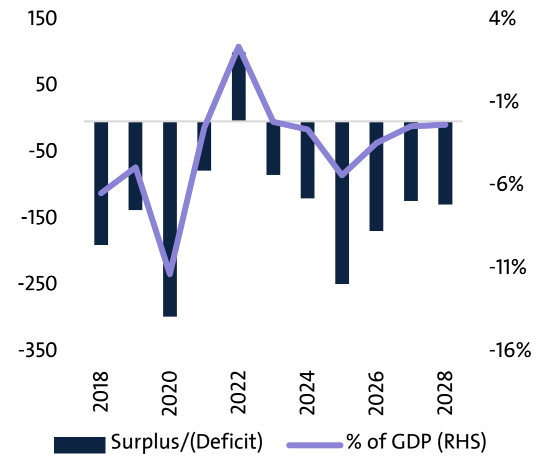
KSA Pre-Budget 2026-A balancing act between growth & fiscal consolidation

KSA-Fiscal targets

SARbn	2024	2025E	2026E	2027E	2028
Revenues	1259	1091	1147	1230	1294
Expend.	1375	1336	1312.5	1350	1419
Deficit	-116	-245	-165	-120	-125
% of GDP	-2.5%	-5.3%	-3.3%	-2.3%	-2.2%

Source: MoF, Pre-Budget Statement 2026, AC

Trend in fiscal account (SARbn)



Source: MoF, Pre-Budget Statement 2026, AC

Balancing priorities of sustaining growth and achieving fiscal consolidation

The Ministry of Finance (MoF) has released a much-awaited Pre-Budget Statement FY2026. The ministry has expectedly adopted a gradual fiscal consolidation stance given the available fiscal space and the need to sustain the growth and investment in priority areas to support the objectives of the Vision 2030. It is important to highlight the fiscal and economic targets for 2026 and the medium-term framework are set against the backdrop of expected significant acceleration in economic growth (4.4% in 2025 vs 2.0% in 2024) and sizable slippages in both revenue and expenditure targets in 2025.

Key trends in fiscal account

Fiscal deficit is targeted to be contained: The authorities aim to contain the fiscal deficit at 3.3% in 2026 vs. estimated deficit of 5.3% in 2025. The fiscal deficit is expected to drop to 2.2% by 2028, driven by higher growth in revenues (6% CAGR over 2025-2028) vs. expenditure (3-year CAGR: 2%). The fiscal deficit in 2H25 is projected at SAR152bn vs. the actual deficit of SAR93bn in 1H25 and the budgeted deficit for 2026 of SAR165bn.

Growth in total revenues to support fiscal consolidation: We believe the underlying estimate for revenue growth is achievable in view of (i) increase in oil production (5% in 2025 and 6% in 2026 assuming the exit rate in 2025 is sustained in 2026), (ii) start of gas production from Jafurah Gas Field, and (iii) continued growth momentum in non-oil activity. Based on our estimates of non-oil revenues for 2026, the headline budgeted revenue suggests the underlying oil prices of USD74/bb.

Growth in total expenditures targeted to be limited: 2026 expenditure is budgeted at SAR1,312bn, a drop of 2% over 2025. Expenditure in 2025 is expected to drop 3% YoY according to revised estimates but would be up 4% relative to initial budget estimate, partially driven by an unidentified one-offs expenditure. Adjusted for one-offs, authorities have incorporated YoY growth.

Sources of fiscal financing: A diversified mix of domestic and international sources, including the alternative financing for project, infrastructure, and export credit agencies, are targeted to finance the fiscal deficit in 2026 and beyond. While the absolute level of debt is expected to increase over the medium-term, overall debt to GDP ratio is expected to remain largely unchanged by 2028 compared to expected levels in 2025.

Healthy real GDP growth targeted

Supported by both oil (5% YoY growth in 2025) and non-oil GDP (expected 5% in 2025), the overall real GDP growth is expected to accelerate to 4.4% from 2.0%. Over the medium term, authorities target an average real GDP growth of 3.7-4.6%. The increase in oil production (5% in 2025,6% in 2026), start of production from Jafurah Gas Field, and strong non-oil GDP growth momentum are the key drivers of real GDP growth.

Key risks to estimates

Three major risks to 2026 and mid-term budgeted estimates stem from (i) aggravation of geopolitical tension in the region, (ii) tariff related uncertainty which can impact global growth and commodity prices, and (iii) the path of interest rates in the in developed countries and the smooth normalization of the monetary policy framework.

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The authorities have expectedly adopted a gradual fiscal consolidation stance

A Balancing act between growth & fiscal consolidation

The Ministry of Finance (MoF) have released a much-awaited Pre-Budget Statement FY2026. The ministry has expectedly adopted a gradual fiscal consolidation stance given the available fiscal space and the need to sustain the growth and investment in priority areas to support the objectives of the Vision 2030. The fiscal and economic targets for 2026 and the medium-term framework are set against the backdrop of expected significant acceleration in economic growth (4.4% in 2025 vs 2.0% in 2024) and sizable slippages in both revenue and expenditure targets in 2025.

KSA: Mid-term fiscal targets

	2023	2024	2025E	2026E	2027E	2028
Revenues	**1212**	**1259**	**1091**	**1147**	**1230**	**1294**
Expenditure	1293	1375	1336	1312.5	1350	1419
Fiscal Deficit	**-81**	**-116**	**-245**	**-165**	**-120**	**-125**
% of GDP	-2.0%	-2.5%	-5.3%	-3.3%	-2.3%	-2.2%

Source: MoF, Pre-Budget Statement 2026, AC

Trends in key fiscal heads

Fiscal deficit is targeted to be contained

The authorities aim to contain the fiscal deficit at 3.3% in 2026 compared to an estimated deficit of 5.3% in 2025

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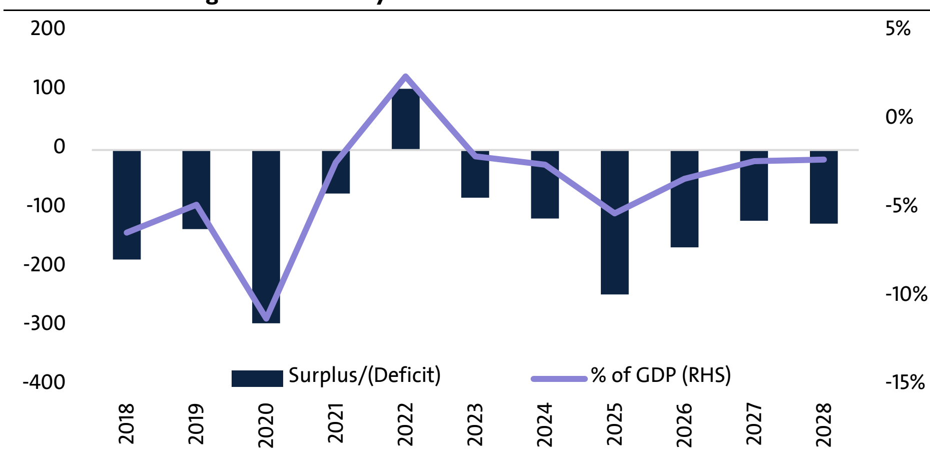
Fiscal deficit is targeted at 2.2% by 2028



Source: MoF, Pre-Budget Statement 2026, AC

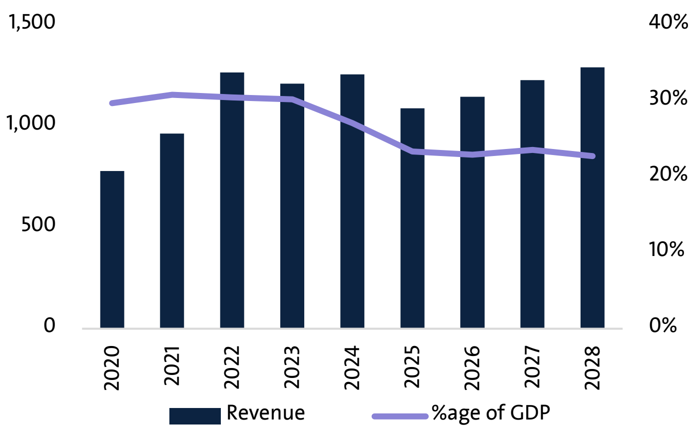
Growth in total revenues to support fiscal consolidation

We believe the underlying estimate for revenue growth is achievable in view of; (i) increase in oil production (5% in 2025 and 6% in 2026 assuming the exit rate in 2025 is sustained in 2026), (ii) start of gas production from Jafurah Gas Field, and (iii) continued growth momentum in non-oil activity. Lower oil prices in 2025 (YTD avg: USD71/bbl, vs. USD75/bbl budgeted in 2025 as per our estimate) is the primary reason for slippage in revenues in 2025 vs the start-of-the-year estimate. Based on our estimates of non-oil revenues for 2026, the headline budgeted revenue suggests the underlying oil prices of USD74/bb.

Growth in total expenditures targeted to be limited

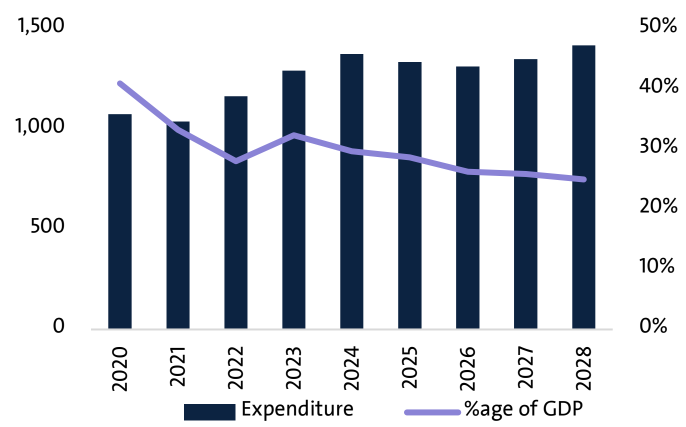
2026 expenditure is budgeted at SAR1,312bn, a drop of 2% from 2025. Expenditure in 2025 is expected to drop 3% YoY as per revised estimates but would be up 4% relative to initial budget estimate, partially driven by an unidentified one-off expenditure. Adjusted for one-off, authorities have incorporated YoY growth as per the document.

Fiscal revenue (SARbn) expected rise following drop in 2025...



Source: MoF, Pre-Budget Statement 2026, AC

...while expenditure growth is projected to be contained (SARbn)



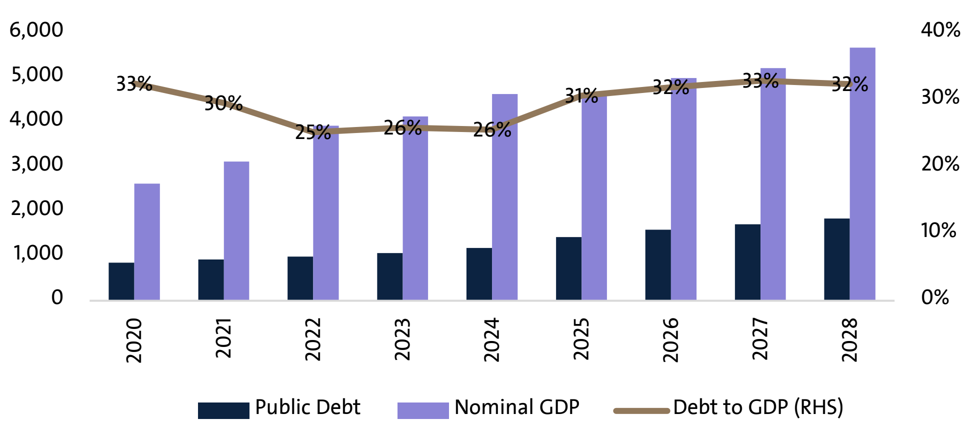
Source: MoF, Pre-Budget Statement 2026, AC

Sources of fiscal financing

The absolute level of debt is expected to increase, however, overall debt to GDP ratio is expected to remain largely unchanged

A diversified mix of domestic and international sources, including the alternative financing for projects, infrastructure and export credit agencies, are targeted to finance the fiscal deficit in 2026 and beyond. While the absolute level of debt is expected to increase over the medium-term, overall debt to GDP ratio is expected to remain largely unchanged by 2028 compared to expected levels in 2025 under the assumption of funding of the fiscal deficit via borrowing as a primary source and materialization of authorities' estimate of 7% CAGR in nominal GDP over 2025-2028.

Public debt to GDP ratio is likely to remain stable over 2026-2028



Source:MoF, Pre-Budget Statement 2026, AC

Supported by both oil and non-oil GDP, the overall real GDP growth is expected to accelerate to 4.4% in 2025 from 2.0% in 2024.

Growth & inflation

GDP: Supported by both oil (5% YoY growth in 2025) and non-oil GDP (expected 5% in 2025), the overall real GDP growth is expected to accelerate to 4.4% in 2025 from 2.0% in 2024. Over the medium-term, authorities target an average real GDP growth of 3.7-4.6%. As per the document, the Kingdom's oil production is expected to increase to 10mmbpd by Sep-25. Increase in oil production already achieved up to Aug-25 and future addition from Sep-25 should result in 5% growth in overall oil production in 2025 and 6% in 2026 assuming no change further increase in production in future. Beyond 2026, oil GDP will also benefit from ramp-up in gas production in Jafurah Gas Field. Supported by the various initiatives under the Vision 2030, the non-oil GDP growth is expected to maintain its momentum.

KSA: Real GDP growth is projected to remain healthy

	2024A	2025E	2026E	2027E	2028
Real GDP Growth	2.00%	4.40%	4.60%	3.70%	4.50%
Nominal GDP	4,649	4,600	4,965	5,258	5,643
Inflation	1.70%	2.30%	2.00%	1.80%	1.90%

Source: MoF, AC

The authorities expect inflation to remain benign both in 2025 and over the medium-term. The regulated nature of prices for key utilities and the recent initiatives of the Ministry of Housing to contain the prices and rents of residential and commercial real estate will support the authorities' inflation target in our view. YTD to Aug-25, CPI has increased by 2.3% YoY with Housing & Water emerging as the single largest source of inflation (up 6% YoY, Weight in CPI basket: 20%).

The authorities remain more tolerant of running an above-trend fiscal deficit over the medium-term

Fiscal reprioritization while maintaining the pro-growth stance

Over 2026 budget and midterm fiscal framework aim to address the need for fiscal reprioritization, while maintaining the pro-growth tilt of the economic framework. The authorities remain more tolerant of running an above-trend fiscal deficit over the medium-term for the following reasons:

- Strong growth momentum seen in the non-oil segment
- The room for trimming capital expenditure to cut spending appears to be limited given the details in expenditure in 1H25
- KSA's expected debt level of 32% in 2025 is significantly below levels in other emerging economies
- The gradual unwinding of voluntary production cuts by OPEC+, reflecting relative stability in oil market

Key risks to estimates

Three major risks to 2026 and mid-term budgeted estimates stem from (i) aggravation of geopolitical tension in the region, (ii) tariff related uncertainty which can impact global growth and commodity prices, and (iii) the path of interest rates in the in developed countries and smooth normalization of the monetary policy framework (reversal of COVID-era quantitative easing).

Analyst Certification:

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