



Saudi: fiscal tightening to drive growth slowdown in 2026

- The Saudi economy has been boosted by the unwinding of oil output cuts this year and this will continue over the coming quarters, but a step up in fiscal consolidation efforts means that overall GDP growth is likely to come in weaker than most anticipate in 2026.
- The Saudi economy grew by 1.7% q/q on a seasonally adjusted basis in Q2, driven by the oil sector as the unwinding of voluntary oil output cuts began. In contrast, growth in the non-oil sector softened (See Chart 1.) In year-on-year terms, GDP growth ticked up from 3.4% y/y in Q1 to 3.9% y/y in Q2.
- The Kingdom has raised oil output by 11% since April, to 10.0mn bpd in September, in line with the shift in OPEC+ policy to recapture market share. **The group announced slightly more cautious increases for October and November but, even so, the year-on-year increase in production is likely to accelerate over the coming quarters.** (See Chart 2.)

Chart 1: Saudi Arabia GDP by Main Economic Activity
(% q/q, Seasonally Adjusted)

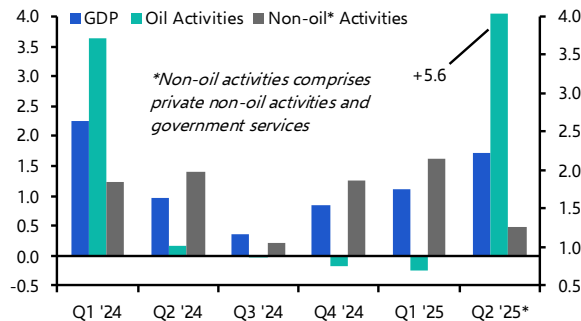
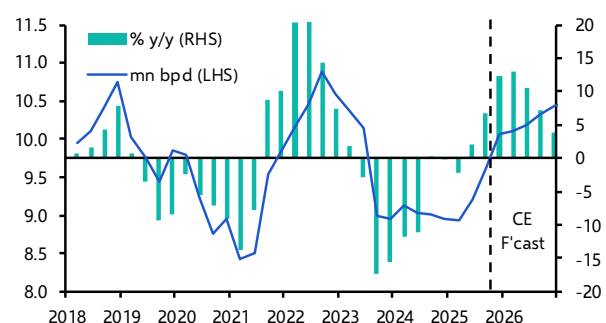


Chart 2: Saudi Arabia Oil Production



Sources: General Authority for Statistics, OPEC, CEIC, Capital Economics

- The latest indicators suggest that non-oil activity has continued to soften. Private sector credit growth slowed to an eight-month low of 13.3% y/y in August. This has been partially driven by weaker mortgage demand amid high house prices and interest rates. Meanwhile, our consumer spending proxy suggests growth plateaued in August and high frequency point of sale transactions point to a slowdown more recently. (See Chart 3.) Data from the Saudi Contractors Authority in September showed that the number of projects awarded remains depressed. (See Chart 4.)

Chart 3: Saudi Arabia CE Consumer Spending Proxy & Point of Sale Transactions (% 3m/3m, Seas-Adj.)

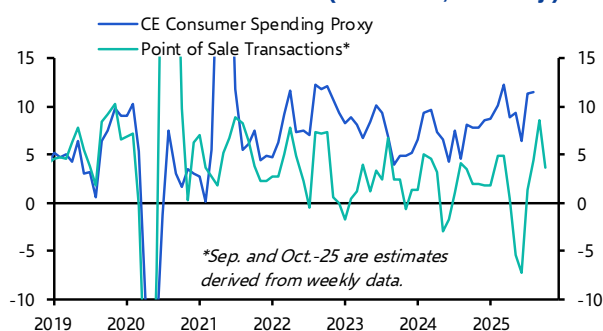
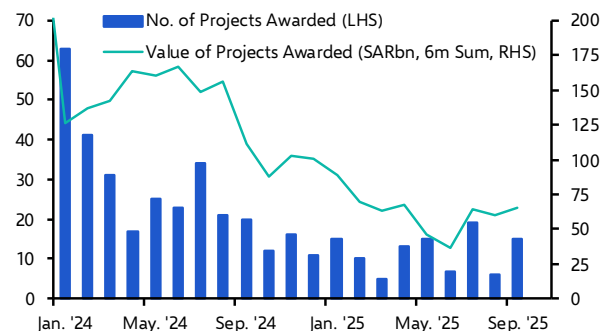


Chart 4: Saudi Contractors Authority Projects Awarded



Sources: Saudi Central Bank, Saudi Contractors Authority, CEIC, Capital Economics



- Admittedly, timely survey data have painted a slightly brighter picture. The [Riyad Bank PMI](#) picked up from 56.8 in August to 57.4 in September, the highest reading since March, and on past form is consistent with an acceleration in non-oil GDP growth to around 2% q/q in Q3. Meanwhile, the LSEG/Ipsos survey of consumer confidence increased in October, although that was still the second weakest reading in two years and household sentiment is far weaker than at the start of the year.
- All told, we have pencilled in the Saudi economy to have grown by 0.7% q/q in Q3, which translates into a pick-up in year-on-year terms to 4.0%. [The flash Q3 GDP estimate will be published on October 30th.]
- The [2026 Pre-Budget Statement](#) outlined that the government expects this year's budget deficit to be 5.3% of GDP, more than double what was budgeted. As a result, it looks like fiscal consolidation efforts will be stepped up over 2026-27, which will weigh on non-oil activity. That said, the government will probably struggle to narrow the headline budget deficit next year as much as it plans – in fact, we expect the shortfall to widen to closer to 6.0% of GDP. (See Chart 5.)
- We expect the Saudi economy to grow by 4.5% in 2025. But we think that a further slowdown in non-oil growth will more than offset the continued boost from higher oil output and that overall GDP growth will slow to 3.0-3.5% over 2026-27, which is below consensus expectations. (See Chart 6.)

Chart 5: Saudi Arabia Budget Balance (% of GDP)

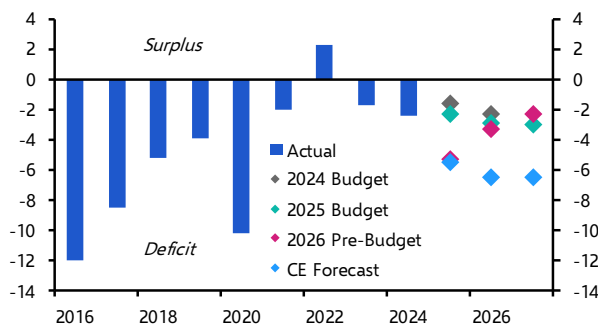
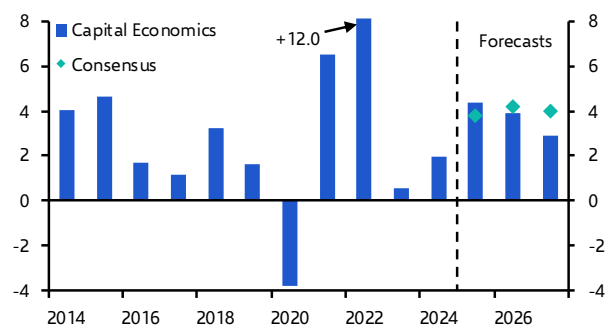


Chart 6: Saudi Arabia GDP (% y/y)



Sources: Saudi Arabia Ministry of Finance, General Authority for Statistics, CEIC, Capital Economics



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