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Analysis of today
Assessment of tomorrow

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Can the non-oil sector become the main driver of Saudi Arabia's growth?

In recent years, Saudi Arabia has made enormous efforts to reduce the economy's dependence on oil and promote the development of the private sector.

The Vision 2030 programme, which was launched in 2016 at the initiative of Crown Prince Mohammed bin Salman, provides for extensive reforms to the tax system and the public sector, the opening of the market to foreign investors, and the creation of conditions for the growth of non-oil activities.

In June 2025, these efforts received a boost through the Purchasing Managers' Index (PMI), which rose to 57.2, its highest level in three months.

This confirms that the non-oil private sector is expanding strongly and entering a phase of accelerated growth. The key elements that the PMI measures are new orders received by companies, production or volume of services provided, inventories of finished goods, input costs for raw materials and components, and employment.

Each element is assessed in three categories for that month compared to the previous month. The results are weighted and published as a single figure between zero and one hundred.

The sudden rise in the PMI reading to 57.2 compared to 55.8 in May indicates that business activity in the services and manufacturing sectors has increased significantly.

The new orders index rose to 64.3, its highest level in four months, driven by increased investment in infrastructure and government-funded commercial projects.

At the same time, employment increased at the fastest pace since May 2011 as the job openings index exceeded 56.0. This increase in new jobs reflects companies' desire to satisfy increasingly strong domestic demand and expand production capacity.

Rising input costs have forced many companies to increase production prices to maintain their profit margins. The growth rate of production prices reached the highest annual level in the last eighteen months, indicating inflationary pressures in the supply chain.

Despite this, managers' confidence in the future rose to its highest level in two years. The Future Output Index indicated that businesspeople expect further growth due to government investment and reforms aimed at enhancing business conditions.

Reforming the economic structure under Vision 2030

The reform of the economic structure is based on several gigaprojects under the umbrella of Vision 2030.

The Neom project envisages the construction of a smart city on the Red Sea coast, the size of almost all of Belgium, which will become a centre for high technology and renewable energies.

As part of Vision 2030, the Qiddiya company is building an entertainment and sports complex west of Riyadh, which is estimated to be worth around eight billion dollars. The complex will include theme parks, training centres, and halls for various sporting disciplines. The aim is to become a leading regional destination for tourism and sport by the start of the World Cup in 2034.

In parallel, Red Sea Global is developing luxury resorts along hundreds of kilometres of the Red Sea coastline.

The project involves the construction of more than 90 islands where exclusive hotels and eco-friendly facilities will be built. The first phase is scheduled for completion by the end of 2029.

> The macroeconomic environment continues to support growth in Saudi Arabia

In addition to the gigaprojects, the state is working on improving the framework conditions for small and medium-sized enterprises through tax incentives, less bureaucracy, and accelerated procedures for importing equipment.

The National Transformation Program aims to increase the private sector's share of GDP from 40 to 65 per cent and double revenues from non-oil exports by 2030. Despite not meeting some deadlines and rising costs, the overall trend is still positive.

The macroeconomic environment continues to support growth in Saudi Arabia. In its latest assessment, the International Monetary Fund raised its GDP growth forecast to 3.5 per cent in 2025 instead of the previous 3.0 per cent, due to accelerated progress in the non-oil sector and a reduction in the impact of OPEC+ quotas. The state investment fund covers the remaining budget deficit.

A fixed exchange rate of the rial against the dollar provides protection against currency shocks but limits monetary policy flexibility, which in practice means that interest rates must follow Federal Reserve policy rather than adjust to domestic economic conditions.

Balancing growth and risk

The financial markets reacted positively to the PMI data. The main Saudi index, TASI (Tadawul All-Share Index), rose by around one per cent and reached a one-day high this month thanks to the strong rise in shares of banks and companies from the construction and financial sectors. Investors are now watching the next readings from the statistical agencies and the synergy between private investments and government initiatives.

State funds will continue to be key investors, but their involvement will focus more on domestic companies and technology start-ups - Neom Project

However, there are also risks. Commodity and component prices are on the rise, leading to a reduction in profit margins as procurement costs increasingly consume more revenues.

The conflict in Yemen and the deteriorating security situation in Gaza create additional uncertainty for foreign partners and can lead to delays or cutbacks in the scope of important infrastructure and commercial projects.

The lack of manoeuvrability in monetary policy due to the fixed exchange rate of the rial makes it even more difficult to adapt to external shocks. Under these conditions, companies risk a reduction in planned returns, prompting investors to reconsider their exposure to the Saudi market.

In the medium term, the transformation plan and Vision 2030 are expected to push the oil sector out of the forefront of economic policy, while the private sector will assume the role of the main driver of development.

State funds will continue to be key investors, but their involvement will focus more on domestic companies and technology start-ups.

If the current pace of reforms and implementation of gigaprojects is maintained, Saudi Arabia could ensure stable GDP growth above the world average by the end of the decade and position itself as a regional financial and tourism centre.