INTERNATIONAL MONETARY FUND

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SAUDI ARABIA

2013 ARTICLE IV CONSULTATION

July 2013

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 2013 Article IV consultation with Saudi Arabia, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 18, 2013, 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 24, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Press Release** (PR) summarizing the views of the Executive Board as expressed during its July 8, 2013 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

SAUDI ARABIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

June 24, 2013

KEY ISSUES

Context. Saudi Arabia has been one of the best performing G-20 economies in recent years and has played a key stabilizing role in the global oil market. Real GDP growth averaged 6¼ percent per annum during 2008–12, third behind China and India. Increased oil production in 2011 and 2012 helped prevent supply disturbances elsewhere from having a detrimental impact on global growth.

Outlook and risks. The near-term economic outlook is positive. While oil output is likely to fall relative to 2012 and the pace of government spending looks set to slow, growth in the non-oil private sector should remain strong. Inflation has increased with rising food prices, but is still moderate, while credit growth remains robust. The oil market is the main source of risk, although large buffers provide fiscal space to smooth spending in the medium-term.

Job creation in the private sector. Increased employment of Saudis in the private sector will require a combination of reduced reliance on jobs in the public sector and measures to improve the competitiveness of Saudi workers in the private sector. The labor market reforms will lead to structural change, and careful coordination with other policies will be needed to avoid unintended side effects.

Macroeconomic policy framework. Fiscal policy is withdrawing stimulus from the economy and macro-prudential policy settings appear appropriate at present. Were signs of inflationary pressures to emerge, then either spending projects would need to be slowed or macro-prudential policies tightened, or both. A reduction in the non-oil fiscal deficit is expected over the medium-term as infrastructure spending tapers off. Policy measures on the revenue and expenditure side will be needed to further strengthen the fiscal position and increase savings for future generations.

Fiscal policy and budget preparation. In recent years, the government has smoothed oil price volatility and built significant buffers. Moving to a multi-year budgeting framework that formally incorporates the impact of oil price volatility and integrates the five-year National Development Plans would help strengthen budget formulation.

Approved By
Alfred Kammer and David Marston

Discussions were held in Riyadh during May 5-18, 2013. The staff team comprised Tim Callen (head), Padamja Khandelwal, Haonan Qu, and Renas Sidahmed (all MCD) and Jimmy McHugh (FAD). Ahmed Alkholifey (OED) accompanied the mission. The team met with Minister of Finance Al-Assaf, Minister of Economy and Planning Al-Jasser, Governor of SAMA Al-Mubarak, and other senior officials, as well as representatives of the private sector, universities, and the media. Masood Ahmed (MCD) participated in the concluding meetings (May 18).

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CONTEXT

1. **Saudi Arabia has been one of the best performing G-20 economies in recent years.** Real GDP growth averaged 6¼ percent per annum during 2008–12, with the non-oil sector growing at an even faster average rate of 7¾ percent (Figure 1). High oil prices and increased oil production have resulted in a large increase in oil revenues and substantial external and fiscal surpluses, while government debt has declined to less than 4 percent of GDP. Inflation in general has been relatively moderate. Over a longer period, social development indicators have improved substantially.

2. **As the largest crude oil exporter and the only producer with significant spare capacity, Saudi Arabia plays a systemic and stabilizing role in the global oil market.** In 2011, Saudi Arabia formally committed through the G-20 to use its systemic position in the oil market to promote global stability. Saudi Arabia raised oil production to a 30-year high to ensure demand was met following the abrupt decline in Libyan production in 2011 and continued geopolitical tensions in 2012. This followed earlier episodes during the Gulf wars and the Venezuelan general strike when Saudi Arabia increased production to ensure global markets were well supplied following disruptions in other major producers. In the absence of these actions, it is likely that disturbances in the oil market would have had a detrimental effect on global economic growth.

3. **Within the region, Saudi Arabia has committed financial support to a number of countries in transition (Egypt, Jordan, Yemen, and Morocco) and to other GCC members (Bahrain, Oman).** The large remittance flows from expatriates working in Saudi Arabia also provide important income flows to countries in the region and in south Asia. In addition, Saudi Arabia has been a significant contributor of additional resources to multilateral programs, including the IMF's Poverty Reduction and Growth Trust (PRGT), and this has contributed to a strengthening in the global financial system.

4. **The Saudi population is young and will continue to grow rapidly in the coming years.** Assuming rising labor force participation in line with past trends, the Saudi labor force is projected to increase by 3½ percent a year over the course of the next decade. To prepare labor market entrants to compete in and support a more diversified private sector, large investments in education are being made, both domestically and abroad. As this young and increasingly well-educated population enters into its working-age years, there is a tremendous opportunity to boost growth and raise living standards further. However, Saudi unemployment, especially among the youth and women, remains high.

5. **In recent years, the government has implemented a number of domestic reform initiatives.** In 2011, a jobseekers allowance and a strengthened quota system to increase the employment of nationals were introduced. Infrastructure investment has been stepped up to ease transportation bottlenecks and spending on education (domestically and abroad) and health has increased. On the financial sector side, new mortgage legislation was passed in mid-2012 and is now being implemented, and Basle III capital standards were implemented in January 2013. Improvements in economic statistics are continuing.

RECENT DEVELOPMENTS

6. **The Saudi economy has grown strongly, benefitting from high oil prices and output, strong private sector activity, and government fiscal spending.** Following strong growth of 8.6 percent in 2011—spurred by higher oil output and large fiscal spending packages—the economy grew at a slower, albeit still robust, rate of 5.1 percent in 2012 as oil output and government spending growth slowed (Figure 2). During 2010–12, the non-oil private sector grew by an average of 7.5 percent per annum, with the manufacturing, transport, and retail and wholesale sectors all seeing double-digit growth (Box 1 discusses the recent revisions to the GDP data). Labor productivity and TFP growth in the private sector have increased in recent years. High oil prices and exports translated into another large external surplus in 2012, boosting gross international reserves (Figure 3).

7. **Inflation has risen over the past year.** CPI inflation fell to 2.5 percent in February 2012, but increased to 3.8 percent in May 2013 as food and housing costs increased. Core inflation, which excludes food and housing, is 2.6 percent.

8. **Following an expansionary fiscal stance in 2011, expenditure growth began to slow in 2012.** The non-oil primary deficit declined by ¼ percentage point of non-oil GDP, although in the absence of the thirteenth month wage payment in 2012, the non-oil primary deficit would have declined by over 2 percentage points of non-oil GDP. Owing to rising oil prices and output, the overall fiscal balance remained high at 12.4 percent of GDP in 2012.

9. **Credit growth has remained strong, and the banking system is well-capitalized and profitable.** Growth in fiscal spending has contributed to continued robust growth in private sector credit of over 16 percent and high levels of liquidity in the banking system. Lending by specialized credit institutions has also increased. Consistent with the exchange rate peg and the monetary policy stance in the U.S., SAMA has kept the repo and reverse repo rates unchanged. In recent months, SAMA has stepped up the issuance of central bank bills and the volume of its reverse repo transactions to absorb excess liquidity. The banking system remains well-capitalized, profitable, and highly liquid. Non-performing loans (in percent of net loans) declined while provisioning increased. Corporate profitability has recovered strongly in recent years (Box 2).

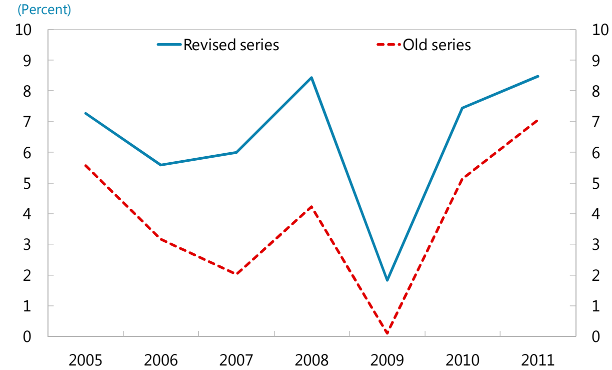
10. **Growth is creating jobs in the economy, but most of these have been filled by expatriate labor.** The labor force survey recorded a 2 million increase in employment between 2009 and 2012, but three-quarters of these jobs have gone to non-Saudis (Figure 4). The overall unemployment rate is 5.8 percent, but amongst Saudis is measured at 12 percent, and is much higher for youth (30 percent) and women (35 percent). While still very low, female participation has increased in recent years.

Box 1. Revisions to National Accounts and CPI Data

The Central Department of Statistics and Information has recently released revised national accounts and consumer price data— the national accounts have been revised for the period since 2004, while the CPI has been revised for the period since 1988. In the national accounts, the main reason for the revision is improved coverage of the non-oil sector in the recent establishment census (2010), which significantly increased the number of establishments covered (by 30 percent) when compared to the previous 2003 census. The revised national accounts series show a substantial increase in the level and growth rates of GDP since 2004. The real output level over the period of 2005–2011 increased by 15.4 percent on average after the revision. The average real growth rate during this period is now 6.4 percent, in contrast to the previous estimate of 3.9 percent (top Figure). The key factor is non-oil GDP, for which the average real growth rate rose to 8.4 percent from 5.3 percent. Investment (in percent of GDP) increased after the revision from 19.8 percent to 22.8 percent on average, while consumption (in percent of GDP) declined from 52.7 percent to 49.5 percent.

Real Output Growth, 2005–11

(Percent)

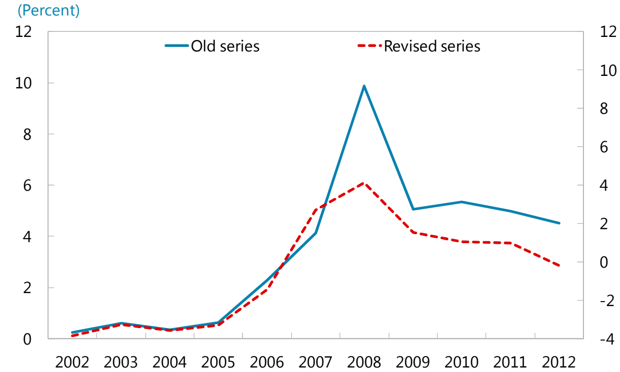


Sources: Country authorities; CDSI.

For the CPI, the revision updates the base year from 1999 to 2007 and consequently has revised the weights on the subcomponent series. The weight on food and beverages has been reduced, while that on rent, fuel, and utilities has increased. The revised data are also more disaggregated and a larger number of subcomponent series have been published. In comparison to the old CPI series, the rebased series shows a lower inflation rate in recent years, due in part to a lower weight of food in the overall index, as well as downward revisions to inflation estimates in other categories (especially rent and home furnishings). Monthly data are available for 2011–12.

Consumer Price Inflation, 2002–12

(Percent)



Sources: Country authorities; and IMF staff estimates.

Box 2. Nonfinancial Corporate and Banking Sector Profitability

The listed nonfinancial corporate sector in Saudi Arabia comprises 114 companies with total assets of $364 billion at end-2012, up from $344 billion at end-2011. The total assets make up about 50 percent of GDP. Profits of $20 billion and accumulated cash balances of $26 billion at end-2012 provide comfortable liquidity to the corporate sector.

Nonfinancial Corporate Profitability

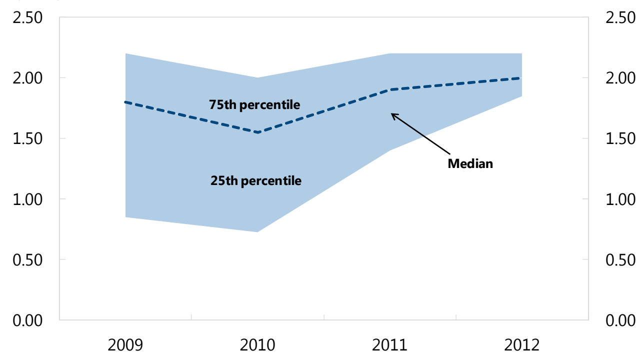
	2012	2011	2010	2009	2008
Net Profits (US$b)	19.8	20.3	16.8	11.4	7.7
Return on Assets (%)	5.4	5.9	5.3	3.8	2.9
Return on Equity (%)	10.3	11.5	10.2	7.5	5.4

Sources: Zawya; and IMF staff calculations.

Corporate profitability has improved substantially since the financial crisis, but fell marginally in 2012 as lower prices hit the petrochemicals sector. Debt servicing ability is strong as evidenced by a ratio of total liabilities (excluding shareholders equity) to assets of 49 percent and an average interest coverage ratio of 8.7.

Saudi Banking System: Range of ROAs, 2009–12

(Ratio)



Sources: Country authorities; and IMF staff calculations.
Note: Sample includes the 11 publicly listed banks and NCB.

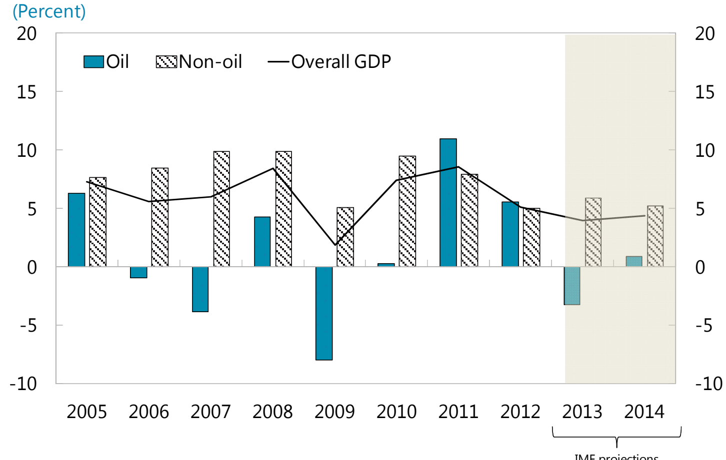
Bank sector profitability has also improved since the financial crisis, with assets and profits growing steadily. Non-performing loans have declined.

OUTLOOK, RISKS, AND SPILLOVERS

11. The near-term economic outlook remains positive. Overall real GDP growth is projected at 4 percent in 2013 and 4.4 percent in 2014. Indicators such as point of sales transactions and the purchasing managers index (PMI) suggest the private non-oil sector is continuing to grow strongly, and large projects in the transportation infrastructure and mining sectors should help underpin a pick-up in private sector growth this year to 6.5 percent. Oil output is expected to decline by 3.3 percent from its average level in 2012 given conditions in the global oil market, before increasing slightly in 2014. Although crude oil exports have declined from their peak in mid-2012, oil prices of around $100 a barrel over the next two years and a slowdown in the pace of fiscal

Real GDP Growth, 2005–14

(Percent)



Sources: Country authorities; and IMF staff calculations.

spending will help maintain large, although reduced, fiscal and current account surpluses. In 2013, the non-oil primary deficit is projected to narrow by 4 percent of non-oil GDP. Headline inflation is expected to move modestly higher in the next few months, before easing toward year-end as food price increases moderate, and average 4 percent in 2013 as a whole.

12. Short-term risks around this central scenario appear balanced at this stage. These risks include:

- *On the upside,* a more positive global outlook or a supply shock in the global oil market triggered by geopolitical events could translate into higher oil prices and exports and also help boost domestic private consumption and investment spending. Stronger growth would also likely lead to an increase in inflation pressures.
- *On the downside,* if global economic conditions, including in key emerging market countries, worsen, this would translate into lower oil demand and prices (see risk assessment matrix and Box 3). However, fiscal buffers are large, and the authorities have space to smooth spending in the medium-term in the event of an oil price drop.

13. Longer-term, the outlook depends on the success of current reform initiatives and global oil market developments. Over the next five years, oil output is projected to grow only slowly at best, and the private sector will be the main driver of non-oil growth as fiscal spending is likely to slow compared to the average of recent years. While it is always difficult to estimate, analysis suggests that the potential growth rate of the non-oil economy could be around 5–6 percent.[1] Together with the outlook for oil output, this would result in overall GDP growth of around 4¼ percent over the medium-term. Inflation is projected at 3.5 percent. Uncertainties include:

- *The oil market outlook*: The projected increases in the production of unconventional oil in the U.S. and Canada and the recovery in production in Iraq and Libya could result in a lower path for oil production in Saudi Arabia than assumed in the baseline or a larger drop in oil prices. Both options would see a more significant decline in oil export revenues, and if sustained would eventually result in a bigger adjustment in fiscal spending. Looking beyond 2020, however, projections by the IEA, BP and the EIA see demand for OPEC crude and oil prices rising.
- *The resilience of the private sector to slower government spending growth*. The estimates of medium-term non-oil growth potential could prove too optimistic in a situation where government spending growth may be slower than in the past. On the upside, the large government investments in infrastructure and education could translate into stronger than projected growth in the private sector.

[1] See Selected Issues Paper, "Productivity Growth and Potential Output in Saudi Arabia."

Saudi Arabia. Risk Assessment Matrix

Nature/source of main threats	**Likelihood of realization in the next three years**	**Expected impact on the economy if risk is realized**
Deeper than expected slowdown in emerging markets. A synchronized growth shock triggered by financial sector stress or setbacks in fiscal and structural reforms.	**Medium**	**Medium** The most significant channel would be through oil prices which decline by 15 percent after two years (relative to the baseline) in staff simulations. A decline in exports and the pace of fiscal spending could lead to a real GDP decline of nearly 1.5 percent in 2013–14 before tapering off in the medium-term. Impact on the banking system should be small given that capital ratios are currently well above regulatory norms and the high levels of liquidity.
Stalled or incomplete delivery of Euro area policy commitments. Financial stress re-emerges and bank-sovereign risks re-intensify.	**Medium**	**Low** The most significant channel would be through oil prices, although these decline by less than 10 percent in staff simulations (after 5 years, relative to the baseline). Real GDP could decline by almost 0.5 percent in the medium-term. Direct financial linkages are relatively modest. Banks do not rely on wholesale funding and total credit exposure to Europe is less than 5 percent of total assets.
A large and prolonged decline in oil prices. This could be triggered by a global recession or an increase in oil supply.	**Low**	**High** Fiscal and external revenues would fall, and private sector confidence would likely decline. The government has fiscal and external buffers to smooth key expenditures in the medium-term, while banks are well-capitalized and liquid. However, the depletion of buffers would entail a more negative impact as government expenditures adjust, adversely affecting non-oil growth and bank balance sheets.
Domestic policies do not fully address key social issues. Youth and female unemployment are high; government policies are focusing on increasing Saudi employment over the medium-term.	**Low**	**Medium** Rising youth unemployment and a deteriorating housing situation may have social implications. The government would likely respond by increasing public sector employment and wages, but this would increase risks to lower oil prices.
A shock in the global oil market triggered by geopolitical events. Prices would move higher and Saudi production would likely increase.	**Low**	**Medium** Higher production and prices would translate into higher oil exports and government revenues. In the medium-term, this would support higher fiscal expenditure and private consumption and investment. Stronger growth would also likely lead to inflation pressures.

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

Box 3. Interconnectedness and Spillovers

The Saudi economy is linked to the global economy through multiple channels. These linkages are both structural and policy oriented.

- *Oil market:* The systemic role of Saudi Arabia in the oil market constitutes the most important channel through which the country affects, and is affected by, the global economy.[1] Saudi Arabia is the only country with significant spare production capacity and it has used this to be a stabilizing force in the global oil market. Oil revenues account for over 80 percent of export revenues and 90 percent of budget revenues. Hence, oil market developments have a direct impact on the Saudi economy through fiscal policy, the main channel, as well as consumer and business optimism and FDI.
- *Remittances:* With about 7 million non-Saudis officially employed in the domestic economy, remittances constitute an important external spillover channel. This is particularly true for countries such as Jordan, Egypt, Yemen, and Sudan where Saudi Arabia accounts for over 25 percent of total remittance inflows.
- *External wealth.* A large portion of the oil receipts have been invested in international financial markets. A large and persistent drop in oil prices could cause a reversal of these outflows. Normalization of monetary policy in the advanced countries may also result in losses on asset holdings.
- *Monetary policy and the fixed exchange rate.* With the exchange rate pegged to the dollar and a relatively open capital account, there is limited scope for interest rates to diverge from U.S. interest rates. However, developing Asia, particularly China, is increasingly driving the global oil market, meaning that the Saudi business cycle is becoming less connected to the U.S.
- *Imports.* Saudi Arabia relies heavily on imported goods and services, particularly food products. Exports to Saudi Arabia account for a significant share of total exports for Jordan, Ethiopia, Egypt, Lebanon, and Syria. At the same time, large swings in international prices or in the value of the U.S. dollar can have a significant impact on prices.
- *Foreign aid and outward FDI.* Saudi Arabia is a generous provider of aid and financial assistance, particularly in the Middle East region. It is also a major source of FDI in the MENA region.

Spillovers from Saudi Arabia to the region and the impact of the interconnectedness of the Saudi and global economies were considered in detail in last year's consultation.[2] The results of a GVAR model showed that the Saudi economy is more susceptible to an output shock in China than in the euro area or the U.S. Relative to shocks in China or advanced economies, a shock to oil prices would have a much bigger impact on Saudi Arabian GDP. Furthermore, real GDP in other GCC countries as well as in Jordan, Lebanon, and Syria respond strongly to non-oil GDP in Saudi Arabia.

[1] See Selected Issues Paper "Assessing Saudi Arabia's Systemic Role in the Oil Market and Global Economy."

[2] See IMF Country Report No. 12/272.

POLICY DISCUSSIONS

Demographic pressures due to a rapidly growing and young population are posing a challenge for policy makers in terms of creating jobs, addressing housing needs, and managing the demand on the natural resources of the country. Reforms are underway to address some of these challenges. Meanwhile, the global oil market is likely to be less favorable for Saudi Arabia in the next few years than it has been over the past decade. In this context, discussions focused on two main areas; (i) policies to address economic and social issues—high unemployment, housing, and rising energy consumption, and (ii) maintaining macroeconomic stability while sustaining strong non-oil growth.

A. Dealing with Demographic Pressures

Employing a growing working age population

14. Within the labor market, Saudis are primarily employed in the public sector, non-Saudis dominate employment in the private sector, and female labor force participation is low. Government employment is an important channel for oil wealth distribution, and is an attractive employment option for many Saudi workers. Within the private sector, the wholesale and retail trade and construction sectors, which rely on foreign labor, have been the key drivers of private sector growth, while sectors where Saudis are willing or able to work have remained small. Despite total employment growth averaging near 8.5 percent, Saudi employment growth was 4.6 percent in 2010-12.

15. A large number of young people will enter the labor market in the next decade and beyond, and creating a sufficient number of rewarding jobs for them in the private sector will be a challenge. Based on historical experience, there is some uncertainty about the private sector's ability to absorb new labor market entrants. If estimated over the period 1990–2012, the elasticity of private sector Saudi employment is 1.1.[2] Over the past decade, however, the estimated elasticity declined to 0.6 (see text table). If this lower employment elasticity continues over the next decade, labor force participation rates continue to rise, and growth in the private sector is around 6 percent, Saudi unemployment would rise by nearly 1.4 million in the absence of increased public sector employment. On the other hand, if the elasticity of employment is high and labor force participation rates remain stable, unemployment

Demographics and Employment in Saudi Arabia, 2012–22

	Scenario 1	Scenario 2
Labor force participation (percent)	39	42
Increase in labor force (thousands)	1621	2052
Increased unemployment (thousands) if:		
1. Employment elasticity for Saudi workers = 1.1	-191	240
2. Employment elasticity for Saudi workers = 0.6	924	1355

Source: IMF staff calculations.

[2] The employment elasticity for Saudi workers is estimated using a linear regression between the log of private Saudi employment and log of real non-oil GDP.

would be expected to decline. These estimates illustrate the challenge arising from demographic change and rising labor participation rates.

16. Measures to boost inclusive growth and jobs in the non-oil sector are continuing. Reforms over the past two decades have strengthened the economy, and Saudi Arabia scores well on the World Bank's *Doing Business Index* (DBI) and the WEF's *Global Competitiveness Report* (GCR). Spending on infrastructure to develop transportation networks and create a number of economic cities is aimed at strengthening growth in the private sector. The authorities are also placing a strong focus on the development of the SME sector through improvements in the business climate such as the streamlining of procedures to register a business, increased financing through banks and special credit institutions, credit scoring of SMEs, and training for potential entrepreneurs on how to run a business. In addition, the trade liberalization being discussed within the GCC and a further opening up to foreign direct investment in currently restricted sectors such as transportation would be supportive of the growth environment.

17. Labor market policies are aimed at improving skills and raising private sector employment of Saudi workers. Investments in education have quadrupled enrollments in tertiary education over the last 15 years, aiming to raise the productivity of Saudi workers and their ability to access high-paying private sector jobs. Since 2011, labor market reforms have been implemented focusing on a broad set of measures: (i) a revamped quota system (*Nitaqat*) that encourages firms to hire Saudis and imposes sanctions on non-compliant firms; (ii) a jobseekers allowance (*Hafiz*) which provides financial support to young job-seekers over a 12-month period; (iii) an increased minimum wage in the public sector; (iv) a "de facto" minimum wage for nationals in the private sector via the implementation of Nitaqat credits; and (v) active labor market policies and expanded job placement services. Meanwhile, public sector hiring of Saudis has continued.

18. The authorities explained that they are in the process of further developing labor market policies to improve the competitiveness of Saudi workers, including by:

- Using fees imposed on companies with a majority of expatriate workers to finance an expansion in the scope and duration of time-bound wage subsidies for Saudi workers in companies that are compliant with Nitaqat requirements.
- Considering an unemployment assistance scheme to provide a broad social safety net, while simultaneously looking at measures to improve the employment flexibility of Saudi workers.
- Improving the internal mobility and bargaining power of expatriate workers currently employed in firms that are not compliant with Nitaqat requirements.
- Increasing opportunities for female employment, with specific sectors (e.g. retail) being targeted.

19. The authorities and staff agreed that increasing the employment of Saudi nationals in the private sector is a priority and will require careful implementation of labor market policies. It will take time for these initiatives to take effect. At this stage, the data show that the considerable initial take-up of Hafiz has tapered off as people have reached the 12-month limit on benefits, and an unclear impact of Nitaqat.[3] Unemployment assistance benefits should be set at a level and duration to not discourage employment. With rising education levels amongst women, it will be important to consider additional ways of further expanding employment opportunities to utilize their human capital, such as improving childcare facilities, improving public transportation, and using flexible work arrangements such as teleworking. Unemployment of highly educated women in Saudi Arabia is high by international standards, and this reduces the productive potential of the economy. Consultation with private sector employers including on any further increases in fees on foreign workers could help manage the macroeconomic impact of the reforms, and wage subsidies should be monitored to ensure they benefit Saudi workers.

20. Investments in education are appropriate, and it will be important to continue strengthening the quality of education and addressing skill mismatches in the private sector. While spending on education clearly takes time to yield results, tracking indicators is important to ensure that progress is being made and government resources are being used efficiently. For example, scores of Saudi students on internationally standardized tests in mathematics and science are still relatively low (see Trends in International Mathematics and Science Study, 2011) (Figure 3).

21. As labor market reforms move forward, it will be important to ensure coordination with government policies elsewhere. In the near-term, with large infrastructure projects continuing and the building of new housing a priority, labor market policies that reduce the availability of expatriate labor may create bottlenecks in the economy. More generally, if efforts to boost the employment of Saudis in the private sector are to be successful, a reduced reliance on public sector jobs will be needed. Further, good data, including on wage developments, are needed to assess the impact of the reforms.

Housing an expanding population

22. An expanded supply of housing is needed to meet demographic trends and reduce pressure on rents. Urbanization, population growth, and smaller average sized households have boosted demand for housing. The lack of affordable housing saw a sharp increase in rents during 2007–11, which was one of the main drivers of inflation. The authorities stressed their multifaceted approach to addressing the housing situation by: (i) passing new mortgage legislation to increase access to housing finance; (ii) developing affordable housing by providing land and no interest loans to nationals—loans are provided through the Real Estate Development Fund (REDF), a specialized credit institution; and (iii) the proposed establishment of a real estate refinancing company under the umbrella of the Public Investment Fund.

23. Staff agreed that efforts to expand access to housing are appropriate and could make an important contribution to inclusive growth going forward. The new mortgage law should increase the availability of mortgage finance, and regulatory and supervisory guidelines have been put in place to cover non-bank institutions as they enter the mortgage market.

[3] See Selected Issues Paper, "Labor Market Policies for Addressing Saudi Unemployment."

Taming domestic energy consumption

24. There was broad agreement that, with a growing population, domestic energy consumption is likely to continue to rise sharply in the absence of policy reforms. Saudi Arabia has one of the highest levels of energy consumption per capita in the world and one of the lowest prices (for consumers and businesses). The pricing structure provides incentives for investment in energy-intensive industries and could result in continuing rapid growth in domestic energy consumption. If domestic consumption continues to grow at current rates it will reach more than 20 percent of output by 2018 (16 percent currently).

25. Staff recommended that the authorities start planning for an upward adjustment in domestic energy prices. An increase in energy prices over time would help curb the rapid growth of domestic consumption, reduce existing incentives in the growth model toward energy intensive industries, and strengthen the fiscal position. While low energy prices are one of the ways that oil wealth is distributed to the population, the benefits are heavily skewed toward the better off. However, an increase in energy prices would have an adverse impact on poor and vulnerable groups and compensatory measures would need to be put in place. Energy intensive industries would need time to adjust their production and cost structures to remain competitive. International experience with energy price reform suggests that such a policy adjustment will need to be well-planned, phased, and clearly explained and communicated to the population and businesses.

26. The authorities emphasized that they were taking steps to contain the growth of domestic energy demand and expand alternative sources of energy supply. Measures on the demand side are primarily focused on improving energy efficiency through strengthening building and appliance standards. On the supply side, energy sources are being diversified by continuing to develop gas and investing in solar energy to meet domestic needs. An increase in energy prices could be considered subsequent to the development of public transportation options, as planned over the medium-term.

B. Maintaining Macroeconomic Stability while Achieving Long-Term Development Goals

27. Maintaining macroeconomic stability and achieving development goals will require vigilance toward possible overheating risks, continued strong financial supervision, and fiscal reforms. The macroeconomic policy stance appears appropriate at present, although the authorities will need to remain vigilant and adjust policy settings if overheating pressures were to emerge. Measures to promote financial development should continue to be supported by strong regulation and supervision. While large fiscal buffers give the authorities the fiscal space to smooth government spending over the medium-term in the face of volatile oil revenues, fiscal reforms to further develop budget management and ensure the quality of spending could help achieve development goals.

Near-term macroeconomic policies

28. Inflation has increased and will need careful monitoring in the period ahead. Headline inflation has picked-up since the middle of 2012 to 3.8 percent in May 2013. Looking forward, there are likely to be a number of competing factors driving inflation. Seasonal pressures around Ramadan and Hajj may push inflation higher in the coming months, before it moderates toward the end of the year. Factors that should limit inflationary pressures include the relatively subdued global growth outlook, which will likely keep imported inflation in check. On-the-other-hand, the higher cost of labor that may result from ongoing labor market reforms could see prices increase—depending on how companies behave—and continued strong growth in the non-oil sector may test the capacity of the domestic economy. Increased access to finance could also see sustained strong credit growth and an increase in the relative demand for non-tradeables, particularly housing.

29. Under the fixed exchange rate, SAMA relies primarily on macro-prudential tools to manage demand and systemic financial sector risks. The macro-prudential framework has proven effective and served SAMA well during the global financial crisis. SAMA's regulatory loan-to-deposit and reserve requirement ratios constitute the main policy tools. Capital and provisioning buffers are facilitated through frequent consultations with banks. SAMA has encouraged banks to provision in a countercyclical way, and provisioning levels have been rebuilt since the financial crisis. Staff suggested that a formal, clear, and transparent macro-prudential framework would more explicitly codify SAMA's current practices. SAMA indicated that they are examining international experiences as they consider possible revisions to their framework.

30. Following an expansionary fiscal policy stance in 2011, the government has begun to set the budget on an adjustment path. The increase in current and capital expenditures in 2011 resulted in a large increase in the non-oil primary deficit.[4] The non-oil primary deficit began to adjust in 2012 as the government moderated spending growth (and it would have fallen further in the absence of the thirteenth month wage payment and higher spending from the government surplus fund).[5] Estimates suggest that the non-oil deficit will fall significantly further in 2013 as expenditure growth slows, partly as the one-off spending in 2012 unwinds. It should be noted, however, that to achieve the fiscal outcome projected in 2013, spending could exceed the budgeted amount by 14 percent, a smaller amount than seen in recent years, although one that is consistent with previous years of flat oil prices. This will require firm control of line ministry requests for additional within year spending.

31. Staff viewed macroeconomic policy settings as appropriate at present, but emphasized the need for vigilance on inflation against the background of continued strong growth in the non-oil sector. Fiscal policy is withdrawing stimulus from the economy this year (as measured by the declining non-oil primary balance) which will help manage demand and reduce pressures on inflation. This is appropriate given the limited role of monetary policy under the peg. Macro-

[4] The non-oil primary deficit is driven by government spending in Saudi Arabia, and is considered by staff as the best measure of the impact of fiscal policy on the non-oil economy and aggregate demand more generally.

[5] The thirteenth month wage payment results from the difference between the Gregorian and Hijri calendars and occurs every three years.

prudential policy settings appear appropriate at present. Were signs of inflationary pressures to emerge beyond expected seasonal effects or credit growth to accelerate significantly further, then either spending projects would need to be slowed or macro-prudential policies tightened, or both.

32. The authorities saw limited risks of overheating in the near-term. While they viewed the staff's 2013 growth projection as pessimistic, believing the momentum in the non-oil private sector would be stronger given ongoing reforms, they expected that the open Saudi economy, the subdued global economic outlook, and falling global food prices would all have a moderating impact on inflation, albeit with some lag. While wages could increase as a result of labor market reforms, they are only a small component of overall business costs, so an increase would have a limited impact on profitability and prices. Investments in housing were expected to contribute to reduced pressures on rent, and supply bottlenecks in construction were already being addressed through increased imports of key materials such as cement and better sequencing of capital projects.

Financial sector development and the exchange rate

33. There was agreement on the need to maintain financial stability while promoting financial development, which is a key part of the authorities' agenda to boost private sector growth (Box 4). The banking sector is well-capitalized, liquid, and profitable, and non-performing loans have continued to decline.[6] The authorities noted that Saudi Arabia was among the first countries to implement Basle III capital standards, and saw no difficulties for Saudi banks in meeting the capital, liquidity, and leverage ratios set out by the Basle Committee. Progress has been made in implementing many of the recommendations of the 2011 FSAP update (Appendix I). SAMA has tightened single-borrower limits in practice, developed system-wide stress tests, and is in the process of revising insurance regulations. Since the passage of the mortgage law in July 2012, loan-to-value ratios for mortgages have been put in place, and non-bank institutions entering the mortgage market will be licensed and supervised by SAMA. Increased lending to the SME sector is being supported by a strengthened credit information system and improvements to the accounting and managerial capacities of entrepreneurs. New prudential and listing rules issued by the Capital Markets Authority are aimed at deepening financial markets, while limiting speculation and enhancing investor protection. Opening the equity market to direct foreign participation is being considered, but would be done in a cautious way. While the government does not intend to issue debt for the purposes of developing a yield curve, public sector entities have recently increased Sukuk issuance. While actions have been taken to further strengthen the AML/CFT regime, the CFT bill has not been enacted yet. Staff noted that as the mortgage market expands, the further development of existing indicators to monitor the housing market will be important, with a reliable house price index a key need.

[6] Staff analysis on Saudi bank-by-bank data shows that NPLs are strongly negatively correlated with growth in the non-oil sector as well as oil prices, i.e. a drop in non-oil sector growth or oil prices would increase NPLs.

Box 4. Financial Deepening

Financial intermediation is dominated by banks. A significant share of bank lending is directed towards consumption—consumer spending and commerce account for over half of bank credit—suggesting banks could contribute more towards private investment, particularly with respect to SMEs and residential real estate. Deeper equity and fixed income markets could provide alternative saving instruments and allow companies to attract large deposits of excess liquidity trapped in the banking system.

- *SME finance*: The government has recapitalized its two SCIs that lend to SMEs and has tried to better integrate its effort with the banking system by guaranteeing up to 80 percent of SME loans (*Kafala program*). Improvements in the availability of credit information on SMEs, together with enhanced accounting and managerial standards and training programs for entrepreneurs (being implemented in conjunction with the IFC) could help boost the provision of credit by banks to this sector.
- *Real estate finance*: Although real-estate finance by banks to individuals has grown by more than 25 percent a year since early 2011, it still accounts for less than 5 percent of bank credit. The new mortgage legislation addresses issues in the legal framework with respect to foreclosure procedures and should make banks more willing to accept real estate as collateral. It also lays the foundation for the creation of non-deposit mortgage finance companies. Going forward, this is expected to help improve access to housing while broadening the availability of investment instruments for financial institutions.
- *Equity markets*: The equity market has seen substantial growth, but remains dominated by individual investors and state institutions. The private institutional investor base is small. Allowing foreigners to invest in the equity market would deepen the investor base and improve liquidity.
- *Fixed income markets*: Sovereign debt has declined, and there is no secondary trading. Currently, the government has no plans to issue debt for the purpose of capital market development. However, the Sukuk market saw significant growth in 2012 with quasi-government agencies and corporate issuance almost tripling to $10.5 billion.

34. **The fixed exchange rate remains appropriate given the current structure of the Saudi economy**. The peg to the U.S. dollar provides credibility to monetary policy and stability to trade, income flows, and financial wealth given the dominance of dollar denominated oil products in exports and the high share of dollar denominated external assets. Non-oil exports have grown as the authorities have pursued diversification, particularly in petrochemicals, but stood at 7 percent of GDP in 2012. External assets were 122 percent of GDP at end-2011. Empirical results, which are sensitive to the parameters assumed (e.g. the discount rate in the

External Position Assessment

(Percent of GDP in 2018, unless otherwise indicated)

Projected current account	11.3
MB current account norm[1]	8.8
ES current account norm[2]	18.8
Deviation from ERER, overvaluation (-) (percent)[3]	-1.2

Source: IMF staff estimates and projections.

[1] Follows specification II of Beidas-Strom and Cashin (2011).

[2] Follows a constant real per capita allocation rule similar to Bems and Carvalho Filho (2009).

[3] As of end-2012.

external sustainability calculation), do not yield clear conclusions on whether the current account is at the appropriate level (text table, and Appendix II). Over time, as the structure of the economy continues to evolve, both in terms of macroeconomic linkages and as a result of ongoing labor market reforms, the costs and benefits of the peg may change, and staff suggested its appropriateness should be periodically reviewed in coordination with other GCC countries. In the meantime, reforms that would support a more flexible arrangement if it becomes appropriate at a later date, such as strengthening the liquidity forecasting framework, should continue.

Fiscal policy

35. The fiscal position is strong, with risks mainly stemming from oil prices. In recent years, the government has smoothed oil price volatility, run large budget surpluses, and built significant buffers against a possible drop in oil revenues by lowering outstanding debt to less than 4 percent of GDP and building deposits at the central bank of 58 percent of GDP, sufficient to cover some 20 months of spending.[7] Nevertheless, the fiscal breakeven price—the price needed to balance the budget at current expenditure levels—has risen in recent years, and the biggest fiscal risk is from a sustained drop in oil prices (see Figure 5).

36. Against this background, there are three main priorities for fiscal policy. Besides managing aggregate demand in the near term (see paragraph 31), fiscal policy needs to manage the volatility of oil revenues to ensure that there are no abrupt and procyclical adjustments in planned government expenditures due to swings in the oil price. Over the longer-term, a third important priority is to ensure that oil revenues realized today benefit future as well as current generations, both through financial saving and by efficient government investment that supports stronger growth in the future.

[7] Two scenarios were developed to consider the adequacy of fiscal buffers. First, under a scenario where the oil price drops by one standard deviation (which puts the WEO oil price at $95 a barrel in 2013 and declining to $53 a barrel in 2018, and steady thereafter), and expenditures do not adjust, government deposits would fall to zero and debt would rise to 50 percent of GDP by 2021. Second, under a scenario where oil prices fall to $80/barrel in 2013 and beyond, existing fiscal buffers would get exhausted by 2025. Of course, the adjustment of government spending to the lower oil price, which would be expected to happen as it did in the 1980s and 1990s, would prolong the period before which fiscal buffers are exhausted in both scenarios.

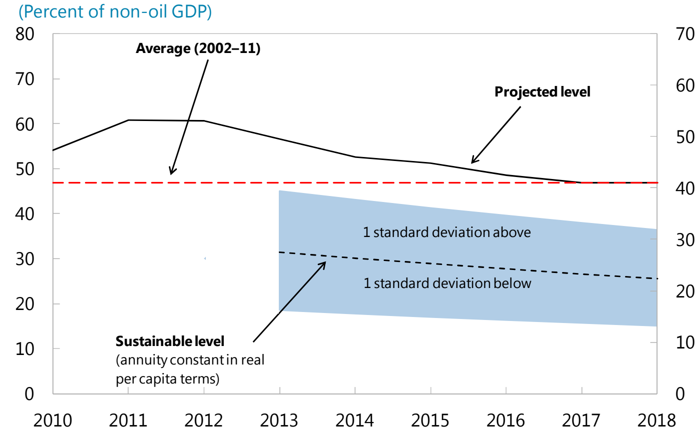
Saudi Arabia: Fiscal Balances, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013 Proj.
Overall Balance								
Percent of GDP	20.8	11.8	29.8	-5.4	3.6	11.2	12.4	7.1
Percent of non-oil GDP	42.0	23.6	66.2	-9.1	6.5	22.7	24.4	13.0
Non-Oil Primary Balance								
Percent of non-oil GDP	-42.5	-49.1	-47.1	-54.2	-54.1	-60.9	-60.6	-56.6
Structural Balance								
Percent of GDP	0.6	1.6	4.2	4.9	1.0	-4.0	-3.3	0.4
Percent of non-oil GDP	1.2	3.2	9.3	8.2	1.8	-8.1	-6.6	0.7
Memo Items								
Structural Oil Revenue								
Percent of GDP	22.6	25.9	24.8	37.3	31.4	26.0	27.3	31.1
Oil Price (US$ per barrel)	64.3	71.1	97.0	61.8	79.0	104.0	105.0	100.1
Long-Term Oil Price	33.7	41.6	49.9	62.4	67.3	72.5	81.5	89.5

Sources: Country authorities; and IMF staff estimates.

37. **Staff suggested that the concept of a structural budget balance would be useful as a way of managing the volatility of oil revenues.** The structural budget balance is a measure of the underlying fiscal position once oil revenue volatility (caused by temporary price or output fluctuations) is excluded.[8] Based on this concept, the authorities have achieved a slightly positive (1.3 percent of non-oil GDP) structural balance on average since 2006.[9] A structural balance of around zero, as is projected in 2013, means that government spending is in line with the underlying trend in oil revenues and is a reasonable objective in the near-term given the fiscal buffers that have already been established (text Table). With oil prices and output projected to moderate over the medium-term, a structural balance of zero would entail a slowing in the pace of fiscal spending, as envisaged in the baseline scenario. Real expenditure is expected to be flat over the medium term due to an unwinding of the surge in capital expenditure, which is anticipated to fall by 2 percentage points of GDP, and restraint in the wage bill that is projected to remain constant in real terms. This implies an adjustment in the non-oil deficit of close to 14 percent of non-oil GDP between 2012 and 2018. Over time, aiming for a positive

Projected and Sustainable Non-oil Primary Deficit, 2010–18
(Percent of non-oil GDP)



Sources: Country authorities; and IMF staff calculations.

[8] See Selected Issues Paper "Assessing Fiscal Policy and Fiscal Risks in Saudi Arabia."

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

structural budget balance (which would imply a larger decline in the non-oil deficit over the medium-term) would increase saving for intergenerational purposes. At present, the non-oil primary deficit is well above its sustainable level as estimated from a model that considers the savings that would need to be accumulated to finance government spending when oil reserves are exhausted.[10]

38. Staff recommended a number of policy measures to ensure the non-oil fiscal deficit is reduced further in 2018 and beyond. These included: (i) keeping government wages and salaries under firm control; (ii) developing non-oil revenue sources (VAT and excise taxes) in line with the expanding non-oil economy; (iii) raising domestic energy prices gradually over time; and (iv) ensuring the quality and efficiency of spending, including by paying close attention to outcomes in the health, education, and infrastructure sectors to ensure that the objectives of this spending are being met. The authorities anticipated that the non-oil fiscal deficit would decline over time as large investments in infrastructure taper off. Together with education spending, these investments would boost growth prospects in the non-oil private sector.

39. Fiscal reforms could further develop budget management processes and ensure the quality of government spending to achieve development goals. Fiscal management has been strengthened over the past decade, and the volatility of government spending has declined. Nevertheless, spending (both capital and current) has consistently exceeded budgeted amounts by a wide margin—26 percent on average since 2006. Staff suggested that while the current system has the advantage of building spending buffers into the budget process, it reduces the information content of the initial budget, makes expenditure planning more difficult, and raises the risk that inefficient spending takes place. Consideration could therefore be given to moving to a budget preparation framework where the expenditure envelope is set based on an overall target for the structural balance that is determined based on longer-term fiscal goals. The authorities thought this framework could be useful, but stressed the need for flexibility given large uncertainties relating to long-term oil prices.

40. Staff emphasized the benefits of developing a formal medium-term budget framework, establishing a macro-fiscal unit, and publishing fiscal data in *GFSM 2001* format. This would better integrate the five-year National Development Plan into the annual budget planning process, look at the impact of current year commitments in a multi-year setting, and identify fiscal risks on both the revenue and expenditure side. To support this framework and strengthen controls on line ministries, the planned introduction of the Government Financial Management Information System (GFMIS) is important. The establishment of a macro-fiscal unit in the Ministry of Finance would also help in linking budget policies to macroeconomic objectives and in deepening the understanding of how fiscal decisions affect the real economy. Lastly, fiscal planning and transparency would be helped by the production and publication of data in line with

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[10] The sustainable level of the non-oil primary deficit is estimated by (i) projecting oil revenues based on proven reserves and an assumed path for future oil prices, and (ii) calculating the constant annuity in real per capita terms that can be derived by investing the oil revenues. Staff estimates indicate that the sustainable level of the non-oil primary deficit is 30 percent of non-oil GDP in 2013. Higher (lower) oil prices would allow a greater (smaller) non-oil primary deficit.

GFSM2001 standards. The authorities responded that they were working to strengthen public financial management through the introduction of GFMIS, and with the assistance of Fund technical assistance were moving toward implementing GFSM2001.

41. **Early action to address shortfalls in pensions funding could help reduce future fiscal risks.** Discussions with the two main pension agencies —the Public Pension Fund (PPF) and the General Organization for Social Insurance (GOSI)—indicated that contributions are not sufficient to fully fund retirement benefits on an individual basis. While this shortfall will be covered for many years by favorable demographics, it will eventually become a fiscal cost. The lesson from the very difficult situation in many of the industrial countries at present is that it is much better to address these pension issues at an early stage and well ahead of the time when the currently young population is nearer to retirement age.

Economic statistics

42. **Considerable progress has been made in improving the quality and availability of key economic statistics.** In particular, the authorities have released revised national accounts and rebased CPI data, have published IIP data for 2007–11, are working to improve the coverage of financial flows in the balance of payments, and have submitted FSI indicators on a quarterly basis (although they are not yet published). These are important achievements. Further progress is needed, however, in the areas of government finance, national accounts, labor, and real estate market statistics, as well as in implementing the action plan agreed with the recent technical assistance mission on the IMF's Special Data Dissemination Standards.

STAFF APPRAISAL

43. **The economy is growing strongly, the outlook is positive, and risks are broadly balanced.** Saudi Arabia has been one of the best performing G-20 economies in recent years. In 2013, non-oil private sector growth is projected be strong, although a decline in oil output and a slowdown in the pace of fiscal spending are expected to see overall GDP growth slow to 4 percent from 5.1 percent in 2012. Inflation has picked up since mid-2012, driven largely by food prices. Risks to the growth outlook are balanced and center around the outlook for the oil market and the success of the domestic reform program currently being implemented by the government.

44. **Saudi Arabia plays a systemic and stabilizing role in the global oil market.** In line with this role, Saudi Arabia increased oil production in 2011 and 2012 to help prevent supply disturbances in other countries from having a negative impact on global growth. Within the Middle East region, Saudi Arabia is a generous provider of financial assistance, and large remittance flows from expatriates working in the country provide important income flows to countries in the region and in south Asia.

45. **The Saudi population is young and will continue to grow rapidly in the coming years.** As this young and increasingly well-educated population enters into its working-age years, there is a

tremendous opportunity to boost growth and raise living standards further. Of course, there will also be challenges in terms of creating jobs, addressing housing needs, and managing demand on the natural resources of the country. Reforms are underway to address some of these challenges and sustain strong private sector growth as government spending slows, including in the areas of job creation, housing, infrastructure development, and increased financing and support of the SME sector.

46. Staff supports initiatives to improve the competitiveness of Saudi workers in the private sector, but these need to be carefully implemented and coordinated with other policies. Investments in education are appropriate to strengthen the skills of the Saudi population, but the quality of education needs to be carefully monitored, while labor market policies are being developed to increase the employment of Saudi nationals (including women) in the private sector. Consultations with private sector employers could help manage any macroeconomic impact from labor market reforms. Changes in the availability of foreign labor could create bottlenecks, and coordination with macroeconomic policies will be needed. At the same time, it will be important to reduce the reliance in the economy on public sector jobs.

47. Saudi Arabia is pursuing policies to contain the growth in domestic energy demand and develop alternative energy sources. With one of the highest levels of energy consumption per capita in the world, the government is following a number of policies to improve energy conservation and develop gas and solar energy. However, an upward adjustment of energy prices over time is needed to curb consumption growth. It is essential that lower income groups are not affected by such changes, and measures would need to be in place to compensate them for higher prices. A phased approach would allow businesses time to adjust their cost structure and maintain competitiveness.

48. Macroeconomic policies need to remain vigilant for signs of overheating. Fiscal policy looks set to appropriately slow the pace of spending growth this year to help contain demand pressures. Macroprudential policy settings appear appropriate at present. Were signs of inflationary pressures to emerge, then either capital spending projects would need to be slowed or macro-prudential policy tightened, or both. Over the medium-term, the non-oil fiscal deficit is expected to decline as infrastructure spending tapers off, but policy measures on the revenue and expenditure side will be needed to further strengthen the fiscal position and increase savings for future generations.

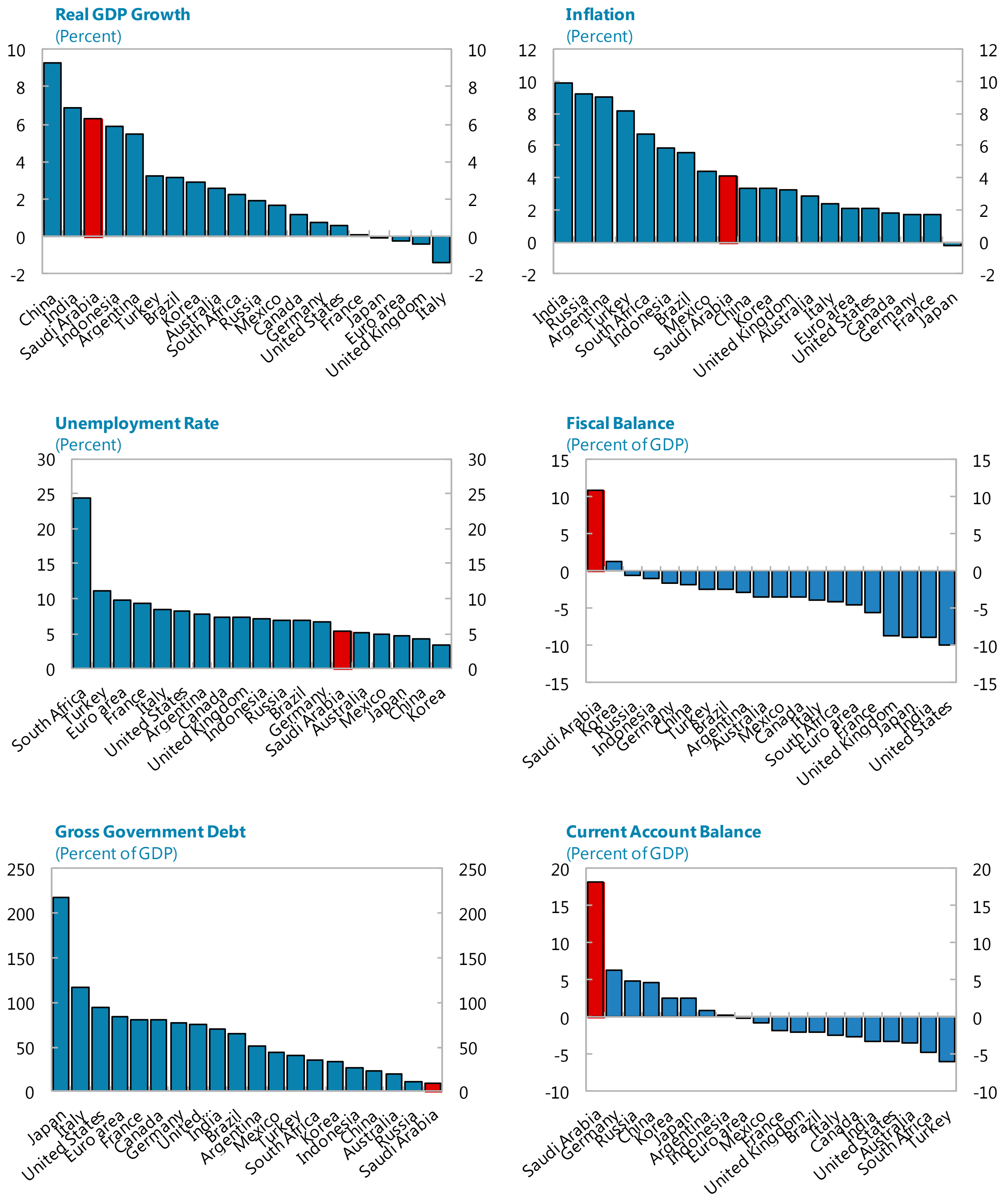
49. Measures to promote financial development should continue in step with ongoing reforms to strengthen financial sector regulation and supervision. Saudi Arabia was among the first countries to implement Basle III capital standards for the banking system, which remains well-capitalized, liquid, and profitable. With the passage of the mortgage law, a regulatory and supervisory framework is appropriately being put in place for non-bank institutions entering the market. The further development of a reliable house price index will be needed to help monitor developments in the housing sector as exposures to the mortgage market increase.

50. From a position of strength, now is a good time to consider fiscal reforms that would further develop budget management and ensure the quality of government spending to achieve development goals. As fiscal management has been strengthened over the past decade, the volatility of government spending has declined. The budget process could be further strengthened by moving to a medium-term budget framework that better integrates the five-year National Development Plans and sets the expenditure envelope based on a long-term estimate of the oil price. This would help strengthen the alignment of the budget with macroeconomic goals and improve expenditure planning. This could be supported by the establishment of a macro-fiscal unit, the introduction of the Government Financial Management Information System (GFMIS), and the publication of fiscal data in GFSM2001 format.

51. Considerable progress has been made in improving the quality and availability of key economic statistics. Further progress is needed, however, particularly in the areas of government finance, national accounts, labor, and real estate market statistics. Moving ahead to subscribe to the IMF's Special Data Dissemination Standards is an important and achievable goal.

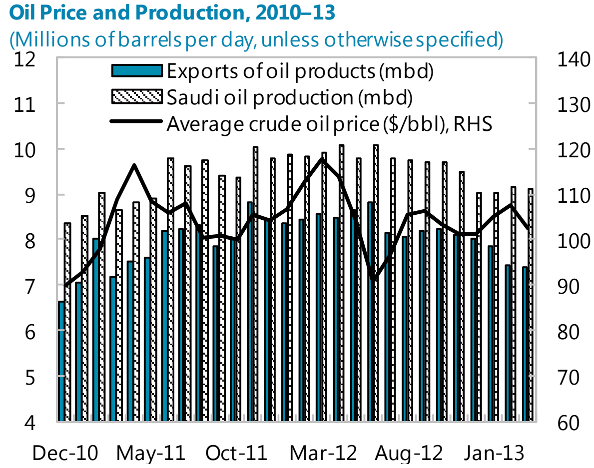
52. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

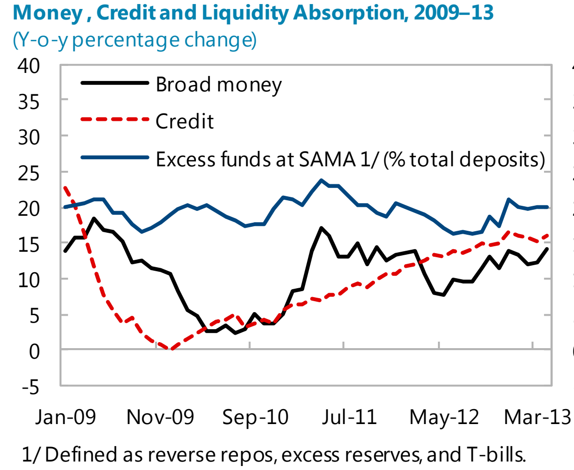
Figure 1. Saudi Arabia and G-20 Comparators: Selected Economic Indicators, 2008–12 Averages

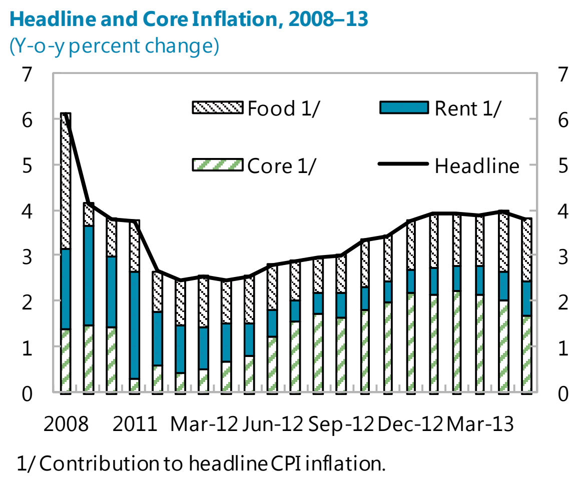


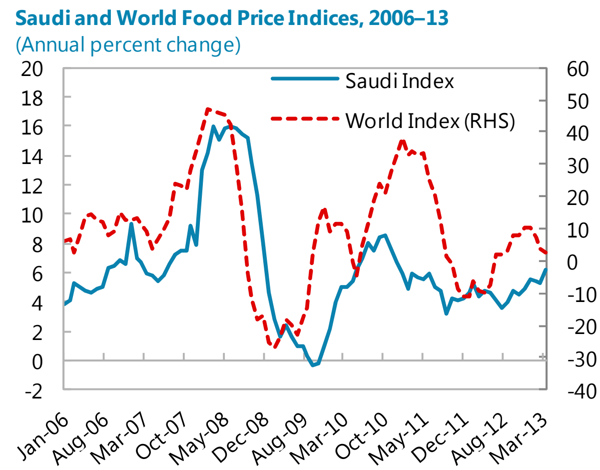
Sources: Country authorities; and IMF staff calculations.

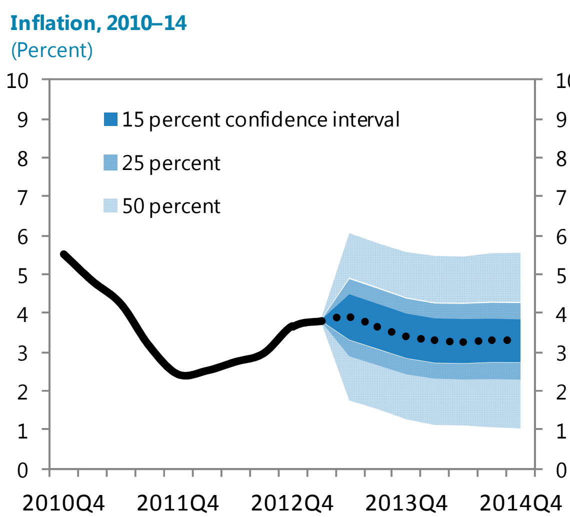
Figure 2. Growth and Inflation

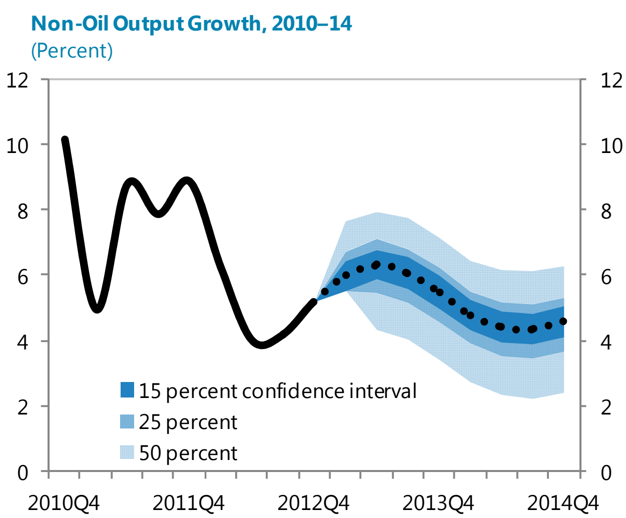








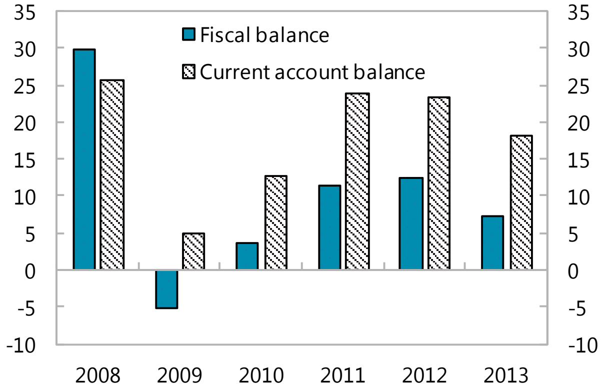




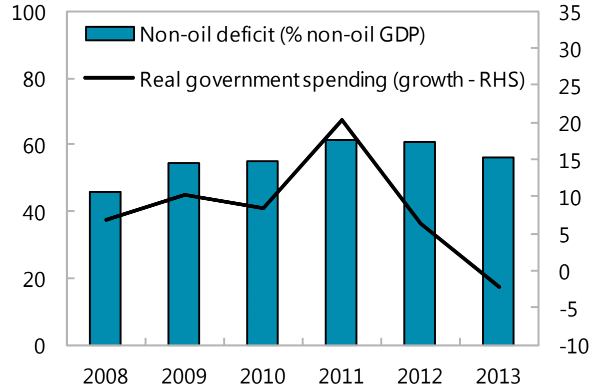
Sources: WEO database; JODI; country authorities; and IMF staff calculations.

Figure 3. Fiscal and External Sector

Fiscal and Current Account Balances, 2008–13
(Percent of GDP)

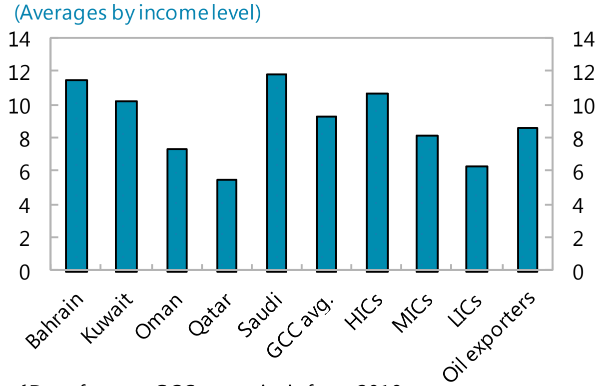


Real Government Spending[1], 2008–13
(Percent)



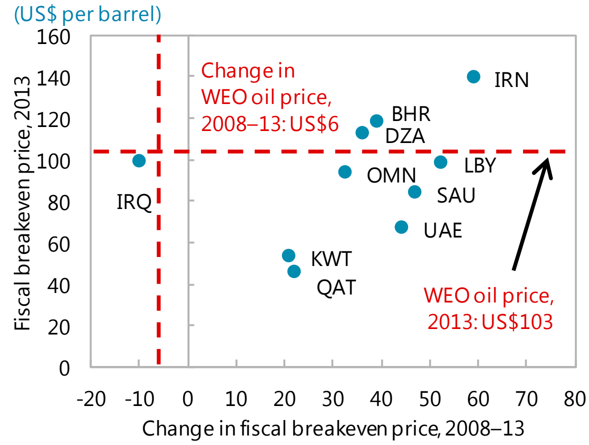
[1]Real expenditures are deflated by the CPI index.

Wage Bill in percent of Total GDP, 2012[1]
(Averages by income level)

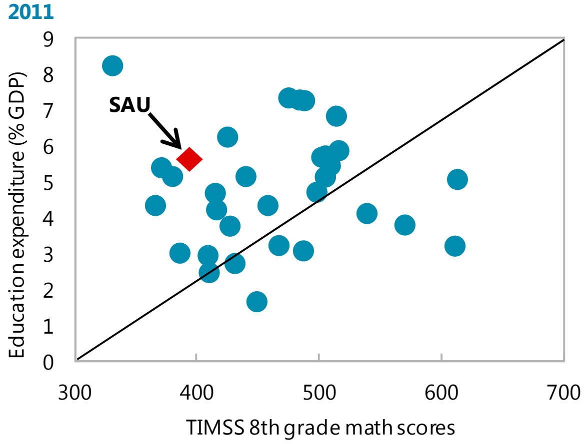


[1]Data for non-GCC countries is from 2010.
Note: General government where available, otherwise central.

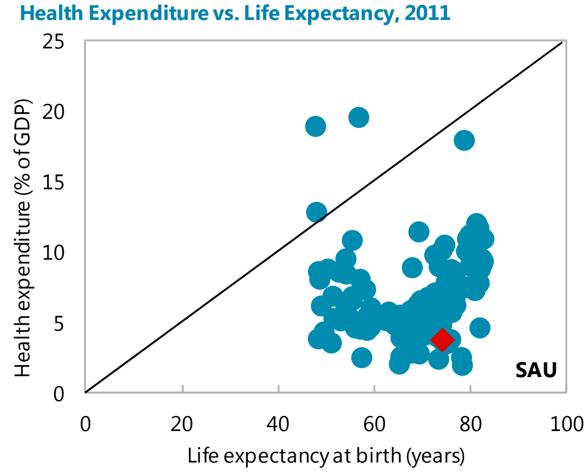
Fiscal Breakeven Oil Price, 2008–13
(US$ per barrel)



Education Expenditure vs. TIMSS 8th Grade Math Scores, 2011

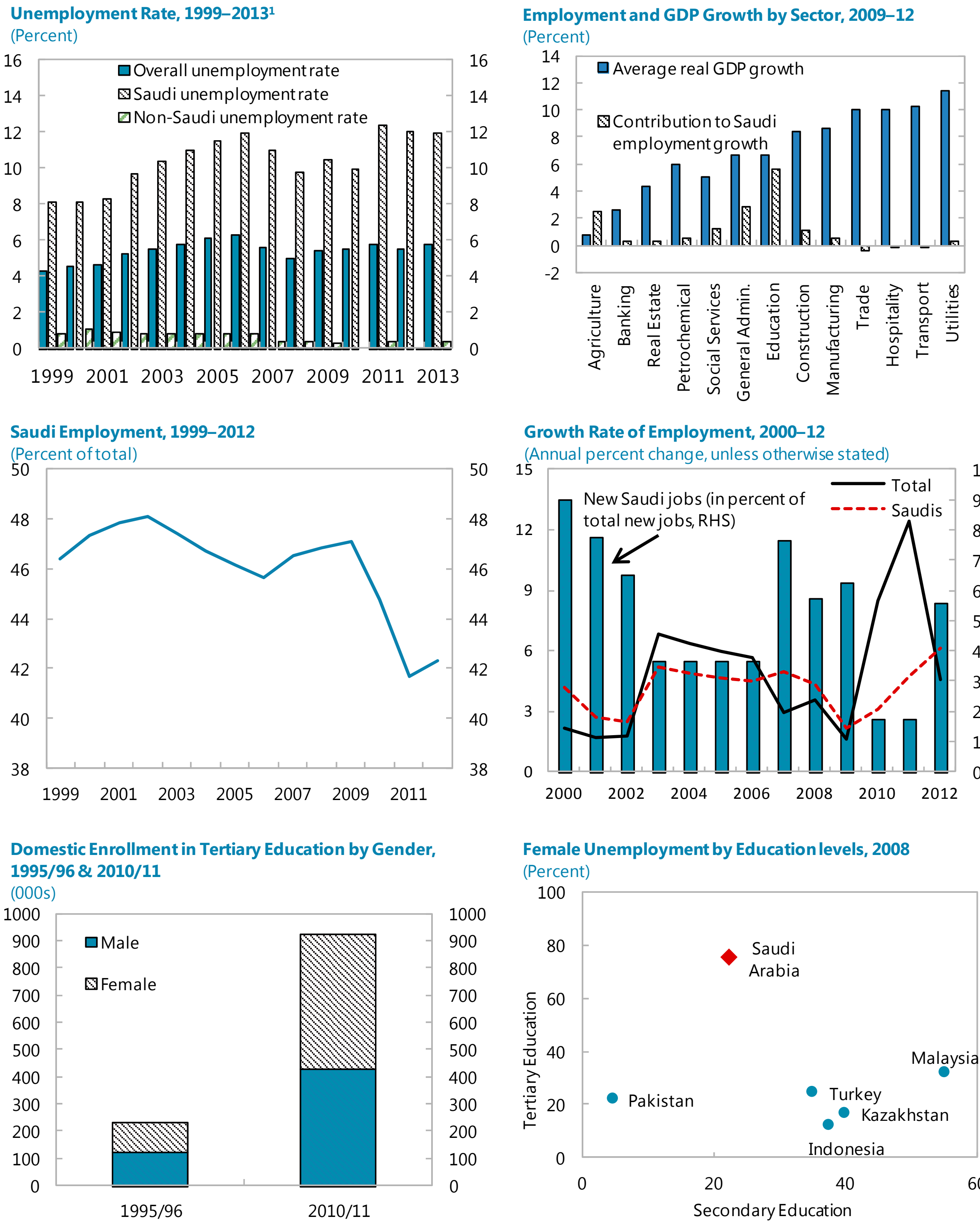


Health Expenditure vs. Life Expectancy, 2011



Sources: WEO database; country authorities; and IMF staff calculations.

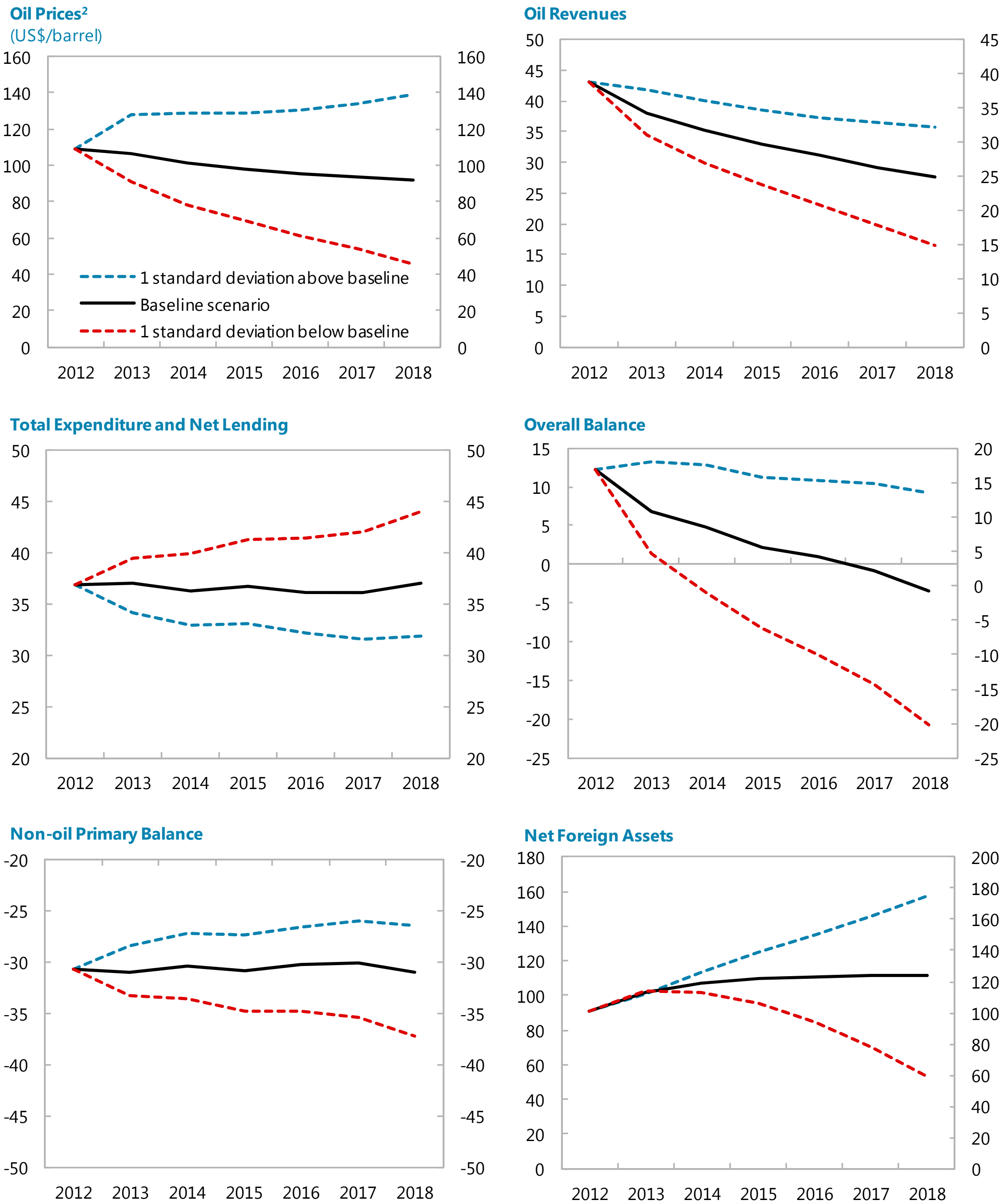
Figure 4. Labor Market and Education Indicators



Sources: Country authorities; CDSI; Manpower Research Bulletin; WDI; and IMF staff calculations.
[1]Data for 2013 are from end-March.

Figure 5. Impact of Oil Prices on the Fiscal Balances[1]

(Percent of GDP unless otherwise stated)



Sources: Country authorities; and IMF staff calculations.

[1] Assumes no fiscal policy action. Differences in expenditure and non-oil balance ratios are driven by the impact of lower oil prices on nominal GDP.

[2] Standard deviation bands based on a 68 percent confidence interval derived from WTI and Brent option contracts on May 30, 2013.

Table 1. Saudi Arabia: Selected Economic Indicators, 2010–18

				Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
				(Percent change; unless otherwise indicated)					
National income and prices									
Crude oil production (million of barrels per day) [1]	8.2	9.3	9.8	9.4	9.5	9.7	9.8	10.0	10.1
Average oil export price (U.S. dollars per barrel) [2]	77.6	107.1	109.5	106.8	101.7	98.2	95.5	93.3	91.7
Nominal GDP (SAR billions)	1,976	2,511	2,666	2,694	2,768	2,873	2,993	3,131	3,289
Nominal GDP (US$ billions)	527	670	711	718	738	766	798	835	877
Nominal GDP per capita (US$)	19,113	23,599	24,524	24,247	24,394	24,824	25,356	26,009	26,783
Real GDP	7.4	8.6	5.1	4.0	4.4	4.3	4.3	4.3	4.3
Oil	0.3	11.0	5.5	-3.3	0.9	1.4	1.3	1.3	1.3
Non-oil	9.5	7.9	5.0	5.9	5.2	5.0	5.0	5.0	5.0
Real GDP—public sector	7.5	8.7	5.4	4.5	3.0	3.0	3.0	3.0	3.0
Real GDP—private sector	10.3	7.7	4.9	6.5	6.0	5.7	5.6	5.6	5.6
Consumer price index (avg)	3.8	3.7	2.9	4.0	3.7	3.6	3.5	3.5	3.5
External sector									
Exports f.o.b.	30.6	45.2	6.5	-5.4	-2.4	-0.6	0.3	0.9	1.5
Oil	32.0	47.6	6.2	-7.3	-4.5	-2.7	-2.0	-1.5	-1.0
Non-oil	22.7	31.3	8.1	7.2	9.8	9.9	10.4	10.5	10.3
Imports f.o.b.	11.9	23.1	18.2	6.2	5.1	5.1	5.3	5.9	5.9
Current account balance (percent of GDP)	12.7	23.7	23.2	18.1	15.1	12.9	11.6	11.3	11.3
Export volume	1.1	5.6	4.6	-2.0	3.1	3.6	3.7	3.9	3.9
Import volume	5.3	12.6	18.1	6.3	5.7	5.0	4.9	4.9	4.9
Terms of trade	17.4	17.3	2.3	-3.9	-3.5	-3.1	-2.7	-2.7	-2.2
Money and credit									
Net foreign assets	7.3	22.3	19.7	12.0	8.1	…	…	…	…
Credit to government (net)	6.0	24.1	32.2	13.5	8.5	…	…	…	…
Credit to private sector	5.7	10.6	16.4	14.3	13.1	…	…	…	…
Credit to state enterprises	14.7	-1.4	24.4	6.9	5.8	…	…	…	…
Money and quasi-money (M3)	5.0	13.3	13.9	11.4	10.1	…	…	…	…
3-month Interbank rate (percent p.a.)	0.74	0.69	0.92	…	…	…	…	…	…
					(Percent of GDP)				
Central government finances									
Revenue	37.5	44.5	46.8	41.7	39.1	36.9	35.0	33.1	31.4
Of which: oil	33.9	41.2	42.9	37.9	35.2	33.0	31.1	29.2	27.6
Expenditure	34.0	33.4	34.4	34.6	33.9	34.4	33.8	33.7	34.6
Expense	23.0	21.9	22.9	23.1	23.3	24.2	24.2	24.1	25.0
Net acquisition of non-financial assets	10.9	11.4	11.5	11.5	10.7	10.1	9.6	9.6	9.6
Net lending (+)/borrowing (-)	3.6	11.2	12.4	7.1	5.2	2.5	1.2	-0.5	-3.1
Excluding oil revenue	-30.4	-30.0	-30.6	-30.7	-30.0	-30.5	-29.9	-29.8	-30.7
Non-oil primary balance/non-oil GDP	-54.1	-60.9	-60.6	-56.6	-52.6	-51.2	-48.5	-46.9	-46.9
Central government's gross domestic debt	8.5	5.4	3.7	3.3	2.8	2.4	1.9	2.2	2.4
Memorandum items:									
SAMA's total net foreign assets	440.4	535.2	647.6	729.3	790.9	841.4	885.1	930.0	979.7
In months of imports of goods and services [3]	26.7	29.8	34.1	36.5	37.7	38.2	38.0	37.8	37.8
Imports goods & services/GDP	18.5	17.9	19.9	21.0	21.4	21.7	22.0	22.2	22.4
Real effective exchange rate (2000=100)	85.9	83.9	87.5	…	…	…	…	…	…
Average exchange rate Saudi riyal/U.S. dollar	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Population (millions)	27.6	28.4	29.0	29.6	30.3	30.9	31.5	32.1	32.7
Unemployment rate (nationals, in percent of total)[4]	10.0	12.4	12.1	12.0	…	…	…	…	…
All-Shares Price Index (TASI)	6,621	6,418	6,801	…	…	…	…	…	…

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] Observation for 2013 is the first quarter outcome.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2010–18

			Budget		Budget			Proj.			
	2010	2011	2012	2012	2013	2013	2014	2015	2016	2017	2018
						(Billions of Saudi Arabian riyals)					
Revenue	741.6	1,117.8	702.0	1,246.6	829.0	1,124.7	1,082.0	1,060.5	1,046.5	1,037.4	1,034.2
Oil	670.3	1,034.4	621.0	1,144.8	733.3	1,020.2	974.4	948.6	930.0	915.7	907.0
Non-oil	71.4	83.4	81.0	101.8	95.7	104.4	107.5	111.9	116.5	121.7	127.2
Taxes	21.8	26.8	22.8	34.0	26.9	35.0	36.7	38.7	40.9	43.4	46.1
Taxes on income and profits	7.1	9.5	7.0	12.5	8.3	12.6	13.4	14.5	15.7	17.0	18.4
Taxes on international trade	14.7	17.3	15.8	21.5	18.7	22.4	23.3	24.2	25.2	26.5	27.7
Other revenues	49.6	56.7	58.2	67.7	68.7	69.5	70.9	73.2	75.6	78.2	81.1
Non-tax revenues [1]	15.7	18.6	14.8	20.3	17.4	20.0	20.7	21.5	22.2	23.0	23.8
Fees and charges [2]	30.9	33.1	33.4	37.5	39.5	38.0	39.1	40.2	41.4	42.7	44.1
Investment income	2.9	4.9	10.0	9.9	11.8	11.5	11.1	11.5	12.0	12.5	13.2
Expenditure	671.0	837.5	694.5	917.1	821.0	932.1	939.1	987.4	1,010.9	1,054.2	1,136.7
Expense	455.0	550.5	472.0	611.6	536.0	622.1	643.7	696.5	723.6	753.6	821.0
Compensation of employees [3]	248.4	289.0	268.5	316.7	307.1	319.3	331.1	371.4	384.5	397.9	446.2
Purchase of goods and services	168.6	217.5	159.0	218.5	181.8	227.1	233.3	242.1	252.3	264.0	277.2
Subsidies [4]	5.9	9.5	9.3	10.5	10.0	10.6	12.9	14.3	15.8	17.3	18.9
Social benefits [5]	20.6	25.9	28.0	58.7	29.0	60.3	62.0	64.5	67.4	70.8	74.5
Grants	0.7	0.7	0.8	1.1	0.9	1.1	1.1	1.1	1.1	1.1	1.1
Interest payments	10.9	7.8	6.4	6.1	7.3	3.7	3.3	2.9	2.5	2.5	2.9
Net acquisition of non-financial assets	215.9	287.0	222.5	305.5	285.0	310.0	295.4	290.9	287.3	300.6	315.7
Budgeted capital expenditures	198.8	276.2	…	261.7	…	300.0	285.4	280.9	277.3	290.6	305.7
Budget surplus fund [6]	17.1	10.8	…	43.8	…	10.0	10.0	10.0	10.0	10.0	10.0
Gross operating balance	286.6	567.3	230.0	635.0	293.0	502.6	438.2	364.0	322.9	283.8	213.2
Net lending (+)/borrowing (-)	**70.6**	**280.3**	**7.5**	**329.5**	**8.0**	**192.6**	**142.8**	**73.1**	**35.6**	**-16.8**	**-102.5**
						(Percent of GDP)					
Revenue	37.5	44.5	26.3	46.8	30.8	41.7	39.1	36.9	35.0	33.1	31.4
Oil	33.9	41.2	23.3	42.9	27.2	37.9	35.2	33.0	31.1	29.2	27.6
Non-oil	3.6	3.3	3.0	3.8	3.6	3.9	3.9	3.9	3.9	3.9	3.9
Expenditure	34.0	33.4	26.0	34.4	30.5	34.6	33.9	34.4	33.8	33.7	34.6
Expense	23.0	21.9	17.7	22.9	19.9	23.1	23.3	24.2	24.2	24.1	25.0
Compensation of employees [3]	12.6	11.5	10.1	11.9	11.4	11.8	12.0	12.9	12.8	12.7	13.6
Purchase of goods and services	8.5	8.7	6.0	8.2	6.7	8.4	8.4	8.4	8.4	8.4	8.4
Subsidies [4]	0.3	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Social benefits [5]	1.0	1.0	1.1	2.2	1.1	2.2	2.2	2.2	2.3	2.3	2.3
Interest payments	0.6	0.3	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Operations and maintenance	2.7	2.4	2.6	2.5	3.0	2.6	2.6	2.6	2.6	2.6	2.6
Net acquisition of non-financial assets	10.9	11.4	8.3	11.5	10.6	11.5	10.7	10.1	9.6	9.6	9.6
Gross operating balance	14.5	22.6	8.6	23.8	10.9	18.7	15.8	12.7	10.8	9.1	6.5
Net lending (+)/borrowing (-)	**3.6**	**11.2**	**0.3**	**12.4**	**0.3**	**7.1**	**5.2**	**2.5**	**1.2**	**-0.5**	**-3.1**
(excl. oil revenue)	-30.4	-30.0	-23.0	-30.6	-26.9	-30.7	-30.0	-30.5	-29.9	-29.8	-30.7
Memorandum items:											
Non-oil overall balance	-599.6	-754.0	-613.5	-815.3	-725.4	-827.7	-831.6	-875.5	-894.4	-932.5	-1,009.5
Non-oil primary balance	-591.6	-751.1	…	-819.2	…	-835.4	-839.3	-884.0	-903.8	-942.6	-1,019.7
Non-oil revenue (excl. investment income)/non-oil GDP	6.3	6.4	5.3	6.8	5.7	6.3	6.0	5.8	5.6	5.4	5.3
Current balance	286.6	567.3	…	635.0	…	502.6	438.2	364.0	322.9	283.8	213.2
Primary balance (excl. interest payments)/GDP	4.1	11.5	0.5	12.6	0.6	7.3	5.3	2.6	1.3	-0.5	-3.0
Non-oil primary balance/non-oil GDP	-54.1	-60.9	…	-60.6	…	-56.6	-52.6	-51.2	-48.5	-46.9	-46.9
Gross domestic debt/GDP	8.5	5.4	…	3.7	…	3.3	2.8	2.4	1.9	2.2	2.4
GDP market prices (SAR billions)	1,976	2,511	2,666	2,666	2,694	2,694	2,768	2,873	2,993	3,131	3,289
Non-oil GDP (SAR billions)	1,094	1,234	1,351	1,351	1,477	1,477	1,597	1,726	1,862	2,011	2,172

Sources: Ministry of Finance; and IMF staff projections.

[1] Charges for communications, post office, water, air rights, landing fees, telephone license fees, residence fees, and passport fees.

[2] Zakat contributions, government sales of property, fines, rental of government property, and employers contributions to job-seekers allowance.

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

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

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

[6] Capital expenditures financed by earmarked funds from the surpluses accumulated in previous years in the Budget Surplus Fund.

Table 3. Saudi Arabia: Fiscal Operations of the General Government, 2006–12

(Percent of GDP)

	2006	2007	2008	2009	2010	2011	2012
I. Budgetary central government							
Revenue	48.1	41.2	56.5	31.7	37.5	44.5	46.8
Expenditure	27.3	29.5	26.7	37.1	34.0	33.4	34.4
Overall balance	20.8	11.8	29.8	-5.4	3.6	11.2	12.4
Primary balance	22.8	13.1	30.7	-4.5	4.1	11.5	12.6
II. Autonomous Government Institutions (AGIs)							
Public Pension Agency (PPA)							
Revenue	2.8	2.7	2.0	2.4	1.9	1.4	3.3
Expenditure	1.6	1.7	1.4	2.0	1.9	1.5	1.7
Overall balance	1.2	1.0	0.6	0.4	0.0	-0.2	1.7
Primary balance	1.2	1.0	0.6	0.4	0.0	-0.2	1.7
General Organization for Social Insurance (GOSI)							
Revenue	1.4	1.5	1.0	1.2	1.3	1.0	1.1
Expenditure	0.4	0.4	0.4	0.5	0.5	0.4	0.5
Overall balance	0.9	1.0	0.6	0.7	0.8	0.6	0.5
III. Public Investment Fund (PIF)							
Revenue	1.4	1.2	1.0	0.7	0.9	0.6	0.7
Expenditure	0.1	0.0	0.4	0.6	3.1	0.2	0.2
Overall balance	1.4	1.2	0.6	0.1	-2.2	0.4	0.5
IV. General government (=I+II+III)							
Overall balance	24.4	15.0	31.6	-4.1	2.1	12.0	15.0
Primary balance	26.3	16.4	32.5	-3.2	2.7	12.3	15.3
Memorandum items: net assets(+)/debt (-)							
i. Central government debt	-25.8	-17.1	-12.1	-14.0	-8.5	-5.4	-3.7
ii. Autonomous government institutions	42.8	46.9	32.6	42.9	38.9	31.0	31.4
Of which: PPA	26.3	26.6	18.1	24.0	21.3	17.1	17.8
Of which: GOSI	16.5	20.3	14.4	18.9	17.6	13.9	13.7
iii. Public Investment Fund	9.1	10.7	9.1	11.2	10.0	8.3	9.7
iv. General government (=i+ ii+iii)	26.0	40.5	29.7	40.1	40.4	33.9	37.5
v. Government Deposits held at SAMA	24.2	33.0	54.0	58.0	51.0	47.9	57.6
vi. Net assets (iv + v)	50.3	73.5	83.6	98.1	91.5	81.8	95.1

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

Table 4. Saudi Arabia: Summary Balance of Payments, 2010–18

(US$ billions)

				Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current account	66.8	158.5	164.8	129.9	111.8	99.0	92.4	94.2	98.9
(percent of GDP)	12.7	23.7	23.2	18.1	15.1	12.9	11.6	11.3	11.3
Trade balance	153.7	244.8	246.6	216.7	200.3	190.3	182.5	175.5	170.1
Exports	251.1	364.7	388.4	367.3	358.6	356.6	357.7	361.0	366.6
Oil exports	215.2	317.6	337.4	312.7	298.7	290.8	285.1	280.7	278.0
Other exports	35.9	47.1	50.9	54.6	59.9	65.8	72.7	80.3	88.6
Imports (f.o.b.)	-97.4	-120.0	-141.8	-150.6	-158.3	-166.3	-175.2	-185.5	-196.5
Services	-66.1	-66.5	-62.4	-65.8	-69.4	-73.0	-76.2	-80.0	-84.0
Transportation	-10.7	-13.4	-15.6	-16.5	-17.4	-18.2	-19.0	-20.0	-21.0
Travel	-14.4	-8.8	-9.6	-10.2	-10.8	-11.4	-11.9	-12.5	-13.1
Other private services	-41.0	-44.3	-37.2	-39.2	-41.3	-43.3	-45.3	-47.5	-49.9
Income	7.0	9.7	11.0	12.3	16.5	19.7	26.4	41.5	58.0
Of which: Investment income[1]	7.7	10.3	11.6	12.9	17.1	20.3	27.1	42.1	58.6
Current transfers	-27.9	-29.4	-30.4	-33.2	-35.6	-38.0	-40.4	-42.8	-45.2
Of which: Workers' remittances	-26.2	-27.6	-28.6	-31.3	-33.7	-36.1	-38.5	-40.9	-43.3
Capital and financial account (net)	2.7	-14.4	-7.9	-7.1	-6.7	-6.5	-6.5	-6.7	-7.0
Direct Investment	25.3	12.9	7.8	7.9	8.1	8.4	8.7	9.1	9.6
Abroad	-3.9	-3.4	-4.4	-4.4	-4.6	-4.7	-4.9	-5.2	-5.4
In Saudi economy	29.2	16.3	12.2	12.3	12.6	13.1	13.7	14.3	15.0
Portfolio investments	-15.2	-16.0	-4.7	-3.9	-3.4	-3.1	-2.9	-3.0	-3.1
Assets	-16.7	-15.4	-4.1	-3.2	-2.8	-2.5	-2.3	-2.3	-2.5
Liabilities	1.5	-0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other investments	-7.5	-11.2	-11.0	-11.1	-11.4	-11.8	-12.3	-12.9	-13.5
Assets	-6.5	-7.2	-10.3	-10.4	-10.7	-11.1	-11.5	-12.1	-12.7
Liabilities	-1.0	-4.0	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Net errors and omissions	-34.4	-48.2	-41.1	-41.2	-43.5	-41.9	-42.2	-42.5	-42.2
Overall balance	35.0	96.0	115.8	81.7	61.6	50.5	43.7	44.9	49.7
Financing	-35.0	-96.0	-115.8	-81.7	-61.6	-50.5	-43.7	-44.9	-49.7
Change in SAMA's NFA (- increase)	-35.1	-93.1	-112.5	-81.7	-61.6	-50.5	-43.7	-44.9	-49.7
Memorandum items:									
SAMA's gross foreign assets	443.2	536.2	648.7	730.4	791.9	842.5	886.1	931.1	980.7
(In months of imports)[2]	26.9	29.9	34.1	36.6	37.7	38.2	38.1	37.9	37.8
WEO oil price (US$/barrel)	79.0	104.0	105.0	100.1	95.4	92.0	89.5	87.5	86.0
Average Saudi oil price (US$/barrel)[3]	77.6	107.1	109.5	106.8	101.7	98.2	95.5	93.3	91.7
Oil production (mbd)	8.2	9.3	9.8	9.4	9.5	9.7	9.8	10.0	10.1
Oil exports (mbd)	7.6	8.1	8.4	8.0	8.0	8.1	8.2	8.2	8.3
Oil exports/total exports	85.7	87.1	86.9	85.1	83.3	81.5	79.7	77.8	75.8
Imports/GDP	18.5	17.9	19.9	21.0	21.4	21.7	22.0	22.2	22.4
GDP (US$ billions)	526.8	669.5	711.0	718.5	738.0	766.0	798.1	835.0	877.1

Sources: Saudi Arabian Monetary Agency; and IMF staff estimates and projections.
[1] Represents the return on NFA of SAMA, AGIs, and private sector.
[2] Imports of goods and services over the next 12 months excluding imports for transit trade.
[3] The average price of all oil exports, including refined products.

Table 5. Saudi Arabia: Monetary Survey, 2010–14

	2010	2011	2012	Proj. 2013	Proj. 2014
	(Billions of Saudi Arabian riyals)				
Foreign assets (net)	1,749.9	2,140.4	2,562.0	2,869.6	3,101.8
SAMA	1,651.5	2,007.1	2,428.6	2,734.8	2,965.7
Commercial banks	98.4	133.3	133.4	134.8	136.1
Domestic credit (net)	-18.2	-135.5	-316.9	-354.8	-333.4
Net claims on government	-826.2	-1,025.7	-1,355.6	-1,539.1	-1,669.6
Claims on government	182.0	177.8	181.2	235.5	294.4
Government deposits at SAMA [1]	-1,008.3	-1,203.5	-1,536.8	-1,774.7	-1,964.0
Claims on state enterprises	32.3	31.8	39.6	42.3	44.8
Claims on private sector	775.8	858.4	999.1	1,142.0	1,291.4
Money and quasi-money (M3)	1,080.4	1,223.6	1,393.8	1,552.7	1,710.2
Money (M1)	625.6	761.0	887.1	857.1	951.7
Currency outside banks	95.5	119.9	133.1	145.3	161.3
Demand deposits	530.1	641.1	754.0	711.8	790.4
Quasi-money	454.8	462.6	506.6	695.6	758.5
Time and savings deposits	298.3	305.4	324.4	445.5	485.7
Other quasi-money deposits	156.5	157.1	182.2	250.2	272.8
Other items (net liabilities)	651.4	781.3	851.3	962.0	1,058.2
	(Changes in percent of beginning broad money stock)				
Foreign assets (net)	11.5	36.1	34.5	22.1	15.0
Domestic credit (net)	-0.1	-10.9	-14.8	-2.7	1.4
Net claims on government	-4.5	-18.5	-27.0	-13.2	-8.4
Claims on government	2.7	-0.4	0.3	3.9	3.8
Government deposits (increase -)	-7.2	-18.1	-27.2	-17.1	-12.2
Claims on state enterprises	0.4	0.0	0.6	0.2	0.2
Claims on private sector	4.0	7.6	11.5	10.3	9.6
Money and quasi-money	5.0	13.3	13.9	11.4	10.1
Other items (net liabilities)	6.5	12.0	5.7	7.9	6.2
	(Percent changes, unless otherwise indicated)				
Foreign assets (net)	7.3	22.3	19.7	12.0	8.1
Domestic credit (net)	4.7	645.9	133.9	12.0	-6.0
Net claims on government	6.0	24.1	32.2	13.5	8.5
Claims on government	18.1	-2.3	1.9	30.0	25.0
Government deposits at SAMA (increase -)[1]	-8.0	-19.4	-27.7	-15.5	-10.7
Claims on state enterprises	14.7	-1.4	24.4	6.9	5.8
Claims on private sector	5.7	10.6	16.4	14.3	13.1
Money and quasi-money	5.0	13.3	13.9	11.4	10.1
Other items (net liabilities)	11.4	19.9	9.0	13.0	10.0
	(Percent; unless otherwise indicated)				
Memorandum items:					
Specialized Credit Institutions credit (SAR billions)	192.2	208.4	…	…	…
Ratio of M3-to-GDP	54.7	48.7	52.3	57.6	61.8
Ratio of Claims on private sector-to-non-oil GDP	71.9	70.5	75.1	78.5	82.1

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

[1] Includes deposits other than the central government.

Table 6. Saudi Arabia: Financial Soundness Indicators, 2006–12

(Percent, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012
Banking sector							
Structure of the banking sector							
Number of licensed banks	16	22	22	23	23	23	23
Number of banks accounting for:							
25 percent of total assets	2	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6	6
Total assets (percent of GDP)	61.0	69.0	66.8	85.2	71.6	61.5	63.6
Of which: Foreign currency-denominated (as percent of total assets)	15.1	13.7	11.8	15.4	13.6	13.5	12.3
Total loans (percent of GDP)	35.2	38.16	38.21	45.8	39.2	39.8	36.7
Credit to private sector (percent of GDP)	32.7	35.8	36.6	44.0	37.6	30.2	35.2
Total deposits, excluding interbank (as percent of GDP)	41.9	46.0	43.4	58.5	49.9	44.0	46.2
Central bank credit to banks (as percent of GDP)	0.4	…	…	…	…	…	…
Capital adequacy							
Regulatory capital to risk-weighted assets	24.9	20.7	16.0	16.5	17.1	19.6	18.7
Asset quality							
Net loans to total assets	54.2	52.0	57.9	57.4	55.2	55.8	58.2
Gross NPLs to net loans	2.0	2.1	1.4	3.3	3.0	2.3	1.9
Total provisions to gross NPLs	182.3	142.9	153.3	89.8	115.7	133.2	145.1
Net NPLs to total capital [1]	-6.2	-3.5	-3.8	1.4	-2.7	-3.0	-3.7
Total provisions for loan losses (as percent of total loans)	3.6	3.0	2.1	3.0	3.5	3.1	2.8
Loans to property and construction sector to total loans	7.6	7.3	7.3	6.1	7.2	8.1	7.5
Loans to domestic manufacturing sector to total loans	7.6	9.1	10.7	10.2	11.6	13	12.6
Contingent and off-balance sheet accounts to total assets	91.5	96.6	96.0	81.0	91.4	96.2	91.7
Profitability							
Profits (percent change)	35.3	-12.7	-1.1	-10.4	-2.6	18.4	8.4
Average pretax return on assets	4.3	2.8	2.7	1.9	2.5	2.0	2.0
Return on equity	30.4	22.3	20.5	13.7	17.7	14.47	14.5
Noninterest expenses to total income [2]	31.0	38.7	51.1	55.4	52.7	46.9	47.0
Average lending spread	4.1	3.2	4.0	4.4	4.3	4.4	4.4
Liquidity							
Liquid assets to total assets	25.4	21.7	22.0	25.3	24.7	22.6	23.7
Liquid assets to short-term liabilities [3]	40.0	27.7	30.6	36.5	36.4	37	36.4
Customer deposits to net loans	137.4	136.3	124.0	128.5	136.0	135.9	132.0
Demand deposits to total deposits	41.2	43.4	40.5	46.1	53.8	58.1	59.8
Sensitivity to market risk							
Foreign currency-denominated deposits to total deposits	19.3	15.4	15.5	16.1	13.0	14.6	17.3
Foreign currency-denominated loans to total loans	8.7	12.5	14.0	14.0	13.3	12.3	11.6
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	49.2	53.0	54.5	39.2	42.2	47.9	41.3
Net open foreign currency position to capital	3.0	3.1	4.5	8.6	10.2	6.7	1.7
Stock market							
Stock market capitalization (percent of GDP)	86.9	124.8	47.4	74.3	67.1	50.6	51.3
Overall stock market price index							
(Change in percent)	-52.5	39.1	-56.5	27.5	8.2	-3.1	6.0
Bank stock price index (change in percent)	-42.7	31.0	-55.6	15.3	6.6	-12.7	0.4

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: Key Recommendations of 2011 FSAP Update

Recommendation	Progress
Bank and Securities Regulation	
• Update the BCL and remove need for ministerial approval of certain SAMA decisions.	SAMA's assessment is that the existing BCL has provided a strong basis for effective supervision. Ministerial approval is only required in times of extreme stress and is viewed by SAMA as a means of ensuring communication with Cabinet.
• No longer allow large exposure up to 50 percent of bank's own capital.	There have been no changes in the legislation. However, SAMA expects banks to ensure that their single exposure limit should not exceed 15 percent of capital and reserves.
• Strengthen the CMA's regulatory transparency by fully disclosing all enforcement actions, interpretation, and funding rules.	The CMA has established an internal committee to discuss relevant FSAP recommendations, including disclosure policies.
Systemic Stability	
• Introduce a formal liquidity forecasting framework.	SAMA is currently working on a formal liquidity forecasting model.
• Enhance data on cross-border financial activities of banks and corporate.	SAMA published the International Investment position in 2012 (annual basis), and submitted ten core indicators of FSI to the IMF in March 2013. It is planning to submit locational and consolidated bank data to the BIS.
• Maintain a stable stock of government securities and regular issues to help anchor a robust yield curve	There are no plans to increase and maintain a stable stock of government securities. However, public sector entities have recently increased sukuk issuance, and eventually this could help in establishing a proxy government benchmark.
• Introduce a payment system law.	The authorities believe that the current legal framework is adequate and serving the purpose well.
• Conduct stress tests with a wider range of shocks, including liquidity shocks, on regular basis and incorporate lessons into supervision.	Detailed rules on stress testing were issued in November 2011, making stress testing mandatory. SAMA has also developed a system-wide stress test, covering credit, market, operational and liquidity risks.
• Establish a formal early warning system (EWS) for the banking sector.	SAMA considers that its current off-site surveillance system is adequate as a EWS.

Recommendation	Progress
• Develop a more formal and transparent macroprudential policy framework, drawing on work in international fora.	SAMA is actively participating in the international fora on macro-prudential frameworks and will review its framework in line with emerging best practices. Considerable coordination already takes place between SAMA and MoF and between SAMA and the Capital Markets Authority (CMA).
• Strengthen the legal framework for bank resolution	The authorities will assess the need for any further steps required to strengthen the existing bank resolution framework.
Expanding Access to Finance and Preserving Financial Stability	
• As housing finance expands in the future, ensure loan soundness through strong prudential measures, notably lowering permissible loan-to-value and debt service ratios.	Although housing loans continue to grow, SAMA believes that the current prudential measures that are in place will ensure that banks are managing the associated risks prudently. LTV ratios have been capped at 70 percent. Housing finance companies that may enter the market will be licensed and supervised by SAMA.
• Contract banks to manage both the existing and new Real Estate Development Fund (REDF) portfolio.	As of now there are no plans to allow banks to manage the portfolio of REDF.
• Complement mortgage reform by establishing a housing market observatory, developing consumer guidance options, and strengthening the developer industry.	A separate Ministry of Housing has been established, which will look into these and any other related issues.
• Prepare long-term funding solution for mortgage finance, starting with a refinance facility.	REDF is considering several options to enhance its integration with the banking sector, including long-term funding facility. A mortgage refinancing company will be established under the Public Investment Fund (PIF).
• Create a modern, electronic and unified registry for movable collateral.	The authorities will assess the need to further study the proposal.
• Enact and implement the draft Enforcement law that introduces specialized enforcement courts operating with strict time-bound procedures.	The Mortgage Law, which includes the Enforcement Law, has already been enacted.
• Closely supervise the quality of SME units in the banks, including the robustness or their internal rating systems and automated procedures.	All banks have been required to set up their own separate SME units in order to more effectively deal with SME financing.

Recommendation	Progress
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. Two regulations; actuarial and audit committee are in the final stage for publication.
• Improve enforcement of mandatory motor third party liability insurance	SAMA and the joint working group are meeting regularly and are in the final stage of improving the implementation of motor TPL enforcement.
• Disclose the investment policies, portfolio, and portfolio performance of the Public Pension Agency (PPA) and General Organization for Social Insurance (GOSI).	There have been no changes in the disclosure policies of PPA and GOSI. GOSI has established a committee to discus disclosure issues.
• Further outsource the management of portfolio of the PPA and GOSI.	PPA and GOSI have no plans to outsource part of their domestic portfolio. The foreign portfolios are outsourced to a large degree.
• Permit foreign international investors to invest directly in Tadawul.	The CMA is considering whether to allow foreign investors to invest directly in the equity market. Such steps would be adopted carefully and gradually.

Appendix II: External Sustainability and Exchange Rate Assessment

Estimates from current account assessment methodologies tailored to oil exporters give inconclusive results about whether the current account surplus is at an appropriate level, although estimates suggest the real exchange rate is in line with its long-run relationship with real oil prices. Staff believes the peg to the U.S. dollar is appropriate given the current structure of the Saudi economy.

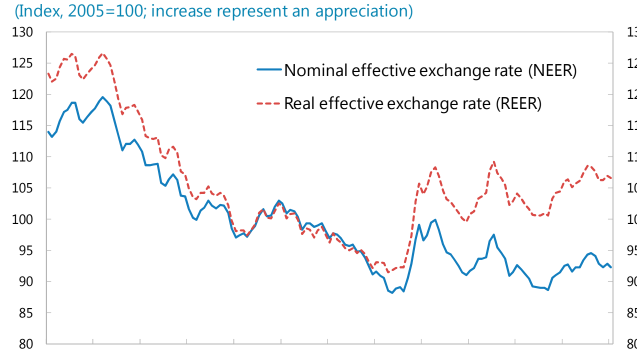
1. **Increased current account surpluses in 2011–12 were driven by higher oil prices and increased oil production as Saudi Arabia acted to help offset supply shocks in the global oil market.** Oil prices are anticipated to decline over the medium term while oil export volumes are expected to adjust as supply conditions normalize, implying significantly reduced current account surpluses going forward. Errors and omissions are large and consistently negative, suggesting unrecorded capital outflows. Over the long term, the current account will be determined by the nature of the development strategy chosen—in particular the balance between saving oil revenues overseas to create an income stream for future generations versus investment (public and private) within Saudi Arabia.

2. **In recent years, the share of Saudi non-oil exports in global non-oil exports has increased as the authorities have pursued economic diversification, particularly in petrochemicals.** Despite the increase, Saudi non-oil exports in 2011 were less than 1/3 of 1 percent of global non-oil exports. In terms of metrics of external vulnerability, the Saudi external situation is very comfortable. Foreign exchange reserves covered 34 months of imports and 175 percent of broad money in 2012, while external assets stood at 122 percent of GDP in 2011 and external liabilities at 35 percent of GDP (of which portfolio and other investments amounted to 7 percent of GDP). The financial account, excluding official reserves, is dominated by direct investment inflows and portfolio outflows.

3. **Despite terms of trade gains, the real exchange rate has appreciated by only 2 percent since the end of 2008.**[1] Following a period of an annual average depreciation of 4 percent between 2002 and 2007, the trade-weighted real effective exchange rate (REER) index appreciated by 11 percent in 2008 (Figure 1). The nominal effective exchange rate closely followed the REER trend until 2008, when it began to diverge owing to higher inflation relative to trading partners—in part due to the relatively high weight on food in the Saudi CPI basket.

Figure 1. Real and Nominal Effective Exchange Rates, 2000–12

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



Sources: Country authorities; and IMF staff estimates.

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

4. The macroeconomic balance approach suggests the current account is within the range of medium-term norms estimated from several different specifications. The macroeconomic balance approach estimates four main specifications of the equilibrium current account (norm) from a set of fundamentals (non-oil and gas fiscal balance, oil and gas reserves, old-age dependency ratio, population growth rate, initial net foreign assets (NFA) net of external debt, oil trade balance, growth rate of real per capita GDP, relative income, and lagged dependent current account) employing a generalized method of moments (GMM) technique (see Beidas-Strom and Cashin, 2011). As shown (in the table below), the estimation yields a range of current account norms for Saudi Arabia from a surplus of about 6 to 15 percent of GDP in 2018, with specification II, yielding a norm of 8.8 percent, being the preferred one given the absence of a lagged dependent variable and the inclusion of NFA data. The projected current account position in 2018 is a surplus of 11.3 percent of GDP, which lies within the estimated range of current account norms, but above that derived from specification II.

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

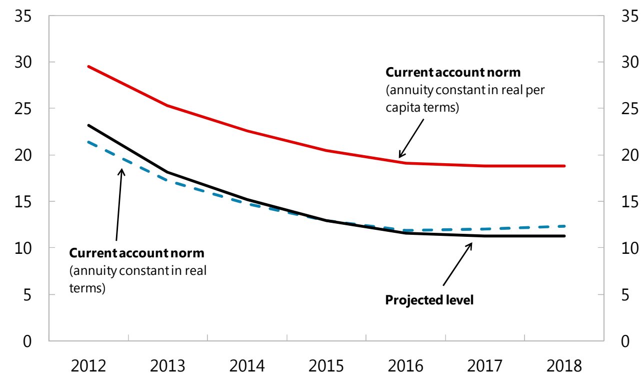
(Dependent variable: current account balance, as a share of GDP)

	Specification I		Specification II		Specification III		Specification IV	
	GMM Coefficients	Contribution to CA Norm[1]	GMM Coefficients	Contribution to CA norm[1]	GMM Coefficients	Contribution to CA Norm[1]	GMM Coefficients	Contribution to CA Norm[1]
Core CGER regressors								
Constant	0.039	3.9%	0..35	3.5%	0.043	4.3%	0.044	4.4%
Lagged dependent	0.330	5.3%					0.383	6.1%
Fiscal balance/Non-oil fiscal balance GDP	0.851	-2.7%	0.385	-11.4%	0.363	-10.8%	0.391	-11.6%
Oil trade balance/GDP			0.454	13.9%	0.469	14.3%	0.459	14.0%
Old age dependency	-0.053	-0.2%	-0.059	-0.3%	-0.034	-0.2%	-0.034	-0.2%
Population growth	-0.693	-1.4%	-0.930	-1.9%	-0.632	-1.3%	-0.589	-1.2%
NFA/GDP	0.023	2.2%	0.022	2.1%				0.0%
Relative income	-0.017	-1.0%	0.044	2.6%	0.071	4.3%	0.073	4.4%
Economic growth	-0.053	-0.2%	-0.069	-0.3%	-0.064	-0.3%	-0.056	-0.2%
Net oil-exporter specific regressors								
Oil wealth			0.000	0.5%	0.001	1.6%	0.000	-1.1%
Degree of maturity in oil production					0.160	2.8%	0.170	-3.0%
Additional regressors								
REER	0.073	0.7%						
Terms of trade	4.269	-0.7%						
Estimated current account norm (2018)		**5.9%**		**8.8%**		**14.9%**		**11.7%**
Underlying current account					**11.3%**			
Hansen's J test of over identifying restrictions		0.46		0.61		0.64		0.62
Arellano-Bond test for AR(1)		0.07		0.09		0.07		0.08
Arellano-Bond test for AR(2)		0.67		0.71		0.7		0.69
Number of instruments		6		5		5		6
Number of countries		24		24		24		24
Observations		82		82		82		82

Sources: Beidas-Strom and Cashin, "Are Middle Eastern Current Account Imbalances Excessive?", IMF Working Paper 11/195, 2011.
[1]Contribution to CA norm=coefficient*medium-term projection/steady state value (in percent).

5. The external sustainability approach suggests the current account surplus in the medium-term may be too low. The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports. Subject to this constraint, the government would choose a path for imports, and hence a current account norm, that would support intergenerational equity—and some precautionary savings in view of volatile oil prices—through an appropriate pace of accumulation of net foreign assets. Estimating Saudi Arabia's oil wealth at $6.1 trillion,[2] 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,[3] and can be derived from the optimization of plausible government utility functions. The estimates suggest that the current account surplus is broadly in line with fundamentals under the constant real annuity rule, but is below what would be expected under the constant real per capita annuity rule (Figure 2). These estimates are subject to considerable uncertainty and are sensitive to the parameters assumed. For example, if future oil revenues are discounted at 8 percent rather than 6 percent, the current account norm under the constant real per capita rule drops to 11.2 percent of GDP in 2018 compared to 18.8 percent of GDP.

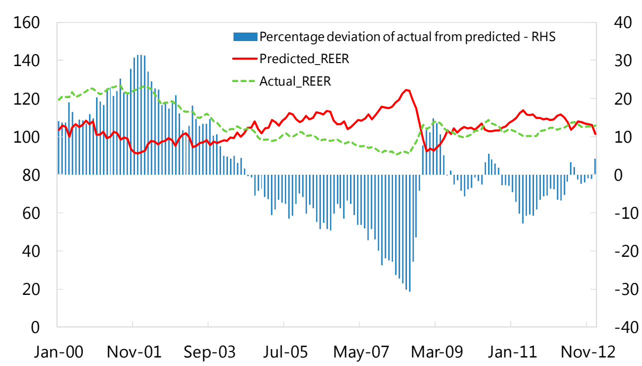
Figure 2. Projected and Current Account Norm, 2012–18
(Percent of GDP)



Source: IMF staff estimates.

6. A third approach that looks at the relationship between the real exchange rate and real oil prices suggests the riyal is not misaligned. As a country whose dominant export is oil, the movements in the terms of trade are mainly driven by the international oil price fluctuations. Therefore, the equilibrium exchange rate can be reasonably estimated using oil prices alone. A monthly frequency estimation of the cointegrating relationship between the real exchange rate and real oil prices using a sample of 1980–2012 shows that they are cointegrated.[4] The estimation suggests that while the riyal was moderately above the level predicted by this relationship during the earlier part of this decade, it then switched to below the predicted level in mid-2004, and is now presently broadly in line (Figure 3).

Figure 3. High Frequency ERER Estimation, 2000–12
(Index)



Source: IMF staff estimates.

[2] Based on SAMA annual report, the proven oil reserve at end of 2011 is 265.4 billion barrels. The oil production grows at a constant rate (2 percent) and peaks at 13.1 million barrels in 2029 before declining gradually (2 percent). Domestic oil consumption grows at 2 percent. Oil prices and the GDP deflator increase by 2.5 percent after 2018, and real non-oil GDP grows by 5 percent while total real output growth is assumed to be 3 percent. Future oil revenues are nominally discounted at 6 percent, the assumed rate of return on externally held financial wealth/NFA, while population growth is 1 percent.

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

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

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 24, 2013

Prepared By | Middle East and Central Asia Department

CONTENTS

FUND RELATIONS

(As of May 31, 2013)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	6,985.50	100.00
Fund holdings of currency	4,910.92	70.30
Reserve tranche position	2,074.60	29.70
Lending to the Fund	1358.01	
New Arrangement to Borrow		

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,682.50	100.00
Holdings	6,262.35	93.71

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					
Charges/interest	0.13	0.29	0.29	0.29	0.29
Total	0.13	0.29	0.29	0.29	0.29

Lending to the Fund and Grants:

Saudi Arabia has consented to the amendments of the NAB Decision and the increases of credit arrangements of participants as approved by the Executive Board on April 12, 2010 (Executive Board Decision No. 14577-(10/35), increasing its own credit arrangement in the expanded NAB to SDR 11.13 billion, from SDR 1.76 billion. The current outstanding amount as of April 30, 2013 is SDR 1,358.01 million. The Fund also has a borrowing agreement with Saudi Arabia in association with the General Arrangements to Borrow (GAB), for an amount equivalent to SDR 1.5 billion, which was renewed for another five-year period from December 26, 2008. The Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement with the Saudi Arabian Monetary Agency in May 2011, by which Saudi Arabia would provide new loan resources of up to SDR 500 million. In May 2012, Saudi Arabia pledged a new grant contribution of SDR 16.7 million in subsidy resources to the PRGT, which will be disbursed at end-December 2021, and also provided assurance for additional subsidy contribution to the PRGT through the transfer of its full share in the distribution of the general reserve attributed to windfall gold sale profits. In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with investments totaling SDR 94.4 million. In April 2006, these investments were extended with an additional investment of SDR 38.2 million, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. In February 1989, Saudi Fund for Development disbursed SDR 49.5 million in PRGT loan resources, which were fully drawn and repaid by September 2004.

Exchange Rate Arrangement

Saudi Arabia maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions. The Saudi Arabian riyal was formally pegged to the U.S. dollar, effective January 2003 and the exchange arrangement is classified as a conventional peg. Prior to that, it was officially pegged to the SDR at the rate of SAR 4.28255=SDR 1, with margins of 7.25 percent even though in practice it has been pegged to the U.S. dollar since 1986, with a middle rate of SAR 3.7450=$1. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373.

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during May 14–26, 2012 in Riyadh. The staff report was considered by the Executive Board on July 2, 2012 and published on September 18, 2012 (http://www.imf.org/external/pubs/cat/longres.aspx?sk=40001.0)

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.

MCM Stress testing, January 9–21, 2010.

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

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

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

World Bank

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

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

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

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 around $180 million). IFC also provides Advisory Services in mortgage finance, SME finance, corporate governance, risk management and PPP transactions.

Promoting South-South Investments from Saudi Arabia

Many Saudi investors are looking to expand outside of their home-base. This is an opportunity for IFC to work with such companies and invest with them inside and outside the MENA region. IFC Riyadh office increased its activity, especially in facilitating south-south investments that reached around $1.4 billion in IDA and middle income countries (Pakistan, Egypt, Yemen, Ethiopia, Ghana, etc.). IFC continues to work closely with Saudi sponsors to further facilitate cross border investment in the region.

Mobilizing Funds

IFC is working closely with Saudi public institutions and IFIs in which KSA is a majority shareholder to undertake global initiatives that benefit private sector activities in developing countries. So far, these efforts have resulted in obtaining commitments of over US$500 million.

STATISTICAL ISSUES

(As of May 31, 2013)

Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, labor markets, government finance statistics, and balance of payments.	
National accounts: Annual estimates of GDP have been revised for the period since 2004, and are calculated at current and constant prices (with 1999 as a base year). Quarterly estimates are only available for 2011. On the expenditure side, data are now available on a constant price basis from 2004–11.	
Government finance statistics: The authorities are in the process of reclassifying the budget in line with *GFSM 2001*. Most chapters have been completed and the Ministry of Finance is planning on using the *GFSM 2001* framework to report fiscal data.	
Balance of payments: The authorities are now publishing an annual IIP (available for 2007–11). However, the coverage in the capital and financial accounts, particularly for the private sector, needs to be improved, and the errors and omissions in the balance of payments remain sizable. The authorities are working on strengthening financial account statistics.	
Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since 2008.	No data ROSC is available.

SAUDI ARABIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of May 31, 2013)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange rates	5/30/2013	5/31/2013	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	4/2013	6/3/2013	M	M	M
Reserve/base money	4/2013	6/3/2013	M	M	M
Broad Money	4/2013	6/3/2013	W	W	W
Central Bank balance sheet	4/2013	6/3/2013	M	M	M
Consolidated balance sheet of the banking system	4/2013	6/3/2013	M	M	M
Interest rates[2]	4/2013	6/3/2013	M	M	M
Consumer price index	4/2013	5/26/2013	M	M	M
Revenue, expenditure, balance and composition of financing[3]—central government	2012	5/14/2013	A	A	A
Stocks of central government and central government-guaranteed debt[4]	2012	5/14/2013	A	A	A
External current account balance	Q4 2012	5/12/2013	Q	Q	Q
Exports and imports of goods and services	Q4 2012	5/14/2013	Q	Q	Q
GDP/GNP	Q4 2012	5/11/2013	Q	Q	Q
Gross external debt (BIS)	2011		Q	Q	Q
International investment position[5]	2011	4/4/2013	A	A	A

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

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Saudi Arabia

On July 08, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Saudi Arabia.[1]

Saudi Arabia has been one of the best performing G-20 economies in recent years, and has supported the global economy through its stabilizing role in the global oil market. Generous financial support has also been provided to countries in the Middle East region.

The Saudi economy grew by 5.1 percent in 2012, benefitting from high oil prices and output, strong private sector growth, and government spending. Inflation has risen over the past year to 3.8 percent in May 2013, driven by higher food prices and housing costs. High oil prices and production led to large fiscal and current account surpluses, and international reserves rose further. Credit growth has remained strong, and the banking system is well-capitalized and profitable, with Basle III capital standards implemented in January 2013. Following an expansionary fiscal stance in 2011, government expenditure growth slowed in 2012 and the non-oil deficit began to narrow. Consistent with the exchange rate peg, monetary policy settings have remained unchanged.

Looking ahead, growth is projected to slow to 4 percent in 2013. Private sector growth is expected to be strong, but oil production is likely to be below 2012 levels while government spending growth may slow. Inflation is expected to ease toward year-end in line with declining international food prices. With oil prices and production expected to be lower, fiscal and external surpluses, while remaining large, are projected to narrow this year.

The Saudi population is young and increasingly well-educated, and as it continues to enter into its working-age years, there is a tremendous opportunity to boost growth and raise living standards further. Against this background, the government is continuing to implement initiatives to boost the employment of Saudi nationals, increase the supply of housing, improve infrastructure, particularly in the area of transportation, and develop the small-and medium enterprise (SME) sector.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Executive Board Assessment

Executive Directors welcomed the continued strong performance of the Saudi Arabian economy and the systemic and stabilizing role that the country plays in the global oil market. They also acknowledged Saudi Arabia's role as an important source of financial assistance and remittances for many developing countries. Directors noted that the outlook for the Saudi economy is positive. Looking ahead, they stressed the importance of continuing reforms aimed at maintaining macroeconomic stability and addressing demographic challenges.

Directors agreed that the fiscal and macroprudential policy settings are appropriate. They noted that if signs of inflationary pressures were to emerge, capital spending would need to be slowed and/or macroprudential policies would need to be tightened. Over the medium term, while the non-oil fiscal deficit is expected to decline as infrastructure spending tapers off, additional measures would be needed to further strengthen the fiscal position. Directors welcomed the measures the authorities have undertaken to strengthen fiscal management, but saw scope for further improvements. They generally agreed that moving to a medium-term budget framework that better integrates the five-year national development plans and sets the expenditure envelope based on a long-term estimate of the oil price would be useful.

Directors noted that an upward adjustment of energy prices would help curb the growth of energy demand. Implementing the adjustments in a phased and well communicated manner would allow businesses and households time to adjust. Vulnerable groups would need to be protected from the effects of higher prices.

Directors welcomed the continuing steps to promote financial development and strengthen financial regulation and supervision. They noted that Saudi Arabia is among the first countries to implement Basle III capital standards. Directors agreed that the pegged exchange rate remains appropriate. A few Directors considered that, if at a later stage a flexible exchange rate were to become appropriate with the evolution of the structure of the economy, steps to facilitate the transition would be helpful. Directors looked forward to enactment of the bill on countering the financing of terrorism.

Directors noted that the young, rapidly growing Saudi population provides both an opportunity and a challenge in raising growth and living standards. In this regard, reforms under way to boost employment, support the housing market, develop infrastructure, and foster the small and medium enterprise sector will help address the challenges. Directors welcomed the large investments in education aimed at strengthening the skills of the population, noting that such spending should be monitored vis-à-vis achievement of desired outcomes. They also cautioned that implementation of labor market policies to boost Saudi employment should be carefully coordinated with macroeconomic policies.

Directors noted that considerable progress has been made in improving economic statistics but saw scope for further improvement. Subscription to the Special Data Dissemination Standards would be an important goal.

Saudi Arabia: Selected Economic Indicators, 2009–13

	2009	2010	2011	2012	Proj. 2013
	(Annual percent change; unless otherwise stated)				
Production and prices					
Real GDP	1.8	7.4	8.6	5.1	4.0
Real oil GDP	-8.0	0.3	11.0	5.5	-3.3
Real non-oil GDP	5.1	9.5	7.9	5.0	5.9
Nominal GDP (billions of U.S. dollars)	429	527	670	711	718
Consumer price index	4.1	3.8	3.7	2.9	4.0
Fiscal and Financial variables	(Percent of GDP; unless otherwise stated)				
Central Government revenue	31.7	37.5	44.5	46.8	41.7
Of which: oil revenue	27.0	33.9	41.2	42.9	37.9
Central Government expenditure	37.1	34.0	33.4	34.4	34.6
Fiscal balance (deficit -)	-5.4	3.6	11.2	12.4	7.1
Non-oil primary balance (percent of non-oil GDP)	-54.2	-54.1	-60.9	-60.6	-56.6
Broad money (annual percent change)	10.7	5.0	13.3	13.9	11.4
External sector	(US$ billions; unless otherwise stated)				
Exports	192.3	251.1	364.7	388.4	367.3
Of which: Oil and refined products	163.1	215.2	317.6	337.4	312.7
Imports	-87.1	-97.4	-120.0	-141.8	-150.6
Current account	21.0	66.8	158.5	164.8	129.9
Current account (percent of GDP)	4.9	12.7	23.7	23.2	18.1
SAMA’s net foreign assets	405.3	440.4	535.2	647.6	729.3
SAMA's net foreign assets (in months of imports of goods and services)	27.9	26.7	29.8	34.1	36.5
Real effective exchange rate (percent change)	7.9	1.3	-2.3	4.3	…

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