The Funding Envelope and the Windfall

Saudi fiscal space is a terms-of-trade variable — the giga-project rescoping is the envelope binding, and the trade is whether the Hormuz windfall re-opens it

Reader: portfolio managers, macro strategists, sovereign and long-duration desks, development-finance allocators.

Saudi Arabia spent 2025 financing a structural transformation at an oil price that could not pay for it. Brent averaged US$69.14/bbl over the full year (FRED `DCOILBRENTEU`, N=253; floor $59.93), against an IMF estimate of the Saudi fiscal break-even of ~$92.3/bbl for 2025 and ~$86.6 for 2026 [IMF via Argaam, GREEN]. A petrostate running one of the world's largest state-led investment pushes needed oil roughly $23–30 above where oil sat all year. For a desk, that gap is not a backdrop. It is the funding envelope — and the whole position is a read on what binds it, what relaxes it, and what Riyadh does when the price moves.

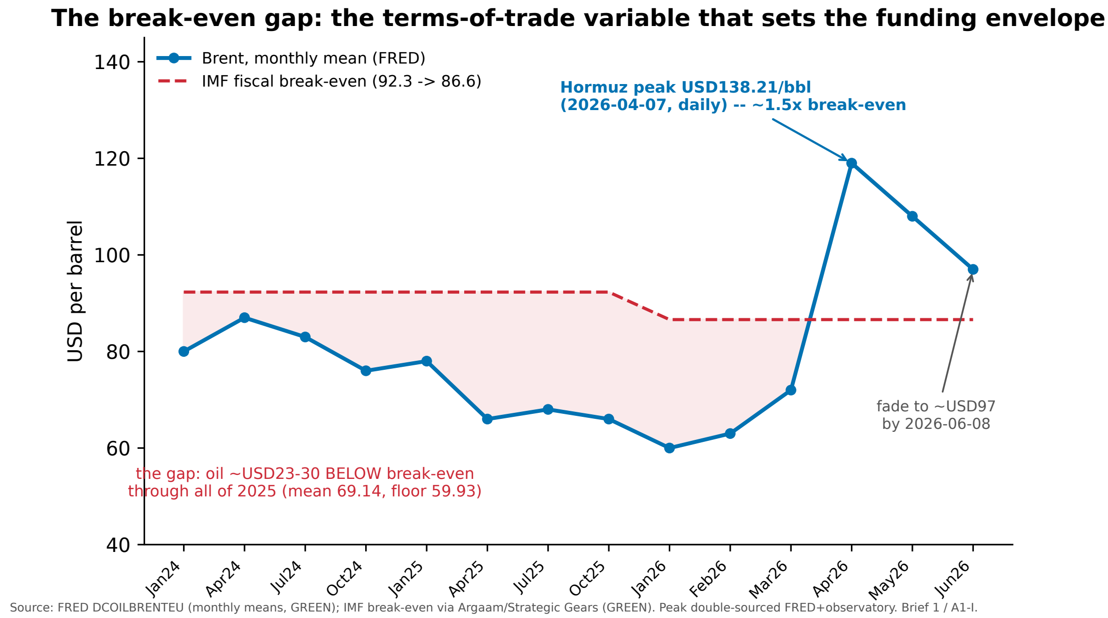

Figure A1-I. The break-even gap: Brent ran ~$23–30 below the IMF Saudi break-even through all of 2025 (mean $69.14, floor $59.93), then spiked to a $138.21 Hormuz peak on 2026-04-07 before fading to ~$97.

I. The envelope is a terms-of-trade variable, not a policy choice

The framing that organizes the position is Ocampo's: for a commodity-dependent economy, the external and fiscal constraints are set externally, by a price the sovereign does not control, and the policy space contracts and expands with the terms of trade rather than with domestic resolve. The Saudi break-even gap is that mechanism in its cleanest form. The required price is an institutional fact of the spending program; the realized price is a global variable; and the distance between them is the room Riyadh has to keep building. When the gap widened through 2024–25, the room closed — and the giga-project portfolio is where the closure showed up.

The fiscal arithmetic propagated exactly where the structuralist account says it should. The 2025 deficit overshot to roughly 5 percent of GDP (SAR 245bn) against a planned ~2 percent, and the Ministry of Finance set a 2026 deficit target of 3.3 percent (SAR 165bn) [Saudi MoF Budget Statement FY2026, GREEN]. In the same budget, on-budget capital expenditure was cut 12 percent to SAR 162bn. A sub-break-even year, a deficit overshoot, a CapEx cut — the transmission from the terms of trade to the funding envelope to the scope of the build is the position's spine.

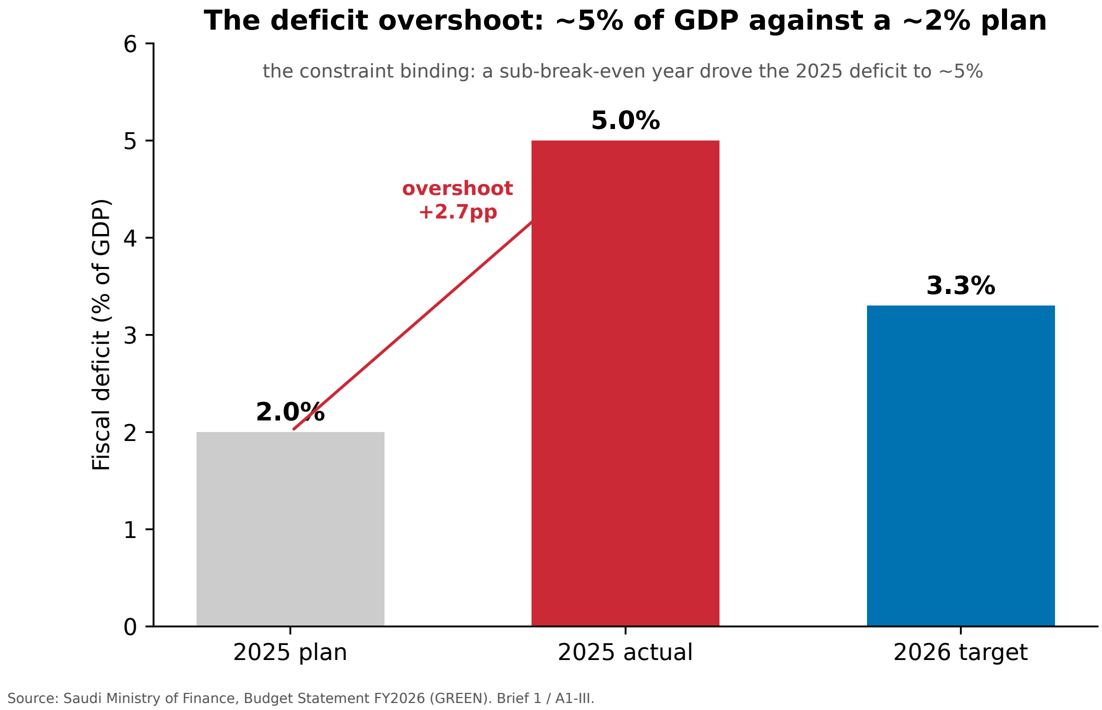

Figure A1-III. The deficit overshoot: 2025 came in near 5 percent of GDP against a ~2 percent plan, with a 3.3 percent consolidation target for 2026 — the constraint binding in the fiscal accounts.

II. The signature is in the timing, and the budget understates it

The decisive evidence that the envelope is binding is co-movement: the rescoping decisions cluster in the window when the gap was widest. The PIF approved cuts of up to ~60 percent across 100-plus of its companies in December 2024, as the 2024 average price (~$81) was already sliding [AGBI, AMBER]; construction on The Line was suspended in September 2025, mid-trough; the 12 percent budget CapEx cut was written in December 2025 against the ~5 percent overshoot [MoF, GREEN]; and the NEOM restructure followed in January 2026. Decisions clustering as the break-even gap widened, the deficit overshoot preceding the scope cuts, PIF recalibration following the funding squeeze — this is the constraint-binding signature, and it is the dominant pattern in the data.

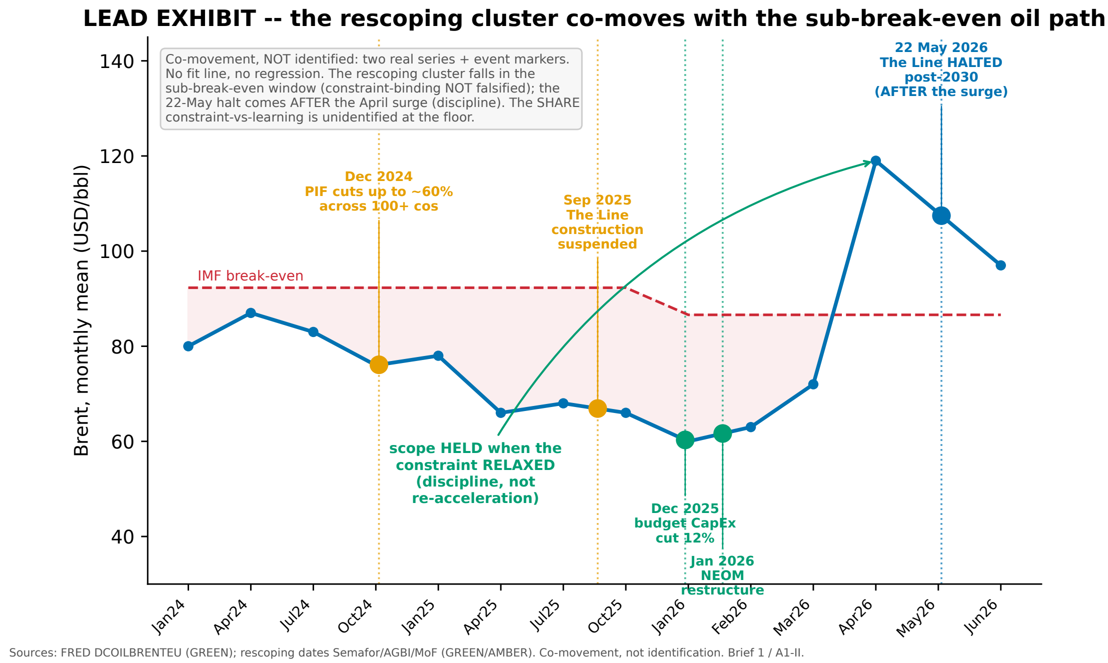

Figure A1-II. The rescoping cluster co-moves with the sub-break-even oil path — event markers on the Brent series, no fit line. The cluster falls in the sub-break-even window (constraint-binding not falsified); the 22 May 2026 halt comes after the April surge (discipline). Co-movement, not identification.

The chart plots two real series and event markers — it is not a regression, and a desk should not read it as one. Co-movement is not identification: a binding fiscal arithmetic and a project-level learning process can produce the same clustered timeline, and the descriptive floor cannot separate them. Announcement dates are also noisy proxies for decision dates, which puts an anticipation caveat on the timing test. What the timeline establishes is direction, not a measured share — the constraint as the prime mover, with the share attributable to learning left open.

The on-budget cut understates the position, and the discrepancy is itself load-bearing. The MoF budget concedes that capital spending since 2020 has been “masked... outside the budget, such as PIF-led projects” — the bulk of giga-project capital formation sits off-budget in the PIF channel. Secondary reporting puts the off-budget pullback far deeper than the 12 percent on-budget figure: PIF construction contracts reportedly fell from ~\$71bn to ~\$30bn, roughly a 58 percent reduction [House of Saud and other aggregators, AMBER]. The contract figures are secondary and ride AMBER, but they are corroborated in direction by PIF’s own 60 percent company-cut disclosure. The lesson for sizing is to read the MoF and PIF numbers together, never as substitutes — the budget is the floor of the rescoping, not its measure.

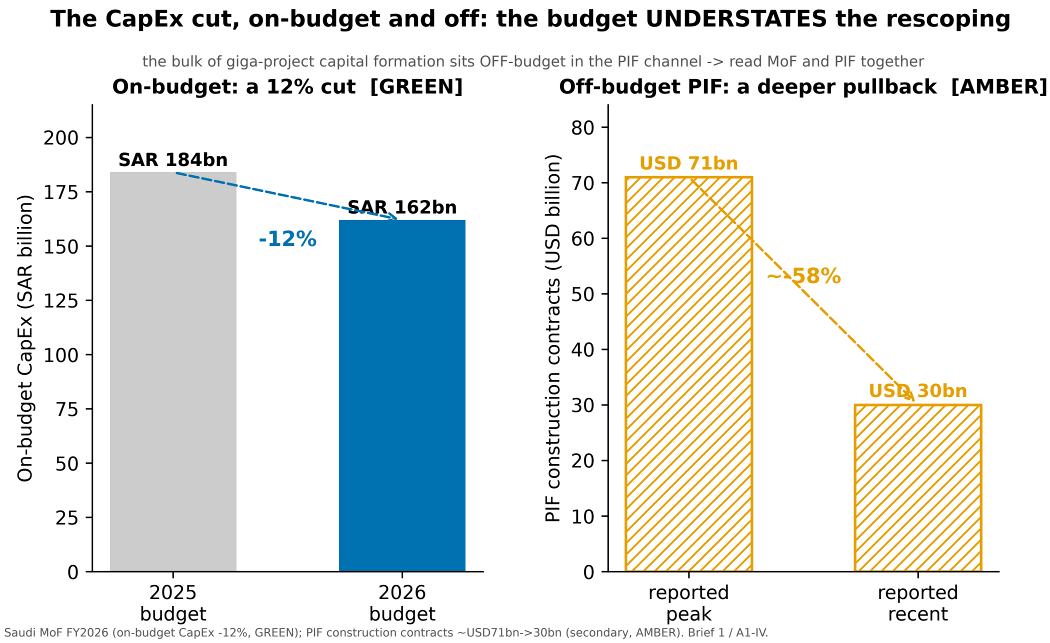

Figure A1-IV. The CapEx cut, on-budget and off: the on-budget cut is 12 percent (GREEN); the off-budget PIF construction-contract pullback is reported near 58 percent (AMBER) — the budget understates the rescoping because the giga-project capital sits in the PIF channel.

III. The scale tells, and the strongest version is AMBER

PIF's assets under management reached US$941.3bn at end-2024 (+19 percent year on year), with a $2.67tn target for 2030 and 40 percent of the portfolio in Saudi companies [PIF AR2024 via The National, GREEN]. This is not a paper program; it is real capital, ∼ of it domestic, and the rescoping is being managed against a balance sheet of that size. The position is not that Saudi Arabia ran out of money. It is that the price of the marginal giga-project dollar — the funding envelope at the margin — moved against the original plan, and the portfolio adjusted.

The strongest constraint-binding datum is a leaked internal NEOM audit, reported by the Wall Street Journal, putting true NEOM costs at ~$8.8 trillion with completion stretching to ~2080, against the ~$500bn / 2030 headline [WSJ via secondary, AMBER]. If even directionally right — roughly 17× the headline — it implies the original plan was never fundable at any plausible oil price, which is the constraint-binding reading in its strongest form: the "rescoping" is the arithmetic finally being admitted. The WSJ primary is paywalled and the figure cannot be verified for free, so it rides as attributed AMBER, not asserted. A desk should treat it as a directional prior on the scale of the original mis-sizing, not as a number.

IV. The trade: the windfall as the live discriminator

Here 2026 hands the position the test the comparators never had. The Iran war's Hormuz shock drove Brent to a peak of $138.21/bbl on 2026-04-07 — double-sourced (FRED plus the observatory `raw_global_shocks_daily` table) — a price ~1.5× break-even that abruptly relaxed the very constraint the binding reading says forced the rescoping. The two readings now predict opposite behavior. If the rescoping was the envelope binding, a sustained windfall should produce procyclical re-acceleration — projects un-paused, scopes restored, the diversification throttle re-opened by the commodity cycle it is meant to escape. If the rescoping was learning-driven, the windfall should meet discipline — the recalibrated portfolio holds because the lesson, not the price, set the scope.

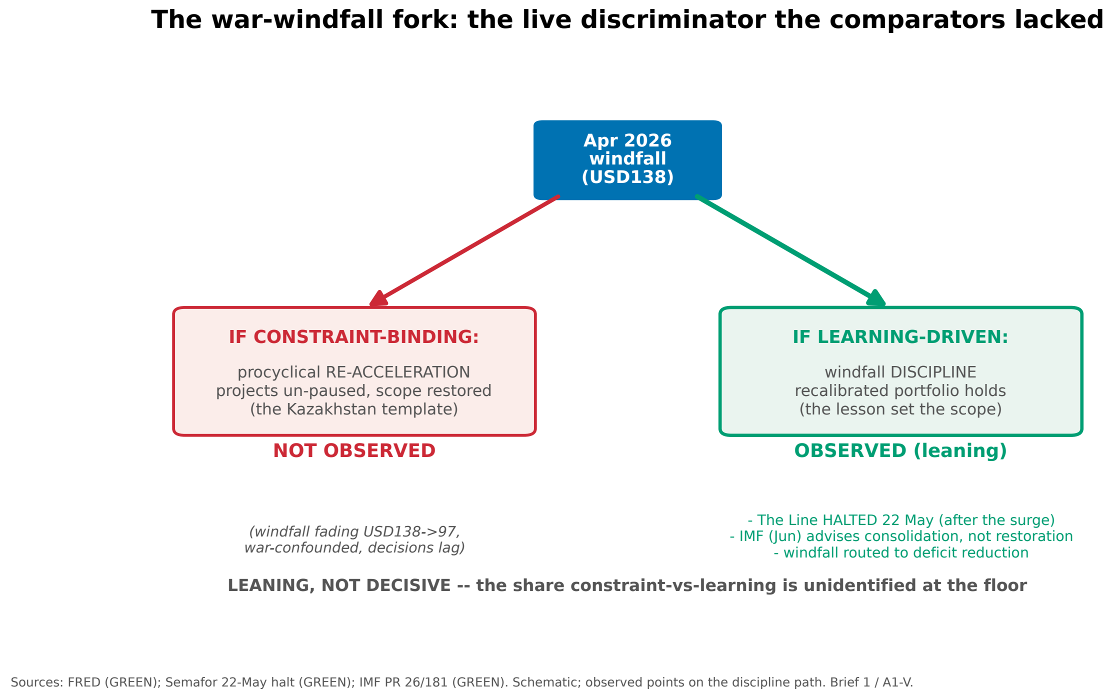

Figure A1-V. The war-windfall fork: constraint-binding predicts procyclical re-acceleration (not observed); learning predicts windfall discipline (observed — The Line halted 22 May after the surge, IMF advising consolidation). Leaning, not decisive; the share is unidentified at the floor.

On the evidence to the June horizon, the windfall met discipline, not re-acceleration. The Line was formally halted on 2026-05-22 — after the April surge had begun [Semafor, GREEN]. The IMF's 3 June mission advised that "spending reprioritization as the first line of action" remained appropriate and called the PIF's recalibrated 2026–30 strategy "a welcome development," while noting the windfall "would reduce the current account and fiscal deficits in 2026" [IMF PR 26/181, GREEN]. The price relaxed the envelope, and the scope held — the windfall is being routed to deficit reduction, not scope restoration. So far, the lesson held against the price, which is evidence for a real learning component sitting inside a constraint-triggered rescoping.

The discipline read is leaning, not decisive, and the position should price it that way. The windfall is partial and fading — Brent had already retreated from $138 (April 7) to ~$97 by 2026-06-08 [FRED, GREEN] — and a war-spike that fades is a weak test of re-acceleration, because there is less to re-accelerate with. The war itself depresses activity (curtailed Hormuz exports, a March non-oil contraction), which counsels caution regardless of the windfall and confounds the discipline signal. And scope decisions lag: a restoration, if it comes, would surface months after a sustained price recovery that has not yet occurred. The fork leans toward discipline on the windfall, against a constraint-binding timing signature — and the trade has to hold both.

V. The shock absorber, and why the transmission is slow

The borrowing program is the buffer that makes the price-to-scope transmission gradual rather than a fire-sale. Saudi general-government debt sits near 32 percent of GDP [MoF, GREEN], low enough that the largest emerging-market dollar-issuer borrowing program can finance the gap through the trough without forcing a disorderly contraction of the build. (The borrowing channel is its own object — Brief 5 — and here it is only the buffer.) The buffer matters for the position because it makes the adjustment optional and slow: Riyadh can choose the pace of the rescoping, which is precisely why the timing-versus-discipline read is informative rather than mechanical. A sovereign with no buffer (Egypt's New Administrative Capital, rescued only by the 2024 $35bn Ras El-Hekma deal) has the rescoping forced on its schedule; Saudi Arabia is choosing its schedule, and the windfall test reads that choice.

The comparator set brackets the trade. Kazakhstan is the constraint-binding template — an oil-funded, state-led diversification (Samruk-Kazyna, the Astana build-out, Nurly Zhol) repeatedly rescoped with the oil cycle; if Saudi rescoping is Kazakhstan's, the windfall should re-accelerate it. Egypt is constraint-binding without a windfall; Indonesia's Nusantara is the contemporaneous control on the same 2024–26 clock; and the Gelb (1988) oil-windfall cohort — Algeria, Nigeria, Venezuela's Guayana program — is the white-elephant prior that "this time is different" claims usually fail. Saudi Arabia's distinctive feature against all four is the $138 war windfall arriving mid-rescoping — the natural experiment the others lacked.

VI. What to track, and the positioning implied

On the terminal:

- **The Brent-versus-break-even gap** — whether Brent holds above ~$86.6 on a durable basis (FRED `DCOILBRENTEU`), the precondition for any re-acceleration test to even be live.
- **PIF deployment and contract awards** — whether the off-budget contract run-rate (the ~$71bn→$30bn track) turns back up; the real rescoping signal, ahead of the on-budget line.
- **Scope-restoration announcements** — any un-pausing of The Line, Trojena, or the Red Sea deferrals after a *sustained* price recovery; the direct read on the fork.
- **The IMF Article IV staff report** (full text due ~July 2026) — whether the Fund's "welcome... selective" framing survives contact with the windfall.
- **The contested-membership track** — the Saudi BRICS+ status-review item flagged for New Delhi, September 2026.

Positioning implied (not advice):

- Treat the budget headline as **the weakest signal** and the off-budget PIF contract path as the strongest; the on-budget 12 percent cut understates the rescoping the PIF channel carries.
- The **fragile thesis is procyclical re-acceleration** — that the windfall re-opens the envelope; on evidence to date it has not, but the test is not decisive while the windfall fades and the war confounds.
- Price the **slow transmission**: the ~32 percent debt buffer makes the adjustment optional, so scope responds to a *sustained* price level, not a spike — size the position to the durable gap,

not the war peak.

Skeptical Counter-Read

The strongest case against the constraint-binding read is that the same evidence fits intelligent reallocation. A rational big-push manager facing genuine uncertainty about which megaprojects pay *should* over-invest early across a portfolio and prune as information arrives — the textbook real-options logic. The Saudi record fits that template: a project-level review by a new NEOM CEO, an explicit official willingness to "defer or cancel... without blinking," the IMF blessing the recalibration as "more selective," cost overruns acknowledged in the budget's own SWOT, and — the decisive datum — the scope holding through the April windfall, when a pure constraint-binding model predicts re-acceleration. If the lesson set the scope and held when the price relaxed, this is reallocation, not retreat. The honest synthesis is that both are true and not separable at the floor, because the constraint *forces* the learning: a binding arithmetic is what makes a state discover that an $8.8tn plan was never feasible. The timing shows the constraint as prime mover; the windfall shows discipline holding; the share is the open quantity.

What cannot be cleanly identified

This is a terms-of-trade and process-tracing read, not an identified decomposition. The test that would settle the share — an event study on the 2024–26 rescoping dates with an anticipation window, and instrumental variables using the oil-fiscal-space instrument (oil-price-driven fiscal-space shocks, external to project-level choices, interacted with project funding exposure), on a project plus macro panel 2017–2026 with placebo rescoping dates and a capability-ladder outcome block — is named here and deferred, never run on fabricated data. It is infeasible at the floor while NEOM and its peers publish no audited project-level accounts. Specifically unidentified: the *share* of rescoping attributable to the fiscal constraint versus project-level learning (the central quantity); the realized project-level return (no audited accounts); and the realized response of scope to the windfall (data-lagged, war-confounded, and the windfall itself fading). The co-movement of the rescoping cluster with the sub-break-even path establishes the direction — constraint-binding triggered, discipline holding — not a measured share. That undetermined share is the honest center of the position.

Sources: FRED (`DCOILBRENTEU`); IMF (PR 26/181; break-even via Argaam/Strategic Gears); Saudi MoF (Budget Statement FY2026); PIF (AR2024 via The National); Semafor; AGBI; WSJ (leaked audit, paywalled). Saudi BRICS+ status is contested throughout and never asserted as fact. Full provenance in `references.md` and `citation_ledger.jsonl`; magnitudes fixed in `register-invariant.md`.