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Middle East & North Africa Chart Pack

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Middle East & North Africa Chart Pack

Our View: The Middle East and North Africa is set to record its fastest pace of GDP growth (outside of the pandemic period) since 2011. Continued oil output hikes and the switch on of Qatar's North Field will boost the Gulf economies. But lower energy prices are likely to curb how supportive fiscal policy can be in some places – particularly Saudi Arabia – and act as a constraint on non-hydrocarbon sectors. Elsewhere, we are optimistic on the growth prospects of Egypt and Morocco.

Meanwhile, the recent US-Saudi meetings have taken the Kingdom off the fence and drawn it back toward the US's sphere of influence.

Explore MENA in data

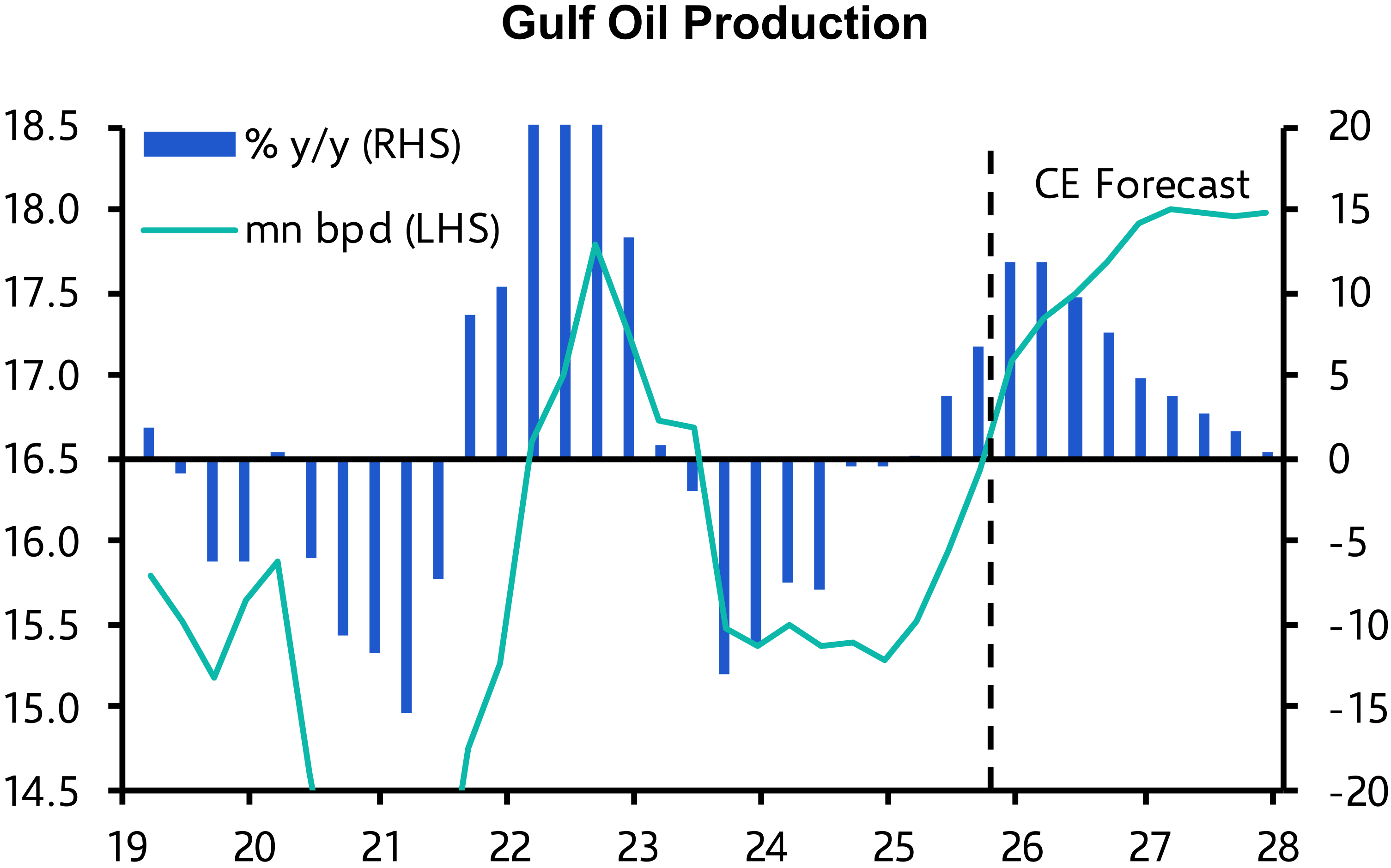
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- [Overview](#): higher oil output will support GDP growth in the Gulf, but this will mask slower growth in non-oil sectors as lower oil prices lead to less support fiscal policy.
- [Saudi Arabia](#): the approved 2026 Budget reaffirmed fiscal consolidation for next year, although we doubt this will be enough to prevent the budget deficit from widening.
- [Egypt](#): the benefits of last year's policy shift are building, with activity in the private sector improving and overall GDP growth hitting a six-year high in Q3.
- [UAE](#): non-oil activity remained robust through Q3, but there are early signs that growth is losing momentum.
- [Rest of the Gulf](#): Kuwait has stepped up debt issuance as the government looks to loosen fiscal policy. But Oman and Bahrain will need to keep policy tight.
- [Rest of MENA](#): External strains are building in Algeria and Tunisia. A stronger external backdrop will allow Morocco to widen the dirham's trading band in 2026.

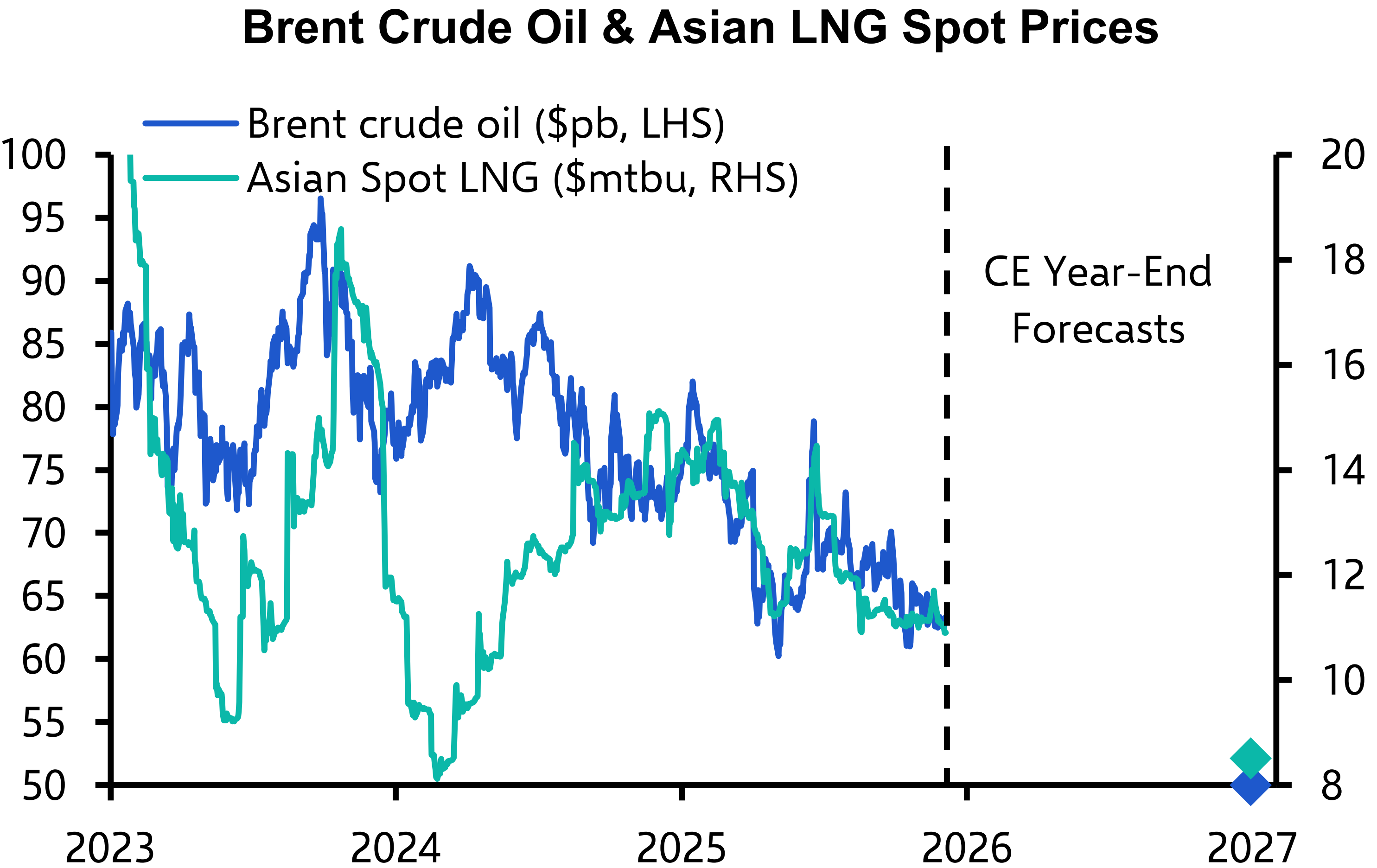
To see all our analysis on Middle East & North Africa's economy and details of our forecasts, visit our Middle East & North Africa [landing page](#).

The Gulf has increased oil output by 10% since April. We have pencilled in a further 10% increase over the course of 2026, largely driven by Saudi and the UAE.



Sources: OPEC+, Capital Economics

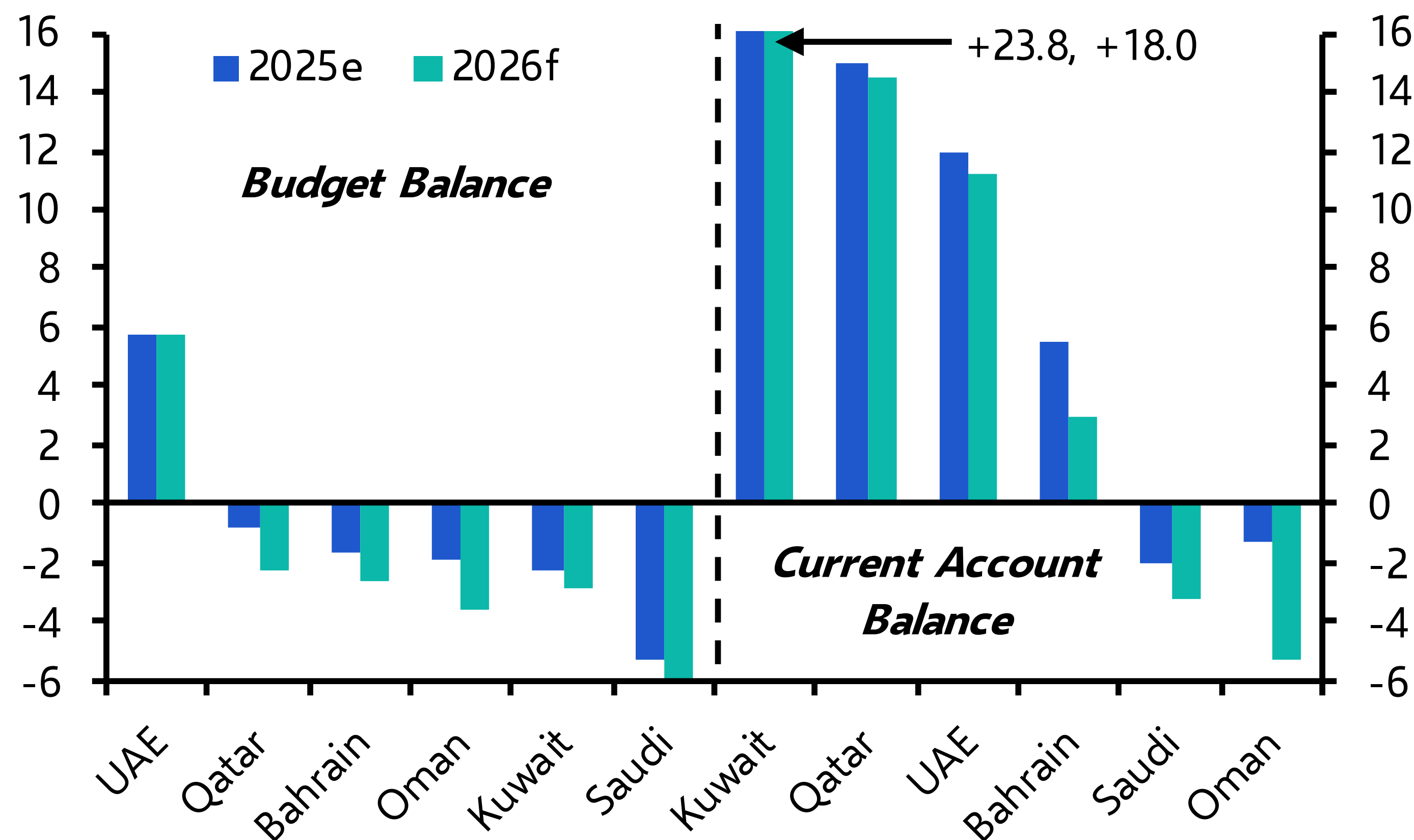
However, the increase in oil and LNG supplies will weigh on prices. We expect them to slide to their lowest levels in several years.



Sources: JP Morgan, LSEG Data & Analytics

Lower energy prices will more than offset higher volumes and, in turn, hydrocarbon export receipts will fall. Budget and current account balances are set to deteriorate.

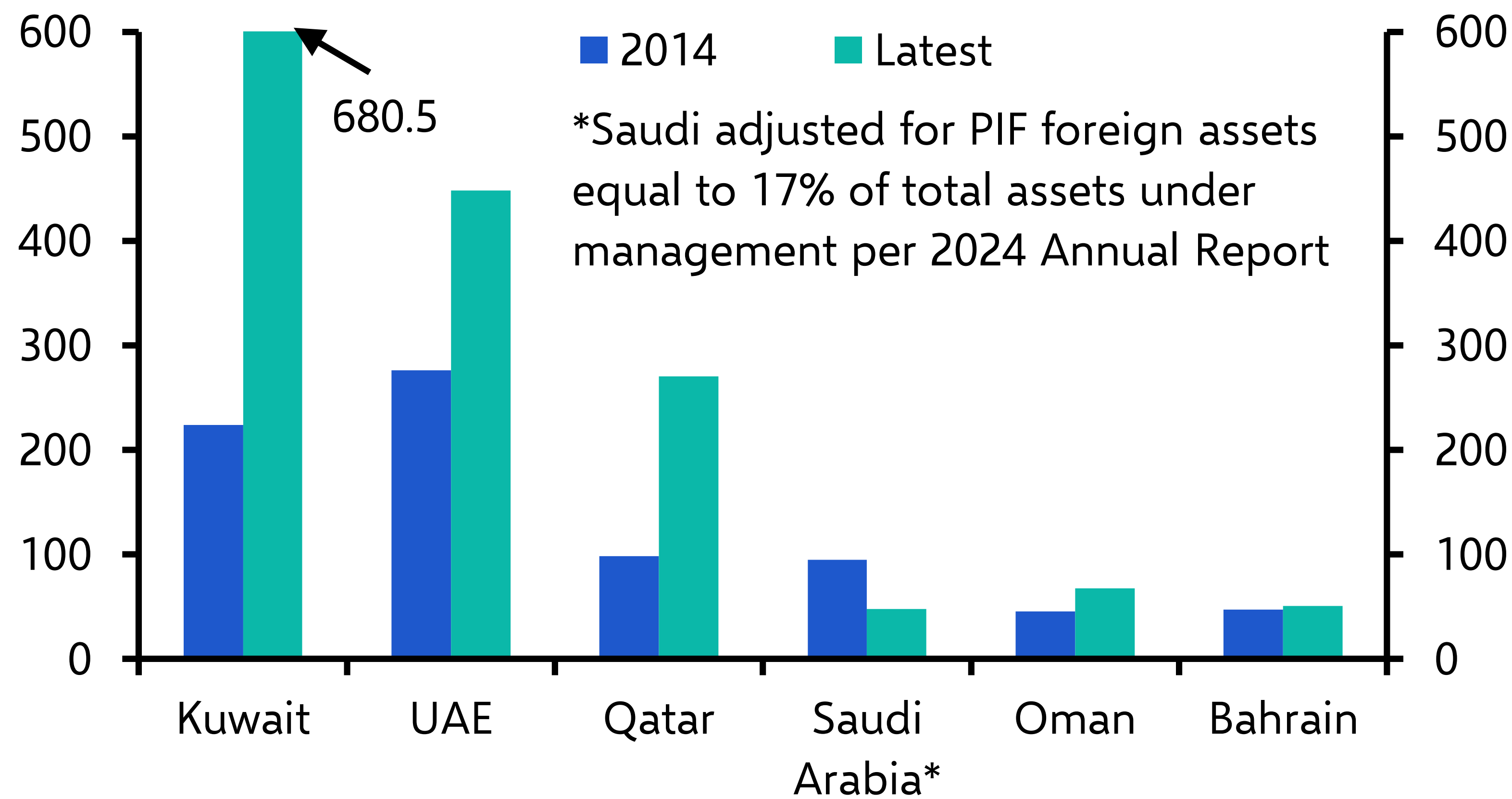
JP Morgan EMBI Dollar Bond Spreads over US Treasuries (bp, Change)



Sources: JP Morgan, LSEG Data & Analytics

Most Gulf states hold large FX assets, ensuring that dollar pegs will remain intact. However, fiscal policy will need to be tightened in Saudi and Bahrain in particular.

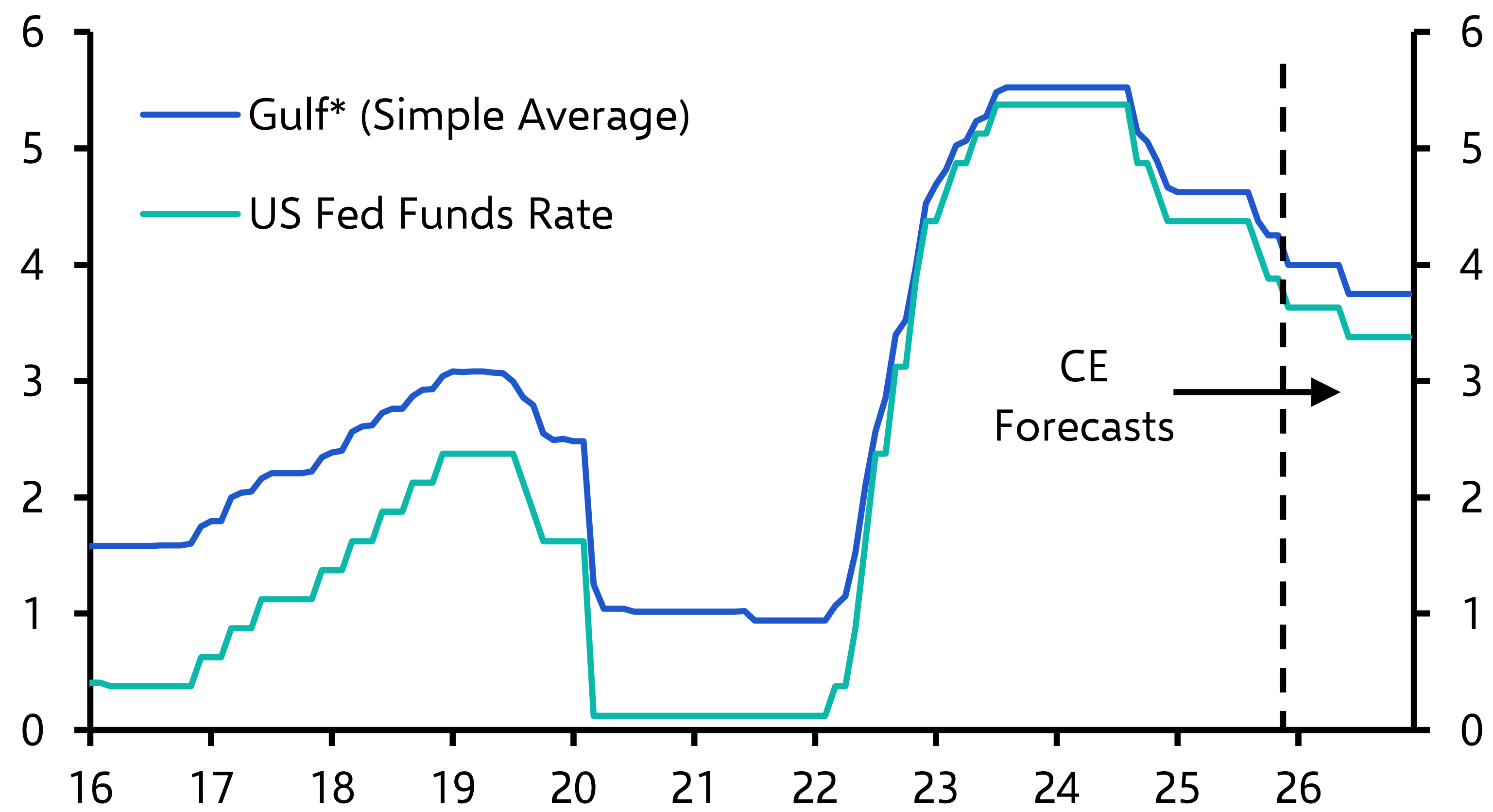
Sovereign Wealth Fund FX Assets & Central Bank FX Reserves (% of GDP)



Sources: JP Morgan, LSEG Data & Analytics

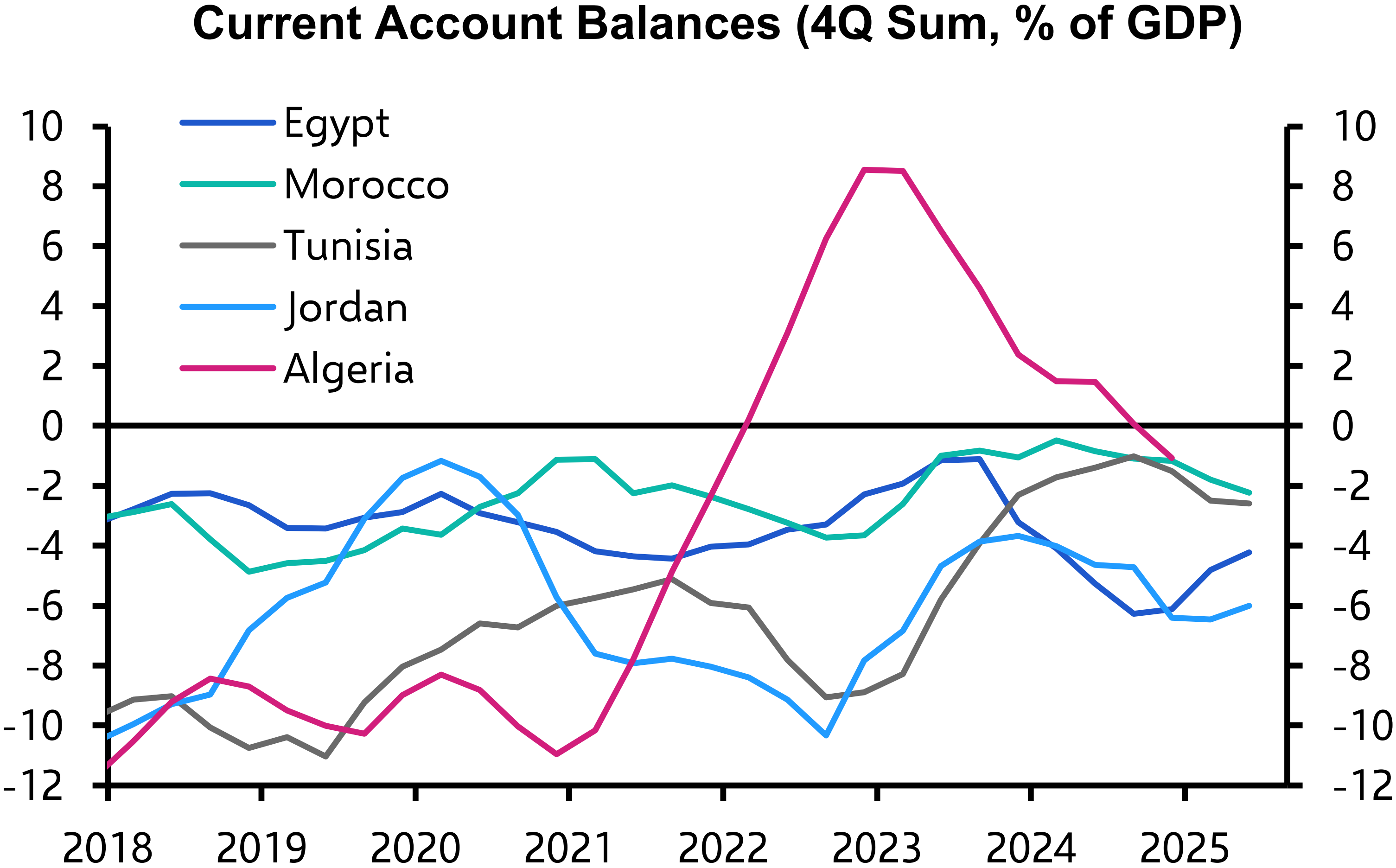
We expect the US Fed will cut interest rates by 25bp this month and for one further cut in 2026. By virtue of dollar pegs, Gulf central banks will follow suit.

Gulf* Central Bank Policy Rates & US Federal Funds Rate (%)



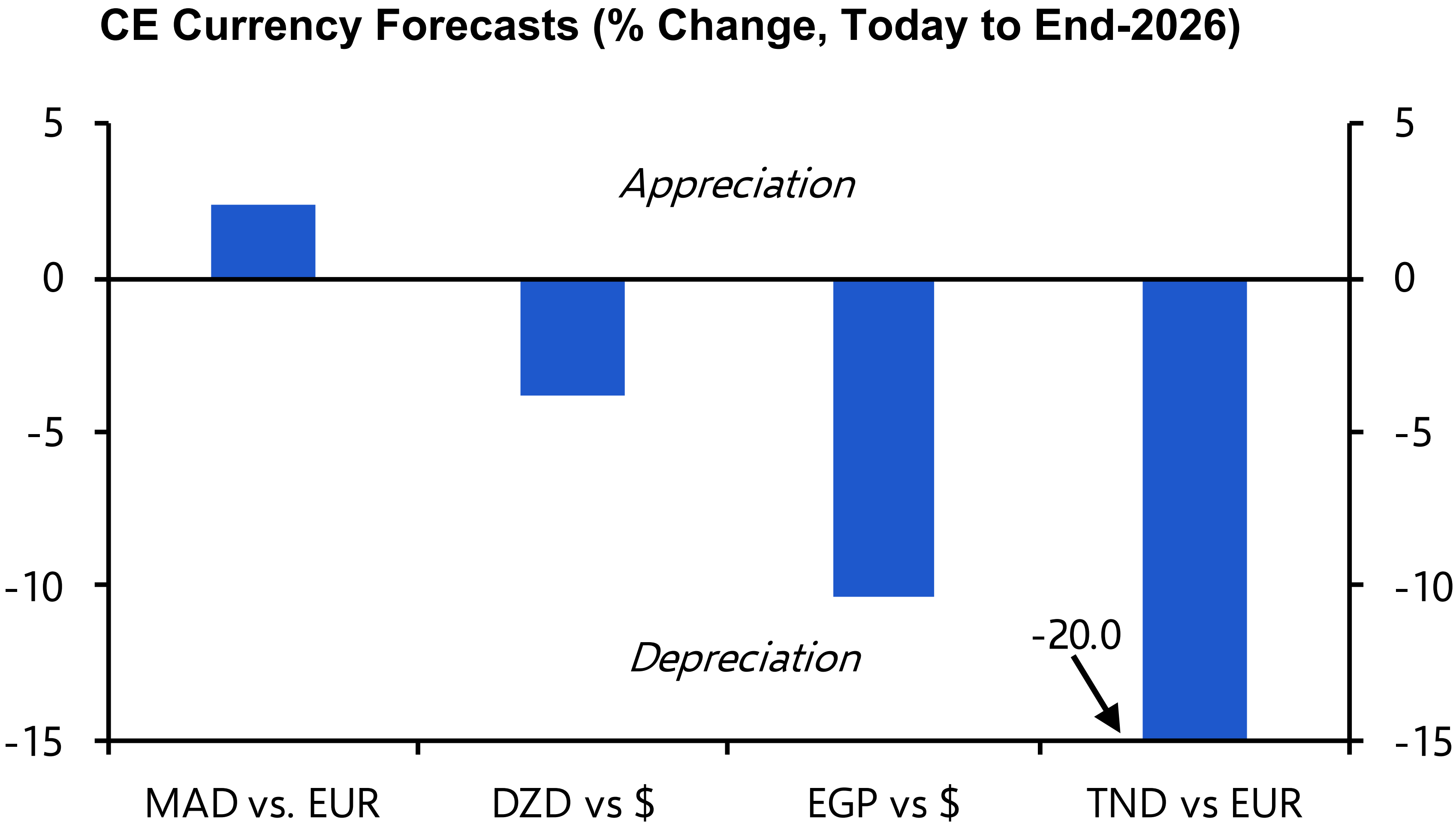
Sources: CEIC, US Federal Reserve, LSEG Data & Analytics, Capital Economics

While current account deficits have widened in most economies this year, external strains should ease in Egypt and Morocco through 2026.



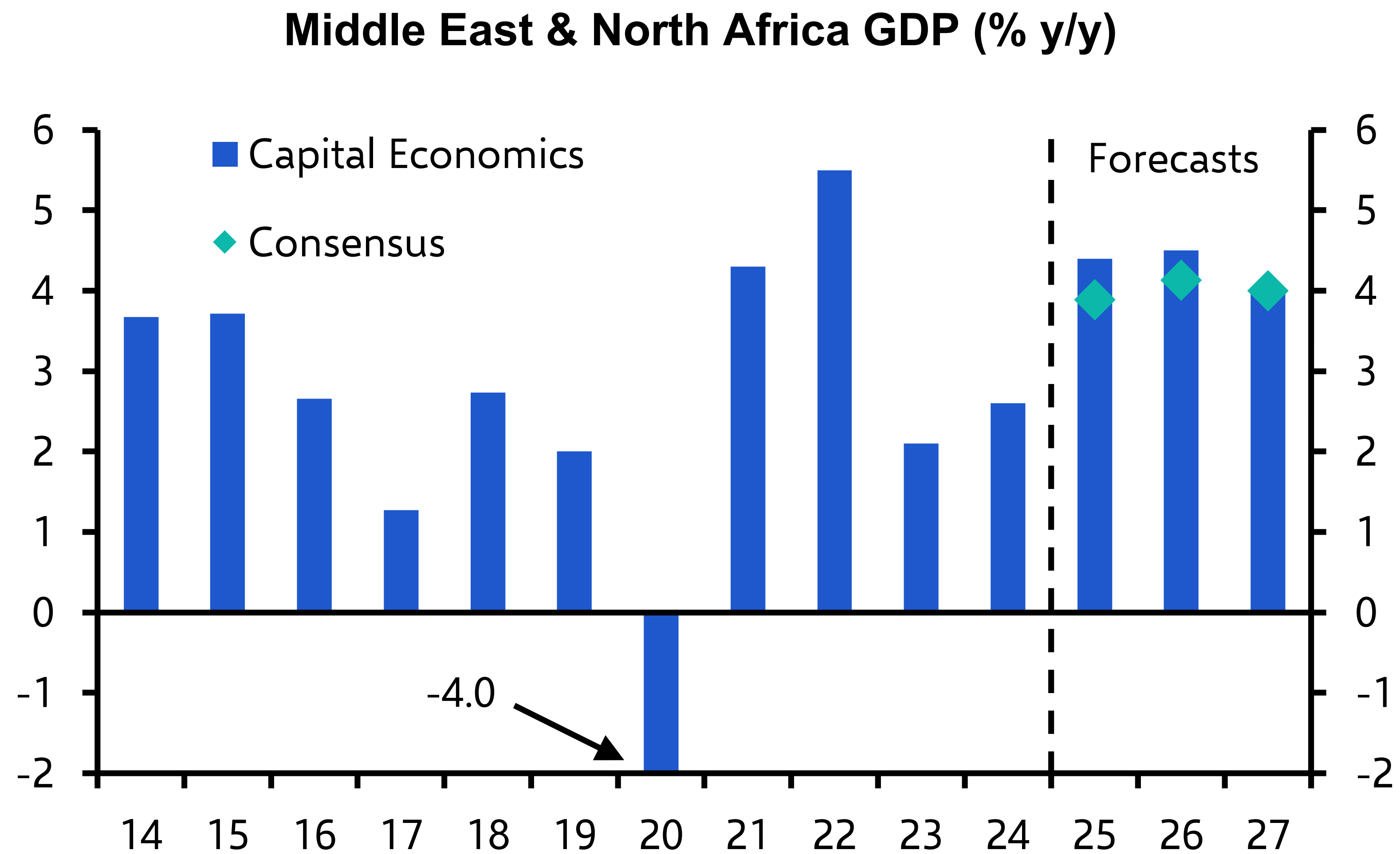
Sources: CEIC, LSEG Data & Analytics

Easing external strains should limit falls in the pound next year. However, larger vulnerabilities in Tunisia could lead to a larger fall in the dinar.



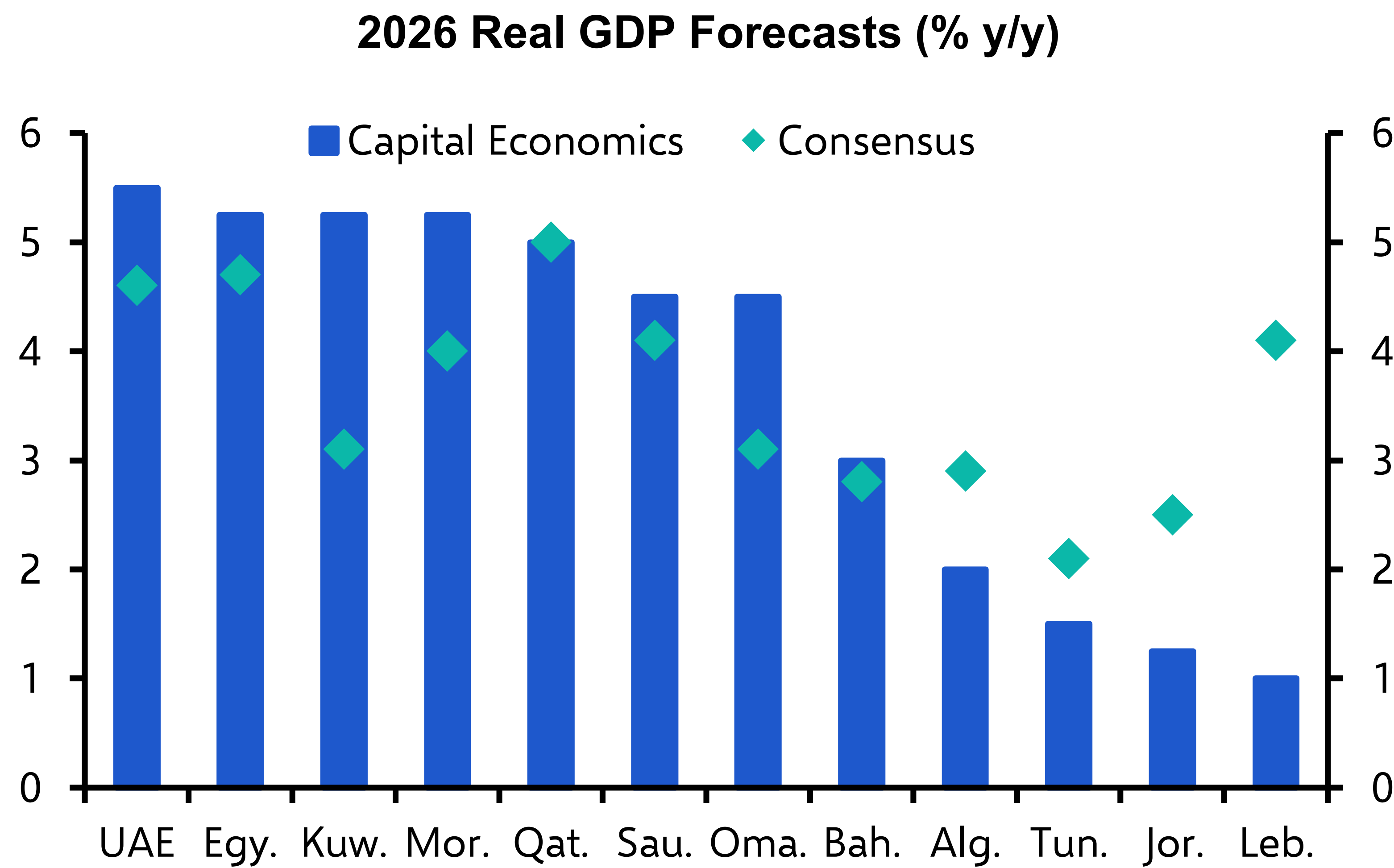
Sources: LSEG Data & Analytics, Capital Economics

We expect the region to record a pick-up in GDP growth to 4.5% y/y in 2026, which would be the fastest pace of growth recorded (outside of the pandemic) since 2011.



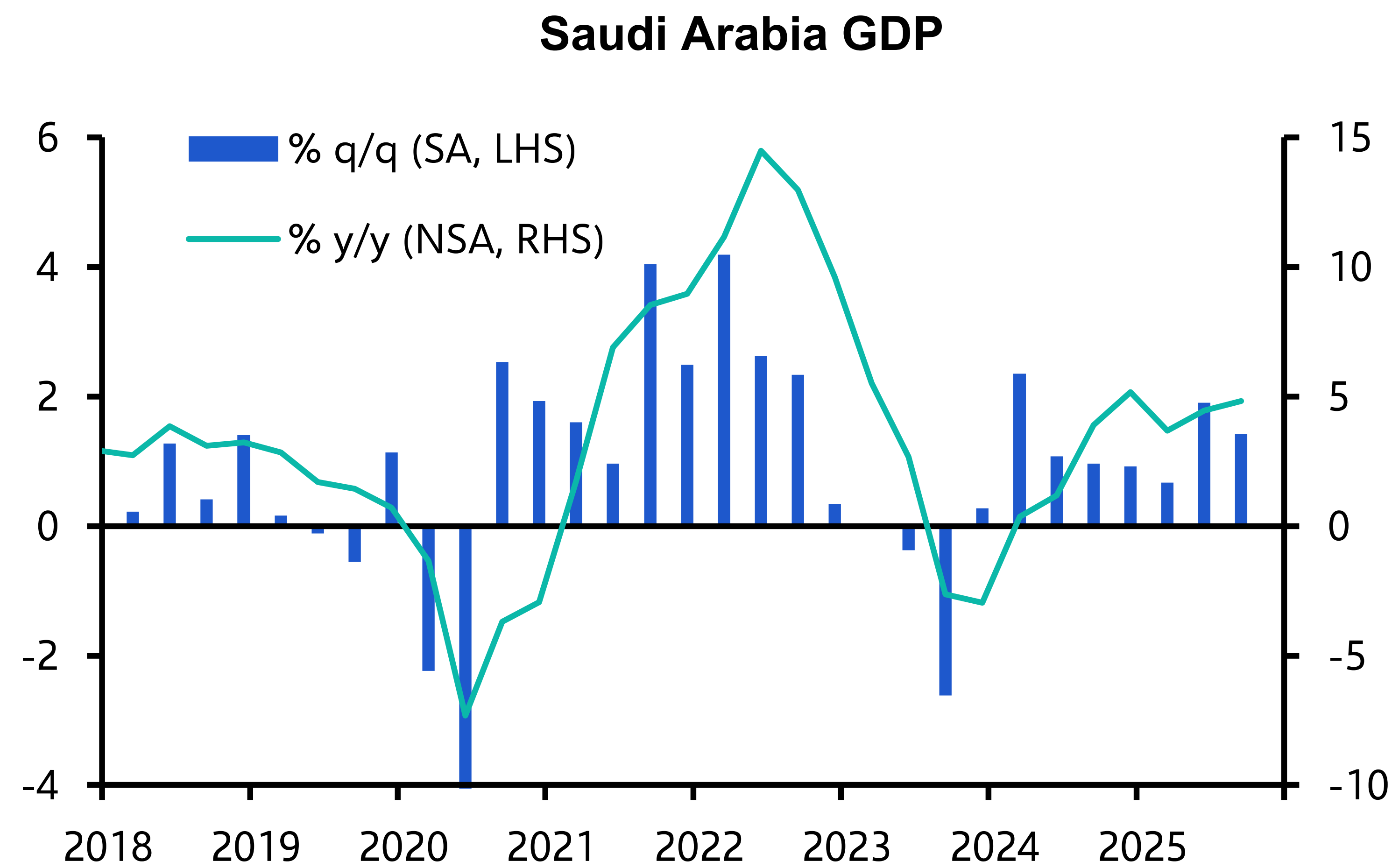
Sources: LSEG Data & Analytics, CEIC, FocusEconomics, Capital Economics

At a country level, we are most optimistic on many of the Gulf states due to rising oil output. In Egypt and Morocco, we think their export sectors will drive faster growth.



Sources: CEIC, FocusEconomics, Capital Economics

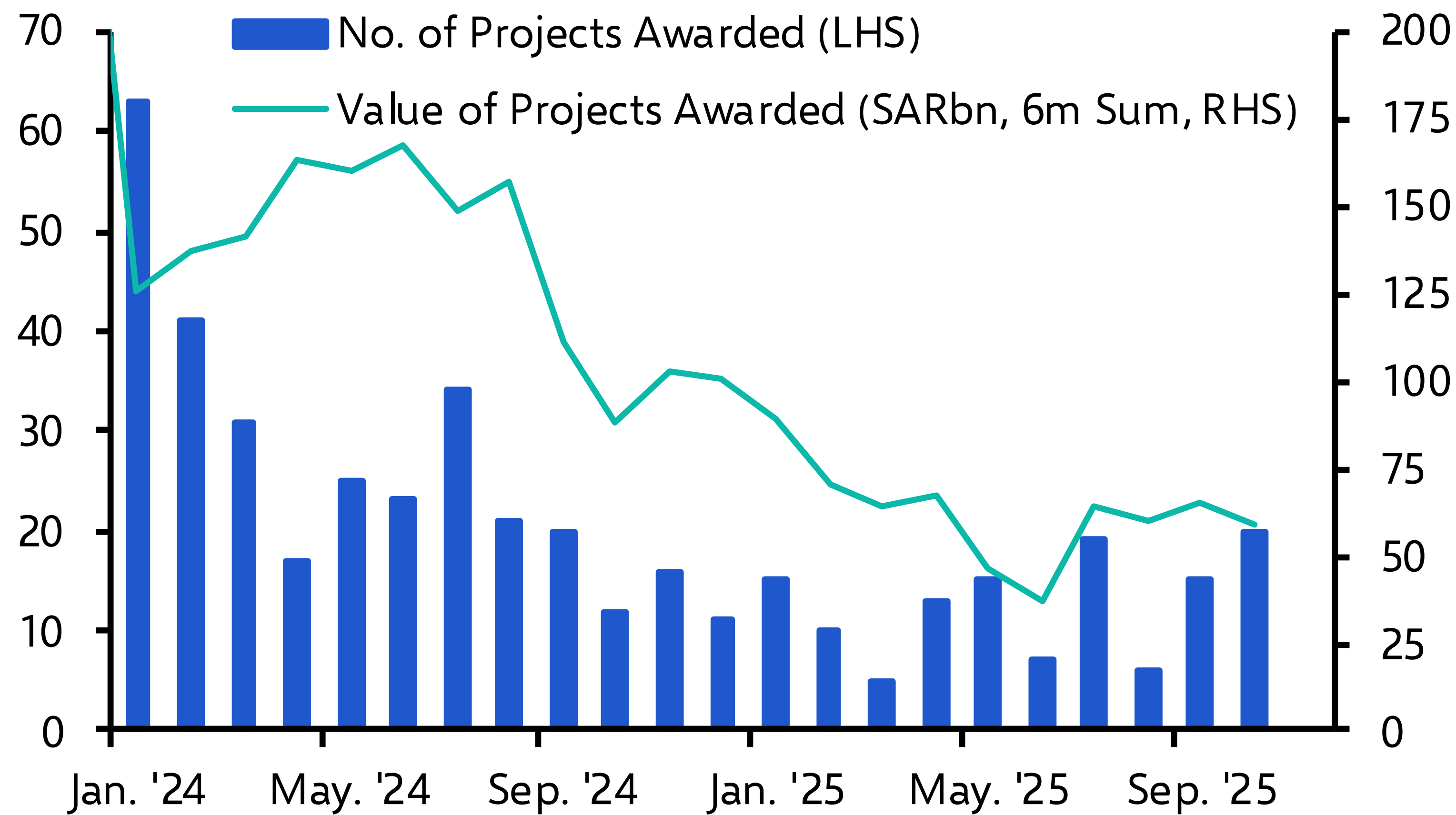
Saudi's Q3 GDP estimate showed a slight softening in growth from 1.7% q/q in Q2 to 1.4%. This translated into growth of 4.8% y/y.



Sources: General Authority for Statistics, CEIC

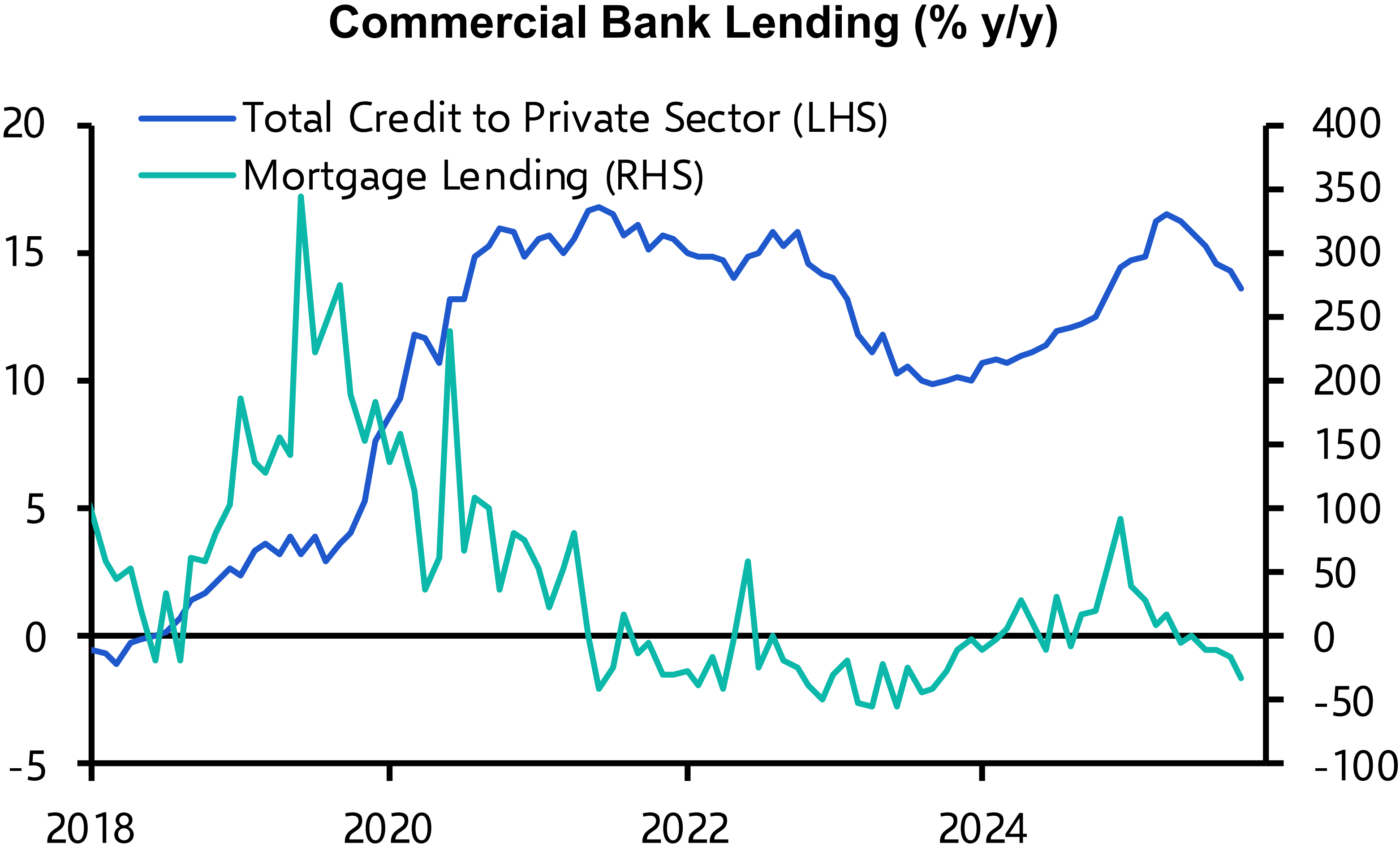
While there were slightly more projects awarded in September, activity remains depressed by recent standards amid government-mandated spending cuts.

Projects Awarded by the Saudi Contractors Authority



Source: Saudi Contractors Authority

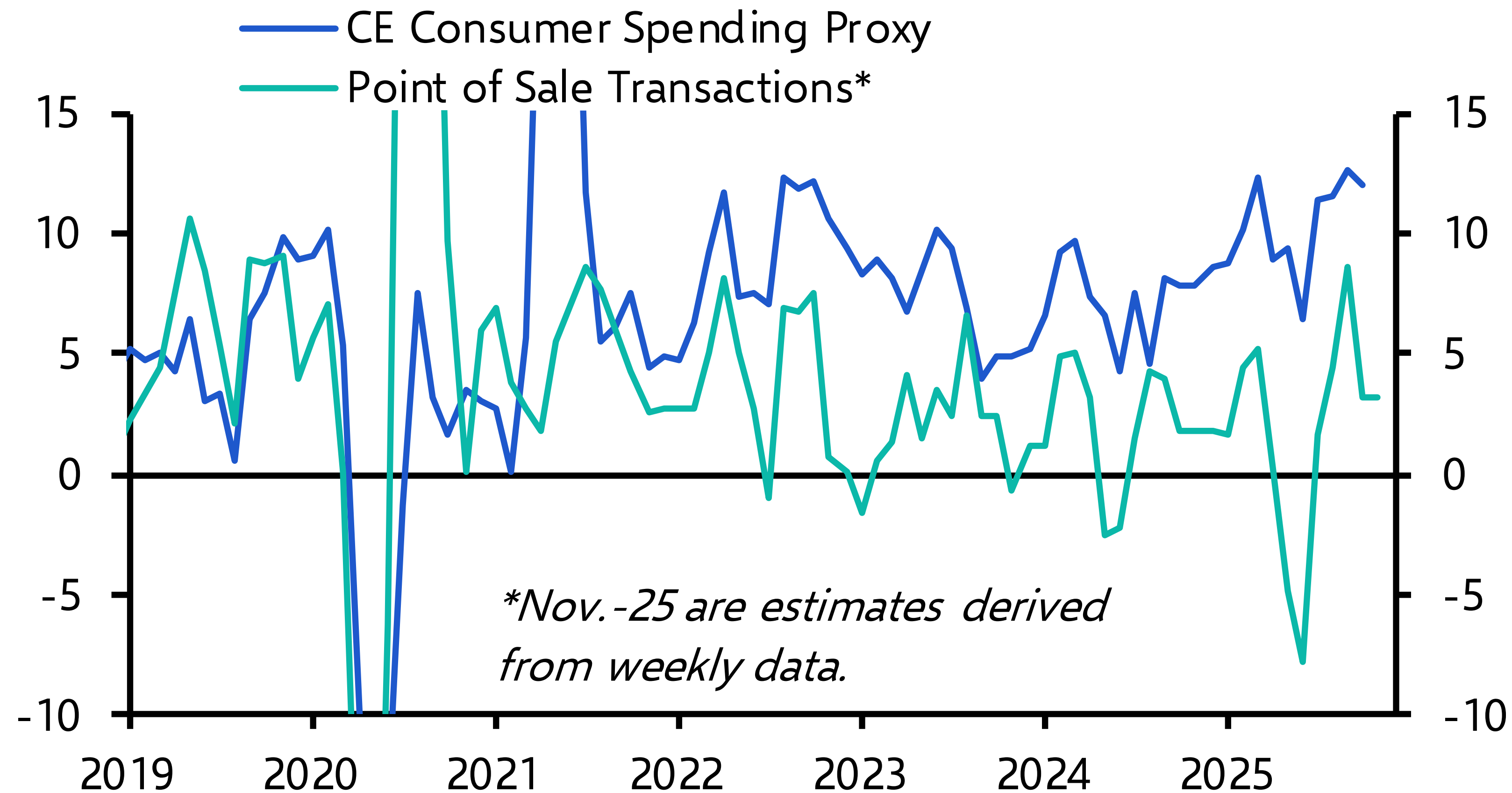
Private credit growth slowed to a one-year low in October, which was partly due to weak mortgage demand.



Sources: Saudi Central Bank, CEIC

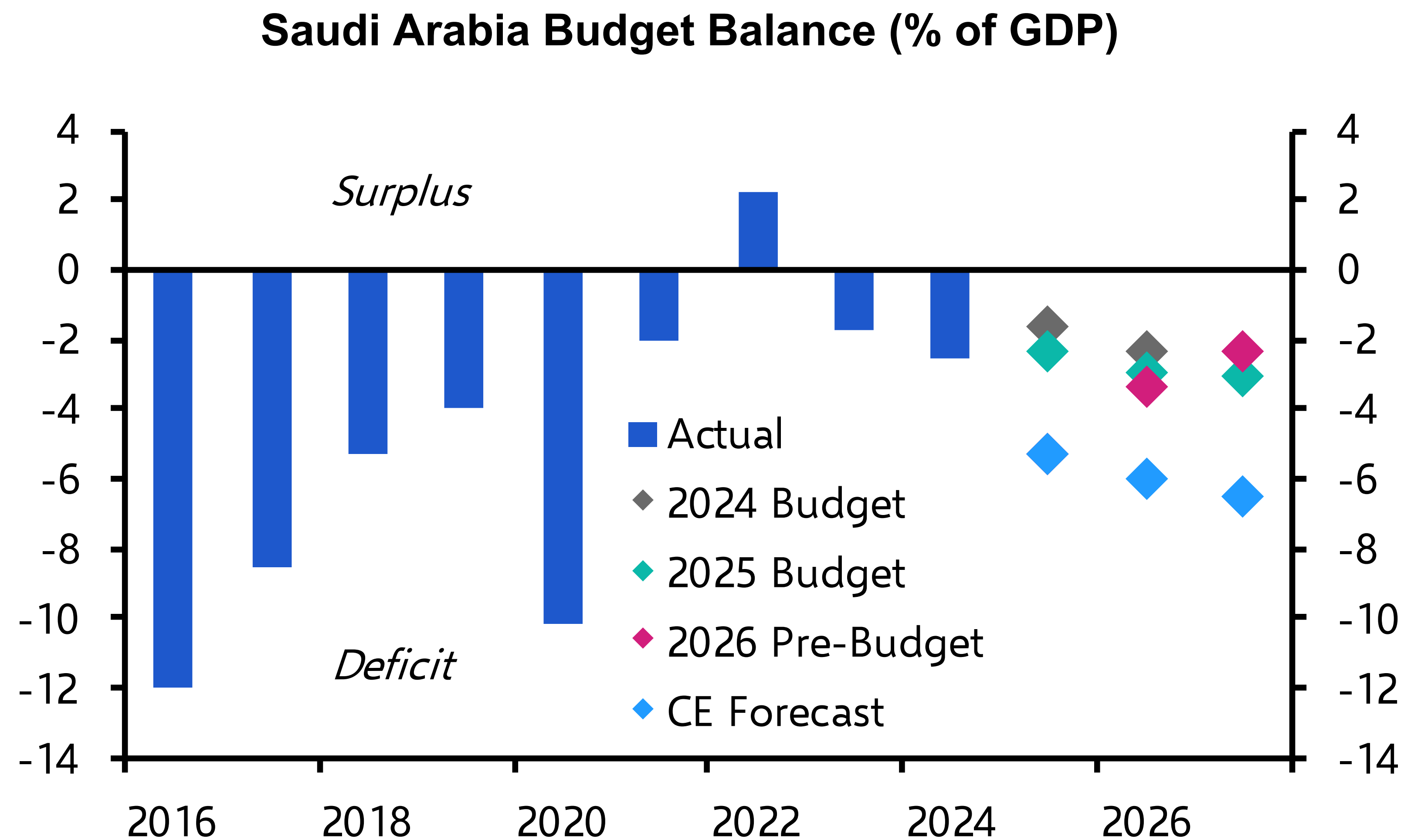
Our proxy showed a slightly softer pace of growth in consumer spending in October, and more timely point of sale transactions data point to a further slowdown.

CE Saudi Arabia Consumer Spending Proxy & Point of Sale Transactions (% 3m/3m, SA)



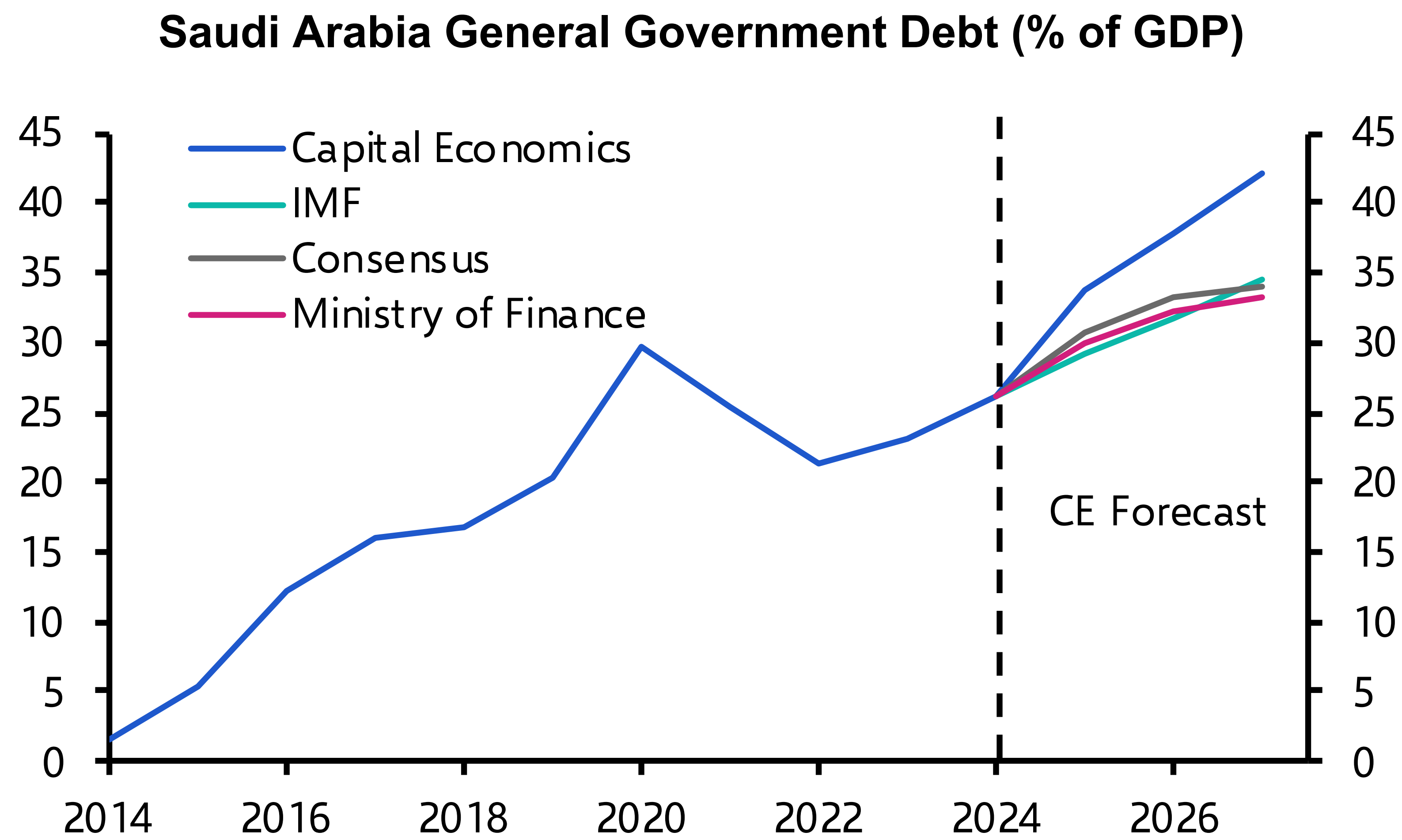
Sources: Saudi Central Bank, CEIC, Capital Economics

The 2026 Budget was approved and reaffirmed fiscal consolidation which will weigh on non-oil growth. Even so, lower oil prices mean that the deficit is still set to widen.



Sources: Saudi Arabia Ministry of Finance, CEIC, Capital Economics

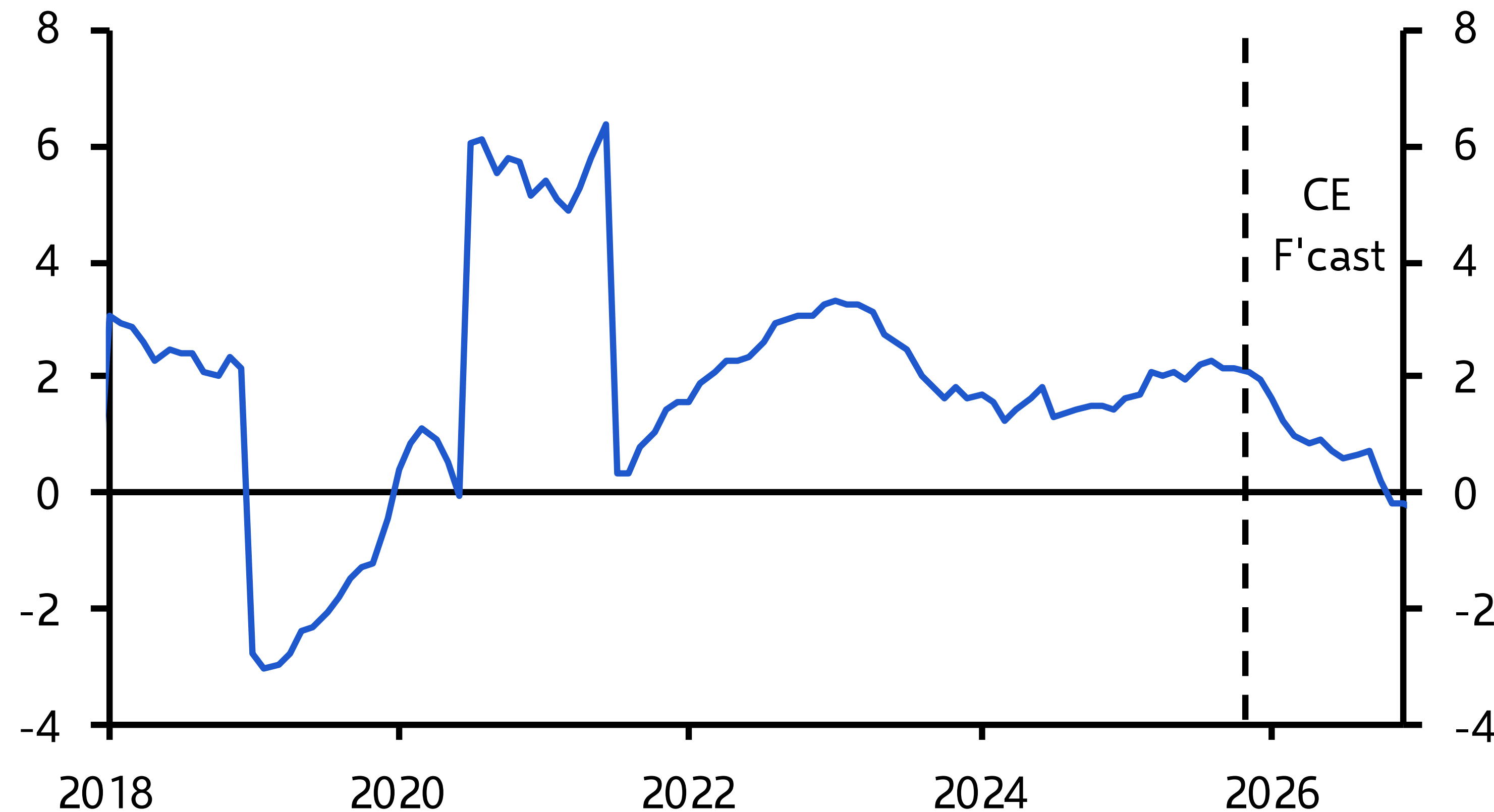
Continued large budget deficits mean that Saudi Arabia’s public debt-to-GDP ratio is likely to climb faster than others anticipate.



Sources: Saudi Arabia Ministry of Finance, IMF, CEIC, FocusEconomics, Capital Economics

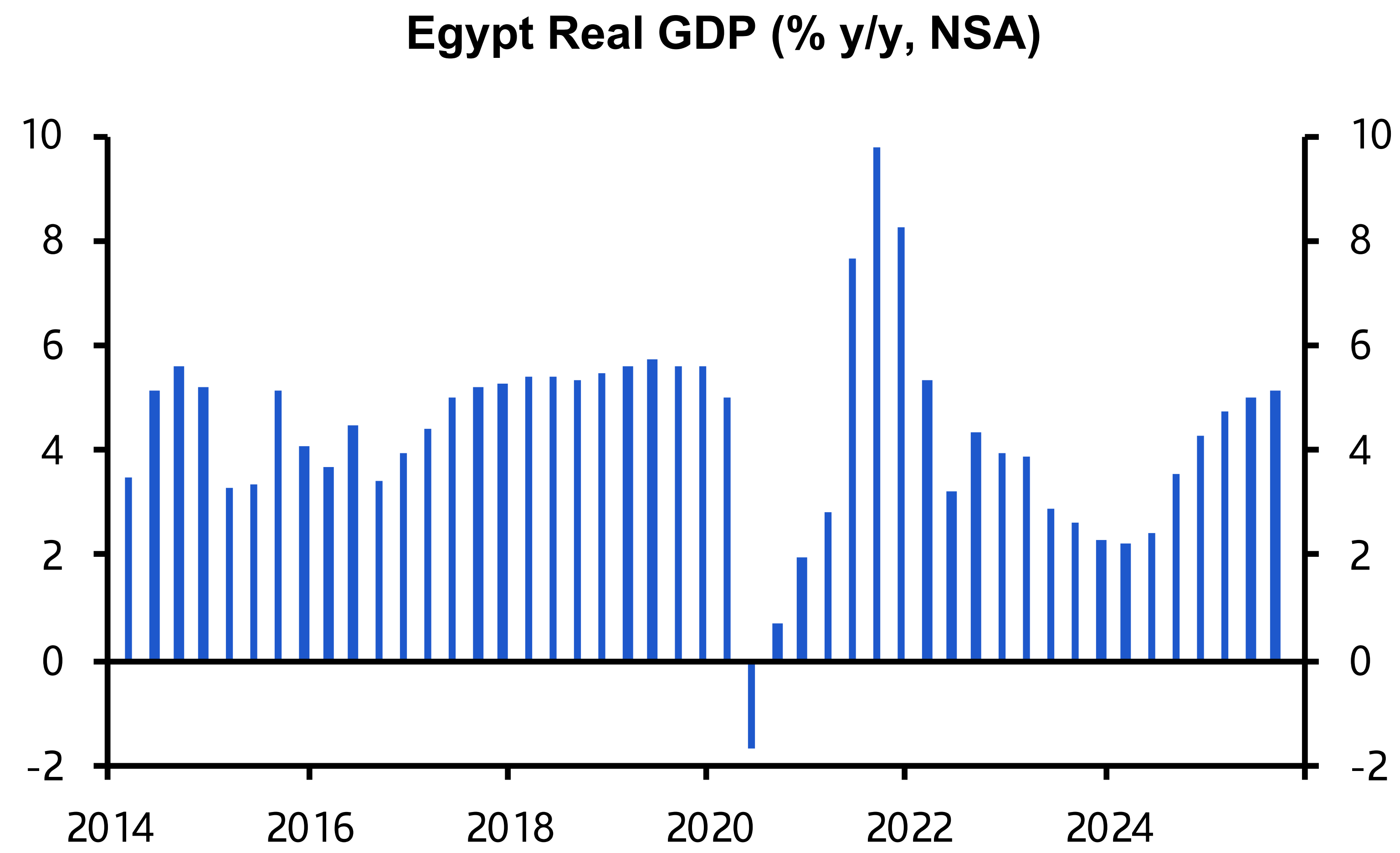
Saudi's inflation rate was unchanged at 2.2% y/y in October, but we expect it to slow in 2026 and the Kingdom may even enter deflation by the end of the year.

Saudi Arabia Consumer Prices (% y/y)



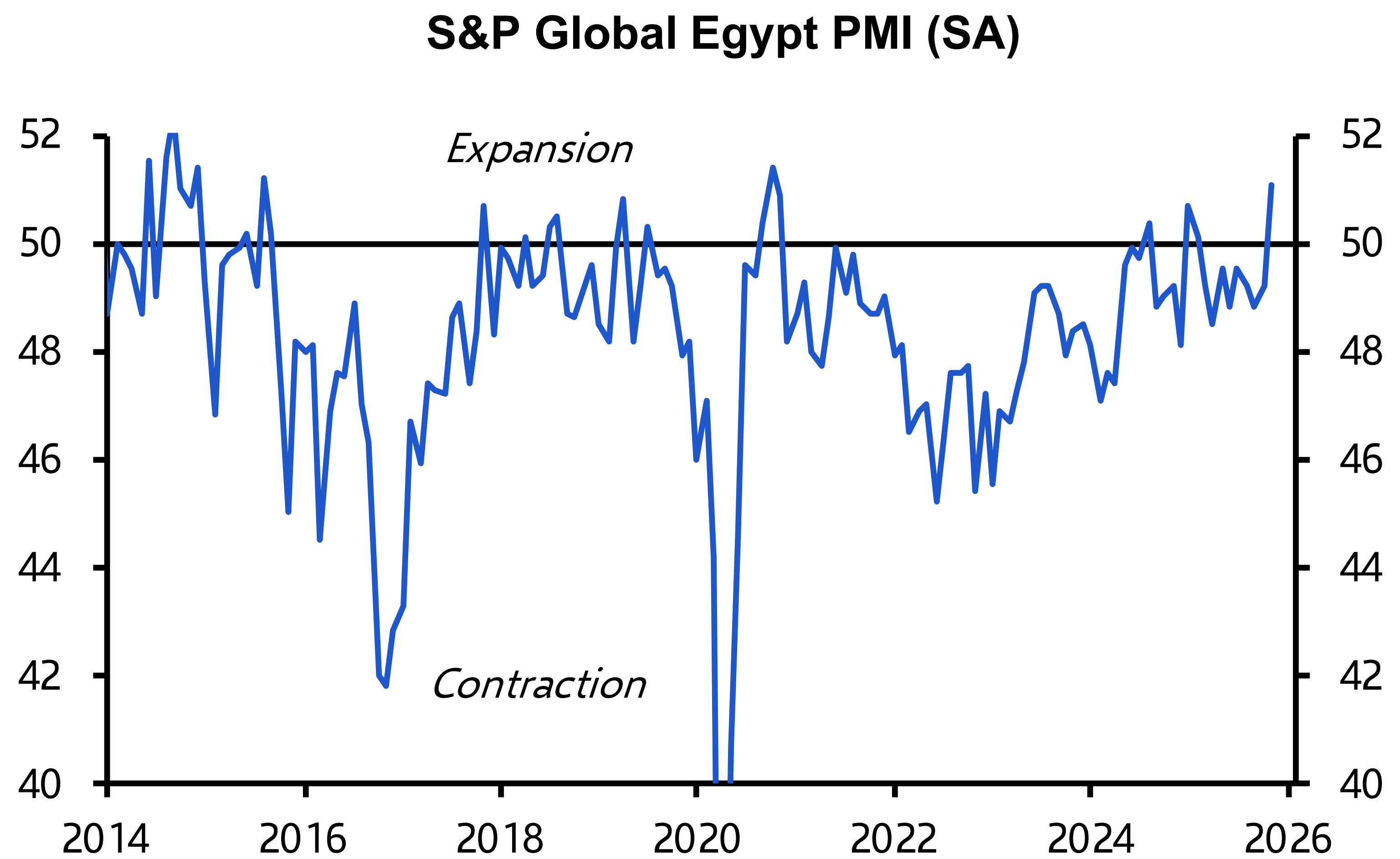
Sources: General Authority for Statistics, CEIC, Capital Economics

Egypt's economy grew by 5.3% y/y in Q3 which, outside of the pandemic rebound, is the fastest pace recorded since 2019.



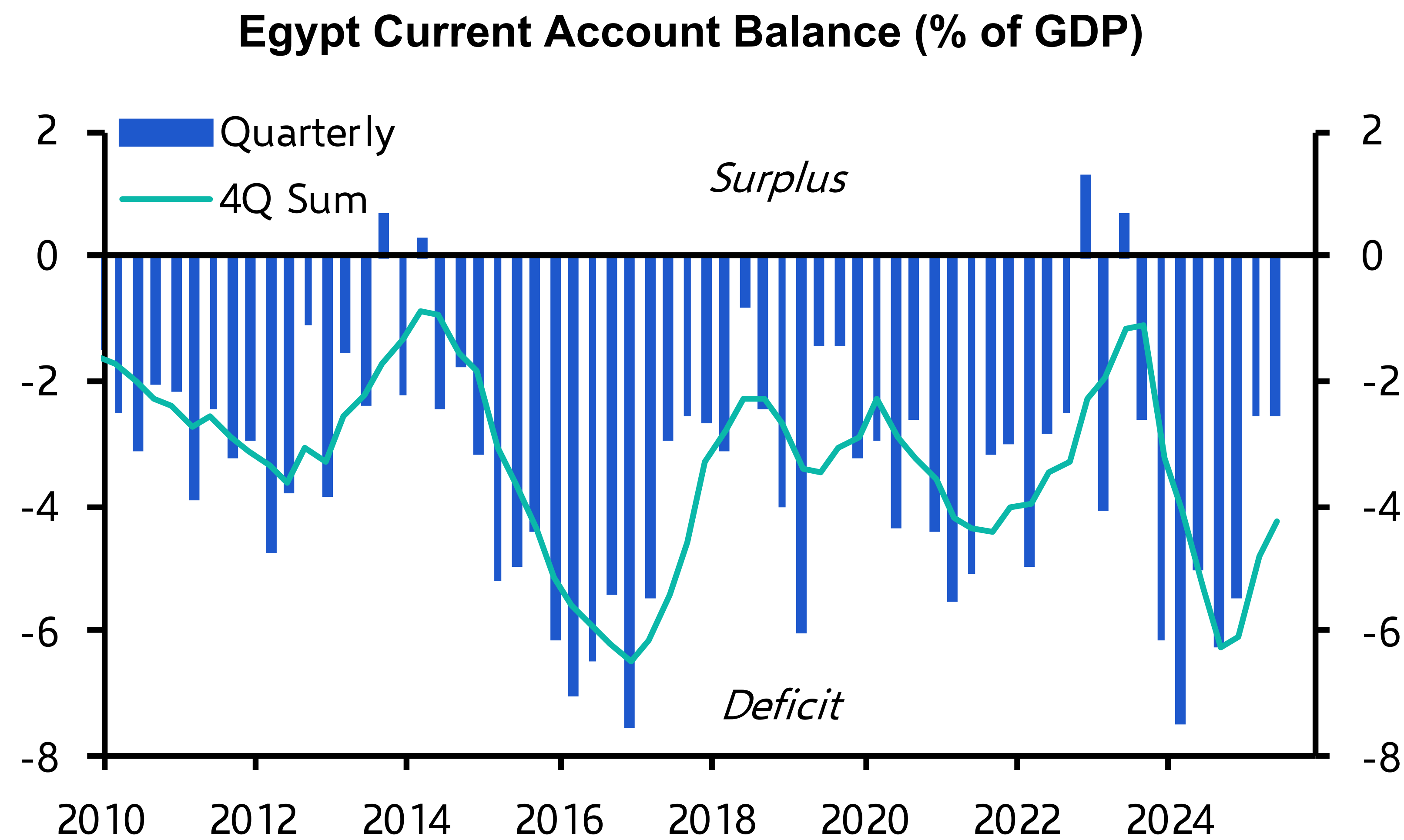
Sources: Egypt Ministry of Planning & Economic Development, CAPMAS, CEIC

Egypt's PMI climbed to a five-year high in November on the back of stronger external demand. There were further signs of easing price pressures too.



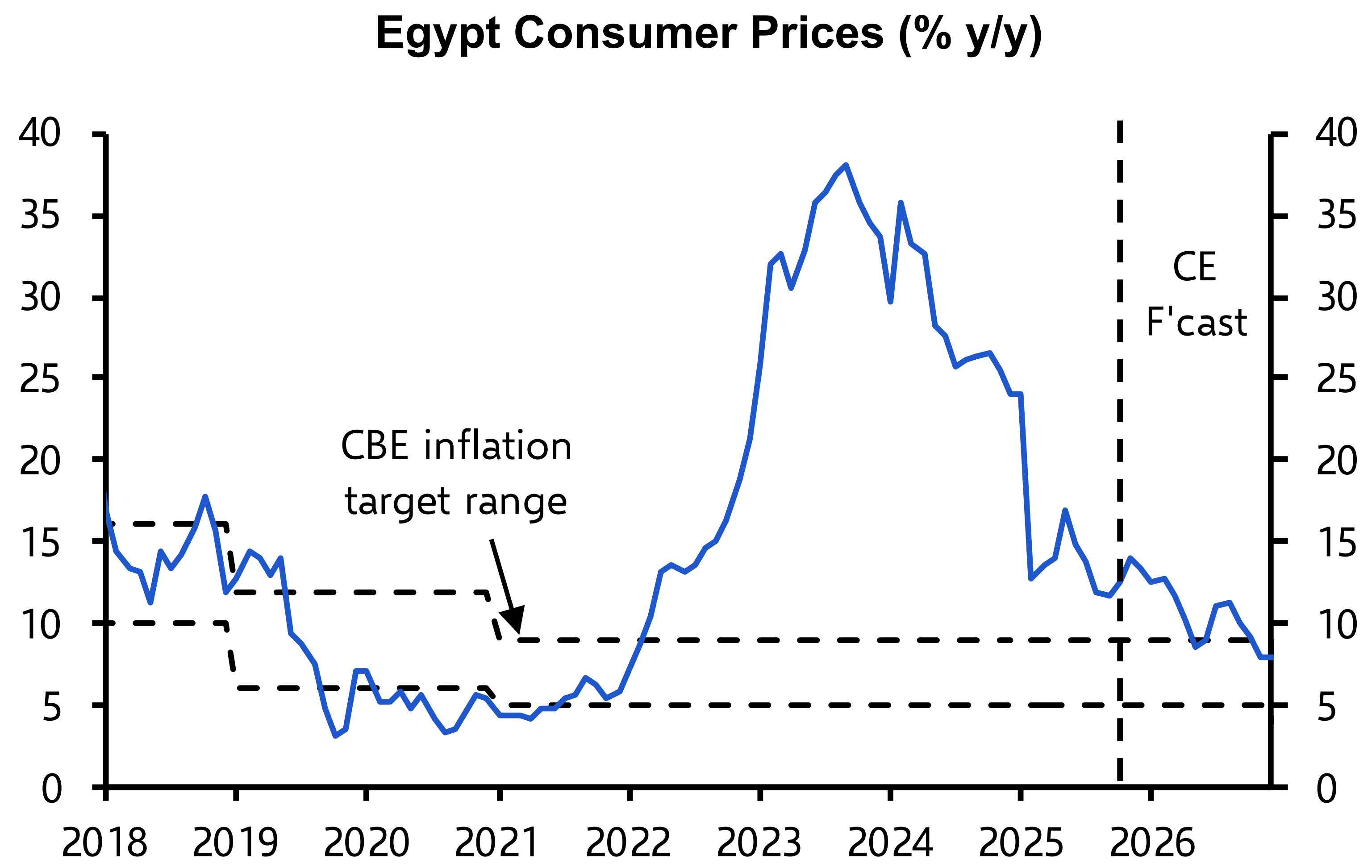
Sources: S&P Global, LSEG Data & Analytics

Egypt's improved competitiveness has helped to narrow the current account deficit. Strong exports and the return of Suez Canal receipts will help it improve further.



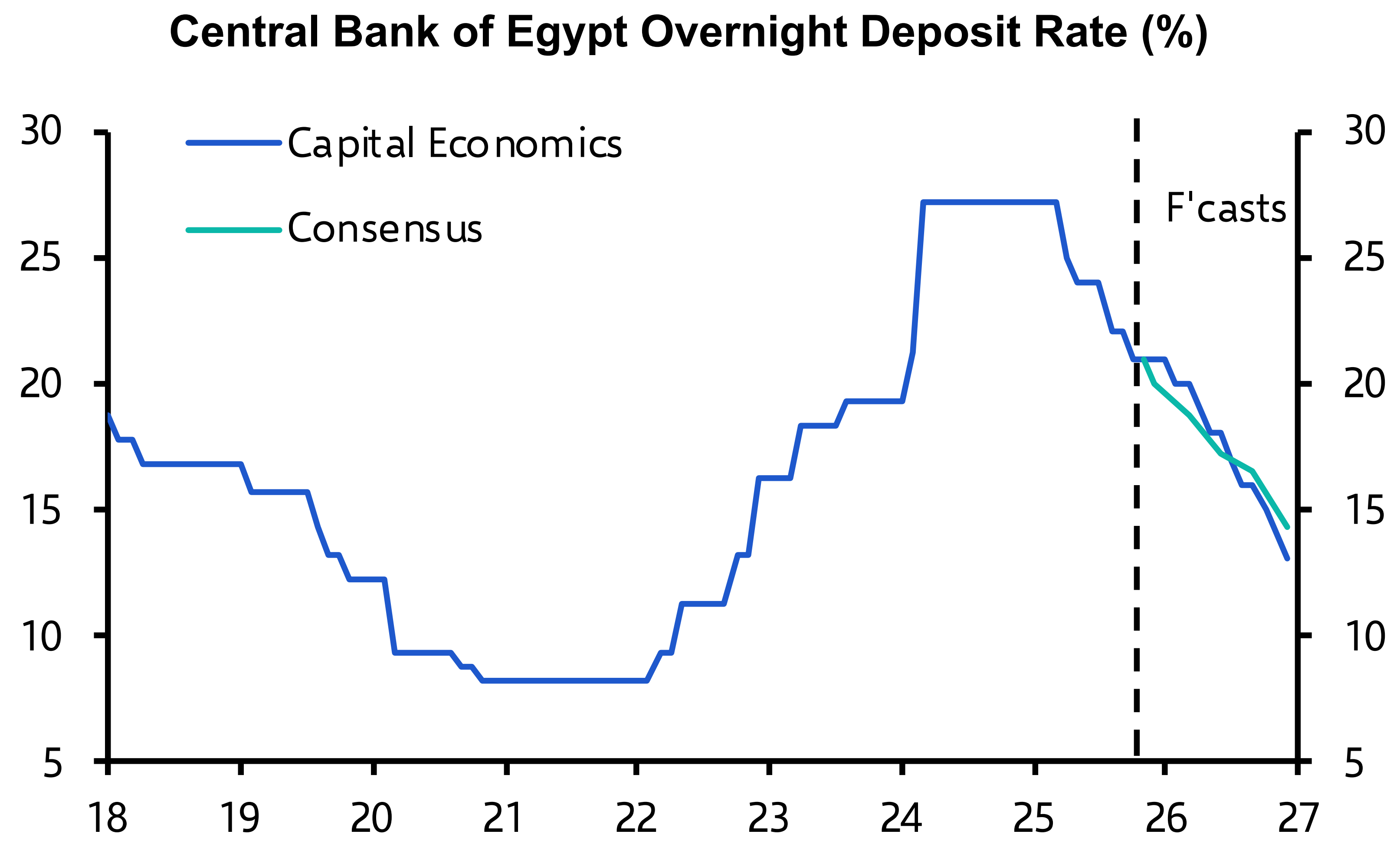
Sources: Central Bank of Egypt, CAPMAS, CEIC

Egypt's inflation rate rose to 12.5% y/y in October on the back of increased rental price pressures. We think it climbed further in November, but disinflation will resume in 2026.



Sources: CAPMAS, Central Bank of Egypt, CEIC, Capital Economics

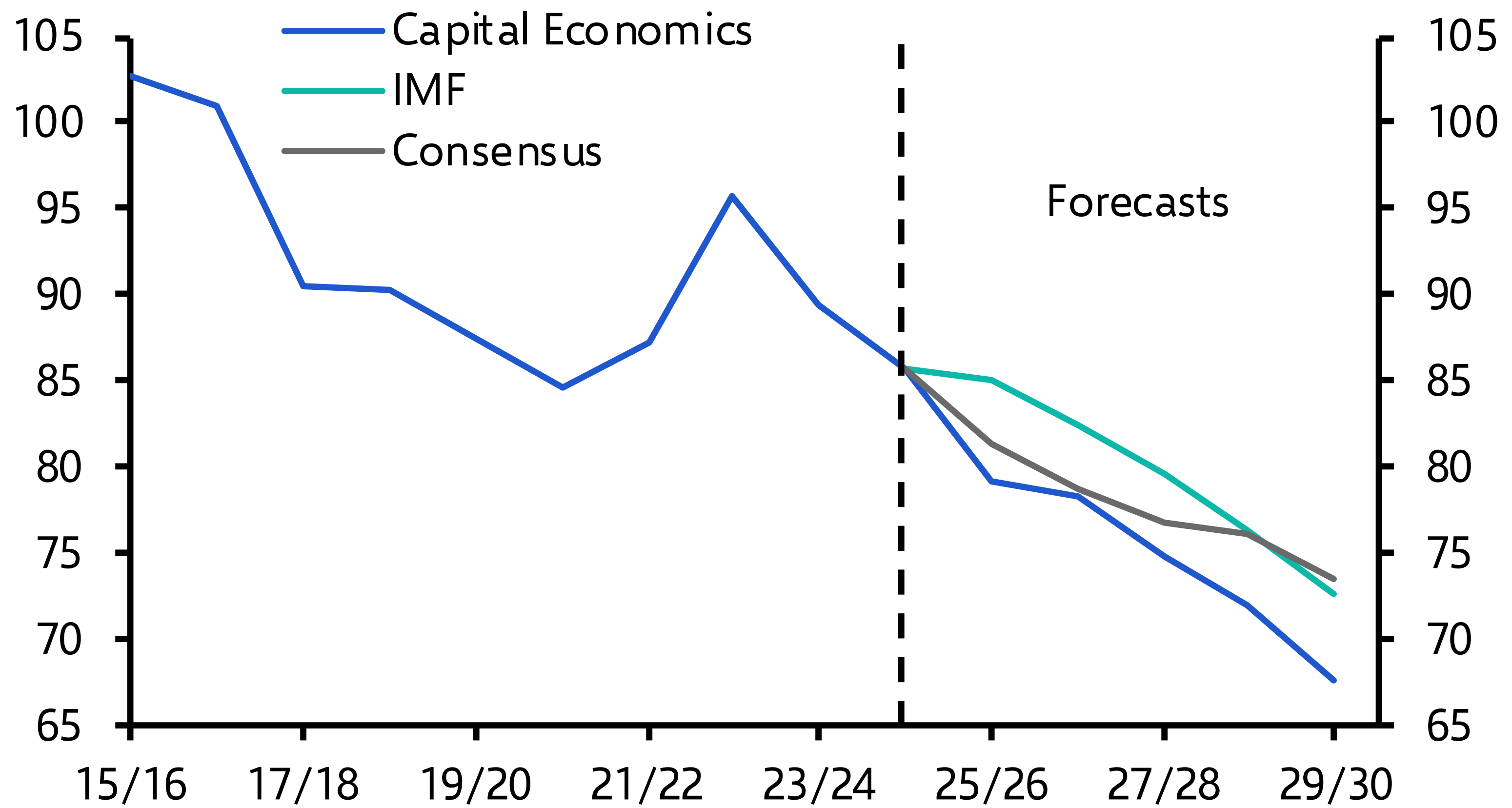
As inflation converges back to the CBE's target range of $7\pm 2\%$, this will provide policymakers the room to resume the monetary easing cycle in Q1 next year.



Source: Central Bank of Egypt, CEIC, FocusEconomics, Capital Economics

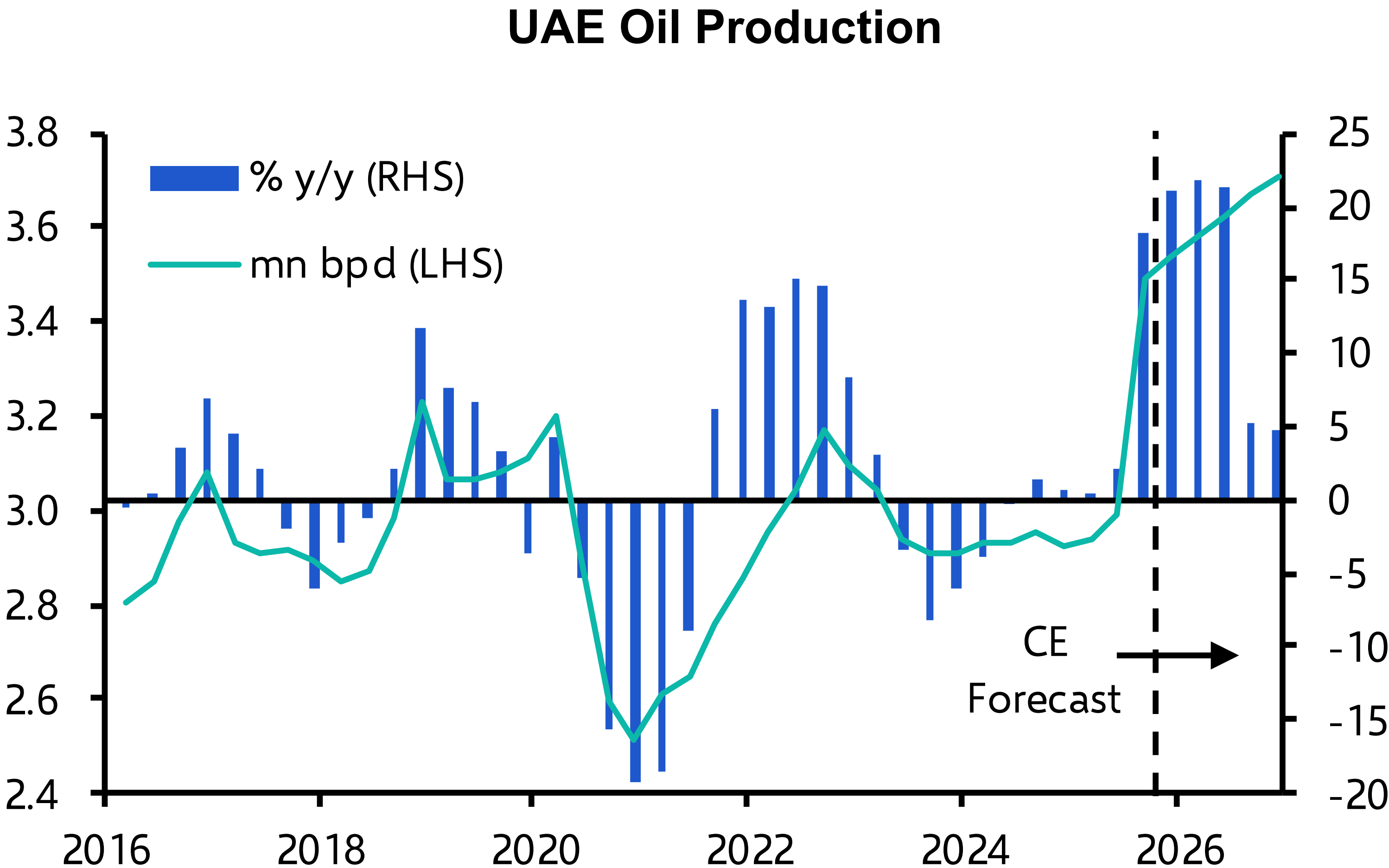
Tight fiscal policy and falling bond yields are improving Egypt's debt dynamics. We project the debt-to-GDP ratio to continue to decline toward 70% over the coming years.

Egypt General Government Debt (% of GDP, Fiscal Years)



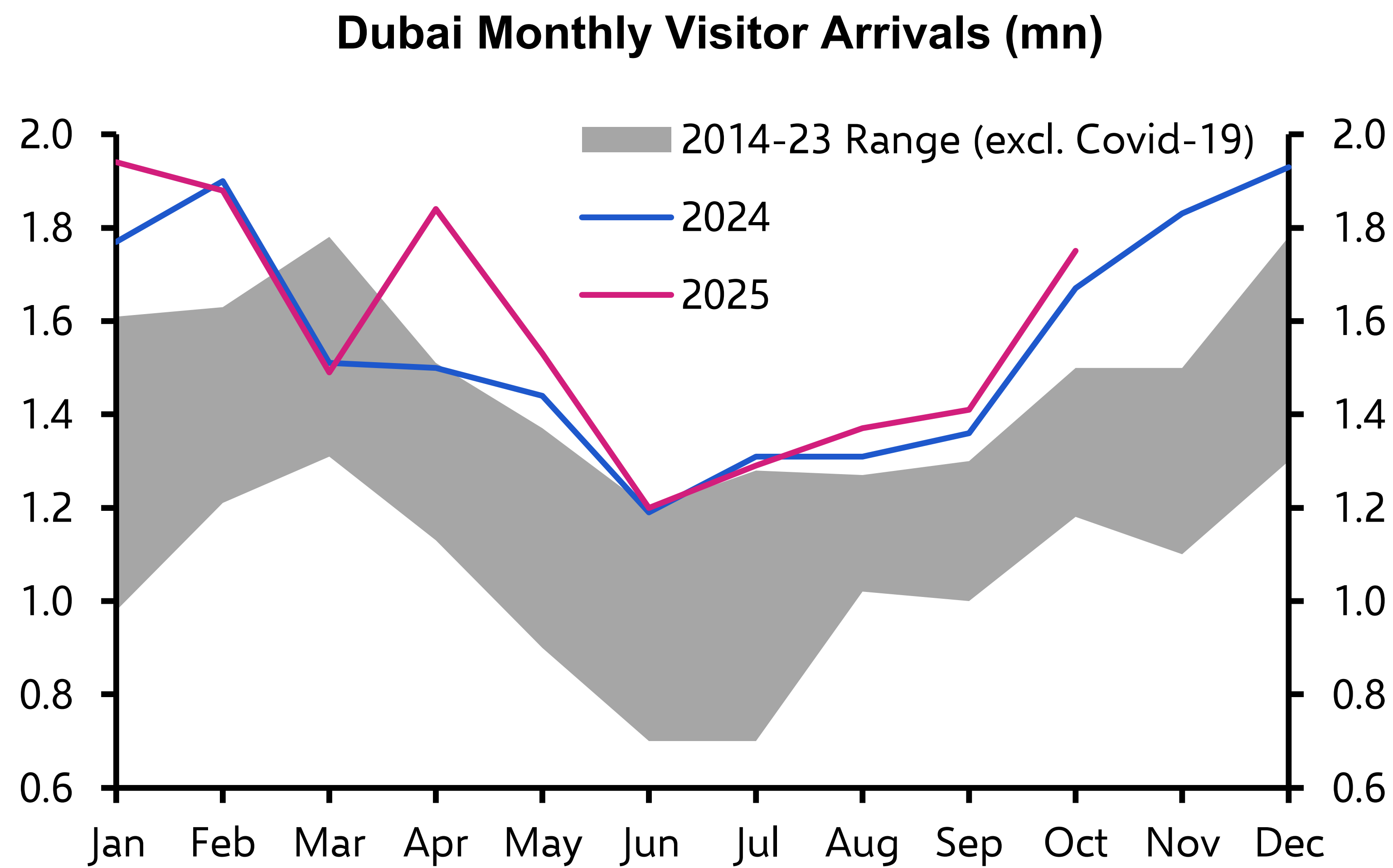
Source: Egypt Ministry of Finance, IMF, CEIC, FocusEconomics, Capital Economics

The UAE raised its oil output to 3.4mn bpd in October – it has hiked output a lot faster since April (13.8%) relative to the other Gulf states. This will continue in 2026.



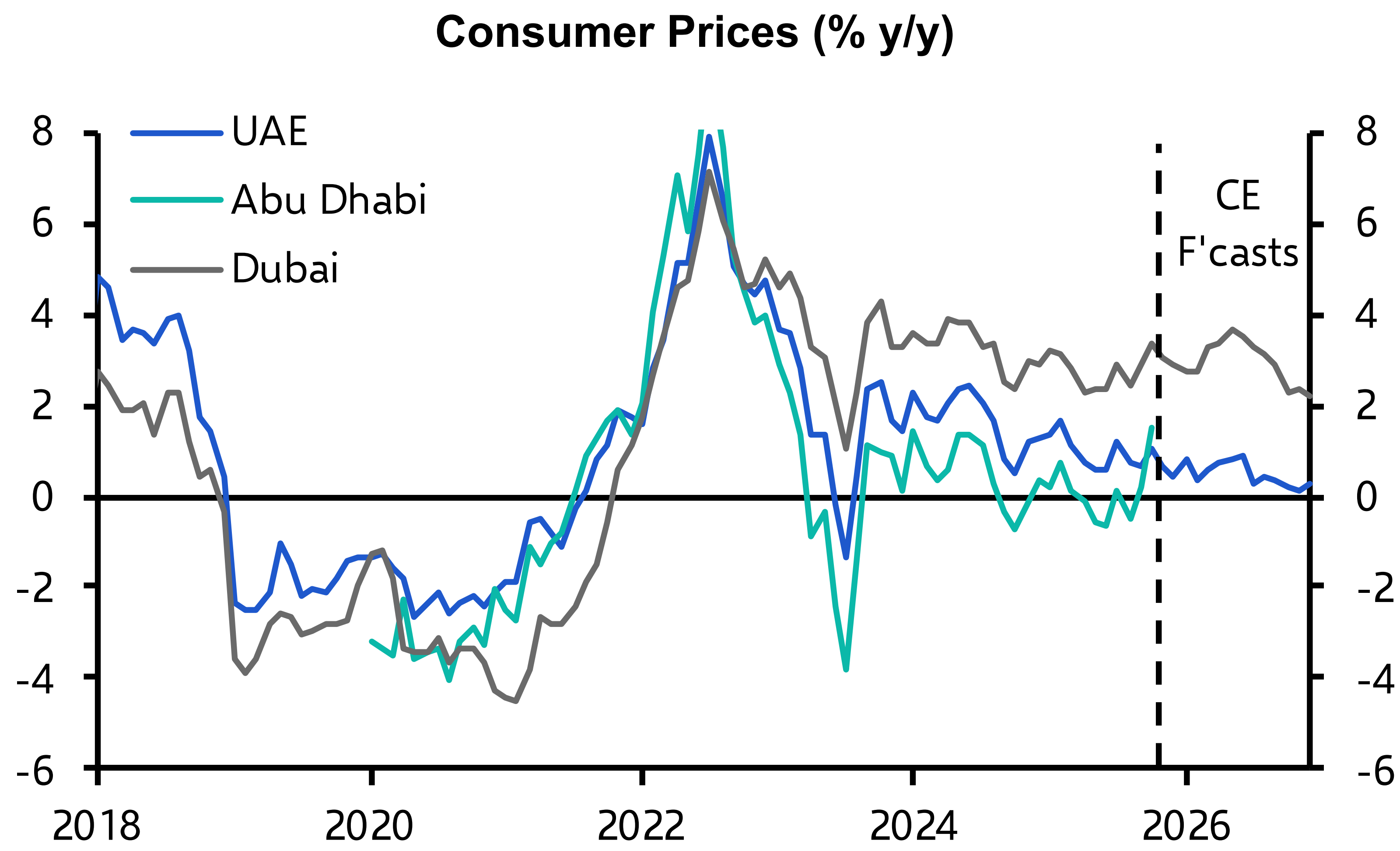
Sources: OPEC+, Capital Economics

Dubai's tourism sector is back in its peak season, recording another all-time high of 1.8mn visitors in October. But arrivals have slowed in year-on-year terms.



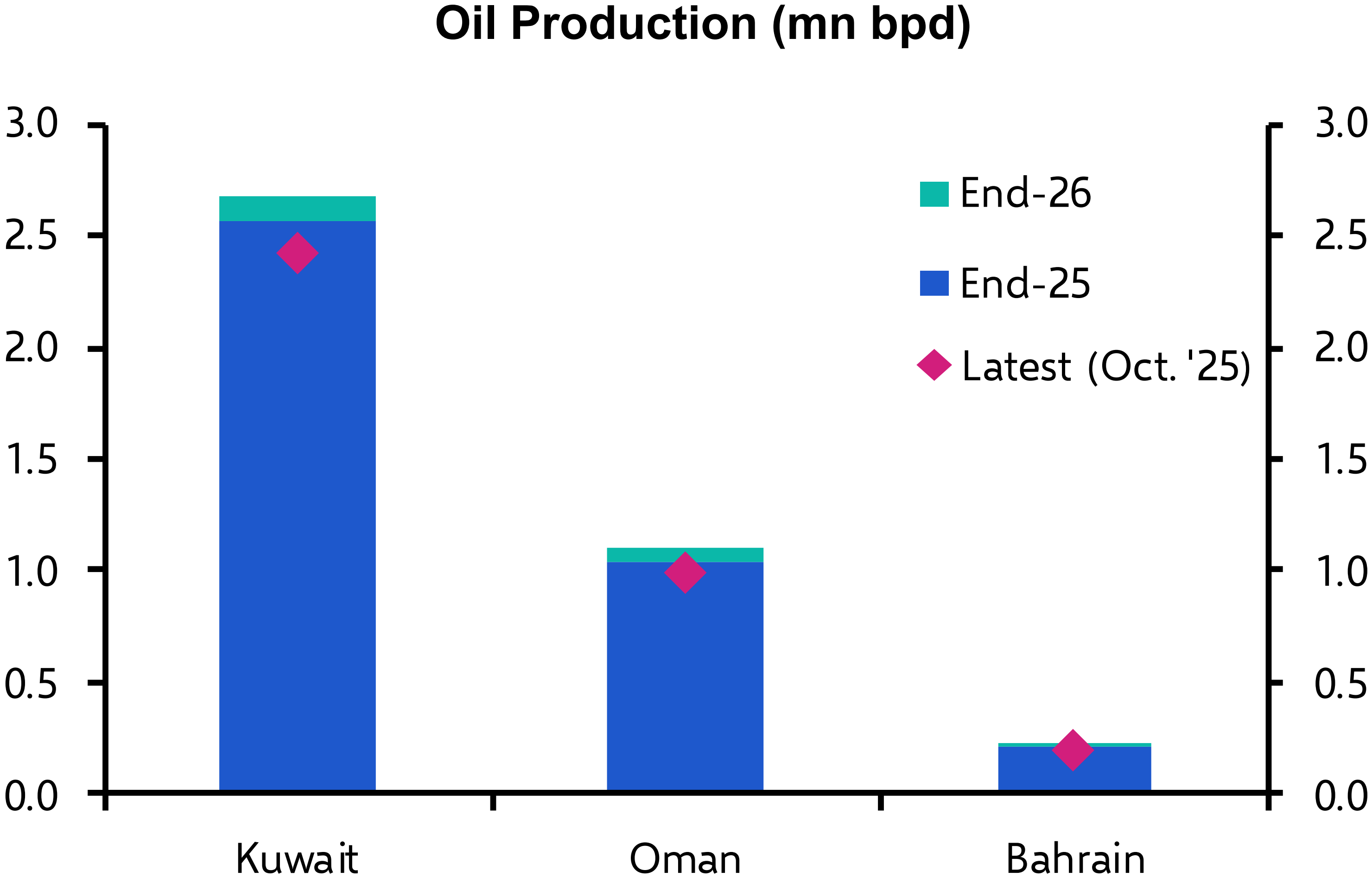
Source: VisitDubai.com

Inflation in the UAE slowed last month, though Abu Dhabi's spiked as transport and housing price pressures grew. That said, we expect disinflation through 2026.



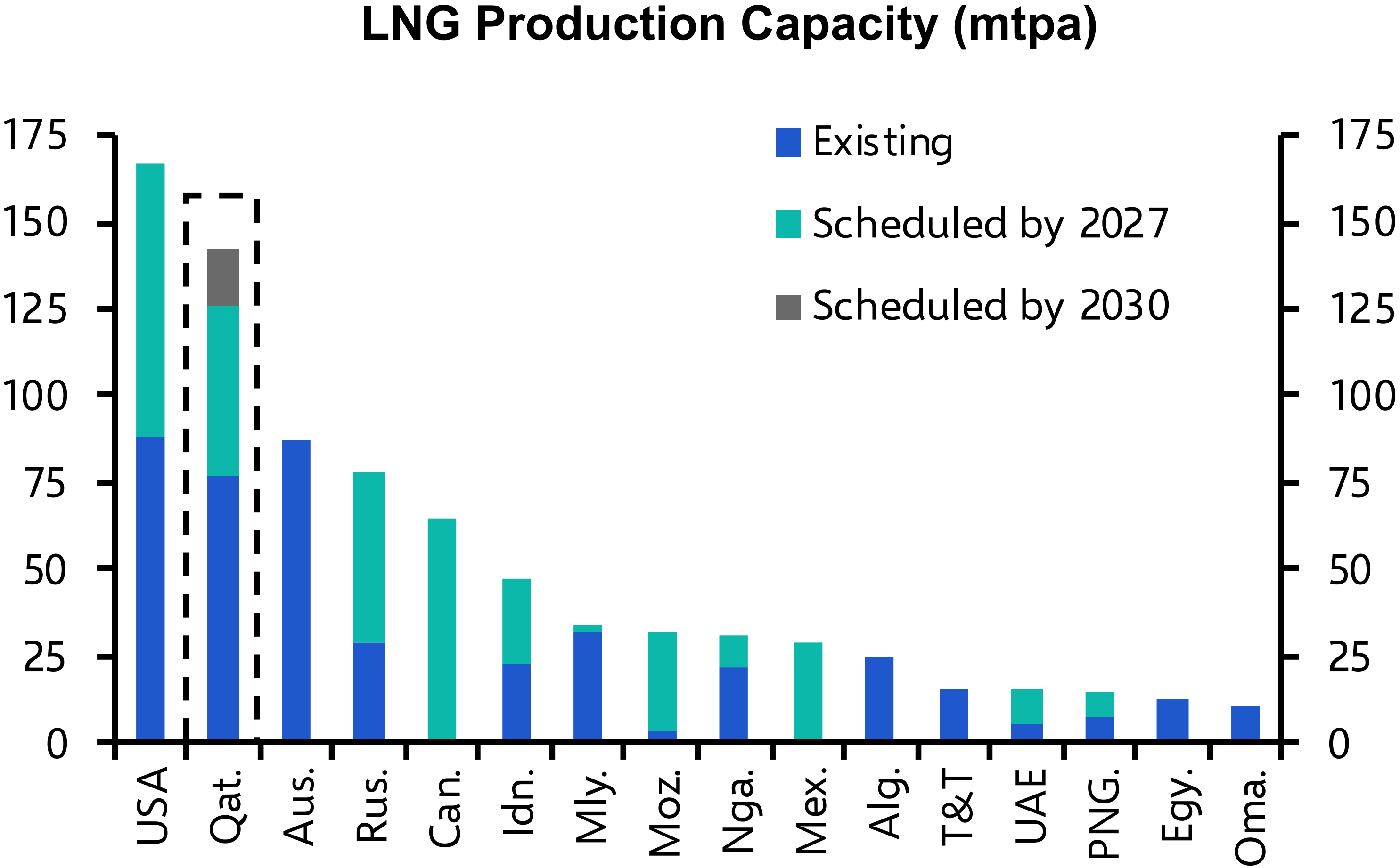
Source: UAE Federal Competitiveness Statistics Centre, Abu Dhabi Statistics Centre, CEIC, Capital Economics

Compared to other Gulf states, Kuwait, Oman, and Bahrain have raised output more slowly since April. But increased capacity provides Kuwait scope to hike output faster.



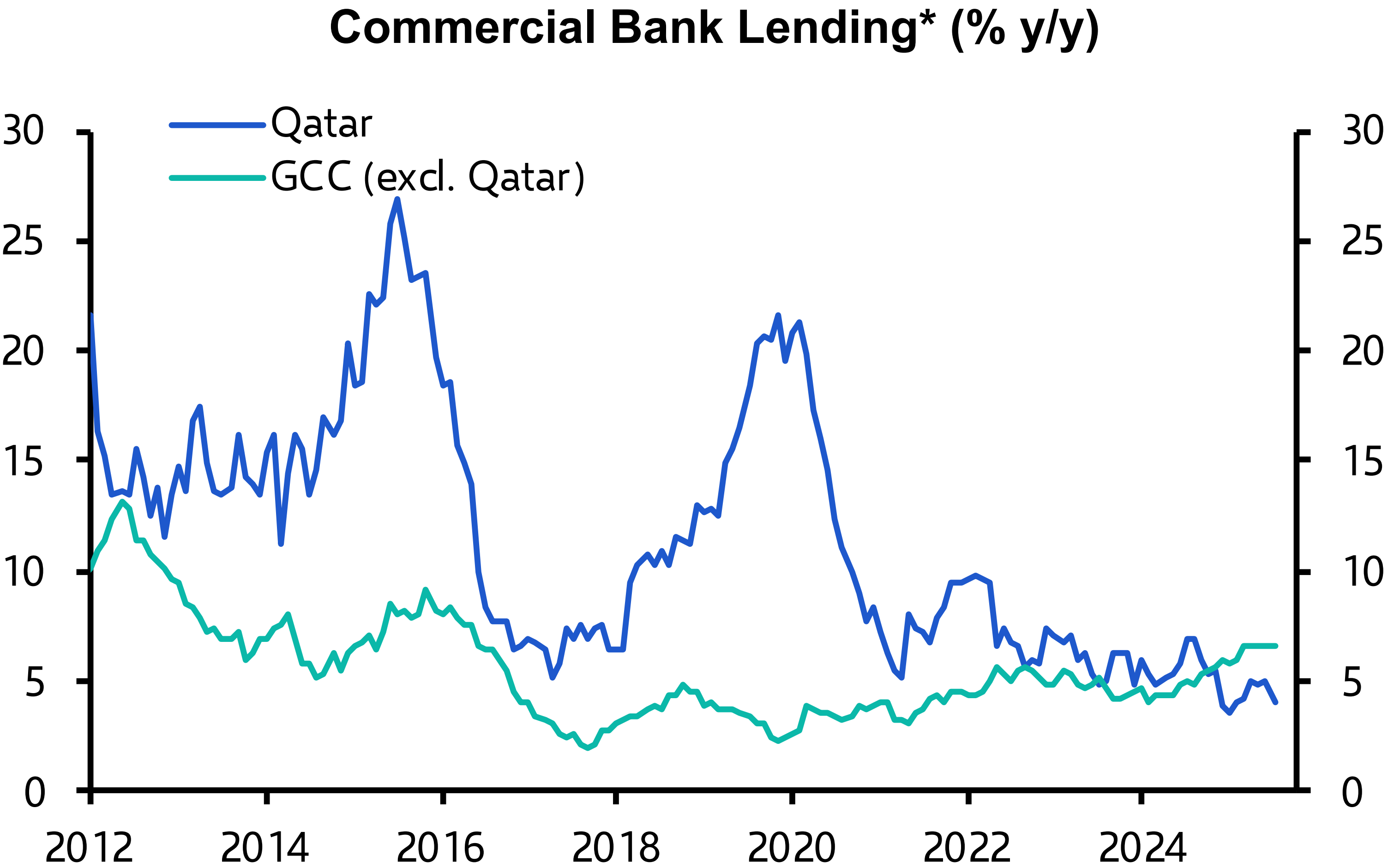
Sources: OPEC, JODI, Oman Ministry of Energy & Minerals, Capital Economics

Qatar’s North Field LNG project will come online in mid-2026 and will quickly ramp up the sectors productive capacity. This will provide a major fillip to Qatar’s economy.



Sources: EIA, LSEG Data & Analytics, Capital Economics

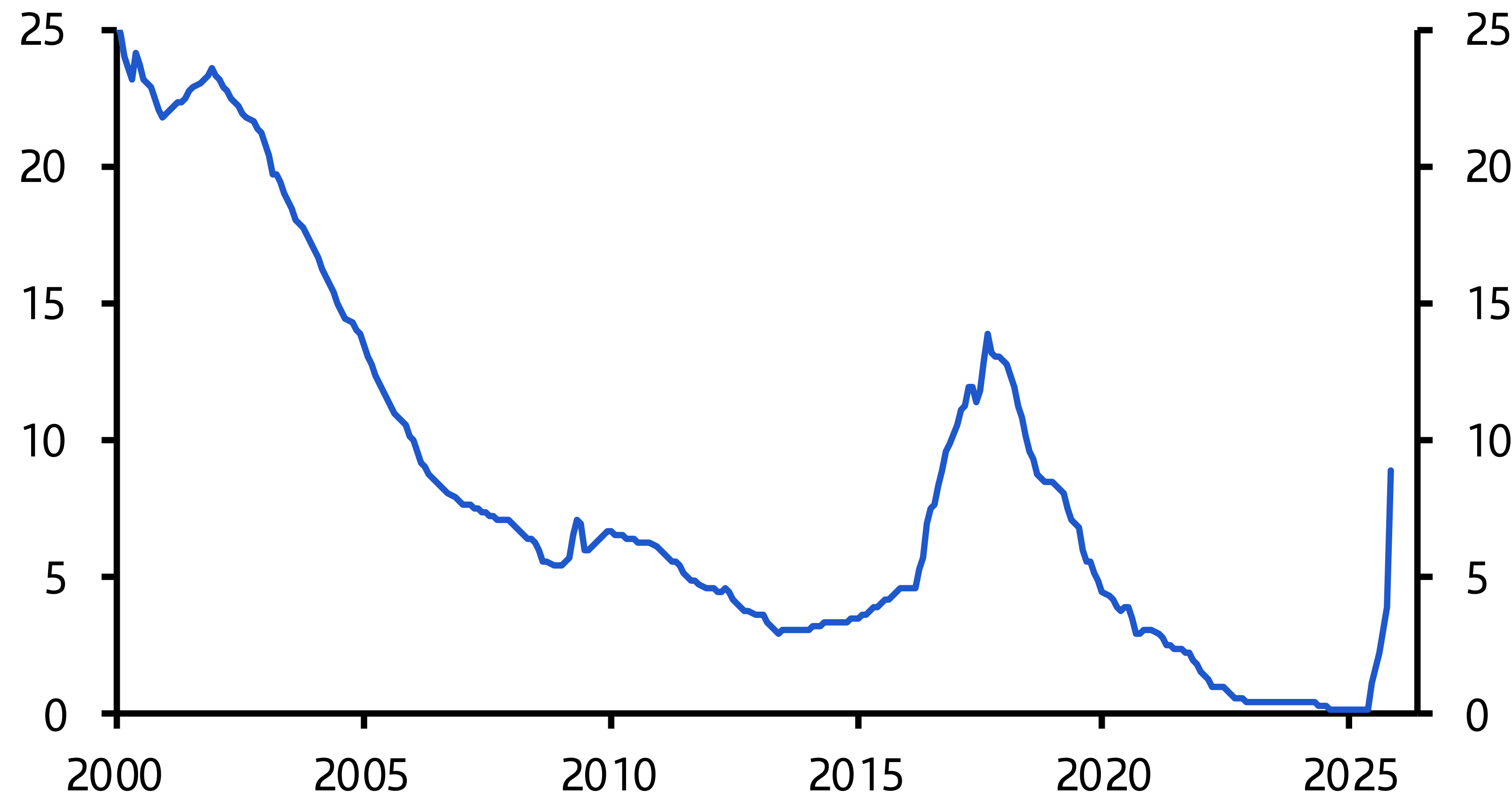
Qatar’s non-hydrocarbon sector has struggled. We don’t foresee the run of weak credit growth in Qatar coming to an end in the next year or so.



Sources: Qatar Central Bank, CEIC, Various Sources. *GCC (excl. Qatar) is a simple average.

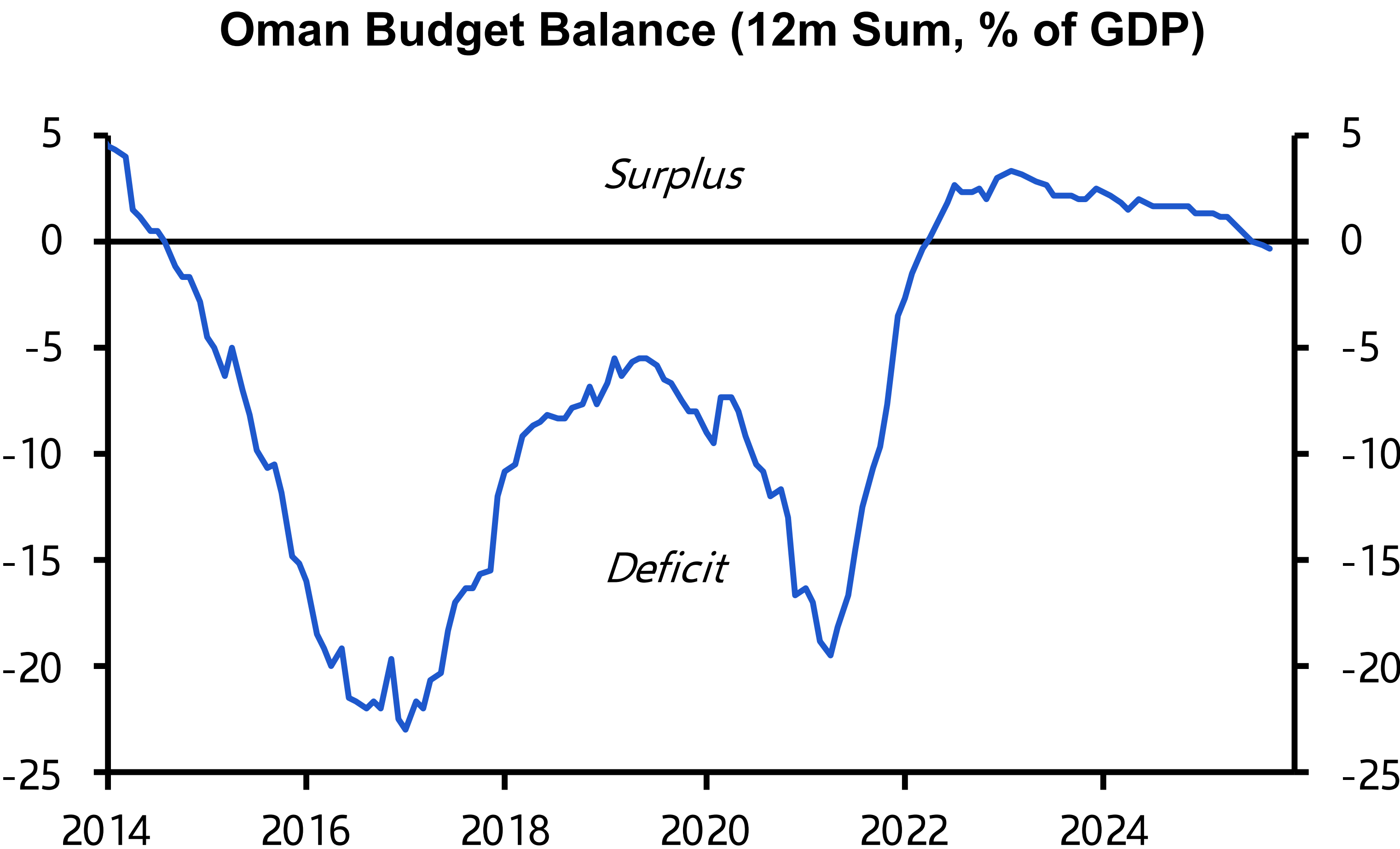
Elsewhere, Kuwait's public debt-to-GDP ratio has surged following the passing of the debt law in March. It will continue to climb as the government moves to loosen policy.

Kuwait General Government Debt (% of GDP)



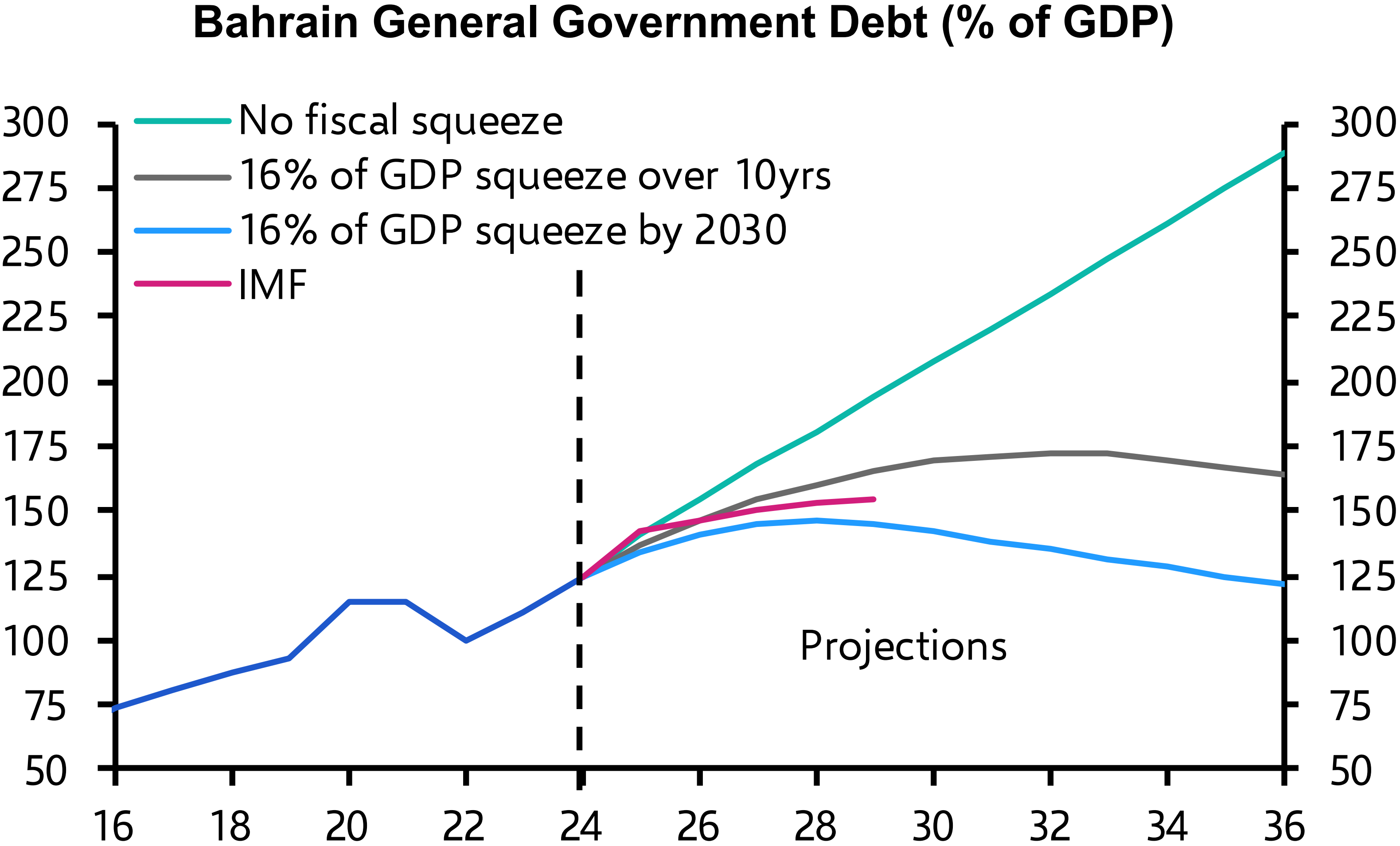
Sources: Kuwait Ministry of Finance, CEIC, LSEG Data & Analytics, Capital Economics

Oman's budget flipped back into a deficit in October, for the first since 2021. This will reinforce the need to keep fiscal policy tight as oil prices slide back.



Sources: Oman Ministry of Finance, CEIC

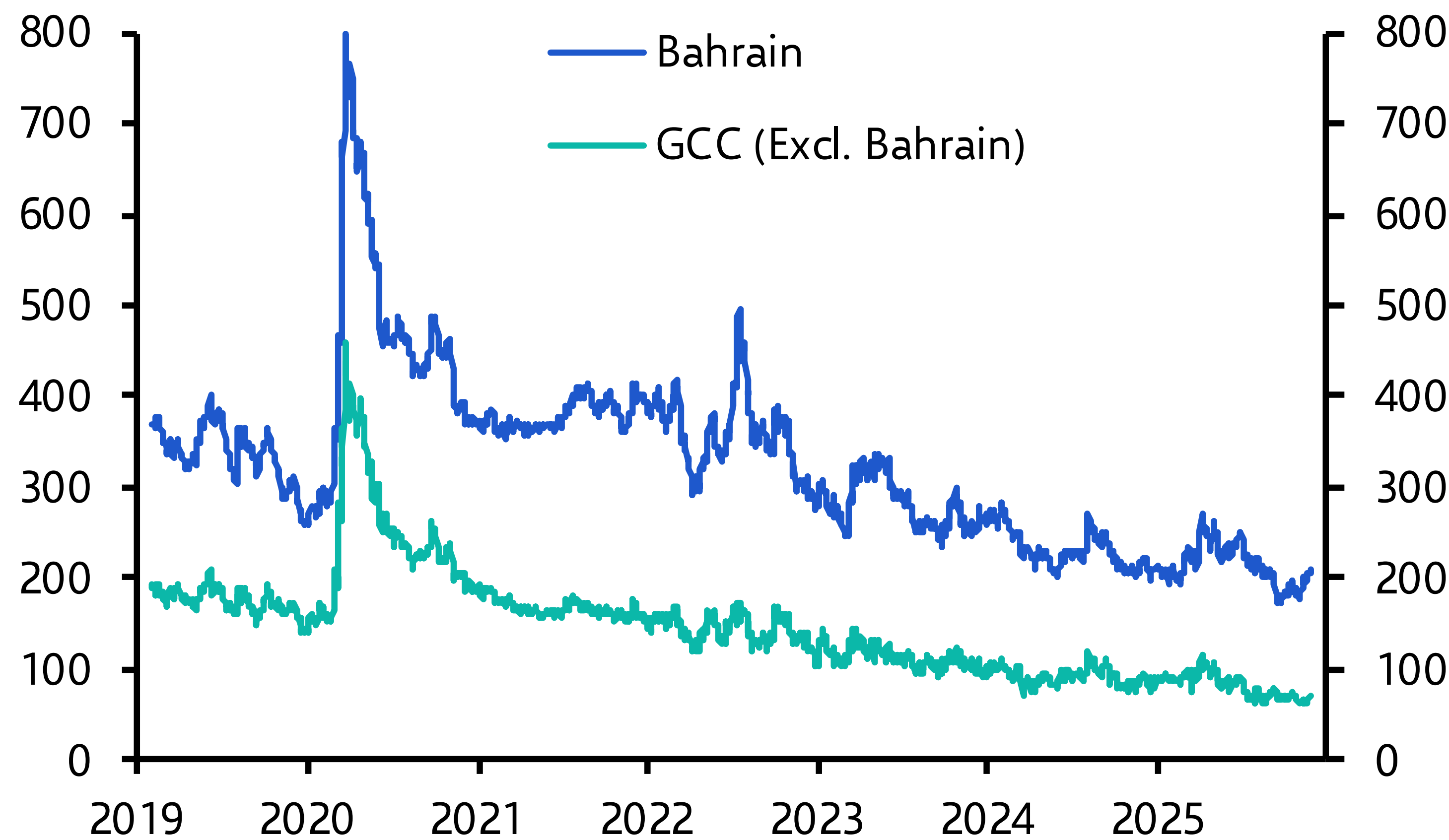
Meanwhile, Bahrain's fiscal consolidation needs to be stepped up or risk a far faster rise in the public debt-to-GDP ratio.



Sources: Bahrain Ministry of Finance, CEIC, IMF, Capital Economics

That said, the implicit backing by other Gulf states to provide financial assistance has kept Bahrain's sovereign dollar bond spreads low.

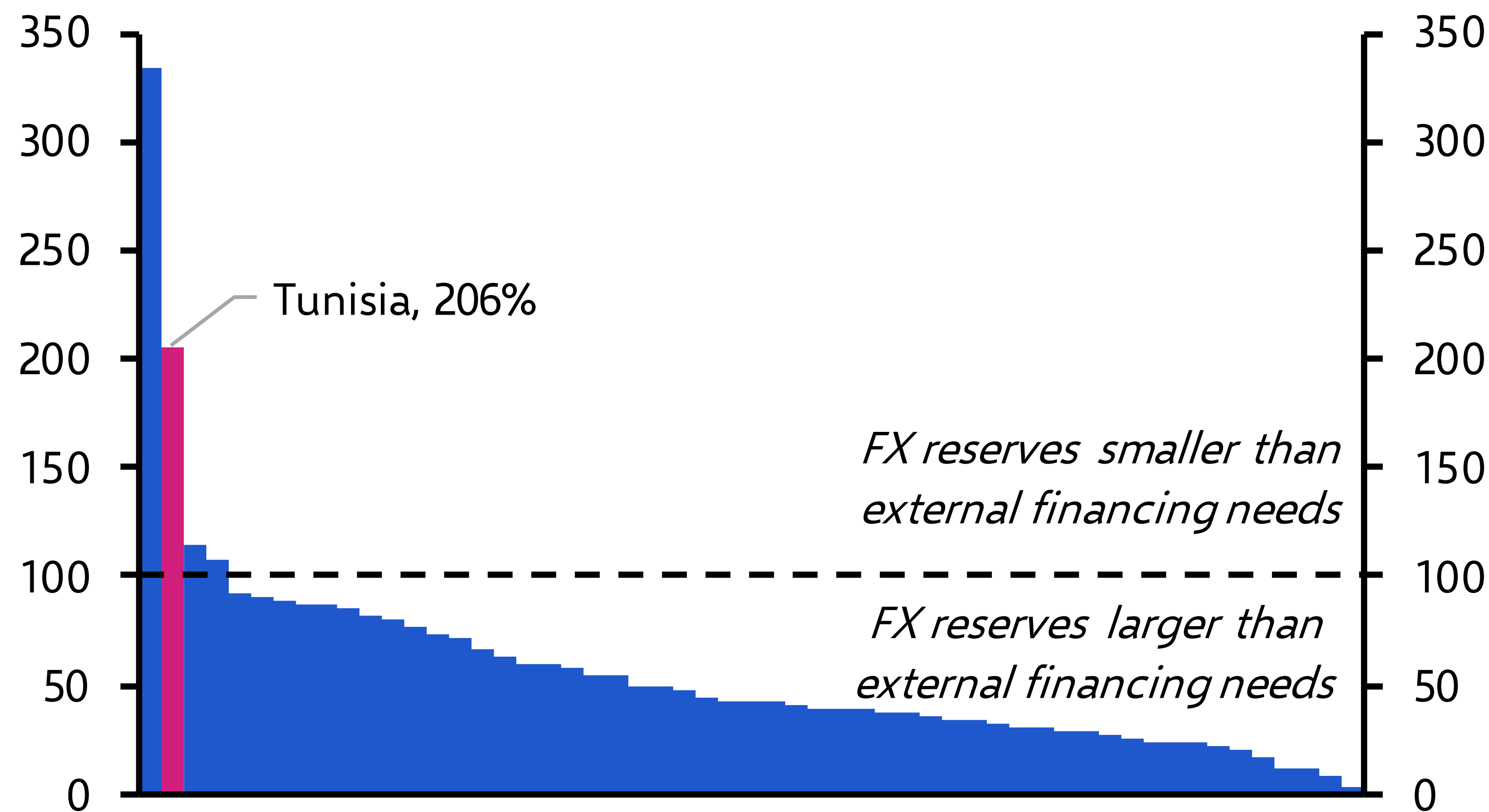
JP Morgan EMBI Sovereign Dollar Bond Spreads* over US Treasuries (bp)



Sources: JP Morgan, LSEG Data & Analytics. *GCC (excl. Bahrain) is a simple average.

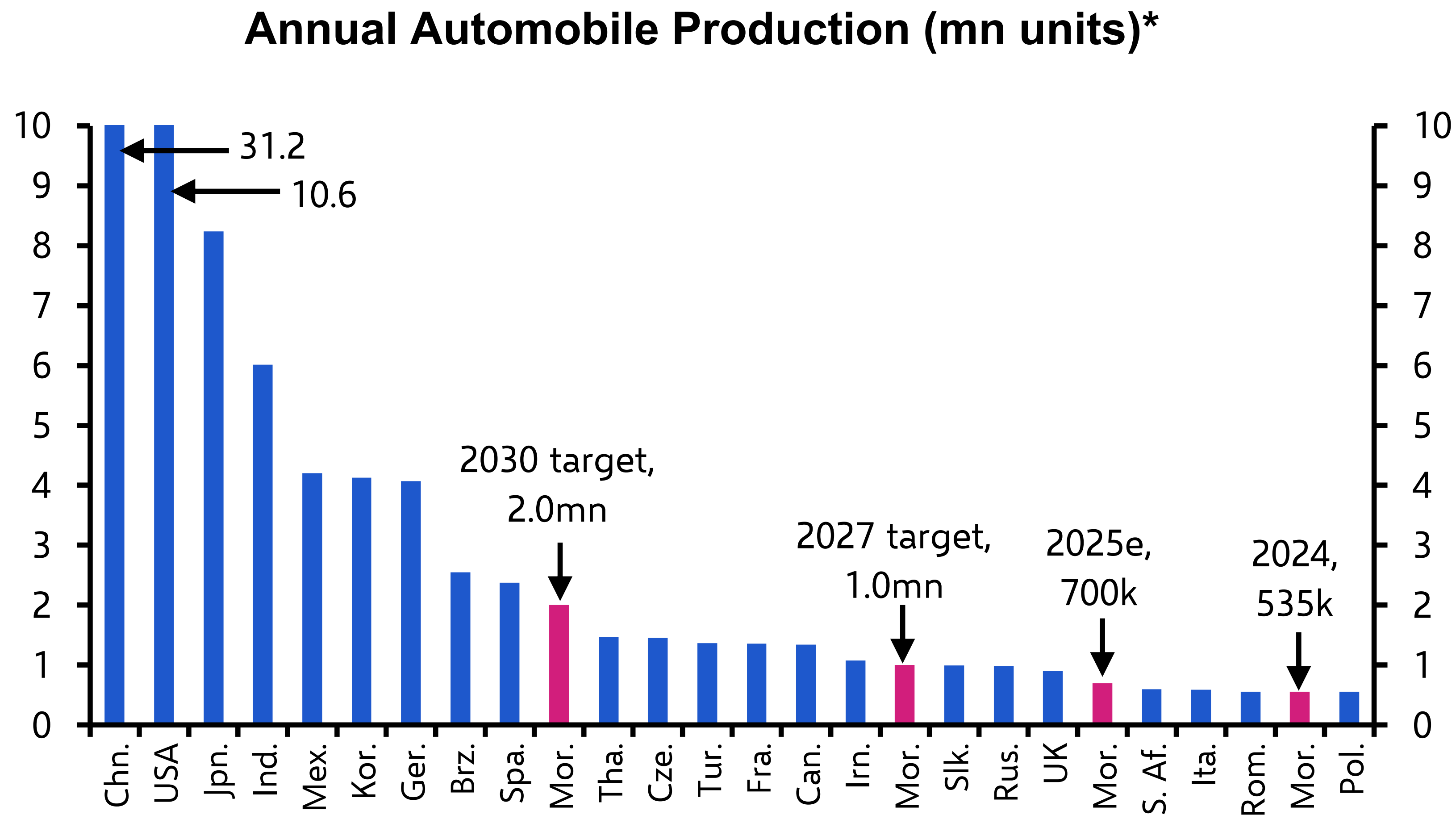
President Kaid Saied’s unorthodox policies and Tunisia’s precariously low FX reserves leave the economy vulnerable to a messy sovereign default.

Gross External Financing Requirements (% of FX Reserves, Sample of 55 EMs)



Sources: CEIC, LSEG Data & Analytics, Capital Economics

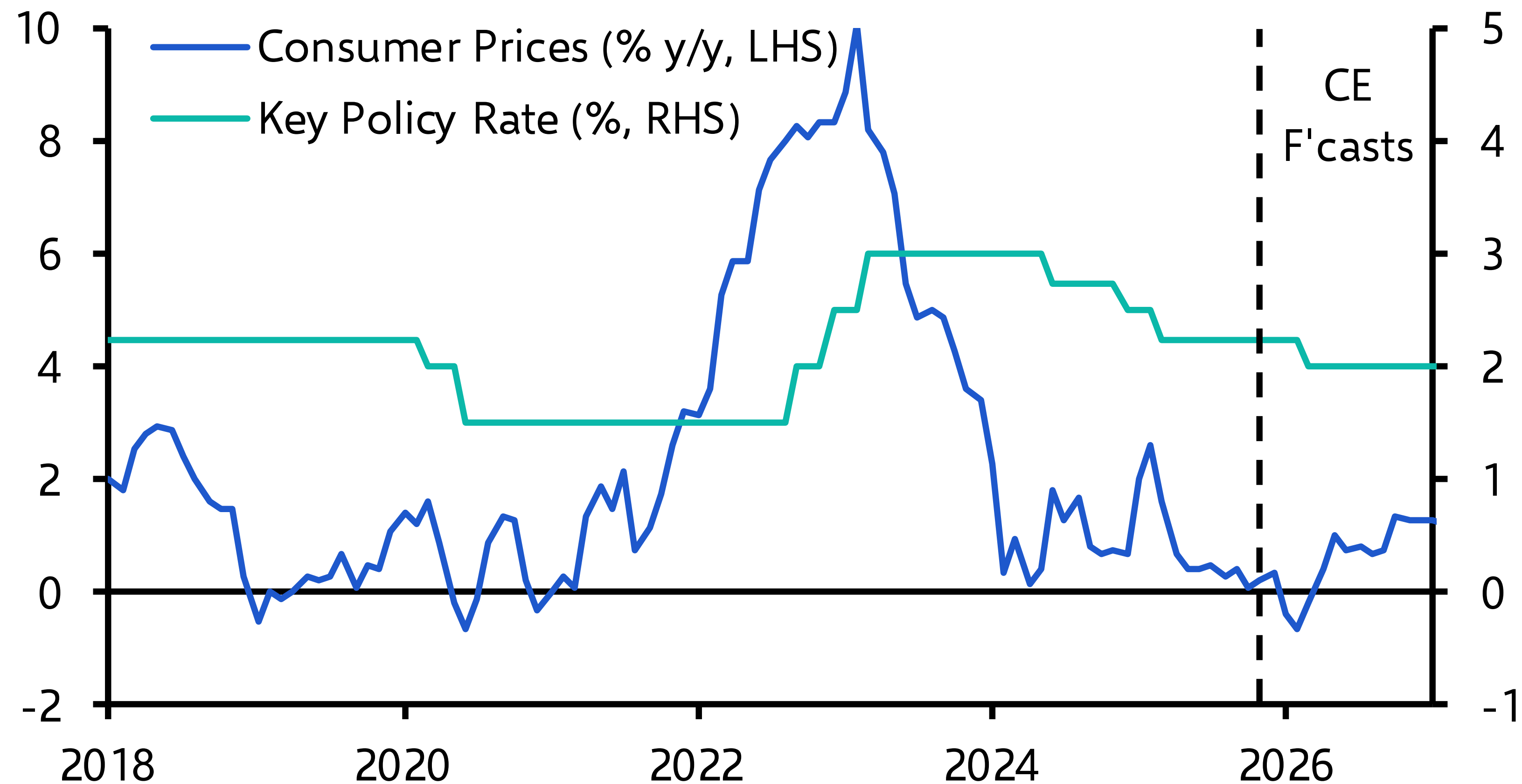
Morocco's external position is improving amid strong auto exports. It is currently on course to reach 2030 output targets that will see it become a top 10 global producer.



Sources: OICA, Moroccan High Commission for Planning. *Latest actual data are for 2024.

Inflation in Morocco slowed to 0.1%y/y in October and we expect it to stay low. We think that the central bank will cut interest rates a final time in 2026.

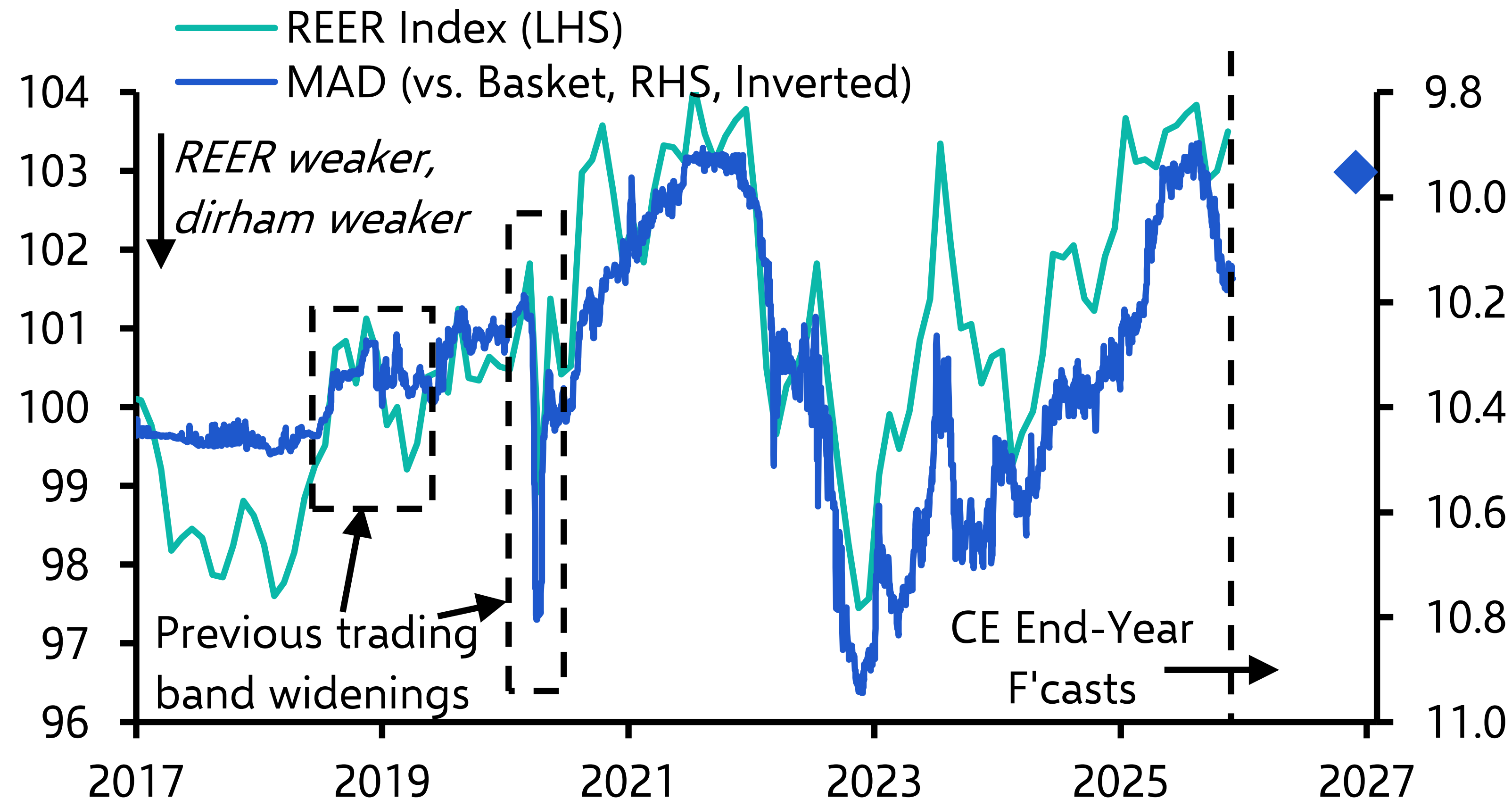
Morocco Consumer Prices & Bank Al-Maghrib Key Policy Rate



Sources: Bank Al-Maghrib, Morocco High Commission for Planning, CEIC, Capital Economics

A strong external backdrop should provide Morocco's central bank scope to widen the dirham's trading band as expected next year. We expect a modest appreciation.

Moroccan Dirham vs. EUR/\$ Basket & Real Effective Exchange Rate Index



Sources: Bank Al-Maghrib, Morocco High Commission for Planning, CEIC, LSEG, Capital Economics

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