



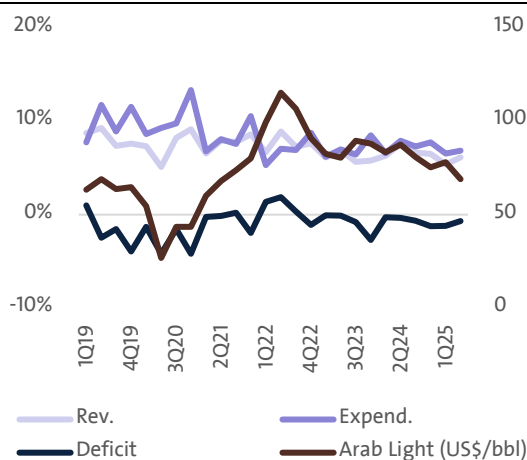
A pro-growth stance necessitating persistence of above-trend deficit

KSA-2Q2025 Fiscal Performance

SARbn	1Q25	2Q25	QoQ	1H25	YoY
Revenues	264	302	14%	565	-13%
Expend.	322	336	4%	658	-2%
Deficit	-59	-35	-41%	-93	232%
% of GDP	-1.2%	-0.7%	49	-1.9%	-130
Debt	1329	1386	4%	1386	21%
% of GDP	27%	28%	117	28%	352

Source: Quarterly Budget Performance Report

Trends in key fiscal heads & Oil prices (RHS)



Source: Quarterly Budget Performance Report, AC

Muhammad Fawad Khan, CFA
Head of Research
mfkqadri@alinmacapital.com

Abdulrahman Yusef Alnafia
Research Analyst
aynafiai@alinmacapital.com

Alinma Capital Company
Al Anoud Tower 2, King Fahad Road,
Riyadh 11544, Kingdom of Saudi
Phone: 011 494 8899
Website: www.alinmacapital.com

A pro-growth stance necessitating persistence of above-trend fiscal deficit

The 2Q2025 Quarterly Budget Performance Report highlights the persistence of the above-trend fiscal deficit, notwithstanding sequential improvement, driven by the government's focus on growth and diversification, as well as the emerging dynamics in oil market. While we see the room for fiscal adjustment, we contend the authorities are likely to continue placing more weight on the current tilt to growth and exhibit tolerance to fiscal slippage. The mid-year review will likely provide more clarity.

Key trends in fiscal account

Fiscal deficit dropped 49bps QoQ to clock in at 0.7% in 2Q2025 and reached 1.9% of GDP in 1H25 vs. the full-year budgeted estimate of 2.0%. The key reason for the drop in deficit was a sequential uptick in revenues, which outpaced the growth in total expenditures. Given YTD average of oil prices, and estimated Aramco's production for CY25, we estimate fiscal deficit could reach above 4.3% in 2025 based on start-of-the-year budgeted expenditures.

Total revenues recorded a strong 14% QoQ growth in 2Q25 to reach SAR565bn in 1H25 (-13% YoY, 11.5% of GDP). Both tax revenue and non-oil, non-tax revenue contributed to sequential improvement in total revenues while oil revenues remained stable (+1%). The drop in total revenues in 1H25 is primarily due to a significant drop in Aramco's performance-linked dividend.

Total expenditure inched up 4% QoQ, driven by a 44% QoQ increase in non-current expenditures. More importantly, total expenditure of SAR658bn (13.4% of GDP) in 1H25 came in 2% lower YoY.

Sources of fiscal financing: While the fiscal authorities have adhered to policy of excess borrowing in 2Q25 (~160% of fiscal deficit) in order to reduce exposure to market risk and maintain a buffer for future repayment, the mix of borrowing has completely shifted to domestic sources in 2Q. The authorities have made a net retirement of SAR17bn of foreign debt in 2Q. We believe the expected further decline in global interest rates in 2H25, particularly in the USA, will open up the possibility of authorities tapping foreign borrowing and leaving more liquidity in the system.

Pro-growth tilt may continue

While we see the need for fiscal reprioritization, we believe the overall tilt of the economic framework likely to remain pro-growth and hence we expect fiscal authorities to remain more tolerant of running above-trend fiscal deficit in the short-term for the following reasons:

- Strong growth momentum seen in the non-oil segment (2Q25 GDP of 3.9% YoY)
- The room for trimming capital expend. to cut spending appears to be limited
- KSA's debt level of 28% is significantly below levels in other emerging economies
- The risk to the global growth outlook due to tariff has weaned off
- The gradual unwinding of voluntary production cut by OPEC+, reflecting relative stability in oil market post 14% drop in oil prices and 11% YTD depreciation of US dollar against major currencies.

1H2025 Fiscal Snapshot (SARbn)						
	1Q25	2Q25	QoQ Δ	1H24	1H25	YoY Δ
Revenues						
Oil Revenues	150	152	1%	395	302	-24%
Tax Revenues	109	121	11%	221	230	4%
Non-Tax, non-oil	5	29	530%	31	33	7%
Total	264	302	14%	647	565	-13%
Expenditures						
Current	295	296	1%	575	591	3%
Non-Current	28	40	44%	99	68	-32%
Total Expenditures	322	336	4%	675	658	-2%
Fiscal Deficit	-59	-35	-41%	-28	-93	232%
% age of GDP						
Revenues	5.4%	6.1%	77	13.9%	11.5%	-240
Expenditures	6.6%	6.8%	28	14.5%	13.4%	-110
Fiscal Deficit	-1.2%	-0.7%	49	-0.6%	-1.9%	-130
Public Debt						
Domestic	797	871	9%	680	871	28%
Foreign	532	515	-3%	469	515	10%
Total	1329	1386	4%	1149	1386	21%
% of GDP						
Domestic	16%	18%	151	15%	18%	312
Foreign	11%	10%	-34	10%	10%	41
Total	27%	28%	117	25%	28%	352

Source: MoF, AC

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA, Abdulrahman Yusef Alnafia**, the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Rating Methodology

Alinma Capital Company (ACC) follow a four-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5%+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Disclaimer

The published reports are for general information purposes to present a view on the company/economic sector/economic subject under research, and should not be considered a recommendation to buy/sell/hold for any security or any other assets. This report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of securities, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Alinma Capital Company from sources believed to be reliable, but Alinma Capital company has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Alinma Capital Company shall not be liable for any

loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Alinma Capital Company , and they might be holding positions directly in any securities and mutual funds contained in this report during the time of publication of this report, This report has been produced independently and separately by the Research Division at Alinma Capital Company and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Alinma Capital Company . Funds managed by Alinma Capital Company and its subsidiaries for third parties may own the securities that are the subject of this document.

Funds managed by Alinma Capital Company and its subsidiaries for third parties may own the securities that are the subject of this document or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Funds managed by Alinma Capital Company and its subsidiaries for third parties may own the securities that are the subject of this document maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Funds managed by Alinma Capital Company and its subsidiaries for third parties may own the securities that are the subject of this document board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission by Alinma Capital Company and its subsidiaries for third parties may own the securities that are the subject of this document.

Alinma Capital, a Saudi closed joint stock company under CR No. 1010269764 and the Capital Market Authority License No.37-09134.