



The Edge Economic Update

Monthly Economic Report

Kuwait, the GCC, and Global

July 20, 2025

Executive Summary



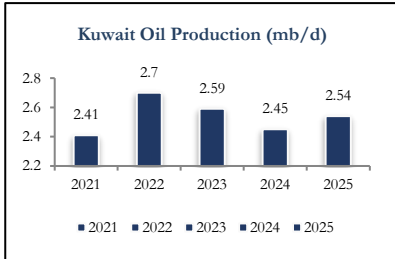
Kuwait's economy is at an inflection point in mid-2025. After two years of oil-driven contraction, growth is expected to return as oil production cuts unwind and non-oil activity strengthens. The nation's substantial financial buffers (sovereign wealth assets) have cushioned the downturn, but fiscal deficits are re-emerging amid lower oil prices and output. Inflation has ebbed to low-single digits, allowing monetary policy to stabilize in line with global trends. Kuwait's financial market has been steady, with the stock index posting modest gains in the first half of 2025, while the real estate sector is showing early signs of recovery after a soft start to the year. Consumer spending hit record highs in 2024, though it has cooled in 2025 under higher borrowing costs.

Across **the GCC**, other economies (Saudi Arabia, UAE, Qatar, Oman, Bahrain) are navigating a post-oil-boom slowdown with continued diversification efforts.

Globally, major economies face headwinds: the U.S. is seeing cooling inflation but grappling with new trade uncertainties, China's growth is slowing amid property and trade challenges, and Europe (including the UK) remains sluggish as high inflation and energy issues linger. Geopolitical risks – from oil supply decisions to regional conflicts – continue to cast a shadow on the economic outlook.

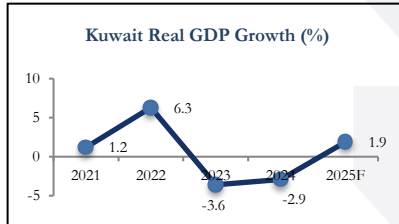
Oil Sector and Price Volatility

Hydrocarbons remain the bedrock of Kuwait's economy, and recent oil market swings have significantly impacted growth. Kuwait complied with OPEC+ output cuts in 2023-2024, causing oil production to drop about 7% in the first nine months of 2024. This contributed to an estimated -2.9% GDP contraction in 2024, following a -3.6% decline in 2023, in stark contrast to the strong rebound of +6.3% in 2022. Oil GDP fell nearly 7% last year, while non-oil GDP grew modestly (~1-2%).



Oil prices have been highly volatile. After surging above \$100 in 2022, Brent crude averaged around the mid-\$80s in 2023 and dipped into the \$70s in early 2024. In Q2 2025, prices even briefly fell to a 4-year low near \$60/bbl amid global demand concerns and supply increases. However,

geopolitics then swung the market: a flare-up in Gulf tensions in mid-June 2025 sent prices jumping 6% overnight to roughly \$73/bbl. OPEC+ policy has added to the uncertainty. In June 2024 the cartel agreed to extend most production cuts through 2025, only phasing them out gradually from late 2024. Kuwait's own quota was raised slightly in May 2024 (to ~2.443 million barrels/day) as OPEC+ began cautiously increasing supply. Looking ahead, Kuwait's oil output is set to rise in 2025 as cuts unwind, which should lift the oil sector out of recession. Nonetheless, oil price volatility remains a critical risk, with Kuwaiti officials noting the budget's breakeven oil price is around \$80/barrel. Any sustained dip below that (Brent was ~\$80 in mid-2024) could pressure public finances. Overall, Kuwait's recent experience underscores its vulnerability to oil market swings, reinforcing the need for economic diversification.

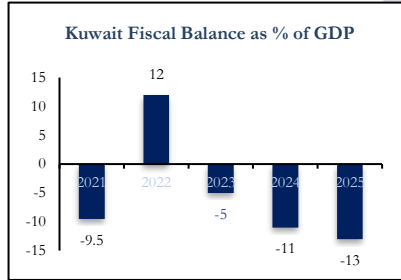


Fiscal and Debt Dynamics

After a brief oil-fueled surplus, Kuwait's fiscal balance has deteriorated again. The oil windfall of 2022 delivered a budget surplus of about 12% of GDP (excluding investment income). But as oil prices and production declined, Kuwait swung back into deficit: roughly -5% of GDP in FY2023/24. The deficit is widening further in FY2024/25 and FY2025/26. The government's latest budget (FY2025/26, April-March) projects a KD 6.3 billion deficit (~13% of GDP), up from KD 5.6 bn the previous year. This is based on oil revenue assumptions of KD 15.3 bn (at ~\$68/bbl and 2.5 mbpd) and expenditures around KD 24.5 bn. The widening gap is "entirely due to lower anticipated oil receipts" as the government trimmed its oil price and output forecast, while keeping spending nearly flat. Notably, spending restraint is evident in curbed public wage growth (only +0.8% this year, the smallest since the pandemic) and slight cuts to subsidies and capital spending. Even so, deficits persist, indicating that Kuwait's underlying fiscal breakeven remains higher than current oil prices (estimated ~\$80 in 2025).

Kuwait Macroeconomic Overview (Continued)

To finance these deficits, Kuwait has finally moved to expand its financing toolkit. In April 2025, the Amir approved the long-awaited Public Debt Law, ending a ban on new borrowing since 2017. The law authorizes up to KD 30 billion (\approx \$100 billion, \sim 60% of GDP) in sovereign bonds and sukuk, with maturities up to 50 years. This will allow the government to raise debt and preserve liquid assets, rather than relying solely on drawing down the General Reserve Fund. Kuwait's public debt is extremely low currently (around 7% of GDP in 2024), so there is ample room to borrow. Indeed, if the full KD30 bn were issued, debt would still be $<$ 70% of GDP. The new law is expected to "strengthen Kuwait's sovereign credit rating" by providing funding flexibility and helping establish a domestic yield curve. Overall public finances, while buffered by investment income and the Future Generations Fund, remain structurally challenging. The World Bank projects fiscal deficits of 5–7% of GDP in coming years despite spending controls. Kuwait's General Reserve liquidity is dwindling – the Ministry of Finance noted the reserve fund's cash fell from KD 33.6 bn a decade ago to just KD 2 bn in March 2024. Thus, fiscal reform (including non-oil revenue measures and subsidy rationalization) is still urgently needed to put Kuwait on a sustainable path as oil revenues trend flat/down.

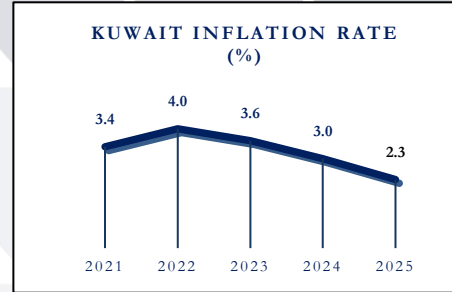


Inflation and Monetary Policy

Kuwait has experienced a moderate inflation cycle compared to global highs. Inflation peaked around 4.0% in 2022 amid post-pandemic supply pressures, then eased to \sim 3.6% in 2023 and further to 3.0% in 2024. In the first half of 2025, price gains have continued to moderate. By April–May 2025, Kuwaiti CPI inflation was running at only 2.2–2.3% year-on-year, the lowest since 2020. Food price inflation, a major driver in 2021–22, has cooled considerably (food/beverage prices up \sim 4.6% y/y in April, down from double digits earlier). Housing rents showed almost no increase (+0.7% y/y), and even the core CPI (ex food & housing) was a tame 2.4%. In fact, some sectors saw outright deflation – transport costs fell about -1% y/y, reflecting stable fuel prices. This broad-based disinflation has brought headline inflation below the Central Bank's

projected trajectory (the World Bank forecasts Kuwaiti inflation will average 2.5% in 2025).

Monetary policy has closely shadowed global trends, given the dinar's pegged exchange rate regime. The Central Bank of Kuwait (CBK) raised interest rates in 2022–2023 in line with the U.S. Federal Reserve's tightening cycle, aiming to keep the dinar attractive and contain imported inflation. By early 2024, the CBK's key discount rate reached around 4.0% (up from 1.5% pre-2022).

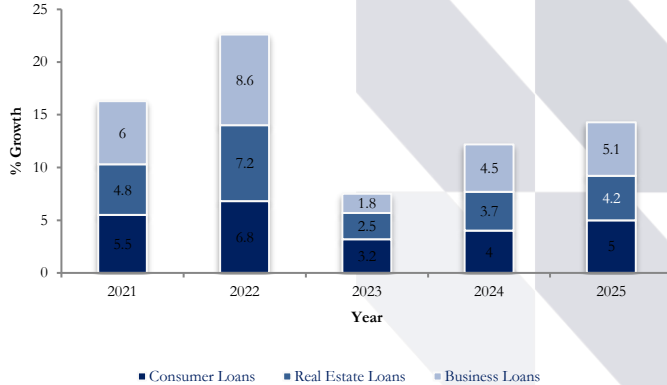


Kuwait Macroeconomic Overview (Continued)



As the Fed paused hikes in 2024 and global inflation began to recede, Kuwait also slowed its tightening. With inflation now “moderating” and expected to decline to ~2.5% in 2025, the CBK has shifted to a more neutral stance. Monetary stabilization is set to remain aligned with global central banks– i.e. no further rate hikes unless external factors force it. In practical terms, this means Kuwait’s rates have likely peaked and could even be eased if global conditions soften. Indeed, CBK officials have published analysis suggesting inflation expectations are well-anchored and that current policy is appropriately containing demand without choking credit growth. The dinar’s peg (to a USD-dominated basket) has held firm, and official reserves, at ~\$44.5 bn, remain ample (covering ~11 months of imports) despite a slight dip in 2024. In summary, Kuwait’s inflation is on a downward path, and monetary policy is poised to pivot from fighting inflation to supporting growth if needed – much as in other Gulf states that followed the Fed’s aggressive tightening and are now at the peak of the cycle.

Sectoral Credit Growth (%)



Kuwait's financial markets have seen steady but unspectacular performance through the first half of 2025. The Boursa Kuwait equity indices are up modestly year-to-date, supported by bank and blue-chip earnings, but gains have been limited by intermittent profit-taking and global market jitters. As of end-June 2025, Kuwait's All-Share Index was roughly flat to slightly positive on the year, mirroring the mixed trend across Gulf bourses. Regional news flow – such as the Iran-Israel ceasefire in late June – gave a boost to UAE markets (Dubai hit a 17-year high) but left Kuwait relatively unchanged. Investors remain cautious amid lower oil prices and the slow domestic growth environment. Still, strong local liquidity and solid corporate fundamentals (particularly in financials) have provided support. For example, Kuwait Finance House and National Bank of Kuwait, the top banks, have maintained healthy profitability, which underpins confidence in the market.

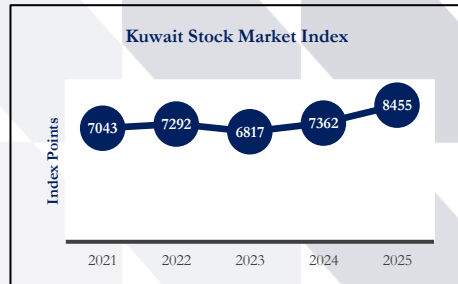
In terms of market developments, Boursa Kuwait has been advancing structural reforms to deepen the capital market. The exchange has prepared to launch trading of bonds and sukuk in 2025, aiming to broaden investment options and improve liquidity in fixed-income. Technical and regulatory tests for a secondary debt market were completed, with go-live expected later this year. This coincides with the government's new debt law – together they should spur issuance and trading of Kuwaiti sovereign bonds on the Boursa, helping price discovery. Additionally, authorities have worked on market upgrades and inclusion in global indices in recent years, which has attracted more foreign

portfolio inflows. Kuwait achieved MSCI Emerging Market index status in 2020 and has since seen foreign ownership in select stocks rise.

Kuwait's banking sector – the core of its financial system – remains well-capitalized and stable. Bank credit growth picked up to ~5.7% y/y by April 2025 after a sluggish 2023. In particular, April saw the fastest monthly loan growth in 3 years (+1.3%), partly boosted by a large bank rights issue and associated margin lending. Corporate lending led the way, while household lending growth was modest (consumer loans have been tempered by high interest rates). Private sector deposits are growing around 6% y/y, reflecting ample liquidity in the system. Asset quality is sound – non-performing loan ratios are low – and banks have benefited from higher interest margins during the rate up-cycle. The Central Bank's financial stability reports indicate the banking sector can withstand significant shocks, with average capital adequacy well above 17%.

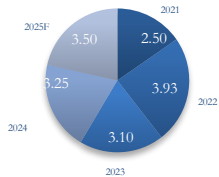
In the local debt market, Kuwaiti government bonds have been scarce (none issued since 2017), so corporate issuance (mostly financial institutions) has dominated. Yields on Kuwaiti dinar bonds followed the global trend up in 2022-23 alongside CBK rate hikes, but have stabilized in 2024. With the new sovereign issuance expected, a yield curve will start to form – likely at yields in the 4–5% range for medium tenors, given the CBK policy rate around 4%. Credit rating agencies continue to assign Kuwait one of the strongest sovereign ratings in the region (AA- by S&P) thanks to its hefty external assets, despite the political gridlock around reforms.

In sum, Kuwait's financial market is characterized by cautious optimism. Equities are range-bound but bolstered by strong banking sector prospects and hopes of economic recovery later in 2025. Market turnover has been moderate, and foreign investors' activity has grown but remains below that in Saudi or UAE markets. Upcoming catalysts could include any positive news on the stalled mortgage law (which would boost real estate and finance stocks) or a sustained rally in oil prices. Conversely, downside risks include any global risk-off event or regional security flare-up that could trigger capital outflows. Nonetheless, Kuwait's deep financial buffers and prudent regulation make its financial system a relative safe haven in MENA. The gradual reforms to capital markets infrastructure are also creating a more resilient and attractive investment environment in the medium term.



After a soft patch, **Kuwait's real estate** sector is showing signs of stabilization and recovery in mid-2025. The property market had cooled over 2023–2024 due to higher interest rates (making mortgages costlier) and an excess supply in some segments. Total real estate sales fell in 2023 from the post-Covid surge levels. Entering 2025, activity was muted – Q1 2025 saw sluggish sales, partly for seasonal reasons. However, recent data indicate a rebound is underway. May 2025 real estate sales reached KD 367 million, a 5-month high and up ~29% from April. The increase was led by the investment property sector (apartments/buildings), which jumped 40% month-on-month, while the residential and commercial sectors also saw volume gains.

Real Estate Transactions (KD Billion)



This suggests buyers and investors are returning, lured by some price corrections and the anticipation of new supportive policies.

Year-on-year, May sales were actually down a tad (-1.2% y/y), but that is largely due to a high base in the commercial segment last year. The broader trend is that confidence is gradually coming back to the real estate market. Two key factors are bolstering sentiment: (1) the expected approval of a new housing mortgage law, and (2) a potential peak in interest rates. Kuwait's Parliament has been debating a draft mortgage law that would enable banks to offer long-term home loans and develop a secondary market (a significant reform in a country where the state historically provides housing finance). If passed, this could “unlock” greater housing demand and liquidity. Indeed, just the prospect of this law has buoyed market sentiment in recent months. Secondly, with inflation easing and global rates peaking, borrowers anticipate that financing costs will stop rising and may even fall in the medium term, making property purchases more affordable. The Central Bank's steady policy in 2024 and talk of rate cuts in 2025 has improved the outlook for real estate.

In terms of prices, Kuwait's property price indices have been relatively flat over the past year. Residential villa prices saw a minor correction from 2022's highs, while investment apartment prices have stabilized after a prior downturn. There are pockets of resilience – for example, the coastal residential areas and “investment” apartments favored by expats continue to see solid demand. Rental yields on investment properties have

improved as purchase prices moderated and rents remained firm (rent index up around 0.7% y/y as of April). The commercial office segment faces higher vacancy and is the weakest link, but even there the worst seems to have passed, with no major price collapses reported. Real estate professionals note that Kuwait's demographics (a growing young population) and wealth levels provide underlying support. The government also resumed some large housing projects (e.g. South Saad Al-Abdullah New City infrastructure contracts were awarded in 2025), which in time will add supply but also generate construction sector activity and jobs.

Overall, Kuwait's real estate market in mid-2025 can be described as recovering in volume with prices broadly stable. The recovery is gradual and uneven – investment properties are leading, while some residential segments lag. Authorities remain vigilant; the Kuwait Credit Bank and banks have been managing mortgage exposures conservatively. If the housing finance reform is enacted, it could be a game-changer by boosting credit to the sector. For the remainder of 2025, a baseline scenario is for mid-single-digit growth in real estate sales and a flattening out of prices. Upside could come from any interest rate cuts or fiscal stimulus for housing. Conversely, if oil revenues falter and spending is cut, or if interest rates stay higher for longer, the property market could again slow. At this stage, however, the trajectory is positive, marking a turnaround from the lull of the past two years.

Kuwait: Energy Production and Projects



Despite short-term OPEC restraints, Kuwait is pursuing ambitious long-term expansion of its energy sector – both oil and gas production and downstream capacity. The Kuwait Petroleum Corporation (KPC) unveiled a new strategic plan in late 2023 aimed at raising crude oil production capacity to 4 million barrels per day by 2035. Current capacity stands around 2.9 mbpd, and KPC expects to reach 3.2 mbpd by 2025-26 (barring OPEC quotas). Kuwait's actual output has been nearer 2.4–2.5 mbpd in recent months due to the OPEC+ cuts. As those quotas loosen, Kuwait will be ready to ramp up. KPC's largest upstream subsidiary (KOC) plans to invest heavily to hit 4 mbpd capacity by 2035, and the group will spend an enormous \$410 billion through 2040 on fossil fuel projects and energy transition initiatives. Notably, \$110 billion is earmarked for renewables and carbon reduction as Kuwait also targets net-zero operational emissions by 2050.

On the natural gas front, Kuwait is focusing on the Durra gas field, a major offshore field shared in the neutral zone with Saudi Arabia (and claimed by Iran). The government considers Durra “one of the most important” strategic projects, with plans for drilling and infrastructure now moving ahead despite Iran's objections. Durra holds an estimated 20 trillion cubic feet of gas; a Kuwait-Saudi agreement to jointly develop it was signed in 2022, and Kuwait intends to start production without waiting for maritime border demarcation. A full launch is expected by 2029, which would significantly boost Kuwait's gas output and help meet domestic demand. KOC also aims to

lift domestic non-associated gas production capacity to 1.5 billion cubic feet/day by 2040. In tandem, KPC is expanding its refining and petrochemical capacity. The flagship Al-Zour Refinery – the world's largest single-train refinery – became fully operational in late 2023, reaching its nameplate 615,000 bpd capacity. This mega-plant, along with upgrades at Mina Al-Ahmadi and Mina Abdullah, lifts Kuwait's total refining capacity to about 1.4–1.6 mbpd. Al-Zour's completion is a milestone that enables Kuwait to process more of its heavy crude domestically and export higher-value clean fuels. Indeed, Kuwait's fuel oil exports jumped in early 2025 as Al-Zour ramped up. Internationally, KPC's joint venture Duqm refinery in Oman (230 kbpd) also commenced full operations around end-2023, further extending Kuwait's downstream footprint.

In summary, Kuwait is balancing short-term market management with major energy investments for the future. The successful commissioning of Al-Zour and the aggressive capacity goals underscore its commitment to remain a leading oil producer while also addressing gas needs and cleaner fuel standards. These projects, including Durra and renewables, will require huge capital outlays but promise to sustain Kuwait's oil & gas dominance into the next decade. The challenge will be executing them on time, especially given technical, geopolitical, and environmental hurdles (e.g. Iran disputes, climate commitments). Nonetheless, if oil demand remains resilient, Kuwait's current investments could pay off in the form of higher output and export revenues in the latter 2020s – a critical

window as the world gradually transitions away from fossil fuels.

Kuwait's consumer sector has been a mixed story – robust spending coming out of the pandemic, followed by a recent slowdown in growth rates. In 2024, consumer spending hit an all-time high. Total spending (as measured by value of transactions) reached KD 47.8 billion in 2024, up 4.4% from 2023. This reflected both strong underlying consumer demand and rapid adoption of electronic payments/e-commerce, which has made spending easier. For instance, point-of-sale and online card transactions surged ~8% in value, while cash withdrawals dropped 6%, indicating more people swiping cards and shopping online. Kuwait's young, high-income population and full reopening after Covid contributed to booming retail activity – malls, restaurants, and online retailers all benefited. Popular international brands and local retailers alike recorded solid sales growth through 2022–24, and consumer confidence was buoyed by government support and the wealth effect of 2022's oil revenue jump.

However, signs of consumer fatigue emerged by late 2024 and into 2025. Data show that spending growth slowed sharply in Q4 2024 – card spending was up just 0.8% quarter-on-quarter, and the usual year-end bump didn't materialize (Q4 was actually slightly *lower* than Q3, a first since 2015). By Q1 2025, consumer spending (by card transactions) turned negative year-on-year at -5.9%, the steepest drop since the pandemic era. Several factors explain this reversal:

•**Payback from earlier splurges:** Kuwaiti consumers spent aggressively in 2021–2023 after pandemic restrictions lifted (a “pent-up demand” effect). By 2024 that wave had

largely passed. Comparisons are now against a high base, making growth harder. 2024's slowdown was partly a natural *readjustment* after an unsustainably large surge in 2021–22.

•**Higher borrowing costs:** With interest rates up ~2.5 percentage points since 2021, installment payments on consumer loans, cars, etc., have risen. Household debt service burdens increased, **curbing discretionary spending** in 2023–24. Big-ticket purchases (vehicles, luxury goods) have been deferred by some middle-class households due to more expensive financing.

•**Inflation and real income squeeze:** Although Kuwait's inflation is moderate, global inflation in 2022–23 did erode purchasing power somewhat. There's also been no major public sector wage increase, so real incomes grew slowly. Consumers faced higher food and utility bills, reducing disposable income for retail. By 2025, inflation's impact has lessened, but earlier price rises (and subsidy cuts like for fuel in prior years) have made Kuwaitis more value-conscious.

•**Consumer sentiment:** The uncertainty around political gridlock and when/if government will implement job or subsidy reforms likely made Kuwaitis cautious. Additionally, with no immediate stimulus (unlike some neighbors), consumers tempered spending. Business surveys indicated **retailers turned to discounting** in late 2024 to attract customers. Heavy promotional activity (sales, promotions) in sectors like apparel and electronics helped volumes but at the cost of margins.

Thus, entering mid-2025, the retail sector is experiencing

slower growth. Large retailers and shopping malls report steady footfall but lower average transaction sizes. Car sales and durable goods sales have plateaued compared to last year. Yet, it's not a recession – spending levels remain high in absolute terms, just growing more slowly. Notably, 2024 was still a record year for consumer spend, and early 2025's dip is relative. The fundamentals (high GDP per capita, generous welfare, low unemployment) mean consumer demand should remain solid. Indeed, analysts expect the spending slowdown to bottom out and stabilize in the second half of 2025. With inflation easing and the likelihood of some interest rate relief by 2025, households could see conditions improve.

Segments like food & grocery retail are very resilient (grocery chains continue to expand). Luxury retail in Kuwait City saw a boom in 2022–23 and might cool a bit, but Kuwait's affluent shoppers still contribute strongly, especially with travel somewhat constrained by regional tensions (keeping spend domestic). E-commerce continues to grow in double digits, as noted by officials – online transaction values jumped 7% in 2024 and will likely keep rising with high mobile penetration. This is reshaping the retail landscape, pushing brick-and-mortar stores to adopt omni-channel models.

Kuwait Consumer and Retail Sector (Continued)

In conclusion, Kuwait's consumer and retail sector remains a pillar of the non-oil economy, but one that is normalizing after an exceptional post-Covid boom. Policymakers are watching this closely; if the spending funk persists, the government might consider stimulative measures (for example, a one-time public bonus or loosening consumer lending rules). For now, the expectation is that 2025 consumer spending will be roughly flat to slightly up from 2024 levels, a moderation from previous growth but still healthy given the global backdrop. Retailers that adapt with competitive pricing and online strategies are poised to thrive, while those relying on old models may struggle. The eventual introduction of housing mortgages could also free up cash for other consumption as rent pressures ease on young families. Overall, Kuwait's consumers are in a cautious phase, but not a crisis – reflecting a transition to more sustainable spending patterns.

Saudi Arabia

Saudi Arabia, the Gulf's largest economy, has experienced a dramatic growth downshift after the oil boom of 2022. That year, Saudi GDP surged by ~8.7% (the fastest in a decade) on the back of high oil prices and output. However, in 2023 the kingdom's economy contracted by 0.8% as it cut oil production under OPEC+ agreements and oil prices moderated. Official data show oil sector GDP fell about 4.5% in 2023, dragging overall growth negative despite robust non-oil growth of +4.8% (driven by sectors like manufacturing, retail, and government initiatives). In 2024, Saudi Arabia returned to modest growth of +1.3%. This was entirely due to the non-oil economy expanding ~4.3% (helped by megaprojects and post-Covid recovery in services), while oil output was cut further – oil GDP declined 4.5% in 2024. By Q4 2024, momentum had picked up; GDP grew 4.4% y/y that quarter with non-oil activity up 4.6%. This strong non-oil performance reflects Saudi's Vision 2030 investments in areas like tourism, entertainment, and infrastructure, which are creating new jobs and business opportunities.

Looking ahead, 2025 is expected to see a rebound, though forecasts have been tempered. Initially, with OPEC+ cuts scheduled to phase out, many projected a big uplift in Saudi oil production and GDP in 2025 (some polls saw ~4.4% growth). But the IMF has revised Saudi's outlook down, citing a "more gradual resumption of oil production" and global headwinds. The IMF now forecasts

about 3.0% GDP growth for Saudi Arabia in 2025. Similarly, the Saudi government's preliminary estimate is ~3–4% growth. The non-oil sector should remain the engine, with 2025 non-oil growth ~3–4% (slightly lower than 2024 as some projects mature). Oil GDP will depend on adherence to OPEC quotas – current OPEC+ plans would only start raising Saudi's output in late 2024 through 2025. Thus, oil may contribute marginally to growth in 2025 (perhaps +1% real oil GDP).

On the fiscal side, Saudi Arabia is using its oil windfall surpluses from 2022 to spend aggressively. It ran a small deficit in 2023 and likely 2024 as spending on mega-projects, salaries, and social initiatives rose. The government forecasts a fiscal deficit of about 3% of GDP in 2025 as it continues high investment outlays. This is easily financed by reserves and low-cost debt. Saudi's public debt is modest (~25% of GDP) and S&P in March 2025 upgraded Saudi's credit rating to A+, citing stronger governance and non-oil reforms. However, both the IMF and S&P warn that if oil revenues undershoot (from lower prices or production), Saudi's fiscal balances could weaken and force it to prioritize projects. The kingdom's foreign reserves (around \$450 bn) and PIF sovereign fund give it a cushion. In summary, Saudi Arabia's economy is transitioning to a lower-growth, diversification-focused phase. The oil sector will no longer provide the huge gains of 2022; instead moderate oil output growth and price volatility are the norm. Non-oil sectors (from entertainment to mining to

tech) are now contributing the bulk of growth – a positive structural shift. There are risks: persistent lower oil prices could slow the massive NEOM and infrastructure projects, and high interest rates globally could crimp some domestic demand. But so far, Saudi consumers and businesses remain optimistic (e.g. PMI surveys are expansionary, and employment is rising). Barring a major oil downturn, Saudi Arabia in 2025 should manage mid-single-digit non-oil growth with overall GDP growth around 3%, solidifying its recovery while advancing the Vision 2030 agenda.

GCC Economic Snapshot (Continued)



United Arab Emirates (UAE)

The UAE's diversified economy has continued to grow at a healthy pace, led by thriving non-oil sectors. The country enjoyed a strong post-pandemic rebound – GDP grew ~7.9% in 2022 – and while growth moderated in 2023, it remained respectable at an estimated ~3–3.5%. Entering 2024, momentum picked up again. In Q1 2024, UAE real GDP grew 3.4% year-on-year, with non-oil GDP up 4.0%. Key drivers included surging tourism, transport, trade, and financial services, especially in Dubai, which has benefited from an influx of residents and businesses. Sectors like hospitality and real estate have boomed thanks to Dubai's appeal as a business haven and Expo 2020 legacy effects. Meanwhile, Abu Dhabi's oil output was somewhat constrained by OPEC quotas, but the UAE has been maximizing allowed production (even negotiating a higher OPEC baseline for itself from 2024).

Both the IMF and UAE's central bank remain optimistic about growth. The IMF projects ~4% GDP growth for the UAE in 2024, accelerating from ~3.5% in 2023. The UAE Central Bank similarly upgraded its 2024 forecast to 4.0% (from 3.9%), citing improvements in oil output and strong non-oil activity. A Reuters economists' poll expects 3.7% growth in 2024 and 4.2% in 2025. These rates are among the highest in the GCC and underscore the UAE's success in diversification. Non-oil sectors now contribute around 70% of GDP. High-frequency data supports this optimism: e.g. the UAE's PMI indices have remained in expansion,

and Dubai's real estate transactions hit record highs in 2023-2024.

Oil and gas still matter for the UAE (Abu Dhabi in particular). The UAE has invested to raise its oil production capacity to 5 million bpd by 2027 (from ~4 million now), signaling it is ready to supply more if market conditions allow. In the meantime, Abu Dhabi has embarked on a slight fiscal consolidation given lower oil revenue versus 2022, but it is continuing with strategic projects (like ADNOC's petrochemical expansion and new natural gas developments). Importantly, Abu Dhabi's vast sovereign wealth (over \$700 bn) provides a buffer to keep the economy stable and investing through oil cycles.

One of the UAE's star performers is tourism: Dubai had a banner 2022 and 2023, and 2024 is on track to exceed pre-pandemic tourist numbers. This has spillovers across retail, aviation (Emirates airline profits rebounded sharply), and real estate (demand for holiday homes, etc.). Additionally, the UAE has been attracting high-net-worth individuals and expatriate talent due to its liberalized visa rules and low taxes, supporting domestic demand and the property market.

Inflation in the UAE has been moderate – around 4.8% in 2022, easing to ~3.5% in 2023, and further towards 2–3% in 2024. The strong dollar peg has helped cap import prices.

The Central Bank of the UAE raised rates in lockstep with the Fed and is now likely holding at ~5.15% Fed funds equivalent until global cuts begin in 2024-25. Credit growth has been decent and bank liquidity ample; UAE banks are well-capitalized and have even started lending more internationally.

Overall, the UAE's outlook is bright. Growth of ~4% in 2024 and 2025 would make it one of the Gulf's top performers. Downside risks include any sharp drop in global growth hitting trade or tourism, or geopolitical tensions. Also, certain sectors like real estate bear watching – Dubai property prices have risen very quickly (up ~20% in 2023), raising some concerns of overheating in luxury segments. But authorities have experience managing property cycles and have reintroduced cooling measures (like higher transaction fees) to avoid a bubble. Meanwhile, Abu Dhabi's diversification (e.g. investing in clean energy via Masdar, boosting manufacturing) will continue to fortify the non-oil base. In summary, the UAE is reaping rewards from its diversification and openness, and is poised for sustained, broad-based growth in the mid-2020s barring external shocks.

Qatar

Qatar's economy, dominated by natural gas, has been navigating a post-World Cup plateau but remains fundamentally strong. In 2022, Qatar had a growth spurt (~4.8% GDP growth) fueled by the FIFA World Cup and a surge in LNG exports amid the European energy crisis. Growth cooled in 2023 as those one-off boosts faded and global LNG prices normalized – estimates put 2023 GDP growth around 2-3%. The latest World Bank outlook pegs Qatar's growth at 2.7% in 2024 and ~2.4% in 2025, reflecting steady but unspectacular expansion. The non-energy sector (construction, services) has slowed after completing massive World Cup projects, but is still growing modestly.

Qatar's big story is its huge LNG expansion plans. Already one of the top LNG exporters, Qatar is executing the North Field Expansion, which will raise LNG output by 65–85% by 2027 (from 77 million tons/year to 126 Mtpy in Phase 1, and 142 Mtpy by 2030 with Phase 2). This \$45+ billion project will start adding new production trains in 2025-2026. The anticipation of this future supply has made Qatar sign a slew of long-term LNG contracts – for example, deals with China's Sinopec (27-year contract) and with European buyers to secure gas for decades. By locking in customers, Qatar is shielding itself from volatile spot markets and ensuring demand for its forthcoming output. The expansion will significantly lift Qatar's export volumes (and GDP) late this decade – the World Bank projects an

average 6.5% GDP growth in 2026-27 once new LNG comes online.

In the interim, 2024-2025 are years of consolidation. Hydrocarbon GDP might dip or stagnate if no new output comes before the expansion, especially since Qatar is already producing near capacity. LNG prices in 2023–25 have been lower than 2022 peaks, which will temper export revenue (though Qatar's gas remains highly profitable even at current prices). Qatar's fiscal position is solid – 2022 saw a big budget surplus (~9% of GDP) due to high LNG prices, and while surpluses have narrowed, Qatar is still roughly in balance. The government continues investing heavily in domestic projects (infrastructure, LNG construction, and the new knowledge economy zones). Debt is moderate (public debt around 44% of GDP but on a declining trend with surpluses used to pay down debt).

One challenge is Qatar's inflation and cost of living. Inflation spiked to ~5% in 2022 with the World Cup demand, then eased to ~2% in 2023. It's ticking up slightly due to higher government fees and robust domestic demand, but remains manageable (~3%). The currency peg to the USD keeps imported inflation low. However, rapid population growth (Qatar's population jumped with an influx of workers for projects) strains housing supply and has pushed rents up, an issue Qatar is addressing by building more housing for expatriates.

Geopolitically, Qatar has improved relations in the region (post-2021 GCC reconciliation) and leveraged its mediating role (e.g. it diplomatically engaged in the 2023 Gaza conflict resolution). Being a major LNG supplier also boosted its strategic importance globally. However, competition is rising: the U.S. is ramping up LNG exports which could challenge Qatar's market share in coming years. Qatar's answer is the aforementioned long-term contracts and its reputation for reliability.

In summary, Qatar's economy in 2025 is in a steady phase, awaiting a gas-powered jump in a couple of years. Growth around 2–3% is driven by the non-oil sector (which includes downstream gas-to-liquids, petrochemicals, finance, and tourism). For example, Qatar is promoting itself as a sports and conference hub beyond the World Cup. The upcoming Asian Cup football tournament and a possible Olympic bid are in play. Longer term, once the North Field expansion is fully operational, Qatar's LNG output and earnings will soar, potentially doubling gas export revenue by 2030. That will give a second wind to the economy and ample funds to continue diversifying. For now, Qatar is prudently managing its finances and projects so that

Oman

Oman has made significant progress in shoring up its economy after being hit hard by the 2014–2020 oil downturn. Aided by higher oil prices and tough reforms, Oman's recovery is ongoing, though growth has been subdued due to oil production limits. In 2022, Oman enjoyed fast growth of 4.3% as it pumped more oil and benefited from the price surge. But in 2023, GDP growth slowed to ~1.3%, reflecting OPEC+ oil output cuts and a pause in some projects. The IMF noted Oman's oil GDP fell in 2023, but non-oil activity grew moderately, keeping overall growth positive.

The outlook is improving for 2024: the IMF forecasts Omani growth to rebound to 2.7% in 2024, as Oman can increase hydrocarbon production somewhat and as non-oil momentum picks up. That figure aligns with private forecasts around 2.5–3% for 2024. Key drivers include new natural gas fields coming online and strong performance in industries like petrochemicals and minerals (Oman has been expanding its downstream and mining sectors). Also, Oman's tourism is recovering post-pandemic, and several manufacturing projects are in development (e.g. green hydrogen initiatives, given Oman's renewable energy potential).

One of Oman's biggest achievements is on the fiscal and debt front. The government under Sultan Haitham implemented a Medium-Term Fiscal Plan from 2020 that cut subsidies, introduced a VAT, and controlled spending. Combined with the oil price rebound, this swung Oman's budget from large deficits to a surplus in 2022 and near-balance in 2023. Public debt, which was above 60% of GDP in 2020, has dropped to about 35.5% of GDP by end-2024. Debt service costs fell from 9% of revenue in 2021 to ~7% in 2024. Rating agencies responded – in 2022 and 2023, Oman was upgraded back to investment grade by Moody's and S&P. This is a remarkable turnaround for a country that was at risk of a debt crisis a few years ago.

Nonetheless, Oman remains vulnerable to oil volatility due to its smaller reserves and higher production costs. It's more sensitive than its GCC peers; the IMF warns that oil price swings or external shocks (like the Gaza conflict or global slowdown) pose risks. To counter this, Oman is pushing diversification: logistics (the new Duqm port and economic zone), fishing, mining, and tourism are target sectors. Progress is gradual, but for example, mining exports have grown, and Oman aims to be a regional logistics hub leveraging its ports outside the Strait of Hormuz.

Inflation in Oman is low (~1-2%), and the rial's dollar peg provides stability. The banking sector is healthy, supporting ~8% credit growth as of May 2025. Unemployment among youth is an issue, but Omanisation policies and investment in skills are ongoing to create private jobs.

In sum, Oman's economy is recovering steadily and is on a more sustainable footing. Growth of ~2–3% in the near term may not be rapid, but it is balanced and accompanied by improved fiscal health. As oil production gradually rises (Oman isn't bound by OPEC quotas as tightly), it will add a bit to growth. The key is that Oman continues its reform momentum – the IMF emphasizes that “sustaining fiscal reforms is key to entrenching stability”, including implementing planned personal income tax and further subsidy reforms. Oman's Vision 2040 development plan provides a roadmap. With oil around \$80, Oman can manage; if oil fell sharply, it would need to adjust or seek GCC financial support again. But for now, Muscat's prudent management has given it breathing room and earned investor confidence (e.g. Oman's Eurobond yields have fallen, reflecting reduced default risk). In 2025, Oman is likely to post growth around 2.5–3%, moderate inflation, and perhaps a small fiscal deficit or near-balance, maintaining the gains of its recent turnaround.

Bahrain

Bahrain, the Gulf's smallest economy, has been enjoying a modest upswing, though it remains constrained by high debt and limited oil resources. Bahrain's economy grew about 4.9% in 2022 (bouncing back from the pandemic) and then cooled to roughly 2% in 2023 as base effects faded. The government's ongoing Fiscal Balance Program (backed by GCC aid) has kept public finances in check, allowing for stable conditions in 2023-24.

Latest data show a solid start to 2024: Bahrain's real GDP grew 3.3% year-on-year in Q1 2024. Importantly, growth was entirely broad-based. The non-oil sector grew 3.3% y/y and now constitutes 86% of Bahrain's GDP – a reflection of successful diversification. Key non-oil drivers in Q1 were hospitality (hotels/restaurants) and financial services, both expanding briskly. Financial services in particular is a mainstay of Bahrain (Manama is a regional banking center), and it continues to perform well. The oil sector also grew 3.4% in Q1 as Bahrain slightly raised output at the new offshore Khaleej Al Bahrain field and benefitted from improved refining output after modernizing the Sitra refinery. With both oil and non-oil contributing, Bahrain's growth outlook for 2024 is around 3.0% according to the Finance Ministry and IMF. For 2025, the IMF projects Bahrain to accelerate further to ~3.5% as new projects come online (for instance, the BNP Paribas is forecasting a boost from refinery upgrades and aluminum capacity expansion).

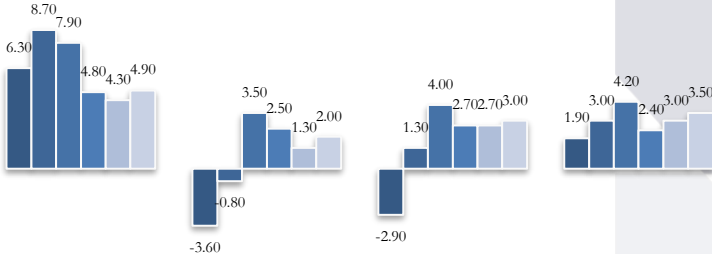
Bahrain's strategy centers on diversifying and attracting investment. It has introduced reforms to improve its business environment and is marketing opportunities in sectors like fintech, manufacturing, logistics, and tourism (Formula 1 and exhibition tourism are notable draws). The government's Economic Recovery Plan launched in 2021 includes dozens of projects (worth \$30bn) such as metro system, new island developments, and expanding Aluminum Bahrain (Alba) smelter capacity. Implementation has been gradual but steady.

A challenge for Bahrain is its high public debt (around 115% of GDP) and debt servicing costs. Bahrain received a \$10bn support package from Saudi, UAE, Kuwait in 2018 conditioned on fiscal reforms. It has been cutting expenditures and implementing VAT (now 10%). The target to eliminate the deficit was delayed to 2024 (from 2022) due to Covid, but they are close – higher oil prices helped shrink the deficit. In 2022, Bahrain even posted a small budget surplus as oil averaged \$100. In 2023-2024, it's roughly breakeven to a small deficit. They aim for a balanced budget, and that seems plausible if oil stays near \$80 and non-oil revenues (like VAT) rise. The fiscal reforms (subsidy rationalization, efficiency drives) have been challenging socially but largely accepted.

Inflation in Bahrain is low (~2%); the dinar's peg to the USD ensures price stability. Interest rate hikes (via the currency peg mechanism) did slow Bahraini credit growth in 2023, but lending is still growing moderately especially to the private sector as confidence returns.

In summary, Bahrain is growing about 3% with diversification gains, but carries the legacy of high debt. It is the most indebted and one of the smallest oil producers in GCC, so it relies on its neighbors' support and global capital markets' confidence. Fortunately, the recent good performance and reforms have improved investor sentiment – Bahrain's Eurobond yields have narrowed and it continues to raise external funding without issue. The government is keen to not slip up; it recently extended the Fiscal Balance Program through 2026 to ensure discipline. The non-oil sector now nearly 86% of GDP is a positive sign of reduced oil-dependence. Going forward, Bahrain needs to keep that non-oil engine humming (financial services, aluminum, tourism) to compensate for its declining oil output. If it can maintain ~3% growth and gradually reduce debt/GDP, it will remain on a sustainable path. In 2025, look for Bahrain to possibly achieve a balanced budget (if oil cooperates) and continue roughly 3% growth driven by services – a modest but meaningful achievement for the Gulf's smallest economy.

GCC Real GDP Growth (%)



	2022	2023	2024	2025F
■ Kuwait	6.30	-3.60	-2.90	1.90
■ Saudi Arabia	8.70	-0.80	1.30	3.00
■ UAE	7.90	3.50	4.00	4.20
■ Qatar	4.80	2.50	2.70	2.40
■ Oman	4.30	1.30	2.70	3.00
■ Bahrain	4.90	2.00	3.00	3.50

Global & Geopolitical Outlook

United States

The United States economy in mid-2025 is at a late-cycle juncture, with growth moderating and inflation finally coming under control, albeit with new uncertainties from trade policy. After a strong post-pandemic recovery (growth was 5.9% in 2021 and 2.1% in 2022), US GDP growth slowed to ~2.0% in 2023 and is running around a ~1–2% pace in 2024-2025. The Federal Reserve's aggressive interest rate hikes (cumulative +500 bps from 2022 to 2024) have cooled demand, especially in interest-sensitive sectors like housing and business investment. By mid-2025, the Fed's policy rate stands around 4.25–4.50% and the central bank has paused further increases, shifting its bias toward eventual easing.

USA Real GDP Growth (%)

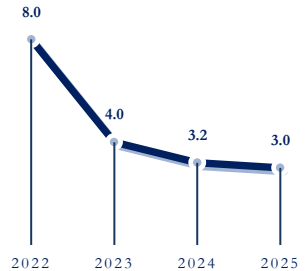


On the inflation front, there has been significant progress. US inflation peaked at 9.1% (CPI) in June 2022, the highest in 40 years, driven by supply shocks and stimulus-fueled demand. Since then, inflation has steadily declined. As of June 2025, headline CPI was ~2.7% year-on-year, essentially back within sight of the Fed's 2% goal. Core inflation (excluding food and energy) is a bit higher – running ~2.9% annualized in June – but it too has come down from over 6% in 2022. Key contributors to the disinflation have been the normalization of supply chains (bringing down goods prices) and tighter monetary policy slowing demand. However, one wrinkle is the return of import tariffs and trade restrictions under the new U.S. administration. In early 2025, President Donald Trump (in his second term) introduced new import tariffs on a range of goods and threatened more (up to 30% tariffs on some imports from Mexico, Canada, EU). These tariffs have started to push certain prices up – June CPI saw notable increases in categories like household furnishings, apparel, and electronics, which analysts attributed to tariffs “beginning to bite”. Indeed, monthly inflation picked up to 0.3% in June (annualized ~3.5%) after very low readings earlier. Fed officials are now concerned that tariffs could create a “one-time price level shock” that keeps inflation slightly above target in the near term.

Despite this, the Fed is cautious about cutting rates too soon. It wants clear evidence inflation will stay around 2%.

Futures markets expect maybe one or two Fed rate cuts by late 2025, but not earlier (odds of any cut by the upcoming July 2025 meeting were under 5%). The U.S. central bank is also balancing the risk of a growth slowdown: credit conditions have tightened and consumer spending is softening, raising mild recession fears. Fed Chair Jerome Powell has indicated this summer (2025) is pivotal to see if underlying inflation is truly quelled or if the tariff impacts re-ignite it.

USA INFLATION RATE (%)



Global & Geopolitical Outlook (Continued)



In terms of real activity, U.S. consumer spending has been resilient but is now flattening as excess savings from the pandemic are drawn down and higher borrowing costs bite. The labor market, while still strong (unemployment ~3.8%), is cooling – job growth has slowed from 2022’s hot pace, and wage growth has eased to ~4%. The housing market is showing early signs of revival as mortgage rates plateau around 6-7%; new home sales have ticked up, though existing home sales remain subdued due to low inventories. Manufacturing is a soft spot – the ISM index has been in contraction territory, partly due to weaker export demand and the shift in consumer preferences from goods to services.

One emerging dynamic is the political/fiscal environment: The divided U.S. government in 2025 has seen debates over spending. A debt ceiling crisis was narrowly averted in late 2024, but the focus now is on the 2025 budget. Significant fiscal stimulus is not expected, aside from possibly some infrastructure follow-through from earlier bills. However, Trump’s push for protectionist trade measures (tariffs) and energy policies (support for oil & gas, coal) could have supply-side implications. Tariffs are effectively a tax on consumers, which could slow growth while raising inflation modestly – a stagflationary risk if they escalate. On the other hand, the administration is calling for Fed rate cuts to boost growth, creating political pressure on the central bank.

Geopolitically, the U.S. is dealing with the protracted war in Ukraine (providing aid and grappling with its impact on global energy/security) and intensifying strategic competition with China (tech export controls, tariffs as noted). Domestically, 2025 being a post-election year, the focus is on implementing policies rather than campaigning. In summary, the U.S. outlook for 2025 is one of slower growth (~1% or so), much lower inflation (~3% trending toward 2%), and an inflection point in policy. The base case is a “soft landing” where the Fed manages to quell inflation without a deep recession. Indeed, core inflation increasing a bit slower than expected in June “proved” that underlying price pressures are moderating, according to the White House. If that continues, the Fed may start a gradual easing cycle by Q4 2025. A mild recession can’t be ruled out, but if it happens, it’s expected to be shallow given healthy bank balance sheets and no major imbalances. The key swing factor will be the trajectory of Trump’s trade tariffs – if they broaden or lead to retaliation, they could dent business confidence and global trade, impacting the U.S. manufacturing sector and inflation outlook. As Fed officials put it, they see higher inflation and slower growth as the most likely short-term outcome of the tariffs. Thus, the Fed is likely to “remain on the sidelines” (hold rates steady) a bit longer. For businesses and investors, the environment is one of elevated uncertainty but also the possibility that the long rate hike cycle is ending. Markets have been choppy; U.S. equities were range-bound in H1 2025 and credit spreads widened slightly on recession worries, but a lack of major shocks so far has kept

sentiment cautiously optimistic. All told, the U.S. is in late expansion, cooling but not contracting, and the second half of 2025 should clarify whether it tips into a mild recession or extends the soft landing into renewed growth in 2026.

China

China's economy in 2025 has been underperforming expectations, facing both cyclical and structural headwinds. After the country's strict zero-Covid policies ended in late 2022, China saw a burst of growth in early 2023. GDP grew 5.4% year-on-year in Q1 2024, and Beijing set an official target of "around 5%" growth for 2024. However, momentum has cooled notably since then. The second quarter of 2024 likely slowed to ~5.1% growth and forecasts for H2 2024 and 2025 are being marked down. A Reuters poll now expects China's full-year 2025 GDP growth at 4.6%, down from 5.0% in 2024, and easing further to ~4.2% in 2026. In other words, China's growth trajectory is descending to sub-5% levels, a far cry from the decades of near-double-digit expansions.

Several factors are weighing on China:

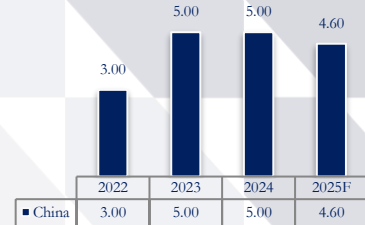
Property market downturn: China's real estate sector – which historically contributed up to 25-30% of GDP (directly and indirectly) – is in a protracted slump. Key developers have defaulted, home sales are weak, and property investment has fallen amid a glut of unsold apartments. This "prolonged property downturn" is dragging on demand and confidence. Housing prices in many cities are either flat or falling; new home prices were dropping at the fastest pace in 8 months as of mid-2025. The government has rolled out measures (lower mortgage rates, easing purchase restrictions in some cities) but has so far avoided a large bailout of developers, so the malaise continues to dampen growth.

- **Trade tensions and tariffs:** A "fragile" truce in the U.S.-China trade war was holding earlier in 2025, but the U.S. has maintained tariffs on hundreds of billions of Chinese goods, and under the Trump administration's renewed tariffs on other countries, the risk of souring trade relations with China persists. Chinese exports, a big growth engine, have lost momentum; demand from the U.S. and EU is weaker due to their slowdowns. In June 2025, exports saw a temporary pickup as Chinese firms rushed shipments before a possible new U.S. tariff deadline in August. But overall, export growth is expected to stay subdued going forward, especially if tariffs hit. Import growth is also tepid, reflecting weak domestic demand.
- **Deflationary pressures:** China is flirting with deflation. Consumer price inflation was around 0% in early 2025, and producer prices have been falling (PPI in June 2025 was down at its fastest pace in nearly two years). This reflects excess capacity in manufacturing, falling commodity prices, and weak demand. The "negative deflationary feedback

loop" (where expectations of falling prices reduce consumption and investment) is a real concern. Authorities are wary of Japan-style entrenched deflation and are trying to boost demand to prevent that.

- **Weak consumer confidence:** Chinese consumers have been cautious; the post-Covid "revenge spending" was short-lived. Household savings rates remain high. Youth unemployment hit record highs (above 20% in 2023) prompting the government to suspend publishing that data in 2024 – a sign of the serious jobs challenge. Consumer confidence indexes are at lows, and retail sales growth has been slowing. Big-ticket consumer items like cars have seen soft sales (despite government incentives for EVs, etc.).

China Real GDP Growth (%)



Global & Geopolitical Outlook (Continued)



In response to these challenges, Beijing has pivoted to stimulus, though so far the easing has been incremental. The People's Bank of China (PBoC) has cut interest rates multiple times. In 2023-24 it cut the 1-year Loan Prime Rate and 7-day repo rates by 10-15 bps in stages. In May 2025, the PBoC cut key policy rates and injected liquidity. Further, analysts expect another ~10 bps rate cut by late 2025. The central bank is also guiding banks to extend more credit to SMEs and property buyers (lower down-payments, etc.). On the fiscal side, the government has boosted infrastructure spending and is considering a special supplementary budget of 0.5–1 trillion yuan in H2 2025. Local governments have expedited bond issuance for infrastructure. There are also targeted consumption subsidies (for example, subsidies for electric vehicle purchases, and incentives to upgrade appliances and rural consumption).

However, there's a debate: will stimulus be enough given structural drags? Some economists argue China needs a bigger stimulus (like consumer cash handouts or a major property rescue) to revive growth above 5%. But Beijing is constrained by high local debt and a desire to avoid re-inflating bubbles. Instead, policymakers hint at *supply-side reforms* – e.g. tackling industrial overcapacity and encouraging new industries – as a more sustainable fix. Yet those take time and won't boost short-term growth.

Geopolitically, China is dealing with pressures on multiple fronts: strategic rivalry with the U.S. (export controls on

semiconductors biting), a recalibration of its relationship with Europe (some “de-risking” away from China by European firms), and a delicate balancing act in supporting Russia politically but not violating sanctions. Domestically, President Xi's consolidation of power and regulatory crackdowns on tech and private education sectors (as seen in 2021) initially rattled investors, but now the government is signaling a more pro-business stance to spur growth. For instance, it has rolled back some tech regulations and is courting foreign investors by easing restrictions in finance and autos.

In summary, China's near-term outlook is one of slowing growth – likely in the mid-4% range in 2024-25 – with significant downside risks. The government will likely continue rolling out supportive measures (possibly including further interest rate cuts, property policy easing, and fiscal support for local governments). If the growth target of ~5% for 2024 looks in jeopardy, Beijing may act more forcefully in H2 (the late-July Politburo meeting is expected to announce additional stimulus measures). Even so, the days of 6%+ growth are probably over; China is transitioning to a slower-growth phase as it matures and wrestles with debt and demographics (the population is now shrinking). For global impact, China's slowdown means weaker demand for commodities (bad news for commodity exporters) and potentially less inflationary pressure globally (given its deflationary trend). But it also means China might export deflation by cutting export prices to support its factories. From the GCC perspective,

softer China growth could cap oil demand growth, one reason OPEC+ has been proactively managing supply. On the positive side, if China successfully stabilizes through moderate stimulus, it can still contribute a sizable chunk to global growth given its economic scale. All eyes are on whether stimulus and reforms can overcome the “triple pressures” Chinese officials cite: contracting demand, supply shocks, and weakening expectations. For now, caution prevails in Beijing's economic corridors as they navigate this challenging landscape.

Euro Area

The Euro Area economy in 2025 is struggling to gain momentum, stuck in low growth with persistent core inflation and the lingering effects of the war in Ukraine. The 20-country bloc narrowly avoided recession in late 2022/early 2023 and posted meager growth in 2023 (around 0.5% for the year). In 2024, growth remains subdued – the Eurozone grew only 0.1% in Q4 2024 (essentially stagnating), and high-frequency indicators show continued sluggishness through mid-2025. The economy is basically at stall speed, weighed down by weak manufacturing and still-high energy costs.

The manufacturing sector is in recession, particularly in Germany (the region's industrial engine) which has been hit by declining export orders, high energy prices, and supply chain shifts. Eurozone industrial production and factory orders have been contracting. The services sector had been the bright spot as tourism and travel rebounded post-Covid, and consumers spent savings on services. But even services activity has cooled in 2024 – by June 2025, the services PMI slipped close to the breakeven 50 level, indicating almost no growth. New business inflows across the Eurozone have been declining modestly since mid-2024, reflecting waning demand.

Key drags on growth include:

- **Tight monetary policy:** The European Central Bank undertook aggressive rate hikes (raising the depo rate

from -0.5% in 2021 to 4.0% by mid-2024) to combat record inflation. These hikes are now biting. Credit conditions have tightened and borrowing is expensive.

The ECB only began pausing increases in mid-2024. The impact is especially seen in interest-sensitive sectors like construction – many Eurozone housing markets (e.g. Germany, Sweden) are seeing price declines and reduced activity.

- **Energy and inflation:** Europe endured a severe energy price shock in 2022 due to the Ukraine war (natural gas prices spiked). By 2023, gas prices fell sharply thanks to new LNG supplies and demand cuts, which eased the energy crunch. However, energy prices remain higher than pre-war norms, and a spring 2025 uptick in oil (due to OPEC+ cuts) and gas (due to restocking) pushed Eurozone headline inflation slightly up again. While headline inflation has dropped from ~10% in late 2022 to about 5% in mid-2024 and ~2-3% in 2025, core inflation is sticky around 3-4% (especially in services). For instance, Eurozone inflation was 5.5% in 2023, forecast ~3% in 2024 – above target. This has eroded real incomes and kept the ECB hawkish longer than other central banks. Households still feel a cost-of-living squeeze: wages are rising but haven't fully caught up with the price

surge of 2021-22. Thus, consumption is anemic – retail sales volumes have barely grown. Consumption in the Eurozone was described as “barely growing” and labor markets softening.

- **Trade and external demand:** Europe's export sector faces challenges from slowing global trade and specific issues like weaker demand from China (a key market for German cars and machinery). The war-related trade disruptions (sanctions on Russia, etc.) also led to some losses. Moreover, the U.S. Inflation Reduction Act has prompted some investment to shift to the U.S., creating concerns in Europe about industrial competitiveness. The EU is responding with its own subsidies for green tech to keep investment, but these take time to implement.

Despite these challenges, there are a few silver linings. Unemployment in the Eurozone is at record lows (~6.5%) and employment has been holding up relatively well. Companies, having struggled to rehire after the pandemic, are hoarding labor despite the slowdown. This has kept consumer spending from collapsing, even if it's weak. Also, many European governments continue to provide fiscal support – for example, France and Germany extended some energy subsidies and relief for households through winter 2023/24.

Global & Geopolitical Outlook (Continued)



Public investment is ongoing, especially in defense (military budgets are rising due to Ukraine war) and in the green transition (renewables, EV infrastructure). These provide some demand stimulus. An analysis noted that rising defense spending (from 2% toward 3-4% of GDP in coming years) could become a new investment driver.

The European Commission in its Spring 2025 forecast cut Eurozone growth projections to around 1.0% for 2024 and just above 1% for 2025, acknowledging the trade headwinds and inflation's toll. It sees a slight uptick by 2026 (to ~1.4%) if inflation subsides and trade recovers. Risks are tilted downward: for instance, the threat of U.S. tariffs on EU goods (the Trump administration has warned of auto tariffs by August if no trade deal) could hit Europe's auto industry. Also, an escalation in Ukraine or a cold winter could renew energy stress.

The ECB's stance is that it will keep rates high "as long as necessary" to tame underlying inflation. Markets expect possible rate cuts only by mid-2025, and even then slowly. This means financial conditions will remain tight, limiting credit and spending. The euro has also been relatively weak (around \$1.08), which helps exporters a bit but also raises import costs.

To summarize, the Eurozone is in a low-growth, high-core-inflation grind. The economy is essentially *stagnant* – described as “broadly stagnant” with only 0.9% y/y growth at end-2024. The forecast for 2025 is just above 1% growth, which is very modest and subject to downside risks like higher energy costs or trade wars. Inflation is coming down but core inflation (services) remains above target due

to wage catch-up and still elevated energy input costs. Policymakers are in a tough spot trying to balance fighting inflation and avoiding recession. The labor market and fiscal support are the main bulwarks preventing a downturn. For the GCC, the weak Eurozone means softer demand for petrochemicals and possibly continued constraints on European investment in the region. However, the flipside is that Europe's weakness might cap global interest rates sooner, indirectly easing conditions for everyone. In any case, Europe is likely to remain the laggard among major economies in 2025, only inching forward economically.

United Kingdom

The United Kingdom faces similar challenges to the Eurozone – high inflation and weak growth – but in a more acute form. The UK economy stagnated for much of 2023 (real GDP roughly 0% growth) and is expected to eke out only ~0.4% growth in 2024 according to the IMF, the slowest in the G7. For 2025, forecasts improve slightly to around 1.0% growth, still quite tepid. The UK narrowly avoided a technical recession in late 2022, and since then output has been hovering around pre-pandemic levels with very little upward momentum.

A defining issue has been persistent high inflation. The UK endured the highest inflation in Western Europe last year – peaking over 11% (CPI) in Oct 2022 due to spiking energy and food prices. While inflation has come down, it remains the highest in the region at 3.4% in May 2025 on the UK's CPIH measure (by comparison, Eurozone was ~5% HICP earlier, but the UK measure corresponds to a different series). The Bank of England's target is 2%, so 3.4% is still significantly above, and the BoE even expects a slight re-acceleration to 3.7% by late 2025 due to energy base effects. Core inflation (esp. services and wages) has been sticky.

To combat this, the BoE has raised interest rates to 5.00% (Bank Rate) as of early 2025, from 0.1% in 2021 – one of the fastest tightening cycles in its history. These high rates have sharply cooled the housing market (house prices down ~5-10% from peak, with very low transaction volumes) and increased mortgage costs for millions of homeowners, squeezing consumer spending. The BoE paused hikes in late 2024 as inflation started slowing, and has kept rates on hold in 2025 so far, given signs that the economy is practically flat and inflation is slowly easing. Markets anticipate that if the disinflation trend

continues, the BoE may start cutting rates. Indeed, some BoE officials have voiced concern about “high-inflation plateau” and signaled that once they're confident inflation is beaten, they could pivot to rate cuts to support growth.

The cost-of-living crisis has been very painful in the UK. Even though energy prices (natural gas, electricity) have come down from the peaks – the typical household energy bill has roughly halved from the worst levels – they are still higher than pre-2022. Food price inflation was running in double digits through 2023 and only recently slowed. Real wages fell for nearly two years straight and have only just started to rise in mid-2025 as nominal wage growth (~7%) outpaces inflation (~5%) for the time. This prolonged squeeze dampened consumer spending; retail sales volumes are below pre-pandemic levels. Consumer confidence remains historically low, though slightly improved from 2022 troughs.

Brexit continues to cast a long shadow. Trade frictions have hurt exports and imports – the UK's trade performance has lagged. Business investment is also relatively weak, as firms face higher costs and uncertainty post-Brexit (though the Windsor Framework in 2023 improved the Northern Ireland trade situation slightly). The workforce has shrunk compared to 2019, partly due to older workers leaving the labor market (and lower EU migration), contributing to labor shortages and higher wage pressure in some sectors.

Despite all this, the UK labor market has been tight: unemployment is around 4%, up from 3.5% lows but still low historically. Job vacancies, while down from peak, are high.

This tight labor market has been a double-edged sword – good for job security, but it has fed into wage inflation, complicating the BoE's task. Now, with slower economic activity, the labor market is loosening a bit (vacancies falling, hiring freezes in some firms). That should gradually relieve wage pressures.

On the fiscal side, the government has maintained support measures (energy bill subsidies in 2022/23, now mostly phased out) and increased certain benefits in line with inflation. Public sector strikes (e.g. nurses, teachers) prompted pay raises that add fiscal costs. Public debt is about 100% of GDP, and the government is trying to consolidate finances. The Autumn Statement 2024 penciled in spending restraint and some tax threshold freezes (dragging more people into higher tax brackets). However, with an election due by late 2024 or 2025, there is political pressure to perhaps cut some taxes or increase infrastructure spending. The government pushed its zero-deficit target from 2024 to 2025 earlier, acknowledging the challenge of hitting it amid economic weakness. Investors still view UK fiscal credibility as solid overall, but any significant pre-election giveaways could raise eyebrows.

Global & Geopolitical Outlook (Continued)



In conclusion, the UK in 2025 faces slow growth (around 1% or less) and an inflation rate not yet back to comfort level. The BoE is likely to tread carefully – it doesn't want to choke the economy more, but it also doesn't want to declare victory on inflation too early. Markets are betting the worst of inflation is past, given it "fell to 3.4% in May" and is trending down, so rate cuts could be on the horizon. Any such easing, alongside lower energy prices, should gradually help recovery. But growth will be modest – consumer spending will only pick up as real incomes recover (which is starting now), and business investment probably stays subdued until there's clarity after the next general election (which could change the policy trajectory). Thus, the UK's likely scenario is continued stagnation in the near term with a hope of slight improvement by late 2025 as inflation normalizes and monetary shackles loosen. Risks include inflation proving stickier (forcing BoE to keep rates high) or a housing market correction feeding through to wider distress. On the flip side, if global conditions improve (e.g. the Fed cutting, boosting world demand) or if a stable new government post-election increases investor confidence, the UK could surprise on the upside. For now, however, the UK remains the "sick man" of the G7 in terms of economic performance, dealing with a unique mix of an inflation hangover and post-Brexit adjustments.

Middle East & North Africa (MENA) Beyond GCC



The broader MENA region's outlook is a tale of divergent fortunes in 2025. Outside the wealthy GCC, many countries are grappling with economic strain from past turmoil, high commodity prices, and in some cases, instability.

Egypt, the most populous Arab country, is facing a severe financial crisis. Egypt was hit hard by rising food and energy import costs in 2022, capital outflows, and the loss of tourism from the war in Ukraine. Its currency has been devalued multiple times (over 50% against the dollar since 2022), fueling skyrocketing inflation. Annual urban consumer inflation in Egypt peaked at 38% in September 2023, an all-time high. Egyptians saw basic food prices double or triple, pushing many into poverty. The Central Bank of Egypt hiked interest rates above 18% and, with IMF guidance, floated the pound – but as of mid-2025, the pound still faces pressure and authorities have slowed the moves, leading to a parallel market. The good news is inflation has started to drop from its peak: by June 2025, headline inflation was down to 14.9% (thanks to base effects and tighter money), and core inflation eased to 11.4%. However, this is still high, and the IMF forecasts Egypt's inflation will average ~20% in FY2024/25. Growth in Egypt has also slowed to about 3.5% FY2022/23 from 6.6% the year prior, due to a shortage of foreign currency and import controls crimping industry. Egypt secured a \$3bn IMF program in late 2022 but implementation has been slow – key reforms like privatizing state assets and moving to a fully flexible exchange rate have lagged. Without additional Gulf investments or further IMF

tranches, Egypt remains vulnerable to a debt crunch (its external debt and interest costs are very high). The government is trying to push an export and FDI drive, including selling stakes in military-owned companies to Gulf investors, to bring in dollars. For now, Egypt's economy is in stabilization mode – painful adjustment with some recent success in tempering inflation, but at the cost of depressed consumption and living standards. Social stability is a concern if food prices spike again or subsidy cuts continue.

Other **North African economies** are also under strain. **Tunisia** is near debt default as it struggles to secure an IMF loan amid political resistance to reforms; inflation there is ~10% and growth near zero. **Morocco** suffered a drought and a major earthquake in 2023 but is recovering; it's seeing modest growth (~3%) with inflation around 5%. **Algeria** benefited from high gas prices in 2022 but its growth is slow and heavily oil-dependent, with youth unemployment high.

In the Levant, **Jordan** and **Lebanon** present contrasts. Jordan's economy is growing ~2-3% with manageable inflation ~3.5%, but unemployment (especially youth) remains high and it relies on aid. Lebanon, meanwhile, remains in financial collapse – its GDP has shrunk over 40% since 2018, and the Lebanese pound lost >95% of its value. Inflation in Lebanon is astronomical (over 100%), and most of the population has been pushed into poverty. No comprehensive reforms or IMF deal have been implemented amid political paralysis, so 2025 will likely see Lebanon's crisis grind on.

The **conflict zones** in MENA sadly persist. **Syria** is fragmented and impoverished after a decade of war, with very limited recovery and heavy sanctions. **Iraq** is doing better economically thanks to oil – it saw high oil revenues in 2022 which boosted growth and foreign reserves, but political instability and corruption hinder diversification. Iraq's 2023 growth slowed when oil output was cut per OPEC+, and it's grappling with >\$150bn needed for reconstruction and electricity upgrades. Iraq's inflation is modest (they use a de facto peg), but job creation is insufficient for its young population.

Sudan descended into a tragic internal war in 2023 between rival military factions, devastating Khartoum and other areas. By mid-2025, fighting has continued sporadically, causing economic collapse in Sudan (GDP may have contracted 20%+ in 2023) and a humanitarian crisis with millions displaced. Inflation in Sudan, already high at ~350% in 2022, likely remains extremely elevated or data is unavailable. This conflict also disrupts trade in the region (e.g. South Sudan's oil exports via Port Sudan).

Middle East & North Africa (MENA) Beyond GCC (Continued)



Regional conflicts and tensions have broader economic impacts too. The Israel-Hamas war in Gaza (Oct 2023) caused regional risk aversion; while contained geographically, it led to protests and uncertainty in neighboring countries. A ceasefire and relative calm returned by mid-2025, but political resolution is distant. For the GCC, the conflict briefly spiked oil prices on fear of wider war, but once it remained localized, oil prices settled back, and Gulf financial markets soon decoupled from it. However, investor sentiment in MENA, in general, remains cautious due to geopolitical risk.

Iran, under heavy sanctions, saw its oil exports rise sneakily in 2023-24 (some sanctioned oil finding its way to China), which brought a modest economic uptick (IMF forecasts ~2% growth). But Iran faces >40% inflation and a struggling currency, plus the constant threat of new sanctions or conflict (e.g. over its nuclear program). Tentative progress on an informal US-Iran understanding in 2023 (prisoner swaps, some funds released) eased tensions slightly, but no formal nuclear deal is in sight. Iran's internal situation – protests in late 2022, now quieter but underlying dissent – also is a wildcard.

In summary, the **wider MENA region's outlook is mixed**: The Gulf states are in relatively good shape (as detailed earlier), but many other countries are either in crisis or in slow recovery with significant vulnerabilities. **High global interest rates** and a strong dollar in 2023-24 hit MENA emerging economies by raising their debt servicing costs – e.g. Egypt, Tunisia, Jordan have all felt that. If global rates peak and start to fall

in 2025, it will be a relief for them. Also, **oil prices** around \$75-85 help oil exporters but hurt oil importers – the latter have had to swallow bigger import bills. For example, Morocco and Egypt's current accounts suffered from expensive energy imports; those are now improving as prices moderated in 2023-25.

MENA's bright spots outside GCC include possibly **Egypt's longer-term potential** (if it stabilizes, its large market could attract investment again, as Gulf allies pledge), and **fast-growing smaller economies like Djibouti or Rwanda** (in North-East Africa). But broadly, 2025 will see MENA's non-GCC economies pushing through painful adjustments, hoping for relief from global conditions and for stabilization of conflicts. The GCC may continue to extend financial support selectively (e.g. recent \$5bn deposit by Saudi in Turkey, aid to Egypt, etc.) to maintain regional stability.

Overall, the **global and regional geopolitical environment remains volatile**, which in turn shapes economic prospects. Key flashpoints to watch in 2025 include: U.S.-China trade tensions (impacting global supply chains and inflation), the trajectory of the Ukraine war (which influences European energy markets and global risk appetite), and any resumption of Iran nuclear negotiations (could eventually bring Iranian oil fully back, affecting oil prices). For the Middle East, much hinges on maintaining relative calm post-Gaza war and continuing dialogue (like Saudi-Iran rapprochement brokered in 2023 by China, which led to a de-escalation in Yemen). If the geopolitical climate doesn't worsen, MENA economies can focus on

reforms and recovery. But if new shocks occur, they could roil commodity markets and investor confidence, with spillovers far beyond the region. The analysis above paints a cautious picture: **pockets of resilience but significant vulnerabilities** that require prudent management in the year ahead.

Conclusion and Summary



Kuwait and the broader GCC economies are navigating through an increasingly complex economic landscape as of mid-2025, shaped by volatile oil prices, global trade uncertainties, and regional economic shifts. Kuwait's economy shows signs of emerging from a two-year contraction, supported by gradual recovery in oil production and strengthening non-oil sectors. Nonetheless, fiscal pressures remain prominent, with the government deficit now projected around 13% of GDP if oil prices continue averaging below \$70/barrel throughout 2025. Recent data underscores the urgency of economic diversification, structural reforms, and fiscal consolidation.

The Kuwait financial market maintains resilience with steady performance and robust liquidity, reflected in the All-Share Index gaining approximately 14.8% year-to-date as of June 2025. Sectoral consolidation, particularly within the banking sector—including major mergers such as Warba Bank's acquisition of Gulf Bank—indicates a robust financial sector positioning to leverage future opportunities.

In real estate, Kuwait experienced a notable recovery, driven by legislative optimism and increased transaction volumes, especially within residential and investment segments. However, the commercial sector witnessed a noticeable slowdown, reflecting cautious investor sentiment. The anticipated Real Estate Finance Law and regulatory enhancements are expected to significantly support the sector's longer-term trajectory.

Across the GCC, economies display differentiated growth trajectories. Saudi Arabia faces modest growth recovery accompanied by rising external debt and inflation pressures, while the UAE demonstrates remarkable economic momentum, underscored by substantial long-term infrastructure investments—including strategic commitments totaling around USD 2 trillion under the UAE-U.S. investment framework. Qatar, Oman, and Bahrain present moderate growth, reflecting varied capacities for diversification and resilience amidst lower oil prices.

Globally, economic outlook remains cautious. Continued U.S.–China trade tensions and significant tariff escalations—impacting global trade flows and inflation—have resulted in revised downward growth forecasts. Notably, the U.S. growth outlook for 2025 has been significantly revised downward to 1.8%, underscoring heightened recession risks and inflationary pressures.

Conclusion and Summary



Geopolitically, despite relative regional stability following improved Saudi–Iran relations, underlying risks persist—particularly relating to oil supply routes and broader MENA stability. Kuwait and the GCC states remain vigilant and agile, carefully balancing oil output adjustments, fiscal discipline, and structural reforms in response to dynamic global conditions.

In conclusion, the July 2025 economic update highlights cautious optimism for Kuwait and the GCC, tempered by global economic headwinds. Proactive policymaking focused on diversification, prudent fiscal management, and targeted structural reforms remains critical to weather potential future volatility and ensure sustainable growth paths ahead.

Final Note: This report provides a comprehensive snapshot as of July 2025. It includes detailed macroeconomic figures and charts to support further analysis. The data are drawn from official sources such as the IMF, World Bank, Governmental authorities, Boursa Kuwait, and other reputable outlets to ensure accuracy and timeliness. As the year progresses, these indicators should be monitored for deviations, especially given the fluid global situation.

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