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SAUDI ARABIA ECONOMIC REPORT

MID-YEAR 2026

MANAGING OIL AND GEOPOLITICAL VOLATILITY WHILE SUSTAINING TRANSFORMATION TREND

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CONTACTS

Research

Dr. Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Michèle Khoury Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Stephanie Bou Sleiman
(961-1) 952397
stephanie.bousleiman@bankaudi.com.lb

Douna Salameh
(961-1) 977356
douna.salameh@bankaudi.com.lb

A more moderate growth profile than earlier expectations, amid war spillovers
Saudi Arabia entered 2026 with continued economic resilience, but the first half of the year showed a more moderate growth profile than earlier expectations, as a result of the spillovers of the US/Iran war. The International Monetary Fund's July 2026 update revised Saudi Arabia's 2026 real growth forecast down to 1.7%, while projecting a stronger rebound of 5.5% in 2027. This downgrade points to the sensitivity of the outlook to oil-market conditions, regional disruptions, and global demand, even as diversification cushions the economy relative to past oil cycles.

The Kingdom's external sector remains resilient despite a more challenging outlook
So far in 2026, Saudi Arabia's external sector has remained resilient despite heightened regional geopolitical tensions stemming from the US-Iran conflict. The sector has been supported by stronger export performance, lower imports, and an improvement in the current account balance. Saudi Arabia's BoT surplus showed a 73.6% year-on-year increase reaching SAR 142.0 billion (US$ 38.3 billion) in the first five months (5M) of 2026, up from SAR 81.8 billion (US$ 22.1 billion) in 5M-2025. The main driver behind this expansion in the BoT surplus was a 5% decrease in imports between 5M-2025 and 5M-2026, as per data from the Saudi General Authority for Statistics (GASTAT).

Strategic frontloading of spending drives Saudi fiscal deficit in Q1 2026 to widest on record
Saudi Arabia recorded in the first quarter of 2026 its largest fiscal shortfall since the introduction of quarterly tracking in 2017. This is mainly driven by aggressive government spending on defense outlays and an acceleration in Vi sion 2030 economic diversification projects on one hand, alongside bottlenecked oil revenues on the other hand. Saudi Arabia frontloaded its annual budget in the first quarter of this year to fund military defense outlays and price-stabilizing domestic subsidies, while the closure of the Strait of Hormuz following the outbreak of the Iran war on February 28 lowered oil revenues despite higher oil prices globally.

Saudi inflation cooling in first half of 2026, policy rates holding steady in tandem with US Fed
Saudi monetary conditions were marked by cooling inflation and a robust accumulation of Central Bank's foreign reserves over the first half of 2026, which underscored the Kingdom's strengthened external buffers despite regional geopolitical uncertainties. Concurrently, the Saudi Central Bank preserved its long-standing dollar peg and kept its key policy rates on hold in tandem with the US Federal Reserve.

Broadly solid banking sector performance in the first half of 2026
The Saudi banking sector reported a broadly solid performance in the first half of 2026, supported by continued balance-sheet expansion, resilient profitability and gradually improving liquidity conditions. Asset quality and capitalization remained sound, reinforcing confidence in the sector's capacity to support the real economy. The latest available monthly indicators for June show that total credit stood at around US$ 842 billion, rising by 3.9% over the first half-year. While this marked a moderation from the double-digit credit growth rates seen in previous years, it still reflected healthy financing demand from Vision 2030-related activity, especially in corporate investment, infrastructure, real estate development, utilities, tourism, logistics and industrial projects.

Saudi equities closing in the green in the first half of 2026, bonds facing broad-based downward price pressures
The Saudi equity market experienced an upturn in the first half of 2026 despite escalating regional geopolitical tensions following the outbreak of the Iran war on February 28, 2026, as the Kingdom benefited from alternative export routes seeing any fall in volumes at least partially offset by higher oil prices. In contrast, the fixed income market faced downward price pressures, largely tracking declines in US Treasuries, as growing geopolitical friction between the US and Iran drove crude oil prices higher, reigniting global inflation concerns and cementing prospects of global monetary tightening this year.

Medium-term growth outlook remains supported by Vision 2030 reforms
Key risks for the second half of 2026 include weaker oil prices or production volumes, regional geopolitical tensions, higher shipping and logistics costs, tighter global financial conditions, and execution risks around large investment projects. Still, the medium-term growth story remains supported by Vision 2030 reforms, rising non-oil private-sector participation, and the Kingdom's ability to deploy fiscal and sovereign-investment resources to sustain structural transformation at large.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

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Saudi Arabia entered 2026 with continued economic resilience, but the first half of the year showed a more moderate growth profile than earlier expectations, as a result of the spillovers of the US/Iran war. The International Monetary Fund's July 2026 update revised Saudi Arabia's 2026 real growth forecast down to 1.7%, while projecting a stronger rebound of 5.5% in 2027. This downgrade points to the sensitivity of the outlook to oil-market conditions, regional disruptions, and global demand, even as diversification cushions the economy relative to past oil cycles.

Overall, Saudi Arabia's economic performance in the first half of 2026 can be characterized as resilient but uneven. The non-oil economy continued to validate the diversification strategy, with solid growth in services, business activity, manufacturing, consumption, and investment. Yet headline growth became more vulnerable to oil-sector volatility, and the downward revision in full-year forecasts suggests a more cautious near-term outlook.

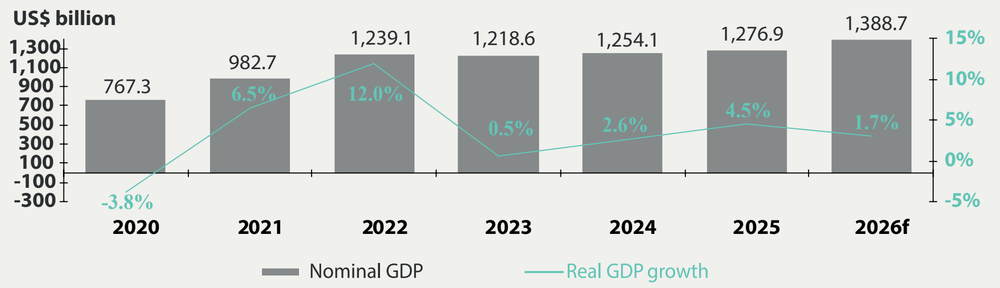
On the external front, Saudi Arabia's first-half 2026 performance was supported by a stronger goods trade position, while the broader current-account picture remained sensitive to oil prices and import demand linked to the investment cycle. Central Bank reserve assets covered 60.3% of Money Supply in local currency, a satisfactory level by international standards.

At the fiscal level, the 2026 budget framework points to continued government support for Vision 2030 projects, infrastructure, logistics, tourism, industry, and human-capital development, while maintaining a more disciplined approach to expenditure prioritization. Total revenues were projected at SAR 1,147 billion in 2026, while public expenditure was projected at SAR 1,313 billion, implying a fiscal deficit but also a deliberate policy choice to sustain transformation spending. Inflation remained broadly contained by international comparison, with the IMF projecting average consumer price inflation at around 2.3% for 2026, supported by administered prices, stable domestic supply conditions, and a credible monetary-policy framework linked to the U.S. dollar peg.

On the monetary front, Saudi Arabia's performance in the first half of 2026 was characterized by stable policy rates, contained inflation, and continued banking-sector liquidity growth. In line with the fixed exchange-rate regime at SAR 3.75 per US dollar, the Saudi Central Bank maintained a policy corridor broadly aligned with the U.S. Federal Reserve, with the repo rate at 4.25% and the reverse repo rate at 3.75% following the late-2025 easing cycle. Inflation stayed moderate at 1.8% in June 2026, reinforcing monetary stability at large.

Saudi Arabia's banking sector delivered a solid performance in the first half of 2026, supported by resilient credit demand, improving liquidity conditions, and strong profitability across major listed banks. Lending remained buoyant, with total bank credit to the private sector reaching a record US$ 842 billion

NOMINAL AND REAL GDP



Sources: IMF, Bank Audi's Group Research Department

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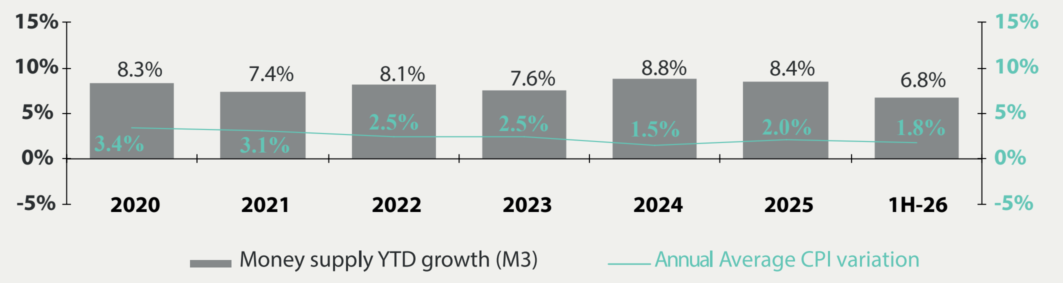
in June, up 3.9% in H1 2026, reflecting continued financing needs from housing, infrastructure, tourism, corporate investment, and other Vision 2030-related activities. Profitability also strengthened and deposits and liquidity buffers improved after a period of rapid balance-sheet expansion, helping banks manage funding pressures and sustain lending growth. Overall, the sector remained well capitalized, profitable, and strategically positioned to finance the Kingdom's diversification agenda, although continued rapid credit expansion warrants monitoring of funding costs, loan-to-deposit ratios, and asset-quality trends.

At the capital markets level, the first half of 2026 reported a moderately satisfactory activity. The equity market's share price index rose by 2.9% over the first half-year, raising market capitalization to US$ 2.5 trillion. Subsequently, the market's price to earnings ratio rose from 15.1x in December 2025 to 16.0x in June 2026, while the market's price to book value ratio increased from 2.7x to 2.8x between the two dates. In parallel, the fixed income market reported a relative retreat in CDS spread over the first half-year. The latter, which represents the market's perception of sovereign risks, contracted from 67 bps in December 2025 to 60 bps in June 2026.

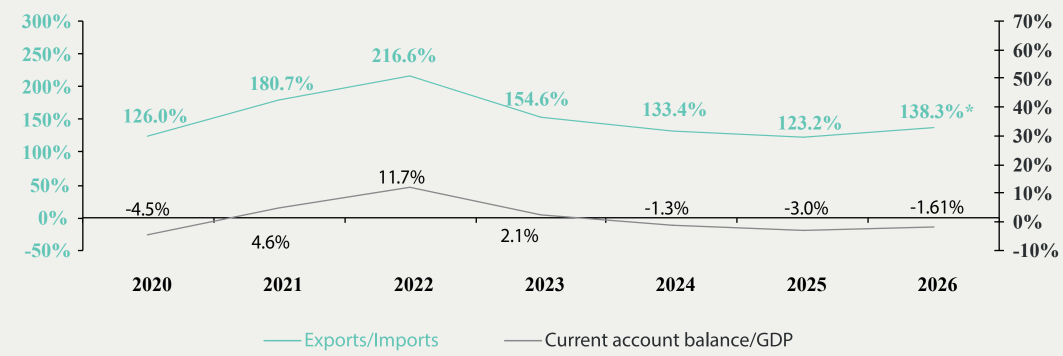
The detailed developments in the real sector, external sector, public sector and financial sector are outlined in the sections that follow while the concluding remarks address Saudi Arabia's middle to long term economic outlook looking forward.

MONEY SUPPLY AND INFLATION



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

FOREIGN SECTOR INDICATORS



**Figures are for 5M 2026*

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

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbon sector

Geopolotical crisis forces abrupt contraction in Saudi hydrocarbon output in first half of 2026

Saudi Arabia's hydrocarbon sector experienced an abrupt contraction in the first half of the year 2026, as escalating regional conflict severely choked the Kingdom's export logistics.

In details, Saudi Arabia initiated the year with a high-volume flow in February 2026, ramping up its operations to secure market share and build emergency supply before logistics deteriorated. Official market supply peaked in February 2026 at 10.4 million barrels per day (b/d), marking a sharp 16% year-on-year increase.

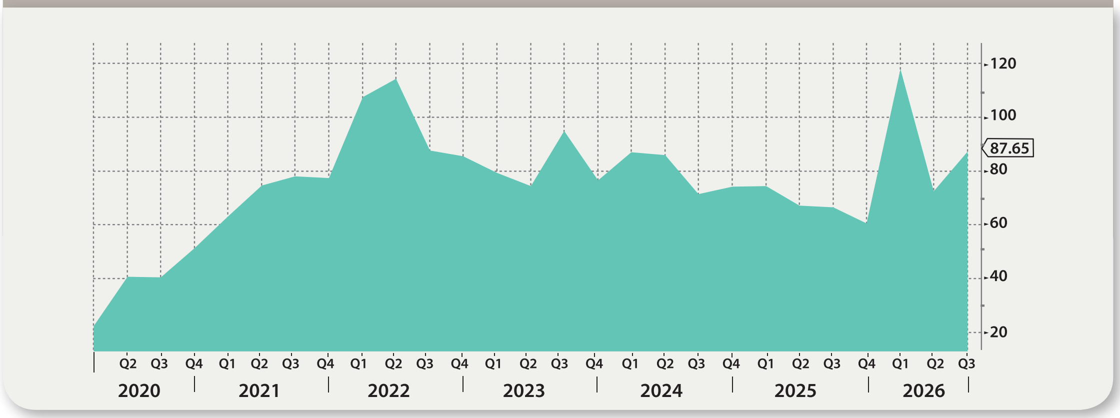
Following the outbreak of the US-Iran war and the effective closure of the Strait of Hormuz, Saudi output rapidly decelerated to 7.4 million b/d in March. The halt in tanker traffic meant the Kingdom had to start cutting production simply because its domestic storage facilities were completely filling up. As the standoff in the Strait of Hormuz escalated, production dropped further to 6.8 million b/d in April. This represented a 24% year-on-year contraction, as Gulf shipping bottlenecks kept immense volumes trapped inside the fields.

The downward spiral intensified in May 2026, dragging oil production down to an unprecedented low of 6.7 million b/d. Concomitantly, actual physical exports fell to a record low of 3.4 million b/d due to ongoing security risks in the Gulf, forcing higher volumes into domestic crude burning and regional refinery throughput. As of June, the Kingdom's physical market supply hovered around 7.0 million b/d, with Yanbu handling 92% of Saudi Arabia's seaborne crude exports. This created a gap of roughly 3.2 million b/d between Saudi Arabia's official target of 10.2 million b/d and what it could actually export safely.

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.

In fact, Saudi Aramco announced in February 2026 the start of production at Jafurah and the commencement of operations at Tanajib Gas Plant, framing both as pivotal to its plan to expand sales gas capacity by about 80% by 2030 versus 2021 levels. This progress would drive dry natural gas production to increase to around 144.4 bcm in 2026 (+7% y-o-y), with incremental volumes largely absorbed domestically for power and industrial use rather than exported.

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

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Besides, the war strengthened the strategic value of gas-led substitution (reducing domestic crude burn and preserving liquids for export) even as it increases security-driven outage risk to processing and distribution infrastructure. However, attacks on infrastructure pose critical downside risks in the near term.

Looking forward, while Saudi Arabia redirected its oil flow to Yanbu, the port's 4.5 million b/d volume remains bottlenecked by two critical maritime chokepoints. Roughly 2.5 million b/d must sail south through the contested Bab el-Mandeb strait to feed Asian markets, while the remaining volume must transit north through the Suez Canal to reach European and Western refiners, leaving the entire Red Sea corridor highly vulnerable to regional disruption. The outlook for the remainder of 2026 hinges on the duration of maritime disruptions, leaving the Saudi oil sector caught between an extended shipping blockade and soaring seasonal demand. Ultimately, if geopolitical tensions ease and shipping channels clear by Q4, Fitch forecasts oil production to rise by around 6% in 2026.

1.1.2. Non-Hydrocarbon Sector

Saudi Arabia's non-oil sector continues to expand amid moderating growth

So far in 2026, Saudi Arabia's non-oil sector has continued to expand, albeit at a slower pace than in recent years. The moderation in growth reflects a gradual normalization in economic activity across most non-oil sectors, despite continued support from the Kingdom's diversification agenda. Looking ahead, sustained investment across strategic sectors is expected to support positive, though more moderate, non-oil growth over the medium to long term.

Growth in non-oil activity can be seen in the real non-oil GDP, which registered a 2.8% year-on-year expansion in the first quarter (Q1) of 2026. This expansion stands significantly lower than the 5.5% growth recorded in the same period of the year prior. Additionally, it is 4.6 percentage points (pps) below the average quarterly growth in non-oil GDP recorded during 2022–2025 (7.4%). This indicates that, while the non-oil sector continues to expand, the pace of growth has moderated noticeably at the beginning of 2026.

At the level of overall non-oil sector performance, business conditions continued to improve in the first half of 2026, albeit at a slower pace than in the same period of the year prior. In H1-2026, an average Purchasing Managers' Index (PMI) of 53.1 was recorded, showing a decrease of 4.5 pps from an average PMI of 57.6 in H1-2025. Despite the moderation, the PMI remained comfortably above the neutral 50.0 threshold, signaling a continued expansion in non-oil private sector activity during the period. Meanwhile, businesses remained optimistic regarding future activity despite heightened cost pressures stemming from elevated fuel prices, freight charges, and broader regional geopolitical tensions.

At the level of the population, as per data from FitchSolutions, total household (HH) spending is forecasted to increase by 5.4%. In details, total HH spending is forecasted to reach US$ 621.5 billion in 2026, up from US$ 589.9 billion in 2025. The average growth per annum in the medium term (2026-2030) is expected to remain broadly stable at 5.5% per annum.

At the level of infrastructure and construction, the outlook for activity in these sectors for the next 10 years remains positive due to the country's economic diversification efforts.

In details, looking at the construction industry, a real growth of 1.5% is forecasted in 2026 to reach a value of SAR 395.6 billion (US$ 106.8 billion), up from SAR 381.7 billion (US$ 103.0 billion) in 2025. On the medium term (2026-2030), a yearly real growth of 1.9% is forecasted in the industry's value with a yearly real growth of 1.4% expected on the long term (2026-2034), as per FitchSolutions.

In parallel, the infrastructure industry is forecasted to notice a 3.1% growth year-on-year in 2026 to reach SAR 132.0 billion (US$ 35.6 billion). The growth trend is expected to moderate over the medium term to a yearly real growth of 2.9%, before easing further to a yearly real growth of 2.2% in the long term.

At the level of tourism, as per data from Fitch Solutions, tourism arrivals to Saudi Arabia are expected to decline in 2026 before recovering over the medium term. Tourist arrivals are forecast to decrease by 14.6%

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year-on-year in 2026, reaching 25.1 million visitors, down from 29.3 million in 2025. Nevertheless, arrivals are projected to rebound thereafter, increasing at an average annual rate of 7.9% between 2027 and 2030, supported by continued investments in tourism infrastructure, expanding hotel capacity, and enhanced connectivity with key source markets. In parallel, international tourism receipts are expected to continue increasing despite the temporary decline in arrivals. In 2026, international tourism receipts are forecast to reach SAR 97.9 billion (US$ 26.4 billion), representing a 6.2% year-on-year increase from SAR 92.2 billion (US$ 24.9 billion) in 2025. Over the medium term (2027–2030), tourism receipts are projected to grow at an average annual rate of 3.7%, reaching SAR 113.3 billion (US$ 30.6 billion) by 2030.

At the level of the real estate sector, the residential and non-residential building industry value is forecasted to slightly increase by 0.7% year-on-year between 2025 and 2026 to reach SAR 263.6 billion (US$ 71.2 billion) in the latter. On the medium term (2026-2030), the industry's value is set to increase by an average of 1.4% per annum while on the long-term (2026-2034) the industry's value is set to increase by an average of 1.0% per annum.

In parallel, looking at the evolution of office rental rates per square meter in Riyadh and Jeddah between 2025 and 2026, prices are set to jump by 0.4% and 1.5% per annum respectively during the period. Additionally, industrial rental rates are set to increase by 1.0% per annum and 2.3% per annum in Riyadh and Jeddah respectively between 2025 and 2026. At the level of short term (2025-2026) evolution in retail rental rates, in Riyadh, prices are set to register an average increase of 0.3% per annum. On the other hand, Jeddah's retail rental rates are expected to decrease by an annual rate of 0.8% during the period.

As such, Saudi Arabia's non-oil sector is expected to remain a key driver of economic growth, supported by continued expansion across most major industries. While growth is projected to moderate as activity matures, ongoing diversification efforts and strategic investments are expected to strengthen the sector's resilience and enhance its contribution to the Kingdom's long-term economic development at large.

1.2. EXTERNAL SECTOR

The Kingdom's external sector remains resilient despite a more challenging medium-term outlook

So far in 2026, Saudi Arabia's external sector has remained resilient despite heightened regional geopolitical tensions stemming from the US-Iran conflict. The sector has been supported by stronger export performance, lower imports, and an improvement in the current account balance. Nevertheless, the medium-term outlook remains subject to downside risks as geopolitical uncertainty, expected moderation in export growth, and continued investment-related import demand are set to weigh on external balances. Despite these challenges, Saudi Arabia's diversified economic base and continued investment attractiveness are expected to support the external sector over the longer term.

At the level of foreign trade, Saudi Arabia's BoT surplus showed a 73.6% year-on-year increase reaching SAR 142.0 billion (US$ 38.3 billion) in the first five months (5M) of 2026, up from SAR 81.8 billion (US$ 22.1 billion) in 5M-2025. The main driver behind this expansion in the BoT surplus was a 9.0% increase in exports year-on-year, coupled with a 4.6% decrease in imports between 5M-2025 and 5M-2026, as per data from the Saudi General Authority for Statistics (GASTAT).

In detail, total exports were reported at SAR 513.0 billion (US$ 138.5 billion) in 5M-2026, registering a 9.0% increase from the figures recorded in 5M-2025. Most exports (72.4%) were from the oil sector, while non-oil exports accounted for 15.2% of total exports and re-exports represented the remaining 12.4%. Oil exports recorded a year-on-year increase of 13.2%, while non-oil exports declined by 11.1% over the period. Oil exports and non-oil exports reached SAR 371.2 billion (US$ 100.2 billion) and SAR 78.0 billion (US$ 21.1 billion), respectively, in 5M-2026.

The breakdown of exports by destination in 5M-2026 indicates that China held the largest share with 14.1% of total exports, followed by the UAE (9.7%), India (9.4%), South Korea (8.6%), Japan (7.7%), Egypt (4.0%), and the USA (2.5%), as per data from GASTAT.

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On the other hand, total imports were reported at SAR 371.0 billion (US$ 100.2 billion) in 5M-2026, registering a 4.6% contraction from the figures recorded in 5M-2025.

The breakdown of imports by country exporting to Saudi Arabia during 5M-2026 indicates that China held the largest share with 28.3% of total imports, followed by the USA (8.2%), the UAE (7.5%), India (4.6%), Egypt (4.2%), and Switzerland (3.9%), as per data from GASTAT.

According to the International Monetary Fund (IMF), Saudi Arabia's exports of goods are projected to increase by 0.5% in 2026, amid heightened regional geopolitical uncertainty following the US-Iran conflict reflecting the impact on trade activity, while imports of goods are expected to expand by 4.2%. Between 2027 and 2031, exports of goods are forecast to grow at an average annual rate of 4.9%, while imports of goods are expected to increase by an average of 6.8% per year. As import growth is expected to outpace export growth in 2026, with this trend projected to persist over the medium term, Saudi Arabia's trade surplus is likely to face increasing downward pressure.

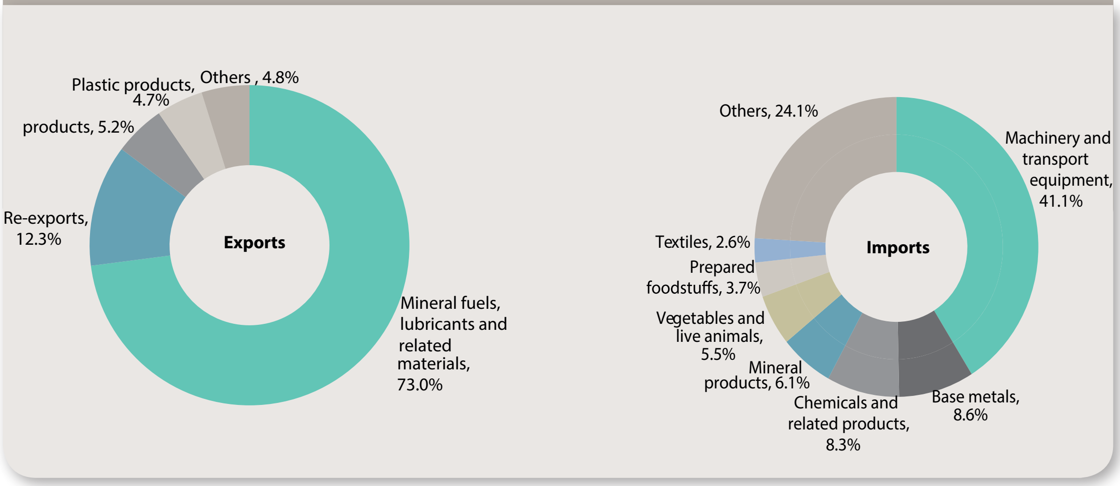
At the balance of payments level, the latest available figures by the Saudi Central Bank showed that the current account recorded a surplus of US$ 4.1 billion in the first quarter (Q1) of 2026, compared to a deficit of US$ 2.8 billion in the same period of the year prior. This improvement was primarily driven by the goods and services account, which registered a surplus of US$ 19.5 billion, up 86.3% year-on-year from US$ 10.4 billion in Q1-2025. Meanwhile, the secondary income account recorded a 25.0% widening in its deficit, reaching US$ 19.4 billion in Q1-2026, while the primary income account increased by 81.3% year-on-year to US$ 4.1 billion. The capital account recorded a deficit of US$ 131 million during the period, improving from a deficit of US$ 190 million in Q1-2025. In parallel, the financial account narrowed its deficit significantly, from US$ 9.9 billion in Q1-2025 to US$ 960 million in Q1-2026, as per data from the Saudi Central Bank.

Meanwhile, Net Foreign Direct Investment in Saudi Arabia recorded a surplus of SAR 20.5 billion (US$ 5.5 billion) in Q1-2026, up significantly from a surplus of SAR 7.5 billion (US$ 2.0 billion) in Q1-2025, as per data from the Central Bank of Saudi Arabia.

Looking forward, according to the IMF, the current account deficit in the country is expected to narrow to US$ 22.3 billion in 2026, from US$ 37.7 billion in 2025, amid firmer oil prices. Nevertheless, continued investment-related imports and weaker export growth are expected to widen the current account deficit over the medium term, according to the IMF. On the medium term (2027-2030), the IMF expects the current account deficit to widen progressively, reaching US$ 42.3 billion in 2027 and US$ 60.3 billion in 2030.

As such, the outlook points to a gradual easing in external performance over the medium term. This reflects the combined impact of softer export growth, stronger import demand associated with domestic investment, and ongoing regional geopolitical uncertainty. Nevertheless, the country's ability to attract foreign capital and maintain a diversified source of external revenues is expected to provide continued support to the sector.

BREAKDOWN OF EXPORTS AND IMPORTS BY COMMODITY 5M - 2026



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

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1.3. PUBLIC SECTOR

Strategic frontloading of spending drives Saudi fiscal deficit in Q1 2026 to widest on record

Saudi Arabia recorded in the first quarter of 2026 its largest fiscal shortfall since the introduction of quarterly tracking in 2017. This is mainly driven by aggressive government spending on defense outlays and an acceleration in Vision 2030 economic diversification projects on one hand, alongside bottlenecked oil revenues on the other hand. Saudi Arabia frontloaded its annual budget in the first quarter of this year to fund military defense outlays and price-stabilizing domestic subsidies, while the closure of the Strait of Hormuz following the outbreak of the Iran war on February 28 bottlenecked crude exports, cutting production down and lowering oil revenues despite higher oil prices globally.

Total actual revenues for the first quarter of 2026 reached SR 261.0 billion, as per latest figures released by the Ministry of Finance, compared to total revenues of SR 263.6 billion in the first quarter of 2025, which marks a mild contraction of 1.0%.

The breakdown of total revenues by taxes and other revenues shows that tax revenues for the first quarter of the year 2026 reached SR 90.1 billion, which marks an expansion of 1.9% relative to the first quarter of 2025 (SR 88.4 billion). This is mainly attributed to the ongoing improvement in non-oil activities. 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 170.9 billion in the first quarter of 2026, compared to SR 175.2 billion in the first quarter of 2025, which marks a contraction of 2.5%. In this context, it is worth noting that oil revenues contracted by 3.4% year-on-year in the first quarter of 2026 to reach SR 144.7 billion. This is mainly explained by the closure of the Strait of Hormuz, which bottlenecked the Kingdom's crude exports, reducing output and lowering oil revenues despite higher oil prices (Brent prices up by 3.4% on average year-on-year in the first quarter of 2026).

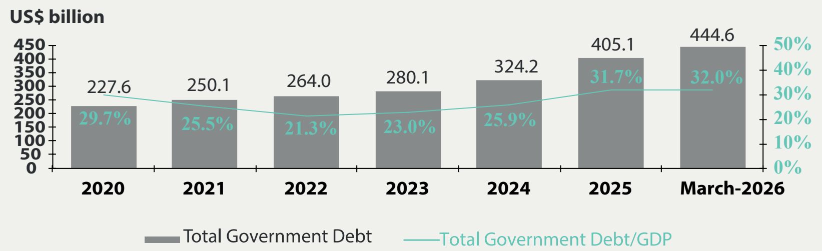
On the spending front, total actual public expenditures reached SR 386.7 billion in the first quarter of 2026. This reflects a remarkable jump of 20.0% compared to total actual public expenditures in the first quarter of 2025, mainly reflecting the impact of the war. In fact, much of the jump in the first quarter of 2026 was the precautionary frontloading of spending from later in the year.

SAUDI ARABIA'S PUBLIC FINANCES

(SR billion)	2020A	2021A	2022A	2023A	2024A	2025A	2026B	Q1-2025A	Q1-2026A
Total revenues	782	965	1,268	1,212	1,259	1,112	1,147	264	261
Taxes	226	317	323	357	381	389	412	88	90
Other revenues	555	648	945	856	879	723	735	175	171
Total Expenditures	1,076	1,039	1,164	1,293	1,375	1,388	1,313	322	387
Budget balance	-294	-73	104	-81	-116	-277	-165	-59	-126
Gross public debt	854	938	990	1,050	1,216	1,519	1,622	1,329	1,667

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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A closer look at total expenditures shows that expenditures on subsidies surged by 170.3% year-on-year in the first quarter of 2026 to reach SR 17.5 billion, primarily due to emergency domestic economic interventions stemming from regional security disruptions. The spike reflects the Kingdom's pivot to a countercyclical "wartime" fiscal strategy to absorb sudden, external economic shocks. Expenditures on uses of goods and services expanded significantly by 51.7% year-on-year in the first quarter of 2026 to reach SR 98.1 billion. Expenditures on grants climbed 249% to SR 960 million. Expenditures on non-financial assets rose by 56.3% year-on-year to SR 43.4 billion. Expenditures on compensation of employees increased by 3.4% in the first quarter of 2026 compared to the actual expenditure of the first quarter of 2025 to reach SR 151.1 billion. Expenditures on social benefits rose by 2.0% year-on-year to reach SR 31.1 billion. In contrast, expenditures on financing expenses decreased slightly by 0.8% year-on-year over the covered period to reach SR 12.3 billion. Other expenses contracted by 5.6% year-on-year to SR 32.3 billion.

That being said, the Saudi fiscal deficit ballooned from SR 58.7 billion in the first quarter of 2025 to SR 125.7 billion in the first quarter of 2026, marking the widest quarterly fiscal shortfall the Kingdom has recorded since tracking began in 2017.

In parallel, the total public debt rose from SR 1,519.0 billion at end-2025 to SR 1,667.2 billion at end-March 2026, which marks an expansion of SR 148.2 billion. A closer look at the total public debt shows that the domestic debt rose from SR 943.3 billion at end-2025 to SR 1,042.8 billion at end-March 2026. This is explained by issuances or borrowings valued at SR 108.6 billion in the first quarter of 2026, and principal repayments of SR 9.2 billion. On the other hand, the external debt increased from SR 575.7 billion at end-2025 to SR 624.4 billion at end-March 2026, mainly due to issuances or borrowings amounting to SR 48.75 billion (the equivalent of US$ 13.0 billion).

In the coming period, should the shock prove more prolonged, Saudi Arabia has the space to loosen the fiscal stance to cushion the economy, with support to affected businesses and households that should be temporary, targeted, and transparent, as per the IMF. Sustained higher oil prices are expected to offset volume losses, generating a windfall that would reduce the fiscal deficit from 5.8% of GDP in 2025 to 3.5% of GDP in 2026, as per the Fund.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Saudi inflation cooling in first half of 2026, policy rates holding steady in tandem with US Fed

Saudi Saudi monetary conditions were marked by cooling inflation and a robust accumulation of Central Bank's foreign reserves over the first half of 2026, which underscored the Kingdom's strengthened external buffers despite regional geopolitical uncertainties. Concurrently, the Saudi Central Bank preserved its long-standing dollar peg and kept its key policy rates on hold in tandem with the US Federal Reserve.

In details, the Saudi inflation averaged 1.8% year-on-year in the first half 2026. This followed an average annual increase in consumer prices of 2.0% in 2025. The breakdown of the Consumer Price Index by segment shows that the "personal care, social protection and miscellaneous goods and services" segment (weight of 6.1%) registered the largest yearly average expansion of 6.6% over the first half of 2026. This segment includes a range of items, with one of the largest sub-groups being "jewelry and watches", which has recorded a notable price increase of 23.8% year-on-year on average in the first half of 2026. The rise is primarily attributed to a 52% spike in average gold prices in the first half of 2026 relative to the same period of 2025. This was followed by the "housing, water, electricity, gas, and other fuels" segment, which has a weight of 20.2% in the Consumer Price Index, with +3.9%, noting that price increases in this segment are mainly driven by the "actual rentals for housing" sub-group and the "imputed rentals for housing" sub-group, which surged by 4.8% and 4.5% on average year-on-year respectively over the first half of 2026. The "insurance and financial services" segment (weight of 3.2%) followed with a price expansion of 2.2%.

The "recreation, sport and culture" segment (weight of 3.2%) recorded a price growth of 2.1% on average year-on-year in the first half of 2026, followed by the "restaurants and accommodation services" segment (weight of 8.4%) with +1.6%, the "education services" segment (weight of 2.2%) with +1.4%, the transport segment

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(weight of 14.5%) with +1.3%, the "information and communication" segment (weight of 5.2%) with +0.8%, the food and beverages segment (weight of 21.9%) with +0.5%, the tobacco segment (weight 0.7%) with +0.5%, and the health segment (weight of 4.0%) with +0.2%. In contrast, the "furnishings, household equipment and routine household maintenance" segment (weight of 6.7%) registered the largest yearly average contraction of 0.5% in the first half of 2026, followed by the "clothing and footwear" segment (weight of 3.7%) with -0.1%.

Saudi Arabia preserved its official currency peg of SR 3.75 per US dollar, a fixed rate upheld since June 1986. The peg to the US dollar provides, according to the IMF, a credible monetary policy anchor and helps underpin financial stability, particularly in the current environment of heightened uncertainty.

In view of the long-standing peg, the Saudi Central Bank's monetary stance over the first half of 2026 remained closely aligned with the US Federal Reserve's monetary policy. In fact, after cutting its repo and reverse repo rates three times by a total of 75 bps over the September-to-December 2025 period, the Saudi Central Bank kept its key policy rates unchanged at 4.25% and 3.75% respectively at end-June, moving in lockstep with the US Federal Reserve's monetary policy pause.

In parallel, the Saudi Central Bank's reverse assets expanded by US$ 34.3 billion over the first half of 2026 to reach US$ 494.6 billion at end-June, covering 60.3% of the money supply in local currency. This is mainly explained by a US$ 27.1 billion rise in "investment in foreign securities". This followed a US$ 23.0 billion expansion in the Saudi Central Bank's reverse assets in 2025.

Regarding monetary aggregates, the narrow measure of money supply (M1) grew by 1.4% over the first half of 2026 (the equivalent of US$ 6.3 billion), reaching US$ 452.8 billion at end-June, mainly due to a 1.0% growth in "demand deposits" (the equivalent of US$ 4.0 billion), while "currency outside banks" expanded by 3.5% (the equivalent of US$ 2.3 billion). This followed a shy growth in (M1) of 0.3% in 2025. The broader money supply (M2), which grew by 8.7% in 2025, widened further by 7.9% over the first half of 2026 (the equivalent of US$ 60.0 billion) to reach US$ 819.5 billion at end-June amid a US$ 53.7 billion increase in "time and saving deposits". The money supply in its broadest sense (M3) expanded by 6.8% over the first half of 2026 (the equivalent of US$ 57.2 billion) to reach US$ 902.0 billion at end-June, within the context of a contraction in quasi-money deposits of 3.3%. This followed an 8.4% expansion in (M3) in 2025. That being said, the demand deposits to broader money supply (M3) ratio reached 42.8% at end-June 2026 compared to 45.2% at end-December 2025. In parallel, the M1/M3 ratio was quoted at 50.2% at end-June 2026 compared to 52.9% at end-December 2025.

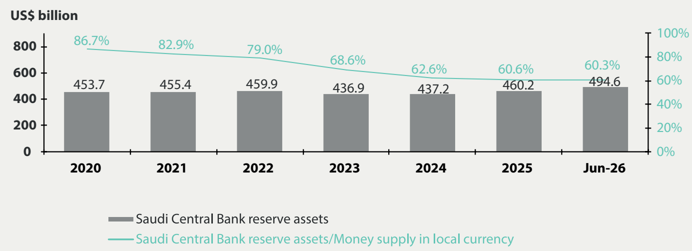
Looking forward, average inflation is projected to increase to about 2.3% in 2026, according to the IMF, as higher shipping and insurance costs add upward pressure on prices. Concomitantly, the Saudi Central Bank would continue to follow the lead taken by US Federal Reserve, given the currency peg.

EVOLUTION OF MONETARY SITUATION

Variations (US$ million)	2020	2021	2022	2023	2024	2025	Jun-26
Net foreign assets	**-45,543**	**-21,163**	**16,838**	**-34,412**	**-23,131**	**-23,442**	**27,249**
Saudi Central Bank	-44,882	-10,989	2,301	-23,350	-2,569	22,040	34,965
Commercial Banks	-661	-10,174	14,537	-11,062	-20,562	-45,482	-7,716
Domestic Assets	**76,835**	**87,984**	**84,755**	**74,150**	**118,543**	**108,517**	**37,015**
Claims on private sector	57,579	72,439	68,132	61,122	89,749	77,886	31,612
Claims on public sector	14,586	11,301	7,880	8,005	13,755	16,364	3,868
Claims on Nonfinancial Public sector Enterprises	4,670	4,244	8,744	5,024	15,038	14,266	1,535
Broad Money (M3)	**43,767**	**42,547**	**49,747**	**50,659**	**62,968**	**65,682**	**57,228**
Money Supply (M1)	53,484	20,160	-9,693	-1,043	38,804	1,215	6,278
Quasi-Money	-9,716	22,388	59,440	51,702	24,164	64,466	50,950
Government Deposits	**-10,111**	**-12,617**	**15,034**	**-37,929**	**-7,960**	**-9,706**	**208**
Other Items (Net)	**-2,364**	**36,891**	**36,813**	**27,009**	**40,404**	**29,100**	**6,828**

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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1.4.2. Banking Activity

Broadly solid performance in the first half of 2026

The Saudi banking sector reported a broadly solid performance in the first half of 2026, supported by continued balance-sheet expansion, resilient profitability and gradually improving liquidity conditions. The latest available monthly indicators for June show that total credit stood at around US$ 842 billion, rising by 3.9% over the first half-year. While this marked a moderation from the double-digit credit growth rates seen in previous years, it still reflected healthy financing demand from Vision 2030-related activity, especially in corporate investment, infrastructure, real estate development, utilities, tourism, logistics and industrial projects. The composition of credit growth continued to shift in favor of corporate lending. This suggests that Saudi banks are increasingly financing the Kingdom's investment-led diversification cycle, while consumer and mortgage lending are becoming less dominant drivers of credit creation.

Funding conditions improved during the period, as deposit growth outpaced loan growth. Total deposits reached about 835 billion in June 2026, up 7.0% over the first half-year, thereby helping banks rebuild liquidity buffers after a period of rapid loan expansion. The deposit mix also continued to change, with time and savings accounting for nearly 43% of total deposits, compared with around 38% a year earlier. This shift toward higher-cost deposits helped stabilize funding availability but also kept funding costs relevant for banks' margin management. The sector's loan-to-deposit ratio eased compared with the previous year, pointing to a better liquidity position and greater capacity to sustain lending growth without excessive reliance on wholesale funding.

Profitability remained one of the sector's main strengths. Banking sector profit reached US$ 14.4 billion in H1 2026, up 5.8% year-on-year. Listed banks also reported solid first-half earnings, with major institutions benefiting from resilient net financing income, investment income, fee income and foreign-exchange activity. The easing in money-market funding costs was also supportive, with three-month SAIBOR bids declining toward 4.7% in the second quarter, helping reduce pressure on net interest margins after a period of elevated funding costs. At the same time, banks continued to manage margins carefully as the deposit mix shifted toward remunerated time and savings deposits.

BANKING SECTOR RATIOS

	2020	2021	2022	2023	2024	2025	Jun-26
Banking sector dimension in economy							
Assets/GDP	103.6%	89.0%	77.9%	86.6%	95.6%	103.5%	99.0%
Deposits/GDP	67.5%	57.1%	49.4%	54.1%	57.2%	61.1%	60.1%
Loans to private sector/GDP	59.2%	53.3%	47.8%	53.3%	58.5%	63.5%	60.6%
Loans to public sector/GDP	2.8%	2.6%	2.8%	3.2%	4.3%	5.4%	5.0%
Growth rates (YTD)							
Assets	13.2%	10.0%	10.5%	9.3%	13.6%	10.3%	4.0%
Loans to the private sector	14.3%	15.3%	13.1%	9.7%	12.9%	10.4%	3.9%
Investments	12.7%	6.1%	8.1%	10.4%	15.1%	10.7%	2.8%
Deposits	8.2%	8.3%	9.1%	7.8%	8.9%	8.7%	7.0%
Capital and reserves	9.9%	11.3%	4.3%	5.9%	7.9%	8.5%	14.0%
Profit growth (year-on-year)	-23.1%	39.2%	28.6%	11.7%	15.1%	16.0%	5.8%
Financial ratios							
Primary liquidity/Deposits	20.2%	15.5%	13.9%	13.1%	12.8%	11.9%	12.2%
Liquid assets/Deposits	54.4%	49.0%	47.1%	47.1%	48.8%	48.6%	47.4%
Loans to the private sector/Deposits	87.7%	93.3%	96.8%	98.5%	102.2%	103.9%	100.8%
Loans to the public sector/Deposits	4.1%	4.5%	5.6%	5.9%	7.5%	8.8%	8.4%
Total loans/Deposits	91.7%	97.9%	102.3%	104.5%	109.8%	112.7%	109.2%
Capitalization							
Capital accounts/Assets	14.0%	14.4%	14.0%	13.7%	13.1%	13.0%	13.0%
Profitability							
ROAA	1.38%	1.72%	2.01%	2.04%	2.11%	2.19%	2.13%
ROAE	9.6%	12.1%	14.1%	14.8%	15.8%	16.7%	16.4%

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

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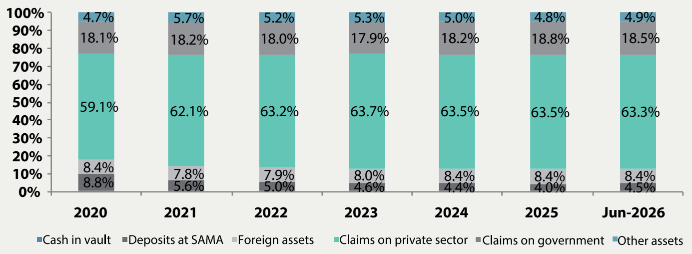
Asset quality and capitalization remained sound, reinforcing confidence in the sector's capacity to support the real economy. In the first quarter of 2026, the largest listed banks maintained a low non-performing loan ratio of around 0.9%, while the cost of risk eased to about 0.15% and coverage strengthened to more than 160%. Capital buffers also remained comfortably above regulatory requirements, with sector capital adequacy reported at above 20% in early 2026 and liquidity coverage ratios remaining strong. These indicators suggest that, despite rapid balance-sheet growth in recent years, Saudi banks entered the second half of 2026 from a position of relative strength. The combination of high capitalization, strong provisioning buffers and disciplined risk management gives the sector room to continue financing corporate projects, SMEs and household activity, even under a more uncertain oil and geopolitical backdrop.

The main area of softness was housing finance. New residential mortgage disbursements declined sharply to SAR 4.4 billion in May 2026, down 30.9% month-on-month and 40.7% year-on-year, while the average monthly mortgage origination rate in the first quarter was also well below the previous year's level. This slowdown reflected the cumulative impact of higher borrowing costs, affordability constraints and a maturing mortgage cycle after several years of rapid growth. However, outstanding retail real-estate loans still increased on an annual basis, suggesting that the stock of mortgage credit remains large even as new origination moderates. The softer mortgage trend also reinforces the broader shift in the Saudi banking model from retail-led expansion toward corporate and project-finance-led growth linked to the Kingdom's transformation agenda.

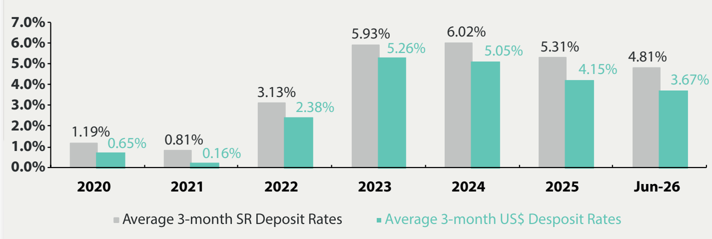
Looking ahead to the second half of 2026, the outlook for Saudi banks remains constructive but more selective. Credit demand should stay supported by corporate investment, public-sector project execution, PIF-related activity and the financing needs of Vision 2030 sectors. Profitability should benefit from easing funding pressures, lower SAIBOR levels and continued repricing efforts, while non-interest income generation and digital banking investment are likely to remain important earnings drivers. Nonetheless, the sector faces several watchpoints: rapid credit growth could pressure liquidity if deposit mobilization slows; a prolonged decline in oil prices could affect government-related deposits and project momentum; and geopolitical volatility could weigh on investor confidence and funding markets. Overall, Saudi banks remain among the strongest in the GCC, combining scale, profitability, capitalization and policy support, but their performance in the remainder of 2026 will depend on maintaining a careful balance between financing the Kingdom's transformation and preserving liquidity, margins and asset quality.

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 closing in the green in the first half of 2026, bonds facing broad-based downward price pressures

The Saudi equity market experienced an upturn in the first half of 2026 despite escalating regional geopolitical tensions following the outbreak of the Iran war on February 28, 2026, as the Kingdom benefited from alternative export routes seeing any fall in volumes at least partially offset by higher oil prices. In contrast, the fixed income market faced downward price pressures, largely tracking declines in US Treasuries, as growing geopolitical friction between the US and Iran drove crude oil prices higher, reigniting global inflation concerns and cementing prospects of global monetary tightening this year.

The Saudi Exchange was pulled in a positive territory in the first half of 2026 despite escalating US-Iran hostilities and the extended closure of the Strait of Hormuz, as Saudi Arabia managed to bypass the maritime blockade by diverting crude through the East-West Pipeline and the Red Sea port of Yanbu. This combined with surging global oil prices, allowed the Kingdom to see any fall in volumes at least partially offset by higher crude prices. This was further amplified by an accelerated growth in the non-oil private sector in Saudi Arabia. In fact, the Saudi non-oil economy maintained a solid expansion in June, with the seasonally adjusted Riyad Bank Saudi Arabia Purchasing Managers' Index rising further above the 50.0 neutral mark to reach 53.3, up from 52.8 in May and the highest in four months. The June 2026 PMI report noted that the business sentiment continued to strengthen in the Kingdom, with firms reporting their highest level of optimism since January. The improvement in expectations points to growing confidence in the domestic business environment and suggests that companies increasingly anticipate favorable market conditions to support business activity over the coming months. This positive outlook reinforced expectations that non-oil growth would remain supported during the second half of the year.

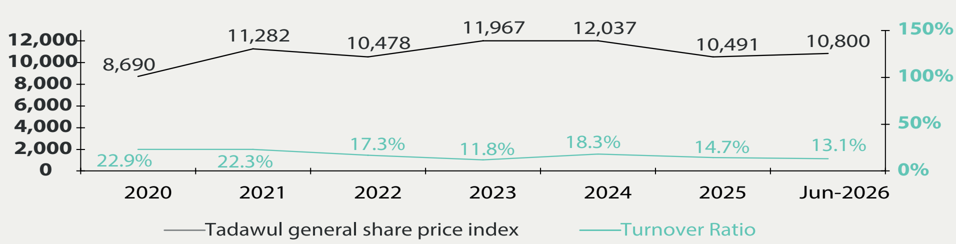
In this context, Moody's signaled in a report released in May 2026 that it expects Saudi Arabia's non-oil economy to remain relatively resilient, supported by sustained government spending and the continued functioning of key logistics infrastructure, particularly the Red Sea container ports, which have allowed the trade flows to be maintained.

SELECTED CAPITAL MARKETS INDICATORS

	2020	2021	2022	2023	2024	2025	Jun-26
Market capitalization (US$ billion)	2,427.1	2,669.1	2,634.2	3,002.5	2,720.1	2,351.4	2,516.3
Trading value (in US$ billion)	556.7	596.2	455.5	355.5	496.6	346.5	164.4
Number of transactions (in millions)	76.7	91.9	87.9	94.0	128.6	119.0	52.7
General share price index (base 1999=100)	8,690	11,282	10,478	11,967	12,037	10,491	10,800
Number of listed companies	203	210	223	231	247	266	270
Change in share price index	3.6%	29.8%	-7.1%	14.2%	0.6%	-12.8%	2.9%
Price/Earnings ratio	29.2x	20.6x	12.4x	17.6x	17.4x	15.1x	16.0x
Price/Book value ratio	4.4x	4.1x	3.5x	3.7x	3.3x	2.7x	2.8x
5-year CDS spread (bps)	65	49	61	54	65	67	60

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

STOCK MARKET PERFORMANCE



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

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Foreign investors were net buyers on the Saudi Exchange over the first half of 2026, with net buying operations surging by 75.4% year-on-year to reach US$ 3.38 billion. This was mainly buoyed by the Saudi Capital Market Authority's historic decision to open the Saudi Exchange to all categories of foreign investors effective February 1, 2026. The Capital Market Authority is currently 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.

Under these conditions, the Tadawul All-Share Index closed in the green over the first half of 2026, moving from 10,490.69 at end-December 2025 to 10,799.92 at end-June 2026, up by 2.9%. This followed a 12.8% contraction in 2025. The breakdown of the TASI by industry groups over the first half of 2026 shows that the insurance sector registered the largest index expansion of 23.59%, followed by the energy sector with +9.84%, the pharma, biotech and & life science sector with +6.48%, the utilities sector with +6.22%, the consumer durables and apparel sector with +5.85%, the food & beverage sector with +5.37%, the capital goods sector with +3.89%, the REITs sector with +3.76%, the banks sector with +2.93%, the real estate management and development sector with +2.30%, the consumer discretionary distribution & retail sector with +2.03% and the materials sector with +1.35%. In contrast, the media & entertainment sector recorded the highest index contraction of 35.90%, followed by the healthcare equipment and services sector with -11.89%, the transportation sector with -5.19%, the consumer services sector with -6.11%, the financial services sector with -6.07%, the software & services sector with -5.19%, the telecommunication services sector with -2.45%, the consumer staples distribution & retail sector with -2.01%, the commercial and professional services sector with -1.84%, and the household & personal products sector with -1.13%.

Concomitantly, the total trading value in the Saudi Exchange contracted by 10.4% year-on-year over the first half of the year 2026, moving from US$ 183.5 billion in the first half of 2025 to US$ 164.4 billion. The division of the total turnover by industry groups during the first half of 2026 showed that the banking sector captured the lion's share of activity over the first half of this year, accounting for 20.54% of the total, followed by the materials sector (18.44%), the energy sector (10.22%), the insurance sector (5.02%), the capital goods sector (4.62%), the healthcare equipment and services sector (4.56%) and the real estate management and development sector (4.42%). This proves that seven out of 22 sectors captured more than two-thirds of the total turnover on the Saudi Exchange in the first half of 2026.

The volume traded reached 31.05 billion shares over the first half of 2026 compared to 28.85 billion shares over the corresponding period of the previous year, which marks an expansion of 7.6%. The total number of trades executed during the first half of 2026 reached 52.69 million trades compared to 59.73 million trades in the first half of 2025, down by 11.8%.

Concurrently, four new companies were listed on the Saudi Exchange over the first half of the year 2026. Accordingly, the number of listed companies reached 270 at end-June 2026 against 266 at end-2025. The Saudi market capitalization moved from US$ 2,433.6 billion at end-June 2025 to US$ 2,516.27 billion at end-June 2026, which marks an expansion of 3.4%. That being said, the annualized turnover ratio on the Saudi Exchange fell from 15.1% in the first half of 2025 to 13.1% in the first half of 2026.

At the level of the fixed income market, Saudi papers faced broad-based downward price pressures in the first half of 2026, mainly tracking US Treasuries move as intensifying hostilities between the US and Iran, and shipping disruptions across the Strait of Hormuz drove a strong oil price rally, fueling global inflation concerns. This put two US Fed interest rate hikes in view this year, reinforcing the "higher for longer" outlook for US rates.

In details, Saudi sovereigns maturing in 2028, 2029, 2030, 2034, 2050 and 2060 registered price contractions ranging between 0.15 pt and 1.71 pt during the first half of 2026. Aramco'30, '34 and '50 posted price falls of 0.85 pt, 1.67 pt and 0.52 pt respectively. STC'29 was down by 1.87 pt. Prices of SABIC'28 went down by 1.46 pt. SEC'28, '30 and '44 recorded price decreases of 1.92 pt, 0.60 pt and 2.02 pts respectively over the first half of the year. Amongst financials, Banque Saudi Fransi'29 reported price retreats of 1.27 pt. SNB'29 was down by 1.65 pt. Rajhi Bank'29 traded down by 1.43 pt in the first half of 2026.

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As to new issues, Saudi Arabia tapped international bond markets only once so far this year. In details, Saudi Arabia raised US$ 11.5 billion in January 2026 from the sale of a four-tranche bond. The first tranche consisted of US$ 2.5 billion three-year Senior unsecured bonds issued at 65 bps over UST. The second tranche consisted of US$ 2.75 billion five-year bonds issued at 75 bps over UST. The third tranche consisted of US$ 2.75 billion 10-year bonds issued at 85 bps over UST. The fourth part consisted of US$ 3.5 billion 30-year bonds issued at 110 bps over UST.

Within this context, the National Debt Management Center announced in May 2026 that it had successfully pre-funded and completed roughly 90% of its SR 217 billion (US$ 57.8 billion) annual financing needs early in the year. This proactive frontloading -anchored by January's massive US$ 11.5 billion international bond sale - was specifically designed to insulate the Kingdom from wartime market volatility, allowing the Ministry of Finance to fulfill remaining requirements through private funding channels (such as private placements, structured credit, and export credit agencies) and stable, local SR-denominated Sukuk programs to effectively protect debt sustainability. The NDMC explicitly confirmed that international public market issuances had been selectively reduced from their original expectations in favor of alternative private and local financing to protect debt sustainability during the regional geopolitical crisis.

As to the cost of insuring debt, Saudi Arabia's five-year CDS spreads, which measure the market's perception of sovereign risks, closed at 60 bps at end-June 2026 against 67 bps at end-2025, staying well below the average regional sovereign five-year CDS spreads of 123 bps.

As to credit ratings, S&P Global Ratings affirmed on March 13, 2026 its "A+/A-1" long-term and short-term foreign and local currency sovereign credit ratings on the Kingdom of Saudi Arabia, with a "stable" outlook. The "stable" outlook reflects S&P's view that Saudi Arabia would be able to weather he ongoing regional conflict. This factors in its ability to redirect oil exports to the Red Sea, utilize its large oil storage capacity, and its ability to increase oil production post-conflict. The outlook also reflects S&P's view that non-oil growth momentum and associated non-oil revenues, as well as the government's ability to calibrate investment expenditure tied to Vision 2030, should support the economy and fiscal trajectory.

Concurrently, Moody's affirmed on May 22, 2026 the Government of Saudi Arabia's long-term local and foreign currency issuer and senior unsecured ratings at "Aa3", with a "stable" outlook. The affirmation at "Aa3" reflects, as per Moody's, Saudi Arabia's large and wealthy economy, supported by its vast hydrocarbon endowment, low production costs and highly competitive position in global energy markets, alongside improving institutional and policy effectiveness.

Also, Fitch Ratings affirmed on July 10, 2026 Saudi Arabia's long-term foreign currency Issuer Default Rating at "A+" with a "stable" outlook. The rating reflects, as per Fitch, strong fiscal and external balance sheets, with government debt/GDP and sovereign net foreign assets considerably stronger than the "A" and "AA" medians, and significant fiscal buffers in the form of deposits and other public sector assets.

Looking forward, S&P sees that domestic capital markets would play a larger role in financing Vision 2030. The Saudi authorities would continue developing the stock exchange as a strategic platform to attract long-term capital to the country's key growth industries. S&P expects significant growth in the capital markets to come from improving market liquidity and regulatory initiatives, such as the new investment law and pension fund reforms.

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CONCLUSION

Key risks for the second half of 2026 include weaker oil prices or production volumes, regional geopolitical tensions, higher shipping and logistics costs, tighter global financial conditions, and execution risks around large investment projects. Still, the medium-term growth story remains supported by Vision 2030 reforms, rising non-oil private-sector participation, and the Kingdom's ability to deploy fiscal and sovereign-investment resources to sustain structural transformation.

In detail. Saudi Arabia's outlook for full-year 2026 and 2027 is shaped by two opposing forces: short-term volatility from oil-market and geopolitical disruptions, and continued medium-term support from Vision 2030-driven diversification. The Kingdom is likely to experience a soft patch in 2026 before regaining momentum as oil-sector conditions normalize and non-oil activity remains resilient. This profile is consistent with a transition economy in which headline growth remains sensitive to hydrocarbons, but where services, tourism, logistics, finance, manufacturing, construction, and private investment increasingly provide a floor under domestic demand.

For 2026, the main message is one of resilience but lower-than-previously-expected growth. The downgrade to 1.7% reflects weaker assumptions for oil-sector output and spillovers from regional tensions, including potential effects on logistics, tourism, investor confidence, and hydrocarbon exports. Nevertheless, the non-oil economy should remain the principal stabilizer, supported by public investment, Public Investment Fund-related projects, housing, hospitality, business services, and consumer demand. Fiscal policy is expected to stay supportive, though at the cost of a deficit, with IMF data pointing to general government net borrowing of about 3.5% of GDP and gross public debt of around 32.1% of GDP in 2026.

For 2027, the outlook is more constructive, provided that regional disruptions ease and oil production and trade flows normalize. The projected rebound to 5.5% growth would likely be driven by a recovery in oil GDP, continued execution of large investment projects, and a sustained expansion in non-oil sectors. The World Bank's earlier assessment also points to robust average growth in 2026–2027, supported by the phasing out of OPEC+ voluntary production cuts and steady non-oil GDP growth. If these assumptions hold, Saudi Arabia should benefit from a more favorable combination of stronger hydrocarbon revenues, ongoing diversification gains, and improved investor sentiment. However, the rebound should not be interpreted as risk-free: it depends on oil-market stability, project execution, adequate banking-sector liquidity, and the ability to balance transformation spending with fiscal sustainability.

The fiscal and external positions will remain key barometers of the outlook. In 2026, the current account is expected to show modest pressure, with IMF data indicating a deficit of around 1.6% of GDP, reflecting lower oil receipts and import-intensive investment spending. At the same time, Saudi Arabia retains substantial buffers through central bank foreign assets, sovereign wealth resources, low-to-moderate public debt, and strong access to capital markets. The banking sector should continue to play a central role in financing the diversification agenda, although rapid credit growth requires close monitoring of funding costs, liquidity, and asset quality. Monetary policy will remain anchored by the Saudi riyal's peg to the US dollar, keeping domestic interest-rate conditions broadly linked to the Federal Reserve cycle.

Overall, Saudi Arabia's outlook is positive over the medium term but subject to unusually high short-term uncertainty. The Kingdom is expected to navigate a slower 2026 thanks to non-oil resilience, ample financial buffers, and continued policy support, while 2027 offers scope for a stronger rebound if oil-sector disruptions fade and Vision 2030 execution remains on track. The main downside risks are a prolonged regional conflict, weaker oil prices or production volumes, delays in giga-project implementation, tighter global financial conditions, and pressure on fiscal balances from sustained capital spending. The main upside risks are faster normalization of oil flows, stronger tourism and investment inflows, deeper private-sector participation, and continued gains in productivity and labor-market reform. In sum, Saudi Arabia remains one of the stronger macro stories in the GCC, but its near-term performance will depend on how effectively it manages the intersection of oil volatility, geopolitical risk, and transformation spending at large.