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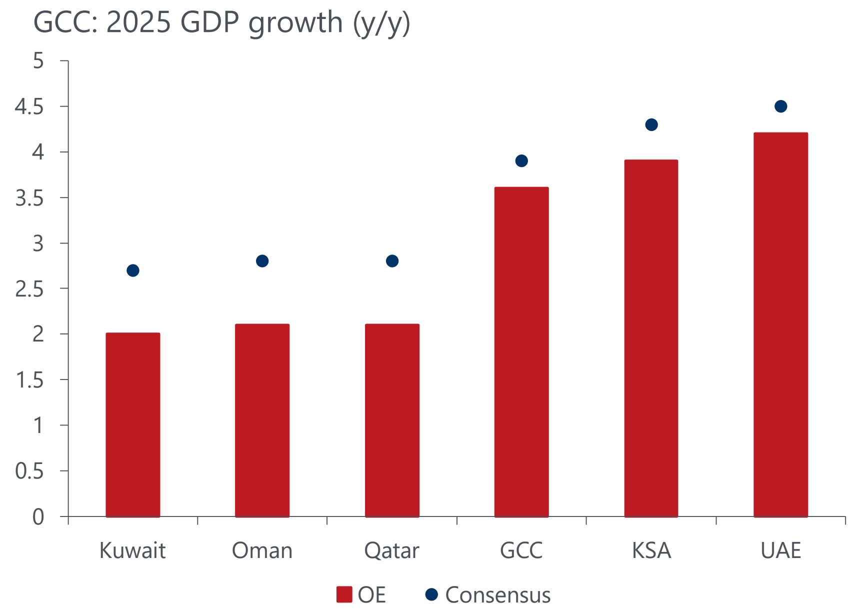
Research Briefing | MENA

GCC is well-placed to be a global growth standout in 2025

- **We think GDP growth in the Gulf Cooperation Council (GCC) region will nearly double to 3.6% in 2025, above the global forecast of 2.8%. OPEC+ decisions, a local pursuit towards diversification, the US Federal Reserve policy, and geopolitics will remain central to the regional outlook.**
- ***The turning point for the energy sector faces delays*. We expect regional producers to keep oil output steady until H2, when the energy sector will return to growth after a two-year decline.**
- ***The non-energy economy will sustain a roughly 4% expansion.* Strong domestic investment momentum will continue to support GCC non-energy sectors. Although we see no direct threat from US tariffs, global trade fragmentation may intensify growth and diversification challenges.**
- ***Fiscal policies will remain accommodative despite ongoing revenue pressure.* We expect a modest weakening in budget positions, with little change in the median debt-to-GDP ratio, and see all countries maintaining their favourable credit ratings.**
- ***Soaring rents will push GCC inflation above 2%.* Strong demand for housing will sustain upward pressure on inflation in Saudi Arabia and the UAE. Monetary policy will be loosened, albeit with limited immediate benefit for regional economies.**
- ***Fragile geopolitics remain a headwind*. We think the regional conflict remains unresolved in the near term and see more redrawing of the regional geopolitical map, but with lower odds of major disruption to oil supply and escalation.**

Our growth forecasts for the GCC have proved too optimistic for the second year in a row. GDP growth improved in 2024, but the OPEC+ agreement capping oil output remained in place, limiting the pace of recovery to an estimated 1.9%, less than half of what we projected at the start of the year. We expect GCC growth will rise to 3.6% this year, slightly more cautious than the consensus outlook for the region of 3.9%.

Chart 1: Our 2025 GDP growth forecasts for GCC countries are slightly more cautious than the consensus



Source: Oxford Economics/Focus Economics

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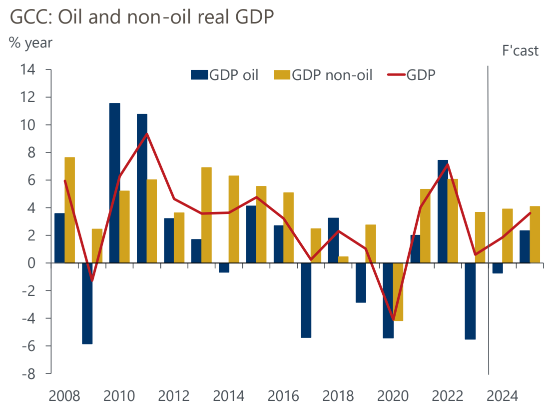
The near-term outlook for the region will likely remain shaped by similar themes from last year, namely OPEC+ decisions, local policy pursuit towards diversification, the US Federal Reserve policy, and geopolitical tensions. The US trade policy under President-elect Donald Trump adds a layer of uncertainty to the forecast, but we see no direct threat of tariffs for the region, limiting the impact on near-term growth.

We're optimistic on the outlook for this year as oil production gradually increases, providing a boost to the region's economies. We think non-energy sectors will sustain their current robust trends (**Chart 2**).

Chart 2: GCC growth will shift into higher gear this year



Source: Oxford Economics/Haver Analytics

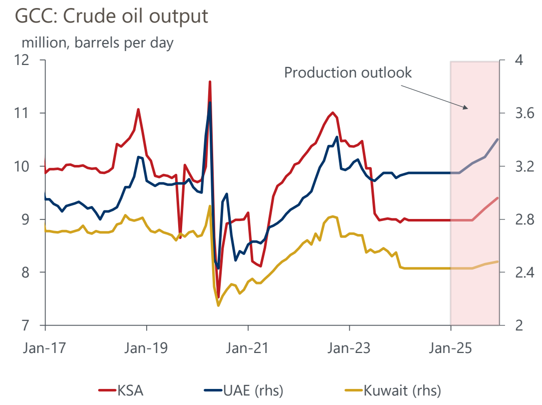
The turning point for the energy sector faces more delays

The delayed turnaround in the energy sector will determine the pace of the GCC recovery this year. Under the current OPEC+ deal, the group intends to bring more oil supply to market from Q2.

We expect production cuts will be extended by an additional quarter, owing to our bearish outlook on global demand. We think output will be gradually hiked in H2 (**Chart 3**), generating energy-sector growth of 2.3% this year.

The UAE has postponed the ramp-up in production quotas it lobbied for as discipline across the group comes under scrutiny. Meanwhile, production across non-OPEC+ states has been strong, including in the US, and President Trump's stated support for the domestic energy sector may slow the unwinding of the OPEC+ supply cuts.

Chart 3: GCC oil output will edge up in H2

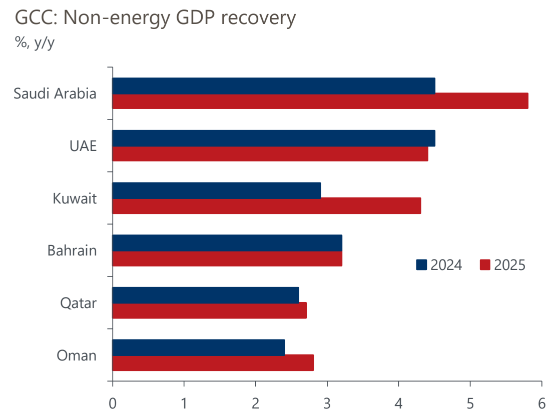


Source: Oxford Economics/IEA

The non-energy economy will sustain its roughly 4% expansion

We see a broadly steady performance of the non-energy sectors this year, with expansion hovering around 4% (**Chart 4**), and remaining the key driver of regional economic growth. Solid PMI readings, higher government spending, wages outpacing inflation, and monetary easing create favourable conditions for demand in the region.

Chart 4: Non-energy sector will remain resilient



Source : Oxford Economics/Haver Analytics

We remain confident the tourism industry – the fastest-growing sector across the region in 2024 – will remain a vital engine for growth and diversification efforts. Saudi Arabia is among the countries that welcomed a record-high number of international tourists in 2024, with growth seen this year and beyond (**Chart 5**). The Kingdom plans an ambitious $800bn investment programme over the next 10 years, alongside major events like Asian Cup 2027, the Asian Winter Games 2029, Expo 2030, and the FIFA World Cup 2034. In the near term, the soon-to-be-launched GCC-wide visa will positively impact

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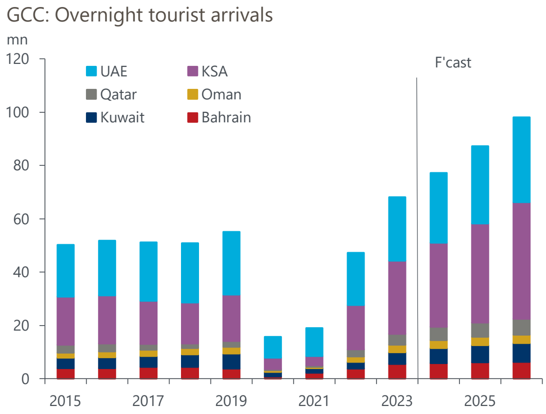
inbound tourism, as will an expanded visa offering, including the 'Visiting Investor' visa.

Chart 5: Tourism remains a key growth engine



Source: Oxford Economics/Tourism Economics

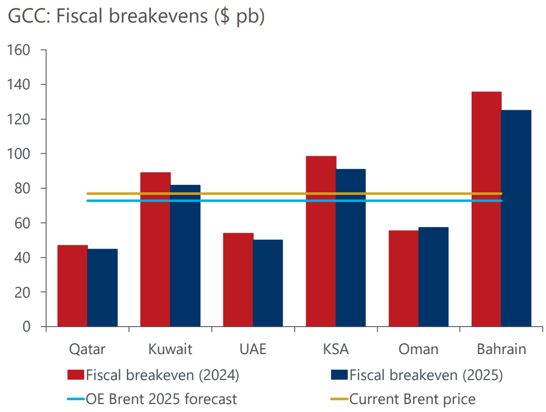
Other key sectors in the region's diversification efforts include financial services, real estate, and manufacturing, while the strong momentum in initial public offerings continues as authorities seek to deepen capital market growth.

Strong growth prospects will maintain the region's attractiveness to investors, with the UAE holding onto the top global position in terms of FDI flows to the size of the economy. The UAE cabinet estimates FDI surpassed a record $35bn last year, cementing the nation's ranking as a top FDI attraction spot and complementing the domestic investment drive. In Saudi Arabia, FDI lagged the government's targets so far, but inflows should gain traction thanks to the strong pipeline of projects, the updated investment law, and tax relief to global firms establishing regional headquarters in the Kingdom.

Fiscal policies will remain accommodative despite ongoing revenue pressure

Regional budgets this year continue to balance fiscal discipline and sustainable economic trajectory, with a strong focus on social development, including education and healthcare. We forecast aggregate GCC budget spending to rise by nearly 3% this year to $315bn, after flatlining in 2024. This comes despite downward pressure on government income; we forecast Brent oil prices will average $72.90 per barrel this year, down from $80.50 in 2024. This is below the estimated budget break-even levels in Bahrain, Kuwait, and Saudi Arabia (**Chart 6**).

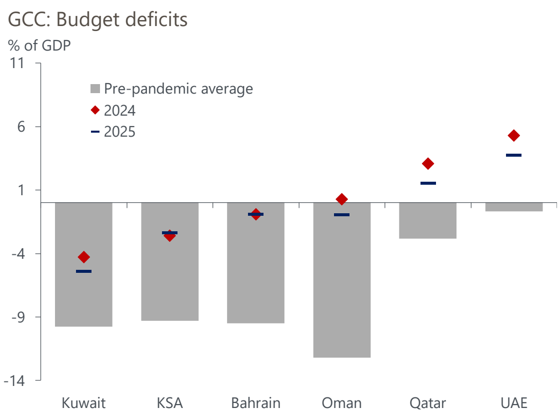
Chart 6: Oil price lags budget break-even levels



Source: Oxford Economics/IMF

Consequently, the resulting budget surplus in the region will halve to $15bn, representing 0.8% of the projected regional GDP. On a country level, we project surpluses in Qatar and the UAE, with small deficits elsewhere (**Chart 7**).

Chart 7: Budget positions will modestly weaken



Source: Oxford Economics/Haver Analytics

The Saudi budget for 2025 budget targets a deficit of SAR101bn or 2.3% of GDP, broadly in line with our projections. Budgeted outlays, while lower than in 2024, will be complimented by strategic spending by the sovereign wealth fund, which aligns with the government's focus on Vision 2030 priorities through infrastructure investment and private-sector development. Saudi Arabia is again frontloading fundraising; this week, the Kingdom issued dollar bonds worth $12bn, after closing a $2.5bn loan facility last week. Overall, Saudi Arabia plans to borrow SAR139bn ($37bn) this year to finance the budget deficit and debt maturities, which we think will raise government debt to 30.6% of GDP. Despite this increase, debt levels will remain low compared to global averages, ensuring the flexibility needed to pursue strategic investments.

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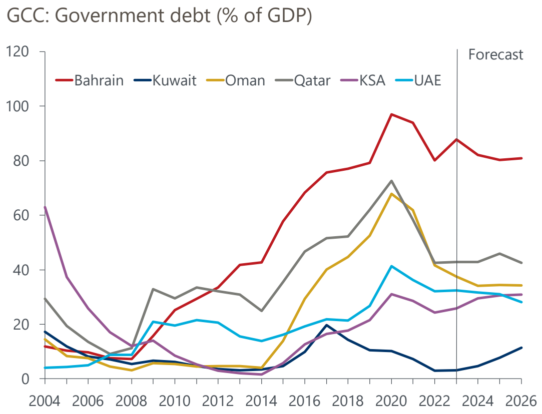
The budgets in Oman, Qatar, and the UAE are all in line with the countries' long-term development goals, with a priority on social development, to support non-energy sector growth. The enforcement of a 15% corporate tax rate on large multinationals in all three countries supports the revenue outlook, while increasing their compliance with global tax standards. Qatar and Oman maintained cautious oil price estimates of $60pb in their budgets, below our 2025 oil price projection of $72.90pb.

Credit ratings have caught up with the post-pandemic improvement in public finances. Our recent research showed some unwinding (**Chart 8**), but with the median GCC debt-to-GDP ratio on track to stay below 33%, we see favourable credit ratings maintained across the region this year.

Chart 8: Regional debt outlook looks stable



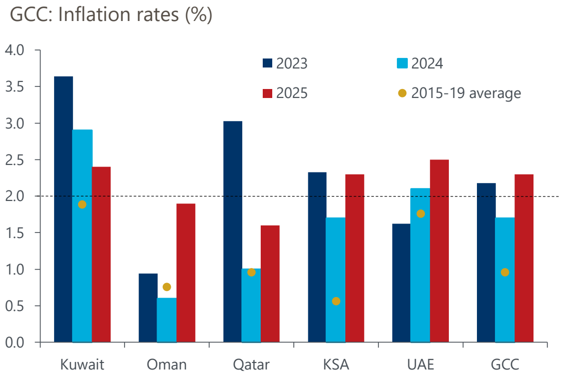
Source: Oxford Economics/Haver Analytics

Soaring rents will push GCC inflation above 2%

We forecast GCC inflation to rise to 2.3% this year, from 1.7% in 2024 (**Chart 9**), largely owing to housing price pressures in Saudi Arabia and the UAE. Recent readings show inflation is below 1% in Bahrain, Oman, and Qatar.

Upward pressure from housing rents is especially pronounced in Saudi Arabia, where they are rising by more than 10% y/y. Rents will likely continue to rise, especially in Riyadh, supported by optimism about the outlook and strong population and employment growth as more global companies establish their headquarters in the country. Rental costs are a key driver of inflation in Dubai, rising in excess of 7%, but prices across the rest of the CPI basket are moderating.

Chart 9: GCC inflation will rise above 2% this year



Source: Oxford Economics/Haver Analytics

Monetary policy will be loosened, but the economy will see little benefit in 2025. A turning point for monetary policy has been reached. The GCC central banks will follow the rate path of the US Fed, given the exchange rate pegs against the US dollar. Following 100bps in cumulative rate cuts in 2024, our baseline forecast assumes a total of 75bps in cuts in 2025, although the balance of risks to our base case scenario is for fewer cuts.

Fragile geopolitics remain a headwind

Our December Global Risk Survey showed concerns over Middle East conflict escalation have eased, with only one in five businesses viewing regional geopolitics as a serious risk to the global outlook, down from around three in five in October.

The ceasefire deal signed between Israel and Hezbollah at end-November marked an important step towards de-escalating the regional conflict, and we think the odds of an escalation that would disrupt oil supplies are lower. However, the truce remains vulnerable to violations, challenging planned implementation before end-January. Meanwhile, the region confronts the impact of the regime change in Syria, including via a possible return of the large Syrian refugee population.

The return of Trump as US president means the Middle East conflict may take unexpected turns, but we think it will remain unresolved this year. However, providing tensions don't escalate significantly, the impact on growth will likely continue to be limited, especially if visitors continue to flock to the region.

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