



February 2025

## The Saudi Economy in 2025

- Saudi Arabia's non-oil economy continues to expand at a brisk pace. We forecast real non-oil GDP growth of 4.4 percent in 2025, firming from a preliminary 4.3 percent in 2024. Growth will be driven by both consumption and investment, with net exports a drag.
- We expect growth to be broad-based, with strong momentum in 'wholesale and retail trade, restaurants and hotels', 'transport and communication', 'construction' and 'finance and insurance'. We expect further growth in tourism and gains in non-oil manufacturing, boosted by efforts to localize production and develop supply chains.
- In 2025 we expect oil GDP to grow by 2.6 percent in line with our forecasts for crude oil production and refinery output. There is downside risk to this assumption as OPEC+ could further delay its planned increases if it perceives risks to global demand.
- We forecast Brent crude oil prices at \$75pb in 2025 and in 2026 on average, down from \$80pb in 2024. Saudi Arabia's main export blend, Arab Light crude to Asia, will enjoy a \$1-\$2pb premium over Brent.
- Saudi Arabia will run budget deficits at around 3 percent of GDP in 2025-2026, with government debt rising but remaining relatively low at less than 35 percent of GDP.
- The current account will slip into small deficits, but central bank reserves will remain high, in excess of \$400 billion.
- Key risks to the outlook stem from external factors, including uncertainty over the new US administration's policy mix; geopolitical risks; and whether China's stimulus efforts will cushion the country's structural economic slowdown. The Saudi economy would be impacted if external factors cause weaker-than-expected oil demand or tighter global financial conditions.

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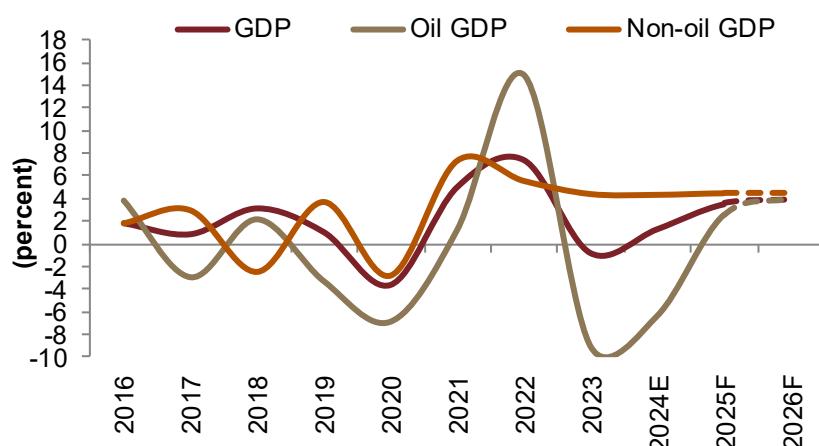
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**Figure 1: Change in Real GDP**





## Global Economic Outlook

*The global economic outlook is clouded in policy uncertainty. We expect a slightly weaker performance than in 2024.*

*In 2024, the US economy held up well, avoiding a hard landing.*

*China's economy slowed, but hit the 5 percent growth target thanks to monetary and fiscal stimulus.*

*Eurozone and UK growth remained less than 1 percent. And Emerging Markets continued to register growth at just above 4 percent.*

Global real GDP growth in 2024 was a touch weaker than in 2023, according to the latest IMF estimate of 3.2 percent, and remained below the 3.5 percent average for global growth in 2011-2019 between the GFC and the pandemic (Table 1; Box 1).

The IMF projects similar growth performance in 2025-2026, at 3.3 percent, with consensus slightly more cautious at 3 percent (Table 1; Figure 2). However, the outlook is clouded with uncertainty, notably

### Box 1: No Hard Landing in 2024

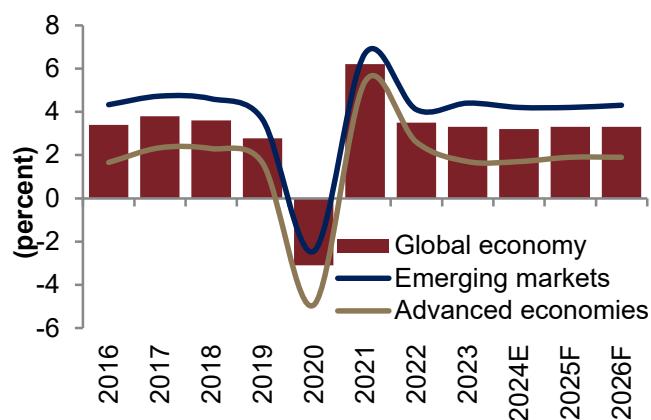
In 2024, US growth remained robust, at around 2.8 percent, similar to the performance in 2023, supported by private consumption, loose fiscal policy and healthy corporate balance sheets. The US is running a budget deficit of around 7 percent of GDP, which is substantial given the tightness of the labour market in recent years. The labour market has started to loosen but not dramatically.

Meanwhile, China slowed, with growth of 5 percent in 2024 as the problems in the property sector continued, casting a shadow on the consumer. Government stimulus boosted the economy in Q4 when growth hit 5.4 percent, allowing China to beat IMF and consensus estimates. The manufacturing sector and exports remained the key support to growth as China continued to take market share in global goods trade. China now accounts for 17 percent of global export volumes.

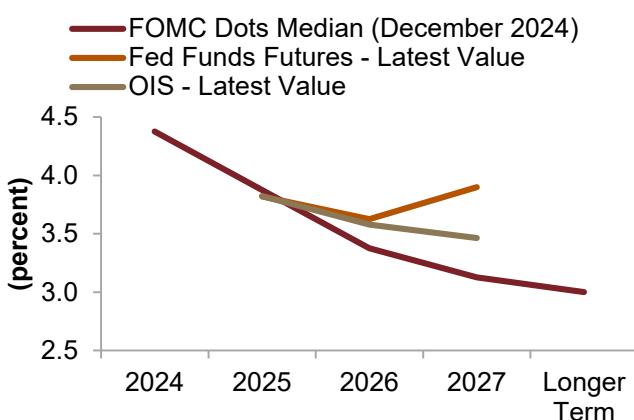
Eurozone growth, which plummeted in 2023, to 0.4 percent, registered some improvement in 2024, but growth remained below 1 percent, hampered by high living costs, competitiveness challenges and, in many countries, high debt levels. There are differences within the Eurozone, with southern European countries faring better, while Germany, the Eurozone's largest economy, suffered another contraction in 2024 with weaker exports to China and fierce competition from China in global auto sales. The UK has followed a similar pattern to the Eurozone, with growth around 1 percent in 2024.

Emerging Market growth continued at just above 4 percent in 2024. Growth in India slowed after a stellar 2023, but nonetheless remains above 6 percent. Amongst other large EMs, growth slowed sharply in Turkey as interest rates spiked to combat inflation.

**Figure 2: Global Economic Growth Outlook**  
(Real GDP)



**Figure 3: US Interest rate end-year outlook**  
(policy rate; fed funds; OIS)





*We assume inflation in the US stays above the Fed's 2 percent target in 2025.*

*But a lot depends on the policy mix of the new US administration.*

*We expect tariff policy to be volatile, but for effective tariff rates to move higher.*

concerning the details and impact of the new US administration's policy agenda.

For 2025, the outlook for the US economy hangs on which policy mix the new administration adopts. Regarding inflation in 2025, we assume that it stays above the Fed's 2 percent target on average due to the impact of tariff and immigration policies (Figure 4). However, slower employment growth and falling shelter inflation should help to limit inflation. The key caveat is that a lot will hang on what the US administration enacts in the coming months and what second round effects arise from these policy decisions.

The Trump administration has started to wheel out tariffs by geography and product and is exploring reciprocal tariffs on all US trade partners. Initial targets for tariff hikes were Canada, Mexico and China (although the tariff hikes on Canada and Mexico were quickly paused pending progress on border controls), as well as steel and aluminium imports. Tariff policy may be volatile as the US tries to make deals and exact concessions from trade partners, but effective tariff rates are likely to shift up further as the Trump administration pursues its aim of reducing the US trade deficit. Some (but not all) of the impact of tariffs would likely feed through to domestic consumer prices.

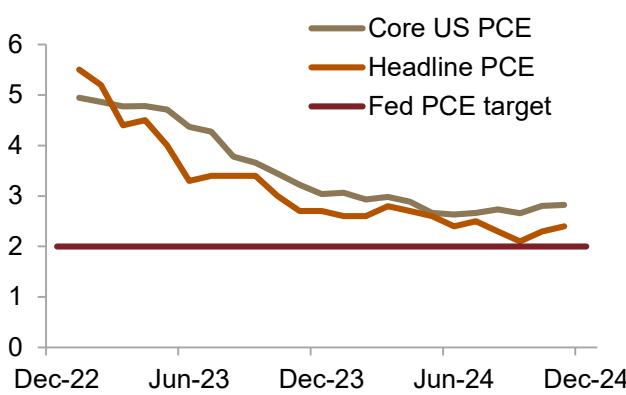
A further clamp down on immigration seems certain (and had already started late in the Biden administration), which could create gaps in

**Table 1: Global GDP Growth**  
(percent; IMF January 2025 and consensus projections)

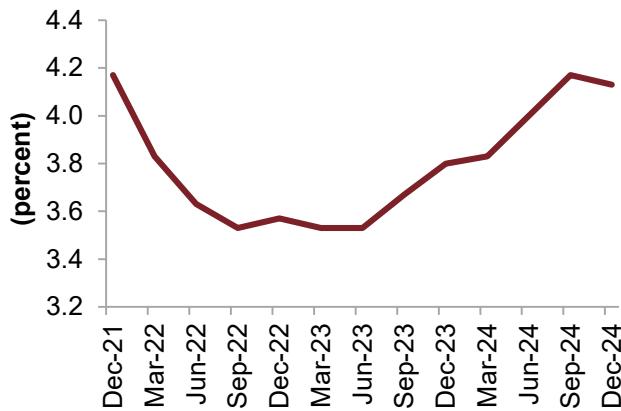
	2023		2024E		2025F		2026F	
	IMF	IMF	Con-	sensus	IMF	Con-	IMF	Con-
Global	3.3	3.2	3.1	3.3	3.0	3.3	3.0	3.0
US	2.9	2.8	2.8	2.7	2.3	2.1	1.9	1.9
UK	0.3	0.9	0.8	1.6	1.4	1.5	1.5	1.5
Canada	1.2	1.3	1.9	2.0	1.9	2.0	1.8	1.8
Euro zone	0.4	0.8	0.9	1.0	1.2	1.4	1.3	1.3
Japan	1.5	-0.2	-0.1	1.1	1.2	0.8	0.9	0.9
China	5.2	4.8	4.7	4.6	4.9	4.5	5.0	5.0
Russia	3.6	3.8	5.3	1.4	2.0	1.2	1.7	1.7
Brazil	3.2	3.7	4.7	2.2	2.3	2.2	1.8	1.8
India	8.2	6.5	6.4	6.5	6.4	6.5	6.6	6.6

Note: Consensus forecasts are those of FocusEconomics.

**Figure 4: US inflation remains above target**  
(percent year on year)



**Figure 5: US Unemployment rate has risen but remains low**  
(percent)





*And immigration policies will also become more restrictive.*

*Other factors could help disinflation and we expect additional fiscal stimulus to be limited.*

*We expect the Fed to remain on hold until there is greater clarity on the impact of policy on inflation and the jobs market.*

*We build in one rate cut later in 2025 and two in 2026. SAMA's Repo Rate would then fall to 4.25 percent by the end of 2026.*

the labour market, including for low-skilled jobs, and upward wage pressure that could feed through into prices.

At the same time, other factors, such as cooling domestic demand and gradually lower shelter price inflation, should help to limit inflation. And in 2026 some of the tariff impacts would fall out of year-on-year inflation calculations.

There has been concern that fiscal policy could loosen further, posing an additional inflationary risk. We expect the previous tax cuts in the Tax Cuts and Jobs Act of 2017 which expire at end-2025 to be rolled over in a similar form. However, overall, we assume that additional fiscal stimulus is limited by the already large budget deficit.

It is worth noting that while the Fed's policy rate has fallen since September 2024, the US 10 year treasury yield has gone up (Figure 6). In recent weeks, though, the US 10 year treasury yield has pulled back a bit reflecting a 'growth scare' in markets given policy uncertainty and weaker consumer indicators.

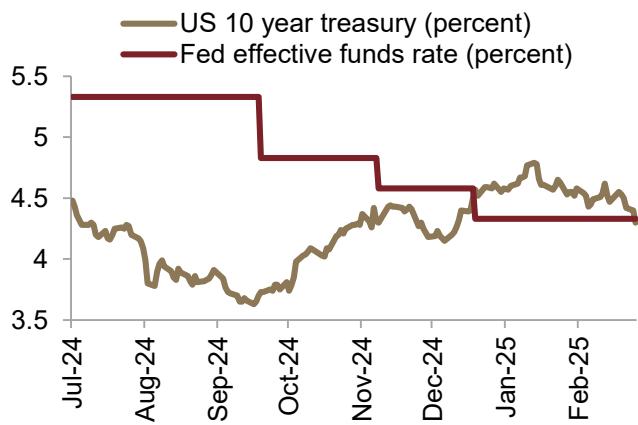
So what does this mean for policy rates in the US? The US Federal Reserve lowered policy rates by 100bps from September 2024 (50bps in September 2024 and a further 25bps in both November and December). This brought the target interest range to 4.25 percent-4.5 percent. The summary of economic projections in December showed the median FOMC participant expected two 25bps cuts in 2025 (Figure 3). However, since the December meeting, data on inflation and potentially inflationary policies cast doubt on further rate cuts in the near term.

We expect the Fed to remain on hold until there is greater clarity on the impact of policy on inflation and the jobs market. The Fed is not in a rush given above-target inflation and contained unemployment (Figure 5). We build in one rate cut of 25bps later in the year, balancing the policy risks to inflation against cooling economic activity and the potential for the Fed to start looking through one-off tariff impacts later in the year.

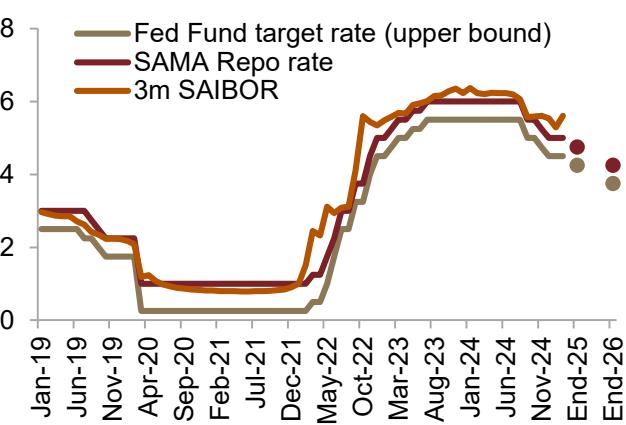
Assuming that tariffs stabilize during 2025 and any second-round effects are limited, US inflation could drop back in 2026. We assume two 25bps cuts in 2026. SAMA's Repo Rate would then fall to 4.25 percent by the end of 2026 (Figure 7).

In China we expect further attempts to stimulate growth, including more fiscal stimulus. Late last year, the government announced that

**Figure 6: US ten-year rate versus Fed fund rate (percent)**



**Figure 7: US and Saudi policy rates (percent)**





*China's growth will slip below 5 percent, although fiscal stimulus will help cushion the decline.*

*We expect further rate cuts in the Eurozone and the UK and in some Emerging Markets.*

*The key risks to 3 percent global growth center on global trade policy and geopolitics.*

*We forecast Brent crude to average \$75pb in 2025 and in 2026, down from \$80pb in 2024.*

local governments would support troubled property developers through purchases of unsold properties and idle land. This will gain traction in 2025.

Nonetheless, we expect growth will slip below 5 percent, given structural challenges related to an ageing population, ongoing problems in residential real estate, broader overcapacity issues in the economy, and the likelihood of further increases in US tariffs on Chinese goods.

We expect further rate cuts in the Eurozone and the UK given the trend in inflation and lacklustre growth. Lower policy rates should provide some relief to these economies, but growth will remain hindered by competitiveness challenges and constraints on fiscal policy. Higher-tariffs from the US would not help.

The potential for increasing rate differentials between the US and the Eurozone, UK, China and others is a key factor underpinning the strength of the US dollar, although concern over US policymaking could take the shine off the dollar over time. A strong US dollar tends to be a negative for Emerging Markets, where we expect growth to trend at around 4 percent, underpinned by expansion in Asia.

Putting these pieces together, we pencil in global GDP growth at around 3 percent in 2025. The key areas of downside risk center on trade policy—for example if US tariff policy leads to retaliatory trade measures and escalates into a trade war—and geopolitical flash points. We assume that these risks remain under control, with retaliatory trade actions by US trade partners measured to avoid an all-out trade war.

## Oil Market Outlook

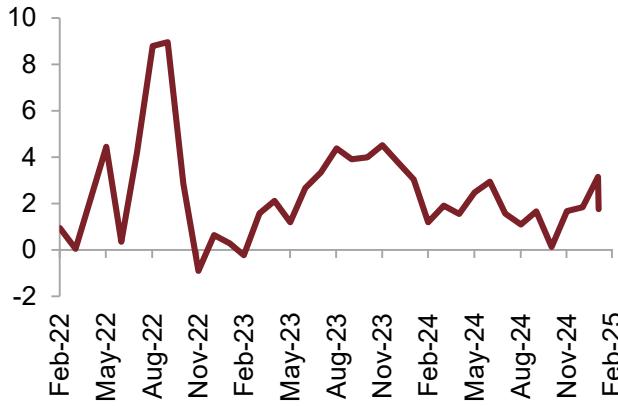
What does this growth outlook mean for oil prices?

We forecast Brent crude to average \$75pb in 2025 and in 2026 with risks of volatility around that related to geopolitics on the upside (price spikes) and worries about demand (especially related to China) on the downside (Figure 8). This represents a decline from the average of \$80pb in 2024. Note that the official selling price to Asia of Arab Light crude, which is Saudi Arabia's main export blend, enjoyed a \$1.8pb premium over Brent in 2024 and we assume a similar premium in 2025-2026 (Figure 9).

**Figure 8: Brent crude price**  
(\$ pb; annual average)



**Figure 9: Arab Light OSP premium over Brent**  
(\$ pb)





*The oil market should be comfortably supplied in 2025.*

*We expect oil demand to increase by just over 1mbpd.*

*Non-OPEC and OPEC+ supply should easily cover that.*

*Geopolitics remains a wild card and could tighten the market.*

This forecast recognizes that the oil market should remain well supplied. Most barrel counters expect that supply growth will outstrip demand growth in 2025. However, the OPEC+ decision to delay and make more gradual its return of barrels to the market and the risks from potential US sanctions on Iran could leave the market more finely balanced during the year.

OPEC expects demand for oil to increase by 1.4mbpd in 2025, while the EIA also projects a 1.4mbpd increase and the IEA assumes a smaller increase of 1.1mbpd (Figure 10). Just over 1mbpd of demand growth seems reasonable if the global economy grows by close to 3 percent, even if there is some incremental replacement of oil with other energy sources. Oil demand increased by an annual average of 1.3mbpd in the 10-year pre-Covid period.

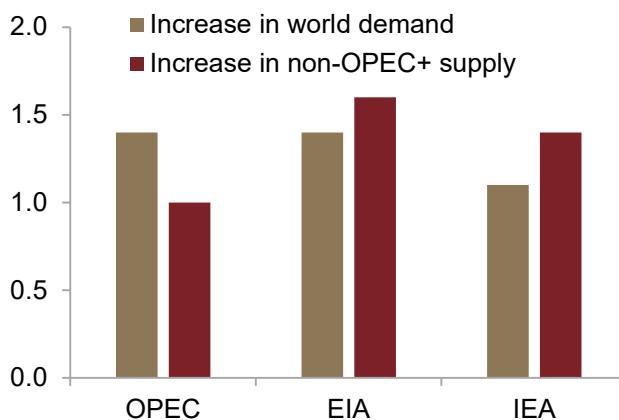
OPEC expects supply from non-OPEC+ countries to increase by 1mbpd in 2025, coming from the US, Brazil, Canada and Norway. This leaves the call for additional OPEC+ supply at 0.4mbpd. In 2025, from April-December, OPEC plans to unwind around 1.1mbpd of previous production cuts, but compensation cuts by countries who previously overproduced should offset some of this increase even if compliance with compensation plans is not perfect. One source of comfort for OPEC is that global oil inventories are relatively low.

The EIA expects total oil production to increase by 1.7mbpd in 2025, with most of that coming from non-OPEC+ sources, while OPEC+ will increase output by less than its latest announcement. The EIA therefore sees a small surplus in oil markets and prices dropping to \$72pb in Q4-25. The IEA, meanwhile, anticipates oil supply growth of 1.6mbpd in 2025, mostly from the US, Brazil, Guyana, Canada and Argentina with only 0.2mbpd from OPEC+. This would put the market into a firm surplus, of 0.5mbpd.

In conclusion, global supply and demand forecasts point to a comfortably supplied market in 2025 including some inventory build, absent geopolitical shocks. This outlook drove prices generally lower in H2-24, in the \$70-75pb range, with a few spikes higher related to geopolitical risks along the way.

The evolution of geopolitics under the Trump administration, the path of US oil production and OPEC+ policy will be the three key determinants of the supply-side of the oil market.

**Figure 10: Oil supply and demand projections (mbpd)**



**Figure 11: Saudi crude production (mbpd)**





*US sanctions on Russia briefly pushed up prices in January.*

*US 'maximum pressure' on Iran will likely pressure Iranian supply in the coming months.*

*OPEC+ will remain cautious about adding more barrels than planned.*

*US oil production will increase in 2025-2026, but by less than in recent years.*

In January 2025 Brent crude prices rose to \$80pb as markets gave more weight to supply risks from sanctions, after the US Treasury increased shipping sanctions on Russia ahead of president Trump's inauguration. However, president Trump's call with the Russian president, Valdimir Putin, and desire for negotiations to end the war with Ukraine has eased market fears over Russian oil supply and Brent crude prices dropped back to \$75pb in mid-February.

Iranian crude supply may be more resilient than during the first Trump administration (Figure 12), but stronger sanctions enforcement will lead to some declines in Iranian exports. President Trump has signed an order to reimpose "maximum pressure" on Iran with tougher enforcement of existing sanctions. This time, it may not be as easy to reduce Iranian supply so sharply because Iran has developed sophisticated workarounds. Trump's announcement also suggested that he would like to find a deal with Iran. Nonetheless, finding a deal is complicated.

Some buyers have started to seek alternatives. An indication of this is that China's Shandong Port Group announced in January that it would be more focused on the risks from US-sanctioned ships at its ports.

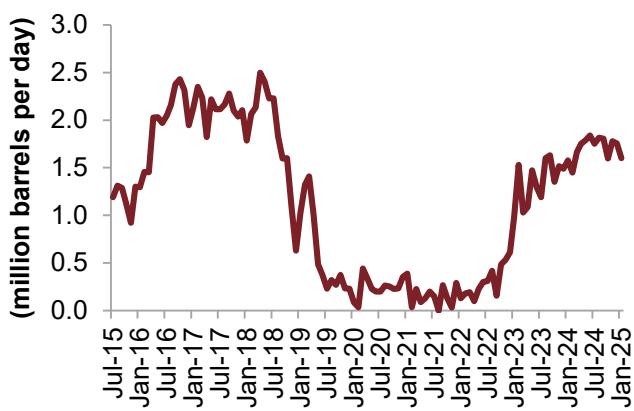
If material supply shocks were to occur, OPEC+ could use some of its spare production capacity (at least 5mbpd) to help mitigate price volatility. However, OPEC+ would weigh market fundamentals before acting—it would not want to turn on the production taps and then need to turn them off again quickly.

President Trump and others in his administration, including the Treasury Secretary Scott Bessent, have expressed their desire for higher US oil production to drive prices lower. In 2024 US crude oil production increased by 0.3mbpd on average. This was significantly less growth than in 2023 when more than 1mbpd was added, in part linked to a flurry of M&A activity. US crude is still likely to add barrels in 2025-2026 following a similar trajectory to 2024, mostly from the Permian basin and the Gulf of Mexico (Figure 13).

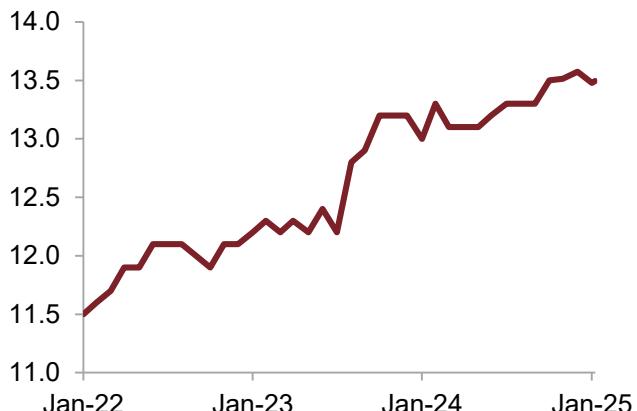
Bigger gains are not the baseline, because of the altered market structure of shale production with larger and fewer companies, greater focus on shareholder returns and because much of the best shale acreage has been exploited.

On the demand side, the focus remains on China. In 2024 Chinese oil demand growth was less than expected and customs data

**Figure 12: Iran crude exports (mbpd)**



**Figure 13: US oil production growth is slowing (mbpd)**





*On the demand side, China remains a source of concern.*

*The main support to demand comes from elsewhere in Asia, notably India.*

*Saudi Arabia's oil GDP declined in 2024 given the constraints on crude oil production.*

*But non-oil GDP returned another strong performance, growing by 4.3 percent in real terms.*

indicate that crude imports declined. Chinese oil demand growth is slowing due to weaker economic growth combined with increasing use of Electric Vehicles and LNG trucks. In 2025, fiscal stimulus and expansions of petrochemical facilities which need feedstock should support China's oil demand, but growth is unlikely to be dramatic.

Outside of China, emerging markets particularly in Asia will be the key source of demand growth. India should remain a key driver of demand growth. Among developed markets, Japan may have higher oil demand as it registers somewhat stronger economic growth.

## Saudi Economic Performance

Headline real GDP returned to growth in 2024, growing by 1.3 percent (flash estimates), due to strong growth in the non-oil economy and a smaller decline in oil GDP. Oil GDP again declined due to constraints on oil production in line with OPEC+ agreements, but the decline (4.5 percent) was smaller than in 2023 (9 percent).

The non-oil sector, which serves as the key growth engine for the Kingdom, recorded a gain of 4.3 percent in 2024 continuing the trend of robust non-oil GDP growth in recent years. As a result, the non-oil sector expanded as a share of overall real GDP, rising to 52.2 percent in 2024, up from 46.1 percent in 2019.

In 2024, non-oil growth was broad-based with a number of sectors, such as wholesale and retail trade, restaurants and hotels, transport and communication, construction and finance making significant contributions. These gains reflect the Kingdom's focus on Vision 2030 goals, ongoing reforms and investments and the resulting opportunities for the private sector. Investment, as measured by gross fixed capital formation, reached 25 percent of GDP in real terms in 2023 and the investment pipeline remains buoyant, as indicated by the project data from MEED for example (Figure 14).

For 2025, we expect real GDP growth of 3.7 percent, helped by 2.6 percent growth in oil GDP and another strong performance by the

**Table 2: Real GDP Shares and Growth Rates**

	2024	2022	2023	2024E	2025F
	% Share of:	% year-on-year			
<b>Overall GDP</b>		<b>7.5</b>	<b>-0.8</b>	<b>1.3</b>	<b>3.7</b>
<b>Oil sector</b>	<b>28</b>	15.0	-9.0	-4.5	2.6
<b>Non-oil activities</b>	<b>52</b>	5.6	4.4	4.3	4.4
<b>Govt. activities</b>	<b>17</b>	4.6	2.1	2.6	2.0
<b>Non-oil GDP by sector</b>	<b>100</b>	% year-on-year			
Agriculture	5.1	4.0	4.1	3.4	3.3
Non-oil mining	0.8	-5.5	5.7	3.8	4.9
Non-oil manufacturing	17.5	7.6	-0.7	2.6	2.7
Electricity, gas and water	3.0	1.3	2.6	4.4	3.5
Construction	10.0	8.9	4.3	4.2	5.0
Wholesale & retail trade	21.1	5.6	7.0	6.2	5.8
Transport & communication	10.3	1.8	7.3	4.7	5.7
Real estate activities	13.2	1.3	1.2	2.4	3.4
Finance, insurance, & bus.	11.7	12.0	6.8	5.5	5.0
Community & social services	7.3	3.5	10.8	3.8	4.0

Note: Overall GDP and main sectors in 2024 are the flash estimates. Non-oil GDP by sector for 2024 (growth and shares) is the year-to-Q3 2024. Overall GDP in 2024 also includes net taxes.



*We forecast real GDP growth of 3.7 percent in 2025 and 3.9 percent in 2026.*

*In 2025 we expect oil GDP to grow by 2.6 percent in line with our forecasts for crude oil production and refinery output.*

*Gas production has the potential to contribute more to growth in the coming years.*

*Growth in consumer demand is supported by significant employment gains, and strong demand on tourism.*

non-oil sector, with growth of 4.4 percent. Non-oil growth accelerated in Q4-24 and leading indicators point to strong momentum in early 2025 (Figure 15).

In 2026, we expect headline real GDP growth of 3.9 percent because of similar momentum in the non-oil sector and further gains in oil production. The primary risk to this outlook comes from increased uncertainty in the global economy, for example the risks to international trade.

### Hydrocarbons sector

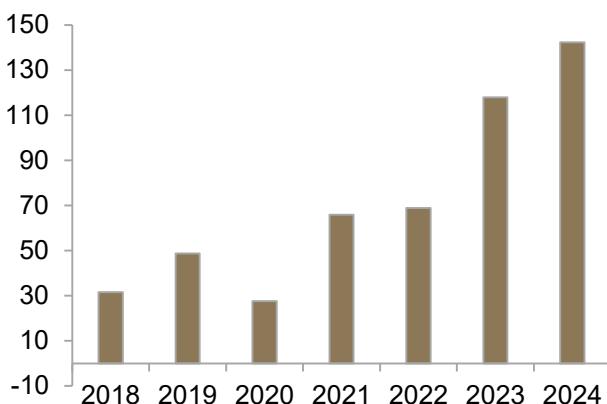
Oil production fell in five of the past six years as the Kingdom adjusted output in response to higher non-OPEC output and generally slower growth in global oil demand. In 2024 average crude oil production fell by 6.8 percent. Oil GDP is not all about crude production: there has been some offset from refining and gas activities. Thus, "Oil Activities" GDP saw a smaller decline in 2024, estimated at around 4.5 percent, because of higher refinery output and gas production.

In 2025 we expect oil GDP to grow by 2.6 percent in line with our forecasts for crude oil production and refinery output. This assumes that OPEC+ implements gradual production increases starting in April in line with the latest agreement. According to this production schedule Saudi production would increase to 9.2 mbpd on average from 9 mbpd in 2024 (Figure 11). There is downside risk to this assumption as OPEC+ could further delay its planned increases if it perceives risks to global demand.

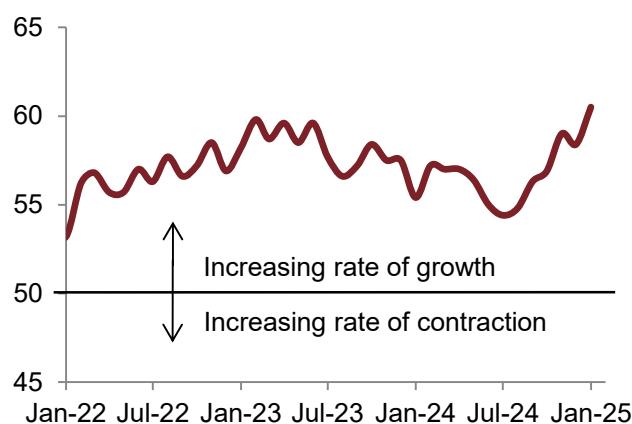
While we typically peg oil GDP forecasts to oil production, gas development has potential to contribute to growth in the coming years. Aramco is busy developing the Jafurah gas field, the Kingdom's biggest unconventional non-associated gas field, which is scheduled to start to come on stream in late 2025. In late 2023, other non-associated gas fields were discovered in the Empty Quarter. Because these gas fields are "non-associated" with oil, the gas can be produced without heed to OPEC+ quotas. This is important given the role of gas as a "bridge" in the energy transition and a key feedstock for various industrial projects. Switching to gas domestically will also allow Saudi Arabia to export or refine more of the crude oil it produces.

**Wholesale & Retail, Restaurants & Hotels** (21.1 percent of non-oil GDP) was up by 6.2 percent in the year to Q3 2024, year-on-year,

**Figure 14: Value of project contract awards (\$ billion)**



**Figure 15: Non-oil Purchasing Manager's Index**





*The growth in total tourism continued its upward trend, from inside and outside the Kingdom.*

*Growth in consumer spending in 2024 surpassed its growth in 2023.*

*Rising labor market participation rates would contribute to more spending power.*

*Tourism is expected to benefit from hotel openings and entertainment events taking place in the near term.*

mildly lower than 2023, when the sector rose by 6.8 percent during the same period. The rise reflects growth in consumer demand, supported by significant employment gains, and strong demand in the tourism sector. Saudi and non-Saudi employment numbers have grown in 2024, supporting local demand. Total employment increased by 1.2 million in Q1-Q3 2024, on a net basis.

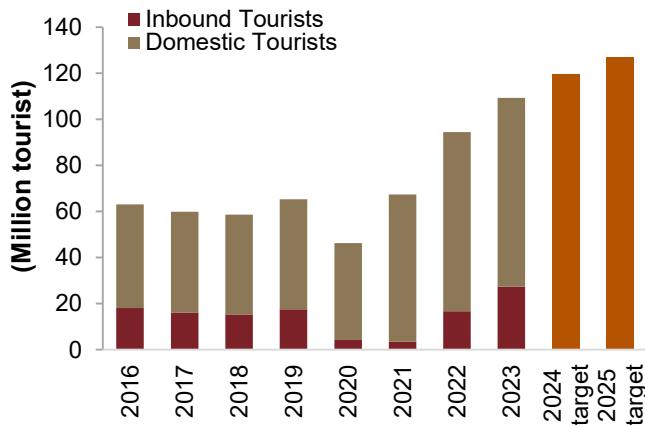
Both religious and non-religious tourism has performed well. Umrah visitors reached 28.3 million in the year to September, surpassing 2023's full year total of 26.8 million visitors. Meanwhile, the growth in total tourism continued its upward trend, with the Kingdom ranking as the fastest growing tourism destination among the G20 countries in the first seven months of 2024, welcoming 59.7 million visitors from inside and outside the Kingdom in H1 2024 (Figure 16). Additionally, the number of licensed hotel rooms in the Kingdom increased from 280,000 in 2023 to 475,000 in 2024, with a goal to reach 675,000 by 2030, according to the Ministry of Tourism.

Full-year consumer spending (POS, e-commerce & ATM cash withdrawals) rose 7.5 percent year-on-year to SR1.4 trillion, beating last year's growth of 6.7 percent. Spending (POS only) on 'hotels' and 'restaurants and coffee shops' rose by 7 percent and 8 percent year-on-year, respectively, reflecting the increase in both international and domestic tourism (Figure 17).

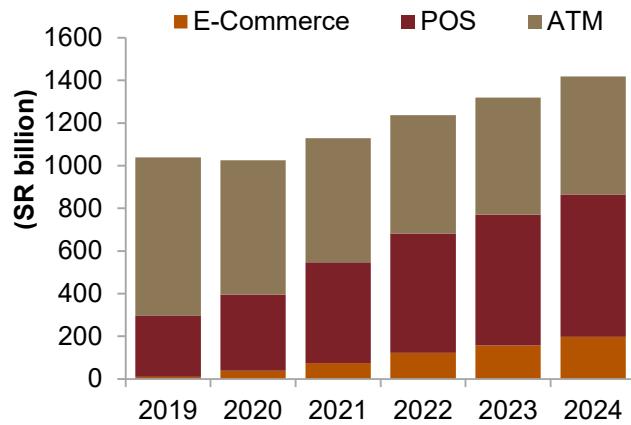
Looking ahead, we expect spending growth to be supported by further gains in overall employment, including a rising labor market participation rate among Saudis. The participation rate increased from 50.8 percent in Q3 2023 to 51.5 percent in Q3 2024, with higher participation rates among citizens of both genders, contributing more spending power to the local economy.

We also expect continued growth in the tourism sector, with a significant number of hotels set to open across the Kingdom, including in Makkah, Almadinah, Riyadh, Neom, and Amaala in the Red Sea. In addition, a variety of sports and entertainment events throughout the Kingdom are expected to provide a strong boost to the hospitality sector. As such, the Ministry of Tourism is targeting a rise in visitor numbers from 119.6 million in 2024 to 127 million in 2025, with target spending of SR346.6 billion, on the path to reaching Vision 2030's target of 150 million visitors by 2030. Also, in preparation to host the World Cup in 2034, the five main host cities will need to increase their hotel room capacity substantially. This is in addition to the growing demand for tourism in other cities.

**Figure 16: Significant growth in tourism from both inbound and domestic visitors**



**Figure 17: Significant rises in consumer spending**





*Non-oil manufacturing was negatively affected by lower demand from China for imported petrochemicals.*

*But the sector was enhanced by localization and domestic consumption in 2024.*

*More output is also notable through higher number of factories.*

*The Kingdom's manufacturing capacity is set to expand through various initiatives.*

**Non-oil Manufacturing** (17.5 percent of non-oil GDP) rebounded in the year to Q3, rising by an average of 2.6 percent, compared to a decline by 0.7 percent in 2023. The sector has been negatively affected by lower demand from China for imported petrochemicals as the country worked on expanding its domestic capacity. However, we believe that non-oil manufacturing was boosted by higher local demand, driven by localization and domestic consumption in 2024.

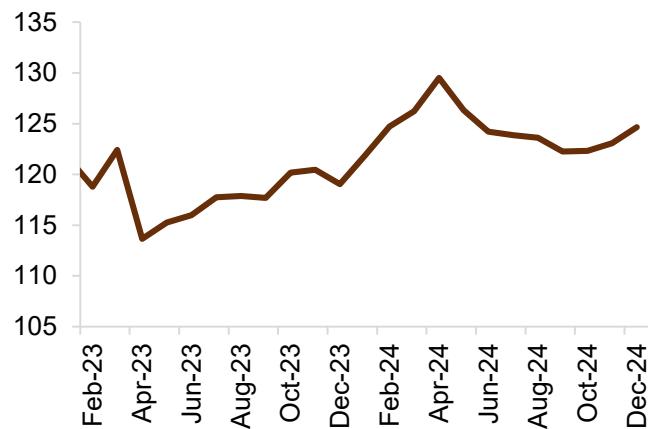
The share of local content in government purchases increased from 33 percent in 2020 to 47 percent in Q3 2024, according to the Ministry of Industry and Mineral resources (MIM). With numerous construction projects taking place in the local economy, domestic manufacturing has benefited from the rising demand, especially for construction-related items, such as multi-use vehicles and light transport vehicles, according to MIM.

The Index of Industrial Production (IIP) for manufacturing reflected this demand, showing a significant increase by 4.8 percent in 2024 (Figure 18). The number of industrial factories exceeded 12,000 for the first time in 2024, with 900 factories starting production during the year (Figure 19). The sector has been strengthened through various domestic and foreign investments, including SR33 billion in the industrial cities of Jubail and Yanbu, as well as SR20.3 billion in various local factories as part of export support initiatives, according to the 2025 budget statement.

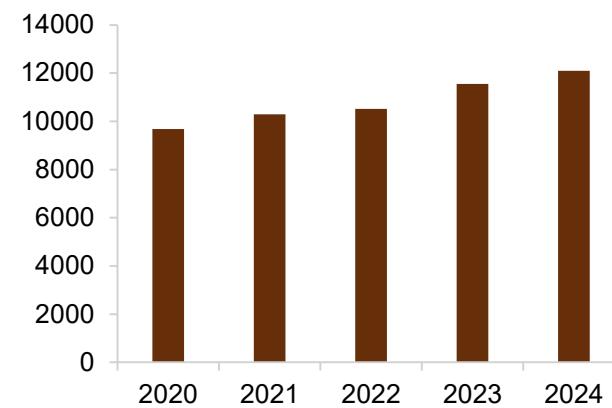
Momentum is expected to continue in 2025, with further expansions to the Kingdom's manufacturing capacity. Specifically, the MIM plans to allocate SR12.3 billion in loans to support local exporters in the global market. The sector will also benefit from the government's allocation of SR10 billion to activate the Standard Incentives Program, which aims to promote industrial investments, foster sustainable development, and enhance the global competitiveness of local industries.

Notable upcoming developments include the launch of Tuwaiq Casting and Forging Facility in Ras Al-Khair, near the King Salman International Maritime Industrial Complex. The \$1.063 billion project aims to establish a high-value supply chain that enhances exports. And, later in 2025 or into 2026, the PIF's CEER automotive manufacturing plant is scheduled to launch, covering an area of one million square meters at King Abdullah Economic City (KAEC). The project aims to launch in phases and plans to produce electric vehicles and supporting units. CEER production will in turn create opportunities for local supply chains.

**Figure 18: IIP Manufacturing (index)**



**Figure 19: Robust growth in the number of factories**





*Transport was enhanced through different channels, air travel and railways saw remarkable gains.*

*Telecom companies continued to witness sustainable growth rates.*

*The sector is expected to witness higher growth rates in 2025.*

*The high interest rate environment had impacted demand for new mortgages, affecting private credit in general. However, in H2 2024, demand returned.*

The **Transport, Storage & Communication** sector (10.3 percent of non-oil GDP) saw a robust 4.7 percent growth in the year to Q3 2024. Growth in the sector was driven by several factors. The ongoing growth in tourism increased demand for travel across various routes. Air travel grew by 15 percent year-on-year in the year to Q3 2024, with 94 million passengers completing a total of 671,000 trips, which also rose by 10 percent compared to the same period the previous year. This growth was further supported by the launch of five new airport terminals across the Kingdom. In 2025, air travel is expected to grow further, with the launch of Riyadh Air and announced plans to add more terminals at several airports.

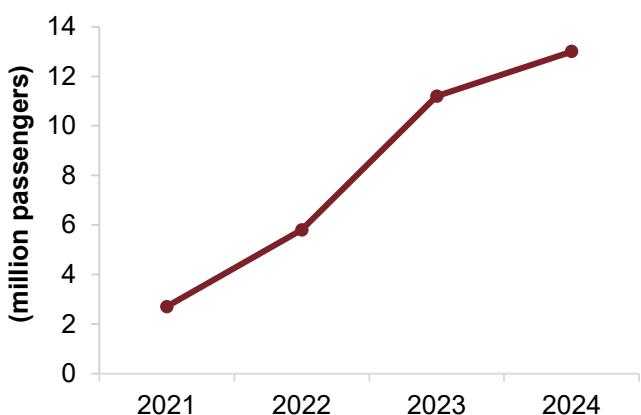
In 2024, Saudi Arabia Railways carried more than 13 million passengers, up from 11 million in 2023 (Figure 20). Cargo transportation also experienced significant growth during the year, reflecting a healthy domestic trade environment. Additionally, the year saw the launch of Riyadh Metro in Q4, further strengthening the outlook for 2025 (Figure 21).

Meanwhile, the consolidated profitability of listed telecom companies rose 8.8 percent year-on-year in the year to Q3 2024 (latest available data), reflecting growth in both new services and subscribers. According to the 2025 budget statement, the sector saw SR41 billion in domestic and foreign investments in technology and data centers in 2024. Digitalization was also a boost, with e-commerce transactions growing by 26 percent in full-year 2024.

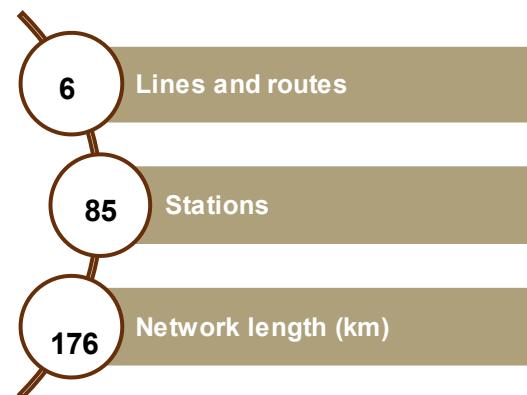
Several transport projects are set to launch this year, likely driving significant growth in this sector. This includes road projects, logistic hubs and airport terminals. Giga-project development should also deliver construction projects for roads and bridges in NEOM, Qiddiya and King Salman Park in Riyadh. Sector plans also involve launching six logistic hubs at seaports. Additionally, a continued rise in Umrah and Hajj pilgrims is anticipated. For instance, total Umrah visitors during the first three quarters of 2024 reached 28.25 million visitors, with 11.52 million visitors from outside the Kingdom, compared to 13.25 million external Umrah visitors in full year 2023. The number is expected to increase to 16 million in 2025, adding more demand to international transportation.

**Finance, Insurance, and Business Services** (11.7 percent of non-oil GDP) saw decent growth of 5.5 percent in the year to Q3 2024. Bank lending to the private sector increased to 13 percent growth in 2024, up from 10 percent in 2023, alongside stronger deposit growth.

**Figure 20: Passengers using Saudi Arabia Railways**



**Figure 21: Riyadh Metro's capacity will expand significantly**





*The IPOs in the Saudi market accounted for 79 percent of total IPOs number in the GCC capital markets.*

*2024 saw a rise in the number of privately insured persons.*

*In 2025, we expect strong credit demand and further gain in employment to support the finance sector.*

*Real estate activities were supported by various housing projects and rebounding residential mortgages.*

H2 2024 saw a rebound in new residential mortgages provided by banks and finance companies, following significant declines in 2023. The high interest rate environment had impacted demand for new mortgages, affecting private credit in general. However, in H2, demand returned, with interest rates cuts expected (and delivered) later in 2024. New residential mortgages increased by an average of 31 percent year-on-year in H2 2024 (SR4.3 billion), compared to a 28 percent decline (SR0.5 billion) during the same period last year.

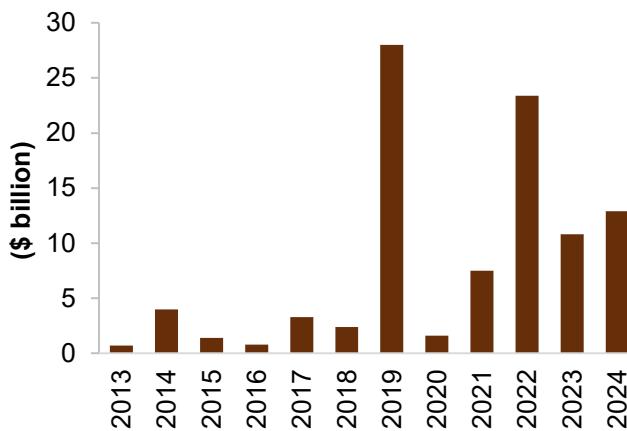
The capital markets saw a total of 42 Initial Public Offerings (IPOs) during the year, up from 35 in 2023, with 14 IPOs taking place in the main market, raising a total of SR15.2 billion. The IPOs in the Saudi market accounted for 79 percent of total IPOs number in the GCC capital markets (Figure 22). Additionally, the Saudi Stock Market (Tadawul) was a key destination for investments in 2024. Foreign investors were net buyers of SR21.02 billion worth of stocks on Tadawul in 2024, up by 48 percent year-on-year, boosted in part by the government sale of further shares in Aramco.

The sector's growth was further supported by a rise in the number of privately insured persons, with around 900,000 more beneficiaries (a 7.4 percent increase year-on-year) during 2024, with a rise in both Saudi and non-Saudi beneficiaries, to reach a total of more than 13 million beneficiaries by end of 2024 (Figure 23).

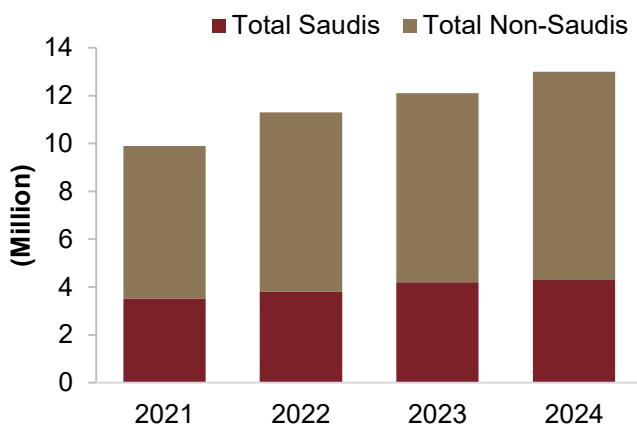
In 2025, we expect that the Finance, Insurance, and Business services sector will continue to benefit from strong credit demand from the expanding non-oil economy, further gains in employment and insurance numbers, IPOs and ongoing recovery in mortgage demand. The latter is a key uncertainty, given the limited scope for interest rate cuts in the near term. We assume one 25bp cut later in 2025. Nonetheless, the cuts in H2 2024 may be enough for the recovery in new mortgages to continue.

**Real Estate Activities** (13.2 percent of non-oil GDP) grew by 2.4 percent in the year to Q3 2024, up from 1.2 percent in full year 2023. Growth continued in various housing projects under the Ministry of Municipalities and Housing' (MOMAH) Sakani program, with more than 80,000 households being provided various home support options in the year to Q3 2024. Meanwhile, new residential mortgages rebounded in full year 2024 by 16 percent in volume terms, compared with a decline by 35 percent in 2023. The latest SAMA data showing that new mortgage lending totaled SR93.6 billion in 2024, up from SR80.8 billion in 2023 (Figure 24).

**Figure 22: IPO revenue in the GCC market (\$ billion)**



**Figure 23: Insurance for individuals and dependents**





*For 2025, additional mortgage demand will support real estate activities.*

*The construction sector continues to benefit from giga-projects, tourism facilities, and housing projects.*

*The diverse array of sports and entertainment events throughout the Kingdom is expected to boost the construction sector.*

*In 2025, a number of new schools and university campuses are planned for launch, and hospital expansions underway around the Kingdom.*

For 2025, additional mortgage demand will support real estate activities, although high interest rates will remain a constraining factor. At the same time, the MOMAH's Sakani program is expected to continue supporting the sector. The MOMAH plans to provide home support options to 100,000 families as part of its goal to increase the homeownership ratio to 70 percent by 2030. By end of 2023, the homeownership ratio had risen to 63.7 percent, up from 62 percent in 2020.

The **Construction** sector (10 percent of non-oil GDP) saw another solid rate of growth in the year to Q3 2024, up by 4.2 percent, compared with 4.3 percent in full year 2023. This reflects ongoing momentum in the sector, despite a slower performance in H1 (Figure 25). A significant portion of this growth is driven by spending on giga-projects, tourism-related accommodations, and housing projects from both the private and public sectors. According to MEED, a total of almost \$97 billion worth of contracts were awarded in the construction sector between 2019-2023.

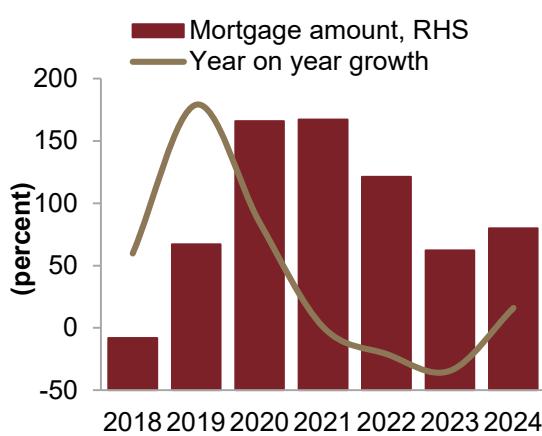
For the years ahead, the PIF's giga-projects will support construction activity: Neom, Red Sea, Roshn, Qiddiya and Diriyah. In addition to other mega-projects, such as the New Murabba in Riyadh, and the Downtown in Jeddah. Moreover, the sector will continue to benefit from high levels of capital expenditure by the government through the budget.

The diverse array of sports and entertainment events throughout the Kingdom is expected to boost the construction sector, particularly through the development of numerous hotels and stadiums. The Ministry of Tourism is targeting an increase in visitor numbers from 119.6 million in 2024 to 127 million in 2025, with planned spending of SR346.6 billion, according to the 2025 budget report. This is part of the broader strategy to meet Vision 2030's target of 150 million visitors by 2030. Additionally, in preparation for hosting the World Cup in 2034, and before that the AFC Asian Cup in 2027, hotel room capacity will need to expand, as noted earlier.

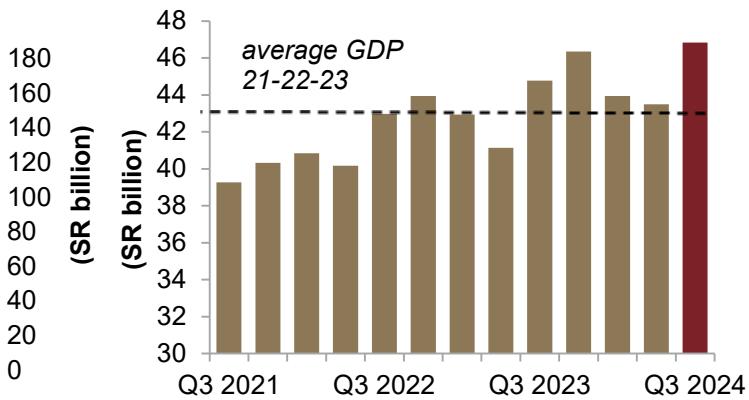
**Community, Social & Personal Services** (7.3 percent of non-oil GDP) rose by 3.8 percent in the year to Q3 2024, year-on-year, down from 10.8 percent in full year 2023. This sector includes education, healthcare, arts, entertainment, and sports, all of which have seen numerous developments in line with Vision 2030.

The sector is expected to see continued growth in 2025, with many sports and entertainment events taking place, new schools and

**Figure 24: Mortgage growth**



**Figure 25: Construction output softened in H1 but picked up quickly by Q3 (latest data)**





*The agriculture sector was boosted by continued progress in achieving food self-sufficiency rates...*

*...and by continued efforts of tree planting under the Saudi Green Initiative.*

*Growth in electricity, gas, and water sector will be fueled by the continued expansion of water desalination capacity and solar initiatives.*

*Both foreign and local interest in the mining sector is growing.*

*The Kingdom recognizes that the mining sector should be integrated into a broader industrial supply chains.*

*Saudi Arabia will run budget deficits of around 3 percent of GDP.*

*Government debt will remain low, at less than 35 percent of GDP.*

university campuses are planned for launch, and hospital expansions underway around the Kingdom. For example, the Kingdom plans to host the first Olympic Esports Games in 2025. In addition, the Ministry of Health plans to launch five new hospitals, increasing the hospital bed ratio to 23 per 10,000 people, up from 22.6 in 2021. Also, the Ministry of Education aims to launch new international universities in the Kingdom, and expand the public-private partnership program in building and operating public schools.

**Agriculture** (5.1 percent of non-oil GDP) rose by 3.4 percent in the year-to-Q3 2024, year-on-year. The sector saw gains last year due to continued progress in achieving food self-sufficiency, with over 10.6 million tons of basic food products locally. For 2025, the target is to reach 11.5 million tons of locally-sourced food products.

Additionally, the sector has been strengthened by ongoing tree planting projects. As part of the Saudi Green Initiative, the Kingdom has planted more than 93 million trees since its launch in 2021, with 40 percent of these trees being planted by private sector companies. Looking ahead, these efforts are set to continue, with a target of planting 10 billion trees over the next decades.

**Electricity, Gas, and Water** (3 percent of non-oil GDP) grew by 4.4 percent in the year to Q3 2024, driven by the rollout of SR13 billion in projects, including water desalination and transmission, as well as solar power generation plants in Riyadh and Makkah regions. In 2025, growth in this segment will be fueled by the continued expansion of water desalination capacity, additional solar initiatives, and improvements in electricity generation and transmission.

**Non-oil Mining and Quarrying** (0.8 percent of non-oil GDP) saw an expansion of 3.8 percent in the year to Q3 2024, driven by ongoing exploration efforts for base metals. The Kingdom aims to become a global hub for critical minerals and mining services, with investments in the sector totaling SR47 billion. The sector is still small, but both foreign and local interest in the sector is growing, with over SR90 billion in investment projects being currently under assessment according to the MIM. We expect the sector to gradually contribute more to GDP from a low base currently.

In 2025, MIM is planning to launch new licenses for exploration opportunities covering a total area of 50,000 square kilometers for local and international mining investors, up from 10,000 last year. Additionally, the sector anticipates the activation of the National Minerals Program, which aims to attract SR400 billion in investments and provide further details on the sector's path toward achieving the goals of Vision 2030, to be the third pillar in the Saudi economy, following oil and petrochemical industries. The Kingdom recognizes that the mining sector should not operate in isolation; instead, its output should be integrated into a broader industrial supply chains, spanning from extraction to recycling, and supporting various renewable energy and manufacturing industries.

## Fiscal outlook

Saudi Arabia's fiscal position remains strong given relatively low debt levels and significant assets. We forecast the government will run fiscal deficits of 3 percent of GDP in 2025-2026 (SR130 billion on average), marginally wider than the 2.8 percent of GDP deficit in 2024, as the government budget seeks to support economic growth (Figure 26).

Deficits will be financed by a mix of domestic and external issuance. Government debt will rise but remain below 35 percent of GDP and we expect the government's fiscal reserve at SAMA, the central



*The key risk is oil price volatility as oil revenue accounts for 60 percent of total revenue.*

bank, to remain close to SR390 billion (around 10 percent of GDP) (Figure 30).

Oil price volatility remains the key risk to fiscal performance given that oil revenue accounted for around 60 percent of total revenue in 2023-2024. Our baseline scenario, as outlined earlier, assumes Brent crude prices average \$75pb and a gradual rise in Saudi oil export volumes.

As for 2024 results, total revenue was 3.9 percent higher year-on-year and outperformed the budget, by 7.4 percent. Oil revenue, at SR757 billion, was significantly above the assumption in the 2024 budget, due to the full-year impact of Aramco's performance-linked dividend (around SR130 billion). Non-oil tax revenue was ahead of budget and was 6.7 percent higher year-on-year because of strong growth (10 percent) in goods and services tax (largely VAT).

Total spending was 6.3 percent higher year-on-year, overshooting the budget by almost 10 percent. Spending shifted higher due to three factors: revenue overperformance, the Kingdom's ample fiscal space and the government's policy priorities to accelerate economic diversification and improve the quality of public services and infrastructure.

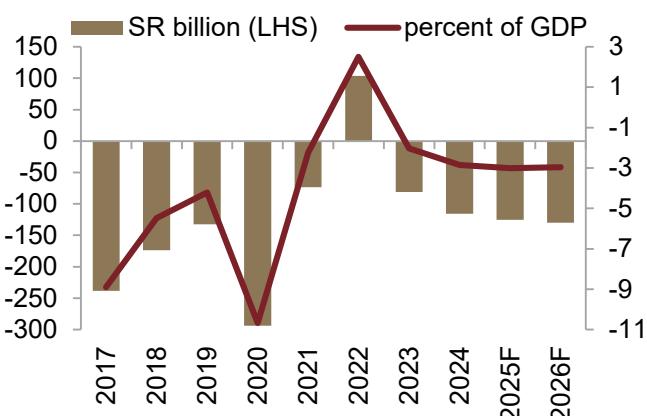
*In 2025 we expect revenue to decline by around 5 percent due to lower oil revenue.*

For 2025, we expect a decline in revenue, of around 5 percent, due to lower oil revenue flowing into the budget (Figure 27). We assume that lower oil prices—Brent crude at \$75pb on average in 2025, down from \$80pb in 2024—will offset an increase in export volumes of crude and refined products. Furthermore, based on Aramco's financial results for Q1-Q3 2024 and its current dividend policy, we don't expect Aramco's performance-linked dividends to continue at the same level as last year.

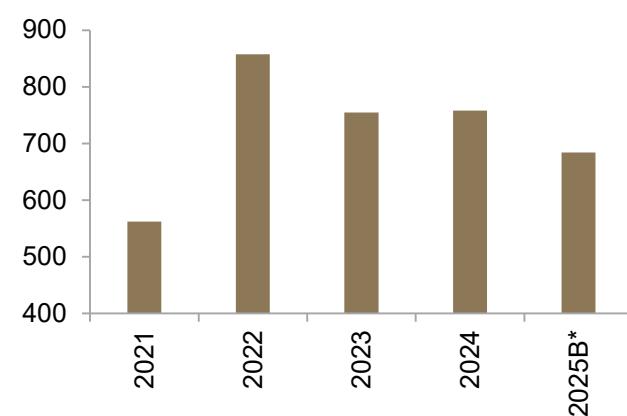
Another round of domestic energy price reforms at the start of 2025 should reduce the amount of revenue that Aramco retains as compensation for the cost of subsidizing domestic energy prices. While the impact of the latest price increases is hard to quantify, it is positive for passthrough of oil revenue to the budget.

Non-oil revenue, meanwhile, will continue to grow, primarily through VAT revenue, which will likely rise by around 6 percent driven by nominal non-oil economic growth. In 2020-2024 the government's non-oil revenue has equaled 18.2 percent of non-oil GDP and that ratio is likely to persist in 2025-2026. It is interesting to note that non-oil revenue is covering an increasing share of wage spending (Figure 29)

**Figure 26: Budget deficit to trend at 3 percent of GDP**



**Figure 27: Budget oil revenue to decline (SR billion: \*Jadwa estimate)**





*Given the outlook for lower budget revenue, budget spending in 2025 is set to decline as well.*

*Nonetheless, spending will remain at high levels.*

*If oil revenue is higher than expected then spending would likely shift higher in response.*

*A \$10 change in the price of oil would impact government revenue by close to 2 percent of GDP.*

*In 2026, we expect both revenue and spending to return to nominal growth, at around 4 percent.*

Given the outlook for lower budget revenue, budget spending in 2025 is set to decline as well. The budget contains a decline of 4.7 percent. This reflects government policy to support the Kingdom's economic transformation, while maintaining fiscal space to deal with negative shocks. We think the decline will be slightly smaller (4 percent) than budgeted, given the potential for spending slippages, for example with wage spending.

A smaller allocation for goods and services is the main contributor (down by SR33 billion) to lower spending plans in 2025 while the envelope for capex is also trimmed (by SR14 billion). These cuts are relatively small when put in the context of the sharp increase in spending in 2023-2024 when there was a surge in spending on capex and goods and services related to the Vision 2030 project pipeline.

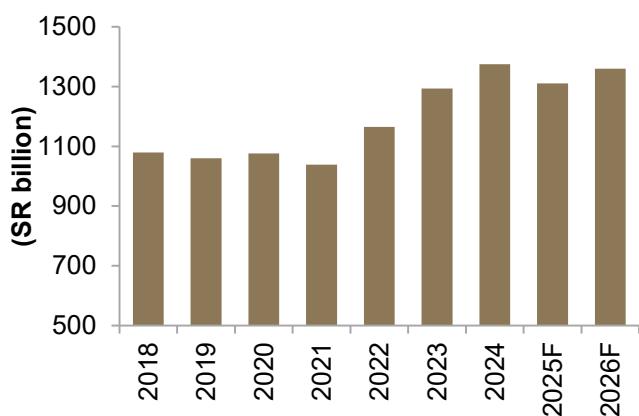
A small expenditure decline in 2025 would still leave spending at a high level (SR1.3 trillion) that is supportive of economic activity (Figure 28). Furthermore, the budget highlights one-off spending items in 2024 which may skew the year-on-year comparisons. For example, 2024 capex included outlays for land and property which would not have provided much direct boost to the economy but will facilitate project execution. The budget says the 2025 capex allocation is 18 percent higher than 2024 capex excluding these one-off expenses.

Clearly, oil prices during the year will have a big impact on budget outcomes. For example, we would expect spending to be higher than planned if oil prices exceed government expectations. A \$10 change in the price of oil would impact government revenue by close to 2 percent of GDP, keeping all other factors equal. If there were a downward shock to oil prices, then the government could cut back on discretionary spending to some extent and could fund a larger deficit than planned.

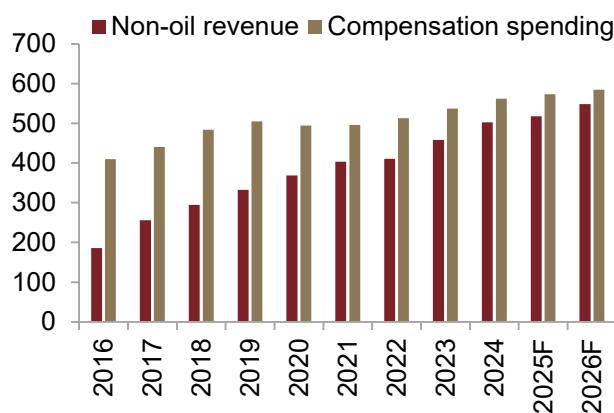
In 2026, we expect both revenue and spending to return to nominal growth, at around 4 percent. Revenue will be helped by ongoing non-oil gains and some further growth in oil export volumes. As in 2025, this would mean a budget deficit of 3 percent of GDP.

Looking more broadly across the public sector, the PIF will continue to deploy capital domestically at similar or higher levels in 2025-26 to push ahead with Vision 2030 initiatives including giga-projects and preparations for events such as the 2029 Asian Winter Games, Expo 2030 and the 2034 football World Cup. The activities of the NDF also remain a source of support to the economy.

**Figure 28: Budget spending dips but remains high**



**Figure 29: Non-oil revenue covers higher share of wage spending (SR billion)**





## Balance of Payments

*In 2024 Saudi Arabia's current account surplus has declined close to balance.*

*Oil earnings declines, while import spending and remittance outflows increased.*

*Positively, tourism earnings increased. Also, inflows via the financial account have increased.*

Dynamics in Saudi Arabia's balance of payments have evolved. Lower oil export revenue and further strong import growth has eroded Saudi Arabia's current account surplus in 2024. In Q1-Q3 the current account recorded a surplus of \$1.6 billion, down from \$32 billion in the year-earlier period (Q4 data is not available yet). We estimate that Saudi Arabia's current account will be close to balance for the full year.

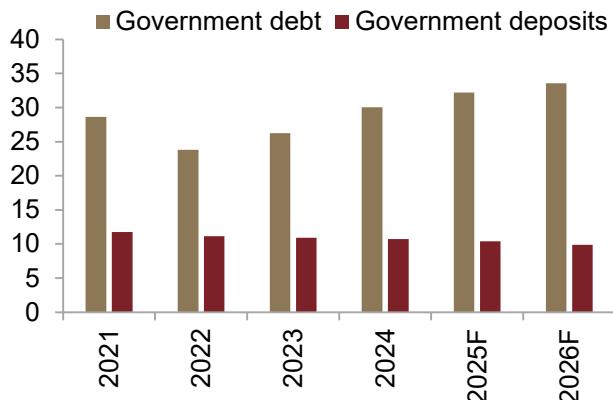
Oil earnings declined, to an estimated \$220 billion due to lower volumes of exports and a marginal decline in export prices. Non-oil exports picked up after slumping in 2023, but petrochemicals exports remained subdued (January-October they were 5 percent down year-on-year) due to sluggish demand from China and global overcapacity. Imports grew strongly, by around 8 percent, to an estimated \$200 billion, with machinery and electrical equipment and metals—related to the booming project space, construction and other diversification efforts—recording sharp gains. Outward remittances picked up in 2024 unsurprisingly given the increase in foreign workers. A positive development was the ongoing increase in tourism-related travel credits which may reach \$40 billion for the full year.

While the current account surplus has dwindled, the capital and financial accounts has shifted from net outflows to a balance in 2024. There have been higher inflows to buy Saudi external debt issuance, to make loans to Saudi entities and from repatriation of Saudi deposits abroad. And outward investments were slightly lower in Q1-Q3 2024. As a result, the central bank's foreign reserves have remained stable. Reserves ended December 2024 at \$437 billion, the same as at end-December 2023.

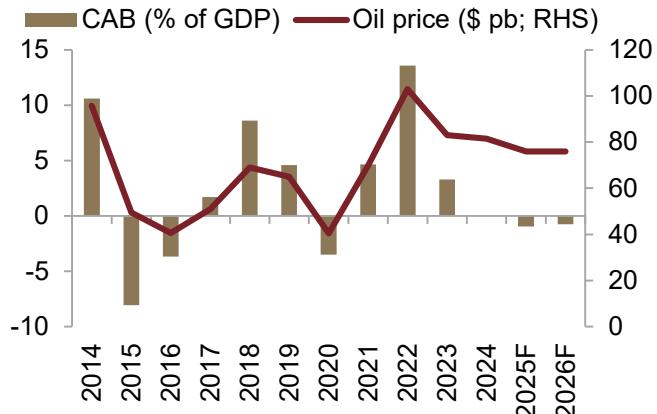
For 2025-2026, the outcome for the current account will continue to depend heavily on the oil market. In 2025 we forecast that the current account will slip into a small deficit (\$10.5 billion, close to 1 percent of GDP) (Figure 31). The trade surplus will decline as the import bill rises further (by around 5 percent), while export revenue remains flat. Total export revenue will be similar to the level in 2024 with lower oil revenue, but higher non-oil exports. We forecast oil revenue to decline marginally, to \$210 billion, because of lower average oil prices (\$75pb for Brent), which will be partially offset by gradual gains in export volumes.

Non-oil exports (including re-exports) have been volatile in recent

**Figure 30: Government debt/GDP (percent)**



**Figure 31: Current account Shifts to Deficit**





We expect the current account to slip into small deficits in 2025-2026.

As import growth continues and oil earnings are limited by global oil prices.

years, in part due to price and demand swings for petrochemicals and plastics which account for 50 percent of non-oil exports. The value of non-oil exports grew by 14.1 percent in 2022, fell by 14.2 percent in 2023 and grew again by an estimated 12.2 percent in 2024, returning close to the level of 2022 at around \$80 billion. We forecast growth of 8 percent in 2025, bringing non-oil exports to \$86 billion. At similar growth rates non-oil exports could hit \$100 billion by 2027.

### Box 2: Understanding FDI data

Saudi Arabia enhanced the methodology for calculating FDI in late 2023. The Ministry of Investment of Saudi Arabia (MISA), the General Authority for Statistics (GASTAT) and the Saudi Central Bank (SAMA) worked with the IMF to employ a more granular methodology for calculating the Kingdom's FDI data. These data are derived from the financial statements of foreign companies registered with MISA and the Ministry of Commerce. This approach is more detailed than the previous approach which was based on FDI surveys by GASTAT.

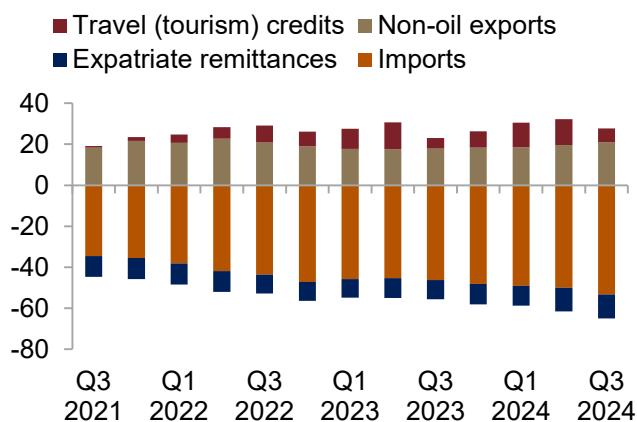
Based on the old methodology, 2023 inflows (net) were reported initially in SAMA's BoP statistics as \$12.3 billion. This was updated to a much healthier \$22.8 billion in October 2024 based on the new methodology. It is worth noting that FDI inflows rose sharply in 2021-2022, but these numbers were inflated by one-off revenues relating to the sale of an Aramco pipeline complex (Figure 33).

However, the survey approach is still being used by GASTAT to generate FDI numbers for the quarterly BoP and provisional annual BoP. These numbers are revised subsequently based on the new methodology, but this happens with a long lag and so generates some confusion.

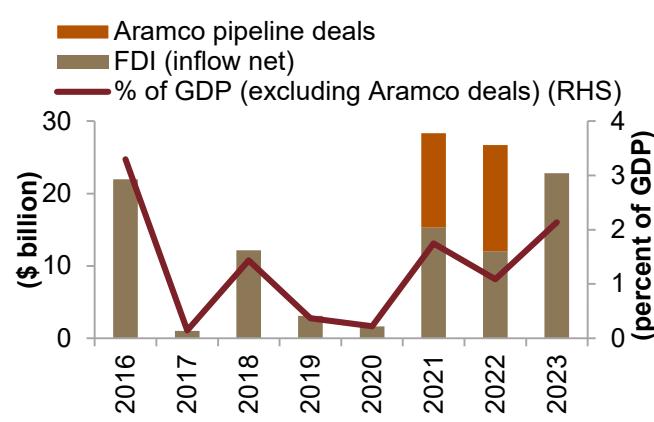
In short, the quarterly FDI numbers in the BoP so far for 2024 should not be taken at face value and are likely to be revised upwards. We expect 2024 FDI to have been higher than 2023 FDI.

The import bill has risen sharply in recent years because of surging investment and strong consumer demand as well as the impact of higher global inflation. The import bill was around \$200 billion in 2024, up from \$138 billion in 2019 before covid. We assume more moderate import growth in 2025 (5 percent versus close to 8.5 percent on average in 2023-2024), because of the already high level of imports.

**Figure 32: Key current account credits and debits**  
(\$ billion; debits shown as negative)



**Figure 33: FDI inflows**  
(\$ billion; percent of GDP)





*Remittance outflows will also remain a drain on the current account.*

*While we expect current account deficits, we also expect inflows into the financial account.*

*As a result, we expect SAMA's reserve assets to ease but remain large, in excess of \$400 billion.*

*In 2024, M3 increased by almost 9 percent, up from 7.6 percent in 2023, primarily driven by a rebound in demand deposits.*

*By H2 2024, deposits gradually shifted from time and savings deposits to demand deposits, likely in anticipation of rate cuts.*

Looking at other important lines in the current account, remittance outflows from expats may increase further, to \$45 billion, given the surge in the number of foreign workers in the Kingdom as Vision 2030 projects ramp up. On the positive side, we expect that the tourism-related travel surplus will grow (from an estimated \$12 billion in 2024), helping to narrow slightly the services deficit (Figure 32).

In 2026 we forecast the current account deficit to be similar, close to 1 percent of GDP. The trade surplus would improve slightly as higher oil revenue and further growth in non-oil exports offset a further increase in imports. We expect some pick-up in oil revenue as exports volumes grow while oil prices remain flat at \$75pb for Brent crude. Tourism-related travel earnings should continue to expand. Combined with higher non-oil exports, tourism earnings reflect the gradual gains from the Kingdom's diversification efforts. Credits from transportation and logistics may also pick up. On the flipside, there may be further growth in outward remittances.

Flows on the rest of the balance of payments are difficult to predict, though with the current account running a small deficit we expect the greater balance between outflows and inflows seen in 2024 to persist in 2025-2026.

We expect domestic institutions and the private sector, including the PIF, to invest less capital abroad and focus more domestically. At the same time, we assume that inward FDI trends up gradually. The Q1-Q3 figure for inward FDI shows a decline year-on-year, but there will likely be some data revision as the survey-based figures are updated with figures based on more granular data (see Box 2 and our previous report [here](#)). At the same time, debt issuance by the government, PIF, Aramco, banks and others will attract inflows in the form of bond sales and loans.

All told, we expect SAMA's reserve assets to ease in 2025 to around \$417 billion and in 2026 to \$410 billion. This equates to 15 months of imports of goods and services.

## Monetary and Financial Developments

In 2024 broad money supply (M3) increased by almost 9 percent, up from 7.6 percent in 2023. The growth was primarily driven by a significant rebound in demand deposits (53 percent of total deposits), which rose by 9.8 percent in 2024, recovering from a 1.2 percent decline in 2023.

The high interest rate environment of the past couple of years have encouraged higher growth in time and saving deposits (up by 10 percent in 2024, down from 32 percent in 2023). By H2 2024, deposits gradually shifted from time and savings deposits to demand deposits, likely in anticipation of rate cuts in Q4 2024.

Bank lending to the private sector grew by 13 percent in 2024, strengthening from 9.7 percent in 2023, as increasing business activity and the large investment pipeline continued to push up demand for credit. Meanwhile, credit to the public sector (excluding government bonds) grew by 38 percent in 2024, up from a 15 percent increase in 2023, despite still accounting for a small share of total bank loans at just 5 percent.

Strong credit growth has outpaced deposit growth, stretching banks' liquidity (Figure 34). The headline loan-deposit ratio (total bank credit/total bank deposits) reached 109.8 percent at end-2024, up



*In 2024, bank lending to the private sector grew by 13 percent, and credit to the public sector grew by 38 percent.*

*We expect credit growth to continue at robust rates which support the economy.*

*The rebound in mortgage demand during H2 2024 likely boosted real estate activity, with credit to this sector increasing significantly.*

*The share of SME loans in total credit saw a notable rise during 2024.*

*Non-performing loans eased in 2024, and the liquid assets-to-total assets ratio remained comfortable.*

from 104.5 percent at end-2023. To supplement their traditional deposit financing, banks have increased their external borrowing, with the net foreign assets of banks turning negative for the first time in 2024.

Nonetheless, we expect credit growth to continue at robust rates which support the economy, with banks continuing to tap wholesale funding externally; more direct funding for companies and projects from regional and international banks; and further capital market development. For example, the Saudi Real Estate Refinance Company is looking to boost liquidity through issuing mortgage-backed securities.

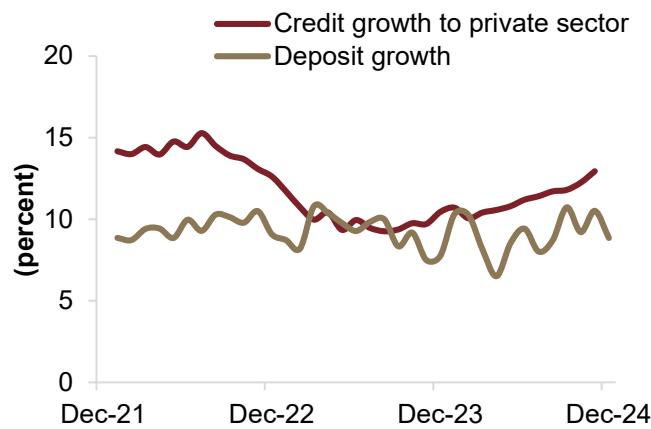
The growth of net new private credit continues to vary across sector, particularly within the three largest credit sectors (Figure 35). The rebound in mortgage demand during H2 2024 likely boosted real estate activity, with credit to this sector increasing significantly, averaging 27 percent in 2024, up from 22 percent in 2023. Additionally, credit to 'manufacturing' picked up in 2024, reversing a decline observed in previous years. This growth was largely driven by robust domestic demand, as discussed earlier. Credit to 'wholesale and retail' also saw a steady increase, reflecting rising consumer spending. In contrast, credit growth to 'construction' softened, falling from 14 percent in 2023 to 7 percent in 2024.

Meanwhile, the share of Small & Medium Enterprise (SME) loans in total credit provided by banks and finance companies jumped to 9.3 percent at the end of Q3 2024. This was higher than the 8.7 percent registered in Q4 2023, as lending to micro-sized enterprises rose by 45 percent year-on-year in Q3.

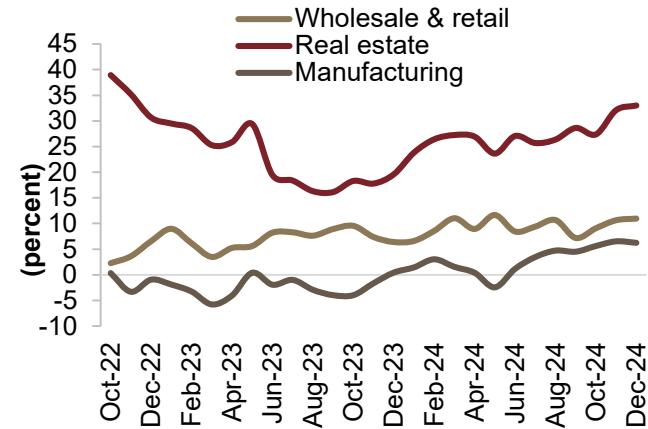
### Financial soundness indicators

Risk metrics data (up to Q3 2024) indicates a continued improvement in non-performing loans (NPLs), which eased to 1.3 percent of total gross loans, down from 1.5 percent at the end of 2023. Other key ratios also remain solid; for example, the liquid assets-to-total assets ratio was 21 percent at the end of Q3. While this represents a decline from the previous year, it remains comfortable.

**Figure 34: Credit to the private sector is backed by robust growth in deposits (year-on-year change)**



**Figure 35: Bank credit by sector (year-on-year change)**





*Inflation picked up in H2 2024, with primary price pressures coming from 'housing and utilities'.*

*Meanwhile, 'Food & beverages' inflation softened throughout the year.*

*In 2025, rental inflation is expected to soften.*

Demand for 'transport' and 'hotels & restaurants' is expected to rise with increased tourism activity.

### Stable inflation

Growth in consumer prices picked up in H2 2024, with end-year inflation rising to 1.9 percent, leading to a full year average of 1.7 percent, matching our forecast.

The primary source of upward price pressure has been 'housing and utilities', with sub-group 'rentals for housing' (which makes up 21 percent of the CPI basket) continuing to show robust rises amid high demand (Figure 36). This strong rental demand is driven by high mortgage interest rates, which have led many Saudis to opt for renting instead of buying. Additionally, demand from expatriate for rentals has contributed to this trend. Another contributing factor to rising prices came from 'miscellaneous goods and services', where increasing gold prices pushed jewelry sub-group prices up in H2 (2.3 percent of the CPI basket).

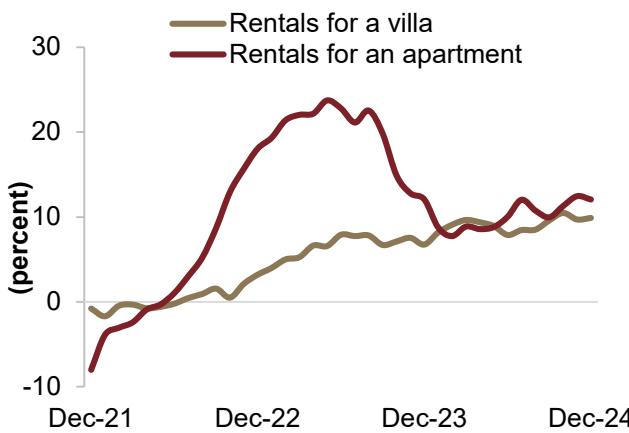
Meanwhile, 'Food and beverages' inflation softened throughout the year, largely due to lower global food prices. The FAO's main food price index overall in 2024 remained below its 2023 levels, despite monthly increases in some components. In line with this trend, prices in 'restaurants and hotels' grew at a slower pace in H2 compared to H1, likely influenced by the easing of food prices, which are key inputs for the sector.

In 2025, food and beverages prices might pick up in line with global trends. Rental inflation is expected to soften given the high base effect and as housing sales pick up and new housing projects come on line, increasing supply. However, with robust non-oil GDP growth, rental demand will persist as the strong economic performance will continue to create job opportunities for both Saudis and expatriates in the major cities.

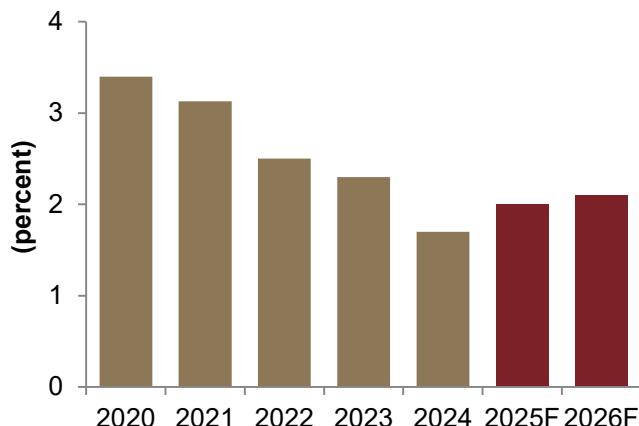
Stronger demand for home ownership in 2025 is expected to create positive spillovers for related sectors such as 'furniture' and 'electronics' which have been pressured by lower housing demand in 2023 and 2024. At the same time, demand for 'transport' and 'hotels and restaurants' is expected to rise with increased tourism activity and a broader range of destinations across the Kingdom.

Additionally, the new tariffs introduced by the new US administration could have an impact on global prices. Meanwhile, we do not anticipate that the recent upward adjustment in feedstock and diesel fuel prices, implemented in January 2025, will result in significant spillovers to retail prices.

**Figure 36: Solid growth in rentals for housing (year-on-year change)**



**Figure 37: Consumer price inflation is expected to remain fairly stable**





*We forecast an increase in inflation to 2.3 percent in 2025 and a moderation to 2.1 percent in 2026.*

*In 2026, the non-oil economy is expected to continue its robust growth trajectory.*

*A number of external risks and domestic challenges persist.*

*The sovereign balance sheet remains a source of strength in the face of shocks.*

Given these trends, we forecast an increase in inflation to 2.3 percent in 2025 and a moderation to 2.1 percent in 2026 (Figure 37).

## The Outlook for 2026

In 2026, the non-oil economy is expected to continue its robust growth trajectory, supported by multiple drivers of economic activity and the Kingdom's focus on delivering Vision 2030 goals.

Strong demand for local goods and services from businesses, residents and tourists will support economic momentum. The local market will benefit from increased consumption, which will be further supported by larger project activity, particularly in infrastructure, construction, and real estate sectors. Moreover, tourism should see more expansion, fueled by global events and cultural developments. This upward trend in visitors will stimulate demand across hospitality, entertainment, retail, and transportation sectors, further diversifying and strengthening the local economy.

While the domestic fundamentals are strong, there are a number of risks to the outlook, including the evolution of oil prices, the potential for protectionist policies to disrupt global trade, higher-for-even-longer interest rates, a sharper slowdown in China's economy and geopolitical events. Implementing such a large pipeline of investments and projects will also present logistical and financial challenges along the way.

That said, the Saudi economy remains well positioned to weather external shocks including softness in oil markets, given the strong sovereign balance sheet, the financial strengths of other key entities, such as the PIF and NDF, and the ongoing reform and investment drive across the economy.



## Key Data

	2018	2019	2020	2021	2022	2023	2024E	2025F	2026F
<b>Nominal GDP</b>									
(SR billion)	3,175	3,145	2,754	3,278	4,157	4,003	4,069	4,187	4,411
(\$ billion)	847	839	734	874	1,109	1,068	1,085	1,117	1,176
(% change)	18.4	-0.9	-12.4	19.1	26.8	-3.7	1.6	2.9	5.3
<b>Real GDP (% change)</b>									
Oil	2.2	-3.3	-6.9	1.2	15.0	-9.0	-4.5	2.6	4.0
Non-oil activities	-2.6	3.7	-2.9	7.4	5.6	4.4	4.3	4.4	4.5
Government activities	3.9	1.7	-0.6	1.1	4.6	2.1	2.6	2.0	2.2
Total	3.2	1.1	-3.6	5.1	7.5	-0.8	1.3	3.7	3.9
<b>Oil indicators (average)</b>									
Brent (\$/b)	71	66	42	71	104	84	80	75	75
Production (million b/d)	10.3	9.8	9.2	9.1	10.6	9.6	9.0	9.2	9.6
<b>Budgetary indicators (SR billion)</b>									
Government revenue	906	927	782	965	1,268	1,212	1259	1190	1234
Government expenditure	1,079	1,059	1,076	1,039	1,164	1,293	1,375	1,317	1,367
Budget balance	-174	-133	-294	-73	104	-81	-116	-127	-133
(% GDP)	-5.5	-4.2	-10.7	-2.2	2.5	-2.0	-2.8	-3.0	-3.0
Gross public debt	560	678	854	938	990	1,050	1,216	1,343	1,476
(% GDP)	17.6	21.6	31.0	28.6	23.8	26.2	29.9	32.1	33.5
<b>Monetary indicators</b>									
Inflation (% change, average)	2.5	-2.1	3.4	3.1	2.5	2.3	1.7	2.3	2.1
SAMA Repo (%, year end)	3.0	2.25	1.00	1.00	5.00	6.00	5.00	4.75	4.25
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	232	200	119	202	327	247	220	210	217
Total export revenues	294	261	172	275	410	319	300	297	311
Imports	123	138	125	136	171	185	201	210	222
Trade balance	171	123	47	139	239	133	100	86	89
Current account balance	73	38	-26	41	150	35	0	-11	-10
(% GDP)	8.6	4.6	-3.5	4.6	13.6	3.3	0.0	-1.0	-0.9
Official reserve assets	497	500	454	455	460	437	436	417	410
<b>Social and demographic indicators</b>									
Population (million)	30.2	30.1	31.6	30.8	32.2	33.7	35.3	36.3	37.1
Saudi Unemployment (15+, %)	12.7	12.0	12.6	11.0	8.0	7.7	7.6	7.5	7.4
GDP per capita (\$)	28,036	27,893	23,271	28,396	34,454	31,676	30,737	30,791	31,715

Sources: General Authority for Statistics, Saudi Central Bank and Ministry of Finance. Jadwa Investment forecasts for 2025 and 2026.



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