs to increase housing programs for the less well-off. While supporting the objective of improving housing availability, staff encouraged the authorities to focus more on regulating the market and providing support to low-income households.

Box 5. Enhancing the Role of SMEs and Entrepreneurship¹

The SME sector's contribution to growth and employment could be increased. Efforts should focus on human capital, the business environment, and financial inclusion of SMEs and entrepreneurs.

The SME sector could make a more significant contribution to growth and employment. SMEs account for 97 percent of businesses in Saudi Arabia, slightly higher than the emerging and developing economy average, with micro enterprises (1–5 employees) accounting for 85 percent of businesses. SMEs predominantly employ expatriates (75 percent of labor force) and only account for 34 percent of private sector employment. SMEs' contribution to GDP at 22 percent (National Transformation Program, 2018) is slightly below the Arab world average and much lower than the EU average (55 percent of GDP).

The share of bank lending going to SMEs is low at about 5 percent. While it is not clear if this is due to demand or supply issues, measures to improve the business environment, the availability of credit information, and the legal framework can help ensure those viable SMEs that need finance can get it (Blancher and others, 2019).

Promotion of entrepreneurship is an area for development. The rate of firm entry is low and there are significant gaps in the entrepreneurship ecosystem, most notably on human capital, technology absorption, and competition that hinder existing and potential entrepreneurs. A key challenge is the mismatch between educational outcomes and the skills needed in the private sector (IMF, 2018). A growing literature suggests that young firms as opposed to small ones are a main driver of economic dynamism and that size-dependent policies can lead to efficiency losses.²

Saudi Arabia is implementing initiatives to support SME development and entrepreneurship. The Small and Medium Enterprises Authority (SMEA) has launched several initiatives: (i) reimbursement of government taxes and fees for three years for businesses registered between 2016 and 2021; (ii) an increase in the capital of Kafalah, the public credit guarantee scheme; (iii) indirect funding of SAR 1.6 billion to investment institutions, other than banks, to broaden low-cost funding sources for SMEs; and (iv) a Venture Capital fund of SAR 2.8 billion, targeting startups. SMEA is also reviewing regulations to remove barriers to doing business and is helping innovators market their ideas and products. The new public procurement law will also include preferences for SMEs.

Fostering a vibrant and competitive SME sector requires a comprehensive approach. Efforts should focus on improving human capital and the business environment and putting in place the institutional framework to support SME and entrepreneurship financing while avoiding market distortions and contingent fiscal risks.

¹Prepared by Anta Ndoe.

²See Haltiwanger, Jarin, and Miranda, 2013, Criscuolo, Gal, and Menon, 2014, and Garicano, Lelarge, and Van Reenen, 2016.

C. Financial Sector Stability and Development

37. Banks are well positioned to weather asset quality and liquidity shocks. SAMA explained that with credit and liquidity conditions improving and no evidence of financial imbalances emerging, it has kept macroprudential policies unchanged over the past year. In line with recommendations from the 2017 FSSA (Appendix IV), new bank licensing guidelines were issued in December 2018, guidelines for rescheduled and restructured loans (to ensure consistency of treatment by banks) are being drafted, and MoUs are being discussed with several central banks. SAMA has also continued to develop its liquidity management framework—producing weekly and monthly liquidity forecasts.

38. Mortgage lending is expanding rapidly against the backdrop of declining house prices. Staff encouraged SAMA to continue to closely monitor the quality of real estate lending and to reduce, if needed, the LTV ratio for first-time buyers which was increased to 90 percent in early 2018 (Box 6). SAMA explained that mortgage loans are a small share of bank credit, the average LTV is comfortably below SAMA's limit, and that risks are reduced by the salary-assignment of loans and government guarantees on a large share of new mortgages. SAMA indicated that it is closely monitoring mortgage lending and it has recently fined a number of financial institutions for violating responsible lending policies (which limit monthly credit obligations as a share of borrower income).

39. Capital market reforms have culminated in Saudi Arabia's inclusion in global equity and bond market indices this year. The DMO has published an Annual Borrowing Plan and issuance calendar for domestic debt for the first time this year, extended the yield curve through the issuance of a 30-year sukuk, established the primary dealer system, and the first foreign investor has been permitted into the debt market. The domestic investor base is also being broadened through the issuance of small denomination sukuk. The CMA indicated that work is underway to launch a derivatives market by year-end as part of reforms to further deepen domestic financial markets.

Bank Credit to Non-oil GDP

Sources: Country authorities; and IMF staff calculations.

Residential Real Estate Price Index and Retail Real Estate Loans

(Y-o-y percent change)

Sources: Country authorities; AlJammaz et al (2015); Haver; and IMF calculations.

Box 6. The Housing Market¹

Mortgage lending is growing strongly, and real estate prices have declined in recent years. Risks at this stage are limited, but policymakers need to keep a close eye on financial and fiscal risks from the housing market.

Real estate prices have fallen by around 20 percent since 2014. Housing rents have also been falling since early 2017. New supply is being driven by government initiatives to build affordable homes while the departure of expatriates may have slowed housing demand.

The government has initiated programs to build affordable housing and raise home ownership. It is providing access to land and financing to developers and encouraging new building technologies to increase the supply of houses. The white land tax announced in 2016 aims to incentivize land development. The approval of real estate investment traded funds (REITs) in 2016 and other reforms are expected to ease financial constraints faced by developers. In February 2018, a SAR 120 billion mortgage market plan was introduced to provide subsidized loans and support for developers. In addition, the developmental housing program partners with NGOs to build affordable houses for low-income households.

Housing demand is being spurred by credit policies and demographic trends. Increasing urbanization and declining household size are increasing housing demand by Saudis, while the departure of expatriates is slowing demand in the rental segment of the market. A new mortgage law was introduced in 2012 that enabled banks and non-bank institutions to lend for residential real estate. A facilitated mortgage program was introduced in 2016 to help Saudi families obtain mortgage loans. The maximum loan-to-value (LTV) ratio for first-time buyers was increased from 85 to 90 percent in January 2018 and risk weights on mortgage loans have been reduced. The PIF has set-up a mortgage refinance company.

Policymakers should remain vigilant about potential fiscal and financial risks as the real estate market develops. Large house price movements may trigger financial and macro instability as highlighted in the April 2019 Global Financial Stability Report (GFSR). Banks' exposure to the real estate sector is limited—mortgage loans were 17 percent of total bank credit to private sector at end-2018. In addition, mortgage payments are often directly debited from salary, limiting the likelihood of default. Further, many new mortgage loans are guaranteed by the government. Going forward, however, prudential policies should continue to pay close attention to the real estate market and the fiscal impact of housing programs including through PPPs will need to be carefully assessed.

¹Prepared by Yang Yang.

40. Staff welcomed efforts to improve financial access under the Financial Sector Development Program (FSDP). The authorities said that they are exploring agency banking and Fintech to help broaden the channels of access to financial services and increase market competition, particularly in areas outside of the major cities, and noted that the entry of 5 new foreign banks over the past year will boost competition. Staff advised against setting lending targets for specific sectors and noted that mergers between large banks would increase market concentration while common ownership of banks could reduce incentives for competition and innovation (Box 7).

Box 7. The Possible Effects of Common Ownership in Banks¹

Common ownership may reduce incentives for banks to compete. Greater competition may help develop a more dynamic financial sector that supports private sector growth.

An emerging literature argues that firms with common ownership compete less. The traditional view is that firms act to maximize profits for their owners, including by competing against other firms in the same industry. Recent work challenges this view.² As investors have strived to diversify their investments, and as index investing has grown, it is increasingly common for ownership of firms to overlap. If two firms have shared ownership, it is no longer clear that competition between them raises the value of the overall portfolio held by investors. The literature presents empirical findings consistent with this intuition. Depositors in markets served by banks with more common ownership receive lower interest rates.³ Beyond banking, airlines with more common ownership charge higher prices.

Government entities have significant ownership stakes in Saudi banks and this may reduce incentives to compete.

The PIF and the two pension funds have significant ownership in most Saudi banks. Ownership of Saudi banks is concentrated more broadly with large, but not necessarily overlapping, block holdings (individual stakes larger than 5 percent) by other investors. The competitive environment is currently in flux: bank mergers have been approved or are under consideration and new banks are entering the market.

Competition will be important to help achieve the goals of the FSDP. The FSDP aims to develop a financial system to support private sector development and diversification, including by improving access to finance for SMEs. Greater competition supports financial inclusion.⁴ The FSDP also aims to broaden and improve the set of financial instruments that Saudi retail investors can use to save. As noted earlier, greater competition may afford depositors a larger share of the value created by the banking system. While new entrants should help increase competition, success achieving the FSDP's objectives may require a review of the banking sector, including its ownership structures, to ensure that competition is sufficient to deliver the desired outcomes. As increased competition may raise risk taking, continued strong bank regulation and supervision would be needed.

¹ Prepared by Divya Kirti.

² Schmalz (2018), "Common-ownership Concentration and Corporate Conduct." Annual Review of Financial Economics.

³ Azar, Raina, and Schmalz (2016), "Ultimate Ownership and Bank Competition."

⁴ IMF (2019), "Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia". Department Paper 19/02.

41. The authorities are continuing to work to strengthen their AML/CFT framework in line with the recommendations of the September 2018 mutual evaluation report and believe they are making good progress. The National AML/CFT strategy aims to further improve the effectiveness of AML/CFT policy and operations, support anti-corruption policies, and promote the availability of information on beneficial ownership. The authorities indicated that Saudi banks have not seen any change in their correspondent banking relations and have worked over the past year to ensure compliance with regulatory and any additional requirements of correspondent banks. Staff urged the authorities to continue to work to address the issues raised in the mutual evaluation report including on customer due diligence of politically exposed persons, filing of suspicious transaction reports, and pursuing financial investigations.

D. The Exchange Rate and External Adjustment

42. The current account was in a large surplus in 2018, and SAMA's reserves increased and are high compared to Fund ARA metrics. The team assesses the external position in 2018 as having been moderately weaker than consistent with desirable medium-term fiscal policy settings (Appendix V). Fiscal consolidation and increased spending efficiency are needed to strengthen the external position.

43. The staff agreed with the authorities that the peg remains the best exchange rate option for Saudi Arabia given the current structure of the economy. A more flexible exchange rate would boost fiscal revenues in riyal terms, could over time support the development of the non-oil tradable sector, would enable SAMA to follow a more independent interest rate policy, and would enable the real exchange rate to move more closely with the terms of trade. However, a move away from the peg would remove a credible monetary anchor, increase uncertainty, and have limited benefits for competitiveness in the near term. Most exports are oil or oil-related products and the substitutability between imports and domestically-produced products, which in turn have significant labor and intermediate input content, is limited. The peg should, however, be reviewed regularly to ensure it remains appropriate.

E. Statistical Issues

44. The availability of economic data has improved considerably, but further efforts are needed. Saudi Arabia does not yet subscribe to the IMF's Special Data Dissemination Standards (SDDS) and efforts should continue to do so as soon as possible.

STAFF APPRAISAL

45. The authorities are making good progress in implementing their reform agenda.

Non-oil growth has picked up, female labor force participation and employment have increased over the past two years, the successful introduction of the value-added tax has underpinned an increase in non-oil fiscal revenues, energy price reforms have helped reduce per capita consumption of gasoline and electricity, and fiscal transparency has increased. Appropriate prioritization of reform initiatives will be central to their continued success.

46. Fiscal consolidation is needed to rebuild fiscal buffers and reduce medium-term vulnerabilities.

Policy needs to strike a balance between fiscal sustainability and social and development spending. Significantly lower oil prices than assumed in the budget would result in large fiscal deficits unless spending was reduced, but from a starting position of weaker fiscal buffers than in 2014.

47. Fiscal consolidation will require implementing already announced reforms and identifying additional fiscal measures.

Planned energy and water price reforms, supported by compensation for low- and middle-income households, and increases in expatriate labor fees should proceed, although the latter can be implemented more gradually to mitigate the impact on businesses and the economy. The cost-of-living allowances introduced in the January 2018 Royal Decree should be allowed to expire as planned at end-2019. In addition, a reduction in the government wage bill and a more measured increase in capital spending will yield fiscal savings. The introduction of the VAT has been successful, and consideration should be given to raising the rate in consultation with other GCC countries.

48. Improvements in expenditure management need to continue. Important reforms have been implemented but spending has increased as oil prices have risen. The fiscal framework and expenditure management process need to maintain spending at a level that is sustainable across different oil price environments. Placing a greater emphasis on the NEOPD would better delink fiscal policy from oil price volatility. The forthcoming public procurement law and associated reforms should improve the efficiency of government spending and reduce risks of corruption. No exemptions should be made to the law for any entity that uses budget funds.

49. Further steps are needed to strengthen fiscal transparency. Publishing more detailed budget and spending execution data and reconciling budget projections with outcomes would further increase fiscal transparency. Progress should also be made to produce fiscal information on a consolidated public sector basis.

50. A robust sovereign asset/liability management framework is essential. Significant progress has been made in developing the debt management framework. Integrating the investment/borrowing decisions of different government entities into one framework would enable a full analysis of the public sector balance sheet and cash flows and the risk/return tradeoffs.

51. The government is implementing ambitious reforms to develop the non-oil economy.

Industrial policies such as those in NIDLP can help overcome the reluctance of private companies to enter new or riskier sectors but need to be carefully implemented. Government support should be made available to priority sectors rather than specific companies, be time bound, and have strict performance criteria attached. The economic footprint of the public sector remains large and it will be important that government spending and other interventions crowd in rather than crowd out the private sector.

52. Policies to develop new sectors of the economy will be most successful if Saudi workers have the skills needed in the private sector and the incentives to offer them at competitive wages.

The current gap between wages and productivity will need to be reduced. Creative solutions will be needed to ensure government spending achieves its social and economic objectives without hindering incentives for private sector employment. Labor market policies should focus on setting clear expectations about future government employment, strengthening training and education, improving the effectiveness of labor market support programs, and increasing mobility of expatriates through reform of the visa system. Continued gains in female participation and employment will help boost productivity and growth.

53. Reforms to strengthen the legal framework and reduce constraints to business are continuing.

The bankruptcy and commercial pledge laws have filled important gaps in the legal infrastructure, while efforts to streamline procedures for starting a business and port clearances should support business formation and trade. FDI licensing requirements should be reviewed as planned and the privatization and PPP programs, which are now starting to see transactions, accelerated. Efforts to strengthen the governance and AML/CFT frameworks to reduce corruption risks should continue.

54. It is important that reforms are inclusive and lower income households are protected from any negative effects. The introduction of the Citizens' Account Program in December 2017 has appropriately helped shield low- and middle-income households from the higher costs associated with the VAT and energy price reforms. As the government is doing, social assistance programs should be reviewed to ensure they provide adequate financial support to those in need and are well targeted.

55. Banks are profitable, liquid, and well capitalized. Mortgage lending is growing strongly against the backdrop of the decline in real estate prices in recent years and SAMA should continue to keep a careful eye on the quality of real estate lending.

56. Improving financial access is a key goal of the FSDP. The development of agency banking and Fintech could help broaden access to financial services and increase market competition, particularly outside of the major cities. Financial access should be increased for SMEs, women, and youth, although specific sector lending targets should be avoided. As reforms proceed, getting the right balance between innovation and stability will be a key challenge for the financial regulators.

57. Capital market reforms have advanced quickly. Saudi Arabia's inclusion in global equity and bond market indices will increase inflows into the equity market and increase demand for debt. Significant reforms have taken place in the domestic debt market including the introduction of a primary dealer system and the extension of the government yield curve to long-dated maturities. Over time, this will help deepen the private debt market and provide savers with a broader range of instruments.

58. The peg remains the best exchange rate option for Saudi Arabia given the current structure of the economy. Staff assesses the external position in 2018 as having been moderately weaker than consistent with desirable medium-term fiscal policy settings.

59. Improvements in economic data are welcome, but important gaps remain. The authorities should subscribe to SDDS as soon as possible.

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

Figure 1. Real Sector Developments

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

Figure 2. Fiscal Developments

Sources: Country authorities; and IMF staff calculations.

Figure 3. External Sector Developments

Current and Financial Account Balances, 2007-18
(Percent of GDP) International Investment Position
(US\$ billion) Non-oil Export Growth
(Percentage points contributions unless otherwise stated) Import Growth
(Percentage points contributions unless otherwise stated) Spot and Forward Exchange Rates, and Oil Prices
(Saudi Riyal per US\$) Real and Nominal Effective Exchange Rates
(Index, 2010=100; increase = appreciation)

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

Figure 4. 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 5. Inflation and Financial Market Developments

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

Figure 6. Oil Market Developments

Sources: Joint Oil Data Initiative (JODI); Bloomberg; International Energy Agency (IEA); Energy consensus forecast; RES Commodities Unit; and IMF staff calculations.

1/ Derived from prices of futures options on May 28, 2019.

Figure 7. Upside/Downside Oil Price Scenarios 1/

Source: IMF staff calculations.

1/ The low oil price scenario assumes the oil price is one standard deviation below the WEO oil price from 2020 to 2024. The high oil price scenario assumes the oil price is one standard deviation above the WEO oil price for that same time period. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

Figure 8. Baseline and Fiscal Adjustment Scenarios

Sources: Country authorities; IMF staff estimations.

Figure 9. Social Spending

Sources: IMF FAD Expenditure Assessment Tool (EAT); World Bank; World Health Organization, HALE data; EPD pension database.

1/ Teacher student ratio means the number of teachers per 100 students.

Figure 10. Labor Market Developments

Sources: Country authorities (GOSI, GASTAT); ILO; and IMF staff calculations.

1/ Data for high income countries is as of 2015.

2/ The number of employed people is based on labor force and employment rate data provided by GASTAT labor force survey.

3/ The data source is GOSI. Non-Saudis include workers in government and private sectors.

Figure 11. The SME Sector and the Real Estate Market**New Business Entry Density 1/**
(2016 or latest year available) **Saudi Arabia Component Scores, GEI 2018 2/**
(2017 or latest data) **Share of SME Loans to Total Lending**
(Latest available) **Bank Credit to the Construction Sector** **Performance of REITs 3/**
(Index; Jan 2018=1) **Rental Component of the CPI**
(Y-o-y percent change)

Sources: World Bank Doing Business 2019; Global Entrepreneurship Index 2018; Financial Access Survey; Bloomberg; country authorities; and IMF staff estimates.

1/ The World Bank's Doing Business indicators are based on primary data collected from surveys administered to 190 economies of the world. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations. New business density rate measures the number of new businesses per 1,000 working age population per year.

2/ The Global Entrepreneurship Index measures the health of the entrepreneurship ecosystems in each of 137 countries. Higher scores indicate better entrepreneurship ecosystem. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions, and information availability. They may also not reflect more recent important structural transformations.

3/ Average of REITs traded on the stock exchange since 2018 February.

Table 1. Saudi Arabia: Selected Economic Indicators, 2016–24

	2016	2017	2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
(Percent change; unless otherwise indicated)									
National income and prices									
Crude oil production (million of barrels per day)	10.5	10.0	10.3	10.2	10.5	10.6	10.7	10.7	10.8
Average oil export price (U.S. dollars per barrel) ¹	41.5	53.2	67.9	65.5	63.9	60.7	58.5	57.6	57.4
Nominal GDP (SAR billions)	2,419	2,582	2,934	2,947	3,048	3,117	3,206	3,322	3,458
Nominal GDP (US\$ billions)	645	689	782	786	813	831	855	886	922
Nominal non-oil GDP (SAR billions)	1,797	1,824	1,929	1,971	2,061	2,165	2,274	2,391	2,517
Nominal GDP per capita (US\$)	20,289	21,114	23,418	23,061	23,384	23,444	23,637	24,013	24,509
Real GDP	1.7	-0.7	2.2	1.9	3.0	2.4	2.4	2.5	2.5
Oil	3.6	-3.1	2.8	0.7	3.5	1.3	1.3	1.4	1.5
Non-oil	0.2	1.3	2.1	2.9	2.7	3.1	3.1	3.2	3.2
Real GDP—public sector	0.6	0.7	2.8	2.7	1.7	1.0	1.0	1.1	1.1
Real GDP—private sector	0.1	1.5	1.7	3.0	3.2	4.0	4.0	4.1	4.1
Consumer price index (avg)	2.0	-0.9	2.5	-1.1	2.2	2.1	2.1	2.1	2.1
External sector									
Exports f.o.b.	-9.8	20.9	32.8	-3.5	0.2	-3.3	-1.6	-1.4	0.7
Oil	-11.0	25.0	36.0	-4.4	0.1	-4.2	-2.7	-2.5	-0.2
Non-oil	-6.3	8.9	22.0	-0.2	0.3	0.1	2.1	2.1	3.5
Imports f.o.b.	-19.7	-3.5	0.5	3.9	3.9	4.7	4.8	4.9	5.4
Current account balance (percent of GDP)	-3.7	1.5	9.2	6.9	6.0	3.9	2.5	1.2	0.3
Export volume	4.3	-0.9	8.6	-0.2	2.1	1.1	1.8	0.5	1.6
Import volume	-16.0	-5.0	-2.1	3.2	3.6	3.9	4.0	4.1	4.1
Terms of trade	-12.0	23.9	23.5	-4.4	-2.6	-5.6	-4.5	-2.7	-2.0
Money and credit									
Net foreign assets	-15.2	-6.9	-1.0	1.5	0.3	-2.1	-2.8	-5.9	-3.5
Net domestic assets	90.5	16.7	16.2	14.9	11.2	15.2	13.9	11.0	6.9
Of which: claims on private sector	2.4	-0.8	3.0	3.3	3.4	4.4	4.6	5.2	5.5
Money and quasi-money (M3)	0.8	0.2	2.8	3.0	3.5	4.1	4.3	4.9	5.1
3-month Interbank rate (percent p.a.) ²	2.1	1.8	2.8	2.9	...	...	...	...	...
(Percent of GDP)									
Central government finances									
Revenue	21.5	24.1	30.9	33.2	33.2	31.1	31.1	30.8	31.0
Of which: oil	13.8	16.9	20.8	20.9	20.9	20.5	20.9	20.8	21.1
Expenditure	38.7	33.3	36.8	39.7	38.2	38.4	37.9	37.2	36.7
Expense	30.0	28.0	30.4	31.8	29.5	29.6	29.1	29.1	28.9
Net acquisition of non-financial assets	8.6	5.3	6.4	7.9	8.7	8.9	8.8	8.1	7.8
Net lending (+)/borrowing (-)	-17.2	-9.2	-5.9	-6.5	-5.1	-7.3	-6.8	-6.4	-5.7
Excluding oil revenue	-31.0	-26.1	-26.7	-27.5	-26.0	-27.8	-27.7	-27.2	-26.8
Non-oil primary balance/non-oil GDP	-45.7	-39.6	-41.6	-41.1	-38.1	-39.4	-38.2	-36.5	-35.3
Non-exported oil primary balance/non-oil GDP	-44.6	-38.5	-39.5	-38.4	-34.6	-34.9	-31.9	-29.1	-26.6
Central government deposits at SAMA ³	30.2	24.8	19.2	15.8	12.3	7.8	2.2	0.0	0.0
Central government gross debt ³	13.1	17.2	19.1	23.0	24.7	27.2	27.9	31.1	35.6
Central government net financial assets	17.1	7.7	0.1	-7.2	-12.4	-19.4	-25.7	-31.1	-35.6
Memorandum items:									
SAMA's total net foreign assets (US\$ billions)	528.6	488.9	489.6	500.3	504.7	496.1	484.2	457.0	442.9
In months of imports of goods and services ⁴	31.4	27.9	26.7	26.5	25.8	24.5	23.1	21.0	19.5
Imports goods & services/GDP	30.7	29.3	26.9	28.0	27.9	28.3	28.4	28.4	28.4
Real effective exchange rate (2010=100, end of period) ²	120.2	110.9	114.8	111.9	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar ²	3.75	3.75	3.75	3.75	...	...	...	...	...
Population (millions)	31.8	32.6	33.4	34.1	34.8	35.5	36.2	36.9	37.6
Unemployment rate (nationals) ²	12.3	12.8	12.7	12.5	...	...	...	...	...
Unemployment rate (overall) ²	5.6	6.0	6.0	5.7	...	...	...	...	...
Employment growth (percent change) ^{2,5}	1.4	-2.6	-7.8	-4.3	...	...	...	...	...
All-Shares Price Index (TASI) ²	7210	7226	7827	8516	...	...	...	...	...

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

¹ Includes refined products.² For 2019, data is latest available.³ The Government may choose a different financing strategy than assumed in the staff's baseline projections during 2019-24 that would not drawdown its deposits at SAMA.⁴ Next 12 months.⁵ The data source in 2016 and before is labor force survey; and afterwards it is GOSI.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2016–24

	2016	2017	2018	Budget 2019	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
(Billions of Saudi Arabian riyals)										
Revenue	519	622	906	975	978	1,011	971	996	1,025	1,072
Oil	334	436	611	662	617	638	638	670	691	730
Oil revenues from exports	314	416	570	605	564	565	541	526	513	512
Oil revenues from energy price reforms	19	20	41	58	53	72	97	143	178	218
Non-oil	186	186	295	313	361	373	333	326	334	343
Tax revenues	82	87	140	184	161	165	172	180	188	197
Taxes on income, profits, and capital gains	15	14	17	16	17	18	19	19	20	22
Taxes on goods and services (includes excises)	25	38	87	132	103	108	113	118	123	129
Taxes on international trade and transactions	26	20	16	17	16	17	18	18	19	20
Other taxes (including ZAKAT)	17	15	21	18	25	22	23	24	25	26
Non-oil non-tax revenues	104	99	155	129	200	208	161	146	146	145
Property income (excluding oil)	77	57	34	...	21	19	17	13	8	4
Sales of goods and services	15	22	15	...	24	25	27	28	29	31
Fines, penalties, and forfeits	8	12	8	...	21	22	23	24	25	27
Other revenues	5	7	98	...	134	142	94	81	82	84
Expenditure	936	860	1,079	1,106	1,171	1,166	1,199	1,214	1,236	1,269
Expense	726	722	891	860	937	900	921	932	967	1,000
Employee compensation ¹	439	420	484	456	495	467	475	482	489	497
Use of goods and services	150	136	168	175	174	182	191	200	211	222
Interest payments	5	9	15	21	22	26	30	33	37	43
Domestic	5	5	8	...	12	14	17	19	22	27
Foreign	0	4	7	...	10	12	13	14	16	16
Support (subsidies) ²	7	5	13	32	32	25	21	7	7	7
Social benefits ³	41	48	84	73	88	87	91	96	101	106
Grants	5	6	4	3	4	4	4	4	4	5
Other expenses	78	98	122	100	123	109	109	110	117	121
Net acquisition of non-financial assets ⁴	209	138	188	246	234	266	277	282	269	269
Net lending (+)/borrowing (-)	-416	-238	-173	-131	-193	-155	-228	-219	-211	-197
(in percent of GDP)										
Revenue	21.5	24.1	30.9	31.2	33.2	33.2	31.1	31.1	30.8	31.0
Oil	13.8	16.9	20.8	21.2	20.9	20.9	20.5	20.9	20.8	21.1
Oil revenues from exports	13.0	16.1	19.4	...	19.1	18.5	17.4	16.4	15.4	14.8
Oil revenues from energy price reforms	0.8	0.8	1.4	...	1.8	2.4	3.1	4.5	5.4	6.3
Non-oil	7.7	7.2	10.1	10.0	12.2	12.2	10.7	10.2	10.0	9.9
Tax revenues	3.4	3.4	4.8	5.9	5.5	5.4	5.5	5.6	5.7	5.7
Taxes on income, profits, and capital gains	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Taxes on goods and services (includes excises)	1.0	1.5	3.0	4.2	3.5	3.6	3.6	3.7	3.7	3.7
Taxes on international trade and transactions	1.1	0.8	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Other taxes (including ZAKAT)	0.7	0.6	0.7	0.6	0.8	0.7	0.7	0.8	0.8	0.8
Non-oil non-tax revenues	4.3	3.8	5.3	4.1	6.8	6.8	5.2	4.6	4.4	4.2
Property income (excluding oil)	3.2	2.2	1.2	...	0.7	0.6	0.6	0.4	0.3	0.1
Sales of goods and services	0.6	0.9	0.5	...	0.8	0.8	0.9	0.9	0.9	0.9
Fines, penalties, and forfeits	0.3	0.5	0.3	...	0.7	0.7	0.7	0.8	0.8	0.8
Other revenues	0.2	0.3	3.3	...	4.5	4.7	3.0	2.5	2.5	2.4
Expenditure	38.7	33.3	36.8	35.4	39.7	38.2	38.4	37.9	37.2	36.7
Expenses	30.0	28.0	30.4	27.5	31.8	29.5	29.6	29.1	29.1	28.9
Employee compensation ¹	18.2	16.3	16.5	14.6	16.8	15.3	15.2	15.0	14.7	14.4
Use of goods and services	6.2	5.3	5.7	5.6	5.9	6.0	6.1	6.3	6.3	6.4
Interest payments	0.2	0.3	0.5	0.7	0.7	0.9	1.0	1.0	1.1	1.2
Domestic	0.2	0.2	0.3	...	0.4	0.5	0.5	0.6	0.7	0.8
Foreign	0.0	0.1	0.2	...	0.3	0.4	0.4	0.4	0.5	0.5
Support (subsidies) ²	0.3	0.2	0.4	1.0	1.1	0.8	0.7	0.2	0.2	0.2
Social benefits ³	1.7	1.9	2.9	2.3	3.0	2.9	2.9	3.0	3.0	3.1
Grants	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses	3.2	3.8	4.2	3.2	4.2	3.6	3.5	3.4	3.5	3.5
Net acquisition of non-financial assets ⁴	8.6	5.3	6.4	7.9	7.9	8.7	8.9	8.8	8.1	7.8
Net lending (+)/borrowing (-)	-17.2	-9.2	-5.9	-4.2	-6.5	-5.1	-7.3	-6.8	-6.4	-5.7
Non-exported oil primary balance/non-oil GDP	-44.6	-38.5	-39.5	...	-38.4	-34.6	-34.9	-31.9	-29.1	-26.6

Sources: Ministry of Finance; and IMF staff projections.

¹ Including the extra month salary according to Hijri calendar in 2016.² Includes subsidies for social and sports clubs, private education, private hospitals, and other agricultural subsidies.³ Zakat charity transfers, social welfare payments and Hafiz Job-seekers allowance.⁴ Includes a disposal of a non-financial asset (land sale for SAR 70 billion) in 2017.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2016–24 (concluded)

	2016	2017	2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
Net lending (+)/borrowing (-)	-416	-238	-173	-193	-155	-228	-219	-211	-197
Financing ⁵	367	224	175	193	155	228	219	211	197
Net acquisition of financial assets	-193	-98	-58	-75	-80	-134	-172	-70	0
Domestic	-193	-98	-75	-82	-80	-134	-172	-70	0
Deposits at SAMA (+, buildup)	-293	-89	-79	-97	-90	-134	-172	-70	0
Loans and equity	100	-9	4	14	10	0	0	0	0
Foreign	0	0	16	8	0	0	0	0	0
Net incurrence of liabilities (- = repayment)	174	126	117	118	76	94	46	141	197
Domestic	97	58	49	79	79	79	68	173	144
Banks	91	40	24	39	39	39	34	87	72
Nonbanks	6	18	24	39	39	39	34	87	72
Foreign	103	81	71	41	41	41	53	75	75
Amortization	-26	-13	-3	-2	-44	-26	-74	-107	-22
Domestic	-26	-13	-3	-2	-44	-5	-57	-36	-22
Foreign	0	0	0	0	0	-21	-17	-71	0
Residual/ Gap (+ve = overfinancing)	-49	-14	2	0	0	0	0	0	0
(In percent of GDP)									
Net lending (+)/borrowing (-)	-17.2	-9.2	-5.9	-6.5	-5.1	-7.3	-6.8	-6.4	-5.7
Financing ⁵	15.2	8.7	6.0	6.5	5.1	7.3	6.8	6.4	5.7
Net acquisition of financial assets	-8.0	-3.8	-2.0	-2.5	-2.6	-4.3	-5.4	-2.1	0.0
Domestic	-8.0	-3.8	-2.5	-2.8	-2.6	-4.3	-5.4	-2.1	0.0
Deposits at SAMA (+, buildup)	-12.1	-3.5	-2.7	-3.3	-2.9	-4.3	-5.4	-2.1	0.0
Loans and equity	4.1	-0.3	0.1	0.5	0.3	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (- = repayment)	7.2	4.9	4.0	4.0	2.5	3.0	1.4	4.2	5.7
Domestic	4.0	2.3	1.7	2.7	2.6	2.5	2.1	5.2	4.2
Banks	3.8	1.6	0.8	1.3	1.3	1.3	1.1	2.6	2.1
Nonbanks	0.2	0.7	0.8	1.3	1.3	1.3	1.1	2.6	2.1
Foreign	4.3	3.1	2.4	1.4	1.4	1.3	1.6	2.3	2.2
Amortization	-1.1	-0.5	-0.1	-0.1	-1.5	-0.8	-2.3	-3.2	-0.6
Domestic	-1.1	-0.5	-0.1	-0.1	-1.5	-0.2	-1.8	-1.1	-0.6
Foreign	0.0	0.0	0.0	0.0	0.0	-0.7	-0.5	-2.1	0.0
Residual/ Gap (+ve = overfinancing)	-2.0	-0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Non-oil overall balance	-750	-674	-784	-810	-793	-866	-888	-902	-927
Non-oil primary balance	-821	-722	-803	-809	-786	-853	-868	-873	-888
Non-oil revenue (excl. investment income)/non-oil GDP	6.1	7.0	13.5	17.2	17.2	14.6	13.8	13.6	13.5
Current balance	-207	-100	14	41	111	50	63	58	72
Non-oil primary balance/non-oil GDP	-45.7	-39.6	-41.6	-41.1	-38.1	-39.4	-38.2	-36.5	-35.3
Government gross domestic debt/GDP	8.8	10.0	10.4	12.9	13.6	15.7	15.6	19.2	21.9
Government external debt	4.3	7.1	8.7	10.1	11.1	11.5	12.3	12.0	13.7
Government gross debt/GDP	13.1	17.2	19.1	23.0	24.7	27.2	27.9	31.1	35.6
Government deposits at SAMA/GDP	30.2	24.8	19.2	15.8	12.3	7.8	2.2	0.0	0.0
Government net financial assets/GDP	17.1	7.7	0.1	-7.2	-12.4	-19.4	-25.7	-31.1	-35.6
Government Deposits at SAMA (SAR billions)	731	641	562	466	376	243	70	0	0
GDP market prices (SAR billions)	2,419	2,582	2,934	2,947	3,048	3,117	3,206	3,322	3,458
Non-oil GDP (SAR billions)	1,797	1,824	1,929	1,971	2,061	2,165	2,274	2,391	2,517
Average oil export price	41.5	53.2	67.9	65.5	63.9	60.7	58.5	57.6	57.4

Sources: Ministry of Finance; and IMF staff projections.

⁵ The Government may choose a different financing strategy than assumed in the staff's baseline projections during 2019–24 that would not drawdown its deposits at SAMA.

Table 3. Saudi Arabia: Fiscal Operations of the Budgetary Central Government, AGIs, and Public Investment Fund, 2011–18
(Percent of GDP)

	2011	2012	2013	2014	2015 ¹	2016 ¹	2017 ¹	2018 ¹
I. Budgetary central government								
Revenue	44.4	45.2	41.2	36.7	25.0	21.5	24.1	30.9
Expenditure	32.8	33.2	35.5	40.2	40.8	38.7	33.3	36.8
Overall balance	11.6	11.9	5.6	-3.5	-15.8	-17.2	-9.2	-5.9
Primary balance	11.9	12.2	5.8	-3.4	-15.7	-17.0	-8.9	-5.4
II. Autonomous Government Institutions (AGIs)								
Public Pension Agency (PPA)								
Revenue	1.4	3.2	3.3	2.0	1.3	2.9	3.3	1.9
Expenditure	1.5	1.6	1.6	1.8	2.2	2.7	2.6	2.7
Overall balance	-0.2	1.6	1.6	0.2	-0.9	0.2	0.6	-0.8
General Organization for Social Insurance (GOSI)								
Revenue	1.0	1.0	1.3	1.7	2.0	2.1	2.4	2.2
Expenditure	0.4	0.5	0.7	0.6	0.8	0.9	1.0	0.9
Overall balance	0.6	0.5	0.7	1.1	1.2	1.2	1.4	1.3
III. Public Investment Fund (PIF)								
Revenue	0.6	0.7	0.7	1.4	....	....	....	....
Expenditure	0.2	0.1	0.04	0.0	....	....	....	....
Overall balance	0.4	0.6	0.6	1.4	....	....	....	....
IV. Total (=I+II+III)								
Overall balance	12.4	14.7	8.6	-0.9	....	....	....	....
Primary balance	12.7	14.9	8.8	-0.7	....	....	....	....
Memorandum items: net assets(+)/debt (-)								
i. Central government debt	-5.4	-3.0	-2.1	-1.6	-5.8	-13.1	-17.2	-19.1
ii. Autonomous government institutions ²	31.0	30.4	33.6	34.4	37.6	39.4	39.7	34.0
<i>Of which: PPA</i>	17.1	17.2	18.6	18.5	19.4	19.4	18.2	14.0
<i>Of which: GOSI</i>	13.9	13.2	15.0	15.8	18.2	20.1	21.4	20.0
iii. Public Investment Fund	8.3	9.3	9.8	11.0	....	....	....	....
iv. Total (=i+ ii+ iii)	33.9	36.6	41.2	43.8	....	....	....	....
v. Central government deposits at SAMA	42.4	50.2	53.0	48.6	41.7	30.2	24.8	19.2
vi. Net assets (iv + v)	76.2	86.8	94.2	92.4	....	....	....	....

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

¹ PIF data is unavailable for 2015–2018 as the accounts have not been completed due to the ongoing move from cash to accruals accounting.

² Does not account for future pension liabilities.

Table 4. Saudi Arabia: Balance of Payments, 2016–24
(\$ billions)

	2016	2017	2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
Current account	-23.9	10.5	72.3	54.4	48.8	32.3	21.6	10.4	3.1
(Percent of GDP)	-3.7	1.5	9.2	6.9	6.0	3.9	2.5	1.2	0.3
Trade balance	55.7	98.5	170.5	155.3	150.8	135.2	124.0	112.9	106.5
Exports	183.6	221.9	294.5	284.2	284.7	275.3	270.8	267.0	268.8
Oil exports	136.2	170.2	231.6	221.3	221.6	212.2	206.4	201.2	200.8
Other exports	47.4	51.6	63.0	62.9	63.1	63.1	64.4	65.8	68.1
Imports (f.o.b.)	-127.8	-123.4	-124.0	-128.9	-133.9	-140.1	-146.8	-154.0	-162.3
Services	-53.0	-60.4	-68.4	-71.9	-73.0	-74.0	-74.1	-74.4	-75.3
Transportation	-12.0	-11.5	-11.7	-11.4	-11.4	-11.4	-11.4	-11.4	-11.4
Travel	-5.6	-5.5	-4.3	-3.4	-3.0	-2.6	-2.2	-1.8	-1.4
Other private services	-35.5	-43.5	-52.4	-57.1	-58.9	-60.6	-61.3	-62.3	-64.0
Income	15.7	10.7	7.5	8.5	8.7	9.2	9.9	10.3	10.7
Of which: Investment income ¹	16.3	11.2	8.1	9.0	9.3	9.8	10.4	10.8	11.3
Current transfers	-42.3	-38.3	-37.3	-37.5	-37.7	-38.1	-38.2	-38.4	-38.8
Of which: Workers' remittances	-37.0	-35.3	-32.7	-32.9	-33.1	-33.5	-33.6	-33.8	-34.2
Capital Account	-0.9	-1.8	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	10.7	-46.8	-65.8	-43.7	-44.4	-40.9	-33.5	-37.6	-17.2
Direct Investment	-1.5	-5.9	-18.0	-17.8	-12.1	-11.5	-11.0	-10.6	-10.2
Abroad	-8.9	-7.3	-21.2	-21.1	-15.5	-15.1	-14.7	-14.5	-14.4
In Saudi economy	7.5	1.4	3.2	3.3	3.4	3.6	3.8	4.0	4.2
Portfolio investments	11.4	2.5	-6.6	11.9	-0.9	-13.1	-10.0	-1.5	2.3
Assets	-5.4	-19.2	-20.0	-18.1	-16.9	-15.6	-14.5	-13.5	-12.7
Liabilities	16.8	21.7	13.4	30.0	16.0	2.5	4.5	12.0	15.0
Other investments	0.8	-43.5	-41.2	-37.8	-31.4	-16.4	-12.6	-25.5	-9.3
Assets	-8.2	-47.8	-53.1	-42.8	-36.4	-21.4	-17.6	-14.5	-14.3
Liabilities	9.0	4.2	11.9	5.0	5.0	5.0	5.0	-11.0	5.0
Net errors and omissions	-66.6	-1.2	-4.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-80.6	-39.4	0.2	10.7	4.4	-8.6	-11.9	-27.2	-14.1
Financing	80.6	39.4	-0.2	-10.7	-4.4	8.6	11.9	27.2	14.1
Change in SAMA's NFA (- increase)	78.3	39.7	-0.3	-10.7	-4.4	8.6	11.9	27.2	14.1
Memorandum items:									
SAMA's total net foreign assets	528.6	488.9	489.6	500.3	504.7	496.1	484.2	457.0	442.9
(In months of imports) ²	31.4	27.9	26.7	26.5	25.8	24.5	22.3	21.0	19.5
Net International Investment Position (Percent of GDP)	92.6	90.6	85.5	91.8	94.7	96.5	96.4	94.2	90.8
Non-oil current account/GDP	-24.8	-23.2	-20.4	-21.2	-21.3	-21.6	-21.6	-21.5	-21.4
WEO oil price (US\$/barrel)	42.8	52.8	68.3	65.5	63.9	60.7	58.5	57.6	57.4
Average Saudi oil price (US\$/barrel) ³	41.5	53.2	67.9	65.5	63.9	60.7	58.5	57.6	57.4
Oil production (mbd)	10.5	10.0	10.3	10.2	10.5	10.6	10.6	10.6	10.6
Oil exports (mbd)	9.0	8.8	9.3	9.3	9.5	9.6	9.7	9.6	9.6
Oil exports/total exports	74.2	76.7	78.6	77.9	77.8	77.1	76.2	75.4	74.7
Imports of goods/GDP	19.8	17.9	15.9	16.4	16.5	16.9	17.2	17.4	17.6
GDP (US\$ billion)	644.9	688.6	782.5	786.0	812.9	831.3	854.9	885.9	922.3
Government External Debt (US\$ billion)	27.5	49.0	68.0	79.0	90.0	95.5	105.0	106.0	126.0
US 6-month LIBOR (Percent)	1.1	1.5	2.5	2.8	3.0	3.2	3.2	3.2	3.1

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

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

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

³ The average price of all oil exports, including refined products.

Table 5. Saudi Arabia: Monetary Survey, 2016–24

	2016	2017	2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024
(Billions of Saudi Arabian riyals)									
Foreign assets (net)	2,128	1,981	1,961	1,992	1,998	1,956	1,901	1,789	1,727
SAMA	1,982	1,833	1,836	1,876	1,892	1,860	1,816	1,714	1,661
Commercial banks	146	148	126	116	106	96	86	76	66
Domestic credit (net)	902	1,053	1,225	1,407	1,564	1,802	2,053	2,279	2,437
Net claims on government	-552	-387	-257	-122	-16	155	332	471	532
Claims on government	178	254	305	343	360	397	402	471	532
Government deposits with SAMA	-731	-641	-562	-466	-376	-243	-70	0	0
Claims on state enterprises	49	47	47	47	47	47	47	47	47
Claims on private sector	1,405	1,394	1,435	1,482	1,533	1,600	1,674	1,761	1,858
Money and quasi-money (M3)	1,787	1,791	1,841	1,897	1,963	2,042	2,129	2,233	2,347
Money (M1)	1,144	1,172	1,218	1,224	1,267	1,319	1,375	1,442	1,515
Currency outside banks	170	172	180	180	187	194	202	212	223
Demand deposits	974	1,000	1,038	1,044	1,081	1,124	1,172	1,229	1,292
Quasi-money	643	619	623	672	696	724	755	792	832
Time and savings deposits	492	448	439	474	490	510	532	558	586
Other quasi-money deposits	151	171	184	199	206	214	223	234	246
Other items (net liabilities)	1,243	1,244	1,345	1,502	1,599	1,715	1,825	1,835	1,816
(Changes in percent of beginning broad money stock)									
Foreign assets (net)	-21.5	-8.2	-1.1	1.6	0.3	-2.1	-2.7	-5.3	-2.8
Domestic credit (net)	24.2	8.5	9.6	9.9	8.3	12.1	12.3	10.6	7.1
Net claims on government	21.7	9.2	7.2	7.3	5.6	8.7	8.7	6.5	2.7
Claims on government	5.2	4.3	2.8	2.1	0.9	1.9	0.3	3.2	2.7
Government deposits (increase -)	16.5	5.0	4.4	5.2	4.7	6.8	8.4	3.3	0.0
Claims on state enterprises	0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.9	-0.7	2.3	2.6	2.7	3.4	3.6	4.1	4.3
Money and Quasi-money	1.97	0.2	2.8	3.0	3.5	4.1	4.3	4.9	5.1
Other items (net liabilities)	1.9	0.0	5.7	8.5	5.1	5.9	5.4	0.5	-0.8
(Percent change; unless otherwise indicated)									
Foreign assets (net)	-15.2	-6.9	-1.0	1.5	0.3	-2.1	-2.8	-5.9	-3.5
Domestic credit (net)	90.5	16.7	16.2	14.9	11.2	15.2	13.9	11.0	6.9
Of which: claims on private sector	2.4	-0.8	3.0	3.3	3.4	4.4	4.6	5.2	5.5
Money and quasi-money	0.8	0.2	2.8	3.0	3.5	4.1	4.3	4.9	5.1
Other items (net liabilities)	2.8	0.0	8.1	11.7	6.5	7.2	6.4	0.6	-1.0
(Percent; unless otherwise indicated)									
Memorandum items:									
Specialized Credit Institutions credit (SAR billions)	239.7	236.9	230.7	...	...	...	...	...	...
Ratio of M3-to-GDP	73.9	69.4	62.8	64.4	64.4	65.5	66.4	67.2	67.9
Ratio of Claims on private sector-to-non-oil GDP	78.2	76.4	74.4	75.2	74.4	73.9	73.6	73.6	73.8
Sources: Saudi Arabian Monetary Authority (SAMA); and IMF staff estimates.									

Table 6. Saudi Arabia: Financial Soundness Indicators, 2011–18
(Percent, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
Banking sector								
Structure of the banking sector								
Number of licensed banks	23	23	23	23	23	24	25	29
Number of banks accounting for:								
25 percent of total assets	2	2	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6	6	6
Total assets (percent of GDP)	61.5	63.0	67.8	75.2	90.0	93.3	89.9	80.5
Of which: Foreign currency-denominated (as percent of total assets)	13.5	12.3	11.1	11.8	14.3	10.0	10.5	9.4
Total loans (percent of GDP)	39.8	36.3	40.1	44.1	55.5	57.9	54.1	48.6
Credit to private sector (percent of GDP)	30.0	34.9	38.6	42.5	53.9	55.9	52.2	47.0
Total deposits, excluding interbank (as percent of GDP)	44.0	45.8	50.2	55.6	65.4	66.9	63.1	56.6
Central bank credit to banks (as percent of GDP)	...	...	...	...	...	...	...	...
Capital adequacy								
Regulatory capital to risk-weighted assets	17.6	18.2	17.9	17.9	18.1	19.5	20.4	20.3
Asset quality								
Net loans to total assets	55.8	58.2	59.8	60.3	62.4	62.8	62.2	62.6
Gross NPLs to gross loans	2.2	1.7	1.3	1.1	1.2	1.4	1.6	2.0
Total provisions to gross NPLs	132.8	145.1	157.4	182.9	164.4	177.0	151.9	157.2
Net NPLs to total capital ¹	-3.0	-3.7	-3.4	-4.1	-3.7	-4.7	-3.4	-4.8
Total provisions for loan losses (as percent of total loans)	3.1	2.8	2.2	2.1	2.2	2.6	2.6	3.2
Loans to property and construction sector to total loans	8.1	7.5	6.8	6.7	7.8	7.5	6.4	6.8
Loans to domestic manufacturing sector to total loans	13.0	12.6	12.5	12.7	12.7	12.6	11.6	11.9
Contingent and off-balance sheet accounts to total assets	96.2	91.7	90.8	100.2	100.8	84.2	76.2	71.3
Profitability								
Profits (percent change)	18.4	8.4	6.5	12.5	6.3	-5.4	8.2	10.7
Average pretax return on assets	2.1	2.1	2.0	2.0	2.0	1.8	2.0	2.1
Return on equity	15.0	15.1	14.6	14.8	14.4	12.5	12.9	13.9
Noninterest expenses to total income ²	46.9	47.0	47.7	45.5	37.1	38.0	36.6	36.3
Average lending spread	4.1	3.8	3.7	3.5	3.4	3.5	3.5	3.9
Liquidity								
Liquid assets to total assets	23.7	23.7	21.6	22.3	17.5	20.3	21.6	22.3
Liquid assets to short-term liabilities ³	37.2	36.4	33.2	33.6	27.3	31.8	34.6	35.5
Customer deposits to net loans	135.9	131.9	129.3	127.7	121.7	119.5	119.4	123.0
Demand deposits to total deposits	58.1	59.8	61.1	62.8	60.8	60.2	61.8	62.5
Sensitivity to market risk								
Foreign currency-denominated deposits to total deposits	12.2	13.0	12.6	10.0	10.0	7.6	8.6	8.7
Foreign currency-denominated loans to total loans	12.4	11.7	10.6	9.9	8.9	8.2	8.0	8.4
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	47.9	41.3	34.6	39.1	35.3	28.3	27.1	27.1
Net open foreign currency position to capital	6.7	1.7	6.4	3.7	4.0	2.6	4.0	6.4
Stock market								
Stock market capitalization (percent of GDP)	50.6	50.9	62.8	63.9	64.4	69.5	65.9	63.4
Overall stock market price index (change in percent)	-3.1	6.0	25.5	-2.4	-17.1	4.3	0.2	8.5
Bank stock price index (change in percent)	-12.7	0.4	22.0	2.5	-14.9	-67.4	8.2	31.1

Source: Saudi Arabian Monetary Authority.

¹ The negative sign reflects that provisions exceed gross NPLs.

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

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

Table 7. Saudi Arabia: Inclusive Growth Indicators

	EM			EM	
	Indicator	Average		Indicator	Average
Growth			Labor Markets 2/		
GDP per capita growth (percent; 2015-18 average)	-0.1	3.4	Unemployment rate (% of total labor force, 2019 or latest available)	12.5	8.7
Gross Fixed Capital Formation (percent of GDP; 2015-17 average)	26.2	23.9	Female unemployment rate (% of female labor force, 2019 or latest available)	31.7	11.4
Poverty and Inequality			Youth unemployment rate (% of total labor force ages 15-24, 2019 or latest available)	45.8	20.4
Poverty headcount ratio at \$3.20/day (percent of population)	n.a.	14.4	Labor force participation (% of total population ages 15+, 2019 or latest available)	42.3	59.7
Multidimensional poverty (percent of population)	n.a.	8.6	Female labor force participation (% of female population ages 15+, 2019 or latest available)	20.5	45.0
Prevalence of stunting (% of children under 5, 2005)	9.3	15.8	Youth labor force participation (% of population ages 15-24, 2019 or latest available)	15.4	39.2
GINI Index (2018 or latest available)	42.2	38.9			
Child mortality (per 1,000, 2016)	12.9	38.9	Business Environment 3/ 4/		
Growth in mean consumption (growth, %, bottom 40th percentile)	n.a.	2.5	Ease of Doing Business	62.5	60.8
Human Development and Access to Services			Registering property	81.2	59.3
Human Development Index (2017) /1	0.8	0.7	Enforcing Contracts	58.8	55.3
Life expectancy at birth (years, 2016)	74.6	73.2	Paying Taxes	75.0	67.0
Access to electricity (% of population, 2016)	100.0	95.0	Getting electricity	79.9	68.7
Net school enrollment, secondary, total (% population, 2013)	85.0	74.9	Trading across borders	75.0	69.2
Individuals using internet (% population, 2016)	73.8	54.3	Global Competitiveness Index	4.8	4.1
Literacy rate (% population, 2015)	95.0	90.9	Governance 4/		
Government			Global Competitiveness Index - Institutions Index (2017)	5.0	3.7
Commitment to reducing inequality index (2017)	n.a.	0.37	Government Effectiveness (WGI, 2016)	0.2	-0.1
Government spending on social safety net programs (percent of GDP, 2018)	n.a.	1.8	Regulatory Quality (WGI, 2016)	0.1	-0.1
Coverage of social safety net programs in poorest quintile (% population)	n.a.	56.3	Rule of Law (WGI, 2016)	0.5	-0.2
Government expenditure on education, total (% GDP, 2017)	8.1	4.7	Control of Corruption (WGI, 2016)	0.2	-0.2
Health expenditure, domestic general government (% of GDP, 2016)	4.2	3.5	Corruption Perceptions Index (TI, 2017) 5/	49.0	40.4
Access to Finance			Gender Equity and Inclusion		
Account at a financial institution (% age 15+, 2017)	71.7	55.8	Female employment to female population aged over 15 (% , 2017)	20.3	40.5
Domestic credit to private sector (% GDP, 2017)	54.3	48.8	Literacy rate (female vs male, %, 2013)	93.8	94.7
Loans to SMEs (% of GDP, 2018)	3.7	10.5	Net school enrollment, secondary (female vs male, %, 2014)	97.6	102.6
			Gender Gap Index (2017) 6/	0.6	0.7

Higher than EM Average

Lower than EM Average

Sources: World Bank, Doing Business Index; Worldwide Governance Index; World Economic Forum, Global Competitiveness Index; Transparency International; country authorities; and IMF staff calculations.

1/ The Human Development Index is a statistic composite index of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development.

2/ Data for Saudi Arabia is for nationals only. EM average is based on ILO estimates.

3/ Shown as distance to frontier (DTF) in 2018 unless otherwise stated.

4/ Indicators use official sources and surveys to summarize perceptions of the quality of governance and business environments. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographic coverage, and standardized assumptions on business constraints, and information availability. They may also not reflect more recent important structural transformations.

5/ The Corruption Perception Index ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people. The confidence interval for Saudi Arabia ranges from 39 to 59.

6/ The Gender Gap Index ranks countries according to calculated gender gap in four key areas: health, education, economy and politics to gauge the state of gender equality in a country.

Table 8. Saudi Arabia: Selected SWF and NOC Financial Information Disclosure Practices 1/

	Azerbaijan	Canada (Alberta)	Colombia	Kazakhstan	Mexico	Norway	Russia	Saudi Arabia	UAE
Sovereign Wealth Funds									
The law requires that spending/withdrawals from the SWF pass through the national budget	No	Yes	Yes	Yes	Yes	Yes	Yes	No	N/A ⁶
From 2015 onwards, withdrawals/spending from the SWF actually passed through the normal budgetary processes with no known exceptions	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No
The law (or a publicly documented policy) requires the SWF to produce annual financial reports	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	N/A ⁶
The law (or a publicly documented policy) requires the SWF to publicly disclose annual financial reports	Yes	Yes	Yes	Yes	N/A	Yes	Yes	No	N/A ⁶
The SWF's most recent publicly available report covers a fiscal year ending in 2015–17	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No ²	No
The law (or a publicly documented policy) requires the SWF's annual financial reports to be periodically audited	Yes	Yes	Yes	Yes	No	Yes	Yes	No ³	N/A ⁶
The SWF's most recent publicly available report specifies the size of the fund for the fiscal year covered by the report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No ⁴	N/A
The SWF's most recent publicly available annual report discloses deposit and withdrawal amounts for the fiscal year covered by the report	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	N/A
The SWF's most recent publicly available annual report specifies investment returns for the fiscal year covered by the report	Yes	Yes	Yes	Yes	N/A	Yes	Yes	No	N/A
The SWF's most recent publicly available annual report includes a list of assets held for the fiscal year covered by the report	Yes	Yes	Yes	Yes	N/A	Yes	Yes	No	N/A
The law requires the legislature to review to SWF's annual financial reports	No	Yes	Yes	No	No	Yes	Yes	No	N/A ⁶
The legislature has reviewed the SWF's annual financial reports with no known exceptions	N/A	Yes	Yes	N/A	N/A	Yes	Yes	N/A	N/A
National Oil Companies									
The government publicly discloses how much revenue it receives from the NOC, and the most recent publicly available data covers a fiscal year ending in 2015 - 2017	Yes	N/A	Yes	Yes	Yes	Yes	No	Yes	No
The NOC publicly discloses how much revenue it transfers to the government, and the most recent publicly available data covers a fiscal year ending in 2015 - 2017	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes ⁵	No
The law (or a publicly documented policy) requires the NOC to publicly disclose annual reports on its finances and operations	Yes	N/A	Yes	Yes	Yes	Yes	Yes	No	No
The NOC's most recent publicly available annual report on its operations covers a fiscal year ending in 2015 - 2017	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes ⁵	No
The NOC's most recent publicly available annual report includes a balance sheet and an income statement for the fiscal year covered by the annual report	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes ⁵	N/A
The law (or a publicly documented policy) requires the NOC's annual financial statements to be periodically audited by an external body	Yes	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes
The law requires the NOC to submit annual reports on all its activities to the legislature	No	N/A	No	No	Yes	No	No	Yes	Yes ⁷
From 2015 onwards, the NOC has engaged in non-commercial activity (e.g., payment for social services, public infrastructure, fuel subsidies, etc.)	Yes	N/A	No	Yes	Yes	No	Yes	Yes	Yes
The NOC has disclosed the amount spent on each non-commercial activity	Yes	N/A	N/A	No	Yes	N/A	No	No ⁵	No

Source: IMF staff adaptation from Natural Resource Governance Institute, 2017 *Resource Governance Index*.

¹Prepared by Ashni Kumar Singh (FAD) and Nabil Ben Ltaifa (MCD).

²SAMA foreign asset holdings are published in SAMA's monthly statistical bulletins on the SAMA website. The PIF does not publish an annual financial report.

³SAMA foreign asset holdings are audited annually. The PIF legislation does not include a reference to audit.

⁴The PIF program (2018–2020) gives an asset value for 2017 Q3.

⁵Aramco's recently published prospectus includes audited balance sheets and income statements for 2018 and 2017, as well as disclosures on revenue transferred to government. It also includes aggregated information on related party transactions and some information on non-commercial activity.

⁶There are separate SWFs in each emirate in UAE (and one for the federal government) and these SWFs are subject mainly to local rules.

⁷Annual reports with financial statements are required to be submitted to the Supreme Petroleum Council, which can be regarded as providing oversight in place of the legislature.

Appendix I. Risk Assessment Matrix¹

Nature/source of main risks	Likelihood/Time Horizon	Expected impact on the economy if risk is realized	Policy Response
Large swings in energy prices , reflecting offsetting—but large and uncertain—supply and demand shocks.	Medium/Short-to-medium-term	High	
		A substantial decline in oil prices would lead to a further widening of the fiscal deficit. If the price decline is persistent, additional fiscal adjustment would be needed with negative consequences for growth, employment, credit, and banking system liquidity. Asset quality in the banking system would deteriorate. A higher oil price would lead to stronger fiscal, growth and employment outcome in the near-term. However, if accompanied by a further increase in spending, fiscal vulnerabilities would rise over the medium-term.	Fiscal policy should be anchored in a medium-term framework to reduce the risks of procyclical expenditure 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.
Rising protectionism and retreat from multilateralism	High/Short-to-medium-term	High	
		The negative consequences of escalating and sustained trade actions would reduce global growth including through adverse confidence effects for financial markets, which will likely lead to a substantial decline in oil prices. This would lead to a deterioration in external and fiscal balances with adverse effects for growth, employment, and the financial sector (see above).	As above, while continuing to support the multilateral rules-based trading system.
Weaker than expected global growth	Medium-to-High/Short-to-medium-term	High	
		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).	As above.
Slippages in the reform agenda would reduce prospects for stronger growth and employment over the medium-term	Medium/ Medium-term	High	
		The failure 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. Changes in investor risk sentiment could also affect external financing and increased government involvement in the economy may crowd-out the private sector.	Complete the structural reforms to boost non-oil growth and labor market reforms to increase the competitiveness of Saudi nationals in the private sector. Implement a gradual but sustained fiscal adjustment that balances the need for public investment to support the economic reforms with the need to limit medium-term fiscal vulnerabilities. Carefully calibrate public sector support to ensure the private sector is crowded-in and drives diversification and growth.
Intensification of security risks including in the Middle East	High/Short-to-medium-term	Medium/Low	
		The impact on the Saudi economy would depend on the nature of the event. The impact on oil prices is the most likely channel of transmission, although pressures on military and security spending could also increase.	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 scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix II. Productivity Growth in Saudi Arabia¹

Productivity growth in Saudi Arabia has declined since the global financial crisis. Employment remains largely concentrated in low-productivity industries while most firms have moved further away from the productivity frontier. Product market and labor reforms are needed to improve resource allocation across and within sectors. Investments in human capital and innovation are crucial for improving productivity over the long term.

1. Real non-oil GDP growth has slowed since the global financial crisis in line with emerging markets. In the period 2000–08, non-oil growth averaged around 6.3 percent a year and since 2009 it has averaged 4.7 percent a year. Since the decline in oil prices in 2014, the rate of non-oil growth has slowed further. Non-oil growth has continued to outperform oil sector growth (Figure 1).

2. Negative productivity growth has partly contributed to the decline in non-oil growth. As shown in Figure 2, a growth accounting exercise indicates that growth in the non-oil sector can be largely attributed to physical capital accumulation and employment growth, with a limited contribution from total factor productivity (TFP) growth. In the 2000s, the ratio of non-oil investment to non-oil GDP increased significantly, partly reflecting government investments in the non-oil sector, which were made possible by higher oil revenues. Employment growth was also significant, reflecting higher employment growth for Saudi workers compared to non-Saudi workers. TFP also registered positive growth. However, during 2009–18, TFP growth turned negative while both employment and capital accumulation growth slowed, resulting in an average non-oil growth rate of 4.7 percent in 2009–018, relative to 6.3 percent in 2000–08.

¹Prepared by Anta Ndoye and Yang Yang. Tian Zhang provided research assistance.

Figure 2. Accounting for Non-oil Growth, 2000-18

3. Firm-level data confirms negative TFP growth across most industries since the global financial crisis. The Orbis database is used to estimate firm-level TFP in Saudi Arabia for the period 2009–17. The methodology proposed in Gandhi, Navarro and Rivers (2018) is used to estimate firm-level TFP. Gross output is assumed to be a function of two types of inputs—flexible inputs including material inputs and costs of labor and capital as the inflexible input.² The results suggest that average firm TFP growth in many industries has declined since the global financial crisis (Figure 3). Electricity and water supply, construction, and manufacturing led the decline in productivity, whereas ICT, mining, and transportation saw positive TFP growth. The aggregate TFP constructed from firm-level data correlates positively with TFP estimated from aggregate data (Figure 3).

² The number of observations for Saudi Arabia is too small to directly estimate TFP by industry. Instead, input shares are estimated for 28 countries for which there are enough observations and the necessary data for TFP estimation. Averages of the estimated input shares are taken to estimate firm TFP in Saudi Arabia. Input shares and firm TFP are estimated at the two-digit industry level.

4. In addition, most firms in Saudi Arabia have moved further away from the productivity frontier. Similar to Aghion and Howitt (2006), the U.S. is used as the benchmark for the “productivity frontier”. The analysis shows that firms in Saudi Arabia are on average less productive than firms in the U.S. in all sectors except transportation. Saudi Arabia’s distance to the productivity frontier has increased since the financial crisis in most industries except transportation and ICT.

5. Labor productivity growth is estimated at the sectoral level. To measure labor productivity growth, a variant of the canonical decomposition originating from Fabricant (1942) is used (also see Timmer and De Vries 2014):

$$\Delta P = \sum_i (P_i^T - P_i^0) S_i^0 + \sum_i (S_i^T - S_i^0) P_i^0 + \sum_i (P_i^T - P_i^0) (S_i^T - S_i^0)$$

where S_i is the share of sector i in overall employment, P_i the labor productivity level of sector i , and superscripts 0 and T refer to initial and final period. In the equation, the change in aggregate productivity is decomposed into three terms. The first term on the right-hand side is the 'within-effect,' which is positive when the net change in labor productivity for all sectors (weighted by their employment shares) is positive. The second term measures the contribution of labor reallocation across sectors, being positive when labor moves from less to more productive sectors (structural change). The third term is the cross or interaction term and represents the interaction of changes in employment shares and sectoral productivity growth.

6. Results indicate that labor productivity growth has also been falling (Figure 4).³ The decline in non-oil output growth and the unchanged sector shares in total employment led to a decline in labor productivity growth during 2008–16. Within the non-oil economy, shift effects stemming from the declining share of the retail and public sectors have, however, boosted labor productivity growth. But labor remains mainly concentrated in lower productivity sectors. Indeed, the public sector and the construction sector represent half of the total employment in the economy, but labor productivity is relatively low in these sectors. In contrast, the two most productive sectors in the non-oil economy, finance and transport, represent a small share of employment. The shift of labor from low to higher productivity sectors has been an important source of aggregate productivity growth for both advanced and emerging economies (McMillan and Harttgen 2014, Dabla-Norris et al. 2013, and Hnatkovska and Lahiri 2014). This has not happened in Saudi Arabia.

7. Limitations of the employment data in Saudi Arabia prevent a more up-to-date analysis of sectoral labor productivity. The statistical agency stopped publishing sectoral employment data from the labor force survey (LFS) after 2016Q3 and has now stopped publishing all employment data from the LFS since 2018Q3. Instead, it is publishing employment data based on contributors to the private sector pension fund and data from the Ministry of Civil Service, which is only available from 2016Q3. It is possible, and indeed quite likely given the sharp decline in the number of expatriates, that labor productivity has increased, particularly in the construction and retail sectors, over the past two years. However, data limitations prevent further analysis.

8. Policies to boost productivity should focus on product and labor market reforms and investments in human capital and innovation. Product and labor market reforms reduce the misallocation of resources both within and across industries and promote productivity growth (Dabla-Norris et al., 2015). In this regard, removing barriers to entry, enhancing economic competition, and eliminating price distortions are key to improving productivity growth. Labor market policies that focus on changing the incentives for Saudis to work outside the government and for firms to hire nationals and improvements in human capital are also needed to boost productivity growth (IMF, 2019).

³ The period considered in this analysis is 2008–16 due to the lack of sectoral employment data prior to 2008 and after 2016.

Figure 4. Labor Productivity and Employment

Sources: Country authorities; and IMF staff calculations.

References

Aghion, P. and Howitt, P., 2006. *"Appropriate growth policy: a unifying framework."* Journal of the European Economic Association, 4(2–3), pp.269–314.

Dabla-Norris, M., Thomas, M., Garcia-Verdu, M. and Chen, M., 2013. *"Benchmarking structural transformation across the world"*. International Monetary Fund.

Dabla-Norris, M., Guo, M., Haksar, M., Kim, M., Kochhar, M., Wiseman, K. and Zdzienicka, A., 2015. *"The new normal: A sector-level perspective on productivity trends in advanced economies."* International Monetary Fund.

Fabricant, S., 1942. *"Employment in Manufacturing, 1899–1939: An Analysis of Its Relation to the Volume of Production."* National Bureau of Economic Research.

Gandhi, A., Navarro, S. and Rivers, D., 2018. *"On the identification of gross output production functions."* Manuscript.

International Monetary Fund, 2019. *"Policies to Drive Diversification in Saudi Arabia."*

Lahiri, A. and Hnatkovska, V., 2014. *"Structural Transformation and the Rural-Urban Divide."* In 2014 Meeting Papers (No. 746). Society for Economic Dynamics.

McMillan, M.S. and Harttgen, K., 2014. *"What is driving the African Growth Miracle?"* National Bureau of Economic Research.

De Vries, G., Timmer, M. and De Vries, K., 2015. *"Structural transformation in Africa: Static gains, dynamic losses."* The Journal of Development Studies, 51(6), pp.674–688.

Appendix III. Fiscal and External DSAs¹

Figure 1. Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP unless otherwise indicated)

	Debt, Economic and Market Indicators ^{1/}										As of March 12, 2019		
	Actual			Projections									
	2008-2016 ^{2/}	2017	2018	2019	2020	2021	2022	2023	2024				
Nominal gross public debt	7.3	17.2	19.1	23.0	24.7	27.2	27.9	31.1	35.6	Sovereign Spreads			
										EMBIG (bp) 3/		146	
Public gross financing needs	-1.1	9.7	6.0	6.6	6.5	8.1	9.1	9.6	6.3	5Y CDS (bp)		81	
Net public debt													
Real GDP growth (in percent)	4.1	-0.7	2.2	1.9	3.0	2.4	2.4	2.5	2.5	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	1.7	7.6	11.2	-1.5	0.4	-0.1	0.5	1.1	1.6	Moody's	A1	A1	
Nominal GDP growth (in percent)	6.1	6.8	13.6	0.4	3.4	2.3	2.8	3.6	4.1	S&P's	A-	A-	
Effective interest rate (in percent) ^{4/}	5.3	2.8	3.4	3.9	3.8	4.0	3.9	4.2	4.1	Fitch	A+	A+	

	Contribution to Changes in Public Debt											
	Actual			Projections								
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative		
Change in gross public sector debt	-0.4	4.1	1.9	3.9	1.7	2.5	0.7	3.3	4.5	16.5	debt-stabilizing primary	
Identified debt-creating flows	-0.5	6.8	3.0	4.6	2.4	3.0	1.1	3.5	4.6	19.2	balance ^{9/}	
Primary deficit	-1.6	11.1	6.6	6.5	4.9	6.9	6.2	5.5	4.6	34.5	0.0	
Primary (noninterest) revenue and grants	36.5	21.9	29.7	32.5	32.5	30.6	30.6	30.6	30.9	187.7		
Primary (noninterest) expenditure	35.0	33.0	36.3	39.0	37.4	37.5	36.8	36.1	35.5	222.3		
Automatic debt dynamics ^{5/}	-0.2	-0.5	-1.5	0.7	0.1	0.4	0.3	0.2	0.0	1.6		
Interest rate/growth differential ^{6/}	-0.2	-0.5	-1.5	0.7	0.1	0.4	0.3	0.2	0.0	1.6		
Of which: real interest rate	0.0	-0.6	-1.2	1.0	0.8	1.0	0.9	0.8	0.8	5.2		
Of which: real GDP growth	-0.3	0.1	-0.3	-0.4	-0.7	-0.6	-0.6	-0.7	-0.8	-3.7		
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	...	...	...	...	...	...	...		
Other identified debt-creating flows	1.3	-3.8	-2.0	-2.5	-2.6	-4.3	-5.4	-2.1	0.0	-16.9		
Accumulation of deposits (negative)	0.9	-3.5	-2.7	-3.3	-2.9	-4.3	-5.4	-2.1	0.0	-18.0		
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	-0.3	0.7	0.7	0.3	0.0	0.0	0.0	0.0	1.1		
Residual, including asset changes ^{8/}	0.0	-2.8	-1.1	-0.7	-0.6	-0.6	-0.4	-0.3	-0.1	-2.7

Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

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

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

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

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

¹Prepared by Anta Ndoye and Nabil Ben Ltaifa.

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

Source: IMF staff.

Figure 3. External Debt Sustainability, Bound Tests 1/ 2/
(External debt in percent of GDP)

Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2020.

Table 1. Saudi Arabia: External Debt Sustainability Framework, 2014–24
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
Baseline: External debt	13.1	13.8	24.6	27.7	28.3	30.2	31.1	31.7	32.5	30.3	31.8	2.2	
Change in external debt	-4.3	0.7	10.8	3.0	0.6	1.9	1.0	0.6	0.8	-2.3	1.5		
Identified external debt-creating flows (4+8+9)	-8.0	11.4	5.9	0.5	-8.6	-1.2	-1.0	0.3	0.9	1.6	2.2		
Current account deficit, excluding interest payments	-9.8	8.6	3.5	-1.9	-9.3	-4.5	-3.9	-2.8	-2.0	-1.2	-0.4		
Deficit in balance of goods and services	-12.7	4.5	-0.4	-5.4	-11.7	-6.7	-5.9	-4.6	-3.6	-2.7	-1.8		
Exports	46.9	33.3	31.1	34.7	39.8	35.8	34.9	34.1	33.5	32.7	31.9		
Imports	34.2	37.8	30.7	29.3	28.1	29.1	29.0	29.5	29.8	30.0	30.1		
Net non-debt creating capital inflows (negative)	2.0	0.7	2.0	3.4	3.1	2.8	2.6	2.5	2.3	2.2	2.1		
Net foreign direct investment, equity	0.3	0.4	-0.2	-0.9	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0		
Net portfolio investment, equity	-2.3	-1.1	-1.8	-2.6	-2.0	-2.0	-1.7	-1.5	-1.4	-1.2	-1.1		
Automatic debt dynamics 1/	-0.1	2.1	0.4	-1.0	-2.4	0.5	0.4	0.6	0.6	0.6	0.6		
Denominator: 1+g+r+gr	1.0	0.9	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0		
Contribution from nominal interest rate	0.1	0.1	0.2	0.5	1.0	1.1	1.2	1.3	1.3	1.4	1.3		
Contribution from real GDP growth	-0.6	-0.6	-0.2	0.2	-0.5	-0.5	-0.9	-0.7	-0.7	-0.8	-0.7		
Contribution from price and exchange rate changes 2/	0.4	2.7	0.4	-1.7	-2.8	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	3.7	-10.7	4.9	2.6	9.2	3.1	2.0	0.3	-0.1	-3.8	-0.7		
External debt-to-exports ratio (in percent)	27.9	41.5	79.1	79.6	71.0	84.2	89.2	93.0	97.2	92.7	99.6		
Gross external financing need (in billions of US dollars) 4/	-31.9	-31.9	111.0	66.5	39.7	-12.0	30.5	37.5	49.1	57.4	66.3		
in percent of GDP	-4.2	-4.9	17.2	9.7	5.1	-1.5	3.8	4.5	5.7	6.5	7.2		
Scenario with key variables at their historical averages 5/						30.2	30.8	31.4	32.0	29.4	30.5	2.2	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Nominal GDP (US dollars)	756.4	654.3	644.9	688.6	782.5			786.0	812.9	831.3	854.9	885.9	922.3
Real GDP growth (in percent)	3.7	4.1	1.7	-0.7	2.2	3.5	3.2	1.9	3.0	2.4	2.4	2.5	2.5
Exchange rate appreciation (US dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	-2.3	-16.9	-3.0	7.6	11.2	3.1	11.7	-1.5	0.4	-0.1	0.5	1.1	1.6
GDP deflator in US dollars (change in percent)	-2.3	-16.9	-3.0	7.6	11.2	3.1	11.7	-1.5	0.4	-0.1	0.5	1.1	1.6
Nominal external interest rate (in percent)	0.5	0.5	1.4	2.4	3.9	1.3	2.1	3.8	4.2	4.4	4.4	4.3	4.5
Growth of exports (US dollar terms, in percent)	-8.5	-38.6	-7.9	19.1	30.2	5.7	26.4	-9.6	0.8	-0.1	0.9	1.1	1.7
Growth of imports (US dollar terms, in percent)	12.6	-4.5	-19.9	2.0	8.8	4.4	13.0	4.1	3.2	4.0	3.9	4.1	4.6
Current account balance, excluding interest payments	9.8	-8.6	-3.5	1.9	9.3	10.6	11.3	4.5	3.9	2.8	2.0	1.2	0.4
Net non-debt creating capital inflows	-2.0	-0.7	-2.0	-3.4	-3.1	0.2	3.2	-2.8	-2.6	-2.5	-2.3	-2.2	-2.1
1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.													
2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).													
3/ For projection, line includes the impact of price and exchange rate changes.													
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.													
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.													
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.													

Appendix IV. Progress in Implementing the Key 2017 FSSA Recommendations¹

Recommendation	Progress Made
Banking Oversight	
Update the Banking Charter and Banking Control Law to delete contradictory and redundant provisions and revoke Article 21 on the power of the Minister of Finance, under exceptional circumstances, to exempt any bank from regulation.	A review of all laws by an internal committee in SAMA has concluded that some laws need to be updated and a new Banking Secrecy Law needs to be introduced. Drafts are being reviewed in preparation for submission to the legislature body.
Codify and publish all bank legislative circulars and eliminate those superseded.	SAMA has developed an internal Circulars Portal which is currently being tested. It will then be made available on the SAMA website.
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 approved in December 2018 and have been published on SAMA's website.
Provide guidance to banks on mapping the risk profiles of Islamic products to the Basel framework.	SAMA has developed guidelines for mapping the risk profile of Islamic products to the Basel framework. Banks have been consulted. The guidelines are currently being finalized for publication.
Adopt the draft regulation on loan classification and ensure regular, comprehensive reporting on the size of rescheduled and restructured loans.	SAMA has modified the draft regulation on loan classification. Once restructuring guidelines and practices are approved, SAMA will issue these regulations for consultation.
Require banks to establish formal policies and procedures for loan rescheduling, refinancing, and restructuring and to submit prudential returns on such loans.	A restructured loans project was recently completed. The resulting restructuring guidelines and practices are waiting approval.
Strengthen cross-border cooperation by entering into MoUs with foreign regulators.	Necessary approvals have been obtained for entering into an MoU with the FSC and the FSS in the Republic of Korea in the area of financial institutions supervision. An MoU with the United Arab Emirates in the areas of Financial Services and Market cooperation has been signed.

¹Prepared by Yang Yang with input from SAMA staff.

Liquidity Management	
Establish a liquidity-forecasting framework to guide money market operations.	A liquidity forecasting model has been developed and tested. The results were presented to the Monetary policy committee. The forecast is now added to the regular monetary policy update.
Financial Safety Nets	
Adopt and implement the Draft Resolution Law (DRL).	The DRL and its explanatory notes have been submitted to the Royal Court for approval.
Establish an Emergency Liquidity Assistance (ELA) framework.	In progress.
Establish a timeframe for DPF deposit payouts and ensure a back-up funding line.	Discussions are ongoing with the World Bank to provide Technical Assistance.
Macroprudential Policy	
Broaden the definition of debt service to income in the regulations to include all types of debt and income.	The principles that set the debt service to income ratio were issued in May 2018 and fully implemented in August 2018.
Strengthen data collection and use for the household, corporate, and real estate sectors.	Work is ongoing to strengthen data collection. Monthly residential new mortgages finance data is now published.

Appendix V. External Sustainability Assessment¹

Staff's assessment is that the external position in 2018 was moderately weaker than the level consistent with desirable fiscal policy settings. Fiscal adjustment needs to be implemented over the medium-term to further strengthen the current account and increase saving for future generations.

1. In 2018, the current account (CA) surplus increased to 9.2 percent of GDP compared to 1.5 percent of GDP in 2017. Exports increased by 33 percent largely due to higher oil prices

(export volumes increased by 8.6 percent due to increased oil production in 2018) and imports of goods increased marginally, by 0.5 percent (import volumes fell by 2.1 percent). The terms of trade improved by 23.5 percent in 2018 and the trade balance by 7.5 percent of GDP. From a savings-investment perspective, the current account moved into surplus because of the smaller public-sector saving-investment gap. The CA surplus is expected to decline to 6.9 percent of GDP in 2019 as oil revenues decline (the terms of trade is projected to decline by 4.4 percent) and import growth continues. Over the medium-term, the CA surplus continues to narrow as oil export revenues decrease slightly and import growth continues. The oil price is assumed to be \$65.5 in 2019, declining to \$57.4 in 2024 (\$67.9 in 2018).

¹Prepared by Anta Ndoye.

2. Financial outflows remained sizeable in 2018. The government continued to issue debt in international markets (\$19 billion for the central government and \$11 billion for the PIF) and public sector institutions continued to accumulate external assets. Errors and omissions were small, at 0.6 percent of GDP in 2018 relative to 10 percent of GDP in 2016.

3. Foreign exchange reserves increased marginally in 2018 and remain more than adequate compared to standard Fund coverage metrics. There was a slight increase of fx reserves of \$0.7 billion in 2018 (fx reserves fell by \$40 billion in 2017).

SAMA's net foreign assets stood at \$490 billion (63 percent of GDP, 26.7 months of imports, 100 percent of broad money and 414 percent of the Fund's reserve adequacy metric) at end-2018. The fund's composite metric to measure the adequacy of precautionary reserves (developed for emerging markets) is calculated as a weighted sum of four components reflecting potential sources of pressure on reserves. In the case of Saudi Arabia, exports of goods and services and broad money contribute the most to the ARA metric, while short term external debt and other liabilities represent a much smaller share. The reserve coverage, of 414 percent of the metric in 2018, declining to 247 percent of the metric by 2024, as the current account surplus narrows and investments overseas by public sector institutions continue as part of the diversification strategy under the government's Vision 2030

Foreign Reserve Adequacy Assessment (In \$ billion, unless stated otherwise)

	2013	2014	2015	2016	2017	2018	Proj.						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
External short term debt	36	49	37	40	43	47	48	50	52	53	50	51	
Other liabilities (portfolio liabs + other invt liabs - STD) 1/	21	13	44	70	92	119	153	172	178	186	190	209	
Broad Money	412	461	473	477	478	491	506	523	545	568	596	626	
Exports of goods and services	388	355	218	201	240	313	303	305	296	293	290	598	
Actual Net Foreign Reserves	717	724	609	529	489	490	500	505	496	484	457	443	
ARA metric	95	99	89	94	103	118	126	132	135	139	142	180	
Foreign Reserves as a % of the ARA metric (in percent) 3/	755	732	684	563	474	414	397	382	367	348	323	247	
Foreign Reserves in percent of GDP	96.0	95.8	93.1	82.0	71.0	62.6	63.7	62.1	59.7	56.6	51.6	48.0	
Foreign Reserves in percent of broad money	174	157	129	111	102	100	99	96	91	85	77	71	
Foreign Reserves in 3 months of imports of goods and services	11.1	11.7	12.3	10.5	9.3	8.9	8.8	8.6	8.1	7.7	7.0	6.5	
	114	112	104	93	85	83	84	84	83	82	80	83	
Adjusted ARA metric 2/						160	165	188	203	215	223	261	
Foreign Reserves as a % of the Adjusted ARA metric (in percent) 3/						307	302	269	244	226	205	170	

1/. Based on SPR's calculation of reserves recommended for fixed exchange rate regimes.

2/. The ARA metric is adjusted over the projection period, to include an additional buffer that captures oil export losses from a scenario of low oil prices. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations," June 2016.

3/. As a rule of thumb, reserves within 100-150 percent of the new ARA metric are considered adequate.

Sources: Country authorities and IMF staff estimates.

plan. Reserves are more than adequate for precautionary purposes relative to the Fund's recommended range of reserves of 100 to 150 percent. Further adjustment of the ARA metric to take account of the risks to the external accounts from the reliance on oil export revenues by using an oil price that is on average 33 percent lower than in the baseline still finds that reserve coverage is above the recommended range at 170 percent in 2024.

4. Saudi Arabia has a sizable positive net IIP position despite the substantial drawdown of reserves since 2015. Net IIP was estimated at 86 percent of GDP at end-2018, down from 91 percent in 2017. Despite an increase in the nominal value of external assets and liabilities, largely reflecting the increase in other investment assets and new bond issuance by the government, net external assets declined due the large increase in nominal GDP driven by the oil price increase. Projections suggest that the NIIP-to-GDP ratio will increase over the medium-term to around 91 percent of GDP in 2024 as the current account (CA) remains in surplus in the near term and moves to broad balance by 2024. Nevertheless, while the net IIP position is strong, external savings are not sufficient from an intergenerational equity perspective. No details are available on the composition of external assets. The average return on assets is estimated at 1.8 percent and that on liabilities at 2.8 percent in 2018—the measured return on foreign assets may have been reduced in 2017 and 2018 by the significant volume of new investments that public entities made which may take time to generate a financial return.

5. A consumption-based model suggests the current account surplus may be too low. The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports.² Subject to this constraint, the government would choose a path for imports, and hence a current account norm, that would support intergenerational equity—and some precautionary savings in view of volatile oil prices—through an appropriate pace of accumulation of net foreign assets. Import trajectories ("annuities or allocation rules") are calculated under two different policy scenarios:

² Proven oil reserves at end of 2018 were 257 billion barrels. Staff projections assume that the oil production grows at a constant rate (1 percent) due to domestic consumption and, peaks at 11.4 million barrels in 2030 and then decline at a rate of 1 percent, along with consumption and exports. Oil prices increase by 2 percent, the GDP deflator increase by 2.1 percent, and real non-oil GDP grows by 3.2 percent after 2024. Future oil revenues are discounted at 5.5 percent, the assumed rate of return on externally held financial wealth/NFA, while population growth is 0.5 percent.

(i) constant real per capita annuity; and (ii) constant real annuity.³ These estimated CA norms suggest that the actual (in 2018) and projected current account balances are somewhat below the constant real annuity and the constant real per capita annuity. The current account norms in 2018 are estimated at 12.6 percent of GDP and 9.4 percent of GDP under the constant real per capita annuity and constant real annuity allocation rules respectively (these estimates are subject to considerable uncertainty and sensitive to the parameters assumed, including oil prices). The corresponding current account gaps— i.e. the change in the current account needed to be consistent with the PIH rules— are estimated, respectively at -3.4 percent and -0.2 percent of GDP.

6. An investment-based model indicates that there is a small current account gap over the medium-term. This model accounts for the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which is not explicitly considered by the consumption-based model.⁴ The investment-based model predicts an average current account gap of 0.3 percent over the medium-term. Among many parameters, investment efficiency is an important parameter that determines the optimal level of investment. Large inefficiencies in investments lower the level of optimal investment and therefore lead to higher current account norms.⁵ Increasing the efficiency of public investment would reduce the current account norm over the medium-term.

³ See Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries," IMF Working Paper 09/281.

⁴ Araujo, J.D., B.G. Li, M. Poplawski-Ribeiro, and L-F. Zanna, 2016, "Current Account Norms in Natural Resource Rich and Capital Scarce Economies," *Journal of Development Economics*, Vol. 120, pp. 144–156.

⁵ A value of 0.4 (i.e. 40 percent) is assumed for investment efficiency, at the mid-point of regional estimates for the Middle-East and North Africa region and lower than in high-income countries (Pritchett, 2000, "The Tyranny of Concepts: CUDIE (Cumulated, Depreciated, Investment Effort) Is not Capital," *Journal of Economic Growth*, 5, pp 361–384.). This is in line with previous estimates of investment efficiency for Saudi Arabia ("Investment and Growth in the Arab World A Scoping Note", 2015, IMF)

7. Estimates based on the EBA-lite methodology suggest that the cyclically adjusted current account balance is close to the estimated norm in 2018. The EBA-lite methodology builds on the EBA approach and is applied to a wider group of countries. The EBA-lite approaches provide regression-based estimates of current account and real effective exchange norms and gaps for countries. Norms are the estimated levels of the current account based on underlying fundamentals, while gaps are the deviations of observed values from the norms. The cyclically adjusted current account norm for 2018 is estimated at 9.4 percent of GDP compared with a cyclically-adjusted current account of 8.9 percent of GDP, producing an estimated current account gap of -0.6 percent of GDP. This gap is primarily driven by current fiscal policy settings (difference between the actual and desired fiscal policy in 2024 and actual and desired health spending).

8. The REER depreciated in 2018. The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. The REER depreciated by 1 percent in 2018 (y-o-y) and was on average 7 percent above its 10-year average. As of May 2019, the REER depreciated by about 0.7 percent relative to the 2018 average. Exchange rate movements have a limited impact on competitiveness in the short run. Most exports are oil or oil-related products and the substitutability between imports and domestically-produced products, which in turn have significant labor and intermediate input content, is limited. For 2018, the REER regression model indicates an overvaluation of 15 percent compared to the level implied by fundamentals and desirable policies, but the model fits poorly for Saudi Arabia. The REER has generally been negatively correlated with oil prices and an alternative regression using oil prices suggests a smaller overvaluation of 1 percent for 2018. Staff estimates a REER gap in 2018 in the range of 5–10 percent. As fiscal consolidation proceeds, it would be expected that the REER gap would continue to narrow.

9. The Riyal peg to the U.S. dollar serves Saudi Arabia well. The pegged exchange rate provides Saudi Arabia with a longstanding and credible policy anchor. Given the close link between the fiscal and external balance and the structure of the Saudi Arabian economy, with exports dominated by oil and oil-related products and limited substitutability between imports and domestically produced goods, external adjustment will be driven by fiscal policy rather than the exchange rate.

	Saudi Arabia										Overall Assessment			
Foreign asset and liability position and trajectory	<p>Background. Net external assets are estimated at 86 percent of GDP at end-2018, down from 91 percent of GDP in 2017 and 105 percent in 2015.^{1/} Projections suggest the NIIP-to-GDP ratio will increase slightly over the medium-term (to around 91 percent of GDP by 2024) as the current account (CA) remains in surplus in the near-term and moves to broad balance by 2024. No details are available on the composition of external assets.</p> <p>Assessment. The external balance sheet remains very strong. Substantial accumulated assets represent both savings of exhaustible resource revenues for future generations and protection against vulnerabilities from oil price volatility.</p>										<p>Overall Assessment: <i>The external position in 2018 was moderately weaker than the level consistent with desirable medium-term fiscal policy settings.</i></p> <p>The pegged exchange rate provides Saudi Arabia with a credible policy anchor. Given the close link between the fiscal and external balance and the structure of the economy, with exports dominated by oil and oil-related products and limited substitutability between imports and domestically produced goods, external adjustment will be driven primarily by fiscal policy.</p> <p>The external balance sheet remains very strong. Reserves remain very comfortable when judged against standard Fund metrics, although external savings are not sufficient from an intergenerational equity perspective. Reserves are expected to decline over the medium-term as the CA moves to broad balance and investments overseas by public sector institutions continue.</p> <p>Potential policy responses: Fiscal consolidation is needed to strengthen the CA and increase saving for future generations. Fiscal adjustment should be based on further energy price reforms, non-oil revenue measures, expenditure restraint and increased efficiency of spending, supported by reforms to strengthen the fiscal framework. Structural reforms that help diversify the economy and boost the non-oil tradeable sector over the medium-term can also support a stronger external position over the long run.</p>			
2018 IIP (% GDP)	NIIP	85.5	Gross Assets	--	Res. Assets	63.2	Gross Liab.	--	Debt Liab.	28.3				
Current account	<p>Background. The CA balance increased further, reaching a surplus of 9.2 percent of GDP in 2018, up from a surplus of 1.5 percent in 2017 and a deficit of close to 9 percent in 2015. The trade balance improved by 7.5 percent of GDP, as the 36 percent increase in oil export revenues more than offset the 10 percent increase in imports of services. The terms of trade improved by 23.5 percent in 2018 as oil prices rose. The CA surplus is expected to decline to 6.9 percent of GDP in 2019 as oil revenues decline (the terms of trade are projected to decline by 4.4 percent) and import growth continues. Over the medium-term, a gradual decline in oil exports and import growth should push the CA into broad balance.^{2/}</p> <p>Assessment. The reliance on oil subjects the CA to wide swings and complicates the application of standard external assessment methodologies. The estimated CA gap varies with the methodology. The estimated CA gap in 2018 is -0.6 percent of GDP using the EBA-lite approach. The consumption-based allocation model suggests a CA gap of -0.2 percent of GDP and -3.4 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The investment-needs model suggests a CA gap of 0.3 percent of GDP.^{3/} Staff assesses a CA gap of -1.7 percent of GDP with a range from 0 to -3.4 percent of GDP in 2018. Fiscal adjustment needs to be implemented to strengthen the CA over the medium-term.</p>													
CA Assessment 2018	Actual CA	9.2	Cycl. Adj. CA	8.9	EBA CA Norm	...	EBA CA Gap	...	Staff Adj.	...			Staff CA Gap	-1.7
Real exchange rate	<p>Background. The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. The REER depreciated by 1 percent in 2018 (y-o-y) and was on average 7 percent above its 10-year average. As of May 2019, the REER depreciated by about 0.7 percent relative to the 2018 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. Staff estimates an average REER gap in 2018 in the range of 5–10 percent. Fiscal consolidation will help narrow the REER gap as domestic absorption is restrained.</p>													
Capital and financial accounts: flows and policy measures	<p>Background. Recorded net financial outflows increased in 2018 as public sector institutions continued to accumulate external assets. Errors and omissions were small at around 0.6 percent of GDP in 2018 compared to 10.3 percent of GDP in 2016. FX reserves increased marginally. Reserves are expected to decline over the medium-term as the CA moves to broad balance and investments overseas by public sector institutions continue as part of the diversification strategy under the government's Vision 2030 plan.</p> <p>Assessment. Analysis of the financial account is complicated by the lack of detailed information on the nature of the financial flows and the large errors and omissions in the balance of payments in some years. The strong reserves position limits risks and vulnerabilities.</p>													
FX intervention and reserves level	<p>Background. The assets of the Public Investment Fund (PIF) are increasing although most of the government's foreign assets are held at the central bank within international reserves. Reserves increased slightly to \$490 billion (63 percent of GDP, 26.7 months of imports and 414 percent of the Fund's reserve adequacy metric) at end-2018 but are down from \$724 billion in 2014. The reserve coverage is expected to decline to 247 percent of the Fund's ARA metric by 2024, above the Fund's recommended range of reserves of 100 to 150 percent.</p> <p>Assessment. Reserves play a dual role—savings for both precautionary motives and for future generations. Reserves are more than adequate for precautionary purposes (measured by the Fund's metrics). Nevertheless, continued fiscal adjustment is needed to strengthen the CA and increase savings for future generations.</p>													

		Overall Assessment
Technical Background Notes	<p>1/ Despite an increase in the nominal value of external assets and liabilities, net external assets declined due the large increase in nominal GDP driven by the oil price increase. The NIIP may be underestimated given the large errors and omissions in the balance of payments over many years and inconsistencies between the BoP and IIP data.</p> <p>2/ At current oil production, a \$1 change in the oil price results in a 0.5 percent of GDP first-round change in the CA balance. The oil price is assumed to be \$65.5 in 2019, declining to \$57.4 in 2024 (\$67.9 in 2018).</p> <p>3/ EBA models do not include Saudi Arabia. Staff considered three methodologies, including two that incorporate the special intertemporal considerations that are dominant in economies in which exports of non-renewable resources are a very high share of output and exports. The consumption-based model (Bems, R., and I. de Carvalho Filho, 2009) assumes 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 for the consumption-based model were 12.6 percent of GDP and 9.4 percent of GDP for the constant real per capita annuity and constant real annuity allocation rules, respectively. Using the EBA-lite approach, the cyclically-adjusted CA norm is estimated at 9.4 percent of GDP under the EBA-lite approach. The investment needs model (Araujo and al, 2016) takes account the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which was not explicitly considered by the consumption-based model) and produced a CA gap of 0.3 percent over the medium-term.</p>

SAUDI ARABIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 21, 2019

Prepared By

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

CONTENTS

FUND RELATIONS	2
RELATIONS WITH THE WORLD BANK GROUP	5
STATISTICAL ISSUES	7

FUND RELATIONS

(As of May 31, 2019)

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	8,875.34	88.82
Reserve tranche position	1,117.28	11.18
Lending to the Fund		
New Arrangement to Borrow	429.27	

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	6,682.50	100.00
Holdings	6,087.49	91.10

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund

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

			Forthcoming		
	2019	2020	2021	2022	2023
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	3.34	6.71	6.71	6.71	6.71
Total	3.34	6.71	6.71	6.71	6.71

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 SDR 5.65 billion. The outstanding amount under the credit arrangement as of May 31, 2019 is about SDR 429.27 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 March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with investments totaling SDR 94.4 million. In April 2006, these investments were extended to end-December 2021 with an additional investment of SDR 38.2 million, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. Additionally, in April 2005, Saudi Arabia agreed to provide a grant contribution of \$4 million (equivalent to SDR 2.6 million) to subsidize Emergency Natural Disaster Assistance to low-income countries. In May 2012, Saudi Arabia pledged a new grant contribution of SDR 16.7 million in subsidy resources to the PRGT, which will

be disbursed at end-December 2021. In October 2012 and October 2013, Saudi Arabia provided subsidy resources to the PRGT through the transfer of its full share in the distributions of the general reserve attributed to windfall gold sale profits, totaling SDR 71.87 million. Regarding loan resources, the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement with the Saudi Arabian Monetary Authority (SAMA) in May 2011, by which Saudi Arabia would provide new loan resources of up to SDR 500 million, of which SDR 136.29 million had been drawn by end-May 2019 and remains outstanding. 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. The Saudi Arabian Riyal was formally pegged to the U.S. dollar, effective January 2003 and the exchange arrangement is classified as a conventional peg. Prior to that, it was officially pegged to the SDR at the rate of SAR 5.2625=SDR 1, with margins of 7.25 percent even though in practice it has been pegged to the U.S. dollar since 1986, with a middle rate of SAR 3.7450=\$1. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373.

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during May 2–14, 2018 in Riyadh. The staff report was considered by the Executive Board on July 16, 2018 and published on August 24, 2018 (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=46195>).

Technical Assistance:

- STA** GDDS Meta Data Development January-February 2008.
 G20 Data Gap Initiative, January 2011.
 Balance of Payment Statistics, March 2011.
 National Accounts Statistics, April 2012.
 Balance of Payment Statistics, November 2012.
 SDDS Assessment, March 2013.
 G20 Data Gap Initiative, May 2014.
 Monetary and Financial Statistics, December 2015.
 Government Finance Statistics, March-April 2017 and April-May 2018.
 Balance of Payments Statistics, March 2018.
 Producer Price Index, March 2019.

- MCM** Stress testing, January 2010, December 2014, February and June 2015.
 Establishing a Debt Management Office, March 2016.
 Liquidity Management, March 2017.
 Regulatory, Supervisory and Oversight Framework for CCPs and CSDs, January, March, and April 2018.
 Monetary Policy Implementation and Operations, June-July 2018
 Policy Framework Development & IFRS-Regulatory Provisioning, September-October 2018.
- FAD** Options for Indirect Taxation, February–March 2006.
 Public Financial Management and Statistics, jointly with STA, September 2006.
 Tax Administration, November 2006.
 Enhancing Budget Process Reforms January–February 2008.
 Budget Institutions and GFSM2001 (with participation of STA), June 2012.
 GFSM2001 Training Course, April 2013.
 Training workshop on Structural Fiscal Balance Rules as a Guide for Policy, February 2014.
 Establishing a Macro-Fiscal Unit, January 2016.
 Introduction of VAT and Excises: Key Policy Design Issues, April-May 2016.
 Tax Administration (VAT and excises), May and October-November 2016.
 Energy Price Reforms, September 2016.
 Excise Tax Implementation, January 2017 and February–April 2017.
 Policy Support, jointly with MCD/MCM, December 2015, and jointly with MCD, January 2017.
 Strengthening the Macro-Fiscal Unit and the Fiscal Framework, May, July, and October 2017, April and October 2018, and March 2019.
 VAT Implementation, July and November 2017, and October 2018.
- FSAP** An FSAP mission took place in January 2004.
 The FSSA was published on June 5, 2006. The FSSA-update was published on April 18, 2012. (<http://www.imf.org/external/pubs/ft/scr/2006/cr06199.pdf>)
 FSAP-update, April 2011. Detailed Assessment of Observance was published on July 19, 2013. (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=40793.0>) (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=40794.0>)
 FSAP missions were held in November 2016 and February 2017. The FSSA was published on October 5, 2017. (<http://www.imf.org/external/pubs/cat/longres.aspx?sk=45316>)
- LEG** AML/CFT Diagnostic Mission, November 2015.
 AML/CFT Threat Analysis Workshop, March 2016.
 VAT Policy design, May–June 2016.
 AML/CFT, March and September 2016, September 2017, and April 2019.

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of May 29, 2019)

World Bank

The World Bank's Technical Cooperation Program (TCP) has been providing policy advice, capacity development, and implementation support to development efforts in Saudi Arabia on a reimbursable basis since 1975.

The Reimbursable Advisory Services (RAS) aim to advise Saudi Arabia in addressing its development challenges of generating productive jobs for a fast-growing population; improving the performance of its education and health systems to meet evolving needs; improving its business climate and investment appeal; enhancing the provision of public services including water, electricity, and transport; and strengthening capacity in national, municipal institutions, and tourism.

Areas of ongoing World Bank advisory work include: strengthening the macro econometric modelling capacity and fiscal policy analysis; assessment of key implementation pillars and their results in support of Vision 2030; public financial management; business climate and foreign direct investment; small and medium enterprise strategy; urban development; social protection issues; employment policy including a focus on unemployment assistance; enhancing quality and relevance of the education system; health sector efficiency; energy efficiency; electricity sector legislation and policies; advising on developing the understanding of the financial and economic cost/value of water resources in the Kingdom; providing technical assistance on road maintenance; road safety and advisory support to the Public Transport Authority; and providing support to the Saudi G20 Secretariat as they embark on assuming the presidency of the G20 in 2020.

International Finance Corporation (IFC)

IFC strategy in Saudi Arabia focuses on: (i) partnering with regional champions to mobilize cross-border investments into the MENA region and other emerging markets; (ii) providing advisory support, especially in the areas of Public Private Partnerships (PPPs), capacity building, and corporate governance; and (iii) supporting selective direct investments in high development impact areas such as access to finance for MSMEs, low-income housing, insurance, education, and climate friendly infrastructure.

IFC Engagements:

Investment Program: IFC commitments in Saudi Arabia stand at around \$250 million across the leasing, insurance, healthcare, and housing finance sectors. Saudi Arabian investors have also been a key part of IFC's South-South program to promote greater intra and inter-regional investments. Over the last decade, IFC has committed over \$2.5 billion with Saudi sponsors for investments in the MENA region, as well as in emerging markets including in Africa and East Asia.

Advisory Services Program: IFC advisory has been actively engaged in the Kingdom on the PPP front, and recently signed a mandate with the Ministry of Health for a project that seeks to increase access to imaging services in underserved remote areas. These engagements build upon the IFC's earlier success with the Medina Airport PPP where IFC helped mobilize over \$1 billion, as well as the successes of the Hajj Terminal and a captive desalination project at Jeddah Airport. IFC advisory is also helping increase access to finance for SMEs by providing capacity building and corporate governance support as well as offering trainings for banks on SME financial services, risk management, and mortgage finance. Lastly, IFC advisory is also working with the Saudi Arabian General Investment Authority (SAGIA) to improve the business environment including helping to implement reforms in areas measured by Doing Business, providing quality assurance support for the implementation of certain objectives set forth in the National Transformation Program (NTP), and capacity building to SAGIA focusing on improved services to investors and investment promotion.

STATISTICAL ISSUES

(As of June 19, 2019)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Most affected areas are: government finance, labor market, monetary and financial, and external sector statistics.</p>
<p>Real sector statistics:</p> <p>National accounts: Estimates of annual GDP by the production and expenditure approaches were rebased to 2010 from the previous base year of 1999. The revised GDP data are more comprehensive in terms of coverage of services, specifically distribution and financial services. The revision resulted in upward revisions to the level of GDP as well as the relative contributions by economic activity to GDP. This rebasing increased the share of oil GDP in 2013 to 43 percent from 21 percent previously. On the General Authority for Statistics' website, quarterly estimates of GDP by production, in current and constant 2010 prices, are available from 2010Q1 to 2018Q4. Quarterly estimates of GDP by expenditure are available in current prices from 2010Q1 to 2018Q4, and in constant 2010 prices from 2017Q1 to 2018Q4. A quarterly industrial production index was published for the first time in 2016, and the timeliness of publication is being improved.</p> <p>Price statistics: The CPI has been rebased to 2013. The weight reference period for the wholesale price index has recently been updated to 2014 though sample coverage is limited to three cities. In March 2019 a detailed work plan for creating a new PPI was developed and agreed with the authorities. The plan sets a goal for initial publication of the PPI in August 2020. The sample of establishments will be selected in June 2019 and data collection will begin in November 2019. A quarterly real estate price index is now published.</p> <p>Labor market statistics: Data providing a breakdown of employment between the private and public sector is only available from 2018Q3. A new classification for economic activity and a new employment series were introduced in 2016Q4. However, data prior to 2016Q4 has not yet been revised to make it consistent with the new series. The statistical agency has stopped publishing employment data from the labor force survey (LFS) since 2018Q3. Instead, it is publishing employment data based on contributors to the private sector pension fund and data from the Ministry of Civil Service, which is only available from 2016Q3.</p>
<p>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. However, data only covers the budgetary central government.</p>
<p>Monetary and financial statistics: The quality of monetary data has improved and information is made available in the Saudi Arabian Monetary Authority (SAMA) Monthly Statistical Bulletin. Detailed data providing a breakdown of corporate and household deposits is not available. Furthermore, SAMA's published balance sheet has a large and growing "other liabilities" item that hinders analysis. SAMA has submitted the preliminary monetary and financial statistics based on the Standardized Report Forms (SRFs), as recommended in the Monetary and Financial Statistics Manual and Compilation Guide, for review by Statistics Department. SAMA also reports some basic series and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).</p>
<p>Financial sector surveillance: SAMA reports quarterly financial soundness indicators (FSIs) to the IMF, which are published on the IMF's FSI website (fsi.imf.org). The reported FSIs comprise all 12 core FSIs and 8 encouraged FSIs for deposit takers.</p>

External sector statistics: Quarterly balance of payments (BOP) and international investment position (IIP) data are published although IIP statistics are highly aggregated and the coverage in the capital and financial accounts, particularly for the private sector, needs to be improved. The official data may underestimate the net international investment position of Saudi Arabia, which likely reflects unrecorded private financial outflows on the asset side along with under-recording of debt liabilities. Errors and omissions have been reduced to near zero in 2017 and 2018 through better data coverage of some large government-related institutions. The authorities are continuing to work on strengthening financial account data, where data on positions and flows for FDI and other investment are weak.

II. Data Standards and Quality

Participant in the General Data Dissemination System (now the enhanced GDDS) since 2008.	No data ROSC is available.
--	----------------------------

Table of Common Indicators Required for Surveillance
(As of June 19, 2019)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange rates	6/19/2019	6/19/2019	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	4/2019	5/28/2019	M	M	M
Reserve/base money	4/2019	5/28/2019	M	M	M
Broad Money	4/2019	5/28/2019	M	M	M
Central Bank balance sheet	4/2019	5/28/2019	M	M	M
Consolidated balance sheet of the banking system	4/2019	5/28/2019	M	M	M
Interest rates ²	6/19/2019	6/19/2019	D	D	D
Consumer price index	5/2019	6/19/2019	M	M	M
Revenue, expenditure, balance and composition of financing ³ —central government	Q1 2019	5/2/2019	Q	Q	Q
Stocks of central government and central government-guaranteed debt ⁴	Q1 2019	5/2/2019	Q	Q	Q
External current account balance	Q4 2018	3/28/2019	Q	Q	Q
Exports and imports of goods	3/2019	5/31/2019	M	M	M
GDP/GNP	Q4 2018	3/31/2019	Q	Q	Q
Gross external debt (BIS)	Q4 2018		Q	Q	Q
International investment position ⁵	Q4 2018	3/28/2019	Q	Q	Q

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

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

³ Foreign, domestic bank and domestic nonbank financing.

⁴ Including currency composition.

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

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