

Sustaining momentum

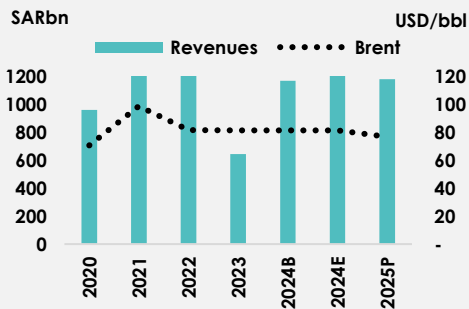
KSA's Pre Budget 2025 Snapshot

SARbn	2024E	2025P	YoY
Total Revenue	1,237	1,184	-4.28%
Total Expenditure	1,355	1,285	-5.17%
Budget Deficit	-118	-101	-14.41%
Budget Deficit (% of GDP)	-2.88%	-2.32%	-56bps
Public Debt	932*	1,176*	26%
Public Debt (% of GDP)	22.8%*	27%	-42bps

*2H24

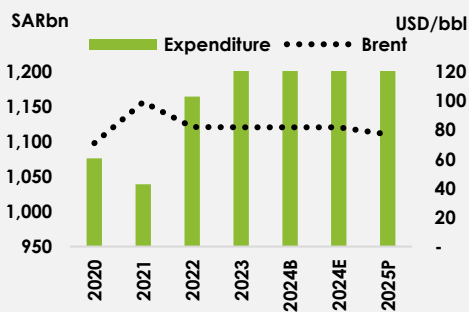
Source: Ministry of Finance, Tharaa

Revenue Trend



Source: Ministry of Finance, Tharaa

Expenditure Trend



Source: Ministry of Finance, Tharaa

PSU-The Tharaa Financial Center

Phone: 011-494 8899

E-mail: tharaa@psu.edu.sa

Building 107

Prince Sultan University

Rafha Street, Riyadh

Kingdom of Saudi Arabia



Economic Growth and Projections

The Saudi government is dedicated to maintaining fiscal sustainability while promoting economic growth and improving the standard of living for citizens and communities through greater transformative spending. With a strong 3.7% increase in non-oil activity, the Saudi economy is predicted to grow by 0.8% in real GDP in FY2024. Positive economic indicators, particularly in the private consumption and investment sectors, during the first half of FY2024 provide additional support for this optimistic estimate. Despite obstacles caused by a slowing global economy, Saudi Arabia's economy is expected to grow, which is a testament to the success of the structural changes implemented as part of Saudi Vision 2030. These reforms aim to diversify the country's economic base and foster an environment that is conducive to investment.

Labour Market and Inflation

Growth in the non-oil sector will not only improve economic performance but also labour market conditions. By the end of the second quarter of 2024, the private sector will record a 4.1% increase in the number of Saudi Arabian workers, equivalent to approximately 92,000 new jobs compared to the second quarter of 2023. Moreover, provisional estimates of the Consumer Price Index (CPI) suggest that inflation could reach around 1.7% in FY24, significantly lower than the global average inflation rate of 5.8. Proactive government measures and policies are expected to keep inflation at a tolerable level in the medium term. Preliminary projections for FY2025 indicate a more robust real GDP growth rate of 4.6%, driven primarily by gains from non-oil activities that are essential for long-term economic stability.

Fiscal Strategy and Budget Outlook

The anticipated growth of the Saudi economy is set to bolster government revenues over the medium term. Total revenue estimates for FY2025 are around SAR 1,184 billion, with projections climbing to approximately SAR 1,289 billion by FY2027. To align with these growth targets, government expenditures are projected to reach SAR 1,285 billion in FY2025, with expectations to increase to SAR 1,429 billion by FY2027. A budget deficit of approximately 2.3% of GDP is forecasted for FY2025, reflecting the government's strategic commitment to expansionary spending that fosters economic diversification and sustainable growth. The government plans to undertake borrowing to cover the FY2025 financing needs and may consider additional proactive financing measures based on market conditions.

Long-term Fiscal Sustainability and Infrastructure Investment

To ensure long-term fiscal sustainability, the Saudi government aims to maintain safe levels of government reserves and manageable public debt. This strategy is designed to enhance the Kingdom's resilience to economic shocks. The government will actively seek alternative financing channels to support infrastructure and capital projects, thus diversifying funding sources while enhancing market efficiency. By preserving the Kingdom's fiscal position and implementing responsible fiscal policies, the government is set to bolster its ability to address unforeseen economic challenges and promote ongoing economic growth.

Global Economic Developments

Since FY2022, there have been persistent uncertainties, which have caused the global economy to recover slowly and stay below historical growth levels. Key difficulties include tighter monetary policies by developed-country central banks to battle excessive inflation, rising global debt levels, and ongoing geopolitical dangers. However, in the medium term, growth may be stimulated and the global economy may be supported by the US Federal Reserve's recent moves to reduce interest rates by a total of 75 basis points across its last two rate cuts.

- **IMF Projections:** According to the World Economic Outlook (WEO) for July FY2024:
 - Global growth is expected to be 3.2% in FY2024 and 3.3% in FY2025, compared to 3.3% in FY2023.
 - Advanced economies are projected to grow at 1.7% in FY2024 and 1.8% in FY2025.
 - Emerging markets and developing economies are anticipated to grow at 4.3% for FY2024 and FY2025.

Saudi Arabian Economy and Global Economic Developments

Key challenges include the impact of tighter monetary policies by the central banks of developed countries, aimed at reining in high inflation, which has reverberated across economies, including the Kingdom's. Rising global debt levels and ongoing geopolitical risks have further added to the complexities of recovery. In the medium term, however, Saudi Arabia's growth showed positive projections.

- Saudi real GDP growth is expected to be 4.6% in FY2025 compared to 3.3% for the global growth and 1.8% for the advanced economies for the FY2025

Economic Growth Forecast

	2023	2024B	2024E	2025P	2026P	2027P
Real GDP growth	-0.8%	4.4%	0.8%	4.6%	3.5%	4.7%
Nominal GDP (SARbn)	4,003	4,136	4,091	4,352	4,431	4,718
Nominal GDP Growth	-3.7%	3.3%	2.2%	6.4%	1.8%	6.5%
Inflation	2.3%	2.6%	1.7%	1.9%	1.9%	1.9%

Source: Pre-Budget 2025, Tharaa

The balance of trade is improving, supported by non-oil exports. Real GDP is projected to grow by 4.6% in FY2025, underscoring Saudi Arabia's commitment to sustainable economic development. Saudi Arabia's real GDP is expected to grow by 0.8% in FY2024, driven by a 3.7% increase in non-oil activities, improvement in the balance of trade, and the expectation of real GDP rising by 4.6% in FY2025.

Domestic Economic Developments:

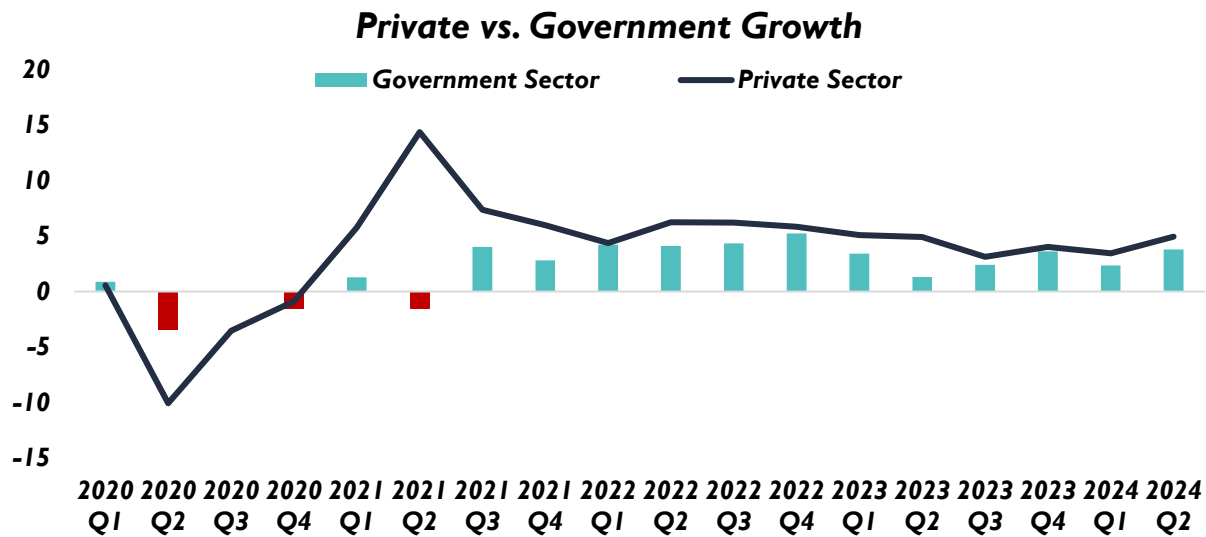
Economic Indicators

SARbn	2023	2024B	2024E	2025P	2026P	2027P
Total Revenue	1,212	1,173	1,237	1,184	1,198	1,289
Total Expenditure	1,293	1,252	1,355	1,285	1,328	1,429
Budget Deficit	-81	-79	-118	-101	-130	-140
Budget Deficit (as % of GDP)	-2.00%	-1.90%	-2.88%	-2.32%	-2.93%	-2.97%
Nominal GDP (SARbn)	4003	4136	4091	4352	4431	4718
Public Debt	1,050	1,103	932	1,176	1,285	910
Public debt (as % of GDP)	25.90%	26.50%	27.00%	27.00%	29.00%	23.40%

Source: Pre-Budget 2025, Tharaa

The MoF projected the FY2025 budget a deficit of 2.3% of GDP (-101 bn). The medium term will show similar levels due to the economic growth spending aiming to improve and diversify the economy resulting in stability and sustainability of the growth. The government has been able to accelerate certain projects and strategies to maximize economic and social returns. Under the base-case scenario, the projections suggest fiscal deficit of -2.9% in 2024, -2.3% in 2025, -2.9 in 2026, and -3% for 2027.

Real Gross Domestic Product by Institutional Sectors Growth

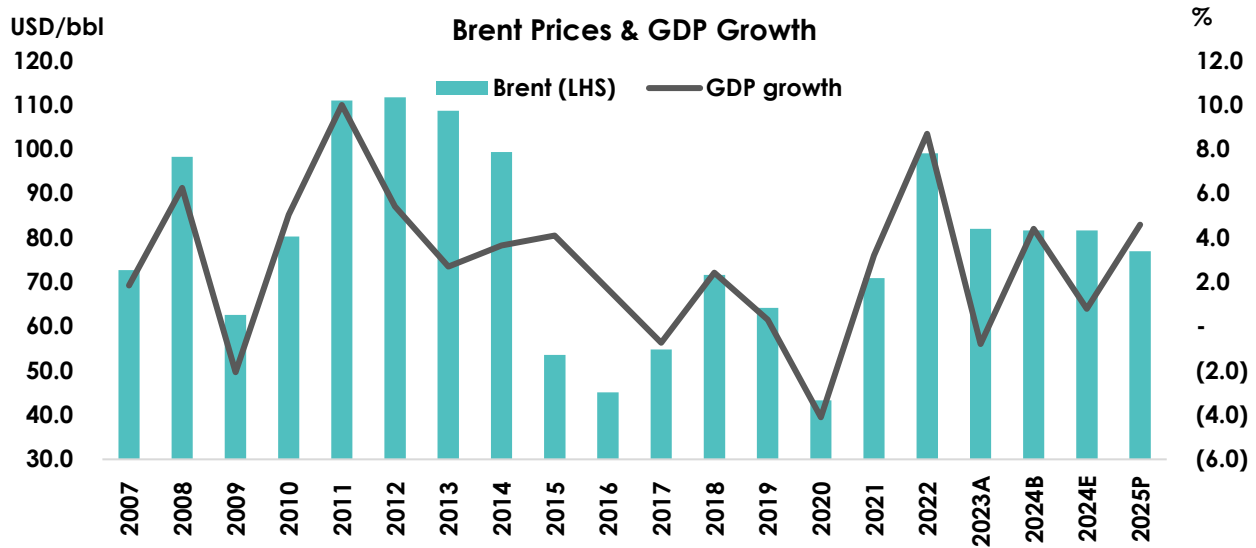


Source: General Authority of Statistics, Tharaa

Saudi Arabia's quarterly growth in the government and private sectors from Q1 2020 to Q2 2024.

Saudi Arabia government and private growth highlights a sharp decline during Q2 2020 due to COVID-19, followed by a strong government-led recovery in 2021, while the private sector's growth was steadier. Since 2022, both sectors have stabilized, with modest private sector progress. This trend indicates economic resilience and aligns with Vision 2030's diversification efforts. Future growth is likely to continue, although external factors like oil prices could still impact these trends.

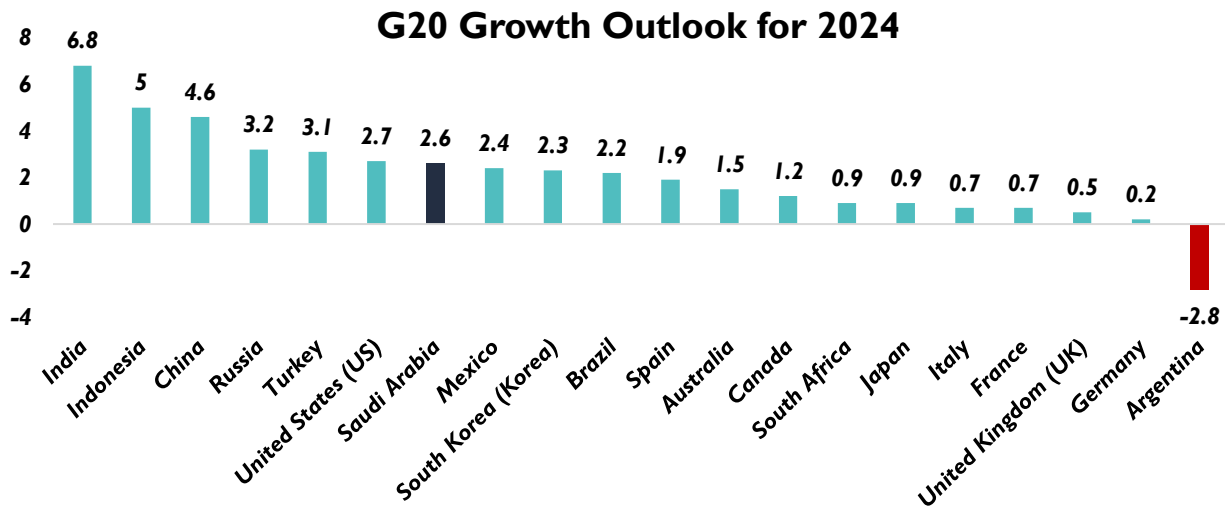
Oil Prices and GDP



Source: Pre-Budget 2025, Bloomberg Annual Average Price, Tharaa

Historical trends in Brent crude oil prices and global GDP growth.

From 2008 onwards, Brent prices experienced sharp rises and falls, with notable peaks around 2011-2012 and 2022. Meanwhile, GDP growth shows periods of recovery and contraction, often moving inversely to oil prices. As of 2024, global growth is projected to peak, before stabilizing in 2025 at 3.2%, with inflation expected to decline to 5.9%. This suggests an economic environment moving toward normalization after recent volatility.



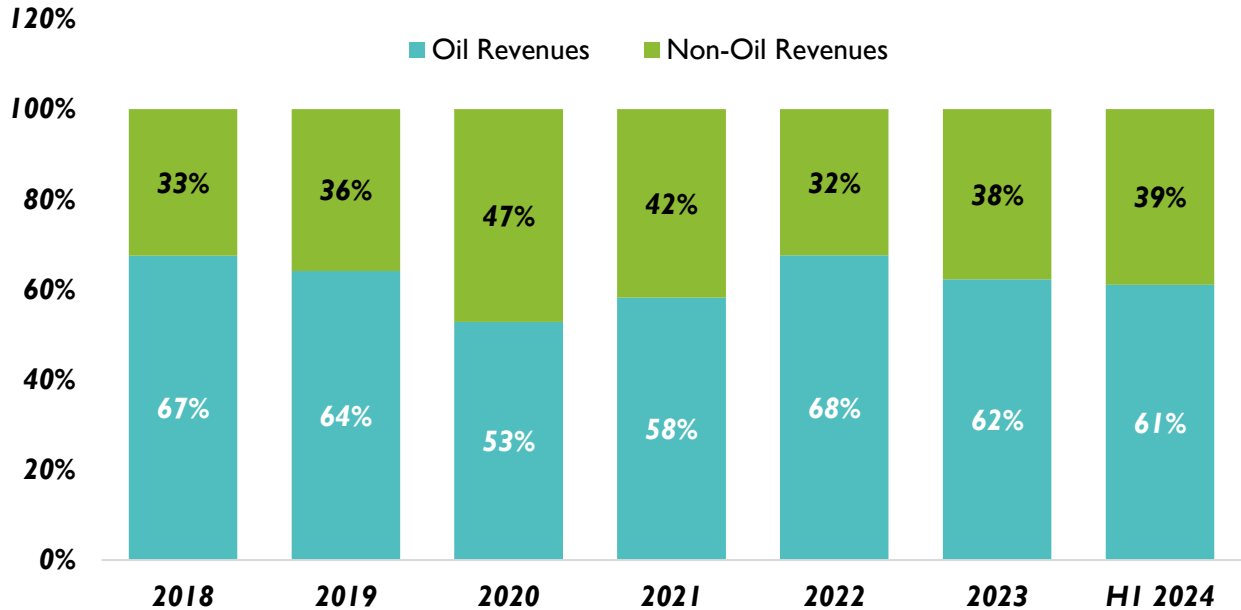
Source: IMF, Tharaa

In 2024, Saudi Arabia's GDP is expected to grow at a noticeable rate of 2.6% among G20 countries, as per IMF estimates, placing it as the 7th highest amongst the group. Meanwhile, India is projected to lead G20 economies with a growth rate of 6.8%, followed by Indonesia at 5% and China at 4.6%.

Oil Markets

The growth average has been positive in the past three years averaging around 5.8%. The non-oil investment is focusing on promising sectors such as tourism & entertainment, transportation & logistics, and industry. Notably, the Saudi economy has made significant progress, with non-oil activities contributing 50% to real GDP, reaching SAR 1.7 trillion. Real GDP is expected to grow by 0.8% in FY2024, driven by a 3.7% increase in non-oil activities.

Annual Percentage of Oil & Non-Oil Revenue

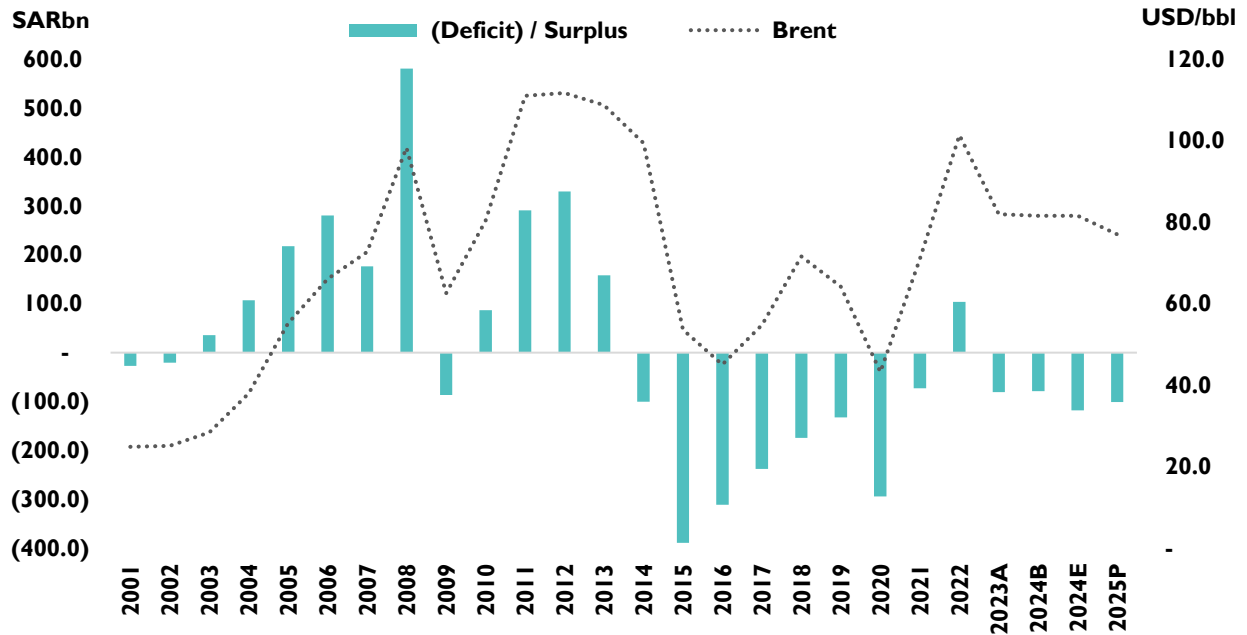


Source: Ministry of Finance, Tharaa

Saudi Arabia has made significant improvements in diversifying its revenue sources. In 2018, oil revenues made up 67% of total revenues, while non-oil revenues were just 33%. By 2023, non-oil revenues increased to 38% and are projected to reach 39% in the first half of 2024, reflecting the country's ongoing efforts to reduce reliance on oil and build a more sustainable economic base. Non-oil exports rose 65% in H1 FY2024 compared to FY2016, and increased imports of production goods are expected to boost GDP. Additionally, the growth of tourism and net inflows has further strengthened the economy.

Oil and the Saudi Government Budget

Brent Crude Price & Saudi Surplus / Deficit

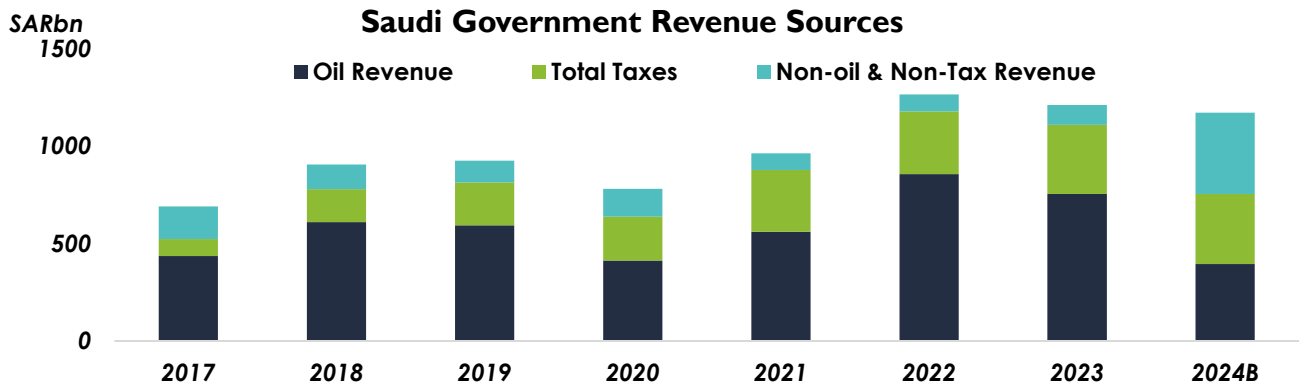


Source: Pre-Budget 2025, Bloomberg Annual Average Price, Tharaa

Brent crude prices averaged approximately USD 83 per barrel in FY2024, boosted by OPEC+ production cuts and rising global demand. OPEC+ has agreed on new production levels for FY2025 as they extend their existing cuts.

The average price of Brent crude futures has risen by 3% from the start of FY2024 to August FY2024, compared to the same timeframe last year, averaging around USD 83 per barrel. The voluntary production cut announced in April FY2023, which reduced output by 1.65 million barrels per day (bpd), will be extended until the end of December FY2025. Additionally, the extra voluntary production cut introduced in November FY2023, reducing output by 2.2 million bpd, will continue until the end of November FY2024. This plan includes a gradual restoration of the reduced volumes each month until November FY2025 to promote market stability, with the understanding that these monthly increases may be adjusted or halted based on market conditions.

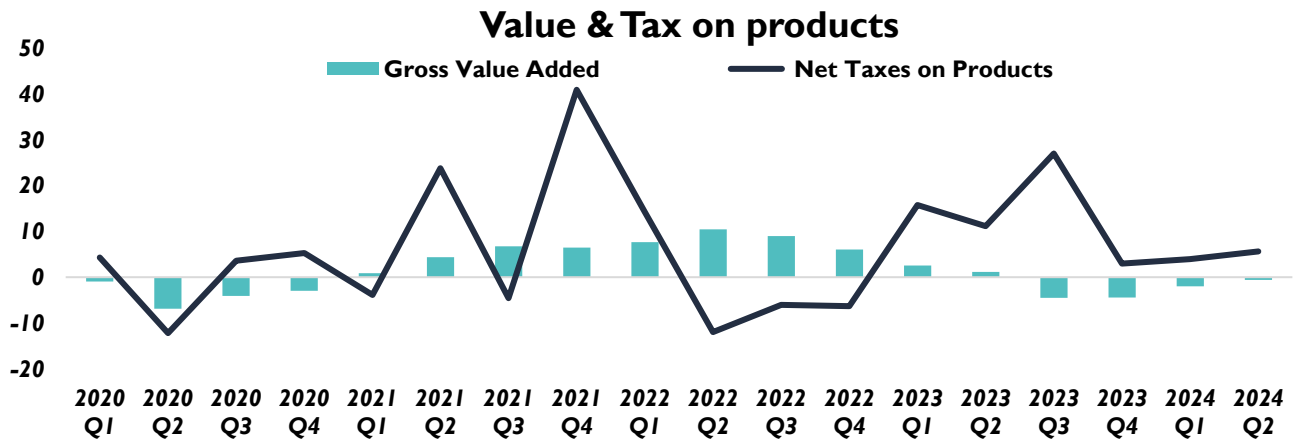
Sources of Revenue



Source: Ministry of Finance, Tharaa

Saudi Arabia's revenue composition from 2017 to the first half of 2024, highlighting the contributions of oil revenue, total taxes, and non-oil & non-tax revenue.

Saudi Arabia's revenue exhibited a fluctuating dependence on oil revenue, with the proportion peaking at 68% in 2022 before dropping to 61% in the first half of 2024. Total taxes and non-oil & non-tax revenue have gradually increased, indicating efforts to diversify the revenue base. The projected figures for 2024 suggest continued growth in non-oil revenue streams, reflecting a strategic shift towards reducing reliance on oil. The chart underscores the ongoing transformation of the country's fiscal framework in line with economic diversification goals.

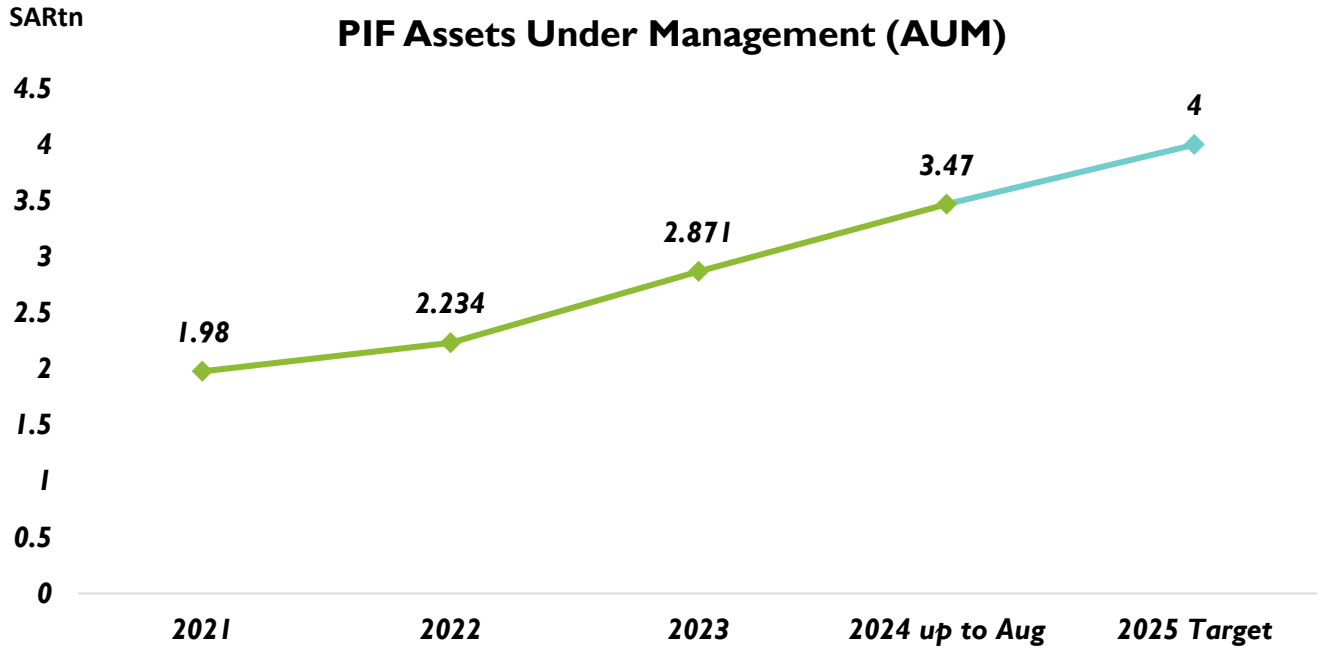


Source: General Authority of Statistics, Tharaa

Saudi Arabia's quarterly data on Gross Value Added (GVA) and Net Taxes on Products from Q1 2020 to Q2 2024.

Significant fluctuations are evident, with a marked decline in Q2 2020, reflecting the pandemic's economic impact. Both GVA and net taxes on products experienced volatility, with notable peaks in 2021, indicating periods of economic recovery and fiscal adjustments. Since 2022, the trends have stabilized, showing moderate GVA growth and relatively flat tax trends, suggesting more consistent economic activity. This stabilization aligns with efforts to diversify the economy and maintain fiscal balance, though external factors may still affect future trends.

Public Investment Fund



Source: Public Investment Fund, Tharaa

The growth of the Public Investment Fund (PIF) assets under management (AUM) in Saudi Arabia from 2021 to August 2024, with a target for 2025.

Starting at SAR 1.98 trillion in 2021, the assets steadily increased to SAR 2.234 trillion in 2022, SAR 2.871 trillion in 2023, and SAR 3.47 trillion by August 2024. The 2025 target is set at SAR 4 trillion. This upward trend highlights PIF's significant role in driving economic diversification and investment in line with Vision 2030. Achieving the 2025 target would further strengthen Saudi Arabia's position as a major global investment player.

PIF is emerging as a major economic driver. Total assets under PIF management have skyrocketed to SAR2.81 trillion, exceeding the 2023 target of SAR2.7 trillion and nearly four times the baseline of SAR0.72 trillion. The ultimate Vision 2030 target for PIF assets is SAR10 trillion.

PIF target for Assets under Management (AuM) by the year of 2025 is SAR 4 trillion. Currently, PIF reached a financial position where the AuM can be achieved adequately, which is 91.6%. Subsequently, PIF will be able to increase their AuM by 4.2% to achieve the targeted AuM for 2025 steadily and focus on the AuM management strategies, and improvement.

Inflation, CPI Trends, and Interest Rate Dynamics

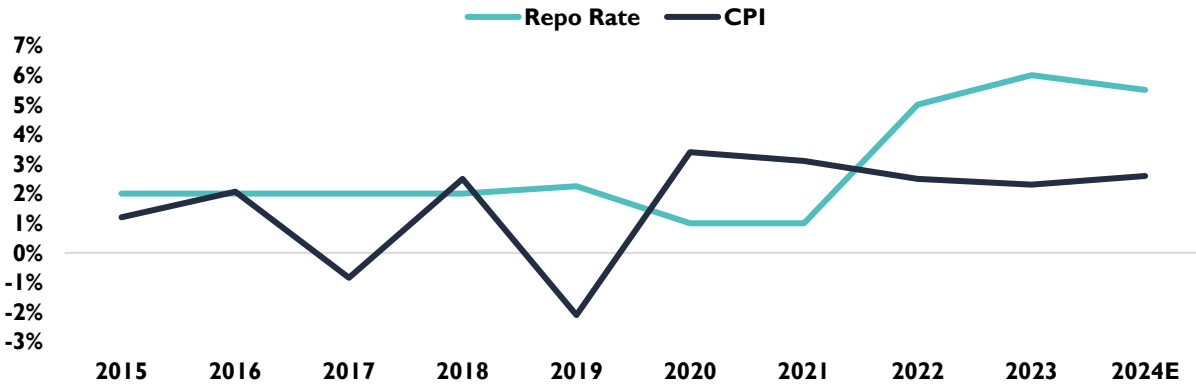
Saudi CPI 2024



Source: General Authority of Statistics, Tharaa

Saudi Arabia's CPI is projected to reach 1.7% in FY2024, with government measures like capping gasoline prices and ensuring food supply helping to control inflation. As of August 2024, CPI had risen by 1.6% compared to the previous year. Housing and utilities, which make up 25.5% of the CPI, are a major focus, with the government supporting homeownership through the Housing Program, boosting the homeownership rate to over 63% by 2023.

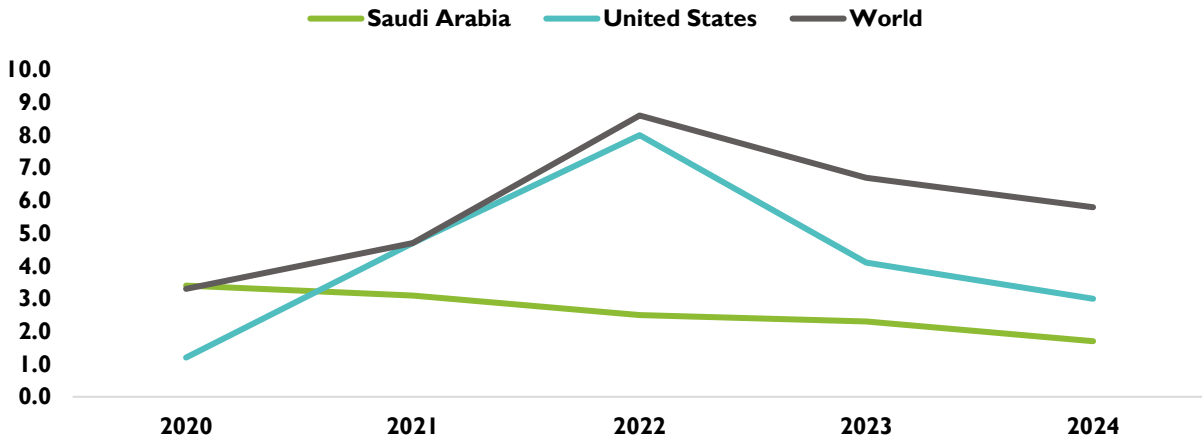
Saudi Interest Rate



Source: Central Bank, Tharaa

The Kingdom's economic resilience has kept inflation stable compared to global trends, while structural reforms have improved the balance of payments. Following the U.S. Federal Reserve's interest rate cut, Saudi Arabia's central bank lowered rates by 50 basis points, aligning with U.S. movements to avoid complications from arbitrage opportunities.

Inflation Rate of Saudi Arabia vs World

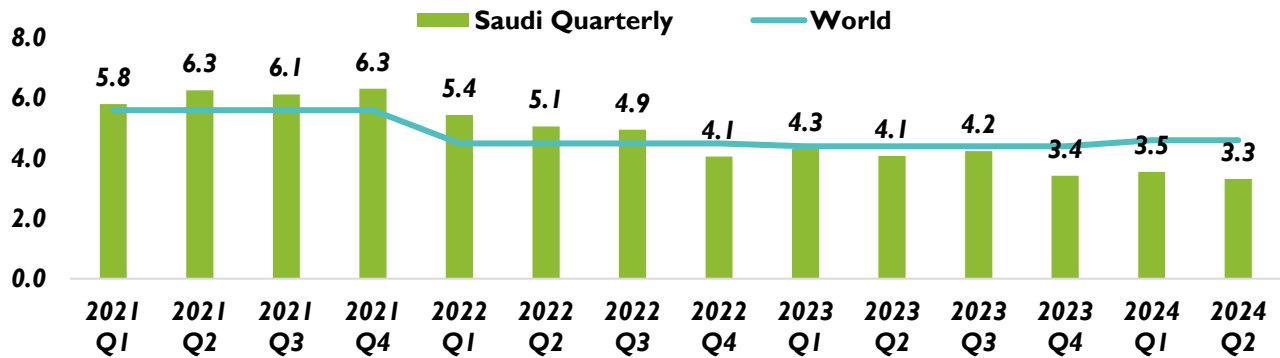


Source: IMF, Tharaa

Saudi Arabia’s inflation rate had been lower than the global inflation in the past and it is expected to be 1.7% in FY2024, while global inflation rates are expected to be 5.9% in FY2024 and is projected to decline at 4.4% in FY2025. Whereas advanced economies may see inflation fall to 2.7%. U.S. interest rates remain higher than anticipated, which could influence Saudi interest rates and impact investment, consumption, and tourism. Despite this, Saudi Arabia’s expansionary fiscal policy has helped mitigate the effects of rising rates, supporting private sector growth and capital projects.

Labor Market

Saudi & Global Unemployment Rate

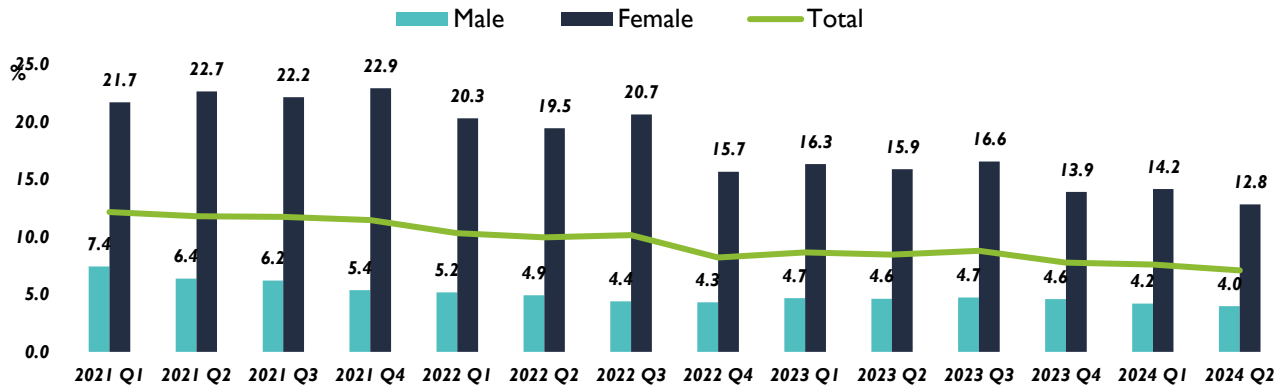


Source: IMF, General Authority of Statistics, Tharaa

Unemployment decreased to 3.3% in Q2 FY2024, driven by new work models, incentives, and government initiatives. In contrast, the global unemployment rate in Q2 FY2024 is 4.6%. Meanwhile, female participation in the Saudi labor market has increased to 35.4%.

Saudi Arabia’s unemployment rate has shown a consistent decline since peaking at 6.3% in Q3 2021. By Q2 2023, the rate had fallen to 4.2%, closely aligning with global trends. Looking ahead, the unemployment rate is expected to further decrease to 3.3% by Q2 2024, continuing the positive trend of labor market improvements. This reflects ongoing economic recovery efforts and the government’s focus on job creation and economic diversification.

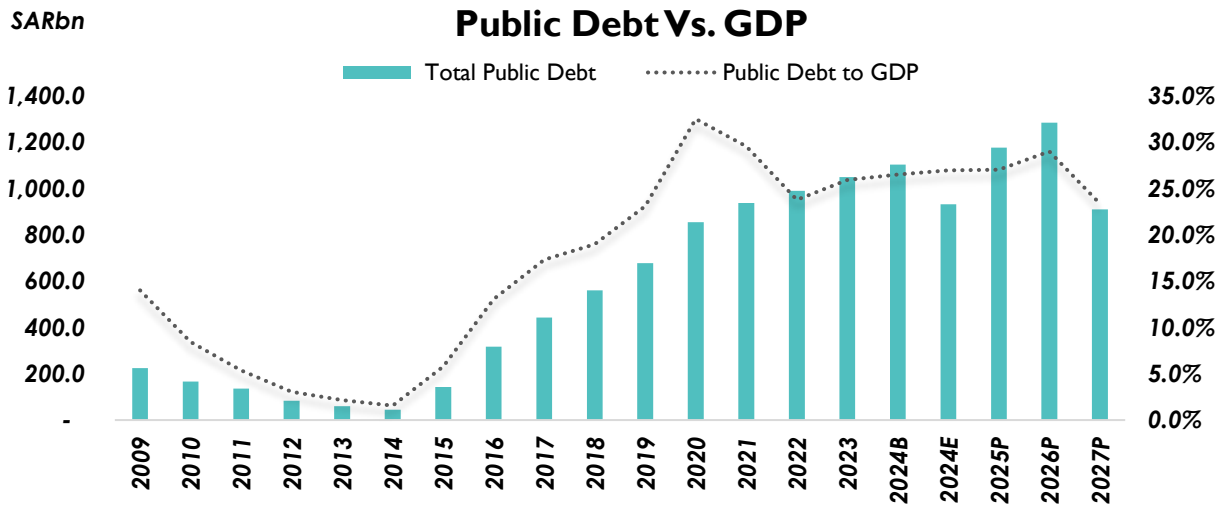
Saudi Arabia Unemployment Rate



Source: IMF, General Authority of Statistics, Tharaa

The unemployment rate for both males and females in Saudi Arabia shows a downward trend from 2021 to 2024. Male unemployment steadily decreased from 7.4% in Q1 2021 to 4.0% by Q2 2024. Female unemployment, which was notably higher at 21.7% in Q1 2021, saw a significant decline to 12.8% by Q2 2024. This reflects ongoing efforts to improve labor force participation and reduce gender disparities in the job market. The overall unemployment rate follows a similar pattern, indicating a broader improvement in the Saudi labor market.

Debt, Expenditure, and Revenue



Source: Pre-Budget 2025, Tharaa

Expenditure: The MoF has proposed upward expenditure ceiling by 29.5 over 2025, and 30% over 2026. It's worth mentioning that utilizing the available fiscal resources through the transformation spending is to prevent the overheating of the economy due to the increased government spending. In addition, the government initiative to enhance the financial sustainability in the fiscal long run and medium term is intended to prioritize and enhance the spending efficiency and maintain expenditures on essential services for citizens and residents within the financial space's framework.

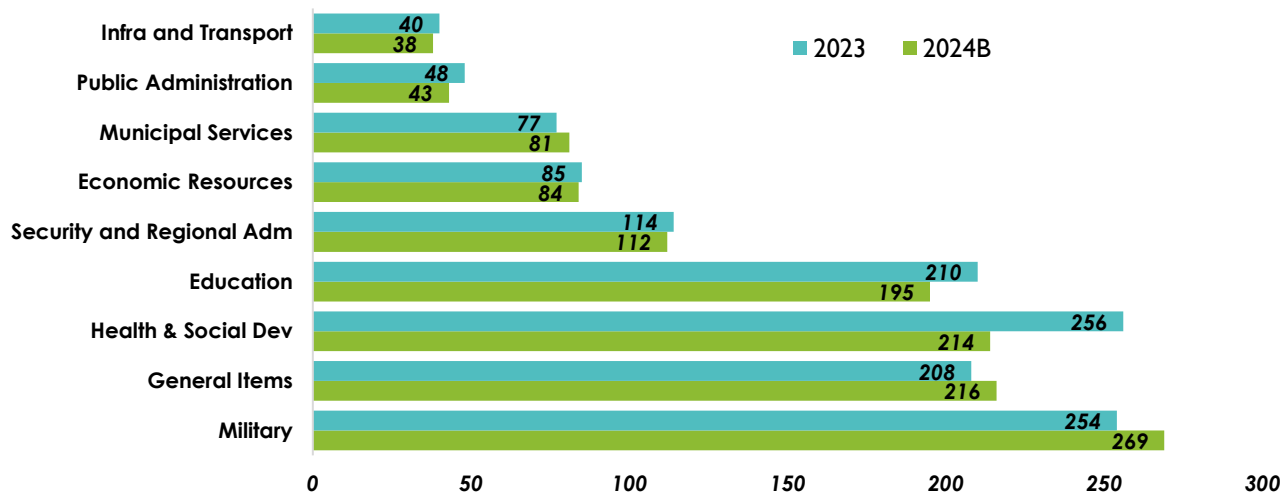
The Total Expenditures for the FY2025 is expected to be 1,285 bn, growing to 1,328 bn in FY2026, and to 1,429 bn in the FY2027, representing 29.5%, 30%, and 30.3% of GDP, respectively.

Revenues: The revenue's structure has been reformed to diversify the economy and enhance the non-oil revenues in order to become independent of oil price volatility. Consequently, the non-oil revenues increased to 35% in covering the budget expenditures compared to 17% in 2015. This will improve the economic growth while achieving stability and sustainability for the current and future revenues.

- The ratio of non-oil revenues to non-oil GDP reached 18% by the end of FY2023 compared to 9% in FY2015.
- The total revenue in FY2025 estimate is SAR 1,184 bn, a decrease of 4.3% from end of FY2024. Additionally, the total revenue in FY2027 is expected to reach SAR 1,289 bn a significant increase from the SAR 519 billion reported in 2016.
- Non-oil exports growth registered a 65% increase during the H1 of FY2024 compared to the same period in FY2016.

As a result, the baseline scenario for FY2025 projects total revenue at SAR 1,184 bn and total expenditures at SAR 1,285 bn resulting in a deficit of SAR 101 bn.

Budget Allocation 2023 / 2024



Source: Pre-Budget 2025, Tharaa

Saudi Arabia's budget allocations across various sectors for 2023 and projected figures for 2024.

The military sector consistently receives the highest allocation, increasing from SAR 254 billion in 2023 to SAR 269 billion in 2024. Health and social development also see a notable rise in budget allocation, growing from SAR 214 billion in 2023 to SAR 256 billion in 2024, reflecting a focus on social services. Education, security, and general items maintain significant funding, while infrastructure and transport, public administration, and economic resources show relatively lower budget levels. The data indicates the government's prioritization of defence, health, and education in its fiscal planning for 2024.

Fiscal Financing: Programs and Investment Strategies.

In support of its ambitious development goals, the Kingdom is actively pursuing sectoral strategies that align with the objectives of Saudi Vision 2030. It is progressing with economic, fiscal, and structural reforms while implementing expansionary spending policies. In 2025 and over the medium term, new strategies and a range of initiatives will be launched to further drive the structural transformation of the economy.

Moreover, the National Development Fund (NDF) has played a crucial role in promoting economic stability and supporting national development. Its goal is to enhance the performance and sustainability of development funds and banks across the Kingdom. Along with Fiscal Financing programs and investment strategies, PIF is also playing a key role in job creation. In 2023, PIF's portfolio companies created 93 new businesses, up from 71 in 2022. PIF directly and indirectly generated 644,000 jobs, compared to 500,000 in 2022.

The focus on diversifying exports beyond oil is also yielding results. The share of non-oil exports in the non-oil GDP has reached 24.1%, exceeding a baseline of 18%. While this falls short of the 2023 target of 36%, it demonstrates progress toward the long-term Vision 2030 goal of 50% non-oil. Tourism and Manufacturing sector additionally hosted 60 million visitors in H1 FY2024, generating about SAR 150 billion in spending. Manufacturing is also growing, with 308 new factories launched.

Key risk factors

The main key factors that may affect economic growth and sustainability include economic, geopolitical, environmental, and technological challenges. Moreover, inflation persistence may impact the economy negatively by raising the interest rates which will result in increase of borrowing costs and disturb the capital flows between countries, which can potentially reduce investments and spending.

Disclaimer

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Contact Info

Tharaa Financial Center
011-4948899
Info@TharaaFC.com
www.tharaafc.com
Building-105
Prince Sultan University
Rafha Street, Riyadh
Kingdom of Saudi Arabia

