



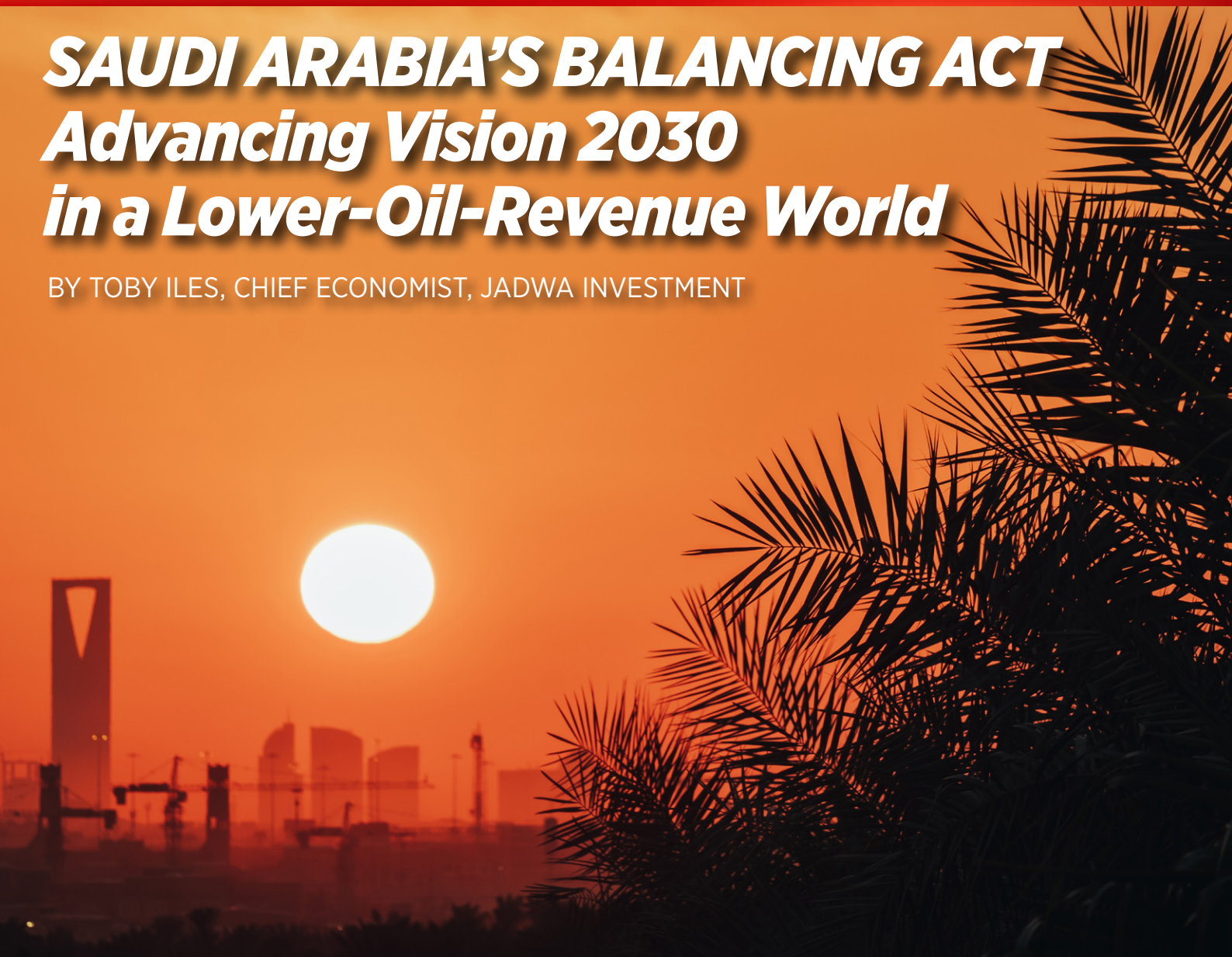
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SAUDI ARABIA'S BALANCING ACT Advancing Vision 2030 in a Lower-Oil-Revenue World

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With oil prices hovering near \$65 and fiscal pressures mounting, Saudi Arabia faces its most critical test yet: can Vision 2030 stay on track when the cash cushion that once powered transformation begins to thin?



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Saudi Arabia's bold Vision 2030 blueprint was never meant to be easy. But as oil revenues soften and fiscal space narrows, the Kingdom's challenge is shifting from vision to execution. What stands out in 2026 is not retreat but recalibration—a measured attempt to sustain diversification and modernization without losing macroeconomic discipline.

The non-oil economy remains resilient, expanding by around 4.5 percent annually even as hydrocarbons weaken. Growth stems from tourism, logistics, and infrastructure—proof that structural reform is bearing fruit. Yet hydrocarbons still underpin half the budget, and non-oil exports, though rising from 15 to 25 percent of GDP, remain below the 2030 target of 50 percent.

The government's \$1.3 trillion spending plan signals both caution and commitment. It aims to stabilize deficits around 5 percent of GDP while preserving essential investment. This counter-cyclical posture—continuing to build while oil prices dip—marks a cultural shift from the boom-bust fiscal cycles of past decades. But if Brent sinks below \$55, cuts will be inevitable.

At the center of Saudi Arabia's diversification engine stands the Public Investment Fund, now managing over 200 companies. Initially conceived as a catalyst, the

PIF risks overextension as it evolves into operator and financier. The next phase will require asset recycling, deeper private co-investment, and new capital market instruments to sustain growth without over-reliance on oil-linked dividends.

Yet Vision 2030's true success will hinge less on megaprojects and more on mindsets. Transforming education, cultivating innovation, and incentivizing risk-taking are now the Kingdom's greatest frontiers. The private sector must evolve from dependency on state contracts toward self-sustaining entrepreneurship and globally competitive productivity.

Meanwhile, foreign direct investment is gaining traction in power, tourism, and non-oil manufacturing, reflecting growing investor confidence. Project cost inflation has eased as timelines recalibrate, and Saudi Arabia's debt-to-GDP ratio—barely 30 percent—offers a valuable cushion.

In a lower-oil world, Riyadh's playbook is becoming more sophisticated: spend wisely, borrow prudently, reform relentlessly. Vision 2030's trajectory will ultimately depend less on the price of oil and more on the price of complacency. The transformation has begun—its endurance will be measured in the Kingdom's ability to innovate its way beyond oil. ■

Top 10 Takeaways

1. Sustained Non-Oil Growth Remains the Engine of Diversification

Saudi Arabia's non-oil economy continues expanding at roughly 4–4.5 percent annually, despite fiscal tightening and lower oil income. Growth stems from reforms, infrastructure investment, and the rapid build-out of tourism, transport, and logistics. This steady performance demonstrates the emerging strength of non-oil sectors that are essential to Vision 2030's structural transformation goals.

2. Fiscal Discipline Is Tightening as Oil Averages \$65 per Barrel

The 2026 budget assumes around \$65 Brent, implying only modest spending reductions but maintaining historically high expenditure levels of roughly SAR 1.3 trillion. Riyadh's approach balances consolidation with continuity—accepting small deficits near 5 percent of GDP to preserve Vision 2030 momentum while signaling prudence to investors and credit-rating agencies.

3. Counter-Cyclical Spending Replaces Boom-Bust Cycles

Rather than cutting expenditure whenever oil prices fall, the kingdom now aims for counter-cyclical budgeting—maintaining infrastructure and social-development investment to smooth economic volatility. Yet, should prices sink below \$55 Brent, policymakers will likely trim spending to safeguard fiscal credibility, foreign-reserve stability, and the riyal's longstanding currency peg.

4. Vision 2030 Metrics Show Progress but Ongoing Oil Dependence

Non-oil exports have risen from about 15 percent to 25 percent of GDP, and non-oil revenues now account for nearly 40 percent of budget receipts. However, hydrocarbons still finance over half of public spending. Diversification is advancing but remains incomplete, highlighting the need for continued reform to meet Vision 2030's ambitious targets.

5. The Public Investment Fund Is a Catalyst—but Needs Refinancing

The PIF's 200 plus portfolio companies span giga-projects, utilities, and industrial services, making it a linchpin of the non-oil economy. Yet its dual role as investor and operator creates funding strain. Sustained progress requires recycling mature assets, encouraging private co-investment, and expanding new financing sources beyond Aramco dividends to maintain growth under lower oil revenues.

6. Private-Sector Transformation and Education Reform Are Crucial

The next phase of Vision 2030 depends less on government spending and more on human capital and innovation. Saudi firms must evolve from risk-averse family conglomerates into dynamic, investment-driven enterprises. Improving education quality, technical training, and entrepreneurial mindsets will be central to achieving long-term competitiveness and reducing dependence on state-led economic activity.

7. Credit Growth and Banking Liquidity Are Near Their Limits

Local banks have expanded lending faster than deposit growth, stretching liquidity and relying increasingly on foreign funding. To sustain private-sector finance without overheating the system, Saudi Arabia must broaden capital markets through securitization, foreign listings, and bond issuance. Financial-sector innovation is essential to fuel Vision 2030 projects amid a tighter banking environment.

8. Foreign Direct Investment Broadens Beyond Oil and Real Estate

Riyadh's FDI strategy is shifting toward construction, power, logistics, tourism, and non-oil manufacturing—especially renewable energy. Revised data show inflows approaching 2.5–3 percent of GDP, though still short of Vision 2030 targets. Sustaining progress requires regulatory clarity, investor confidence, and continued privatization of state services to anchor long-term foreign capital commitments.

9. Inflation Pressures Are Easing as Projects Re-Calibrate

After a period of sharp construction-cost inflation, the government's decision to re-sequence some mega-projects and source materials from deflationary Chinese suppliers has eased pressure on prices. This rebalancing will allow Saudi Arabia to stretch capital budgets further and protect investment continuity despite reduced oil-based revenues in the medium term.

10. Long-Term Fiscal Space and Low Debt Provide a Cushion

Public debt stands near 30 percent of GDP—low by global standards—and the economy remains asset-rich and lightly leveraged. This affords ample room to borrow for strategic projects without threatening the currency peg or ratings. Maintaining transparency and policy credibility will ensure this fiscal space continues supporting Vision 2030's transformation agenda. ■

