

SECTOR IN-DEPTH

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Contacts

Aziz Al Sammarai +971.4.237.9695
VP-Ratings
aziz.alsammarai@moodyys.com

Aurelien Mali +971.4.237.9537
VP-Ratings
aurelien.mali@moodyys.com

Lea Hanna +971.4.237.9692
AVP-Ratings
lea.hanna@moodyys.com

Mohammed Ali Londe +971.4.237.9503
VP-Ratings
mohammed.londe@moodyys.com

Paul Feghaly +971.4.237.9531
AVP-Ratings
paul.feghaly@moodyys.com

» Contacts continued on last page

Emerging Markets – Saudi Arabia

Vision 2030 spending supports credit prospects amid implementation risks

Summary

[Saudi Arabia's](#) (Aa3 stable) economy will contract this year as a result of disruption to export infrastructure and trade routes, with a slow and uneven path to a de-escalation of the US-Iran war. However, nonoil companies will mostly continue to grow as Vision 2030 spending continues to reshape the economy. The government is reprioritising its strategy to focus on projects with the strongest returns and capital efficiency, while delaying investment in some megaprojects. Borrowers' credit quality will be largely unaffected by this shift in the next 12-18 months, assuming they maintain financial discipline.

- » **Reprioritisation ensures economic diversification stays on track while maintaining fiscal prudence.** Real GDP will contract about 3.3% this year as the conflict disrupts oil trade flows. By resequencing projects and preserving financial buffers, the government can sustain its diversification push while maintaining fiscal prudence. Using [Public Investment Fund](#) (PIF, Aa3 stable) as the vehicle for capital spending keeps Vision 2030 support at an arm's length from government finances, reducing the potential for contingent liabilities. However, volatility in oil prices and export capacity remain key risks.
- » **Spending on economic resilience and security will offset a lower pace of construction spending.** With some megaprojects like Neom getting restructured, development delays or capital reallocation will slow activity for companies involved. Geopolitical tensions will drive continued investment in supply chain infrastructure, domestic manufacturing and other assets that strengthen security and advance reprioritised objectives.
- » **Continued investment in refocused priorities will support the credit quality of companies in multiple nonoil sectors.** Though capital needs in many sectors will be significant, we expect most companies to maintain a prudent approach. Data centre demand, particularly related to AI strategy, will support needed expenditure by telecommunications companies and digital infrastructure providers. Utilities will benefit from both the AI strategy and renewables agenda.
- » **Vision 2030 adjustments will ease funding pressure on banks from rapid growth in loan demand, and will have little overall effect on insurers' credit quality.** Softer demand for loans linked to megaprojects will help reduce the gap between loan growth and deposit growth which has constrained banks' liquidity in recent years. Strong capital buffers will help banks manage any deterioration in asset quality, so overall credit quality will remain broadly stable. While slower economic growth will moderate insurers' expansion, regulation on pricing and coverage will support credit strength.

Reprioritisation ensures economic diversification stays on track while maintaining fiscal prudence

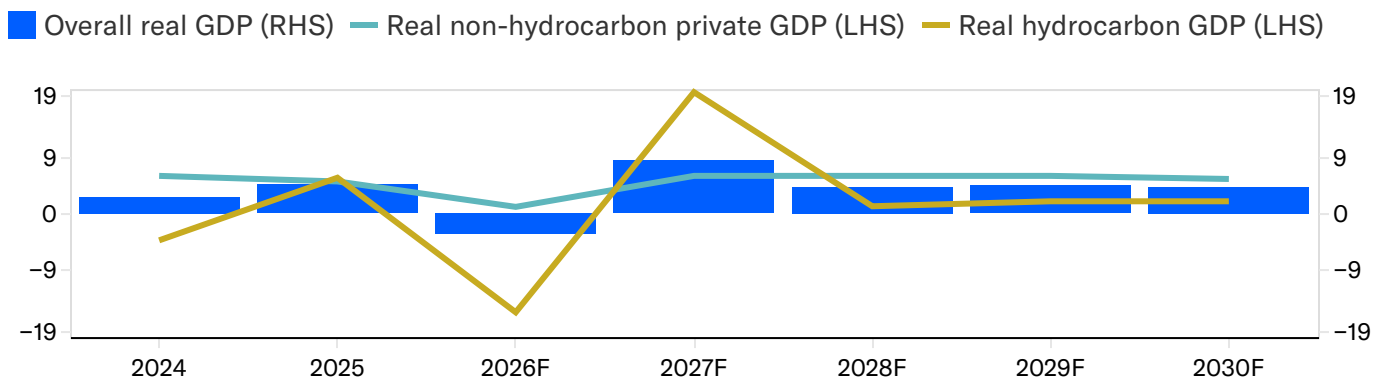
The conflict in the Middle East severely heightened geopolitical risks, and [developments last month](#) escalated the security situation. However, Saudi Arabia's credit strength has so far proven resilient, resting on a solid government balance sheet and a track record of prudent fiscal management. [The government's decision to recalibrate its Vision 2030 investment programme](#) protects its fiscal position while preserving the non-hydrocarbon growth momentum which will gradually reduce reliance on oil. The duration and intensity of the regional conflict is the key risk to sovereign credit quality and that of banks, insurers and nonoil companies, rather than the pace of diversification spending itself.

Our [central scenario](#) for the conflict assumes shipping through the Strait of Hormuz remains severely constrained for most of the rest of this year, with transit volumes returning to pre-conflict levels only from the end of the first quarter of 2027. The escalation had already [significantly weakened credit conditions](#) in the region, before the September attacks by Houthi forces increased their leverage over shipping lanes near the Bab al-Mandab Strait, while missile and drone attacks hit [Saudi Arabian Oil Company](#) (Saudi Aramco, Aa3 stable) energy sites. A temporary precautionary shutdown of the East-West pipeline underscored the threat to export infrastructure. While production has partly resumed, sustained damage to key infrastructure represents a significant risk and the spread of the conflict into the Red Sea has weakened our central scenario.

This disruption to oil trade flows since the conflict started in February will result in Saudi Arabia's real GDP contracting about 3.3% this year, with hydrocarbon output declining 16% against government forecasts for declines of 3.6% and 21.8%, respectively. Nonoil private growth will slow to 1% and then recover to around 4.5%-5.5% annually as geopolitical tensions ease and trade routes normalise (Exhibit 1).

Exhibit 1

Saudi Arabia's growth is set to recover as oil trade flows normalise
Real GDP, % change



Source: Moody's Ratings

Over the last two years, the government and PIF has revised their approach to Vision 2030 to concentrate capital and policy support on projects with the strongest long-term risk-adjusted returns and capital efficiency. This involves focusing on areas such as tourism and entertainment, housing, mining, manufacturing and logistics and phasing out some gigaprojects.

This reprioritisation preserves one of Saudi Arabia's core credit strengths: the government balance sheet. Fiscal buffers are substantial – liquid financial assets, net of PIF debt, are around 18% of GDP, and readily available deposits at SAMA, the Saudi central bank, exceed 9% of GDP. Significant liquid assets and central bank deposits provide substantial financial buffers, while the government's willingness to reprioritise expenditure and adjust the pace of investment supports its capacity to manage periods of lower oil revenues without materially weakening its balance sheet.

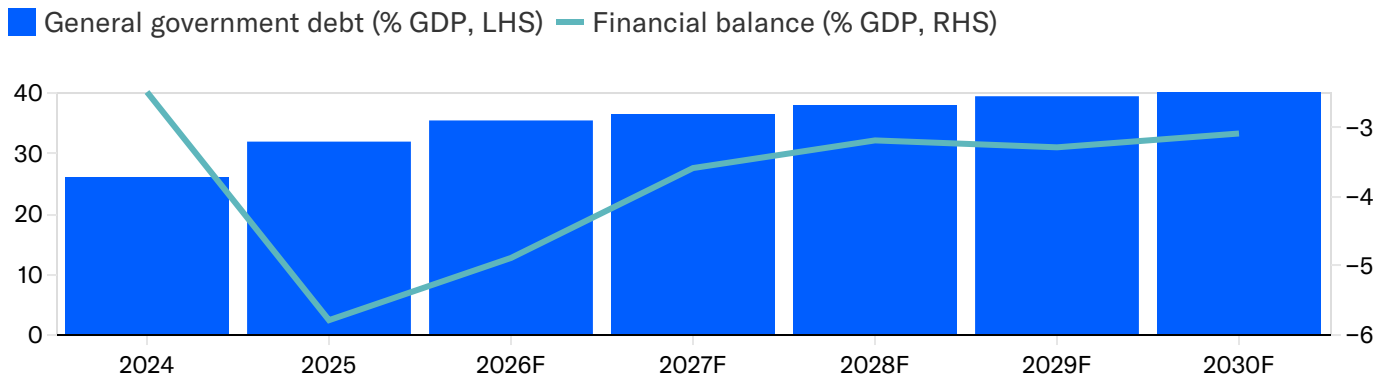
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The ability to review, defer and re-sequence flagship projects without abandoning them reflects institutional strength. We expect these reviews to continue regularly, in line with fiscal capacity and shifts to oil production or prices, and this will keep deficits moderate (Exhibit 2).

Exhibit 2

Fiscal deficits will improve significantly from last year's one-off, containing debt growth

Fiscal balance, % GDP; general government debt, % GDP



Source: Moody's Ratings

Financing for Vision 2030 investments is largely undertaken through PIF rather than the central government budget, providing policymakers with greater flexibility to adjust the pace and composition of investment spending while helping to preserve government fiscal buffers. PIF and its portfolio companies will continue to lead early-stage investment, with a shift to private co-investment and public-private partnerships where the cash flow of mature projects attract new participants. This potentially creates a financial buffer for PIF and supports its credit strength by ensuring cash flow is diversified and future returns will support debt. We expect PIF to spend about SAR600 billion-SAR800 billion through 2030, compared with SAR750 billion in 2021-25.

Compared to other wealthy sovereigns with extraordinary government financial assets, Saudi Arabia's financial buffers, though substantial, would provide only limited support if the country's capacity to export oil grinds to a halt for a prolonged period. Fiscal outcomes remain exposed to oil price and production volatility because spending remains relatively rigid and oil revenue, while becoming less important, remains significant.

However, the structure of Saudi Arabia's economy will help counter the effects of regional geopolitical volatility on the broader credit environment. Activity is largely driven by domestic demand, government spending and local investment, while tourism growth is increasingly supported by domestic and religious travel. This reduces reliance on foreign capital inflows and international consumption.

Given our central scenario, and the continued government commitment to Vision 2030 spending, we forecast economic growth to recover while diversification momentum remains intact. However, the full long-term impact of the security situation on the economic model of regional sovereigns will depend on how quickly trade flows normalise and whether the conflict durably weakens their prospects for diversification away from the hydrocarbon sector.

Spending on economic resilience and security will offset a lower pace of construction spending

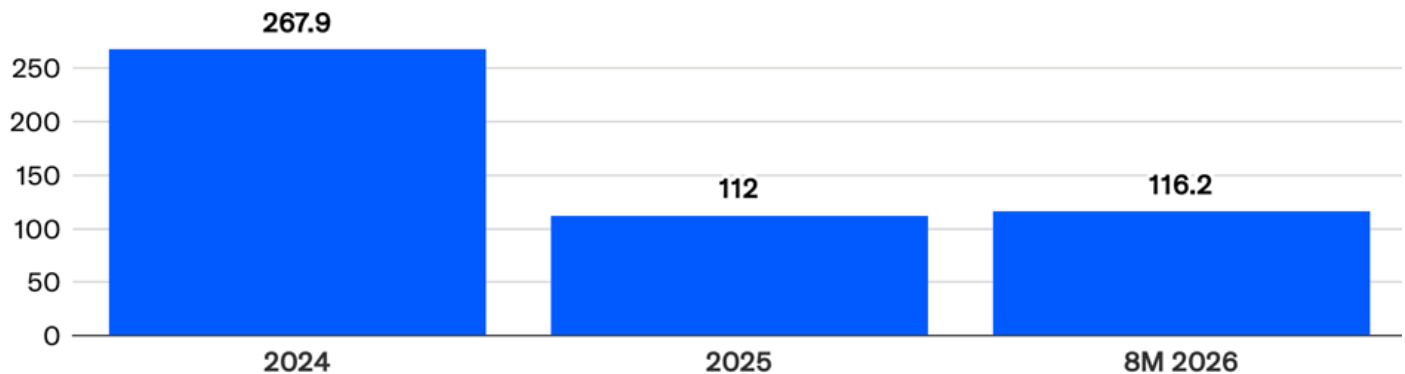
Reprioritisation is likely to have an uneven but broadly manageable effect on the credit quality of the nonfinancial companies we rate during the next 12-18 months.

Vision 2030 reprioritisation will differentiate between its ambitious gigaprojects that received heavy funding early on. For example, the Red Sea tourism development, which features diverse entertainment, retail, cultural and hospitality assets, has matured to the point where its cash flow can potentially enable PIF, which drove the investment, to refocus to other areas. Jeddah Central Project is a PIF-owned urban development that is at an earlier stage regarding both completion and cash flow, though third party investors are already participating. However, another early gigaproject, NEOM megacity, has a different trajectory as funding has been restructured.

The pace of construction contract awards in Saudi Arabia has slowed from historical levels as implementation timelines have been extended for projects that have been deprioritised (Exhibit 3). This may create working capital pressures for borrowers operating in construction, real estate and related sectors. What this means for these companies' credit quality is unclear because many are small and we do not rate them.

Exhibit 3

Construction contract awards have slowed as investment increasingly focused on strategic priorities
SAR billion



Source: Saudi contractors authority

However, the reprioritisation should mitigate the overall economic impact of both the pullback from some projects, and the effect of the regional conflict. Easier regulation, tax benefits, sectoral subsidies and other forms of support will target sectors linked to supply-chain resilience, logistics, food security, industrial development and digital infrastructure, encouraging domestic economic activity while fostering greater private-sector participation. Some of these sectors also play a role in the Kingdom's security, heightening the urgency of additional support.

For example, Vision 2030 will continue to target an ambition for the Kingdom to become a global logistics hub, which will require tackling supply chain vulnerabilities, particularly as the conflict threatens operational continuity and cost management. This should benefit companies such as National Shipping Company of Saudi Arabia (Bahri), which provides integrated logistics along with diversified exposure to multiple commodities – and which may require extra funding to expand its fleet to meet demand.

Saudi electric vehicle maker CEER Motors (CEER) is closely aligned with Vision 2030's industrial development objectives, including an ambition to produce up to 500,000 electric vehicles a year by 2030. As a flagship initiative to set up a domestic automotive manufacturing ecosystem, CEER supports economic diversification, supply chain localisation, technology transfer and job creation. Its strategic significance is likely to attract continued policy support and access to funding, particularly as production requires substantial upfront investment.

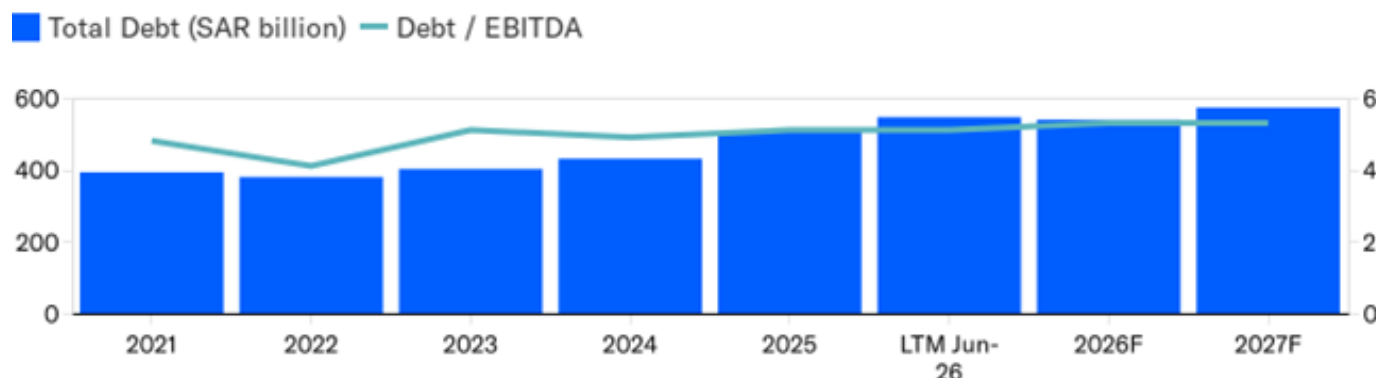
The government's continued investment in strategic priorities will support the credit quality of companies in multiple nonoil sectors

Though the credit strength of companies we rate can withstand a temporary economic slowdown, significant investments by some companies is weakening financial flexibility. Debt-funded investment is manageable from a credit quality perspective, as balance sheets tend to be strong and there may be the prospect of government support in select cases.

Aggregate revenue across the nonoil companies we rate grew to SAR273.9 billion in the 12 months ended June 2026, and will rise further next year. However, this growth has been accompanied by an intensive investment cycle. Capital expenditure has also increased, and we expect it to remain high through 2027 (Exhibits 4 & 5).

Exhibit 4

Saudi corporate financial leverage remained broadly stable as debt rose
Revenue (left axis) and leverage (right axis, times)

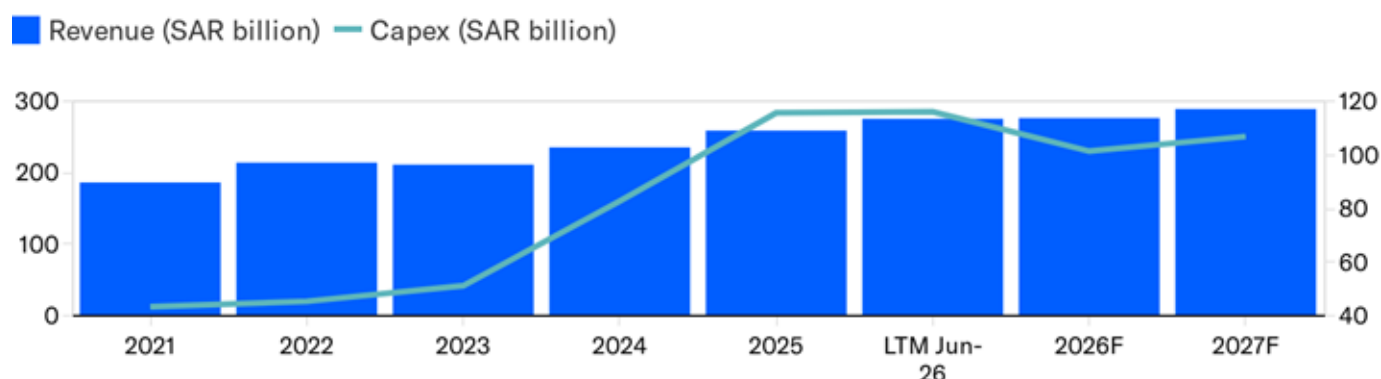


Aggregate data for nonoil nonfinancial corporates in Saudi Arabia for the 12 months to June 2026 (to March 2026 for Saudi Energy).

Source: Moody's Ratings

Exhibit 5

While Saudi corporate revenue has grown, capex has soared
Revenue (left axis) and capex (right axis)



Aggregate data for nonoil nonfinancial corporates in Saudi Arabia for the 12 months to June 2026 (to March 2026 for Saudi Energy).

Source: Moody's Ratings

As a result, we place greater emphasis on management teams' ability to balance growth ambitions, capital expenditure programmes and shareholder distributions within the limits of their balance sheet capacity and cash flow generation. Prudent financial policies will become increasingly important in preserving credit quality, particularly as investment requirements remain high and external conditions uncertain.

For example, the projects of [Saudi Arabian Mining Company](#) (Maaden, Baa1 stable) monetise the Kingdom's natural resource base while reducing reliance on imported industrial inputs. Maaden has a strategy that prioritises growth over shareholder returns. Considering the company's commitment to maintain a standalone credit profile which has investment-grade characteristics, we expect Maaden to keep its leverage under control when implementing its significant capital spending program. Many of its projects are discretionary, which provides flexibility, depending on commodity prices. For Maaden and other private nonoil companies, support from Vision 2030 can play an important role in underpinning credit strength.

Artificial intelligence and data centre infrastructure are also strategically important. The Kingdom's targets of about 1.5 gigawatts (GW) of data-centre capacity and 1.9 GW of AI computing capacity by 2030 will require substantial investment in power infrastructure,

including grid expansion and renewable-energy generation. This puts utility, telecom and digital infrastructure companies in line to benefit from measures to mitigate the credit impact of what would be significant debt-funded expenditure.

The government's approach is to align its large state-linked entities behind a common AI and data-centre strategy, consolidating capital and capabilities rather than deploying them independently across multiple initiatives. HUMAIN, the primary vehicle through which the government coordinates its AI strategy, signed a memorandum of understanding with [Saudi Telecom Company](#) (stc, Aa3 stable) to establish a joint venture targeting up to 1 GW of AI-focused data centre capacity. Despite significant capex, stc is well positioned to benefit from expansion in AI, cybersecurity and other areas.

Among utilities, [Saudi Energy](#) (SE, Aa3 stable) faces significant investment requirements to meet rising demand, including from AI and renewable energy. This spending will support continued growth in regulated assets and earnings, but will also require substantial external financing. Consequently, SE's credit strength will continue to benefit from strong government linkages and a predictable and supportive regulatory framework.

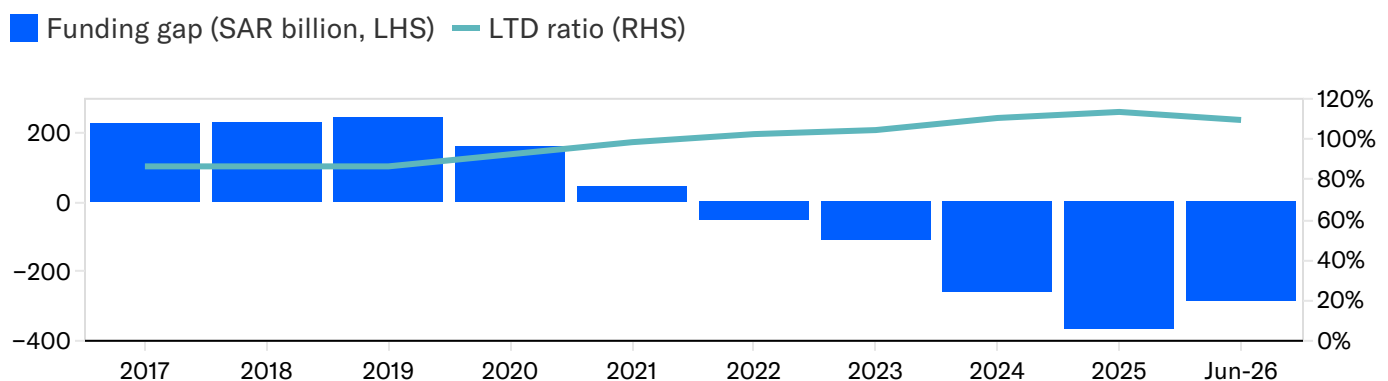
Vision 2030 adjustments will ease pressure on banks from rapid growth in loan demand, but will have little overall effect on insurers' credit quality

Project resequencing should provide significant relief for the banking system, which has been operating with increased funding pressure as lending growth outpaced deposit generation. Demand for financing will soften as project timelines are extended, and uncertainty on completion dates may lead banks to adopt a more cautious approach to project funding.

A slower pace of credit growth is positive for Saudi banks' funding. Strong financing demand linked to economic diversification and large-scale projects has pushed loan-to-deposit ratios higher across the sector (Exhibit 6). This increased banks' reliance on more expensive sources of funding, such as wholesale borrowing. More moderate credit growth will narrow the divergence between loan and deposit growth, reducing the need for aggressive funding acquisition strategies. This should support a gradual stabilisation of liquidity ratios and reduce loan-to-deposit ratios from currently high levels. Funding costs should become more manageable as competition for deposits eases, helping banks preserve profitability.

Exhibit 6

Bank credit outstanding is starting to catch up with deposits
Bank funding gap (customer deposits less credit) and loan to deposit ratio



Sources: Saudi Central Bank (SAMA) and Moody's Ratings

Credit growth was already slowing as a result of banks' heightened focus on profitability, tight liquidity conditions and financial stability regulation, so this further slowdown is not a significant shift. Ongoing investment in strategic sectors, private-sector participation in the diversification agenda and solid nonoil economic growth will prevent banking sector activity from slowing sharply.

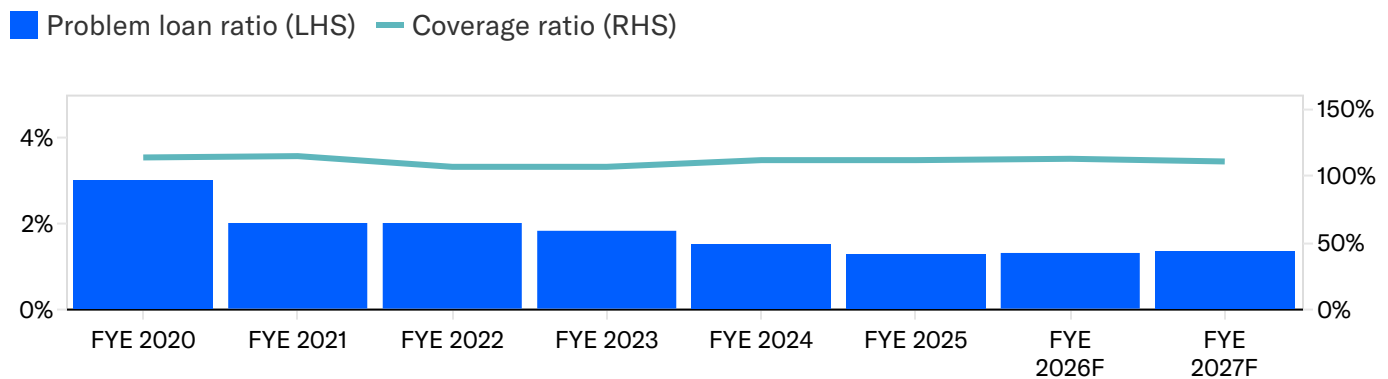
Saudi bank and finance companies will also benefit from a new funding channel, with the [expected completion of the Kingdom's first publicly rated residential mortgage-backed securitisation](#). The transaction, sponsored by [Saudi Real Estate Refinance Company](#) (SRC, A1 stable), reflects recent legislative reforms which have enhanced the clarity and predictability of the legal framework for securitisations.

By selling mortgage portfolios into RMBS transactions, lenders can access extra liquidity, diversify funding sources and enable further mortgage origination. A functioning RMBS market may lower funding costs, potentially benefitting homebuyers. This supports the Vision 2030 objectives of increasing home ownership to 70% by 2030 and deepening domestic capital markets.

Though reprioritisation and the regional conflict will likely impair asset quality, this will be from exceptionally strong levels. Banks have increasingly extended financing to contractors, subcontractors, developers and suppliers that depend on the timely execution of strategic projects, exposing parts of the corporate loan book to cash flow delays and slower project awards from revised investment plans. Nonperforming loan ratios will weaken slightly, but this is largely mitigated by banks' strong reserves, robust profitability and solid capitalisation (Exhibit 7).

Exhibit 7

Asset quality will weaken slightly from very strong levels, but reserve coverage will remain strong



[1] FYE 2026 and FYE 2027 are forecasts. Problem loans are 90 days past due (stage 3 loans). Coverage ratio is loan-loss reserves as a proportion of problem loans.

Source: Moody's Ratings

Insurers must also contend with deteriorating asset values. Investment portfolios are the primary risk transmission channel for this industry because of capital market volatility, while the damage to economic activity from a prolonged conflict would impair premium growth and increase claims inflation. However, Saudi insurers otherwise have limited direct underwriting exposure to geopolitical events. Standard policies generally exclude war-related losses, while specialist risks are transferred to international reinsurers at a beneficial premium.

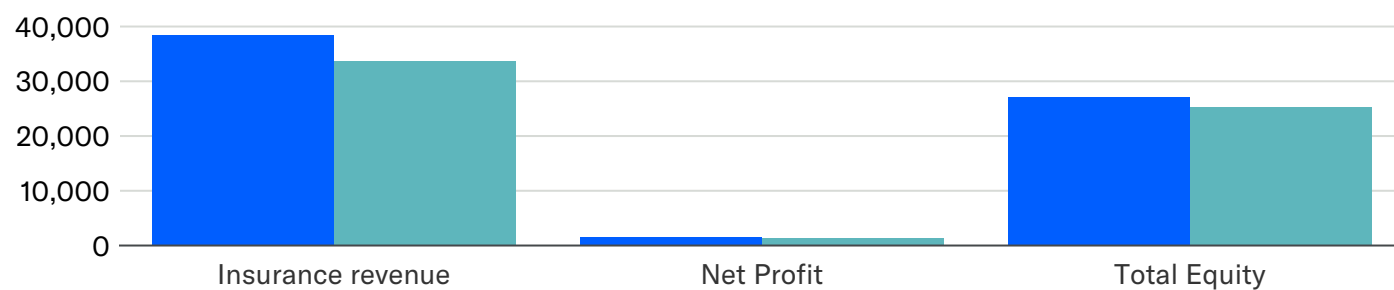
Regulation to broaden coverage requirements and strengthen pricing adequacy highlights the sector's importance for advancing Vision 2030's objectives. This supports insurers' credit strength through reprioritisation and the geopolitical conflict, with revenue, net profits and total equity (capital plus reserves) improving in the first half of 2026 (Exhibit 8).

Exhibit 8

Key insurance sector metrics improved in the first half of 2026

SAR millions

■ 2026 H1 ■ 2025 H1



Source: Moody's Ratings

However, competition remains high, claims are inflating, regulatory requirements are rising and climate change is an increasing risk. As scale remains a key competitive advantage in the sector – larger insurers benefit from diversification and capital efficiencies that support stronger financial resilience – we expect consolidation to continue.

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REPORT NUMBER 1494607

Contacts

Badis Shubailat +971.4.237.9505
VP-Ratings
 badis.shubailat@moodys.com

Rehan Akbar, CFA +971.4.237.9565
Exec Dir-Ratings
 rehan.akbar@moodys.com

Salman Siddiqui +44.20.7772.1201
Exec Dir-Ratings
 salman.siddiqui2@moodys.com

Pier Paolo Vaschetti +39.02.9148.1139
VP-Ratings
 pierpaolo.vaschetti@moodys.com

Matt Robinson +44.20.7772.5635
Exec Dir-Ratings
 matt.robinson@moodys.com

Nitish Bhojnagarwala +971.4.237.9563
Exec Dir-Ratings
 nitish.bhojnagarwala@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

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Japan 81-3-5408-4100

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