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**SNB Capital**

# **Saudi Arabia – A Vision Being Realized**

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**Saudi Arabia**

*A Vision Being Realized*

October 2024



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# Vision 2030

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# Vision 2030

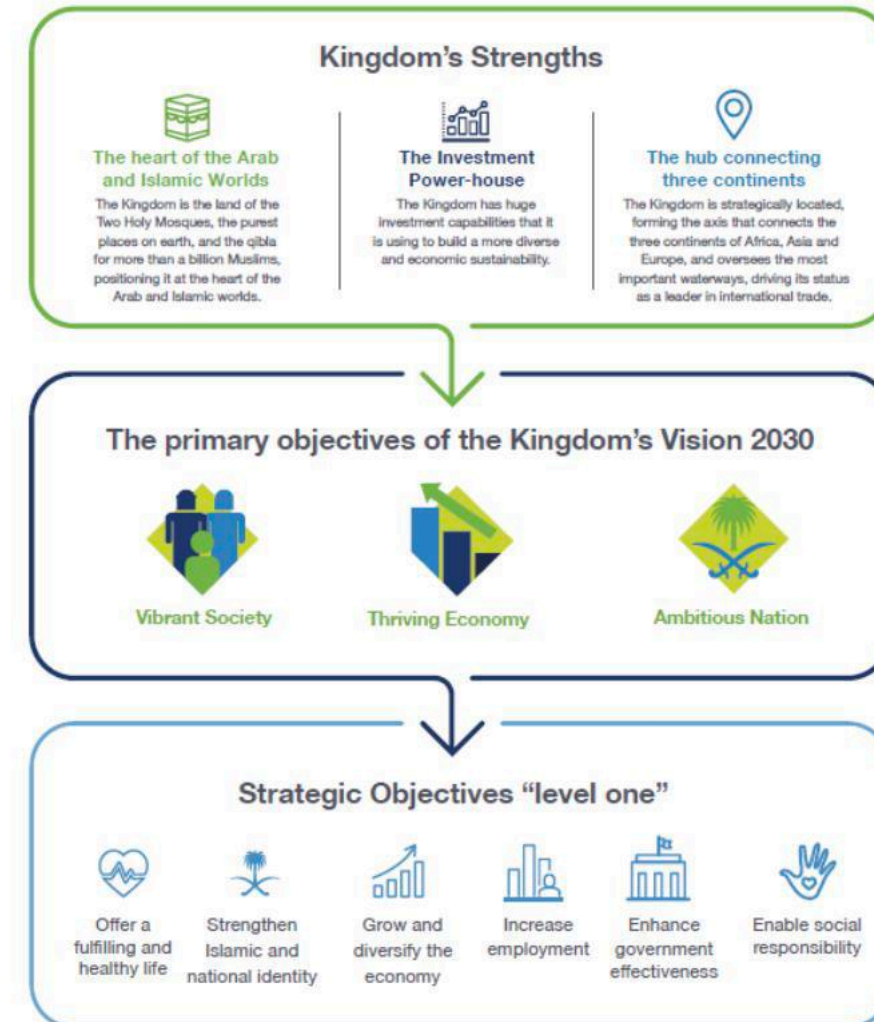
## An ambitious vision for an ambitious nation

- Vision 2030 was launched in 2016, providing a blueprint for an ambitious nation. It states Saudi's long-term goals and expectations, building on the country's strengths and capabilities. The Vision is built on three pillars; a vibrant society, a thriving economy and an ambitious nation
- **A Vibrant Society:** to enable citizens and businesses to unleash their potential, while strengthening Islamic values and national identity
- **A Thriving Economy:** key goals include growing and diversifying the economy and increase employment
- **An Ambitious Nation:** enhancing government effectiveness and enable social responsibility are the main goals of this pillar

## Some key milestones/achievements

- **Housing:** Targeting to reach 70% from c64% in 2023 and compared to c62% in 2020
- **Technology:** The country rose in the global ranking of internet infrastructure to be among the top 10
- **Tourism:** Reaching 100mn visitors and USD77bn (SAR289bn) in total tourism spending with plans to exceed 150mn in the coming period

## Key highlights



# Vision Realization Programs (VRPs)

The Vision Programs were designed to translate the Vision into action. Below we highlight selected programs



## Public Investment Fund Program

The Public Investment Fund program drives economic diversification in Saudi Arabia through strategic international and domestic investments.



## Human Capability Development Program

The Program aims to empower citizens and elevate their global competitiveness.



## Privatization Program

The Program aims to strengthen the role of the private sector by unlocking state-owned assets for investment. Privatizing selected government services will improve the quality of services and reduce overall costs.



## Housing Program

The Housing Program provides housing solutions that meet the needs and aspirations of Saudi families, with a focus on sustainability and technology.



## Quality Of Life Program

The Program aims to enable culture, entertainment, sports and tourism to flourish in Saudi Arabia, delivering enriched and better lives for all.



## National Industrial Development and Logistics Program

The National Industrial Development and Logistics Program (NIDLP) focuses on transforming Saudi Arabia into an Industrial Powerhouse and a global logistics hub by leveraging the resources of sectors like Mining and Energy and focusing on the development of local content as well as Industry



## Financial Sector Development Program

The program plays a crucial role in shaping the future of Saudi's financial sector to promote income diversification, boost savings, and offer various financing & investment opportunities. By creating a strong, dynamic, and stable sector, the Program is driving economic growth & diversification in Saudi.



## Health Sector Transformation Program

To restructure the health sector in Saudi to be a comprehensive, effective and integrated health system that is based on the health of the individual and society and depends on the principle of value-based care.



## Pilgrims Experience Program

The Program aims to provides pilgrims with world-class facilities, improved infrastructure and digitized services to ensure each individual is blessed with a distinguished spiritual experience they never forget.





# Selected Major Projects in Saudi Arabia



نيوم NEOM

## NEOM

An economic zone located in the Northwest with an estimated cost of USD500bn (SAR1.9tn) and its first phase is expected to be completed by 2025f. Several projects were launched including, The Line and OXAGON



AMAALA

## Amaala

A luxury tourism destination located in the North- West. The project's first phase is expected to be completed by mid 2024f, consisting of six hotels. The project is expected to be completed by 2027f with 3,000 rooms and 25 hotels



## Red Sea Project

A luxury tourism destination located in the western region. The Red Sea opened its first resort in 2023, it will continue opening the 16 resorts of its first phase over 2024f/2025f. By 2030f, 22 islands, 48 hotels, 6 inland sites and 8,000 rooms will be developed



وسط جدة JEDDAH CENTRAL

## Central Jeddah Project

A tourism destination located Jeddah. The first phase is expected to be completed in 2027f, while the second and third phases in 2030 and beyond 2030f. The project has a total value of USD20bn (SAR75bn)



ROSHN

## ROSHN

Backed by PIF, The goal of the project is to create a modern and vibrant community that promotes a high quality of life for its residents. ROSHN launched 2 new project: ALAROUS and WAREFA



## Diriyah Gate

Diriyah aims to transform into an international lifestyle destination for culture, heritage, hospitality, retail and education. The project is expected to have 27mn visitors by 2030f



## Al Qiddiya

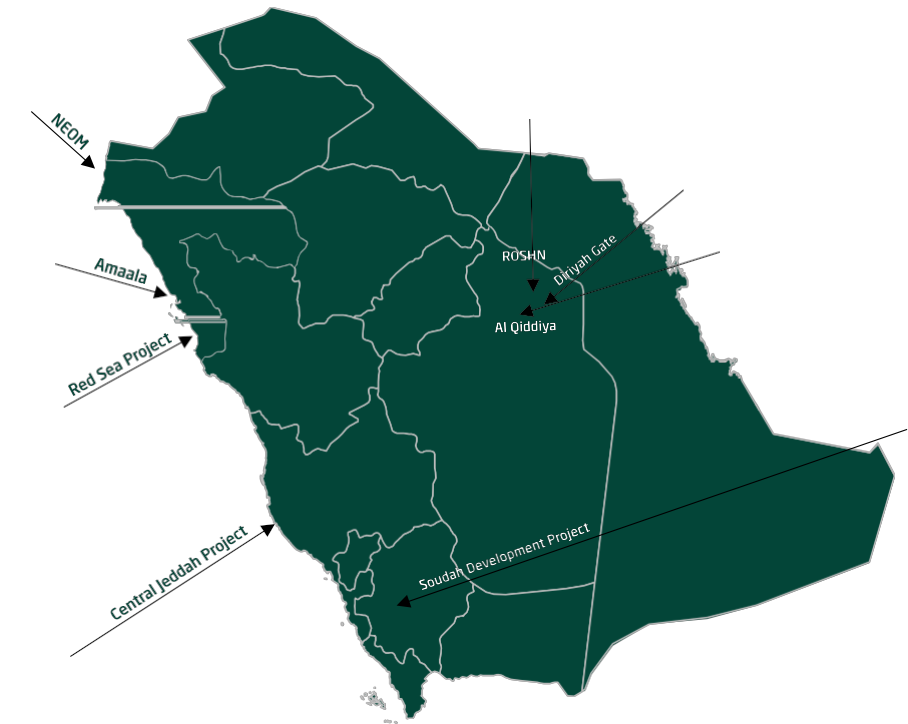
An entertainment project located in the central region with a total area of 320,000 sqm. Launched in 2019, Qiddiya revealed the launch of Dragon Ball theme park. The project announced a USD1bn (SAR3.75bn) contract to construct Six Flags Qiddiya theme park



السودة للتطوير Soudah Development

## Soudah Development Project

A tourism destination located in Asir region. The first phase is expected to be completed in 2027f. The total value of the project is expected to be cSAR11bn. Over SAR3bn will be committed to upgrading local infrastructure

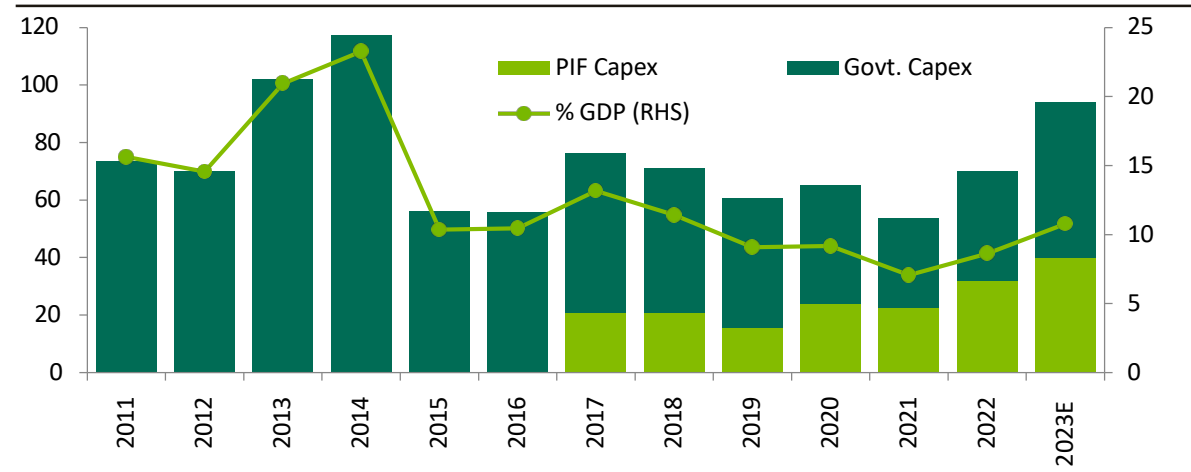


Saudi Arabia Map V2030 Mega Project

## Anchoring local investments

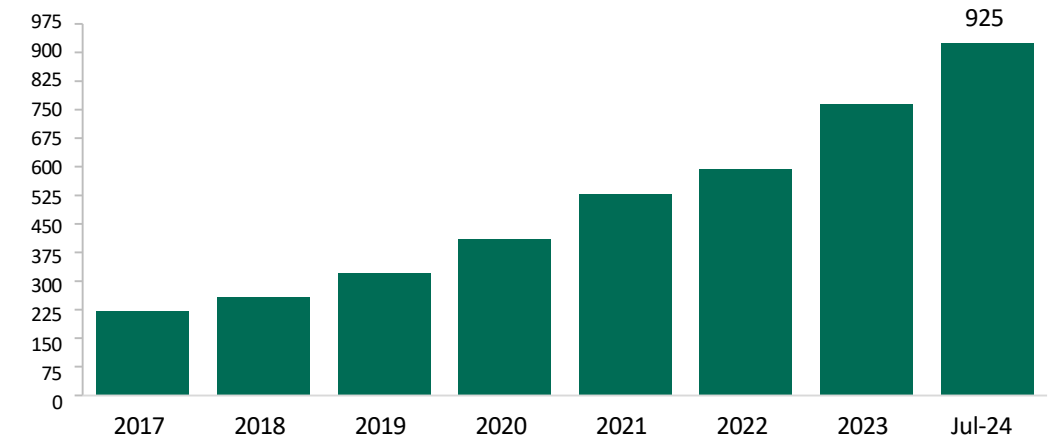
1. PIF supports the development of the local economy: aims to expand its portfolio of international assets, alongside maximizing sustainable returns for the national economy.
2. The size of the fund has risen by 315% since 2017 to reach USD925 billion in mid-2024.
3. The PIF VRP aims to local sectors by identifying and nurturing 13 strategic sectors critical to the domestic market and prioritizing five mega-projects' development.
4. Targeted annual average investment of SAR150 billion (USD40billion) in local economy.
5. Rising PIF local capital injections has anchored local investments and contributed to diversifying the Saudi economy.

## Government & PIF Capital Expenditure (USD Billions) & % of GDP



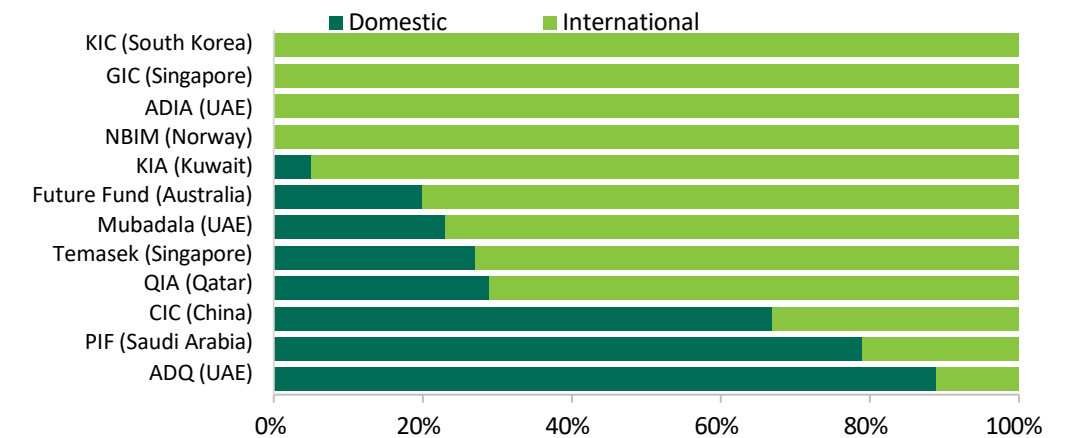
Source: SAMA, PIF, Gastat, SPA, SNB Economics

## Growth in Assets (USD Billions)



Source: PIF, SNB Economics

## Investment Distribution of Sovereign Wealth Funds (%)



Source: Global SWF, IMF SNB Economics

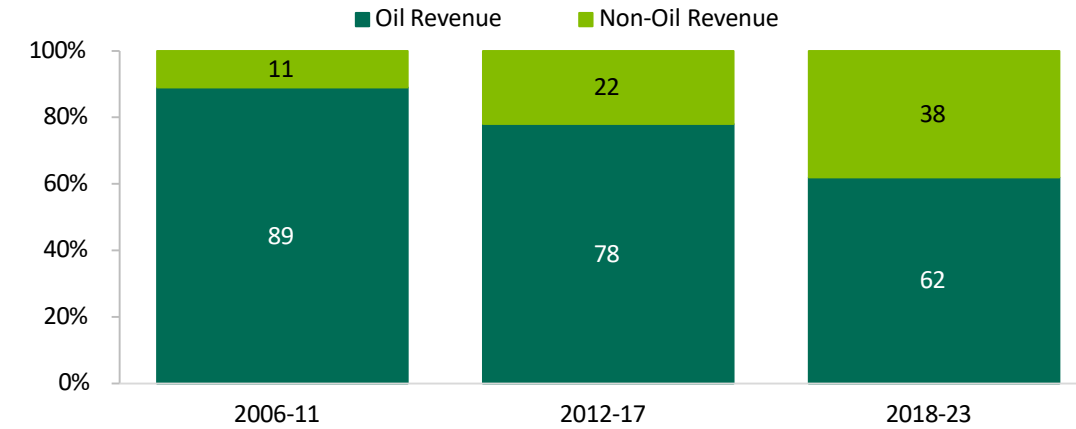
# Macro Overview & Outlook

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## Visible progress on three different macro indicators

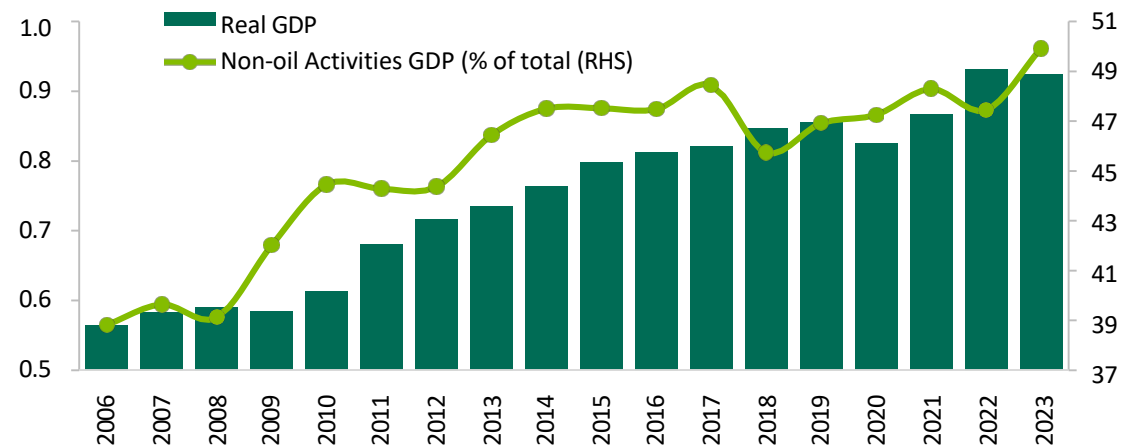
1. Non-oil revenue making up larger share of total revenue.
2. Rise in non-oil revenue due to implementation of value added tax, energy price reform, excise tax, amongst others.
3. Non-oil sector growth has outstripped headline economic growth and has resulted in this segment making up 50% of total GDP in 2023.
4. Non-oil growth has been broad based over the last five years, but more visible growth seen in tourism & hospitality, and financial sectors.
5. Efforts to raise non-oil exports have also resulted in visible progress in lifting the share in total exports.
6. Localization efforts, such as Saudi Made program.
7. Investing and building up local infrastructure in a number of sectors.

## Government Revenue by Type (% of Total Revenue)



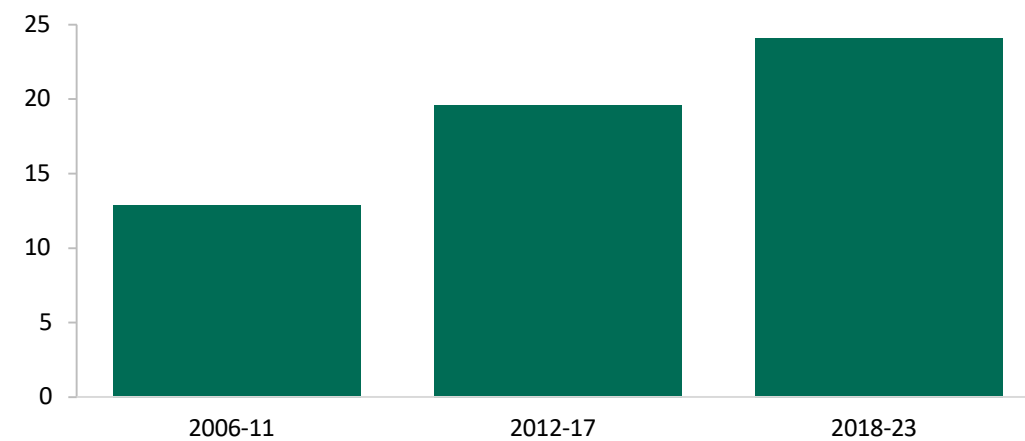
Source: SAMA, SNB Economics

## Real GDP (USD Trillion) and Non-Oil Activities GDP as % of Total



Source: Gastat, SNB Economics

## Non-Oil Exports as a % of Total Exports



Source: Gastat, SNB Economics

## Sustainable public finance

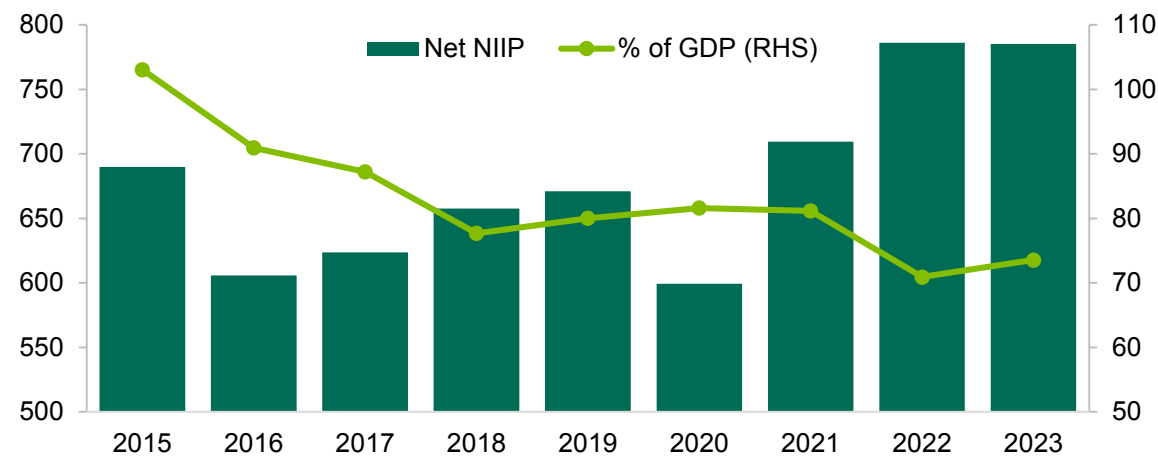
1. Saudi Arabia has been assigned the following credit ratings: A1 (positive outlook) by Moody's and A+ (stable outlook) by Fitch.
2. In September 2024, S&P (unsolicited) affirmed Saudi Arabia's credit rating of A/A1 but with outlook upgraded to positive which reflected the wide-ranging reforms and investments as underpinning development of the non-oil economy while upholding sustainable public finances.
3. The external balance sheet remains very strong (at 73.5% of GDP in 2023) mitigating against vulnerabilities from global and regional shocks and oil price volatility.
4. Public debt remains at lower end of G20 scale at 26.2% GDP in 2023, and is not expected to exceed 30% GDP over medium-term, despite anticipated fiscal deficits of 2-3% over the same period.

## Saudi Arabia's Ratings

Ratings		Outlook
S&P	A/A1	Positive
Fitch	A+	Stable
Moody's	A-1	Positive

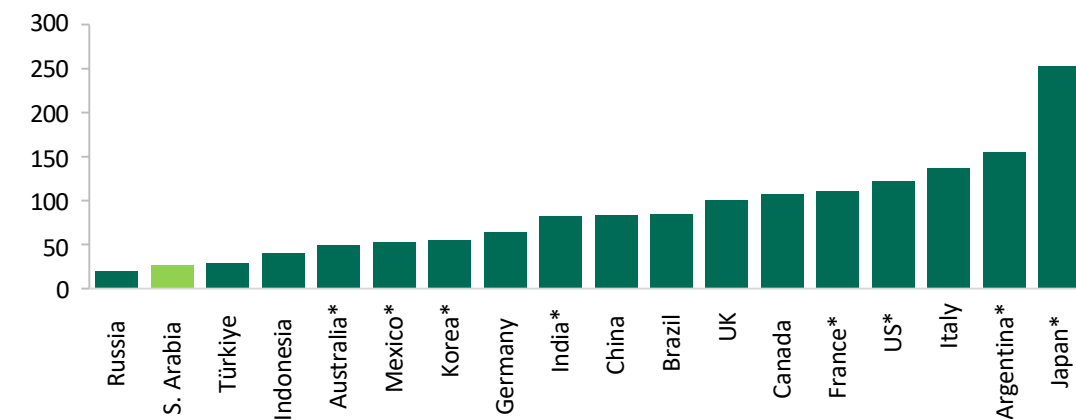
Source: S&P, Moody's, Fitch, SNB Economics

## Net International Investment Position (USD Billions/% of GDP)



Source: SAMA, SNB Economics

## G20 Public Debt to GDP %



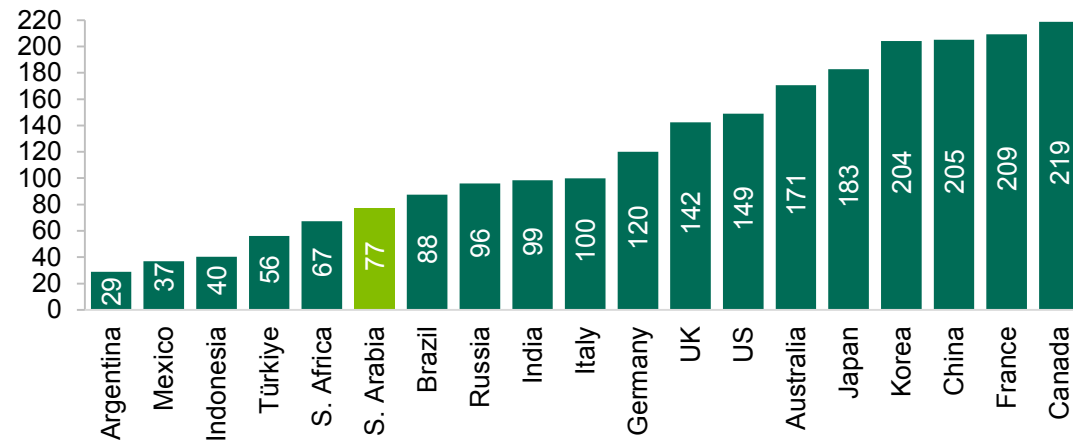
Source: IMF, SNB Economics (\*denotes 2022 data)

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## Investment to continue driving economy and diversification

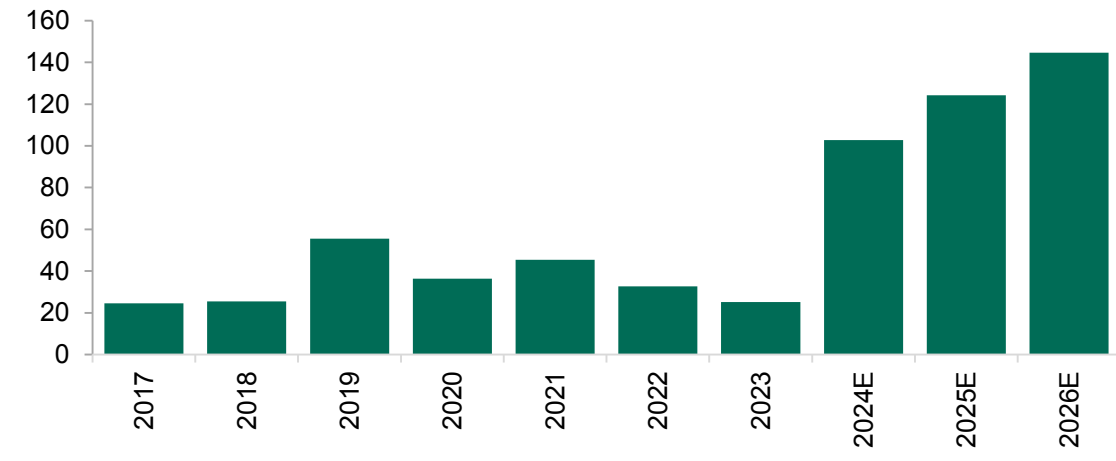
- Investments will be sustained in the lead up to a number of events such as 2027 Asian Cup, 2029 Asian Winter games, and 2030 World Expo. In FY2024, a total project value of USD103 billion are expected to be completed, and expected to rise in each year after in the near term.
- Ramp up in investment local economy will be anchored by a rise PIF capital injections from USD40billion to USD70 billion per annum from 2025 onwards.
- The National Investment Strategy (NIS) serves as a comprehensive framework for Saudi Arabia's commitment to pursuing large and more efficient investments that enhance the competitive business environment. One NIS target is net foreign direct investment of 5.7% of GDP by 2030.
- Ample headroom for growth in private sector financing to fuel continued diversification efforts, with credit penetration on the lower end of the scale compared to most G20 countries.

## Bank Credit to the Private Non-Financial Sector (% of GDP)



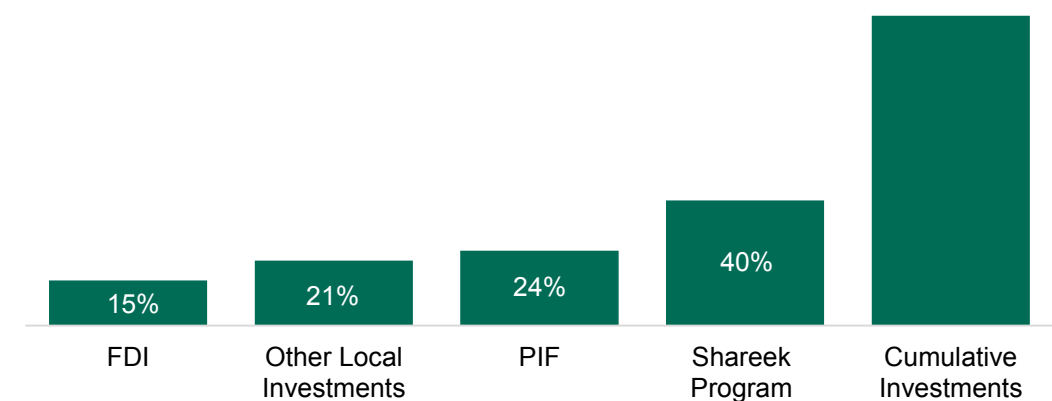
Source: BIS (as of Q1 2024), SNB Economics

## Actual and Expected Value of Completed Projects by Year (USD Billion)



Source: MEED, SNB Economics

## Targeted Cumulative Gross Fixed Capital Formation Under the National Investment Strategy (2021-30)



Source: NIS, SNB Economics

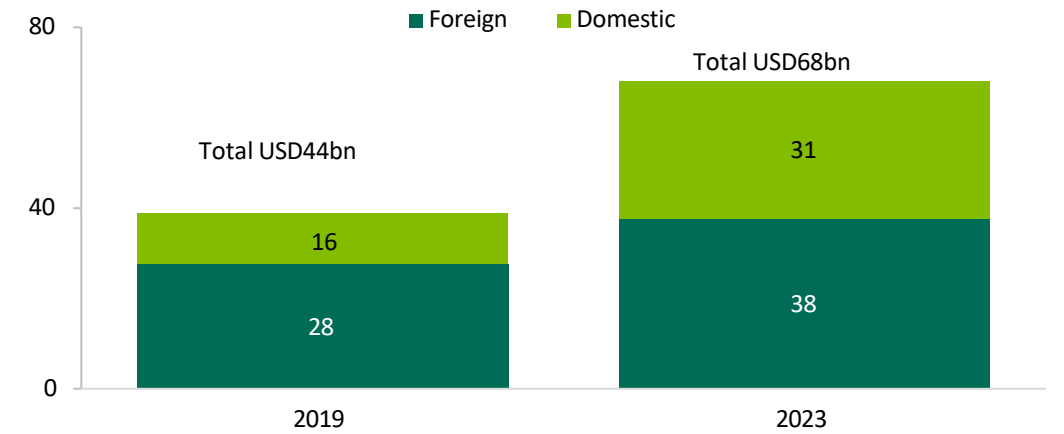
# Sector Focus

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## Sustained growth post COVID-19

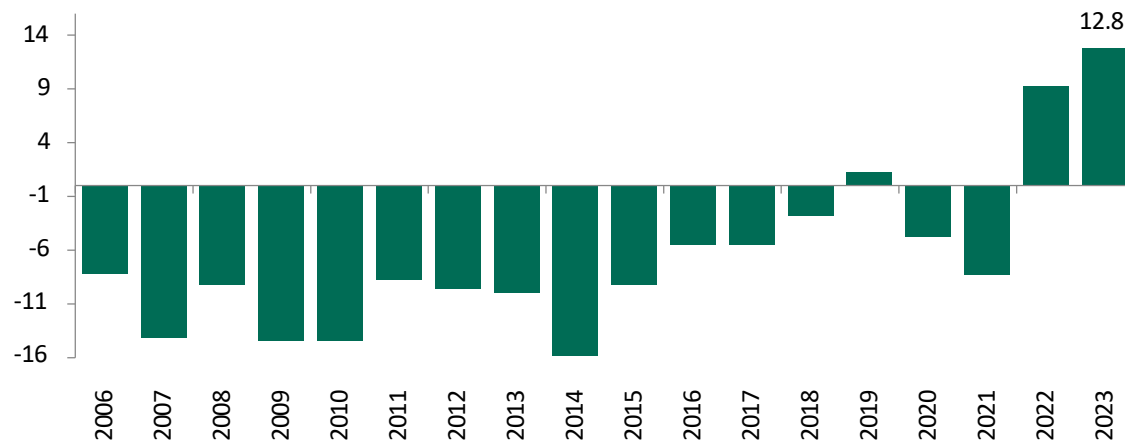
1. The tourism industry, which is seen as a key area of focus for Vision 2030, has had record high visitor numbers, spending, employment growth, and GDP contribution (to 4.4% of GDP in 2023 versus 3.6% in 2019).
2. In 2023, the annual total number of visitors exceeded the 100 million target set forth in Vision 2030.
3. In contrast to significant past deficits, especially between 2010 and 2015, annual net travel service moved into a surplus in 2022 and grew by 38% to USD12.8 billion in 2023.
4. This has led to a shift in higher services expenditure as indicated by spending via point-of-sale (POS) terminals on services making up 48% of the total POS spend in FY2023, versus 40% in FY2017.

## Tourism Spend (USD Billion)



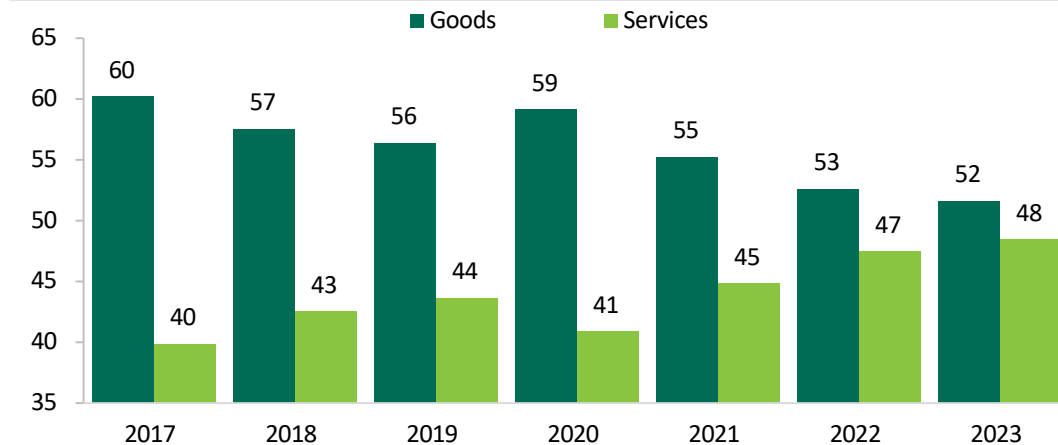
Source: Ministry of Tourism, SNB Economics

## Net Travel Flows (USD Billions)



Source: SAMA, SNB Economics

## Point of Sales Expenditure: Goods versus Services (%)



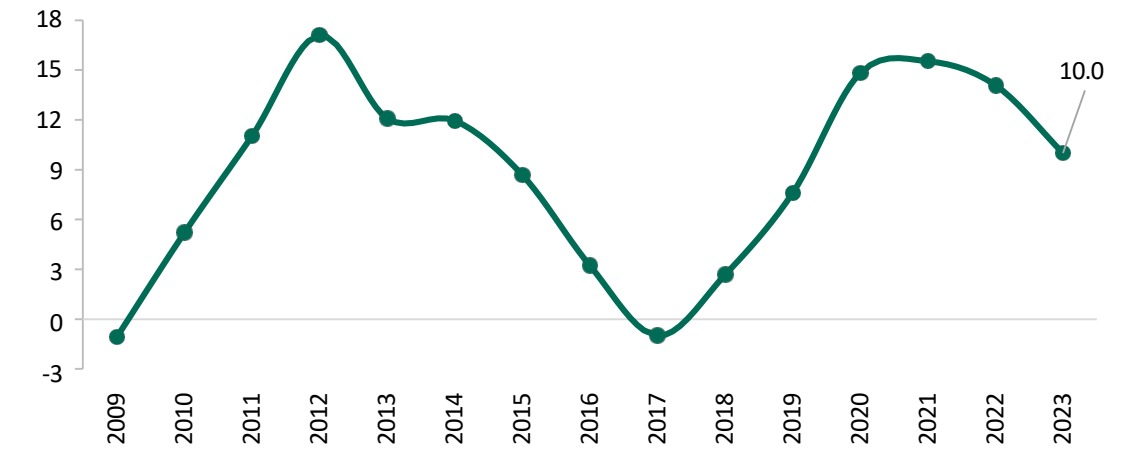
Source: SAMA, SNB Economics



## Home ownership rising

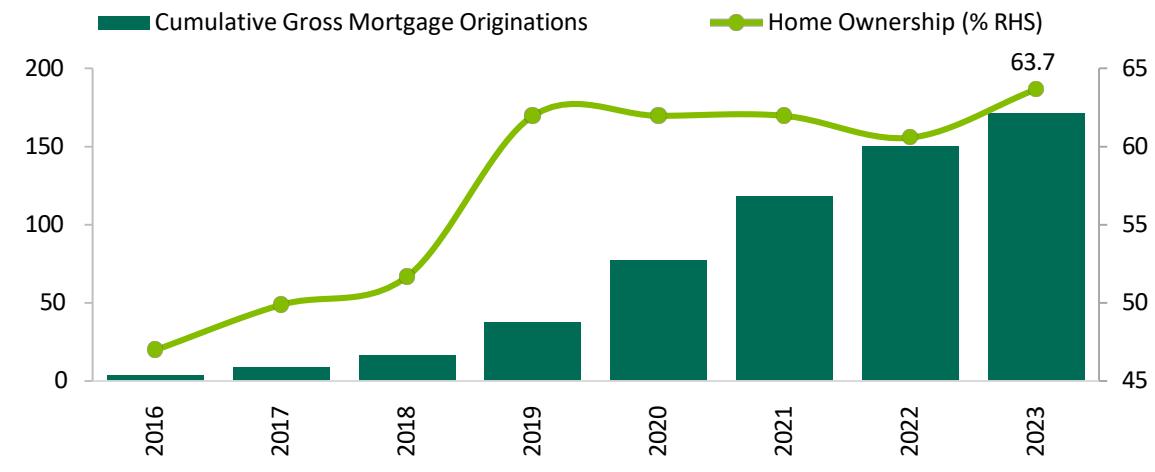
1. Bank credit has grown at a sizable pace since 2017 to reach USD688 billion by the end of 2023.
2. The main proponent of growth of the last five years has been mortgage loans, with gross mortgage originations growing 18x since 2017 to USD170 billion.
3. Efforts to raise homeownership levels under the Housing VRP have sustained momentum in mortgage lending, with ownership up 17 percentage points since 2016.
4. Efforts to raise the contribution of SMEs to overall GDP has seen the banking sector continue to support SMEs, with credit growing consistently over the last few years, making up 8.4% of total bank credit facilities at the end of 2023, versus 5.8% in 2018.

## Bank Credit (% Growth Y/Y)



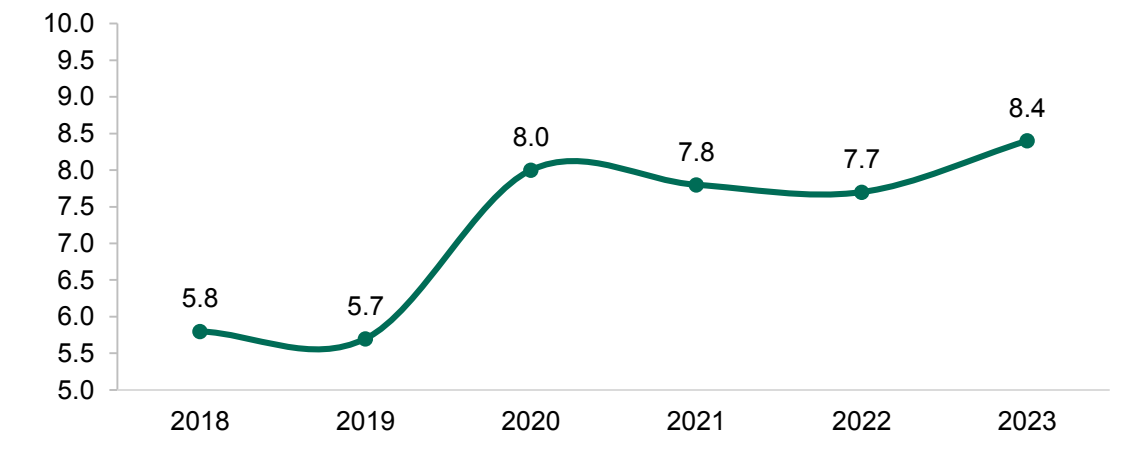
Source: SAMA, SNB Economics

## Gross Mortgage Originations (USD Billions) & Home Ownership Levels (%)



Source: SAMA, SNB Economics

## Bank Credit Provided to SMEs (% of Total Credit)

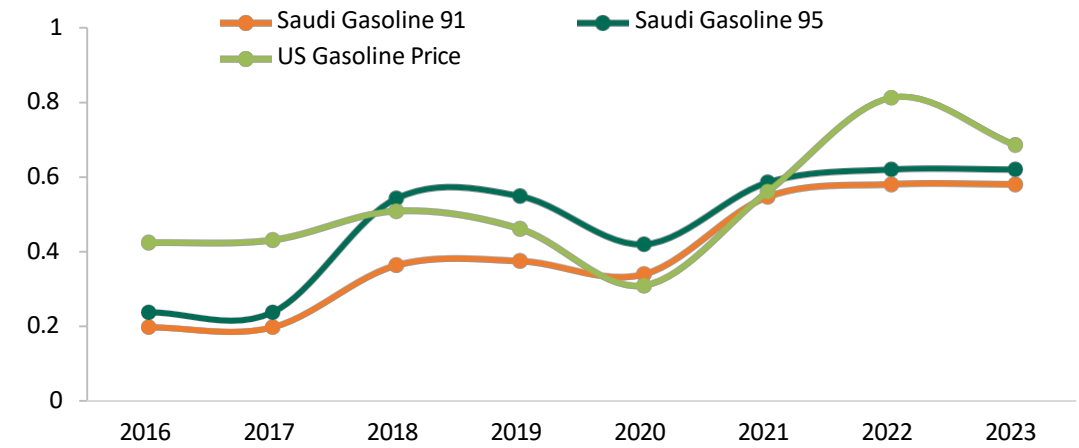


Source: SAMA, SNB Economics

## Efforts to diversify domestic energy sources

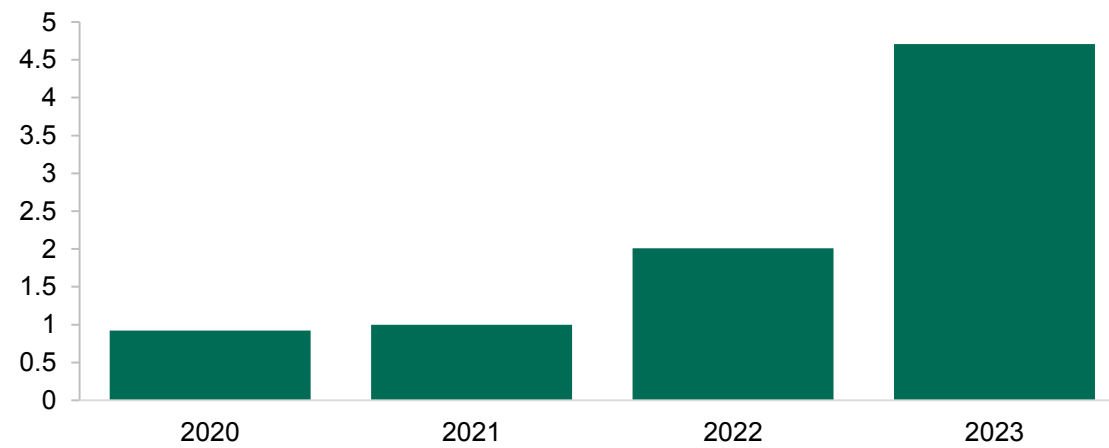
1. Since 2016, a number of measures have been taken to reform domestic energy prices (diesel, gasoline, electricity, natural gas etc.).
2. Plan to reduce domestic liquid energy consumption, especially in the generation of electricity.
3. Saudi Arabia has extremely ambitious goals to boost renewable capacity through its National Renewable Energy Program (NREP) to 100-130GW by 2030.
4. Investment ongoing in natural gas, which has seen rise in output over the last few years.
5. Jafurah is the largest planned unconventional development in the Middle East, and will help raise gas output by 60% in 2030 (versus 2021).

## Comparative Gasoline Prices (USD per Liter)



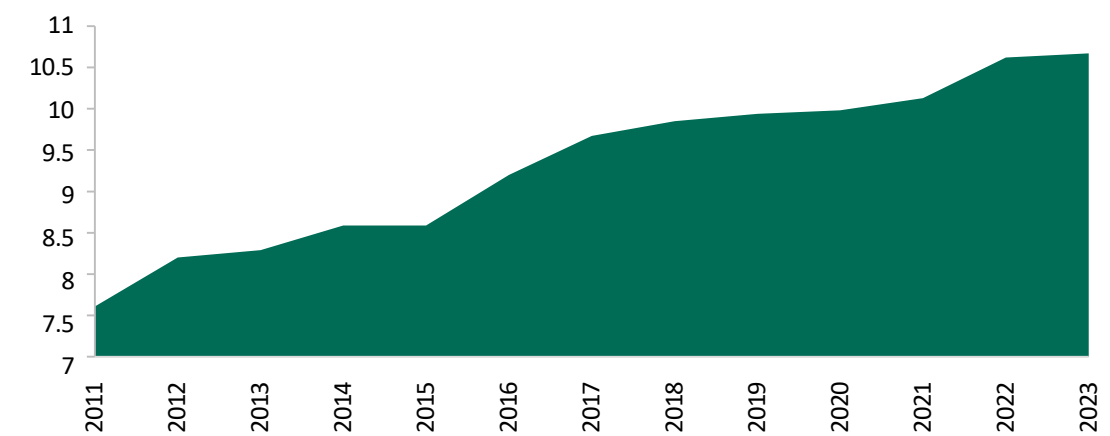
Source: Aramco, EIA, SNB Economics

## Electricity Generation From Renewable Resources (TWh)



Source: Saudi Electricity Company, SNB Economics

## Natural Gas Output (Billion Cubic Feet Per Day)

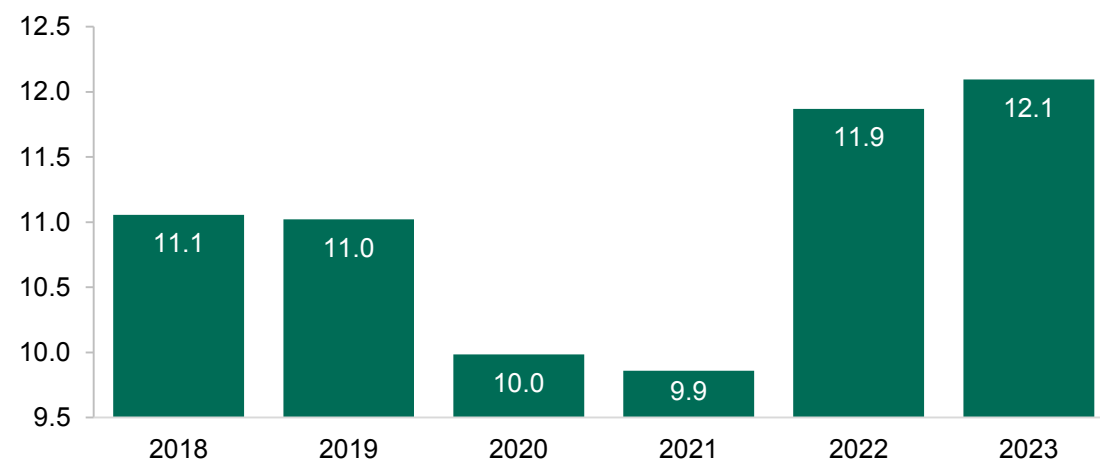


Source: Aramco, MEES, SNB Economics

## Demographics require rising level of healthcare

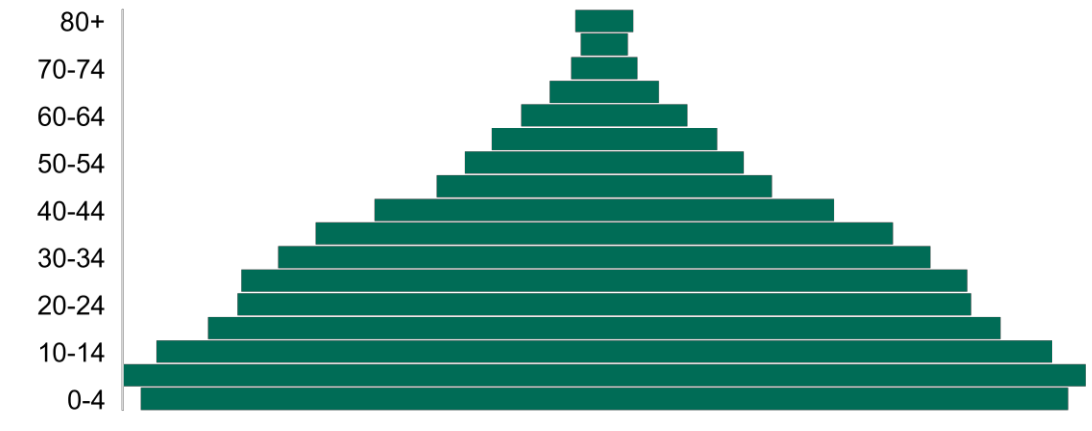
1. Higher life expectancy and 70% of the Saudi population below 40 years old means rise in healthcare demand expected over medium to longer term.
2. The government has traditionally acted as a regulator, funder, and service provider in the healthcare space. The implementation of the Health Sector Transformation Program in 2021 aims to transition government's role to regulator, and for the private sector to be a larger service provider.
3. Earlier examples of efforts to raise private sector participation included the introduction of mandatory healthcare insurance, resulting in a sizable jump in policies.
4. Other initiatives have included the approval of a privatization law to encourage private sector investment in the healthcare sector, in a bid to raise the sectors share to overall healthcare provisions, such as hospital beds.

## Number of Private Sector Health Insurance Policies (Million)



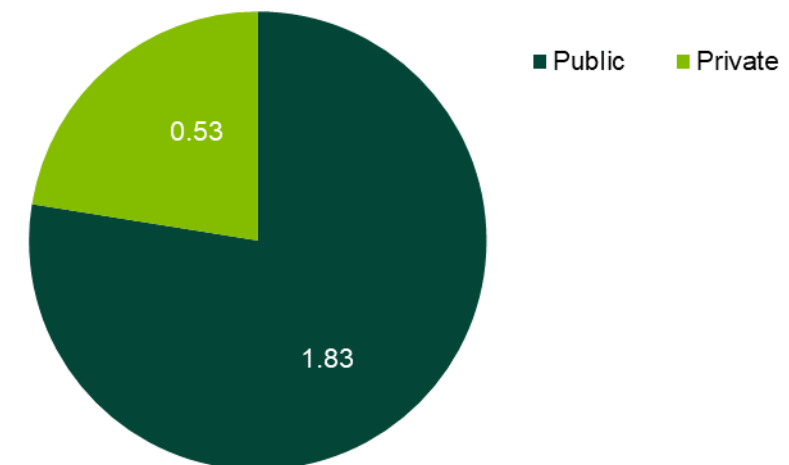
Source: Gastat, SNB Economics

## Population Pyramid 2022



Source: Gastat, SNB Economics

## Provision of Hospital Beds by Sector (2023:total 2.36 per 1,000 inhabitants)



Source: Ministry of Health, SNB Economics

## GDP

GDP was dragged down to -0.8% in 2023 due to OPEC+ policy and voluntary oil production moderation. Headline growth should rebound to an average of 3.0% between 2024-26, with a majority of the contribution to growth coming from non-oil GDP activity.

## Non-Oil GDP

Non-oil GDP grew by 4.4% in 2023 and is expected to remain at similar levels during 2024-26, driven by higher consumption, investment, and progress in the implementation of Vision 2030 programs.

## Expenditure

Expenditure is projected to average 31% of GDP between 2024-26, in line 2023 levels.

## Oil Price

The trajectory of Brent oil prices will continue to be determined by global demand and supply dynamics, geopolitical tensions, and commercial inventory levels.

## Inflation

CPI remains subdued and is forecast to remain in-line with the long run average of 2% during 2024-26.

## External Sector

Current account balance may narrow but expected to remain in surplus over 2024-26 (3.2% of GDP in 2023).

## Oil GDP

Oil GDP was impacted by production cuts, inline with OPEC+ agreement, leading to a decline of 9% in 2023. Unwinding of OPEC+ policy should lift growth going forward.

## Revenues

Revenue is expected to average 28% of GDP during 2024-2026 (versus 30% in 2023).

## Budget Deficit

Fiscal deficits of between -2 and -3% of GDP forecasted between 2024-26.

## Debt

Debt-to-GDP ratio is expected to remain under 30% throughout 2024-26 (26.2% in 2023), comfortably below the self imposed ceiling of 40%.

## Interest Rate

The Saudi Riyal is pegged to US dollar, thus the Saudi Central Bank (SAMA) will continue to follow Federal Funds Rates.

## FX Reserves

SAMA Foreign Exchange Reserves are expected to remain at around 40-45% of GDP out until 2026.

Thank You

