جدوى للإستثمار
Jadwa Investment

October 2024

2025 Preliminary Budget Statement

- The Ministry of Finance (MoF) has published the preliminary budget statement (PBS) for fiscal year 2025 and the mid-year economic review with detailed estimates for 2024 budget outturns.
- The finalized budget with full revenue and spending breakdowns will be released in December, when we will publish a correspondingly more detailed report.
- The PBS highlights the government's policy to support the Kingdom's economic transformation, while maintaining fiscal space to deal with negative shocks. The government's fiscal position remains strong.
- The PBS outlines larger budget deficits for 2024 and forecast years than the previous set of projections in the 2024 budget statement (Figure 1). PBS deficits average 2.7 percent of GDP in 2025-2027, versus previous projections averaging 1.9 percent of GDP in 2024-2026.
- For 2025 the PBS projects year-on-year declines in both revenue (by 4.3 percent)—most likely due to lower oil revenue forecasts—and spending (by 5.2 percent).
- A decline in budget spending in 2025 could weigh on economic growth, but it is worth noting that:
    - overspending relative to budget is likely if oil revenue tracks ahead of budget.
    - and the activities of other public-sector entities, notably the Public Investment Fund (PIF) and the National Development Fund (NDF), will support the economy.
- Wider budget deficits for 2024-2027 imply larger increases in government debt. Nonetheless, government debt would remain low, below 35 percent of GDP by 2027.

Figure 1: 2025 PBS projects larger budget deficits (percent of GDP)

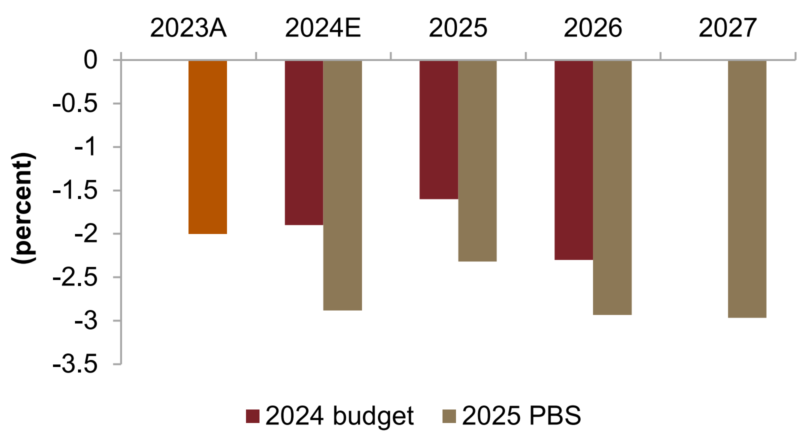

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Table 1: 2024 Budget Performance (SR billion)

	2023A	2024B	2024E	percent change y-o-y (2024E v 2023A)	percent over/under budget (2024E v 2024B)
Total revenues	1,212	1,172	1,237	2.0	5.5
Total tax	357	361	362	1.5	0.3
Tax on Income, Profit & Capital Gains	39	31	30	-22.4	-1.6
Taxes on Goods & Services	262	279	277	5.5	-0.7
Taxes on International Trade & Transactions	22	21	22	-0.7	2.6
Other taxes (Zakat)	33	30	33	-1.1	10.4
Other revenues (includes oil)	856	812	875	2.3	7.8
Total spending	1,293	1,251	1,355	4.8	8.3
Current Expenditure	1,107	1,062	1,158	4.6	9.0
Compensation of Employees	537	544	550	2.4	1.1
Goods and Services	303	277	312	2.8	12.8
Financing Expenses (interest costs)	38	47	45	19.1	-3.7
Subsidies	21	38	38	81.8	0.7
Grants	7	4	5	-26.4	51.9
Social Benefits	97	62	96	-1.0	54.3
Other	104	91	112	8.2	22.9
Capital Expenditure	186	189	198	6.2	4.6
Budget balance	-81	-79	-118	-	-
percent of GDP	-2.1	-1.9	-2.9		

Note: A = actual; B = budget; E = estimate
Source: MoF

Total revenue in 2024 is estimated to be higher than budgeted.

- The PBS estimates that total revenue in 2024 will be 2 percent higher year on year and will outperform the budget, by 5.5 percent (Figure 2). Non-oil tax revenue is estimated in line with budget, up by 2 percent year on year as solid growth in goods and services tax (largely VAT) offsets lower income tax receipts. The latter declined after strong intake in 2023 (due to corporate performance in 2022) (Figure 3). This is conservative given non-oil tax revenue was 5.5 percent higher year on year in H1 2024.

Oil revenue is the main driver of revenue outperformance.

- Revenue outperformance in 2024 is therefore linked to oil revenue. We think that the full-year impact of Aramco's performance-linked dividend (around SR130 billion) has been the primary driver for oil revenue outperforming budget assumptions.

Figure 2: Total budget revenue (SR billion)

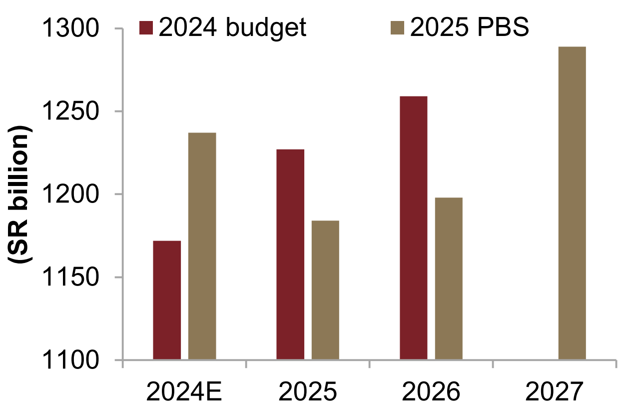
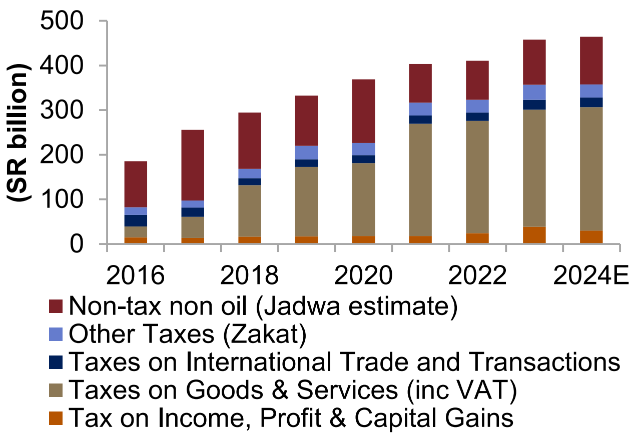


Figure 3: Non-Oil Revenue (SR billion) **has more than doubled since 2016**



Estimated spending is around 8 percent higher than budgeted in 2024…

- MoF estimates total spending will be 4.8 percent higher year on year, overshooting the budget by 8.3 percent (Figure 4). Spending shifted higher due to three factors: revenue overperformance, the Kingdom's ample fiscal space and the government's policy priorities to accelerate economic diversification and improve the quality of public services and infrastructure.

...as the government makes use of the Kingdom's fiscal space to support the development of the non-oil economy.

- Spending on goods and services (a category which in part links to procurement for investment spending) and social benefits contributed significantly to higher than budgeted spending, as well as capital spending for which the budget allocation was already sizeable (Figure 5). The 2024 budget had planned for social benefit spending to fall, but the continuation of the citizens account parameters contributed to spending on benefits remaining basically flat year on year and therefore higher than planned (citizens account costs are likely to total SR40 billion).

Compensation spending is in-line with budget.

- Compensation of employees is largely in-line with budget. This is positive for the Kingdom's fiscal structure: although wage spending remains the largest line-item, accounting for just over 40 percent of total spending, it is gradually declining, both as a percent of total spending and as a percentage of non-oil GDP (Figure 9).

2025 and medium-term projections

- The PBS projects declines in both revenue (by 4.3 percent) and spending (5.2 percent) in 2025. The larger decline in spending would help narrow the budget deficit to 2.3 percent of GDP.

The 2025 budget plans for lower revenue, due to lower oil revenue assumptions.

Table 2: 2025 PBS (SR billion)

	2024E	2025	2026	2027
Total revenues	1,237	1,184	1,198	1,289
Total expenditures	1,355	1,285	1,328	1,429
Budget balance	-118	-101	-130	-140
percent of GDP	-2.9	-2.3	-2.9	-3.0

Note: E = estimate
Source: MoF

- The main driver of lower overall revenue in 2025 must be lower oil revenue assumptions, if one assumes that the budget

Figure 4: Total Budget Spending (SR billion)

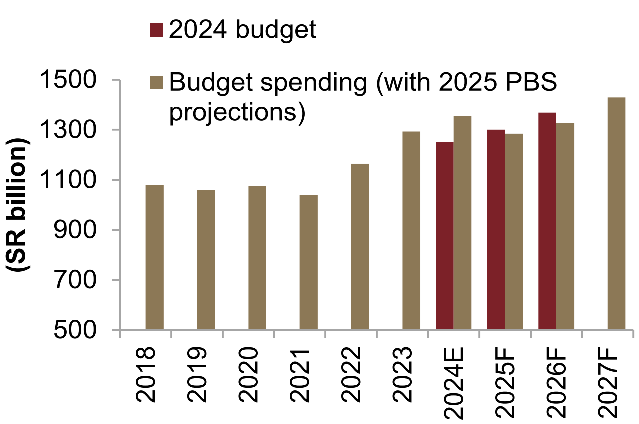
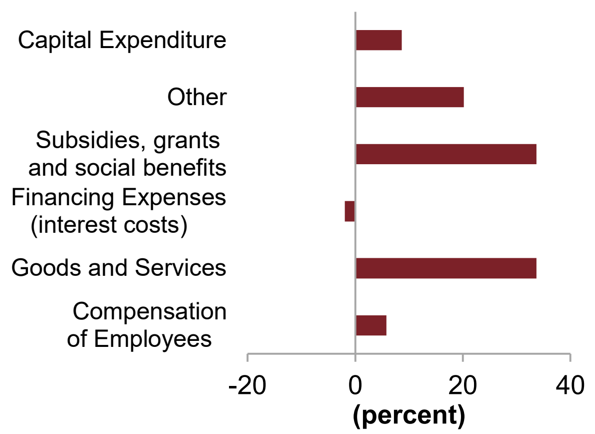


Figure 5: Contribution to 2024 budget overspending (percent contribution to overspending)



Source: MoF (the mid year economic and fiscal performance report 2024) incorporates total non-oil revenue (tax and non-tax) at a similar growth rate and share of non-oil GDP (such that non-oil revenue would increase close to SR495 billion).

The 2025 budget also plans for spending to decline year on year, by 5.2 percent.

- We estimate that the assumed oil price for constructing the budget is roughly $75 per barrel. This assumes that the budget is taking oil output levels in line with OPEC+ agreements (which means higher average output in 2025) and that the budget incorporates a lower level of dividends from Aramco.

This could weigh on economic growth…

- The PBS does not give spending breakdowns and so it is not clear what would drive lower spending. Cuts could be distributed across more discretionary line items, such as goods and services and capital spending, both of which have risen substantially in recent years, or savings could be made in the 'other spending' category.

- A decline in budget spending in 2025 could weigh on economic growth, but it is worth noting that:

...but the government could spend more than budgeted, for example, if budget revenue is stronger than assumed.

    - overspending relative to budget is likely if oil revenue tracks ahead of budget. Figure 6 shows that when oil prices are high, such as in 2011-2014, spending responds to the higher revenue intake with higher-than-budgeted spending. On the other hand, in 2016-2021, during a more moderate oil price climate, spending tracked closer to budgets. This pattern is also seen since 2021, as the government seeks to accelerate its policy priorities, including with higher spending on investment and goods and services needed for that investment (Figure 10).

And the PIF will continue to support the non-oil economy through significant capital deployment.

    - the PIF and NDF will continue to support the non-oil economy, through capital deployment and credit provision. The PIF's increased domestic focus could see it further boost its level of capital deployment in the Kingdom in 2025.

- For 2026-2027 the PBS pencils in a resumption of revenue and spending growth, with particularly strong gains in 2027. These revenue and spending numbers are subject to revision, but the main takeaway is that the government is willing to plan for budget deficits up to 3 percent of GDP in the coming years to help support growth, economic diversification and the quality of life of citizens.

Figure 6: Spending often adjusts higher when oil revenue is higher than budgeted

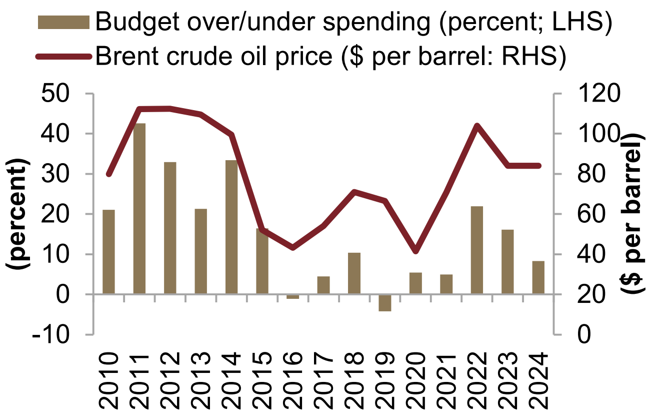
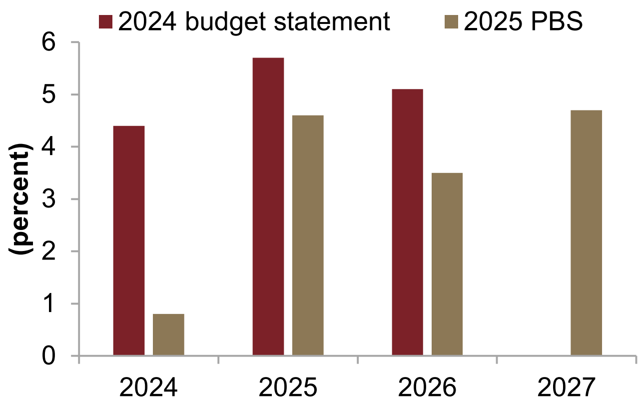


Figure 7: Real GDP growth assumptions have been revised lower by the government in the PBS



The government's real GDP growth projections imply real non-oil growth of around 4 percent.

- That said, the government has revised down its projections for real GDP growth (Figure 7). In 2024, this is largely to do with constraints on oil output. The PBS does not provide a breakdown by oil and non-oil GDP, making it hard to pinpoint the drivers of the downward revisions for 2025-2026. For 2025, assuming the government projection incorporates a rebound in oil production in line with the latest OPEC+ plan, then the forecast for 4.6 percent real GDP growth would imply real non-oil GDP growth of around 4 percent.

The fiscal break-even oil price has risen, but spending mix has improved

The Kingdom's fiscal break-even oil price has risen in recent years…

- The non-oil primary budget deficit (percent of non-oil GDP) has widened modestly from 2022 after improving sharply since 2014. This reflects strong spending growth from 2022 onwards as the government seeks to accelerate Vision 2030 projects.

...due to higher government spending to deliver on Vision 2030 objectives...

- The Kingdom's break-even oil price for the budget has increased in recent years due to higher government spending and lower oil production in line with OPEC+ agreements — lower oil production and exports means a higher price is needed to achieve the same oil revenue (Figure 8).

- The fiscal break-even oil price is a volatile metric and needs to be interpreted carefully because it is influenced by a number of factors that can change significantly from year to year—notably, government spending, oil production levels and the size of Aramco dividends.

...and because of lower oil production in line with OPEC+ agreements.

- For example, if oil production increases in 2025, in line with the latest OPEC+ stance, and if spending declines as per the PBS, then the fiscal break-even oil price could decline close to $90/b (depending on the level of Aramco dividends).

At the same time, the spending mix of the budget has improved.

- At the same time, the spending mix has improved. This is illustrated by the decline in wage spending as a percentage of non-oil GDP (Figure 9). This line item has fallen to 21 percent from 28 percent in 2011. Meanwhile, investment spending and spending on goods and services, which are naturally more flexible spending items than wage spending, have increased recently as a combined percentage of non-oil GDP to 19 percent from 15 percent in 2021 (Figure 9).

- While overall budget spending has increased, non-oil revenue has remained fairly stable in 2022-2024 at close to 18 percent of

Figure 8: Fiscal breakeven oil price has risen lately as the government supports Vision 2030

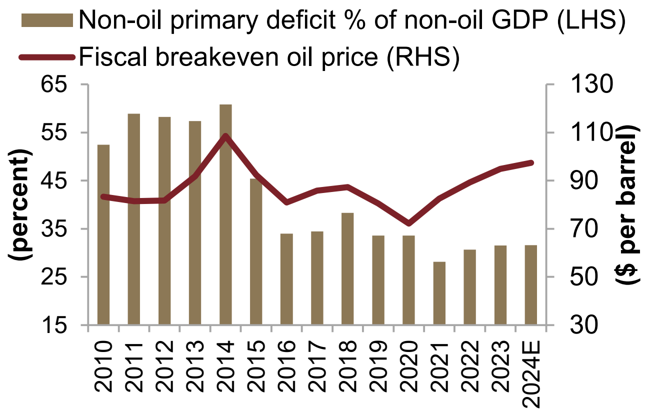
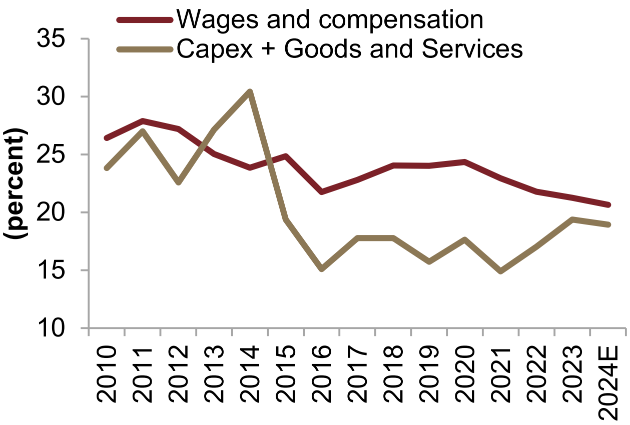


Figure 9: Wage, capital and goods and services (percent of non-oil GDP)



Non-oil revenue has reached close to 18 percent of non-oil GDP.

non-oil GDP. The IMF, in its latest Article IV report, highlighted the potential for extra non-oil revenue. However, given its efforts to promote the private sector, the government has not introduced major new revenue-raising measures.

Government Debt Remains Low

Budget deficits in 2024-2027 will lead to further gradual increases in government debt.

- Wider budget deficits for 2024-2027 imply larger increases in government debt in these years (Figure 10), assuming that deficits are largely financed by government borrowing.
- However, government debt will remain low, below 35 percent of GDP by 2027. In addition, the government maintains substantial deposits at the Saudi Central Bank (SAMA).

Nonetheless, government debt will remain low and the government balance sheet strong.

- The PBS estimates that the government reserve, the largest chunk of government deposits at SAMA, will remain stable at SR390 billion by end-2024. The government also has some current account deposits at SAMA.
- The magnitude of the government's total deposits at SAMA represents a sizeable liquidity buffer, equivalent to 10.7 percent of GDP, in excess of $100 billion (Figure 11). Although the level of these deposits declined up to 2021, the government seems minded to preserve this liquidity buffer at its current level. They have been broadly stable in 2021-2024.

Figure 10: Government debt/GDP (percent)

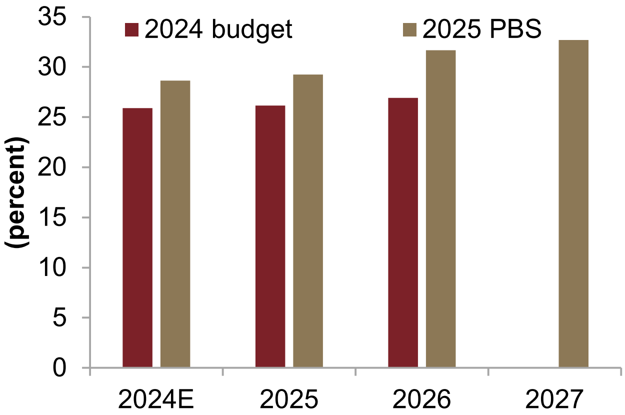
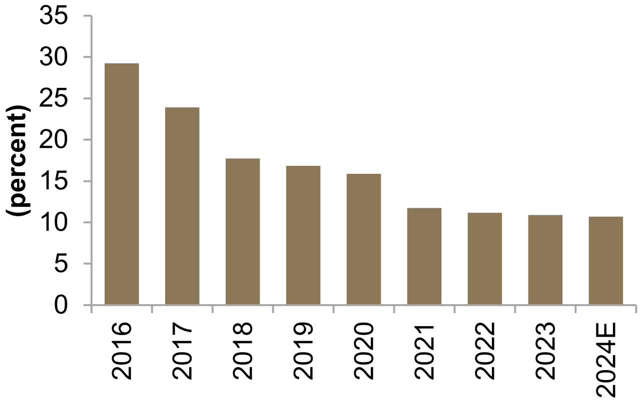


Figure 11: Government deposits at SAMA
(percent of GDP)



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