

SAUDI ECONOMIC REPORT

FEBRUARY 2025

Audi Capital



“ Economic transformation progressing well amid strong modernization and diversification efforts

KEY TAKEAWAYS

- 01. Saudi economy doing noticeably well amid unprecedented economic transformation
- 02. Easing inflationary pressures accompanied with stable FX buffers
- 03. Saudi Arabia's external sector performance amid short-term weakening
- 04. Wider fiscal deficit amid increased strategic transformational spending to achieve economic diversification
- 05. Tight funding conditions somewhat narrowed banks' margins but profitability and capitalization remained strong amid sound activity growth
- 06. Two-way flows on Saudi equity market over the past year, activity on fixed income market tilted to the downside
- 07. The Kingdom's macro outlook quite favorable supported by oil production increases and diversification efforts

01

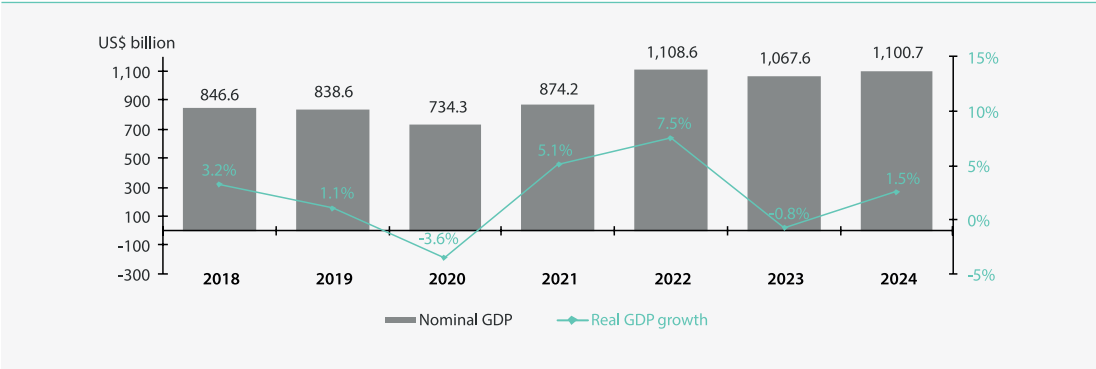
ECONOMIC CONDITIONS

Saudi economy doing noticeably well amid unprecedented economic transformation

OVERALL
REAL GDP
1.5%
GROWTH
IN 2024

- KSA's unprecedented economic transformation is progressing significantly as it advanced in its noticeable modernization and diversification under Vision 2030.
- While oil GDP was on a contractionary trend due to lower oil production, non-oil GDP growth was boosted by strong diversification efforts, raising the overall real GDP growth to an expansion of 1.5% in 2024, against a contraction of -0.8% in 2023 as per IMF figures.
- Geopolitical events have not had any major impact on the Saudi economy so far.
- Labor market outcomes remain stable but mixed, with a decline in both the unemployment rate and the labor force participation rate.

NOMINAL & REAL GDP



Sources: IMF, Bank Audi's Group Research Department

02

INFLATION AVERAGED

1.7%

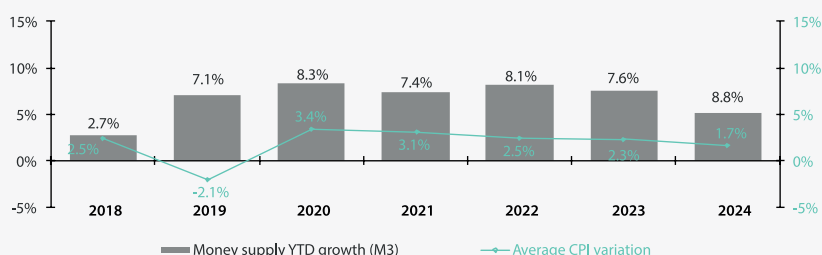
YEAR-ON-YEAR
IN 2024

MONETARY SECTOR

Easing inflationary pressures accompanied with stable FX buffers

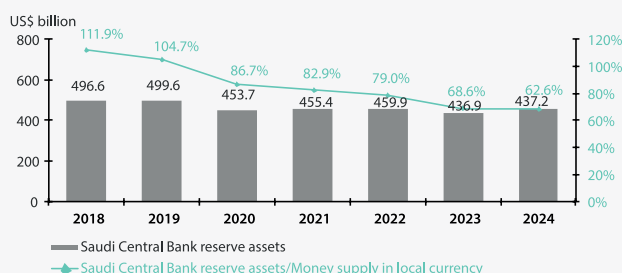
- Saudi inflation eased further over the past year, in line with global trends, while the Saudi Central Bank's reverse assets remained stable following the previous year's contractions, and key policy rates continued to move in tandem with the US Federal Reserve's policy given the currency peg to the US dollar.
- In details, Saudi's inflation averaged 1.7% year-on-year in 2024, despite large public spending, following a 2.3% and a 2.5% average annual increase in consumer prices in 2023 and 2022 respectively.
- Given the Saudi riyal peg to the US dollar at SR/US\$ 3.75, the Saudi Central Bank's key policy rates remained anchored to the US Federal Reserve. In fact, after lifting its repo and reverse repo rates seven times in 2023 by a total of 400 bps each, the Saudi Central Bank cut them three times in 2024 by a total of 100 bps to reach 5.00% and 4.50% respectively at year-end.
- In parallel, the Saudi Central Bank's reverse assets remained relatively stable in 2024, as reflected by a shy expansion of US\$ 310 million over the year to reach US\$ 437.2 billion at end-December, covering 62.6% of the money supply in local currency.
- The money supply in its broadest sense (M3) expanded by 8.8% in 2024 (the equivalent of US\$ 63.0 billion) to reach US\$ 779.1 billion at end-December, within the context of a rise in quasi-money deposits of 1.7%.

MONEY SUPPLY AND INFLATION



Sources: Saudi Central Bank, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



Sources: Saudi Central Bank, Bank Audi's Group Research Department

03

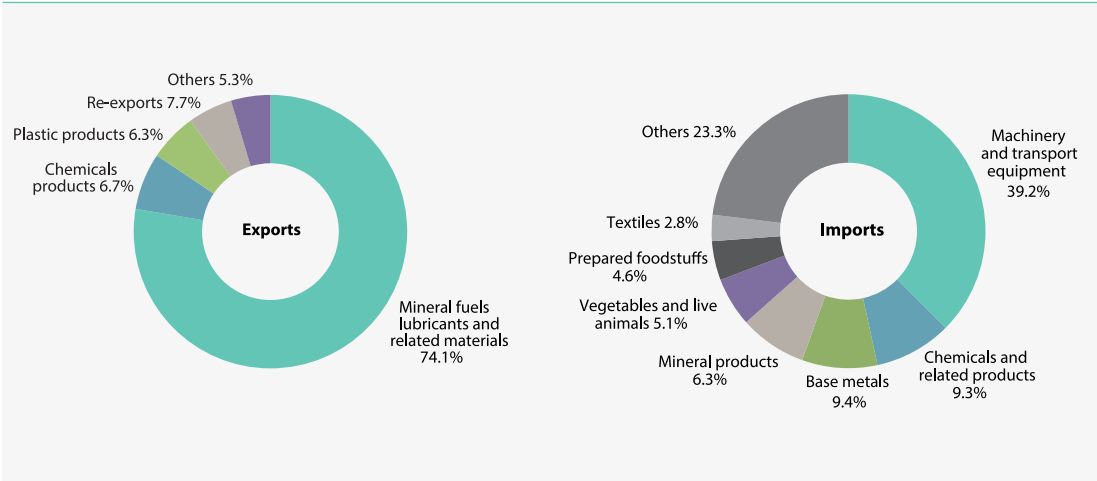
EXTERNAL SECTOR

Saudi Arabia’s external sector performance amid short-term weakening

BALANCE OF
TRADE SURPLUS
SHOWED A
DROP OF
32.4%
IN 11M 2024

- During 2024, Saudi Arabia’s external sector performance was relatively weakened by various factors of which OPEC+ production cuts, diversification efforts, decreased price of hydrocarbons and increased spending on investment-related imports.
- At the level of foreign trade, Saudi Arabia’s BoT surplus showed a drop of 32.4% year-on-year reaching SAR 263.2 billion (US\$ 70.2 billion) in the first 11 months (11M) of 2024, down from SAR 389.3 billion (US\$ 103.8 billion) in 11M 2023.
- The main drivers standing behind this contraction in BoT surplus during 11M 2024 are a 4.8% contraction year-on-year in total exports and a 10.3% increase in imports year-on-year between 11M 2023 and 11M 2024, as per data from the Saudi General Authority for Statistics (GASTAT).
- In details, total exports were reported at SAR 1,050.6 billion (US\$ 280.2 billion) in 11M 2024, registering a 4.8% decrease from the figures recorded in 11M 2023. The majority of exports (73.6%) were from the oil sector, with the non-oil sector accounting for 18.7% of exports.
- On the other hand, total imports were reported at SAR 787.4 billion (US\$ 210.0 billion) in 11M 2024, registering a 10.3% expansion from the figures recorded in 11M 2023.

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY 11M - 2024



Sources: General Authority for Statistics, Bank Audi’s Group Research Department

04

A WIDER
FISCAL
DEFICIT OF
SR 115
billion
IN 2024

PUBLIC SECTOR

Wider fiscal deficit amid increased strategic transformational spending to achieve economic diversification

- Saudi Arabia is estimated to have recorded a wider fiscal deficit in 2024, given the government's focus on directing spending toward projects that accelerate the achievement of economic diversification goals, while maintaining fiscal sustainability, and enhancing Saudi economic growth through the implementation of sectoral strategies, Saudi Vision 2030 realization programs, and giga projects.
- Total revenues are estimated to have reached about SR 1,230 billion in 2024, which represents an increase of 4.9% compared to the approved budget estimate and a rise of 1.4% compared to total revenues in 2023.
- Public expenditures are estimated to have reached SR 1,345 billion in 2024. This reflects an increase of 7.5% compared to the approved budget and a rise of 4.0% relative to total public expenditures in 2023.
- That being said, the Kingdom is set to register a wider fiscal deficit of SR 115 billion in 2024 (representing 2.8% of GDP), compared to a fiscal deficit of SR 81 billion in 2023 (representing 2.0% of GDP).

SAUDI ARABIA'S PUBLIC FINANCES

(SR billion)	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025B
Total revenues	906	927	782	965	1,268	1,212	1,230	1,184
Taxes	168	220	226	317	323	357	366	379
Other revenues	737	707	555	648	945	856	863	804
Total Expenditures	1,079	1,059	1,076	1,039	1,164	1,293	1,345	1,285
Budget balance	-174	-133	-294	-73	104	-81	-115	-101
Gross public debt	560	678	854	938	990	1,050	1,199	1,300

Sources: Saudi Central Bank, Bank Audi's Group Research Department

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BANKING SECTOR

Tight funding conditions narrowed banks' margins but profitability and capitalization remained strong

BANKING ACTIVITY TO REACH

US\$
1,196
billion

AT END-2024

- The past year has been another good year for the banking sector, with sound activity growth across the board.
- Measured by the aggregation of bank assets, banking activity grew by 13.6% in 2024 to reach US\$ 1,196 billion. Deposits grew by 8.9% in 2024, while loans rose by 12.9% over the year.
- Tight funding conditions somewhat narrowed banks' margins in 2024 but earnings remained strong on the overall, with a year-on-year profit growth of 15.1% over the year to reach US\$ 23.7 billion.
- Capitalization remained adequate, with shareholders' equity at US\$ 133 billion at year-end 2024, the equivalent of 13.1% of total assets. Saudi banks are in fact well-capitalized, which will continue to support their creditworthiness. They reported a capital adequacy ratio of 19.2% at Sept. 30, 2024, well above the minimum capital adequacy requirement of 10.5%.
- The Saudi banking sector has seen mergers create dominant 'national champions'. Although this has resulted in concentration of market share and raised competitive pressure on smaller institutions, overall industry dynamics in terms of broader financial stability remain sound.

BANKING SECTOR RATIOS

	2018	2019	2020	2021	2022	2023	2024
Banking sector dimension in economy							
Assets/GDP	75.5%	83.7%	108.2%	100.0%	87.1%	98.8%	108.9%
Deposits/GDP	52.7%	57.1%	70.6%	64.2%	55.2%	61.8%	65.2%
Loans to private sector/GDP	43.8%	47.4%	61.9%	59.9%	53.4%	60.9%	66.7%
Loans to public sector/GDP	1.7%	2.0%	2.9%	2.9%	3.1%	3.7%	4.9%
Growth rates (YTD)							
Assets	2.0%	9.7%	13.2%	10.0%	10.5%	9.3%	13.6%
Loans to the private sector	2.8%	7.3%	14.3%	15.3%	13.1%	9.7%	12.9%
Investments	8.4%	18.7%	12.7%	6.1%	8.1%	10.4%	15.1%
Deposits	2.5%	7.3%	8.2%	8.3%	9.1%	7.8%	8.9%
Capital and reserves	-4.3%	13.0%	9.9%	11.3%	4.3%	5.9%	7.9%
Profit growth (year-on-year)	9.8%	4.5%	-23.1%	39.2%	28.6%	11.7%	15.1%
Financial ratios							
Primary liquidity/Deposits	19.7%	19.5%	20.2%	15.5%	13.9%	13.1%	12.8%
Liquid assets/Deposits	49.4%	52.3%	54.4%	49.0%	47.1%	47.1%	48.8%
Loans to the private sector/Deposits	83.0%	83.0%	87.7%	93.3%	96.8%	98.5%	102.2%
Loans to the public sector/Deposits	3.2%	3.4%	4.1%	4.5%	5.6%	5.9%	7.5%
Total loans/Deposits	86.2%	86.4%	91.7%	97.9%	102.3%	104.5%	109.8%
Capitalization							
Capital accounts/Assets	14.7%	14.9%	14.0%	14.4%	14.0%	13.7%	13.1%
Profitability							
ROAA	2.03%	2.00%	1.38%	1.72%	2.01%	2.04%	2.11%
ROAE	13.5%	13.5%	9.6%	12.1%	14.1%	14.8%	15.8%

Sources: Saudi Central Bank, Bank Audi's Group Research Department

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CAPITAL MARKETS

Two-way flows on Saudi equity market, activity on fixed income market tilted to downside

- The Saudi equity market swung between losses and gains over the year 2024, closing the year with small price increases, while the fixed income market came under downward price pressures, especially at the longer-end of the curve amid prospects of slower US Federal Reserve easing pace in 2025.
- The Saudi Exchange managed to close the year on a positive note, as reflected by a 0.6% rise in the Tadawul All-Share Index.
- Concomitantly, total trading value in the Saudi Exchange expanded by 39.7% year-on-year in 2024, reaching US\$ 496.6 billion as compared to US\$ 355.5 billion in 2023.
- As to the Saudi fixed income market, activity was mostly skewed to the downside in 2024, especially at the longer-end of the curve, despite the US Federal Reserve's dovish stance since September 2024. This is mainly explained by prospects of slower US Fed easing pace over the year 2025, as US inflation remained elevated (above the 2% US Fed target) and the US economy continued to expand at a solid pace in 2024.
- Saudi Arabia returned to international debt markets early-January 2025 through the sale of a US\$ 12 billion triple-tranche bond.
- As to the cost of insuring debt, Saudi Arabia's five-year CDS spreads, which measure the market's perception of sovereign risks, expanded by 11 basis points in 2024 to reach 65 bps at year-end, staying well below the average regional sovereign five-year CDS spreads of 162 bps.

FIVE-YEAR CDS
SPREADS
EXPANDED BY
11 bps
IN 2024

SELECTED CAPITAL MARKET INDICATORS

	2018	2019	2020	2021	2022	2023	2024
Market capitalization (US\$ billion)	495.7	2,406.8	2,427.1	2,669.1	2,634.2	3,002.5	2,720.1
Trading value (in US\$ billion)	232.2	234.7	556.7	596.2	455.5	355.5	496.6
Number of transactions (in millions)	25.0	28.4	76.7	91.9	87.9	94.0	128.6
General share price index (base 1999=100)	7,827	8,389	8,690	11,282	10,478	11,967	12,037
Number of listed companies	190	199	203	210	223	231	247
Change in share price index	8.3%	7.2%	3.6%	29.8%	-7.1%	14.2%	0.6%
Price/Earnings ratio	15.8x	19.5x	29.2x	20.6x	12.4x	17.6x	17.4x
Price/Book value ratio	1.8x	4.3x	4.4x	4.1x	3.5x	3.7x	3.3x
5-year CDS spread (bps)	105	57	65	49	61	54	65

Sources: Saudi Exchange, Bank Audi's Group Research Department

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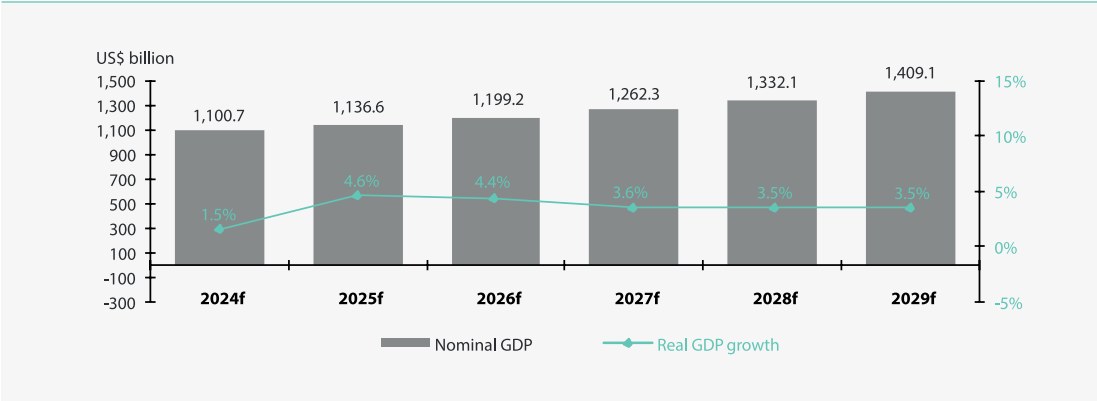
MACRO OUTLOOK

Outlook quite favorable supported by oil production increases and diversification efforts

GROWTH
EXPECTED TO
REBOUND TO
4.5%
IN 2025-2026

- Growth is expected to rebound to an average of 4.5% in 2025-2026 as oil production increases. The oil production quota is expected to increase during 2025 as announced by OPEC+, which is apt to boost oil GDP growth by 6.6% and 5.1% for 2025 and 2026 respectively, reversing an estimated contraction of 4.5% in 2024.
- The non-oil sector is estimated to maintain steady growth in the coming years.
- The services sector, critical to Saudi Arabia's economic diversification agenda, is expected to grow at a stable average rate of 5.8% in 2024-2026 according to the World Bank.
- The analysis of the Kingdom's short to medium term outlook actually requires a careful examination of strengths and opportunities relative to the threats and challenges. At the level of the former, we mention the robust government balance sheet, supported by large foreign-currency buffers, the large economy, the high per-capita income and large stock of proved oil reserves and the improving government policy effectiveness.
- At the level of risks constraining the outlook, we mention the high economic and fiscal vulnerability to declines in oil demand and prices, the longer-term risks stemming from global carbon transition, and the political risks stemming from longstanding regional geopolitical tensions.
- While risks and challenges are real, we believe strengths and opportunities far outpace threats at the foreseeable horizon, suggesting lucrative perspectives for the Kingdom at large.

MACRO OUTLOOK



Sources: IMF, Bank Audi's Group Research Department

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