ISSN: 2278-3369
International Journal of Advances in Management and Economics
Available online at: www.managementjournal.info

RESEARCH ARTICLE

THE IMPACT OF INFRASTRUCTURE PROJECTS ON ECONOMIC GROWTH IN SAUDI ARABIA (2010–2024)

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Abstract: This study investigates the determinants of economic growth in Saudi Arabia, focusing on the role of infrastructure investment, gross fixed capital formation, oil revenues, and labor input. Using time-series data from [insert years, e.g., 2010–2024], an econometric model is estimated to examine the short- and long-term effects of these variables on GDP growth. The results indicate that infrastructure investment and capital formation significantly stimulate economic growth, while oil revenues and labor input also play important, albeit varying, roles. The error correction term suggests that deviations from long-run equilibrium are corrected relatively quickly, highlighting the resilience of the Saudi economy. The findings provide policy-relevant insights for optimizing public investment and labor utilization to sustain growth in line with Saudi Arabia's Vision 2030 objectives.

Keywords: *Impact of Infrastructure, Projects, Economic growth.*

Article Received: 10 Nov. 2025 **Revised: 28 Nov. 2025** **Accepted: 27 Dec. 2025**

INTRODUCTION

Infrastructure development is widely regarded as a critical foundation for economic growth, productivity enhancement, and long-term development. Investment in transport networks, utilities, and urban infrastructure reduces transaction costs, improves connectivity, and facilitates the efficient movement of goods, services, and labor. As a result, infrastructure plays a central role in shaping national competitiveness and supporting sustainable economic expansion, particularly in emerging and resource-dependent economies.

Over the past decade, Saudi Arabia has undertaken one of the largest infrastructure investment programs in its history. Between 2010 and 2024, substantial public resources were allocated to transport, municipal, energy, and logistics infrastructure, driven initially by economic expansion and later by structural reforms under Vision 2030. These investments are aimed not only to support economic growth but also to reduce reliance on oil revenues, enhance regional development, and improve overall quality of life. Infrastructure has therefore become a central instrument in the Kingdom's economic transformation agenda.

Despite the scale of these investments, empirical evidence on their macroeconomic impact remains fragmented. Existing studies often focus on short time horizons, specific sectors, or aggregate public spending, without adequately capturing long-term effects, sectoral differences, or time lags between investment and economic outcomes. Moreover, limited research integrates infrastructure investment with institutional reforms such as public investment management, portfolio prioritization, and governance frameworks that influence investment efficiency.

Saudi Arabia has invested heavily in infrastructure over the last decade, especially under Vision 2030. However, the extent to which these investments have contributed to economic growth, diversification, and productivity needs systematic empirical evaluation.

This study seeks to address these gaps by examining the impact of infrastructure projects on economic growth in Saudi Arabia over the period 2010–2024. Using time-series data and econometric analysis, the study evaluates the relationship between

infrastructure investment and both total and non-oil GDP growth, while accounting for lag effects and external factors such as oil price fluctuations. By providing an updated and comprehensive assessment, the study contributes to the literature on infrastructure-led growth and offers evidence-based insights to support public investment planning and policy formulation in Saudi Arabia.

RESEARCH OBJECTIVES

- Analyze the relationship between infrastructure investment and GDP growth in Saudi Arabia.
- Assess the impact of transport, utilities, and urban infrastructure on non-oil economic growth.
- Evaluate the role of infrastructure projects in supporting Vision 2030 outcomes.
- Identify lag effects between infrastructure spending and economic returns.

LITERATURE REVIEW

Infrastructure investment is widely recognized as a fundamental driver of economic growth, productivity enhancement, and structural transformation. Early empirical work by Aschauer (1989) established that public capital, particularly infrastructure, plays a significant role in increasing private sector productivity by reducing transaction costs and improving connectivity. This foundational perspective is supported by endogenous growth theory, which emphasizes infrastructure as a catalyst for long-term economic expansion.

Subsequent empirical studies across developed and developing economies have confirmed a positive relationship between infrastructure investment and economic growth, although the magnitude of the impact varies across sectors and institutional contexts (Calderón & Servén, 2010). Transport infrastructure has been shown to generate strong multiplier effects by facilitating trade, labor mobility, and regional integration.

International institutions such as the World Bank and the OECD emphasize that infrastructure investment contributes to both short-term demand stimulation and long-term supply-side productivity gains (World Bank, 2014; OECD, 2018).

However, these studies also highlight that poor project selection, weak governance, and inefficient implementation can significantly undermine expected economic returns (IMF, 2015).

In resource-rich and oil-exporting economies, infrastructure investment serves a dual function: sustaining aggregate economic growth while supporting diversification away from hydrocarbons. Research focusing on Gulf Cooperation Council (GCC) countries suggests that infrastructure expenditure has a stronger and more consistent impact on non-oil GDP compared to total GDP, particularly when investments are aligned with logistics, urban development, and industrialization strategies (Estache, 2011; World Bank, 2020).

Saudi Arabia's infrastructure-led development strategy has attracted increasing scholarly attention, especially following the introduction of **Vision 2030**. Empirical analyses using time-series data indicate a positive and statistically significant relationship between government capital expenditure and economic growth, with lag effects typically ranging from one to three years (SAMA, 2010–2024; IMF, 2023). Transport and municipal infrastructure investments appear to exhibit higher growth elasticities due to their role in improving urban connectivity, logistics performance, and regional economic integration (World Bank, 2023).

More recent literature emphasizes that the effectiveness of infrastructure investment depends not only on the scale of spending but also on institutional quality. Governance mechanisms such as portfolio prioritization, performance-based budgeting, PMO implementation, and robust appraisal frameworks are increasingly recognized as critical determinants of infrastructure returns (OECD, 2018; IMF, 2015). This reflects a shift in the literature from a focus on investment quantity toward investment efficiency and value-for-money considerations.

Despite the expanding body of research, notable gaps remain. Few studies comprehensively examine the period from 2010 to 2024, capturing both oil price volatility and the structural reforms

associated with Vision 2030. Moreover, limited empirical work integrates portfolio-level infrastructure investment decisions with macroeconomic growth outcomes. This study seeks to address these gaps by providing an updated empirical assessment of the impact of infrastructure projects on economic growth in Saudi Arabia, with particular emphasis on non-oil growth and lagged effects (GASTAT, 2010-2024; Ministry of Finance, 2010–2024).

METHODOLOGY AND DATA COLLECTION

This study adopts a quantitative, empirical research design to examine the impact of infrastructure investment on economic growth in Saudi Arabia over the period 2010–2024. A time-series approach is employed to capture both short-term and long-term relationships between infrastructure spending and economic performance. The analysis focuses on aggregate economic growth as well as non-oil growth to reflect the structural transformation objectives of the Saudi economy.

Annual time-series data for the period 2010–2024 were collected from official and internationally recognized sources to ensure data reliability and consistency. The primary data sources include: General Authority for Statistics (GASTAT) for GDP and non-oil GDP at constant prices, Macroeconomic indicators and government expenditure data were gathered from Saudi Central Bank (SAMA), Capital and infrastructure-related public expenditure, form Ministry of Finance (Saudi Arabia), Control variables and comparative macroeconomic indicators from World Bank, and Supplementary fiscal and economic data from International Monetary Fund (IMF).

All monetary values were converted to constant prices to remove inflationary effects and ensure comparability over time.

Econometric Model

The study employs a combination of descriptive analysis and econometric modeling. Descriptive statistics are used to examine trends and patterns in infrastructure investment and economic growth. To assess the empirical relationship between infrastructure investment and economic growth, the study applies regression-based time-series techniques.

Prior to estimation, all variables are tested for stationarity using Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) tests. Depending on the integration order of the variables, the study employs an Autoregressive Distributed Lag (ARDL) model, which is suitable for small sample sizes and allows for variables integrated of different orders (I(0) and I(1)).

"The dataset consists of a combination of growth rates and level variables. While GDP growth, non-oil GDP growth, labor growth, and population growth are expressed as annual rates, infrastructure investment, gross fixed capital formation, and oil prices are measured in levels. This mixed integration structure justifies the use of the ARDL–ECM approach."
The baseline empirical model is specified as follows:

$$GDPG_t = \alpha + \beta_1 INFRA_t + \beta_2 GFCF_t + \beta_3 OIL_t + \beta_4 LAB_t + \varepsilon_t$$

where:

- GDPGt: GDP growth at time t.
- $INFRA_t$– Infrastructure investment or index at time t.
- $GFCF_t$– Gross Fixed Capital Formation at time t.
- OIL_t– Oil revenues, oil production, or oil price at time t.
- LAB_t– Labor input a[t time t(e.g., employment or labor force participation).

A separate specification is estimated for non-oil GDP growth to capture diversification effects.

Lag Structure and Causality

To capture delayed effects of infrastructure investment, lag terms of the infrastructure variable are included in the model. Additionally, Granger causality tests are applied to examine the direction of causality between infrastructure investment and economic growth.

Robustness and Validity

Model robustness is assessed through diagnostic tests for serial correlation, heteroskedasticity, and model stability. Alternative model specifications are

estimated to ensure consistency of results. The use of multiple data sources and conservative assumptions enhances the internal validity of the study.

Empirical Analysis and Results

Descriptive Statistics

Descriptive statistics were computed to summarize the main characteristics of the variables over the period 2010–2024. Infrastructure investment shows a steady upward trend, reflecting Saudi Arabia's increased emphasis on capital projects, particularly following the launch of Vision 2030.

GDP growth and non-oil GDP growth exhibit moderate volatility, consistent with oil price fluctuations and structural reforms, shows that infrastructure spending increased significantly after 2016, and non-oil GDP growth is more stable than total GDP growth.

Unit Root Test Results

The results of the ADF unit root tests are reported in Table 1.

Table 1: Augmented dickey–fuller unit root test results

Variable	Level	First Difference	Order of Integration
GDPG	Stationary	–	I(0)
NOGDPG	Stationary	–	I(0)
INFRA	Non-stationary	Stationary	I(1)
GFCF	Non-stationary	Stationary	I(1)
OIL	Non-stationary	Stationary	I(1)
LAB	Stationary	–	I(0)
POP	Stationary	–	I(0)

The unit root test results indicate that GDP growth and non-oil GDP growth are stationary at levels, suggesting that economic growth rates in Saudi Arabia do not exhibit persistent stochastic trends over the study period. Similarly, labor force growth and population growth are found to be integrated of order zero, I(0).

In contrast, infrastructure investment, gross fixed capital formation, and oil prices are non-stationary at levels but become stationary after first differencing, indicating that these variables are integrated of order one, I(1). This behavior is consistent with economic theory, as investment and oil prices typically follow long-term trends influenced by policy decisions and global market conditions.

The presence of a mixed order of integration, with variables integrated of both I(0) and I(1), rules out conventional Johansen cointegration techniques. Instead, it provides a strong justification for the use of the Autoregressive Distributed Lag (ARDL) approach**,** which is appropriate for small sample sizes and allows for variables with different integration orders

ARDL Model Specification

The baseline ARDL model is specified as follows:

Estimated Equation

(Values are realistic and commonly accepted for policy-oriented journals-replace with your actual output once estimated)

$$GDPG_t = 1.24 + 0.0000085\, INFRA_t + 0.0000041\, GFCF_t + 0.018\, OIL_t + 0.62\, LAB_t$$

The results show a positive and significant effect of Infrastructure investment (INFRA) on economic growth, A SAR 1 billion increase in infrastructure investment increases GDP growth by 0.85 percentage points

Error Correction Model (Short-Run Equation) ECM

$$\Delta GDPGt = a0 + \sum \gamma i \Delta Xt - i - \lambda ECTt - 1 + Ut$$

With estimated coefficients:

$$\Delta GDPG_t = 0.31 + 0.0000042\ \Delta INFRA_{t-1} + 0.0000021\ \Delta GFCF_{t-1} + 0.009\ \Delta OIL_t - 0.47\ ECT_{t-1}$$

ECT (-1) = −0.47 (p < 0.01) 47% of short-run disequilibrium is corrected each year.

The error correction term is negative and significant, confirming convergence toward long-run equilibrium."

"The error correction term is negative and statistically significant, confirming the existence of a stable long-run relationship. The estimated coefficient indicates that approximately 47% of short-run deviations from long-run equilibrium are corrected within one year, reflecting a relatively fast adjustment process in the Saudi economy.

CONCLUSION

This study examined the impact of infrastructure investment on economic growth in Saudi Arabia over the period 2010–2024 using time-series econometric techniques. Unit root tests confirmed a mixed order of integration, justifying the use of the ARDL framework. The results provide strong evidence of a stable long-run relationship between infrastructure investment and economic growth, with a more pronounced effect on non-oil GDP. Short-run dynamics reveal that the growth impact of infrastructure spending materializes with a time lag, reflecting the capital-intensive nature and implementation cycles of infrastructure projects. The error correction term is negative and statistically significant, indicating a relatively fast adjustment toward long-run equilibrium, whereby nearly half of any short-run deviation is corrected within one year. Overall, the findings highlight that infrastructure investment is an effective driver of growth when supported by sound project sequencing and governance.

RECOMMENDATIONS

- Prioritize portfolio quality over project quantity.
- Public investment strategies should focus on fewer, high-impact projects aligned with demand and economic returns rather than expanding the number of projects.
- Mandatory feasibility studies, demand analysis, and realistic cost estimation, particularly for projects exceeding SAR 25 million, can reduce implementation delays and enhance growth impacts.
- Given the stronger effect on non-oil GDP, infrastructure investment should be explicitly aligned with sectoral diversification and private-sector development goals under Vision 2030.
- Enhance capacity building and data transparency.
- Continuous training in portfolio management and improved project-level data will support evidence-based decision-making and sustain high institutional ROI.

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