



Preliminary budget statement

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Jadwa Investment

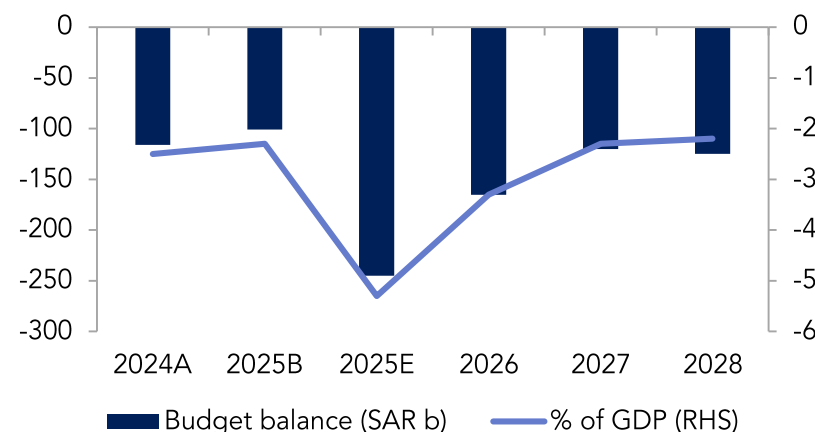


2026 Preliminary Budget Statement

Balancing economic support and fiscal prudence

- The Ministry of Finance (MoF) has published the preliminary budget statement (PBS) for fiscal year 2026 and the mid-year report (MYR) with detailed estimates for 2025 budget outturns.
- The finalized budget for 2026 with full revenue and spending breakdowns will be released in December.
- The government estimates that the budget deficit widened to SAR 245b (5.3% of GDP) in 2025, largely due to lower oil revenue.
- For 2026, the PBS projects higher revenue (by 5.2%; SAR 56b), but a small decline in spending (by 1.8%; SAR 23b).
- The budget deficit would therefore narrow, to SAR 165b (3.3% of GDP).
- Higher spending than budgeted is likely if oil revenue performs in line or ahead of budget. An oil price around \$65pb might allow for that given higher levels of oil production and exports.
- Government debt will have risen to SAR1,457 billion at end-2025, around 32% of GDP, still low by international benchmarks.
- Government deposits at SAMA represent a sizeable liquidity buffer, equivalent to 10.7% of GDP, in excess of USD 100b.
- For 2027-2028 the PBS projects smaller budget deficits, at SAR 120-125b (2.3-2.2% of GDP; Figure 1). This assumes revenue growth at 6.2% on average and spending growth at 4%.

Fig 1: Budget deficit projected to narrow in 2026-2028



For comments and queries:

Toby Iles, Chief Economist
tiles@jadwa.com

Phone +966 11 279-1111
P.O. Box 60677, Riyadh 11555
Saudi Arabia

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The budget deficit has widened in 2025 largely due to lower oil revenue.

Non-oil revenue has performed well, linked to non-oil GDP growth.

Spending has declined slightly, but remains supportive with higher capex in H2-25.

2025 Budget performance

The government estimates that the budget deficit widened to SAR 245b (5.3% of GDP) in 2025. This is largely due to lower oil revenue which was 24% lower year on year in H1-25. This is due to lower global oil prices and the minimal special dividend from Aramco this year.

The MYR doesn't provide an estimate for oil revenue, but the numbers imply a figure around SAR 570-575b, which is a reasonable estimate (we have been assuming SAR 580b).

Overall non-oil revenue has once again performed quite well. Tax revenue is set to beat the budget (by around 4%) as expected. The government estimates SAR 394b, with all tax revenue lines slightly above budget. Taxes on goods and services, which includes VAT, accounts for 76% of total tax and at least half of the growth in tax revenue. This is linked to growth in the non-oil economy and efforts to improve collection.

Other non-oil non-tax revenue, which increased by 2.4% year on year in H1-25, is not estimated in the MYR. We estimate that it edges up in full year 2025. This includes items such as property income, sales of goods and services, fines and penalties and expat levies.

Non-oil revenue is more than 2.5 bigger than it was in 2016 and now covers more than 90% of wage spending compared to less than half in 2016 (Figure 2).

In terms of government spending the MYR estimates a 2.8% decline compared to 2024. This estimate puts spending 4% above budget. This is a small overshoot compared to the average of 12% spending overruns in 2020-2024. The government tends to spend closer to budget when oil revenue is under pressure.

If the government estimate is accurate, it implies higher spending in H2-25 than in H1-25, largely driven by a ramp up in capex, to SAR 120b from SAR 68b. This would be 31% higher than capex in H2-24, supporting investment levels in the economy into year end.

Table 1: Mid-year economic review (SAR b)

	2024A	2025B	2025E	2025E v 2024A (% change y-o-y)	2025E v 2025B (% over/under budget)
Total revenue	1,259	1,184	1,091	-13.4	-7.9
Tax	381	379	394	3.5	4.0
Tax on income, profit & capital gains	32	31	32	1.3	3.2
Taxes on goods & services	289	290	298	3.2	2.8
Taxes on Trade & Transactions [Customs]	24	23	27	10.2	17.4
Other Taxes [Zakat]	36	36	37	3.8	2.8
Other including oil	879	804	697	-20.7	-13.3
Total spending	1,375	1,285	1,336	-2.8	4.0
Current spending	1,184	1,101	1,149	-3.0	4.4
Compensation of Employees	562	561	561	-0.2	0.0
Use of Goods/Services	313	265	253	-19.2	-4.5
Financing Expenses (interest costs)	45	59	58	30.2	-1.7
Subsidies	34	31	34	0.0	9.7
Grants	4	2	6	42.7	200.0
Social Benefits	101	98	100	-1.4	2.0
Other	125	86	136	9.2	58.1
Capital Expenditure	191	184	187	-1.9	1.6
Budget deficit	-116	-101	-245		

Note: A = actual; B = budget; E = estimate



The PBS projects higher revenue in 2026, by 5.2%.

Oil revenue would likely increase if oil is \$65pb.

But would decrease slightly if oil is \$60pb.

The other noteworthy takeaway from the spending numbers is that compensation of employees is exactly in line with budget (and flat compared with 2024 actuals). This reflects government attempts to control wage spending, the largest spending component. Wage spending is trending down gradually as a percentage of non-oil GDP.

2026 and medium-term projections

The PBS projects higher revenue in 2026 (by 5.2%; SAR 56b), but a small decline in spending (by 1.8%; SAR 23b). The budget deficit would therefore narrow, to SAR 165b (3.3% of GDP). (Table 2). More detailed breakdowns for revenue and spending will be given when the finalized budget is published in December.

Higher revenue would come partly from a further increase in non-oil revenue linked to ongoing growth in the non-oil economy. The main driver of non-oil revenue will once again be VAT, helped by efforts to broaden the tax base for VAT to include e-commerce more comprehensively.

Table 2: 2026 Preliminary budget statement (SAR b)

	2024A	2025B	2025E	2026	2027	2028
Revenue	1,259	1,184	1,091	1,147	1,230	1,294
Spending	1,375	1,285	1,336	1,313	1,350	1,419
Budget balance	-116	-101	-245	-165	-120	-125
% of GDP	-2.5	-2.3	-5.3	-3.3	-2.3	-2.2

Note: A = Actual, B = Budgeted, E = estimate

The PBS may also assume a small increase in oil revenue due to higher levels of oil production and exports which would offset a lower average price (Figure 3). For example, we assume that the average price of Brent falls to \$65pb in 2026 from \$68pb this year. At the same time, we assume average oil production at 10.2mbpd in 2026, up from 9.5mbpd this year. On these assumptions oil export earnings would increase by 4% and feed through to higher budget oil revenue. If Aramco increased its ordinary dividends again by 4%, this would also add to budget oil revenue (by around SAR 7.5b, assuming zero special dividend).

Oil remains the key risk factor. If Brent averages \$60pb rather than \$65pb, for example, then budget oil revenue would instead decline slightly. As a broad rule of thumb a \$5pb change in the oil price would change the budget deficit by 1% of GDP in 2026, all else equal.

The government lays out low and high revenue scenarios in the PBS. The low scenario has revenue at SAR 1,063b—SAR 84b lower than the baseline projection for 2026. This would give rise to a deficit of SAR 250b, similar to the 2025 estimate. The PBS does not lay out the assumptions behind this low

Fig. 2: Non-oil revenue covers more than 90 percent of wage spending (SAR b)

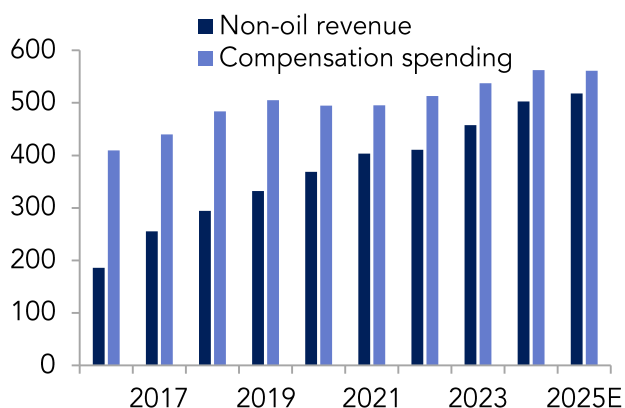
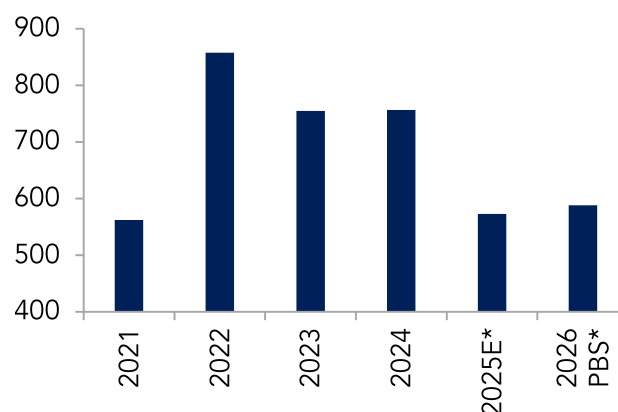


Fig. 3: Budget oil revenue (SAR billion; *Jadwa estimates)





The PBS projects a small decline in spending and a smaller budget deficit.

Higher spending than budgeted is likely if oil revenue performs in line or ahead of budget.

For 2027-2028 the PBS projects revenue growth at 6.2% and spending growth at 4%.

revenue scenario, but it would involve an oil price of less than \$60pb.

The PBS does not give spending breakdowns and so it is not clear what would drive the 1.8% decline in spending in 2026. Cuts would likely be distributed across more discretionary line items, such as goods and services and capital spending or the ‘other spending’ category, which has increased in 2025 and is significantly above budget.

As last year, the PBS highlights that there was one-off spending in 2025 related to expropriation costs to facilitate progress with projects, including Diriyah Gate. The PBS emphasizes that if these one-off costs are excluded, then budget spending in 2026 will actually be higher than in 2025.

Some modest overspending relative to budget in 2026 is likely if oil revenue performs in line or ahead of budget. Figure 4 shows that when oil prices are high, such as in 2011-2014, spending responds to the higher revenue intake with higher-than-budgeted spending. On the other hand, in 2016-2021, during a more moderate oil price climate, spending tracked closer to budgets. This pattern is also seen since 2021, as higher oil prices allowed for an increase in investment spending in 2022-2024 before spending has been closer to budget in 2025 as oil prices have fallen.

For 2027-2028 the PBS projects a further narrowing of the budget deficit, to SAR 120-125b (2.3-2.2% of GDP). This assumes revenue growth at 6.2% on average and spending growth at 4% (Figure 5). Compared to the 2025 PBS, which incorporated deficits up to 3% of GDP in the medium term, the government is signaling greater fiscal consolidation in the outer years after larger near-term deficits.

Overall, the PBS shows continuity with the broad principals underpinning the Kingdom’s fiscal policy, namely to help support growth, economic diversification and the quality of life of citizens, while also taking care to maintain strong fiscal metrics, including a controlled rise in government debt from low levels.

Alongside the budget, the PBS highlights the role of the Public Investment Fund (PIF) and National Development Fund in supporting the non-oil economy through capital deployment and credit provision. The PIF is working on its 2026-2030 strategy. The PIF’s 2024 annual report said that the fund had deployed SAR 642b across priority sectors in 2021-2024, in line with its 2021-2025 strategy to invest at least SAR 150b per year locally.

It remains to be seen what the new strategy indicates in terms of PIF spending and funding. In 2025 the PIF will have received SAR 51b in Aramco dividends and SAR 61b from borrowing—so, more than SAR 110b from these two sources combined. Other key sources of revenue include dividends from PIF companies, IPOs and sales of stakes in more mature companies.

Fig. 4: Budget over/under spending and oil prices (SAR billion)

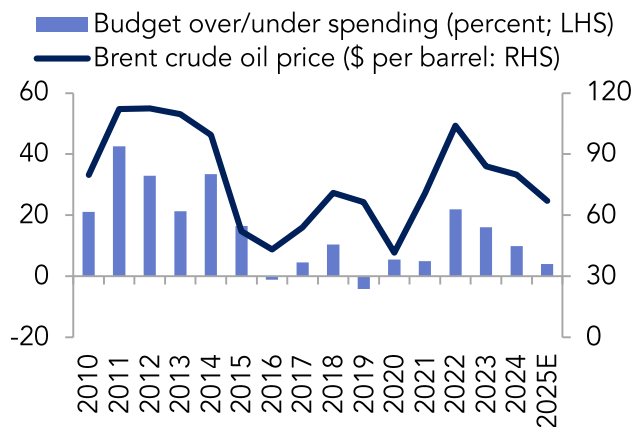
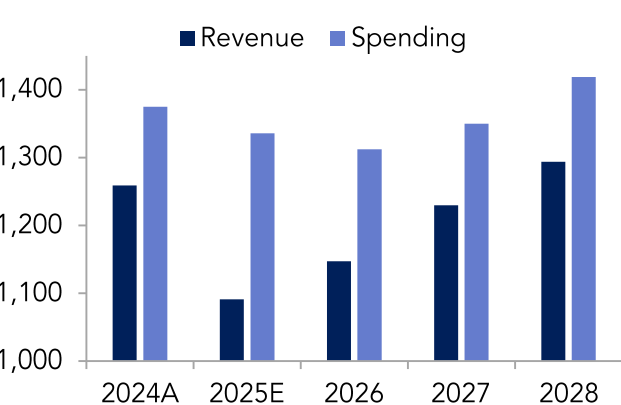


Fig. 5: PBS revenue and spending projections (SAR billion)





There are ongoing improvements in the structure of the budget.

Although oil dependence remains significant and the key swing factor.

The PBS highlights Saudi Arabia’s policy of balancing economic support with fiscal prudence.

Government Debt Rising from Low Levels

The government estimates that government debt will have risen to SAR 1,457b at end-2025, around 32% of GDP. And the government reserve, the largest chunk of government deposits at the Saudi Central Bank (SAMA), will remain stable at SAR 390b by end-2025. The government also has some current account deposits at SAMA.

The magnitude of the government’s total deposits at SAMA represents a sizeable liquidity buffer, equivalent to 9% of GDP, in excess of USD 100b. Although the level of these deposits declined up to 2021, the government seems minded to preserve this liquidity buffer at its current level. They have been broadly stable in 2021-2025 (Figure 6).

Gradually smaller budget deficits for 2026-2028 imply smaller increases in government debt in these years (Figure 7). While the government’s debt stock is trending up, it will remain relatively low on international comparisons.

Gradual improvements in the structure of the budget

The non-oil primary budget deficit (% of non-oil GDP) has narrowed to 22%, from 25% in 2024. This is 10 percentage points lower than the ratio of 32% in 2016, highlighting gradual improvements in the structure of the budget even as total spending has increased. For example, wage spending as a percentage of non-oil GDP has fallen to 16% from 22% in 2017-2020.

The Kingdom’s break-even oil price will have fallen in 2025, for the first time since 2020, although it remains just above \$90pb. The fiscal break even will fall below \$90pb in 2026 due to higher oil production.

The fiscal break-even oil price is a volatile metric and needs to be interpreted carefully because it is influenced by a number of factors that can change significantly from year to year—notably, government spending and oil production levels.

Conclusion—fiscal policy points to continuity

The PBS highlights Saudi Arabia’s policy of balancing supporting economic developments with maintaining strong fiscal metrics, including a controlled rise in government debt from low levels.

While non-oil revenue will continue to grow, the oil price remains the key swing factor for the budget. If the oil price is around \$65pb or higher then spending could be slightly higher than budgeted. The Kingdom retains fiscal space to weather periods of lower oil prices.

Fig. 6: Government deposits at SAMA (percent of GDP)

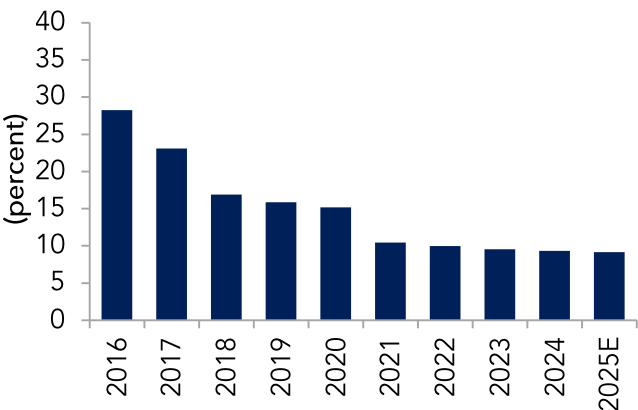
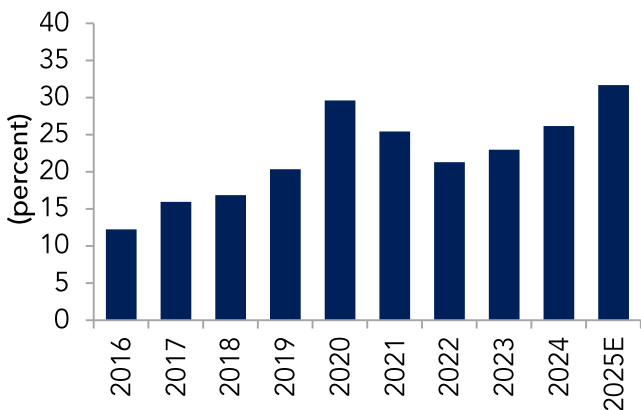


Fig. 7: Gross government debt/GDP (percent of GDP)





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