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SAUDI ARABIA

September 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND INFORMATIONAL ANNEX

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 2015 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 29, 2015 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 29, 2015, following discussions that ended on May 28, 2015 with the officials of Saudi Arabia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2015.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below will be separately released:

Selected Issues

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

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IMF Executive Board Concludes 2015 Article IV Consultation with Saudi Arabia

On July 29, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Saudi Arabia.

Saudi Arabia has been one of the strongest growing economies in the G-20. Rising oil prices and production resulted in large external and fiscal surpluses and strong government spending led to robust private sector activity. Over the past year, however, the global oil market environment has changed substantially with oil prices dropping by close to 50 percent.

Real GDP growth is projected to slow to 2.8 percent this year, and then further to 2.4 percent in 2016 as government spending begins to adjust to the lower oil price environment. Over the medium-term, growth is expected to be around 3 percent. Inflation is likely to remain subdued.

The decline in oil prices is resulting in substantially lower export and fiscal revenues. A central government fiscal deficit of 19.5 percent of GDP is projected in 2015, and while the deficit will decline in 2016 and beyond as one-off spending ends and large investment projects are completed, it will remain high over the medium-term. Nevertheless, government debt is very low and was 1.6 percent of GDP at end-2014. The current account surplus declined to 10.9 percent of GDP in 2014. It is expected to move into a small deficit in 2015 but return to surplus during 2016-20. Deposit inflows to banks and private credit growth have slowed in recent months. Nonetheless, the banking system is well positioned to weather lower oil prices and the growth slowdown.

The decline in oil prices has increased the importance of structural reforms to switch the focus of growth away from the public sector and toward the private sector. With unemployment of nationals still high and the working-age population growing strongly, the government is continuing to focus on reforms that aim to increase the employment of nationals in the private sector and diversify the economy away from its reliance on oil.

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

Executive Board Assessment[2]

Executive Directors welcomed Saudi Arabia's strong economic performance while noting that the large decline in oil prices is likely to dampen growth in the period ahead. Directors considered that uncertainties about future oil prices and possible escalations of regional tensions are the main risks to the outlook. They commended Saudi Arabia's commitment to promoting stability in the global oil market and to providing financial support for developing countries in the region.

Directors noted that the sharp drop in oil revenues and continued expenditure growth would result in a very large fiscal deficit this year and over the medium term, eroding the fiscal buffers built up over the past decade. Against this background, they underscored the need for a gradual, but sizable multi-year fiscal adjustment based on a mix of expenditure and revenue measures. These measures should include comprehensive energy price reforms, firm control of the public sector wage bill, greater efficiency in public sector investment, and an expansion of non-oil revenues, including by introducing a VAT and a land tax. Directors agreed that issuing debt to finance part of the deficit is appropriate and would help promote the development of private capital markets.

Directors concurred that a stronger fiscal framework would support fiscal consolidation. The annual budget should be set within a medium-term fiscal framework that clearly establishes the authorities' policy intentions, fully integrates the expenditure priorities from the national development plan, and delinks expenditures from short-term volatility in oil revenues while ensuring that spending adjusts to longer-term price trends. Directors welcomed the authorities' plan to establish a macro fiscal unit and publish fiscal data in GFSM2001 format.

Directors agreed that the banking system is in a strong position to weather lower oil prices and weaker growth and supported continuing efforts to strengthen financial sector regulation and supervision. They saw merit in formalizing the macroprudential policy framework to ensure coordination among key agencies and to build on the existing use of macroprudential tools in a countercyclical manner.

Directors agreed that the exchange rate peg to the U.S. dollar remains appropriate. They emphasized the need for fiscal consolidation to support the peg over the long term and saw merit in periodically reviewing the peg in coordination with other GCC countries to assess the impact of labor market and other structural reforms.

Directors supported ongoing policies to increase the employment of nationals in the private sector and diversify the economy. They welcomed efforts to strengthen the business environment, develop infrastructure, invest in education and training, and increase employment opportunities for women. Directors emphasized, however, that achieving the authorities' goals will require realigning the incentives facing firms and workers to encourage tradable rather than nontradable production and employment in the private rather than public sector.

Directors noted the continued progress that Saudi Arabia is making in improving the quality and availability of key economic statistics and welcomed the authorities' plan to subscribe to SDDS in 2016.

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[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.

Saudi Arabia: Selected Economic Indicators, 2010–15

	2010	2011	2012	2013	2014	Proj. 2015
Production and prices	(Annual percent change; unless otherwise stated)					
Real GDP	4.8	10.0	5.4	2.7	3.5	2.8
Real oil GDP	-0.1	12.2	5.1	-1.6	1.5	2.4
Real non-oil GDP	9.0	8.1	5.5	6.4	5.0	3.1
Nominal GDP (billions of U.S. dollars)	527	670	734	744	746	644
Consumer price index (avg)	3.8	3.7	2.9	3.5	2.7	2.0
Fiscal and Financial variables	(Percent of GDP; unless otherwise stated)					
Central Government revenue	37.5	44.5	45.3	41.4	37.3	29.9
Of which: oil revenue	33.9	41.2	41.6	37.1	32.6	24.2
Central Government expenditure	34.0	33.4	33.3	35.6	40.8	49.5
Fiscal balance (deficit -)	3.6	11.2	12.0	5.8	-3.4	-19.5
Non-oil primary balance (percent of non-oil GDP)	-54.8	-61.7	-60.4	-59.5	-64.0	-64.7
Broad money (annual percent change)	5.0	13.3	13.9	10.9	11.9	8.5
External sector	(US$ billions; unless otherwise stated)					
Exports	251.1	364.7	388.4	376.0	343.3	236.2
Of which: Oil and refined products	215.2	317.6	337.5	322.0	285.2	183.7
Imports	-97.4	-120.0	-141.8	-153.4	-155.5	-152.7
Current account	66.8	158.6	164.8	135.5	81.2	-5.8
Current account (percent of GDP)	12.7	23.7	22.4	18.2	10.9	-0.9
SAMA’s net foreign assets	440.4	535.2	647.6	716.7	724.3	659.8
SAMA's net foreign assets (in months of imports of goods and services)	26.7	29.8	33.8	34.1	36.3	32.4
Real effective exchange rate (percent change)[1]	-0.2	-3.4	3.1	3.1	9.2	4.3

Sources: Country authorities; and IMF staff estimates and projections.
[1] Latest 2015 data is for end-May.

SAUDI ARABIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

July 13, 2015

KEY ISSUES

Context. The global oil market environment has changed substantially over the past year with oil prices dropping by close to 50 percent. Based on historical experience, the large oil price decline is expected to affect the macroeconomy and the financial sector. Meanwhile, demographic pressures to provide jobs and housing for a rapidly growing and young population continue.

Outlook and risks. Real GDP growth is projected to slow in 2015 and 2016. Downside risks to the growth outlook stem mainly from lower oil prices, any slowing of the domestic reform agenda, and an escalation of regional tensions.

Macroeconomic policies. The fiscal deficit is expected to reach 19½ percent of GDP in 2015, and while it will decline in 2016 as one-off spending ends, it will remain high over the medium-term. A gradual but sizeable and sustained fiscal consolidation needs to begin, underpinned by a stronger fiscal framework. Monetary policy settings and the peg to the U.S. dollar remain appropriate for the Saudi economy.

Financial Sector. The banking system is in a strong position to weather lower oil prices and weaker growth. SAMA's regulation and supervision is being strengthened further through a number of reforms. Formalizing the macroprudential framework to clearly establish responsibilities and the way countercyclical policy tools will be used would further enhance policy implementation.

Managing demographic pressures. The decline in oil prices has increased the importance of structural reforms to switch the locus of growth away from the public sector and toward the private sector. The government is making considerable efforts to diversify the economy and raise the private sector employment of nationals. More needs to be done to realign incentives for firms to export and workers to seek private sector jobs. Measures to provide affordable housing need to be implemented cost effectively.

Approved By
Aasim M. Husain and Sanjaya Panth

Discussions were held in Riyadh during May 17–28, 2015. The staff team comprised Tim Callen (head), Victor Davies, Padamja Khandelwal, Malika Pant, and Gazi Shbaikat (all MCD) and Ken Miyajima (MCM). Executive Director for Saudi Arabia Mr. Alshathri and Alternate Executive Director for Saudi Arabia Mr. Alogeel accompanied the mission. The team met with Minister of Finance Al-Assaf, the Governor of SAMA Al-Mubarak, Chairman of the Capital Markets Authority Aljadaan and other senior officials, as well as representatives of the private sector and academia. Aasim Husain (MCD) participated in the concluding meetings. Diana Kargbo-Sical and Ben Piven (MCD) provided support from headquarters.

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CONTEXT

1. **While activity has slowed in recent years, Saudi Arabia has been one of the strongest growing economies in the G-20** (Figure 1). Over the past decade, rising oil prices and production resulted in large external and fiscal surpluses. The economy benefited from strong government spending, boosting private sector activity, while government deposits in the banking system increased to nearly 56 percent of GDP and government debt declined to about 1½ percent of GDP by end-2014 (Table 1). Inflation has been moderate and human and social development indicators have improved considerably.

2. **Power transferred to King Salman following the death of King Abdullah in January**. A reorganization of government has occurred under the new administration with numerous committees being abolished and two ministries being merged. Two new high-level councils have been created to streamline policymaking—the Council of Economic and Development Affairs and the Council for Political and Security Affairs. In March 2015, Saudi Arabia spearheaded a regional coalition that began military operations in Yemen.

3. **Oil prices have fallen by close to 50 percent since mid-2014.** The price decline appears to have been driven partly by demand weakness, but more importantly by supply factors (particularly rising oil production in the U.S., and continued high levels of OPEC output). In contrast to earlier periods of sharp oil price declines (1981-86, 1998–99 and 2008–09), Saudi Arabia has not cut its production. Indeed, production increased to 10.4 mb/d in June.

Historical Oil Price Declines and Changes in Production

	Production			Price
	Saudi Arabia	OPEC	World	Brent Crude Price
	Change in production, peak to trough, mbd [1]			*Peak to trough, $US* [2]
1981-1986				
Level change	-8.1	-8.6	-4.5	41 to 10
Percent change	-78	-38	-8	-77
1998-1999				
Level change	-1.2	-2.1	-3.4	25 to 10
Percent change	-13	-7	-5	-63
2008-2009				
Level change	-1.6	-2.9	-2.8	146 to 37
Percent change	-17	-9	-4	-75
2014-2015				
Level change	0.2	1.3	2.8	115 to 47
Percent change	2	4.0	3.0	-60

Source: EIA except for 2014–15 (IEA)
[1] Based on monthly production volumes.
[2] Based on daily prices except for 1981-86 (monthly averages).
Note: For the first three episodes, peak production is the highest level of production achieved prior to the identified episode of declining oil prices, while the trough represents the lowest level of production during the period, and the difference between the peak and trough months is the change in production. For the 2014-15 episode, July 2014 is set as the start of the episode and changes in production are calculated relative to July 2014 using latest available IEA monthly production data.

4. **Managing demographic pressures from a rapidly growing and young population is a key challenge for policymakers**. The Saudi labor force has been growing by over 5 percent a year. Within the labor market, Saudi nationals are employed primarily in the public sector, while the private sector relies on low-wage, low-skilled expatriate labor. Going forward, providing attractive private sector jobs to Saudi youth will require diversification of the economy into high-productivity activities and ensuring that Saudi youth have the requisite skills for these positions. Labor market reforms together with investments in affordable housing to help younger people and the less well-off population enter the housing market are key elements of the government's policy agenda. Progress has been made in implementing many of the recommendations made in the 2014 Article IV consultation, except in the fiscal area.

Status of Staff Recommendations Made During the 2014 Article IV Consultation

Recommendation	Current Status
Fiscal adjustment is needed to preserve buffers and increase saving for intergenerational equity.	Fiscal consolidation did not happen in 2014. The non-oil primary fiscal deficit (in percent of non-oil GDP) increased as expenditure on goods and services and capital projects grew strongly.
Strengthen the fiscal policy framework.	Progress has been limited. A macro-fiscal unit has been budgeted for, but not yet established. Expenditures in the 2015 budget are likely to again be well below actual outcomes.
An upward adjustment in energy prices is needed to contain the growth in domestic energy demand.	Consideration is being given to energy price reforms for commercial and industrial users. The government is also focusing on improving efficiency standards. The development of public transportation networks is underway.
Introduce a tax on high-end property and/or vacant land.	The Council of Ministers has approved a tax on vacant land and is determining the modalities.
Introduce a formal, clear, and transparent macro-prudential framework.	A high-level Financial Stability Committee has been established within SAMA. Early Warning Systems (EWS) have been strengthened. A Financial Stability Report has been published.
Introduce reforms to strengthen financial regulation and supervision.	The D-SIB framework has been published and identified banks have until January 2016 to comply with the higher capital charges. A LTV ratio for mortgage lending has been introduced, and all finance companies now need to be licensed by SAMA.
Policies are needed to increase the employment of Saudis in the private sector and spur diversification.	The authorities are continuing to develop their labor market strategy and private sector hiring of Saudi nationals has increased. Some increase in mobility for expatriate workers has been introduced. Investments in infrastructure and education are continuing.
Further improve economic statistics.	Progress is continuing. Rebased (to 2010) national accounts data has been published, while quarterly IIP data is submitted to the Fund. However, there is no official real estate price index, wage data is sparse and inconsistent, and fiscal data in GFSM2001 format has not been published.

MACRO-FINANCIAL DEVELOPMENTS, OUTLOOK, RISKS, AND SPILLOVERS

A. Recent Macro-Financial Developments and Outlook

5. Economic and financial developments are interwoven with the oil cycle in Saudi Arabia. Past episodes of large oil price declines have been associated with a strong impact on macroeconomic and financial sector outcomes (Figure 2). Lower oil revenues have led to weaker fiscal and external positions, a drop in equity prices as markets anticipate the impact of lower oil prices on the corporate sector, and generally slower government spending growth. In turn, slower government spending has led to weaker non-oil activity, tighter banking sector liquidity, lower credit growth, and weaker bank balance sheets, with the drop in equity prices also having some wealth effects. The size and duration of the oil price decline have been important in determining its economic impact, as have the size of available buffers. So while in 2008–09, the government was able to maintain spending given the strong fiscal position, in 1998–99 it was not. And as the 1980s showed, even large buffers can be eroded if the price drop is sustained. The dependence of the economy on oil has remained high despite efforts at diversification —although there has been some progress in recent years in developing non-oil exports, these are concentrated in petrochemicals and are also exposed to oil price movements.

Saudi Arabia: Dependence on Oil, 1980–15
(percent share)

	1980–89	1990–99	2000–09	2010–14	2015 proj.
Oil GDP/GDP	36.8	35.0	44.3	46.7	30.2
Oil Exports/GDP	35.1	30.4	42.5	43.2	28.3
Oil Exports/Exports G&S	85.1	82.7	83.4	82.9	73.8
Oil Revenue/Revenue	70.8	73.4	84.8	90.3	80.9

Sources: Country authorities, Haver and IMF staff estimates.

6. The decline in oil prices since mid-2014 has substantially lowered export and fiscal revenues, resulting in a fiscal deficit and a narrowing of the current account surplus in 2014. Owing to the oil price decline, government revenues dropped, while government spending grew by 14.7 percent in 2014. A central government deficit of 3.4 percent of GDP was recorded in 2014, compared to a surplus of 5.8 percent of GDP in 2013, while the general government balance also moved into deficit (Tables 2-3, Figure 3). Nevertheless, government debt remained very low and deposits with the banking system stood at 56 percent of GDP at end-2014. In 2015Q1, the fiscal deficit widened owing to the impact of the fiscal packages that were announced in January and April (totaling about SR 100 billion or

Estimated Cost of January and April 2015 Fiscal Packages

	SR bn	Percent GDP
1- Two-month salary bonus to government employees	50	2.1
2- Two-month bonus to students covered under public support	5	0.2
3- Two-month bonus to retirees	11	0.5
of which covered by General Organization for Social Insurance	3	0.1
of which covered by the Public Pension Agency	8	0.3
4- Two-month reward to beneficiaries of social security and to people with disabilities,	5	0.2
5- Grants to professional associations and sports and literary clubs	3	0.1
6- Spending to improve electricity and water service	20	0.8
7- Bonus to military personnel	6	0.2
8- Structural adjustment in social security payments*	1.2	0.05
Total cost of packages	101.2	4.2

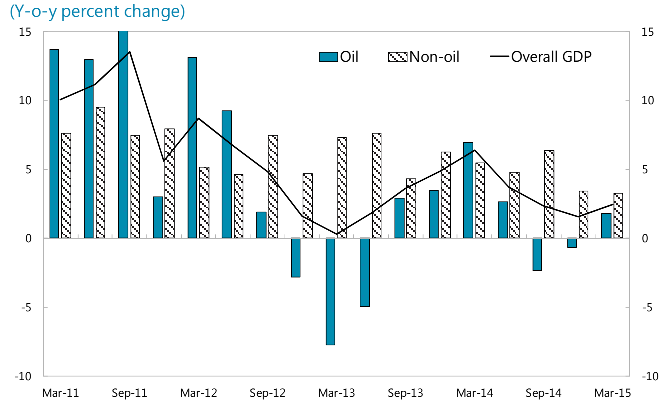
*Annual permanent impact.

4.2 percent of GDP) and financial assistance to neighboring countries. The external position was also affected by the oil price (and petrochemical price) fall, and the current account surplus declined from 18.2 percent of GDP in 2013 to 10.9 percent of GDP in 2014 (Table 4, Figure 4).

7. **Deposit inflows to banks and private sector credit growth have slowed**. Bank deposit growth slowed to 10 percent (y-o-y) in May, down from an average of 13½ percent in 2014, while private sector credit growth was about 9½ percent, down from an average of 12½ percent. Corporate balance sheets are generally in good shape (Box 1), but corporate profits have fallen, led by the petrochemicals sector. The exchange rate initially came under modest downward pressure, but this has abated. Equity markets declined in 2014H2, but have partially recovered since the beginning of the year as oil prices have stabilized and in anticipation of the opening of the market to qualified foreign investors (which took place on June 15). No data is available to assess the position of household balance sheets.

8. **Real GDP growth has slowed since 2014 and inflation has eased.** Following a strong start, real GDP growth slowed during the course of 2014, reflecting a decline in oil production and weakening non-oil output growth. For the year as a whole, growth was 3.5 percent, up from 2.7 percent in 2013 with non-oil growth of 5 percent, in part reflecting the continued strength in government spending (Figure 5). Real GDP growth in 2015Q1 increased to 2.4 percent (y/y) from 1.6 percent (y/y) in 2014Q4 due to higher oil output, but remained much weaker than the 6.4 percent growth in 2014Q1. Inflation was 2.2 percent in June 2015 compared to 2.7 percent in May 2014, with the decline largely due to global food price trends and the effective appreciation of the exchange rate (Figure 6).

Real GDP Growth, 2012– Q1 2015
(Y-o-y percent change)



Sources: Country authorities; and IMF staff calculations.

9. **Employment growth was strong in 2014, but the unemployment rate for nationals remained high.** Employment grew by 3.2 percent in 2014, with Saudi employment growing by 4.4 percent and non-Saudi by 2.2 percent. Nevertheless, the unemployment rate for nationals stood at 11.7 percent at end-2014, unchanged from a year earlier. The Gini coefficient which was published by CDSI with the 2013 Household Income and Expenditure Survey stood at 45.9 in 2013, down from 51.3 in 2007.[1]

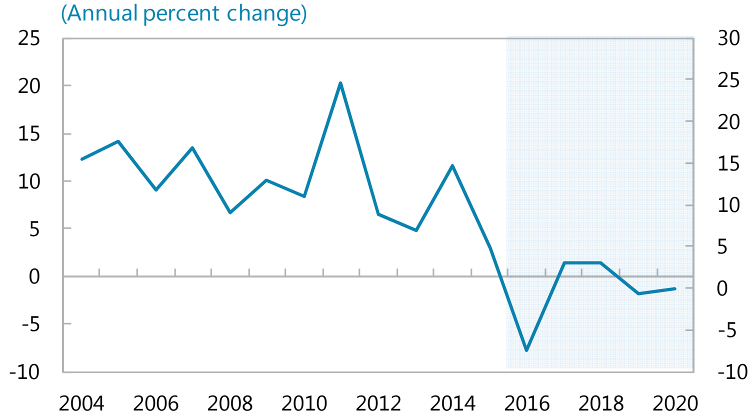
10. **Looking forward, the decline in oil prices is expected to have a continuing impact on economic and financial developments**. In particular:

[1] The Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies extreme inequality.

- **Growth is expected to slow to 2.8 percent this year, and then further to 2.4 percent in 2016.** The recent increase in oil production is expected to boost oil GDP growth to 2.4 percent this year, before it slows in 2016. Non-oil private sector growth is projected at 3.4 percent in 2015 and 3.8 percent in 2016. Over the medium-term, growth is expected to settle around 3 percent. Oil GDP is projected to grow by around 1.5 percent a year from 2017–20, driven by domestic consumption, while non-oil growth is expected to be around 4¼–4½ percent, lower than the average non-oil growth of close to 7 percent during 2009-13. However, given the likely slowing of government spending, this outcome will depend on private sector growth becoming more self-sustaining as a result of the ongoing reforms. Without a reform dividend, non-oil private sector growth could be about 1 percentage point a year lower because of weaker government spending, translating into lower overall growth of about 0.4 percentage points a year.

- **A large fiscal deficit is projected in 2015, and only a partial narrowing is expected over the medium-term**. Government spending is projected by staff to increase by about 5 percent this year as some slowdown in capital spending offsets increased current expenditures, although the cost of military operations in Yemen is uncertain at this juncture. Together with a large drop in revenues, this expenditure path is expected to result in a fiscal deficit of about 19½ percent of GDP in 2015, with the non-oil primary deficit increasing to 64.7 percent of non-oil GDP. Over the medium term, government expenditure growth is expected to slow as the one-off spending this year ends, a number of the large ongoing infrastructure projects are completed, some planned capital projects are postponed, and spending on goods and services is more tightly controlled. With the partial recovery of oil prices, this expenditure path will result in the fiscal deficit narrowing to 9½ percent of GDP by 2020. Government deposits with the banking system would be run-down to about 12 percent of GDP, and debt would increase to 33½ percent of GDP by 2020 (the assumption is that the government uses a combination of debt and deposits to finance the fiscal deficits).

Real Government Expenditure Growth, 2004–20
(Annual percent change)

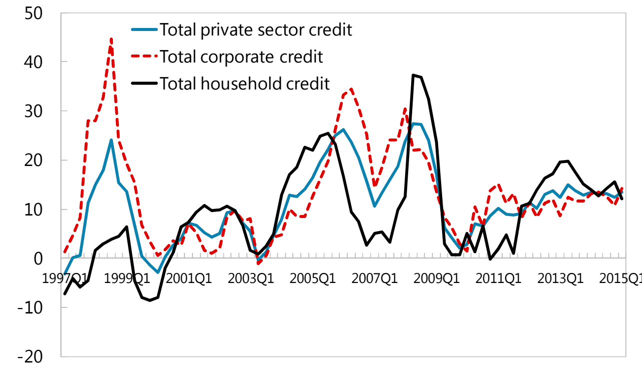


Source: IMF staff calculations

- **The financial sector will be affected by lower oil prices and slower private non-oil growth** (Table 5, Figure 7). Saudi banks mainly depend on domestic deposits, with the role of market funding being limited by a loan-to-deposit ratio of 85 percent. Reduced oil inflows and slower government spending growth will slow deposit growth which in turn will weaken credit supply, albeit the impact will be moderated by the high liquidity held by banks (Table 6). As corporate profits are affected, NPLs will likely rise (Box 2), although the more subdued nature of this credit cycle compared to past cycles—owing to SAMA's stepped up regulation and supervision of banks—should mean the impact on asset quality is limited. The reduced supply of credit and weaker bank and corporate balance sheets will have feedback effects on growth.

Growth Rates in Credit, 1997–2015Q1

(Twelve month percent change)



Sources: IMF staff calculations; country authorities; Dealogic; and BIS consolidated banking statistics.
Note: Total private sector credit is computed as the sum of loans by the Specialized Credit Institutions, private sector credit by domestic banks, and the outstanding stock of foreign currency debt securities and local currency securities held outside banks.

- **Inflation should remain subdued.** Inflation is expected to pick up modestly as food prices start rising, but rent pressures may ease as housing supply increases, and inflation is projected at just below 3 percent in the medium-term.

- **The current account is projected to move into a deficit of about 1 percent of GDP in 2015 as export receipts fall, but should return to surplus during 2016–20.** Portfolio outflows are expected to decline as domestic liquidity tightens, while portfolio inflows will likely increase with the opening of the equity market to foreign investors. SAMA's NFA have fallen by $52 billion since the beginning of 2015, and are expected to continue to decline over the medium-term.

11. Higher U.S. interest rates and the appreciation of the U.S. dollar are likely to play secondary roles to oil prices and fiscal policy in determining the outlook. While the expected gradual normalization in U.S. monetary policy will lead to higher interest rates in Saudi Arabia given the peg, it is difficult empirically to uncover a significant impact of interest rates on the non-oil economy. The appreciation of the U.S. dollar will impact the real effective exchange rate, making imported goods cheaper and increasing their consumption, but only a modest effect on non-oil exports is expected.

B. Risks and Spillovers

12. Risks to the growth outlook are tilted to the downside. The main downside risks are the possibility of lower oil prices due either to weaker global demand or increased supply, the possibility that domestic reforms do not generate a growth dividend and create a more diversified and self-sustaining private sector that creates jobs and reduces inequality, and an escalation of regional tensions that undermines confidence and investment. On the upside, a stronger than expected rebound in oil prices would boost growth. In the absence of fiscal adjustment, growth could also be stronger in the near-term, but fiscal risks would rise over the medium-term with negative implications for longer-term growth and macroeconomic stability. Increased volatility in global oil markets would also present challenges for macroeconomic management. Global financial risks, unless they manifest themselves in lower oil prices, are less important given the limited financial linkages with the global economy. These risks are discussed in the risk assessment matrix.

13. The oil market is the most important channel for inward and outward global spillovers from Saudi Arabia. Saudi Arabia plays a key role in the global oil market and in determining OPEC policy. Its spare production capacity provides important insurance against negative supply shocks as demonstrated during 2011 and 2013 when Libyan production declined sharply. At the current juncture, the authorities believe there is considerable uncertainty about the oil market outlook—while demand should pick up with a stronger global economy, it is not clear when and by how much supply in non-OPEC countries will adjust nor whether supply from other OPEC members will increase. The authorities noted that they have increased production and exports in recent months to maintain market share in the face of still growing demand for Saudi Arabia’s oil. Given Saudi Arabia’s low production costs, the authorities believe that other producers will have to reduce supply and adjust to the new market environment.

14. Saudi Arabia has other important outward regional spillovers. Saudi Arabia has important effects on the Middle East and south Asian countries through remittances, financial assistance, and imports. Given the slowdown in government capital spending, remittances are projected to fall this year and recover only slowly thereafter. Financial assistance is continuing, with additional aid recently committed to Egypt.

POLICY DISCUSSIONS

The decline in oil revenues has underscored the need for gradual but sizable fiscal adjustment and a more ambitious reform agenda to shift the economic growth model away from the government and toward the private sector. Against this background, discussions focused on two main themes (i) maintaining macroeconomic stability in an environment of low oil prices, and (ii) further reforms to manage demographic pressures and enable sustained and inclusive private-sector led growth.

A. Maintaining Macroeconomic Stability

Fiscal policy—consolidation needed, supported by a stronger fiscal framework

15. Government spending has increased substantially in recent years. Consequently, the breakeven oil price rose to $106 a barrel in 2014 from $69 a barrel in 2010. As a result, with the large decline in oil prices, the fiscal deficit has increased sharply and is likely to remain high over the medium-term. These deficits will rapidly erode the fiscal buffers (in the form of government deposits and low public debt) that have been built over the past decade (Appendix I, Figure 8). If the underlying (i.e. excluding one-off spending) non-oil fiscal deficit remains at its estimated 2015 level over the medium-term (scenario i, Figure 8), net financial wealth (defined as government deposits in the banking system less gross public debt) would turn negative in 2017 (and in 2016/2019 in a lower/higher oil price environment). In the baseline scenario, net financial wealth turns negative in 2018 (scenario ii, Figure 8).

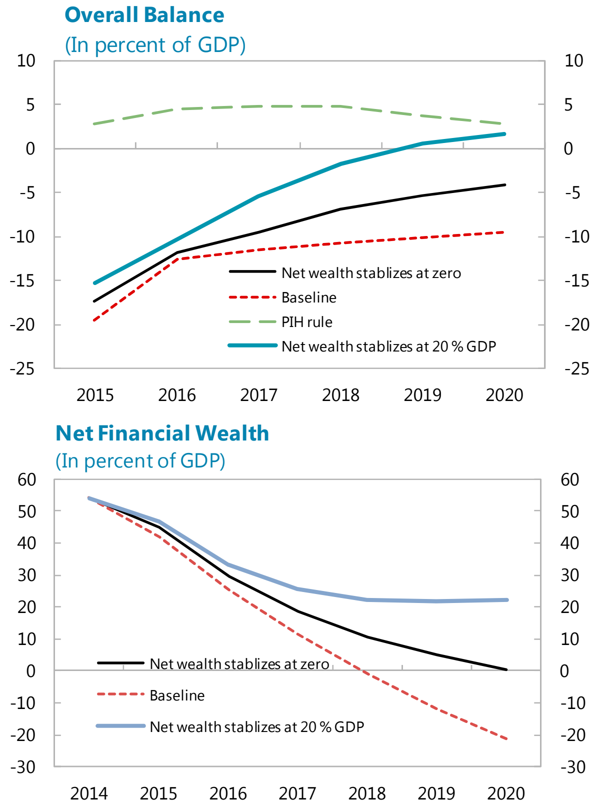
16. Staff emphasized the need for gradual but sizable fiscal consolidation to begin. Fiscal buffers allow policymakers to smooth this adjustment and avoid sharp cuts in spending. Nonetheless, a large adjustment is needed and should begin to help stabilize the net financial asset position of the government over the medium-term. Building political support will be necessary to implement the fiscal consolidation.

17. Reforms to strengthen the fiscal framework would support the process of fiscal consolidation. At present, expenditure routinely exceeds that set out in the annual budget, which creates uncertainty about the government's fiscal policy intentions and risks leading to inefficient spending decisions (Table 7). Therefore, an important starting point for reforms is for the annual budget to provide a full account of planned expenditures during the year, including from the budget surplus fund. Moreover, the annual budget should be set within a medium-term framework that clearly establishes the authorities' fiscal goals and delinks expenditures from short-term volatility in oil revenues while ensuring spending adjusts over time to longer-term price trends. The medium-term framework should incorporate the spending priorities from the 5-year national development plan, which should be regularly updated and linked to the annual budgets on a rolling basis. The framework would also need to assess budget risks, including from future pension commitments of the Public Pension Agency (PPA) and the General Organization for Social Insurance (GOSI), and how they could be mitigated. Fiscal policy analysis and implementation would be supported by a macro-fiscal unit, the introduction of the Government Financial Management Information System (GFMIS) and the publication of fiscal data in GFSM2001 format.

18. The authorities outlined their progress in strengthening the fiscal framework. The authorities noted that positions for the new macro-fiscal unit had been included in the 2015 budget and they would start filling these soon. In addition, progress was being made toward the publication of fiscal data in the GFSM2001 format and they expected this to happen with the 2016 budget. They also said they were producing but not publishing multi-year macroeconomic and fiscal forecasts.

19. Staff believed that the medium-term fiscal adjustment path should be guided by a structural budget balance rule, which would allow spending to gradually adjust to the oil price drop and preserve part of the buffers to manage future shocks. Using the baseline oil price path and a structural balance target of zero, this would involve a cumulative adjustment of around 21 percent of GDP during 2015–20.[2] This would stabilize net financial wealth at a little over 20 percent of GDP by the end of this period and bring the non-oil primary deficit toward that needed for intergenerational equity. About 45 percent of this adjustment would occur as one-off spending in 2015 ends and ongoing capital spending projects are completed, leaving a further needed adjustment of about 2 percent of GDP a year until 2020. In staff's view, this adjustment path would balance the need to smooth the fiscal adjustment to support economic growth while preserving some of the buffers to manage future shocks and policy priorities. A more gradual fiscal consolidation path, with an annual adjustment of 1 percent of GDP a year until 2025, would stabilize net financial wealth at 0 percent of GDP.

Stronger Fiscal Adjustment Needed Than Under the Baseline to Stabilize Buffers



Source: IMF staff calculations.

[1] Under the Structural Balance Rule, expenditures are set as the sum of oil and non-oil revenues, where oil revenues are derived from a moving average of oil prices in the past five years and quantities are calculated using the average of the past three years of oil exports.

20. Staff recommended that fiscal adjustment could be achieved through a mix of expenditure and revenue measures. Key measures that were discussed included:

- **Energy price reforms to raise revenues and reduce energy consumption growth**. Gasoline prices in Saudi Arabia are the lowest in the GCC. The implicit cost of low energy prices is significant (8 percent of GDP this year using a price gap method between prices in Saudi Arabia and pre-tax prices in the U.S.), and benefits accrue disproportionately to the wealthy and encourage over-consumption. Raising domestic prices of gasoline and diesel products to the average level in the GCC would yield an estimated 2.6 percent of GDP in revenues (compared to 6 percent of GDP if raised to the U.S. pre tax price levels). Raising energy prices gradually and eventually introducing a price adjustment mechanism would help slow energy consumption,

[2] The structural balance target of zero calibrates expenditures in line with structural revenues; the latter is calculated as the sum of a long-term moving average of oil revenues and projected non-oil revenues.

raise revenues to protect priority spending, allow improved targeting of benefits to lower and middle income households, and help ensure automatic adjustment to future price changes. A comprehensive energy price reform program would need to be accompanied by measures to compensate low- and middle-income households and help energy-intensive firms (including the electricity and water desalination companies) to adjust. It would also need to be communicated clearly to build political support.

- **Reducing the government wage bill which is high compared to other oil exporting countries**. A civil service review could help identify non-essential positions, and a strategy put in place to reduce government employment through attrition over time, while limiting wage growth. An announcement that the government is no longer the employer of first resort would set expectations and support efforts to increase the private sector employment of nationals. Firm control of public sector wage increases would support this policy.

- **Increasing non-oil revenues to finance government services over the longer-term**. The non-oil tax regime is comparatively light with non-oil revenues (excluding investment income) only about 7 percent of non-oil GDP in 2014. There is no personal income tax on wages, although corporate profits, and business and professional incomes of individual Saudi citizens are subject to zakat at 2.5 percent. The introduction of a VAT, as agreed at the GCC level, the planned tax on vacant land, and a tax on high-end properties would strengthen the non-oil revenue base.

- **Reviewing capital spending projects**. At 16¾ percent of GDP in 2014, the government's public investment outlays (in transportation, health, and education sectors) have increased sharply over the past decade (from about 7½ percent of GDP in 2007). Investment in these areas is appropriate to support development goals and economic diversification efforts. However, while the efficiency of public investment in Saudi Arabia is estimated to be close to the global average, it is below that in advanced commodity exporters such as Australia, Canada, Chile, and Norway. Given the size of the public investment program, improving its efficiency could yield substantial savings. Project selection, monitoring, and appraisal processes should be reviewed to ensure they are sufficiently robust, and a review of existing projects conducted to check they are closely linked to, and efficiently meeting, developments goals with a view to making additional savings in the capital spending budget.

21. The authorities agreed on the need for gradual fiscal consolidation and emphasized that measures on both the revenue and expenditure sides were already underway. The Council for Economic and Development Affairs has asked ministries to submit proposals for expenditure reduction, including through a reprioritization of capital expenditures, and has lowered the cost threshold for its approval of new projects from SR 300 million to SR 100 million. Plans to build new sports stadiums have been scaled back. On the revenue side, consideration is being given to energy price reforms for commercial and industrial users. Additionally, with the GCC having recently approved a VAT framework (and an excise tax on tobacco), Saudi Arabia can now move ahead with its own VAT law. A tax on vacant land is planned, and could be used to finance expenditures on low-income housing. Overall, the authorities believed that they would be able to hold the 2015 fiscal deficit at a lower level than projected by staff.

22. **The authorities explained that they plan to start issuing debt to finance the deficit**. Having financed the deficit so far from the deposits held with SAMA, debt issuance is likely to start in the second half of the year. With large fiscal deficits looming, staff agreed there were benefits of debt financing to help slow the erosion of government deposits in the banking system, take advantage of the favorable financing environment, and build a yield curve to support the development of domestic debt capital markets.

Maintaining financial stability if growth slows

23. **Banks are likely to face a more challenging environment in the period ahead**. With the economy heavily reliant on oil— either directly or indirectly through government spending—it is difficult for Saudi banks which make up the largest part of the financial system (Appendix II) to diversify their credit portfolios. Activity in the construction, commerce, and manufacturing sectors, which account for 40 percent of total bank lending, is closely linked to the oil cycle, and balance sheets in the construction sector are weaker than in other sectors.

24. **Nevertheless, there was agreement between the authorities and staff that banks are well positioned to weather the growth slowdown.** Profits in the banking sector and capital buffers are strong (average pre-tax return on assets was 2.5 percent, and the capital adequacy ratio was 17.9 percent at end-2014) and NPLs are low (1.1 percent of total loans). Staff estimates, based on publicly available bank-by-bank data for 12 banks, suggest that while NPLs will likely rise modestly over the medium-term (to around 2.8 percent) given lower oil prices and the expectation of slower private sector growth, banks have more than enough provisions set aside to cover these loan losses and capital ratios would remain stable. Bank balance sheets also appear able to absorb a more significant worsening of the economic situation than is envisaged in the staff's baseline scenario. Given their strong liquidity positions, banks would come under significant liquidity pressure only in the event of substantial deposit withdrawals which has not happened in previous periods of oil price declines.

25. **SAMA explained that a number of key reforms were being introduced to strengthen the banking sector.** Progress has continued on the implementation of the 2011 FSAP Update Recommendations (Appendix III) and the Basel III capital requirements. A Domestic-Systemically Important Bank (D-SIB) methodology has been published, and identified D-SIBs will be required to comply from January 2016. The framework for countercyclical capital buffers (CCB) is also being developed in line with Basel guidelines. Draft legislation has been prepared to strengthen the resolution and recovery regime for banks. In terms of concentration risk, an aggregate large exposure limit of 400 percent of capital has been imposed, and single borrower exposure limits will be reduced from 25 percent of capital at present to 15 percent by 2019. A loan-to-value (LTV) ratio

of 70 percent was introduced for mortgages in November 2014 (previously mortgages were often given for 100 percent of the property value) and its impact on real estate activity and mortgage lending is being monitored. Lastly, a deposit insurance fund will be introduced in January 2016 and built-up gradually. This will protect deposits in participating banks up to a maximum of SR 200,000. SAMA also noted that while the impact of de-risking by several global banks in response to enhanced implementation of global regulatory standards and economic and trade sanctions has not had a significant impact on Saudi banks, they believed a dialogue was needed between banks and regulators to ensure this did not become a problem for local and regional banks.

26. SAMA outlined the steps that are being taken to strengthen the macroprudential framework. An early warning indicators dashboard has been established. Work is ongoing to formalize the minimum microprudential requirements on capital (currently implemented through the bank supervisory process at higher than minimum Basel requirements) and identify triggers that could guide the use of countercyclical capital buffers in an oil-driven economy such as Saudi Arabia. A high-level Financial Stability Committee has been established within SAMA to monitor financial sector risks. The recent publication of the first Financial Stability Report will support this framework and increase the transparency of policy operations to the public and financial markets.

27. Staff suggested that a formal macroprudential policy framework could help guide the countercyclical use of policies. In addition to steps already underway, a formal framework should ensure coordination and assign responsibilities among SAMA, the Capital Markets Authority (CMA), and the Ministry of Finance, to help strengthen macroprudential policy formulation and implementation within and across institutions. The reliability of early warning indicators in signaling potential systemic stress should be assessed to identify triggers that would activate the countercyclical use of a broad set of macroprudential policies. The framework should provide guidance on when and how macroprudential policies can be tightened or eased, while respecting microprudential norms to maintain confidence and an appropriate degree of resilience against future shocks. Microprudential norms should be set taking into consideration the lack of economic diversification and concentration risks. Additionally, addressing data gaps would help SAMA better monitor risks—developing a real estate price index and market activity indicators would be especially useful to monitor emerging risks from mortgage lending.

28. Staff recommended enhancing SAMA's use of countercyclical macroprudential policies. SAMA emphasized that it has used capital ratios, provisioning, and reserve requirements countercyclically through past financial cycles, but outside of a formal framework. Bank dividend payments also require prior approval from SAMA and this has helped maintain strong capital buffers. Other macroprudential tools have also contributed to financial stability, albeit these have not been adjusted over time. Staff suggested that, based on international experience, enhancing the countercyclical use of macroprudential tools could help reduce the buildup of systemic risks in the financial sector during oil price upswings, and cushion against disruption to financial services during oil price downswings. In addition to SAMA's existing macroprudential tools, countercyclical caps on sectoral exposures could also be used to reduce the financial sector's vulnerability to specific sectors that are exposed to government spending or asset price movements.

29. There was agreement that a relaxation of macroprudential policies could be considered if downside risks to the outlook materialize and systemic stress emerges. Staff suggested that monitoring a number of high-frequency indicators closely can help assess risks to financial stability. The decision to relax macroprudential policies will need to be based to a considerable extent on judgment drawing on market intelligence, supervisory assessments, and stress tests. Within a macroprudential framework, the relaxation of macroprudential instruments will have to consider the available policy space and source of systemic stress—if policy space is assessed to be available and liquidity pressures are the source of banking sector stress, easing reserve requirements first would be appropriate. If this proves insufficient, the loan-to-deposit ratio could also be relaxed. Strengthening its forecasting framework would help SAMA manage banking system liquidity. If the stress is on asset quality, dynamic provisions may be allowed to decline first to absorb losses. Putting a CCB framework in place would allow the relaxation of the CCB, should it be needed after dynamic provisions have been reduced. At the same time, strong financial supervision will remain essential to ensure the adequacy of the remaining capital and liquidity buffers. SAMA agreed and considered that, with high existing levels of capital and liquidity buffers, some policy space for the relaxation of macroprudential policies is available if it were to become needed.

30. The coverage of macroprudential policies needs to be broadened to contain potential leakages. Staff suggested that macroprudential instruments that are presently applicable only to local banks should be extended to nonbanks and foreign branches. For CCBs, reciprocity requirements (under the Basel III framework) could help ensure home-host cooperation in minimizing leakages towards foreign branches. In addition, DTI (debt-service-to-income) limits could be extended beyond personal and consumer loans to include all debt service paid by an individual borrower, and LTV limits could be extended to commercial real estate loans (currently applied on residential mortgages) or other corporate loans and investments secured by real estate as collateral. SAMA indicated that an expansion in the scope of the DTI limits is under consideration.

31. Staff welcomed efforts to strengthen the regulation of the nonbank financial sector, develop capital markets, boost consumer protection and financial inclusion, and improve the effectiveness of the AML/CFT regime. The measures that are planned or underway include:

Mortgage lending and regulation of nonbank financial institutions. Fourteen banks and five finance companies have received real estate finance licenses, and a further 16 finance companies have been licensed for other financing activities. With lending for real estate having risen by nearly 70 percent (and now accounting for 12 percent of bank lending) over the past two years, the recently implemented LTV ratio (which applies to banks and nonbanks) could help mitigate emerging risks, but its impact will need to be periodically assessed. Regarding insurance, SAMA has been working on improving the financial health of the sector to protect consumers and ensure companies are well-positioned to support future demand for insurance products.

Capital market development. Debt capital markets in Saudi Arabia are currently under-developed, hindered by the lack of a benchmark sovereign yield curve. The sovereign debt issuance now planned can help build a yield curve to support their development. Creating a deep and liquid bond market would increase financing options for companies, increase investment options for savers, and support growth. At the same time, equity markets have been opened to qualified foreign investors, who are now allowed to invest directly up to certain limits (implemented from June 15, 2015). This is expected to expand the investor base and bring more stability to the market, which is currently dominated by retail investors and public sector investment institutions (the Public Investment Fund (PIF), GOSI, and the PPA—Figure 9).

Consumer protection and financial inclusion. The authorities are taking steps to increase the transparency of bank fees and charges. On most measures, financial access in Saudi Arabia is lower than in G-20 peers (Figure 10) and is being broadened, including through improving financial access for SMEs from less developed regions of the country. In addition, the wage protection system that is being introduced requires nationals and expatriates working in the private sector to have bank accounts.

The AML/CFT regime. Saudi Arabia was recently admitted as an observer of the Financial Action Task Force (FATF). Following the passage of the CFT law in 2013, SAMA has been working with banks to identify weaknesses in their frameworks through thematic reviews and audits. Staffing levels to monitor compliance, both within banks and at SAMA, have increased significantly.

External stability and the exchange rate

32. Staff's assessment suggests that the current account was broadly consistent with fundamentals in 2014 (Appendix IV). Nevertheless, it is projected to be weaker than estimated norms in 2015, mainly reflecting the large fiscal deficit, and therefore, a sizable fiscal adjustment will be needed over time to bring the current account in line with fundamentals. The authorities argued that caution was needed in interpreting the model-based assessments of the external position given the uncertainties with such models, particularly in the case of a large oil exporter such as Saudi Arabia. They also noted that the fiscal deficit was driven by large investments in infrastructure, health, and education that would yield significant growth dividends, and considered the strong external balance sheet and limited exposure to capital flows to be mitigating factors.

33. Supported by the flexibility of the labor market, the exchange rate peg has provided monetary policy credibility and has helped deliver low inflation and inflation volatility. Nevertheless, with the U.S. dollar appreciation, the REER has appreciated by nearly 14 percent over the past year while the terms of trade has fallen by over 30 percent in 2014–15. A more flexible exchange rate would have benefits for the stability of fiscal revenues in nominal riyal terms and enable a more independent interest rate policy, but given the structure of the economy (heavy reliance on oil exports and limited import competing industries which are anyway reliant on imported inputs, including labor) would have very limited benefits for competitiveness and could increase the volatility of inflation. Moving away from the peg would also remove a credible monetary anchor, and reduce certainty for trade and investment.

34. The authorities and staff agreed that the exchange rate peg remains appropriate for the Saudi economy. Nevertheless, staff suggested that the peg be reviewed periodically (in coordination with other GCC economies) to ensure it remains appropriate given the evolving structure of the Saudi economy due to ongoing labor market reforms and efforts to increase diversification. Meanwhile, reforms that would support a move to a more flexible regime, if this became appropriate in the future, would be desirable in their own right and could proceed (including strengthening liquidity management, improving monetary transmission by developing money and debt markets, and improving data on foreign currency exposures of corporates).

B. Further Reforms to Manage Demographic Pressures and Ensure Sustainable and Inclusive Growth

Job Creation for Nationals

35. With a young population that is entering the labor force in large numbers each year, creating sufficient well-paying and productive private-sector jobs for nationals is a pressing challenge. It is not that job creation in the private sector has been a problem—employment growth has been strong—but rather the majority of these jobs have been filled by expatriates. The overall unemployment rate for nationals of 11.7 percent is high and masks considerable gender and age variations (Box 3). Despite low labor force participation among women, female unemployment was about 33 percent at end-2014. Youth unemployment was over 40 percent, and has been increasing. With rising labor force participation for women, and over 35 percent of the population still under the age of 19, these segments of the labor force will increase rapidly, underscoring the urgency of creating private sector jobs for nationals.

36. The authorities noted that they were continuing to implement their labor market reform strategy to increase private sector employment of nationals. The reforms are designed to make Saudi nationals more competitive in the private sector labor market, make private sector jobs more attractive to nationals, and require or encourage private firms to hire nationals. These initiatives can be grouped into five areas:

- ***Requiring private sector companies to meet minimum rates of Saudi employment in their workforce.*** The Nitaqat program requires companies to meet certain Saudization quotas that vary by sector and size of company. The program has also been used to introduce a de facto minimum wage for nationals of SR 3,000 a month.

- ***Helping nationals develop the skills needed by the private sector.*** Spending on education and training has been increased substantially and the number of university graduates is increasing. Colleges of excellence, focusing on particular professions, have also been opened to provide sector-specific skills.
- ***Addressing the wage gap between Saudis and expatriate workers.*** A number of measures are being taken to bridge the gap between expatriate wages and the reservation wage of Saudis. Wage subsidies and payroll tax rebates for Saudi employees are available, and monthly fees have been imposed on expatriate workers. The increased mobility of expatriate workers under the Nitaqat scheme will likely increase their wages over time.
- ***Supporting nationals in their job search.*** The Hafiz program provides financial support for people searching for a job. Job placement services and an unemployment insurance program have been introduced.
- ***Reducing regulations and improving working conditions.*** Regulations on female employment have been eased, with more sectors being opened for their employment. Proposals to reduce the private sector work week from 45 to 40 hours and to limit late night opening in retail stores, which will facilitate hiring of female workers, are being discussed.

37. Staff noted that while the number of Saudis working in the private sector has increased in recent years, more could be done to improve the incentives for private sector employment. Public sector employment has also grown strongly and the unemployment rate has remained high. The lack of data makes a full comparison of public and private sector wage rates difficult, but revealed preference indicates that many Saudis, particularly the low-skilled, see the public sector compensation package and work hours as more attractive than the private sector. These workers then lack the incentives to invest in skills needed by the private sector. If the availability of public sector jobs remains high, the labor market programs could prove less effective and the fiscal position could be undermined. A clearly stated policy from the government that future public sector employment opportunities will be very limited would help set expectations and incentivize greater private sector job search and the acquisition of skills in relevant areas. The authorities believed that with a large number of youth entering the labor market each year, strong private sector job creation would be key to rationalizing public sector hiring.

38. Increased private sector employment of nationals will have macroeconomic implications over time. The availability of low-wage expatriate labor in the private sector has underpinned the rapid economic development over the past four decades. It has helped contain cost pressures during periods of strong growth, thereby helping deliver relatively low inflation, limited real exchange rate appreciation, and flexibility to an economy with a pegged exchange rate. As the structure of the private sector labor market evolves to one that is more reliant on nationals, costs may rise and inflation may become more sensitive to the domestic non-oil output gap. On the other hand, if the reduced availability of expatriate workers encourages increased investment and productivity rises as higher skilled nationals enter the private sector, this may help offset higher wage costs.

Economic Diversification

39. The authorities are continuing reforms to boost economic diversification. A large number of structural reforms have been implemented, including significant investments in human capital and physical infrastructure and improvements to the business environment (Figure 11). Financial policies are also supporting SME development through increased SME access to finance, including through the establishment of dedicated SME units in banks, the Kafalah loan-guarantee program, and better access to credit information through SIMAH, the national credit bureau. More generally, the Ministry of Commerce and Industry is working to better coordinate and strengthen the support to the SME sector. Elsewhere, work has started on a new insolvency law and contract enforcement is being strengthened. Privatization of state-owned enterprises has restarted with the sale of part of the government's stake in National Commercial Bank (NCB). The government is focusing on developing industrial clusters around oil and mining, and joint ventures in refining, mining, petrochemicals, automobiles, pharmaceuticals, and banking.

40. The incentives for diversification, however, are not fully developed. The rapid growth in fiscal spending over the past decade has meant that most firms in Saudi Arabia can profitably operate in the nontradable goods and services sectors, relying on demand from the government and public sector workers rather than competing in the relatively risky tradables sector that can lead to rising investment and productivity. This also has implications for the labor market as firms rely mostly on low-wage low-skilled foreign workers, and generate few high-paying high-productivity jobs. Moving toward a more diversified economy, a key goal of the 10th National Development Plan, will require a change in the incentive structures. Measures could include reorienting public spending and strengthening the role of private sector competition to incentivize firms to focus on tradable rather than nontradable production. At the same time, improving the availability of finance and insurance for export-oriented firms could enable them to produce in the riskier tradables sector.

Housing

41. The government is continuing to implement its program to provide affordable housing. In light of the growing population and reported high house prices in the major cities, this is a considerable challenge. Estimates suggest that 160-180,000 new homes will need to be built each year over the next few years to meet growing demand. The government has allocated SR 250 billion from the budget surplus fund for the program, and the Ministry of Housing is continuing to develop options to support buyers which include the provision of interest-free loans (up to SR 500,000), and the payment of interest on behalf of the borrower for mortgage loans taken out from banks. The provision of support to buyers is being allocated according to a points system that favors those with greater need. On the supply side, options being developed include the provision of free public sector land and the proposed "white lands tax" which would increase the land available for housing.

42. Staff emphasized the need for ensuring that the housing needs of the population are met in a cost-effective way while minimizing the disruption to private real estate and mortgage markets. Housing is appropriately an important policy priority, but the program cost is high and to date it has moved slowly. Measures to expand supply should include a strengthened role for the government acting as a facilitator and regulator rather than a developer to help expand housing supply in a cost effective way. In this context, streamlining regulatory and approval processes to achieve efficiency gains could improve the functioning of private real estate markets. With respect to the support for buyers, financing should be targeted to those who are unable to obtain financing from banks or finance companies, and focus on purchases of new dwellings to avoid bidding real estate prices up further.

Statistical issues

43. Efforts are continuing to strengthen economic statistics. Rebased (to 2010) national accounts data has been published and quarterly IIP data is being submitted to the Fund. However, there is no official real estate price index, FDI data is unavailable for recent years and data on trade credit is of uncertain quality, wage data is sparse and inconsistent, an economically useful breakdown of commercial bank credit by sector is hampered by a large unallocated component, data on bank lending rates is not collected, and fiscal data in GFSM2001 format has still not been published. The authorities' said they are aiming to subscribe to the SDDS in 2016.

STAFF APPRAISAL

44. Oil prices have fallen by close to 50 percent over the past year, and although Saudi Arabia has increased its oil production in recent months in contrast to earlier periods of oil price drops, oil revenues have still fallen substantially. Given the economy's reliance on oil, this decline in oil revenues will affect the real and financial sectors. Credit and deposit growth have slowed in recent months, the equity market and corporate profits have fallen, and real GDP growth has slowed. Staff expects real GDP to grow by 2.8 percent this year and 2.4 percent in 2016, down from 3.5 percent in 2014. Risks to the growth outlook stem mainly from uncertainty about the future oil market outlook, uncertainties about the growth pay-off from recent reforms, and an escalation of regional tensions that could undermine confidence.

45. A gradual but sizable fiscal adjustment is needed to put the fiscal deficit on a firm downward path. The fiscal deficit is projected to reach 19½ percent of GDP this year, and while it will decline as one-off spending ends and several large capital projects are completed, on current policies it will remain high over the medium-term. A large multi-year fiscal adjustment, anchored on a structural budget balance, is necessary to stabilize fiscal buffers and bring the budget position closer to that needed for intergenerational equity. If this adjustment does not take place, fiscal buffers will be quickly eroded, and fiscal risks would rise. Comprehensive energy efficiency and price reforms, expanding non-oil revenues, reviewing capital and current expenditures to better align spending with policy priorities, and reducing the government wage bill should form central elements of the fiscal consolidation strategy. Issuing debt to finance part of the deficit as fiscal policy adjusts is appropriate.

46. Reforms to the fiscal framework are needed to support the process of fiscal consolidation. The annual budget should provide a complete and realistic representation of the planned expenditures during the year, including from the budget surplus fund. This will improve the budget as a signaling device of the government's fiscal policy intentions, as well as help improve the efficiency of spending. The annual budget should be set within a medium-term framework that clearly establishes the authorities' fiscal goals, delinking expenditures from short-term volatility in oil revenues while ensuring that spending adjusts over time to longer-term price trends. Expenditure priorities from the 5-year national development plan should be fully integrated in the medium-term budget framework and linked to the annual budgets and regularly updated. Establishing a macro-fiscal unit and publishing fiscal data in GFSM2001 format will support these changes.

47. The banking sector is in a strong position to weather lower oil prices and weaker growth. Profits, liquidity, and capital buffers are strong and NPLs are low. While fiscal adjustment and slower private sector growth are likely to result in modestly higher NPLs over the medium-term, bank provisions are more than adequate to cover loan losses and capital ratios would remain stable. Bank balance sheets also appear able to absorb a more significant worsening of the economic situation. SAMA's continued reforms to strengthen the regulation and supervision of the financial sector are welcome.

48. The macroprudential policy framework could be strengthened to mitigate financial sector risks in a countercyclical way. SAMA was a developer and early user of macroprudential policy tools. Some tools have been used in a countercyclical way, while others have not changed over time. Enhancing the countercyclical use of macroprudential tools and linking to systemic risks in the financial sector would help SAMA mitigate the potential effects of oil price and asset price cycles on financial stability. The establishment of a formal macroprudential policy board with SAMA, the CMA, and the Ministry of Finance as members would help ensure policy coordination and could guide decisions on when to tighten or relax policies. Decisions will need to be based to a considerable extent on judgment drawing on early warning indicators, market intelligence, supervisory assessments, and stress tests. Macroprudential policies may be relaxed if financial sector stress emerges and policy space is assessed to be available.

49. The exchange rate peg remains appropriate given the structure of the Saudi economy. Supported by a flexible labor market, the peg has delivered monetary policy credibility and low inflation, while a more flexible exchange rate would have few benefits given the structure of the economy. Nevertheless, fiscal consolidation will be needed to support the peg over the long-term. Given ongoing structural changes in the labor market and efforts to increase diversification, the peg should be periodically reviewed in coordination with other GCC countries to ensure it remains appropriate.

50. The decline in oil prices will put greater emphasis on labor market and other structural reforms to switch the locus of growth away from the public sector and toward the private sector. Policies are continuing to strengthen the business environment, but the incentives facing firms will need to change to focus more on tradable rather than nontradable production in the non-oil sector. In addition, limiting the availability of public sector jobs will be critical to create incentives for workers to acquire the skills needed for high-productivity jobs in the private sector. Continued efforts will be needed to strengthen education and training.

51. Considerable progress has been made in improving the quality and availability of key economic statistics. Further progress is needed, however, especially in the areas of government finance, monetary, real estate, and labor market statistics. The authorities' target of subscribing to SDDS in 2016 is welcome, but progress in other statistical areas is also important and would enhance the availability of information to inform policymaking. Continued close collaboration with GCCStat will support a further strengthening of domestic economic statistics.

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

Saudi Arabia: Risk Assessment Matrix[1]		
Nature/source of main risks	**Likelihood**	**Expected impact on the economy if risk is realized**
Persistently low energy prices, triggered by supply factors reversing only gradually and weaker demand	**Medium**	***High*** A 10 percent permanent decline in oil prices would reduce fiscal and external balances by 1.6 and 2.8 percentage points of GDP, respectively, assuming no policy response. GDP growth would drop by 0.5 percentage points a year assuming the government fully offsets the revenue losses with expenditure cuts. The actual impact would be less in the near-term if fiscal buffers are used to delay the expenditure reductions, although at the cost of a larger adjustment later with associated growth implications. Adverse confidence effects in the private sector and drying up of liquidity in the banking system could reduce credit availability and amplify negative spillovers. *Fiscal policy would need to adjust to reflect the realities of lower oil prices. Policymakers should intensify diversification efforts to partially offset potential negative spillovers from lower oil prices. The authorities should ensure adequate banking system liquidity and carefully monitor banks for signs of stress.*
Political fragmentation/state failure/security dislocation in the Middle East and some countries in Africa leads to a sharp rise in oil price volatility and migrant flows	**Medium**	***Medium*** Heightened tensions and conflict in the Middle East could result in higher oil prices if oil supply is threatened (oil prices could also rise unexpectedly if, in response to the recent fall in prices, unconventional and other high cost producers sharply reduce supply growth). The positive impact on the economy from higher oil prices could, however, be offset if confidence and investment falls and financial market volatility increases in response to heightened regional tensions. *Higher oil prices would ease pressure on the fiscal position, but fiscal adjustment would still be needed over the medium-term. Increased efforts at diversification would remain important. If growth was significantly affected by a loss of confidence, there could be a case for temporarily slowing the pace of fiscal adjustment.*
Increased energy price volatility due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline	**Medium**	***Medium*** High oil price volatility could also lead to increased macroeconomic volatility if not carefully managed. *Strong fiscal and macroprudential policy frameworks are needed to mitigate the risks that increased oil price volatility could translate into higher macroeconomic volatility.*
Private sector employment opportunities do not increase fast enough to provide jobs for the young population	**Medium**	***Medium*** Despite growing employment of Saudi nationals in the private sector, the public sector remains the key employer. Absorbing new labor market entrants into government jobs will not, however, be an option going forward given the need for fiscal consolidation. Unless, private sector hiring increases, unemployment will rise. *Further labor market reforms are needed to increase the employment of Saudi nationals in the private sector.*
Side-effects from global financial conditions: • **Sharp asset price adjustment and decompression of credit spreads** • **Persistent dollar strength**	 **High** **High**	***Low*** The normalization of U.S. monetary policy would tighten financial conditions in Saudi Arabia. Nevertheless, it is difficult to find empirical evidence of an interest rate channel in Saudi Arabia. Increased financial market volatility, unless accompanied by volatility in oil prices, would have a limited impact given the structure of the Saudi economy. Given the peg, dollar strength would appreciate the riyal. This, however, would have a minimal impact on growth or the current account given small non-hydrocarbon exports and limited substitutability between domestic production and imports. Banks should prove resilient as any open foreign exchange positions (subject to prudential limits) are largely in U.S. dollars. *Continued strong fundamentals would likely prevent excessive volatility in Saudi Arabian financial markets. Large financial cushions are in place to mitigate the impact.*

[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.

Box 1. Saudi Arabia's Corporate Sector

Listed Saudi companies have low levels of debt and generally healthy debt service coverage ratios. While the debt of listed companies increased by around 10 percent in 2014, driven mainly by increased issuance among utilities, telecoms and industrial groups, it remains relatively low at 17 percent of GDP. No information is available on non-listed companies which are an important part of the corporate sector in Saudi Arabia. Much of the debt is concentrated in petrochemical and utility companies. Short term debt outstanding, which accounts for around 15 percent of total debt, increased slightly in 2014. Aside from three sectors with debt service coverage ratios below 1, most sectors currently operate with comfortable debt service coverage level. The construction sector, which experienced declining profitability in 2014, was the only major sector with a debt service coverage ratio below 1.

	Debt Service Coverage Ratios			
	2014	2013	2012	2011
Petrochemical	1.8	2.6	1.8	2.5
Real Estate	2.3	6.0	7.1	8.4
Cement	3.7	5.5	6.3	5.2
Agriculture	6.0	4.9	3.8	4.4
Retail	7.1	11.7	16.0	9.2
Telecom	18.5	24.0	7.0	8.3
Industrial	2.3	2.3	9.1	9.8
Building	0.8	1.4	0.9	1.2
Hotels	10.1	13.3	14.4	25.8
Transport	2.3	1.8	21.1	18.9
Energy/Utility	6.6	7.6	9.5	3.8
Multi-Invest	0.3	0.7	0.5	0.6
Media	0.4	3.1	6.1	14.8

Source: Zawya

		Cash & Equivalents (US$ billion)				Total Debt (US$ billion)				Short Term Debt (US$ billion)			
	Number	**2014**	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Petrochemical	*14*	14.8	12.3	13.7	17.4	54.7	54.9	58.3	60.2	7.4	5.8	6.9	6.9
Real Estate	*8*	0.9	0.8	0.5	0.8	6.0	4.7	3.8	3.5	0.9	0.2	0.3	1.4
Cement	*14*	0.5	0.5	0.7	0.5	1.6	1.3	1.5	1.5	0.8	0.5	0.6	0.5
Agriculture	*17*	1.0	1.2	0.8	0.8	5.6	5.4	4.8	3.8	1.9	1.8	1.7	1.4
Retail	*13*	0.5	0.2	0.2	0.2	1.6	1.0	0.8	0.5	0.6	0.5	0.3	0.3
Telecom	*4*	2.3	1.0	1.2	1.8	10.2	8.3	8.6	14.4	1.2	0.7	3.7	6.0
Industrial	*14*	3.4	1.4	1.9	1.6	13.3	9.8	8.2	6.1	1.5	1.3	1.1	0.9
Building	*16*	0.4	0.4	0.4	0.4	3.5	3.9	3.9	3.5	2.6	3.0	3.1	2.8
Hotels	*3*	0.6	0.6	0.2	0.1	0.2	0.2	0.1	0.0	0.2	0.2	0.0	0.0
Transport	*4*	0.1	0.1	0.1	0.1	2.4	1.6	1.5	1.4	1.2	0.4	0.3	0.2
Energy/Utility	*2*	1.9	1.1	0.8	2.0	23.6	19.7	15.4	14.5	0.6	2.4	0.4	2.2
Multi-Invest	*5*	0.4	0.3	0.3	0.4	3.6	3.8	3.5	3.6	0.5	0.2	0.4	0.4
Media	3	0.1	0.1	0.1	0.0	0.6	0.6	0.6	0.2	0.2	0.3	0.3	0.2
Total	**117**	**26.8**	**20.2**	**20.9**	**25.9**	**127.0**	**115.2**	**110.9**	**113.4**	**19.7**	**17.2**	**19.0**	**23.2**

Source: Zawya, IMF staff calculations.

In aggregate, cash balances of the listed corporate sector exceed short-term debt levels. Cash and cash equivalents increased by nearly a third (or some $6.6 billion) in 2014. The petrochemicals, industrials, and telecom sectors accounted for the bulk of the increase in cash balances. Only in the construction and transport sectors is short-term debt considerably higher than cash on hand.

Box 2. Empirical Evidence on Oil-Macro-Financial Linkages in Saudi Arabia

Two complementary VAR models are estimated to uncover oil-macro-financial linkages.[1] The first model uses quarterly aggregate data to uncover the transmission channels between macroeconomic and financial variables (1997Q1-2014Q4): oil prices, equity prices, domestic credit, government spending, and non-oil GDP (the quarterly series for the latter two variables are interpolated from annual data). The second model assess linkages between macroeconomic and bank-level balance sheet variables using an annual panel VAR (1999–2014): oil prices, non-oil private sector output, bank credit, nonperforming loan (NPL) ratios, and bank deposits. The use of these two different VAR models allows for a deeper analysis of the macro-financial transmission channels despite some limitations with data availability.

The models find significant evidence of oil-macro-financial linkages and feedback loops. Impulse responses from the first model suggest that equity prices and government spending are the main channels through which an oil price shock affects aggregate domestic credit and non-oil output in Saudi Arabia. In terms of first-round effects, a decrease in oil prices results in an immediate decline in equity prices and in government spending after 6 quarters. The decline in equity prices and government spending then affects non-oil GDP. There is also a feedback loop between credit, equity prices, and non-oil GDP.

The second model allows for a more detailed assessment of the impact of oil prices on the banking sector. In this model, bank credit, deposits, and NPL data from 12 banks is used (data taken from Bankscope) together with the aggregate macro variables. A 1 percent negative shock to oil prices reduces non-oil private sector growth by 0.1 percent, bank credit growth by 0.3–0.4 percent, and deposit growth by 0.1–0.2 percent. It increases NPL ratios by 0.1–0.15 percent in the long run.[2] Moreover, there is a feedback loop among the balance sheet variables, which in turn impact the broader economy.

Shock to	Real oil price growth		Real nonoil private sector		Real credit growth		NPL ratio		Real deposit growth	
Response of										
Real nonoil private sector GDP growth	-0.1	-0.1				-0.05		0.4		
Real credit growth	-0.41	-0.26	-3.1	-2.1				4.4	-0.5	
NPL ratio	0.03	0.02			0.02	0.03				
Real deposit growth	-0.2	-0.1			-0.6	-0.7	1.1	2.0		
# of lag	***1***	***2***	***1***	***2***	***1***	***2***	***1***	***2***	***1***	***2***

Note: Panel VAR with one and two lags. Annual data 1999-2014. Bank level data for NPL, deposits, and credit. Numbers represent a percent response to a 1 percent shock, except for NPL ratio where shock and response are in percentage point.

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[1] Variables are used in real terms and log first differences except for NPL ratios.

[2] The short run coefficients are divided by 1 minus the autoregressive coefficient.

Box 3. Youth, Female, and Regional Differences in Labor Market Outcomes

The overall unemployment rate for nationals, which stands at 11.7 percent, masks considerable gender, age, and regional variations.

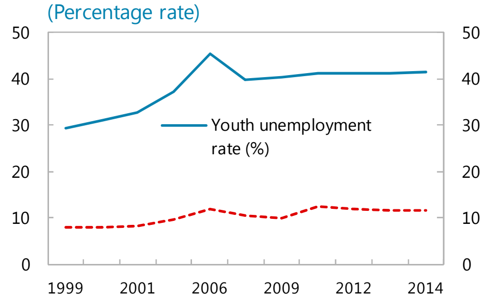
- Among Saudi females, the unemployment rate stood at 33 percent in 2014, compared to less than 6 percent for males. Participation of females in the labor force is also low.

- Among youth, unemployment is very high and rising. With over 35 percent of the population still under the age of 19, this working age segment will increase rapidly, underscoring the urgency of tackling youth unemployment.

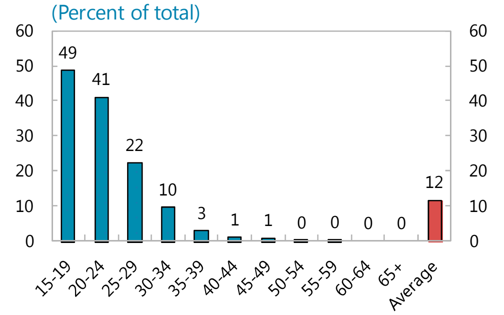
- Across regions, unemployment rates vary considerably being as high as 20 percent in some regions. Gender gaps are much wider than at the national level in some regions.

Recent labor reforms and development projects have aimed at addressing these inequalities. The government has introduced a number of initiatives targeting mainly youth and female workers including in the Nitaqat and Hafiz programs, and a number of sectors have been opened to female employment.[1] Female participation has increased from around 14 percent in 2011 to 18 percent in 2014 and the unemployment rate has declined. A number of development projects have been targeted to high unemployment regions.

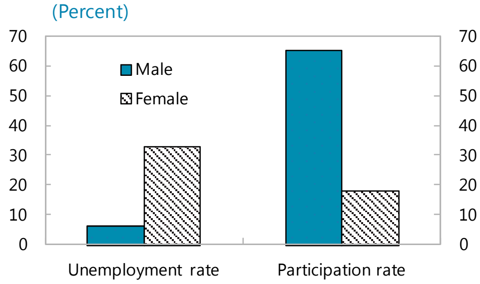
Unemployment of Nationals
(Percentage rate)



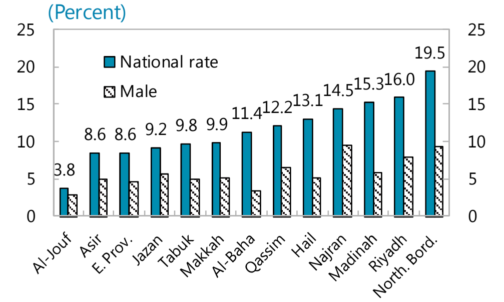
Unemployment by Age Group, 2014
(Percent of total)



Unemployment and Participation by Gender, 2014
(Percent)



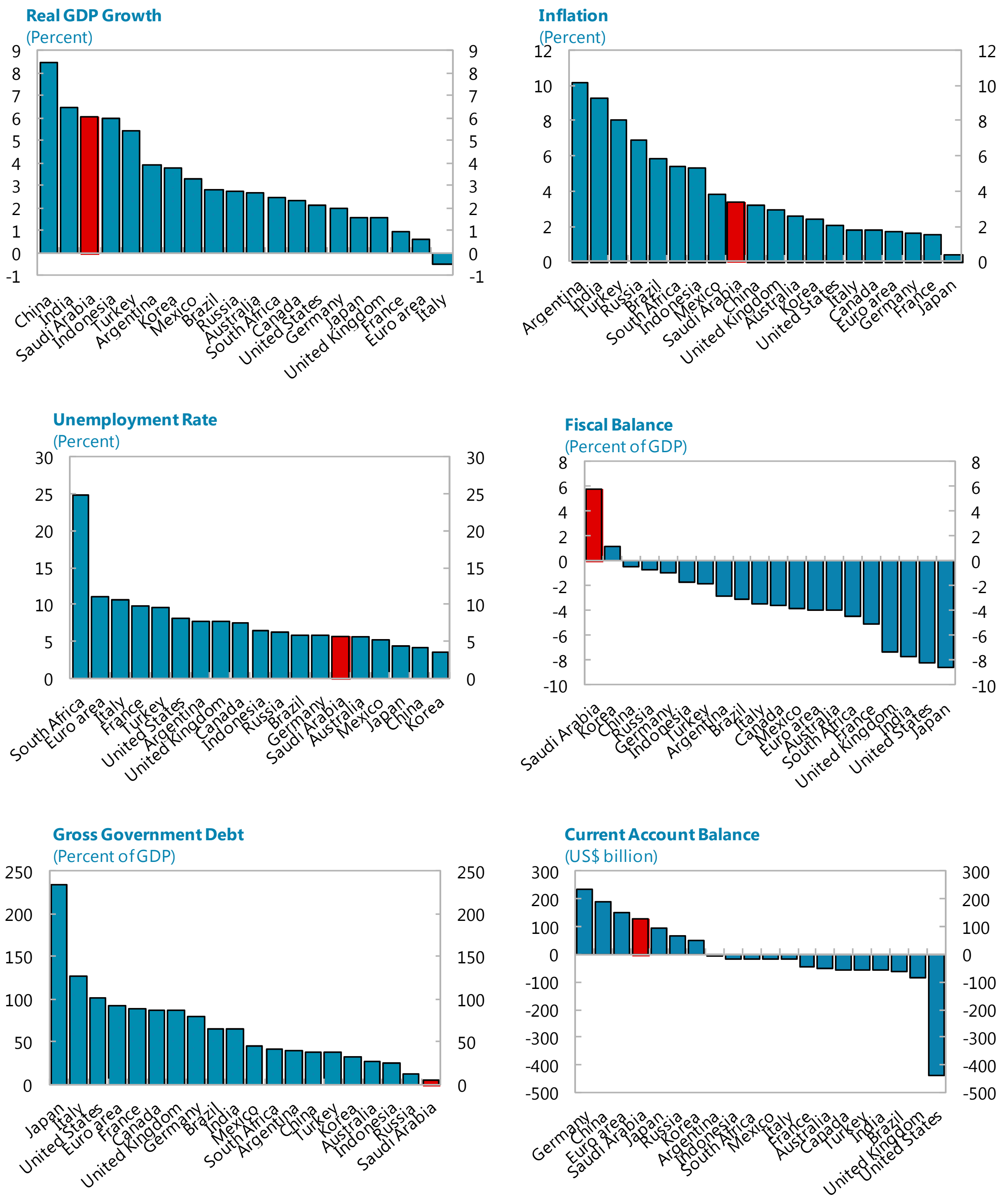
Regional Unemployment Rates, 2014
(Percent)



Sources: CDSI; GOSI; IMF staff estimates.

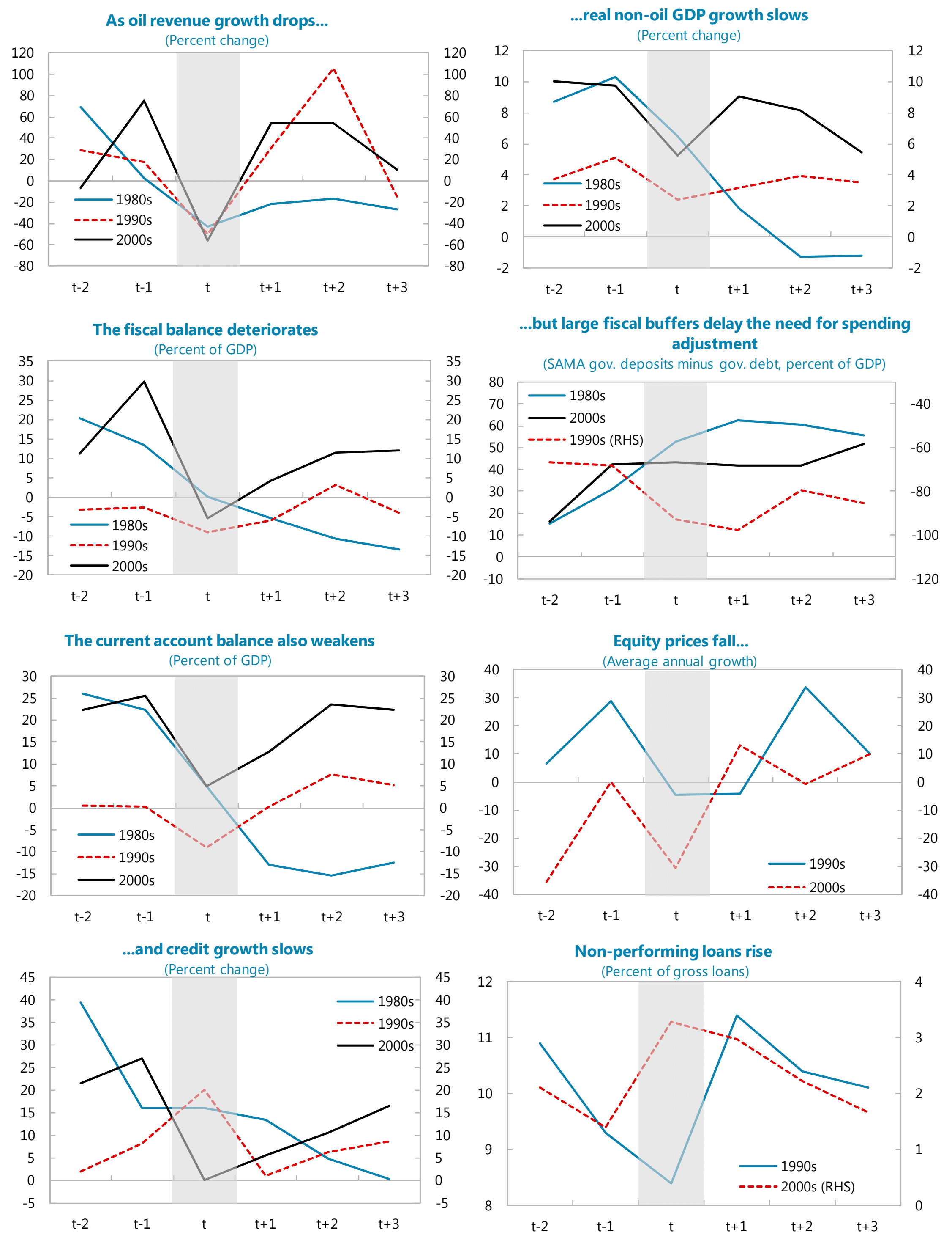
1/ Nitaqat is a Saudization program that sets quotas on the minimum number of Saudi's a company needs to employ depending on its size and sector of activity. Hafiz is a program that provides financial support while nationals search for a job.

Figure 1. Saudi Arabia and G-20 Comparators: Selected Economic Indicators, 2010–14 Averages



Source: IMF World Economic Outlook.

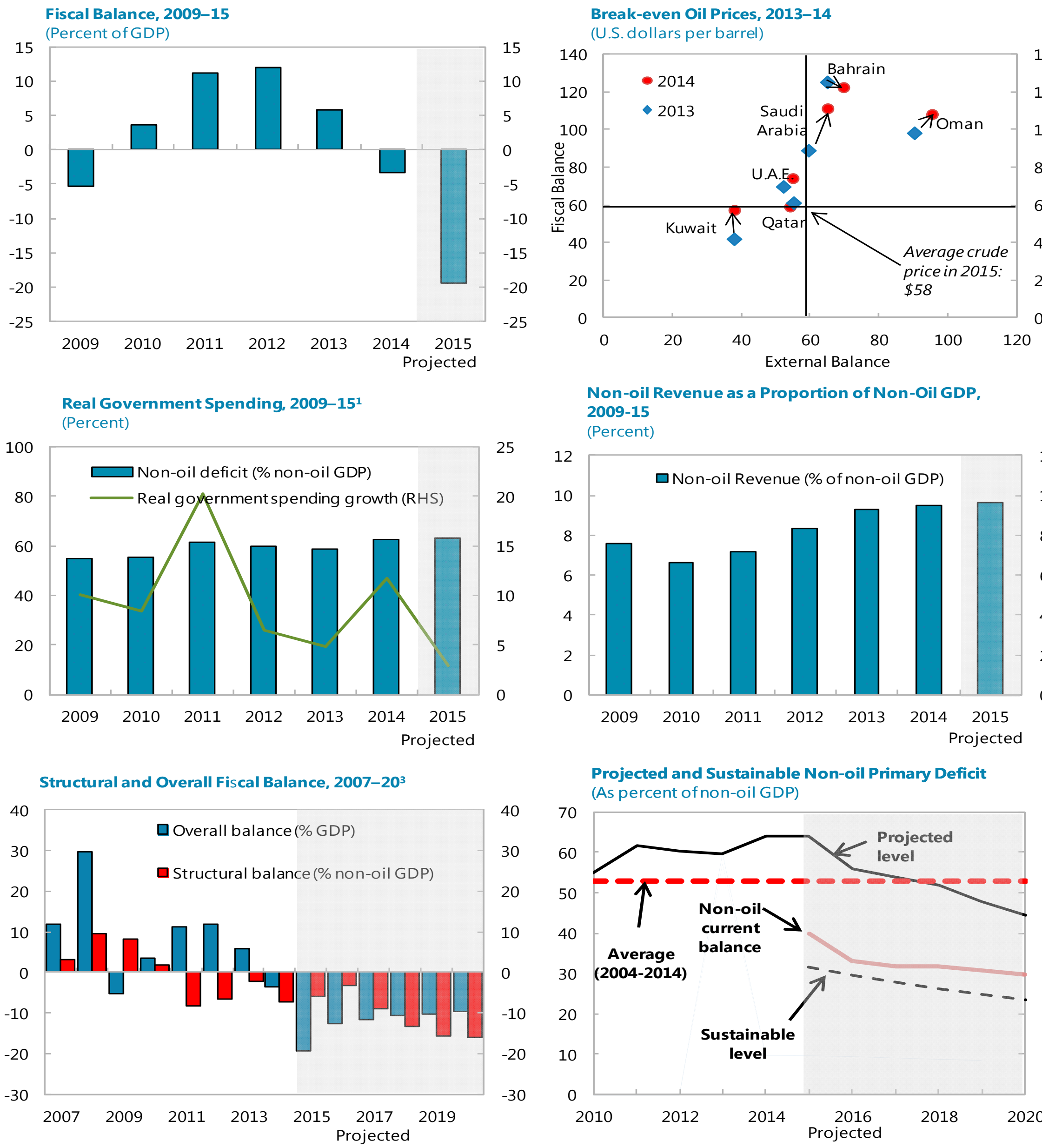
Figure 2. Oil Price Slumps Through the Years—How They Impact Saudi Arabia



Source: IMF staff estimates.

Note: The trough year for oil revenues, time t=0, corresponds to 1982, 1998 and 2009 for the "1980s,""1990s" and "2000s" events ,respectively.

Figure 3. Fiscal Developments



Sources: Country authorities; and IMF staff calculations.

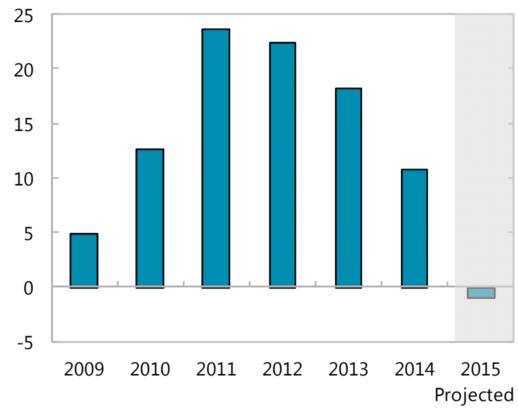
[1]Real expenditures are deflated by the CPI.

[2]The sustainable level of fiscal spending from the oil wealth is defined as an annuity constant in real per capita terms. The shaded area represents the sustainable level of fiscal spending conditional on oil prices remaining within $25 per barrel of the baseline.

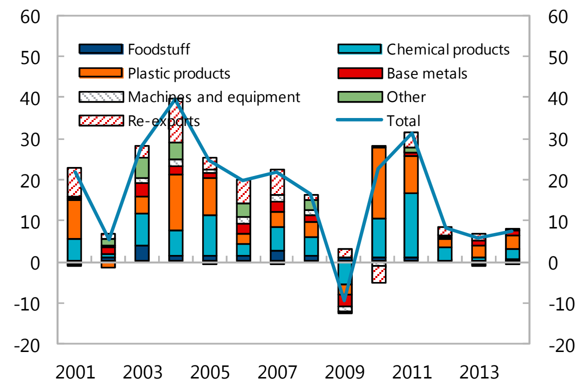
[3]Structural revenues are estimated by assuming that the long-term oil price is the average oil price from past five years. Long-term oil output is computed as a three year moving average including the current year. The structural balance is then computed as structural revenues less total expenditures.

Figure 4. External Sector Developments

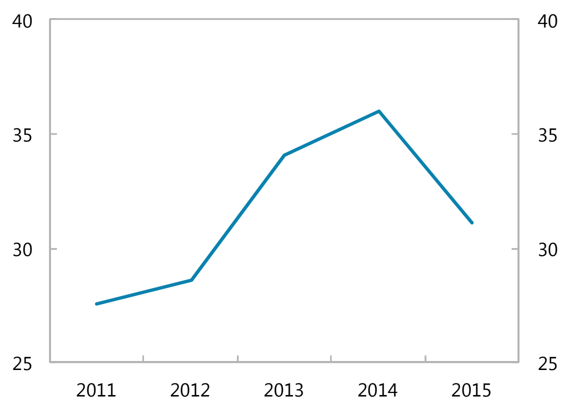
Current Account Balance
(Percent of GDP)



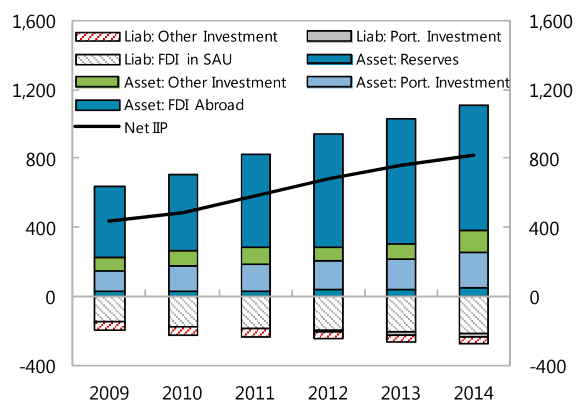
Contribution to Non-oil Export Growth, 2001–14
(Percent)



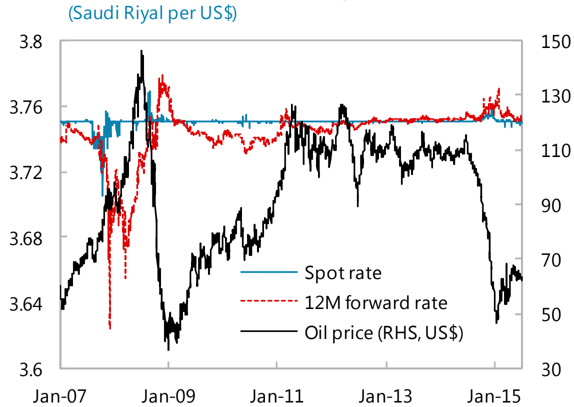
Workers' Remittances
(US$ billion)



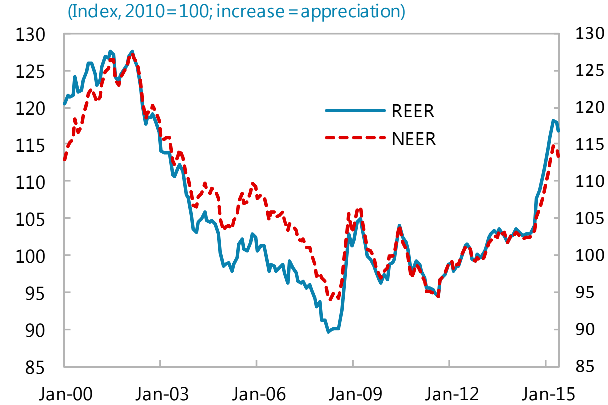
International Investment Position
(US$ billion)



USD/SAR Spot, Forward Exchange Rates, and Oil Price
(Saudi Riyal per US$)

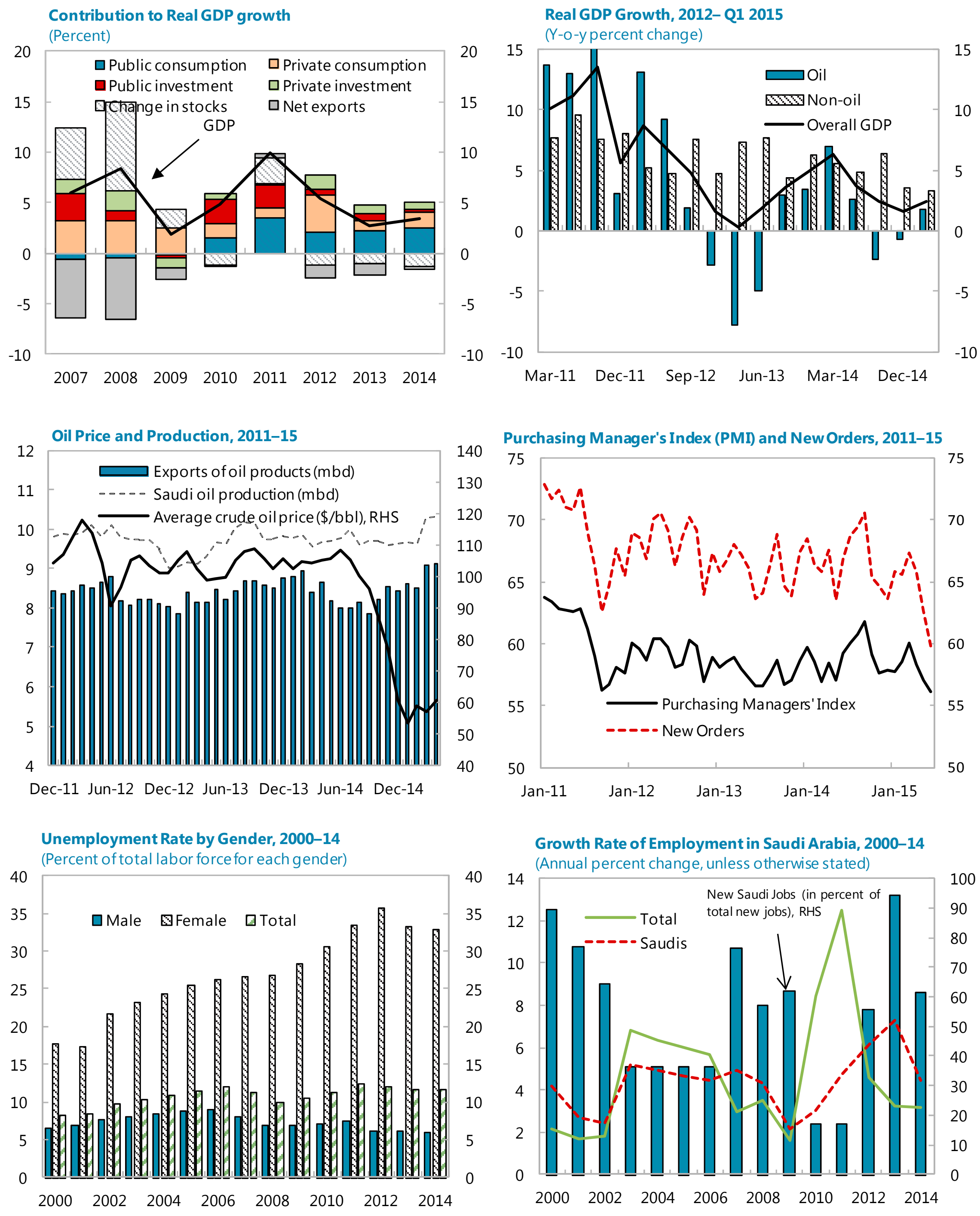


Real and Nominal Effective Exchange Rates, 2000-May 2015
(Index, 2010=100; increase=appreciation)



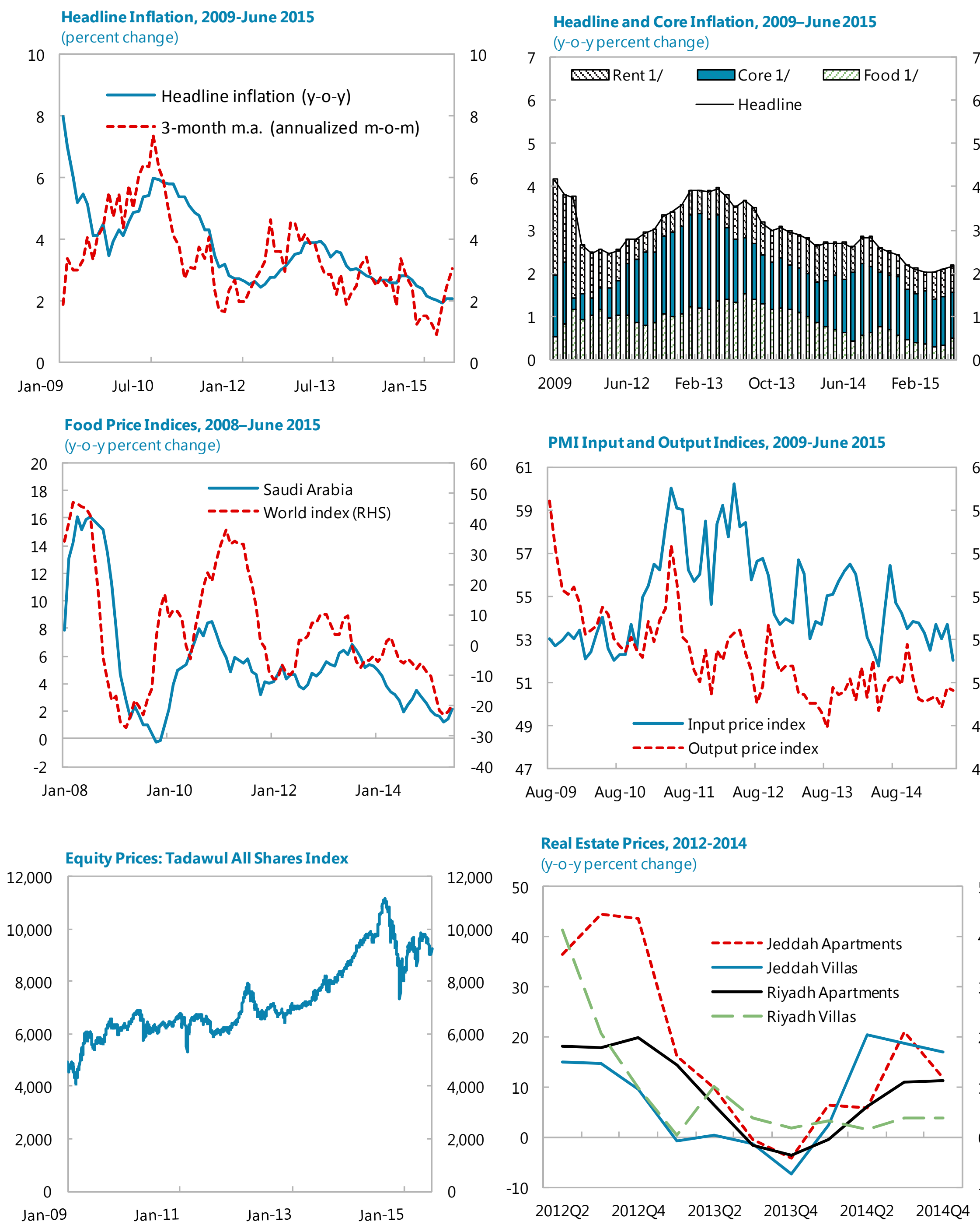
Sources: Country authorities; IMF staff calculations; Bloomberg; Haver.

Figure 5. Growth and Employment



Sources: Country authorities; Markit; Joint Oil Data Initiative (JODI); and IMF staff calculations.

Figure 6. Inflation and Asset Price Developments

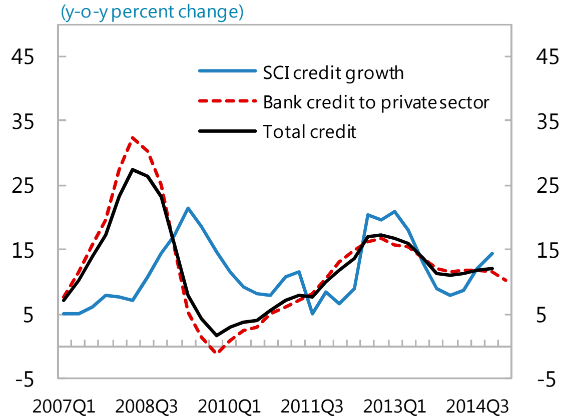


Sources: Country authorities; Haver Analytics; Markit; Bloomberg; Jones Lang LaSalle; and IMF staff calculations.

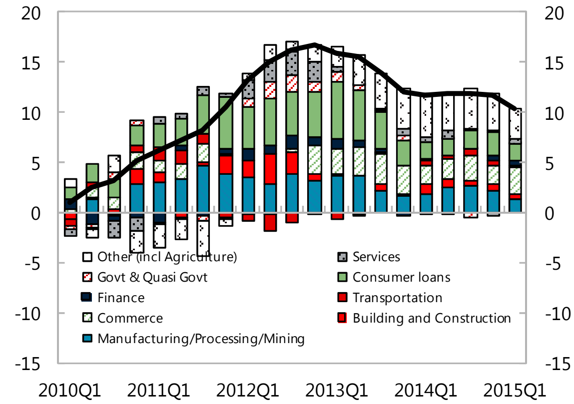
1/ Contribution to headline CPI inflation.

Figure 7. Money and Credit Developments

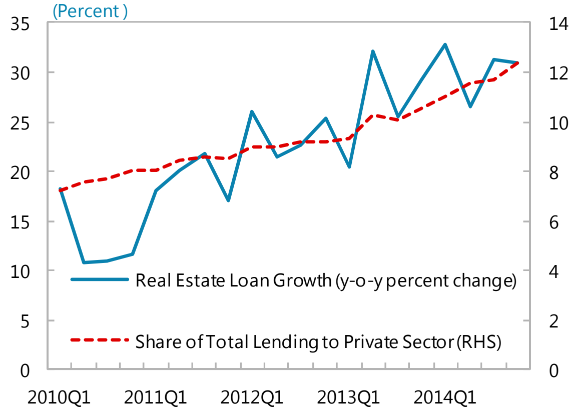
Credit Growth, 2007Q1–2015Q1
(y-o-y percent change)



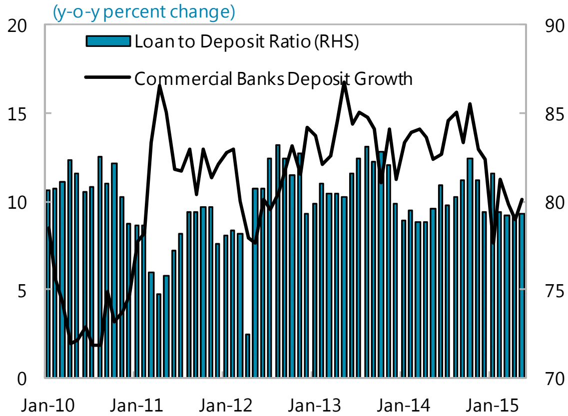
Sectoral Decomposition of Credit Growth, 2010Q1–2015Q1
(Percent)



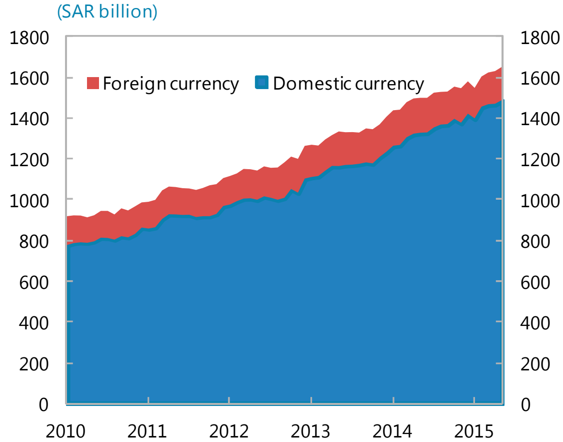
Real Estate Loans Growth
(Percent)



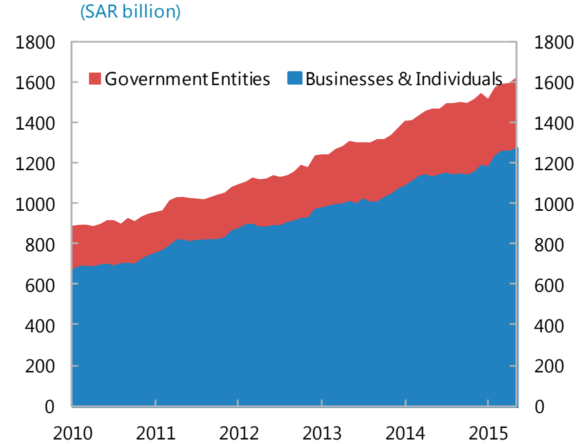
Commercial Bank Deposits
(y-o-y percent change)



Currency Composition of Deposits
(SAR billion)



Owner of Deposits
(SAR billion)



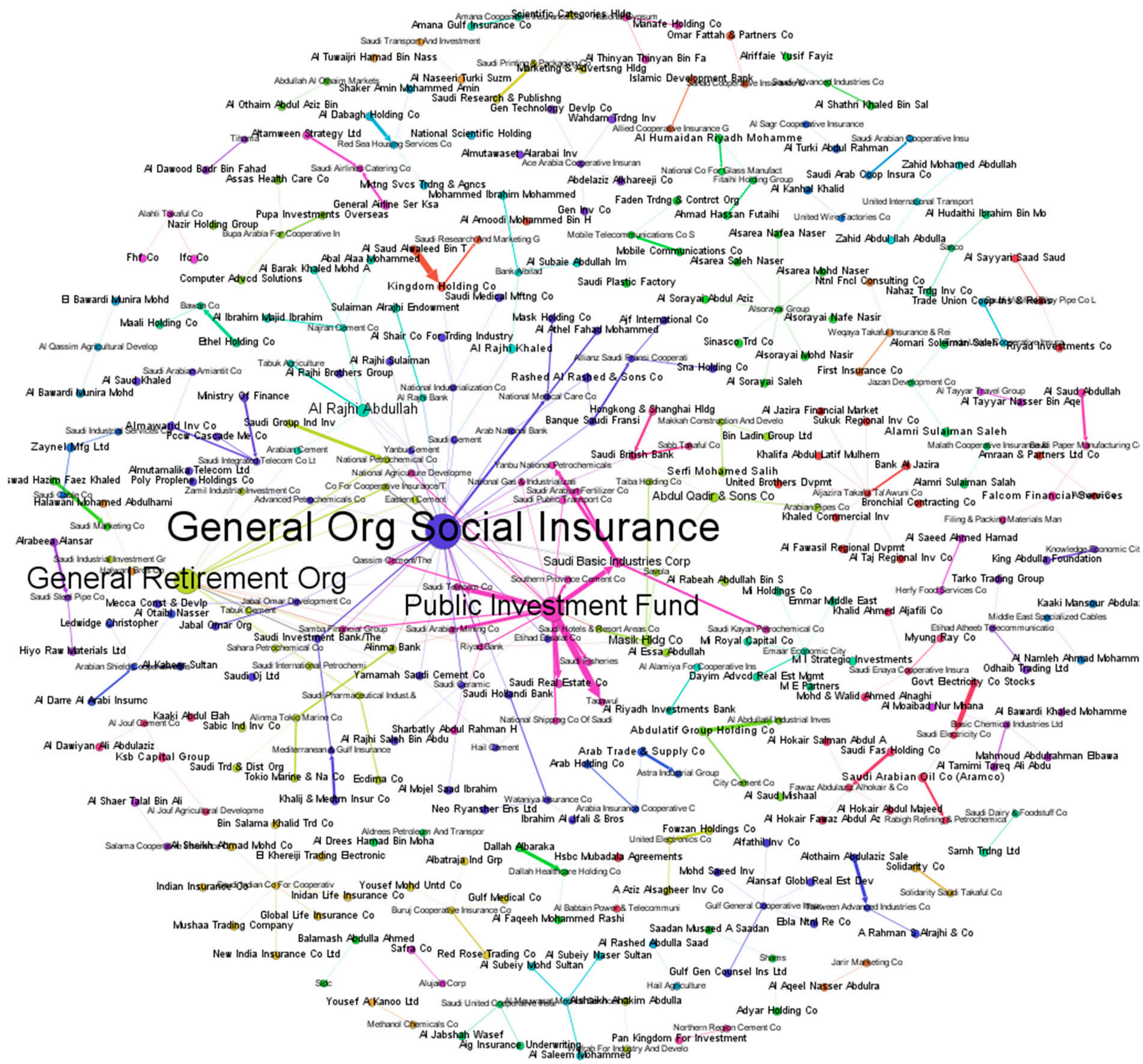
Sources: Country authorities; and IMF staff calculations.

Figure 8. Fiscal Scenarios

(Percent of GDP unless stated)

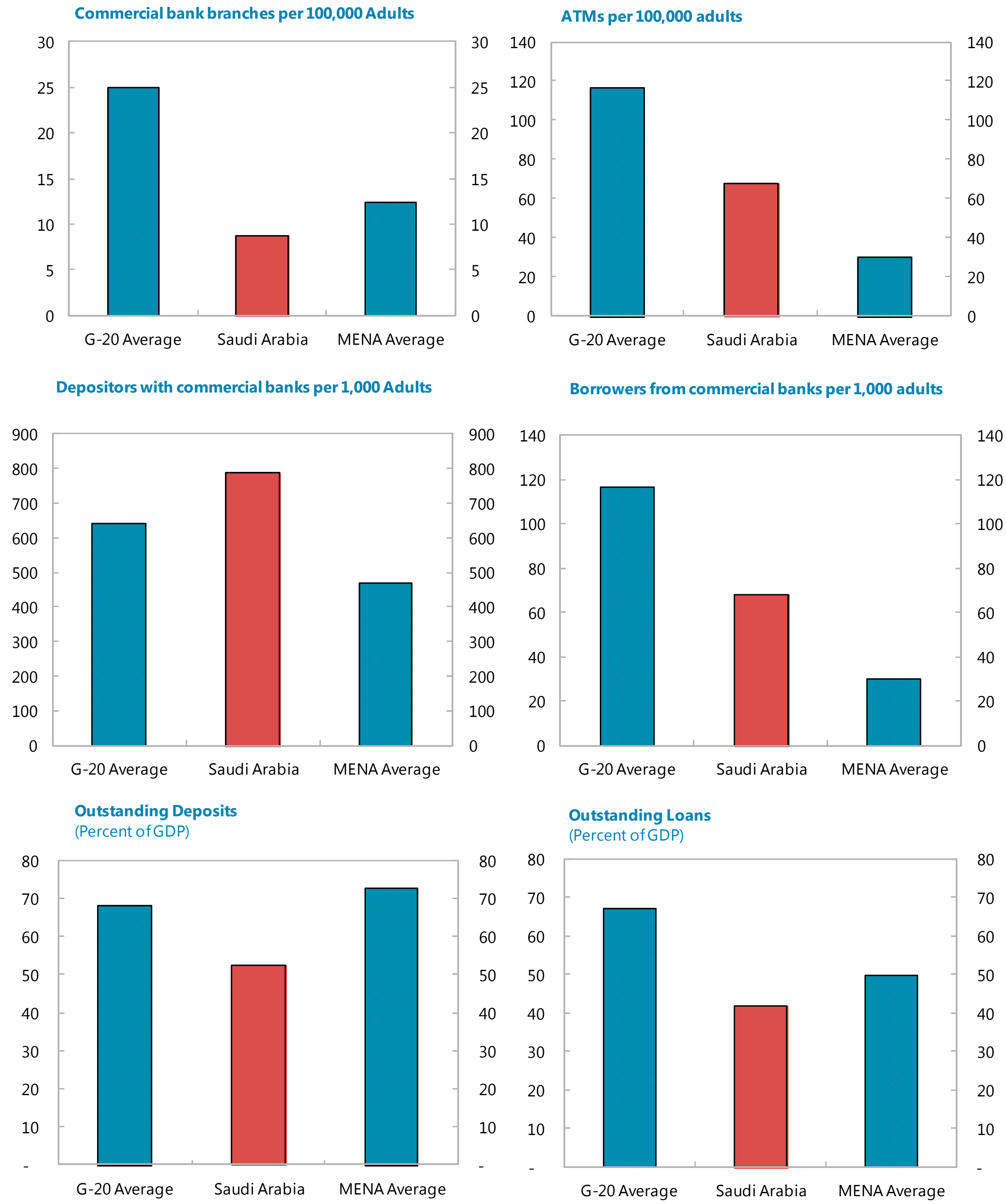
Source: IMF staff calculations.

Figure 9. Saudi Arabia Corporate Ownership Network



Source: IMF staff calculations and estimates.

Figure 10. Financial Access Indicators: G-20, MENA & Saudi Arabia



Source: IMF Financial Access Survey.
Note: Data for 2013 or last available year.

Figure 11. Business Environment

Sources: Global Competitiveness Report 2014–15, World Economic Forum; Doing Business 2014/2015, World Bank; and IMF staff calculations.

Table 1. Saudi Arabia: Selected Economic Indicators, 2011–20

				Prel.	Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(Percent change; unless otherwise indicated)									
National income and prices										
Crude oil production (million of barrels per day)[1]	9.310	9.8	9.6	9.7	9.9	10.0	10.1	10.2	10.3	10.4
Average oil export price (U.S. dollars per barrel)[2]	107.1	109.5	105.5	96.0	59.2	64.6	68.3	72.0	72.4	72.8
Nominal GDP (SAR billions)	2,511	2,752	2,791	2,798	2,415	2,588	2,771	2,967	3,135	3,317
Nominal GDP (US$ billions)	670	734	744	746	644	690	739	791	836	885
Nominal non-oil GDP (SAR billions)	1,217	1,354	1,479	1,606	1,657	1,752	1,875	2,011	2,159	2,320
Nominal GDP per capita (US$)	23,594	25,139	24,816	24,252	20,523	21,556	22,626	23,756	24,604	25,526
Real GDP	10.0	5.4	2.7	3.5	2.8	2.4	2.9	3.1	3.1	3.2
Oil	12.2	5.1	-1.6	1.5	2.4	1.2	1.3	1.4	1.4	1.5
Non-oil	8.1	5.5	6.4	5.0	3.1	3.3	4.1	4.3	4.3	4.4
Real GDP—public sector	8.4	5.3	5.1	3.7	2.4	2.2	2.7	2.6	2.6	2.7
Real GDP—private sector	8.0	5.5	7.0	5.6	3.4	3.8	4.7	5.0	5.0	5.1
Consumer price index (avg)	3.7	2.9	3.5	2.7	2.0	2.4	2.8	2.9	2.9	2.9
External sector										
Exports f.o.b.	45.2	6.5	-3.2	-8.7	-31.2	8.9	6.6	6.2	1.6	2.4
Oil	47.6	6.2	-4.6	-11.5	-35.6	9.5	6.1	5.6	0.8	0.9
Non-oil	31.3	8.0	5.9	7.8	-9.5	6.8	8.7	8.5	4.5	7.2
Imports f.o.b.	23.1	18.2	8.2	1.4	-1.8	3.3	5.8	5.7	5.6	5.7
Current account balance (percent of GDP)	23.7	22.4	18.2	10.9	-0.9	2.4	4.3	6.0	5.6	4.7
Export volume	9.2	5.3	1.4	1.8	5.2	1.5	2.5	2.7	1.6	2.8
Import volume	11.9	18.9	11.2	4.6	4.9	3.4	4.9	5.1	5.2	5.2
Terms of trade	16.6	2.2	1.8	-3.7	-29.7	8.0	3.1	3.1	1.0	0.1
Money and credit										
Net foreign assets	22.3	19.7	10.2	1.8	-6.9	-6.0	...	...	...	...
Credit to government (net)	24.5	32.2	5.8	-9.3	-32.5	-29.9	...	...	...	...
Credit to private sector	10.6	16.4	12.5	11.8	8.4	8.2	...	...	...	...
Credit to state enterprises	-1.4	24.4	11.5	3.8	0.0	0.0	...	...	...	...
Money and quasi-money (M3)	13.3	13.9	10.9	11.9	8.5	8.2	...	...	...	...
3-month Interbank rate (percent p.a.)[4]	0.69	0.92	0.95	0.94	0.77	...	...	...	...	...
	(Percent of GDP)									
Central government finances										
Revenue	44.5	45.3	41.4	37.3	29.9	30.9	30.9	30.5	29.3	28.3
Of which: oil	41.2	41.6	37.1	32.6	24.2	25.3	25.1	24.7	23.6	22.8
Expenditure	33.4	33.3	35.6	40.8	49.5	43.6	42.4	41.3	39.5	37.9
Expense	21.9	22.2	21.3	23.9	33.3	28.2	27.4	27.7	27.2	26.5
Net acquisition of non-financial assets	11.4	11.1	14.4	16.8	16.2	15.4	15.0	13.6	12.4	11.4
Net lending (+)/borrowing (-)	11.2	12.0	5.8	-3.4	-19.5	-12.7	-11.6	-10.8	-10.2	-9.6
Excluding oil revenue	-30.0	-29.6	-31.3	-36.1	-43.8	-38.0	-36.7	-35.5	-33.8	-32.4
Non-oil primary balance/non-oil GDP	-61.7	-60.4	-59.7	-64.0	-64.7	-56.7	-54.6	-52.4	-48.5	-45.0
Government deposits in banking system	47.3	55.1	58.8	55.8	50.0	40.3	31.9	24.4	18.0	12.1
Central government's gross domestic debt	5.4	3.6	2.2	1.6	7.8	14.5	20.2	25.1	29.5	33.4
Memorandum items:										
SAMA's total net foreign assets (US$ billions)	535.2	647.6	716.7	724.3	659.8	616.6	583.5	560.1	533.0	497.5
In months of imports of goods and services[3]	29.8	33.8	34.1	36.3	32.4	28.8	26.0	23.8	21.6	19.3
Imports goods & services/GDP	29.6	29.3	30.9	33.8	37.1	35.5	34.8	34.1	33.8	33.5
Real effective exchange rate (2010=100, end of period)[4]	96.6	99.5	102.7	112.1	116.8	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar[4]	3.75	3.75	3.75	3.75	3.75	...	...	...	...	...
Population (millions)	28.4	29.2	30.0	30.8	31.4	32.0	32.7	33.3	34.0	34.7
Unemployment rate (nationals, in percent of total)	12.4	12.1	11.7	11.7	...	...	...	...	...	...
Employment Growth	12.5	4.6	3.3	3.2	...	...	...	...	...	...
All-Shares Price Index (TASI)[4]	6418	6801	8536	8333	9270	...	...	...	...	...

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

Note: Latest data as of July 2, 2015.

[1] Includes production from the Neutral Zone.

[2] Includes refined products.

[3] Next 12 months.

[4] For 2015, data is latest available.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2011–20

	2011	2012	2013	Budget 2014	Prel. 2014	Budget 2015	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020
	(Billions of Saudi Arabian riyals)											
Revenue	1,118	1,247	1,156	855	1,044	715	723	799	855	906	919	938
Oil	1,034	1,145	1,035	735	913	581	585	656	696	734	740	755
Non-oil	83	103	121	120	131	134	138	144	159	172	179	183
Taxes	27	34	33	33	38	35	38	39	42	45	47	50
Other revenues	57	69	88	87	93	99	100	105	117	127	132	133
Expenditure	838	917	995	855	1,141	860	1,195	1,127	1,176	1,226	1,239	1,258
Expense	551	612	594	570	670	585	804	729	760	822	852	880
Compensation of employees [1]	289	317	315	319	335	327	435	371	382	425	438	450
Purchase of goods and services [2]	217	218	227	204	286	212	319	298	307	312	315	319
Subsidies [3]	10	10	16	15	14	13	14	15	16	17	18	19
Social benefits [4]	26	59	31	29	31	30	32	35	38	39	41	42
Grants	1	1	1	1	1	1	1	1	1	1	1	1
Interest payments	8	6	5	4	4	2	2	8	16	27	38	49
Net acquisition of non-financial assets	287	305	401	285	471	275	391	399	415	405	388	378
Budgeted capital expenditures	276	262	382	…	440	…	361	368	378	373	368	358
Budget surplus fund [5]	11	44	19	…	31	…	30	30	38	32	20	20
Gross operating balance	567	636	562	285	375	130	-81	71	95	84	67	58
Net lending (+)/borrowing (-)	**280**	**330**	**162**	**0**	**-96**	**-145**	**-472**	**-328**	**-321**	**-320**	**-320**	**-320**
Financing	280	330	162		-96		-472	-328	-321	-320	-320	-320
Net acquisition of financial assets	194	329	125		-81		-329	-139	-136	-137	-138	-139
Increase in deposits at SAMA	194	329	125		-81		-354	-164	-160	-160	-160	-160
Loans	0	0	0		0		25	25	24	23	22	21
Net incurrence of liabilities (- = repayment)	-32	-37	-39		-16		143	189	184	183	182	181
Other	54	-35	-2		-31		0	0	0	0	0	0
	(Percent of GDP)											
Revenue	44.5	45.3	41.4	30.6	37.3	29.6	29.9	30.9	30.9	30.5	29.3	28.3
Oil	41.2	41.6	37.1	26.3	32.6	24.1	24.2	25.3	25.1	24.7	23.6	22.8
Non-oil	3.3	3.7	4.3	4.3	4.7	5.5	5.7	5.5	5.8	5.8	5.7	5.5
Expenditure	33.4	33.3	35.6	30.6	40.8	35.6	49.5	43.6	42.4	41.3	39.5	37.9
Expense	21.9	22.2	21.3	20.4	23.9	24.2	33.3	28.2	27.4	27.7	27.2	26.5
Compensation of employees [1]	11.5	11.5	11.3	11.4	12.0	13.6	18.0	14.3	13.8	14.3	14.0	13.6
Purchase of goods and services [2]	8.7	7.9	8.1	7.3	10.2	8.8	13.2	11.5	11.1	10.5	10.1	9.6
Subsidies [3]	0.4	0.4	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Social benefits [4]	1.0	2.1	1.1	1.0	1.1	1.2	1.3	1.3	1.4	1.3	1.3	1.3
Interest payments	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.6	0.9	1.2	1.5
Net acquisition of non-financial assets	11.4	11.1	14.4	10.2	16.8	11.4	16.2	15.4	15.0	13.6	12.4	11.4
Gross operating balance	22.6	23.1	20.1	10.2	13.4	5.4	-3.3	2.7	3.4	2.8	2.2	1.8
Net lending (+)/borrowing (-)	**11.2**	**12.0**	**5.8**	**0.0**	**-3.4**	**-6.0**	**-19.5**	**-12.7**	**-11.6**	**-10.8**	**-10.2**	**-9.6**
(excl. oil revenue)	-30.0	-29.6	-31.3	-26.3	-36.1	-30.1	-43.8	-38.0	-36.7	-35.5	-33.8	-32.4
Memorandum items:												
Non-oil overall balance	-754	-815	-873	-735	-1,009	-726	-1,057	-984	-1,016	-1,054	-1,060	-1,075
Non-oil revenue (excl. investment income)/non-oil GDP	6.5	6.8	7.2	6.1	6.8	6.4	7.2	7.2	7.2	7.2	7.2	7.2
Current balance	567	636	562	…	375	…	-81	71	95	84	67	58
Non-oil primary balance/non-oil GDP	-61.7	-60.4	-59.7	…	-64.0	…	-64.7	-56.7	-54.6	-52.4	-48.5	-45.0
Structural balance/non-oil GDP [6]	-8.3	-6.5	-2.4	…	-7.3	…	-5.8	-3.3	-8.8	-13.2	-15.5	-16.0
Average oil export price	107.1	109.5	105.5	…	96.0	…	59.2	64.6	68.3	72.0	72.4	72.8
Gross domestic debt/GDP	5.4	3.6	2.2	…	1.6	…	7.8	14.5	20.2	25.1	29.5	33.4
Government Deposits in the Banking System	1,188	1,517	1,642		1,561		1,207	1,043	883	723	563	403

Sources: Ministry of Finance; and IMF staff projections.

[1] Including the extra month salary according to Hijri calendar in 2012, 2015, and 2018.

[2] Reallocation of 70 b SAR from purchases of goods and services to capital expenditures, reflecting the capital expenditures on Mecca and Medina expansion projects.

[3] Includes subsidies for social and sports clubs, private education, private hospitals, and other agricultural subsidies.

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

[5] Capital expenditures financed by earmarked funds in previous years in the Budget Surplus Fund.

[6] The structural balance is calculated using a 5-year backward oil price rule and a 3-year average of oil export volume.

Table 3. Saudi Arabia: Fiscal Operations of the General Government, 2009–14

(Percent of GDP)

	2009	2010	2011	2012	2013	2014
I. Budgetary central government						
Revenue	31.7	37.5	44.5	45.3	41.4	37.3
Expenditure	37.1	34.0	33.4	33.3	35.6	40.8
Overall balance	-5.4	3.6	11.2	12.0	5.8	-3.4
Primary balance	-4.5	4.1	11.5	12.2	6.0	-3.3
II. Autonomous Government Institutions (AGIs)						
Public Pension Agency (PPA)						
Revenue	2.4	1.9	1.4	3.2	3.3	2.0
Expenditure	2.0	1.9	1.5	1.6	1.6	1.8
Overall balance	0.4	0.0	-0.2	1.6	1.6	0.2
General Organization for Social Insurance (GOSI)						
Revenue	1.2	1.3	1.0	1.0	1.3	1.7
Expenditure	0.5	0.5	0.4	0.5	0.7	0.6
Overall balance	0.7	0.8	0.6	0.5	0.7	1.1
III. Public Investment Fund (PIF)						
Revenue	0.7	0.9	0.6	0.7	0.7	1.4
Expenditure	0.6	0.0	0.2	0.1	0.04	0.0
Overall balance	0.1	0.8	0.4	0.6	0.6	1.4
IV. General government (=I+II+III)						
Overall balance	-4.1	5.2	12.0	14.7	8.7	-0.7
Primary balance	-3.2	5.7	12.3	15.0	8.9	-0.6
Memorandum items: net assets(+)/debt (-)						
i. Central government debt	-14.0	-8.4	-5.4	-3.6	-2.2	-1.6
ii. Autonomous government institutions	42.9	38.9	31.0	30.5	33.6	34.8
Of which: PPA	24.0	21.3	17.1	17.2	18.6	18.8
Of which: GOSI	18.9	17.6	13.9	13.2	15.0	16.0
iii. Public Investment Fund	11.2	10.0	8.3	9.3	9.8	11.1
iv. General government (=i+ ii+iii)	40.1	40.4	33.9	36.1	41.2	44.3
v. Government Deposits in the Banking System	57.4	50.3	47.3	55.1	58.8	55.8
vi. Net assets (iv + v)	97.5	90.7	81.2	91.2	100.1	100.1

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

Table 4. Saudi Arabia: Balance of Payments, 2011–20
(US$ billion)

	2011	2012	2013	Prel. 2014	Proj. 2015	2016	2017	2018	2019	2020
Current account	158.6	164.8	135.5	81.2	-5.8	16.3	32.0	47.5	46.8	41.8
(Percent of GDP)	23.7	22.4	18.2	10.9	-0.9	2.4	4.3	6.0	5.6	4.7
Trade balance	244.8	246.6	222.6	187.8	83.5	99.5	107.4	114.9	109.8	106.1
Exports	364.7	388.4	376.0	343.3	236.2	257.2	274.2	291.2	296.0	303.0
Oil exports	317.6	337.5	322.0	285.2	183.7	201.0	213.2	225.1	226.9	228.9
Other exports	47.1	50.9	53.9	58.1	52.6	56.1	61.0	66.2	69.2	74.1
Imports (f.o.b.)	-120.0	-141.8	-153.4	-155.5	-152.7	-157.7	-166.8	-176.3	-186.2	-196.9
Services	-66.5	-62.4	-64.8	-84.3	-73.8	-73.8	-76.3	-78.8	-81.3	-83.9
Transportation	-13.4	-15.6	-16.6	-16.8	-14.5	-14.7	-15.3	-16.0	-16.7	-17.4
Travel	-8.8	-9.6	-10.0	-15.9	-14.5	-14.2	-15.3	-16.3	-17.3	-18.4
Other private services	-44.3	-37.2	-38.2	-51.6	-44.8	-44.9	-45.7	-46.5	-47.3	-48.1
Income	9.7	11.0	13.6	16.5	18.3	25.0	35.7	47.3	55.3	57.9
Of which: Investment income[1]	10.3	11.6	14.2	17.1	18.9	25.7	36.4	47.9	56.0	58.6
Current transfers	-29.4	-30.4	-35.9	-38.7	-33.8	-34.4	-34.8	-35.9	-37.0	-38.2
Of which : Workers' remittances	-27.6	-28.6	-34.1	-36.0	-31.1	-31.7	-32.1	-33.2	-34.3	-35.5
Capital Account	0.0	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Financial account	-14.4	-6.4	-57.4	-58.9	-46.4	-46.1	-52.4	-57.9	-61.1	-64.4
Direct Investment	12.9	7.8	3.9	2.6	1.9	1.8	1.6	1.4	1.1	0.8
Abroad	-3.4	-4.4	-4.9	-5.4	-5.0	-5.6	-6.3	-7.1	-7.8	-8.7
In Saudi economy	16.3	12.2	8.9	8.0	6.9	7.4	7.9	8.5	9.0	9.5
Portfolio investments	-16.0	-3.2	-6.6	-28.3	-20.3	-17.2	-21.5	-25.0	-27.6	-30.3
Assets	-15.4	-4.1	-8.4	-28.5	-21.4	-19.6	-24.1	-27.9	-30.7	-33.7
Liabilities	-0.6	0.9	1.8	0.2	1.1	2.3	2.6	2.8	3.1	3.3
Other investments	-11.2	-11.0	-54.7	-33.2	-28.0	-30.6	-32.5	-34.3	-34.6	-34.9
Assets	-7.2	-10.3	-52.3	-39.2	-33.1	-36.2	-38.4	-40.5	-40.8	-41.2
Liabilities	-4.0	-0.7	-2.4	6.0	5.1	5.6	5.9	6.2	6.3	6.3
Net errors and omissions	-45.3	-45.6	-9.0	-14.8	-11.9	-13.4	-12.6	-13.0	-12.8	-12.9
Overall balance	98.9	112.6	68.8	7.2	-64.5	-43.2	-33.0	-23.4	-27.1	-35.5
Financing	-98.9	-112.6	-68.8	-7.2	64.5	43.2	33.0	23.4	27.1	35.5
Change in SAMA's NFA (- increase)	-93.1	-112.5	-69.7	-8.4	64.5	43.2	33.0	23.4	27.1	35.5
Memorandum items:										
SAMA's total net foreign assets	535.2	647.6	716.7	724.3	659.8	616.6	583.5	560.1	533.0	497.5
(In months of imports)[2]	29.8	33.8	34.1	36.3	32.4	28.8	26.0	23.8	21.6	19.3
Non-oil current account/GDP	-23.8	-23.5	-25.1	-27.3	-29.4	-26.8	-24.5	-22.4	-21.5	-21.1
WEO oil price (US$/barrel)	104.0	105.0	104.1	96.2	58.9	64.2	67.1	69.9	71.0	71.5
Average Saudi oil price (US$/barrel)[3]	107.1	109.5	105.5	96.0	59.2	64.6	68.3	72.0	72.4	72.8
Oil production (mbd)	9.3	9.8	9.6	9.7	9.9	10.0	10.1	10.2	10.3	10.4
Oil exports (mbd)	8.1	8.4	8.4	8.1	8.5	8.5	8.5	8.6	8.6	8.6
Oil exports/total exports	87.1	86.9	85.7	83.1	77.7	78.2	77.8	77.3	76.6	75.5
Imports of goods/GDP	17.9	19.3	20.6	20.8	23.7	22.9	22.6	22.3	22.3	22.3
GDP (US$ billion)	669.5	734.0	744.3	746.2	644.1	690.1	738.8	791.2	835.9	884.5

Sources: Saudi Arabian Monetary Agency; 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, 2010–16

	2010	2011	2012	2013	2014	Proj. 2015	2016
	(Billions of Saudi Arabian riyals)						
Foreign assets (net)	1,750	2,140	2,562	2,824	2,875	2,676	2,516
SAMA	1,652	2,007	2,429	2,688	2,716	2,474	2,312
Commercial banks	98	133	133	136	159	202	204
Domestic credit (net)	-3	-120	-297	-245	20	543	913
Net claims on government	-811	-1,010	-1,336	-1,413	-1,282	-865	-606
Claims on government	182	178	181	229	279	342	437
Government deposits in banking system	-994	-1,188	-1,517	-1,642	-1,561	-1,207	-1,043
Claims on state enterprises	32	32	40	44	46	46	46
Claims on private sector	776	858	999	1,124	1,256	1,362	1,473
Money and quasi-money (M3)	1,080	1,224	1,394	1,545	1,729	1,876	2,030
Money supply (M2)							
Money (M1)	626	761	887	1,000	1,143	1,194	1,292
Currency outside banks	96	120	133	143	154	161	174
Demand deposits	530	641	754	857	989	1,034	1,118
Quasi-money	455	463	507	545	586	682	738
Time and savings deposits	298	305	324	345	399	464	502
Other quasi-money deposits	156	157	182	200	188	218	236
Other items (net liabilities)	666	797	871	1,034	1,166	1,342	1,399
	(Changes in percent of beginning broad money stock)						
Foreign assets (net)	11.5	36.1	34.5	18.8	3.3	-11.5	-8.5
Domestic credit (net)	0.4	-10.8	-14.5	3.7	17.2	30.2	19.7
Net claims on government	-4.0	-18.4	-26.6	-5.5	8.5	24.1	13.8
Claims on government	2.7	-0.4	0.3	3.4	3.3	3.6	5.1
Government deposits (increase -)	-6.8	-18.0	-26.9	-9.0	5.2	20.5	8.7
Claims on state enterprises	0.4	0.0	0.6	0.3	0.1	0.0	0.0
Claims on private sector	4.0	7.6	11.5	8.9	8.6	6.1	6.0
Money and quasi-money	5.0	13.3	13.9	10.9	11.9	8.5	8.2
Other items (net liabilities)	6.9	12.1	6.1	11.7	8.6	10.2	3.0
	(Percent changes, unless otherwise indicated)						
Foreign assets (net)	7.3	22.3	19.7	10.2	1.8	-6.9	-6.0
Domestic credit (net)	-53.7	3374.8	147.4	-17.5	-108.3	2553.4	68.3
Net claims on government	5.4	24.5	32.2	5.8	-9.3	-32.5	-29.9
Claims on government	18.1	-2.3	1.9	26.3	22.0	22.5	27.8
Government deposits at SAMA (increase -)	-7.5	-19.6	-27.7	-8.2	4.9	22.7	13.6
Claims on state enterprises	14.7	-1.4	24.4	11.5	3.8	0.0	0.0
Claims on private sector	5.7	10.6	16.4	12.5	11.8	8.4	8.2
Money and quasi-money	5.0	13.3	13.9	10.9	11.9	8.5	8.2
Other items (net liabilities)	12.0	19.6	9.4	18.6	12.8	15.1	4.2
	(Percent; unless otherwise indicated)						
Memorandum items:							
Specialized Credit Institutions credit (SAR billions)	192.2	208.4	249.3	271.6	310.9	…	…
Ratio of M3-to-GDP	54.7	48.7	50.6	55.4	61.8	77.7	78.5
Ratio of Claims on private sector-to-non-oil GDP	71.9	70.5	73.8	76.0	78.2	82.2	84.1

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

Table 6. Saudi Arabia: Financial Soundness Indicators, 2007–14

(Percent, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014
Banking sector								
Structure of the banking sector								
Number of licensed banks	22	22	23	23	23	23	24	24
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)	69.0	66.8	85.2	71.6	61.5	63.0	67.8	76.2
Of which: Foreign currency-denominated (as percent of total assets)	13.7	11.8	15.4	13.6	13.5	12.3	11.1	11.8
Total loans (percent of GDP)	38.2	38.2	45.8	39.2	39.8	36.3	40.1	44.7
Credit to private sector (percent of GDP)	35.8	36.6	44.0	37.6	30.0	34.9	38.6	43.1
Total deposits, excluding interbank (as percent of GDP)	46.0	43.4	58.5	49.9	44.0	45.8	50.2	56.3
Central bank credit to banks (as percent of GDP)	…	…	…	…	…	…	…	…
Capital adequacy								
Regulatory capital to risk-weighted assets	20.7	16.0	16.9	17.6	17.6	18.2	17.9	17.9
Asset quality								
Net loans to total assets	52.0	57.9	57.4	55.1	55.8	58.2	59.8	60.3
Gross NPLs to net loans	2.1	1.4	3.3	3.0	2.2	1.7	1.3	1.1
Total provisions to gross NPLs	142.9	153.3	89.8	115.7	132.8	145.1	157.4	182.9
Net NPLs to total capital [1]	-3.5	-3.8	1.4	-2.7	-3.0	-3.7	-3.4	-4.1
Total provisions for loan losses (as percent of total loans)	3.0	2.1	3.0	3.5	3.1	2.8	2.2	2.1
Loans to property and construction sector to total loans	7.3	7.3	6.1	7.2	8.1	7.5	6.8	6.7
Loans to domestic manufacturing sector to total loans	9.1	10.7	10.2	11.6	13.0	12.6	12.5	12.7
Contingent and off-balance sheet accounts to total assets	96.6	96.0	81.0	91.4	96.2	91.7	90.8	100.2
Profitability								
Profits (percent change)	-12.7	-1.1	-10.4	-2.6	18.4	8.4	6.5	12.5
Average pretax return on assets	2.8	2.7	1.9	2.0	2.1	2.1	2.0	2.5
Return on equity	22.3	20.5	14.2	13.6	15.0	15.1	14.6	18.2
Noninterest expenses to total income [2]	38.7	51.1	55.4	52.7	46.9	47.0	47.7	45.5
Average lending spread	3.2	4.0	4.1	4.3	4.1	3.8	3.7	3.5
Liquidity								
Liquid assets to total assets	21.7	22.0	25.3	24.8	23.7	23.7	21.6	22.3
Liquid assets to short-term liabilities [3]	27.7	30.6	36.5	36.5	37.2	36.4	33.2	33.6
Customer deposits to net loans	136.3	124.0	128.5	135.9	135.9	131.9	129.3	127.7
Demand deposits to total deposits	43.4	40.5	46.1	53.8	58.1	59.8	61.1	62.8
Sensitivity to market risk								
Foreign currency-denominated deposits to total deposits	13.9	13.2	17.0	12.6	12.2	13.0	12.6	10.3
Foreign currency-denominated loans to total loans	12.5	14.0	14.1	13.4	12.4	11.7	10.6	9.9
Foreign currency-denominated contingent and	53.0	54.5	39.2	42.2	47.9	41.3	34.6	39.1
off-balance sheet accounts to total assets	…	…	…	…	…	…	…	…
Net open foreign currency position to capital	3.1	4.5	8.6	10.2	6.7	1.7	6.4	3.6
Stock market								
Stock market capitalization (percent of GDP)	124.8	47.4	74.3	67.1	50.6	50.9	62.8	64.8
Overall stock market price index (change in percent)	39.1	-56.5	27.5	8.2	-3.1	6.0	25.5	-2.4
Bank stock price index (change in percent)	31.0	-55.6	15.3	6.6	-12.7	0.4	22.0	2.5

Source: Saudi Arabian Monetary Agency.

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

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

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

Table 7. Fiscal, Financial, and Macroprudential Policy Framework in Saudi Arabia

	BAHRAIN	KUWAIT	OMAN	QATAR	SAUDI ARABIA	UAE
Fiscal policy						
Effectiveness of budget as indicator of fiscal stance	Low; under-execution of capital budget in recent years; some public sector activity outside budget	Low; underexecution of the budget in recent years	Low; substantial revenue and expenditure overruns	Low; substantial revenue and expenditure overruns in recent years (although, the authorities have started restraining current spending); large public investment projects outside of the budget	Low; substantial revenue and expenditure overruns in recent years	Low; frequent mid-year revisions and possible over-runs at the Emirate level. Important public sector activities outside of the budgets
Medium-term budget framework	No, although fiscal policy is anchored in a two-year budget	No, in the initial stages	No, but working on this area with World Bank assistance	In progress; the FY2014/15 budget circular requires ministries and agencies to provide indicative budget estimates until FY2016/17 and to share performance information. The Fiscal Strategy paper outlining medium-term fiscal aggregates will be prepared by Q3 2015.	No, although the development plan has 5-year framework for capital spending	Yes in the Federal and Dubai governments; at an informal level in the Abu Dhabi government
Operational macro-fiscal unit	No	Yes; with IMF assistance	Currently being set up, with WB assistance	Yes; set up recently in line with IMF TA advice	No, but staff positions for unit included in 2015 budget	Yes, in the Abu Dhabi Department of Finance, but the MFU's work is not used officially. Work to strengthen fiscal coordination between federal and Emirate level governments is ongoing.
Fiscal data in GFSM 2001 format	Yes	No, but progress is being made in terms of creating a new chart of accounts and moving them to an accrual basis.	No, although working on this area with WB assistance	No; planned by end-2015 with the establishment of GFMIS	No; preparations are advanced for launch with 2016 budget	Yes; In 2011, GFSM 2001 was introduced by the federal and emirate governments, and the institutional arrangement to ensure adequate data provision was established. Fiscal accounts submitted to the GFS Yearbook since 2012.

Table 7. Fiscal, Financial, and Macroprudential Policy Framework in Saudi Arabia (concluded)

	BAHRAIN	KUWAIT	OMAN	QATAR	SAUDI ARABIA	UAE
Financial policies						
Implementation of Basel III capital standards	On schedule. Final capital adequacy rules issued August 2014 and implementation effective January 2015. Leverage requirements under consultation.	Yes, with phased-in compliance	Yes, since January 2014, with phased-in compliance	Yes, capital adequacy since January 2014. Leverage since late 2014.	Yes, Saudi Arabia was among the first countries to implement	Planned; to be phase-in over 2015-19; draft to be circulated after consultation with banks.
Implementation of Basel III liquidity standards	In Progress; banks started to submit pro-forma Basel III ratios; a consultation paper with banks was issued in early 2014	Final stages of preparation	Introduced in January 2015, with phased-in compliance	Yes, since January 2014	Yes	In progress; draft circulated in October 2012; to be phase-in over 2015-19; in consultation with banks about technical issues.
Implementation of D-SIB framework	List of D-SIBs has been established, and a special regime for their supervision has been put in place in 2014	Yes, framework adopted	Guidelines are in discussion with banks, to be implemented in February 2016, with phased-in compliance	In progress; D-SIBs identified, D-SIB framework prepared for implementation starting from January 2016	In progress; D-SIBs identified, D-SIB framework prepared for implementation starting from January 2016	In progress, a D-SIB related regulation expected in 2015-16.
Macroprudential policy						
Formal macroprudential framework	No	No	Yes, Supreme Committee for Financial Stability formed in 2014 , and Financial Stability Unit established in CBO for macroprudential supervision in 2011	In progress; umbrella regulatory body established and work on joint risk-based analysis of the entire financial system underway	In progress; a Financial Stability Committee has been established within SAMA. Early Warning Systems are being strengthened.	No, but being studied.
Publication of Financial Stability Report	Yes; publication resumed in February 2014 and continued in August 2014	Yes (2013 and 2014)	Yes (2013 and 2014)	Yes (since 2010)	Yes (June 2015)	Yes (2012 and 2013)

Sources: GCC country authorities; and IMF staff assessment.

Appendix I. Fiscal and External Debt Sustainability

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

(in percent of GDP unless otherwise indicated)

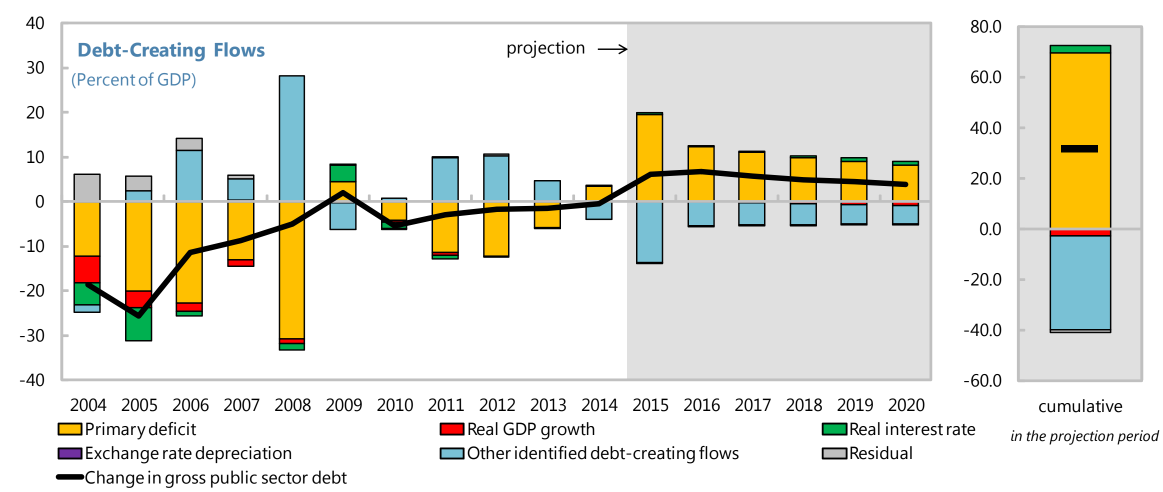
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2004-2012 2/	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	20.7	2.2	1.6	7.8	14.5	20.2	25.1	29.5	33.4
Public gross financing needs	-6.6	-4.4	4.0	19.5	12.8	11.8	11.0	10.4	9.8
Real GDP growth (in percent)	6.4	2.7	3.5	2.8	2.4	2.9	3.1	3.1	3.2
Inflation (GDP deflator, in percent)	8.3	-1.2	-3.1	-16.0	4.6	4.0	3.9	2.4	2.5
Nominal GDP growth (in percent)	15.4	1.4	0.3	-13.7	7.1	7.1	7.1	5.6	5.8
Effective interest rate (in percent) 4/	5.2	4.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8

As of April 20, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		76
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA-	AA-
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	-8.7	-1.4	-0.6	6.2	6.8	5.7	4.8	4.5	3.8	31.8	
Identified debt-creating flows	-10.2	-1.4	-0.6	6.2	6.9	5.9	5.0	4.6	4.0	32.6	
Primary deficit	-13.6	-6.0	3.3	19.4	12.4	11.0	9.9	9.0	8.2	69.8	-4.2
Primary (noninterest) revenue and grants	43.5	41.4	37.3	29.9	30.9	30.9	30.5	29.3	28.3	179.8	
Primary (noninterest) expenditure	29.9	35.5	40.6	49.4	43.3	41.8	40.4	38.3	36.5	249.7	
Automatic debt dynamics 5/	-3.2	0.1	0.1	0.4	-0.1	-0.2	-0.2	0.0	0.0	-0.1	
Interest rate/growth differential 6/	-3.2	0.1	0.1	0.4	-0.1	-0.2	-0.2	0.0	0.0	-0.1	
Of which: real interest rate	-1.5	0.2	0.2	0.4	0.1	0.2	0.3	0.8	0.9	2.7	
Of which: real GDP growth	-1.7	-0.1	-0.1	-0.1	-0.2	-0.4	-0.6	-0.7	-0.9	-2.8	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	6.6	4.4	-4.0	-13.6	-5.4	-4.9	-4.6	-4.4	-4.2	-37.1	
Accumulation of deposits	6.6	4.4	-4.0	-14.6	-6.3	-5.8	-5.4	-5.1	-4.8	-42.1	
Loans	0.0	0.0	0.0	1.0	1.0	0.9	0.8	0.7	0.6	5.0	
Residual, including asset changes 8/	1.5	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.8	



Source: IMF staff.

1/ Public sector is defined as central 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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (1+g) and the real growth contribution as -g.

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

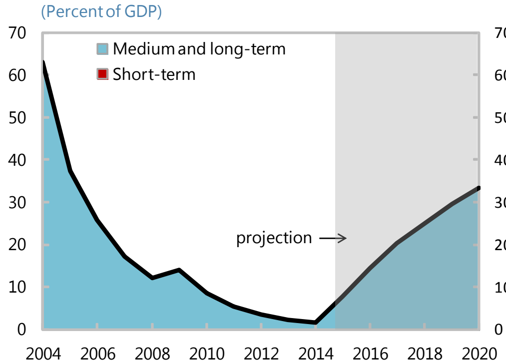
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

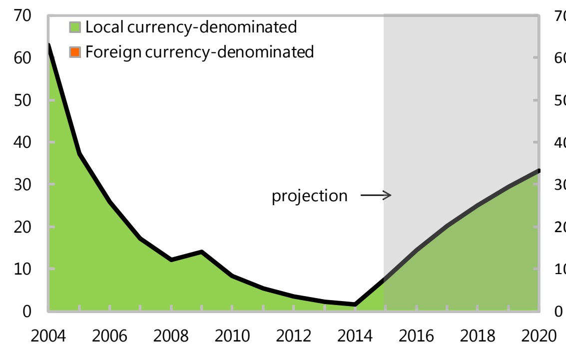
Saudi Arabia Public DSA – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

By Maturity
(Percent of GDP)



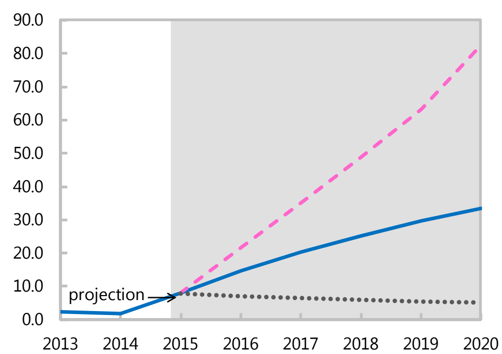
By Currency
(Percent of GDP)



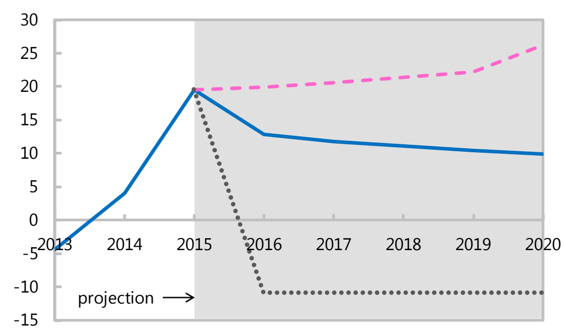
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(Percent of GDP)



Public Gross Financing Needs
(Percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.8	2.4	2.9	3.1	3.1	3.2
Inflation from GDP defl	-16.0	4.6	4.0	3.9	2.4	2.5
CPI inflation	2.0	2.4	2.8	2.9	2.9	2.9
Primary Balance	-19.4	-12.4	-11.0	-9.9	-9.0	-8.2
Effective interest rate	5.8	5.8	5.8	5.8	5.8	5.8
Constant Primary Balance Scenario						
Real GDP growth	2.8	2.4	2.9	3.1	3.1	3.2
Inflation from GDP defl	-16.0	4.6	4.0	3.9	2.4	2.5
CPI inflation	2.0	2.4	2.8	2.9	2.9	2.9
Primary Balance	-19.4	-19.4	-19.4	-19.4	-19.4	-19.4
Effective interest rate	5.8	5.8	5.8	5.8	5.8	5.8

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.8	5.5	5.5	5.5	5.5	5.5
Inflation from GDP defl	-16.0	4.6	4.0	3.9	2.4	2.5
CPI inflation	2.0	2.4	2.8	2.9	2.9	2.9
Primary Balance	-19.4	11.3	11.3	11.3	11.3	11.3
Effective interest rate	5.8	5.8	5.8	5.8	5.8	5.8

Source: IMF staff.
Note: The constant primary balance scenario assumes all financing needs are met through the issuance of short-term debt and is rolled over in full each year, adding to pressures on gross financing needs.

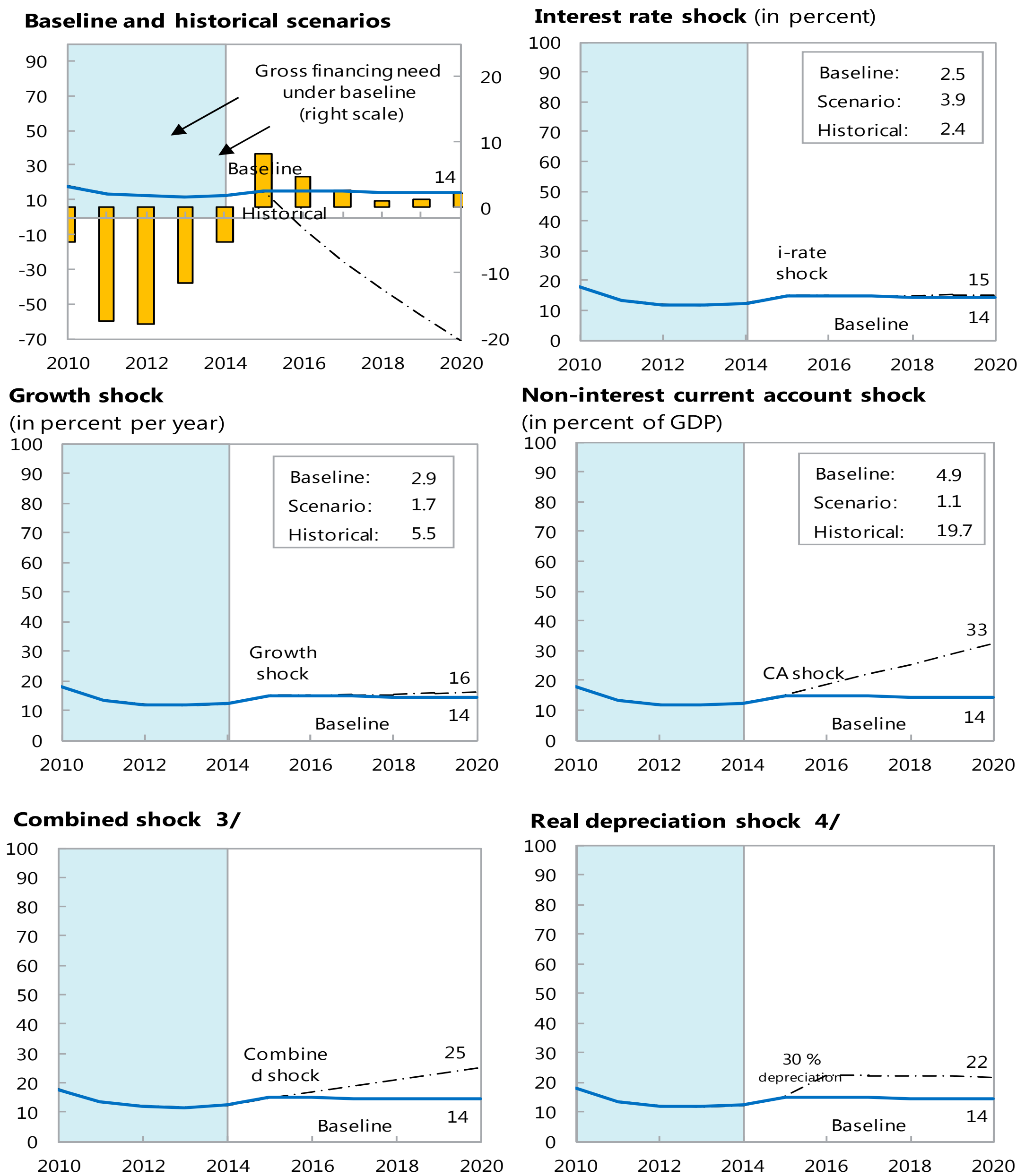
External Debt Sustainability Framework, 2010–20
(In percent of GDP, unless otherwise indicated)

		Actual							Projections					
		2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020
									I. Baseline Projections					
1	**External debt**	17.8	13.5	12.0	11.6	12.3			**15.0**	**14.8**	**14.6**	**14.4**	**14.4**	**14.3**
2	Change in external debt	-3.1	-4.3	-1.5	-0.4	0.7			2.7	-0.2	-0.2	-0.2	0.0	-0.1
3	Identified external debt-creating flows (4+8+9)	-18.0	-27.9	-24.1	-17.8	-8.9			4.4	-2.0	-3.7	-5.2	-4.4	-3.5
4	Current account deficit, excluding interest payments	-12.7	-23.7	-22.5	-18.3	-10.9			0.8	-2.5	-4.6	-6.4	-6.1	-5.2
5	Deficit in balance of goods and services	-16.6	-26.6	-25.1	-21.2	-13.9			-1.5	-3.7	-4.2	-4.6	-3.4	-2.5
6	Exports	49.7	56.2	54.4	52.1	47.6			38.6	39.1	38.9	38.6	37.2	36.0
7	Imports	33.1	29.6	29.3	30.9	33.8			37.1	35.4	34.7	34.0	33.8	33.5
8	Net non-debt creating capital inflows (negative)	-1.4	-0.4	-0.4	0.5	2.0			1.5	1.3	1.6	1.8	1.9	2.0
9	Automatic debt dynamics 1/	-3.8	-3.7	-1.1	-0.1	0.0			2.0	-0.8	-0.7	-0.6	-0.3	-0.3
10	Contribution from nominal interest rate	0.1	0.1	0.1	0.1	0.1			0.1	0.2	0.3	0.4	0.5	0.5
11	Contribution from real GDP growth	-0.8	-1.4	-0.7	-0.3	-0.4			-0.4	-0.3	-0.4	-0.4	-0.4	-0.4
12	Contribution from price and exchange rate changes 2/	-3.1	-2.4	-0.5	0.1	0.4			2.3	-0.7	-0.6	-0.5	-0.3	-0.4
13	Residual, incl. change in gross foreign assets (2-3)	14.9	23.5	22.6	17.5	9.6			-1.7	1.8	3.5	5.0	4.4	3.4
	External debt-to-exports ratio (in percent)	35.8	23.9	22.0	22.3	25.8			38.9	37.8	37.5	37.4	38.8	39.8
	Gross external financing need (in billions of US dollars) 3/	-27.6	-115.9	-129.8	-85.8	-39.9			52.0	32.5	19.7	7.1	10.9	19.0
	in percent of GDP	-5.2	-17.3	-17.7	-11.5	-5.3	10-Year Historical Average	10-Year Standard Deviation	8.1	4.7	2.7	0.9	1.3	2.2
	Key Macroeconomic Assumptions													
	Real GDP growth (in percent)	4.8	10.0	5.4	2.7	3.5	5.5	2.5	2.8	2.4	2.9	3.1	3.1	3.2
	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 in US dollars (change in percent)	17.2	15.6	4.0	-1.2	-3.1	6.0	11.7	-15.9	4.6	4.0	3.9	2.4	2.5
	Nominal external interest rate (in percent)	0.4	0.4	0.4	0.5	0.5	2.4	2.7	0.6	1.1	1.9	2.8	3.4	3.6
	Growth of exports (US dollar terms, in percent)	29.6	43.7	6.2	-2.9	-8.3	13.4	25.5	-30.0	8.6	6.5	6.1	1.8	2.5
	Growth of imports (US dollar terms, in percent)	7.5	13.6	8.7	6.9	9.6	14.8	12.6	-5.1	2.3	5.0	4.9	4.9	5.0
	Current account balance, excluding interest payments	12.7	23.7	22.5	18.3	10.9	19.7	7.7	-0.8	2.5	4.6	6.4	6.1	5.2
	Net non-debt creating capital inflows	1.4	0.4	0.4	-0.5	-2.0	2.6	3.0	-1.5	-1.3	-1.6	-1.8	-1.9	-2.0
									II. Stress Tests for External Debt Ratio					
	A. Alternative Scenarios													
	A1. Key variables are at their historical averages in 2015-2020 4/								**15.0**	**-6.8**	**-25.3**	**-41.1**	**-56.2**	**-71.1**
	B. Bound Tests													
	B1. Nominal interest rate is at baseline plus one-half standard deviation								**15.0**	**15.0**	**15.0**	**15.0**	**15.1**	**15.2**
	B2. Real GDP growth is at baseline minus one-half standard deviations								**15.0**	**15.0**	**15.1**	**15.4**	**15.8**	**16.3**
	B3. Non-interest current account is at baseline minus one-half standard deviations								**15.0**	**18.6**	**22.1**	**25.5**	**29.1**	**32.5**
	B4. Combination of B1-B3 using 1/4 standard deviation shocks								**15.0**	**16.9**	**18.8**	**20.8**	**22.9**	**25.1**
	B5. One time 30 percent real depreciation in 2016								**15.0**	**22.4**	**22.1**	**21.8**	**21.8**	**21.7**

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ 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.
5/ The implied change in other key variables under this scenario is discussed in the text.
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.

Saudi Arabia: 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 2010.

Appendix II. A Snapshot of the Financial Sector in Saudi Arabia

The financial sector in Saudi Arabia is dominated by commercial banks. Government-owned specialized credit institutions, public pension funds, non-bank finance companies, money market funds, securities firms, and insurance companies constitute the remainder of the formal financial sector.

- ***There are 24 commercial banks operating in Saudi Arabia*** (of which 12 are foreign-owned). Bank assets amount to 76 percent of GDP. The top 6 banks account for over 75 percent of total commercial bank assets. The business model of the commercial banks is focused on the domestic market.
- ***Five public specialized credit institutions (SCIs) still play a significant role.***[1] The SCIs are owned by government ministries and are not supervised by SAMA or the CMA. They are not deposit-taking institutions. The SCIs were designed to complement bank lending, and they provide medium- to long-term subsidized loans to industry, SMEs, housing, and agriculture. One SCI also has substantive equity participations in many state and private companies. Assets (at book value) of the five SCIs account amount to 22 percent of GDP.
- ***Non-bank financial institutions are growing in number since the passage of the Finance Law in 2012.*** From November 2014, all banks and finance companies providing real estate or other financing services have needed to be licensed by SAMA (37 such licenses have been granted). No data is available on the size of the finance companies. There are also 88 securities firms.
- ***The insurance sector is growing rapidly, but is still small.*** There are 35 insurance companies, but assets are only 3 percent of GDP. All insurance companies are now regulated and supervised by SAMA.
- ***The two public pension funds are sizable institutional investors, with combined assets of 34 percent of GDP.*** PPA, the larger of the two, manages the scheme for public workers, while GOSI manages the scheme for private workers. The schemes operate defined-benefit plans financed primarily on a pay-as-you-go basis.
- ***There are 169 listed companies with a market capitalization of 65 percent of GDP as of end-2014.*** The investor base consists primarily of retail and large state investors. The presence of foreign investors has been very limited as they were previously allowed to invest only through equity swap arrangements and participations in mutual funds or exchange traded funds (ETFs). Direct foreign investor participation in the equity market has been allowed since June 15, 2015.
- ***Fixed income markets remain undeveloped.*** The government debt market did not develop during the past decade, in part reflecting the decline in the stock of debt outstanding to a very low level. There have been some large but sporadic issues of corporate bonds and sukuks by a few large companies.

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[1] The SCIs are: the Saudi Industrial Development Fund (SIDF), which finances industrial projects; the Public Investment Fund (PIF), which finances large scale government and private industrial projects; the Real Estate Development Fund (REDF), which finances individuals and corporate residential and commercial real estate; the Saudi Credit & Saving Bank (SCSB), which provides interest-free loans for small and emerging businesses and professions and; the Agricultural Development Fund (SADF), which finances farmers and agricultural projects.

Appendix III. Status of Key Recommendations of the 2011 FSAP Update

Key Recommendations of 2011 FSAP Update

Recommendation	Progress
Bank and Securities Regulation	
Update the Banking Control Law (BCL) and remove need for ministerial approval of certain SAMA decisions.	The existing BCL has provided a strong basis for effective supervision. Ministerial approval is only required in times of extreme stress and is viewed by the Saudi Arabian Monetary Agency (SAMA) as a means of ensuring communication with Cabinet.
No longer allow large exposure up to 50 percent of bank's own capital.	SAMA does not allow large exposure up to 50 percent of bank's own capital. Revised regulations on large exposures require banks to ensure that single exposure does not exceed 15 percent of bank's own capital.
Strengthen the Capital Market Authority (CMA)'s regulatory transparency by fully disclosing all enforcement actions, interpretation, and funding rules.	CMA has established an internal committee to discuss relevant Financial Sector Assessment Program (FSAP) recommendations, including disclosure policies.
Systemic Stability	
Introduce a formal liquidity forecasting framework.	SAMA is working on a liquidity forecasting framework.
Enhance data on cross-border financial activities of banks and corporate.	SAMA submits a monthly reserves template to the IMF, publishes International Investment Position (IIP) on a quarterly basis, and submits 12 core Financial Soundness Indicators (FSI) to the IMF. SAMA has started collecting International Banking Statistics (IBS) data, which are being reviewed in coordination with the Bank for International Settlement (BIS).
Maintain a stable stock of government securities and regular issues to help anchor a robust yield curve.	The government may issue bonds to fund the budget deficit. Public sector entities have been issuing sukuk, which could help establish a proxy government benchmark.
Introduce a payment system law.	SAMA has drafted a legal covering note based on the powers included in the SAMA Charter. The note provides more explicit legal support to SAMA as owner, operator, and regulator of the payment systems regarding the variety of rules and regulations already in place.
Conduct stress tests with a wider range of shocks, including liquidity shocks, on regular basis and incorporate lessons into supervision.	SAMA is making progress on enhancing its top-down stress test model in collaboration with IMF Technical Assistance (TA). Banks are required to conduct their own bottom-up stress tests which are reviewed every year as part of the Internal Capital Adequacy Assessment Process (ICAAP).
Establish a formal early warning system (EWS) for the banking sector.	An EWS has become operational, guiding policy discussion at SAMA's Financial Stability Committee. The system includes a macroprudential dashboard and an excel-based early warning model. The latter monitors a range of variables including the credit-to-GDP ratio. The EWS will be reviewed and adapted as necessary. SAMA publishes quarterly FSIs.
Develop a more formal and transparent macroprudential policy framework, drawing on work in international fora.	Within SAMA, a Financial Stability Committee and a Micro-Macro Engagement sub-Committee have been established. The D-SIB framework will be implemented and the first financial stability report has been published. SAMA participates in FSB peer reviews.
Strengthen the legal framework for bank resolution.	A draft law on resolution (DLR) has been prepared and is currently going through the legislative approval process. Once promulgated detailed implementing regulations will be issued.

Key Recommendations of 2011 FSAP Update (concluded)

Expanding Access to Finance and Preserving Financial Stability	
As housing finance expands in the future, ensure loan soundness through strong prudential measures, notably lowering permissible loan-to-value and debt service ratios.	An loan-to-value ratio (LTV) of 70 percent for residential real estate finance provided by banks and finance companies is operational. Finance companies are subject to a cap on total financing assets at 5 times capital and reserves (which can be increased up to 7 times capital and reserves with SAMA's permission). SAMA is engaging an external consulting firm to develop responsible lending principles, including debt burden ratios.
Contract banks to manage both the existing and new Real Estate Development Fund (REDF) portfolio.	The Ministry of Housing and REDF are working closely with Saudi Banks and Real Estate Finance Companies to develop and explore various funding schemes. A number of alternative proposals are being considered.
Complement mortgage reform by establishing a housing market observatory, developing consumer guidance options, and strengthening the developer industry.	SAMA is coordinating with related government entities to facilitate collection and publication of housing market data. SAMA has issued the Consumer Protection Principles for banking and insurance, emphasizing fair treatment, honesty, and financial inclusiveness. A draft Consumer Protection Principles for finance companies is under public consultation.
Prepare long-term funding solution for mortgage finance, starting with a refinance facility.	Public Investment Fund (PIF) is in the process of establishing the Saudi Real Estate Refinance Company (fully owned by PIF and supervised by SAMA), which is expected to provide long-term funding solutions for mortgage finance.
Create a modern, electronic and unified registry for movable collateral.	Assessment of the feasibility of establishing a financial lease registry in the form of a company owned by licensed lessors has been finalized. SAMA is coordinating with the Ministry of Justice to ensure that registration certificates issued by the financial lease registry will be admissible by courts and enforceable.
Enact and implement the draft Enforcement law that introduces specialized enforcement courts operating with strict time-bound procedures.	The Enforcement Law and its implementing regulation have been issued and implemented by the Ministry of Justice and courts.
Closely supervise the quality of SME units in the banks, including the robustness or their internal rating systems and automated procedures.	Starting from 2012, SAMA has been collecting bank-level SME exposures data. In the recent Supervisory review visits including the ICAAP meetings with, banks, SAMA followed up on the progress on SME lending with each bank.
Insurance, Institutional Investors, and Capital Markets	
Finalize and issue the outstanding functional regulations for insurance.	SAMA has expedited all outstanding regulations, except corporate governance regulations which are in draft phase. Three regulations - actuarial, policyholders protection scheme and audit committee - are in the final stage for publication.
Improve enforcement of mandatory motor third party liability insurance.	A committee comprising representatives from the General Department of Traffic, Najm for Insurance Services, and SAMA has been established to address challenges facing the motor insurance business in the Kingdom. Legislation has been issued requiring insurance on all government (non-military) vehicles by the Council of Ministers. A committee has been established to proceed with implementation.
Disclose the investment policies, portfolio, and portfolio performance of the Public Pension Agency (PPA) and General Organization for Social Insurance (GOSI).	As part of its policy to gradually increase disclosures, the GOSI Board of Directors has recently approved a more active disclosure policy by which GOSI will commit to disclosing elements of its investment policy and performance in 2015.
Further outsource the management of portfolio of the PPA and GOSI.	GOSI's investment division has been spun off as Hasanah, which is fully owned by GOSI and manages GOSI's domestic and foreign assets.
Permit foreign investors to invest directly in Saudi Stock Exchange (Tadawul)	Qualified Foreign Financial Institutions are allowed to directly own listed shares from June 15 this year.

Appendix IV. External Sustainability Assessment for Saudi Arabia

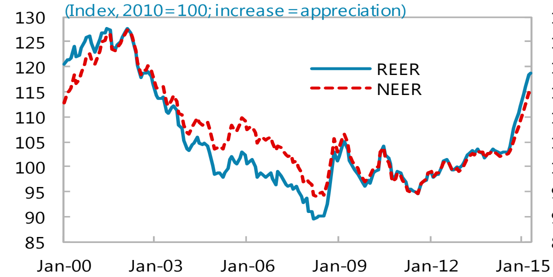
Staff believes the peg to the U.S. dollar serves Saudi Arabia well. Staff's assessment is that the external position in 2014 was broadly consistent with fundamentals, but that for 2015 the current account will be weaker than estimated norms. Fiscal, rather than exchange rate, adjustment will be needed to bring the current account back in line with fundamentals.

1. **The current account surplus in 2014 narrowed further due to falling oil prices.** The surplus declined to 10.9 percent of GDP, from 18.2 percent in 2013, as oil prices declined by over 50 percent between June and December and oil export volumes for the year decreased slightly. Given oil prices, the current account is projected to move into a small deficit this year, before returning to surplus during 2016–20 as oil prices rise and oil export volumes increase. Nevertheless, this implies a significantly reduced current account surplus going forward (4.7 percent of GDP in 2020). Over the long term, the current account will be determined by the nature of the development strategy chosen—in particular the balance between saving oil revenues overseas to create an income stream for future generations versus domestic investment (public and private)—and the pace of oil extraction and future oil prices.

2. **In recent years, the share of Saudi non-oil exports in global non-oil exports has increased as the authorities have pursued economic diversification, particularly in petrochemicals.** Despite the increase, Saudi non-oil exports in 2014 were around 1/3 of 1 percent of global non-oil exports (compared to Saudi Arabia's share in world GDP of about 1 percent). In terms of metrics of external vulnerability, the Saudi external situation is very comfortable. Foreign exchange reserves covered over 36 months of imports and 157 percent of broad money in 2014, while external assets stood at an estimated 140 percent of GDP in mid-2014 and external liabilities at 36 percent of GDP (of which portfolio and other investments amounted to 8.3 percent of GDP). The financial account, excluding official reserves, is dominated by direct investment inflows and trade credits and portfolio outflows. Errors and omissions, which were large and consistently negative in the past, were about -2 percent of GDP in 2014.

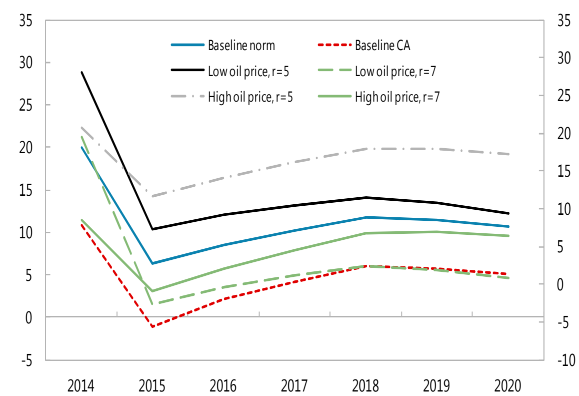
3. Given the peg to the strengthening U.S. dollar, the REER has appreciated, thus moving counter to what would have been desirable in the face of the oil price shock.[1] The REER has appreciated by 14 percent over the past year while the terms of trade fell by 4 percent in 2014 and is projected to decline by another 30 percent this year.

Real and Nominal Effective Exchange Rates, 2000-April 2015
(Index, 2010=100; increase=appreciation)

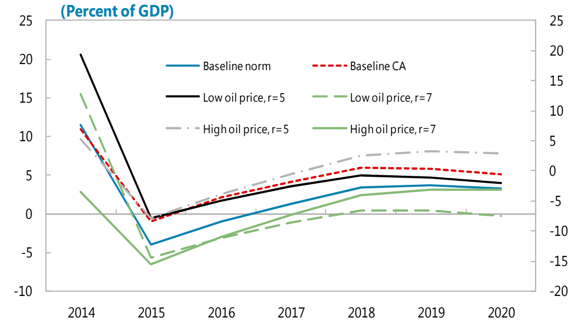


4. The external sustainability approach suggests the current account surplus may be too low, although the result is sensitive to the assumptions made and the choice of annuity. The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present 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: (i) constant real per capita annuity; and (ii) constant real annuity. Both types of annuities are used in the literature, and can be derived

Current Account Norms: Constant Real Per-Capita Annuity
(Percent of GDP)



Current Account Norms: Constant Real Annuity
(Percent of GDP)



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

[2] Proven oil reserves at end of 2014 were 262.1 billion barrels. However, estimates of proven reserves have changed little since 1988 despite aggregate oil production over this period of close to 90 billion barrels. Staff projections assume that the oil production grows at a constant rate (2 percent) due to domestic consumption and, peaks at 12.9 million barrels in 2029 and then remains constant at that level till 2115 when oil production stops. Oil exports remain unchanged. Oil prices increase by 2 percent and the GDP deflator increase by 2.5 percent after 2020, and real non-oil GDP grows by 5 percent while total real output growth is assumed to be 2.8 percent. Future oil revenues are nominally discounted at 6 percent, the assumed rate of return on externally held financial wealth/NFA, while population growth is 1 percent.

from the optimization of plausible government utility functions.[3] The estimates suggest that the current account surplus is below what would be expected under the constant real per capita annuity rule, but above the constant real annuity rule. These estimates are subject to considerable uncertainty and are sensitive to the parameters assumed. The figures show the effects of (i) 25 percent higher/lower oil prices; and (ii) 25 percent higher/lower oil prices and changes in the discount rate (to 5 and 7 percent, compared to 6 percent in the baseline).

5. A macroeconomic balance approach that is focused on oil exporting countries suggests that the current account was within the range of norms estimated from several different specifications in 2014, but will be outside this range in 2015. The macroeconomic balance approach estimates four main specifications of the equilibrium current account (norm) from a set of fundamentals (non-oil and gas fiscal balance, oil and gas reserves, old-age dependency ratio, population growth rate, initial net foreign assets (NFA) net of external debt, oil trade balance, growth rate of real per capita GDP, relative income, and lagged dependent current account) employing a generalized method of moments (GMM) technique (see Beidas-Strom and Cashin, 2011). As shown (in the table below), the estimation yields a range of current account norms for Saudi Arabia from a surplus of about 12 to 19 percent of GDP in 2014, and 0.5 to about 17 percent of GDP in 2015. Specification II, yielding a norm of 11.6 percent in 2014 and 10.3 percent in 2015, is the preferred one given the absence of a lagged dependent variable and the inclusion of NFA data.

6. Estimates based on the EBA-lite methodology suggest the current account balance was below the norm for 2014. The current account norm was 11.4 percent of GDP compared with an actual level of 10.9 percent, producing a gap of -0.5 percent of GDP. The EBA-lite methodology builds on the EBA approach and is applied to a wider group of countries. The EBA and 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 EBA-lite methodology is estimated on a wide group of countries with very different characteristics and therefore does not adequately account for the specifics of oil exporting countries (such as the need for intergenerational savings because oil resources are non-renewable).

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

Current Account–GMM Estimation and Implied Norm for Net-Oil Exporters: Saudi Arabia
(Dependent variable: current account balance, as a share of GDP)

	Specification I	Specification II	Specification III	Specification IV
	GMM Coefficients	GMM Coefficients	GMM Coefficients	GMM Coefficients
Core CGER regressors				
Constant	0.039	0.350	0.043	0.044
Lagged dependent	0.330			0.383
Fiscal balance/Non-oil fiscal balance GDI	0.851	0.385	0.363	0.391
Oil trade balance/GDP		0.454	0.469	0.459
Net oil-exporter specific regressors				
Oil wealth		0.000	0.001	0.000
Degree of maturity in oil production			0.160	-0.170
Additional regressors				
REER	0.073			
Terms of trade	4.269			
Estimated current account norm (2014)	12.75%	11.64%	19.27%	19.16%
Estimated current account norm (2015)	0.50%	10.32%	17.32%	16.18%
Underlying current account (2014)			**10.9%**	
Underlying current account (2015)			**-0.9%**	
Hansen's J test of over identifying restri	0.46	0.61	0.64	0.62
Arellano-Bond test for AR(1)	0.07	0.09	0.07	0.08
Arellano-Bond test for AR(2)	0.67	0.71	0.7	0.69
Hansen test of exogeneity of instrument	1	1	1	1
Number of instruments	6	5	5	6
Number of countries	24	24	24	24
Observations	82	82	82	82

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

<table>
<tr><th></th><th>Saudi Arabia</th><th>Overall Assessment</th></tr>
<tr><td>Foreign asset and liability position and trajectory</td><td>Background. External assets are substantial at an estimated 140 percent of GDP in mid-2014, while total external liabilities were 36 percent of GDP (portfolio and other investments were 8.3 percent of GDP). All external debt is private. The net international investment position (NIIP) stood between 85 and 105 percent of GDP during 2007-mid-2014. The average return on assets was relatively low at about 2½ percent compared to 5 percent on liabilities during the period. External assets are dominated by international reserves, but details on the composition of external assets are not available. Projections suggest that the NIIP/GDP ratio will remain broadly stable over the medium term.
Assessment. The external balance sheet is very strong. Substantial accumulated assets represent both savings of the exhaustible resource revenues for future generations and protection against vulnerabilities from oil price volatility.</td><td rowspan="4">Overall Assessment:
The external position in 2014 was broadly consistent with fundamentals. This assessment takes account of the dominant role of fiscal policy in determining the external position. Projections for 2015 suggest the current account may be weaker than estimated norms. Fiscal policy adjustment will be needed to close the current account gap.
The decline in the oil price reduced the current account surplus in 2014 and is expected to result in a small deficit in 2015. With the forecast trend improvement in oil prices, the current account is projected to improve over the medium term.
While a current account gap is projected in 2015, the very strong external balance sheet including high foreign exchange reserves and no significant concerns about capital flows are strong mitigating factors. The current account deficit projected for this year is very small in relation to available buffers.
Given the structure of the Saudi economy, with exports dominated by oil and oil-related products, external adjustment will need to be driven by fiscal adjustment rather than exchange rate adjustment.
Potential policy responses:
While sizeable fiscal buffers mean there is no need for a sharp cut in government spending in the face of lower, but uncertain, oil prices, fiscal consolidation is needed. The non-oil fiscal deficit remains significantly above the level implied by intergenerational equity models and at current spending levels fiscal buffers will be significantly depleted. Fiscal adjustment is the key to increasing the current account over the medium-term in line with</td></tr>
<tr><td>Current account</td><td>Background. The current account (CA) surplus in 2014 narrowed to 10.9 percent of GDP from 18.2 percent in 2013. This reflected lower oil revenues and weaker petrochemical prices.[1] The oil price decline is projected to result in a small current account deficit in 2015 as oil export revenues decline by 14 percent of GDP. As oil prices are anticipated to partially recover over the medium term, CA surpluses are also expected to recover (to about 5 percent of GDP in 2020). Over the long term, the CA will be determined by: (i) the fiscal strategy chosen—the balance between saving to create an income stream for future generations versus spending on consumption and investment, the latter of which will boost future growth if carried out efficiently; and (ii) the pace of oil extraction and future oil prices.
Assessment. Saudi Arabia is one of the world's largest oil exporters, with oil exports over 65 percent of non-oil GDP and 80 percent of exports of goods and services. As with other large exporters of nonrenewable resources, it is faced with concerns of intergenerational equity and is affected by oil market volatility. These factors subject its CA to wide swings and the assessment of its external position to considerable uncertainty. Staff's assessment is that there was a negative current account gap in 2014, although the estimated size of this gap varies with the methodology used (from -8.5 to -0.5 percent of GDP, with an average gap of -3 percent of GDP). [2/] However, this gap is driven by current fiscal policy settings. Projections suggest the current account gap may widen in 2015.</td></tr>
<tr><td>Real exchange rate</td><td>Background. The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. The real effective exchange rate (REER) has appreciated by nearly 14 percent over the past year and is currently about 19 percent above its average over the past decade. The REER is mainly influenced by the U.S. nominal exchange rate vis-à-vis trade partners and oil price dynamics (which affect domestic prices through government (and therefore consumer) spending).
Assessment. Most exports are oil or oil-related products, and exchange rate movements have a limited impact on competitiveness. Rather, external adjustment will come via the impact of fiscal policy on domestic demand and imported goods and services.</td></tr>
<tr><td>Capital and financial accounts: flows and policy measures</td><td>Background. Inflows are dominated by FDI, while outflows are largely trade credits and portfolio investment. Capital account restrictions and underdeveloped domestic capital markets continue to limit portfolio and investment inflows, Steps to allow increased foreign investment in the equity market are ongoing.
Assessment. There are no immediate risks or vulnerabilities associated with capital flows.</td></tr>
</table>

	Saudi Arabia (concluded)	
FX intervention and reserves level	**Background**. Saudi Arabia does not have a Sovereign Wealth Fund. The government's foreign assets are held at the central bank within international reserves. International reserves were about 97 percent of GDP (36 months of imports) at end-2014, although they did decline modestly in the final months of 2014. Reserves play a dual role—for both precautionary motives and as savings for future generations. **Assessment**. Reserve assets are more than adequate for precautionary purposes (measured by the Fund's metrics). Nevetheless, a larger current account surplus and resulting NIIP accumulation would be needed to ensure an equitable intergenerational transfer of oil revenues in real per capita terms.	intergenerational equity needs. Government investment on infrastructure and education is appropriate, but it is important to ensure that this spending is efficiently meeting development needs. Efforts are needed to reduce current spending and increase non-tax revenues.
Technical Background Notes	1/ Errors and omissions are estimated at -2 percent of GDP in 2014. 2/ EBA methodology assessments are not available for Saudi Arabia. Staff considered a number of methodologies, including those 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. Estimates suggest current account norms for 2014 range from 19.4 percent of GDP (external sustainability or ES approach) to 11.6 percent of GDP (MB approach from IMF Country Report No. 13/229) to 11.4 percent of GDP (EBA-lite approach). The corresponding current account gaps are estimated at, respectively, -8.5 percent, -0.7 percent, and -0.5 percent. The estimated fiscal gap in 2014 is 17.7 percent of GDP (derived as the difference between the actual fiscal balance and that consistent with intergenerational equity). If this fiscal gap is closed, the current account gap is eliminated under the ES approach. Consequently, the estimated current account gap under the ES methodology is entirely driven by current fiscal policy settings. The estimated CA gap under EBA-lite reflects a fiscal policy gap (of about -7.5 percent) and a large unexplained residual (of about +7 percent) owing to the fact that Saudi Arabia is a significant outlier in the EBA-lite sample (e.g. due to historically very large and volatile external surpluses).	

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

July 13, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of July 10, 2015)

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

General Resources Account:	SDR Million	Percent Quota
Quota	6,985.50	100.00
Fund holdings of currency	5,790.58	82.89
Reserve tranche position	1,194.93	17.11
Lending to the Fund	1,122.2	
New Arrangement to Borrow	1068.85	

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	6,682.50	100.00
Holdings	6,3.5.57	94.36

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				
	2014	2015	2016	2017	2018
Principal	0.0	0.0	0.0	0.0	0.0
Charges/interest	0.10	0.30	0.30	0.30	0.30
Total	0.10	0.30	0.30	0.30	0.30

Lending to the Fund and Grants:

Saudi Arabia is a participant of the New Arrangements to Borrow (NAB), whose credit arrangement under the NBA amounts SDR 11.126 billion. The current outstanding amount under the credit arrangement as of July 10, 2015 is SDR 1,122.2 million. The Fund also has a borrowing agreement with Saudi Arabia in association with the General Arrangements to Borrow (GAB), for an amount equivalent to SDR 1.5 billion, which was renewed for another five-year period from December 26, 2013. In October 2012, Saudi Arabia entered into a note purchase agreement with the Fund under the 2012 Borrowing Agreements, with the amount of SDR 9.71 billion, to provide a second line of defense after quota and NAB resources. In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with investments totaling SDR 94.4 million. In April 2006, these investments were extended with an additional investment of SDR 38.2 million, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. Additionally, in April 2005, Saudi Arabia agreed to provide a grant contribution of US$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 71.88 million. As regards loan resources, the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement with the Saudi Arabian Monetary Agency in May 2011, by which Saudi Arabia would provide new loan resources of up to SDR 500 million.

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 4.28255=SDR 1, with margins of 7.25 percent even though in practice it has been pegged to the U.S. dollar since 1986, with a middle rate of 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 4–15, 2014 in Riyadh. The staff report was considered by the Executive Board on July 11, 2014 and published on September 23, 2014 (http://www.imf.org/external/pubs/cat/longres.aspx?sk=40817.0)

Technical Assistance:

STA	GDDS Meta Data Development January 26–February 6, 2008. G20 Data Gap Initiative, January 22–23, 2011. Balance of Payment Statistics, March 12–23, 2011. National Accounts Statistics, April 8–18, 2012. Balance of Payment Statistics, November 11–22, 2012. SDDS Assessment, March 9–19, 2013. G20 Data Gap Initiative, May 27–28, 2014.
MCM	Stress testing, January 9–21, 2010. Stress testing, February 1-5, 2015.
FAD	Options for Indirect Taxation, February 25–March 11, 2006. Public Financial Management and Statistics, jointly with STA, September 16–30, 2006. Tax Administration, November 6–19, 2006. Enhancing Budget Process Reforms January 22–February 2, 2008. Budget Institutions and GFSM2001 (with participation of STA), June 2–5, 2012. GFSM2001 Training Course, April 2013. Training workshop on structural fiscal balance rules as a guide for policy, February 2014.
FSAP	The main 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 16–30, 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)

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of June 10, 2015)

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

In recent months, advisory work was completed in the areas of: public financial management, foreign direct investment, small and medium enterprise strategy, economic diversification strategy, special economic zones, and housing finance regulations. Priority activities in the ongoing program include: work on employment policy including a focus on unemployment assistance; workshops on education quality, assessment, and decentralization issues; developing funding options to promote energy efficient investments; updating the water sector strategy and building a consensus around it; developing an implementation plan for the national ports strategy; advising on the creation of a Public Transport Authority as a new regulatory body; and food security.

International Finance Corporation

IFC activities in the country, as well as with Saudi investors outside the country, have increased significantly in recent years. They are in line with the following three objectives:

Promoting Selective Business in Saudi Arabia

IFC's strategy for investments in Saudi Arabia is to invest in selective transactions that can add value in terms of institution building, development of new financial instruments, and SME development. Specific investments in the financial sector include housing finance, insurance, leasing and microfinance (with total commitments of around $200 million). IFC also provides Advisory Services in mortgage finance, SME finance, corporate governance, risk management and PPP transactions. IFC PPP is actively engaged in the Kingdom with two new PPP mandates signed in FY14 (Taif Airport and King Abdul Aziz International (Jeddah) Airport). These engagements build upon IFC's earlier success of Medina Airport PPP where IFC helped mobilize over $1 billion, as well as the successes on the Hajj Terminal and a captive desalination project at Jeddah Airport.

Promoting South-South Investments from Saudi Arabia

Saudi Arabian investors have been a key part of IFC's South-South program to promote greater regional integration. Since 2007, IFC has been able to mobilize around $2 billion from Saudi sponsors for investments in the rest of MENA as well as in emerging markets including in Africa and East Asia. IFC continues to work closely with Saudi sponsors to further facilitate cross border investment in the region.

Mobilizing Funds

IFC is working closely with Saudi public institutions and IFIs to undertake global initiatives that benefit private sector activities in developing countries. So far, these efforts have resulted in obtaining commitments of over $1 billion.

STATISTICAL ISSUES

(As of July 10, 2015)

Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: labor markets, government finance statistics, and external sector statistics.	
National accounts and Labor Markets: The estimates of annual GDP 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 has resulted in upward revisions to the level of GDP as well as the relative contributions by economic activity to GDP. This rebasing has increased the share of the oil GDP in 2013 to 43 percent from 21 percent previously. Data on wage rates of public and private sector workers is not published, nor is official data on the number of public sector employees.	
Price statistics: The weight reference period for the wholesale price index appears outdated (1988 according to the publicly available information) and would need to be updated, ideally at least every five years. No official real estate price index is provided.	
Government finance statistics: The authorities are in the process of reclassifying the budget in line with *GFSM 2001*. Most chapters have been completed and the Ministry of Finance is planning on using the *GFSM 2001* framework to report fiscal data and publish it by early 2016.	
Monetary and financial statistics: The quality of monetary data has improved and additional information is made available in the SAMA Monthly Statistical Bulletin. However, the authorities have not yet adopted the Standardized Report Forms (SRFs) as recommended in the *Monetary and Financial Statistics (MFS) Compilation Guide.* An MFS technical assistance mission is scheduled in FY2016 to assist the Saudi Arabian Monetary Authorities (SAMA) to migrate to SRFs. The breakdown of bank credit to the private sector in the quarterly bulletin can be improved, which currently includes a large “Miscellaneous” category. Data on lending and deposits rates is currently not published.	
Financial sector surveillance: SAMA reports all 12 core financial soundness indicators (FSIs) to the IMF.	
External sector statistics: Quarterly 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. Errors and omissions in balance of payments data have been reduced substantially due to an improved coverage of trade credit although there is scope for further improvements. The authorities are working on strengthening financial account data, where data on FDI flows and other investment flows are weak. There are inconsistencies between the BOP and IIP data.	
Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since 2008.	No data ROSC is available.

Saudi Arabia: Table of Common Indicators Required for Surveillance
(As of July 10, 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange rates	7/10/2015	7/10/2015	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	5/2015	6/29/2015	M	M	M
Reserve/base money	5/2015	6/29/2015	M	M	M
Broad Money	5/2015	6/29/2015	M	M	M
Central Bank balance sheet	5/2015	6/29/2015	M	M	M
Consolidated balance sheet of the banking system	5/2015	6/29/2015	M	M	M
Interest rates[2]	7/10/2015	7/10/2015	D	D	D
Consumer price index	5/2015	6/20/2015	M	M	M
Revenue, expenditure, balance and composition of financing[3]—central government	Q1 2015	5/20/2015	Q	Q	A
Stocks of central government and central government-guaranteed debt[4]	2014	5/20/2015	A	A	A
External current account balance	Q4 2014	5/20/2015	Q	Q	Q
Exports and imports of goods and services	Q4 2014	5/20/2015	Q	Q	Q
GDP/GNP	Q1 2015	7/2/2015	Q	Q	Q
Gross external debt (BIS)	Q3 2014		Q	Q	Q
International investment position[5]	Q4 2014	6/29/2015	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 and maturity 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).