جدوى للإستثمار
Jadwa Investment

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# A Closer Look at Saudi Arabia's Balance of Payments

- Saudi Arabia's current account returned another surplus in Q1-23, albeit one less than half the size of the Q1-22 surplus (Figure 1). A 15 percent year-on-year downturn in oil earnings combined with a 24 percent surge in import spending saw the surplus decline to $17.7 billion, down from almost $40 billion a year earlier.

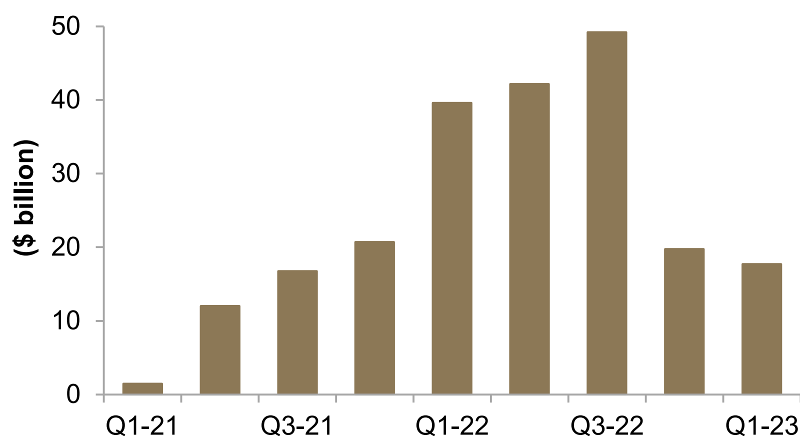
- Robust import spending has been a feature of the past four quarters, reflecting the gathering pace of capex along with solid consumer spending.

- An encouraging dynamic in the latest release is the surge in tourism revenue. This reached $9.8 billion in Q1, more than three times the Q1-22 level. Moreover, with more Saudis spending their vacations at home, the tourism balance was firmly in surplus at $6 billion, compared with a small deficit a year earlier (and quite large deficits historically). The surge in tourism revenues mainly reflects the release of pent-up demand from religious pilgrims, and the expansion of hotel capacity to accommodate them. Visits from non-religious tourists are also gathering pace, albeit from a low base.

- In the context of the overall current account, tourism earnings are still small. However, they are growing robustly and promise to deliver meaningful current-account diversification.

- Meanwhile, the financial account of the balance of payments remains firmly in deficit. In Q1, outflows through the portfolio channel were particularly pronounced, with substantial investments in foreign equity and investment funds, mostly by the PIF and other state-owned entities. There was also reasonably large net direct investment outflows. Still, these investments should continue to generate decent returns through the current account. The "other investment" channel remains opaque, but this line improved substantially compared with Q1-22 when a $40 billion net outflow was recorded.

**Figure 1: Saudi Arabia's Current Account**





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**Overview:**

Saudi Arabia's current-account surplus narrowed in Q1-23, reflecting weaker oil revenues and robust import spending. Yet the substantial upturn in net tourism inflows gives an early indication of progress in diversification efforts. Looking at the overall balance of payments position, there are still sizeable net outflows on the financial account. Some of these are difficult to identify, either by origin or destination, but they do help explain why SAMA's FX reserves have tended to stagnate even during years when large current-account surpluses have been recorded.

**Current Account:**

*The Kingdom tends to record decent current-account surpluses. The ten-year average shows surpluses worth 4.5 percent of GDP.*

Historically, Saudi Arabia has tended to record decent current-account surpluses, with an annual average of 4.5 percent of GDP for the past ten years. There have been times where the current account has slipped into deficit, most notably following the slump in oil prices in 2014 and more recently during the Covid-19 pandemic. However, the position returned to surplus in 2021 and improved to 13.6 percent of GDP in 2022, the highest ratio since 2013 (Table 1; Figure 2).

*The visible trade balance has always been substantially in surplus. Last year the trade surplus was the highest since 2012, reflecting a very positive oil story and a strong showing from non-oil exports.*

**Table 1: Saudi Arabia: Current Account** (annual; $ billion)

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Trade balance** | **168.8** | **121.4** | **48.0** | **136.5** | **234.6** |
| Exports | 294.4 | 261.6 | 173.9 | 276.2 | 410.7 |
| % change | 32.9 | -11.1 | -33.5 | 58.8 | 48.7 |
| of which, | | | | | |
| oil | 231.6 | 200.5 | 119.4 | 202.2 | 326.3 |
| non-oil | 62.8 | 61.1 | 54.5 | 74.0 | 84.4 |
| Imports | -125.6 | -140.2 | -125.9 | -139.7 | -176.1 |
| % change | -0.6 | 14.3 | -10.9 | 11.8 | 26.1 |
| **Invisibles balance** | **-96.9** | **-83.2** | **-70.7** | **-92.2** | **-83.9** |
| Services credit | 20.5 | 24.2 | 9.0 | 10.3 | 31.9 |
| of which, | | | | | |
| tourism | 13.8 | 16.4 | 4.0 | 3.8 | 23.5 |
| Services debit | -84.0 | -78.7 | -56.2 | -73.3 | -82.8 |
| Services balance | -63.5 | -54.5 | -47.2 | -63.0 | -50.9 |
| Income credit | 19.5 | 20.6 | 21.7 | 27.7 | 26.5 |
| Income debit | -11.8 | -12.7 | -7.8 | -12.5 | -15.4 |
| Income balance | 7.7 | 7.9 | 13.9 | 15.2 | 11.1 |
| Transfers balance | -41.1 | -36.6 | -37.4 | -44.4 | -44.1 |
| of which, | | | | | |
| workers' remittances | -33.0 | -30.3 | -34.3 | -39.8 | -38.8 |
| **Current account balance** | **71.9** | **38.2** | **-22.7** | **44.3** | **150.7** |
| % GDP | 8.5 | 4.6 | -3.1 | 5.1 | 13.6 |

*For Q1-23, the current account recorded another surplus. However this was less than half the size of Q1-22, with weaker oil earnings and a surge in import spending the main reasons.*

So far this year, only data for Q1 are available. These show that the current account returned another quarterly surplus, of $17.7 billion, but this was less than half the amount recorded in Q1-22 (Table 2). The reduction in oil earnings—stemming from last November's OPEC Plus production cuts and weaker prevailing prices—was the chief reason for the decline. However, almost as important was the 24 percent gain in import spending (Table 2; Figure 3). The run-up in import spending has been a striking feature of the past couple of years, and reflects both the surge in capital spending (mainly, but not exclusively, around giga-projects) along with very brisk consumer demand. The overall visible trade balance was still firmly in surplus

(as it has been for decades) but narrowed quite sharply to $36 billion in Q1, from $59 billion in Q1-22.

*The recent run-up in import spending mainly reflects the accelerated roll-out of giga-projects, with capital goods imports up by a quarter, year-on-year in Q1. Nevertheless, consumer goods still dominate imports and these rose by 20 percent year-on-year.*

**Table 2: Saudi Arabia: Current Account** (quarterly; $ billion)

| | Q1-22 | Q2-22 | Q3-22 | Q4-22 | Q1-23 |
|---|---|---|---|---|---|
| **Trade balance** | **59.0** | **72.1** | **61.5** | **42.1** | **36.0** |
| Exports | 97.6 | 114.8 | 106.7 | 91.6 | 84.0 |
| quarterly % change | 13.7 | 17.7 | -7.0 | -14.2 | -8.2 |
| of which, | | | | | |
| oil | 76.6 | 91.6 | 85.7 | 72.4 | 65.4 |
| non-oil | 20.7 | 22.9 | 20.9 | 18.9 | 18.3 |
| Imports | -38.6 | -42.7 | -45.3 | -49.5 | -48.1 |
| quarterly % change | 6.4 | 10.5 | 6.1 | 9.3 | -2.8 |
| **Invisibles balance** | **-19.3** | **-30.0** | **-12.3** | **-22.3** | **-18.3** |
| Services credit | 4.8 | 6.1 | 11.3 | 9.6 | 12.8 |
| of which, | | | | | |
| tourism | 3.0 | 4.2 | 9.1 | 7.2 | 9.8 |
| Services debit | -15.8 | -26.5 | -18.6 | -21.9 | -21.6 |
| Services balance | -11.0 | -20.4 | -7.3 | -12.2 | -8.8 |
| Income credit | 6.1 | 6.0 | 9.1 | 5.2 | 5.0 |
| Income debit | -2.9 | -3.9 | -3.6 | -5.0 | -3.5 |
| Income balance | 3.2 | 2.1 | 5.5 | 0.2 | 1.5 |
| Transfers balance | -11.5 | -11.7 | -10.5 | -10.3 | -11.0 |
| of which, | | | | | |
| workers' remittances | -10.4 | -10.2 | -9.2 | -9.1 | -8.3 |
| **Current account balance** | **39.6** | **42.2** | **49.2** | **19.8** | **17.7** |

*Expatriate remittances have slowed even as expatriate numbers have increased. This might reflect higher-earning expatriates saving more of their income in-Kingdom, where interest rates are high.*

The invisibles account has historically been heavily influenced by workers' remittances outflows. These have tended to fluctuate in line with domestic economic cycles, but have been falling over the past few quarters and eased to $8.3 billion in Q1-23 from $10.4 billion a year earlier. It is not immediately clear why remittances outflows should be declining when expatriate numbers are increasing; one possibility is that higher-earning expatriates are saving more of their income in Kingdom—given the high deposit rates on offer—rather than remitting them (Table 2; Figure 4).

The most eye-catching development on the invisibles account is the rapid growth in tourism inflows (Figure 5). Historically, the balance on travel tended to be in deficit, with outflows from Saudi nationals spending their holidays abroad more than offsetting earnings from

**Figure 2: The current account has rebounded from the Covid-induced 2020 deficit**

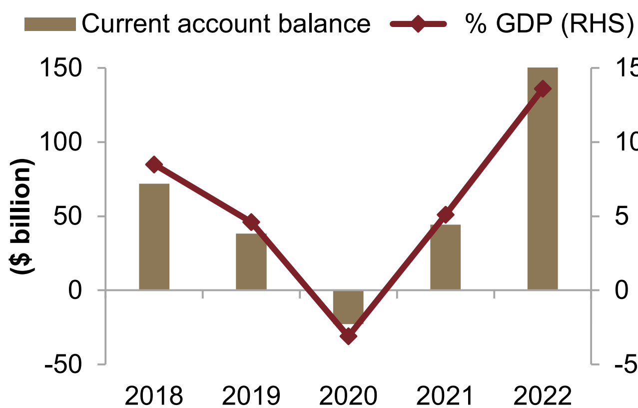
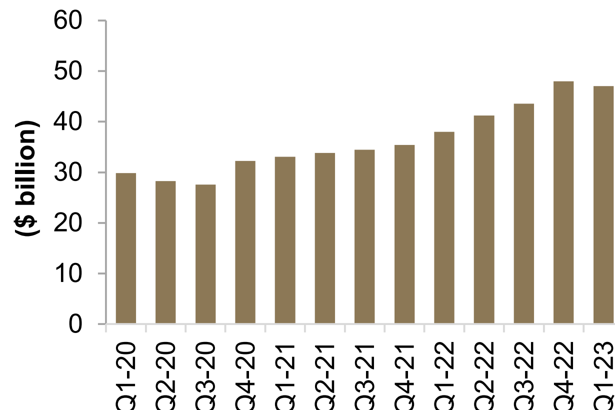



**Figure 3: Import spending has picked up**



## Box 1: The structure of Saudi Arabia's current account

*The current account is characterized by a structural surplus on visible trade and a structural deficit on invisibles flows.*

The current account is dominated by the visible trade balance, which has typically recorded substantial surpluses: the ten-year annual average is $130 billion. Naturally, export earnings are driven by oil revenue, which has been buffeted by changes to prices and production. Non-oil exports are dominated by chemicals, plastics and refined products, along with steel, food and some re-exports. For a long time, these struggled to get much above $50 billion a year, though 2022 saw them climb to $83 billion. Import spending has tended to change in response to the investment climate. In the early 2010s, when there was significant investment in refining and petrochemicals capacity, import spending rose sharply, from less than $100 billion in 2010 to $160 billion five years later. As government capex fell during the lean years of 2016-20, so import spending fell back and stagnated at around the $120 billion mark. However, with the oil price recovery and the ramping up of Vision 2030 projects, import spending has surged, reaching $176 billion in 2022.

The "invisibles" section of the current account has long been in structural deficit. That is to say, the services associated with import spending, tourism outflows, debt service costs and—most importantly—expatriate remittances have dwarfed whatever income was earned from assets held abroad and religious tourism inflows. Thus, the deficit on these invisibles flows has been around $90 billion over the past ten years. However, it has narrowed in the past five and should continue to do so given the rapid growth in tourism inflows. These took a big hit during the Covid-19 years but have bounced back to such an extent that tourism inflows are now on a par with remittances outflows.

*The steep rise in tourism earnings is especially encouraging, providing a growing source of foreign exchange entirely separate from the oil sector.*

foreign religious pilgrims. However, over the past four quarters the balance has shifted decisively into surplus, reaching $6.1 billion in Q1-23 from a small deficit in Q1-22 as tourism earnings reached $9.8 billion. There are a number of factors at play here. First, hospitality capacity for religious pilgrims has increased significantly over the past decade, with an ever-increasing number of hotels catering to a wide range of budgets. Second, administrative procedures have been streamlined, and visas have become more flexible, allowing pilgrims to stay longer and travel about the Kingdom more freely. Third, there has been a notable increase in tourists from the GCC, many of whom are curious to see the social changes underway in the

**Figure 4: Outward remittances have fallen even as expatriate numbers have increased**

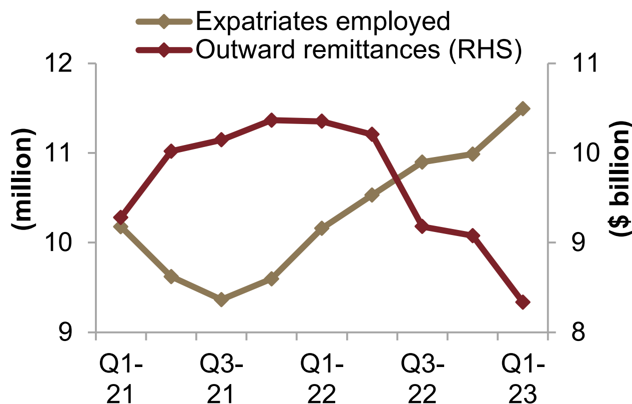
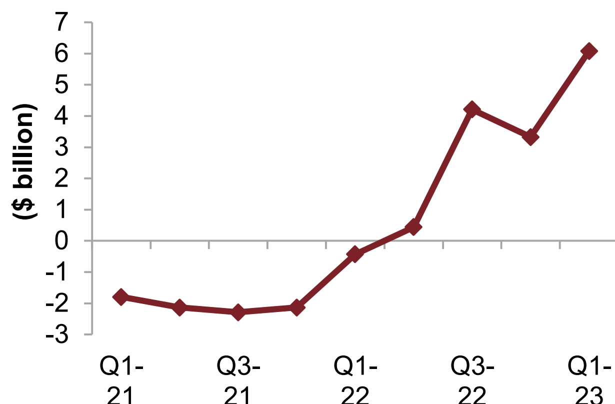



**Figure 5: The surge in tourism receipts has been the stand-out feature of the current account**



*There is growing interest in the Kingdom's ongoing transformation, both from the GCC and further afield.*

Kingdom, as well as sample the entertainment offerings. Fourth, the same applies to Western tourists, who have been the subject of well-targeted advertising campaigns. Western tourist inflows are coming off a very low base, but curiosity about a country that for a long time appeared to be "closed" is evidently growing. Finally, Saudi nationals are spending more of their holidays (and money) on the growing number of entertainment and sporting options within the Kingdom, rather than travelling to Dubai or further afield. Thus, tourism debits have eased to some $4 billion in the past year or so, from roughly $5-6 billion in the pre-Vision 2030 era.

Tourism revenue therefore has the potential to alter fundamentally the structure of the Saudi current account. It is unlikely to surpass oil

## Box 2: The balance of payments under a fixed exchange rate regime

*A sustained current-account deficit often puts downward pressure on a currency. However, with time, a weaker currency helps the current account adjust by making imports more expensive and exports more competitive.*

Under a floating exchange rate regime, a large and protracted current-account deficit will normally see the exchange rate adjust downwards. This in turn will make imports more expensive, reducing their appeal to domestic consumers, while making exports cheaper and enhancing their appeal to foreigners. Thus, a cheaper exchange rate should allow the current account to recover—at least partially—in the short- to medium-run. Meanwhile, the currency's decline means the country's assets—property, shares, and debt—also become more attractive to foreign investors, and their purchases will help to support the exchange rate, albeit at the cost of more foreign ownership. (This is the theory: in reality, the value of a currency will also be influenced by FX traders, who might be taking views on the long-term potential of the country's economy, or exploiting interest rate differentials through currency "carry trades".)

Under a fixed exchange rate regime, a current-account deficit can become a problem given that the currency is unable to adjust. Import demand is unlikely to "correct" and exports will not become cheaper. Depending on how large the current-account deficit is, markets might begin to sense that the situation is unsustainable. To maintain the peg, the central bank will need to intervene in the currency market. This involves using its reserves of US dollars and other hard currency to buy the local currency and thereby support its value. This can be effective, but usually only for short periods. If markets believe that the central bank will soon exhaust its reserves then this can lead traders to keep selling the local currency in the belief that the peg will soon break and the currency devalue. The other problem is that propping up the currency in this manner does not allow the economy to adjust. Import demand will not be quelled and exports will not become more competitive. Thus, the current account deficit is likely to persist (all else being equal).

*Such an adjustment cannot occur under a fixed exchange rate. Indeed, central bank intervention to protect the peg is often necessary. However, in Saudi Arabia's case the adjustment occurs by changes to government capex, which reduces the import bill.*

Despite its fixed exchange rate regime, the Saudi current account is not quite as rigid as one might suppose. When oil prices move lower for an extended period, the central government usually reduces capex substantially. This in turn triggers an almost immediate reduction in demand for imports and expatriate workers, allowing the current account to readjust (at least partially). That said, Saudi Arabia has seen occasional bouts of currency pressure, usually when oil prices have fallen sharply and for an extended period. Indeed the central bank has intervened to support the riyal, using its substantial war chest of foreign assets—and the cooperation of the local banking sector—to see off foreign speculators.

*The financial account remains heavily in deficit, reflecting outflows through the three main channels. That said, many of these investment outflows should continue to generate current account inflows.*

*The financial account deficit was particularly large in 2022. Substantial outflows through the "other investment" account were the main culprit.*

*Thus, despite the biggest current-account surplus for almost a decade, there was only a small accumulation of official reserves.*

exports earnings, at least not for many years, but it could become a very important offset to any decline in oil earnings. Moreover, it has the potential to create a lot of jobs.

**The Financial Account:**

What of the rest of Saudi Arabia's balance of payments? With flows through the capital account negligible it is the financial account that provides the data. The financial account is in some senses the mirror image of the current account: when the current account surplus is large, there is more money to invest abroad, and vice versa (Figure 6). However, the financial account also has its own internal dynamics that warrant scrutiny. It is notable that last year, despite recording the largest current-account surplus in nearly a decade, the accumulation of central bank reserves was meagre.

**Table 3: Saudi Arabia: Balance of Payments** (annual; $ billion)

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Current account balance** | **71.9** | **38.2** | **-22.7** | **44.3** | **150.7** |
| **Capital account balance** | **-2.3** | **-1.7** | **-1.8** | **-1.3** | **-2.5** |
| Direct investment | -15.1 | -8.9 | 0.5 | -4.6 | -10.9 |
| Abroad (net) | -19.3 | -13.5 | -4.9 | -23.9 | -18.8 |
| in KSA (net) | 4.2 | 4.6 | 5.4 | 19.3 | 7.9 |
| Portfolio investment | -12.0 | 11.6 | -23.8 | -38.5 | -36.9 |
| Abroad (net) | -28.5 | -34.6 | -53.6 | -55.6 | -49.7 |
| in KSA (net) | 16.5 | 46.2 | 29.8 | 17.1 | 12.8 |
| Other investment | -41.6 | -35.7 | 1.3 | 3.2 | -87.2 |
| Abroad (net) | -53.3 | -55.7 | -4.9 | -22.3 | -77.5 |
| of which, | | | | | |
| currency & deposits | -44.9 | -47.7 | -1.0 | -26.0 | -65.5 |
| in KSA (net) | 11.7 | 20.0 | 6.2 | 25.5 | -9.7 |
| **Financial account balance** | **-68.7** | **-33.0** | **-22.0** | **-39.9** | **-135.0** |
| **Net errors and omissions** | **-0.7** | **-0.5** | **0.6** | **-1.4** | **-8.7** |
| **Overall balance*** | **0.2** | **3.0** | **-45.9** | **1.7** | **4.5** |
| Change in reserves (- = increase) | -0.2 | -3.0 | 45.9 | -1.7 | -4.5 |
| **Official NFA ($bn)** | **496.6** | **499.6** | **453.7** | **455.4** | **459.9** |
| % GDP | 58.7 | 59.6 | 61.8 | 52.4 | 41.5 |
| import cover (months) | 48.6 | 42.8 | 43.6 | 39.1 | 31.4 |

* includes sovereign and corporate debt inflows

**Figure 6: The current and financial accounts tend to move in opposite directions**

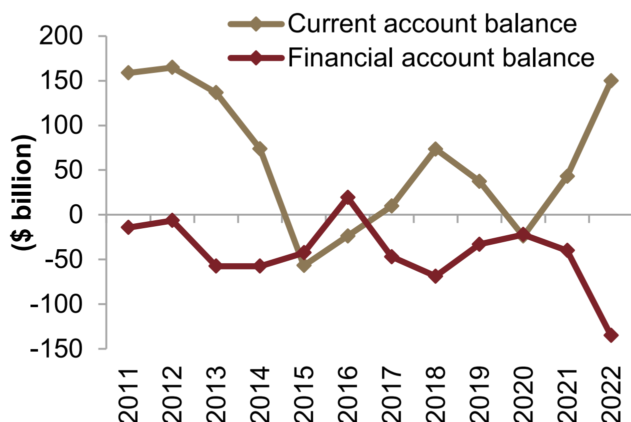
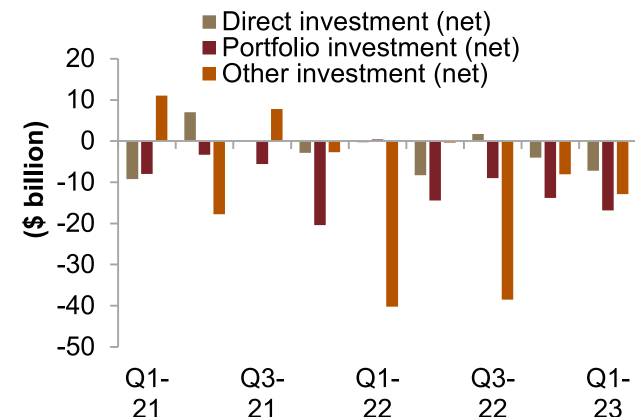



**Figure 7: Investment outflows have been especially heavy through the "other" channel**



The financial account is broken into three main channels: direct investment, portfolio investment, and 'other' Investment (Table 3). The first channel, foreign direct investment (FDI), presents a very volatile outflows line. This largely reflects the activities of the PIF, which has tended to make large but irregular investments abroad. FDI outflows reached $9.4 billion in Q1, up from just $2.3 billion a year earlier (Table 4).

*FDI inflows have tended to disappoint. However, there are recent signs that efforts to improve the business environment and court foreign investors are beginning to have an impact.*

For a long time inflows of FDI were subdued, and were well short of the targets earmarked in the Vision 2030 plan. Yet FDI inflows have recently gained traction, with 2021 and 2022 showing solid inflows (though it is true that 2021 was distorted by the one-off sale of an Aramco pipeline complex). The latest quarterly inflow was just $2.2 billion, but this is a 10 percent year-on-year gain, and there is cautious optimism that broad-ranging improvements to the business environment and intensive efforts to court foreign investors are beginning to bear fruit.

**Table 4: Saudi Arabia: Balance of Payments** (quarterly; $ billion)

| | Q1-22 | Q2-22 | Q3-22 | Q4-22 | Q1-23 |
|---|---|---|---|---|---|
| **Current account balance** | **39.6** | **42.2** | **49.2** | **19.8** | **17.7** |
| **Capital account balance** | **-0.5** | **-0.7** | **-0.6** | **-0.7** | **-0.9** |
| Direct investment | -0.3 | -8.3 | 1.7 | -4.0 | -7.2 |
| Abroad (net) | -2.3 | -10.4 | -0.2 | -6.0 | -9.4 |
| in KSA (net) | 2.0 | 2.1 | 1.9 | 1.9 | 2.2 |
| Portfolio investment | 0.4 | -14.5 | -9.0 | -13.9 | -16.9 |
| Abroad (net) | -6.9 | -10.8 | -8.9 | -23.2 | -29.1 |
| in KSA (net) | 7.3 | -3.7 | -0.2 | 9.4 | 12.3 |
| Other investment | -40.3 | -0.4 | -38.5 | -8.1 | -12.9 |
| Abroad (net) | -29.3 | -8.8 | -41.1 | 1.7 | 2.9 |
| of which, | | | | | |
| currency & deposits | -19.5 | -6.7 | -42.6 | 3.3 | -8.4 |
| in KSA (net) | -10.9 | 8.5 | 2.6 | -9.8 | -15.8 |
| **Financial account balance** | **-40.2** | **-23.2** | **-45.8** | **-26.0** | **-36.9** |
| **Net errors and omissions** | **-3.0** | **-3.0** | **-1.2** | **-1.6** | **-1.0** |
| **Overall balance*** | **-4.0** | **15.4** | **1.6** | **-8.5** | **-21.1** |
| Change in reserves (- = increase) | 4.0 | -15.3 | -1.6 | 8.4 | 21.2 |
| **Official NFA ($bn)** | **451.4** | **466.7** | **468.3** | **459.9** | **438.7** |

* includes sovereign and corporate debt inflows

Portfolio flows have also been quite volatile, though again they are dominated by PIF investments on the outflows line. Typically, any investment in a foreign firm below 10 percent of its value would show up here, though outflows will also include equity funds, debt and money market investments. It is notable that income inflows through the current account grew by 35 percent in the 2018-22 period, indicating that these investments are generating good returns (Table 1).

*Much of the inflows through the portfolio channel are likely to be from foreigners investing in Saudi sovereign debt; inflows to the stock market remain meagre.*

Portfolio Inflows have largely been attracted to Saudi sovereign debt issuance, which again have been quite volatile (though on an annual basis they have trended down as the fiscal position has improved, Table 3). Foreign inflows into the stock market have disappointed, despite the inclusion of the Tadawul in the MSCI and FT EM indices in 2019. The inflows data are not split between debt and equity inflows, but it is apparent from Tadwaul data that foreign inflows

have not yet reached a critical mass: foreign (including GCC) ownership was worth just 4 percent of the Tadawul's market cap in late July. Potential foreign investors tend to cite a lack of liquidity in the Tadawul as a reason not to invest.

*The "other investment" channel in the financial account is opaque, with volatile—and often very large—outflows. One would expect such flows to ebb as domestic investment opportunities multiply.*

The most opaque channel of the financial account is "other investment". Given that PIF and other state agencies' activities are easily tracked and classified, we assume that this channel is dominated by private flows. Although outflows are broken into various sub-groups, the dominant one is "currency and deposits" which says little about the origin or destination of these flows. This channel is particularly volatile: the average quarterly outflow for the past two years has been around $12 billion, but this includes significant spikes such as $42.6 billion in Q3-22, and around $20 billion in both Q2-21 and Q1-22. The Q1-23 outflow was $8.4 billion, which is below the recent average (Figure 7). One hopes and expects that over time these outflows will dwindle as domestic investment opportunities multiply.

These outflows are not a threat to the overall balance of payments position, but they do help to explain why SAMA's foreign reserves have stagnated in recent years despite substantial current-account surpluses. Indeed, in the four quarters to Q1-23 SAMA's reserve assets fell by a cumulative $12.6 billion, with Q1-23 alone recording a $21.2 billion decline (though in this case most of the outflows appear to be related to loan repayments, both public and private).

**Conclusion:**

*Overall, the balance of payments situation is reassuring. Outflows through the "other investment" channel do not pose a threat to the overall position, and with tourism receipts set to grow exponentially the central bank should see an acceleration in reserves' accumulation in the medium term.*

Overall, the Saudi balance of payments remains robust. It is unusual for an Emerging Market at this stage of development to be running a current-account surplus, particularly when the development involves such a capital-heavy transformation. This is obviously testament to the oil revenues that underpin the trade balance. The surge in tourism revenue is also positive, and points to a meaningful diversification of the current account (and indeed the broader economy) in the near future. The private outflows on the financial account are somewhat troubling, but many of these are likely to be headed towards foreign equity markets, which should continue to generate inflows through the current account. This is also clearly the intention for the PIF and the other public sector entities making investments through the portfolio and direct investment channels.

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