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Revised

June 28, 2021

**Statement by Mr. Tanaka, Ms. Kashima, and Ms. Kikuchi on Saudi Arabia
(Preliminary)
Executive Board Meeting
June 30, 2021**

We thank staff for the comprehensive reports and Mr. Mouminah, Mr. Alhomaly and Ms. Al Saud for their informative buff statement.

The Saudi economy has entered the COVID-19 pandemic with robust non-oil growth and strong policy buffers supported by the decisive implementation of structural reforms. The authorities' timely response has also mitigated the economic and social impact of the pandemic. Given that the economic recovery is expected to continue, we welcome the authorities' strong commitment to continue the Vision 2030 reform agenda to secure a strong, sustained, diversified, inclusive and green growth while carefully managing the exit from the remaining COVID-related support. As we broadly agree with the thrust of the staff's appraisal, we will limit our comments to the following points.

Striking a proper balance between implementing fiscal consolidation and providing sufficient support for the vulnerable is essential. We welcome that the authorities have been implementing important fiscal reforms to improve domestic revenue mobilization and spending efficiency, which contribute to reducing fiscal deficit in the near to medium term. Concerning fiscal consolidation path, we note that the projection for fiscal deficit in the medium term is different between the authorities and staff. *Could staff elaborate more on the difference?* We also note the different views on necessary social safety net spending to further support vulnerable households in order to mitigate the impact of fiscal reforms; while staff deemed additional social safety net spending would be needed in the near term, the authorities would not see a need for it. Given the importance of protecting the vulnerable, we encourage staff and the authorities to continue discussing on this front while closely monitoring the economic situation and its impact to the vulnerable.

Continuous efforts to enhance financial management and fiscal transparency as well as to strengthen governance are critical. We welcome the recent progress in these areas such as the establishment of the high-level Sovereign Asset Liability Management Committee. At the same time, given that published fiscal information in Saudi Arabia is relatively limited than most G20 countries, we encourage the authorities to step up their efforts to further enhance fiscal transparency including publishing more detailed budget information.

Broadening the coverage of fiscal data beyond the central government is also essential given that most public sector assets are held outside the central government and the growing role of the PIF in domestic and foreign investment. We welcome improvements of economic data from the last Article IV mission and expect further expansion of available data including labor markets, foreign direct investments, and monetary statistics.

We welcome the recent progress in legal reforms of the central bank and the banking sector as well as in capital market reforms. The issuance of the new central bank law last year, which strengthened the central bank's independence from the government and ensures its authority over all financial institutions, is an important step. We note the recent announcement by the central bank to extend the deferred payment program by another 3 months. As noted by staff, we encourage the authorities to gradually shift from broad-based support to more targeted support focused on viable SMEs going forward. It is also encouraged that the authorities ensure banks' careful assessment of borrower creditworthiness to avoid the buildup of financial vulnerabilities. On the capital market reforms, we welcome the authorities' swift implementation of reforms to mobilize foreign investment.

Reforms should be continued in an appropriate and timely manner to enhance the business environment, to move towards a diversified and greener economy, and to accelerate job creation, which are key for inclusive private-sector growth. We welcome that the authorities are focusing on improving the environment for private sector investment including promoting digitalization and strengthening governance and anti-corruption. We also welcome the authorities' commitment to reducing Green House Gas (GHG) emissions and expect the development of specific plan going forward as soon as possible. As for labor market reforms, we are pleased to know that labor market participation of Saudi females is rapidly increasing supported by the ongoing legal reforms and would like to emphasize that continuous efforts are needed to reduce unemployment of women and youth. We agree with staff that boosting the productivity of Saudi workers in the private sector is a key priority to make headway and encourage the authorities to further focus on this front by reducing the reservation wage for Saudi workers in private sector as well as strengthening education and training.

We wish people and the authorities in Saudi Arabia all the success in their future endeavors.