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ENERGY MARKETS OUTLOOK

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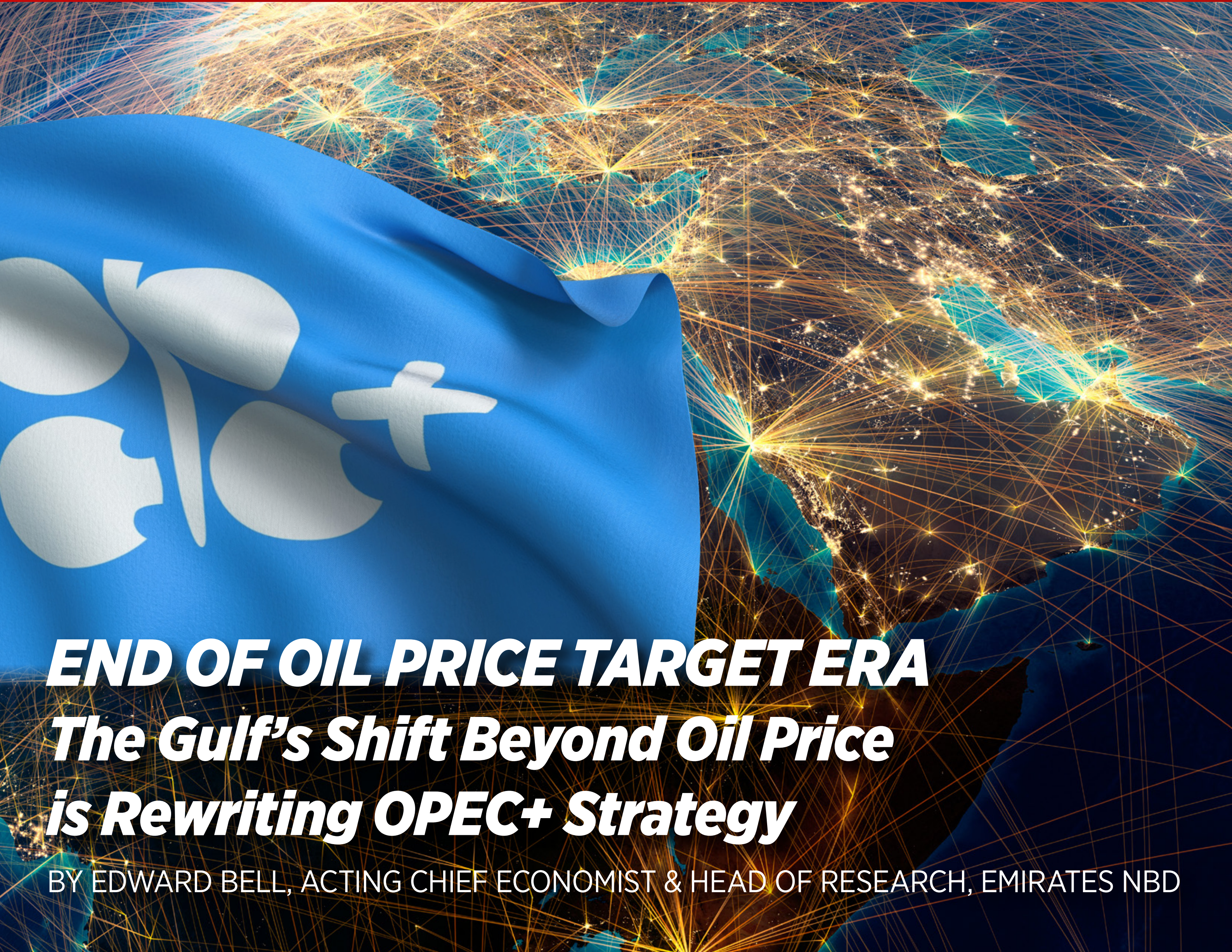
United Arab Emirates



END OF OIL PRICE TARGET ERA

The Gulf's Shift Beyond Oil Price is Rewriting OPEC+ Strategy

BY EDWARD BELL, ACTING CHIEF ECONOMIST & HEAD OF RESEARCH, EMIRATES NBD

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The Gulf Cooperation Council has entered a new era of fiscal sovereignty where national budgets are no longer tied to a single oil price target. The introduction of taxation, the rise of sovereign borrowing, and the success of economic diversification have made it possible for governments to manage their finances without defending a fixed price floor. The Gulf states have built new pillars of resilience that give them flexibility to tolerate volatility and pursue longer term strategic goals rather than short term price management.

This transformation has also redefined oil production policy. The GCC producers are now prioritizing market share over price defense. Restricting output to sustain eighty or ninety dollar oil proved ineffective and counterproductive. By producing at scale and leveraging their low cost base, Gulf producers are positioning themselves as reliable suppliers for ak changing energy world. The strategy secures global market relevance even as the energy transition accelerates.

Diversification has made this possible. In the United Arab Emirates, more than seventy five percent of the economy is now non oil, while Saudi Arabia continues to record almost five percent growth in its non oil sectors. The fiscal foundation of the region has been broadened through taxes, state owned enterprise profits, and international borrowing. The result is a more balanced economic structure where oil is important but not dominant.

Saudi Arabia's planned deficits of two to five percent of GDP represent a conscious strategy to sustain investment, not a sign of weakness. Vision 2030 projects worth nearly one point seven trillion dollars are driving employment, housing, and infrastructure development. Rather than pursuing a spending binge, the government is extending timelines to maintain steady growth beyond 2030. The United Arab Emirates leads in fiscal maturity through diversified state revenues and self sustaining enterprises that buffer against energy market swings.

The GCC's ability to tap bond markets has replaced oil as a primary fiscal shock absorber. With low debt levels and strong sovereign assets, countries such as Saudi Arabia can continue large scale investment programs without risking financial instability.

These developments are also reshaping OPEC Plus. Wealthier Gulf members can afford to expand production while others remain constrained by fiscal dependence on oil revenues. This shift reduces the group's cohesion but enhances the Gulf's strategic autonomy.

By tolerating lower prices, the Gulf producers are reinforcing their position as the world's base load suppliers and weakening higher cost competitors such as shale and oil sands. Lower prices also support local consumers and businesses, since fuel costs are now market based. As production rises, deeper partnerships with India, China, and Southeast Asia will anchor the Gulf's future growth.

The end of the oil price target era marks a decisive transition from fiscal dependency to strategic confidence. The Gulf states are no longer price takers in global energy but architects of a new economic order built on diversification, flexibility, and long term vision. ■

Top 10 Insights on Gulf States End Oil Price Target Era: Ramifications & Implications?

1. Gulf Fiscal Sovereignty Ends the Oil Price Target Era

The GCC has decoupled budgets from oil prices. With economic diversification, taxes, and borrowing now stabilizing public finances, Gulf governments no longer defend a single "breakeven" oil price. This fiscal sovereignty grants flexibility to tolerate volatility, manage reserves strategically, and focus on long-term goals rather than short-term market shocks.

2. Market Share Over Price: A New Production Doctrine

The Gulf states are prioritizing maintaining market share over propping up prices. Restricting supply to defend $80–$90 oil proved ineffective. Producing more at low cost ensures sustained global relevance and shields economies from demand erosion as the world transitions toward cleaner energy and alternative technologies.

3. Diversification Strengthens Economic Resilience

Non-oil sectors now account for over 75% of the UAE economy and dominate Saudi Arabia's non-oil growth at nearly 5%. The GCC's diversification into finance, logistics, manufacturing, and tourism has weakened oil's macroeconomic grip, enabling governments to pursue structural growth strategies even amid fluctuating oil prices.

4. Strategic Fiscal Deficits Sustain Development Momentum

Saudi Arabia's fiscal deficits of 2–5% of GDP are strategic, not symptomatic of weakness. Vision 2030 projects—worth about $1.7 trillion—are driving employment, housing, and infrastructure expansion. Rather than austerity, the focus is on phasing projects over longer timelines to sustain steady economic growth beyond 2030.

5. The UAE's Self-Sustaining Fiscal Model Leads the Region

The UAE's government-owned enterprises—from Emirates Airline to Emirates NBD—generate strong, recurring revenues that insulate national budgets from oil volatility. The country's mature fiscal model, paired with VAT and corporate taxes, underpins a sustainable foundation for growth independent of hydrocarbon cycles, setting a model for regional fiscal resilience.

6. Bond Markets Replace Oil as Fiscal Shock Absorbers

GCC nations, particularly Saudi Arabia, are financing development through bond markets rather than oil windfalls. Strong investor demand, low public debt ratios, and vast sovereign assets provide confidence and liquidity. This borrowing capacity allows sustained investment in infrastructure without destabilizing domestic credit markets or inflation.

7. OPEC+ Enters a New Era of Uneven Flexibility

The Gulf's fiscal independence reshapes OPEC+. Wealthier members like Saudi Arabia and the UAE can increase production without fiscal strain, while others remain revenue-dependent. This asymmetry risks weakening cohesion but gives Gulf producers freedom to prioritize strategic influence, market stability, and long-term energy transition planning.

8. Lower Prices to Cement Long-Term Market Dominance

By tolerating lower prices, Gulf producers undermine high-cost rivals such as U.S. shale and Canadian oil sands. This "base-load supplier" strategy mirrors metals markets, positioning the GCC as the world's anchor of stable supply. Short-term price declines consolidate long-term dominance over the global energy value chain.

9. Lower Oil Prices Benefit GCC Consumers and Businesses

Since fuel prices are now liberalized, lower oil prices reduce costs for households and businesses rather than cutting government revenues. The GCC's policy maturity allows growth and investment to continue even in low-price phases, supporting consumer spending and strengthening competitiveness in non-oil industries.

10. Asia Becomes the Strategic Growth Partner

As the Gulf redefines its production strategy, deepening trade and investment ties with India, China, and Southeast Asia becomes essential. These regions guarantee long-term demand, while Gulf investment capital reinforces supply security. This two-way partnership anchors the GCC's economic future beyond oil dependence and Western market cycles. ■

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