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Jadwa Investment

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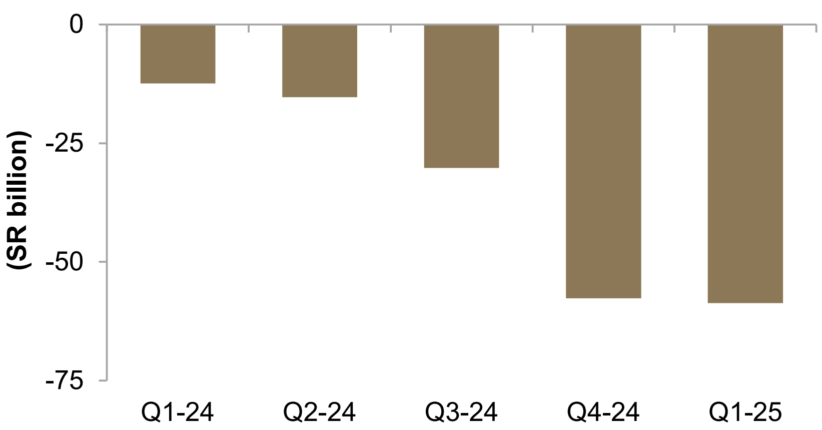
Q1 2025 Budget Performance Report

The deficit widens due to lower oil prices

- The central government recorded a fiscal deficit of SR58.7 billion in Q1-25, as revenue declined by 10 percent year-on-year due to lower oil revenue, while spending was 5 percent higher.
- All told, lower oil prices mean the budget deficit will be larger than planned this year.
- Saudi Arabia is well-positioned to weather a period of lower oil prices through debt issuance and spending prioritization as needed. Government debt/GDP is still low, at less than 30 percent of GDP, and the government's fiscal reserve remains large.
- Oil revenue declined by 18 percent year-on-year, due to lower dividends from Saudi Aramco and lower oil prices. Oil revenue will remain under pressure in 2025 as oil prices have trended lower than in Q1 and output gains will only partly offset this.
- Non-oil revenue grew by a modest 2 percent in Q1-25. However, quarterly results tend to be uneven during the year and on a 12-month trailing basis non-oil revenue grew by 8 percent year-on-year.
- Government spending grew by 5 percent year-on-year and was exactly a quarter of annual budgeted spending for 2025. We expect spending to be close to the budget envelope in 2025.
- The increase in debt in Q1-25 was larger than the budget deficit as the government got ahead of the curve in securing funds to meet its financing needs for the upcoming quarters.

Figure 1: Budget deficit widens in Q1 2025



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Compared with Q1-24, revenue declined by 10 percent year on year due to lower oil revenue, while spending was 5 percent higher. The larger deficit pushed up debt.

The central government recorded a fiscal deficit of SR58.7 billion in Q1-25, larger than the SR12.4 billion deficit in Q1-24 (Figure 1). Compared with Q1-24, revenue declined by 10 percent year-on-year due to lower oil revenue, while spending was 5 percent higher. The larger deficit pushed up debt.

The fiscal position remains robust to weather a period of lower oil prices, through a mixture of more debt (which is currently low) and spending prioritization. The government will continue to seek a balance between supporting the economy and maintaining strong fiscal metrics.

The budget performance has a number of drivers, which we discuss below along with the outlook.

Table 1: Government Revenue (SR billion)

	Q1-24	Q1-25	% change
Oil revenue	181.9	149.8	-18
Non-oil revenues, of which	111.5	113.8	2
Tax on income, profit & capital gains	6.5	6.7	2
Tax on Goods & Services	69.9	71.6	2
Tax on trade and transactions (customs)	6.0	5.6	-8
Other taxes (zakat)	3.7	4.6	24
Other non-oil revenue	25.3	25.4	0
Total revenue	**293.4**	**263.6**	-10

Revenue:

Oil revenue declined largely because Saudi Aramco's performance-linked dividend has declined close to zero this year.

Starting with revenue, the government's oil income was SR149.8billion in Q1, down by just over SR30 billion or 18 percent on the same quarter of 2024 (Table 1). Oil revenue declined largely because total dividends from Saudi Aramco have shifted lower this year. The basic dividend has gone up by 4 percent, but the performance-linked dividend (PLD) has declined close to zero. As a result, total quarterly dividends from Aramco to the government are SR30 billion lower, almost exactly explaining the decline in total oil revenue.

Given the impact of the lower PLD, one might have expected an even steeper decline in oil revenue given the differential in crude pricing during the two periods. The average Brent oil price was $75pb in Q1-25, down 8 percent from $82pb in Q1-24 (crude output was the same in both quarters).

Figure 2: Saudi Aramco's quarterly payments to government (SR billion)

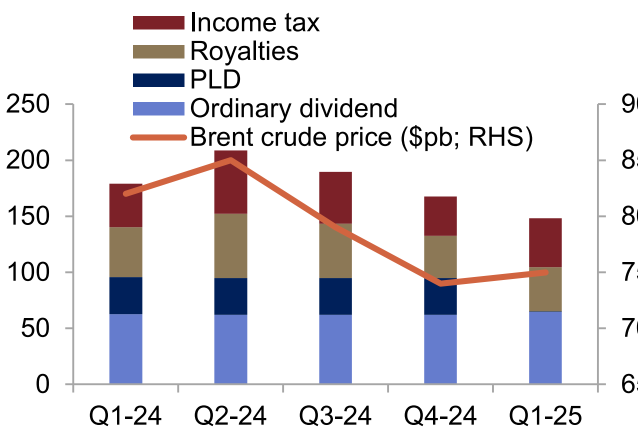
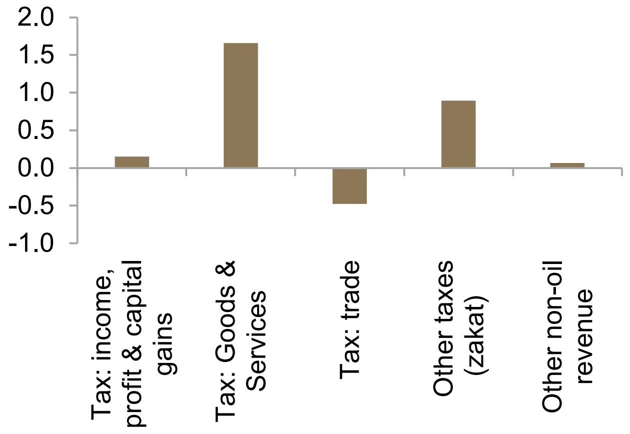


Figure 3: Non-oil revenue's mixed performance (difference between Q1-25 and Q1-24; SR billion)



However, such comparisons are hampered by other variables that effect Aramco's income, including revenue from gas sales and refining, as well as lags in Aramco's payments to the government.

Looking at Aramco's financial results in Q1-25, we can see that, in addition to lower dividends, royalties declined because royalties are calculated as a percentage of production value which was lower due to lower prices but stable output. However, income tax payments, were actually higher than in Q1-24 (Figure 2).

Oil revenue is likely to be lower in the remainder of the year. So far in Q2-25 Brent crude has averaged $65pb, down from $75pb in Q1-25.

Oil revenue is likely to be lower in the remainder of the year. So far in Q2-25 Brent crude has averaged $65pb, down from $75pb in Q1-25. And we expect prices to fluctuate around $62.5-65 in H2-25 with the balance of risks to the downside. Higher oil production will offset some, but not all, of the lower prices.

Turning to non-oil revenue, this was 2 percent higher year-on-year in Q1. 'Taxes on goods and services' (a majority of which is VAT), which account for 63 percent of total non-oil revenue, also grew by 2 percent year-on-year.

Non-oil revenue was 2 percent higher year on year and on a 12-month trailing basis was 8 percent higher year-on-year.

At first glance, this seems modest given that the non-oil economy turned in a robust performance with nominal growth of at least 6 percent. However, quarterly results tend to be uneven during the year and on a 12-month trailing basis non-oil revenue and taxes on goods and services were both up by 8 percent year-on-year and reached record highs.

Looking at the other tax items, income, profit and capital gains tax also grew by 2 percent. Customs taxes on international trade declined, which may reflect changes during 2024 to customs taxes, including custom duty waivers for certain industrial inputs. This decline was outweighed by a sizeable gain in 'other taxes' which largely refers to Zakat.

Most non-oil revenue line items can be uneven during the year, so the picture becomes clear with Q2 data.

Finally, the other revenues (non-tax non-oil revenues) line, which is the second largest contributor to non-oil revenue, was stagnant. This bundles a number of things and intake is lumpy during the year.

Table 2: Government Expenditure (SR billion)

	Q1-24	Q1-25	% change
Compensation of Employees	137.5	146.1	6
Good & Services	60.7	64.6	6
Financing expenses	10.1	12.4	23
Subsidies	8.3	6.5	-22
Grants	0.3	0.3	-13
Social benefits	23.8	30.5	28
Other expenses	30.6	34.2	12
Non-financial assets (capex)	34.5	27.8	-19
Total spending	**305.8**	**322.3**	5

Expenditure:

On a simple pro rata basis spending is bang in line with budget.

Total spending in Q1 grew by 5 percent year-on-year and accounted for 25 percent of the annual budget envelope (Table 2). On a simple pro rata basis spending is bang in line with budget. Typically spending ramps up towards year end and so the natural conclusion could be that spending is likely to trend above budget which targets a decline in spending overall in 2025.

More than half of the spending increase in Q1 came from 'employee compensation', but importantly this was flat quarter-on-quarter.

Capital spending in Q1 was down by 19 percent year-on-year.

While we expect capex to be higher in coming quarters, we nonetheless expect some decline in investment-related spending through the budget this year.

However, with oil revenue set to remain under pressure this year, the government is likely to stick closer to the budget envelope than in 2022-2024. Indeed, spending in Q4-24 did not ramp up as it had done in recent years, perhaps an early indication of greater caution given the less buoyant revenue outlook.

More than half of the spending increase in Q1 came from 'employee compensation' which remains far and away the biggest single element of spending (45 percent of the total). It was 6 percent higher year-on-year and is tracking ahead of budget. Importantly though, despite growing year-on-year, 'employee compensation' was flat quarter-on-quarter.

Social benefits, goods and services, financing costs and other expenses were the main other contributors to higher year-on-year spending. Meanwhile capital spending declined by 19 percent year-on-year to the lowest since Q1-23.

Social benefits spending can be quite uneven during the year and so we will need to wait for further data to see if this continues to trend above budget. Social benefits in 2025 were budgeted to be broadly the same as in 2024. Citizens' account transfers were slightly lower in Q1, but there was some uplift to Q1 from the Ramadan social benefit contribution from the King (an annual contribution which fell within Q1 this year). Spending on subsidies, which is mainly food and excludes energy, meanwhile declined.

Financing costs have gone up in line with higher debt and interest rates and these were budgeted to rise. The Q1 figure is well within the budgeted amount.

It is striking that capital spending in Q1 was down by 19 percent year-on-year. In fact, capex has been trending down on a quarterly sequential basis since Q2-24. While we would expect it to pick up during the year from the low level in Q1, capital spending looks set to be lower than in 2024 and within budget (Figure 4).

Indeed, we would expect to see some decline in investment-related spending (capex and goods and services) through the budget this year. It is important to note, though, that this would be a decline from high levels.

In 2022-2024 capex increased sharply, as did goods and services spending which is partly related because more inputs are needed alongside the capex. In Q1-25 both capex and good and services spending declined by around a third from Q4-24. And although goods

Figure 4: Capex has trended lower in recent quarters (SR billion)

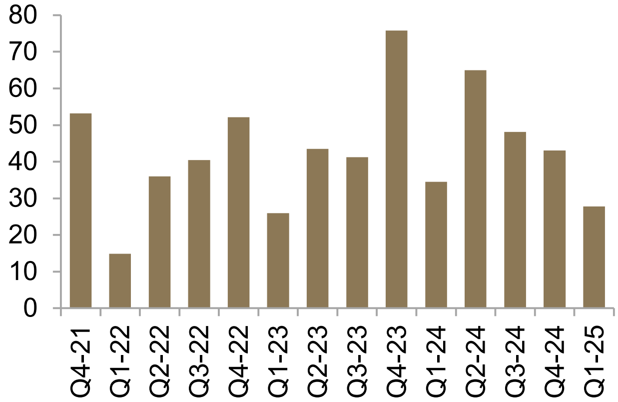
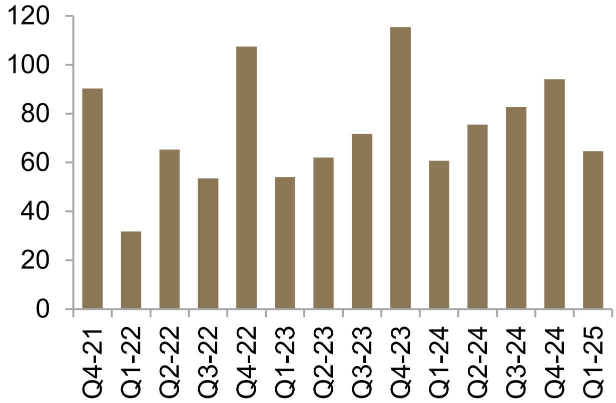


Figure 5: Goods & Services spending was restrained in Q4-24 and Q1-25 (SR billion)



and services spending was higher year-on-year in the first quarter, it was within budget on a pro rata basis (Figure 5).

Deficit and debt:

The deficit will be larger than budgeted in 2025 and more debt issuance will be required, but the government got ahead of the curve in Q1-25 in terms of securing financing.

Overall the budget ran a deficit of SR58.7 billion in Q1-25, compared with a deficit of SR12.4 billion in Q1-24. Meanwhile, government debt increased by SR113 billion to SR1,329 billion. The increase in debt was split fairly evenly between domestic and external. The majority of the domestic debt was raised through a private placement according to media reports, while domestic sukuk was less than SR10 billion to avoid soaking up banking sector liquidity.

The increase in debt in Q1-25 was substantially larger than the budget deficit, meaning that the government got ahead of the curve in securing funds to cover the annual deficit and debt repayment due this year. Meanwhile the government fiscal reserve remained stable at just under SR400 billion, a sizeable liquidity buffer.

Government debt/GDP remains less than 30 percent of GDP and there is plenty of headroom for further borrowing.

Government debt/GDP remains low and there is plenty of headroom for further borrowing. The recent upward revision to GDP numbers by Gastat means that government debt was 26 percent of GDP at end-2024, rather than 30 percent under the old GDP series. External government debt was 10 percent of GDP, a ratio that most Emerging Market governments would envy. Appetite for Saudi sovereign debt remains strong and its rating profile is good and has improved in the past couple of years.

Outlook:

For 2025 as a whole, the budget deficit will be larger than the SR101 billion in the budget, mostly because oil revenue will be lower than expected. Roughly speaking, we assume oil prices to be around $10pb lower than the estimated budget assumption. The deficit will likely be close to SR200 billion (around 4.2 percent of GDP, based on the recent GDP update from Gastat).

And the government fiscal reserve remains large, at just under SR400 billion.

The outlook for oil prices remains highly uncertain and much will depend on the fortunes of the global economy during this period of volatile US policymaking. The evolution of OPEC+ policy is also uncertain and important. For more analysis on this please see our latest Oil Market report.

While lower oil prices are a headwind for the budget, Saudi Arabia is well-positioned to weather a period of lower oil prices through a mixture of more debt issuance and spending prioritization.

We will have further analysis of the fiscal outlook in our next Macroeconomic Update.

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