Saudi Fiscal Budget

DECEMBER 2025

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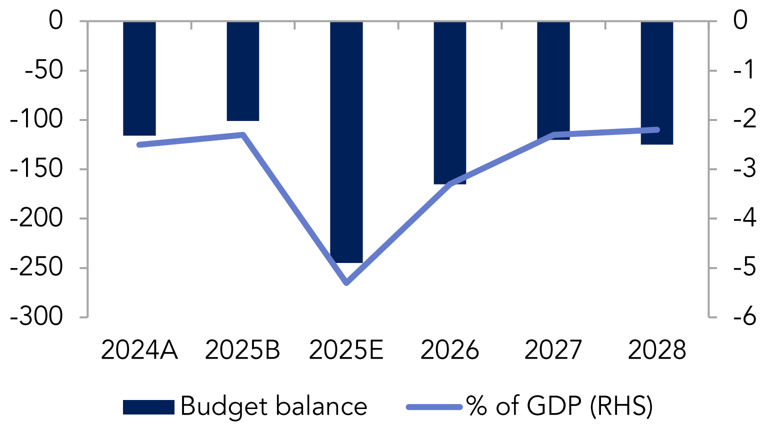
2026 Saudi Fiscal Budget

Oil prices complicate near-term fiscal consolidation

- The government estimates that the budget deficit widened to SAR 245b (5.3% of GDP) in 2025, largely due to lower oil revenue.
- Real non-oil GDP growth, although slower, has remained resilient in 2025 at close to 5% despite a decline in budget spending.
- For 2026, the budget 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; Figure 1).
- Given the softness in the oil market, we anticipate a budget deficit close to 5% of GDP in 2026. This assumes spending remains at broadly the same level as in 2025.
- Government debt will rise close to 35% of GDP in 2026 from around 32% of GDP in 2025, still low by international benchmarks.
- Government deposits at SAMA represent a sizeable liquidity buffer, equivalent to 9% of GDP.
- For 2027-2028, we expect smaller budget deficits as non-OPEC oil supply growth moderates, providing a basis for higher oil prices after 2026. This would slow the rise in government debt.

Fig 1: The government projects smaller budget deficits in 2026-2028



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Released: December-21-2025, 16:30 UTC+3

Revenue

The budget projects revenue to grow in 2026 by 5.2% (SAR 56b).

The budget projects revenue to grow in 2026 by 5.2% (SAR 56b) from the government's estimate for 2025. This would stem from increases in both non-oil and oil revenue (Table 1).

Due to higher non-oil revenue, through VAT.

Tax revenue rises SAR 18b versus the 2025 estimate. This increase mostly comes from higher VAT, due to ongoing economic growth and helped by efforts to broaden the tax base for VAT to include e-commerce more comprehensively.

And higher oil revenue, helped by higher crude oil production.

Table 1. 2026 Budget (SAR b)

	2025B	2025E	2026B	Difference (2026B v 2025E)
Total revenues	1184	1091	1147	56
Total tax	379	394	412	18
Tax on Income, Profit & Capital Gains	31	32	33	1
Taxes on Goods & Services	290	298	314	16
Taxes on International Trade & Transactions	23	27	28	1
Other taxes (Zakat)	36	37	39	2
Other revenues (includes oil)	804	697	735	38
Total spending	1285	1336	1313	-23
Current Expenditure	1101	1165	1151	-14
Compensation of Employees	561	571	584	13
Goods and Services	265	275	247	-28
Financing Expenses (interest costs)	59	53	64	11
Subsidies	31	34	30	-4
Grants	2	5	5	0
Social Benefits	98	97	99	2
Other	86	129	121	-8
Capital Expenditure	184	172	162	-10
Budget balance	-101	-245	-165	80
% of GDP	-2.3	-5.3	-3.30	

Note: B = Budgeted, E = estimate; Source: MoF

Fig. 2: Budget oil revenue (SAR b; *Jadwa estimates)

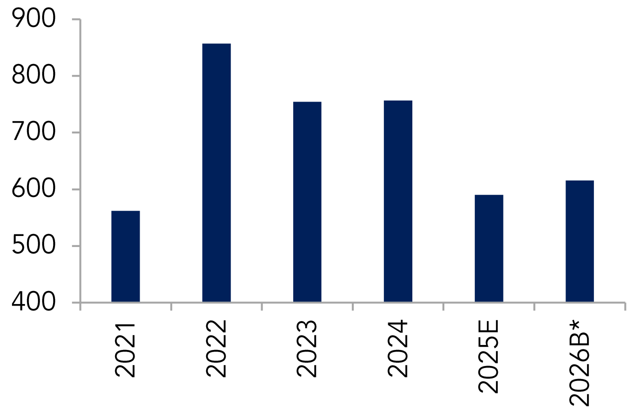
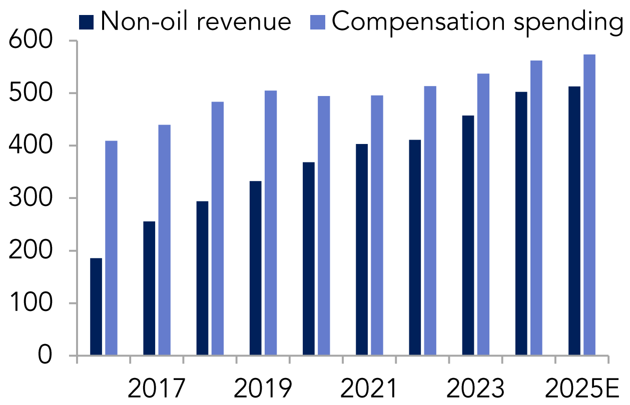


Fig. 3: Non-oil revenue covers more than 90% of wage spending (SAR b)



The budget may assume a small increase in Aramco dividends.

In addition to this tax revenue, there is a significant chunk of non-oil revenue from non-tax sources (it amounted to SAR 122b in 2024). However, the budget does not provide a projection for this. Instead, it is subsumed within the "other revenues" line which includes oil revenue. Assuming non-tax non-oil revenue trends at a similar ratio to non-oil GDP, then the budget projection for total non-oil revenue would be SAR 530b in 2026.

The budget also does not provide an explicit projection for oil revenue (or underlying assumptions related to price and production). As mentioned, oil revenue is subsumed within "other revenues". The budget projects these "other revenues" to increase by SAR 38b (to SR 735b). Some of this increase must be linked to higher assumed oil revenue (Figure 2).

What might be the underlying assumptions for this? Budget oil revenue comes from royalties, taxes and dividends paid to the government by Saudi Aramco.

And an oil price that is higher than the current spot price.

- Aramco increased its basic dividend by 4% annually in 2024-2025. Assuming a similar increase in 2026, this would add around SAR 7.5b, assuming zero performance-linked dividend.
- As for royalties and taxes, the key drivers of this are oil production and oil prices. Saudi Arabia will produce 10.1mbpd of oil in Q1-26 according to the latest OPEC+ plans. The budget may assume this remains the average production level for the remainder of 2026. If that is the case, then the budget implies a Brent crude oil price around $68pb.

This is above the current spot price. Oil remains the key risk factor for the budget, especially given the uncertainty in the global oil market heading into 2026. The government lays out low and high revenue scenarios in the budget. 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 budget does not lay out the assumptions behind this low revenue scenario, but it probably involves an oil price around $60pb.

Meanwhile, non-oil revenue covers 90% of wage spending.

To return to non-oil revenue, it is worth noting the progress made here. Non-oil revenue now covers close to 90% of compensation spending, up from just 45% in 2016 (Figure 3).

Expenditure

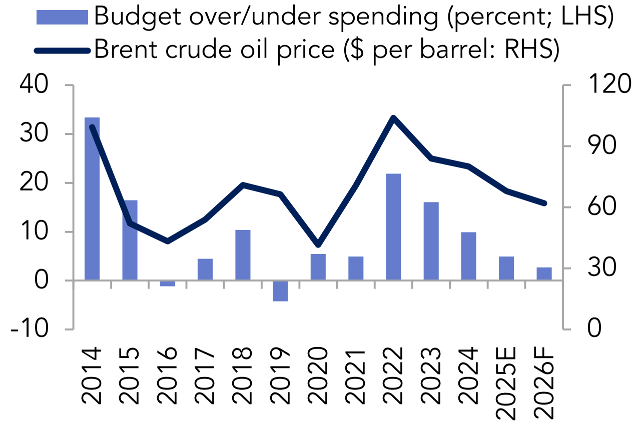
The budget plans for spending to decline by 1.8%.

Spending is budgeted to decline by 1.8% (SAR 23b) from the government's estimated 2025 spending (Table 1). It is worth noting that the level of spending remains elevated following significant increases in 2022-2024 (Figure 4).

The budgeted decline for 2026 comes from trimming investment-related outlays, specifically cuts to goods and services (SAR 28b) and capex (by SAR

Fig. 4: Total budget spending
(SAR b)

Fig. 5: Over/under spending and oil prices
(%; $pb)



This mostly comes from investment-related spending.

Actual spending is typically higher than budgeted.

But, amid low oil prices in 2026, spending will be closer to budget.

10b) (Figure 7). The "other spending" line, which was significantly overbudget in 2025, is also due to decline slightly (by SAR 8b).

Meanwhile, the wage bill is set to grow by 2.2% (SAR 13b), roughly in line with inflation. Financing expenses (interest payments on government debt) increase as well, by SAR 11b, due to higher debt levels. Subsidies, grants and social benefits, taken together, remain virtually the same at SAR 134b.

There is a risk that actual wage spending in 2025 is higher than estimated; if so, this could spillover into higher wage spending in 2026 as well. Spending on wages remains by far the largest line-item, accounting for 44% of total planned expenditure. Nonetheless, as a percent of non-oil GDP, compensation spending has trended down to an estimated 16.5% of non-oil GDP in 2025 from a recent peak of 22% in 2018-2020 (Figure 6).

Table 2. 2026 Budget Sectoral Breakdown (SAR b)

	2025B	2025E	2026B	Difference (2026B v 2025E)
Public Administration	44	50	57	7
Military	272	239	240	1
Security and Regional Administration	121	123	120	-3
Municipal Services	65	91	72	-19
Education	201	199	202	3
Health and Social Development	260	269	259	-10
Economic Resources	87	90	92	2
Infrastructure and Transportation	42	41	35	-6
General Items	192	234	236	2
Total	1285	1336	1313	-23

Note: B = Budgeted, E = estimate; Source: MoF

Over the last ten years (2016-2025), actual spending on average has been 7% higher than budgeted. The extent of overspending varies significantly and is much smaller when oil prices are low (Figure 5). During this period, spending was less than budgeted twice, in 2016, when oil prices were below $50pb, and in 2019. For 2025 the government estimates spending to be 4% ahead of budget (although final numbers might put this closer to 5%). If the oil market remains soft (close to $60pb) then spending in 2026 will be closer to budget.

The budget 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, which has invested at least SAR 150b per year locally in 2021-2025, is working on its 2026-2030 strategy. It remains to be seen what the new strategy indicates in terms of the

Fig. 6: Compensation spending (SAR b)

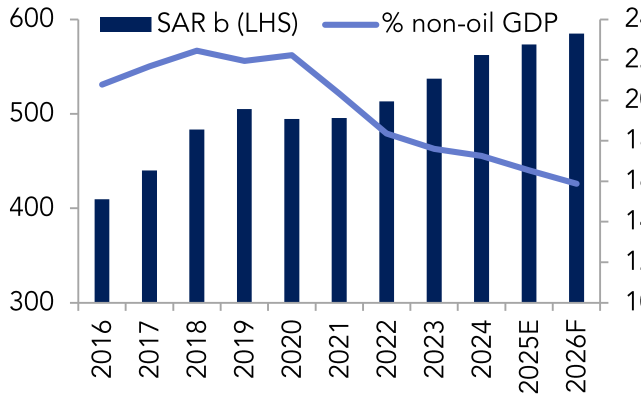
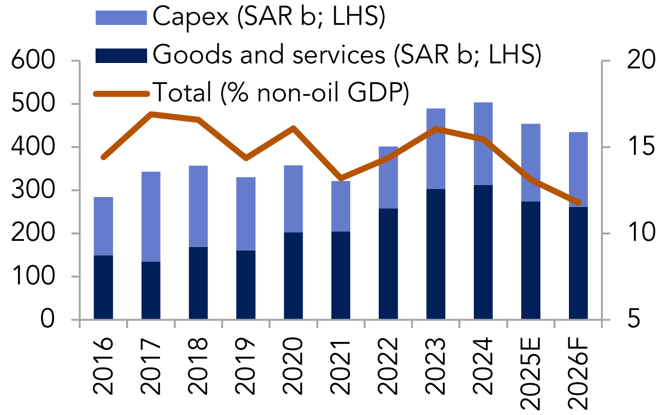


Fig. 7: Capex and Goods and services (SAR b)



quantum of PIF spending, but from comments at the FII there will be a focus on delivery, returns and crowding in investment from partners and the private sector.

PIF and NDF outlays are in addition to the central budget spending.

Looking at the budget from a sectoral level, cuts are due to come from municipal services; health and social development; and infrastructure and transport. This fits with the trimming of investment-related spending outlined above. The largest decline is for municipal services (SAR 19b), which has grown substantially in recent years and in 2025 far exceeded the budgeted allocation (Table 2). This segment includes some housing support and delivery of housing units and also covers a wide range of other services and urban improvements.

Even with a budgeted cut, 'health and social development' becomes the largest sectoral category (20% of total spending). It covers a lot of areas —not just health, but also aspects of human resources and welfare, culture, media and sport.

The budget projects a deficit of 3.3% of GDP, smaller than the deficit in 2025.

Most other categories remain broadly flat year on year. 'Military' is the second largest category (18% of total) and remains stable versus 2025 estimates (which suggest that this category undershot its budgeted allocation in 2025). This category includes support for localizing military industries, with ambitious target of 25% of military purchases from the local market by 2025 and 50% by 2030.

Deficit and debt

The 2026 budget revenue and spending projections give a deficit of SAR165b (3.3% of GDP), smaller than the estimated deficit of SAR245b (5.3% of GDP) in 2025. On that basis, the government projects its debt level rising to SAR1.6trillion (32.7% of GDP).

Given the softness in the oil market, we anticipate a budget deficit close to 5% of GDP in 2026, assuming Brent crude at $62pb and average oil production at 10.1mbpd. Gross government debt would rise close to 35% of GDP (Figure 8).

We anticipate a deficit closer to 5% of GDP given soft oil prices.

Given the unpredictability of oil markets, it is useful to consider different scenarios. A $5pb change in the oil price would shift the deficit outcome by around 1% of GDP (holding other factors constant such as the level of spending).

While the government's debt stock is trending up, it will remain relatively low on international comparisons. And on a net basis, accounting for government deposits at SAMA which are more than $100b, equivalent to 9% of GDP, government debt would be 26% of GDP.

Fig. 8: Government debt/GDP (%)

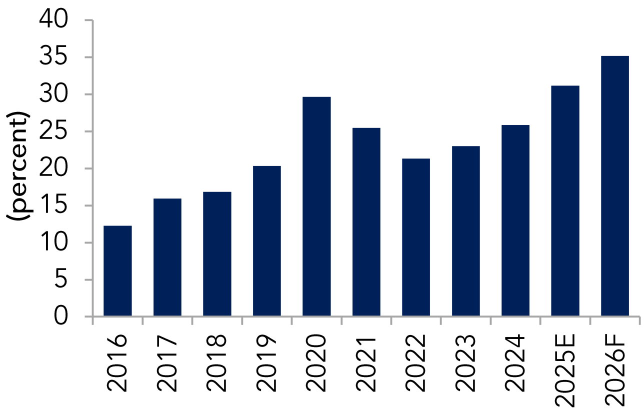
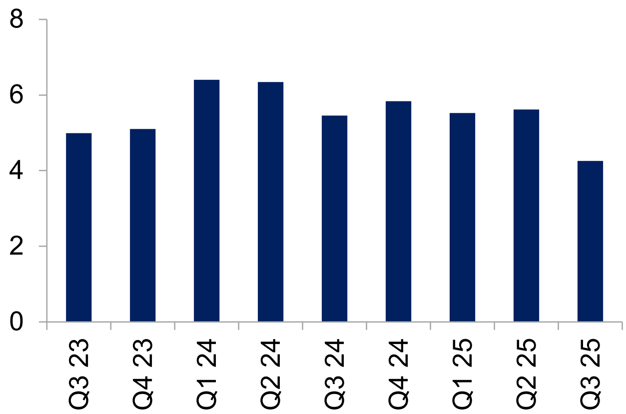


Fig. 9: Real non-oil GDP growth (%)



For 2027-2028 there is a good chance of higher oil prices and smaller budget deficits.

For 2027-2028 the government projects smaller budget deficits, at SAR 120-125b (2.3-2.2% of GDP, Table 3) and government debt stabilizing as a percentage of GDP. This assumes revenue growth at 6.2% on average and spending growth at 4%. Indeed, we expect global oil balances to be gradually tighter in these years as non-OPEC oil supply growth moderates, providing a basis for higher oil prices and smaller budget deficits than in 2025-2026.

Table 3. 2026 Budget Medium-term Projections (SAR b)

	2025E	2026B	2027B	2028B
Total revenues	1,091	1,147	1,230	1,294
Total expenditures	1,336	1,313	1,350	1,419
Budget balance	-245	-165	-120	-125
% of GDP	-5.3	-3.3	-2.3	-2.2

Note: B = Budgeted, E = estimate; Source: MoF

In 2025, non-oil GDP growth slowed but remained resilient, despite lower oil prices.

Budget and Economic Outlook

The budget's target to narrow the deficit highlights Saudi Arabia's policy of balancing support for the economy with maintaining strong fiscal metrics, including a controlled rise in government debt from low levels.

Another year of lower oil prices is a headwind for non-oil growth in 2026.

While non-oil revenue will continue to grow, the oil price remains the key swing factor for the budget. The Kingdom retains fiscal space to weather periods of lower oil prices. Nonetheless, given the softness in oil markets which is expected to persist in 2026, the scope for higher spending looks limited.

As mentioned above, over the medium term we see scope for a recovery in oil prices as non-OPEC supply growth moderates and demand growth continues. This would allow for smaller deficits in the years to come.

Although structural developments will support economic activity.

Budget spending in 2025 has edged down and we expect spending in 2026 to be broadly flat year on year. This contrasts with the strong growth in budget spending in 2022-2024 which contributed to rapid non-oil GDP growth. Nonetheless, real non-oil GDP growth, although slower, has remained resilient in 2025 at close to 5% (Figure 9). While another year of lower oil prices is a headwind for growth, structural developments in the economy will continue to support non-oil expansion in 2026.

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