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June 29, 2021

**Statement by Mr. Jin and Mr. Law on Saudi Arabia
(Preliminary)
Executive Board Meeting 21/67
June 30, 2021**

We thank staff for the informative set of papers and Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud for their helpful Buff statement. We commend the Saudi authorities for their swift and decisive actions in containing the COVID-19 pandemic. The current priority remains to bring the health crisis to an end, and the authorities' plan to vaccinate all adult population by the end of the year is commendable. We broadly concur with the thrust of staff's appraisal and would like to add the following comments for emphasis.

There is a need to strike an appropriate balance between providing support for the recovery in the near-term and pursuing fiscal consolidation in the medium-term.

Progress has been made in strengthening the fiscal framework, and additional fiscal measures are needed to strengthen fiscal buffers and reduce medium-term vulnerabilities. We welcome the authorities' reform efforts in strengthening the budget process and developing a fiscal policy framework. Going forward, the pro-cyclicality of fiscal policy should be reduced. In the process of fiscal adjustment, it is crucial to ensure that the vulnerable remains adequately protected. We note there is a difference in views between staff and the authorities on the need for additional social safety net spending in the near-term, and we echo with staff that increased financial support through the Citizens Account Program should be expedited.

The sharp drop in oil prices in 2020 along with production cuts due to the OPEC+ commitments pose challenges to the oil-dependent Saudi economy. *We would welcome staff's comments on the extent the oil prices risk could be mitigated by the production decision of Saudi Arabia itself. What is the oil production cost of Saudi Arabia compared with its peers? Figure 8 of the report shows substantial difference in outcomes depending on the oil price scenarios. Are there key differences in views between staff and authorities on the oil price assumption?*

Improving labor productivity and increasing the employment of Saudis in the private sector would be important. The priority would be to increase the competitiveness and productivity of Saudi workers would be important, as adjusting wage expectations could be difficult. *Could staff elaborate on the impact of the rapid increase in labor market participation of Saudi females on labor productivity and wage expectation?* We welcome reforms to the Kafala sponsorship system for expatriate works in the private sectors, as this would help transfer technical knowhow among companies and increase productivity in the longer-term.

Broader access to financial services and more market competition will lend further support to the economy. We take positive note of the significant capital market reforms, which have increased capital raising options for companies and investment opportunities for investors. The IPO of Saudi Aramco on Tadawul has created further impasse to the development of Saudi Arabia's equity markets. A secondary listing in overseas markets could be considered when the time is ripe, as foreign ownership in the Tadawul remains relatively low at 12 percent. We also support the authorities' efforts to fintech for a more developed, accessible, and competitive financial sector.

With these remarks, we wish the authorities every success in their policy endeavors.