Quarterly Budget Report

JUNE 2026

جدوى للاستثمار
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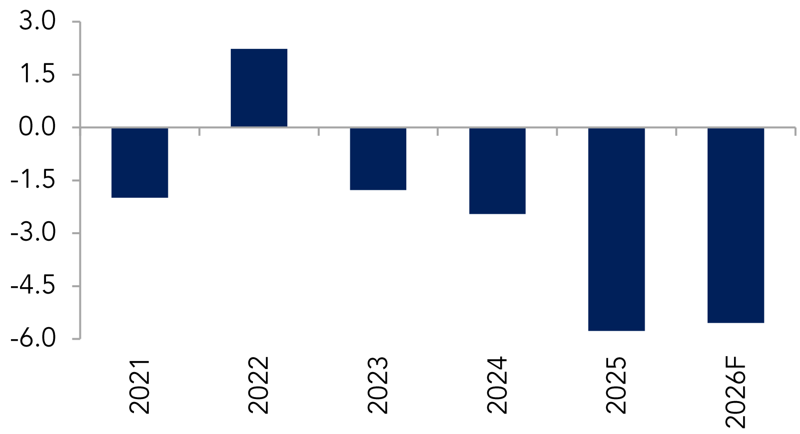
Oil revenue will boost budget after record deficit in Q1

The impact of higher oil prices will be felt in Q2

- The budget deficit widened to SAR126b in Q1-26, as spending grew by 20% year-on-year while revenue edged down.
- The conflict contributed to higher spending than usual for Q1, with higher spending on goods and services, capex and subsidies.
- Budget oil revenue in Q2-26 will be substantially higher, due to the lagged impact of sharply higher oil prices.
- For the full year 2026, budget revenue will be stronger than expected before the conflict, as higher oil prices will more than offset lower oil production and exports.
- We assume budget spending will moderate slightly in H2-26 and total SAR1.5trillion for the year.
- For 2026 as a whole, we expect the budget deficit to edge down as a percent of GDP, to 5.5%, from 5.8% in 2025 (Figure 1).
- Government debt/GDP will rise from 32% in 2025 to 35% in 2026. At the same time, government deposits at SAMA remain large, at around 8.5% of GDP.
- Our forecast assumed a resolution to the conflict before the end of June, allowing Saudi Arabia's crude oil production to recover during Q3 and edge back above 10mbpd in Q4.
- The US-Iran Memorandum of Understanding does not lead to any changes in our forecasts at this stage.

Fig 1: Budget deficit will narrow slightly in 2026 (% of GDP)



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Released: June-24-2026, 16:00 UTC+3

Overview

The budget deficit widened to SAR 126b in Q1-26, as spending grew by 20% year-on-year.

The budget deficit widened to SAR126b in Q1-26, as spending grew by 20% year-on-year while revenue edged down (Table 1, Figure 2).

However, for the full year 2026, budget revenue will be higher than expected before the conflict. Higher oil prices will more than offset lower oil production and exports. This will show up clearly in Q2-26 budget data which will reflect the impact of oil prices above $100pb.

Table 1:

	Q1-25	Q1-26	% change
Budget revenue	264	261	-1
Oil revenue	150	145	-3
Non-oil revenue	114	116	2
Budget spending	322	387	20
Non-capex spending	295	343	17
Capex	28	43	56
Budget balance	-59	-126	

And total budget revenue edged down, due to lower oil revenue.

Spending will also be higher than expected this year, due to upward pressure on military spending and other spending to support the economy. Spending is likely to moderate from elevated levels in the second half of the year.

Overall, we forecast the budget deficit to narrow to 5.5% of GDP in 2026 from 5.8% of GDP in 2025.

Revenue—oil price uplift will be evident in Q2 numbers

In Q1-26, total budget revenue edged down, due to lower oil revenue, by 3%, while non-oil revenue was 2% higher.

Table 2:

	Q1-25	Q1-26	% change
Oil revenue	149.8	144.7	-3
Non-oil revenues, of which	113.8	116.3	2
Tax on Income/Profit & Capital Gains	6.7	5.9	-12
Taxes on Goods & Services	71.6	74.9	5
Taxes on Trade/Transactions[Customs]	5.6	5.5	0
Other Taxes [Zakat]	4.6	3.7	-19
Other non-tax non-oil revenue	25.4	26.2	3
Total revenue	263.6	261.0	-1

Fig. 2: Budget deficit expands in Q1; but will be smaller during the rest of 2026 (SAR b)

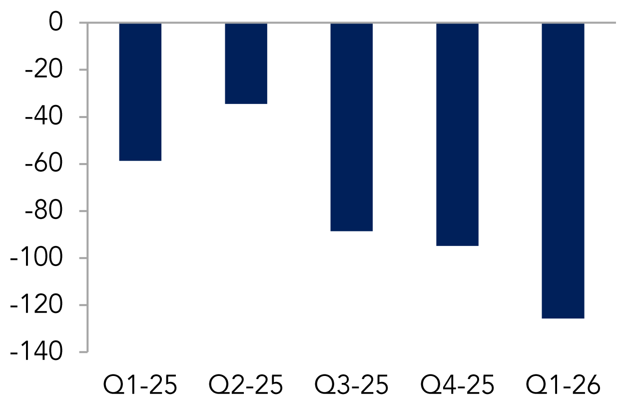
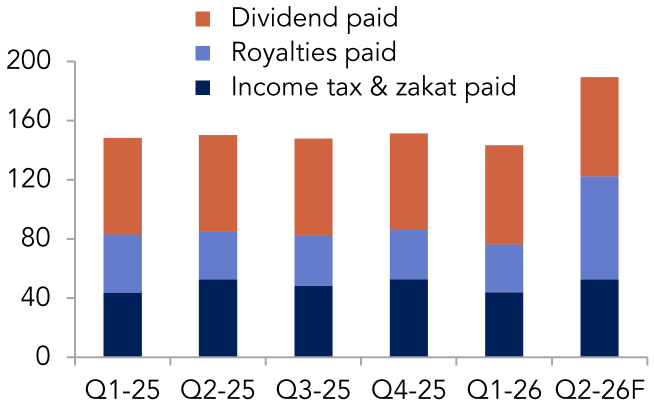


Fig. 3: Aramco's payments to the government will increase in Q2 (SAR b)



As royalties were 17% lower, because of lower oil prices relative to the year-earlier period.

The government's oil income comes from Saudi Aramco's payments of royalties, income taxes and dividends. Dividends were marginally higher, due to a 3.5% increase in Aramco's ordinary dividend, and income tax payments were the same as in Q1-25. However, royalties were 17% lower, because of lower oil prices (by around $10pb) relative to the year-earlier period.

Royalty payments are derived from the value of production, a function both of the level of oil production and price of oil. They feed through to budget revenue with a one-month lag. Therefore, the royalty payments in Q1 did not benefit from higher oil prices in March. It is also important to note that the royalty rate operates on a sliding scale with the oil price: 15% is applied up to $70pb, 45% between $70pb and $100pb and 80% above $100pb.

Budget oil revenue in Q2-26 will be substantially higher, due to the lagged impact of sharply higher oil prices...

Budget oil revenue in Q2-26 will be substantially higher, due to the lagged impact of sharply higher oil prices. Brent crude (front month futures) averaged just above $100pb in March-May compared with $65pb in December-February (Figure 3).

Of course, Saudi oil production was significantly lower, averaging around 6.5mbpd in March-May versus more than 10mbpd up to February. Nonetheless the oil price impact is more powerful for three reasons:

...which will outweigh the impact of lower oil output and exports.

- Brent crude prices were up around 55%, whereas output was down by 35%
- Saudi Arabia's realized oil prices would have been even higher due to tightness in physical markets and, for May in particular, an increase in the premium of Saudi Aramco's Official Selling Prices (OSPs) over benchmark reference prices—elevated OSPs for June-July will also support Q3 oil revenue.
- With oil prices well above $70pb the government budget will benefit from higher royalty rates.

We project that budget oil revenue will increase to just over SAR700b in 2026, from SAR607b in 2025.

Box 1: US-Iran agreement will increase oil flows, but challenges remain

On 15th June the US and Iran announced they had reached an agreement on a deal to resolve the conflict and re-open the Strait of Hormuz. The memorandum of understanding (MOU) paves the way for further negotiations over a number of items, including Iran's nuclear programme and sanctions relief. This brings with it the risk of further breakdowns in negotiations, but at the same time there are incentives for both sides to try and make the deal work.

Fig. 4: Royalty payments will increase in Q2 (SAR b)

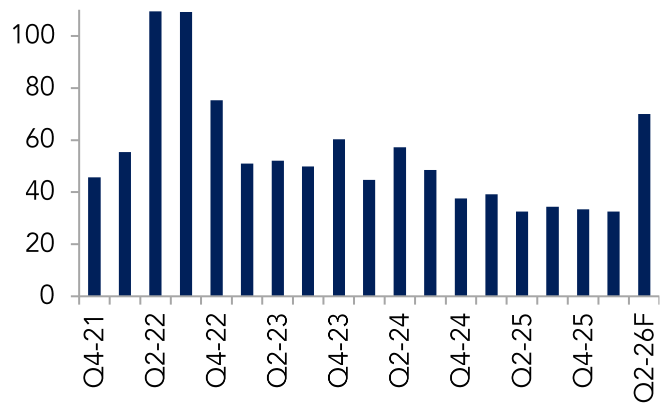
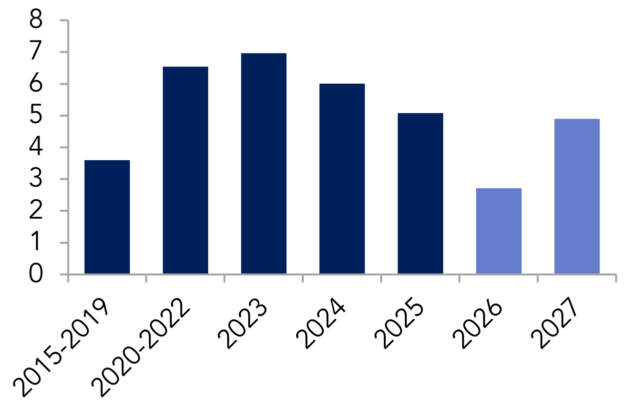


Fig. 5: Non-oil real GDP growth (%)



The US-Iran deal provides a pathway for the opening of the Strait of Hormuz.

The agreement provides a pathway for the opening of the Strait of Hormuz and a pick up in oil flows. Oil flows had already risen a bit during H1 June and oil exports will increase further as tankers still stuck inside the Gulf finally manage to exit through the Strait and due to the lifting of the US naval blockade on Iran's oil exports and the two-month waiver of US sanctions on Iranian oil sales.

Following this initial boost, a more sustained increase in oil flows will take time as Iran needs to remove mines from the Strait and there will be other logistical and operational challenges to overcome, such as insurance costs; sailing time for tankers to return to the Gulf from other parts of the world; and the question of potential fees levied by Iran.

The volumes exiting the Strait may prove volatile for some months. If oil exports through the Strait do start to recover materially, then oil output will also bounce back.

We assume Saudi Arabia's crude oil production picks up during Q3 and edges back above 10mbpd in Q4.

Our latest forecast (as outlined here) assumed that a resolution to the conflict would arrive before the end of June and allow Saudi Arabia's crude oil production to recover during Q3 and edge back above 10mbpd in Q4. Increased use of the East-West pipeline for oil exports via Yanbu means that Saudi Arabia's oil output could return to pre-war levels without a full recovery of flows through the Strait of Hormuz.

Alongside this, we assumed Brent crude would average $85pb in H2-26, although volatility is likely. Brent crude prices have fallen below this level since the announcement of the deal traders unwound long positions. Prices should be supported by returning demand, including rebuilding of inventories and a bounce back in Chinese oil imports.

Overall, we project that budget oil revenue will increase to just over SAR700b in 2026, from SAR607b in 2025. If the US-Iran agreement breaks down, preventing a recovery in oil production and exports, global oil prices would rise sharply given low inventory levels. In this scenario, the revenue outlook for Saudi Arabia would still be healthy, provided exports via the Red Sea continue.

For these reasons royalty payments to the government will be sharply higher in Q2-26 (as they were when oil prices spiked in early 2022 at the start of the Russia-Ukraine war, although that was even more dramatic as oil production increased at that time) (Figure 4). Income tax payments will also likely be higher, while dividend payments will be the same as in Q1-26.

Overall, we project that budget oil revenue will increase to just over SAR700b in 2026, from SAR607b in 2025.

Fig. 6: Increase in spending vs Q1-25 (SAR b)

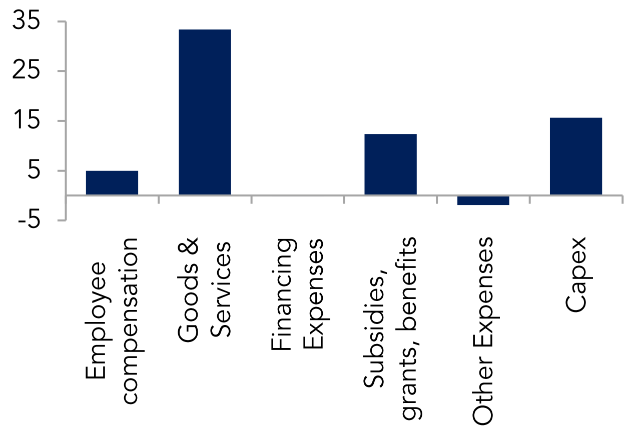
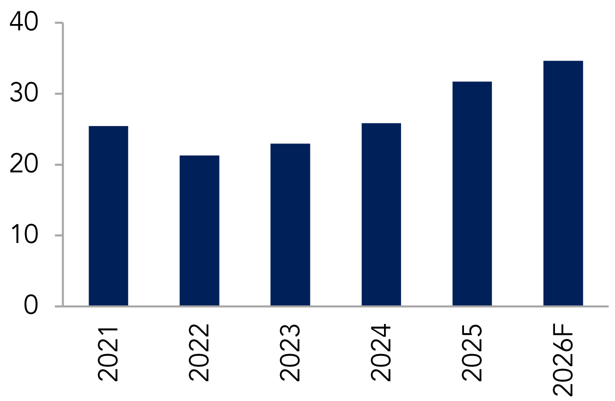


Fig. 7: Government debt (% of GDP)



We expect a marginal increase in non-oil revenue in 2026, to SAR508b, given slower non-oil growth.

Turning to non-oil performance, total non-oil revenue was 2% higher in Q1-26 versus Q1-25. The key driver was revenue from taxes on goods and services which grew by 5%. The other non-oil tax line items, which are smaller, were stable or declined. Meanwhile, non-tax non-oil revenue was higher, by 3% year on year.

We cautiously assume only a marginal increase in non-oil revenue in 2026, to SAR508b, given that growth in the non-oil economy will be quite a bit slower than in 2025 due to disruptions to trade, transport and supply chains since the end of February when the conflict broke out.

In Q1-26 real non-oil GDP growth (excluding government activities) decelerated to 2.9%, from 4.6% in Q4-25. For 2026 as a whole, we forecast non-oil real GDP growth of 2.7%, down from 5.1% in 2025. For 2027, we expect a rebound in growth close to 5% (Figure 5).

Table 3:

	Q1-25	Q1-26	% change
Compensation of Employees	146.1	151.1	3
Goods & Services	64.6	98.1	52
Financing Expenses	12.4	12.3	-1
Subsidies, grants and social benefits	37.2	49.6	33
Other Expenses	34.2	32.3	-6
Capex	27.8	43.4	56
Total spending	322.3	386.7	20

Budget Spending—will moderate later in the year

Spending growth in Q1 was strong due to the impact of the conflict and ongoing project spending.

Total spending was 20% higher than in Q1-25 and was also higher than the final quarter of 2025. Budget spending in Saudi Arabia is typically lower in the first quarter, before ramping up towards the end of the year.

There were likely two main contributing factors:

- Higher than planned spending in March following the outbreak of the US-Iran conflict at the end of February
- Ongoing efforts to deliver Vision 2030 goals, including priority projects

Upward pressure on spending would have stemmed both from military and security costs and spending on policies to mitigate the economic disruption from the conflict, including the Strait of Hormuz closure. This may explain the 50% increase in goods and services spending and the rise in subsidies (Table 3, Figure 6).

Military spending was 26% higher year-on-year and security spending was up by 14%.

Table 4:

	Q1-25	Q1-26	% change
Public Administration	19	21	13
Military	51	65	26
Security & Regional Admin	30	34	14
Municipal Services	25	26	4
Education	54	57	6
Health & Social Development	72	81	12
Economic Resources	18	28	52
Infrastructure & Transport	10	12	26
General Items	42	62	46

Capex is the other line item that stands out with a substantial increase. On the face of it this would relate more to delivery of Vision 2030 goals and completion of priority projects than to conflict-related spending (although not impossible that some of it could relate to defense and logistics). Capex in Q1-26 was lower than in Q4-25, but higher than usual for the first quarter.

Spending pressure related to the conflict likely remained high in Q2-26.

In the ministry of finance's sectoral breakdown of spending, we can see that military spending was 26% higher year-on-year and security/regional administration spending was up by 14%. It is worth noting that the 2026 budget had planned for military spending to decline in 2026 compared to 2025. In this sectoral breakdown, the biggest increase in absolute terms was for "general items" which could also reflect some conflict-related spending (Table 4).

Compensation of employees, the largest single element of spending (around 40% of the total), was 3% higher year-on-year. This line item was budgeted to increase by just under 2% in 2026. It will likely be slightly higher than the budgeted amount, but not dramatically.

We assume budget spending will moderate in H2-26 and total around SAR1.5trillion for the year.

Looking ahead, spending pressure related to the conflict likely remained high in Q2-26 even as security incidents subsided following the ceasefire in April. However, not all the costs associated with repairing damage to infrastructure or new investments in logistics, for example, would come through the government budget.

Overall , we assume budget spending will moderate in H2-26 and total around SAR1.5trillion for the year.

Deficit and debt

We expect significantly smaller quarterly deficits for the remainder of the year.

In Q1-26 the government financed the SAR126b budget deficit through borrowing. In fact, net borrowing was bigger than the deficit, at SAR148b. Close to SAR100b came from domestic borrowing and SAR49b ($13b) from foreign borrowing. Of the domestic borrowing, the vast majority came from private placements, rather than sukuk issuance which amounted to SAR25.7b.

In Q2-26, government borrowing appears to have been smaller, as the government has not issued international bonds and domestic sukuk issuance was similar to Q1-26, at SR29.9b in April-June. It is not clear to what extent the government has taken on more borrowing in the form of private placements.

It is also worth noting that in Q1-26 the government's fiscal reserve at the Saudi Central Bank (SAMA), edged up to SAR400.9b and government current account deposits at SAMA increased by SAR25b to SAR67.7b—this increase makes sense given the extra borrowing in Q1-26. These government deposits therefore remain a sizeable liquidity buffer.

For 2026 as a whole, we expect the budget deficit to edge down as a percent of GDP, to 5.5%.

Outlook

We expect smaller quarterly deficits for the remainder of the year, due to the lagged impact of higher oil prices. For 2026 as a whole, we expect the budget deficit to edge up in absolute terms, to just under SAR290b, but to edge down as a percent of GDP, to 5.5%.

This would imply government debt/GDP rising from 32% in 2025 close to 35% in 2026. At the same time government deposits at SAMA remain large, at around 8.5% of GDP.

Key data

	2020	2021	2022	2023	2024	2025	2026F	2027F
Nominal GDP								
(SAR b)	2,880	3,685	4,647	4,570	4,703	4,776	5,207	5,411
(USD b)	768	983	1,239	1,219	1,254	1,274	1,389	1,443
(% change)	-13.6	28.0	26.1	-1.7	2.9	1.5	9.0	3.9
Real GDP (% change)								
Oil	-6.9	1.2	15.0	-9.0	-4.4	5.7	-5.8	16.0
Non-oil activities	-3.0	10.2	12.4	7.0	6.0	5.1	2.7	4.9
Government activities	-0.6	1.1	4.6	1.1	3.3	0.9	1.5	1.1
Total	-3.8	6.5	12.0	0.5	2.6	4.6	0.4	7.1
Oil indicators (average)								
Brent (USD/b)	42	71	104	84	80	68	89	78
Production (m b/d)	9.2	9.1	10.6	9.6	9.0	9.5	8.9	10.3
Budgetary indicators (SAR b)								
Government revenue	782	965	1,268	1,212	1,259	1112	1211	1199
Government expenditure	1,076	1,039	1,164	1,293	1,375	1388	1500	1432
Budget balance	-294	-73	104	-81	-116	-277	-289	-233
(% GDP)	-10.2	-2.0	2.2	-1.8	-2.5	-5.8	-5.5	-4.3
Gross public debt	854	938	990	1,050	1,216	1519	1808	2041
(% GDP)	29.6	25.5	21.3	23.0	25.9	31.8	34.7	37.7
Monetary indicators								
Inflation (% change, average)	3.1	3.2	2.5	2.5	1.5	2.0	2.1	1.8
SAMA Repo (%, year end)	1.00	1.00	5.00	6.00	5.00	4.25	4.25	4.25
External trade indicators (USD b)								
Oil export revenues	119	202	327	247	223	214	255	245
Total export revenues	172	275	410	319	304	308	356	355
Imports	123	135	169	183	206	221	235	249
Trade balance	48	140	241	136	98	87	121	106
Current account balance	-26	41	150	26	-16	-33	-1	-16
(% GDP)	-3.3	4.1	12.1	2.1	-1.3	-2.6	-0.1	-1.1
Official reserve assets	454	455	460	437	437	460	487	481
Social and demographic indicators								
Population (m)	31.6	30.8	32.2	33.7	35.3	36.3	37.1	37.8
Saudi Unemployment (15+, %)	12.6	11.5	8.2	7.8	7.0	7.2	7.2	6.9
GDP per capita (USD)	24,339	31,921	38,510	36,157	35,528	35,122	37,443	38,209

Sources: General Authority for Statistics, Saudi Central Bank and Ministry of Finance. Jadwa Investment forecasts for 2026 and 2027.

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