



The Edge Economic Update

Monthly Economic Report

Kuwait, the GCC, and Global

Aug 26, 2025



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Executive Summary

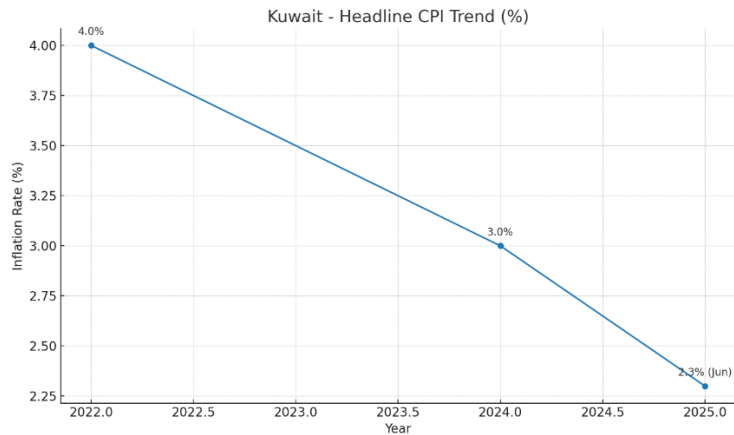
Kuwaiti Economy Edges Toward Recovery Amid Oil Volatility: Kuwait appears to be emerging from two years of oil-driven recession. After contracting by an estimated **-2.9%** in 2024 (on the heels of -3.6% in 2023), real GDP is forecast to grow about **2%** in 2025 as OPEC+ production cuts gradually unwind. Oil output, which had been curbed ~7% under OPEC+ quotas in 2023-24, is set to rise from mid-2025 onward. However, oil prices remain a wildcard. Brent crude briefly spiked to ~\$73 in June 2025 amid Gulf tensions, but by mid-August had slid into the mid-\$60s. This is well below Kuwait's fiscal breakeven oil price (recent official estimates peg it around **\$90+**), underscoring continued vulnerability of public finances to oil market swings.

Fiscal Position Improves but Structural Challenges Persist: After a fleeting oil-fueled surplus in 2022, Kuwait's budget balance had returned to deficit. Yet recent data show a **much smaller shortfall** than expected for FY2024/25: roughly **KD 1.1 billion** (2% GDP) versus the **KD 6 billion** initially forecast. Higher oil prices (\$75 vs \$70 assumed) boosted revenues and spending was curbed ~20% across government agencies, sharply narrowing the gap. This positive surprise highlights the impact of disciplined spending and non-oil revenue measures. Nevertheless, Kuwait's **underlying fiscal breakeven** remains well above current oil prices, and the new draft FY2025/26 budget still projects a large deficit (~KD 6.3 bn, ~13% of GDP) assuming \$68 oil. With public wage and subsidy bills high, authorities recognize the need for deeper fiscal reforms, a new debt law, and economic diversification to put finances on a sustainable path.

Benign Inflation and Shift in Monetary Stance: Kuwait has experienced only **moderate inflation** compared to global highs. Headline CPI peaked at ~4.0% in 2022 and eased to ~3.0% in 2024. As of June 2025, inflation stands at **2.3%** year-on-year – among the lowest in the region – thanks to stable food and fuel costs and the dinar's currency basket peg containing import prices. With price pressures subdued, the Central Bank of Kuwait halted its tightening cycle. After lifting its benchmark rate from 1.5% to ~4.0% during 2022–2023 in tandem with U.S. Federal Reserve hikes, the CBK has kept rates on hold in 2024–2025. Monetary policy has thus shifted to a neutral stance, balancing inflation control with support for credit growth. Bank lending has indeed picked up in 2025: overall credit grew **~6.3%** y/y by June, the fastest pace since 2021. Ample liquidity and expectations of peaking global rates have encouraged borrowing, aiding a nascent recovery in business investment and consumer spending.



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Resilient Financial Markets and Consumer Trends: Kuwait’s financial market has been steady to upbeat. The All-Share stock index posted **double-digit gains** in the first half of 2025 (around +17% year-to-date as of Mid of August) amid robust trading volumes and liquidity. Bank balance sheets remain well-capitalized, and major corporate actions – including bank mergers – point to confidence in the sector. In real estate, sentiment improved markedly in early 2025, with residential and investment property sales rebounding on the back of legislative optimism (e.g. an expected Real Estate Finance law). That said, the commercial property segment stays soft as businesses remain cautious. On the consumer front, spending power is gradually recovering; inflation’s squeeze on real incomes has lessened in 2025, though households remain value-conscious after prior subsidy cuts. Retail activity is picking up moderately. Overall, Kuwait’s economy is navigating a delicate inflection point – oil revenues and public finances are under pressure, but low inflation, improving credit conditions, and progress on reforms provide a platform for recovery if the global environment remains favorable.



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Kuwait Macroeconomic Overview

Oil Sector: Output Rising but Prices Under Breakeven. Hydrocarbons remain the bedrock of Kuwait's economy, at ~90% of exports and government revenue. OPEC+ production cuts in 2023–2024 saw Kuwait's crude output fall to about 2.4 million barrels/day (mb/d) – roughly 7% below capacity – which drove the two-year GDP contraction. In May 2024, OPEC+ allowed a small quota increase (Kuwait's cap ~2.443 mb/d) and signaled a gradual unwinding of cuts from late 2024. Accordingly, Kuwait's actual production has ticked up in 2025 (June output ~2.44 mb/d, the highest since end-2023). This boost is expected to pull the oil GDP back to growth of ~2% in 2025 after steep declines in the prior two years.

Even so, oil price volatility poses a constant risk. Brent crude averaged in the \$80s in 2023 but dipped to a 4-year low

near \$60 in Q2 2025 amid global demand concerns. A geopolitical flare-up in the Gulf briefly jolted prices back above \$70 in June. Since then, markets have softened again – by mid-August Brent was only around \$66/bbl. Looking ahead, forecasts have turned bearish: the U.S. EIA projects an average below \$60 in Q4 2025, citing surging supply relative to demand. Kuwait's budget breakeven is roughly \$80–90, far above current levels. Thus, any sustained price weakness will widen deficits (each \$10 drop in price cuts Kuwait's annual oil revenue by several billion dinars). Kuwaiti officials emphasize that despite short-term output gains, price swings remain the critical uncertainty for fiscal and growth outcomes. This underlines the urgency of diversification – a theme repeatedly highlighted as oil market gyrations expose the economy's vulnerability. On the positive side, Kuwait is investing heavily in its energy sector to secure future growth. The giant *Al-Zour Refinery* became fully operational, adding 615,000 bpd of

refining capacity and enabling Kuwait to export higher-value products. Meanwhile, development of the offshore *Durra gas field* (shared with Saudi Arabia) is moving ahead despite disputes – Kuwait sees Durra, with an estimated 20 trillion cubic feet of gas, as strategically vital and is proceeding with drilling plans even over Iranian objections. Kuwait Petroleum Corporation is also striving to increase crude production capacity over the coming decade (with unofficial targets around 3.5 mb/d). In summary, the oil sector is at an inflection point: near-term output volumes will rise as OPEC+ constraints ease, but oil price volatility and global energy transition pose medium-term challenges to this pillar of the economy.

Fiscal and Debt Dynamics: Kuwait's public finances have seesawed with oil prices. After a 12% of GDP surplus in FY2021/22 due to the 2022 oil boom, the budget reverted to deficit as oil income fell. FY2023/24 (ended March) saw a



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deficit around -5% of GDP. Initially, FY2024/25 was expected to deteriorate sharply – the draft budget projected a KD 5.6 bn shortfall (~11% of GDP). However, preliminary closing figures surprised to the upside: the actual deficit was only KD 1.06 bn. Two factors drove this KD 5 bn swing: oil prices averaged ~\$75 instead of the \$70 assumed (boosting revenues), and a government austerity push cut expenditures by ~20% across ministries. One-off revenue measures (e.g. higher service fees) also helped trim the deficit. This improvement indicates Kuwait *can* contain its deficit in the short run with prudent assumptions and spending restraint. Indeed, the first half of FY2024/25 even recorded a small surplus.

Despite this reprieve, underlying trends remain concerning. The new FY2025/26 budget (Apr 2025–Mar 2026), approved by the cabinet, foresees a KD 6.3 bn deficit (12–13% of GDP). Projected revenues of KD 18.2 bn are *lower* than the previous year (on a more conservative oil

price of \$68), while spending is only marginally lower at KD 24.5 bn. Notably, 79% of spending is for public sector wages and subsidies, with capital investment only ~9%. The government's breakeven oil price for the new budget is estimated at a steep \$90.5/bbl – far above current market prices. Meanwhile, Kuwait's sovereign wealth assets (in the Future Generations Fund) provide a hefty cushion – official reserves were ~\$44.5 bn as of 2024 (covering 11 months of imports) and the FGF exceeds 500% of GDP – but tapping those for budget needs is politically fraught. In short, Kuwait's fiscal outlook is challenging in a \$70 oil world: even with recent spending cuts (e.g. the smallest public wage hike in decades at +0.8% in 2025), the non-oil deficit is large. Fiscal reform – introducing new revenues (such as a VAT or corporate tax) and rationalizing subsidies and public payroll – is increasingly urgent to stabilize debt and safeguard the FGF. Encouragingly, non-oil revenue is slated to rise ~9% in the

new budget (to KD 2.9 bn) via fee hikes and improved collections, and the government aims to boost non-oil receipts from ~9% to ~17% of revenue over coming years. Still, tough choices lie ahead to rein in the structural deficit and insulate the budget from oil swings.

Inflation and Monetary Policy:

Kuwait's inflation has ebbed to the low-single digits, allowing monetary policy to stabilize. Consumer price inflation averaged 3.6% in 2023 and decelerated to ~3.0% in 2024. By May–June 2025, headline CPI was just ~2.3% y/y – the slowest pace since 2020 and roughly in line with the GCC average. Price pressures have moderated across the board. Food costs, which spiked in 2022, have grown only mid-single-digits in 2025, and housing rents have been mostly stable. Transport prices even fell ~1.8% y/y in June, reflecting past fuel price stability. Core inflation (ex-food) is under 2%. This broad-based disinflation owes to a few factors: the strong dinar (pegged



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to a USD-heavy basket) keeping import prices in check, government subsidies tempering utility/fuel costs, and waning demand-side pressures as the post-pandemic stimulus faded. The Central Bank of Kuwait (CBK) has thus pivoted from aggressive tightening to a neutral bias. During the global inflation surge, CBK raised its discount rate in stages from 1.5% to reach 4.0% by early 2024. Since then – mirroring the U.S. Fed’s pause – CBK has held rates steady. With inflation below its 2.5% forecast trajectory, the CBK signaled it is prepared to shift toward supporting growth if needed. Indeed, real interest rates are now positive, and Kuwait’s monetary conditions have tightened less than in the U.S., given the dinar’s partial currency basket regime. Credit data show that rate hikes have not choked off lending: after sluggish 2% growth in 2023, private credit expanded ~5–6% y/y by mid-2025. In June alone, lending jumped 1.2% m/m, the fastest monthly rise in years. This was driven in part by financing for equities

and big projects, while household loan growth has been modest. Looking ahead, with the Fed potentially cutting rates in 2025 (markets expect U.S. easing by late 2025), Kuwaiti officials anticipate some interest rate relief that could stimulate credit and investment. Overall, monetary policy is set to remain aligned with global trends – on hold for now, then gradually easing once major central banks pivot – as Kuwait balances keeping the dinar attractive and nurturing the nascent domestic recovery. The banking system’s ample liquidity and capital (capital adequacy ~18%) provide room to support growth when policy shifts.

Investment and Growth Outlook: Kuwait’s non-oil economy has been growing slowly (~2% in 2023-24) but is poised for a moderate pickup. Key drivers for 2025 include a rebound in project spending and foreign investment. The government has renewed focus on its long-delayed development plan, prioritizing infrastructure projects like the

Northern Economic Zone/Silk City and *Mubarak Al-Kabeer Port*, which aim to transform Kuwait into a regional trade and logistics hub. These large-scale projects, alongside steady progress in the energy sector (new petrochemical facilities, gas imports to free up oil for export), should support construction and related services. Foreign investor interest is also slowly returning – FDI stock rose 3.5% y/y to BD 17.1 bn in neighboring Bahrain, signaling Gulf-wide trends. Kuwait hopes recent legal changes (e.g. allowing 100% foreign ownership in some sectors) will boost FDI inflows, which have historically been low. The World Bank projects Kuwait’s non-oil GDP to grow 1.6% in 2025 on the back of revived credit and investment, after near-stagnation in 2024. Overall GDP is forecast around 2.2%, assuming oil output rises modestly and no major external shocks. Downside risks include any renewed OPEC production cuts or a sharper global downturn that hits oil demand. Upside potential lies in



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accelerated reform momentum after Kuwait's recent elections – a more cooperative Parliament could unblock projects and the debt law, boosting confidence. In summary, Kuwait's macro outlook for 2025 is cautiously optimistic: the recession is bottoming out, inflation is low, and growth is set to resume, but the pace will be modest unless structural reforms and diversification efforts gain traction to reduce the heavy reliance on oil.

Kuwait Financial Market

Kuwait's capital markets have shown resilience and robust performance through 2025, even against a backdrop of global volatility. The benchmark All-Share Index is up roughly 17% year-to-date as of Mid of August), building on the moderate gains of 2023. Market activity surged in the first half: total traded value on Boursa Kuwait jumped 90% y/y to KD 12.6 billion, and market capitalization

climbed +23% year-on-year to KD 50.5 billion by mid-2025. This reflects renewed investor appetite, buoyed by strong corporate earnings and Kuwait's inclusion in emerging market indices in recent years. Notably, Boursa Kuwait (the stock exchange company) itself reported a 61% rise in net profit for H1 2025 on higher trading revenue.



Sectoral trends: Banking and financial services stocks – comprising over half of market cap – have led the rally, supported by solid bank profits and ongoing industry consolidation. Kuwait's banks remain well-capitalized and liquid, and the sector is benefitting from higher interest margins post-rate hikes. A landmark

merger is underway between Gulf Bank and Warba Bank, which will create Kuwait's third-largest lender and unlock scale efficiencies. This follows last year's KFH-AUB merger and underscores a broader consolidation trend in the GCC banking sector. Meanwhile, real estate and consumer sector equities have also performed well amid the post-pandemic economic reopening and anticipation of pro-growth reforms. By contrast, some investment companies and smaller industrials have lagged, reflecting specific challenges. Overall, market breadth has improved, with both the "Premier" market (blue chips) and "Main" market seeing increased activity – the Main market's traded value more than tripled (+221% in H1) as retail investor participation grew.

Drivers and outlook: Several factors underpin Kuwait's stock market resilience. First, liquidity is ample – Kuwaiti institutional investors and local family offices have been reallocating



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funds on optimism that the Fed's tightening cycle is peaking, making local equities attractive relative to low-risk deposits. Second, earnings growth has been robust in key sectors (e.g. banks' profits are up ~20% y/y, telecoms and logistics firms also show solid growth), supporting valuations. Third, Kuwait's successful Eurobond issuances in prior years and the government's large sovereign assets contribute to a perception of stability among foreign investors. Kuwait's inclusion in the MSCI Emerging Markets index in 2020 continues to channel passive inflows; foreign ownership in Kuwaiti stocks, while still modest, has ticked upward. Additionally, market development reforms have progressed – short-selling and margin trading facilities expanded, and new listings (IPOs) are in the pipeline as the Capital Markets Authority pushes to deepen the market. Boursa Kuwait's leadership highlights that the exchange has navigated global geopolitical and

economic headwinds by diversifying its revenue and enhancing liquidity. Looking ahead, near-term sentiment is cautiously positive. The combination of potential interest rate cuts in 2025 and Kuwait's internal reform momentum (e.g. if a new government passes the debt law and investment-friendly measures) could further boost the market. However, risks such as a sustained slump in oil prices or regional geopolitical flare-ups could temper investor confidence. So far in 2025, Kuwait's market has decoupled from some global turbulence – for instance, it weathered U.S.–China trade tensions and regional security scares without major sell-offs. This reflects investors' focus on Kuwait's strong fundamentals: huge sovereign wealth buffers, low public debt, and a banking system able to absorb shocks. Credit ratings for leading Kuwaiti corporates and banks remain high (mostly A/A+), aiding capital market stability. In sum, Kuwait's financial market is on a firm footing, with steady gains, high liquidity, and ongoing

reforms reinforcing its role as a stable investment destination in the GCC. Barring a severe external shock, the market is expected to end 2025 with solid returns, while continuing to implement structural improvements to attract more international capital.

Kuwait Real Estate

After a subdued period, Kuwait's real estate sector is mounting a notable recovery in 2025, though performance varies across segments. Residential real estate has been the standout: sales of residential properties (primarily plots and homes in desirable areas) have jumped, and prices are trending upward mid-single-digits year-on-year. Pent-up demand, coupled with more favorable financing conditions, has spurred activity. Households that had postponed purchases during the pandemic and last year's rate hikes are returning to the



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market now that borrowing costs appear to be stabilizing and price growth has moderated. According to official figures, real estate transaction volumes in H1 2025 were up by around 20% compared to the previous year, led by the residential sector. Market sentiment has also been lifted by expectations of new legislation – notably the draft *Real Estate Finance Law*, which is anticipated to expand mortgage lending options and introduce a regulatory framework for real estate investment funds. Legislative committees moved the bill forward in Parliament, and its potential passage has created “legislative optimism” that is drawing in buyers and investors. Additionally, the government has signaled support for housing development (to cut the waiting list for land plots), which bodes well for residential construction.

The investment (apartment) property segment is likewise seeing improvement. After a soft few years, apartment building occupancy rates have started rising as

expatriate population growth resumes and new household formation picks up. Rents for quality apartments in Kuwait City and surrounding areas have stabilized and even inched up in 2025 after declining earlier. Small investors are cautiously returning to the apartments market, lured by prices that have corrected from their peaks and the prospect of future rent gains. The availability of financing for investment properties (often via Islamic banks) has also improved. The retail and commercial real estate segment, however, remains bifurcated. High-end retail (e.g. in The Avenues mall and other prime centers) is performing well, benefitting from robust consumer spending on luxury goods and entertainment as the economy reopens fully. In contrast, neighborhood retail and older shopping centers still face challenges from e-commerce growth and shifting consumer preferences. Office real estate is the weakest segment – office vacancy rates in Kuwait City are elevated, especially in older buildings, and rents are under

pressure. Corporates continue to optimize space and there is limited new business formation to soak up excess supply. The “return-to-office” post-Covid has been partial, and many firms have consolidated offices. Thus, the commercial sector has slowed, reflecting cautious business sentiment.

Despite these pockets of weakness, the overall real estate outlook is brighter than in recent years. Authorities’ pro-active stance is a key reason. The anticipated Real Estate Finance Law will, for the first time, allow banks and specialized firms to increase lending to real estate in a regulated manner, potentially boosting credit to the sector. Regulators also introduced improvements in 2024–2025 such as quicker foreclosure processes and digitalization of property registration, which enhance market efficiency. Moreover, the broader macro factors are turning favorable: inflation is low and likely to stay contained, and interest rates are at or near their peak, with possible



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cuts in late 2025 if global inflation subsides. This could reduce financing costs for developers and buyers, stimulating demand. Already, two new real estate funds were launched in 2025 targeting income-generating assets, indicating investor confidence. Construction activity has picked up – cement sales and building permits were both higher in H1 2025 versus a year prior, pointing to renewed development especially in residential and logistics projects. The government’s commitment to infrastructure (new roads, urban expansions) also indirectly supports real estate values. Risks remain – for instance, a sudden increase in interest rates (if global inflation flares up) or political delays to the new law could dampen momentum. But on balance, Kuwait’s real estate sector in 2025 is recovering, with residential and investment properties leading the way, and is positioned to strengthen further as regulatory reforms take effect and economic confidence gradually returns.

Kuwait Energy Projects

Kuwait is pressing forward with major energy projects spanning oil, gas, and renewables as it seeks to modernize its energy sector and bolster long-term capacity. A centerpiece is the Durra offshore gas field development. Durra, located in the Neutral Zone shared with Saudi Arabia, has an estimated 11-20 trillion cubic feet of natural gas reserves. After decades of delay, Kuwait and Saudi Arabia reached agreement in 2022 to jointly develop Durra, though Iran (which claims a portion) objected. Kuwait now considers Durra “one of the most important strategic projects” and, despite Iran’s protests, has proceeded with engineering and drilling plans. The goal is for Durra to start producing by the late 2020s, eventually supplying up to 1 billion cubic feet per day of gas – crucial for Kuwait’s electricity generation and petrochemicals. The project aligns with

Kuwait’s strategy to boost domestic gas output to meet power needs and free up more crude oil for export. Alongside Durra, Kuwait is investing in developing non-associated gas fields in the north (e.g. the Jurassic gas project) to raise gas production. These efforts should help reduce Kuwait’s reliance on imported LNG for power, especially during peak summer demand.

On the oil front, Kuwait has made significant progress expanding its downstream and export capacity. The *Al-Zour Refinery* – a \$16 billion megaproject – became fully operational in 2023 and is now one of the largest refining complexes in the world. Al-Zour adds 615,000 barrels/day of refining capacity, allowing Kuwait to process its heavy crude into cleaner fuels for export. This has already bolstered export revenues and will reduce sulfur emissions in line with environmental standards. In the upstream sector, Kuwait is implementing enhanced oil recovery techniques at mature fields



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and expanding facilities to lift crude production capacity. KPC's long-term (2040) strategy aims for 4 million bpd capacity, though interim targets have been moderated. Industry reports suggest capacity has recently risen to ~3.0 mbd and could reach ~3.2 mbd by 2025-2026 with the completion of gathering centers and debottlenecking projects. Importantly, as OPEC+ output cuts phase out, Kuwait intends to reclaim market share – its production could increase toward 2.7–3.0 mbd if demand allows, reversing the declines of recent years. This expansion is critical to pulling Kuwait's oil GDP out of recession and back into growth from 2025 onward. However, officials caution that any capacity gains will be balanced against OPEC commitments and global climate pledges. Kuwait has repeatedly affirmed support for OPEC+ agreements to stabilize oil markets.

Kuwait is also embracing energy diversification in line with global trends.

The country launched its first large-scale renewable energy park, the Shagaya Renewable Energy Complex, which currently has 70 MW of solar PV, 10 MW of wind, and a 50 MW concentrated solar plant in operation (Phase 1). Further expansion is planned to take Shagaya to 2 GW capacity or more by late this decade. This forms part of Kuwait's target to generate 15% of power from renewables by 2030 – an ambitious goal for an oil exporter with virtually all electricity from oil/gas today. Progress has been incremental: a 1.5 GW solar project at Al-Dibdibah was revived under KNPC, and several ministries are installing rooftop solar. These steps not only diversify energy but also free up oil for export and help Kuwait meet its emissions reduction commitments under the Paris Agreement. Another key initiative is the Clean Fuels Project, completed in 2022, which upgraded Kuwait's older Mina Al-Ahmadi and Mina Abdullah refineries. This has improved fuel output quality (low-sulfur diesel, kerosene, etc.) and will

strengthen Kuwait's position in refined product markets. In petrochemicals, Kuwait is expanding the Olefins 3 ethylene-glycol plant (through Equate) and exploring new joint ventures abroad to move up the value chain beyond crude exports.

Additionally, Kuwait is focused on enhancing oil export infrastructure. The construction of a new offshore crude import/export terminal on its islands is underway to expand export capacity. Storage capacity is being increased, and pipeline networks are being upgraded to ensure reliability. These investments proved beneficial in 2023 when Kuwait smoothly continued exports despite some regional logistical challenges. Lastly, regional energy cooperation is on the agenda: Kuwait has revived talks on a GCC power grid expansion and potential gas imports via pipeline from neighbors (such as a mooted import of Qatari gas or Iraqi gas in exchange for power/water). While still in early stages, such deals could



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diversify Kuwait's energy sources. In summary, Kuwait's energy project pipeline is robust – from *major upstream ventures like Durra, to downstream upgrades like Al-Zour, to renewable pilots* – all geared toward reinforcing energy security and maximizing value from Kuwait's resources. If executed on schedule, these projects will position Kuwait to benefit when oil demand is resilient, while gradually preparing it for a future where efficiency and diversification are key.

Kuwait Consumer and Retail Sector

Kuwait's consumer and retail sector is gradually regaining momentum in 2025 after facing multiple headwinds in prior years. Consumer spending had been dented by a combination of high inflation in 2021–22 (which outpaced wage growth) and pandemic-related adjustments. Real household incomes

were squeezed as prices rose ~8% cumulatively over 2021–2023 while government salaries saw minimal increases. This led many consumers to cut discretionary spending and seek value – a trend evidenced by booming business at discount retailers and an uptick in savings rates. By 2025, however, the inflationary squeeze has eased. With Kuwait's CPI inflation running at only ~2.3% and no new subsidy cuts recently, consumers have a bit more breathing room. While there hasn't been a broad public-sector pay hike, the stabilization of prices (especially for food and fuel) means real incomes are no longer eroding. Indeed, certain consumer staples even saw price declines (e.g. clothing & footwear prices fell slightly in the past year). This improvement in purchasing power, albeit modest, is supporting a recovery in retail activity.

Retail sales data and proxies point to a pickup: point-of-sale transactions and consumer card spending in Kuwait rose

mid-single-digits year-on-year in the first half of 2025, according to central bank statistics. Big-ticket purchases like cars have also rebounded – new car registrations are up about 10% compared to a year ago, helped by promotions and the release of pent-up demand. Shopping malls have reported higher footfall; for instance, local news indicates that mall traffic and sales in Q2 2025 exceeded the 2019 (pre-Covid) baseline, especially in food & beverage and entertainment categories as families resumed normal outings. Segments like grocery retail have remained resilient throughout (supermarket chains continue to expand, with consumers prioritizing essentials), but now even consumer electronics and home goods are seeing improved sales as confidence returns. The summer travel season of 2025 was robust, with travel agencies and airlines noting a surge in bookings – a sign that middle-class Kuwaitis are willing to spend on leisure again.



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Several factors are driving this cautious consumer recovery. Firstly, interest rate relief is on the horizon – while borrowing costs are still higher than two years ago, the market expects that by late 2025 the rate cycle will turn. Anticipation of stable or lower loan rates is encouraging consumers to finance purchases (e.g. more people are taking personal loans for cars or renovations, given banks’ promotional rates and longer tenors). Secondly, Kuwait’s labor market has been supported by public hiring; the government continues to absorb young Kuwaiti graduates into civil service jobs (over 20,000 hired last year), which underpins household incomes. Expatriate employment has also picked up after previous visa and COVID-related departures – the expat workforce grew ~3% in 2024–25, contributing to demand in segments like rent, telecoms, and remittances. Thirdly, consumer sentiment has been buoyed by an abatement of political uncertainty. Confidence surveys show a slight uptick in Kuwaitis’

expectations for the next 12 months, compared to the very pessimistic readings during the repeated parliamentary dissolutions of 2022–23.

In the retail sector, businesses are adapting to evolving consumer behaviors. E-commerce penetration, which leapt during the pandemic, remains high – online sales now account for an estimated 10–15% of retail spending in Kuwait (versus low-single digits pre-2020). Traditional retailers have thus invested in omni-channel strategies. Notably, cooperative supermarkets and major retailers like X-cite and Centrepoint expanded their online delivery services, which continue to be popular. The food delivery sector (talabat, Deliveroo, etc.) is still thriving, indicating new consumer habits are sticking. International brands are bullish on Kuwait: several global retailers opened or announced new store launches in 2025, seeing Kuwait’s young population and high GDP per capita as an opportunity. For example, IKEA is

building a second store, and other franchises in fashion and dining are expanding outside Kuwait City to reach suburban consumers. This year also saw the return of large-scale shopping festivals and events (the “Hala Feb” festival resumed at full scale), which helped boost retail and hospitality revenues.

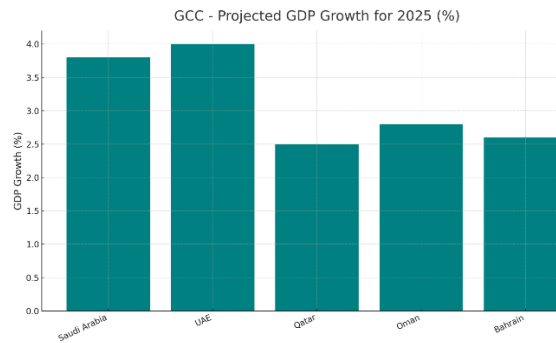
Challenges remain in the consumer landscape. While inflation is low now, consumer debt is relatively high – household borrowing (mainly personal loans and installment credit) rose to about 30% of GDP. The CBK has urged caution on retail lending, though delinquency rates are low. Additionally, housing costs for renters (especially expats) have started to rise again in some areas, which could squeeze disposable incomes if the trend continues. Unemployment among Kuwaiti youth is still a concern (over 16% for ages 18–24), potentially limiting consumption growth for that cohort. However, government



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stipends and job programs partially mitigate this. On the whole, 2025 looks brighter for Kuwait's consumers: stable prices, renewed job security, and recovering confidence are translating into higher spending, particularly in essentials and selective discretionary categories. If oil prices hold reasonably and the government proceeds with planned public sector bonuses or grants (often given ahead of elections or holidays), the retail sector could see an even stronger uptick. The outlook for the rest of 2025 is for a continued gradual rise in consumer spending, helping drive non-oil GDP growth into positive territory after a very subdued performance in 2023.

GCC Economic Snapshot



Saudi Arabia

The Kingdom of Saudi Arabia is experiencing a moderate economic rebound in 2025 after a slowdown last year driven by oil output cuts. Saudi GDP growth for full-year 2023 is estimated around 0–1% (with the oil sector contracting on OPEC+ curbs and non-oil growing ~3–4%). In 2024, the IMF projected a -2.8% contraction (as deeper oil cuts took effect), but recent data show momentum improving sooner. In Q2 2025, Saudi real GDP jumped +3.9%

year-on-year – marking a sharp turnaround. The oil sector, which had been a drag, grew 3.8% y/y in Q2 as Saudi Arabia partially reversed earlier voluntary production cuts. Non-oil activities continued to boom at +4.7% y/y, outpacing the oil sector. Drivers include thriving services and manufacturing, buoyed by the government's Vision 2030 investments. Seasonally adjusted, GDP rose 2.1% from Q1 to Q2, with oil output surging 5.6% quarter-on-quarter as Saudi Arabia briefly raised production. This strong mid-year performance suggests Saudi growth for 2025 could exceed earlier forecasts (the Ministry of Economy expects ~3.5%).

Saudi's non-oil economy remains the engine of diversification. Sectors like tourism, entertainment, transport, and technology are expanding rapidly. In H1 2025, tourist arrivals hit record levels as the Kingdom's push to become a global tourism hub gains traction (helped by new attractions and relaxed visas).



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Construction is another bright spot – megaprojects such as NEOM, Red Sea resorts, and metro systems are progressing, employing hundreds of thousands and spurring ancillary industries. The financial sector is healthy and credit growth has been robust (~9% y/y) as banks lend to new giga-projects and SMEs. PMI surveys show Saudi non-oil business activity firmly in expansionary territory through 2025. The government is continuing an expansionary fiscal stance in support of Vision 2030, using its oil windfall savings from 2022. Notably, the Public Investment Fund (PIF) is deploying capital across tourism, EV manufacturing, and digital infrastructure, which should sustain non-oil growth in the ~5% range annually.

On the oil side, Saudi Arabia has acted as OPEC's swing producer. After the big output cuts in 2023–24 (which dragged oil GDP down 5% last year), the Kingdom partially raised production in early 2025 as

global demand proved resilient. However, with oil prices soft, Saudi reinstated a voluntary cut of 1 mb/d in July–Aug 2025 to prop up the market. These adjustments make Saudi's oil GDP trajectory choppy – a decline in 2024 followed by a mild rise (+2%) in 2025 as base effects turn positive. The fiscal position has consequently weakened from the large surplus of 2022 (which was 2.5% of GDP). Saudi posted a small budget deficit (~1% of GDP) in 2023 and is expected to remain in deficit in 2024–25 if oil stays ~\$75. The government's 2025 budget assumes lower oil revenue and higher spending on social programs and megaprojects, resulting in a projected deficit of 2.5–3% of GDP. Public debt has been inching up (government debt about 32% of GDP) due to continuous bond issuance to fund projects and refinance. External debt in particular has risen with Saudi tapping international markets – this is noted as a risk if global rates stay high. Nevertheless, Saudi's overall fiscal health is solid with over \$400

bn in FX reserves (covering 30+ months of imports) and the PIF's hefty assets.

Saudi inflation has been relatively subdued. Headline CPI runs ~2.3% (June 2025), slightly up from 2.0% earlier, driven mainly by housing rents which are rising ~7% y/y amid strong housing demand. Food inflation is modest (~1.5%) thanks to government subsidies and price caps. Saudi Arabia's tripling of VAT to 15% in 2020 initially spiked inflation, but the effect faded; inflation is now one of the lowest globally, aided by the riyal's U.S. dollar peg and fuel price stability. The Saudi Central Bank (SAMA) has mirrored Fed rate hikes, lifting its repo rate to 5.75% by 2023. With inflation under control, SAMA has kept rates steady in 2024–25, maintaining a tight monetary stance to protect the peg and prevent capital outflows. Credit growth has slowed a bit under higher rates, but lending is still expanding (especially mortgage lending, though that cooled from the peak). Should the Fed start



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cutting in 2025, Saudi would follow suit, which would be a boon for its interest-sensitive sectors like real estate and banking.

In terms of diversification progress, Saudi Arabia is at the forefront in the GCC. Non-oil activities contributed a record ~42% of GDP in 2024 (at constant prices), up from ~37% five years ago. Non-oil exports have also climbed, including petrochemicals, metals, and manufactured goods, reflecting investments in downstream industries. A milestone was the commencement of EV production in 2025: the Lucid Motors factory in Jeddah began assembling electric cars (part of Saudi's push into autos). Meanwhile, Saudi Aramco's massive profits are being channeled into new sectors – e.g. a \$1.5 bn fund for sustainability and tech investments. Saudi's labor market reforms are ongoing (more women and youth employed now than ever), and unemployment fell below 9% in early 2025. The Kingdom has also

been positioning as a regional business hub – it attracted nearly \$6 billion in FDI in H1 2025, with global firms relocating regional headquarters to Riyadh under an incentive program.

Geopolitically, Saudi Arabia is navigating an active role. It orchestrated an OPEC+ output policy balancing act with Russia, aimed at managing oil prices. Regionally, Riyadh has pursued détente: the surprise rapprochement with Iran in 2023 (brokered by China) has reduced regional tensions and enabled ceasefire talks in Yemen. This has improved investor confidence by lowering immediate conflict risk. However, Saudi remains cautious amid global uncertainties – particularly the U.S.-China rivalry and how it might affect trade and tech (Saudi seeks to maintain good ties with both Washington and Beijing). Saudi-U.S. relations in 2025 have been cooperative on investment (the UAE and Saudi together pledged trillions in U.S. investments during high-level visits),

although differences linger on human rights and oil policy. In sum, Saudi Arabia's economy in 2025 is on a recovery trajectory: the oil sector will contribute modestly as cuts ease, and the non-oil sector is booming on the back of Vision 2030 projects and consumer confidence. Growth of around 3–4% is expected, inflation is low, and while fiscal balances are in slight deficit, Saudi's substantial buffers and reform momentum keep its outlook positive. The main risks are oil market volatility and global recession fears, but Riyadh's prudent management and diversification drive have positioned the Kingdom as one of the more dynamic GCC economies this year.

United Arab Emirates

The UAE continues to exhibit robust, broad-based growth, solidifying its status as the Gulf's most diversified economy. After an estimated 3.5% expansion in 2023 (slower than 2022's post-Covid



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surge of 7.9% due to OPEC+ oil limits), the UAE's growth is projected to accelerate again. The Central Bank of the UAE forecasts 4.4% real GDP growth in 2025, up from ~4.0% in 2024. This outlook reflects remarkable economic momentum driven by thriving non-oil sectors. The UAE's success in diversification and openness is paying dividends: non-oil GDP now makes up ~72% of the economy and is expanding at 5%+ annually, offsetting oil fluctuations. Key engines include travel and tourism, finance, trade, and real estate, all of which remain buoyant in 2025. Dubai in particular is experiencing a boom – the emirate's GDP grew 3.4% y/y in Q1 2025 with non-oil at 4.0%, fueled by surging tourism, transport, and financial services as it attracts an influx of new residents and businesses. Abu Dhabi's non-oil economy is also scaling up via massive investments in manufacturing (e.g. aluminum, pharmaceuticals) and logistics.

On the oil side, the UAE's hydrocarbon output was constrained in 2023–24 by OPEC+ quotas (~3.0 mb/d), but the UAE negotiated a higher baseline and plans to utilize it. From 2025 onward, oil GDP will contribute modestly to growth as capacity rises. Indeed, the UAE is investing to boost production capacity to 5 mb/d by 2027 (Adnoc is already near 4 mb/d capacity). Recent OPEC+ agreements allowed the UAE a baseline increase of 200 kb/d (to 3.5 mb/d) from 2024, acknowledging its heavy investments. Thus, oil GDP is expected to pick up slightly in late 2024 and 2025 as the UAE can pump more if market conditions permit. Moreover, the UAE is expanding its LNG export capacity and recently started up new gas fields (e.g. Shah gas expansion), aiming for gas self-sufficiency by 2030. These moves will reinforce its position as a major energy player even as it leads on climate initiatives (hosting COP28 in Nov 2023 and investing heavily in renewables).

The fiscal position of the UAE is healthy. High oil prices in 2022 gave Abu Dhabi (which generates 90% of UAE oil) a large surplus; in 2023–25 the surplus has narrowed but federal and emirate budgets remain either balanced or slightly positive. Abu Dhabi's 2023 budget, for example, projected a small surplus at \$70 oil. The UAE's diversified revenue base (including a 5% VAT, corporate tax introduced in 2023, and substantial investment income from its SWFs) provides stability. Government debt is low (~30% of GDP, mostly Abu Dhabi's) and well-covered by sovereign wealth assets. The UAE comfortably raised \$3 billion in bonds in early 2025 at favorable rates, underscoring investor confidence. This strong fiscal footing enables massive long-term investments: notably, the UAE has committed to a 10-year, \$1.4 trillion investment partnership with the U.S. focusing on AI, clean energy, and advanced industries. This is part of over \$2 trillion in deals announced during high-level engagements, signaling the



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UAE's ambition to leverage its capital for strategic global partnerships. Domestically, Abu Dhabi continues to deploy its \$280bn Mubadala and ADQ funds into diversifying the local economy (e.g. semiconductor fabs, biopharma). Dubai, meanwhile, adheres to fiscal discipline (it has a small deficit ~0.5% of GDP, with debt ~50% of GDP but declining thanks to robust economic growth and asset sales).

Inflation in the UAE has been moderate. After peaking at 4.8% in 2022, inflation eased to ~3.5% in 2023 and further to ~2.5% in H1 2024. As of mid-2025, UAE inflation hovers around 2–3%, very close to Saudi levels. Housing costs have been a primary driver – Dubai's rents rose sharply in 2022–23 amid surging demand, but new supply and government rent cap rules have tempered the increases in 2024–25 (Dubai residential rents up ~10% y/y in early 2025 versus 20+% last year). Abu Dhabi saw milder rent rises ~3%. Otherwise, the strong dollar peg

has kept import inflation low, and fuel prices are regulated. The introduction of a 9% federal corporate tax in 2023 had minimal direct consumer price impact. The Central Bank of the UAE followed the Fed in raising rates (benchmark repo at 5.40% by mid-2023). This cooled credit growth slightly (bank lending growth was ~4% y/y in Q1 2025, down from 6-8% pre-hikes) but did not stifle it. With inflation contained, the CBUAE signaled it will hold rates steady and is ready to adjust if the Fed eases in 2025. The higher interest rates have, however, pushed up mortgage costs, which combined with property price growth raised affordability issues – a factor being monitored as part of macroprudential oversight. Encouragingly, UAE banks remain very well capitalized (CAR ~17%) and liquid, and loan quality is strong, so the financial system easily withstood the rate hikes.

In terms of the diversification progress, the UAE stands out. Non-oil sectors like tourism are thriving: Dubai welcomed

over 14 million international visitors in 2024 and is on track to surpass that in 2025, nearing pre-pandemic highs. The hospitality sector's occupancy rates are ~75% and new hotel openings continue. Aviation has roared back – Emirates Airlines and Etihad both returned to profitability, and Dubai International remains one of the world's busiest hubs.

The real estate market has been booming (especially luxury properties in Dubai, driven by foreign investor inflows and affluent expatriates relocating – an influx partly from global millionaires choosing Dubai as a base). This contributed to record real estate transactions in 2022–2023 and continued strength in 2025, albeit at a more sustainable pace. Financial services are expanding: the DIFC in Dubai and ADGM in Abu Dhabi have grown their asset base and attracted dozens of new hedge funds, crypto firms, etc., benefiting from the Gulf “safe haven” status amid global turbulence. The UAE's free zones and



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liberal business environment (100% foreign ownership allowed in most sectors) have drawn in numerous companies – exemplified by some regional headquarters moves from other Middle East hubs to Dubai after Saudi's HQ incentive policy, showing the UAE's enduring appeal.

Meanwhile, major investments underpin future growth. Beyond the U.S. partnership, the UAE is investing heavily in *clean energy* (it already operates the region's largest solar farms at Sweihan and Mohammed bin Rashid Solar Park, and the Barakah nuclear plant's 4 reactors will be fully online by 2025, supplying 25% of UAE's power). The UAE aims for 50% clean power by 2050 and net-zero by 2050 – ambitious goals supported by \$160 bn in planned investments. In industry, Abu Dhabi launched projects like a green hydrogen hub, an EV manufacturing plant (NWTN motors), and expanded aluminum and steel capacity, all diversifying its industrial base. Trade

remains a pillar: non-oil foreign trade hit a record AED 2.2 trillion in 2024, and new trade agreements (CEPA deals signed with India, Indonesia, Turkey) are boosting export opportunities. The UAE is leveraging these CEPAs to become a global trade logistics hub (Dubai's DP World ports and Abu Dhabi's Khalifa Port are expanding capacity, and logistics output is growing ~8% annually). The labor market is benefiting as well – after an expat exodus during early Covid, the UAE's population has grown to an all-time high (~10.5 million) driven by new visa schemes (Golden Visa, freelancer visas) that attract talent. This population and talent influx feeds into higher domestic demand and innovation.

Overall, the UAE's economy in 2025 is strong and set for sustained, broad-based growth barring external shocks. Real GDP growth around 4–4.5% is expected, with non-oil sectors leading and oil providing a smaller boost. Inflation is manageable, the fiscal and external

accounts are in surplus, and the country's proactive diversification means it is less exposed to oil price swings than its neighbors. Risks include global recession or financial market turmoil that could affect its tourism and investment flows, but so far the UAE has demonstrated agility and resilience – continuing to attract capital and people even in uncertain times. The trajectory is positive: the UAE is reaping rewards from decades of openness and bold investments, positioning it as the Gulf's most dynamic economy in the mid-2020s.

Qatar

Qatar's economy is in a steady, transitional phase in 2025, as the gas-rich nation lays the groundwork for a future LNG boom. After the frenetic growth leading up to the FIFA World Cup 2022 (which saw 4.8% GDP growth in 2022), Qatar's growth cooled to ~2.5% in 2023 as the World Cup effect faded and global



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gas prices normalized. For 2024–2025, Qatar’s real GDP is projected around 2–3% annually – a moderate pace reflecting solid non-hydrocarbon activity while LNG output remains flat. Indeed, Qatar’s next big leap will come when its massive North Field Expansion (NFE) starts up in 2026–27, boosting LNG production capacity by 64% (from 77 million to 126 million tons/year). Until then, hydrocarbon GDP is relatively static: Qatar has maintained LNG production at full capacity, and crude oil/condensate output (about 1.3 mb/d) is steady under OPEC+ caps. So the gas sector isn’t adding to growth in the short term, although high LNG export volumes at long-term contract prices have kept export revenues robust. Qatar benefitted immensely from spiking LNG prices in 2022 (with a record trade surplus ~40% of GDP), but those prices have since retraced. In 2023–25, Qatar’s energy revenues have eased, but remain healthy – the country’s breakeven LNG price is

very low, so it still runs substantial external surpluses.

The non-oil sector is now the main growth driver. After the World Cup, Qatar has worked to sustain momentum by promoting tourism, industry, and financial services. Tourist arrivals jumped in 2023–2024 due to new attractions (e.g. Lusail Winter Wonderland, resort islands) and events (Doha Expo 2023, major sports tournaments). Qatar aims to reach 6 million tourists by 2030 and is investing in cruise terminals and hospitality; progress is evident with hotel occupancy and visitor spending up in 2025 versus pre-2022. Construction remains active – while World Cup stadium building is over, Qatar is still executing its National Vision 2030 projects like transport infrastructure (the Doha Metro expansion and new rail links) and real estate developments (new residential and commercial districts in Lusail and Msheireb). The financial sector is growing regionally, with Qatari banks expanding

abroad and Qatar’s stock market performing well (the QE Index is up mid-single digits YTD 2025). Notably, Qatar is leveraging its enormous sovereign wealth (over \$450 bn in the Qatar Investment Authority) to diversify income – the QIA has made major global investments (real estate, tech, sports teams) that provide steady returns and global clout.

Qatar’s fiscal position is strong. The government posted large budget surpluses in 2022 (nearly 10% of GDP) thanks to LNG gains, which allowed it to pay down debt. In 2023 and 2024, the surplus narrowed but remained positive (estimated ~3-4% of GDP) as oil and gas prices moderated. Qatar’s 2024 budget assumed an average oil price of \$65 and projected a small surplus. Public debt, which spiked during the 2015–18 low-oil years and for World Cup spending, has fallen to ~45% of GDP and is on a downward trend. Ample fiscal buffers (e.g. the QIA) give Qatar flexibility to



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sustain spending. The government continues to spend on citizen services and salaries generously, ensuring domestic demand stays supported. Yet it also exercised spending discipline post-World Cup – 2023 saw a 2.6% cut in budget spending from 2022. Inflation in Qatar has been remarkably low or even negative in 2023–25. Inflation spiked ~5% in 2022 with the World Cup and supply chain issues, but by 2023 it receded to about 2%. As of April 2025, inflation was only 0.5% y/y, and in May prices were actually slightly down 0.1% y/y – effectively *deflation*. This is due to declining housing rents post-World Cup (a wave of expatriates left after the event, easing housing demand) and the government’s caps on utility and fuel prices. Food inflation is also low. The Qatari riyal’s dollar peg ensures imported inflation is minimal. Such low inflation improves real incomes for residents, though authorities will watch against any deflationary trend. The Qatar Central Bank followed global hikes, raising its repo to 5.75%, but with

inflation so low, real rates are high; the QCB may cautiously follow if the Fed cuts, but overall Qatar’s monetary stance is stable and the banking system is very liquid.

A challenge Qatar faces is the cost of living and perception issues among expatriates, as housing and entertainment had gotten pricey during the World Cup run-up. But 2023–24 corrections in rent (now down ~5-10% from peak) have alleviated some concerns. The government also boosted some expat labor protections and adjusted visa rules to retain talent. In the diversification arena, Qatar, like its neighbors, is pushing to grow non-energy sectors. Its focus is on niches where it can be competitive: *education and research* (Education City, Qatar Foundation, and foreign universities are turning Doha into an education hub), *sports and media* (building on World Cup success, it’s hosting Formula 1, and via beIN Media, it’s a sports broadcasting giant), and *Islamic*

finance (Doha aspires to be a center for Islamic banking). Additionally, Qatar is expanding its petrochemical output – new facilities like the Ras Laffan Petrochemicals complex (under construction) will come online by 2026, adding value to its hydrocarbons. The North Field Expansion itself is a huge diversification within energy: it not only cements Qatar’s LNG dominance with new long-term supply contracts (recent 27-year LNG supply deals with China and others), but also brings foreign partners and technology into Qatar. By 2025, contracts for all NFE train construction were awarded and the project is on track. In summary, Qatar’s economy in 2025 is stable and poised for a gas-fueled growth jump later in the decade. Near-term growth ~2–3% is underpinned by a vibrant non-oil sector and prudent fiscal management. Inflation is negligible, the budget and external accounts are in surplus, and public debt is falling. Qatar stands out for weathering global turbulence (e.g. in energy markets) well,



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thanks to long-term LNG contracts shielding it from spot price volatility. Political stability and high per capita income support a high standard of living. The main risks would be any delay in the North Field Expansion or a global shift away from gas faster than expected. But given current trajectories, Qatar is biding time until its next gas expansion delivers a quantum leap in exports and GDP around 2026–27. For now, it enjoys steady growth and continues to invest in its future, ensuring that when the gas boom comes, the economy is diversified enough to channel that windfall into sustainable prosperity.

Oman

Oman's economy is on a path of gradual recovery and reform, having turned itself around from a near crisis in 2020. Real GDP grew a solid 4.3% in 2022 as oil production and prices rose, then slowed to ~1.3% in 2023 with OPEC+ cuts. For

2024–2025, Oman's growth is forecast around 2.5–3% per year – a moderate rate that reflects steady expansion in non-oil activities and a stabilization of oil output. Crucially, Oman has benefited from extensive fiscal and economic reforms launched under Sultan Haitham. These reforms (including VAT implementation, spending cuts, and investment promotion) have improved Oman's fiscal position dramatically since 2020. In 2022, Oman achieved a budget surplus (~5% of GDP) which it used to pay down debt. While 2023 saw a return to a small deficit due to lower oil revenue, Oman's debt-to-GDP has fallen from over 60% in 2020 to ~40% in 2024, and credit rating agencies have upgraded Oman's outlook. The government remains committed to fiscal prudence – the 2024 budget assumes \$55 oil and targets near-balance, emphasizing continued control of expenditure and boosting non-oil revenue. As a result, Oman is likely to maintain a near-balanced or small deficit budget (~0 to -

2% of GDP) in 2025, preserving the gains of its recent fiscal turnaround.

The oil & gas sector, which still contributes about 30% of GDP, is expected to be stable in 2025. Oman adhered to OPEC+ cuts in 2023, keeping oil production around 1.0 mb/d. It plans to gradually raise output as allowed; already by mid-2024 Oman's oil production inched up and it hopes to reach 1.1 mb/d by 2025 if quotas relax. Gas output is rising due to new fields (BP's Ghazeer field phase 2) that came online, supporting Oman's LNG exports. Higher gas volumes in 2024–25 will help offset some oil limits. The new Duqm refinery (230k bpd) is set to start full operations in late 2025, which will boost downstream output and export of refined products. These energy projects underpin the hydrocarbon outlook, though Oman is mindful of diversifying to reduce its heavy reliance on oil income.



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Non-oil growth in Oman is picking up, supported by investment and a recovering business climate. The government's Vision 2040 identifies tourism, logistics, mining, manufacturing, and fisheries as priority sectors. There is progress: the new Duqm special economic zone is attracting manufacturing and petrochemical investments; a major green hydrogen project in Dhofar has been announced (Oman aims to be a top 10 global hydrogen exporter by 2030); tourism numbers are rising with relaxed visas and new hotel developments along Oman's coast (2023 saw a 4.1% GDP growth in hotels/restaurants). Additionally, credit growth is healthy at ~8% y/y as of May 2025, indicating banks are lending and private activity is supported. The banking sector's stability (CAR ~18%, low NPLs) allows them to finance new projects and SMEs. Unemployment, especially among Omani youth (~11–12%), remains an issue, but the government's Omanisation policy (replacing expats with Omanis in private

jobs) and investments in skills training are gradually yielding results by increasing Omani employment in sectors like retail and clerical jobs.

Inflation in Oman is very low at around 0.5–1% in 2025. In fact, Oman had one of the lowest inflation rates globally in 2023–25 due to government fuel subsidies and the fixed exchange rate (the OMR is pegged to USD). For example, inflation was just 0.6% in May and 0.8% in June 2025. This price stability helps maintain purchasing power but also indicates subdued domestic demand pressures. The low inflation environment gave the central bank room to support growth; however, being pegged to the dollar, Oman's policy rates followed the Fed's. Still, ample domestic liquidity and low loan rates for priority sectors (the government has credit programs for SMEs, etc.) have mitigated the impact. Oman's external accounts have improved in line with the fiscal repair. The current account was back in surplus (5% of GDP

in 2022) and while it narrowed in 2023 with lower oil prices, Oman remains in a modest surplus externally. Foreign reserves at the central bank are comfortable (\$18 bn, covering 8–9 months of imports). Significantly, Oman's sovereign wealth fund (OIA) has been consolidating and investing domestically, playing a role in projects from ports to mining. Gulf neighbors have also extended support – for instance, as part of the 2021 GCC aid, Oman received deposits and grants that bolstered its financial position. Furthermore, Oman has continued to tap international bond markets occasionally, benefiting from improved credit ratings (S&P upgraded Oman to BB in 2022, outlook stable).

Diversification efforts are tangible: Oman is expanding its mining sector (rich in minerals like gypsum, and a major new copper-gold mining venture launched in 2025), developing fisheries and aquaculture (leveraging its long coastline),



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and building logistics infrastructure (the new container terminal at Duqm port, road and rail links to Saudi and UAE). The Sultanate's strategic location outside the Strait of Hormuz is an advantage it markets for logistics. Meanwhile, tourism is steadily recovering to pre-pandemic levels – Oman's unique cultural and natural attractions attract high-value European tourists especially. Government initiatives like e-visa and promoting Khareef (monsoon) tourism in Salalah are boosting visitor numbers.

In summary, Oman's economy is recovering steadily and on a firmer footing. Growth ~3% with moderate inflation and a nearly balanced budget is anticipated. The painful reforms of early 2020s are bearing fruit as fiscal and external metrics improve. Oman remains somewhat vulnerable to oil price downturns given its high hydrocarbon dependence, but it has now built some resilience with buffers and diversified revenue (VAT and excise taxes together

contribute over 5% of GDP). The outlook is cautiously optimistic: Oman is no longer viewed as an imminent debt risk but as a reform story. Continued adherence to fiscal discipline and success in attracting investment into non-oil sectors will determine if Oman can sustain growth and reduce its still-high unemployment. For 2025, the trajectory is positive, with moderate growth, low inflation, and a stable financial situation being the likely scenario.

Bahrain

Bahrain's economy in 2025 is experiencing moderate growth with ongoing diversification gains, while grappling with a legacy of high public debt. The smallest GCC economy grew about 4.9% in 2022, then around 2.0% in 2023 as oil output was flat and base effects faded. The outlook for 2024–2025 is growth near 3% annually, led by non-oil expansion. In the first quarter of 2025,

Bahrain's GDP grew 2.7% y/y, with non-oil sectors up 2.2% and oil sector surprisingly up 5.3% (due to maintenance recovery). Non-oil activity – which forms 83–85% of real GDP – has been the main driver. Key sectors include financial services (over 17% of GDP), manufacturing (~15%, mainly aluminum and petrochemicals), government services, and tourism. Bahrain's financial sector (banking and insurance) continues to expand, benefiting from the economic rebound and its role as a regional finance hub; it grew 7.5% y/y in Q1 2025. The hospitality sector is booming: hotels and restaurants surged +10.3% in Q1 as tourist arrivals from Gulf neighbors (especially Saudi Arabia via the Causeway) returned strongly post-pandemic. Bahrain is marketing itself as a boutique tourism destination and is seeing good response (visitor numbers in 2023 exceeded 8 million, closing in on pre-Covid levels). Manufacturing has had steady growth too – Alba, the world's largest aluminum smelter outside China, is running near full



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capacity after its recent expansion, and Bahrain is expanding downstream aluminum industries. Construction grew over 5% in Q1, supported by infrastructure projects and new real estate developments.

Diversification progress: Bahrain, as the Gulf's most oil-scarce state, has long pursued diversification. The non-oil sector is now ~83% of GDP, highest in GCC. Initiatives under its Economic Recovery Plan (launched 2021) – worth \$30bn – are bearing fruit: projects like the new Bahrain metro (tendered in 2023), modernization of Aluminum Bahrain (Alba), expansion of Bahrain Petroleum Company (Bapco) refinery, and creation of new industrial zones are ongoing. Bahrain is also growing as an ICT and startup hub, leveraging its liberal regulatory environment (it was first in GCC for fintech sandbox and cryptocurrency regulations). This year saw progress in digital sectors and foreign tech investments. The government has

been actively improving the business environment (it topped MENA in the 2022 World Bank Doing Business rankings). Those efforts have translated into rising FDI – foreign investment stock rose 3.5% y/y to BD 17.1 billion by Q1 2025, reflecting global confidence.

Despite these positives, Bahrain faces the constraint of a large public debt (about 127% of GDP) built up from years of deficits. Bahrain does not have the oil wealth of its neighbors; it relies on oil for only ~17% of revenue now (post-VAT introduction), but oil still matters – the new offshore “Khaleej Al Bahrain” oilfield discovery has yet to be commercially developed. To shore up finances, Bahrain undertook a Fiscal Balance Program (FBP) since 2018, supported by a \$10bn aid package from Saudi, UAE, Kuwait. The FBP has achieved much: introducing VAT (now 10%), cutting subsidies, freezing government hiring, and other reforms which narrowed the deficit from 15% of

GDP in 2017 to about 5% in 2022. In 2023, Bahrain nearly balanced its budget (helped by high oil at \$100 early in the year). For 2024–2025, Bahrain aims to eliminate the deficit entirely. However, with oil around \$80 or below, it likely still runs a small deficit ~2–3% of GDP. The Gulf aid package (with tranches tied to reforms) has been extended and continues to support Bahrain's budget and reserve levels. Public debt remains high but stabilized; Bahrain returned to international bond markets in 2023 with relative ease, and its bonds trade with a stable outlook thanks to implicit GCC backing.

Inflation in Bahrain is currently very low – in fact Bahrain saw slight deflation of -0.4% y/y in June 2025, the third consecutive month of annual price declines. Earlier, Bahrain's inflation averaged ~3.6% in 2022 (when VAT was doubled to 10%), but since 2023 it fell under 2%, and dipped negative in 2025. Prices of housing and recreation have



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been soft, and Bahrain also caps fuel prices, aiding the CPI. Core inflation is around zero. This price stability (even deflation) reflects weak imported inflation, a stable dinar (pegged to USD), and still-recovering domestic demand. It has helped maintain consumers' purchasing power – indeed Bahrain's CPI was up just 0.1% y/y in Q1 2025, reflecting proactive government efforts to mitigate global inflation (the government subsidizes flour, meat, and fuel for citizens). The ultra-low inflation gives Bahrain's monetary authorities (effectively the central bank pegs to USD, so rates follow the Fed) some relief that real rates are high, but it also hints at a still subdued consumer sector outside of areas like tourism. Private credit growth was a bit dampened by higher rates in 2023, but as of 2025 credit is growing moderately (around 5% y/y), and bank liquidity is ample. Bahraini banks remain sound, though they have significant exposure to government debt.

Looking forward, Bahrain's challenges are managing its debt and sustaining reform momentum amid potential public pushback. The government took the politically difficult step of doubling VAT in 2022 and largely held the line on spending – moves that have helped regain market confidence (evidenced by falling bond spreads). It must continue privatization and diversify revenue (e.g. potentially corporate tax if GCC agrees, or fees) to further reduce deficits. GCC support is crucial: Saudi, UAE, and Kuwait deferred Bahrain's aid loan repayments for several years, easing pressure, and it's expected they will continue backing Bahrain if needed (as an example, Bahrain recently signed \$17bn in deals with US companies, with Saudi and UAE likely facilitators). On the upside, any increase in oil prices or the eventual extraction from the new oilfield (if feasible) would significantly improve Bahrain's fiscal outlook. Also, the planned causeway to Saudi's NEOM (if it

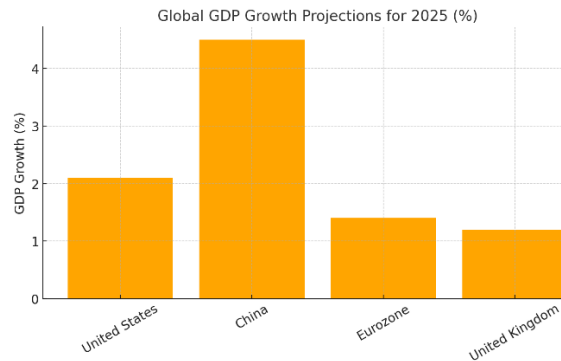
materializes) could be transformative for trade and tourism.

In summary, Bahrain is growing ~3% with low inflation, making notable progress on diversification and enjoying a revival in industries like tourism and finance. It remains the most indebted GCC state and relies on neighbors' financial support, but it has shown commitment to reforms that boost investor confidence. As long as the regional backing and reform drive continue, Bahrain should be able to navigate its financial constraints and gradually strengthen its economic foundations, though it will likely always have a smaller margin for error compared to its wealthier Gulf peers. The trajectory is cautiously positive, with Bahrain demonstrating that even a resource-light Gulf economy can find growth by focusing on its comparative advantages (human capital, openness, services) and by closely integrating with the wider GCC economy.



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Global and Geopolitical Outlook



United States

The United States economy in 2025 is at a crossroads, decelerating from the rapid post-pandemic rebound into a phase of slower growth amid policy shifts. After a robust 5.9% expansion in 2021 and 2.1% in 2022, U.S. growth cooled to about 1.0% in 2023 as stimulus faded and the Federal Reserve’s aggressive rate hikes began to bite. The baseline outlook for 2024–2025 is for continued sub-trend growth – the IMF significantly revised down U.S. 2025 growth to ~1.8%. The

aim is a “soft landing” where inflation is tamed without a deep recession. So far, the U.S. has skirted recession: unemployment remains low (~3.8%) and consumer spending, while softer, is still growing modestly. However, recession risks have risen due to cumulative monetary tightening and new drags like trade tensions. By mid-2025, higher interest rates have clearly curbed demand: housing investment is on a multi-year decline, business capital spending has cooled, and credit conditions tightened after some mid-sized bank stress in 2023. Real GDP growth in Q2 2025 was running around a 1–2% annualized pace – positive but markedly slower than a year prior.

On the inflation front, significant progress has been made. U.S. CPI inflation peaked at 9.1% in June 2022 – a 40-year high – and has since steadily fallen. As of mid-2025, headline CPI is around 3.0–3.5%, much closer to the Federal Reserve’s 2% target. Key

contributors to this disinflation include normalizing supply chains (shipping costs and delivery times are back to pre-Covid norms), cooling consumer demand especially for goods, and tighter monetary policy slowing price growth. Energy and commodity prices, which spiked after Russia’s invasion of Ukraine, came down significantly by 2023 and remained moderate through 2025, helping temper inflation. Even core inflation (ex-food & energy) is easing, though a bit stickier – running ~2.9% annualized in mid-2025, down from above 6% in 2022. The remaining inflationary pressure has been partly in services (notably shelter costs, which have lagged but are now flattening out) and wages, which grew ~4–5% – too high for 2% inflation but slowing. Recent data show monthly inflation readings near 0.2–0.3%, indicating price growth is largely back under control. However, new challenges emerged in 2025: a renewed U.S.–China trade rift led to tariffs on a range of Chinese goods (worth \$300+ billion) being hiked in early 2025 by the



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new U.S. administration. These tariffs, along with export restrictions on tech, have introduced a “one-time” price shock that added a few tenths of a percent to inflation. This complicates the Fed’s job – officials worry that while current inflation is down, trade-driven price bumps and still-strong wage growth in pockets could keep core inflation slightly above target. The Federal Reserve, after the fastest rate hike cycle in decades (raising the Fed Funds rate from ~0% in early 2022 to ~5.5% by mid-2024), *paused* its increases as inflation receded. By mid-2025, the Fed’s policy rate was held around 4.50%, and the Fed was carefully watching data to judge when to pivot to easing. As of mid-2025, markets expected perhaps one or two rate cuts by late 2025, but not sooner – futures put low odds on any cut before the Fed sees clear evidence of sustained ~2% inflation. The Fed itself has been cautious, emphasizing it wants to be sure inflation is truly defeated and not reignited by, say, the new tariffs or energy shocks. Consequently, U.S.

monetary policy in 2025 has been in a holding pattern: policy is restrictive, damping interest-sensitive sectors, but not yet loosening. The Fed’s quantitative tightening (balance sheet reduction) also continues in the background, slowly draining liquidity. If the economy were to slip towards recession, the Fed would likely cut rates, but until then it is balancing the risk of doing too little (inflation staying high) versus too much (unnecessary recession). So far, financial markets have remained relatively stable – stock indexes are off peaks but not crashing, and credit spreads are normal – reflecting optimism that the Fed might pull off the soft landing. However, yield curve inversion (short-term rates above long-term) persists, historically a recession harbinger.

On the fiscal side, the U.S. is dealing with high deficits (around 5–6% of GDP) and political standoffs over the budget. While there is no acute crisis, debt is about 100% of GDP and rising, which could

become an issue as interest costs mount. In 2025, the divided government saw debates over spending cuts and a potential government shutdown, but a last-minute budget deal averted it. Fiscal policy turned slightly restrictive compared to 2020–21 (when massive stimulus was rolled out), but with an upcoming election in 2026, spending pressures (on defense, infrastructure, etc.) remain.

Major geopolitical developments involving the U.S. are reverberating through the global economy. U.S.–China relations are tense – ongoing trade and tech conflicts have led to export controls on semiconductors, investment bans in sensitive Chinese tech, and tit-for-tat measures. These tensions have contributed to fragmented supply chains and a push by U.S. firms to “friend-shore” or diversify suppliers. This carries inflationary and efficiency costs worldwide. Additionally, the Ukraine war remains a key factor: the U.S. continues to support Ukraine with aid and sanctions



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on Russia, which keeps some uncertainty in energy markets and European security. By 2025 the war had settled into a grinding stalemate; energy prices in the U.S. normalized, but Europe still faces elevated costs. The U.S. has also been navigating Middle East diplomacy – a ceasefire in late 2024 ended the Gaza conflict, with the U.S. and regional partners focusing on reconstruction, and a continued truce in Yemen after Saudi-Iran talks. Domestically, a new U.S. administration took office in January 2025, which shifted some policies: notably the trade stance hardened (as seen with China tariffs), and there’s been an emphasis on reshoring manufacturing (via subsidies like the Inflation Reduction Act and CHIPS Act) – which has actually boosted investment in U.S. semiconductor fabs and green energy factories, a medium-term supply-side positive. However, those policies have caused trade frictions with allies (Europe complained about U.S. EV subsidies, etc., though negotiated some exemptions).

In summary, the U.S. outlook for 2025 is one of slower growth (~1–2%), much lower inflation (~3% trending down), and an inflection point in policy. The hope for a soft landing is balanced against risks of policy missteps or shocks. If inflation keeps slowing, the Fed may gently ease late in the year, which would support a pickup in 2026. On the other hand, if lingering inflation or new supply shocks occur, the Fed could stay higher for longer, possibly tipping the economy into a mild recession – a scenario some analysts still foresee in 2025. Another risk is political – debates on raising the debt ceiling (a recurring issue) or a polarizing election season could unsettle markets. Nonetheless, the U.S. enters this period with strengths: a resilient labor market, healthy household finances (debt service ratios near historic lows), and competitive momentum in high-tech sectors thanks to industrial policies. For the global economy, U.S. performance is crucial: its slower growth and high rates have dampened global activity, but as the U.S.

tames inflation and pivots, that could mark a turning point for worldwide conditions, alleviating pressure on emerging markets’ currencies and debt. All told, 2025 is a year of transition for the U.S. – moving from the post-pandemic boom and inflation spike toward a new equilibrium of stable prices and modest growth, albeit with significant uncertainties still in play.

China

China’s economy is navigating a slowing growth trajectory in 2025 amid domestic challenges and external headwinds. After rebounding to 5.3% growth in 2023 as pandemic restrictions lifted, China’s expansion has downshifted to the mid-4% range. The IMF and World Bank project growth around 4.5% in 2024 and 4.2% in 2025, significantly below the pre-2020 trend. This deceleration owes to structural factors – a property sector downturn, high local debt, and an aging



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workforce – compounded by weaker global demand for Chinese exports. As of mid-2025, data indicate a mixed picture: industrial output and exports are sluggish, but consumption and services are improving from low levels. Consumer spending, which lagged during China’s harsh 2022 lockdowns, picked up in 2023 and into 2024, especially in travel, dining, and entertainment (e.g. a boom in domestic tourism in 2024). However, consumer confidence remains fragile; households are wary due to falling home prices and uncertainties in employment. Youth unemployment hit a record high above 20% in 2023, prompting authorities to suspend its publication – an implicit acknowledgment of labor market strains for young graduates.

A central weak spot is China’s property sector, which had been a key growth engine (up to 30% of GDP when including related industries). Since authorities’ 2021 crackdown on developer leverage (“three red lines” policy), several

major developers defaulted (Evergrande, Fantasia) and housing construction slumped. Home sales and prices have declined especially in lower-tier cities. In 2024–25, property investment continues to contract year-on-year, leaving many unfinished projects. This property downturn has a broad drag: it hits steel, cement and local government finances (which rely on land sales). Policymakers have gradually shifted to support – easing mortgage rates, cutting down payment requirements, and urging banks to extend developer loans. These measures stabilized the tier-1 cities’ markets somewhat, but a full property rebound remains elusive, as speculative fever is gone and demographics (a shrinking, aging population) dampen housing demand. As such, private sector confidence is relatively low: beyond property, government crackdowns in tech and education in recent years rattled entrepreneurs. Private investment growth has been anemic, with many firms

preferring to pay down debt or invest overseas rather than expand domestically. In response, Beijing has pivoted to more supportive economic policies in 2023–2025. The People’s Bank of China (PBoC) cut key interest rates multiple times – the 1-year loan prime rate is down to ~3.5%, and reserve requirement ratios for banks were trimmed. Unlike Western central banks, the PBoC is in easing mode because inflation is very low. In fact, China flirted with deflation: consumer price inflation was around 0% in mid-2023, even dipping negative briefly, and by Jan 2025 was only +0.5% y/y. Producer prices have been in deflation for over 18 months (due to weak commodity demand). So price stability isn’t a concern – if anything, lack of demand is. Thus, monetary easing aims to spur borrowing, though credit demand is weak; households and companies are not keen to load up on debt in uncertain times. On the fiscal side, the government has ramped up infrastructure spending once again – local governments issued special



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bonds for bridges, rail, and renewable energy projects. But local governments are debt-laden; some face quasi-fiscal crises due to lost land sale revenues and hidden debts via local financing vehicles. The central government is cautiously trying to manage this by allowing debt swaps and possibly relaxing deficit targets (2023's official deficit of 3% of GDP excluded special bonds; the augmented deficit was closer to 7%). For 2025, more central support to local governments is expected, possibly through a special bond program or bailouts for the most troubled.

Externally, China faces weak export demand and geopolitical pressures. Exports, which were a surprise driver during the pandemic (thanks to goods demand), have been declining since late 2022 as U.S. and EU demand normalized and trade restrictions bite. In H1 2025, exports are down year-on-year, particularly to the West, though resilient to ASEAN and Middle East. The U.S. has

kept tariffs on ~\$360bn of Chinese goods (from the trade war) and added tech export controls (cutting off high-end chips). Moreover, the new U.S. administration escalated with further tariffs in 2025, hampering some Chinese industries. Global firms have also started “China +1” strategies to diversify supply chains, leading to slower growth in foreign investment into China. For instance, Apple began shifting some production to India and Vietnam, and Japanese firms were incentivized to reshore or move out of China. All this puts pressure on China's manufacturing sector, which already struggles with cost rises and a loss of competitive edge in some areas. In response, China is courting alternative partners (doubling down on Belt & Road Initiative projects, strengthening ties with Russia, Middle East, and Global South markets). While trade with ASEAN and Gulf states is up, it hasn't fully compensated for weak G7 demand.

Geopolitically, tensions persist: U.S.–China rivalry spans trade, tech, and Taiwan. No breakthrough has occurred – talks in late 2023 (when U.S. officials visited Beijing) eased tones but didn't remove core frictions. China has increased military drills around Taiwan, and although a direct conflict is not expected near-term, the risk backdrop is there. This strategic rivalry has spurred China to push for more self-reliance in technology (semiconductors, AI) and energy (expanding coal and renewables to reduce any reliance vulnerabilities). Domestically, President Xi's government has re-emphasized the state sector and “common prosperity” initiatives, which means tighter regulation and perhaps less exuberance in private enterprise. However, seeing growth sputter, authorities in 2023 quietly toned down regulatory crackdowns and began encouraging private firms again (like meeting with tech CEOs to reassure them).



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In summary, China's near-term outlook is one of slowing growth (~4–4.5%), low inflation, and policy stimulus measures. Downside risks are significant: the property sector woes could deepen, deflationary mindset could take hold, or external decoupling could accelerate. That said, China still has buffers: over \$3 trillion in FX reserves, a high domestic savings rate, and the government's ability to direct banks and state firms to invest. If needed, Beijing could roll out a larger stimulus (for example, consumer vouchers or looser borrowing caps for local governments). But unlike past cycles, the policy so far has been incremental, aiming to avoid another debt-fueled binge. Long-term concerns (demographics: China's population is now declining, having peaked at 1.41 billion, and aging rapidly) weigh on potential growth, which many analysts see now around 4% or lower. This represents a new phase: China is unlikely to return to the heady 6–7% pre-Covid growth rates. Globally, China's slowdown means less

demand for commodities and capital goods, impacting exporters from Germany to Brazil. However, China's sheer size still makes it a key contributor to world growth (roughly one-third of global growth in 2023–24 came from China). The leadership is trying to shore up confidence – in July 2025, the Politburo signaled more support for the property market and measures to boost consumption, which lifted markets. Ultimately, China's performance will hinge on whether it can stabilize its property sector and rekindle consumer and business confidence. For now, the picture is mixed: some resilience but significant headwinds, making China's near-term outlook the slowest in decades, with significant downside risks if policy support doesn't gain traction.

Eurozone

The Eurozone economy remains sluggish in 2025, contending with the aftermath of an energy shock, tight financial conditions, and a weak external environment. Growth in the 20-nation bloc stalled to 0.5% in 2023, and 2024 is expected around a similar ~0.7%, before a modest uptick to perhaps 1% in 2025 – still well below pre-pandemic trend. Several member states fell into technical recession over winter 2023–24. The good news is that the worst of the energy crisis (triggered by Russia's war in Ukraine) has passed: gas prices, which spiked to absurd highs in 2022, normalized by mid-2023 as Europe rapidly diversified supplies (via LNG imports, conservation, renewables) and got lucky with mild winters. This helped Eurozone inflation to cool from double-digits in late 2022 to about 2–3% by mid-2025. In June 2025, Eurozone annual inflation was exactly 2.0% – the lowest in over two years. This is a significant improvement from 8.4%



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average inflation in 2022. However, core inflation (ex-energy/food) remains stickier at ~3%. The European Central Bank (ECB) raised rates from -0.5% in mid-2022 to 4.0% by mid-2024, one of its fastest hiking campaigns ever, to tame prices. These high borrowing costs have dampened domestic demand: credit growth has stagnated, housing markets in countries like Germany and Sweden are correcting, and business investment is soft. The ECB finally paused hikes in late 2024 as inflation came down, but unlike the Fed it hasn't started cutting yet. As of 2025, the ECB keeps rates high to ensure inflation is durably back to 2%. This is contributing to the Eurozone's weak growth – effectively a price paid to quell the inflation “hangover.”

Country divergences exist: Germany, the largest economy, has been the laggard. It fell into a mild recession in late 2023 and is struggling with a manufacturing slump (exacerbated by weak Chinese demand and higher energy costs hurting its

chemical and metal industries). Germany's GDP might barely grow in 2024 (around 0%), before improving to ~1% in 2025 as global demand recovers slightly. Italy and Central/Eastern Europe also got hit hard by energy costs and tighter financial conditions, with Italy near zero growth and Hungary in recession in 2023. By contrast, France and Spain have shown more resilience, benefiting from stronger consumption and tourism; Spain in particular is still in a catch-up phase after deeper pandemic losses, so it grew ~2% in 2023 and could sustain ~1.5–2% in 2024–25, leading the pack. Overall, the Eurozone's export engine is sputtering – exports to China and the U.S. are down, and European manufacturing PMIs have been in contraction territory. One brighter spot is that unemployment is at record lows (~6.4% for the bloc), thanks partly to labor hoarding and job support schemes. This tight labor market has supported consumer spending somewhat. Wage growth picked up to ~5% in late 2023,

giving workers some real income catch-up as inflation fell. Still, consumers are cautious; surveys show confidence is weak, reflecting concerns about the war in Ukraine, high living costs, and political uncertainty.

Fiscal policy in Europe is turning from supportive to neutral/slightly tight. During 2020–22, governments spent heavily (on Covid relief then energy subsidies). By 2024 many of those subsidies (like electricity bill support) were phased out as energy prices fell. Public debts are high (over 90% of GDP in France, ~145% in Italy), and the EU is reimposing fiscal rules in 2024 (with some reforms). Thus, budgets are consolidating: for example, Italy's budget foresees lowering its deficit from ~8% in 2022 to ~4.5% in 2024. Germany stuck to its debt-brake law in 2023 after an emergency suspension, so German fiscal turned contractionary (which partly explains its recession). However, the EU is also unlocking massive investment



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funds – notably the €750bn Next Generation EU recovery fund (grants/loans for green and digital projects) is in full deployment mode, benefitting southern and eastern members especially. This is a medium-term growth boon, though short-term execution issues mean not all funds are absorbed quickly. Also, Europe is embarking on a defense spending boost in response to the Ukraine war, which is a fiscal expansion area.

The war in Ukraine continues to overshadow Europe. By mid-2025, heavy fighting persists in eastern Ukraine. Europe remains united in supporting Ukraine – providing military aid and agreeing to some joint procurement. The war's biggest economic effect (the energy shock) has attenuated, but there are still indirect drags: elevated uncertainty, trade disruptions, and lost Russian market access for European firms. Europe managed to eliminate dependence on Russian natural gas (reducing it from

~40% to <10% of imports), but at a cost – energy bills are higher than pre-war, affecting industry competitiveness. On the flip side, the urgency accelerated Europe's green transition (renewables investment soared, and gas storage infrastructure expanded). If the war escalated or other geopolitical flare-ups (like potential Middle East tensions affecting oil) occur, Europe would be vulnerable to another energy price spike. For now, however, gas storage is 80%+ full and 2025 winter outlook is comfortable, assuming normal weather.

Geopolitically, Europe is also navigating U.S.-China competition. The EU tries to balance relations – it's implementing “de-risking” by screening Chinese investments (e.g. banning Huawei 5G in many countries) and investigating Chinese EV subsidies (which could lead to tariffs on Chinese electric cars). Yet Europe doesn't want a full decoupling; Germany especially is keen to maintain exports to China. This delicate balancing

will continue, but if forced to choose, Europe leans toward the U.S. (e.g. aligning on some export controls for chips). Meanwhile, the UK's economic situation post-Brexit remains weak (more on UK below), which indirectly affects the Eurozone via trade. The Eurozone has also seen rising socio-political strains – high living costs sparked protests (e.g. French unrest over pension reforms in 2023), far-right parties are gaining ground in polls (e.g. AfD in Germany, National Rally in France), and migration pressures revived as a political flashpoint by 2025. These factors don't directly derail the economy but make decisive policy action harder.

In summary, the Eurozone's outlook is sluggish growth, disinflation, and policy normalization. It has emerged from the acute phase of the energy shock and high inflation, but now contends with the hangover of high interest rates and a weak global economy. Growth of barely ~1% in 2025 means the region is just skirting



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recession. On the positive side, as inflation falls to target, the ECB may start cutting rates in 2025, which would provide relief. Also, if China stimulates or U.S. avoids recession, external demand could surprise positively, lifting Europe's manufacturing. Yet risks include a resurgence of inflation (if, say, energy prices jump or wage-price spiral), which would keep ECB tighter for longer and exacerbate the downturn. Fiscal space is limited in key countries, so the burden of support will be on the ECB and EU funds. Overall, Europe in 2025 remains the weak link among major economies, dealing with the lingering effects of overlapping crises (pandemic, war, inflation) and facing a long road to return to robust growth. It is essentially a story of stagnation with hope for slight improvement by late 2025 as inflation normalizes and financial shackles gradually loosen.

United Kingdom

The United Kingdom is often dubbed the “sick man of the G7” in 2025, as it grapples with stagnant growth and sticky inflation in the aftermath of Brexit, the pandemic, and an inflation surge. The UK experienced a strong 2021 rebound (growth 7.5%) but then slowed to 4.1% in 2022 and a mere 0.4% in 2023. The economy essentially flatlined in 2023–24, with output still slightly below pre-pandemic levels – unique among G7 countries. The IMF expects around 0.6% growth in 2024 and perhaps 1% in 2025, the weakest of the G7. High inflation and rising interest rates have squeezed households hard, dampening consumption. By mid-2025, the UK's inflation hangover has eased but not fully cleared: CPI inflation fell from a peak 11.1% in Oct 2022 to 3.6% in June 2025. While that's a dramatic improvement, UK inflation remains above peers (e.g. Eurozone 2%, U.S. ~3%). Core inflation in the UK is still ~4–5%, indicating

underlying pressures. Notably, food prices soared over 19% y/y at one point in 2023 and, though they've come down, food inflation was ~10% in early 2025 – making cost of living tough for many. Wages are now rising ~7% (as of mid-2025) which in real terms is just turning positive after two years of wage erosion. The Bank of England (BoE) hiked rates 14 times from 0.1% in 2021 to 5.25% by mid-2024, one of the most forceful tightenings in its history, in response to the worst inflation in four decades. These rate rises have sharply increased mortgage costs (over 80% of UK mortgages are fixed-rate but mostly short-term 2–5 year; as they reprice, monthly payments jump). By 2025, millions of households and landlords have seen mortgage rates double or triple, crimping disposable income. Consumer spending has thus been very weak – retail sales volumes in mid-2025 are below year-ago levels, and consumer confidence indices are subdued.



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Compounding woes is the energy shock of 2022: although wholesale gas prices fell in 2023, many households were locked into high fixed tariffs and only slowly seeing relief as government support tapered off. UK households faced one of the largest real income drops (~-3% in 2022/23) among advanced economies. This contributed to widespread industrial action – 2023 saw strikes across rail, healthcare, education as workers demanded pay raises to catch up with inflation. Some deals were reached (nurses got ~5% raise, etc.), but labor relations remain strained. On the fiscal front, the government under PM Rishi Sunak (and then successor from late 2024) has pursued consolidation to stabilize public finances post-pandemic. The budget deficit, which was 15% of GDP in 2020, has been brought down to ~5-6%. In the Autumn 2024 statement, the Treasury stuck to tight spending plans, implying real-term cuts for many departments. Public debt is ~100% of GDP. This fiscal restraint, while

improving credibility, also removes support from the economy in the short term.

Brexit impacts continue to act as a supply-side drag. UK-EU trade flows have not recovered to pre-Brexit trend; UK export volumes are roughly 10-15% below where they likely would be without Brexit, studies suggest. Investment by businesses has been lackluster – uncertainty and new trade barriers have deterred some expansion. Productivity growth remains close to zero. The silver lining is some resolution: the UK and EU agreed on the Windsor Framework in early 2023 to fix Northern Ireland trade issues, smoothing UK-EU relations. This led to re-establishing science cooperation (UK rejoined Horizon Europe in 2023) and a thaw in diplomacy. But in 2025, the UK still faces the structural adjustments of Brexit – sectors like autos worry about upcoming local content rules for tariff-free EU trade (the UK is negotiating to postpone these). The services sector

(financial, professional) lost some EU market access; Amsterdam overtook London in some trading volumes, though London remains a top financial center with adaptation (e.g., diverging some regulations to be more competitive globally).

The Bank of England by mid-2025 has likely peaked rates (at 5.25%). It has been navigating very tricky terrain: inflation far above target and a recession risk. Governor Andrew Bailey signaled in 2025 that if inflation continues to fall (which it has from 10% to ~3-4%), the BoE would consider easing. Markets expect BoE might start cutting rates in late 2025 if inflation nears 2%. But there's caution – UK core inflation was sticky for longer, and wage growth is high, so the BoE fears an “entrenched” inflation psychology. This risk of sticky inflation or new shocks (like another sterling depreciation or energy spike) forcing the BoE to keep rates high is a concern. Meanwhile, the BoE's rate hikes and QT (BoE is actively



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selling bonds) have tightened financial conditions considerably. That has cooled the housing market: UK house prices are down ~5% from 2022 peaks nationally (more in London), and mortgage approvals are depressed. If rates stay high too long, a sharper housing correction and spillover to consumption is possible, given the UK's high household debt and variable mortgage structure – a downside risk.

The UK already suffers a bit of a credibility premium after the 2022 “mini-budget” fiasco which crashed gilts. Sunak restored calm, but UK 10-year yields remain elevated ~4-5%, partly reflecting a risk premium. A credible fiscal/monetary mix under the new government will be crucial to keep investor confidence.

In terms of major geopolitical developments, the UK is heavily involved in supporting Ukraine (it was first to send advanced tanks, for instance) and aligning with U.S./EU on Russia sanctions. This

has limited direct economic impact aside from defense spending uptick and lost Russian market access, but it positions the UK as a key security player in Europe. Another issue: Scotland. While an independence referendum is off the near-term table (Supreme Court ruled Scotland can't hold one unilaterally; and with SNP internal turmoil), the Scottish question lingers in the background, though not expected to flare in 2025 specifically.

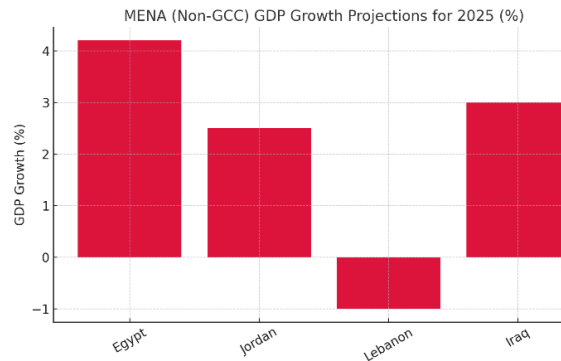
Overall, the UK's likely scenario is continued stagnation in the near term. Growth will be feeble as consumers and businesses remain under pressure from past inflation and high interest rates. Only by late 2025, if inflation normalizes (~2-3%) and the BoE begins cutting, could there be a glimmer of recovery (e.g. housing and consumer spending stabilizing). There are upside possibilities: perhaps global conditions improve (a Fed easing cycle, stronger U.S./EU growth) or a stable new government introduces measures that bolster confidence and investment (e.g. large green projects or

incentives for manufacturing). But for now, the UK is the worst-performing G7 economy, dealing with a unique mix of Brexit-related trade frictions, a post-Covid inflation hangover, and policy tightening. The risks include inflation proving stickier than hoped (forcing BoE to keep rates high) or a housing market correction deepening into broader financial stress. On the flip side, if global inflation falls and the new government increases public investment (within fiscal limits), the UK could see a slight improvement by late 2025. In summary, the UK in 2025 is struggling with low growth and only gradually reining in inflation, with hopes pinned on a policy reset and external relief to shake off its stagnation.



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Middle East & North Africa (MENA) Beyond GCC



Overview: The broader MENA region outside the wealthy GCC is a tale of divergent fortunes in 2025. Many middle-income countries are still grappling with economic crises or slow growth due to past mismanagement, high debt, or conflict, even as global conditions (like oil prices and interest rates) start to turn slightly more favorable. Some bright spots exist – a few reformist or stable economies are inching forward – but generally, non-GCC MENA is enduring a painful adjustment phase. High global interest rates in 2022–24 hit the heavily-

indebted MENA countries hard, driving up debt servicing costs and exacerbating fiscal strains. Meanwhile, the commodity price shifts have been a mixed bag: oil importers suffered in 2022 when oil was \$100+, but have gotten relief as oil stabilized ~\$75; still, food import costs remain elevated for some. Regional conflicts (in the Levant, North Africa, Horn of Africa) continue to disrupt economies and deter investment. With U.S.–Iran tensions simmering and the aftermath of the Gaza war in late 2024, geopolitical risks remain high. Gulf states have selectively extended financial support to neighbors (e.g. deposits in Egypt’s central bank, aid to Syria quake victims, etc.), but are tying aid to reforms and projects rather than blank checks. Overall, 2025 will see many non-GCC MENA economies pushing through painful reforms, hoping for relief from lower global rates and stable security conditions.

Egypt

Egypt, the Arab world’s most populous country (105 million), is navigating a severe financial crisis that erupted in 2022 and still grips its economy. Egypt was hit extremely hard by external shocks: the surge in global food and fuel prices in 2022 (Egypt is the world’s largest wheat importer) and capital outflows from emerging markets put massive strain on its external accounts. Tourism also suffered from the war in Ukraine (as Russians/Ukrainians were major tourists). These pressures exposed Egypt’s underlying vulnerabilities – namely, high foreign debt and an inflexible currency. In 2022–2023, Egypt allowed the Egyptian pound to depreciate in stages (three devaluations), and it roughly halved in value against the dollar. As a result, inflation skyrocketed: headline CPI hit 38% in September 2023, an all-time high. Costs of basic foods doubled or tripled, plunging many Egyptians into poverty as real incomes



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collapsed. The Central Bank of Egypt raised interest rates above 18% to try to contain inflation (it later hiked to 20%+), but with limited effect given supply shocks and the pass-through of currency depreciation. By mid-2025, inflation has moderated from that peak but remains extremely elevated – averaging around 20–25%. Some easing occurred as global commodity prices fell in 2023 and the initial price shock base effect passed. Indeed, monthly inflation readings slowed and by early 2025, Egypt's CPI was rising ~15-20% y/y (still one of the highest globally, but lower than 2023's peak). The pound's black-market rate showed signs of stabilizing as import demand compressed severely (due to import restrictions).

Egypt's growth has downshifted amid this crisis. Real GDP grew ~6.6% in FY2021/22 (helped by post-Covid rebound and strong gas exports) but slowed to ~3.5% in FY2022/23, and is expected around 3.0% in FY2023/24. The government and IMF project a

recovery to 4–5% over the medium term, but that assumes reforms take hold. Currently, a shortage of foreign currency and import controls have crimped industrial output and investment. Many factories struggled to get inputs in 2022–23. The crisis also hit consumer spending hard as inflation eroded purchasing power. The one bright spot is that Egypt's natural gas sector has done well – high LNG export revenues in 2022/23 provided some cushion (though domestic fuel needs and electricity cuts limited export volumes). Also, the Suez Canal had record revenues (\$9+ bn in 2022) due to rerouted trade, giving hard currency. But these weren't enough to plug the gap. By late 2022, Egypt turned to the IMF for help: a \$3 billion IMF loan was approved in Dec 2022, conditioned on a shift to a flexible exchange rate and structural reforms. However, implementation lagged – the IMF program went off-track by mid-2023 as Egypt's central bank unofficially re-pegged the pound around 30.8 per \$, fearing further inflation from

depreciation. IMF reviews were delayed, meaning Egypt received only the first tranche of IMF funds. Gulf allies (Saudi, UAE, Qatar) had pledged investments and deposits, but they too held off, insisting Egypt make tough reforms and asset sales first.

Thus, for much of 2024, Egypt muddled through by squeezing imports, securing some bilateral aid (e.g. a \$5bn deposit from Saudi Arabia in late 2022 rolled over), and drawing down reserves.

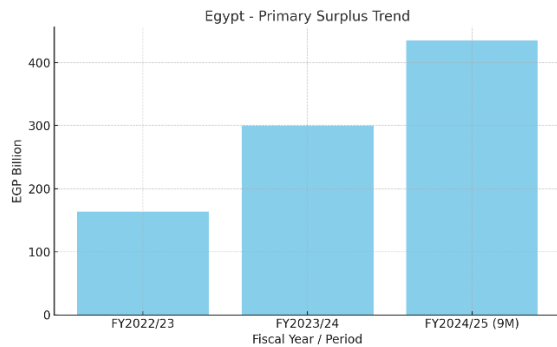
By 2025, Egypt progressed on several fronts as follows:

1. Fiscal Performance (Budget & Primary Surplus)
Egypt achieved a record-breaking primary surplus in its 2025 budget, overcoming multiple external shocks. The Ministry of Finance reported that the surplus reached its highest-ever level, signaling stronger fiscal consolidation.



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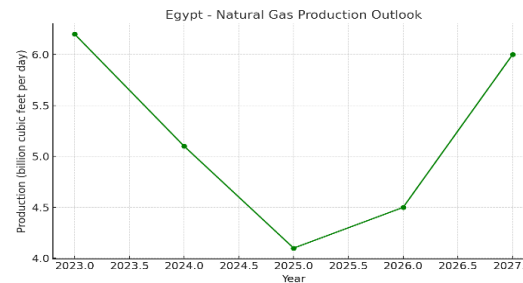
Furthermore, over the first nine months of the current fiscal year, Egypt recorded the highest primary surplus to date—approximately EGP 435 billion, accounting for 2.5% of GDP—despite substantial revenue losses from the Suez Canal and expanded energy subsidies.



2. New Investment Indicators—EGX35-LV Index
As of August 1, 2025, the Egyptian Exchange launched the EGX35-LV, a new index targeting 35 of the most liquid companies with the lowest price

volatility across 13 sectors. This launch underscores efforts to attract more stability-oriented investment flows.

3. Energy Sector Outlook
Prime Minister Mostafa Madbouly announced that natural gas production, which had declined to around 4.1 billion cubic feet per day, is on an upward trajectory and is expected to return to pre-decline levels by 2027.



4. Reforms and Reform Review Timeline
The IMF postponed Egypt's fifth

program review, combining it with the sixth review scheduled for this fall. This deferral reflects both criticisms regarding the pace of economic privatization and the government's need for more time to implement its reform agenda.

Socially, Egypt's situation is precarious. The government has expanded social support (cash transfer programs, more subsidized bread, etc.), but after years of austerity (from a previous 2016 IMF program) and now this inflation crisis, public discontent is high. So far, overt unrest is limited – large protests are effectively banned and the state's security apparatus is heavy-handed. But anecdotal evidence suggests many Egyptians are cutting back to survive (e.g. consuming less meat, fuel, etc.). Poverty (national measure) climbed above 32%. Egypt's leadership under President Sisi appears to recognize the need for change in the state-heavy economic model. There's talk of empowering the private sector and



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cutting costly mega-projects (like a pause on new phases of the new administrative capital). Whether rhetoric translates to action remains to be seen. For now, Egypt's economy is in "stabilization mode" – painful adjustment with some recent success in slowing inflation from the peak, but at the cost of depressed consumption and living standards. The hope is that by end-2025, with global conditions easing (Fed cuts reducing pressure on the pound) and reforms taking hold, Egypt could turn a corner. The government aims to boost exports (targeting \$100 bn, though currently ~\$45 bn) and FDI (by selling state assets), which if realized would help. Gulf states have indicated willingness to invest (e.g. UAE's ADQ and Saudi's PIF eyeing Egyptian companies) once valuations are right.

Overall, Egypt's fiscal and economic outlook in August 2025 reflects a mix of achievement and cautious optimism:

- The record-high primary surplus and stronger-than-expected revenue performance underscore successful fiscal tightening and resilience in the face of external pressures.
- The launch of Egypt's new low-volatility equity index (EGX35-LV) signals growing efforts to attract disciplined and institutional investment amid market volatility.
- Recovery in natural gas production positions the energy sector on a more sustainable path, with a return to former production levels expected by 2027.
- However, the IMF's postponement of the pending review highlights ongoing reform challenges and underscores the importance of accelerating privatization, reform rollout, and fiscal transparency.

North African Economies (Tunisia, Morocco, Algeria)

Several North African countries (outside Egypt) are also under strain, albeit to varying degrees. Tunisia is perhaps in the direst situation after Egypt. Tunisia faces a debt and political crisis. By 2025, Tunisia is teetering on the edge of debt default – its public debt is 90% of GDP and it has been unable to secure a long-sought IMF loan (\$1.9 bn) due to President Kais Saied's resistance to reform conditions. Saied, who seized near-total power in 2021, has rejected subsidy cuts or state enterprise privatization that the IMF demands. As a result, Tunisia's funding options are scant; it has resorted to bilateral loans (from Algeria, maybe Gulf) just to pay wages and import basics. Inflation in Tunisia runs ~10%, eroding purchasing power as the dinar slides. Growth is about 0% – essentially stagnant – given lack of investment and tourism not fully back to pre-2011 trend. The country is seeing



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shortages of essentials (occasionally sugar, coffee, medicines) due to lack of foreign currency. The social situation is volatile: protests flare intermittently, and many Tunisians are emigrating (some via dangerous sea routes to Europe). Without an IMF deal or a change in Saied's stance, Tunisia likely faces a hard default or deeper economic contraction. However, concern from Europe (worried about a collapse sending refugees) has led to talk of an EU aid package, contingent on some reforms. In sum, Tunisia's 2025 outlook is precarious – an economy under immense stress and a leadership unwilling to take corrective steps.

Morocco, by contrast, is in better shape and actually a relative bright spot in North Africa, despite recent shocks. Morocco endured a severe drought and a major earthquake in 2023, but has shown resilience. The agricultural sector, which had slumped in the drought (2022 was very bad for crops), recovered somewhat in 2023–24 with improved rainfall. The

tragic earthquake in the High Atlas (Sept 2023) caused significant damage (~3,000 deaths, villages destroyed), but rebuilding efforts in 2024–25 are underway with government and donor support. Morocco's economy grew around 1.3% in 2022, then picked up to ~3% in 2023, and is set for ~3–3.5% in 2024–25 as agriculture rebounds and tourism booms. Indeed, tourism has been a bright spot: 2023 saw record tourist arrivals (exceeding 2019 levels), benefiting Marrakech and coastal cities – ironically aided by global sympathy post-earthquake and the World Cup buzz (Morocco's team excelled in 2022, raising its profile). Inflation in Morocco spiked to 6.6% in 2022 but eased to ~5% in 2023–24, and likely trending down to 4% in 2025. Authorities hiked rates modestly and food prices moderated. Morocco's fiscal deficit (~5%/GDP) and debt (~70%/GDP) are manageable and it has a \$5 bn Flexible Credit Line from the IMF as insurance. The current account was hit in 2022 by high import bills but improved as

phosphate fertilizer exports (a big earner) and tourism receipts rose, plus energy import costs fell. Going forward, Morocco stands to gain from renewable energy investment (it's big in solar/wind) and as a nearshoring destination for Europe. Challenges remain: youth unemployment ~30%, and poverty in rural areas (highlighted by quake devastation). But relatively, Morocco is recovering and stable, with the monarchy providing consistent policy and big projects (like a new EV battery plant and railways) in motion.

Algeria, endowed with oil and especially gas, enjoyed a windfall in 2022 when European demand for its gas surged. That year it recorded 3.2% growth and a budget surplus. However, Algeria's fundamental issues persist: it's heavily oil/gas-dependent (hydrocarbons over 95% of exports) and has a sclerotic state-dominated economy. In 2023–25, as energy prices moderated, Algeria's growth is slow (~2%) and the surplus



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shrank. The government increased social spending and wages in 2023 (ahead of 2024 elections) which, combined with lower hydrocarbon revenue, likely put the budget back in deficit. Algeria has built large FX reserves again (\$60 bn, up from \$46 bn in 2021) thanks to the gas boom, giving it short-term stability and the ability to avoid external borrowing. Inflation is moderate (+6%) after spiking to 9% in 2022; the dinar was allowed to weaken gradually. The key issue is unemployment, especially youth, which remains high (youth jobless probably >25%). Few new private jobs are created due to a tough business climate. Algeria has been slow on reform despite talk of diversifying away from oil. Non-oil sectors like agriculture and ICT have seen some growth, but not enough to change the structure significantly. Politically, President Tebboune's regime (post-2019 Hirak protests) has clamped down on dissent and maintained stability, but popular frustration simmers under the surface particularly among youth. Still,

with ample reserves and Europe needing its gas, Algeria faces no immediate crisis, just a steady but unspectacular trajectory – growth at best 2–3%, high youth unemployment, and a development model that has yet to shift from hydrocarbon reliance.

Levant (Jordan and Lebanon)

In the Levant, Jordan and Lebanon present stark contrasts. Jordan is a relatively stable, aid-dependent economy managing modest growth, whereas Lebanon is in a near-total financial collapse.

Jordan's economy is growing around 2–3% – not fast enough to markedly reduce high unemployment (official ~22%, youth >40%), but at least positive. Jordan has benefitted from lower oil prices (it imports fuel) and an influx of donors' support. Inflation in Jordan is manageable ~3.5%; authorities have kept prices stable

via fuel price smoothing and subsidies. The government remains heavily reliant on aid from the U.S. and GCC; in late 2022, Saudi, Qatar, UAE renewed a multi-year support package. Fiscal reforms (like lowering electricity subsidies) have been slow, but Jordan is following an IMF program with some success – public debt has stabilized ~90% of GDP. Key sectors: phosphates and potash mining (exports up with high prices), tourism (recovering strongly in Petra, etc.), and services (many Iraqis and Syrians spend in Amman). Jordan's main issues are structural: high youth unemployment and limited water/energy resources. The huge refugee population (over 1.3 million Syrians) also strains services but also brings in aid. Overall, Jordan is economically stable but reliant on external support, with low growth that barely keeps pace with population.

Lebanon, meanwhile, remains in financial freefall since its 2019 crisis. Its GDP has contracted over 40% since 2018



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– an almost unheard-of collapse outside war. The Lebanese pound has lost >95% of its value, now trading at over 90,000 LBP per USD (vs 1,500 before). This hyper-depreciation has fueled astronomical inflation – triple-digit (>100%) for several years. Most of the population has been impoverished; middle-class savings were wiped out. The banking system is largely insolvent and deposits are still “locked” – people can only withdraw small amounts in LBP at a fraction of value. Politically, Lebanon has been paralyzed: no president for months (until recently perhaps), a caretaker government unable to pass reforms. The widely expected reforms (capital controls law, banking restructuring, unification of exchange rate) and an IMF program have not happened. Thus, 2025 is likely to see Lebanon’s crisis grind on with no clear resolution. The economy has “bottomed out” in the sense that output can’t fall much more – but it’s at a depressed level. Some sectors like tourism and services have seen a bit of bounce (diaspora

visitors bring in dollars, summer 2023 was relatively busy), so there’s possibly a tiny positive growth off a low base. But fundamentally, without a government and IMF deal, Lebanon remains without direction. Public services have crumbled: power from the grid is just a couple of hours a day, the rest coming from expensive private generators. Poverty now afflicts perhaps 80% of residents. Emigration is high, including skilled professionals, hollowing out human capital. The currency chaos continues – multiple rates are used (the central bank sets one, the market another, etc.). As a result, Lebanon is in a kind of limbo: not fully collapsed (people adapt through cash dollarization and remittances from abroad ~ which are 1/3 of GDP), but not recovering either. It is essentially a non-functioning economy. Only comprehensive reforms can turn it around, but those are not on the horizon amid political stalemate. Barring an unlikely breakthrough in governance, 2025 will look much like the past three

years for Lebanon – a subsistence economy surviving on diaspora inflows and stopgap measures, with continuing extreme inflation and no revival of the banking sector.

Conflict Zones (Iraq, Sudan, others)

Iraq is doing relatively better – it has oil resources and enjoyed record oil revenues in 2022 which boosted growth and reserves. Iraq’s GDP grew ~8% in 2022 (oil windfall) but slowed in 2023 to ~2% as OPEC+ cuts forced it to reduce oil output. Oil is ~60% of GDP and the near sole source of government revenue, so production quotas directly impact growth. In 2023–24, Iraq adhered to cuts (~4.2 mb/d output), dampening growth. Still, with oil averaging \$85 in 2022 and ~\$75 in 2023, Iraq built up foreign reserves (over \$100 bn) and a fiscal surplus. The government increased spending (especially public salaries and pensions, which are huge in Iraq).



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Inflation in Iraq is modest ~5%, as the dinar is effectively pegged to the dollar (they did face some dollar cash shortages in late 2022 due to U.S. anti-money laundering measures, but resolved it). Iraq's long-term challenge is transforming oil wealth into infrastructure and jobs for its young population. Thus far progress is slow: political instability and corruption hinder project execution. Chronic issues like unreliable electricity (Iraq needs >\$150 bn to upgrade power and rebuild war damage) plague the economy. The Oct 2022 government under PM Sudani has tried to tackle corruption and invest in gas capture (to reduce flaring and import from Iran) and signed deals with Total for energy projects. If oil prices stay around \$75, Iraq should maintain budget stability (its breakeven is around that). However, any decline in oil or domestic unrest (e.g. protests over services, which happen often in summer over power outages) pose risks. Job creation is insufficient for Iraq's youth bulge, and the public sector can't absorb more without

straining the budget. So while Iraq isn't in crisis like Lebanon, it's struggling to diversify and provide for its people, with the ever-present risk of political upheaval if basic services or jobs don't improve. On a positive note, Iraq's security is better than in the ISIS conflict years, though militia influence remains high. It largely avoided spillover from regional fights recently, focusing inward on rebuilding albeit slowly.

Sudan sadly descended into a devastating internal war in 2023. In April 2023, clashes erupted between the Sudanese Armed Forces and the Rapid Support Forces (RSF) – essentially a battle of generals. By mid-2025, fighting persisted sporadically, especially in Khartoum and Darfur. The war has been catastrophic for Sudan's economy and people. The capital Khartoum, once an economic hub, is ravaged and much of the population fled. GDP likely contracted over 20% in 2023 due to the conflict. Oil production in South Sudan (which ships via Port Sudan)

was disrupted at times. Trade is largely stalled, and inflation – already 350% in 2022 – remains extremely high if not immeasurable. The war created a massive humanitarian crisis: millions displaced internally or into neighbors (Chad, Egypt). Basic state functions ceased; most banks, businesses shut. For 2025, Sudan is essentially a failed state economically. Any data is scarce, but famine and disease outbreaks loom. The conflict also affected neighbors: South Sudan's oil exports (via Sudan) got interrupted, and cross-border trade collapsed. The region faces more refugees and instability. Unless a peace deal emerges (no sign yet), Sudan's outlook is more economic collapse and human suffering.

Other conflict areas: **Yemen** experienced a significant reduction in hostilities after a truce in 2022. By 2025, the Saudi-Iran détente helped de-escalate Yemen's war. While no comprehensive peace deal yet, fighting between the Saudi-backed government and Houthi rebels largely



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paused, and direct Saudi involvement stopped. This allowed some economic stabilization in Houthi-run north and government-held south, but Yemen remains divided and extremely poor. Its oil exports (in the south) are minimal now due to insecurity. The humanitarian situation improves slightly with more aid access, but needs are massive. If talks continue positively, Yemen might start reconstruction in late 2025, contingent on a political settlement.

Libya remains politically split (Tripoli vs Benghazi administrations), but oil production recovered to ~1.1 mb/d in 2023 and largely held steady, giving a boost to GDP. However, conflict could reignite anytime, and public finances are contested between rival authorities.

Regional Support and Outlook: Throughout MENA, the wealthy GCC states have been selectively propping up neighbors to prevent total collapse – e.g. Saudi and UAE deposits in Egypt’s

central bank, humanitarian aid to Syria and Sudan, investments in Iraq’s utilities, etc. While not enough to resolve crises, this Gulf assistance provides lifelines. If global interest rates indeed start falling by late 2025, as many expect, it will relieve pressure on MENA’s debt-laden economies (Egypt, Jordan, Tunisia) by reducing borrowing costs and hopefully stabilizing currencies. Also, oil around \$75–85 helps oil exporters fiscally while being not too high for importers to bear. The current ~\$80 price is a sweet spot where Gulf have surpluses to aid others, and importers manage (especially with some fuel subsidies still). Another positive is that food prices globally have come off peaks, easing the import bills for countries like Egypt, Morocco, Lebanon. However, the region’s vulnerabilities remain significant: high youth unemployment, climate change risks (drought in North Africa), and unsustainable debt in many countries. *Bright spots* outside GCC include possibly Egypt’s longer-term potential (if it

stabilizes and harnesses its large market and reforms, as Gulf allies pledge investments), and some fast-growing smaller economies like Djibouti or Rwanda (the latter is often grouped in African context, but for north-east Africa, Djibouti’s port-driven growth around 5% is notable). But broadly, 2025 will see non-GCC MENA pushing through painful adjustments, hoping that global conditions (lower rates, stable commodity prices) provide relief and that conflicts don’t flare anew. The GCC is likely to continue offering financial support selectively (e.g. Saudi’s \$5bn deposit in Turkey, aid to Egypt) to maintain regional stability.

In conclusion, the non-GCC MENA region remains in a precarious state: a few countries make halting progress, but many are in crisis or stagnation. Without significant reforms or conflict resolutions, 2025 will be another challenging year. The global and regional geopolitical environment stays volatile, which in turn shapes these countries’ economic



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prospects. Key things to watch in 2025 include: whether Egypt can implement reforms to unlock IMF/Gulf funding, if Tunisia finds any resolution to avoid collapse, if Lebanon forms a government for an IMF deal, and whether conflicts

(Sudan, Syria, Yemen, Palestine) see breakthroughs or new escalations. These will determine if the region's outlook can improve or if it remains mired in instability.



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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 tentative signs of emerging from a two-year contraction, supported by a gradual recovery in oil production and resilient, albeit modest, growth in non-oil sectors. Oil output cuts are unwinding and Kuwait's real GDP is forecast to return to positive growth (~2%) this year, after -2.9% in 2024. Nonetheless, fiscal pressures remain prominent – despite short-term improvements (like the much smaller FY2024/25 deficit due to higher oil and spending restraint), underlying deficits persist. The government's latest budget projects a deficit around 13% of GDP if oil stays in the \$60–70 range. This underscores the urgency of economic diversification, structural reforms, and fiscal consolidation to reduce Kuwait's vulnerability to oil swings.

Kuwait's financial market has maintained resilience with steady performance and robust liquidity. The All-Share Index is up approximately 17% year-to-date as of mid-2025, reflecting investor confidence and ample local liquidity. Sectoral consolidation – particularly in banking, with major mergers (e.g. the Warba–Gulf Bank tie-up) – indicates a robust financial sector positioning to leverage future opportunities. Banks are well-capitalized and credit growth has picked up to around 6% y/y, suggesting that the financial system can support the economy's recovery. In real estate, Kuwait has seen a notable rebound in 2025. Residential and investment property transactions have increased and prices are recovering, driven by legislative optimism (anticipation of the new Real Estate Finance law) and improved sentiment. However, the commercial segment remains soft – office occupancy and retail footfall are yet to fully rebound – reflecting cautious business expansion. Looking ahead, the expected Real Estate Finance Law and ongoing regulatory enhancements (like digitizing property registration) should provide a supportive framework for the sector's longer-term growth, enabling more financing options and market transparency.

Across the GCC, economies display differentiated growth trajectories. Saudi Arabia in 2025 faces modest growth as it balances an oil output recovery with higher inflation and rising debt. After contracting in 2024 due to oil cuts, Saudi is seeing a rebound – Q2 2025 GDP was +3.9% y/y – but its growth is lower than the 2022 oil boom and it has expanded borrowing to fund megaprojects, pushing up debt ratios. The UAE, by contrast, demonstrates remarkable economic momentum, underpinned by substantial long-term investments and successful diversification. The UAE's non-oil economy is growing ~5%, and major strategic commitments – such as its 10-year, \$1.4 trillion U.S.



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investment partnership and aggressive infrastructure spending – are propelling it toward 4%+ growth in 2025. Qatar, Oman, and Bahrain present moderate growth, reflecting varied capacities for diversification and resilience amidst lower oil prices. Qatar is steady at ~2–3% growth as it awaits the big LNG expansion payoff after 2025. Oman is recovering around 2.5–3%, thanks to fiscal reforms and higher investment. Bahrain is growing ~3% with diversification gains (in finance, tourism) but carries the legacy of high debt and remains reliant on GCC support.

Globally, the economic outlook remains cautious and clouded by uncertainties. The U.S. and Europe are struggling with slower growth and the aftermath of their inflation fights, while China’s momentum is cooling, all of which temper external demand for the GCC. Continued U.S.–China trade tensions – including significant new tariff escalations – are impacting global trade flows and adding to inflation in some regions. This has contributed to downward revisions in world growth forecasts. Notably, the U.S. growth outlook for 2025 has been marked down to around 1.8%, reflecting heightened recession risks and still-elevated core inflation. China’s growth is expected to be in the mid-4% range, lower than pre-pandemic norms, amid property sector woes and weak export demand. The Eurozone and UK remain sluggish – essentially flirting with recession as high energy costs and past inflation weigh on consumer spending. These global headwinds mean the GCC cannot rely on external demand as a strong engine; oil prices are forecast to stay moderate (and could weaken further if global growth disappoints, as the EIA warns).

On the geopolitical front, risks abound. The trajectory of the war in Ukraine continues to influence European energy markets and global risk sentiment. Thus far, the GCC navigated the Ukraine shock well (benefiting from higher energy prices in 2022, then managing supply diversification in 2023–24). But any escalation or resolution of the war will have ripple effects – potentially affecting oil and food prices in either direction. In the Middle East, the situation after the 2024 Gaza war and the ongoing conflicts in Syria, Sudan, and Yemen present persistent instability. There are some positive developments – such as the Saudi–Iran rapprochement brokered by China in 2023 that led to a de-escalation in Yemen and improved diplomatic climate. If this trend of dialogue continues, it bodes well for regional stability and economic cooperation. However, flashpoints remain: Lebanon’s meltdown, Iran’s nuclear program, and Iraq’s fragile politics are all areas of concern. Furthermore, the U.S. interest rate cycle and dollar strength are critical factors for MENA – a peak and eventual decline in global rates (expected in 2025) would ease pressure on countries like Egypt, Jordan, and Tunisia by lowering borrowing costs and possibly weakening the dollar to their benefit.



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In summary, the analysis above paints a cautiously optimistic but vigilant picture: there are pockets of resilience – Kuwait and its GCC peers have weathered recent shocks relatively well and are pushing ahead with investments and reforms – but also significant vulnerabilities that require prudent management in the year ahead. For Kuwait, priorities are clear: diversify the economy to create non-oil growth engines, enact fiscal reforms to rein in deficits, and promote private sector development to absorb a young workforce. The external environment suggests Kuwait should plan for oil price volatility and not count on another oil windfall to solve structural issues. The GCC more broadly appears committed to reform (e.g. Saudi’s Vision 2030 projects, UAE’s innovation drive), which, if sustained, will strengthen their economic foundations and reduce reliance on oil. Yet, they too must stay agile and vigilant, balancing oil output adjustments, fiscal discipline, and growth initiatives in response to dynamic global conditions. As global uncertainties persist – from trade disputes to geopolitical tensions – maintaining buffers (like sovereign wealth funds) and flexibility is paramount.

Ultimately, Kuwait and its neighbors stand at a crossroads of opportunity and risk. The investments made now in infrastructure, human capital, and regulatory improvements will determine how well they thrive in a post-oil, multipolar global economy. With prudent policies, the GCC can continue to be a source of stability and growth in a volatile region. For the non-GCC MENA economies, 2025 will be a critical year to implement reforms and secure support to avert deeper crises. The global and regional outlook calls for cautious optimism: while major economies slow, inflation is coming under control and interest rates should peak – setting the stage for a potential gentle rebound late in 2025 if conflicts are avoided and confidence improves. Kuwait and the GCC are comparatively well-placed to capitalize on that eventual upturn, provided they navigate the intervening months with care, seizing opportunities to build more sustainable, diversified economies for the future.

Final Note: This report provides a comprehensive snapshot as of August 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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