The Edge Economic & Market Update

Global and Geopolitical Outlook
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The global economic environment in 2025 is one of cautious moderation, with the IMF projecting world output growth to slow from 3.2% in 2024 to 2.8% in 2025.

Major economies are grappling with tighter monetary policy and fallout from a severe U.S.–China trade war. In early 2025, the U.S. administration dramatically escalated trade tensions, imposing punitive tariffs of up to 145% on most Chinese goods, to which China retaliated with 125% tariffs on U.S. Furthermore, the U.S. enacted a blanket 10% tariff on imports from nearly all countries (including GCC nations) from April 5, 2025. These protectionist moves have strained global supply chains, dampened business confidence, and prompted the IMF to cut global growth forecasts by about 0.4 percentage points.

Notably, the IMF said that absent the trade war, global growth in 2025 would have been around 3.2% instead of the 2.8% now expected. A truce is being sought – by late April, the U.S. and China agreed to a 90-day pause on further tariff escalations to negotiate terms – but uncertainty remains high.

Oil demand and prices: The cooler global growth and trade frictions are directly impacting oil demand, a critical factor for the GCC. The IMF trimmed its 2025 oil demand outlook and oil prices have slid as investors foresee a potential glut if the global economy softens. As mentioned, Kuwait's crude price fell below $60, and the OPEC basket dropped to ~$61.8 in May 2025, levels not seen since 2021. In addition to demand concerns, geopolitical pressures are at play: the U.S. President has publicly called on oil producers to increase output and cut prices, aiming to curb inflation and aid the global economy. This has put the GCC in a delicate spot – balancing their own revenue needs against political pressure for cheaper oil. OPEC+ initially planned to start raising production in late 2024, but postponed until April 2025 due to market conditions. Now, with global demand uncertain, OPEC+ is cautiously resuming output increases. For example, Kuwait's quota is set to rise slightly to 2.443 million bpd from May 2025 (up from 2.428 million). If the trade war de-escalates and global demand surprises positively, oil prices could stabilize or recover in the second half. However, most forecasts see oil markets remaining under pressure, which implies GCC fiscal and external surpluses will shrink in 2025.

Global and Geopolitical Outlook (Continued)

Monetary policy & finance: Globally, inflation has been easing, allowing central banks to halt interest rate hikes. The U.S. Federal Reserve is expected to keep rates high through mid-2025 and possibly begin cutting by late 2025 if inflation falls to target. GCC currencies, being dollar-pegged (Except KWD), have mirrored U.S. rate hikes – raising borrowing costs across the Gulf. High rates in 2023–24 cooled some economic activity (e.g. housing demand in places like Dubai and Kuwait). Now, the prospect of eventual cuts in 2025 is a welcome development for GCC financial conditions. Indeed, lower global rates would reduce Gulf governments' debt service costs and spur private credit growth. Still, GCC policymakers remain vigilant: the banking sector in the region is well-capitalized, and no major contagion from recent global banking stress (e.g. U.S. regional bank failures) has been observed. A risk to watch is global risk aversion – if emerging markets see outflows due to the trade war or other shocks, it could tighten liquidity. But so far, GCC bonds and equities have held up, partly because high oil buffers and dollar pegs make them a relative safe haven within Emerging Markets.

Regional geopolitics: Within the Middle East, geopolitical risks persist but with no new crises at present. The détente between Saudi Arabia and Iran (resumed diplomatic ties) has improved the regional climate. The Yemen conflict de-escalation has also reduced security risks for GCC. However, any flare-up (involving Iran's nuclear issue or elsewhere) could quickly affect oil supply routes and prices – a perennial wildcard for the outlook. On the trade front, the GCC states are hastening efforts to sign free trade agreements (e.g. GCC-UK FTA under negotiation) to mitigate the impact of protectionism. Additionally, Saudi Arabia and the UAE are investing in supply chain logistics and manufacturing to capitalize on any shifts (like "China+1" diversification of production). These strategic moves could, over time, make the GCC less dependent on oil and more integrated in global trade of goods and services.

Sources: IMF, World Bank, OPEC, KPC, Global Finance and news reports for geopolitical context.

Kuwait, GCC, and Global Insights

Executive Summary

Kuwait's economy is poised to exit a two-year oil-led downturn and grow again in 2025, yet the backdrop has become significantly more challenging with recent Global Events.
Oil-price shock: Kuwait Export Crude averaged about USD 73/bbl YTD, but the spot price plunged to USD 59.94/bbl on May 6, 2025 - its lowest since mid-2021. Should prices remain in the low-60s, the headline fiscal and current-account surpluses embedded in the IMF's December 2024 baseline would erode by 3-4 pp of GDP.
Domestic balance-sheet strength: General-government surpluses and the Future Generations Fund still provide a deep buffer, but the central-government budget is now expected to post a wider deficit near 10 % of GDP if oil averages below US $70 this year, increasing reliance on the new Public-Debt Law.

GCC recalibration. Early data for 2024/2025 show the region already recovering: UAE GDP up +4 %, Saudi non-oil activity +4 %, Qatar steady at 2 % range, while Oman and Bahrain hover around 2–3 %. With OPEC+ supply returning from Q2 2025, the bloc should average ~3 ½ % growth in 2025, but the oil-price dip trims revenue and could delay capex in the more oil-dependent states.

Global outlook softens further. The IMF's April 2025 WEO (World Economic Update) pegs world GDP growth at 3.3 % for 2024 and 2.8 % for 2025, citing higher real rates, renewed US-China trade frictions and slow European growth. Energy spot-price volatility and Red-Sea shipping disruptions also add downside risk.

Bottom line: Kuwait still enters 2025 with formidable buffers, but the sudden oil-price slide underscores the urgency of diversifying revenue, accelerating megaproject execution and deepening private-sector reforms. Region-wide, the GCC growth pulse is improving, yet fiscal space is tightening again—making coordination on spending efficiency and non-oil diversification an immediate priority.

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