KUWAIT

The conflict in the Middle East is affecting Kuwait's economy through multiple channels. Disruptions to shipping in the Strait of Hormuz have completely halted oil exports and inflated import costs. Infrastructure damage, emergency military spending, and weaker investor sentiment are straining a public spending model that has long relied on hydrocarbon windfalls. Further prolongation or escalation of the conflict could exacerbate existing fiscal pressures.

Population[1] million **5.0**	Poverty **..**
Life expectancy at birth[2] years **83.2**	School enrollment[3] primary (% gross) **82.4**
GDP[4] current US$, billion **154.5**	GDP per capita[5] current US$ **31026.7**

Sources: WDI, MFMod, and official data. 1/ 2025. 2/ 2023. 3/ 2021. 4/ 2025. 5/ 2025.

Key conditions and challenges

In the near term, the conflict is likely to squeeze oil revenues through production disruptions and shipping constraints in the Strait of Hormuz, Kuwait's main export route. Rising shipping and insurance costs will inflate the cost of imported food and construction materials. Beyond the immediate crisis, Kuwait's main challenges remain transitioning to a growth model with a stronger private-sector role, to modernize the economy and absorb new labor market entrants. Fiscal reforms will be needed to ease pressures on the state budget, including containing the public-sector wage bill, rationalizing untargeted subsidies, and mobilizing non-oil revenues. Accelerating structural reforms to attract investment remains a priority.

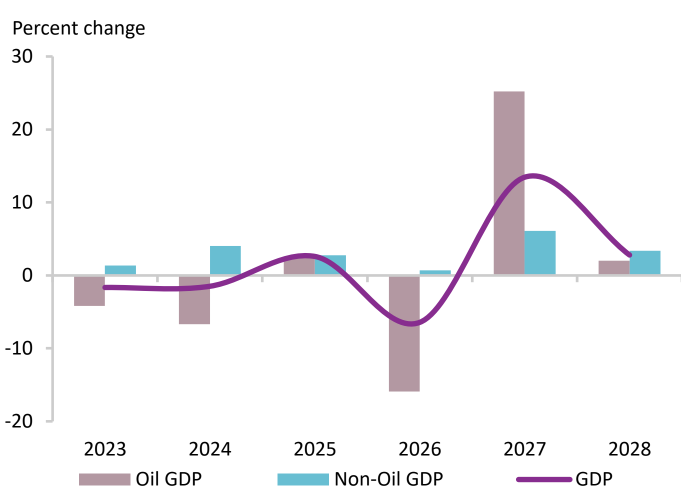
Several reforms were introduced in 2025, including the Domestic Minimum Top-up Tax law for Multinationals Enterprises, and the adoption of a new public debt law, which is expected to reduce reliance on the General Reserve Fund, typically used to finance the budget deficit. In November 2025, S&P Global Ratings raised Kuwait's sovereign credit ratings from 'A+/A-1' to 'AA-/A-1+' with a stable outlook, citing strong fiscal and external balance sheets.

From a structural standpoint, sustaining higher and more inclusive growth will depend on advancing reforms to improve the business climate, build confidence in the country's macro stability, and diversify away from hydrocarbons. Prolonged regional tensions could intensify fiscal trade-offs, including between drawing on sovereign wealth reserves, moderating social spending, and accelerating structural reforms.

Recent developments

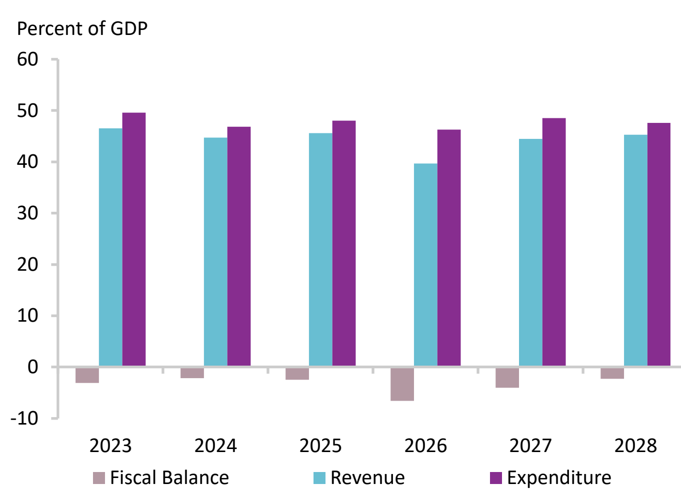
Kuwait's economy improved in 2025 after two turbulent years, as real GDP growth is estimated to have reached 2.6 percent compared to an average of -1.5 percent in the previous two years. The oil sector grew by 2.4 percent thanks to the unwinding of the Organization of the Petroleum Exporting Countries and its partners production cuts, while non-oil growth continues its solid performance at 2.8 percent in the same period. Private sector credit increased 4.7 percent in 2025, up from 3.9 percent in 2024,

FIGURE 1 / Annual real GDP growth



Sources: Central Statistical Bureau of Kuwait and World Bank.

FIGURE 2 / Fiscal balance



Sources: Kuwait Ministry of Finance and World Bank.
Note: Exclude investment income and FGF transfers.

driven by credit to manufacturing, construction, real estate, telecommunications, health and social work sectors, and by large infrastructure projects. Inflation moderated to 2.4 percent in 2025, from 3 percent in 2024, driven by lower rates in furnishing equipment and household maintenance and clothing and footwear, as demand pressures eased.

The fiscal deficit is estimated to have reached 2.5 percent of GDP in 2025, up from 2.1 percent in 2024, due to higher spending on capital expenditure and goods and services. The current account surplus is estimated at 26.8 percent of GDP in 2025, down from 28.9 percent in 2024, mainly due to the decline in oil prices, increase in imports and increase in remittances outflows by 20.4 percent during 9M-2025 compared to the same period in 2024. Net foreign direct investment decreased by 10.4 percent during 9M-2025 (4.7 percent of GDP).

The number of workers increased by 3.1 percent annually in September 2025, showing mixed trends among Kuwaiti and non-Kuwaiti workers. While non-Kuwaiti employment rose by 3.9 percent, Kuwaiti workers declined by 1.3 percent across sectors, including the government sector, which employs more than 80 percent of citizens. Employment declined by 3 percent among women but increased by 1 percent among men. The International Labour Organization estimated youth unemployment in 2025 at 15.1 percent, nearly seven times the overall unemployment rate of 2.2 percent, with unemployment among young women reaching nearly 30 percent. The recent regional conflict could further weigh on private-sector economic activity, where most non-Kuwaiti workers are employed.

Outlook

The escalation of the conflict is weighing on the near-term growth outlook, through its impact on oil revenues and investment sentiment. Consequently, real GDP growth is expected to contract, by 6.4 percent in 2026, driven by oil sector disruptions (assuming 3 months shipping constraints in the Strait of Hormuz), before recovering, with a 13.5 percent growth rate in 2027, and normalizing to 2.8 percent in 2028. Constraints on oil exports are predicted to reduce government revenues in the near term. As storage capacity expected to fill within weeks from the closure of the Strait, oil production risks delays or curtailments, thus affecting production. Higher shipping and insurance costs are expected to increase import prices notably food, as fertilizers prices go up with disruptions in liquefied natural gas trade. Inflation is expected to accelerate to 4 percent in 2026, disproportionately affecting low-income households and migrant workers.

Kuwait's budget was already under pressure before the conflict; however, infrastructure damage, weakening investor confidence, and emergency military spending are expected to widen fiscal imbalances. The fiscal deficit is estimated to reach 6.6 percent of GDP in 2026 driven by lower oil receipts, before stabilizing around 3.2 percent in the medium term, underscoring the need for comprehensive reforms. The current account surplus is expected to drop to 22.4 percent in 2026, before recovering over the medium term alongside improvements on the oil trade balance. Downside risks remained linked to a prolonged escalation of geopolitical tensions and associated disruptions to oil markets.

Recent history and projections	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	-1.6	-1.5	2.6	-6.4	13.5	2.8
Private consumption	2.5	2.6	3.5	2.3	5.8	2.5
Government consumption	4.2	2.3	2.9	0.3	4.5	4.3
Gross fixed capital investment	-2.6	-18.3	2.3	1.4	3.1	4.7
Exports, goods and services	2.4	-3.2	2.4	-14.5	21.2	2.1
Imports, goods and services	13.4	-7.1	3.2	-4.0	6.2	3.0
Real GDP growth, at constant factor prices	-1.3	-0.9	2.6	-6.4	13.5	2.8
Agriculture	0.1	0.3	0.7	-4.1	5.2	0.9
Industry	0.1	-2.1	2.8	-12.2	21.7	2.4
Services	-3.0	0.8	2.4	0.9	4.5	3.4
Employment rate (% of working-age population, 15 years+)	72.5	72.2	71.4	72.1	72.9	73.4
Inflation (consumer price index)	3.6	3.0	2.4	4.0	2.4	2.1
Current account balance (% of GDP)	30.6	28.9	26.8	22.4	28.2	28.1
Net foreign direct investment inflow (% of GDP)	-5.4	-6.0	-3.7	-1.8	-3.4	-4.7
Fiscal balance (% of GDP)[1]	-3.1	-2.1	-2.5	-6.6	-4.0	-2.3
Revenues (% of GDP)	46.5	44.7	45.6	39.7	44.5	45.3
Debt (% of GDP)[1]	3.1	2.9	7.4	14.5	18.1	18.6
Primary balance (% of GDP)[1]	-3.0	-1.8	-2.5	-6.6	-3.5	-1.5
GHG emissions growth (mtCO2e)	1.8	1.6	4.4	-3.2	8.0	6.9

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.
1/ Based on fiscal year cycle (April to March 31). Fiscal balances exclude investment income and FGF transfers.