World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 53, December 2025
ISSN: 2749-3628

ECONOMIC POLICY ALIGNMENT AND ITS IMPACT ON ECONOMIC PERFORMANCE: A CASE STUDY OF THE KINGDOM OF SAUDI ARABIA (2003-2023)

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Article history:
Received: 30th September 2025
Accepted: 28th October 2025

Abstract:
One of the most significant tools of the overall economic policy of a state is monetary and fiscal policies. A state tends to establish rudimentary economic targets which reflect the aspirations of its overall economic policy and aims to fulfill them with the weapons and mechanisms of these two policies. Considering the great importance of each of the policies individually, coordination and alignment between the goals and mechanisms of each policy are necessary rather than just needed to prevent disagreement and contradiction between the desired policy goals and the mechanisms of the policy as well as doing the same to the means and ends of each policy as a whole.

Keywords: *Economic policy, monetary policy alignment, fiscal policy alignment*

INTRODUCTION

Economic policy refers to the policy of a state that is used to direct economic activity by the manipulation of essential variables of investment, price levels, output, and income. The central bank is instrumental in making a sound and very effective monetary policy to ensure that there is monetary stability. The fiscal policy is also an influential economic structure because of its influence on government expenditure, which is a substantial percentage of aggregate demand. By practicing fiscal discipline, the government will be relieved of huge financial strains that cripple its financial and economic operations which will consequently enhance the delivery of public services and increased degree of public needs fulfillment. This will eventually lead to a reduction in the deficit in the government budget, thereby, allowing the government to manipulate the economic performance.

First: The Importance of the Research

The significance of this research is based on the study of the close relationship between sound monetary policy that is aimed to attain monetary stability, which is expressed through the stability of the general level of prices, the exchange rates, and the interest rates and the role of fiscal policy including the general budget in the terms of the disciplined ratio of raised money to the operational or investment spending, the extent to which the public expenditure is determined by the state revenues and the degree of diversification of the state revenues. Hence, a stable economic policy implies that the economy is on the right track and that there is efficient use of the existing economic resources and, as a consequence, the high GDP growth rates, which, in turn, implies better economic performance.

Second: The Research Problem

The weakness in coordination between economic policies, specifically the monetary policy targeted by the central bank and fiscal policy, creates a state of imbalance and economic instability.

Third: The Research Objective

This research aims to achieve alignment between economic policies by focusing on studying the relationship between monetary and fiscal policy and their impact on economic performance.

Fourth: The Research Hypothesis

This research hypothesizes that the economic policy pursued by the Kingdom of Saudi Arabia contributes directly to the development of the Saudi economy's performance. Fifth: Research Methodology

The research adopted the descriptive analysis method, employing this method to present the data and clarify the reality of alignment in economic policy in the Kingdom of Saudi Arabia.

Section One

Alignment of Monetary and Fiscal Policies in Achieving Economic Objectives

Monetary and fiscal policies play a crucial role in macroeconomics, as their impact is transmitted to economic activity through the tools and methods used to guide it and influence its course in a way that helps achieve societal goals.

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First: The Theoretical Framework of Economic Policy:

1- Definition of Economic Policy

Economic policy generally refers to all matters related to decision-making regarding the selection of various means available to society to achieve specific economic and social objectives, and the search for the best methods to achieve these objectives (Walid, 2010: 73). It is also defined by some as the set of governmental measures that define the features of the economic environment in which economic units operate. Furthermore, it is defined as the set of economic tools and objectives and the interrelationships between them. The state is responsible for preparing, implementing, and monitoring economic policy (Reda, 1996: 325). 2- Objectives of Economic Policy:

The objectives of economic policy are numerous and varied, depending on the economic and social system. Despite this multiplicity and diversity of policies, there are common objectives shared by many. Among these objectives are:

a- Pursuing Economic Growth: This is the most important objective, as it relates to a continuous increase in production and incomes. The increase in Gross Domestic Product (GDP) is usually adopted as a tool to measure growth. However, this measurement raises issues related to the content of Gross Domestic Product, due to differences in national accounting systems in defining the field of production. Consequently, economic growth in a country is embodied in increased production over a relatively long period, and this is what distinguishes the economies of developed countries (Walid, 2010: 82-83).

B. Full Employment: The search for the concept of full employment in its broadest sense refers to the utilization of all factors of production, the most important of which is labor. Therefore, the concept of full employment is not the absence of unemployment, as a portion of unemployment reflects changes in the labor market. Economists define full employment as the level achieved through the efficient use of the labor force, while allowing for a normal rate of unemployment resulting from the dynamic changes and structural conditions of the economic system (Guartini, 1999: 206-207).

C. Price Stability: The debate surrounding price stability is not as clear-cut or precise as the debate surrounding full employment. Under inflation, or unexpected inflation, some people are harmed while others benefit. Among those who benefit are those whose incomes rise at a faster rate than the rate of price increases, and those who can borrow at a relatively low interest rate before inflation. Those harmed by inflation fall into the opposite categories (Abdgman, 1999: 31).

D. External Balance: This is represented by the balance of payments, which reflects the national economy's position vis-à-vis other economies. An imbalance in the balance of payments, often reflecting increased national debt, leads to a situation where the country is living beyond its means, resulting in currency devaluation (Walid, 2010: 89).

Second: The Role of Fiscal and Monetary Policies in Achieving Harmony Between Macroeconomic Policy Objectives.

The strength of the central bank's independence and the robustness of its operations gain a high degree of sustainability in proportion to the level of coordination and consultation with other authorities, particularly the fiscal authority, to achieve macroeconomic stability and strengthen economic development activities, which are the goals of both monetary and fiscal policy (Mazhar, 2012: 65).

This is achieved to some extent. The financial impact of monetary policy is evident through its ability to influence the real value of the debt owed by the government, through its impact on the general price level. The direction of monetary policy towards reducing the inflation rate may lead to undesirable financial effects, which may be represented in the increase of the cost of government borrowing from the banking sector to cover the budget deficit. This necessitates providing other sources of financing to meet the burdens of high debt service, which may be in the form of issuing bonds linked to the price index index, and assigning the task of issuing these bonds to the central bank, provided that it enjoys a large degree of independence, and that the monetary policy followed enjoys a high degree of credibility (Hugo, 2003).

1- Points of Convergence and Divergence Between Fiscal and Monetary Policies:

The purpose of clarifying the convergence and divergence between fiscal and monetary policies is not to advocate for a preference between them, as both are indispensable as the foundation of a state's economic policy. The similarities and differences between monetary and fiscal policies can be summarized in the following aspects (Al-Shammari, 2014: 464).

a- The fiscal policy has a direct effect on incomes, which are then directly related to spending (aggregate demand). This is established by the variation in government current expenditure and investment expenditure, taxes and government subsidies. The effects of the monetary policy on incomes are, however, indirect. The changes in the volume and cost of credit, which will be adopted by the monetary authorities in the form of monetary measures and monetary procedures, will ultimately be perceived by the economic activity and hence the level of spending and aggregate demand.

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b- Fiscal policy is defined by the fact that it requires a time lag before it can be effective. It is more time consuming than the monetary policy, which is less time consuming. The monetary policy is flexible depending on the fact that the monetary authorities (the central bank), can implement monetary actions and practices without necessarily changing the constitution or enacting government laws. This is unlike the fiscal policy which in most instances involves the need to legislate and even altering the constitution where the fiscal authority involves financial action and utilize financial instruments. It is not the time lag that is important but time interval between intervention of monetary and fiscal authorities and the achievement of monetary and fiscal outcome. This can be divided into three kinds, the first of which is the perception lag, representing the period between the emergence of the need for government intervention by monetary and fiscal authorities and the actual realization of the need to take monetary and fiscal measures to influence economic activity; the second is the administrative lag, representing the period between the realization of the need for government intervention and its actual implementation; and the third is the practical lag, representing the period between the implementation of government intervention and the actual results. The results achieved due to this intervention (Al-Shammari, 2014: 465).

c- Fiscal policy becomes a more effective economic tool in encouraging economic expansion and countering recession and economic stagnation, compared to the increasing effectiveness of monetary policy in countering inflationary trends (Dhafer, 6).

2- Ways to harmonize monetary and fiscal policies:

Harmony implies the state adopting an overall set of economic policy instruments employed to meet the economic and social objectives of the society whether in the internal (rates of deficit in the budget, rates of inflation, rate of money supply growth and rate of GDP growth) or in the external (rates of deficit in the balance of payment, levels of external debt levels, levels of foreign exchange reserves) (Samira, 2000: 12).

The monetary policy, foreign reserves and debt management interdependence (what is termed the stability based scheme) should be upheld despite the institutional settings. This implies that the conventional argument between a government with the aim of obtaining lower borrowing rates, and a central bank with the aim of obtaining higher interest rates to counter the expansionary effect of the fiscal deficits, is secondary when weighed against the advantage of policies that are aimed at maintaining stability. The only solution to the diverse trade-offs involving monetary policy and debt management is to create and present markets and the people with a clear and transparent system of managing debts and reserve that meets the requirements of the macroeconomic stability oriented policies (Hugo, 2002: 3).

Moreover, both fiscal and monetary policies are instrumental in establishing a steady economic environment as well as attaining sustainable levels of economic growth relative to the amount of productive capacity, and at the same time maintains inflation at target levels. The effects of both the policies are typically to reduce the adverse impact that can emanate out of numerous economic swings and volatility, or what is referred to as the business cycle (Badawi, 2011: 8).

3- Exchange rate Policies with the Object of Coordinating Fiscal and Monetary Policies:

In the fixed exchange rate regimes, the monetary policy loses its effectiveness to the fiscal policy. The arrangement and measures of monetary policy are inclined to keeping the exchange rate within its target range which may negatively affect the capability of the central bank to apply the monetary policy instruments in terms of mitigating the possible effects of external shocks. In small, open economies with free movement of capital flows and high quantity of traded commodities, the fiscal policy is more useful to the aggregate demand with a fixed exchange rate regime. When this occurs, the fiscal policy is more effective when it comes to affecting the aggregate demand.

4- Successful Alignment between Fiscal and Monetary Policies: Determinants:

The contradiction and complementary connection between the fiscal and monetary policy is not a recent development. This relationship has been referred to as dialectical one that is marked by agreement and disagreement, as well as, by integration and coordination. What is more, this is not the dynamic that is characteristic of any nation. The argument between fiscal and monetary policymakers has existed over decades, and it can be summarized in the goals made within its respective tasks and capabilities, and against the background of the resources it possesses (Saleh, p. 92). This is because any government willing to make good policies depends on whether it can integrate into its policies a monetary policy geared towards price stability with a fiscal policy geared towards sustainable levels of the public debt. Whereas some countries have succeeded in this, others are not able to attain quality in two important aspects especially because the success in stabilizing the monetary policy has not been assured.

The following couple of years will play a significant role in defining whether the transition to sound policies is a one-time practice or a permanent change of the economic policy strategy. It is also evident that the endorsement and the embracement of sound policies has not been restricted to few, exclusive nations. It is the acceptance that macroeconomic policies could be made in their long-term effect on the price level and that public finances do affect the monetary and fiscal policy and that higher discipline in any policy, has its consequences on the other (Mervyn: 174).

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Section Two
Mechanisms for Harmonizing Economic Policies
First: Arrangements for Harmonizing Monetary and Fiscal Policies

Arrangements for implementing coordination represent a key condition defining the role and responsibility of both monetary and fiscal authorities. These arrangements include the following:

1- Central Bank Independence
2- Reducing direct government borrowing from the central bank.
3- Achieving Budget Balance

First: Central Bank Independence:

The central bank is often urged to be separate and independent from the political authority (the government) in order to function as a monetary authority responsible for formulating and implementing monetary policy, and thus achieving its objectives. The central bank's primary concern is reducing inflation. Central bank independence does not preclude coordination in its operations with the fiscal authority, whether in the short or long term. Central bank independence is a crucial element for the success of monetary policy, which also depends on developing appropriate mechanisms for coordination between the central bank and the fiscal authority (Cottarelli, 1993: 10). The concept of independence does not mean that the central bank no longer needs to coordinate operations with the fiscal authority. Successful monetary policy based on central bank independence, as Laurens and de la Piedra argue, relies on developing effective mechanisms for policy coordination between the central bank and the fiscal authority (Enrique & Bernard, 1998: 18). The Maastricht Treaty is a good example of establishing and designing legal arrangements and legislation for central bank independence. It imposes strict restrictions on direct credit from the central bank to the government, whether for overdraft facilities or any other type of credit facility. Furthermore, the central bank does not receive any instructions from the government when carrying out its assigned tasks and responsibilities (Treaty on European Union, Maastricht, 1992: 104-107).

Second: Reducing Direct Government Borrowing from the Central Bank

Borrowing from the central bank is the primary source of domestic financing for budget deficits. Increased direct government borrowing from the central bank can harm the macroeconomy. Central bank independence is essential to establishing institutional arrangements to limit direct government borrowing from the central bank.

Third: Achieving Budget Balance

Lack of fiscal discipline especially among the emerging markets has made monetary and exchange rate policies complex. Monetizing budget deficits will raise inflation and inflation expectations, causing low investor confidence, capital flow, weak exchange rate, low investment and economic growth and eventually, worsening of the fiscal position further. On the other hand, an increase in interest rates to offset the insufficiency of the fiscal discipline will create an adverse effect on the fiscal position, crowding out of the investment of the economy, and investment and economic growth by increasing the current account deficit as well as increasing the exchange rate (Razvan and Ionut, 2007: 10).

Second: The Impact of Economic Policy on Some Macroeconomic Variables:
First: The Various Effects of Monetary Policy on Fiscal Policy:
1- The Impact of Monetary Policy on the Budget Deficit.

In order to demonstrate how the monetary policy influences the budget deficit, we will assume that there are a series of various variables that are influenced by the monetary policy and, consequently, influence the budget deficit. The effect of any of these variables is minor individually but when the combined effect of these variables is taken into account, the effect is very great.Most of these variables (a rise in the general price level, an increase in public spending, a decrease in tax revenues, and an increase in public debt) lead to an increase in the budget deficit if a contractionary monetary policy is pursued due to the rise in interest rates (Dahan, 1998: 66). Therefore, changes in the overall financial situation, including public debt and the budget deficit, become more complex as a result of contractionary monetary policy. Consequently, coordination between monetary and fiscal policy is necessary, and the effects on the budget resulting from contractionary monetary policy must be taken into account.

2- The Impact of Monetary Policy on Revenues (Al-Ubaidi, 2017: 28).

Restrictive monetary policy measures lead to a slowdown in the economic growth rate and a decrease in national income in the short term. Consequently, tax revenues decline, leading to a rise in the budget deficit. Furthermore, a decrease in the economic growth rate will increase the public debt-to-GDP ratio. The impact on revenues also depends on the elasticity of tax revenues relative to GDP.

3- The Impact of Monetary Policy on Public Debt:

4- Restrictive monetary policy results in high short-term nominal interest rates, which in turn affect medium- and long-term rates. Therefore, the burden of servicing a fixed amount of public debt will increase, and these costs may lead to a rise in the state's budget deficit. To fully assess this impact, it is necessary to consider the effect of central bank decisions regarding inflation on interest rates. Many central banks have recently begun using interest rates as a tool to

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Available Online at: https://www.scholarexpress.net
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achieve their inflation target. This means that a change in the budget deficit necessarily changes the size of government bonds that accrue interest or the large sums of money needed to finance the deficit. If greater fiscal discipline reduces the budget deficit, then the growth of total interest-bearing debt and principal will decrease (Taylor, p. 153).

5- The effect of monetary policy on the general price level:

The inflation rate is inversely related to interest rates and directly related to the money supply. This effect arises from expressing the budget deficit using real variables, as it reflects a decrease in prices. Or a decrease in inflation rates (an increase in the real value of public debt), as well as achieving broad financial stability, which is a stable condition in the financial system characterized by the efficiency of its main economic functions, such as resource allocation, risk dispersal, and payment settlement, and its ability to do so even in the event of a shock (Garry, 2004: 14), as well as achieving monetary stability.

6- The Impact of Central Bank Independence on Fiscal Policy

With an independent central bank adopting an anti-inflationary policy, the fiscal authority's expectations of the central bank providing the necessary financing for the budget deficit decrease. This limits the fiscal authority's ability to create such a deficit. If the monetary authority successfully adheres to its policy and refuses to finance government debt, the fiscal authority will attempt to return to equilibrium. However, if it refuses, fiscal policy will have no choice but to curb this deficit. Hence, the central bank's independence, which allows it to refuse the government's request for more credit, leads to a reduction in the expansion of the fiscal deficit, which means limiting inflation and stabilizing the currency's value. Furthermore, it is not necessary to use all the tools of every policy; rather, the determination of these tools should be left to the circumstances of each case. The proportions of the mix should vary according to the prevailing economic philosophy, the degree of openness to the outside world, and the prevailing exchange rate system (Hamdi, 1986: 328).

Section Three

Analysis of the Reality of Economic Policy Alignment in the Saudi Arabian Economy

The Saudi economy is considered one of the advanced economies and a major source of crude oil reserves, production, and exports worldwide. Through its Vision 2030, Saudi Arabia seeks to gradually transition from a rentier economy to a diversified economy by addressing its structural problems and utilizing the financial surplus from its oil exports to diversify its economy.

First: Characteristics of the Saudi Arabian Economy:

The Saudi economy experiences certain issues, and these include: rentier characteristic and dependence on oil as the main source of revenue as well as the high demand of basic services due to the constant growth of the population of the Kingdom. Among these issues that plagued the Saudi economy prior to the adoption of Vision 2030 (2016-2030), the most crucial ones can be referenced in the following way:

1- Rentierism: The Kingdom of Saudi Arabia holds the largest oil reserves in the world, with an estimated 266.7 billion barrels that are equivalent to 57 percent of the reserves of the gulf co-operation council (GCC), 29 percent of the reserves of OPEC and 20 percent of the world reserves. Also, it is the major exporter of oil in the world. The latter qualifications have helped it to dominate in OPEC, generating 28 percent of its overall produced output (Ibrahim, 2020: 7). The fact points to a strong connection between the finances of the population and oil revenue in Saudi Arabia, and the Saudi economy is the most sensitive to the changes in oil prices and imported inflation. The highest proportion of the public revenues in the period (2003-2016) was a year later in 2013, when it stood at more than 92% of the total revenues (Al-Mutairi, 2022: 137). At this time, Saudi Arabia had a major challenge of decreasing its reliance on oil through diversifying its income. The government tried to do this through several five-year plans based on market forces and the use of macroeconomic policies such as fiscal, monetary, and trade-related, but this did not work to adequately diversify the income sources and enhance the competitiveness of the other sectors to the oil sector (Al-Saadi, 2017: 44).

2- The growing need of basic services in the Kingdom (water, electricity, communications, and transportation) is explained by the high population growth rates, which amount to 31.8 million in 2016 and are expected to go up to 33

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Available Online at: https://www.scholarexpress.net
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million in 2023. This would require an increase of the quantity of basic services offered to the citizens twofold. Statistics show that the demand of fresh water has been growing at the rate of 1.4% per year, as reported by the Ministry of Water in the Kingdom (Wajdi, 2017: 137).

Second: The impact of economic policy fluctuations on some macroeconomic indicators in the Kingdom of Saudi Arabia during the period (2003-2023).

Oil shocks affect most economic indicators in rentier states, either positively or negatively, due to the rise or fall in crude oil prices for various reasons. This can be illustrated as follows:

1- Analysis of the Gross Domestic Product (GDP) in the Kingdom of Saudi Arabia during the period (2003-2023): Crude oil is the primary source of revenue and the most exported commodity, both oil and non-oil. Its contribution to GDP is high, as rising oil prices lead to an increase in the Kingdom's GDP. Naturally, this increase is spent on a range of economic activities that affect investment, consumption, and foreign exchange earnings (Al-Zubaidi & Al-Amiri, p. 264).

As can be seen from Table (1), there is a clear relationship between the rise and fall of Saudi Arabia's oil revenues and the rise and fall of oil prices. The increase continued until the size of the GDP at current prices in Saudi Arabia reached $377.068 billion in 2007, as a result of the continued rise in Saudi crude oil prices, which reached $96.16 per barrel. Oil revenues were estimated at $149,916.267 billion, representing a contribution of approximately 39.76% to GDP. This was further supported by an improved reform environment in Saudi Arabia, characterized by an increase in foreign reserves held by the central bank, an enhanced role for the private sector, and higher corporate profits. However, with the emergence of the negative effects of the oil shock, oil prices began to decline in 2009 and 2010, reaching $61.38 and $77.82 respectively, and oil revenues fell to $178,729.333 and $115,854.333, which caused a decrease in its contribution to GDP to (33.93-26.99% (Ibrahim, 2020: 15). With the decline in the negative effects of the shock, Saudi oil prices began to rise during the period (2011-2014), reaching (107.82, 110.22, 108.66, 97.18) respectively. This led to an increase in oil revenues to (275,829,333, 305,284,800, 276,012,800, 243,559,200) respectively. With the onset of the negative shock in (2015-2016), the effects of which became apparent in the decline of crude oil prices to (49.85, 40.96) respectively, and the decrease in oil revenues to (119,084,533, 88,986,089). With the improvement in prices during the period Oil prices rose to $52.59 and $70.59 in 2017 and 2018, with revenues estimated at approximately $116,239,244–$162,997,070 billion. With the onset of the COVID-19 pandemic, oil prices began to decline to $64.96 and $41.91 during 2019 and 2020, with revenues estimated at $158,513,067 and $110,133,333 billion (Jihad & Ayas, 2022: 84). Oil prices rebounded in 2022 due to geopolitical tensions and declining crude oil inventories, reaching $101.60 per barrel, compared to $70.70 per barrel in 2021. This increase was attributed to the negative economic impacts of COVID-19, which led to a decrease in economic growth (Saudi Central Bank, 2024: 35).

The price of oil in 2022 was higher than in 2021 due to the negative economic effects of COVID-19, which caused a decline in economic growth (Saudi Central Bank, 2024: 35).

Table (1) Size of GDP and Growth Rate. This includes oil revenues, their contribution to the GDP, and Saudi oil prices.

Year	Gross Domestic Product (at current prices)	GDP Growth Rate	Oil Revenues	Oil's Share of GDP (%)	Official Saudi Oil Prices
2003	214.573	-------	61,600.00	28.71	27.69
2004	250.339	8.0	88,000.00	35.15	34.53
2005	328.206	5.6	134,544.000	40.99	50.21
2006	352.103	2.8	161,192.000	45.77	61.10
2007	377.068	1.8	149,916.267	39.76	68.75
2008	519.797	6.2	262,231.733	50.45	95.16
2009	429.098	-2.1	115,854.333	26.99	61.38
2010	526.812	5.0	178,729.333	33.93	77.82
2011	669.507	10.0	275,829.867	41.20	107.82
2012	733.956	5.4	305,284.800	41.59	110.22
2013	744.336	2.7	276,012.800	37.08	108.66
2014	753.832	3.7	243,559.200	32.31	97.18
2015	646.002	4.1	119,084.533	18.43	49.85
2016	644.935	1.7	88,986.089	13.82	40.96
2017	688.586	-0.7	116,239.244	16.88	52.59
2018	786.522	2.4	162,997.070	20.72	70.59

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2019	838.565	0.33	158,513.067	18.90	64.96
2020	734.271	-3.3	110,133.333	14.99	41.91
2021	868.586	5.1	149.920	17.26	70.7
2022	1,108.149	7.5	228.613	20.63	101.6
2023	1,070.000	-0.8	201.190	18.80	82

Source: Jihad Subhi Abdul Aziz Al-Qatait and Ayas Jaafar Abdul Rahim – The Impact of Fluctuations in Global Oil Prices on Some Macroeconomic Variables in the Saudi Economy for the Period 2001-2019-2022 – p. 81 – Delta College of Science and Technology Journal, Delta University College, Issue 15, 2015, p. 81.

2- Analysis of the Reality of the General Budget in the Kingdom of Saudi Arabia during the Period (2002-2023): The Kingdom of Saudi Arabia is among the countries that have worked to diversify their sources of income by increasing the contribution of non-oil revenues to the state's general budget and reducing the percentage of oil revenues therein, and by working to address the decline in oil prices through economic reform represented by the Comprehensive Sustainable Development Plan (2016-2030) in the Kingdom (Hassan, Badr, 2019: 122). Table (2) shows a surplus in the general budget between the periods (2007-2022) and a deficit for the years (2009, 2014, 2015, 2016, 2017, 2018, 2019, 2021). This is attributed to fluctuations in crude oil prices resulting from negative oil shocks during the study period. Fluctuations in oil revenues are observed during the study period, which decreased in 2009 to (115,854.333) million dollars as a result of the global financial crisis of that year, compared to 2008, in which they reached (262,231.733) million dollars. In 2014, oil revenues decreased to (243,559.200) million dollars, causing a decrease in general revenues to (277,370.9) compared to 2013, in which both oil and general revenues reached ($276,012,800 and $307,363,200 million, respectively. With the continued decline in oil revenues for the years 2015, 2016, and 2017 to $119,084,533, $88,986,089, and $116,239,244 million, this resulted in a decrease in public revenues of $163,384,800, $138,521,798, and $184,401,890 million, respectively (Jihad & Ayas, 2022: 86).

In 2020, oil and other revenues were impacted by the COVID-19 crisis, which caused oil revenues to decrease to $110,133.33 million and total public revenues to $208,498.067 million for the same year. This contrasts with 2019, when oil and public revenues were estimated at $158,513.067 million and $247,158.933 million, respectively. The table below illustrates the continuous increase in non-oil revenues since 2017, resulting from the economic reforms embodied in Vision 2030. Other revenues for the years 2017, 2018, 2019, and 2020 amounted to $68,162,646 million, $76,616,266 million, $83,575,467 million, and $98,133,333 million, respectively. US Dollar (Ali, 2021: 530-531).

It is noted that public spending in the Kingdom of Saudi Arabia continued to rise during the study period, increasing from $68,533,330 million in 2003 to $138,658,067 million in 2008, $159,049,067 million in 2009, $265,262,400 million in 2013, $304,160,800 million in 2014, and $274,777,333 million in 2019. This upward trend continued for the years 2020-2022, reaching $286,518,667 and $310,482 million, respectively (Al-Akroub & Al-Rashidi, p. 194).

Table (2) General, oil and other revenues and their percentage of general revenues, general expenditures and net budget (million dollars)

Year	Total Public Revenues (Million USD)	Oil Revenues (Million USD)	Oil Revenues as % of Total Revenues	Other Revenues (Million USD)	Other Revenues as % of Total Revenues	Total Public Expenditures (Million USD)	Budget Balance (Million USD)	Average Oil Price (USD/barrel)
2003	78,133.333	61,600.000	78.84	16,533.333	21.16	68,533.333	135.000	27.69
2004	104,610.933	88,000.000	84.12	16,610.933	15.88	76,053.333	28,557.700	34.53
2005	150,489.333	134,544.000	89.40	15,945.333	10.60	92,393.067	58,096.267	50.21
2006	179,648.533	161,192.000	89.73	18,456.533	10.27	104,885.867	74,762.667	61.10
2007	171,413.333	149,916.267	87.46	21,497.067	12.54	124,332.800	47,080.533	68.75
2008	293,598.133	262,231.733	89.32	31,366.400	10.68	138,685.067	154,913.067	95.16

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2009	135,948.000	115,854.333	85.21	20,102.667	14.79	159,049.067	-23,101.067	61.38
2010	197,565.867	178,729.333	90.47	18,836.533	9.53	174,369.600	23,394.933	77.82
2011	298,007.200	275,829.867	92.59	22,177.333	7.41	220,453.333	77,624.533	107.82
2012	332,410.133	305,284.800	91.84	27,125.333	8.16	244,586.133	99,757.867	110.22
2013	307,363.200	276,012.800	89.80	31,350.400	10.20	265,262.400	48,092.533	108.66
2014	277,370.933	243,559.200	87.81	33,811.733	12.19	304,160.800	-17,476.533	97.18
2015	163,384.800	119,084.533	72.86	44,336.709	27.14	267,011.200	-96,594.400	49.85
2016	138,521.798	88,986.089	64.24	49,535.709	35.76	221,470.024	-82,950.667	40.96
2017	184,401.890	116,239.244	63.04	68,162.646	36.96	247,998.688	-63,598.400	52.59
2018	241,495.730	162,997.070	67.49	76,616.266	32.51	274,777.333	-36,187.733	70.59
2019	247,158.933	158,513.067	64.14	83,575.467	35.86	282,518.667	-35,359.733	64.96
2020	208,489.067	110,133.333	52.83	98,133.333	47.17	286,862.400	-78,373.333	41.91
2021	257,467.000	149,920.000	57.95	107,547.000	41.77	277,049.000	-19,582.000	70.70
2022	338,187.000	228,613.000	67.60	109,570.000	32.40	310,482.000	27,705.000	101.60
2023	323,200.000	201,190.000	62.25	122,010.000	37.75	344,800.000	-21,600.000	82.00

Sources: 1- Baidaa Razzaq Hussein and Sadiq Sajjad Al-Haid – Analysis of the Role of Some Monetary Variables in Economic Growth in the Kingdom of Saudi Arabia for the Period 2003-2020 – Al-Mustansiriya University – Al-Mustansiriya Center for Arab and International Studies – Al-Mustansiriya Journal of Arab and International Studies – Issue 80 – 2022, for the period (2003-2020).
2- Saudi Central Bank – Annual Report – Various Issues.
3- Unified Arab Economic Report – Various Issues.

3- Analysis of the Inflation Situation in the Kingdom of Saudi Arabia during the Period (2003-2023):

Monetary inflation in Saudi Arabia is linked to consumer prices, as illustrated in Table (3). Monetary inflation rises in years when the Consumer Price Index (CPI) increases. For example, in the years (2003, 2004, 2005, 2019), the CPI was (98.6, 98.9, 99.6, 97.9%), which was reflected in inflation rates of (0.6, 0.3, 0.7, and 2.1%). This resulted from a decrease in the transportation and clothing/textiles indices to (1.7 and 0.5) respectively for the years (2005-2019) (Baidaa & Sadiq, 2022: 141). We note that in 2018, the inflation rate was recorded at (2.5) as a result of a significant increase in government spending, in addition to some fiscal measures, including reforms in the energy sector and the implementation of value-added tax. The Consumer Price Index (CPI) also rose in 2018 for (transport, restaurants

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and hotels, and food and beverages) by (10.7%, 8.1%, and 6.5%, respectively) (Al-Sharif & Ajlan, 2021: 560). Inflation rose in 2021, registering (3.1) due to increased consumer prices resulting from rises in the following groups: (transport, fuel, communications, tobacco, food and beverages, restaurants and hotels, household furnishings, culture and entertainment, goods and services, clothing and footwear, and health) to (10.3%, 7.4%, 6.3%, 5.4%, 4.5%, 4.0%, 3.0%, 2.8%, 2.2%, and 1.6%). In 2022, the following sectors witnessed increases: (education, restaurants and hotels, and transportation). Food and beverages, culture and entertainment, housing, goods and services, furniture, health, and communications saw increases of 5.4, 5.1, 3.7, 2.7, 1.8, 1.6, 1.3, and 0.4, respectively. In 2023, the following groups experienced increases: housing, restaurants and hotels, education, culture and entertainment, food and beverages, transportation, health, and tobacco, reaching 8.0, 4.1, 2.2, 1.5, 1.4, 1.0, 0.4, and 0.1, respectively (https://www.gcctat.org/en/statistic/publications/consumer-pric-index).

Table (3) shows the consumer price index, the level of monetary inflation, and the average price of a barrel of Saudi oil during the period (2003-2023).

Year	Price Index	Monetary Inflation (%)	Average Oil Price (USD/barrel)	Year	Price Index	Monetary Inflation (%)	Average Oil Price (USD/barrel)
2003	98.6	0.6	27.69	2014	102.2	2.6	97.18
2004	98.9	0.3	34.53	2015	103.5	2.2	49.85
2005	99.6	0.7	50.21	2016	105.6	2.1	40.96
2006	101.8	2.2	61.10	2017	104.7	-0.9	52.59
2007	106.0	4.1	68.75	2018	100.0	2.5	70.59
2008	116.5	9.9	95.16	2019	97.9	-2.1	64.96
2009	110.5	-5.1	61.38	2020	101.3	3.4	41.91
2010	114.7	3.8	77.82	2021	104.7	3.1	70.7
2011	119.0	3.7	107.82	2022	107.2	2.5	101.6
2012	122.4	2.9	110.22	2023	109.5	2.3	82
2013	100.0	3.51	108.66	—	—	—	—

Source: Saudi Central Bank Economic Report – Various Issues.

4. Analysis of the Exchange Rate in the Kingdom of Saudi Arabia during the period (2003-2023):

The Saudi Central Bank adopts a fixed exchange rate system to achieve stability in the general price level by pegging the riyal to the US dollar. This system is used by most Gulf countries, with the exception of Kuwait, which pegs the Kuwaiti dinar to a basket of currencies. Saudi Arabia has used this system since 1986 with an official exchange rate of 3.75 riyals to one US dollar. This reflects its positive impact on all economic activities in the Kingdom and helps maintain a low level of inflation. It should be noted that economic openness in the Kingdom constitutes a significant percentage (Baidaa & Sadiq, 2022: 142). The Saudi Central Bank uses a range of monetary tools to achieve stability in the money market, including the required reserve, which consists of the legal reserve and the liquidity reserve, the creation and operation of deposits in public institutions, foreign exchange swaps, and repurchase agreements (Maha & Khaled, 2020: 9). Table (4) shows that the highest exchange rate of the Saudi Riyal against the US Dollar during the study period was in 2020 at (3.7053), and the lowest was in 2003 at (3.7200).

Table (4) shows the highest, lowest, and average exchange rates of the Saudi Riyal against the US Dollar.

Year	Highest Value of the Riyal (1)	Lowest Value of the Riyal (2)	Average Value for the Period (3)
2003	3.7541	3.7200	3.7500
2004	3.7531	3.7301	3.7501
2005	3.7519	3.7498	3.7502
2006	3.7508	3.7521	3.7501
2007	3.7542	3.7000	3.7464
2008	3.7542	3.7115	3.7464
2009	3.7532	3.7467	3.7504
2010	3.7510	3.7492	3.7502
2011	3.7513	3.7485	3.7503
2012	3.7508	3.7498	3.7502
2013	3.7512	3.7470	3.7503
2014	3.7557	3.7500	3.7502
2015	3.7615	3.7498	3.7512

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2016	3.7587	3.7489	3.7508
2017	3.7518	3.7499	3.7503
2018	3.7530	3.7498	3.7506
2019	3.7535	3.7500	3.7508
2020	3.7694	3.7053	3.7537
2021	3.7562	3.7497	3.7518
2022	3.7498	3.7650	3.7547
2023	3.7500	3.7500	3.7500

Source: Arab Economic Report (Various Issues) - Saudi Central Bank Annual Report (Various Issues).

First: Conclusions

1- The Saudi economy suffers from structural imbalances, particularly in its macroeconomic policies, specifically fiscal policy (as reflected in the budget structure, specifically the ratio of allocated funds to current or investment spending), monetary policy, and trade policy.
2- The Saudi economy experienced fluctuations in its GDP growth rate during the period 2003-2017. This is a result of the economic volatility the economy experienced.
3- Monetary policy, through its direct and qualitative tools, was unable to control inflation rates.
4- Monetary policy faced numerous obstacles hindering its ability to balance economic variables. These obstacles included an increase in the money supply, high inflation rates, rising domestic and external debt, and a balance of payments deficit.
5- There was weak coordination and coherence between monetary and fiscal policies. While monetary policy aimed to achieve economic stability and price stability, fiscal policy pursued a different course, increasing government spending, the largest portion of which was consumer spending. 6- There is a significant imbalance in the structure of public revenues, reflected in the high contribution of oil revenues.

Second: Recommendations

1- Economic policymakers should aim for medium-term fiscal discipline, as the medium term is suitable for addressing fiscal constraints.
2- It is necessary to restructure economic sectors by directing oil revenues from exports not only to finance public spending, most of which goes to consumption, but also to achieve genuine economic development through increased investment spending that improves the economic situation.
3- Diversifying the sources of GDP by supporting productive sectors, particularly agriculture and industry, as well as the distribution and service sectors, through private sector participation and by opening the door to foreign investment. This will reduce dependence on oil production, stimulate economic growth, and generate employment opportunities.
4- It is necessary to create coherence and coordination between monetary policy and fiscal discipline in order to establish an efficient institutional framework for addressing the unemployment problem. 5- The necessity of activating the role of the private sector in stimulating economic activity by providing all necessary requirements, creating a suitable investment environment, and reducing administrative complexities and red tape, which will help increase its contribution to the gross domestic product and reduce the percentage of operational allocations in the general budget.

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World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 53, December 2025
ISSN: 2749-3628