جدوى للإستثمار
Jadwa Investment

December 2024

Saudi Arabia's 2025 Budget

- The headline numbers in the finalized 2025 budget were almost identical to the Preliminary Budget Statement which we analysed here. The budget statement added detailed breakdowns for revenue and spending which we assess in this report.

- Overall, the budget 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 budget projects revenue to decline by 4 percent due to lower oil revenue assumptions and conservative non-oil revenue projections. The lower oil revenue assumptions are prudent given the current softness in oil markets.

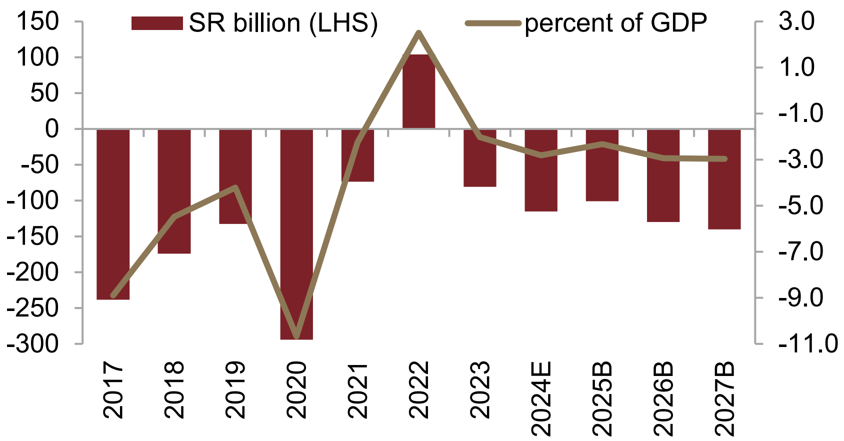
- The spending plan builds on these revenue assumptions and plans for a 4.7 percent cut in spending for 2025 versus the expected 2024 outturn. Some spending overruns are likely and if revenue outperforms expectations then we imagine government spending would also adjust higher.

- Spending has increased markedly in 2022-2024, as the government has sought to accelerate progress with Vision 2030, and spending levels in the 2025 budget remain high, at close to SR1.3 trillion.

- Looking more broadly across the public sector, the PIF and NDF will continue to deploy capital domestically at similar or higher levels in 2025 to push ahead with Vision 2030 initiatives including giga projects and preparations for upcoming major events.

- The budget expects a deficit of SR101 billion in 2025, or 2.3 percent of projected GDP, with government debt rising to 29.9 percent of GDP (Figure 1). This remains a modest debt burden by international standards.

Figure 1: The budget plans for deficits up to 3 percent of GDP to support Vision 2030 delivery



For comments and queries please contact:

Toby Iles
Chief Economist
tiles@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

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The spending plan in the fiscal budget 2025 is almost identical to that laid out in the preliminary budget statement.

Interest costs and compensation spending edge up in 2025.

Goods and services surged in 2022-2024 because of the ramp up in project spending and higher global inflation.

Capex rose strongly in 2022-2024 and while it is set to fall to SR184 billion in 2025, this is still a high level.

<u>Expenditure:</u>

The spending plan is almost identical to that laid out in the preliminary budget statement (PBS), including a 4.7 percent cut in spending for 2025 versus the expected 2024 outturn. This means spending would be SR60 billion lower than in 2024. Nonetheless, spending has increased markedly in 2022-2024, as the government has sought to accelerate progress with Vision 2030, and spending levels in the 2025 budget remain high, at close to SR1.3 trillion (Table1; Figure 2).

A smaller allocation for goods and services is the main contributor to lower overall spending in 2025 (down by SR33 billion). The “other expenditure” category is the second key contributor to lower spending in the budget (down by SR27 billion), while the envelope for capex is also trimmed (by SR14 billion).

Meanwhile, interest costs are set to increase (by SR14 billion) and compensation spending edges up (by SR3 billion). In real terms, adjusting for inflation, this would represent a slight decline in wage costs. This could be explained by natural attrition as employees retire, but there is a risk of some slippage on this line-item.

Spending on wages remains by far the largest line-item, accounting for 44 percent of total planned expenditure and by its nature this spending item is sticky. Nonetheless, as a percent of non-oil GDP, compensation spending has trended down to an estimated 21 percent of non-oil GDP in 2024 from a recent peak of 24 percent in 2018-2020 (Figure 5).

Goods and services surged in 2022-2024 because of the ramp up in project spending related to Vision 2030 and higher global inflation which impacted import costs. The goods and services line item is in part linked to project spending. The budget cuts spending on goods and services to SR265 billion. Nonetheless, this remains high compared with an average of SR182 billion in 2016-2022.

Similarly, capex rose strongly in 2022-2024 and while it is set to fall to SR184 billion in 2025, this is still a high level, in line with the outturn in 2023 and higher than the average of SR160 billion for 2016-2022 (Figure 3).

Furthermore, the budget highlights one-off spending items in 2024 which may skew the year on year comparisons. For example, 2024 capex included outlays for land and property which would not have provided much direct boost to the economy but will facilitate project execution. The budget says the 2025 capex allocation is 18 percent

Figure 2: Budget spending dips in 2025 but remains at high levels

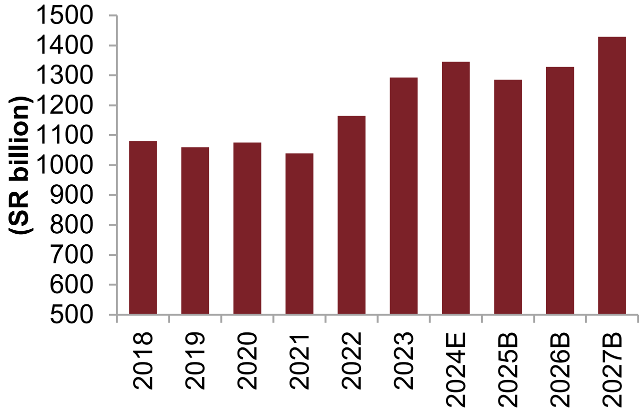


Figure 3: Capex and Goods and Services spending remain substantial (SR billion)

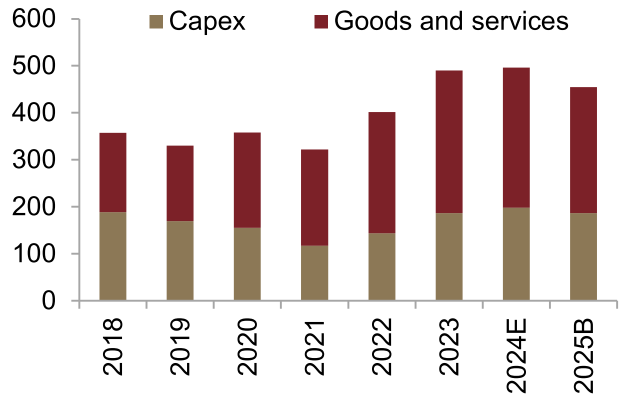


Table 1. 2025 Budget (SR billion)

	2024B	2024E	2025B	Difference (2025B v 2024E)
Total revenues	1,172	1,230	1,184	-46.0
Total tax	361	366	379	13.0
Tax on Income, Profit & Capital Gains	31	30	31	1.0
Taxes on Goods & Services	279	280	290	10.0
Taxes on International Trade & Transactions	21	22	23	1.0
Other taxes (Zakat)	30	34	36	2.0
Other revenues (includes oil)	812	863	804	-59.0
Total spending	1,251	1,345	1,285	-60.0
Current Expenditure	1,062	1,148	1,101	-47.0
Compensation of Employees	544	558	561	3.0
Goods and Services	277	298	265	-33.0
Financing Expenses (interest costs)	47	44	59	15.0
Subsidies	38	34	31	-7.0
Grants	4	4	2	-2.0
Social Benefits	62	97	98	1.0
Other	91	113	86	-27.0
Capital Expenditure	189	198	184	-14.0
Budget balance	-79	-115	-101	14.0
percent of GDP	-1.9	-2.8	-2.3	

Source: MoF

Note: B = budget; E = estimate

higher than 2024 capex excluding these one-off expenses. This implies the one-off capex expenses were around SR40 billion in 2024.

Social benefit spending is set to stay the same as in 2024 as the citizens account program has been extended.

Social benefit spending is set to stay the same as in 2024 as the citizens account program has been extended with similar parameters for another year. Payments under the citizens account program, at around SR41.5 billion, account for 43 percent of social benefit spending.

The Ministry of Finance (MOF) is planning for lower spending because it assumes that revenue will be lower than in 2024. We expect the government would respond with higher spending if revenue were to outperform the budget during 2025, although current oil market dynamics don’t necessarily point in that direction (Figure 4).

The government continues to have fiscal space with debt at around 30 percent of GDP and could fund a larger deficit in 2025.

Spending may overshoot mildly even if revenue does not outperform, given a number of interim Vision targets for 2025 and the pipeline of projects to be delivered including events with hard deadlines. Moreover, the government continues to have fiscal space with debt at around 30 percent of GDP and could fund a deficit larger than 2.3 percent of GDP in 2025.

The PIF will continue to deploy capital domestically at similar or higher levels in 2025 to push ahead with Vision 2030 initiatives.

Finally, when considering the potential negative impact on the economy from a dip in government spending, it is important to note that the PIF will continue to deploy capital domestically at similar or higher levels in 2025 to push ahead with Vision 2030 initiatives including giga projects and preparations for events such as the 2029 Asian Winter Games, Expo 2030 and the 2034 football World Cup. And, furthermore, the activities of the NDF also remain a source of support to the economy.

'Military' remains the largest element of spending and is set for a further increase in 2025, due to serious efforts to localize military industries.

Looking at the budget from a sectoral level, 'Military' remains the largest element of spending and is set for a further increase in 2025 (up 5 percent on this year's estimate) (Table 2). Efforts to localize military industries explains at least part of the increase, with a target of 25 percent of military purchases from the local market by 2025 and 50 percent by 2030. Heightened regional tensions might also have played a role in the budget increase.

Most of the other sectors see budgeted declines or stable levels. 'Health and Social Development', the second largest sectoral category which covers a lot of areas —not just health, but also aspects of human resources and welfare, culture, media and sport— is earmarked to stay flat after significantly overshooting budget in 2024.

The largest decline is for 'municipal services' which grew by almost 50 percent in 2024.

The largest decline is for 'municipal services' which grew by almost 50 percent in 2024, well ahead of budget. This segment includes housing support and delivery of housing units, both of which are meant to increase in volume in 2025 according to the details of the budget. The segment also covers a wide range of other services and urban improvements which may be squeezed.

Looking to the medium-term, the budget maintains the same projections as in the PBS with spending increasing by 3.4 percent in 2026 and a chunky 7.6 percent in 2027. However, these numbers are subject to revision in the next budget round depending on the evolution of the revenue outlook.

Table 2. 2025 Budget Sectoral Breakdown (SR billion)

	2024B	2024E	2025B	Difference (2025B v 2024E)	2025B (% of total)
Public Administration	43	53	44	-9.0	3.4
Military	269	259	272	13.0	21.2
Security and Regional Administration	112	128	121	-7.0	9.4
Municipal Services	81	115	65	-50.0	5.1
Education	195	201	201	0.0	15.6
Health and Social Development	214	260	260	0.0	20.2
Economic Resources	84	88	87	-1.0	6.8
Infrastructure and Transportation	38	40	42	2.0	3.3
General Items	216	202	192	-10.0	14.9
Total	1,251	1,345	1,285	-60.0	

Source: MoF

Note: B = budget; E = estimate

Figure 4: Spending will adjust higher if oil revenue is higher than budgeted

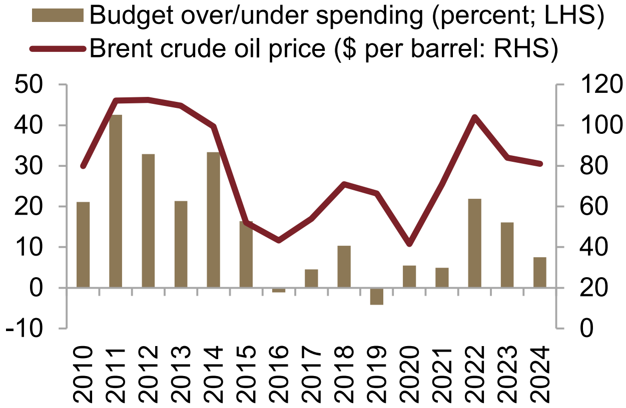


Figure 5: Wage spending continues to trend down as a percent of non-oil GDP

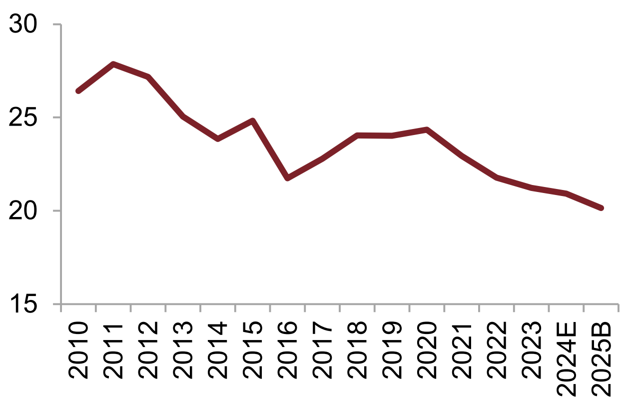


Table 3. 2025 Budget Medium-term Projections (SAR billion)

	2024E	2025B	2026B	2027B
Total revenues	1,230	1,184	1,198	1,289
Total expenditures	1,345	1,285	1,328	1,429
Budget balance	-115	-101	-130	-140
percent of GDP	-2.8	-2.3	-2.9	-3.0
Government debt	1199	1300	1430	1570
percent of GDP	29.3	29.9	32.3	33.3

Source: MoF

Note: B = budget; E = estimate

Revenue:

The main driver of lower overall revenue in 2025 must be lower oil revenue assumptions.

Total revenue is forecast to decline by 4 percent to SR1.184 trillion in 2025, SR46 billion lower than the estimate for total revenue in 2024 (Table 1; Figure 6). The main driver of lower overall revenue in 2025 must be lower oil revenue assumptions, given that the budget assumes an increase in tax revenue and probably has similar assumptions for non-tax non-oil revenue.

Tax revenue is conservatively assumed to increase by just 3.6 percent year on year, reaching SR379 billion. In 2024 non-tax non-oil revenue was around SR105 billion. Assuming this item at similar levels in 2025, would imply oil revenue of around SR690-700 billion in the 2025 budget, down from the estimated SR758 billion outturn in 2024.

We estimate that the government used a price of around $75 pb for the 2025 revenue calculations.

Naturally enough, the authorities do not reveal oil revenue assumptions (the figure is subsumed within 'other revenue'). Our rough calculation is that the government used a price of around $75 pb (Brent) or slightly higher for their 2025 revenue calculations. This assumes that the budget uses oil output levels in line with the OPEC+ agreement at the time of the PBS (5-6 percent output growth) and that the budget incorporates a lower level of dividends from Aramco.

At the time of the PBS, the OPEC+ agreement expected Saudi oil production to rise to an average of around 9.5 mbpd in 2025 from 9 mbpd in 2024. This has subsequently been delayed, with output starting to rise in April and at a slower rate such that Saudi production would average close to 9.2 mbpd. This smaller expansion for 2025 (around 2 percent) represents a modest downside risk to the 2025 budget revenue target.

Figure 6: Budget oil revenue (SR bn; *Jadwa estimate)

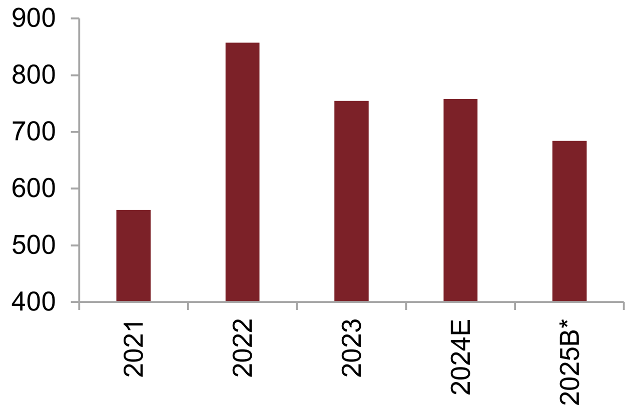
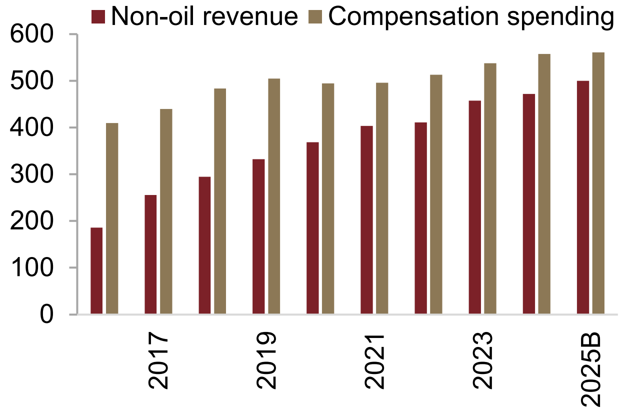


Figure 7: Non-oil revenue covers higher share of wage spending (SR billion)



In 2024 the budget will have received around SR380 billion in Aramco dividends, split between an ordinary and a performance-linked dividends.

In 2024 the budget will have received around SR380 billion in Aramco dividends, split between an ordinary dividend (roughly SR250 billion) and a performance-linked dividend (roughly SR130 billion). The performance-linked dividend related to the strong performance of oil earnings in 2022-2023 and is based on a formula which takes 50-70 percent of free cash flow after ordinary dividends, capital spending and international investments. Aramco's financial results in 2024 would not seem to provide the scope for a similar level of performance-linked dividends in 2025. There could, however, be an increase in the level of the ordinary dividend per share. This has increased by 4 percent in recent years.

The main non-oil revenue item, taxes on goods and services, is projected to rise by 3.6 percent, which seems a bit on the low side.

The main non-oil revenue item, taxes on goods and services (which is mostly driven by VAT), is projected to rise by 3.6 percent. This seems a bit on the low side given that Wholesale & Retail Trade nominal GDP rose by 8.5 percent in Q1-Q3-24, year-on-year, and can be expected to maintain decent momentum in 2025. The other tax items—income tax, customs and zakat—are projected to make marginal gains in 2025 (Table 1).

In terms of non-tax non-oil revenue, which is significant at more than SR100 billion, the budget does not provide breakdowns. The latest IMF article IV report (published in September 2024), did give a breakdown which showed the majority of non-tax non-oil revenue coming from property income and sales of goods and services, followed by revenue from fines and penalties.

The budget projects the deficit to narrow to 2.3 percent of GDP from 2.8 percent of GDP in 2024.

The Kingdom has made much progress with non-oil revenue. Non-oil revenue covered 85 percent of compensation spending in 2024, up from just 45 percent in 2016 (Figure 7).

Budget balance and government debt:

These spending and revenue projections give a budget deficit of SR101 billion in 2025, or 2.3 percent of projected GDP. This would be a smaller deficit than the deficit of SR115 billion or 2.8 percent of GDP estimated for 2024.

Government debt would rise to 29.9 percent of GDP, a modest level by international standards.

The government plans to borrow to finance the deficit and this would push government debt up to SR1.3 trillion or 29.9 percent of GDP in 2025, from 29.3 percent of GDP in 2024. This remains a modest debt burden by international standards.

In addition, the government maintains substantial deposits at the Saudi Central Bank (SAMA). The budget estimates that the

Figure 8: Government debt/GDP (percent)

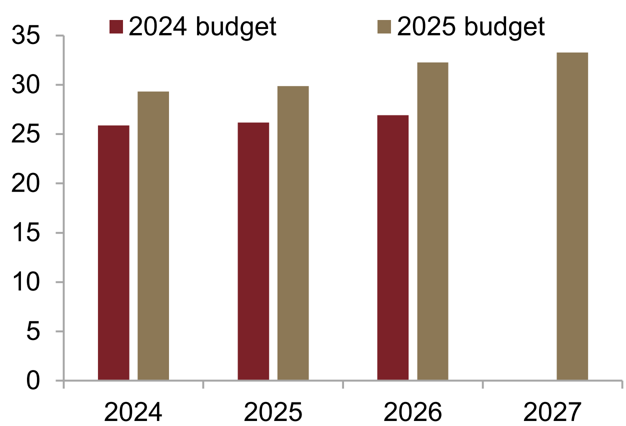
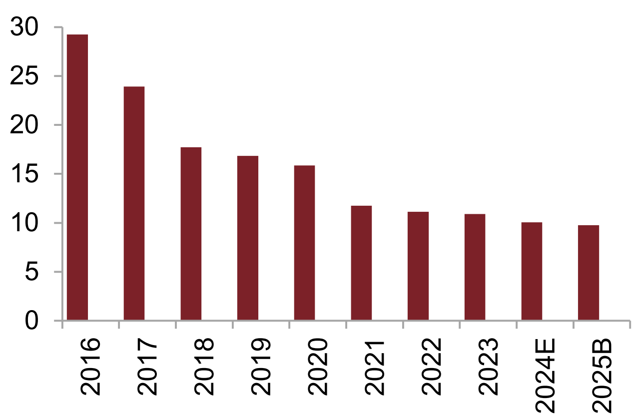


Figure 9: Government deposits at SAMA (percent of GDP)



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 government maintains a fiscal reserve of SR390 billion at SAMA as a liquidity buffer.

These deposits at SAMA represent a sizeable liquidity buffer, equivalent to around 10 percent of GDP, in excess of $100 billion (Figure 9). Although the level of these deposits declined up to 2021, the government seems minded to preserve this liquidity buffer at its current nominal level. They have been broadly stable in 2021-2024.

The budget projections for 2026-2027 would see government debt rising further, but remaining below 35 percent of GDP.

Budgetary Performance in 2024

Government debt will rise towards 35 percent of GDP by 2027.

As for 2024 results, total revenue will be 1.4 percent higher year on year and will outperform the budget, by 4.9 percent, according to the 2025 budget statement. Non-oil tax revenue is estimated slightly ahead of budget, up by 2.7 percent year on year because of solid growth (6.6 percent) in goods and services tax (largely VAT). This offset lower income tax receipts which declined after strong intake in 2023 (due to corporate performance in 2022).

Oil revenue, at SR758 billion, was almost identical to the performance in 2023. This was significantly above the assumption in the 2024 budget. 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.

In 2024 the budget deficit widened as the government increased spending to accelerate Vision 2030 initiatives

MoF estimates total spending was 4 percent higher year on year, overshooting the budget by 7.5 percent. 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.

Given the above, the budget deficit widened to SR115 billion or 2.8 percent of GDP and government debt increased to 29.3 percent of GDP.

Economic Outlook

For 2025, the budget statement expects real GDP growth to pick up to 4.6 percent, from 0.8 percent in 2024. The budget does not provide a breakdown by oil and non-oil GDP, but assuming the government projection incorporated a rebound in oil production in line with the OPEC+ plan at that time, then the forecast for 4.6 percent real GDP growth would imply real non-oil GDP growth of around 4 percent (taking 'non-oil activities' and 'government activities' together as a broad non-oil measure).

The budget assumes non-oil real GDP growth of around 4 percent. Oil GDP growth will be lower than assumed given further OPEC+ delays to easing limits on oil output.

An assumption of around 4 percent non-oil real GDP growth is a sensible baseline given the robust outlook for investment and consumption. As indicated above, we see some upside risk for the non-oil revenue assumptions in the budget.

Oil GDP growth though will be lower. OPEC+ has since delayed the plan to start increasing production until April and has also decided to increase output more gradually than previously planned. Saudi Arabia's oil output will stay at 9 mbpd until April and would reach 9.5 mbpd by end-2025. Given this, oil GDP growth in 2025 will be lower than assumed, at around 2 percent. This also means that total nominal GDP may come in lower than the assumption of SR4,352 billion.

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