Deutsche Bank
Research

Navigating the Future:
economic outlook for the GCC region

June 2025

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Key Themes in Global Markets

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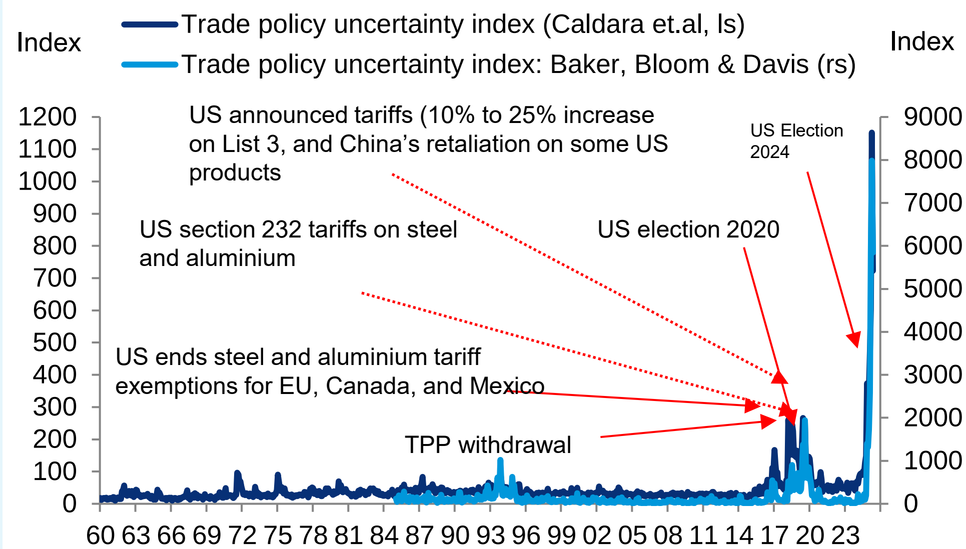
Key Theme #1: Trade war

New US tariff rate at 15-17% – still the highest in decades

US revised tariff scenarios on the following:

- China: Tariffs to remain near current levels but may shift in form (e.g., fentanyl tariff cuts, increases in reciprocal or other sectors).
- Europe: 10% baseline remains, with carveouts for certain sectors.
- CIT Ruling (May 28): Affects 25% tariffs on Canada/ Mexico, 20% on China (linked to fentanyl/ border crisis), and 10% universal tariff (currently paused for 90-days).
  - Ruling does not apply to tariffs set before April 2, or sector-specific announcements.
  - A favorable court ruling could cut US tariffs by over half.
- Impact:
  - Global growth revised from early-May forecasts to 2.9% in 2025 (previously 2.8%) and 3.1% in 2026 (previously 2.9%).*
  - Ongoing China-US tensions expected as strategic supply chain de-coupling accelerates.
  - Market sell off in US assets during trade turbulence underscores longer term US decline.

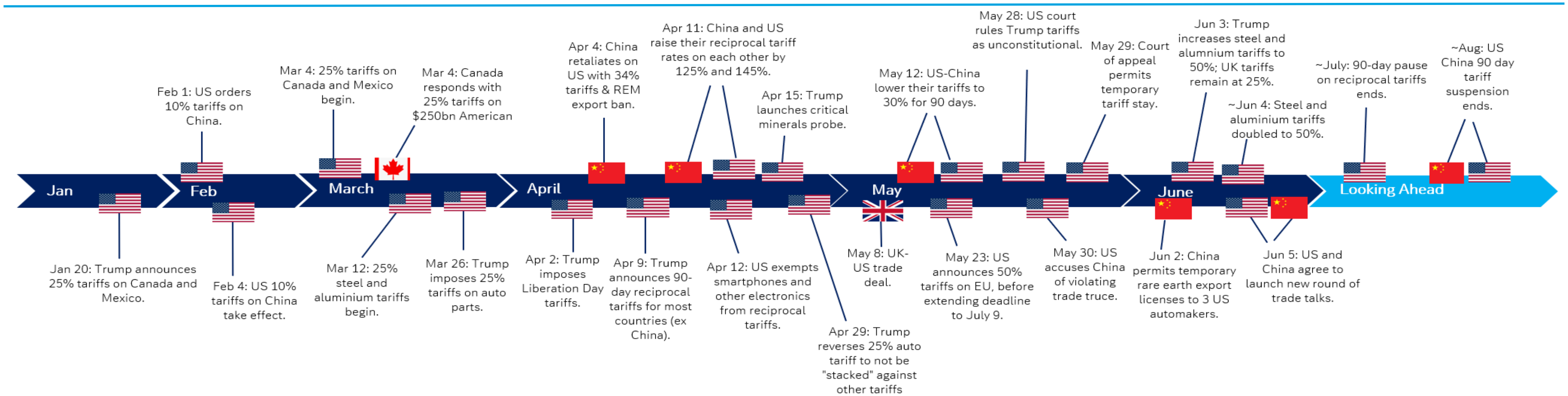
Trade policy uncertainty has spiked to record high levels



Source: Caldara et. Al (2020), Baker, Bloom and Davis at www.PolicyUncertainty.com, Deutsche Bank

[US Economic Perspectives: US outlook: Easy come, easy go, little high, little low - Deutsche Bank Research]

Timeline of recent tariff developments



Source: Deutsche Bank Research, The New York Times.

Key Theme #2: Tariffs upend growth forecasts

US: More optimistic, but major headwinds in sight

Tariff reprieve leads to improved forecasts, but some fallout is still expected

- Real GDP: 1.6% in 2025 and 1.7% in 2026.
- Revised effective tariff rate: 17%, highest in decades, but anticipated to fall further to ~15%.
- Unemployment rate: 4.3% this year (previously 4.6%).

Federal budget deficits expected to exceed 6.5% over the next several years

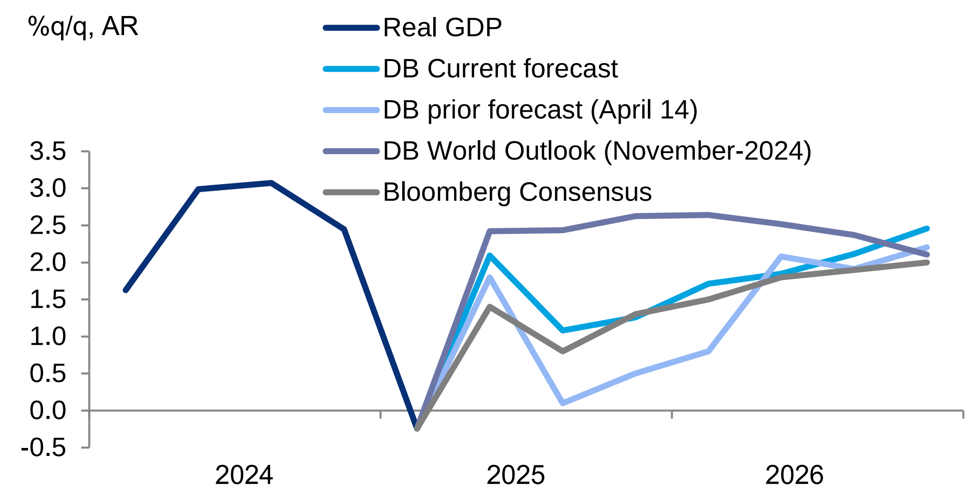
- Policy response: Anticipate a package passed in July that includes:
  - TCJA extension
  - $100-150bn of additional tax cuts per year, mostly focused on households
  - $750bn-1tn of headline spending cuts over the next decade
  - Increased spending on border and defence in the near-term.

US outlook: key forecasts

% change y/y (unless stated)	2024	2025F	2026F	2027F
Real GDP	2.8	1.6↓	1.7↓	2.2↓
CPI	3.0	3.2↓	3.1↓	2.5↑
Government debt, % of GDP	97.3↓	102.1↓	103.3↓	104.7↓
Current account balance, % of GDP	-3.9↑	-4.7↑	-4.2	-4.1
Unemployment rate, %	4.0	4.3↓	4.5↑	4.3

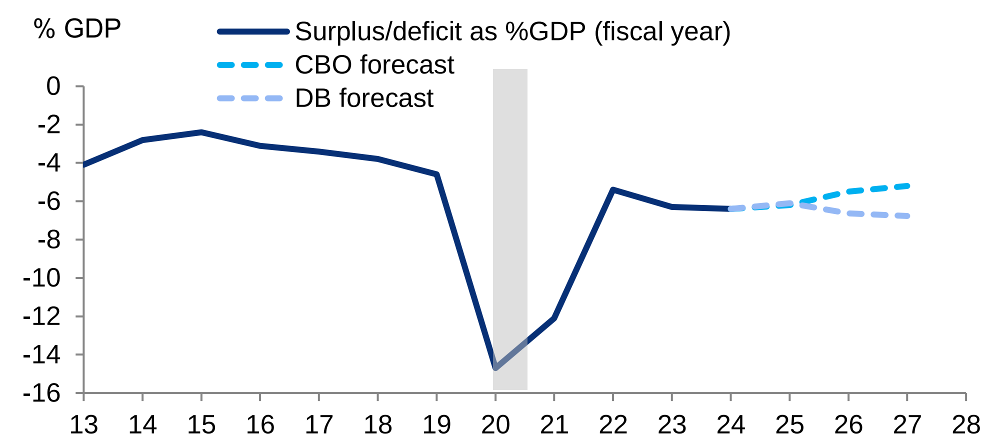
Source: Deutsche Bank Research *Revisions are relative to the previous edition of The House View

DB current growth forecast revised higher and modestly above consensus



Source: BEA, Bloomberg Finance LP, Haver Analytics, Deutsche Bank Research.

Federal budget deficit projected to remain historically elevated in the coming years



Source: CBO, Haver Analytics, Deutsche Bank Research.

US Economic Perspectives: US outlook: Easy come, easy go, little high, little low – 02-June-2025
World Outlook: The Limitations of Liberation… - 02-June-2025

Key Theme #2: Tariffs upend growth forecasts

China: outlook still uncertain as tariff break could prove temporary

China's economic activities declined amid trade tensions, but the slowdown was less prominent than feared.

- GDP growth: 4.7% in 2025, higher than our post Liberation Day revision to 4.5%. Upside risks if additional stimulus efforts to reach the PBoC 5% target; downside risks if trade tensions re-escalates.
- Tariff rate: Assume a 25-30% additional US tariff on Chinese products through end-2025.

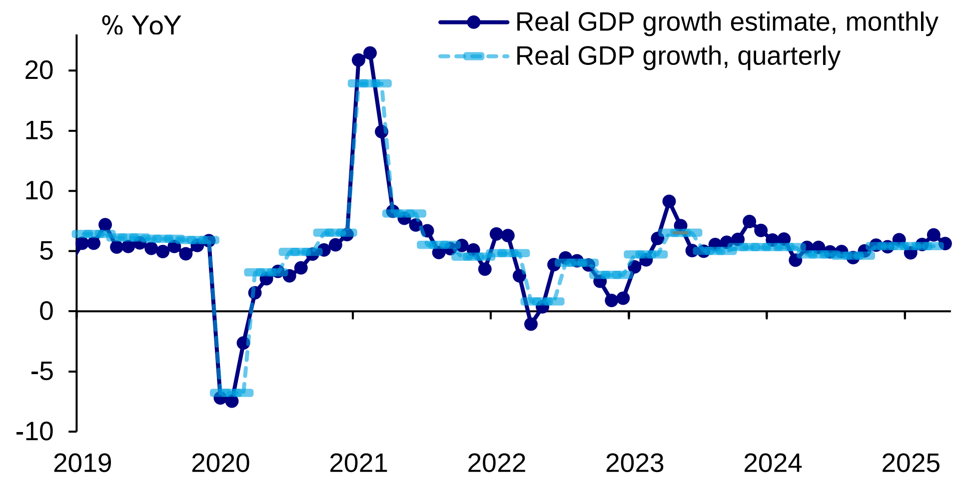
Policy tailwinds will likely continue in the near term from monetary easing and front-loaded fiscal spending.

- With crisis-response mode no longer required, expect more gradual stimulus including a 50bps RRR cut before YE 2025 and further targeted support via lending facilities.
- YE 2025 policy rate forecast to 1.3% from 1.4%, with only 10bps cut in September.

China outlook: key forecasts			
% change y/y (unless stated)	2024	2025 F	2026F
Real GDP	5.0	4.7↑	4.5↑
Private consumption	4.6	5.5↓	5.3
Gov't Consumption	4.8	6.0	5.2
CPI	0.2	0.4↓	1.4↓
Government debt, % of GDP	59.4	65.5↑	71.2↑

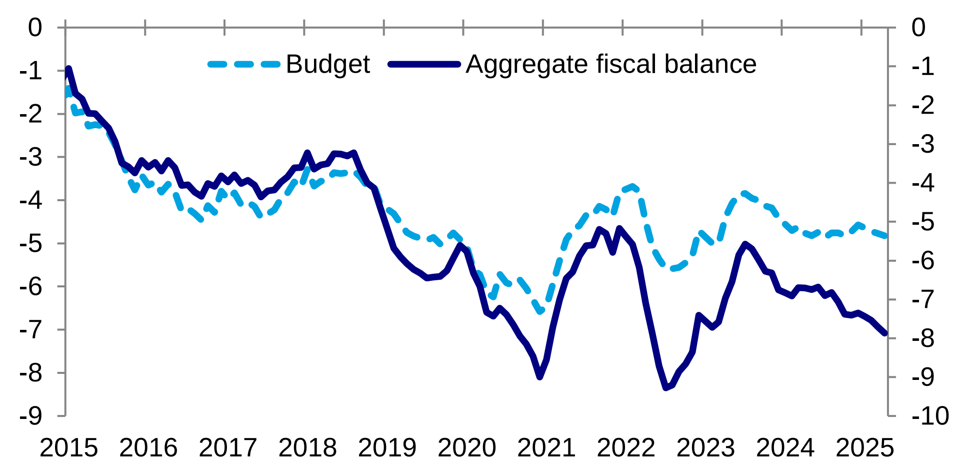
Source: Deutsche Bank Research *Revisions are relative to the previous edition of The House View.

China GDP growth remained above 5% in the first 4 months of 2025…



Source: Deutsche Bank Research, Wind

….as fiscal stance eased and spending accelerated



Source: Deutsche Bank Research, Wind

World Outlook: The Limitations of Liberation… - 02-June-2025

Key Theme #2: Tariffs upend growth forecasts

Euro Area: Despite tariff shocks, economy has been more resilient than expected

Economic tailwinds from real income growth, strong labour market, ECB rate cuts boosting credit growth and positive sentiment in Germany

- GDP: Revised up to 0.8% (previously 0.5%) for 2025. Defence spending to lift GDP to 1% in 2026 and 1.5% (previously 1.2%) in 2027.
- Expect 10% average tariff rate with more trade headwinds in H2 2025. Uncertainty with 50% tariff threat.
- Unemployment: Lowered forecast to 6.4% (previously 6.8%) in 2025.

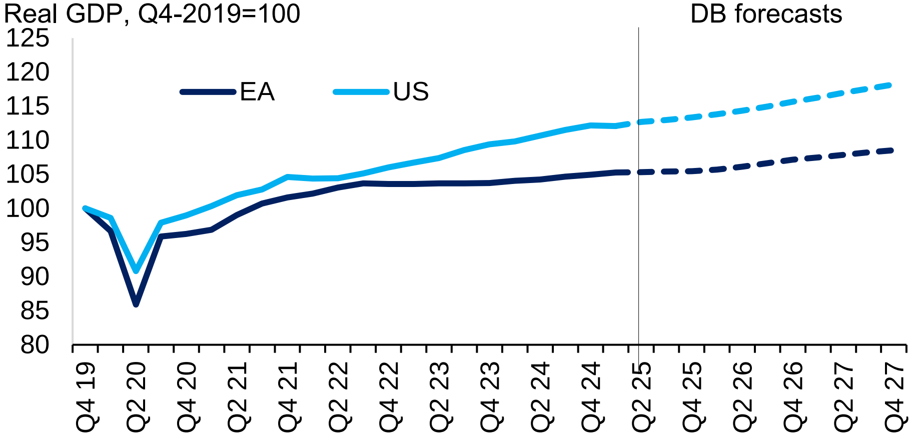
Defence spend will currently determine the path of the EU's economy going forward

- EU raising defence spending to 3.5% of GDP, in line with the US (expected announcement on 24-25 June).
- Constraints: 3.5% core defence spending target will still challenge high-debt member states. EU will likely need to develop innovative common funding solutions to ensure all member states are able to achieve the new NATO spending target.

DB euro-area medium-term macro projections				
% change y/y (unless stated)	2024	2025F	2026F	2027F
Real GDP	0.8	0.8↑	1.0	1.5↑
HICP Inflation	2.4	2.0↓	1.7↓	2.0↑
Core Inflation	2.8	2.3↓	1.8↓	1.9↑
Government debt, % of GDP	87.4↓	89.8↓	90.6↓	90.8↓
Unemployment rate, %	6.4	6.4↓	6.4↓	6.3↓

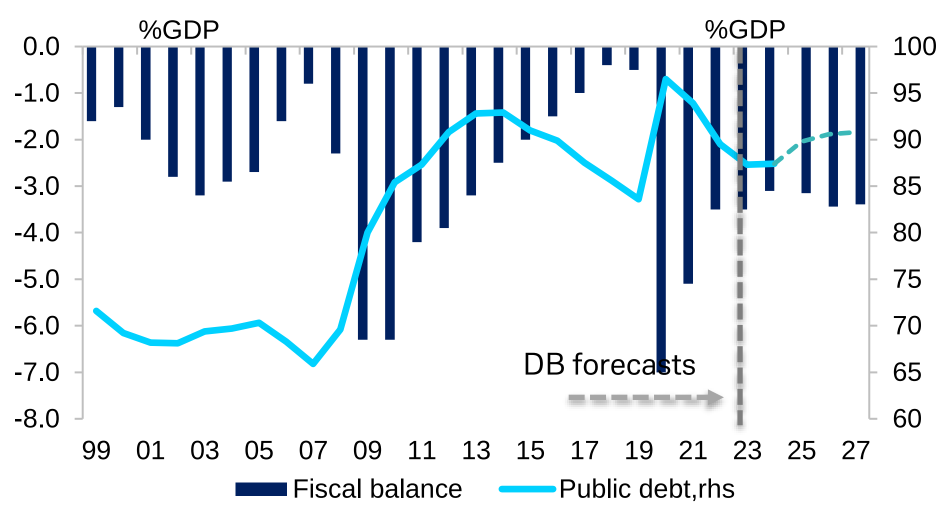
Source: Deutsche Bank Research *Revisions are relative to the previous edition of The House View

EA lagging the US



Source: Deutsche Bank Research, BEA, Eurostat

Public debt is rising again



Source: Deutsche Bank Research, Eurostat, Haver Analytics LP

[Focus Europe: Forecast Update: Shocks, resilience and exceptionalism - Deutsche Bank Research]

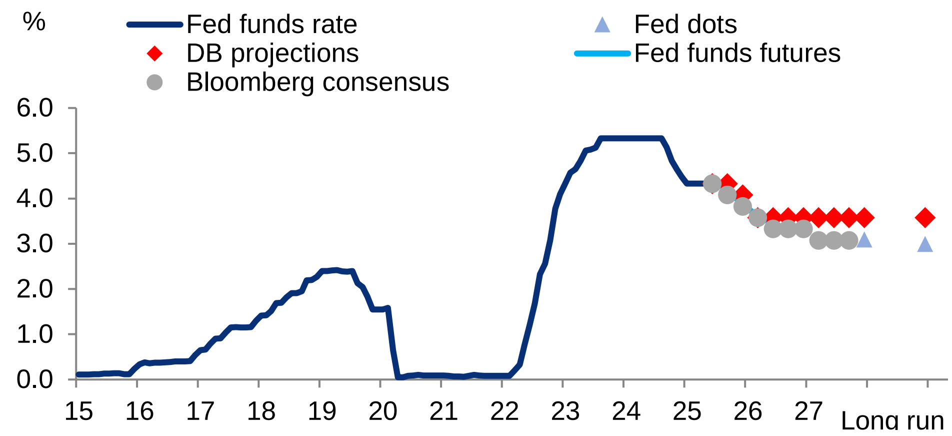
Key Theme #3: Monetary Policy Divergence

Modest rise in unemployment rate and sticky inflation put Fed on hold for now…

Tariffs will likely undo positive disinflationary pressures that have been in place the past two years

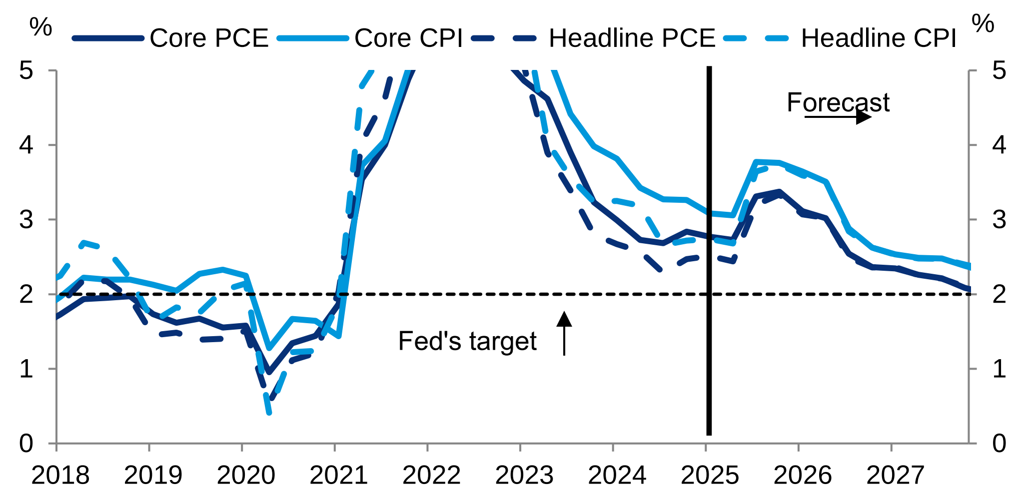
- Inflation: Core CPI ~3.75% in 2025.
  - Tariffs to lift core PCE inflation towards 3.5% in 2025. Beyond 2025, continue to anticipate inflation on a slow downtrend back to 2% target.
- Monetary policy:
  - First 25bps cut in December, followed by two more 25bp cuts in Q1 2026.
  - Fed funds rate to 3.5-3.75%, in line with neutral.
  - QT: Slowdown QT since April, leaving the MBS runoff cap unchanged and reducing the Treasury cap from $25bn to $5bn. We anticipate that runoff will end in Q1 2026.
- Risks
  - A sharp weakening in the labor market could prompt the Fed to cut earlier; higher-than-anticipated inflation to keep the Fed on hold for longer.
  - Rate hikes also a possibility if fiscal policy sparks concerns around demand-driven inflation or inflation expectations become unanchored.

DB expects the first rate cut in December and nominal neutral of 3.5%, which are somewhat hawkish relative to other forecasts



Source: FRB, Bloomberg Finance LP, Haver Analytics, Deutsche Bank Research. Note : Bloomberg consensus is as of June 03, 2025.

Tariffs likely to reverse disinflation progress in 2025/26



Source: Deutsche Bank Research.

[US Economic Perspectives: US outlook: Easy come, easy go, little high, little low – 02-June-2025](#)
[Fed Notes: Is the Fed at neutral? - Deutsche Bank Research](#)

Key Theme #3: Monetary Policy Divergence

…while the ECB will likely be forced to cut to 1.5% in 2025

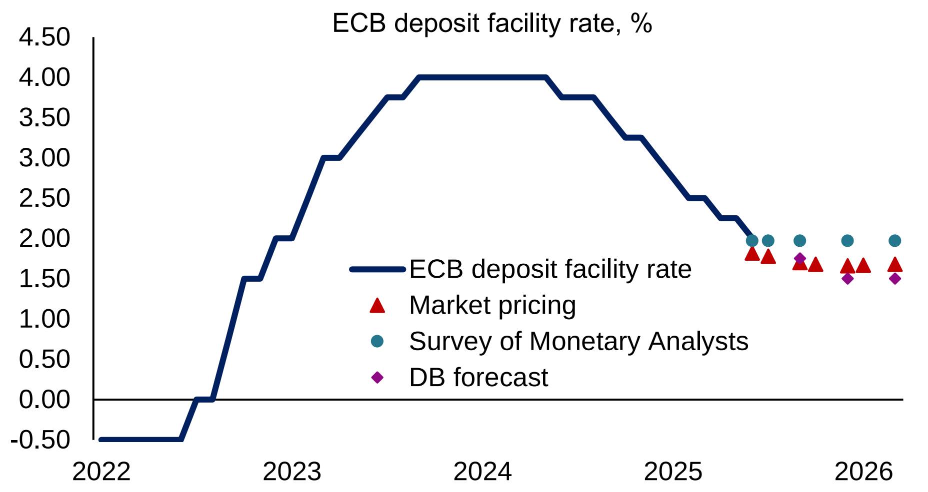
❑ Inflation to undershoot

- ❑ HICP inflation to average 2% in 2025 and 1.7% in 2026.
- ❑ Core inflation 2.3% in 2025 and 1.8% in 2026.
- ❑ Disinflation driven by euro FX appreciation, energy price declines, underlying weaker domestic demand entrenched and trade diversion due to China.

❑ Monetary policy outlook

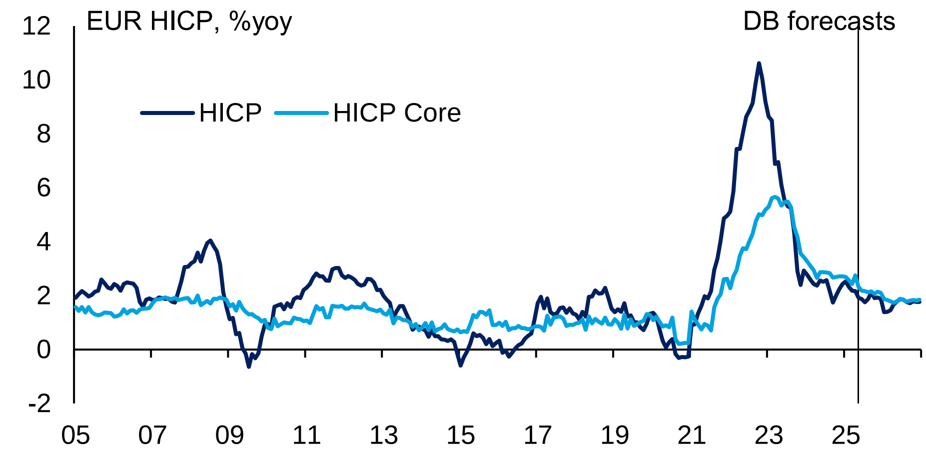
- ❑ Cuts of 25bps expected in Sep & Dec 2025.
- ❑ Terminal rate seen at 1.50%, though recent macro resilience and prospect of bid defence spending pose upside challenges.
- ❑ Rate hikes to 1.75% in late 2026, and to 2.50% in 2027 amid rising defence spending.
- ❑ Full QT and no PEPP reinvestments through 2026.

ECB rate could fall to 1.5%



Source: Deutsche Bank, ECB, Bloomberg Finance LP

HICP inflation expected at 2% in 2025 and 1.7% in 2026



Source: Deutsche Bank, Eurostat, Haver Analytics LP

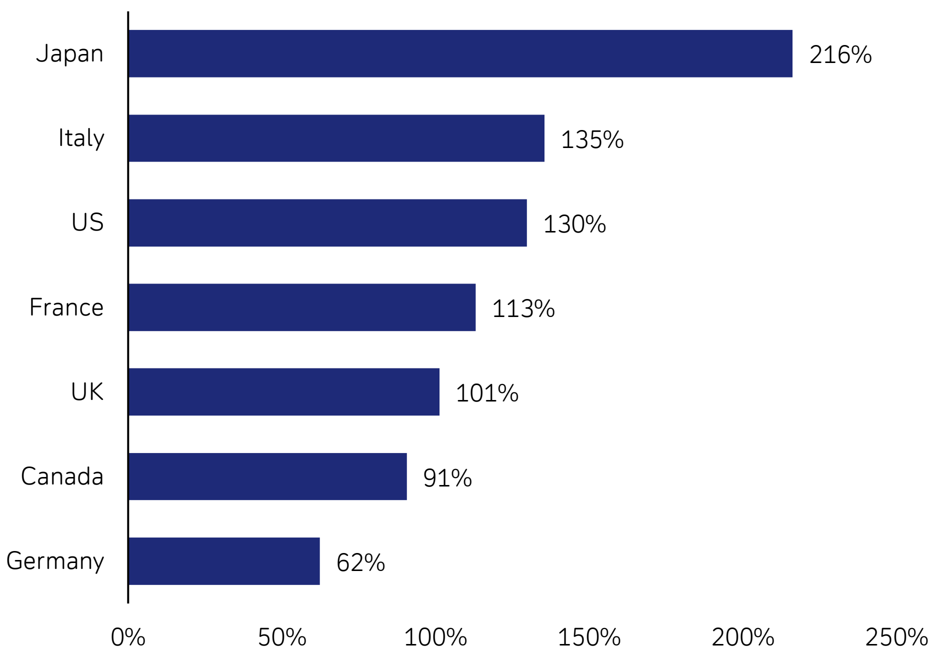
Focus Europe: Forecast Update: Shocks, resilience and exceptionalism – 03-June-2025
World Outlook: The Limitations of Liberation… - 02-June-2025

Key Theme #4: Debt sustainability

High debt levels, with the US under the spotlight

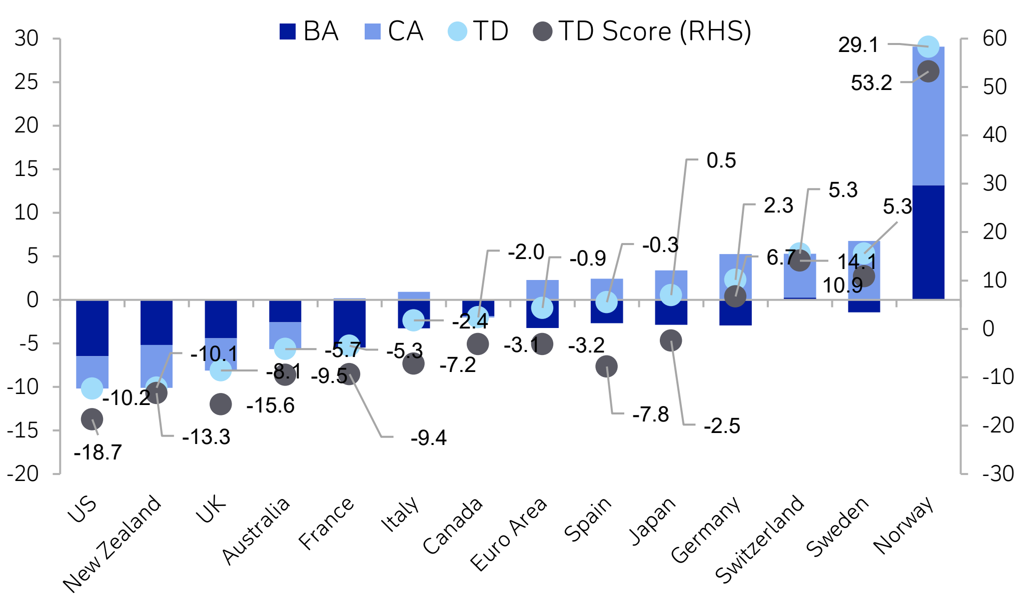
- Shrinking fiscal/monetary space. Japan, Italy, and the US debt level >130% of GDP. 8 EU countries face Excessive Deficit Procedures. Europe's 3.5% core defence spending target will challenge high-debt member states (e.g. France, Greece, Italy). Finally, rising long-end bond yields are posing concerns given plans for expanded deficits across multiple major economies.
- US fiscal risks rising: Proposed "Big, Beautiful Bill" would raise the debt ceiling by $4tn. Federal budget deficits estimated >6.5% of GDP under Trump.
- Foreign outflow: Global investors are retreating from US Treasuries, amidst Moody's downgrade, questions of debt sustainability, and breakdown in US reputation.
- Growth issues: Concerns of US debt sustainability risks global tightening of financial conditions.

General government debt as % of GDP for G7 (2024)



Source: Deutsche Bank Research, Bloomberg Finance LP.

G10 Twin Deficits (% of GDP, 2025)



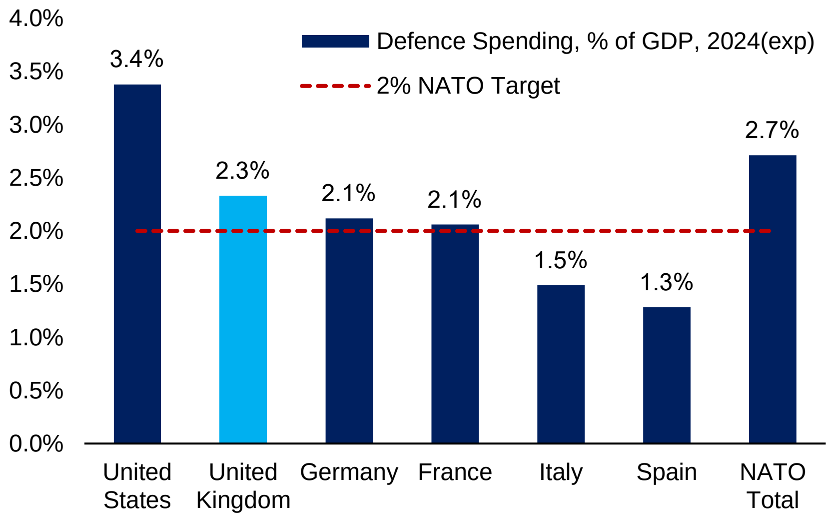
Source: Deutsche Bank Research, Haver Analytics LP, Bloomberg Finance LP, IMF
Global Fixed Income Weekly: Strategy Update -31-May-2025

Key Risk #5: Geopolitical flashpoints

Middle East, Russia/Ukraine, Asia tensions, and critical minerals

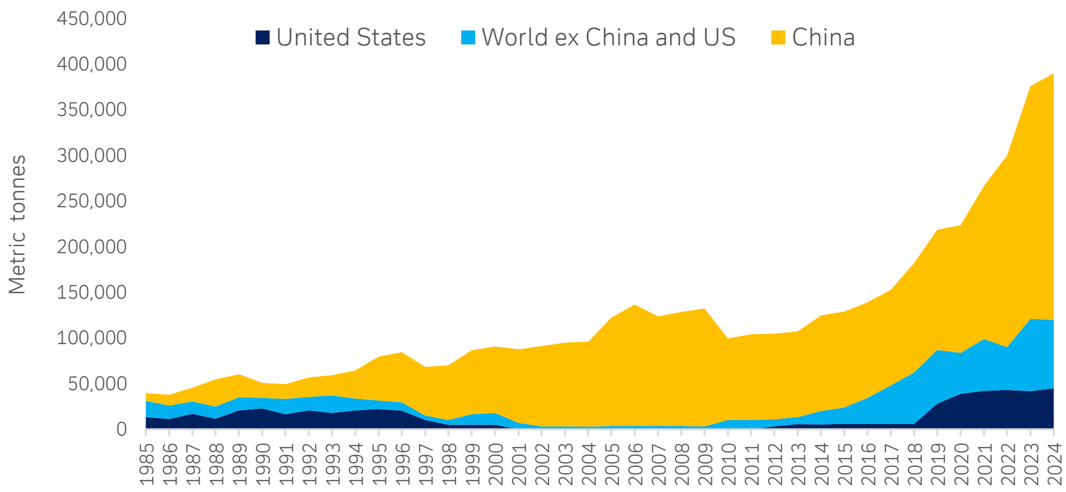
- Middle East: Israel and Iran continue to exchange strikes. US involvement with larger repercussions for the security situation in the region remains on the table, with the US decision expected within two weeks. In the meantime, negotiations continue. Over in Gaza, the situation has seen little change after hopes for another ceasefire in May were dispelled.
- Russia/Ukraine: Ceasefire possible within 6-12 months, but conditions not yet aligned. War has led to major rearmament, especially in Germany. EU defence spending to reach ~2.5-3.5% of GDP from 2032.
- Asia tensions: India/Pakistan crisis in May; US defence secretary said on May 31 that a Chinese military attack on Taiwan "could be imminent."
- Critical minerals race: China's export ban on rare earth metals is disrupting auto and defence supply chains. Temporary reprieve granted to 3 US automakers (June 5), but short-term disruptions persist. Longer-term impact will accelerate US decoupling (DOD in 2022 initiated an action plan to address defence vulnerabilities). Short-term, Trump struck a critical minerals deal with Ukraine, declared he would annex Greenland, and is exploring deep-sea mining.

Defence spending, % of GDP, US, UK, and EU Big 4



Source: Deutsche Bank Research, Bloomberg Finance LP.
UK economics notes: Defending Europe – The UK Perspective – 02-June-2025
Thematic Research: CHARTBOOK: Rare Earth Metals 101 - Deutsche Bank Research

China dominates the rare earths supply chain



Source: Deutsche Bank Research, Bloomberg Finance LP.
Thematic Research: CHARTBOOK: Rare Earth Metals 101 - Deutsche Bank Research

Gulf Cooperation Council (GCC)

Credit Snapshot: GCC region with best credit ratings across the world

Country	S&P Global			Fitch		Moody's		credit	Country	S&P Global			Fitch		Moody's		credit
	IG/HY	Current	Outlook	Current	Outlook	Current	Outlook	score		IG/HY	Curren	Outlook	Curren	Outlook	Curren	Outloo	score
UAE	**IG**	**AA**	**STABLE**	**AA**	**STABLE**	**Aa2**	**STABLE**	**3.0**	Ivory Coast	HY	BB	STABLE	BB-	STABLE	Ba2	STABLE	12.3
Qatar	**IG**	**AA**	**STABLE**	**AA**	**STABLE**	**Aa2**	**STABLE**	**3.0**	South Africa	HY	BB-	POSITIVE	BB-	STABLE	Ba2	STABLE	12.4
South Korea	IG	AA	STABLE	AA-	STABLE	Aa2	STABLE	3.3	Georgia	HY	BB	STABLE	BB	NEGATIVE	Ba2	NEGATIVE	12.4
Saudi Arabia	**IG**	**A+**	**STABLE**	**A+**	**STABLE**	**Aa3**	**STABLE**	**4.7**	Albania	HY	BB	STABLE	NR	N.A.	Ba3	STABLE	12.5
Kuwait	**IG**	**A+**	**STABLE**	**AA-**	**STABLE**	**A1**	**STABLE**	**4.7**	Jamaica	HY	BB-	POSITIVE	BB-	POSITIVE	B1	POSITIVE	12.6
Bermuda	IG	A+	STABLE	WD	N.A.	A2	STABLE	5.5	Uzbekistan	HY	BB-	POSITIVE	BB-	STABLE	Ba3	STABLE	12.8
China	IG	A+	STABLE	A	STABLE	A1	NEGATIVE	5.5	Jordan	HY	BB-	STABLE	BB-	STABLE	Ba3	STABLE	13.0
Chile	IG	A	STABLE	A-	STABLE	A2	STABLE	6.3	Armenia	HY	BB-	STABLE	BB-	STABLE	Ba3	STABLE	13.0
Poland	IG	A-	STABLE	A-	STABLE	A2	STABLE	6.7	Türkiye	HY	BB-	STABLE	BB-	STABLE	B1	POSITIVE	13.1
Croatia	IG	A-	POSITIVE	A-	STABLE	A3	STABLE	6.8	Namibia	HY	NR	N.A.	BB-	STABLE	B1	POSITIVE	13.1
Israel	IG	A	NEGATIVE	A	NEGATIVE	Baa1	NEGATIVE	7.3	Montenegro	HY	B+	STABLE	NR	N.A.	Ba3	STABLE	13.5
Malaysia	IG	A-	STABLE	BBB+	STABLE	A3	STABLE	7.3	Honduras	HY	BB-	NEGATIVE	NR	N.A.	B1	STABLE	13.8
Bulgaria	IG	BBB	POSITIVE	BBB	POSITIVE	Baa1	STABLE	8.2	Mongolia	HY	B+	POSITIVE	B+	STABLE	B2	STABLE	14.1
Uruguay	IG	BBB+	STABLE	BBB	STABLE	Baa1	STABLE	8.3	Bahrain	HY	B+	NEGATIVE	B+	NEGATIVE	B2	STABLE	14.8
Philippines	IG	BBB+	POSITIVE	BBB	STABLE	Baa2	STABLE	8.4	Nigeria	HY	B-	STABLE	B	STABLE	B3	STABLE	15.7
Peru	IG	BBB-	STABLE	BBB	STABLE	Baa1	STABLE	9.0	Egypt	HY	B-	STABLE	B	STABLE	Caa1	POSITIVE	15.7
Kazakhstan	IG	BBB-	STABLE	BBB	STABLE	Baa1	STABLE	9.0	El Salvador	HY	B-	STABLE	B-	STABLE	B3	STABLE	16.0
Indonesia	IG	BBB	STABLE	BBB	STABLE	Baa2	STABLE	9.0	Angola	HY	B-	STABLE	B-	STABLE	B3	STABLE	16.0
Mexico	IG	BBB	STABLE	BBB-	STABLE	Baa2	NEGATIVE	9.5	Kenya	HY	B-	STABLE	B-	STABLE	Caa1	POSITIVE	16.1
Hungary	IG	BBB-	NEGATIVE	BBB	STABLE	Baa2	NEGATIVE	9.7	Senegal	HY	B	NEGATIVE	NR	N.A.	B3	NEGATIVE	16.1
India	IG	BBB-	POSITIVE	BBB-	STABLE	Baa3	STABLE	9.8	Iraq	HY	B-	STABLE	B-	STABLE	Caa1	STABLE	16.3
Oman	**HY**	**BBB-**	**STABLE**	**BB+**	**POSITIVE**	**Ba1**	**POSITIVE**	**10.2**	Pakistan	HY	CCC+	STABLE	B-	STABLE	Caa2	POSITIVE	16.7
Azerbaijan	HY	BB+	STABLE	BBB-	STABLE	Ba1	POSITIVE	10.4	Tunisia	HY	NR	N.A.	CCC+	N.A.	Caa1	STABLE	17.0
Paraguay	HY	BB+	POSITIVE	BB+	STABLE	Baa3	STABLE	10.4	Ecuador	HY	B-	NEGATIVE	CCC+	N.A.	Caa3	STABLE	17.6
Serbia	HY	BBB-	STABLE	BB+	POSITIVE	Ba2	POSITIVE	10.5	Mozambique	HY	CCC+	N.A.	CCC	N.A.	Caa2	STABLE	17.7
Panama	IG	BBB-	STABLE	BB+	STABLE	Baa3	NEGATIVE	10.5	Argentina	HY	CCC	N.A.	CCC+	N.A.	Caa3	POSITIVE	17.7
Romania	IG	BBB-	NEGATIVE	BBB-	NEGATIVE	Baa3	NEGATIVE	10.6	Gabon	HY	NR	N.A.	CCC	N.A.	Caa2	STABLE	18.0
Morocco	HY	BB+	POSITIVE	BB+	STABLE	Ba1	STABLE	10.8	Bolivia	DS	CCC+	NEGATIVE	CCC-	N.A.	Ca	STABLE	18.9
Colombia	HY	BB+	NEGATIVE	BB+	NEGATIVE	Baa2	NEGATIVE	11.0	Sri Lanka	DS	SD	STABLE	CCC+	N.A.	Caa1	STABLE	19.3
Trin. & Tob.	HY	BBB-	STABLE	NR	N.A.	Ba2	STABLE	11.0	Ghana	DS	CCC+	STABLE	RD	N.A.	Caa2	POSITIVE	19.4
Guatemala	HY	BB+	STABLE	BB	POSITIVE	Ba1	STABLE	11.1	Belarus	DS	NR	N.A.	WD	N.A.	C	STABLE	21.0
Vietnam	HY	BB+	STABLE	BB+	STABLE	Ba2	STABLE	11.3	Zambia	DS	SD	N.A.	RD	N.A.	Caa2	POSITIVE	21.7
Brazil	HY	BB	STABLE	BB	STABLE	Ba1	STABLE	11.7	Ethiopia	DS	SD	STABLE	RD	N.A.	Caa3	STABLE	22.3
Costa Rica	HY	BB-	POSITIVE	BB	POSITIVE	Ba3	POSITIVE	11.9	Ukraine	DS	SD	N.A.	RD	N.A.	Ca	STABLE	22.7
Macedonia	HY	BB-	STABLE	BB+	STABLE	NR	N.A.	12.0	Lebanon	DS	SD	NEGATIVE	WD	N.A.	C	STABLE	22.8
Dom. Rep.	HY	BB	STABLE	BB-	POSITIVE	Ba3	POSITIVE	12.2	Note: NA denotes rating or outlook not available, NR means not rated								

The importance of the region

Global Energy Market: GCC’s crucial role in global oil & gas production and reserves

- The region holds 30-40% of the world’s proven oil reserves + accounts for 20-25% of total crude oil production (with Saudi Arabia and UAE accounting for ~75%).
- The region holds 20% of gas reserves and provides 10-15% of the world's gas production (with Qatar and Saudi accounting for ~65%).
- **Swing productions:** Particularly Saudi Arabia has the capacity to act as “swing producer” balance global supply & demand and stabilize prices during market volatility
- **OPEC influence:** particularly Saudi Arabia with strong impact on production policies
- **LNG exports:** Qatar as major player supplying a significant share of the world’s LNG demand
- **Heavy investments in energy infrastructure:** significant competitive advantage compared to other oil producer

Geopolitical Importance

Strategic location:

- Situated along major shipping routes (Persian Gulf & the Red Sea) and at the crossroads of Asia, Africa and Europe: gives significant influence over transportation of oil & gas to global markets (+ geopolitical importance)

Regional influence:

- **Key Players in Middle East Politics:** considerable influence on regional political dynamics, often mediating conflicts and shaping alliances (Yemen conflict, Libya conflict, relationship with Egypt, Abraham Accords)
- **Financial and Political Support:** Provides backing to various actors and initiatives across the MENA region, impacting regional stability and development (Humanitarian aid, investments in infrastructure projects, counter-terrorism efforts).

International relations:

- Strong ties with major powers (USA, China and Europe)
- **Investments and Economic Partnerships:** sovereign wealth funds play a crucial role
- **Median and Diplomacy:** Actively engages to resolve regional and international conflicts, promoting peace and stability.

Economic Powerhouse: growing global economic influence

Sovereign Wealth Fund (SWF) investments

- **Global reach:** PIF, ADIA and QIA are among the largest and most active SWFs in the world, investing in a wide range of assets across the globe (real estate, infrastructure, technology, and financial institutions)
- **Strategic acquisitions:** key sector investments (technology: PIF's investment in Uber), real estate (QIA's investment in Canary Wharf in London), and infrastructure (ADIA's investment in airports and ports).
- **Supporting innovations:** GCC SWFs invest in venture capital and private equity funds, particularly in high-growth sectors such as technology and renewable energy. This helps to drive global technological advancements.

Financial Centers

- Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) have established itself as leading financial hubs in the region, attracting foreign capital
- **Islamic Finance:** The GCC region is a center for Islamic finance, with Islamic banks and financial institutions playing a significant role in the global financial system.
- **Aviation Hubs:** The growth of international airlines such as Emirates, Qatar Airways, and Etihad have made GCC countries key aviation hubs, facilitating global travel and trade.

Opportunities

Renewable energy transition – a green future

Ambitious plan to invest in renewable energy + to become leading player – key advantages: job creation, reduced reliance on fossil fuels, environmental sustainability

- **Saudi Arabia:** Vision 2030 with plans of up to 50% of its electricity from renewable sources
- **UAE:** net-zero emissions by 2050 (with > USD 50bn investments)
- **Qatar:** large-scale developments of solar power plants

Strategic Investments and Diversification of SWFs

Beyond oil with long-term vision on domestic investments (increasing) and focus on global diversification

- **Saudi Arabia:** PIF at the heart of Saudi's 2030 vision / Giga-projects / NEOM investments
- **UAE:** ADIA with highly diversified global portfolio / opening up to global financial experts has made ADIA one of the most important global players
- **Qatar:** Strategic acquisitions of QIA with investments in Volkswagen, Barclays

Tourism and Hospitality – a growing sector

The GCC region is one of the fastest-growing areas for tourism and hospitality /

- **UAE:** Dubai, most established tourism destination in GCC region with focus on business tourism / Abu Dhabi with focus on adventure tourism
- **Saudi Arabia:** focus on religious tourism and luxury resorts (red sea project).
- **Qatar:** cultural experiences and sports tourism (post 2022 FIFA World Cup).
- **Oman:** focus on nature / **Bahrain:** focus on historical sites & motorsports

Challenges

Geopolitical risks and regional instability

- Iran-GCC tensions or Yemen conflict
- Regional power struggles (increases risks of political instability and uncertainty)
- Cyberattacks on critical infrastructure: GCC is becoming more vulnerable
- Terrorism and Extremism The threat of terrorism from groups such as ISIS and al-Qaeda remains a concern in the GCC region
- **Economic instability:** If global markets are in turmoil, that would have ripple effects to the GCC area that rely on global markets.

Fiscal sustainability and debt management

- The importance of sound fiscal policies amid oil price volatility / quickly rising debt levels increase risks of excessive burdening for future generations
- Diversification remains crucial but still limited non-oil revenues (due to low taxes and fees)
- High subsidies and still improving public sector efficiencies
- Improving debt management strategies & promoting private sector growth

Labor market challenges and skills gap

- GCC with large population growth which increases the need to create jobs for a growing workforce
- Significant investments into education and training, however, still wide skills gap
- Housing and infrastructure requires significant investments

GCC outlook H2-25: what to watch out for

Christian Wietoska | christian.wietoska@db.com | June 2025

A rebound in growth

- **A rebound in growth** is expected, albeit at a modestly slower pace (than originally anticipated) amid an expected slowdown in global demand.
- The **direct impact of tariffs** remains modest given limited trade exposure to the US (though UAE remains top 5 supplier of aluminium to the US).
- That said, an **indirect (significant) effect** could be felt through lower oil prices, a slowdown in global demand, especially as China remains top trading partner in the GCC, tight financial conditions in line with the Fed.

Saudia Arabia:

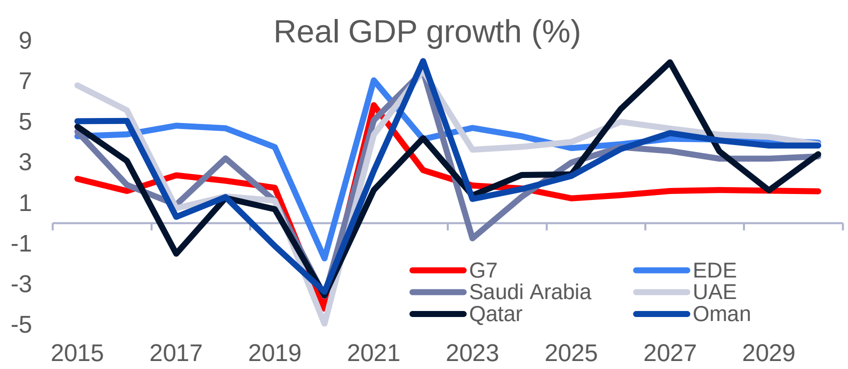
- Growth is expected to rebound on the back of a (strong) non-oil sector and a gradual reversal in oil production cuts in line with OPEC+ agreement.
- In the medium term, the 2029 Asian Winter Games, 2027 AFC Asian Cup, and World Expo 2030 are some of the supportive projects expected to further boost the contribution of the non-oil sector.

Qatar:

- Notwithstanding a short period of post World Cup normalization, growth rebounded strongly in 2024, reaching 2.4%.
- Going forward, we expect growth to see further recovery on the back of continued investments in both the non-oil and oil sectors. The first phase of the North Field (the world's largest LNG project) is expected to come on stream in 2026, significantly enlarging Qatar's LNG production capacity. This strong momentum is expected to persist in 2027 as Qatar further advances with its planned expansion

UAE:

- Economic activity grew by 4% in 2024, driven by 5% growth in the non-oil sector (which constitutes about 75.5% of GDP) amid strong domestic and external demand for the country.
- Overall, we expect the UAE economy to see further growth recovery in 2025-2026, further supported a reversal in oil production cuts, in line with OPEC+ agreements.



	Real GDP (%)		
	2024	2025F	2026F
GCC			
Qatar	1.6	2.1	5.6
Saudi Arabia	2.0	4.1	4.8
United Arab Emirates	3.9	4.8	5.2

Inflation staying well contained

- **Inflation** to remain well contained across the GCC countries, albeit housing inflation in UAE and KSA is expected to remain relatively high amid strong domestic and external demand.
- **Lower monetary policy rates** are expected in GCC in 2025, but global uncertainty risks keeping rates higher for a prolonged period.

Saudia Arabia:

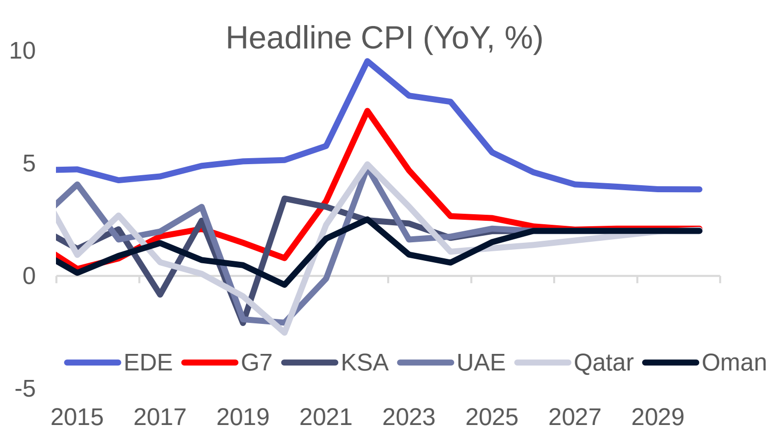
- Headline inflation has spiked above 2% YoY. This was driven largely by housing inflation (the largest component with ~25% weight in the CPI basket). BUT slower pace of growth in housing prices over the past few months (from peak of 10% in October). Overall, we expect inflation to hover around 2% for 2025-26 period.
- In terms of monetary policy developments, SAMA moves in tandem with the Fed's monetary cycle given its pegged exchange regime.

Qatar:

- Inflation is expected to remain well contained. Overall, this environment is well supportive of further rates cut, which we expect the central bank to implement in line with the Fed's easing cycle.

UAE:

- Headline inflation remains relatively low in the UAE, having reached about 1.7% in 2024 (monthly data remain lagging).
- Overall, we expect inflation to hover around 2% in 2025 and 2026.
- Monetary policy to follow suit with the Fed. So far, the CBUAE cut its policy rate by 50bps, taking its Base Rate to 4.4% in Q4, 2024. We expect further cuts this year in line with our view for the Fed. That said, global and geopolitical headwinds could result in higher for longer rates.



	Consumer prices (% pavg)		
	2024	2025F	2026F
GCC			
Qatar	1.2	1.7	1.9
Saudi Arabia	1.6	2.0	2.0
United Arab Emirates	1.7	2.0	2.0

Geopolitics drive the oil price and in turn the budgets

- Initially a moderation in **oil prices** was expected to weigh on oil-exporting GCC economies, but they maintain policy space to weather oscillations in oil prices in the near-term, including through higher taxation and/or reduction in energy subsidies and containment of public wage bill. However, the ongoing Israel – Iran conflict is complicating prospects of stability in the Middle East.

<u>Saudia Arabia:</u>

- When it comes to the budget, we expect a significant widening in the deficit to about 5% for both 2025 and 2026. Against this, debt is expected to reach 31.4% and 35% of GDP by 2026.
- Going forward, the country will continue to play a balancing act between supporting its giga-projects (i.e., high capex) and ensuring continued fiscal sustainability. That said, the kingdom still possesses a fiscal space, which it can utilize to weather oscillations in oil prices.

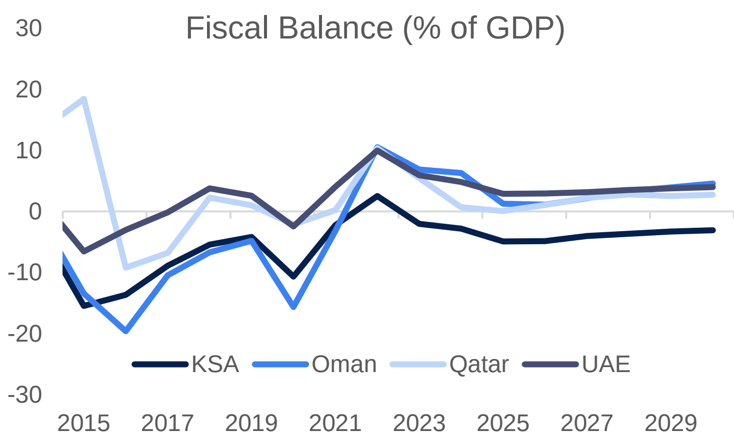
<u>Qatar:</u>

- Against the backdrop of a less supportive hydrocarbon environment, fiscal and external balances are expected to witness some narrowing this year, albeit an escalation of the Iran – Israel conflict could sustain higher oil prices for a prolonged period.
- Qatar's strengthened FX position will continue to enable it to weather tighter global conditions and oscilliation in oil prices.

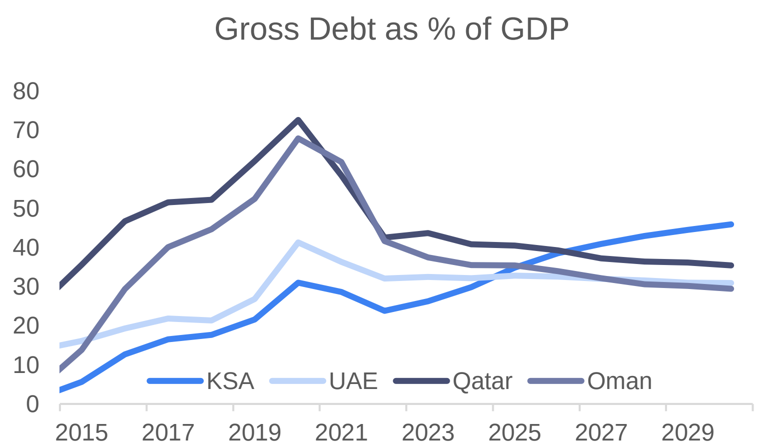
<u>UAE:</u>

- Fiscal position remains relatively strong and is expected to remain in surplus territory in the medium-term, supported by the UAE increased production capacity.

Fiscal Balance: a moderation underway in line with a less favourable oil environment



Debt trajectory: higher capex and lower oil are expected to lead to higher debt levels in KSA



Geopolitics drive the oil price and in turn the budgets

OPEC market share to remain near lower end of range since 2000

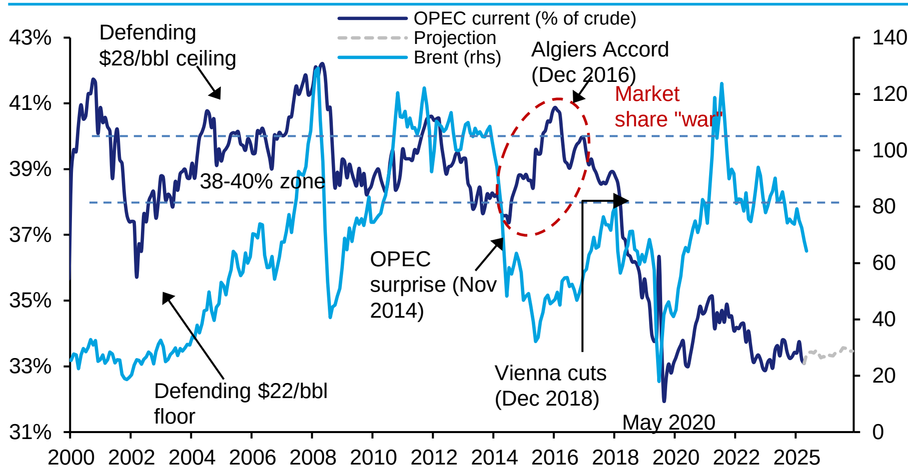


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Table of scenario oil prices, taking effect Q3-25

	50% reduction to Iranian exports	100% reduction to Iranian exports	-1.5 mmb/d for 2 months	Strait of Hormuz for 2 months
2025 Q2	74	74	74	74
Q3	74	77	75	124
Q4	69	75	69	113
2026 Q1	62	71	61	100
Q2	59	70	56	93
Q3	59	73	55	91
Q4	57	74	52	86

Source: IEA data from Monthly Oil Data Service © OECD/IEA 2024, www.iea.org/statistics, License:www.iea.org/t&c; as modified by Deutsche Bank

Oil price fiscal breakeven levels

MENA exporting countries	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Algeria	84	108	123	108	135	107	104	92	102	107	90	111	113	104	156	157
Bahrain	120	128	133	147	112	118	106	112	118	99	121	132	132	138	161	137
Iran	112	140	99	136	95	42	57	55	74	167	228	119	123	123	138	163
Iraq	89	99	103	122	102	59	51	43	46	53	57	54	69	80	84	79
Kuwait		46	44	45	70	60	56	64	75	72	63	87	82	80	88	80
Libya	65	149	63	136	204	143	175	82	48	36	142	52	64	66	73	67
Oman	67	78	103	102	101	97	100	82	77	65	86	77	55	54	54	57
Qatar	65	63	67	60	53	49	49	47	50	51	49	48	49	50	47	45
Saudi Arabia	68	77	78	89	106	94	84	82	87	81	73	83	89	95	96	92
United Arab Emirates	75	89	77	77	92	78	56	56	57	54	52	53	47	46	50	50
Yemen, Rep	130	195	237	215	160	305	364	125								

Key country risks

Saudi Arabia:

- A potential decline in global demand, particularly from China is one key risk (e.g., est. show medium-term non-oil growth could drop by 2% following 1% decline in China's growth). Inefficient spending and/or overheating are also a risk.

Qatar

- **Downside risks** could stem from a potential decline in global demand, and/or collapse in hydrocarbon prices. Geopolitically, mounting pressures from the ongoing Iran – Israel conflict could pose a significant risk for Qatar given that the latter shares South Pars gas field with Iran, albeit risks seem to be contained for the time being.

UAE

- A slowdown in global growth amid trade wars (particularly that of China) and oscillation in oil prices are some of the main risks to our outlook. In addition, the ongoing conflict between Iran and Israel, which led to (a temporary) closure of the air space of Iraq, Lebanon, and Jordan, could have some impact on the tourism and transportation sector (if sustain for a prolonged period).

Forecast tables

Saudi Arabia: Deutsche Bank Forecasts

	2023	2024	2025F	2026F
National Income				
Nominal GDP (USDbn)	1 219	1 238	1 225	1 247
Population (mn)	33.7	35.3	34.6	35.2
GDP per capita (USD)	36 157	35 057	35 406	35 440
Real GDP (YoY%)	0.5	2.0	4.1	4.8
Prices, Money and Banking (YoY%)				
CPI (eop)	1.5	1.9	2.0	2.0
CPI (annual avg)	2.3	1.6	2.0	2.0
Fiscal Accounts (% of GDP)				
Fiscal balance	- 2.0	- 2.8	- 4.9	- 5.1
Revenue	26.5	27.1	24.7	24.3
Expenditure	28.3	29.6	29.7	29.4
Debt Indicators (% of GDP)				
Government Debt	23.0	26.2	31.4	35.9
Financial Markets				
Key official interest rate (eop)	6.00	5.00	4.75	4.25
USD/SAR	3.75	3.75	3.75	3.75

Source: Deutsche Bank

Forecast tables

United Arab Emirates: Deutsche Bank Forecasts

	2023	2024	2025F	2026F
National Income				
Nominal GDP (USDbn)	514	544	567	601
Population (mn)	10.7	10.8	11.0	11.2
GDP per capita (USD)	48 146	50 233	51 501	53 778
Real GDP (YoY%)	3.6	3.9	4.8	5.2
Prices, Money and Banking (YoY%)				
CPI (annual avg)	1.6	1.7	2.0	2.0
Fiscal Accounts (% of GDP)				
Fiscal balance	4.5	4.6	4.2	4.1
External Accounts (USD bn)				
Goods Exports	373.7	393.5	404.7	406.0
Goods Imports	308.5	328.5	344.6	350.8
Trade Balance	65.2	65.0	60.1	55.2
% of GDP	12.7	11.9	10.6	9.2
Current Account Balance	52.7	51.2	46.2	44.5
% of GDP	10.2	9.4	8.2	7.4
Financial Markets				
Key official interest rate (eop)	5.40	4.40	4.15	3.65
Exchange rate	3.67	3.67	3.67	3.67

Source: Deutsche Bank

Forecast tables

Qatar: Deutsche Bank Forecasts

	2023	2024	2025F	2026F
National Income				
Nominal GDP (USDbn)	217	219	227	242
Population (mn)	3.0	3.0	3.1	3.2
GDP per capita (USD)	73 020	72 909	73 180	75 735
Real GDP (YoY%)	1.2	1.6	2.4	5.6
Prices, Money and Banking (YoY%)				
CPI (annual avg)	3.0	1.2	1.7	1.9
Fiscal Accounts (% of GDP)				
Fiscal balance	5.6	3.2	2.6	3.8
Revenue	32.8	29.1	27.2	28.1
Expenditure	27.3	25.9	24.6	24.4
External Accounts (USD bn)				
Goods Exports	97.7	94.6	92.7	102.0
Goods Imports	29.4	32.1	32.4	34.6
Trade Balance	68.3	62.5	60.3	67.4
% of GDP	32.1	28.2	26.6	27.8
Current Account Balance	36.5	29.4	26.4	31.1
% of GDP	17.1	13.3	11.6	12.8
USD/QAR (eop)	3.64	3.64	3.64	
Financial Markets				
Key official interest rate (eop)	6.00	4.85	4.60	4.10
USD/QAR (eop)	3.64	3.64	3.64	3.64

Source: Deutsche Bank

Appendix 1
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