GCC banking sector outlook: H1 2025

Balancing growth and risk

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Foreword

As we enter another year of transformation and opportunity, I am pleased to present this report highlighting key developments during H1 2025 and a near-term outlook for the Gulf Cooperation Council (GCC) banking sector. This publication provides a comprehensive analysis of the regional banking landscape, drawing on financial performance indicators and macroeconomic trends to assess the sector's trajectory.

The GCC banking industry continues to demonstrate resilience and cautious optimism, underpinned by strong fundamentals and sustained profitability. Despite the evolving global economic environment, banks in the region remain well-positioned to navigate challenges and capitalize on emerging opportunities.

The integration of digital banking and an evolving regulatory landscape are reshaping business models and redefining competitive advantage across the region.

We look forward to the opportunities that lie ahead and remain committed to shaping the future of financial services by supporting our clients as the GCC banking sector evolves through strategic insight, innovation and collaboration.

Mayur Pau

EY MENA Financial Services Leader

The purpose of this study is to obtain insights into the GCC banking sector. This report presents a comprehensive overview of the GCC banking sector, offering insights into its performance during H1 2025, coupled with a short-term outlook, and outlines the competitive dynamics shaping the region's financial landscape. The analysis is based on the performance of the top 19 banks, which have been selected based on asset size and their geographical coverage within the GCC region. The selected financial key performance indicators (KPIs) for H1 2025 are compared with KPIs for H1 2024 to perform the analysis. The values are presented in US$b and converted at historical rates.

The data used for the study were obtained through public sources, including company websites, filings, website searches and EY-subscribed data sources.

Purpose and approach

Data item	Definition
Net interest income (NII) ratio (%)	NII or net finance income as a percentage of interest income or financing income
Net interest margin (NIM) (%)	NII or net finance income as a percentage of average interest-earning assets
Net profit margin (%)	Net profit as a percentage of interest income
Return on average equity (RoAE) (%)	Net income as a percentage of adjusted average equity
Nonperforming loan (NPL) ratio (%)	NPLs as a percentage of total loans
NPL coverage (%)	Total allowance for loan losses divided by the total amount of NPL
Cost-to-income ratio (%)	Operating expense as a percentage of operating income
Loan-to-deposit ratio (%)	Net loans as a percentage of total deposits
Capital adequacy ratio (CAR) (%)	As defined by the latest regulatory and supervisory guidelines
Expected credit loss (ECL) coverage ratio (%)	Total ECL provisions as a percentage of gross exposure
Tier 1 ratio (%)	Tier 1 ratio as defined by the latest regulatory and supervisory guidelines
Price-to-book (P/B)	Market capitalization or adjusted equity

Contents

Executive summary

The GCC banking sector enters 2025 on a solid footing, demonstrating resilience and strategic agility in the face of global economic uncertainty and regulatory evolution. The sector remains anchored by stable macroeconomic conditions, including robust capital buffers, healthy liquidity and sustained non-oil sector growth.

Economic momentum is expected to accelerate, with the International Monetary Fund (IMF) projecting regional GDP growth of 3% in 2025 and 4.1% in 2026. This momentum is driven by large-scale infrastructure investments, private sector dynamism and diversification efforts across the GCC.

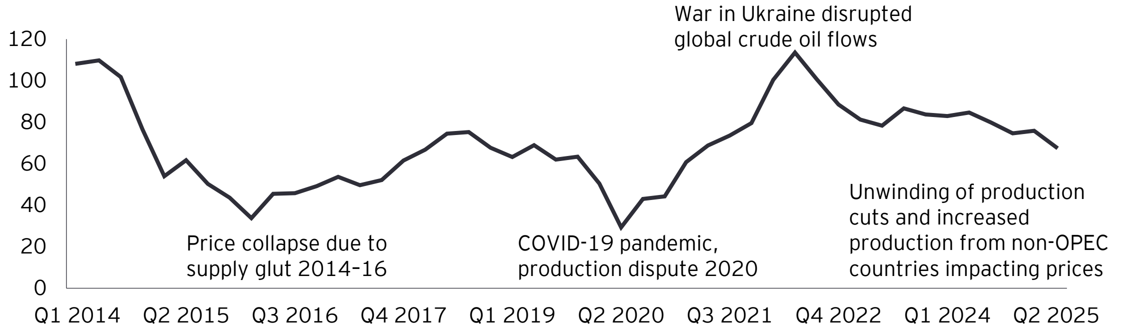
Bank profitability remains intact, underpinned by rising noninterest income and stable asset quality. Credit growth remains solid, particularly in Saudi Arabia and the United Arab Emirates (UAE), where transformation agendas continue to drive lending activity. However, net interest margins were pressurized following rate reductions implemented in late 2024, which triggered loan repricing at lower yields. This trend is expected to persist with further rate cuts announced in September 2025. However, banks are actively diversifying revenue streams and enhancing operational efficiency to sustain profitability.

Digital transformation, evolving customer expectations and regulatory reforms are reshaping the sector’s operating model.

01 | GCC economic outlook

Robust growth in oil sector, amid fluctuating oil prices, coupled with a resilient non-oil sector, is set to propel the banking sector

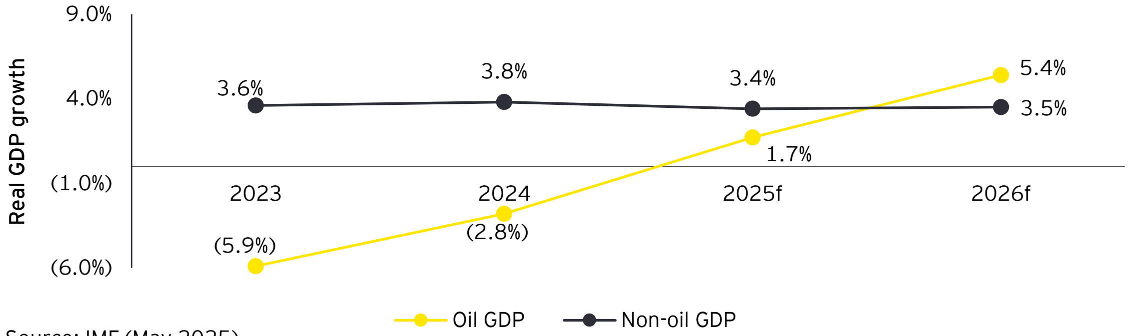
Global supply surplus and weaker-than-expected demand growth impacted the oil price in 2025



Source: Oxford Economics.

- Crude oil prices are experiencing fluctuations due to evolving market conditions. Throughout 2025, oil prices faced consistent downward pressure, shaped by oversupply and sluggish demand, despite occasional geopolitical flare-ups causing short-term spikes. In August 2025, oil prices fell to US$67 after OPEC+ announced its plans to unwind its 2.2 mb/d output cuts.
- OPEC+ anticipates global oil demand will grow by 1.4 mb/d in 2026, while the 2025 forecast remains at 1.3 mb/d, bolstered by positive economic activity. However, strong supply growth from non-OPEC+ countries is expected to outpace subdued global oil demand.
- According to the IMF, the fiscal breakeven oil price is anticipated to surpass the projected average for half of the GCC countries. Nevertheless, a greater contribution from non-oil sectors may alleviate some of the pressure.

Non-oil GDP growth remains resilient, driven by ongoing diversification and structural reforms



Source: IMF (May 2025).

- Oil GDP growth in the GCC region is projected to recover modestly at 1.7% in 2025, following a subdued performance in 2024 primarily due to OPEC+ production cuts. However, growth is projected to accelerate to 5.4% in 2026, spurred by the phased rollback of production cuts, which is expected to boost economic momentum in the region. Oil GDP growth in 2025 is expected to be led by the UAE (2.2%), followed by Saudi Arabia (2.0%), Qatar (1.7%), Kuwait (1.3%) and Oman (0.2%).
- Non-oil GDP growth remains resilient, driven by sustained diversification and reform efforts. The IMF projects the UAE is expected to lead GCC non-oil growth in 2025 at 4.6%, followed by Bahrain at 3.6%, Oman at 3.3% and Saudi Arabia at 3.1%.
- Although the region has limited direct exposure to trade tariffs, it is expected to face economic headwinds due to ongoing global uncertainties and trade disruptions.
- The anticipated uptick in oil GDP is likely to stimulate credit expansion. Concurrently, the acceleration of non-oil private sector activity – underpinned by infrastructure investments and strong foreign direct investment (FDI) – is set to unlock new growth avenues for the region's banking sector.

Source: IMF, IEA, Oxford economics, OPEC Monthly Oil Market Report and other secondary research.

Rising GDP and enhanced sovereign credit ratings are anticipated to strengthen confidence in the region's banking system

According to the IMF, GCC real GDP is forecast to grow by 3% in 2025, with further robust growth of 4.1% in 2026. Economic diversification, infrastructure investment, strong foreign direct investment (FDI) growth in Saudi Arabia and the UAE and private sector expansion are all expected to drive this growth.

Saudi Arabia

GDP growth	
2025	3.0%
2026	3.7%
S&P credit rating	
A+ with stable outlook	

UAE

GDP growth	
2025	4.0%
2026	5.0%
S&P credit rating	
AA with stable outlook	

Qatar

GDP growth	
2025	2.4%
2026	5.6%
S&P credit rating	
AA with stable outlook	

Kuwait

GDP growth	
2025	1.9%
2026	3.1%
S&P credit rating	
A+ with stable outlook	

Bahrain

GDP growth	
2025	2.8%
2026	3.0%
S&P credit rating	
B+ with negative outlook	

Oman

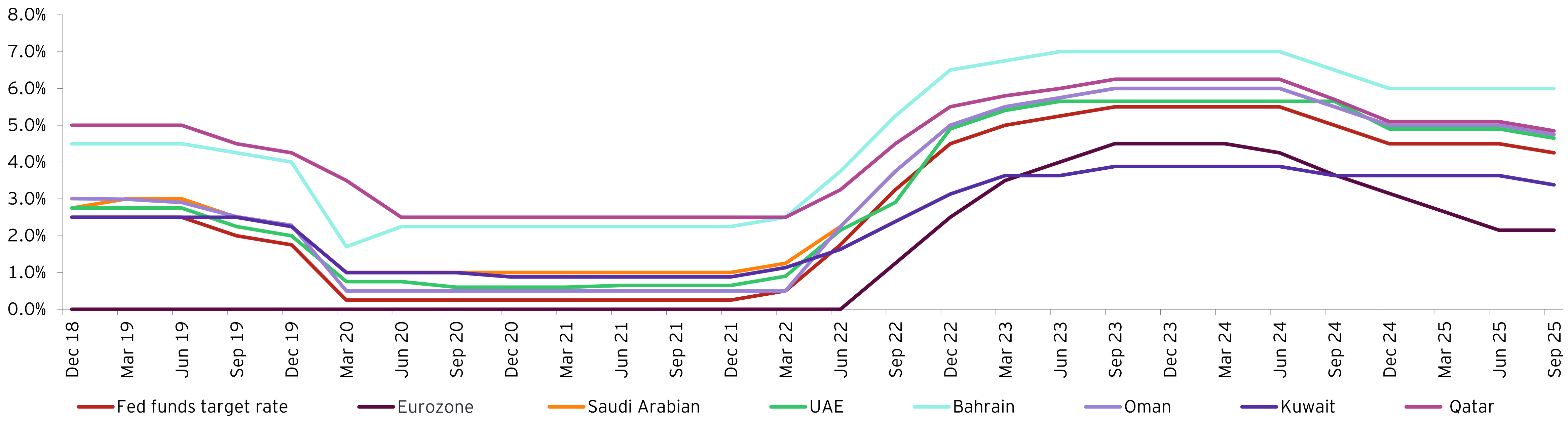
GDP growth	
2025	2.3%
2026	3.6%
S&P credit rating	
BBB- with stable outlook	

Source: IMF (Regional Economic outlook - May 2025), S&P.

02 GCC banking outlook

Lower interest rate environment may impact banks profitability and lending strategy

Interest rates remained stable in H1 2025, aligning with the Federal Reserve's policy stance



- The Federal Reserve maintained interest rates through the first half of 2025; however, it announced the rate cuts for the first time this year by 25 bps in September 2025, reflecting emerging softness in the US labor market.
- A reduction in rates during H2 2025 could weigh on banks with significant retail lending exposure, as their assets tend to reprice faster than liabilities, potentially compressing margins. Additionally, banks are increasingly exploring income diversification strategies to mitigate margin pressures.

Source: Refinitiv Eikon, EMIS, EY analysis and other secondary research.

Note: central bank policy rates

Resilient fundamentals and reforms set the stage for sustained banking growth across the GCC

GCC banks are expected to maintain resilience in 2025, supported by ongoing economic diversification, regulatory enhancements and private sector expansion, particularly in non-oil segments. The UAE and Saudi Arabia are likely to lead regional growth, driven by a strong credit growth and sustained investment momentum.

However, the rate cuts in H2 2025 may exert pressure on net interest margins, prompting banks to diversify their revenue streams. Additionally, fluctuating oil prices, the implementation of corporate taxation in some GCC markets, and rising geopolitical tensions present notable downside risks to the region's banking outlook.

Saudi Arabia

- Saudi banks experienced a robust credit demand with a y-o-y (June 2025) loan growth of 15.8%, primarily driven by corporate lending. Furthermore, mortgage origination grew y-o-y by 3.7% though it remained below 2022 levels.
- However, while deposit growth remains subdued, Saudi banks are increasingly turning to external funding to ease liquidity pressures. While the asset quality has improved with a NPL ratio of 1.2 times during Q1 2025 compared with 1.4 times in Q1 2024.
- Credit growth remains supported by strong domestic demand, although rising funding costs and slower reforms—amid a low oil price environment—may present headwinds.

UAE

- UAE banks remain fundamentally strong with gross lending up 10.4% y-o-y in May 2025, led by retail (+18.2%) and private sector credit (+7.9%), reflecting resilient domestic demand. Liquidity remains robust with credit expansion supported by 12.7% y-o-y deposit growth.
- The UAE's position as a regional financial hub is reinforced by rising cross-border banking. The upcoming 0.5% countercyclical capital buffer (effective January 2026) will make asset growth more capital-intensive.
- Digitalization, infrastructure investments and strong FDI inflows are expected to support growth in the sector.

Qatar

- Qatar's banking sector continues to expand steadily, with credit growing 5.0% y-o-y as of June 2025, supported by strong domestic demand. Deposit growth remained modest at 2.0% y-o-y, indicating a need to diversify local funding sources to sustain credit expansion.
- Qatari banks are closely monitoring asset quality.
- While supported by solid capital buffers, the sector is gaining momentum, driven by the LNG production ramp-up and early gains from reforms under the Third National Development Strategy (NDS3).

Kuwait

- Credit growth in Kuwait improved by 6.8% y-o-y in 2024 as per Fitch, though business and household lending remained subdued in June 2025.
- Given the sector's reliance on domestic economic activity, housing reforms—such as the residential mortgage law and foreign property ownership regulations—could serve as catalysts for retail credit expansion over the medium term.
- However, Brent price volatility presents a risk to funding costs, especially as Kuwait's fiscal breakeven oil price hovers around US$80/b.
- The renewal of the public debt law could improve liquidity while supporting foreign reserves. Conversely, the proposed corporate tax may weigh on near-term profitability and sentiment.

Bahrain

- As of June 2025, Bahrain's banking sector recorded a 3.6% y-o-y growth in total assets, with Islamic banks outperforming at 4.5%. The loan-to-deposit (LDR) ratio stood at 63.1% in Q1 2025, indicating ample liquidity.
- Asset quality showed signs of improvement, with the NPL ratio declining to 2.7 times during Q1 2025, compared with 2.9 times in Q1 2024—suggesting better credit risk management and recovery efforts.
- While the sector remains vulnerable to oil price fluctuations, given Bahrain's relatively high fiscal breakeven levels, the outlook is supported by steady non-oil sector expansion and rising foreign investment.

Oman

- Oman's banking sector remains resilient, with adequate profitability and a strong credit growth of 8.4% y-o-y (June 2025) led by private lending across both conventional and Islamic banks - signaling continued economic confidence.
- Deposits rose 7.6% y-o-y, supporting liquidity, while the sector maintains a positive net foreign asset position.
- While the direct impact of global trade tensions is expected to be limited, further rate cuts might pressurize the margins.

Source: central bank statistics, IMF, EMIS, Refinitiv, Analyst reports from Fitch, UBS, EY analysis and other secondary research.

Key transformations shaping the GCC banking sector

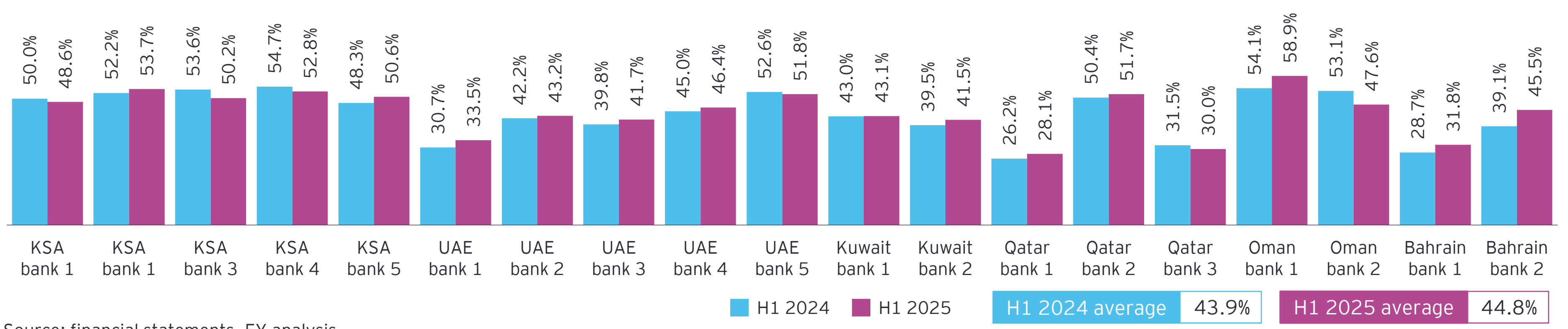
- Evolving FinTech ecosystem enhancing customer experience, unlocking new revenue streams through strategic partnerships
- Cryptocurrencies transitioning from speculative assets to structured components of digital finance policy
- Embedding sustainability into banks' core strategies
- RegTech: driving efficiency and transparency in GCC bank compliance
- Digital banking: generative AI (GenAI) and agentic AI are redefining business models for banks
- Hyper personalization and real-time customer engagement
- Evolving regulatory landscape: finalizing Basel III reforms, tighter anti-money laundering (AML) and countering the financing of terrorism (CFT) enforcement, and creation of regulatory sandbox

Source: EMIS, EY analysis and other secondary research.

03 Competitive landscape: H1 2025

NIM trends lower in H1 2025 amid headwinds from interest rate changes

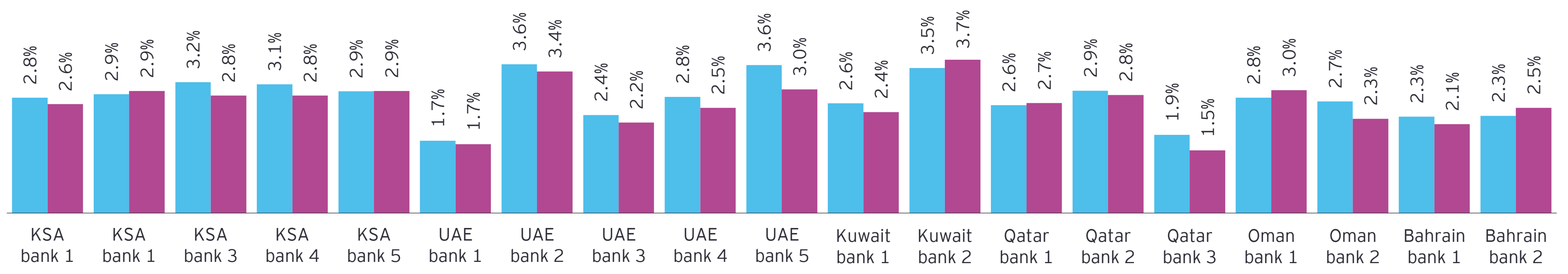
NII ratio



Source: financial statements, EY analysis.

- Most GCC banks reported an increase in the NII ratio during H1 2025, driven by strong lending momentum.
- Recently announced rate cuts in September 2025 are likely to place downward pressure on the interest income. GCC banks are expected to balance the risk through effective income diversification strategies.

NIM



Note: NIM calculation includes income from financing and investing activities

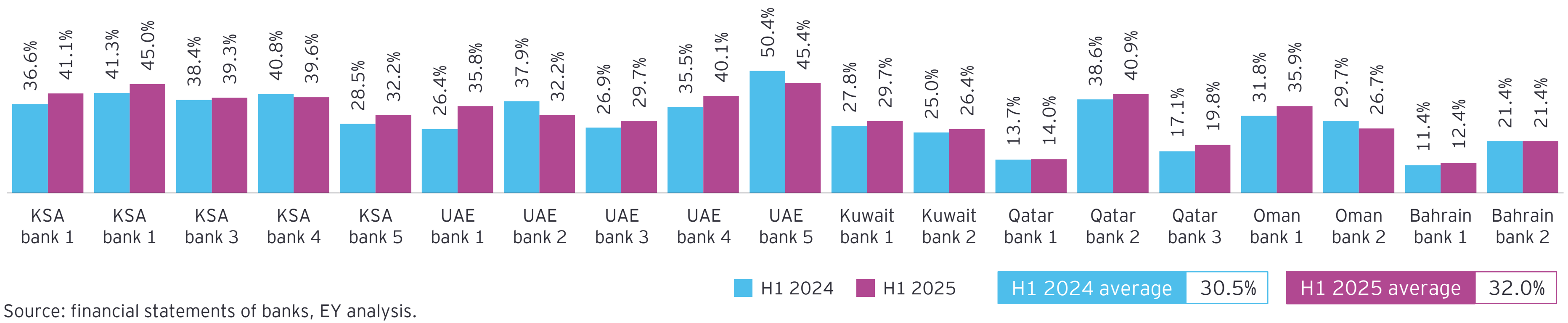
H1 2024 H1 2025 H1 2024 average 2.8% H1 2025 average 2.6%

Source: financial statements of banks, S&P Capital IQ Pro, EY analysis.

- The average NIM for GCC banks declined slightly during H1 2025 compared with the same period in 2024, primarily due to interest rate reductions implemented in late 2024, which led to the repricing of loans at lower yields.
- A softer Brent crude outlook may elevate funding pressures for banks in Saudi Arabia, Kuwait and Oman. Concurrently, rate cuts announced may further pressurize net interest margins for GCC banks.

GCC banks maintain profit momentum driven by noninterest income

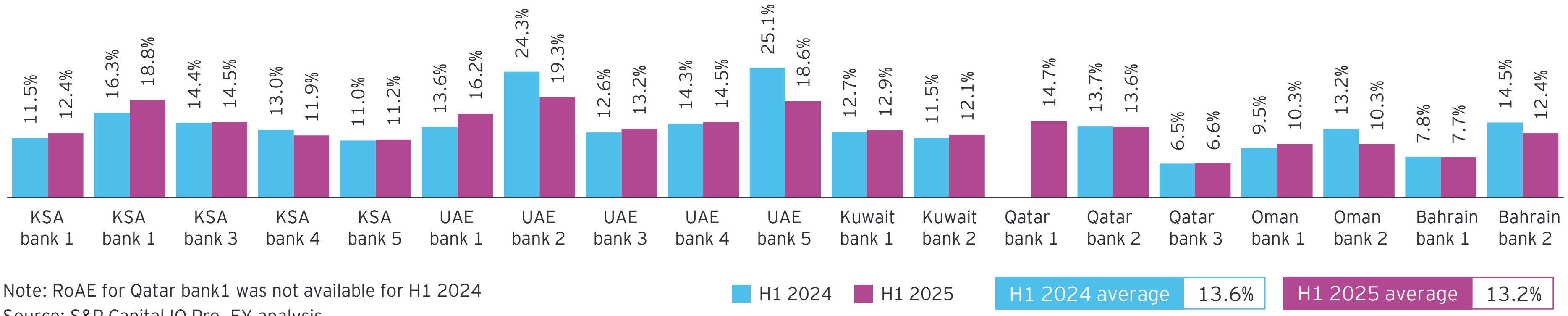
Net profit margin



Source: financial statements of banks, EY analysis.

- Net profit margins improved in H1 2025, supported by stronger noninterest income and a lower cost-to-income ratio.
- Rising noninterest income signals gradual revenue diversification efforts to support profitability.
- GCC banks are expected to retain strong profitability in 2025.

RoAE

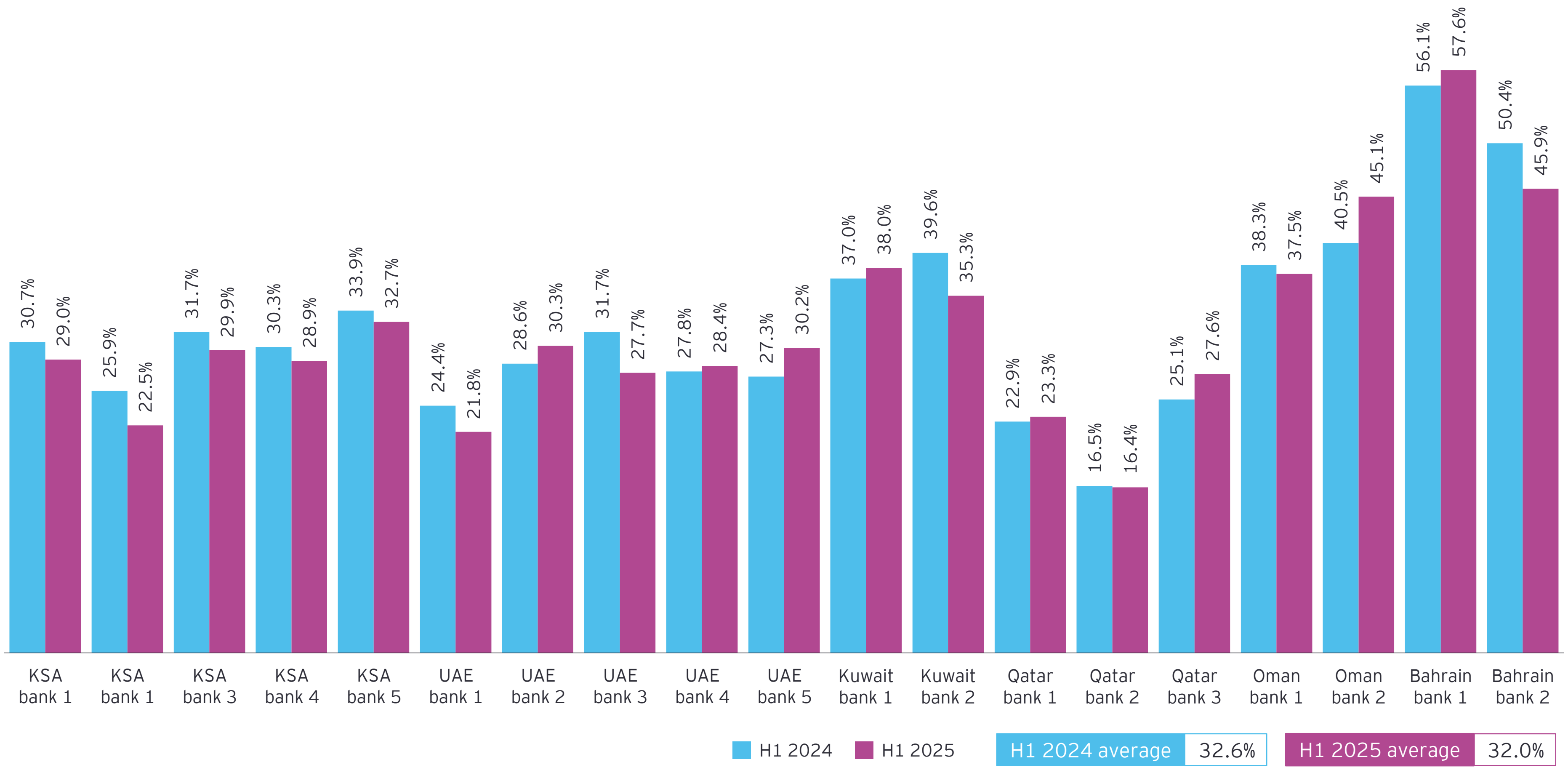


Note: RoAE for Qatar bank1 was not available for H1 2024
Source: S&P Capital IQ Pro, EY analysis.

- GCC banks maintained strong Return on average equity (ROAE) in H1 2025, averaging 13.2%. UAE banks led with an average RoAE of 16.3%, followed by Saudi Arabia and Qatar.

GCC banks sustain low cost-to-income ratios through digital transformation and strategic cost management

Cost-to-income ratio

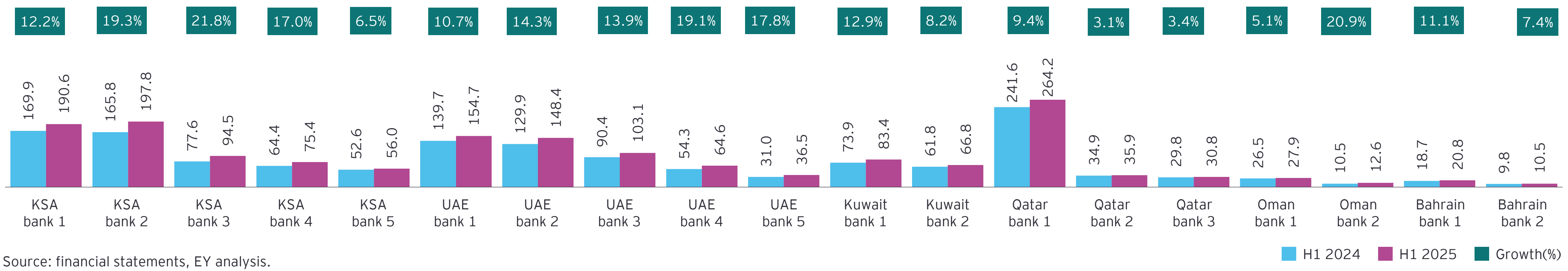


- In H1 2025, the average cost-to-income ratio saw a slight decrease reflecting continued operational efficiency.
- The ongoing digital transformation and strategic cost optimization efforts, combined with stable macroeconomic conditions, are driving improvements in operational efficiency across the GCC banking sector.

Source: S&P Capital IQ Pro, EY analysis.

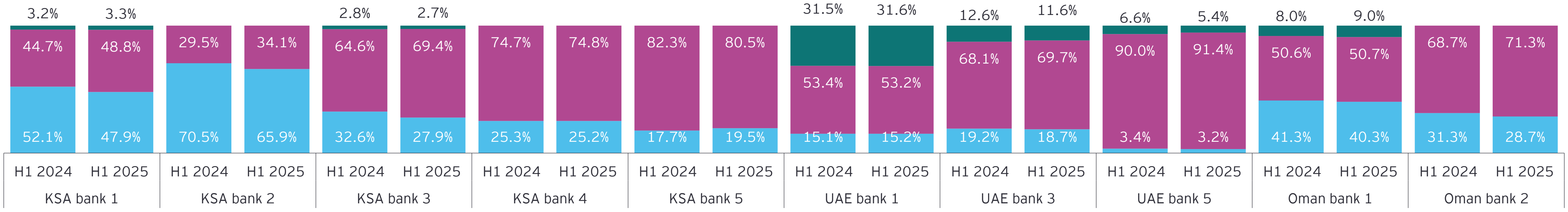
Lending growth remained robust, underpinned by strong momentum in the non-oil sectors across the region

Loans (net) (US$b)



Source: financial statements, EY analysis.

Loan mix

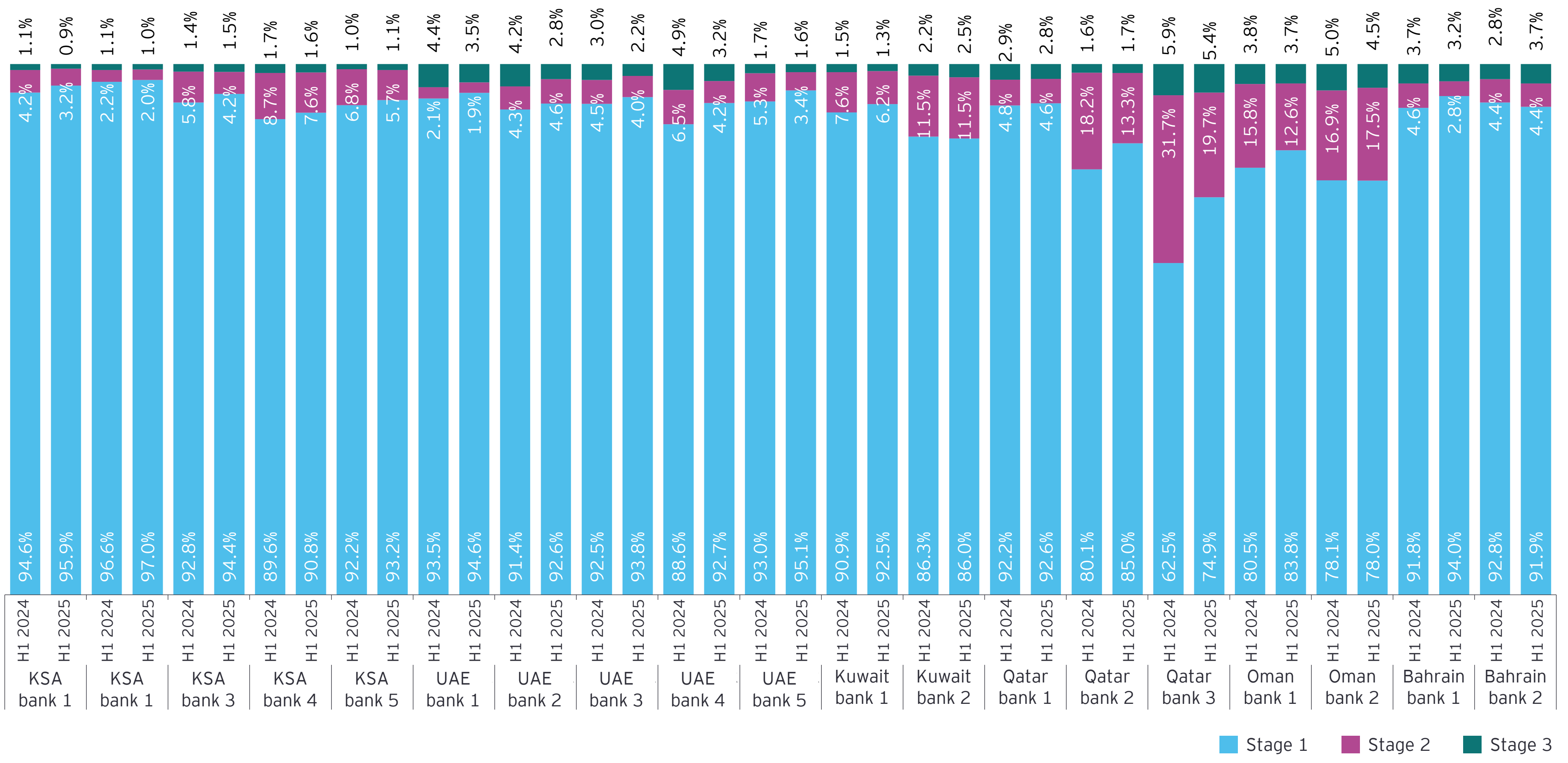


Note: Certain banks have been excluded from the above graph due to the unavailability of data or lack of uniform disclosures

Source: financial statements of banks, EY analysis.

GCC banking sector experienced a decrease in Stage 2 and Stage 3 exposures

ECL (stage-wise exposure)



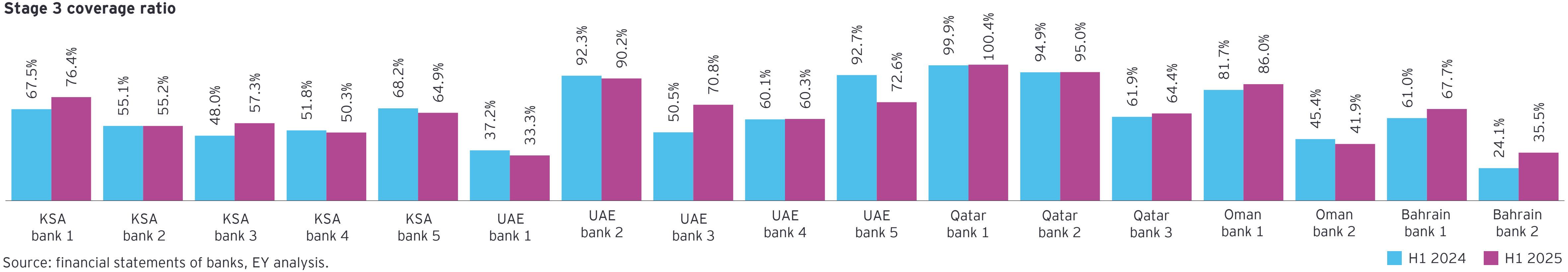
- GCC banks have shown improved credit health in H1 2025, with a decline in Stage 2 and Stage 3 loan exposures due to loan recoveries and proactive write-offs.

Source: financial statements of banks, EY analysis.

Stage-wise coverage among GCC banks remains steady, with small variations

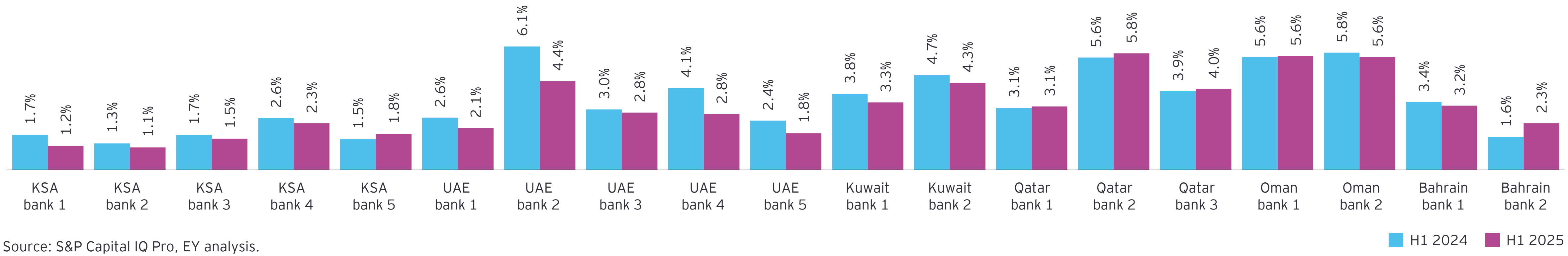
ECL coverage

Stage 3 coverage ratio



Source: financial statements of banks, EY analysis.

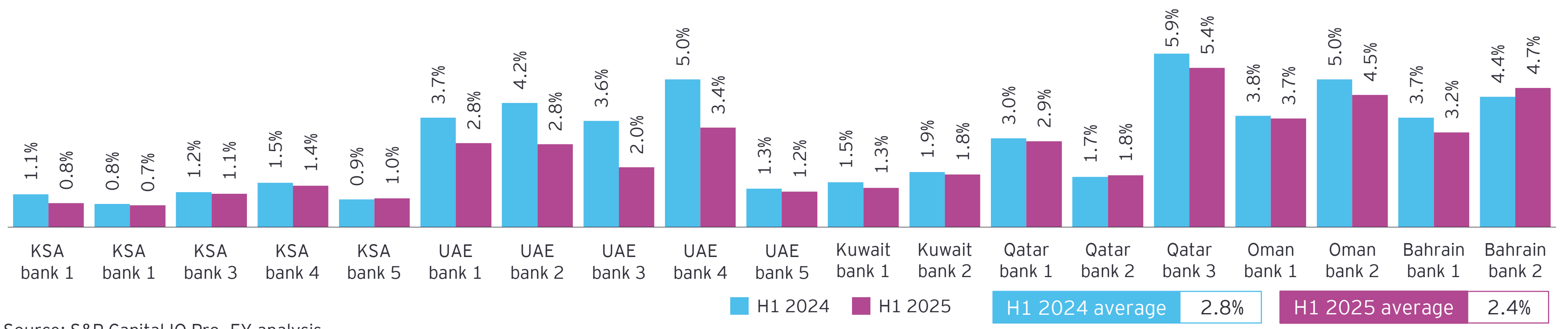
Total coverage ratio



Source: S&P Capital IQ Pro, EY analysis.

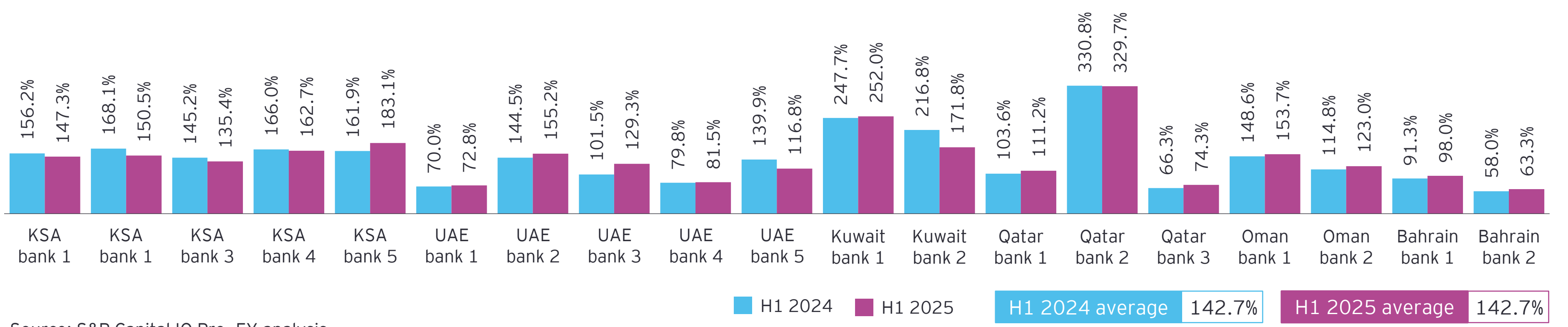
GCC banks strengthen asset quality with lower NPLs and healthy coverage ratios

NPL ratio



Source: S&P Capital IQ Pro, EY analysis.

NPL coverage ratio

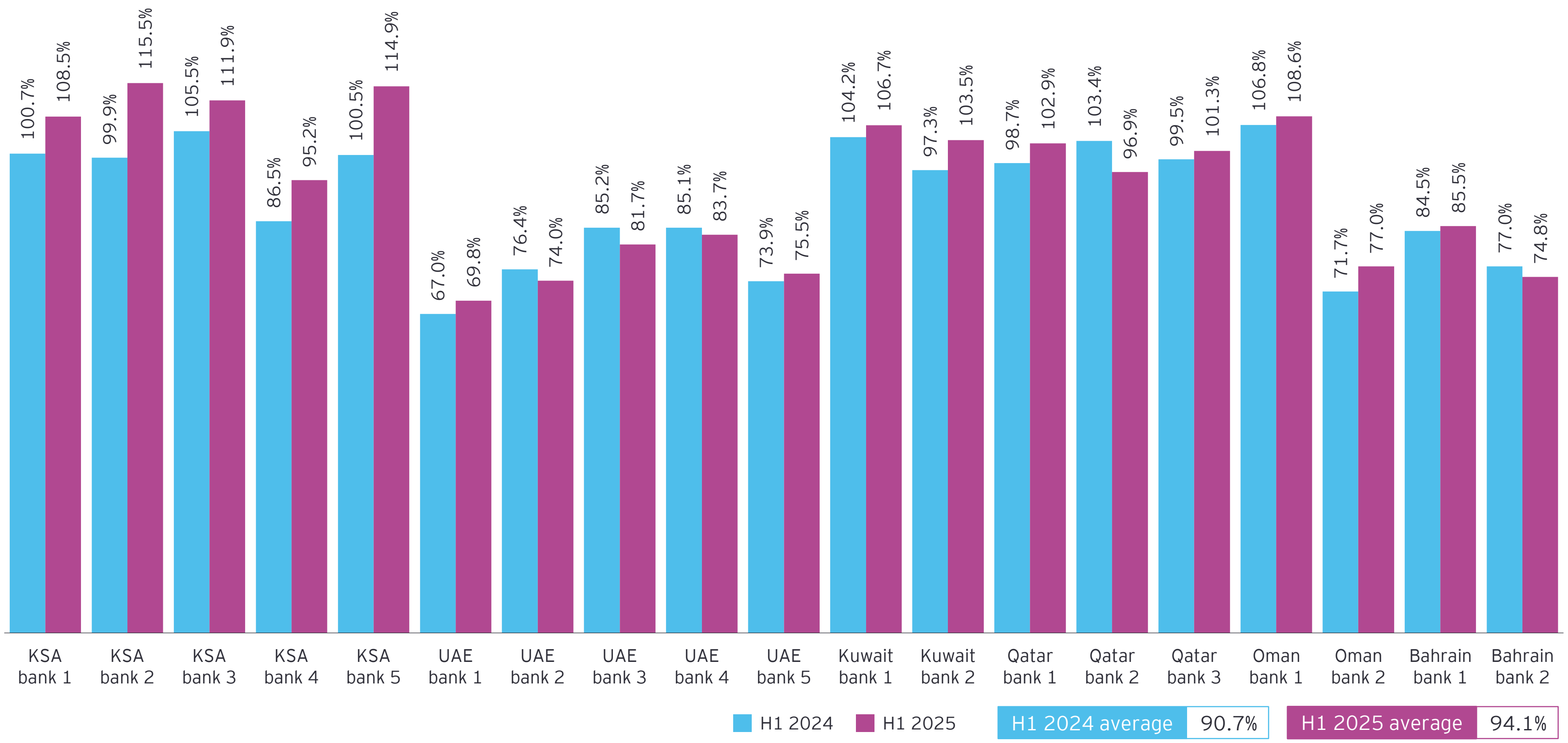


Source: S&P Capital IQ Pro, EY analysis.

- GCC banks strengthened asset quality in H1 2025, marked by declining NPL ratios driven by cautious lending.
- KSA banks reported lower NPL ratios with stable corporate credit growth, while NPL coverage levels exceed 100% despite a small y-o-y dip.
- GCC banks are expected to maintain stable asset quality in the near term, underpinned by economic resilience and strong provisioning levels.

Navigating credit growth and liquidity dynamics amid economic transformation

Loan-to-deposit ratio

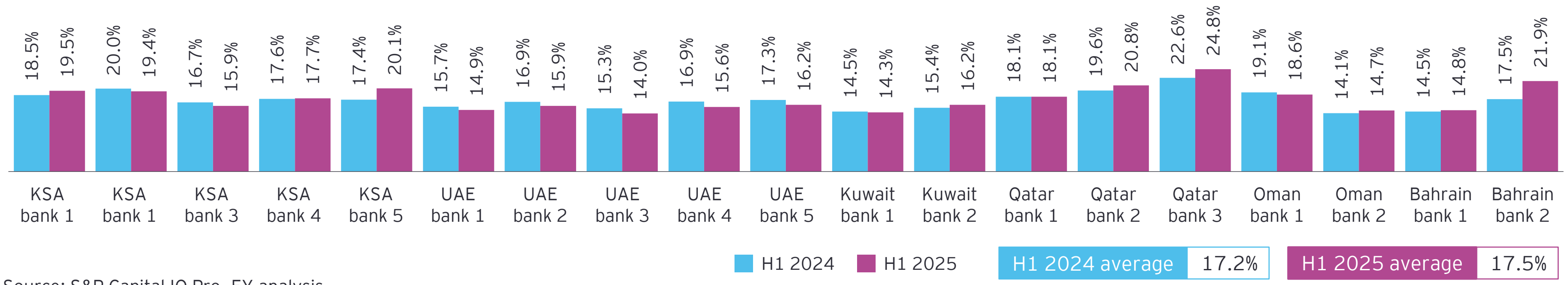


- The consistent high loan-to-deposit ratio reflects the GCC banking sector's active role in financing economic transformation, supported by robust credit demand and strategic lending initiatives.
- Banks in Saudi Arabia continue to benefit from strong domestic credit expansion, underpinned by Vision 2030 initiatives, particularly in infrastructure development and small and medium enterprise (SME) financing. However, the deceleration in deposit growth has intensified liquidity constraints, prompting increased dependence on external funding sources and a more prudent stance on credit disbursement.
- UAE banks are strategically positioned for future credit expansion, supported by surplus liquidity and lower sensitivity to oil prices.

Source: S&P Capital IQ Pro, EY analysis.

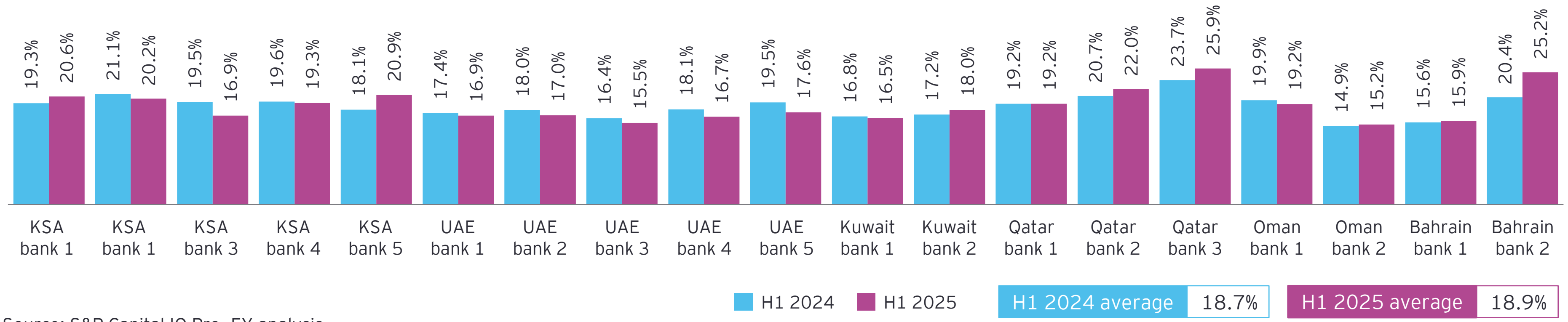
GCC banks hold strong capital buffers, supporting resilience against economic shocks

Tier 1 ratio



Source: S&P Capital IQ Pro, EY analysis.

CAR

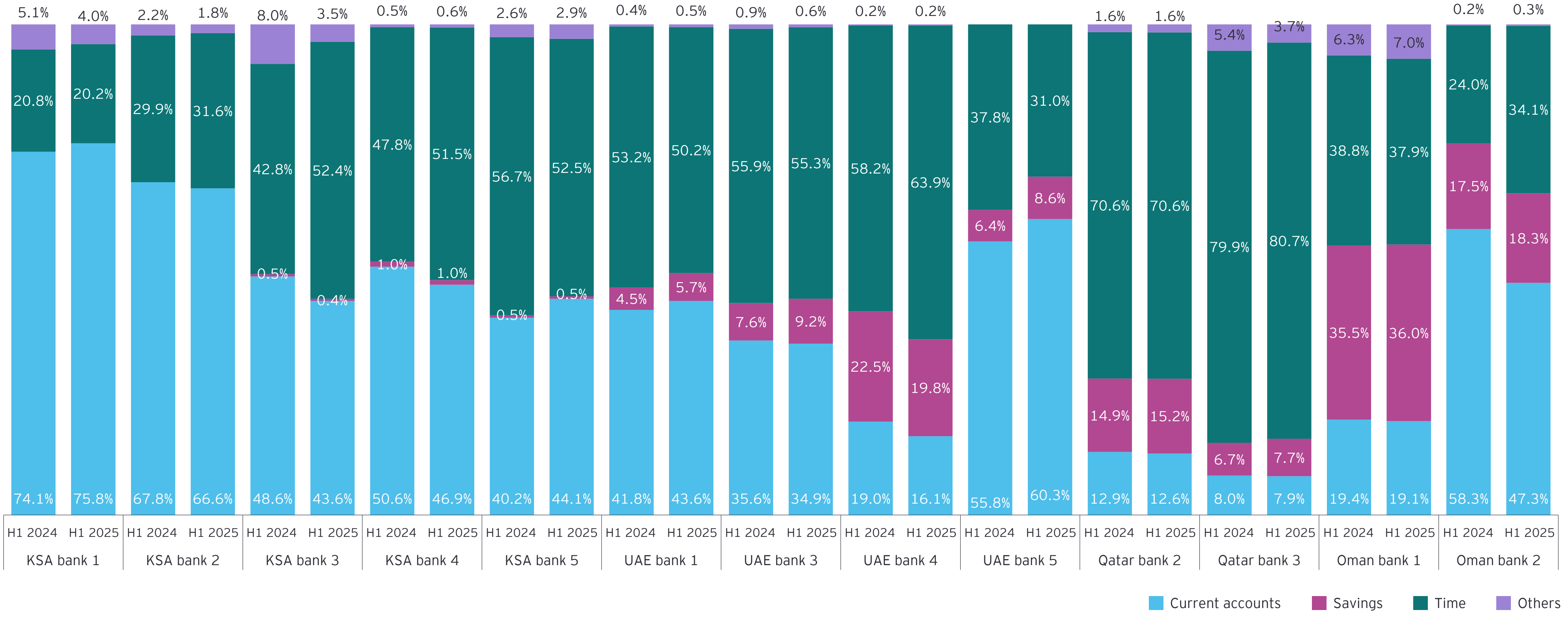


Source: S&P Capital IQ Pro, EY analysis.

- GCC banks continue to demonstrate strong capitalization, with an average Tier 1 ratio of 17.2% and CAR of 18.7% in H1 2025, reinforcing their resilience and credit strength amid evolving market conditions.
- The robust capital buffers of GCC banks stem from their ability to consistently deliver strong earnings, maintain efficient cost structures and implement cautious dividend strategies that support long-term financial health.

While CASA deposits contribute to improved lending economics, Saudi banks are actively managing funding imbalances driven by accelerated credit growth

Deposit mix

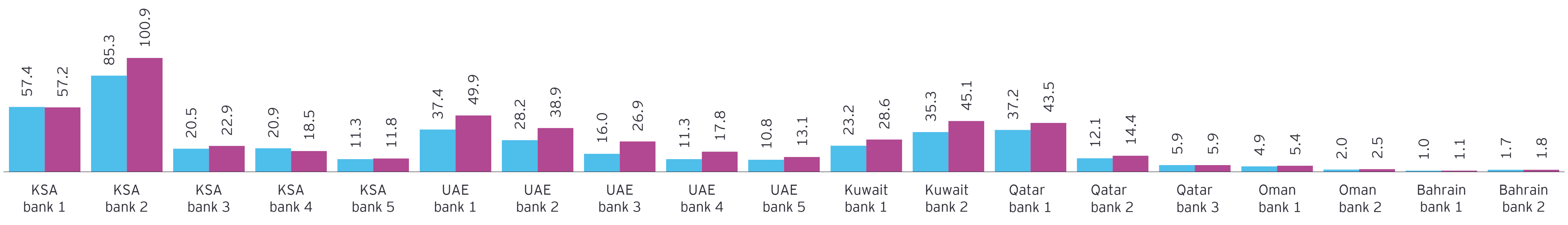


Source: financial statements of banks, EY analysis.

Note: Certain banks have been excluded from the above graph due to the unavailability of deposit composition

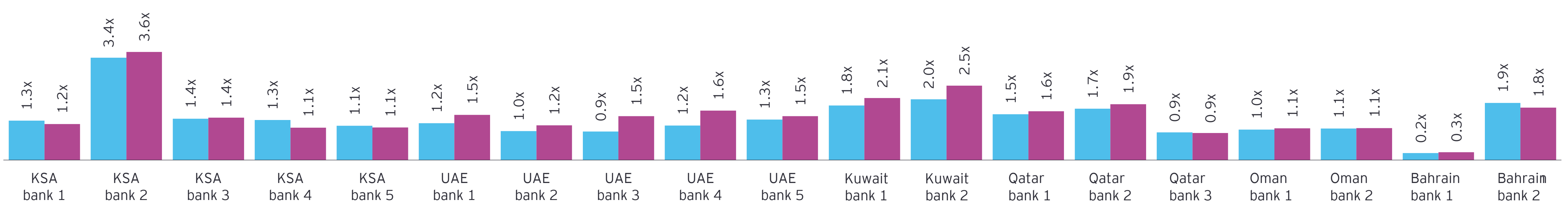
Solid earnings, improved asset quality and investor confidence have improved P/B levels

Market capitalization (US$b)



Source: S&P Capital IQ Pro, Bahrain Bourse, EY analysis.

P/B ratio



H1 2024 H1 2025

H1 2024 average	1.4X	H1 2025 average	1.5X

Source: S&P Capital IQ Pro, Bahrain Bourse, EY analysis.

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All in to shape the future with confidence.

The MENA practice of EY has been operating in the region since 1923. Over the past 100 years, we have grown to over 8,500 people united across 27 offices and 14 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

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