THE EDGE CONSULTANCY

The Edge Economic & Market Newsletter

Kuwait, GCC, & Global Economic Insights

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Kuwait–Hong Kong Investment Cooperation

Update (May 15, 2025): Kuwait and Hong Kong signed a landmark Investment Promotion and Protection Agreement (IPPA) to bolster bilateral trade and investment ties. Hong Kong's Chief Executive John Lee noted Kuwait is the first GCC country to sign both an IPPA and a Double Taxation Agreement with Hong Kong, creating a robust framework for economic cooperation. The accords also pave the way for deeper collaboration in finance, innovation, and infrastructure, with Hong Kong inviting Kuwait to establish an investment office in the city. Sources: KUNA, Hong Kong SAR Government Official Press Release, Xinhua, South China Morning Post

These agreements mark a significant step in Kuwait's economic diversification drive. By securing investment protection and tax treaties with Hong Kong – a global financial hub – Kuwait can attract Asian capital and expertise to its New Kuwait 2035 vision. The timing is strategic: with oil revenues plateauing, Kuwait is leveraging international partnerships to develop its non-oil sectors. The deal signals investor confidence in Kuwait's reforms and provides Hong Kong a gateway to GCC markets, mutually boosting trade volumes and financial flows. Key sectors like finance, digital economy, and logistics are poised to benefit as both parties coordinate initiatives (e.g., a new Kuwait Airways–Hong Kong Airport cooperation) to improve connectivity. Regionally, this sets a precedent for GCC-Asia ties – reinforcing Gulf states' pivot toward East Asia for investment and technology exchange. By expanding its network of trade agreements, Kuwait not only mitigates oil-market dependency but also enhances its status as a regional commercial hub in line with its Vision 2035 goals.

Cautious optimism is warranted as these accords transition from signing to implementation. In the near term, specialized working groups will likely be established to follow through on projects in finance, fintech, and infrastructure, translating MOUs into actual investments. Tangible outcomes – such as increased FDI flows, joint ventures, and smoother investor regulations – could materialize within the next 6–12 months, providing a modest uplift to Kuwait's non-oil GDP. Hong Kong's push for a GCC-wide free trade agreement (with Kuwait as 2025 GCC chair) may gain momentum, potentially reducing trade barriers further. Nonetheless, realizing the full benefits will require continued structural reforms in Kuwait (e.g., easing business licensing, upgrading legal frameworks) to ensure a business-friendly climate. Overall, the Kuwait–Hong Kong partnership enhances the GCC's economic resilience, and sustained high-level engagement – annual dialogues, investment forums – will be critical to maintain reform momentum and convert agreements into sustained growth.

Oil Market Outlook: IEA Forecasts Slowing Demand

Update (May 15, 2025): The International Energy Agency (IEA) reports that global oil demand growth is decelerating sharply. After a strong first quarter (with demand up 990,000 bpd YoY), demand growth for the rest of 2025 is projected to slow to just 650,000 bpd. The IEA's May Oil Market Report nudged the full-year 2025 demand growth forecast up slightly to 740,000 bpd, but warned that economic headwinds and record electric vehicle sales are curbing consumption. On the supply side, world oil output is now expected to rise by 1.6 million bpd in 2025, as OPEC+ producers unwind earlier cuts and non-OPEC production continues to grow. Sources: IEA Oil Market Report – May 2025 (official summary), Reuters coverage of IEA Report

The IEA's latest outlook suggests a more balanced oil market ahead. Softer demand growth – stemming from slower global economic activity and efficiency gains – is coinciding with a supply rebound, easing the tight conditions that characterized last year. Crucially, OPEC+'s strategic output increases and rising non-OPEC supply have begun to outpace consumption. This shift is evidenced by a build-up in oil inventories and a $10/barrel slide in benchmark crude prices over April–May, which has brought Brent crude to roughly the mid-$70s. For oil-importing nations, these trends are a boon, helping temper inflation and energy costs – but for producers, especially in the GCC, they signal tighter profit margins. Notably, Saudi Arabia's role remains pivotal: it is among the few producers with spare capacity and has been adding barrels back to the market, aiming to balance global supply without crashing prices. The IEA also highlights a structural factor: surging EV adoption (global EV sales at record highs) is starting to noticeably dent gasoline and diesel demand. This points to a medium-term inflection where oil demand growth may continue to weaken annually, even as total demand still hits all-time highs (expected ~102 million bpd in 2025). In sum, the oil market is entering a phase of slower growth and ample supply, reducing immediate volatility but raising questions about longer-term demand peaks.

Volatility is expected to remain in check in the near term, with the ample supply acting as a buffer against moderate demand fluctuations. Market attention will turn to OPEC+'s policy in the coming months: if demand disappoints further or inventories swell, the alliance could consider re-introducing output curbs to prevent a glut. Conversely, any geopolitical supply disruptions could be met with this available spare capacity, smoothing potential price spikes. For GCC economies, the policy emphasis shifts to adaptation – with oil prices hovering at relatively lower levels, fiscal planners may lean on sovereign wealth buffers and restrain spending to maintain budget balance. The IEA's signal of plateauing demand growth reinforces the strategic urgency for Gulf producers to diversify revenue streams. We anticipate oil prices trading in a moderate band in the coming quarters, barring shocks, as the tug-of-war between economic uncertainties and OPEC+ management keeps markets cautiously stable. In this environment, energy investors are likely to remain watchful of central bank moves and currency shifts, while oil producers prioritize long-term contracts and downstream value-add to buttress against a softer demand horizon.

Global Growth Outlook: UN Downward Revision

Update (May 16, 2025): The UN has downgraded its global economic growth forecast amid mounting geopolitical and financial risks. In its mid-2025 World Economic Situation and Prospects update, the UN projects world GDP will expand by only 2.4% in 2025, a deceleration from 2.9% in 2024 and 0.4 percentage points lower than its previous forecast in January. The revision is attributed primarily to heightened trade tensions and policy uncertainty – notably a recent rise in U.S. tariff barriers that is straining global supply chains and dampening investment. The UN report notes that the growth downgrade is broad-based, affecting both advanced and developing economies, as high interest rates, weakening trade, and soft commodity prices bite into activity. Sources: United Nations – World Economic Situation and Prospects Mid-2025 Update, AP News

The UN's stark revision underscores a precarious moment for the world economy. A projected 2.4% growth rate for 2025 would make this one of the slowest non-crisis paces of global expansion in decades, reflecting the cumulative drag of inflation, tighter monetary policy, and geopolitical frictions. The report's emphasis on trade tensions suggests that the trade war dynamics of the late 2010s are re-emerging – indeed, the implementation of higher U.S. tariffs (and likely retaliatory measures) is elevating costs for businesses worldwide. This has immediate repercussions: global manufacturing and export growth are sagging as companies reconsider cross-border investment plans amid uncertainty. Commodity-exporting regions, including the Middle East, face twin pressures of weaker demand and lower prices for oil and raw materials, compounding the fiscal challenges from years of lower oil revenues. Many trade-reliant developing countries are contending with reduced export volumes, tighter financial conditions, and heavier debt burdens, limiting their growth potential. On the positive side, the UN notes global inflation has been easing in recent months – a relief for central banks and consumers – but warns that new tariff-driven cost increases could slow the disinflation process. The net effect is a cautious global mood: businesses are delaying capital expenditures, and investors are seeking safe havens, which in turn threatens to create a self-fulfilling cycle of subdued growth. Notably, the downgrades hit Europe and North America as well, where higher interest rates and slowing consumer spending are evident, but also China and emerging Asia, where trade and real estate woes are constraints. The UN's analysis also raises alarm that this slowdown jeopardizes progress on development goals, widening inequalities as poorer nations and vulnerable populations bear the brunt of rising food and energy costs and slack labor markets.

The UN's findings signal that, absent concerted policy action, the global economy could flirt with a sharper downturn. Policymakers are urged to deploy a "broad toolkit" – combining accommodative monetary stances (where inflation allows), targeted fiscal stimulus, and structural reforms – to rekindle growth and buffer vulnerable groups. In practical terms, this may translate to central banks pausing or reversing rate hikes earlier than planned if growth deteriorates, and governments increasing public investments or relief measures despite budget constraints. A priority will be mitigating trade conflict impacts: diplomatic efforts to resolve tariff disputes or form new trade agreements gain new importance to counteract the global headwinds. For the GCC, which the UN projects to grow modestly, maintaining prudent fiscal policies and accelerating diversification are critical to navigate the slowdown. Should global growth in 2025 indeed languish around 2.4%, oil demand and trade flows will be softer – reinforcing a moderate outlook for commodity prices and export revenues. However, if de-escalation in trade tensions or a tech-driven productivity boost occurs, there is upside potential to the forecast. Overall, the balance of risks is tilted to the downside: global growth will likely remain below its historical trend, and the window is narrowing for policymakers to engineer a soft landing. Close monitoring of key indicators – trade volumes, capital flows, and credit conditions – is essential in the coming quarters to preempt any slide toward recessionary conditions.

UK–EU Post-Brexit Relations Reset

Update (May 17, 2025): The United Kingdom and European Union are poised to "reset" their post-Brexit relationship with a new agreement aimed at smoothing trade and strengthening cooperation. British Prime Minister Keir Starmer will host EU leaders in London for a summit expected to yield a deal that eases barriers in key areas – notably by facilitating trade in agri-food products and simplifying travel rules for EU-UK visitors. The initiative is intended to boost economic ties without rejoining the EU single market. Sources: UK Government Press Release: UK strengthens security relationship with Europe ahead of UK-EU summit, Reuters, The Times

This reset marks the most significant thaw in UK-EU relations since Brexit took effect in 2020. Economically, even a limited agreement can have an outsized impact: UK exporters of food and agricultural goods, in particular, have struggled with border frictions under the Brexit trade regime – streamlined checks and certifications will reduce supply chain delays and compliance costs, potentially revitalizing billions in lost trade. Sectors like automotives and pharmaceuticals might not yet see direct relief, but improved political goodwill can lead to further regulatory cooperation down the line. The agreement's timing is crucial for the UK: Britain's economy has underperformed, and trade with the EU – its largest trading partner – has been a *"weak spot"* contributing to stagnant growth and higher inflation. Bank of England Governor Andrew Bailey recently underscored that rebuilding EU trade ties would be "beneficial to the UK", hinting that smoother trade could alleviate some price pressures and support GDP growth. For the EU, the deal is also a pragmatic win – it maintains European standards while addressing irritants like travel queues and youth work visas, fostering closer people-to-people links. Politically, the reset reflects a shift in UK strategy: under Starmer's leadership, Britain is seeking a constructive partnership with Europe, which could extend to areas like security and research cooperation. This is evidenced by plans for regular UK-EU summits and the appointment of envoys to deepen ties. Still, major elements of the economic relationship – services trade, financial market access, and labor mobility – remain outside the scope of this week's deal, meaning the broader Brexit trade frictions continue to cap the upside.

The forthcoming UK–EU partnership deal is expected to provide a modest boost to the UK's medium-term outlook: by reducing frictions in selected industries, it should marginally improve export performance and could add a few tenths of a percent to GDP over time, according to preliminary analyst estimates (to be confirmed after full details emerge). More significantly, the reset opens the door to incremental agreements in the future – for example, mutual recognition of professional qualifications or cooperation in energy and climate policy – which can further unlock growth potential.

Kuwait, GCC, & Global Economic Insights (Continued)

Moody's Downgrades U.S. Credit Rating, Citing Deepening Fiscal Challenges

Update (May 16, 2025): Moody's Investors Service downgraded the United States' long-term credit rating from AAA to Aa1, the first such move by the agency since it began rating U.S. sovereign debt. The action follows similar decisions by S&P (2011) and Fitch (2023), making this the first time all three major agencies have assigned the U.S. a sub-AAA rating. Moody's cited "persistent large deficits, rising interest costs, and a lack of political consensus" as core reasons for the downgrade, while assigning a stable outlook. Sources: Moody's, Fitch, S&P, IMF, BBC

The U.S. faces mounting structural fiscal pressures. According to the Congressional Budget Office (CBO), federal debt held by the public is projected to rise from 98% of GDP in 2024 to 134% by 2035 if current policies continue. Annual deficits are expected to remain above 6% of GDP, and net interest payments could reach $1.8 trillion by 2035, accounting for over 20% of federal revenues. These dynamics place growing strain on fiscal sustainability and global investor confidence.

The downgrade signals concern over Washington's ability to enact long-term reforms. Despite short-term political efforts to contain spending, major entitlement programs remain unreformed, and recent tax and tariff measures have had mixed fiscal effects. While U.S. Treasuries continue to function as global safe-haven assets, the downgrade introduces new uncertainty and could raise long-term borrowing costs.

For the Gulf region, particularly Kuwait and other GCC sovereign investors with large allocations to U.S. bonds and dollar-denominated assets, the downgrade is a critical development. Although no immediate changes are expected in reserve allocations, the shift marks a broader rethinking of long-term risk exposure. It also renews interest in asset diversification and monetary policy coordination among dollar-linked economies.

In the short term, the U.S. downgrade is unlikely to disrupt global markets significantly, thanks to the dollar's dominant reserve role and Treasury market depth. However, over the medium term, absent a credible fiscal adjustment path, the U.S. may face higher debt-servicing costs, further rating pressures, and a slow erosion of its safe-haven status.

Kuwait and GCC investors are expected to maintain strategic allocations to U.S. Treasuries but may explore expanding exposure to AAA-rated sovereigns, supranationals, and non-dollar assets to enhance portfolio resilience and mitigate concentration risk.

Executive Summary

Global and regional economic developments have underscored mounting fiscal, energy, and trade shifts:

- Kuwait–Hong Kong Strategic Cooperation: Kuwait signed 25 new investment agreements with Hong Kong, including a bilateral investment protection treaty—signaling stronger Gulf–Asia ties.
- Oil Market Trends: The IEA revised its 2025 oil demand forecast to 740,000 bpd, down from earlier projections. While demand remains healthy, global oil growth is slowing, and supply from OPEC+ is expected to rise.
- UN Lowers Global Growth Forecast: Amid heightened trade disputes and tightening financial conditions, the UN revised its global GDP forecast to 2.4% in 2025, signaling broad-based slowdowns in both advanced and emerging markets.
- UK–EU Reset Deal: A new economic and mobility agreement aims to ease post-Brexit trade friction and reintegrate UK–EU cooperation in travel, security, and emissions trading.
- U.S. Downgrade by Moody’s: In a historic move, Moody’s downgraded the U.S. from AAA to Aa1 due to worsening debt, rising interest costs, and lack of fiscal reform. With debt projected to reach 134% of GDP by 2035 and interest nearing $1 trillion annually, global investors are reassessing risks. For GCC sovereign funds, the U.S. remains central—but the downgrade strengthens the case for long-term diversification.

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The Edge for Economic Consultancy W.L.L.
edgeconsultancykw.com +965-22286370
Al-Qibla, Block 14, Hamad Al-Saqer Street, Tower 15 (Yacoub Tower), Office C11. Kuwait City, State of Kuwait.