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June 28, 2021

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

We thank staff for of the comprehensive report and Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud for their insightful Buff statement. The Kingdom of Saudi Arabia has staged a strong and well-coordinated response to the pandemic. While the recovery largely depends on the evolution of the pandemic and the vaccine roll-out, there are also important upside risks related to further rise in oil prices and the continued implementation of “Vision 2030” reforms. Careful economic policies are needed to exit from the remaining COVID-related support, while the resilience of the Saudi Arabian economy also allows the authorities to develop new sustainable growth drivers and diversify economic growth.

We support the authorities’ plan for fiscal consolidation over the medium-term. The authorities’ broad-based fiscal support coupled with streamlining government spending during the acute phase of the pandemic and shift to targeted temporary measures in the recovery phase was appropriate. We welcome the authorities’ plan for fiscal consolidation in 2021 and to bring the budget close to balance by 2023 to enhance fiscal sustainability and reduce vulnerabilities to oil price volatility. We encourage to continue rationalizing public sector high wage bill, boosting non-oil revenues, and implementing energy and water price reforms. Saudi Arabia still has some fiscal space that could be used if the situation deteriorates to support the private sector and low-income households. We welcome the implementation of the new Social Security Law and encourage to further expand the social support towards the most vulnerable in case downside risks materialize. We welcome developing a Fiscal Sustainability Program to reduce the procyclicality of fiscal policy and share staff’s view that greater emphasis on the NEOPD would be helpful in this regard.

We note that the banking sector is strong and continues to be well supervised by SAMA. The borrower support programs were helpful for the SMEs, especially for hard-hit priority sectors such as tourism and hospitality. However, we share staff’s concerns that the deferred payments program may have increased financial vulnerabilities that could emerge once the crises subsidies. While we welcome the government’s programs to raise home

ownership rates, the recent substantial increase in retail mortgage lending could pose risks to financial stability going forward. We thus encourage the authorities to carefully monitor banks' financial situation and use adequate macroprudential measures if needed. We commend the authorities for implementing impressive capital market reforms, that has deepened the government debt market and enhanced equity financing.

We welcome the ambitious strategy of economic diversification and employment to support private sector-led growth. We strongly welcome planned reforms to continue improving the business environment, attracting private sector investments, accelerating the digital transformation, and strengthening the private sector job market. These efforts must be coupled with increasing the competitiveness of Saudi workers in the private sector through improving education and training to address low productivity concerns and high youth unemployment. We commend efforts that have resulted in a significant increase in female labor force participation and welcome commitment to further empowering women. We encourage to continue this momentum by considering expanding the mandatory maternity leave benefits and childcare opportunities to further accelerate labor participation and strengthen human capital, as recommended by staff.

We welcome the strong focus on supporting the green economy. The National Environmental Strategy aimed to produce 50% of the Kingdom's energy needs by 2030 using renewable sources is an important step towards mitigating GHG emissions. We encourage to set detailed plans to implement the strategy and to use the full potential of renewable energy, including by developing necessary regulations, fostering green financing, and improving energy efficiency.