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July 25, 2022

**Statement by Mr. Fanizza, Ms. Quagliarini, and Ms. Mateus on Saudi Arabia
(Preliminary)
Executive Board Meeting
July 27, 2022**

We thank staff for an excellent set of reports and Mr. Binzarah, Mr. Alrashed, and Ms. Alshaikh for their quite useful Buff statement. Saudi Arabia is reaping the benefits from past reforms and high oil prices; the Saudi economy is now in one of the few bright spots in a difficult global outlook. The time is, thus, right for the authorities to accelerate the implementation of Vision 2030, making progress in climate change mitigation, diversifying the economy, and fostering access to opportunities, notably by women. We share staff's assessment and would like to convey a few specific comments:

- **We welcome the authorities' prudent fiscal policy approach, consistent with intergenerational equity.** We thank staff for the analysis on the need and desirability of fiscal rules to facilitate delinking spending from oil price fluctuations and avoid procyclicality. We commend the authorities for implementing measures to mobilize additional non-oil revenue, including through a hike in the VAT rate, which we expect not to be reversed. Measures to strengthen non-oil domestic revenues now are key to pave the way for the energy transition.

- **We encourage the authorities to take advantage of the current favorable conditions to prepare for the energy transition.** In the short run, we would advise the authorities to resume the energy price reforms, including by gradually unwinding the higher energy subsidies that were reinstated last year. These costly subsidies not only distort price signal but are also not quite transparent. The authorities should use the windfalls from this year's strong fiscal performance to enhance their social safety nets and make subsidies less distortionary. We appreciate the progress made toward establishing new social-safety tools, as described in Box 2 of the staff report. We expect the authorities to

stick to their commitment to move to market-determined energy prices by 2030. In the medium to longer run, the authorities need to work toward mitigating climate change; we commend them for formalizing their commitment to carbon neutrality by 2060.

- **The financial sector has been resilient and provided financing to the economy effectively in a context of domestic capital markets' deepening, and growing financial inclusion as a result of fast digitalization of financial services.** We would encourage the authorities to focus on: (a) cyber security and supervision of virtual asset; and (b) further strengthening the banking regulatory frameworks, including for Islamic banks and by implementing the Basel III rules. We welcome the significant improvements in compliance with AML/CFT principles and encourage the authorities to implement the few pending recommendations.

- **The Saudi structural reform agenda under Vision 2030 is yielding good results.** We welcome the improvements to the business environment and the labor market reforms. We have been pleased by the removal of formal restrictions to female labor market participation, and other support measures, such as paid maternity leave, which have helped raise female labor market participation. We, however, encourage setting more ambitious targets for female participation and stepping up efforts to ensure equal employment opportunities. Finally, we support further liberalizing the labor market for expatriates.