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Reflections on the Oil Market Challenges and
Diversification Processes in the GCC

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Reflections on the Oil Market Challenges and Diversification Processes in the GCC¹

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Introduction

Economic developments remain an important part of the Gulf politics amidst the regional instability. This collaborative Gulf Insight looks at the different dimensions of recent economic trends. The first comment overviews the war-related challenges affecting the oil producing countries of the region. The second text examines the GCC countries' efforts to diversify by looking into the Saudi 2025 budget.

Oil Prices Amidst Regional Conflicts and Threats to the GCC Oil and Gas Infrastructure

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The GCC hydrocarbons are once again caught in the web of political tensions. However, it is premature to anticipate that oil prices will reach the psychological threshold of \$100 per barrel (pb) as it was in the early days of Spring 2022 or even go above \$94pb as it was in the first days after the HAMAS attack on Israel in October 2023. On the contrary, the security of oil supplies by the GCC member states can be one of those factors that will prevent both Israel and Iran from going into a full-fledged conflict.

¹ All articles published under "Gulf Insights" series have been discussed internally but they reflect the opinion and views of the authors, and do not reflect the views of the Center, the College of Arts and Sciences or Qatar University, including the terms and terminology used in this publication.

So far, the rise in oil prices caused by the recent intensification of the regional [conflicts was modest](#): Nasrallah's death 'cost' the market about one totwo dollars of price surplus for oil, while Iran's airstrike and subsequent promises by the Israeli government to retaliate shortly pushed the prices up by seven dollars. Moreover, on 26 October, the Israeli carefully measured response even led to a slight fall in oil prices as it showed to the market watchers that – despite all promises - Tel Aviv is not ready to target Iranian oil and gas facilities .

Indeed, damaging Iran's infrastructure itself would not be a disaster for the global oil market. Iran currently exports between 1.5 and 1.8 million barrels per day, which represents less than 2% of global oil demand. Moreover, OPEC+ has a spare capacity of approximately 5.6 million barrels per day, and the cartel aims to increase output starting December. If Iranian oil were to be removed from the market, it could be absorbed by Russia and Saudi Arabia, particularly in the Chinese market. Some experts suggested that [oil prices could rise by at least \\$5 per barrel](#) under certain scenarios, but the impact on the market could be short-lived, depending on the extent of damage to Iranian infrastructure and the speed with which other placers would be ready to compensate Iran's absence. Not to say that, in general, the current trends are pushing oil prices down. Under these circumstances, the market watchers concerns regarding the potential Israeli airstrike against Iran's oil and gas infrastructure were not baseless: such a strike would seriously hit Iran's economy while not causing much of a negative reaction to the oil consumers around the globe.

Yet, the Israeli government presumably faced considerable pressure to avoid escalation (including that from the US side). And that's there the factor of the GCC oil stepped in: Iran's subsequent retaliatory actions could target the security of the GCC oil and gas infrastructure. The experience of 2019 Abqaiq and Khurais attacks and some other incidents afterwards clearly showed that oil and gas infrastructure of the Arab monarchies of the Gulf is in the direct outreach of Tehran and its proxies. In this case Iran can easily threaten the flow of about 20 million barrels of oil and oil products per day and 20% of global LNG flows [passing through the Strait of Hormuz](#), a vital chokepoint for oil and gas exports. If Iran were to retaliate by targeting regional infrastructure, the resulting disruption could drive oil prices up significantly as the immediate compensation of these barrels in the market is hardly possible. Such an outcome would not be in anyone's interest, including both oil producers and consumers. It would adversely affect the global economy, which is still recovering from

the impacts of COVID-19, sluggish economic growth, and the consequences of the Russian invasion of Ukraine. High oil prices could destabilize political and economic conditions worldwide, including the upcoming U.S. presidential campaign. What's more important is that such market destabilization would come with a high political price for both Iran and Israel as the main instigators.

All in all, the situation remains delicate. While various scenarios are on the table, a full-blown conflict appears less likely than a continuation of measured exchanges between the parties involved. Both sides may still engage in limited strikes to demonstrate capabilities without inflicting substantial damage on each other. The GCC hydrocarbons remain too important and irreplaceable for the global economy to try to put them at risk.

Saudi Arabia's 2025 Budget: A Balancing Act Between Expansion and Fiscal Prudence

Dr. Jalal Qanas

Assistant Professor of Economics

Saudi Arabia's 2025 budget indicates a confident move towards expansionary fiscal policy despite projecting a 2.3% GDP deficit. The government believes in strategic spending to fuel robust economic growth, supported by strong reserves through PIF and Aramco's external assets as buffers against adverse economic shocks such as Oil price fluctuations, global economic slowdown, and geopolitical tensions, but this approach raises essential questions about fiscal sustainability surrounded by a complex global financial landscape. The budget's underlying assumptions are optimistic: non-oil solid sector growth, declining unemployment, and tangible improvements in quality of life. The government plans to increase spending in critical areas to reinforce these trends significantly. Firstly, diversification efforts will focus on supporting promising sectors like tourism, entertainment, logistics, and industry, with the aim of reducing the Kingdom's long-standing dependence on oil revenue. Secondly, the budget prioritizes empowering the private sector through initiatives that foster a favorable investment climate and stimulate job creation. Finally,

substantial infrastructure and human capital investments are planned to enhance productivity and raise the standard of living.

However, this ambitious expansionary strategy is not without its challenges. Continued budget deficits could lead to a growing public debt burden, potentially creating future fiscal constraints. Furthermore, the global economic slowdown and heightened geopolitical tensions could generate headwinds that impact Saudi Arabia's economic performance. Despite these challenges, the 2025 budget reflects the government's confidence in the Saudi economy's resilience, bolstered by its unwavering commitment to ongoing structural reforms and the ambitious goals of Vision 2030. This commitment should instill optimism about the economy's future. Nevertheless, prudent fiscal management and a willingness to adapt will be essential to navigate potential risks and ensure long-term economic health. This requires a vigilant approach to managing inflation and unemployment, optimizing public expenditure, reserves, and foreign direct investment, diversifying revenue sources, and maintaining transparency and accountability in the management of public finances.

The 2025 budget represents a calculated gamble on the Saudi economy's ability to achieve sustainable and inclusive growth. Success pivots on balancing between stimulating economic activity and maintaining fiscal discipline. While the expansionary approach may provide a short-term boost, long-term prosperity depends on a vigilant and adaptable fiscal strategy that can weather economic uncertainties and secure a resilient future for the Kingdom.