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# 2027 Preliminary Budget Statement (PBS)

OCTOBER 2026



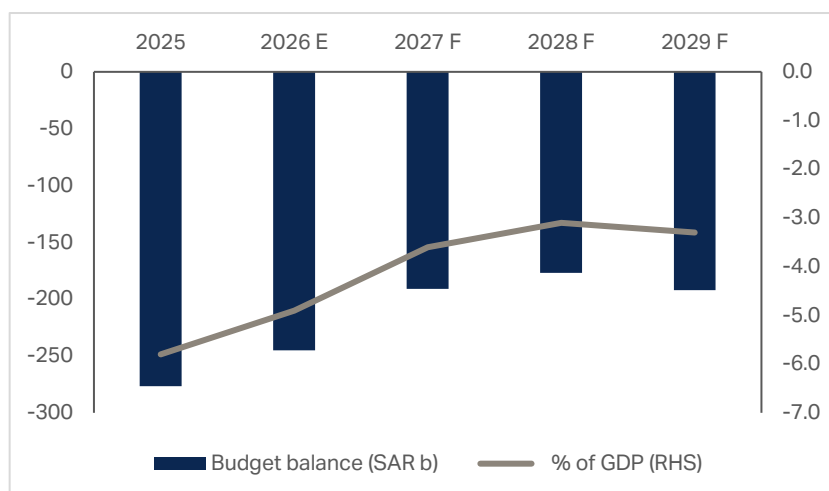
# Government Targets Smaller Deficit in 2027

## Summary

- The government estimates the 2026 budget deficit at SAR 245b (4.9% of GDP) - larger than planned (SAR165b), but smaller than the deficit in 2025 (SAR 277b).
- The PBS estimates spending will be 3.4% higher than in 2025 and 9.3% above budget, due to healthcare, project and infrastructure spending as well as conflict-related demands. Final spending may end up higher than the PBS estimate.
- Budget revenue also increased, by 7%, as higher oil prices have offset lower oil production and exports.
- For 2027, the government anticipates a 1% increase in total revenue and a 3% decline in total spending.
- This would lead to a smaller budget deficit, at SAR 191b or 3.6% of GDP, in 2027. The PBS anticipates the budget deficit narrowing further towards 3% of GDP in 2028-2029.
- The PBS estimates government debt at 34.8% of GDP in 2026, up from 31.8% in 2025. The smaller deficits projected in the PBS would allow for debt to rise more slowly, staying just below 40% of GDP in 2029.
- The government reserve has so far remained stable at SAR 399b (8% of GDP), providing a significant liquidity buffer.

**Chart 1: Budget deficit to narrow in 2027**

(SAR b; % of GDP)



Source: Ministry of Finance

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## 2026 Budget Performance

The government estimates the 2026 budget deficit at SAR 245b (4.9% of GDP) -- larger than planned (SAR 165b), but smaller than the deficit in 2025 (SAR 277b).

The deficit is larger than planned because spending has risen, due to advancing healthcare, project and infrastructure spending as well as conflict-related demands, whereas the original 2026 budget projected a decline in spending. The government estimates that total spending (SAR1,435b) will be 3.4% higher than in 2025 and 9.3% above budget.

Final spending may well end up higher than the PBS estimate. On this basis, we expect the budget deficit to be around SAR 275-280b (5.6% of GDP), very similar to the outturn in 2025.

**Table 1: 2026 Budget performance (SAR b)**

|                                         | 2025A        | 2026B        | 2026E        | 2026E v 2025A<br>(% yoy) | 2026E v 2026B<br>(% over/under budget) |
|-----------------------------------------|--------------|--------------|--------------|--------------------------|----------------------------------------|
| <b>Total Revenue</b>                    | <b>1,112</b> | <b>1,147</b> | <b>1,190</b> | <b>7.0</b>               | <b>3.7</b>                             |
| Tax                                     | 389          | 412          | 399          | 2.6                      | -3.2                                   |
| Tax in Income, Profit & Capital Gains   | 34           | 33           | 33           | -3.1                     | 0                                      |
| Taxes on Goods & Services               | 294          | 314          | 303          | 2.9                      | -3.5                                   |
| Taxes on Trade & Transactions (Customs) | 24           | 28           | 24           | -1.2                     | -14.3                                  |
| Other Taxes (Zakat)                     | 36           | 39           | 39           | 7.6                      | 0                                      |
| Other including oil                     | 723          | 735          | 791          | 9.4                      | 7.6                                    |
| <b>Total spending</b>                   | <b>1,388</b> | <b>1,313</b> | <b>1,435</b> | <b>3.4</b>               | <b>9.3</b>                             |
| Current spending                        | 1,220        | 1,151        | 1,258        | 3.1                      | 9.3                                    |
| Compensation of Employees               | 575          | 584          | 584          | 1.6                      | 0                                      |
| Use of Goods/Services                   | 316          | 247          | 315          | -0.4                     | 27.5                                   |
| Financing Expenses (interest costs)     | 54           | 64           | 63           | 15.7                     | -1.6                                   |
| Subsidies                               | 36           | 30           | 54           | 50.4                     | 80.0                                   |
| Grants                                  | 5            | 5            | 4            | -22.9                    | -20.0                                  |
| Social Benefits                         | 99           | 99           | 106          | 6.7                      | 7.1                                    |
| Other                                   | 134          | 121          | 132          | -1.6                     | 9.1                                    |
| Capital Expenditure                     | 169          | 162          | 177          | 5.0                      | 9.3                                    |
| <b>Budget balance</b>                   | <b>-277</b>  | <b>-165</b>  | <b>-245</b>  | <b>-</b>                 | <b>-</b>                               |
| Budget balance/GDP (%)                  | -5.8         | -3.3         | -4.9         | -                        | -                                      |

A = Actual, B = Budget, E = Estimate



## The Drivers of Spending Growth

Goods and services spending was the biggest contributor to above-budget spending, alongside other current spending items except for wages which the Ministry of Finance estimates to be in line with budget. Regarding goods and services, the Mid-Year Performance Report highlights frontloaded purchases of medical supplies and the transfer of health clusters to the Health Holding Company. The conflict pushed up subsidies due to more spending on food security and storage and support to public service companies to respond to the more difficult operating environment.

Capex was also ahead of budget, following stronger than usual capex in Q1-26, due to spending on priority projects, including Qiddiya, King Salman Park, Green Riyadh, sports stadiums and the Red Sea Project as well as investments in water infrastructure and railways.

Government spending is also presented broken down by 'sectors'. Looking at these 'sectoral' breakdowns, the largest contributors to higher spending were 'health and social development' (as described above), 'general items' and 'military spending'.

Spending on 'general items' accelerated due to support to projects, including Qiddiya, support to some public service companies as mentioned above and higher financing expenses. It is worth noting that support for King Salman Park and Green Riyadh falls within the 'municipal services' category rather than 'general items'.

## Revenue Rises as High Oil Price Offsets Lower Volumes

Budget revenue has also increased as higher oil prices have offset lower oil production and exports. The PBS estimates do not provide a breakdown for oil revenue, but the numbers imply oil revenue at around SAR 675-680b which is significantly higher than budgeted. Higher oil prices feed through powerfully into budget revenue because the royalty rate that Aramco pays shifts up significantly when prices are above \$70pb and again when prices are above \$100pb.

Meanwhile, tax revenue growth has been lower than budgeted due to weaker non-oil economic growth and a decline in international trade. This has impacted VAT revenue and customs revenue. We expect real non-oil GDP growth to average less than 2% this year, down from 5.1% in 2025.

The deficit is being financed by government borrowing, pushing up gross government debt to 34.8% of GDP on the government estimates, from 31.8% of GDP in 2025. At the same time, the government has maintained its fiscal reserve at SAR 399b (8% of GDP).

## 2027 and Medium-Term Budget Outlook

For 2027, the government anticipates a marginal 1% increase in total revenue and a 3% decline in total spending. This would lead to a smaller budget deficit, at SAR 191b or 3.6% of GDP. Government debt would



continue to rise, but more slowly than in 2025 and 2026. More detailed breakdowns for revenue and spending will be given when the budget is finalized in December.

The budget assumes real GDP growth of 12.8% in 2027 following a 3.6% contraction this year. This bullish growth outlook must rest on a strong rebound in both oil production and non-oil growth.

For 2028-2029, the PBS projects a further modest narrowing of the budget deficit to an average of SAR 185b, equivalent to 3.2% of GDP. This incorporates robust growth in both revenue and spending.

**Table 2: PBS projections (SAR b)**

|                | <b>Actual<br/>2025</b> | <b>PBS estimates<br/>2026</b> | <b>PBS<br/>2027</b> | <b>PBS<br/>2028</b> | <b>PBS<br/>2029</b> |
|----------------|------------------------|-------------------------------|---------------------|---------------------|---------------------|
| Revenue        | 1,112                  | 1,190                         | 1,202               | 1,302               | 1,351               |
| % change       |                        | 7.0                           | 1.0                 | 8.3                 | 3.8                 |
| Expenditure    | 1,388                  | 1,435                         | 1,392               | 1,479               | 1,544               |
| % change       |                        | 3.4                           | -3.0                | 6.3                 | 4.4                 |
| Budget balance | -277                   | -245                          | -191                | -177                | -192                |
| % of GDP       | -5.8                   | -4.9                          | -3.6                | -3.1                | -3.3                |

### **Revenue Projection Realistic Amid Oil Market Uncertainty**

The PBS does not provide a projection for oil revenue or disclose underlying assumptions for prices and output. Making such forward-looking assumptions at the current time is of course extremely challenging given the volatility seen this year when output has fallen sharply and prices have spiked.

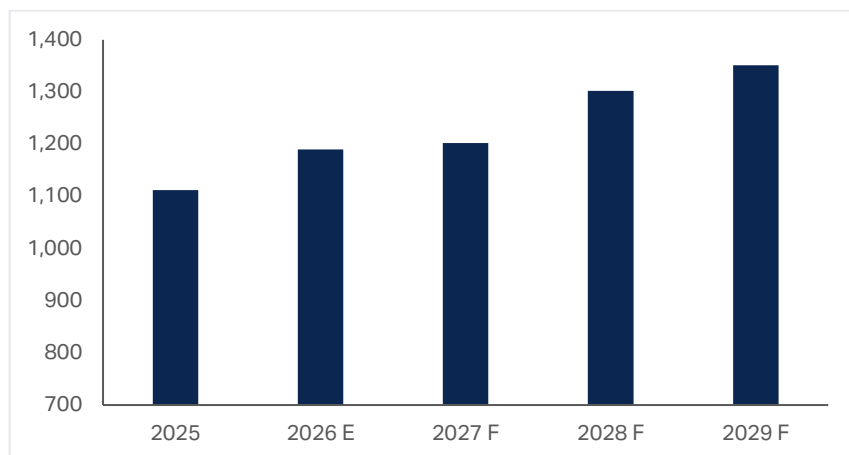
The revenue projections likely incorporate a similar level of oil revenue based on higher production (as implied by the strong real GDP growth forecast), but lower prices. At the same time, there would be an improvement in non-oil revenue in 2027, assuming a recovery in non-oil growth (as implied by the growth forecast). For example, if total non-oil revenue (tax revenue and non-tax non-oil revenue) is projected to pick up to SAR 530b, then assumed oil revenue would be SAR 672b.

The government lays out low and high revenue scenarios in the PBS, in which total revenue would be 5.7% lower at SAR 1,134b or 5% higher at SAR 1,262b. These scenarios likely rest mostly on different oil price scenarios, such as oil prices being \$10pb lower or higher than assumed.



**Chart 2: PBS revenue projections: 1% rise in 2027**

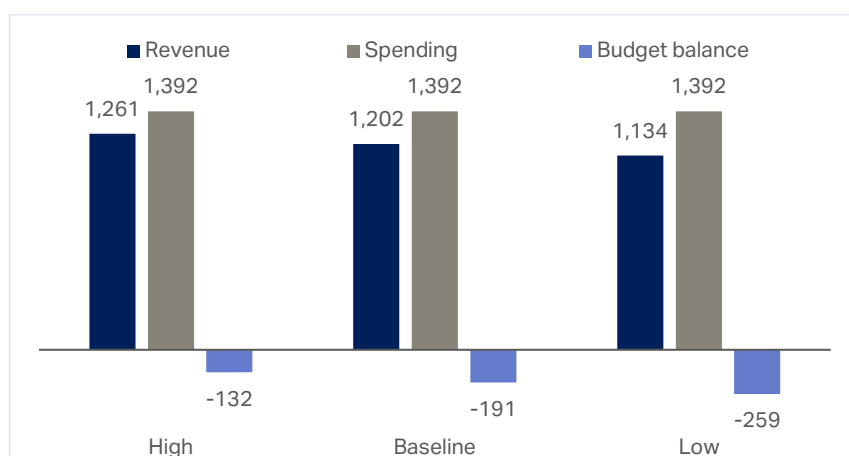
(SAR b)



Source: Ministry of Finance

**Chart 3: PBS revenue scenarios: baseline, high and low**

(SAR b)



Source: Ministry of Finance

### Spending Cut Possible but Challenging

The PBS incorporates a 3% cut in spending for 2027, following the unplanned increase in spending this year. This would likely be distributed across more discretionary line items, such as capital spending, goods and services and the 'other spending' category.

The declines across these line items will need to be more than 3% because there will be some spending growth across other line items. Wage spending would likely rise, by 1-2%, close to inflation. And financing expenses will continue to increase given higher debt levels and rising interest rates.

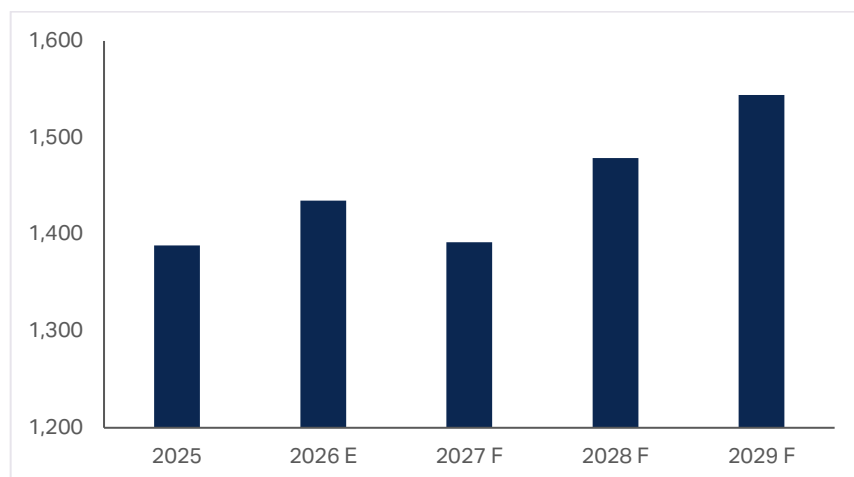
Spending needs remain substantial, given evolving requirements related to defense and infrastructure alongside ongoing investment spending plans. Nonetheless, our forecast also assumes a 3% decline in spending



in 2027, but from a higher base as we expect somewhat higher 2026 spending.

#### **Chart 4: PBS spending projections: 3% cut in 2027**

(SAR b)



Source: Ministry of Finance

#### **Controlled Rise in Government Debt**

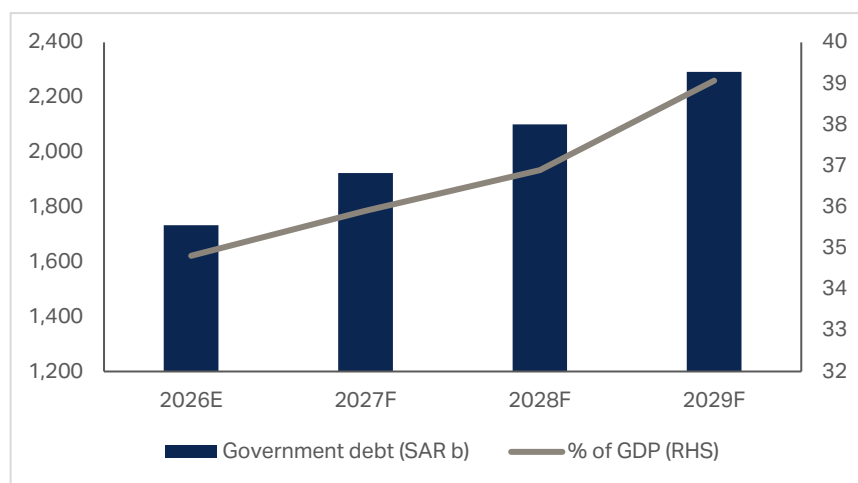
Overall, the PBS shows continuity with the principals underpinning the Kingdom's fiscal policy, namely to support growth, economic diversification and the quality of life of citizens, while also maintaining strong fiscal metrics, including a controlled rise in government debt from low levels.

The government estimates that government debt will be SAR 1,733b at end-2026, or 34.8% of GDP. And the government reserve, the largest chunk of government deposits at SAMA, will remain stable at SAR 399b. At more than \$100b, these deposits represent a sizeable liquidity buffer, equivalent to 8% of GDP. The government also has some current account deposits at SAMA.

Provided budget deficits narrow from the relatively large deficits in 2025-2026, then government debt will increase only gradually. The smaller deficits projected in the PBS would allow for debt to rise more slowly, staying just below 40% of GDP in 2029. We expect government debt to increase to 38% of GDP by end-2027, and further to around 40% in 2028-2029, and for the government's fiscal reserve to remain stable at current levels.



**Chart 5: Implied government debt**  
(SAR b)



Source: Ministry of Finance

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