جدوى للإستثمار
Jadwa Investment

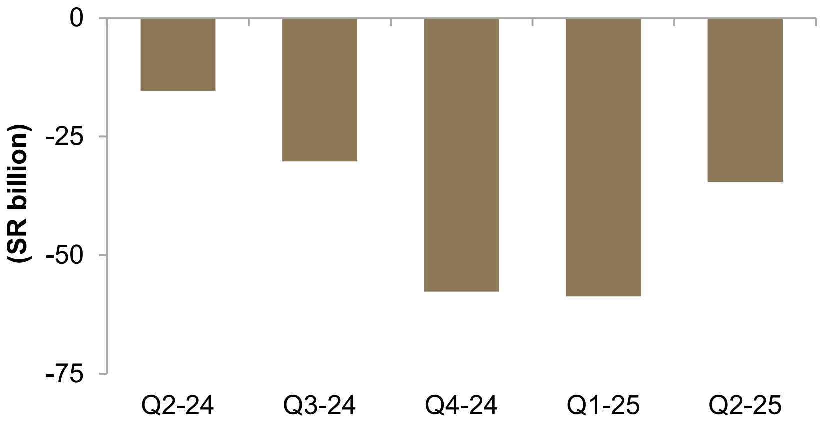
August 2025

# Q2 2025 Budget Performance Report

## Non-oil revenue up and spending under control

- The central government recorded a fiscal deficit of SR34.5 billion in Q2-25, smaller than the SR58.7 billion deficit in Q1-25 due to higher non-oil revenue.
- The deficit widened to SR93 billion in H1-25 from SR28 billion in H1-24, due to a 24 percent decline in oil revenue. This is in line with our forecast for a full-year deficit around SR200 billion.
- Saudi Arabia is well-positioned to weather a period of lower oil prices through debt issuance and spending prioritization. Government debt/GDP is still low, at around 30 percent of GDP, and the government's fiscal reserve remains large.
- Non-oil revenue grew by 4.6 percent in H1-25 and is on course to beat the budget projection. On a 12-month trailing basis non-oil revenue grew by over 8 percent year-on-year in Q2-25.
- The latest spending data reflect the government's focus on controlling the wage bill and prioritizing project spending. In H1-25 spending declined by 2.4 percent year-on-year.
- Typically spending ramps up towards year end. However, with oil revenue set to remain under pressure, the government is likely to stick closer to the budget envelope than in 2022-2024.
- The increase in debt in H1-25 was significantly larger than the budget deficit as the government got ahead of the curve in securing funds to meet its annual financing needs.
- The government has a sizeable liquidity buffer: the fiscal reserve remained large at just under SR400 billion and the government current account increased to more than SR100 billion.

**Figure 1: Budget deficit increases year-on-year, but declines from the previous quarter**





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*The first half performance is in line with our forecast for a deficit around SR200 billion.*

*Oil revenue declined in part because total dividends from Saudi Aramco have shifted lower this year.*

## Overview

The central government recorded a fiscal deficit of SR34.5 billion in Q2-25, smaller than the SR58.7 billion deficit in Q1-25 due to higher non-oil revenue. Compared with the year-earlier period (Q2-24), the deficit was larger because of lower oil revenue this year (Figure 1).

Amid a weaker oil market in 2025, robust growth in non-oil revenue and controlled government spending have helped limit the budget deficit in H1-25. The deficit widened to SR93 billion in H1-25 from SR28 billion in H1-24, due to a 24 percent decline in oil revenue. Positively, non-oil revenue has grown by close to 5 percent. And the government has controlled spending, which was 2.4 percent lower year-on-year.

The first half performance is in line with our forecast for a deficit around SR200 billion. The fiscal position remains robust to weather a period of lower oil prices, through a mixture of more debt (which is currently low) and spending prioritization. The government will continue to seek a balance between supporting the economy and maintaining strong fiscal metrics.

**Table 1: Government Revenue (SR billion)**

| | Q2-24 | Q2-25 | % change |
|---|---|---|---|
| Oil revenue | 213.0 | 151.7 | -28.8 |
| Non-oil revenues, of which | 140.6 | 149.9 | 6.6 |
| Tax on income, profit & capital gains | 12.9 | 13.7 | 6.8 |
| Tax on Goods & Services | 70.1 | 75.0 | 6.9 |
| Tax on trade and transactions (customs) | 5.5 | 6.3 | 15.8 |
| Other taxes (zakat) | 24.5 | 26.0 | 6.1 |
| Other non-oil revenue | 27.7 | 28.9 | 4.4 |
| **Total revenue** | **353.6** | **301.6** | -14.7 |

## Revenue

Starting with revenue, the government's **oil income** was SR152 billion in Q2, similar to the Q1 performance, but down by more than SR60 billion or 29 percent on the same quarter of 2024 (Table 1). Oil revenue declined in part because total dividends from Saudi Aramco have shifted lower this year, by around SR30 billion per quarter. This explains half the decline in revenue in Q2.

**Figure 2: Saudi Aramco's payments to government- higher income tax offsets lower oil price** (SR billion)

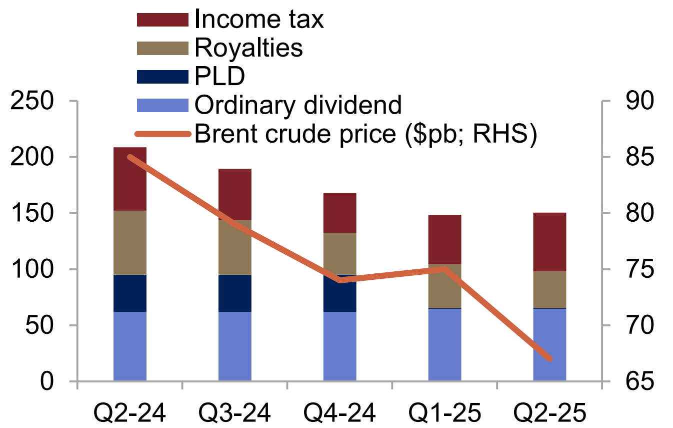
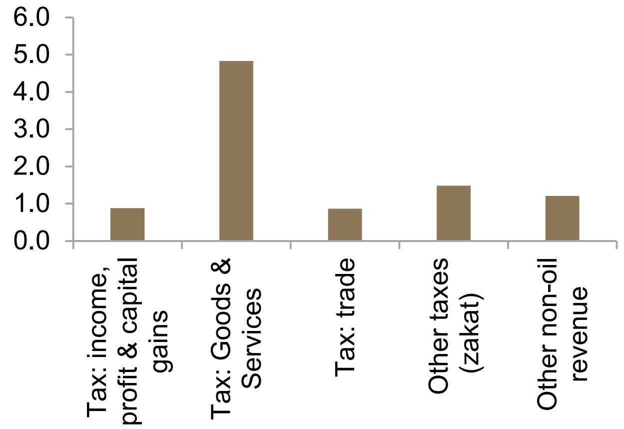



**Figure 3: Non-oil revenue performs well** (difference between Q2-25 and Q2-24; SR billion)



*The other main driver of lower oil revenue year-on-year is lower oil prices.*

The other main driver of lower oil revenue year-on-year stems from the differentials in crude pricing and production during the two periods. The average Brent oil price was $67pb in Q2-25, down 21 percent from $85pb in Q2-24. This was only partially offset by 2.3 percent growth in crude output as OPEC+ started to increase production.

Looking at Aramco's financial results in Q2-25, we can see that, in addition to lower dividends than in Q2-24, royalties declined sharply because royalties are calculated as a percentage of production value which was lower due to the slide in prices. Income tax payments were also lower than in Q2-24, but not as significantly as the other lines (Figure 2).

*Q2-25 oil revenue was marginally higher than in Q1-25 because of seasonally higher income tax.*

It is worth noting that oil revenue in Q2-25 was marginally higher than in Q1-25 despite the fact that prices were 9 percent lower and only partially offset by 2.6 percent higher production. This is primarily because Q2 sees more income tax being paid than in Q1.

What is the outlook for oil revenue in H2-25? It is likely that total oil revenue will be somewhat lower than in H1-25 despite the support from higher oil production, as explained below. In large part this is because, as mentioned, income tax tends to peak in Q2-25.

*Oil revenue will be somewhat lower than in H1-25 despite the support from higher oil production.*

We expect Brent crude prices to be lower on average than the $71pb average in H1-25, assuming there are no major geopolitical shocks. If Brent averages $65pb this would be a decline of 8.5 percent. At the same time though oil production is increasing, helping to offset lower prices. Crude output will average 9.76mbpd in Q3-25, hitting close to 10mbpd in September. If output stabilizes at that level in Q4-25, average crude output would be 8.7 percent higher than in H1-25. This will support royalties paid to the government. Quarterly dividends will be stable. Income tax and zakat is more difficult to model, but given this tends to peak in Q2, it is likely that total oil revenue will be lower in H2-25.

*Non-oil revenue was 6.6 percent higher year-on-year in Q2—a strong performance that mirrors the Kingdom's buoyant non-oil GDP growth.*

Turning to **non-oil revenue**, this was 6.6 percent higher year-on-year in Q2—a strong performance that mirrors the Kingdom's buoyant non-oil GDP growth. 'Taxes on goods and services' (a majority of which is VAT), which accounted for 50 percent of total non-oil revenue, grew by 6.9 percent year-on-year which is broadly in line with nominal non-oil GDP growth.

For the first half of the year taxes on goods and services were 4.6 percent higher year-on-year and are on course to beat the budget projection. It is worth noting that quarterly results tend to be uneven during the year and on a 12-month trailing basis non-oil revenue and taxes on goods and services were both up by more than 8 percent year-on-year in Q2-25.

Q2 is the when the bulk of income tax is paid. Consequently there was a quarterly surge in the income, profit and capital gains tax line item relative to Q1-25. Compared to Q2-24, this line item was also up strongly, by 6.6 percent. Looking at other tax items, customs taxes on international trade recovered from a weak performance in Q1-25, while 'other taxes' which largely refers to Zakat, performed well.

Finally, the other revenues (non-tax non-oil revenues) line, which is the second largest contributor to non-oil revenue, also grew. This bundles a number of things and intake is lumpy during the year, with a recent bias towards Q4.

## Expenditure

*Spending in Q2 increased by 4.3 percent over Q1, but declined by 9 percent compared to Q2-24.*

Spending data for Q2 reflects the government's focus on controlling the wage bill and prioritizing project spending. Total budget spending in Q2 increased by 4.3 percent over Q1, but declined by 9 percent compared to Q2-24. Looking at the sequential quarterly increase, most line items increased, including capex, goods and services and social benefits. Importantly, compensation of employees did not, but instead declined by almost 4 percent.

*In H1-25 spending declined by 2.4 percent year-on-year and is only running slightly ahead of budget.*

In H1-25 spending declined by 2.4 percent year-on-year and was only slightly ahead of budget on a simple pro rata basis. Typically spending ramps up towards year end. However, with oil revenue set to remain under pressure this year, the government is likely to stick closer to the budget envelope than in 2022-2024.

**Table 2: Government Expenditure (SR billion)**

| | Q2-24 | Q2-25 | % change |
|---|---|---|---|
| Compensation of Employees | 139.8 | 140.4 | 0.4 |
| Good & Services | 75.6 | 73.6 | -2.6 |
| Financing expenses | 10.8 | 11.9 | 10.7 |
| Subsidies | 13.0 | 7.7 | -40.8 |
| Grants | 1.4 | 0.4 | -69.9 |
| Social benefits | 39.2 | 39.2 | -0.1 |
| Other expenses | 24.2 | 23.0 | -4.9 |
| Non-financial assets (capex) | 65.0 | 39.9 | -38.6 |
| **Total spending** | **368.9** | **336.1** | -8.9 |

All spending categories were lower year on year in Q2-25, except for compensation of employees which was basically flat and financing expenses which increased due to increased government debt. Nonetheless, financing expenses were well within the amount budgeted for 2025.

*Capex was the most significant contributor to lower spending versus Q2-24, down by 39 percent.*

Capex was the most significant contributor to lower spending versus Q2-24, down by 39 percent. This fits with the government's attempts to prioritize project spending. As mentioned above, though, capex did increase in Q2-25 from the very low level in Q1-25, rising to SR40 billion from SR28 billion. Overall, in H1-25 capex was around a third lower year on year (Figure 4).

If capex continued at SR40 billion a quarter in H2-25 then annual capex would be similar to levels in 2020 and 2022 in nominal terms. While capex was down almost a third in H1-25, goods and services

**Figure 4: Capex up from Q1, but down versus 2024** (SR billion)

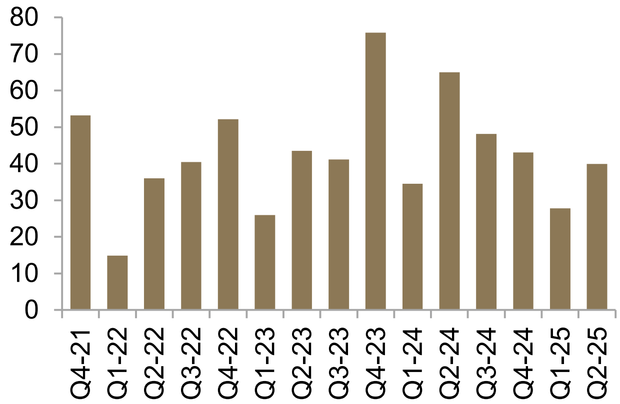
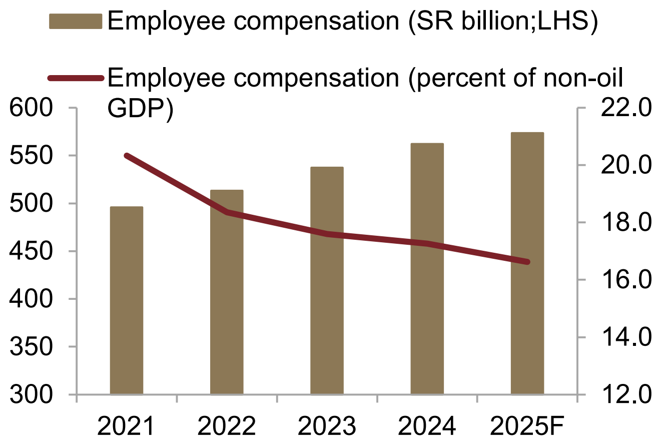



**Figure 5: Employee compensation under control**



*Meanwhile, goods and services spending, some of which relates to procurement for investment, grew.*

spending, some of which relates to procurement for investment, grew by 1.4 percent year-on-year. This line item has seen significant second-half increases in recent years. Whether this is repeated or whether instead spending remains more stable in H2-25 will be key to how close the government sticks to budget this year.

*In H1-25 employee compensation was up 3.3 percent and is tracking modestly above budget.*

Compensation of employees remains far and away the biggest single element of spending (44 percent of the total). In H1-25 employee compensation was up 3.3 percent and is tracking around 2 percent above budget on an annualised basis (in line with Jadwa's current forecast). As mentioned this line item declined from Q1, illustrating the focus on restraining wage spending. Indeed, as a percentage of non-oil GDP, wage spending (and total government spending) is set to decline this year continuing the trend of recent years (Figure 5).

*Social benefit spending increased by 10 percent year-on-year in H1-25 and is tracking above budget.*

Social benefit spending grew by 10 percent year-on-year in H1-25, due to a big increase in Q1-25, and is tracking above budget, although this line item can be quite uneven during the year. While social benefits increased, spending on subsidies declined. This fits with government policy to gradually reduce subsidies, but maintain social support.

## Deficit and debt

*Government debt increased by SR58 billion to SR1,386 billion in Q2-25, around 30 percent of GDP.*

Government debt increased by SR58 billion to SR1,386 billion in Q2-25. This was driven by domestic debt, which increased by SR74.2 billion. External debt declined by SR16.6 billion ($4.5 billion) as there were no new issuance but there was an external debt repayment to cover a maturing US dollar bond. As in Q1-25, the majority of the domestic debt was raised through private placements, while domestic sukuk was only SR10 billion.

In H1-25 government debt increased by SR170.5 billion, substantially more than the budget deficit of SR93.2 billion, meaning that the government is ahead of the curve in securing funds to cover the annual deficit and debt repayment due this year. Meanwhile, the government has a sizeable liquidity buffer: the fiscal reserve remained large at just under SR400 billion and the government current account increased to more than SR100 billion.

A recent statement from the National Debt Management Center (NDMC), said that further borrowing in 2025 would focus on local and domestic private channels, while external issuance would remain in line with plans outlined in the annual borrowing plan. This would imply further external borrowing of around $2.5 billion.

Government debt/GDP remains low, at around 30 percent, and there is plenty of headroom for further borrowing. Appetite for Saudi sovereign debt remains strong and its rating profile is good and has improved in the past couple of years.

## Outlook

*For 2025 as a whole, the budget deficit will likely be close to SR200 billion (around 4.2 percent of GDP).*

For 2025 as a whole, the budget deficit will likely be close to SR200 billion (around 4.2 percent of GDP) and government debt at 30 percent of GDP. This assumes an average oil price of $67pb for Brent (down from $80pb in 2024), oil production reaching close to 10mbpd and robust non-oil GDP growth.

While lower oil prices than last year are a headwind for the budget, Saudi Arabia is well-positioned to weather a period of lower oil prices through a mixture of debt issuance, spending prioritization and non-oil revenue growth.

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