



وزارة الاقتصاد والتخطيط
MINISTRY OF ECONOMY & PLANNING

STATE OF THE SAUDI ECONOMY ANNUAL REPORT

2022

Contents

1 Chapter One The Resilience of the Saudi Economy 05

The Kingdom of Saudi Arabia maintained its positive performance in 2022, driven by a resilient economy. It successfully countered external shocks, overcoming the impacts of the pandemic and geopolitical tensions. Despite global economic uncertainties, risk of recession in major economies, and a general slowdown in global growth, the Kingdom achieved remarkable growth rates surpassing those of the G20, thanks to strategic plans and innovative initiatives.

2 Chapter Two Economic Diversification 12

Since the launch of Saudi Vision 2030, the Kingdom has implemented numerous programs, initiatives, and structural reforms to promote economic diversification, ensure stability, achieve sustainable development, and enhance overall economic productivity. While the oil sector continues to play a significant role in budget financing, there has been a notable increase in the non-oil GDP share, facilitated by government initiatives and programs, which have paved the way for private sector expansion.

3 Chapter Three Financial Sustainability 23

In 2022, the Kingdom reduced its fiscal deficit and achieved its first surplus since 2013, as a result of the rise in oil prices, rationalization of spending and higher non-oil revenues. The process of rationalizing state expenditure has lightened the load on regulatory agencies, enabling the private sector to take charge of investment projects and maintain a sustainable financial pace. Tax reforms have also played a significant role in boosting non-oil revenues.

4 Chapter Four Empowering the Private Sector 33

The Kingdom aims to empower the private sector and boost its contribution to the GDP by enhancing local production, developing the national industries, and fostering growth in promising economic sectors. In addition, the role of SMEs will be prioritized due to their crucial role in the development and diversification of the private sector. Efforts will be made to create a favourable business environment that attracts large companies, promotes job creation and increases localization.

5 Chapter Five Investment Attractiveness 41

The Kingdom introduced a set of economic initiatives to enhance investor access to opportunities and streamline business procedures across all stages. This coincided with improvements in private sector performance, leading to a robust recovery in the investment sector in 2022. The rise in oil prices further bolstered confidence among local and foreign investors, mainly due to national strategies, supportive programs, and the establishment of special economic zones aimed at attracting foreign and domestic investments.

Executive Summary

Over the past three years, the Kingdom has successfully navigated numerous global challenges, including the COVID-19 pandemic, the Russia-Ukraine crisis, and the accompanying global inflationary wave. Despite these difficulties, the Saudi economy has outperformed G20 nations in 2022, surpassing \$1 trillion in value for the first time in history. While economies of major countries have suffered from disruptions in supply chains, scarcity of basic commodities, high rates of inflation, and sluggish growth amid mounting uncertainty, the Kingdom has overcome most of these obstacles. This success can be attributed to a solid economic foundation, abundant natural resources, a robust financial system, and effective banking sector. Additionally, giant government companies, staffed by highly qualified Saudi professionals, have played a significant role. Moreover, the Kingdom's geographical location at the heart of three continents has provided further advantages. Saudi Vision 2030 has also played a vital role in enhancing economic flexibility by promoting diversification and reducing reliance on oil revenues. The Vision strives to transform the structure of the Saudi economy into a diversified and sustainable one, emphasizing increased productivity and greater involvement of the private sector in generating economic wealth and achieving the Vision's goals.

Saudi Vision 2030 programs have played a pivotal role in facilitating economic transformation by implementing various supportive initiatives and structural reforms. These programs have successfully bolstered local content, fostered the growth of national industry, cultivated promising economic sectors, increased the contributions of the private sector and small and medium enterprises (SMEs), and ensured the sustainability of public finances.

public finances. It is expected that the ongoing structural transformation towards sustainable economic growth will persist in the coming years. This progress aims to elevate the Saudi economy to a higher global ranking, advancing from its current 18th to 15th place. This expectation is reinforced by internationally recognized indicators that highlight the notable changes taking place in the Kingdom as a result of the economic reforms outlined in Saudi Vision 2030 which have garnered praise from numerous international organizations in their reports throughout 2022. Furthermore, prominent credit rating agencies have raised the Kingdom's sovereign credit rating and improved their outlook on the Saudi economy.

It is important to note that despite the Kingdom's ongoing efforts to achieve the goals of Saudi Vision 2030, the journey towards diversifying the economic base and ensuring sustainable growth in the years to come is still ongoing. Economic transformation encompasses multiple dimensions beyond just the growth and composition of the gross domestic product (GDP) and the contribution of each sector. Other economic and social variables are equally significant in this process. The revitalization of economic diversification paths in productive activities must be accompanied by enhancing the diversification of state revenues and government spending. It is crucial to diversify the highly competitive export base and consider replacing a portion of imports. These measures aim to reduce dependence on the fluctuating oil sector, mitigate risks to the Saudi economy, and strengthen its ability to absorb global shocks.

Despite the progress made in economic diversification, the Saudi economy remains heavily reliant on oil revenues. The years 2021 and 2022 saw fluctuations in the global oil markets, posing a potential challenge to Saudi Vision 2030 in the years ahead if these persist. Oil revenues serve as a significant source of funding for approved initiatives aimed at diversifying the economy. During 2022, when global petroleum prices rose, the government experienced a substantial increase in spending on development projects aimed at diversification. However, if global oil demand weakens and prices decline in the future, it is likely that the opposite will occur. This could lead to a need for expenditure rationalization, often resulting in the suspension of financing for major development projects or an increased reliance on borrowing from global markets to sustain these initiatives. Such actions could elevate the risk of the Saudi economy being susceptible to external pressures or disturbances.

Hence, the Kingdom continues to increase non-oil sources of income in recent years through Saudi Vision 2030, in order to align with economic growth and structural reforms. One of the measures taken to achieve this goal was the implementation of taxes and fees on certain services. This initiative resulted in an increase in the annual contribution of non-oil income to total government revenues, by an average of 38% between 2016 and 2021, compared to 19% during the period from 1970 to 2014.

The augmented revenue generated from these sources has provided crucial support for projects aimed at expanding non-oil revenue streams. Additionally, the government is actively advocating for the realization of Saudi Vision 2030, to increase spending efficiency and ensure sustainable economic growth for the private sector in light of the ongoing reforms.

Despite the Kingdom's remarkable progress in economic transformation, significant challenges and risks remain in achieving the goals of Saudi Vision 2030. Financial sustainability is particularly vulnerable to factors such as oil price fluctuations, sector growth sustainability, non-oil revenue reliance, and efficient public debt management. To address these concerns, the Kingdom's fiscal policy must prioritize managing high oil revenues during periods of oil price surges by bolstering monetary reserves, while continuing to control public finances by implementing approved economic reforms in line with Saudi Vision 2030. It is also important to continue to support the private sector and enhance its flexibility in order to be able to face the turmoil of global markets and provide the Kingdom with high revenues, which may contribute to avoiding or mitigating the repercussions of potential crises in the future.

1

Chapter One

The Resilience of the Saudi Economy

Despite global economic uncertainty and increasing recession risks in major economies, Saudi Arabia thrived in 2022. Its resilient economy successfully mitigated external shocks, overcame the aftermath of the pandemic, global economic challenges, and geopolitical tensions. With pioneering initiatives and strategic plans, the Kingdom achieved the highest growth rate among G20 nations.

The Resilience of the Saudi Economy

Introduction to the Global Economic Situation:

Two years have passed since the onset of the pandemic, and despite a strong economic recovery in 2021, the global economy still faces many challenges that have increased the possibility of major economies entering recession in the coming 12 months, amid growing uncertainty. Concerns have arisen regarding a slowdown in the Chinese economy, a deceleration of U.S. economic growth, and a contraction in the European Union economy. This has heightened the risk of stagflation, particularly as global inflation continues to reach unprecedented levels. The inflationary pressures have prompted the U.S. Federal Reserve and central banks worldwide to divert from their policy of monetary easing and to raise interest rates at an accelerated pace, which further worsen the global economic outlook.

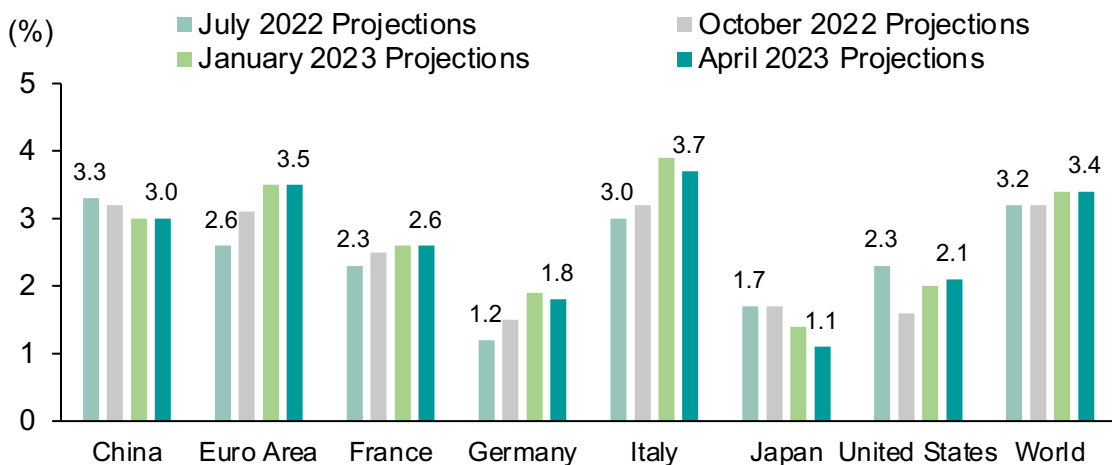
Amidst these developments, uncertainty regarding the prospects for oil demand has increased.

This uncertainty coincides with regional geopolitical tensions, resulting in widespread disturbances in the energy markets and frequent fluctuations in commodity prices, which have reached a record high. These challenges have dampened hopes for a swift recovery of the global economy and pose a threat of an economic recession. The International Monetary Fund (IMF) has expressed concerns about a slowdown in global economic growth due to the decline in key economic indicators, coupled with ongoing worries about the global wave of inflation.

Against this backdrop, the IMF has revised its estimates for global economic growth in 2022 on multiple occasions throughout the year. In October, the IMF lowered its estimate to 3.2%, but then raised it to 3.4% in January 2023. Furthermore, the IMF reduced its forecasts for global economic growth in 2023 to 2.7% in October from 2.9% in July 2022. However, in January 2023, the fund revised its growth expectations for 2023 to 2.9%, only to reduce it once again to 2.8% in April 2023.

Graph 1.1

IMF's global economic growth forecasts for 2022 and 2023 (April 2023 Report)



Source: International Monetary Fund.

An Overview of the Performance of the Saudi Economy:

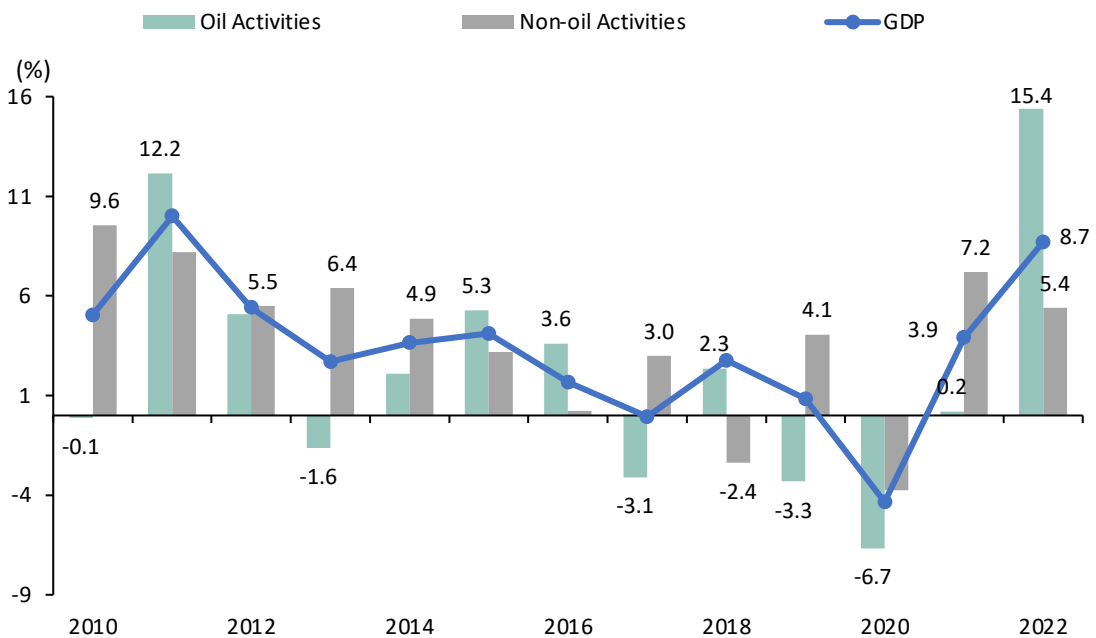
Despite the global uncertainty and the impact on the economic growth of major economies worldwide, the Saudi economy has experienced a rapid recovery from the effects of the COVID-19 pandemic. This recovery can be attributed to the normalization of economic activities and government efforts to mitigate repercussions of the crisis. In 2020, the economy contracted by 4.1%, however in 2021, it experienced a strong rebound, with a growth rate of approximately 3.2%. This growth was primarily driven by the expansion of non-oil activities, which increased by 6.0%. These efforts align with the goals outlined in Vision 2030, which aimed to strengthen the non-oil sector over the past five years.

Furthermore, the oil sector has shown signs of recovery since the second half of 2021.

This was marked by a gradual increase in Saudi oil production and an increase in prices, coinciding with the global surge in oil demand. The Saudi economy concluded 2022 with outstanding performance among the G20 countries, as the gross domestic product (GDP) experienced remarkable growth of 8.7%. For the first time in history, the size of the economy surpassed \$1 trillion, reflecting the highest GDP growth rate in the past decade.

This impressive growth can be attributed to the significant expansion of oil activities, which increased by 15.4%. Additionally, non-oil activities continued to recover, growing by approximately 5.4% in 2022. The investment sectors in the Kingdom played a crucial role in supporting this growth, thanks to the implementation of structural reforms and sectoral strategies.

Graph 1.2
GDP growth rate and its components



Source: General Authority for Statistics

The resilience of the Saudi economy has enabled the Kingdom to navigate through the challenges posed by the pandemic and current geopolitical tensions. An economy's ability to withstand disturbances and shocks is crucial in either preventing their future occurrence or effectively managing and mitigating their impacts, and to restore economic strength promptly. A resilient economy possesses the capacity to absorb shocks and minimize their short or long-term effects. Saudi Vision 2030 plays a vital role in enhancing the resilience of the country's economy by developing economic and investment capabilities that mitigate the adverse effects of future risks and expedite economic recovery.

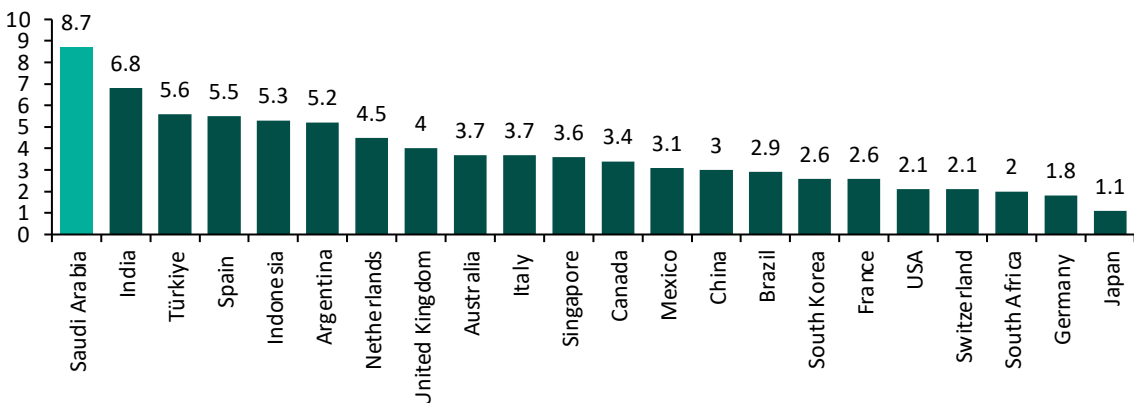
The resilience exhibited by the Saudi economy has been instrumental in overcoming numerous challenges in recent years, ranging from the stagnation caused by the COVID-19 pandemic to disruptions in supply chains and high inflation rates, and even the impact of the Russia-Ukraine crisis. This resilience is attributable to the positive outcomes achieved through various executive programs and initiatives under the umbrella of Vision 2030.

These efforts have collectively contributed to restructuring the economy, enhancing government spending efficiency, and diversifying funding sources, thus strengthening the Kingdom's economic resilience in the face of crises.

The International Monetary Fund (IMF), in its Article IV report for 2022, lauded the robustness of the Saudi economy and its sound financial position. The IMF emphasized the positive prospects for the Kingdom's economy in the short and medium term, asserting that it is well-positioned to overcome the risks stemming from the COVID-19 pandemic, the Russia-Ukraine crisis, and the tightening of monetary policies in advanced economies, supported by the rise in oil prices and the reforms that the government is carrying out within the framework of Vision 2030.

Under these circumstances, Saudi Arabia followed the course of the development of monetary policies globally, with the aim of maintaining monetary stability and supporting financial balance. This approach enabled the Kingdom to avert the impact of capital outflows to foreign markets while maintaining low inflation levels.

Graph 1.3
Economic growth of G20 countries in 2022



Source: International Monetary Fund

The global rankings are a testament to the resilience of the Saudi economy and the effectiveness of structural reforms under Vision 2030. International indicators, widely recognized and praised by various organizations, have supported the significant transformation taking place in the Kingdom. Notably, leading credit rating agencies have upgraded the sovereign rating of Saudi Arabia, with Fitch rating is "A", Moody's rating is "A1", and Standard & Poor's rating is "A". These improved ratings reflect the positive outlook of the Saudi economy, attributed to the Kingdom's prudent management of public finances, ongoing structural reforms, diversification plans, and increased oil revenues driven by global energy price rises.

In the International Institute for Management Development annual report on global competitiveness for 2022, the Kingdom demonstrated remarkable progress, climbing eight positions among the world's most competitive countries to secure the seventh spot among G20 nations.

The report also highlighted the Kingdom's strong performance in financial markets, including ranking first in stock market capitalization and shareholder rights indices, second in financial markets and venture capital indices, and third in the initial public offering index. Additionally, various global reports have recognized the Kingdom's achievements across different sectors.

For instance, in the e-government and mobile services maturity index published by the United Nations Economic and Social Commission for Western Asia (ESCWA), Saudi Arabia topped the Middle East and North Africa region in terms of availability and development of digital services. Furthermore, the 2022 Shanghai Ranking for majors underscored the excellence of the education sector in the Kingdom, with seven Saudi universities joining the ranks of elite international universities, compared with four such institutions in 2019. These accomplishments bring the Kingdom closer to being listed among the top 100 universities worldwide.

Graph 1.4

The Kingdom's ranking in some global indices



Source: International Institute for Management Development (IMD) Global Competitiveness Center

Despite ongoing efforts to diversify the Saudi economy, it remains highly reliant on natural resources. This dependence poses a significant risk due to the volatility of oil markets. The oil sector still accounts for nearly 40% of the Kingdom's gross domestic product and about 70% of its export earnings. Consequently, any downturn in global oil demand resulting from economic crises or market unrest can lead to reduced production or a sudden collapse in oil prices. Such developments have the potential to weaken the economic and financial stability of the Kingdom.

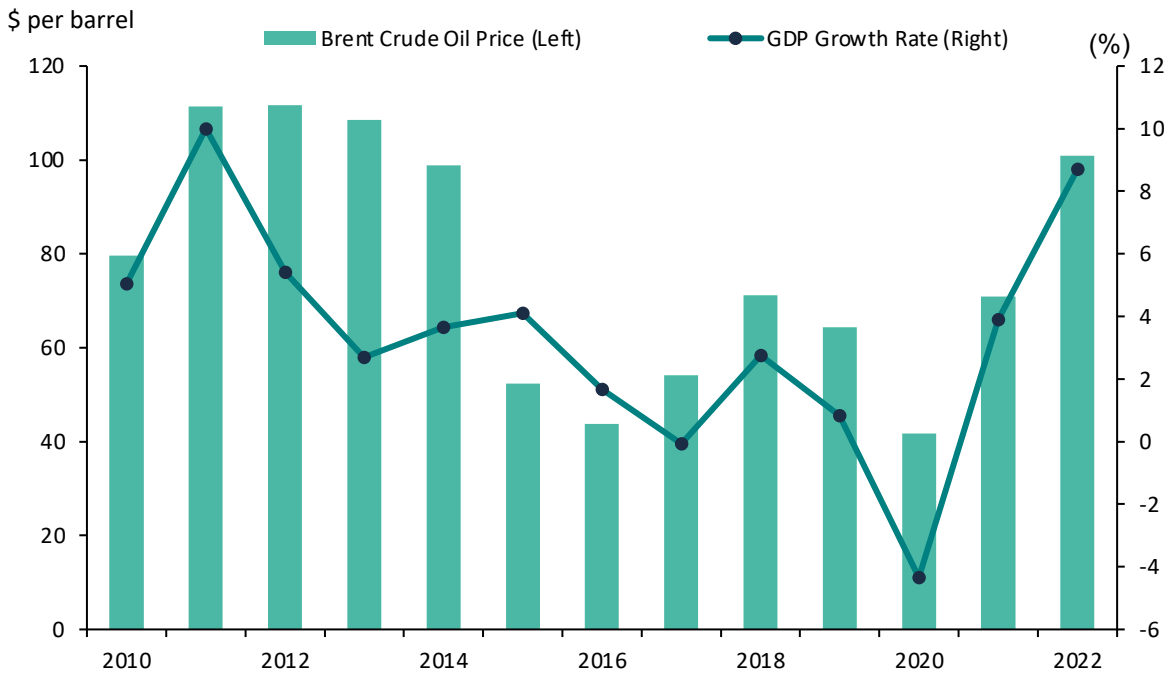
The period from 2015 to 2017 witnessed low global oil prices, prompting the Kingdom to implement austerity measures, including cuts in government spending, subsidy reductions, and a halt in funding capital projects.

Additionally, the introduction of taxes and financial compensation initiatives aimed to diversify the Kingdom's income sources. However, these measures resulted in a budget deficit and an economic slowdown during that period.

Addressing the vulnerability of the Saudi economy to fluctuations in oil demand and prices remains a critical challenge in the years ahead. Enhancing the flexibility of the Saudi economy and diversifying it away from oil, in alignment with Vision 2030, are crucial objectives. This becomes even more pertinent considering the long-term risks associated with major economies transitioning to renewable energy sources.

Graph 1.5

The relationship between the growth of the Saudi economy and oil prices



Source: General Authority for Statistics

The Kingdom continues to develop its oil sector to enhance the flexibility of the Saudi economy and achieve the goals of Saudi Vision 2030. Given the historical significance of the oil sector, it may be challenging to disregard its role in the Kingdom's future development and reduce its contribution to the economy, despite efforts to diversify income sources away from oil. In addition to the development of new or strategically important sectors, it is crucial for the Kingdom to implement policies that increase the flexibility of the oil sector, as it will remain the cornerstone of the economy.

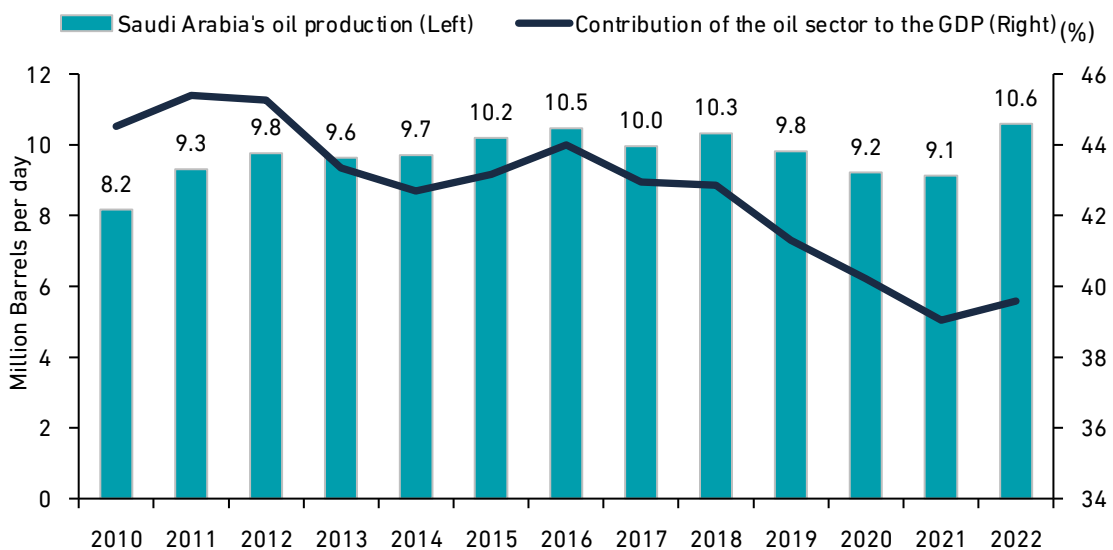
Consequently, there is a need to boost investments in oil production and refining to enhance the sector's capacity to withstand global market volatility.

Boosting the competitiveness of the oil sector through efficiency improvements, cost reduction measures, and greater integration with other sectors, can maximize profitability and ensure alignment with future developments, as energy markets worldwide rapidly transform.

Moreover, developing the oil sector and maximizing its revenues can help the Kingdom mitigate the effects of structural reforms and expedite the implementation of Saudi Vision 2030 programs, thereby placing the economy on a more sustainable path. The size of the oil sector can also be leveraged to establish commercial and economic ties with the global community. However, this does not imply neglecting the transition to renewable energy. Embracing renewable energy is vital for diversifying the sector itself, improving its performance, and sustaining its long-term profitability.

Graph 1.6

Oil production and its contribution to the GDP



Source: The General Authority for Statistics, and the estimates of the Ministry of Economy and Planning .

2 Chapter Two

Economic Diversification

Since the launch of Saudi Vision 2030, the Kingdom has successfully delivered on numerous programs, initiatives, and structural reforms that promote economic diversification. The primary objective has been to attain economic stability, ensure sustainable development, and enhance overall productivity. The government remains committed to implementing programs and initiatives that foster the growth of promising sectors, thus facilitating economic diversification and establishing a solid foundation for their expansion.

Economic Diversification

Economic diversification is a cornerstone of the transformation process, offering several advantages, including enhanced flexibility in facing external shocks, increased entrepreneurial opportunities, and the development of national skills. It has played a crucial role in achieving economic stability, sustainable development, and improved productivity across the entire economy. The shift towards economic diversification has reduced the Kingdom's reliance on oil, mitigating the impact of fluctuating economic growth and ensuring stability in the face of global energy market fluctuations.

While economic diversification has been a key goal in previous development plans since the 1970s, the Kingdom has made significant progress by developing its industrial base and establishing cities and industrial zones in strategic locations throughout the country. These cities, overseen by the Saudi Authority for Industrial Cities and Technology Zones (MODON), encompass 35 cities spanning an area of 191 million square meters, alongside numerous private cities, technology areas, and innovation hubs.

However, the oil sector still plays a major role in the Saudi economy and remains the primary source of government revenues. This dependence on oil revenue has been attributed to the need for financing economic diversification reforms, such as economic cities and industrial development, and the lack of sustainable sources for increasing non-oil income in line with economic growth. Government spending on diversification projects tends to increase when global oil prices rise, while the funding for these projects often reduces during periods of low oil prices and decreased global demand.

To address these challenges, the Kingdom has pursued a comprehensive strategic plan through Vision 2030, aimed at diversifying sources of income and identifying alternative investment opportunities away from oil dependence. Since the launch of the Vision, the government has successfully implemented various initiatives and structural reforms, including efforts to promote local component, develop national industries, and support promising economic sectors. Measures like the Local Component Enhancement initiative have fostered strategic partnerships between the public and private sectors, maximizing the role of small and medium enterprises, and ensuring the sustainability of public finances.

These transformations have strengthened the resilience of the Saudi economy, enabling it to navigate challenges such as the COVID-19 pandemic and the Russia-Ukraine crisis. Looking ahead, the pace of this structural transformation towards sustainable economic growth is expected to continue, driven by investment initiatives, mega projects, and the localization of knowledge, innovative technologies, and digital advancements through programs like the National Program for the Development of Information Technology. These efforts contribute to the growth of the information technology sector, including emerging technologies, and the increased percentage of local content in the economy.

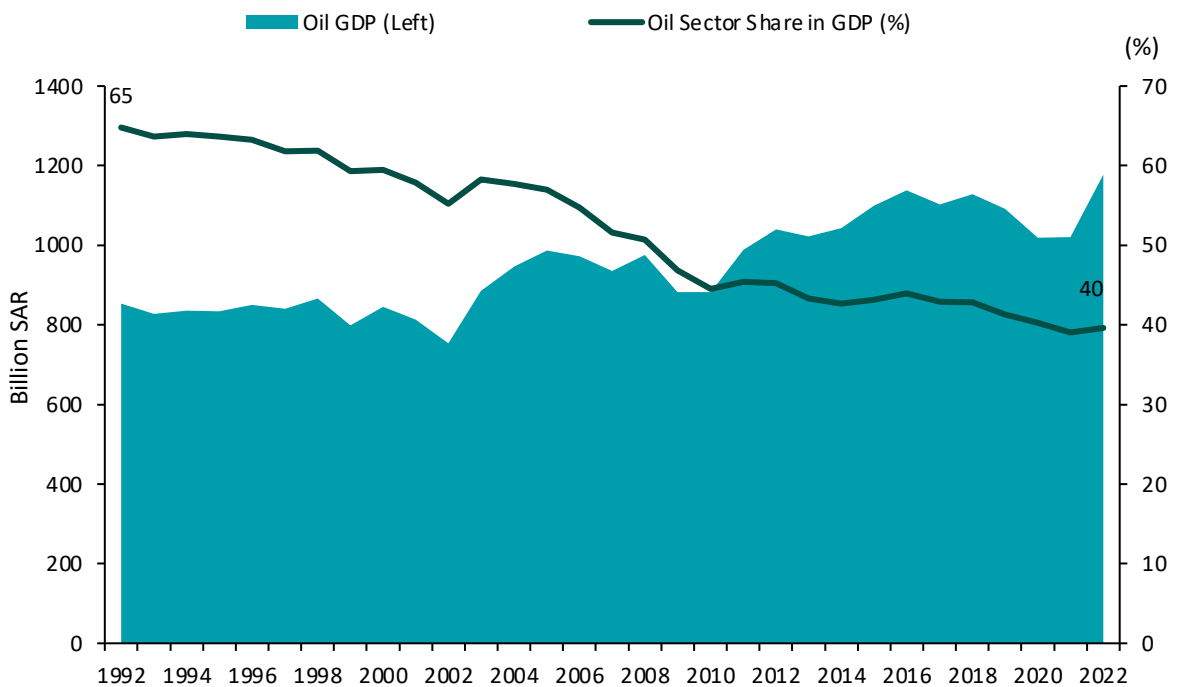
Economic Diversification

The Kingdom's commitment to economic diversification and reducing reliance on oil has yielded significant results over the past three decades. The share of oil in Saudi Arabia's GDP has decreased from 65% in 1991 to approximately 40% in 2021, marking a significant milestone in the country's economic transformation.

Furthermore, the value of Saudi non-oil exports has seen remarkable growth, reaching SAR 275 billion by the end of 2021, a 53% increase compared to the previous year. This comes as the Kingdom emerged as one of the top-performing economies during the pandemic, due to the robust growth and resilience demonstrated by the non-oil sector.

Graph 2.1

A decline in the contribution of the oil sector to the Saudi economy

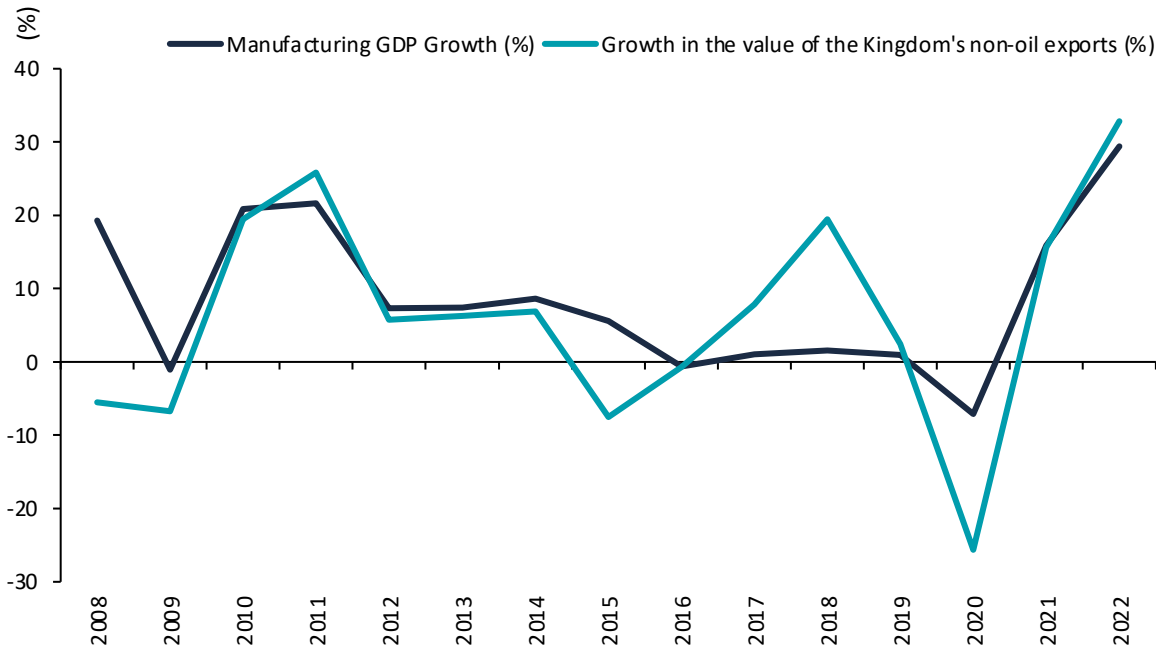


Source: The General Authority for Statistics, and estimates of the Ministry of Economy and Planning

While diversifying sources of income is a crucial aspect of achieving economic diversification, it alone is not enough to fully diversify the economic base. A comprehensive approach to diversification should encompass various factors, including exports, imports, state revenues, and government spending. Economic diversification is a multidimensional strategy that extends beyond the structure of the gross domestic product and the contribution of different sectors. It also considers other economic and social variables.

In line with Saudi Vision 2030, the Kingdom has implemented numerous initiatives and programs aimed at accelerating the process of economic diversification. These seek to integrate the main tributaries of diversification to achieve financial sustainability and foster a prosperous economy.

Graph 2.2
Non-oil exports and manufacturing industries



Source: The General Authority for Statistics, and estimates of the Ministry of Economy and Planning

The Kingdom focused on the current industrial base of the Saudi economy, developing it further by increasing the production of the most advanced petrochemicals, and promoting manufacturing industries with the highest added value, especially in the fields of energy storage and distribution and the production of advanced medicines.

Saudi Vision 2030 also prioritized certain sectors with huge potential for expansion, including harnessing renewable energy along with manufacturing related parts and devices and introducing modern farming technologies. What's more, the services sector represents another pillar of future economic growth, led by tourism, new digital services related to data storage and management, and advanced services in the fields of energy transmission and monitoring.

Recognizing their vital importance, Saudi Arabia has prioritized developmental initiatives in recent years, particularly in the industrial sector. This focus has led to economic prosperity and diversification. The Kingdom's manufacturing industries have grown consistently, with GDP increasing from SAR 23 billion in 1990 to over SAR 275 billion by the end of 2021.

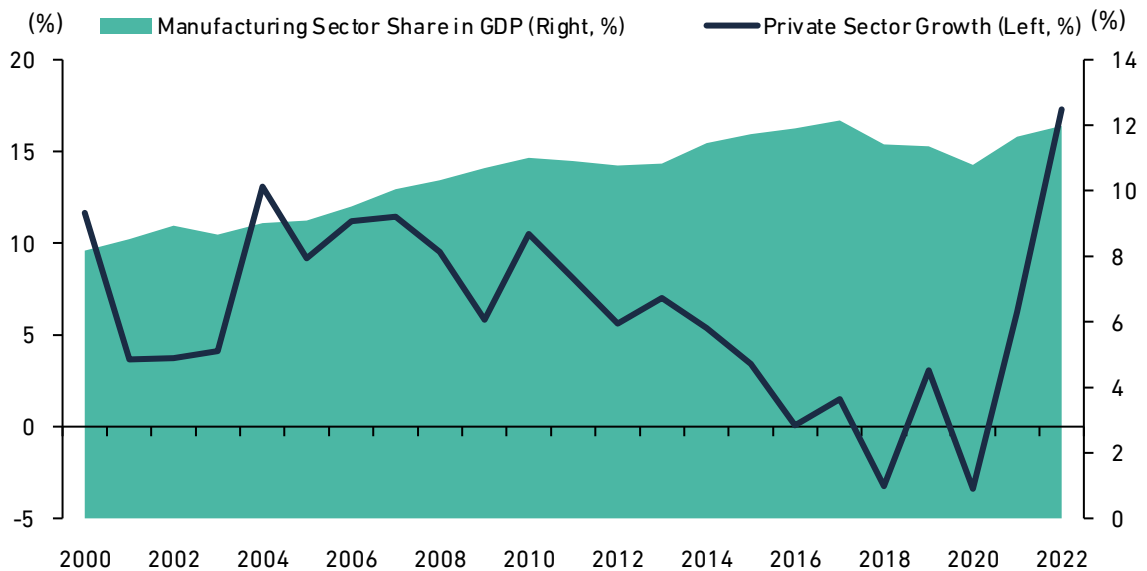
To solidify its position as a leading industrial power and global logistics platform, the National Industrial Development and Logistics Program (NIDLP) aims to maximize the value generated from mining and energy sectors, emphasizing local content and the Fourth Industrial Revolution. This program significantly contributes to economic impact, sector diversification, sustained growth, leadership and an attractive investment environment.

It promotes local manufacturing to increase industrial resilience and strategically mitigates supply chain disruptions through agreements, ensuring citizens' well-being and uninterrupted economic activity.

In 2021 alone, the Kingdom attracted investments worth \$21.6 billion to the industrial sector through private sector projects and joint ventures with government entities, showcasing its commitment to private sector participation and economic growth. The ongoing privatization program further supports economic diversification by opening to private investment sectors like telecommunications, electricity, airlines, postal services, railways, industrial cities, port services, and water facilities, accelerating diversification and enhancing investments.

Graph 2.3

The continuous recovery of the industrial sector, and its contribution to the Saudi economy



Source: The General Authority for Statistics, and estimates of the Ministry of Economy and Planning

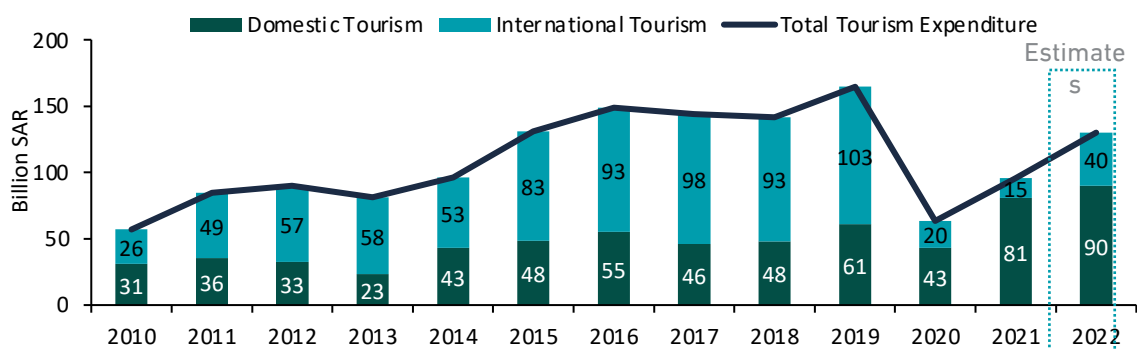
The Kingdom has outlined a comprehensive roadmap to develop trade through the National Strategy for Industry, focusing on 12 sectors with ample opportunities for regional and global prosperity. Despite local and global challenges faced by industry due to economic fluctuations, the value of these industries continue to exhibit an upward trend, as observed in the second quarter of 2022. The mining sector has also shown positive growth, with revenues reaching around SAR 1 billion in 2022, compared to SAR 727 million in 2021. Moreover, investments in the mining sector surpassed SAR 32 billion in 2022. This sector serves as a crucial pillar for the Kingdom's economic development and plays a key role in diversifying sources of income.

Tourism, recognized as a promising economic sector, is crucial for diversifying Saudi Arabia's income sources and achieving the goals of Saudi Vision 2030. The National Tourism Strategy has been launched to foster the sector's development, aiming to create 1 million new jobs and increase its contribution to GDP from the current 3.8% to 10% by 2030.

The strategy focuses on attracting 100 million tourists by 2030, both by enticing foreign tourists and encouraging domestic tourists to explore the Kingdom rather than traveling abroad. Saudi Arabia is already the largest global investor in the tourism sector, with investments projected to reach \$810 billion by the end of the decade, according to the investment summary report for the second quarter of 2022. In the first half of 2022, tourism spending in the Kingdom reached a record high of SAR 71.2 billion (\$19 billion), a 74% year-on-year increase.

These substantial investments and mega projects have propelled the Kingdom to the 33rd position on the World Economic Forum (WEF) Travel and Tourism Development Index, in 2021, marking a significant leap of 10 spots from 43rd place in 2019. This progress, particularly evident in the business environment and tourism infrastructure, enhances the Kingdom's global reputation as a tourist destination, boosts investor confidence in tourism projects, and encourages foreign tourists to visit.

Graph 2.4
The growth of domestic and international tourism expenditure in Saudi Arabia



Source: Ministry of Tourism, estimates by Ministry of Economy and Planning

Saudi Arabia has prioritized the Hajj and Umrah sector. Under Vision 2030, the Kingdom aims to increase the number of visitors for Hajj and Umrah while ensuring a smooth experience for pilgrims. As part of the "Steadfast Value" strategy and the "Guests of the Merciful" program, the Kingdom is keen to utilize resources to serve the pilgrims, improve services near the holy sites and historical locations, and enhance the religious and cultural journey by collaborating with 70 entities from the public, private and non-profit sectors. The program has streamlined procedures for pilgrims of the Holy Kaaba and put in place measures to gauge guest satisfaction, ensuring a safe and fulfilling experience for visitors to the Two Holy Mosques.

Regulatory bodies have implemented exceptional plans to cater to the pilgrims, presenting solutions and proposals based on real-life experiences, especially considering the ongoing development projects in Makkah. For instance, the "Makkah Buses" project successfully transported 25 million passengers during its trial launch, and the Haramain High-Speed Railway accommodates 19 million pilgrims and 2 million Hajj pilgrims annually. Makkah is witnessing the development of five major projects that will provide 108,000 hotel rooms, with investments estimated at around SAR 170 billion. These efforts aim to overcome obstacles and meet increasing demand from the pilgrims and visitors to the Two Holy Mosques.

The government recognizes the significance of the retail trade sector, which contributes substantially to the non-oil GDP and serves as the highest employer of Saudis in the private sector. In addition to its economic impact, the sector plays a crucial role in improving the quality of life for citizens and residents.

Efforts are underway to foster growth, meet rising consumer demand, enhance competitiveness, and improve consumer experiences. Currently, the retail trade sector contributes around 10% to the Kingdom's GDP, compared with the global average of 20%.

In 2022, total spending reached about SAR 1.23 trillion, up from SAR 1.13 trillion in 2021, representing a 9.5% year-on-year gain, due to streamlined procedures for entrepreneurs and consumers, as well as the automation of sales and purchases. The Kingdom aims to support the sector further to meet growing demand, particularly due to population growth and tourism. Embracing the concept of sustainable development, efforts are directed toward reducing waste production, carbon emissions, developing a national workforce, and fostering collaboration between the public and private sectors to achieve shared goals.

The telecommunications and information technology sector is a vital driver of the sustainable development of Saudi Arabia. By enhancing the Kingdom's competitiveness, improving the quality of life for its residents, and creating an efficient environment and digital platforms, both the public and private sectors can thrive and increase efficiency. Regulatory bodies are focused on enhancing the telecommunications market, developing digital capabilities, and nurturing skilled professionals to lead digital transformation on regional and global scales. Through initiatives like the Digital Society program, Saudi Arabia is striving to compete in fields such as artificial intelligence, blockchain technology, augmented reality, and the Internet of Things (IoT).

These and other programs are driving future skills, focusing on the digital economy and automated service procedures to attract and engage investors from both within and outside the Kingdom. Numerous programs led by regulatory bodies focus on enhancing digital transformation through platforms such as Maras, Etimad, Fasah, and Absher, which provide easy access to services, digital payments, and digital authentication, fostering global competitiveness and creating an attractive environment for investors, while ensuring security and reliability in electronic transactions.

Furthermore, the Digital Government Authority, in line with Vision 2030, measures the indicators of digital transformation to improve the performance and effectiveness of government entities. In 2022, government entities achieved an 80.96% score compared to the previous measurement in 2021. The number of participating government entities rose to 217 from 193, reflecting the Kingdom's commitment to competitiveness and future leadership. As a result, Saudi Arabia ranks as a digital competitiveness leader among the G20 countries, enhancing the quality of life for citizens, residents, and visitors.

Regulatory efforts have successfully provided suitable housing programs for Saudi families, significantly improving their quality of life by increasing homeownership rates. These programs offer various incentives for homeownership and housing through more than 10 programs available through accredited and diverse platforms to cater to different beneficiaries. One notable success is the streamlining of ownership procedures, providing immediate eligibility for subsidized mortgage loans instead of the previously lengthy waiting periods of up to 15 years.

This has led to a significant increase in new residential mortgage loans, benefiting 30,000 families monthly, compared to approximately 2,000 financing contracts per month before the launch of the program. Consequently, the supply and demand have strengthened, resulting in a rise in the residential ownership rate for Saudi families from 47% in 2016 to over 60% in 2020. In 2022, a total of 148,876 Saudi families benefited from various housing options and financing solutions through simplified procedures. Additionally, 158,855 Saudi families have occupied their first homes, demonstrating the commitment of regulatory bodies to supporting beneficiaries in achieving the goals of the Housing Program under Saudi Vision 2030.

In its quest to compete in financial services, the government has introduced initiatives to enhance secure, accessible, and high-tech financial services. Aligned with Vision 2030, the sector has seen significant automation and technological development. National initiatives foster financial innovation, attract domestic and international investors to the sector, create jobs, and promote economic growth. The number of companies offering financial technology services surpassed 145 in 2022, a 14.7-fold increase compared to 2018. The conducive environment and streamlined measures for sector development have facilitated rapid growth, leading to the establishment of specialized centres that provide an attractive investment environment. These align with the Kingdom's financial technology strategy, which serves as a vital component of the Financial Sector Development Program under Vision 2030, aiming to further increase the number of operating financial technology companies.

By 2030, the Kingdom aims to have 525 operational financial technology companies. Additionally, between September 2021 and August 2022, more than SAR 1.5 billion was invested in Saudi financial technology companies, marking an increase of 11% compared to the previous year. This reflects the efforts of various regulatory bodies in developing the financial services sector and enhancing the Kingdom's leadership position in this field.

As part of Saudi Vision 2030 programs, Saudi Arabia is committed to improving the quality of life and promoting economic diversity. The Kingdom is focusing on increasing vegetation coverage and fostering innovation in modern agricultural practices. Regulatory bodies have initiated projects targeting areas with high vegetation coverage and environmental potential to harness their economic benefits, attracting tourists to these regions, whether in highlands or protected areas. These efforts align with global SDG programs, aiming to preserve the environment and achieve per capita vegetation coverage targets for citizens, residents, and visitors. It reflects the leadership's commitment to ensuring well-being for all parties and creating tourist attractions throughout the Kingdom.

In terms of systems aimed at achieving environmental and agricultural development, as well as national environmental strategies, various regions in the Kingdom have seen high agricultural production rates and attracted investments in the agriculture, water, and environmental sectors. For example, Al-Ahsa today stands out globally as an achievement of Saudi Arabia's system as an oasis characterized by geographic diversity, hosting over 2 million palm trees that yield approximately 100,000 tons of the finest dates on an annual basis.

This contributes to the Kingdom's status as a leading exporter of dates and achieving the first place for exports from national date-exporting centers.

Moreover, in the pursuit of a sustainable environment with natural resources and food security, supported by continuous leadership, regulatory bodies adopt modern agricultural technologies, expand vegetable cultivation, implement techniques such as hydroponics, vertical farming, and aquaculture. Various production structures are employed to achieve the targets of Vision 2030, enhance domestic agricultural production, and boost self-sufficiency. In 2022, Al-Ahsa province contributed around 30,000 tons of grains, 170,000 tons of vegetables and fruits, 126 million litres of milk, 44,000 tons of poultry, and over 100,000 tons of dates, thereby increasing productivity efficiency and achieving approximately 65% self-sufficiency in agricultural products.

In the field of aquaculture, fish production in the Kingdom increased to 119,000 tons by the end of 2022 from 32,000 tons in 2016. Regulatory bodies aim to increase per capita fish consumption to 13 kilograms from 9 kilograms, ensuring 59% self-sufficiency in fish resources. Saudi Arabia continues to achieve several milestones in the sector, including the development of 20 fishing facilities, with a target of reaching 82 facilities in the next phase, increasing the number of aquaculture projects from 67 to 235 in marine and inland waters and closed systems in the Kingdom. These efforts also focus on capacity building, supporting small-scale fishermen, empowering the private sector, and increasing its contribution to GDP in line with the targets of Saudi Vision 2030.

Furthermore, regulatory bodies continue to develop the infrastructure and provide investment opportunities in the sector, creating jobs for citizens and fostering entrepreneurship. They are also improving the quality of production by implementing the "Samaq" (fish) label standards, which target global competitiveness in international markets. Additionally, the localization of the fishing profession has supported over 2,000 fishermen in the Kingdom, with fish products reaching more than 35 countries.

Within the framework of the Saudi Green Initiative, regulatory bodies are leading collaborative programs with private sector institutions to promote sustainability, crop cultivation, and food security. Such initiatives are expected to help provide investment opportunities that support the Kingdom's GDP, promoting eco-tourism, providing training and employment opportunities, and supporting scientific environmental and agricultural research, in line with the targets of Vision 2030.

The Saudi government prioritizes food security, responding to the hunger challenges exposed by the COVID-19 pandemic. It supports innovation and young entrepreneurs to combat local and global food insecurity. Leveraging its unique climate, the Kingdom assumes a global role in driving innovation through resource allocation and regulatory initiatives. Notably, it leads in date cultivation and export, setting international records. Internationally recognized as a prominent exporter and supporter of global date programs, the Kingdom demonstrates its commitment to the date industry and associated processing sectors.

Recognizing the importance of enhancing transportation and logistics efficiency, Saudi regulatory bodies persist in supporting the sector to fulfil the objectives of the National Transportation and Logistics Strategy. This involves significant initiatives that will propel transportation services and elevate the Kingdom's global logistics hub status, thereby enhancing the quality of life in Saudi cities. The government has achieved remarkable milestones, including the launch of over 19 logistics zones in 2022, with Saudi ports ranking among the world's top for operational efficiency according to the World Bank report. The transportation and logistics system's contribution to the local economy increased by 16% compared to 2021. Noteworthy projects have commenced to connect 200 cities and provinces through public transportation services, with project implementation discipline reaching over 90% in 2022, a significant increase from 40% in 2017. Consequently, regulatory bodies continue their efforts to support the implementation of national strategies and initiatives aimed at improving the transportation and logistics system, acknowledging the pivotal role of the Kingdom of Saudi Arabia as a centrally located global logistics hub.

With the aim of enhancing competitiveness in foreign trade, imports, and exports, the Saudi government places full focus on increasing the competitiveness and reliability of Saudi exports and ensuring their access to different markets. Through regulatory bodies and diverse initiatives, the government continues to strengthen the power of exports. As a result, the Saudi economy maintains its strong position in terms of exported products, particularly in the chemical industries and related sectors, which are among the most significant non-oil exports in 2022.

Moreover, Asian markets are the primary destination for various Saudi exports, given the high demand and vibrant nature of these markets in 2022. Through integrated regulatory bodies aimed at enhancing the Kingdom's international trade gains and safeguarding its interests in foreign trade, efforts continue to develop the Saudi transportation and logistics system. This contributes to the Kingdom's economic growth, ensuring the accessibility of Saudi exports to different markets within various frameworks and effective international engagements. Regulatory bodies measure various indicators and introduce diverse initiatives to support Saudi exports. The establishment of the Saudi Import and Export Bank fills financial gaps in the import and export sector, enhancing competitiveness in international markets. Various regulatory entities conduct extensive studies and research to understand target markets and potential exports. These also implement different incentive programs to promote Saudi exports.

Furthermore, in line with the global recognition of the importance of supply chains, highlighted by the COVID-19 pandemic, the Global Supply Chain Resilience Initiative was launched. Its objective is to strengthen the Kingdom's position as a vital hub and a key player in global supply chains. Integrated with other development initiatives, regulatory efforts empower investors across sectors to benefit from the Kingdom's abundant resources and favourable opportunities aligned with Saudi Vision 2030. This supports economic diversification and comprehensive development within strategic initiatives.

The Kingdom of Saudi Arabia's focus on supply chains aligns with its commitment to enhancing global economic stability and growth. The Global Supply Chain Resilience Initiative allows investors to develop their investments, leveraging the Kingdom's competitive advantages and increasing the success potential of these investments. This contributes to competition in various sectors that align with Vision 2030. The Kingdom's strong and growing economy is the largest in the Middle East, one of the top twenty economies globally, and among the fastest-growing. By targeting the attraction of quality, industrial, and service investments in global supply chains and offering financial and non-financial incentives, the regulatory bodies strongly and effectively support positive and unique investments.

3 Chapter Three

Financial Sustainability

In line with the success achieved since the 2016 launch of Saudi Vision 2030, the Kingdom has gradually reduced its fiscal deficit and in 2022 achieved its first financial surplus since 2013. This accomplishment was supported by a rise in oil prices, expenditure rationalization, and increased non-oil revenues. These achievements are within the framework of the programs of Vision 2030, which has helped to stimulate a favourable environment for the non-oil sector, aiming to increase its share of the gross domestic product (GDP) and boost its financial revenues.

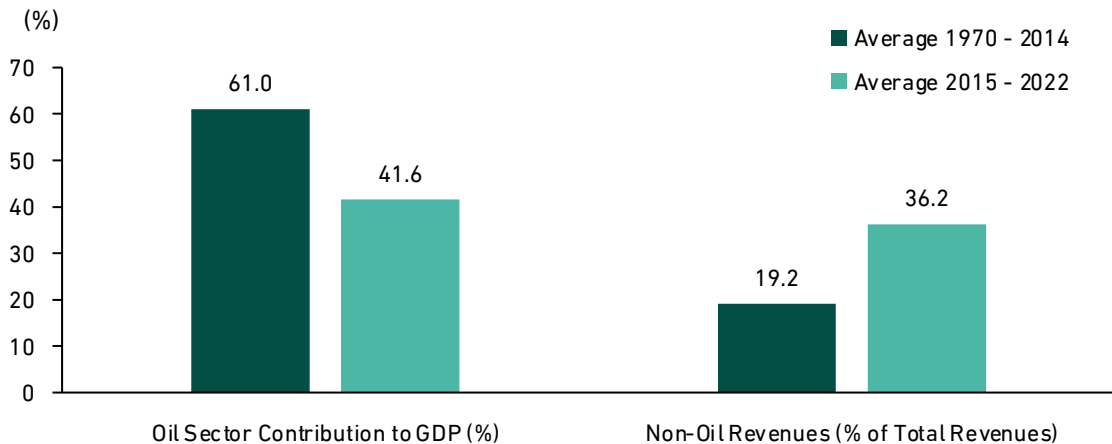
Financial Sustainability

Since the 1970s, the Kingdom of Saudi Arabia has adopted several five-year development plans to diversify its economy away from the oil sector, ensuring sustainable development and reducing exposure to global risks and shocks. This was aimed at decreasing reliance on global markets and increasing the flexibility of the Saudi economy. Based on the implemented strategies, the Kingdom has achieved significant growth in non-oil revenues and reduced the share of oil in the gross domestic product (GDP).

However, despite this progress, oil remains the main source of state revenues and the main driver of the economy. The key challenges faced by these plans mainly revolved around a heavy reliance on oil revenues to finance economic diversification reforms, and the lack of sustainable sources to increase non-oil income, to keep pace with economic growth. This is what the Kingdom aims to address through Vision 2030, by enhancing sustainable sources to maintain a high level of non-oil government revenues, based on the announced initiatives and strategies.

Graph 3.1

The oil sector is the main source of state revenue and the main engine of the economy

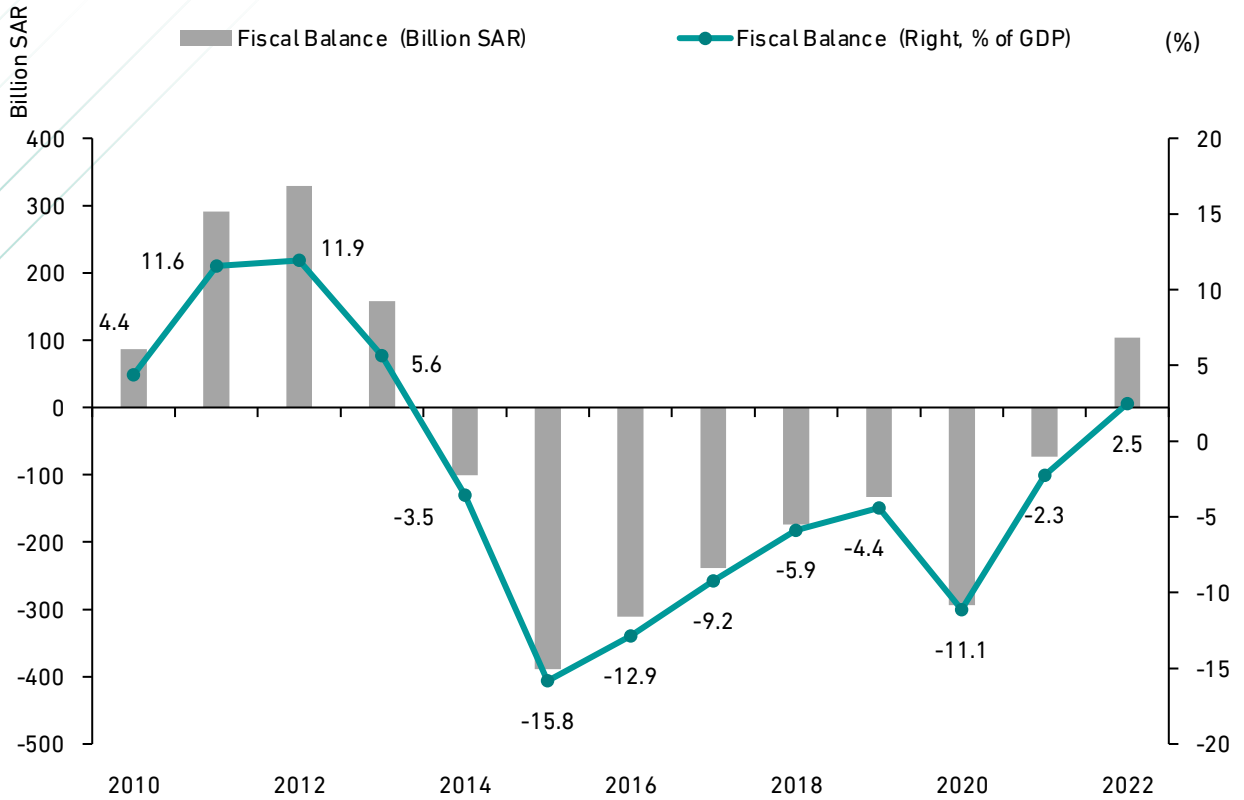


Source: General Authority for Statistics, Ministry of Finance and estimates of the Ministry of Economy and Planning

The collapse of oil prices in mid-2014 served as an incentive for the Kingdom to accelerate reforms and launch Vision 2030 in 2016, marking a major turning point in the country's economy. Like other Gulf Cooperation Council (GCC) countries, Saudi Arabia had enjoyed significant financial surpluses, along with rapid economic expansion driven by high oil prices in the previous period. However, with oil prices averaging below \$55 per barrel during the period of 2015-2017,

surpluses turned into deficits and growth slowed down, raising concerns about financial sustainability and its impact on overall economic stability. It was in this context that the economic and social reform plan of Vision 2030 was unveiled in 2016, with achieving financial sustainability as a top priority for the Kingdom. It also seeks to enable medium-term financial planning and maintain public financial stability, while promoting comprehensive economic growth.

Graph 3.2
Fiscal Balance

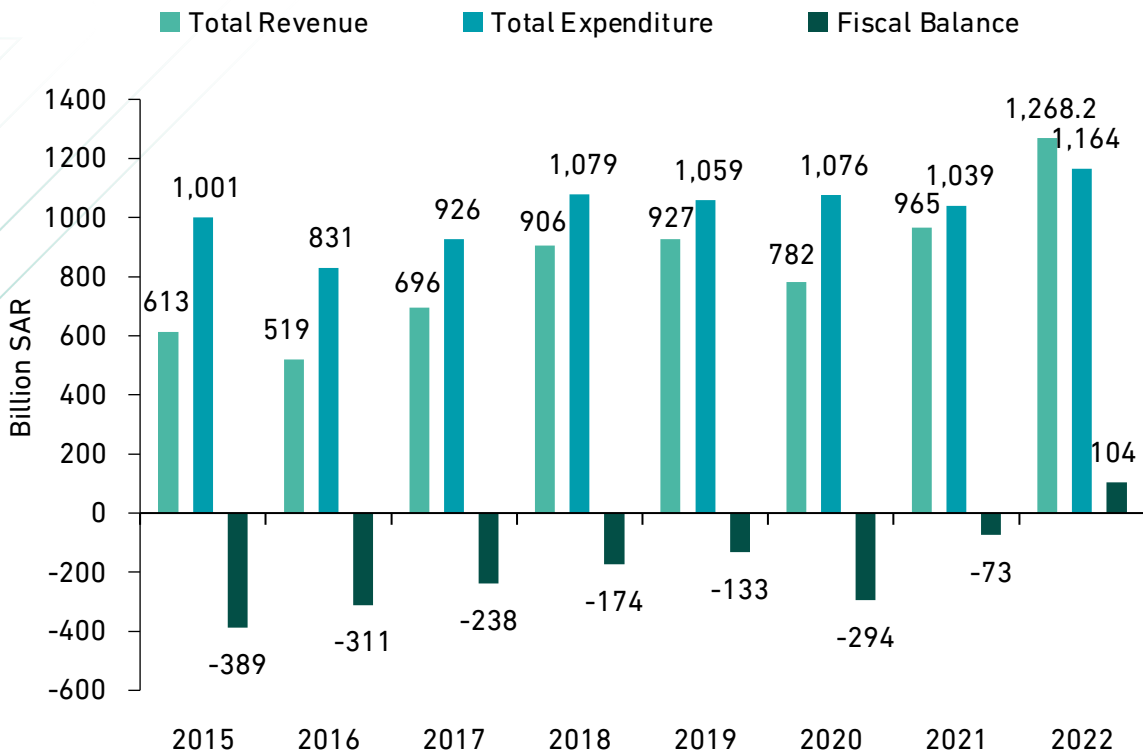


Source: Ministry of Finance

Saudi Arabia has experienced significant progress in improving its financial sustainability over the past years. It has succeeded in reducing its fiscal deficit from 15.8% of GDP in 2015 to 4.5% of GDP in 2019, strengthening the Kingdom's financial position and enhancing its resilience in the face of external shocks. Despite the exceptional circumstances of the COVID-19 pandemic, which pushed the fiscal deficit to around 11% of GDP in 2020 due to an unexpected surge in expenditure, the budget deficit continued to decrease, shrinking to around 2.3% of GDP in 2021. Furthermore, the Kingdom was able to achieve its first surplus since 2013, reaching approximately 2%, supported by the recovery of oil prices, expenditure rationalization, and increased tax revenues. This also reflects a continuous increase in total revenues amid rising oil prices.

Graph 3.3

Total government revenues and expenditures in the Kingdom

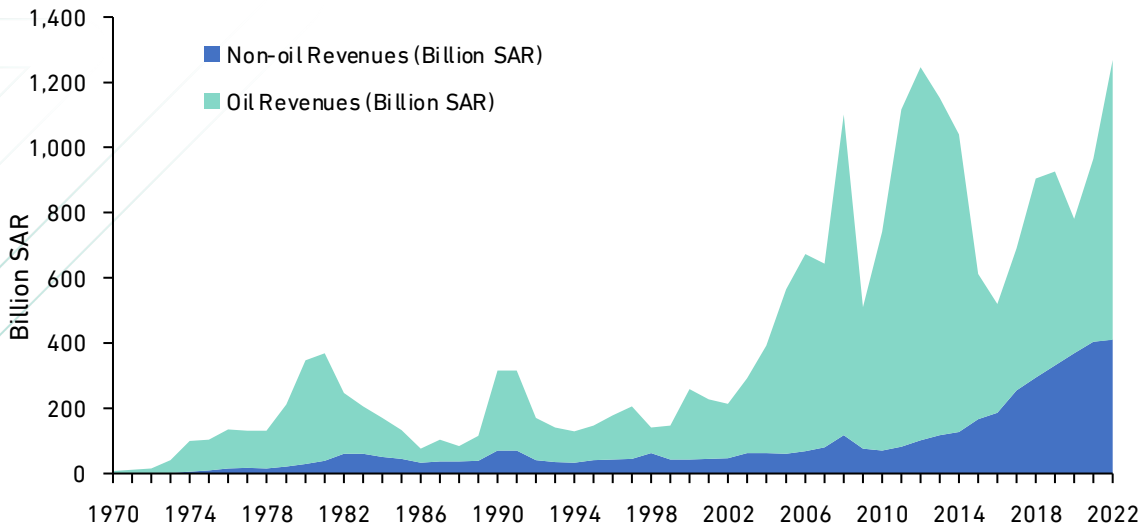


Source: Ministry of Finance

The main objective of Vision 2030 is to achieve financial sustainability by maximizing non-oil government revenues. As part of the Fiscal Balance Program, the government has implemented additional income-generating initiatives through the adoption of selective taxes on tobacco, beverages, and energy in July 2017. It also implemented a 5% Value Added Tax (VAT) in January 2018, which tripled to 15% in July 2020, in order to compensate for the impact of declining oil revenues and increased government spending during the COVID-19 pandemic. Furthermore, the fee for expatriate workers was increased in January 2018, and a new fee was applied to dependents as of July 2017.

Additionally, fees and taxes were imposed on hotel accommodation, visas, cinema visits, and undeveloped lands. These measures have led to significant improvement in the annual contribution of non-oil income in total government revenues, averaging 36% in the period from 2016 to 2022, compared to 19% during the period from 1970 to 2014. It is worth noting that the share of non-oil revenues reached a record high in 2020, accounting for 47% of total government revenues, amidst a decline in the government's oil revenues, coinciding with the collapse of petroleum prices during the COVID-19 pandemic.

Graph 3.4
Components of total government revenue



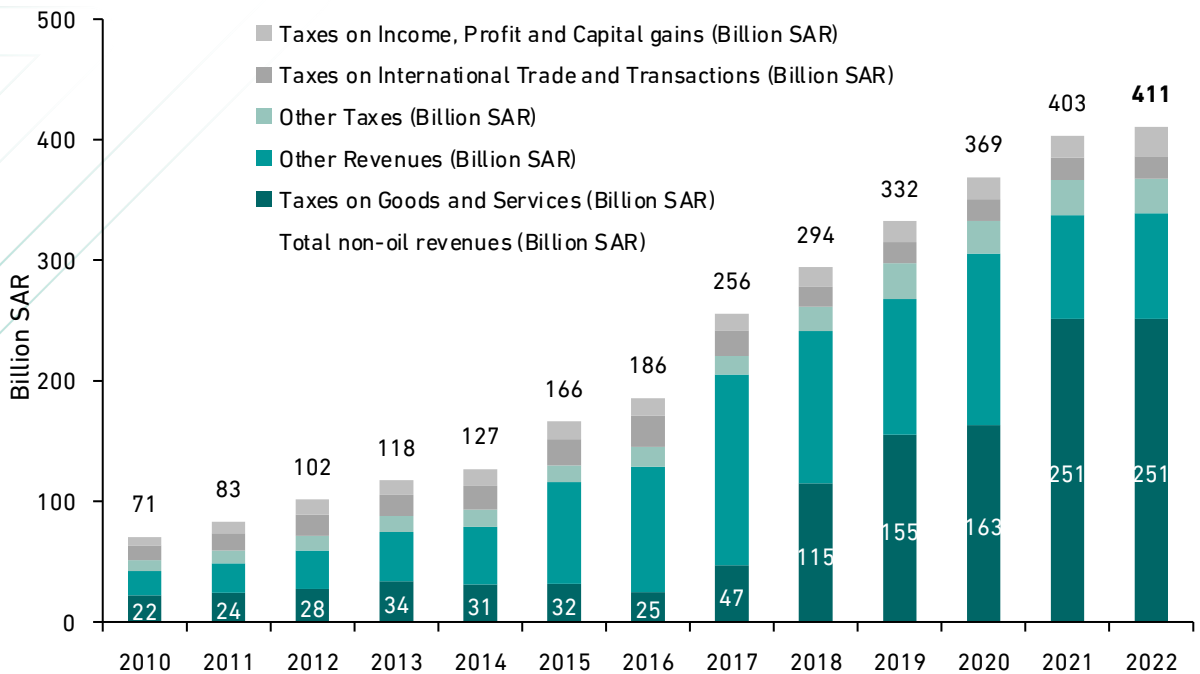
Source: Ministry of Finance

Tax reforms have contributed greatly to the increase in non-oil revenues and enhanced the government's ability to diversify its revenue sources. Taxes on goods and services have become the main driver of tax revenue growth, accounting for some 64% of total non-oil revenues. This is accompanied by the rise in Value Added Tax, and the expansion of production and sales in non-oil industries. Consequently, non-oil revenues have grown as a percentage of state spending from 17% in 2015 to 35% in 2022. However, these are still relatively low compared to global standards, including G20 countries where non-oil revenues contribute more than 70% to total expenditures.

Diversifying state revenues through increasing the number and rates of taxes can potentially weaken private consumption and investment. Furthermore, enhancing non-oil revenues may not fully compensate for its negative side effects if the government fails to improve expenditure efficiency and ensure sustainable economic growth

Nevertheless, the government's continuous efforts to diversify the economy through implementing various programs and initiatives directly linked to achieving the targets of Saudi Vision 2030, will lead to the continued growth of revenues. This growth will also be driven by the expectations of local and global economic recovery in the medium term, following the subsiding of the impacts of the COVID-19 pandemic. These efforts reflect the approach followed in supportive fiscal policies to improve expenditure efficiency, the active role of the Public Investment Fund (PIF) and development funds, privatization programs, and providing more opportunities for the private sector to participate in infrastructure projects. Additionally, the ongoing development of public financial management will contribute to increasing the efficiency and effectiveness of expenditure levels.

Graph 3.5
Saudi Arabia's non-oil revenue



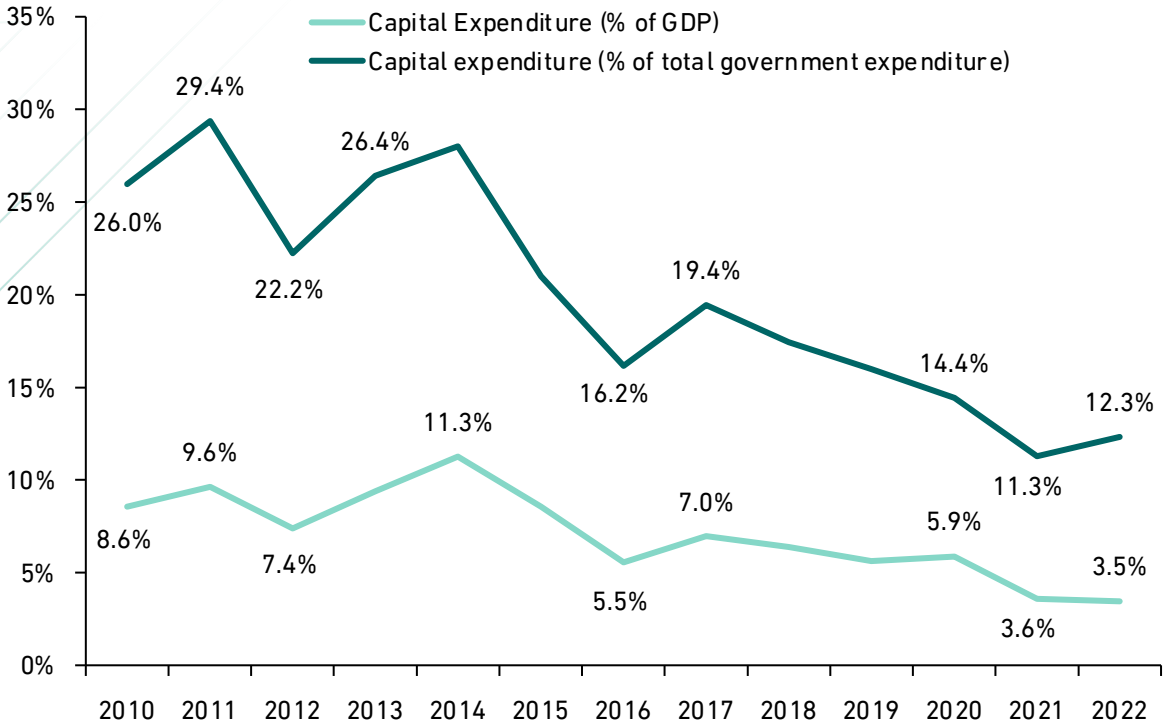
Source: Ministry of Finance

The government expenditure rationalization policy has played a crucial role in financial reforms, particularly by enhancing the efficiency of state spending. The ratio of capital expenditure to total government spending has continued to decline for the fourth consecutive year, reaching around 11% in 2021, down from approximately 29% in 2011.

According to the latest statement from the Kingdom's general budget, the ratio of capital expenditure to total government spending was 12.3% in 2022, with increasing revenues, coinciding with the ongoing decline in the ratio of capital expenditure as a percentage of GDP due to cost-cutting measures. This slowdown in capital expenditures aims to build a solid foundation through which investment funds and private sector entities can contribute to leading capital projects, following the government's outstanding achievements in developing infrastructure in recent years.

However, this decline in expenditures may increase pressure on the private sector and impact social development. Unlike the private sector, which is primarily driven by maximizing short-term profits, the government sector mainly focuses on enhancing social and economic conditions in the medium and long term. Therefore, the government's continued emphasis on improving social welfare through increasing and diversifying investments in health, education, social protection, and infrastructure is considered the optimal approach to eradicate poverty, wage disparity, and social inequality.

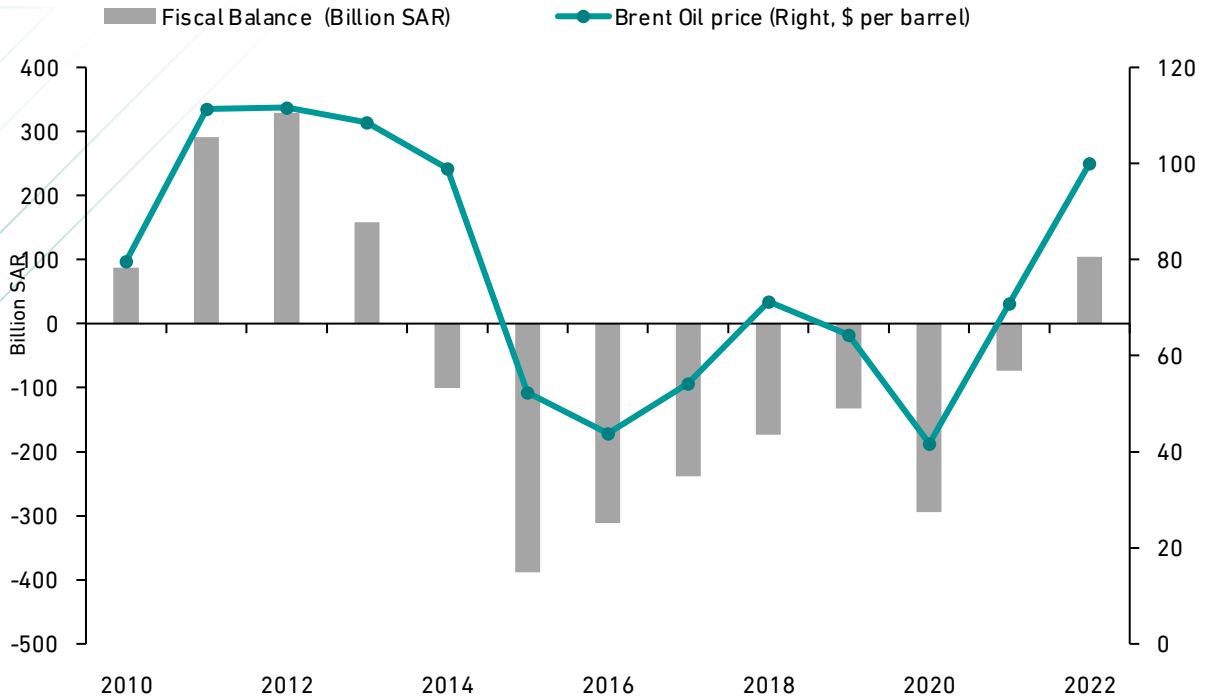
Graph 3.6
Declining capital expenditure



Source: Ministry of Finance

The current global challenges and unexpected events exert pressure on financial stability and the maintenance of a sustainable budget. Despite ongoing efforts to diversify the government's budget away from the oil sector, public finances still rely on petroleum prices, which remain the main source of budget revenues. The collapse of oil prices during the COVID-19 pandemic led to a budget deficit, despite the noticeable increase in non-oil revenues, which reached a record contribution of 47% to total revenues in 2020. This continuous reliance on oil prices (if it persists) may further expose the Kingdom to global market fluctuations, thereby reducing the flexibility of the economy to face future shocks.

Graph 3.7
The correlation of the fiscal budget with oil prices



Source: Ministry of Finance

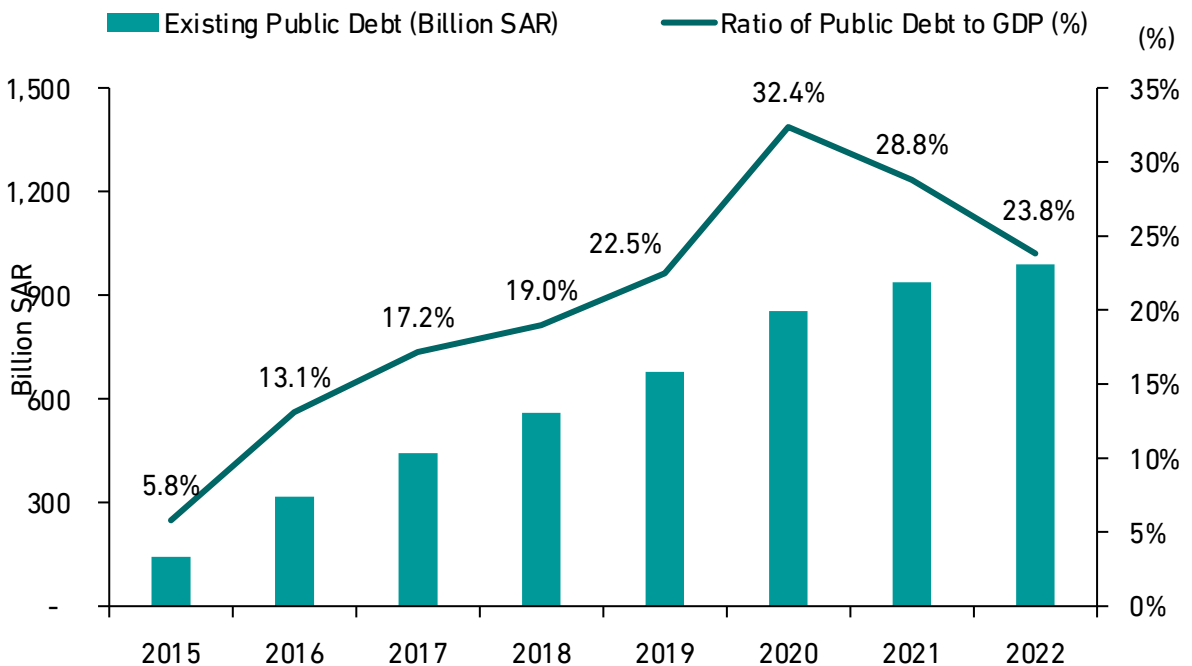
The "financial rules" of fiscal policy are considered globally important tools for achieving financial sustainability and avoiding shocks from the oil sector on the local economy. According to international standards, these aim to neutralize fluctuations in global energy markets by establishing a mechanism for pricing oil for budgetary purposes and setting revenue ceilings based on historical and future petroleum prices. They also direct a portion of financial surpluses to a fund for budgetary balance, another fund for local development, and a long-term external investment fund dedicated to future generations.

These rules also encourage the adoption of three-year budgets based on medium-term sectoral development plans, rather than just one year as is customary. This can help the private sector understand government spending trends, enhancing its ability to plan investments with greater clarity and lower risks. Consequently, the financial rules and medium-term budgets will contribute to stimulating private investment and increasing investor confidence, which may help the Kingdom to achieve sustainable development.

Amid the challenges faced by the Kingdom's economy due to global economic pressures, and to maintain its resilience in facing shocks, Saudi Arabia has increased its public debt issuances since late 2015, as it has played a major role in covering the budget deficit and the Kingdom's needs without depleting reserves or investment funds. The public debt-to-GDP ratio rose from 5.8% in 2015 to 32.4% in 2020, and then declined to 23.8% in 2022, thanks to achieving a surplus in the budget, supported by high oil prices. The Kingdom's annual borrowing plan, according to the 2023 budget estimates, expects a decrease in the level of debt in the coming years, as debt issuances will be limited to financing current obligations.

This ratio is considered low according to international standards and lower than the debt ratios of some countries with credit ratings similar to the Kingdom. This allows Saudi Arabia to increase its issuances to finance investment projects without affecting the sustainability of the government's budget and the overall stability of the Kingdom's economy, especially since domestic debt constitutes about 60% of the total public debt, reducing exposure to global markets. However, borrowing should be done with consideration of the total debt value, as long as the debt-to-GDP ratio remains low compared to other countries.

Graph 3.8
The Kingdom's public debt issuances



Source: The National Center for Debt Management

Global interest rate hikes to combat inflation raise concerns about the escalating debt and its cost, leading to decreased developmental spending in the budget during borrowing periods. Hence, maintaining low debt levels is vital to avoid the risks of unsustainable debt, including weakened capital spending, depleted reserves, exchange rate instability, high inflation, and halted developmental projects. Striking the right balance between financing capital projects and ensuring debt stability becomes the key challenge for financial sustainability amidst high interest rates and mounting inflation.

The Kingdom adeptly managed its debt in previous years, achieving success through increased demand for issuances, larger sizes, favourable pricing, and extended maturities. Notably, it strengthened its public debt policy, developed debt servicing tools, and diversified its investor base, venturing into global debt markets like the dollar and euro. Remarkably, Saudi Arabia successfully issued the largest euro-denominated sukuk outside the euro area with a negative yield and joined the FTSE Russell index for emerging market bonds. These milestones resulted from measures by the Capital Market Authority and related entities to develop the sukuk market and debt instruments. Noteworthy measures included inclusive trading of government debt instruments for all investor categories in the domestic market in 2018, and the allowance for foreign investors to directly invest in debt instruments in 2020. Moreover, issuers interested in offering public debt instruments were granted an exemption from paying the financial consideration to the authority during the registration process until the end of 2025, thereby providing an extra avenue for foreign investors to engage in the sukuk and local debt market.

However, it is essential to acknowledge that financial sustainability encompasses more than successful debt issuances and the provision of necessary financing. It equally relies on improving the quality of debt spending, ensuring it aligns proportionally with sustainability. Consequently, each riyal acquired through debt should be allocated efficiently to guarantee medium and long-term returns. Otherwise, accumulated debt burdens may arise over time, leading to a compounding effect that weighs heavily on the economy. Despite the Kingdom's progress towards financial sustainability, challenges and risks remain in ensuring sustainable development. Maintaining financial sustainability is crucial due to the strong interdependence between the Saudi and global economies, influenced by factors like oil price fluctuations, non-oil sector growth sustainability, and effective public debt management. Therefore, the Kingdom's fiscal policy should prioritize managing high oil revenues during price hikes and maintaining overall fiscal conditions through approved economic reforms aligned with Vision 2030. Strengthening support for the private sector is vital to bolster its resilience in the face of global market turmoil and provide the Kingdom with high revenues to offset oil revenue volatility. Additionally, sound debt management is essential, including optimizing debt maturity, minimizing refinancing costs, and establishing yield curves in domestic and international markets. These measures can increase financial reserves in the medium term and enhance overall financial resilience to prevent or mitigate the impact of future crises and potential pandemics.

4 Chapter Four

Empowering the Private Sector

The Kingdom aims to empower the private sector and increase its contribution to GDP by enhancing local production, developing national industries, launching and nurturing promising economic sectors, and maximizing the role of SMEs. This will be achieved through streamlining administrative and regulatory procedures, stimulating financing through various initiatives and programs, and creating an environment conducive to attracting major multinationals, increasing job creation, and enhancing localization in the private sector.

Empowering the Private Sector

The private sector represents the cornerstone of national economic development, the increase in GDP, and the creation of countless job opportunities. Therefore, it has received special attention since the launch of Vision 2030, which aims to empower it to achieve long-term economic diversification and sustainability.

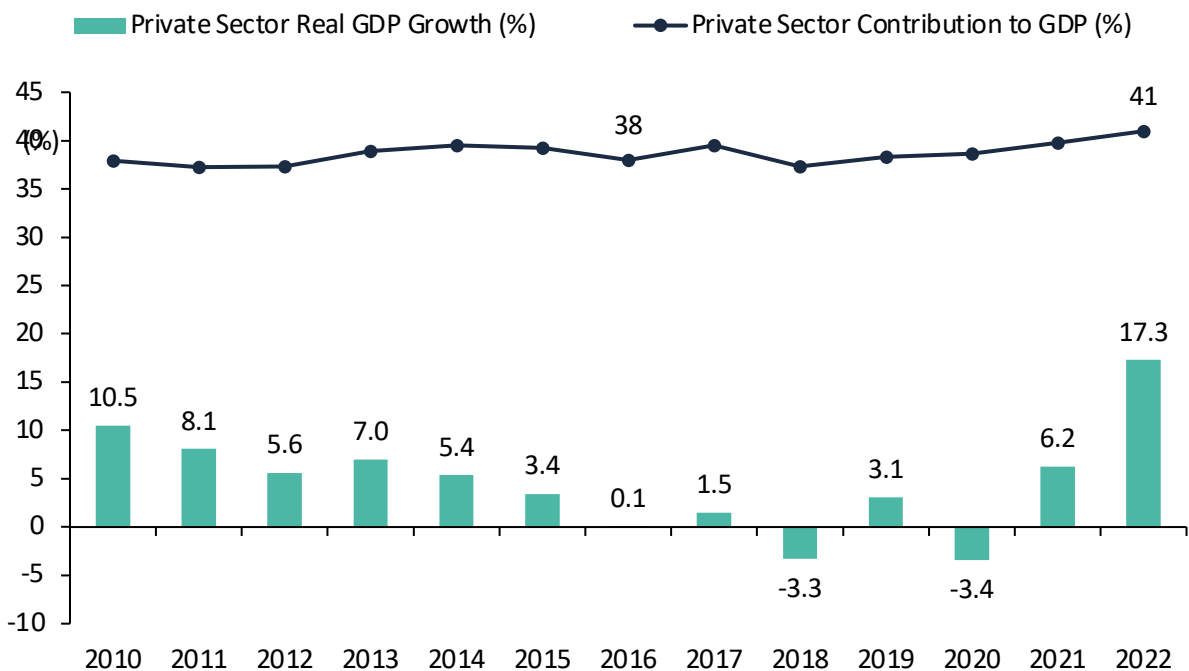
Through various programs, the Kingdom seeks to increase the private sector's contribution to the GDP to 65% by 2030, starting from around 38% in 2016. GDP growth is considered the main indicator of the success of the economic transformation plan. Given that this poses a significant challenge and requires the implementation of most programs through the private sector or in partnership with it, the Kingdom has introduced several systems and legislations to improve the business environment and empower the private sector.

These include expanding sources of financing for companies, improving labor market policies, implementing a bankruptcy system, facilitating foreign ownership, and organizing annual investment forums.

As a result of ongoing reforms, the transformational changes have become evident in the business environment in the Kingdom, as reflected in the improvement of its ranking in the annual Global Competitiveness Report, issued by the International Institute for Management Development, reaching eighth position among the G20 countries in 2020.

Graph 4.1

The private sector's contribution to the Kingdom's economy



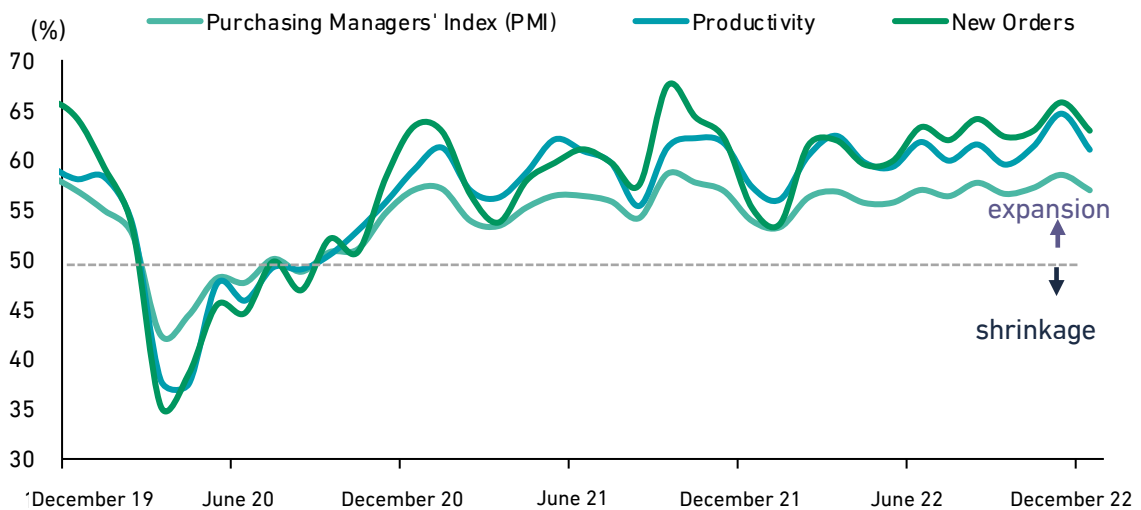
Source: General Authority for Statistics and estimates of the Ministry of Economy and Planning

Empowering the Private Sector

The private sector continued to recover in 2022 as the business environment improved and the impact of the pandemic diminished. Companies reported better demand conditions and increased new orders. The Purchasing Managers' Index (PMI) in Saudi Arabia, issued by S&P Global, which monitors the performance of the non-oil private sector, indicated ongoing economic expansion since August 2020. The average PMI for 2022 was 56.5 points, up from 55.8 in 2021, indicating sustained recovery after overcoming the effects of the pandemic.

This can be attributed to improved demand conditions, new business growth, and a drop in inflationary pressures during the second half of 2022. Notably, it led to a significant increase in purchasing activity, the fastest in seven years, along with higher inventory levels and job creation. Despite increasing global economic pressures, business confidence remained strong, reflecting optimism for continued growth in new orders in the coming year.

Graph 4.2
PMI for Saudi Arabia



Source: Standard & Poor's Global (S&P Global)

Due to its importance in developing and diversifying the private sector, the Kingdom has given high priority to SMEs to increase their contribution to the GDP from the current 20% to 35% by 2030. Therefore, the Kingdom has taken various measures to promote freelancing, entrepreneurship, and innovation. This includes launching business accelerators in various regions of the Kingdom, along with the removal of administrative and regulatory obstacles for these companies and the promotion of financing and lending opportunities.

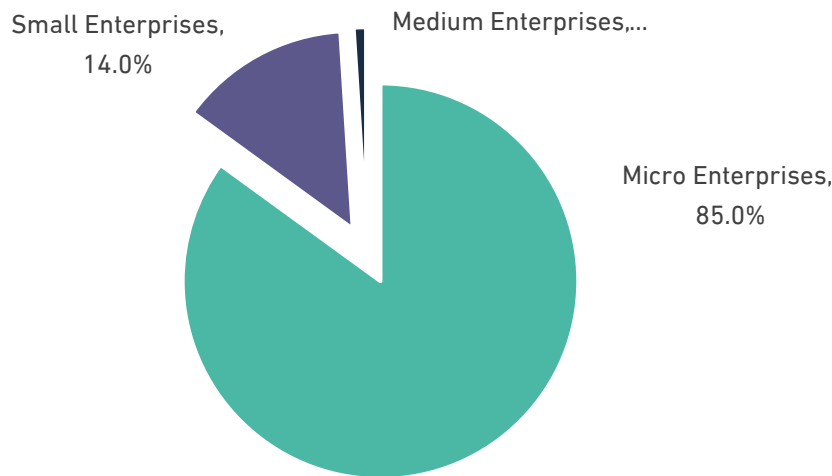
Thanks to a number of initiatives and programs, the number of SMEs has nearly doubled, from approximately 448,000 in 2016 to over 978,000 in 2022, representing a 9.7% increase compared to the previous year. The majority of these establishments are concentrated in the Riyadh region, accounting for 40.1% of the total, while the Makkah region encompasses 19.3% and the Eastern region 11.3%.

The number of small, medium, and micro-sized enterprises in the Kingdom rose by 24.5% in 2022, reaching SAR 26.07 billion compared to SAR 20.93 billion in 2021. However, despite ongoing efforts, these enterprises make up 99.5% of total companies in the Kingdom, with over 85% classified as micro-sized. This threatens the private sector's growth sustainability as these struggle in their early years without adequate support or market competitiveness due to their size and limited resources.

These businesses also face challenges from high taxes and economic crises. Moreover, many of these businesses are family-owned or seasonal, lacking the planning and marketing strategies required to grow. To address this, regular surveys and field research are essential to identify obstacles and create specific indicators for small and medium-sized enterprise environments. Constant communication and coordination with relevant government entities are crucial once obstacles are identified.

Graph 4.3

Private sector establishments in the Kingdom in 2022



Source: Monsha'at

As an important part of empowering the private sector, enhancing local production in the national economy is a top priority and goal of Vision 2030. The Kingdom aims to boost local production in various sectors by localizing the production of goods and services to enhance competitiveness and create sustainable job opportunities. The primary objective of promoting local production is to retain as much capital as possible within the country instead of spending it on imported purchases, whether by government entities, private entities, or even Saudi individuals.

Numerous initiatives have been launched to support national products and expand the industrial base in the Kingdom to include the local production of new goods. Notable initiatives include increasing localization in the defense industries sector, implementing customs system reforms to enhance the attractiveness of national industries, and stimulating job creation for citizens while considering the competitive advantage of strategic sectors.

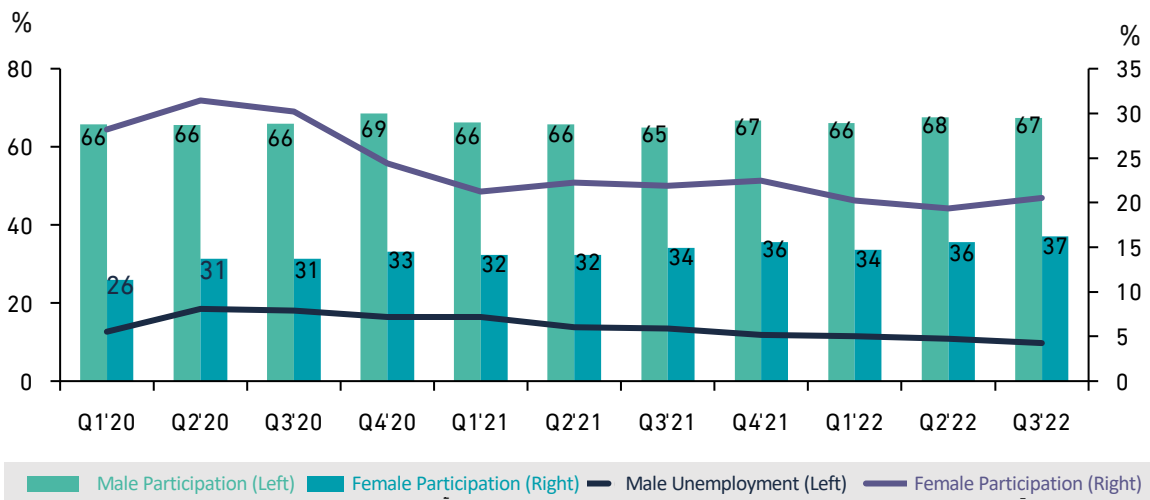
The localization of jobs in the Kingdom is a key goal of Saudi Vision 2030, which seeks to foster an environment that promotes private sector growth. Localizing professions in Saudi Arabia increased private sector employment to more than 2.23 million citizens, lowering the Saudi unemployment rate to a historic low of 8% in Q4 2022. This aligns with plans to further reduce unemployment gradually to the target of around 7% by 2030. Saudi women have continued to achieve a higher participation rate in the labor market, with their contribution reaching 38.3% in Q4 2022, compared to 33.6% in the Q1, underscoring their increasing role and significance in achieving the Saudi Vision 2030.

The implementation of localization decisions has been characterized by gradual progress and development over the past years, allowing establishments to adapt and absorb the Saudi workforce without harming the private sector, while also investing in the Kingdom's youth, training them to support the needs of the Saudi job market.

However, despite the continuous efforts to localize jobs in the private sector, Saudi Arabia may face significant challenges, manifested in a preference for working in the government sector due to the privileges it offers compared to those of the private sector. Additionally, the rapid departure of foreign workers in some sectors without replacing them with suitable competencies from the Saudi workforce, may affect the performance and productivity of the private sector in the short and medium term.

Therefore, within the strategic plans that support providing a suitable and stimulating environment for the growth of the private sector, and which express the development of innovative opportunities for the future, regulatory authorities continue to encourage and accelerate the pace of attracting major international companies to compete in the local economy and create distinguished job opportunities for Saudi youth, in line with the pillars of Saudi Vision 2030.

Graph 4.4
Contribution of Saudi men and women to the private sector



Source: General Authority for Statistics.

To ease the burden on the Kingdom's public budget, the Public Investment Fund (PIF) plays a vital role in supporting economic diversification by enabling the private sector and launching promising sectors.

The fund aims to inject an annual SAR 150 billion into the local economy, progressively increasing until 2025, focusing on 13 vital and strategic sectors. Its assets are expected to exceed SAR 4 trillion, creating 1.8 million direct and indirect jobs. The fund's main role lies in driving investment toward new sectors that carry higher risks for the private sector, aiming to pave the way for economic diversification and assist the private sector in accessing promising sectors with untapped potential. One of PIF's significant achievements is activating 10 new sectors through more than 30 new companies established in areas like entertainment, tourism, e-commerce, military industries, and start-up investments. This effort has generated over 365,000 direct and indirect jobs by 2020. According to the latest data, the fund's assets have nearly tripled to some SAR 1.5 trillion, while shareholder return rates rose to 8% from 2018-2020, compared to 3% from 2014-2016.

The Public Investment Fund's role in developing the private sector is contingent on two conditions. Firstly, it should be limited and temporary to reduce risks and create opportunities. Secondly, it should focus on non-traditional sectors where production levels are already at their maximum levels. This is done through monitoring the fund's performance indicators, which include policies to develop the financial sector, aiming to stimulate savings, financing, and investment to keep pace with the major transformations in the Kingdom,

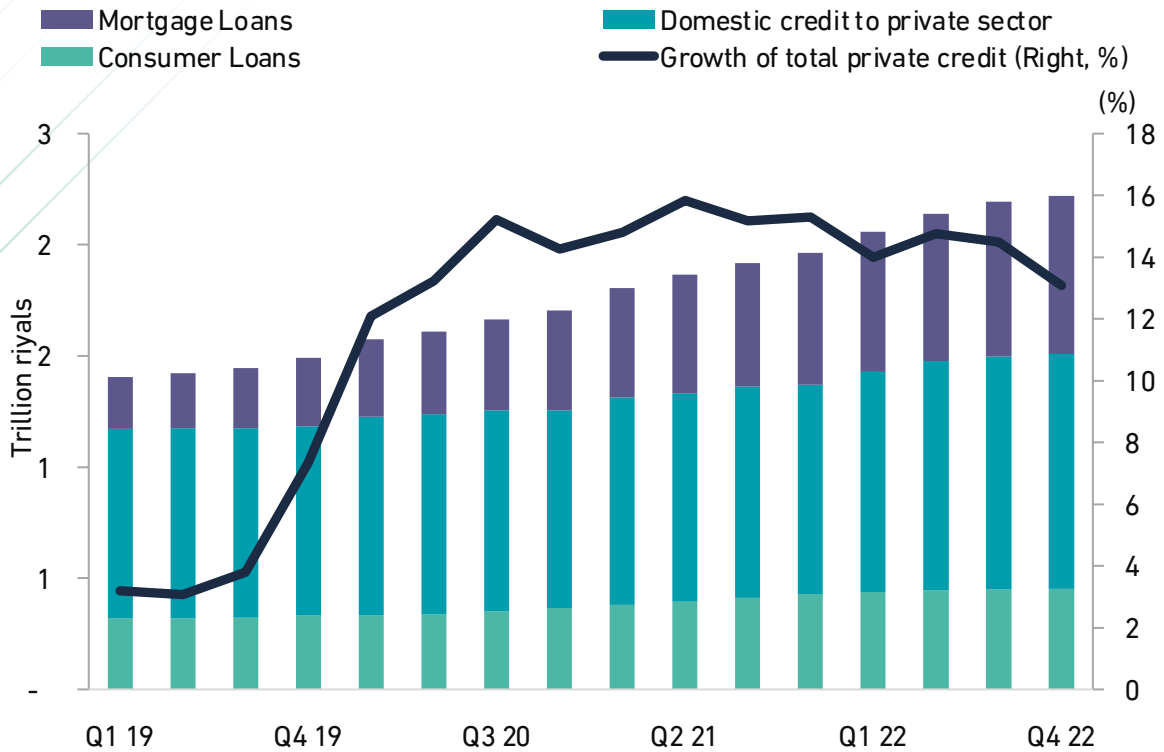
thereby supporting private sector growth and national economic development. The goal is to achieve integration and cohesion within the financial sector system, utilizing innovative tools in service development and management, making the Kingdom one of the world's largest financial centres by 2030.

Saudi banks play a crucial role in the economy by employing nationals, boosting capital flow, and supporting government and the private sector through project-expanding loans. As the private sector recovers, bank lending to it in the Kingdom increased by about 13% by the end of 2022, reaching approximately SAR 2.3 trillion, per the latest report from the Saudi Central Bank. Additionally, the number of point-of-sale devices surpassed 1 million, aligning with the rise in electronic payment share to 57% in 2021, exceeding the targeted rate of 55%.

Significant developments have occurred in the Saudi financial market to advance the sector. Notably, over 20 companies have been listed, bringing the total listed companies to 220+. This trend is expected to continue, attracting more companies and bolstering the financial market's appeal while ensuring ample liquidity for private sector financing and development.

Industrial stimulus funds like the Saudi Industrial Development Fund (SIDF) support sectors such as mining, energy, industry, and logistics. They offer programs like land and loan schemes to encourage private sector investment. Additionally, initiatives like Tayseer and Invest Saudi facilitate private sector growth by providing opportunities and highlighting promising sectors.

Graph 4.5
Growth of private sector loans in the Kingdom



Source: Central Bank of Saudi Arabia

Programs empowering the private sector have greatly boosted non-oil exports, benefiting from enabling Saudi companies to access global markets and develop strategic partnerships. As part of Saudi Vision 2030, the Kingdom aims to increase the share of non-oil exports from 16% to 50% of the total GDP by enhancing export efficiency, providing incentives to exporters, promoting Saudi products, and improving their competitive quality to facilitate their entry into international markets.

In recent years, the importance of developing non-oil Saudi exports has been highlighted in increasing the contribution of non-oil sectors and enhancing the resilience of the Saudi economy, especially during periods of low oil prices.

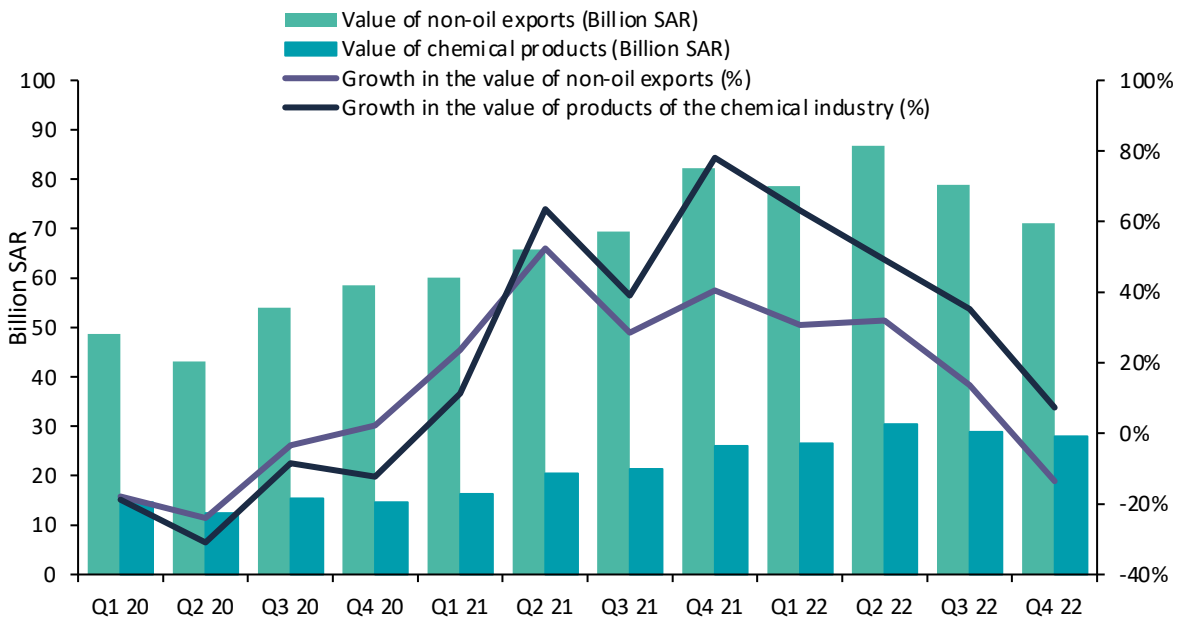
Saudi Arabia achieved a record level of non-oil exports in 2021, reaching around SAR 277 billion, a 34.5% increase compared to 2020. Non-oil exports continued to shine in the second and third quarters of 2022, reaching a value of SAR 78.4 billion, a 13% increase compared to the same period last year. This recovery can be attributed to the growth in exports of chemical, plastic, rubber, and metal products, which account for approximately 80% of non-oil exports.

However, it is worth noting that "chemical products," which constitute around 36% of non-oil exports, are affected by global oil prices, which increases their vulnerability to market fluctuations.

Therefore, the Kingdom must continue diversifying its non-oil economy and supporting the exports of small and medium-sized enterprises, particularly in promising sectors, to achieve sustainable sources of income. Similarly, in order to enable Saudi exports to access global markets, relevant authorities are investing in their declared initiatives to create a fruitful environment for local exporters and enhance the export capabilities of the Saudi sector, increasing its competitiveness in global markets.

This is done through leading initiatives to support Saudi exports, such as the establishment of the Saudi Import-Export Bank, promoting the products of Saudi exporters, and various initiatives offered by relevant authorities to stimulate non-oil exports. This aligns with the goals of developing domestic content locally.

Graph 4.6
Importance of chemical industry products in non-oil exports



Source: General Authority for Statistics

5 Chapter Five

Investment Attractiveness

The Kingdom aims to create a modern and prosperous era for partnership between the public and private sectors. In pursuit of this goal, it has launched a package of reforms aimed at enhancing investor access to opportunities and streamlining business procedures at all stages. These efforts coincide with the improvement in private sector performance, which has played a significant role in the strong rebound of the investment sector in 2022, supported by a rise in oil prices and the growing confidence of both local and foreign investors.

Investment Attractiveness

As part of Saudi Vision 2030, the Kingdom seeks to enhance its economy and diversify sources of income by providing and developing investment opportunities, stimulating local investment, and attracting foreign investors. Consequently, it has launched a package of economic reforms aimed at enabling investors to access investment opportunities and facilitating business practices at all stages, while improving private sector performance.

The Kingdom has successfully implemented approximately 555 reforms in investor services, including reducing the time required to start a commercial activity to just 30 minutes instead of 15 days, and reducing the time needed to obtain a commercial registration to only 180 seconds. Additionally, the government has provided financial and tax support to investors, along with various other services. These reforms have led to the Kingdom's advancement by 29 positions in the World Bank's "Ease of Doing Business 2020" index, achieving the 63rd global rank.

Within the framework of Saudi Vision 2030, the Kingdom aims to achieve three main goals by 2030: doubling the size of investment to reach SAR 2 trillion or 30% of GDP, doubling total domestic investments with an annual increase of 9%, and increasing foreign direct investment to approximately 5.7% of GDP by 2030. Furthermore, in light of Saudi Vision 2030, the Kingdom aims to foster a new environment for partnership between the public and private sectors through various programs, which aim to enable local company investments. This contributes to the benefit of the Kingdom's economic ecosystem and indirectly benefits small and medium-sized enterprises and other businesses through value and supply chains by attracting larger companies to invest.

It is expected that the diverse impacts of these measures will help the private sector contribute to 65% of GDP by 2030.

Despite adopting appropriate policies and reforms to enhance the investment environment since the launch of the economic strategy in 2016, economic crises and the COVID-19 pandemic hindered the achievement of some initial targets by 2020. This period saw global economic fragility, weakened demand, and collapsing oil prices, resulting in a decline in global investments and hesitation from global companies to support major projects.

The COVID-19 pandemic further exacerbated the global situation since the beginning of 2020, leading to a sharp decline in private non-oil sector investment rates in the Kingdom. As a result, the government resorted to own investment mechanisms to support local projects and companies, rather than attracting more foreign investors, especially through the Public Investment Fund, which invested SAR 84 billion in the local economy during 2021 and aimed to invest SAR 150 billion in 2022. These measures contributed to the recovery and strong rebound of investment in 2021, coinciding with the rise in oil prices and increased confidence from local and foreign investors in the effectiveness of the adopted reforms. The total nominal fixed capital formation reached approximately SAR 225 billion in the first quarter of 2022, representing an estimated increase of about 27.1%, driven by an increase of around 28.6% and 8.9% in private and government fixed capital formation, respectively.

The Kingdom continues to work on incentivizing local companies to support the private sector. In early 2021, the Shareek Program (Partner Program) was launched to encourage large private sector companies to increase their investment in the local economy by 2030 through tax exemptions, favorable loans, and other forms of assistance.

Foreign direct investment (FDI) plays a crucial role in the Saudi economy and remains a top priority for the Kingdom in achieving its Saudi Vision 2030 objectives. Net FDI inflows have consistently increased for the past five years, reaching the highest level since 2015, excluding the exceptional Aramco deal of 2021 amounting to SAR 46.5 billion. Saudi Arabia has successfully attracted approximately SAR 29.6 billion in direct foreign investments in 2022, totalling around SAR 168.4 billion since the launch of Saudi Vision 2030 in 2016. This reflects the global confidence in the Saudi economy, its promising future, and the abundant investment opportunities with significant returns, all aligned with the ongoing success of Saudi Vision 2030.

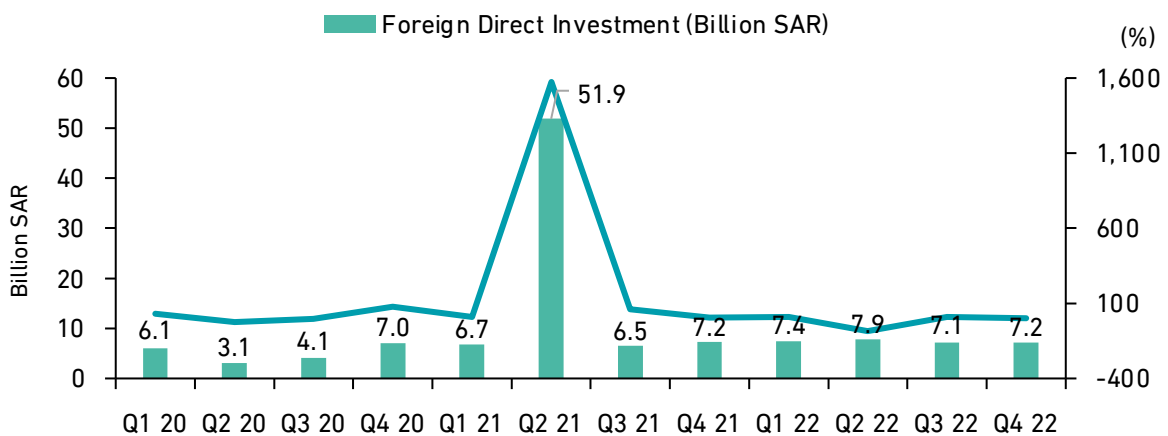
The Kingdom aims to increase net FDI to \$100 billion by 2030, aligning with Saudi Vision 2030's goal of removing barriers to foreign investment and providing massive investment opportunities through sector privatization and major projects.

With growing global interest and investor eagerness to expand their stakes, Saudi Arabia has announced a requirement for foreign companies and institutions to establish regional headquarters in the Kingdom from early 2024 to compete for government purchases and contracts. This policy has incentivized numerous foreign companies to establish a presence in Saudi Arabia, as evidenced by 44 global companies selecting Riyadh as their regional headquarters. This choice further underscores the Kingdom's stature as one of the region's leading economies.

This initiative aims to create employment opportunities, minimize economic leakage, enhance spending efficiency, and ensure that essential products and services acquired by government entities are executed within the Kingdom, incorporating suitable local content.

Graph 5.1

Foreign direct investment flows to the Kingdom on a quarterly level



Source: Ministry of Investment

To diversify its investments and keep pace with the evolving start-up ecosystem, the Kingdom has become one of the most active markets in the Middle East and North Africa in terms of venture capital investment, which involves providing funding in exchange for equity.

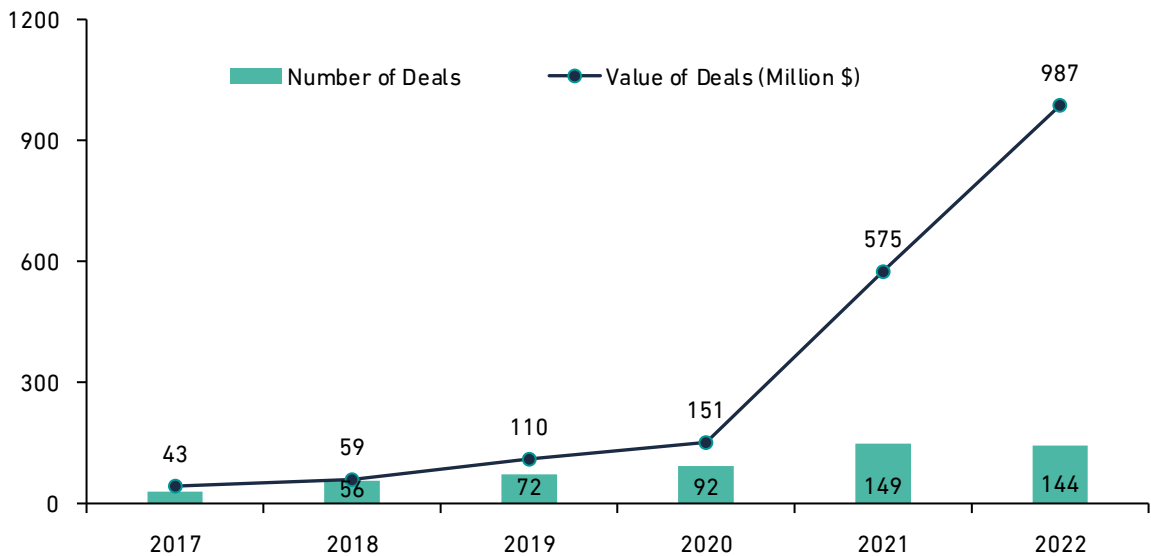
Under Saudi Vision 2030, the Kingdom has achieved remarkable growth in venture capital investment in recent years, launching numerous initiatives to stimulate bold investment and enhance the growth of start-ups. This has encouraged the emergence of increasing numbers of venture capital funds and angel investor groups.

The Kingdom's initiatives have also stimulated young Saudi entrepreneurs to establish high-growth start-ups and attract local and foreign entrepreneurs and investors due to the immense size and rapid growth of the Saudi market. As a result, investments in Saudi start-ups reached a record \$987 million in 2022, growing by 72% compared to 2021.

This enabled the Kingdom to achieve the highest growth rate in venture capital investment in 2022 compared to other countries in the Middle East and North Africa, maintaining its position as the second-largest market in terms of venture capital investment volume in the region in 2022. It accounted for 31% of the total invested amount in the region, compared to 21% in 2021.

Graph 5.2

The number of trades and the value venture capital investment



Source: Monsha'at

Amid the escalating global uncertainty and slowdown of major economies, the persistence of risks and challenges may make it difficult to attract foreign investors and achieve planned investment goals in the coming years.

Given the increasing concerns about the possibility of a global economic recession, it is expected that some investments and capital will shift their direction from emerging markets to advanced markets, particularly the United States, which is experiencing a noticeable increase in government bond interest rates coinciding with the rise in the U.S. Federal Reserve's interest rate and the strength of the dollar. Some investors and companies may also suffer from liquidity shortages and high levels of debt, leading them to suspend or cancel investments abroad and withdraw the capital they have invested.

Moreover, local investments, whether from government entities or the private sector, may also be affected as they may be postponed due to their diminished importance during times of crisis and the urgent need to enhance economic resilience, especially if government revenues decline due to a decrease in global oil demand. However, the Kingdom's ongoing efforts to increase the significance of the private sector and the cooperative government framework may mitigate the negative effects of the global economic slowdown on the domestic economy and contribute to achieving Saudi Arabia's goals to grow its investments.

Key Potential Challenges to the Global Economy in 2023

In 2022, the world experienced profound changes, significant fluctuations, and international pressures that affected the global economy as a whole. These conditions had repercussions on the performance of both advanced and emerging economies, pushing many countries into an economic slowdown. Despite facing diverse and numerous global challenges, the Kingdom managed to withstand the global circumstances resulting from the COVID-19 pandemic and the Russia-Ukraine crisis. It even outperformed the growth of G20 economies, thanks to its robust economic foundation, abundant natural resources, and strong financial system.

However, it is worth noting that 2023 is expected to present various challenges and risks that could impact Saudi Arabia's economy. The continued escalation of uncertainty and increasing levels of ambiguity in the global economy play a significant role in this. Some of the prominent challenges include:

- **Continued tightening of monetary policy:** In light of central banks around the world continuing to maintain interest rates at high levels, the impact on many economic sectors may increase as a result of the increase in the cost of borrowing and investment and the decline in global consumption rates. Despite the US Federal Reserve's decision not to change the interest rate at its June 2023 meeting, this pause, which comes after ten consecutive hikes, does not mean the end of monetary policy tightening. Rather, there may be other increases in interest rates throughout the second half of the year. Therefore, the Kingdom continues to adopt favorable monetary policies to maintain inflation rates at low limits, compared to the economies of the world, which supports the monetary and financial stability of the Kingdom's economy.
- **Lack of Slowdown of Global Inflationary Pressures:** The ongoing rise in prices of imported goods and raw materials may affect prices in other sectors and give rise to second-round effects.
- **Slowdown of major economies:** Increasing economic struggles in advanced economies, such as economic contraction or recession, can exert pressure on global demand and push energy prices down. This may compel OPEC and its allies to reduce oil production to achieve price stability, negatively affecting Saudi Arabia's budget and economic growth.
- **Escalation of political tensions:** The continued repercussions of the Russia-Ukraine crisis, and escalating political tensions between China and the United States, may increase the level of uncertainty and ambiguity in global markets. This could lead to the lack of slowdown in inflationary pressures or a weakening of global demand.

Given the strong interdependence between the Saudi and global economy, external shocks can significantly impact the Kingdom despite its current flexibility. Saudi Arabia is deeply integrated into the global economy and aims to join the ranks of advanced nations. Consequently, as part of Saudi Vision 2030, the Kingdom needs to focus on mitigating the effects of global economic recessions and risks to attain sustainable growth, while capitalizing on the advantages offered by its oil production and robust domestic markets across diverse economic sectors. Among the key recommendations is the continued economic diversification and enhancement of industrial sector capabilities, as well as developing and refining human capital to align with future jobs, and strengthening export capabilities, especially in sectors with high returns.

Given the frequent fluctuations in global energy prices, the Kingdom's commitment to further financial discipline in the medium term, along with continued improvement and efficiency in spending policies despite rising oil prices, may help avoid and mitigate any potential shocks in the coming years. In addition, we see the importance of strengthening and consolidating the Kingdom's economic and trade relations with friendly countries, in light of the approach of some countries to adopt protectionist policies and not export certain essential commodities during crises, which could create shortages and price hikes in domestic markets.

Therefore, with increasing global ambiguity, uncertainty, and economic shocks, countries around the world continue to hedge against expected global risks. Hence, we must increase our precautions in the face of anticipated risks in 2023 by increasing cash reserves and building appropriate financial buffers to address any fluctuations in global markets or continued imbalances in economic cycles. By working on increasing the resilience of the Kingdom's economy, we will face these global challenges with stability and steadfastness towards achieving the goals of Saudi Vision 2030.



وزارة الاقتصاد والتخطيط
MINISTRY OF ECONOMY & PLANNING

Disclaimer

This report has been prepared by the Ministry of Economy and Planning to make available the general information it contains to researchers and interested persons and to the general public for the purpose of knowledge and understanding, based on the principle of transparency and the availability of information. This report is not a recommendation from the Ministry to others to take any decision and financial, legal and other specialist and expert advice should be taken in this regard. The Ministry seeks to make the information contained in the report complete, up-to-date and accurate, but it does not make any representations, warranties or guarantees of any kind, whether express or implied, regarding completeness, accuracy, reliability, suitability or newness of the information. Therefore, any reliance on this information included in the report is entirely at your own risk, and the Ministry will not be responsible in any way for any action or decision taken based on the report or for any direct or indirect loss or damage, lost opportunity or loss of profits that may occur using this report, and the Ministry has the right to modify or delete this report without prior notice.