THE EDGE CONSULTANCY

The Edge Economic Update

2025 Economic & Markets Year in Review

Kuwait | GCC | Egypt | USA | China | UK & Europe

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2025 Economic & Markets Year in Review

Introduction

Global economic growth moderated slightly in 2025 to around 3.2%, down from 3.3% in 2024, as the world economy adjusted to the cumulative impact of higher interest rates, tighter financial conditions, and rising policy uncertainty. Advanced economies expanded by approximately 1.5%, while emerging market and developing economies grew just above 4%, supported by relatively stronger domestic demand and investment momentum.

Inflation continued to decline globally, though progress remained uneven: inflation was still above target in the United States, while it moderated more noticeably across Europe and parts of Asia. With price pressures easing overall, major central banks moved away from aggressive tightening and toward a more balanced policy stance, although interest rates remained elevated in many economies.

The policy and investment environment was further shaped by heightened geopolitical and trade-related risks, including increased global protectionism and ongoing U.S.–China trade tensions that influenced supply chains and investor sentiment. Despite these headwinds, many economies demonstrated resilience, supported by relatively strong labor markets, fiscal buffers in key regions, and improving inflation dynamics.

Global & Regional Equity Markets

Equity markets delivered broadly positive performance in 2025, supported by easing inflation, improving investor sentiment, and a shift toward more balanced monetary expectations. Gulf equity markets also ended the year mostly higher, with six of seven GCC bourses closing 2025 in positive territory. The standout performer in the GCC was Oman, where the MSM30 index surged by +28.20%, driven by improved liquidity, stronger domestic institutional buying, and continued support from privatization initiatives and capital market reforms. The Kuwait All Share Index rose by +21.20%, supported by resilient banking sector earnings and improved market confidence. In the UAE, Dubai's DFM General Index advanced by +17.20%, while Abu Dhabi's ADX gained +6.10%, supported by solid domestic fundamentals despite lower oil price headwinds. Smaller GCC markets delivered modest returns, with Bahrain rising by +4.10% and Qatar increasing by +2.10%. In contrast, Saudi Arabia's Tadawul All Share Index declined by –12.84%, the only GCC market to close the year in negative territory, reflecting weaker liquidity, heavy IPO supply, and pressure on major index constituents.

Beyond the region, developed equity markets recorded strong gains. In the United States, the S&P 500 rose by +16.39%, the NASDAQ Composite gained +20.35%, and the Dow Jones Industrial Average increased by +12.97%, supported by technology-led earnings strength and improved rate expectations.

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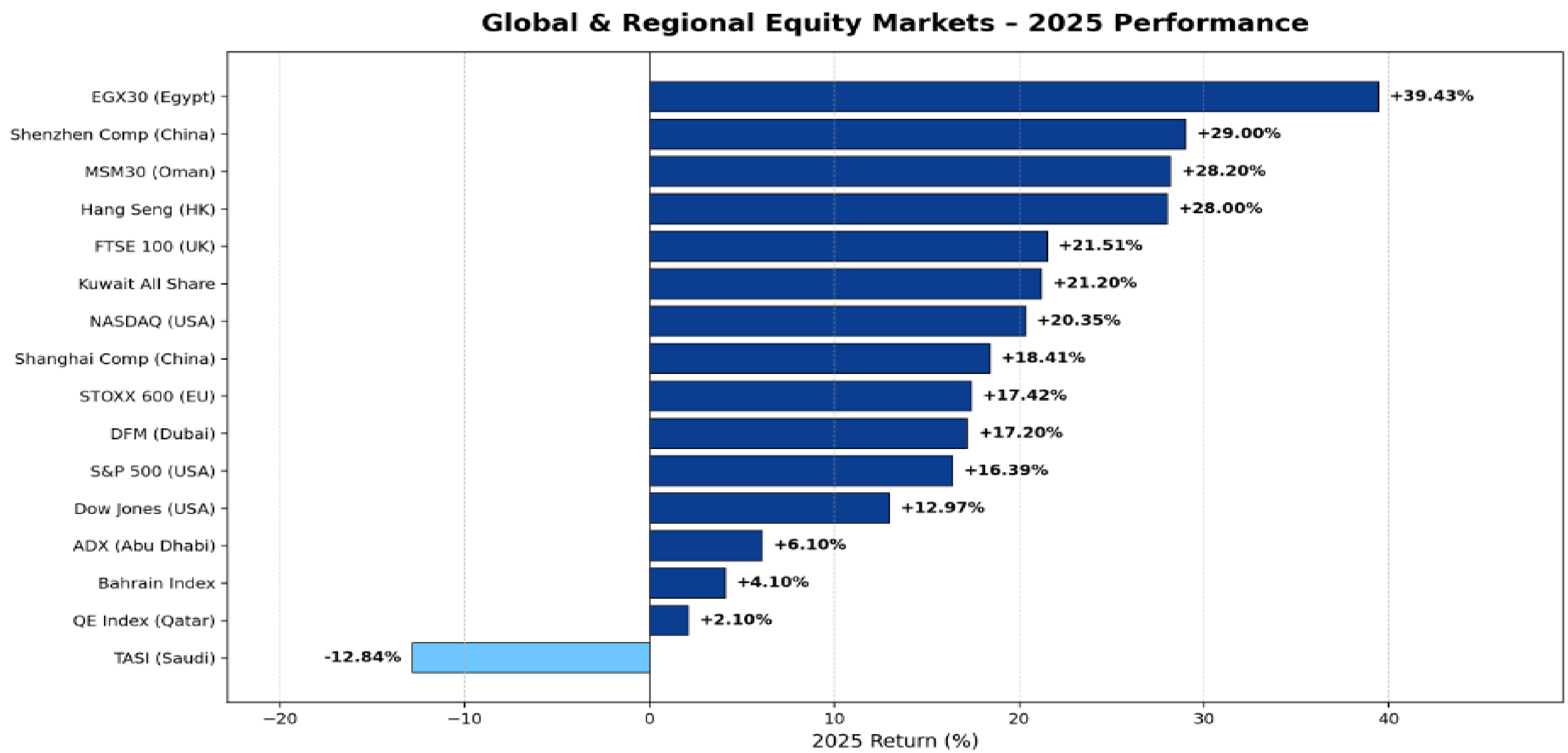

European equities also performed positively, with the STOXX Europe 600 rising by +17.42%, while the United Kingdom's FTSE 100 advanced by +21.51%. In Asia, China's equity markets strengthened sharply: the Shanghai Composite Index rose by +18.41%, the Shenzhen Composite Index gained +29.00%, and Hong Kong's Hang Seng Index increased by +28.00%, supported by policy support and improved market sentiment.

Notably, Egypt's EGX30 rose by +39.43%, ranking among the strongest performers in 2025 and reflecting improved investor confidence and macro stabilization.

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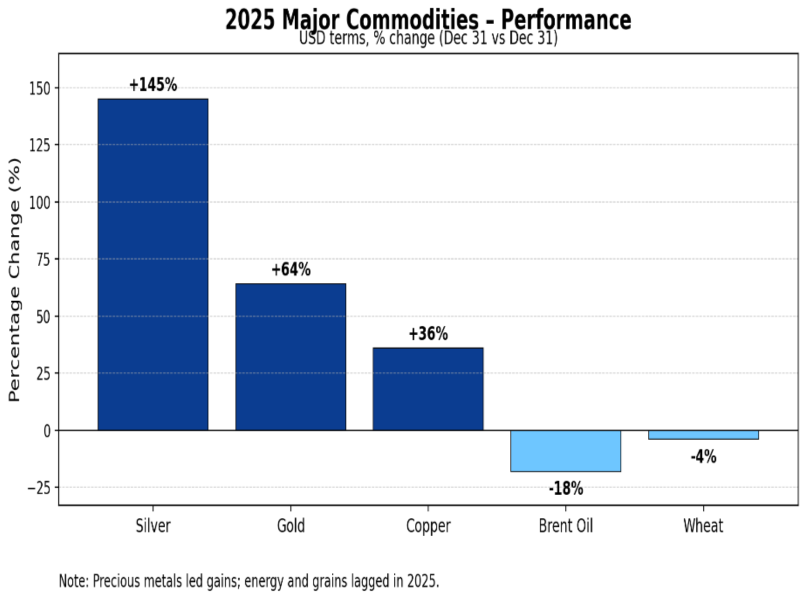
Commodities Summary

Commodity markets recorded a mixed year in 2025, with precious metals delivering exceptional gains while energy prices weakened, driven by oversupply and softer demand growth. Silver was the strongest performer, rising by approximately 145% during 2025, supported by safe-haven demand, industrial usage, and tightening supply conditions. Gold also surged by around 64%, reaching record highs as investors positioned for easing monetary policy expectations, persistent geopolitical risks, and continued central bank accumulation.

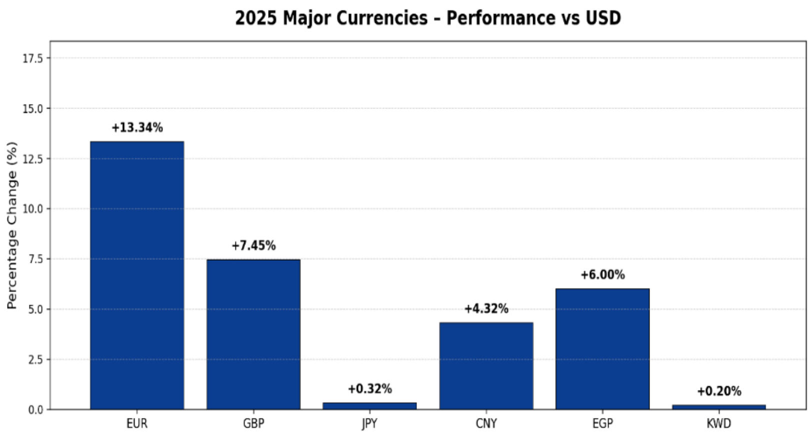


In contrast, oil prices declined by approximately 18% during 2025, reflecting a supply surplus and weaker-than-expected global demand growth. Industrial metals performed positively, with copper rising by approximately 36%, supported by structural demand linked to electrification, renewable energy investment, and technology infrastructure. Agricultural commodities remained broadly stable, supported by improving harvest conditions, with wheat declining by about 4%, reflecting stronger global supply.

Currency Performance

Currency markets in 2025 were shaped by a broad weakening of the U.S. dollar amid easing inflation and shifting interest rate expectations. The U.S. Dollar Index declined by approximately 9%, supporting gains across major currencies. On an end-year basis (Dec 31 vs Dec 31), the euro appreciated by 13.34%, the British pound gained 7.45%, and the Chinese yuan strengthened by 4.32% against the U.S. dollar. The Japanese yen was broadly stable, recording a modest 0.32% appreciation, reflecting persistent yield differentials and cautious monetary tightening.

In the GCC, most currencies remained fixed to the U.S. dollar; however, Kuwait is the exception. The Kuwaiti dinar is pegged to a currency basket, not directly to the USD. On an end-year basis, the dinar appreciated slightly by approximately 0.20%, moving from 0.3083 KWD per USD (Dec 31, 2024) to 0.3077 KWD per USD (Dec 31, 2025).



In emerging markets, performance was mixed. The Egyptian pound appreciated by approximately 6.00% in 2025, strengthening from about 50.8 EGP per USD (Dec 31, 2024) to about 47.7 EGP per USD (Dec 31, 2025). This appreciation occurred after the major devaluation cycle of 2024 and reflects a period of relative stabilization during 2025.

Kuwait

Kuwait emerged from the 2024 contraction and returned to growth in 2025. According to the IMF's 2025 Article IV mission (December 18, 2025), real GDP is expected to expand 2.6 % in 2025 as OPEC+ production cuts unwind; non-oil GDP is projected to grow about 2.7 %, reflecting steady domestic demand. Inflation is forecast to moderate to around 2.3 %, supported by stable food and import prices. Lower oil prices will push the budgetary central government deficit into the mid-single-digits to roughly 8 % of GDP, yet Kuwait will still run a very large current-account surplus (around 22–23 % of GDP) . The Central Bank of Kuwait has maintained financial stability; private-sector credit growth has been steady and banks remain well-capitalized. Overall, the economy has shown resilience, with non-oil sectors such as construction and services compensating for oil-sector volatility.

On the policy front, reforms under Vision 2035 continued. In 2025 the government enacted a new Public Debt Law, enabling sovereign bond issuance for the first time in several years and providing new options for financing infrastructure projects. Additionally, a 15% corporate income tax was extended to cover all large multinational companies operating in Kuwait, broadening the non-oil revenue base. Kuwait progressed on megaprojects such as the Al-Zour refinery and new port and rail developments. The combination of oil-sector recovery, low inflation, and ongoing reforms suggests Kuwait is on a path toward modest but sustainable growth.

GCC

GCC economies generally maintained solid growth in 2025, despite oil's downturn. Non-oil sectors across the Gulf drove activity: UAE and Saudi non-oil GDP grew ~4–5% on the back of tourism, infrastructure, and manufacturing expansions. Saudi Arabia's overall GDP grew about 4%, as OPEC cuts kept oil GDP suppressed, but non-oil growth above 4% provided resilience. UAE GDP grew ~4–5%, and Oman ~3%, with Bahrain and Qatar around 3% growth, according to preliminary estimates (supported by high gas output for Qatar). Inflation across the GCC eased into the 1–3% range by end-2025, thanks to subsidy schemes and currency pegs to the soft dollar.

Fiscal balances moderated with lower oil revenue; notably, Saudi Arabia shifted back to a small fiscal deficit (~4–5% of GDP) after a surplus in 2024, while UAE and Qatar ran modest surpluses.

Importantly, GCC governments continued ambitious reforms: Saudi Arabia pressed on with its Vision 2030 investments and privatizations, the UAE introduced a 9% federal corporate tax and new visa schemes to attract talent, and Oman and Bahrain advanced fiscal consolidation plans. These efforts, alongside substantial sovereign wealth buffers, kept Gulf economies on a stable footing despite the oil price slide.

Overall, the rest of the GCC in 2025 saw strong equity markets (with the singular exception of Saudi stocks) and steady macroeconomic performance, underpinned by diversification momentum and prudent economic management.

Egypt

Egypt made fragile progress in 2025 amid ongoing reforms. After severe turbulence in 2022–2023, growth picked up on the back of an IMF-supported program and mega FCY RE transactions with GCC. Real GDP is projected to expand about 4.6% in FY2025/26 (versus 2.4% in the prior year). This acceleration has been aided by a weaker currency boosting exports and a rebound in tourism revenues - Egypt's tourist arrivals increased by ~21% in 2025 vs 2024, reaching a new all-time record of 19 million. Indeed, tourist arrivals hit multi-year highs in 2025 as the weak pound and improved security made Egypt an attractive destination. At the same time, Egypt's massive inflation rate has finally begun to ease. Inflation decelerated from 30%+ in 2024 to about 12.3% by late 2025 – the lowest in over three years – thanks to a stabilized pound and tight monetary policy early in the year. This allowed the central bank to cautiously cut interest rates in H2 2025 to spur growth.

Throughout 2025, authorities also raised domestic fuel and electricity prices (cutting subsidies by 10–15% in a mid-October adjustment) to rein in the budget deficit. Fiscal reforms continued, including expanding the VAT base and privatizing state assets – stakes in several state-owned enterprises and banks were sold to Gulf investors, bolstering FX reserves. These measures helped Egypt secure tentative investor trust: by year-end, foreign holdings of local treasury bills had begun to creep up again. However, challenges remain. The Egyptian pound stayed at roughly EGP 47–48 per USD with uncertainties on 2026 levels due to persistent external financing needs. Public debt is still high (near 90% of GDP) and interest costs consume over 40% of government revenue. Nonetheless, by end-2025 Egypt's macro-outlook was cautiously optimistic: inflation was easing, tourism was booming, and reforms were advancing. If planned asset sales and exchange-rate flexibility continue in 2026, Egypt may attract the foreign capital needed to sustain its recovery.

United States

The U.S. economy in 2025 showed resilience and surprises. Despite the return of aggressive trade protectionism under the new administration, U.S. growth held up better than expected. President Trump's sweeping import tariffs (averaging ~17% by mid-year, the highest U.S. tariff level since 1935) created trade uncertainty but did not derail the domestic economy. In fact, U.S. GDP grew at a brisk 4.3% annualized in Q3 2025, and is on track for roughly 2.5% real growth for the full year – a "Goldilocks" outcome of strong activity with cooling inflation. Robust consumer spending (fueled by a healthy job market and wage gains) and a capex boom in manufacturing (particularly in semiconductors and electric vehicles) powered the expansion. A massive fiscal stimulus via infrastructure and defense outlays also provided a late-year boost. By contributing to a wider budget deficit, however, these policies put some downward pressure on the dollar and upward pressure on long-term bond yields.

Importantly, inflation moderated significantly in 2025. After peaking above 9% in 2022, CPI inflation fell closer to ~3% by end-2025 (core inflation near 2.5%). Easing supply chain pressures, lower energy prices, and the Fed's earlier tightening all helped tame price growth. With inflation back near target, the Federal Reserve pivoted to monetary easing mid-year. The Fed cut interest rates three times in 2025 (25 bps each), bringing the policy rate down into the mid-3% range by December. These cuts, coming sooner than markets had anticipated, supported equity valuations and helped weaken the dollar (as noted). U.S. financial conditions loosened as a result – stock indexes climbed and credit spreads narrowed through much of the year.

On the external front, trade and geopolitical tensions were a dominant theme. The administration's "America First" trade stance – including April's tariff shock ("Liberation Day") – initially roiled markets and global supply chains. U.S. trading partners retaliated in kind, pushing global trade growth to a stall by mid-year. However, by late 2025, some tensions eased: the U.S. reached interim trade deals with allies (e.g. reducing some tariffs on EU goods) and shifted focus to strategic negotiations with China. U.S.-China relations remained complex – export controls on tech stayed in place – but direct tariff escalations paused after mid-year, helping manufacturing sentiment recover. Meanwhile, the U.S. dollar's unexpected weakness provided a tailwind to American exporters; net exports contributed positively to GDP for the first time in several years.

In summary, the U.S. economy in 2025 was marked by strong growth and falling inflation, a combination that allowed policymakers to reverse some tightening. Yet, uncertainties linger heading into 2026. Key risks include the sustainability of fiscal deficits, potential re-emergence of inflation if the labor market stays too hot, and the overhang of high corporate debt (much of it linked to speculative tech and AI ventures).

China

China's economy stabilized in 2025 and delivered moderate growth of around 5.0%, slightly stronger than the prior year and above earlier expectations. Growth was supported mainly by strong exports and proactive fiscal stimulus. Goods exports rose by about 6% year-on-year during the first three quarters, supported by demand from emerging markets and improved competitiveness. At the same time, fiscal support—estimated at 1.5–2.0% of GDP through infrastructure spending and local government bond issuance—helped sustain activity. China again contributed over 30% of global growth in 2025, underscoring its continued role as a major global growth driver.

However, domestic demand remained weak. Consumer spending was constrained by cautious household sentiment and elevated savings, while deflationary pressures emerged temporarily, with CPI briefly falling below zero mid-year and core inflation remaining near zero. The property downturn persisted: property investment contracted by around 8%, and housing prices continued to soften in many cities. Targeted housing support measures improved sales modestly, but the sector did not return to strong growth.

To address these headwinds, policymakers pursued monetary easing (rate and reserve requirement cuts) and accelerated reforms aimed at rebalancing toward consumption-led growth under the 15th Five-Year Plan (2025–2030). Measures included household support programs, gradual retirement-age reforms, and hukou adjustments to strengthen the social safety net and reduce precautionary savings.

Structural risks remained significant, including weakening demographics, youth unemployment estimated above 15%, and high debt—particularly among local government financing vehicles and property-linked corporates. External conditions were favorable: China's trade surplus reached a record above $1 trillion, supported by exports and subdued imports, while tourism and services trade improved as borders normalized.

Overall, China's 2025 performance combined near-term resilience with persistent structural challenges. The key policy priority into 2026 is sustaining growth around 4–5% by strengthening household demand while managing property-sector and public-debt risks.

Euro Area & United Kingdom

Economic conditions in **Europe** improved in 2025 as inflation pressures subsided, although overall growth remained moderate. The Eurozone expanded by approximately 1.3% for the year, slightly stronger than 2024 and above recession fears. Growth was supported by lower energy costs, continued normalization of supply chains, and a meaningful rise in public investment, including defense and infrastructure spending in response to heightened geopolitical tensions. Fiscal support initiatives, together with green and digital investment programs, helped offset continued weakness in private manufacturing. By the second half of the year, the region's largest economies—including Germany, France, and Italy—showed modest sequential growth, signaling a gradual recovery from the energy shock of 2022–2023.

A key positive development was the sharp decline in inflation. Headline Eurozone CPI fell back close to 2% year-on-year by end-2025, down from its double-digit peak in 2022. Disinflation reflected reduced gas prices, easing supply disruptions, and the cumulative impact of tighter monetary policy. As inflation neared target, the European Central Bank shifted from aggressive tightening toward a more neutral stance, culminating in a small rate cut late in the year. This improved inflation outlook, together with stronger external balances and capital inflows, supported a significant strengthening of the euro, which appreciated by roughly 14% against the U.S. dollar in 2025.

European financial markets performed strongly. The STOXX Europe 600 rose around 15% over the year, supported by improved sentiment and a rebound in banking stocks. Defense-related equities were among the strongest performers, rising sharply in response to increased defense budgets. Sovereign bond yields were volatile: German 10-year yields climbed toward 3% mid-year before easing toward ~2.4% following a more dovish ECB shift. By year-end, the combination of improving inflation trends, currency appreciation, and fiscal expansion became a defining theme for the European macro outlook.

In the **United Kingdom**, the recovery remained more subdued. UK GDP grew approximately 1.3–1.4% in 2025, but growth momentum weakened over the year, with activity close to flat in the second half. High interest rates continued to constrain consumer spending, housing activity, and business investment, while fiscal policy remained relatively tight given elevated public debt. Inflation, however, improved substantially: CPI fell to around 3.5% by late 2025, supported by easing energy and food prices and moderating wage growth. This allowed the Bank of England to shift toward easing, implementing cumulative rate reductions during the year to support the economy, including a cut in December.

By year-end, UK indicators were mixed: unemployment edged higher, housing prices softened, and growth remained close to stagnation, although falling inflation and lower interest rates improved the outlook heading into 2026.

Overall, Europe and the UK avoided recession in 2025 and entered 2026 on firmer footing, supported by easing inflation, improving energy dynamics, and a gradual transition toward a more supportive monetary environment—marking a significant improvement from the turbulence of the preceding years.

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