



Economic Outlook GCC & Egypt

May 2025

National Bank of Kuwait
Economic Research Department



Economic Outlook

GCC & Egypt

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GCC & Egypt overview

The global economic outlook has markedly weakened due to tariff developments with the IMF slashing its growth forecast to 2.8% in 2025, driven by hits to the US and China. The US Fed is in a tricky position, but given the near-term inflation risks is unlikely to cut interest rates aggressively this year. Oil prices are forecast at \$70 on average, with risks to the downside given weak global demand and a faster unwind of earlier OPEC+ output cuts. Amid this unfavorable backdrop, GCC non-oil growth is expected to hold up quite well at 3.6% in 2025-26, with growth in Saudi Arabia and the UAE easing due to moderating investment rates but still strong. The aggregate GCC fiscal deficit will be small though this masks big country-level differences with Bahrain's much larger. In Egypt, macro-stabilization steps are giving way to faster growth, alongside evidence of a more flexible currency regime.

Global growth outlook dims amid steep US tariff hikes

The global growth outlook has markedly weakened driven by the tariff developments and the ongoing elevated uncertainty. The IMF recently slashed global growth to 2.8% in 2025 and 3% in 2026 from 3.3% for both years previously. Among major economies, the steepest downgrades were unsurprisingly for the US and China, with US growth cut by 0.9 percentage points to 1.8% in 2025 and China growth lowered by 0.6 percentage points to 4%. Growth in the Eurozone, UK, and Japan was also lowered to 0.8%, 1.1%, and 0.6%, respectively, in 2025. In the US, a recession is still avoidable although its odds have increased while a reinstatement by the US of the currently-paused 'reciprocal' tariffs means a recession will be likely in our view. The hope is that recession fears, financial market reactions, and other pressure dynamics will help in course-correcting policy. The Chinese economy will face significant pressure from the trade war with the US, and policy support is likely needed to hit the "around 5%" 2025 growth target.

The status of US's 'reciprocal' tariffs and developments on trade negotiations are key in altering the outlook. Trade negotiations are expected to be difficult, and any positive developments will likely be cheered by markets although the impact on trade balances will take years to assess. In terms of inflation, for the US, tariffs are inflationary, but lower oil prices and the weaker economic activities are deflationary forces. The US Fed is in a tricky spot over interest rates given the stagflation risks ahead but has signaled that it is in no rush to cut interest rates for now. Our base case in this report is that the near-term inflationary risks mean that US policy rates come down by at most 50 bps this year, with steeper cuts in 2026 only if inflation subsides and the US economy shows signs of a more severe economic downturn.

Our baseline forecast has Brent oil prices at \$70/bbl in 2025-26, with risks are skewed to the downside. The slowing global growth outlook adds to what was already a weak outlook for oil demand growth: the International Energy Agency sees oil demand growing 0.7 mb/d y/y in 2025-26, the slowest rates since pandemic-affected 2020. A reversal of the aggressive US tariff policy measures could help support prices by improving demand conditions. On the supply side, OPEC+'s (now quicker) unwind of 2.2 mb/d in supply cuts will result in weaker oil market balances this year and next, though potentially improve member conformity with mandated quotas and group cohesion over time. This OPEC+ supply approach is likely to pressure oil prices but also help hydrocarbon sector GDP climb further this year

and next in Saudi Arabia, Kuwait, and Oman. Upside price risks include a resurgence in regional geopolitical tensions between Israel and Iran, stricter US sanctions on Iranian crude flows and a more resilient-than-expected global economy.

GCC growth to broadly hold up despite oil price drop

Although downside risks to the Gulf economy have risen in recent months, we expect regional growth to hold up well overall in 2025-26. GDP will expand by 3.6% on average helped by the ongoing unwind of earlier oil production cuts, which is set to be accelerated at time of writing. Non-oil growth is forecast at a solid 3.5% per year – only slightly below the estimated 4% of 2024. This includes some slowdown in the region's best-performing economies, Saudi Arabia (3.6%) and the UAE (3.9%), as investment spending moderates but nevertheless remains well-supported by government reform and diversification initiatives. We see only a small aggregate GCC fiscal deficit of 1.5% of GDP this year, though this masks big country-level differences with Bahrain's deficit much larger at 9% of GDP and renewed support from the GCC probably needed to fill the financing gap. A larger oil price drop, higher-for-longer interest rates and increased regional security pressures are the main downside risks to the GCC growth outlook. Faster interest rate cuts, an easing in the global trade war and an oil price rebound are upside risks.

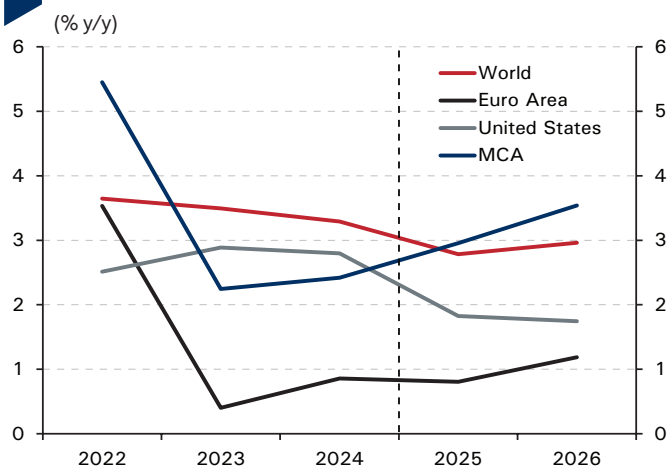
In Egypt, the outlook has significantly improved following the macro-stabilization policies enacted last year. GDP growth is seen accelerating to 4.7% in FY25/26 helped by sharp cuts in interest rates reflecting lower inflation. We also expect confirmation of a more flexible rate exchange regime, a key ask of the IMF and needed to avoid a return to the boom-bust cycles of the past. A big drop in oil prices would represent a mixed-bag for Egypt, reducing inflation and the energy import bill, but at the same time potentially jeopardizing investments from the GCC if Gulf governments' financial positions become much more squeezed. ■

GCC key economic indicators

		2023	2024	2025 ^f	2026 ^f
Nominal GDP	\$ trillion	2.1	2.2	2.2	2.3
Real GDP	% y/y	1.3	2.0	3.0	4.2
- Oil	% y/y	-5.4	-2.5	1.7	6.1
- Non-oil	% y/y	4.8	4.0	3.5	3.5
Inflation (avg.)	% y/y	2.2	1.9	1.9	1.9
Fiscal balance	% of GDP	0.7	-0.3	-1.5	-0.8
Current acc. bal.	% of GDP	9.1	4.3	2.5	1.8

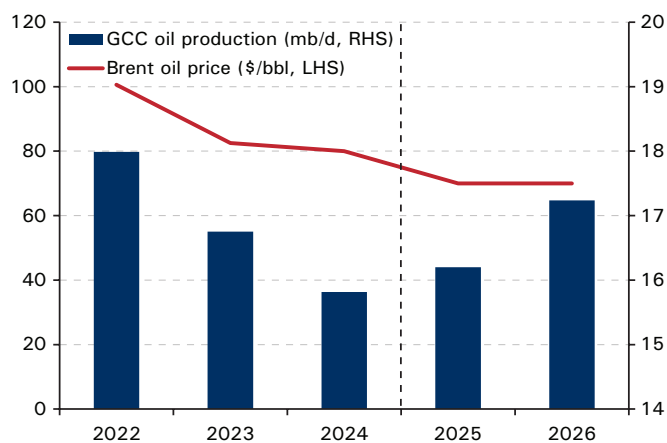
Source: Official sources, NBK estimates and forecasts

Chart 1: International GDP



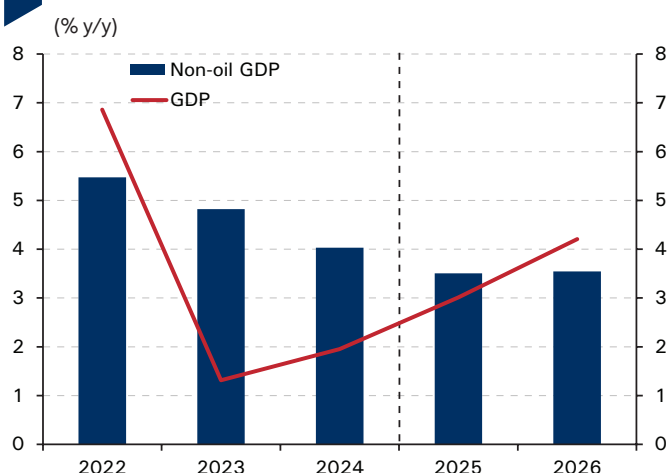
Source: IMF WEO April 2025; MCA=Middle East & Central Asia

Chart 2: Brent oil price & GCC oil production



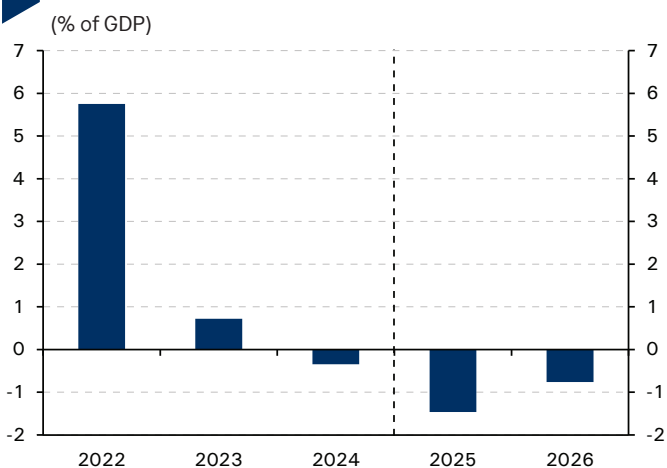
Source: EIA, OPEC, NBK estimates and forecasts; oil price is year avg.

Chart 3: GCC GDP



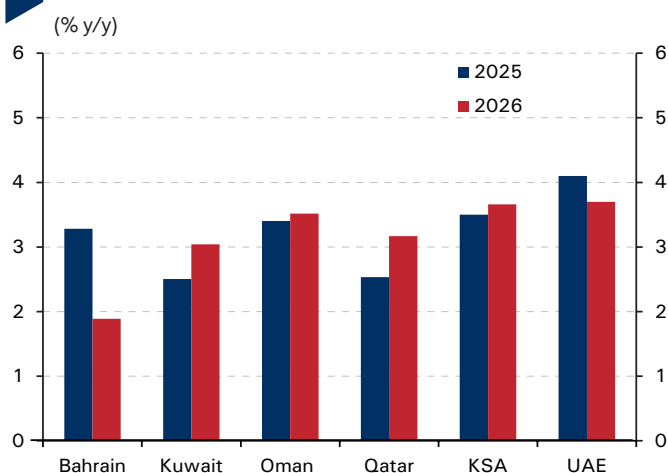
Source: Official sources, NBK estimates and forecasts

Chart 4: GCC fiscal balance



Source: Official sources, NBK estimates and forecasts

Chart 5: GCC non-oil GDP growth by country



Source: NBK estimates and forecasts

Bahrain, Oman & Qatar

Economic growth in Bahrain, Oman, and Qatar is forecast to proceed at a moderate pace in 2025 and 2026, buoyed especially by higher output volumes in the hydrocarbon sector. Bahrain's fiscal deficits are seen widening amid lower oil prices and still-elevated interest rates, despite repeated consolidation efforts. Following sustained reform implementation, Oman's positive economic performance is seen continuing with non-oil expansion, fiscal surpluses and a declining debt-to-GDP ratio. In Qatar, the cyclical downturn following the 2022 World Cup boom has faded and growth is seen accelerating again on stronger tourism activity, new government initiatives, and increased LNG production.

Bahrain: Fiscal deficit to widen, renewed GCC support key

Economic growth in Bahrain is expected to come in at only 0.8% for 2024 mainly on the back of strong growth in non-oil activities which were up by 3.6%, thus overcoming the contraction in oil GDP of 2.7%. In 2025 and 2026, growth is seen improving to 2.8% on average that will be mainly driven by a pickup in oil GDP of 1.2% in 2025 and 7.6% in 2026 with total oil production averaging 185kb/d in 2026, while the non-oil economy will be boosted following the inauguration of the BAPCO refinery program. However, low oil prices will wipe out revenue gains from higher oil volumes, causing a slowdown in investment and keeping the credit rating under pressure.

Bahrain's fiscal accounts are vulnerable to the slump in oil prices as hydrocarbon receipts represent 61% of all revenues, requiring a high breakeven fiscal oil price of around \$130 per barrel in 2025. In 2024, the fiscal deficit is estimated at 7% of GDP versus 4.7% in the previous year mainly on the back of lower oil production (down 6% y/y). The situation gets more pressing as we expect oil prices to average \$70 in the coming 2 years, widening the primary deficit to 4% of GDP versus 1.2% in 2024 and worsening the overall deficit to 9.3% of GDP. On that front, debt to GDP could widen to 141% of GDP (from an estimated 133% of GDP in 2024) at an oil price of \$70/bbl.

Renewed GCC support to Bahrain will play a role in filling the country's financing gap, especially with foreign reserves standing at around \$4.8bn (low relative to maturing debt of \$2bn per year). Such support could prevent a possible credit downgrade, especially after Fitch and S&P revised the outlook to negative from stable recently.

Oman: Economic reforms are paying off, evident in solid growth

In Oman, non-oil GDP is projected to grow solidly at 3%+ rates in both 2025 and 2026 mainly on the back of continuous execution of private sector investments led by construction, manufacturing, wholesale & retail trade, and tourism. Hydrocarbon sector growth is expected to recover by 2.5% and 3.7% in 2025 and 2026, respectively, after it fell in 2024 by around 1.4% on lower oil production from participating in OPEC+'s latest voluntary output cut. On that front, Oman is expected to see growth of 3.1% and 3.6% for 2025 and 2026 coming higher than Oman's 10-yr avg of 2.6%.

Lower oil prices will have a limited impact on Oman's economy relative to the MENA region, given the government's low fiscal breakeven of around \$62-65/bbl. This will allow the fiscal position to remain in positive territory at around 1.3% of GDP, assisted by

higher hydrocarbon output in 2026. Should oil prices slide to \$60/bbl or below, the fiscal balance would slip into a deficit – but still a minimal one of less than 1% of GDP. The sovereign credit rating has been revised back into investment-grade territory in a further sign of improved economic resilience.

Omani authorities have managed to put the country on a steady path as they had promised earlier. That includes the state-owned enterprises deleveraging their balance sheets which has allowed GRE debt to drop by about 10% of GDP over the past 3 years. The government is in the process of finalizing its 11th 5-year plan covering 2026-2030 with a heavy focus on economic diversification and further increasing the non-oil sector's contribution to GDP. Key sectors that will be of major focus are manufacturing, tourism, and logistics.

Qatar: LNG expansion to unlock next growth wave

Economic growth in Qatar is expected broadly steady in 2025 at 2.4% before accelerating sharply to 5.5% in 2026. Hydrocarbon GDP will play an increasingly vital role in shaping Qatar's medium-term growth outlook (+9.8% in 2026), with the giant offshore North Field gas expansion project nearing completion. LNG output expansion is set to generate a 63% jump in already massive capacity by 2027-2028 (to 127 mtpa) and will eventually have positive knock-on effects on non-hydrocarbon GDP, as higher resulting revenues are channeled back into the economy to meet the next wave of development goals. Qatar's Third National Development Strategy targets an annual average growth of 4% in 2024-2030, also helped by business efficiency, FDI-promoting and innovation-enhancing reforms. Goals include growing labor productivity by 2% per year, attracting \$100bn in cumulative FDI and developing specialized economic 'growth' clusters in manufacturing, logistics and tourism.

The fiscal accounts should continue to show a surplus over the forecast horizon, from 2.3% of GDP in 2025 to a wider 4.5% of GDP next year as the first LNG trains from the gas expansion project come online. In recent years, budget surpluses were deployed to lower outstanding public debt, a trend that will likely continue in the medium term; public debt could fall to 34% of GDP by 2026. Downside risks to the outlook include a more severe than expected global economic downturn that weakens energy prices, and potentially lower prices for LNG in the event of global market excess supply. That said, the scale of Qatar's imminent energy output expansion and domestic investment targets should provide some degree of resilience against international headwinds. ■

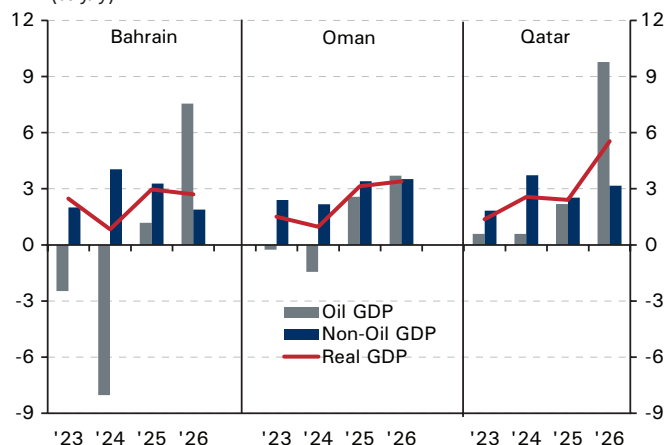
Bahrain, Oman & Qatar key economic indicators

		Bahrain			Oman			Qatar		
		2024	2025 ^f	2026 ^f	2024	2025 ^f	2026 ^f	2024	2025 ^f	2026 ^f
Nominal GDP	\$ bn	45.5	46.6	48.4	112	111	117	219	230	246
Real GDP	% y/y	0.8	3.0	2.7	1.0	3.1	3.4	2.6	2.4	5.5
- Oil sector	% y/y	-8.0	1.2	7.6	-1.4	2.6	3.7	0.6	2.2	9.8
- Non-oil sector	% y/y	4.0	3.3	1.9	2.2	3.4	3.5	3.7	2.5	3.2
Inflation (avg.)	% y/y	0.7	1.4	1.7	1.9	1.1	1.3	1.1	1.5	1.6
Fiscal balance	% of GDP	-6.4	-8.7	-9.7	1.4	1.4	1.3	0.7	2.3	4.5
Current acc. bal.	% of GDP	4.6	4.9	3.9	-1.0	-1.1	-1.2	17.4	16.7	19.5

Source: Official sources, NBK estimates

Chart 1: Real GDP

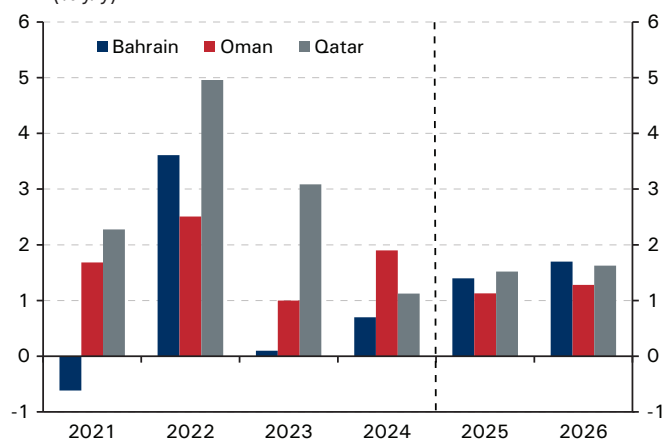
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

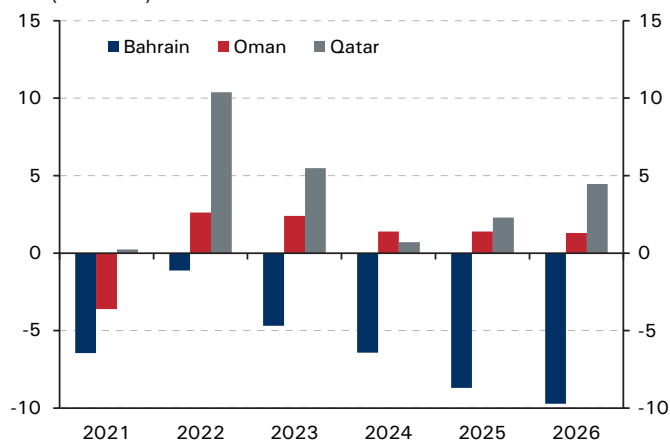
(% y/y)



Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance

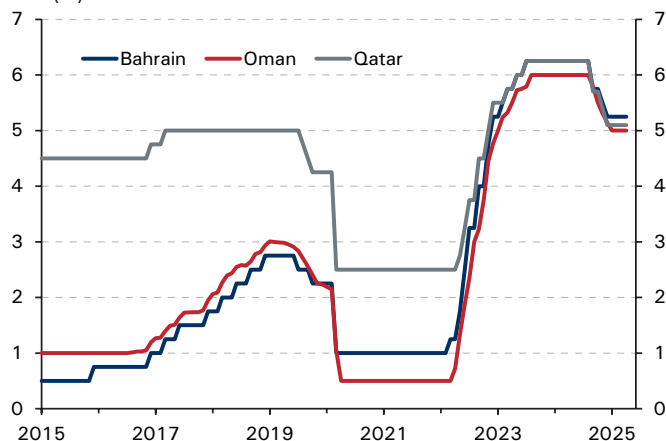
(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*

(%)



Source: Haver *Latest 28 April 2025

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

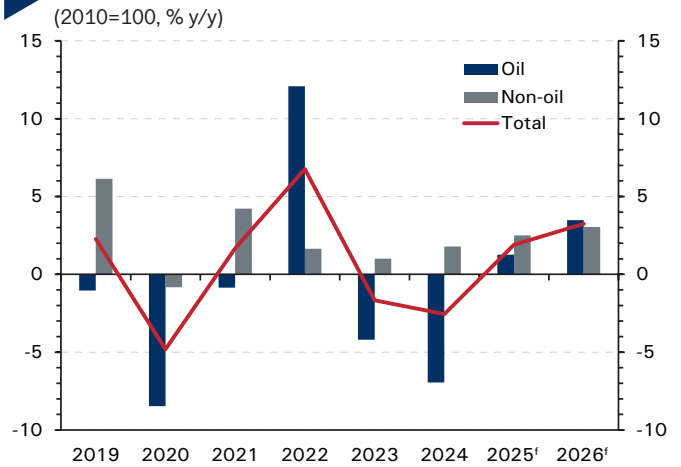
Lower oil prices, regional geopolitical insecurity and deteriorating global trade relations are major downside risks. On the upside, the rollout of a new government work agenda with high conviction would upgrade the growth and investment outlook. The forthcoming housing law especially could result in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

Kuwait key economic indicators

		2023	2024	2025 ^f	2026 ^f
Nominal GDP	\$ bn	165	160	155	162
Real GDP	% y/y	-1.7	-2.6	1.9	3.3
- Oil sector	% y/y	-4.2	-6.9	1.3	3.5
- Non-oil sector	% y/y	1.0	1.8	2.5	3.0
- Non-oil ex refining	% y/y	-1.0	1.6	2.5	3.0
Budget balance (FY)	% of GDP	-3.1	-3.9	-8.2	-6.1
Current acc. balance	% of GDP	31.1	29.1	22.4	18.6
Inflation (avg.)	% y/y	3.6	2.9	2.4	2.4

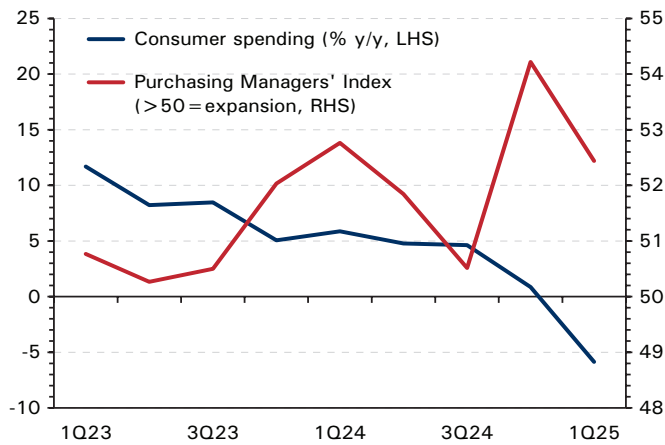
Source: Official sources, NBK forecasts

Chart 1: Real GDP



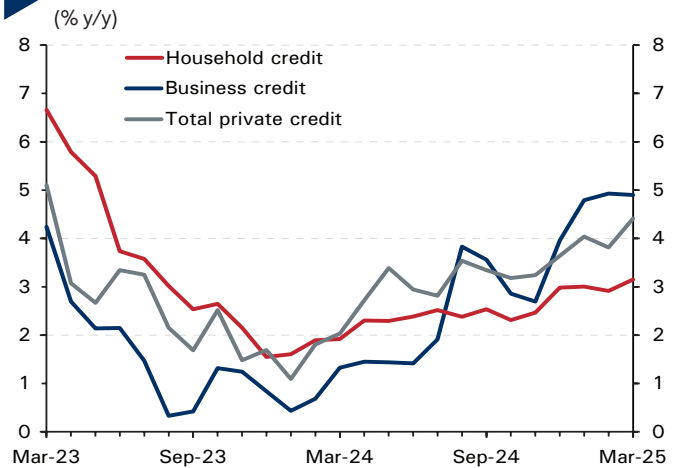
Source: Central Statistical Bureau (CSB), NBK forecasts

Chart 2: Consumer spending growth and PMIs



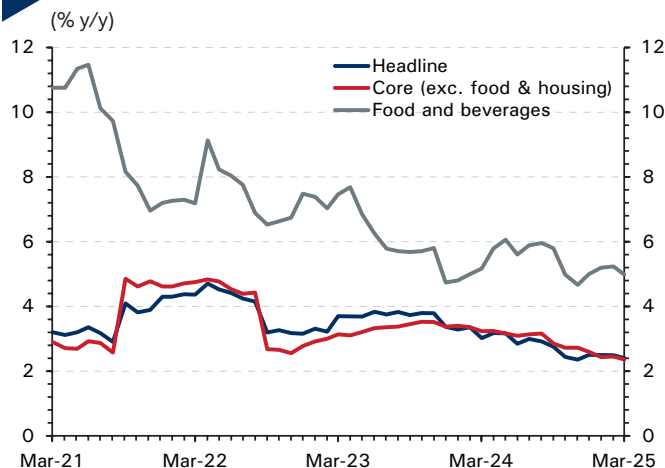
Source: Central Bank of Kuwait (CBK), S&P Global

Chart 3: Bank credit



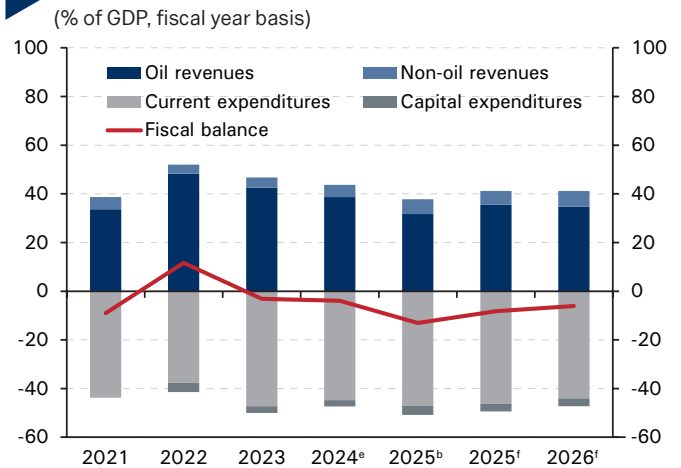
Source: CBK

Chart 4: Consumer price inflation



Source: CSB

Chart 5: Fiscal balance



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

Saudi Arabia

Economic growth is expected to rise to even stronger levels of 3.4% on average in 2025-26 as still-solid non-oil expansion is met with a recovery in oil sector output. The fiscal deficit is set to widen on a projected decline in oil revenues due to lower oil prices and reduced Aramco dividends, which will outweigh the sustained increase in non-oil income driven both by fiscal reforms and the expanding tax base. Downside risks to the outlook stem mainly from prolonged oil market and global trade disruptions which could exacerbate fiscal pressures and possibly lead to a slowdown in investment, while one upside risk is the potential for a rebound in FDI inflows, helped by recent upgrades to the regulatory climate.

Sustained non-oil growth on robust domestic demand

We expect Saudi non-oil GDP to expand at a healthy rate of 3.6% on average in 2025-26, underpinned by growth-conducive conditions in the private sector. Investment levels will remain solid as the Vision 2030 push for economic diversification proceeds, while record-low unemployment (7% in 4Q24), coupled with rising tourism is supportive of sustained private spending growth. Additional support should come from gradually looser monetary policy, as the Saudi Central Bank lowers benchmark rates in line with the US Fed. Recent monthly indicators suggest that conditions in the non-oil economy remain upbeat, with private sector-led credit growth in double digits (14.9% y/y in March) and business activity as measured by the PMI expanding at a strong if moderating pace (56 in April). Continued regulatory reform progress drove a notable rise in commercial license registration in 2024; reforms included amendments to the commercial law to promote investment, streamlining the business setup process, special economic zones, the ongoing digitization of services and the introduction of a VAT rebate for tourists to enhance competitiveness. The steps could also support FDI inflows, which fell by 19% to a below target \$21 billion in 2024.

Oil output to gradually recover on OPEC unwinding

We expect oil output to gradually recover in line with the scheduled unwinding of previous OPEC oil production cuts. In our baseline scenario, oil production will increase by a marginal 0.2 mb/d to an average of 9.18 mb/d in 2025 before a larger rise to 9.81 mb/d in 2026. Therefore, we see oil GDP growing by 1.0% in 2025, accelerating to 5.3% in 2026. Overall GDP is projected to grow by 2.9% and 4.0% in 2025 and 2026, respectively.

Inflation to edge up, but remain relatively low

Inflation is expected to rise modestly in 2025-26 on easing but still elevated housing and utilities inflation (just over 8% in March) and slower deflation in other categories as input prices continue to rise. Moreover, food inflation is trending upwards. Further, a potentially softer dollar could push up import prices of non-dollar denominated goods given the riyal-dollar peg, while some input costs could also be affected by higher tariffs. We forecast an inflation average of 2.3% over the forecast period from 1.8% in 2024 – though still low relative to the robust economic growth climate.

Fiscal deficit to widen despite higher non-oil income

The fiscal deficit is forecast to widen to 4.2% of GDP in 2025 from 2.8% in 2024 primarily on the back of lower oil revenues due to a combination of lower oil prices and reduced Aramco dividends (dividend policy has been normalized after the exceptional payout of 2024). Partly offsetting the decline is the steady rise in non-oil income (taxes on goods and services, corporate income tax, etc.) reflecting proceeds from fiscal reforms and the ongoing expansion of the non-oil economy. Amid increasing fiscal pressures, the 2025 budget estimates a fiscal deficit of 2.6% of GDP on average in 2025 and 2026 and calls for more restrained expenditure growth via a modest increase in current spending (3.7% b/b) and a reprioritization of capex (-2.6% b/b). This is enabled via a partial shifting to off-budget funding channels, mostly the Public Investment Fund. The authorities may continue to overspend but to a much lesser degree compared to recent years as an effort is made to balance spending restraint with development goals. We see the breakeven oil price declining to \$84 by 2026 from \$92 in 2024 thanks to the abovementioned efforts.

Debt issuance will continue to be the primary mode of deficit financing and public debt is projected to rise to 35% of GDP by 2026 from 30% in 2024. In February, S&P upgraded the sovereign credit rating to A+ from A, on par with Japan and China, citing economic diversification and reform progress.

Downside risks mainly from trade and geopolitics

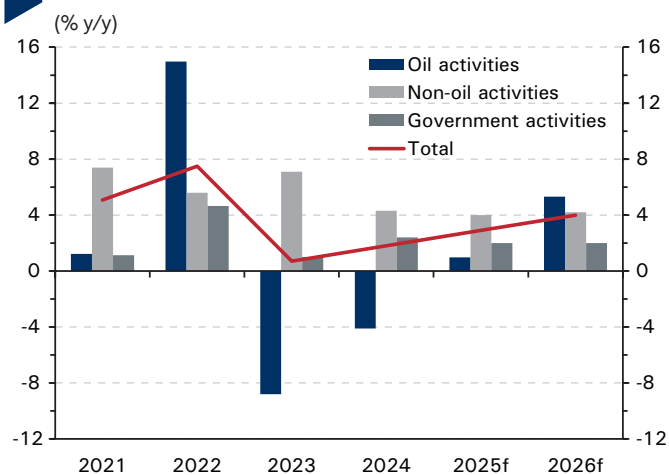
We expect the Saudi economy to broadly withstand current external pressures as trade disputes weigh down on the global economic outlook, supported by continued momentum in the domestic non-oil economy with solid consumer sentiment and sustained vision-linked investment and reform progress. Downside risks include the potential for investment levels to disappoint amid fiscal constraints (especially if oil prices fall steeply) in addition to the possibility of severe geopolitical events. On the upside, a renewed pick-up in FDI in response to recent business-friendly reforms would be supportive of faster non-oil growth, while a swift resolution of global trade tensions and a subsequent recovery in oil demand could prompt a faster oil sector recovery. ■

Saudi Arabia key economic indicators

		2023	2024	2025 ^f	2026 ^f
Nominal GDP	\$ bn	1,068	1,087	1,096	1,156
Real GDP	% y/y	0.7	1.8	2.9	4.0
- Oil	% y/y	-8.8	-4.1	1.0	5.3
- Non-oil	% y/y	5.5	4.2	3.5	3.7
Inflation (avg.)	% y/y	2.3	1.8	2.2	2.4
Fiscal balance	% of GDP	-2.0	-2.8	-4.2	-3.1
Government debt	% of GDP	26.2	29.8	33.2	34.6
Current acc. bal.	% of GDP	3.2	-0.5	-2.6	-1.8

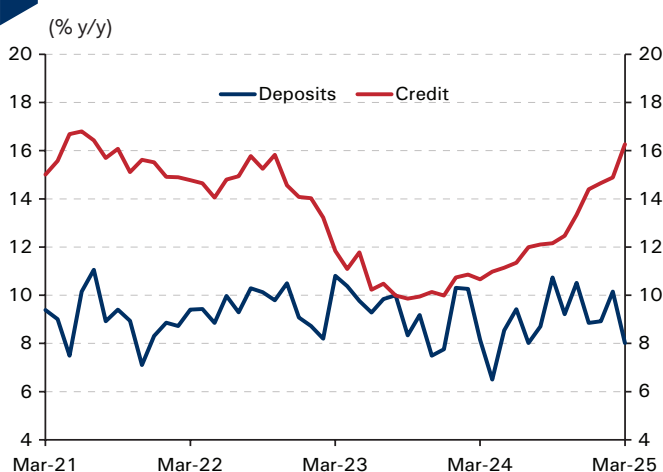
Source: Official sources, NBK forecasts

Chart 1: Real GDP growth



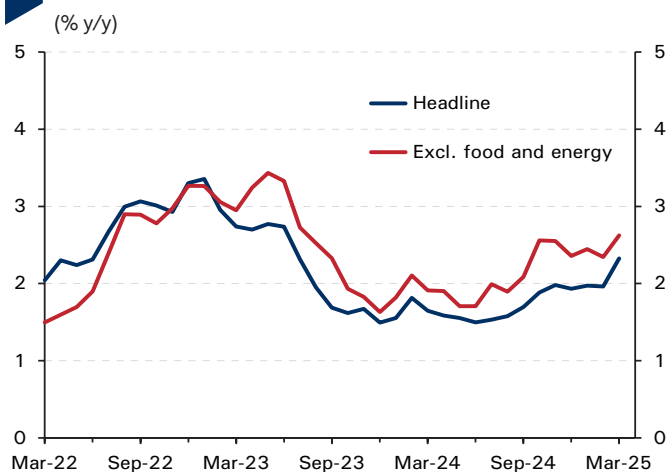
Source: General Authority for Statistics (GASTAT), NBK forecasts

Chart 2: Credit and deposit growth



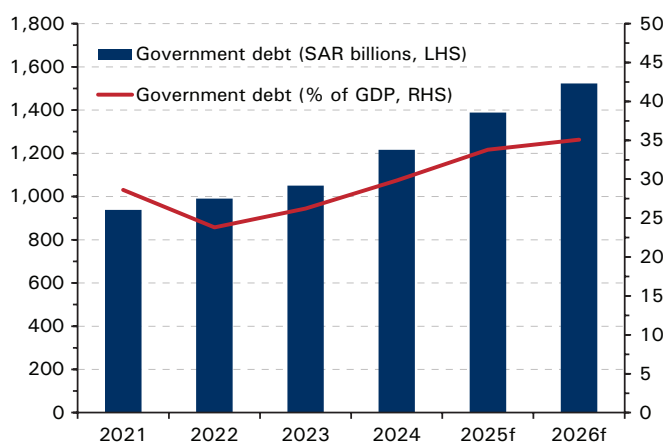
Source: Saudi Central Bank (SAMA)

Chart 3: CPI inflation



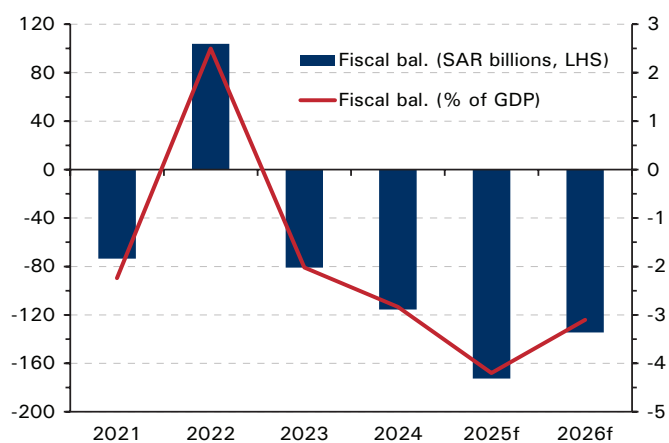
Source: GASTAT, Haver

Chart 4: Government debt



Source: Ministry of Finance, SAMA, NBK forecasts

Chart 5: Fiscal balance



Source: Ministry of Finance, NBK forecasts

Although downside risks to the UAE's externally-exposed economy have increased, our base case outlook for 2025-26 remains relatively upbeat with GDP growth averaging 4.2% in 2025-26 led by higher oil production, while non-oil growth will slow but is underpinned by continued reform and investment initiatives, strong international competitiveness metrics and healthy if narrowing macroeconomic balances. Property price rises are seen moderating amid rising supply and still-high interest rates. Escalating regional security tensions, a more severe drop in oil prices, an extended global downturn, and tighter financial conditions are the preeminent downside risks to the outlook.

Outlook remains positive, despite external headwinds

Despite mounting external risks, our base case for the UAE economy in 2025-26 remains relatively upbeat, helped by rising energy production, still-strong tourism, population inflows, a pipeline of infrastructure and real estate projects, higher public spending and diversification steps. We see the main downside pressures coming from deteriorating global investor sentiment, weaker trade and tighter financing conditions, on top of the imposition of US tariffs on aluminum and steel, which could weigh on the UAE's non-oil exports. GDP is forecast up 4.2% in 2025-26 on average, led by the energy sector, while non-oil growth moderates from the very robust 5.4% recorded in 2023-24 on average to a still solid 3.9%. (Chart 1.) We also think that a moderation from previous fast growth rates would be beneficial for long-term sustainability, noting that private sector lending growth stood at almost 4% at the end of 2024, with retail lending at a very robust 17%. (Chart 2.) Government growth and development initiatives continue to be forthcoming, with a new National Investment Strategy presented in March 2025, targeting raising annual FDI inflows from \$31 billion (2023) to \$65 billion by 2031, focusing on growing industry, logistics, finance, renewable energy and IT.

The oil sector, meanwhile, is poised for rapid growth in 2025-26 (5.3%), as OPEC+ unwinds members' voluntary crude production cuts and the UAE capitalizes on its higher production baseline (in recognition of its higher capacity). Output is expected to reach 3.27 mb/d by end-2026. In addition, the completion of the Dalma and Upper Zakum field projects by 2026 will push ADNOC closer to achieving its production capacity target of 5 mb/d by 2026.

Real estate sales growth to moderate

Property sales remained buoyant in 2024, though the breakneck pace of growth of previous years has eased, with Abu Dhabi sales up 8.8% y/y (14.4% in 2023) and Dubai sales up 27% (57%). Prices, on the other hand, continued to rise (20% y/y in Dubai and 8.6% in Abu Dhabi), reflecting limited supply in the ultra-luxury residential market. (Chart 3.) Cognizant of undersupply and the risk of an overheating sector, the authorities launched key initiatives including Dubai's real estate sector strategy 2033, which aims at expanding housing supply, raising homeownership to 33%, and doubling the sector's contribution to GDP. Local and federal authorities also adopted several reforms, including capping cash transactions, the introduction of a digital auction platform, and data-sharing agreements in Dubai, while the Federal government provided tax guidance for individuals and investors

to boost transparency, confidence, and promote stability while reducing the risk of illicit activities. Interest rate cuts would support demand, though higher supply and stricter regulations could weigh on sales and price growth over 2025-26. Meanwhile, CPI inflation could slow in 2025-26 to 1.3%, after stabilizing in 2023-24 at 1.6%, due to slower rent growth and the fall in fuel prices. However, tariff barriers, along with a potentially weaker US dollar, could provide some upside risk. (Chart 4.)

Fiscal surplus narrowing on lower oil revenues

The fiscal surplus is seen narrowing over 2025-26 due to lower oil prices (\$70/bbl), though higher production levels would support hydrocarbon revenues. As a result, the fiscal surplus could decline from an estimated 5.5% of GDP in 2024 to 4.0% in 2025-26. (Chart 5.) Expenditures are expected to rise during the same period (3.6%), on higher allocations for infrastructure, diversification initiatives and social benefits as outlined in the federal and Dubai budgets. Financial buffers in sovereign wealth funds are huge at 407% of GDP (\$2.2trn). Meanwhile, the current account surplus is expected to narrow to 2.3% of GDP by 2026 due to lower oil prices, slower external demand, and the impact of the US's 25% tariffs on iron, steel and aluminum, to which the UAE is exposed as the second largest supplier of aluminum to the US accounting for about 8.0% of the country's non-oil exports. The recently agreed 10-year \$1.4 trillion investment deal with the US, which focuses on AI infrastructure, semiconductors, and clean energy among others, highlights ambition in the tech sector, and good long-term capital returns would contribute to the country's strong external position.

Trade and oil prices are the main risks to the outlook

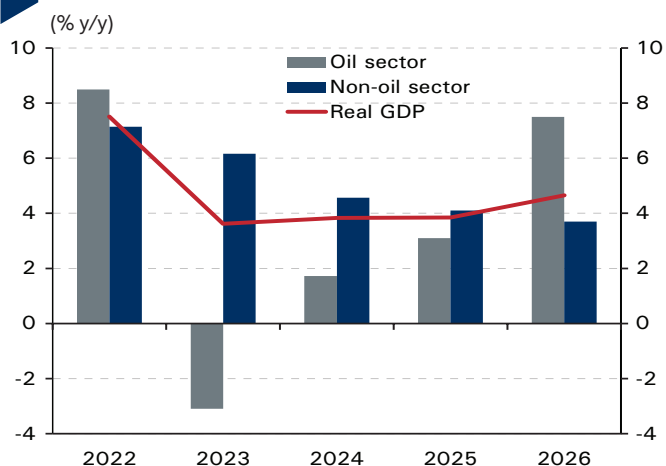
Downside risks to the outlook, from lower oil prices to the trade-tariff induced deterioration in global trade, predominate in the current climate, potentially dampening investor sentiment and external demand. That said, the attractiveness of the UAE for tourists, and its economy to labor, capital and business, underpinned by its investment and diversification agenda, provide underlying resilience. ■

UAE key economic indicators

		2023	2024	2025 ^f	2026 ^f
Nominal GDP	\$ bn	514	541	557	588
Real GDP	% y/y	3.6	3.8	3.8	4.6
- Oil sector	% y/y	-3.1	1.7	3.1	7.5
- Non-oil sector	% y/y	6.2	4.6	4.1	3.7
Inflation (avg.)	% y/y	1.6	1.7	1.4	1.2
Fiscal balance	% of GDP	5.9	5.5	4.3	3.7
Current acc. bal.	% of GDP	13.0	4.3	3.4	2.3

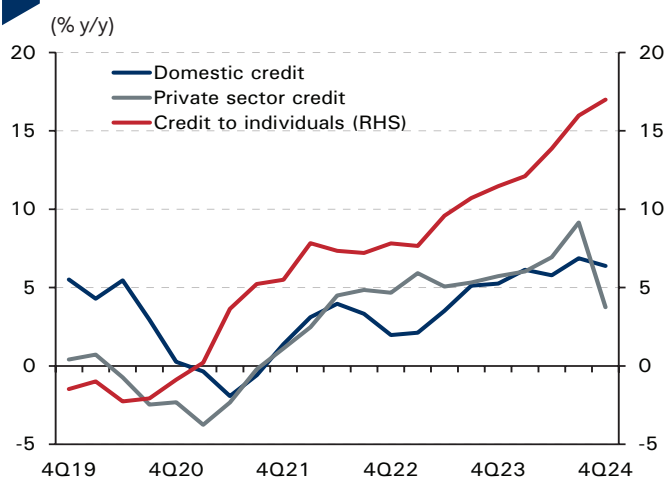
Source: Official sources, NBK estimates

Chart 1: Real GDP



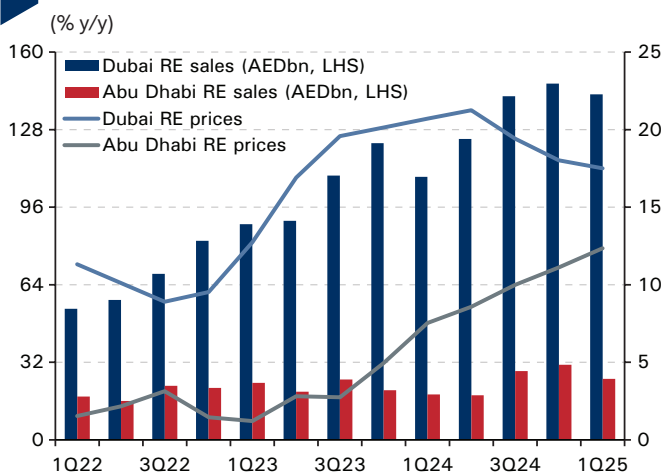
Source: Federal Competitiveness & Statistics Centre (FCSC), NBK forecasts

Chart 2: Domestic Credit



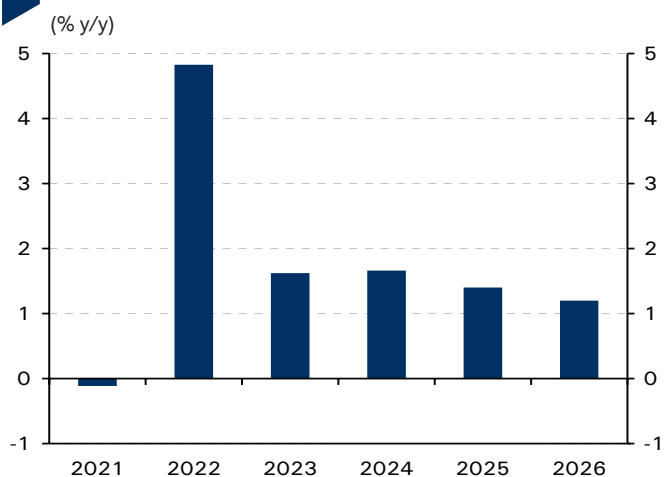
Source: Haver

Chart 3: Real estate sales and prices



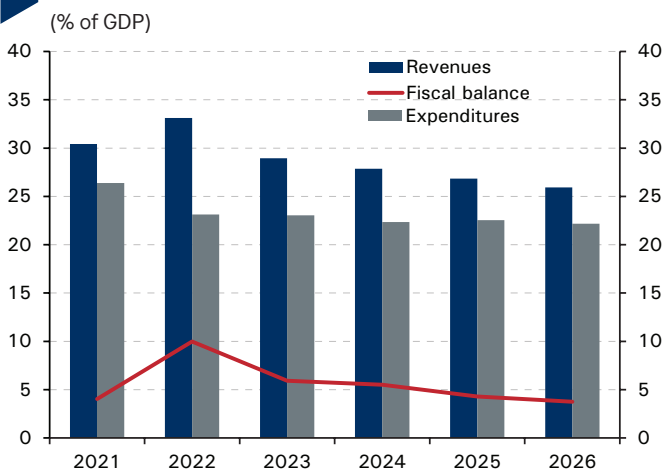
Source: REIDIN, DXB interact, ADREC, NBK estimates

Chart 4: Consumer inflation



Source: Haver

Chart 5: Fiscal balance



Source: Ministry of Finance, FCSC, NBK forecasts

Egypt

Egypt's commitment to FX flexibility and fiscal discipline is becoming more deeply rooted, with limited foreign asset drawdowns in the banking sector and continued subsidy reforms. A new monetary easing cycle began in April driven by sharply lower inflation, and further interest rate cuts will support investment and reduce debt servicing costs. Economic growth is rebounding to the 4-5% range supported by rising capacity utilization and improving prospects for consumer purchasing power. Although FDI inflows will inevitably slow from last year's exceptional levels, we expect Gulf investments to be sufficient to help bridge an expected cumulative \$10-12bn external gap over the next two years.

Strong commitment on FX flexibility and fiscal discipline

With more than a year having passed since the March 2024 currency devaluation, the policy of a more flexible FX regime has started to become more deeply embedded even amid major economic challenges caused by the US's 'liberation day' tariff announcements, an emerging market debt sell-off and ongoing regional conflict. There has also been a very limited drawdown of banking sector net foreign assets over the past period (previously used as a tool to stabilize the currency). A clear commitment to this FX policy is especially crucial as the IMF program comes to an end (late 2026). The government has also continued its fiscal consolidation measures, raising oil prices by around 17% and maintaining progress even as fiscal pressures are helped by the lower global oil price environment. On top of this, both the finance and investment ministers have recently introduced new measures to enhance the business environment that include steps on taxation, the business climate and trade.

A new era of falling interest rates and lower inflation

The central bank commenced its policy easing cycle in April, cutting interest rates by 225bps to 25.5% following a plunge in inflation to 13.6% y/y in March (January 24%). Inflation should remain in the range of 14-16% for the rest of this year, providing space for interest rates to fall further: we expect them to end the year at 21-22%. In 2026, we see inflation averaging 12%, allowing for a further 4-5% cut in interest rates. This new environment will improve credit transmission to the private sector and corporates' appetite to borrow (see below). Furthermore, it will help to contain the ballooning interest payments that are eating up more than 50% of total public spending. Finally, we also see lower interest rates improving valuations of most companies, thus providing a boost to the privatization program.

Capacity utilization to pick up on cheaper borrowing

GDP growth continues to show signs of solid recovery, reaching 4.3% y/y for Q4 24 from 3.5% in the previous quarter, and may have improved even further in Q1 25. The commencement of the monetary easing cycle (especially if accompanied by further cuts over the coming six months) will boost corporate borrowing, though initially, given still low capacity utilization levels of 60-70%, this borrowing may focus mostly on OPEX; while corporates will now have better visibility regarding CAPEX plans, the investment cycle may take more time to materialize. Banks will start to shift more of their funds to corporate/retail lending versus treasury bills, especially as yields continue to fall; yields currently average

21% (net of tax), versus above 25% at the end of 2024. We also expect the economic recovery to give a strong push to nominal wages that causes a pickup in consumption activity. We see GDP growth accelerating to 3.7% and 4.7% in FY24/25 and FY25/26, respectively, from 2.4% in FY23/24. Sectors like export-led manufacturing, tourism, retail and wholesale trade, banking & financial services, in addition to IT services, will be the main sources of economic growth.

GCC support to help bridge the external funding gap

Following the UAE's mega investment deal in 2024, we see other GCC countries playing a major role in plugging Egypt's projected external financing gap of \$10-12bn for 2025 and 2026. Indeed, commitments were received following President Sisi's tour of the Gulf in April. Qatar is working towards a \$7.5bn (fresh FDI) investment into Egypt. While reportedly Kuwait could convert its current deposits (\$4bn) at the Central Bank of Egypt into EGP investments. The materialization of such investments, possibly into the real estate sector, would mean further improvement in the net foreign asset position of Egypt's banking system and give further confidence to the global markets with regards to the external financing dynamics. External debt maturities will drop to \$14bn in FY26/27 and \$10bn in the following years, thus alleviating the severe debt pressures seen over the past years where maturing external debt reached close to \$30bn a year.

Fallout from US tariffs is a mixed bag for Egypt

President Trump's tariff hikes will have a medium-term impact on the outlook for global economic growth (slower) and oil prices (potentially lower). This might cause a slowdown in FDI flows into Egypt (especially energy-related). Slower global trade could also impact revenues from the Suez Canal (still recovering from earlier Red Sea blockages). On the other hand, lower oil prices would allow for cheaper energy imports and help the government reach its target of a 100% cost recovery ratio for petroleum products without big subsidy cuts that would spike inflation. ■

Egypt key economic indicators*

		FY24/25	FY25/26	FY26/27
Nominal GDP	EGP bn	17,429	20,800	24,150
Real GDP	% y/y	3.7	4.7	5.1
Fiscal balance (FY)	% of GDP	-8.2	-7.2	-6.5
Inflation (avg.)	% y/y	20.5	14.0	10.4
Current acc. bal.	% of GDP	-4.8	-3.9	-3.8

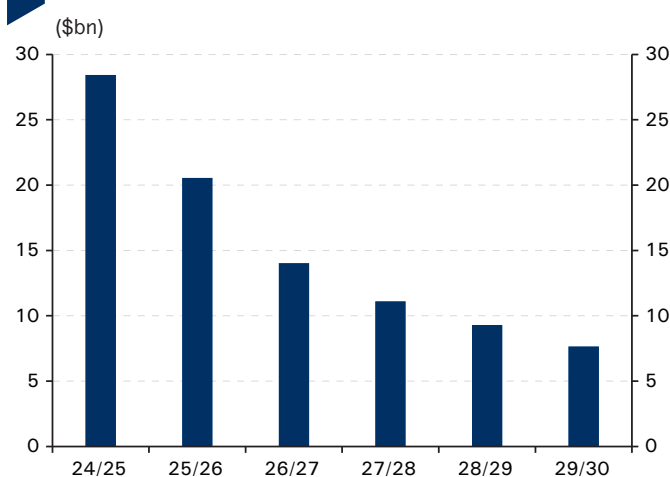
Source: Official sources, NBK forecasts. Fiscal years end in June.

Chart 1: Real GDP



Source: Central Bank of Egypt (CBE), Ministry of Planning, NBK forecasts (FY25 and FY26 is NBK forecast at 3.66% and 4.65%)

Chart 2: Long-term external debt maturities



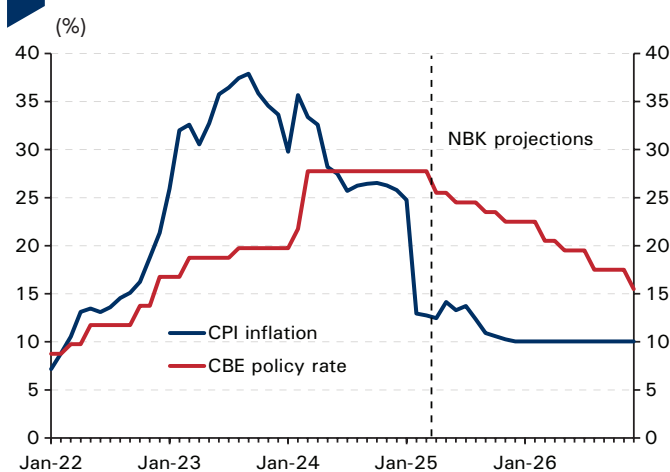
Source: Central Bank of Egypt, NBK Forecasts

Chart 3: EGP against USD showing more flexibility



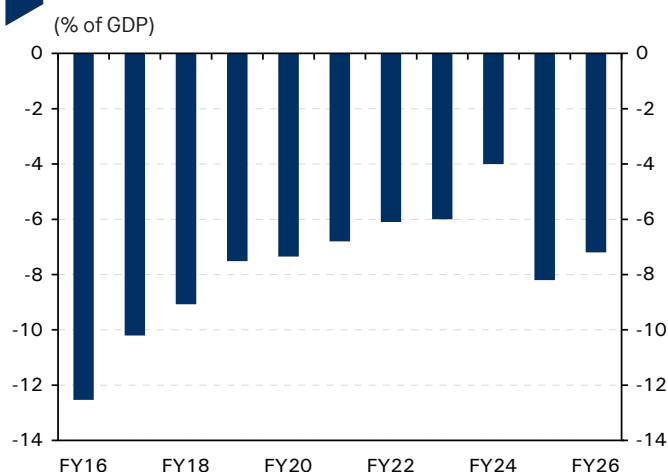
Source: Central Bank of Egypt

Chart 4: Inflation and policy interest rates



Source: Central Bank of Egypt, NBK Forecasts

Chart 5: Fiscal Deficit



Source: Central Bank of Egypt, NBK Forecasts

Economic data and forecasts

Regional								
Bahrain								
	Unit	2020	2021	2022	2023	2024	2025'	2026'
Nominal GDP	USD bn	34.6	39.3	44.4	44.0	45.5	46.6	48.4
Real GDP	% y/y	-4.6	2.6	4.9	2.5	0.8	3.0	2.7
Hydrocarbon sector	% y/y	-0.1	-0.3	-1.4	-2.5	-8.0	1.2	7.6
Non-hydrocarbon sector	% y/y	-5.6	3.2	6.3	2.0	4.0	3.3	1.9
Budget balance	% of GDP	-12.8	-6.4	-1.1	-4.7	-6.4	-8.7	-9.7
Current account balance	% of GDP	-9.4	6.6	15.4	6.1	4.6	4.9	3.9
Inflation	% y/y	-2.3	-0.6	3.6	0.1	0.7	1.4	1.7
Kuwait								
Nominal GDP	USD bn	111.1	148.3	183.5	165.4	160.2	155.0	162.1
Real GDP	% y/y	-4.8	1.7	6.8	-1.7	-2.6	1.9	3.3
Hydrocarbon sector	% y/y	-8.5	-0.9	12.1	-4.2	-6.9	1.3	3.5
Non-hydrocarbon sector	% y/y	-0.8	4.2	1.6	1.0	1.8	2.5	3.0
Budget balance (FY)	% of GDP	-31.6	-9.0	11.6	-3.1	-3.9	-8.2	-6.1
Current account balance	% of GDP	4.4	25.2	34.4	31.1	29.1	22.4	18.6
Inflation	% y/y	2.1	3.4	4.0	3.6	2.9	2.4	2.4
Oman								
Nominal GDP	USD bn	75.9	88.2	112.0	108.4	111.8	110.7	117.0
Real GDP	% y/y	-3.4	3.1	4.1	1.5	1.0	3.1	3.4
Hydrocarbon sector	% y/y	-2.0	3.8	7.8	-0.3	-1.4	2.6	3.7
Non-hydrocarbon sector	% y/y	-4.0	2.7	2.3	2.4	2.2	3.4	3.5
Budget balance	% of GDP	-15.2	-3.6	2.6	2.4	1.4	1.4	1.3
Current account balance	% of GDP	-16.2	-5.4	5.1	0.0	-1.0	-1.1	-1.2
Inflation	% y/y	-0.4	1.7	2.5	1.0	1.9	1.1	1.3
Qatar								
Nominal GDP	USD bn	144.4	179.7	235.7	215.8	218.5	230.1	245.5
Real GDP	% y/y	-3.6	1.6	4.2	1.4	2.6	2.4	5.5
Hydrocarbon sector	% y/y	-2.0	-0.3	1.7	0.6	0.6	2.2	9.8
Non-hydrocarbon sector	% y/y	-4.5	2.8	5.7	1.8	3.7	2.5	3.2
Budget balance	% of GDP	-2.0	0.2	10.4	5.5	0.7	2.3	4.5
Current account balance	% of GDP	-2.1	14.6	26.8	16.9	17.4	16.7	19.5
Inflation	% y/y	-2.5	2.3	5.0	3.1	1.1	1.5	1.6
Saudi Arabia								
Nominal GDP	USD bn	734.3	874.2	1,108.6	1,067.6	1,087.1	1,095.9	1,157.3
Real GDP	% y/y	-3.6	5.1	7.5	0.7	1.8	2.9	4.0
Hydrocarbon sector	% y/y	-6.9	1.2	15.0	-8.8	-4.1	1.0	5.3
Non-hydrocarbon sector	% y/y	-2.3	5.6	5.3	5.5	4.2	3.5	3.7
Budget balance	% of GDP	-10.7	-2.2	2.5	-2.0	-2.8	-4.2	-3.1
Current account balance	% of GDP	-3.5	4.8	13.7	3.2	-0.5	-2.6	-1.8
Inflation	% y/y	3.4	3.1	2.5	2.3	1.8	2.2	2.4
UAE								
Nominal GDP	USD bn	349.7	415.2	502.7	514.1	540.6	556.8	588.2
Real GDP	% y/y	-5.0	4.4	7.5	3.6	3.8	3.8	4.6
Hydrocarbon sector	% y/y	-3.8	-1.1	8.5	-3.1	1.7	3.1	7.5
Non-hydrocarbon sector	% y/y	-5.4	6.5	7.1	6.2	4.6	4.1	3.7
Budget balance	% of GDP	-2.5	4.0	10.0	5.9	5.5	4.3	3.7
Current account balance	% of GDP	6.0	11.6	17.8	13.0	4.3	3.4	2.3
Inflation	% y/y	-2.1	-0.1	4.8	1.6	1.7	1.4	1.2
Egypt (Fiscal year ending June)								
	Unit	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27
Nominal GDP	EGP trillion	6.7	7.8	10.4	13.8	17.4	20.8	24.2
Real GDP	% y/y	3.3	6.7	3.8	2.4	3.7	4.7	5.1
Budget balance	% of GDP	-7.1	-6.1	-6.0	-3.5	-8.2	-7.2	-6.5
Current account balance	% of GDP	-4.4	-3.6	-1.6	-6.3	-4.8	-3.9	-3.8
Inflation	% y/y	4.5	8.5	24.1	33.5	20.5	14.0	10.4
International								
	Unit	2020	2021	2022	2023	2024	2025'	2026'
Brent crude oil spot price (year average)*	\$ p/b	41.7	71.6	100.6	82.5	80.0	70.0	70.0
Rogers International Commodity Index	Index	2,265.6	3,196.8	3,828.3	3,647.5	3888.4	---	---
EUR/USD*	1 \$ = €	0.82	0.88	0.93	0.91	0.97	---	---
US Fed Fund Rate	%	0.25	0.25	4.50	5.50	4.5	---	---
MSCI World stock market index*	Index	2,690.0	3,231.7	2,602.7	3,169.2	3707.8	---	---
MENA real GDP (IMF)	% y/y	-3.0	4.3	5.5	2.1	1.8	2.6	3.4
World real GDP (IMF)	% y/y	-2.7	6.6	3.6	3.5	3.3	2.8	3.0

Source: Refinitiv, Haver, Official sources, IMF, NBK estimates * Lastest available data



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