White Paper
Fixed Income

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Beyond Oil

Saudi Arabia Bonds Emerge as a Compelling Investment

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Executive Summary

The discovery of oil in 1938 at the Dammam No. 7[1] well marked the beginning of Saudi Arabia's economic transformation. Over the following decades, the Kingdom leveraged its vast petroleum reserves to become the world's largest oil exporter, fueling rapid modernization, infrastructure expansion, and wealth accumulation. By the late 20th century, Saudi had established itself as the largest economy in the Gulf Cooperation Council (GCC), playing a pivotal role in global energy markets. However, as the world shifts towards a more diversified and sustainable economic model, so too has the Kingdom. Today, Saudi is at the cusp of another economic shift, one that extends beyond oil and sets the stage for long-term, multi-sectoral growth.

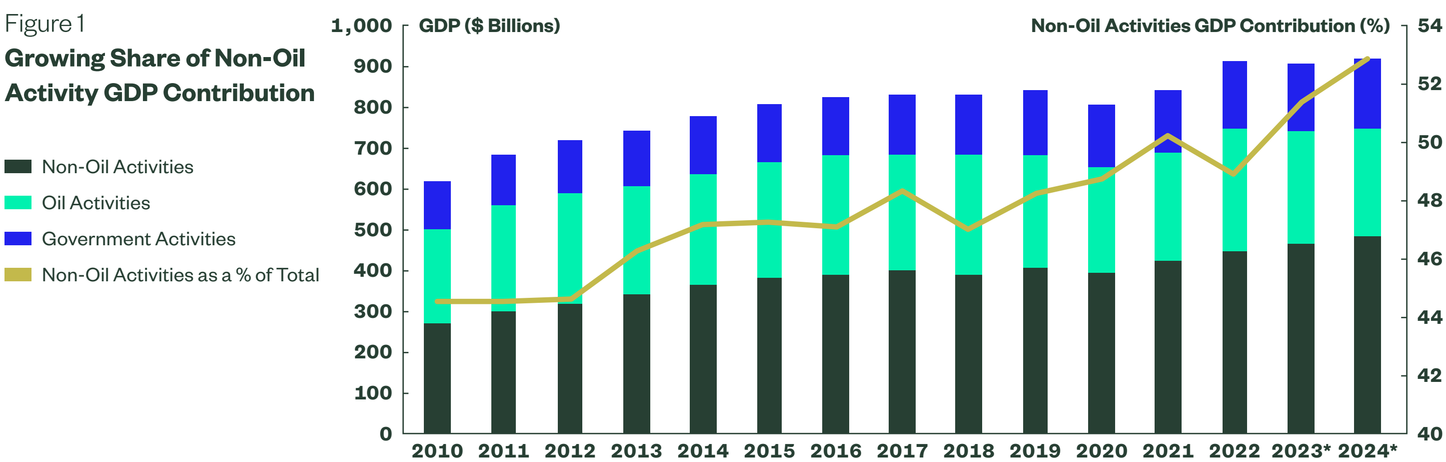
In this paper, we address the diversification of both Saudi Arabia's economy and its capital markets, and the opportunities for investors in the Kingdom's hard-currency and local bonds.

The New Saudi Economy: Strength Through Diversification

Saudi Arabia's economic landscape is undergoing a profound transformation through Vision 2030,[2] an ambitious roadmap launched in 2016 that aims to diversify the economy beyond oil dependence. With five years remaining in this program, the Kingdom is already demonstrating meaningful progress in reshaping its economic structure. The initiative has sparked the development of several giga-projects focused on tourism, technology, and infrastructure, creating new employment and enhancing global connectivity.

The results of this diversification strategy are increasingly evident across multiple dimensions. The non-oil sector has become a significant growth engine, with non-oil GDP expanding at 4.3%[3] and non-oil exports surging by 18.1% year-over-year as of December 2024.[3] This growth demonstrates that Saudi's economic base is broadening beyond its traditional hydrocarbon foundation.

Figure 1
Growing Share of Non-Oil Activity GDP Contribution

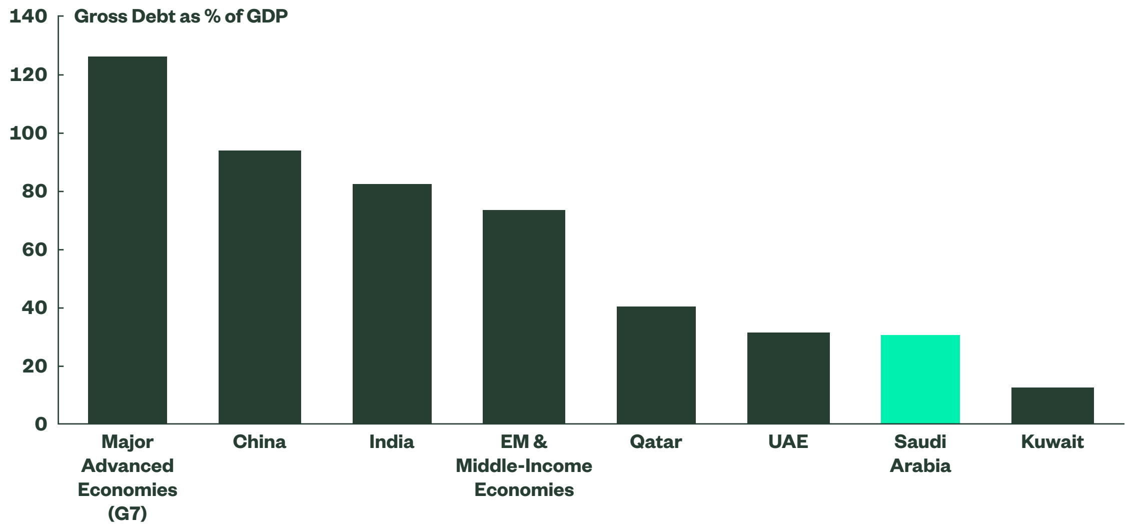


Source: GASTAT Gross Domestic Product Statistics Data — GDP and National Accounts Fourth Quarter of 2024, quarterly periodicity.
*Represents preliminary data. 1 USD = 3.75 Saudi Riyal is assumed given the stable peg against the US dollar.

This economic diversification is occurring alongside social transformation, which itself is driving further growth. Female labor force participation has doubled since 2016 to reach 36.2% by the third quarter of 2024,[4] already surpassing the original 2030 target of 30%. This achievement has prompted the Kingdom to set a more ambitious goal of 40% participation by decade's end. The integration of women into the workforce represents not just a social advancement but a significant economic opportunity, expanding the talent pool and creating new consumer markets within the domestic economy.

The Kingdom's diversification efforts are built upon a foundation of exceptional fiscal strength. As shown in the figure below, Saudi maintains a debt-to-GDP ratio of approximately 30% — significantly lower than peers — reflecting solid fiscal foundation and substantial capacity for future investments. Even as Saudi advances its economic diversification agenda, its established position in global energy markets provides additional stability to its fiscal outlook and debt obligations. This underlying strength complements the Kingdom's expanding non-oil sectors, creating a balanced foundation for its ongoing economic transformation.

Figure 2
Saudi Has Strong Fiscal Foundation to Support Its Economic Diversification



Source: IMF Fiscal Monitor, October 2024.

This robust fiscal foundation, along with advancements in expanding non-oil sectors, has been recognized by global rating agencies, as evidenced by the recent upgrades to Aa3 (Moody's) in November 2024[5] and A+ (S&P) in March 2025.[6] Notably, with JP Morgan's decision to move Qatar and Kuwait to developed markets, Saudi Arabia is positioned to become the highest-rated sovereign issuer remaining on the emerging market index, enhancing its role as a quality anchor within the emerging market hard currency debt universe.[7]

These positive rating changes carry profound implications for the country's bond markets, improving investor confidence and enhancing the potential of its fixed-income landscape. For global investors seeking exposure to emerging market growth, this structural transformation in Saudi Arabia, underpinned by its strong finances and acknowledged by rating upgrades, offers an attractive opportunity.

Deepening and Broadening Bond Markets: From Oil Reliance to Global Integration

For decades, Saudi Arabia predominantly relied on oil revenues to fund its major projects. However, the Kingdom's financial landscape began taking preliminary steps toward funding diversification in the early 2010s, with initial domestic and international Sukuk issuances by the General Authority of Civil Aviation (GACA) and Saudi Electricity Company[8, 9]. These early moves laid the foundation for more expansive financial transformation.

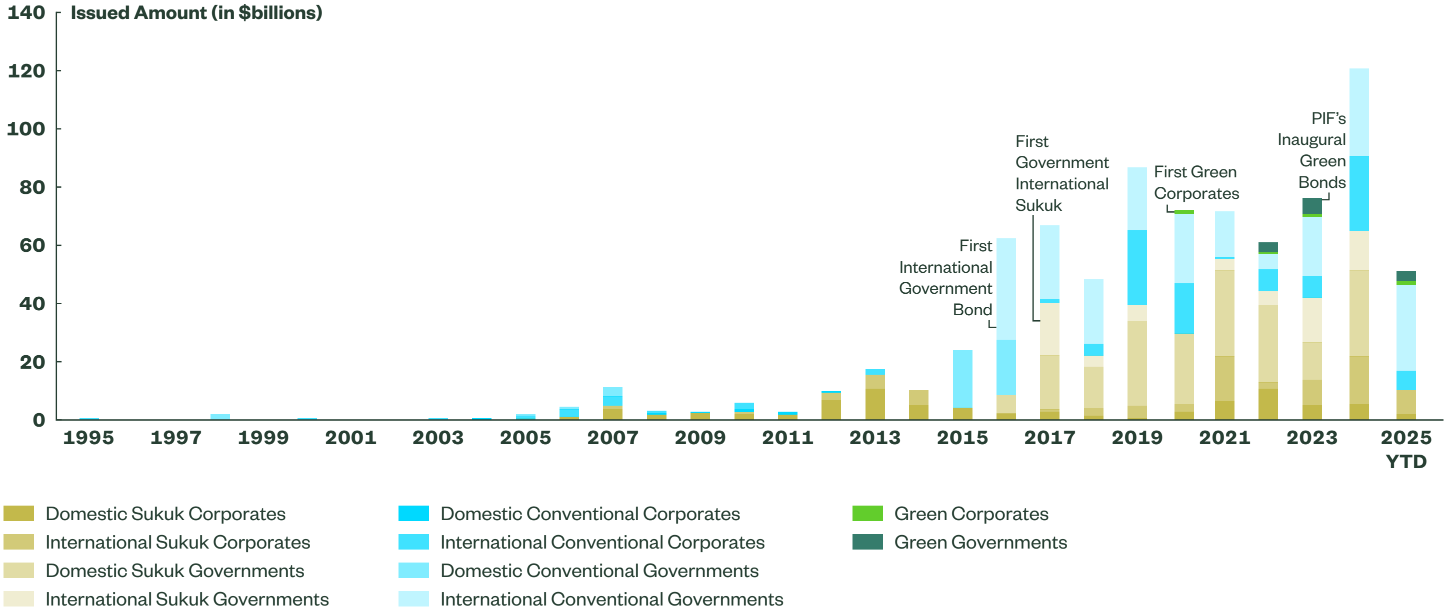
The launch of Vision 2030[10] in 2016 marked the true turning point, catalyzing a comprehensive transformation of Saudi Arabia's bond markets to meet the roadmap's ambitious funding requirements. This transformational journey gained significant momentum in 2017 when the Saudi government issued its first international Sukuk, raising $18billion.[11] This heavily oversubscribed offering signaled a fundamental shift from traditional oil revenue financing to active utilization of global capital markets — making a deliberate diversification toward a more robust and sustainable financial framework. Notably, Saudi Arabia is the largest US dollar debt Sukuk issuer globally.[12]

In parallel, Saudi Arabia entered the international conventional bond market in October 2016 with a landmark $35 billion offering[13] — the largest-ever emerging market debt sale at that time.[14] The corporate bond market gained momentum between 2017 and 2019, with significant issuances from major entities like Saudi Aramco and SABIC. The Kingdom expanded its financial instruments to include green financing, with Saudi Electricity Company's $1.3 billion green Sukuk in September 2020 and the country's Public Investment Fund (PIF)'s inaugural $3.5 billion green bond in October 2022 and $3.2 billion first-ever green Saudi government bond issuance in March 2025, reflecting a commitment to sustainable development.

This strategic market development has broadened and deepened Saudi Arabia's debt markets. Diversification of instruments — from conventional bonds to Sukuk and green financing — demonstrates the broadening effect as show in the below figure. Overall issuance reached $200 bn in 2024, growing fivefold from 2015 since after the launch of Vision 2030. This growing issuance has enhanced liquidity, improved price discovery mechanisms, and led to a more robust yield curve across various maturities.

Figure 3

Saudi Bonds: Broadening and Growing Issuance



Source: Bloomberg as March 25, 2025. Amount issued in US Dollar terms as of the respective issuance date.

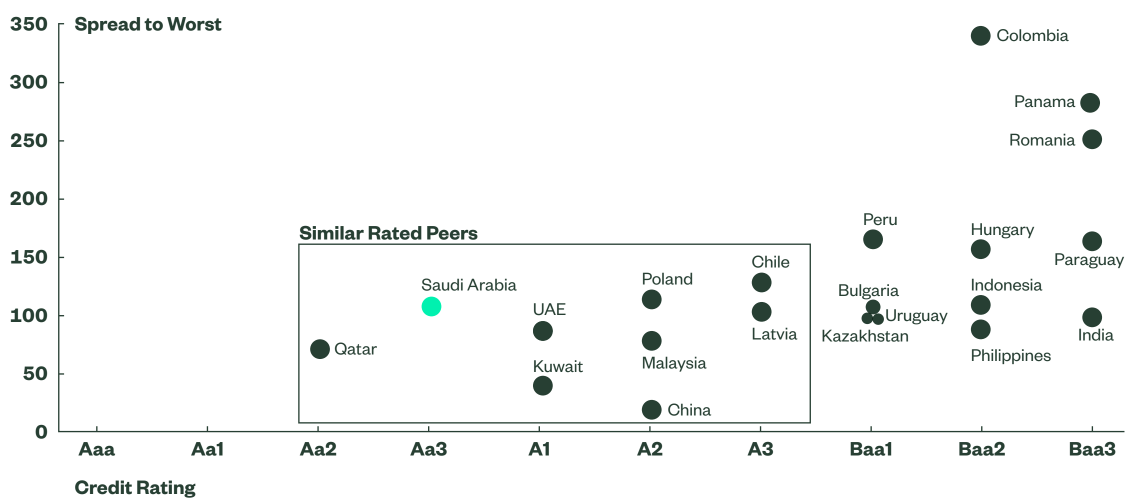
A pivotal moment came with the inclusion of GCC sovereign hard currency bonds[15] in JP Morgan's Emerging Market Bond Index (EMBI) in January 2019. This move marked an important step in elevating GCC issuers onto the global investors map, establishing them as a core, high-quality income source within mainstream emerging market debt. Saudi Arabia's subsequent rise to become the index's largest constituent by weight highlights this success.[16]

Another significant opportunity looms as Saudi Arabia's local currency bonds are now under review for potential inclusion in the JP Morgan Government Bond Index — Emerging Markets (GBI-EM), a bellwether benchmark for local currency markets. This inclusion could act as a structural catalyst, attracting substantial institutional investment and fostering a more dynamic and liquid bond market.

Saudi Hard-Currency Bonds: Attractive Yield Without Rating Compromise

Much like the broader EMD space, Saudi hard currency bonds have seen spreads narrow, reflecting positive market sentiment around a potential economic soft landing. That said, Saudi spreads remain attractive when viewed through a rating lens. While spreads have naturally tightened following the country's economic transformation and subsequent credit upgrades, they still trade at wider spreads than similarly rated peers and even some of the lower-rated investment grade emerging market debt universe, as shown in the figure below.

Figure 4
Saudi Spreads Can Compress Further in Line with Credit Profile

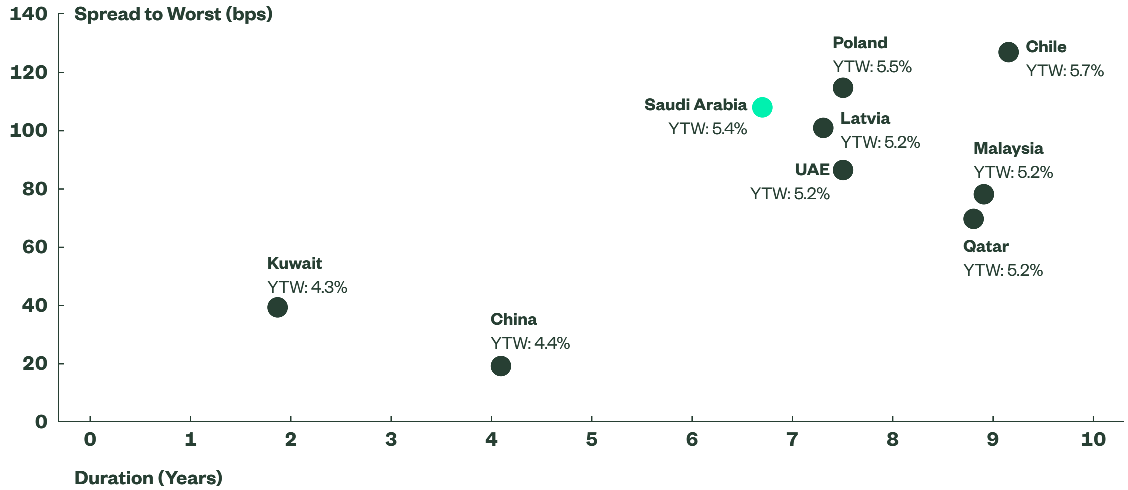


Source: J.P Morgan as March 20, 2025. Spread to worst over similar duration US treasuries is shown for investment grade rated JP Morgan EMBI member countries. Moody's credit rating is shown.

This disparity suggests potential for spread compression, offering investors an attractive opportunity for potential capital appreciation as global markets increasingly recognize Saudi's economic improved economic fundamentals.

Moreover, Saudi bonds offer higher spreads for their duration when compared to similar rated peers, indicating that this higher spread is not merely a compensation for interest rate risk, as shown in the below figure. Furthermore, the combination of higher yields and lower duration provides a valuable buffer against adverse interest rate movements, a point reinforced by Saudi spread's lower correlation (0.32[17]) with the volatile high-yield subcomponent.

Figure 5
Capturing Spread With Limited Duration Risk



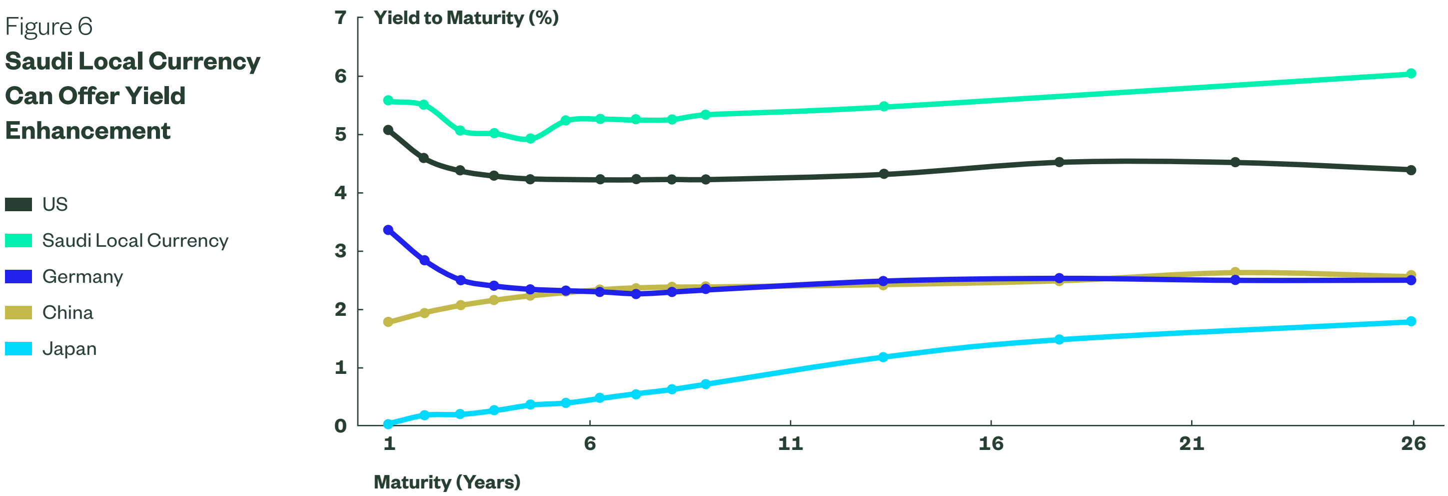
Source: J.P Morgan as March 20, 2025. Spread to worst over similar duration US treasuries is shown for similar rated (A and AA) member countries in the JP Morgan EMBI index. Yield to worst are also indicated.

Overall, the combination of higher yield, strong rating, lower duration, and potential for spread compression translates to an attractive risk-adjusted return opportunity. Global investors seeking higher yield without the rating dilution can strategically incorporate Saudi hard currency bonds into their core portfolios, targeting significant yield pickup without compromising the credit quality. Notably, Saudi Arabia hard currency bonds yielded 5.42% versus 3.65% for the Global Aggregate index while rating a notch higher at Aa3 as compared to A1 for the latter.[18] Beyond the yield and rating advantages, Saudi bonds can provide valuable diversification benefits against the developed market-heavy Global Aggregate Index, with their distinct Gulf region economic drivers creating slightly lower correlation (0.85[19]) that can further enhance risk-adjusted returns.

Local Currency KSA Bonds — Yield Pickup Without Additional Currency Volatility

Saudi Arabia's local currency governments bonds offer an attractive investment opportunity, underpinned by the Kingdom's robust economic growth trajectory and prudent fiscal management. While yields are modest by emerging market standards — reflecting Saudi Arabia's superior credit profile — they offer meaningful premium over similarly rated developed markets as shown in the below figure.

Figure 6
Saudi Local Currency Can Offer Yield Enhancement



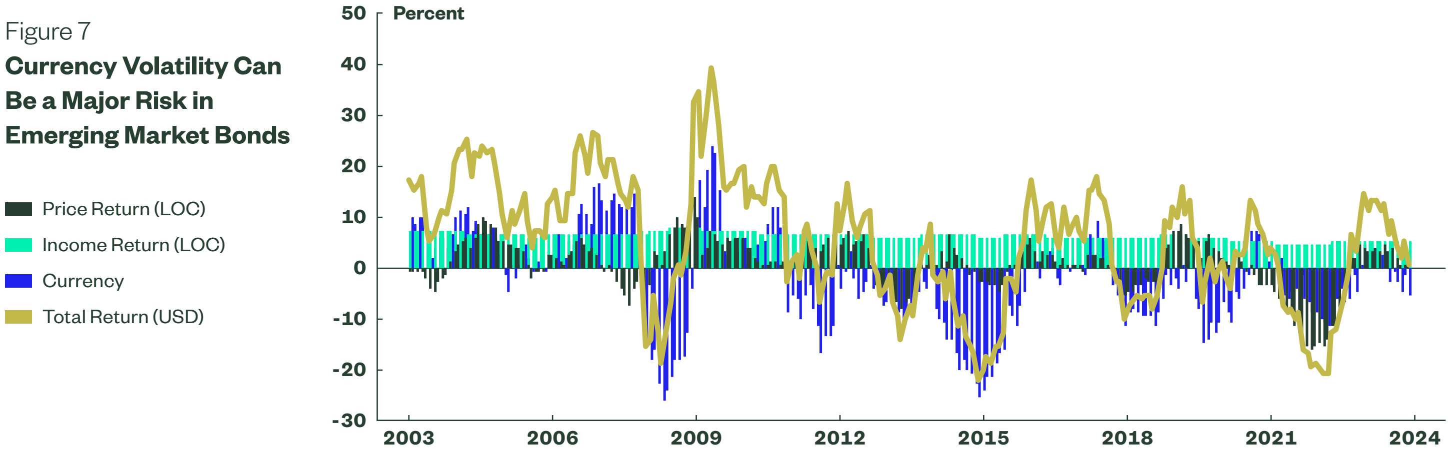
Source: Bloomberg, as of March 22, 2025.

This yield enhancement comes without introducing additional currency risk, allowing investors to capture improved yields without the currency volatility typically associated with emerging market local debt investments, as we illustrate below.

Emerging market local currency bonds have historically faced a fundamental challenge — foreign exchange rate volatility. As shown in Figure 7, year-over-year returns are primarily driven by currency movements, rather than underlying bond performance, making them a risky proposition for global investors.

Figure 7

Currency Volatility Can Be a Major Risk in Emerging Market Bonds

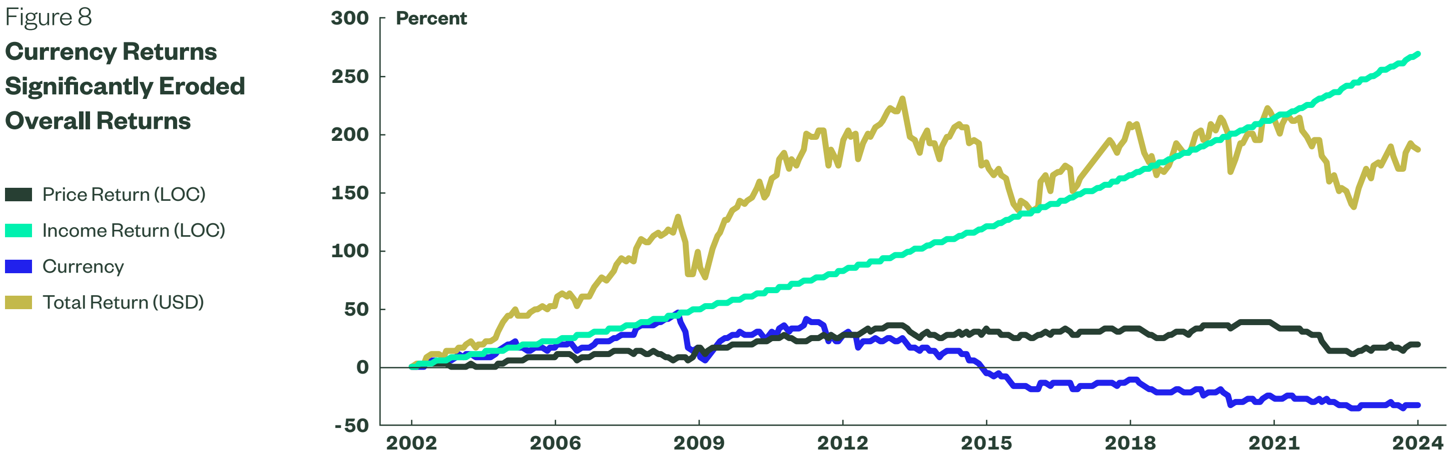


Source: State Street Global Advisors, JP Morgan, Bloomberg, as of December 31, 2024. 1 year rolling USD returns are shown for JP GBI-EM index. The scatter plots present the estimated premium or discount to fair value for the constituent currencies in the JP Morgan GBI-EM Global Diversified Index and the subsequent returns (based on spot price movement) over the respective horizon. It assumes that the constituent currencies remain at the end December 2024 weights throughout. *Total Return* reflects all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Past performance is not a reliable indicator of future performance.

Not only does this currency risk often overwhelm the yield advantage, leading to unpredictable outcomes despite attractive initial yield profiles in the short term, currency depreciation can also significantly erode the benefit of higher yields over the long term from a US dollar investor perspective (Figure 8).

Figure 8

Currency Returns Significantly Eroded Overall Returns



Source: State Street Global Advisors, JP Morgan, as of December 31, 2024. US dollar returns are shown for JPM GBI-EM index. The performance does not reflect management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. *Total return* reflects all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Given the stability of currency peg, Saudi local currency bonds offer a compelling combination of attractive yields and exchange rate stability, making the Kingdom's fixed income market a resilient destination for foreign capital.

Furthermore, Saudi's local currency debt is now under review for potential inclusion in JPMorgan's Government Bond Index — Emerging Markets (GBI-EM). Historically, inclusion in major indices has been a game changer for local bond markets, driving foreign inflows, enhancing liquidity, and compressing yields. Both China and India witnessed significant foreign investor participation ahead of their additions to global indices, leading to deeper markets.

For Saudi, this potential inclusion presents a similar opportunity. With foreign participation currently limited due to access challenges, index inclusion can serve as a structural catalyst, attracting institutional investors, narrowing spreads, and fostering a more dynamic and liquid bond market. Combined with the stability of the Riyal peg, these factors position Saudi local currency bonds as an attractive opportunity — offering emerging market yield potential without the typical FX risk, alongside the prospect of further gains as global participation increases.

Conclusion

Saudi Arabia's robust economic backdrop, driven by Vision 2030's transformative initiatives, has fueled a remarkable evolution of its debt markets. Hard currency Saudi bonds present the potential for attractive yields with relatively strong credit quality, which may offer downside protection in volatile markets and the potential for spread compression as global markets asses the Kingdom's improved fundamentals. Local currency bonds, anchored by the Riyal's stable peg, potentially mitigate traditional emerging market FX risks, and may offer capital appreciation through potential index inclusion and sound economic management.

In summary, an allocation to Saudi bonds, both hard and local currency, presents a potential opportunity for global investors seeking higher income and stability within the emerging market spectrum. Saudi bonds can offer a blend of higher yields with quality and reduced FX volatility. They also provide potential price appreciation, positioning investors to capitalize on Saudi Arabia's dynamic economic trajectory and evolving capital markets while offering valuable diversification benefits in global fixed income portfolios.

Endnotes

1 Our history | Aramco.

2 Saudi Vision 2030.

3 "GASTAT" Saudi economy grows by 1.3% in 2024, achieving the highest quarterly growth rate in two years.

4 GASTAT: Saudi Women's Participation in the Labor Force Reaches 36.2%.

5 Ratings.Moodys.com/ratings-news/433546.

6 Saudi Arabia Ratings Raised To 'A+' On Sustained | S&P Global Ratings.

7 Qatar, Kuwait Reclassified as Developed Markets by JPMorgan - Bloomberg.

8 MEED | GACA sukuk to be model for Saudi bond issue.

9 MEED | Saudi Electricity Company sukuk raises $1.75bn.

10 General Authority for Statistics.

11 Saudi Vision 2030.

12 Saudi Arabia Largest Emerging-Market Dollar Debt Issuer; Issuance Likely to Slow.

13 Includes Rule 144a vs REG S.

14 Saudi Arabia's $17.5 Billion Bond Sale Draws Investors — WSJ.

15 Saudi Arabia, UAE, Qatar, Kuwait, and Bahrain. Oman was included in 2016.

16 As of 20 March 2025.

17 Using daily spreads data from 1 Jan 2019 to 28 Feb 2028.

18 As of March 20, 2025.

19 Since inclusion in JPM EMBI in January 2019 to December 2024 using monthly returns data.

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For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.72 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2023.
† This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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