

Has the era of oil-fueled prosperity for Saudis ended?



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Saudis of a certain age can point unhesitatingly to two periods in the Kingdom's history during which the finances of citizens improved at an extremely rapid pace: the reigns of King Khalid (1975-1982) and King Abdullah (2005-2015).

During those two golden periods, the state budget expanded and, as a consequence, jobs proliferated and services and living standards improved. The whole of society benefited, whether through infrastructure development, the expansion of the healthcare and education systems, or the introduction of developmental support funds in real estate, agriculture and other sectors.

These periods of prosperity were made possible by rapid increases in oil prices. In mid-1973, for example, the price of a barrel of oil was \$3.56. By mid-1980, just seven years later, it had jumped to \$39.50. Adjusting for inflation, that \$39.50 would be equivalent to about \$153 today, and it represented a tremendous financial boost for a country with a population at the time of only about 6.2 million people. It was a similar story during the reign of King Abdullah. In January 2004, the price

of a barrel of oil was about \$58 (in today's prices), but by mid-2008 it had risen to \$206.

Despite the fluctuations in oil prices over the decades, a minimum level of prosperity was always guaranteed. This is why when the Saudi government unveiled its Vision 2030 blueprint for the future in 2016, proposing that the Kingdom should begin to diversify its economy away from a reliance on fossil fuels,¹ the first question many people asked was, "Why?"

In the years that followed, two other questions emerged: How will we implement this transformation, and what will its real outcome be?

For Saudis, life in a rentier state — one which, in the case of the Kingdom, derives the bulk of its income from oil sales rather than taxes, and distributes the profits in the form of subsidies and other benefits — was undoubtedly comfortable, but always with two looming dangers.

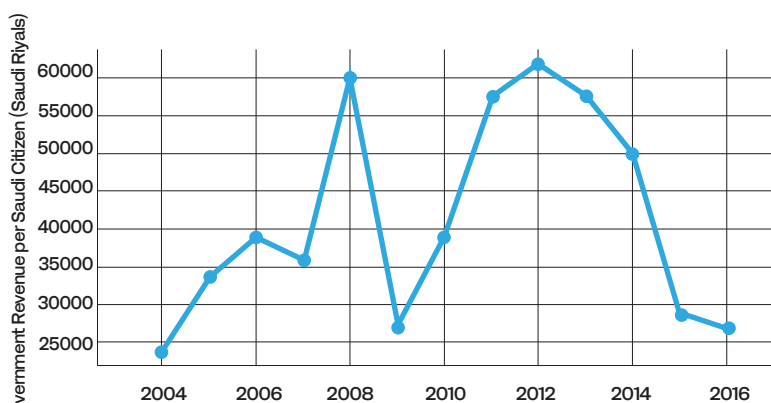
The first was the volatility of oil prices. There is no better way to illustrate this danger than by considering the sharp fluctuations in per-capita oil revenue in the decades before the launch of Vision 2030, during which oil and gas exports represented 80-90 percent of government income.



For Saudis, life in a rentier state was undoubtedly comfortable, but always with two looming dangers.



SAUDI ARABIA - GOVERNMENT REVENUE PER SAUDI CITIZEN (2004-2016)



Source: The Ministry of Finance and the General Authority for Statistics.

Take, for example, the rapid decline between 2012 and 2016 when per-capita income fell from more than SR40,000 (\$10,700) per person to just SR16,000 — equivalent to a 60 percent reduction in an individual's earnings in just four years.

Demonstrating the dilemma the state was confronted with during this period, the following graph shows that government spending did not decrease at the same pace as oil prices, deepening the national deficit at the time.

Saudi Arabia's Khalid bin Abdul Aziz Al Saud, brother of King Salman. During his reign, citizens' finances improved at an extremely rapid pace, along with services and living standards. AFP

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RESEARCH & STUDIES
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Many people remember the austerity measures imposed by the government during this period (2015-2016), but few know that this was not the only period of crisis Saudi Arabia faced as a result of painful volatility in oil revenues.

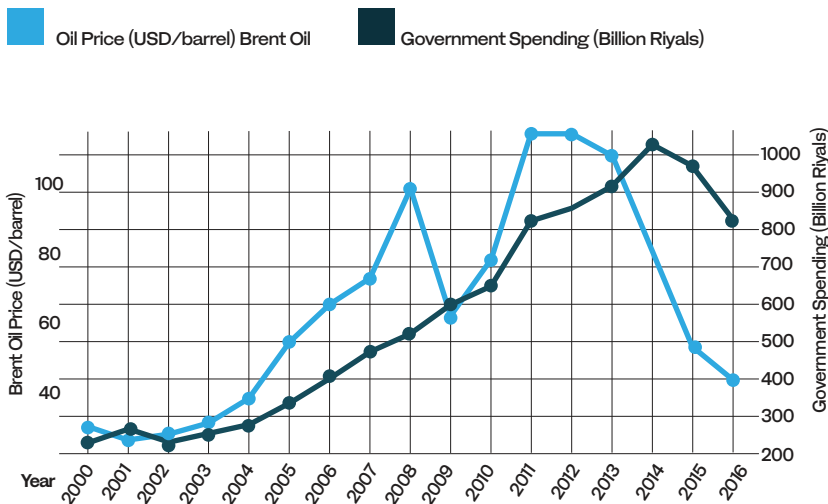
In a recent podcast interview, Dr. Mohammed Al-Jasser, former governor of the Saudi Central Bank, described the late 1990s as “the hardest period we went through, and afterward rumors and pessimism spread widely.”²

During that period toward the end of the 1990s, as oil prices dropped below \$12 a barrel, public debt grew to exceed 100 percent of gross domestic product³ — the highest in Saudi history (today it stands at 30 percent).

Foreign reserves fell to \$3.2 billion (now they are at \$442 billion). The government had to cut spending on capital projects to SR6 billion (now the amount is SR189 billion).⁴ International speculators even bet that the Saudi Monetary Authority would be unable to maintain the riyal's peg to the dollar.⁵

The second and less-discussed danger of a rentier-state model is that the population, the beneficiary of distributed oil wealth, grows at a pace faster than oil revenues.

SAUDI ARABIA: OIL PRICES VS. GOVERNMENT SPENDING (2000–2016)



Source: Brent crude oil price data from the EIA, and actual expenditure data from the Saudi Ministry of Finance for the years 2000–2016.

During the Jeddah Security and Development Summit in July 2022, Crown Prince Mohammed bin Salman stated: “Saudi Arabia has announced increasing its production capacity to 13 million barrels per day, and after that the Kingdom will have no additional capacity.”⁶

This means the country’s maximum possible revenue from oil is capped at selling 13 million barrels a day, at volatile prices that do not rise simply because the population is growing.

To illustrate this, imagine a family of five with a monthly income of SR100,000 — SR20,000 per person. If the next generation increases the family size to 15 people, and income grows only by 20 percent to SR120,000, then per-capita income drops to SR8,000.

In the generation after that, the size of which increases to 45 people as income again grows by 20 percent to SR142,000, per-capita income falls to just SR3,200.

The short version: Oil brought immense prosperity to Saudi citizens, but it is unsustainable prosperity and its collapse is inevitable unless the economy is reformed and diversified.

A FAULT IN THE ENGINE

The problem Saudi Arabia faced was not only economic in nature. Alongside the fragility that came from a reliance on oil, another issue was clear: low levels of efficiency among government entities.

Any country needs two components to grow: an economy capable of generating opportunities, and an effective government as the vehicle that drives growth. If either of these is missing, the other



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becomes ineffective no matter how abundant the resources might be.

In this context, consider an interview with Finance Minister Mohammed Al-Jadaan on the Socrates podcast in 2024,⁷ in which he explained that the Ministry of Finance, the backbone of any government, was still 100 percent paper-based in 2015. It had no accurate data on revenues, expenditures or obligations to the private sector. There was no debt-management office or unified financial system.

In other words, a system of this scale and complexity was operating without a dashboard, which was making sound planning nearly impossible.

Another example is the development of King Salman Park in Riyadh. Few people know that this project to convert a military base into a park had been on the government books since the 1980s but remained stalled for 40 years due to overlapping roles and weak coordination.⁸

These few examples show that the problem was not just economic in nature but structural, related to the government’s lack of capacity to make and execute decisions, which was affecting services, projects and economic growth.

FROM 1975 UNTIL THE LAUNCH VISION 2030

Saudi policymakers were not unaware of the risks associated with the nation’s dependency on oil. In their first five-year development plan, launched in 1970, a stated objective was: “Reduce Saudi Arabia’s reliance on crude oil exports by expanding the productive base.”⁹

But having an idea is one thing; turning it into real change is quite another.

In 2016, the crown prince took the lead on the transformation effort and launched Vision 2030. I attended the launch, and the general sentiment surrounding it was a combination of belief in the need for change and anxiety about the scale of the ambition on display.

It was the first time Saudis had been presented with a comprehensive, long-term and precisely detailed national vision. And so, amid skepticism, there began a bold and fast-moving program of reforms.

ECONOMIC REFORM

Saudi Arabia adopted a fundamentally different model for managing its transformation. Vision 2030 was not, as some would attempt to simplify it, merely a package of urban megaprojects. Instead, it was a framework for a comprehensive, structural transformation led by the state through a blend of investments, legislative reforms, executive programs and

The King Salman Park project, to convert a military base into a park, had been on the government's books since the 1980s but remained stalled for 40 years due to overlapping roles and weak coordination. King Salman Park Foundation



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sovereign funds, all aimed at accelerating the shift away from a rentier economy toward a diversified, productive one.

Economically, this model stands on three interconnected pillars.

● **Diversifying the tools of change.**

Major projects that stimulate growth were combined with regulatory reforms designed to rebuild the business environment, and executive programs to enhance spending efficiency and governance.

Since 2016, Saudi Arabia has launched 13 executive programs covering privatization, quality of life, national transformation, development of the financial sector, and more besides.

In addition to these, hundreds of initiatives and new laws have reshaped the economic and administrative landscape in a short period of time.

● **Rapid transformation through parallel work.**

Saudi authorities implemented projects, laws and other programs simultaneously, breaking the pattern of slow reform and compressing decades of change into a single decade.

Megaprojects such as Neom, Qiddiya and the Red Sea project were launched in tandem with labor-market reforms and the liberalization of tourism,

Above: A worker fills a vehicle with petrol at a gas station. Next: Saudi Minister of Finance Mohammed Al-Jadaan speaks during a panel at the annual Future Investment Initiative conference in Riyadh.

REUTERS/AFP

entertainment, sports and culture, thereby ensuring that the transformation would be comprehensive and concurrent rather than gradual or fragmented.

● **Transforming the state from spender to investor.**

The assets of the Public Investment Fund were increased from about SR600 billion in 2015 to nearly SR3.4 trillion by 2024, transforming it from a financing tool into an investment engine driving growth domestically and internationally.

This shift transformed the state into a productive actor, fueling the development of new sectors such as advanced manufacturing, tourism and renewable energy.

This interplay of investment, regulation and administration produced what economists call “accelerated structural transformation,” a model typically seen only in countries with centralized decision-making and a strong capacity for the execution of plans. Saudi Arabia adopted this path to overcome the slow pace of conventional reforms, and to make up for decades of dependency on oil.

Naturally, this model comes with both major benefits and real challenges. It accelerates reform across all fronts, thereby offering exceptional speed and effectiveness, but also makes the process more complex and costly.

And it is important to remember that conditions were far from ideal at the start of this journey. In 2016, oil prices were still below \$40 a barrel and the budget was facing a deep deficit of SR297 billion.¹⁰

Less than four years after the launch of Vision 2030, the COVID-19 pandemic struck, leading to rising global inflation, supply-chain disruptions and historically high interest rates, all of which put pressure on fast-growing economies such as Saudi Arabia's.

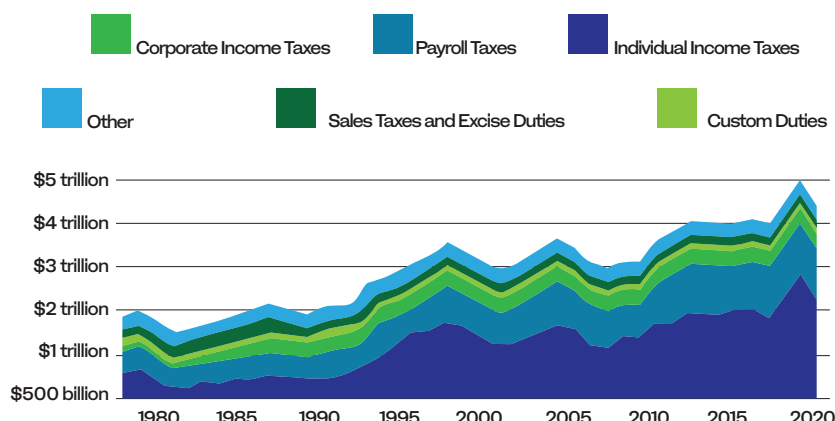
Throughout all of this, oil prices remained volatile. But despite these challenges, the Saudi government maintained its pace of reform.

WHAT HAVE WE ACHIEVED?

In analyzing the economy before the launch of Vision 2030, and the foundations of the transformation model, the key question for any serious economic evaluation is whether or not the trajectory has truly changed.

The following charts clearly show the ways in which the indicators shifted after Vision 2030 compared with the situation before its launch.

FEDERAL GOVERNMENT REVENUE BY CATEGORY FOR FISCAL YEARS 1980-2023



Source: US Department of the Treasury and the Bureau of Economic Analysis (BEA).

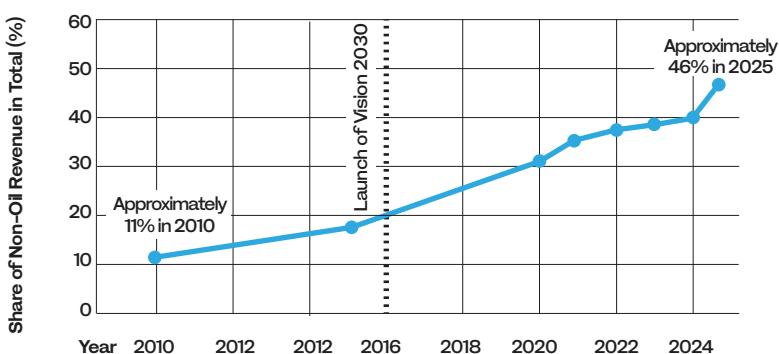
of the indicator or its usefulness in measuring real non-oil activity.

Regarding the claim that the rising government non-oil revenues come mainly from taxes, this is a global norm, since taxes are the primary source of funding for all diversified economies. In 2023, for example, more than 98 percent of US federal government revenue came from various forms of taxation.¹¹

What is unique in the case of Saudi Arabia is that oil once represented the source of almost all government revenue. Any diversification effort, therefore, had to include taxes and fees.

However, along with taxes came targeted programs of support, foremost among them the Citizen Account Program, which has paid more than SR253 billion to 9.7 million beneficiaries (more than 49 percent of all Saudis) since its launch in December 2017 through September 2025.^{12,13}

SAUDI ARABIA'S SHIFT AWAY FROM OIL DEPENDENCE (2010-2025)



Source: Saudi Ministry of Finance - Budget Data.

The first chart shows the transformation in the structure of government revenue, a core issue behind the introduction of Vision 2030. Prior to 2016, non-oil revenues were marginal. After the reforms program began, non-oil revenues began to rise steadily and now contribute nearly half of total government income. This reflects a shift away from a fragile, oil-dependent fiscal structure toward a more stable and diversified system.

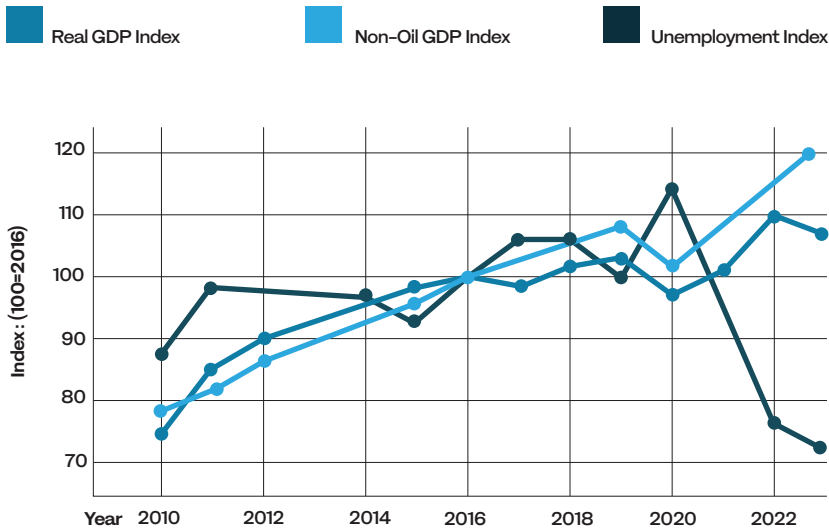
It is important to note that non-oil GDP is calculated after excluding all directly oil-related components. It is not, as some claim, merely an extension of oil GDP.

There is, naturally, cyclical interaction between sectors in any economy but this does not affect the independence



SAUDI ECONOMIC TRANSFORMATION

INDEXED TO 2016 = 100



Source: The General Authority for Statistics and the Ministry of Finance

The purpose of this shift was to direct government support to those most in need, about half of Saudis, rather than granting subsidies and exemptions to everyone, including expatriates and the rich.

Crown Prince Mohammed bin Salman expressed this clearly during his first interview after the launch of Vision 2030: “When we reviewed the 2015 financial statements, more than 70 percent of subsidies went to the wealthy. This is unacceptable. Support should go to middle- and low-income citizens.”¹⁴

The next chart summarizes the trajectory after Vision 2030, with overall and non-oil GDP growing while unemployment dropped from more than 12 percent to about 7 percent.

Such a combination of expanding production and falling unemployment is one of the strongest signals that the structure of an economy is changing.

Global recognition of this transformation can be found in Saudi Arabia’s performance on the Kearny FDI Confidence Index, which surveys more than 500 executives from multinational companies on the likelihood they will invest in a country over the next three years.

Since the index does not include all countries that attract foreign direct investment (the 2025 report included countries that collectively received 97 percent of global inward FDI flows, for example, while the 2021 and 2022 reports covered 95 percent), Saudi Arabia was not ranked until recently.

But thanks to rising FDI flows and growing interest among global investors, the Kingdom debuted on the index in 2023 in 24th place. A year later, it climbed 10

places to 14th, the fastest rise in the world, and in 2025 it moved up again, to 13th.^{15,16}

Similarly, global credit-rating agencies, including S&P, Moody’s and others, have significantly upgraded Saudi Arabia since 2016, reflecting stronger financial resilience and resulting in reduced borrowing costs.¹⁷

On Transparency International’s Corruption Perceptions Index, the world’s most widely used governance indicator, Saudi Arabia’s position improved from 62nd place with 46 points in 2016 to 38th place with 59 points in 2024, reflecting advances in government discipline, oversight and transparency.¹⁸

As for government efficiency — and remember, the Ministry of Finance was still fully paper-based before the launch of Vision 2030 in 2016 — Saudi Arabia now ranks fourth globally on the UN’s E-Government Development Index, and second among G20 countries.¹⁹

In addition, the World Bank’s Government Effectiveness Index shows Saudi Arabia’s score rising from 0.15 in 2016 to 0.8 in 2023, a more than fivefold improvement.²⁰

ERRORS AND CHALLENGES

The Saudi experience is not without aspects in need of improvement. For example, the expanding number of government entities created overlaps in roles, and the administrative structure could have been designed more precisely to improve efficiency and reduce waste.

EVOLUTION OF SAUDI CREDIT RATING BETWEEN 2016 AND 2024

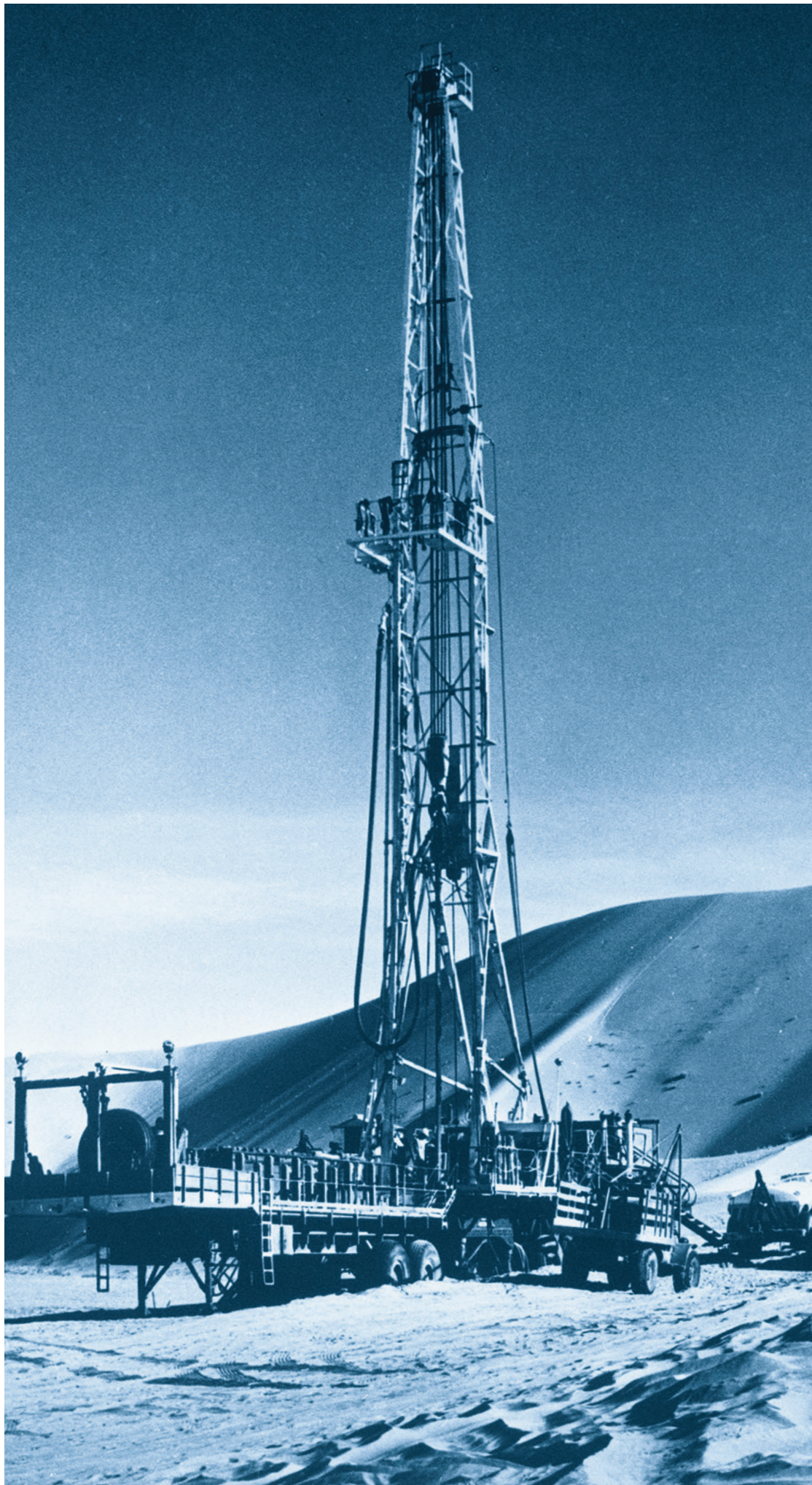
AGENCY	RATING 2016	RATING 2024
S&P	A-	A+ (Two Ranks Up)
Moody’s	A1	Aa3 (One Rank Up)

Some entities operated within a market rather than regulating it, contradicting the goal of empowering the private sector. I expressed this concern in a previous article, noting the harm this behavior can cause to the economy.²¹

In addition, some entities overregulated their sectors, undermining market efficiency and competitiveness. For example, the contribution of small and medium-sized enterprises to GDP stood at 20 percent in 2016. A target was set to increase this to 35 percent by 2030²² but by the end of 2023 it remained at only 21.9 percent.²³

Moreover, the transformation was not

An Arabian American Oil Company drilling rig at Rub' al Khali in the Arabian Peninsula, Saudi Arabia, circa 1955. The Arabian American Oil Company, also known as Aramco, later became Saudi Aramco. Getty Images



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People shopping at a supermarket in the Saudi capital, Riyadh. To reduce its dependency on oil, the Kingdom adopted a fundamentally different model for managing its transformation, including the Citizen's Account Program aimed at providing support to middle- and low-income citizens. AFP



balanced across sectors. Education, despite a large budget, did not undergo the expected shift. Meanwhile, sectors such as tourism advanced more rapidly.

Investments in public-private partnerships remain below SR52 billion, short of the mid-2025 target of about SR64 billion, a relatively modest 1.57 percent of Saudi Arabia's 2024 GDP.²⁴

Each of these points is worthy of its own deeper analysis.

CONCLUSION

I recently reread Ghazi Al-Gosaibi's autobiography "A Life in Administration," published in the 1990s, and was struck by his reflections on an earlier era of Saudi ambition, particularly his description of the skepticism such ambition faced at the time and how it echoes today.

"We were constantly dragged into skirmishes to respond to the doubts raised inside and outside," he wrote. "Today, those skeptical campaigns seem illogical and flimsy, but at the time they were taken very seriously and we had to respond to them daily. Some claimed that all our industrial projects were unfeasible — astonishingly, all of them! Time proved the absurdity of such claims."

Such reflections confirm the fact that any ambitious dream is accompanied by skepticism. Despite the doubts, Vision 2030 was necessary to reshape the path of the Saudi economy. The evidence and data show its execution has transformed both the economy and the government engine that drives it. Yet, with such scale

Saudi Crown Prince Mohammed bin Salman delivers the annual address at the Shura Council in Riyadh. He said that public interest is the highest goal of the programs and targets of Vision 2030. SPA

and speed of transformation, mistakes and challenges have been inevitable.

I do not believe Vision 2030 was launched with expectations of flawless execution. Its very spirit emphasizes the importance of continuous review and course correction whenever needed, a principle the crown prince reiterated in a recent address to the Shoura Council.

"The public interest is the highest goal of these programs and targets," he said. "We are determined to achieve and complete them, but we will not hesitate to cancel or profoundly modify any program or target if we find that the public interest requires it."²⁵

Looking ahead, it is to be hoped that the momentum of reform will be maintained across all sectors, while delayed or flawed paths are corrected. I am optimistic, given the direct and clear commitment to achieving this, as expressed in the crown prince's speech noted above.

I end with another quote from Al-Gosaibi.

"SABIC (the Saudi Basic Industries Corporation, founded in 1976 and now one of the largest petrochemicals manufacturers in the world) began in a modest rented building," he wrote.

"I remember a British journalist visiting us then. He entered a narrow alley, walked into a cramped building, and found a handful of young men claiming they would build the region's largest petrochemical complexes. No comment!"

This spirit, the spirit of building despite the doubts, is what created our yesterdays, and it is the same spirit that is building our today and tomorrows.



What is unique in the case of Saudi Arabia is that oil once represented the source of almost all government revenue. Any diversification effort, therefore, had to include taxes and fees.

FOOTNOTES

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