MACROECONOMIC PERSPECTIVE

Summary of

IMF Executive Board Article IV Consultation with Saudi Arabia

August 17, 2015

KEY OBSERVATIONS OF REPORT

- Saudi Arabia has been one of the strongest growing economies in the G-20.
- Real GDP growth is projected to slow to 2.8% in 2015 and 2.4% in 2016, as government spending begins to adjust to the lower oil price environment.
- The decline in oil prices is resulting in substantially lower fiscal and export revenues.
- The fiscal deficit is projected at 19.5% for 2015 but will decline in 2016 as one off spending ends and large investment projects are completed. Government debt is very low.
- The current account surplus declined to 10.9% in 2014 and is expected to move to small deficit in 2015, but return to a surplus during 2016-20.
- Although deposit inflows to banks and private credit growth have slowed in recent months, the banking system is well positioned to weather lower oil prices and the slowdown in economic growth.
- The decline in oil prices has increased the importance of structural reforms to switch the focus of growth away from the public sector and toward the private sector.
- The government is focusing on reforms that aim to increase the employment of nationals in the private sector and diversify the economy away from oil.

IMF EXECUTIVE BOARD ASSESSMENT

- Saudi Arabia's has exhibited strong economic performance, while the decline in oil prices is likely to dampen growth prospects in the period ahead.
- The Kingdom is commended on its commitment to promote stability in the global oil market and to provide financial support for developing countries in the region.
- The sharp drop in oil revenues and continued expenditure growth will result in growing fiscal deficits over the medium term, eroding the fiscal buffers built over the past decade.
- There is need for a gradual, but sizable multi-year fiscal adjustment based on a mix of expenditure and revenue measures including comprehensive energy price reforms, firm control of the public sector wage bill, greater efficiency in public sector investment, and an expansion on non-oil revenues, including by introducing a VAT and land tax.
- Issuing debt to finance part of the deficit is appropriate and would help promote the development of private capital markets.
- A stronger fiscal framework would support fiscal consolidation and in this regard the government's plan to establish a macro fiscal unit and publish fiscal data in GFSM2001 format is positive.
- The banking system is in a strong position to weather lower oil prices and weaker economic growth, while efforts are ongoing to strengthen financial sector regulation and supervision.
- Policies are also ongoing to increase the employment of nationals in the private sector and diversify the economy, alongside efforts to strengthen the business environment, develop infrastructure, and invest in education and training. Achieving these goals will require realigning the incentives facing firms and workers to encourage tradable rather than non-tradable production, and employment in the private sector rather than public sector.
- Progress is continuing in the improvement of the quality and availability of key economic statistics, alongside a plan to subscribe to SDDS in 2016.

Source: International Monetary Fund (IMF), "Press Release: IMF Executive Board Concludes 2015 Article IV Consultation with Saudi Arabia", August 17, 2015.