10TH ANNIVERSARY M&P MIDDLE EAST & AFRICA

MONTHLY REPORT
OCT 2026
ISSUE 5

GCC 360

Policy, Economics & Market Access Insights

ABOUT THE
EXPERT CONTRIBUTOR

Dr. Frederic Schneider is an economist and advisor specialising in the post-oil economic transition of the Gulf Cooperation Council (GCC) states and a Senior Fellow at the Middle East Council on Global Affairs. He holds a PhD from the University of Zurich and has held posts at the University of California at Berkeley, Yale University, and the University of Cambridge.

His research covers Gulf economic diversification, industrial policy, trade, labour markets, the knowledge economy, climate change, and the political economy of Gulf states. His policy research has been published at global institutions, including the London School of Economics, the Arab Gulf States Institute in Washington, the Gulf International Forum, and the Washington Institute for Near East Policy. His expert commentary appears in news outlets like the New York Times, The Washington Post, DW, AFP, Al-Monitor, Orient XII, The National, and The Peninsula, and he has been an on-air expert for the BBC, Al Jazeera, CGTN, and others.

His academic articles have been published in leading journals like the Economic Journal, the Proceedings of the National Academy of Sciences, the American Economic Journal, and the Journal of the European Economic Association, and have been cited close to 1000 times.

Frederic Schneider
Senior Consultant

M&P | POWERED BY MOHARRAM & PARTNERS

1. MACRO ECONOMIC BASELINE

	Saudi Arabia	UAE	Qatar	Kuwait	Bahrain	Oman
Inflation (CPI y/y)	1.9% (Sep)	2.0% (Dec '25)	2.2% (Jun)†	2.2% (Jun)	3.0% (Aug)	3.2% (Sep)
Activity (PMI, Sep m/m)	55.3 (+1.5)	55.3 (0.0)	47.3 (−0.3)	52.4 (−1.2)	N/A	N/A
Equity (Sep m/m)	−6.4%	+3.2%	−6.4%	−3.9%	−1.0%	−0.5%

Monetary & currency anchor: The Federal Reserve raised its target range to 3.75–4.00% on 16 September, its first hike since 2023, and five Gulf central banks followed the next day with matching 25bp increases (SAMA's repo rate to 4.50%, the UAE base rate to 3.90%).

Kuwait held its discount rate at 3.50%, using the room that its basket peg allows. Inflation remains contained at 1.9–3.2%,*† although UAE firms raised selling prices in September at the fastest pace since 2011 on freight and input costs. Non-oil activity is strong in Saudi Arabia and the UAE (both 55.3) and Qatar remains below 50. Equities moved the other way: most Gulf markets fell in September, only the UAE gained.

UAE CPI is the latest published month (Dec 2025). Qatar rebased its CPI to 2024=100 from July and has not yet published a comparable annual rate, so June is the latest. Equity returns are month-on-month US-dollar returns on the iShares MSCI country funds; Bahrain and Oman use their local indices (Bahrain All Share, MSX30). Maritime-trade flows are omitted again: September port data for Kuwait and Bahrain reflects rebounds from a collapsed base.

2. FEATURE ANALYSIS - MONETARY STABILITY

The borrowing turn: Gulf money holds, sovereign balance sheets take the strain

On 17 September, the day after the Federal Reserve's first hike since 2023, five of the six Gulf central banks raised their own rates, while Kuwait kept its rate unchanged. By conventional measures, Gulf monetary stability has remained intact through seven months of war. But the cost of that stability is now appearing on sovereign balance sheets, with Saudi Arabia showing it most clearly.

The Saudi pre-budget statement, published on 30 September, puts this year's deficit at about SAR 245bn, against the SAR 165bn planned in the 2026 budget. Spending is heading for SAR 1.44tn, 9.3% above plan, and the finance ministry now expects real GDP to shrink 3.6% this year as oil activity falls 21.8%, while the non-oil economy still grows 3.2%. For 2027, it projects a deficit of 3.6% of GDP, with deficits continuing through 2029 and adding up to roughly SAR 560bn over three years, all financed by borrowing at home and abroad. Deficits are not new to Riyadh, which has run a deficit in twelve of the past thirteen years. However, the strain of the wars, first Iran, now Yemen, has turned that habit into a multi-year financing programme.

That programme meets a rising price of money since each Fed move passes straight into Saudi funding costs via the dollar peg. Moreover, most Fed officials judged in September that another hike would likely be appropriate before year-end. However, investors remain willing to lend. In early September, a $3.25bn sovereign sukuk drew a $16.5bn order book and priced at 70–80 basis points over US Treasuries.

The pressure, therefore, comes through the base rate rather than the Kingdom's credit spread. A larger, longer borrowing need priced off a rising Treasury curve raises the government's interest bill and competes for the same domestic bank liquidity that companies rely on. The first signs are already visible: in August, bank credit to public-sector enterprises grew 18.4% year on year, three times the 6% pace for the private sector, while broad money contracted on the month.

The budget figures also predate the war's arrival in Riyadh. In early October, Yemen's government launched an offensive against Ansar Allah with Saudi air support, which the Houthis answered by targeting Saudi oil and air infrastructure. Missiles struck Khurais pumping station and King Khalid, Abha, Jazan, and Najran airports, killing at least 19 and wounding around 364. More than 600 flights were cancelled as Sanaa declared Saudi airspace a zone of military operations. King Khalid airport suspended operations on 10 October and partially reopened on 18 October. On 13 October a Houthi attack struck Aramco headquarters in Dhahran The fiscal cost runs through two channels. Open-ended military operations add to spending that the statement had already revised up, and the attacks hit aviation, tourism and events, the non-oil sectors on which the projected 12.8% rebound in 2027 depends. The IMF's October outlook already expects a smaller rebound, 7.9%, and assumes the Strait reopens gradually from March 2027. Saudi financing needs will therefore likely further overshoot pre-budget path.

The rest of the Gulf faces the same arithmetic in different proportions. The IMF now expects output this year to fall 16.7% in Kuwait, 15.6% in Qatar and 11.3% in Bahrain, against 3.9% in the UAE, with Oman the only economy still growing (4.1%). The UAE, with the strongest non-oil momentum in the bloc, carries the lightest financing burden. Qatar and Bahrain feel the pressure on the revenue side: Qatar through lost LNG exports and Bahrain through lower oil output on top of the heaviest debt load in the bloc. Kuwait is also hit hard by the war but retains some discretion over its policy rate.

Equity markets have begun to draw the same line. Saudi and Qatari stocks each fell 6.4% in September, even as Saudi Arabia's non-oil PMI rose to its highest level since February, while UAE stocks gained 3.2%.

Decision relevance. Gulf currency and inflation risk remains low. The risk to manage is sovereign financing and its spillover into local liquidity and payment cycles, concentrated in Saudi Arabia. Companies with Saudi exposure should secure or extend financing now, ahead of the Fed's 28 October decision, the Saudi 2027 borrowing plan (due by year-end), and a tightening contest for domestic bank credit in which state-linked borrowers are already taking a larger share. Businesses tied to Saudi aviation, tourism and events should stress-test revenue for a prolonged airspace disruption. Kuwait is the one Gulf market where policy rates need not follow the Fed closely.

3. STRATEGIC BUSINESS THEMES, SECTOR SPOTLIGHTS, RISKS & FORWARD-LOOKING INDICATORS

Strategic Outlook / National Initiatives

Saudi Arabia's pre-budget statement sets the strategic frame for the year ahead: spending in 2027 is planned 3% below this year's outturn, but the detailed allocation by sector arrives only with the full budget in Q4. The question for investors is which programmes absorb that cut as defence and resilience claim a larger share. Qatar, meanwhile, has chosen a different route. Its energy minister ruled out a pipeline bypass of the Strait on 21 September, arguing that it would require duplicate LNG plants abroad, and the state launched a new platform to manage QIA domestic holdings and market more than $60bn in investment opportunities. In short, Saudi Arabia and the UAE are building bypass routes, whereas Qatar is planning for a Strait reopening.

Business Environment, Sector Drivers & Opportunities

The operating picture cuts along the same line as the fiscal one. In the UAE, September survey data show new export orders rising at the fastest rate since November 2024. However, firms are also passing freight and input costs on to customers at a pace not seen since 2011, so buyers should expect higher contract prices. In Saudi Arabia, net FDI inflows fell 19% year on year in the second quarter to SAR 19.1bn, and the reopening of the Yemen front adds a direct operational cost, with disrupted oil infrastructure, cancelled flights, and higher insurance for staff and cargo moving through Saudi airspace. The EU–GCC summit due in Riyadh on 24 October has been postponed because of the attacks, as has the flagship Future Investment Initiative summit. Bahrain is positioning on financial technology, as its central bank pledges to triple its technology investment and the Fintech Forward 2026 conference in early October reports more than 60 agreements signed.

Cabinet Reshuffles

None this period. The most recent GCC ministerial changes, Saudi Arabia's royal decrees of August 2026, fall outside this report's window.

4. WHAT TO WATCH

1. Fed decision, 28 October

Futures still point to a hold after US inflation rose to 3.7% in September, but price a hike by December as likely. A further hike would raise the cost of Gulf borrowing.

2. The Yemen front and Saudi airspace

Watch whether oil production and logistics stabilize and air traffic returns to normal operations, and whether the United States joins Saudi strikes, as President Trump has floated. Each of these sets the cost of doing business in the Kingdom.

3. US–Iran talks and Hormuz

Iran made a proposal to the US with the aim to reopen the Strait within seven days, with the US making a counterproposal which Iran has deemed “insufficient”. The Iran-Oman proposal for a temporary route still depends on the United States lifting its blockade. The Strait remains largely closed to commercial traffic, with both Iran and the US continuing attacks on shipping, with October the worst month for ship attacks since the war began. A deal would ease Gulf (especially Qatari and Kuwaiti) revenue pressure.

4. Saudi 2027 budget and borrowing plan:

Due by year-end. The size of external issuance and any revision to the 2027 deficit will show how much of the October escalation the finance ministry has priced in.

10TH ANNIVERSARY

M&P

Public Affairs & Strategic Communications

WWW.MOHARRAMPARTNERS.COM