



# Macroeconomic Update

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Jadwa Investment

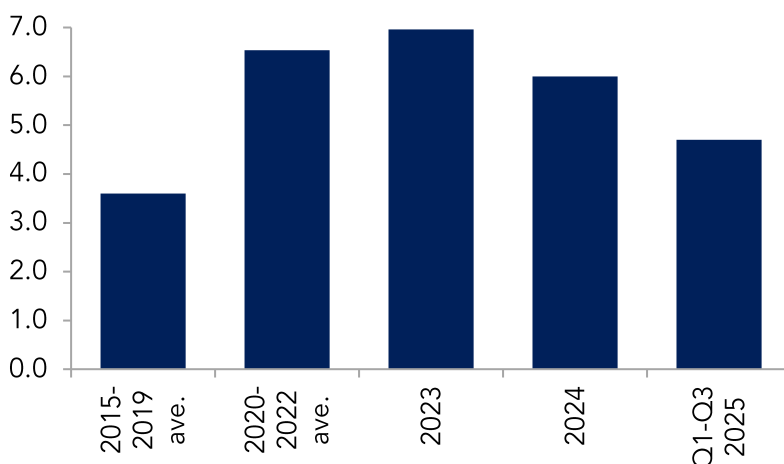


# Macroeconomic Update

## Robust growth continues amid lower oil prices

- Oil GDP growth has been strong in 2025 and will be strong again in 2026 with annual average crude output gaining in both years.
- We estimate non-oil real GDP growth of 4.6% in 2025, driven by sectoral developments, the labor market and credit growth. This is slower than growth in recent years, but still decent (Figure 1).
- For 2026, we forecast a similar rate of non-oil growth, at 4.8%, given further expansions across a number of sectors including tourism, transport, logistics, construction and manufacturing.
- We project a budget deficit of 4.5% of GDP in 2026, slightly narrower than this year's deficit (of around 5.2%), but wider than the planned budget deficit of 3.3%.
- The oil price remains the key swing factor. Some modest overspending relative to budget in 2026 is likely if oil revenue performs in line with budget (if Brent is around USD 64-65pb).
- We forecast a current account deficit in 2025 of 3.9% of GDP (or USD 50b), widening in 2026 to 4.2% of GDP.
- Nonetheless, foreign reserves have remained high. In October, foreign reserves were USD 442b, marginally up from USD 437b at end-2024.
- Further policy interest rate cuts will support already strong credit demand in 2026, including for mortgages.
- But tight liquidity conditions are nonetheless likely to dampen bank credit growth in 2026 from elevated levels this year.

Fig 1: Non-oil real GDP growth (%)—slower but strong



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Crude output will average 9.5mbpd in 2025, rising to 10.1mbpd on average in 2026.

Higher gas production will also support oil GDP growth.

In H1 2025, non-oil activity was broadly supported across sectors.

Total consumption has been buoyed by improving labor market conditions.

## Oil activities

Saudi Arabia is on course to add more than 1mbpd of crude production this year. Output will reach 10.1mbpd in December, up from just under 9mbpd at the end of 2024. This is the highest level of crude production since April 2023. This equates to an annual average of 9.5mbpd for 2025, up by 5.7% from 2024.

In 2025 OPEC+ pivoted to start unwinding a series of production cuts made by a group of eight countries (OPEC8) in 2022-2023. In early November, OPEC+ announced one more increase for December to be followed by stable production in Q1-26 (Figure 2).

In 2026, we assume crude output will remain largely stable from end-2025, but this still means average crude output will be 6.7% higher than the average in 2025.

'Oil GDP' tends to broadly track changes in crude oil output, but can also be influenced by the gas sector where significant investments are taking place, notably to develop the Jafurah gas field which is scheduled to start to come on stream in late 2025. In H1-25 real oil GDP growth was stronger than growth in crude oil production. This may reflect expansion in the gas sector.

Accordingly, we estimate real oil GDP growth of 6% in 2025, climbing to 7% in 2026 given the higher average growth in crude oil production and factoring in gas sector expansion on top of that.

## Non-oil activities

The flash non-oil GDP estimate for Q3 indicates growth of 4.5% year-on-year, following an H1 average of 4.8% (Figure 3). Gastat has also revised up its estimates for 2024 non-oil GDP growth from 5.2% to 6% year-on-year. In H1 2025, non-oil activity was broadly supported across sectors, with notable contributions from 'Wholesale and retail trade' (which includes hospitality) as well as 'Non-oil manufacturing'.

Consumer spending grew by an average of 10.5% in the year to September, compared with 7.4% over the same period last year. Some of the nominal growth this year is partly due to prices, for example, data for POS by sector show POS transaction value in 'Jewelry' has increased by almost 30% in the year to September, which can be highly attributed to the rise in gold prices in the past 15 months.

Total consumption has been buoyed by improving labor market conditions: employment of Saudis in the private sector rose by 2.2% in Q2, year-on-year. While unemployment rate stood at 6.8% in Q2, higher than in Q1, but still below the 7% recorded at end-2024. Also, average wages for Saudis increased by 8.6% in Q2, year-on-year, providing more support to local consumption.

Fig. 2: Saudi crude oil production

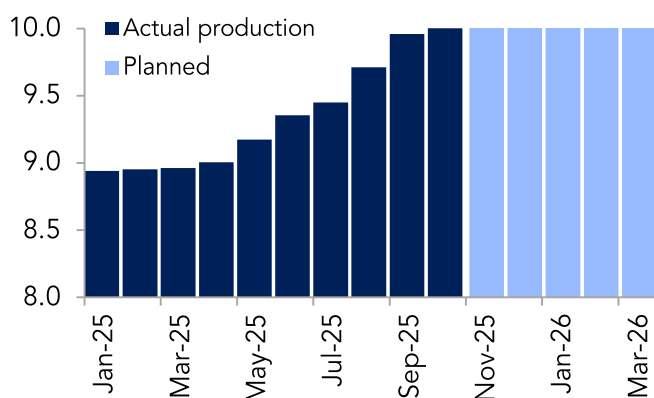
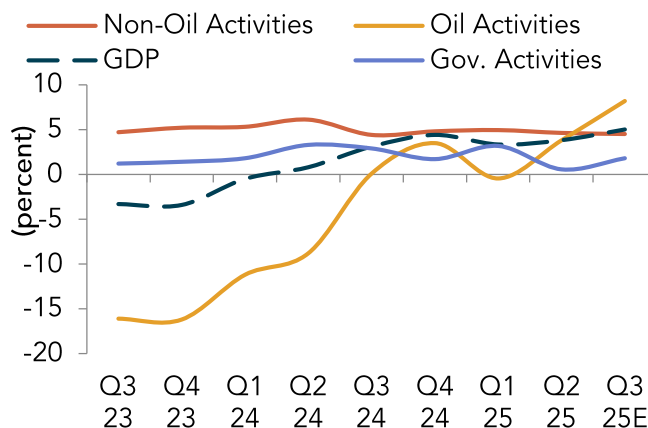


Fig. 3: GDP by sector (year-on-year change)





*Localization efforts are helping production in some segments of manufacturing.*

*Construction and real estate activity is anticipated to see a rebound in 2026.*

*And expansion in tourism continues to support non-oil activity.*

In 'Non-oil manufacturing', localization efforts continued to advance, boosting production in segments such as non-metallic products, which have increased by 9% in the year to September. At the same time, strong growth in re-exports reflects progress in transport and logistics. Exports in machinery and equipment (including re-exports) increased by an average of 96% in the year to September (Figure 4).

Construction and real estate activity is expected to register slower growth in H2 2025, reflecting the initial impact of new real estate regulations (although higher government capex in H2 versus H1 will have been positive in some segments). Real estate prices in Riyadh rose by just 1% in Q3, year-on-year, compared to an average of 8.6% during 2023-2024 (Figure 5).

However, a rebound in construction and real estate activity is anticipated in 2026 for two main reasons: lower interest rates should stimulate mortgage demand and the sector is expected to have improved clarity related to real estate regulations, which are mainly introduced to boost housing supply to meet the underlying demand which is expected to remain robust.

### Box 1: Red Sea delivery ramps up

Saudi Arabia's developing tourism sector spans a number of key destinations including Diriyah and other attractions in Riyadh, the Red Sea coastline, Al Ula, Abha and further developments in Jeddah and of religious tourism in Makkah and Medina.

Developments on the Red Sea coast are taking shape rapidly with delivery of hotels ramping up into year-end and 2026. The two key destinations at present are the Red Sea project and Amaala, both of which are owned and managed by the PIF company Red Sea Global.

Within the Red Sea project, six hotels have opened since 2023 and are doing business. Three more are due by the end of the year and a further seven by mid-2026. That would complete phase 1 (16 hotels). A key priority is boosting flight options to the project's airport, Red Sea International, both from within Saudi and internationally. Shura Island, a key part of the development, has a golf course and further retail and entertainment options are being built.

At Amaala, further up the coast, there will be 8 hotels in the phase 1 development and the bulk of these will be completed during 2026. A superyacht marina will open imminently. Both Amaala and Red Sea will contain residential villas and apartments and sales of those have started.

The ongoing delivery of Red Sea and Amaala will support non-oil GDP numbers in 2026, in particular via the wholesale, retail and hospitality sector.

Fig. 4: Exports from 'Machinery and equipment' (3-month moving average, year-on-year change)

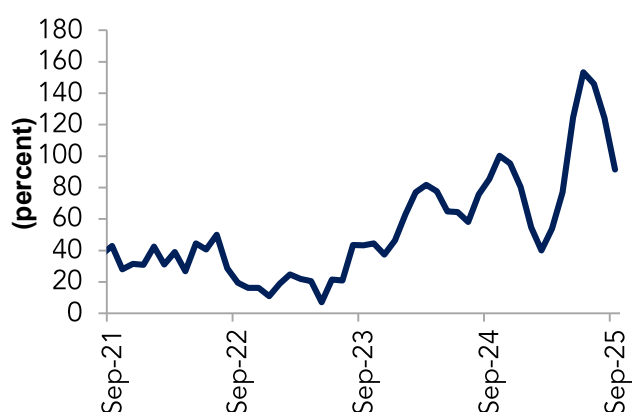
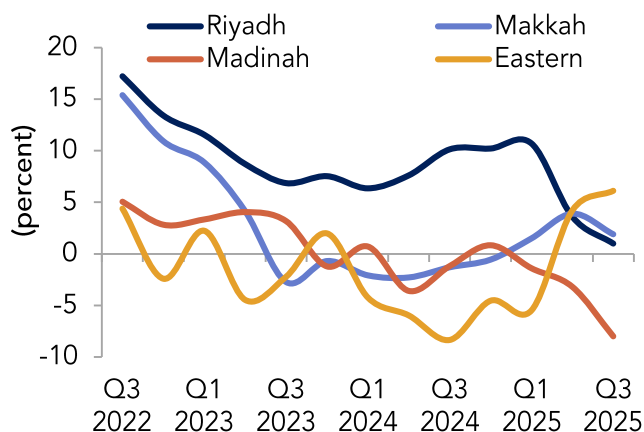


Fig. 5: Real Estate Prices by Region (year-on-year change)





*The budget deficit has widened in 2025 to more than 5% of GDP.*

*We expect higher non-oil revenue in 2026.*

*Spending would likely overshoot the 2026 budget slightly if Brent trends around USD 64-65pb.*

The wholesale and retail segment of GDP which includes hospitality is expected to maintain solid momentum, supported by continued expansion in the tourism sector and a substantial pipeline of new hotel openings across the Kingdom (Box 1). A busy calendar of sports and entertainment events is also set to provide a strong boost to the hospitality sector. Combined with ongoing investment in infrastructure, these developments are also expected to support further growth in the transport sector, and the non-oil economy in general.

### Fiscal: budget cautious on spending with uncertain outlook for oil prices

The government's Mid-year Economic Review (MYR) estimated that the 2025 budget deficit will widen to SAR 245b (5.3% of GDP). This is largely due to lower oil revenue which declined 23% year on year in Q1-Q3.

The MYR estimated a 2.8% drop in spending compared to 2024. However, actual data for Q1-Q3 show that spending was flat year on year. It is likely that full year spending in 2025 will be higher than estimated in the MYR. At the same time, based on Q1-Q3 data, full-year revenue is also likely to be higher than estimated in the MYR (as will nominal GDP). As a result, we expect the actual deficit to be slightly larger than estimated in nominal terms (SAR 250b), but marginally smaller in relation to GDP (5.2%).

The preliminary budget statement (PBS) projects higher revenue in 2026 (by 5.2%; SAR 56b), but a small decline in spending (by 1.8%; SAR 23b). The budget deficit would therefore narrow, to SAR 165b (3.3% of GDP). The PBS then projects a further narrowing of the deficit in 2027-2028 (Figure 6).

Higher revenue in 2026 would come partly from a further increase in non-oil revenue linked to ongoing growth in the non-oil economy (Figure 7). The PBS does not provide an assumption for the oil revenue, but may assume a small increase in oil revenue due to higher levels of oil production and exports and perhaps another 4% increase in Saudi Aramco's basic dividend.

Some modest overspending relative to budget in 2026 is likely if oil revenue performs in line or ahead of budget (if Brent is around USD 64-65pb). The Kingdom retains fiscal space to weather periods of lower oil prices. Government debt is rising but remains fairly low, at around 31% of GDP this year, and the government maintains a sizeable liquidity buffer with its deposits at the central bank (around 9% of GDP—in excess of USD 100b).

Nonetheless, if the oil market weakens further in 2026 then the government will have less scope for spending more than budgeted. Given the uncertainty about the balance in the oil market, spending may be more cautious in H1-26 and more buoyant in H2-26 (Figure 8).

Fig. 6: PBS budget projections

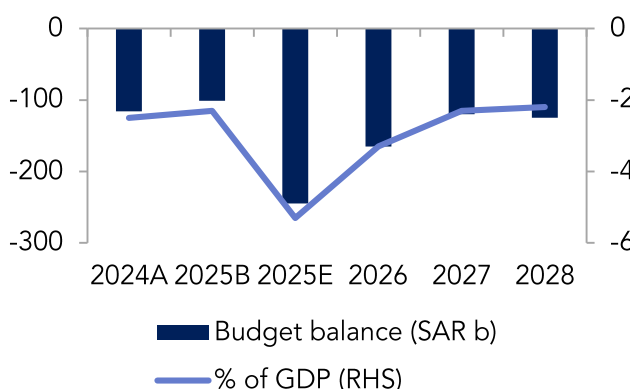
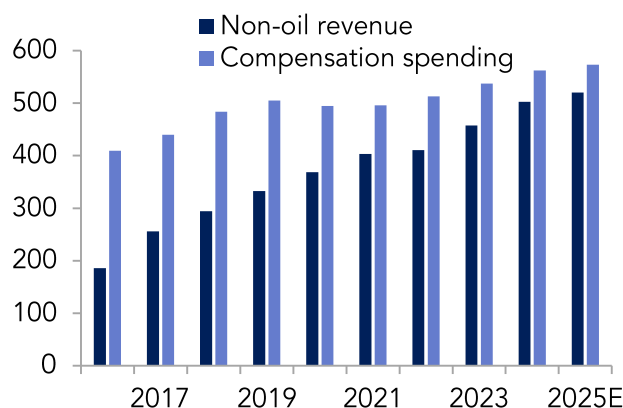


Fig. 7: Non-oil budget revenue now covers 90% of the wage bill (SAR b)





Overall, we forecast a budget deficit of 4.5% of GDP in 2026.

In this case, government debt would rise to around 34% of GDP.

We expect the current account deficit to widen to 3.9% of GDP in 2025.

Due to lower oil prices, growing imports and worker remittances.

For 2026, we project a slightly wider current account deficit, at 4.2% of GDP.

Overall, we anticipate a budget deficit of 4.5% of GDP in 2026, slightly narrower than this year's deficit, but wider than the planned deficit. Assuming this is financed through borrowing, government debt would rise to around 34% of GDP.

The PBS highlighted the role of the Public Investment Fund (PIF) and National Development Fund in supporting the non-oil economy through capital deployment and credit provision. The PIF, which has invested at least SAR 150b per year locally in 2021-2025, is working on its 2026-2030 strategy. It remains to be seen what the new strategy indicates in terms of the quantum of PIF spending, but from comments at the FII there will be a focus on delivery, returns and crowding in investment from partners and the private sector.

## External account: deficit widens, reserves resilient

We forecast a current account deficit of 3.9% of GDP (or USD 50b), following the 1.3% of GDP deficit in 2024. Lower oil prices, growing imports and worker remittances are the key drivers of the larger deficit.

We forecast the goods trade surplus to decline to USD 66b, from USD 98b in 2024. Oil revenue will fall by 10% (by around USD 23b), with prices down around 15% on average and production up by 5.7%. Non-oil goods exports (including re-exports) increased strongly in January-August. We project a 15% increase for the full year 2025, from USD 80.5b in 2024 to USD 93b. Non-oil exports will surpass USD 100b in 2026. The strong growth in 2025 has been driven primarily by re-exports, reflecting progress with logistics and transport infrastructure.

While overall export revenue will be lower year on year, import spending continues to rise, propelled by consumer and investment demand, despite lower oil prices leading to flat government spending and a slackening in project activity. The goods import bill grew by 10.5% year-on-year in January-August 2025, with imports averaging just over USD 20b per month.

In H1-25 the trade surplus (USD 36b) was outweighed by the combination of the services deficit (USD 28b) and the net transfers deficit (USD 31b). The latter has widened significantly due to a further rise in worker remittances (USD 27b in H1-25) from the growing expat workforce. This pattern will be largely replicated for the full year.

The current account deficit is being financed by inflows from external debt issuance both the public and private sector (including banks), a decline in deposits held abroad (that creates an inflow) and smaller outflows to purchase foreign assets. These financing flows mean that, despite the current account deficit, Saudi Arabia's foreign reserves have remained high. In October, foreign reserves were USD 442b, marginally up from USD 437b at end-2024 (Figure 9).

Fig. 8: Budget in 2026: oil price scenarios (year-on-year change)

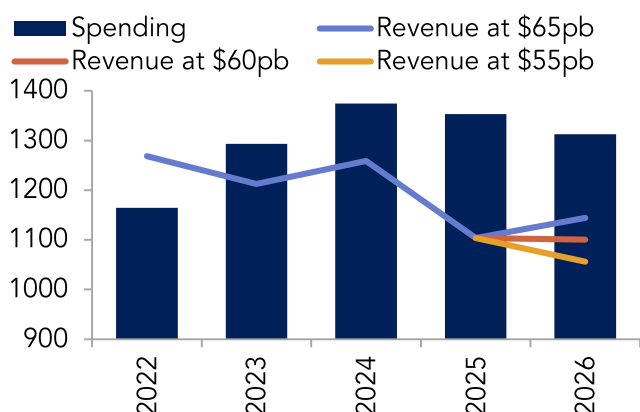
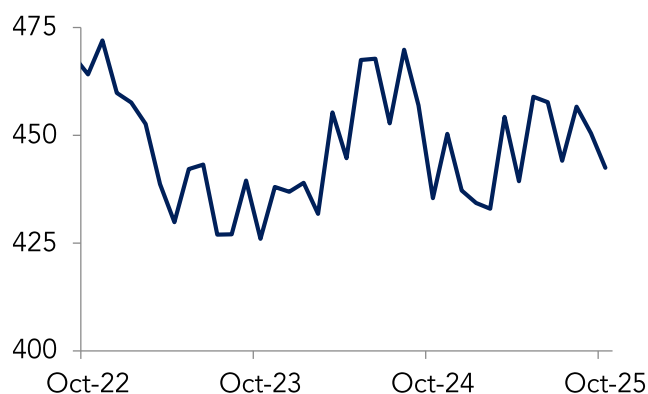


Fig. 9: FX Reserves resilient despite lower oil prices (USD b)





*Credit demand continues to exceed the pace of deposit growth.*

*We assume three rates cuts by end-2026, with a total of 75 bps.*

*The main upward pressures in prices continued to come from 'housing and utilities' and 'Personal care' groups.*

For 2026, we project a slightly wider current account deficit, at 4.2% of GDP. Oil revenue (from crude and refined exports) will trend at a similar level on higher export volumes and lower prices. Non-oil exports and tourism revenue will make gains. However, higher import spending and outbound remittances will offset these higher revenues. Again, we expect reserves to be resilient with capital inflows larger than outflows.

## Interest rates, liquidity and credit

Liquidity conditions in the banking sector have tightened this year as credit growth continues to exceed the pace of deposit growth. Total bank claims rose by 15.4% in the year to September, with credit growth to the private sector strong at 14% for the same period. Meanwhile, total deposits grew by 8.8% (Figure 10).

The headline loan-to-deposit (LDR) ratio was 111% in September. At the same time, banks' Net Foreign Assets (NFA) position has become more negative, reflecting banks' increase in foreign borrowing to accommodate strong credit demand (Figure 11).

The US federal reserve cut interest rates in September and October and SAMA followed suit. We assume a further cut in December (although this is a close call and the Fed seems split on this) and two additional cuts in 2026. There is considerable uncertainty over the path of Fed rates because inflation remains above target, but the labor market is weakening.

Interest rate cuts will likely reduce the relative attractiveness of time and saving deposits, which have seen elevated growth over the past two years. As such, demand deposit growth is likely to strengthen. Demand deposits rose by 5.8% in the year to September, while, time and saving deposits rose by 22%.

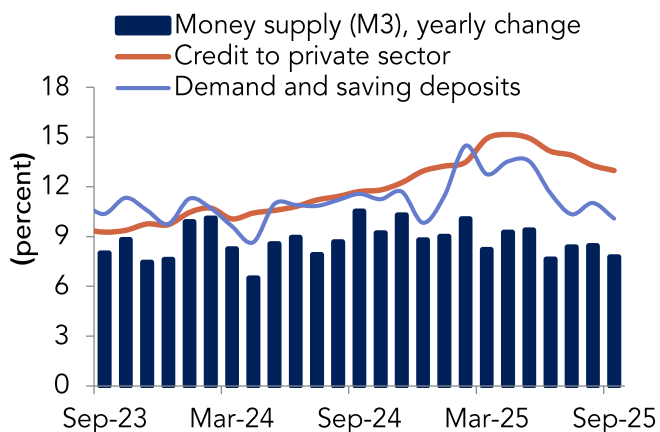
Lower interest rates, combined with strong activity in the local economy, will support already strong credit demand. In particular, mortgage demand is likely to regain momentum.

However, while credit demand is expected to remain strong, tight liquidity conditions are likely to dampen credit growth from this year's elevated levels. Recent trends suggest that direct lending by regional and international banks may help bridge some of the funding gap.

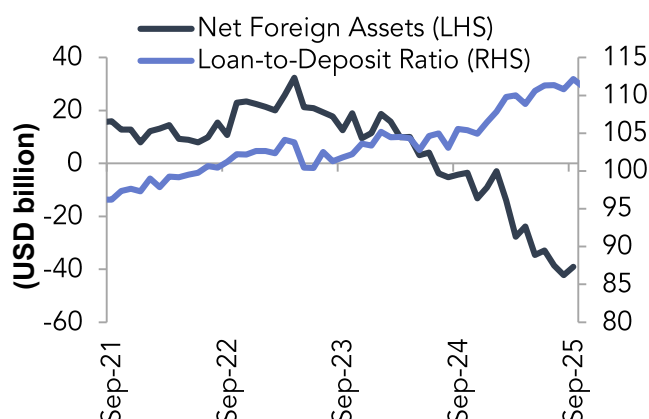
## Inflation

Consumer price inflation rose in the year to October 2025 compared with the same period in 2024, though it remains moderate at 2.0%. The main upward pressures continued to come from 'housing and utilities' and 'Personal care',

**Fig.10: Money supply, bank credit and deposits**  
(year-on-year change)



**Fig.11: Banking sector liquidity tightens**







*We expect slower inflation in 2026, affected by lower rises in housing due to base effects.*

*We forecast inflation at 2.1% and 1.7% for 2025 and 2026.*

social protection and miscellaneous goods and services’. On a year-on-year basis, inflation stood at 2.2% in October, higher than the 2% average recorded in Jan-October 25.

A major development in the latest CPI release is the revised base year, from 2018 to 2023, and the revised basket group weights, which had an impact on headline and sub-group inflation rates. The revised inflation rates show that prices in 2024 rose by 1.5%, lower than previously reported at 1.7% (for more on this, please refer to our latest [inflation update](#)).

By the end of 2025, we expect inflation to reach around 2.3%, as higher food prices offset easing rental inflation. Recent data from the Food and Agriculture Organization (FAO) show a 5.6% increase in global food prices in Jan-Oct 25, compared to a decline by 1.8% in FY 2024.

In 2026 we forecast inflation to slow due to slower house rental inflation. Housing inflation will ease due to base effects, a lower weight in the revised CPI basket, and the recently announced five-year rental freeze in Riyadh (Figure 12).

The recent depreciation of the US dollar is expected to have an impact on the cost of some imported goods and services in the Kingdom. The effects are likely to be transmitted through a number of product categories that are highly dependent on imports. However, the impact is expected to be limited.

Accordingly, and following the new CPI basket revisions, we forecast inflation at 2.1% in 2025, and 1.7% in 2026 (Figure 13).

Fig.12: Inflation in ‘Rentals for housing’ (year-on-year change)

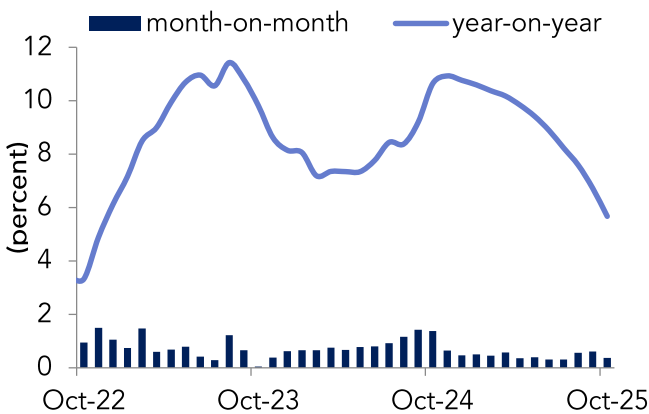
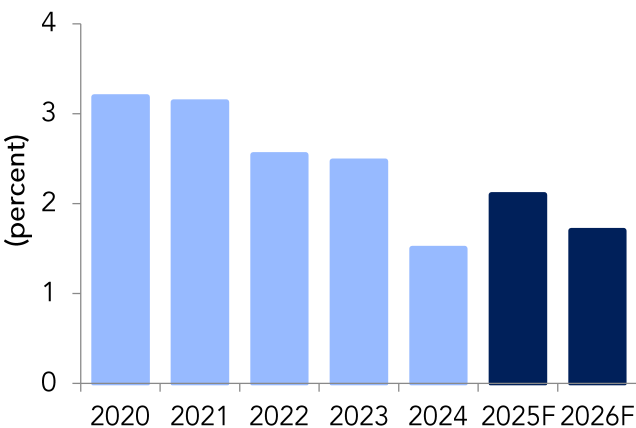


Fig.13: Inflation Forecasts (year-on-year change)







## Key data

	2019	2020	2021	2022	2023	2024	2025E	2026F
<b>Nominal GDP</b>								
(SAR b)	3,333	2,880	3,685	4,647	4,570	4,703	4,768	5,005
(USD b)	889	768	983	1,239	1,219	1,254	1,271	1,335
(% change)	0.3	-13.6	28.0	26.1	-1.7	2.9	1.4	5.0
<b>Real GDP (% change)</b>								
Oil	-3.9	-6.9	1.2	15.0	-9.0	-4.4	6.0	7.0
Non-oil activities	4.9	-3.0	10.2	12.4	7.0	6.0	4.6	4.8
Government activities	1.7	-0.6	1.1	4.6	1.1	3.3	1.7	1.5
Total	1.7	-3.8	6.5	12.0	0.5	2.7	4.3	4.8
<b>Oil indicators (average)</b>								
Brent (USD/b)	66	42	71	104	84	80	68	64
Production (m b/d)	9.8	9.2	9.1	10.6	9.6	9.0	9.5	10.1
<b>Budgetary indicators (SAR b)</b>								
Government revenue	927	782	965	1,268	1,212	1259	1103	1135
Government expenditure	1,059	1,076	1,039	1,164	1,293	1375	1353	1359
Budget balance	-133	-294	-73	104	-81	-116	-250	-224
(% GDP)	-4.0	-10.2	-2.0	2.2	-1.8	-2.5	-5.2	-4.5
Gross public debt	678	854	938	990	1,050	1216	1466	1689
(% GDP)	20.3	29.6	25.5	21.3	23.0	25.9	30.7	33.8
<b>Monetary indicators</b>								
Inflation (% change, average)	-2.1	3.4	3.1	2.5	2.3	1.7	2.1	1.7
SAMA Repo (% , year end)	2.25	1.00	1.00	5.00	6.00	5.00	4.25	3.75
<b>External trade indicators (USD b)</b>								
Oil export revenues	200	119	202	327	247	223	200	199
Total export revenues	261	172	275	410	319	304	293	303
Imports	137	123	135	169	183	206	227	242
Trade balance	124	48	140	241	136	98	66	61
Current account balance	38	-26	41	150	26	-16	-50	-56
(% GDP)	4.3	-3.3	4.1	12.1	2.1	-1.3	-3.9	-4.2
Official reserve assets	500	454	455	460	437	437	432	425
<b>Social and demographic indicators</b>								
Population (m)	30.1	31.6	30.8	32.2	33.7	35.3	36.3	37.1
Saudi Unemployment (15+, %)	12.0	12.6	11.5	8.2	7.8	7.0	6.3	6.2
GDP per capita (USD)	29,567	24,339	31,921	38,510	36,157	35,528	35,062	35,989

Sources: General Authority for Statistics, Saudi Central Bank and Ministry of Finance. Jadwa Investment forecasts for 2025 and 2026.



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