Kuwait

Economic growth should return to positive territory in 2025-26 as the oil sector expands following the unwinding of OPEC+ voluntary production cuts. Non-oil growth is seen holding at 2.5%+ amid gradually rising delivery of government reform and investment initiatives and more stable but subdued consumer spending. Fiscal deficits are forecast at 7% of GDP on average through 2026 amid lower oil revenues. A further, sustained drop in oil prices is a key downside risk to the outlook, while faster reform rollout and higher residential investment levels offer upside potential.

Steady expansion amid challenging external backdrop

The outlook for the economy in 2025-2026 remains broadly positive, with GDP projected to expand by 3.3% by 2026, following several years of below-trend growth that reflected both lower oil production due to OPEC+ cuts and the fading of the post-pandemic consumer spending bounce. Pressures from deteriorating international trade relations and weakening global growth could be transmitted, we think, via potentially lower oil prices, rising uncertainty and reduced prospects for interest rate cuts by the US Fed. Still, even though the downside risks to the outlook have risen due to external factors, they are not yet assumed to have a large impact on non-oil activity due to a) oil prices holding up at $70/bbl in our existing base case, b) an already conservative growth forecast and c) a view that domestic trends will be increasingly shaped by government reform and investment initiatives where execution rates should rise.

We expect output gains in the oil sector of 2.4% per year in 2025-26 on average, in-line with the expansion in Kuwait's crude output (+135 kb/d to 2.54 mb/d by 2026) following the beginning of the unwinding of OPEC+ voluntary supply cuts in April 2025. Non-oil growth is seen averaging 2.8% per year, as consumer spending growth stabilizes after recent declines while corporate and projects activity start to move higher. Indeed, high frequency indicators suggest that this dynamic may already be underway, with the PMI notching its best ever reading in Q4 2024, bank lending to corporates expanding at its fastest pace in more than two years (4.9% y/y) in February and project awards in 2024 reaching a 7-year-high of KD2.8bn. The pipeline of Vision 2035 strategic projects in the energy, water, housing and transportation sectors remains very strong and faster-than-expected execution is a key upside risk to the economic outlook.

Progress on reform agenda, more needed

Delivery of the government's legislative and reform agenda is gradually progressing, with various important measures implemented over the last six months. These include the uncapping of government service fees, the 15% top-up tax on multinationals, moves to boost public sector efficiency, streamline regulation for SMEs and approval of the long-delayed public debt law. A housing finance law to address the housing shortage is close to being finalized. A new economic framework is expected to flesh out further development measures including enhancing the role of the private sector, attracting FDI and raising labor force productivity. Critical to achieving Vision 2035 diversification and infrastructure goals will be reversing Kuwait's historically low investment rate, which has lagged GCC peers, and reconfiguring the economy to rely less on consumption as well as the oil sector.

Inflation has trended lower (2.4% in March) since peaking in 2022 at 4.0%, helped by moderating price rises in the food and clothing categories especially. We project it to settle at around 2.5% on average in 2025-26. The domestic policy interest rate stands at 4.0% and our working assumption is for the Central Bank of Kuwait to lower rates more gradually over the course of the cycle than the Fed, given the less aggressive hikes seen in 2022-23 as US policy was tightened.

Fiscal deficits projected, liquidity boosted by debt law

Further fiscal deficits are expected over the forecast period (averaging KD3.5bn, 7.1% of GDP) amid lower-ranging oil prices ($70/bbl), and consolidation will remain a multi-year theme. Expenditures in the FY25/26 budget were held at previous-year levels (with wages up a well-below trend 2%), and we factor-in growth of only 1% on average over 2025-26 with pressure especially on discretionary spending items and subsidies. We expect a rebalancing of spending to allow for higher capital outlays. On the revenue side, measures such as the tax on multinationals, higher fees for government services and penalties and fines could yield around 0.8% of GDP per year, with potential excise duties in 2026 (0.4% of GDP) and VAT (up to 2% of GDP) later on. The IMF have recommended fiscal consolidation at a pace of 1-2% of GDP per year. The new debt law passed in March 2025 provides crucial flexibility on deficit financing going forward and alleviates pressure on the government's liquid reserves. We expect both local and foreign currency debt issuance over the next two years. Even so, debt levels will remain very low by international standards: if the projected deficits in 2025-26 were 50% debt-financed, government debt would only rise to 10% of GDP from 3% now.

Oil, global trade, local reforms to shape outlook

Lower oil prices, regional geopolitical insecurity and deteriorating global trade relations are major downside risks. On the upside, the rollout of a new government work agenda with high conviction would upgrade the growth and investment outlook. The forthcoming housing law especially could result in much stronger residential investment over time. Separately, successful fiscal consolidation steps could contribute to a sovereign ratings upgrade.

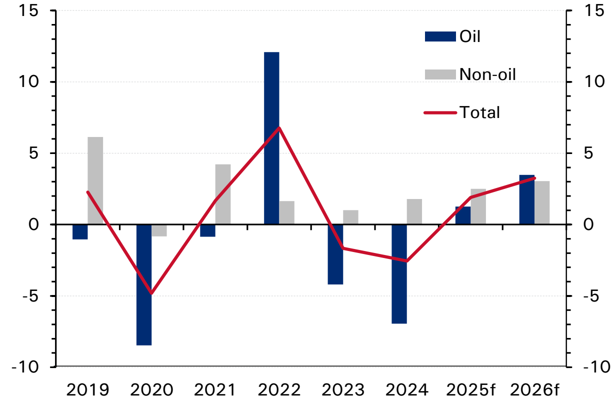
Table 1: Key economic indicators

		2022	2023	2024	2025f	2026f
Nominal GDP	$ bn	184	165	160	155	162
Real GDP	% y/y	6.8	-1.7	-2.6	1.9	3.3
- Oil sector	% y/y	12.1	-4.2	-6.9	1.3	3.5
- Non-oil sector	% y/y	1.6	1.0	1.8	2.5	3.0
- Non-oil ex refining	% y/y	0.7	-1.0	1.6	2.5	3.0
Budget balance (FY)	% of GDP	11.6	-3.1	-3.9	-8.2	-6.1
Current act. balance	% of GDP	34.5	31.4	29.4	22.4	18.6
Inflation (avg.)	% y/y	4.0	3.6	2.9	2.4	2.4

Source: Official sources, NBK forecasts

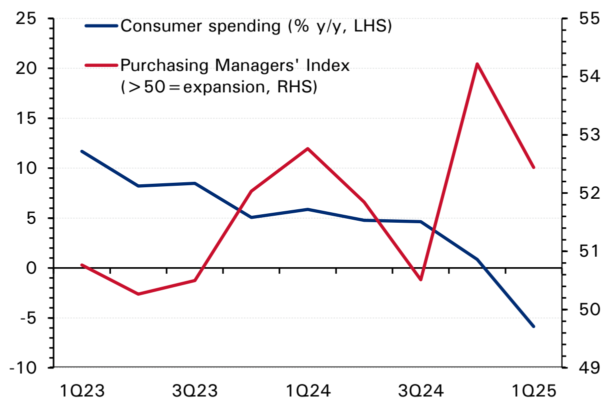
Chart 1: Real GDP

(2010=100, % y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

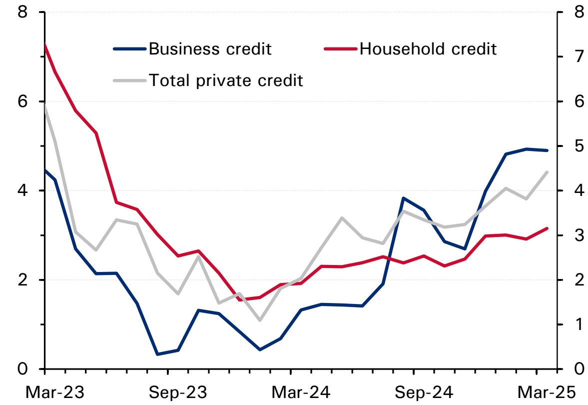
Chart 2: Consumer spending growth and PMIs



Source: Central Bank of Kuwait (CBK), S&P Global

Chart 3: Bank credit

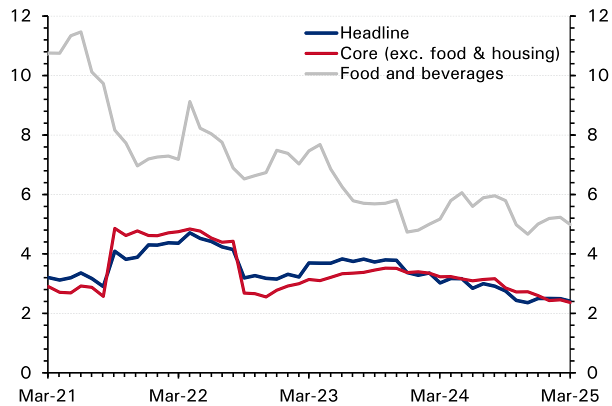
(% y/y)



Source: CBK

Chart 4: Consumer price inflation

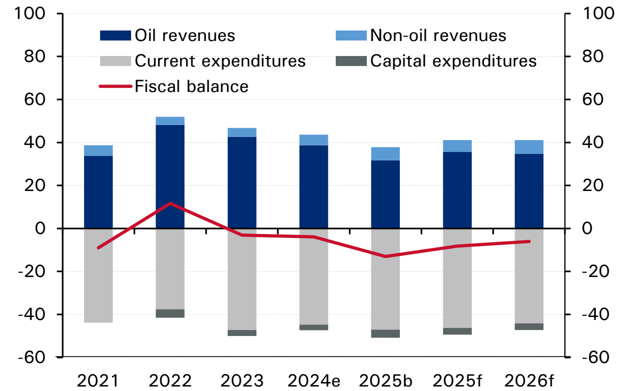
(% y/y)



Source: CSB

Chart 5: Fiscal balance

(% of GDP, fiscal year basis)



Source: Ministry of Finance (MOF), NBK forecasts; b denotes budget