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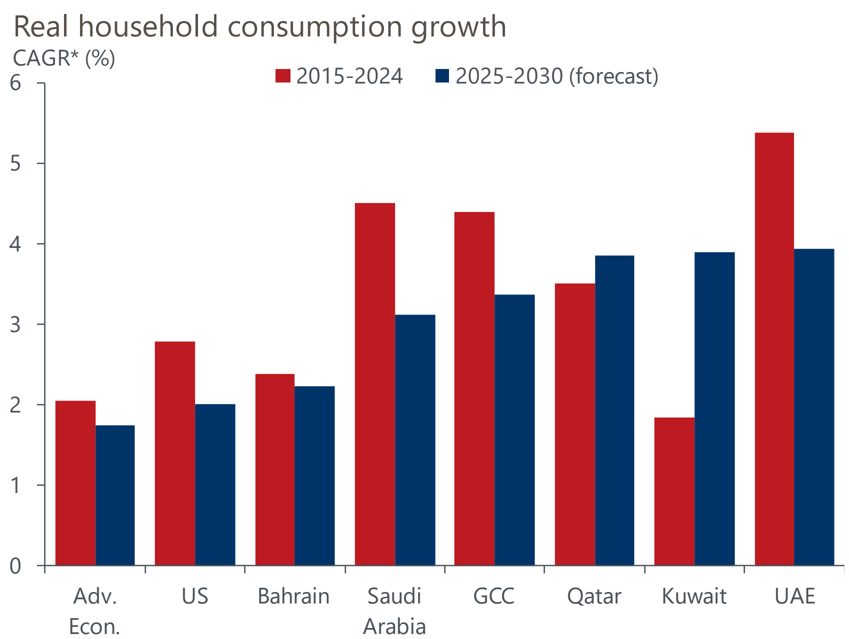
Research Briefing | MENA

Why GCC consumers are set to continue to outperform

- **As GCC governments focus on diversifying economic activity and revenue sources away from oil and gas, our analysis suggests that household spending in the region will outperform that of international peers. This should create strong opportunities for companies operating in consumer sectors.**
- **We project consumption will increase 3.4% per annum across the GCC in the next five years, compared to 1.7% in advanced economies. We also expect inflation to remain low and steady, safeguarding the purchasing power of households while also limiting cost pressures for firms.**
- **Meanwhile, unemployment is low and should fall further for a number of countries in the region, supporting consumer confidence. We forecast employment growth to grow at roughly 10x that of advanced economies.**
- **Relaxed lending rules are fuelling a structural uptrend in credit growth. Personal loans are growing rapidly and housing transactions are booming, especially where non-nationals have been given new freedoms to borrow and purchase property. Higher housing transactions often support sales of furniture, white goods, and other durable goods.**
- **With monetary policy in the GCC largely shadowing that of the US Federal Reserve, the expected resumption of interest rates cuts is set to further stimulate domestic demand and spending across the region.**
- **Still, the key risk to GCC economies remains the reliance to hydrocarbons. Using our Global Economic Model, we estimate that a 10% fall in oil prices would reduce the level of real consumption by 0.74% by the fifth year, subtracting about 0.15 ppts from annual growth. However, unless a fall in oil prices is deep and sustained, it's unlikely to change the overall picture for household spending.**

Chart 1: GCC household consumption forecast to outperform international peers



*Source: Oxford Economics/Haver Analytics. * Compounded Annual Growth Rate (CAGR)*

Azad Zangana - Head of GCC Macroeconomic Analysis - azangana@oxfordeconomics.com

The energy sector frequently dominates GCC economies, overshadowing other sectors. This is understandable given its importance not only for GDP growth, but also for the health of public finances. However, this often means that the growing dynamism in other parts of these economies is missed.

The household sector and the prospects for consumers to outperform their international peers is important for the region's governments as they continue to focus their efforts to diversify activity away from oil and gas revenues. But it's also crucial for companies that are looking to invest in consumer-facing sectors.

Hidden gems – GCC consumers

Among the largest GCC members, household spending is set to outperform that of most advanced economies. Real household consumption grew by 2.7% in Saudi Arabia in 2024, and we forecast its growth to rise to 3.8% by 2026, before moderating in the following years.

We expect the region as a whole to follow a similar profile and forecast real household consumption growth to top 3.5% per annum on average over the next six years in the UAE, Kuwait and Qatar, while Saudi Arabia is forecast to just beat 3% (**Chart 1** on front page).

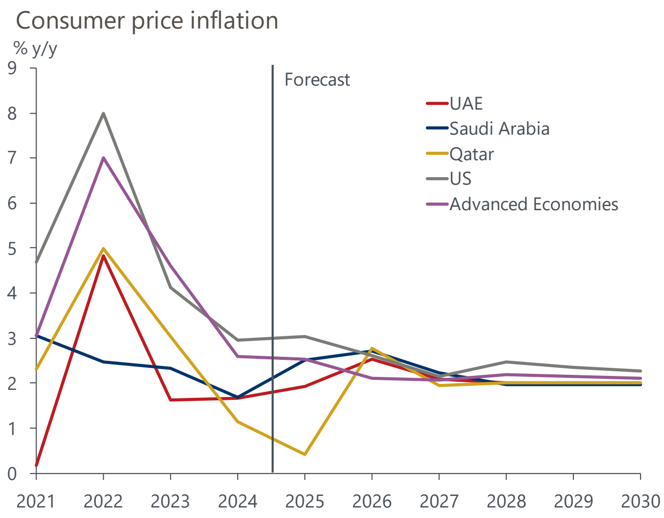
In comparison, we expect US consumption to rise by only 2%, and advanced economies in aggregate by just 1.7%. This highlights the expected strong outperformance of consumers in the GCC region over the coming years.

Cyclical factors are likely to support ongoing growth

The rising cost of living is often cited as a headwind for many economies, as households adopt more cautious spending patterns in response. Although GCC economies have also seen significant inflation in recent years, price rises, particularly during the pandemic, were less severe than elsewhere (**Chart 2**).

Annual CPI inflation rates peaked at 8% in 2022 for the US and 7% for advanced economies. However, inflation in Qatar peaked at 5%, in the UAE at 4.8%, and in Saudi Arabia at just 3.1%. This means that the erosion of GCC households' spending power was much lower than in advanced economies, helping to support strong consumption growth.

Chart 2: Inflation to remain low and steady



Source: Oxford Economics/Haver Analytics

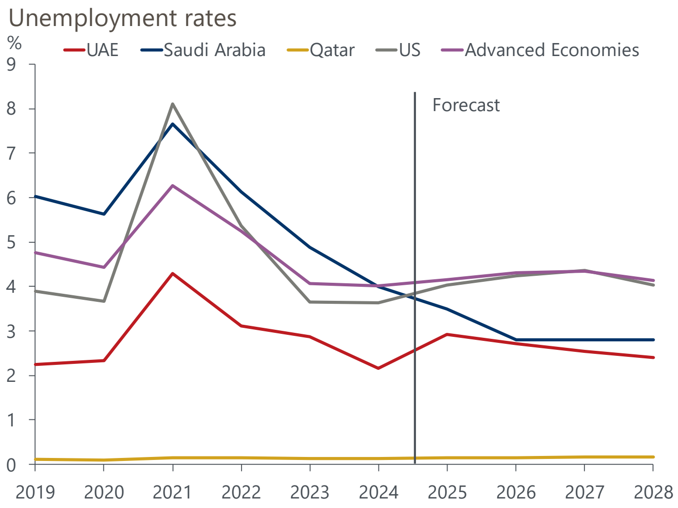
Looking ahead, we forecast inflation to pick up slightly in Saudi Arabia and the UAE in 2026, though price gains are expected to be moderate, and then fall back in 2027 and beyond.

Low and stable inflation helps stabilise consumption patterns and provides a degree of certitude for households to allow them to spend. It also helps companies better predict cost pressures, enabling greater risk taking in the deployment of capital.

Azad Zangana - azangana@oxfordeconomics.com

In addition to low inflation, further support can be expected from buoyant labour markets (**Chart 3**). Having spiked up during the pandemic, unemployment rates have generally been falling across the GCC thanks to removals of trading restrictions and buoyant domestic demand.

Chart 3: Jobs market to remain robust



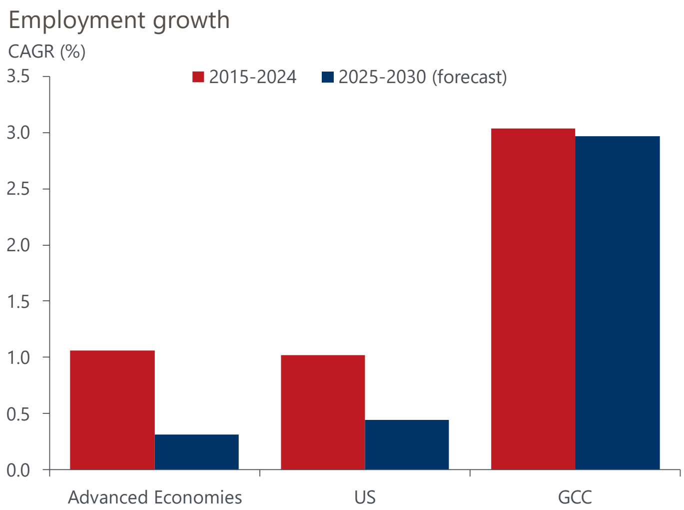
Source: Oxford Economics/Haver Analytics

In the US, trade tariffs and elevated interest rates are forecast to take their toll on the economy, pushing growth lower and unemployment higher. In contrast, we generally project GCC unemployment rates to continue declining. For the UAE, we anticipate an increase this year, but see it as a peak, followed by sequential declines in subsequent years.

While unemployment rates are useful for gauging slack in labour markets and changes in rates are good indicators of how consumer confidence may behave, employment growth is a more important driver for aggregate consumption.

Compared to the previous decade, we forecast annual employment growth to ease slightly between now and 2030 (**Chart 4**). However, the expected rate is almost 10-times higher than that projected for non-GCC advanced economies.

Chart 4: GCC employment growing 10-times as fast as in advanced economies



Source: Oxford Economics/Haver Analytics

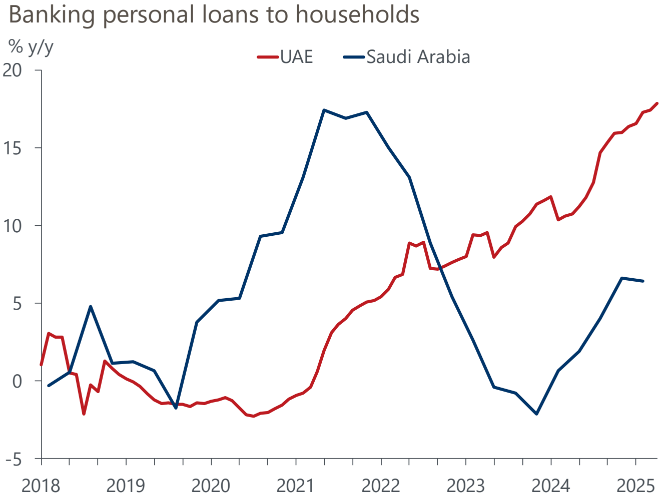
Azad Zangana - azangana@oxfordeconomics.com

Expansion of credit is creating new demand

Favourable cyclical factors are also reflected in the ongoing expansion in lending in the region. Expanding the availability of credit is part of GCC governments' development plans; some are also starting to include non-national citizens, leading to a step change in the level of demand being generated.

Chart 5 shows recent growth of personal loans to households from banking entities. Personal lending in Saudi has recovered from the dip in 2023, which followed the boom during the pandemic years. The UAE on the other hand appears to be seeing a structural break-out from its past trend, fuelled by a relaxation of lending standards for both nationals and expats in the country. The value of personal bank loans is up 17.8% in the three months to April 2025 compared to the same three months a year earlier.

Chart 5: Strong credit growth a key driver for spending



Source: Oxford Economics/Haver Analytics/CBUAE/SAMA

This does not include credit card lending or residential related loans, the latter of which has been particularly strong in the Emirates. The increased availability of land and properties for sale to expats, coupled with the influx of migrants, has helped lift activity across the residential housing sector.

According to the Central Bank of the UAE (CBUAE), real estate-related loans increased by 3.5% in 2024. Most of this was driven by the explosion of growth in Dubai, where the number of transactions for apartments and villas rose 42.5% y/y last year, as median property prices rose 8.7% y/y.

From a consumer perspective, a buoyant housing market is a symptom of strong economic growth. But it's also a sign of elevated consumer confidence – more so than unsecured consumer credit, especially as house purchases are large by nature, more durable, and have significant associated fees. In addition, more housing transactions help boost demand for furniture, white goods, and other durable household goods – a positive sign for the consumer sector.

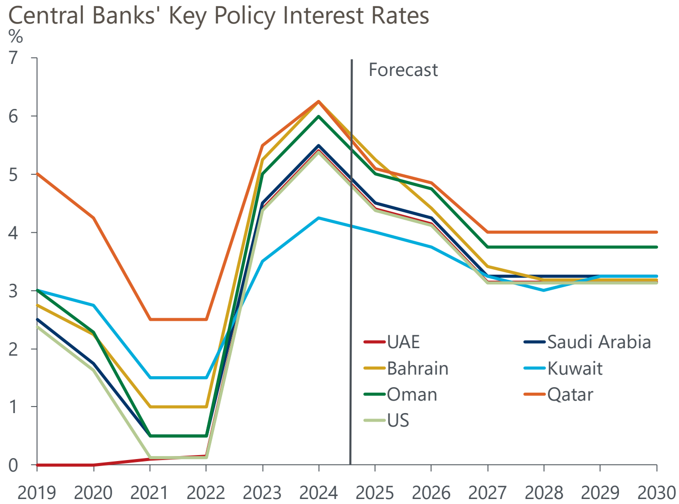
In Saudi Arabia, growth in real estate lending to retail clients has moderated in recent years from peaks of 55% and 50% in 2020 and 2021, to just over 10% per annum in 2024. Although significantly slower, the pace of growth is still robust despite tight monetary policy, which appears to be hampering demand for credit. Meanwhile, plans to open the property market to purchases by non-GCC citizens in its two biggest cities plus Islamic pilgrimage destinations Mecca and Medina have the potential to supercharge those property markets in the coming years.

Monetary policy easing to fuel growth

The strong performance of the region has occurred despite monetary policy remaining restrictive. Owing to the fixed exchange rate regimes in operation, most GCC central banks simply shadow the monetary policy set by the US Federal Reserve, and have only a little flexibility with the use of counter cyclical capital buffers to influence liquidity and domestic lending.

As US inflation has been slower to fall back to its target (**Chart 2**), the Fed has kept interest rates elevated, only easing by 100bps from the peak in the Fed Funds Rate in 2023, and has been on hold since January this year. However, we anticipate the Fed will begin easing again from September, and we expect cuts totalling 125bps by the end of 2026 (**Chart 6**).

Chart 6: More interest rate cuts are expected to fuel further growth



Source: Oxford Economics/Haver Analytics

GCC central banks are expected to follow suit by lowering their respective interest rates steadily, providing a further boost for domestic demand. The exception among the GCC-six is Kuwait, which has pegged the dinar to an undisclosed basket of currencies. Still, the Central Bank of Kuwait is also expected to follow a similar pattern, providing additional stimulus in the process.

Risks: How would consumption respond to an oil price shock?

The high dependence of GCC economies on hydrocarbons leaves them exposed to energy price shocks, particularly through international trade and the subsequent impact on public finances. This often raises the questions of the resilience of the region's consumers at a time of heightened volatility.

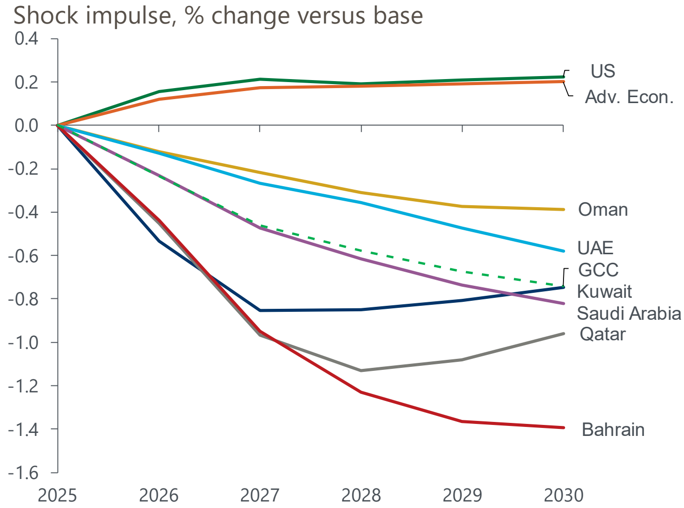
Our current forecast for robust GCC consumption is set against a backdrop of falling oil prices. We expect the price of Brent crude to fall by 6% over the next four quarters before slowly recovering in subsequent years. This is largely driven by OPEC+ members unwinding production cuts that were designed to support prices.

Given GCC production is rising in our baseline forecast, the increase in net exports partly offsets the losses from a subsequent fall in oil prices. But what if the shock is exogenous to the GCC, such as a slump in global demand?

Using our Global Economic Model, we can simulate the impact of a downward shock to oil prices on the GCC economies. We estimate that a 10% fall in oil prices (and proportional fall in gas prices) would reduce the level of real consumption by 0.74% by the fifth year, subtracting about 0.15ppts from annual growth (**Chart 7**).

Overall, although there is a clear negative impact from a potential fall in oil prices, unless the drop is deep and long-lasting, it's unlikely to change the big picture for the consumer outlook.

Chart 7: Modelling a 10% fall in oil prices on household consumption



Source: Oxford Economics/Haver Analytics

In addition to the cyclical divers discussed in this note, structural factors such demographics and population growth also appear favourable for GCC household spending. We will examine these in a forthcoming research briefing.