



SAUDI ARABIA

October 2016

2016 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 2016 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 18, 2016 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 18, 2016 following discussions that ended on May 12, with the officials of Saudi Arabia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 29, 2016.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below will be separately released.

Selected Issues

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July 28, 2016

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IMF Executive Board Concludes 2016 Article IV Consultation with Saudi Arabia

On July 18, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation¹ with Saudi Arabia.

Real GDP growth is expected to slow to 1.2 percent in 2016, but recover to 2 percent in 2017 as the pace of fiscal consolidation eases and to settle around 2¼ -2½ percent over the medium-term. Inflation has risen in recent months to over 4 percent as energy and water prices have been increased, and is expected to ease to 2 percent in 2017.

Bank deposits have declined, but growth of credit to the private sector remains strong. Capital buffers are high, NPLs low, and banks are well provisioned against loan losses. SIBOR has moved higher in recent months and the spread to U.S rates has widened as liquidity has tightened. SAMA relaxed the loan-to-deposit ratio in February and increased its reverse repo rate by 25bp to 0.5 percent in December.

Based on current policies, the fiscal deficit is projected to narrow to 13 percent of GDP in 2016. Non-oil revenues are expected to increase, while spending restraint, particularly on the capital side, will result in a substantial reduction in expenditure. The fiscal deficit is expected to be financed through a mix of deposit drawdown and domestic and international borrowing.

The current account deficit is projected to narrow to 6.4 percent of GDP in 2016 and then move close to balance by 2021 as oil prices partial recover. SAMA's NFA are expected to fall further in 2016, but the pace of decline will slow over the medium term.

Saudi Arabia has begun a fundamental policy shift to respond to low oil prices. The government has introduced a series of reforms over the past year and has recently set out plans for a bold and ambitious transformation of the Saudi Arabian economy in *Vision 2030* and the National Transformation Program. Diversifying the economy, creating jobs for nationals in the private sector, and implementing a gradual, but sizable and sustained fiscal consolidation to reach budget balance in 5 years are key policy priorities.

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.

(continued...)

Executive Board Assessment²

Executive Directors noted that Saudi Arabia faces important challenges stemming from the decline in oil prices. They welcomed the authorities' timely response, which, supported by sizeable fiscal buffers and a strong and resilient financial system, has maintained macroeconomic growth and stability. Nonetheless, the fiscal and current account balances have moved into deficit and growth is starting to slow. Directors highlighted the need for continued fiscal adjustment and reforms to strengthen and transform the Saudi Arabian economy. In this regard, they commended the authorities' bold reform plans.

Directors welcomed the ambitious reform goals announced by the authorities in Vision 2030 and the National Transformation Program, and underscored the importance of clear prioritization and sequencing of the planned reforms to reduce implementation risks and give the economy time to adjust. They supported the authorities' plan to increase the role of the private sector in the economy by focusing on privatization and public-private partnerships, improve the business environment, develop local capital markets, encourage FDI, and support small and medium enterprises. Directors noted that continued labor market and education reforms are needed to encourage private sector employment of Saudi nationals and increase labor force participation of women.

Directors agreed that a gradual but sizable and sustained fiscal consolidation is needed, and welcomed the adjustment under way. They generally agreed that balancing the budget over the medium term is an appropriate goal and encouraged the authorities to develop a credible medium-term plan to achieve this objective. They supported expenditure and revenue reforms, including continued gradual adjustment of energy prices with compensation for lower-income households, introduction of a VAT and excise taxes, containment of the government wage bill, and improved public investment management and spending efficiency. They recommended accompanying these measures with growth-enhancing structural reforms.

Directors emphasized the importance of developing a medium-term fiscal framework and strengthening the annual budget process, with better integration of the Public Investment Fund and Aramco into the budget. They encouraged the authorities to take an integrated asset-liability management approach to financing the fiscal deficit. They noted that government debt issuance would help establish a risk-free yield curve and support the development of domestic debt markets.

Directors noted that reforms have helped strengthen the financial system, and the banking sector is well positioned to weather lower oil prices and slower growth. They encouraged the authorities to continue to closely monitor credit quality, strengthen the macro-prudential

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>.

framework, and finalize the framework for bank resolution and liquidity provision. They also recommended strengthening the liquidity forecasting and management frameworks of the central bank.

Directors agreed that the exchange rate peg to the U.S. dollar is the best option for Saudi Arabia given the current structure of its economy, and emphasized that a continued fiscal adjustment is needed to support the peg. They saw merit in reviewing the peg periodically to ensure it remains appropriate, given the desired evolution of the economy away from its current reliance on oil.

Directors welcomed the improvements in economic statistics, but noted that further work is needed to fill remaining data gaps. Publication of more detailed budget data and updates would enhance transparency. Directors encouraged the authorities to subscribe to the Fund's Special Data Dissemination Standard.

Selected Economic Indicators, 2011–16

	2011	2012	2013	2014	2015	Proj. 2016
Production and prices	(Annual percent change; unless otherwise stated)					
Real GDP	10.0	5.4	2.7	3.6	3.5	1.2
Real oil GDP	12.2	5.1	-1.6	2.1	4.0	0.6
Real non-oil GDP	8.1	5.5	6.4	4.8	3.1	1.6
Nominal GDP (billions of U.S. dollars)	670	734	744	754	646	646
Consumer price index (avg)	3.7	2.9	3.5	2.7	2.2	4.2
Fiscal and Financial variables	(Percent of GDP; unless otherwise stated)					
Central Government revenue	44.5	45.3	41.4	36.9	25.4	22.7
<i>Of which: oil revenue</i>	41.2	41.6	37.1	32.3	18.4	14.2
Central Government expenditure	33.4	33.3	35.6	40.3	41.3	35.7
Fiscal balance (deficit -)	11.2	12.0	5.8	-3.4	-15.9	-13.0
Non-oil primary balance (percent of non-oil GDP)	-61.7	-60.4	-59.7	-64.0	-50.8	-39.3
Broad money (annual percent change)	13.3	13.9	10.9	11.9	2.5	2.2
External sector	(US\$ billions; unless otherwise stated)					
Exports	364.7	388.4	375.9	342.5	202.3	183.9
<i>Of which: Oil and refined products</i>	317.6	337.2	321.7	284.4	151.3	132.6
Imports	-120.0	-141.8	-153.3	-158.5	-155.0	-149.4
Current account	158.6	164.8	135.4	73.8	-53.5	-41.1
Current account (percent of GDP)	23.7	22.4	18.2	9.8	-8.3	-6.4
SAMA's net foreign assets	535.2	647.6	716.7	724.3	608.9	542.9
SAMA's net foreign assets (in months of imports of goods and services)	29.8	33.8	33.2	35.4	32.3	27.9
Real effective exchange rate (percent change) ¹	-3.6	3.2	3.0	9.3	8.3	3.1

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

¹ Latest 2016 data is for end-April.



SAUDI ARABIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

June 29, 2016

KEY ISSUES

Context. Saudi Arabia has begun a fundamental policy shift to respond to low oil prices. The government has introduced a series of reforms over the past year and has recently set out plans for a bold and ambitious transformation of the Saudi Arabian economy in *Vision 2030* and the National Transformation Program. Diversifying the economy, creating jobs for nationals in the private sector, and implementing a gradual, but sizable and sustained fiscal consolidation are key policy priorities.

Outlook and risks. The decline in oil prices is expected to dampen growth this year. Risks to the outlook come mainly from uncertainties about the future path of oil prices and implementation of the reform agenda, and ongoing regional tensions. Inflation has increased due to higher energy and water prices.

Reform agenda. The reforms being outlined by the government are bold and far-reaching. It is important that they are prioritized and sequenced to reduce the risk of implementation bottlenecks and to give the economy time to adjust. With fiscal reforms likely to have a negative short-term effect on growth and employment, growth-enhancing structural reforms need to be introduced at the same time.

Fiscal policy. Fiscal consolidation is underway. Achieving the 2016 budget targets is a priority. Balancing the budget over the next 5 years is an appropriate fiscal policy goal. Financing of the fiscal deficits will rely on a combination of asset drawdown and domestic and external borrowing. The fiscal framework should be strengthened, including by specifying policy measures to achieve medium-term objectives.

External stability. The peg to the U.S. dollar remains appropriate given the structure of the Saudi Arabian economy.

Financial sector. The banking sector remains strong, although it is being affected by lower oil prices and weaker growth. SAMA is continuing to strengthen its regulation and supervision of the financial sector. The macroprudential and liquidity management frameworks should be strengthened.

Approved By
**Aasim M. Husain and
 Sanjaya Panth**

Discussions were held in Riyadh during May 1–12, 2016. The staff team comprised Tim Callen (head), Nabil Ben Ltaifa, Malika Pant, Gazi Shbaikat (all MCD) and Ken Miyajima (MCM). Masood Ahmed (MCD) participated in the concluding meetings. Executive Director for Saudi Arabia Mr. Alshathri accompanied the mission. The team met with Minister of Finance Al-Assaf, Minister of Economy and Planning Al-Fakeih, Minister of State Al-Sheikh, the Governor of SAMA Alkholifey, Chairman of the Capital Market Authority Al-Jadaan, and other senior officials, as well as representatives of the private sector. Diana Kargbo-Sical and Zhe Liu (MCD) provided support from headquarters.

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CONTEXT

1. Saudi Arabia has begun a fundamental policy shift to respond to low oil prices. The government has introduced a series of reforms over the past year and has recently set out plans for a bold and ambitious transformation of the Saudi Arabian economy in *Vision 2030*. The policies that will help achieve the goals of *Vision 2030* are to be set out in a series of policy plans. The first—the National Transformation Program (NTP)—was released in early June. It lays out 178 strategic objectives with over 340 targets and benchmarks for 24 ministries and government entities to be achieved by 2020. The cabinet has recently been reshuffled and a number of Ministries have been merged or restructured to support the reforms.

2. Meeting the aspirations of a young and growing population is a significant challenge. With fiscal consolidation affecting growth, the challenges of generating jobs and ensuring sufficient housing and resource (water, power) availability will rise. About 1.6-1.8 million Saudi nationals are expected to enter the labor force over the next 5 years given demographic trends and an expected increase in labor force participation rates. Saudi nationals have been traditionally largely employed in the public sector, where job creation is expected to slow in the coming years. Creating sufficient jobs for nationals in the private sector will be key.

3. Saudi Arabia has strong policy buffers that have been built over the past decade. At end-2015, government deposits at SAMA stood at about \$280 billion, SAMA net reserves at \$609 billion (32 months of imports), and government debt was around 5 percent of GDP. The government also has large shareholding in domestic companies. These policy buffers are being used to smooth the adjustment process.

4. A gradual increase in oil prices is expected in the next few years, but prices are not expected to recover to the levels seen in the first half of 2014. Investment in the global oil industry is falling and together with demand growth this should support firmer prices going forward, although stocks are high and will take some time to clear. Noting that Saudi Arabia is one of the world's most efficient oil producers, the authorities are continuing to meet the demand for oil from their customers. Production remained at around 10.2 mb/d in the first five months of 2016.

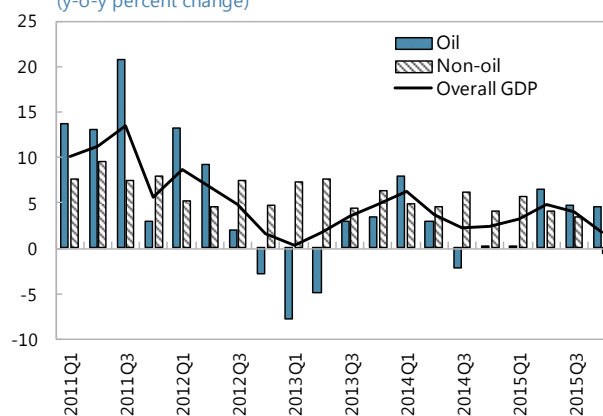
5. Regional tensions continue. The ongoing conflicts in Iraq, Syria, and Yemen are creating a difficult security environment.

MACRO-FINANCIAL DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Macroeconomic Developments

6. Real GDP growth was broadly unchanged in 2015 at 3.5 percent. Non-oil growth slowed to 3.1 percent in 2015 from 4.8 percent in 2014—non-oil public sector GDP contracted by close to 9 percent (y/y) in 2015Q4—but was offset by stronger oil sector growth of 4 percent in 2015 compared to 2.1 percent in 2014 (Table 1, Figures 1 and 2). Monthly indicators suggest that non-oil private sector activity weakened in early 2016. Corporate profitability and the stock market have fallen over past year, although corporate balance sheets generally remain healthy (Appendix I).

Real GDP Growth, 2011–15
(y-o-y percent change)



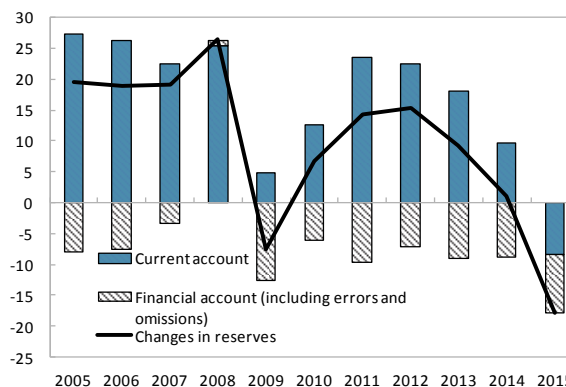
Sources: Country authorities; and IMF staff calculations.

7. The fiscal deficit widened significantly in 2015 despite a sizable reduction in spending. It increased to 15.9 percent of GDP from 3.4 percent of GDP in 2014 (Figure 3, Tables 2 and 3). This was driven mainly by the drop in oil revenue (51 percent between 2014 and 2015). On the expenditure side, wage and other bonuses payments boosted spending in early 2015, but spending was curtailed significantly in the second half of the year (although some 2.5 percent of GDP of spending was deferred to 2016 by delaying the 13th month wage payment and some payments to contractors). The government financed the fiscal deficit through a rundown of its deposits and domestic borrowing.

8. The external position has weakened.

The current account moved into a deficit of 8.3 percent of GDP in 2015 as the value of oil exports fell (Table 4, Figure 4). Financial outflows continued as banks and a large pension fund increased their foreign assets. SAMA's NFA have fallen by \$154 billion since December 2014. There has been some pressure on the riyal in the forward market, which has prompted the SAMA Governor to reiterate the authorities' commitment to the peg and the central bank to ban local banks from selling option contracts on FX forwards.

Current Account and Financial Account Balance
(In percent of GDP)



Sources: Country authorities; and IMF staff calculations.

9. Bank deposits have declined, but growth of credit to the private sector has remained strong

(Table 5, Figure 5). Deposit growth declined by 2 percent (y/y) in April 2016 as households and businesses reduced their holdings of demand deposits, with deposits of government entities remaining broadly unchanged. Private sector credit grew by 10 percent, due in part to a surge in credit to the construction sector (27 percent (y/y) in 2016Q1), which was at least partly due to contractors accessing credit lines in the face of payment delays from the government. Over the past year, Banks have reduced holdings of SAMA bills, excess deposits at SAMA, and foreign assets to meet credit demand and to purchase government bonds, while SAMA also relaxed the loan-to-deposit ratio in February. SIBOR has moved substantially higher and the spread to U.S rates has widened. SAMA increased its reverse repo rate by 25bp to 0.5 percent in December. Major credit rating agencies have downgraded Saudi Arabia’s credit rating (Fitch (AA-), S&P (A-), and Moody’s (A1)).

10. Job creation for Saudis was weak in 2015

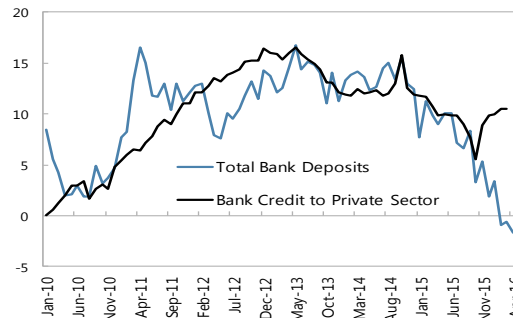
(Figure 6). Total employment increased by 3.8 percent, while the employment of Saudis increased by only 1 percent and actually fell by over 1 percent in the private sector. The unemployment rate of nationals fell slightly to 11.5 percent, although female unemployment rose to 33.8 percent.

B. Outlook, Risks, and Spillovers

11. Growth is expected to slow in 2016 to 1.2 percent.

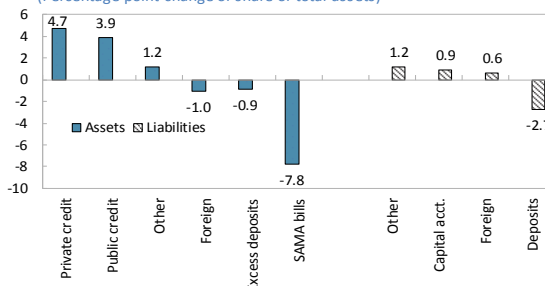
Oil output growth is projected to slow to 0.6 percent (with oil production assumed to average 10.2 mb/d) and non-oil growth to 1.6 percent, the latter due to the impact of fiscal consolidation and tighter liquidity conditions, higher funding costs, and slowing credit growth (Box 1 discusses the determinants of bank credit in Saudi Arabia). In 2017, real GDP growth is expected to recover to 2 percent as the pace of fiscal consolidation eases. The recovery in private

Growth of Bank Credit to Private Sectors and Deposits
(percent, year to year)



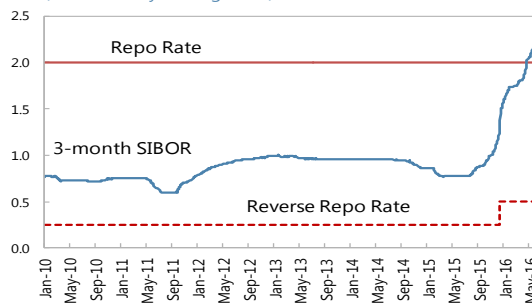
Sources: Country authorities; and IMF staff calculations.

Saudi Arabia: Change in Bank Balance Sheet Composition, April 15-16
(Percentage point change of share of total assets)



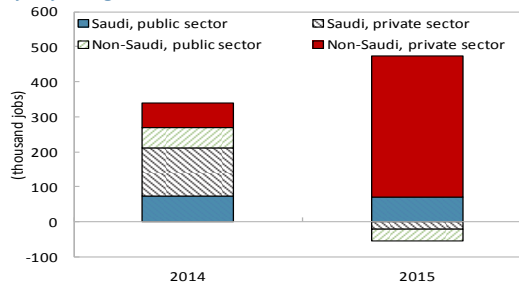
Sources: Haver and IMF staff estimates.

Policy and Interbank Interest Rates
(Percent, daily closing rates)



Sources: Haver; and Reuters.

Changes in Public and Private Sector Employment
(y-o-y change)



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

non-oil growth is, however, projected to weaken toward the end of the projection period in the baseline as rising government debt increases the risk premium and crowds-out credit growth.

	2014	2015	2016	2014	2015	2016
	(Percent of GDP)			(Percent of non-oil GDP)		
Revenue	36.9	25.4	22.7	65.0	35.6	30.3
Oil	32.3	18.4	14.2	56.9	25.8	18.8
Non-oil	4.6	7.0	8.6	8.2	9.8	11.4
Expenditure	40.3	41.3	35.7	71.0	57.8	47.5
Current	23.7	27.7	26.1	41.7	38.7	34.7
Capital	16.7	13.7	9.6	29.3	19.1	12.8
Overall Balance	-3.4	-15.9	-13.0	-6.0	-22.3	-17.2
Balance excluding oil	-35.7	-34.3	-27.1	-62.9	-48.1	-36.1
Memo items:						
Nominal GDP (SARs billions)	2,827	2,423	2,424			
Nominal Non-oil GDP (SARs billions)	1,606	1,731	1,821			

12. The fiscal deficit is projected to narrow to 13 percent of GDP in 2016 under the baseline scenario. This is based on policies in the 2016 budget and other policies that have an announced implementation schedule (see Table 6 for assumptions). Higher energy and water prices introduced in late 2015 (ranging from 10-134 percent) and increased transfers from public entities to the budget should generate additional revenues of 1.3 percent of GDP and 1.6 percent of GDP, respectively. Oil revenues are expected to decline relative to 2015, while spending restraint, particularly on the capital side, will result in a substantial reduction in spending. Beyond 2016, the fiscal deficit is expected to decline further to 7.7 percent of GDP in 2021, driven by higher oil revenues (about 3 percent of GDP), higher non-oil revenues (about 1 percent of GDP), mainly from the VAT and higher excise taxes which are partly offset by lower transfers from public entities, and a gradual further reduction in capital spending as a number of existing projects reach completion. The baseline scenario does not include additional spending measures in the NTP or additional revenue measures that have not been clearly specified. The fiscal deficit is projected to be financed through a mix of deposit drawdown and domestic and international borrowing. The government's net financial asset position (defined as government deposits less gross debt) moves from +38 percent of GDP in 2015 to -17 percent of GDP in 2021.

Fiscal Deficit and Fiscal Financing 2016–21

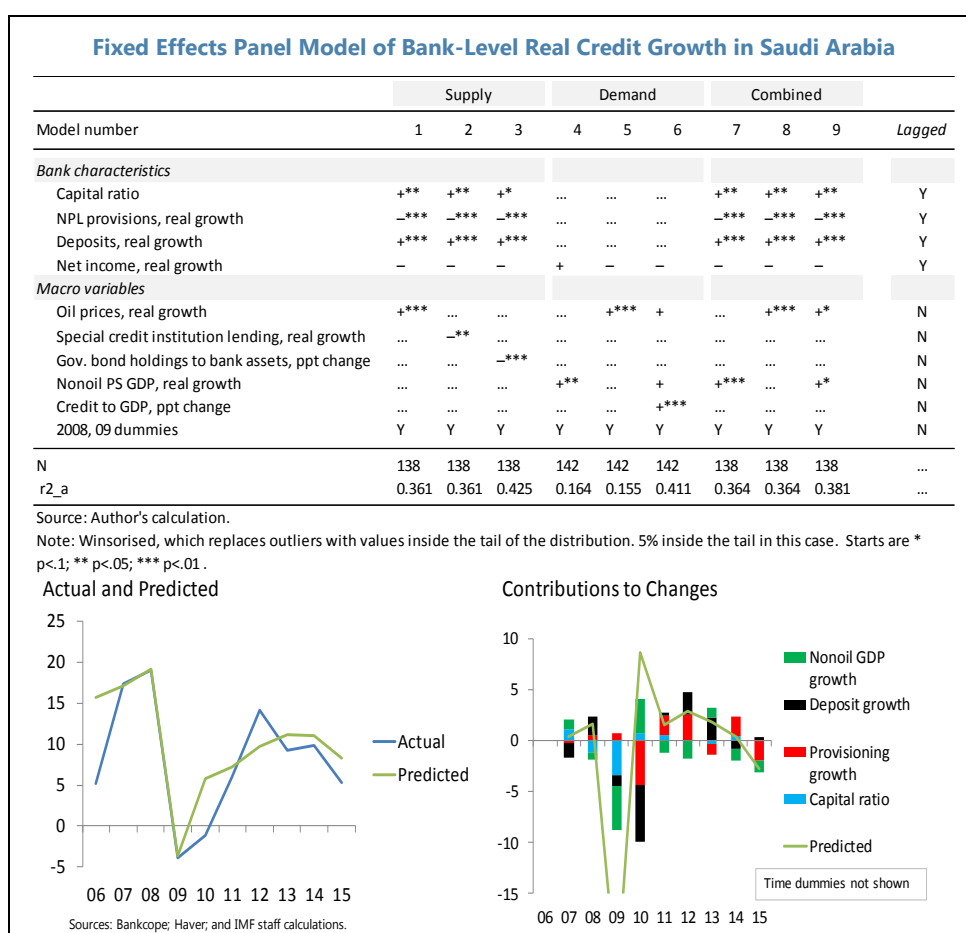
	2016–21	
	(SAR trillions)	
Accumulated Fiscal Deficit	1.5	
Financing	1.5	
Deposit drawdown at SAMA	0.4	
Loans	0.0	
Domestic debt issuance	0.8	
Banks	0.4	
Nonbanks	0.4	
Foreign borrowing	0.3	
Privatization proceeds	0.0	
Memorandum items	(Percent of GDP)	
	2015	2021
Gross government debt	5.0	36.1
Deposits at SAMA	43.3	18.8
Net Financial assets	38.3	-17.3

Source: IMF staff calculations.

Box 1. Supply and Demand of Bank Credit in Saudi Arabia: Challenges and Opportunities

Bank credit constitutes a key channel of transmission from oil prices to the real economy in Saudi Arabia. Empirical evidence suggests that the supply and demand of bank credit to the private sector are affected by bank characteristics and macroeconomic conditions. Bank-level credit growth is modeled using a range of bank-specific and macroeconomic variables (Table 1). The results suggest that:

- **The supply of bank credit to the private sector** improves as the capital ratio increases and deposit growth strengthens. Credit supply weakens as banks provision for NPLs. Increases in excess liquidity in the banking system boosts credit extension. Bank credit growth declines as banks increase their holdings of government bonds (suggesting “crowding-out”). It also weakens as specialized credit institutions (SCIs) expand lending, suggesting the existence of competition rather than complementarity between these institutions and banks in the segments of the market they work in.
- **The demand for credit from the private sector** increases with higher oil prices and stronger activity in the non-oil private sector. Financial deepening, proxied by bank credit to the private sector as a share of nonoil GDP, helps unlock demand for credit.



Model predictions help understand why credit growth has remained robust despite the sharp drop in oil prices (Figure 1; using model 7). Credit growth held up well in 2015, supported by strong bank balance sheets and economic activity even as deposit growth slowed. Looking ahead, credit growth could slow further reflecting lagged effects of slow deposit growth, and if the capital ratios decline, provisioning for NPLs accelerates, or growth slows further.

These results suggest that, to support bank credit in the period ahead, bank balance sheets need to remain strong. Banks need to maintain sufficient capital even as low oil prices start putting balance sheets under pressure. Provisioning for NPLs reduces credit extension, but is essential for safeguarding financial stability. Greater confidence in the banking system also helps attract customer deposits and support credit supply. Greater lending by SCIs does not increase bank credit, but fiscal adjustment and a reduced reliance on banks to finance the budget deficit could support credit to the private sector.

13. The current account deficit is projected to narrow to 6.4 percent of GDP in 2016 and then move close to balance by 2021 as oil prices rise. Financial outflows are also projected to slow as banks and pension funds reverse their foreign investments and buy domestic government debt, and the government borrows externally. SAMA's NFA are expected to fall substantially further in 2016, but the pace of decline will slow over the medium term.

14. Inflation is expected at a little over 4 percent in 2016. Higher energy prices led to a sharp increase in inflation in January, but slowing growth over the year is expected to reduce underlying pressures (Figure 7). After easing in 2017, inflation is expected to pick-up in 2018 with the introduction of the VAT, before easing again to 2 percent in 2019–21.

15. Key risks to the growth outlook include (see Risk Assessment Matrix):

- **Global oil market uncertainties.** Futures markets and consensus forecasts suggest oil price risks are skewed to the upside. Nevertheless, with excess capacity in the market and downside risks to global growth, a further drop in prices remains a possibility (Box 2 discusses how oil production/prices affect the fiscal balance).
- **More volatile global financial market conditions.** These could constrain external financing, putting additional pressure on reserves, domestic liquidity, and credit.
- **Reform implementation.** Quick progress in prioritizing and implementing reforms in the NTP and other policy documents could boost growth relative to staff's baseline. A failure to implement fiscal adjustment may increase growth in the near-term, but at the cost of higher debt and interest rates and pressures on the exchange rate peg with negative effects on growth in the medium-term. On the other hand, too rapid a fiscal adjustment would hurt growth excessively in the near-term.
- **An escalation of regional tensions or domestic security concerns** could hurt confidence and growth.

16. Economic developments in Saudi Arabia have an important impact on the other GCC countries and the broader MENA region. The channels include imports, remittances, tourism, aid, and financial flows, the importance of which varies across countries (Box 3). As growth slows in Saudi Arabia this year, it is expected to have an impact on countries in the region with Bahrain, which has strong ties to Saudi Arabia, perhaps likely to be one of the most affected.

Saudi Arabia: Risk Assessment Matrix¹

Nature/source of main risks	Likelihood/Time Horizon	Expected impact on the economy if risk is realized	Policy Response
Persistently low energy prices , triggered by supply factors reversing only gradually	High/Medium-term	High A 10 percent permanent decline in oil prices would reduce fiscal and external balances by 2.3 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. 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.
Government does not implement fiscal adjustment plans	Low/Medium-term	High The government has announced an ambitious fiscal adjustment in the 2016 budget and the objective of balancing the budget going forward. If this adjustment does not materialize, the fiscal path will be considerably worse than in the baseline. Net debt will rise quite rapidly, borrowing costs will increase, risks of crowding-out will rise, and pressures on the exchange rate peg will increase.	Ensure fiscal consolidation objectives are adhered to, and strengthen budgetary processes to support this.
Private sector employment opportunities do not increase fast enough to provide jobs for the young population	Medium/Medium-term	High Absorbing new labor market entrants into government jobs is not 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.
Heightened risk of fragmentation /security dislocation in part of the Middle East, Africa, and Europe leading to a sharp rise in migrant flows with negative global spillovers	High/Short-term	Low Heightened tensions and conflict in the Middle East could result in higher oil prices if oil supply is threatened. The positive impact on the economy from higher oil prices could, however, be offset if confidence and investment falls, financial market volatility increases in response to heightened regional tensions, and if spending on defense and security increases.	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.
Tighter or more volatile global financial conditions: Sharp asset price adjustment and decompression of credit spreads Surge in the U.S. dollar	Medium/Short-term High/Short-term	Low Tighter financial market conditions could affect the government's ability to borrow from international markets, thus increasing the domestic financing requirement. Bank funding costs may also increase. 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 2. Outlook for the Global Oil Market and the Potential Role of Saudi Arabia

Oversupply in the global oil market is declining, although the market appears likely to remain slightly oversupplied in the near term. The June 2016 IEA monthly report expects global oil demand to grow by 1.3mb/d in 2016 and 2017. On the supply side, non-OPEC supply, mostly driven by US light tight oil and some one-off factors, is expected to decline by 0.9 mb/d in 2016 and pick up slightly by 0.3 mb/d in 2017. In OPEC, higher oil production in Iran and Iraq has more than offset production difficulties in Nigeria. These demand and supply developments are reducing excess supply in the market, although stocks are high and will take some time to clear. There also remain considerable uncertainties about the supply and demand outlook.

Three scenarios are considered to analyze what would happen to Saudi Arabia's oil revenues if it decided to reduce its output to eliminate estimated excess supply in the market. These scenarios are: (i) a cut in oil production by all the estimated excess supply of 0.9 mb/d in 2016 by Saudi Arabia alone, (ii) Saudi Arabia cuts by half of the excess supply (0.4 mb/d) and other OPEC producers jointly cut by the remaining 0.4 mb/d and (iii) Saudi Arabia, other OPEC, and non-OPEC (each cut one third of the excess supply). These production cuts would increase oil prices by 5-18 percent depending on price elasticity of demand. The impact on Saudi oil revenues could be negligible or negative if Saudi absorbs all the output cut. If the cuts are shared across OPEC and non-OPEC, however, the impact on Saudi oil revenues is positive in most scenarios. (Table 2).

Table 1. Medium-term Outlook for the Global Oil Market

<i>in mb/d</i>	2014	2015	projections	
			2016	2017
Under Baseline				
Global demand	92.8	94.7	96.1	97.4
change in inventories	0.9	1.7	...	...
Global supply	93.7	96.4	96.9	97.6
Non-OPEC (includes NGLs)	56.2	57.7	56.8	57.0
US	12.0	12.9	12.5	12.5
Russia	10.9	11.1	11.2	11.1
OPEC	37.5	38.7	40.2	40.6
NGLs	6.5	6.7	6.9	7.0
Crude Saudi Arabia	9.7	10.2	10.2	10.3
Crude Other OPEC	21.3	21.9	23.1	23.2

Sources: IEA Medium Term Oil Report 2016; IEA Monthly Oil Report June 2016; and IMF staff estimates.

Table 2. Impact of supply cuts under various scenario for the baseline outlook in 2016 1/

<i>in mb/d</i>			
Saudi Oil Production cut 1/			
Only Saudi cuts production			-0.9
All OPEC cut production			-0.4
OPEC + Non-OPEC			-0.3
Price Elasticity of Demand	-0.2	-0.1	-0.05
percent change			
Impact on oil prices	5%	9%	18%
Impact on Saudi fiscal balance in percent of GDP			
Only Saudi cuts production	-1%	0%	1%
All OPEC cut production	-0.1%	0.5%	1.8%
OPEC + Non-OPEC	0.1%	0.8%	2.0%

Sources: IEA, and IMF staff estimates.

1/ Assumes total oil production cut to be equal to the estimated excess supply of 0.9 mb/d.

2/ Assuming no supply reaction, price elasticity of demand of -0.05, -0.1 and -0.2 implies that a one percent increase in oil supply would lead to fall in oil prices by 20 percent, 10 percent and 5 percent respectively.

Box 3. Saudi Arabia—Spillovers to the GCC/MENA Region

The economic slowdown and the fiscal and external outlook of Saudi Arabia could adversely affect neighboring GCC/MENA countries through three main channels (Figure):

- **Imports:** Most imports come from outside MENA, and more than 50 percent of Saudi Arabia's imports from MENA comes from 4 countries (UAE, Egypt, Bahrain, and Oman). Bahrain and Egypt, and to a lesser degree Oman, will be affected most by a slowdown of Saudi imports (the impact on UAE is marginal as Saudi Arabia's imports from UAE represent less than 5 percent of its non-oil exports). Stronger impact will be felt by countries outside MENA given the low share of MENA in total Saudi Arabia imports (about 10 percent).
- **Remittances:** Total remittances from Saudi Arabia were estimated at \$38 billion in 2015. Five countries (Egypt, Yemen, Lebanon, Jordan and Syria) receive about 90 percent of Saudi Arabia's remittances outflows to MENA. If fiscal consolidation and labor market reforms translate into lower employment of expatriate labor and eventually a decline in remittances flows, Yemen and Egypt, and to a lesser but still significant degree, Jordan and Syria, will be most affected through this channel within MENA. However, in addition to economic considerations, geopolitical and security concerns will impact developments on this front, particularly the ongoing conflict in Yemen and refugee crisis stemming from the ongoing war in Syria. In addition, it is worth noting that remittances to MENA represent only about 30 percent of total Saudi Arabia remittances flows which means that any impact will propagate to countries beyond MENA, mostly in Asia.
- **Tourism travel:** Bahrain will be by far the most affected in the region (and even globally) as Saudi Arabia tourist arrivals into Bahrain represent more than 50 percent of its total tourist arrivals, and Saudi Arabia travels (tourist arrivals) to outside MENA are only about 10 percent of total Saudi Arabian travels. It is worth noting, however, that it is not clear to what extent Saudi Arabian's travel to Bahrain is likely to be affected by the slowdown of economic activity in Saudi Arabia, given the proximity and close ties between the two countries. The impact may be more significant for Jordan, especially if this is coupled with a decline in remittances.

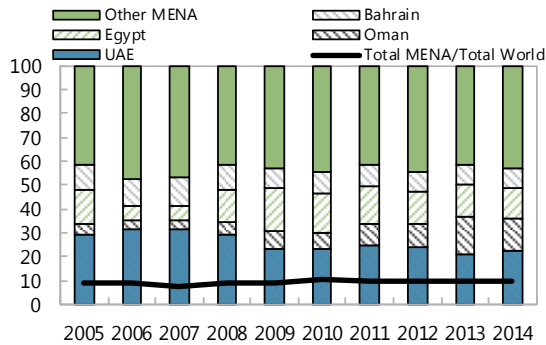
Spillovers to GCC/MENA countries from Saudi Arabia economic slowdown could also be felt through other channels:

- **Aid:** a decline in aid would likely affect countries like Egypt, Sudan, Lebanon, and Yemen—who have been receiving significant support from Saudi Arabia particularly since 2011.
- **Financial channel:** high government borrowing to finance the budget may lead to repatriation/lower FDI or portfolio investments, with potential adverse effects on countries including, in particular, Bahrain and UAE where the financial sectors have higher exposure to Saudi Arabia.

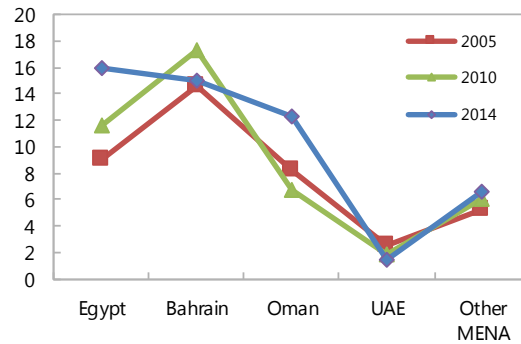
Preliminary regression analysis on a sample of the 6 GCC countries suggests that the slowdown in non-oil growth in Saudi Arabia is likely to impact Bahrain. In particular, it suggests that a slowdown in non-oil growth in Saudi Arabia by 1 percentage point would reduce non-oil growth in Bahrain by 0.8 -1 percentage point. Saudi growth also appears to affect growth in Oman, although its influence is sensitive to the sample period. Further, the effect of growth in oil prices and global demand on Bahrain and Oman is also felt through their impact on Saudi Arabia. Saudi Arabia's non-oil growth influence on other GCC economies appears statistically insignificant, although this may be due to sample size/period coverage.

Saudi Arabia Trade, Remittance and Tourism Links with MENA

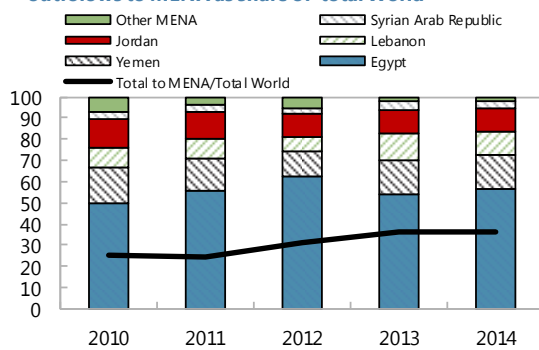
Saudi Arabia: Imports as a share of total imports from MENA/ and Imports from MENA as share of World



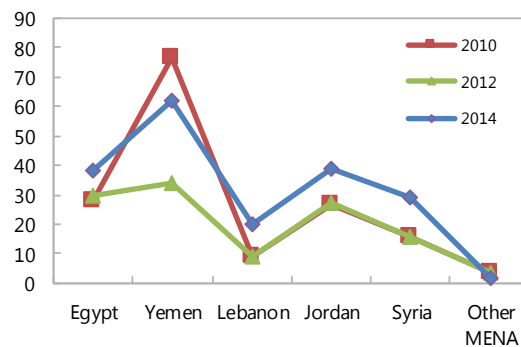
Saudi Arabia's imports as share of partner countries' total non-oil exports



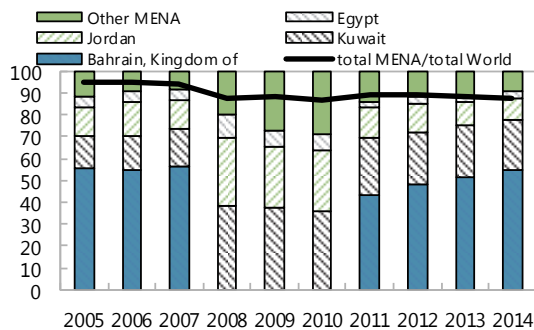
Saudi Arabia: Remittance Outflows to MENA as share of total outflows to MENA, and total outflows to MENA as share of total World



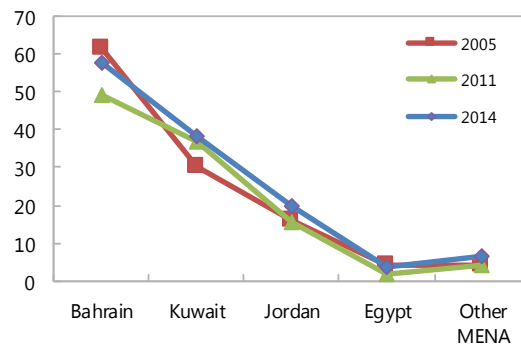
Saudi Arabia's remittance outflows as share of recipient countries' total remittance inflows



Saudi Arabia: Outbound Tourist Travel to MENA (arrivals in destination countries as a share of total arrivals to MENA, and arrivals to MENA as a share of World)



Saudi Arabia Outbound Arrivals as share of destination countries' total inbound arrivals



Source: IMF Direction of Trade; World Bank Migration and Remittances Data, UN World Tourism Organization.

POLICY DISCUSSIONS

Against the background of the announcement of *Vision 2030*, discussions focused on four main themes (i) prioritization, sequencing, and implementation of the reforms; (ii) growth and employment in a low-oil price environment; (iii) fiscal adjustment, reforms, and financing; and (iv) maintaining external and financial sector stability.

A. Reforms to Support Growth and Strengthen Government Finances

17. The authorities emphasized their commitment to reforms. They said the goals set out in *Vision 2030* are designed to transform the economy over the next 15 years to diversify growth, reduce the dependence on oil, increase the role of the private sector, and create more jobs for nationals (Box 4). They noted that substantial reforms have already been undertaken including to reduce government spending, adjust energy prices, introduce key performance indicators for ministries, and strengthen the management of public investment. The objectives in the NTP and other forthcoming policy plans that support *Vision 2030* will broaden and deepen these ongoing reforms. The recent cabinet reshuffle and the merging and restructuring of a number of Ministries are designed to streamline decision-making and introduce greater accountability in government to support the reform process.

18. Staff welcomed the acceleration of reforms, and noted that their direction is consistent with previous IMF policy advice. The goals and objectives in *Vision 2030* and the NTP are bold and far-reaching. They will be challenging to meet and will require considerable political follow-through to implement. Staff emphasized the importance of clearly laying out the policy measures that will help achieve these goals and objectives and prioritizing and sequencing the reforms to reduce the risk of implementation bottlenecks and limit the possibility of pushback and reform fatigue from the population. Staff suggested that with fiscal adjustment needing to proceed given the large fiscal deficit, but likely to have a negative short-term effect on growth and employment, it would be important to introduce growth-enhancing structural reforms to help offset this effect to the extent possible. The impact of slower growth on the banking sector is likely to be limited (see paragraph 46). Staff suggested an initial focus on structural reforms that improve the functioning of product and financial markets rather than those that raise the cost of labor. The authorities said they are discussing prioritization and sequencing as they move to finalize the reforms and are putting an emphasis on reforms that will provide a short-term growth dividend. They are also working on ensuring effective coordination across ministries, and taking steps to strengthen the civil service to improve implementation capacity.

19. The authorities saw the staff's growth projections in 2016 as too pessimistic. They expected the ongoing expansions in the petrochemical, utility, and mining industries and a pickup in visitors to Mecca and Medina to have a larger impact on non-oil growth while they thought the impact of fiscal consolidation would be limited given the composition of adjustment and the scope for improving spending efficiency. Looking further ahead, the authorities and staff agreed that with government expenditure growth set to remain low, non-oil growth would be importantly

determined by reforms to boost productivity and private investment and increase labor force participation (see the Selected Issues paper on “Growth in a Low Oil Price Environment”).

Box 4. Key Economic Targets Announced in Vision 2030 and the NTP

Economic targets

Labor markets	<ul style="list-style-type: none"> • Unemployment to be reduced from 11.6 percent currently to 7 percent (9 percent by 2020). • Women’s participation in workforce to be increased from 22 percent currently to 30 percent (28 percent by 2020). • Create 450,000 jobs in nongovernment sector by 2020. • Reduce civil service workforce by 20 percent by 2020.
Trade	<ul style="list-style-type: none"> • Share of non-oil exports to be increased to 50 percent of total from current 16 percent.
Fiscal	<ul style="list-style-type: none"> • Non-oil revenue to be increased from SR163 billion in 2015 to SR1 trillion by 2030 (SR530 billion by 2020). • Reduce wages and salaries as share of budget spending. • Achieve balanced budget.
Subsidy reform	<ul style="list-style-type: none"> • Subsidies to be removed; direct cash payments to low and middle income households who rely on subsidies.
Private and SME sectors	<ul style="list-style-type: none"> • Share of private sector in economy to be increased to 65 percent of GDP from 40 percent currently; SME sector contribution to be raised from 20 percent of GDP to 35 percent.
FDI	<ul style="list-style-type: none"> • To increase FDI share of GDP from 3.8 percent to 5.7 percent of GDP.

Sector objectives/targets

Tourism	<ul style="list-style-type: none"> • Liberalizing tourist visa regime. • Plans to build world’s biggest Islamic museum alongside other heritage sites • Increase number of Umrah pilgrims from abroad from 6 to 30 million per year (15 million by 2020).
Healthcare	<ul style="list-style-type: none"> • Plans to increase private sector role in healthcare and increase average life expectancy from 74 to 80 years.
Oil and gas	<ul style="list-style-type: none"> • Increase share of domestically owned (localized) oil and gas sector output from 40 percent to 75 percent.
Housing	<ul style="list-style-type: none"> • Focus on affordable housing and boost home ownership from 47 percent to 52 percent by 2020.
Military	<ul style="list-style-type: none"> • Military industry holding company to be created. Boost local participation in defense production.
Education	<ul style="list-style-type: none"> • Curriculum modernization; greater focus on training teachers and measuring performance.

Productivity

- To move into top-10 position on Global Competitiveness Index (25th currently).
- Raise ranking in Global Logistics Performance Index from 49th place currently to 25th.
- Raise ranking within Government Effectiveness Index from 80th currently to 20th.

Immigration policy

- Green card-like program for foreign workers within five years.
- Visa exemption for expats working in King Abdullah business district.

Aramco

- IPO of up to 5 percent equity stake; dual listing likely. Government estimates value of Aramco at over \$2 trillion.

Public Investment Fund (PIF)

- SWF to be created to diversify away from oil. PIF assets to be increased from SR600 billion currently to SR7 trillion by 2030.

All targets are for 2030, unless otherwise stated.

Source: Vision 2030 and National Transformation Program.

Status of Staff Recommendations Made During the 2015 Article IV Consultation

Recommendation	Current Status
A sizeable and sustained fiscal consolidation needs to begin.	Fiscal consolidation began in 2015H2 and continued with the 2016 budget. The authorities have said they will balance the budget, but have not yet set out a medium-term fiscal consolidation plan to do this.
Strengthen the fiscal policy framework.	A macro-fiscal unit has been established within the Ministry of Finance and a head appointed. Fund TA is being provided to support its operations. The authorities are aiming to move toward a medium-term fiscal framework and have introduced key performance indicators for Ministries.
Comprehensive energy price reforms are needed.	In the 2016 budget, the government announced its intention to gradually raise energy and water prices over a 5 year period. A first round of price increases has been implemented raising prices between 10-134 percent depending on the product.
Strengthen the non-oil revenue base.	The government will introduce excise taxes on tobacco and sugary drinks in 2017 and a VAT in 2018. IMF TA is being provided. A tax on undeveloped land is being finalized.
Review capital and current expenditures to better align spending with policy priorities.	The National Project Management Office has been set up to strengthen project management. All capital and current spending is being reviewed and prioritized.
Reduce the government wage bill	A review of allowances for government employees is ongoing. Employment in the civil service fell in 2015 and the NTP targets a reduction in the government wage bill of 5 percent by 2020.
Issue debt to finance the fiscal deficit rather than relying solely on asset draw-downs.	The government issued domestic debt in 2015 for the first time since 2007. An international loan has been finalized in 2016 and a sovereign bond may be issued later this year. Fund TA is being provided on establishing a Debt Management Office (DMO).
Strengthen macroprudential policy framework to mitigate financial sector risks in a countercyclical way.	The authorities are considering setting up a National Financial Stability Committee. Early Warning Systems (EWS) have been strengthened. The countercyclical capital buffers (CCB) framework has been introduced. A first Financial Stability Report was published in June 2015 and a second in May 2016.
Introduce reforms to strengthen financial regulation and supervision.	The domestically systemically important banks (D-SIB) framework has been published. Identified banks should comply with the higher capital charges in 2016.
Policies are needed to increase the employment of Saudis in the private sector and spur diversification.	The authorities are re-starting their privatization program to reduce the role of the public sector in the economy. Retail and wholesale sectors have been opened to 100 percent foreign investment. The authorities are continuing to develop their labor market strategy, but private sector employment of Saudi nationals declined in 2015.

20. Staff welcomed the government’s clear and open communication of the goals of Vision 2030 and its efforts to increase government transparency. Continued communication as the specific reforms are announced is important—explaining to the public the costs and benefits of the reforms will be crucial to their success. The reforms will also need to be seen as equitable, and the less well-off should be protected to the extent possible from their negative effects. The authorities explained that their intention is to be very transparent to increase the accountability of government. Once objectives and targets are set, progress will be regularly monitored via a dashboard and updates published.

Encouraging private sector-led growth

21. The authorities and staff agreed that the role of the private sector is vital. High oil prices and government spending increases have been the main engines of growth over the past decade and have tilted the incentives for nationals toward public sector employment and private sector production towards non-tradables. Increasing factor inputs boosted real GDP growth, but productivity suffered. The government is developing plans to encourage private investment, spur productivity growth, and increase the employment of nationals in the private sector.

22. The government is moving ahead with plans for privatization and greater use of PPPs. Their aim is to sell two airports and the grain silos corporation this year and they intend to undertake a broader range of asset sales and PPPs in the coming years, including selling a stake in Aramco. Staff welcomed this agenda and suggested that the privatization and PPP program should have a clear timetable, be underpinned by a legal and institutional framework, and take place in a transparent environment that fosters competition (see Selected Issues paper on “Privatization and PPPs in Saudi Arabia: Past Experience and the Way Forward”). Given the proposed sale of a stake in Aramco, staff also thought it would be appropriate to review the tax regime as it applies to the oil sector to ensure it is in line with international best practices. For PPPs, it will be important that they are structured to avoid unexpected fiscal costs in the future, and that capacity is built to monitor their operations and ensure proper service delivery.

23. Staff welcomed the ongoing reforms to strengthen the business environment and encourage SME development. The recent decision to open fully the retail and wholesale sectors to foreign investment and the introduction of the new companies’ law—which reduces the administrative burden on SMEs, strengthens minority shareholder rights, and improves corporate governance—are steps in the right direction. Work is also continuing on the new insolvency law and stronger contract enforcement—difficulties resolving insolvencies and uncertainties about contract enforcement are cited as impediments to doing business (Figure 8). FDI inflows have slowed substantially in recent years, and a review of FDI policy would be useful. Increasing competition, particularly in some service sectors, will also be important. The authorities explained that the contribution of SMEs to GDP in Saudi Arabia is low and they are aiming to increase this over time. They have set up an SME Authority to oversee all government policies affecting the SME sector, are working to reduce the legal and administrative burden of setting up a business, and are continuing with the Kafalah loan-guarantee program.

24. Further development of the domestic capital markets is a policy priority. The authorities explained that the recently announced reforms to increase investment opportunities for foreign investors and facilitate trade and settlement of securities transactions are designed to support further equity market development. Staff noted that the domestic debt market remains underdeveloped and companies are very reliant on bank financing. The authorities agreed that development of the private debt market is important, and the Capital Market Authority (CMA) is currently reviewing procedures to make it easier for companies to issue debt and is amending legislation to allow foreign investors to invest in listed domestic bonds. With the government now issuing domestic debt, there is an opportunity to establish a risk-free yield curve and support the development of the private debt market (see paragraph 39).

25. The government has made considerable efforts in recent years to encourage the employment of Saudis in the private sector, but more needs to be done:

- **Setting expectations about the future availability of public sector jobs.** The government should state clearly that future public sector employment opportunities will be very limited. This would help set expectations and incentivize greater job search and the acquisition of skills relevant for the private sector.
- **Reducing the wage gap between Saudi and expatriate workers.** The lack of mobility of expatriate workers keeps their wages down and makes them more attractive to employers. Allowing greater mobility of expatriate workers would likely increase their wages over time and reduce the wage gap between Saudi and expatriate workers. The proposed changes in visa policies that will delink a worker's visa from the sponsor should help in this regard. Staff expressed concerns that proposed reforms to the Nitaqat program—which requires companies to meet certain employment quotas for nationals that vary by sector and size of company—may result in a system that is more costly and difficult to implement. They suggested that a simpler system of higher fees or limits on visas may be more effective, but would need to be phased in gradually to allow companies time to adjust.
- **Education reforms and skills development should focus on improving quality.** Saudi Arabia has invested heavily in education, and with most children now attending school, the focus needs to shift to improving education quality and developing the skills in demand in the private sector.
- **Increasing female participation is essential.** Over 50 percent of university graduates are women, but the participation rate of female nationals is very low despite the recent increase. Policies need to improve transportation options, offer telework and other flexible work arrangements, and ensure adequate childcare facilities.

Fiscal consolidation should continue

26. A sizeable and sustained fiscal consolidation is needed. Achieving the fiscal targets in the 2016 budget is a key first priority, and the authorities noted that data for the first four months of the year indicated that the budgeted reduction in spending is on track. Spending restraint is being supported by strict controls on transfers across budget lines, limiting overtime and other wage allowances, reducing contracted spending, and tighter controls on government employment. An

unallocated “Budget Support Provision” (22 percent of total spending) was created within the overall 2016 spending envelope to meet priority spending identified during the year. Staff emphasized that it is essential that spending commitments are controlled and payments not deferred as happened at the end of 2015.

27. Staff urged the authorities to develop a clear and credible medium-term fiscal consolidation plan. *Vision 2030* sets the broad objective of balancing the budget, and the NTP, which was released after the mission, sets strategic objectives and 2020 targets for non-oil revenues, subsidy reforms, and the government wage bill. The government has also laid out cost estimates of the NTP initiatives that have been approved to start in 2016. These total about 2 percent of GDP a year from 2016–20. The NTP does not, however, bring the individual revenue and expenditure targets together in an overall fiscal framework, nor in most cases does it specify the measures that will be taken to achieve the targets. Taken at face value, the targets in the NTP seem to imply a much larger fiscal adjustment over the next 5 years than is needed to balance the budget. Staff believes that too rapid a pace of fiscal adjustment would have significant adverse consequences for non-oil growth and employment.

28. Staff supported a target of balancing the budget as set out in *Vision 2030* and the NTP. Achieved over the next 5 years (staff adjustment scenario in the text table), this fiscal path would stabilize the government’s net financial asset-to-GDP ratio at a little above zero and preserve space to manage future shocks and policy priorities (Figure 9). It would also move the primary balance toward a level consistent with intergenerational equity (a surplus of 3.7 percent of GDP in 2021) while strengthening the external position. If oil prices were to exceed expectations, the additional revenues should be saved, while if they were below expectations a determination would need to be made as to whether the decline was temporary or permanent. If temporary, staff would support maintaining planned expenditures, but if permanent, some further expenditure adjustment would be necessary.

29. Fiscal consolidation will have costs for short-run growth, but will deliver stronger growth over the medium-term (Figure 10). In the adjustment scenario, non-oil growth is expected to be weaker in 2017–19 than in the baseline, but it recovers more strongly as fiscal consolidation reduces risk premium and crowding-out effects. Effective sequencing will help moderate the adverse effects of consolidation. The fiscal measures in 2015 and 2016 will deliver a large upfront reduction in spending, but it will be important that a balance between revenue increases and expenditure restraint is delivered in subsequent years. Public investment projects that meet clearly identified needs are likely to deliver higher economic returns than current spending and should be protected from expenditure cutbacks. Further, measures should be sequenced to deliver a steady pace of fiscal consolidation.

30. The authorities and staff agreed that revenue reforms will need to be a central part of the fiscal adjustment. They are planning to introduce excise taxes on tobacco and sugary drinks in 2017 and a VAT in January 2018. For the VAT, once the broad GCC agreement has been finalized, it will be up to individual countries to enact their own legislation consistent with the principles of the agreement. A list of zero-rated or exempted items has been agreed by the GCC (individual countries

can choose which items are zero-rated/exempted on the list), the rate will initially be 5 percent, and the turnover threshold has been set at \$1 million. To meet the targeted implementation date, however, the GCC agreement needs to be finalized soon and administrative preparations started. The revenue impact of the excises and VAT is estimated by staff at about SAR 40 billion. Staff expressed support for these measures and the “white lands” tax (a 2.5 percent tax on undeveloped land) which has just been approved by the Cabinet, although they suggested that zero-rating and exemptions to the VAT should be minimized and cautioned against earmarking revenues from the “white lands” tax for housing projects. A higher VAT rate should be considered if agreement within the GCC can be reached and this would be preferable to some of the less efficient fees that are currently under consideration. As a longer-term objective, an income tax on domestic companies (foreign companies are already subject to an income tax while domestic companies currently pay Zakat) and a tax on high-end property could be considered, but the short-term priority should be on the successful implementation of the excises, VAT, and white lands tax.

Saudi Arabia Baseline and Adjustment Scenarios, 2014–21									
(Percent of GDP)									
	Prel./Est.		Proj.					Cumulative 2016-21	
	2014	2015	2016	2017	2018	2019	2020		2021
Baseline Scenario									
Overall balance	-3.4	-15.9	-13.0	-9.6	-8.8	-7.0	-6.3	-7.7	
Non-oil primary balance 1/ (Percent of non-oil GDP)	-64.0	-50.8	-39.3	-36.2	-35.7	-32.6	-32.0	-33.1	
Non-oil primary revenue	3.9	4.9	5.9	5.9	7.3	8.0	8.1	8.2	
Primary spending	40.2	41.2	35.4	32.3	33.5	31.9	31.7	32.6	
(1) Total government debt	1.6	5.0	14.3	20.2	25.1	28.8	32.0	36.1	
(2) Government Deposits with SAMA	50.0	43.3	39.4	33.7	28.8	25.2	22.1	18.8	
Net government financial assets (2-1)	48.4	38.3	25.1	13.6	3.7	-3.6	-9.9	-17.3	
Current account balance	9.8	-8.3	-6.4	-2.7	-1.9	-1.2	-0.7	-0.3	
Central Bank gross reserves (in months of imports)	35.4	32.3	27.9	24.4	21.4	18.8	16.6	14.7	
Credit to the private sector (percentage change)	11.8	9.2	6.0	5.3	5.9	5.9	5.3	5.2	
Real GDP growth (percent)	3.6	3.5	1.2	2.0	2.6	2.6	2.3	2.3	
Real oil GDP growth (percent)	2.1	4.0	0.6	1.1	1.2	1.2	1.1	1.1	
Real non-oil GDP growth (percent)	4.8	3.1	1.6	2.7	3.6	3.6	3.2	3.1	
Fiscal Adjustment Under the Baseline:									
Annual change in overall balance to GDP		-12.5	3.0	3.3	0.9	1.8	0.7	-1.4	8.2
Annual change in non-oil primary balance to non-oil GDP		13.2	11.4	3.2	0.5	3.1	0.6	-1.0	17.7
Fiscal Adjustment Scenario									
Overall balance	-3.4	-15.9	-13.0	-8.8	-5.3	-2.2	-0.3	0.0	
Non-oil primary balance (Percent of non-oil GDP)	-64.0	-50.8	-39.3	-34.2	-29.7	-24.5	-21.8	-20.4	
Non-oil primary revenue	3.9	4.9	5.9	7.2	9.9	11.8	12.9	13.8	
Primary spending	40.2	41.2	35.4	32.5	32.2	30.4	29.8	29.8	
(1) Total government debt	1.6	5.0	14.3	19.3	21.7	21.9	20.7	19.5	
(2) Government Deposits with SAMA	50.0	43.3	39.4	33.2	28.9	26.3	24.5	22.9	
Net government financial assets (2-1)	48.4	38.3	25.1	13.9	7.3	4.5	3.7	3.4	
Current account balance	9.8	-8.3	-6.4	-2.6	-0.7	1.2	2.7	4.1	
Central Bank gross reserves (in months of imports)	35.4	32.3	28.1	25.2	23.4	22.3	21.9	22.3	
Credit to the private sector (percentage change)	11.8	9.2	6.0	5.8	6.5	6.9	8.6	8.6	
Real GDP growth (percent)	3.6	3.5	1.2	1.3	1.3	1.5	1.5	1.7	
Real oil GDP growth (percent)	2.1	4.0	0.6	-0.1	-0.4	-1.0	-1.4	-1.5	
Real non-oil GDP growth (percent)	4.8	3.1	1.6	2.4	2.6	3.2	3.5	3.8	
Fiscal Adjustment Under the adjustment Scenario									
Annual change in overall balance to GDP	..	-12.5	3.0	4.2	3.5	3.1	1.9	0.3	15.9
Annual change in non-oil primary balance to non-oil GDP	..	13.2	11.4	5.1	4.5	5.2	2.6	1.4	30.4

Sources: Ministry of Finance; and IMF staff estimates and projections.

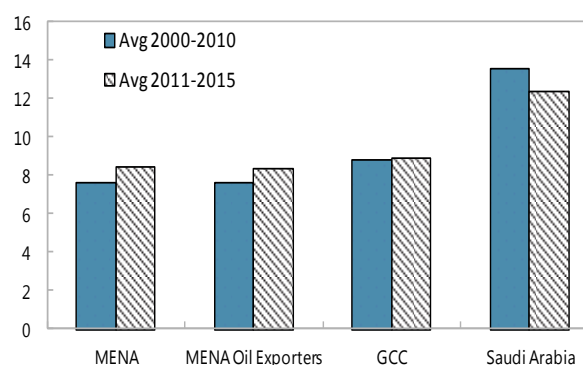
Net Fiscal Savings Under the Baseline and Adjustment Scenarios (SAR billion)						
	2016	2017	2018	2019	2020	2021
Baseline reforms						
Energy price reform	28	29	29	30	30	30
Fees, fines, and tax collection improvement		6	11	17	22	28
VAT			35	53	56	59
Excise tax		6	5	5	5	5
Increase in spending on VAT			13	-20	-21	-22
Total	28	40	94	85	92	100
Additional reforms under the adjustment scenario						
Energy price reform 1/ 2/		35	78	125	168	208
Wage control 1/		1	15	19	25	36
Household compensation		-22	-31	-43	-55	-65
Capital spending control 1/		5	34	42	51	60
Other 3/		-3	-5	-5	-3	14
Total 1/		16	91	138	187	253
Grand total (baseline and adjustment)	28	56	185	223	279	352
Memo item:						
Annual savings from additional reforms as a percent of GDP 4/		0.6	2.6	1.5	1.5	1.8

Sources: Ministry of Finance; and IMF staff estimates and projections.
1 / In addition to the baseline.
2 / Net gains after accounting for long-term energy contracts with private firms, government's own energy consumption and government support to companies to adjust to higher energy prices, estimated at SR 104.6 billion by 2021.
3 / Includes changes in interest payments, investment income and fees and charges and other automatic changes associated with changes in inflation and GDP growth.
4 / Using GDP under adjustment scenario.

31. Staff welcomed the authorities' commitment to further increase energy and water prices. The plan is to gradually raise these prices to international prices/cost recovery levels over the next 5 years—the government has said that having a compensation mechanism in place for lower-income households is a prerequisite for further price increases. On the corporate side, providing support to increase energy efficiency will go some way to offsetting the impact of higher prices. The net revenue impact of these price increases after compensation is estimated by staff at about 5 percent of GDP in 2021 (Box 5).

32. Containing the government wage bill is essential. Government spending on wages and salaries is high by international standards. The authorities explained that the government has been restricting new hiring and this resulted in a net decline in civil service employment last year. The NTP set an objective of reducing civil service employment by 20 percent by 2020. It has also initiated a program that is being piloted in a number of ministries to improve human resource practices within government, including by devolving recruitment decisions. Staff called for a civil service review to identify additional savings including through attrition and reforms of the salary and allowance structure. The government is also looking for other current expenditure savings including through a review of procurement processes and the benchmarking of service costs against best practices.

Government Expenditures on Wages
(in percent of GDP)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

Box 5. Energy and Water Price Reforms: What Has Happened and What's Next?

In December 2015, the authorities announced an increase in prices across most major energy and water products without compensation to businesses or households (Table 1). These price increases are expected to generate revenues of SR 28 billion (\$7.5 billion) for Aramco in 2016 and will be reflected as higher revenues for the government (Table 2). Electricity and water tariffs were either raised or made applicable to lower consumption users, with the estimated revenue gains from these tariff increases expected to offset the higher fuel input cost of the producers.

In the 2016 budget, the government indicated that energy and water prices could be raised gradually over the next 5 years, while “minimizing negative effects on low and mid-income households and business competitiveness”. Staff estimates suggest that increasing energy and water prices to international /cost recovery levels over a 5-year period would generate additional gross revenue gains by end-2021 of SR 314 billion or about 10 percent of GDP (Table 2).

To ensure the success and sustainability of the price increases, the following issues need to be resolved:

- **A clear and transparent mechanism to compensate households.** The authorities are developing “household accounts” through which compensation will be paid. While targeted transfers to low-income households are preferable, a universal compensation mechanism targeted at a level that only fully compensates low-income households could be considered if it eases the implementation of the reforms.
- **A far-reaching communication campaign** is essential to help generate broad political and public support, and should be undertaken throughout the reform process. The information campaign should explain the rational, objectives, and benefits of the reform, and inform the public of the pace of price increase and the compensating measures.
- **Establishing an automatic pricing formula**, once prices reach market/cost recovery levels, will distance the government from the pricing of energy products, thus reducing the chances of reform reversal, and ensure that changes in international prices are reflected in domestic prices. Oman and UAE have already introduced automatic pricing formula.
- **Strengthening operational efficiency of energy producing State Owned Enterprises (SOEs)** would help them remain profitable at higher input costs.

Table 1. Increases in Saudi Domestic Price of Energy Products

	Old Domestic prices US\$ per unit 1/	New Domestic prices US\$ per unit 1/	Change in prices Percent
Gasoline			
95 octane	0.16	0.24	50%
91 octane	0.12	0.20	67%
Diesel			
Transportation sector	0.07	0.12	80%
Industrial sector	0.07	0.09	32%
Natural Gas			
Methane	0.75	1.25	67%
Ethane	0.75	1.75	134%
Fuel Oil	0.01	0.02	83%
ALCO	0.03	0.04	50%
Butane	0.15	0.17	14%
Jet A-1	0.07	0.15	120%
JP-8	0.07	0.16	120%
Kerosene	0.11	0.16	53%
Natural Gasoline	0.22	0.24	10%
Propane	0.13	0.14	11%

Sources: Country authorities and IMF staff calculations.

1/. Energy products are measured in liters for all energy products, except for natural gas which is measured in mmbtu.

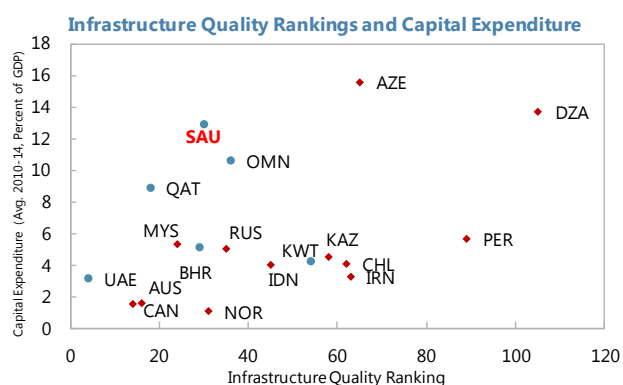
Table 2. Saudi Arabia: Revenue Gains from Energy price reform by 2021

in US\$ billion	2016	2017-2021
Gasoline	2.6	17.8
Diesel (Gas oil)	1.7	36.1
LPG		
Public	0.04	1.1
Oil Industry	0.01	0.4
Fuel Oil		
Public	0.23	18.4
Oil Industry	0.02	1.9
Asphalt	0.06	0.3
Jet Fuel	0.28	2.1
Natural Gas		
Public	2.2	4.6
Oil Industry	0.5	1.0
Total/ Gross revenue gains (US\$)	7.5	83.8
Gross revenue gains (SR)	28.3	314.3
Household: Cash transfers		
Wealth sharing (per capita)		37.1
Social protection (based on household size and targeted)		28.3
Non-Households: Mitigating measures/offsetting factors 1/		104.6
Net revenue gains (SR)	28.3	144.3

1/. Offsetting factors for non-households takes into account that firms with long-term energy supply contracts will continue to receive low prices, government's own energy consumption and government support to companies to adjust to higher energy prices.

Source: IMF staff estimates.

33. The government is strengthening the management of public investment. The National Project Management Office (NPMO) was recently established to take the lead role in improving project management standards across ministries, and the project approval process has been strengthened which should result in more targeted and efficient spending. Staff noted that despite the sharp cutbacks in 2015 and 2016, capital spending remains high by international standards and they welcomed the steps the authorities are taking to strengthen public investment management.



Sources: IMF staff calculations; WEF Global Competitiveness Report 2015-16
Note: Infrastructure quality rankings among 140 countries; lower number indicates higher quality/ranking.

34. More broadly, the authorities explained that one of the central goals of their reform plan is to improve the efficiency, accountability and transparency of government spending. They saw this as being essential in supporting the broader reforms that are being undertaken. To this end, a performance management program has been introduced for ministries. Key performance indicators (KPIs) have been established, including through the NTP, and will be reported to and monitored by the recently established performance management agency.

35. Staff stressed that reforms to the fiscal framework would need to be an integral part of the fiscal adjustment process to reduce implementation risks. The priorities should be to develop a medium-term fiscal framework, strengthen the annual budget process, and increase transparency and accountability. The fiscal framework should include fiscal targets to guide the medium-term adjustment, and a formal fiscal rule could eventually be considered to support the accumulation of substantial financial buffers during periods of high oil prices and delink expenditures from oil revenue volatility. The framework should also assess risks to the fiscal outlook, including from the future pension commitments of PPA and GOSI. Staff believes that a review of the public expenditure management system should be undertaken to ensure that the deferred payments to contractors are not repeated, and suggested that while the “budget support provision” may help in facilitating adjustment in 2016, it is not consistent with effective budgeting over the medium-term. The authorities saw the establishment of a macro-fiscal unit and the appointment of the unit head as important steps in strengthening their macro-fiscal analysis.

36. Staff emphasized the importance of improving fiscal transparency and better integrating key public entities into the budget. While welcoming the recent move to GFSM2014 format for the 2016 fiscal data, staff emphasized that fiscal transparency is lagging compared to other G-20 countries. The 2016 budget published more details about revenues and expenditures than previous years, but still did not provide full information about the 2015 outturn or 2016 budgeted revenues and expenditures. A step toward enhancing fiscal transparency would be to start publishing full details of annual budgeted revenues and expenditures and within-year quarterly fiscal updates on budget execution. The Public Investment Fund (PIF) and Aramco should be better integrated in the fiscal framework and their operations made more transparent. The government

should clarify the rules and the level of transfers between the budget and the PIF, and it should receive its share of oil revenues from Aramco and then make transparent payments for expenditures carried out by Aramco on its behalf. These steps to increase fiscal transparency will be needed to effectively monitor progress toward the NTP objectives.

Asset-liability management and budget financing

37. The government is continuing to assess its options for financing the fiscal deficit. The authorities have finalized a \$10 billion loan from international banks and they are now considering issuing a sovereign bond. Domestically, they are continuing to issue bonds to banks and non-bank institutions, and have expanded issuance beyond fixed rate instruments to include floating rate notes and murabaha (a common form of Islamic financing). Staff indicated that the choice of fiscal financing strategy will have important implications for the domestic economy and the financial sector. In particular, relying on a combination of asset drawdown and domestic and external borrowing is likely to best strike a balance between addressing risk/return tradeoffs and minimizing the macro-fiscal-financial implications of domestic debt issuance on credit provision in an environment of more difficult bank funding conditions (Selected Issues paper on “Financing the Fiscal Deficit—Possible Options and Their Potential Implications”).

38. The authorities are setting up a Debt Management Office (DMO) within the Ministry of Finance. Staff urged the authorities to quickly make the DMO operational and start developing a medium-term debt management strategy (MTDS) to guide the government’s borrowing program. In staff’s view, the debt issuance program should encourage the development of a deep and liquid domestic debt market, including for the private sector. Improving communication with the market, including by announcing an issuance calendar in advance, and developing a secondary market for government securities will help in this regard. Staff encouraged the authorities to introduce auctions for government debt whereby yields are market determined and better reflect market liquidity conditions.

39. Saudi Arabia needs to develop an integrated approach to managing its balance sheet. Without looking at both sides of the balance sheet, mismatches in assets and liabilities might pose undue risks, while there will always be trade-offs between incurring debt and selling assets. The authorities noted that they are taking steps to clarify asset management responsibilities. The PIF’s mandate is being changed towards a more typical sovereign wealth fund, with a longer-term horizon and higher risk tolerance level, and focused only on returns rather than development objectives. SAMA will continue to manage gross reserves which are held more for precautionary purposes.

B. External and Financial Sector Policies

External adjustment will depend on fiscal policy

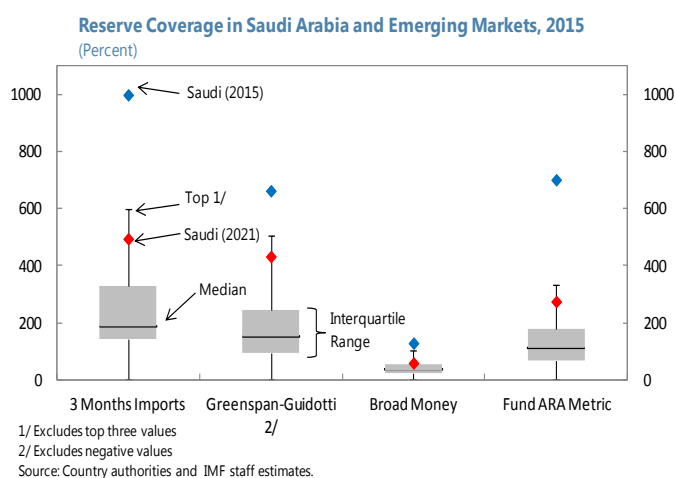
40. The external position weakened substantially in 2015, more than suggested by fundamentals and desirable medium-term policy settings. Substantial fiscal adjustment—

consistent with the staff's fiscal adjustment scenario and the government's objective of balancing the budget—will be necessary over the medium-term to reduce the current account deficit, stem the loss of reserves, and support the exchange rate peg (Appendices II and III).

41. As long as a credible fiscal adjustment is in place, staff agreed with the authorities that the exchange rate peg remains the best option for Saudi Arabia.

The international investment position (IIP) position is very strong and reserves remain comfortable according to standard Fund metrics (32 months of imports, 129 percent of broad money and 700 percent of the Fund's reserve metric at end-2015). The potential benefits of moving away from the peg do not outweigh the potential costs. Depreciation would boost fiscal revenues in riyal terms and support fiscal adjustment if nominal expenditures were not raised in the face of higher inflation, could support the development of the non-oil tradable sector, and would enable a more independent interest rate policy. However, depreciation would entail

significant risks given the longstanding anchor provided by the peg, increase uncertainty with potentially wider implications for the region, and would have very limited benefits for competitiveness. Most exports are oil or oil-related products and the substitutability between imports and domestically-produced products, which in turn have significant labor and intermediate input content, is limited. Further, maintaining unchanged nominal expenditures following a depreciation would be difficult as the cut in real public sector wages could result in social pressures. In addition, it would be undesirable to have a large upfront and across-the-board cut in real spending that an exchange rate depreciation would entail when the large fiscal buffers allow for a smoother and better-targeted adjustment through fiscal policy.



42. Nevertheless, the peg should be reviewed periodically in coordination with other GCC countries. This will ensure it remains appropriate given the desired evolution of the economy to develop a greater role for the tradable sector. Meanwhile, reforms that would support a move to a more flexible regime, if this became appropriate in the future, would be desirable (including in liquidity management and debt and money market development).

Financial sector reforms should continue

43. The banking sector remains strong, although it is being affected by lower oil prices (Table 7). Profitability growth has slowed and is expected to slow further as economic growth weakens and provisioning increases. NPLs are likely to rise (although from a low level of 1.2 percent), but banks are well-positioned to absorb losses using their provisions and capital ratios should remain around current levels. Staff expressed concern about the rapid growth in credit to the construction sector (8 percent of bank credit). SAMA responded that much of this increase was due

to liquidity-constrained construction companies drawing on existing credit lines as they waited for delayed government payments and was expected to slow as these payments are made. The Liquidity Coverage ratio (LCR) is high and banks are in a strong position to manage a decline in deposits.

44. Tightening liquidity conditions put a premium on strengthening liquidity forecasting and liquidity management operations. Three-month SIBOR has risen above 2 percent and spreads to U.S. LIBOR have widened as banks have competed more aggressively for deposits, raising their funding costs. At the current pace of drawdown, bank excess liquidity will be depleted within 2 to 3 quarters. If liquidity pressures are a source of banking sector stress, easing reserve requirements would be appropriate, but reserve requirements are too inflexible a tool for effective daily liquidity management while the standing facility is a passive instrument. Staff therefore suggested that SAMA review its liquidity forecasting framework and its tools for day-to-day liquidity management. SAMA responded that to ease liquidity pressures they could if necessary place government institution deposits with individual banks as they have done in the past. In considering liquidity provision to the market, consideration will need to be given to the impact this could have on financial outflows.

45. Banks generally appear able to absorb further negative shocks to asset quality and liquidity. Rising interest rates and weaker profits will adversely affect corporates, but most sectors are well-positioned to manage such developments (see Appendix I). While NPLs would rise further if non-oil growth were to weaken more than in the baseline, high bank capital ratios provide a substantial cushion against these losses (Appendix IV). SAMA is continuing to regularly monitor and assess bank capital and liquidity, including by using stress tests to assess the impact of slowing growth and rising interest rates on banks. SAMA noted that their stress tests—which were published in the 2016 Financial Stability Report—show less deterioration in asset quality than the staff's, but nevertheless they are working continuously with banks to analyze and mitigate risks as they emerge. If this analysis were to show that capital or liquidity of a bank may decline below regulator minima, plans should be put in place to strengthen these buffers proactively.

46. Strengthening the macroprudential framework will further support financial stability. Staff called for the National Financial Stability Committee (NFSC) to be made operational to formalize ongoing coordination between SAMA, the Capital Markets Authority (CMA), and the MoF. They also suggested that the Specialized Credit Institutions (SCIs) be considered in macroprudential policy deliberations given some overlaps with banks. SAMA noted that the publication of the annual Financial Stability Report has increased the transparency of its macroprudential policies.

47. Within a strong and transparent framework, staff suggested that the authorities could make greater use of countercyclical macroprudential policies to manage systemic risks if they emerge. Reserve requirements, capital, and provisioning ratios have moved countercyclically in the past, although for the latter two this seems to have been an outcome of the supervisory process with individual banks rather than macroprudential policy decisions. Within a macroprudential framework, a relaxation of policies will need to be based on the careful monitoring of indicators of risks to financial stability and an assessment that systemic risk has materialized and financial conditions have tightened, seriously affecting activity. It will also depend on available policy space and sources of systemic risks. A countercyclical capital buffers (CCB) framework is now in place.

SAMA has recently relaxed the loan-to-deposit ratio to 90 percent (from 85 percent) to prevent a sharp across-the-board credit squeeze given the decline in deposits, but staff stressed that it is important that this additional room is not used to extend credit to weak companies.

48. SAMA is continuing to strengthen its regulation and supervision of banks. It has implemented the Basel III risk-based capital regulations, and its prudential regulations are compliant with the standards prescribed under the Basel framework. An aggregate large exposure limit of 400 percent of capital has been introduced, and single borrower exposure limits are being reduced from 25 percent of capital to 15 percent by 2019. Capital surcharges for Domestic-Systemically Important Banks (D-SIB) are being introduced in 2016 in line with the previously announced framework. The crisis management framework is also being strengthened. A deposit insurance scheme has been introduced (funded by levies on banks and will protect deposits up to SAR 200,000), a draft of the bank resolution framework legislation is being discussed, and a framework for emergency liquidity provision is being designed and tested by SAMA. SAMA has been working with Saudi banks to manage the implications of de-risking. While Saudi banks have a comfortable number of correspondent banking relationships, SAMA is nevertheless concerned about the potential for the withdrawal of correspondent banking relationships to adversely affect Saudi banks. They have therefore been active in bringing domestic banks together with major foreign banks and regulators to make sure they are clear about home supervisor requirements and ensure that channels of communication are open. On shadow-banking, when defined as being outside the regulatory perimeter, this is relatively small in Saudi Arabia. Overall, good progress has been made in implementing the recommendations of the 2011 FSAP Update (see Appendix V) and an FSAP Update has been requested by the authorities for 2017.

49. The authorities updated staff on their work to strengthen the effectiveness of the AML/CFT regime. They are working to finalize the money laundering and terrorist financing national risk assessment and communicate its results, and enhance national coordination between concerned agencies. Saudi Arabia's AML/CFT regime is expected to be assessed in late 2017 for compliance with the revised international standards, and thereafter, the FATF will deliberate on the country's application for full membership.

Statistical Issues

50. Efforts are continuing to strengthen economic statistics, but important gaps remain. Staff stressed that good statistics are essential to support policymaking, and are particularly important in areas where *Vision 2030* has set goals that will need to be monitored. The authorities agreed, and noted that fiscal data for 2016 is being prepared in GFSM2014 format and that they are working on the FDI, external debt, and real estate price data (see informational annex for details). Staff suggested that fiscal data for 2015 at least should be made available in GFSM2014 format to allow an adequate assessment of fiscal policy developments.

STAFF APPRAISAL

51. The decline in oil prices is affecting the Saudi Arabian economy. Activity in the non-oil sector is slowing, equity prices and corporate profits have fallen, and real GDP growth is expected to moderate to 1.2 percent this year, from 3.5 percent in 2015, before recovering to 2.3-2.6 percent over the medium-term. The fiscal and current account balances have moved into large deficits, and bank deposits are declining (although credit growth has remained strong). Nevertheless, the fiscal and financial buffers that were built-up over the past decade have helped cushion the impact on the economy and provided time for the government to develop its policy response. Upside risks to the growth outlook include the possibility of higher oil prices and a stronger impact of structural reforms on growth, while lower oil prices or the failure to implement needed fiscal adjustment present downside risks.

52. Saudi Arabia has now begun a fundamental policy shift to respond to low oil prices with *Vision 2030* announcing an ambitious plan to transform the economy over the next 15 years. The goals and objectives in *Vision 2030* and the NTP are bold and far-reaching. Full details of how the goals will be achieved have not been released, and it will be important that the authorities clearly lay out, prioritize, and sequence the policy measures that will help achieve these goals and objectives to reduce the risk of implementation bottlenecks and limit the possibility of reform fatigue. With fiscal reforms likely to have a negative short-term effect on growth and employment, accompanying growth-enhancing structural reforms will be needed.

53. Increasing the role of the private sector in the economy will be important to spur growth, productivity, and diversification. The government's focus on privatization and PPPs will reduce the footprint of the government in the economy and should lead to productivity gains in key sectors over time. The success of the privatization program will depend on establishing a clear timetable, developing the required legal and institutional framework, ensuring a transparent sales process, and ensuring sufficient competition in the post-privatization market. Given the proposed sale of a stake in Aramco, now is an opportune time to review the tax regime as it applies to the oil sector to ensure it is in line with international best practices. Reforms to strengthen the business environment, encourage foreign direct investment, support the development of the SME sector, and deepen the domestic capital markets are also important.

54. Continued labor market reforms are needed to encourage the employment of nationals in the private sector. With fiscal consolidation affecting growth and the availability of public sector jobs, the challenge of generating employment for the growing number of young Saudis is significant. Policies will need to clearly set expectations about the future availability of public sector jobs, increase the competitiveness of Saudi nationals in the private sector, and strengthen education and training programs so nationals acquire the skills needed for private sector jobs. Proposed changes to Nitaqat may make the program more difficult and costly to implement. Reducing barriers to female participation is important to better integrate these educated and skilled workers into the labor force.

55. A gradual, but sizable and sustained further fiscal consolidation is needed. The 2016 budget makes a good start and a key priority is to achieve the targets set therein. *Vision 2030* sets the goal of balancing the budget, and a credible medium-term fiscal consolidation plan consistent with achieving this objective in the coming years should be developed. The consolidation should be based on both revenue and expenditure measures including a gradual increase in energy prices, the introduction of the VAT and excises, firm control of the government wage bill, and further reforms to enhance public investment efficiency. Regarding the VAT, the GCC agreement should be finalized as soon as possible and administrative preparations need to start. It is important, however, that the fiscal measures introduced are calibrated to achieve the government's overall fiscal objectives—an excessively rapid tightening of fiscal policy would damage growth and employment prospects.

56. A stronger fiscal framework should be an integral part of the fiscal adjustment. Developing a medium-term fiscal framework, strengthening the annual budget process, and enhancing fiscal transparency and accountability are priorities. The establishment of the macro-fiscal unit and developing a fiscal rule would help improve macro-fiscal analysis and guide fiscal adjustment. A public expenditure management review should also be undertaken to ensure that spending commitments are controlled and payments are not deferred as happened last year. Given their size and importance, Aramco and the PIF should be better integrated into the budget. Fiscal transparency should be improved by publishing full details of budgeted revenues and expenditures and budget outcomes, and providing regular quarterly updates on budget execution.

57. The financing of the fiscal deficit needs to be considered within an integrated asset-liability management strategy. The decision whether to draw down assets or issue domestic or external debt needs to be carefully assessed to avoid undue risks and costs to the budget and to minimize the risks of crowding-out credit to the private which would have a negative effect on economic activity. Government debt issuance provides an opportunity to develop the domestic debt market. Introducing auctions for government debt and developing a secondary market would help establish a risk-free yield curve and support the development of the corporate debt market.

58. As long as a credible fiscal adjustment is in place, the exchange rate peg remains the best option for Saudi Arabia given the structure of its economy. The peg has served Saudi Arabia well and the potential costs of moving away from the peg outweigh the possible benefits. The peg should, however, be reviewed periodically in coordination with other GCC countries to ensure it remains appropriate given the desired evolution of the economy away from its current reliance on oil.

59. The banking sector is well positioned to absorb the effects of lower oil prices and fiscal consolidation. Capital buffers are strong, NPLs low, and banks are well provisioned against loan losses. While NPLs are likely to rise, banks have sufficient buffers to comfortably absorb these losses, but SAMA should still continue to monitor credit quality closely, particularly in the construction sector. Liquidity conditions have tightened. SAMA can ease reserve requirements as needed, and should also develop a robust liquidity forecasting and management framework to manage day-to-day liquidity.

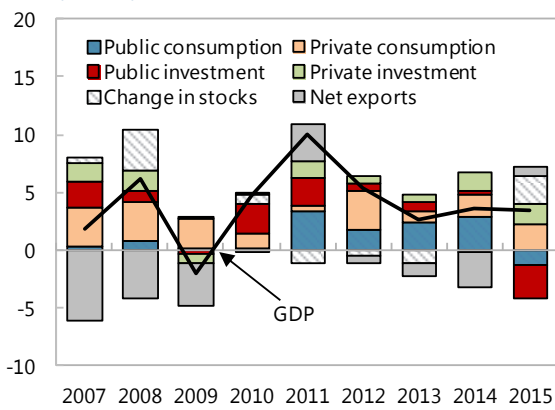
60. The macroprudential framework would be strengthened by operationalizing the National Financial Stability Committee (NFSC). This would formalize coordination across the key stakeholders. The SCIs should be included in macroprudential decisions given their overlaps with banks in some areas and their size and influence on the domestic financial system. Within a macroprudential framework, the relaxation of policy tools will be guided by the results of the careful monitoring of risk indicators to financial stability and triggered by the assessment that systemic risk has materialized and financial conditions have tightened, seriously affecting activity.

61. Further progress is needed to improve economic statistics. The move to GFSM2014 is welcome, but further work is needed, particularly in the areas of fiscal, external, monetary, real estate, and labor market statistics. The objective of subscribing to SDDS should be announced as soon as possible.

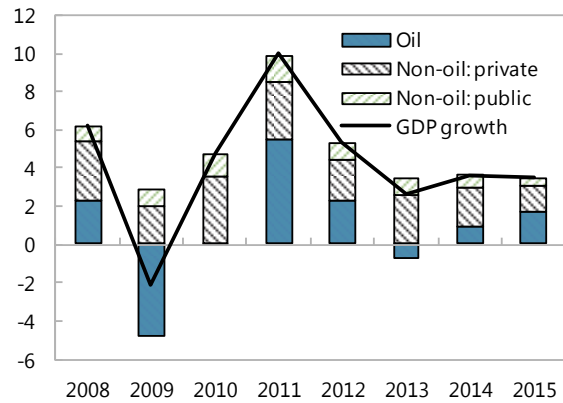
62. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Real Sector Developments

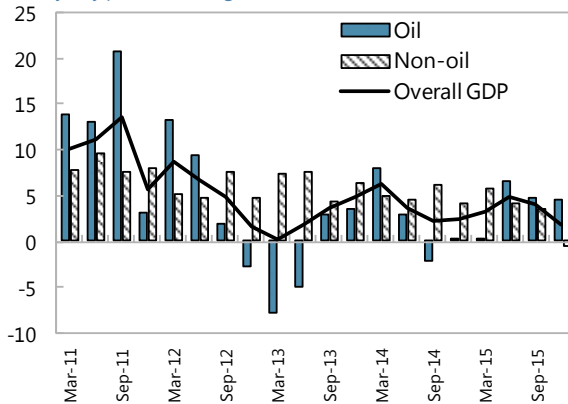
Contribution to Real GDP Growth (Percent)



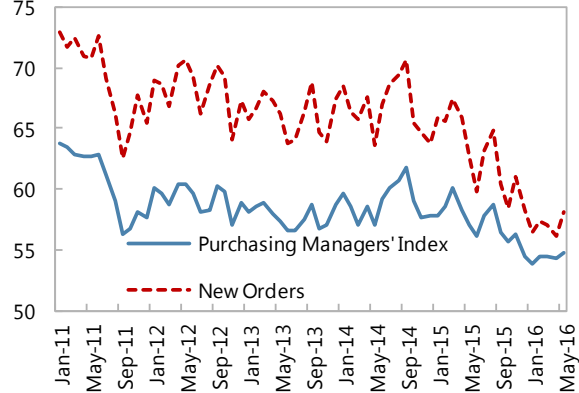
Contribution to Real GDP Growth (Percent)



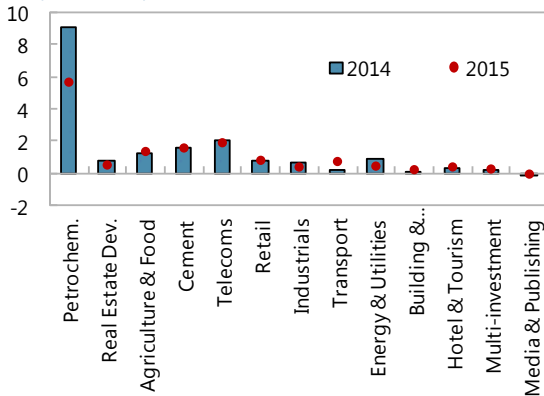
Real GDP Growth (y-o-y percent change)



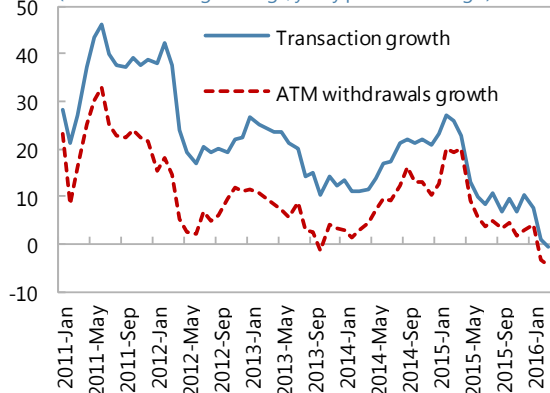
Business Conditions (Index)



Net Incomes of Listed Saudi Corporates by Sector (US\$ billion)



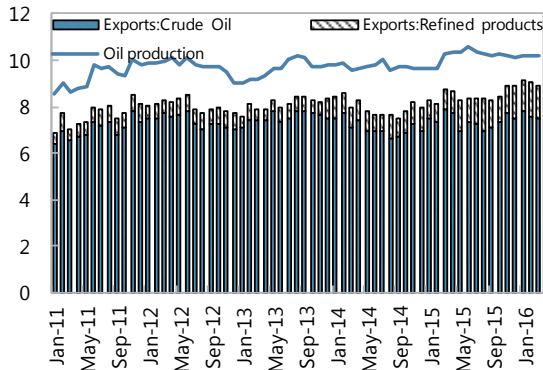
Indicators of Consumer Spending (3 month moving average, y-o-y percent change)



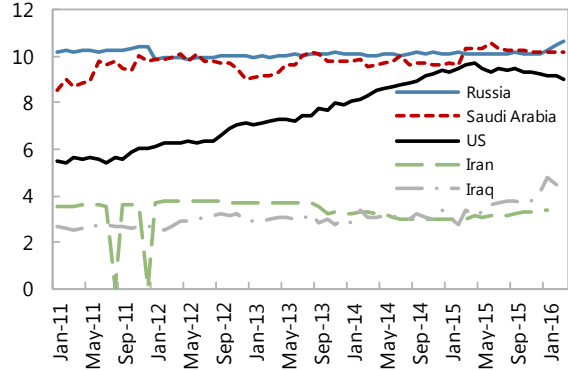
Sources: Country authorities; Haver; Markit; World Steel Association; and IMF staff calculations.

Figure 2. Oil Market Developments

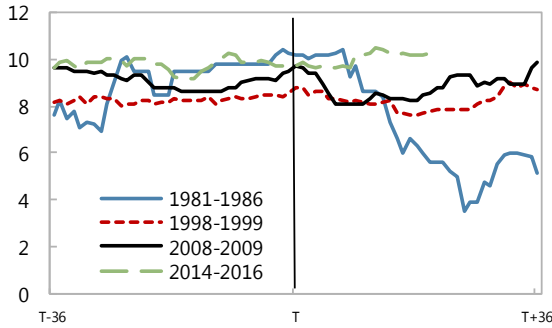
Oil Production and Exports
(Million barrels per day)



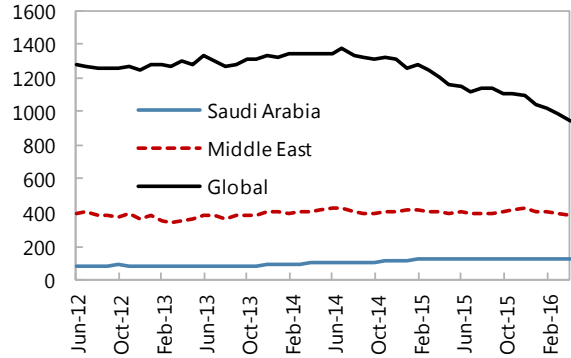
Output of Major Oil Producers
(Million barrels per day)



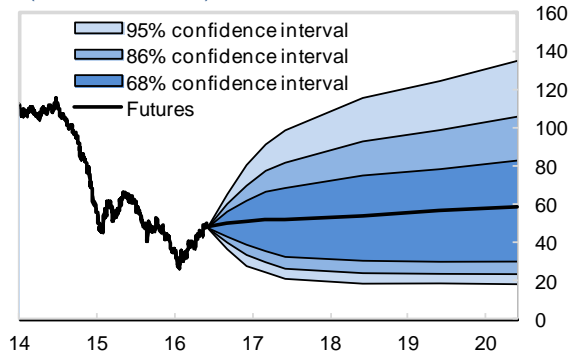
Oil Production in Periods of Falling Oil Prices 1/
(Monthly Crude Oil Production, mbd)



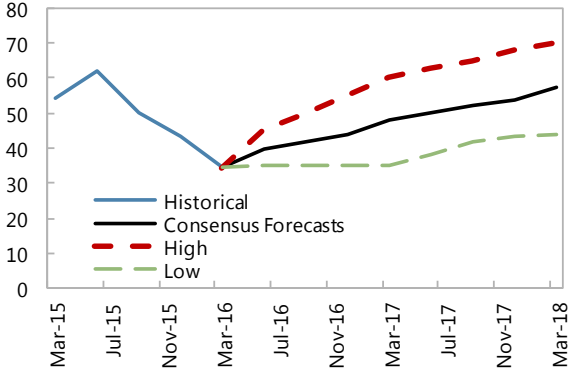
Indicator of Oil Investment
(BHI International Rig Counts)



Brent Crude Oil 2/
(U.S. dollars a barrel)



Consensus Oil Price Forecasts
(Brent Crude Oil Forecasts, US\$/barrel)

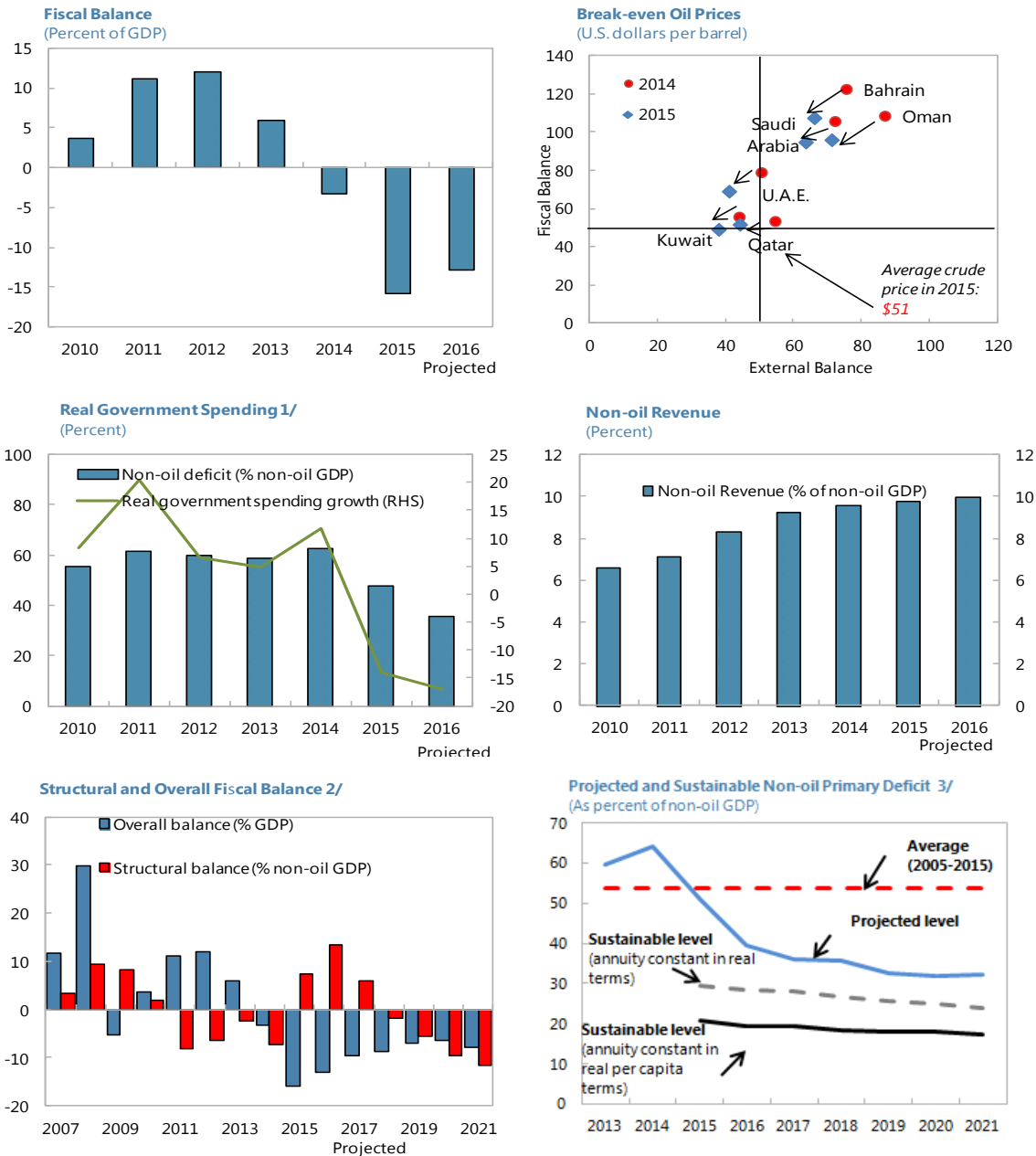


Sources: Jonit Oil Data Initiative (JODI); Bloomberg; International Energy Agency (IEA); Baker Hughes; Energy consensus forecast; and IMF staff calculations.

1/ Time T corresponds to the month of oil price peak in each episodes.

2/ Derived from prices of futures options on May 31, 2016.

Figure 3. Fiscal Developments



Sources: Country authorities; and IMF staff calculations.

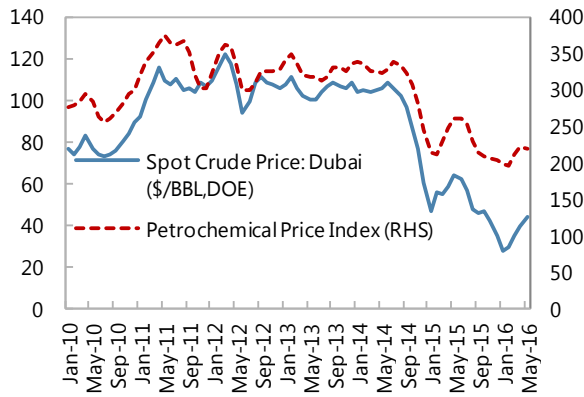
¹Real expenditures are deflated by the CPI.

²Structural 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.

³The 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

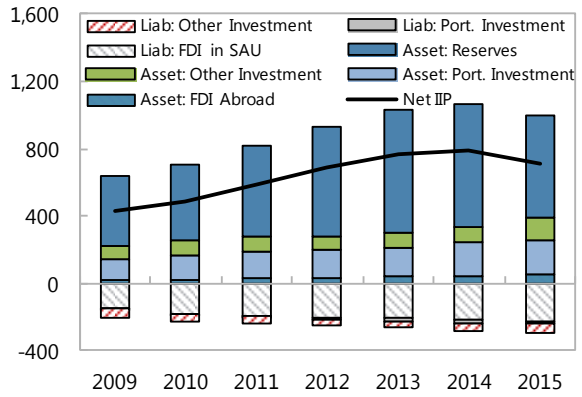
Figure 4. External Sector Developments

Oil and Petrochemical Prices



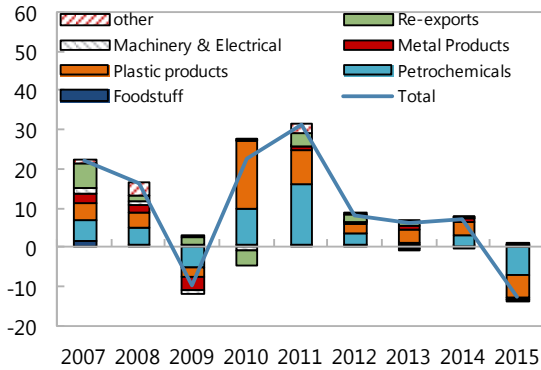
International Investment Position

(US\$ billion)



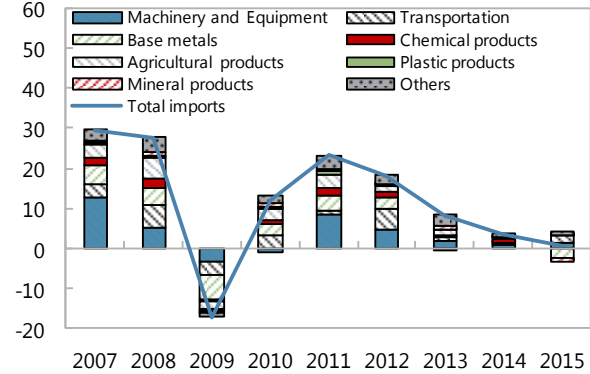
Contribution to Non-oil Export Growth

(Percent)



Contribution to Import Growth

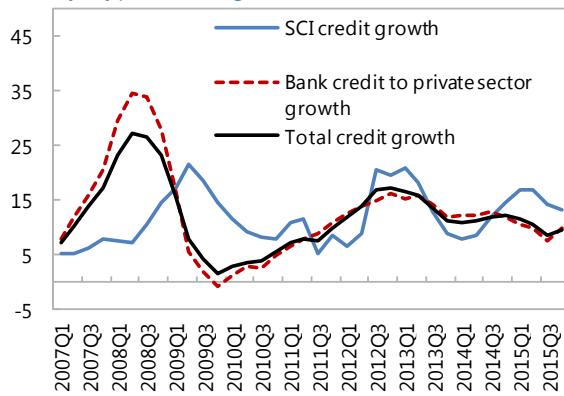
(Percent)



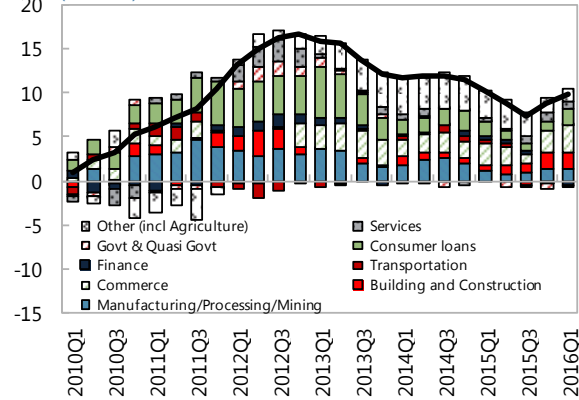
Sources: Haver; ICIS; and IMF staff calculations.

Figure 5. Monetary and Financial Developments

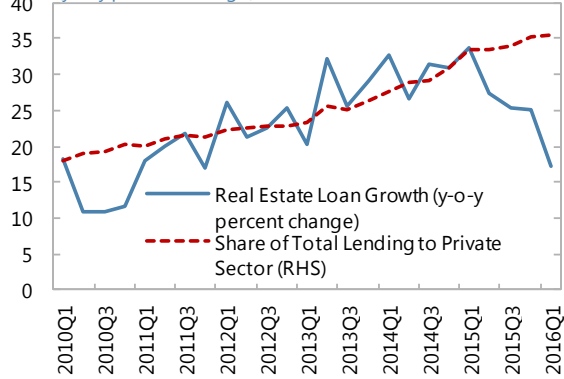
Credit Growth
(y-o-y percent change)



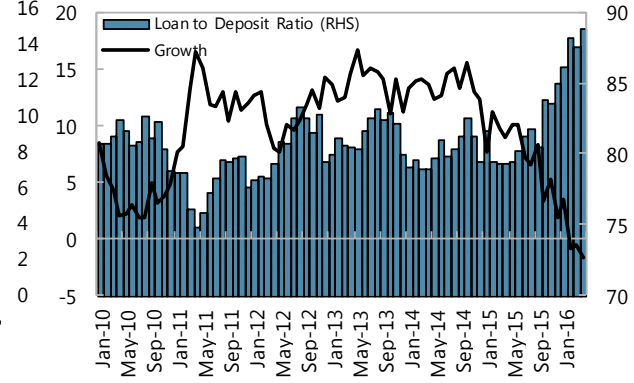
Sectoral Decomposition of Credit Growth
(Percent)



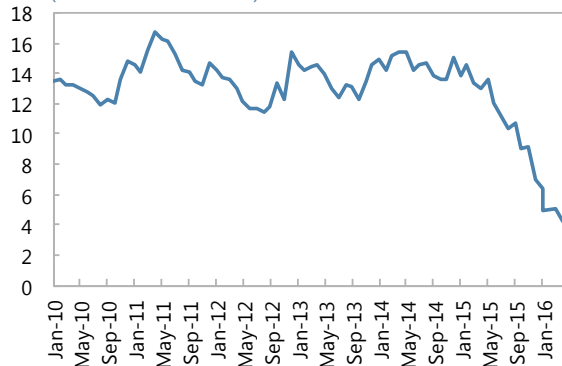
Real Estate Loans Growth
(y-o-y percent change)



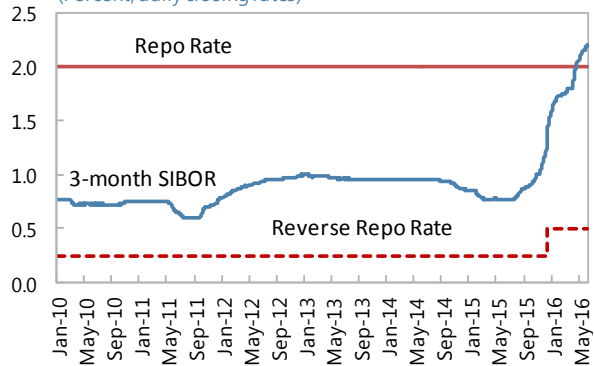
Commercial Bank Deposits
(y-o-y percent change)



Excess Liquidity in Banking Sector
(Percent of bank assets)



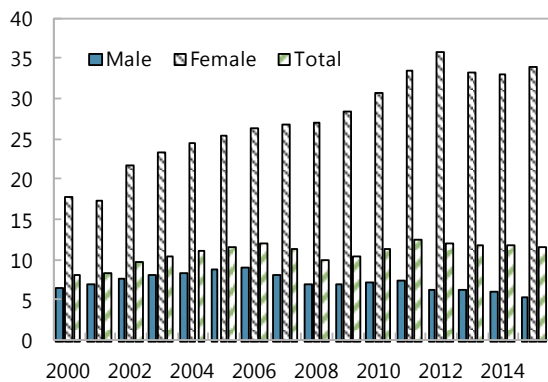
Policy and Interbank Interest Rates
(Percent, daily closing rates)



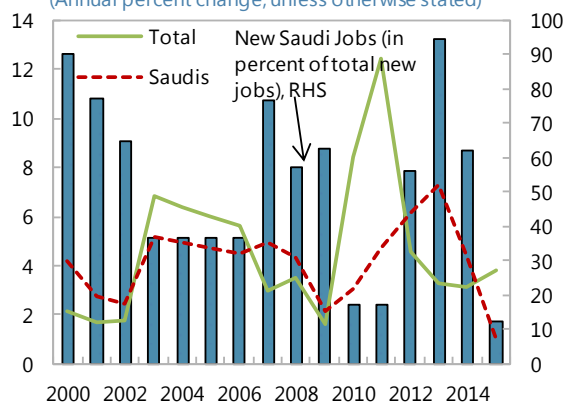
Sources: Haver; Reuters; and IMF staff calculations.

Figure 6. Labor Market Developments

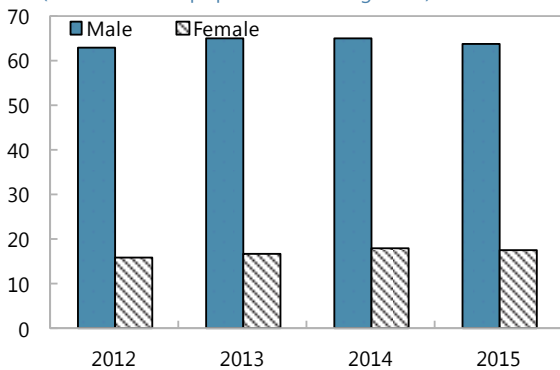
Unemployment Rate of Nationals by Gender
(Percent of total labor force for each gender)



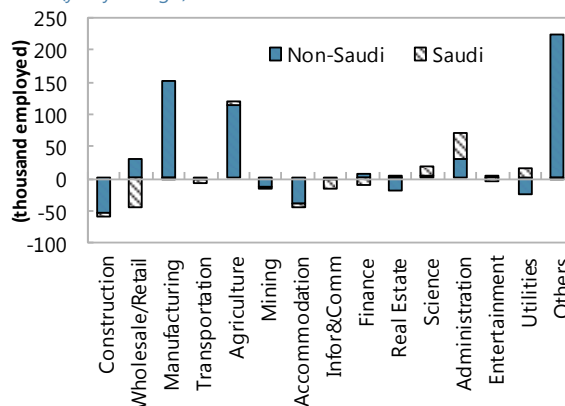
Growth Rate of Employment in Saudi Arabia
(Annual percent change, unless otherwise stated)



Labor Force Participation Rates of Saudi Nationals
(Percent of total population of each gender)



2015 Employment in Private Sector
(y-o-y change)

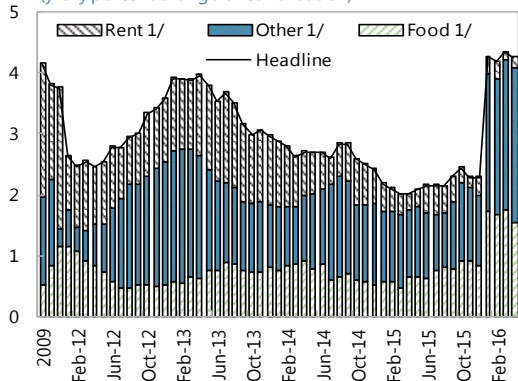


Sources: Country authorities; Haver; IMF staff calculations.

Figure 7. Inflation and Asset Price Developments

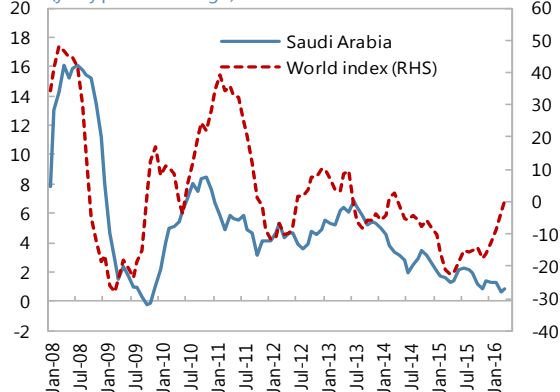
CPI Inflation

(y-o-y percent change or contribution)

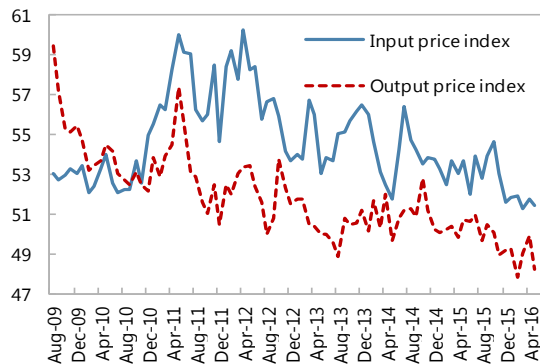


Food Price Indices

(y-o-y percent change)

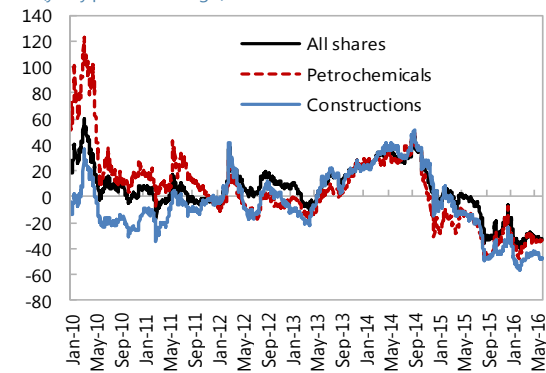


PMI Input and Output Index



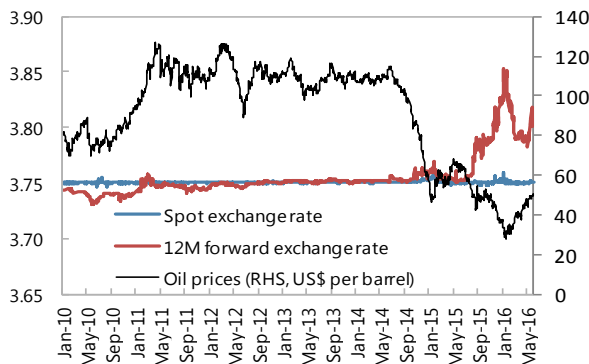
Equity Prices

(y-o-y percent change)



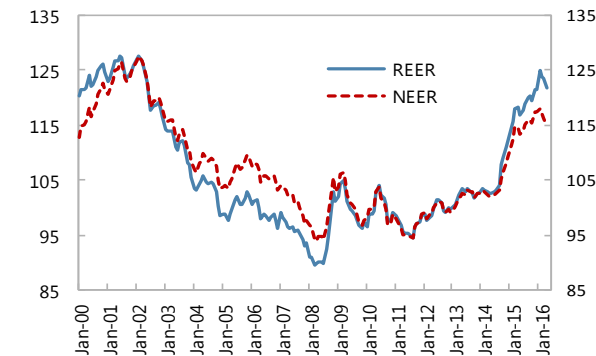
Spot and Forward Exchange Rates, and Oil Prices

(Saudi Riyal per US\$)



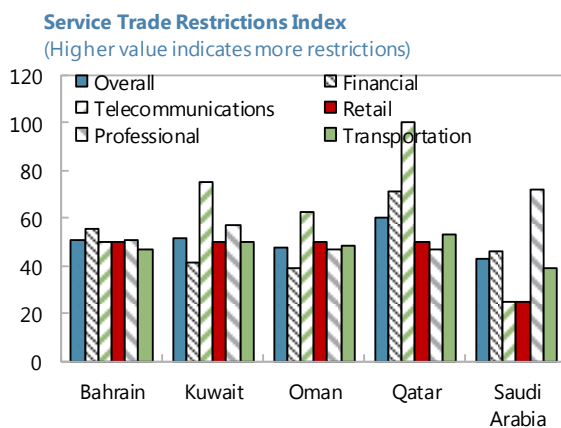
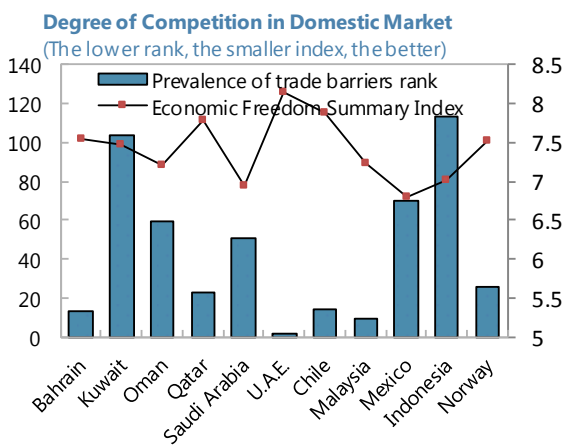
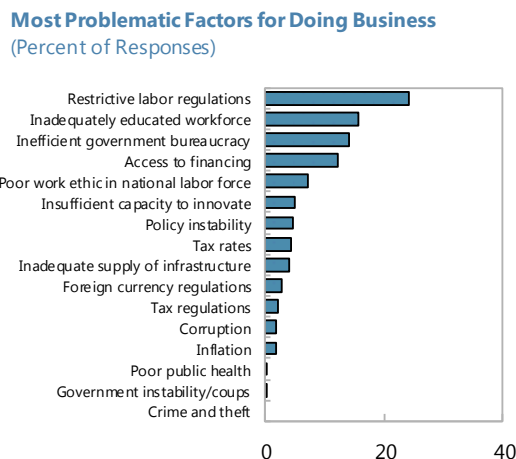
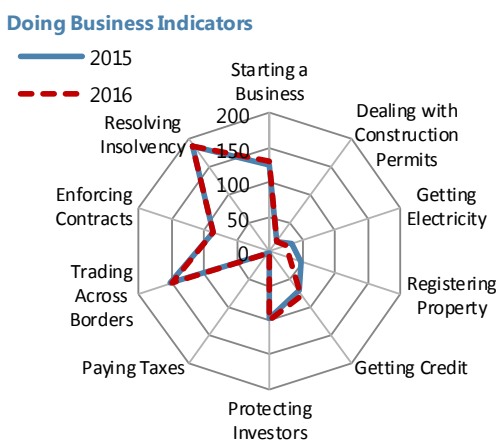
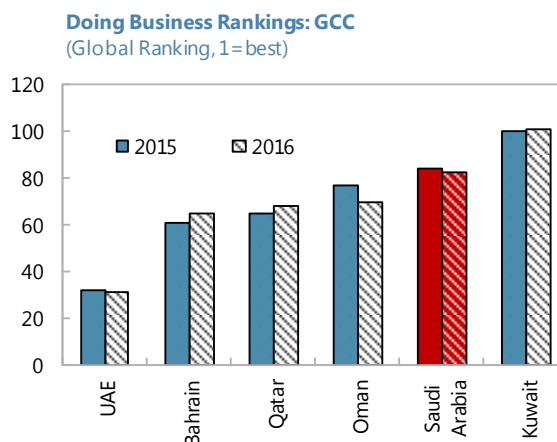
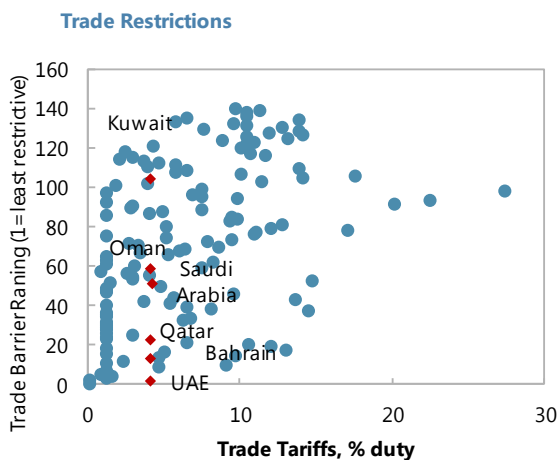
Real and Nominal Effective Exchange Rates

(Index, 2010=100; increase = appreciation)



Sources: Country authorities; Haver Analytics; Markit; Bloomberg; and IMF staff calculations.
1/ Contribution to headline CPI inflation.

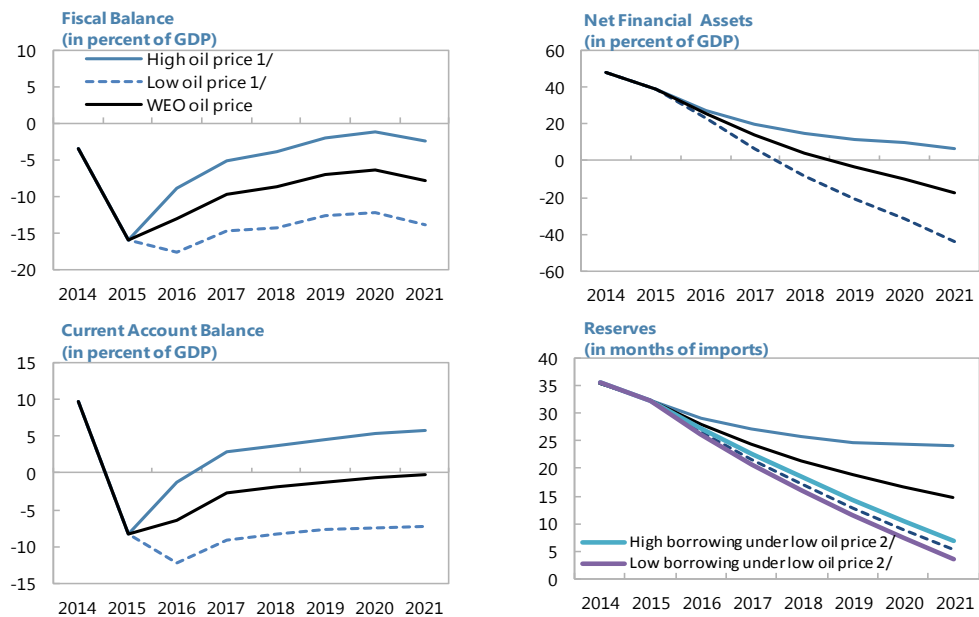
Figure 8. Indicators of the Business Climate



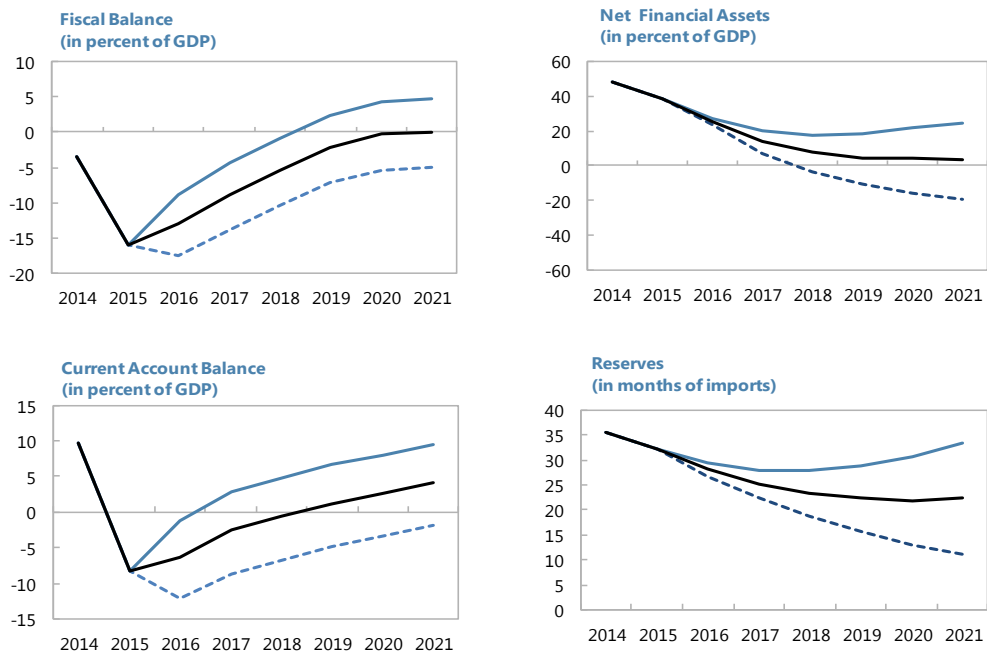
Sources: Global Competitiveness Report 2015–16, World Economic Forum; Economic Freedom of the World 2015 report, the Fraser Institute; Doing Business 2014–15, 2015–16, World Bank; and IMF staff calculations.

Figure 9. Upside/Downside Oil Price and External Borrowing Scenarios

Baseline Scenario

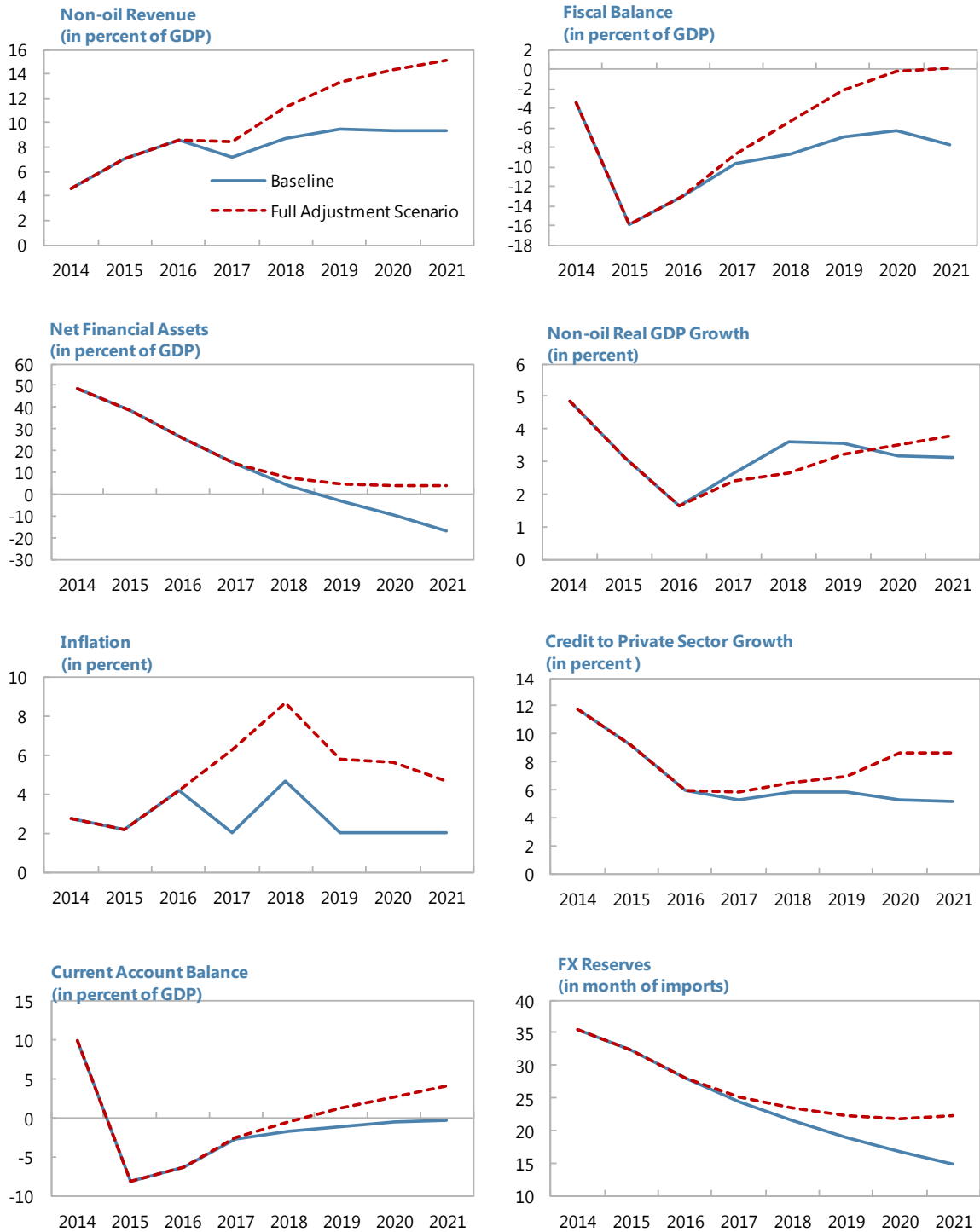


Adjustment Scenario



1/ High (low) oil price scenario assumes oil price to be 25 percent above (below) the WEO oil price.
 2/ High (low) borrowing scenario under the low oil price scenario assumes external borrowing to be 50 percent higher (lower) than the external borrowing assumed under the baseline.
 Source: IMF staff calculations.

Figure 10. Economic Outcomes under Baseline and Reform Scenarios



Source: IMF staff calculations.

Table 1. Selected Economic Indicators, 2012–21

	2012	2013	Prel.	Prel.	Proj.					
			2014	2015	2016	2017	2018	2019	2020	2021
(Percent change; unless otherwise indicated)										
National income and prices										
Crude oil production (million of barrels per day) ¹	9.8	9.6	9.7	10.2	10.2	10.3	10.4	10.5	10.5	10.6
Average oil export price (U.S. dollars per barrel) ²	109.4	105.4	95.7	49.8	43.1	50.1	52.0	54.0	55.9	57.5
Nominal GDP (SAR billions)	2,752	2,791	2,827	2,423	2,424	2,609	2,798	2,952	3,102	3,252
Nominal GDP (US\$ billions)	734	744	754	646	646	696	746	787	827	867
Nominal non-oil GDP (SAR billions)	1,354	1,479	1,606	1,731	1,821	1,905	2,057	2,173	2,287	2,405
Nominal GDP per capita (US\$)	25,139	24,816	24,499	20,583	20,194	21,308	22,403	23,174	23,873	24,531
Real GDP	5.4	2.7	3.6	3.5	1.2	2.0	2.6	2.6	2.3	2.3
Oil	5.1	-1.6	2.1	4.0	0.6	1.1	1.2	1.2	1.1	1.1
Non-oil	5.5	6.4	4.8	3.1	1.6	2.7	3.6	3.6	3.2	3.1
Real GDP—public sector	5.3	5.1	3.7	2.5	0.5	1.9	2.0	1.1	1.1	1.0
Real GDP—private sector	5.5	7.0	5.4	3.4	2.1	3.0	4.2	4.6	4.0	3.9
Consumer price index (avg)	2.9	3.5	2.7	2.2	4.2	2.0	4.7	2.0	2.0	2.0
External sector										
Exports	6.5	-3.2	-8.9	-40.9	-9.1	16.0	6.5	5.8	6.4	5.9
Oil	6.2	-4.6	-11.6	-46.8	-12.4	16.7	4.4	4.4	3.9	3.3
Non-oil	8.5	6.0	7.2	-12.3	0.8	14.1	12.0	9.2	12.2	11.7
Imports f.o.b.	18.2	8.1	3.3	-2.2	-3.6	5.5	5.7	5.4	5.0	4.5
Current account balance (percent of GDP)	22.4	18.2	9.8	-8.3	-6.4	-2.7	-1.9	-1.2	-0.7	-0.3
Export volume	5.5	1.4	1.6	4.1	3.3	3.3	4.3	3.3	4.7	4.9
Import volume	18.4	10.9	6.4	5.5	-0.3	5.2	5.3	4.7	4.3	4.2
Terms of trade	3.2	-1.9	-7.7	-43.4	-10.0	13.7	2.3	2.4	1.5	1.2
Money and credit										
Net foreign assets	19.7	10.2	1.8	-12.7	-10.3	-7.4	-8.7	-8.4	-8.1	-7.8
Credit to government (net)	31.1	7.4	-6.8	-29.1	-17.5	-16.1	-21.4	-22.4	-27.3	-49.8
Credit to private sector	16.4	12.5	11.8	9.2	6.0	5.3	5.9	5.9	5.3	5.2
Credit to state enterprises	24.4	11.5	3.8	-15.3	0.0	0.0	0.0	0.0	0.0	0.0
Money and quasi-money (M3)	13.9	10.9	11.9	2.5	2.2	3.4	4.1	4.6	4.3	4.2
3-month Interbank rate (percent p.a.) ⁴	0.92	0.95	0.94	0.87	2.2	...	...	...	...	...
(Percent of GDP)										
Central government finances										
Revenue	45.3	41.4	36.9	25.4	22.7	23.2	25.6	26.1	26.8	26.5
Of which: oil	41.6	37.1	32.3	18.4	14.2	16.0	16.9	16.7	17.4	17.1
Expenditure	33.3	35.6	40.3	41.3	35.7	32.8	34.3	33.1	33.1	34.2
Expense	22.2	21.3	23.7	27.7	26.1	24.0	25.4	24.2	24.2	25.3
Net acquisition of non-financial assets	11.1	14.4	16.7	13.7	9.6	8.8	8.9	8.9	8.9	8.9
Net lending (+)/borrowing (-)	12.0	5.8	-3.4	-15.9	-13.0	-9.6	-8.8	-7.0	-6.3	-7.7
Excluding oil revenue	-29.6	-31.3	-35.7	-34.3	-27.1	-25.6	-25.6	-23.7	-23.7	-24.9
Non-oil primary balance/non-oil GDP	-60.4	-59.7	-64.0	-50.8	-39.3	-36.2	-35.7	-32.6	-32.0	-33.1
Government deposits at SAMA	50.9	54.0	50.0	43.3	39.4	33.7	28.8	25.2	22.1	18.8
Central government's gross debt	3.6	2.2	1.6	5.0	14.3	20.2	25.1	28.8	32.0	36.1
Central government's net financial assets	47.3	51.9	48.4	38.3	25.1	13.6	3.7	-3.6	-9.9	-17.3
Memorandum items:										
SAMA's total net foreign assets (US\$ billions)	647.6	716.7	724.3	608.9	542.9	500.9	455.1	415.3	380.4	349.9
In months of imports of goods and services ³	33.8	33.2	35.4	32.3	27.9	24.4	21.4	18.8	16.6	14.7
Imports goods & services/GDP	29.3	30.9	34.4	38.0	35.0	33.5	33.0	32.4	32.0	31.7
Real effective exchange rate (2010=100, end of period) ⁴	99.7	102.6	112.1	121.4	121.8	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar ⁴	3.75	3.75	3.75	3.75	...	...	...	...	...	...
Population (millions)	29.2	30.0	30.8	31.4	32.0	32.7	33.3	34.0	34.7	35.3
Unemployment rate (nationals, in percent of total)	12.1	11.7	11.7	11.5	...	...	...	...	...	...
Unemployment rate (overall, in percent of total)	5.5	5.6	5.7	5.6	...	...	...	...	...	...
Employment Growth	4.6	3.3	3.2	3.8	...	...	...	...	...	...
All-Shares Price Index (TASI) ⁴	6801	8536	8333	6912	6516	...	...	...	...	...

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

¹ Includes production from the Neutral Zone.² Includes refined products.³ Next 12 months.⁴ For 2016, data is latest available.

Table 2. Budgetary Central Government Operations, 2014–21

	2014	Prel. 2015	Budget 2016	2016	2017	Proj. 2018	2019	2020	2021
	(Billions of Saudi Arabian riyals)								
Revenue	1,044	616	514	551	606	716	771	831	861
Oil	913	446		343	418	472	493	539	556
Non-oil	131	169		208	188	244	278	292	304
Taxes	38	41		83	88	129	152	159	167
Other revenues	93	129		125	100	114	126	132	137
Expenditure	1,141	1,002	840	865	857	961	977	1,027	1,113
Expense	670	671		632	627	711	714	750	823
Compensation of employees ¹	335	394		409	387	444	423	437	488
Purchase of goods and services ²	286	229		168	176	190	200	211	222
Subsidies ³	14	10		7	8	8	8	9	9
Social benefits ⁴	31	34		34	36	39	41	43	45
Grants	1	1		7	7	7	7	7	7
Interest payments	4	3		7	13	23	34	44	52
Net acquisition of non-financial assets	471	331		233	230	250	263	276	290
Budgeted capital expenditures	440	308		208	218	235	248	261	275
Budget surplus fund ⁵	31	23		25	12	15	15	15	15
Gross operating balance	375	-55		-81	-21	5	57	80	38
Net lending (+)/borrowing (-)	-96	-386	-326	-314	-251	-245	-206	-196	-252
Financing	-96	-386		-314	-251	-245	-206	-196	-252
Net acquisition of financial assets	-96	-363		-89	-70	-69	-57	-54	-71
Domestic				-89	-70	-69	-57	-54	-71
Deposits at SAMA (+, buildup)	-96	-363		-94	-75	-73	-62	-59	-76
Loans	0	0		5	5	5	5	4	4
Foreign	0	0		0	0	0	0	0	0
Net incurrence of liabilities (- = repayment)	-16	77		225	181	176	149	142	181
Domestic	-16	77		150	106	139	111	104	143
SAMA	0	0		0	0	0	0	0	0
Other depository institutions	-2	39		75	53	69	56	52	72
Nonbank (including pensions)	-14	38		75	53	69	56	52	72
Other	0	0		0	0	0	0	0	0
Foreign				75	75	38	38	38	38
Residual/ Gap (+ve = overfinancing)	-16	54		0	0	0	0	0	0
	(Percent of GDP)								
Revenue	36.9	25.4	21.2	22.7	23.2	25.6	26.1	26.8	26.5
Oil	32.3	18.4		14.2	16.0	16.9	16.7	17.4	17.1
Non-oil	4.6	7.0		8.6	7.2	8.7	9.4	9.4	9.4
Expenditure	40.3	41.3	34.6	35.7	32.8	34.3	33.1	33.1	34.2
Expense	23.7	27.7		26.1	24.0	25.4	24.2	24.2	25.3
Compensation of employees ¹	11.8	16.3		16.9	14.8	15.9	14.3	14.1	15.0
Purchase of goods and services ²	10.1	9.5		6.9	6.7	6.8	6.8	6.8	6.8
Subsidies ³	0.5	0.4		0.3	0.3	0.3	0.3	0.3	0.3
Social benefits ⁴	1.1	1.4		1.4	1.4	1.4	1.4	1.4	1.4
Interest payments	0.1	0.1		0.3	0.5	0.8	1.2	1.4	1.6
Net acquisition of non-financial assets	16.7	13.7		9.6	8.8	8.9	8.9	8.9	8.9
Gross operating balance	13.3	-2.3		-3.3	-0.8	0.2	1.9	2.6	1.2
Net lending (+)/borrowing (-)	-3.4	-15.9	-13.5	-13.0	-9.6	-8.8	-7.0	-6.3	-7.7
(excl. oil revenue)	-35.7	-34.3		-27.1	-25.6	-25.6	-23.7	-23.7	-24.9
Memorandum items:									
Non-oil overall balance	-1,009	-832		-657	-669	-717	-699	-735	-808
Non-oil revenue (excl. investment income)/non-oil GDP	6.8	6.9		7.8	8.1	9.9	10.8	10.9	11.1
Current balance	375	-55		-81	-21	5	57	80	38
Non-oil primary balance/non-oil GDP	-64.0	-50.8		-39.3	-36.2	-35.7	-32.6	-32.0	-33.1
Structural balance/non-oil GDP ⁶	-7.4	7.3		13.3	5.8	-1.7	-5.6	-9.6	-11.6
Average oil export price	95.7	49.8		43.1	50.1	52.0	54.0	55.9	57.5
Gross domestic debt/GDP	1.6	5.0		11.2	14.4	18.4	21.2	23.6	26.9
Central government's net external debt	0.0	0.0		3.1	5.7	6.7	7.6	8.5	9.2
Gross debt/GDP	1.6	5.0		14.3	20.2	25.1	28.8	32.0	36.1
GDP market prices (SAR billions)	2,827	2,423	2,424	2,424	2,609	2,798	2,952	3,102	3,252
Government Deposits at SAMA	1,413	1,050		956	880	807	745	686	611

Sources: Ministry of Finance; and IMF staff projections.

¹ Including the extra month salary according to Hijri calendar in 2012, 2016 and 2018 and 2021.² Reallocation of SAR 70 bn in 2013 and 2014 and SAR 44 bn in 2015 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. Fiscal Operations of the General Government, 2010–15
(Percent of GDP)

	2010	2011	2012	2013	2014	2015 ¹
I. Budgetary central government						
Revenue	37.5	44.5	45.3	41.4	36.9	25.4
Expenditure	34.0	33.4	33.3	35.6	40.3	41.3
Overall balance	3.6	11.2	12.0	5.8	-3.4	-15.9
Primary balance	4.1	11.5	12.2	6.0	-3.3	-15.8
II. Autonomous Government Institutions (AGIs)						
Public Pension Agency (PPA)						
Revenue	1.9	1.4	3.2	3.3	2.0	1.3
Expenditure	1.9	1.5	1.6	1.6	1.8	2.3
Overall balance	0.0	-0.2	1.6	1.6	0.2	-1.0
General Organization for Social Insurance (GOSI)						
Revenue	1.3	1.0	1.0	1.3	1.7	....
Expenditure	0.5	0.4	0.5	0.7	0.6	....
Overall balance	0.8	0.6	0.5	0.7	1.1	....
III. Public Investment Fund (PIF)						
Revenue	0.9	0.6	0.7	0.7	1.4	....
Expenditure	0.0	0.2	0.1	0.04	0.0	....
Overall balance	0.8	0.4	0.6	0.6	1.4	....
IV. General government (=I+II+III)						
Overall balance	5.2	12.0	14.7	8.7	-0.7	....
Primary balance	5.7	12.3	15.0	8.9	-0.6	....
Memorandum items: net assets(+)/debt (-)						
i. Central government debt	-8.4	-5.4	-3.6	-2.2	-1.6	-5.0
ii. Autonomous government institutions	38.9	31.0	30.5	33.6	34.4	....
<i>Of which: PPA</i>	21.3	17.1	17.2	18.6	18.6	19.5
<i>Of which: GOSI</i>	17.6	13.9	13.2	15.0	15.8	....
iii. Public Investment Fund	10.0	8.3	9.3	9.8	11.0	....
iv. General government (=i+ ii+iii)	40.4	33.9	36.1	41.2	43.9	....
v. Government Deposits in the Banking System	46.2	43.2	50.9	54.0	50.0	43.3
vi. Net assets (iv + v)	86.7	77.0	87.0	95.3	93.8	....

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

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

Table 4. Balance of Payments, 2012–21
(US\$ billion)

	2012	2013	Prel. 2014	Proj.						
				2015	2016	2017	2018	2019	2020	2021
Current account	164.8	135.4	73.8	-53.5	-41.1	-18.9	-14.0	-9.2	-5.6	-2.6
(Percent of GDP)	22.4	18.2	9.8	-8.3	-6.4	-2.7	-1.9	-1.2	-0.7	-0.3
Trade balance	246.6	222.6	184.0	47.3	34.5	55.6	60.4	64.6	71.2	77.9
Exports	388.4	375.9	342.5	202.3	183.9	213.2	227.0	240.2	255.6	270.7
Oil exports	337.2	321.7	284.4	151.3	132.6	154.7	161.4	168.6	175.2	180.9
Other exports	51.1	54.2	58.1	50.9	51.3	58.6	65.6	71.6	80.3	89.7
Imports (f.o.b.)	-141.8	-153.3	-158.5	-155.0	-149.4	-157.6	-166.6	-175.6	-184.4	-192.7
Services	-62.4	-64.8	-88.0	-75.7	-59.9	-58.3	-61.7	-61.3	-61.7	-63.2
Transportation	-15.6	-16.6	-17.0	-16.7	-14.1	-14.7	-15.3	-15.9	-16.5	-17.0
Travel	-9.6	-10.0	-15.9	-10.6	-7.2	-7.4	-7.6	-7.9	-7.6	-7.3
Other private services	-37.2	-38.2	-55.1	-48.4	-38.6	-36.3	-38.9	-37.6	-37.6	-38.9
Income	11.0	13.6	16.5	15.7	20.6	20.1	26.4	28.1	27.1	26.5
Of which: Investment income ¹	11.6	14.2	17.2	16.3	21.2	20.8	27.1	28.8	27.8	27.2
Current transfers	-30.4	-35.9	-38.7	-40.7	-36.3	-36.3	-39.1	-40.7	-42.2	-43.8
Of which: Workers' remittances	-28.6	-34.1	-36.0	-37.8	-33.4	-33.4	-36.2	-37.8	-39.3	-40.9
Capital Account	-0.3	-0.3	-0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-6.4	-57.4	-57.4	-42.0	-12.3	-10.4	-19.1	-18.0	-16.7	-15.2
Direct Investment	7.8	3.9	2.6	2.6	2.6	3.1	3.6	3.9	4.4	4.9
Abroad	-4.4	-4.9	-5.4	-5.5	-5.5	-5.9	-6.3	-6.5	-6.8	-7.1
In Saudi economy	12.2	8.9	8.0	8.1	8.1	9.0	9.8	10.5	11.2	12.0
Portfolio investments	-3.2	-6.6	-26.8	-10.0	0.9	0.3	-5.4	-6.0	-6.5	-7.1
Assets	-4.1	-8.4	-27.0	-10.3	-9.4	-10.1	-10.8	-11.4	-12.0	-12.6
Liabilities	0.9	1.8	0.2	0.3	10.3	10.4	5.4	5.5	5.5	5.5
Other investments	-11.0	-54.7	-33.2	-34.7	-15.8	-13.8	-17.3	-15.9	-14.5	-13.1
Assets	-10.3	-52.3	-39.2	-38.6	-28.0	-26.0	-24.5	-23.1	-21.7	-20.3
Liabilities	-0.7	-2.4	6.0	3.9	12.2	12.2	7.2	7.2	7.2	7.2
Net errors and omissions	-45.6	-8.6	-9.4	-20.0	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7
Overall balance	112.6	69.2	6.6	-115.9	-66.0	-42.0	-45.8	-39.8	-34.9	-30.5
Financing	-112.6	-69.2	-6.6	115.9	66.0	42.0	45.8	39.8	34.9	30.5
Change in SAMA's NFA (- increase)	-112.5	-69.7	-8.4	115.0	66.0	42.0	45.8	39.8	34.9	30.5
Memorandum items:										
SAMA's total net foreign assets	647.6	716.7	724.3	608.9	542.9	500.9	455.1	415.3	380.4	349.9
(In months of imports) ²	33.8	33.2	35.4	32.3	27.9	24.4	21.4	18.8	16.6	14.7
Non-oil current account/GDP	-23.5	-25.0	-27.9	-31.7	-26.9	-25.0	-23.5	-22.6	-21.9	-21.2
WEO oil price (US\$/barrel)	105.0	104.1	96.2	50.8	43.9	51.0	53.0	55.1	57.0	58.5
Average Saudi oil price (US\$/barrel) ³	109.4	105.4	95.7	49.8	43.1	50.1	52.0	54.0	55.9	57.5
Oil production (mbd)	9.8	9.6	9.7	10.2	10.2	10.3	10.4	10.5	10.5	10.6
Oil exports (mbd)	8.4	8.4	8.1	8.3	8.4	8.5	8.5	8.5	8.6	8.6
Oil exports/total exports	86.8	85.6	83.0	74.8	72.1	72.5	71.1	70.2	68.6	66.8
Imports of goods/GDP	19.3	20.6	21.0	24.0	23.1	22.7	22.3	22.3	22.3	22.2
GDP (US\$ billion)	734.0	744.3	753.8	646.0	646.5	695.8	746.2	787.3	827.3	867.1
External Debt (US\$ billion)	0.0	0.0	0.0	0.0	20.0	40.0	50.0	60.0	70.0	80.0

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. Monetary Survey, 2012–21

	2012	2013	2014	Proj.						
				2015	2016	2017	2018	2019	2020	2021
Foreign assets (net)	2,562	2,824	2,875	2,509	2,251	2,084	1,902	1,743	1,602	1,478
SAMA	2,429	2,688	2,716	2,283	2,036	1,878	1,707	1,557	1,426	1,312
Commercial banks	133	136	159	226	216	206	196	186	176	166
Domestic credit (net)	-320	-291	-57	447	698	903	1,136	1,349	1,550	1,791
Net claims on government	-1,358	-1,459	-1,360	-964	-795	-666	-524	-406	-295	-148
Claims on government	42	50	53	86	161	214	283	339	391	462
Government deposits with SAMA	-1,401	-1,508	-1,413	-1,050	-956	-880	-807	-745	-686	-611
Claims on state enterprises	40	44	46	39	39	39	39	39	39	39
Claims on private sector	999	1,124	1,256	1,372	1,454	1,531	1,621	1,716	1,807	1,901
Money and quasi-money (M3)	1,394	1,545	1,729	1,773	1,812	1,873	1,950	2,040	2,127	2,216
Money (M1)	887	1,000	1,143	1,145	1,170	1,209	1,259	1,317	1,373	1,431
Currency outside banks	133	143	154	169	172	178	185	194	202	211
Demand deposits	754	857	989	976	998	1,031	1,073	1,123	1,171	1,220
Quasi-money	507	545	586	629	642	664	691	723	754	786
Time and savings deposits	324	345	399	435	444	459	478	500	521	543
Other quasi-money deposits	182	200	188	194	198	205	213	223	233	243
Other items (net liabilities)	849	988	1,088	1,183	1,138	1,115	1,089	1,052	1,025	1,053
	(Changes in percent of beginning broad money stock)									
Foreign assets (net)	34.5	18.8	3.3	-21.2	-14.5	-9.2	-9.7	-8.2	-6.9	-5.8
Domestic credit (net)	-14.2	2.1	15.1	29.2	14.2	11.3	12.4	10.9	9.9	11.3
Net claims on government	-26.4	-7.2	6.4	22.9	9.5	7.1	7.6	6.0	5.4	6.9
Claims on government	-0.4	0.5	0.2	1.9	4.2	2.9	3.7	2.9	2.6	3.4
Government deposits (increase -)	-26.0	-7.7	6.2	21.0	5.3	4.2	3.9	3.2	2.9	3.6
Claims on state enterprises	0.6	0.3	0.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	11.5	8.9	8.6	6.7	4.6	4.2	4.8	4.9	4.4	4.4
Money and quasi-money	13.9	10.9	11.9	2.5	2.2	3.4	4.1	4.6	4.3	4.2
Other items (net liabilities)	6.3	10.0	6.5	5.4	-2.5	-1.3	-1.4	-1.9	-1.3	1.3
	(Percent changes, unless otherwise indicated)									
Foreign assets (net)	19.7	10.2	1.8	-12.7	-10.3	-7.4	-8.7	-8.4	-8.1	-7.8
Domestic credit (net)	119.6	-9.0	-80.2	-877.8	56.2	29.3	25.8	18.7	14.9	15.5
Net claims on government	31.1	7.4	-6.8	-29.1	-17.5	-16.1	-21.4	-22.4	-27.3	-49.8
Claims on government	-10.6	16.8	7.1	62.2	86.9	32.8	32.4	19.6	15.4	18.3
Government deposits at SAMA (increase -)	-29.3	-7.7	6.3	25.7	9.0	7.9	8.3	7.7	7.9	11.0
Claims on state enterprises	24.4	11.5	3.8	-15.3	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	16.4	12.5	11.8	9.2	6.0	5.3	5.9	5.9	5.3	5.2
Money and quasi-money	13.9	10.9	11.9	2.5	2.2	3.4	4.1	4.6	4.3	4.2
Other items (net liabilities)	10.0	16.4	10.2	8.7	-3.8	-2.0	-2.3	-3.4	-2.6	2.7
	(Percent; unless otherwise indicated)									
Memorandum items:										
Specialized Credit Institutions credit (SAR billions)	249.3	271.2	310.9	351.8	...	...	...	...	...	...
Ratio of M3-to-GDP	50.6	55.4	61.2	73.2	74.7	71.8	69.7	69.1	68.6	68.2
Ratio of Claims on private sector-to-non-oil GDP	73.8	76.0	78.2	79.2	79.8	80.4	78.8	79.0	79.0	79.0

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

Table 6. Fiscal Assumptions in the Baseline and Adjustment Scenarios**Baseline scenario**

- The baseline scenario is based on policies in the 2016 budget and other policies that have an announced implementation schedule.
- Oil revenues are projected using the WEO oil price assumptions, forecast oil export volumes, and the assumption that the share of total oil revenues transferred from Aramco to the budget returns to its historic average over the medium-term.
- Revenues from higher energy and water price reforms are estimated at SAR 28 billion in 2016 and are assumed to accrue to the budget via Aramco.
- Non-oil revenues are assumed to increase in line with non-oil GDP except: (i) transfers from SAMA and PIF; (ii) an assumed transfer of SAR25 billion from HRDF in 2016; and (iii) some increase in fees and fines to a total of SAR 28 billion by 2021.
- Excise taxes on tobacco and sugary drinks are assumed to be introduced at the beginning of 2017 and a VAT (5 percent rate) at the beginning of 2018, although collections in the first year are assumed to be lower given it may take some time to reach full collection.
- In 2016, expenditures are assumed to be in line with the budget. The 13th month wage payment and payments to contractors delayed from 2015 to 2016 are assumed to be met within this budget envelope. Spending of SAR 25 billion from the budget surplus fund is also assumed.
- From 2017-2021, all expenditures except wages and salaries are assumed to grow in line with non-oil GDP. Wages and salaries grow in line with inflation and 1 percent employment growth is assumed. In 2018 and 2021, the 13th month salary is paid.

Adjustment scenario

- The staff's adjustment scenario targets a balanced budget by 2021 (the objective of "achieving budgetary balance" is set out in *Vision 2030* and the NTP).
- Further to the baseline, energy and water prices are assumed to gradually increase to international or cost recovery levels by 2021. Higher prices reduce the growth in energy consumption over time. Compensation is assumed to be paid to households (SAR 65 billion) and is reflected in expenditure. Additional government expenditure on energy prices is excluded from the revenue gains (netted out) and long-term price contracts in the corporate sector are honored. Net revenue gains (baseline plus adjustment scenario) are estimated to reach SAR 173 billion by 2021.
- Capital spending is reduced to about 6.5 percent of GDP in 2021, in line with investment levels in countries with similar income and infrastructure quality.
- The growth in the nominal government wage bill is limited to 2 percent a year.
- Additional spending on the national transformation plan (SAR 270 billion during 2016-2021) is assumed to be met within the expenditure envelope of the adjustment scenario.

Table 7. Financial Soundness Indicators, 2007–15
(Percent, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Banking sector									
Structure of the banking sector									
Number of licensed banks	22.0	22.0	23.0	23.0	23.0	23.0	24.0	24.0	24.0
Number of banks accounting for:									
25 percent of total assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
75 percent of total assets	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Total assets (percent of GDP)	69.0	66.8	85.2	71.6	61.5	63.0	67.8	75.4	90.2
<i>Of which:</i> Foreign currency-denominated (as percent of total assets)	13.7	11.8	15.4	13.6	13.5	12.3	11.1	11.8	14.3
Total loans (percent of GDP)	38.2	38.2	45.8	39.2	39.8	36.3	40.1	44.2	55.6
Credit to private sector (percent of GDP)	35.8	36.6	44.0	37.6	30.0	34.9	38.6	42.6	54.0
Total deposits, excluding interbank (as percent of GDP)	46.0	43.4	58.5	49.9	44.0	45.8	50.2	55.7	65.5
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	18.1
Asset quality									
Net loans to total assets	52.0	57.9	57.4	55.1	55.8	58.2	59.8	60.3	63.0
Gross NPLs to gross loans	2.1	1.4	3.3	3.0	2.2	1.7	1.3	1.1	1.2
Total provisions to gross NPLs	142.9	153.3	89.8	115.7	132.8	145.1	157.4	182.9	164.4
Net NPLs to total capital ¹	-3.5	-3.8	1.4	-2.7	-3.0	-3.7	-3.4	-4.1	-3.7
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	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	7.8
Loans to domestic manufacturing sector to total loans	9.1	10.7	10.2	11.6	13.0	12.6	12.5	12.7	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	100.8
Profitability									
Profits (percent change)	-12.7	-1.1	-10.4	-2.6	18.4	8.4	6.5	12.5	6.2
Average pretax return on assets	2.8	2.7	1.9	2.0	2.1	2.1	2.0	2.0	2.0
Return on equity	22.3	20.5	14.2	13.6	15.0	15.1	14.6	15.0	14.5
Noninterest expenses to total income ²	38.7	51.1	55.4	52.7	46.9	47.0	47.7	45.5	37.1
Average lending spread	3.2	4.0	4.1	4.3	4.1	3.8	3.7	3.5	3.4
Liquidity									
Liquid assets to total assets	21.7	22.0	25.3	24.8	23.7	23.7	21.6	22.3	17.5
Liquid assets to short-term liabilities ³	27.7	30.6	36.5	36.5	37.2	36.4	33.2	33.6	27.3
Customer deposits to net loans	136.3	124.0	128.5	135.9	135.9	131.9	129.3	127.7	121.7
Demand deposits to total deposits	43.4	40.5	46.1	53.8	58.1	59.8	61.1	62.8	60.8
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	10.0
Foreign currency-denominated loans to total loans	12.5	14.0	14.1	13.4	12.4	11.7	10.6	9.9	8.9
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	53.0	54.5	39.2	42.2	47.9	41.3	34.6	39.1	35.3
Net open foreign currency position to capital	3.1	4.5	8.6	10.2	6.7	1.7	6.4	3.6	4.0
Stock market									
Stock market capitalization (percent of GDP)	124.8	47.4	74.3	67.1	50.6	50.9	62.8	64.0	64.4
Overall stock market price index (change in percent)	39.1	-56.5	27.5	8.2	-3.1	6.0	25.5	-2.4	-17.1
Bank stock price index (change in percent)	31.0	-55.6	15.3	6.6	-12.7	0.4	22.0	2.5	-14.9

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.

Appendix I. Saudi Arabia's Corporate Sector

Listed Saudi corporate net income shrank by 25 percent in 2015 as low oil prices began hurting the wider economy. Petrochemical producers' net income, a large share of the stock market, fell sharply by 37 percent as lower oil prices pushed down selling prices for their products, hurting profit margins. Many cement and real estate companies' profits started to be hampered by the reduced number of government contracts in 2015, while the retail sectors' net income has slowed. The construction sector showed some recovery after a much harder 2014.

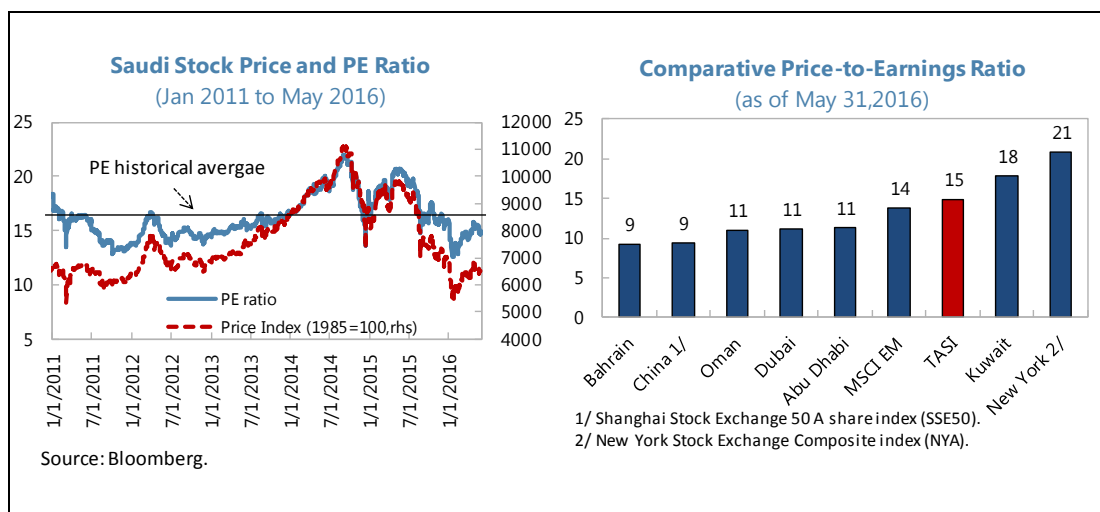
A sample of 119 listed Saudi companies' balance sheets is analyzed to assess the corporate sector's financial health.¹ It should be kept in mind, however, that an important part of the corporate sector in Saudi Arabia is not listed. In aggregate, cash balances exceeded short-term debt by \$1.5 billion in 2015, while only in telecom and transport sectors is short-term debt considerably higher than liquid assets on hand. Debt service capacity is generally comfortable in most sectors with the interest coverage ratio (ICR) higher than 2, although narrowing profits are driving the ratio down for petrochemical, real estate and industrial investment companies. The median ICR for all the sample firms stands at about 10, but it is much lower at about 5 for the 30 largest firms (top 25th percentile of the sample by asset size). Total debt captured in this sample is \$116 billion in 2015 (18 percent of GDP), of which about \$36 billion is considered as "debt at risk" - the amount of debt of firms with an ICR less than 1.5. This "debt at risk" is concentrated in petrochemical industries, accounting for about 72 percent of total debt at risk. Losses in several big petrochemical companies have pushed the ratio of debt at risk to total debt up to 31 percent from 17 percent in 2014.

	Number	Cash & Equivalents (US\$ billion)					Total Debt (US\$ billion)					Short Term Debt (US\$ billion)				
		2015	2014	2013	2012	2011	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
		Petrochemical	14	14.4	12.6	12.1	13.4	17.2	53.2	52.4	52.6	56.3	58.3	8.1	7.2	5.6	6.8	6.7
Real Estate	7	0.9	0.9	0.9	0.4	1.6	7.1	6.1	4.8	3.9	4.3	0.8	1.1	0.2	0.3	1.4
Cement	14	1.3	1.0	1.2	0.8	0.8	6.3	5.6	5.4	4.8	3.8	2.1	2.0	1.8	1.7	1.4
Agriculture & Food	16	0.5	0.5	0.5	0.7	0.5	1.6	1.6	1.3	1.5	1.3	0.7	0.7	0.5	0.6	0.4
Retail	15	0.4	0.5	0.3	0.3	0.2	2.0	1.7	1.1	0.8	0.5	0.9	0.7	0.5	0.3	0.3
Telecom	4	0.9	1.4	1.0	1.2	1.8	8.8	10.2	9.1	8.6	14.4	2.7	5.1	1.3	3.7	6.0
Industrials	15	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Building & Construction	15	0.5	0.3	0.2	0.1	0.1	2.4	2.4	1.6	1.5	1.4	0.3	1.2	0.4	0.3	0.2
Hotel & Tourism	4	0.6	0.6	0.6	0.2	0.1	0.5	0.2	0.2	0.1	0.0	0.1	0.2	0.2	0.0	0.0
Transport	5	0.4	0.3	0.4	0.3	0.4	3.3	3.4	3.7	3.6	3.1	2.4	2.5	2.9	2.9	2.5
Energy & Utilities	2	0.6	1.9	1.1	0.8	2.0	26.8	23.6	19.7	15.4	14.5	0.9	0.6	2.4	0.4	2.2
Multi-investment	6	0.7	0.3	0.3	0.2	0.4	3.3	3.4	3.5	3.3	3.3	0.5	0.4	0.2	0.4	0.4
Media & Publishing	2	0.1	0.1	0.1	0.1	0.0	0.6	0.5	0.6	0.6	0.2	0.2	0.2	0.3	0.2	0.1
Total	119	21.4	20.3	18.7	18.7	25.0	116.0	111.2	103.6	100.4	105.4	19.9	22.0	16.5	17.6	21.8

Sources: Zawayya, and IMF staff calculations.

¹ Detailed firm level data is from Orbis. Firms for which 2015 and 2014 turnover data are not available are excluded.

With the sharp drop in equity prices, the TASI's price to earnings (P/E) ratio has fallen below its historical average since the second half of 2015. A combination of higher oil prices and positive sentiment related to the announcement of the "Saudi Vision 2030" has helped with a stronger performance of TASI and rebound in the P/E since early 2016. Compared with several regional and emerging markets indices, the TASI P/E ratio remains on the higher side.



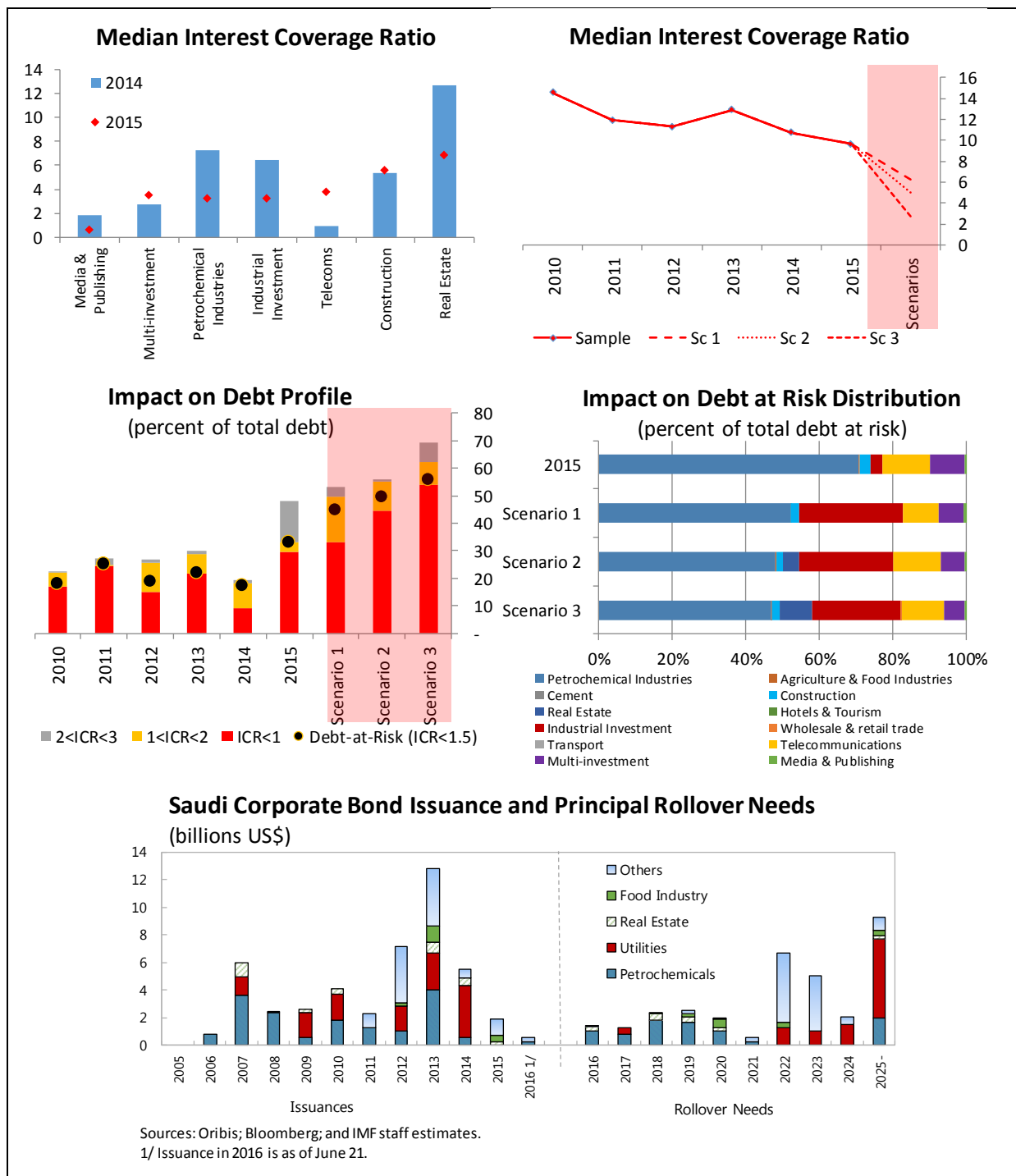
To assess the vulnerability of the nonfinancial corporate sector, a sensitivity analysis is conducted under three scenarios of corporate earnings and borrowing costs shocks:

- Scenario 1: a 70 basis point increase in borrowing costs (in line with the observed increase of SIBOR from end-2014 to end-2015) and 16 percent decrease in corporate' earnings (actual changes from 2014 to 2015).²
- Scenario 2: a 150 basis point increase in borrowing costs and 20 percent decrease in earnings given the potential impact of lower government spending and the recent downgrade of Saudi Arabia's credit rating.
- Scenario 3: an extreme scenario with a 300 basis point increase in borrowing costs (in line with the standard deviation of SIBOR from 1993 to 2016) and 38 percent decrease in earnings (largest annual change in the past 10 years observed in 2009).

The nonfinancial corporate sector shows moderate vulnerability to these shocks, with the exposures and impacts varying between sectors. The median ICR drops, but remains above 2 under all scenarios. About half of the total debt will be at risk, most of which will be in petrochemicals, telecommunications and multi-investment sectors. Industrial investment companies which have low levels of ICR to begin with will also be hit and their debt accounts for more than 30 percent of total debt at risk after the shocks.

² Corporate earnings here is defined as earnings before interest & tax (EBIT).

Besides the risk of higher interest payments, some sectors also face potential principal rollover risk. Over 70 percent of total Saudi corporate bond issuance since 2003 is concentrated in the petrochemicals, utilities, real estate, and food sectors. Petrochemical and real estate companies have approximately \$8 billion principal repayments due over the next five years, while the maturity profile for utilities and food companies is spread out over a longer period.



Appendix II. Fiscal and External Debt Sustainability

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

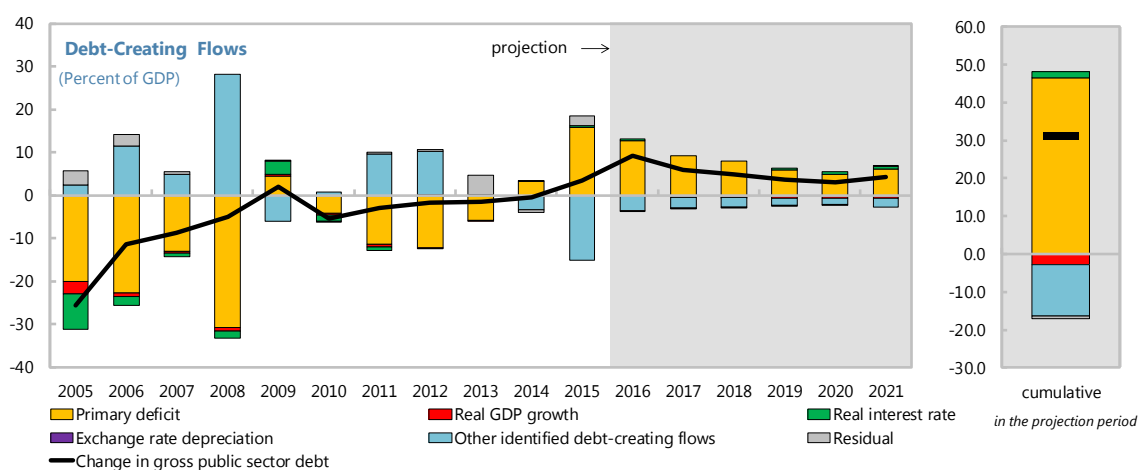
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections							As of June 10, 2016	
	2005-2013 ^{2/}	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	14.0	1.6	5.0	14.3	20.2	25.1	28.8	31.9	36.1	EMBIG (bp) ^{3/}	n.a.	
Public gross financing needs	-7.3	4.0	16.8	12.9	9.6	8.7	6.9	6.2	7.7	5Y CDS (bp)	180	
Real GDP growth (in percent)	4.1	3.6	3.5	1.2	2.0	2.6	2.6	2.3	2.3	Ratings	Foreign Local	
Inflation (GDP deflator, in percent)	8.6	-2.3	-17.2	-1.1	5.5	4.5	2.8	2.7	2.5	Moody's	A1 A1	
Nominal GDP growth (in percent)	13.4	1.3	-14.3	0.1	7.6	7.2	5.5	5.1	4.8	S&P's	A- A-	
Effective interest rate (in percent) ^{4/}	5.3	5.8	5.9	5.2	3.9	4.2	4.6	4.9	5.2	Fitch	AA- AA-	

Contribution to Changes in Public Debt

	Actual			Projections							cumulative	debt-stabilizing primary balance ^{9/}
	2005-2013 ^{2/}	2014	2015	2016	2017	2018	2019	2020	2021			
Change in gross public sector debt	-6.8	-0.6	3.4	9.3	5.9	4.9	3.7	3.1	4.2	31.1		
Identified debt-creating flows	-8.1	0.0	1.2	9.5	6.1	5.1	3.8	3.2	4.0	31.7		
Primary deficit	-12.9	3.3	15.8	12.7	9.1	7.9	5.8	4.9	6.2	46.6	-2.2	
Primary (noninterest) revenue and grants	43.6	36.9	25.4	22.7	23.2	25.6	26.1	26.8	26.5	150.9		
Primary (noninterest) expenditure	30.7	40.2	41.2	35.4	32.3	33.5	31.9	31.7	32.6	197.5		
Automatic debt dynamics ^{5/}	-2.0	0.1	0.4	0.3	-0.5	-0.6	-0.2	-0.1	-0.1	-1.2		
Interest rate/growth differential ^{6/}	-2.0	0.1	0.4	0.3	-0.5	-0.6	-0.2	-0.1	-0.1	-1.2		
Of which: real interest rate	-1.3	0.2	0.4	0.3	-0.2	-0.1	0.4	0.6	0.6	1.6		
Of which: real GDP growth	-0.7	-0.1	-0.1	-0.1	-0.3	-0.5	-0.6	-0.6	-0.7	-2.7		
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	6.8	-3.4	-15.0	-3.5	-2.5	-2.3	-1.8	-1.6	-2.1	-13.7		
Accumulation of deposits	6.8	-3.4	-15.0	-3.7	-2.7	-2.5	-1.9	-1.8	-2.2	-14.7		
Loans	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	1.0		
Residual, including asset changes ^{8/}	1.3	-0.6	2.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.2	-0.6		



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

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

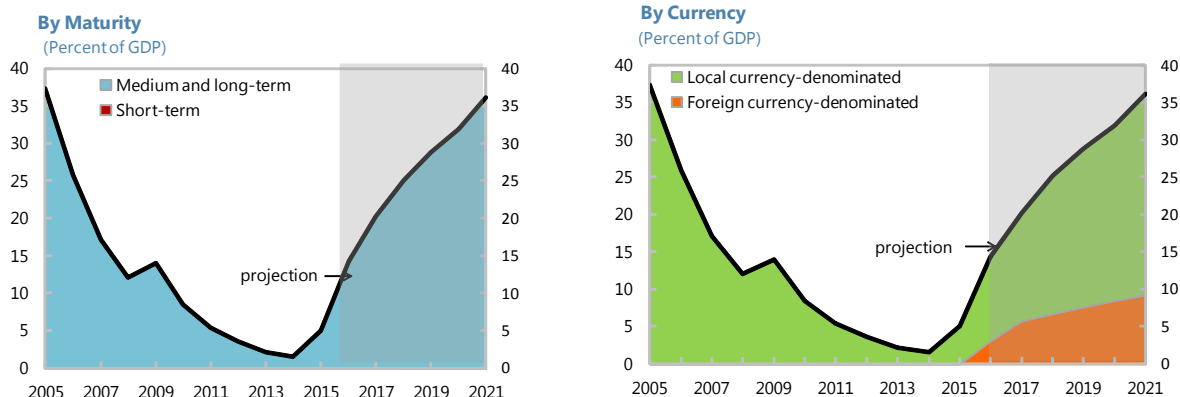
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

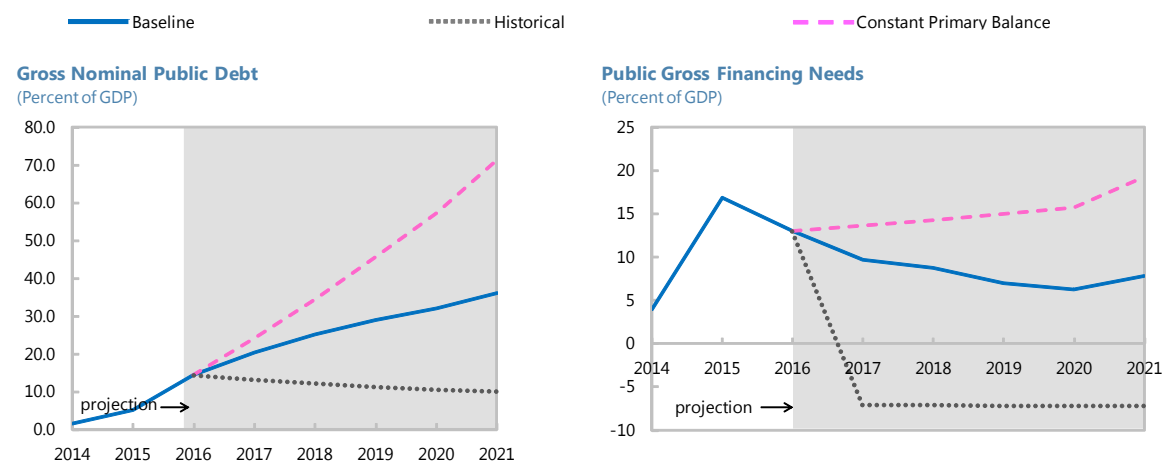
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt



Alternative Scenarios



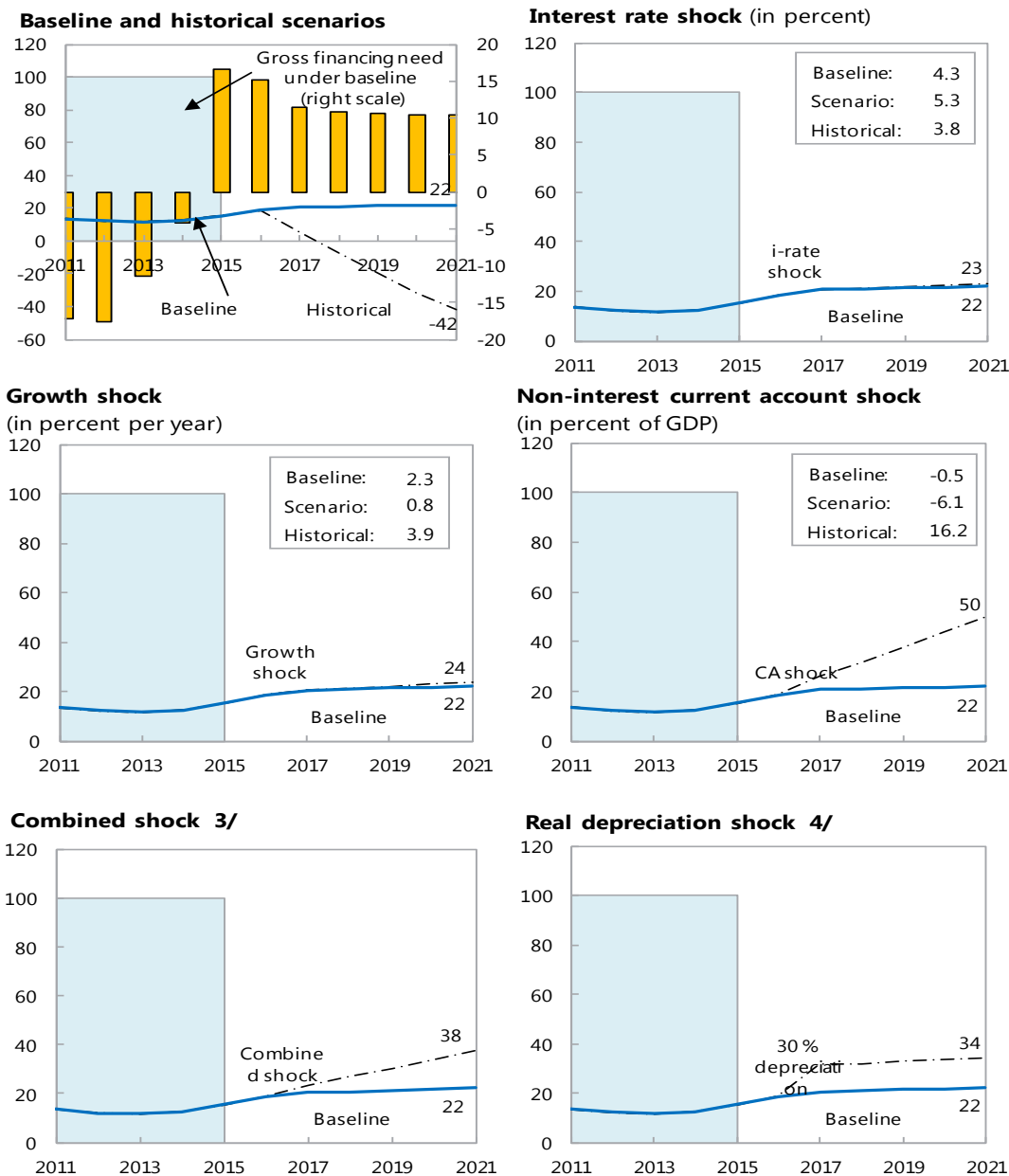
Underlying Assumptions (in percent)

Scenario	2016	2017	2018	2019	2020	2021
Baseline Scenario						
Real GDP growth	1.2	2.0	2.6	2.6	2.3	2.3
Inflation from GDP defl	-1.1	5.5	4.5	2.8	2.7	2.5
CPI inflation	4.2	2.0	4.7	2.0	2.0	2.0
Primary Balance	-12.7	-9.1	-7.9	-5.8	-4.9	-6.2
Effective interest rate	5.2	3.9	4.2	4.6	4.9	5.2
Constant Primary Balance Scenario						
Real GDP growth	1.2	2.0	2.6	2.6	2.3	2.3
Inflation from GDP defl	-1.1	5.5	4.5	2.8	2.7	2.5
CPI inflation	4.2	2.0	4.7	2.0	2.0	2.0
Primary Balance	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7
Effective interest rate	5.2	6.8	7.0	6.9	7.0	7.1
Historical Scenario						
Real GDP growth	1.2	3.9	3.9	3.9	3.9	3.9
Inflation from GDP defl	-1.1	5.5	4.5	2.8	2.7	2.5
CPI inflation	4.2	2.0	4.7	2.0	2.0	2.0
Primary Balance	-12.7	7.7	7.7	7.7	7.7	7.7
Effective interest rate	5.2	3.9	4.5	4.3	4.2	4.6

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: 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.

External Debt Sustainability Framework, 2011–21

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ 1.7
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Baseline: External debt	13.5	12.0	11.6	12.5	15.2	18.7	20.5	20.8	21.2	21.7	22.1	
Change in external debt	-4.3	-1.5	-0.4	0.9	2.7	3.4	1.9	0.2	0.5	0.4	0.4	
Identified external debt-creating flows (4+8+9)	-24.0	-22.0	-16.8	-7.3	11.9	7.6	3.8	2.9	2.2	1.7	1.4	
Current account deficit, excluding interest payments	-24.0	-22.8	-18.5	-10.1	7.9	5.9	2.2	1.2	0.3	-0.4	-0.8	
Deficit in balance of goods and services	-26.6	-25.1	-21.2	-12.7	4.4	3.9	0.4	0.2	-0.4	-1.1	-1.7	
Exports	56.2	54.4	52.1	47.1	33.6	31.1	33.1	32.8	32.8	33.1	33.4	
Imports	29.6	29.3	30.9	34.4	38.0	35.0	33.5	33.0	32.4	32.0	31.7	
Net non-debt creating capital inflows (negative)	3.5	1.7	1.6	2.7	1.5	1.4	1.4	1.5	1.5	1.5	1.6	
Automatic debt dynamics 1/	-3.5	-0.9	0.1	0.1	2.5	0.3	0.1	0.2	0.4	0.6	0.6	
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.4	0.4	0.5	0.7	0.9	1.1	1.1	
Contribution from real GDP growth	-1.4	-0.7	-0.3	-0.4	-0.5	-0.2	-0.3	-0.5	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-2.4	-0.5	0.1	0.3	2.6	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	19.7	20.5	16.3	8.2	-9.2	-4.2	-2.0	-2.6	-1.7	-1.3	-1.0	
External debt-to-exports ratio (in percent)	24.1	22.1	22.3	26.6	45.4	60.0	62.0	63.3	64.7	65.5	66.2	
Gross external financing need (in billions of US dollars) 4	-115.9	-129.8	-85.7	-32.4	107.3	97.3	79.6	81.5	83.3	86.3	89.9	
in percent of GDP	-17.3	-17.7	-11.5	-4.3	16.6	15.1	11.4	10.9	10.6	10.4	10.4	
Scenario with key variables at their historical averages 5/						18.7	5.5	-7.8	-20.1	-31.5	-42.2	6.4
Key Macroeconomic Assumptions Underlying Baseline						<u>Historical Average</u>	<u>Standard Deviation</u>					
Real GDP growth (in percent)	10.0	5.4	2.7	3.6	3.5	3.9	3.1	1.2	2.0	2.6	2.6	2.3
GDP deflator in US dollars (change in percent)	15.6	4.0	-1.2	-2.3	-17.2	3.8	12.8	-1.1	5.5	4.5	2.8	2.7
Nominal external interest rate (in percent)	2.5	2.7	2.4	2.3	2.5	3.8	2.0	2.9	2.9	3.5	4.4	5.2
Growth of exports (US dollar terms, in percent)	43.7	6.2	-2.9	-8.5	-38.9	4.9	27.6	-7.3	14.8	6.2	5.5	6.1
Growth of imports (US dollar terms, in percent)	13.6	8.7	6.9	12.6	-5.3	11.5	12.6	-7.7	3.1	5.5	3.6	3.8
Current account balance, excluding interest payments	24.0	22.8	18.5	10.1	-7.9	16.2	11.1	-5.9	-2.2	-1.2	-0.3	0.4
Net non-debt creating capital inflows	-3.5	-1.7	-1.6	-2.7	-1.5	-4.8	3.1	-1.4	-1.4	-1.5	-1.5	-1.6

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

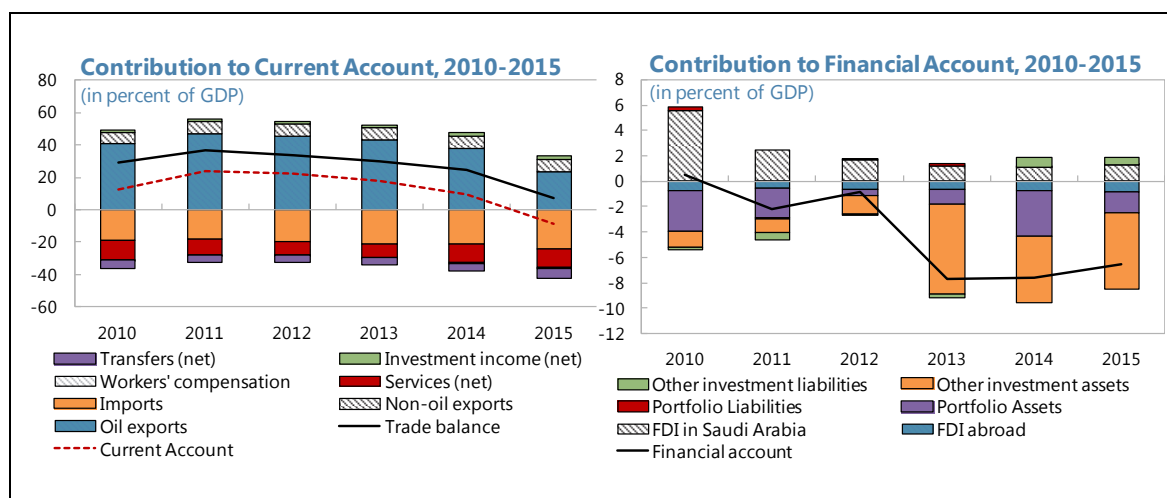
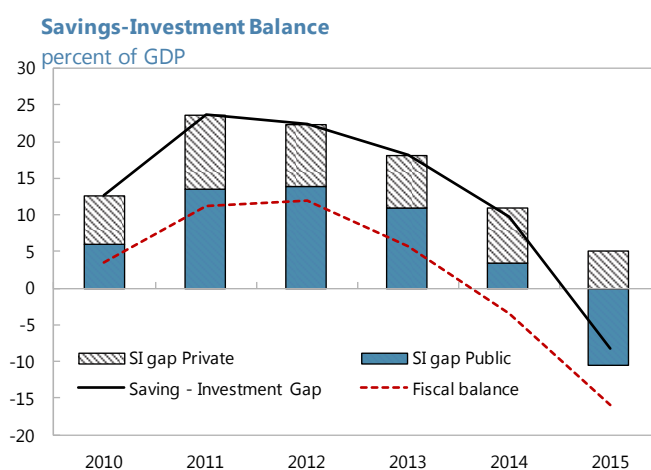
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

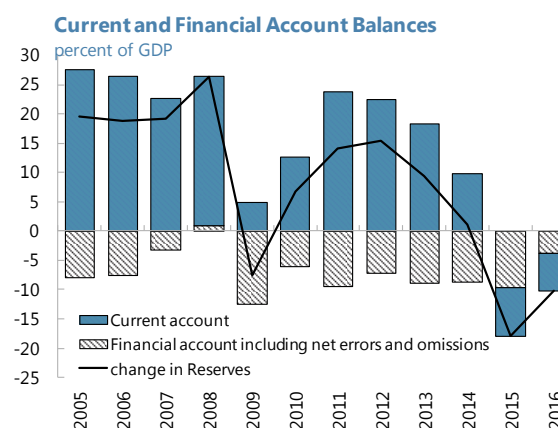
Appendix III. External Sustainability Assessment for Saudi Arabia

Staff believes the peg to the U.S. dollar serves Saudi Arabia well. Staff's assessment is that the external position in 2015 was substantially weaker than suggested by fundamentals and desirable medium-term policy settings. Substantial fiscal adjustment will be needed over the medium term to bring the current account back in line with fundamentals and support the exchange rate peg. As long as credible fiscal adjustment is in place, the exchange rate peg remains the best option for Saudi Arabia.

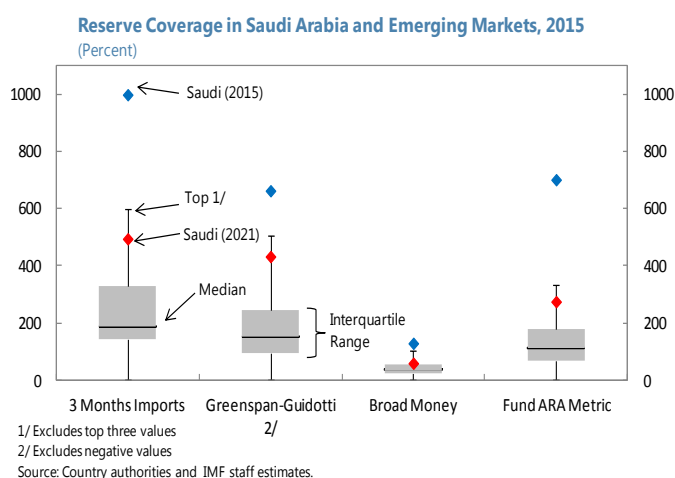
The current account moved into a deficit in 2015 due to falling oil prices. From a surplus of 9.8 percent of GDP in 2014, the current account moved into a deficit of 8.3 percent of GDP in 2015 as oil prices declined by over 50 percent and despite an increase in oil export volumes for the year of around 6 percent. The current account deficit is projected to improve in 2016 to 6.4 percent of GDP and then narrow further to close to zero balance by 2021 as oil prices partially recover. From a savings-investment perspective, the current account deterioration in 2015 was due to a sharp decline in public sector saving which more than offset lower public sector investment and a smaller positive private sector saving-investment gap, likely due to lower corporate saving.



Financial outflows continued in 2015 even as the current account balance moved into deficit. In the 1990s, a current account deficit was associated with financial inflows (including errors and omissions), thus limiting the effect on reserves. In 2015, while the current account moved into a deficit, the non-government sector continued to accumulate assets. Both portfolio and other investment outflows continued to rise, and SAMA's net foreign reserves fell substantially by \$115 billion to \$609 billion at end-2015.



Foreign exchange reserves remain large when compared to standard coverage metrics. In the absence of a sovereign wealth fund, reserves play a dual role – for precautionary motives and as savings for future generation. SAMA's net foreign assets stood at \$609 billion (94 percent of GDP, 32 months of imports, 129 percent of broad money and 700 percent of the Fund's reserve metric) at end-2015. The fund's composite metric to measure adequacy of precautionary reserves (developed for emerging markets) is calculated as a weighted sum of four components reflecting potential sources of reserves pressures. In the case of Saudi Arabia, exports of goods and services and broad money contribute the most to the ARA metric, while short term external debt and other liabilities represent a much smaller share. The reserve coverage, of 700 percent of the metric in 2015 declining to 273 percent of the metric by 2021, compares to the Fund's recommended range of reserves of 100 to 150 percent.



Saudi Arabia has a sizable positive net IIP position despite the substantial drawdown of reserves in 2015. Net external assets were an estimated 109 percent of GDP at end-2015, with external assets at 154 percent of GDP and external liabilities at 45 percent of GDP. Net external assets declined by 12 percent of GDP in 2015 after increasing significantly over the previous decade. International reserves account for 62 percent of external assets, while portfolio and other investments constitute a 20 and 11 percent share respectively. No details are available on the composition of external assets. The average return on assets has been relatively low at 2.7 percent compared to 3.3 percent on liabilities during 2014-2015.

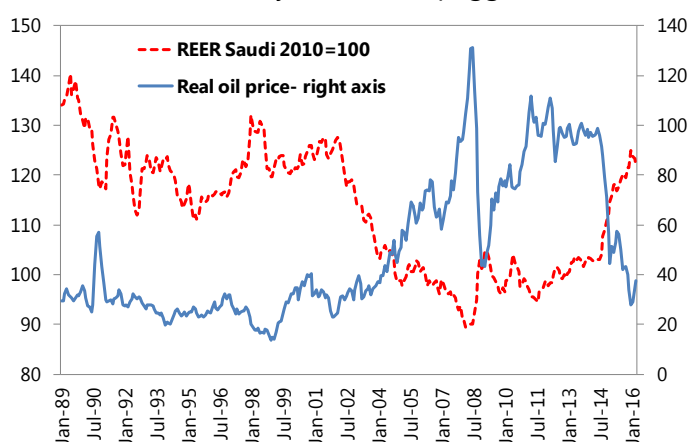
Saudi Arabia: Foreign Reserve Adequacy Assessment

	2010	2011	2012	2013	2014	2015	proj. 2016	2017	2018	2019	2020	2021
	(in billions of USD)											
External short term debt	37	29	45	36	49	51	58	64	68	71	75	79
Other liabilities (portfolio liabs + other invt liabs - STD) 1/	16	23	7	21	13	15	31	47	56	65	74	83
Broad Money	288	326	372	412	461	473	483	499	520	544	567	591
Exports of goods and services	262	376	399	388	355	216	201	230	244	258	274	289
Actual Foreign Reserves	440	535	648	717	724	609	543	501	455	415	380	350
ARA metric	69	83	92	95	99	87	92	102	108	115	121	128
Foreign Reserves as a % of the ARA metric (in percent) 2/	637	641	704	755	732	698	591	493	422	362	313	273
Foreign Reserves in percent of GDP	83.6	79.9	88.2	96.3	96.1	94.3	84.0	72.0	61.0	52.8	46.0	40.4
Foreign Reserves in percent of broad money	153	164	174	174	157	129	112	100	88	76	67	59
Foreign Reserves in 3 months of imports of goods and services	8.9	9.9	11.3	11.1	11.8	10.8	9.3	8.1	7.1	6.3	5.5	4.9

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

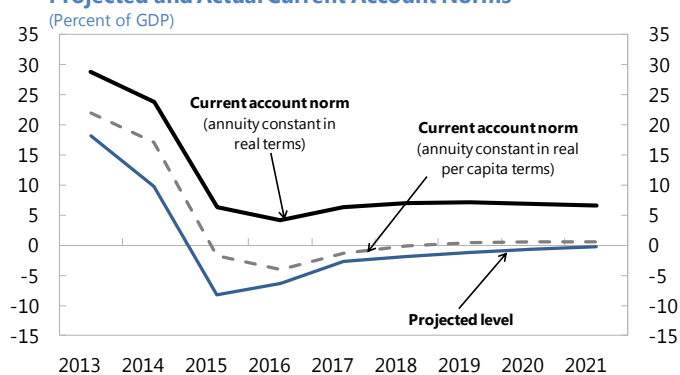
2/. As a rule of thumb, reserves within 100-150 percent of the new ARA metric are considered adequate.

The REER has appreciated substantially since late 2014. 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 18 percent since July 2014, while the terms of trade fell by 43 percent in 2015, and the NEER has appreciated by 12 percent. The REER is 22 percent above its long-run average.



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.¹ 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

Projected and Actual Current Account Norms



Source: IMF staff estimates.

¹ Proven oil reserves at end of 2015 were 258 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 until oil production stops. Oil exports remain unchanged, oil prices increase by 2 percent, the GDP deflator increase by 2.5 percent, and real non-oil GDP grows by 5 percent after 2021. 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.

(continued)

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 from the optimization of plausible government utility functions.² These estimated CA norms suggest that the projected current account balance (baseline) is below the two norms- see chart below. The current account deficit in 2015 was 8.3 percent of GDP, while the current account norms under the external sustainability (ES) approach are estimated at 6.5 percent of GDP and 0.5 percent of GDP under the constant real per capita annuity and constant real annuity allocation rules respectively (these estimates are subject to considerable uncertainty and sensitive to the parameters assumed). The corresponding current account gaps are estimated to be large at, respectively, -14.8 percent and -8.8 percent of GDP. The estimated fiscal gap is -19.7 percent of GDP (constant real per capita allocation rule) and -14.6 percent of GDP (constant real annuity allocation rule), with both derived as the difference between the actual fiscal balance and that consistent with intergenerational equity under the respective allocation rule. If the large fiscal gap is closed, the current account gap is largely eliminated.

Estimates based on the EBA-lite methodology suggest that the current account balance is below the norm for 2015.

The current account norm was 1.5 percent of GDP compared with an actual level of -8.3 percent of GDP, producing an estimated current account gap of -9.8 percent of GDP which is primarily driven by current fiscal policy settings (difference between the actual and desired fiscal policy). 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).

Current and Fiscal Account Actuals and Norms

<i>In percent of GDP</i>	Annuity real per capita	Annuity real
External sustainability approach		
Current account norm	6.5	0.5
Actual current account balance	-8.3	-8.3
Current account gap	-14.8	-8.8
Fiscal balance norm	3.8	-1.3
Actual fiscal balance	-15.9	-15.9
Fiscal balance gap	-19.7	-14.6
EBA-lite approach		
Current account norm	1.5	
Current account gap	-9.8	
Policy gap	-7.4	

Source: IMF staff calculations.

² See Bems, R., and I. de Carvalho Filho, 2009, “Exchange Rate Assessments: Methodologies for Oil Exporting Countries,” IMF Working Paper 09/281.

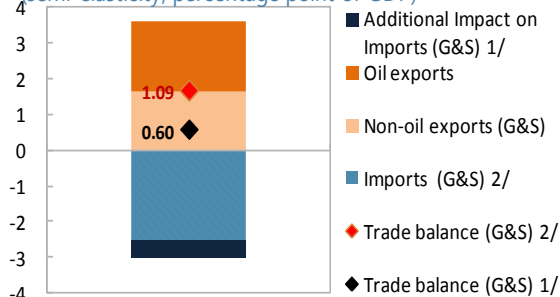
The impact of exchange rate depreciation on the external and fiscal accounts

Exchange rate depreciation is likely to have a small impact on the current account position in Saudi Arabia given the structure of the economy. Due to the limited substitutability

between domestic and imported goods, the volume of imports is unlikely to be significantly affected by exchange rate depreciation while higher local-currency price of imports increases import costs. Also, domestically-produced products have significant imported labor and intermediate input content. Non-oil goods and services exports are much smaller than oil exports, but depreciation would increase demand for these exports. Calculations using the volume elasticity estimates from Hakura and Billmeier (2008) (assumes non-oil export volume elasticity of 0.67 and import volume elasticity of -0.09 and no change in volume of oil exports) suggest a 10 percent depreciation in 2016 would improve the goods and services balance by 0.6 percentage points of GDP. Using a higher import volume elasticity of -0.24³ would suggest that the goods and services balance would improve by 1.1 percentage points of GDP following a 10 percent depreciation.

Impact of a 10 percent exchange rate depreciation of on the trade balance in 2016

(semi-elasticity, percentage point of GDP)



1/ Import volume elasticity of -0.09 is used.

2/ Import volume elasticity of -0.24 is used.

Depreciation would improve the fiscal balance if nominal expenditure allocations do not change. On the revenue side, exchange rate adjustment would translate into revenue gains in

local currency (given oil exports are priced in dollars) and there would be small increases in nonoil revenue (mainly from the increase in custom revenues). A 10 percent depreciation is estimated to increase revenues and improve the fiscal balance by about 1.5 percent of GDP in 2016 (scenario 1). As prices change with depreciation and inflationary pressures build up, it may be politically difficult and economically undesirable to keep expenditures unchanged as this would result in an upfront and across the board reduction in real spending. Allowing nominal expenditures to rise to permit full pass-through of higher import prices (assuming a 50 percent share of imported goods in expenditures) would see the fiscal balance worsen by 0.1 percentage points of GDP (Scenario 2). The negative impact of a depreciation on the fiscal balance when expenditures increase is driven by the fact that nominal expenditures in 2016 are some 2.5 times higher than oil revenues.

Impact of Exchange Rate Depreciation on the Fiscal Balance in 2016

in SR billion	Baseline	Scenario 1 1/ | Scenario 2 2/	
		10% depreciation	
Revenue			
Total	551	588	588
Oil	343	377	377
Nonoil	208	210	210
Expenditure			
Total	865	865	905
Wages	409	409	429
Goods and services	168	168	176
Capital	208	208	218
Others	80	80	80
Fiscal Balance	-314	-278	-317
GDP	2424	2424	2424
Balance/GDP	-13.0	-11.4	-13.1

1/ Assume no change in nominal expenditure.

2/ Assume a 50 percent passthrough of higher relative prices on nominal expenditure (assuming a 50 percent share of imports in non-oil GDP).

³ IMF, World Economic Outlook, October 2015, Chapter 3, "Exchange Rates and Trade Flows: Disconnected?"

	Saudi Arabia	Overall Assessment
Foreign asset and liability position and trajectory	<p>Background. Net external assets were estimated at 109 percent of GDP at end-2015, with external assets at 154 percent of GDP and external liabilities at 45 percent of GDP.^{1/} Net external assets declined by 12 percent of GDP during 2015 after increasing significantly over the previous decade. This was largely due to a decline in central bank fx reserves. Projections suggest that the NIIP-to-GDP ratio will decline further over the medium-term under the current oil price baseline and current fiscal policy settings, but would remain above 60 percent of GDP in 2021. No details are available on the composition of external assets.</p> <p>Assessment. The external balance sheet is very strong at present. Substantial accumulated assets represent both savings of the exhaustible resource revenues for future generations and protection against vulnerabilities from oil price volatility given the high reliance on oil revenues.</p>	<p>Overall Assessment:</p> <p><i>The external position in 2015 was substantially weaker than suggested by fundamentals and desirable medium-term fiscal policy settings. Substantial fiscal adjustment is needed over the medium-term to reduce the current account deficit and support the peg.</i></p> <p>Given the close link between the fiscal and external balance and the structure of the Saudi Arabian economy, with exports dominated by oil and oil-related products and a limited substitutability between imports and domestically produced goods, external adjustment will be driven by fiscal policy rather than the exchange rate.</p> <p>The external balance sheet remains very strong at present. Despite the substantial drawdown in 2015, reserves remain very comfortable when judged against standard Fund metrics. Nevertheless, under current fiscal policy settings, reserves will continue to decline over the medium-term if oil prices stay low, and substantial fiscal adjustment is therefore needed.</p> <p>Potential policy responses:</p> <p>A substantial and sustained fiscal consolidation is necessary to strengthen the CA over the medium-term and support the exchange rate peg. This consolidation is underway, but more is needed. The government should set out a credible medium-term fiscal consolidation plan based on further energy price reforms, non-oil revenue measures, and continued expenditure compression. Despite recent adjustment, the non-oil primary fiscal deficit remains significantly above the level implied by intergenerational equity models. Fiscal adjustment should be supported by reforms to strengthen the fiscal framework.</p>
Current account	<p>Background. Preliminary estimates suggest the current account (CA) recorded a deficit in 2015 of 8.3 percent of GDP compared to a surplus of 9.8 percent of GDP in 2014. This change largely reflected lower oil revenues (down by 14 percent of GDP) and weaker petrochemical prices. The CA deficit is projected at 6.4 percent of GDP this year, and then it narrows further as oil prices increase (to about 0.3 percent of GDP in 2021).^{2/}</p> <p>Assessment. The heavy reliance on oil subjects the CA to wide swings and the assessment of its external position to considerable uncertainty. The estimated size of the CA gap varies with the methodology used and is largely driven by current fiscal policy settings being away from those seen as desirable by staff over the medium-term. The estimated gap varies from -9.8 percent of GDP using EBA-lite to -8.8 and -14.8 percent of GDP using the external sustainability (ES) approach.^{3/} In line with these estimates and considerable uncertainties, staff assesses a large negative CA gap within this range of estimates. The CA gap is largely driven by the fiscal policy gap.</p>	
Real exchange rate	<p>Background. The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. As the U.S. dollar has appreciated, the NEER and REER have strengthened by 14 percent and 18 percent respectively since July 2014. The terms of trade fell by 43 percent in 2015 and has declined further in 2016. The REER is currently 22 percent above its average over the past decade.</p> <p>Assessment. Most exports are oil or oil-related products, and exchange rate movements have a limited impact on competitiveness. With a limited substitutability between imports and domestically-produced products, which in turn have significant imported labor and intermediate input content, exchange rate movements are expected to have a small impact on the demand for imports through the substitution channel given the very limited availability of domestically-produced goods.</p>	
Capital and financial accounts: flows and policy measures	<p>Background. Inflows are dominated by FDI, while outflows are largely trade credits, accumulation of foreign assets by banks, and portfolio investment overseas. The equity market was opened to direct investment by registered foreign investors in mid-2015, but activity to date has been limited. In mid-January, SAMA instructed banks to halt the sale of foreign exchange options contracts on riyal forwards.</p> <p>Assessment. While financial outflows remained high in 2015 despite the decline in oil prices, the strong reserves position limits immediate risks or vulnerabilities associated with capital flows.</p>	

	Saudi Arabia (concluded)	Overall Assessment
FX intervention and reserves level	<p>Background. Saudi Arabia does not have a SWF. The government’s foreign assets are held at the central bank within international reserves. Reserves were \$609 billion (94 percent of GDP, 32 months of imports, and 700 percent of the IMF’s reserve metric) at end-2015. Reserves fell by \$115 billion during 2015.</p> <p>Assessment. Reserves play a dual role—for both precautionary motives and as savings for future generations. Reserves are more than adequate for precautionary purposes (measured by the Fund’s metrics) at present. Nevertheless, a substantial fiscal adjustment is needed to help moderate the decline in reserves and support the exchange rate peg. A return to a CA surplus and the resulting NIIP accumulation will be needed over the medium-term to ensure an equitable intergenerational transfer of oil revenues.</p>	
Technical Background Notes	<p>1/ The NIIP may be underestimated given large errors and omissions in the balance of payments data and inconsistencies between the BoP and IIP data. Errors and omissions have exceeded 6 percent of GDP in some years and stood at 3 percent of GDP in 2015. These likely reflect either an under-recording of imports and/or financial outflows.</p> <p>2/At current oil production levels, a \$1 change in the oil price results in a 0.5 percent of GDP first round change in the current account balance. Historically, the current account and fiscal balance have been closely related (correlation of 0.9 from 1995 to 2014).</p> <p>3/ EBA methodology assessments are not available for Saudi Arabia. Staff considered two methodologies, including one that incorporates 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 that CA norms under the external sustainability (ES) approach were 6.5 percent of GDP and 0.5 percent of GDP under the constant real per capita annuity and constant real annuity allocation rules respectively. The norm was 1.5 percent of GDP under the EBA-lite approach. The preliminary estimate of the CA deficit in 2015 is 8.3 percent of GDP. The corresponding CA gaps are estimated at, respectively, -14.8, -8.8, and -9.8 percent of GDP. The estimated fiscal gap is -19.7 percent of GDP (constant real per capita allocation rule) and -14.6 percent of GDP (constant real annuity allocation rule), with both derived as the difference between the actual fiscal balance and that consistent with intergenerational equity under the respective allocation rule.</p>	

APPENDIX IV. THE RESILIENCE OF SAUDI BANKS TO LOWER ASSET QUALITY AND DEPOSIT WITHDRAWALS

This Annex updates the scenario analyses of asset quality and liquidity risk conducted in conjunction with the 2015 Article IV mission (see IMF (2015)).¹

Asset quality scenarios

Using the same parameter estimates as in IMF (2015) and the most recent projections of oil prices and nonoil private sector GDP growth, the future estimated path of bank-level NPLs is derived. Three scenarios are considered.

- **Scenario I** assumes that oil prices decline from an average of \$50 a barrel in 2015 to \$43 a barrel in 2016, and recover to \$56 a barrel in 2020. Nonoil private sector GDP growth moderates from 3.4 percent in 2015, to 2.1 percent in 2016 and recovers to 4 percent in 2020. Bank profitability moderates and new NPLs are assumed to be provisioned at 120 percent, above regulatory requirements of 100 percent.
- In **Scenario II**, oil prices fall from \$50 a barrel in 2015 to \$32 a barrel in 2016 and recover to \$36 a barrel in 2020. Nonoil private sector GDP growth declines into negative territory in 2016, before recovering to 1.5 percent in 2020 (these are 1 standard deviation below the levels assumed in Scenario I, respectively).² Bank profitability moderates further and banks provision 100 percent of new NPLs.
- **Scenario III** is constructed to estimate the extent of a growth slowdown that would be needed to reduce the average capital ratio to 12 percent in 2020. All assumptions other than the trajectory of nonoil private sector GDP growth remain unchanged.

Simulation results suggest that Saudi banks can generally withstand higher NPLs and lower profits under the economic scenarios considered.

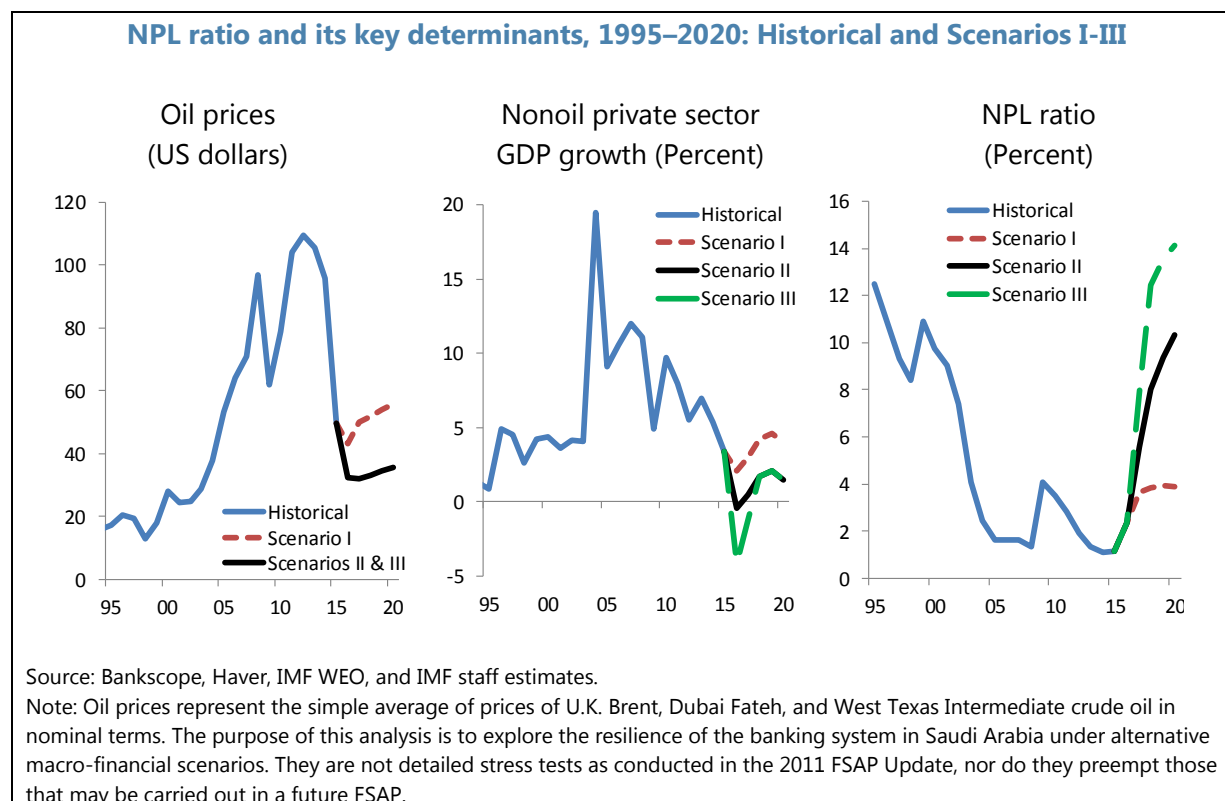
- **Scenario I:** The aggregate NPL ratio rises to 3.9 percent by 2020. The aggregate capital ratio remains above 18 percent. This is despite 120 percent of new NPLs being provisioned, which dents profits but helps maintain provisions at above 130 percent of total NPLs.
- In **Scenario II**, the NPL ratio rises to 10 percent and provisions cover about 1.1 times the stock of NPLs in 2020. Profitability declines and provisioning needs increase, but the capital ratio remains at around 14 percent. For five banks, the capital ratio declines below 12 percent, but remains above the 8 percent international regulatory minimum. Resources required to bring

¹ "Assessing the Resilience of Saudi Banks to Weaker Economic Conditions," IMF Country Report No. 15/286. The results should be interpreted with a range of caveats elaborated in the referenced note in mind.

² For nonoil private sector GDP growth, historical standard deviation during 2005–15 is used. For oil prices, one standard deviation forecast errors reported in the IMF WEO through 2017 is applied to the central forecasts through 2020.

the 5 banks' capital ratios back to 12 percent are small, equivalent to 0.2 percent of GDP (about SAR 5 billion).

- In **Scenario III**, to push the average capital ratio to 12 percent, nonoil private sector GDP growth would need to contract by about 4 percent in 2016 and 1 percent in 2017, respectively, before recovering to 1.5 percent in 2020. The NPL ratio would increase to about 14 percent in 2020. Bank level capital ratios would fall below 12 percent for 7 banks, of which 4 banks would maintain their capital ratios above 8 percent. Resources required to bring the 7 banks' capital ratios back to 12 percent are equivalent to 0.8 percent of GDP (about SAR 22 billion).



Liquidity scenarios:

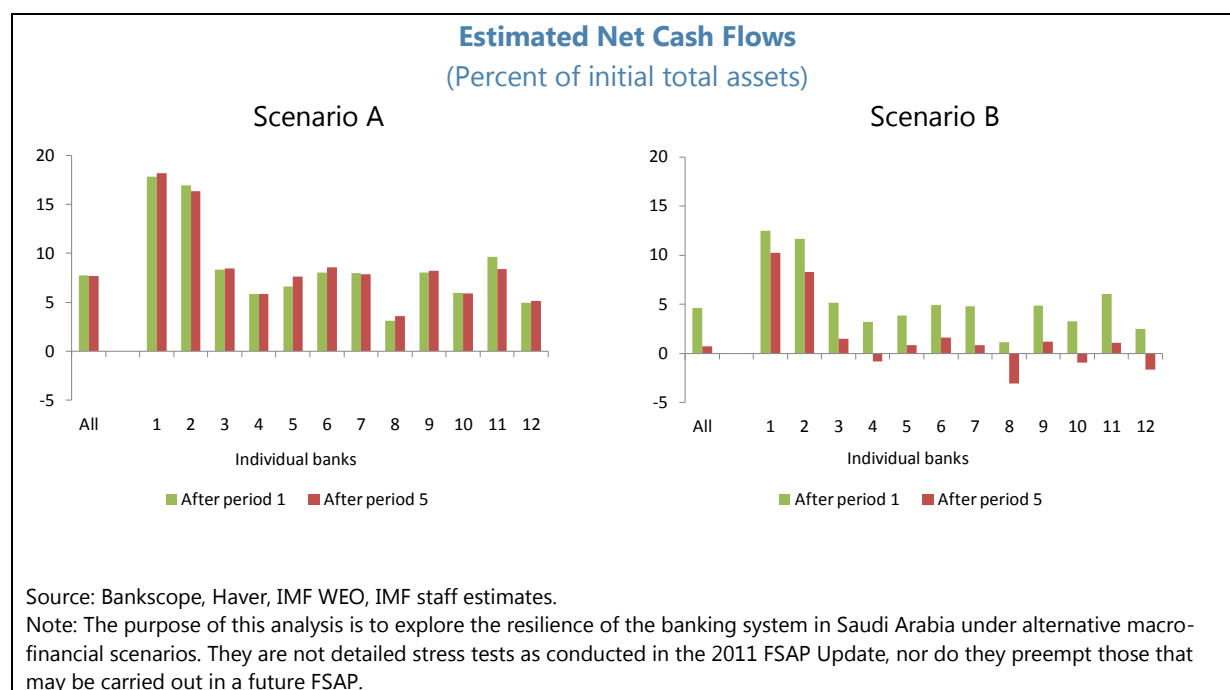
The extent to which banks can accommodate deposit reductions by selling liquid (and to some extent illiquid) assets within a 30-day window (divided into five periods, six days each) is investigated using the same parameter values as in IMF (2015) and end-2015 bank balance sheet data. Two scenarios are parameterized to calibrate Saudi Arabia's historical experience, guided to some extent by Schmieler et al. (2012).³

- In **Scenario A**, demand and time deposits decline by 2 percent and 1 percent per period, respectively, or by an average of 8 percent over the 30-day period. This is higher than the largest monthly decline seen since 1993 which was 6 percent. 10 percent of liquid assets are

³ Schmieler C et al. 2012. "Next Generation System-Wide Liquidity Stress Testing," IMF Working Paper 12/3.

encumbered (25 percent of illiquid assets) and 95 percent of the remaining liquid assets are available for sale in each 5-day period (2 percent for illiquid assets), both reducing the capacity of banks to generate cash. Furthermore, liquid assets are sold with a 1 percent haircut (15 percent for illiquid assets).

- **Scenario B** is characterized by a faster deposit run and tighter market liquidity conditions. Deposits decline by more than 10 percent during a 30-day window, a rate similar to the 11 percent reduction within a week seen in 1990 (when the run was triggered by a military conflict rather than an oil price decline). Smaller shares of assets are available for sale (85 percent for liquid assets and 1 percent for illiquid assets). Banks face higher rates of haircut (5 percent and 30 percent) and encumbrance (20 percent and 50 percent).



The results suggest that the banking sector is generally resilient to the deposit withdrawals, although some liquidity shortfall emerges in scenario B. In scenario A, there is no liquidity shortfall for the banking sector as a whole or for any individual bank. In scenario B, the aggregate banking system remains liquid, but four banks suffer liquidity shortages by 1-3 percent of initial assets (banks # 4, 8, 10, 12).

Appendix V. 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 single large exposure up to 50 percent of bank's own capital.	SAMA does not allow single large exposure up to 50 percent of bank's own capital. Revised regulations on large exposures require banks to ensure that, by 2019, single exposure does not exceed 15 percent of bank's own capital. An aggregate large exposure limit of 400 percent of capital has been introduced.
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) data on a quarterly basis, and submits 12 core Financial Soundness Indicators (FSI) to the IMF. SAMA has started collecting International Banking Statistics (IBS) data. These are being reviewed 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 restarted issuing domestic bonds in mid-2015 to fund the budget deficit. Public sector entities have been issuing sukuk. The government signed a syndicated loan for \$10 billion with international banks in the second quarter of 2016.
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 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.	A 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 is being introduced in 2016 in line with previous announcements and the second financial stability report was released in May. 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.

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.	The loan-to-value ratio (LTV) was increased from 70 percent to 85 percent in early-2016 for residential real estate finance provided by banks and finance companies. 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 of 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.
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, 2015. Several initiatives to help improve foreign participation and the settlement infrastructure of Tadawul were announced in May 2016 and will be implemented in 2017.



SAUDI ARABIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 29, 2016

Prepared By

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

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FUND RELATIONS

(As of June 15, 2016)

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

General Resources Account:	SDR Million	Percent Quota
Quota	9,992.60	100.00
Fund holdings of currency	9,536.88	95.44
Reserve tranche position	455.73	4.56
Lending to the Fund		
New Arrangement to Borrow	997.75	

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	6,682.50	100.00
Holdings	5,746.23	85.99

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)

	2014	2015	2016	Forthcoming	
				2017	2018
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.33	0.70	0.70	0.70	0.70
Total	0.33	0.70	0.70	0.70	0.70

Lending to the Fund and Grants:

Saudi Arabia is a participant of the New Arrangements to Borrow (NAB), whose credit arrangement under the NAB amounts SDR 5.7 billion. The current outstanding amount under the credit arrangement as of June 15, 2016 is SDR 997.8 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 71.87 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 5.2625=SDR 1, with margins of 7.25 percent even though in practice it has been pegged to the U.S. dollar since 1986, with a middle rate of SAR 3.7450=\$1. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373.

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during May 17–28, 2015 in Riyadh. The staff report was considered by the Executive Board on July 29, 2015 and published on September 9, 2015.

(<http://www.imf.org/external/pubs/cat/longres.aspx?sk=43261.0>)

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.
Monetary and Financial Statistics, December 6–17, 2015
- MCM** Stress testing, January 9–21, 2010.
Stress testing, February 1–5, 2015.
Establishing a Debt Management Office, March 20–27, 2016
- 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.
Establishing a Macro-Fiscal Unit, January 26–31, 2016.
Introduction of VAT and Excises: Key Policy Design Issues, May 2016.
Tax Administration (VAT), May 17–30, 2016.

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>)

LEG AML/CFT Diagnostic Mission, November 1–12, 2015
AML/CFT threat analysis workshop, March 6–10, 2016
VAT Policy design, May 30–June 12, 2016

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of May 15, 2016)

World Bank

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

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

Areas of ongoing World Bank advisory work include: public financial management; business climate and foreign direct investment; small and medium enterprise strategy; urban development and city institutional strengthening capacity building; poverty and social protection issues; work on employment policy including a focus on unemployment assistance; enhancing quality and relevance of the education system; health sector efficiency; energy efficiency; electricity sector legislation and policies; developing an implementation plan for the national ports strategy; advising in developing the understanding of the financial and economic cost/value of water resources in the Kingdom; and providing advice and support to the implementation of the national transport strategy and the helped on the creation of the Public Transport Authority.

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 June 14, 2016)

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, monetary and financial statistics and external sector statistics.

Real sector statistics:

National accounts: 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 increased the share of the oil GDP in 2013 to 43 percent from 21 percent previously.

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. There is no official real estate price series or other data on housing market activity. There is also uncertainty about owner-occupation rates.

Labor Markets statistics: At present there is no official data providing a breakdown of employment between the private and public sector. There is also no official data on private and public sector wages and salaries.

Government finance statistics: The authorities are in the process of reclassifying the budget in line with *GFSM 2014*. Most chapters have been completed and the Ministry of Finance is planning on using the *GFSM 2014* framework to report fiscal data and publish it going forward.

Monetary and financial statistics: The quality of monetary data has improved and additional information is made available in the Saudi Arabian Monetary Agency (SAMA) Monthly Statistical Bulletin. SAMA reported monetary data for the central bank and deposit money banks to the Fund, which are published in the IFS. However, the authorities have not yet adopted the Standardized Report Forms (SRFs) as recommended in the Monetary and Financial Statistics (MFS) Manual and Compilation Guide. A TA mission on MFS took place in December 2015 to assist SAMA to migrate monetary data to the SRFs. The mission's medium-term recommendations are aimed mainly at (1) more fundamental improvements in the report form for commercial banks and recording practices for SAMA accounts; (2) improving the data dissemination formats to better align with the terminology of the MFSM and best international practices; and (3) extending the coverage of monetary statistics to include other financial corporations (OFCs), with a view to eventually compile a financial corporations survey (FCS) covering the entire financial corporations sector. SAMA's published balance sheet has a large and growing "other liabilities" item that hinders analysis.

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

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. The official data likely substantially underestimates the net international investment position of Saudi Arabia, which likely reflects unrecorded private financial outflows on the asset side along with under-recording of debt liabilities. Errors and omissions in balance of payments data remain large. 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 (now the enhanced GDDS) since 2008.

No data ROSC is available.

Saudi Arabia: Table of Common Indicators Required for Surveillance
(As of June 15, 2016)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange rates	6/15/2016	6/15/2016	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	4/2015	5/29/2016	M	M	M
Reserve/base money	4/2015	5/29/2016	M	M	M
Broad Money	4/2015	5/29/2016	M	M	M
Central Bank balance sheet	4/2015	5/29/2016	M	M	M
Consolidated balance sheet of the banking system	4/2015	5/29/2016	M	M	M
Interest rates ²	6/15/2016	6/15/2016	D	D	D
Consumer price index	4/2015	5/24/2016	M	M	M
Revenue, expenditure, balance and composition of financing ³ — central government	Q1 2016	5/8/2016	Q	Q	A
Stocks of central government and central government-guaranteed debt ⁴	2015	12/28/2015	A	A	A
External current account balance	Q4 2015	4/28/2016	Q	Q	Q
Exports and imports of goods and services	Q4 2015	4/28/2016	Q	Q	Q
GDP/GNP	Q4 2015	1/06/2016	Q	Q	Q
Gross external debt (BIS)	Q4 2015		Q	Q	Q
International investment position ⁵	Q4 2015	4/28/2016	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).