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The Edge Economic Update

A Softer U.S. Dollar: Economic Implications for the GCC

February 2026

A Softer U.S. Dollar: Economic Implications for the GCC

Executive summary

The U.S. dollar entered early 2026 on a softer footing versus its mid-2024 to early-2025 strength. The Federal Reserve's "Nominal Broad Dollar Index" (monthly) peaked around 128.8 in Jan 2025 and declined to about 119.2 by Jan 2026 (latest value in the Fed's Feb 2, 2026 release)

For the U.S., a weaker dollar is a double-edged macro signal: it can improve export competitiveness and support manufacturing margins, but it can also raise import prices (inflation pressure) and highlight investor sensitivity to fiscal and external imbalances. On the fiscal front, the Congressional Budget Office (CBO) projects a $1.9 trillion federal deficit in FY2026 (about 5.8% of GDP) and a rising debt path reaching 120% of GDP by 2036, underscoring a long-run backdrop that can matter for currency confidence.

For the GCC, the key takeaway is resilience with nuance. Most GCC economies maintain strong policy anchors, sizable buffers, and conservative budget design assumptions, which limits downside from USD volatility. Kuwait stands out positively for its basket-based exchange-rate framework, which can provide additional insulation versus a pure USD peg by smoothing imported inflation shocks and providing more flexibility.

Fiscal headlines for 2026 budgets are broadly stable, with deficits generally planned/managed rather than forced. Kuwait's newly presented FY2026/27 budget (Cabinet-approved presentation dated Feb 2026) maintains a conservative oil price assumption ($57/bbl) and raises capex meaningfully (+36.8% vs FY2025/26), while also showing a wider planned deficit—best read as "investment + realism" rather than fragility, given Kuwait's buffers.

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Softer USD in context

The cleanest "public" way to see USD weakness is through a broad, trade-weighted index (rather than a single bilateral FX pair). The Fed's monthly Nominal Broad Dollar Index rose through late-2024, peaked in early-2025, and then declined through late-2025 into early-2026. For GCC audiences, this matters because many GCC currencies are closely linked to the USD (directly or indirectly), and oil is largely priced in USD worldwide.

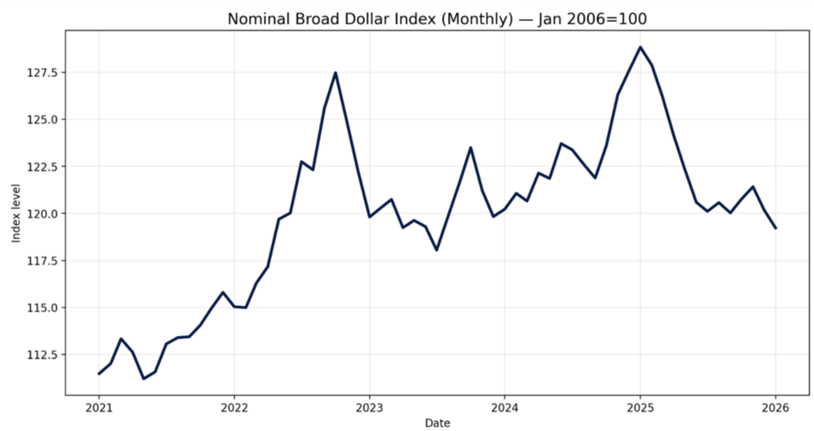

Figure: Peak around Jan 2025; latest in Feb 2, 2026 release is Jan 2026. Source: Federal Reserve H.10.

The dollar strengthened sharply through 2022, reflecting aggressive US rate hikes and global risk aversion. It then eased through 2023, before re-accelerating into late-2024/early-2025 as relative US growth and higher-for-longer expectations supported the currency. Since the 2025 peak, the index has trended lower into 2026, signaling a gradual normalization in rate differentials and risk sentiment.

A "weaker dollar" often shows up alongside (or because of) three macro channels that matter for this report's core question:

First is the external balance channel. The U.S. runs persistent current-account deficits; Bureau of Economic Analysis (BEA) reported a $226.4 billion U.S. current-account deficit in Q3 2025 (narrowing from Q2 2025). This type of structural external deficit can make the currency more sensitive to shifts in global risk appetite and capital flows.

Second is the fiscal credibility channel. Congressional Budget Office's (CBO) Feb 2026 outlook projects a $1.9 trillion deficit in FY2026 and debt rising to 120% of GDP by 2036, which keeps "twin deficit" discussions alive even when near-term growth looks fine. Currency markets do not mechanically "price" deficits, but the long-run trajectory can influence term premia and the perception of policy room.

Third is the monetary-financial channel. When the dollar weakens, it can reflect expectations of easier U.S. financial conditions relative to peers (rate differentials), or a rotation toward non-USD assets. For GCC policy, this channel matters because Gulf monetary conditions often shadow the Fed (especially under a hard peg), which can transmit U.S. easing or tightening into domestic credit and liquidity cycles.

Impact on the US economy

The U.S. impact of a weaker dollar should be framed as a mix of "benefits to the real economy" and "risks to nominal stability." Trade and growth effects can be supportive at the margin. A lower dollar tends to improve the price competitiveness of U.S. exports over time and can also make import-competing industries more viable. This mechanism is gradual (contracts, supply chains, and pricing adjust slowly), but it is conceptually one of the most direct pro-growth channels of a weaker currency, especially when paired with strong productivity and investment cycles.

Inflation dynamics are more nuanced. A weaker dollar can raise the domestic-currency price of imported goods and some tradable commodities. The extent of "pass-through" depends on retailer pricing power, inventories, and global supply conditions, but the direction of effect is intuitive: all else equal, a cheaper dollar makes imports more expensive in USD terms. For policy, that matters because the Fed's inflation mandate is sensitive to sustained import-price pressure.

Financial conditions may ease—but that can be both good and risky. If the dollar is weakening because markets expect lower U.S. rates or looser financial conditions, the near-term outcome can be supportive for equities, housing affordability, and credit conditions. Yet, if markets interpret USD weakness as a fiscal-credibility warning (rather than a cyclical interest-rate story), then higher term premia can emerge—offsetting the benefits of a weaker currency. CBO's Feb 2026 baseline—$1.9T deficit in FY2026 and debt rising to 120% of GDP by 2036—keeps this longer-run "credibility channel" relevant in public debate.

The fiscal arithmetic can also be read in two layers: near-term versus structural. Even while CBO projects large FY2026 deficits, CBO's Monthly Budget Review noted the federal deficit totaled $696B in the first four months of FY2026, about $143B lower than the same period a year earlier—evidence that short-term flows can improve even when long-run pressures remain.

For GCC stakeholders reading the U.S. picture, the practical takeaway is that a "soft dollar" does not automatically imply U.S. weakness. It often signals a transition in the U.S. cycle—between growth, inflation, and policy expectations. But the U.S. fiscal trajectory is a persistent structural theme that global investors (including GCC sovereign and institutional investors) are unlikely to ignore.

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Impact on GCC countries

GCC budget comparison for 2025/26: The table below compiles headline "announced" central/federal budgets (or the nearest fiscal-year equivalents) using primary government sources where available.

GCC state	Budget year shown	Revenue	Expenditure	Fiscal balance	Oil price assumption	Fiscal stance
Kuwait	FY2025/26	KWD 18.232bn	KWD 24.538bn	KWD −6.307bn	$68/bbl	Supportive spending with higher capital outlays; conservative oil assumptions
Oman	2026	RO 11.447bn	RO 11.977bn	RO −0.530bn	$60/bbl	Continued consolidation; deficit narrowing and conservative oil benchmark
Qatar	2026	QAR 199.0bn	QAR 220.8bn	QAR −21.8bn	$55/bbl	Moderately supportive; conservative oil price, manageable deficit
Saudi Arabia	2026	SAR 1,147bn	SAR 1,313bn	SAR −165bn	Not disclosed	Investment-led and countercyclical; moderate planned deficits
UAE (federal)	2026	AED 92.4bn	AED 92.4bn	AED 0 (balanced)	Not disclosed	Disciplined yet growth-supportive; budget expansion with balance
Bahrain	2026 (projection)	BHD 3.459bn	BHD 4.537bn	BHD −1.078bn (computed)	Not disclosed	Gradual consolidation path with reform continuity

GCC budget comparison for 2026/27: Many GCC states either (a) publish only one-year budget laws, or (b) publish medium-term estimates unevenly. As of the date of report, the most comparable "2026/27" view is Kuwait's FY2026/27 budget (published) and Saudi Arabia's 2027 estimates embedded in the FY2026 budget statement; for others, a formal 2027 budget is not clearly announced in the primary sources reviewed.

GCC state	Budget year shown	Revenue	Expenditure	Fiscal balance	Oil price assumption	Fiscal stance
Kuwait	FY2026/27 (Presentation)	KWD 16.313bn	KWD 26.068bn	KWD −9.756bn	$57/bbl	Capex-supportive with higher planned deficit; conservative oil benchmark
Saudi Arabia	2027 (estimate)	SAR 1,230bn	SAR 1,350bn	SAR −120bn	Not disclosed	Gradual fiscal improvement; investment continues with lower deficit

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Kuwait

Kuwait's positive differentiator in a "weak dollar" environment is its exchange-rate design. The Central Bank of Kuwait states that the Kuwaiti dinar (KD) is pegged to a special weighted basket of currencies reflecting major trade and financial relationships, aimed at achieving relative stability versus major currencies. In a region where USD pegs are common, this basket approach provides greater flexibility in managing imported inflation and external shocks.

On fiscal policy, Kuwait's FY2026/27 budget presentation (Cabinet-approved, February 2026) is deliberately conservative on oil: it assumes $57/bbl average oil price and 2.6 mn bpd production, with an exchange rate assumption of 307 fils per $1. The presentation also reports a budget break-even oil price of $90.5/bbl—a useful "stress benchmark" that frames upside if oil averages above assumptions.

The composition and direction of Kuwait's FY2026/27 budget are also telling. Oil remains the dominant revenue source (presentation shows 79% oil vs 21% non-oil), but non-oil revenue is rising: non-oil revenue is budgeted at KWD 3.5bn, up 19.6% versus FY2025/26. On spending, the FY2026/27 plan raises total spending to KWD 26.1bn (from KWD 24.5bn), with capex highlighted as a growth lever (capex up 36.8% vs FY2025/26).

The tradeoff is a wider planned fiscal deficit, largely reflecting higher investment spending and conservative oil assumptions rather than underlying financial strain.

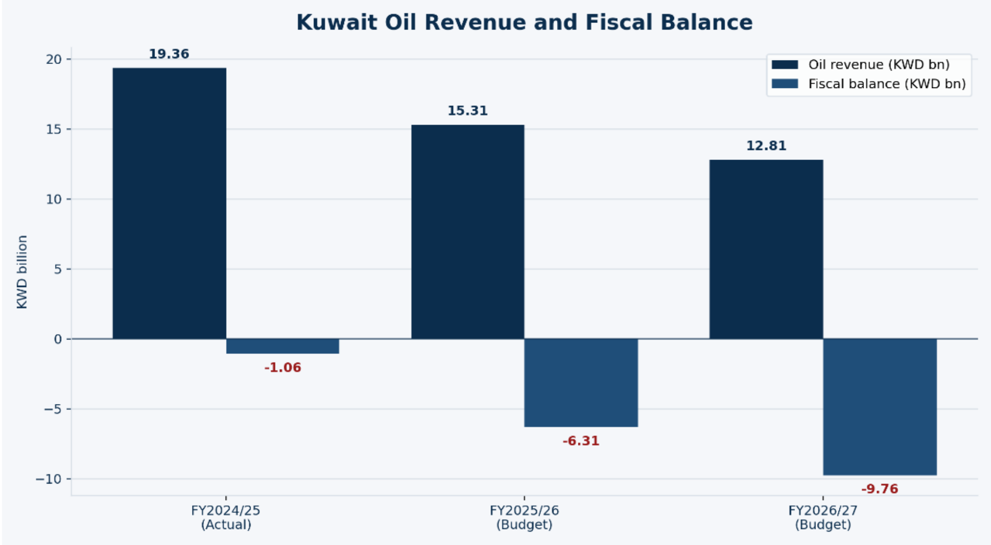

Figure: Kuwait oil revenue and fiscal balance (KWD bn) comparing FY2024/25 actual and FY2025/26–FY2026/27 budgets (years ending March). Source: Kuwait Ministry of Finance budget presentation (Feb 2026).

External buffers matter even more in a dollar-volatility story. CBK's official reserve assets data (which explicitly exclude external assets held by the Kuwait Investment Authority) show official reserve assets around KWD 13.7bn, while total external debt is KWD 20.4bn (CBK definition covering general government and private sector). This yields a reserves-to-external-debt ratio around 0.67x on these definitions—suggesting that, even before acknowledging sovereign wealth external assets, Kuwait's macro buffers are meaningful.

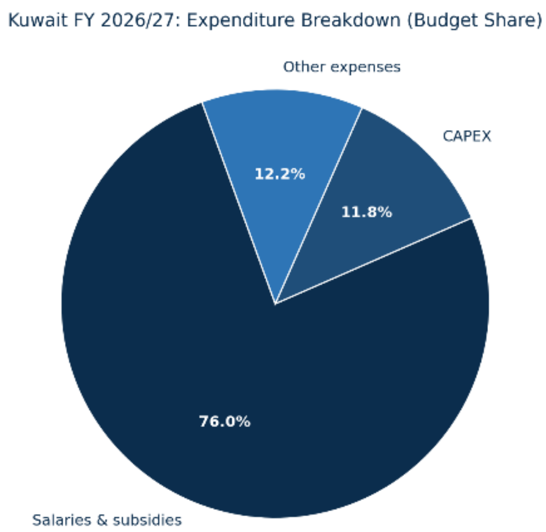

Figure: The FY2026/27 budget composition shows recurrent spending accounting for 76% of total expenditure (primarily salaries and subsidies), with CAPEX and other spending representing 24%

Finally, the CBK statement of account provides an additional “liquid foreign assets” lens: as of 31 Jan 2026, CBK reports foreign-currency cash balances/items (cash balances, accounts, bonds, CDs, T-bills and deposits in foreign currency) of KWD 10,833.5m. These foreign currency assets are not a one-for-one substitute for “official reserve assets,” but they reinforce the picture of a well-stocked liquidity toolkit.

How a weaker USD plays through to Kuwait: Because oil is sold in USD while Kuwait’s currency is basket-linked, a weaker USD can (a) reduce the KD value of USD oil receipts relative to a hard USD peg case, but (b) also reduce the KD cost of imports priced in non-USD currencies and support domestic price stability. The basket design is explicitly intended to reduce adverse exchange-rate pass-through from trading partners and provide flexibility.

Saudi Arabia

Saudi Arabia’s fiscal dynamics remain “strategic-investment led” rather than “price-led.” The FY2026 budget statement shows SAR 1,147bn in revenues and SAR 1,313bn in expenditures, implying a SAR 165bn deficit (about 3.3% of GDP, as described in the statement). Medium-term estimates embedded in the same statement show a smaller deficit in 2027 (SAR 120bn, about 2.3% of GDP).

Saudi Arabia does not disclose an explicit oil price assumption in the headline budget tables published in the statement (at least in the sections reviewed), which is common practice for some hydrocarbon exporters using conservative internal assumptions. That means “oil price sensitivity” is best assessed through outcome ranges rather than a single stated benchmark.

How USD weakness interacts with Saudi fiscal policy: with the riyal’s USD peg and oil priced in USD, the main mechanical impact is through import prices and the global oil price environment. A softer USD often coincides with firmer commodity prices in USD terms (though not always), which can support nominal oil revenues; meanwhile, any USD-linked imported inflation can be managed through domestic subsidy design and fiscal buffers. The key point is that Saudi's fiscal planning is framed around multi-year transformation spending, making it less "reactive" to near-term FX moves.

United Arab Emirates

The UAE's federal budget is structurally different from the consolidated public-sector footprint (which includes emirate-level entities), but it still provides a clear signal on fiscal stance. The UAE Cabinet approved a record federal budget for FY2026 with AED 92.4bn in projected revenues and balanced expenditures at the same level. The Ministry of Finance notes the budget falls under the 2022–2026 federal general budget plan.

A key macro point for USD discussions: because the AED is USD-pegged, a weaker USD can raise the local-currency price of imports priced in EUR/GBP and some other currencies, but the UAE's policy framework and diversified economic base (trade, logistics, services, tourism, and manufacturing) give it multiple adjustment channels beyond FX. The headline fiscal stance—balanced and scaling—signals sustained confidence.

Qatar

Qatar's 2026 budget is explicitly conservative on oil. The Ministry of Finance notes the 2026 budget assumes an average oil price of $55/bbl and targets modernization under the Third National Development Strategy aligned with Qatar National Vision 2030. Headline totals are QAR 199bn in revenues and QAR 220.8bn in expenditures, implying a planned deficit of QAR 21.8bn.

In a weaker-USD world, Qatar's key advantages are its conservative oil benchmark and policy ability to prioritize strategic spending while keeping debt and liquidity risks contained. When oil prices exceed conservative budget assumptions, fiscal outcomes tend to improve mechanically; when oil prices soften, the conservative benchmark reduces the shock.

Oman

Oman's fiscal story is steadily improving and is a strong example of "discipline with growth intent." Oman News Agency (ONA) reports the 2026 general state budget is calculated on an average oil price of $60/bbl, with projected revenues of RO 11.447bn and expenditures of RO 11.977bn. The targeted deficit is RO 530m, which ONA reports as a 14.5% reduction versus the deficit approved for 2025 and equal to ~1.3% of GDP (per the ONA report).

The "weak dollar" linkage for Oman is similar to peers with USD-linked currencies: import prices can rise when USD falls, but conservative oil assumptions and improving deficit metrics provide room to manage volatility. Oman's continuing medium-term planning (including the 2026–2030 11th Five-Year Plan discussion referenced by ONA) supports the narrative of a structurally strengthening fiscal framework.

Bahrain

Bahrain's published fiscal projections (official national portal) show a gradual improvement in revenue and expenditure levels across 2025–2026, but headline figures implying continued deficits. The portal reports 2026 revenues of BHD 3.459bn and 2026 expenditures of BHD 4.537bn (and 2025: BHD 2.924bn revenue; BHD 4.380bn expenditure). Using these figures, the implied 2026 fiscal balance is about BHD −1.078bn.

Because an explicit oil price assumption was not visible in the portal summary reviewed, this report treats Bahrain's oil price benchmark as not disclosed for purposes of the cross-GCC budget table. For Bahrain, the most relevant USD channel is that a weaker USD can raise import prices (inflation pressure) while also supporting nominal USD-oil receipts if oil prices rise. Fiscal dynamics continue to reflect reform progress and funding conditions, rather than FX alone.

Conclusion

A weaker USD in early 2026 is best understood as a macro transition rather than a single "risk event." The trade-weighted broad dollar index shows a clear softening from the early-2025 peak to early-2026 levels, while U.S. fiscal projections (CBO) keep long-run deficit and debt questions in the foreground—two forces that can exert offsetting influences on confidence and capital flows.

Kuwait deserves particular optimism. Its basket-based exchange-rate policy is designed to stabilize the dinar against major currencies and limit imported inflation shocks, providing relative flexibility versus a hard USD peg. Kuwait's FY2026/27 budget presentation pairs conservative oil assumptions with higher capex, while official data show substantial reserve assets (and these exclude Kuwait Investment Authority external assets). In a world where the USD may remain more volatile than the 2010s, this combination—policy flexibility + conservative budgeting + deep buffers—positions Kuwait among the GCC's structurally resilient economies.

For the GCC, the practical message is stability with differentiated advantages. Conservative oil price assumptions in 2026 budgets (notably Qatar at $55 and Oman at $60) create built-in resilience. The UAE's balanced and scaled federal budget reinforces a "disciplined growth" signal. Saudi Arabia's planned deficits align with a transformation-investment agenda rather than short-term FX management.

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