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June 28, 2021

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

1. We thank the staff for the detailed report and Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud for the comprehensive Buff. We commend the Saudi Arabian authorities for the swift and strong response to the COVID-19 crisis. Effective containment measures and timely health response has helped to limit infections and mortality. Robust fiscal buffers provided ample policy space to provide adequate financial support to households and businesses. The economic recovery is expected to be propelled by the rebound in the non-oil economy and could require continued policy support for sustaining growth in the long run.
2. After contracting by about 4 percent in 2020, the economy has rebounded primarily due to growth in the non-oil economy. Contact sensitive sectors that were harshly hit by the pandemic like travel and tourism, transportation and hotels have started recovering. The recovery is expected to continue with the boost in private consumption and recovery in investment. We welcome the authorities' commitment to maintaining the reform momentum, investment initiatives and private sector development. Oil GDP contracted in 2020 due to OPEC production cuts and the future recovery depends on the end of production cuts. *Could the staff comment on the impact of the oil production cuts on the country's economy and the efficacy of such production cuts on the performance of the global oil market/economy in the medium and long run?*
3. Fiscal deficit widened to about 11 percent mainly due to decline in oil revenues. Non-exported oil fiscal deficit was on account of increased pandemic related spending. Increase in revenue due to raising of VAT rates, lowering of capital spending and removal of cost of living allowances could offset the increased spending to a large extent. Fiscal position is expected to improve as the oil and non-oil revenue recover, by ending some temporary pandemic spending and reduction in capital spending. With a relatively moderate public debt of around 32.5 percent, the authorities have

adequate fiscal cushion to provide targeted support measures by implementing the new social security law. We welcome the initiatives for price reforms in water and energy and rationalizing the civil service.

4. The Saudi central bank reduced the policy rate twice by 125 bps to enhance liquidity in the banking system. Other support measures include deferred payment for SMEs, loan guarantees and fee support programs. The banks are well capitalized with adequate liquidity. The effect on the bank assets quality would be clear when the deferred payment program ends. Though non-performing loans are low, sectors like tourism and hospitality require close monitoring. Subsidized government home ownership program has given a boost to lending for housing and strong growth in private sector credit.
5. Current account moved into deficit due to fall in oil revenues and increase in remittances by expatriates. We concur with the authorities that the external sector remains strong given large reserves and strong net investment position. Inflation increased in 2020 due to VAT rate increase, food prices and higher gasoline prices. It is expected to moderate to about 2 percent over the medium-term. The pegging of exchange rate is helpful as a monetary anchor but requires to be reviewed regularly as the capital market takes deep roots.
6. We welcome the National Investment Strategy to boost domestic investment as well as foreign direct investment. We are encouraged by the focus on developing a strong legal environment and public-private partnership framework to facilitate private sector investment. Labor market reforms aimed at enhancing female labor participation, increasing mobility of expatriate labor and productivity of workers can strengthen human resources and support a broad-based development. We welcome the implementation of AML/CFT framework and encourage strengthening the monitoring of associated risks.
7. Finally, we wish the authorities the best in their endeavors.