IMF Country Report No. 17/316

SAUDI ARABIA

October 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2017 Article IV consultation with Saudi Arabia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2017 consideration of the staff report that concluded the Article IV consultation with Saudi Arabia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 17, 2017, following discussions that ended on May 11, 2017, 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 28, 2017.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

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

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July 21, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Saudi Arabia

On July 17, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Saudi Arabia.

Non-oil growth is projected to pick up to 1.7 percent in 2017, but overall real GDP growth is expected to be close to zero as oil GDP declines in line with Saudi Arabia's commitments under the OPEC+ agreement. Growth is expected to strengthen over the medium-term as structural reforms are implemented. Risks mainly come from uncertainties about future oil prices, as well as questions about how the ongoing reforms will affect the economy. Employment growth has weakened, and the unemployment rate among Saudi nationals has increased to 12.3 percent.

After increasing in early 2016 due to higher energy and water prices, CPI inflation has turned negative in recent months. It is, however, expected to increase over the next year due to the recently introduced excises taxes, further energy price reforms, and the introduction of the VAT at the beginning of 2018.

The fiscal deficit is projected to narrow substantially in the coming years. It is expected to decline from 17.2 percent of GDP in 2016 to 9.3 percent of GDP in 2017 and to just under 1 percent of GDP by 2022. This assumes that the major non-oil revenue reforms and energy price increases outlined in the Fiscal Balance Program are introduced on schedule and that operational and expenditure savings identified so far by the Bureau of Spending Rationalizations are realized. The deficit is expected to continue to be financed by a combination of asset drawdowns and domestic and international borrowing.

The current account balance is expected to move into a small surplus in 2017 as oil export revenues increase and import growth and remittance outflows remain relatively subdued. Net financial outflows are expected to continue, and SAMA's NFA is projected to continue to decline, although it will remain at a comfortable level.

Credit and deposit growth are weak and are only expected to recover gradually. Interbank interest rates, which spiked higher during 2016, have fallen, and liquidity in the banking system is at adequate levels. Non-performing loans (NPLs) increased slightly to 1.4 percent, but remain low.

[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.

Saudi Arabia has embarked on a bold reform program under Vision 2030 that was announced in 2016. The authorities have made considerable progress in initiating the implementation of their ambitious reform agenda. Fiscal consolidation efforts are beginning to bear fruit, progress with reforms to improve the business environment are gaining momentum, and a framework to increase the transparency and accountability of government is largely in place. Effective prioritization, sequencing, and coordination of the reforms is essential, and they need to be well-communicated and equitable to gain social buy-in and ensure their success.

Executive Board Assessment[2]

Executive Directors noted that the Saudi economy is adjusting to the effects of lower oil prices and fiscal consolidation, but that non-oil growth is expected to pick up this year and overall growth is expected to strengthen over the medium term as structural reforms are implemented. Directors commended the authorities' progress in implementing their ambitious reform agenda. They emphasized that proper calibration and sequencing of reforms will be crucial to their success.

Directors welcomed the direction of the authorities' fiscal reforms. They agreed that a large, sustained, and well-paced fiscal adjustment is needed over the medium term. Most Directors noted that Saudi Arabia has the fiscal space to allow a more gradual consolidation than envisaged in the Fiscal Balance Program. A few Directors cautioned, however, that backloading adjustment could incur risks. In this regard, Directors welcomed the authorities' intention to carefully monitor the impact of consolidation and reform and make corrections if needed.

Directors commended the authorities' efforts to enhance non-oil revenue. In this context, they emphasized the importance of establishing an effective and efficient tax system. They noted the recent implementation of excises on tobacco and carbonated/energy drinks, and welcomed the authorities' commitment to introduce the VAT at the beginning of 2018, although a few noted that the timetable could be challenging. Directors recommended keeping exemptions and zero-rated items to a minimum.

Directors welcomed the authorities' plan for further energy price reforms. They emphasized the importance of ensuring that the reforms are equitable, and supported the planned household allowance to cushion the impact of the price increases on low- and middle-income households. A number of Directors saw scope for a more gradual phasing of the price increases to allow households and businesses more time to adjust.

Directors welcomed recent improvements in the fiscal framework and fiscal transparency, and encouraged further progress in these areas. They supported the planned public expenditure review, and emphasized the importance of gradually reducing the wage bill, strengthening social safety nets, and continuing to improve the efficiency of capital spending.

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

Directors noted the good progress being made in identifying and removing obstacles to private sector growth, and welcomed the intensive consultation with the business community. Directors welcomed the authorities' privatization and public-private partnership plans, and cautioned them to guard against fiscal risks.

Directors agreed that increasing the employment of Saudi nationals in the private sector is essential. They highlighted the importance of strengthening education and training. They also noted that clear communication of the limited prospects for future public sector employment would incentivize nationals to look for private sector work. Directors called for further steps to boost female labor force participation and employment.

Directors welcomed the findings of the Financial System Stability Assessment report that banks are well regulated and supervised. They welcomed the steps taken by SAMA to strengthen its regulatory and supervisory frameworks and to develop the macroprudential framework and the financial safety net. They saw scope for SAMA to strengthen its liquidity management framework. Directors welcomed the authorities' efforts to further strengthen their AML/CFT framework, and looked forward to the finalization of their risk assessments.

Directors agreed that the exchange rate peg to the U.S. dollar remains appropriate given the structure of the Saudi economy, and emphasized that continued fiscal adjustment is crucial to support the peg. They saw merit in reviewing the peg periodically to ensure it remains appropriate.

Directors encouraged the authorities to continue to address data gaps and subscribe to the Special Data Dissemination Standard.

Selected Economic Indicators, 2012–17

	2012	2013	2014	2015	2016	Proj. 2017
Production and prices	(Annual percent change; unless otherwise stated)					
Real GDP	5.4	2.7	3.7	4.1	1.7	0.1
Real oil GDP	5.1	-1.6	2.1	5.3	3.8	-1.9
Real non-oil GDP	5.5	6.4	4.9	3.2	0.2	1.7
Nominal GDP (billions of U.S. dollars)	736	747	756	654	646	692
Consumer price index (avg)	2.9	3.5	2.7	2.2	3.5	1.7
Fiscal and Financial variables	(Percent of GDP; unless otherwise stated)					
Central Government revenue	45.2	41.3	36.8	25.0	21.4	25.0
Of which: oil revenue	41.5	37.0	32.2	18.2	12.7	17.5
Central Government expenditure	33.2	35.5	40.2	40.7	38.6	34.3
Fiscal balance (deficit -)	12.0	5.8	-3.4	-15.8	-17.2	-9.3
Non-oil primary balance (percent of non-oil GDP)	-60.1	-59.4	-63.6	-49.8	-44.7	-39.6
Broad money (annual percent change)	13.9	10.9	11.9	2.5	0.8	1.7
External sector	(US$ billions; unless otherwise stated)					
Exports	388.4	375.9	342.5	203.5	182.3	208.2
Of which: Oil and refined products	337.2	321.7	284.4	153.0	136.2	158.5
Imports	-141.8	-153.3	-158.5	-159.3	-123.9	-127.6
Current account	164.8	135.4	73.8	-56.7	-24.9	1.3
Current account (percent of GDP)	22.4	18.1	9.8	-8.7	-3.9	0.2
SAMA’s net foreign assets	647.6	716.7	724.3	608.9	528.6	472.6
SAMA's net foreign assets (in months of imports of goods and services)	33.8	33.2	35.1	37.5	31.7	28.2
Real effective exchange rate (percent change)[1]	3.2	3.0	9.4	8.4	4.8	0.8

Sources: Country authorities; and IMF staff estimates and projections.
[1]Latest 2017 data is for end-May.

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

June 28, 2017

KEY ISSUES

Context. Saudi Arabia has embarked on a bold reform program under Vision 2030. Reform momentum is strong, and good progress is being made in reform implementation. Saudi Arabia has reduced oil production under the OPEC+ agreement.

Outlook and risks. Non-oil growth is expected to pick-up this year, but overall GDP growth will be close to zero given the decline in oil production. Growth is expected to strengthen over the medium-term as structural reforms are implemented. Risks mainly come from uncertainties about future oil prices and how ongoing reforms will impact the economy.

Fiscal policy. A large, sustained, and well-paced fiscal adjustment is needed in the coming years. Reforms should focus on successfully introducing the VAT, gradually raising energy and water prices while protecting the less well-off, and improving the composition of government spending, while strengthening the fiscal framework.

Growth and employment-enhancing reforms. Progress is being made in identifying and reducing some of the obstacles to private sector growth and exports. Creating more private sector jobs for Saudi nationals and increasing female participation rates are essential. Well-targeted fiscal measures can support structural reforms.

Financial sector. Banks are well regulated and supervised and remain well positioned to weather the effects of slower growth. Ongoing reforms to develop the domestic capital markets will increase financing and saving options in the economy.

External sector. The exchange rate peg to the U.S. dollar remains appropriate given the structure of the economy.

Approved By
Aasim M. Husain and Sanjaya Panth

Discussions were held in Riyadh during April 29-May 11, 2017. The staff team comprised Tim Callen (head), Nabil Ben Ltaifa, Sohaib Shahid (all MCD), and Wendell Daal (FAD). Dimitri Demekas (FSAP mission chief, MCM) joined the mission and Jihad Azour (MCD) participated in the concluding meetings. Executive Director for Saudi Arabia, Mr. Hesham Alogeel, accompanied the mission. The team met with Minister of Finance Aljadaan, the Governor of SAMA Alkholifey, and other senior officials, as well as representatives of the private sector. Diana Kargbo-Sical, Zhe Liu, Malika Pant, and Tucker Stone (all MCD) provided support from headquarters.

CONTENTS

TABLES

APPENDICES

CONTEXT

1. **Saudi Arabia has embarked on a bold reform program under *Vision 2030* that was launched in April 2016.** The reforms aim to transform the Saudi economy by diversifying it away from oil, giving a larger role to the private sector, increasing private sector jobs for Saudis, adjusting fiscal policy to the realities of lower oil prices, and increasing the effectiveness and accountability of government.

2. **Following *Vision 2030*, more specific policy goals and reform details have been provided in subsequent "vision realization" programs**. These include the National Transformation Program 2020 (NTP) launched in June 2016 and the Fiscal Balance Program 2020 (FBP) launched in December 2016. Recently, 10 additional programs have been outlined which will be further detailed in the coming months.

3. **The reform momentum is strong and is being supported by a governance and monitoring system that has been put in place**. The reforms are very much in line with previous IMF policy advice. To support reform implementation, the government has identified a set of strategic objectives and has established key performance indicators (KPIs) for government ministries and entities. The National Center for Performance Management (Adaa) has been established to monitor and report on reform progress. Several government ministries have been merged or restructured to help the reforms and to improve accountability and service delivery.

4. **Saudi Arabia has played a central role in the OPEC+ oil production agreement.** As part of the agreement reached last November to reduce oil production for the first six months of 2017, Saudi Arabia cut its production to around 10 mb/d during January-April 2017, a decline of 3.4 percent from the same period in 2016. The production agreement has recently been extended through the first quarter of 2018.

5. **Regional tensions remain high**. The ongoing conflicts in Syria and Yemen are creating a difficult security environment. Saudi Arabia, along with Bahrain and UAE among GCC countries, has cut off diplomatic relations with Qatar.

MACRO-FINANCIAL-FISCAL DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

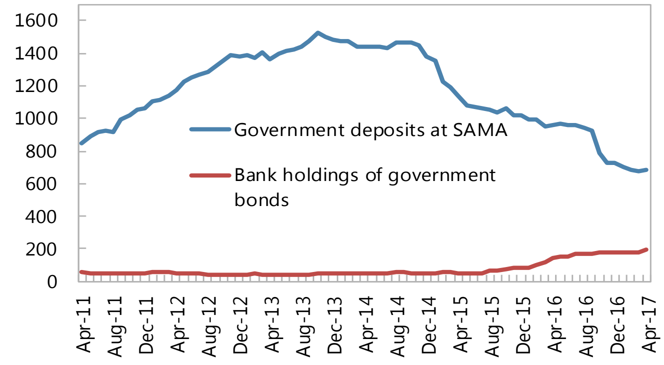
6. **Fiscal policy has continued to adjust to lower oil prices.** The non-oil primary deficit declined to 44.7 percent of non-oil GDP in 2016 from 49.8 percent in 2015. A contraction in spending of 6.4 percent was led by a sharp fall in capital expenditures which helped offset a higher wage bill (Figure 1, Tables 1-3). Spending included the settlement of arrears from 2015 (3.3 percent of GDP). Non-oil revenues also increased. A sharp further fall in oil revenues, however, led to an

Status of Staff Recommendations Made During the 2016 Article IV Consultation

Recommendation	Status
A gradual, but sizeable and sustained fiscal consolidation is needed.	Fiscal consolidation continued in 2016, with the non-oil primary fiscal deficit declining by 5 percent of non-oil GDP. The Fiscal Balance Program (FBP) envisages a balanced budget in 2019.
Strengthen the fiscal policy framework.	A macro-fiscal unit has been established in the Ministry of Finance. Fund TA is being provided to support its operations. The authorities are strengthening the budget preparation process, are aiming to move toward a MTFF, have introduced KPIs for Ministries, and have started publishing quarterly budget performance reports. Nevertheless, fiscal data and fiscal transparency remain weak.
Comprehensive energy price reforms are needed.	The FBP sets out a plan to raise energy and water prices to international/cost recovery levels by 2020. Compensation will be provided to lower and middle-income households through a household allowance.
Strengthen the non-oil revenue base.	The government has introduced fees on visas, vacant land, and municipal services. Excise taxes on tobacco and carbonated/energy drinks were introduced in June. A VAT is planned for 2018. IMF TA is being provided on excise taxes and the VAT.
Review capital and current expenditures to better align spending with policy priorities. Contain the government wage bill.	The bureau of spending rationalization is reviewing the budgets of large Ministries. The National Project Management Office has been set up to strengthen project management. Although public employee allowances were restored in April 2017, other measures introduced in late 2016 to rationalize the wage bill remain in place.
Financing of the fiscal deficit needs to be considered within an integrated asset-liability management strategy.	A Debt Management Office has been established. The 2016 deficit was financed by a combination of asset drawdown and debt issuance (domestic and external). The Public Investment Fund (PIF) is taking a more active role in foreign investment.
Labor market reforms are needed to encourage the employment of nationals in the private sector.	Government efforts are continuing to increase Saudization of certain sectors (for example, the mobile phone repair sector). Female participation has continued to rise, but remains low. Over the past year, there has been little increase in Saudi employment in the private sector.
Increase the role of the private sector to spur growth, productivity, and diversification.	The authorities are re-starting their privatization program and are reviewing business regulations and easing the regulatory burden. An SME Authority has been set up to coordinate SME policies.
Strengthen the macroprudential policy framework to mitigate financial sector risks in a countercyclical way.	The authorities have set up a National Financial Stability Committee and SAMA has published Financial Stability Reports. SAMA relaxed the loan-to-deposit ratio and has eased the LTV ratio for first home mortgage lending by banks (from 70 to 85 percent).
Deepen the domestic capital markets.	The authorities are continuing to introduce reforms to develop the equity and debt markets. Foreign investment limits have been relaxed further, settlement on the Tadawul has been moved to T+2, and a parallel equity market for smaller companies (Nomu) has been established. The government has listed its bonds to increase liquidity.

increase in the fiscal deficit to 17.2 percent of GDP from 15.8 percent of GDP in 2015. The deficit was financed through deposit drawdowns and borrowing, and the government's net financial assets declined to 17.1 percent of GDP (35.9 percent of GDP in 2015). The fiscal deficit shrank considerably in 2017Q1 relative to the same quarter in 2016. This reflected an increase in oil revenues, but also lower spending. Government employee allowances that were cut in October 2016 were reinstated in April 2017.

Government Assets and Liabilities
(SAR billions)



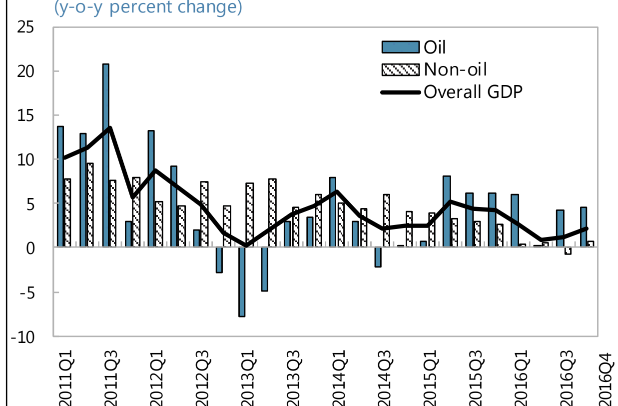
Sources: Country authorities; and Haver.

Fiscal Developments 2014–17

	2014	2015	2016	Proj. 2017	2014	2015	2016	Proj. 2017
	(Percent of GDP)				(Percent of non-oil GDP)			
Revenue	36.8	25.0	21.4	25.0	64.7	34.6	28.9	34.9
Oil	32.2	18.2	12.7	17.5	56.5	25.3	17.2	24.5
Non-oil	4.6	6.8	8.7	7.5	8.1	9.4	11.7	10.4
Expenditure	40.2	40.7	38.6	34.3	70.6	56.5	52.1	47.9
Current	23.6	27.2	30.0	27.6	41.4	37.8	40.4	38.6
Capital	16.6	13.5	8.6	6.7	29.2	18.7	11.6	9.3
Overall Balance	-3.4	-15.8	-17.2	-9.3	-6.0	-21.9	-23.2	-12.9
Non-oil primary balance	-36.2	-35.9	-33.2	-28.3	-63.6	-49.8	-44.7	-39.6
Memo items:								
Nominal GDP (SARs billions)	2,836	2,454	2,424	2,596				
Nominal Non-oil GDP (SARs billions)	1,615	1,768	1,797	1,859				

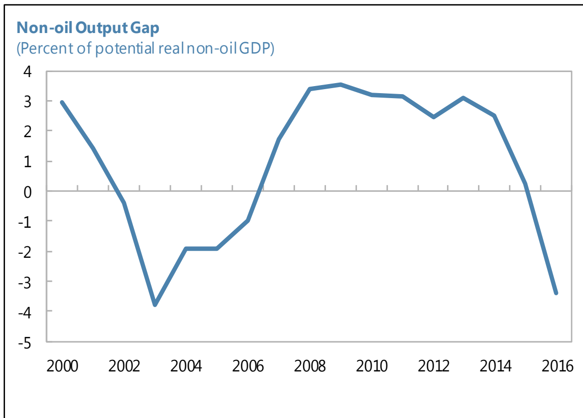
7. **Lower government spending has led to a slowdown in non-oil growth.** Real GDP growth slowed to 1.7 percent from over 4 percent in 2015, with non-oil growth near-zero compared to 3.2 percent in 2015 (Figure 2). Non-oil output is estimated to be below potential. The construction, wholesale, and retail sectors were most affected. Profits of listed non-financial companies fell by 6 percent (y/y) in 2016, but corporate vulnerabilities appear limited based on a range of stress test scenarios (Appendix I).

Real GDP Growth, 2011–16
(y-o-y percent change)



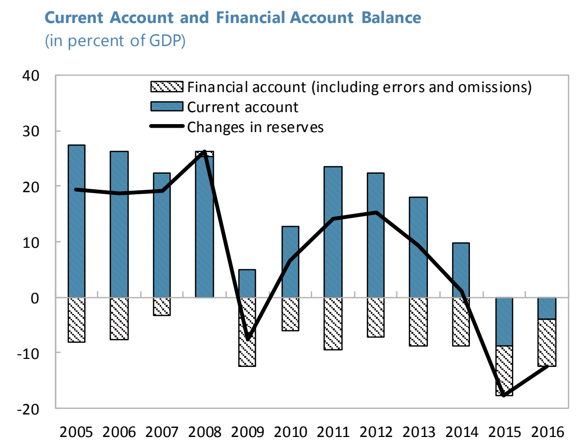
Sources: Country authorities; and IMF staff calculations.

8. Employment growth has slowed. Total employment grew by 1.4 percent in 2016, down from 3.8 percent in 2015, but for Saudi nationals, employment was broadly unchanged. The unemployment rate of Saudi nationals rose to 12.3 percent from 11.5 percent at end-2015, with youth (age 15–24) and female unemployment rates at 40.5 percent and 34.5 percent, respectively.



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

9. The CPI declined in the first five months of 2017. CPI inflation rose in January 2016 and peaked at 4.3 percent (y/y) in March due to the energy and water price reforms introduced in early 2016. Non-energy inflation remained subdued, however, held down by falling food prices.[1] CPI inflation turned negative in January 2017 as the effects of the energy and water price increases dropped out of the calculation, while food prices continued to decline. The CPI fell by 0.7 percent (y/y) in May 2017 (Figure 3).



Sources: Country authorities; and IMF staff calculations.

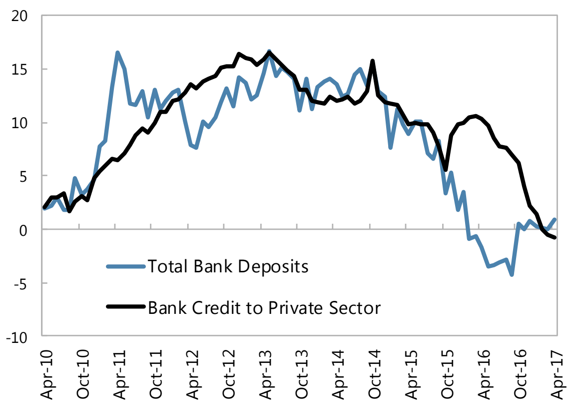
10. The current account deficit narrowed in 2016. Imports declined by 22 percent due to the decline in investment spending (mainly the government sector) and despite lower export revenues, this underpinned a decline in the current account deficit to 3.9 percent of GDP from 8.7 percent of GDP in 2015 (Figure 4; Table 4). Financial outflows—while partly offset by large government external borrowing ($27.5 billion)—remained sizable, reflecting in part the restructuring of the investment portfolio of one of the large pension funds. Errors and omissions were large at over 6 percent of GDP. Foreign exchange reserves declined by $80 billion during 2016 and by another $36 billion during January-April 2017.

11. Government payment arrears and domestic debt issuance contributed to a tightening of banking sector liquidity. The withdrawal of deposits from banks by pension funds to purchase government debt and the delays in government payments to its contractors resulted in an accelerated decline in bank deposits. Contractors also drew on their credit lines as they waited for payment (Figure 5, Table 5). This led to an increase in interbank interest rates, with 3-month SAIBOR rising to 2.4 percent in mid-October 2016 (spread to U.S. LIBOR widened to 150 basis points). SAMA has raised its reverse repo rate in line with the Fed, but kept the repo rate unchanged at 2 percent.

[1] See the accompanying Selected Issues paper on "Why Has Inflation Declined in Saudi Arabia?"

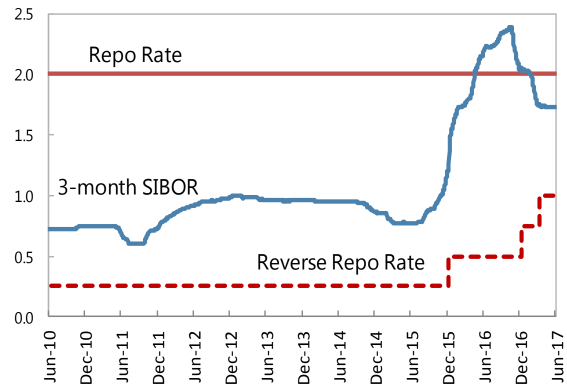
Bank profitability weakened, NPLs increased marginally to 1.4 percent, while capital and provisioning ratios remained high.

Growth of Bank Credit to Private Sector and Deposits
(y-o-y percent change)



Sources: Country authorities; and IMF staff calculations.

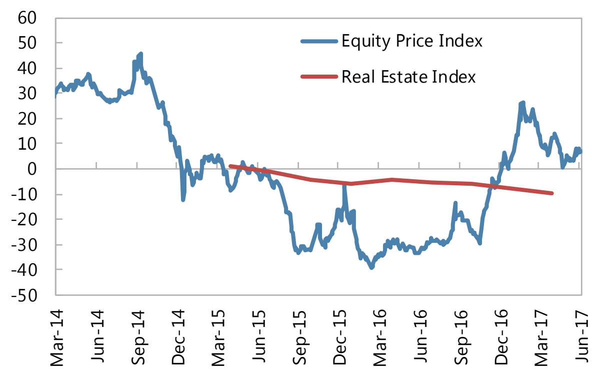
Policy and Interbank Interest Rates
(Percent, daily closing rates)



Sources: Haver; and Reuters.

12. The economic situation has improved since late 2016, but remains weak. The payment of government arrears that started in October, the external sovereign bond issue, and SAMA policy measures helped ease liquidity pressures and interbank interest rates fell. The PMI increased to its highest level since 2015Q3 in 2017Q1, bank deposits have stabilized, and equity prices have rebounded. Financial markets have not been significantly affected so far by the diplomatic rift with Qatar. Nevertheless, consumer confidence has fallen, consumer spending remains weak, credit growth is near zero, and real estate prices are declining.

Equity and Real Estate Price Indices
(y-o-y percent change)



Sources: Country authorities; and Haver.

B. Outlook

13. The FBP and the 2017 budget set out an ambitious fiscal consolidation plan. They aim to reduce the fiscal deficit to 7.7 percent of GDP this year, balance the budget by 2019, and generate a fiscal surplus in 2020. In addition to an expected increase in revenues from oil exports, this adjustment is expected to be driven by new non-oil revenue measures—excises on tobacco and carbonated/energy drinks, VAT, higher expatriate labor fees, and an assortment of smaller fees/fines (Box 1)—further increases in energy and water prices together with measures to compensate households and businesses (Box 2), and continued spending restraint.

Box 1. Non-Oil Revenue Reforms

Excises on tobacco and carbonated/energy drinks

Excise taxes on tobacco and carbonated/energy drinks were introduced in June 2017. The rates on tobacco and energy drinks are 100 percent, and the rate on carbonated drinks is 50 per cent. There will be no exemptions, and the tax will apply uniformly to local producers and importers. The expected revenues are 0.4 percent of GDP by 2020. To the extent that consumer behavior changes, the revenue take may decline over time.

Additional Non-oil Revenue

	Rate	Date of	2020		
	(%)	Implementation	In percent of		
			GDP	non-oil GDP	Total
Consumption Taxes			**2.0**	**2.7**	**40.7**
VAT	5	2018	1.6	2.1	32.2
Excises	100/50	2017Q2	0.4	0.6	8.5
Expat Levy 1/		2017Q3	**2.2**	**3.0**	**45.8**
Other revenue reforms			**0.7**	**0.9**	**13.5**
Total			**4.8**	**6.6**	**100.0**

1/ Phased gradually over 2017-20

The VAT

The VAT is planned to be introduced at the beginning of 2018 at an initial rate of 5 percent. The registration threshold is SAR 375,000 ($100,000). The expected revenues from VAT are projected to increase gradually to reach about 1.6 percent of GDP by 2020. Collections would be constrained if there were a large number of exemptions and zero rating of goods. Saudi Arabia and UAE have both ratified the GCC excise and VAT agreements.

Challenges ahead

To successfully implement the VAT, GAZT needs to successfully deal with several key remaining issues:

- The VAT law has not yet been enacted. While a draft has been put out for public consultation, details still need to be worked out to ensure consistency with the GCC agreement, particularly regarding the threshold for VAT, which at the proposed level will result in a difficult-to-manage taxpayer base of around 350,000. The VAT registration threshold should initially be set at a higher level and gradually reduced over time.

- Necessary forms and processes for filing these taxes have not been finalized. Transparent communication and sustained discussions with stakeholders are needed to ensure private sector and public buy-in. This has started, but more communication is needed.

Country experience suggests that a rushed VAT introduction often leads to poor compliance in registration as well as in filing and payment which prove difficult to correct.

Tax levy on expatriate labor and other non-oil revenue reforms

Expatriate Levy. Implementation is scheduled to begin in July 2017 and will be phased-in through 2020. The current expat levy that companies pay if their foreign labor exceeds Saudi employees will be raised from SAR 200 to SAR 800 per month by 2020. A slightly lower levy will be introduced for companies where expats do not exceed nationals (currently no levy)—initially SAR 300 rising to SAR 700 by 2020. The levy will cover dependents, albeit at lower rates.

Other initiatives. These include the introduction and/or the increase in fees and fines (e.g. visa fees, municipal fees, vacant land tax, and road fines), the removal of some subsidies (in addition to increasing energy and water prices), and the expansion of some tourism and telecom license fees. The expected revenue from these reforms is less than 1 percent of GDP. Separately, the authorities also plan to improve tax collection through administration reforms.

Box 2. Update on Energy and Water Price Reforms

The increase in prices across most major energy and water products in early 2016 was a first step towards bringing domestic prices closer to international prices. Recognizing that low energy and water prices were resulting in high and wasteful consumption and tended to disproportionately benefit the better-off, the government raised prices significantly, with increases ranging from 10 to 134 percent. The strategy adopted appears to have been broadly successful, with the growth of energy consumption declining from 4.6 percent in 2015 to 0.2 percent in 2016 (although slower economic growth played a role as well). And while the utilities and transport components of the CPI increased by an average of 9.7 percent in January 2016, CPI inflation peaked at 4.3 percent (y/y) in March, and has since declined sharply. The exception to the successful implementation of the initial reforms was in the water sector where problems with the infrastructure (leakages, inaccuracy of metering and billing) undermined the reforms and the government has committed to not increase water prices further until the infrastructure is fixed.

A second wave of price increases is expected in 2017. The envisaged increases in gasoline, diesel and electricity prices for households and non-households would be substantial. To reach international/cost recovery prices, this would imply a 70–80 percent increase in the price of gasoline and electricity for households, while bringing diesel prices to 75 percent of the international benchmark (as envisaged) would imply a 195 percent increase. The authorities are also considering an automatic pricing formula once domestic prices are at international levels, beyond 2020.

The government is planning to compensate Saudi households for the energy and water price increases. For the household compensation, an online portal has been set up for families to register. This opened in early February and households covering 12 million Saudi nationals (covering over one-half of the local population) have registered. The annual cost is estimated to be around SAR 33 billion by 2020 once the price adjustment process is complete.

The authorities also plan to introduce a multi-year support program to help selected industries adjust to higher energy and water prices. Although the exact package is still being decided, a total overall cost of SAR 26 billion has been estimated during the 2017–20 period. Most of the support would be in the form of temporary funding of operational losses related to energy price increases and subsidized loans for increasing energy efficiency. These would be conditional on the achievement of energy-saving and other efficiency measures.

Revenue Gains from Energy Price Reform

In US$ billion	**2016**	**2020**
Gasoline	2.6	13.5
Diesel (Gas oil)	1.7	29.5
LPG		
Public	0.04	1.1
Oil Industry	0.01	0.3
Fuel Oil		
Public	0.2	14.5
Oil Industry	0.02	1.5
Asphalt	0.1	0.2
Jet Fuel	0.3	1.6
Natural Gas		
Public	2.1	4.5
Oil Industry	0.5	1.0
Others	1.2	
Total/ Gross revenue gains (US$)	**8.8**	**67.7**
Gross revenue gains (SR)	**33.1**	**253.8**
Household Allowance (SR)		33.0
Industry Support (SR)		11.0
Net revenue gains (SR)	**33.1**	**209.8**

Source: IMF staff estimates.

Substantial fiscal savings will be generated by these reforms (Table). Staff estimates gross fiscal savings of around SAR 254 billion by 2020. The net fiscal saving, taking account of the household and industry compensation, is estimated at SAR 210 billion by 2020. Not all revenues are expected to accrue to the budget given the taxation regime applicable to Aramco.

14. **Based on the fiscal policy measures so far announced and the WEO oil price baseline, staff projects that the fiscal deficit will decline to 9.3 percent of GDP in 2017 and further to just under 1 percent of GDP in 2022**. The difference from the authorities' projection in 2017 is largely due to lower oil revenues. These projections assume that the major non-oil revenue and the

energy price reforms are introduced as scheduled in the FBP (with the VAT reaching full collection efficiency in 2020) and that the estimated operational and capital expenditure savings so far identified are realized. The staff's projections do not include any additional military spending that may result from the recent defense agreement with the United States nor any budgetary spending to support the private sector stimulus (PSS) program that is being developed (see below).

15. **Non-oil growth is expected to pick-up this year, but real GDP growth is projected to slow to near zero given declining oil GDP**. Non-oil GDP growth is projected at 1.7 percent in 2017 given recent improvements in business confidence, the restoration of public employee allowances, and some expected increase in PIF investment. Oil output, however, is expected to contract by 1.9 percent as Saudi Arabia reduces production in line with the OPEC+ agreement, implying overall real GDP growth of 0.1 percent. With relatively limited direct trade and financial links, the diplomatic rift with Qatar is not at present expected to affect the outlook in Saudi Arabia. In 2018, growth is projected at 1.1 percent as real oil GDP growth turns positive, but non-oil growth slows in line with faster fiscal consolidation (Box 3). The authorities project slightly higher growth than staff in 2017 and 2018, while consensus forecasts are for growth of 0.2 percent and 1.9 percent, respectively. Over the medium-term, oil output is projected to grow by around 1 percent a year. While fiscal consolidation will remain a drag, the ongoing implementation of structural reforms is expected to see an acceleration in non-oil growth to around 3 percent.

16. **The current account is projected to be in a small surplus over the projection period**. Fiscal consolidation will limit the growth of imports and remittance outflows, while some pickup in oil and petrochemical prices will boost export revenues (Figure 6). Net financial outflows are expected to continue—portfolio and other investment asset accumulation is partly offset by government external borrowing. Although declining, reserves and the NIIP position are projected to remain at comfortable levels.

Fiscal Deficit and Fiscal Financing 2016–22

	2016	2017–22 Cumulative
	(SAR trillions)	
Fiscal Deficit	0.42	0.65
Financing	0.37	0.65
Deposit drawdown at SAMA	0.3	0.2
Loans	-0.1	0.0
Domestic debt issuance	0.1	0.3
Banks	0.1	0.2
Nonbanks	0.0	0.2
Foreign borrowing	0.1	0.3
Privatization proceeds	0.0	0.0
Amortization	0.0	-0.2
Residual	0.05	0.00
Memorandum items	(Percent of GDP)	
	2016	2022
Gross government debt	13.1	24.9
Deposits at SAMA	30.1	17.2
Net Financial assets	17.1	-7.7

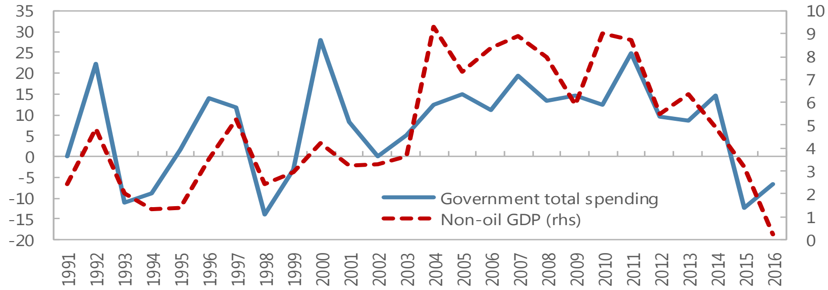
Source: IMF staff calculations

17. **Credit growth is projected to recover gradually**. Higher oil revenues and a pick-up in non-oil activity will support moderate growth in bank deposits, while the narrowing fiscal deficit and the expectation that a larger share of financing will come from non-bank and external sources will mean that banks invest less in government bonds, creating more room for credit to the private sector. Given the weak growth environment, NPLs, which are very low, could increase, but loan losses can be comfortably absorbed given capital and provisioning buffers.

Box 3. Expenditure Multipliers in Saudi Arabia

Government spending is a key driver of growth in the non-oil sector in Saudi Arabia (Figure). Using simple rolling correlations, the relationship between capital spending and non-oil growth seems to have risen in the past few years – a multiplier of 0.9 between 2011–16, compared to 0.6 during the period 1990–2016. However, the relationship between current spending and non-oil growth has declined slightly – a multiplier of 0.4 between 2011–16, compared to 0.5 during the period 1990–2016.

Government Spending and Non-oil GDP Growth in Saudi Arabia
(y-o-y percent change)



Sources: Country authorities; and IMF staff calculations.

Expenditure multipliers estimated for Saudi Arabia indicate that capital spending has a larger impact on non-oil growth than current spending.[1] Studies find the current and capital spending multipliers to be similar and quite low in the short-term (in the range of 0.2–0.5), which is unsurprising because both have high import content (final products and intermediate inputs as well as labor).[2] In the long-term, the current spending multiplier is around 0.5, while the capital spending multiplier is between 0.6–1.1 (Table). Studies of the GCC tend to find similar multipliers as those for Saudi Arabia. The limited domestic taxation means that there is considerable uncertainty about revenue multipliers in Saudi Arabia. Staff uses low multipliers as estimated for the GCC by Cerisola et. al (2015).

Fiscal Multipliers in Saudi Arabia and the GCC

	Source	Estimation period	Current spending		Capital spending		Total spending	
			ST	LT	ST	LT	ST	LT
Saudi Arabia	Espinoza & Senhadji (2011)	1975 – 2009	0.4	-	0.5	1.0	0.2	0.5
	IMF (2016a)	1980 - 2015	0.3	0.5	0.2	0.8	-	-
	SAMA		-	0.5	-	1.1	-	0.6
GCC	Espinoza & Senhadji (2011)	2000 – 2009	0.2-0.4	0.3-0.7	0.2-0.3	0.6-1.1	-	-
	Cerisola et al. (2015)	1990 – 2008	-	0.7-1.2	-	1.4	-	-
	IMF (2016b)	1990 – 2015	0.3	0.4	0.4	1.3		

Sources: IMF publications and SAMA.

[1] Fiscal multiplier is defined as the change in output, relative to baseline, following an exogenous change in the fiscal balance that stems from a change in spending policies.

[2] Cerisola et al. (2015), IMF Technical Guidance Note 15/01; Espinoza & Senhadji (2011), IMF Working Paper 11/61; IMF (2016a), IMF Country Report No. 16/32; IMF (2016), GCC Annual Meeting of Ministers of Finance and Central Bank Governors.

18. **CPI inflation will be affected by energy price and non-oil revenue reforms over the next few years.** Underlying inflation is expected to remain subdued, while headline CPI is projected at 1.7 percent in 2017 and then to peak at 5 percent in 2018, before easing to 2 percent over the

medium-term. These projections incorporate the excise taxes introduced in June 2017, and assume that energy price reforms start in 2017 and that the VAT is implemented at the beginning of 2018.

C. Risks and Spillovers

19. Risks to growth are on the downside in the near-term, but more balanced over the medium-term. Downside risks include lower oil prices (Figure 7), slippages in the structural reform agenda, tighter global financial conditions, and any further escalation of regional tensions (Risk Assessment Matrix). If fiscal consolidation proceeds too rapidly, it would adversely affect growth. Insufficient fiscal consolidation, however, would also have risks. While growth in the near-term may increase, it would be at the cost of higher debt and interest rates and pressure on the exchange rate peg with negative effects on growth in the medium-term. Other risks would include heightened domestic security issues and cyber-attacks against critical infrastructure. Upside risks would come from the successful implementation of broad structural reforms, which are only partially incorporated in the staff's baseline, the translation of a credible and well-paced fiscal consolidation into stronger private sector confidence, and higher oil prices. The planned privatization of Aramco and the possibility of Saudi Arabia's inclusion in the MSCI index are further upside risks that could boost foreign inflows and growth and that not been incorporated in the projections.

20. Developments in Saudi Arabia have an important impact on other GCC countries and the broader MENA region. The channels include imports, remittances, tourism, aid, and financial flows, the importance of which varies across countries.

POLICY DISCUSSIONS

Against the background of the ambitious reforms that are being implemented in Saudi Arabia, the discussions focused on the following policy themes: (i) the pace, composition, and implementation of fiscal adjustment; (ii) reforms to boost growth and private sector employment; (iii) financial sector resilience and development, and (iv) the exchange rate and external stability.

21. Staff welcomed the direction of the reforms the authorities are pursing which are very much in line with previous IMF policy advice and noted the considerable progress that has been made in reform implementation since the 2016 Article IV consultation. The reforms are very ambitious, and staff and the authorities agreed that continued efforts to prioritize, sequence, and coordinate the reforms will be essential to their success. The authorities explained that over the past year they have put in place a strong governance structure centered around the Council for Economic and Development Affairs (CEDA) that is responsible for the planning, implementation, and monitoring of the reforms. Ensuring social buy-in to the reforms will be essential. The impact and benefits of the reforms need to be clearly explained, and the reforms need to be equitable. The authorities explained that they have significantly stepped-up their communications in recent months, both domestically and internationally, and they are putting in place compensation mechanisms to ensure that lower and middle-income households are not adversely affected by the reforms.

Saudi Arabia: Risk Assessment Matrix[1]			
Nature/source of main risks	**Likelihood/Time Horizon**	**Expected impact on the economy if risk is realized**	**Policy Response**
Lower energy prices. Production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production**.**	**Low/Short-to-medium-term**	***High*** A substantial decline in oil prices will undermine confidence, increase the fiscal deficit, and put pressure on the government to deepen spending cuts, with negative implications for growth and employment. Adverse confidence effects in the private sector and drying up of liquidity in the banking system could reduce credit availability and amplify negative spillovers.	Fiscal policy would need to adjust to reflect the realities of lower oil prices, reduce the current account deficit, and support the exchange rate peg. However, existing buffers could be used to smooth this adjustment. The authorities should continue to ensure adequate banking system liquidity and carefully monitor banks for signs of stress.
Fiscal consolidation proceeds too rapidly, adversely affecting non-oil growth	**Low/Short-to-medium-term**	***High*** The government has announced an ambitious fiscal adjustment in the FBP. If this materializes, it would adversely affect growth and employment, and the reform efforts may prove unsustainable.	Ensure available fiscal space is fully utilized to enable a gradual but sustained medium-term consolidation. This needs to be supported by structural reforms to boost non-oil growth.
Slippages in the reform agenda result in weak growth and limited private sector employment opportunities.	**Medium/Short-to-medium-term**	***High*** The failure to turn reforms into growth and ultimately jobs for Saudis in the private sector will either lead to rising unemployment and social pressures or increasing public employment which will have negative fiscal implications.	Further labor market reforms are needed to address skills gaps of Saudi nationals and to reduce the wage gap between Saudis and expatriates to help increase the employment of Saudi nationals in the private sector. Structural reforms are needed on boost non-oil growth.
Retreat from cross-border integration, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth	**High/Short-to-medium term**	***High*** The main impact would be through oil prices if global growth is adversely affected. Changes in investor risk sentiment could also affect external financing conditions.	Increased efforts at diversification would remain important. If growth was significantly affected by a loss of confidence, there could be a case for temporarily slowing the pace of fiscal adjustment.
Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, leading to a sharp rise in migration-flows with negative global spillovers.	**High/Short-to - medium term**	***Medium/Low*** The impact on the Saudi economy would depend on the nature of the event. The impact on oil prices is the most likely channel of transmission.	Needed policy response would depend on the nature of the shock. Fiscal policy could respond and authorities would need to ensure adequate liquidity on the banks system.
Significant further strengthening of the US dollar and/or higher rates.	**High/Short-term**	***Low*** Given the peg, dollar strength would appreciate the riyal in real effective terms, but the impact on growth or the current account would be minimal given small non-hydrocarbon exports and limited substitutability between domestic production and imports. Banks should prove resilient as foreign exchange exposure is low.	Continued strong fundamentals would likely prevent excessive volatility in Saudi Arabian financial markets. Large financial cushions are in place to mitigate the impact.

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

A. The Pace, Composition, and Implementation of Fiscal Adjustment

Pace and composition of fiscal adjustment

22. A large and sustained fiscal adjustment is needed in the coming years to continue to respond to the effects of lower oil prices on the budget. A key question is how quickly this adjustment should take place. In staff's view, the strong fiscal buffers, the availability of financing, and the current cyclical position of the economy mean that rapid fiscal consolidation is neither necessary nor desirable.[2] Saudi Arabia has some fiscal space that can be used for a more gradual fiscal consolidation that balances the budget by 2022 rather than in 2019 as originally set out in the FBP.

23. The revenue and expenditure measures that have so far been announced by the authorities, if fully implemented, appear sufficient to move the budget close to balance in 2022. In the staff's view, the focus should now be on successfully implementing these announced measures, smoothing the planned adjustment, improving the composition of the expenditure adjustment to provide more room for social safety net or other spending to support structural reforms, and identifying additional fiscal measures of around 1 percent of GDP to achieve budget balance in 2022. This would stabilize the net debt ratio and move the budget balance to a level consistent with intergenerational equity using the constant real annuity rule (but not the constant real per capita annuity rule). Staff suggested that the fiscal adjustment could be somewhat smaller during 2017-20 than in the baseline, and somewhat larger during 2021–22—this would not mean delaying the initial implementation of any of the fiscal reforms, but rather phasing-in some of them over a longer period (see below). In terms of the composition of the adjustment, more should be done to restrain wage and operational expenses to create room for higher social and other spending to support the structural reform program and to protect capital spending. Lastly, new spending/stimulus initiatives would need to be accommodated within the fiscal envelope that delivers budget balance by 2022.

24. Staff emphasized the complementarity between the fiscal and growth-enhancing structural reforms. A well-paced fiscal adjustment will limit the negative short-term impact on growth and enable the beneficial effects of structural reforms to support growth as fiscal consolidation continues over the medium-term. The successful implementation of structural reforms will over time boost non-oil growth and government revenues, thereby supporting the fiscal adjustment. Staff developed an alternate scenario that incorporates the fiscal adjustment path set out in paragraph 23 together with structural reforms that raise productivity and labor force participation to boost non-oil growth to illustrate these benefits (GFASR scenario in Figure 8).

[2] See the accompanying Selected Issues paper "Fiscal Adjustment—Scope and Pace". Appendix II contains the fiscal and external debt sustainability analysis.

25. The authorities indicated that they were considering the appropriate pace of fiscal adjustment given the weak growth. They noted that the FBP provides broad guidance on medium-term fiscal policy, and their intention is to review and update the specific targets at regular intervals taking account of changing economic and social conditions as well as other factors. They saw merit in pushing ahead quickly with the fiscal reforms, particularly as they felt the compensation mechanisms they were developing to support households and businesses would limit the economic impact, but agreed that it is very important to monitor growth and employment and adjust the timing of reforms if needed. The authorities explained that they were in the process of developing the PSS program to support the private sector that would combine well-targeted fiscal spending with a streamlining of business regulations to boost private sector growth. The financing of this package is still being worked out, although it is likely to partly comprise loans from the Special Credit Institutions (SCIs). The total cost is likely to be 1½-2 percent of GDP a year during 2017–20.

Fiscal policy implementation

26. Revenue reforms should aim to introduce an effective and efficient tax system that raises revenues while limiting the impact on growth. The authorities explained that they and UAE have ratified the GCC excise and VAT agreements, and they were moving ahead with their implementation plans. They introduced excises on tobacco and carbonated/energy drinks in June, and were fully committed to implementing the VAT at the beginning of 2018 as announced. Staff noted that the timetable for the VAT was very challenging given the administrative and legal preparations that are still needed. The authorities acknowledged that implementation will be challenging, but they were confident that they could meet the announced start date. They said they have been hiring and training additional staff at the General Authority of Zakat and Tax (GAZT), have been reaching out to businesses to help their preparations, and have recently published a draft VAT law for public consultation. Staff suggested that exemptions and zero-rated items should be kept to the minimum possible under the GCC agreement, and that once the tax is successfully introduced, the rate should be raised from its 5 percent level.

27. Staff cautioned against introducing a multitude of smaller fees and charges and argued against earmarking new revenues. The authorities are considering additional fees and charges that are mostly aimed at luxury goods or to recoup some of the costs of government services. Staff noted that these revenues would be relatively limited and expressed concern that introducing these fees and charges would spread implementation capacity too thinly and potentially undermine other parts of the reform agenda. Staff also cautioned against the earmarking of new revenues such as the idle lands tax and tourism fees, and noted that the revenues from the planned increase in fees on expatriate labor are uncertain—if the policy is successful in its aim to increase Saudi employment, the revenues will likely decline over the long term.

28. Staff agreed with the authorities that further energy and water price increases are a key part of the reforms. The authorities plan to raise energy and water prices toward international/cost recovery price levels by 2020. For households, most of the increase will be concentrated in 2017 and 2018. The authorities are developing a household allowance that will compensate low and middle-income national households for the impact of the price increases. While the levels of compensation have not been finalized, the aim is to fully compensate households in the bottom two quintiles, provide more limited compensation to the third and fourth quintiles, and no compensation to the top quintile. Registration for the household allowance was opened in February and households covering 12 million people have registered, of which around 10 million are expected to be eligible for some compensation. The authorities are also planning to provide temporary support to companies to help them adjust to higher energy and water prices.

29. Staff saw scope for a more gradual implementation of the energy and water price reforms than set out in the FBP. This would give households and businesses more time to adjust and the authorities more time to ensure compensation mechanisms are fully operational and effective. The authorities were not convinced, believing that a relatively fast pace of price increases would minimize implementation risks, while the household allowances and industry support would minimize the impact on the economy.

30. The authorities have taken significant steps to contain government spending and are now working on improving its composition (Figure 9). The Bureau for Spending Rationalization (BSR) has been established to work with government Ministries and entities to review their spending, improve procurement practices, and ensure investment projects are meeting clearly identified needs and are in line with Vision 2030 objectives. The BSR has identified potential savings of SAR 21 billion in operational expenditures over 3 years for three pilot ministries and SAR 86 billion from an investment pipeline of SAR 260 billion for five pilot Ministries. These initiatives are now being extended to other Ministries. As part of these efforts, the government procurement law is being reviewed.

31. To guide the expenditure adjustment going forward, the authorities are working with the World Bank on a public expenditure review. Staff welcomed this review, believing that it will provide important insights as to where further spending reforms are needed, and noted that:

- ***The government wage bill is high***. While civil service employment has declined slightly over the past two years, wages are still expected to account for over 45 percent of government spending in 2017. A review of government employment and wages should be undertaken and a strategy developed to gradually and sustainably reduce the wage bill over time. While the public employee allowances that were cut in October 2016 were recently restored, the freezing of the 2016 annual step pay increase and the move to pay wages on the Gregorian rather than Hijri calendar (which saves 1 wage payment every three years) remain in place.

- ***The quality of spending could be improved to deliver better outcomes.*** In education, for example, government expenditure is high, but Saudi Arabia scores poorly on international educational outcome tests such as TIMSS. Private businesses also indicate that Saudi nationals often do not have the skills needed for private sector jobs.

- ***Continued efforts to increase the efficiency of public investment are important***. Improvements in public investment efficiency could yield growth dividends.

- ***The social safety net should be reviewed and strengthened as needed.*** Budget spending on social assistance is lower than in the average emerging market economy. It also often targets certain groups (e.g. widows, veterans) rather than the less well-off. The government should review the size, composition, and targeting of social expenditures by all government agencies and assess if the programs are effectively protecting the less well-off.

Strengthening the fiscal framework and increasing fiscal transparency

32. The authorities stressed the importance they attach to developing a robust medium-term fiscal framework and strengthening the budget process. They noted that the 2018 budget preparation process is already underway based on a top-down and bottom-up approach. The budget will be set within a medium-term framework that captures the government's fiscal policy objectives. To ensure consistency between short-term and medium-term fiscal objectives, responsibility for the FBP has been transferred to the Ministry of Finance. Staff welcomed these developments and suggested that to further support improvements in the budget process and fiscal analysis, the capacity of the macro-fiscal unit (MFU) should continue to be developed and expenditure controls and cash management systems strengthened, including through the adoption of a treasury single account (TSA). Further, it is important that all government spending initiatives—including those from the PSS and from the recent defense agreements—are incorporated in the medium-term spending envelope.

33. Fiscal policy transparency and the measurement of government performance are being increased. The recent publication of the first quarterly budget performance report (for 2017Q1) and the accompanying press conference have increased fiscal transparency. The authorities said they are planning to release a pre-budget fiscal report for the first time this year and are in the final stages of producing fiscal data in GFS2014 format, which they are planning to submit to the IMF in the next few months. Staff welcomed these developments, and suggested that more needs to be done to strengthen the transparency of the broader government sector, including the links between Aramco, the PIF, other sizeable government entities, and the budget. They also recommended the establishment of a statistical unit within MoF with a clear mandate to collect, compile, and disseminate fiscal data. The introduction of KPIs across ministries and other government agencies and the considerable efforts that are being made to measure and monitor progress towards achieving these KPIs should over time result in a more transparent and results-oriented government.

34. Progress has been made in strengthening government debt management and investment operations. A Debt Management Office (DMO) has been established, and three successful international issuances have been made. Coordination between the domestic and external borrowing strategies has enabled the government and SAMA to relieve pressures on the banking system. A medium-term debt management strategy is being developed by the DMO. Reforms of the Public Investment Fund (PIF) are underway to accurately value and restructure its investment portfolio toward higher return/higher risk assets in line with its new mandate. Staff noted that it will be important to have in place an effective asset/liability management framework to ensure that borrowing and investment decisions are well coordinated.

B. Reforms to Boost Growth and Private Sector Employment

35. Staff analysis identified several macro-structural constraints to private sector-led growth. These are the skills of the Saudi workforce, the relative cost of Saudi and expatriate labor, low female participation in the labor force, business regulations, and credit availability for some sectors (Figures 10 and 11). These factors have contributed to poor productivity growth, low participation of nationals in the private sector, and an over-reliance of private businesses on expatriate labor (Appendix III). While it is difficult to estimate the potential impact of such reforms, and caution should be used in interpreting cross-country regression results, estimates suggest that a combination of reforms to deepen financial markets, increase trade openness, improve worker skills, improve the business environment, and increase female labor force participation could raise non-oil growth by 2 percentage points over the longer-term relative to a no reform scenario, although some of the reforms will take many years to bear fruit.[3] The authorities concurred with the assessment of structural gaps, and believed that the reforms they are currently undertaking in these areas have the potential to contribute to significantly stronger non-oil growth in the coming years.

Saudi Arabia- Additional Growth Beyond Current Rates:
(If Underlying Structural Variables Reach Benchmark/ Desired Levels 1/)

Percentage Points	**Additional growth**
Financial Market Development	0.5
Trade Openness	0.1
Worker Talent	0.7
Competitive Business Environment	0.3
Raising Female Labor Participation Rate	0.4
Total	**2.1**

1/ Additional growth is derived if each of the underlying factors are increased to average benchmark (advanced economies) levels. Potential growth gains from raising female labor participation assumes that it would be increased by 6 percent of female population 15+ (announced in the NTP) by 2020. For more details see Mitra and others (2016).

Source: IMF staff estimates.

36. Staff welcomed the authorities' efforts to transform the environment for private businesses under the "Removing Obstacles to the Private Sector" program. The authorities explained that they have been working intensively in consultation with the business community to

[3] The staff's baseline assumes that recently implemented structural reforms boost non-oil growth by around ¼ pp by 2022. The GFASR scenario assumes that implementing a broader set of structural reforms that successfully raises the female participation rate to the NTP target in 2022, starts to strengthen worker talent, and further deepens the financial sector could add an additional ¾ pp to non-oil growth by 2022.

identify unnecessary regulatory and other hurdles that impede private growth. While these reforms are still very much work-in-progress, a number of important steps have already been implemented and several others are very close to completion (text table). The authorities believed that these reforms would not only boost local investment, but would also encourage foreign direct investment (FDI) which has fallen sharply in recent years.

37. The SME sector could play a bigger role in growth and employment. Staff welcomed recent reforms that make it easier to start a new business including the full automation and simplification of commercial registration. A new companies law has been introduced which reduces the administrative burden on smaller companies, the Kafala loan guarantee program is being revamped, and consideration is being given to amending the government procurement law to make it easier for SMEs to bid on government contracts. The authorities explained that the newly established SME authority (SEMA) is now coordinating all aspects of SME policy and is acting as an SME champion in the government. A comprehensive SME strategy is being prepared that aims to strengthen data collection for the sector, increase banks' product and service offerings, and expand non-bank and capital market financing options for SMEs.

38. Privatization and PPPs are a central part of the plan to reduce the role of the public sector in the economy. The authorities are looking at potential privatizations in 16 sectors including airports, utilities, healthcare, sports clubs, and grain silos, as well as PPPs in education, health, and infrastructure. The newly established Bureau of Privatization has been working to update the 2004 privatization strategy and to develop a PPP framework (both are expected to be completed by end-year). An initial focus has been placed on enhancing the regulatory and institutional environment in each sector, particularly to separate policy and regulatory functions. As well as the potentially important effect on growth if these entities can be run more efficiently by the private sector, the reforms could also help reduce budget spending. Staff encouraged the authorities to carefully design the legal and regulatory frameworks, particularly for PPPs, to minimize contingent risks to the government. Further, government-owned companies and privatized companies should be subject to the competition law to support a competitive market.

39. The authorities are planning to sell a stake in Aramco, the government-owned oil company. The recent reduction in the income tax rate for oil companies—from 85 to 50 percent—was designed to bring it more in line with international levels and thereby encourage investment in the sector. The authorities do not expect the lower tax rate to have any impact on oil revenues accruing to the budget as Aramco will increase its dividend payments.

Recent Growth-Enhancing Structural Reforms

Category	Reform Measure	Implementation	Impact
Starting/doing business	• Updated competition law	Final stages of legislative process	These reforms reduce the time needed to start/register a business. The new competition law will broaden the coverage of the law and increase the enforcement power of the Council for Competition. A franchise law would encourage the conclusion of franchise agreements and broaden the ability of Saudis to operate franchises.
	• Franchise law	Final stages of legislative process	
	• Developing an electronic portal for company registration	April 2017	
	• Expedited business visa applications (within 24 hours)	April 2017	
	• Removing requirement for company seal and for "under formation" bank account	February 2017	
	• Instituting a unified ID number	January 2017	
	• Updated companies law	May 2016	
Urban planning	• Reengineering steps to deal with construction permits	March 2017	New construction permits can now be acquired within 16 days in Riyadh (previously 113 days). This will be extended to other areas. Permit application can be merged with the issuance of other municipal licenses.
	• Issuance of municipal licenses	February 2017	
Legal processes	• Insolvency law	Final stages of legislative approval	A modern insolvency law would make corporate reorganization and exit easier. A commercial mortgage law has been introduced. A cap on the maximum number of adjournments in commercial cases has been set (at 3) to speed up proceedings. The Saudi arbitration center provides an alternative to settle commercial disputes outside of the court system.
	• Commercial mortgage law	June 2017	
	• Case adjournments	April 2017	
	• Saudi Arbitration Center	October 2016	
Trade facilitation	• Removing export bans	April 2017	Bans on the export of reinforced steel and other products have been lifted. The number of required documents has been reduced (12 to 4 for imports and 9 to 3 for exports). The length of time for clearing imports and exports through local ports is being reduced to 24 hours (from 18 days). This is already implemented with large operators.
	• Decreasing the number of import/export documents	March 2017	
	• Expediting customs clearance	March 2017	
Capital market development	• Listing of government bonds on the stock exchange	May 2017	The Nomu market for smaller companies has less stringent listing standards (nine companies listed so far). T+2 settlement has been introduced on the Tadawul.
	• Switching to T+2 settlement	April 2017	
	• Nomu secondary equity market	March 2017	

40. Labor market challenges are large and require a multi-faceted approach to address. Over 1 million Saudis are expected to enter the labor force during the next 5 years. Policies are being designed to increase the competitiveness of Saudi workers in the private sector as well as to increase the incentives for private businesses to hire Saudi nationals. These policies include the planned increase in labor fees on expatriate workers beginning in July 2017 (these fees will be equivalent to 20 percent of the current average wage gap between Saudis and expatriates when fully implemented), better targeted wage subsidies for Saudi workers, reforms to the education and training systems, further refinements to the Nitaqat system of employment quotas, and the requirement for 100 percent of employees in certain sectors to be Saudis. This latter policy has been applied in the mobile phone repair sector and is being rolled-out on a pilot basis in some shopping malls. At the same time, the authorities recognize that for the economy to remain competitive and to grow, they will need to be able to attract and retain skilled expatriate labor even as they seek to increase Saudi employment.

41. Staff highlighted other reforms that they believed would help increase the employment of Saudis in the private sector. The government needs to set clear expectations about the limited prospects for future public sector employment to incentivize nationals to take private sector jobs, while also reviewing the structure of public sector wages. Reform of the visa system is needed to allow greater internal mobility of expatriate workers (such as in Bahrain and UAE), and to gradually reduce the number of visas and focus them more on skilled labor (such as in Singapore). A national dialogue between the government, businesses, and those who want to work or undertake entrepreneurial opportunities could also usefully be established to help find solutions to the jobs challenge that are tailored for all.

42. Barriers to female labor force participation and employment need to be reduced. Female labor force participation has increased in recent years, although it remains low. The NTP targets an increase in the female participation rate to 28 percent by 2020, and the authorities expect that the recent appointments of women to several high-profile business positions will provide a positive demonstration effect. To reduce some of the constraints to women entering the workforce, the authorities are planning to subsidize transportation and childcare costs, expand the availability of childcare facilities, and encourage greater use of teleworking. Staff suggested that female entrepreneurs could be supported through dedicated programs under the SME initiatives, while companies could be offered fiscal incentives to help them build or reconfigure work spaces to accommodate women in line with social norms.

43. Staff suggested that the reforms to strengthen the business environment and reform the labor market should move ahead in parallel, and fiscal policy may need to mitigate possible costs to short-term growth. While some reforms would be expected to boost growth in the near-term (improving business regulation, financial market deepening), others may not. Labor market reforms are essential to increase job creation for nationals, but the growth effects will depend on the specific reform. Increasing female participation will benefit growth, but could have upfront costs for firms, while expatriate labor fees will likely have a negative impact on growth and competitiveness (with the effect on Saudi employment less clear). Fiscal policy can be used to offset higher costs to firms (wage subsidies for nationals, support for female employment), while other regulatory reforms can reduce the cost of doing business.

C. Financial Sector Resilience and Development

44. As discussed in the FSSA report, banks are well regulated and supervised and remain liquid and resilient (Table 6; Appendix IV). Stress tests reported in the FSSA show that most banks, including all systemically important banks, would be able to meet regulatory capital requirements in the event of severe economic shocks including a large drop in oil prices. All banks also pass severe liquidity tests. SAMA has successfully managed emerging financial sector risks over the past year through a number of policy interventions to reduce liquidity pressures and support mortgage lending (text table).

SAMA Policy Measures: January 2016—June 2017

Policy Measure	Month & Year
Monetary Policy	
Raised the reverse repo rate from 50 to 125 basis points. Repo rate left unchanged at 200 basis points.	June 2017, March 2017, December 2016
Liquidity Management	
Thomson Reuters appointed as SAIBOR administrator and calculation agent	November 2016
Introduced 90, 28, and 7-day repos	September 2016, August 2016
Provided SAR 20 billion of government entity deposits to banks	September 2016
Offered (deposits) of SAR 15 billion to banks	June 2016
Raised banks' maximum allowable loan-to-deposit ratio from 85 to 90 percent	February 2016
Mortgage Market/Other	
Risk-weight for mortgage loans reduced from 100 percent to 75 percent.	April 2017
Increased LTV cap from 70 percent to 85 percent for real estate finance extended by banks on citizens' first home	January 2017
Asked banks to reschedule personal and property loans if requested by borrowers affected by cuts in bonuses and allowances to government employees. Request revoked in late April when bonuses and allowances were reinstated.	October 2016
Raised LTV ratio from 70 percent to 85 percent for real estate finance companies only	March 2016

45. Staff welcomed the steps SAMA has continued to take to strengthen its regulatory and supervisory frameworks and to develop the financial safety net. SAMA noted that it has enhanced risk-based supervision, introduced an aggregate large exposure limit (of 6 times banks' eligible capital), and is reducing single borrower exposure limits from 25 to 15 percent of capital by 2019. A commercial bank-funded Deposit Protection Fund (DPF) has been introduced and a draft resolution law (DRL) for systemic banks that broadly corresponds to the FSB's Key Attributes for Effective Bank Resolution is going through legislative approval. Staff, however, saw several other areas that deserve attention:

- SAMA supervises Islamic and "hybrid" banks under the Basel framework, using the same reporting requirements and standards. This has worked well but, given the unique risk profile of Islamic products, SAMA should remain vigilant and continue to expand its toolkit for the prudential oversight of banks offering such products, including by providing closer guidance on the mapping of the risk profile of Islamic products to the Basel framework;

- SAMA should continue to enhance its risk-based approach to supervision, particularly the integration of on-site inspections, risk profile assessment, and supervisory planning;

- SAMA should carefully monitor asset quality given the weak growth outlook. In line with international best practice, SAMA should require banks to classify loans that are restructured because of financial difficulties of the borrower as substandard or doubtful. SAMA said that loan classification standards will be changed once IFRS9 standards are implemented in 2019.

46. SAMA explained that further progress has been made in developing the macroprudential framework. The National Financial Stability Committee (NFSC), comprising SAMA, the MoF, and the CMA, has been activated. Going forward, SAMA and staff agreed that further steps could be taken to strengthen the operation of the macroprudential framework. These include continued further refinements to tools such as the EWE, addressing remaining data gaps, refining definitions of some key ratios (such as broadening the debt service-to-income ratio to include payments on all debt), and continuing to use macroprudential policy tools countercyclically within this framework.

47. Staff saw scope to strengthen the liquidity management framework. Recognizing that liquidity conditions are likely to be more balanced going forward compared to the excess liquidity conditions seen for most of the past decade, SAMA has been re-assessing its liquidity management framework. In staff's view, these reforms should focus on helping SAMA align market interest rates with its policy objectives, developing a liquidity forecasting framework, focusing money market interventions on regular, short-term liquidity operations, while moving away from non-competitive ways to allocate liquidity, limiting standing facilities to overnight maturity, and requiring collateral on all lending to commercial banks.

48. Significant reforms have been introduced to deepen domestic capital markets. Restrictions on investment in the equity market by qualified foreign investors have been eased further, covered short-selling and securities lending permitted, a T+2 settlement system activated, and a parallel equity market ("Nomu") for smaller companies established. A framework is also being developed for private equity and venture capital funds. To strengthen investor protection, new corporate governance guidelines have been issued, minority shareholder rights have been strengthened, and only institutional investors are permitted to participate in the Nomu market.

49. The opportunity provided by government debt issuance to develop a benchmark yield curve and support the development of the private debt market is not yet fully being taken. Staff welcomed the recent move to register and list all government bonds on the Tadawul to increase the transparency and liquidity of the instruments, but felt that more could be done to help develop the domestic debt market. In particular, the authorities could: (i) introduce government debt auctions and increase the transparency on issuances; (ii) develop a primary dealer system; and (iii) establish a central security repository. The authorities noted that the planned operations of the real estate refinancing company (being established by the PIF) may bring more debt issuance to the local market, while they are looking to resolve uncertainties regarding the treatment of fixed income assets for zakat purposes that are an impediment to investors.

50. The authorities are continuing to strengthen their AML/CFT framework. They are currently conducting the National Risk Assessments (NRA) for both money laundering and terrorism financing—the drafts are finished and now under discussion—and they revised the mechanisms implementing relevant UN security resolutions on targeted financial sanctions in January 2017. The authorities are also updating their supervisory frameworks to ensure risk-based AML/CFT supervision of financial institutions. In view of the upcoming joint FATF and MENAFATF assessment the priorities should be on completing the NRAs and the revisions to the legal framework as soon as possible, and continuing the work with financial institutions to ensure compliance with consumer due diligence requirements.

51. SAMA welcomed the global discussion on correspondent banking relationships (CBRs). While reporting that Saudi Arabian banks have not experienced a decline in CBRs, SAMA stressed that they are remaining vigilant as a decline in CBRs has the potential to pose financial stability risks and affect economic growth and development. The authorities are working closely with banks to ensure robust compliance with AML/CFT requirements to maintain trust and confidence of correspondent banks.

D. The Exchange Rate and External Stability

52. The government remains committed to the exchange rate peg to the U.S. dollar. SAMA stressed the peg's importance both as a monetary anchor and for the certainty it provides for trade and investment, and noted that reserves remain at very comfortable levels despite the decline over the past two years and that this provides considerable credibility to the peg. Further, while the real effective exchange rate has appreciated over the past two years and is above its long-term average, they did not see this as adversely affecting the economy given its reliance on oil.

53. Staff agreed that the exchange rate peg remains appropriate given the structure of the economy. While a move to a more flexible exchange rate would have some benefits, these would be outweighed by the costs. A more flexible exchange rate would provide more stable fiscal revenues in riyal terms, could over time support the development of the non-oil tradable sector, and would enable SAMA to follow a more independent interest rate policy that could become important in the face of Fed tightening. However, depreciation would entail significant costs and risks given the longstanding and credible anchor provided by the peg. It would increase uncertainty not only in Saudi Arabia, but also across the region, and would have very limited benefits for competitiveness given the current structure of the economy. Further, fiscal policy can deliver the necessary external adjustment more smoothly and in an easier-to-target way than exchange rate adjustment. Going forward, the peg should be reviewed regularly in coordination with other GCC countries to ensure it remains appropriate given the desired evolution of the economy away from oil and the current reliance on expatriate labor.

54. The staff viewed the external position in 2016 as having been substantially weaker than consistent with desirable medium-term fiscal policy settings (Appendix V). They believed that a large, sustained, and well-paced fiscal consolidation is needed over the medium-term to strengthen the external position and support the exchange rate peg. The authorities expected that the ongoing reforms and fiscal adjustment would strengthen the external position going forward.

E. Statistical Issues

55. Staff welcomed the improvements in the compilation and dissemination of economic data, but noted that important data gaps and weaknesses still exist. The General Authority for Statistics (GASTAT) is now publishing quarterly real GDP data on a regular basis, has started publishing quarterly labor market data, and has introduced a real estate price index and an industrial production index. However, fiscal data is not yet being reported and published in GFS format (although MoF hopes to complete this in coming months). Financial account data is weak and there are large errors and omissions in the balance of payments. More could be done to improve the transparency of SAMA's balance sheet where "other liabilities" are large, provide more disaggregated data on bank credit and deposits, and more comprehensive data on household and corporate balance sheets.

STAFF APPRAISAL

56. The authorities have made considerable progress in initiating the implementation of their ambitious reform agenda. Fiscal consolidation efforts are beginning to bear fruit, progress with reforms to improve the business environment are gaining momentum, and a framework to increase the transparency and accountability of government is largely in place. The reforms are very much in line with previous IMF policy advice. Effective prioritization, sequencing, and coordination of the reforms is essential, and they need to be well-communicated and equitable to gain social buy-in to ensure their success.

57. Low oil prices and fiscal consolidation are having an impact on the economy. While growth in the non-oil sector is expected to pick-up this year, the decline in oil GDP is expected to result in overall real GDP growth of around zero. Growth is projected to be stronger over the medium-term as the impact of fiscal consolidation wanes and ongoing structural reforms begin to have a positive impact, but growth is likely to remain well below the levels of the past decade. Risks to the outlook are to the downside in the near-term, but more balanced over the medium-term.

58. A large, sustained, and well-paced fiscal adjustment is needed. Strong fiscal buffers, the availability of financing, and the current cyclical position of the economy mean that a rapid fiscal consolidation is neither necessary nor desirable. Saudi Arabia has some fiscal space that should be used to undertake a more gradual fiscal consolidation that balances the budget by 2022 rather than in 2019 as originally set out in the FBP. The fiscal measures that have so far been announced, if fully implemented, appear sufficient to move the budget close to balance in 2022. The focus should now be on successfully implementing these measures, smoothing the planned adjustment, improving the composition of the expenditure adjustment to provide more room for social safety net or other spending to support structural reforms, and identifying some additional fiscal measures to achieve budget balance in 2022.

59. Revenue reforms should introduce an effective and efficient tax system. With excises now implemented, the focus should be on successfully introducing the VAT which will be challenging to do by the beginning of 2018 given the administrative and legal preparations that are still needed. Exemptions and zero-rated items under the VAT should be kept to a minimum, and once the tax is successfully introduced, the rate should be raised from its 5 percent level. Other lower-yielding fees and fines are a low priority, while the earmarking of new revenues should be avoided.

60. Energy and water price reforms are a key part of the reforms. The authorities appropriately intend to raise energy and water prices toward international/cost recovery levels. There is, however, scope for a more gradual phasing of the price increases than planned to give households and businesses more time to adjust and the authorities more time to ensure compensation mechanisms are fully operational and effective. The household allowance that is being introduced to compensate low- and middle-income households is very important. Support to industry to help them adjust should be available on a limited, temporary, and transparent basis.

61. More can be done to improve the efficiency and composition of government spending. To date, expenditures have been reduced through large cuts in capital outlays. While there may still be further efficiency gains to be made from improvements in public investment management, a greater focus is now needed on current outlays. The government wage bill is high and should be reduced gradually, while the work of the BSR should be expanded across all Ministries and entities to look for further expenditure savings. The effectiveness of spending in areas such as education could be improved and a review of the social safety net undertaken. The planned public expenditure review will help in identifying sustainable expenditure savings.

62. Important steps are being taken to strengthen the fiscal framework and improve fiscal transparency. The capacity of the macro-fiscal unit (MFU) needs to continue to be developed and expenditure controls and cash management systems strengthened, including through the adoption of a treasury single account. The publication of the first quarterly budget performance report is an important step toward greater fiscal transparency. Progress toward improving fiscal data is encouraging, and should be supported by a dedicated statistical unit in the MoF.

63. Structural reforms will support stronger non-oil growth. Good progress is being made in identifying and reducing some of the obstacles to private sector growth and exports, including by reducing custom clearance times, making it easier to start a business, and moving toward completion of the new bankruptcy and commercial mortgage laws. In collaboration with the business community, these efforts should continue. The ongoing efforts to move the privatization and PPP agendas forward are very welcome.

64. Increasing the employment of Saudi nationals in the private sector is essential. Ongoing reforms to the education and training systems are very important to develop the skills needed in the private sector, while increased foreign labor fees and time-bound wage subsidies for Saudis will help reduce the Saudi-expatriate wage gap. Further reforms, however, are needed. Allowing greater mobility of expatriate workers in the economy via reform of the visa system would help close the wage gap between Saudi nationals and expatriates and boost productivity, while the government should set clear expectations about the limited prospects for future public sector employment to incentivize nationals to look for private sector jobs. A national dialogue between the government, businesses, and those who want to work or undertake entrepreneurial opportunities could help find solutions to the jobs challenge that are tailored for all.

65. Encouraging more female employment will have a positive economic impact. Ongoing efforts to broaden transportation options and childcare facilities and encourage teleworking are welcome. Female entrepreneurs could be supported through dedicated programs under the SME initiatives, while companies could be offered fiscal incentives to help them build or reconfigure work spaces to accommodate women in line with social norms.

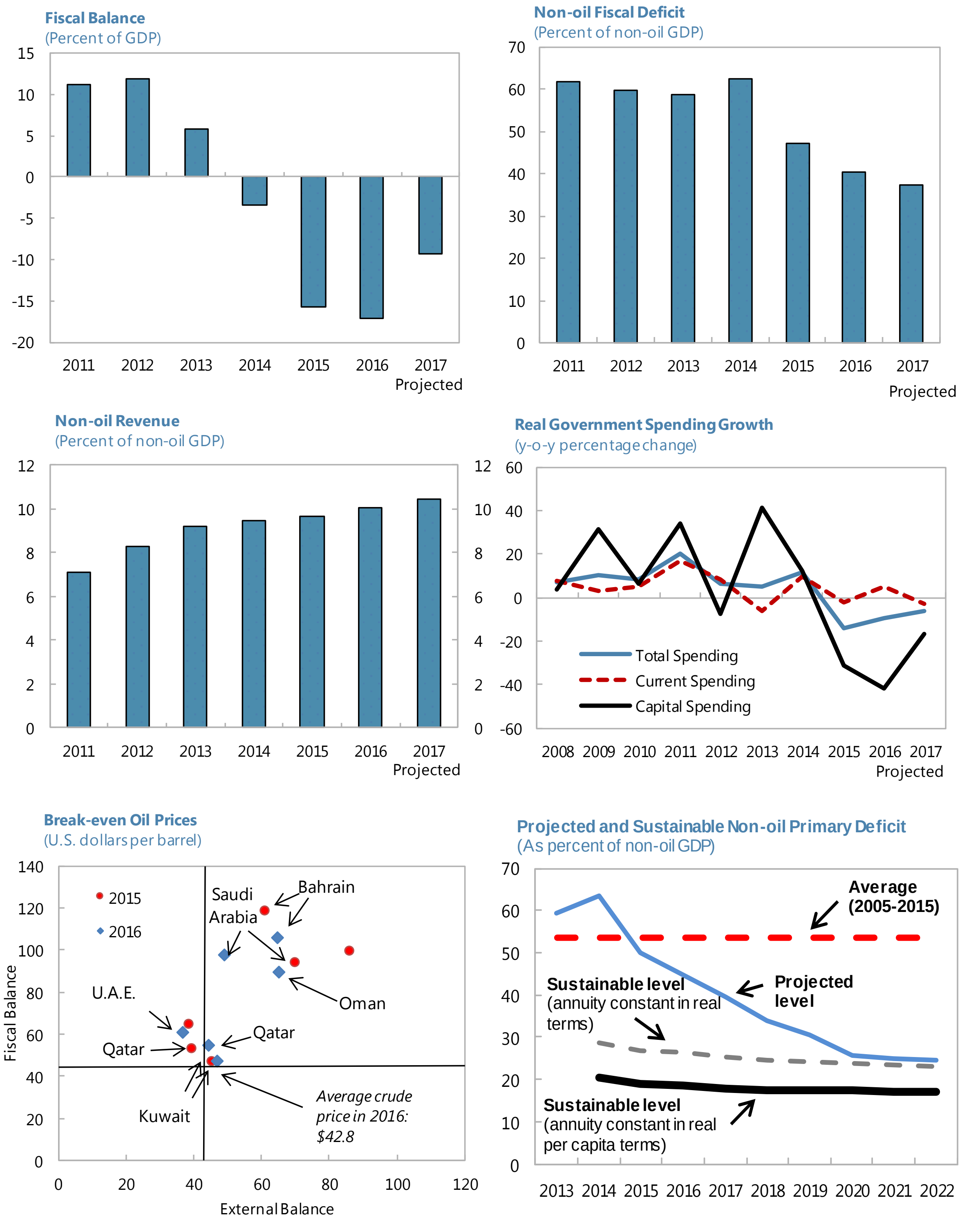
66. Banks are well regulated and supervised. SAMA has successfully managed emerging financial sector risks over the past year. Given the unique risk profile of Islamic products, SAMA should remain vigilant and continue to expand its toolkit for the prudential oversight of banks offering such products. SAMA should also continue to carefully monitor asset quality given the weak growth outlook. The liquidity management framework should be strengthened and efforts to finalize AML/CFT risk assessments and ensure effective AML/CFT compliance by financial institutions should continue. Significant progress has been made with capital market reforms, but more could be done to support the development of the domestic debt market.

67. The exchange rate peg to the U.S. dollar remains appropriate. A large, sustained, and well-paced fiscal consolidation over the medium-term is needed to strengthen the external position and support the exchange rate peg.

68. The improvements in the compilation and dissemination of economic data are welcome, but important data gaps still exist. The authorities should aim for SDDS subscription as soon as possible.

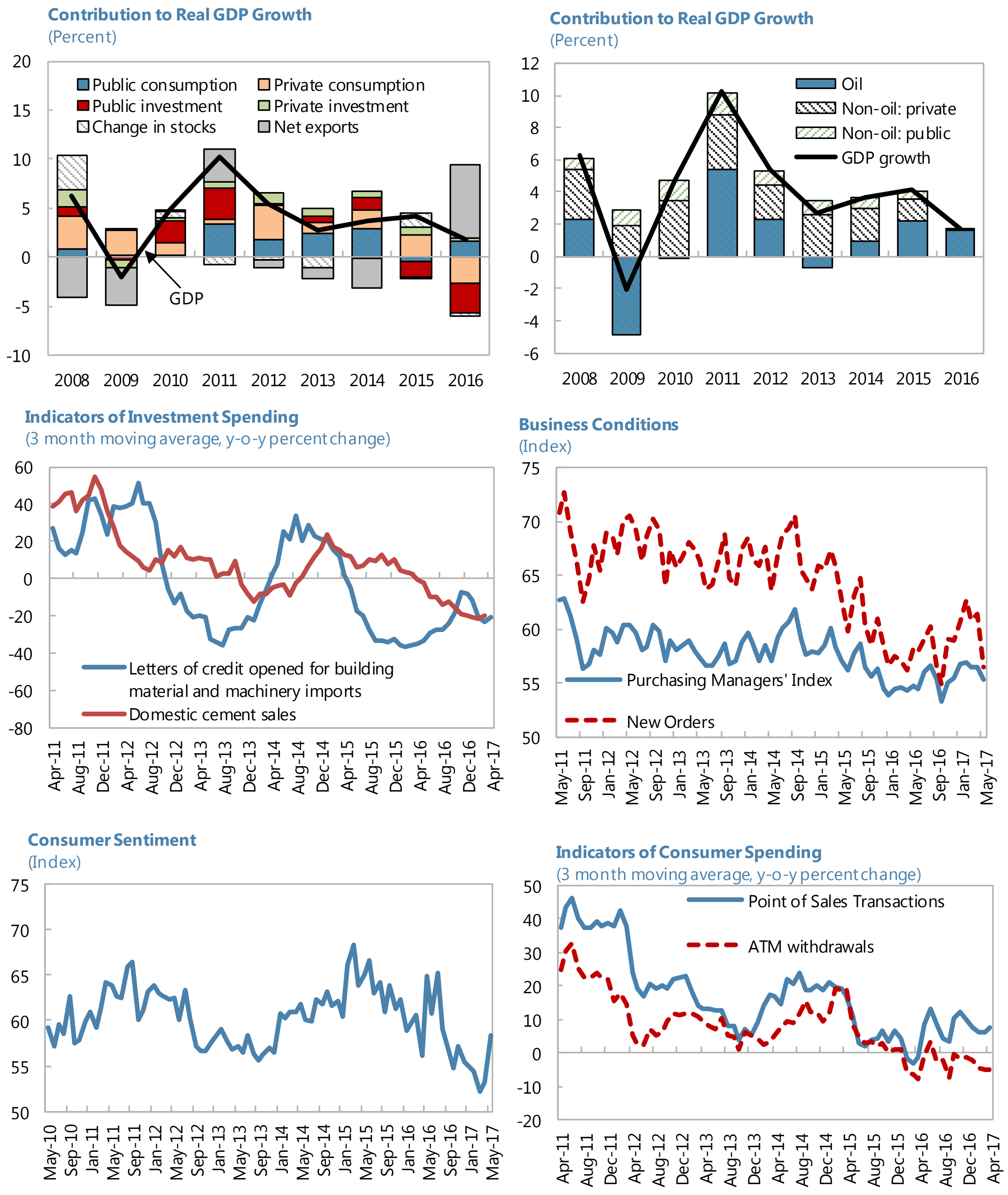
69. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Fiscal Developments



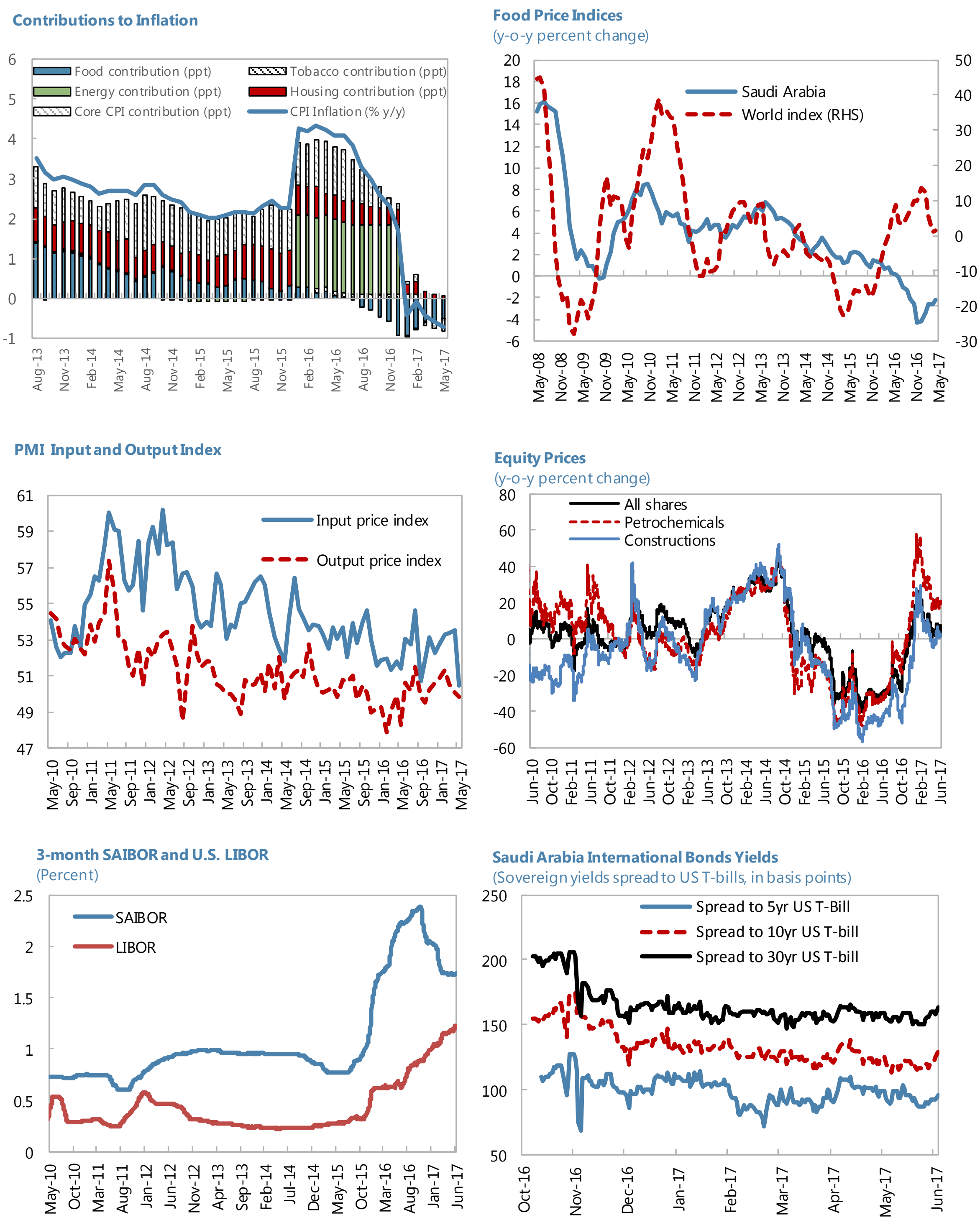
Sources: Country authorities; and IMF staff calculations.

Figure 2. Real Sector Developments



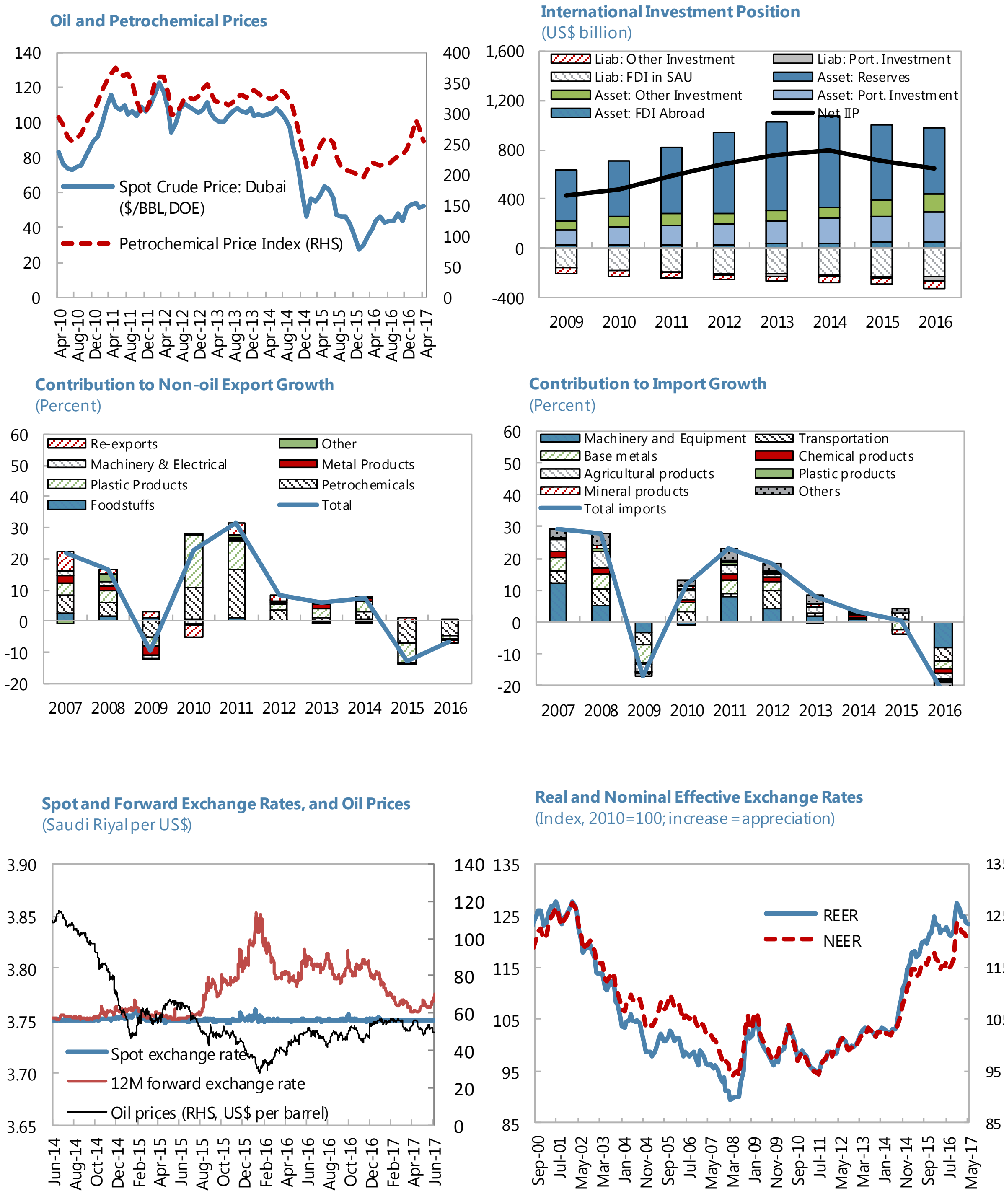
Sources: Country authorities; Haver; Markit; World Steel Association; Thomson Reuters; and IMF staff

Figure 3. Inflation and Financial Market Developments



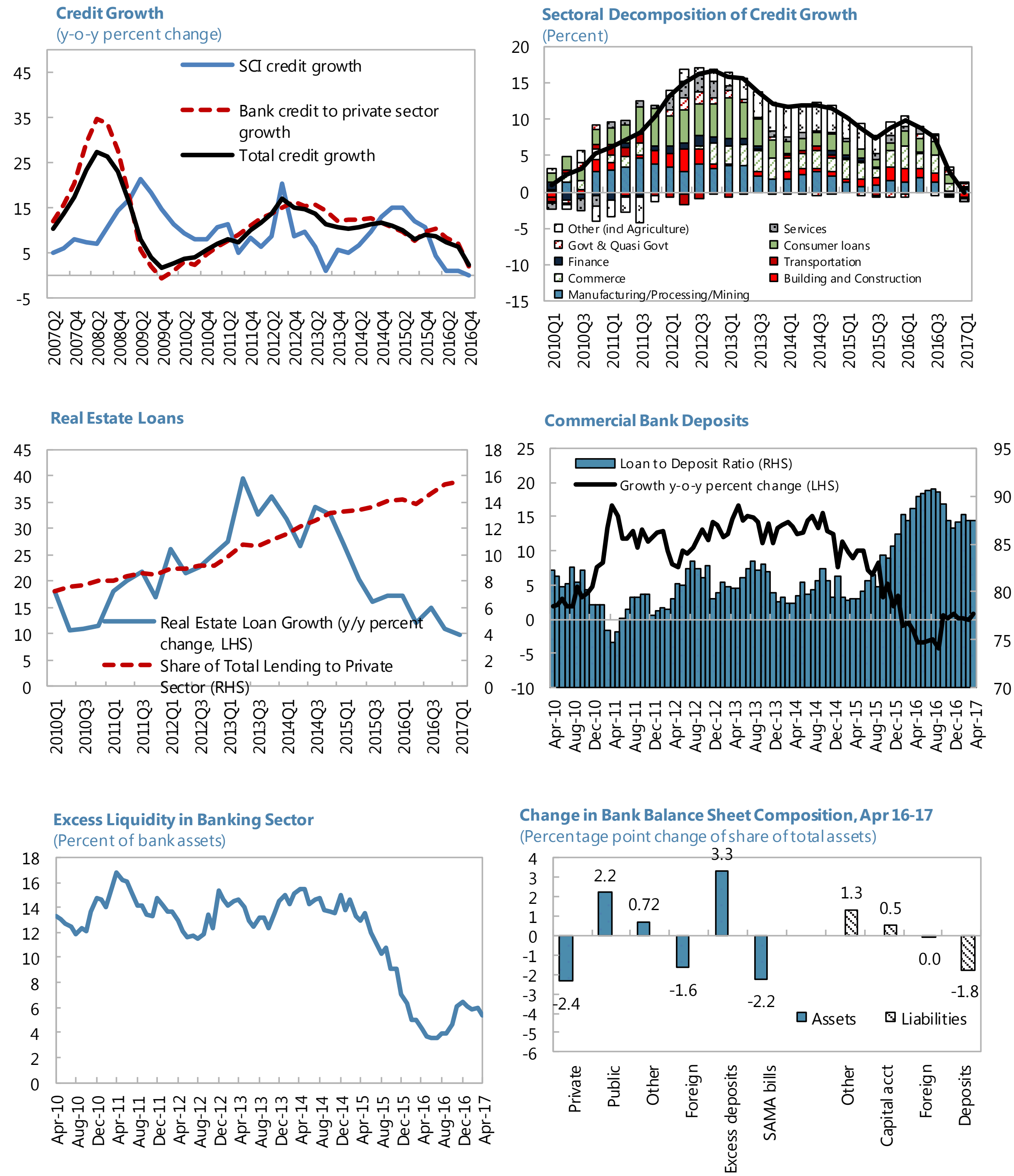
Sources: Country authorities; Haver Analytics; Markit; Bloomberg; and IMF staff calculations.

Figure 4. External Sector Developments



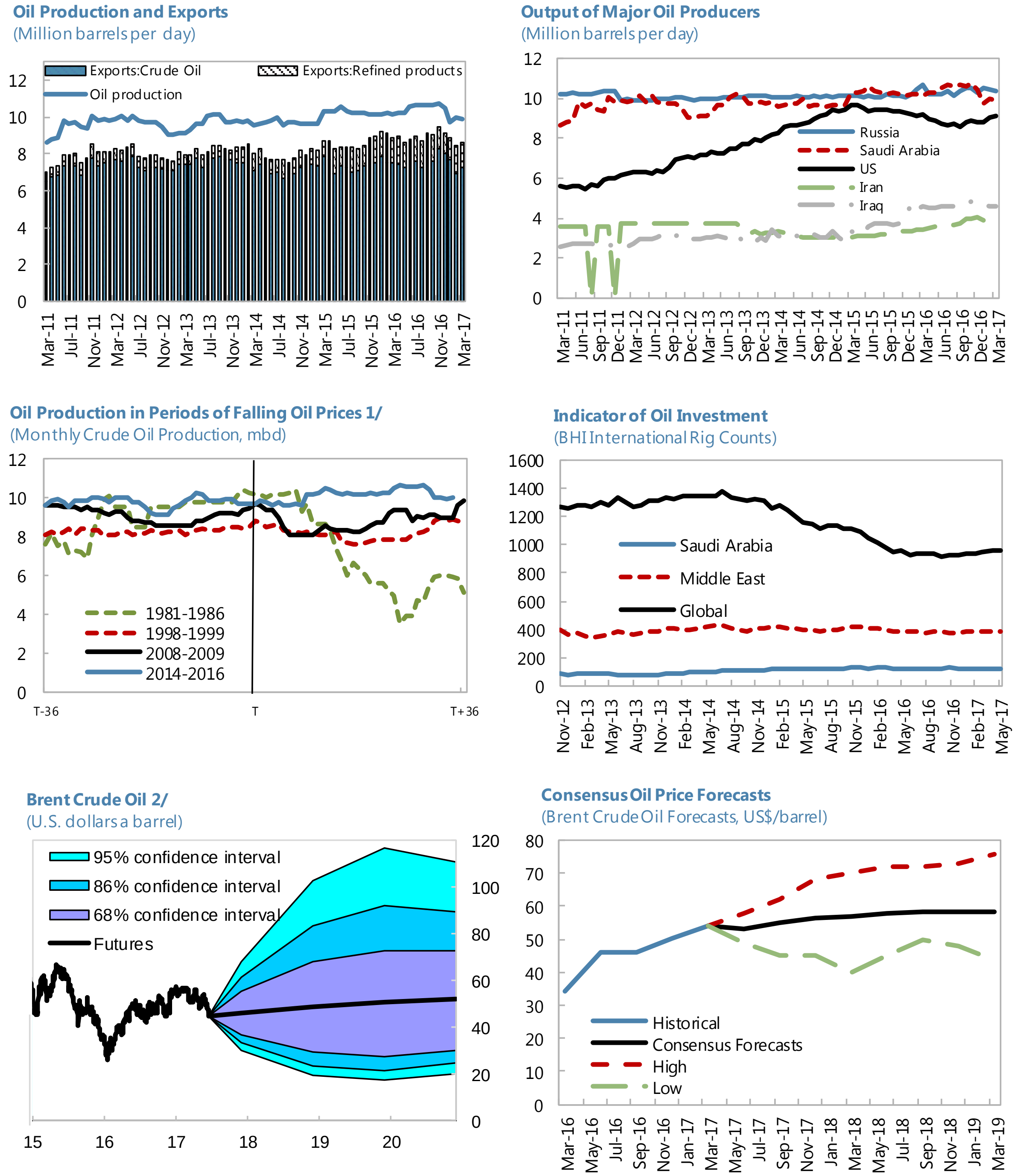
Sources: Haver; ICIS; Bloomberg; and IMF staff calculations.

Figure 5. Monetary Developments



Sources: Haver; Reuters; and IMF staff calculations.

Figure 6. Oil Market Developments

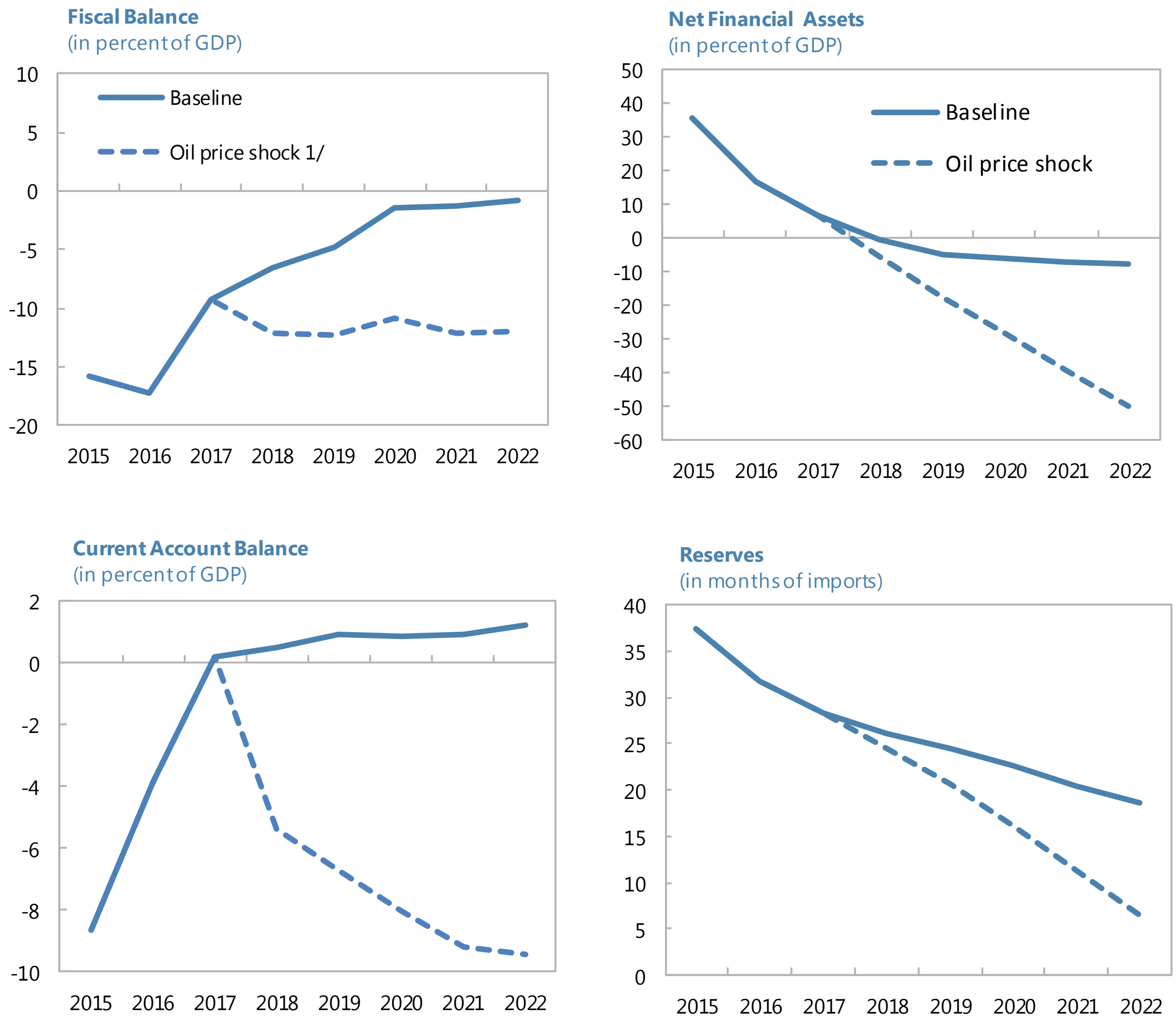


Sources: Jonit Oil Data Initiative (JODI); Bloomberg; International Energy Agency (IEA); Baker Hughes; Energy consensus forecast; RES Commodities Unit; and IMF staff calculations.

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

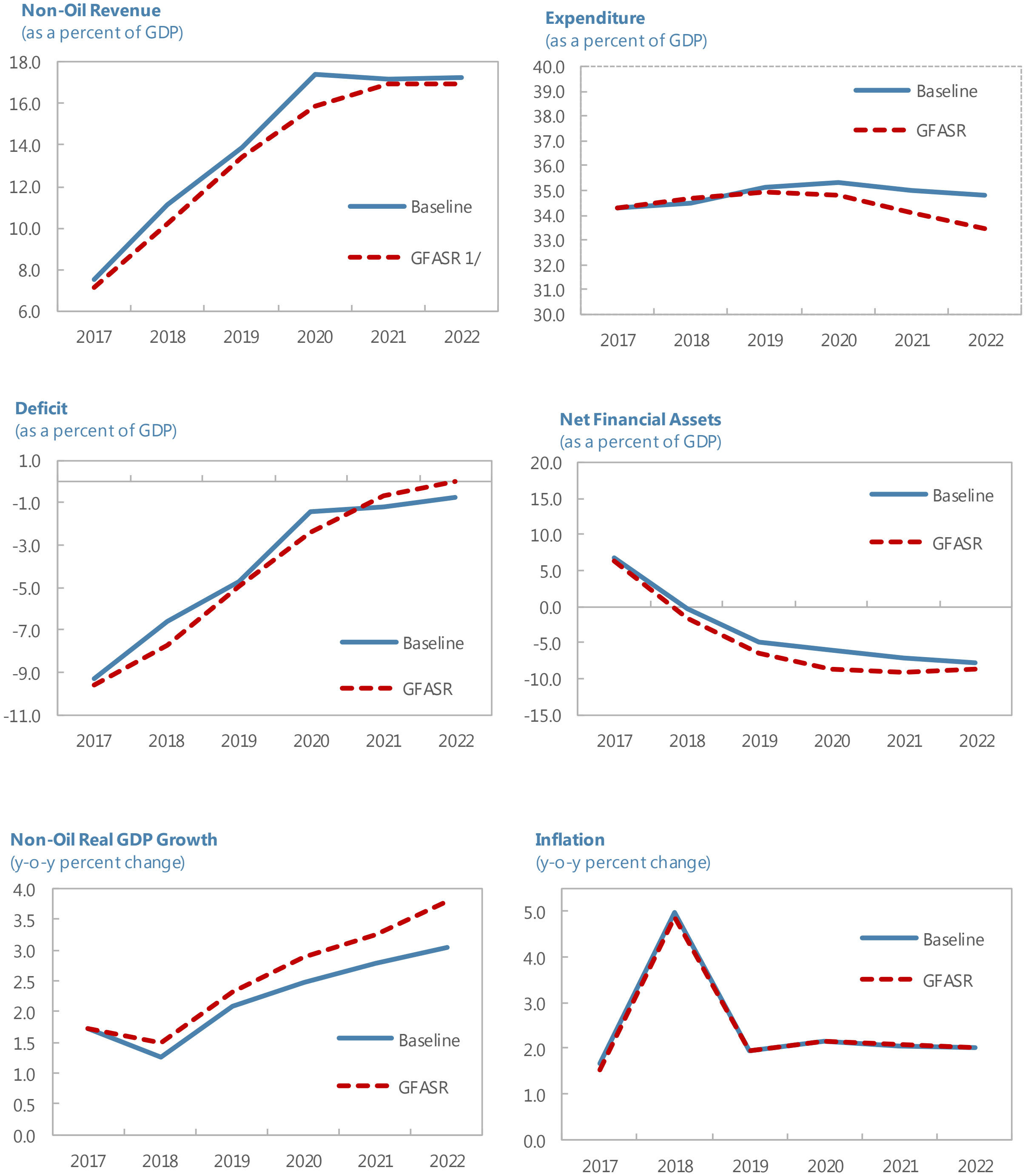
2/ Derived from prices of futures options on June 21, 2017.

Figure 7. Impact of Lower Oil Prices on Fiscal and External Outcomes



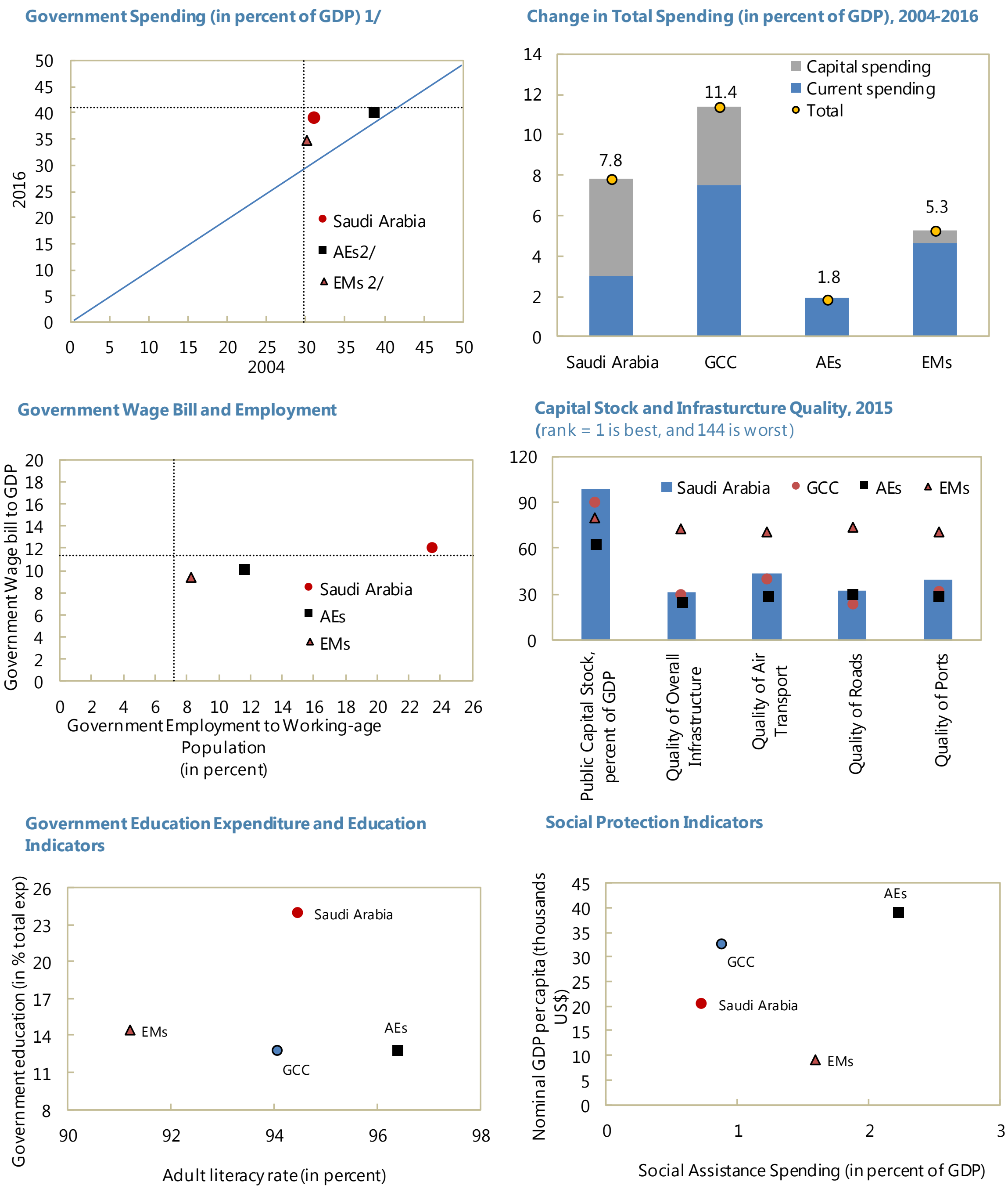
Source: IMF staff calculations.
1/ Oil price shock assumes oil price to be 20 to 44 percent below the WEO oil price from 2018 to 2022.

Figure 8. Baseline and GFASR Scenarios—Key Economic Indicators



Sources: Country authorities; and IMF staff estimates
1/ Gradual Fiscal Adjustment with Structrual Reforms.

Figure 9. Structure of Government Spending



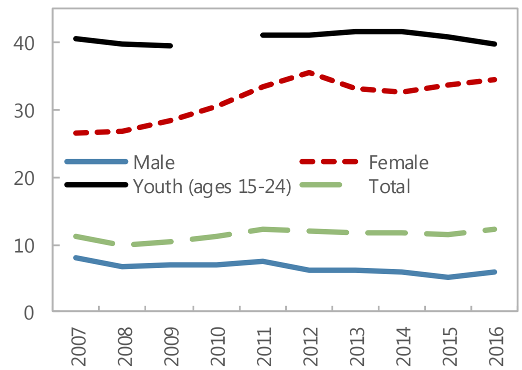
Sources: IMF FAD Expenditure Assessment Tool; IMF FAD Goverment Wage Bill and Employment Dataset; IMF Investment and Capital Stock Dataset; World Economic Outlook; World Economic Forum; and World Bank.

1/ Dashlines are the average of GCC.

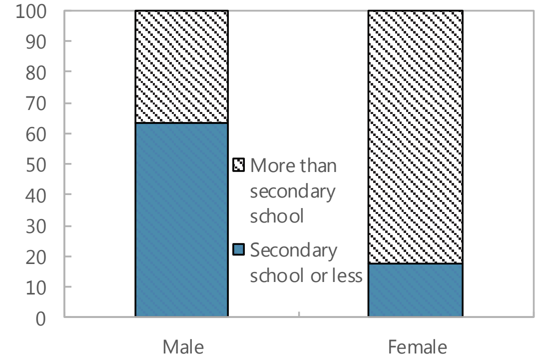
2/ Data for AEs and EMs are as of 2015.

Figure 10. Labor Market Developments

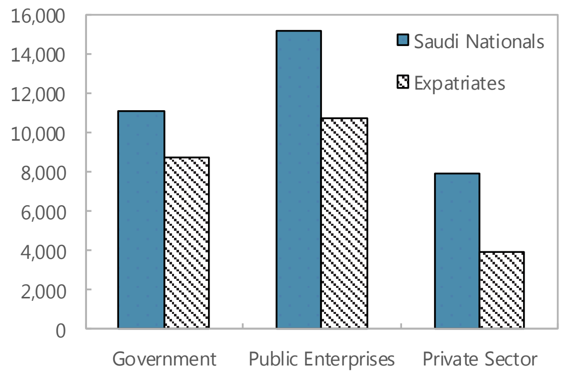
Saudi Nationals Unemployment Rates
(in percent)



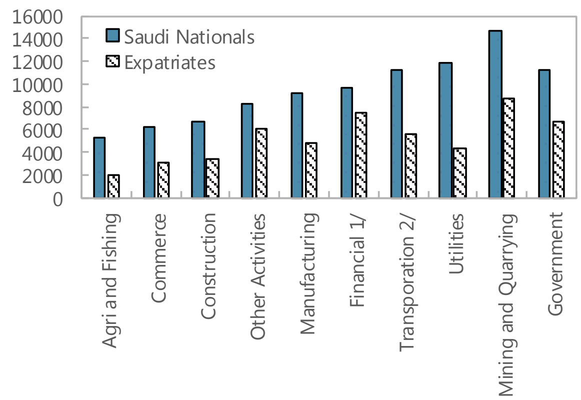
Saudi Nationals Unemployed by Sex and Education
(in percent of total unemployed, as of 2016Q3)



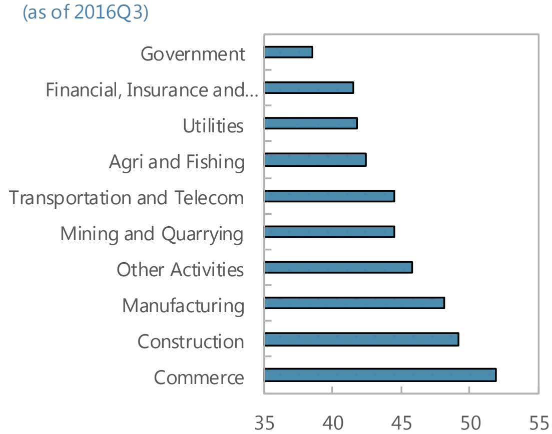
Average Monthly Salaries
(in SAR, as of 2016H1)



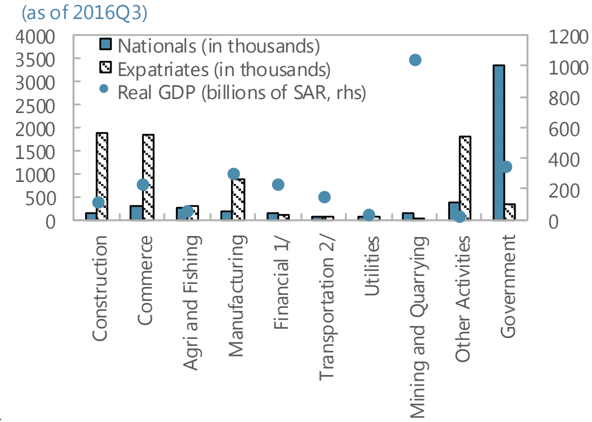
Average Monthly Salaries by Sector and Nationality
(in SAR, as of 2016H1)



Average Weekly Working Hours by Sector
(as of 2016Q3)

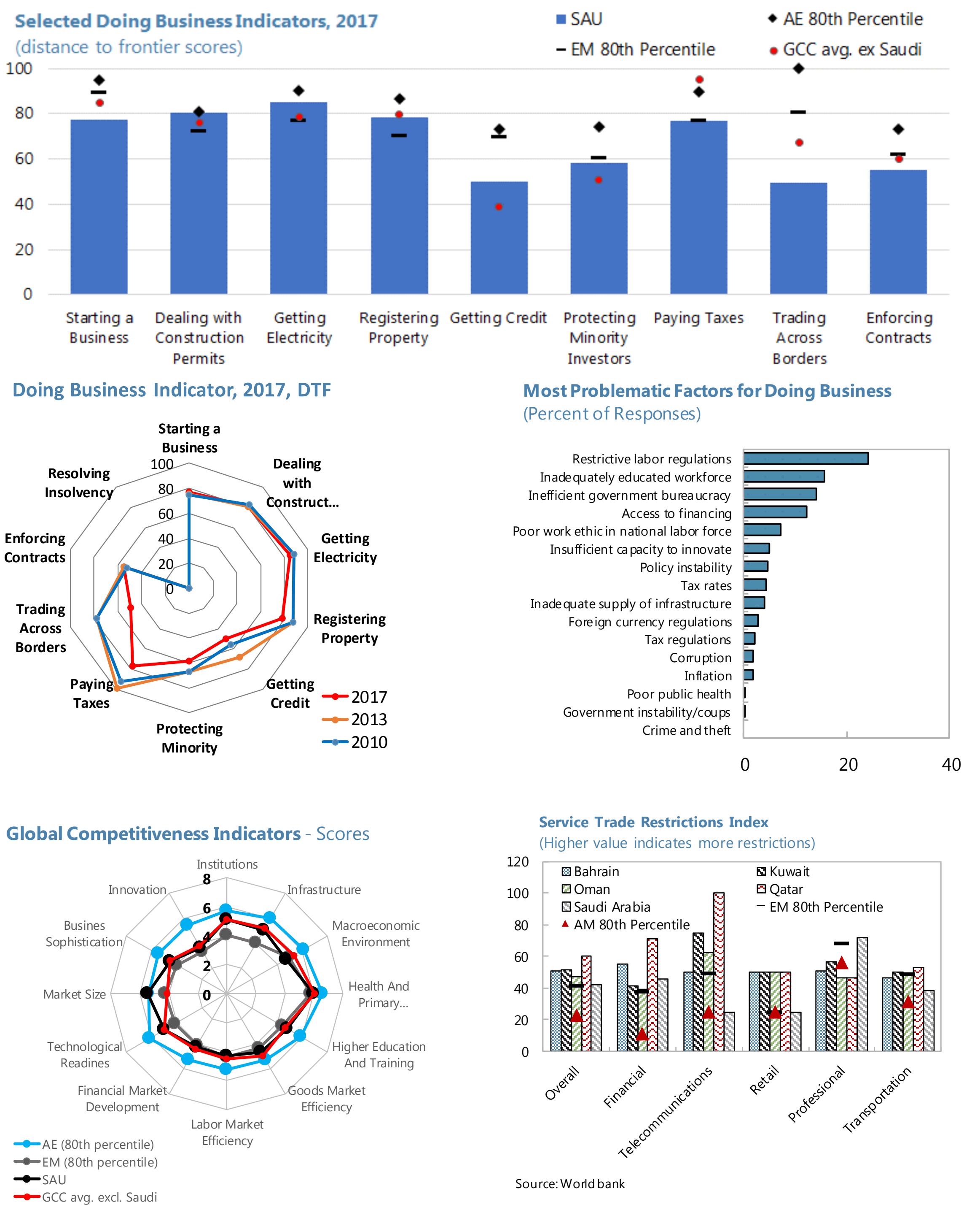


Employment and Real GDP by Sector
(as of 2016Q3)



Source: Labour Force Survey - General Authority for Statistics; International Labour Organization; and IMF staff calculations
1/ Includes financial, insurance, and real estate sectors
2/ Includes transportation and telecom sectors

Figure 11. Impediments to Private Sector Growth



Sources: World Bank, Doing Business 2016-17; World Economic Forum, Global Competitiveness Reports; and IMF staff calculations.

Table 1. Saudi Arabia: Selected Economic Indicators, 2013–22

	2013	2014	2015	Prel. 2016	Proj. 2017	2018	2019	2020	2021	2022
				(Percent change; unless otherwise indicated)						
National income and prices										
Crude oil production (million of barrels per day)[1]	9.6	9.7	10.2	10.5	10.0	10.1	10.1	10.2	10.3	10.3
Average oil export price (U.S. dollars per barrel)[2]	105.4	95.7	50.4	41.5	50.3	50.4	49.9	50.1	50.9	52.0
Nominal GDP (SAR billions)	2,800	2,836	2,454	2,424	2,596	2,713	2,795	2,896	3,018	3,095
Nominal GDP (US$ billions)	747	756	654	646	692	723	745	772	805	825
Nominal non-oil GDP (SAR billions)	1,488	1,615	1,768	1,797	1,859	1,966	2,047	2,136	2,239	2,308
Nominal GDP per capita (US$)	24,893	24,580	21,095	20,365	21,379	21,903	22,129	22,476	22,961	23,091
Real GDP	2.7	3.7	4.1	1.7	0.1	1.1	1.6	1.8	2.0	2.2
Oil	-1.6	2.1	5.3	3.8	-1.9	0.9	1.0	1.0	0.9	1.1
Non-oil	6.4	4.9	3.2	0.2	1.7	1.3	2.1	2.5	2.8	3.0
Real GDP—public sector	5.1	3.7	2.7	0.6	1.2	1.2	1.2	1.2	1.2	1.2
Real GDP—private sector	7.0	5.4	3.4	0.1	2.0	1.3	2.5	3.0	3.4	3.8
Consumer price index (avg)	3.5	2.7	2.2	3.5	1.7	5.0	2.0	2.2	2.1	2.0
External sector										
Exports f.o.b.	-3.2	-8.9	-40.6	-10.4	14.2	0.7	-0.1	1.0	2.1	2.5
Oil	-4.6	-11.6	-46.2	-11.0	16.4	0.5	-0.6	0.8	1.9	2.4
Non-oil	6.0	7.2	-13.0	-8.8	7.7	1.2	1.3	1.7	2.6	2.9
Imports f.o.b.	8.1	3.3	0.5	-22.2	3.0	2.1	2.8	2.8	2.8	2.6
Current account balance (percent of GDP)	18.1	9.8	-8.7	-3.9	0.2	0.5	0.9	0.9	0.9	1.2
Export volume	1.6	1.8	2.6	3.5	-2.3	0.6	0.8	0.8	1.0	0.9
Import volume	12.7	6.0	6.5	-18.5	-0.6	0.6	1.4	1.8	1.4	1.5
Terms of trade	-0.5	-8.3	-44.4	-11.8	15.2	-1.4	-2.3	-0.7	-0.1	0.9
Money and credit										
Net foreign assets	10.2	1.8	-12.7	-15.2	-10.3	-6.5	-5.4	-6.3	-8.5	-7.2
Credit to government (net)	5.6	-7.6	-29.3	-41.1	-28.0	-23.3	-14.5	-0.6	-7.4	-2.7
Credit to private sector	12.5	11.8	9.2	2.4	1.4	1.3	2.4	3.0	3.5	4.1
Credit to state enterprises	11.5	3.8	-15.3	26.3	0.0	0.0	0.0	0.0	0.0	0.0
Money and quasi-money (M3)	10.9	11.9	2.5	0.8	1.7	1.6	2.2	2.8	3.4	4.0
3-month Interbank rate (percent p.a.)[4]	0.95	0.94	0.87	2.04	1.78	...	...	...	...	...
				(Percent of GDP)						
Central government finances										
Revenue	41.3	36.8	25.0	21.4	25.0	27.9	30.4	33.9	33.8	34.0
Of which: oil	37.0	32.2	18.2	12.7	17.5	16.7	16.6	16.5	16.6	16.8
Expenditure	35.5	40.2	40.7	38.6	34.3	34.5	35.1	35.3	35.0	34.8
Expense	21.2	23.6	27.2	30.0	27.6	27.7	27.9	27.8	27.5	27.3
Net acquisition of non-financial assets	14.3	16.6	13.5	8.6	6.7	6.8	7.3	7.5	7.5	7.5
Net lending (+)/borrowing (-)	5.8	-3.4	-15.8	-17.2	-9.3	-6.6	-4.7	-1.4	-1.2	-0.8
Excluding oil revenue	-31.2	-35.6	-34.0	-29.9	-26.8	-23.3	-21.3	-17.9	-17.8	-17.5
Non-oil primary balance/non-oil GDP	-59.4	-63.6	-49.8	-44.7	-39.6	-34.0	-30.6	-25.6	-25.1	-24.6
Government deposits at SAMA	53.0	48.6	41.7	30.1	23.3	20.0	19.0	18.3	17.6	17.2
Central government's gross debt	2.1	1.6	5.8	13.1	16.7	20.3	23.9	24.5	24.7	24.9
Central government's net financial assets	50.9	47.1	35.9	17.1	6.7	-0.2	-4.9	-6.2	-7.1	-7.7
Memorandum items:										
SAMA's total net foreign assets (US$ billions)	716.7	724.3	608.9	528.6	472.6	442.0	419.2	393.5	360.4	335.1
In months of imports of goods and services[3]	33.2	35.1	37.5	31.7	28.2	26.1	24.4	22.6	20.3	18.6
Imports goods & services/GDP	30.8	34.2	37.8	30.2	28.9	27.8	27.3	26.7	26.0	25.8
Real effective exchange rate (2010=100, end of period)[4]	102.7	112.3	121.8	127.6	123.3	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar[4]	3.75	3.75	3.75	3.75	3.75	...	...	...	...	...
Population (millions)	30.0	30.8	31.0	31.7	32.4	33.0	33.7	34.4	35.0	35.7
Unemployment rate (nationals, in percent of total)	11.7	11.7	11.5	12.3	...	...	...	...	...	...
Unemployment rate (overall, in percent of total)	5.6	5.7	5.6	5.6	...	...	...	...	...	...
Employment Growth	3.3	3.2	3.8	1.4	...	...	...	...	...	...
All-Shares Price Index (TASI)[4]	8536	8333	6912	7210	7426	...	...	...	...	...

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

[1] Includes production from the Neutral Zone.

[2] Includes refined products.

[3] Next 12 months.

[4] For 2017, data is latest available.

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2014–22

	2014	2015	Prelim. 2016	Budget 2017	Proj. 2017	2018	2019	2020	2021	2022
					(Billions of Saudi Arabian riyals)					
Revenue	1,044	612	519	692	649	757	851	982	1,019	1,052
Oil	913	446	309	480	455	454	463	479	500	519
Non-oil	131	166	210	212	194	303	388	503	519	534
Taxes	38	41	54	…	63	116	155	187	194	199
Other revenues	93	125	156	…	131	187	233	317	325	334
o/w energy and water price revenues			20	…	35	81	119	198	203	210
Expenditure	1,141	999	936	890	890	936	982	1,023	1,056	1,077
Expense	670	668	726	717	717	750	779	806	829	845
Compensation of employees [1]	335	394	439	413	412	422	433	444	455	466
Purchase of goods and services [2]	286	229	229	249	234	236	239	244	250	252
Subsidies [3]	14	13	7	7	7	7	7	7	8	8
Social benefits [4]	31	30	41	37	50	65	71	77	79	80
Grants	1	1	5	3	3	3	3	3	3	3
Interest payments	4	3	5	9	11	17	26	32	35	36
Net acquisition of non-financial assets	471	331	209	173	173	186	203	217	227	232
Budgeted capital expenditures	440	308	184	156	155	161	178	192	202	207
Budget Surplus Fund [5]	31	23	25	18	18	25	25	25	25	25
Gross operating balance	375	-56	-207	-25	-68	7	72	176	190	207
Net lending (+)/borrowing (-)	**-96**	**-387**	**-416**	**-198**	**-241**	**-179**	**-131**	**-41**	**-37**	**-24**
Financing	**89**	**454**	**367**		**241**	**179**	**131**	**41**	**37**	**24**
Net acquisition of financial assets	-105	-356	-193		-125	-62	-13	0	0	0
Domestic	-105		-193		-125	-62	-13	0	0	0
Deposits at SAMA (+, buildup)	-105	-356	-293		-125	-62	-13	0	0	0
Loans and equity		0	100		0	0	0	0	0	0
Foreign		0	0		0	0	0	0	0	0
Net incurrence of liabilities (- = repayment)	-16	98	174		116	117	118	41	37	25
Domestic	-96	98	97		64	64	64	54	45	49
SAMA	0	0	0		0	0	0	0	0	0
Other depository institutions	0	39	91		32	32	32	27	22	25
Nonbank (including pensions)	0	59	6		32	32	32	27	22	25
Foreign	0	0	103		56	56	56	38	56	56
Amortization	-16	0	-26		-4	-3	-2	-50	-64	-81
Domestic	-16	0	-26		-4	-3	-2	-50	-6	-36
Foreign	0	0	0		0	0	0	0	-58	-45
Residual/ Gap (+ve = overfinancing)	**-7**	**67**	**-49**		**0**	**0**	**0**	**0**	**0**	**0**
					(Percent of GDP)					
Revenue	36.8	25.0	21.4	26.9	25.0	27.9	30.4	33.9	33.8	34.0
Oil	32.2	18.2	12.7	18.7	17.5	16.7	16.6	16.5	16.6	16.8
Non-oil	4.6	6.8	8.7	8.2	7.5	11.2	13.9	17.4	17.2	17.2
Expenditure	40.2	40.7	38.6	34.6	34.3	34.5	35.1	35.3	35.0	34.8
Expense	23.6	27.2	30.0	27.9	27.6	27.7	27.9	27.8	27.5	27.3
Compensation of employees [1]	11.8	16.0	18.1	16.1	15.9	15.6	15.5	15.3	15.1	15.1
Purchase of goods and services [2]	10.1	9.3	9.4	9.7	9.0	8.7	8.6	8.4	8.3	8.2
Subsidies [3]	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social benefits [4]	1.1	1.2	1.7	1.4	1.9	2.4	2.5	2.6	2.6	2.6
Interest payments	0.1	0.1	0.2	0.4	0.4	0.6	0.9	1.1	1.1	1.1
Net acquisition of non-financial assets	16.6	13.5	8.6	6.7	6.7	6.8	7.3	7.5	7.5	7.5
Gross operating balance	13.2	-2.3	-8.5	-1.0	-2.6	0.2	2.6	6.1	6.3	6.7
Net lending (+)/borrowing (-)	**-3.4**	**-15.8**	**-17.2**	-7.7	**-9.3**	**-6.6**	**-4.7**	**-1.4**	**-1.2**	**-0.8**
(excl. oil revenue)	-35.6	-34.0	-29.9	-26.4	-26.8	-23.3	-21.3	-17.9	-17.8	-17.5
Memorandum items:										
Non-oil overall balance	-1,009	-833	-725		-695	-633	-595	-520	-537	-543
Non-oil revenue (excl. investment income)/non-oil GDP	6.8	6.5	7.1		7.7	12.7	16.1	20.8	20.5	20.5
Current balance	375	-56	-207		-68	7	72	176	190	207
Non-oil primary balance/non-oil GDP	-63.6	-49.8	-44.7		-39.6	-34.0	-30.6	-25.6	-25.1	-24.6
Average oil export price	95.7	50.4	41.5		50.3	50.4	49.9	50.1	50.9	52.0
Gross domestic debt/GDP	1.6	5.8	8.8		10.5	12.3	14.2	13.8	14.5	14.6
Central government's net external debt	0.0	0.0	4.3		6.1	7.9	9.7	10.7	10.2	10.3
Gross debt/GDP	1.6	5.8	13.1		16.7	20.3	23.9	24.5	24.7	24.9
GDP market prices (SAR billions)	2,836	2,454	2,424	2,571	2,596	2,713	2,795	2,896	3,018	3,095
Government Deposits at SAMA	1,379	1,023	731		606	544	530	531	531	531
Non-oil GDP (SAR billions)	1,615	1,768	1,797		1,859	1,966	2,047	2,136	2,239	2,308

Sources: Ministry of Finance; and IMF staff projections.

[1] Including the extra month salary according to Hijri calendar in 2016

[2] Reallocation of SAR 70 bn in 2014 and SAR 44 bn in 2015 from purchases of goods and services to capital expenditures, reflecting the capital expenditures on Mecca and Medina expansion projects.

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

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

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

Table 3. Saudi Arabia: Fiscal Operations of the General Government, 2010–16
(Percent of GDP)

	2010	2011	2012	2013	2014	2015 [1]	2016 [1]
I. Budgetary central government							
Revenue	37.5	44.4	45.2	41.3	36.8	25.0	21.4
Expenditure	34.0	33.3	33.2	35.5	40.2	40.7	38.6
Overall balance	3.6	11.1	12.0	5.8	-3.4	-15.8	-17.2
Primary balance	4.1	11.4	12.2	5.9	-3.3	-15.7	-17.0
II. Autonomous Government Institutions (AGIs)							
Public Pension Agency (PPA)							
Revenue	1.9	1.4	3.2	3.3	2.0	1.3	3.0
Expenditure	1.9	1.5	1.6	1.6	1.8	2.2	2.7
Overall balance	0.0	-0.2	1.6	1.6	0.2	-0.9	0.3
General Organization for Social Insurance (GOSI)							
Revenue	1.3	1.0	1.0	1.3	1.7	2.0	2.1
Expenditure	0.5	0.4	0.5	0.7	0.6	0.8	0.9
Overall balance	0.8	0.6	0.5	0.7	1.1	1.2	1.2
III. Public Investment Fund (PIF)							
Revenue	0.9	0.6	0.7	0.7	1.4	….	….
Expenditure	0.0	0.2	0.1	0.04	0.0	….	….
Overall balance	0.8	0.4	0.6	0.6	1.4	….	….
IV. General government (=I+II+III)							
Overall balance	5.2	12.0	14.7	8.7	-0.7	….	….
Primary balance	5.7	12.3	14.9	8.9	-0.6	….	….
Memorandum items: net assets(+)/debt (-)							
i. Central government debt	-8.4	-5.4	-3.0	-2.1	-1.6	-5.8	-13.1
ii. Autonomous government institutions	38.9	31.0	30.4	33.6	34.4	….	….
Of which: PPA	21.3	17.1	17.2	18.6	18.5	19.4	19.3
Of which: GOSI	17.6	13.9	13.2	15.0	15.8	18.2	20.0
iii. Public Investment Fund	10.0	8.3	9.3	9.8	11.0	….	….
iv. General government (=i+ ii+iii)	40.4	33.9	36.6	41.2	43.8	….	….
v. Government Deposits in the Banking System	46.2	43.0	50.8	53.0	48.6	41.7	30.1
vi. Net assets (iv + v)	86.7	76.9	87.4	94.2	92.4	….	….

[1] PIF data is unavailable for 2015 & 2016 as the accounts have not been completed due to the ongoing move from cash to accruals accounting.

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

Table 4. Saudi Arabia: Balance of Payments, 2012–22
(US$ billions)

	2012	2013	2014	2015	Prel. 2016	Proj. 2017	2018	2019	2020	2021	2022
Current account	164.8	135.4	73.8	-56.7	-24.9	1.3	3.6	6.8	6.7	7.6	9.8
(Percent of GDP)	22.4	18.1	9.8	-8.7	-3.9	0.2	0.5	0.9	0.9	0.9	1.2
Trade balance	246.6	222.6	184.0	44.3	58.4	80.6	79.3	75.5	73.9	74.4	76.0
Exports	388.4	375.9	342.5	203.5	182.3	208.2	209.6	209.4	211.5	215.8	221.3
Oil exports	337.2	321.7	284.4	153.0	136.2	158.5	159.3	158.4	159.6	162.6	166.6
Other exports	51.1	54.2	58.1	50.6	46.1	49.7	50.3	50.9	51.8	53.2	54.7
Imports (f.o.b.)	-141.8	-153.3	-158.5	-159.3	-123.9	-127.6	-130.3	-133.9	-137.6	-141.4	-145.4
Services	-62.4	-64.8	-88.0	-73.6	-55.2	-55.9	-53.1	-50.9	-48.9	-47.2	-45.7
Transportation	-15.6	-16.6	-17.0	-17.2	-12.1	-12.2	-11.8	-11.5	-11.2	-10.9	-10.7
Travel	-9.6	-10.0	-15.9	-9.2	-7.6	-7.4	-6.4	-5.6	-4.8	-4.0	-3.2
Other private services	-37.2	-38.2	-55.1	-47.1	-35.4	-36.3	-34.9	-33.8	-33.0	-32.3	-31.8
Income	11.0	13.6	16.5	17.3	15.2	18.4	21.1	27.1	27.5	26.6	25.9
Of which: Investment income[1]	11.6	14.2	17.2	18.0	15.8	19.0	21.7	27.7	28.1	27.2	26.5
Current transfers	-30.4	-35.9	-38.7	-44.7	-43.3	-41.9	-43.8	-44.9	-45.8	-46.3	-46.6
Of which : Workers' remittances	-28.6	-34.1	-36.0	-37.8	-38.0	-36.5	-38.4	-39.6	-40.4	-40.9	-41.3
Capital Account	-0.3	-0.3	-0.3	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-6.4	-57.4	-57.4	-42.9	-14.7	-17.3	-6.2	-1.6	-4.5	-12.7	-7.1
Direct Investment	7.8	3.9	2.6	2.8	-0.9	-0.7	-0.4	-0.3	0.0	0.3	0.6
Abroad	-4.4	-4.9	-5.4	-5.4	-8.4	-8.9	-9.2	-9.4	-9.6	-9.9	-10.1
In Saudi economy	12.2	8.9	8.0	8.1	7.5	8.2	8.7	9.1	9.6	10.2	10.7
Portfolio investments	-3.2	-6.6	-26.8	-10.8	-13.0	-15.0	-4.9	-0.9	-4.1	-3.2	-8.3
Assets	-4.1	-8.4	-27.0	-10.4	-29.9	-25.0	-14.9	-10.9	-9.1	-7.7	-6.3
Liabilities	0.9	1.8	0.2	-0.3	16.8	10.0	10.0	10.0	5.0	4.5	-2.0
Other investments	-11.0	-54.7	-33.2	-34.8	-0.8	-1.6	-0.8	-0.5	-0.3	-9.8	0.6
Assets	-10.3	-52.3	-39.2	-38.7	-9.9	-9.1	-7.8	-7.0	-6.3	-5.8	-5.4
Liabilities	-0.7	-2.4	6.0	3.9	9.1	7.5	7.0	6.5	6.0	-4.0	6.0
Net errors and omissions	-45.6	-8.6	-9.4	-15.3	-40.1	-40.0	-28.0	-28.0	-28.0	-28.0	-28.0
Overall balance	112.6	69.2	6.6	-115.9	-80.6	-56.0	-30.5	-22.8	-25.7	-33.1	-25.2
Financing	-112.6	-69.2	-6.6	115.9	80.6	56.0	30.5	22.8	25.7	33.1	25.2
Change in SAMA's NFA (- increase)	-112.4	-69.1	-7.5	115.4	80.3	56.0	30.5	22.8	25.7	33.1	25.2
Memorandum items:											
SAMA's total net foreign assets	647.6	716.7	724.3	608.9	528.6	472.6	442.0	419.2	393.5	360.4	335.1
(In months of imports)[2]	33.8	33.2	35.1	37.5	31.7	28.2	26.1	24.4	22.6	20.3	18.6
Net International Investment Position (Percent of GDP)	93.0	102.2	104.7	105.4	91.8	79.8	73.0	68.0	62.9	57.8	54.2
Non-oil current account/GDP	-23.4	-24.9	-27.8	-32.1	-24.9	-22.7	-21.5	-20.3	-19.8	-19.3	-19.0
WEO oil price (US$/barrel)	105.0	104.1	96.2	50.8	42.8	51.7	51.8	51.5	51.9	52.8	54.0
Average Saudi oil price (US$/barrel)[3]	109.4	105.4	95.7	50.4	41.5	50.3	50.4	49.9	50.1	50.9	52.0
Oil production (mbd)	9.8	9.6	9.7	10.2	10.5	10.0	10.1	10.1	10.2	10.3	10.3
Oil exports (mbd)	8.4	8.4	8.1	8.3	9.0	8.6	8.7	8.7	8.7	8.8	8.8
Oil exports/total exports	86.8	85.6	83.0	75.2	74.7	76.1	76.0	75.7	75.5	75.4	75.3
Imports of goods/GDP	19.3	20.5	21.0	24.3	19.2	18.4	18.0	18.0	17.8	17.6	17.6
GDP (US$ billion)	736.0	746.6	756.4	654.3	646.4	692.2	723.3	745.4	772.3	804.7	825.4
Government External Debt (US$ billion)	0.0	0.0	0.0	0.0	27.5	42.5	57.5	72.5	82.5	82.0	85.0

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

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

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

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

Table 5. Saudi Arabia: Monetary Survey, 2013–22

	2013	2014	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Foreign assets (net)	2,824	2,875	2,509	2,128	1,908	1,783	1,688	1,581	1,447	1,342
SAMA	2,688	2,716	2,283	1,982	1,772	1,658	1,572	1,476	1,351	1,257
Commercial banks	136	159	226	146	136	126	116	106	96	86
Domestic credit (net)	-267	-24	474	902	1,077	1,187	1,266	1,312	1,385	1,456
Net claims on government	-1,435	-1,326	-937	-552	-398	-305	-261	-259	-240	-233
Claims on government	50	53	86	178	208	239	270	271	291	297
Government deposits with SAMA	-1,484	-1,379	-1,023	-731	-606	-544	-530	-531	-531	-531
Claims on state enterprises	44	46	39	49	49	49	49	49	49	49
Claims on private sector	1,124	1,256	1,372	1,406	1,425	1,443	1,478	1,522	1,576	1,640
Money and quasi-money (M3)	1,545	1,729	1,773	1,787	1,818	1,847	1,889	1,941	2,007	2,088
Money (M1)	1,000	1,143	1,145	1,154	1,173	1,192	1,219	1,253	1,296	1,348
Currency outside banks	143	154	169	170	173	176	179	184	191	198
Demand deposits	857	989	976	984	1,001	1,017	1,040	1,069	1,105	1,149
Quasi-money	545	586	629	634	644	655	669	688	711	740
Time and savings deposits	345	399	435	438	445	453	463	476	492	511
Other quasi-money deposits	200	188	194	196	199	202	207	212	220	228
Other items (net liabilities)	1,012	1,122	1,209	1,243	1,167	1,124	1,065	952	825	711
	(Changes in percent of beginning broad money stock)									
Foreign assets (net)	18.8	3.3	-21.2	-21.5	-12.3	-6.9	-5.2	-5.6	-6.9	-5.2
Domestic credit (net)	3.8	15.7	28.8	24.2	9.8	6.1	4.3	2.4	3.7	3.5
Net claims on government	-5.5	7.1	22.5	21.7	8.6	5.1	2.4	0.1	1.0	0.3
Claims on government	0.5	0.2	1.9	5.2	1.7	1.7	1.7	0.1	1.0	0.3
Government deposits (increase -)	-6.0	6.8	20.6	16.5	7.0	3.4	0.7	0.0	0.0	0.0
Claims on state enterprises	0.3	0.1	-0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	8.9	8.6	6.7	1.9	1.1	1.0	1.9	2.3	2.7	3.2
Money and Quasi-money	10.9	11.9	2.5	1.97	1.7	1.6	2.2	2.8	3.4	4.0
Other items (net liabilities)	11.7	7.1	5.0	1.9	-4.3	-2.4	-3.2	-6.0	-6.6	-5.7
	(Percent changes, unless otherwise indicated)									
Foreign assets (net)	10.2	1.8	-12.7	-15.2	-10.3	-6.5	-5.4	-6.3	-8.5	-7.2
Domestic credit (net)	-16.5	-91.1	-2091.0	90.5	19.3	10.3	6.6	3.6	5.5	5.1
Net claims on government	5.6	-7.6	-29.3	-41.1	-28.0	-23.3	-14.5	-0.6	-7.4	-2.7
Claims on government	16.8	7.1	62.2	107.1	16.8	14.6	12.9	0.6	7.2	2.3
Government deposits at SAMA (increase -)	-6.0	7.1	25.8	28.6	17.1	10.3	2.4	0.0	0.0	0.0
Claims on state enterprises	11.5	3.8	-15.3	26.3	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	12.5	11.8	9.2	2.4	1.4	1.3	2.4	3.0	3.5	4.1
Money and quasi-money	10.9	11.9	2.5	0.8	1.7	1.6	2.2	2.8	3.4	4.0
Other items (net liabilities)	19.3	10.9	7.8	2.8	-6.1	-3.7	-5.2	-10.6	-13.4	-13.8
	(Percent; unless otherwise indicated)									
Memorandum items:										
Specialized Credit Institutions credit (SAR billions)	240.3	272.1	301.8	302.4						
Ratio of M3-to-GDP	55.2	61.0	72.3	73.7	70.0	68.1	67.6	67.0	66.5	67.4
Ratio of Claims on private sector-to-non-oil GDP	75.5	77.8	77.6	78.2	76.7	73.4	72.2	71.3	70.4	71.1

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

Table 6. Saudi Arabia: Financial Soundness Indicators, 2007–16

(Percent, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Banking sector										
Structure of the banking sector										
Number of licensed banks	22	22	23	23	23	23	24	24	24	26
Number of banks accounting for:										
25 percent of total assets	2	2	2	2	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6	6	6	6	6
Total assets (percent of GDP)	69.0	66.8	85.2	71.6	61.5	63.0	67.8	75.4	90.2	94.1
Of which: Foreign currency-denominated (as percent of total assets)	13.7	11.8	15.4	13.6	13.5	12.3	11.1	11.8	14.3	10.0
Total loans (percent of GDP)	38.2	38.2	45.8	39.2	39.8	36.3	40.1	44.2	55.6	58.4
Credit to private sector (percent of GDP)	35.8	36.6	44.0	37.6	30.0	34.9	38.6	42.6	54.0	56.3
Total deposits, excluding interbank (as percent of GDP)	46.0	43.4	58.5	49.9	44.0	45.8	50.2	55.7	65.5	67.4
Central bank credit to banks (as percent of GDP)	…	…	…	…	…	…	…	…	…	…
Capital adequacy										
Regulatory capital to risk-weighted assets	20.7	16.0	16.9	17.6	17.6	18.2	17.9	17.9	18.1	19.5
Asset quality										
Net loans to total assets	52.0	57.9	57.4	55.1	55.8	58.2	59.8	60.3	63.0	62.8
Gross NPLs to gross loans	2.1	1.4	3.3	3.0	2.2	1.7	1.3	1.1	1.2	1.4
Total provisions to gross NPLs	142.9	153.3	89.8	115.7	132.8	145.1	157.4	182.9	164.4	177.0
Net NPLs to total capital [1]	-3.5	-3.8	1.4	-2.7	-3.0	-3.7	-3.4	-4.1	-3.7	-4.7
Total provisions for loan losses (as percent of total loans)	3.0	2.1	3.0	3.5	3.1	2.8	2.2	2.1	2.1	2.6
Loans to property and construction sector to total loans	7.3	7.3	6.1	7.2	8.1	7.5	6.8	6.7	7.8	7.5
Loans to domestic manufacturing sector to total loans	9.1	10.7	10.2	11.6	13.0	12.6	12.5	12.7	12.7	12.6
Contingent and off-balance sheet accounts to total assets	96.6	96.0	81.0	91.4	96.2	91.7	90.8	100.2	100.8	84.2
Profitability										
Profits (percent change)	-12.7	-1.1	-10.4	-2.6	18.4	8.4	6.5	12.5	-2.4	-5.4
Average pretax return on assets	2.8	2.7	1.9	2.0	2.1	2.1	2.0	2.0	2.0	1.8
Return on equity	22.3	20.5	14.2	13.6	15.0	15.1	14.6	15.0	14.5	12.6
Noninterest expenses to total income [2]	38.7	51.1	55.4	52.7	46.9	47.0	47.7	45.5	37.1	38.0
Average lending spread	3.2	4.0	4.1	4.3	4.1	3.8	3.7	3.5	3.4	3.5
Liquidity										
Liquid assets to total assets	21.7	22.0	25.3	24.8	23.7	23.7	21.6	22.3	17.5	20.3
Liquid assets to short-term liabilities [3]	27.7	30.6	36.5	36.5	37.2	36.4	33.2	33.6	27.3	31.8
Customer deposits to net loans	136.3	124.0	128.5	135.9	135.9	131.9	129.3	127.7	121.7	115.7
Demand deposits to total deposits	43.4	40.5	46.1	53.8	58.1	59.8	61.1	62.8	60.8	60.2
Sensitivity to market risk										
Foreign currency-denominated deposits to total deposits	13.9	13.2	17.0	12.6	12.2	13.0	12.6	10.3	10.0	7.6
Foreign currency-denominated loans to total loans	12.5	14.0	14.1	13.4	12.4	11.7	10.6	9.9	8.9	8.2
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	53.0	54.5	39.2	42.2	47.9	41.3	34.6	39.1	…	28.3
Net open foreign currency position to capital	3.1	4.5	8.6	10.2	6.7	1.7	6.4	3.6	4.0	2.6
Stock market										
Stock market capitalization (percent of GDP)	124.8	47.4	74.3	67.1	50.6	50.9	62.8	64.0	65.1	70.1
Overall stock market price index (change in percent)	39.1	-56.5	27.5	8.2	-3.1	6.0	25.5	-2.4	-17.1	4.3
Bank stock price index (change in percent)	31.0	-55.6	15.3	6.6	-12.7	0.4	22.0	2.5	-14.9	1.9

Source: Saudi Arabian Monetary Authority.

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

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

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

Appendix I. Saudi Arabia's Nonfinancial Corporate Sector: Performance and Vulnerabilities

1. Against the backdrop of the slowing economy, profits of non-financial companies continued to weaken in 2016. Profits of 122 listed non-financial firms declined by 6 percent in 2016, following a decline of nearly 17 percent in 2015 (Table 1).[1] Profits in the petrochemical sector stabilized despite a further decline in revenues caused by the weakness in sales prices in the early part of the year. The construction and cement sectors recorded lower revenues and profits as government investment fell. The energy and utilities sector saw the largest year-on-year rise in profits as it benefited from the higher electricity tariffs which took effect from the beginning of 2016.

Table 1. Saudi Arabia: Nonfinancial Corporate Sector Revenues and Profits, 2014–16
(Billions of U.S. dollars, unless otherwise noted)

		Operating Revenue				Operating Profit/Loss			
Sector	# of firms	2014	2015	2016	2015-16 growth (in percent, y/y)	2014	2015	2016	2015-16 growth (in percent, y/y)
Agriculture & Food Industries	14	12.4	12.7	12.9	1.2	1.6	1.6	1.3	-18.7
Cement	15	4.3	4.4	4.1	-7.1	1.8	1.7	1.3	-22.9
Construction	16	6.0	5.7	5.0	-12.2	0.6	0.5	0.5	-10.0
Energy & Utilities	2	10.9	11.7	13.9	18.7	0.4	0.5	0.8	57.7
Hotels & Tourism	4	2.5	2.8	2.6	-5.5	0.4	0.4	0.3	-27.0
Industrial Investment	14	6.2	6.2	5.3	-15.2	0.9	0.6	0.5	-17.2
Media & Publishing	2	0.8	0.7	0.7	-0.5	0.1	0.02	0.04	56.2
Multi-investment	7	1.4	1.4	1.3	-9.5	0.1	0.3	0.1	-47.0
Petrochemical Industries	15	84.9	62.2	57.4	-7.8	15.1	10.2	10.2	-0.2
Real Estate	8	1.7	1.5	1.9	30.8	0.7	0.6	0.7	10.5
Telecommunications	3	18.0	19.5	19.6	0.4	3.5	3.9	3.5	-11.3
Transport	5	2.2	3.4	3.3	-3.1	0.4	0.8	0.8	-4.3
Wholesale & retail trade	17	8.1	8.8	8.9	1.0	0.8	0.9	0.8	-10.4
Total	**122**	**159.2**	**141.1**	**136.9**	**-3.0**	**26.5**	**22.1**	**20.8**	**-5.9**

Sources: Orbis, and IMF staff estimates.

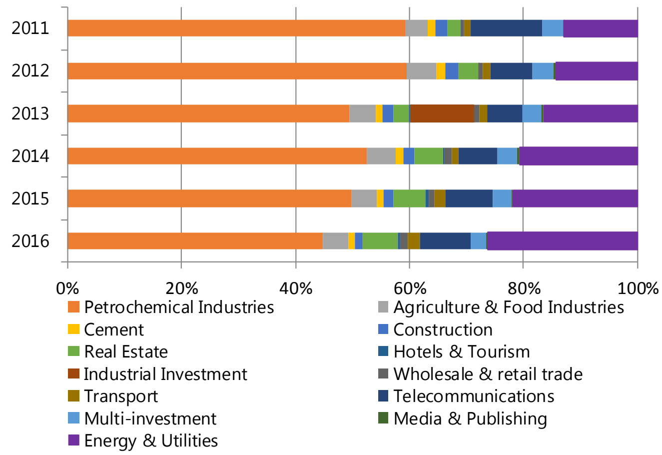
2. Total debt of the companies in the sample was $144 billion in 2016 (30 percent of nonoil GDP), an increase of 5 percent from 2015. Debt is mostly concentrated in the petrochemical (40 percent of total) and energy and utilities (23 percent of total) sectors (Table 2, Figure 1). The increase in total debt and short-term debt (which increased by 26 percent in 2016) was mainly driven by the Saudi Electricity Company (SEC), the state-owned and largest publicly-

[1] The analysis in this appendix is based on data from Orbis and covers 122 non-financial public companies with available data for 2011–16. The total revenue of these companies amounted to $137 billion, or about 29 percent of non-oil GDP, in 2016. Data was last updated in May 2017. An important part of the corporate sector in Saudi Arabia is not listed so this sample may not be fully representative of the overall corporate sector.

listed company by assets. SEC's short-term debt rose by over 500 percent from \$0.9 billion in 2015 to \$5.7 billion in 2016, which is considerably higher than its liquid assets. In addition to the energy and utilities sector, the debt of the industrial, real estate, and telecommunication sectors rose. The construction sector saw a decline in its total and short-term debt, possibly because the payment of government arrears that accumulated in late 2015 allowed the sector to pay-down its credit lines. Cash and cash equivalents fell by 18 percent in 2016, with most sectors seeing a decline. Cash and cash equivalents exceeded short-term debt in 2014 and 2015, but short-term debt exceeded cash holdings in 2016. Indeed, only 4 of the 13 sectors in Table 2 had more cash on hand than short-term debt at end-2016.

Figure 1. Total Debt Distribution by Sector

(In percent of total debt)



Sources: Orbis, and IMF staff estimates.

Table 2. Saudi Arabia Nonfinancial Corporate Sector Debt Profile

(Billions of U.S. dollars, unless otherwise noted)

Sector	# of firms	Cash & Cash Equivalents 2014	2015	2016	2015-16 growth (in percent, y/y)	Total Debt 2014	2015	2016	2015-16 growth (in percent, y/y)	Short term Debt 2014	2015	2016	2015-16 growth (in percent, y/y)
Agriculture & Food Industries	14	0.9	1.2	0.6	-48.0	5.8	5.4	5.4	0.5	2.2	1.3	1.2	-4.8
Cement	15	0.8	0.7	0.5	-26.8	1.5	1.3	1.5	13.9	0.6	0.4	0.7	70.5
Construction	16	0.4	0.4	0.3	-14.2	2.3	2.2	1.9	-16.4	1.6	1.5	1.4	-8.7
Energy & Utilities	2	1.9	0.6	0.3	-38.8	23.6	26.8	33.3	24.3	0.6	0.9	5.7	542.2
Hotels & Tourism	4	0.6	0.2	0.1	-13.7	0.3	0.6	0.5	-14.0	0.2	0.2	0.1	-41.8
Industrial Investment	14	3.6	1.7	1.4	-18.1	13.7	14.6	16.7	15.0	1.7	2.1	2.4	14.3
Media & Publishing	2	0.1	0.1	0.1	-6.3	0.5	0.4	0.3	-15.7	0.1	0.0	0.0	3.8
Multi-investment	7	0.9	1.4	1.3	-6.9	4.0	3.9	3.5	-9.1	0.6	0.7	0.3	-54.7
Petrochemical Industries	15	14.1	14.9	15.4	2.8	59.9	61.1	57.0	-6.6	12.5	13.8	13.6	-1.5
Real Estate	8	1.7	1.2	1.2	-1.6	5.7	6.8	7.8	13.8	0.7	0.7	0.9	25.1
Telecommunications	3	5.0	5.4	1.4	-73.3	7.9	10.2	11.3	11.4	2.8	4.1	6.0	47.4
Transport	5	0.3	0.5	0.2	-66.7	1.3	2.4	2.7	13.4	0.1	0.3	0.3	6.1
Wholesale & retail trade	17	0.6	0.5	0.5	17.7	1.4	1.4	1.7	28.3	0.9	0.7	0.8	14.1
Total	**122**	**30.9**	**28.7**	**23.5**	**-18.2**	**127.7**	**137.0**	**143.8**	**5.0**	**24.6**	**26.7**	**33.6**	**25.7**

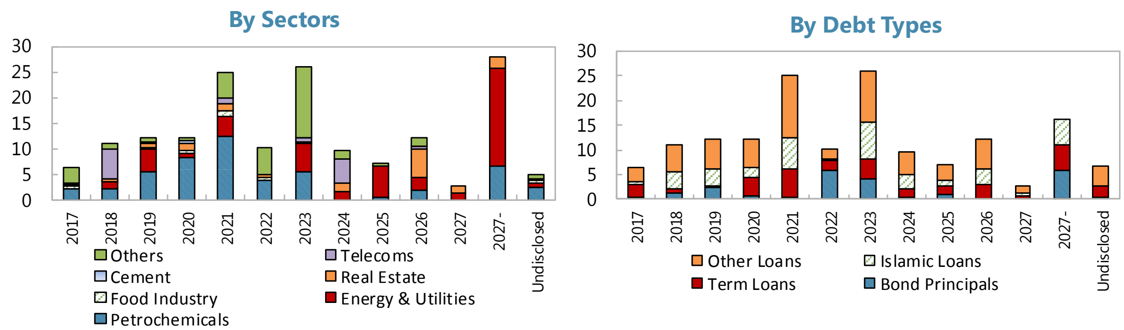
Sources: Orbis, and IMF staff estimates.

3. **Repayment obligations on outstanding corporate debt are relatively low until 2020.**[2] Maturing debt over the next four years is \$6–\$12 billion a year (or between 4 and 7 percent of the outstanding debt stock) and mainly takes the form of loans. Repayments are highest for petrochemical, energy, and telecom companies (Figure 2). Repayments are much higher in 2021 and 2023 than during 2017–20.

[2] The data on debt repayments is taken from Bloomberg. The sample covers 110 nonfinancial companies with total debt outstanding of \$168 billion as of May 2017.

Figure 2. Saudi Nonfinancial Corporate Debt Principal Rollover Needs [1/]

(Billions of U.S. dollars)



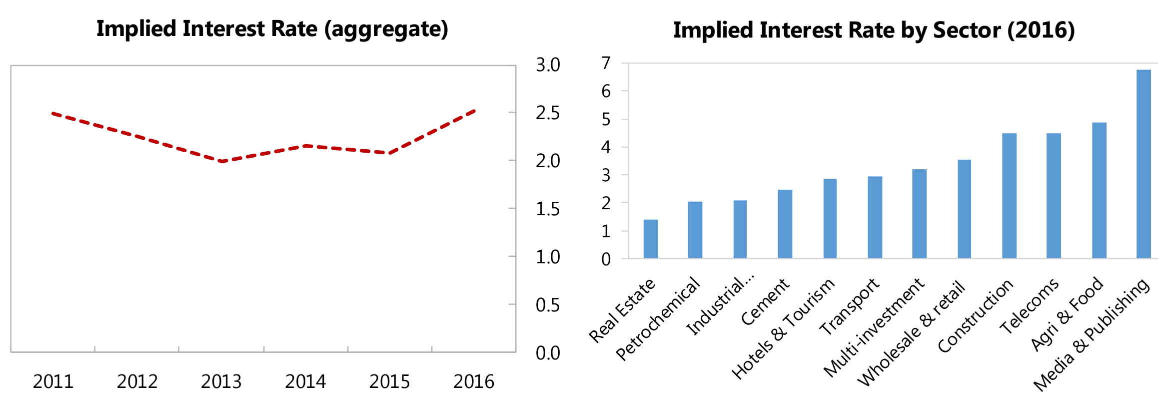
Sources: bloomberg, and IMF staff calculations.

1/ Corporate debt here includes bonds and loans, and reflects marketable debt caputured by Bloomberg. The company sample includes both public and private companies, and differs from the Orbis company sample.

4. The interest coverage ratio (ICR) declined in 2016, but is higher than 2 in most sectors. Lower profits and higher interest costs drove the ICR down in most sectors in 2016, especially in the hotels and tourism, wholesale and retail, and transport sectors. The implied interest rate on corporate debt was around 2.5 percent in 2016, and it has been on an upward trend since 2013 for most sectors (Figure 3). Debt-at-risk (defined as the debt of companies with an ICR less than 1.5) increased from 30 percent of total debt in 2015 to 40 percent at the end of 2016, while the proportion of firms-at-risk (defined as the percentage of total firms with debt-at-risk) increased from 14 to 18 percent between 2015 and 2016 (Figure 4).

Figure 3. Implied Interest Rate 1/

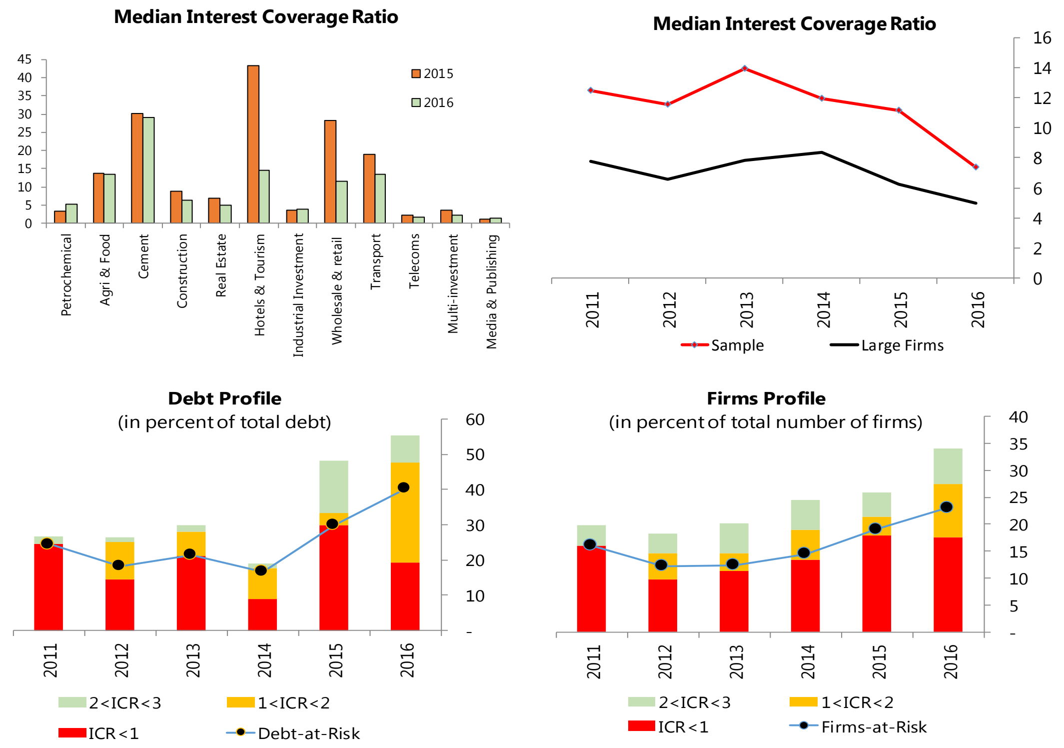
(In percent)



Sources: Orbis, and IMF staff estimates.

1/ Calculated using total outstanding debt and interest paid. Energy sector is excluded due to lack of interest paid data.

Figure 4. Debt Servicing Capacity Profile



Sources: Orbis, and IMF staff estimates.

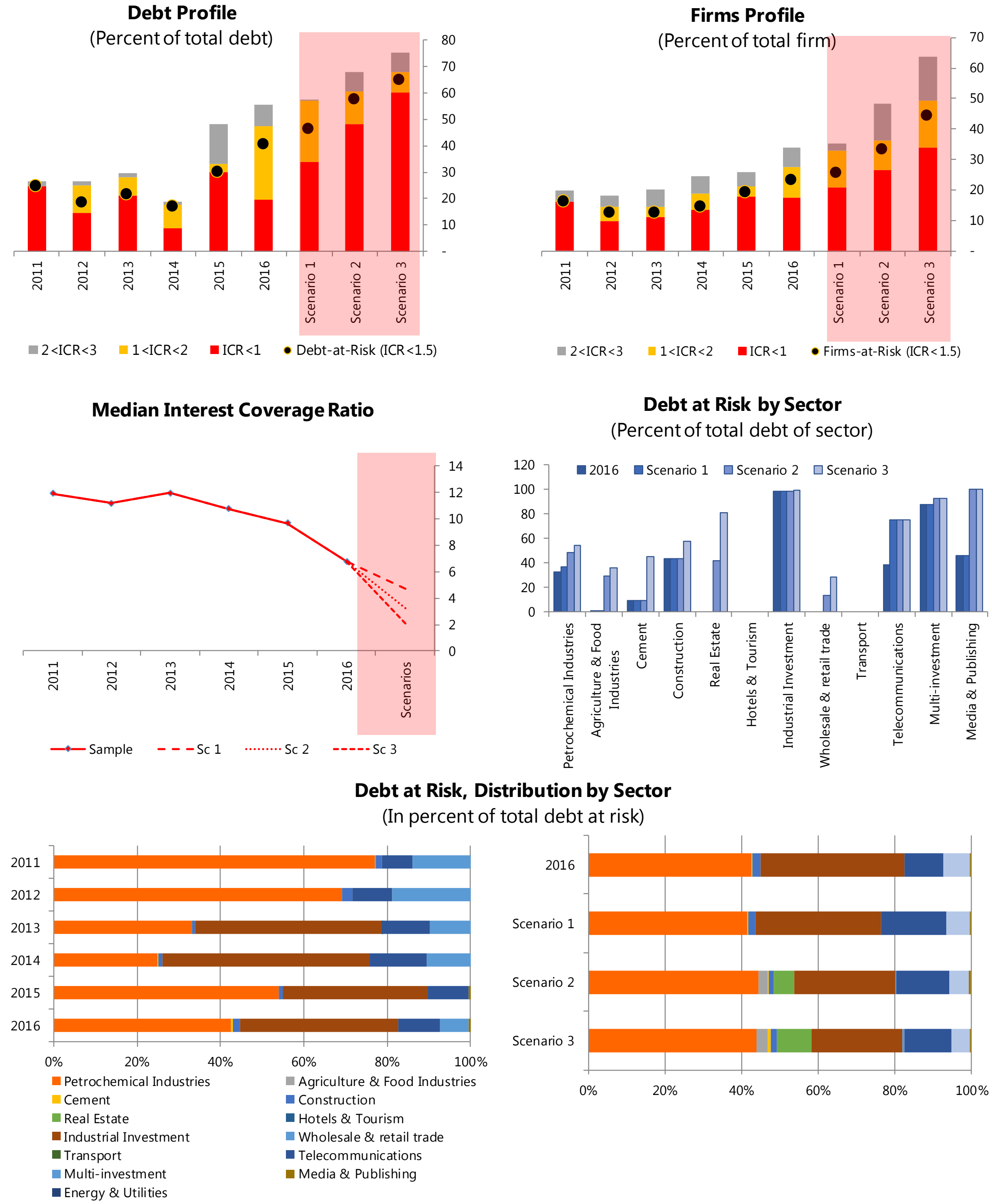
5. **Sensitivity analysis suggests moderate vulnerabilities in the nonfinancial corporate sector to earnings and borrowing cost shocks, although with heterogeneity across sectors**. Three scenarios are used to assess the resiliency of the nonfinancial corporate sector (Table 3). The median ICR drops, but remains above 2 under all scenarios. Debt-at-risk increases to between 46 and 64 percent of total debt, most of which would be in the petrochemicals, industrial, telecommunications, and real estate sectors. Indeed, real estate companies' debt seems to be the most vulnerable to the shocks, as 40 to 80 percent of their total debt will become at risk under scenarios 2 and 3.

Table 3. Saudi Arabia: Scenarios of Earnings and Borrowing Cost Shocks

	Operating Income Decrease by (In percent)	Increase in Borrowing Cost (In bps)
Scenario 1	6	70
Scenario 2	20	150
Scenario 3	39	300

Source: IMF staff estimates.

Figure 5. Sensitivity Analysis to Lower Earnings and Higher Borrowing Costs



Sources: IMF staff estimates.

Appendix II. Fiscal and External Debt Sustainability

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

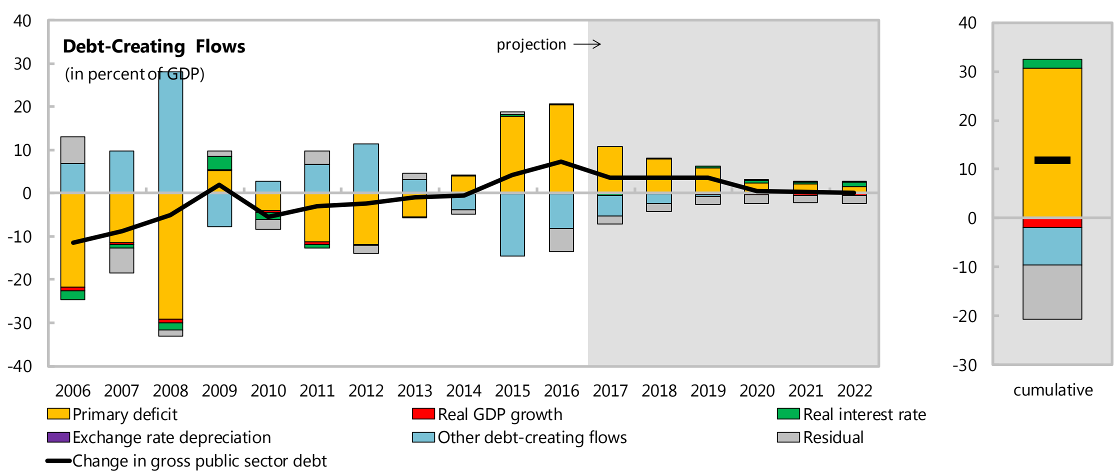
Debt, Economic and Market Indicators[1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	10.0	5.8	13.1	16.7	20.3	23.9	24.5	24.7	24.9
Public gross financing needs	-6.7	15.8	18.2	9.4	6.6	4.6	2.9	3.2	3.3
Real GDP growth (in percent)	4.0	4.1	1.7	0.1	1.1	1.6	1.8	2.0	2.2
Inflation (GDP deflator, in percent)	6.1	-16.9	-2.9	6.9	3.3	1.4	1.7	2.2	0.4
Nominal GDP growth (in percent)	10.6	-13.5	-1.2	7.1	4.5	3.1	3.6	4.2	2.6
Effective interest rate (in percent) [4/]	5.5	5.9	3.5	3.3	3.4	3.6	3.9	4.1	4.3

As of June 02, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		122
5Y CDS (bp)		90
Ratings	Foreign	Local
Moody's	A1	A1
S&Ps	A-	A-
Fitch	A+	A+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-4.0	4.2	7.3	3.6	3.6	3.6	0.6	0.2	0.2	11.8	
Identified debt-creating flows	-3.9	3.6	12.7	5.6	5.5	5.5	2.5	2.0	2.0	23.0	
Primary deficit	-9.5	17.7	20.4	10.8	7.9	5.8	2.4	2.1	1.6	30.6	0.4
Primary (noninterest) revenue and grants	41.8	22.9	18.0	23.0	25.9	28.4	31.9	31.8	32.1	173.1	
Primary (noninterest) expenditure	32.2	40.6	38.4	33.9	33.9	34.2	34.2	33.9	33.6	203.7	
Automatic debt dynamics [5/]	-0.7	0.4	0.3	-0.5	-0.2	0.1	0.1	0.0	0.4	-0.1	
Interest rate/growth differential [6/]	-0.7	0.4	0.3	-0.5	-0.2	0.1	0.1	0.0	0.4	-0.1	
Of which: real interest rate	-0.3	0.4	0.4	-0.4	0.0	0.4	0.5	0.4	0.9	1.9	
Of which: real GDP growth	-0.4	-0.1	-0.1	0.0	-0.2	-0.3	-0.4	-0.5	-0.5	-1.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	6.4	-14.5	-8.0	-4.8	-2.3	-0.5	0.0	0.0	0.0	-7.6	
Accumulation of deposits	6.4	-14.5	-12.1	-4.8	-2.3	-0.5	0.0	0.0	0.0	-7.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans and equity	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.1	0.7	-5.5	-2.0	-1.9	-1.9	-1.9	-1.8	-1.8	-11.2	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

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

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

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

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

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

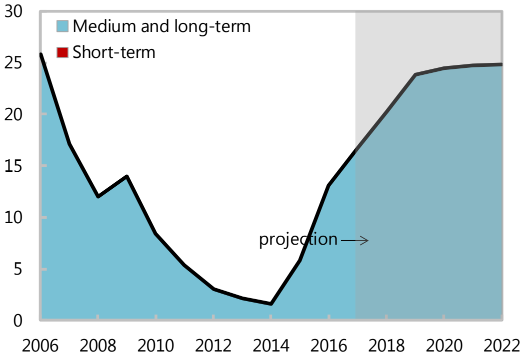
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

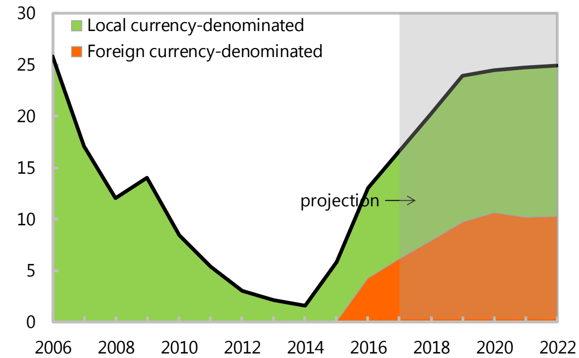
Saudi Arabia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



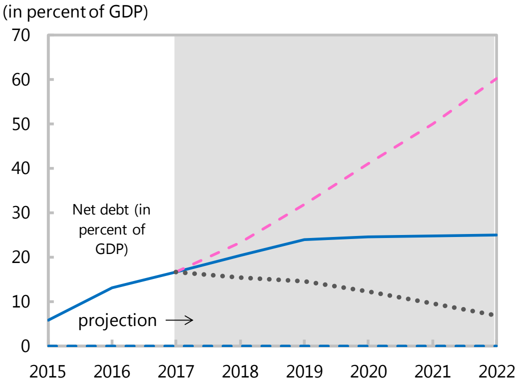
By Currency
(in percent of GDP)



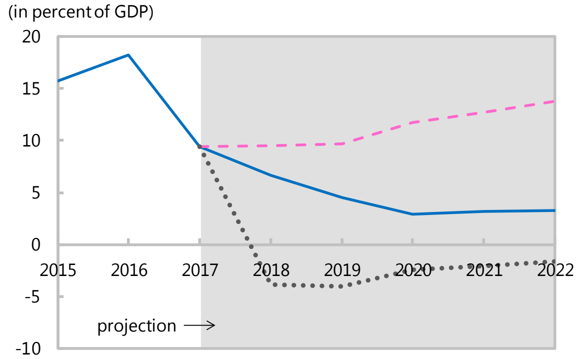
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.1	1.1	1.6	1.8	2.0	2.2
Inflation from GDP defl	6.9	3.3	1.4	1.7	2.2	0.4
CPI Inflation	1.7	5.0	2.0	2.2	2.1	2.0
Primary Balance	-10.8	-7.9	-5.8	-2.4	-2.1	-1.6
Effective interest rate	3.3	3.4	3.6	3.9	4.1	4.3
Constant Primary Balance Scenario						
Real GDP growth	0.1	1.1	1.6	1.8	2.0	2.2
Inflation from GDP defl	6.9	3.3	1.4	1.7	2.2	0.4
CPI Inflation	1.7	5.0	2.0	2.2	2.1	2.0
Primary Balance	-10.8	-10.8	-10.8	-10.8	-10.8	-10.8
Effective interest rate	3.3	3.4	3.7	4.1	4.4	4.7

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.1	3.9	3.9	3.9	3.9	3.9
Inflation from GDP defl	6.9	3.3	1.4	1.7	2.2	0.4
CPI Inflation	1.7	5.0	2.0	2.2	2.1	2.0
Primary Balance	-10.8	2.6	2.6	2.6	2.6	2.6
Effective interest rate	3.3	3.4	3.4	3.4	3.5	3.4

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

Saudi Arabia: External Debt Sustainability Framework, 2012–22

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**12.6**	**12.3**	**13.1**	**13.8**	**19.8**			**21.7**	**23.8**	**26.0**	**27.1**	**25.5**	**25.9**	**1.9**
Change in external debt	-0.9	-0.3	0.8	0.7	5.9			1.9	2.1	2.2	1.2	-1.7	0.5	
Identified external debt-creating flows (4+8+9)	-21.9	-16.7	-7.2	12.2	9.5			3.9	1.7	0.4	0.1	-0.3	-0.7	
Current account deficit, excluding interest payments	-22.7	-18.5	-10.0	8.3	3.4			-1.0	-1.6	-2.3	-2.4	-2.6	-2.7	
Deficit in balance of goods and services	-25.0	-21.1	-12.7	4.5	-0.5			-3.6	-3.6	-3.3	-3.2	-3.4	-3.7	
Exports	54.3	51.9	46.9	33.3	30.7			32.5	31.4	30.6	29.9	29.4	29.5	
Imports	29.2	30.8	34.2	37.8	30.2			28.9	27.8	27.3	26.7	26.0	25.8	
Net non-debt creating capital inflows (negative)	1.7	1.6	2.7	1.5	5.4			4.1	2.4	1.7	1.4	1.2	1.0	
Automatic debt dynamics 1/	-0.9	0.2	0.1	2.4	0.7			0.7	0.9	1.0	1.1	1.1	1.0	
Contribution from nominal interest rate	0.3	0.3	0.3	0.4	0.5			0.8	1.1	1.4	1.6	1.6	1.5	
Contribution from real GDP growth	-0.7	-0.3	-0.4	-0.6	-0.2			0.0	-0.2	-0.4	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-0.5	0.2	0.3	2.7	0.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	21.0	16.4	8.1	-11.5	-3.5			-2.0	0.4	1.7	1.1	-1.4	1.2	
External debt-to-exports ratio (in percent)	23.3	23.7	27.9	41.5	64.4			66.6	75.7	84.9	90.6	86.7	88.0	
Gross external financing need (in billions of US dollars) 4/	-129.4	-84.8	-31.4	111.4	68.9			47.5	50.5	52.5	56.6	59.1	55.0	
in percent of GDP	-17.6	-11.4	-4.2	17.0	10.7	**10-Year**	**10-Year**	6.9	7.0	7.0	7.3	7.3	6.7	
Scenario with key variables at their historical averages 5/								**21.7**	**13.5**	**6.4**	**-1.1**	**-10.5**	**-17.8**	**5.2**
Key Macroeconomic Assumptions Underlying Baseline						**Historical Average**	**Standard Deviation**							
Real GDP growth (in percent)	5.4	2.7	3.7	4.1	1.7	4.2	3.4	0.1	1.1	1.6	1.8	2.0	2.2	
GDP deflator in US dollars (change in percent)	4.0	-1.2	-2.3	-16.9	-2.9	2.4	12.6	6.9	3.3	1.4	1.7	2.2	0.4	
Nominal external interest rate (in percent)	2.5	2.7	2.4	2.3	3.5	3.9	2.0	4.2	5.3	6.1	6.2	6.2	6.2	
Growth of exports (US dollar terms, in percent)	6.2	-2.9	-8.5	-38.6	-9.1	2.3	27.5	13.5	1.0	0.3	1.4	2.3	2.8	
Growth of imports (US dollar terms, in percent)	8.7	6.9	12.6	-4.5	-21.1	6.5	14.5	2.7	0.3	1.2	1.3	1.5	1.6	
Current account balance, excluding interest payments	22.7	18.5	10.0	-8.3	-3.4	13.5	12.3	1.0	1.6	2.3	2.4	2.6	2.7	
Net non-debt creating capital inflows	-1.7	-1.6	-2.7	-1.5	-5.4	-4.8	3.0	-4.1	-2.4	-1.7	-1.4	-1.2	-1.0	

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

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

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

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

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

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

Appendix III. Structural Policy Gaps and Obstacles to Private Sector Growth and Employment

This note identifies structural gaps in the Saudi Arabian business environment and labor market by benchmarking, where possible, Saudi Arabia against comparator countries. These gaps are then used to assess the potential growth impact of reforms. The impact is found to be potentially significant and could add 2 percentage points to non-oil growth over the longer-term. As discussed in the main text of the report, reforms in many of the areas highlighted in this appendix are now underway.

Identifying Structural Gaps

1. To assess structural gaps, a comparative analysis of structural strengths and weaknesses is conducted using a comprehensive set of indicators. These indicators are based on surveys and socio-economic indicators that compare Saudi Arabia with Advanced Economies (AEs) and Emerging Markets (EMs) as well as the other five GCC countries. As usual, some caveats apply to the use of such indicators as they may not be able to fully reflect all aspects of the environment they intend to capture.

A. Private Sector Business Environment

2. Saudi Arabia is well below the 80th percentile of AEs and EMs, and is generally below the GCC average, in the following categories of the World Bank's *Doing Business Indicators* (Figure 1, Table 1):

- *Starting a business*: Starting a business in Saudi Arabia takes 15 days and requires 12 procedures compared to an advanced country average of 7 procedures.

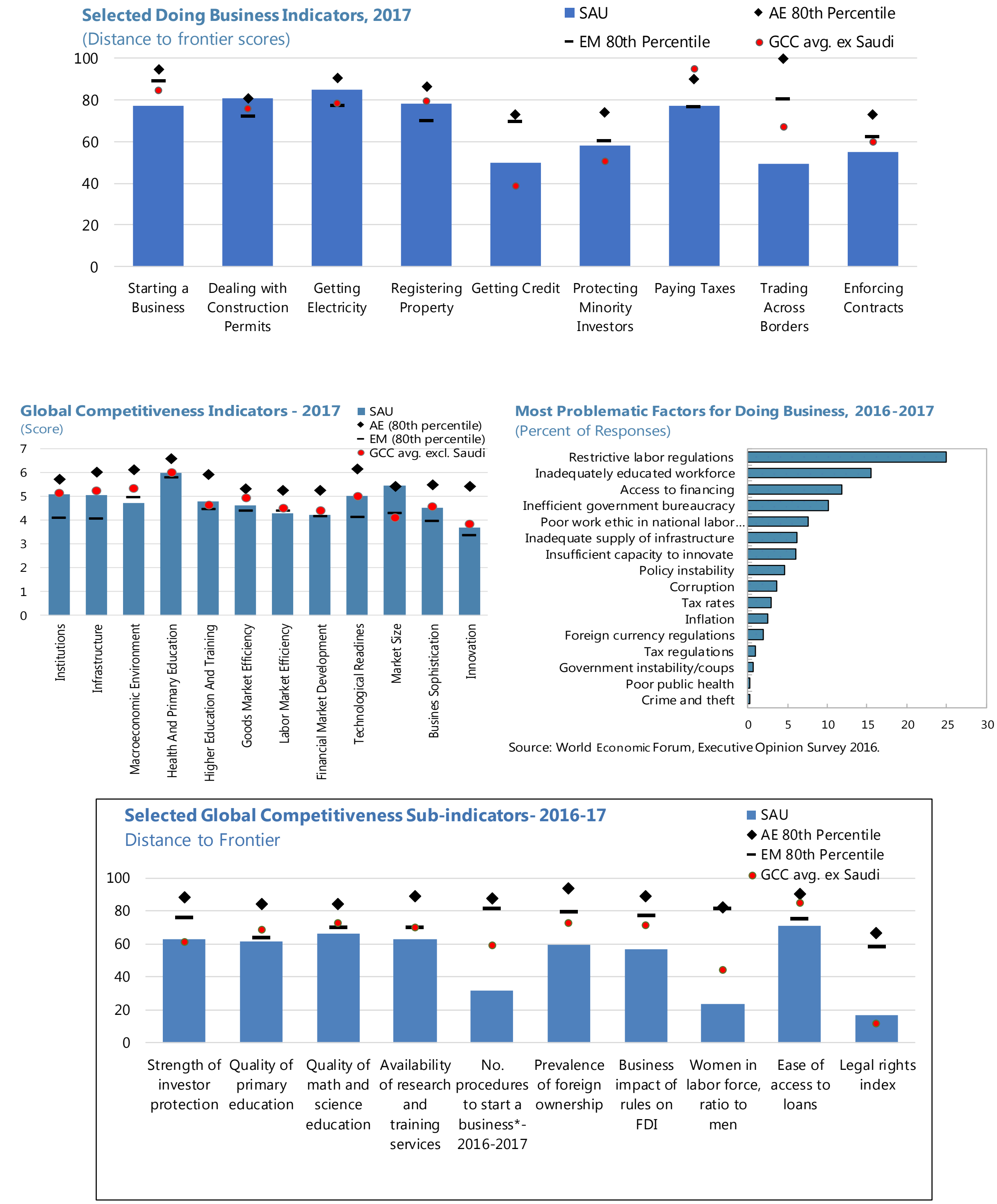
- *Getting credit:* Saudi Arabia scores poorly in the index for legal rights for borrowers and lenders and in availability of credit-related information.

- *Resolving insolvency*: Information suggests there were no foreclosure, liquidation, or reorganization proceedings filed in the last 12 months.

- *Trading across borders*: Cross border trade is hampered by inefficient customs clearance procedures. Border and documentary compliance takes much longer in Saudi Arabia—the time to complete documentary compliance for exporters is around 90 hours compared to 2 hours on average for advanced countries.

- *Enforcing contracts:* Enforcing a contract in Saudi Arabia takes a long time and is costly due to inefficiencies in the judicial process and a lack of mechanisms for resolving legal issues outside of the court system.

Figure 1. Global Competitiveness Indicators



Note: An economy's distance to frontier (DTF) is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.
Sources. World Bank- Doing Business 2017 report, World Economic Forum- Global Competitiveness Indicators and IMF staff calculations.

Table 1. Saudi Arabia: Details on Selected Doing Business Indicators, 2017

	Saudi Arabia	AE 80th Percentile	EM 80th Percentile	GCC avg. ex Saudi Arabia
Starting a Business: DTF	77	95	90	85
Starting a Business: Procedures (number)	12	7	10	7
Starting a Business: Time (days)	15	12	33	19
Getting Credit: DTF	50	73	70	39
Getting Credit: Strength of legal rights index (0-12)	2	8	8	1
Getting Credit: Credit bureau coverage (% of adults)	48	100	53	22
Protecting Minority Investors: DTF	58	74	61	51
Protecting Minority Investors: Strength of minority investor protection index (0-10)	6	7	6	5
Protecting Minority Investors: Extent of conflict of interest regulation index (0-10)	7	8	7	5
Trading Across Borders: DTF	50	100	81	67
Trading Across Borders: Time to export: Border compliance (hours)	69	24	102	50
Trading Across Borders: Time to export: Documentary compliance (hours)	90	2	96	19
Trading Across Borders: Cost to export: Documentary compliance (USD)	105	64	230	167
Trading Across Borders: Time to import: Border compliance (hours)	228	20	128	96
Trading Across Borders: Cost to import: Border compliance (USD)	779	244	763	566
Trading Across Borders: Time to import: Documentary compliance (hours)	131	3	136	62
Trading Across Borders: Cost to import: Documentary compliance (USD)	390	75	346	276
Enforcing Contracts: DTF	55	73	63	60
Enforcing Contracts: Quality of judicial processes index (0-18)	6	13	9	7

Sources. Doing business Indicators and IMF staff calculations.

3. **The World Economic Forum's (WEF) Global Competitiveness Indicators (GCIs) reinforce some of the areas highlighted by the Doing Business Indicators, and suggest some other gaps** (Figure 1). The GCIs show gaps for Saudi Arabia compared to the AM and EM 80^{th} percentile in:

- *The number of procedures to start a business*. See discussion on page 53.

- *The rules and regulations governing foreign direct investment.* Saudi Arabia scores lower than most other GCC countries or the EMs and AEs within the 80th percentile. Indeed, FDI inflows have fallen sharply in Saudi Arabia in recent years.

- *Financial market development*, where ease of access to financing and legal rights are identified as issues.

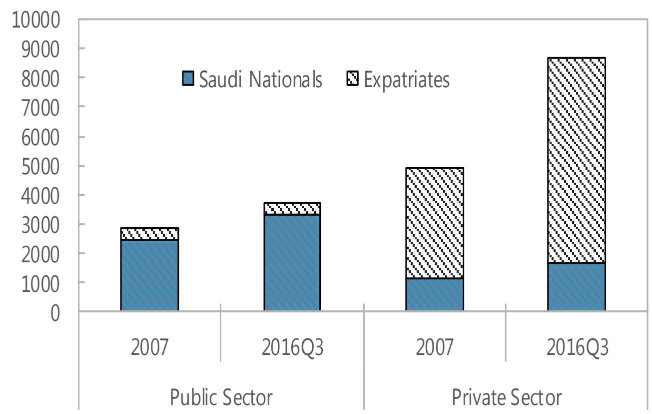
- *Education*, particularly in the quality of mathematics and science training, but also in primary education, as well as availability of research and training services are highlighted.

4. In WEF's Executive Opinion survey, the most problematic factors for doing business in Saudi Arabia are identified as: the labor market (restrictive labor regulations and inadequately educated workforce), inefficient government bureaucracy, and access to financing.

B. Labor Market

5. The structure of the labor market in Saudi Arabia is almost unique. About 70 percent of nationals work in the public sector, while expatriates fill most private sector jobs (80 percent) (Figure 2). Saudi females, who are on average better educated than their male counterparts, are excluded from many jobs, either directly or indirectly because of social norms and customs, and their labor market participation is low (19 percent). Unemployment of nationals is high (12.3 percent), but is concentrated amongst the young (40 percent) and females (35 percent). Weak growth and fiscal consolidation will significantly impact the labor market. Public sector employment opportunities will be limited as fiscal consolidation proceeds, and over 1 million private sector jobs will be needed for Saudis over the next 5 years, double that achieved from 2007–16, if the unemployment rate is not to rise.

Figure 2. Saudi Nationals and Expatriates Employment
(In thousands)

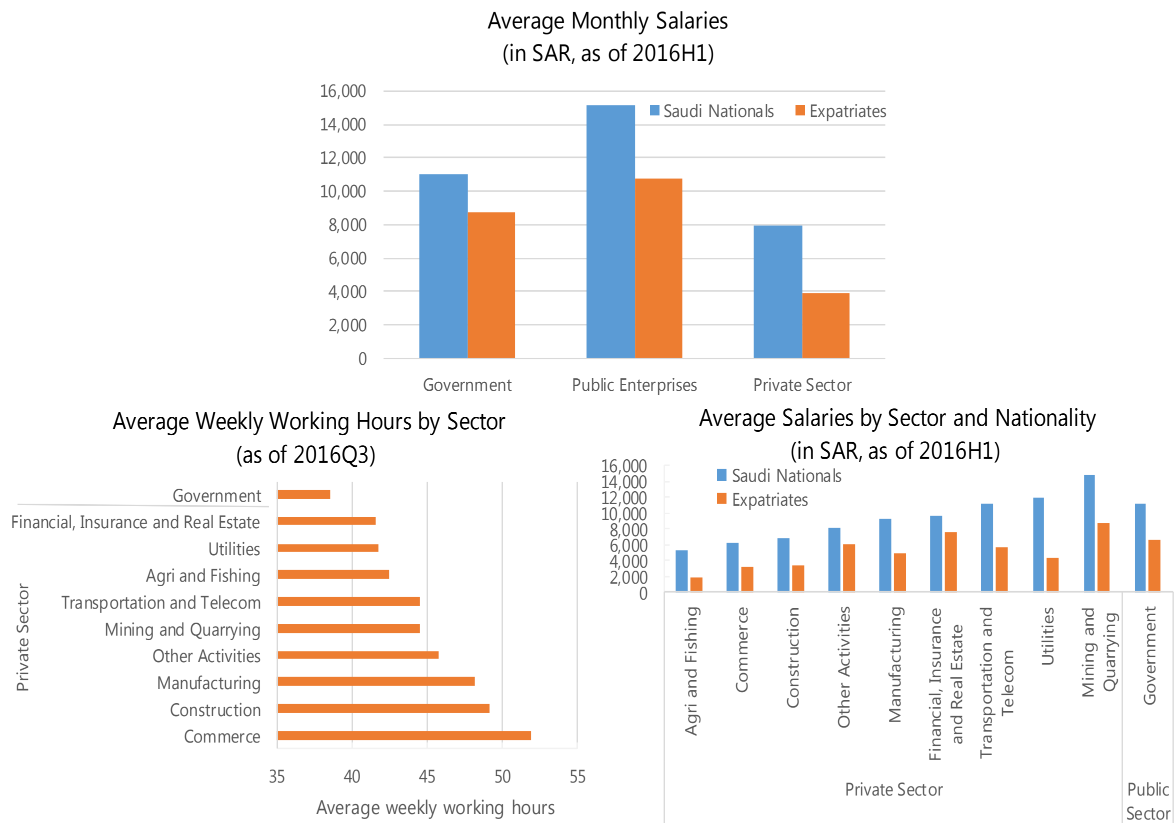


6. Labor market challenges require a multi-faceted approach to address. Significant wage gaps skew the demand for labor in the private sector toward expatriates and the supply of Saudi labor toward the public sector. These preferences are amplified by working conditions, including a shorter work week, and the perceived stability of public sector employment. Education and skills also play a key role—Saudi nationals are often perceived as not having the skills needed by the private sector, while the desire for a public-sector job skews the educational choices of Saudis. Altering the incentives of businesses and Saudi workers will be key to increasing private sector employment along with clearly established standards and competence-based expected learning outcomes to guide quality improvements in the public education sector.

Wage Gaps

7. Significant gaps exist for Saudi nationals between private and public sector wages and between the wages paid to Saudi nationals and expatriates in the private sector. These gaps skew the demand for labor in the private sector toward expatriates and the supply of Saudi labor toward the public sector (Figure 3).

Figure 3. Wage Gaps in the Saudi Labor Market



Source: Labour Force Survey - General Authority for Statistics.

Human capital gaps

8. Gaps in human capital in Saudi Arabia can be seen when comparing several indicators across country groups. Saudi Arabia has high literacy rates at 94 percent. However, indicators such as net enrollment for secondary education reveal gaps with comparator countries (Figure 4, Table 2). There are also gaps in the quality of education, with other emerging markets scoring better in the internationally comparable TIMSS score. Global Competitiveness indicators exhibit gaps in the

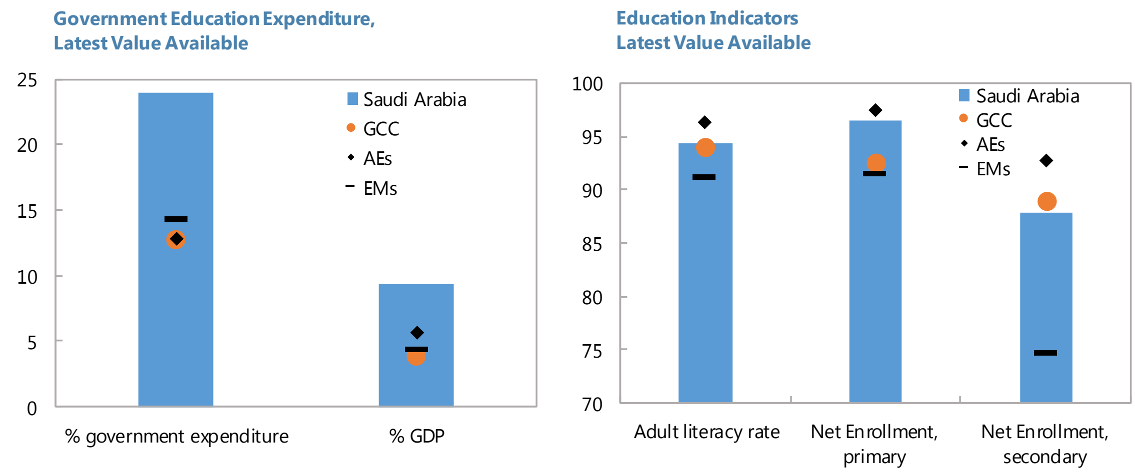
Table 2. Saudi Arabia: Human Capital Gap in Saudi Arabia

	OECD	EM 80th Percentile	AM 80th Percentile
(Percentage gap from)			
Mean years of schooling	-23.0%	-9.4%	-29.3%
TIMSS math score	…	-26.3%	-34.0%
GCI: Primary education and Heath score	-4.7%	…	-8.3%
GCI: Higher education and Training score	-11.4%	…	-19.0%

Sources: UNDP, WEF and IMF staff calculations.

quality of primary education and in math and science education, as well as limited access to on-the-job training and specialized training services which are ranked relatively low in Saudi Arabia.

Figure 4. Government Education Expenditure and Education Indicators



Sources: IMF FAD Expenditure Assessment Tool (EAT), IMF Investment and Capital Stock Dataset, and World Economic Forum

9. *Labor force participation gaps*

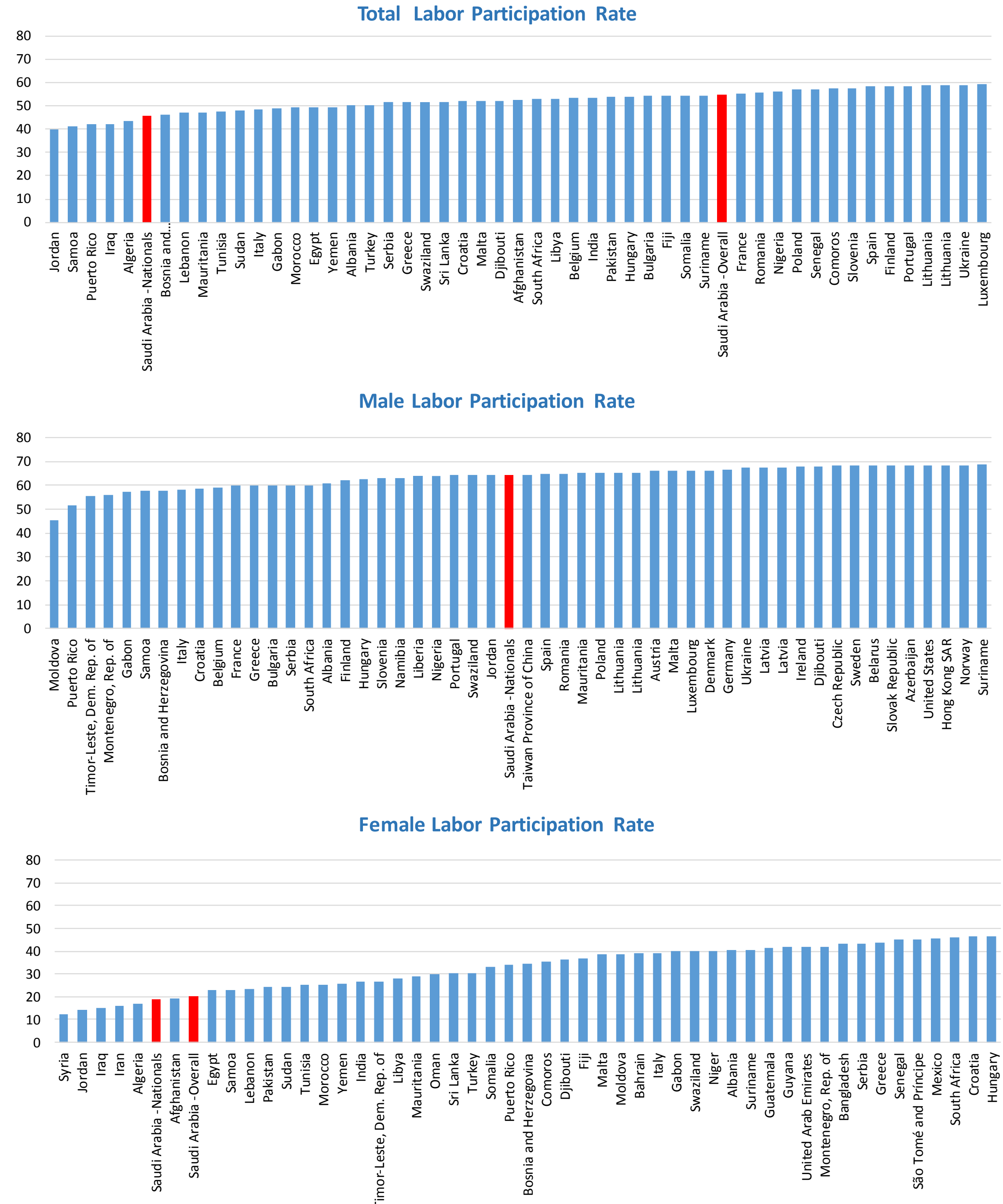
Labor force participation rates in Saudi Arabia are quite low by international standards, particularly for nationals. Females make up over one-half of university graduates, but their participation is low despite recent progress (19 percent in 2016, up from 14 percent in 2011) (Table 3). And for males, while overall participation rates are high, this reflects the nearly 100 percent participation rate of expatriate males. For Saudi males, participation rates are relatively low (in the bottom 25th percentile) (Figure 5).

Table 3. Saudi Arabia: Labor Participation Rate

Percent of Population	Female	Male	Total
Max	86.4	94.2	61.8
Min	12.2	45.6	40.0
25 percentile	45.0	68.2	50.3
50 percentile	53.2	74.3	54.3
75 percentile	61.9	79.8	59.2
Saudi Arabia-Nationals	19.0	64.6	45.6
Saudi Arabia- Overal	20.1	79.1	54.8

Source ILO, country authorities and IMF staff calculations.

Figure 5. Labor Participation Rates 1/



Sources: ILO and IMF staff estimates.

1/ Sample of 157 countries. Each panel shows the lowest 50 countries in the sample for each of the participation rates.

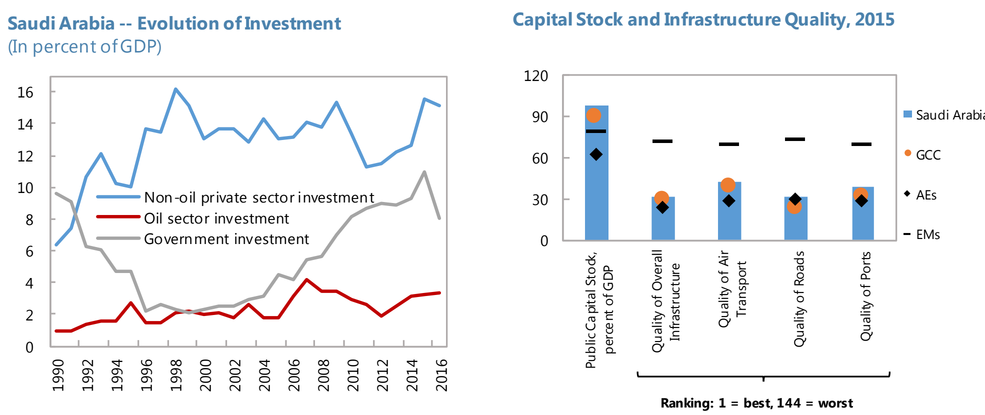
Box 1. Infrastructure Gaps, Do They Exist for Saudi Arabia?

Public infrastructure promotes private investment, productivity, and growth. Saudi Arabia has spent a lot on public investment in recent years, and has a relatively high public capital stock. The quality of its infrastructure ranks at or near AMs in the GCI (Figure). This suggests that infrastructure is not one of the key structural gaps holding back private sector growth in Saudi Arabia.

However, care is needed to ensure infrastructure spending is efficient. Higher efficiency could increase growth through a number of channels. Higher quality public capital can lower transaction costs for the private sector and raise the marginal productivity of private human and physical capital. Improving investment efficiency would also create fiscal space by providing better infrastructure at lower cost and releasing resources for more investment.

The 2015 IMF study on "Making Public Investment More Efficient" suggests that the economic dividend from closing the efficiency gap could be significant in Saudi Arabia.[1] The study highlights that improvements in the management of public investment could close up to two-thirds of the efficiency gap. The study estimates that the most efficient public investors get twice the growth "bang" for their public investment "buck" than the least efficient. Thus, a one-off 1 percent of GDP increase in public investment increases output by 0.3 percent for countries in the bottom efficiency quartile, but by 0.6 percent for countries in the top efficiency quartile. Assuming that reform initiatives would help Saudi Arabia move from the 2nd lowest to the highest efficiency quartile in about 4 years, this would add a 0.2 percentage points increase in growth for every 1 percent of GDP increase in public investment.

Investment and Infrastructure



Sources: IMF FAD Expenditure Assessment Tool (EAT), IMF Investment and Capital Stock Dataset, and World Economic Forum.

[1] The efficiency gap is measured as the distance between the average country and the frontier country for a given level of public capital stock (input) and measures of infrastructure coverage and quality (output). The size of the gap shrinks as income rises, with LIDCs facing a gap of 40 percent, EMs facing a gap of 27 percent, and AEs facing a gap of 13 percent on average.

Growth Impact of Structural Reforms

10. Closing the structural gaps identified in the previous sections could have a substantial impact on growth in the non-oil economy, although the positive effects will take time to materialize. While caution should be used in interpreting cross-country regression results and there is considerable uncertainty in applying the results of cross-country regressions to individual country cases or in applying results from other country studies to a different country, estimates suggest:

- Using the results of Mitra et al., 2016,[1] and the estimated structural gaps between Saudi Arabia and the 80th percentile of advanced economies, Saudi Arabia could add up to 1.7 percentage points to growth over the period it implements these reforms and they bear fruit (Table 4). About 0.7 percentage points (pp) comes from developing worker talent, 0.3 pp from improving the business environment, 0.5 pp from financial market development, and 0.1 pp from increased trade openness.

Table 4. Saudi Arabia: Additional Growth Beyond Current Rates:
(If Underlying Structural Variables Reach Benchmark/Desired Levels 1/)

Percentage Points	**Additional growth**
Financial Market Development	0.5
Trade Openness	0.1
Worker Talent	0.7
Competitive Business Environment	0.3
Raising Female Labor Participation Rate	0.4
Total	**2.1**

1/ Additional growth is derived if each of the underlying factors are increased to average benchmark (advanced economies) levels. Potential growth gains from raising female labor participation assumes that it would be increased by 9 percent of female population 15+ (announced in the NTP) by 2020. For more details see Mitra and others (2016).

Source: IMF staff estimates.

- Increasing female participation and employment opportunities would boost productivity, growth, and household incomes. Steinberg and Nakane (2012) estimate a 0.2-0.4 percentage point increase in potential GDP growth if Japan raised its FLP rate from 63 percent (in 2010) to 70 percent (G7 level) over a 20-year period. This estimate is likely a lower bound as it reflects the impact of the increase in labor input alone and does not include any increase in productivity. Applying the same methodology to Saudi Arabia suggests that increasing the female labor participation rate from 19 percent to 28 percent by 2020 (as targeted in the National Transformation Plan) could add an additional 0.4 percentage points to growth.

- The growth impact of closing the gap in human capital is found to be substantial in many country cases. IMF (2015) used the number of years of schooling as a proxy for the quality of human capital, and found that Chile was about 13 percent below the OECD average on this measure. The implied GDP loss from Chile's lower level of human capital was found to be in the 6–7 percent range over 15–20 years. For Saudi Arabia, the gap in years of schooling is higher at 23 percent, suggesting more substantial gains, assuming other factors are comparable between Chile and Saudi Arabia. Indeed, the annual gains in growth from applying this methodology are similar to those reported for worker talent in Table 4.

[1]The estimated coefficients by Mitra et al. are based on three sets of cross-country regressions on a large sample of advanced, emerging market, and developing economies to examine the determinants of the long-term supply-side drivers of potential growth. As with any cross-country regression of this type, the results should be treated with some caution given questions about their applicability to any individual country. Further, measures used to capture aspects of the reform in the analysis may miss some of the key structural characteristics of the economy. For example, the labor market measures used in the Mitra et al. analysis do not capture the segmented labor market in Saudi Arabia.

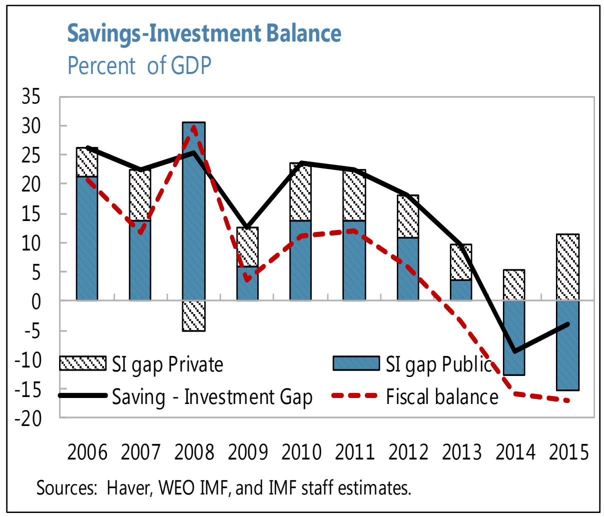
Appendix IV. FSAP: Key Recommendations

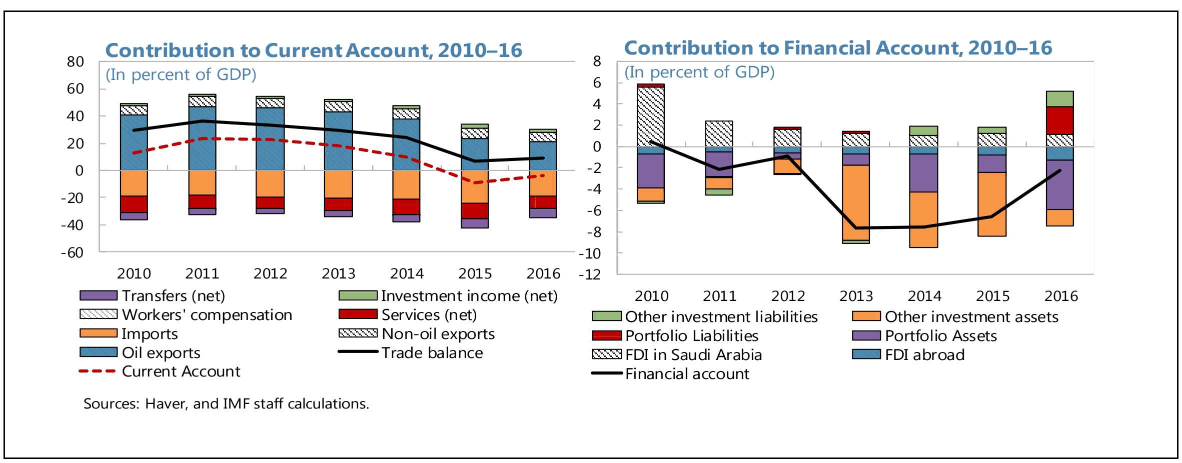
Key Recommendations	
Recommendations and Authority Responsible for Implementation	**Time[1]**
Banking Oversight	
Update the Banking Charter and Banking Control Law to delete contradictory and redundant provisions and revoke Article 21 on the power of the Ministers of Finance or the Economy, under exceptional circumstances, to exempt any bank from regulation. [Government; SAMA]	MT
Codify and publish all bank legislative circulars, and eliminate those superseded. [SAMA]	ST
Strengthen the supervisory approach by refining the determination of banks' risk and control ratings, aligning the supervisory planning with banks' risk profiles, and enhancing the documentation relating to the loan examination process. [SAMA]	ST
Develop a licensing manual for banks and publish guiding principles for bank licensing. [SAMA]	ST
Provide guidance to banks on mapping the risk profiles of Islamic products to the Basel framework. [SAMA]	ST
Adopt the draft regulation on loan classification and ensure regular, comprehensive reporting on the size of rescheduled and restructured loans. [SAMA]	ST
Require banks to establish formal policies and procedures for loan rescheduling, refinancing, and restructuring and to submit prudential returns on such loans. [SAMA]	ST
Strengthen cross-border cooperation by entering into MoUs with foreign regulators. [SAMA]	ST
Liquidity Management	
Establish a liquidity forecasting framework to guide money market operations. [SAMA]	MT
Financial Safety Nets	
Adopt and implement the Draft Resolution Law (DRL). [Government; SAMA]	ST
Establish an Emergency Liquidity Assistance (ELA) framework. [SAMA]	ST
Establish a timeframe for DPF deposit payouts and ensure a back-up funding line. [MoF; SAMA]	ST
Macroprudential Policy	
Broaden the definition of debt service to income in the regulations to include all types of debt and income, as currently under consideration by SAMA. [SAMA]	ST
Strengthen data collection and use for the household, corporate, and real estate sectors. [Government; SAMA]	MT
[1] ST = Short Term (up to 2 years); MT= Medium Term (2–5 years).	

Appendix V. External Stability Assessment for Saudi Arabia

Staff's assessment is that the external position in 2016 remained substantially weaker than the level consistent with desirable medium-term fiscal policy settings. Planned fiscal adjustment needs to be successfully implemented over the medium-term to improve the current account balance and support the peg. As long as credible fiscal adjustment is in place, the exchange rate peg remains the best option for Saudi Arabia.

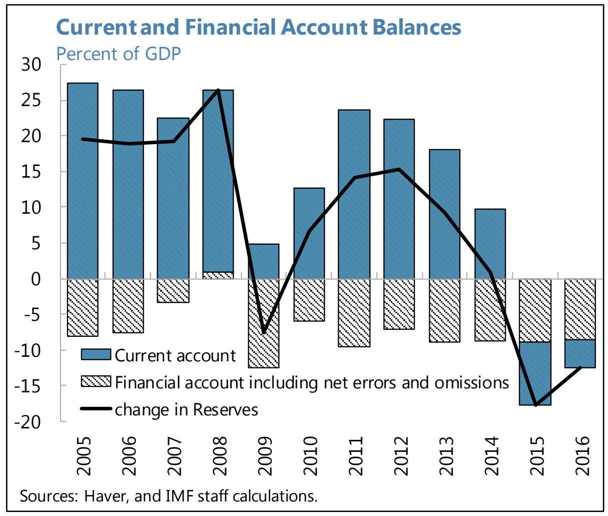
1. The current account (CA) deficit narrowed to 3.9 percent of GDP in 2016 from 8.7 percent of GDP in 2015. Imports of goods fell by 22 percent as the government cut spending and exports declined by 10 percent largely due to lower oil prices (import volumes fell by 19 percent, while export volumes increased by 4 percent). The trade balance improved by 2½ percent of GDP and the services deficit improved by 2.8 percent of GDP. The CA balance is projected to move into a small surplus in 2017 as oil revenues increase and is excepted to be in a surplus of about 1.2 percent of GDP by 2022.[1] The oil price is assumed to be $50.3 a barrel in 2017, rising to $52 a barrel in 2022 ($41.5 in 2016). From a savings-investment perspective, the current account deficit narrowed in 2016 due to an improvement in the private sector saving-investment gap which offset a deterioration in public sector saving-investment gap.





[1] At current oil production levels, a $1 change in the oil price results in a 0.4 percent of GDP first round change in the current account balance. Historically, the current account and fiscal balance have been closely related (correlation of 0.9 from 1995 to 2016).

2. Financial outflows slowed, but continued in 2016. Financial inflows picked-up in 2016 dominated by the issuance of government debt. However, the non-government sector continued to accumulate external assets, even as the current account remained in deficit. Errors and omissions remained large (6.2 percent of GDP).



3. Foreign exchange reserves fell further in 2016, but remain large when compared to standard coverage metrics. There was a continued large drawdown of fx reserves of $80 billion in 2016 (fx reserves fell by $115 billion in 2015). SAMA's net foreign assets stood at $529 billion (82 percent of GDP, 32 months of imports, 111 percent of broad money and 566 percent of the Fund's reserve metric) at end-2016. The fund's composite metric to measure the adequacy of precautionary reserves (developed for emerging markets) is calculated as a weighted sum of four components reflecting potential sources of pressure on reserves. In the case of Saudi Arabia, exports of goods and services and broad money contribute the most to the ARA metric, while short term external debt and other liabilities represent a much smaller share. The reserve coverage, of 566 percent of the metric in 2016, declining to 279 percent of the metric by 2022, compares to the Fund's recommended range of reserves of 100 to 150 percent.[2]

Foreign Reserve Adequacy Assessment

(In US$ billion, unless stated otherwise)

					Proj.					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
External short term debt	36	49	37	38	41	43	46	48	47	49
Other liabilities (portfolio liabs + other invt liabs - STD) 1/	21	13	44	73	87	102	116	125	127	128
Broad Money	412	461	473	477	485	493	504	518	535	557
Exports of goods and services	388	355	218	198	225	227	228	231	236	243
Actual Foreign Reserves	717	724	609	529	473	442	419	393	360	335
ARA metric	95	99	89	93	101	105	110	114	116	120
Foreign Reserves as a % of the ARA metric (in percent) 3/	**755**	**732**	**684**	**566**	**469**	**420**	**381**	**345**	**309**	**279**
Foreign Reserves in percent of GDP	**96.0**	**95.8**	**93.1**	**81.8**	**68.3**	**61.1**	**56.2**	**51.0**	**44.8**	**40.6**
Foreign Reserves in percent of broad money	**174**	**157**	**129**	**111**	**97**	**90**	**83**	**76**	**67**	**60**
Foreign Reserves in 3 months of imports of goods and services	**11.1**	**11.7**	**12.5**	**10.6**	**9.4**	**8.7**	**8.1**	**7.5**	**6.8**	**6.2**
	114	112	104	93	84	80	77	74	70	68
Adjusted ARA metric 2/	95	99	89	93	127	145	161	173	182	188
Foreign Reserves as a % of the Adjusted ARA metric (in percent) 3/	**755**	**732**	**684**	**566**	**373**	**304**	**261**	**228**	**198**	**178**

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

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

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

Sources. Country authorities and IMF staff estimates.

[2] Further adjustment to the ARA metric using an oil price that is on average 33 percent lower than in the baseline estimates that reserve coverage would be around 178 percent of the metric in 2022.

4. **Saudi Arabia has a sizable positive net IIP position despite the substantial drawdown of reserves in 2016**. Net external assets were estimated at 92 percent of GDP at end-2016, with external assets at 145 percent of GDP and external liabilities at 53 percent of GDP.[3] External assets declined by 7.3 percent of GDP during 2016 largely due to a decline in central bank foreign exchange reserves. External liabilities rose by 6.3 percent of GDP in 2016 largely due to new sovereign loans and bond issuance. Projections suggest that the NIIP-to-GDP ratio will decline further over the medium-term to 54 percent of GDP in 2022.[4] No details are available on the composition of external assets. The average return on assets has been slightly lower at 3.3 percent compared to 3.5 percent on liabilities during 2015–16.

5. **The external sustainability approach suggests the current account surplus may be too low, although the result is sensitive to the assumptions made and the choice of annuity**. The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present value (NPV) of all future oil and financial/investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports.[5] Subject to this constraint, the government would choose a path for imports, and hence a current account norm, that would support intergenerational equity—and some precautionary savings in view of volatile oil prices—through an appropriate pace of accumulation of net foreign assets. Import trajectories ("annuities or allocation rules)" are calculated under two different policy scenarios: (i) constant real per capita annuity; and (ii) constant real annuity. Both types of annuities are used in the literature, and can be derived from the optimization of plausible government utility functions.[6] These estimated CA norms suggest that the actual (in 2016) and projected current account balances (baseline) are in line with the constant real annuity, but below the constant real per capita annuity. The current account was in a deficit of 3.9 percent of GDP in 2016, while the current account norms under the external sustainability (ES) approach in 2022 are estimated at 6.3 percent of GDP and 0.4 percent of GDP under the constant real per capita annuity and constant real annuity allocation rules respectively (these estimates are subject to considerable uncertainty and sensitive to the parameters assumed). The corresponding current

[3] The NIIP may be underestimated given large errors and omissions in the balance of payments (6.2 percent of GDP in 2016) and inconsistencies between the BoP and IIP data. If the errors and omissions reflect financial outflows, the NIIP will be under-recorded. The cumulative CA balance between 1987 and 2016 was $1 trillion, while the net asset position in the IIP is $0.6 trillion.

[4] The decline in the recorded net IIP position over the forecast period is due to the assumption of continued large errors and omissions rather than recorded current account flows. If the errors and omissions reflect unrecorded financial outflows, the true net IIP would be higher than in the forecast.

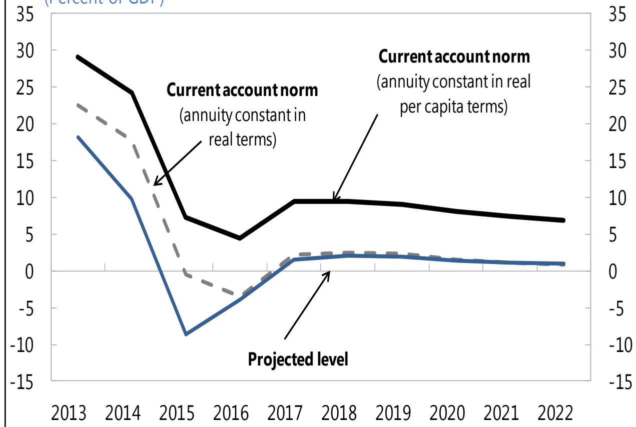
[5] Proven oil reserves at end of 2015 were 258 billion barrels. However, estimates of proven reserves have changed little since 1988 despite aggregate oil production over this period of close to 90 billion barrels. Staff projections assume that the oil production grows at a constant rate (2 percent) due to domestic consumption and, peaks at 12.9 million barrels in 2030 and then remains constant at that level until oil production stops. Oil exports remain unchanged beyond 2030 with production growth driven by domestic consumption, oil prices increase by 2 percent, the GDP deflator increase by 2.5 percent, and real non-oil GDP grows by 4 percent after 2022. 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.

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

account gaps—i.e. the improvement in the current account balance needed over the medium-term to be consistent with the PIH rules by the end of the projection period—are estimated, respectively, at -10.2 percent and -4.3 percent of GDP. The estimated fiscal gap is -18.5 percent of GDP (constant real per capita allocation rule) and -14.1 percent of GDP (constant real annuity allocation rule), with both derived as the difference between the actual fiscal balance and that consistent with intergenerational equity under the respective allocation rule. If the large fiscal gap is closed, the current account gap is largely eliminated.

Projected and Actual Current Account Norms

(Percent of GDP)



Source: IMF staff estimates.

6. Estimates based on the EBA-lite methodology suggest that the current account balance is below the norm for 2016. The current account norm was 4.4 percent of GDP compared with an actual level of -3.9 percent of GDP, producing an estimated current account gap of -8.3 percent of GDP which is primarily driven by current fiscal policy settings (difference between the actual and desired fiscal policy). The EBA-lite methodology builds on the EBA approach and is applied to a wider group of countries. The EBA and EBA-lite approaches provide regression-based estimates of current account norms and gaps for countries. Norms are the estimated levels of the current account based on underlying fundamentals, while gaps are the deviations of observed values from the norms. The EBA-lite methodology is estimated on a wide group of countries with very different characteristics and therefore does not adequately account for the specifics of oil exporting countries (such as the need for intergenerational savings because oil resources are non-renewable). An alternative specification which is estimated on a sample of oil-exporting countries and uses a narrower set of control variables compared to EBA-lite (see Behar and Fouejieu, 2016), suggests a current account norm of 4.1 percent of GDP and a current account gap of 8 percent of GDP.

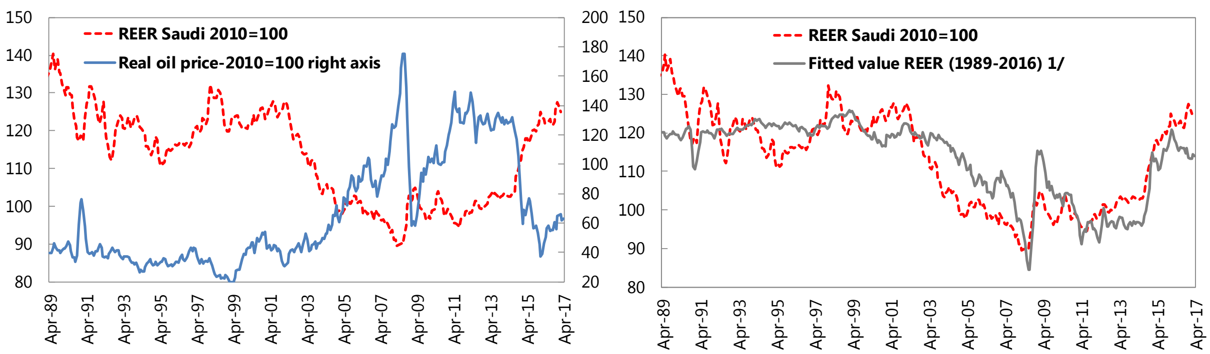
Current and Fiscal Account Actuals and Norms

In percent of GDP	Annuity real per	Annuity real	Average
External sustainability approach			
Current account norm	6.3	0.4	3.4
Actual current account balance	-3.9	-3.9	
Current account gap	-10.2	-4.3	
Fiscal balance norm	4.7	0.2	2.4
Actual fiscal balance 1/	-13.9	-13.9	
Fiscal balance gap 1/	-18.5	-14.1	
EBA-lite approach	coefficient on fiscal balance = 0.527		
Current account norm	4.4		
Current account gap	-8.3		
Policy gap	-8.9		
EBA-oil approach II	coefficient on fiscal balance = 0.919		
Current account norm	4.1		
Current account gap	-8.0		
Policy gap	-14.5		

Source. IMF staff calculations.
1/ Excludes payments of arrears of 3.3 percent of GDP

7. The REER has appreciated substantially since late 2014. Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. The REER strengthened by 4 percent in 2016 and by 20 percent since mid-2014 as the U.S dollar appreciated. As of May 2017, the REER was unchanged relative to the 2016 average. The terms of trade fell by 44 percent in 2015 and by 12 percent in 2016, but is projected to improve by 15 percent in 2017. The REER in 2016 was 20 percent above its 10-year average. Most exports are oil or oil-related products, and exchange rate movements have a limited impact on competitiveness. With limited substitutability between imports and domestically-produced products, which in turn have significant imported labor and intermediate input content, exchange rate movements have only a small impact on import demand through the substitution channel. Staff estimates a REER gap in the range of 15-25 percent. As fiscal consolidation proceeds, it would be expected that the REER gap would narrow.

Saudi Arabia Real Effective Exchange Rate and Real Oil Price



Source: IMF staff calculations.
1/ Based on a regression of the REER and the real oil price using monthly data from January 1989 to December 2016.

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

<table>
<tr><th></th><th>Saudi Arabia</th><th>Overall Assessment</th></tr>
<tr><td>Foreign asset and liability position and trajectory</td><td>Background. Net external assets were 92 percent of GDP at end-2016.[1/] External assets declined by 7.3 percent of GDP during 2016 and by 12.5 percent since their peak in 2014Q4 largely due to a decline in central bank FX reserves. External liabilities rose by 6.3 percent of GDP in 2016 mainly because of new borrowing. Projections suggest that the NIIP-to-GDP ratio will decline further over the medium-term to around 54 percent of GDP in 2022.[2/] No details are available on the composition of external assets.
Assessment. The external balance sheet remains very strong. Substantial accumulated assets represent both savings of the exhaustible resource revenues for future generations and protection against vulnerabilities from oil price volatility.</td><td rowspan="4">Overall Assessment:
The external position in 2016 remained substantially weaker than the level consistent with desirable medium-term fiscal policy settings. Planned fiscal adjustment needs to be successfully implemented over the medium-term to improve the current account balance and support the peg.
The pegged exchange rate provides Saudi Arabia with a credible policy anchor, but with the U.S. dollar appreciating, the REER has appreciated at a time of lower oil prices. Given the close link between the fiscal and external balance and the structure of the economy, with exports dominated by oil and oil-related products and limited substitutability between imports and domestically produced goods, external adjustment will be driven primarily by fiscal policy.
The external balance sheet remains very strong. Despite the substantial drawdown since 2015, reserves remain very comfortable when judged against standard Fund metrics, although external savings are not sufficient from an intergenerational equity perspective. Under the government's planned fiscal adjustment, reserve loss will slow over the medium term.
Potential policy responses:
Fiscal consolidation is necessary over the short- and medium term to strengthen the CA and support the exchange rate peg. The government has set out a fiscal consolidation plan in its Fiscal Balance Program (FBP). This planned adjustment is based on further energy price reforms, new non-oil revenue measures, and continued expenditure compression. The non-oil primary fiscal deficit is expected to narrow substantially over the medium-term and reduce the external gap. Structural reforms that help diversify the economy and boost the non-oil tradeable sector over the medium-term will also support a stronger external position over time.</td></tr>
<tr><td>Current account</td><td>Background. The current account (CA) deficit narrowed to 3.9 percent of GDP in 2016 from 8.7 percent of GDP in 2015. Imports of goods fell by 22 percent as the government cut spending and exports declined by 10 percent largely due to lower oil prices (import volumes fell by 19 percent while export volumes increased by 4 percent), leading to an improvement in the goods and services balance of 5 percent of GDP. The CA balance is projected to move into a small surplus in 2017 as oil revenues increase and be in a surplus of 1.2 percent of GDP in 2022.[3/]
Assessment. The reliance on oil subjects the CA to wide swings and the external assessment to considerable uncertainty. The estimated CA gap varies with the methodology used and largely reflects a current fiscal policy stance that is away from that seen as desirable by staff over the medium-term. The estimated CA gap is -8 percent of GDP using the macro-balance approach and between-4.3 and -10.2 percent of GDP using the external sustainability approach.[4/] Staff assesses a CA gap of - 7.7 percent of GDP, with a range of -5.7 to -9.7 percent of GDP.</td></tr>
<tr><td>Real exchange rate</td><td>Background. The Riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. The REER strengthened by 4 percent in 2016 and by 20 percent since mid-2014 as the U.S dollar appreciated. As of May 2017, the REER was unchanged relative to its 2016 average. The terms of trade fell by 44 percent in 2015 and by 12 percent in 2016, but is projected to improve by 15 percent in 2017. The REER in 2016 was 20 percent above its 10-year average.
Assessment. The REER has appreciated at a time of a sharp decline in the terms of trade. Most exports, however, are oil or oil-related products, and exchange rate movements have a limited impact on competitiveness. With limited substitutability between imports and domestically-produced products, which in turn have significant imported labor and intermediate input content, exchange rate movements have only a small impact on import demand through the substitution channel. Staff estimates a REER gap in the range of 15–25 percent. As fiscal consolidation proceeds, it would be expected that the REER gap would narrow.</td></tr>
<tr><td>Capital and financial accounts: flows and policy measures</td><td>Background. Net financial outflows slowed in 2016. Financial inflows picked-up, dominated by the issuance of government debt. Errors and omissions remained large (6.2 percent of GDP). FX reserves continued to fall.
Assessment. Analysis of the financial account is complicated by the very large errors and omissions in the balance of payments. The strong reserves position limits immediate risks and vulnerabilities.</td></tr>
</table>

	Saudi Arabia (concluded)	Overall Assessment
FX intervention and reserves level	**Background.** The government is developing a SWF by broadening the mandate of the Public Investment Fund (PIF). Nevertheless, most of the government's foreign assets are held at the central bank within international reserves. Reserves fell to $529 billion (82 percent of GDP, 32 months of imports, and 566 percent of the IMF's reserve metric) at end-2016, down from $727 billion in 2014. **Assessment**. Reserves play a dual role—savings for both precautionary motives and for future generations. Reserves are more than adequate for precautionary purposes (measured by the Fund's metrics). Nevertheless, a substantial fiscal adjustment is needed over the medium-term to help moderate the decline in reserves, support the exchange rate peg, and achieve intergenerational equity. A CA surplus and the resulting NIIP accumulation will be needed over the medium-term to ensure an equitable intergenerational saving of oil revenues.	
Technical Background Notes	1/ The NIIP is likely underestimated given large errors and omissions in the balance of payments (6.3 percent of GDP in 2016) and inconsistencies between the BoP and IIP data. If the errors and omissions reflect financial outflows, the NIIP will be under-recorded. The cumulative CA balance between 1987 and 2016 was $1 trillion, while the net asset position in the IIP is $0.6 trillion. 2/ The decline in the NIIP over the forecast period is due to the assumption of continued large errors and omissions rather than recorded CA flows. 3/At current oil production levels, a $1 change in the oil price results in a 0.4 percent of GDP first-round change in the CA balance. The oil price is assumed to be $50.3 in 2017, rising to $52 in 2022 ($41.5 in 2016). 4/ EBA methodology assessments are not available for Saudi Arabia. Staff considered two methodologies, including one that incorporates the special intertemporal considerations that are dominant in economies in which exports of non-renewable resources are a very high share of output and exports. Estimates suggest that CA norms under the external sustainability (ES) approach were 6.3 percent of GDP and 0.4 percent of GDP under the constant real per capita annuity and constant real annuity allocation rules, respectively. Using the macro-balance approach, the norm is estimated at 4.4 percent of GDP under the EBA-lite approach. An alternative specification estimated on a sample of oil-exporting countries and a narrower set of control variables (see Behar and Fouejieu, 2016) suggests a CA norm of 4.1 percent of GDP. The CA deficit in 2016 was 3.9 percent of GDP. The corresponding CA gaps are estimated at, respectively, -10.2 and -4.3 percent of GDP under the ES approach and around -8 percent of GDP under the macro-balance approach. The estimated fiscal gap is -18.5 percent of GDP (constant real per capita allocation rule) and -14.1 percent of GDP (constant real annuity allocation rule), with both derived as the difference between the adjusted fiscal balance and that consistent with intergenerational equity under the respective allocation rule.	

INTERNATIONAL MONETARY FUND

SAUDI ARABIA

June 28, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of June 28, 2017)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	9,992.60	100.00
Fund holdings of currency	9,536.88	95.44
Reserve tranche position	455.73	4.56
Lending to the Fund		
New Arrangement to Borrow	956.25	

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,682.50	100.00
Holdings	5,475.15	81.93

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				
	2017	2018	2019	2020	2021
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	3.31	6.84	6.84	6.84	6.84
Total	3.31	6.84	6.84	6.84	6.84

Lending to the Fund and Grants:

Saudi Arabia is a participant of the New Arrangements to Borrow (NAB), whose credit arrangement under the NAB amounts SDR 5.65 billion. The current outstanding amount under the credit arrangement as of April 30, 2017 is SDR 956.25 million. The Fund also has a borrowing agreement with Saudi Arabia in association with the General Arrangements to Borrow (GAB), for an amount equivalent to SDR 1.5 billion, which was renewed for another five-year period from December 26, 2013. In October 2012, Saudi Arabia entered into a note purchase agreement with the Fund under the 2012 Borrowing Agreements, with the amount of SDR 9.71 billion, to provide a second line of defense after quota and NAB resources. In December 2016, this agreement was renewed under the 2016 Borrowing Agreements, this time with an amount of $15 billion. In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with investments totaling SDR 94.4 million. In April 2006, these investments were extended with an additional investment of SDR 38.2 million, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. Additionally, in April 2005, Saudi Arabia agreed to provide a grant contribution of US$4 million (equivalent to SDR 2.6 million) to subsidize Emergency Natural Disaster Assistance to low-income countries. In May 2012, Saudi Arabia pledged a new grant contribution of SDR 16.7 million in subsidy resources to the PRGT, which will be disbursed at end-December 2021. In October 2012 and October 2013, Saudi Arabia provided subsidy resources to the PRGT through the transfer of its full share in the distributions of the general reserve attributed to windfall gold sale profits, totaling SDR 71.87 million. Regarding loan resources, the Fund as Trustee of the Poverty Reduction and Growth Trust (PRGT) entered into a borrowing agreement with the Saudi Arabian Monetary Authority (SAMA) in May 2011, by which Saudi Arabia would provide new loan resources of up to SDR 500 million.

Exchange Rate Arrangement

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

Last Article IV Consultation

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held during May 1–12, 2016 in Riyadh. The staff report was considered by the Executive Board on July 18, 2016 and published on October 13, 2016.
(http://www.imf.org/external/pubs/cat/longres.aspx?sk=44328.0)

Technical Assistance:

STA GDDS Meta Data Development January 26–February 6, 2008.
G20 Data Gap Initiative, January 22–23, 2011.
Balance of Payment Statistics, March 12–23, 2011.
National Accounts Statistics, April 8–18, 2012.
Balance of Payment Statistics, November 11–22, 2012.
SDDS Assessment, March 9–19, 2013.
G20 Data Gap Initiative, May 27–28, 2014.
Monetary and Financial Statistics, December 6-17,2015
Government Finance Statistics, March 23-April 7, 2017

MCM Stress testing, January 9–21, 2010.
Stress testing, February 1–5, 2015.
Establishing a Debt Management Office, March 20–27, 2016
Liquidity Management, March 12-23, 2017

FAD Options for Indirect Taxation, February 25–March 11, 2006.
Public Financial Management and Statistics, jointly with STA, September 16–30, 2006.
Tax Administration, November 6–19, 2006.
Enhancing Budget Process Reforms January 22–February 2, 2008.
Budget Institutions and GFSM2001 (with participation of STA), June 2–5, 2012.
GFSM2001 Training Course, April 2013.
Training workshop on Structural Fiscal Balance Rules as a Guide for Policy, February 2014.
Establishing a Macro-Fiscal Unit, January 26–31, 2016.
Introduction of VAT and Excises: Key Policy Design Issues, April 28-May 10, 2016.
Tax Administration (VAT and excises), May 17–30, 2016 and October 23-November 8, 2016.
Energy Price Reforms, September 2016
Excise Tax Implementation, January 14-30, 2017 and February 27–April 9, 2017
Strengthening the Macro-Fiscal Unit, May 14–24, 2017

FSAP The main FSAP mission took place in January 2004.
The FSSA was published on June 5, 2006. The FSSA-update was published on April 18, 2012.
(http://www.imf.org/external/pubs/ft/scr/2006/cr06199.pdf)
FSAP-update, April 16–30, 2011. Detailed Assessment of Observance was published on July 19, 2013. (http://www.imf.org/external/pubs/cat/longres.aspx?sk=40793.0)
(http://www.imf.org/external/pubs/cat/longres.aspx?sk=40794.0)
FSAP missions were held in November 2016 and February 2017

LEG AML/CFT Diagnostic Mission, November 1–12, 2015
AML/CFT Threat Analysis Workshop, March 6–10, 2016
VAT Policy design, May 30–June 12, 2016
AML/CFT, March and September 2016

Resident Representative

No resident representative is stationed in Saudi Arabia.

RELATIONS WITH THE WORLD BANK GROUP

(As of May 15, 2017)

World Bank

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

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

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

International Finance Corporation (IFC)

IFC strategy in Saudi Arabia focuses on investing in selective transactions that can add value in terms of institution building, development of new financial instruments, supporting SMEs, the private sector, and helping mobilize South-South investments.

IFC Engagements:

Selective Direct Investments: IFC has made selective investments in the financial sectors including in housing finance, insurance, leasing and microfinance finance, with total commitments of around $250 million.

Promoting Regional Integration: Saudi Arabian investors have been a key part of IFC's South-South program to promote greater regional integration. Since 2007, IFC has mobilized over US$2.5 billion from Saudi sponsors for investments in the rest of MENA, as well as in emerging markets including in Africa and East Asia.

Mobilizing: IFC is working closely with Saudi public institutions and IFIs to undertake global initiatives that benefit private sector activities in developing countries. These efforts have resulted in obtaining commitments around $1.5 billion.

Supporting Public-Private Partnerships: IFC PPP is actively engaged in the Kingdom with a new PPP mandate signed with the Ministry of Health. These engagements build upon the IFC's earlier success with the Medina Airport PPP where IFC helped mobilize over $1 billion, as well as the successes of the Hajj Terminal and a captive desalination project at Jeddah Airport.

Increasing Access to Finance: IFC advisory is also helping increase access to finance to SMEs by providing capacity building and corporate governance support as well as offering trainings for banks on SME financial services, risk management, and mortgage finance.

STATISTICAL ISSUES

(As of June 28, 2017)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: government finance statistics, monetary and financial statistics, and external sector statistics.	
Real sector statistics: **National accounts:** The estimates of annual GDP were rebased to 2010 from the previous base year of 1999. The revised GDP data are more comprehensive in terms of coverage of services, specifically distribution and financial services. The revision resulted in upward revisions to the level of GDP as well as the relative contributions by economic activity to GDP. This rebasing increased the share of the oil GDP in 2013 to 43 percent from 21 percent previously. A quarterly industrial production index was published for the first time in 2016, and the timeliness of publication will be improved this year. **Price statistics:** The weight reference period for the wholesale price index has recently been updated to 2014. A quarterly real estate price index is now being published. **Labor market statistics:** At present, there is no official time series of data providing a breakdown of employment between the private and public sector.	
Government finance statistics: The authorities have reclassified the budget in line with *GFSM 2014*. The *GFSM 2014* framework is being used to report and publish fiscal data, although data prior to 2016 is not yet available in this format.	
Monetary and financial statistics: The quality of monetary data has improved and additional information is made available in the Saudi Arabian Monetary Authority (SAMA) Monthly Statistical Bulletin. SAMA reported monetary data for the central bank and deposit money banks to the Fund, which are published in the IFS. However, the authorities have not yet adopted the Standardized Report Forms (SRFs) as recommended in the Monetary and Financial Statistics (MFS) Manual and Compilation Guide. A TA mission on MFS took place in December 2015 to assist SAMA to migrate monetary data to the SRFs. Detailed data providing a breakdown of corporate and household deposits and credit-by-sector is not available. Data is also not published on corporate and household balance sheets. SAMA's published balance sheet has a large and growing "other liabilities" item that hinders analysis.	
Financial sector surveillance: SAMA reports quarterly financial soundness indicators (FSIs) to the IMF, which are published on the IMF's FSI website (fsi.imf.org). The reported FSIs comprise 12 core FSIs and 8 encouraged FSIs for deposit takers.	
External sector statistics: Quarterly IIP data are published although IIP statistics are highly aggregated and the coverage in the capital and financial accounts, particularly for the private sector, needs to be improved. The official data likely substantially underestimates the net international investment position of Saudi Arabia, which likely reflects unrecorded private financial outflows on the asset side along with under-recording of debt liabilities. Errors and omissions in the balance of payments data are large. The authorities are working on strengthening financial account data, where data on FDI flows and other investment flows are weak. There are inconsistencies between the BOP and IIP data.	
II. Data Standards and Quality	
Participant in the General Data Dissemination System (now the enhanced GDDS) since 2008.	No data ROSC is available.

Table of Common Indicators Required for Surveillance
(As of June 28, 2017)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange rates	6/22/2017	6/22/2017	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	4/2017	5/28/2017	M	M	M
Reserve/base money	4/2017	5/28/2017	M	M	M
Broad Money	4/2017	5/28/2017	M	M	M
Central Bank balance sheet	4/2017	5/28/2017	M	M	M
Consolidated balance sheet of the banking system	4/2017	5/28/2017	M	M	M
Interest rates[2]	6/22/2017	6/22/2017	D	D	D
Consumer price index	4/2017	6/14/2017	M	M	M
Revenue, expenditure, balance and composition of financing[3]— central government	Q1 2017	5/11/2017	Q	Q	Q
Stocks of central government and central government-guaranteed debt[4]	Q1 2017	5/11/2017	Q	Q	Q
External current account balance	Q4 2016	4/28/2017	Q	Q	Q
Exports and imports of goods and services	3/2017	5/24/2017	M	M	M
GDP/GNP	Q4 2016	4/28/2017	Q	Q	Q
Gross external debt (BIS)	Q4 2016		Q	Q	Q
International investment position[5]	Q4 2016	4/28/2017	Q	Q	Q

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including currency and maturity composition.

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

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