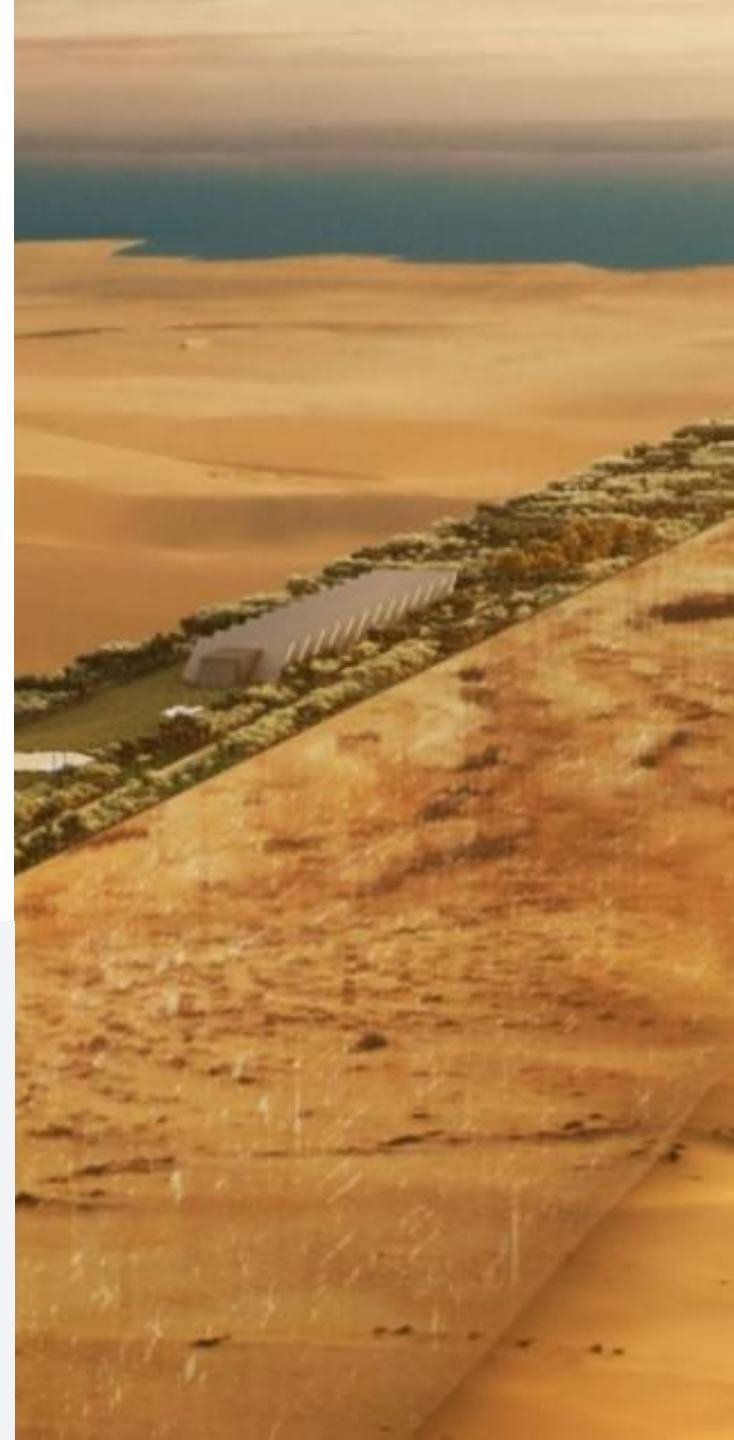


Saudi Budget 2026

Marching ahead





MARCHING AHEAD

2025 continued to be challenging for Saudi Arabia, as oil prices remained under pressure. The unwinding of OPEC+ production cuts helped increase volumes, though not enough to offset the decline in revenue. However, non-oil activities remained a bright spot, assisting strong GDP growth and supporting revenue to a certain extent.

Despite the pressure on revenue, the Saudi government continued investing in national infrastructure and economic diversification, leading to a wider deficit. Looking ahead, the deficit is expected to narrow as oil production improves in 2026 compared with 2025, while diversification gains continue to build. We also view positively the country's commitment to investing in its economy despite cyclical headwinds, particularly given that debt levels remain manageable and credit ratings strong.

Saudi Arabia continues to prioritize diversification. Beyond investing in core growth areas such as tourism, infrastructure, mining, and aviation, the country is also working to build capabilities in products not currently manufactured domestically. Additionally, Saudi Arabia is focusing on emerging growth sectors, including esports, digitalization, and AI.

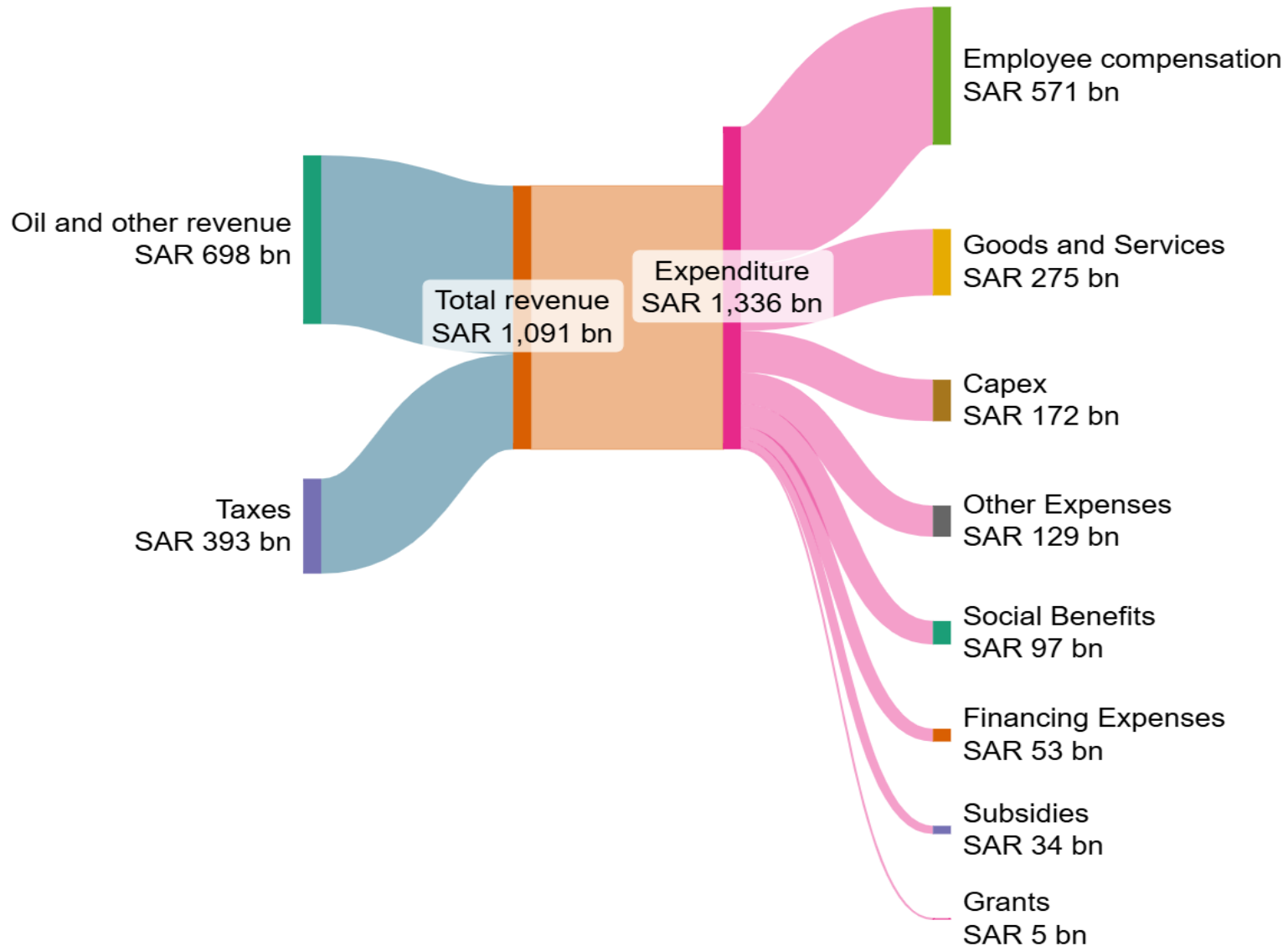
Banking remained a bright spot in the economy, supported by strong credit growth. With expectations of softer interest rates, this trend is likely to continue in the coming years. The banking sector also maintains solid credit quality, reflected in historically low NPL levels and strong capital buffers.

Inflation is well controlled and unemployment is at record low, while women's participation in the labor market continues to improve; these factors will support domestic consumption growth. Upcoming major business and sports events will further enhance national infrastructure and reinforce Saudi Arabia's appeal as an attractive tourist destination. Tourist inflows have already doubled in the past five years reflecting the ongoing change in paradigm.

We expect steady GDP growth triggered by counter cyclical investments to translate into a vibrant stock market performance in 2026. Further, a steady flow of IPOs, accommodative policy changes, rising foreign interest, political & currency stability, and opportunities across diversified sectors will continue to keep Tadawul as one of the most attractive places to invest in the region.



2025 Fiscal Position Snapshot





KEY HIGHLIGHTS – MACRO ECONOMY

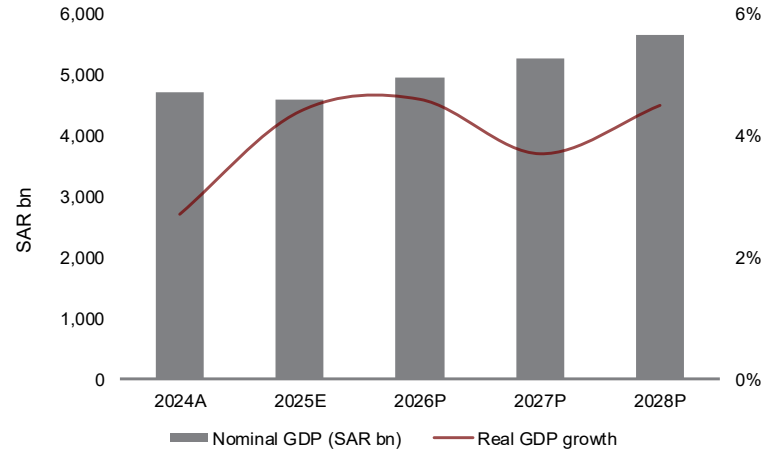
Macro indicators	2024A	2025E	2026P	2027P	2028P
Nominal GDP (SAR bn)	4,703	4,600	4,965	5,258	5,643
Real GDP growth	2.7%	4.4%	4.6%	3.7%	4.5%
Inflation	1.7%	2.3%	2.0%	1.8%	1.9%

- For 9M25, Saudi Arabia’s real GDP grew by 4.1%, driven primarily by a 4.7% expansion in non-oil activities. This improvement stemmed from stronger domestic demand, supported by higher consumption, rising investments, and government-led diversification efforts. Oil activities, meanwhile, grew by 3.9% despite a 14.5% decline in benchmark Brent prices during the same period, reflecting a steady, gradual recovery in oil production.
- According to preliminary estimates, the country is expected to close 2025 with real GDP growth of 4.4%, with momentum continuing into 2026, where growth is budgeted at 4.6%. The anticipated expansion in non-oil activities (5.0% YoY in 2025) is expected to remain the key driver of economic growth.
- Inflation for 2025 is projected to rise marginally to 2.3%, although it remains well contained and is expected to moderate further after 2026.

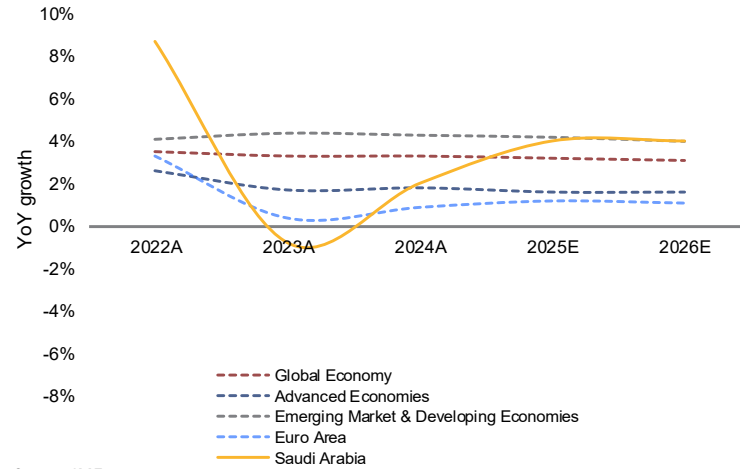


GDP growth to maintain its steady performance in 2026

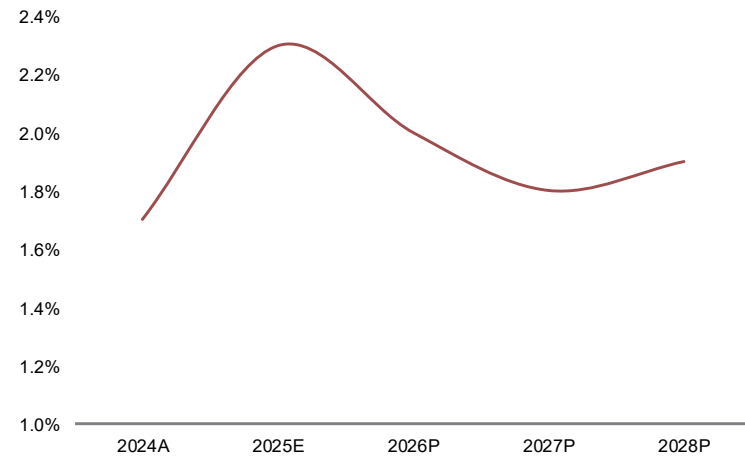
Nominal GDP vs Real GDP growth



Saudi GDP growth vs global peers



Inflation to remain under control



- Real GDP growth to remain steady in 2026
- Saudi to outperform global average in 2026
- Inflation under control; to further moderate post 2025



KEY HIGHLIGHTS - REVENUE

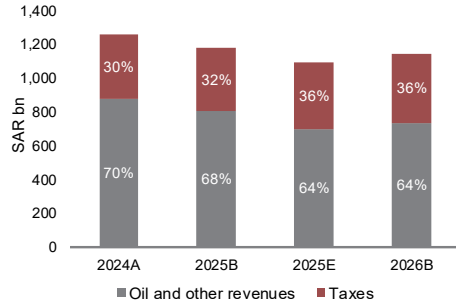
Revenue (in SAR bn)	2023A	2024A	2023A vs 2024A YoY (%)	2025E	2024A vs 2025E YoY (%)	2025B	2026B	2025E vs 2026B YoY (%)
Oil and other revenues	856	879	3%	698	-21%	804	735	5%
Taxes	357	381	7%	393	3%	379	412	5%
Income, Profits, and Capital Gains	39	32	-18%	32	0%	31	33	3%
Goods and Services	262	289	10%	297	3%	290	314	6%
International Trade and Transactions	22	24	9%	27	13%	23	28	4%
Other Taxes	33	36	9%	37	3%	36	39	5%
Total Revenues	1,212	1,259	4%	1,091	-13%	1,184	1,147	5%

- Saudi Arabia estimates its 2025e overall revenue to decline by 13.3% YoY to SAR 1,091bn, which is also 7.9% below initial budget levels. A sharper-than-expected drop in oil prices led to a 20.6% YoY decrease (vs 2024) and a 13.2% shortfall (vs budget) in oil and other revenue, which was the primary driver of the subdued performance. For 9M25, oil prices averaged USD 69.9/bbl, compared with USD 81.8/bbl in the same period last year. Average oil production, however, grew modestly to 9.3mb/d in 9M25 from 9.0mb/d in 9M24. Additionally, the elevated performance-linked dividend in 2024 contributed to a softer revenue outcome in 2025.
- This decline was partly offset by an expected 3.1% YoY increase in tax revenue, which is 3.7% above budgeted levels. As a result, the contribution of non-oil revenue is projected to rise to 46% in 2025e, compared with 40% in the prior year. Tax growth was supported by stronger non-oil activity, higher private consumption, increased imports, particularly capital goods and improved performance in specific sectors, notably insurance and financial services.
- Revenue in 2026 is expected to recover, growing by 5.1% YoY on the back of a more favorable economic environment. Higher oil production levels are also anticipated to support this rebound.

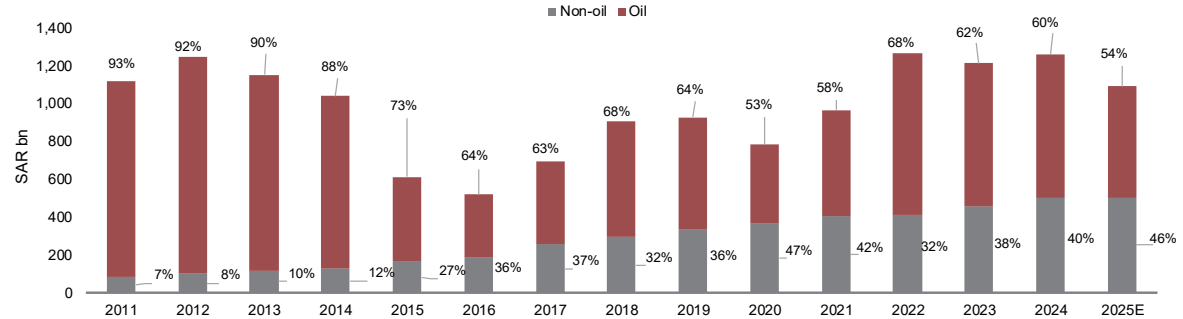


REVENUE SEGMENT WISE

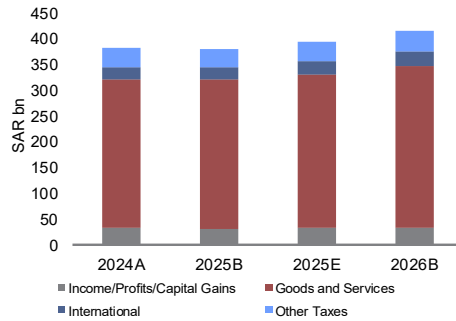
Revenue to recover in 2026 post decline



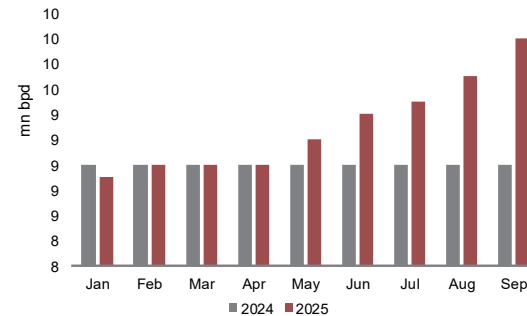
Non-oil revenue contribution will continue to increase as oil revenue comes under pressure



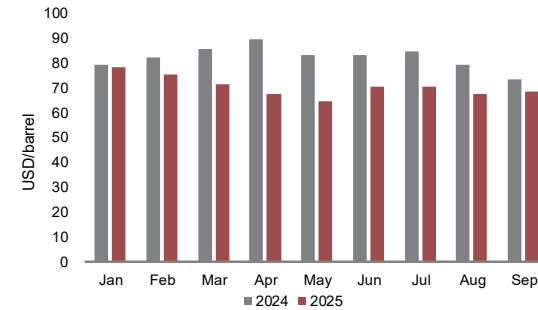
Goods and services to drive tax revenue



Crude oil supply increases in 2025...



... but average crude prices under pressure in 2025





KEY HIGHLIGHTS - EXPENDITURE

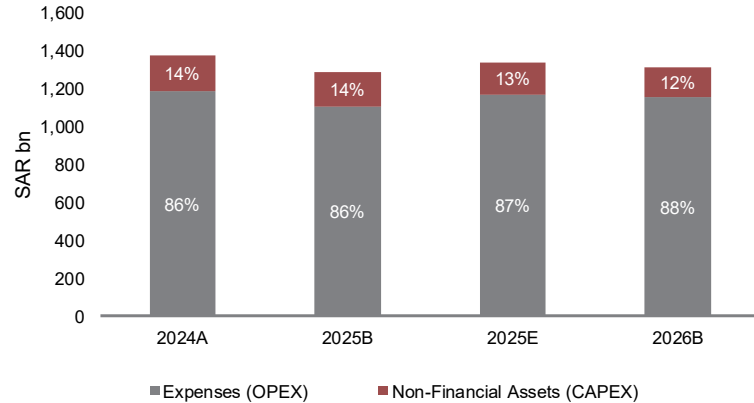
Expenditure (in SAR bn)	2023A	2024A	2023A vs 2024A YoY (%)	2025E	2024A vs 2025E YoY (%)	2025B	2026B	2025E vs 2026B YoY (%)
Expenses (OPEX)	1,107	1,184	7%	1,165	-2%	1,101	1,151	-1%
Compensation of Employees	537	562	5%	571	2%	561	584	2%
Use of Goods and Services	303	313	3%	275	-12%	265	247	-10%
Financing Expenses	38	45	18%	53	18%	59	64	21%
Subsidies	21	34	62%	34	0%	31	30	-12%
Grants	7	4	-43%	5	25%	2	5	0%
Social Benefits	97	101	4%	97	-4%	98	99	2%
Other Expenses	104	125	20%	129	3%	86	121	-6%
Non-Financial Assets (CAPEX)	186	191	3%	172	-10%	184	162	-6%
Total Expenditures	1,293	1,375	6%	1,336	-3%	1,285	1,313	-2%

- Total expenditure is expected to decline by 2.8% YoY to SAR 1,336bn, although this figure is 4.0% higher than the budgeted level. The increase reflects countercyclical fiscal measures taken by the government during the year, along with continued investments in priority sectors, diversification initiatives, and giga-project development.
- Capital expenditure, however, is projected to fall by 9.9% YoY in 2025 due to a high base in 2024, which included several non-recurring payments.
- For the full year 2025, spending across most major sectors including municipal services, infrastructure and transportation, economic resources, security and regional administration, public administration, and education is expected to decline. This is largely due to the completion of key projects, the impact of one-off payments made in 2024, and prudent cost management.
- This trend is broadly expected to continue in 2026, with expenditure budgeted to decrease by 1.7% YoY, driven by ongoing government efforts to manage costs and the completion of major projects over the past few years.

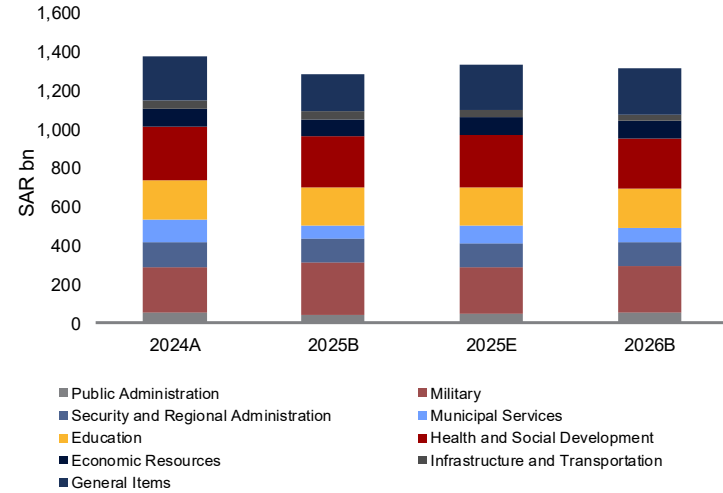


EXPENDITURE SEGMENT WISE

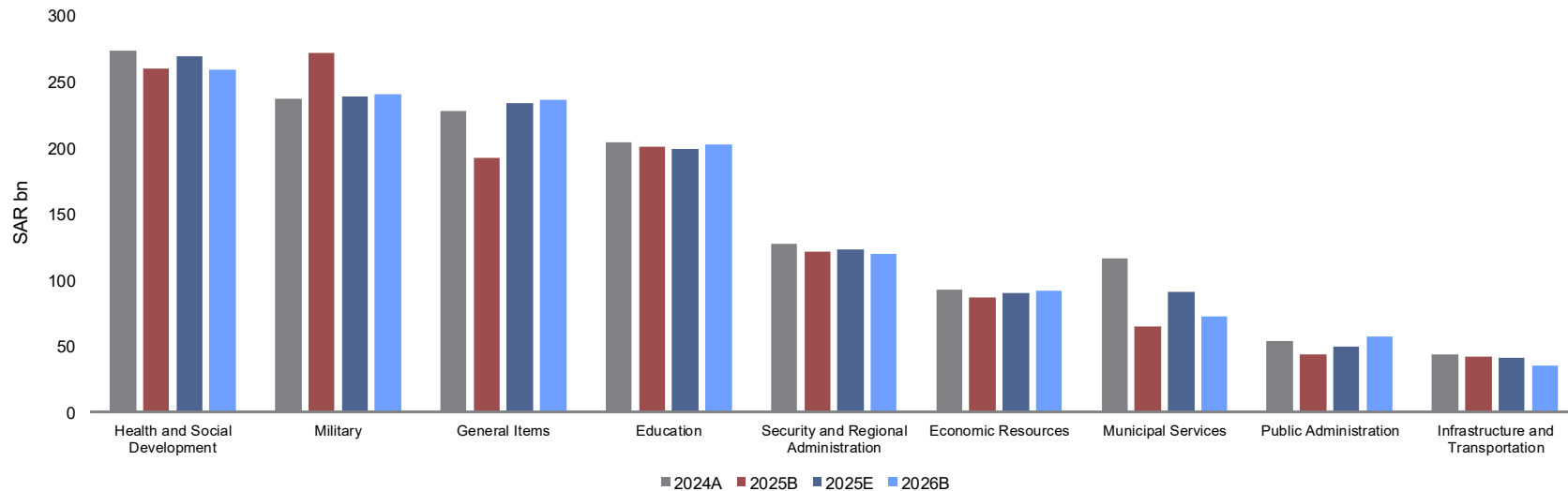
Expenditure higher than budgeted in 2025, to decline in 2026



Most heads see higher outlay, relative to budget in 2025



Outlay on education, economic resources, and public administration to increase; all other heads to either fall or remain flat





KEY HIGHLIGHTS – SURPLUS AND DEBT

Medium-Term Fiscal Projections (in SAR bn)	2024A	2025B	2025E	2026B	2027P	2028P
Total Revenues	1,259	1,184	1,091	1,147	1,230	1,294
Total Expenditures	1,375	1,285	1,336	1,313	1,350	1,419
Budget Surplus\Deficit	-116	-101	-245	-165	-120	-125
as a % of GDP	-2.5%	-2.3%	-5.3%	-3.3%	-2.3%	-2.2%
Debt	1,216	1,300	1,457	1,622	1,742	1,867
as a % of GDP	25.9%	29.9%	31.7%	32.7%	33.1%	33.1%

Saudi Arabia continues to rank among the highest-rated sovereigns globally.

Rating agency	Rating	Outlook	Date
S&P Global	A+	Stable	Mar-25
Moody's	Aa3	Stable	Nov-24
Fitch	A+	Stable	Apr-23

- Saudi Arabia is expected to post a deficit of SAR 245bn in 2025e (vs. a budgeted deficit of SAR 101bn), compared with a deficit of SAR 116bn in 2024. Lower oil revenue, continued investment in economic growth, and countercyclical fiscal measures were the main reasons for the widening deficit.
- In its base-case forecast, the government expects a deficit of SAR 165bn in 2026 and anticipates deficits continuing through 2028. Conservative revenue assumptions and sustained investment in the economy largely explain this outlook. Under a best-case scenario, the deficit is projected to narrow to SAR 107bn, while in the worst-case scenario it could widen to SAR 250bn.
- The deficit will be financed through higher borrowing relative to previous years. Sovereign debt is expected to reach SAR 1,457bn by the end of 2025, up from SAR 1,216bn in the prior year.
- However, the debt-to-GDP ratio is expected to remain at a manageable 30–33% between 2025 and 2028e.



ECONOMIC MOMENTUM INDICATORS

- **Financial Sector:** Total bank assets increased by 13% YoY, driven by more than 14% growth in total bank credit as of 9M25. Non-performing loans continued to decline, reaching a historically low level of 1.2%, while the capital adequacy ratio stood comfortably at 19.6% at the end of 2Q25.
- **Private Sector:** Gross Fixed Capital Formation (non-government) grew by 4.6% in 1H25 compared with the same period last year.
- **Industrial Sector:** Saudi Arabia's PMI averaged 60.2 (YTD October 2025), its second-highest level since 2014. PMI readings have remained above 50 for four consecutive years. The Kingdom's PMI performance surpassed that of developed economies including the EU, the USA, Japan, and South Korea, and also exceeded China's average for the same period.
- **Retail:** For YTD August 2025, e-commerce sales increased by 64.3% YoY, while POS transactions rose by 6.1% YoY. The Kingdom was ranked number one globally in international tourism revenue growth by UN Tourism in its World Tourism Barometer. Between 1Q19 and 1Q25, international tourist arrivals grew by a robust 102%, outpacing both the global average of 3% and the Middle East average of 44%.
- **Foreign Direct Investment (FDI):** FDI net inflows reached SAR 46.5bn in 1H25, representing annual growth of over 29%. According to GOSI, FDI-related jobs created for Saudis increased by more than 105k in 9M25, bringing the total number of jobs generated since the launch of the National Investment Strategy to approximately 455k.
- **Employment:** Total unemployment in 2Q25 decreased to 3.2%, compared with 3.3% in 2Q24. Unemployment among Saudis declined to a historically low 6.8% in 2Q25, a 30bps improvement versus 2Q24. Female labor-force participation reached 34.5%, surpassing the Saudi Vision 2030 target of 30%.



SETTING UP A SOLID BASE

- **Technology and Digitalization:** The telecommunications and technology market is expected to grow by 5% YoY, reaching SAR 190bn in 2025. The Kingdom has achieved a global leadership position in empowering women in AI and ranks third worldwide in the growth rate of AI-related jobs.
- **Housing:** In 2025, more than 107k housing units were delivered in partnership with various real estate developers. This follows the country's achievement of a 65.4% homeownership rate in 2024, surpassing the 2025 target of 65% and placing it firmly on track to meet the 2030 goal of 70%. In 2026, the Kingdom plans to develop an additional 80k housing units, which will help sustain momentum in the real estate sector.
- **Industrials:** Saudi Arabia launched the Standard Incentive Program in 2025 to promote the domestic production of goods not currently manufactured locally. Under this initiative, 43 projects in the automotive, machinery & equipment, and chemicals sectors were approved. These projects are expected to contribute SAR 2.3bn to GDP in 2025 and create 5,710 jobs.
- **Privatization:** To reduce the public sector's investment burden, Saudi Arabia has been expanding private sector participation in key areas. In 2025, the government awarded concessions for eight port terminals, increasing total port capacity to handle more than 1,724mn tons. These initiatives support the Kingdom's objective of increasing the private sector's share of GDP to 65% by 2030 and doubling private investment to reach SAR 2tn.
- **Digital Industries and Gaming:** In 2025, the Kingdom hosted the second edition of the Esports World Cup in Riyadh, attracting more than 3mn visitors, 20% of whom came from outside Saudi Arabia. Furthermore, to stimulate the Creative and Digital Industries sector, the government supported the establishment of over 50 local gaming companies through a dedicated investment fund.



LONG TERM GROWTH DRIVERS

- **Public Investment Fund (PIF) and National Development Fund (NDF):** In 1H25, PIF launched the Expo 2030 Riyadh Company to manage and execute Expo 2030 in Riyadh. It also invested in Humain, a company specializing in AI technologies. The NDF signed two financing agreements with the private sector totaling SAR 5.5bn to support development projects.
- **National Tourism Strategy:** Saudi Arabia aims to create 1.6mn new jobs in the tourism sector and increase its contribution to GDP to 10% by raising annual tourist numbers to 150mn by 2030, up from more than 100mn in 2023.
- **Sports Sector:** The Kingdom has secured major international events, including the 2027 AFC Asian Cup and the 2034 FIFA World Cup. Saudi Arabia is also strengthening its Esports segment and will host the first edition of the Esports Olympic Games in 2027, in addition to organizing the annual Esports World Cup in Riyadh.
- **National Transport and Logistics Strategy:** The country is developing two new international airports in Abha and Taif. The new Abha International Airport will increase capacity to 8mn passengers per year, while the new Taif International Airport is expected to boost capacity from 0.6mn to 5mn passengers per year.



BUDGET IMPACT ON SECTORS

Sector	Budget impact	Companies	Our view
BFSI	Continued investments in housing and infrastructure to address key international events and upcoming airport projects to aid in credit growth.	Al Rajhi SNB SAB Alinma SAB	★★★★★
Materials	Consistent outlay in housing and infrastructure projects.	Saudi Cement Arabian Cement Eastern Cement	★★★
Capital goods	Steps taken to develop new industries and encouraging manufacturing in new areas.	Astra Industrial Shaker Bawan	★★★★★
Transportation	Investments in new airports, privatization initiatives and improvement in tourism	Budget Saudi Theeb Lumi	★★★★★
Retail	Stable inflation, improvement in digital economy, and increase in tourism activities	Extra Jarir Abo Moati	★★★★
Entertainment	Upcoming key sports events, focus on Esports, and increasing tourism activity	Tihama Advertising Arabian Contracting	★★★★★
F&B	Focus on sporting and tourism	Almarai Saudia Dairy Tanmiah Food	★★★
Healthcare	Increasing primary health coverage, increasing bed capacity, upcoming new hospitals, and privatization in the sector	Al Habib Care Mouwasat	★★★★
IT	Increasing focus on AI and digitization	Solutions by STC	★★★★★
Utilities	Continued focus on setting up renewable energy source	Saudi Electricity ACWA Power	★★★★
Real estate	Steady investments in housing and infrastructure	Retal Emaar	★★★★★



CONCLUSION

- The Saudi Budget 2026 represents a careful balancing act, advancing the Kingdom toward its medium-term goals while managing a transitioning economy and navigating headwinds from weak oil prices.
- Real GDP is expected to grow at a solid 4.4% YoY, driven largely by non-oil activities, which are projected to expand by a robust 5.0%.
- Revenue came under pressure due to lower oil prices, as steady but gradual increases in production and strong non-oil sector growth were insufficient to offset pricing weakness.
- Despite revenue pressures, the government continued investing in social development, infrastructure, and diversification initiatives. As a result, the estimated budget deficit is expected to more than double to 5.3% in 2025, compared with 2.5% in 2024. This trend is expected to persist over the next three years, reflecting conservative revenue assumptions and the government's commitment to maintaining its developmental investments.
- Debt levels will rise but remain manageable at 30-33% of GDP between 2025 and 2028, supported by Saudi Arabia's strong credit ratings across major agencies.
- Saudi Arabia continues to prioritize investment in housing, and infrastructure activity is expected to accelerate ahead of major international events scheduled between 2027 and 2034. The budget reinforces the government's commitment to increasing private-sector participation, diversifying the manufacturing base, and capitalizing on opportunities in digitalization and AI.



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