

# The Impact of Changes In Oil Prices and Fiscal Policies on Economic Growth In Saudi Arabia

Meimona Abdelrhim Bushara<sup>1</sup>, Howayda Saidahmed Mohamed Ali<sup>2</sup>, Hala Ahmed dafaalla karar<sup>3</sup>

<sup>1</sup>King Faisal University, Applied College, mashagi@kfu.edu.sa

<sup>2</sup>King Faisal University, Applied College. hali@kfu.edu.sa

<sup>3</sup>King Faisal University, Applied College, hkarar@kfu.edu.sa

## RESEARCH BACKGROUND

This research aims to understand how global oil price fluctuations and Saudi Arabia's fiscal policies affect its economy. The country relies heavily on income from oil sales. As Saudi Arabia prepares for Vision 2030 – a plan to make its economy less dependent on petroleum – it becomes even more crucial to grasp what role government financial strategies will play. The research also provides a thorough examination of ways in which governmental actions can encourage sustainable development and/or reduce negative effects of oil price swings. In doing so, it offers insights that may be useful for other nations with similar concerns worldwide – all while taking into account past policy changes as well.

Recent events have shown us just how sensitive global oil prices can be. Their constant ups and downs have a major impact on economic stability worldwide – something that affects lots of different industries as well. Nowadays when analysts look at what makes oil prices change, they find there are loads of factors: things like economic indicators, political shocks (such as wars) plus speculation by investors who buy futures contracts for barrels of crude. One reason why such shocks affect price so much is supply interruptions usually follow – and these often come from OPEC countries or those with ongoing internal conflicts. Mentions of this phenomenon are no novelty in Middle East politics either; it is common knowledge that whenever tensions escalate this region experiences sharp hikes in costs per barrel (Robertson, 2020; Jarrett et al., 2019).

Moreover, the relationship between oil prices and economic growth is not straightforward: a rise in oil prices can boost economic activity in oil-exporting countries by increasing their revenues – but it can also raise costs for oil-importing nations, potentially fuelling inflation (Abdelsalam, 2020; Kocaarslan et al., 2020). Understanding this dual impact is key to appreciating broader economic effects of oil price fluctuations. For example, countries that rely heavily on oil exports may use increased revenues from higher prices to boost public spending and investment, with knock-on effects for growth. Research by Alsaman and Karaki (2018) suggests this could happen in Iraq and other nations in future. But if oil prices climb steeply, leading non-producers including Jordan face various headwinds that can hurt GDP expansion.

The volatility of oil prices also has significant effects on financial markets. Hong et al. (2022) found that fluctuations in oil prices can make stock markets more volatile too – especially those in industries such as transport and manufacturing, which rely heavily on oil. If share prices from spillover effects of oil price volatility start moving erratically this can create feedback loops: periods when falling stock prices increase economic uncertainty so much that oil prices become even more variable. Zankawah and Stewart (2019) added that because the world's economies are so interdependent it is important to know if changes in the price of oil indicate something about overall economic health – they often do.

Furthermore, oil price fluctuations do not just affect economies – they also shape decisions about long-term investments. Such volatility can cause changes in asset allocation among investors; this behaviour may contribute to stock prices becoming more volatile overall. For example, Hlongwane and his colleagues (2022) point out that an unexpected rise in oil prices might prompt investors to focus more on shares in energy companies. But if the oil price falls rapidly, those very same investors could start selling off their holdings in such firms. These patterns show how important it is for those buying and selling financial assets to keep close tabs on movements of crude – because such behaviour could have a big impact them. In addition to traditional economic measures, COVID-19 has introduced new factors affecting oil price stability. The disease caused such an unprecedented fall in oil use – and subsequent record lows for prices early 2020 – that although consumption is now rising again as lockdowns ease, costs have followed suit albeit with wild fluctuations (Abdo 2022). All this is happening as economies reopen: one more reason why analysts must rethink risk management in light of the pandemic. It shows how fragile oil markets can be once things return to normal – if they ever do post-coronavirus world there may also have been

structural shifts both in how we live and work; such large-scale events could lead investors policymakers alike to change their behaviour sharply.

As countries worldwide shift to renewable energy sources, the oil sector is experiencing a major shake-up – with potentially far-reaching effects. Some governments want to cut their carbon emissions over the long term; if those commitments become policy, the demand for oil could fall significantly – and prices might start to see-saw as never before. This transition away from “black gold” poses economic challenges for nations that depend on it. Against this backdrop shifts occurring in global energy markets policymakers and investors are grappling with one issue above all others: what happens at the crossroads between a de-carbonising world economy (one which burns less fossil fuels) plus growing desire from many different quarters (including some of those self-same governments) who wish both things simultaneously i. e. more renewables everywhere but also an affordable price per barrel so their own finances continue to prosper (Usoro et al., 2020).

In summary, intricate interplays between geopolitical, economic, and environmental factors impel shifts in the worldwide oil arena. The two groups of countries—those that vend the stuff and those that buy it—encounter distinct challenges: For all as they seek to foster growth, stability and investment; for the former because its value can yo-yo alarmingly. To steer through this uncertain landscape in years ahead, countries will need to understand more than just why prices go up or down (though that would be helpful enough).

### **Problem Statement**

Ali (2021), Hajimineh, & Moghani (2023) report that with 17% of the globe’s proven oil reserves, Saudi Arabia heavily relies on oil revenue to underwrite both its government budget and gross domestic product (GDP). As Alharbi (2019) points out, fluctuations in price mean a substantial risk from reliance on this one resource alone for economic stability; when there are dips or rises it affects how much cash they have coming in as well going out on things like social programs – which have been shaped too!

The oil sector in Saudi Arabia plays a major role in the nation's economy. Around 50% of the country's gross domestic product comes from this industry alone – as does 90% of all government revenue (Al-Hamidy, 2012). It is because they are so reliant on money from oil sales that Saudi policymakers take a countercyclical approach when managing public finances: spending levels go up or down with crude prices in an attempt to keep things steady overall (Al-Hamidy, 2012). Thus, if the cost per barrel is high one year there may be increased expenditure on infrastructure projects and social services; but should it fall steeply the next year then officials might cut back on these types of investment and introduce austerity measures instead (Alotaibi 2019). Such stop-go policies illustrate just how hard it can be for the Kingdom [or any other petrostate] to attain economic stability over time.

Moreover, because the Saudi economy relies too heavily on money from oil, it is at risk of being rocked by events from other countries – there isn't enough variety in what the nation's businesses do. The Kingdom of Saudi Arabia has come up with a plan known as Vision 2030 that will try to deal with this issue by boosting other industries and cutting its dependence on oil. Pratiwi (2024) has reported that under the scheme, there will be a big push for growth in areas like tech, tourism and entertainment which don't involve oil. It's hoped these sectors will not only expand and create jobs but also provide new ways to make money. However moving away from an economy based solely around crude presents challenges. This shift will require major investments in things such as roads, schools and hospitals – infrastructure – as well as in people: their skills and education (Al Naimi 2022).

Fluctuating oil prices do not just affect government budgets and public services; they also impact how much money private firms invest and whether the economy grows. For example, research by Djamal et al (2023) suggests that although selling things abroad (non-oil exports) can temporarily boost a country's GDP, over the long term such sales might not have a big effect: this means the nation still heavily relies on its oil income. And when this relies on something as volatile as oil, then if crude prices fall there may be less cash for firms to invest, along with higher unemployment – plus slower economic growth overall, as one has seen in recent years (Al-Hamidy 2012).

In response to prevailing challenges, the Saudi administration has introduced several economic stabilisation policies designed to spur growth. For example, new taxes including value-added tax (VAT) have been brought in alongside investment funds aimed at reducing reliance on oil revenues (Alotaibi 2019; Alharbi 2019). Furthermore, attempts have been made to encourage overseas investments and increase participation from within the private sector - as it is recognised that healthy non-state involvement is vital if there needs such sustained expansion (Altalhi 2023).

Numerous studies have explored how Saudi Arabia's income from oil interacts with its economic development— and found a complex relationship. Researchers such as Al Rasasi et al. (2019) and Hajimineh and Moghani (2023) have shown that when oil prices fluctuate, the country's economy can suffer even though it has always relied on oil revenue to grow. This presents major challenges for policymakers; they need an approach that goes beyond simply trying to ride out periods of low prices ('managing volatility'). In other words: as Saudi Arabia tries to deal with these problems over the long term while still benefiting from money made selling crude – something else becomes increasingly clear. As Saudi Arabia relies heavily on oil revenue, its economic management requires effective fiscal strategies. This is particularly important right now because Saudi Arabia finds itself in a changed economic position. The country's fiscal policies have had to change significantly as it reacts to falls in the price of oil – on which it has traditionally depended – and also tries to develop other industries. Sometimes the government has found itself receiving less money than usual (revenue instability). It then had to either cut spending or raise taxes – or both. One new tax brought in was value-added tax, known as VAT. Such policies help to control the ups and downs of an economy when its main source of income suddenly becomes much cheaper. For example, VAT was introduced in 2018. Officials had predicted that it would bring in extra money equivalent to 50% of what they thought they would collect in other forms of tax that year. But VAT did better than expected: it alone raised as much as those other taxes put together (Alotaibi, 2019).

Saudi Arabia's GDP growth is significantly affected by its fiscal policies. This shows how important these measures are. Research shows government spending helps economies stay stable and grow – especially when income from oil exports falls, along with money from other sources. (Abdelkawy, 2024) In countries like Saudi Arabia there cannot be enough stress placed upon this issue at any one time because such a large proportion of their budgets rely on oil revenues. They need ways to control economic highs and lows: tools such as public spending or raising taxes. When oil prices fall, so does state income in places like Saudi Arabia. If this coincides with a worldwide recession the effects can be even worse.

However ongoing work by Al-Hamidy (2012) illustrates how adopting countercyclical fiscal policies has helped limit negative impacts of fluctuating crude costs upon national progression. By saving money when things are going well but spending more selectively during downturns like those experienced world-over after 2008 banking crisis – then country has been better placed overall.

Moreover, understanding how Saudi Arabia manages its economy requires paying close attention to how government spending affects the country's non-oil gross domestic product (GDP). Recent studies show that one-way fiscal policy links these two things ~ oil income and GDP from other industries ~ is by enabling officials who are trying diversify their nation's financial sources make necessary investments (Hasanov et al., 2021). For example, a variety programs show dedication promoting economic growth beyond selling petroleum: There are initiatives like soft loans for companies, plus programs including the Citizen Account Program. These types of activities show why Vision 2030 has been taken seriously when we talk about reducing reliance specifically oil sales making sure their sustainable earnings various industries such as entertainment tourism or even technology (Syaputra & Prasodjo 2023).

Alleviating unemployment and improving the economy require more than just monetary policy – governments also need to spend wisely. For example, Saudi Arabia wants to create jobs while reducing its exposure to crises abroad which might suddenly cut state revenue from oil sales. As part of a plan that aims at achieving these seemingly contradictory goals, the authorities are trying to boost business growth by young entrepreneurs as well as help small firms expand operations. To address such issues, one must go beyond standard policies; there has been an increasing emphasis in recent years on using public funds for investment projects designed not only to increase overall economic output (and so provide work) but also specifically those. Creating Economic Opportunities and Diversification: Saudi Arabia's Response to Falling Oil Prices (Elimam, 2017).

Also worth noting is that how the economic landscape of Saudi Arabia takes shape is heavily influenced by both fiscal and monetary policy. Savitri and Naili (2020) point out that government fiscal interventions can be used alongside appropriate monetary policies to balance things out and encourage economic stability: something which has proved successful in the past. An example from their work shows this in action through a recent mixture of expansionary fiscal and monetary measures designed not only to help smaller firms cope with COVID-19 but also ensure overall effects on the economy were minimised. Indeed, it is this kind of joined-up thinking – drawing on fiscal measures when needed – that underlines

the importance for policymakers of having more than one tool available during periods of difficulty if they want to steer a steady course (Alkahteb et al., 2021).

Saudi Arabia's fiscal policy has a cyclical nature that needs to be recognized. This is because the country depends on oil for revenue: when prices are high, so is income (and vice versa). Policymakers must understand these cycles if they want to soften their impact on public spending and growth. In fact, by using budgets more actively at different points in the economic cycle - running surpluses when times are good or using reserves to boost spending during downturns - Saudi could make itself less vulnerable overall while still promoting sustainable development.

In conclusion, one cannot overstate how important fiscal policies are for managing Saudi Arabia's economy. The way government spending interacts with creating income and diversifying the economy shows just how crucial these policies can be if you want to keep things stable while also helping them grow. It looks like they will have to make sure their long-term plans include some good ones - especially now as SA tries to do more than just sell oil at ever-changing prices. Luckily there appears (so far) to be commitment from leadership on this front: improving budgets so things don't go belly-up when crude sales slip or fall short; developing other industries which don't rely solely upon carbons., fighting joblessness too.

### **Research Aim**

The purpose of this study is to thoroughly investigate the complex connection between fluctuations in oil prices and fiscal policies, as well as how together they affect Saudi Arabia's economic growth. Because the country relies so heavily on money from selling oil, it needs to understand how its economy does when global oil prices change. So this research will look at things like whether a rise in oil costs leads to more jobs and higher gross domestic product (GDP)-and if falls do the opposite. It will also explore what government policies can help, if necessary, by looking into areas such as taxes, subsidies or changes to the budget (the document that sets out how taxpayers' money is spent). By doing all these things over time (plus seeing whether recent economic reforms fit in with plans to make the country less reliant on oil by 2030) researchers hope they can give policymakers useful ideas for how to keep economies steady during ups downs in world oil markets-ideas that might be helpful for other places too.

### **Research Objectives**

- **RO1.** To analyze the correlation between oil price changes and economic growth in Saudi Arabia.
- **RO2.** To evaluate the effectiveness of fiscal policies in stabilizing the economy amid oil price volatility.
- **RO3.** To assess the impact of fiscal policy reforms on economic diversification efforts.
- **RO4.** To investigate the influence of government expenditure on the overall economic growth in oil-reliant economies.

### **Research Questions**

The research seeks to address the following key questions:

- **RQ1.** How do fluctuations in oil prices affect the economic growth of Saudi Arabia?
- **RQ2.** What role do fiscal policies play in mitigating the impact of oil price changes on the Saudi economy?
- **RQ3.** How have recent fiscal policy adjustments influenced economic diversification in Saudi Arabia?
- **RQ4.** What is the relationship between government spending and economic growth in the context of oil-dependent economies like Saudi Arabia?

### **Research Significance**

The Importance of Research An examination on how alterations in oil prices and fiscal policies affects Saudi Arabia's economy could help people understand better the economic problems and opportunities that oil-dependent countries experience. Successful management of price shifts is crucial to ensuring these nations can develop continuously while coping with market instability- and insights from this work may assist policymakers as they strive towards both goals. Why It Matters More Broadly Understanding links between development and reliance on natural resources has long been important within economic theory: but what makes our paper stand out among contributions to this field is also its detailed discussion of Saudi Arabian issues specifically..

### **Theoretical Significance**

- **Contribution to Economic Theory:** Enhances understanding of the relationship between resource dependency and economic growth.
- **Policy Analysis Framework:** Offers a framework for analyzing fiscal policies in resource-rich economies.

- **Economic Diversification Models:** Contributes to models explaining diversification in oil-dependent nations.
- **Volatility and Growth Dynamics:** Examines the theoretical linkage between market volatility and growth trajectories.
- **Comparative Studies:** Provides a basis for comparative studies with other oil-dependent economies.

#### **Practical Significance**

- **Policy Formulation:** Assists policymakers in crafting effective fiscal strategies to stabilize the economy.
- **Economic Planning:** Aids in long-term economic planning by understanding the impact of oil price changes.
- **Risk Management:** Supports the development of risk management strategies for economic sustainability.
- **Investment Strategies:** Guides investment strategies by assessing economic trends influenced by oil and fiscal policies.
- **Vision 2030 Alignment:** Offers practical recommendations to align fiscal policies with the goals of Vision 2030.

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#### **RESEARCH METHODOLOGY**

One of the primary axes via which the applied portion of the research is carried out is thought to be the research technique and its process. It provides the information needed to carry out the statistical analysis, provide results that can be understood in the context of the body of research on the subject, and ultimately accomplish the objectives of the study.

##### **Research Paradigm**

Research paradigms are knowledge-development beliefs. Research improves understanding regardless of depth. Even if solving an organization's problem isn't as important as creating a new motivation theory, you're learning (Saunders, 2012).

Research includes assumptions, knowingly or not. The assumptions may be ontological about reality, epistemological about human understanding, or axiological about how values impact your study. Credible research philosophy supports technique, strategy, and results with consistent assumptions. Your study participants, methodology, and results will be affected by these assumptions (Saunders, 2012).

Goals and methods vary by research philosophy. Explain complex occurrences or test ideas and build universal principles? Should broad assumptions and their consequences be deduced? Should results inform inductive explanations? Does the researcher measure many, perhaps contradictory facts? (Rubin 2012)

Positivists believe in one objective reality that can be explored conventionally. Naturalists, particularly interpretive constructionists, think reality exists but cannot be objectively measured since people view it via their experiences, knowledge, and expectations. This lens affects discovery perception (Rubin, 2012). Positive analysis will be utilized (The Impact of Changes in Oil Prices and Fiscal Policies on Economic Growth in Saudi Arabia). Reality is constant and objective.

##### **Research Design**

This research study uses a quantitative design to investigate how Saudi Arabia's economic growth is affected by changes in oil prices and fiscal policies. The researcher will analyze statistics to determine both correlations between variables and whether there are cause-and-effect relationships. In particular, they will use econometric models including regression analysis – which helps show how one thing affects another – to see how modifications in these policies have influenced important economic indicators such as employment rates or gross domestic product (GDP) levels.

##### **Data Collection**

The following information will be gathered for this research:

- Historical figures for worldwide oil costs from sources like International Energy Agency (IEA) & Organization of Petroleum Exporting Countries (OPEC).
- Statistics on GDP growth rates; numbers employed/in work force; total investments (at home and abroad). These numbers are available from institutions such as World Bank plus Saudi Arabia's General Authority for Statistics.
- Data that shows government outlays as well as income raised through taxes; any changes made regarding budgets ~ all of which fall under fiscal policy. Details on these points can be found in Finance Ministry records.

By taking this approach the researcher hopes to produce findings based solely on facts - making it clear whether there really is any connection between two things or if one does indeed cause changes in another area.

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