



# SAUDI ARABIA

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2024

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 2024 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 31, 2024, 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 31, 2024, following discussions that ended on May 27, 2024, with the officials of Saudi Arabia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 18, 2024.
- An **Informational Annex** prepared by the IMF staff.

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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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with Saudi Arabia

FOR IMMEDIATE RELEASE

**Washington, DC – September 4, 2024:** On July 31, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation<sup>1</sup> with Saudi Arabia.

Saudi Arabia's unprecedented economic transformation is progressing well as it advanced in its modernization and diversification efforts under Vision 2030. The recent fiscal space exercise has facilitated the recalibration of investment spending planned under Vision 2030 by reprioritizing projects and through sectoral strategies.

Oil production cuts led to an overall contraction in growth of 0.8 percent in 2023, albeit non-oil GDP grew by a robust 3.8 percent, driven mostly by private consumption and non-oil investment. The unemployment rate reached historic lows, with women labor force participation rates remaining comfortably above the 30 percent 2030 target. Geopolitical events have not had any major impact on the Saudi economy so far.

Headline inflation has decelerated rapidly. After peaking at 3.4 percent in January 2023, year-on-year inflation receded to 1.6 percent in May 2024, underpinned by an appreciating nominal effective exchange rate. However, rents are growing at a rate of about 10 percent amid inflows of expatriate workers and large redevelopment plans in Riyadh and Jeddah. Wholesale prices have also edged up recently, reflecting higher input costs and rising wages for skilled workers.

The current account surplus narrowed significantly to 3.2 percent of GDP in 2023, mainly reflecting lower oil exports and a strong growth in investment-related imports. These were partly mitigated by a record surplus in the services balance, including a 38 percent surge in net tourism income. Reserves remain ample, covering 15.8 months of imports and 208 percent of the IMF's reserve adequacy metric by end-2023.

The banking sector is on a strong footing. Stress tests performed by the Financial Sector Assessment Program (FSAP) show that banks as well as non-financial corporates are resilient to shocks, even under severe adverse scenarios. Despite recent moderation, bank credit growth—mainly to the corporate sector—continues to surpass deposit growth. Increased balance sheet interlinkages between financial institutions and the sovereign could amplify systemic shocks, including through fluctuations in oil prices.

Non-oil growth is projected to reach 4.4 percent in the medium term after moderating in 2024, driven mostly by stronger domestic demand as project implementation picks up. The phase-out of oil production cuts is expected to boost overall growth to 4.7 percent in 2025, before averaging 3.7 percent per year thereafter. Inflation would remain contained, supported by a

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<sup>1</sup> 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.

credible peg to the U.S. dollar and consistent domestic policies. The current account would shift to a deficit, mainly reflecting declining oil prices and strong investment-related imports.

Risks to the outlook remain broadly balanced amidst high global uncertainty. On the upside, accelerated implementation of reforms and investments could yield stronger or earlier-than-expected growth dividends. Conversely, pressures to accelerate investment further could heighten overheating risks. On the downside, potential risks include slippages in the reform agenda, subdued global activity, financial market volatility, geopolitical events, and non-OPEC+ supply growth. Over the longer term, a quicker shift in the demand away from fossil fuel could hamper growth.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors agreed with the thrust of the staff appraisal. They commended Saudi Arabia for its ongoing economic transformation, underpinned by sustained efforts to diversify the economy under Vision 2030. Directors welcomed the robust non-oil economic activity, stable inflation, record-low unemployment, and ample fiscal and external buffers. They underscored the importance of maintaining fiscal prudence, safeguarding financial stability, and continuing to implement structural reforms to support sustainable and inclusive growth.

Directors supported the recalibration of investment spending as it helped mitigate overheating risks. Making public the main impact of this exercise on Vision 2030 objectives would help provide clarity on government priorities and anchor investors' expectations. Directors generally recommended additional fiscal adjustment to maintain strong buffers and meet intergenerational needs, including through additional efforts to mobilize non-oil revenue, phase out remaining fuel subsidies complemented by targeted social programs, and contain the wage bill. Directors also emphasized the need to continue to strengthen fiscal institutions by advancing the ongoing roll-out of the Medium-Term Fiscal Framework; operationalizing the fiscal rule to help delink spending decisions from oil price fluctuations; developing an effective Sovereign Asset Liability Management Framework; and enhancing monitoring and disclosure of contingent liabilities.

Directors agreed that the exchange rate peg to the U.S. dollar continues to serve the Saudi economy well and the policy rate should continue to move in line with the Fed's policy rate. Directors also welcomed the continued use of market-based monetary policy instruments and noted the importance of completing the Emergency Liquidity Assistance Framework.

Directors welcomed the findings of the Financial System Stability Assessment that the banking system is on a strong footing and resilient to shocks. They called for further efforts to strengthen the supervisory framework, including swift adoption of the new Banking Law in line with best international practices and improvements in the AML/CFT framework. Directors recommended a tighter macroprudential framework if credit growth remains elevated. Most Directors supported the introduction of a positive neutral countercyclical capital buffer, while a few other Directors called for an assessment before its introduction. 2 Directors urged continued vigilance through improved systemic risk monitoring of financial sector exposures to mega projects and by addressing data gaps.

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<sup>2</sup> 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 summing ups can be found here: <https://www.imf.org/external/np/sec/misc/qualifiers.htm>

Directors commended the authorities for their strong efforts to enhance the business environment, including by accelerating digitalization and enhancing governance. They looked forward to continued efforts to increase investment efficiency and deepen labor market reforms to further boost female labor force participation and reduce any potential wage gaps. Directors recommended that industrial policies remain complementary to the structural reform agenda while avoiding discriminatory practices, noting that Saudi Arabia remains WTO compliant. They acknowledged Saudi Arabia's commitment to achieving net zero emissions by 2060, highlighting the progress made in renewable energy and energy efficiency. A number of Directors stressed the need for additional efforts to support these targets.

Directors welcomed the improvements in the provision of economic data and the ongoing reforms to close existing data gaps.

Directors commended Saudi Arabia for its leadership in multilateral fora, including as Chair of the International Monetary and Financial Committee, and looked forward to its continued contributions to addressing global challenges.

## Saudi Arabia: Selected Economic Indicators, 2022–25

Population: 32.2 million (2022)  
 Quota: SDR 9,992.6 million (2.10% of total)  
 Main products and exports: Oil and oil products (77%)  
 Key export markets: Asia, U.S., and Europe

	2022	<u>Est.</u> 2023	<u>Proj.</u> 2024	<u>Proj.</u> 2025
<b>Output</b>				
Real GDP growth	7.5	-0.8	1.7	4.7
Non-oil GDP growth	5.3	3.8	3.5	4.4
<b>Prices</b>				
CPI Inflation (avg, %)	2.5	2.3	1.9	2.0
<b>Central government finances</b>				
Revenue (% GDP)	30.8	30.3	29.6	29.6
Expenditure (% GDP)	28.2	32.3	32.9	32.4
Fiscal balance (% GDP)	2.5	-2.0	-3.3	-2.9
Public debt (% GDP)	23.9	26.2	28.7	30.0
Non-exported oil primary balance (% Nonoil GDP)	-29.4	-33.0	-32.4	-30.4
<b>Money and credit</b>				
Broad money (% change)	8.1	7.6	8.8	9.0
Credit to the private sector (% change)	12.6	10.0	10.1	9.7
<b>Balance of payments</b>				
Current account (% GDP)	13.7	3.2	-0.1	-1.1
FDI (% GDP)	2.5	1.2	1.3	1.5
Reserves (months imports) <sup>1</sup>	18.1	15.8	14.1	13.1
External debt (% GDP)	23.8	28.1	30.3	32.2
<b>Exchange rate</b>				
REER (% change) <sup>2</sup>	4.2	-0.8	1.6	...
<b>Unemployment rate</b>				
Overall (% total labor force)	4.9	3.8	...	...
Nationals (% total labor force)	9.7	8.5	...	...

Sources: Country authorities and IMF staff estimates and projections.

<sup>1</sup> Imports of goods and services.

<sup>2</sup> For 2024, data is latest available.



# SAUDI ARABIA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

July 18, 2024

### KEY ISSUES

**Context.** Saudi Arabia's unprecedented economic transformation is progressing well. Strong domestic demand is keeping non-oil growth robust while unemployment is at record lows. Inflation is contained and the current account surplus is rapidly narrowing. The recalibration of the authorities' investment plans would help reduce overheating risks and pressures on fiscal and external accounts.

**Outlook and risks.** Non-oil GDP growth momentum is expected to remain strong. Investment-led imports will worsen the current account balance while foreign reserves remain ample. Risks to the outlook are broadly balanced amidst high uncertainty.

**Fiscal policy.** After swinging back into a deficit in 2023, the overall fiscal balance is expected to average a 3 percent of GDP deficit over the medium term. To ensure sustainability and meet intergenerational needs, efforts to increase non-oil revenue, rationalize energy subsidies and other spending should be stepped up along with strengthening fiscal institutions. Recent progress in developing a sovereign asset-liability management (SALM) framework should be accelerated to help mitigate risks.

**Monetary and Financial sector.** Monetary expansion moderated, reflecting a tighter policy stance while the currency peg to the U.S. dollar remains appropriate. The financial sector is on a strong footing, helped by continued efforts to modernize the regulatory and supervisory framework. Macro-financial risks are low, albeit an amplified sovereign-bank nexus and some existing data gaps call for continued vigilance. Existing macroprudential tools should be tightened if elevated credit growth persists.

**Structural reforms.** Reforms to enhance Saudi Arabia's business environment and attractiveness for foreign investment are progressing well. Announcing the impact of the recalibration exercise on Vision 2030 objectives and spending plans would help provide clarity on government priorities to investors and the public. Increasing investment efficiency, further reforming labor markets, accelerating digitalization, and enhancing governance will help enhance private sector development. The authorities' industrial policies should remain complementary to the structural reform agenda. Fully implementing The Saudi Green Initiative—which requires appropriate costing of the underlying measures—is necessary to help Saudi Arabia meet its net zero emissions target.

Approved By  
**Zeine Zeidane (MCD)**  
**and Geremia Palomba**  
**(SPR)**

Discussions were held in Riyadh during May 13–27, 2024. The team comprised Amine Mati (head), Ömer E. Bayar, Nordine Abidi, Chandana Kularatne (all MCD), and Vassili Prokopenko (MCM). Jérôme Vacher, Yuan Gao Rollinson, Mahmoud Harb, and Greta Polo (all MCD) helped support the mission from headquarters. Jihad Azour (MCD) participated in the concluding meetings. The Executive Director for Saudi Arabia, Mr. Abdullah BinZarah, accompanied the mission. The team met with Minister of Finance Al-Jadaan, Governor of the Saudi Central Bank (SAMA) Alsayari, Minister of Energy Al Saud, Minister of Economy Alibrahim, Minister of Investment Al-Falih, Minister of Municipalities and Housing Al-Hogail, and other senior officials, as well as representatives of the private sector and academics. Esther George and Jarin Nashin (all MCD) provided excellent support for the preparation of the report.

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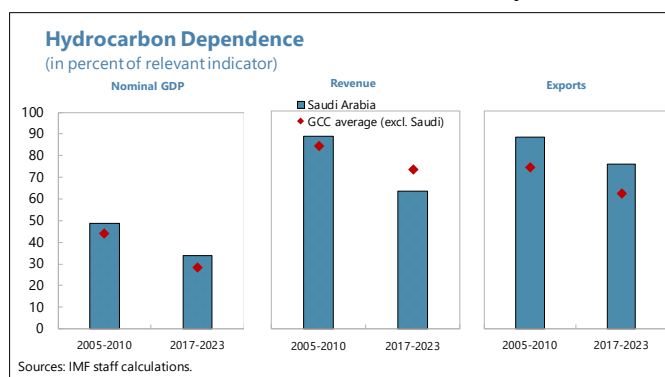
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## BACKGROUND

**1. Saudi Arabia's unprecedented economic transformation is progressing well.** Starting with the Vision 2030 reform initiatives in 2016, Saudi Arabia has advanced considerably in its modernization and diversification efforts (Annex I and II). Prudent macroeconomic policies, transformative changes—including fiscal reforms and enhancements to the regulatory business environment—and significant increases in investment have bolstered non-oil growth, with employment now exceeding pre-Covid levels. Building on these successes will be important to sustain the non-oil growth momentum and further economic diversification.



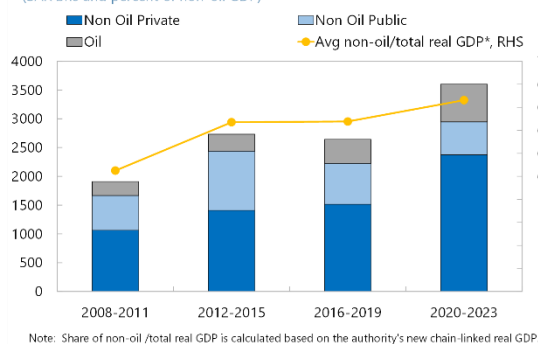
**Text Figure 1. Saudi Arabia: Economic Context**

### Vision 2030 Select Macro Targets

Select Macro Targets	Baseline (2016)	Present (2023)	Target (2030)
Saudi female labor force participation rate	22.8%	35.2%	30%
# of annual tourism visitors (international & domestic)	63.1 Mil	109.3 Mil	100 Mil
SME loans as percent of total banks loans	2%	8.4%	20%
Homeownership rate	47%	64% (2022)	70%
Non-oil govt revenue	186 Bil SAR	458 Bil SAR	1 Tri SAR

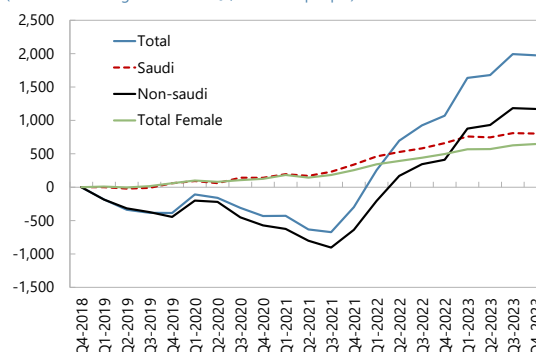
### Gross Fixed Capital Formation

(SAR bns and percent of non-oil GDP)



### Total Employment (Excl. Domestic Workers)

(Cumulative change from 2018Q4, thousand people)



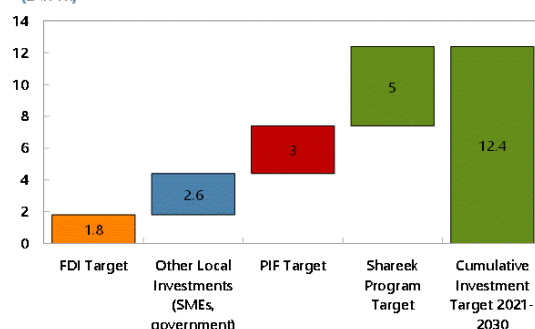
Sources: IMF staff calculations and country authorities.

**2. The authorities' plans to ramp up investment spending are being recalibrated.** The authorities' National Investment Strategy (NIS) requires long-term funding and has led to increased resources being allocated to the national Sovereign Wealth Fund (PIF), which has seen its assets under management grow to \$925 billion following an additional 8 percent stake transfer in the national oil company (Aramco, Annex III). To mitigate overheating risks and ensure domestic capacity supports implementation, the authorities have conducted a welcome fiscal space analysis exercise that led to the reprioritization of projects and sectoral strategies.

**Text Figure 2. Saudi Arabia: Investment Spending under Vision 2030****Top Five Giga Projects Funded by the PIF**

Giga-projects	Description	Planned Budget (\$ bn)	Value of Awarded Contracts by Dec 2023 (\$ bn)	Expected Completion
NEOM	Technology-driven mega-city	500	24	2030
Roshn	Affordable residential housing	90	3.1	2030
Diriyah Gate	Cultural and heritage-led	20	2.9	2027
Red Sea Global	Luxury tourism greenfield	16	8.3	2030-35
Qiddiya	Future Saudi capital of entertainment, sports, and culture	8	3.7	2030

Source: MEED Saudi Gigaprojects 2024 Report

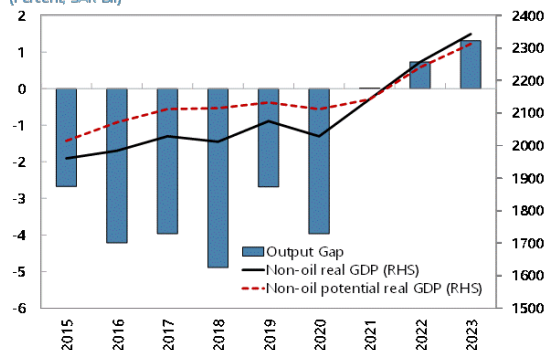
**Cumulative Gross Fixed Capital Formation, 2021-2030 (SAR Trn)**

Sources: Saudi Arabia National Investment Strategy

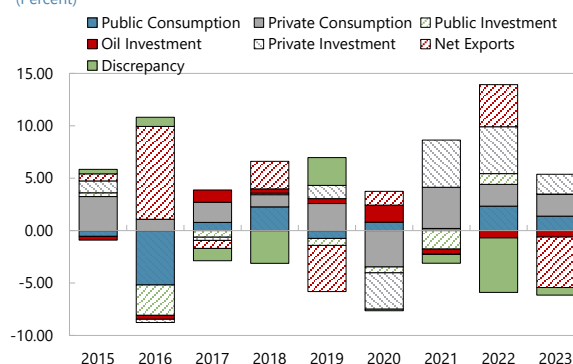
Note: This is under the national investment strategy.

**RECENT ECONOMIC DEVELOPMENTS**

**3. Domestic economic activity remains robust despite oil production cuts.** Real non-oil GDP growth decelerated from 5.3 percent in 2022 to a still robust 3.8 percent in 2023—driven mostly by private consumption and investment, with the latter tapering off to 11.5 percent (down from an exceptional 32 percent growth in 2022). Activity in services, including transportation, trade, tourism (Annex IV), and finance, was buoyed by robust consumption growth of 5.7 percent. Hydrocarbon GDP decreased by 9 percent following Saudi Arabia’s OPEC+ and unilateral voluntary oil production cuts, leading to a 0.8 percent contraction in overall GDP. While non-oil growth for Q1 2024 indicated some moderation in economic activity, staff estimates that the output gap remains in positive territory, close to 2 percent of non-oil potential GDP in 2023.

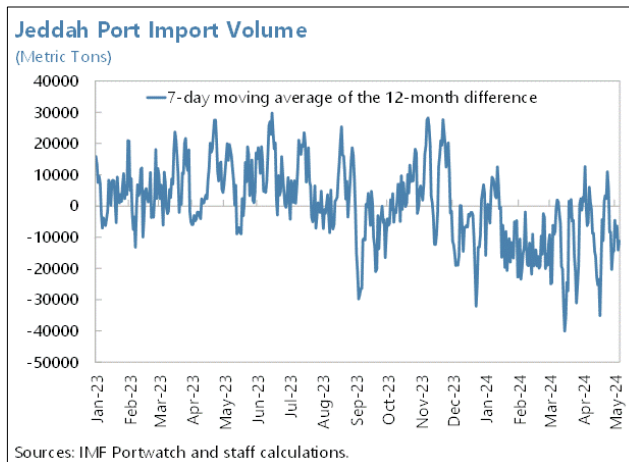
**Text Figure 3. Saudi Arabia: Economic Activity****Non-oil Output Gap (Percent, SAR Bil)**

Sources: IMF staff calculations and country authorities.

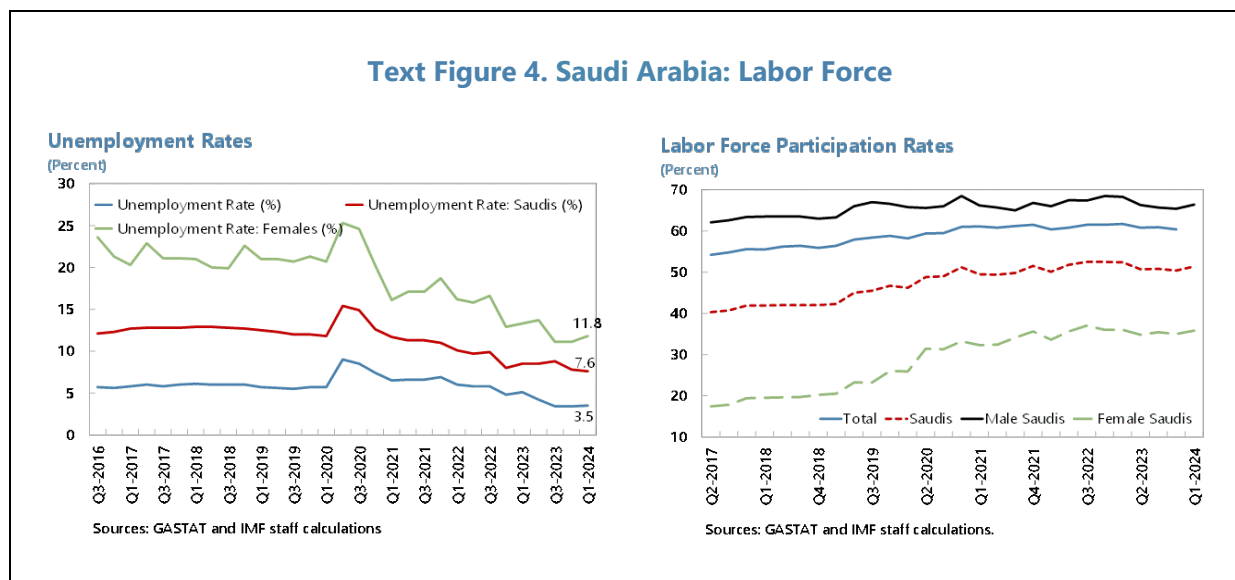
**Real Demand Side Decomposition (Percent)**

Note: “Discrepancy” item arises because of the new chain-linked method (reference year=2018).

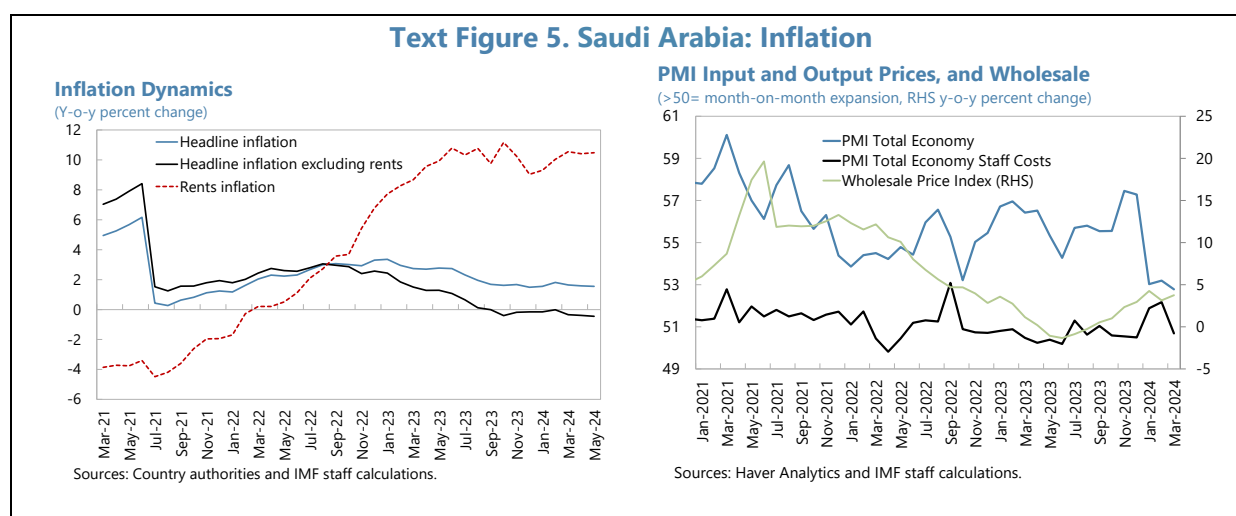
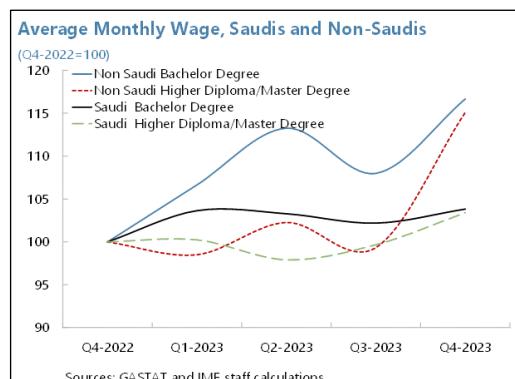
**4. Geopolitical events in the Middle East have not had any major impact on the Saudi economy so far.** Saudi Arabia’s trade and financial linkages with conflict-affected countries are minimal. Its oil shipments, most of which do not take the Red Sea route, were undisrupted and tourism inflows remain strong. However, alternative logistical arrangements (e.g., through the Dammam port) were needed as tensions have led to a 40 percent decline in ships passing the Red Sea, impacting traffic in the Jeddah port, which handled about 47 percent of the country’s sea imports in 2023.



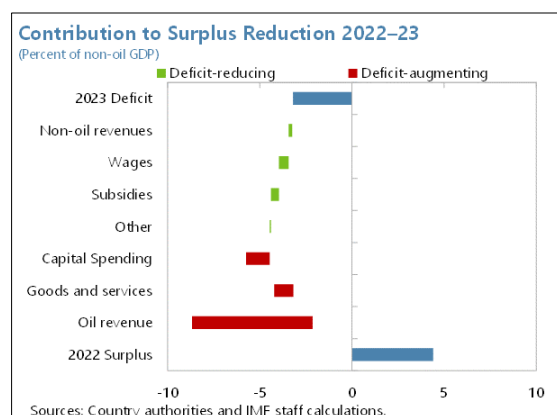
**5. The unemployment rate remains well below its long-term average.** More than one million jobs were added in 2023, predominantly in the private sector. At end-2023, the unemployment rate for the overall labor force and Saudi nationals reached a historic low—mainly driven by the continued rise of Saudi female employment (Annex V). The labor force participation rate, which has however stagnated over the past year, remained at 50.4 percent for all Saudi nationals and reached 35 percent for Saudi females, still well above the Vision 2030 target of 30 percent.



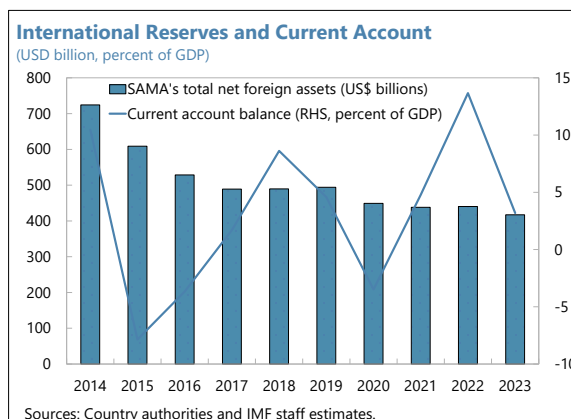
**6. Headline inflation has been contained, although wholesale and rental inflation has been edging up recently.** Following an upward trend in 2022, year-on-year (y-o-y) inflation peaked at 3.4 percent in January 2023, and then receded to 1.6 percent in May 2024, helped by an appreciating nominal effective exchange rate (NEER). However, rents (21 percent of the CPI basket) are growing at a brisk rate of about 10.5 percent in May amid inflows of expatriate workers and large redevelopment plans in Riyadh and Jeddah. Wholesale prices edged up to 3.2 percent in May 2024, reflecting some pressures on input costs, including construction materials. So far, an uptick has been observed in the wages of high-skilled expatriate workers while wage pressures for Saudi nationals are relatively contained.



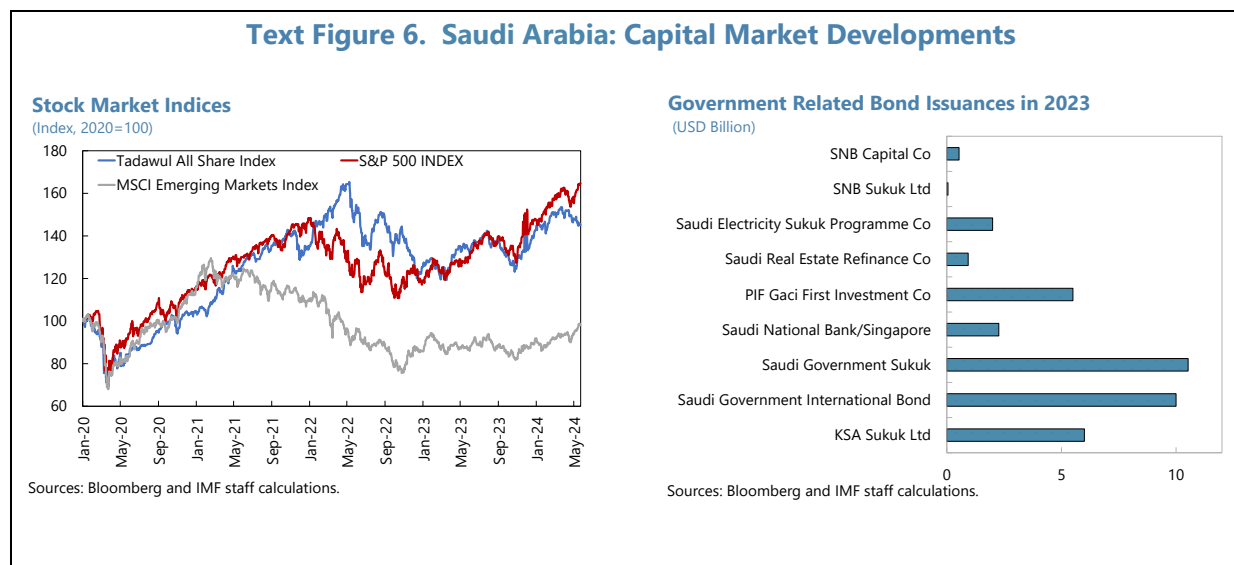
**7. Following its first surplus in nine years in 2022, the fiscal balance swung back into deficit in 2023 due to lower oil revenue and spending overruns.** The non-oil primary deficit rose to 33.0 percent of non-oil GDP in 2023, up from 32.2 percent in 2022, reflecting essentially investment-related spending. The overall balance turned to deficit, dragged down by a 12 percent decline in oil revenues—mainly due to voluntary production cuts and despite a new Aramco performance-linked dividend of close to 2 percent of GDP. Foreign borrowing played a pivotal role in financing the deficit in 2023, as the authorities secured foreign financing for SAR101 billion (2.5 percent of GDP), equivalent to 58 percent of gross financing requirements in 2023.



**8. The current account surplus (CAS) narrowed on lower exports and strong growth in investment-related imports.** The CAS narrowed to 3.2 percent of GDP in 2023, down from 13.7 percent of GDP in 2022, reflecting mostly lower oil exports, weaker demand from China weighing on petrochemical sales, and strong growth in investment-related imports. These were partly mitigated by a record surplus in the travel service balance, including a 38 percent surge in net tourism income. Concurrently, a 26 percent rise in acquisitions of machinery and transportation equipment contributed to the sustained increase in imports. The Saudi Central Bank's (SAMA) net foreign assets reached \$445 billion in May 2024, which was above its end-2023 level. Saudi Arabia's external position in 2023 was weaker than that implied by medium-term fundamentals, however, existing buffers remain well above the minimum level defined under the ARA metric (Annex VI).

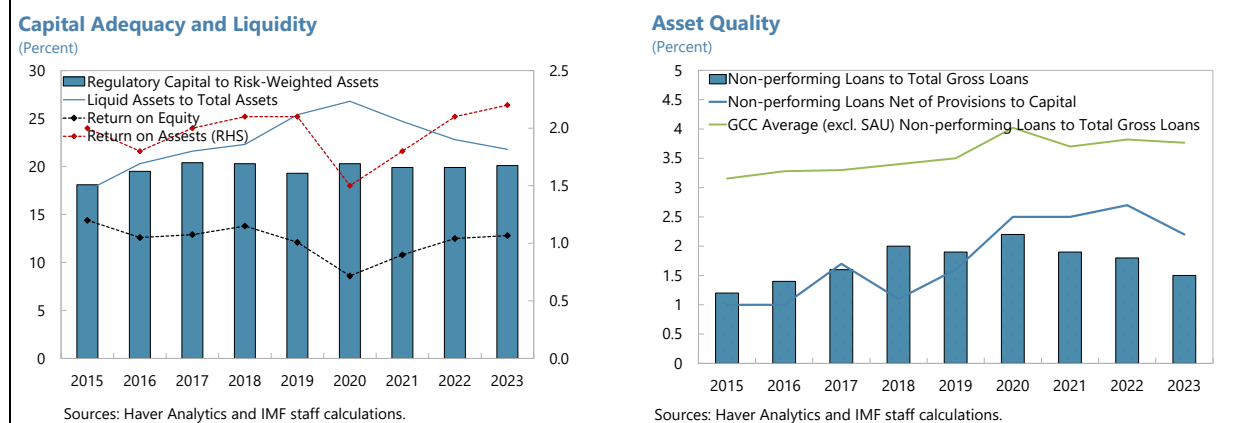


**9. Asset prices and access to international markets rose.** The Tadawul stock market index increased by 14.2 percent in 2023, outperforming the 7 percent rise in the MSCI EM index and the average decline by 2.9 percent in other GCC markets. Saudi issuers continued to expand their access to international markets, issuing a variety of instruments in 2023, including Eurobonds, green bonds, and sukuku. The Saudi sovereign spread remained broadly stable.



**10. The banking system is sound with strong solvency and liquidity ratios.** The aggregate regulatory capital ratio and Tier 1 capital ratio in 2023 stood comfortably at 20.1 percent and 18.6 percent of risk-weighted assets, respectively. Liquidity and profitability indicators are also good. Although the shift in the sector's funding towards time and saving deposits increased costs, the net interest margin improved as banks passed higher rates to borrowers. Asset quality is strong, with NPLs declining to about 1.5 percent of total loans, partly reflecting solid credit growth.

Text Figure 7. Saudi Arabia: Financial Soundness Indicators

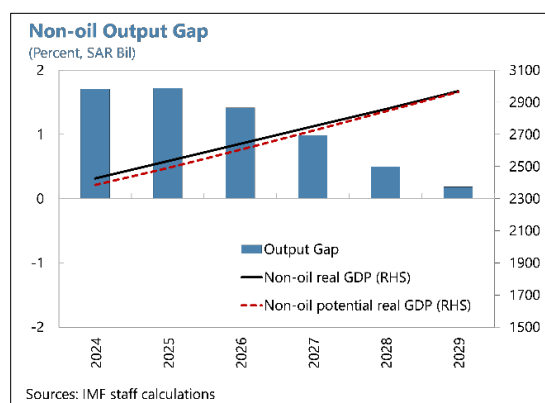


## OUTLOOK, RISKS, AND SPILLOVERS

**11. Staff welcomes the recent recalibration of funding requirements associated with the Vision 2030 Objectives.** Its application led to a spending reprioritization through the acceleration of some projects and sectoral strategies and the extension for certain initiatives. This welcome exercise will help ensure proper sequencing of spending to reduce overheating risks and maintain macroeconomic stability and fiscal sustainability. Making the results of this exercise—particularly the new spending patterns and prioritization of strategies up to 2030—public will be important to help provide clarity on government priorities to investors and the public.

**12. Against that background, Saudi Arabia’s economic outlook remains strong:**

- Non-oil growth.** While Q1 2024 data—which was in line with staff’s nowcasting estimates— suggests a moderation in non-oil economic activity as private investment growth stabilizes, strong domestic demand is expected to keep non-oil GDP growth (which includes government activities) at 3.5 percent in 2024. Non-oil reform momentum would rise again in 2025 as investment picks up, particularly from the PIF, which would increase its investments in 2025 from \$40 billion to \$70 billion per year and in the lead up to the 2027 Asian Cup, 2029 Asian Winter games, and 2030 World Expo. Under staff’s baseline scenario, non-oil GDP growth would remain in the 3.9-4.4 percent range, albeit a full NIS implementation could increase non-oil GDP growth to 8 percent, depending on the multiplier (Box 1). The non-oil output gap will widen modestly until 2025 before closing by 2029 (Text Chart)—as higher productivity driven by digitalization and labor reforms pushes non-oil potential growth above actual growth.



### Box 1. Saudi Arabia: Fiscal Multipliers in Saudi Arabia

While staff does not have detailed information on how the fiscal space analysis has ultimately impacted the NIS, Staff's baseline scenario assumes a lower investment path and smaller multipliers (about 0.3-0.5) than projected under the original NIS (with multipliers closer to 1).

#### Staff's analysis remains in line with the literature on multipliers for Saudi Arabia

where the average of capital spending multipliers on non-oil growth is 0.2 in the short run and 0.6 at peak and in the long run. Using the bucket approach (Eyraud et al., 2014) to estimate short-term multipliers for total spending at a given point in time, staff's estimates range from 0.2-0.3 after controlling for structural characteristics of the economy, exchange rate regime, level of debt, automatic stabilizers, public expenditure efficiency and conjunctural elements (output gap and monetary stance). This latter approach, however, only accounts for the impact on overall GDP. Ongoing analysis by staff (IMF, Korniyenko et al., forthcoming) suggests that domestic investments by GCC SWFs have a multiplier of around 0.4, in line with other domestic investments (of which 40 percent are estimated to be from SWFs in the GCC sample used).

#### Several considerations could lead to increasing multipliers

FDI tends to have a high multiplier (above 1) and some green investments may also have a higher multiplier close to 1 (Batini et al., 2021), suggesting an upside to capital investment multipliers depending on changes in the composition of investment over time, in particular as investments in the renewable industry will be substantial and as Saudi Arabia manages to attract more FDI. Using the DIGNAR model for Saudi Arabia, [Saudi Arabia: Selected Issues \(imf.org\)](#) and Aligishiev and Moreau (forthcoming) suggest that a full reform scenario and improvement in public efficiency with full investment scale up would increase non-oil growth by 2.4 percent if the fiscal multiplier is 1. Under the same model and reform scenario, a 20-percentage point increase in public investment efficiency would increase the investment multiplier by almost 0.2.

**Box 1. Text Table 1. Saudi Arabia: Empirical Estimates of Multipliers in the Literature**

Author	Period	Dependent variable	Method	Fiscal variable	Short run	Long run	
Espinoza and Senhadji (2011)	1975-2009	Non-oil GDP	VAR	Total expenditure	0.2	0.5	
				Capital expenditure	0.5	1.0	
				Current expenditure	0.1	0.1	
Espinoza et al. (2013)	N/A	Non-oil GDP	VAR	Total expenditure	0.1	-	
IMF (2016)	1980-2015	Non-oil GDP	VAR	Capital expenditure	0.2	0.8	
				Current expenditure	0.3	0.5	
IMF (2017)	1990-2016	Non-oil GDP	RC	Capital expenditure		0.6	
				Current expenditure		0.5	
Al Abri et al (2018)	1980-2015	Non-oil GDP	VAR	Total expenditure	0.9 (two year)		
Hermit and Benlagha (2018)	1970-2015	Non-oil GDP	SVAR		2 year	4 year	Peak
				Agricultural expenditure	0.4	0.6	0.6
				Health expenditure	1.0	0.7	0.7
				Construction expenditure	0.1	0.8	0.5
				Transport, storage and communication	0.1	0.6	0.3
Al Moneef and Hasanov (2020)	1983-2018	Non oil private sector GDP	RVAR	Total expenditure	0.1	0.4	
				Capital expenditure	0.1	0.5	
				Current expenditure	0.1	0.3	
Hasanov et al. (2022)	1989-2018	Non-oil GDP	VAR	Capital expenditure	0.3	0.5	
				Current expenditure	0.2	0.6	
Al Marzouqi et al. (2023)	1980-2020	Non-oil GDP	LP method	Capital expenditure	0.0	0.4	
				Current expenditure	0.4	0.3	
		Non-oil private sector GDP	LP method	Capital expenditure	-0.1	0.3	
				Current expenditure	0.2	0.3	

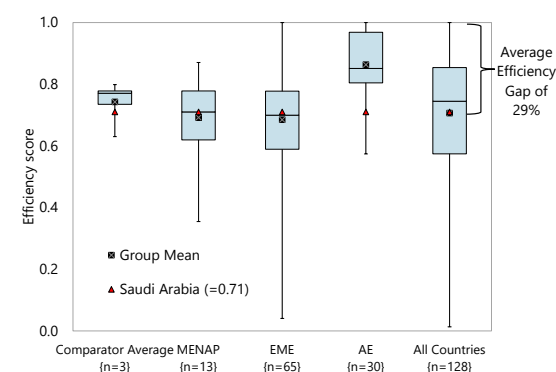
**Box 1. Text Table 2. Saudi Arabia: Bucket Approach: Final Estimate of the Multiplier Range**

	Step 1	Step 2	Step 3		Estimate
	Score	Multiplier range	Cycle adjustment	Monetary factor	Final range
Saudi Arabia	4	0.4-0.6	-0.3	-0.2	(0.2-0.3)

Source: IMF staff calculations

#### Public Investment Efficiency, 2000-2019

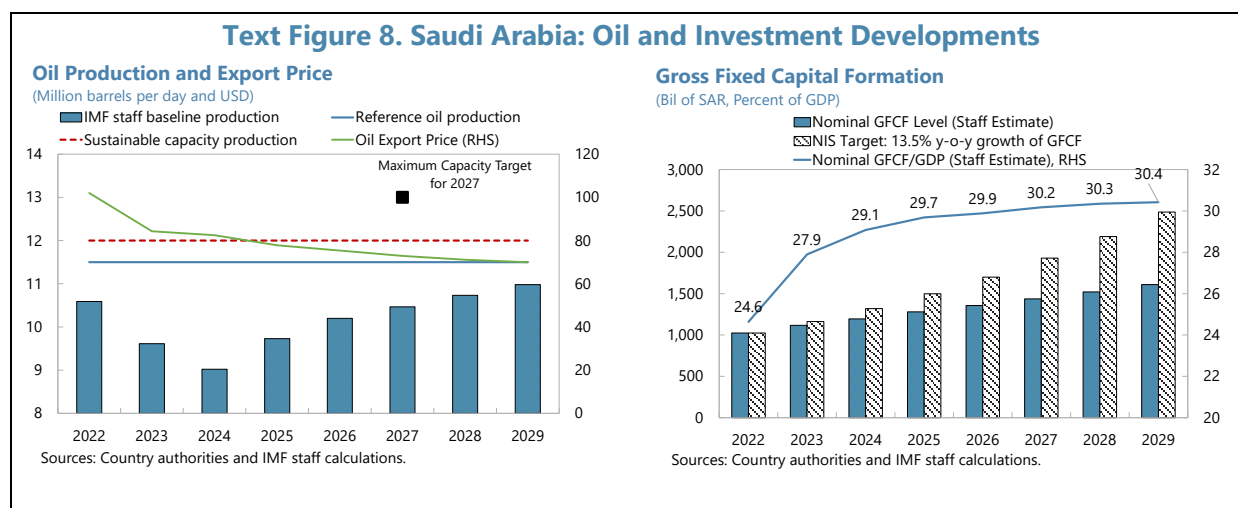
(Efficiency score 0-1)



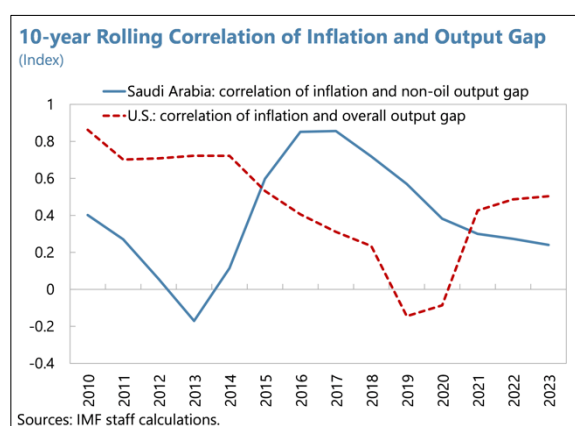
Source: IMF Tool for Investment and Efficiency (2021)  
Note: Comparator average takes the average of UAE, Bahrain, and Oman.



- **Overall GDP growth** would accelerate to 4.7 percent in 2025, assuming the 1 mbpd voluntary oil production cuts will be gradually phased out from October 2024 to September 2025, and averaging 3.7 percent per year thereafter.



- **Inflation** would remain stable at about 2 percent over the medium term supported by a credible peg to the U.S. dollar and consistent domestic policies. Domestic subsidies and an elastic supply of expatriate labor are expected to keep inflation contained over the medium term and dampen the impact of a positive non-oil output gap—which exhibits a declining association with inflation over time.
- **The current account surplus** is expected to shift to a deficit from 2024 onwards, averaging about 2.2 percent of GDP between 2026 and 2029. The decline in oil prices and strong imports related to investment and infrastructure projects, as well as a dynamic private consumption, would worsen the external position despite rising non-oil exports and a narrowing services deficit benefiting from increased tourism receipts. Financial inflows—including higher borrowing to support the scale-up in investment—would increase while asset accumulation abroad would decline.
- **Foreign reserves** would bottom out in 2025 and reach around \$483 billion in 2029, which represents 13.4 months of imports and around 144 percent of the IMF’s reserve adequacy metric. Large asset holdings abroad—including through the sovereign wealth fund—would continue to offer additional buffers against adverse shocks.





**Text Table 1. Saudi Arabia: Selected Economic Indicators**

	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP	7.5	-0.8	1.7	4.7	4.1	3.6	3.5	3.5
Non-oil real GDP <sup>2</sup>	5.3	3.8	3.5	4.4	4.3	4.1	3.9	3.9
Consumer price index (average)	2.5	2.3	1.9	2.0	2.0	2.0	2.0	2.0
Current account balance (percent of GDP)	13.7	3.2	-0.1	-1.1	-1.4	-2.1	-2.5	-2.7
SAMA's total net foreign assets (US\$ billions)	440.5	417.1	405.2	403.2	422.5	445.4	465.1	483.3
In months of imports of goods and services <sup>1</sup>	18.1	15.8	14.1	13.1	13.2	13.4	13.4	13.4

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

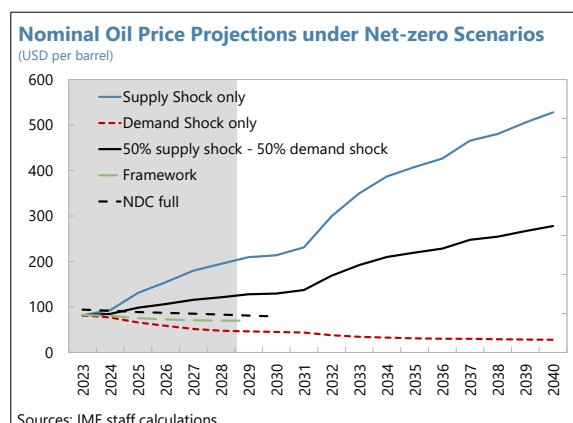
<sup>1</sup> Next 12 months.

<sup>2</sup> Non-oil GDP includes non-oil activities and government activities.

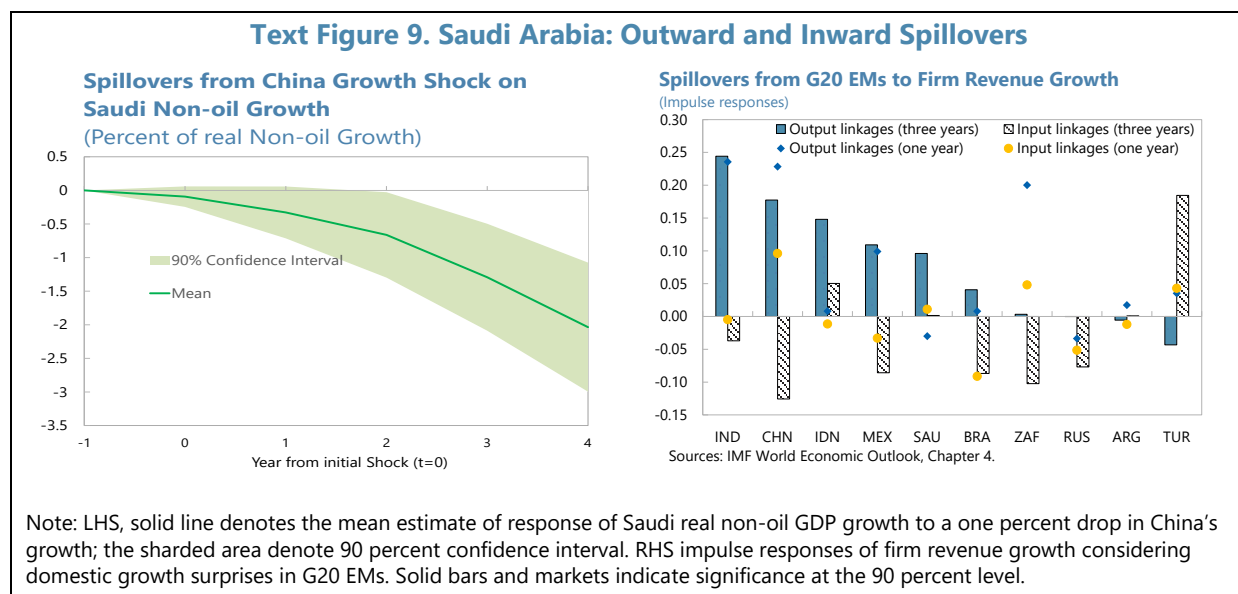
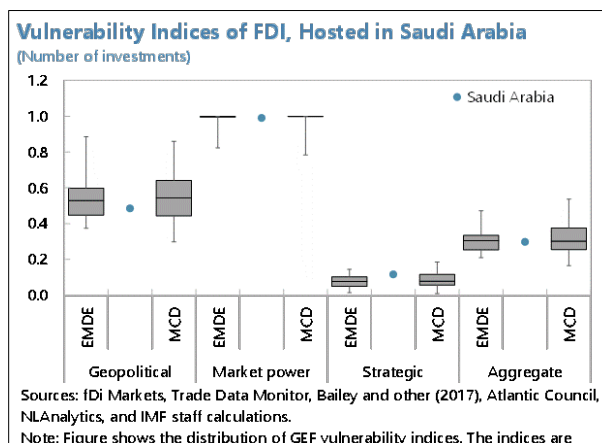
**13. Risks to the outlook are broadly balanced amidst high uncertainty (Annex VII).** Several risk factors could contribute to fluctuations in oil prices or production decisions, including shifts in global growth, financial market volatility triggered by monetary policy decisions by systemic central banks, geopolitical events (including an intensification of risks and conflicts in the region, and cyber threats), and non-OPEC+ supply growth. On the domestic side, pressures to further accelerate investment could increase overheating risks, causing higher inflation, a weaker current account balance, and FX reserve drawdown. In the medium term, successful reforms and investments could yield a stronger or earlier-than-expected growth dividend. Conversely, a lower-than-assumed growth dividend could lead to a deterioration in the public sector's balance sheet, faltering activity, and increased pressure on the budget to spend accumulated fiscal savings.

**14. Over the longer run, uncertainty over the speed of the global decarbonization poses additional risks.**

A faster than-anticipated or disorderly global shift away from hydrocarbons would impact Saudi Arabia's financial buffers and growth. Transition scenarios in line with the deep dive exercise conducted during the last Article IV remain valid, showing that even in a scenario where all countries implement their Nationally Determined Contributions (NDC) and where Saudi Arabia implements its own NDC commitment to reduce emission by 278Mt of CO<sub>2</sub>eq per annum by 2030, the oil price impact remains limited at the 2030 horizon. Indeed, the price path to achieve the emissions target will depend on both supply (underinvestment in oil) and demand policies (i.e., stronger shift to low-carbon consumption).



**15. Potential spillovers from recent external developments are many.** Increasing geoeconomic fragmentation could potentially lead to a concentration of private flows, including FDI, among geopolitically aligned countries, particularly in strategic sectors. Using micro-level data on FDI flows, staff's analysis indicates that the overall KSA geoeconomic fragmentation vulnerabilities are relatively moderate relative to other EMDE countries. An analysis of spillovers from China to Saudi Arabia suggests that a 1 percent drop in China's growth would lead to a 2 percent decline in real non-oil growth in the medium term while outward spillovers from Saudi Arabia would have the strongest effect on Asia. Despite a 12 percent rise in expatriate workers, remittances declined by 2.5 percent in 2023 (however with a 9 percent y-o-y increase for Q4) and are expected to be increasing in 2024, benefiting countries in the region (particularly Egypt). Saudi Arabia's financial support to the region remains strong.



**16. Authorities' Views.** The authorities emphasized that the "recalibration exercise" underpinned by a comprehensive fiscal space assessment was done with the objective of supporting the Saudi economy in accelerating the implementation of projects envisaged and enable private sector development while reducing overheating risks. They reiterated that any extension would only affect unannounced projects. Furthermore, they noted that, while it is too early to disclose details on the fiscal space exercise and financing options considered until 2030, the overall outlook remains promising and geared towards sustainable growth.

**17. Authorities' Views.** The authorities expect non-oil growth to remain at 4 percent in 2024 and are confident that Vision 2030 implementation will help sustain potential non-oil growth at the 4-5

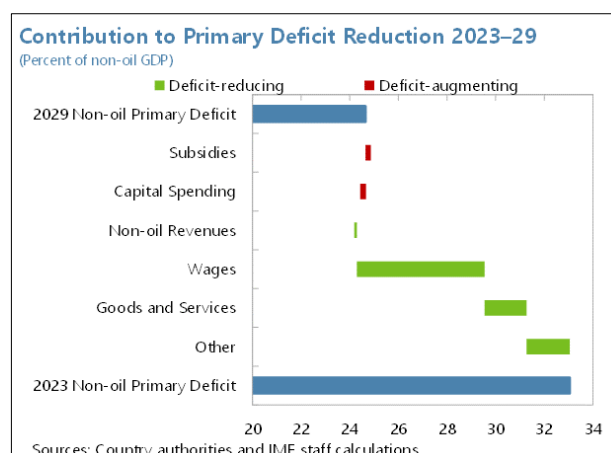
percent range in the medium term. They also noted that the pegged exchange rate regime has helped keep inflation very low. They found staff's BOP projections to be too pessimistic, as they expect ongoing reforms to further diversify the economy by stimulating non-oil exports, while Vision 2030 initiatives will enhance local production and limit import growth.

## POLICIES FOR GROWTH AND STABILITY IN A WORLD ECONOMY PRONE TO SHOCKS

**18. Policy discussions focused on managing the oil revenue windfalls in a sustainable way, including to mitigate risks from a rapid ramp-up in investment and fluctuations in international oil prices.** Priorities include: (i) maintaining fiscal discipline through broad-based fiscal consolidation; (ii) safeguarding financial stability; and (iii) continuing to implement structural reforms to support strong, sustainable, and inclusive growth.

### A. Fiscal Policy

**19. The fiscal stance—measured by the change in the non-oil primary deficit—is expected to tighten consistently over the medium term despite a wider central government fiscal deficit than originally envisaged.** Q1 2024 data suggests a wider fiscal deficit on account of higher capital expenditures and lower oil revenues. The new medium-term spending path would exceed the 2023 Article IV consultation forecast by an average of 5.4 percent of non-oil GDP per year to reflect the finalization of the fiscal space



exercise. Nonetheless, current policies—which assume no new non-oil revenue measures— would still result in an 8.4 percent of non-oil GDP narrowing in the non-oil primary deficit through 2029 relative to its level in 2023, supported by a reduction in spending, mostly through wages (see below) and lower spending on goods and services, including because of savings from one-off social programs introduced during the pandemic. Progress on consolidation would be offset by a decline in oil revenue due to the projected decrease in international oil prices. As a result, the budget balance would register an average deficit of 3.0 percent of GDP per year between 2024 and 2029.

**20. Additional fiscal consolidation is needed to stabilize the net government financial asset ratio and achieve intergenerational equity.** The authorities' current policy stance is delivering some fiscal adjustment but is not consistent with intergenerational equity as defined under the standard PIH, thus some additional adjustment would be needed to deliver on this objective. Assuming a transition period of 15 years to avoid an excessive adjustment in the near term ([Saudi Arabia: Selected Issues \(imf.org\)](#)), this would require additional savings of about 5

percent of non-oil GDP through 2029—mostly through non-oil revenue mobilization—in addition to those envisaged by the authorities, followed by fiscal consolidation of about 13 percent of non-oil GDP until 2054 (Box 2).

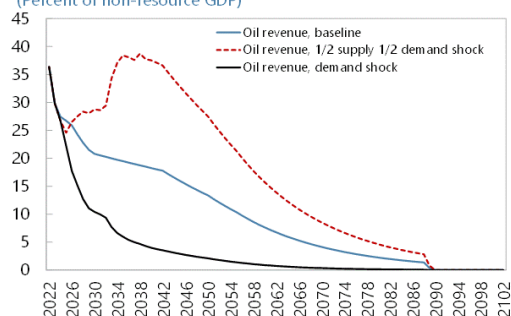
### Box 2. Saudi Arabia: Fiscal Anchor under the Permanent Income Hypothesis (PIH)

*In resource-rich countries, one of the key pillars of economic policy is to ensure that future generations benefit from resource wealth as well as the generation(s) living during the period of extraction. Under the PIH, the total financial wealth (current wealth and the net present value of future oil revenue) is used to finance a constant flow of revenue in real terms (preferred in the case of Saudi Arabia to the real per capita one). If the current fiscal stance differs significantly from that implied by the long-term fiscal anchor, the gap will need to be closed with a fiscal adjustment.*

**Baseline.** Uncertainty regarding PIH requires basing it on prudent assumptions. For this analysis, staff looked at the oil revenues under the baseline scenario combined with a demand-side shock and a combined demand/supply shock scenario.

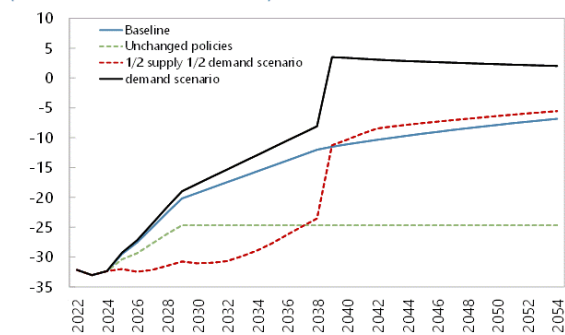
**Implications.** Overall, Saudi Arabia’s longer-term fiscal trajectory appears more expansionary than implied by the intergenerational equity benchmarks. Staff’s illustrative calculations show that stabilizing the net wealth position after a transition period of 15 years would entail additional fiscal adjustment of about 18 percent of non-resource GDP during 2024-2054. A longer transition period to allow higher deficits in the medium term is also possible but that could imply larger adjustment in later years. The adjustment needed would be higher under the demand-side scenario and much lower under the 50-50 demand/supply shock scenario.

Box 2. Figure 1. Saudi Arabia: Resource Revenue (Percent of non-resource GDP)



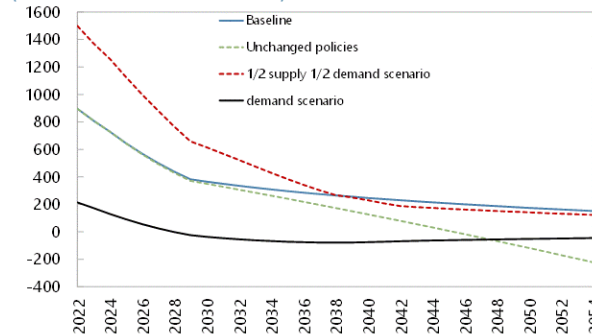
Sources: Ministry of Finance and IMF staff calculations.

Box 2. Figure 2. Saudi Arabia: Fiscal Anchor Derived from PIH, Non-Resource Primary Balance (Percent of non-resource GDP)



Anchor Calibration: Real annuity  
Sources: Ministry of Finance and IMF staff calculations

Box 2. Figure 3. Saudi Arabia: Fiscal Anchor Derived from PIH, Total Net Wealth (Percent of non-resource GDP)



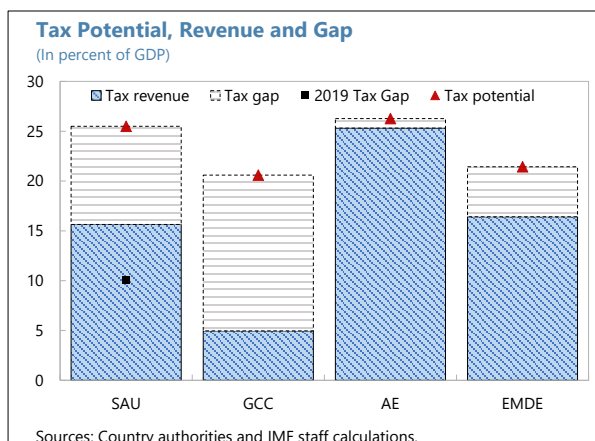
Anchor Calibration: Real annuity  
Sources: Ministry of Finance and IMF staff calculations

## 21. Non-oil revenue mobilization remains the cornerstone of the fiscal consolidation strategy.

Saudi Arabia has made important strides in enhancing domestic revenue mobilization (DRM), with the tax revenue-to-nonoil GDP (NOGDP) ratio averaging 12.8 percent over the last three years, more than double its average of less than 6 percent over the previous decade.

This progress reflects a combination of tax policy reforms, including the VAT introduction along with tax administration reforms to strengthen compliance. Despite these achievements, Saudi Arabia's tax revenue still falls below its estimated potential of 25 percent of GDP based on staff's latest analysis. Efforts made in previous years need to be accelerated through the development of a full-fledged

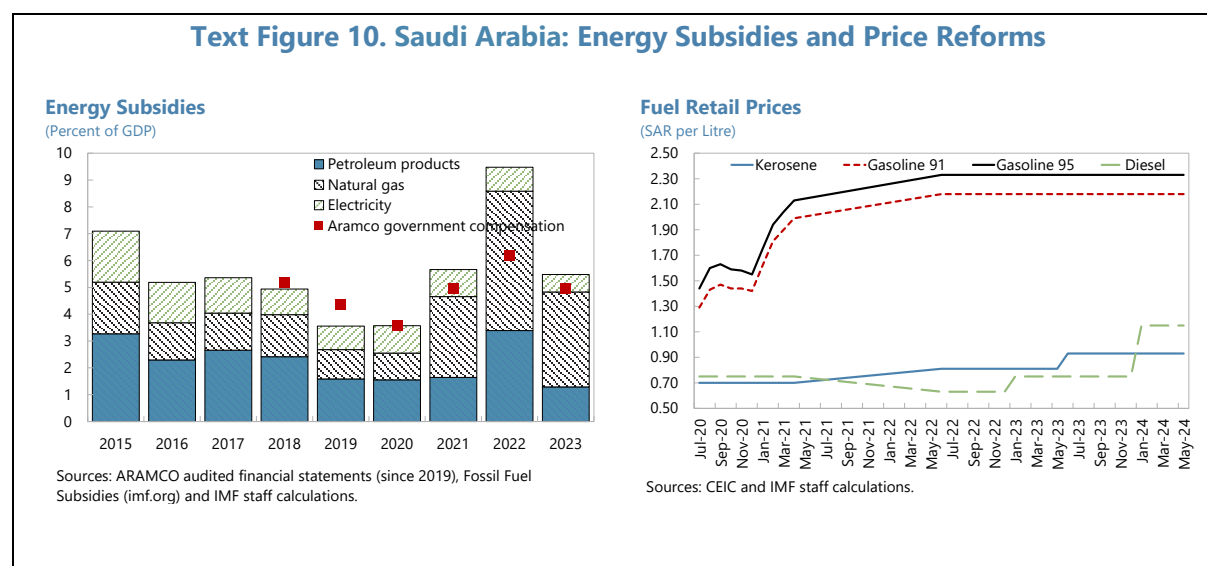
medium-term revenue strategy as non-oil revenue collection is crucial to close the identified policy gaps and achieve diversification objectives. This can be achieved through a two-pronged strategy:



- Tax policy.** The ongoing construction boom is an opportune time to put in place a property tax (2 percent of GDP in G20 and even higher in some advanced economies). It will also be important to introduce a personal income tax, reform expat levies and excises, increase corporate taxation, and tackle remaining VAT policy gaps (e.g., exemptions on first home purchases and real estate transactions). The coming into effect of the global minimum tax Pillar II calls for a thorough review of existing incentives—including in Special Economic Zones (SEZs) and as part of a proper tax expenditure analysis—to avoid tax leakages to other jurisdictions. Ongoing efforts to amend the zakat and tax procedure laws could help realign the legislative framework with international best standards, facilitate compliance, and improve the business environment. Tax expenditures—including recently granted ones for exempting industrial inputs such as machinery and equipment from taxes—should be systematically costed and reported. Investing in tax policy models to simulate decisions would help guide these decisions, including in the preferential treatment in SEZs.
- Tax administration reform.** Digitalization, electronic invoicing, and the realignment of customs procedures with international best practices have helped enhance revenue collection. Implementation of a full revenue administration strategy—clearly detailing the number of registered taxpayers, arrears collection, audits—would help raise revenue. The internally conducted Tax Administration Diagnostic Assessment Tool (TADAT) self-assessment could be complemented by a third-party assessment to help identify priority reforms in this area. The temporary tax penalty waiver introduced repeatedly since Covid and recently extended to end-2024, fuels moral hazard and undermines compliance, and should be phased out.

**22. Spending rationalization—which is also part of the Vision 2030 reform plans—should also support fiscal consolidation, mainly through:**

- Subsidy reform.** At about 5 percent of GDP in 2023, direct fuel subsidies—measured as compensatory payments to Aramco—still represent a significant burden for the budget despite a slight decrease in 2023 in the wake of lower international oil prices. Recent steps taken to reduce them—chiefly the 53 percent increase in diesel prices (the most subsidized fuel product) last January—are welcome and should be stepped up, including by removing the existing cap on gasoline prices, which could be increased gradually along with other fuel prices. To limit the impact on the most vulnerable, scaling up targeted social programs, such as the Damaan program, and the creation of a single household registry would help improve the targeting of the Citizen Account Program.

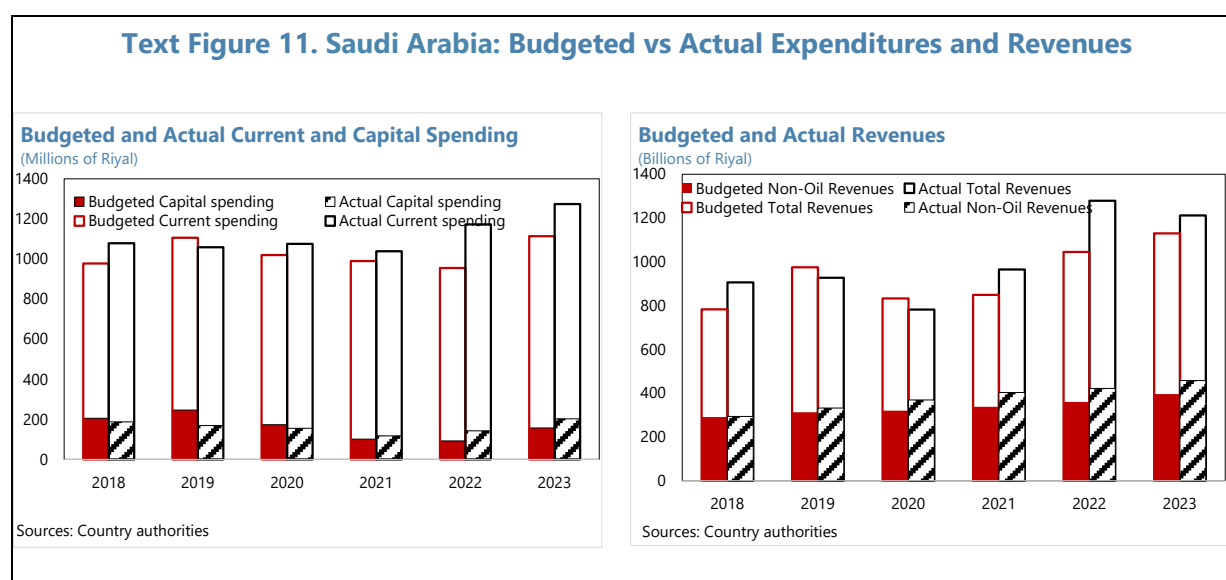


- Rationalizing spending.** Plans to rationalize the wage bill—which represents 21.2 percent of NOGDP and 41.5 percent of total spending in 2023—through civil service reform and natural attrition is the main driver of spending restraint over the medium term (Annex VIII). Ongoing spending reviews could help identify areas for potential savings or efficiency gains—including in purchases of goods and services, and from social programs now that a unique social registry has been introduced. Amid a ramp-up in spending on large-scale projects, strengthening the public investment management framework would reinforce cost controls and maximize the growth return on priority projects. The IMF’s Public Investment Management Assessment (PIMA) would help the authorities design an action plan to bolster infrastructure governance and enhance public investment effectiveness.

**23. Strengthening fiscal institutions will be essential to ensure steady progress towards fiscal objectives and enable fiscal policy to contribute effectively to macroeconomic stabilization.** Despite some progress in recent years, budget spending continues to exhibit some degree of synchronicity with oil price fluctuations, while budget spending targets are regularly

revised. Mitigating the risk of procyclicality would require accelerating efforts to develop strong fiscal institutions by:

- **Further strengthening the budget preparation and execution processes.** Staff welcomes the establishment of spending ceilings as part of the fiscal space assessment and encourages the authorities to keep spending within these ceilings and meet any additional needs through budget reallocations. It is important to include all decisions on spending appropriations within the annual budget process, with intra-year reallocations included in supplementary budgets. Realistic (even if prudent) revenue forecasts and adequate classification distinguishing between current and investment spending (e.g., for regional and sectoral strategies) are important to inform economic policies and improve transparency. It is also important to reinforce budget execution monitoring—including through the Etimad platform—and controls over multiyear commitments.



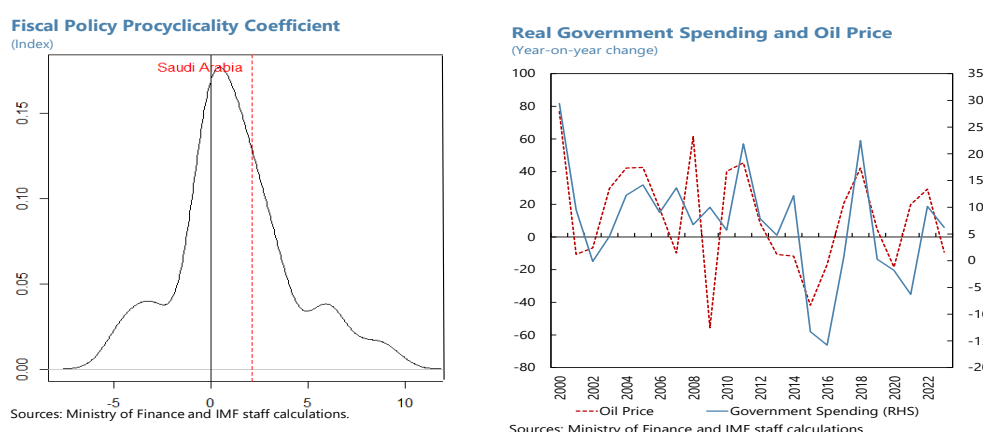
- **Implementing a medium-term fiscal framework (MTFF).** The authorities' efforts to establish a 3-year MTFF are welcome, particularly given the planned large-scale projects and ongoing transformational reforms. In view of the recent fiscal space assessment, the mission recommends that the authorities go further by moving to a 5-year MTFF, which would clearly lay out multi-year revenue initiatives, forward looking spending priorities as well as deficit objectives based on a fiscal anchor. This would help set the stage for a medium-term-budgeting framework and a move towards performance budgeting.
- **Establishing a complete picture of the fiscal position.** The increased involvement of multiple government funds and extra-budgetary entities, including the PIF and NDF (National Development Fund), in the execution of capital spending complicates the assessment of the fiscal stance and the monitoring of spending plans. Broadening the coverage of fiscal data to include the operations of extra-budgetary entities by producing budget accounts on a consolidated basis would help inform policymaking, strengthen monitoring, and enhance transparency.



- **Deepening fiscal risk analysis and management.** The authorities have made good progress on developing a fiscal risk framework and risk assessment methodology. Efforts to establish a robust framework for fiscal risk monitoring and analysis combining a qualitative assessment and quantitative tools are expected to accelerate. The internal fiscal risk report—which is prepared annually and quarterly—includes a discussion of risks to public finances arising from the global outlook and domestic shocks. It should be broadened to ensure that it covers the large state-owned sector, sizable direct and indirect asset holding, and a growing portfolio of liabilities linked to public-private partnerships (PPP). Publishing this detailed statement would also improve fiscal transparency.
- **Enhancing cash management, through the establishment of the Treasury Single Account (TSA).** One hundred and eighty-eight government entities are now enrolled in the TSA and the number of government accounts with commercial banks has been reduced to 4,251 in 2023 from about 16,000 in 2018, albeit public sector deposits in the banking system remain large. Looking forward, a policy is needed to define the cash buffer level the authorities intend to maintain in liquid assets. The increased and regular coordination with SAMA is welcome and should be strengthened through codified processes that would help enhance liquidity management effectiveness.

**24. Operationalizing the fiscal rule based on a fiscal anchor derived from the PIH would best help Saudi Arabia’s fiscal and growth objectives.** Staff acknowledges the authorities’ use of a structural fiscal rule based on a multi-year smoothing of oil prices in real terms. So far, this rule does not appear to constrain spending or reduce the still significant procyclicality of fiscal policy, as the ceilings are reset annually and lack a link to the previous MTFE targets. In line with our previous analyses, we would recommend an expenditure rule that integrates a dual mechanism comprising a ceiling on expenditure growth and a target for the Central Government Net Financial Assets (CGNFA), whose design should help preempt a deeper adjustment in the future. Mandating an independent institutional body (a la fiscal council) to monitor and report on the application of the fiscal rule could also enhance compliance and transparency.

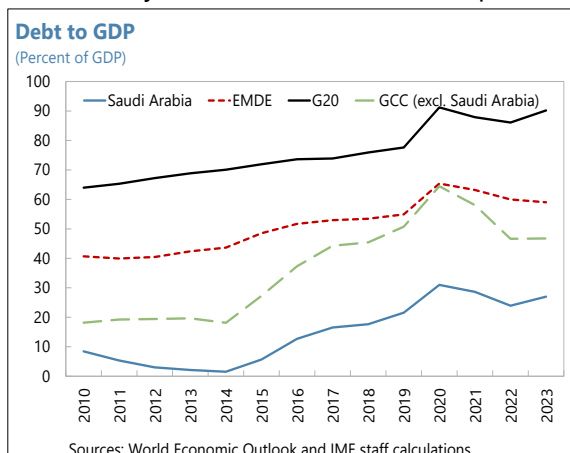
**Text Figure 12. Saudi Arabia: Fiscal Policy Procyclicality**



Note: The procyclicality coefficient is obtained from country-specific regressions of real expenditure growth rates on commodity price changes for a sample of 60 resource-rich countries. Positive numbers indicate procyclicality. Only statistically significant coefficients are shown.



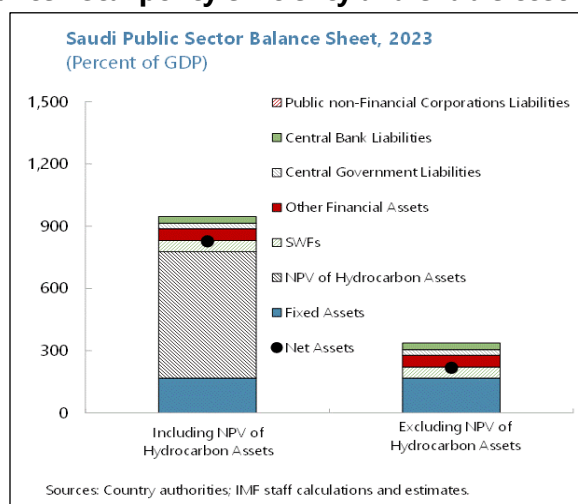
**25. Prudent debt and contingent liability management is important.** At 35.3 percent of GDP by end-2029, public debt is expected to remain comfortably below the authorities' 40 percent of GDP threshold and with fiscal space assessed as substantial and sovereign debt risk low (Annex IX). The current debt management strategy should include a thorough cost-benefit analysis and appropriate consideration of risks and contingent liabilities, such as those related to unmet financing needs for Giga Projects or to the potential termination regimes of PPPs that would fall on the fiscal authorities if not properly managed. For instance, staff understands that government guarantees may be higher than the 0.3 percent of GDP from the Saudi Real Estate Company (20 billion SAR) estimated in 2023, considering an estimated additional SAR 77 billion issued by Dhamanat for housing loans extended to low-income households. This reinforces the need to properly estimate the cost and scope of guarantees and to incorporate them into public sector debt and publicly guaranteed debt.

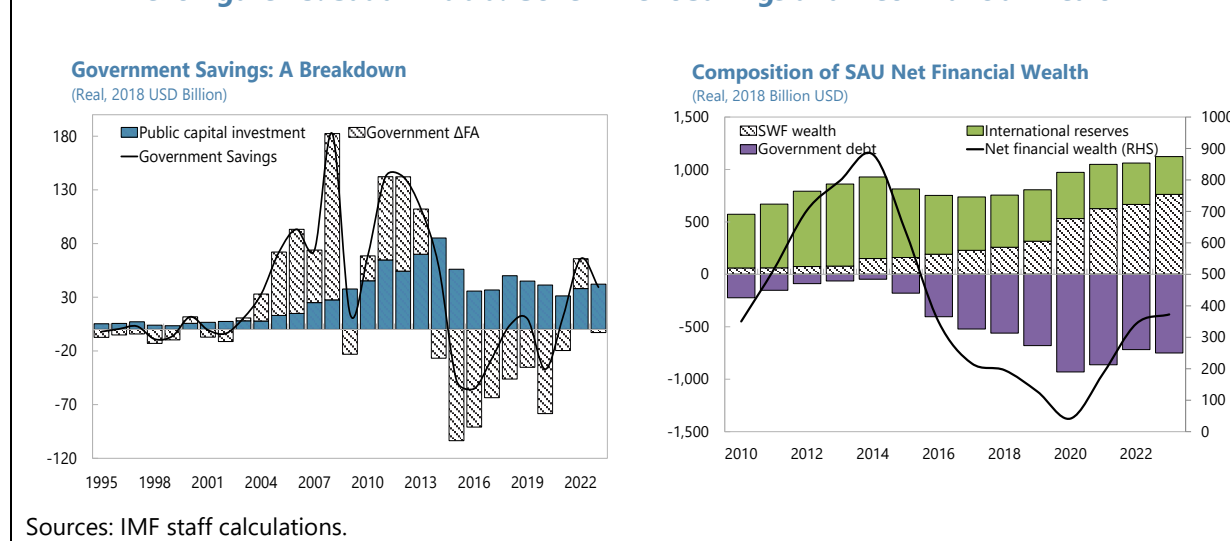


**26. The development of a Sovereign Asset-Liability Management (SALM) framework—a longstanding IMF recommendation—would enhance fiscal policy efficiency and enable cost-effective decision-making regarding debt management and investment strategies.** A

public balance sheet incorporating the PIF and other government-related entities that are involved in Saudi Arabia's investment strategy has been developed and covers financial assets and liabilities. An Oversight Committee has been formed and the MoF has assigned a dedicated centralized technical team to work on the SALM project, with a first phase (including financial assets) already concluded, and the teams working on the second phase to include non-financial assets. This preliminary balance sheet has

however not been shared with the IMF. The establishment of a comprehensive public balance sheet is only the first step towards an effective SALM framework, which also requires mechanisms for regular updates, accurate valuations, processes to monitor balance sheet exposures and funding commitments.



**Text Figure 13. Saudi Arabia: Government Savings and Net Financial Wealth**

**27. Authorities' Views.** The authorities reiterated that promoting fiscal sustainability remains their top priority. They however noted that the ample fiscal space allows them to remain comfortable with the deficit, provided it is driven by growth-generating expenditures. They also find the current consolidation path to be appropriate. They emphasized that any new revenue measures or energy subsidy reduction efforts should be carefully assessed and would require careful consideration of the economic and social implications. They highlighted that wage bill containment relies on a prudent and comprehensive approach to headcount and salary scale. The authorities underscored the unprecedented progress in improving PFM frameworks, fiscal transparency, and institutional communication, with further progress expected through quarterly budget reports. They also noted that contingent liabilities are closely monitored and appropriately provisioned for in the budget.

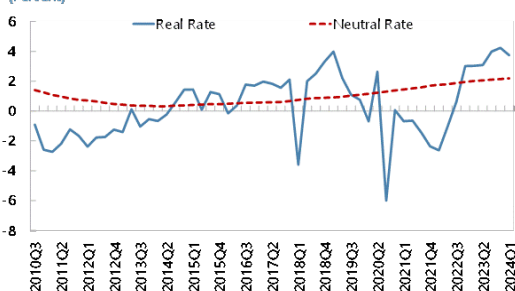
## B. Monetary and Exchange Rate Policies

**28. Monetary expansion moderated.** The tight policy stance was appropriate as SAMA raised its policy rate from 1 percent in early-2022 to 6 percent as of Q1 2024, aligning with the U.S. monetary tightening cycle, with the risk premium ensuring an interest rate differential consistent, and in support of the exchange rate regime. Liquidity conditions have eased and remain adequate, with the volatility in spreads seen in the past avoided while higher interest rates drove a notable shift in the composition of money supply towards time and savings deposits, which peaked at 34.9 percent of total deposits in 2023 (up from 26 percent in 2022), before stabilizing more recently. In line with staff's advice, the placement of public deposits with commercial banks is now conducted through an auction mechanism introduced in 2023, with the central bank acting as a fiscal agent of the government. This mechanism has enhanced the efficiency of public deposit placements, ensuring market-based returns on government funds and strengthened the use of market-based instruments (e.g., repos and other monetary policy instruments) for liquidity management.

Text Figure 14. Saudi Arabia: Policy Rate and Liquidity Indicators

## Real and Neutral Rate

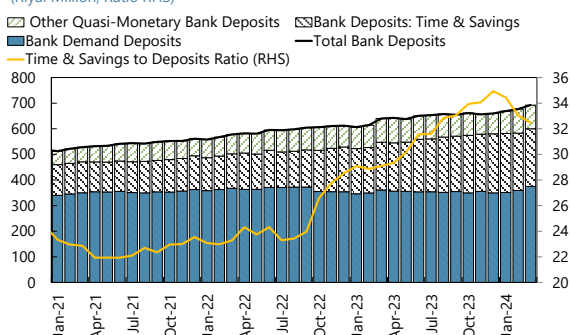
(Percent)



Note: The parameters and trends in the model above are estimated using quarterly data from 2000Q1 to 2024Q1 with the Kalman filter and Bayesian methods.

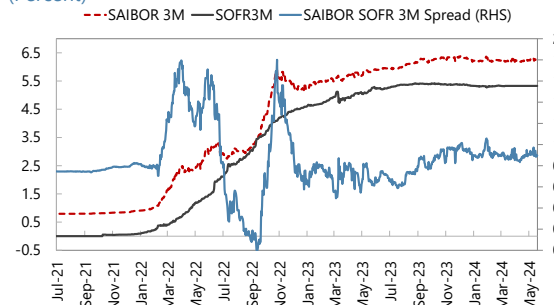
## Bank Deposits

(Riyal Million, Ratio RHS)



## SAIBOR and SOFR

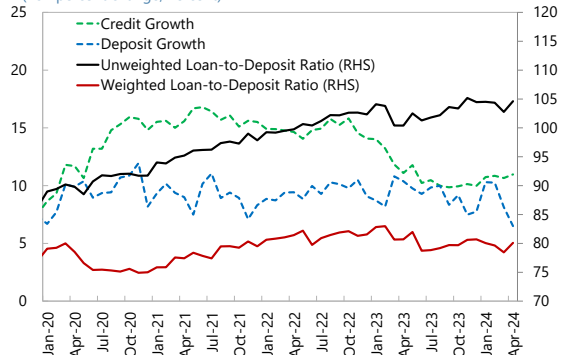
(Percent)



Note: SAIBOR denotes Saudi Arabian Interbank Offered Rate; SOFR denotes U.S. Secured Overnight Financing Rate.

## Loan-to-Deposit Ratios (LDR)

(YoY percent change, Percent)



Sources: April 2023 MCD REO; Haver Analytics; Bloomberg and IMF staff calculations.

**29. Liquidity management policies are being enhanced.** Steps have been taken to further strengthen SAMA's liquidity management framework, including by improving existing liquidity forecasting models, strengthening SAMA's institutional arrangements with the government, and enhancing the reserve requirement framework. Staff welcomes SAMA's commitment to continue using its market-based methods (issuance of SAMA bills and repos/reverse repos) as needed to manage liquidity and ensure effective transmission of its monetary policy. The formation of a market-based risk-free yield curve—including through government debt issuance at various maturities—will enhance liquidity management, promote financial stability, and ensure that monetary policy actions are effectively transmitted to the broader economy.

**30. Good progress has been made in developing an Emergency Liquidity Assistance (ELA) framework.** As the Central Bank Law has provided only a very general legal basis for the ELA framework, a dedicated ELA regulation—specifying eligibility for emergency support and

its terms and conditions—will help reinforce SAMA’s crisis management toolkit. The authorities have recently drafted such a regulation and are encouraged to adopt it, together with the associated internal procedures. This should be followed by operationalization of the ELA framework through regular simulations and internal procedures covering collateral policies and internal organization.

**31. The currency peg to the U.S. dollar remains appropriate given the structure of the economy.** The exchange rate regime has provided a credible anchor for monetary policy and is backed by ample external buffers. Over the medium term, additional fiscal consolidation and competitiveness-enhancing reforms are expected to bring the external position closer to the norm. With an open capital account and more synchronized business cycles with the U.S., it is important that SAMA’s policy rates continue to move in line with the Fed’s policy rate, with the risk premium ensuring an interest rate differential consistent with the peg. The peg should be reviewed regularly to ensure it remains appropriate, and ongoing reforms to deepen money and capital markets and further strengthen the monetary policy framework continue to support a more independent monetary policy in the future if it becomes appropriate.

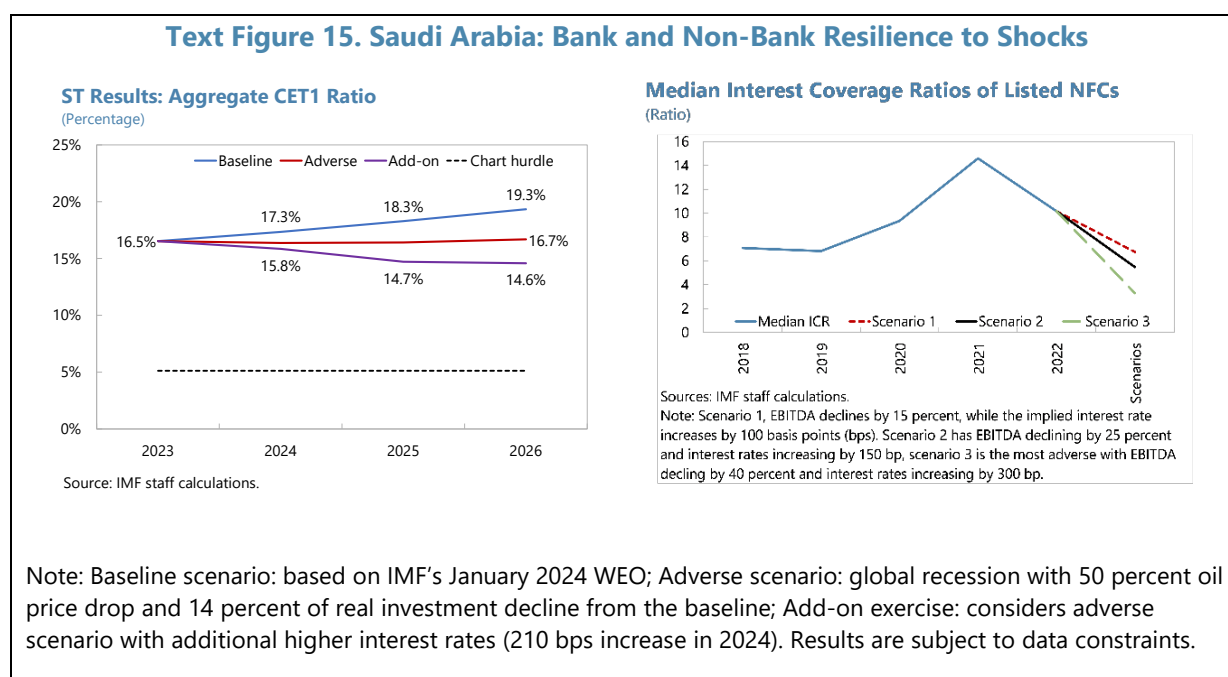
**32. SAMA is exploring the application of a Central Bank Digital Currency (CBDC).** It has joined project Aber with the UAE in 2019 to explore digital ledger technology and more recently, the cross-border CBDC project known as M-bridge. SAMA has also been conducting a cost-benefit analysis of CBDCs, in consultation with local banks and a team of IMF experts. Considerations have so far focused on wholesale transactions. Staff supports SAMA’s cautious approach as it explores the complex requirements and risks to monetary and financial stability relating to the regulatory, technological, or other aspects of CBDCs.

**33. Authorities’ Views.** The authorities agreed that monetary policy should continue to support the peg by maintaining the interbank rate in line with the policy rate. They reiterated that auctioning government deposits is not a monetary policy tool but a method to recycle and manage excess funds in the government accounts, with SAMA only acting as a fiscal agent for the Ministry of Finance. They agreed that market-based methods (e.g., open market operations) remain the primary tool for liquidity management. They welcomed the recent Fund TA on liquidity forecasting and concurred that establishing a formal ELA framework is important.

## C. Financial Sector Policies

**34. The banking sector is on a strong footing.** With total assets equal to 99 percent of GDP at end-2023—up from 88 percent in 2017—the banking sector is dynamic and competitive (Box 3). The 2024 Financial Sector Assessment Program (FSAP)’s solvency stress tests—which incorporated the impact of a global recession, commodity price volatility, delays in investment and higher interest rates—have shown that Saudi banks are resilient to severe macroeconomic shocks:

- In the adverse scenario, the solvency ratio declines by 2.6 percentage points relative to the baseline—mostly because of higher credit losses—with all banks remaining above the regulatory minimum (Text Figure 15). Sensitivity exercises indicate banks’ resilience to lower housing prices, sectoral corporate shocks, and marking-to-market the whole securities portfolio.
- The banking system, on aggregate, remains resilient in an extreme scenario with higher interest rates and further increased cost of funding due to a continued shift from non-remunerated to remunerated deposits, while three non-systemic banks would fall below the hurdle rate (by only 0.15 percent of GDP on aggregate).
- Liquidity stress tests show that banks have enough counter-balancing capacity to manage liquidity stress although some banks could face stress under severe deposit runoffs, which indicates the need to diversify funding sources to better support long-term lending. The FSAP’s analysis of large deposit runoffs also indicates significant funding concentration.
- Publicly listed non-financial corporates are also on average resilient to earnings and borrowing costs shocks, with the median interest coverage ratio remaining above 1 under severe combined shocks (Text Figure 15).



### Box 3. Saudi Arabia: Competition in the Banking Sector

Overall, Saudi Arabia has a fairly competitive banking sector. Measured by various profitability, structural, and contestability indicators, efficiency of banking intermediation looks good. In particular, the spread between lending and deposit interest rates of Saudi banks has been on a declining trend in recent years and banks' operating costs have also been declining (Table 6).

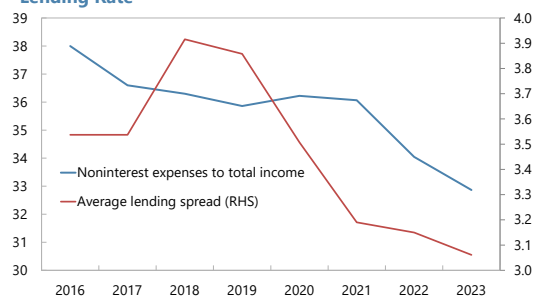
Also, Saudi banks are making significant investments in fintech developments, which helps them effectively compete in their business activities. A dynamic fintech ecosystem is supported by the regulatory sandboxes of SAMA and CMA. Three digital banks have been recently licensed, which should contribute to financial inclusion and foster healthy competition as digital banks are typically agile and innovative.

The structural indicators suggest that the banking sector is moderately concentrated. There are 11 locally incorporated banks and 17 foreign bank branches licensed in Saudi Arabia, in addition to three digital banks. The Herfindahl-Hirschman Index (HHI) calculated using data on bank deposits was 1,502 as of end-2023 (the HHI calculated using data on bank loans was 1,569).\*

An important dimension of competition in the Saudi banking sector relates to the role of government. The government has direct or indirect ownership stakes in local banks, and there are large government funds that perform some activities like those of banks. The very nature of ownership structure differentiates these institutions from private companies, as they may not necessarily pursue the goal of profit maximization while the backing from government may give a unique position in the market. In this regard, ensuring robust governance arrangements is very important. In addition, the large and increasing reliance of banks on deposits of government-related entities may also raise concerns of fair and competitive allocation of these resources. The recent launch of an auction mechanism to place public deposits in banks should alleviate these concerns.

\*In some countries (e.g., U.S.), the regulators consider three ranges for HHI values: (i) less than 1,000—not concentrated; (ii) 1,000 to 1,800—moderately concentrated; and (iii) greater than 1,800—highly concentrated. The Saudi General Authority for Competition uses HHI along with other quantitative and qualitative criteria in assessing competition without specifying any thresholds for HHI.

Noninterest Expenses to Total Income and Average Lending Rate

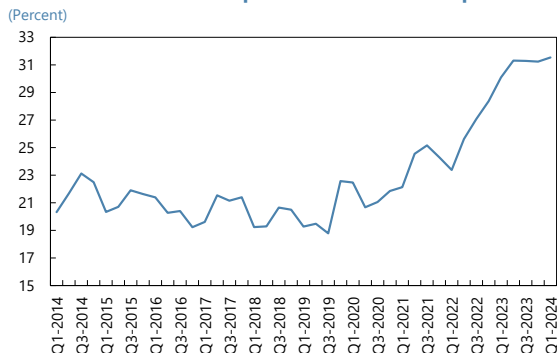


Sources: Country authorities

**35. Systemic macro-financial risks in Saudi Arabia remain low, albeit solid credit growth and an amplified sovereign-bank nexus call for continued vigilance.** Bank credit growth has moderated to about 11 percent and is expected to remain at that level during 2024, mainly reflecting lending under large projects and funding from wholesale sources. On the asset side, bank claims on the public sector have been steady at about 17 percent of total bank assets since 2019. At the same time, financial linkages between banks and the government sector have deepened significantly, with deposits of government-related entities representing 31.5 percent of total deposits as of Q1 2024. The increased balance sheet interlinkages between financial institutions and the government could amplify systemic shocks, including through fluctuations in oil prices. Systemic risks from the non-bank financial system are low, given their small size in total financial sector assets (e.g., 2 percent for insurance and finance companies), and as the NDF (7 percent of total assets) is exclusively funded by the government and its own funds.

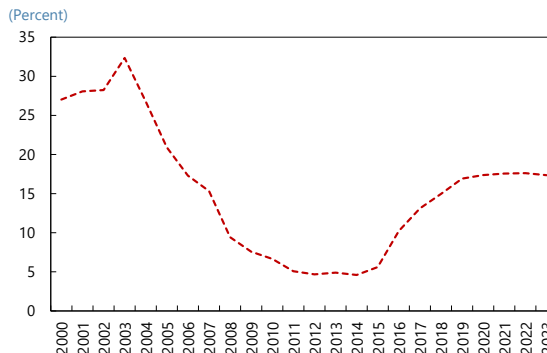
**Text Figure 16. Saudi Arabia: Credit Developments and Sovereign-Bank Nexus**

**Share of Government Deposits in Total Bank Deposits**



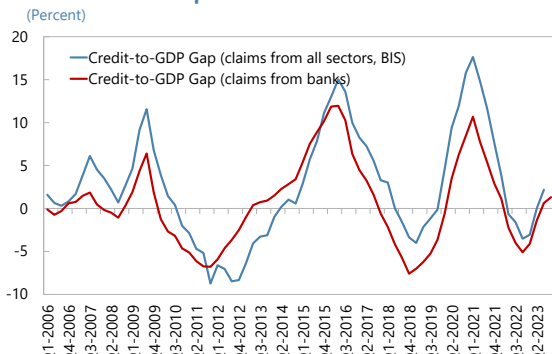
Sources: Haver Analytics and IMF staff calculations.

**Share of Claims on Government and GRE in Bank Assets**



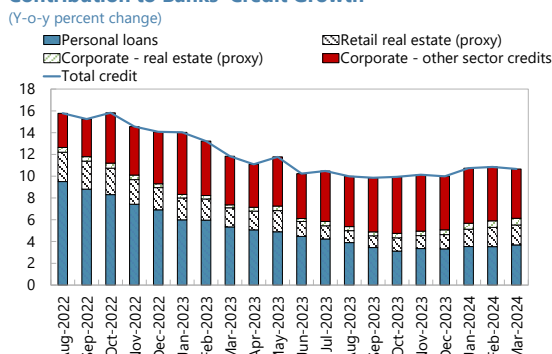
Sources: Haver Analytics and IMF staff calculations.

**Credit-to-GDP Gap**



Sources: IMF staff calculations.

**Contribution to Banks' Credit Growth**



Sources: Haver Analytics and IMF staff calculations.

**36. The 2024 FSAP underscores the good progress made in enhancing Saudi Arabia’s banking regulatory and supervisory framework, which will be further strengthened through ongoing reforms (Annex X).** The draft Banking Law is expected to be submitted soon for approval to the legislative authority—which should help further align the framework with the Basel Core Principles, including by enhancing SAMA’s operational independence and powers. SAMA should continue to actively engage with banks and move to more qualitative on-site assessments, while the existing gaps in regulatory coverage (such as transfer and country risk, operational risk, risk management, and complete coverage of related party exposures) should be addressed. SAMA has made good progress in developing the legal framework for bank resolution and should complete the implementing regulations. SAMA should ensure effective implementation of the recently issued regulations on Islamic banking, particularly those relating to liquidity risk management by Islamic windows.

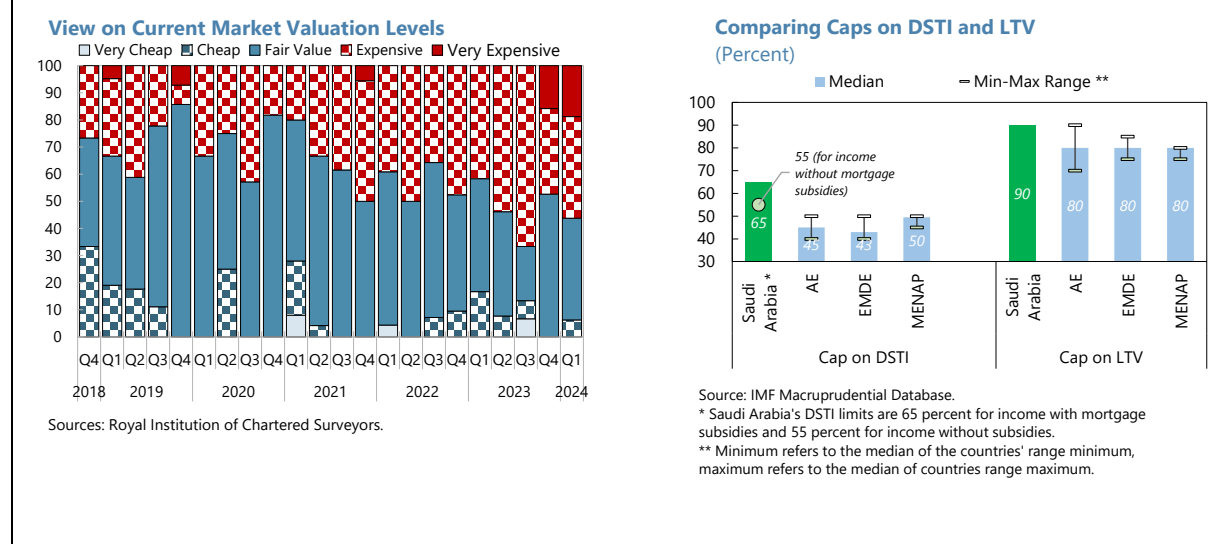
**37. Safeguarding financial stability remains important, including through addressing existing data gaps.** SAMA, in its role as secretariat of the National Financial Stability Committee, is upgrading the methodology for calculating a National Financial Stability Index by aligning its structure with the interconnectedness map. In this regard, it is important to continue work on



addressing the existing data gaps, including by improving data collection on households and corporate sectors and establishing a monitoring framework for the financial sector's exposure to large infrastructure projects. This information should then be incorporated into SAMA's risk monitoring and stress-testing framework, which will corroborate the ongoing efforts to develop scenario-based stress testing framework aligned with IFRS9 for credit staging and provisioning. Monitoring funding concentration is also important.

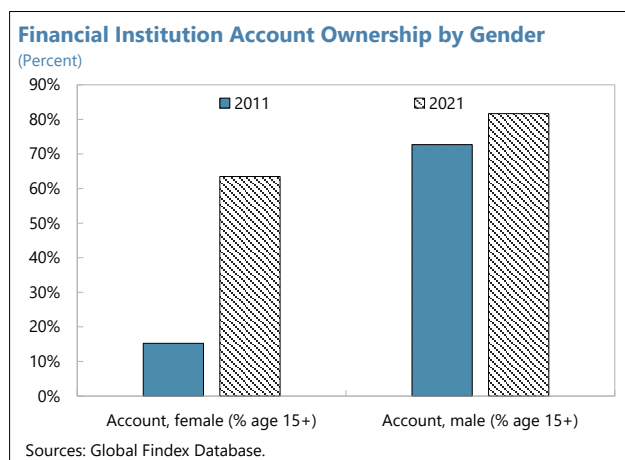
**38. Macroprudential tools should be used to forestall possible risks of a lending boom amid large infrastructure projects and measures to increase the homeownership rate.** Well-capitalized banks, various government subsidies, full recourse mortgages, loan repayments through direct salary deductions of public sector employees, and existing loan-to-value (LTV) and debt-service-to-income (DSTI) limits help contain risks from the rapid growth of mortgage lending. To further reduce risks going forward, there is now a good opportunity to introduce a positive neutral countercyclical capital buffer (CCyB). If elevated credit growth persists or rises further as Vision 2030 project implementation picks up, the authorities should consider tightening the existing macroprudential tools, such as LTV and DSTI limits (which are relatively high in international comparison), the guideline on the loan-to-deposit ratio (which has a reduced weight for wholesale funding) and/or reducing reliance on non-deposit sources of funding. Addressing the existing gaps in housing prices and developing a reliable house price index will also be important for accurately capturing signs of overheating or market deterioration.

**Text Figure 17. Saudi Arabia: Market Valuation and Borrower-Based Macroprudential Measures**





**39. Financial inclusion has substantially increased over the last decade, although some gaps remain (Table 6).** In 2021, an estimated 74 percent of adults had an account with financial institutions (including mobile money accounts), up from 46 percent in 2011. In addition, 63 percent of females had an account compared to 82 percent of males, an important improvement in addressing the gender gap since 2011 when the same numbers stood at 15 percent and 73 percent, respectively. While progress is remarkable, the quick adoption and implementation of SAMA's National Strategy under the Financial Sector Development Program would be important for further fostering financial inclusion and literacy, particularly for underserved segments.



**40. SAMA should maintain efforts to strengthen the effectiveness of AML/CFT supervision.** Improvements were recently made to automate the AML/CFT risk assessment matrix and enhance the accuracy, validation, and analysis of the data on risk that is collected from reporting entities, including Fintech companies. As the financial sector expands and diversifies, the ML/TF risk assessment should continue to capture the evolving risks and give adequate weight to potentially higher-risk financial activities. Conducting targeted inspections on key due diligence measures (which have already increased in 2023) and levying sanctions for non-compliance, should further enhance the effectiveness of implementation.

**41. Authorities' Views.** The authorities noted the strength of the banking sector, as acknowledged by the FSAP stress tests and by performance well above Basel requirements (solvency, provisioning, liquidity). They agreed with the importance of adopting the new Banking Law without delay and the need to complete the ongoing reform efforts to strengthen financial safety nets. The authorities emphasized that some recommendations will be addressed when the updated Banking Law becomes effective, including the recommendations to improve the licensing process or to enhance the regulations on significant ownership transfer, as well as explicitly articulate all the powers required for effective banking supervision. The authorities appreciated several recommendations to improve the regulations on related parties but regretted that the FSAP did not sufficiently acknowledge the significant progress in developing this framework since the previous FSAP in 2017. The authorities noted they are monitoring the developments in the sovereign-bank nexus, including through PIF activities and giga projects. They stressed that they approach banking supervision through the Basel Core principles, with Islamic financial regulation being complementary.

**42. Authorities' Views.** The authorities highlighted that risks from real estate lending are appropriately appraised, with valuation by accredited valuers. Through GASTAT, they are also

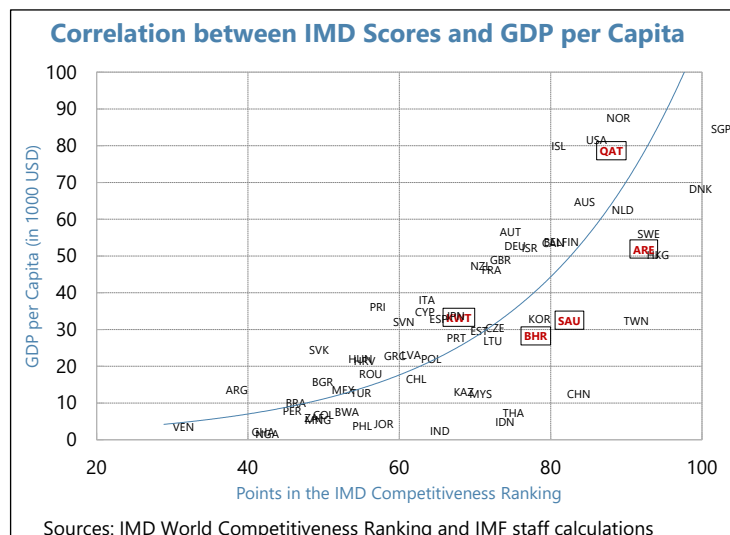
working on a new housing price index that would help address some of the existing data gaps. The authorities agreed that tighter macroprudential tools—including LTV and DSTI limits—could be considered if credit (including mortgages) were to increase rapidly. They highlighted that an assessment would first be needed before introducing a positive neutral CCyB.

## D. Structural Reforms

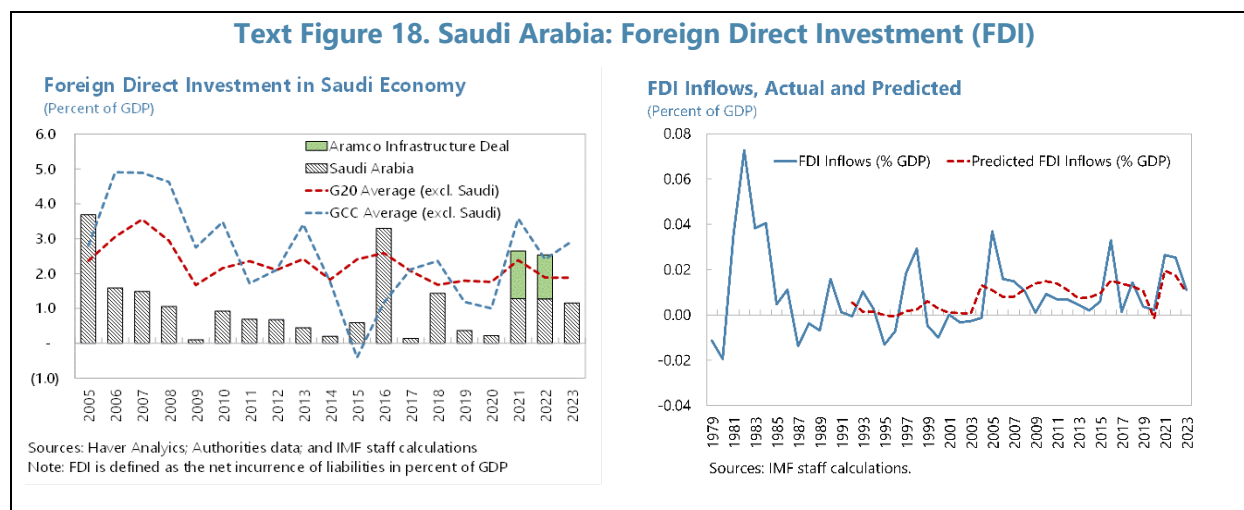
**43. Reforms to enhance Saudi Arabia’s attractiveness for foreign investment are progressing.** Saudi Arabia climbed 16 notches in the IMD’s World Competitiveness ranking in three years, reaching the 16th position globally in 2024, while the AT Kearney survey indicated that 50 percent of survey

respondents were “more optimistic” about investing in the Kingdom. The number of foreign investment licenses issued reached a record high, nearly doubling from its 2022 level. The Regional Headquarters Program is now being implemented, leading 330 firms to apply for licenses to establish their regional headquarters in the country. However, gross FDI inflows—which were historically linked to oil price fluctuations and now increasingly coming from

strategic sectors, non-energy, and Asia—only averaged 2.1 percent of GDP (about 1.2 percent of GDP after excluding Aramco’s infrastructure transactions), lower than inflows into peer economies and significantly lower than the 2030 target even after the upwards revision following the new methodological framework (Box 4). In line with the trend of regional peers, total factor productivity growth has also been declining since the mid-1970s.

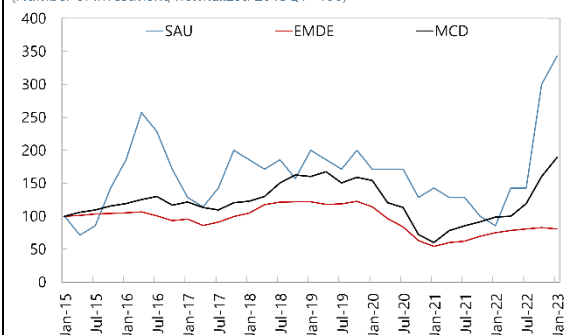


Text Figure 18. Saudi Arabia: Foreign Direct Investment (FDI)



**Text Figure 18. Saudi Arabia: Foreign Direct Investment (FDI) (concluded)****Strategic Foreign Direct Investment, Saudi Arabia and Peers**

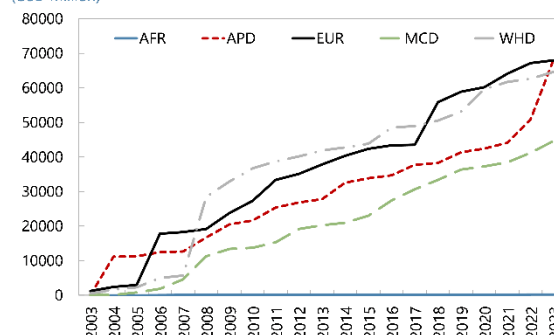
(Number of investment; normalized 2015Q1=100)



Sources: FDI Markets, Atlantic Council, NL Analytics and IMF staff calculations.

**Cumulative FDI Inflows by Region**

(USD Million)



Sources: FDI Markets and IMF staff calculations.

Note: The FDI predicted values are extracted from an OLS model using the explanatory variables: Real GDP growth (t), Oil (t), VIX (t), U.S. 10-Year (t), Debt/GDP (t-1), Fiscal Balance/GDP (t-1), and Current Account/GDP (t-1). The only significant variable is oil prices.

**Box 4. Saudi Arabia: New Methodology of FDI Statistics in Saudi Arabia**

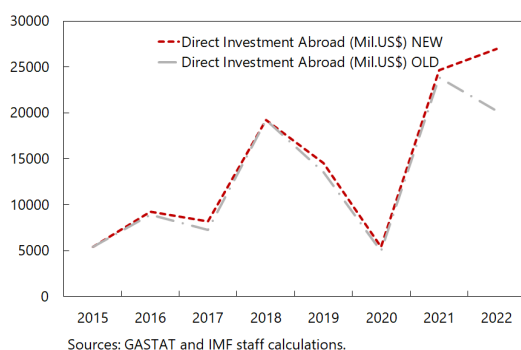
Prior to 2024, inward FDI statistics were published by SAMA based on historical data provided by SAGIA (MISA since 2020) and various assumptions. With the collaboration of MISA, GASTAT, and SAMA and with support from IMF technical assistance, a detailed FDI dataset based on an enhanced methodology was released in January 2024 by GASTAT and MISA.

- **Expanded Data Sources:** The new inward FDI statistics are based on analysis of firm-level financial statements obtained from multiple sources: (i) MISA database covering all firms with foreign licenses; (ii) Saudi Stock Exchange (Tadawul) for financial statements of listed companies; (iii) Real estate investments owned by non-residents (Ministry of Justice); (iv) Ministry of Commerce database that covers details of Gulf companies; and (v) International database and company websites. To avoid double counting of subsidiary companies, only stand-alone companies' financial statements have been used, not those of consolidated companies.
- **Enhanced Methodology:** IMF staff fully endorses the new methodology, which is aligned with best international practices and the IMF's BOP manual, such as reverse investment cases, types of foreign investment (e.g., direct, portfolio, other investment), residency criteria, etc. FDI data of listed companies are estimated based on their market price traded in Tadawul, while FDI data of non-listed companies are calculated based on their own fund at book value. The revised FDI series led to some revisions in the BOP data for 2006-2022.
- **Comparison of old and new FDI statistics:** The new gross FDI inflows are 62 percent higher than the old statistics for the total of 2020-2022, including an uptick in 2021-22 that reflects a large Aramco infrastructure deal. On the other hand, FDI stocks have been revised lower. The new series provide a higher level of granularity in terms of flows by sectoral activities, country of residence, and administrative regions.\* It is anticipated that the new series will provide more informed guidance for policy formulation and decision-making.

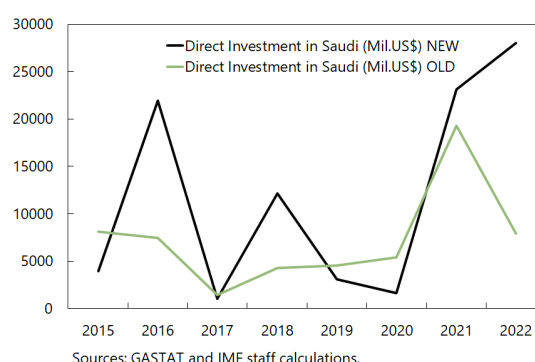
Note: \* FDI statistics published by GASTAT do not contain regional breakdown, but FDI data published by MISA do.

### Box 4. Saudi Arabia: New Methodology of FDI Statistics in Saudi Arabia (concluded)

**Box 4. Figure 1. Flows of Direct Investment Abroad**  
(USD Million)



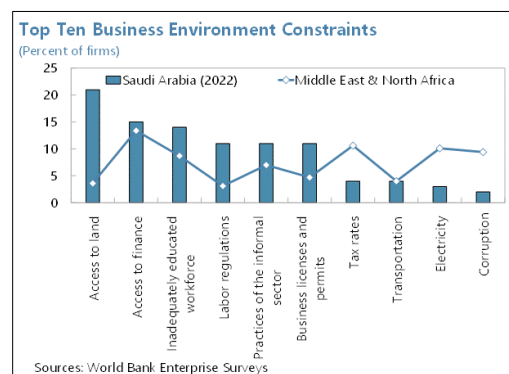
**Box 4. Figure 2. Flows of Direct Investment in Saudi Arabia**  
(USD Million)



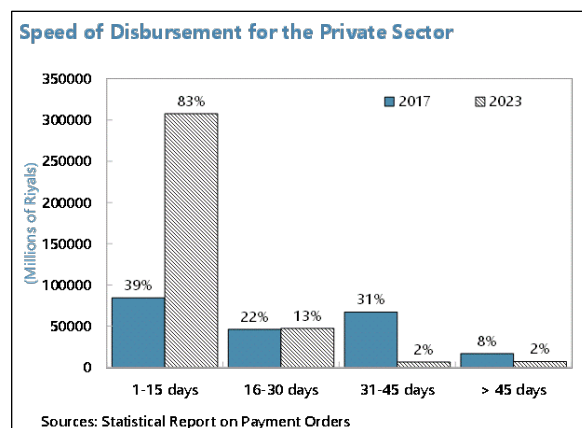
**44. The success of Vision 2030 hinges on continued diversification efforts, effective implementation of reforms, and the ability to adapt to global economic shifts.** Enhancing private sector development will require providing more clarity to investors and removing remaining bottlenecks identified, including those in the regulatory and business environment. Reducing costs and increasing investment efficiency, facilitating foreign entry, reforming a segmented labor market, enhancing digitalization, and strengthening governance are important reform priorities necessary to enhance diversification efforts and growth. Developing a framework for regulatory impact assessment will also be important to inform reform plans. Continuing to sustain the reform momentum—irrespective of international oil price movements—will be essential.

**45. The impressive efforts taken to overhaul the business environment and eliminate regulatory barriers are welcome and should be accelerated.** Key priorities include:

- Legislation and its effective execution.** The implementation of the new law on civil transactions adopted in January 2024 is expected to provide greater certainty, predictability, and reliability in contract enforcement (including in construction and employment), financial transactions, property rights, and dispute resolution. This predictability for investors will be enhanced by the forthcoming adoption of the investment code, which will provide a level playing field for Saudi and non-Saudi investors by protecting investors' rights. The ongoing work on the commercial transactions and the consumer protection laws are also expected to strengthen the legal framework and improve market functioning. Ensuring proper application of these laws—including through proper training of the judiciary and by issuing implementing decrees—would be essential.

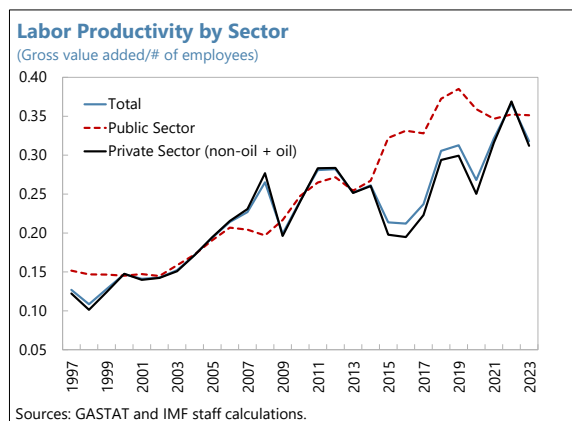


- The **procurement** code has been improved, and in line with the Etimad platform, payment delays—a significant constraint to doing business in the past—have been significantly reduced, with 83 percent of the payments now processed within 15 days. Private sector contractors can also now follow the status of their claims directly in the Etimad platform.
- Finalizing the exercise on **streamlining existing fees and levies**—which are currently costed through the National Competitiveness Center—would remove an important constraint for operating SMEs in Saudi Arabia.
- Ongoing work to open **land access** (including industrial) and further facilitate **entry of foreigners**—including through new residency programs— would help stimulate FDI.
- Sectoral thresholds on **employment Saudization** continue to be implemented, but a reassessment of requirements is needed to reduce pressure on certain expanding sectors that are being constrained.



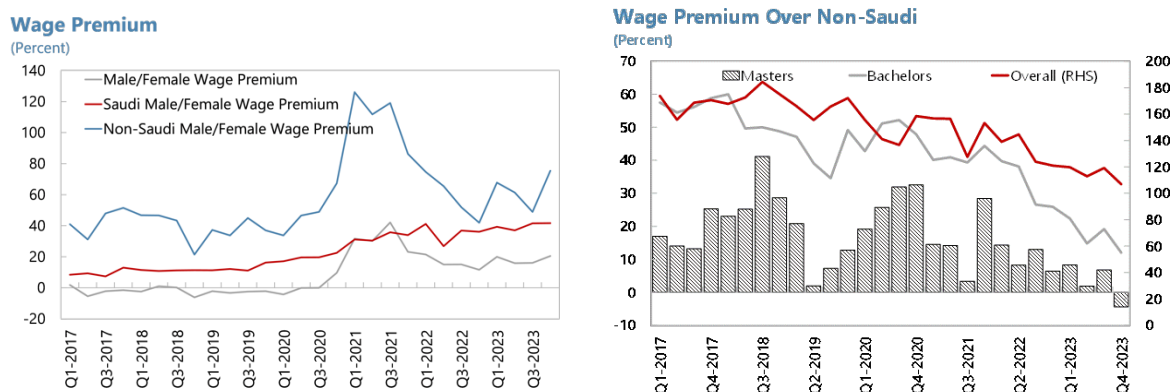
#### 46. Labor market reforms are advancing well to respond to the market need for skilled workers, but more is needed to increase labor force participation and reduce wage gaps. The

implementation of the Human Capability Development Program is steadily progressing through skill planning and integration of labor market demand. Such programs—which are also necessary to reduce the skills mismatch and wage gaps in the workforce—would also be essential to further move up the labor force participation rate. Ongoing initiatives—including greater childcare assistance, remote work options, training and scholarship, greater representation of women in leadership positions, and full use of the



authorities' gender budgeting program—should be accelerated to further expand female labor force participation and reach the newly set 40 percent target for 2030. While labor productivity in the public sector has improved relative to the private sector, the shift of more entities from civil service to the more flexible labor code, as well as ongoing work to provide unified By-Laws for salary scales in government and other government-related entities, should help close the wage gap with the private sector. Greater Saudization in the private sector—along with more training programs—should help narrow the expatriate/Saudi wage gap.

Text Figure 19. Saudi Arabia: Wage Premiums

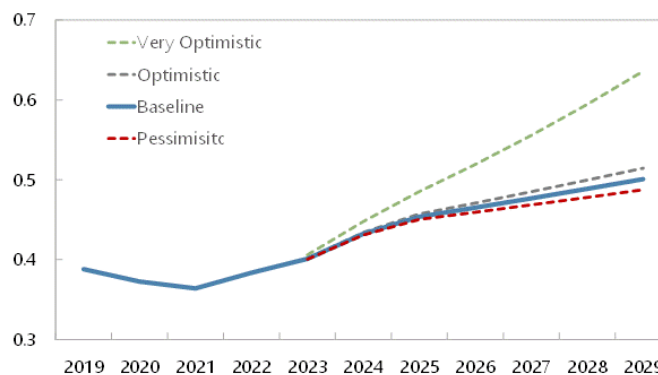


Sources: GASTAT and IMF staff calculations

**47. Saudi Arabia has made significant strides in digital transformation.** It has closed the gaps with Advanced Economies (AEs) with respect to the average on infrastructure, internet usage, and quality, while outperforming the AEs on knowledge. Efforts to enhance the Fintech ecosystem further through financial regulation compliance, sustained funding, and talent development—including through regulatory sandboxes and partnerships with international fintech companies—should be continued. Regarding Artificial Intelligence (AI), Saudi Arabia is making significant investments in AI technologies, with a strong emphasis on enhancing productivity and economic diversification through AI infrastructure and talent development, positioning it favorably in AI readiness comparable to high-income countries. While uncertainty remains regarding the full impact of AI, these initiatives are expected to improve labor productivity, thereby driving efficiency up and fostering growth across various sectors.

#### Labor Productivity by AI Scenarios

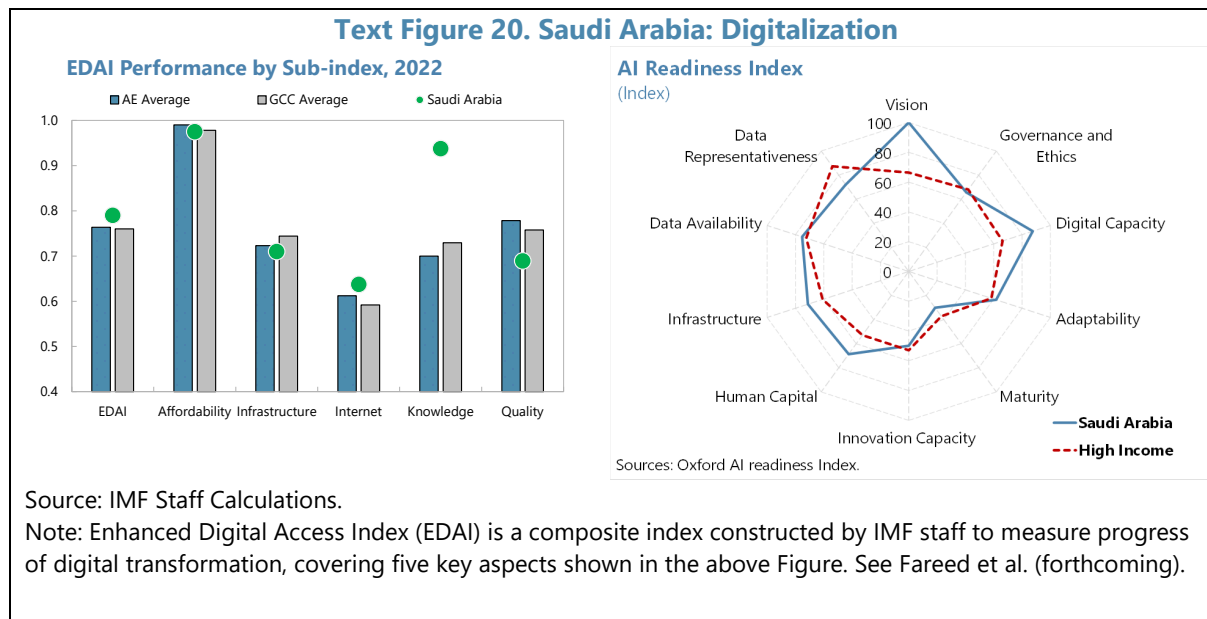
(Gross value added/# of employees, 4-year moving average)



Sources: IMF staff calculations.

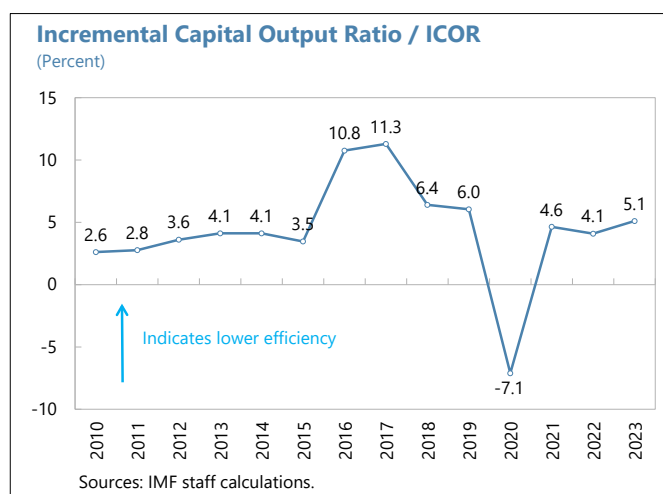
Note: Our analysis encompasses four scenarios where (i) Estimated Productivity Boost =  $\sum$  (Sectoral Employment Share  $\times$  Global AI Productivity Impact) and (ii) Global AI Productivity Impact is the estimated impact of AI on labor productivity by sector, based on a meta-analysis from recent research on AI (and market analysts' estimates). Please see SIP, Saudi Arabia's Productivity Growth: Drivers and Strategies



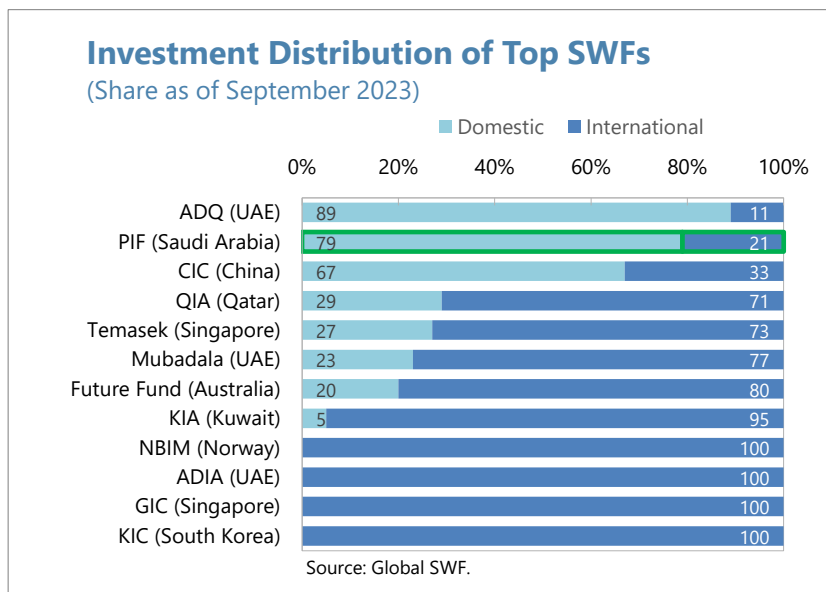


**48. The industrial policy agenda should remain complementary and supportive of the structural reform program.** PIF interventions in various sectors of the economy, local content rules set for procurement contracts by both government and PIF, the implementation of the Regional Headquarters Initiative, and the establishment of SEZs (with tax incentives, exemption from local content or Saudization requirements) are some of the industrial policy initiatives actively pursued as part of Saudi Arabia’s diversification strategy. The multiplication of incentives calls for a strict monitoring mechanism. The authorities’ introduction of claw-back mechanisms, strict exit criteria and time-bound measures should help minimize risks from IPs, which should only target market failures. The operations within the SEZs should be regularly assessed to ensure effective linkages with the broader economy, including through technology upgrading and skills training and consistency with WTO and global taxation rules (e.g., OECD). While staff recognizes the authorities’ commitment to remain WTO compliant, discriminatory provisions (e.g., on local content) should be avoided as they could create distortions in production allocation and elicit retaliatory actions by trade partners. These industrial policies, while significant, should not overshadow progress made in the structural reform agenda through horizontal policies, which remain crucial for economic diversification.

**49. Steps to increase investment efficiency are important.** Proper project design and appraisal are essential to limit cost overruns and ensure high returns on projects, including through proper cost-benefit analysis of giga projects and use of



public-private partnerships, which has been facilitated by the updated regulation on private sector participation, defining risk sharing between the government and private parties. Measures needed to reduce the efficiency gap could include ensuring transparency, accountability, and the adoption of best practices in project implementation. Utilizing the PIF—which has an increasing share of its asset portfolio exposed to the domestic economy—to increase returns on private investment without crowding out private sector activity would entail coordination with private entities to align risk assessment, commercial goals, and development-related outcomes, as well as a clear communication of the PIF’s exit strategy and judicious use of PPPs. The crowding-in effect of the private sector showing higher returns from the PIF should continue to be regularly assessed and reviewed.



## 50. Strengthening

**governance remains an important priority.** Progress is being made to strengthen the overall anti-corruption framework, including to enhance enforcement and strengthen the transparency of public procurement. In February 2024, Saudi Arabia has approved a law providing legal protection for whistleblowers. Though progress is also being made towards an enhanced framework for prosecuting illegal enrichment, the establishment of an asset declaration framework has been delayed, notably as by-laws of the anti-corruption agency Nazaha still need to be adopted. Further progress in establishing accurate and up-to-date beneficial ownership information and effective due diligence on politically exposed persons will help ensure a more effective prevention and disruption of corruption. The authorities have taken additional measures to address transnational aspects of corruption and are encouraged to continue these efforts (Box 5).



### Box 5. Saudi Arabia: Transnational Aspects of Corruption\*

#### **Though facing limited foreign bribery risks, the authorities continue to take mitigation measures.**

Out of the 500 largest multinational enterprises (MNE) in the world, five are headquartered in Saudi Arabia, and the scale of outward FDI is moderate.\*\* In recent years, the country has taken an array of legislative and institutional measures to fight against foreign bribery, including amending the anti-bribery law and establishing the Department for Combating Foreign Bribery within the Nazaha (Oversight and Anti-Corruption Authority). However, Nazaha has not initiated any foreign bribery case. Legal persons can be held criminally liable for foreign bribery and the new law providing legal protection for reporting persons, witnesses, experts and victims is an important step with respect to foreign bribery. In addition, Nazaha continues to raise awareness on foreign bribery (including organizing workshops and issuing brochures in different languages). Saudi Arabia has extended its participatory status in the OECD Working Group on Bribery for another two years, with additional efforts taken to seek accession to the OECD Anti-Bribery Convention.

**The authorities are encouraged to continue to implement measures that mitigate the risk of concealment of proceeds of foreign corruption or “facilitation issues.”** This includes measures to ensure that: (i) accurate and up-to-date beneficial ownership information is maintained on all legal persons; (ii) effective due diligence measures are implemented towards foreign politically exposed persons; and (iii) anti-corruption law enforcement agency prioritizes confiscation of the instrumentalities and proceeds of crime.

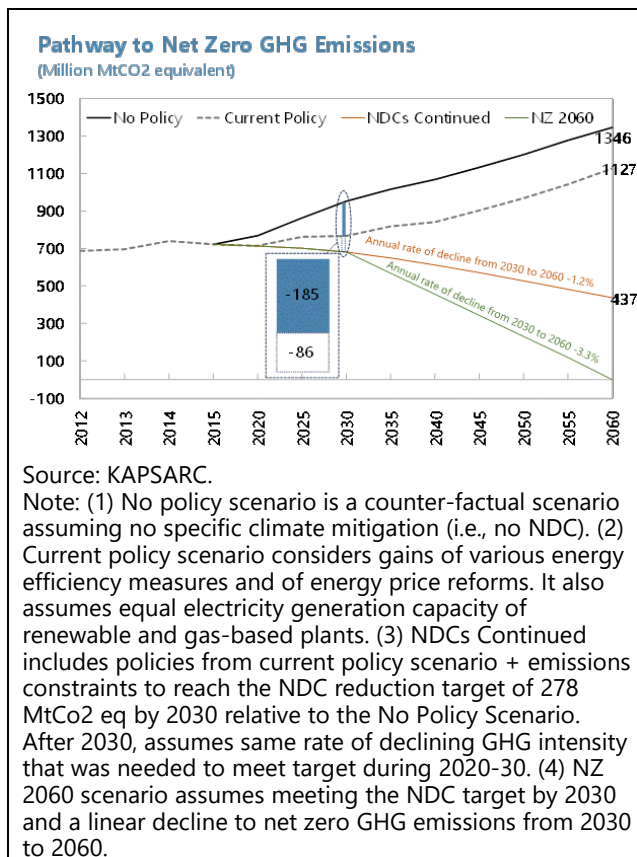
Notes: \* Saudi Arabia volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (a) criminalizes and prosecutes the bribery of foreign public officials and (b) has an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption.

\*\* See [OECD-UNSD Multinational Enterprise Information Platform](#), and International Financial Statistics International Investment Position, Assets, Direct investment [BPM6].

**51. Saudi Arabia is advancing its climate policy agenda.** The Kingdom has reiterated its ambition to achieve net zero emissions by 2060 in the recent COP28. Under current policies, staff’s analysis shows that emissions will remain relatively constant by 2030. However, they are expected to grow subsequently further, in line with the economy’s expansion by 2060 (text chart). Achieving the 2030 NDC target<sup>1</sup> would require doubling down on impressive steps taken to increase renewable energy, and energy efficiency (Box 6). It would also require eliminating energy subsidies—which according to staff’s previous analysis would help Saudi Arabia achieve a third of its 2030 emission reduction target—as well as deploying Circular Carbon Economy (CCE) technologies (Text Figure 21).

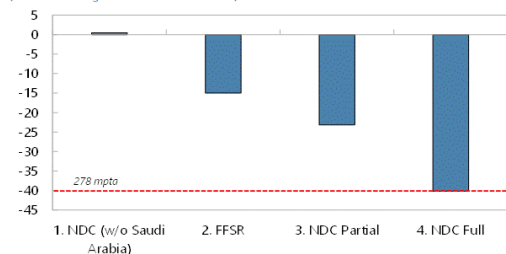
<sup>1</sup> Saudi Arabia’s NDCs aimed at reducing emissions by 278 MtCO<sub>2</sub> equivalent. They are based on the dynamic baseline approach, which is consistent with the Paris Agreement, taking into consideration the country’s national circumstances. The two baseline scenarios outlined in the NDC differ in the nature of diversification and the assumptions on whether hydrocarbons produced are for domestic consumption or export – notably that the export of these hydrocarbons will not add to Saudi Arabia’s GHG emissions.

Augmenting the active green finance portfolio—including through an inaugural sovereign green bond issuance planned this year—would help mobilize private capital for investments in clean energies and adaptation to climate change. Consistency of the various initiatives and objectives set for 2030, 2050 (net zero emissions target for Aramco and PIF) and the 2060 net zero target should be evaluated, while a clear costing and detailing of specific initiatives linked to each target will help assess the progress and adjustment necessary to reduce emissions in line with the Kingdom’s plans.



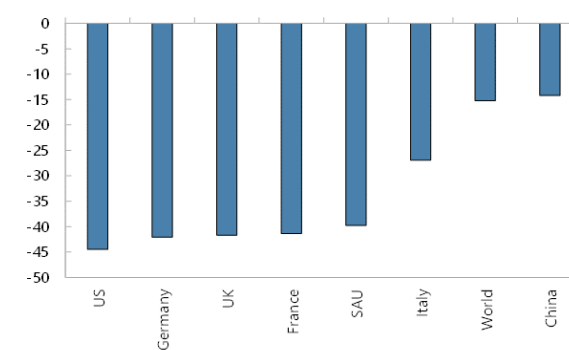
**Text Figure 21. Saudi Arabia: Projected GHG Emissions and Climate Policy Scenarios**

**Total GHG Emissions for Different Policy Scenarios in 2030**  
 (Percent change w.r.t. baseline values)



Sources: IMF staff estimates. NDC= Saudi Arabia does not adopt NDC; 2. FFSR= Gradual phaseout of subsidies by end 2030, partially recycled toward social safety net; 3. NDC Partial=FFSR and measures to enhance renewable energy generation; NDC Full = NDC Partial combined with CCUS deployment to close the mitigation gap.

**Total GHG Emissions for NDC Scenarios in Different G20 Countries in 2030**  
 (Percent change w.r.t. baseline values)



Sources: Climate Watch, authorities' data; IMF staff calculations.

### Box 6. Saudi Arabia: Progress on Climate Change Initiatives

**Saudi Arabia has embarked on comprehensive initiatives aimed at reducing GHG emissions and decarbonizing its economy.**

Saudi Arabia has among the world's largest emissions per capita, mainly driven by the large size of the energy sector, though the country has the second lowest carbon intensity level among all major producers, just behind Denmark. In 2023, the Kingdom managed to lower its scope 1 emissions by 2.3 percent while maintaining lower scope 2 emission levels than in the pre-Covid period despite higher oil production. This was enabled by reduced flaring intensity (5.5 percent lower than in 2020). To reach their NDC target by 2030 and net zero by 2060, with Public Investment Fund and Aramco planning to reach the net zero target by 2050, widespread efforts across the economy should continue:

- **Renewable energy.** Existing capacity has increased four-fold over the past year to 2.8GW, and tenders have been issued for 14.4 GW while 8.2 GW of additional capacity is in several stages of development so that 23 GW capacity is expected to be installed by end-2024. To generate half of the country's energy from renewable sources by 2030, the authorities have recently revised significantly upwards their renewable energy 2030 target from 58.7GW to 100-130 GW to better account for the economy's continued expansion. From 2025 onwards, Saudi Arabia plans to reach that target with 20GW of new renewable energy capacity a year, with ACWA Power (a PIF subsidiary) expected to generate up to 70 percent of that, with the rest to be tendered by the Saudi Power Procurement company through a competitive bidding process. This expansion is also made easier by an electricity that is vertically integrated and centralized land allocation, with the Ministry of Energy already having conducted a country wide geographical survey.
- **Saudi Energy Efficiency Program (SEEP).** To improve energy efficiency in the industrial, government, and commercial sectors, rigorous energy efficiency standards in buildings, regulations of thermal insulation materials and air conditioning coupled with more stringent standards and labels for appliances and vehicles are expected to contribute significantly to lowering emissions. Savings are also generated by the adoption of efficient technologies to reduce energy intensity. Programs to increase the use of electric vehicles and develop public transportation—including with the metro in Riyadh, , contribute to these efforts. Overall, the SEEP program, which started in 2012, resulted in savings of 492,000 barrels of oil equivalent per day in energy consumption as of end 2022—this includes reduced energy intensity in the iron, cement and petrochemical sectors of 2-3 percent between 2011 and 2019.
- **Methane Pledge.** Saudi Arabia has joined the Global Methane initiative, with initiatives such as the Master Gas initiative that will help reduce emissions. In 2023, Aramco managed to reduce its upstream emissions by 5.1 percent and maintained an upstream methane intensity of 0.05 percent. In addition, existing deployed technologies such as Leak Detection and Repair Program, flare gas recovery system, methane satellite monitoring are helping the Kingdom to effectively manage its emissions and reduce it further.
- **Liquid Displacement Program (LDP).** The LDP includes expanding the master gas system adding around 4000 km of new pipeline and deliver gas to new industrial cities, converting liquid-based power and desalination plants to gas/ reverse osmoses, retire liquid based power plants and building new highly efficient thermal gas fired power plants. The authorities expect the LDP to reduce carbon emissions by at least 175 MTPA by 2030.
- **Hydrogen market.** Saudi Arabia plans to leverage its significant resources to produce and export both blue and green hydrogen competitively. Despite the challenges in securing offtake agreement which are necessary to build hydrogen projects, the Kingdom succeeded in securing 30-year offtake agreement for its NEOM green hydrogen project, expected to start in 2026 and valued at \$8.6 billion.
- **Carbon capture, utilization, and storage (CCUS) technologies.** The Kingdom is currently capturing 1.3 million tons per year through SABIC United Plant and Uthmaniyah project. It is also building one of the world's largest CCS hubs, which will be operationalized by 2027 with a capacity of 9 MTPA (Million ton per annum) of CO<sub>2</sub>. By 2035, the hub is expected to capture 44 million tons of CO<sub>2</sub>eq per annum of CO<sub>2</sub>. Front-end engineering design (FEED) studies have been completed and the storage sites have been identified.

**52. Data provision remains broadly adequate for Surveillance (Annex XI).** Recent improvements in statistics include broader coverage of sectoral activities in national accounts, adoption of a new chain-linked methodology, and new FDI and digital economy statistics. Several initiatives are underway to further improve statistics, including the publication of regional GDP, enhancing the quality of the CPI and the real estate price index, and developing a producer price index and climate-related statistics (all by end-2024). Publication of a new household survey data is expected for October 2024. Data improvements are also ongoing regarding fiscal, BOP/IIP, and coverage of monetary and financial sector data.

**53. Authorities' Views.** The authorities expressed optimism about the rapid pace of reforms and advancements across various sectors. They highlighted the swift removal of legal barriers, the push towards digitalization, education curriculum reforms and improvements in labor markets. These efforts, they highlighted, will significantly boost the private sector, drive productivity growth, and attract even more foreign direct investment, which continues to grow robustly. They noted the positive trend of Saudis joining the private sector, which is helping narrow the wage gap with expatriates. They highlight that they are actively ensuring that the increasing role of the Public Investment Fund (PIF) encourages private investment and aligns with the strategy to diversify the economy.

**54. Authorities' Views.** The authorities pointed out that Special Economic Zones (SEZs) and industrial policies are being meticulously crafted to avoid common pitfalls and remain committed to a rules-based global trade order, ensuring new policies comply with WTO standards. On climate change policies, the authorities reiterated that the implementation of the Saudi and Middle East Green Initiatives—as shown by the rapid scaling up in renewable energy—will help them achieve their NDC target. The authorities highlighted their unwavering commitment to continue improving statistical standards, highlighting that the Data Adequacy Assessment exercise should take into account ongoing reforms to reduce data gaps.

## STAFF APPRAISAL

**55. Saudi Arabia's economic transformation is progressing well, driven by strong domestic demand and sustained efforts to diversify the economy.** Thanks to the authorities' strong reform agenda, Saudi Arabia's economy continues to grow robustly, inflation is contained, and unemployment is at a record low. Ample external and fiscal buffers mitigate vulnerabilities from global and regional shocks. The recent recalibration of investment spending is welcome as it helps reduce overheating risks and maintain fiscal and external sustainability.

**56. Continued fiscal prudence—including through additional fiscal consolidation—would be needed to maintain strong buffers and meet intergenerational needs.** Efforts to sustain revenue mobilization and contain spending—including through the wage bill and some reduction in energy subsidies—are welcome. Additional adjustment efforts are needed and would require designing a comprehensive medium-term revenue strategy that helps close the tax revenue gap by reforming the corporate income tax and introducing a property tax, reviewing existing incentives

and exemptions, avoiding tax amnesties, and strengthening revenue administration. These efforts should be accompanied by continued phasing out of fuel subsidies, including by lifting the existing cap on gasoline prices, which should be complemented by increased recourse to better targeted social programs. Wage bill containment and other measures to enhance spending efficiency would be needed to contain spending.

**57. The authorities' welcome efforts to strengthening fiscal institutions should be pursued.** These include strengthening the MTF, including through a longer time horizon and more realistic revenue forecasts and consistent costing processes. Broader coverage of fiscal data, enhanced cash management, and appropriate fiscal risk framework would help strengthen fiscal governance and track fiscal risks. Operationalizing a fiscal rule that integrates a dual mechanism comprising a ceiling on expenditure growth and a target for the CGNFA should help decrease the synchronicity of budget spending with the fluctuations in international oil prices.

**58. Recent progress in developing a SALM framework should be accelerated.** As more government-related entities access capital markets and increase leverage to support Vision 2030 objectives, operationalizing the recently created framework for SALM and building on its first steps would help the authorities monitor sovereign balance sheet exposures and assess future investment commitments in a comprehensive manner. Careful monitoring and disclosure of contingent liabilities would be important to reduce risks and further strengthen fiscal transparency.

**59. The exchange rate peg continues to serve Saudi Arabia well given the current economic structure and ample buffers.** Saudi Arabia's external position is weaker than that implied by medium-term fundamentals and desired policies, albeit external buffers remain strong. Over the medium term, additional fiscal consolidation and sustained implementation of an ambitious structural reform agenda will help close the gap.

**60. Monetary policy should continue to support the currency peg to the U.S. dollar.** With an open capital account, it is important that SAMA's policy rates continue to move in line with the Fed's policy rate, with the risk premium ensuring an interest rate differential consistent with the peg. Steps taken to improve SAMA's liquidity management framework are welcome. Continued use of market-based monetary policy instruments would be essential to ensure an effective monetary policy transmission mechanism. Finalizing the modalities for the ELA framework remains important.

**61. The banking system remains resilient to shocks, underpinned by continued efforts by SAMA to enhance the regulatory and supervisory frameworks.** Bank solvency and profitability ratios have strengthened further, with recent FSAP stress tests showing banks' resilience even under severe stress scenarios. The ongoing good progress in strengthening its supervisory frameworks—including through its well-established risk-based approach—is welcome. The submission of a new Banking Law—aligned with best international practices—to the legislative authority remains a priority. Efforts to improve the financial safety net are welcome and should be accelerated.

**62. Close monitoring of financial stability is needed to mitigate risks.** While systemic macro-financial risks are low, tightening the macroprudential framework would be necessary if credit growth persists or remains elevated. Introducing a positive neutral countercyclical capital buffer would help reduce risks further. The amplified sovereign-bank nexus calls for continued vigilance, including through proper monitoring of Giga-projects and PIF activities. Data gaps on housing prices or in regulatory coverage should also be addressed.

**63. Reforms to enhance Saudi Arabia's business environment and attractiveness for foreign investment are progressing well.** Making public the impact of the recent recalibration exercise on Vision 2030 objectives and spending priorities would help provide clarity on government priorities and anchor investors' expectations, which would be further helped by the newly enacted laws on civil transactions. Ongoing reforms to ensure effective implementation of the laws, streamline fees, boost human capital, increase female labor force participation, ease access to land and finance, and improve governance should further enhance private sector growth, attract more FDI and contribute to total factor productivity growth. Impressive strides in digitalization and AI would further support these efforts.

**64. The authorities' industrial policies should remain complementary to the structural reform agenda.** Risks associated with industrial policy interventions should continue to be minimized by addressing current market failures with a special emphasis on export orientation, while avoiding discriminatory practices and ensuring they remain WTO compliant. The operations within the SEZs should be regularly assessed to ensure effective linkages with the broader economy. The authorities' ongoing efforts to monitor tax incentives, and plans to include strict exit criteria, claw-back mechanisms, sunset clauses, and time-bound incentives are essential to minimize risks.

**65. Saudi Arabia remains committed to achieving net zero emissions by 2060.** Good progress has been made in increasing renewable energy, increasing energy efficiency, implementing the methane pledge and introducing CCUS technologies. A clear costing and detailing of specific initiatives linked to each target under the authorities' plans will help assess the progress and adjustment necessary to reduce emissions in line with the Kingdom's NDCs and net zero emissions target. Eliminating energy subsidies would incentivize energy conservation and improve returns on investment in renewable energies. Augmenting the active green finance portfolio would be critical for mobilizing private capital.

**66. Improvements in economic data are welcome and should be sustained.** The Kingdom's data provision to the Fund remains broadly adequate for Fund surveillance. Ongoing reforms to close existing data gaps are welcome, including through the use of new household surveys and continued improvements in national accounts, monetary and external statistics, GFS compilation, and data consistency checks.

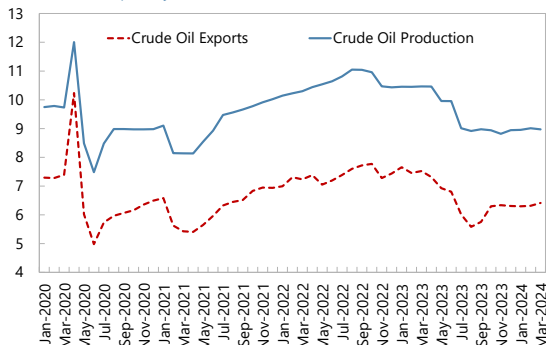
**67. It is recommended that the next Article IV takes place on the standard 12-month cycle.**

**Figure 1. Saudi Arabia: Real Sector Developments**

Oil production has been steadily decreasing, remaining flat over the last year ...

**Oil Production and Exports**

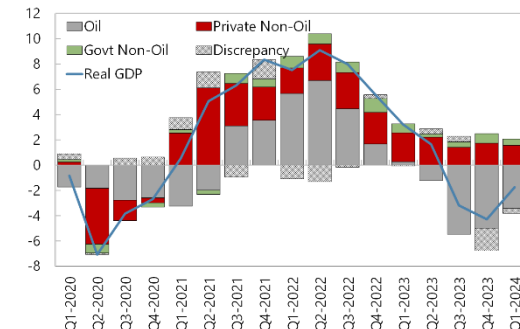
(Million barrels per day)



...with non-oil GDP sustaining the growth momentum...

**Contribution to Real GDP Growth**

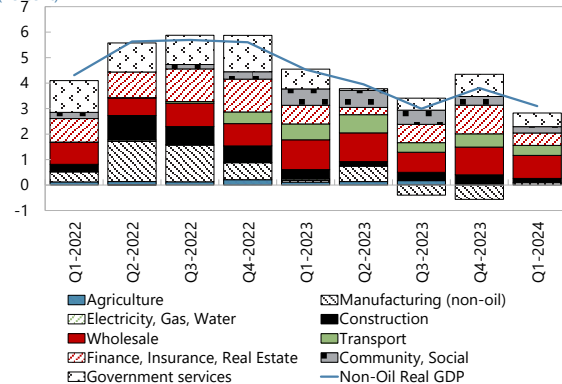
(Percent)



... driven by wholesale, real estate and government services...

**Non-Oil Real GDP Decomposition**

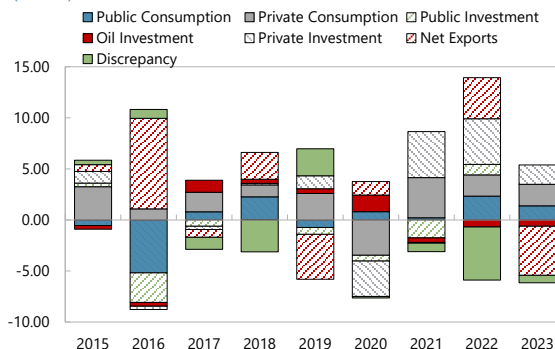
(Percent)



...and growth in private consumption and investment, dampened by net oil exports.

**Real Demand Side Decomposition**

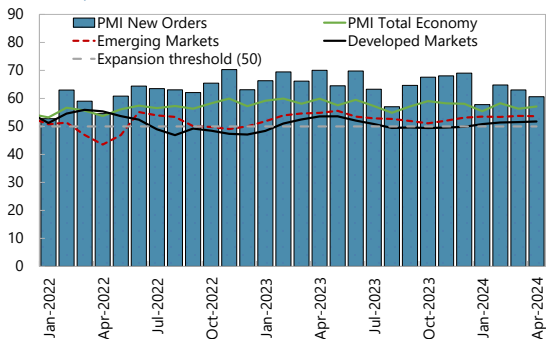
(Percent)



The outlook remains positive as PMI remains strong...

**Purchasing Managers' Index**

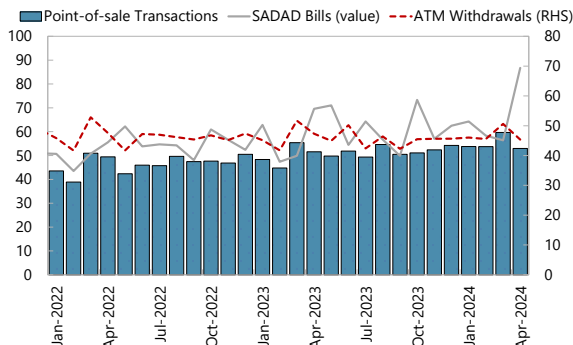
(SA, 50+= expansion)



...with sustained consumption, evidenced by POS transactions and ATM withdrawals.

**Point-of-Sale Transactions and ATM Withdrawals**

(SAR Billion)



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

Note: "Discrepancy" in the chart of real demand decomposition captures the difference between the official real GDP data and the sum of sub-components, as the sub-components no longer add up for the new chain-linked real GDP series.

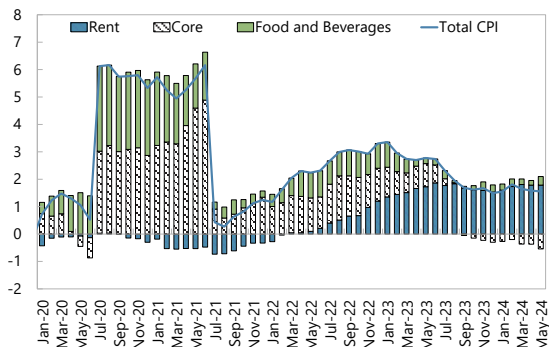


**Figure 2. Saudi Arabia: Inflation Developments**

Headline and core inflation have declined...

**Contributions to Inflation**

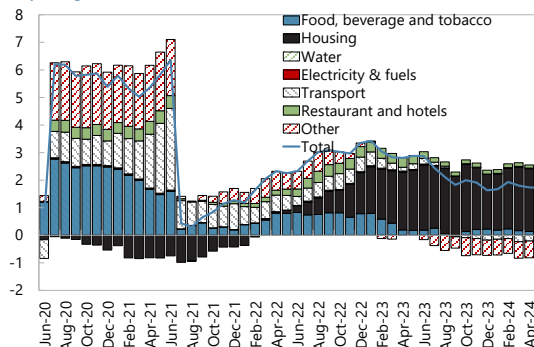
(Y-o-y change in the CPI)



... with the contribution of transport subsiding and housing now dominating.

**Contributions to Inflation**

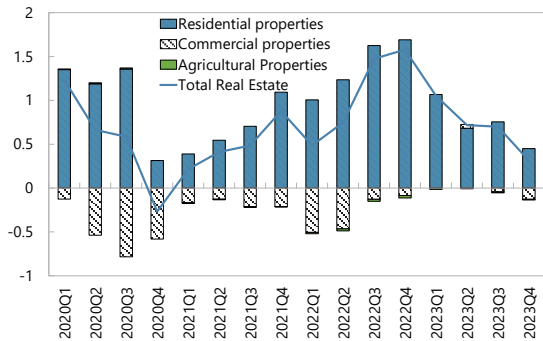
(Y-o-y change in the CPI)



While rents have been on a downward trend more recently...

**Contributions to Real Estate Inflation**

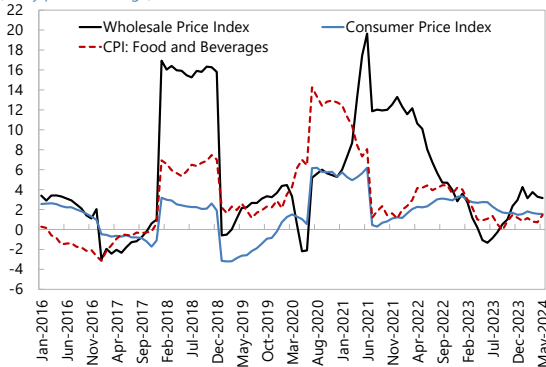
(Y-o-y percent change)



... the wholesale price index has recently edged up.

**Inflation and Wholesale Price Index**

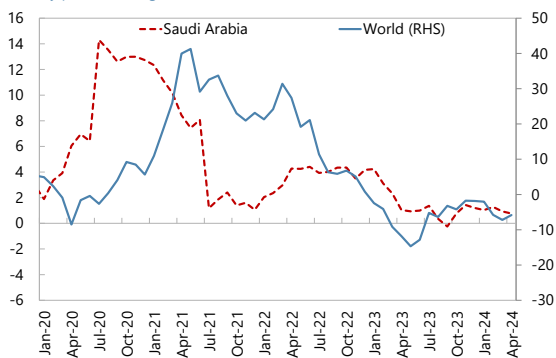
(Y-o-y percent change)



Food price inflation has converged with that of the rest of the world...

**Food Price Indices**

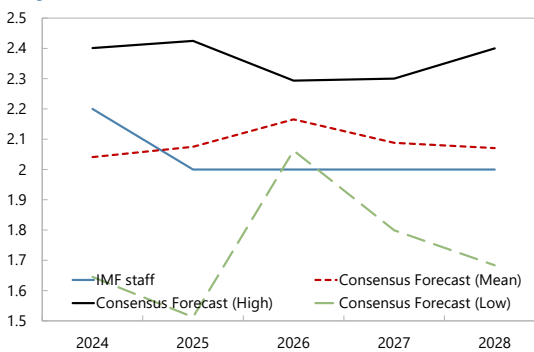
(Y-o-y percent change)



...and inflation is expected to remain contained.

**Consensus Forecast May 2024**

(Average CPI)



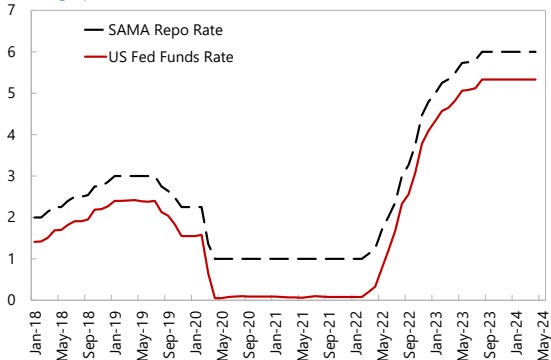
Sources: Haver; country authorities; and IMF staff calculations.

**Figure 3. Saudi Arabia: Monetary and Financial Sector Developments**

Monetary policy is in line with the U.S. rate cycle...

**Policy Rates**

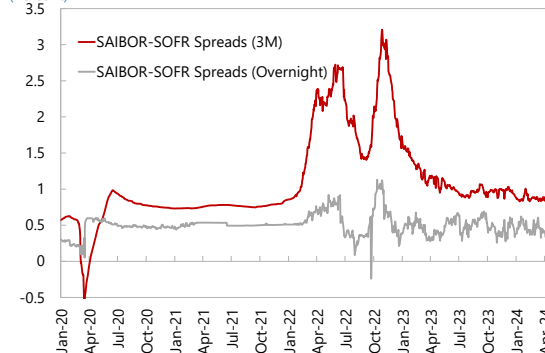
(Average, percent)



...with SAIBOR-SOFR spreads recently stabilizing after two episodes of stress in 2022.

**SAIBOR-SOFR Spreads**

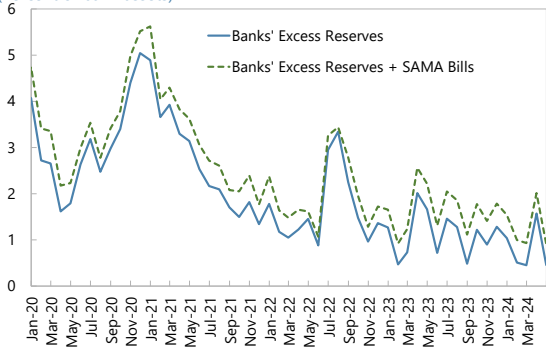
(Percent)



Excess liquidity in the system has diminished...

**Excess Liquidity in Banking Sector**

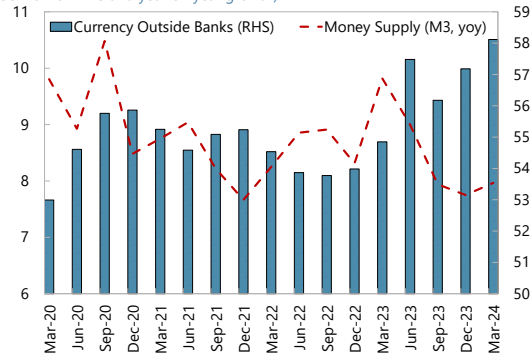
(Percent of bank assets)



...with monetary growth remaining robust.

**Money Supply**

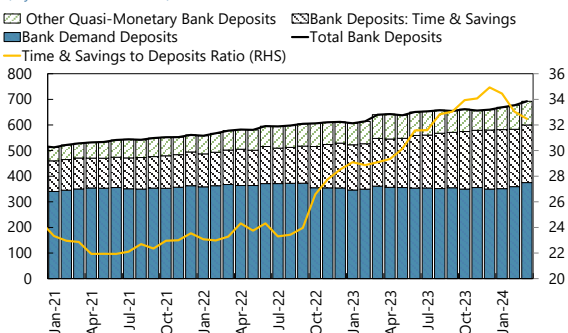
(USD billion RHS and year on year growth)



Shift to time and savings deposits has recently moderated after reaching a peak in 2023...

**Bank Deposits**

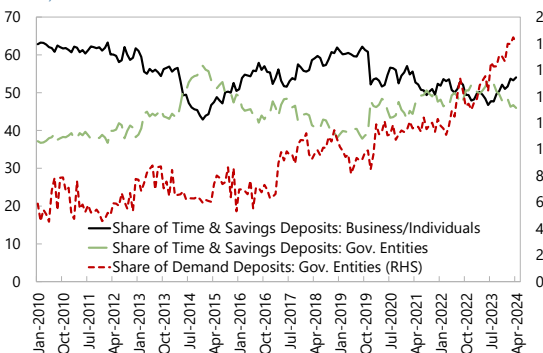
(Riyal Million, Ratio RHS)



...with an increase in the share of deposits from government entities.

**Share of Deposits**

(Percent)



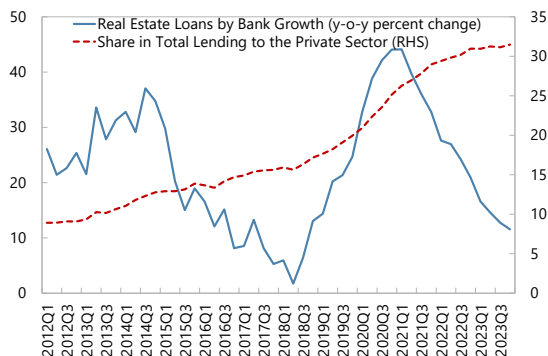
Sources: Haver; country authorities; and IMF staff calculations.

**Figure 4. Saudi Arabia: Banking Sector Developments**

Growth in mortgages has been recently decelerating...

**Mortgage Loans**

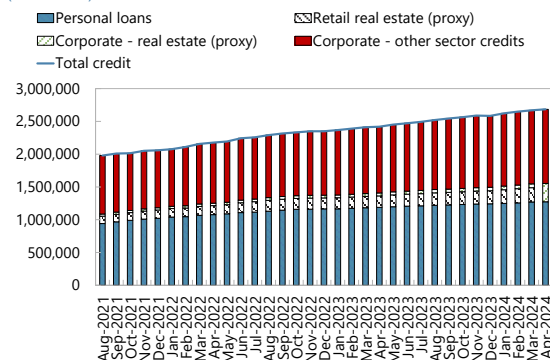
(Percent)



... but corporate loans remain buoyant...

**Composition of Bank Credit**

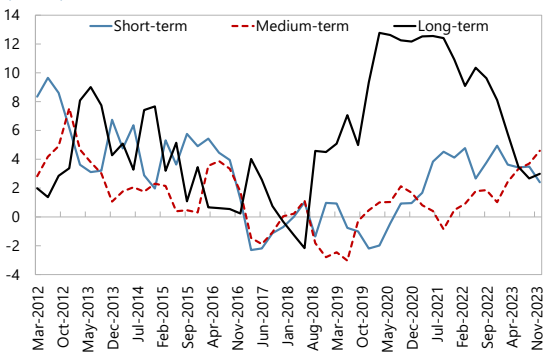
(SAR Million)



...with short and medium-term credit increasingly contributing to credit growth...

**Contribution to Total Bank Credit Growth**

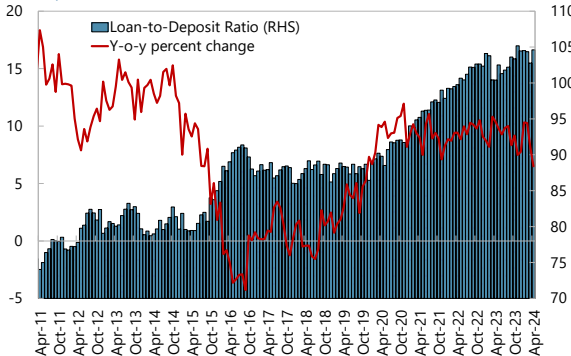
(Percent)



...and in the context of a high loan-to-deposit ratio.

**Commercial Bank Deposits**

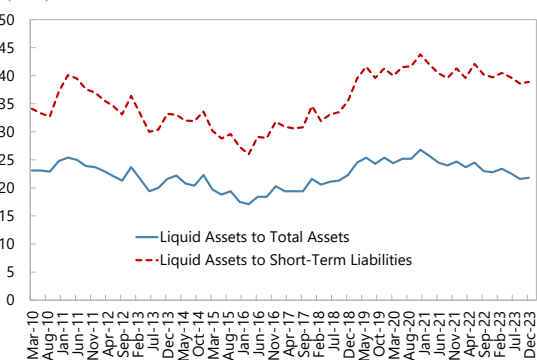
(Ratio, percent)



Liquidity ratios remain adequate...

**Liquidity Ratios**

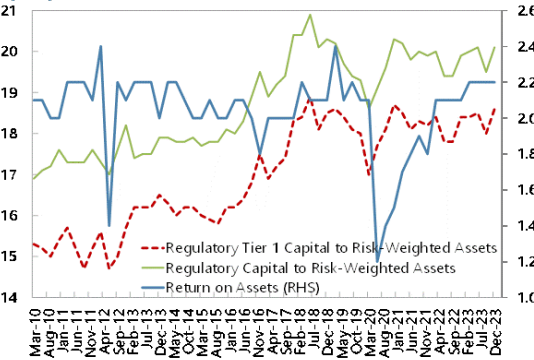
(Ratio)



...and profitability and capitalization are strong.

**Capital Adequacy Ratio and Profitability**

(Ratio)



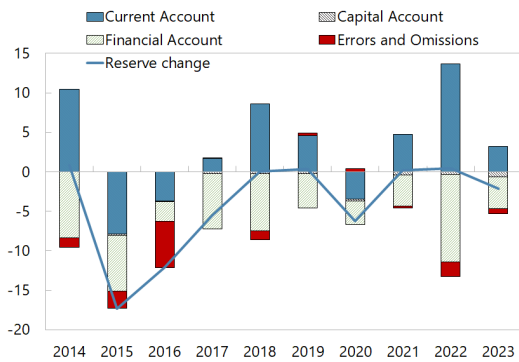
Sources: Haver; country authorities; and IMF staff calculations.

**Figure 5. Saudi Arabia: External Sector Developments**

The current account has narrowed significantly in 2023...

**Current and Financial Account Balances**

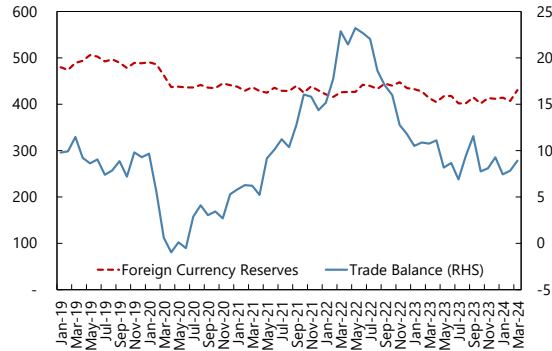
(Percent of GDP)



Reserve accumulation has been tepid...

**Foreign Reserves and Trade Balance**

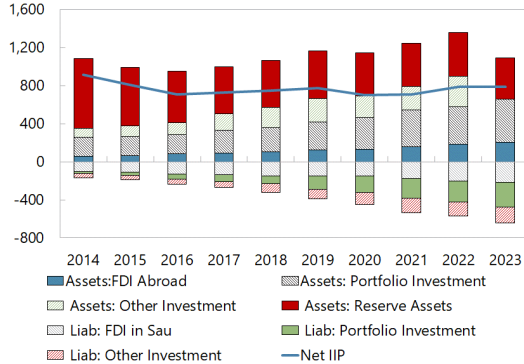
(EOP, USD Billion)



The external balance sheet remains robust, including with reserves exceeding ARA metrics.

**International Investment Position**

(USD Billion)

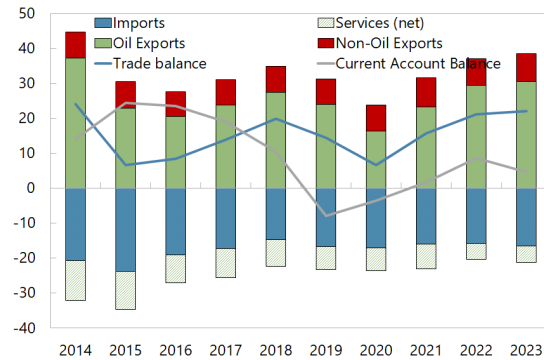


Sources: Haver; country authorities; and IMF staff calculations.

...driven by higher imports and a deficit in net services as growth in tourism was offset by transportation.

**Trade Balance**

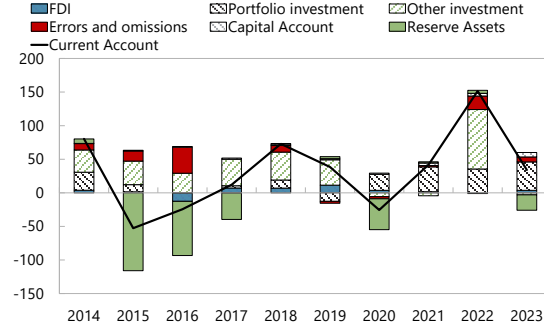
(Percent of GDP)



...while portfolio flows have increased and foreign asset accumulation abroad remained modest.

**Balance of Payments**

(USD Billion)

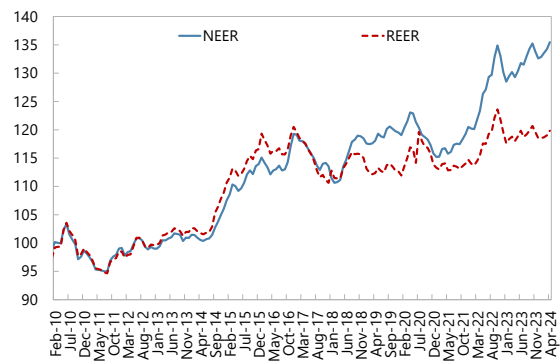


Note: Net flows shown.

The NEER appreciation has been driven by the U.S. dollar, while the REER has remained relatively stable.

**Real and Nominal Effective Exchange Rates**

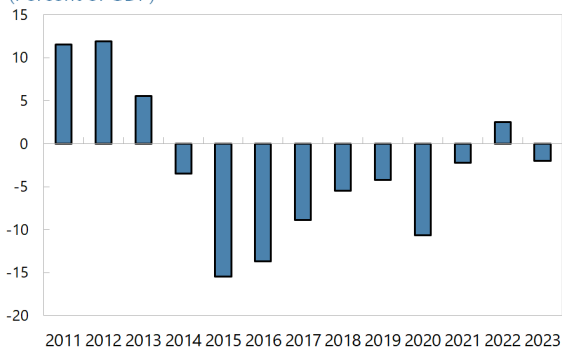
(Index, 2010=100)



**Figure 6. Saudi Arabia: Fiscal Developments**

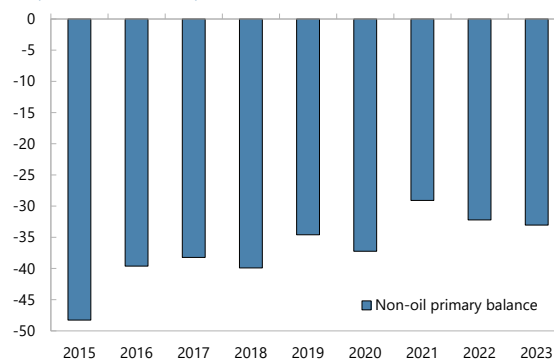
The overall fiscal balance swung back into deficit in 2023...

**Overall Fiscal Balance**  
(Percent of GDP)



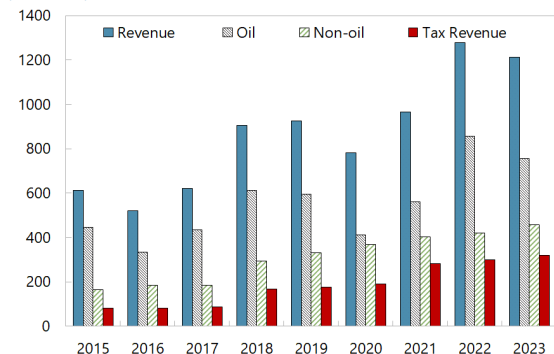
...with the non-oil primary deficit worsening further.

**Non-Oil Primary Balance**  
(Percent of non-oil GDP)



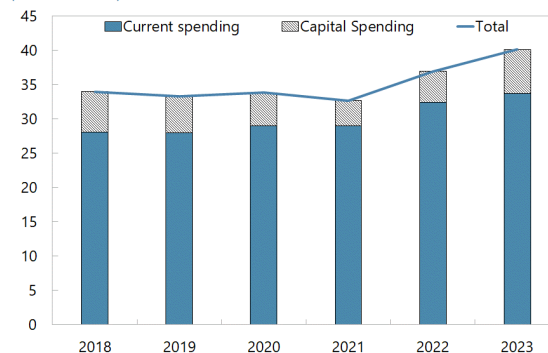
Despite a pick-up in non-oil revenues, total revenues receded due to lower international oil prices and production.

**Government Revenues**  
(SAR billion)



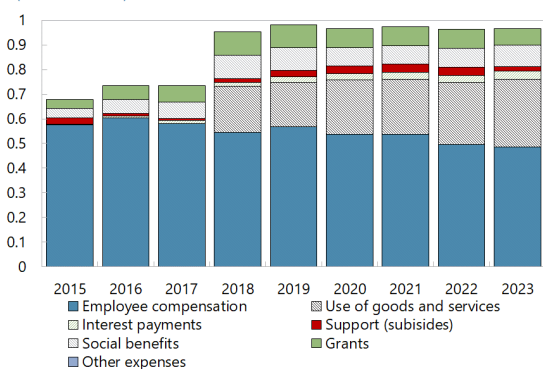
There was a broad-based spending overrun, reflecting particularly the frontloading of investment outlays...

**Current and Capital Spending**  
(Percent of GDP)



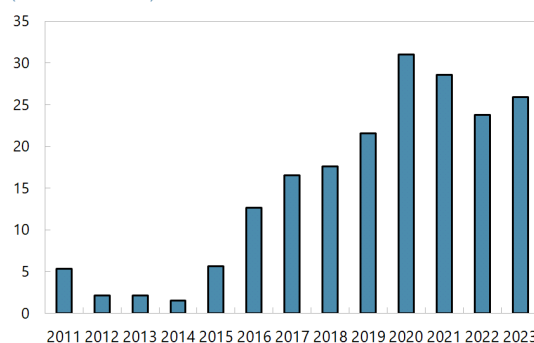
...while the share of wages in total spending continued to decline.

**Expenses**  
(Percent of total)



Public debt remains low, notwithstanding a modest increase.

**Central Government Gross Debt**  
(Percent of GDP)

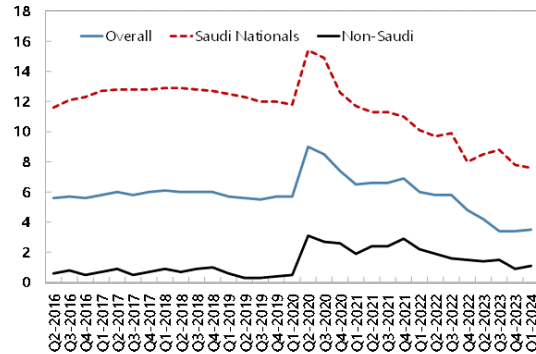


Sources: Haver, country authorities, and IMF staff calculations.

**Figure 7. Saudi Arabia: Labor Market Developments**

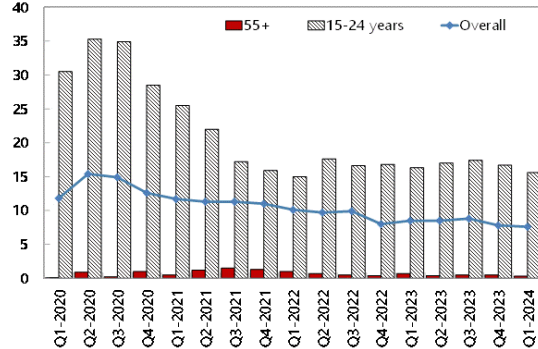
The unemployment rate is trending downward to record lows, driven by Saudi nationals and expatriates.

**Unemployment Rates**  
(Percent)



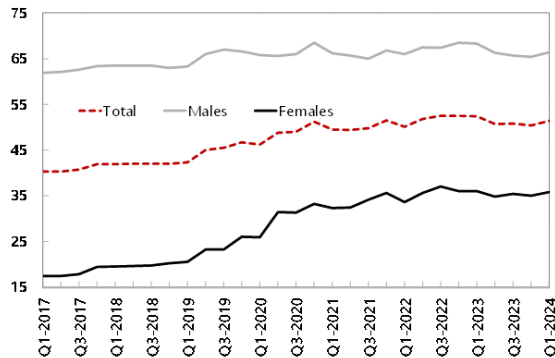
Saudi national employment has improved, and unemployment has been halved for youth.

**Unemployment Rate for Saudi Nationals by Age**  
(Percent)



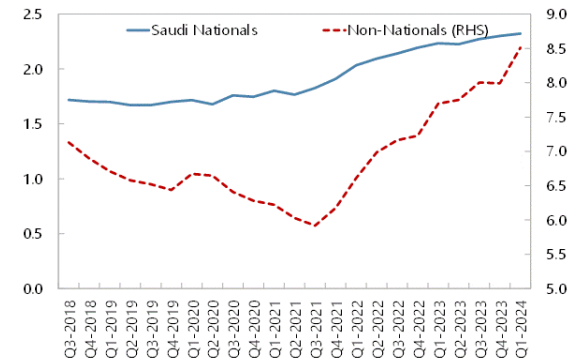
After a significant increase, the labor force participation rates have somewhat flattened...

**Labor Force Participation Rates for Saudi Nationals**  
(Percent)



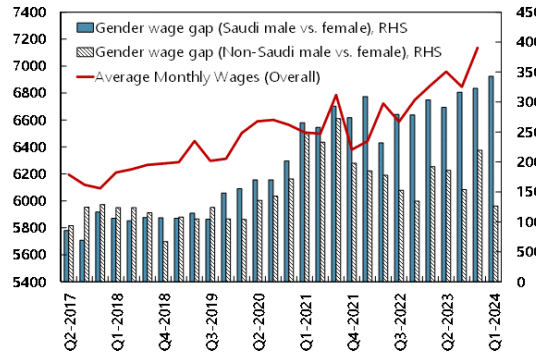
...however, private sector employment continues to rise.

**Private Sector Employment**  
(Millions)



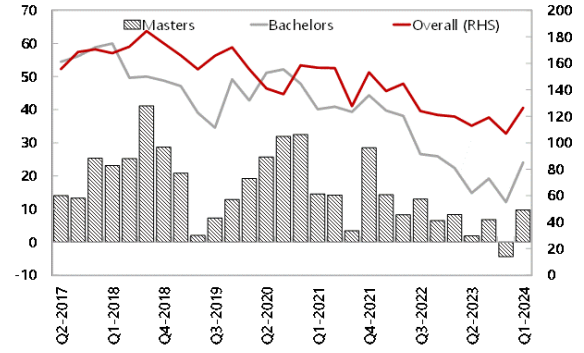
Average monthly wages are on an upward trend, with the gender wage gap remaining high...

**Average Monthly Wages and Gender Wage gap**  
(Riyals)



...and premiums increasing recently between Saudi and non-Saudi, also in education.

**Wage Premium Over Non-Saudi**  
(Percent)



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

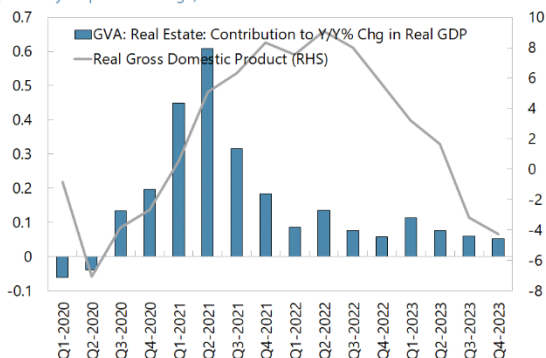
**Figure 8. Saudi Arabia: Real Estate Developments**

Amidst a gradual decline in the year-on-year change in real estate gross value added...

...the real estate price index has shown moderate growth yet remains below the rate of inflation.

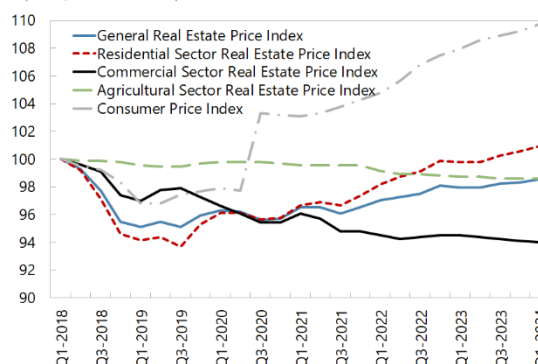
**Real Estate GVA**

(Year on year percent change)



**Real Estate Price Index and CPI**

(Index, base 2018=100)

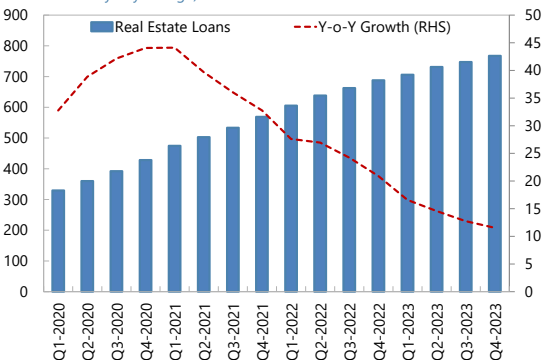


The pace of loan expansion has slowed down...

...with only a marginal uptick in mortgage activity despite overall lending growth.

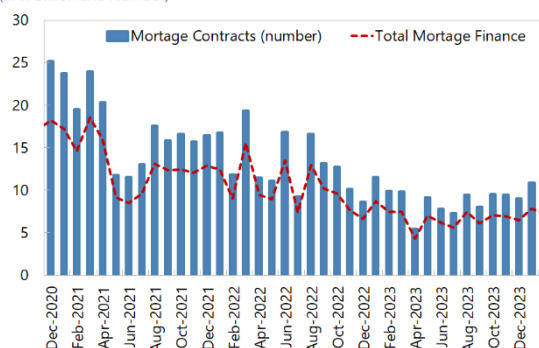
**Real Estate Loans by Banks**

(SAR Billion and y-o-y change)



**Number of New Residential Mortgage Contracts and Value**

(SAR Billion and Number)

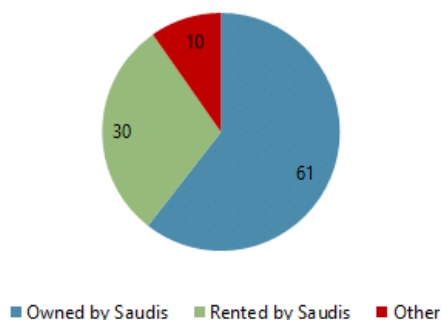


The home ownership ratio is approximately 61 percent for nationals...

... with the majority consisting of villas, accounting for approximately 85 percent of the housing stock.

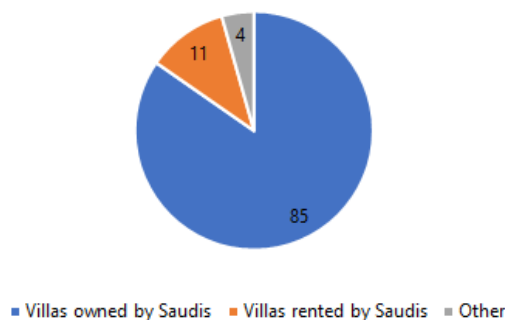
**Domestic Housing Ownership**

(Percent)



**Villa Ownership**

(Percent)

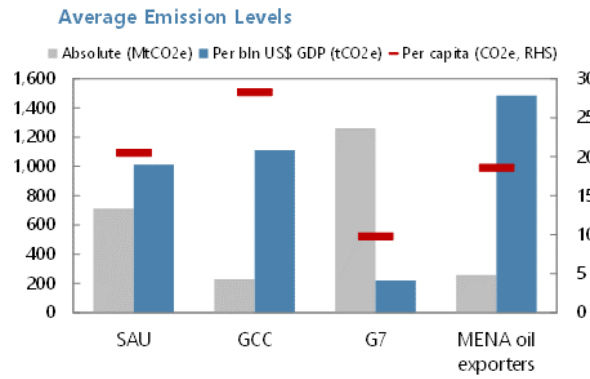


Sources: Haver; country authorities; and IMF staff calculations.

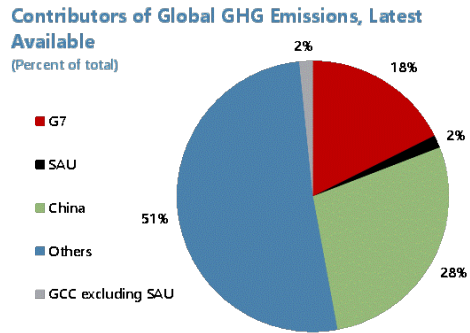


**Figure 9. Saudi Arabia: Climate Change (2020 or latest available)**

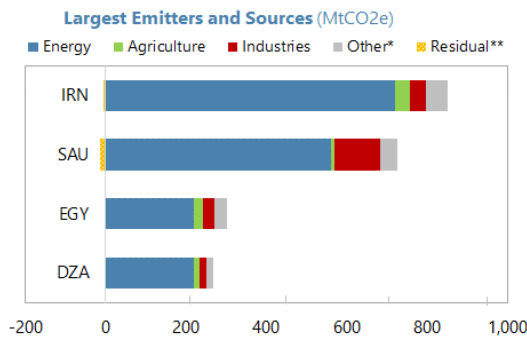
While Saudi Arabia's absolute levels of GHG emissions are low, in per capita terms they are sizeable...



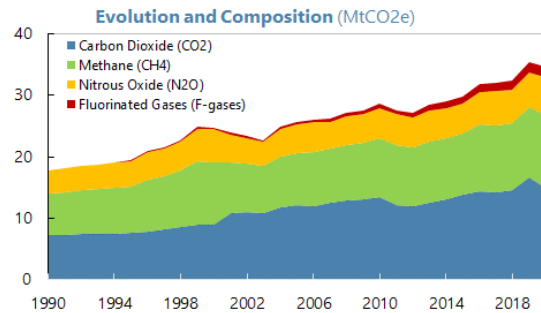
... as well as in terms of shares of global emissions.



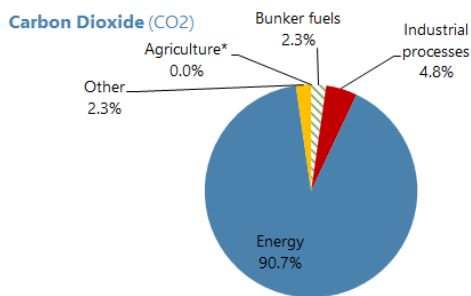
It is also one of the largest emitters in the region, although trailing Iran.



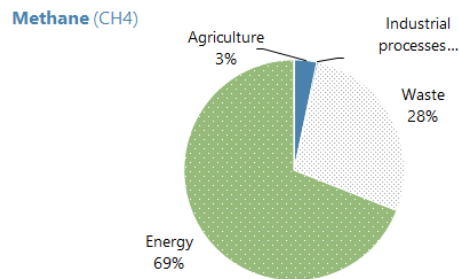
Saudi Arabia's GHG emissions mainly consist of CO<sub>2</sub> and Methane.



CO<sub>2</sub> emissions are largely driven by the energy sector...

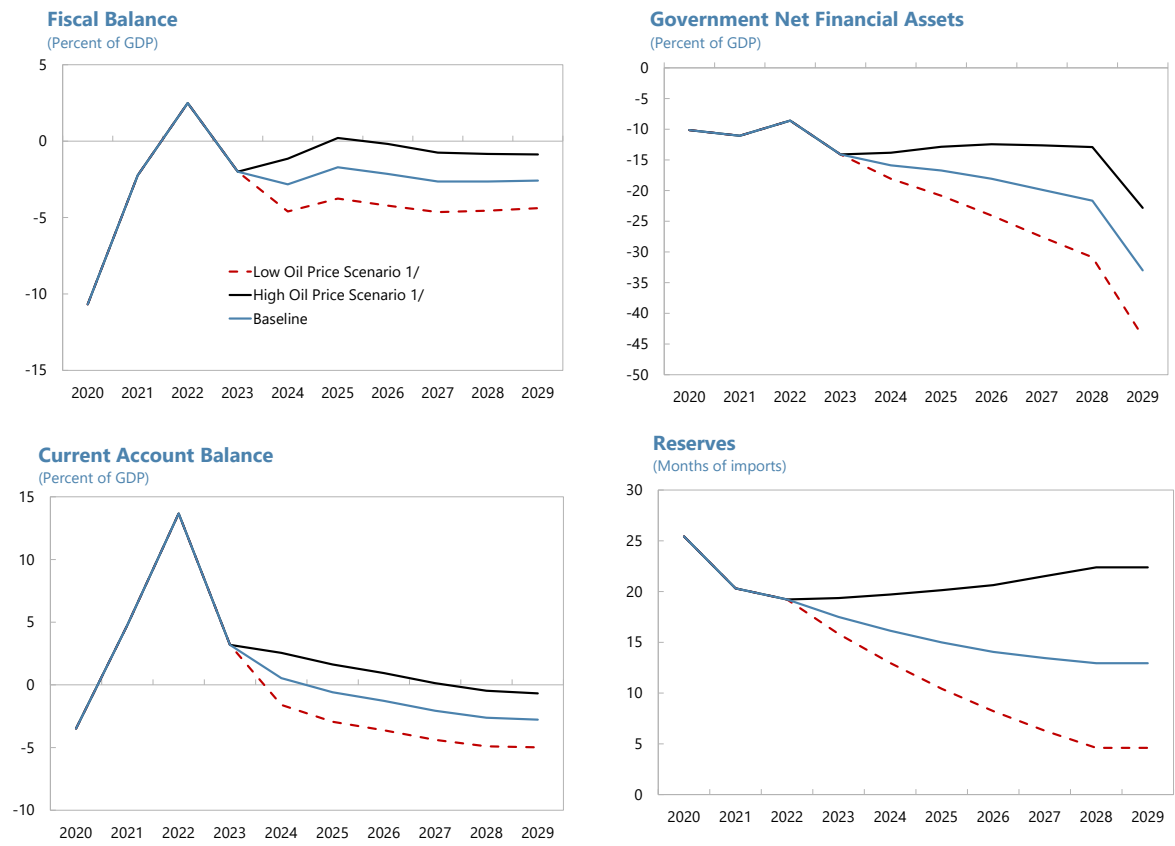


... as is the case for Methane, with waste contributing to these emissions as well.



Sources: CAIT; IMF WEO and IMF staff calculations.

**Figure 10. Saudi Arabia: Upside/Downside Oil Price Scenarios**



Source: IMF staff calculations.

1/The low/high oil price scenario assumes the oil price is two standard deviations for period 2024-2029 below/above the WEO adjusted oil price throughout the projection years. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

Table 1. Saudi Arabia: Selected Economic Indicators, 2020–29

	2020	2021	2022	Est. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
(Percent change; unless otherwise indicated)										
<b>National income and prices</b>										
Crude oil production (million of barrels per day)	9.2	9.1	10.6	9.6	9.0	9.7	10.2	10.5	10.7	11.0
Average oil export price (U.S. dollars per barrel) <sup>1</sup>	42.7	73.2	102.0	84.3	82.5	77.8	75.4	72.9	71.1	70.0
Nominal GDP (SAR billions)	2,754	3,278	4,157	4,003	4,108	4,312	4,538	4,762	5,010	5,290
Nominal GDP (US\$ billions)	734	874	1,109	1,068	1,096	1,150	1,210	1,270	1,336	1,411
Nominal non-oil GDP (SAR billions)	2,032	2,160	2,358	2,530	2,670	2,845	3,025	3,213	3,406	3,613
Nominal GDP per capita (US\$)	23,271	28,396	34,454	32,530	32,728	33,675	34,748	35,745	36,873	38,171
Real GDP	-3.6	5.1	7.5	-0.8	1.7	4.7	4.1	3.6	3.5	3.5
Oil	-6.9	1.2	15.0	-9.0	-4.5	5.8	3.8	2.4	2.6	2.6
Non-oil <sup>2</sup>	-2.3	5.6	5.3	3.8	3.5	4.4	4.3	4.1	3.9	3.9
Consumer price index (avg)	3.4	3.1	2.5	2.3	1.9	2.0	2.0	2.0	2.0	2.0
<b>External sector</b>										
Exports f.o.b.	-33.5	58.9	48.9	-21.6	-7.0	5.3	4.9	1.3	1.6	2.2
Oil	-40.5	69.4	61.8	-24.0	-12.6	3.2	2.3	-0.9	-0.5	0.0
Imports f.o.b.	-10.2	11.0	25.9	11.2	9.2	11.9	8.5	5.9	5.4	5.0
Current account balance (percent of GDP)	-3.5	4.8	13.7	3.2	-0.1	-1.1	-1.4	-2.1	-2.5	-2.7
Export volume	-5.2	5.2	9.2	-7.7	-0.9	11.0	9.1	4.1	5.0	4.5
Import volume	-9.5	0.4	14.3	14.0	7.4	10.8	7.7	5.0	4.2	3.7
Terms of trade	-34.0	46.5	31.9	-15.6	-6.8	-7.0	-4.8	-4.5	-4.3	-3.6
<b>Money and credit</b>										
Net foreign assets	-8.9	-4.5	3.8	-7.4	-2.2	0.2	5.2	5.8	4.8	4.3
Net domestic assets	24.9	19.3	12.6	18.8	11.0	11.0	9.9	8.7	8.1	7.5
Of which: claims on private sector	14.0	15.4	12.6	10.0	10.1	9.7	8.8	7.4	7.1	6.5
Money and quasi-money (M3)	8.3	7.4	8.1	7.6	8.8	9.0	7.4	6.5	6.3	6.0
3-month Interbank rate (percent p.a.) <sup>3</sup>	0.8	0.9	5.3	6.2	...	...	...	...	...	...
<b>Central government finances</b>										
(Percent of GDP)										
Revenue	28.4	29.5	30.8	30.3	29.6	29.6	29.4	28.6	27.8	27.1
Expenditure	39.1	31.7	28.2	32.3	32.9	32.4	32.2	31.6	30.9	30.1
Expense	33.4	28.1	24.8	27.6	27.8	27.4	27.2	26.5	25.7	24.9
Net acquisition of non-financial assets	5.6	3.6	3.5	4.7	5.0	5.0	5.1	5.1	5.2	5.2
Net lending (+)/borrowing (-)	-10.7	-2.2	2.5	-2.0	-3.3	-2.9	-2.9	-3.0	-3.1	-3.0
Excluding oil revenue	-25.7	-19.4	-18.1	-20.9	-21.2	-20.5	-20.1	-19.4	-18.5	-17.7
Non-oil primary balance/non-oil GDP	-37.2	-29.1	-32.2	-33.0	-32.4	-30.4	-29.4	-27.8	-26.1	-24.7
Non-exported oil primary balance/non-oil GDP	-35.3	-26.9	-29.4	-33.0	-32.4	-30.4	-29.4	-27.8	-26.1	-24.7
Central government deposits at SAMA	15.9	11.8	11.1	10.9	10.6	10.1	9.6	9.2	9.1	9.2
Central government gross debt	31.0	28.6	23.8	26.2	28.7	30.0	31.0	32.3	33.8	35.3
Central government net financial assets	-10.2	-11.1	-8.6	-14.1	-16.9	-18.7	-20.4	-22.1	-23.7	-25.2
Memorandum items:										
SAMA's total net foreign assets (US\$ billions)	449.2	438.2	440.5	417.1	405.2	403.2	422.5	445.4	465.1	483.3
In months of imports of goods and services <sup>3</sup>	25.2	20.4	18.1	15.8	14.1	13.1	13.2	13.4	13.4	13.4
Imports goods & services/GDP	24.8	24.4	23.3	27.3	28.8	30.1	30.4	30.3	30.0	29.4
Real effective exchange rate (2010=100, end of period) <sup>3</sup>	113.9	114.7	119.5	118.5	119.8	...	...	...	...	...
Average exchange rate Saudi riyal/U.S. dollar	3.75	3.75	3.75	3.75	...	...	...	...	...	...
Population (millions)	31.6	30.8	32.2	32.8	33.5	34.1	34.8	35.5	36.2	37.0
Unemployment rate (nationals)	13.7	11.8	9.7	8.5	...	...	...	...	...	...
Unemployment rate (overall)	7.7	6.1	4.9	3.8	...	...	...	...	...	...
All-Shares Price Index (TASI)	8,760	11,282	10,478	11,967	...	...	...	...	...	...

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

<sup>1</sup> Includes refined products.<sup>2</sup> Recent reclassification of national accounts is not yet fully reflected.<sup>3</sup> Latest observation

Table 2. Saudi Arabia: Budgetary Central Government Operations, 2020–29

			Budget	Est.	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	
	2020	2021	2022	2023	2023	2024	2024	2025	2026	2027	2028	2029
(Billions of Saudi Arabian riyals)												
Revenue	782	965	1,279	1,130	1,212	1,214	1,172	1,275	1,332	1,363	1,394	1,434
Oil	413	562	857		755	733		760	783	780	776	778
Non-oil	369	403	422		458	482		515	549	583	619	656
Tax revenues	189	283	300	322	320	337	287	360	384	407	432	458
Taxes on income, profits, and capital gains	18	18	24	22	39	41	31	43	46	49	52	55
Taxes on goods and services (includes excises)	126	217	229	254	225	239	205	254	270	287	305	323
Taxes on international trade and transactions	18	19	19	18	22	22	21	25	27	29	30	32
Other taxes	27	29	28	28	33	35	30	38	40	42	45	48
Non-oil non-tax revenues	179	120	122		138	145		155	165	176	187	198
Property income (excluding oil)	74	20	36		38	41		43	46	49	52	55
Sales of goods and services	26	30	36		38	44		43	45	48	51	54
Fines, penalties, and forfeits	9	11	13		13	14		15	16	17	17	19
Other revenues	70	59	36		49	46		54	58	62	66	71
Expenditure	1,076	1,039	1,174	1,114	1,293	1,351	1,251	1,398	1,463	1,505	1,548	1,595
Expense	921	922	1,031	957	1,107	1,144	1,062	1,182	1,232	1,261	1,289	1,320
Employee compensation <sup>1</sup>	495	496	513	514	537	549	544	555	561	566	572	578
Use of goods and services	203	205	258	218	303	322	277	328	349	356	364	371
Interest payments	24	27	30	39	38	46	47	62	72	79	90	102
Domestic	14	15	18		22	27		36	43	46	52	58
Foreign	10	12	12		16	19		26	29	33	38	43
Support (subsidies)	28	30	30	22	21	29	38	30	32	35	36	38
Social benefits <sup>2</sup>	69	70	79	67	97	101	62	105	110	114	116	120
Grants	4	3	3	2	7	4	4	4	5	5	5	5
Other expenses <sup>3</sup>	97	91	117	96	104	94	91	98	104	105	106	106
Net acquisition of non-financial assets	155	117	143	157	186	207	189	217	230	245	259	275
<b>Net lending (+)/borrowing (-)</b>	<b>-294</b>	<b>-73</b>	<b>105</b>	<b>16</b>	<b>-81</b>	<b>-136</b>	<b>-79</b>	<b>-123</b>	<b>-130</b>	<b>-143</b>	<b>-153</b>	<b>-161</b>
Current balance	-139	44	248		106	71		93	100	102	106	114
(In percent of non-oil GDP)												
Revenue	38.5	44.7	54.3	44.7	47.9	45.5	43.9	44.8	44.0	42.4	40.9	39.7
Oil	20.3	26.0	36.4		29.8	27.4		26.7	25.9	24.3	22.8	21.5
Non-oil	18.1	18.7	17.9		18.1	18.0		18.1	18.1	18.2	18.2	18.2
Tax revenues	9.3	13.1	12.7	12.7	12.6	12.6	10.7	12.7	12.7	12.7	12.7	12.7
Taxes on income, profits, and capital gains	0.9	0.8	1.0	0.9	1.5	1.5	1.2	1.5	1.5	1.5	1.5	1.5
Taxes on goods and services (includes excises)	6.2	10.1	9.7	10.0	8.9	8.9	7.7	8.9	8.9	8.9	8.9	8.9
Taxes on international trade and transactions	0.9	0.9	0.8	0.7	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Other taxes	1.3	1.4	1.2	1.1	1.3	1.3	1.1	1.3	1.3	1.3	1.3	1.3
Non-oil non-tax revenues	8.8	5.6	5.2		5.5	5.4		5.4	5.5	5.5	5.5	5.5
Property income (excluding oil)	3.6	0.9	1.5		1.5	1.5		1.5	1.5	1.5	1.5	1.5
Sales of goods and services	1.3	1.4	1.5		1.5	1.7		1.5	1.5	1.5	1.5	1.5
Fines, penalties, and forfeits	0.4	0.5	0.6		0.5	0.5		0.5	0.5	0.5	0.5	0.5
Other revenues	3.5	2.7	1.5		1.9	1.7		1.9	1.9	1.9	1.9	2.0
Expenditure	52.9	48.1	49.8	44.0	51.1	50.6	46.8	49.2	48.4	46.9	45.4	44.1
Expense	45.3	42.7	43.7	37.8	43.7	42.8	39.8	41.5	40.7	39.2	37.8	36.5
Employee compensation <sup>1</sup>	24.3	22.9	21.8	20.3	21.2	20.6	20.4	19.5	18.5	17.6	16.8	16.0
Use of goods and services	10.0	9.5	10.9	8.6	12.0	12.0	10.4	11.5	11.6	11.1	10.7	10.3
Interest payments	1.2	1.3	1.3	1.5	1.5	1.7	1.8	2.2	2.4	2.5	2.7	2.8
Domestic	0.7	0.7	0.8	0.0	0.9	1.0		1.3	1.4	1.4	1.5	1.6
Foreign	0.5	0.6	0.5	0.0	0.6	0.7		0.9	1.0	1.0	1.1	1.2
Support (subsidies)	1.4	1.4	1.3	0.9	0.8	1.1	1.4	1.1	1.1	1.1	1.1	1.0
Social benefits <sup>2</sup>	3.4	3.2	3.4	2.6	3.8	3.8	2.3	3.7	3.6	3.6	3.4	3.3
Grants	0.2	0.2	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses <sup>3</sup>	4.8	4.2	5.0	3.8	4.1	3.5	3.4	3.4	3.4	3.3	3.1	2.9
Net acquisition of non-financial assets	7.6	5.4	6.1	6.2	7.4	7.8	7.1	7.6	7.6	7.6	7.6	7.6
Non-oil primary balance	-37.2	-29.1	-32.2		-33.0	-32.4		-30.4	-29.4	-27.8	-26.1	-24.7
<b>Net lending (+)/borrowing (-)</b>	<b>-14.5</b>	<b>-3.4</b>	<b>4.5</b>	<b>0.6</b>	<b>-3.2</b>	<b>-5.1</b>	<b>-3.0</b>	<b>-4.3</b>	<b>-4.3</b>	<b>-4.4</b>	<b>-4.5</b>	<b>-4.5</b>

Sources: Ministry of Finance; and IMF staff projections.

<sup>1</sup> Including the extra month salary according to Hijri calendar i<sup>2</sup> Zakat charity transfers, social welfare payments and Hafiz Job-seekers allowance.<sup>3</sup> IMF staff reclassified the central government's one-time contribution to ZATCA of SAR 10 billion in 2022 in other expenses rather than as a deduction to revenues from taxes on goods and services.

**Table 2. Saudi Arabia: Budgetary Central Government Operations, 2020–29 (concluded)**

	2020	2021	2022	Est. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
(Billions of Saudi Arabian riyals)										
<b>Net lending (+)/borrowing (-)</b>	<b>-294</b>	<b>-73</b>	<b>105</b>	<b>-81</b>	<b>-136</b>	<b>-123</b>	<b>-130</b>	<b>-143</b>	<b>-153</b>	<b>-161</b>
<b>Financing</b>	<b>271</b>	<b>172</b>	<b>5</b>	<b>-6</b>	<b>136</b>	<b>123</b>	<b>130</b>	<b>143</b>	<b>153</b>	<b>161</b>
Net acquisition of financial assets	-96	-54	78	-27	-43	0	0	0	21	30
Domestic	-96	-54	78	-27	-43	0	0	0	21	30
Central government deposits at SAMA (+, buildup)	-93	-51	78	-27	0	0	0	0	21	30
Loans and equity	-3	-3	0	0	-43	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities (- = repayment)	176	117	83	-33	94	123	130	143	174	191
Domestic	174	109	102	-41	59	102	141	113	127	131
Nonbanks	78	0	0	0	0	0	0	0	0	0
Banks	96	109	107	88	59	102	141	113	127	131
Foreign	46	49	19	101	55	88	89	104	134	145
<b>Residual/ Gap ( +ve = overfinancing)</b>	<b>-23</b>	<b>98</b>	<b>110</b>	<b>-87</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
(In percent of GDP)										
<b>Financing</b>	<b>9.9</b>	<b>5.2</b>	<b>0.1</b>	<b>-0.2</b>	<b>3.3</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.0</b>
Net acquisition of financial assets	-3.5	-1.7	1.9	-0.7	-1.0	0.0	0.0	0.0	0.4	0.6
Domestic	-3.5	-1.7	1.9	-0.7	-1.0	0.0	0.0	0.0	0.4	0.6
Central government deposits at SAMA (+, buildup)	-3.4	-1.6	1.9	-0.7	0.0	0.0	0.0	0.0	0.4	0.6
Loans and equity	-0.1	-0.1	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (- = repayment)	6.4	3.6	2.0	-0.8	2.3	2.9	2.9	3.0	3.5	3.6
Domestic	6.3	3.3	2.4	-1.0	1.4	2.4	3.1	2.4	2.5	2.5
Nonbanks	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	3.5	3.3	2.6	2.2	1.4	2.4	3.1	2.4	2.5	2.5
Foreign	1.7	1.5	0.5	2.5	1.3	2.0	2.0	2.2	2.7	2.7
<b>Residual/ Gap ( +ve = overfinancing)</b>	<b>-0.8</b>	<b>3.0</b>	<b>2.6</b>	<b>-2.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Memorandum items:										
Government gross domestic debt/GDP	18.3	17.0	14.8	17.0	17.6	18.0	18.2	18.5	18.9	19.1
Government net financial assets/GDP	-10.2	-11.1	-8.6	-14.1	-16.9	-18.7	-20.4	-22.1	-23.7	-25.2
Public Sector Deposits at SAMA (SAR billions)	574	575	638	485	485	485	485	485	506	536
Central government deposits at SAMA (SAR billions)	437	385	463	436	436	436	436	436	457	487
Sources: Ministry of Finance; and IMF staff projections.										

**Table 3. Saudi Arabia: Balance of Payments, 2020–29**  
(USD Billion)

	2020	2021	2022	Est. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
Current account	-25.5	41.7	151.5	34.1	-0.6	-12.3	-17.5	-26.5	-33.7	-38.5
(Percent of GDP)	-3.5	4.8	13.7	3.2	-0.1	-1.1	-1.4	-2.1	-2.5	-2.7
Trade balance	47.9	136.5	235.3	126.9	86.5	76.9	71.9	60.9	51.5	44.5
Exports	173.9	276.2	411.2	322.5	299.9	315.8	331.3	335.6	341.1	348.5
Oil exports	119.4	202.2	327.0	248.4	217.0	224.0	229.2	227.0	225.9	225.9
Other exports	54.5	74.0	84.2	74.1	83.0	91.8	102.0	108.6	115.2	122.6
Imports (f.o.b.)	-125.9	-139.7	-175.9	-195.6	-213.5	-239.0	-259.4	-274.8	-289.6	-304.1
Services	-47.3	-63.5	-47.6	-47.5	-49.5	-50.4	-49.0	-45.3	-41.7	-37.8
Transportation	-12.9	-14.1	-18.3	-20.1	-21.3	-22.0	-21.8	-21.5	-21.1	-20.4
Travel	-4.8	-8.4	9.3	12.8	14.1	15.2	16.6	19.1	21.1	23.2
Other services	-29.6	-41.0	-38.7	-40.2	-42.3	-43.6	-43.8	-42.9	-41.8	-40.7
Income	11.2	12.9	9.6	5.8	10.5	10.2	9.7	9.2	8.8	8.5
Of which: Investment income <sup>1</sup>	11.2	13.5	9.9	6.1	10.7	10.4	9.9	9.4	9.1	8.7
Current transfers	-37.4	-44.2	-45.8	-51.2	-48.0	-48.9	-50.0	-51.2	-52.4	-53.6
Of which: Workers' remittances	-34.3	-39.8	-38.8	-37.8	-39.0	-40.0	-41.1	-42.3	-43.4	-44.7
Capital Account	-1.8	-3.8	-3.9	-6.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-21.7	-34.2	-122.9	-43.1	-11.3	10.3	36.7	49.4	53.4	56.7
Direct Investment	-3.8	-1.6	1.1	-3.8	-1.1	2.5	6.9	9.7	11.5	13.5
Abroad	-5.4	-24.7	-27.0	-16.1	-15.2	-14.6	-14.2	-13.8	-13.5	-13.3
In Saudi economy	1.6	23.1	28.1	12.3	14.1	17.1	21.0	23.6	25.0	26.8
Portfolio investments	-23.7	-37.1	-35.5	-42.3	-15.2	-0.8	16.4	24.9	26.5	27.4
Assets	-53.6	-53.2	-48.2	-68.7	-50.0	-45.0	-36.0	-29.6	-29.3	-29.1
Liabilities	29.9	16.1	12.7	26.4	34.9	44.2	52.3	54.5	55.8	56.5
Other investments	5.8	4.4	-88.4	3.0	4.9	8.6	13.5	14.8	15.5	15.7
Assets	-0.5	-21.6	-78.3	-13.4	-12.3	-10.5	-7.9	-7.5	-7.4	-7.3
Liabilities	6.3	26.0	-10.1	16.4	17.2	19.1	21.4	22.2	22.8	23.1
Net errors and omissions	3.2	-1.9	-20.2	-7.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-45.9	1.7	4.5	-22.9	-11.9	-2.0	19.2	22.9	19.7	18.2
Financing	45.9	-1.7	-4.5	22.9	11.9	2.0	-19.2	-22.9	-19.7	-18.2
Change in SAMA's NFA (- increase)	44.9	11.0	-2.3	23.3	11.9	2.0	-19.2	-22.9	-19.7	-18.2
SAMA's total net foreign assets (In months of imports) <sup>2</sup>	449.2	438.2	440.5	417.1	405.2	403.2	422.5	445.4	465.1	483.3
Net International Investment Position (% GDP)	95.4	81.2	70.9	73.5	71.6	67.2	62.4	57.3	52.0	46.5
Non-oil current account(% GDP)	-19.7	-18.4	-15.8	-20.1	-19.9	-20.6	-20.4	-20.0	-19.4	-18.7
External debt (% GDP)	30.7	30.7	23.8	28.1	30.3	32.2	33.8	35.7	38.0	39.7
Oil price (US\$/barrel)	43.3	70.8	99.0	82.3	82.5	77.8	74.4	71.9	70.1	69.0
Average Saudi oil export price (US\$/barrel)	42.7	73.2	102.0	84.3	82.5	77.8	75.4	72.9	71.1	70.0
Oil production (mbd)	9.2	9.1	10.6	9.6	9.0	9.7	10.2	10.5	10.7	11.0
Oil exports/total exports	68.7	73.2	79.5	77.0	72.3	70.9	69.2	67.6	66.2	64.8
Imports of goods/GDP	17.1	16.0	15.9	18.3	19.5	20.8	21.4	21.6	21.7	21.6
GDP (US\$ billion)	734.3	874.2	1,108.6	1,067.6	1,095.6	1,149.8	1,210.2	1,269.8	1,336.1	1,410.8
Government foreign issued debt (US\$ billion)	93.6	101.1	101.3	108.3	121.5	137.9	155.3	174.3	197.5	223.0
US 6-month LIBOR (Percent)	0.7	0.2	2.9	5.6	5.6	4.8	3.9	3.2	3.1	3.1

Sources: Saudi Central Bank (SAMA), and IMF staff estimates and projections.

<sup>1</sup> Represents the return on NFA of SAMA, AGIs, and private sector.

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

Table 4. Saudi Arabia: Monetary Survey, 2020–29

(Percent)

	2020	2021	2022	Est. 2023	Proj. 2024	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
(Billions of Saudi Arabian riyals)										
Foreign assets (net)	1,752	1,673	1,736	1,607	1,572	1,574	1,657	1,753	1,837	1,917
SAMA	1,684	1,643	1,652	1,564	1,520	1,512	1,584	1,670	1,744	1,812
Commercial banks	68	30	84	43	52	62	72	83	93	105
Domestic credit (net)	1,706	2,035	2,290	2,721	3,020	3,352	3,683	4,003	4,327	4,650
Net claims on government	-136	-95	-127	55	99	161	226	300	372	448
Claims on government	438	481	510	540	584	645.8	711	785	878	984
Public sector deposits at SAMA	-574	-575	-638	-485	-485	-485	-485	-485	-506	-536
Claims on state enterprises	79	95	128	147	147	147	147	147	147	147
Claims on private sector	1,762	2,034	2,290	2,519	2,774	3,044	3,311	3,557	3,808	4,055
Money and quasi-money (M3)	2,149	2,309	2,495	2,685	2,921	3,186	3,422	3,642	3,871	4,101
Money (M1)	1,489	1,564	1,528	1,524	1,777	1,932	2,068	2,194	2,324	2,454
Currency outside banks	206	204	200	212	261	283	303	322	341	360
Demand deposits	1,283	1,360	1,328	1,312	1,517	1,648	1,765	1,872	1,983	2,094
Quasi-money	660	744	967	1,161	1,144	1,254	1,354	1,448	1,547	1,647
Other quasi-money deposits	186	249	312	297	293	321	346	371	396	421
Other items (net liabilities)	1,309	1,399	1,531	1,643	1,671	1,741	1,918	2,114	2,294	2,466
Other quasi-money deposits	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
(Changes in percent of beginning broad money stock)										
Foreign assets (net)	-8.6	-3.7	2.7	-5.2	-1.3	0.1	2.6	2.8	2.3	2.0
Domestic credit (net)	17.1	15.3	11.1	17.3	11.1	11.4	10.4	9.4	8.9	8.3
Net claims on government	5.4	1.9	-1.4	7.3	1.6	2.1	2.0	2.2	2.0	2.0
Claims on government	2.8	2.0	1.3	1.2	1.6	2.1	2.0	2.2	2.6	2.7
Public sector deposits at SAMA (increase -)	2.6	-0.1	-2.7	6.1	0.0	0.0	0.0	0.0	-0.6	-0.8
Claims on state enterprises	0.9	0.7	1.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	10.9	12.6	11.1	9.2	9.5	9.2	8.4	7.2	6.9	6.4
(Percent change; unless otherwise indicated)										
Foreign assets (net)	-8.9	-4.5	3.8	-7.4	-2.2	0.2	5.2	5.8	4.8	4.3
Domestic credit (net)	24.9	19.3	12.6	18.8	11.0	11.0	9.9	8.7	8.1	7.5
Of which: claims on private sector	14.0	15.4	12.6	10.0	10.1	9.7	8.8	7.4	7.1	6.5
Money and quasi-money	8.3	7.4	8.1	7.6	8.8	9.0	7.4	6.5	6.3	6.0
(Percent; unless otherwise indicated)										
Memorandum items:										
Ratio of M3-to-GDP	78.1	70.4	60.0	67.1	71.1	73.9	75.4	76.5	77.3	77.5
Ratio of Claims on private sector-to-non-oil GDP	86.7	94.2	97.1	99.5	103.9	107.0	109.4	110.7	111.8	112.2

Sources: Saudi Central Bank (SAMA); and IMF staff estimates.



Table 5. Saudi Arabia: Financial Soundness Indicators, 2016–23

	2016	2017	2018	2019	2020	2021	2022	2023
<b>Banking sector</b>								
<b>Structure of the banking sector</b>								
Number of licensed banks	24	25	29	25	25	26	27	28
Number of banks accounting for:								
25 percent of total assets	2	2	2	2	2	1	1	1
75 percent of total assets	6	6	6	6	6	5	5	5
Total assets (percent of GDP)	93.3	89.3	80.1	81.6	104.9	97.2	84.3	95.9
Of which: Foreign currency-denominated (as percent of total assets)	10.0	10.5	9.4	9.5	8.7	8.1	8.2	8.3
Total loans (percent of GDP)	57.9	53.7	48.3	51.8	67.6	65.4	58.5	66.7
Credit to private sector (percent of GDP)	55.9	51.9	46.7	47.4	61.9	60.3	53.5	60.9
Total deposits, excluding interbank (as percent of GDP)	66.9	62.7	56.3	57.1	70.6	64.6	55.2	61.8
<b>Capital adequacy</b>								
Regulatory capital to risk-weighted assets	19.5	20.4	20.3	19.3	20.3	19.9	19.9	20.1
Tier-1 capital to risk-weighted assets	17.5	18.3	18.5	18.0	18.7	18.2	18.4	18.6
<b>Asset quality</b>								
Net loans to total assets	62.8	62.2	62.6	63.5	64.4	67.3	69.3	69.5
Gross NPLs to gross loans	1.4	1.6	2.0	1.9	2.2	1.9	1.8	1.5
Total provisions to gross NPLs	177.0	151.9	157.2	148.1	134.7	147.7	124.5	129.8
Net NPLs to total capital	1.0	1.7	1.1	1.6	2.5	2.5	2.7	2.2
Total provisions for loan losses (as percent of total loans)	2.6	2.6	3.2	2.8	2.9	2.7	2.2	1.9
Loans to property and construction sector to total loans	-	-	-	-	-	-	-	-
Loans to domestic manufacturing sector to total loans	-	-	-	-	-	-	-	-
Contingent and off-balance sheet accounts to total assets	84.2	76.2	71.3	73.9	69.0	63.3	65.6	64.5
<b>Profitability</b>								
Profits (percent change)	-4.8	8.6	9.8	4.5	-24.0	42.9	28.5	11.5
Average pretax return on assets	1.8	2.0	2.1	2.1	1.5	1.8	2.1	2.2
Return on equity	12.6	12.9	13.8	12.1	8.6	10.8	12.5	12.8
Noninterest expenses to total income <sup>1</sup>	38.0	36.6	36.3	35.9	36.2	36.1	34.0	32.9
Average lending spread	3.5	3.5	3.9	3.9	3.5	3.2	3.1	3.1
<b>Liquidity</b>								
Liquid assets to total assets	20.3	21.6	22.3	25.4	26.8	24.7	22.8	21.8
Liquid assets to short-term liabilities <sup>2</sup>	31.8	34.6	35.5	41.3	43.8	41.3	39.7	38.9
Customer deposits to net loans	115.7	117.9	115.6	115.0	109.6	102.6	97.5	96.1
Demand deposits to total deposits	59.9	61.4	62.2	61.2	66.0	64.6	57.9	53.1
<b>Sensitivity to market risk</b>								
Foreign currency-denominated deposits to total deposits	7.6	8.6	8.7	8.6	7.4	9.5	11.2	9.8
Foreign currency-denominated loans to total loans	8.2	8.0	8.4	8.9	8.6	7.5	7.5	8.1
Foreign currency-denominated contingent and off-balance sheet accounts to total assets	28.3	27.1	27.1	27.5	28.0	27.1	28.7	28.3
Net open foreign currency position to capital	2.6	4.0	6.4	6.7	7.3	0.0	-2.4	1.2
<b>Stock market</b>								
Stock market capitalization (percent of GDP)	69.5	65.4	63.0	287.0	330.6	307.3	237.7	281.2
Overall stock market price index (change in percent)	4.3	0.2	8.3	7.2	3.6	29.8	-7.1	14.2
Bank stock price index (change in percent)	-67.4	8.2	31.1	12.4	-6.4	61.0	-5.6	5.7

Source: Saudi Central Bank (SAMA).

<sup>1</sup> Total income includes net interest income and gross noninterest income.<sup>2</sup> Short-term liabilities include demand deposits maturing in 90 days or less. Liquid assets include cash, gold, Saudi government bonds and treasury bills and interbank deposits maturing within 30 days.

Table 6. Saudi Arabia: Selected Macro-Critical Gender-Related Indicators, 2017–22

								G20 1 /			
	2017	2018	2019	2020	2021	2022	Latest year available	25th Percentile	75th Percentile	Median	Average
<b>Composite Gender Indices</b>											
Female Human Capital Index (HCI) 2/	0.61	0.61	...	0.60	...	...	2020	0.61	0.78	0.72	0.68
Gender Development Index (GDI) 2/	0.90	0.91	0.91	0.92	0.92	0.93	2022	0.95	0.99	0.98	0.97
Gender Inequality Index (GII) 3/	0.30	0.29	0.28	0.25	0.23	0.23	2022	0.07	0.35	0.18	0.21
Global Gender Gap Index 2/	0.58	0.59	...	0.60	0.60	0.64	2022	0.68	0.77	0.73	0.72
Women Business and the Law Index (WBL) 4/	31.88	38.13	70.63	80.00	80.00	71.25	2022	78.13	97.50	88.13	86.38
<b>Labor and Income</b>											
Female Employment-to-Population Ratio, Modeled ILO Estimate (15-64 yrs) (as share of the female po	15.75	17.38	19.31	23.33	28.54	28.98	2022	36.88	54.52	50.88	45.21
Gender Wage Gap 5/	...	...	...	...	...	...	...	...	...	...	...
Female Informal Employment Rate	...	...	...	...	...	...	...	...	...	...	...
Female Labor Force Participation Rate, Modeled ILO Estimate (15-64 yrs)	20.10	22.03	24.57	29.55	34.56	34.36	2022	45.77	56.15	53.69	47.66
Female Unemployment Rate, Modeled ILO Estimate (15-64 yrs)	21.61	21.10	21.38	21.03	17.43	15.65	2022	3.32	9.35	4.33	5.08
Female Gross Pension Replacement Rate (as share of average worker earnings)	...	...	...	...	...	18.00	2022	8.20	15.00	10.10	11.66
<b>Leadership and Social</b>											
Proportion of Seats Held By Women in National Parliaments	19.87	19.87	19.87	19.87	19.87	19.87	2022	17.74	37.26	28.70	28.39
Proportion of Women in Managerial Positions	...	...	...	...	...	...	...	...	...	...	...
Prevalence of Intimate Partner Violence among Ever-partnered Women (in percent)	...	...	...	...	...	...	2018	21.00	26.00	23.00	25.94
<b>Access to Finance</b>											
Number of Household Loan Accounts with Commercial Banks, Females' Accounts per 1,000 Female Ad	143.36	108.80	84.00	85.46	110.51	121.22	...	...	...	...	...
Number of Household Deposit Accounts with Commercial Banks, Females' Accounts per 1,000 Female	776.45	798.67	843.29	927.67	1140.89	1247.83	...	...	...	...	...
Share of Female Adults (in Total Female Adults) Who Borrowed From a Financial Institution (in percent)	9.82	...	...	...	28.85	...	2021	25.42	59.40	41.46	32.79
Share of Female Adults (in Total Female Adults) Who Own a Financial Institution Account (in percent)	58.17	...	...	...	63.49	...	2021	77.47	99.51	93.07	83.63
Share of Female Adults (in Total Female Adults) with Mobile Money Account (in percent)	...	...	...	...	...	...	...	...	...	...	...
Share of Female Adults (in Total Female Adults) Who Made or Received Digital Payments in the Past Yr	41.96	...	...	...	62.73	...	2021	64.36	98.36	91.45	67.12
<b>Education</b>											
Female Adult Literacy Rate	92.71	...	...	96.05	...	...	...	...	...	...	...
Female Mean Years of Schooling	9.75	10.08	10.41	10.74	10.74	10.74	...	...	...	...	...
Female Primary Gross Enrollment Rate 6/	...	...	...	...	...	...	2021	99.25	102.17	100.78	100.35
Female Secondary Gross Enrollment Rate 6/	...	...	...	...	...	...	2021	99.60	115.14	104.39	89.92
Female Tertiary Gross Enrollment Rate 6/	69.88	...	...	...	...	...	2021	58.14	96.65	81.20	58.02
<b>Health</b>											
Female Adult Mortality Rate per 1,000 Adults 7/	79.41	79.49	81.36	88.31	80.85	...	2021	54.21	179.77	90.41	114.73
Female Life Expectancy at Birth	78.80	78.91	78.91	77.99	78.77	...	2021	74.86	85.10	79.30	79.33
Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs)	16.00	17.00	18.00	16.00	...	...	2020	8.00	59.00	16.00	38.05
Total Fertility Rate (Births Per Woman)	2.58	2.55	2.50	2.47	2.43	...	2021	1.43	1.89	1.66	1.67

Source: GenderDataHub /8

1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are reported for the latest year for which aggregates are available. Detailed metadata, including weights used for averages, are available on the Gender Data Hub.

2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.

3/ The Gender Inequality Index is scored on a scale of 0-1, where a higher score indicates higher inequality.

4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.

5/ The Gender Wage Gap is the difference between average earnings of men and average earnings of women expressed as a percentage of average earnings of men (as calculated by the International Labor Organization). The gap listed here is for Occupation = "Total" under the ICSO 08 Classification.

6/ Gross enrollment rates can exceed 100% due to the inclusion of over-aged and under-aged pupils/students because of early or late entrants, and grade repetition.

7/ The adult mortality rate refers to the probability that those who have reached age 15 will die before reaching age 60 (shown per 1,000 persons). In other words, a value of 150 means that out of 1,000 persons who have reached age 15, 150 are expected to die before reaching age 60, and 850 are expected to survive to age 60. This is based on a "synthetic cohort": current life-table mortality rates are applied to the current cohort of 15 year olds, assuming no changes in mortality.

8/ See Gender Data Hub metadata for original data sources and definitions.

## Annex I. Vision 2030: Actuals vs Authorities Targets<sup>1</sup>

Vision Realization Program	Economic Goals	Select Macro Targets	Baseline	Present <sup>1</sup>	Target
Financial Sector Development Program	Developing the financial sector	SME loans as percentage of total bank loans	2%	8.4%	20%
		Share of cashless operations	18%	70%	80%
Fiscal Sustainability Program	Achieving a sustainable fiscal balance and reducing dependency on oil revenues	Increase non-oil government revenue	166 Billion SAR	458 Billion SAR	1 Trillion SAR
		Share of non-oil exports in non-oil GDP	18%	24%	50%
Health Sector Transformation Program	Enhancing healthcare services and accessibility.	Life expectancy (years)	77	78	80
		Inclusive healthcare coverage including rural areas	78%	96%	99.5%
	Developing healthcare infrastructure and technologies.	Number of ICU beds per 100k population.	12.5	15	14 <sup>2</sup>
	Improving healthcare quality and patient outcomes.	Percentage of population covered by the unified digital medical records system	13%	89.6%	100% <sup>2</sup>
Housing Program	Increasing homeownership rates and improving housing affordability. Developing sustainable and diverse housing options.	Homeownership rate	47%	64%	70%
		Citizen satisfaction index	80% <sup>3</sup>	90%	80% <sup>3</sup>
Human Capability Development Program	Developing a skilled and productive workforce.	Unemployment rate among Saudis	12%	7.6%	7%
	Enhance education and skills development	Increase Saudization in high skilled jobs	32%	42%	40% <sup>2</sup>
		Ranking in World Bank Human Capital Index	87 <sup>th</sup>	77 <sup>th</sup>	50 <sup>th</sup> <sup>2</sup>

<sup>1</sup> Prepared by Jarin Nashin, Greta Polo, and Jérôme Vacher.

Vision Realization Program	Economic Goals	Select Macro Targets	Baseline	Present <sup>1</sup>	Target
		Females' economic participation rate	22.8%	35%	30%
	Promoting entrepreneurship, innovation, and knowledge-based industries.	Percentage of unemployed graduates that find a job in less than 12 months	13%	41.2%	75%
	Enhancing education and vocational training systems.	Percentage of technical and vocational education graduates enrolled in the labor market within 6 months of graduation	14%	45.8%	65%
National Industrial Development and Logistics Program	Enhancing the competitiveness of key industries.	Number of licenses issued in promising industries	169	721	1040 <sup>2</sup>
	Developing a robust logistics infrastructure and facilitating trade.	Logistics Performance Score	49	38	25
National Transformation Program	Serving as the overarching program coordinating and monitoring the implementation of Vision 2030.	Digital economy contribution to GDP	0.2%	14%	19.2% <sup>2</sup>
		Government Effectiveness Index Rank	78 <sup>th</sup>	38 <sup>th</sup>	31 <sup>st</sup>
	Focusing on economic diversification, private sector growth, and job creation.	Increase SME contribution to GDP	20%	28.8%	35%
		Global Competitiveness Index	41 <sup>st</sup>	17 <sup>th</sup>	10 <sup>th</sup>
	Implementing various initiatives across multiple sectors to achieve the vision's goals.	Ranking of the Kingdom in the United Nations e-Government Development Index	44 <sup>th</sup>	31 <sup>st</sup>	5 <sup>th</sup>
Pilgrim Experience Program	Enhancing services, facilities, and infrastructure for pilgrims.	Increase the capacity to welcome Umrah visitors per year	6.2 Million	13.6 Million	30 Million
Privatization Program	Promoting the privatization and private sector participation in key sectors.	Increase private sector contribution to GDP	40%	45%	65%

Vision Realization Program	Economic Goals	Select Macro Targets	Baseline	Present <sup>1</sup>	Target
	Attracting local and foreign investments through privatization initiatives.	Increase FDI Inflows	20.5 Billion SAR	60.74 Billion SAR	122 Billion SAR
Public Investment Fund Program	Enhancing the role of the Public Investment Fund as a catalyst for economic growth.	Increase Public Investment Fund assets	600 Billion USD	925 Billion USD	2 Trillion USD
Quality of Life Program	Developing the tourism sector, supporting cultural and entertainment initiatives, and facilitating private sector investments for sustained development and growth	Tourism sector contribution in GDP	3.6%	4.4%	10%
<sup>1</sup> Saudi Vision 2030 Annual Report for 2023 or latest available observation <sup>2</sup> 2025 target. <sup>3</sup> Indicates a threshold of 80% to be maintained consistently throughout the year.					

## Annex II. Recommendations Made During the 2023 Article IV Consultation

Recommendation	Status
Fiscal consolidation over the medium term by building on efforts to mobilize non-oil revenues, reforming energy prices, and scaling up social programs.	In 2023, the fiscal stance deteriorated but is expected to improve over the medium term, mostly on the basis of spending rationalization and wage bill containment.
Continue to rationalize public sector wage bill	Spending on budget payroll has declined to 21.7 percent of non-oil GDP its lowest level in decades, on account of slower growth in compensation and hiring restraint.
Calibrate investment programs to avoid private sector crowding out and overheating risks.	Following an exceptionally strong 33.2 percent record of 2022, non-oil investment growth has tapered to 12.2 percent in 2023. A fiscal space exercise has been undertaken to calibrate spending and prioritize investment plans.
Delink spending decisions from oil price fluctuations, by a strict application of a fiscal rule – preferably based on expenditures.	There are signs that the historically procyclical tendency of fiscal spending has weakened in recent years, but further improvements are warranted as budget expenditures continue to exhibit some degree of synchronicity with oil price fluctuations. The authorities are contemplating an expenditure rule, delinked from oil prices and with clear criteria for surplus allocation.
Continue strengthening the public financial management framework, including through adoption of a Treasury Single Account.	Continued improvements are made as the authorities (i) have established a Treasury Single Account and are (ii) moving towards a 3-year MTF, including through efforts to establish a robust framework for fiscal risk monitoring and analysis, and (iii) implementing accrual accounting initiatives across all government entities.
Accelerate progress toward developing a sovereign asset-liability management framework.	The planning work towards developing a sovereign asset liability management framework is ongoing, but its operationalization is still lacking.
Preserve a tight monetary policy stance in support of the exchange rate peg.	The implementation of the authorities' monetary policy framework has been broadly effective in containing inflationary pressures and preserving the peg.
Establish an emergency liquidity assistance framework.	Not established yet but in progress.
Closely monitor emerging financial risks, including rapid credit growth.	A monitoring framework for rising mortgages is in place.
Continue labor market reforms to boost productivity.	Labor market reforms are advancing well, including through the roll-out of ambitious workforce training programs (e.g., <i>the Human Capability Development Program</i> ), and continued strides in promoting Saudi female labor force participation rate – which with 35 percent in 2023, stood well above the Vision 2030 target of 30 percent.
Continue efforts on climate policies	In The Saudi Green Initiative Forum 2021, the authorities have committed to achieving net zero emissions by 2060. Plans to scale up renewable energy are progressing well – with the generation capacity increasing by four-fold over the past year to 2.8 gigawatts. The final investment decision for a large-scale clean hydrogen project hinges on long-term commitment by buyers. Green finance initiatives gain momentum, including through an inaugural sovereign green bond issuance planned in 2024.
Accelerate actions to improve the governance framework.	New by-laws of the anti-corruption agency have not yet been adopted, which is delaying adoption of a proper asset declaration framework. A whistleblower law has been adopted.
Improve data provision	Coverage of sectoral activities in national accounts, adoption of a new chain-linked methodology, and new FDI and digital economy statistics

## Annex III. Aramco's Dividend Policy and Revenue Impact of the Reallocation of Shares to PIF<sup>1</sup>

*Oil related fiscal revenues are determined in part by the share of Aramco's capital held by the Kingdom and by the dividend policy applied by Aramco (beyond dividends, the other two sources of income for the fiscal are royalties and corporate income taxes). Significant changes to Aramco's capital structure that shift more resources to the PIF, a second public offering, and a new dividend policy have been applied since 2022, which also impact fiscal revenues.*

**1. Aramco's Shareholder Structure.** During 2022-24, the Saudi government transferred in stages a total 16 percent of its stake to the PIF. The initial 4 percent share allocation to the PIF (Feb. 2022) was followed by a subsequent allocation of the same volume to Sanabil Investments (Apr. 2023) – a wholly owned subsidiary of the PIF. In March 2024, there was an additional transfer of 8 percent of the capital PIF's fully owned companies. The total of those transfers at current valuations amounted to about \$320 bn (the equivalent of 30 percent of GDP). In June 2024, through a second IPO, 0.73 percent of Aramco shares were sold to the public, raising \$11.4 bn in proceeds, mostly among foreign investors (in contrast to the initial IPO). The Saudi government remains Aramco's largest *shareholder* with an 81.48 percent direct stake.

**2. Aramco's Dividend Policy.** In the fall of 2023, Aramco announced the introduction of performance-linked dividends in addition to its base dividend, based on the company's free cash flow. Those were based on 2022 and 2023 results, and payable over six quarters starting in Q3 2023. This largely contributed to a 30 percent increase from 2022 of Aramco's total dividend payouts for 2023 (\$97.8 bn.), as base dividends only increased by 4 percent in 2023. The company also announced a base dividend of \$20.3 bn. For Q4 2023, payable in Q1 2024, coupled with a Board-sanctioned performance-linked dividend of \$10.8 bn.

**3. Projected Fiscal Impact.** There are three main sources of fiscal revenue from Aramco: (i) royalties, (ii) corporate income taxes, and (iii) dividends. Despite decent CIT rates (50-85 percent on upstream and oil depending on the level of upstream investment, 20 percent on natural gas and downstream) corporate income tax payments to the Kingdom are also dented by the compensation mechanism (fuel subsidy) put in place by the Kingdom whereby Aramco can reduce its income tax bill accordingly – essentially a tax expenditure. Compared to 2022, both royalties (\$61.8bn) and income taxes paid (\$115.5 bn) have come down, respectively by 39.0 and 21.1 percent, mostly due to the decrease in oil prices.

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<sup>1</sup> Prepared by Mahmoud Harb, Jérôme Vacher, and Ömer E. Bayar (all MCD).



Annex III. Table 1. Saudi Arabia: Sources of Government Oil Revenues					
Type	Definition			Special Provisions	Total Payments (2023, SAR bn.)
Production Royalties	15% of Production Value 45% of Production Value 80% of Production Value	if Oil Prices	< \$70/bbl >\$70/bbl & <\$100/bbl >\$100/bbl	Deductible from income tax calculations.	213.2
Income Taxes and Zakat (paid)	20% of EBT 50% of EBT	for for	Downstream Activities All Other Activities	Aramco's taxes payable can be adjusted to reflect cost of fuel subsidies.	200.2
Base Dividend	Based on net income -- distributed at the discretion of the Company Board.				264.0
Performance-linked Dividend	50--70%	of	Annual Free Cash Flow	To be distributed over the subsequent four quarters.	69.7
TOTAL					747.1

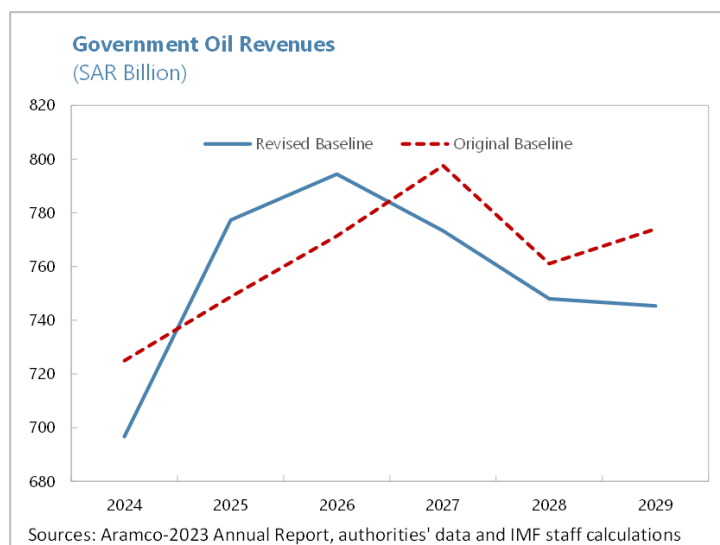
Sources: Aramco - 2023 Annual Report, authorities' data.

#### 4. The change in Aramco's shareholding structure and continued use of performance-based dividends will have fiscal implications.

In 2023, the performance-linked dividend has contributed to an improvement of 1.7 percent of GDP in fiscal revenues (almost as much as the current fiscal deficit of 2 percent of GDP,

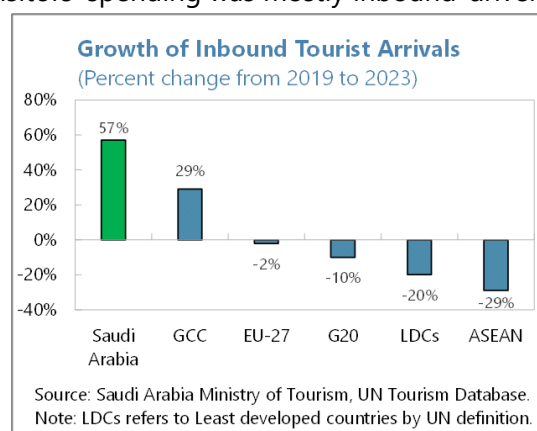
i.e., the deficit would have doubled in the absence of the performance linked dividend). On the other hand, should the shareholder structure have stayed the same and the performance-linked dividend system have not been introduced, government revenues in 2023 would have been around SAR 700 bn – i.e., 7.3 percent less than the current revenues. However, our projections—anchored on the assumptions that government ownership in Aramco stabilizes at its current level of 81.48 percent, and oil

prices are aligned with the WEO – project a decline in government oil revenues over the medium-term relative to the original baseline (i.e., by 4.1 percent in 2029).

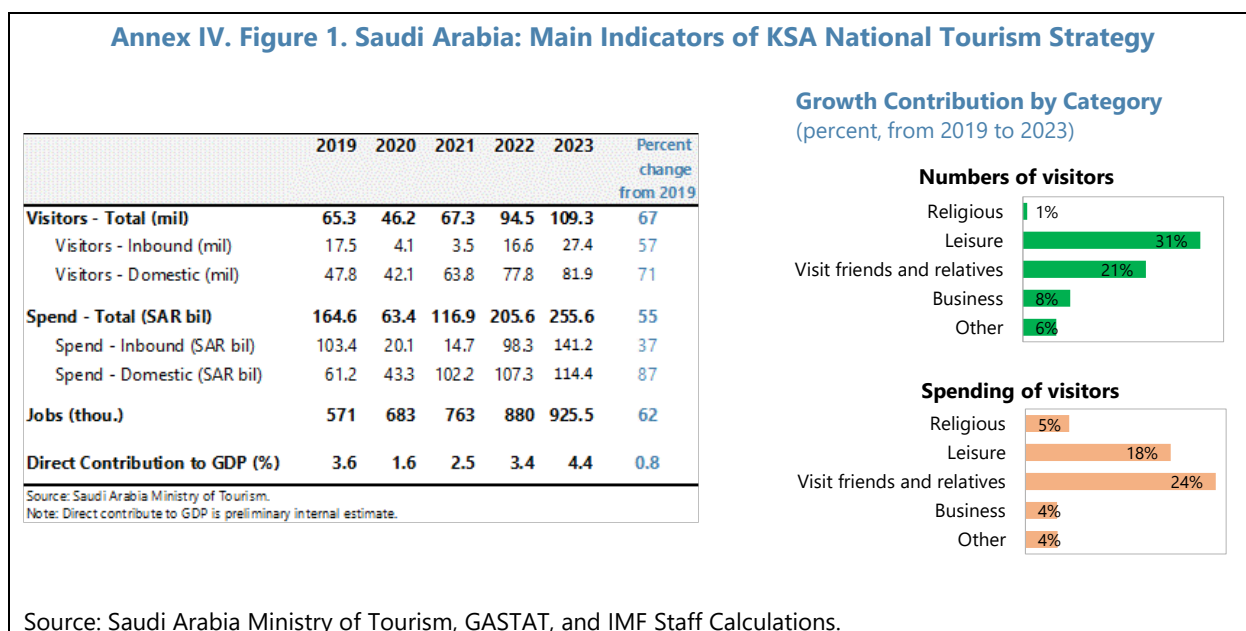


## Annex IV. Diversification and Resilience: Saudi Arabia's Tourism Boom Post-Covid<sup>1</sup>

**1. Considered as a strategic sector of Vision 2030, the tourism sector has registered a record high number of visitors, spending, job creation, and contribution to GDP.** Notably, in 2023, the total number of annual visitors surpassed the Vision 2030 target of 100 million, achieving this milestone seven years ahead of schedule, with Saudi Arabia's Covid tourism recovery ranked among the top globally among inbound arrivals growth (text figure). That said, the surge of visitors has been mostly domestic-driven while the surge in visitors' spending was mostly inbound-driven (i.e., international arrivals). Non-religious visits are gathering pace, with the highest contributions from visits for leisure and friends and relatives. The ongoing development of tourism-led Giga projects (e.g., Red Sea, Diriyah Gate, AlUla) and the plan to host major international events (e.g., Formula One, 2027 Asian Cup, 2030 World Expo), are expected to contribute further to the expansion of inbound and domestic tourism, thereby supporting Saudi Arabia's non-oil growth. The estimates of World Travel & Tourism Council indicate that Saudi Arabia's tourism sector's overall (direct and indirect) contribution to GDP reached 11.5 percent in 2023—and is expected to increase to 16 percent by 2034.

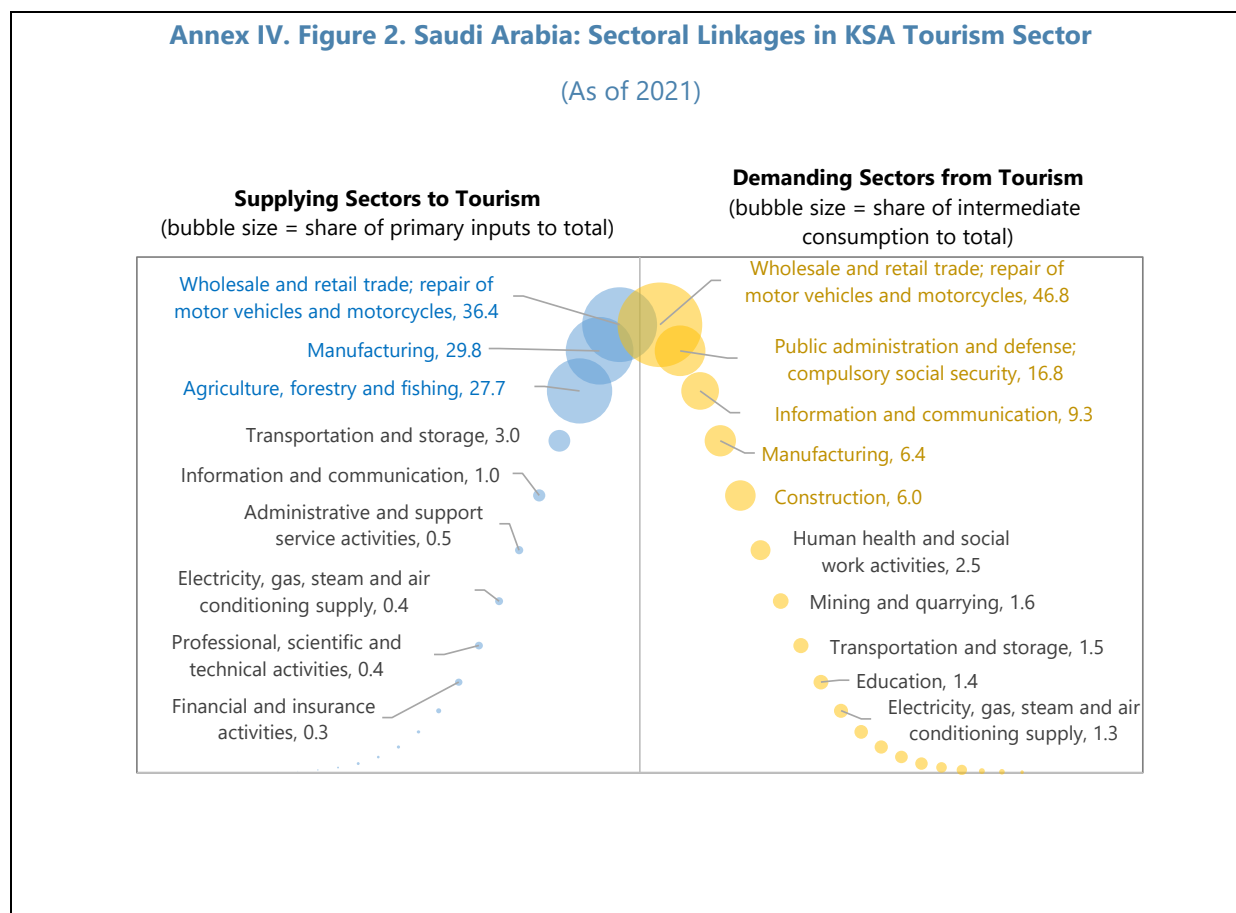


**Annex IV. Figure 1. Saudi Arabia: Main Indicators of KSA National Tourism Strategy**



<sup>1</sup> Prepared by Yuan "Monica" Gao Rollinson (MCD).

**2. Saudi Arabia's tourism sector exhibits greater diversification of sectoral linkages, with less relative linkages with oil-intensive sectors**, such as manufacturing, transportation, and mining and quarrying. On the supply side, while manufacturing remains the second largest supplying sector to tourism in 2021 (29.8 percent), it experienced the largest decline of primary input sectoral share from 2019 (-4.6 percent). The transportation sector also had a decline of 1 percent. On the demand side, the share of primary inputs demand from wholesale and retail, public service, information and communication sectors exhibit sizeable increase (ranging from 1.1 to 2.3 percent), whereas the share of inputs demand from manufacturing decreased by 1.3 percent. Although the Input-Output Table data for 2023 are not yet available, it is highly probable that the tourism sector has generated a greater positive spillover due to its increasing contribution to GDP since 2021. A linkage analysis conducted by the Ministry of Tourism, based on its tourism social accounting matrix using the 2019 data<sup>2</sup>, identified activities within the tourism sector (among 12 in total) that have strong linkages with other sectors (e.g., food and beverage activities, railway/water passage transport, accommodations, road/air passenger transport, travel agencies, and cultural industry).



<sup>2</sup> Ministry of Tourism used 2019 data for its linkage analysis to avoid impacts of the Covid-19 pandemic. Annex Figure 2 presents sectoral linkage using the latest available annual data (2021) and shows changes of linkage from 2019.

Annex IV. Figure 2. Saudi Arabia: Sectoral Linkages in KSA Tourism Sector (concluded)

Main Supplying Sectors to Tourism	Primary Input (SAR Billion)	Share of Primary Inputs to Total in 2021 (Percent)	Share Change from 2019 (Percent)
1 Wholesale and retail trade; repair of motor vehicles and motorcycles	22.6	36.4	3.9
2 Manufacturing	18.5	29.8	-4.6
3 Agriculture, forestry and fishing	17.2	27.7	5.7
4 Transportation and storage	1.9	3.0	-1.0
5 Information and communication	0.6	1.0	-1.3
6 Administrative and support service activities	0.3	0.5	-0.6
7 Electricity, gas, steam and air conditioning supply	0.3	0.4	-0.4
8 Professional, scientific and technical activities	0.2	0.4	-0.8
9 Financial and insurance activities	0.2	0.3	-0.3

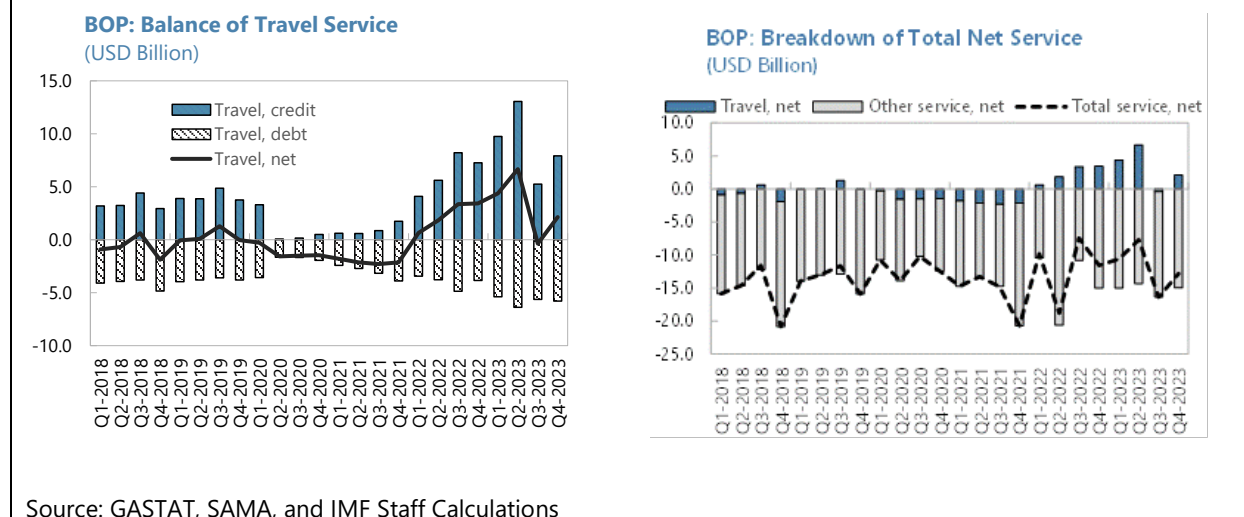
  

Main Demanding Sectors from Tourism	Intermediate Consumption (SAR Billion)	Share of Intermediate Consumption to Total in 2021 (Percent)	Share Change from 2019 (Percent)
1 Wholesale and retail trade; repair of motor vehicles and motorcycles	16.7	46.8	1.6
2 Public administration and defense; compulsory social security	6.0	16.8	2.3
3 Information and communication	3.3	9.3	1.1
4 Manufacturing	2.3	6.4	-1.3
5 Construction	2.2	6.0	1.2
6 Human health and social work activities	0.9	2.5	-1.6
7 Mining and quarrying	0.6	1.6	-0.8
8 Transportation and storage	0.5	1.5	-0.2
9 Education	0.5	1.4	-0.7

Source: GASTAT (2021 Input-Output Table) and IMF Staff Calculations.

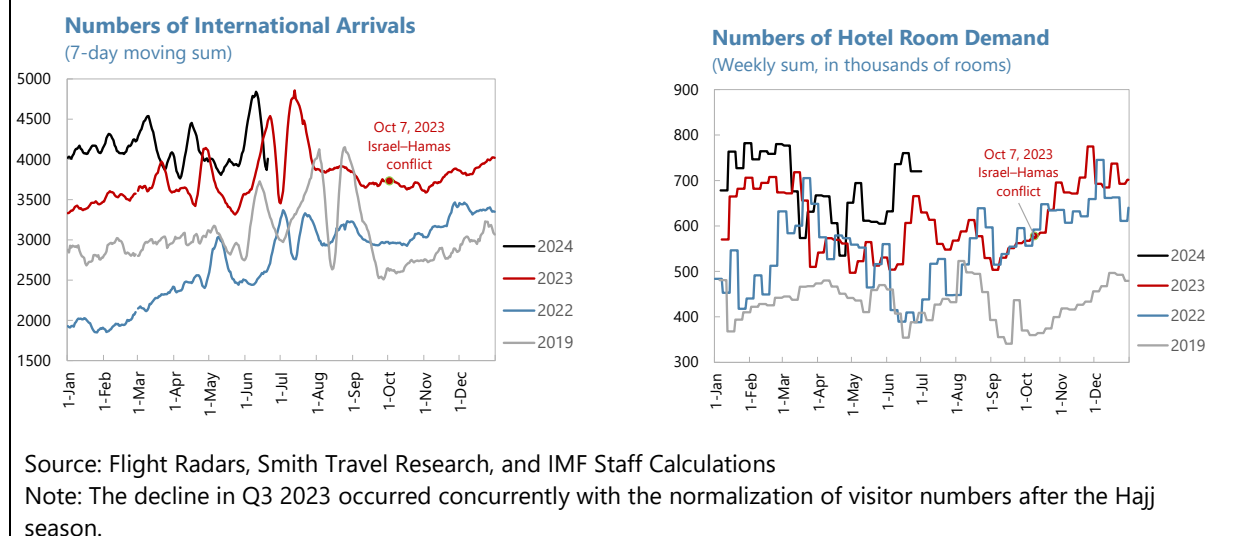
**3. Tourism becomes the main driver of the service balance in the external sector.** Annual net travel service shifted into a surplus in 2022 and further increased by 38 percent to \$12.8 Billion in 2023, compared with large historical deficits—particularly during 2010-15. In 2023, tourism revenue registered a historical high of \$36 Billion, despite a slight decline in Q3 2023—mainly due to normalization of the visitor numbers after the Hajj season. There was also a substantial increase in outbound tourism spending (i.e., travel, debt) post-Covid, which was primarily driven by expatriates' trips to visit friends and relatives—while Saudi nationals' leisure spending abroad experienced a significant decline of 51 percent from 2019 to 2023. In addition, tourism has contributed to higher transportation, as inbound visitors' spending on airline tickets are categorized under transportation. Service exports are expected to maintain an upward trend if tourist inflows continue to grow.

Annex IV. Figure 3. Saudi Arabia: Tourism and External Balance



**4. Saudi Arabia's tourism surge in 2023 demonstrated resilience in the face of regional geopolitical events.** Tourism inflows, as proxied by the numbers of international arrivals flights, remained strong after the start of the Israel-Gaza conflicts (October 7, 2023) and were substantially higher than historical levels in 2019-22. Demand for hotel rooms remained upward trending in 2023 since the conflicts. The latest data for 2024 has shown strong year-on-year growth, suggesting likely higher tourism revenues in 2024.

Annex IV. Figure 4. Saudi Arabia: International Flights Arrival and Hotel Room Demand



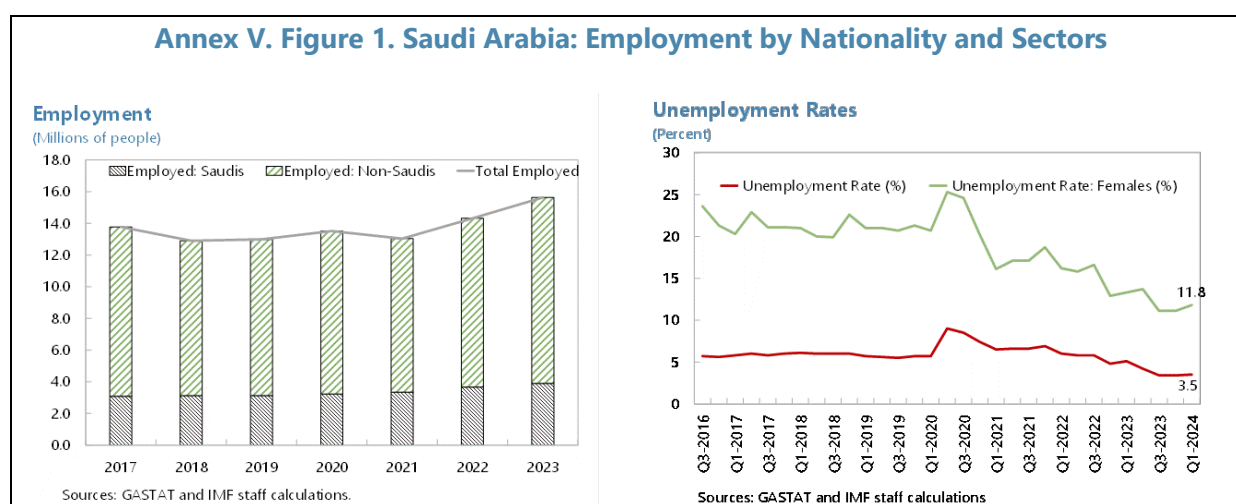
**5. Continued policy supports are expected to sustain growth of tourism sector and make further contribution to the economy.** Saudi Arabia's tourism sector has experienced an unprecedented boom supported by various Vision 2030 initiatives, including a wide range of policies designed to stimulate demand and support supply, including through incentives. Some of the

measures will continue to be necessary to reach the 10 percent direct contribution to GDP target set for 2030:

- *Regulatory support:* Introduced tourist E-visa program to ease accessibility for online and on-arrival visas.
- *Infrastructure development:* Tourism-led Giga projects were launched to create new tourist destinations; upgraded road, rail, and air transportation including construct new international airport.
- *Training program for tourism professionals:* Introduced tourism education program in universities and created employment opportunities in the sector.
- *Market and promotion:* Launched international marketing campaigns through partnerships with global travel platforms and participated in international tourism fairs. Hosted numerous cultural, entertainment, recreation, and sports events (e.g., Riyadh Seasons, Boulevard World, upcoming Asian Games and Asian Cup) as well as conferences (e.g., World Economic Forum Special Meeting and World Defense Show in 2024).

## Annex V. Saudi Arabia's Labor Market<sup>1</sup>

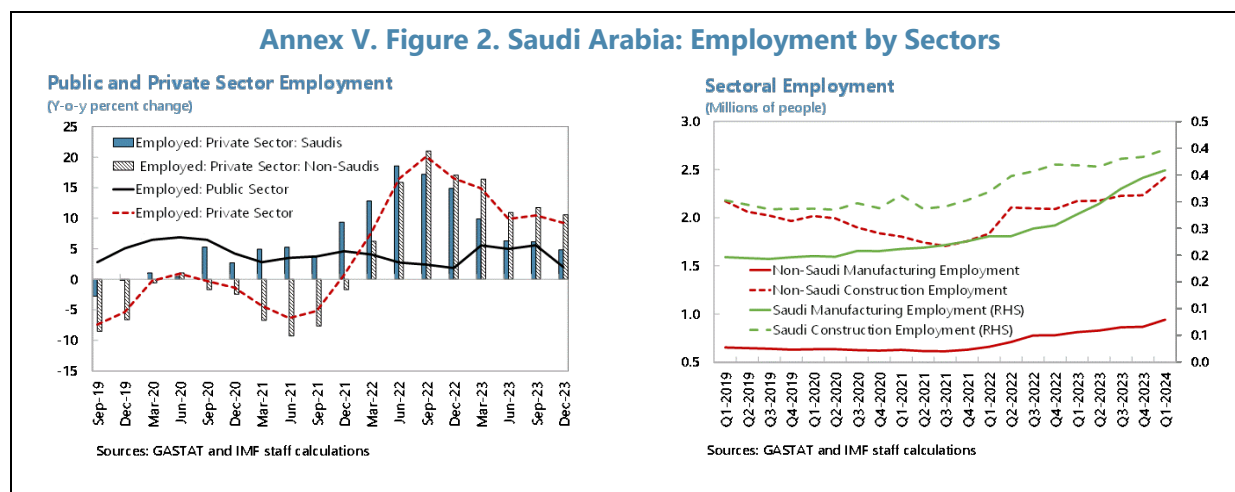
**1. Saudi Arabia's labor market has enjoyed a robust recovery over the past two years, with employment figures for both Saudis and non-Saudis surpassing pre-Covid levels.<sup>2</sup>** As of the fourth quarter of 2023, total employment, excluding domestic workers, approached 12 million, marking a 24 percent increase from the fourth quarter of 2019. Saudi employment growth of 23 percent accounted for a third of the overall increase during those four years. In 2023 alone, Saudi employment surged by 4 percent, leading to a record low unemployment rate of 7.8 percent by the year's end—and further dropped to 7.6 percent in Q1 2024. Meanwhile, non-Saudi employment (excluding domestic workers) grew by 10 percent in the same year, reducing their unemployment rate to an unprecedented 0.9 percent since the onset of Covid-19.



**2. The job market has undergone a significant expansion in private sector employment coupled with consistent growth in public sector jobs, highlighting an improved diversity within the workforce.** Over the past two years, public sector employment—including in government related enterprises—has seen a steady annual growth of 3.9 percent y-o-y. In contrast, private sector employment, which is more closely tied to economic fluctuations, rebounded strongly from a pandemic-induced downturn to reach a record high of 10.3 million by the end of 2023. Although non-Saudis continue to form the majority in the private sector, the share of Saudi employees has slightly risen from an average of 20 percent in 2019 to 22 percent in 2023. Similarly, non-Saudi representation in the public sector has modestly increased, moving from 6 percent to 9 percent during the same period.

<sup>1</sup> Prepared by Chandana Kularatne, Greta Polo, and Yuan Gao Rollinson (MCD).

<sup>2</sup> Most of the Covid-19 restrictions were lifted in Saudi Arabia in March 2022.



**3. A notable resurgence was seen in employment across various sectors, especially in manufacturing, construction, and hospitality, supported by the recent tourism boom.** This resurgence marked by a significant increase in the employment of high-skilled Saudis and non-Saudis in the professional, scientific, and technical fields, with a year-on-year increase of 15 percent and 11 percent respectively in the fourth quarter of 2023. The trend of employing skilled expatriate workers is expected to continue its upward trajectory, potentially encouraged by future revisions to dependent fees. This growing influx of skilled labor is critical for addressing skill mismatches and ensuring the availability of a diverse talent pool, essential for meeting the evolving demands of Saudi Arabia's economy.

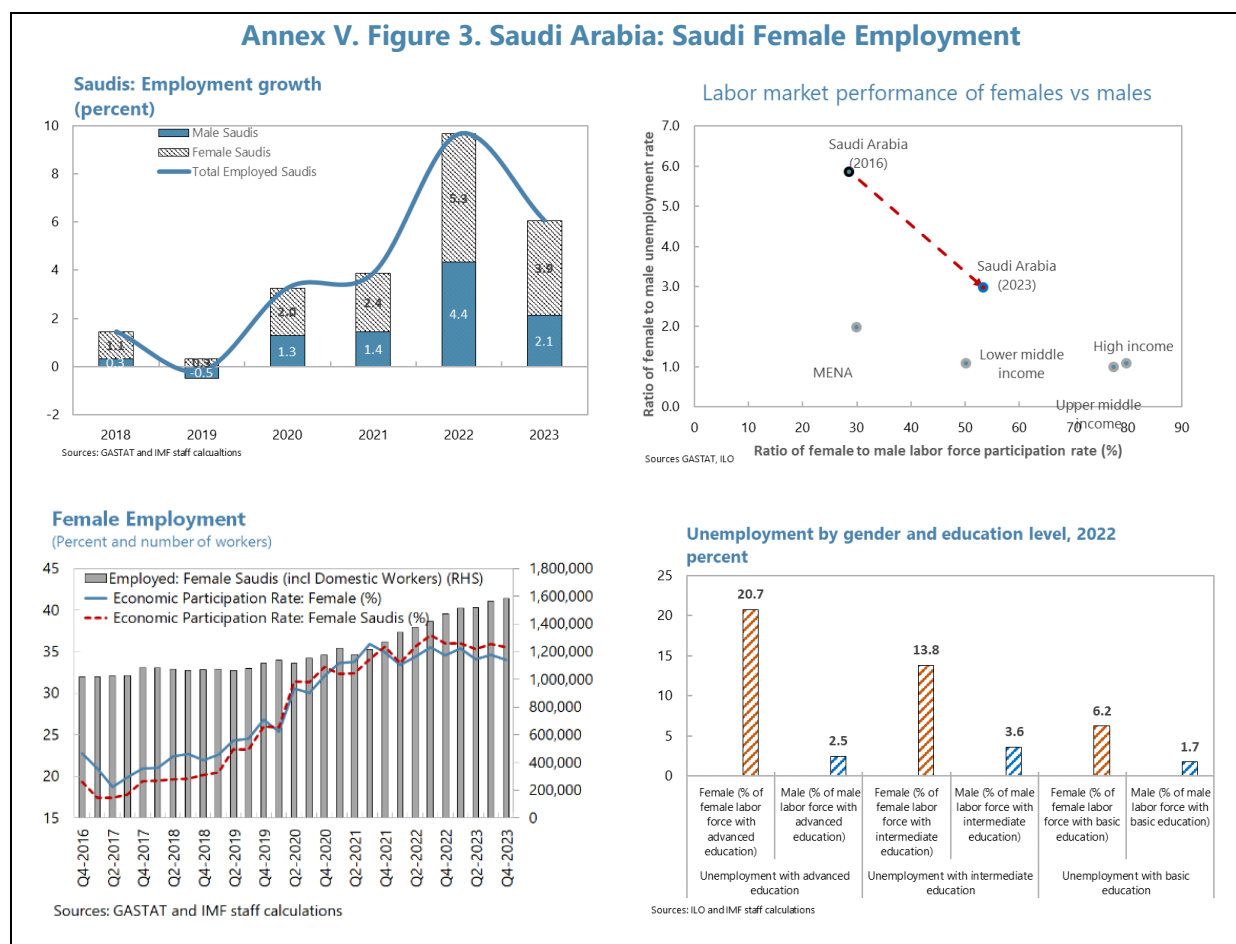
**4. The robust growth in Saudi employment was driven primarily by:**

- **Revisions to the Saudization policy (Nitaqat system).** At the end of January 2020, the Ministry of Human Resources and Social Development (MHRSD) dropped the "Yellow" category from the Nitaqat system. Employers previously classified under the "Yellow" category were downgraded to the "Red" category, imposing restrictions in their ability to hire expatriate employees. This pivotal modification compelled employers to achieve their Saudization quotas to fall within the 'Green' category, thus enhancing employment prospects for Saudi nationals.
- **Higher Saudi female employment in concert with higher labor force participation rate.** Saudi Arabia has made significant strides in increasing the participation of Saudi female labor and decreasing female unemployment rate. At the end of 2023, the female labor force participation rate (FLFPR) was 35 percent, surpassing the Vision 2030 target of 30 percent, and the Saudi female unemployment rate is also at an all-time low of 13.9 percent. Additionally, over one million commercial registrations are owned by women, constituting 45 percent of registered companies. In Q3 2023, women hold 43.7 percent of middle and senior management leadership roles in the economy, marking a significant stride towards gender equality in the workplace. These gains have led to a reduction in the disparity in employment rates and economic participation between Saudi females and males since 2016. It reflects the efforts undertaken to value worker diversity, reduce disparities, and create supportive environments to facilitate



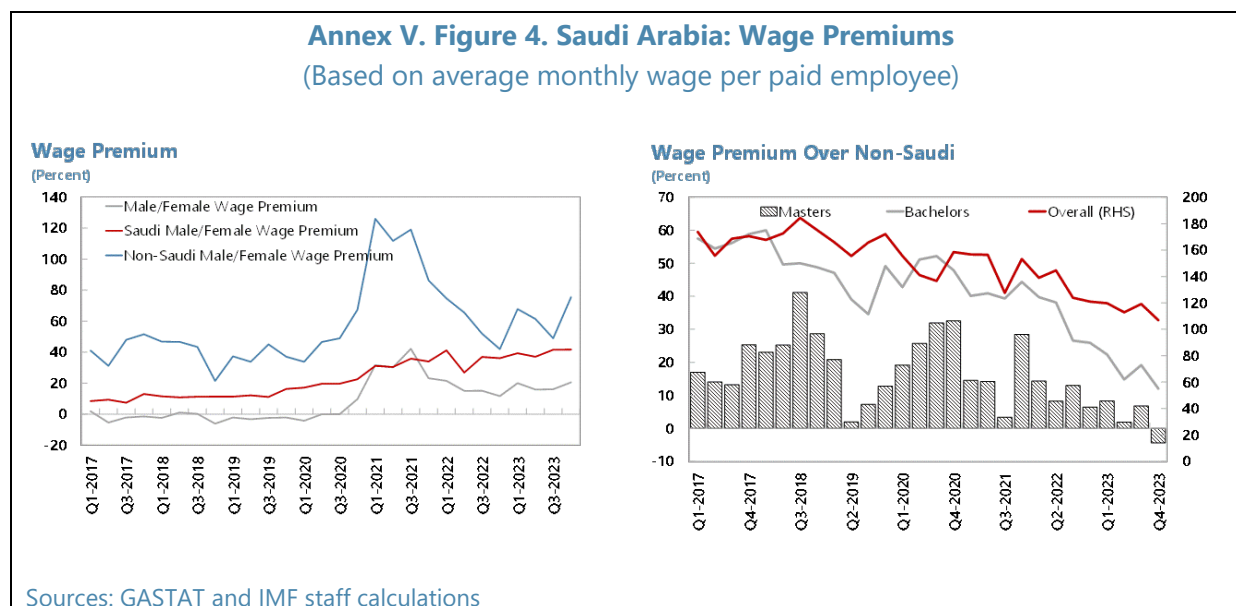
women's entry into the labor market. This includes motivation, supportive environments, policy awareness, career development encouragement, and regulatory legislation development to overcome work-related obstacles for women.

**5. Despite a stable FLFPR in 2023, unlike for men, the unemployment rate and education level for women is positively correlated, signaling the need for further reforms to support the active participation of highly educated women in the economy.** Firms should be encouraged to adopt female-friendly practices, such as allowing shifts/teams with only female members, providing more flexible work arrangements including remote work, further leveraging technology platforms to strengthens job search programs for women, allow more women to work from home, and helping female entrepreneurs overcome obstacles impeding the marketing and selling of their products. Initiatives promoting highly qualified female leadership, entrepreneurship, and participation in non-traditional sectors, such as the ICT sector's Women Empowerment Program, should be further strengthened.



**6. The recovery in the labor market occurred with a concurrent rise in overall nominal wages.** Notably, non-Saudi wages experienced a 9 percent increase relative to 0.5 percent in Saudi wages, thereby narrowing the wage premium between Saudi and expatriate worker to an all-time low (i.e., 15 percent reduction from 2017). At the same time, the gender wage gap slightly widened,

particularly among Saudi nationals, driven by those in jobs with a higher education (bachelors and post-bachelors), across different age groups. Initiatives aimed at fostering workplace gender equality should continue to be implemented through governmental policies and initiatives to reduce gender bias compensation and enhance women’s engagement in higher-paying roles and sectors.



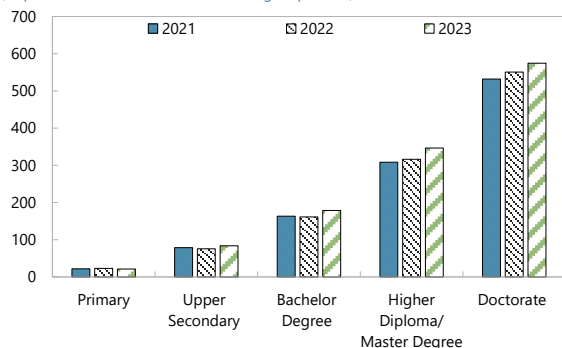
**7. The wage differential between more and less educated workers has widened, despite increases in nominal wages.** This highlights the growing demand for highly educated workers amid Saudi Arabia’s economic transition towards a knowledge-intensive economy and substantial infrastructure investments. To mitigate the skill mismatches, the National Skills Strategy, based on the National Skills System Framework, is being developed. Efforts to align Saudi education with international standards, particularly in STEM, include linking teacher compensation to educational outcomes and enhancing early childhood education. Furthermore, to align Saudi nationals’ skills with the private sector’s needs, collaboration among the public sector, private sector, and academic institutions is vital, with proposals to involve the private sector in curriculum development for vocational and higher education.

**8. By contrast, the wage differential between Saudi and non-Saudi workers has narrowed, with Saudis experiencing a decrease in average monthly real wages over the past three years, while non-Saudis have seen an increase in 2023.** This increase for non-Saudis is largely due to strong real wage growth among those with bachelor’s and master’s degrees. In contrast, Saudis faced a contraction in real wage growth across all education levels in 2022 and 2023. Despite this, non-Saudis with post-graduate degrees enjoyed robust real wage growth in 2021, following the onset of Covid-19. Nonetheless, the nominal wage disparity between Saudis and non-Saudis with doctoral degrees remained more substantial in 2022 and 2023 than in 2021.

### Annex V. Figure 5. Saudi Arabia: Rising Wage Differential across Education Attainment

#### Trends in Average Monthly Wage: Saudi's

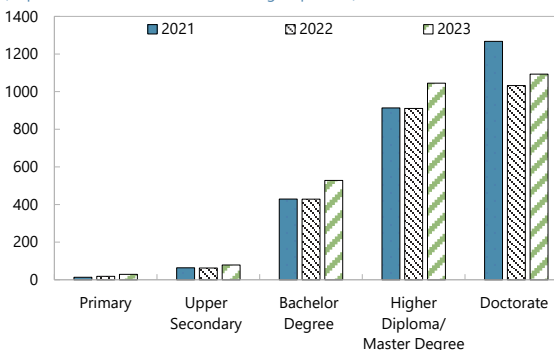
(Gap calculated relative to no schooling, in percent)



Sources: GASTAT, IMF Staff calculations

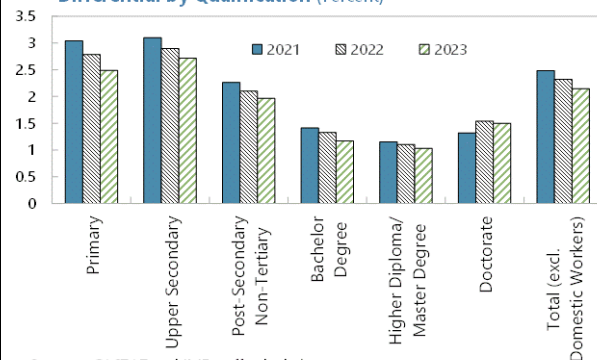
#### Trends in Average Monthly Wage: Non-Saudi's

(Gap calculated relative to no schooling, in percent)



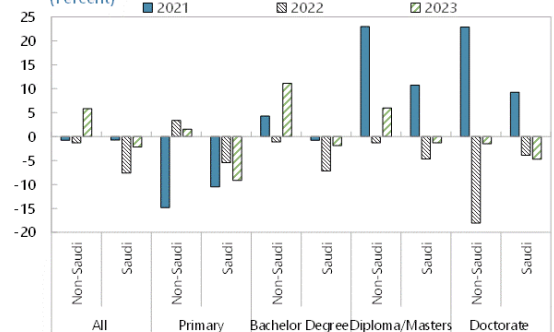
Sources: GASTAT and IMF staff calculations.

#### Average Monthly Saudi-Non-Saudi Wage Differential by Qualification (Percent)



Sources: GASTAT and IMF staff calculations.

#### Real Average Monthly Wage Growth (Percent)



Sources: GASTAT and IMF staff calculations.

**9. Saudi Arabia is advancing the modernization of its labor market through reforms that focus on creating a more inclusive, skilled, and dynamic workforce, in line with Vision 2030 goals.** Key reforms include updates to the Labor Law, the adoption of equal employment opportunity measures, and the pursuit of Saudization objectives via the evolved Nitaqat system. Supporting these efforts are the Wage Protection System, initiatives to boost female employment, and the modernization of policies for expatriates, highlighted by easing the Kafala system and launching a new green card system. Additionally, the drive to improve workforce capabilities and the introduction of the Personal Data Protection Law further embody this comprehensive approach to labor market reform.

## Annex VI. External Sector Assessment

<p><b>Overall Assessment:</b> <i>The external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> The external balance sheet remains strong. Reserves remain adequate according to standard IMF metrics, although saving is not sufficient from an intergenerational equity perspective. Lower oil exports and investment-driven imports are expected to shift the current account surplus to a deficit. The central government's non-oil primary balance to GDP is expected to be on a continuously improving trend. Given the economy's structure, external adjustment will be driven primarily by fiscal policy. The pegged exchange rate continues to provide Saudi Arabia with a credible policy anchor.</p> <p><b>Potential Policy Responses:</b> Over the medium term, additional fiscal consolidation—including through enhanced revenue mobilization and energy price reforms—could bring the current account balance closer to the norm. Sustained implementation of an ambitious structural reform agenda to diversify the economy, lift productivity, and boost the non-oil tradable sector will also help in closing the gap. Risks associated with industrial policies should be minimized, while discriminatory policies should be avoided as they could create distortions in the allocation of resources and elicit retaliatory actions by trade partners.</p>						
<b>Foreign Asset and Liability Position and Trajectory</b>	<p><b>Background.</b> Net external assets are estimated at 73.5 percent of GDP at the end of 2023, slightly up from 70.9 percent of GDP in 2022, and down from 81.2 percent in 2021. In the medium term, the NIIP is expected to stabilize at 64 percent of GDP. Only broad categories are available on the composition of external assets. Portfolio and other investments, reserves, and FDI, respectively, account for 55 percent, 31 percent, and 14 percent of total external assets.</p> <p><b>Assessment.</b> The external balance sheet remains very strong. Substantial accumulated assets represent both protection against vulnerabilities from oil price volatility and saving of exhaustible resource revenues for future generations.</p>					
2023 (% GDP)	NIIP: 73.5	Gross Assets: 133.7	Res. Assets: 40.9	Gross Liab.: 60.1	Debt Liab.: 26.2	
<b>Current Account</b>	<p><b>Background.</b> The CA balance registered a surplus of 3.2 percent of GDP in 2023, down from a historical high of 13.7 percent surplus in 2022. The trade balance decreased by 9.5 percent of GDP as the price and volume of oil exports decreased and imports picked up in 2023—primarily driven by domestic-driven policies of reducing oil production and promoting investment. Higher consumption and reduced oil windfalls led to lower savings in 2023. The terms of trade deteriorated by 15 percent in 2023. Oil production projections follow the OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) agreement announced on June 2<sup>nd</sup>, 2024, with a further decline in 2024 and a recovery in 2025. The CA surplus is expected to shift to a 0.1 percent of GDP deficit in 2024 and decline further to a 2.7 percent of GDP deficit by 2029, reflecting increases in investment-driven imports and decline in oil export revenues.</p> <p><b>Assessment.</b> The IMF staff assesses a CA gap of -2.7 percent of GDP using the EBA-Lite CA model<sup>(1)</sup> (April 2024 WEO version), although the overall assessment is subject to significant model uncertainty due to the idiosyncratic characteristics of the Saudi Arabian economy. Saudi Arabia's reliance on oil complicates the application of standard external assessment methodologies, given the wide swings of oil prices between 2020 and 2023. Given this, the EBA-lite commodity module is also applied to Saudi Arabia ESA, with the Consumption Allocation Rules suggesting a CA gap of -1.6 percent of GDP for constant real annuity rules and -4.7 percent of GDP for constant real per capita annuity allocation rules. The Investment Needs Model suggests a CA gap of 3.5 percent of GDP. The estimated CA gap of -2.7 percent of GDP has an estimated range from -4.7 to -0.7 percent of GDP.<sup>(2)</sup></p>					
2023 (% GDP)	CA: 3.2	Cycl. Adj. CA: 3.3	EBA Norm: -	EBA Gap: -	Staff Adj.: -	Staff Gap: -2.7
<b>Real Exchange Rate</b>	<p><b>Background.</b> The riyal has been pegged to the U.S. dollar at a rate of 3.75 since 1986. On average, the REER appreciated by 0.7 percent in 2023 and was 5.7 percent above its 10-year average (2013-2022), while the NEER appreciated by 3.4 percent in 2023. The NEER appreciation was mainly driven by the appreciation of the U.S. dollar versus third currencies and with inflation less than in its trading partners, Saudi Arabia's REER appreciation was less than that of its NEER. As of April 2024, the REER was mostly unchanged, remaining at close to the 2023 average.</p> <p><b>Assessment.</b> Exchange rate movements have a limited impact on Saudi Arabia's competitiveness in the short term, as most of its exports are oil or oil-related products that are denominated in dollars. There is limited substitutability between imports and domestically produced products, which in turn have significant imported labor and intermediate-input content. The EBA-Lite REER model suggests an overvaluation of 13.2 percent. Based on the IMF staff CA gap and a 0.2 elasticity of the current account to a change in REER, the staff assesses the REER to be overvalued by 12.1 percent, with a range of 3 to 21.3 percent.</p>					
<b>Capital and Financial Accounts: Flows and Policy Measures</b>	<p><b>Background.</b> Net financial outflows in 2023 (\$43 billion) returned to their historical average (2013-2021) from a record high in 2022 (\$123 billion), mainly due to the decline of current account balance associated with reduced oil exports and oil prices. Net outflows continued as the PIF (sovereign wealth fund) and other entities continued to invest abroad. Reserves are expected to remain at a stable level over the medium term through reduced asset accumulation abroad.</p> <p><b>Assessment.</b> A lack of detailed information on the nature of financial flows in Saudi Arabia complicates the analysis of its financial account. The strong reserve position, including the sizable assets of the PIF, limits risks and vulnerabilities to capital flows.</p>					
<b>FX Intervention and Reserves Level</b>	<p><b>Background.</b> The PIF's investments abroad are increasing, although most of the government's foreign assets are still held at the central bank within international reserves. Net foreign assets decreased to \$417.1 billion (39.1 percent of GDP, 15.8 months of imports, and 208 percent of the ARA metric) at the end of 2023, down from \$440.5 billion at the end of 2022 (and from \$724 billion in 2014). This trend was, in part, driven by financial outflows. Reserves are expected to stabilize at about 13.4 months of imports in the medium term.</p> <p><b>Assessment.</b> Reserves play a dual role: they are saving for both precautionary motives and future generations. Reserves are adequate for precautionary purposes (measured by the IMF's metrics). Significant buffers are also available through external assets held by the PIF and national oil company. Nevertheless, fiscal consolidation is needed over the medium term to strengthen the CA and increase saving for future generations.</p>					
<p>(1) EBA models do not include Saudi Arabia. The IMF staff considered two approaches of the EBA-lite methodology: The EBA-lite CA model and the EBA-lite commodity module. The latter includes the special intertemporal considerations that are dominant in economies in which exports of nonrenewable resources are a very high share of output and exports.</p> <p>(2) Using the EBA-lite CA model, the cyclically adjusted CA norm is estimated at 5.9 percent of GDP (lower than the CA norm of 7.7 percent of GDP in 2022, which was mainly driven by high oil exports and fiscal balance). The Consumption Allocation Rules assume that the sustainability of the CA trajectory requires that the net present value (NPV) of all future oil and financial and investment income (wealth) be equal to the NPV of imports of goods and services net of non-oil exports. Estimated CA norms from the Consumption Allocation Rules were 4.8 percent of GDP and 7.9 percent of GDP for the constant real annuity and constant real per capita annuity allocation rules, respectively. The Investment Needs Model takes account of the possibility that it might be desirable to allocate part of the resource wealth to finance investment, which was not explicitly considered by the consumption-based model and produced a CA gap of 3.5 percent over the medium term. The reliance of the consumption and investment models on projected oil prices beyond the medium-term macro framework subjects the results to a high degree of uncertainty. The CA gap in 2023 of -2.7 percent of GDP represents the staff's overall assessment, which is anchored on the EBA-Lite CA model. The range for the gap is calculated using the standard error of Norway (2 percent), a comparable oil-rich economy in the EBA sample.</p>						

Annex VII. Risk Assessment Matrix<sup>1</sup>

Nature/Source of Main Risks	Likelihood	Expected Impact on the Economy if Risk is Realized	Policy Response
<b>Global Risks</b>			
<b>Intensification of regional conflict(s).</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	<b>High</b>	<b>Medium</b>	The needed policy response would depend on the nature of the shock. Fiscal policy could respond, and the authorities would need to ensure adequate liquidity in the banking system.
		Geopolitical events in the Middle East have not had any direct impact on the Saudi economy as Saudi Arabia's trade and financial linkages with current conflict-affected countries are minimal. Its shipments of hydrocarbons, most of which do not take the Red Sea route (two thirds go through the strait of Hormuz, though the Saudi East West Pipeline to the Red Sea offers an alternative route), were undisrupted and tourism inflows remain strong. However, tensions have led to a more than 40 percent decline in the number of ships passing the Red Sea, impacting traffic in the Jeddah port. International shipping costs have surged since last November as vessels sought longer alternative routes. The Houthi's increased activity has remained solely focused on global shipping traffic in the Red Sea rather than directly aimed at Saudi Arabia as in previous years of the conflict in Yemen.  With respect to Russia's war in Ukraine, direct spillover channels (trade, food prices, investments, financial sector) have been limited for Saudi Arabia. Lastly, any significant geopolitical shocks driving upwards international oil prices is likely to constitute a buffer in the form of higher oil revenues.	
<b>Abrupt global slowdown.</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	<b>Medium</b>	<b>Medium</b>	Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Existing buffers together with external borrowing could be used to smooth the fiscal adjustment in the short term in the event of a large shock. There should also be close monitoring of disruptions to banking system liquidity and signs of banking stress. Structural reforms should be accelerated to reduce the impact of oil price fluctuations on the economy over the longer term.
		The main channel would be through lower foreign demand and commodity prices, particularly from China, Saudi Arabia's largest trading partner. A higher-than-assumed interest rate trajectory in the United States would be mirrored in Saudi Arabia, constraining non-oil growth and asset prices. Conversely, faster-than-expected rate cuts would ease financial conditions both domestically and abroad.	

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood 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.

Nature/Source of Main Risks	Likelihood	Expected Impact on the Economy if Risk is Realized	Policy Response
<p><b>Commodity price volatility.</b> A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.</p>	<b>High</b>	<b>Medium</b>	
		<p>Several risk factors could contribute to fluctuations in oil prices, including shifts in global growth, financial market volatility triggered by monetary policy decisions by systemic central banks, geopolitical events, and non-OPEC+ supply growth. An increase/decrease in the global price of oil would raise/reduce growth and inflation in Saudi Arabia, while higher/lower oil export revenues would improve/worsen the fiscal and current account balances. Large fluctuations in oil revenue would have important repercussions for economic growth, public and external finances, and the reform momentum in Saudi Arabia. This would also impact the banking sector through government (and SOE) deposits as the risk of a sovereign bank nexus has increased in recent years given the higher share of government deposits.</p> <p>Renewed disruptions to food supply and prices globally, as experienced during Covid and in the wake of the Russia's war in Ukraine, would have a tamed impact given Saudi Arabia's policies to constitute food stocks and regulate some food prices on the domestic markets.</p>	<p>In response to a large increase/decrease in the global price of oil, use fiscal consolidation/stimulus to stabilize growth and inflation, given high fiscal space. Accelerate structural reforms to help diversify the export base away from oil.</p>
<b>Global Risks (Structural)</b>			
<p><b>Deepening geo-economic fragmentation.</b> Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.</p>	<b>High</b>	<b>Medium</b>	
		<p>Given its prominent role in the Middle East and in the global oil market, Saudi Arabia could be drawn into contributing to geo-economic fragmentation or be affected by geo-economic fragmentation trends, including in the wake of regional conflicts. Its geopolitical closeness and economic ties to China and Russia, notably through the oil market could be a contributing factor, while risks from geo-economic fragmentation would also affect Saudi Arabia through downward pressure on demand for Saudi exports, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems. As shown in staff analysis, risks to FDI are moderate.</p>	<p>Saudi Arabia remains very engaged multilaterally, notably as part of its active participation in the G20 and other international fora. Care should be on keeping open trade policies, including as part of the ambitious development goals of the Kingdom.</p> <p>Accelerate fiscal and structural reforms to boost potential growth, by incentivizing the diversification of the export base away from oil, encouraging foreign direct investments and enhancing the competitiveness of the non-oil export sector.</p>

Nature/Source of Main Risks	Likelihood	Expected Impact on the Economy if Risk is Realized	Policy Response
<p><b>Cyberthreats.</b> Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.</p>	<b>Medium</b>	<b>Medium</b>	<p>Saudi Arabia has expanded its capacity to react to cyberthreats notably through the creation of the National Cybersecurity Agency in 2017 that has developed a national cybersecurity strategy with 6 objectives to reach by 2030. It has also developed local capacity skills. Close monitoring and supervision including of the banking and payment system should continue.</p> <p>In view of Saudi plans to invest massively in AI, the Saudi Data and Artificial Intelligence Authority (SDAIA) should continue assessing opportunities, related risks and the need for proper regulation.</p>
		<p>Given the geopolitical tensions in the region, the prominent role of Saudi Arabia, and the rapid digitalization of its economy and society, Saudi Arabia is prone to a high density of cyberattacks. In 2012, 2015, 2017, 2019 and 2020 experienced serious attacks on its critical infrastructure, including targeting ARAMCO and its oil production facilities.</p>	
<b>Domestic Risks</b>			
<p><b>While there is a significant risk that reforms may slow, the reforms implemented in recent years may support a stronger domestic demand.</b></p>	<b>Medium</b>	<b>Low</b>	<p>Continue with structural reforms to boost non-oil growth and labor market reforms to increase the competitiveness of Saudi nationals in the private sector.</p> <p>Implement fiscal adjustment that balances the need to support the economy with the need to rebuild fiscal buffers.</p>
		<p>Slippages in the reform agenda could reduce prospects for stronger growth and employment over the medium-term.</p> <p>However, staff projections may also underestimate the impact of reforms and investment plans, thus, leading to upside risks. Higher investment especially from the central government, PIF, and state-owned enterprises, may lead to higher domestic demand, which would lead over time to a deterioration of external accounts, through increased imports (e.g., construction and machinery, as well as consumer goods), and inflationary pressures.</p>	



Nature/Source of Main Risks	Likelihood	Expected Impact on the Economy if Risk is Realized	Policy Response
<p><b>Disorderly energy transition.</b> A disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.</p>	<b>Medium</b>	<b>Medium</b>	
		<p>Despite recent achievements in diversification, Saudi Arabia remains very vulnerable to lower oil prices for its exports and public finances. However, it has shown resilience in the past in periods of low oil prices and the capacity to adjust with implementing new measures (e.g., tax measures).</p> <p>A more prolonged slump would exert more pressure, leaving more limited capacity for accelerated diversification. Fiscal revenue and financial buffers would be increasingly strained, external balances would weaken through lower oil prices and production of fossil fuels, while financial flows could be also affected. The financial system would face challenges in its funding but also from deteriorating asset quality linked to carbon-intensive activities and weaker overall growth.</p> <p>The Saudi authorities consider the risk of a prolonged slump as low in view of what they see as global energy security imperatives, Saudi Arabia's advantage in terms of oil reserves and low cost of extraction, and a slow transition away from fossil fuels.</p>	<p>Saudi Arabia is already diversifying away from the use of fossil fuels in its power generation with the buildup in its renewable energy capacity in line with Vision 2030.</p> <p>However, this would require also an accelerated phasing out of energy subsidies, enhanced economic and diversification efforts, a fiscal policy that follows rules in line with the Permanent Income Hypothesis, and much more sustained non-oil revenue mobilization</p>
<p><b>Extreme climate events.</b> Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.</p>	<b>Medium</b>	<b>Low</b>	
		<p>Though Saudi Arabia is subject to some extreme events made more frequent and intense by climate change, such as sandstorms and floods, the impact of these events remains manageable. With limited water resources and increasing temperatures adaptation costs are likely to increase rapidly. And spillovers from extreme events in partner countries could also affect Saudi Arabia.</p>	<p>Continue with a policy seeking increased resilience to climate events and aimed at addressing challenges related to climate change adaptation. The Saudi Green Initiative aims at planting 10 billion trees, and this should also made fully consistent with a strategy on water resources and policy.</p>



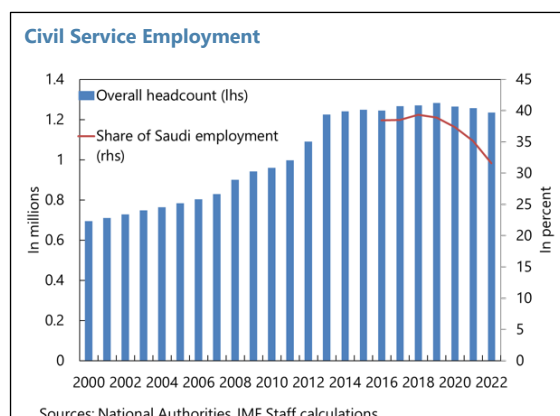
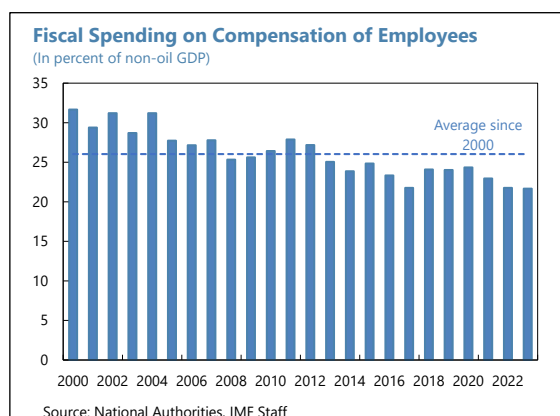
## Annex VIII. Budget Payroll Spending in Saudi Arabia<sup>1</sup>

**1. Saudi Arabia has achieved progress in curtailing budget payroll outlays.** Spending on employee compensation declined to 21.2 percent of non-oil GDP (NOGDP) in 2023, its lowest level in decades, from 24 percent in 2019. It has been historically high, with an annual average of 26 percent of NOGDP since 2000, underscoring the State's longstanding role as primary employer for Saudi nationals. Before the onset of the Covid-19 pandemic, approximately 39 percent of working Saudi citizens were employed by the central government, excluding other public sector entities.

**2. Slower growth in compensation and hiring restraint have contributed to savings on payroll spending.** The average annual growth in compensation spending per civil servant slowed to 1.8 percent in 2020-22 from 4.6 percent during the previous five years. Additionally, headcount in the civil service declined by 3.7 percent between its 2019 peak and 2022, as the authorities scaled back hiring.

**3. The trends in headcount and average compensation were affected by the transfer of a portion of civil servants from the Civil Service to the Labor Law regime.** The transfers accelerated since the adoption of a royal decree in 2020. They contributed to the decrease in the civil service headcount without reducing the overall number of government employees as transferred staff retained employment with the government under a different status. About 27 percent of all government employees were employed under the Labor Law regime in 2020. The transfers temporarily increased spending for the one-off settlement of separation allowances and accrued pension liabilities during the transitional phase. Additionally, transferred employees also often benefited from higher wages. However, the transfers also introduced greater employment flexibility under the Labor Law regime, possibly incentivizing productivity gains which could yield future budgetary savings.

**4. Reforms were also undertaken to strengthen payroll management processes by leveraging digital technologies.** A centralized platform for the Financial Rights Management for



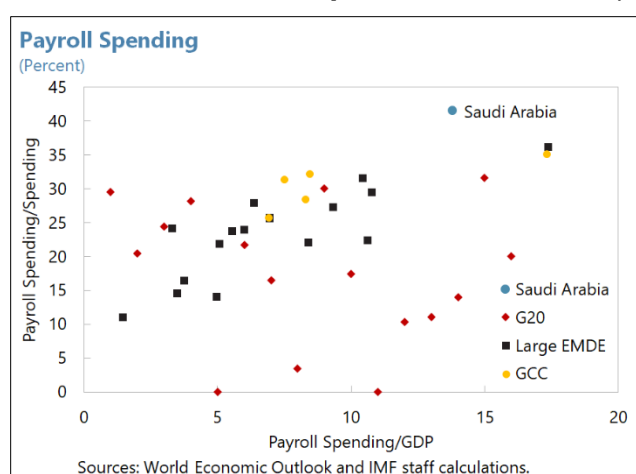
<sup>1</sup> Prepared by Mahmoud Harb (MCD).

Employees was established in 2023, enabling more efficient management of financial resources allocated to employee compensation. Furthermore, human resource databases across government agencies were integrated under the supervision of the Ministry of Human Resources and Social Development (HRSD). As a result, oversight of the payroll system improved, and controls were tightened. For instance, hirings by government agencies are now subjected to a centralized and digitalized approval process.

**5. Nonetheless, Saudi Arabia's payroll spending remains high.** It amounted to 13.4 percent of GDP in 2023 and absorbed 41.5 percent of overall fiscal spending and 44 percent of revenue. These figures are double the G-20 average for each corresponding indicator, suggesting ample scope for potential savings and efficiency gains.

**6. Given its substantial share in budget spending, reining in payroll spending would be pivotal to the successful execution of the authorities' consolidation plans.** It would also help

reinforce resilience as payroll spending is rigid, complicating adjustment in case of revenue shocks, for example from fluctuations in oil prices. What is more, public sector wages in Saudi Arabia tend to be higher than in the private sector. This persistent wage premium could lead to higher reservation wages and unit labor costs in the broader economy with adverse implications for competitiveness, employment, labor participation and private sector growth (Tamirisa, Duenwald and others 2018)<sup>2</sup>.



**7. The government is cognizant of these challenges and intends to achieve further savings on compensation spending.** A new resolution on the civil service is under preparation to strengthen strategic workforce planning and enhance performance and efficiency. The authorities aim to continue reducing the headcount through natural attrition (currently estimated by the authorities at a 3 percent rate) and are considering a reform to enhance flexibility and promote entrepreneurship by offering civil servants the option of a one-year leave to create their own businesses. Continued progress on the digitalization of government services under the e-government strategy would also help reduce administrative costs, streamline processes, and enhance service delivery.

**8. In addition to the existing reform plans, the authorities could consider a range of additional measures to ensure cost-effective delivery of public services while advancing fiscal consolidation.** Establishing a medium-term payroll reform strategy would help manage the

<sup>2</sup> Tamirisa, Natalia, Christoph Duenwald and others. 2018. Public Wage Bills in the Middle East and Central Asia. IMF Departmental Papers. International Monetary Fund, Washington, DC

increasing demand for government services arising from Saudi Arabia's steady economic and demographic growth, while controlling payroll expenditures. Setting targets for payroll spending and implementing gradual adjustment would protect fiscal space and ensure uninterrupted delivery of high-quality public services, while minimizing adverse impacts on growth and employment. These targets could be achieved through several reforms, including:

- *Establishing an Effective Salary and Allowance Structure:* Ensuring that government compensation remains competitive while avoiding unwarranted spending pressures is crucial. Benchmarking public sector wages to private sector levels can gradually reduce the current public wage premium, supporting fiscal consolidation and private sector growth, in line with the authorities' objectives. Linking pay to performance and streamlining allowances would improve transparency, equity, and efficiency.
- *Implementing targeted attrition-based measures.* Such measures need adequate planning not to undermine service delivery and future capacity. A civil service review would help target the attrition-based measures envisaged by the authorities towards areas with excess resources. Additionally, facilitating civil servants' mobility across government branches through training and the removal of administrative obstacles or disincentives would enhance workforce flexibility (IMF 2016)<sup>3</sup>.
- *Identifying and addressing weaknesses in payroll management.* Regular functional reviews can help identify weaknesses in payroll management processes in areas such as hiring or compensation setting. This could help inform institutional reforms which would forestall the reemergence of payroll pressures.

**9. Actively communicating the government's intentions to scale back public sector hiring and no longer be the employer of first resort for Saudi nationals can encourage private sector employment.** This proactive communication strategy would align public expectations with the government's reform agenda and support the transition towards a more diversified labor market.

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<sup>3</sup> International Monetary Fund. 2016. Managing Government Compensation and Employment-Institutions Policies and Reform Challenges. IMF Staff Policy Papers. International Monetary Fund, Washington, DC

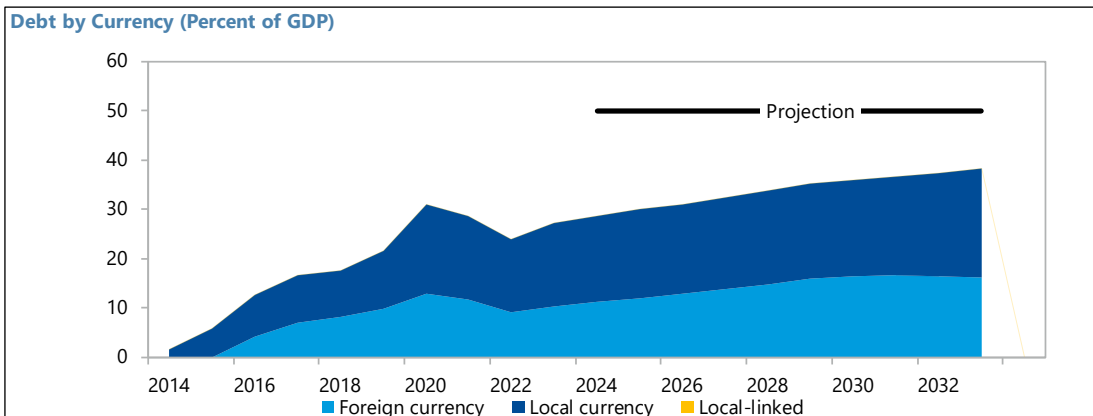
## Annex IX. Fiscal and Debt Sustainability Assessment

Annex IX. Figure 1. Saudi Arabia: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>Low</b>	The overall risk of sovereign stress is low, reflecting large financial asset buffers available.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>High</b>	<b>Low</b>	Medium-term risks are assessed as low against a mechanical high signal as large financial asset buffers mitigate debt solvency risks. On the fanchart specifically, in the case of Saudi Arabia, assets exceed 75 percent of GDP and 100 percent of public debt, thus the mechanical signal from the debt fanchart module is adjusted to low, regardless of the DFI's level. In addition, the medium-term risk is assessed as low on the basis of the strength of institutions, the depth of the investor pool, low debt levels and substantial sovereign wealth funds.
Fanchart	<b>High</b>	...	
GFN	<b>Moderate</b>	...	
Stress test	Comm. Prices Nat. Diast.	...	
<b>Long term</b>	...	<b>Low</b>	Long-term risks are low given large asset buffers from the PIF if needed, and limited pass through of aging-related expenditures on health and social security fed into debt dynamics. Oil reserves remain strong and staff assess limited climate transition costs adding to the debt dynamics.
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	Not applicable
<b>Debt stabilization in the baseline</b>			No
<b>DSA Summary Assessment</b>			
<p>Commentary: Saudi Arabia has large buffers that can support periods of fiscal deficits. Some of the debt increases in the past were also driven by the need to develop local debt market and nurture access to international markets. The assessment of low debt and financing risks over the medium term and long term, together with the results from the stress scenarios, lead to the final assessment of low risk. Saudi Arabia is at a low overall risk of sovereign stress and debt is sustainable. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability")</p>			

## Annex IX. Figure 2. Saudi Arabia: Debt Coverage and Disclosures

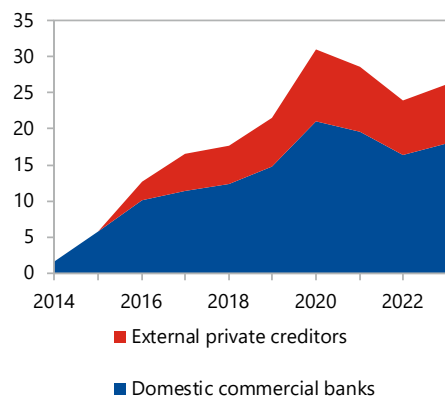
										Comments												
<b>1. Debt coverage in the DSA: 1/</b>																						
										CG	GG	NFPS	CPS	Other								
<b>1a. If central government, are non-central government entities insignificant?</b>															0							
<b>2. Subsectors included in the chosen coverage in (1) above:</b>																						
Subsectors captured in the baseline										Inclusion												
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	Not applicable										
				2	Extra budgetary funds (EBFs)						No											
				3	Social security funds (SSFs)						Yes											
				4	State governments						Yes											
				5	Local governments						Yes											
				6	Public nonfinancial corporations						No											
				7	Central bank						No											
				8	Other public financial corporations						No											
<b>3. Instrument coverage:</b>										Currency & deposits	Loans	Debt securities	Oth. acct. payable 2/	IPSGSs 3/								
<b>4. Accounting principles:</b>										Basis of recording		Valuation of debt stock										
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/								
<b>5. Debt consolidation across sectors:</b>										Consolidated		Non-consolidated										
<b>Color code:</b>										■ chosen coverage	■ Missing from recommended coverage	■ Not applicable										
<b>Reporting on Intra-Government Debt Holdings</b>																						
										Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total			
CPS	NFPS	GG: expected	CG	1	Budget. central govt										0							
				2	Extra-budget. funds										0							
				3	Social security funds										0							
				4	State govt.										0							
				5	Local govt.										0							
				6	Nonfin pub. corp.										0							
				7	Central bank										0							
				8	Oth. pub. fin. corp										0							
Total															0	0	0	0	0	0	0	0
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.																						
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.																						
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.																						
4/ Includes accrual recording, commitment basis, due for payment, etc.																						
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).																						
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.																						
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.																						
Commentary: State and local governments in Saudi Arabia do not have their own separate debt issuance authority, and typically operate under the umbrella of the central government, including their borrowing requirements.																						

### Annex IX. Figure 3. Saudi Arabia: Public Debt Structure Indicators



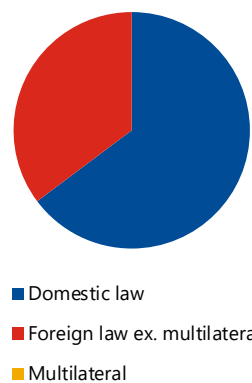
Note: The perimeter shown is central government.

#### Public Debt by Holder (Percent of GDP)



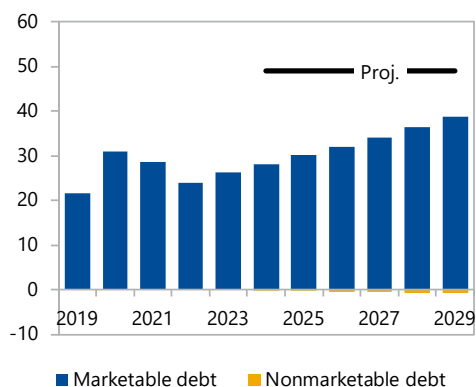
Note: The perimeter shown is general government.

#### Public Debt by Governing Law, 2023 (percent)



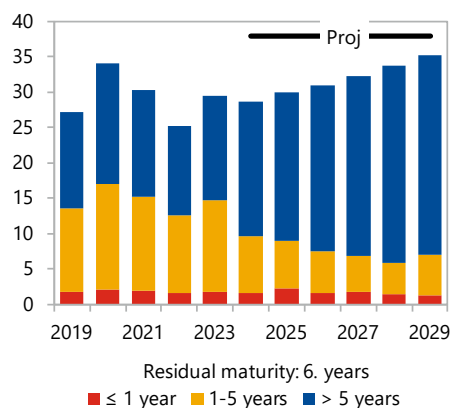
Note: The perimeter shown is general government.

#### Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

#### Public Debt by Maturity (Percent of GDP)



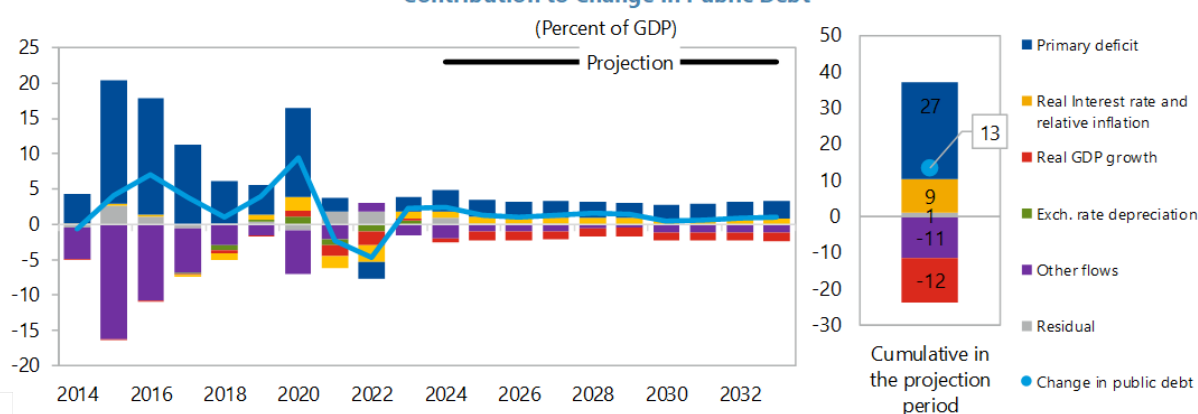
Note: The perimeter shown is general government.

Commentary: Saudi Arabia continues to have space for external market access. The share of foreign currency debt slightly increases in the forecast horizon. Partial repurchasing of outstanding local and international debt bonds and securities maturing in the short term helped reduce future refinancing risk and slightly increased the average time to maturity.

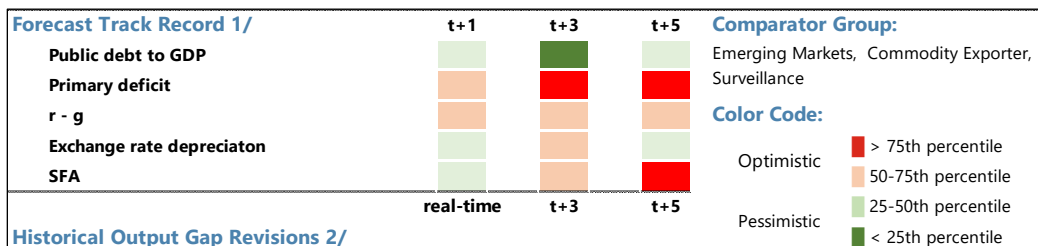
Annex IX. Figure 4. Saudi Arabia: Baseline Scenario

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	26.2	28.7	30.0	31.0	32.3	33.8	35.3	35.8	36.5	37.4	38.4
Change in public debt	2.3	2.5	1.3	1.1	1.3	1.5	1.5	0.5	0.7	0.8	1.0
Contribution of identified flows	2.4	1.5	1.1	1.0	1.2	1.5	1.5	0.5	0.7	0.9	1.0
Primary deficit	2.0	3.2	2.4	2.3	2.4	2.3	2.2	2.3	2.3	2.4	2.5
Noninterest revenues	29.3	28.6	28.6	28.3	27.6	26.8	26.1	25.3	24.6	24.0	23.3
Noninterest expenditures	31.4	31.8	31.0	30.7	29.9	29.1	28.2	27.6	27.0	26.4	25.8
Automatic debt dynamics	1.9	0.3	-0.4	-0.3	-0.1	-0.2	-0.2	-0.7	-0.6	-0.5	-0.4
Real interest rate and relative inflation	1.1	0.7	0.9	0.9	0.9	0.9	0.9	0.5	0.6	0.7	0.9
Real interest rate	1.7	0.9	1.1	1.0	1.0	1.0	0.9	0.5	0.6	0.7	0.8
Relative inflation	-0.6	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	0.2	-0.4	-1.3	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3
Real exchange rate	0.6	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.5	-2.0	-1.0	-1.0	-1.0	-0.6	-0.5	-1.0	-1.0	-1.1	-1.1
Contingent liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1	-1.1
Other transactions	-0.7	-1.0	0.0	0.0	0.0	0.4	0.6	0.0	0.0	0.0	0.0
Contribution of residual	-0.1	1.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.4	3.8	4.2	4.8	4.2	4.2	3.9	3.3	3.3	3.3	3.4
of which: debt service	3.3	1.6	2.7	3.5	2.8	3.0	2.8	2.1	2.0	1.9	2.0
Local currency	1.1	1.0	1.6	2.4	1.6	1.4	1.2	0.6	0.5	0.3	0.3
Foreign currency	2.1	0.6	1.1	1.1	1.3	1.6	1.6	1.5	1.6	1.6	1.7
Memo:											
Real GDP growth (percent)	-0.8	1.7	4.7	4.1	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	-3.0	0.9	0.2	1.1	1.3	1.7	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	-3.7	2.6	5.0	5.3	4.9	5.2	5.6	5.6	5.6	5.6	5.6
Effective interest rate (percent)	3.8	4.3	4.3	4.5	4.7	4.8	4.9	3.5	3.8	4.1	4.4

Contribution to Change in Public Debt



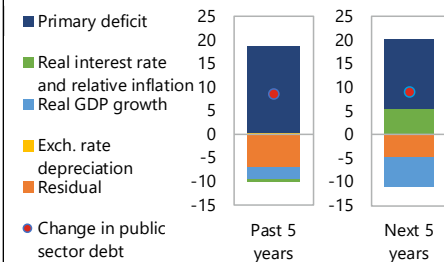
### Annex IX. Figure 5. Saudi Arabia: Realism of Baseline Assumptions



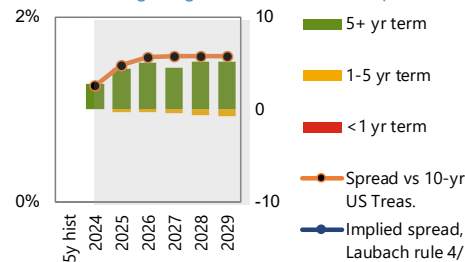
**Historical Output Gap Revisions 2/**

**Public Debt Creating Flows**

(Percent of GDP)

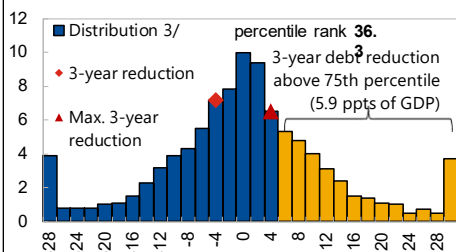


**Bond Issuances** (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



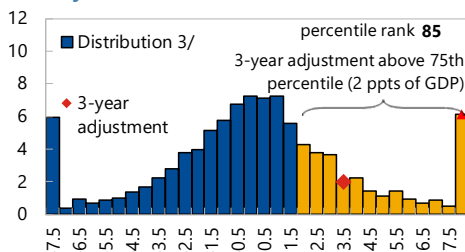
**3-Year Debt Reduction**

(Percent of GDP)



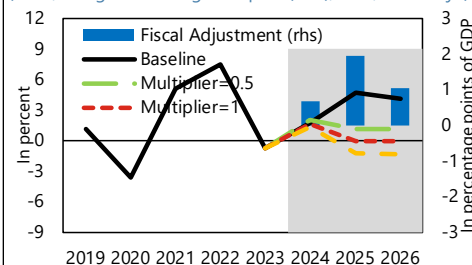
**3-Year Adjustment in Cyclically-Adjusted**

**Primary Balance** (Percent of GDP)



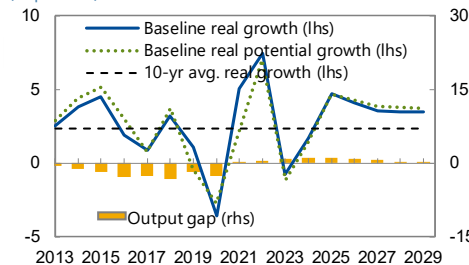
**Fiscal Adjustment and Possible Growth Paths**

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



**Real GDP Growth**

(In percent)



Commentary: The realism analysis does not point to major concerns and the projected fiscal adjustment and debt reduction are well within norms. The forecast of oil growth in the past few years appeared more optimistic with the introduction of the OPEC+ oil production quota in 2020 and the subsequent changes to the quota. The impact of fiscal adjustment on growth is only imperfectly apprehended in the context of an oil exporting economy as the assessment should be more finely focused on non oil growth.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

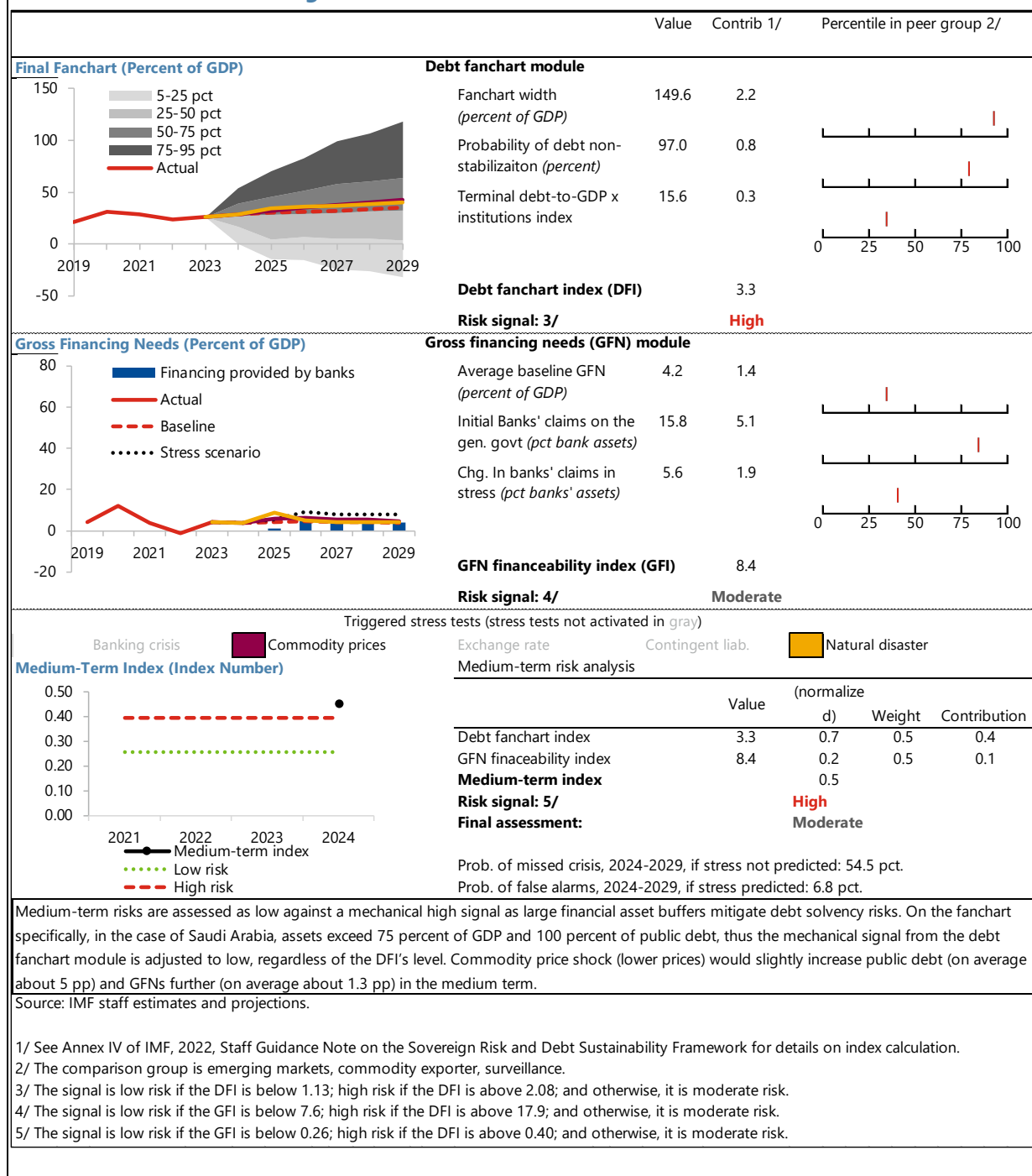
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990- 2019 for MAC advanced,emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.



Annex IX. Figure 6. Saudi Arabia: Medium-Term Risk Assessment



## Annex X. 2024 FSAP Key Recommendations

Recommendations	Agency	Timing <sup>1</sup>
<b>Systemic Risk Analysis and Monitoring<sup>2</sup></b>		
1. Continue efforts to close G-20 DGI-2 data gaps, including on sectoral accounts; International Investment Position; and international banking statistics (DGI-2 recommendations 8–10).	SAMA, CMA, MoF, GASTAT	ST
2. Strengthen data collection and reinforce data sharing among agencies for the household and corporate sector; consider incorporating a structural “micro-to-macro approach” into the stress testing framework, particularly for credit risk modeling.	SAMA, CMA, MoF, GASTAT	ST
3. Establish a monitoring framework for the financial system’s exposures to large construction and infrastructure (e.g., mega/giga) projects.	SAMA, Gov	I – ST
4. Incorporate contagion/interconnectedness analysis and micro data into the stress testing and risk monitoring frameworks; publish key results in the FSR.	SAMA	ST
5. Improve the scope and quality of publicly available data for real estate market, and real estate prices, and publish affordability indicators (e.g., price to income, price to rent ratios).	SAMA, CMA, MoF, GASTAT	ST
6. Regularly collect and monitor household debt statistics (e.g., DSTI, debt-to-disposable income, debt to GDP) and monitor household characteristics and debt distribution.	SAMA, GASTAT	ST
<b>Macroprudential Policy<sup>3</sup></b>		
7. Consider establishing independent prudential supervision for NDF funds.	Gov	ST
8. Implement a releasable capital buffer in the form of a positive neutral CCyB.	SAMA	ST
9. Re-evaluate the DSTI and LTV limits.	SAMA	ST
<b>Financial Supervision and Regulation—BCP Assessment</b>		
10. Amend the BCL and SCBL reflecting FSAP advice (e.g., SAMA independence and accountability; legal protection for SAMA staff, former staff, and agents’; SAMA’s powers to conduct effective banking supervision).	MoF, SAMA	ST
11. Revise prudential regulations, and supervisory approach, techniques, tools, and reporting to address observed gaps, and to effectively conduct regulation and supervision at the levels of the solo bank, the consolidated bank, and each bank within groups.	SAMA	ST
12. Establish or revise supervision policy, manuals, and procedures to make comprehensive the process of licensing and other applications from banks seeking SAMA approval, and to ensure that supervisors engage bilaterally and more actively with banks’ board members, external auditors, and other relevant domestic and foreign regulators, supervisors, and resolution authorities.	SAMA	ST

<sup>1</sup> “I-Immediate” is within one year; “ST-near-term” is 1–3 years; “MT-medium-term” is 3–5 years.

<sup>2</sup> Recommendations from workstreams on systemic risk analysis, macroprudential policies, role of state, and housing finance.

<sup>3</sup> Recommendations from workstreams on macroprudential policies and role of state.

Recommendations	Agency	Timing
<b>Financial Regulation and Supervision—CPIFR Assessment</b>		
13. Ensure effective implementation of recently issued regulations from the perspectives of both SAMA and Islamic banks.	SAMA	ST
14. Implement guidance for managing liquidity risk separately for Islamic Windows.	SAMA	ST
15. Enhance Pillar 3 disclosures by implementing IFSB-22 for Islamic banking and Islamic Windows.	SAMA	MT
<b>Financial Safety Nets and Crisis Management</b>		
16. Amend the Law on SIFIs reflecting FSAP advice (e.g., scope, triggers, resolvability); establish a bank-specific liquidation framework and a legal framework for deposit insurance.	SAMA, Gov	ST
17. Finalize and enact implementing regulations, reflecting FSAP advice (including to allow for ex-post designation of SIFIs).	SAMA, MoF	I
18. Ensure adequate resources and independence of SAMA's resolution function.	SAMA	I
<b>Systemic Liquidity Management and Emergency Liquidity Assistance</b>		
19. Continue to strengthen liquidity management and forecasting framework.	SAMA	ST
20. Enhance the collateral framework by introducing maturity-based haircuts (I); gradually transitioning to market valuation (ST); considering making high-quality private debt securities eligible for OMO in crisis times (MT).	SAMA	I-MT
21. Adopt, and publish an ELA regulation outlining all requirements and parameters of ELA and prepare internal ELA procedures.	SAMA	I
22. Operationalize the ELA framework through regular ELA simulations and collateral mobilization testing and pre-positioning and adopt an MoU between SAMA and MoF on the use of government guarantees.	SAMA	ST
<b>Financial Integrity</b>		
23. Conduct thematic inspections of key AML/CFT requirements and levy sanctions in case of non-compliance.	SAMA	MT
<b>Role of State, Long-Term, Green and MSME Finance, Payments, and Digital Financial Services</b>		
24. NDF to expand its performance monitoring framework; ringfence funds performing quasi-government functions.	NDF and Fund Boards	ST
25. Develop a market for qualified professional investors and allow unrestricted trading of private-placement bonds in the market.	CMA	I
26. Review the current MSME definitions; and regularly collect and publish MSME financing data using standard definitions with relevant breakdowns (e.g., firm size, funding source, women-owned enterprises).	Gov, SAMA, and CMA	ST
27. Update and publish the Oversight Framework document for Payments and Digital Financial Services.	SAMA	ST
28. Conduct a climate risk assessment to inform evidence-based supervisory approach; publish the results to raise awareness.	SAMA	ST

## Annex XI. Data Issues<sup>1</sup>

Annex XI. Table 1. Saudi Arabia: Data Adequacy for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	B	B	C		
Granularity 3/	A		A	C	B		
Consistency			C	A		B	
Frequency and Timeliness	A	A	B	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p><b>Rationale for staff assessment.</b> Data provision to the Fund has some shortcomings but is broadly adequate for surveillance.</p> <p>Notable progress has been made in several key areas such as national accounts, price index, census, and FDI statistics. National accounts coverage is adequate, and efforts are ongoing to improve the explanation of data revisions and enhance historical data consistency. While the Coordinated Direct investment Survey (CDIS) data are not currently reported to the Fund, the authorities publish detailed inflow, outflow, and positions of FDI liabilities by country which assist staff's analysis. Official price indexes comprehensively cover CPI, wholesale, and real estate prices. A new producer price index (PPI) is under construction (expected by end-2024), and the absence of PPI does not affect the team's assessments and analyses of the Saudi economy.</p> <p>Additional areas require enhancement include: government finance statistics (GFS) consistency (large unidentified debt-creating flows), external statistics granularity (several missing categories for the BOP, IIP and international reserves data), and monetary and financial statistics (MFS) coverage (currently non-SRF based).</p> <p>As a G20 country, the authorities have actively participated in multiple data initiatives and are committed to the transparent and timely dissemination of statistics for policy use. Several initiatives are underway to improve statistics, including the publication of regional GDP, enhancing the quality of the CPI and the real estate price index, and developing climate-related statistics (all by end-2024). Publication of a new household survey data is expected for October 2024.</p>							
<p><b>Changes since the last Article IV consultation.</b> National account statistics have been enhanced by broadening coverage of sectoral activities and adopting a new chain-linking methodology for the real GDP in March 2024. However, the discrepancy between the new real GDP and the sum of sub-components is volatile (ranging from -0.8 to 6.2 percent of real GDP), which hinders the comparison of oil to non-oil GDP levels over time. New digital economy statistics were published in February 2024. FDI statistics have been revamped and aligned with the IMF's BOP manual in February 2024. The authorities provided additional data during the mission that improved the granularity of FSI data.</p>							
<p><b>Corrective actions and capacity development priorities.</b></p> <p>SAMA is planning to work on improving MFS coverage and external granularity, with the possibility of requesting TA missions to support this endeavor. To improve GFS consistency, the MoF is discussing with staff possible sources for the discrepancy and the additional granular data needed (e.g., detailed financing by instruments and MoF's deposits at commercial banks).</p>							

<sup>1</sup> Prepared by Yuan "Monica" Gao Rollinson (MCD).

**Annex XI. Table 1. Saudi Arabia: Data Adequacy for Surveillance (concluded)**

**Use of data and/or estimates different from official statistics in the Article IV consultation.** Medium-term aggregated financing plan of the central government was provided to facilitate staff's fiscal sector projection and DSA exercises. However, data were only available for the breakdown of domestic and foreign financing need, with no further breakdown of asset types or maturities. Oil investment data was provided by GASTAT to support team's analysis on GDP by expenditure.

**Other data gaps. Fiscal:** Fiscal financing data missing allocation of other public deposits (only deposits at central bank were reported). Large residual/gap identified in the financing data. **External:** The financial account of BOP and IIP are highly aggregated, and more granular data breakdown by institutional sectors will be beneficial for surveillance. The coverage for the private sector needs to be improved. Monetary and **Financial:** Need improvement for the breakdowns of financial sector assets and liabilities by debtor/creditor type, residency, currency, instruments, maturity. **Inter-sectoral data** are broadly consistent for desk surveillance, although the recent FSAP mission highlighted data gaps in the sectoral balance sheet for conducting stress tests. Closing the data gaps on housing prices (e.g., by enhancing the methodology of the real estate price index) will also be important.

**Annex XI. Table 2. Saudi Arabia: Data Standards Initiatives**

Saudi Arabia subscribes to the Special Data Dissemination Standard (SDDS) since September 2019 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

**Annex XI. Table 3. Saudi Arabia: Table of Common Indicators Required for Surveillance**  
(As of June 30, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Saudi Arabia	Expected Timeliness <sup>6,7</sup>	Saudi Arabia
Exchange Rates	30-Jun-24	30-Jun-24	D	D	D	D	NA	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	May-24	Jun-24	M	M	M	M	1W	1W
Reserve/Base Money	May-24	Jun-24	M	M	M	M	2W	2W
Broad Money	May-24	Jun-24	M	M	M	M	1M	1M
Central Bank Balance Sheet	May-24	Jun-24	M	M	M	M	2W	1M
Consolidated Balance Sheet of the Banking System	May-24	Jun-24	M	M	M	M	1M	1M
Interest Rates <sup>2</sup>	30-Jun-24	30-Jun-24	D	D	D	D	NA	1D
Consumer Price Index	May-24	Jun-24	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> ?General Government <sup>4</sup>	Q1 2024	May-24	Q	Q	A	A	2Q	2Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> ?Central Government	2023	Dec-23	A	A	M	Q	1M	45D
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Q1 2024	May-24	Q	Q	Q	Q	1Q	45D
External Current Account Balance	Q1 2024	Jun-24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Apr-24	Jun-24	M	M	M	Q	8W	8W
GDP/GNP	Q1 2024	Jun-24	Q	Q	Q	Q	1Q	1Q
Gross External Debt	Q1 2024	Jun-24	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q1 2024	Jun-24	Q	Q	Q	Q	1Q	1Q

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.  
<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.  
<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.  
<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.  
<sup>5</sup> Including currency and maturity composition.  
<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("I") irregular; and ("NA") not available.  
<sup>7</sup> Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.



# SAUDI ARABIA

July 18, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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RELATIONS WITH THE WORLD BANK GROUP	5

## FUND RELATIONS

(As of May 31, 2024)

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

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	9,992.60	100.00
Fund holdings of currency	7,428.21	74.34
Reserve tranche position	2,564.40	25.66
Lending to the Fund		

<b>SDR Department</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	16,259.95	100.00
Holdings	15,662.83	96.33

**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)

	2024	2025	2026	2027	2028
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	12.31	24.61	24.62	24.62	24.63
<b>Total</b>	<b>12.31</b>	<b>24.61</b>	<b>24.62</b>	<b>24.62</b>	<b>24.63</b>

**Lending to the Fund and Grants:**

- **GRA New Arrangements to Borrow (NAB):** Saudi Arabia is a participant in, whose credit arrangement under the NAB amounts to about SDR 11.31 billion. There is no outstanding amount under the credit arrangement as of May 31, 2024.
- **PRGT loan resources:** Saudi Arabia has provided four loans to the Poverty Reduction and Growth Trust (PRGT), totaling SDR 3.3 billion, through borrowing agreements with the Saudi Central Bank (SAMA). The first borrowing agreement (SDR 500 million) was effected in May 2011 and the other three agreements—provided in the context of the 2021 loan fundraising round and totaling SDR 2.8 billion—were effected in November 2022 (SDR 550 million), April 2023 (SDR 225 million), and May 2023 (SDR 2,025 million). In addition, in 1989, the Saudi Fund for Development (“SFD”) provided SDR 49.5 million in concessional loans made at an interest rate of 0.5 percent per annum through an Associated Agreement with the PRGT.
- **PRGT subsidy resources:** As of end-April 2024, Saudi Arabia’s total subsidy contributions to the PRGT, including interest earned on outstanding balance of the Trust, was estimated at

SDR 126.9 million, with the remaining balance amounting to SDR 98 million. These contributions include:

- **Implicit subsidy** earned on the balances of the February 1989 loan above and which was estimated at SDR 14.7 million (as of 2005).
- **Subsidy resources generated from deposits.** In March 2001, Saudi Arabia agreed to support the PRG-HIPC Trust with deposit contributions totaling SDR 94.4 million, of which SDR 16.71 million was contributed by the Kingdom of Saudi Arabia (“Saudi Arabia”) and SDR 77.67 million by SFD. In April 2006, these deposits were extended to end-December 2021 with an additional deposit of SDR 38.2 million from SFD, to provide SDR 40 million (end-2005 NPV terms) in subsidy resources to support the Exogenous Shocks Facility. Saudi Arabia’s deposit of SDR 16.71 million that matured on December 31, 2021, was transferred as grant contribution to the PRGT General Subsidy Account. SFD’s aggregate deposit amount of SDR 115.87 million made at an interest rate of 0.5 percent was most recently extended to mature on September 4, 2024 (effective on June 6, 2024, and after completion of internal formalities).
- **Subsidy resources from other contributions.** In April 2005, Saudi Arabia agreed to provide a grant contribution of \$4 million (equivalent to SDR 2.7 million) to subsidize Emergency Natural Disaster Assistance to low-income countries, of which SDR 0.15 million was transferred to the PRGT General Subsidy Account upon termination of the EPCA/ENDA Administered Subsidy Account in February 2014. 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.
- **Other initiatives:** In February 2018, Saudi Arabia pledged to contribute \$2 million (equivalent to SDR 2.8 million) to the Financial Sector Stability Fund, supporting financial sector stability, inclusion, and deepening, focused on low- and lower-middle income countries. It also contributed \$2 million to the AML/CFT Thematic Fund in 2020.

### Exchange Rate Arrangement

The Saudi Arabian Riyal is formally pegged to the U.S. dollar and the exchange rate arrangement is classified as a conventional peg. Saudi Arabia maintains security-related exchange restrictions pursuant to UN Security Council resolutions 1267 and 1373.

Saudi Arabia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF’s Articles of Agreement, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.



### **Last Article IV Consultation**

Saudi Arabia is on the standard 12-month consultation cycle. The last Article IV consultation was held in person during May 14-28, 2023. The staff report was considered by the Executive Board on July 20, 2023 and published on September 6, 2023.

<https://www.imf.org/en/Publications/CR/Issues/2023/09/05/Saudi-Arabia-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Informational-Annex-538823>).

### **Resident Representative**

No resident representative is stationed in Saudi Arabia.

# RELATIONS WITH THE WORLD BANK GROUP

(As of June 30, 2024)

## World Bank Country Page:

<https://www.worldbank.org/en/country/saudi Arabia>