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SAUDI ARABIA ECONOMIC REPORT

FEBRUARY 2026

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SIGNIFICANT PROGRESS ACHIEVED IN REDUCING THE ECONOMY'S EXPOSURE TO OIL FLUCTUATIONS

A 4% real GDP growth in 2025, four-year high and double that of 2024

The resilience shown in 2025, reflected in a 4% real GDP growth, a four-year high and double that of 2024, underscores the progress already achieved in reducing the economy's exposure to oil fluctuations. Despite oil prices falling nearly 30% below their 2022 peak, the non-oil economy maintained strong momentum. This strength reflects the impact of Saudi Vision 2030 reforms—diversification gaps with emerging markets have narrowed, and the business environment now rivals that of advanced economies. Importantly, growth has been fueled not only by investment, but also by people: private sector job creation has surged, particularly among women, and unemployment rates reached record lows.

Saudi Arabia's external sector performance noticeably weakened in 2025

During 2025, Saudi Arabia's external sector performance was noticeably weakened by various factors of which OPEC+ oil supply increase, diversification efforts and decreased investment momentum. At the level of foreign trade, Saudi Arabia's BoT surplus showed a drop a drop of 21.9% year-on-year reaching SAR 203.4 billion (US$ 54.2 billion) in the first 11 months (11M) of 2025, down from SAR 260.4 billion (US$ 69.4 billion) in 11M-2024. The main driver standing behind this contraction in BoT surplus is a 9.4% increase in imports year-on-year, slightly offset by a 1.7% increase in exports year-on-year between 11M-2024 and 11M-2025.

Widening Saudi fiscal deficit in 2025 amid lower oil revenues and elevated outlays

Saudi Arabia faced rising fiscal pressures over the year 2025, as declining oil prices continued to weigh on government revenues, triggering a widening deficit. While oil revenue faltered, the Kingdom maintained its aggressive spending on Vision 2030 giga-projects, resulting in a budget deficit that widened to about 5.3% of GDP, significantly higher than the 2.3% originally planned for the year 2025.

Saudi inflation remaining contained in 2025, and Central Bank maintaining alignment with US Fed's monetary policy

Saudi monetary conditions were characterized by contained inflation and accumulated foreign currency reserves over the year 2025. Within this context, the IMF expects international reserve coverage to remain adequate at about 12 months import coverage over the medium term, with foreign assets held by the PIF and other government-related entities offering strong additional buffers. Concomitantly, the Saudi Central Bank continued to follow the US Federal Reserve's lead by reducing interest rates three times between September and December 2025

A good year for the Saudi banking sector amid resilient activity growth and strong profitability

The year 2025 was another good year for the Saudi banking sector. Measured by the aggregation of banking sector assets, banking activity grew by 10.3% over the past year, to move from US$ 1,198 million at end-2024 to US$ 1,322 million at end-2025. As a percentage of GDP, bank assets rose from 96.7% to 104.2% over the same period. Likewise, deposits grew by 8.7% in 2025 to reach US$ 780 billion at year-end, while loans and advances increased by 10.4% to reach US$ 811 billion (the equivalent of 64% of GDP). In parallel, capital accounts rose from US$ 157 billion at year-end 2024 to US$ 172 billion at year-end 2025 on the back of strong profitability. The banking sector's profits reported a 16.0% growth over the year, moving from US$ 23.8 billion in 2024 to US$ 27.6 billion in 2025. The return on average assets reported a new high of 2.19% in 2025, while the return on average equity increased to 16.7% over the year.

Looking forward, the year 2026 pivotal for Saudi Arabia

The Kingdom's real GDP growth is expected to improve further to 4.5% in 2026 (before slightly correcting down to 3.6% in 2027) according to the most recent IMF World Economic Outlook. The country is well placed to move beyond the favorable tailwinds of 2022–2024— when high oil prices and reform implementation facilitated the acceleration of Saudi Vision 2030-related spending—into a more challenging environment characterized by lower oil prices and rising financing needs. At the same time, Saudi Arabia is strategically shifting some of its spending priorities, with some of its investment focus moving toward AI and advanced technologies as part of its broader effort to diversify the economy. Continued efforts, however, remain essential to close the remaining gaps with advanced economies and keep the transformation on track.

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The resilience shown in 2025, reflected in a 4% real GDP growth, a four-year high and double that of 2024, underscores the progress already achieved in reducing the economy's exposure to oil fluctuations. Despite oil prices falling nearly 30% below their 2022 peak, the non-oil economy maintained strong momentum. This strength reflects the impact of Saudi Vision 2030 reforms—diversification gaps with emerging markets have narrowed, and the business environment now rivals that of advanced economies. Importantly, growth has been fueled not only by investment, but also by people: private sector job creation has surged, particularly among women, and unemployment rates reached record-lows.

At the external sector level, while exports exceeded imports by circa 24%, the year 2025 witnessed a current account deficit of -2.1%, the highest deficit since the year 2020. While oil represented the bulk of exports (69% of the total), machinery and transport accounted for the lion's share of imports (43% of the total), as per figures of the General Authority for Statistics for the first eleven months of 2025.

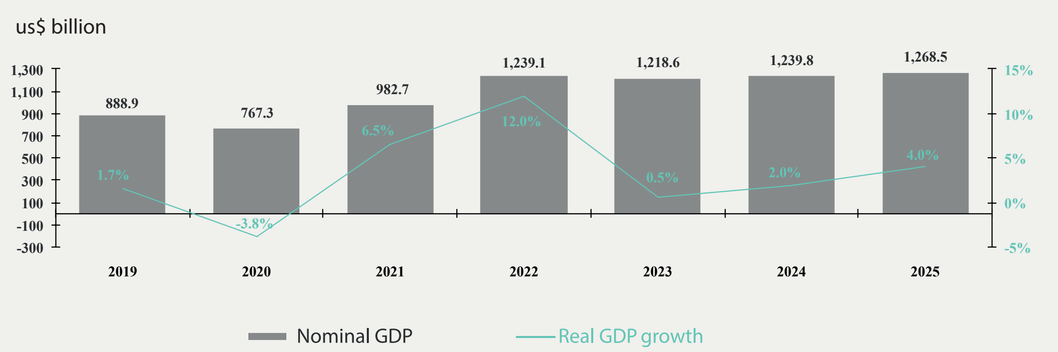
At the monetary level, the year 2025 witnessed an 8.4% Money Supply (M3) growth, generating an average CPI inflation of 2.0% over the past year. The Saudi Central Bank reserves assets grew from US$ 437 billion to US$ 460 billion, the equivalent of 60.6% of Money Supply in local currency, thus providing a continuing support of the peg.

At the fiscal sector, total government debt grew noticeably in 2025. It rose from US$ 324 billion at end-2024 to US$ 391 billion in September 2025, corresponding to a 20.7% growth in nine months. As a percentage of GDP, public debt rose from 26.2% in 2024 to 30.8% in September 2025. The rise in public debt comes amid a rising fiscal deficit in 2025 to two times the 2024 corresponding level. In turn, the rise in fiscal deficit comes amid a quasi stability in public expenditures (-2.8% contraction), while public revenues were down by 13.3% between the two years.

The year 2025 was another good year for the Saudi banking sector. Measured by the aggregation of banking sector assets, banking activity grew by 10.3% over the past year, to move from US$ 1,198 million at end-2024 to US$ 1,322 million at end-2025. As a percentage of GDP, bank assets rose from 96.7% to 104.2% over the same period. Likewise, deposits grew by 8.7% in 2025 to reach US$ 780 billion at year-end, while loans and advances increased by 10.4% to reach US$ 811 billion (the equivalent of 64% of GDP). Last but not least, capital accounts rose from US$ 157 billion at year-end 2024 to US$ 172 billion at year-end 2025 on the back of strong profitability.

With respect to capital markets, the year 2025 was not a positive growth year, unlike previous years. The Share price index, which had reported a couple of years of expansion, reported a contraction of 12.8% in 2025. This has contracted stock market capitalization from US$ 2,720 billion at end-2024 to US$ 2,351 billion at end-2025. In turn, the Price to Earnings ratio retreated from 17.4 times to 15.1 times over the period, with Price to Book Value likewise retreating from 3.3 times to 2.7 times. The price retreat comes amid lower

NOMINAL AND REAL GDP



Sources: IMF, Bank Audi's Group Research Department

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turnover in the market as the number of transactions reported 119 million in 2025 (for a total trading value of US$ 347 billion), against 129 million transactions in 2024 (for a total trading value of US$ 497 billion). As to fixed income markets, the 5-year CDS spread, measuring the markets perception of sovereign risks moved from 65 bps at end-2024 to 67 bps at end-2025.

The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address Saudi Arabia's short to medium term economic outlook looking forward.

1. ECONOMIC CONDITIONS

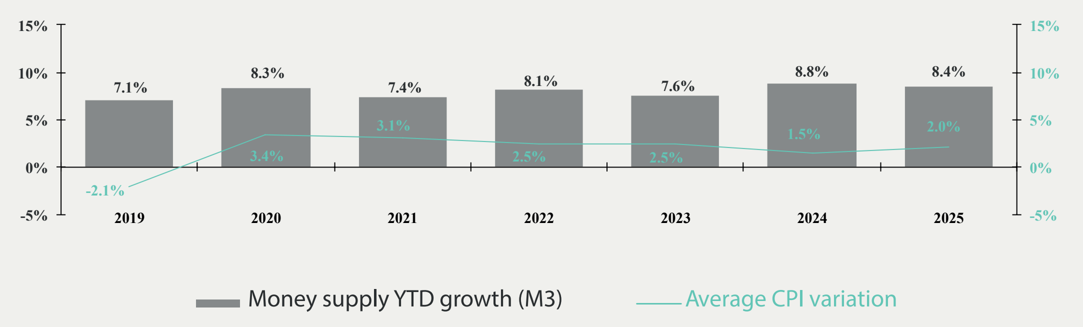
1.1. REAL SECTOR

1.1.1. Hydrocarbon sector

Saudi's hydrocarbon sector recovering amidst gradual unwinding of voluntary production cuts

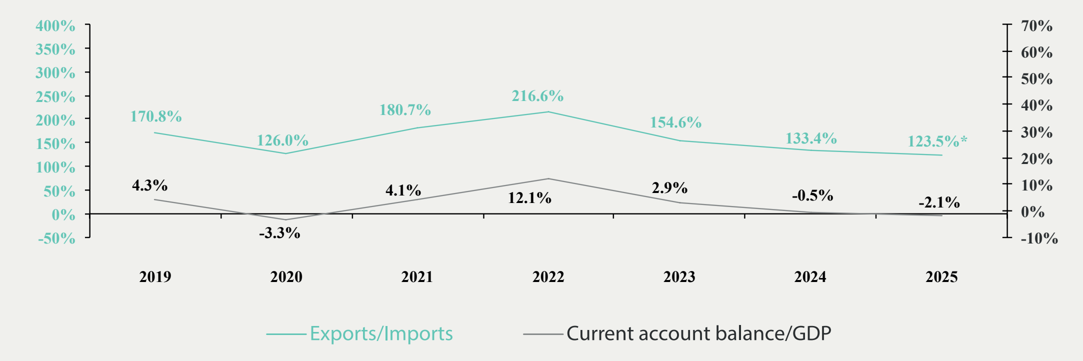
Saudi Arabia's hydrocarbon sector entered into an expansionary mode in 2025, as the country shifted its strategy within OPEC+, moving away from long-term production cuts toward reclaiming market share. As the group's de facto leader, Saudi Arabia spearheaded a plan to gradually increase output, while maintaining enough flexibility to pause when demand softened.

MONEY SUPPLY AND INFLATION



Sources: Saudi Central Bank, Bank Audi's Group Research Department

FOREIGN SECTOR INDICATORS



*Figures are for 11M 2025

Sources: General Authority for Statistics, IMF, Bank Audi's Group Research Department

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In details, Saudi Arabia led the OPEC-8 in reversing 2.2 million b/d of voluntary cuts starting in April 2025 with an initial hike of 137,000 b/d. Additional hikes of 411,000 b/d were implemented in May, June and July 2025. The unwinding program was ramped up with a 548,000 b/d increase in August and 547,000 b/d in September, completing the reversal of the 2.2 million b/d tier. October 2025 marked the beginning of unwinding the second tranche of voluntary cuts. In fact, the group began unwinding a separate 1.65 million b/d voluntary cut at a slower pace of 137,000 b/d monthly, as a response to falling oil prices. By the end of 2025, Saudi oil production rose robustly to approximately 10 million b/d, its highest level April 2023.

However, as of February 1, 2026, Saudi Arabia and seven other members agreed to pause production increases through March 2026 due to seasonal demand weakness and market uncertainty.

In terms of projects, Aramco confirmed that the phase one of the Dammam development has commenced operations, with the phase two scheduled for 2027, and that the two phases together are expected to add approximately 75,000 b/d of crude oil production capacity.

Concurrently, the Berri and Marjan crude oil expansion projects are expected to add 250,000 b/d and 300,000 b/d of crude oil production capacity, respectively. Additionally, procurement and construction activities continued on the Zuluf crude oil expansion, which is expected to start up in 2026 and process around 600,000 b/d of Arabian Heavy crude via a central facility.

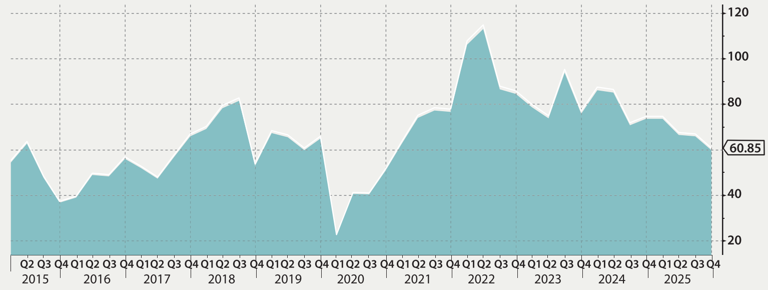
On the other hand, Saudi Arabia continues to emphasize the role of gas in the broader energy transition and is investing strategically to ramp up its domestic production and find a foothold in global LNG markets, as per Fitch Solutions.

Aramco stated the Tanajib gas plant, part of the Marjan development program, is in the commissioning and ramp-up phase, which is the final stage before reaching its full processing capacity. Once fully ramped up, it is expected to add 26.9 billion cubic meters (bcm) of additional raw gas processing capacity from Marjan, Zuluf and Safaniyah fields.

In parallel, procurement and construction activities continued at the Jafurah gas plant, which forms part of the Jafurah unconventional gas field development, with the first phase being completed and operational in 2025. Production is anticipated to reach a sustainable sales gas rate of 20.7 bcm by 2030, alongside substantial volumes of ethane, NGL and condensate.

Aramco also confirmed that engineering, procurement and construction works progressed for the Fadhili gas plant expansion, which is expected to provide an additional 15.5 bcm annually of raw gas processing capacity by 2027.

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

Looking forward, gas production growth would be mainly driven by non-associated conventional field developments. However, due to technical and financial barriers to production, the role of unconventionals would remain limited on the short run, but is set for strong growth over a multi-decade horizon. In parallel, as OPEC+ continues to unwind its voluntary production cuts beyond March 2026, Saudi Arabia's oil production is projected to resume its upward trajectory at 6.2% year-on-year in 2026, to reach a total production of 11.8 million b/d, as per Fitch Solutions.

1.1.2. Non-Hydrocarbon Sector

Saudi Arabia's non-oil economy shows positive performance in 2025 with stabilizing outlook ahead

Saudi Arabia's non-oil sector, which has been the focus for investment amid the country's diversification efforts, has noted an upward trend in its performance since 2022 and continuing in 2025. However, with the low base effect phasing out with time, this increase has started stabilizing. The positive trend is expected to remain looking forward with a continued stabilization of increases among almost all sub-sectors to reach a sustainable level of growth.

Growth in non-oil activity can be seen in the real non-oil GDP which registered a 4.9% expansion year-on-year in 2025. This expansion stands lower than the one registered in the year prior (6.0%). Additionally, it stands 1.0 percentage points (pps) lower than the average growth in non-oil GDP between 2011-2023. This shows a continued robust increase in non-oil output within the Saudi economy albeit at a slower pace in 2025.

At the level of overall non-oil sector performance, business conditions have continuously improved since July 2020. In 2025, an average Purchasing Managers' Index (PMI) of 57.7 was recorded, showing an increase of 1.2 pps from an average PMI of 56.5 in 2024. This entails a continued improvement in non-oil sector performance at a faster pace than the year prior. Additionally, the PMI noted for 2025 is 2.1 pps higher than the average PMI per year between 2019-2023.

At the level of household spending trends, total real household (HH) spending is forecasted to increase by 3.4% in 2026. Additionally, the average real growth per annum in the medium term (2027-2029) is expected to marginally pick up pace to stand at 3.5% per annum.

Looking at the construction industry, an average real growth of 4.1% is estimated in 9M-2025, slightly slower than the same period of the year prior (4.6%). Construction cost index increased in 2025 for both residential and non-residential buildings by 1.1%, on the back of increases in all sub-sections. Additionally, the sector secured SAR 139.7 billion (US$ 37.3 billion) in commercial bank credit during the year, showing a 16.1% increase against the year prior. The 2026 forecast for the sector shows growth at 2.7%. On the medium term (2027-2030), a yearly real growth of 2.0% is forecasted in the industry's GDP. In parallel, the infrastructure industry is forecasted to notice a 3.1% growth year-on-year in 2026. The growth trend is expected to slow down in the medium term with a yearly real growth of 2.8%.

At the level of the real estate sector, real estate activity real GDP growth reached 4.0% in 9M-2025, slightly faster than the growth noted in 9M-2024 (3.2%). The real estate price index has noted a year-on-year decline of 0.7% during 2025, due to a decrease in residential real estate prices, partially offset by an increase in commercial real estate prices. Additionally, the sector secured SAR 393.5 billion (US$ 104.9 billion) in commercial bank credit financing during 2025, up by 22.4% against the year prior. Looking forward, the real estate sector's value is poised to expand by 1.9% in 2026 followed by an average increase of 1.7% per annum between 2027 and 2030.

At the level of tourism, as per data from FitchSolutions, an upwards trend in tourism arrivals to Saudi Arabia is forecasted in the studied period (2027-2029) with a yearly average growth rate of 3.5%. In parallel, during 2026, arrivals are expected to grow by 5.8% year-on-year. Saudi Arabia's arrivals are set to continue increasing supported by additional marketing efforts to promote the market as a leisure travel destination, investments in hotels & resorts and increasing transport links with source markets. As a result of the growth

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in tourism arrivals, receipts from international tourism is forecasted to also notice an upward trend. In 2026, International Tourism Receipts are forecasted to grow by 5.6% year-on-year. In the medium term (2027-2029), a yearly average growth rate of 3.0% is expected. At the level of the hospitality sector, during the third quarter of 2025, hotel occupancy rate in Saudi Arabia recorded 49.1% showing a year-on-year increase of 3.0 pps against the same period of the year prior. On the other hand, serviced apartments & other hospitality facilities occupancy rate in Saudi Arabia recorded 57.4% showing a year-on-year decrease of 0.6 pps against the same period of the year prior. Concurrently, the accommodation & food services financing from commercial bank credit recorded a year-on-year increase of 23.9% in 2025.

At the level of non-oil manufacturing real GDP growth in 9M-2025 it reached 4.7%, down from a growth of 5.5% in 9M-2024. Additionally, Wholesale & Retail Trade, Restaurants & Hotels real GDP growth reached 6.5% in 9M-2025, down from 6.9% in 9M-2024. Furthermore, the Wholesale Price Index increased by 2.0% year-on-year in 2025while the General Index for Operating Revenues for Wholesale & Retail Trade Statistics noted a year-on-year jump of 13.5% between Q3-2025 and Q3-2024.

As such, the Saudi non-oil sector is expected to continue its expansion with robust growths across all major sub-sectors. However, this growth is set to slowdown and stabilize on the medium-term within almost all sub-sectors albeit remaining on a positive trend throughout. This comes as a result of various efforts in the country to cement its position as an investment hub in the region as well as the diversification of the economy, increasing long-term sustainability and attractiveness of the country to foreign investors.

1.2. EXTERNAL SECTOR

Outlook for Saudi Arabia's external sector remains mixed on the short-term with adverse medium-term expectations

During 2025, Saudi Arabia's external sector performance was substantially weakened by various factors of which diversification efforts and decreased investment momentum. The effect of these factors is set to continue weighing down the sector in the short-to-medium-term. However, the drive for diversification and the focus set on investment project proliferation in the local economy is setting up Saudi Arabia's external sector for future growth through the attraction of international investment appetite in the long-term.

At the level of foreign trade, Saudi Arabia's BoT surplus showed a drop of 21.9% year-on-year reaching SAR 203.4 billion (US$ 54.2 billion) in the first 11 months (11M) of 2025, down from SAR 260.4 billion (US$ 69.4 billion) in 11M-2024. The main driver standing behind this contraction in BoT surplus is a 9.4% increase in imports year-on-year, slightly offset by a 1.7% increase in exports year-on-year between 11M-2024 and 11M-2025.

In details, total exports were reported at SAR 1,069.0 billion (US$ 285.1 billion) in 11M-2025, registering a 1.7% increase from the figures recorded in 11M-2024. The majority of exports (68.9%) were from the oil sector with the non-oil sector accounting for 19.4% of exports. The former recorded a year-on-year decrease of 4.8% while the latter recorded a year-on-year increase of 5.2% over the period, reaching SAR 736.0 billion (US$ 196.3 billion) and SAR 207.1 billion (US$ 55.2 billion) respectively in 11M-2025.

The breakdown of exports by country importing from Saudi Arabia in 11M-2025 indicates that China held the biggest share with 14.7% of total exports, followed by UAE (10.1%), India (9.3%), South Korea (8.4%), Japan (8.1%), the USA (4.1%) and Egypt (3.7%), as per data from GASTAT.

On the other hand, total imports were reported at SAR 865.5 billion (US$ 230.8 billion) in 11M-2025, registering a 9.4% expansion from the figures recorded in 11M-2024.

According to the International Monetary Fund (IMF), the current trend of decrease in the BoT surplus is set to be reversed for 2026. This comes due to a forecasted increase in exports of 8.8% during the year

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ahead while imports are set to grow by 7.0% in 2026. As export growth outperforms import growth in the 2026 forecast amid a positive BoT balance in 2025, BoT surplus in the year ahead is set to improve slightly. However, looking at the medium-term performance in Saudi Arabia's external trade, CAGR (2027-2030) for exports is forecast to reach circa 2.6% per annum, outperformed by a circa 5.9% increase in imports per annum. This shows a potential risk of continued BoT surplus tightening in the medium-term.

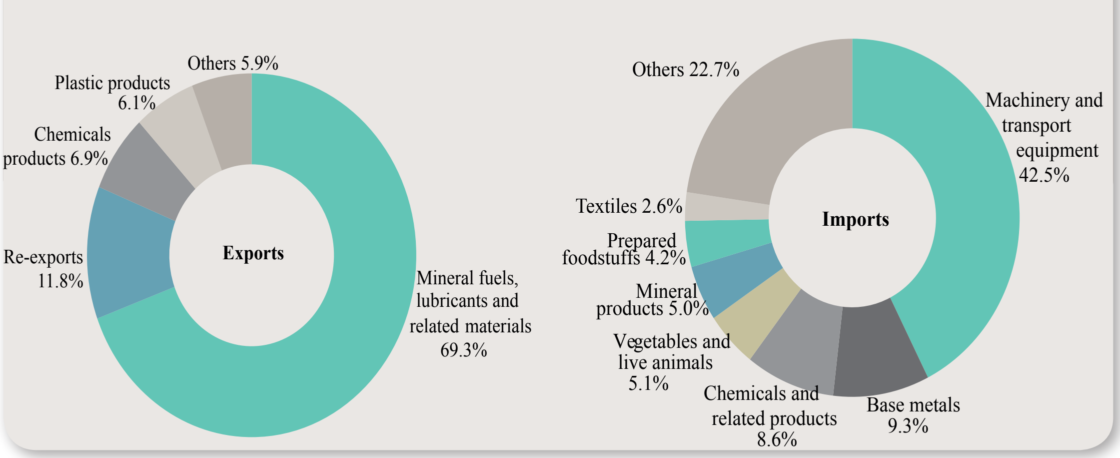
On the other side of the external sector, the latest available figures by the Saudi Central Bank showed that the current account deficit has recorded a more than seven fold drop year-on-year to reach SAR 91.8 billion (US$ 24.5 billion) in the first three quarters (9M) of 2025, down from a deficit of SAR 13.4 billion (US$ 3.6 billion) in the same period of the year prior. This comes due to a marked drop in the goods and services account of 19.4% year-on-year in 9M-2025 against figures from 9M-2024. The secondary income account marked a year-on-year widening of 19.0% in its deficit between 9M-2024 and 9M-2025. On the other hand, the capital account has recorded a deficit of SAR 1.1 billion (US$ 293.3 million) during the period showing an improvement of 91.3% year-on-year against the same period of the year prior. The financial account has noted a worsening in its deficit reaching SAR 119.3 billion (US$ 31.8 billion) in 9M-2025, down by almost three-folds from a deficit of SAR 41.0 billion (US$ 10.9 billion) in 9M-2024. As such, Saudi Arabia's Balance of Payments recorded a total deficit of SAR 212.3 billion (US$ 56.6 billion) in 9M-2025, more than three-folds worse than the SAR 67.1 billion (US$ 17.9 billion) deficit in 9M-2024, as per data from the Central Bank of Saudi Arabia.

On the other hand, Net Foreign Direct Investment in Saudi Arabia recorded a surplus of SAR 72.3 billion (US$ 19.3 billion) in 9M-2025, up by 32.7% year-on-year from a surplus of SAR 54.5 billion (US$ 14.5 billion) in 9M-2024, as per data from the Central Bank of Saudi Arabia.

Looking forward, according to the IMF, the current account in the country is expected to record a deficit of US$ 32.8 billion in 2026. On the medium term (2027-2030), the IMF expects an average widening in current account deficit by 0.4% per annum.

As such, the 2026 outlook for Saudi Arabia's external sector shows a mixed performance with international trade improving and current account deficit worsening. This comes mostly on the back of improving oil sector performance amid a stop to supply cuts. That being said, the short-to-medium term diversification efforts and increased spending on investment projects are expected to weigh down Saudi Arabia's external sector performance. However, as the country is considered a safe haven for investment within the region as well as already being an attractive economy to international investors, these initiatives are set to pose upside risks on the future performance of the sector as well as the general local economy.

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY 11M - 2025



Sources: General Authority for Statistics, Bank Audi's Group Research Department

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1.3. PUBLIC SECTOR

Widening Saudi fiscal deficit in 2025 amid lower oil revenues and elevated outlays

Saudi Arabia faced rising fiscal pressures over the year 2025, as declining oil prices continued to weigh on government revenues, triggering a widening deficit. While oil revenue faltered, the Kingdom maintained its aggressive spending on Vision 2030 giga-projects, resulting in a budget deficit that widened to about 5.3% of GDP, significantly higher than the 2.3% originally planned for the year 2025.

Total revenues are estimated by the Ministry of Finance (MoF) to have reached about SR 1,091 billion in 2025, which represents a contraction of around 7.8% compared to the budget estimates and a contraction of 13.3% compared to total revenues in 2024. This decline is mainly attributed to lower oil prices over the year 2025.

The breakdown of total revenues by taxes and other revenues shows that tax revenues for the year 2025 are estimated to have reached SR 393 billion, which marks an expansion of 3.3% relative to the year 2024. This growth is mainly attributed to the ongoing improvement in non-oil activities, as well as government efforts and initiatives to improve tax administration and enhance collection efficiency. In parallel, other revenues, including oil revenues, profits from government deposit investments, sales of goods and services, as well as penalties and fines, are estimated to have reached around SR 698 billion in 2025, compared to SR 879 billion in 2024, which marks a significant contraction of 20.5%. This is primarily driven by the collection of revenues from the incentive program for settling accumulated traffic violations in 2024, as well as lower oil revenues, which were affected by the decline in oil prices in 2025, and higher collection of performance-linked dividend in 2024 compared to 2025. It is worth noting that Brent prices fell from US$ 73.73 per barrel on average in 2024 to US$ 65.83 per barrel on average in 2025. At the sale time, the average oil production was 9.5 mb/d in 2025 compared to an average oil production of 9.0 mb/d in 2024.

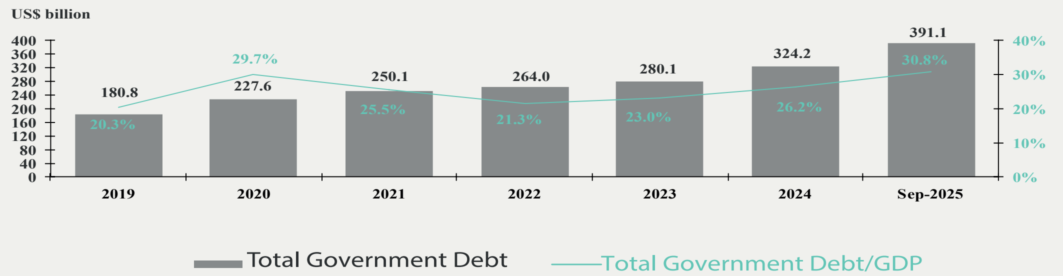
On the spending front, total public expenditures are estimated by the MoF to have reached SR 1,336 billion in 2025. This reflects a decline of 2.8% relative to total public expenditures in 2024 and an increase of 4.0% compared to the approved budget. This stems from the implementation of directed countercyclical fiscal policies, and the government's ongoing support for promising sectors and diversification of the economic base by directing spending toward national strategies and giga-projects. In addition, the Saudi government continues to enhance the social support and protection system as it is a central priority within its policies,

SAUDI ARABIA'S PUBLIC FINANCES

(SR billion)	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026B
Total revenues	927	782	965	1,268	1,212	1,259	1,091	1,147
Taxes	220	226	317	323	357	381	393	412
Other revenues	707	555	648	945	856	879	698	735
Total Expenditures	1,059	1,076	1,039	1,164	1,293	1,375	1,336	1,313
Budget balance	-133	-294	-73	104	-81	-116	-245	-165
Gross public debt	678	854	938	990	1,050	1,216	1,457	1,622

Sources: Ministry of Finance, Bank Audi's Group Research Department

PUBLIC INDEBTEDNESS



Sources: Ministry of Finance, Bank Audi's Group Research Department

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with the focus on improving public service quality, developing infrastructure and enhancing healthcare services. Furthermore, efforts continue to enhance private sector's contribution to economic growth by providing effective enablers that reinforce its role as a key development partner and fostering a competitive business environment that attracts quality investments and supports the achievement of sustainable growth objectives.

A closer look at total expenditures shows that operational expenditures (OPEX) are estimated by the MoF to have contracted by about 1.6% over the year 2025, reaching SAR 1,165 billion. It is estimated that expenditures on goods and services decreased by 12% in 2025 compared to the previous year, due to a reduction in certain operational expenses. Expenditures on compensation of employees have increased by 1.6% (around SR 9 billion) compared to the actual expenditure of 2024. This increase is primarily attributed to the impact of the annual increment. Expenditures on financing expenses are also expected to increase by 18.5%, approximately SR 8 billion, due to the growth in the public debt portfolio. It is also estimated that expenditures on subsidies have remained at the same levels of around SR 34 billion, driven by the ongoing support for public service companies and the sustainable development of several sectors. Capital expenditures (CAPEX) are expected by the IMF to have decreased by 10.0% in 2025 compared to the previous year, reaching around SR 172 billion, due to the impact of non-recurrent expenses related to expropriation compensation incurred in 2024, along with continued spending on giga-projects, and the development of public facilities and essential services to improve the quality of life.

That being said, the Kingdom is expected to have registered a wider fiscal deficit of SR 245 billion in 2025 (representing 5.3% of GDP) compared to a fiscal deficit of SR 116 billion in 2024 (representing 2.5% of GDP).

In parallel, the total public debt is estimated by the MoF to have reached SR 1,467 billion (the equivalent of US$ 391 billion) in 2025, accounting for 30.8% of GDP, compared to a debt level of SR 1,216 billion (the equivalent of US$ 324 billion) in 2024 (representing 26.2% of GDP). This growth aimed to meet the financing needs of the year 2025, driven by the continued adoption of targeted countercyclical spending policies toward programs and initiatives that aim to diversify the economic base, stimulate investment and expedite transformation in line with Saudi Vision 2030 objectives.

As for the year 2026, Saudi Arabia has approved early-December 2025 the 2026 budget, with estimated total revenues of QR 1,147 billion, which marks a decrease of 3.1% compared to the 2025 budget, yet up by 5.1% relative to estimated revenues for the year 2025. In parallel, total spending is estimated at SR 1,313 billion for the year 2026, up by 2.2% relative to the year 2025 budget, yet down by 1.7% relative to 2025 estimated spending. Accordingly, Saudi Arabia is expected to record a budget deficit of SR 165 billion in 2026, compared to a budgeted deficit of SR 101 billion in 2025, and an estimated deficit of SR 245 billion for the year 2025.

Looking forward, the Saudi government would continue to adopt prudent fiscal policies based on long-term financial planning, through maintaining the implementation of priority projects to meet Saudi Vision 2030 objectives, independent of economic cycle fluctuations. Furthermore, the government would continue to pursue a measured expansion of borrowing within the framework of the medium-term debt strategy.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Saudi inflation remaining contained in 2025, and Central Bank maintaining alignment with US Fed's monetary policy

Saudi monetary conditions were characterized by contained inflation and accumulated foreign currency reserves over the year 2025. Within this context, the IMF expects international reserve coverage to remain adequate at about 12 months import coverage over the medium term, with foreign assets held by the PIF and other government-related entities offering strong additional buffers. Concomitantly, the Saudi Central Bank continued to follow the US Federal Reserve's lead by reducing interest rates three times between September and December 2025.

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In details, the Saudi inflation averaged 2.0% year-on-year in 2025. This followed an average annual increase in consumer prices of 1.5% in 2024. The breakdown of the Consumer Price Index by segment shows that the "insurance and financial services" segment (weight of 3.0%) registered the largest yearly average expansion of 6.3% over the year 2025. This was followed by the "housing, water, electricity, gas, and other fuels" segment, which has a weight of 19.5% in the Consumer Price Index, with +6.1%, noting that price increases in this segment are mainly driven by "actual rentals for housing" sub-group which surged by 8.2% on average in 2025. In fact, rental prices have become a key issue, largely because rental supply has failed to match demographic growth, especially in Riyadh. The "personal care, social protection and miscellaneous goods and services" segment followed with a price expansion of 5.1% (weight of 5.8%). This segment includes a range of items, with one of the largest sub-groups being "jewelry, clocks and watches", which has recorded a notable price increase of 20.6% on average in 2025. The rise is primarily attributed to higher gold prices, driven by uncertainty regarding the US tariff policy and the US Fed monetary easing policy.

The "recreation, sport and culture" segment (weight of 3.2%) recorded a price growth of 2.6% on average in 2025, followed by the "restaurants and accommodation services" segment with +1.8% (weight of 8.7%), the food and beverages segment (weight of 22.0%) with +1.1%, the tobacco segment (weight 0.8%) with +0.6%, the transport segment with +0.4% (weight of 14.8%), and the "education services" segment (weight of 2.2%) with +0.3%. In contrast, the "furnishings, household equipment and routine household maintenance" segment (weight of 6.9%) registered the largest yearly average contraction of 0.8% in 2025, followed by the "information and communication" segment with -0.7% (weight of 5.1%), and the health segment with -0.2% (weight of 4.3%). The "clothing and footwear" segment (weight of 3.7%) saw no price change on average in 2025.

In view of the long-standing Saudi riyal peg to the US dollar at SR/US$ 3.75, the Saudi Central Bank's monetary stance over the year 2025 remained closely aligned with the US Federal Reserve's easing cycle. This synchronization is deemed essential to uphold macro-financial stability and maintain the interest rate differentials necessary to safeguard capital flows. In fact, after cutting its repo and reverse repo rates three times in 2024 by a total of 100 bps, the Saudi Central Bank reduced its key policy rates three times over the September-to-December 2025 period by a total of 75 bps to reach 4.25% and 3.75% respectively at year-end, mirroring US Fed rate cuts.

In parallel, the Saudi Central Bank's reverse assets expanded by US$ 23.0 billion over the year 2025 to reach US$ 460.2 billion at year-end, covering 60.6% of the money supply in local currency. This is explained by a US$ 23.0 billion rise in "foreign currency and deposits abroad". This followed a shy expansion of US$ 310 million in the Saudi Central Bank's reverse assets in 2024.

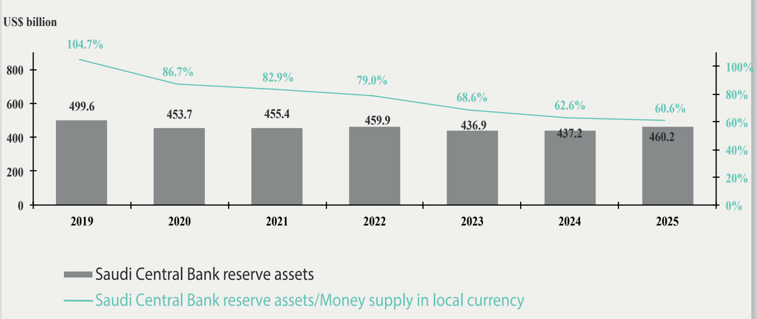
Regarding monetary aggregates, the narrow measure of money supply (M1) grew slightly by 0.3% in 2025 (the equivalent of US$ 1.2 billion), reaching US$ 446.5 billion at end-2025, mainly due to a 5.6% growth in "currency outside banks" (the equivalent of US$ 3.4 billion), while "demand deposits" contracted by 0.6% (the equivalent of US$ 2.2 billion). This followed a 9.5% growth in (M1) in 2024. The broader money supply (M2), which grew by 9.7% in 2024, widened further by 8.7% in 2025 (the equivalent of US$ 61.0 billion) to reach US$

EVOLUTION OF MONETARY SITUATION

Variations (US$ million)	2019	2020	2021	2022	2023	2024	2025
Net foreign assets	**-8,977**	**-45,543**	**-21,163**	**16,838**	**-34,412**	**-23,131**	**-23,442**
Saudi Central Bank	4,469	-44,882	-10,989	2,301	-23,350	-2,569	22,040
Commercial Banks	-13,446	-661	-10,174	14,537	-11,062	-20,562	-45,482
Domestic Assets	**50,044**	**76,835**	**87,984**	**84,755**	**74,150**	**118,543**	**108,517**
Claims on private sector	27,005	57,579	72,439	68,132	61,122	89,749	77,886
Claims on public sector	20,938	14,586	11,301	7,880	8,005	13,755	16,364
Claims on Nonfinancial Public sector Enterprises	2,102	4,670	4,244	8,744	5,024	15,038	14,266
Broad Money (M3)	**35,065**	**43,767**	**42,547**	**49,747**	**50,659**	**62,968**	**65,682**
Money Supply (M1)	18,004	53,484	20,160	-9,693	-1,043	38,804	1,215
Quasi-Money	17,061	-9,716	22,388	59,440	51,702	24,164	64,466
Government Deposits	**-15,613**	**-10,111**	**-12,617**	**15,034**	**-37,929**	**-7,960**	**-9,706**
Other Items (Net)	**21,614**	**-2,364**	**36,891**	**36,813**	**27,009**	**40,404**	**29,100**

Sources: Saudi Central Bank, Bank Audi's Group Research Department

FOREIGN EXCHANGE MARKET INDICATORS



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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759.5 billion at end-2025 amid a US$ 59.8 billion increase in "time and saving deposits". The money supply in its broadest sense (M3) expanded by 8.4% in 2025 (the equivalent of US$ 65.7 billion) to reach US$ 844.7 billion at year-end, within the context of a contraction in quasi-money deposits of 5.8%. This followed an 8.8% expansion in (M3) in 2024. That being said, the demand deposits to broader money supply (M3) ratio reached 45.2% at end-December 2025 compared to 49.3% at end-December 2024. In parallel, the M1/M3 ratio was quoted at 52.9% at end-December 2025 compared to 57.2% at end-December 2024.

All in all, the Saudi Ministry of Finance sees that the Kingdom has maintained relatively acceptable levels of inflation in 2025 compared to global inflation. This is mainly due to the Kingdom's implementation of various fiscal and monetary policies aimed at stabilizing prices and mitigating their increases, along with the continued improvement in the Kingdom's economic conditions. Also, the Ministry of Finance noted that the initiatives announced by the Kingdom in the real estate sector aim to achieve a balance between supply and demand, which would contain inflation levels over the medium-term.

1.4.2. Banking Activity

A good year for the Saudi banking sector amid resilient growth and strong profitability

The year 2025 was another good year for the Saudi banking sector. Measured by the aggregation of banking sector assets, banking activity grew by 10.3% over the past year, to move from US$ 1,198 million at end-2024 to US$ 1,322 million at end-2025. As a percentage of GDP, bank assets rose from 96.7% to 104.2% over the same period. Likewise, deposits grew by 8.7% in 2025 to reach US$ 780 billion at year-end, while loans and advances increased by 10.4% to reach US$ 811 billion (the equivalent of 64% of GDP). Last but not least, capital accounts rose from US$ 157 billion at year-end 2024 to US$ 172 billion at year-end 2025 on the back of strong profitability.

With respect to interest rate policy, the year 2025 also saw a noticeable drop in deposit rates, in line with the contracting rates by the US Federal Reserves. In fact, the average 3-month SR deposit rate dropped from

BANKING SECTOR RATIOS

	2019	2020	2021	2022	2023	2024	2025
Banking sector dimension in economy							
Assets/GDP	78.9%	103.6%	89.0%	77.9%	86.6%	96.7%	104.2%
Deposits/GDP	53.9%	67.5%	57.1%	49.4%	54.1%	57.9%	61.5%
Loans to private sector/GDP	44.7%	59.2%	53.3%	47.8%	53.3%	59.2%	63.9%
Loans to public sector/GDP	1.8%	2.8%	2.6%	2.8%	3.2%	4.4%	5.4%
Growth rates (YTD)							
Assets	9.7%	13.2%	10.0%	10.5%	9.3%	13.6%	10.3%
Loans to the private sector	7.3%	14.3%	15.3%	13.1%	9.7%	12.9%	10.4%
Investments	18.7%	12.7%	6.1%	8.1%	10.4%	15.1%	10.7%
Deposits	7.3%	8.2%	8.3%	9.1%	7.8%	8.9%	8.7%
Capital and reserves	13.0%	9.9%	11.3%	4.3%	5.9%	7.9%	8.5%
Profit growth (year-on-year)	4.5%	-23.1%	39.2%	28.6%	11.7%	15.1%	16.0%
Financial ratios							
Primary liquidity/Deposits	19.5%	20.2%	15.5%	13.9%	13.1%	12.8%	11.9%
Liquid assets/Deposits	52.3%	54.4%	49.0%	47.1%	47.1%	48.8%	48.6%
Loans to the private sector/Deposits	83.0%	87.7%	93.3%	96.8%	98.5%	102.2%	103.9%
Loans to the public sector/Deposits	3.4%	4.1%	4.5%	5.6%	5.9%	7.5%	8.8%
Total loans/Deposits	86.4%	91.7%	97.9%	102.3%	104.5%	109.8%	112.7%
Capitalization							
Capital accounts/Assets	14.9%	14.0%	14.4%	14.0%	13.7%	13.1%	13.0%
Profitability							
ROAA	2.00%	1.38%	1.72%	2.01%	2.04%	2.11%	2.19%
ROAE	13.5%	9.6%	12.1%	14.1%	14.8%	15.8%	16.7%

Sources: Saudi Central Bank, Bank Audi's Group Research Department

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6.0% in 2024 to 5.3% in 2025, while the average 3-month US$ deposit rate contracted from 5.0% in 2024 to 4.2% in 2025.

With respect to the Saudi banking sector's liquidity, the higher growth of lending to that of deposits resulted in a rise in the ratio of loans to deposits from 109.8% at year-end 2024 to 112.7% at year-end 2025, a record high for the sector. The breakdown of loans to deposits suggests a ratio of 103.9% for private sector loans and a ratio of 8.8% for public sector loans in 2025. As a result, the year witnessed a drop in primary liquidity to deposits from 12.8% in 2024 to 11.9% in 2025, though the totality of liquid assets still account for almost half of total deposits in the sector by year-end 2025.

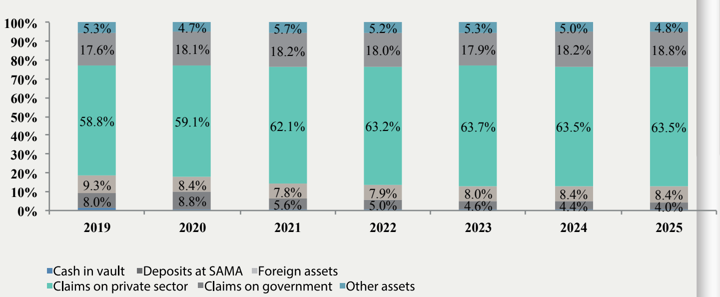
Last year was also a profitable year for the banking sector at large. The banking sector's profits reported a 16.0% growth over the year, moving from US$ 23.8 billion in 2024 to US$ 27.6 billion in 2025. The return on average assets reported a new high of 2.19% in 2025, against 2.11% in the previous year. Likewise, the return on average equity increased from 15.8% in 2024 to 16.7% in 2025, a 16-year high since 2009.

The banking sector remained highly solvent in 2025, on the back of strong capital adequacy. The ratio of capital accounts to total assets reported 13.0%, a noticeably high ratio relatively to peer sectors in emerging countries. As to capital adequacy, the CAR ratio reported 20.0% at the end of the third quarter of 2025, suggesting a very good coverage of shareholders' equity to the sector's risk weighted assets at large. Saudi banks are diversifying their funding sources beyond traditional deposits to include capital market issuance and syndicated loans. The expanding mortgage market offers a further funding source, particularly as the Saudi Real Estate Refinance Company develops the securitization market. A rapid acceleration of market-based funding could heighten refinancing risks for Saudi banks as per Moody's.

In a recent report by S&P on the Saudi banking sector outlook, the rating agency expects corporate lending to remain the key driver of the banking sector's growth in the Kingdom. Despite growing corporate debt and high funding needs in the run-up to 2030, S&P expects Saudi banks' corporate credit risk to remain contained thanks to a moderate improvement in corporate leverage.

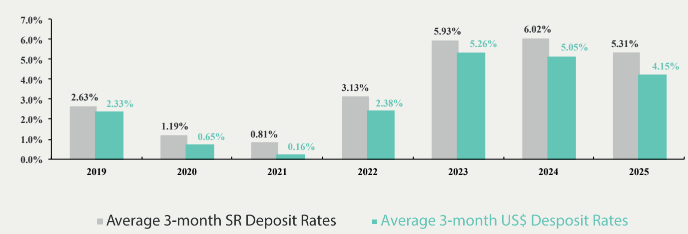
Looking forward, BMI expects that Saudi Arabia's credit growth will slightly accelerate further in 2026, led by an investment drive ahead of major events. Credit growth is outpacing deposits, forcing banks into higher loan-to-deposit ratios and driving them to seek alternative funding while bolstering risk management. Liabilities are projected to experience strong, albeit slowing, growth over the medium term as Saudi Arabia's banking sector expands. All segments of the liabilities market are expected to grow, with client deposits continuing to account for well over half of liabilities. However, client deposits are losing market share as other areas experience faster growth as per BMI.

BANK ASSET COMPOSITION



Sources: Saudi Central Bank, Bank Audi's Group Research Department

BANKING SECTOR DEPOSIT RATES



Sources: Saudi Central Bank, Bank Audi's Group Research Department

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1.4.3. Equity and Bond Markets

Saudi equities experience significant downturn in 2025, bond prices up

The Saudi equity market reported a significant downturn over the year 2025 before bouncing back early-2026 in the wake of major regulatory changes to foreign ownership. In contrast, the fixed income market saw across-the-board upward price movements in 2025, mainly tracking a global flight to safety on concerns about the economic impact of the new US trade policy and given the US Federal Reserve's dovish monetary stance.

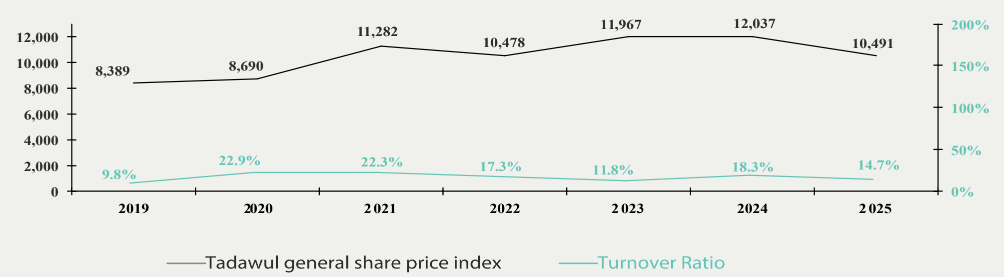
The Saudi Exchange experienced in 2025 its first annual contraction since 2022, as reflected by a double-digit fall in the Tadawul All-Share Index of 12.8%, moving from 12,036.50 at end-2024 to 10,490.69 at end-2025. This was mainly driven by (1) an oil price slump, as Brent prices fell from US$ 73.73 per barrel on average in 2024 to US$ 65.83 per barrel on average in 2025 amid increased global oil output (OPEC+ started in April 2025 unwinding output cut of 2.2 million bpd); (2) the IMF's downward revision for its forecast for the Saudi real economic growth in 2025 and 2026 from 4.6% and 4.4% respectively in its October 2024 WEO to 4.0% each in its October 2025 WEO; and (3) some downbeat corporate earnings and unfavorable analysts' recommendations. However, the Saudi Exchange bounced back in January 2026, with Tadawul All-Share Index posting decent price gains of 8.5% over the month. This followed the Saudi Capital Market Authority's January 6 historic decision to open the Saudi Exchange to all categories of foreign investors effective February 1. The Capital Market Authority is now allowing any international investor, including individual traders, to buy shares directly on the Saudi Exchange. The change marks the end of the Qualified Foreign Investor (QFI) framework that limited participation to large institutions with at least US$ 500 million in assets under management, forcing non-qualifying players to rely on swap agreements for indirect exposure. However, several guardrails remain in place, including an aggregate foreign ownership cap of 49% for listed companies and a 10% ceiling for individual nonresident investors.

SELECTED CAPITAL MARKETS INDICATORS

	2019	2020	2021	2022	2023	2024	2025
Market capitalization (US$ billion)	2,406.8	2,427.1	2,669.1	2,634.2	3,002.5	2,720.1	2,351.4
Trading value (in US$ billion)	234.7	556.7	596.2	455.5	355.5	496.6	346.5
Number of transactions (in millions)	28.4	76.7	91.9	87.9	94.0	128.6	119.0
General share price index (base 1999=100)	8,389	8,690	11,282	10,478	11,967	12,037	10,491
Number of listed companies	199	203	210	223	231	247	266
Change in share price index	7.2%	3.6%	29.8%	-7.1%	14.2%	0.6%	-12.8%
Price/Earnings ratio	19.5x	29.2x	20.6x	12.4x	17.6x	17.4x	15.1x
Price/Book value ratio	4.3x	4.4x	4.1x	3.5x	3.7x	3.3x	2.7x
5-year CDS spread (bps)	57	65	49	61	54	65	67

Sources: Saudi Exchange, Bank Audi's Group Research Department

STOCK MARKET PERFORMANCE



Sources: Saudi Exchange, Bank Audi's Group Research Department

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The breakdown of the TASI by industry groups in 2025 shows that the media & entertainment sector registered the largest index contraction of 49.23%, followed by the utilities sector - 47.14%, the consumer durables and apparel sector with -34.66%, the consumer staples distribution & retail sector with -31.84%, the transportation sector with -30.16%, the financial services sector with -30.11%, the insurance sector with -29.90%, the software & services sector with -28.77%, the food & beverage sector with -27.71%, the consumer services sector with -27.34%, the real estate management and development sector with -21.70%, the commercial and professional services sector with -17.66%, the healthcare equipment and services sector with -16.04%, the energy sector with -14.24%, the pharma, biotech and & life science sector with -11.78%, the materials sector with -11.22%, the household & personal products sector with -9.38%, the REITs sector with -7.92%, the capital goods sector of -1.59%, the consumer discretionary distribution & retail sector with -1.14% and the banks sector with -0.07%. In contrast, the telecommunication services sector was the only sector recording an index expansion of 11.38%.

Concomitantly, the total trading value in the Saudi Exchange contracted by 30.2% in 2025, moving from US$ 496.6 billion in 2024 to US$ 346.5 billion. The division of the total turnover by industry groups in 2025 showed that seven out of 22 sectors, captured more than 60% of total activity (63.50%), namely the banks sector (18.57%), the materials sector (13.36%), the energy sector (8.14%), the real estate management and development sector (6.56%), the insurance sector (5.65%), the telecommunication services sector (5.62%) and the consumer services sector (5.60%).

The volume traded reached 57.11 billion shares in 2025 compared to 69.15 billion shares in 2024, which marks a contraction of 17.4%. The total number of trades executed in 2025 reached 119.03 million trades compared to 128.57 million trades in 2024, down by 7.4%.

Concurrently, 19 new companies were listed on the Saudi Exchange in 2025. Accordingly, the number of listed companies reached 266 at end-December 2025 against 247 at end-2024. The Saudi market capitalization contracted by 13.6% in 2025, moving from US$ 2,720.1 billion at end-2024 to US$ 2,351.4 billion at end-2025. Given the larger contraction in total turnover year-on-year, the annualized turnover ratio fell from 18.3% on the Saudi Exchange in 2024 to 14.7% in 2025.

In parallel, the Saudi fixed income market saw across-the-board upward price movements in 2025, mainly tracking US Treasuries move as the US Federal Reserve delivered three interest rate cuts over the September-December period amid cooling US Labor market and rising US unemployment rate, in addition to speculation about two more rate cuts in 2026.

In details, Saudi sovereigns maturing in 2030, 2034, 2050 and 2060 recorded price gains ranging between 3.33 pts and 5.52 pts in 2025. Prices of Aramco'30, '34 and '50 went up by 4.92 pts, 4.00 pts and 1.59 pt respectively in 2025. STC'29 closed up by 2.29 pts. SEC'30 and '44 traded up by 4.37 pts and 3.38 pts respectively. Prices of SABIC'28 rose by 2.93 pts. Amongst financials, Banque Saudi Fransi'29 was up by 1.47 pt. SNB'29 traded up by 1.96 pt. Prices of Al Rajhi Bank'29 increased by 1.48 pt in 2025.

Building on low debt levels and amid falling oil revenues because of low prices, the Saudi government turned to international capital markets to take advantage of the recent Fed interest rate cuts and finance its spending on the diversification agenda. Saudi Arabia tapped international bond markets three times over the year 2025. In details, the Kingdom raised US$ 12 billion in January 2025 from the sale of a triple-tranche bond. KSA issued a three-year US$ 5 billion bond at a coupon of 5.125%, a six-year US$ 3 billion bond at a coupon of 5.375% and a 10-year US$ 4 billion bond at a coupon of 5.625%. The bond sale attracted more than US$ 30 billion in orders. Also, KSA raised € 2.25 billion in March 2025 from the sale of debut green bonds and conventional bonds. The seven-year € 1.5 billion green bonds were priced at 115 bps over mid-swaps, with a coupon rate of 3.375%. The order book size exceeded € 7.25 billion. The 12-year € 750 million conventional bonds were priced at 145 bps over mid-swaps, with a coupon rate of 3.75%. The order book size exceeded € 2.7 billion. Finally, the Kingdom raised US$ 5.5 billion in September 2025 from the sale of a dual-tranche Sukuk. The first tranche consisted of a US$ 2.25 billion five-year Sukuk issued at +65 bps over UST. The second tranche consisted of a US$ 3.25 billion 10-year Sukuk issued at +75 bps over UST. The Sukuk sale attracted more than US$ 17.5 billion in orders.

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Besides, Saudi Arabia initiated the year 2026 with the sale of a four-part US$ 11.5 billion bond. The first part consisted of US$ 2.5 billion three-year Senior unsecured bonds issued at 65 bps over UST against an initial price guidance of 95 bps over UST. The second part consisted of US$ 2.75 billion five-year bonds issued at 75 bps over UST against an initial price guidance of 100 bps over UST. The third part consisted of US$ 2.75 billion 10-year bonds issued at 85 bps over UST against an initial price guidance of 110 bps over UST. The fourth part consisted of US$ 3.5 billion 30-year bonds issued at 110 bps over UST against an initial price guidance of 140 bps over UST. The four-part bond sale attracted orders of more than US$ 28 billion (excluding JLM interest).

As to the cost of insuring debt, Saudi Arabia's five-year CDS spreads, which measure the market's perception of sovereign risks, remained relatively stable in 2025, closing at 67 bps at end-December against 65 bps at end-2024, staying well below the average regional sovereign five-year CDS spreads of 105 bps.

As to credit ratings, Fitch Ratings affirmed in January 2026 Saudi Arabia's long-term foreign currency Issuer Default Rating at "A+" with a "stable" outlook. The affirmation ratings reflect, according to Fitch, its strong fiscal and external balance sheets, with government debt/GDP and sovereign net foreign assets considerably stronger than both the "A" and "AA" medians, and significant fiscal buffers in the form of deposits and other public sector assets.

S&P Global Ratings revised in March 2025 its long-term foreign and local currency unsolicited sovereign credit rating on Saudi Arabia to "A+" from "A", with a "stable" outlook. The upgrade reflects S&P's view that the ongoing social and economic transformation in Saudi Arabia is underpinned by improving governance effectiveness and institutional settings, including deepening domestic capital markets. The "stable" outlook reflects S&P's view that strong non-oil growth momentum and developing domestic capital markets balance risks from rising government and external debt to pursue Vision 2030 goals and debt servicing costs.

Looking forward, easing the 49% foreign ownership cap on companies listed on the Saudi Exchange would increase the Foreign Inclusion Factor (FIF) for companies, enhancing Saudi Arabia's weight in major global indexes like the MSCI Emerging Market Index, which is critical for attracting passive funds.

CONCLUSION

Looking forward, the year 2026 will be pivotal for Saudi Arabia. The Kingdom's real GDP growth is expected to improve further to 4.5% in 2026 (before slightly correcting down to 3.6% in 2027) according to the most recent IMF World Economic Outlook. The country is well placed to move beyond the favorable tailwinds of 2022–2024— when high oil prices and reform implementation facilitated the acceleration of Saudi Vision 2030-related spending—into a more challenging environment characterized by lower oil prices and rising financing needs. At the same time, Saudi Arabia is strategically shifting some of its spending priorities, with some of its investment focus moving toward AI and advanced technologies as part of its broader effort to diversify the economy. Continued efforts, however, remain essential to close the remaining gaps with advanced economies and keep the transformation on track.

According to the IMF, the recent decision to reprioritize some large investment projects has helped focus spending on areas where it matters most, while also mitigating the risk of economic overheating. Prioritizing projects that promise high returns and adhering to established spending ceilings will be key. Over the medium term, continued non-oil revenue mobilization (which has doubled over the past five years), energy subsidy reform, and more efficient public spending will also play a critical role in achieving a sustainable fiscal path. Further improving fiscal institutions—through continued prudent debt management and a proper strategy for managing sovereign assets and liabilities will help preserve fiscal strength and advance SaudiVision 2030 goals.

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At the public finance level, Saudi Arabia's budget for 2026 is targeting a 5% increase in revenues and a 2% decline in spending relative to last year's estimated outcomes, resulting in a projected narrowing of the deficit to 3.3% of GDP (compared with a deficit of 5.3% of GDP last year). Goldman Sachs' own forecasts show a more sustained fiscal deterioration, with revenues underperforming the budget forecast and expenditure overshooting. They are forecasting a budget deficit of 6% of GDP this year, and 5.2% of GDP for the following two years. According to Goldman Sachs forecasts, this will result in a steady increase in the government debt burden, albeit remaining at a low level, to 44% of GDP by 2028. They believe the resulting borrowing requirement will keep domestic liquidity pressures high in 2026, and poses potential upside risks to their external issuance forecast of US$ 25 billion for the year.

The analysis of the Kingdom's short to medium term outlook actually requires a careful examination of strengths and opportunities relative to the threats and challenges. At the level of the former, we mention the large economy, the high per-capita income and large stock of proved oil reserves, the robust government balance sheet, supported by large foreign-currency buffers and the improving institutions and government policy effectiveness.

At the level of risks constraining the outlook, we mention the still high economic and fiscal reliance on the hydrocarbon sector, the longer-term risks stemming from global carbon transition, and the exposure to regional geopolitical tensions. While risks and challenges are real, we believe strengths and opportunities far outpace threats at the foreseeable horizon.

Sustaining Saudi Arabia's growth momentum will increasingly depend on two engines: a skilled workforce and a vibrant private sector as per IMF assessment. Ensuring that workers have the right skills, particularly in fast-growing sectors like technology and hospitality, where gaps are the most pronounced, will help meet the talent needs of emerging industries. At the same time, deeper reforms - including the steadfast implementation of recently enacted laws that ease access for foreign investors - will help foster an investor-friendly business environment and attract more private investment. The sovereign wealth fund can act as a complementary catalyst here by spurring new projects and partnerships, while making sure it leaves ample room for both domestic and international private investors to thrive.