Economic Outlook

GCC & Egypt

November 2024

National Bank of Kuwait
Economic Research Department

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GCC & Egypt overview

Global economic growth is forecast at an 'underwhelming' 3.2% in 2025, below historic averages though with the US economy managing a soft landing. While interest rates will fall, the scale and pace of cuts will be influenced by 'last mile' progress on inflation, any loosening in US fiscal policy or major trade war escalation. Oil prices are forecast to fall to $70 on average, as OPEC+ unwinds earlier output cuts to help rebuild its global market share. The latter will push up economic growth in the GCC to 3.5% in 2025. We also forecast another strong year for non-oil growth in the Gulf, with lower interest rates and ongoing investment and reform-led growth in Saudi Arabia and the UAE especially helping to offset any loss of momentum from lower oil prices and weaker fiscal balances. Growth in Egypt will also pick-up as big investment inflows and ongoing government reform measures pay-off.

Global growth 'underwhelming', interest rates fall further

The global growth outlook is steady but underwhelming, with the IMF forecasting expansion in 2025 of 3.2%, similar to this year but below the historic average. Despite the inflation battle being mostly won, geopolitical conflicts, shipping route disruptions, climate change and protectionist measures are impacting the outlook, including for the Middle East. The US is seen growing a solid 2.2% in 2025 (2.8% in 2024) – effectively a 'soft landing' – with improving albeit softer growth in the Eurozone (1.2%), UK (1.5%) and Japan (1.1%). India (at 6.5%) remains the fastest growing large economy next year, with China's expansion slowing to 4.5% from the government's target of 'around 5%' for this year on ongoing weaknesses in the property sector and low consumer confidence, though recent policy support policies offer some promise.

Major central banks have embarked on interest rate cuts to support growth as inflationary pressures have waned, but still-above-target core inflation, energy price uncertainty and the threat of trade-war escalations offer uncertainty over the pace of cuts in 2025. The Fed could cut interest rates to 4.5% by end-2024 and by another cumulative 75-100 bps next year, which will help boost the US economy and the global landscape. However, it is clear that policy rates will remain well above the rock-bottom levels seen in previous years – with implications not just for economic activity but government debt levels as well. We also expect this to be reflected in stubbornly high yields on developed country government bonds. Worries about rising US public debt levels in particular could grow if, following the US presidential election, there is a substantial loosening of fiscal policy, or if rising trade tariffs push up inflation and compel the Fed to keep interest rates high.

Oil prices are expected to soften in 2025, with Brent forecast to average $70/bbl from $81/bbl in 2024. This is a marked downgrade from April's forecast of $85 and is informed by two key currents: (1) weaker global but especially Chinese economic activity that has translated into weaker oil demand – the International Energy Agency sees oil demand growth in 2025 at a below-historical average 1 mb/d; and (2) indications that the Saudi-led OPEC+ group will begin unwinding the 2.2 mb/d of member voluntary production cuts from December 2024. The latter, we think, reflects a preference to recapture market share versus pursuing an unofficial price target. This, plus additional supplies from the US, Canada and Brazil will lead to an oversupplied market in 2025. Still, upside price risks, from stronger than anticipated global economic activity to an unlikely rollover and/or deepening of voluntary supply cuts in 2025 cannot be discounted. A resurgence of Israel-Iran-linked geopolitical risk or supply curtailment by more stringent application of sanctions on Iranian oil by the new US administration, for example, could also feature.

GCC growth to rise as oil output cuts are unwound

We expect 2025 to be another strong year for GCC economies. GDP growth will rebound to 4.5% (2024 1.4%) as the unwinding of oil output cuts boosts oil GDP by 5.6%. More significantly, non-oil growth could rise to 4.0% from this year's already-solid 3.6%. Interest rate cuts together with further investment and structural reform initiatives will mean non-oil growth of 4%+ in the region's two largest economies Saudi Arabia and the UAE. This (plus higher oil production) should be enough to offset any loss of momentum from lower oil prices and weaker fiscal balances. We also see growth pick-ups across the smaller Gulf countries, with the turnaround story perhaps strongest in Oman and upside risks in Kuwait if reforms speed-up amid a more local stable political climate. We see a steeper oil price slump, escalating regional security worries and a ramp-up of a global trade-war pressures as the key downside risks to GCC growth next year. More aggressive-than-expected interest rate cuts, higher oil prices and a significant easing in regional conflict are upside risks.

In Egypt, we also see a more positive outlook for 2025 as ongoing government economic reform strides (a more flexible exchange rate, subsidy cuts and interest rate hikes to lower inflation) pay off. Despite pressures from regional geopolitical conflict including much lower Suez Canal receipts, we still expect stronger economic growth next year helped by sharp falls in inflation and interest rates, plus improved FX access for firms. Challenges include geopolitical tensions straining energy imports, while the fiscal deficit still needs to be brought down further. Longer-term, reform momentum can be sustained with a focus on a more business-friendly environment and prioritizing human capital development. ■

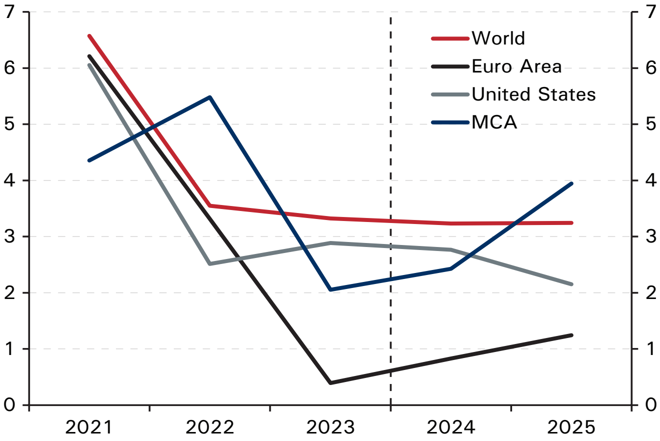
GCC key economic indicators

		2022	2023	2024f	2025f
Nominal GDP	$ trillion	2.2	2.1	2.1	2.2
Real GDP	% y/y	6.8	0.4	1.4	4.5
- Oil	% y/y	10.9	-5.4	-3.2	5.6
- Non-oil	% y/y	5.4	3.6	3.6	4.0
Inflation (avg.)	% y/y	3.6	2.2	2.0	2.1
Fiscal balance	% of GDP	5.8	0.4	-0.5	-1.6
Current acc. bal.	% of GDP	16.3	7.0	4.9	3.4

Source: Official sources, NBK estimates and forecasts

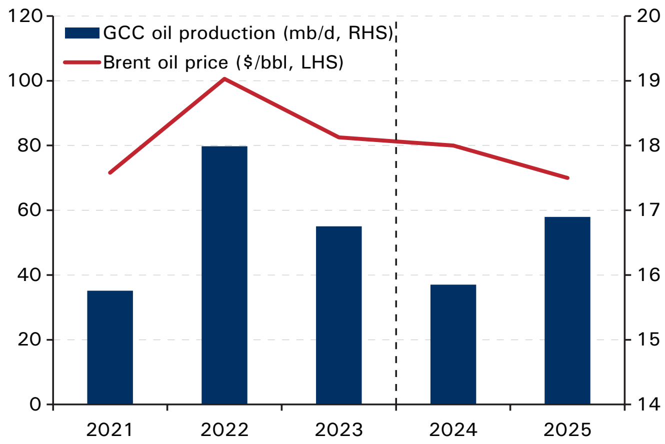
Chart 1: International GDP

(% y/y)



Source: IMF WEO October 2024; MCA=Middle East & Central Asia

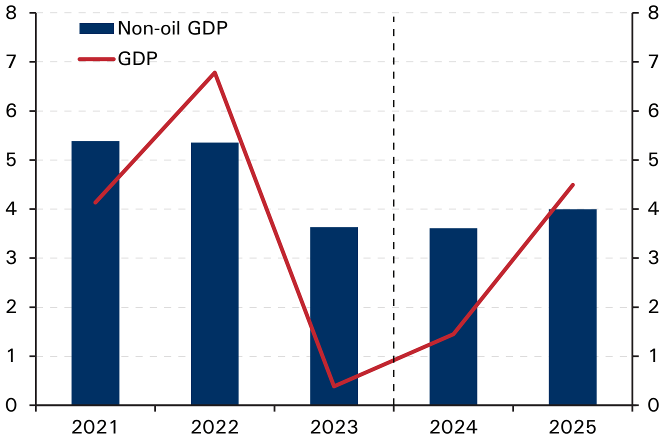
Chart 2: Brent oil price & GCC oil production



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

Chart 3: GCC GDP

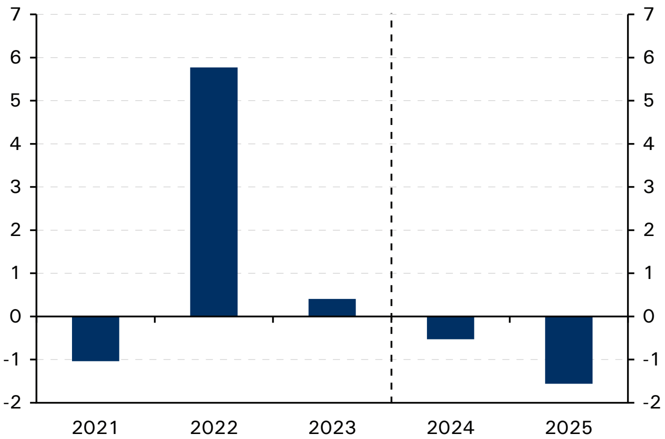
(% y/y)



Source: Official sources, NBK estimates and forecasts

Chart 4: GCC fiscal balance

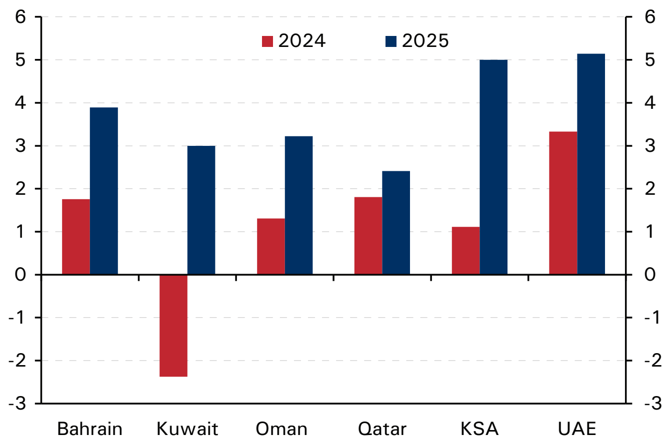
(% of GDP)



Source: Official sources, NBK estimates and forecasts

Chart 5: GCC non-oil GDP growth by country

(% y/y)



Source: NBK estimates and forecasts

Bahrain, Oman & Qatar

Economic growth in Bahrain, Oman, and Qatar will pick up in 2025 with non-oil GDP rising more than 3% on average supported by government initiatives and projects along with a drop in interest rates. Bahrain is expected to continue recording a fiscal deficit in 2025 on the back of lower oil prices, with ongoing fiscal consolidation efforts expected. Meanwhile, reform efforts in Oman over the years have brought down debt-to-GDP levels and its next 5-year plan may combine further diversification initiatives with attention on sustainability issues. In Qatar, the 2022 post-FIFA World Cup slowdown continues to fade and growth is picking up on the back of strong visitor arrivals and huge LNG capacity expansion plans currently underway.

Bahrain: Growth to improve, fiscal deficit still a challenge

GDP grew 2.3% y/y in H1 2024 on the back of a solid rise in non-oil GDP (3.1%), outweighing a contraction in oil (2.1%). We expect 2024 growth at 1.8% (2.5% in 2023). Next year could see a significant acceleration to 3.9% driven by easier financial conditions due to interest rate cuts and a recovery in the hydrocarbon sector given the winding down of oil production cuts. The non-oil sector, worth 86% of GDP as of Q2 24, will continue to be the major driver of growth reflecting continued efforts towards boosting key sectors including manufacturing and tourism. The BAPCO refinery upgrade is expected to be completed mid-2025 with capacity rising by 40% to 380 kb/d giving a boost to non-oil GDP. Meanwhile, the GCC development fund-financed projects awarded reached $6bn in total through Q1 24 (since 2017), mainly focused on housing. We also forecast credit growth to further edge up in 2025 (from 3% y/y in 2024) on cheaper borrowing costs, giving a boost to consumers and corporates. Inflation should remain low at 2% in 2025 from 1% in 2024.

A drop in global and regional interest rates will also have a major role in containing the debt-to-GDP ratio which has ballooned and is expected at a little less than 130% in 2024 from 100% in 2020. However, we still expect the fiscal deficit to widen in 2025 to 6% of GDP on the expected drop in oil prices. Given structural issues (including still high oil revenue dependence and interest costs having a major 35% share of all expenses), further consolidation measures as needed to restore fiscal balance over the medium term and put the debt-to-GDP ratio on a downward path. The government's credit rating has been unchanged this year (B+ non-investment grade), with agencies expecting more fiscal adjustment over coming years but citing delays in related reforms as a risk to the outlook.

Oman: Improved fiscal resilience delivers rating upgrades

In Oman, non-oil growth is projected at 2.7% and 3.5% in 2024 and 2025 respectively, helped by macro-economic reforms and low levels of inflation which averaged just 0.6% y/y in Jan-Sep 2024 (1.0% in CY2023). The lower interest rate environment will play a role in improving non-oil growth momentum, with policy rates potentially falling close to 4.0% by end-2025 versus the current 5.5%. Overall economic growth will remain subdued at around 1.3% in 2024 (1.5% in 2023) as hydrocarbon GDP contracted by around 1.7% on the back of the OPEC+ production cuts of which Oman was a part. Moving forward, we expect to see an average increase in oil production of around 2.6% in 2025 as OPEC+ productions cuts unwind which would lift Oman's economic growth close to 3.2%.

The fiscal position remains a key positive turnaround story, and we look for another (albeit reduced) surplus in 2024 of 1.4% of GDP (2.4% in 2023), despite a drop in hydrocarbon revenues and strong growth in expenses of about 8%. Lower oil prices will pressure revenues in 2025, but a small deficit of 0.8% of GDP is forecast – still well below pre-Covid levels. Financial resilience has also been improved by a sharp drop in government debt to 34% of GDP (from a peak of 64% in 2020), contributing to 2 sovereign rating upgrades by S&P over the past 2 years from BB to BBB-, back to investment grade. As the government's 10th five-year plan comes to a successful end in 2025, the next plan covering 2026-2030 will likely re-iterate the focus on development including economic diversification, employment, and tourism, with growing attention to sustainability issues and coping with geopolitical tensions in the region.

Qatar: Moderate growth backed by government efforts

Economic growth is expected to strengthen to 2.4% in 2025 from 1.8% in 2024, as the 2022 post-FIFA World Cup slowdown fades further. Non-hydrocarbon GDP is forecast to grow by 2-3% in 2024-2025 from 1.1% in 2023, benefiting from further growth in visitor arrivals, the labor force and bank credit, plus lower interest rates and government measures to boost non-oil activity. In Qatar's third National Development Strategy, the authorities target average non-hydrocarbon growth of 4% per year during 2024-2030 with a focus on three growth clusters: logistics, manufacturing and tourism. Manufacturing especially will benefit from the country's enormous LNG expansion plans (greater and cheaper feedstock for downstream processes), which will generate a 40% increase in LNG capacity by 2026 (to 110 mtpa) and ultimately an 85% increase by 2030 (142 mtpa). Until then, however, the contribution of oil and gas production to GDP growth will be limited.

The government is expected to continue running healthy, albeit narrowing fiscal surpluses over 2024-25 of about 4.2% of GDP on average. This will be on the back of lower – though still elevated – hydrocarbon revenues due to softer energy prices, and limited expenditure growth (+1.4% in 2025). The budget surplus could be used to lower outstanding public debt to below 40% of GDP by 2025 from 73% in 2020, of which 52% is foreign liabilities. Risks to the outlook are skewed marginally to the upside, with the positive ongoing domestic growth dynamic outweighing the negative risks from steeper-than-anticipated declines in energy prices next year or expanded regional military conflict that could significantly deter labor, capital and trade flows. ■

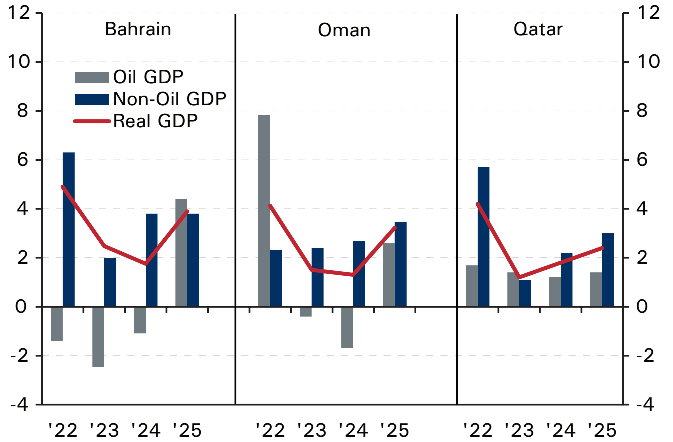
Bahrain, Oman & Qatar key economic indicators

		Bahrain			Oman			Qatar		
		2023	2024f	2025f	2023	2024f	2025f	2023	2024f	2025f
Nominal GDP	$ bn	43	45	47	109	114	127	213	219	226
Real GDP	% y/y	2.5	1.8	3.9	1.5	1.3	3.2	1.2	1.8	2.4
- Oil sector	% y/y	-2.5	-1.1	4.4	-0.4	-1.7	2.6	1.4	1.2	1.4
- Non-oil sector	% y/y	2.0	3.8	3.8	2.4	2.7	3.5	1.1	2.2	3.0
Inflation (avg.)	% y/y	0.1	1.0	2.0	1.0	0.8	0.9	3.1	1.6	1.6
Fiscal balance	% of GDP	-3.7	-4.3	-5.7	2.4	1.4	-0.8	5.6	4.6	3.7
Current acc. bal.	% of GDP	6.2	4.7	4.8	0.4	-0.4	-2.1	17.1	13.5	13.0

Source: Official sources, NBK estimates

Chart 1: Real GDP

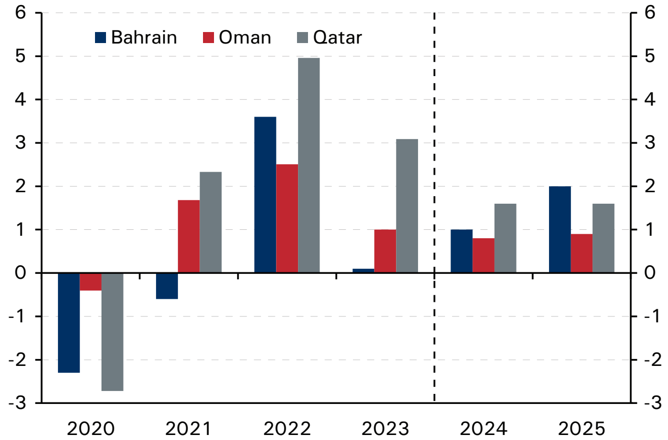
(% y/y)



Source: Government authorities, NBK forecasts

Chart 2: Inflation

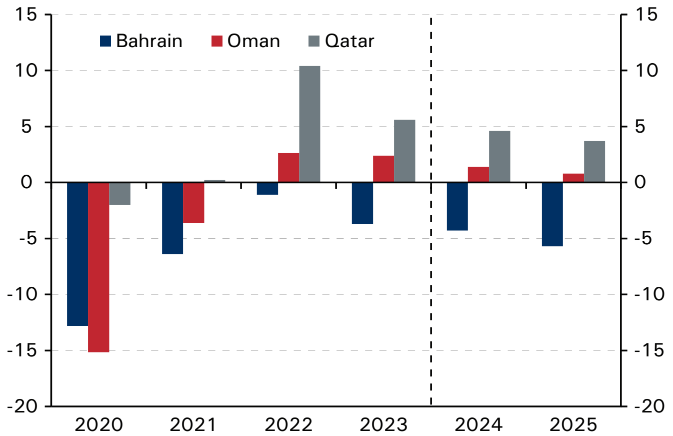
(% y/y)



Source: Government authorities, NBK estimates/forecasts

Chart 3: Budget balance

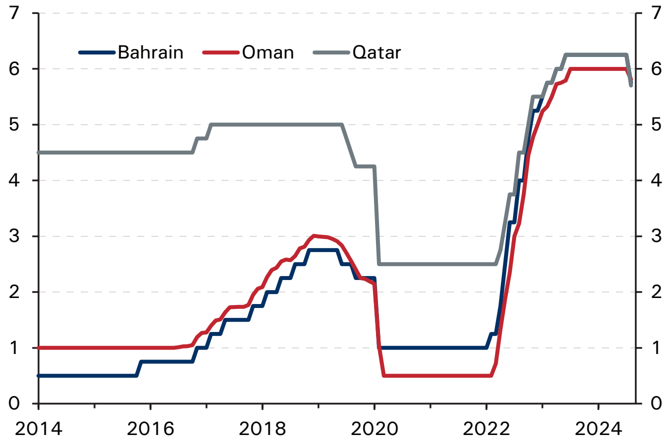
(% of GDP)



Source: Government authorities, NBK forecasts

Chart 4: Key policy interest rates*

(%)



Source: Haver *Latest October 2024

Kuwait

The economy will return to expansion in 2025 led by the unwinding of earlier cuts in oil production. Non-oil GDP could grow slightly faster than in 2024 at 2.6%, amid interest rate cuts and signs that consumer spending growth and other metrics are edging higher. Structural reform prospects have improved, but strong delivery is needed for growth to sustainably match that in some other parts of the GCC. Fiscal deficits will continue through 2025, making another tight spending round likely next year although capex could still rise from recent very low levels. Key upside risks to the outlook include higher oil prices and clear signs of momentum on structural reforms. Downside risks include lower oil prices and escalating regional insecurity.

Economy to return to growth over forecast period

Kuwait's non-oil economy is expected to emerge from two years of negative growth this year, expanding by 2.3% and then 2.6% in 2025. Having decelerated previously, consumer spending growth (+5.4% y/y in Q2) appears to have stabilized while other key indicators such as bank credit (+2.2% ytd in August), real estate sales (+24% y/y in Q3) and project awards have moved up, suggesting that a growth improvement could be around the corner. Official data (subject to revision) shows non-oil GDP growth averaging 3.5% in H1 2024, with manufacturing (mostly refining) the standout performer following the production ramp-up at the huge 615 kb/d Al-Zour refinery in 2023.

Despite the prospect of a cyclical upturn, our forecasts for non-oil growth are below the 2011-2019 historical average (+3.3%), with key structural challenges laying ahead. These include tackling low investment rates, the need for fiscal consolidation (see below) and Kuwait's low rankings in competitiveness measures versus GCC peers. We do expect greater progress on these issues going forward than in previous years, reflecting more streamlined decision-making in the new political climate. The government is yet to release its work agenda for the years ahead and a step-change in the pace of reform delivery is needed if Kuwait is to sustainably match the 4%+ non-oil growth rates now being recorded in Saudi Arabia and the UAE. We see strong expansion potential in sectors such as utilities, housing, transport, and tourism & entertainment over coming years.

The oil sector is expected to record its first output gains in two years in 2025, with OPEC+ scheduled to unwind members' voluntary cuts from end-2024. Kuwait should see 135 kb/d of crude return and production average 2.5 mb/d in 2025. This should boost oil GDP by 3.4% from -6.8% in 2024 and total GDP growth to 3.0% in 2025 from -2.4% in 2024. State oil firm KPC is undergoing a restructuring aimed at delivering efficiency gains and faster decision-making but plans to spend some $410bn to achieve its 4 mb/d 2035 oil production target and 2050 net zero goal.

Inflation down, monetary policy easing cycle begins

Inflation has proven slightly sticky amid price rises in the food and clothing categories especially, but still eased to 2.9% y/y by August from 3.3% at the start of 2024. We see the trajectory as broadly downwards given moderate economic growth, still elevated interest rates and soft price trends elsewhere in the GCC region: we see it slowing from 3.0% this year to 2.5% in 2025. Meanwhile, the Central Bank of Kuwait cut its discount rate in September by 25 bps to 4.0%, after the US Fed cut interest rates by 50bps. This comes after the Central Bank of Kuwait had raised interest rates less than the US Fed during the recent tightening cycle.

Deficits expected, fiscal consolidation to proceed

Addressing the weak fiscal position is a key government objective, with deficits recorded in 8 of the past 9 years and forecast to average 5% of GDP in FY24/25-FY25/26. Issues include the rigid structure of public spending, especially the rising share of salaries and subsidies, and heavy reliance on oil revenues, which are forecast to decline in FY25/26 on lower average oil prices. We expect another tight spending round in FY25/26, following a projected 5% spending cut this year (from FY23/24's high base, inflated by one-off items), although potentially allowing for a pick-up in capex from recent very low levels as the authorities move on delayed infrastructure projects (e.g. housing, water, power).

To boost fiscal sustainability, the IMF in its October Article IV statement recommended the government adopt a medium-term fiscal framework based on annual consolidation of 1-2% of GDP (up to KD950mn). Steps would include caps in public sector hiring and wage control, energy subsidy cuts and the introduction of VAT, but higher investment. Still, ample fiscal and external buffers (estimated KIA assets of $980bn) including ultra-low debt levels (2.8% of GDP) put Kuwait in the enviable position of being able to balance reform of public finances with support for economic growth – so long as near-term liquidity pressures are avoided. Fitch recently reaffirmed Kuwait's high investment grade AA-credit rating.

Oil, geopolitics and reform agenda the main outlook risks

The main risks to the outlook center on the path of oil prices, reflecting the health of the global and Chinese economy in particular, regional geopolitical and security issues and progress on the government's domestic reform agenda. While oil prices could fall further than forecast and a widening regional conflagration cannot be discounted (which could lead to a spike in oil prices), we see the launch and implementation of a reform-centered economic plan as critical for driving a more positive growth narrative for Kuwait from 2025 onwards. ■

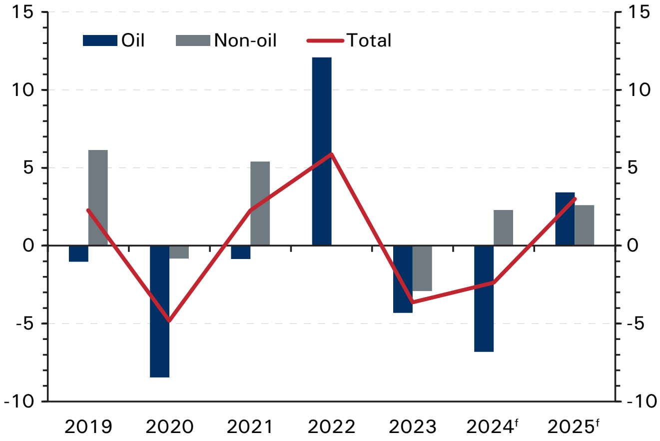
Kuwait key economic indicators

		2022	2023	2024[f]	2025[f]
Nominal GDP	$ bn	182	164	157	154
Real GDP	% y/y	5.9	-3.6	-2.4	3.0
- Oil sector	% y/y	12.1	-4.3	-6.8	3.4
- Non-oil sector	% y/y	-0.1	-2.9	2.3	2.6
- Non-oil ex refining	% y/y	-1.3	-5.6	2.0	2.5
Inflation (avg.)	% y/y	4.0	3.6	3.0	2.5
Fiscal balance (FY)	% of GDP	11.5	-3.1	-4.5	-5.6
Current acc. balance	% of GDP	34.7	31.4	22.8	17.0

Source: Official sources, NBK forecasts

Chart 1: Real GDP

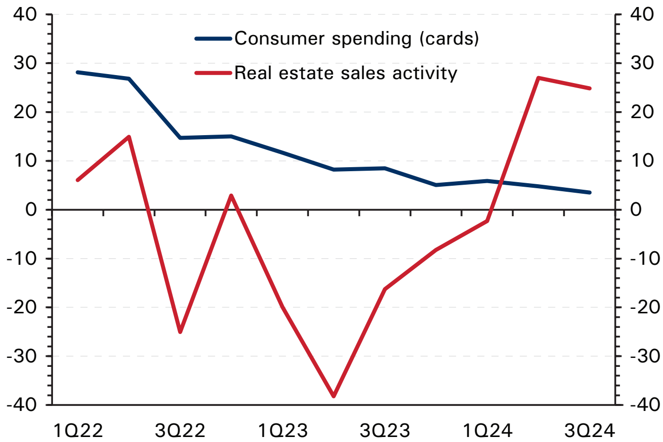
(2010=100, % y/y)



Source: Central Statistical Bureau (CSB), NBK forecasts

Chart 2: Consumer spending and real estate sales activity

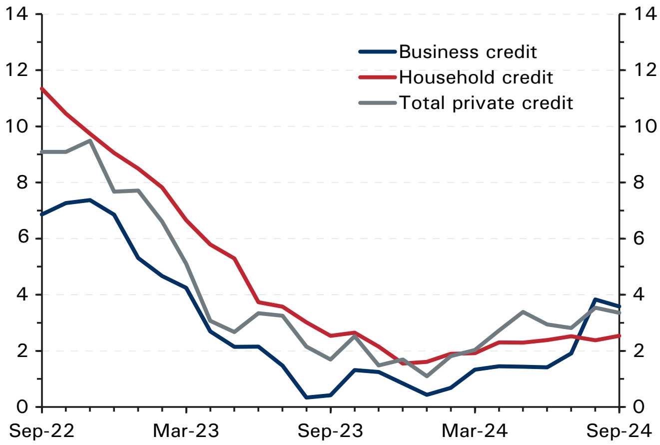
(% y/y)



Source: Central Bank of Kuwait (CBK), Kuwait Ministry of Justice (MoJ)

Chart 3: Bank credit

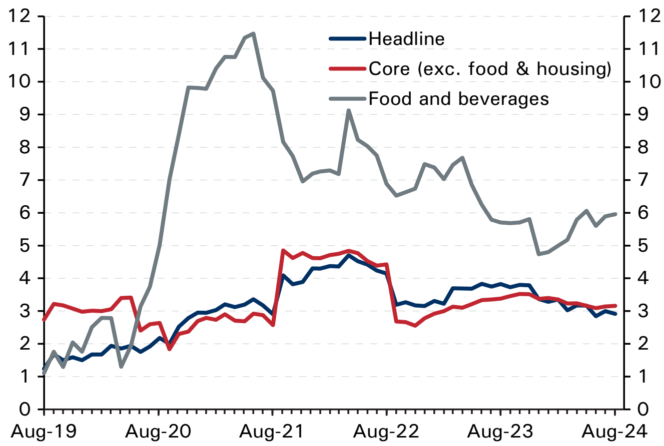
(% y/y)



Source: CBK

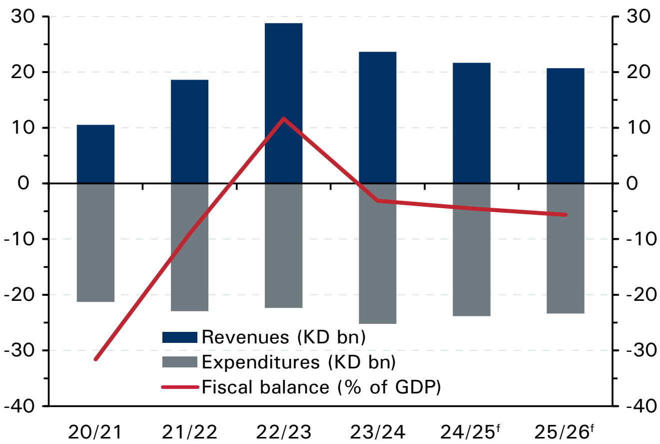
Chart 4: Consumer price inflation

(% y/y)



Source: CSB

Chart 5: Fiscal balance*



Source: Ministry of Finance (MoF), NBK forecasts; *on a fiscal year basis

Saudi Arabia

Economic growth is expected to accelerate further in 2025 on a recovery in oil output and higher investment and private consumption. A wider fiscal deficit is projected in 2025 as spending is set to rise in line with the government's ambitious development plan objectives while oil revenues decline on a lower oil price assumption, even while production is scheduled to go up as per OPEC+ policy. Higher than expected FDI and tourism helped by reform progress and the hosting of entertainment events are an upside risk to the outlook, while downside risks include a slowdown in project spending and weaker-than-forecast oil prices.

Non-oil growth rising on business, investment activity

Non-oil growth is expected to be steady in 2024 (3.7% y/y) before accelerating to 4.2% in 2025. Private sector activity has been robust (+4.2% in H1 24), backed up also by PMI readings pointing firmly to business expansion, and is expected to continue to benefit from positive government reform momentum and expansive fiscal policy, including higher on-budget and PIF investment spending on diversification projects, as well as by falling interest rates. Recent reforms to simplify and streamline business procedures should help attract greater volumes of FDI going forward, which could play an even more important role in achieving Vision 2030 goals in the context of fiscal pressures resulting from lower oil prices. Important also to the growth story has been bank credit and especially corporate lending, which were up 9.3% y/y and 12% y/y in August, respectively. Implementation of the Saudi National Investment Strategy should further drive output gains in manufacturing, trade and hospitality, the latter being the fastest growing sector in recent years (+6.4% y/y in H1 24) and a significant contributor to Saudi employment gains. The citizen unemployment rate fell to a record low of 7.1% in August from 7.7% at the end of 2023.

Oil sector fortunes looking better

A recovery in Saudi oil output is on the cards with OPEC+ scheduled to begin restoring withheld supply back to the market from end-2024. Total production should rise by 1 mb/d to 9.6 mb/d by end-2025 in our baseline scenario, delivering a 6.7% y/y increase in oil GDP following a decline of 5.3% in 2024. Total GDP growth is expected at 5.0% in 2025 from an estimated 1.1% in 2024.

Inflation to edge up, but still muted

Falling unemployment, rising global food prices, and the expected pick-up in non-oil activity could see inflation tick up in 2025, but continued strong competitive pressures will help keep upward pressures limited. Housing rents growth – the main inflationary impulse recently – could ease as lower borrowing costs encourage a shift to mortgage demand over renting, but the rental market may remain tight on a strong influx of expat labor. Against this backdrop, we project a small rise in inflation to 2% in 2025 from an estimated 1.8% in 2024. On monetary policy, the Saudi Central Bank has begun its monetary easing cycle having cut the policy repo rate by 50 bps to 5.5% in September, tracking the US Fed as normal given the riyal's peg to the US dollar.

Fiscal deficit to widen, debt issuance to remain strong

The fiscal deficit is expected to widen to 3.5% of GDP in 2025 from 2.7% of GDP in 2024, on a combination of lower oil revenues and higher expenditures. Oil receipts are projected to decline as the revenue effect of the expected fall in oil prices in 2025 will exceed the projected increase in Saudi oil exports after OPEC+ begins unwinding its supply cuts. Although the authorities in their 2025 pre-budget statement penciled in a mild expenditure increase of 2.7%, a typical spending overshoot is expected, and a strong pace of project spending is likely to continue via the PIF, even under lower oil price assumptions. The softer on-budget spending growth is in line with efforts to prioritize key strategic projects while extending the timeline for others, intended to mitigate overheating and fiscal risks. It also reflects a continued effort to rationalize subsidies and other forms of current spending including wage bill containment.

The deficit will once again be financed via debt issuance. This is likely to exceed 2024 levels, which, as of October 2024 reached over $29 billion, a record $17 billion of which was bonds and sukuk sold internationally. Yet, we project a relatively modest increase in outstanding debt as a share of GDP in 2025, to 29% from 27.8% in 2024 amid robust economic growth. S&P recently revised the credit rating outlook to A/A-1 positive from stable, supported by sustainable public finances, reform progress, and strong economic growth.

Economic outlook positive, but downside risks evident

Our strong base case outlook is for continued, positive economic progress, with Saudi reform and investment efforts proceeding apace and translating into robust output and employment gains across a range of strategically important economic sectors. In terms of risks, the escalating Israel-Iran conflict could increasingly weigh on the region's economic prospects. It is the most serious downside risk at this juncture, followed by a more precipitous drop in oil prices, or an unanticipated slowdown in investment rates and project implementation. Meanwhile on the upside, business friendly reforms could lead to a pick-up in FDI, while broader eligibility for the tourist visa (and the GCC unified visa) could support tourism growth. ■

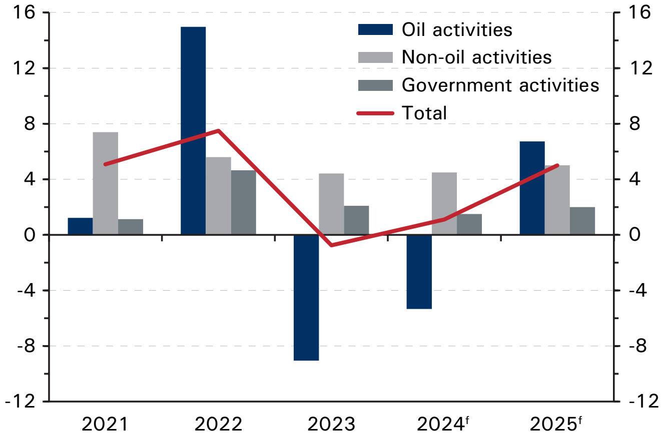
Saudi Arabia key economic indicators

		2022	2023	2024^{f}	2025^{f}
Nominal GDP	$ bn	1,109	1,068	1,083	1,111
Real GDP	% y/y	7.5	-0.8	1.1	5.0
- Oil	% y/y	15.0	-9.0	-5.3	6.7
- Non-oil	% y/y	5.3	3.8	3.7	4.2
Inflation (avg.)	% y/y	2.5	2.3	1.8	2.0
Fiscal balance	% of GDP	2.5	-2.0	-2.7	-3.5
Government debt	% of GDP	23.8	26.2	27.8	29.0
Current acc. bal.	% of GDP	13.7	3.2	1.5	0.3

Source: Official sources, NBK forecasts

Chart 1: Real GDP growth

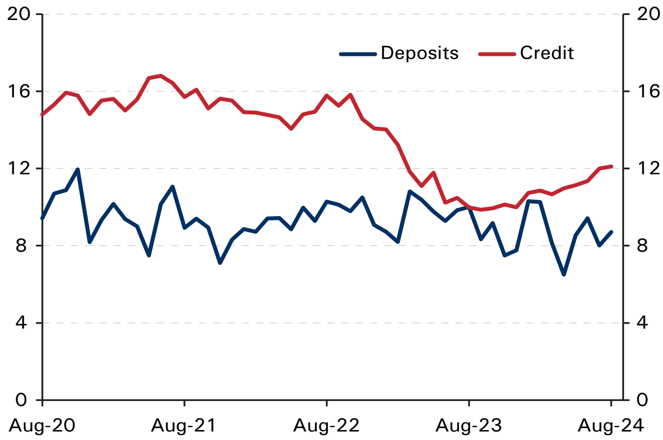
(% y/y)



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

Chart 2: Credit and deposit growth

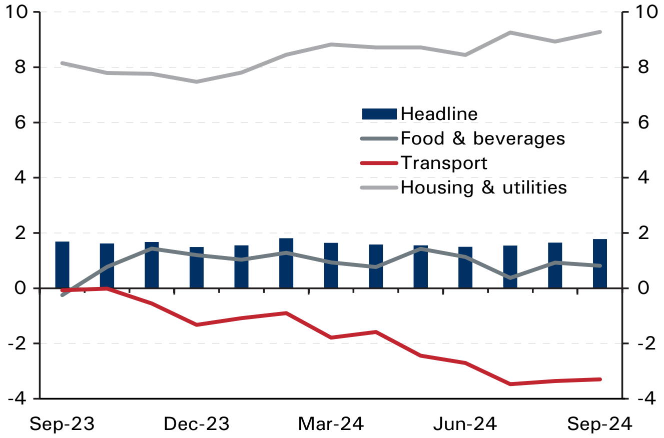
(% y/y)



Source: Saudi Central Bank

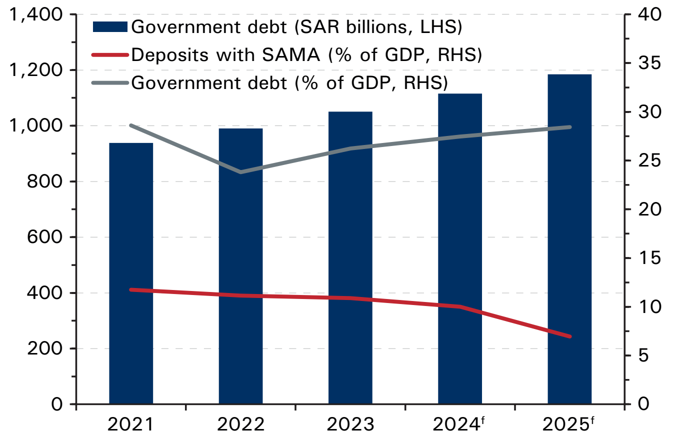
Chart 3: CPI inflation

(% y/y)



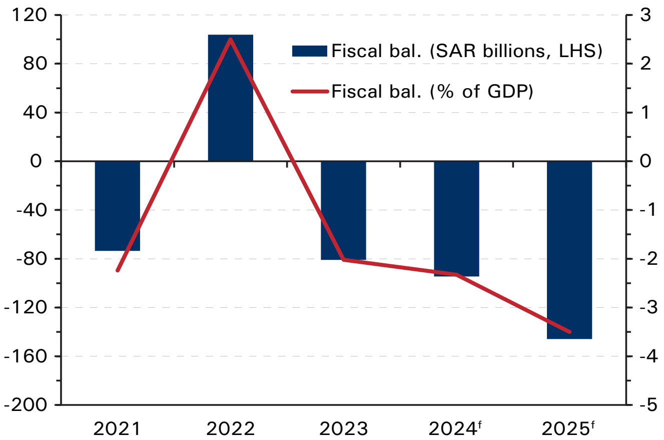
Source: GASTAT

Chart 4: Government debt and deposits with SAMA



Source: GASTAT, Ministry of Finance, SAMA, NBK forecasts

Chart 5: Fiscal balance



Source: Ministry of Finance, NBK forecasts

UAE

Non-oil growth will remain strong in 2025 at 4%+ supported by interest rate cuts, foreign investment inflows, mega construction projects, proactive government reforms and growth in tourism and trade. Oil GDP will also see large output gains with the unwinding of OPEC+ cuts. The real estate boom has proven durable and should persist into 2025 given strong non-oil growth and inflows of workers and investment, while inflation is set to remain low. The main downside risks to this impressive economic picture are a potential escalation in regional conflict that hits investment and confidence, and slower global growth given the UAE's internationally geared economic model.

Economic growth robust on reforms, investments

The economic outlook for 2025 is positive, supported by ongoing infrastructure development plans including to raise oil and gas production capacity, a still-buoyant real estate and construction sector and surging tourism. The rollout of various economic initiatives and strategies over the past three years, including foreign ownership and visa reforms, have transformed the UAE into a major recipient of FDI inflows, ranking first among the MENA countries in 2023 according UNCTAD, while doubling the number of registered companies to more than a million since 2020. Moreover, helped by a growing network of trade agreements, external trade grew by 21% in 2021-2023, exceeding the 8.5% yearly growth target of the authorities' 2031 "We the UAE" vision.

The non-oil economy is expected to see another year of 4%+ growth in 2025. The robust expansion in private credit recorded in 2024 (+6.9% y/y in June) and higher investment inflows, which have partly been channeled through the financial and real estate markets – the Dubai equity market was up 8.5% in Q1-Q3 2024 while Dubai real estate sales rose 30% y/y – are likely to be key drivers of domestic demand in 2025 as well. Looser monetary policy, relatively low inflation and a rising population should also be supportive of consumer activity over the forecast period.

The oil sector is poised to rebound in 2025 (+7.8%) after lackluster growth in 2024 (+0.4%), as OPEC+ commences unwinding its production cuts from December 2024. Output should reach 3.4 mb/d by end-2025. At the rate that state-owned ADNOC and its partners are ramping up $30 billion of upstream oil and gas projects (MEED estimates), the UAE is likely to reach its 5 mb/d production capacity target one year early, in 2026. In sum, total GDP growth could accelerate to 5.1% in 2025 from an expected 3.3% this year. Robust as this is, however, it is still below the 7.2% annual average growth rate the government requires to achieve vision 2031 target of a doubling in GDP by 2031.

Property market strength endures, inflation contained

Real estate market strength has persisted due to the influx of expatriate workers and foreign investment, given its status as a safe haven for funds. Dubai real estate sales reached AED375 billion ($102 billion) in Q1-Q3 2024 (+30% y/y), easing from the 62% y/y seen in the same period of 2023. A further easing from these exceptional rates is seen through 2025, while growth in real estate prices for 2025 should also moderate (currently +20% y/y in Dubai; +8% in Abu Dhabi Jan-Sep 2024), helped by increased unit supply. However, interest rate cuts should stimulate demand further, especially luxury apartments given their relatively lower valuations and potential for higher returns. Meanwhile, consumer price inflation is expected to edge slightly higher from 2.2% (average) this year to 2.4% in 2025 – still low against a backdrop of robust economic growth. We see scope for rising supply to cap growth in housing rents following the strong performance witnessed this year (+6.5% y/y Jan-Aug in Dubai), while transportation costs would decline due to lower fuel prices in 2025 given our projection of lower oil prices.

Fiscal surplus to narrow, but external buffers strong

The government's fiscal position remains solid compared to some GCC peers, but continued high outlays and lower oil prices over the forecast period will see the surplus narrow from 3.1% this year to 1% of GDP in 2025. The federal UAE and Dubai budgets earmark higher spending allocations for 2025 (+11.5% budget-on-budget to AED72 billion and +5.8% to AED84 billion, respectively), a sign of intent for the authorities as they proceed with ambitious investment and infrastructure plans. Government debt will continue to fall over the forecast period, from 31% of GDP in 2023, according to the IMF, to 27% of GDP by end-2025. The moderate government debt level, strong net external asset position (ADIA, Mubadala, DIF, EIA assets at $1.5 trillion, or 280% of GDP), and strong increases in non-oil exports and tourism should preserve the sovereign's high credit rating, recently reaffirmed with a stable outlook by rating agency Fitch at "AA" for Abu Dhabi and "AA-" for the UAE.

Rising geopolitical tensions are a risk to the outlook

The expansionary stance of the local and federal budgets, upcoming interest rate cuts, large construction projects, and the expected rise in oil production provide a solid foundation for the economic outlook. But key downside risks include a potential escalation in regional conflicts, which could deter investment, or a downturn in the global economy. The latter would translate into lower oil prices and could have a larger impact on the UAE's non-oil activity compared to peers given its more internationally-integrated (and exposed) economy. ■

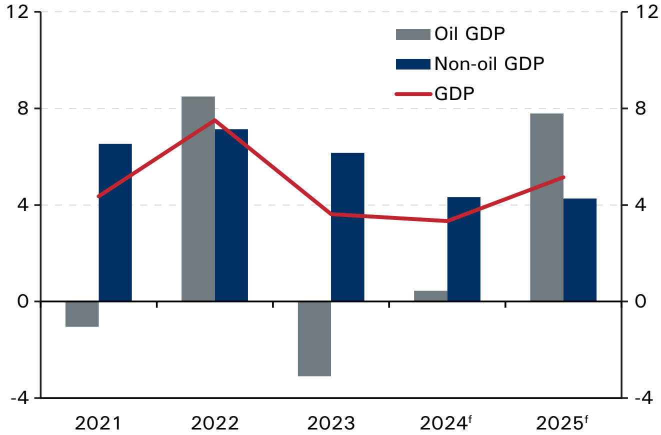
UAE key economic indicators

		2022	2023	2024f	2025f
Nominal GDP	$ bn	503	514	524	548
Real GDP	% y/y	7.5	3.6	3.3	5.1
- Oil sector	% y/y	8.5	-3.1	0.4	7.8
- Non-oil sector	% y/y	7.1	6.2	4.3	4.3
Inflation (avg.)	% y/y	4.8	1.6	2.2	2.4
Fiscal balance	% of GDP	10.0	4.5	3.1	1.0
Current acc. bal.	% of GDP	13.0	4.3	4.2	2.9

Source: Official sources, NBK estimates

Chart 1: Real GDP

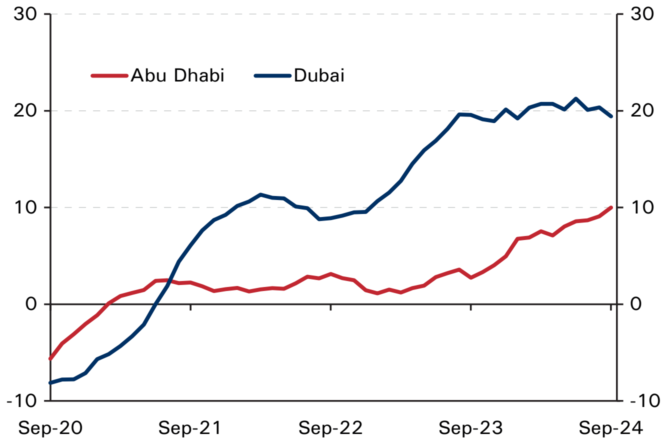
(% y/y)



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

Chart 2: Residential real estate prices

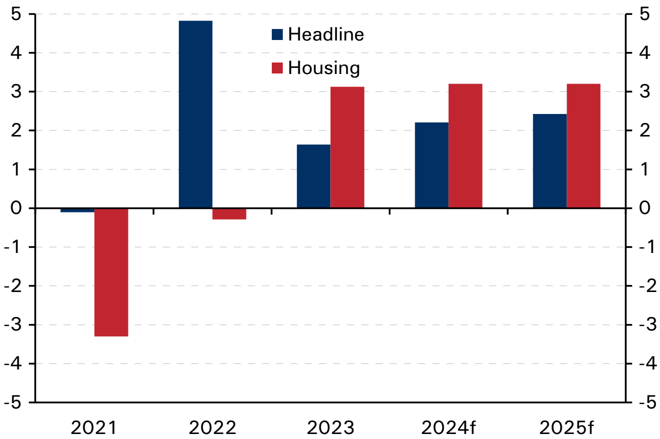
(% y/y)



Source: REIDIN, NBK estimates

Chart 3: Consumer price inflation

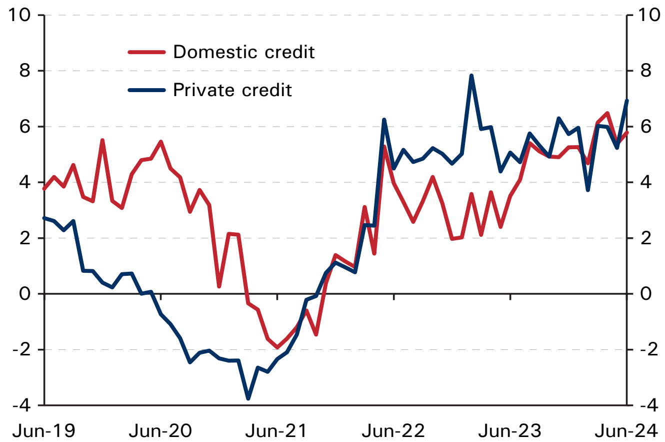
(% y/y)



Source: FCSC, NBK forecasts

Chart 4: Domestic credit

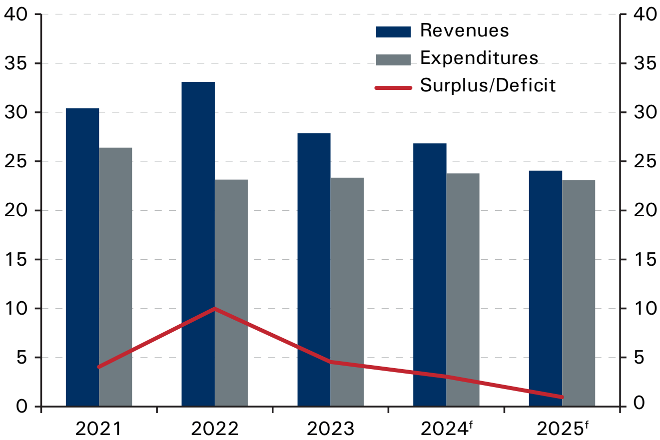
(% y/y)



Source: Haver

Chart 5: Fiscal balance

(% of GDP)



Source: Ministry of Finance, FCSC, NBK forecasts

Egypt

The economy is moving out of the very tough period of 2023 and early 2024 with inflation heading lower, several signs pointing towards growth accelerating and interest rates likely to fall sharply over coming quarters. Policy changes have improved the macro picture considerably, though regional geopolitical pressures could drag on growth short term, having already hit Suez Canal receipts, while energy security also needs addressing. We look for the authorities to maintain strong commitment to the flexible exchange rate to ensure that current high buffers are preserved and that confidence in the broader reform process – which will be key to delivering higher investment rates and faster longer-term growth – is sustained.

Government reform steps so far successful

The government has pressed ahead with key reform steps following the big policy shifts seen earlier this year, including a move to a flexible exchange rate and higher interest rates to control inflation. FX reserve buffers have been rebuilt and tough cuts in subsidies have been implemented. We expect more reform follow-through over coming quarters, including further cuts to petroleum, gas and electricity subsidies. The extent of exchange rate flexibility in times of tension is yet to be tested but will be as imports rise in conjunction with recovering economic growth rates. Although fiscal and financial reforms are key, measures to create a more pro-business environment are also needed to ensure higher employment, stronger knowhow, and to boost investment rates (including FDI) beyond crucial mega deals such as Ras Al Hekma that are secured at a political level.

Economic growth to accelerate ahead

GDP growth slowed to 2.4% in FY23/24 from 3.8% in FY22/23. The second half of the year (Jan-Jun 24) endured the most severe fallout in terms of high inflation, elevated interest rates, and initial demand and supply shocks post the near-40% March currency devaluation. However, we see this as now behind us with the pound having stabilized, inflation cooling to 26% (and set to fall sharply next year), and the start of the monetary easing cycle approaching. Some key positive signs include a PMI level creeping back above the 50 benchmark in August, a return to positive real credit growth and a recovery in corporate earnings. On the back of such, we expect GDP growth to accelerate to 4.0% in FY24/25, assisted by potentially aggressive cuts in interest rates. Consumer spending will be the main driver of GDP growth in the coming period while net exports could continue to be a drag mainly due to a high energy bill.

External mega financing deals could be over

Having secured the huge $35bn Ras El Hekma investment from the UAE and $20bn in other international funding deals this year, the external funding picture is no longer an immediate concern. International reserves hit an all-time high of $46.7bn in September while commercial banks' net foreign assets have flipped back into positive territory. Still, we see the authorities reverting to traditional methods of financing including issuing FCY Eurobonds, which – given continued current account deficits and debt maturities – will be needed to cover a net cumulative external financing gap of about $10bn through FY25/26. Egypt's current 5yr Eurobond yields are at 9% and could go lower as the Fed continues to cut interest rates by over coming quarters. We also see potential for a sovereign rating upgrade by Moody's to B3 from the current Caa1 in the short term, putting it in line with S&P and Fitch. Further upgrades could take place in early 2025 if the government maintains momentum, which could also help in lowering bond yields.

Fiscal deficit back to normalized levels in FY24/25

The fiscal deficit came in extremely low at 3.6% of GDP in FY23/24 thanks to the mega investment Ras El Hekma deal which increased non-tax revenue to the budget. However, similar to the external account, we expect a normalization to take place as big-ticket investments fade and more focus is now put on organic, lower-scale FDIs. Furthermore, in FY24/25, the government will be losing a big share of Suez Canal revenues (see below) which will have negative implications on the budget as it represents close to 8% of total tax revenues. However, this could be offset by the interest rate cuts that we expect through the year, reducing the large debt interest burden, while subsidy cuts could reduce spending by 0.6% of GDP this year. We expect the deficit to come in at 8.0% of GDP in FY24/25.

Geopolitics and high energy costs are key risks

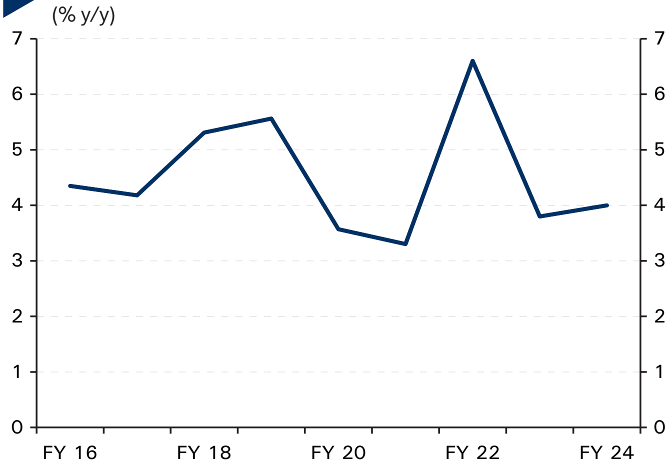
Suez Canal receipts were down 25% y/y in FY23/24 overall and 62% in H2 (Jan-Jun) alone, affected heavily by the geopolitical escalation which caused the diversion of maritime transport away from the canal. If Egypt gets dragged further into the current conflict, one key repercussion could be a shortage of gas imports (Egypt imports 20% of its total gas needs from Israel). This, along with a recent drop in local production, will push up energy import costs significantly. The elongation or expansion of the current war in the region would be a drag on the external sector and Egypt's growth prospects. On the upside, a more favorable global inflation climate could lead to sharper cuts in international interest rates, providing more space for the central bank to follow and boost domestic growth prospects. We also await further progress on human capital-related (i.e. education and healthcare) and business environment improvements in the coming year – key to improving the economy's longer-run growth prospects. ■

Egypt key economic indicators*

		FY22/23	FY23/24	FY24/25
Nominal GDP	EGP bn	10,377	13,810	16,656
Real GDP	% y/y	3.8	2.4	4.0
Fiscal balance (FY)	% of GDP	-6.0	-3.6*	-8.0
Inflation (avg.)	% y/y	24.1	33.5	19.0
Current acc. bal.	% of GDP	-1.6	-6.3	-4.5

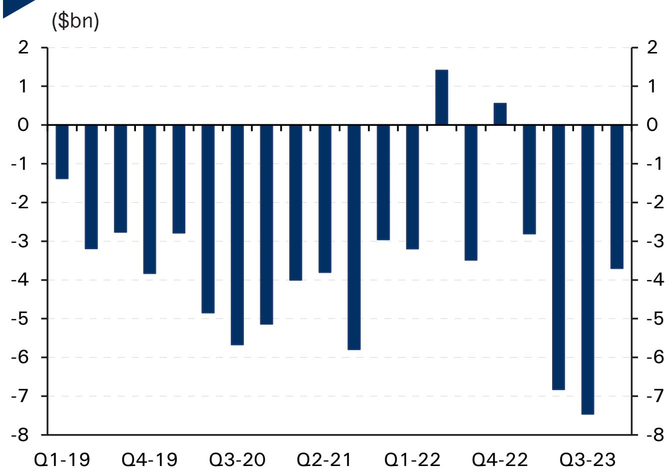
Source: Official sources, NBK forecasts. Fiscal years end in June. *Fiscal deficit shrinks from 8% as per the new agreement whereby the MoF will receive half of the Ras El Hekma deal in local currency.

Chart 1: Real GDP



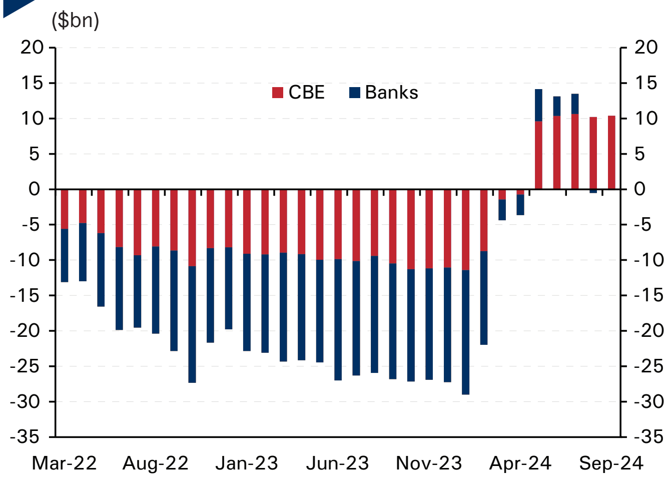
Source: Central Bank of Egypt (CBE), Ministry of Planning, NBK forecasts (FY25 is NBK forecast at 4.0%)

Chart 2: Current account balance



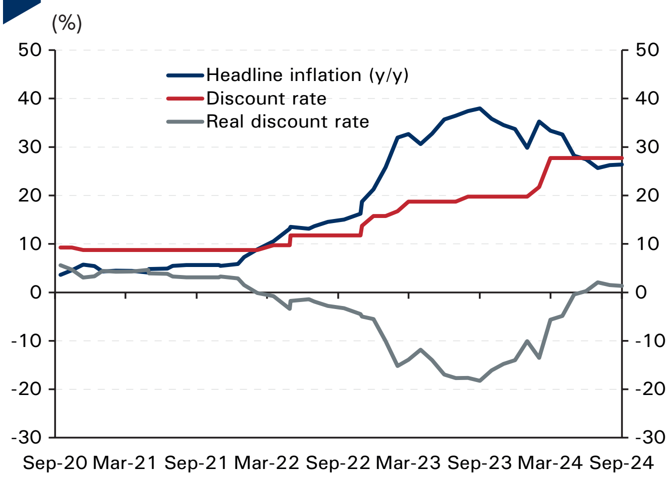
Source: Central Bank of Egypt, NBK Forecasts

Chart 3: Net foreign assets



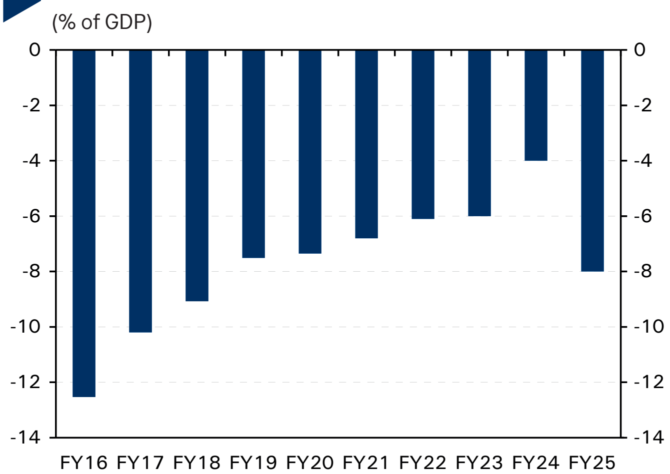
Source: Central Bank of Egypt

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	2019	2020	2021	2022	2023	2024[f]	2025[f]
Nominal GDP	USD bn	38.7	34.6	39.3	44.4	43.2	45.1	46.6
Real GDP	% y/y	2.2	-4.6	2.6	4.9	2.5	1.8	3.9
Hydrocarbon sector	% y/y	2.2	-0.1	-0.3	-1.4	-2.5	-1.1	4.4
Non-hydrocarbon sector	% y/y	2.2	-5.6	3.2	6.3	2.0	3.8	3.8
Budget balance	% of GDP	-4.7	-12.8	-6.4	-1.1	-3.7	-4.3	-5.7
Current account balance	% of GDP	-2.1	-9.4	6.6	15.4	6.2	4.7	4.8
Inflation	% y/y	1.0	-2.3	-0.6	3.6	0.1	1.0	2.0

Kuwait								
Nominal GDP	USD bn	141.4	109.7	142.5	182.1	164.1	156.7	153.8
Real GDP	% y/y	2.3	-4.8	2.3	5.9	-3.6	-2.4	3.0
Hydrocarbon sector	% y/y	-1.0	-8.5	-0.9	12.1	-4.3	-6.8	3.4
Non-hydrocarbon sector	% y/y	6.1	-0.8	5.4	-0.1	-2.9	2.3	2.6
Budget balance	% of GDP	-9.1	-32.1	-7.0	11.5	-3.1	-4.5	-5.6
Current account balance	% of GDP	12.6	4.4	26.2	34.7	31.4	22.8	17.0
Inflation	% y/y	1.1	2.1	3.4	4.0	3.6	3.0	2.5

Oman								
Nominal GDP	USD bn	88.1	75.9	88.2	113.9	108.8	114.0	127.0
Real GDP	% y/y	-1.1	-3.4	3.1	4.1	1.5	1.3	3.2
Hydrocarbon sector	% y/y	-2.6	-2.0	3.8	7.8	-0.4	-1.7	2.6
Non-hydrocarbon sector	% y/y	-0.2	-4.6	2.6	2.4	2.4	2.7	3.5
Budget balance	% of GDP	-7.7	-15.2	-3.6	2.6	2.4	1.4	-0.8
Current account balance	% of GDP	-4.6	-16.2	-5.4	5.1	0.4	-0.4	-2.1
Inflation	% y/y	0.5	-0.4	1.7	2.5	1.0	0.8	0.9

Qatar								
Nominal GDP	USD bn	175.8	144.4	179.7	235.8	213.0	218.9	226.3
Real GDP	% y/y	0.7	-3.6	1.6	4.2	1.2	1.8	2.4
Hydrocarbon sector	% y/y	-1.7	-2.0	-0.3	1.7	1.4	1.2	1.4
Non-hydrocarbon sector	% y/y	2.2	-4.5	2.8	5.7	1.1	2.2	3.0
Budget balance	% of GDP	1.0	-2.0	0.2	10.4	5.6	4.6	3.7
Current account balance	% of GDP	2.4	-2.1	14.6	26.8	17.1	13.5	13.0
Inflation	% y/y	-0.8	-2.5	2.3	5.0	3.1	1.6	1.6

Saudi Arabia								
Nominal GDP	USD bn	838.6	734.3	874.2	1108.6	1067.6	1082.5	1111.4
Real GDP	% y/y	1.1	-3.6	5.1	7.5	-0.8	1.1	5.0
Hydrocarbon sector	% y/y	-3.3	-6.9	1.2	15.0	-9.0	-5.3	6.7
Non-hydrocarbon sector	% y/y	3.2	-2.3	5.6	5.3	3.8	3.7	4.2
Budget balance	% of GDP	-4.2	-10.7	-2.2	2.5	-2.0	-2.7	-3.5
Current account balance	% of GDP	4.6	-3.5	4.8	13.7	3.2	1.5	0.3
Inflation	% y/y	-2.1	3.4	3.1	2.5	2.3	1.8	2.0

UAE								
Nominal GDP	USD bn	418.3	349.7	415.2	502.7	514.1	524.4	547.7
Real GDP	% y/y	1.1	-5.0	4.4	7.5	3.6	3.3	5.1
Hydrocarbon sector	% y/y	-2.6	-3.8	-1.1	8.5	-3.1	0.4	7.8
Non-hydrocarbon sector	% y/y	2.7	-5.4	6.5	7.1	6.2	4.3	4.3
Budget balance	% of GDP	2.6	-2.5	4.0	10.0	4.5	3.1	1.0
Current account balance	% of GDP	8.9	6.0	11.6	13.0	4.3	4.2	2.9
Inflation	% y/y	-1.9	-2.1	-0.1	4.8	1.6	2.2	2.4

Egypt (Fiscal year ending June)								
Nominal GDP	EGP trillion	5.6	6.2	6.7	7.8	10.4	13.8	16.7
Real GDP	% y/y	5.6	3.6	3.3	6.7	3.8	2.4	4.0
Budget balance	% of GDP	-8.2	-7.5	-7.1	-6.1	-6.0	-3.6	-8.0
Current account balance	% of GDP	-3.6	-2.9	-4.4	-3.6	-1.6	-6.3	-4.5
Inflation	% y/y	13.9	6.0	4.5	8.5	24.1	33.5	19.0

International

	Unit	2019	2020	2021	2022	2023	2024[f]	2025[f]
Brent crude oil spot price (year average)	$ p/b	64.3	42.0	70.9	100.9	82.5	80.0	70.0
Rogers International Commodity Index	Index	2,454.4	2,265.6	3,196.8	3,828.3	3,647.5	---	---
EUR/USD	1 $ = €	0.89	0.82	0.88	0.93	0.91	---	---
US Fed Fund Rate	%	1.75	0.25	0.25	4.50	5.50	---	---
MSCI World stock market index	Index	2,358.5	2,690.0	3,231.7	2,602.7	3,169.2	---	---
MENA real GDP (IMF)	% y/y	1.0	-3.0	4.2	5.5	1.9	2.1	4.0
World real GDP (IMF)	% y/y	2.9	-2.7	6.6	3.6	3.3	3.2	3.2

Source: Refinitiv, Haver, Official sources, IMF, NBK estimates

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