

Issue brief

The Saudi economy can hold out through year's end—even if oil exports drop to zero

By Khalid Azim

Bottom lines up front

- Recent attacks on Saudi Arabia's East–West oil pipeline, coupled with the Houthis' surge, raise the specter of a further dip in Saudi oil exports.
- A stress test assuming zero oil exports through year's end shows a loss of \$75 billion in oil exports for Riyadh.
- Saudi Arabia's economy appears resilient enough to withstand this worst-case scenario; the global economy may feel the loss of supply more keenly.

In 1974, US President Gerald Ford conveyed a message to Saudi Arabia's King Faisal in which he spoke of “the heavy responsibility [Saudi Arabia] bears for the free world's economic health.” The message came in the aftermath of the Arab oil embargo, when oil prices had risen from roughly \$2.90 to \$11.65 per barrel, sending the world economy into inflation and recession.

Today, both the United States and the global economy look very different. Yet energy continues to play an outsized role in global geopolitics, through the economic and financial linkages that connect producers, consumers, governments and capital markets. The effective shutdown of Saudi Arabia's East–West Pipeline, combined with continuing constraints on oil flows through the Strait of Hormuz, presents the Saudi economy with material challenges. Yet I believe the current crisis points toward two important conclusions.

The first is that the Saudi economy is remarkably resilient. To test that proposition, I impose an intentionally extreme stress scenario: Assume Saudi Arabia exports no oil for the remainder of 2026. The resulting

deterioration in the kingdom's fiscal and external accounts would be substantial. Yet its financial buffers, borrowing capacity, and relatively modest sovereign leverage suggest that Saudi Arabia could weather even this extraordinary shock, although at considerable cost.

The second conclusion may be more consequential. The global economy may reach its pain threshold before Saudi Arabia reaches its financial one. A prolonged loss of Saudi oil exports would increasingly impose costs not just on the kingdom, but on consumers, businesses, financial markets and governments around the world. As those costs rise, so too will the incentives to restore, reroute, replace, or conserve lost supply.

Establishing the Saudi oil baseline post-Hormuz closure

Saudi oil production has already fallen considerably this year, from 10.9 million barrels per day in February to approximately 6.2 million barrels per day in August, according to International Energy Agency data. The kingdom had been able to

mitigate the near-shutdown of shipping through the Strait of Hormuz largely by rerouting crude through the East–West Pipeline to the Red Sea. Before the latest attacks on the pipeline on September 10 and 11, it had been carrying roughly 4 to 5 million barrels per day.

Estimates of the time required for repairs vary considerably, from a five- to six-week shutdown to the possibility of at least partial operations considerably sooner. Saudi Arabia is also finding alternative ways to move oil, including ship-to-ship transfers near Sohar, Oman.

The disruption impacts Saudi Aramco and, through Aramco, the sovereign. The Saudi state remains the dominant shareholder and is also the beneficiary of taxes and royalties generated by the company. Lower oil exports reduce Aramco's cash generation, ultimately affecting the taxes, royalties, and dividends available to the government and, in turn, the kingdom's financing requirements.

The worst case: zero oil exports for the remainder of 2026

For purposes of the stress test, I use the International Monetary Fund's 2026 projections rather than attempting to extrapolate the kingdom's already constrained September export rate. The objective is to measure the economic cost of a complete cessation of Saudi oil exports against the baseline that existed before the latest disruption.

There are approximately one hundred days remaining in 2026. I assume, unrealistically, that Saudi Arabia exports no oil during that entire period.

Using the International Monetary Fund's 2026 projections as the baseline, eliminating Saudi oil exports for the remainder of the year removes roughly \$75 billion of oil exports and approximately 203 billion riyals of government oil revenue.

These are first-order estimates. They do not incorporate lower GDP, reduced imports, expenditure cuts, changes in non-oil tax receipts, further increases in oil prices, or the behavioral responses that would inevitably accompany a shock of this magnitude.

A fiscal deficit approaching 8 percent of GDP would force difficult choices. Capital projects could be delayed and some investments under the kingdom's signature economic diversification effort, Vision 2030, would likely need to be reprioritized. But Riyadh would not be approaching this problem without financial resources. The IMF projects Saudi government debt at only 32.1 percent of GDP in 2026 and central government deposits at approximately 7.9 percent of GDP, or roughly 414 billion riyals. The government can borrow, draw down deposits, or reduce expenditures. The 36 percent debt-to-GDP ratio shown above is therefore not a forecast; it illustrates the extreme case where the entire incremental fiscal shortfall is debt financed.

Under the stress scenario, the current-account deficit expands from roughly \$4 billion to approximately \$79 billion, or about 5.7 percent of GDP. But the IMF projects Saudi Central Bank net foreign assets of approximately \$463.9 billion in 2026. Saudi Arabia also retains access to international capital markets and has substantial public-sector foreign assets beyond central-bank reserves. The stress test therefore does not suggest a classic balance-of-payments crisis.

None of this means that the economic consequences would be benign. Consumer spending would weaken, investments would be deferred, employment and real wages would come under pressure, and structural reforms including those part of Vision 2030 would likely slow. An extended interruption in oil revenues would make economic diversification more important while simultaneously making some of the investments required to achieve it more difficult.

Table 1. How zero oil exports affect key Saudi economic indicators

	IMF 2026 baseline	Zero oil exports after Sept. 17	Change
Oil exports	\$261bn	~\$186bn	-\$75bn
Fiscal balance	-SAR 195bn	~-SAR 398bn	-SAR 203bn
Fiscal balance as % of GDP	-3.7%	~-7.6%	-3.9%
Current-account deficit	~-\$4bn	~-\$79bn	-\$75bn
Current-account deficit as % of GDP	-0.3%	~-5.7%	-5.4%
Government debt as % of GDP*	32.1%	~36.0%	+3.9%
Gross 2026 funding need*	~SAR 247bn	~SAR 450bn	+SAR 203bn

*Assumes, for purposes of the stress test, that the incremental fiscal shortfall is financed entirely through additional government borrowing.

Table 2. How reduced oil exports affect Saudi credit

Five-year sovereign CDS	Sept. 10	Sept. 16	Change
Saudi Arabia	58.35	63.33	+4.98bp
Bahrain	288.44	298.16	+9.72bp
Qatar	33.66	36.00	+2.34bp
Oman	78.91	82.22	+3.31bp
UAE	50.64	50.75	broadly flat
Kuwait	33.82	34.03	broadly flat

Source: Bloomberg. “Bp” stands for basis points.

Uncertainty around Saudi Arabia’s ability to continue exporting oil at scale has clearly increased. Yet the movement in Saudi sovereign credit default swaps (CDS) has so far been relatively modest. A credit default swap is a financial contract which acts like insurance against a borrower defaulting on its debt. The cost of that protection is measured in basis points with a higher CDS spread indicating that the market perceives greater credit risk.

Saudi five-year CDS widened by approximately five basis points between September 10 and September 16. Bahrain widened by almost ten basis points, Oman by just over three, and Qatar by slightly more than two, while the United Arab Emirates and Kuwait were broadly unchanged.

A few days of CDS trading should not be overinterpreted. Markets can be wrong, and geopolitical events can change quickly. But given the magnitude of the disruption to Saudi Arabia’s oil export infrastructure, the relatively modest widening is noteworthy.

Credit markets, at least so far, appear to be distinguishing between a severe disruption to Saudi oil exports and a severe deterioration in Saudi sovereign credit. That distinction is also what the stress test suggests.

A potential outcome: \$35 billion in export loss

One might logically ask how long Saudi Arabia can withstand the loss of exports. But in my view, the more fundamental question is how long the global economy can withstand the absence of Saudi Arabia as a supplier in the oil markets.

The 4 to 5 million barrels per day the East–West Pipeline had recently been carrying is approximately 4 to 5 percent of global oil supply. Removing several million barrels per day of Saudi crude from world markets places upward pressure on energy prices, increases transportation and insurance costs, raises inflation, and reduces consumers’ real purchasing power. It

also complicates monetary policy, with large energy importers particularly exposed.

The zero-export scenario I have built tells us what happens in the extreme case, but it does not provide a probabilistic sense of what is likely. Rather than attempting to predict the course of the conflict, I will try to frame the problem around something more measurable: the cumulative value of Saudi oil exports lost between now and December 31 relative to the IMF baseline.

For this purpose, I use a Pearson-Tukey three-point approximation, a framework I have used previously to think about highly uncertain outcomes. This framework combines pessimistic, baseline, and optimistic scenarios to estimate the most likely outcome. Rather than assigning precise probabilities to geopolitical events, the approach approximates an expected outcome using three points in a distribution: the fifth percentile, median, and ninety-fifth percentile, weighted at 18.5 percent, 63 percent, and 18.5 percent respectively.

I use \$10 billion as the optimistic, fifth-percentile outcome; \$30 billion as the median or baseline; and \$75 billion as the pessimistic, ninety-fifth-percentile outcome. The \$10 billion favorable number and the \$30 billion median are my best guesses and are not derived from any analysis; the \$75 billion number comes from my zero-export stress test. My intention here is not to provide precision, but rather a sense of scale from which to inform thoughtful policy choices. There is considerable uncertainty around each assumption. Partial restoration of the East–West Pipeline, alternative export arrangements, and eventual normalization of shipping could significantly reduce the loss.

Applying the Pearson-Tukey weights produces an expected cumulative export loss of approximately \$35 billion through year’s end. Running that expected loss through the same simplified framework produces an incremental fiscal shortfall of approximately 94 billion riyals. The fiscal deficit would increase from the IMF baseline of 3.7 percent of GDP to roughly 5.5 percent, while the current-account deficit would widen to approximately 2.8 percent of GDP.

If the entire incremental fiscal shortfall were financed through borrowing, government debt would increase from approximately 32.1 percent of GDP to around 33.9 percent.

There is also an important asymmetry these calculations do not fully capture. Oil prices and Saudi export volumes are not independent. As Saudi export volumes fall, global oil prices are likely to rise. Saudi Arabia therefore receives some compensation through higher prices on whatever barrels it can continue to sell. A complete cessation of Saudi exports through year’s end should therefore not simply be treated as a geopolitical event with a fixed probability. The probability itself changes as the economic consequences become more severe.

Table 3. How the Pearson-Tukey framework calculates the most likely outcome

	5th percentile	Median	95th percentile	Pearson-Tukey expected value
Saudi export loss	\$10bn	\$30bn	\$75bn	\$34.6bn

Table 4. Title needed

	IMF baseline	Pearson-Tukey expected case	Zero-export stress
Oil export loss	—	~\$35bn	\$75bn
Fiscal deficit	SAR 195bn	~SAR 289bn	~SAR 398bn
Fiscal deficit as % of GDP	-3.7%	~-5.5%	~-7.6%
Current-account deficit	~\$4bn	~\$39bn	~\$79bn
Current-account deficit as % of GDP	-0.3%	~-2.8%	~-5.7%
Government debt as % of GDP*	32.1%	~33.9%	~36.0%

*Assumes the incremental fiscal shortfall is entirely debt financed.

■ The resilience on both sides of the equation

Ford's observation in 1974 was made at a very different moment in the history of Saudi Arabia and the global energy market. Yet the underlying point about economic interdependence remains relevant. What has changed considerably is Saudi Arabia itself.

The kingdom today has a much larger and more sophisticated economy, significant domestic and international financial assets, access to deep capital markets, and an economic

diversification program that did not exist half a century ago. Its dependence on oil remains substantial, but its capacity to absorb a temporary oil shock is far greater.

The zero-export stress test demonstrates the economic pain such a shock would cause in Saudi Arabia. Perhaps more noteworthy, the global consequences appear elsewhere: in volatile energy prices, interest rates, trade balances, consumer purchasing power, corporate margins, and economic growth.

About the author

Khalid Azim is the director of the MENA Futures Lab at the Atlantic Council's Rafik Hariri Center for the Middle East. He began his career as a US Navy officer during the First Gulf War, serving on a fast-attack, nuclear-powered submarine, and later worked as a global capital markets banker at Morgan Stanley. A life member of the Council on Foreign Relations, Azim is also an adjunct professor at Columbia University.

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