GULF STATES: FALLING OIL PRICES SHOULD NOT POSE A THREAT TO ECONOMIC DIVERSIFICATION

A new oil landscape

The fall in global oil prices is one of the most dramatic effects of the uncertainty generated by the tightening of US trade policy. The price of Brent crude is now expected to average USD 65 in 2025-2026, compared with USD 80 in 2024, and the risks of a further fall are high. For the Gulf States[1], where hydrocarbons account for 60% of budget revenues and 70% of exports, the consequences will be manifold.

FISCAL BREAKEVEN OIL PRICES

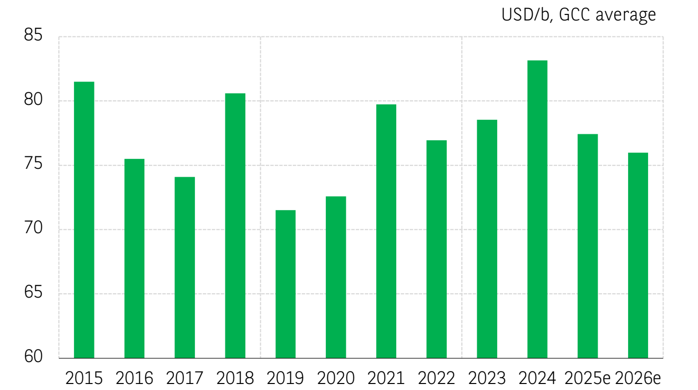

CHART 1 SOURCE: IMF, NATIONAL STATISTICAL OFFICES, BNP PARIBAS

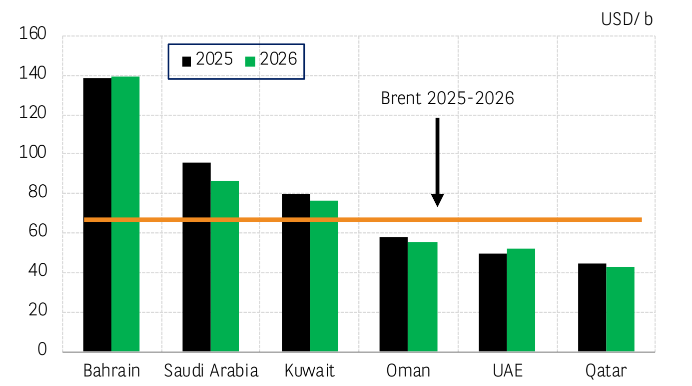

CHART 2 SOURCE: IMF, BNP PARIBAS

Seemingly greater budgetary vulnerability

The average fiscal breakeven oil price for countries in the region (the oil price that balances the budgets) has risen steadily in recent years. In 2024, it hit USD 83.2, an increase of USD 10 from 2020. The fiscal breakeven oil price is expected to fall in 2025-2026 as oil production rises, but it will remain higher than the price of Brent crude . From a situation of near-balance in 2023-2024, the aggregate budget balance of the Gulf States will therefore tip over into the red, with a deficit expected to exceed 3% of GDP in 2025-2026.

Different situations

Of the six countries in the region, three (Oman, Qatar and United Arab Emirates) still have comfortable budgetary margins to absorb the shock of a fall in oil prices. To this must be added Kuwait, whose public accounts are bolstered by income from its sovereign wealth fund (excluded from the budget). A small oil producer, Bahrain is the most vulnerable, but the situation remains sustainable thanks to the support of the other Gulf States. With a fiscal breakeven oil price of USD 94, Saudi Arabia is facing the most difficult economic situation.

Levers for adapting

The magnitude of the shock remains uncertain, and the ability of countries to adapt to a persistently unfavourable oil environment is questionable. In general, non-oil activity in the Gulf slows down when oil revenues fall sharply, mainly through cuts in public spending.

However, the situation of public finances is far from alarming, including for Saudi Arabia. Its budget deficit is expected to exceed 5% of GDP in 2025-2026, but government debt remains moderate (26% of GDP). In addition, the authorities have more levers at their disposal than they did during the 2015 oil crisis, thanks to the structural reforms undertaken. Non-oil revenues have increased by 4 points of GDP over the past decade (due to the near-universal use of VAT, etc.).

Even though this progress is still not enough, it could allow the Gulf countries to avoid trade-offs between the sustainability of public finances and support for the economic diversification programme. All the more so as the strength of their external accounts will also enable these countries to pursue their foreign investment strategy. Despite the drop in exports, the region is expected to generate current account surpluses of of about USD 40 to 50 billion annually in 2025-2026 (compared with USD 133 billion in 2024), plus almost USD 4,000 billion in external assets.

1 Bahrain, United Arab Emirates, Oman, Qatar, Kuwait, Saudi Arabia.

Stéphane Alby
stephane.alby@bnpparibas.com

GROUP ECONOMIC RESEARCH

ECOINSIGHT
Structural or thematic topics

ECOPERSPECTIVES
Analyses and forecasts with a focus on developed and emerging economies.

ECOFLASH
Data releases, major economic events

ECOWEEK
Recent economic and policy developments, data comments, economic calendar, forecasts

ECOPULSE
Easy-to-read monthly overview of inflation dynamics

ECOCHARTS
Monthly barometer of key economic indicators of the main OECD countries.

ECOTV
What is the key event of the month?
You will find the answer in our economy broadcast.

CHART OF THE WEEK
Weekly charts highlighting points of interest in the world economy

MACROWAVES
Our economic podcast

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre
Chief editor: Isabelle Mateos y Lago

The information and opinions contained in this document have been obtained from, or are based on, public sources believed to be reliable, but there is no guarantee of the accuracy, completeness or fitness for any particular purpose of such information and such information may not have been independently verified by BNPP or by any person. None of BNPP, any of its subsidiary undertakings or affiliates or its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy and completeness of the information or any opinions based thereon and contained in this document and it should not be relied upon as such. This document does not constitute research, as defined under MIFID II, or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on, in connection with any contract or investment decision. Information and opinions contained in this document are published for the information of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice. In providing this document, BNPP does not offer investment, financial, legal, tax or any other type of advice to, nor has any fiduciary duties towards, recipients. Any reference to past performance is not indicative of future performance, which may be better or worse than prior results. Any hypothetical, past performance simulations are the result of estimates made by BNPP, as of a given moment, on the basis of parameters, market conditions, and historical data selected by BNPP, and should not be used as guidance, in any way, of future performance. To the fullest extent permitted by law, no BNPP group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this document even when advised of the possibility of such losses. All estimates and opinions included in this document are made as of the date of this document. Unless otherwise indicated in this document there is no intention to update this document. BNPP may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this document or derivatives thereon. Prices, yields and other similar information included in this document are included for information purposes however numerous factors will affect market pricing at any particular time, such information may be subject to rapid change and there is no certainty that transactions could be executed at any specified price. BNPP may have a financial interest in any issuer or person mentioned in this document, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNPP, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this document. BNPP may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this document. BNPP may be a party to an agreement with any person relating to the production of this document. BNPP may to the extent permitted by law, have acted upon or used the information contained herein or in the document, or the analysis on which it was based, before the document was published. BNPP may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this document. Any person mentioned in this document may have been provided with relevant sections of this document prior to its publication in order to verify its factual accuracy.

This document was produced by a BNPP group company. This document is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNPP. By accepting or accessing this document you agree to this.

BNP Paribas is a société anonyme incorporated in France, licensed and supervised as a credit institution by the European Central Bank (ECB) and as an investment services provider by the Autorité de contrôle prudentiel et de résolution (ACPR) and Autorité des marchés financiers (AMF), and having its registered office at 16, boulevard des Italiens, 75009 Paris, France.
Some or all of the information contained in this document may already have been published on https://globalmarkets.bnpparibas.com.

For country-specific disclaimers (United States, Canada, United Kingdom, Germany, Belgium, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, Brazil, Turkey, Israel, Bahrain, South Africa, Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam) please type the following URL to access the applicable legal notices: https://globalmarkets.bnpparibas.com/gm/home/Markets_360_Country_Specific_Notices.pdf

© BNP Paribas (2025). All rights reserved.

Subscribe to our publications:
ECONOMIC RESEARCH

BNP PARIBAS

La banque
d'un monde
qui change