

September 2025

Atradius MENA Economic Outlook

Looking for safe havens in a divided region

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Summary

The Middle East and North Africa (MENA) has navigated choppy waters over the past two years, but there is light on the horizon. Although the Gaza war is still raging, Israel has established ceasefire deals with Hezbollah and Iran, limiting the risk of regional escalation. Houthi attacks on ships along the Red Sea route and the Gulf of Aden are less frequent and more targeted than before. Oil production is reviving after a period of moderation since the oil market boom in 2022. And easing inflation and interest rate cuts will stimulate household spending across the region. As a result, real GDP growth in MENA is set to almost double, from 2.0% in 2024 to 3.3% in 2025 and 3.8% in 2026. However, the region remains divided, both in a geopolitical sense and in terms of economic growth potential. A possible failure of resumed negotiations on a nuclear deal with Iran could lead to renewed military intervention by Israel and the US, particularly given the uncertainty over Iran's remaining nuclear capabilities and ambitions. On the economic front, oil-exporting and oil-importing countries face different challenges. Oil-exporting countries will have the wind in their sails. With oil production cuts being reversed, they will continue to invest in economic diversification. For them, the key question is whether this momentum can be sustained once oil prices decline further after 2027/28. In contrast, highly indebted oil-importing countries have limited fiscal space for growth-enhancing investments. Fiscal reforms are needed, but lingering social unrest stands in the way.

- MENA is poised for a remarkable economic resurgence – outpacing every other region in the world. Between 2024 and 2026, real GDP growth is projected to nearly double, reaching an impressive 3.8%. While this surge is largely tied to oil market dynamics, it also underscores MENA's resilience to external shocks. The region has been least affected by global trade tensions and spillovers from conflict zones in its own backyard have remained contained.
- In the Gulf Cooperation Council (GCC) countries, non-oil growth is robust and reform-driven, with Saudi Arabia and the UAE leading the bloc's ambitious diversification efforts. Despite softer oil prices, governments have retained fiscal space for continued investment, supported by low public debt, sizeable sovereign wealth funds and ongoing efforts to mobilise non-oil revenue streams. The region's reputation as a safe haven is undented by elevated regional turbulence. Rising levels of foreign direct investment provide an additional financial boost to its transformation agenda.
- In contrast, energy-importing MENA economies are experiencing a more cyclical, consumption-led recovery, aided by lower oil prices, easing inflation and falling interest rates. However, investment is held back by limited fiscal space, macroeconomic imbalances and political uncertainty, while socioeconomic tensions hinder reform. Unlocking stronger growth requires growth-friendly fiscal reforms and stronger policy frameworks. Morocco offers a promising model, combining gradual fiscal consolidation with public-private partnerships to boost investment in strategic sectors. Egypt could follow suit by aligning IMF-backed macroeconomic stabilisation with an ambitious privatisation programme.

Looking for safe havens in a divided region



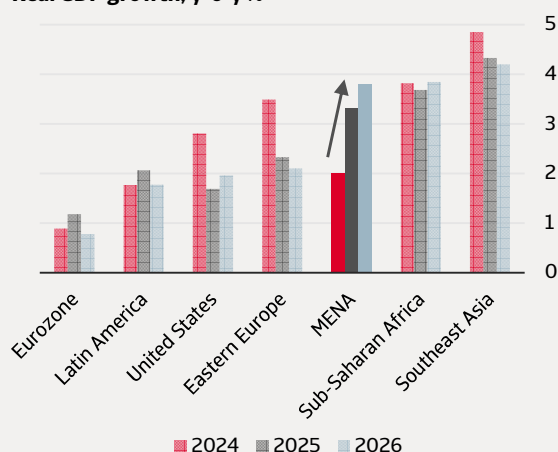


1. Economic growth doubles in pace

Real GDP growth in MENA will nearly double to 3.8% between 2024 and 2026 (figure 1 and table 1). This expected uptick is far stronger than in any other region in the world. While this fits in the particularly volatile economic growth pattern that this region has displayed post-corona, it also underscores MENA's remarkable resilience to recent external shocks. For example, MENA is globally the least affected by Trump's trade tariffs. Regional spillovers from the Gaza war and related conflicts have so far been limited, and non-oil sectors in particularly the Gulf states have continued to show robust growth, since oil prices moderated in 2022.

Figure 1 Strongest real GDP growth uptick for MENA

Real GDP growth, y-o-y %



Source: Oxford Economics, Atradius

Table 1 MENA growth bucking the global trend

Real GDP growth, % y-o-y

	2024	2025*	2026*
Saudi Arabia	2.0	4.3	4.8
United Arab Emirates	4.0	5.1	5.6
Qatar	2.3	2.7	4.8
Morocco	3.2	3.5	3.4
Egypt	3.1	4.3	4.5
Tunisia	1.4	1.6	1.8
GCC	2.2	4.2	4.7
MENA	2.0	3.3	3.8

Source: Oxford Economics, Atradius (* forecast)

The regional economic growth outlook would be even more impressive if we excluded the few countries that did suffer economic damage from wars, namely Iran and Israel. These countries carry significant economic weight in the MENA region. Without them, expected aggregate real GDP growth would already reach 3.8% this year, rather than next – implying a 0.5 percentage-point faster acceleration.

1.1 Oil-driven rebound

Since MENA is home to a significant portion of global oil and gas production, hydrocarbon market developments play a major role in the observed volatility in economic growth. The current upturn is being driven by the unwinding of the severe oil production cuts that OPEC+ had been implementing in stages since late 2022, as the post-corona oil boom ended and fears of a global economic recession began to take hold. Saudi Arabia and Kuwait are the most dependent on oil exports among Gulf Cooperation Council (GCC) countries and bore the brunt of these cuts, causing a significant economic slowdown or even a mild recession in 2023 and 2024. They will now see the strongest economic recovery from 2.0% and -2.6% in 2024 to 4.8% and 2.8% in 2026 respectively. While the UAE has not had to cut oil production that much, it will experience a roughly similar rebound in oil production, benefiting from the gradual implementation of the base level increase it negotiated within OPEC (see in focus on page 4).

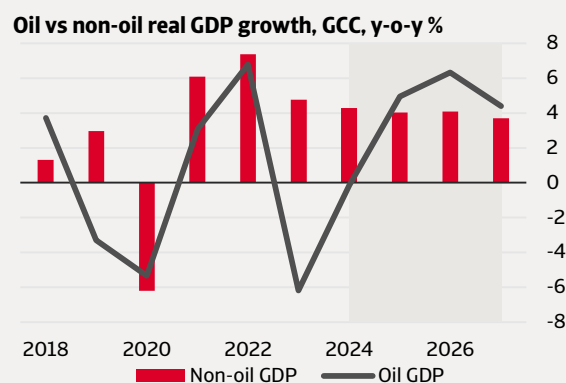
Looking ahead, hydrocarbon growth will also be driven by increased gas production. Oman, Saudi Arabia, the UAE and Qatar are all investing heavily in expanding natural gas production capacity. They want to capitalise on growing demand from, for instance, Europe. As a transition fuel, gas also has better prospects than oil. For Qatar, where gas exports are the main source of income, the massive expansion of LNG production capacity by more than 80% between 2025-2030 will push its economic growth well above 4% from 2026. Saudi Arabia even shelved its plan to expand oil production capacity from 12 to 13 billion barrels per day – citing existing overcapacity – to be able to redirect its focus to gas. This strategic shift aims to boost the kingdom's gas output by 60% between 2021 and 2030, while also developing related downstream activities. In general, we foresee a growing importance of gas in the GCC's hydrocarbon production mix at the expense of oil.

1.2 Non-oil growth robustness GCC

While the volatile path of economic growth in the GCC, including the upcoming upturn, is entirely due to developments in the oil market, non-hydrocarbon sectors have become increasingly important for the economic growth performance of the Gulf countries. The robustness of non-oil growth since the post-pandemic recovery in 2021 has been striking. After peaking above 7% in 2022, non-oil growth remained strong, staying above 4% (figure 2).

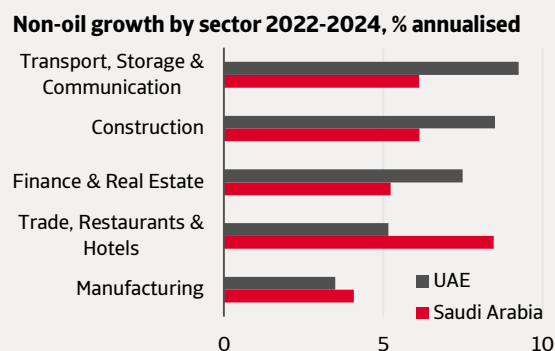


Figure 2 Non-oil sectors in the GCC grow steadily



This suggests that their comprehensive economic diversification programmes are starting to pay off, enabling non-oil sectors to grow more independently, whereas previously, any slowdown in the oil market would automatically dampen non-oil economic growth. The UAE and Saudi Arabia are leading the way. The latter continues to implement its ambitious Vision 2030 strategy. In the UAE there are various diversification programmes underway both on federal and emirate level. One federal programme aims to boost UAE's manufacturing output to AED 300 billion by 2031 from AED 197 billion or 11.2% of GDP in 2023. The biggest and most oil-export dependent emirate, Abu Dhabi, aims to raise the contribution of the non-oil sector to GDP to 64% by 2030 from 54.7% in 2023. The Dubai Economic Agenda (D33) aims to double the Dubai's GDP in the decade to 2033. Financial sector, logistics, ICT, construction, tourism and manufacturing are the sectors that grew the fastest in the UAE and Saudi Arabia in 2022-2024 (figure 3). The start of monetary easing, with GCC central banks closely tracking the US Fed because of their dollar pegs, will only provide fresh impetus to non-oil activities in 2025 and 2026.

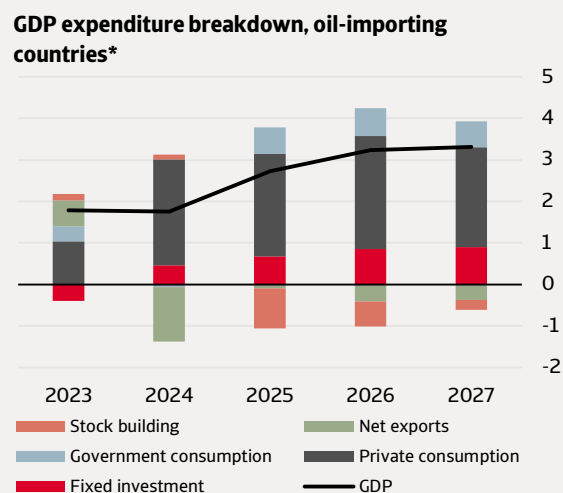
Figure 3 New growth drivers are taking shape



1.3 Consumption-led recovery elsewhere

The economic outlook in other countries in the MENA region is less underpinned by reforms and is more cyclical. While we expect their economic recovery to still outperform other parts of the world, it will therefore be less broad-based. Energy-importing countries such as Tunisia, Jordan, Lebanon and Egypt are mostly benefiting from the moderation in oil prices, normalisation of inflation and easing of interest rates. This mainly fuels a recovery in private consumption, their traditional growth engine. In some countries, increased government consumption – including spending on social welfare and public sector wages – will provide an additional stimulus. Investment growth is also rebounding in non-GCC countries, but relatively modestly (except for Morocco) and net exports will contribute negatively to economic growth (figure 4).

Figure 4 Consumption fuels recovery in non-oil states



Morocco and Jordan were among the oil-importing countries that managed to normalise inflation as early as 2023, shortly after the end of the 2022 global commodity price boom. However, monetary policy easing was postponed until the summer of 2024, when the European Central Bank and the US Federal Reserve began cutting rates, due to the countries' exchange rate links to the euro and/or the dollar. These rate cuts are now boosting private consumption, the main driver of the current economic upswing, and in Morocco's case, also supporting investment. Robust tourism activity and remittance inflows from expatriates are also contributing to private consumption growth.

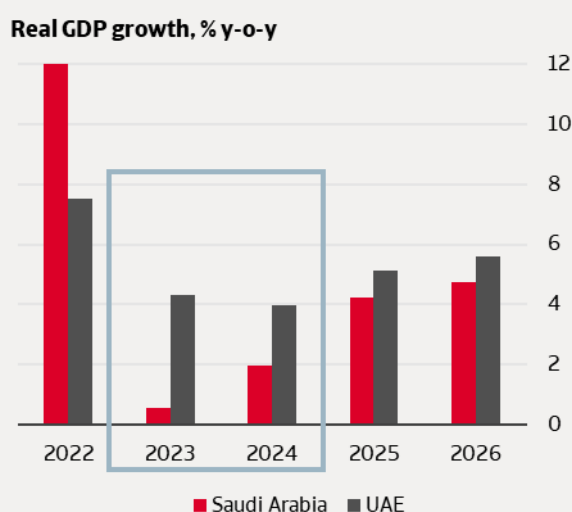
In several other MENA countries outside the GCC – particularly Egypt, Lebanon and Tunisia – persistent inflation continued to weigh on household income and consumption for longer,



In focus: Regional rivalry and economic growth gap between the UAE and Saudi Arabia

The uneven allocation of oil production cuts and the degree of economic diversification are key determinants of the significant economic growth gap that has opened up between the two largest economies in the Gulf Cooperation Council (GCC) vying for regional dominance: Saudi Arabia and the UAE. Saudi Arabia suffered near economic growth stagnation in 2023 followed by a weak recovery of 2.0% in 2024. This was in stark contrast to the UAE, which posted strong growth of around 4% over the same period. While the UAE got away with an oil production cut of less than 10%, Saudi Arabia has cut its oil production by nearly 20% since August 2022. This hit particularly hard, because about half of Saudi Arabia's economy still depends on oil exports, while oil only makes up just 20% of the UAE's economy. This also means growth in the non-oil economy, which was about as strong as in the UAE, counted for less in Saudi Arabia.

Figure 5 Saudi-UAE economic growth differential



Source: Oxford Economics

However, this is just a temporary setback for Saudi Arabia in the increasing economic rivalry with the UAE. We expect the oil market recovery to lead to a stronger acceleration of economic growth in Saudi Arabia and close the gap with the UAE. Who will ultimately assert economic leadership in the region in the medium term is undecided. Both countries are still investing heavily in hydrocarbons, while they are at the same time regional front runners in economic diversification. Saudi Arabia aspires to assume the UAE's role as a regional trading hub. The UAE, on the other hand, feels increasingly constrained by Saudi Arabia's control over the oil market. Since the clash at an OPEC meeting in 2021, the UAE has negotiated unilateral increases to its oil production quota in 2023 and 2024 and continues to put pressure on Saudi Arabia by accelerating the expansion of its oil production capacity. In turn, the UAE has been confronted by Saudi Arabia's 2021 requirement that foreign companies establish their regional headquarters in Riyadh by 2024 to qualify for government contracts. Although several hundred multinationals have now relocated their headquarters to Saudi Arabia, the UAE still appears highly attractive for international businesses and the region's top destination for foreign direct investment.

Negative side effects of regional rivalry could emerge down the line. A cause for concern is that Saudi Arabia and the UAE – along with other GCC countries – are targeting the exact same non-oil sectors for development. This single-minded ambition to become the region's hub for tourism, logistics, FinTech, AI, hydrogen and more could lead to overinvestment and stranded assets. Rivalry between Saudi Arabia and the UAE could also weaken the cohesion within the GCC trading bloc. Saudi Arabia has tightened rules on duty-free imports from other GCC countries, while the UAE has been pursuing numerous bilateral trade agreements with third countries since 2021, rather than deals that encompass all Gulf states.

largely reflecting underlying financial instability. Nevertheless, the economic outlook of these countries also improved. Egypt has made progress in reducing macroeconomic imbalances under IMF guidance. As a result, economic growth is expected to accelerate to over 4% this year and to almost 5% in 2027. Lebanon, meanwhile, is starting to emerge from a prolonged economic and political crisis, following the long-delayed election of a new president and the resumption of negotiations to revive its stalled IMF programme. Reconstruction efforts following the Israel-Hezbollah conflict are expected to provide a short-term boost and mark the end of a seven-year recession. In Tunisia, however, where President Saïed remains focused on consolidating power

rather than addressing macroeconomic imbalances, real GDP growth is projected to rise only marginally – from 1.4% in 2024 to 1.8% in 2026 – placing it among the region's weakest performers.

Next to monetary policy easing, high government spending has fuelled economic growth in countries like Iraq, Algeria and Morocco. However, this represents another temporary form of stimulus. In Morocco, this is less of a concern for medium-term growth, as the increase in social spending is part of a broader economic development plan that also prioritises investment and fiscal reform. In other countries, like Iraq and Algeria, the rise in government consumption reflects a less sustainable



growth strategy. They use oil revenue windfalls to increase public sector wages and social spending in an effort to limit the risk of a resurgence of anti-government protests. As this means recurrent expenditures are steadily increasing without being backed by permanent revenue sources, their already fragile public finances will deteriorate. Currently, high public spending contributes to Algeria's fairly high economic growth of 3.5%. In the medium term, however, Algeria will likely have to implement at least some sort of fiscal consolidation, which will significantly reduce growth to around 2%. In Iraq, economic growth will peak at 4.25% in 2027 before trailing off in line with weaker oil market developments

2. High resilience to shocks

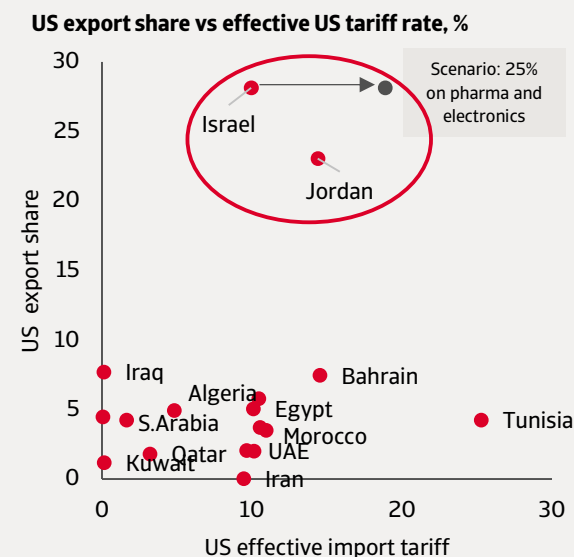
The region has faced multiple shocks but has proven rather resilient. Of all the regions around the world, MENA is the least affected by the US import tariffs, while MENA has largely defied the trade spillovers from the Gaza war. Exports in the Middle East will pick up in 2025 and 2026, albeit held back by the timid recovery in global trade. In North Africa, Tunisia and Morocco are impacted by the particularly weak economic recovery in Europe, their main trading partner.

2.1 Limited impact Trump's tariffs

The direct negative impact of Trump tariffs on the MENA region is relatively limited. This is because the US is generally not a major trading partner, and MENA's exports to the US focus on energy products, which are exempt from tariffs. Moreover, many countries in the region qualify for the lowest 10% default rate, which means their competitiveness relative to other countries exporting to the US is at least not diminished.

The UAE and Bahrain are being hit to some extent by import duties on specific product categories, particularly aluminium and steel. US President Trump has hiked the tariffs on these products a second time from 25% to 50%. While this means the UAE and Bahrain eventually pay some of the highest import duties in the region relative to their total exports to the US, this so-called effective rate will still be only around 10%, which is low compared to other countries worldwide. To prevent becoming a prime subject of Trump's trade war, the region's wealthier countries have gone to great lengths to curry favour with the US president. The UAE, Saudi Arabia and Qatar, for instance, agreed to invest altogether over USD 2 trillion in US energy, artificial intelligence, defence, aviation and manufacturing over the next decade.

Figure 6 Jordan, Israel hit hardest by Trump's tariffs



Source: Fitch, UNCTAD

However, there are a few MENA countries that are hit relatively hard, or will potentially be, notably Jordan and Israel (figure 6). About a quarter of their exports are destined for the US. Moreover, these countries are subject to higher reciprocal import duties, albeit those were reduced slightly from respectively 20% and 17% to 15% when Trump finalised the reciprocal rates at the end of July. While Israel currently enjoys tariff exemptions on just under half of its goods exports to the US, these exemptions are at risk as Trump is now also considering high special tariffs on electronics, semiconductors pharma and the like. Virtually none of Jordan's trade with the US qualifies for duty-free treatment.

The US tariffs also have indirect effects relevant to the region. These could potentially be larger, but so far they have also been limited. For example, the tariff threats have likely contributed to the moderation of oil prices, driven by fears of a slowdown in global trade growth. However, the impact appears to be limited to the decline of roughly USD 10 per barrel already seen this year. While this makes the accelerated tapering of oil production cuts – implemented monthly since April – look ill-timed, OPEC+ is unlikely to flood to market with additional supply. Overproducing members such as Kazakhstan and Iraq have been asked to compensate for their earlier non-compliance, which will at least offset part of the planned increase. Whether these notoriously non-compliant members will fully adhere to these new compensation plans remains to be seen. In any case, for most oil-exporting countries in the Middle East and North Africa, higher production helps sustain oil revenues and improves their fiscal breakeven oil prices. At the same time, oil-importing countries



are benefitting from a further reduction in their fuel import bill amid lower oil prices.

US tariffs could also have an inflationary impact on the dollar-pegged countries in the region, such as the Gulf states. Through this exchange rate peg, the recent weakening of the US dollar versus the euro by about 10% this year could push up import prices. However, the Gulf states' increasing focus on trading partners in Asia and Africa rather than Europe mitigates this impact (see the previous MENA regional report)¹. This is reflected in the much more limited depreciation – on average less than 5% – of the nominal effective exchange rate (NEER) of Gulf states, which is their exchange rate versus a weighted basket of trading partners. We therefore expect that inflation in the Gulf states will remain low and stable, at just above 2% in 2025 and 2026. The combination of a modest exchange rate depreciation and low, stable inflation will improve the international competitiveness of the Gulf states, which could stimulate exports of non-oil goods.

2.2 Limited spillover from Gaza war

Another external shock that has affected the region since October 2023 is the war in Gaza between Israel and Hamas and the regional domino effect it has caused by dragging in Hezbollah from Lebanon, the Houthi's from Yemen and ultimately Iran. For countries in the region that were not directly involved, however, these conflicts had limited spillover effects. The biggest disruption comes from Houthi rebel attacks on shipping along the Red Sea route. After a lull since the beginning of this year, Houthi attacks have resumed, but in a more targeted way. Shifting from frequent attacks to more selective yet strategically impactful ones, the group is testing the limits of its May ceasefire agreement with the US, which prohibits attacks on non-Israeli assets. The Houthi's will remain a threat as long as a ceasefire between Israel and Hamas remains elusive. Due to the possibility of rerouting, the impact on trade has been temporary and limited. The dip in Middle East import volumes caused by the Houthi threat in early 2024 was already overcome by the end of 2024 (figure 7). Moreover, the WTO predicts that the Middle East will take a leading position in international trade expansion, also on the export side, in the coming years.

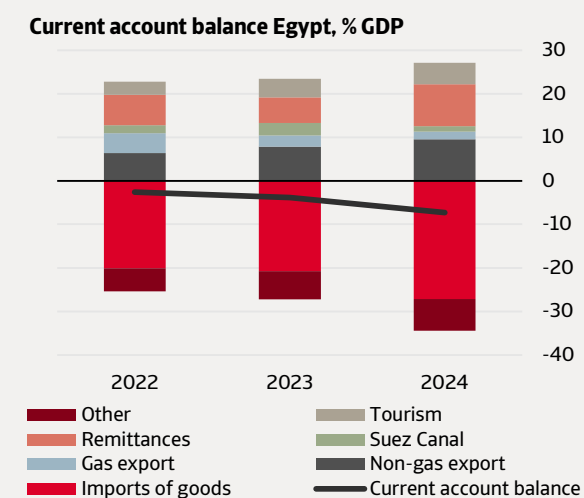
Of the countries not directly involved in the war, Jordan and Egypt are closest to the fire. The main pain felt by Egypt comes from the rerouting of trade flows. This has severely reduced Suez Canal revenues, an important source of foreign exchange for Egypt. However, this loss of foreign currency inflow has been partially offset by an increase in exports and remittances (figure 8). Meanwhile, tourism has remained surprisingly robust given the heightened regional security threat. The fact that Egypt's and Jordan's airspace remained

largely open during regional hostilities plays a significant role in this. For example, Jordan welcomed 14% more tourists in the first half of this year than in the first half of 2023. And travel receipts in Egypt were almost 10% higher in 2024 than in 2023 and 25% higher than in 2022. The fact that Egypt's current account deficit nevertheless worsened sharply in 2024 is therefore not so much due to the war but is a positive sign. Imports into Egypt are rebounding due to improved availability of foreign currency as result of the resumption of economic reforms in Egypt.

Figure 7 Middle East trade defies Gaza war



Figure 8 Egypt's Suez income down, imports up



¹ Regional Economic Outlook MENA - October 2023, Atradius



2.3 Regional escalation would be disastrous

Regional escalation is a different story. The ceasefire between Israel and Iran is fragile, leaving the region vulnerable to renewed conflict. One of the worst-case regional escalation scenarios is an Iranian blockade of the Strait of Hormuz, a major global chokepoint for oil and LNG trade. This could temporarily send oil prices soaring towards USD 100-150 per barrel. Regional LNG exports, primarily from Qatar, would also be severely disrupted. In such a scenario, the price increases are likely to be short-lived, as a US-led maritime security operation eventually clears the way. Nevertheless, it would lead to a significant slowdown in economic growth in the Gulf states in the short-term.

The consequences of higher energy prices would be most severe for energy-importing countries, exacerbating existing balance of payments stress. Egypt is particularly vulnerable due to its heavy reliance on gas supplies from Israel for almost a fifth of its total gas consumption. The country has already been struggling with domestic gas shortages and was forced to halt its gas exports last year. Since the start of the Gaza war, gas supplies from Israel's Leviathan field have been temporarily suspended multiple times for security reasons. A prolonged shutdown of the field would leave Egypt facing higher costs for LNG imports or force it to resort again to daily power cuts, as it did during the summer of 2024.

However, this worst-case scenario is not very likely. Iran would be shooting itself in the foot, as it is heavily dependent on the Strait of Hormuz for its own imports and exports. It would also alienate China, its main and virtually only remaining buyer of its oil products. Moreover, Iran does not want to risk a full-scale war with the US nor jeopardise its improving relations with the Gulf states.

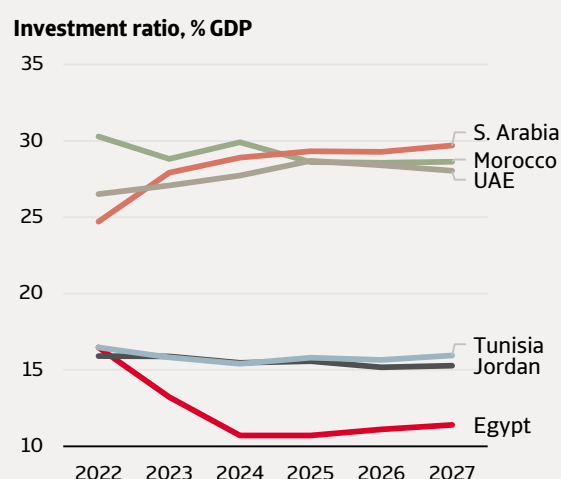
3. Gulf states have reform momentum

The robust growth in both the Gulf states' non-oil sectors and trade is the result of ongoing investments to future-proof their economies. Their strategy for managing the energy transition is based on two prongs. First, it involves extracting as much oil and gas resources as possible, while there is still demand for it. This requires additional investments as well as increasing efforts to decarbonise fossil fuel production, including through carbon capture technologies. The second prong of their future strategy calls for even greater investment and focuses on developing alternative revenue streams to diversify their economies.

This post-pandemic surge in investment positively distinguishes the Gulf states from most energy-importing countries in the region, except for Morocco, which is also investing heavily. Investment ratios indicate that nearly 30%

of GDP is invested annually in Saudi Arabia, the UAE and Morocco, versus only 10-15% of GDP in for instance Tunisia, Jordan and Egypt (figure 9). But what explains the continued strength of economic diversification and investment momentum, even amid moderating oil prices and rising geopolitical tensions?

Figure 9 Gulf states have investment momentum



Source: Oxford Economics

3.1 Fiscal strength

One reason for this ongoing investment momentum is fiscal strength. A second is that, given this fiscal strength, the oil market's moderation since 2022 hasn't been severe enough to detract Gulf governments from their economic diversification efforts. In our baseline scenario, oil prices will continue to trend down gradually over the medium-term. And thanks to low public debt and substantial sovereign wealth funds (SWF), most Gulf governments should be well-positioned to absorb the resulting revenue losses. Moreover, between 2021 and 2023, Gulf states used oil revenue windfalls to reduce debt burdens and beef up their SWFs. Only a severe oil price shock would cause a serious, though most likely temporary, derailment. Strong fiscal buffers also allow for a continuation of their gradual fiscal consolidation approach, leaving sufficient fiscal space for the massive investments necessary for their economic transition. Furthermore, hydrocarbons are not their only revenue source anymore. Since the start with the pan-GCC rollout of VAT in 2018, GCC countries continued to mobilise non-oil revenues through corporate income taxes and excise duties. For example, the UAE introduced a 9% corporate tax rate (CIT) in June 2023, and Bahrain, the only GCC country not yet having a CIT rate, plans to introduce it this year or next. In Saudi Arabia, non-oil government revenues rose from 30% to nearly 50% of total government revenues, and from 6% to 11% of GDP over the past decade. Only Kuwait has seen limited progress in non-oil revenue generation, but we expect reforms there as well in the medium term.



Robust private sector credit growth is a further sign that oil-driven liquidity has not fallen below par and remains supportive of investment activity. Despite elevated interest rates, private sector bank lending has been expanding at healthy rates, ranging from 5% to 15% across most GCC economies. Confidence in large-scale economic transformation programmes remains high, and the expected returns on investment are encouraging businesses to borrow for expansion, even at higher costs. Looking ahead, the recent and expected easing of interest rates is likely to provide fresh impetus for credit expansion, reinforcing the region's investment momentum.

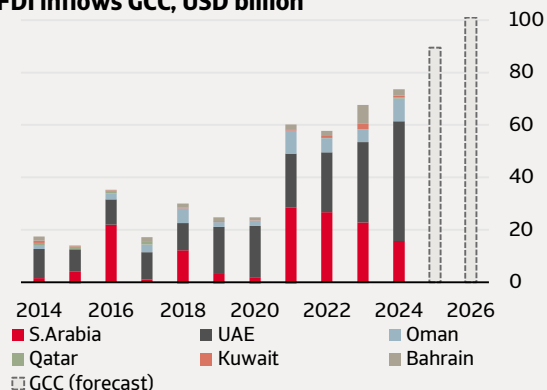
That doesn't mean that Gulf states face no financial constraints in the short to medium term. Most government budgets returned to deficits sometime between 2023 and 2025, except for Qatar and the UAE. In Saudi Arabia, the current account has also turned into a deficit, projected to exceed 3% of GDP this year. The kingdom is therefore, reprioritizing, scaling back some of its most ambitious projects, like the construction of the futuristic megacity NEOM. And Saudi Arabia's USD 925 billion SWF, which not only invests abroad but is also increasingly focused domestically, is asked to cut spending by 20%. This signals the limits of SWFs as shock absorbers for maintaining investment momentum. These funds are closely tied to broader fiscal strategies, and their spending must therefore also align with long-term fiscal sustainability goals.

3.2 FDI safe haven

This is where foreign direct investors come into the picture, reducing the need for Gulf states to tap into SWFs to finance domestic projects. Despite regional turbulence, the GCC continues to be seen as a safe haven, attracting rising foreign direct investment (FDI) inflows. Most of this investment is directed outside the hydrocarbon sector, particularly into services such as finance, communications, and transportation. To further encourage investors' interest, Gulf states have stepped up efforts to enhance the already strong business environment, particularly regarding investment laws. These have been upgraded in most GCC countries over the past five years, with the easing of foreign ownership restrictions being one of the most significant improvements. These reforms have paid off: FDI into the GCC has quadrupled from a little over USD 20 billion in 2019 to almost USD 80 billion in 2024 (figure 10), and is heading for the USD 100 billion mark in 2026, according to IIF projections. This stands in stark contrast to the group of energy-importing peers like Tunisia, Lebanon and Jordan, where FDI inflows declined over the same period to a combined total of just USD 2 billion.

Figure 10 FDI in the GCC has quadrupled

FDI inflows GCC, USD billion



Source: UNCTAD World Investment Report 2025, IIF

The UAE remains the region's most attractive destination, claiming more than half of all FDI flows to the GCC, equivalent to 8.5% of its GDP. Oman and Bahrain also do relatively well. As the country with the least fiscal space for capital expenditure among Gulf states, Bahrain relies on public private partnerships (PPPs) and launched a "golden license" scheme in 2023 to attract substantial private investments. The scheme is a key component of Bahrain's Economic Recovery plan, aimed at restoring fiscal sustainability and promoting economic diversification. Companies granted a golden license benefit from a range of incentives, including priority allocation of land and regulatory flexibility. By partnering with the private sector, the government targets over USD 30 billion in investments. Kuwait, Qatar, and also Saudi Arabia lag behind. Intraregional competition is an issue here (see in focus on page 4). However, we expect the contribution of FDI to GDP in Saudi Arabia to pick up from a modest 1.8% in 2024 to around 3% in 2030. The kingdom's Vision 2030 aims for a more ambitious target of 5.7% (or USD 100 billion).

4. From deficits to discontent

Investment in countries outside the GCC is generally held back by lack of fiscal space, macroeconomic imbalances and political uncertainty. As shown in figure 8 in the previous section, investment ratios in Jordan, Tunisia and Egypt are comparatively low. To lift their generally low potential growth rates, growth friendly fiscal reforms and stronger policy frameworks are needed.

4.1 Fundamental underinvestment

The so far muted response of investment growth to lower interest rates and lower oil prices in countries like Tunisia,



Jordan and Egypt is counterintuitive. Lower interest rates normally stimulate investment growth by reducing financing costs, while lower oil prices allow countries to spend less on energy imports, creating more financial leeway for importing capital goods. This is indeed what's happening in Morocco. The positive exception amidst energy-importing countries, where the investment drive is healthy and economic development is prioritised. As the share of fossil fuel imports in Morocco is decreasing – partly also due to an increase in domestic renewable energy generation – the share of investment related imports is increasing (figure 11). This shift is not occurring in the other energy-importing countries. Tunisia's situation is the most dire (figure 12). Its fuel share is not even declining because total imports have fallen due to import compression, a government-imposed policy to stem the pressure on the country's balance of payments.

Figure 11 Morocco: oil savings enable investment

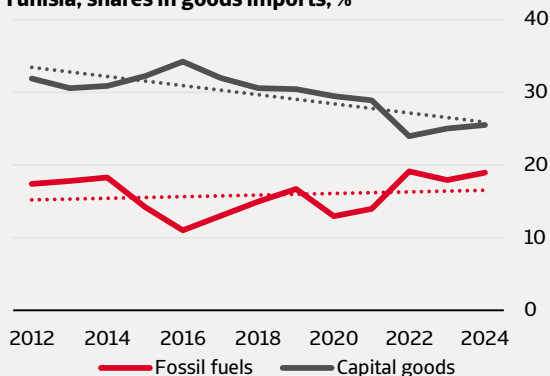
Morocco, shares in goods imports, %



Source: UNCTAD

Figure 12 Tunisia imports fewer capital goods

Tunisia, shares in goods imports, %



Source: UNCTAD

4.2 High debt, low credit growth as barriers

More fundamental forces are clearly at play, restraining investment growth in MENA countries outside the GCC. In addition to structural factors such as an unfavourable business climate and weak institutions, these concern macro-financial constraints. Tunisia's investment stagnation, for example, is directly related to the fact that it has been teetering on the brink of a sovereign debt default since 2022. Similarly, other energy-importing countries face limited fiscal space due to persistently high public debt levels, which have averaged 85% of GDP since 2021. This excludes Lebanon, where the debt ratio is significantly higher, exceeding 160% of GDP in 2024.

A high public debt burden not only negatively affects public investment by limiting fiscal space but also dampens private sector investment by increasing economic uncertainty and crowding out private financing. Such crowding out is evident in Tunisia, where private sector credit growth has hovered around just 2 to 3% since mid-2023, while banks' claims on the government have been rising at a staggering annual rate exceeding 30%. In Jordan the dynamic is similar, albeit less pronounced, as the exposure of banks to the government is lower. Lebanon's banking sector remains technically insolvent since the country's sovereign default in 2020, despite recent efforts to begin restructuring.

Balance of payments vulnerabilities further exacerbate these investment constraints. In countries such as Tunisia, Egypt, and Lebanon, the governments' limited access to the international capital market and strain on international reserves restricts the entire economy's access to foreign currency. This dollar shortage directly hampers the import of capital goods, undermining investment. Even in Algeria, where external pressures are less acute due to energy exports, years of import compression have contributed to chronic underinvestment. Since 2023, Algeria began easing import restrictions and initiated a strong investment recovery, largely aimed at reviving its flagging hydrocarbon industry. However, it has recently re-tightened those import restrictions to once again curb the long-time erosion of its international reserves. Tunisia, after two years of import compression, has also allowed imports to tick up following the successful redemption of a USD 1 billion Eurobond in February. However, the subsequent erosion of foreign reserves and the renewed widening of the current account deficit make this approach unsustainable in the absence of a comprehensive fiscal and economic reform package under the guidance of the IMF.



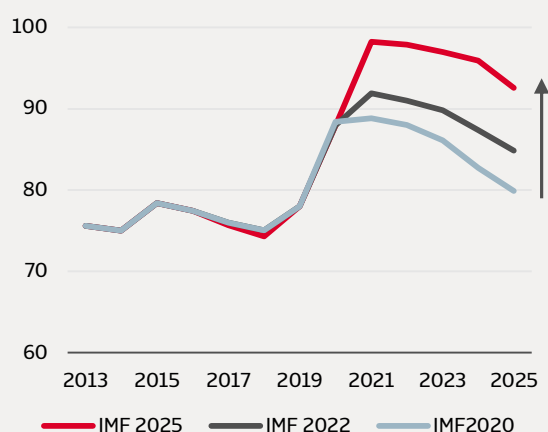
4.3 Too much misery for reforms

Looming social unrest is the overarching reason for both the lack of investment appetite and persistently high public debt in several MENA countries. The threat of popular resistance categorically undermines the implementation of necessary but painful fiscal reforms. A clear example is Jordan in 2018, where IMF-backed tax increases were retracted following mass protests. The legacy of such unrest continues to shape fiscal policy in Jordan today: in its 2025 budget, the government has once again refrained from increasing taxes on households and businesses.

For years, successive IMF programmes have attempted to steer fiscal reforms in Jordan, but also in Egypt and Morocco. They have primarily succeeded in alleviating liquidity stress through the accompanying financial support but have been considerably less successful in achieving the ultimate goal of bringing public debt on a firm downward path. Programmes are regularly recalibrated, and debt projections revised upward – like in the case of Jordan (figure 13) – often taking into account shocks such as the pandemic in 2020 or the rise in global commodity prices in 2022. But social unrest is what truly tests countries' commitment to reforms and thus, in a sense, also ties the IMF's hands.

Figure 13 Debt projections Jordan revised upwards

Public debt forecasts, % GDP, Jordan



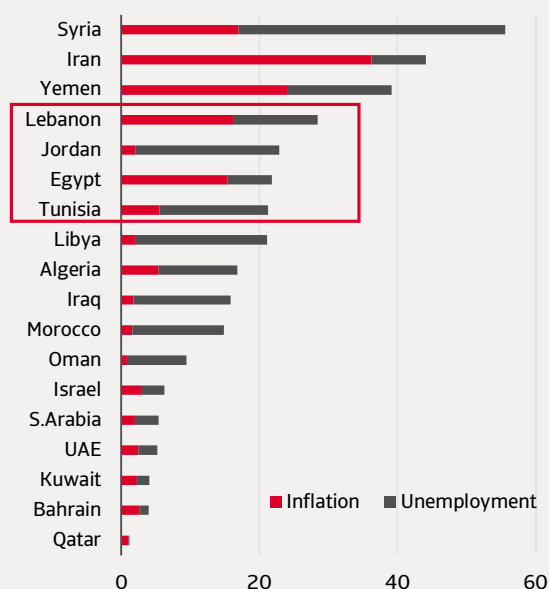
Source: IMF

In some cases, the political cost of reform has led to outright rejection of international support. While Jordan at least has managed to keep the IMF on board despite limited progress on austerity, Tunisia has firmly rejected an IMF-backed reform package since 2021. The proposed reforms included cutting costly subsidies, restructuring loss-making state-owned enterprises and reducing the bloated public wage bill. The main reason for rejection: strong opposition from a powerful labour union.

To gauge the extent of the socio-economic problems in the MENA region, a simple but telling indicator is the misery index, which combines inflation and unemployment rates. This index reveals particularly poor outcomes in Tunisia, Lebanon, Egypt and Jordan, especially when compared to the Gulf states, and Israel, which are in a far stronger socioeconomic position (figure 14). Algeria, Iraq and Morocco also have socio-economic issues. These issues have long built up, due to policy failures and vulnerabilities in economic structure. High import dependence is one of those structural vulnerabilities, but even now that the inflationary effects of the 2022 global commodity price boom have largely subsided, countries like Algeria, Tunisia, Iraq and Egypt continue to struggle with remnants of inflation driven by other factors such as monetary financing of budget deficits and exchange rate devaluations. In Tunisia and Algeria, limited access to foreign exchange has led to shortages of essential goods, driving up prices. At the same time, high unemployment – often exceeding 10% – is a chronic issue, linked not only to slow economic growth but also to underdeveloped private sectors, particularly in Egypt. In Morocco, unemployment has worsened due to repeated droughts, which have severely impacted the agricultural sector that employs about a quarter of the workforce. In Iraq and Algeria, the dominance of the hydrocarbon sector – while a source of revenue – creates few jobs.

Figure 14 Misery index signals socioeconomic strain

Misery index, inflation + unemployment, %



Source: Oxford Economics

4.4 Looking for fiscal friendly growth

To address fiscal problems, amid looming social unrest, governments often resort to the path of least resistance: cutting capital expenditures. However, this perpetuates a



vicious cycle. Underinvestment stifles economic growth, exacerbates socioeconomic tensions, making it even more difficult to implement fiscal reforms in the future. Growth friendly reforms can make the difference. As a result, economic growth in Morocco and Egypt will outperform that of the GCC countries in the medium term, with a growth rate of around 4% in 2028, whereas Jordan and Tunisia will continue to lag.

Morocco demonstrates that strong investment and growth prospects are achievable, even in the face of socioeconomic challenges and a high public debt burden. Public-private partnerships (PPPs) are central to its economic development agenda, which focuses on job creation and private sector expansion. By engaging the private sector in investment projects, the government aims to accelerate infrastructural development while reducing the fiscal burden on the state. PPPs are for instance playing a role in Morocco's preparations for co-hosting the FIFA World Cup 2030, one of the main catalysts behind the country's strong investment drive. They are also being leveraged to attract investment in high-potential sectors such as automotive, aeronautics, electronics, agribusiness and pharmaceuticals. The goal is to double the share of private investment to two-thirds of total investment. Meanwhile, the Moroccan government is pursuing a growth-friendly fiscal consolidation strategy to reduce public debt. The budget deficit is projected to gradually decline from 4.1% of GDP in 2024 to 3.8% by 2027. Although efforts to ensure a fairer distribution of the tax burden are one reason for the slow pace of fiscal consolidation, they are expected to yield long-term benefits by reducing labour market informality and tackling tax evasion. A robust policy framework, a stable external position, and solid access to finance are also part of Morocco's success formula. In 2022, Morocco qualified for the IMF's Flexible Credit Line – a facility reserved for countries with the strongest economic fundamentals and most sound policy frameworks. The recent extension of this credit line has further bolstered investor confidence in Morocco's macroeconomic management.

Egypt has the potential to follow in Morocco's footsteps by combining macroeconomic stabilisation with growth friendly initiatives. While reforms under IMF guidance may ultimately fall short of significantly reducing public debt, they do feature a promising element: an ambitious privatisation programme. The sale of state assets is intended to reduce the government's outsized role in the economy – one of the largest among emerging markets – and to boost the private share of investment, which is among the lowest. An added advantage is that privatisation proceeds can be used for debt repayment, albeit on a one-off basis. Unlike other fiscal reforms, privatisation is less likely to provoke social unrest, making it a politically feasible path toward economic transformation. Privatisation is also expected to attract foreign direct investment, which would help strengthen Egypt's balance of payments. Abu Dhabi's landmark USD 35 billion investment in the development of the Ras el-Hekma resort, announced in 2024, has already provided a major boost to foreign reserves and will serve as catalyst for future FDI.

Nevertheless, Egypt's privatisation scheme has so far underperformed. Since the IMF programme's expansion in March 2024, Egypt has raised only USD 160 million from asset sales, bringing the total since 2022 to just USD 5.7 billion, or about 1.8% of GDP. One of the main obstacles is the military's vested interests in state-owned entities, which complicates efforts to reduce the public sector's footprint. Despite these challenges, Egypt has pledged to accelerate privatisation, with a revised target of USD 3 billion in new FDI inflows from divestments in 2025/26, all earmarked for debt reduction. We expect overall gross fixed investment in Egypt to pick up from 2026 onward, once inflation and interest rates have fallen further and confidence in the Egyptian economy returns. For restoring investor confidence, strengthening the policy framework, as in Morocco, is essential. A good step in this direction was Egypt's move to finally liberalise its exchange rate in March 2024, after several failed attempts. This helps to prevent a renewed build-up of external imbalances. The central bank is now focusing on anchoring inflation expectations to further support macroeconomic stability.



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