

# SAUDI ARABIA

31

## STAYING THE COURSE ON DIVERSIFICATION DESPITE TWIN DEFICITS

Economic growth remains strong, with a positive short-term outlook fuelled by the rebound in oil production and the performance of the private sector. However, this growth coincides with widening twin deficits. The investment requirements of the Vision 2030 transformation initiative are straining public finances and external accounts, both of which are currently in deficit, while also affecting the banking sector. The authorities are adjusting their diversification strategy, but the anticipated drop in oil prices is expected to continue to exert pressure on public finances in 2026. The country still has ample financial leeway, and its ambitions remain intact. In fact, priority is now being accorded to developing strategic sectors, particularly artificial intelligence.

### ECONOMIC GROWTH IS RESILIENT

Real GDP grew by 4.5% in 2025, Saudi Arabia's fastest growth since 2022. Despite signs of weakness, the outlook remains positive.

The oil sector remains a key driver of growth. After two consecutive years of contraction, oil GDP grew by 5.6% in real terms in 2025. Saudi Arabia reaped significant benefits from the decision by OPEC+ members to expedite the return of previously withheld oil supplies to the market - supplies that had been deliberately reduced between late 2022 and late 2024 to bolster prices. Consequently, its crude oil production increased from 8.9 million barrels per day (mbd) to just over 10 mbd within a year. The outlook remains uncertain. Faced with a global market characterised by overproduction, OPEC+ opted to stabilise production in Q1 before potentially increasing output. However, downward pressure on prices (excluding geopolitical risk premiums) could pose challenges to this strategy. For Saudi Arabia, the repercussions would be limited. Maintaining production at current levels throughout 2026 (10.1 mbd) would still represent a 6.7% increase compared to 2025.

Outside the oil sector, activity is expected to remain robust despite increasing indications of a slowdown. Faced with significant financial pressures, the authorities are compelled to revise the Vision 2030 initiative, scaling back several major infrastructure projects and tightening fiscal policy. Nevertheless, the economy's fundamentals remain robust. The unemployment rate stood at 3.4% in Q3 2025 - a record low - thanks to sustained job creation (1.3-1.6 million jobs annually since 2022, with over 80% originating from the private sector), while both investment and household consumption continue to exhibit dynamism.

Low inflation constitutes another supportive element for the economy. Measures implemented in 2025 to control real estate prices (the primary inflation driver in recent years) have begun yielding results. From 10.8% at the end of 2024, the rise in rents moderated to 5.3% by the end of 2025. In Q4, the real estate price index even recorded its first year-on-year contraction (-0.7%) since 2019. This trend is expected to continue, bringing the growth of the Consumer Price Index down to 1.7% in 2026, compared with 2% in 2025.

All in all, the vitality of the non-oil private sector, bolstered by the emergence of new sectors such as tourism, and strong domestic demand, largely mitigates the negative impacts of fiscal tightening on the economy. Non-oil GDP growth fell from 5.3% in 2024 to 4.1% in 2025, which is still high. It is expected to maintain a similar rate over the next two years, barring any further significant external shocks. Coupled with sustained growth in oil GDP, this momentum should bring real GDP growth to 4.6% in 2026. In 2027, growth is projected to fall back to 3.3%, mainly due to weaker support from oil production.

### FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth (%)	0.5	2.7	4.5	4.6	3.3
Inflation, CPI, year average, %	2.3	1.7	2.0	1.7	2.0
Gen. Gov. balance / GDP (%)	-1.8	-2.5	-5.3	-5.0	-4.4
Gen. Gov. debt / GDP (%)	23.0	25.9	31.6	35.2	37.3
Current account balance / GDP (%)	2.1	-1.3	-3.1	-3.2	-2.9
External debt / GDP (%)	24.6	29.5	34.3	37.5	39.9
Forex reserves (USD bn)	437	437	460	473	479
Forex reserves, in months of imports	17.2	15.5	15.3	14.9	14.4

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### GROWTH DRIVEN BY OIL ACTIVITY AND THE PRIVATE SECTOR

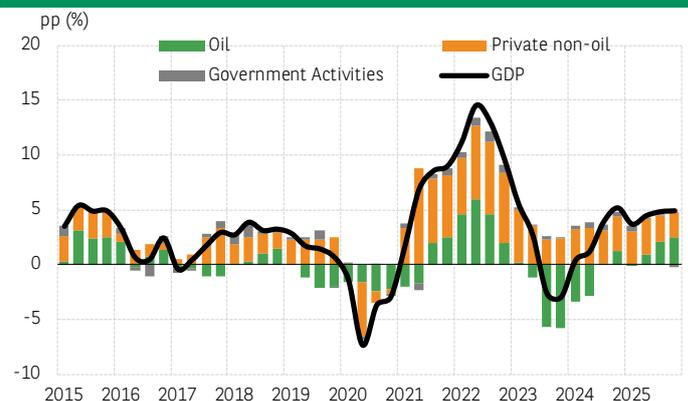


CHART 1

SOURCE: GASTAT, BNP PARIBAS

### FISCAL PRESSURES PERSIST DESPITE ADJUSTMENTS

The 2026 budget projects a 1.7% reduction in expenditures, following a 2.8% contraction in 2025, with capital spending bearing the brunt of these cuts. After three consecutive years of considerable growth in public spending (2022-2024), the authorities have implemented corrective measures to address deteriorating public finances.


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The budget deficit widened from -1.8% of GDP in 2023 to -5.3% in 2025—more than double the original target. The current objective is to reduce the deficit to -3.3% of GDP in 2026, a target that is also unlikely to be met.

The government anticipates a 5% increase in budget revenues in 2026, which is predicated on the assumption that the Brent price will average USD 68-70 per barrel. However, according to our forecasts, the price is likely to settle at around USD 60 this year. Furthermore, fiscal flexibility remains constrained. The economic transformation programme, although scaled back and primarily financed by the sovereign wealth fund (PIF), is still ongoing, coinciding with several major upcoming events (World Expo 2030, FIFA World Cup in 2034). In addition, current expenditures account for 86% of government spending. In this context, the budget deficit is expected, at best, to stabilise at around 5% of GDP in 2026 before gradually declining in 2027.

Government debt is therefore expected to continue to rise rapidly. It could reach 37.3% of GDP in 2027, up from 31.6% in 2025 and just 21.3% in 2022. The Saudi government’s ability to borrow is not a cause for concern. Even though it is rising, government debt remains at a moderate level and its structure is favourable. However, the rise in financing needs is accompanied by greater reliance on international financial markets, which introduces additional risks. After issuing a record USD 20 billion in Eurobonds in 2025, the government has announced its intention to reduce borrowing. It plans to raise USD 15-18 billion in 2026 through Eurobond debt, while the remainder of its financial requirements will be covered by domestic financing or private channels such as syndicated loans. However, given the expected budget deficit slippage, Eurobond issuance may once again surpass previous records this year.

### EXTERNAL ACCOUNTS: STRUCTURAL SHIFT UNDER WAY

The current account balance has been in the red since Q3 2024, which is another sign of the macroeconomic pressures facing Saudi Arabia. In the first nine months of 2025, the current account deficit widened by over USD 20 billion compared to the same period in 2024. The underlying factors contributing to this deterioration are set to continue: a decline in oil exports (in value terms) and sustained growth in imports. The current account deficit increased from 1.4% of GDP in 2024 to -3.1% in 2025 and is expected to reach -3.2% in 2026.

The consequences are manifold. This shift has transformed Saudi Arabia from a traditional net capital exporter to a net importer with growing financing needs<sup>1</sup>. At USD 109.2 billion, capital inflows in Q3 2025 had already exceeded the total for 2024. Only 18% of these inflows were foreign direct investment, while external financing needs were largely covered by debt.

Beyond the central government, Saudi banks are particularly active in international financial markets. Their total foreign currency debt issuance (including sukuk) more than tripled in 2025, reaching USD 40 billion. With loans continuing to grow faster than deposits and a loan-to-deposit ratio above 100%, it is clear that they will need to continue seeking external financing to bolster economic development. This should not pose too many difficulties given the strength of the banking system.

Saudi Arabia’s net external credit position still accounted for 58% of GDP in Q3 2025. However, it is gradually eroding (71.6% of GDP at the end of 2021). In fact, it has already reversed for banks (see chart 2).

### AI: AMBITIOUS GOALS

Saudi Arabia is at an important stage in its transformation project. While resilient growth reflects the progress already made, staying the

## BANKS SHIFT TO EXTERNAL FUNDING TO SUSTAIN CREDIT GROWTH

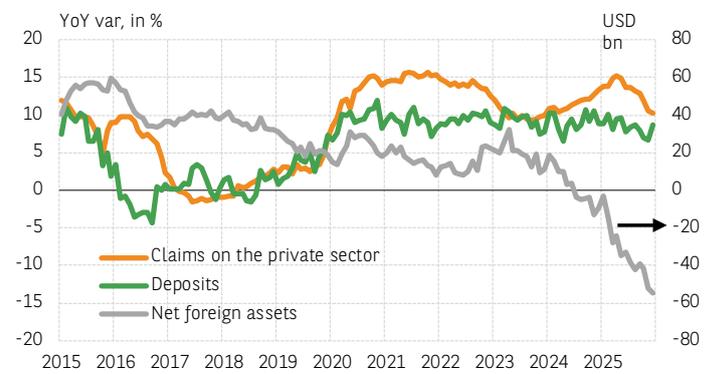


CHART 2 SOURCE: SAMA, BNP PARIBAS

course on economic diversification requires stepping up reform efforts, particularly with a view to enhancing the Kingdom’s attractiveness for foreign direct investment. The ongoing recalibration of the Vision 2030 programme also represents a necessary adjustment to address macroeconomic imbalances. The authorities’ adoption of a more pragmatic and selective approach is encouraging. Notably, strategic ambitions remain intact, with particular emphasis now placed on developing key sectors, especially artificial intelligence.

Despite currently accounting for just 0.1% of global AI-related product exports in 2025, Saudi Arabia aims to position itself among the world’s leading AI players within the next decade. The national strategy focuses on developing the entire AI value chain. To achieve this, the country has several comparative advantages: an abundance of low-cost, carbon-based energy, a central geographical location, ample space, and significant investment capacity. A pivotal step in this direction was the establishment of the company Humain in May 2025, which is owned by the PIF (USD 1.187 trillion in assets under management). The fact that a public entity is spearheading this strategy is not a drawback. On the contrary, it should streamline decision-making at the highest levels of government, thereby ensuring a regulatory and operational environment conducive to the development of AI.

Furthermore, Saudi Arabia is well-positioned in various assessments regarding its ability to leverage AI. According to the World Bank, its adoption could add an extra 0.6 percentage points to annual GDP growth in the medium term. Likewise, AI could account for up to 12% of nominal GDP by 2030, according to PwC, provided that the numerous investment projects already announced or under consideration are completed.

At this stage, however, the potential impact remains highly uncertain. Furthermore, the development of AI in Saudi Arabia could be hampered by its dependence on foreign technology, particularly high-tech chips, access to which could be affected by the geopolitical landscape and tensions between the United States and China. However, the positive relations between US and Saudi leaders are currently helping to overcome this obstacle.

Article completed on 18 February 2026

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<sup>1</sup> See our Chart of the week, [Gulf: the GCC is investing heavily abroad despite a falling current account surplus](#), 28 January 2026.