Economic Insight

4 March 2025

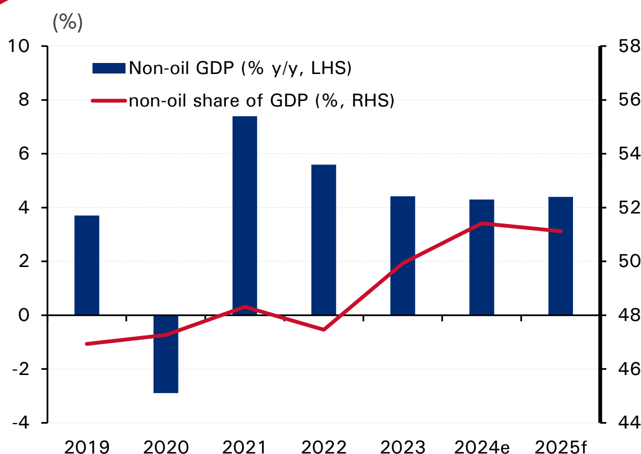
Saudi Arabia: Economic transformation progressing, growth prospects positive

Non-oil economic growth averaged an impressive 4.8% in 2021-24, driven by unprecedented government-led investment in key strategic sectors as part of the Kingdom's Vision 2030 development plan. In parallel, the government has, since 2016, embarked on a series of economic and fiscal reforms that have led to notable improvements in employment, productivity and the regulatory and business environment, facilitating the growth and diversification effort. Sustaining strong momentum in non-oil growth will depend on continued reform and domestic investment progress. Amid lower oil prices/production and elevated spending, we view the ongoing fiscal shortfalls and higher public debt as manageable for now, helped by a recalibration of project spending priorities and a larger role for the PIF in the domestic economy.

Economic transformation is underway

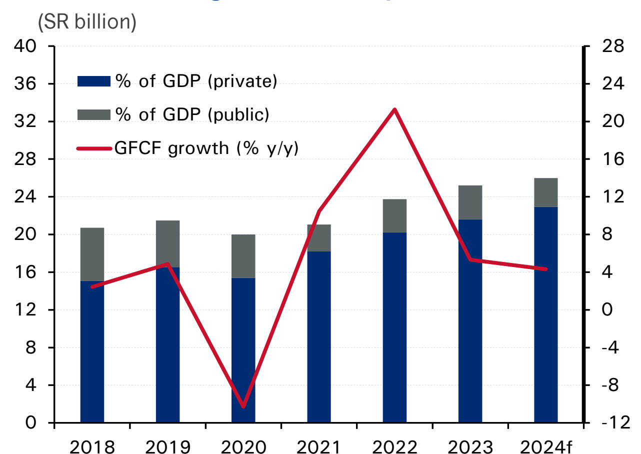
With the traditionally dominant oil sector constrained by Saudi Arabia's outsized OPEC+ production cut obligations in recent years, the non-oil economy has taken up the mantle and logged impressive growth rates. Since the Covid-19 pandemic, broader socio-economic gains have also been forthcoming. After a spell of strong growth, the non-oil sector's share of GDP reached a record high of 51% in 2024 according to official preliminary estimates. (Chart 1.) Non-oil growth was a solid 4.6% in Q4 2024, slightly higher than in the previous quarter (+4.3% y/y), pushing up growth for the full year 2024 to an estimated 4.3%. Monthly indicators, from private sector credit growth at a very robust 13% y/y in December 2024 to the purchasing managers' index (PMI) of private sector activity hitting a ten-year high in January 2025 (60.5), paint a positive picture of current conditions in the non-oil economy.

Chart 1: Real non-oil GDP



Source: Haver

Chart 2: Real gross fixed capital formation



Source: Haver

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More noteworthy, however, is the breadth of progress being made, with output gains evident across a more diverse sectoral spread than before, including the wholesale and retail trade, construction, and the manufacturing and transport sectors.

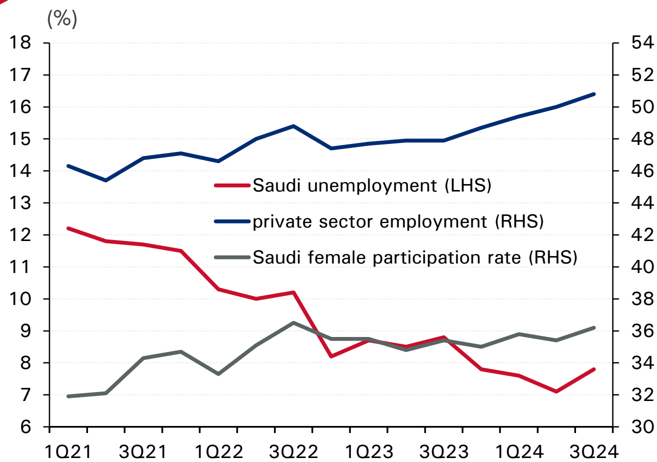
The progress has been facilitated by a significant increase in domestic investment, a testament to the authorities' efforts to grow and diversify the non-oil economy through implementation of the National Investment Strategy (NIS) since 2021 under the auspices of the broader Saudi Vision 2030. The NIS seeks to invest SR12.4 trillion ($1.3 trillion) via a combination of channels all with specific targets. These include the central government, the Public Investment Fund (PIF), the "Shareek" program for large corporates, and through foreign investors (FDI). Sectors from entertainment and tourism to transport/logistics and manufacturing have been assigned specific development targets. The results have seen real gross fixed capital formation (GFCF) rise by 12% y/y on average in 2021-2023. In 2023, its share of GDP rose to 25.2%, the highest in the available series.

The expanding non-oil productive base, coupled with the Kingdom's Saudization and female labor inclusion policies, helped push Saudi unemployment to a near record low of 7.8% by Q3 2024 and female labor force participation rates up to 36% in the same quarter – exceeding the government's 30% target. (Chart 3.) Moreover, employment of Saudi nationals in the private sector rose to 51% in Q3 2024 from 46% in 2021. Higher employment alongside the introduction of more venues and activities supported robust private consumption (averaging 6.6% y/y between 2021-2023), which, together with the surge in investment, contributed to the strong non-oil growth outcome.

Tourism receipts increasingly important for the new Saudi economy

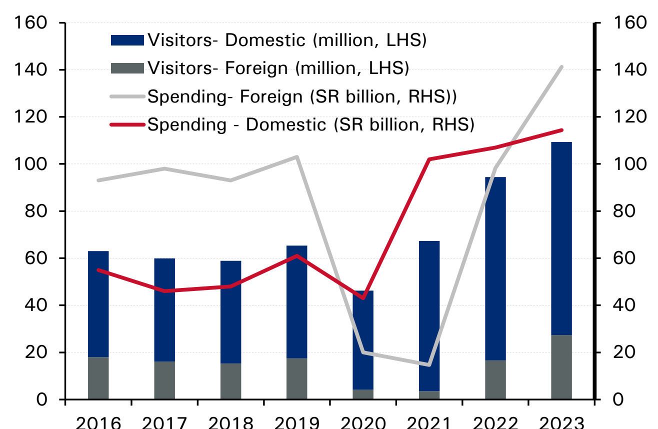
Visitor numbers witnessed impressive growth since 2020, rising from under 50 million to well above 100 million in 2023. Tourism spending increased to over SR250 billion in 2023 ($67bn), equivalent to 14% of non-oil GDP, from 7.4% in 2021, mostly from inbound tourists on the back of a concerted effort by the authorities to overhaul the sector. (Chart 4.) This includes through the establishment of a tourism development fund, improvements to the visa application process, investment in human capital, expanded air travel routes, marketing campaigns, and the hosting of sports and entertainment events, such as the Formula 1 race and international concerts. The development of natural and heritage sites, such as the Red Sea coastline, the Diriyah Gate and Al-Ula, has helped boost both domestic and inbound tourism, while continued development and modernization of the Holy sites and transport links supported further growth in religious pilgrimage, a large part of inbound tourism.

Chart 3: Labor market



Source: Haver

Chart 4: Tourism



Source: Haver

Rising tourism should continue to support growth and job creation within the wholesale and retail trade sectors. These grew by an impressive 8.3% y/y on average between 2021-2023 to become the largest contributor to non-oil GDP in 2023 at 15.3%.

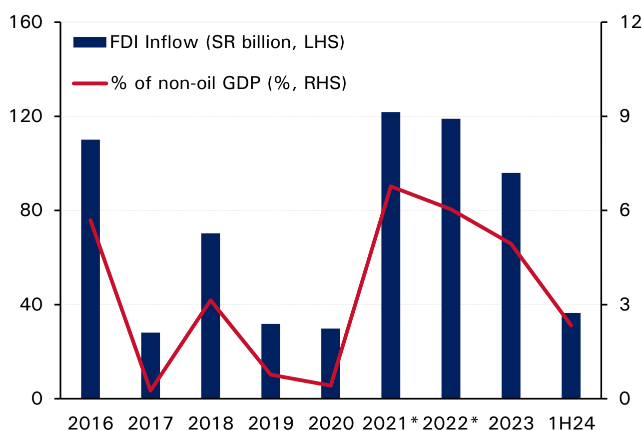
Manufacturing and mining sectors have high growth potential

Saudi manufacturing (excluding petroleum refining) accounts for about 13% of non-oil GDP after putting in a strong performance in 2022-2023 (+7% y/y on average) The sector did contract in 2023 (-0.7%) on a combination of base effects and weaker petrochemicals demand in China, the kingdom's largest trading partner, but activity in 2024 looks to have rebounded, with output growing by an average of 2.6% during the first three quarters of 2024. The outlook is positive, as the sector is expected to expand its scope beyond downstream processes such as refining and petrochemicals to industrial and military equipment manufacturing, in line with NIS objectives. Renewable energy and metals and minerals mining also hold good potential. On the latter, the government introduced a mining investment law in 2021, which allowed for the issuance of exploration licenses to prospect and develop an estimated $1.3 trillion worth of untapped natural resources. More than $9.3 billion worth of metals and mining deals were recently signed with companies such as India's Vedanta and China's Zijin Group.

Improving business environment lifts FDI

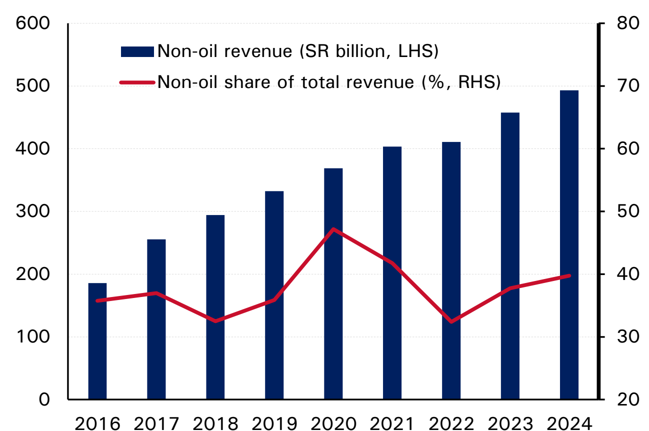
FDI inflows amounted to SAR96 billion ($25.5bn) in 2023, exceeding the NIS target of SAR83 billion ($22bn) and achieving the NIS target of 2.4% of GDP. (Chart 5.) There had been a surge in FDI inflows in 2021 and 2022 due to the exceptional Aramco pipeline deals worth $12.4 billion and $15.6 billion, respectively. Inflows in 2023 were 50% higher than in 2022 after excluding the one-off inflows from the previous year. Over the past three years, FDI inflows have nearly tripled, reaching SAR112 billion ($30bn) between 2021-2023 following the launch of the NIS. This compares to an average of SAR43 billion ($11.5bn) during the preceding three-year period (2018-2020). The government is looking to secure $100 billion (6% of GDP) in FDI per year by 2030. At the sectoral level, manufacturing has tended to be the largest FDI recipient followed by the retail/hospitality, financial services, and transportation/storage sectors. FDI has also positively responded to the various government reforms and policies, including the requirement to establish a regional headquarters in the Kingdom to capitalize on government contracts and tax relief. A new investment law (January 2024) that facilitates the issuance of commercial licenses, safeguards investors' rights and simplifies the business startup and investment process has also helped, as have advancements in digitization, including the new Etimad procurement platform, which has significantly reduced delays in payments to contractors.

Chart 5: Foreign Direct Investment



Source: Ministry of Investment; *Includes Aramco deals

Chart 6: Non-oil public revenue



Source: Ministry of Finance

Investment gains and good reform momentum

While the latest budget (2025) from the Saudi Ministry of Finance is only mildly expansionary compared to previous ones, off-budget spending is expected to rise, mainly via the PIF, which plans to increase the level of investment nearly two-fold from $40 billion to $70 billion per year as early as 2025, according to the PIF governor. In parallel, ongoing reforms aimed at enhancing the effective execution of laws, streamlining procedures and fees, raising the participation of women in the labor force, facilitating access to land and finance, and improving governance should further promote private sector expansion, draw in more FDI and support overall productivity growth. Continued investment in human capital and digitization will also be important for unlocking the potential for further productivity gains. The reforms will help ensure continued progress towards macroeconomic targets under the Vision Realization Program, some of which have already been partially (or fully) achieved, enabling the impressive economic development seen in recent years. Some notable achievements include: a near tripling of non-oil public revenues since 2016 (baseline); increasing the share of non-oil exports from 18% to 24% of non-oil GDP; raising the contribution to GDP from the digital economy, SMEs and the overall private sector; notable advances in key global rankings related to logistics, business environment, governance, and competitiveness; ramping up the issuance of licenses in promising industries; and higher investment in human capital leading to productivity gains. (Chart 6.)

Outlook positive, hinges on concerted investment drive, but downside risks evident

The overall growth outlook is positive, underpinned by a strong investment drive, reform progress, rising FDI and employment, and promising momentum in strategic sectors such as tourism, manufacturing, and transport/logistics. The government remains committed to maintaining a strong pace of investment spending, especially in the run-up to the 2027 Asian Cup, and other landmark events further out including the Expo 2030 and the FIFA World Cup in 2034. Against this background, we expect non-oil economic growth to remain robust at above 4% in 2025 from an estimated 4.3% in 2024.

In terms of downside risks, the threat of lower oil prices is the predominant one, and this would most likely reflect economic weakness in developing economies, especially China's given its importance as the engine for global oil demand growth. Lower oil revenues would stretch the government's fiscal position (it projects a deficit of SAR101 billion or $27 billion for 2025), potentially leading to a scaling back of key projects and the pace of investment. This said, a sharp spending slowdown seems unlikely given alternate funding channels and still good financial space due to the involvement of a well-capitalized sovereign wealth fund, adequate reserves and relatively low debt-to-GDP. Another risk is a slower than expected pace of US interest rate cuts limiting rate cuts in Saudi as well, given the currency peg system, hitting potential growth in private spending, credit, the mortgage market and homebuilding. Finally, restrictive US tariff policies – the extent of which is still uncertain – could lead to higher imported inflation, weighing down on real growth.

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