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The Current Account Surplus Narrows, but Financial Account Cushions FX Reserves

- In H1-24, the current account remained in surplus, at $12.7 billion, equivalent to 2.3 percent of GDP. The trade surplus will narrow further in H2-24 given lower oil prices, while the transfers deficit could widen given the rise in expatriate workers. These dynamics point to a smaller current account surplus in H2-24.

- Import growth in H1-24 slowed to a still strong 7 percent year on year, reaching $99 billion, reflecting high levels of capex and growing consumer spending.

- Non-oil exports (including re-exports) grew by 6 percent year on year on H1-24, reaching $38 billion as per the balance of payments statistics. Sluggish petrochemical exports were a drag on non-oil exports.

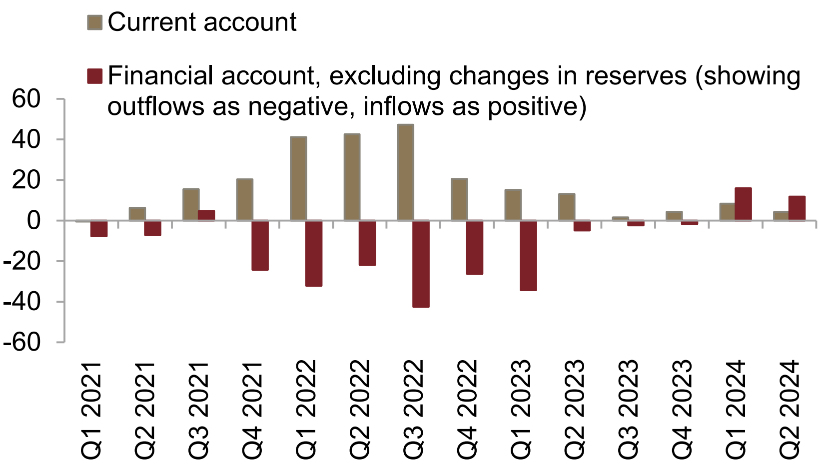
- An encouraging dynamic is the growth of tourism revenue which totaled $25 billion in H1-24. Although tourism earnings are still relatively small, they are positive for gradual diversification of the current account alongside growing non-oil exports.

- Inflows into the financial account outweighed outflows in H1-24 (Figure 1), due to substantial external debt issuance by the government and the PIF, as well as a drawdown on deposits held abroad. At the same time there has been a lower level of outflows in the form of investment into foreign assets.

- This dynamic helped central bank reserves increase to $468 billion in June 2024. The latest data show reserves dropped back to $435 billion in October, likely indicating a further narrowing of the current account surplus in H2-24, as expected, and lower external debt issuance.

- Foreign reserves, nonetheless, remain high and the strength of Saudi Arabia's external balance sheet is such that a period of current account deficits would be manageable during this investment phase.

Figure 1: Financial account registers net inflows in H1-24



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In H1-24, the current account remained in surplus, at $12.7 billion, equivalent to 2.3 percent of GDP.

A smaller current account surplus is likely in H2-24.

Current Account:

In H1-24, the current account remained in surplus, at $12.7 billion, equivalent to 2.3 percent of GDP. This followed a current account surplus, of 3.2 percent of GDP, in 2023. The goods trade surplus has shifted lower in H1-24 due to strong import growth (7 percent year on year) and lower oil export revenue (by 6 percent; $7.7 billion) which was only partially offset by higher non-oil exports (by 6 percent; $2.1 billion).

Looking at the quarterly dynamics, the Q2-24 surplus was smaller than in Q1-24 due to larger income debits and workers' remittance outflows (Table 1). The former has increased due to higher levels of external debt issued by Saudi institutions and entities and the impact of higher global interest rates. The significant increase in expatriate workers in the last couple of years explains higher remittance outflows, although these have come with a lag (Figure 5).

Looking ahead, the trade surplus is likely to narrow further in H2-24, while the transfers deficit could widen. These dynamics point to a smaller current account surplus in H2-24 and could tip the current account into deficit in the coming years. The key deciding factor will be the evolution of the oil market. Further progress with tourism will also have a bearing on the evolution of the current account. Below we take a brief look at the main sections of the current account, before turning to the financial account which is also witnessing important developments.

Table 1: Saudi Arabia: Current Account (quarterly $ billion)

	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
Trade balance	**31.1**	**30.0**	**29.7**	**27.4**	**26.8**
Exports	78.4	79.7	79.1	78.2	78.4
quarterly percent change	-6.5	1.7	-0.8	-1.1	0.2
of which,					
oil	60.7	61.6	60.5	59.7	58.9
nonoil	17.7	18.1	18.6	18.5	19.5
Imports	45.9	48.1	48.0	49.1	50.0
quarterly percent change	-2.3	4.8	0.0	2.3	1.7
Services balance	**-7.7**	**-16.4**	**-12.8**	**-10.0**	**-9.3**
of which,					
travel balance	6.7	-0.4	2.1	6.4	4.7
Services credit	16.4	8.1	11.2	15.7	16.1
of which,					
travel	13.0	5.2	7.9	12.0	12.7
Services debit	24.1	24.5	24.0	25.6	25.4
Income balance	**4.1**	**-0.4**	**0.8**	**3.9**	**0.8**
Income credit	10.1	4.9	8.5	8.8	9.0
Income debit	6.0	5.3	7.8	4.9	8.2
Transfers balance	**-14.5**	**-11.7**	**-13.3**	**-12.9**	**-14.0**
of					
workers' remittances	-9.6	-9.3	-9.9	-9.4	-11.3
Current account balance*	**13.0**	**1.5**	**4.3**	**8.3**	**4.3**
percent of GDP	5.0	0.6	1.6	3.1	1.6

*sum of trade, services, income and transfers balances

Import growth in H1-24 slowed to a still strong 7 percent year on year, reaching $99 billion.

Goods Trade Balance

Import spending has grown sharply in the past couple of years, up by an average of 18 percent in 2022-2023, due to the surge in capital spending (mainly, but not exclusively, around giga-projects); buoyant consumer demand; and global inflation. From that high base, import growth in H1-24 slowed to a still strong 7 percent year on year, reaching $99 billion (Figure 2).

Looking at the monthly import data, which give category breakdowns, imports of machinery and equipment have been the key driver of import spending, accounting for around a quarter of total imports and growing by around 25 percent year on year in H1-24. This tallies with the capital spending drive and the procurement necessary for that. And may also be linked to the growth in exports of machinery and equipment, some of which may be re-exports.

Linked to this, the second biggest contributor to import growth has been metals and metal products (which are needed as inputs for construction, for example).

Non-oil exports (including re-exports) grew by 6 percent year on year in H1-24, reaching $38 billion as per the balance of payments statistics.

Non-oil exports (including re-exports) grew by 6 percent year on year in H1-24, reaching $38 billion as per the balance of payments statistics (Figure 3). The five main non-oil exports (including re-exports) are: petrochemicals, plastics, machinery and equipment, transport equipment and metals/metal products. Looking at the monthly export data, the key contributors to non-oil export growth were machinery and equipment and transport equipment.

Sluggish petrochemical exports have dented the overall non-oil export performance this year, particularly in Q1-24. We have discussed this previously, explaining the headwind from weaker Chinese demand, which seems to have softened for both cyclical and structural reasons. Petrochemical exports have regained some momentum in recent months, but in January-August remained 7 percent lower year on year. Metals/metal product exports were also lower year on year.

Oil export revenue declined in H1-24 due to lower export volumes. H2-24 oil export revenue will decline further given lower oil prices.

Oil export revenue (which includes revenue from both crude and refined products) declined due to lower export volumes in line with lower production as per OPEC+ agreements. These agreements have remained in force in H2-24. H2-24 oil export revenue will be lower than in H1-24 given stable export volumes and lower oil prices. OPEC+ hopes to start unwinding production cuts in January 2025, although further delays are possible if oil prices remain soft.

Figure 2: Import spending continues to rise

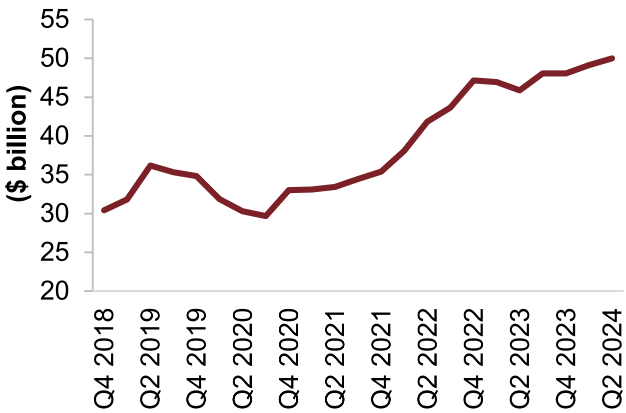
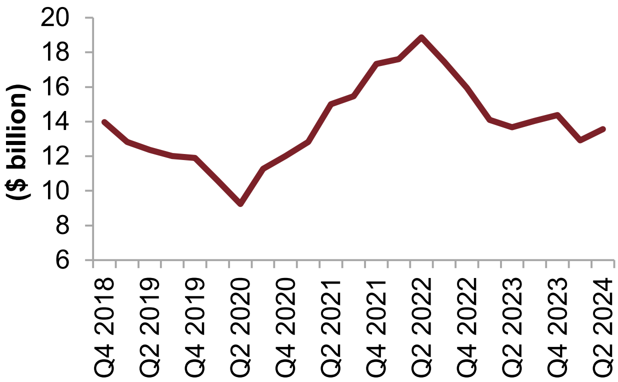


Figure 3: Non-oil exports have struggled since 2022, but may be showing signs of life



Services balance

The services balance ran a deficit of $16 billion in H1-24, similar to the deficit in H1-23.

The services balance ran a deficit of $16 billion in H1-24, similar to the deficit in H1-23. Saudi Arabia runs a structural deficit in this segment of the balance of payments due in large part to the services associated with import spending. Nonetheless, the emergence of a tourism surplus in 2022-2023 is a positive development that can help limit the overall services deficit.

In H1-24 tourism (travel) credits reached $25 billion (up 8 percent year on year) and the tourism balance recorded a healthy surplus of $11 billion (Figure 4). The balance is the same as in H1-23 because travel debits were higher in H1-2024.

However, within services, the tourism balance recorded a healthy surplus of $11 billion.

Historically, the balance on travel tended to be in deficit, with outflows from Saudi nationals spending their holidays abroad more than offsetting earnings from foreign religious pilgrims. These dynamics have changed as domestic tourism has surged, foreign religious tourism grows and international non-religious tourism starts to pick up. Tourism revenue has the potential to alter the structure of the Saudi current account by contributing to the diversification of export earnings.

Income balance

The income surplus is at historically low levels because income debits have been increasing.

The income surplus is at historically low levels because income debits have been increasing. This is partly because of higher levels of external indebtedness (for example international bonds and loans) as well as higher global interest rates. Servicing the external debt pushes up interest debits. The trend of higher external debt is likely to continue. Income credits have also risen in recent years due to higher global interest rates, but not enough to offset the rise in income debits.

Transfers balance

Remittance outflows rose sharply in Q2-24 and could remain higher or increase further given the trend in expatriate worker numbers.

Workers' remittance outflows are the key driver of the substantial deficit in the transfers balance. Remittance outflows, which tend to fluctuate in line with domestic economic cycles, were stable in 2021-2023, even as the number of expatriate workers rose sharply. It is not clear why remittance outflows did not increase in those years.

In any case, outflows did rise in Q2-24. Remittances could remain higher or increase further given the trend in expatriate worker numbers which continued to increase in H1-24 (Table 1; Figure 5).

Figure 4: A tourism surplus has emerged, supporting non-oil related elements of the BoP

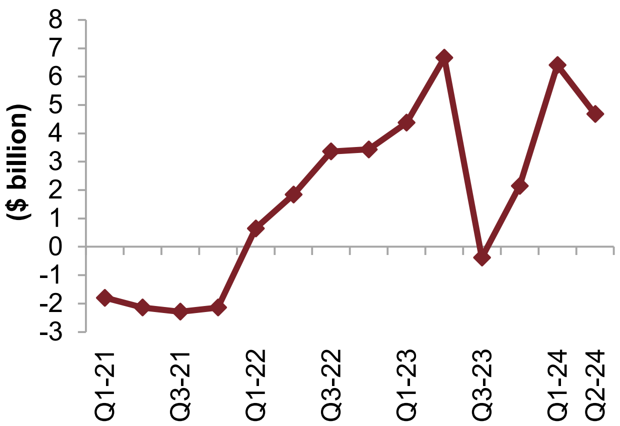
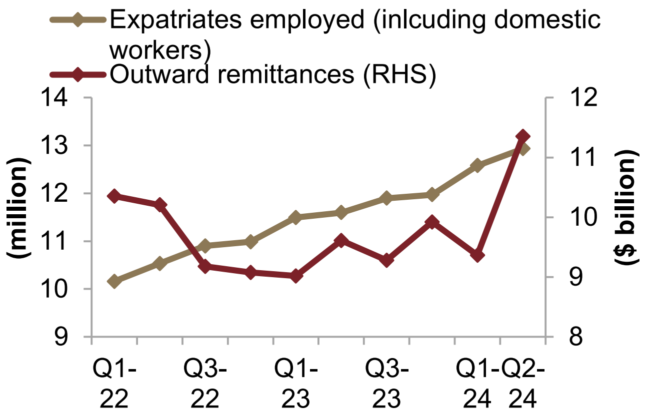


Figure 5: Outward remittances picked up strongly in Q2-24



In H1-24 the financial account recorded more inflows than outflows and helped central bank reserves increase.

The Financial Account:

In H1-24 the financial account was positive for the balance of payments —there were more inflows than outflows—and helped central bank reserves increase. Foreign reserves rose to $468 billion in June, up from $437 billion at end-2023.

What drove this? There seem to be three factors at play:
1) Large external debt issuance, notably by the government and the PIF
2) Saudi entities have reduced their deposits abroad, perhaps to meet domestic liquidity needs (these entities could be public and/or private sector)
3) Outflows into portfolio investments abroad were smaller year on year. This may reflect an increasingly domestic focus by PIF, but this line is volatile and so it is too early to be sure of a trend.

Foreign reserves dropped back to $435 billion in October, indicating a smaller current account surplus and weaker financial account.

However, although foreign reserves remained high in August, they dropped back to $435 billion in October, likely indicating that the current account balance has worsened in H2-24 as expected and that financial account inflows have weakened since August, due for example to less external debt issuance (Figure 8).

The financial account is broken into three main channels: direct investment, portfolio investment, and 'other' Investment.

The financial account is broken into three main channels: direct investment, portfolio investment, and 'other' Investment (Table 2). Below we take a closer look at each of the three channels.

Table 2: Saudi Arabia: Balance of Payments (quarterly; $ billion)

	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24
(A) Current account balance	**13.0**	**1.5**	**4.3**	**8.3**	**4.3**
(B) Capital account balance	**-1.7**	**-1.7**	**-1.8**	**-1.4**	**-1.1**
Direct investment (+ve = outflow)	2.3	-0.9	-1.9	2.6	-0.7
Abroad (net)	5.7	2.1	1.6	5.1	2.4
in KSA (net)**	3.4	3.0	3.5	2.5	3.1
Portfolio investment (+ve = outflow)	2.6	2.9	16.3	-15.6	10.8
Abroad (net)	11.0	4.6	19.7	8.3	16.4
in KSA (net)	8.5	1.7	3.4	23.8	5.6
Other investment (+ve = outflow)	0.0	0.3	-12.7	-2.9	-21.9
Abroad (net)	9.9	6.0	4.0	1.3	-11.8
of which,					
currency & deposits	6.7	2.9	5.2	-2.5	-10.2
in KSA (net)	10.0	5.7	16.7	4.2	10.2
(C) Financial account balance*	**4.8**	**2.3**	**1.7**	**-15.9**	**-11.8**
(D) Net errors and omissions	**-1.9**	**-1.3**	**-3.5**	**-4.4**	**-2.5**
Change in reserves (A+B-C+D)	**4.5**	**-3.7**	**-2.6**	**18.4**	**12.5**
Official Foreign Reserves ($bn)	**443.2**	**439.5**	**436.9**	**455.3**	**467.8**

* Direct + Portfolio + Other investment. Outflows abroad recorded as positive values

** data do not yet reflect the Oct 2024 updated figures from MISA

Foreign direct investment (FDI)

Direct investment abroad increased significantly since 2016 and particularly so since 2018 (with the exception of 2020 due to covid). This largely reflects the activities of the PIF, although other Saudi entities such as Aramco also make foreign direct investments.

In H1-24 direct investment abroad declined to $7.6 billion, from $12.4 billion in H1-23. This may reflect the PIF's increasingly domestic focus.

In H1-24 direct investment abroad declined to $7.6 billion, from $12.4 billion in H1-23. This may reflect the PIF's increasingly domestic focus. Data in H2-24 will be important to see if a trend of lower direct investment abroad is emerging.

As for inward FDI, Saudi Arabia has recently enhanced the methodology for calculating the data.

As for inward FDI, Saudi Arabia has recently enhanced the methodology for calculating the data. In late 2023 the Ministry of Investment of Saudi Arabia (MISA), the General Authority for Statistics (GASTAT) and the Saudi Central Bank (SAMA) worked with the IMF to employ a more granular methodology for calculating the Kingdom's FDI data. These data are derived from the financial statements of foreign companies registered with MISA and the Ministry of Commerce. This approach is more detailed than the previous approach which was based on foreign direct investment surveys by GASTAT. It should be noted that the survey approach is still being used by GASTAT to generate FDI numbers for the quarterly BoP and provisional annual BoP. But these numbers are revised subsequently and made final based on the new methodology.

2023 FDI inflows (net) were revised higher to $22.8 billion, from the initial estimate of $12.3 billion.

Based on the old methodology, 2023 inflows (net) were reported initially in SAMA's BoP statistics as $12.3 billion, a fairly low number. However, this was updated to a much healthier $22.8 billion in October 2024 based on the new methodology (Figure 6). It is worth noting that FDI inflows rose sharply in 2021-2022, but these numbers were inflated by one-off revenues relating to the sale of an Aramco pipeline complex.

The fact that the survey approach is used to generate FDI numbers for the quarterly BoP, makes the latest quarterly BoP data for inward FDI hard to interpret. In H1-24 inflows were just $5.6 billion. This would be a low figure relative to the updated 2023 number, but may itself be subject to upward revision.

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The updated 2023 figure for FDI inflows in gross terms is actually slightly above the government's National Investment Strategy (NIS) target in nominal terms (Figure 7). Published NIS targets are framed in gross terms, meaning before subtracting outflows from foreign investors (for example disinvestment). The gross and net numbers are fairly close at the moment ($25.6 billion versus $22.8 billion).

NIS targets ramp up considerably each year until 2030's target of $100 billion (5.7 percent of GDP under NIS projections). This looks ambitious, but there is cautious optimism that broad-ranging improvements to the business environment and intensive efforts to court foreign investors are beginning to bear fruit. It is also worth noting that 5.7 percent of GDP would be a high number in an international comparison across emerging markets.

Figure 6: FDI is showing signs of strengthening

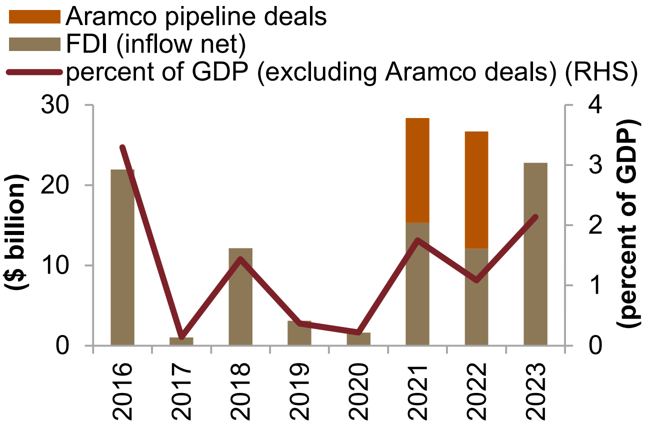
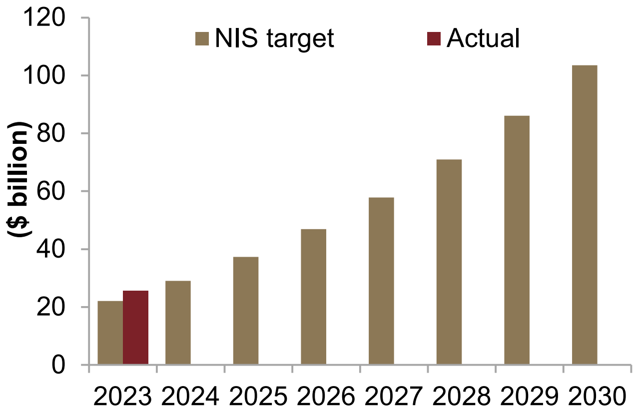


Figure 7: NIS targets for gross inflows of FDI ramp up in 2023-2030



In H1-24 portfolio inflows surged, to $29 billion, as the government and the PIF issued a substantial sum of external bonds.

Portfolio investment

Regarding the second channel, portfolio investment, outflows of investment abroad have typically dwarfed inward portfolio investment. This reversed in H1-24 when there were more inflows than outflows. In H1-24 portfolio inflows surged, to $29 billion, as the government and the PIF issued a substantial sum of external bonds.

The government and PIF issued around $25 billion combined in foreign bonds in H1-24. The government, PIF and Aramco have issued further bonds so far in H2-24, but not to the same magnitude. The BoP data does not split out portfolio inflows by equity and debt, but inflows associated with purchases of sovereign and quasi-sovereign debt is certainly a bigger driver at this stage than foreign inflows into the Saudi stock market.

Outflows by Saudi institutions into foreign portfolio assets remained significant (at $25 billion in H1-24), but were lower year on year.

Outflows by Saudi institutions into foreign portfolio assets remained significant (at $25 billion in H1-24), but were lower year on year (from $44.5 billion in H1-23). In 2020-2023 acquisition of foreign portfolio assets averaged $56 billion annually, primarily reflecting the PIF's investments— for example, its acquisitions of foreign public equities—but also foreign investments by Saudi pension funds and other entities.

Other investment

Outflows of "other investment" typically outweigh inflows—net outflows averaged $33 billion a year in 2014-2023 (excluding 2020 due to the impact of covid). The main category of outflows tends to be money moving into deposits abroad. The sums can be volatile. For example, in 2022 net outflows were a massive $88 billion, as a large sum of money was deposited abroad—perhaps linked to bumper oil revenue that year. This was a key reason SAMA's foreign reserves were largely flat in 2022 despite the 13.7 percent of GDP current account surplus.

With regards to "other investment", in H1-24 inflows outweighed outflows to the tune of $22 billion. One driver of this was a decline in deposits abroad.

However, in H1-24 inflows outweighed outflows to the tune of $22 billion. One driver of this was a decline in deposits abroad, perhaps as some of the sums deposited in 2022 are drawn down to meet liquidity needs in Saudi. This, together with the net portfolio inflows described above, supported the increase in SAMA's foreign reserves in H1-24 (Figure 9).

Figure 8: Reserves rise to August, before falling back to end-2023 levels in October

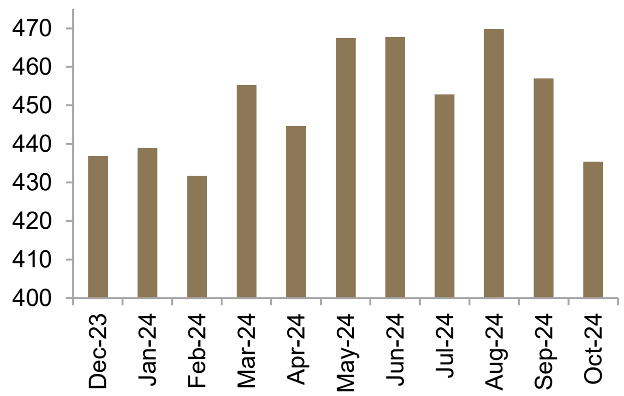
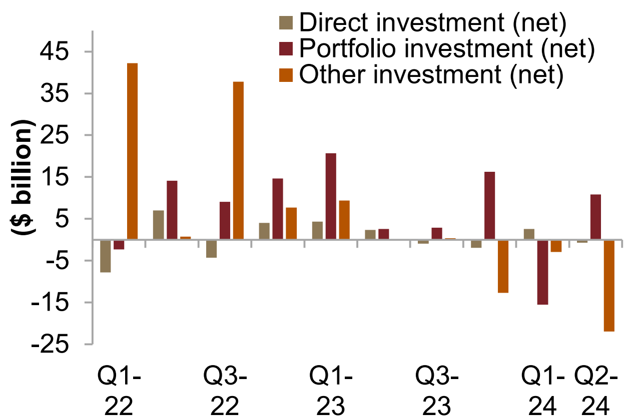


Figure 9: Inflows started to outweigh outflows (negative numbers are inflows)



Conclusion:

Overall, the Saudi balance of payments remains robust. Pressure on oil export revenue combined with growing imports and worker remittance outflows linked to the Vision 2030 investment drive is leading to weaker current account dynamics. But at the same time financial account dynamics have helped support the level of foreign reserves, which remains high. The strength of Saudi Arabia's external balance sheet is such that a period of modest current account deficits would be manageable during this phase of investment. The hope is that the Vision 2030 investments lead to greater economic diversification which would in turn support the current account in the future.

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

	2019	2020	2021	2022	2023
Trade balance	**121.3**	**47.9**	**136.5**	**235.3**	**126.9**
Exports	261.6	173.9	276.2	411.2	322.5
percent change	-11.1	-33.5	58.9	48.9	-21.6
of which,					
oil	200.5	119.4	202.2	327.0	248.4
nonoil	60.3	52.5	72.9	83.2	72.7
Imports	140.3	125.9	139.7	175.9	195.6
percent change	11.7	-10.2	11.0	25.9	11.2
Services balance	**-54.5**	**-47.3**	**-63.5**	**-47.6**	**-47.5**
of which,					
travel balance	1.3	-4.8	-8.4	9.3	12.8
Services credit	24.2	9.0	10.3	34.7	48.5
of which,					
travel credit	16.4	4.0	3.8	25.2	36.0
Services debit	78.7	56.3	73.8	82.3	96.0
Income balance	**8.2**	**11.2**	**12.9**	**9.6**	**5.8**
Income credit	20.6	21.7	26.5	26.0	29.0
Income debit	12.5	10.5	13.6	16.4	23.1
Transfers balance	**-36.6**	**-37.4**	**-44.2**	**-45.8**	**-51.2**
of which,					
workers' remittances	-30.3	-34.3	-39.8	-38.8	-37.8
(A) Current account balance	**38.5**	**-25.5**	**41.7**	**151.5**	**34.1**
percent GDP	4.6	-3.5	4.8	13.7	3.2
(B) Capital account balance	**-1.7**	**-1.8**	**-3.8**	**-3.9**	**-6.6**
Direct investment (+ve = outflow)	11.5	3.8	1.6	-1.1	3.8
Abroad (net)	14.6	5.4	24.7	27.0	16.1
in KSA (net)*	3.1	1.6	23.1	28.1	12.3
Portfolio investment (+ve = outflow)	-12.6	23.7	37.1	35.5	42.3
Abroad (net)	35.0	53.6	53.2	48.2	68.7
in KSA (net)	47.6	29.9	16.1	12.7	26.4
Other investment	37.7	-5.8	-4.4	88.4	-3.0
Abroad (net)	57.7	0.5	21.6	78.3	13.4
of which,					
currency & deposits	49.7	-4.5	24.5	66.9	19.3
in KSA (net)	20.0	6.3	26.0	-10.1	16.4
(C) Financial account balance**	**36.6**	**21.7**	**34.2**	**122.9**	**43.1**
(D) Net errors and omissions	**2.8**	**3.2**	**-1.9**	**-20.2**	**-7.3**
Change in reserves (A+B-C+D)	3.0	-45.9	1.7	4.5	-22.9
Official Foreign Reserves ($bn)	**499.6**	**453.7**	**455.4**	**459.9**	**436.9**
percent GDP	59.6	61.8	52.1	41.5	40.9
import cover (months)	42.7	43.2	39.1	31.4	26.8

* 2021-2023 data do not yet reflect the Oct 2024 updated figures from MISA

** Direct + Portfolio + Other investment. Flows abroad recorded as positive values