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June 28, 2021

**Statement by Mr. Merk and Mr. Krahnke on Saudi Arabia
(Preliminary)
Executive Board Meeting
June 30, 2021**

We thank staff for the informative report and Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud for their helpful Buff statement. **We concur with the thrust of the staff appraisal.** The Saudi Arabian authorities have taken decisive public health and economic support measures in the face of the pandemic, thereby limiting fatalities and keeping households and businesses afloat. The price of crude oil has fully recovered from the decline when the pandemic struck, and further increase in oil revenues might be observed in the wake of the global economic upturn and based on the assumption that the OPEC+ production cuts end as announced, notwithstanding significant uncertainties surrounding the global outlook. Looking ahead, major economic policy challenges relate to ensuring timely, yet judicious fiscal consolidation and continued steady transformative structural reforms that advance private sector-driven growth beyond the oil sector.

We encourage the authorities to establish an appropriate framework for safeguarding fiscal sustainability which is increasingly less reliant on volatile oil revenues. It is encouraging that staff's fiscal baseline is consistent with moving close to achieving intergenerational equity by 2026. To this end, it would seem important that durable tax-based revenues be unlocked, the public wage bill and other current expenditures be regularly reviewed for efficiency, and energy and water price reforms be continued. We generally appreciate the authorities' intention to limit the nominal rise in public expenditures to the growth of non-oil GDP and *would appreciate staff's assessment on how firmly anchored this commitment is.* The authorities' plans to attach greater weight to off-budget investment vehicles like the PIF and larger reliance on PPPs, which carry fiscal contingent liability risks, should be accompanied with adequate governance safeguards. These should include improved risk assessment and control, and ensure a sufficient level of transparency, which would be instrumental also in other areas of fiscal policy.

Ensuring access to opportunities and strengthening the social safety net geared to those in need should feature high on the authorities' agenda. Further progress in integrating women into the labor market, training young people and improving work conditions for expatriate workers can boost productivity. Highlighting the importance of incentives to work, we note with interest the authorities' plans to introduce a guaranteed basic income. *With regard to the statement that "benefits will not be fully withdrawn against income" (para 25), we would appreciate staff's assessment as to how this scheme relates to a negative income tax.*

We call on the authorities to monitor with vigilance the financial stability implications of real estate sector development. While agreeing that the overall soundness of the banking sector and the risks of borrowers appear favorable, the combination of rapid growth in mortgage lending and declining house prices and rents warrants caution. Besides close surveillance by prudential supervisors, support measures to real estate developers such as interest-free financing and subsidies should be scrutinized for their potentially distortionary impact on prices and the risk of creating oversupply.

We welcome staff's emphasis on both the need for further reducing elevated greenhouse gas emissions (especially in per capita terms) and on the opportunities potentially offered by an environment-friendly transformation of the economy. We welcome the increased attention paid by the authorities to the issue and look forward to high-level announcements being followed by concrete and effective plans in the near future. In our reading of staff's analyses, favoring renewables in the energy mix, improved energy efficiency and water conservation appear to be particularly beneficial and we encourage staff and the authorities to follow up on these policies in future Article IV Consultations.

On the external sector, we wonder whether in the case of Saudi-Arabia, being a large exporter of fossil energy, albeit with a need to adjust over the longer term to a low-carbon global environment, a positive current account norm might be more plausible than staff's current estimate of zero.