Saudi Arabia budget report 2025

Review of the 2025 budget in the context of recent economic developments

December 2024
KPMG Professional Services

Content

Foreword

I am pleased to present the annual KPMG budget report for Saudi Arabia, providing our view on the government's announced expenditures and revenues. The presented figures are based on the Ministry of Finance's (MoF) Budget statement for FY 2025, as approved by the government on 26 November 2024, with our views supported by internal analysis and other sources.

The MoF announced the Budget Statement for Fiscal Year (FY) 2025, outlining key details of budgeted revenues and expenditures, major programs, and fiscal developments. This statement reflects the government's ongoing commitment to fiscal transparency and disciplined financial management, in line with the Kingdom's Vision 2030 objectives. The Saudi economy has demonstrated resilience in the face of global economic challenges.

Despite a shift to positive growth from last fiscal year, real GDP annual average growth remained weak in fiscal year 2024, expanding by an estimated 0.8 percent Year-on-Year (YoY), following a contraction of 0.8 percent YoY in fiscal year 2023. The decline in oil sector activities, driven by voluntary production cuts under the OPEC+ agreement, has been mitigated by significant growth in non-oil sectors, which continue to drive economic activity and employment. Inflation rates remain relatively low at 1.7 percent, reflecting successful fiscal policies and structural reforms.

> **"As the Kingdom continues to advance Vision 2030, this budget reaffirms its commitment to strategic investments that foster economic diversification, enhance social support systems, and sustain fiscal health."**

Looking ahead, the 2025 budget anticipates real GDP growth of 4.6 percent, with non-oil activities as the primary driver, supported by private sector contributions, ongoing economic reforms, and improved business regulations. These efforts aim to attract investment, develop the labor market, and create sustainable job opportunities. Total revenues are expected to reach SAR1,184 billion, bolstered by growth in both oil and non-oil sectors, while expenditures are projected at SAR1,285 billion, reflecting ongoing spending on transformational initiatives, infrastructure development, and quality-of-life improvements.

The 2025 budget aligns with the government's strategy to balance fiscal sustainability with economic and social objectives. While a budget deficit of SAR101 billion (2.3 percent of GDP) is projected, the government will maintain public debt levels within sustainable limits and leverage domestic and external borrowing to finance transformative projects. Public debt is expected to reach SAR1,300 billion (29.9 percent of GDP).

As the Kingdom continues to advance Vision 2030, this budget reaffirms its commitment to strategic investments that foster economic diversification, enhance social support systems, and sustain fiscal health. With these measures, Saudi Arabia is well-positioned to navigate global uncertainties and secure long-term economic growth and stability.

I hope you find this publication insightful for your organization and our KPMG teams are available to discuss our findings in greater detail.

Dr. Abdullah Al Fozan

CEO
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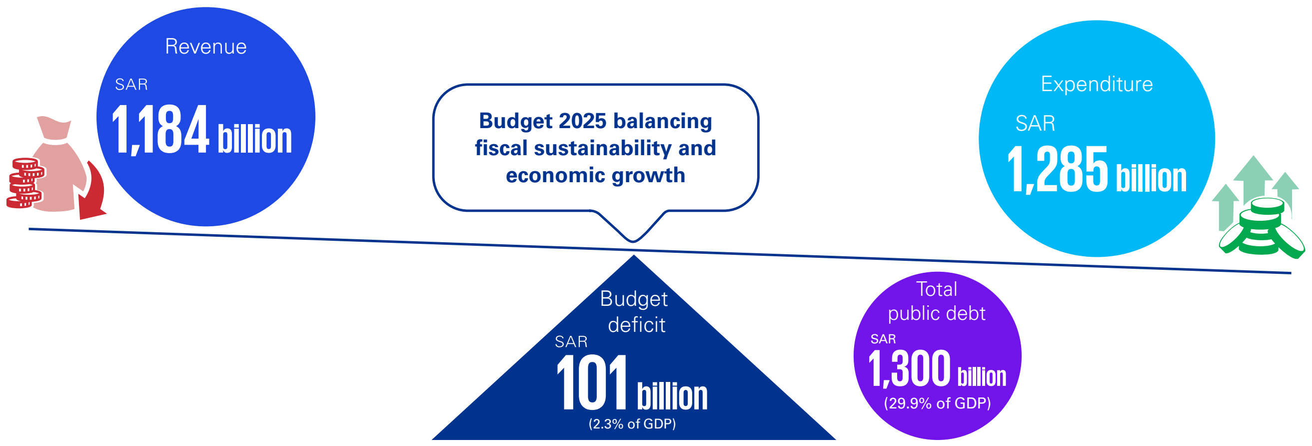
Budget summary

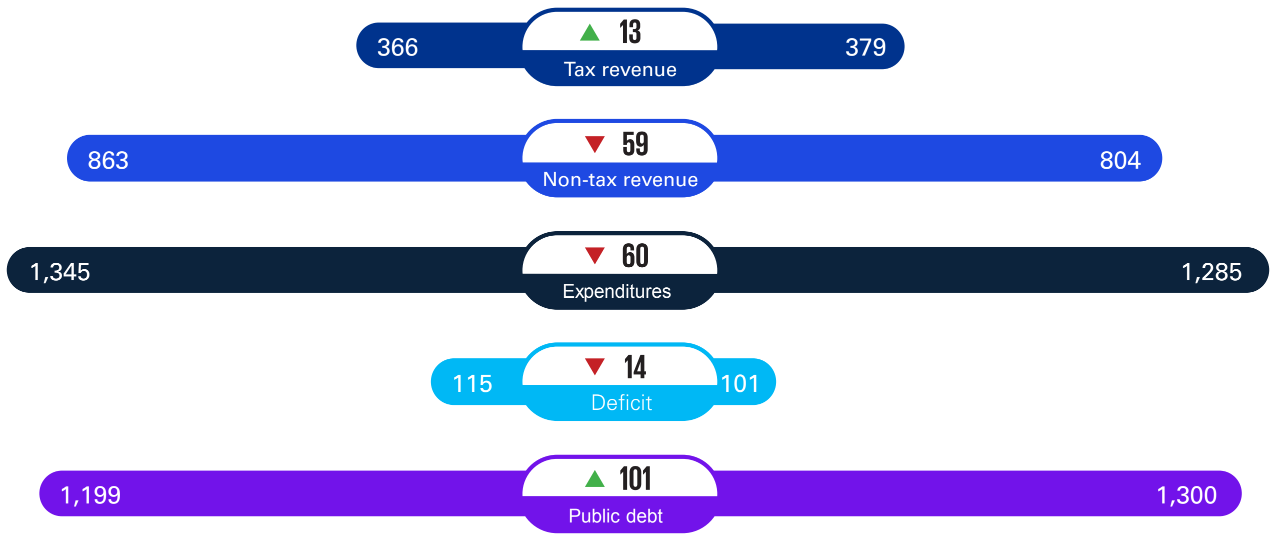
Budget 2025



Source: MoF, Budget Statement 2025

Changes in budget 2024-2025

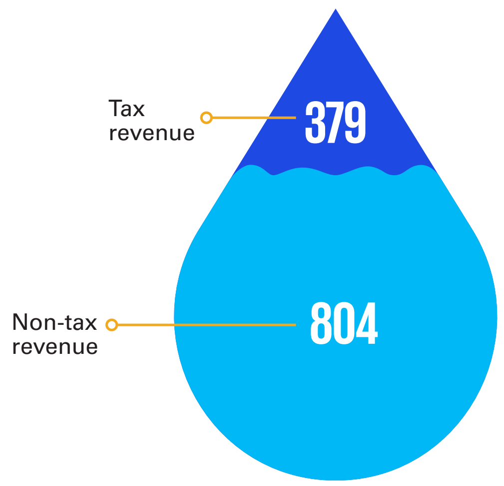
Estimated in 2024E (SAR billion) **Budgeted in 2025P (SAR billion)**



Source: MoF, Budget Statement 2025

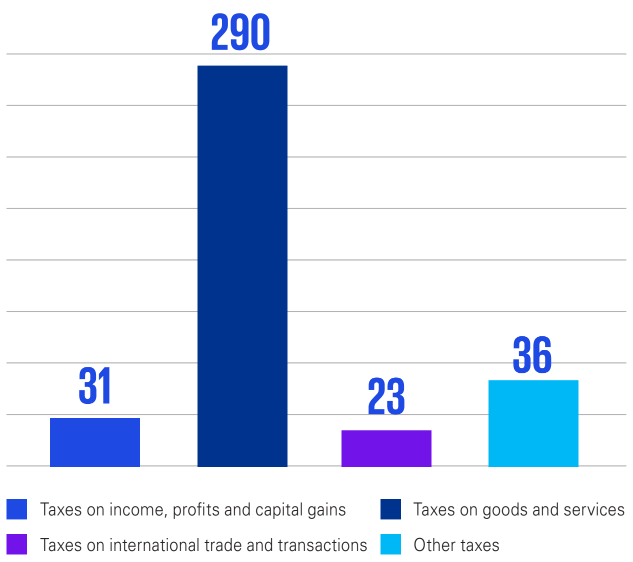
Total revenues 2025

Total revenue, SAR1,184 billion



Source: MoF, Budget Statement 2025

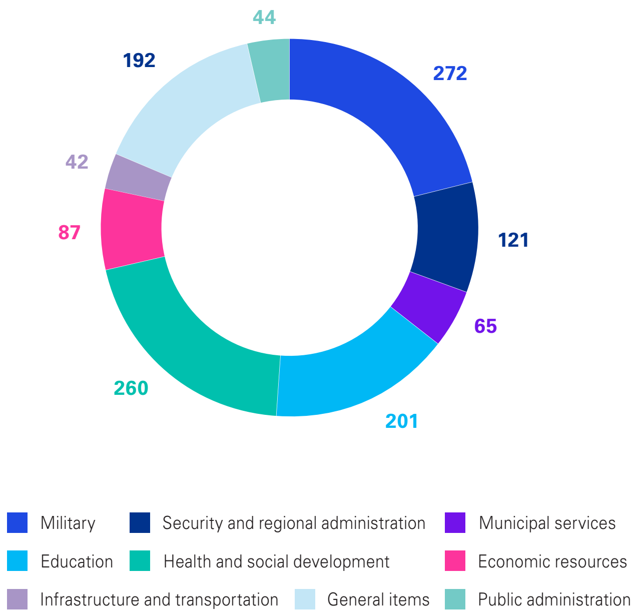
Tax revenue, SAR379 billion



Source: MoF, Budget Statement 2025

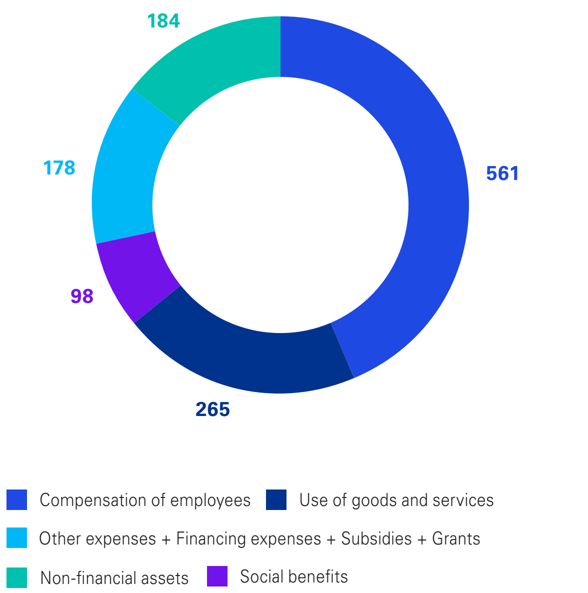
Total expenditures 2025

Expenditure by sectors, SAR1,285 billion



Source: MoF, Budget Statement 2025

Expenditure by components, SAR1,285 billion



Source: MoF, Budget Statement 2025

Disclaimer: Figures are rounded up to the nearest billion throughout the report. Some figures may not add up to 100 percent due to rounding.

Key takeaways

A domestic economic recovery will support public revenues

An ongoing recovery in domestic consumption and private sector output will support tax revenues in 2025, even as non-tax revenues are forecast to weaken marginally next year.

A budget deficit will result in higher public debt, but fiscal indicators will remain at sustainable levels

The budget is expected to remain in deficit as a projected decline in public spending will fail to significantly offset a corresponding decline in public revenues; a budget deficit of 2.3 percent of GDP and a public debt stock of 29.9 percent of GDP will be low relative to peers.

The government will remain committed to balancing fiscal sustainability and maintaining development spending

Vision 2030 initiatives designed to restructure and diversify the domestic economy—including approved sectoral and complementing regional strategies—will remain key drivers of government spending and investment. The government will remain the main source of financing for these initiatives, even as it remains committed to fiscal sustainability.

Efforts to diversify funding sources for public debt and infrastructure development will continue

The authorities are continuing in their efforts to attract both foreign and domestic investors as buyers of domestic public debt, even as they seek support from national development funds and the private sector in order to drive Vision 2030 goals.

Geopolitical shocks remain a key risk for Saudi Arabia's fiscal sustainability and broader economic reforms agenda

The risk of regional or global geopolitical shocks is likely to continue into 2025, even as economic growth in Saudi Arabia's main trading partners remains vulnerable to economic policy mistakes. Domestic investor confidence would likely deteriorate sharply during a period of heightened uncertainty, in turn reducing the private sector's role in supporting Vision 2030 initiatives.

Economic growth assumptions

According to the MoF, real GDP annual average growth remains weak in fiscal year 2024, expanding by an estimated 0.8 percent YoY, following a contraction of 0.8 percent YoY in fiscal year 2023.

Weak real GDP growth in 2024 is largely reflecting lower output in the oil sector (see figures 1 and 2). Indeed, weak volume oil demand in key markets during the year has been off-setting the potential for higher oil prices stemming from OPEC+ supply cut agreements and elevated geopolitical tensions. Conversely, non-oil GDP has been growing at a healthy pace, as multiple sub-sectors experience a sustained expansion in activity; non-oil sector demand is being buoyed by sub-sectors that include Wholesale and retail trade, and Transport and logistics services.

Indeed, the government's success in nurturing the private sector is highlighted by the fact that non-oil activities accounted for 52 percent of total real GDP in the third quarter of 2024, significantly higher than the 47 percent contribution recorded in the 2016 fiscal year at the start of Vision 2030. Private enterprises are becoming prominent in driving economic activity across sectors, providing employment opportunities and supporting the government's Vision 2030 initiatives more broadly: the budget statement indicated that foreign and domestic investments into technology and data centers is set to exceed SAR41 billion in 2024, for example.

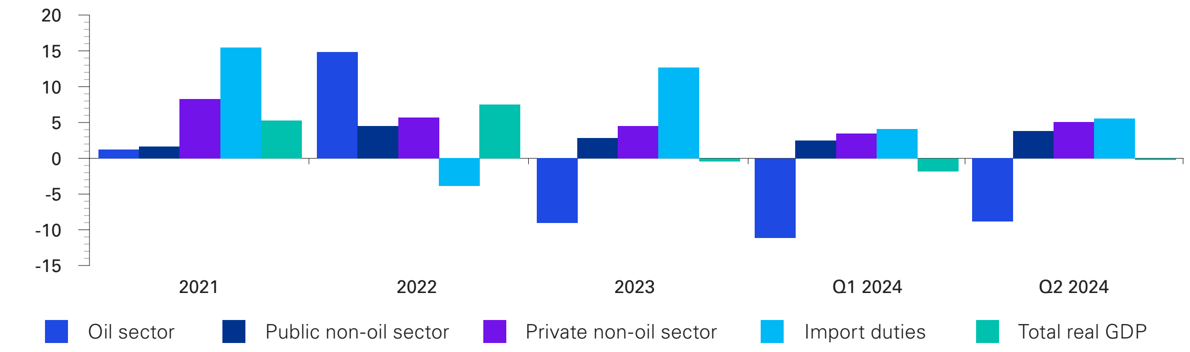
Private consumption continues to be supported by a range of factors. The unemployment rate has continued to trend downwards, even as the labour participation rate continues to rise. Consumers are also benefitting from policies designed to maintain real incomes, for example, a ceiling on gas prices and efforts to support food stocks. At the same time, investor and broader private sector confidence continues to benefit from the government's commitment to its Vision Realisation Programs (VRPs) and infrastructure investment more generally.

The Energy Information Administration (EIA) estimates that global oil consumption will stand at an annual average of 102.8 million barrels per day (mb/d) in 2024, rising to an annual average of 103.8 mb/d in 2025. However, oil prices are expected to remain below their 2022 levels in 2024 and 2025. Indeed, according to the International Monetary Fund's (IMF) October 2024 World Economic Outlook, oil prices are expected to stand at an annual average of US$72.8 per barrel (p/b) in 2025, compared to an estimated annual average of US$81.3pb in 2024.

Private consumption in 2025 will continue to be boosted by existing government policies, such as social protection programs, as well as further improvements in the labor market and rising tourist numbers. Vision 2030 initiatives will continue to stimulate the broader economy via related projects and domestic spending that seek to expand and diversify the economy. Together with the National Development Fund (NDF) and the Public Investment Fund (PIF), Vision 2030 will boost both public and private sector spending—infrastructure development will remain a key policy focus.

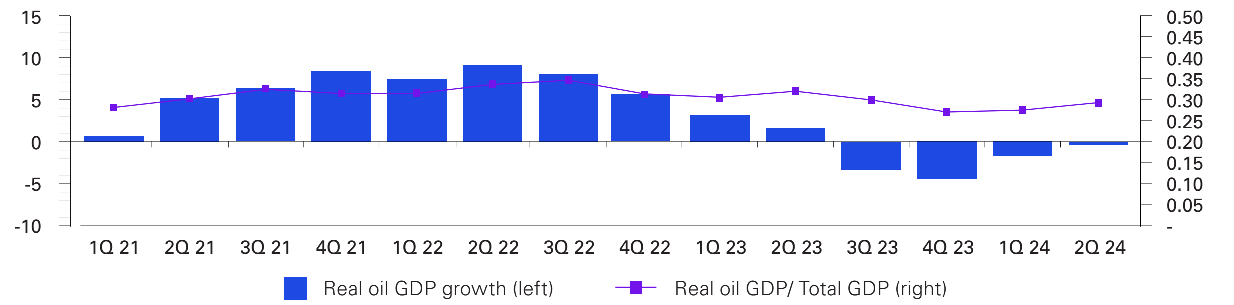
A significant fillip to the real economy will come from the oil sector, as OPEC+ agreements expire and production accelerates. Although we note that the impact of oil money flows on the public balance sheet and on private sector confidence (and thus the broader economy) will depend on global oil price trends. Overall, these trends are the main drivers behind the MoF's expectations that real GDP will recover to a growth rate of 4.6 percent in 2025.

Figure 1: **Composition of GDP growth**



Source: General Authority for Statistics (GaStat)

Figure 2: **Real oil GDP growth and oil sector contribution to GDP**



Source: GaStat

Budget 2025

Budget

Saudi Arabia's cabinet approved the budget for fiscal year 2025 on 26 November 2024. The government repeated its commitment to balancing public spending that drives its economic diversification and expansion strategy while also ensuring fiscal sustainability. In 2024, healthy domestic non-oil GDP has supported non-oil revenues while dividends from Saudi Aramco, and other oil-related revenue streams, have supported oil-related revenues. Projected robust growth in the non-oil economy will drive broader economic activity, and thus non-oil revenues, in 2025. Oil-related revenues are expected to decline, however, largely in line with weaker global oil prices. The government's commitment to containing spending will remain evident in the 2025 fiscal year, even as it continues to invest in initiatives designed to modernise, expand and diversify the economy.

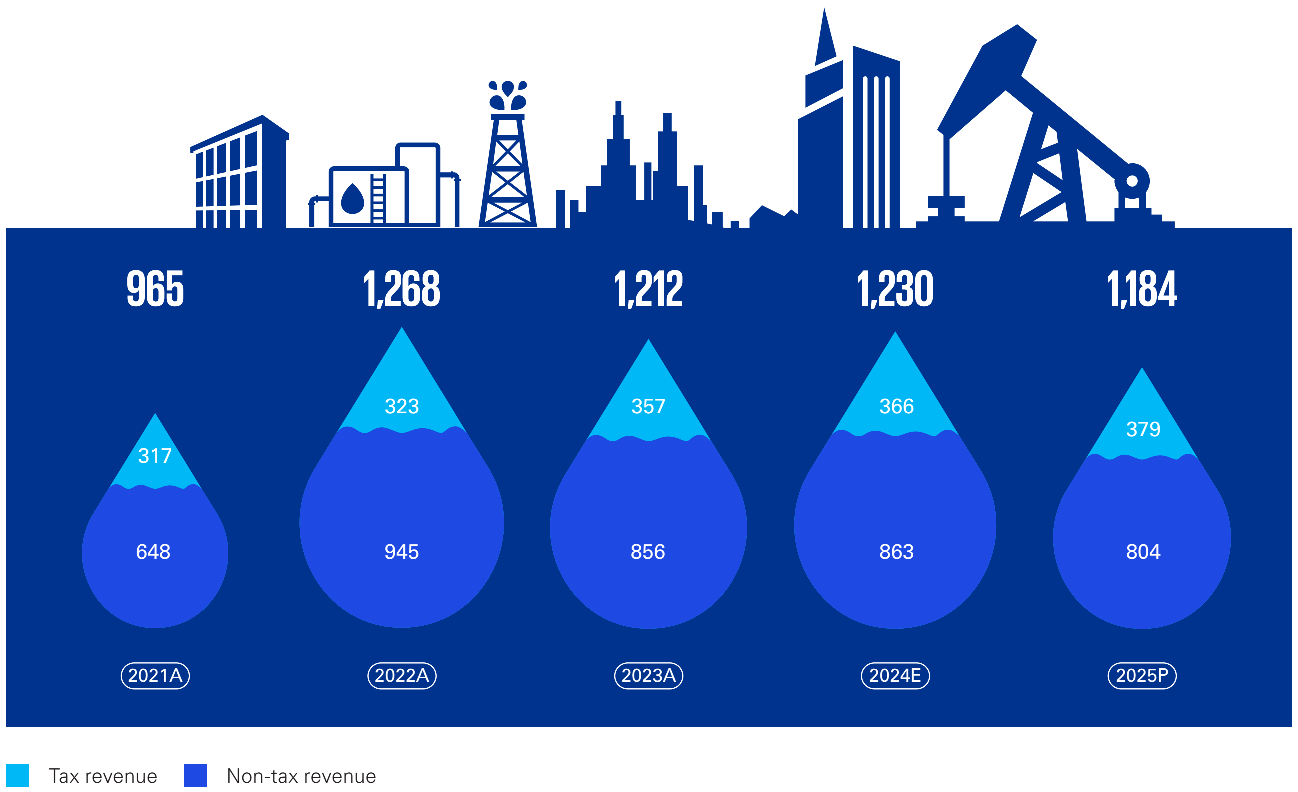
Revenues

The 2025 fiscal year budget statement estimates a 1.4 percent YoY rise in total revenues, to SAR1,230 billion, in the 2024 fiscal year, largely in line with a rise in oil-related income (see figure 3). Taxes on goods and services also expanded amid a healthy recovery in several non-oil GDP sub-sectors. We also note that the revenue out-turn for 2024 is above the one originally envisaged—the revenue target in the 2024 fiscal year budget statement was SAR1,172 billion.

The fact that estimated total revenues for 2024 have outperformed originally-planned revenues reflects several factors. First, strong non-oil GDP growth during 2024 has seen tax revenues rising by 2.7 percent YoY, to SAR366 billion. Second, another extension of the Cancellation of Fines and Exemption of Financial Penalties—it will remain in place until end-2024—and ongoing efforts to improve tax compliance have supported compliance yield. Third, robust private consumption is bolstering Taxes on goods and services—by far the biggest non-oil income component. Finally, despite a fall in domestic oil production and international oil prices, a dividend from Saudi Aramco bolstered oil-related revenues.

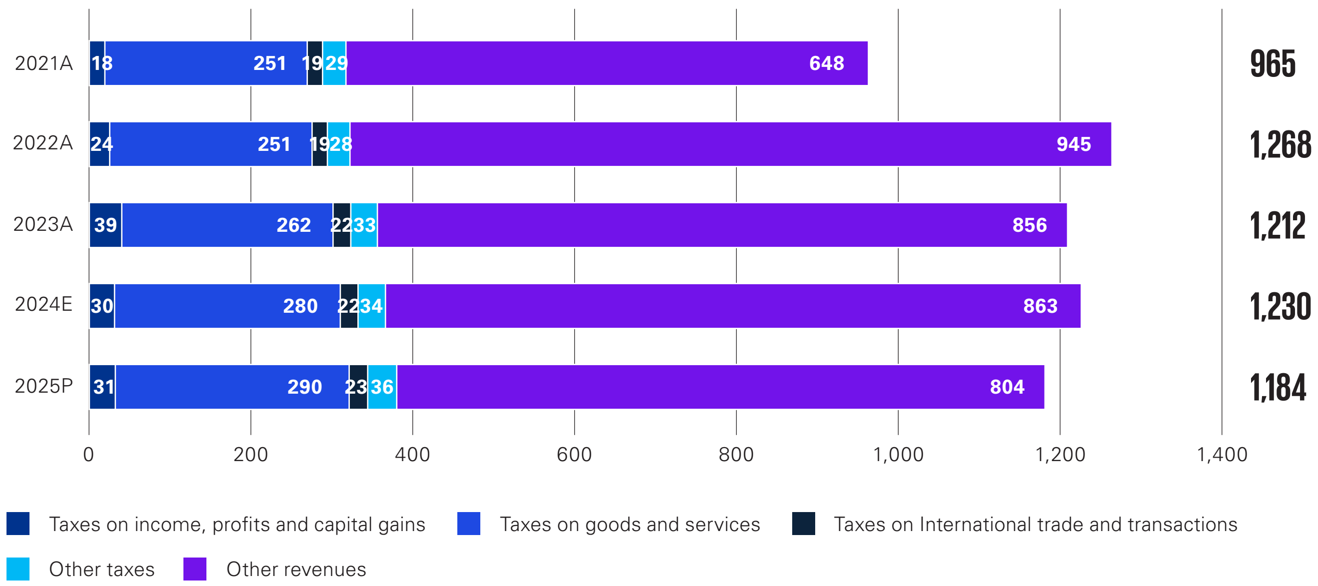
Total revenues are projected to stand at SAR1,184 billion in 2025 (see figure 4), comparable to the final estimated result for 2024. The budget for 2025 continues the government's approach of implementing conservative assumptions in relation to revenue growth. We also note that the government's budget assumptions are being complicated by the fact that there are conflicting signals, in terms of headwinds and tailwinds, going into 2025.

Figure 3: **Public revenue (SAR billion)**



Source: MoF, Budget Statement 2025

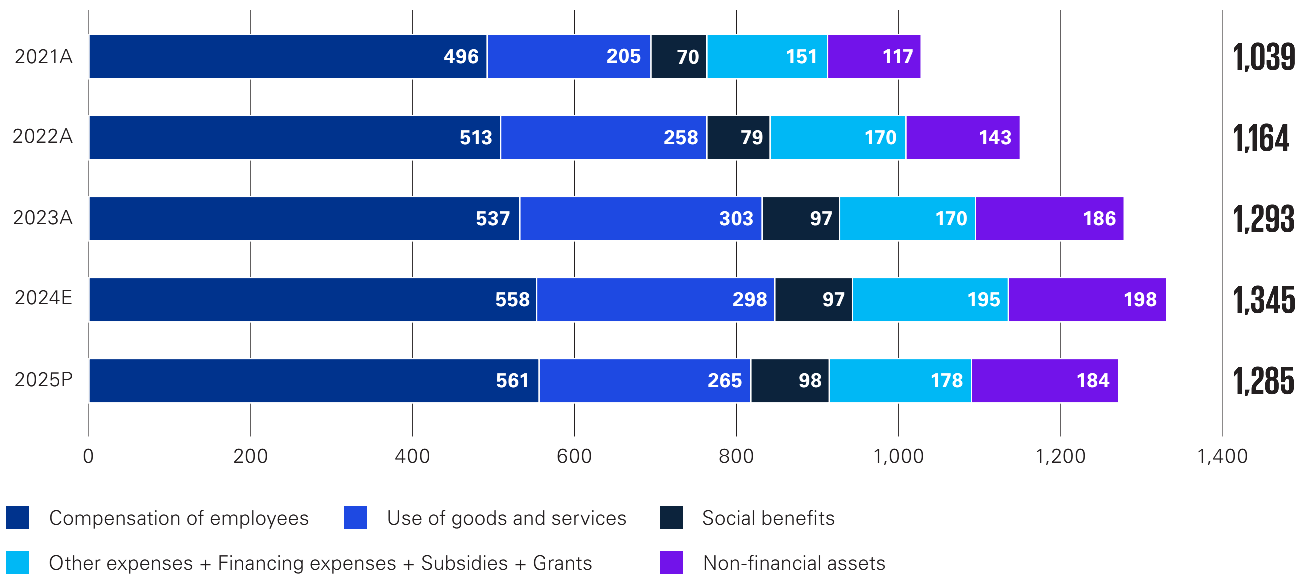
Figure 4: **Revenue components (SAR billion)**



Source: MoF, Budget Statement 2025

Although Saudi Arabia is likely to increase oil production in 2025 as the current OPEC+ agreement expires, this would be at a time when international oil prices are already projected to fall. Saudi Arabia's dominant global role as an oil supplier means its efforts to increase volumes of oil exports could in fact precipitate a fall in international oil prices. Uncertainty will therefore surround public revenues from this source. At the same time, non-oil economic growth is projected to remain broad-based and continue to expand at a robust rate. This will support private consumption and in turn Taxes on goods and services, as well as potentially providing a fillip to corporate tax inflows in the future.

Figure 5: **Expenditure components (SAR billion)**



Source: MoF, Budget Statement 2025

Expenditures

Actual government spending in fiscal year 2024 is estimated at SAR1,345 billion, compared with originally budgeted spending of SAR1,251 billion (see figures 5 and 6). This greater-than-planned spending reflects partly higher spending on Goods and services, Social benefits and Other expenditures, representing a combination of social support and a streamlining of existing services.

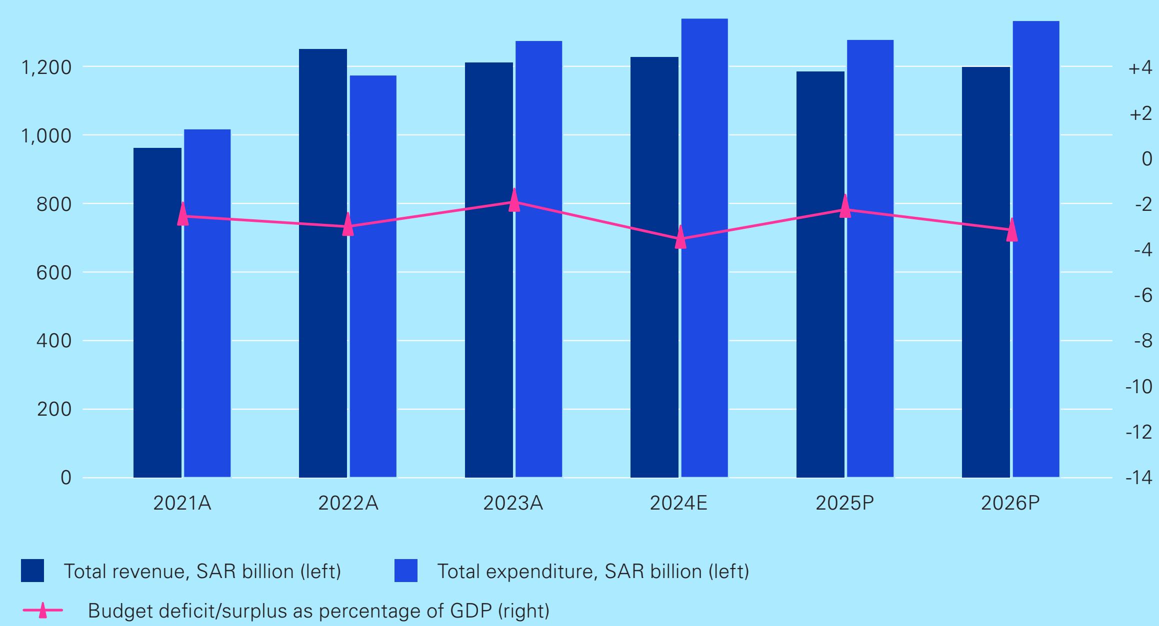
Expenditure on Goods and services (the second highest spending category) stands at an estimated SAR298 billion in 2024 versus SAR277 billion that was indicated in the original 2024 budget. The highest deviation (in nominal terms) from the planned budget on an operating expenditure (OPEX) basis came from Social benefits—SAR97 billion against a planned SAR62 billion.

Capital expenditure (CAPEX) is estimated at SAR198 billion in 2024 versus a budgeted SAR189 billion in December 2024. CAPEX is estimated to increase by 5.9 percent in YoY terms, as the government maintains its momentum in implementing domestic development strategies and projects designed to promote economic potential, as well as continued investment in mega development projects.

Defense, Health and social development, Education and Infrastructure and transportation are leading spending categories on a sectoral basis. Spending in the Health and social development component, which was the largest sector in 2024, is estimated to have risen by 1.7 percent YoY, to SAR260 billion, as the authorities maintain policies designed to provide social support and upgrade high-quality healthcare services.

Total spending is projected to fall from an estimated SAR1,345 billion in 2024 to SAR1,285 billion in 2025. The 2025 budget aims to contain increases in or cut expenditure on all items on a sectoral expenditure basis; spending is envisaged to fall on both an OPEX and CAPEX basis.

Figure 6: **Fiscal position**



Source: MoF, Budget Statement 2025

The government reiterated its commitment to spending on strategic projects that support its VRPs. Spending aimed at enabling transformation to achieve economic diversification and sustainable growth will remain a key pillar in achieving these VRPs. Financing will continue to be funnelled into areas that include infrastructure for mega and giga projects, as well as policies that enhance private sector growth. On balance, the government will seek to balance its fiscal sustainability versus economic and social objectives.

Budget deficit and public debt

The 2024 fiscal year budget is estimated to worsen in both nominal terms and as a percentage of GDP, as an estimated 1.4 percent YoY increase in total revenues fails to offset a 4 percent YoY increase in total expenditures. The budget position deteriorated from a deficit of SAR81 billion in 2023 (2 percent of GDP) to an estimated deficit of SAR115 billion in 2024 (2.8 percent of GDP)—the 2024 budget statement had envisaged a lower deficit of SAR79 billion, or 1.9 percent of GDP.

A number of factors will enable a modest improvement in the 2025 fiscal year budget out-turn. In nominal terms, the 2025 budget envisages total expenditures falling relative to the 2024 fiscal year estimate, as the government aims to contain both OPEX and CAPEX. At the same time, a healthy pick-up in nominal GDP growth will enable the denominator to support fiscal ratios. Robust private consumption in 2025 will support Taxes on goods and services. Nevertheless, while an increase in domestic oil production should support real GDP growth in 2025, this expected recovery in oil output is projected to occur amid a deterioration in global oil prices; the net impact of the domestic oil sector on government revenues is therefore expected to be marginally negative (particularly as an Saudi Aramco dividend windfall similar to the one witnessed in 2024 may not be repeated in 2025).

Relative stability on the revenue side combined with government efforts to contain nominal spending will help to narrow the 2025 budget deficit relative to the level recorded in 2024; the budget deficit is projected to stand at SAR101 billion (2.3 percent of GDP) in fiscal year 2025, compared with an estimated deficit of SAR115 billion (2.8 percent of GDP) in fiscal year 2024.

A sustained period of budget deficits and weak nominal GDP has resulted in the public debt stock to GDP ratio rising from 26.2 percent in 2023 to an estimated 29.3 percent in 2024 (see figures 7 and 8). The estimate for 2024 is substantially higher than the 25.9 percent public debt to GDP ratio projected in the original budget statement for the year (largely in line with weak nominal GDP). The increase in public debt was also evident in nominal terms, rising from SAR1,050 billion in fiscal year 2023 to an estimated SAR1,199 billion in 2024. Government reserves have remained substantial, standing at SAR390 billion in both 2023 and 2024; the authorities have sought to maintain cautionary balances that would provide liquidity in the event of a rapid rise in financing costs or a deterioration in market access.

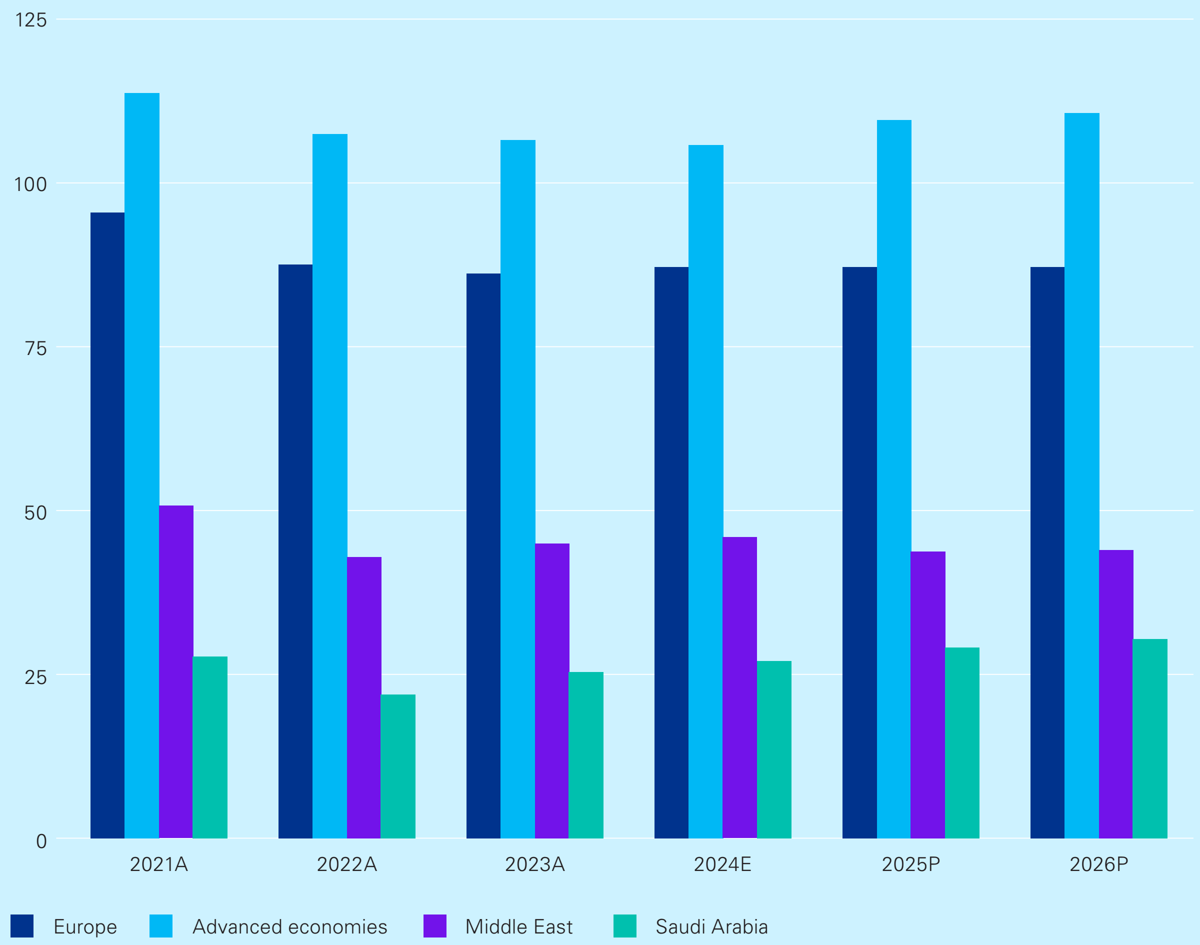
The projected budget deficit in 2025 will be the main driver behind an increase in the public debt to GDP ratio to 29.9 percent of GDP next year. The rise in this ratio largely reflects the fact that the public debt stock in nominal terms will expand by almost 9 percent YoY in 2024, one-third more than the government's projection for nominal GDP growth (of around 6 percent YoY). Finally, the 2025 fiscal budget outlines that fiscal reserves will remain untouched, remaining at SAR390 billion next year. Efforts to diversify demand for Saudi Arabia's public debt will see the authorities continuing to seek both domestic and foreign buyers of government bonds.

Saudi Arabia's public debt to GDP ratio has consistently remained appreciably lower than that of advanced economies and the average in the Middle East region. The modest rise in the public debt stock projected by the government over the medium-term—in both nominal terms and as a proportion of nominal GDP—coupled with a commitment to fiscal sustainability, indicate that the country's public debt metrics will remain positive relative to its peers.

Figure 7: **Public debt**

Source: MoF, Budget Statement 2024

Figure 8: **Public debt as percentage of GDP**



Source: IMF

Expenditure by sector

Health and social development, Defense, Education and Infrastructure and transportation remain among the most important classes of public expenditure, reflecting a combination of societal needs and as these spending classes are central to driving a range of Vision 2030 initiatives.

Healthcare and social development

Spending on the Healthcare and social development component is estimated at SAR260 billion in 2024, up by 1.7 percent YoY and considerably greater than the planned spending of SAR214 billion announced in the 2024 budget statement. The overshoot of actual versus planned spending reflects in part increased success in implementing Vision 2030 initiatives. The focus of spending includes an expansion of social and welfare support as the government has sought to ease pressures on households amid cost-of-living challenges, as well as investment in qualitative improvements of the healthcare sector—for example, supporting medical establishments in obtaining international standards accreditations. The 2025 budget for Healthcare and social development, at SAR260 billion, remains stable. The government will remain committed to enhancing access to healthcare and the quality of services provided, including through investment in health-related physical infrastructure, such as the building of new medical facilities.

Defense

Defense spending is estimated to expand in 2024, to SAR259 billion, from SAR254 billion in 2023. This is part of agreed long-term plans to modernize and transform capabilities. Key priorities driving this week planned increase are the acquisition of new platforms and capabilities to respond to the evolving nature of missions and threats, localization of the Defense manufacturing, driving transformation programs forward, and responding to opportunities presented by the rapid evolution of technologies. These priorities will continue to drive Defense spending further in 2025, to SAR272 billion. In addition to structural objectives directly aimed at modernizing military capabilities, the government will maintain its localization efforts. These efforts will include accelerating focus on developing sovereign capabilities through nurturing domestic private and public sector partnerships, including in Defense research and technology.

Education

Spending on Education is estimated to fall in 2024 relative to 2023, standing at SAR201 billion versus SAR210 billion in the prior year. The 2024 estimate for spending in this category is nevertheless higher than was originally announced in the 2024 budget statement. Spending this year has focussed on initiatives such as expanding school spaces (including through the building of new schools), as well as a broader upgrade of educational services. Spending in this category is set to remain stable in 2025, at SAR201 billion. The government will continue its policy of aligning Education spending to Vision 2030 goals. The government's broader drive to digitize the economy will remain a key element of investment in the Education component in 2025, as will a further provision of sports facilities.

Infrastructure and transportation

Infrastructure and transportation spending is estimated to have remained stable in 2024, at SAR40 billion. There has been a strong focus on investment in digital infrastructure, logistics, airport upgrades and a broader modernization of facilities catering to Hajj pilgrims. Spending will rise by 3.6 percent YoY in 2025, to SAR42 billion. The government will continue to support initiatives that support its Vision 2023 agenda. These initiatives will include further integration towards a digital economy, support for the ongoing expansion of the communications and information technology sector, upgrades of airport and port facilities and additional investment in public bus transport projects.

Risks and challenges

Geopolitical tensions have become heightened at both the regional and global levels in 2024 and are at risk of worsening markedly in 2025. The Ukraine-Russia conflict and the ongoing war in the Middle East both bring with them the risk of wider clashes that could include the entry of Western nations. Such a marked increase in tensions in either theater would transmit uncertainty across geographies and asset classes. Consecutive disasters such as the 2007-2008 global financial crisis and the Covid-19 pandemic have resulted in a significant deterioration of government balance sheets in the major economies, limiting their ability to implement fiscal stimulus in the event of further shocks. The risk of economic and/or financial shocks reducing global economic activity and thus oil demand in 2025 will remain elevated. Saudi Arabia retains the fiscal capacity to cushion the country against external shocks in the short-term, but a sustained period of weak global oil demand would restrain the authorities' ability to implement Vision 2030 initiatives and broader investment plans while also weakening the country's fiscal metrics.

Inflationary pressures across advanced and emerging economies have begun to come off the elevated levels evident from 2022 to the first half of 2024. This easing trend is enabling major central banks to lower monetary policy rates. However, risks remain. The aforementioned geopolitical risks could create new supply chain shocks that bring with them additional price pressures. Two main transmission mechanisms would undermine Saudi Arabia's economic and fiscal dynamics in such a scenario. Firstly, signs of persistent upward inflation could slow the pace of monetary easing; such a slowdown would bring with it greater risk of policy-induced recessions in oil-consuming economies. Lower global oil demand would directly weaken money inflows on Saudi Arabia's fiscal and current accounts. Secondly, indirect effects will depend in part on the extent and nature of any global shocks, but a combination of high policy rates and recessionary pressures bring with them increased volatility in financial markets. Access to bond markets would become more difficult in such a scenario, even as higher rates raise the cost of financing more generally.

Economic indicators

	2020A	2021A	2022A	2023A	2024E	2025P
Economic output						
Nominal GDP (SAR billion)	2,754	3,278	4,157	4,003	4,091	4,352
Nominal GDP (% change YoY)	-12.4	19.0	26.8	-3.7	2.2	6.4
Real GDP (% change YoY)	-3.6	5.1	7.5	-0.8	0.8	4.6
Budget						
SAR billion						
Total revenue	782	965	1,268	1,212	1,230	1,184
Oil revenue	413	562	857	755	758	—
Non-oil revenue	369	403	411	458	472	—
Expenditure	1,076	1,039	1,164	1,293	1,345	1,285
Surplus / (Deficit)	-294	-74	104	-81	-115	-101
Gross public debt	854	938	990	1,050	1,199	1,300
% of GDP						
Total revenue	28.4	29.4	30.5	30.3	30.1	27.2
Oil revenue	15.0	17.1	20.6	18.9	18.5	—
Non-oil revenue	13.4	12.3	9.9	11.4	11.5	—
Expenditure	39.1	31.7	28.0	32.3	32.9	29.5
Surplus/Deficit	-10.7	-2.3	2.5	-2.0	-2.8	-2.3
Gross public debt	31.0	28.6	23.8	26.2	29.3	29.9

A | Actual **E** | Estimated **P** | Projected **—** | N/A

Source: IMF, MoF, Budget Statement 2025

Disclaimer: Figures are rounded up to the nearest billion throughout the report. Some figures may not add up to 100 percent due to rounding.

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