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Can the Saudi Kingdom (KSA) withstand a $60 barrel for long?

Data Sources:

Ministry of Finance

Saudi Central Bank

General Authority for Statistics

PIF

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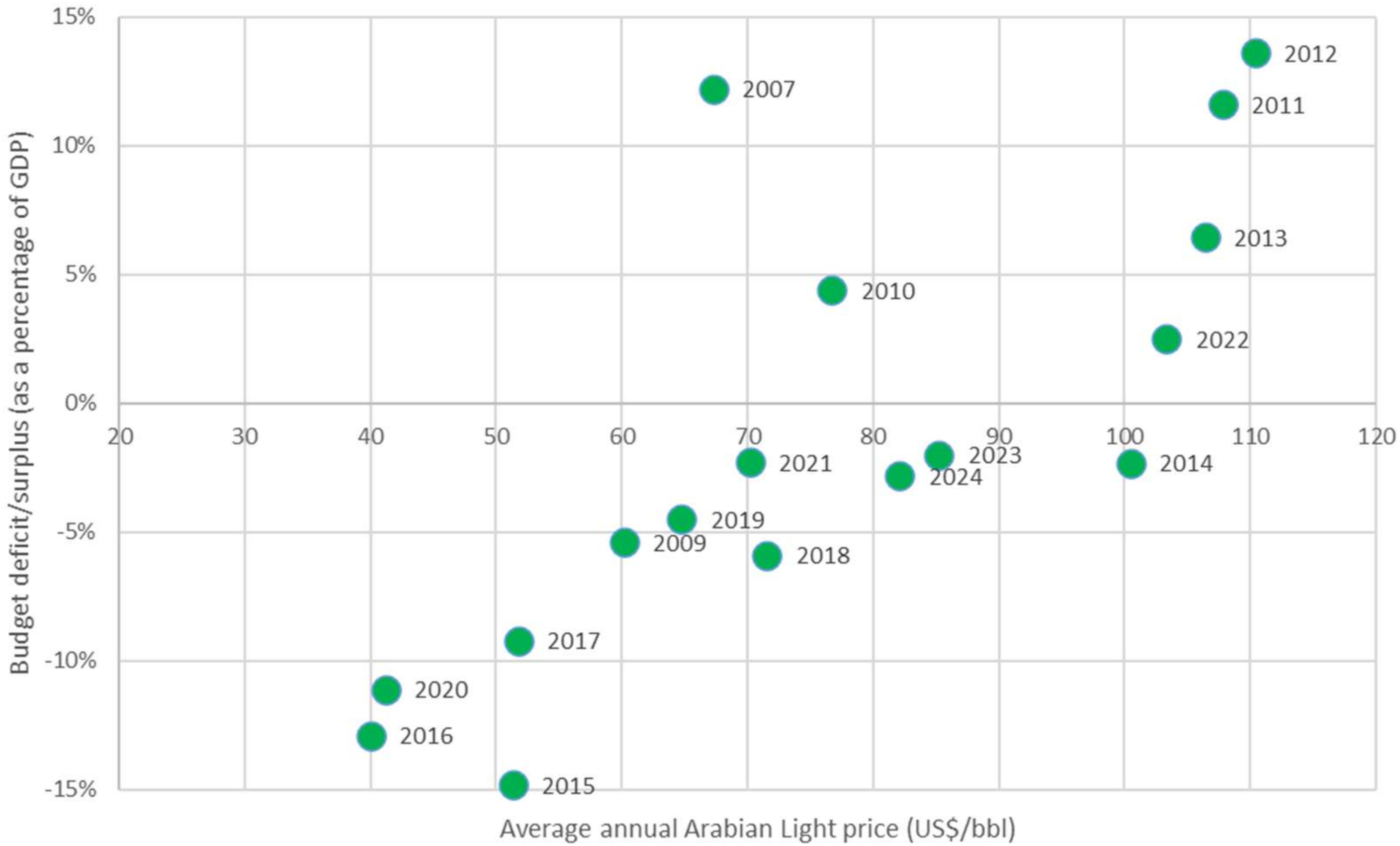
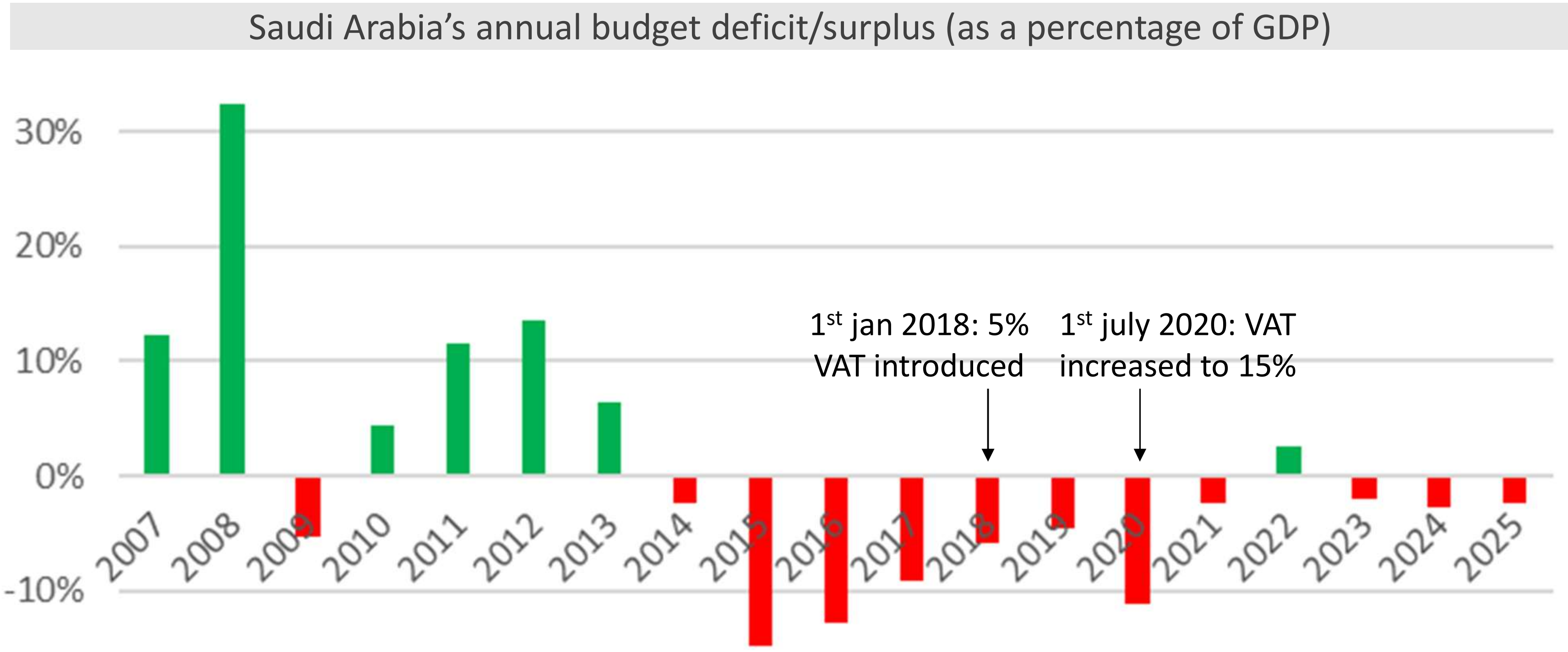
Although KSA's budget deficit/surplus is at first approximation directly correlated with the price of oil, there is significant variability that explains why estimating a breakeven price (fiscal or external) is questionable, as it is an oversimplification.

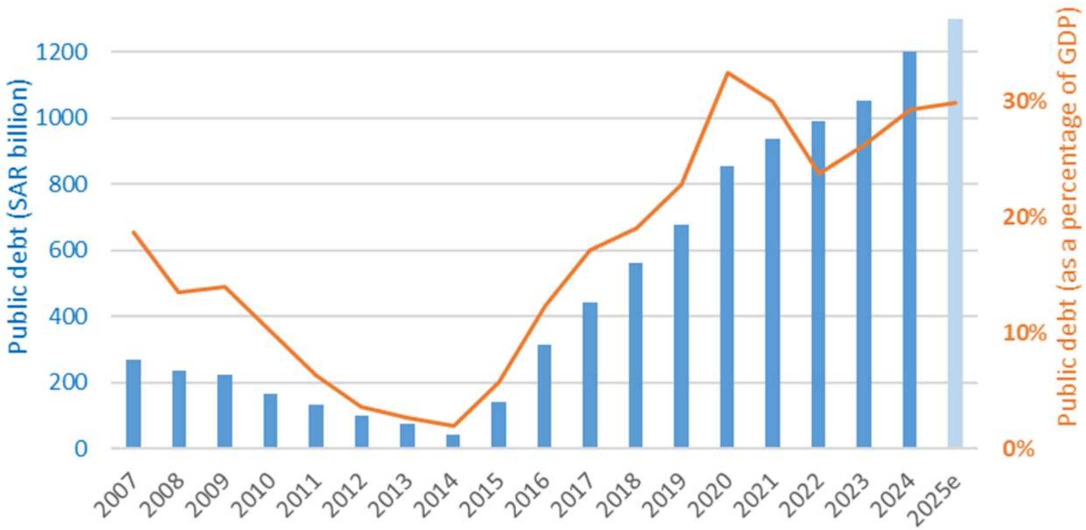
Saudi Arabia's annual budget deficit/surplus since 2007 vs oil price

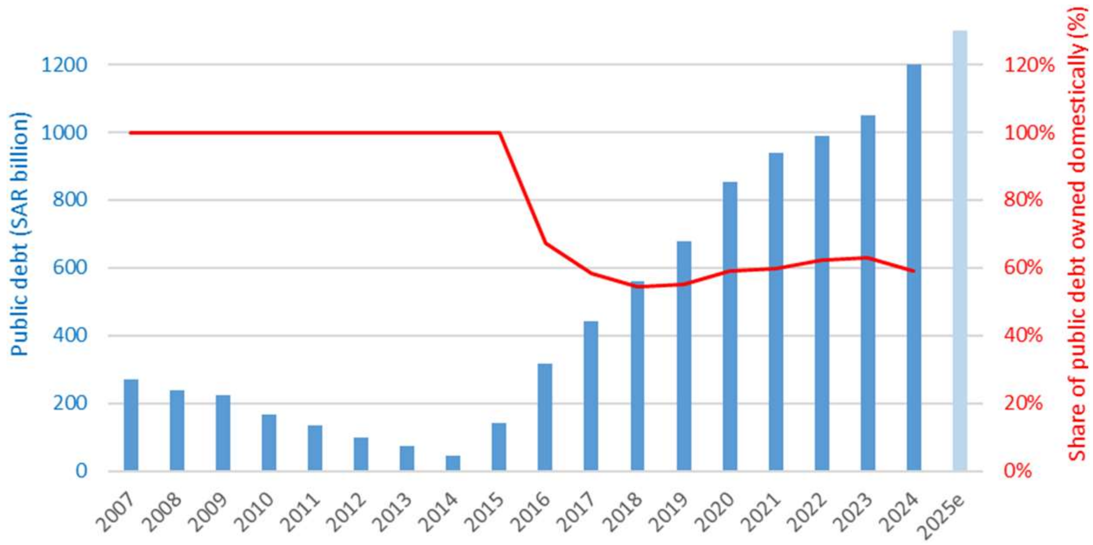


Saudi Arabia has been experiencing a budget deficit for the past twelve years, although the imbalance has been less pronounced since 2021, mainly due to the increase in the VAT rate from 5% to 15%.



Public debt has grown significantly since 2015 (CAGR 2014–25 = 20.5%) but remains sustainable (at 30% of expected GDP in 2025).
One point to watch, however: 40% of the debt is held by foreign investors (mostly from GCC* countries).

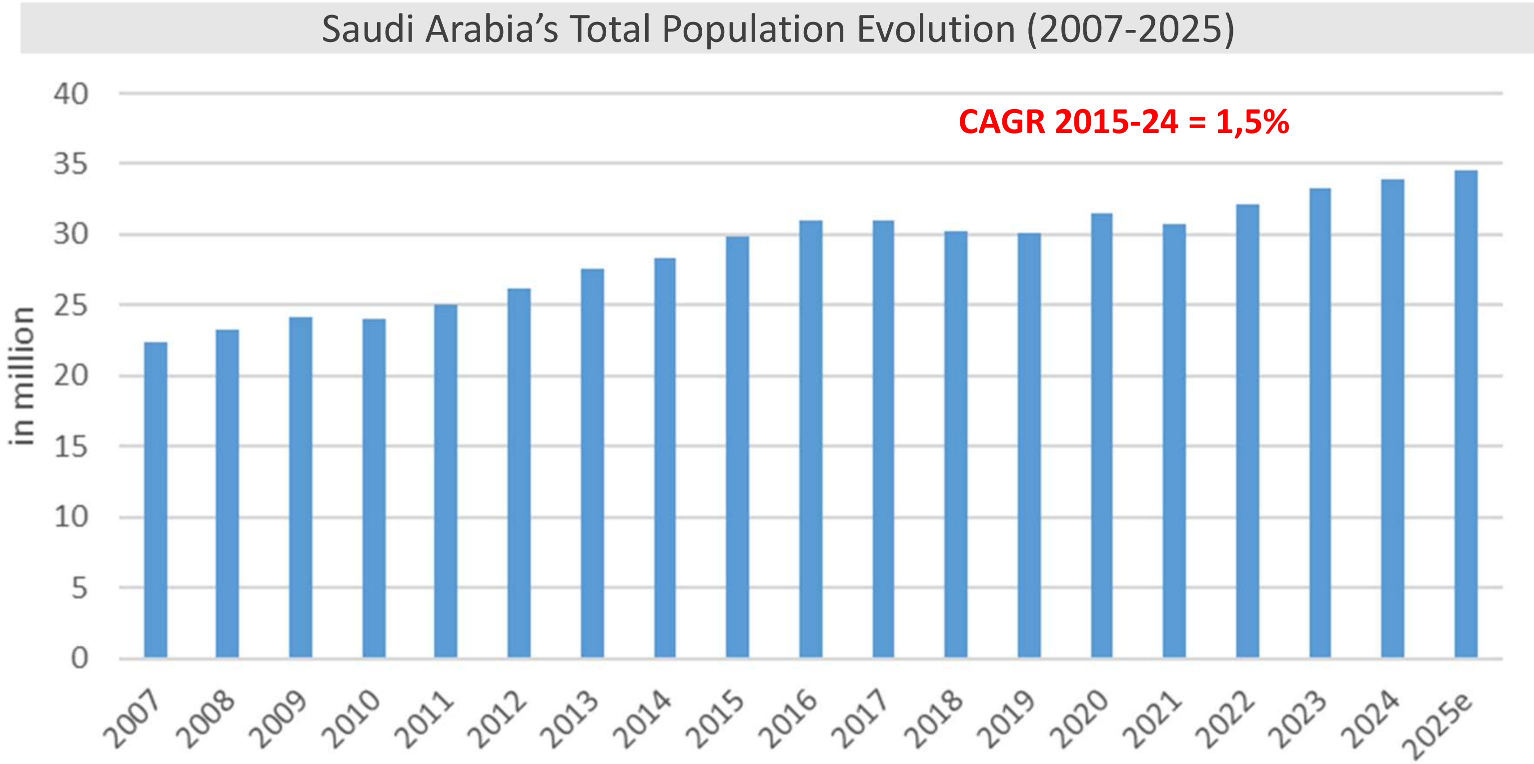




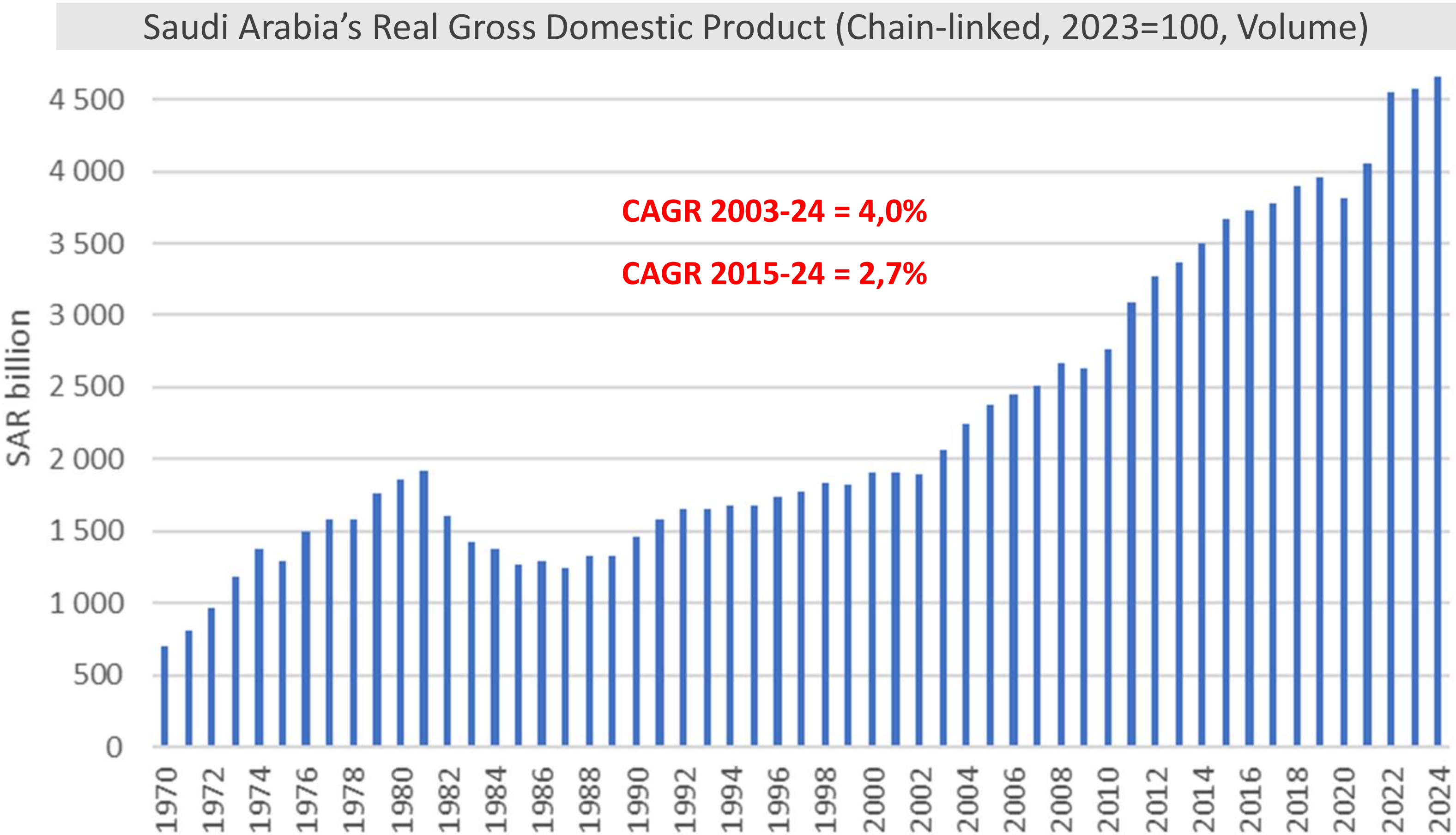
* Gulf Cooperation Council : Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (UAE)

Although the economic situation since 2015—characterized by a sharp decline in oil prices from their peak—remains challenging, the Kingdom still holds undeniable strengths.

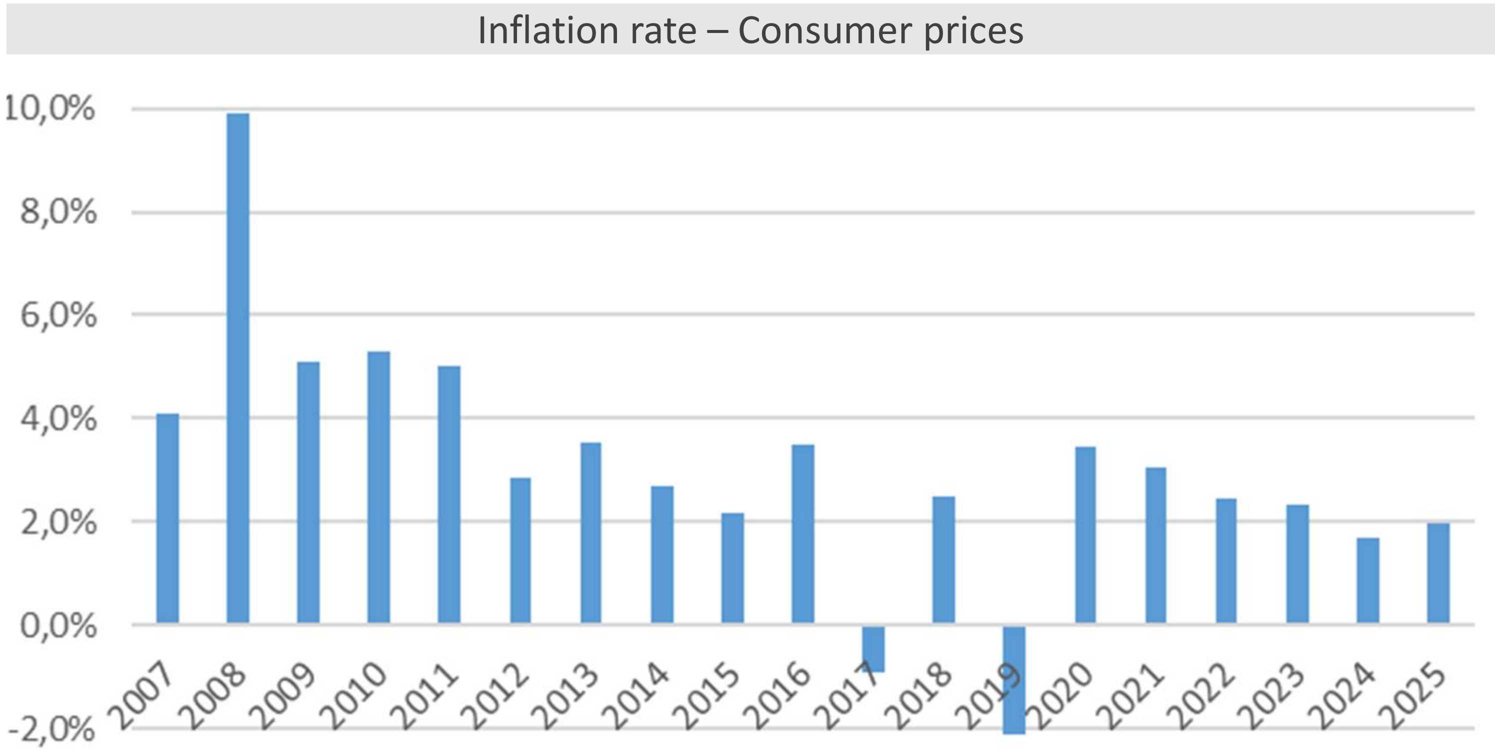
1. Thus, its population continues to grow.



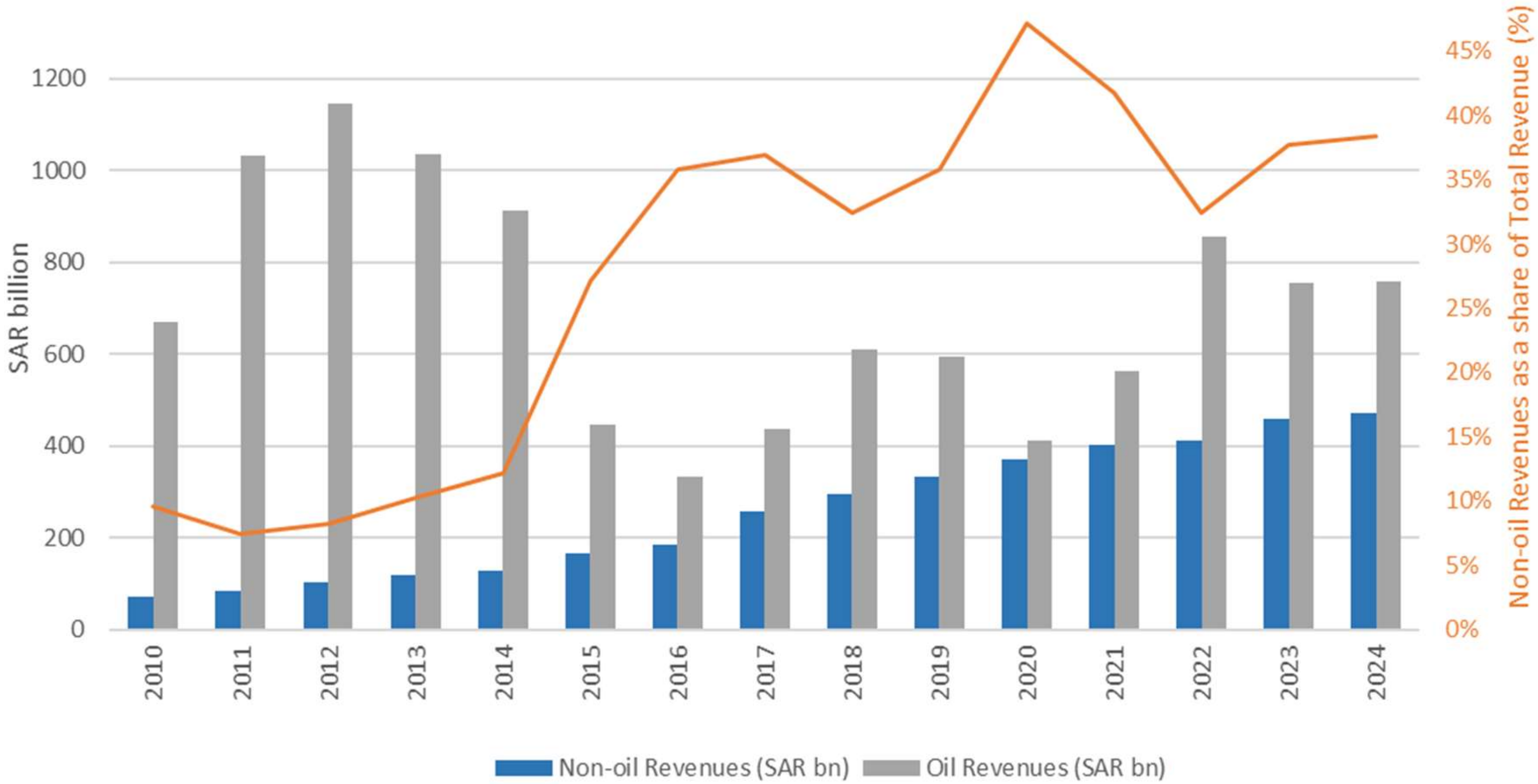
2. GDP growth remains well above population growth, even though it has slowed since 2015.



3. Inflation appears to be under control and is now close to 2%.

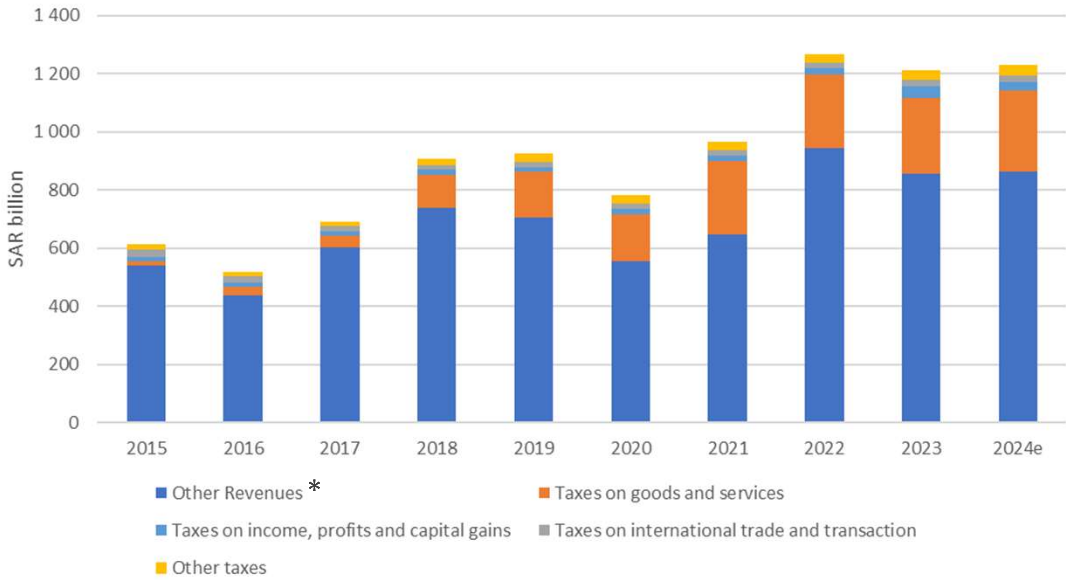


4. Non-oil revenues have grown considerably since 2014, accounting for nearly 40% of the state's total revenues in 2024, effectively taking over from declining oil revenues during the same period due to falling prices. However, growth now appears to be slowing to below 6%.

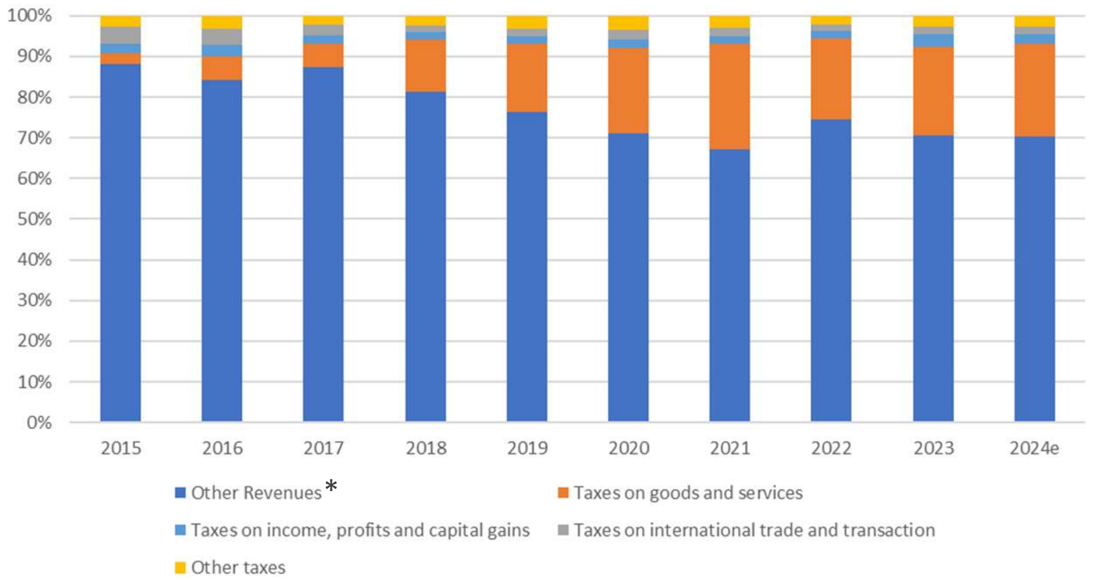


It is primarily the introduction of VAT on January 1, 2018 (with an initial rate of 5%), and especially its increase to 20% in July 2020, that has led to the growth of non-oil revenues in recent years.

Breakdown of KSA Total Revenues by category

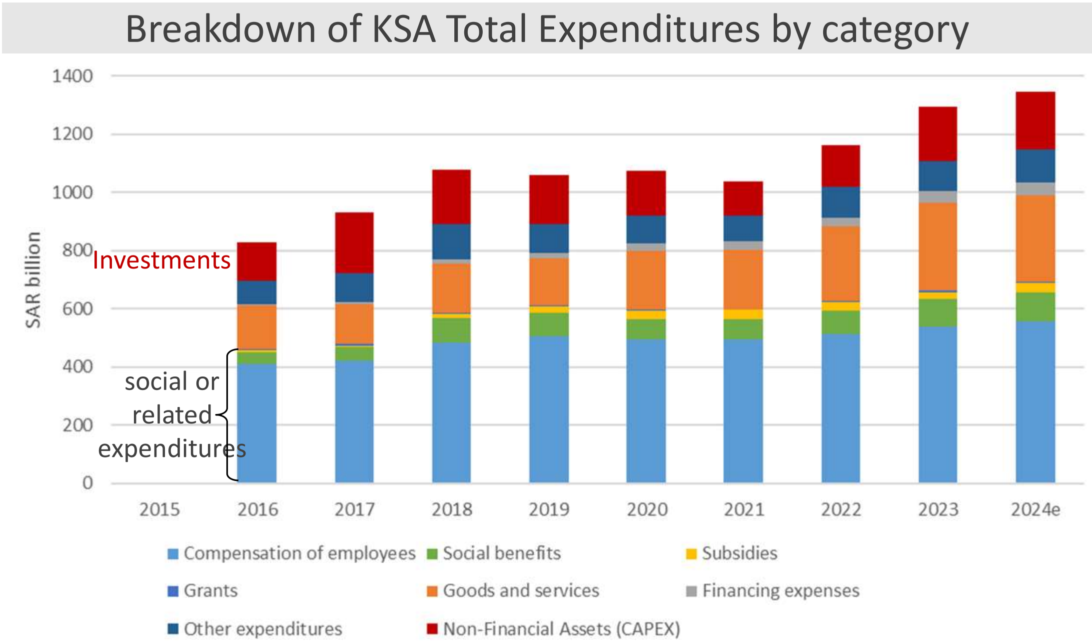


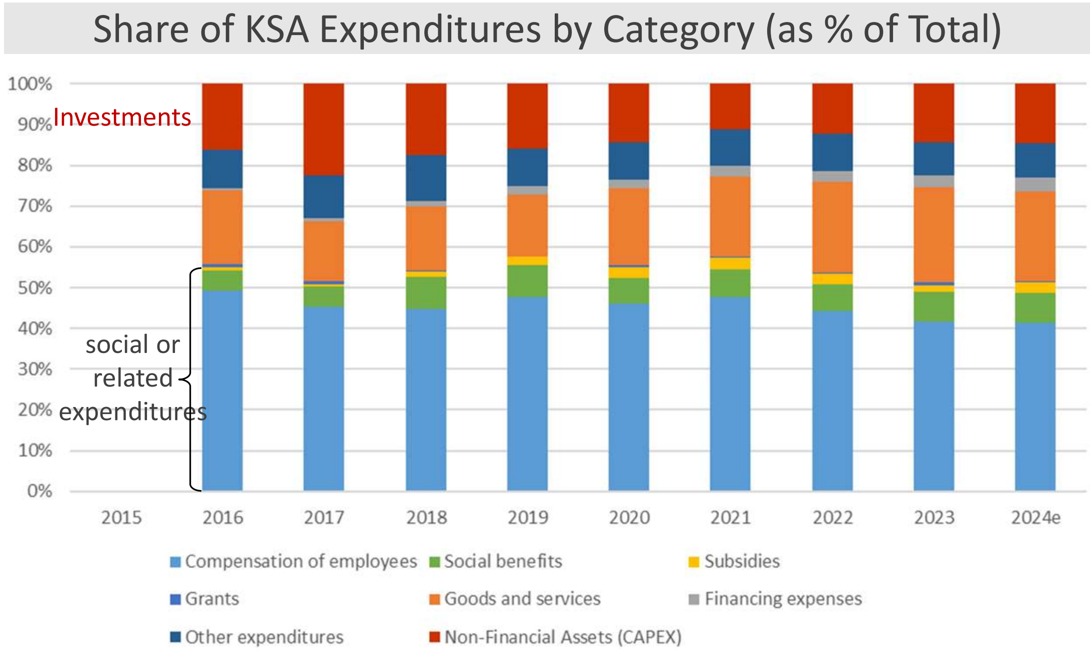
Share of KSA Revenue by Category (as % of Total)



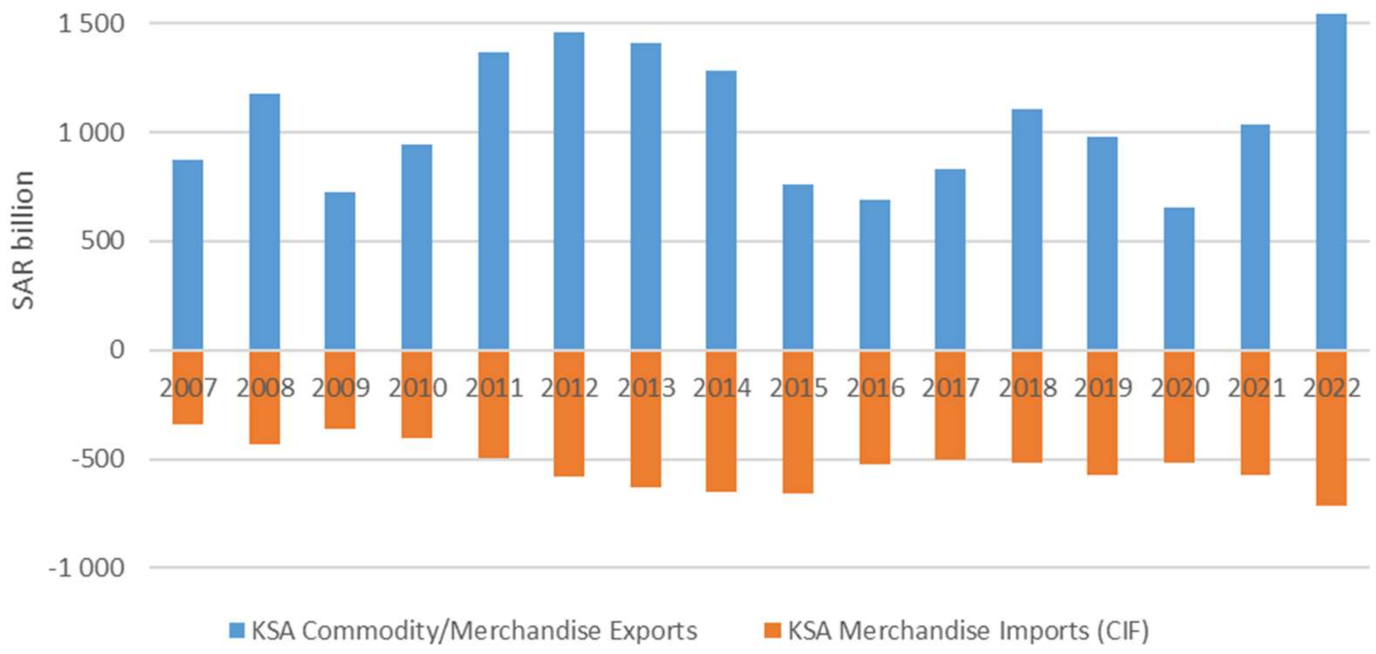
* "Other Revenues" include oil revenues, profits from government deposit investments, sales of goods and services, as well as penalties and fines

On the expenditure side, public sector salaries and various social benefits still account for around 50% of total spending. On the positive side, this share appears to be relatively stable. On the negative side, investment spending (CAPEX) represents only 15% of total expenditures.

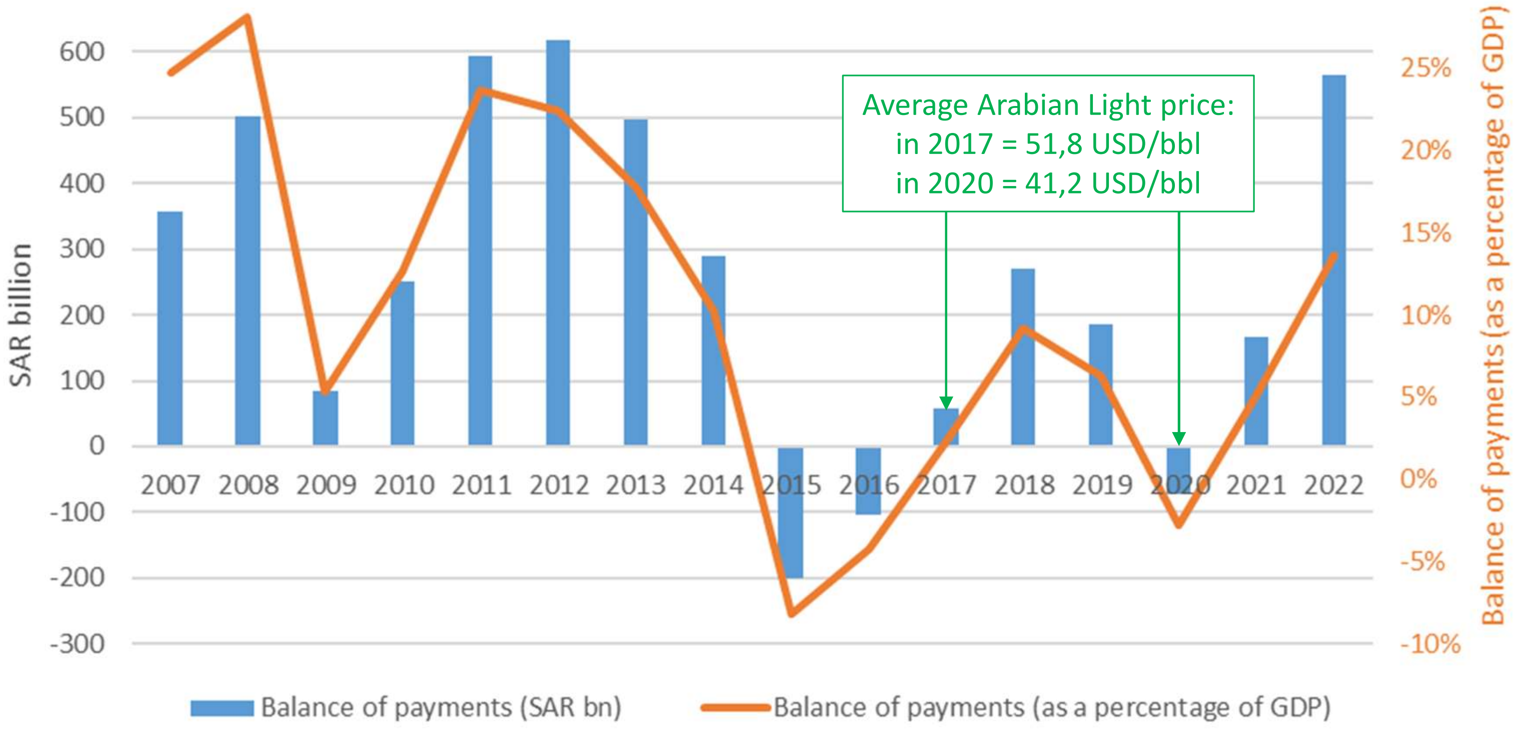




5. The trade balance of goods/merchandise remains largely positive despite the high volatility of the barrel's price.



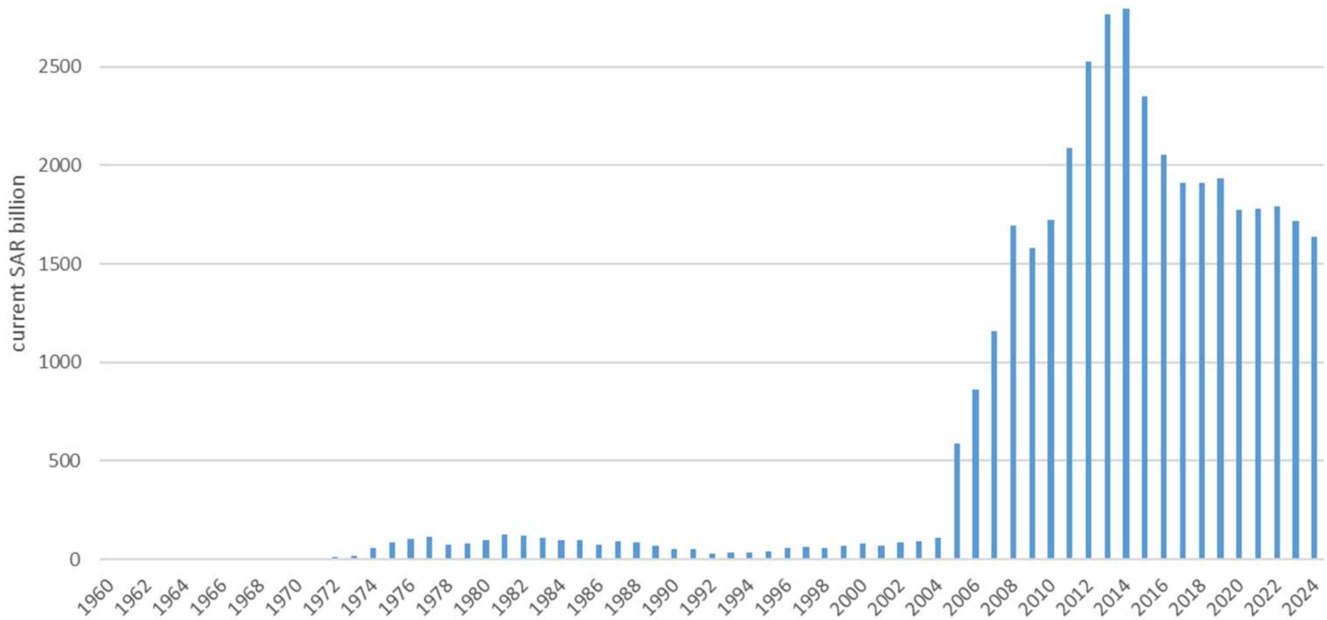
6. Except for three years (2015,2016 & 2020), the balance of payments* has remained largely in surplus. The years 2017 and 2020 seem to illustrate that a barrel price around $50 is the breakeven point.



* The **balance of payments** includes the trade balance (exports and imports of goods), the services balance (tourism, transportation, financial services, etc.), the primary income balance (wages, investment income) and secondary income balance (current transfers, such as remittances from expatriate workers), the balance of foreign direct investments (FDI), portfolio investments (stocks, bonds) and other investments (loans, deposits), as well as capital transfers (donations, debt forgiveness).

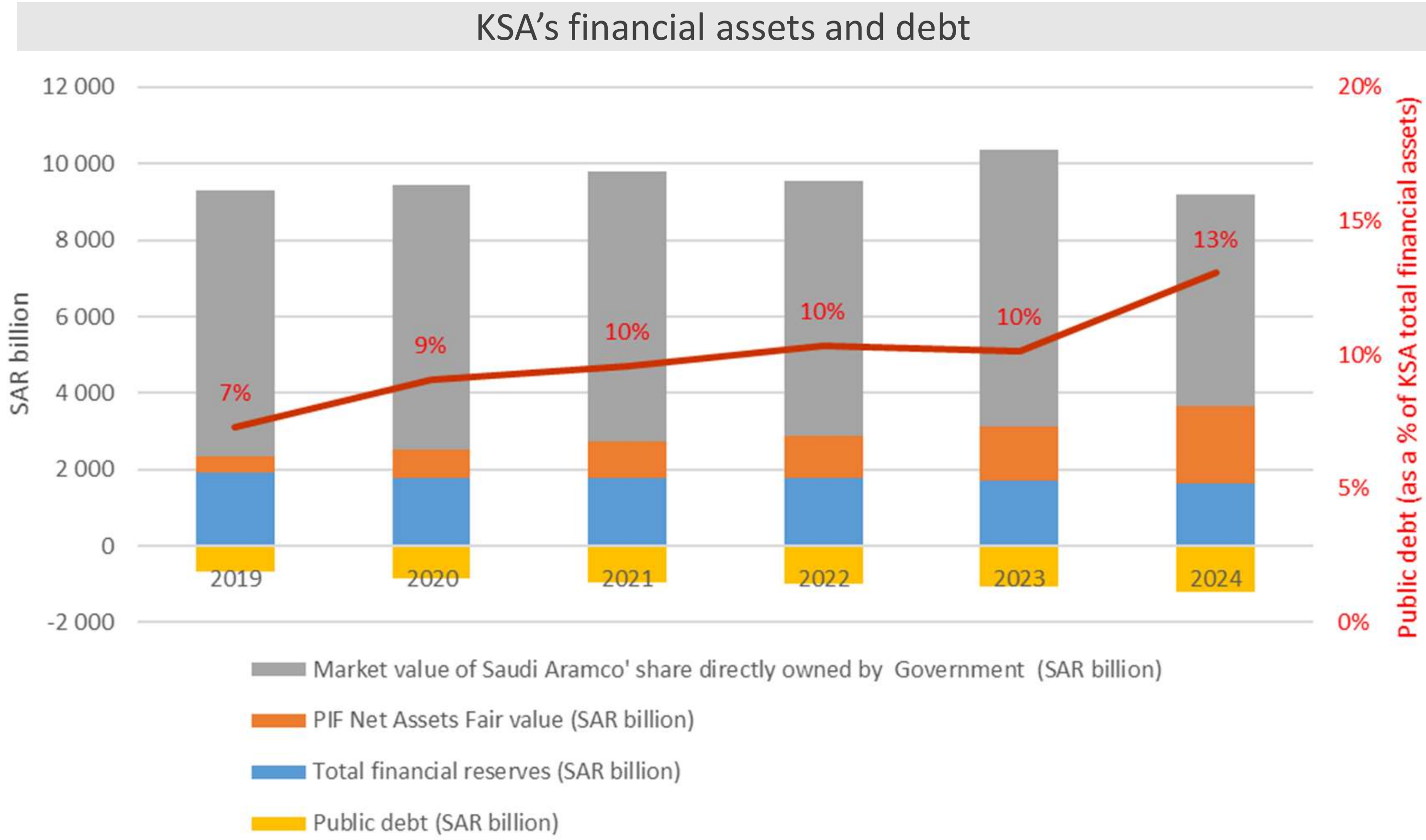
7. Although down by 40% since 2014, the Kingdom's financial reserves remain well above what they were before the mid-2000s and appear to be declining more slowly in recent years.

KSA Total Financial Reserves (including gold, investments in foreign securities, foreign exchange reserve, etc.)

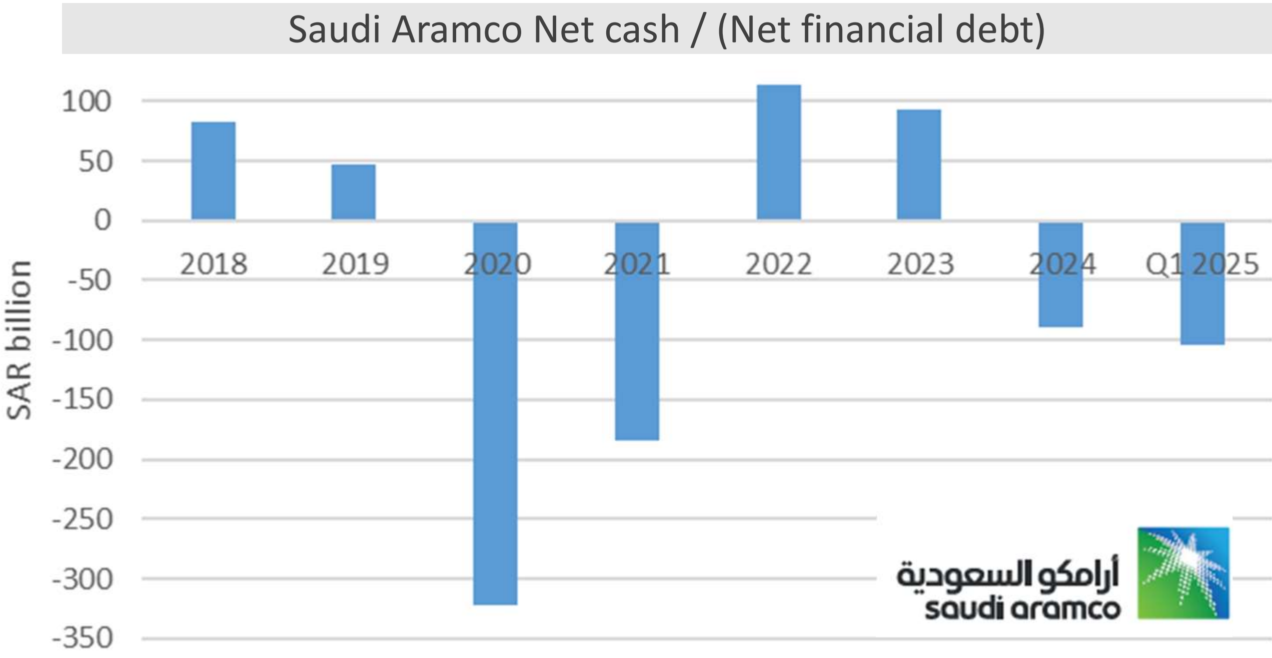


Data Source: THE WORLD BANK

8. If we add to these financial reserves KSA's stake in Aramco and the net value of the Public Investment Fund (PIF), we see that public debt represents only 13% of the country's financial assets at the end of 2024, which is low. However, this share has nearly doubled in the past five years.



9. Being relatively low in debt, the national oil company has the financial capacity to fund by itself its development, and thus to maintain (or even increase) the country's production capacity.



10. Since 1986, Saudi Arabia has adopted a fixed exchange rate policy by pegging its currency, to the US dollar. This policy carries its own share of risks and constraints.

- The riyal is pegged to the US dollar at a **fixed rate** of approximately **3.75 SAR per 1 USD.**

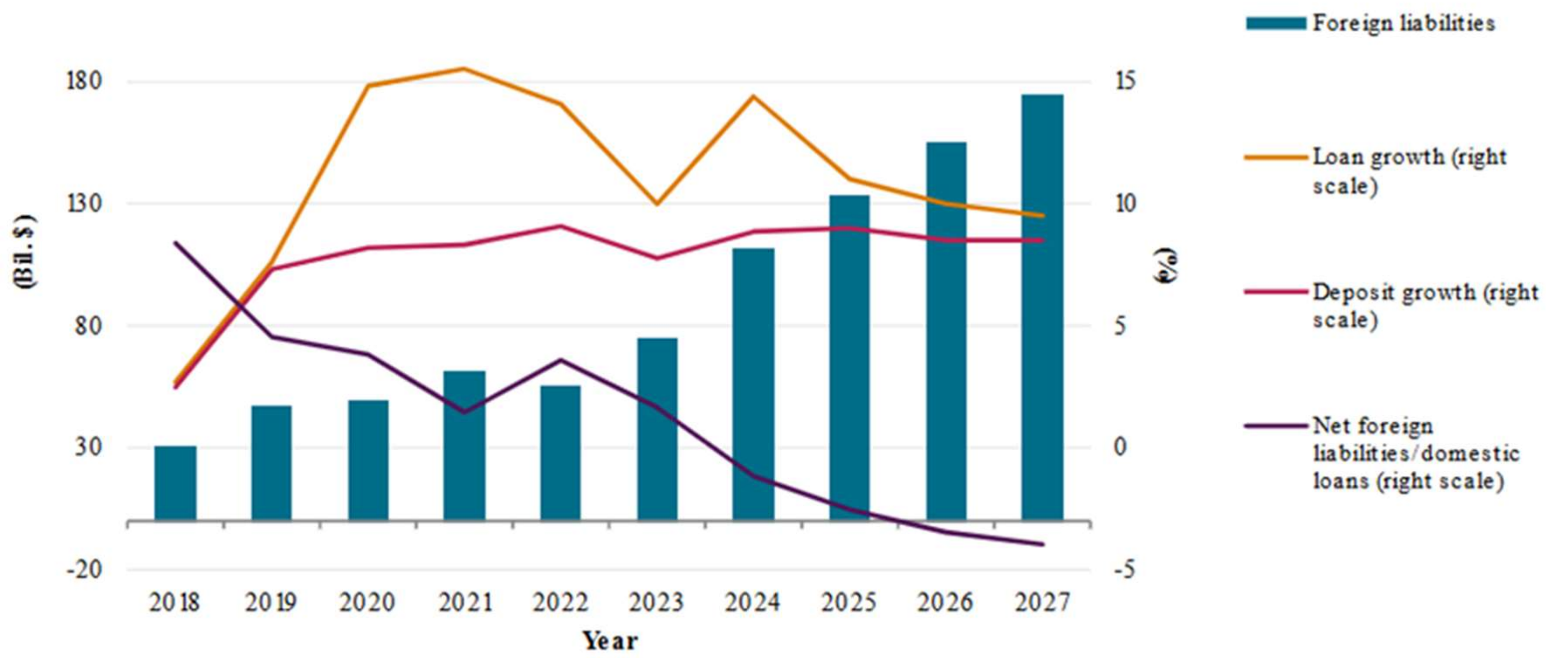
- The SAMA (Saudi Arabian Monetary Authority), the central bank, actively intervenes in the foreign exchange market to maintain this rate by buying or selling US dollars to stabilize the riyal's exchange rate through the significant **foreign exchange reserves (mainly in US dollars) it holds**

- **Challenges and Limitations:**
  - **Dependence on U.S. monetary policy**: SAMA must follow the monetary policy of the United States, even when it may not be well-suited to Saudi Arabia’s own economic conditions.
  - **Pressure on the balance of payments**: In the event of a prolonged decline in oil prices, maintaining a fixed exchange rate **can become costly**, as it requires spending foreign reserves to defend the peg.
  - **Rigidity in the face of economic shocks**: The fixed rate limits Saudi Arabia's ability to use **devaluation** as a tool to boost competitiveness.

- Since the beginning of Trump 2, a rather rare phenomenon has occurred: a **falling oil price alongside a weakening US dollar** (whereas they are usually inversely correlated). These two declines jointly impact Saudi Arabia’s revenues and represent a **dual risk** for the Kingdom.

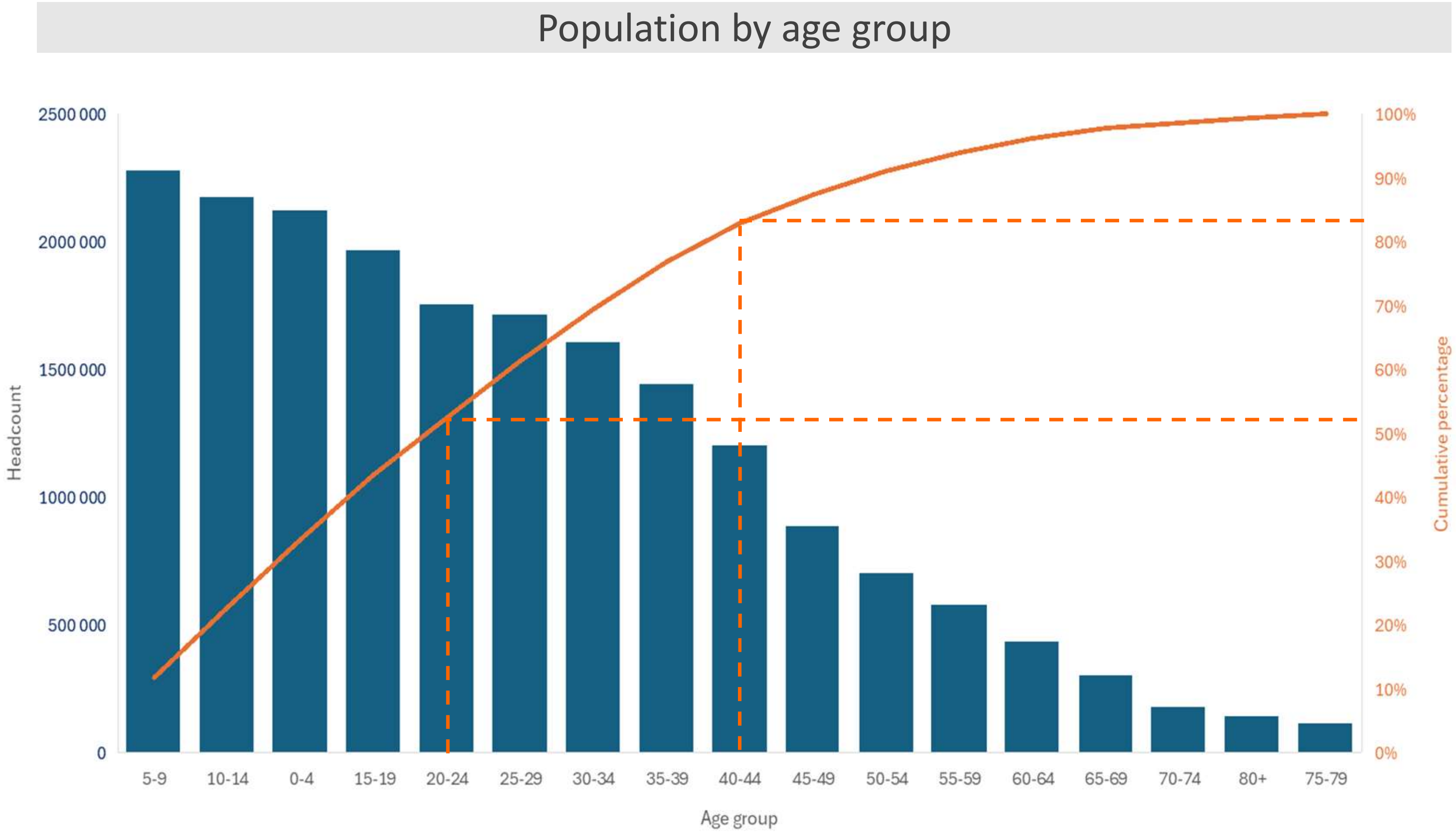
11. Saudi banks are increasingly turning to external funding to maintain rapid lending growth and to cater to the financing demands of Vision 2030. Risk, in the short term, appears under control. However, greater reliance on external funding may create long-term vulnerabilities.

Saudi Banking Sector: Foreign Liabilities and Credit Growth Trends (2018–2027)



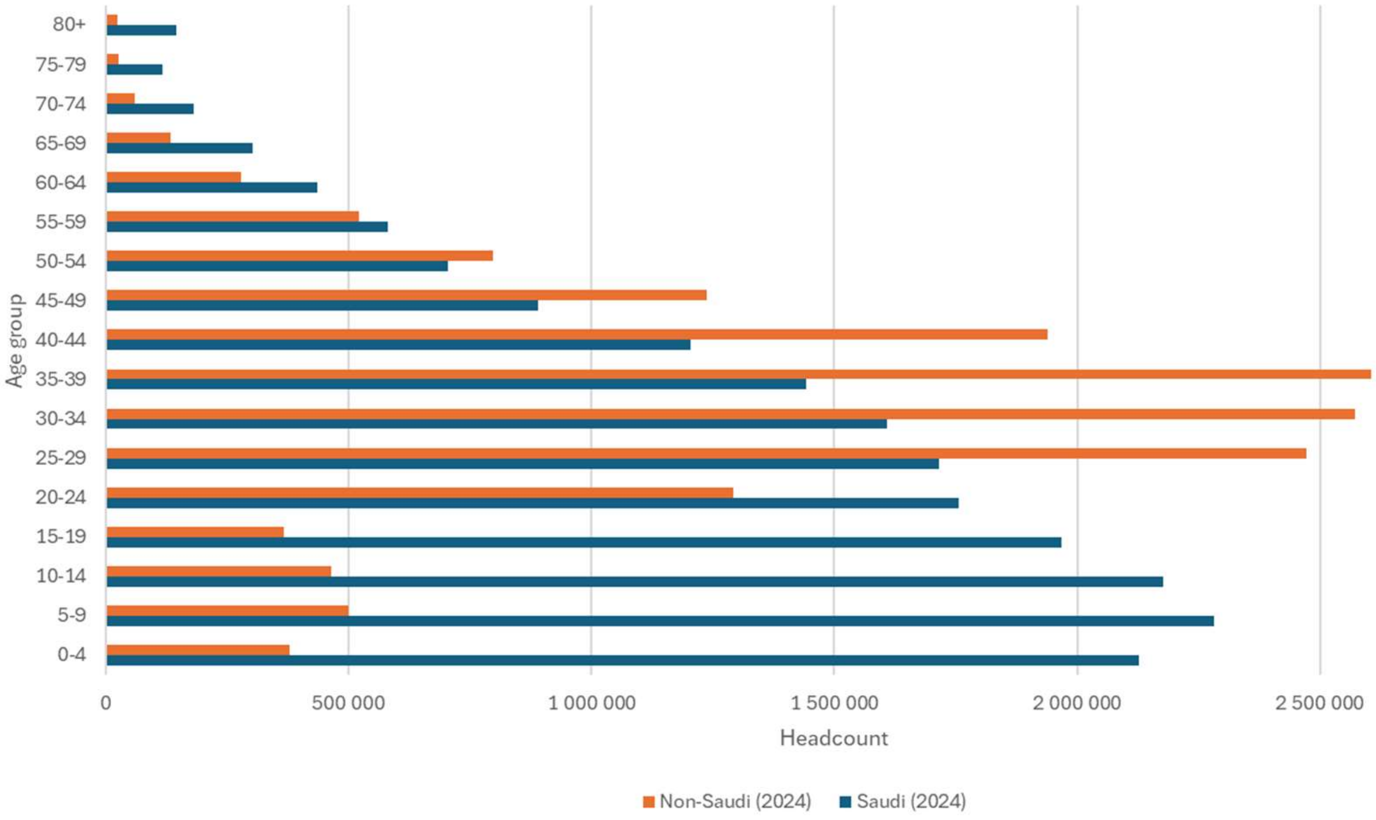
Sources: Saudi Central Bank. S&P Global Ratings.

12. One of the main challenges for the country is integrating its youth into the workforce, as more than 50% of the population was under the age of 24 in 2024. It’s a unique opportunity as well.

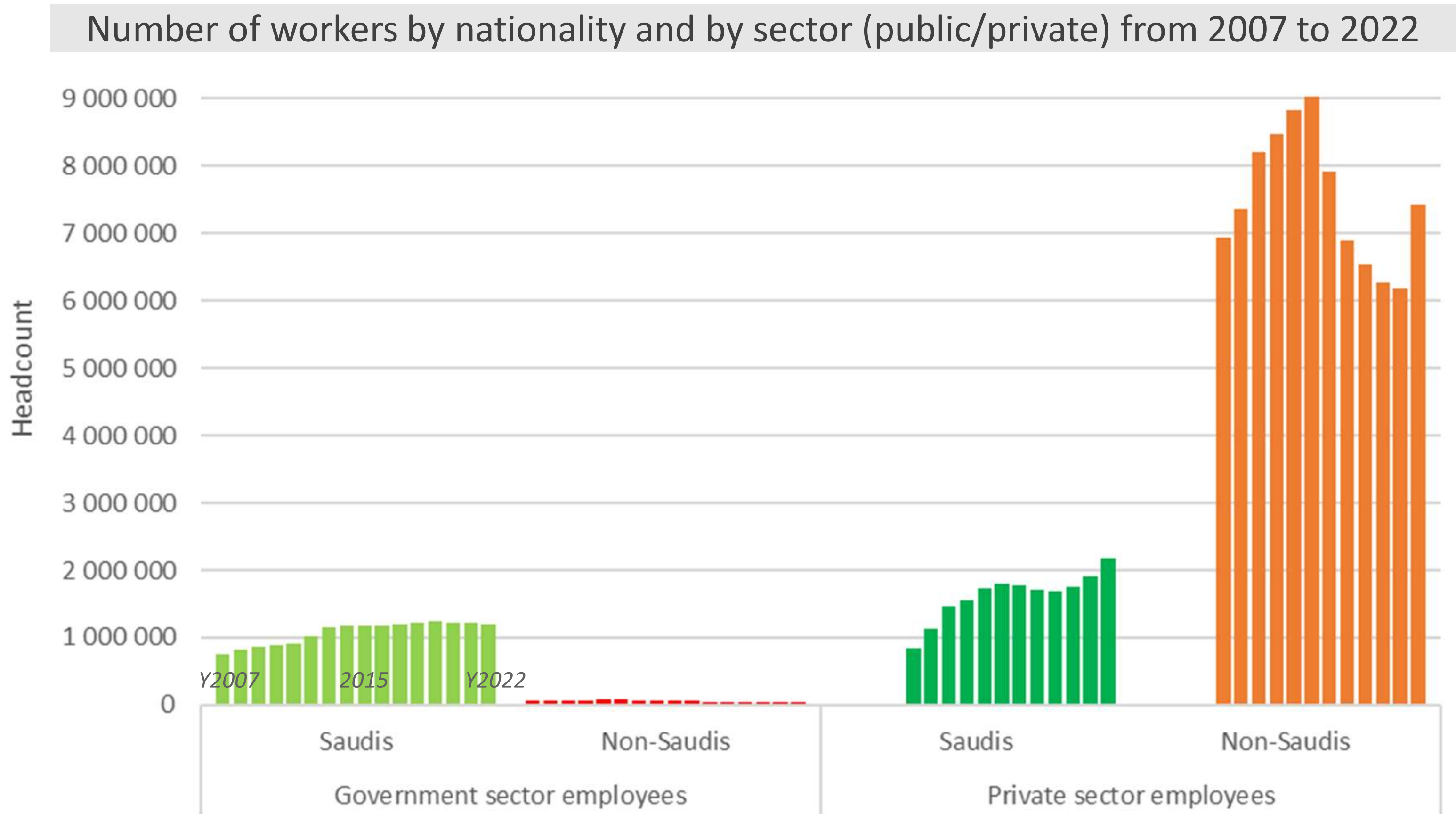


13. The second societal challenge is the integration of the foreign worker population, which represents 44% of the country's total population in 2024.

Population pyramid (citizen/Non-citizen)



14. The third social challenge is to divert Saudis from the public sector (in 2022, nearly one in three Saudi workers was employed in the public sector) and to encourage them to move toward the private sector, where they represent less than a quarter of the workforce.



Few take-aways

- **Among the leading oil-exporting countries**, the Kingdom is arguably the **most capable of withstanding** a barrel price near $60 in the short to medium term (several years).
- This is due to its **substantial financial reserves**—particularly its foreign exchange reserves, its sovereign wealth fund, the PIF and its large stake in Saudi Aramco—as well as its **borrowing capacity**, which allow it to temporarily cushion the drop in oil revenues.
- **However, these resources are not unlimited**, and a **prolonged situation could** force the country to **curb its diversification and modernization ambitions** (Vision 2030 Plan) and **could trigger significant social tensions** due to reduced spending.
- The **most important medium-term challenge** for the country is most probably **social**, particularly its ability to integrate the **massive influx of young adults** into the workforce over the next 10 to 15 years.
- Next, the **risks inherent to the use of the PIF should not be understated**. Time will tell if large-scale infrastructure projects like NEOM and sizable high-tech investments such as the $45 billion capital injection into the techno-focused Vision Fund produce appropriate returns on investment.
- Finally, KSA is one of the few country that **can increase immediately its oil production** and **a production of 12 million barrels per day sold at $70 per barrel** generates the **same gross revenue** as **a production of 10.3 million barrels per day sold at $80.52 per barrel** (2024 metrics), all else being equal.