



EM oil producers: breakeven pain thresholds

Oil prices have fallen by over 20% in the last few months, which inevitably raises questions about the ability of major oil producers to withstand a sustained period of lower prices. The price of oil needed to balance their budgets is one useful measure of their respective pain thresholds. We have, therefore, updated our assessment of these breakeven prices for major EM producers.

In sum, these latest estimates suggest that the (Brent) spot price is now below the level needed to balance the budget in Bahrain (\$136bbl), Oman (\$101bbl), Saudi Arabia (\$99bbl), Nigeria (\$126bbl), Russia (\$100bbl), and Venezuela (\$162bbl). Within this group, Saudi Arabia has a substantial stock of assets that would enable it to withstand lower oil prices for a sustained period without necessarily needing to borrow or tighten policy. The same is true to a lesser extent for Russia. But Nigeria would exhaust its limited oil savings well within a year at current prices in the absence of any adjustment. Venezuela has no meaningful cushion to absorb this shock. Elsewhere, breakeven prices remain below the spot price in Kuwait (\$75bbl), Qatar (\$71bbl), and United Arab Emirates (\$80bbl).

Budget breakeven prices:

	Fiscal break-even price (Brent, USD bbl)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014f	2015f
GCC	32.5	43.1	43.8	70.3	68.4	78.8	73.3	83.6	89.0	94.0
Bahrain	57.9	66.9	80.0	82.9	103.9	118.1	127.1	134.4	136.2	138.1
Kuwait	26.4	32.6	42.1	47.0	45.7	47.4	53.6	68.3	75.5	78.4
Oman	80.7	99.3	96.4	69.9	80.2	112.3	112.5	106.5	100.7	110.0
Qatar	43.4	41.8	49.1	27.2	61.7	80.1	65.5	60.5	71.3	76.8
S. Arabia	38.7	52.7	47.0	72.6	70.6	84.5	80.9	93.1	99.2	104.4
UAE	18.3	24.5	43.7	105.7	86.3	94.6	77.3	82.7	80.2	80.8
Nigeria	56.3	75.1	79.9	125.3	105.3	128.5	112.3	141.7	126.2	122.7
Russia	21.4	28.1	59.7	109.5	116.7	102.8	112.0	113.9	100.1	105.2
Venezuela	81.7	76.9	134.2	140.7	194.4	145.7	151.5	149.9	162.0	117.5
Brent price	65.4	72.7	97.7	61.9	79.6	111.0	111.7	108.9	106.5	103.3

Source: Deutsche Bank estimates

The rest of this note describes in a little more detail the basis for the changes in our estimates in the major countries since we last published our detailed annual assessment on breakeven prices (see our April EM Monthly). We also provide preliminary estimates of breakeven prices for next year.

- Russia.** Since we last estimated the breakeven price for Russia, weaker economic growth has begun to squeeze non-oil revenues, and oil and gas production has declined a little, but the depreciation of the rouble has boosted the local currency value of oil revenues. The net impact of these competing forces has been to leave our breakeven estimate for this year more or less unchanged at \$100bbl. The budget for next year is still under discussion, but the preliminary indications are that spending levels will be significantly higher as the government looks to stimulate a flagging economy. Based on the government's RUB/USD assumption of 37.7 for the year, this would push the breakeven price up a little to \$105bbl in 2015. There are risks on both sides: if RUB/USD remained over 40, the breakeven



price would dip slightly below \$100bbl; on the other hand, further weakness in non-oil revenues could push the breakeven price upwards.

- **Saudi Arabia.** Oil production is a little weaker than we had anticipated earlier this year and we have accordingly revised up our breakeven price for this year to \$99bbl from our April estimate of \$93bbl. Assuming relatively stable production but further moderate real increases in public spending would push this breakeven price to \$104bbl next year. The breakeven price would be higher still if Saudi Arabia cuts production significantly in response to lower prices.
- **Other GCC.** Oil production has also been a bit lower elsewhere in the GCC countries, and public spending has been higher than we anticipated in Oman and UAE, pushing up their breakeven prices relative to our earlier estimates.
- **Nigeria.** We continue to expect the breakeven price in Nigeria to drop this year and next, to \$126bbl and \$123bbl respectively, largely as the significant depletion in oil savings that took place last year enforces some fiscal consolidation. This assumes that the naira remains broadly unchanged from current levels. A weaker currency would reduce this breakeven price, though we estimate that it would take an 18% devaluation to bring the breakeven price below \$100bbl and a 32% devaluation to bring it to the current spot price of \$83bbl.
- **Venezuela.** It's difficult to pin down the fiscal numbers in Venezuela with any degree of precision in the absence of published budget data. But after a revision to our projections on expenditure, and the inaction of authorities in correcting the external imbalance through devaluation, we now estimate that the breakeven price for this year is somewhere around \$160bbl. Even if we assume a devaluation of the exchange rate from the current official rate of VEF/USD of 6.3 to 15.0, boosting the local currency value of oil revenues, the breakeven price would still remain around \$117bbl.

Even through the breakeven price in several countries is above the current spot price in many cases, substantial cushions of oil savings would enable some of these producers to adjust only very gradually to a sustained period of lower oil prices. At the current spot price of \$83bbl, for example, the Saudi government would run a significant budget deficit next year. But it also has a substantial stock of assets, almost \$450bn, enough in theory to cover the resulting deficit for 7-8 years without adjusting (nominal) spending levels. The same is true to a lesser extent for Russia: its oil savings funds of \$170bn could fund the deficit that would emerge at current oil prices for 3-4 years. Nigeria's modest oil savings of \$4bn, however, would run out well within a year at current prices.

Government assets as a buffer against lower oil prices

	Government assets		Budget deficit at \$83bbl	
	USD bns	% GDP	USD bns	Years of assets
Nigeria	4.1	2.4	16.4	0.3
Russia	173.0	8.5	45.4	3.8
Saudi Arabia	446.9	58.1	56.8	7.9

Source: Deutsche Bank



Appendix 1

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