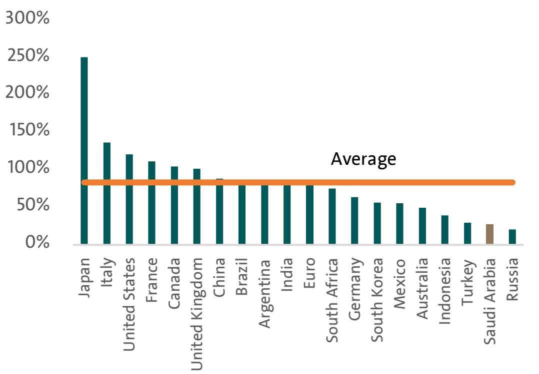
Budget 2025: Staying the (growth) Course!

KSA-Budget Snapshot (SARn)

	2024E	2025	Δ
Revenues	1,230	1,184	-4%
Expenditure	1,346	1,285	-5%
Fiscal Deficit	-116	-101	-13%
% of GDP	-2.8%	-2.3%	-0.51%
Public Debt	1,115	1,149	3%
% of GDP	29%	30%	0.56%

Source: Budget 2025

Debt to GDP ratio in G20 economies (2024)



Source: IMF, AIC

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Saudi Budget 2025: Estimates tweaked, growth bias remains

The Ministry of Finance (MoF) recently unveiled the Budget Statement 2025. Overall, the authorities have remained committed to supporting the ongoing growth momentum, primarily led by the non-oil private sector, over the medium term. Accordingly, the budget's emphasis on non-oil revenue/GDP and delivery of reforms envisaged in the Vision 2030 remains unchanged for both 2025 and over the medium term. The authorities have tweaked down medium-term growth estimates (3.5-4.6% rang vs. 4.4-5.7% in Budget Statement 2024) in light of changes made in the Kingdom's aspiration of maximum sustainable production (MSD) of oil, strong underlying momentum in non-oil sector activity, visibility on major global events and changes in the outlook for the global economic growth.

The budgeted levels of fiscal deficit (2.3-3.0%) and debt (debt to GDP of 33% by 2027) over the medium term appear sustainable both in absolute and relative terms. Inflation is projected to remain well under control given the regulated nature of energy prices and the expected continuation of subsidies.

2024: Major milestones achieved

The four major economic milestones for the Kingdom in 2024 in our view are: (i) historic low unemployment rate (2Q2024: 7.1%) and the highest female labor force participation rate (35%, well ahead of the Vision 2030 target of 30%), (ii) tourism activity scaling new highs, (iii) upgrade in sovereign rating by Moody's to Aa3 with stable outlook, highest since 2010, and (iv) likely Saudi successful bid for FIFA World Cup 2034 (FIFA's decision on KSA's sole bid for hosting the event due on 11th Dec'2024).

Key Risks

Discussion on managing the current growth cycle is likely to become more recurrent theme as the unemployment rate among Saudis drops to historic lows and debt to GDP ratio accelerates, (ii) risk associated with global GDP growth (global tariff war, worsening of geopolitical risk), (iii) as many megaprojects moved from development to delivery, materialization of expected economic benefit from such mega projects and (iv) stability in oil market (geopolitics + quota compliance by OPEC+ alliance).

Little surprise for the market on stability in economic framework

The authorities have maintained the pro-growth, reform-focused economic framework in the latest budget statement which has not surprised the market/investors. Tadawul main index, TASI, dropped by <1% following the budget announcement but quickly recovered the ground in the subsequent sessions.

The budget's emphasis on non-oil revenue /GDP and delivery of reforms envisaged in the Vision 2030 remains unchanged

Budget 2025: Pro-growth stance maintained; debt level seen rising

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KSA-Medium-term Economic Indicators

	2022A	2023A	2024E	2025B	2026P	2027P
GDP Nominal (SARbn)	4,156	4,003	4,091	4,352	4,431	4,718
Real GDP Growth	8.70%	-0.80%	0.80%	4.60%	3.50%	4.70%
Inflation	2.50%	2.30%	1.70%	1.90%	1.90%	1.90%
Debt (SARmn)	990	1050	1199	1300	1430	1570
Debt to GDP	24%	26%	29%	30%	32%	33%

Source: Budget Statements, AIC

P: Projection, B: Budget, E: Estimate , A: Actual

2025 GDP Estimates-Firing from both engines

The authorities have come up with CY25 growth target of 4.6% vs. projected growth of 0.8% in CY24 and actual growth of -0.8% in CY23.

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Oil Sector

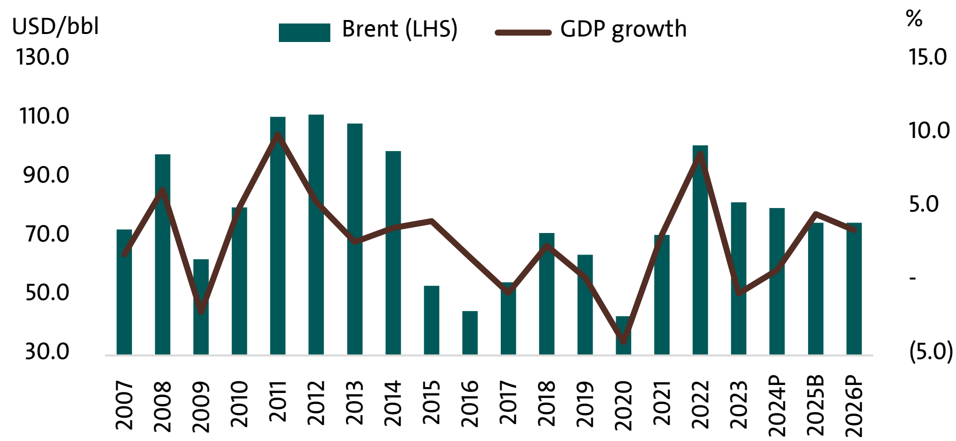
The oil GDP (2Q24: 29% of total GDP) is expected to benefit from higher global oil demand, leading to withdraw of voluntary production cut of 1mmbpd by the Kingdom and expected progress on increase in OPEC+ production quote in the later part of the fiscal year. Jafurah Gas Field will likely start making its contribution to GDP with expected commissioning of 200mmcfd of gas production under the first phase. A more meaningful contribution from Jafurah is likely in the following years as production is ramped up to its target level of 3,100mmcfd by 2027. OPEX+ alliance has projected incremental oil production of 1.9bpd in 2024 and 1.65mmbpd in 2025. Given the estimated non-opex production growth of 1.1mmbpd, the call on OPEC+ alliance to increase oil supply is estimated at 0.5mmbpd.

The non-oil sector will likely continue benefiting from government's supportive policies and initiatives

Non-oil segment

The non-oil sector will likely continue benefiting from government's supportive policies and initiatives (mega projects, Shareek Program, economic Zone etc) will remain a major growth driver for 2024 and beyond. In CY24, the non-oil activity is projected to have 3.7% growth. CY2024 estimate faces low risk, in our view, given the quarterly estimates for 9M2024. The growth in consumption-led by increase in purchasing power (increased labor force participation, record tourism activity, higher population of residents), and focus on bringing investment and diversifying the export while at the same time containing the imports under the localization program, has set a strong growth supportive backdrop for the growth of non-oil activity, in our view.

KSA GDP Growth and Brent oil price trend



Source: Budget Statement, AIC, Bloomberg

The authorities expect benign inflationary environment to persist and project 1.7-1.9% CPI over the medium term which appears realistic.

Inflation

Regulated product prices, which are big chunk of inflation basket, add to government's ability to keep inflationary drivers under check. The authorities expect benign inflationary environment to persist and project 1.7-1.9% CPI over the medium term, which appears realistic. The key risk to inflation stems from further acceleration in real estate prices (rent in particular) and the ramifications of possible global tariff war on imported commodity prices. Conversely, a quick resolution of geopolitical risk associated with Red Sea situation may result in a relief on freight cost on imported products prices.

Fiscal Framework:

Expenditure: Another year of expenditure overrun seen in 2024; measured increase ahead

The estimated expenditure of SAR13,46bn in CY2024 will likely be the highest in the Kingdom's history and translates into Expenditure to GDP ratio of 33%

In terms of slippage in expenditure, 2024 is shaping up to be no different than 2023 or 2022. The government estimates suggest total expenditure overrun of 8% relative to start-of-the-year estimates driven both by current and capital expenditure. The estimated expenditure of SAR1,346bn in CY2024 will likely be the highest in the Kingdom's history and translates into Expenditure to GDP ratio of 33%. Municipal Service (+49% YoY), Security (+12% YoY) and Public Administration (+10% YoY) are expected to be the three major contributors to growth in expenditure. For CY2025, the government projects 5% drop in expenditure. Normalization of expenditure for the municipality and the expected drop in expenditure for public administration are likely to be major sources of the drop in total expenditure. Over the medium term, the authorities expect expenditure to grow by 5% CAGR over 2025-2027.

KSA-Fiscal Indicators						
SARbn	**2022A**	**2023A**	**2024E**	**2025B**	**2026P**	**2027P**
Revenues	1222	1212	1230	1184	1198	1289
Expenditure	1164	1293	1346	1285	1328	1429
Fiscal Surplus/(Deficit)	58	-81	-116	-101	-130	-140
% of GDP	1.4%	-2.0%	-2.8%	-2.3%	-2.9%	-3.0%
Public Debt	990	1050	1199	1300	1430	1570
% of GDP	24%	26%	29%	30%	32%	33%

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Revenue forecast are realistic

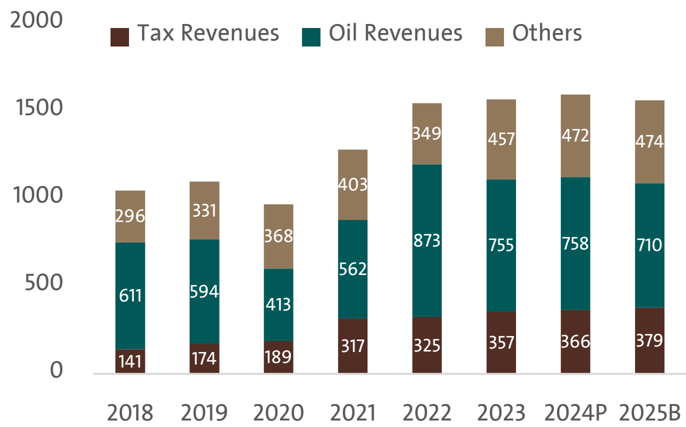
Government's revenue forecast appears realistic under the current scenario

Government's revenue forecast appears realistic under the current scenario. For CY2025, the government has penciled 4% drop in total revenues from SAR1m230brn (30% of GDP) to SAR1,184nn (27% of GDP). We have following observations on CY2025;

I. Under the baseline scenario of no new tax or major changes in tax rate, the authorities have projected 2.5% and 3.6% growth in tax revenues. Given anticipated growth of 4-5% in non-oil activity, we believe tax revenue has the potential to surprise on the upside.

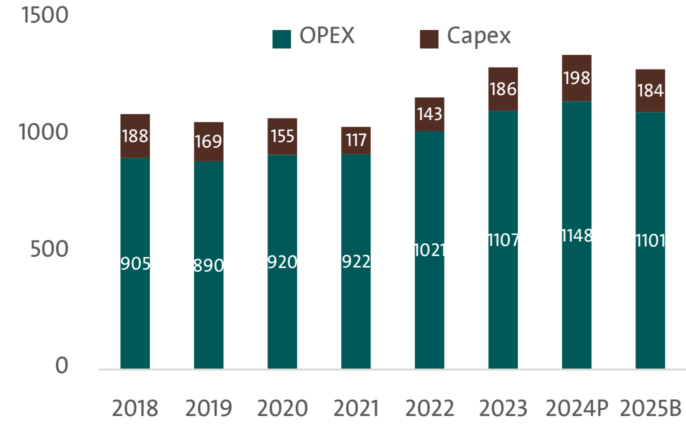
II. The other revenue, which also takes into account oil revenues, is projected to grow by a marginal 1% in CY24 and drop by 5% in CY25. This suggests almost flat oil revenues in 2024 and c8% drop in oil revenues in 2025 as per our estimates. We estimate the budget's revenue estimate incorporate USD75/bbl oil price assumption, in line with the estimates in 2024 and 2023. Our estimates take into account suspension of voluntary production cut and continuation of performance linked dividend from Aramco at a reduced rate. Overall, revenues are estimated to grow by 1% over the medium-term (no change VAT seen).

KSA: Revenue profile(SARmn)



Budget Statements, AIC Research

KSA: Expenditure Profile (SARmn)

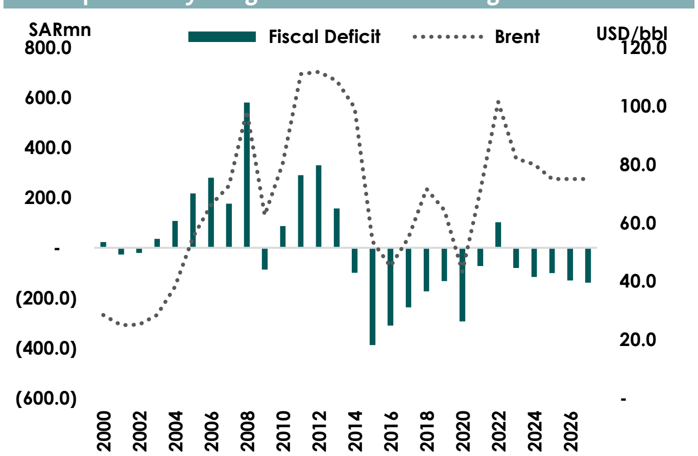


Budget Statements, AIC Research

Fiscal Financing & Debt levels

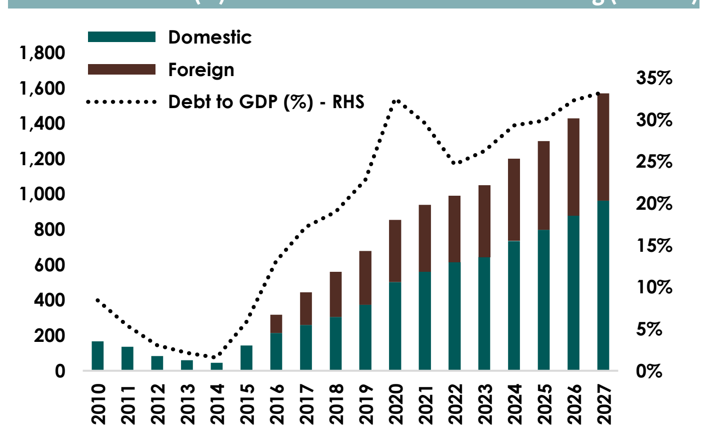
With expenditure and revenues expected to undergo similar trends over the medium term, the level of fiscal deficit will likely remain sustain. Fiscal deficit is projected at 2.8% (SAR116bn) in CY2024 and is expected to stay in the range of 2.3-3% (SAR101-140bn) over the medium term. The financing for deficit will likely come from domestic and international debt in light of the government's commitment to maintain current level of foreign reserves.

KSA: Expansionary budget to result in recurring fiscal deficit



Source: Budget Statements, AIC Research

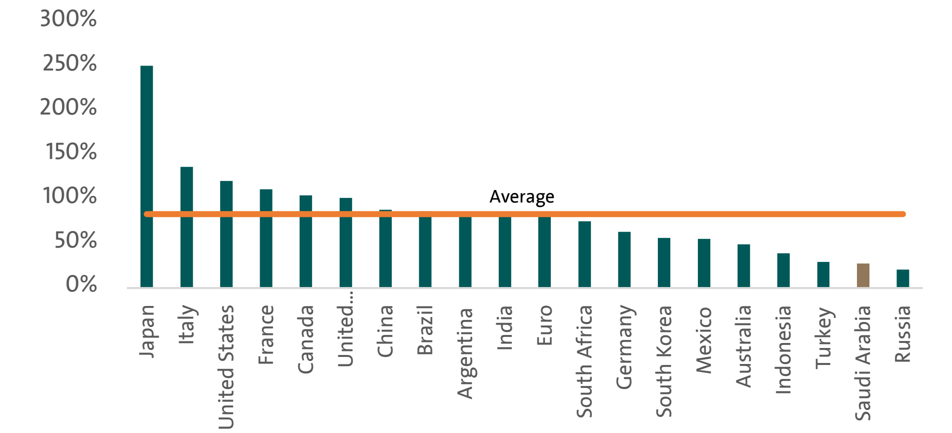
KSA: Debt to GDP (%) set to accelerate on deficit financing (SARmn)



Budget Statements, AIC Research

The Debt/GDP ratio is estimated at 29% in 2024 (up from 26% at the-start-of-the-year) and projected to jump to 33% by 2027 based on current baseline forecasts. The acceleration in debt/GDP ratio in medium term is noteworthy. That said, we believe overall debt GDP ratio remains comfortable given debt to GDP seen in other similar economies (see below) and significant discretionary spending (4-5% of GDP) built in the total expenditure.

Debt to GDP ratio in G20 economies (2024)



Source: IMF, AIC

Key Risks

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(i) Discussion on managing the current growth cycle is likely to become more recurrent theme as unemployment rate among Saudis drops to historic lows and debt to GDP ratio accelerates to historic high, (ii) risk associated with global GDP growth (global tariff war, worsening of geopolitical risk), (iii) as many mega projects moved from development to delivery, materialization of expected economic benefit from such mega projects, and (iv) stability in oil market.

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Analyst Certification:

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