Zero Carbon Analytics

Briefing · October 2024

Oil prices & government finances in the Middle East and Central Asia

Key points:

- Seven major oil and gas producing countries in the Middle East and Central Asia, including Saudi Arabia and Azerbaijan, face major financial challenges as oil prices for 2025 are forecast to be below the level required to balance government budgets.
- 11 nationally-owned oil and gas producing companies in the region are forecast to spend USD 4.8 billion on exploration and USD 46 billion on investment in oil and gas production in 2024.
- Investment in producing more oil – either from current fields or exploring for new supplies – would increase supply and therefore further depress prices. Reducing investment in oil and gas supply could lead to increased or stabilised oil prices that would prevent deepening financial challenges for oil and gas exporters in the region.

Forecast oil prices won't balance government budgets

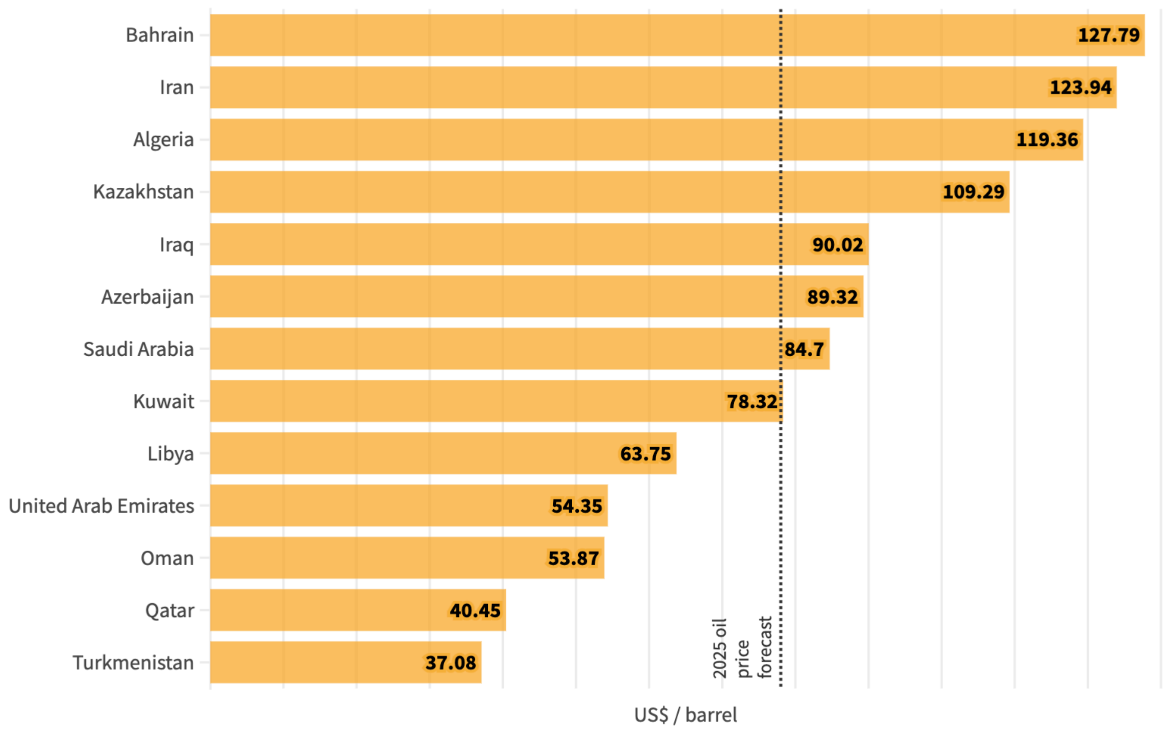
Oil and gas exporting countries need to sell their oil above a level that will deliver sufficient returns to cover their planned government expenditures – a price known as the fiscal breakeven oil price. For producers in the Middle East and Central Asia, fiscal breakeven prices for 2025 are estimated to range from USD 37 per barrel in Turkmenistan to USD 127 per barrel in Bahrain, according to the International Monetary Fund.

For seven oil producers in the region – Bahrain, Iran, Algeria, Kazakhstan, Iraq, Azerbaijan and Saudi Arabia – their forecast fiscal breakeven prices for 2025 lie above the consensus median forecast for oil prices next year of USD 78 / barrel for Brent, according to data from Bloomberg Terminal.[1] This situation looks set to continue, as oil prices are currently forecast to fall further to USD 75 / barrel in 2026 and USD 72 / barrel by 2028.

If oil prices stay at the levels currently forecast, these countries would either need to take on additional debt to finance government spending, or cut back on planned spending and investment.

[1] Bloomberg Terminal data, accessed September 2024.

Fig. 1: Forecast fiscal breakeven prices for oil producers in the Middle East and Central Asia



Source: IMF Regional Economic Outlook: Middle East and Central Asia, Bloomberg Terminal US$ 78/barrel consensus median price for Brent in 2025, accessed September 2024.

Zero Carbon Analytics

Expanding production, pushing down prices

Across the Middle East and Central Asia region, nationally-owned oil companies are continuing to invest in their oil and gas production, including exploration for new sources of supply. State-owned companies from 11 countries in the region – including many facing fiscal shortfalls – are forecast to invest a total USD 4.7 billion in exploration and USD 46 billion on oil and gas production (including both existing and new projects), according to data from Rystad Energy.

Oil prices have fallen in recent months amid fears that oil markets could be oversupplied – a situation that the International Energy Agency forecasts will worsen. According to the IEA's analysis, the world will face a "staggering" level of oversupply by the end of the decade. In early October oil prices rose in response to the risk of Israeli airstrikes on Iranian oil facilities, however even this has not completely reversed the fall in prices since the first half of 2024.

Investment in oil production and exploration is contributing to the forecast oversupply that is weighing on global oil prices. Reducing investment in oil exploration and production would be prudent, if not essential, if oil and gas producers across the Middle East and Central Asia are to meet their planned levels of government spending.

Table 1: Capital expenditure (capex) by national oil companies in the Middle East and Central Asia - 2024

Country	Company	Exploration capex[2] (million USD)	Well capex[3] (million USD)
Algeria	Sonatrach	638	1,890
Azerbaijan	SOCAR	–	1,503
Iran	NIOC (Iran)	64	5,478
Kazakhstan	KazMunayGas	–	859
Kuwait	Kuwait Petroleum Corp (KPC)	222	8,908
Libya	NOC (Libya)	–	1,528
Oman	Energy Development Oman (EDO)	–	2,099
Qatar	QatarEnergy	615	2,373
Saudi Arabia	Saudi Aramco	3,241	17,913
Turkmenistan	Turkmengas	–	740
United Arab Emirates	ADNOC	–	2,920
Total		**4,783**	**46,216**

Source: Rystad Energy, analysed and published by the International Institute for Sustainable Development, July 2024.

[2] Defined by Rystad Energy as "costs incurred to find and prove hydrocarbons: seismic, wildcat and appraisal wells, general engineering costs". Data not available for companies outside the top 100 by exploration capex.
[3] Defined by Rystad Energy as "the capitalized costs related to well construction, including drilling costs, rig lease, well completion, well stimulation, steel costs and materials" and includes greenfield and brownfield projects.