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GRAY/21/1806

June 28, 2021

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

We would like to thank Mr. Callen and his team for a detailed report and Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud for their explanatory Buff statement. We would also like to commend staff's efforts to assess the net asset position of the public sector, which could represent a good practice to be followed in other Art. IV consultations.

We take note that the authorities responded quickly and decisively to the COVID-19 crisis, through an extensive set of fiscal and financial support measures, as well as effective health-related measures regarding containment, mitigation, and vaccination. As the output gap for the non-oil GDP is projected to close only in 2026, indicating that full economic recovery takes time, we believe that the end of the deferred payments in June 2021 should be treated with caution to avoid a sharp increase in NPLs.

The oil exports dependency of the economy remains a factor of risk when faced with external shocks; therefore, the efforts for diversifying the economic structure need to be strengthened. Structural reforms should continue to focus on reducing the costs of doing business, filling gaps in the legal infrastructure, tackling corruption and improving governance. We also welcome the authorities Climate Strategy and their intention to reduce greenhouse gas emissions, and we look forward to the more detailed strategy expected by year-end. We note that the recent staff note for the G20 on "reaching net zero emissions" excludes Saudi Arabia from the analysis of baseline emission paths vis-à-vis Nationally Determined Contributions, because its NDCs cannot be converted to emission reduction targets. *Could staff explain why this is the case?*

In the real sector, we welcome the removal of formal restrictions to female employment and the subsequent expansion of the female labor force participation rates.

In the financial sector, we welcome the substantial progress in upgrading banking legislation and supervision, in accordance with 2017 FSSA recommendations.

Finally, we agree with staff's recommendations to enhance the social safety net in order to support low-income households cope with the impact of higher VAT and energy prices, as well as to increase health spending on a permanent basis.