بنك دبي الإسلامي
Dubai Islamic Bank

ECONOMIC BITES

Monthly Updates from DIB

April 2025

Macroeconomic Update

"The recent decision to place a 90-day pause on the implementation of new U.S. tariffs introduces both uncertainty and opportunity for GCC markets. With only a 10% tariff imposed, businesses in the region are relatively insulated yet must remain vigilant to broader market dynamics. Needless to say, there are inflationary implications of trade uncertainty and strategic considerations for supply chain resilience."

I. Tariffs, Trade Uncertainty, and Inflation

Anticipation can be as bad as realization: The imposition and threat of US tariffs have triggered significant volatility in global trade. Even before tariffs are enacted, the anticipation alone prompts firms to stockpile goods, driving up warehousing and logistics costs, straining supply chains, and increasing operational expenses. Higher expenses will likely be passed on to the final consumers as substantiated by the recent PMI data from the UAE and wider GCC.

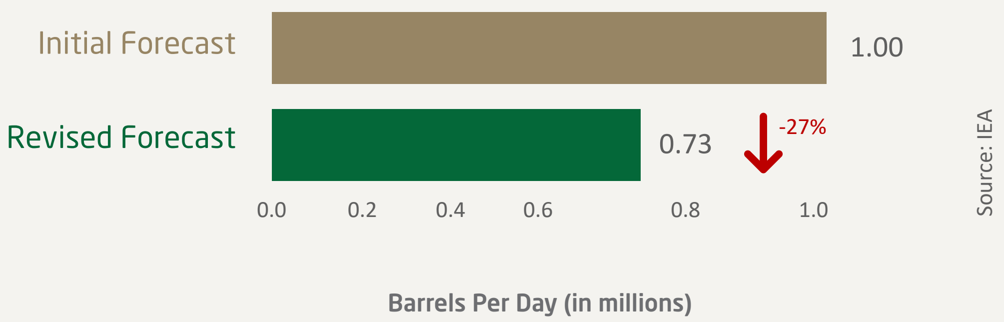
Tariff on, Tariff off = Inflation on: On a macro level, the narrative around tariffs has already contributed to upward pressure on inflation. The extent of this impact depends on:

Opportunistic pricing: Retailers may use tariff headlines to justify price hikes beyond actual cost increases. Domestic firms may opportunistically raise prices under the higher tariff rhetoric taking advantage of consumer uncertainty about which tariffs are active. This dynamic can amplify inflation, especially in frequently purchased goods, eroding consumer sentiment and spending power.

Consumer inflation expectations: If consumers expect persistent price increases, their behavior can reinforce inflationary trends.

Global Trade and USD Impact: The US dollar has weakened YTD amid erratic US trade policy leading to market volatility. Global investors have started to seek alternative safe havens in commodities including gold & silver. With the stalled new US tariffs representing the most significant disruption to global trade in decades, businesses are now looking to mitigate trade risks by re-routing supply chains to lower tariff markets such as the UAE and wider GCC.

Fig.1: 2025 oil demand slashed by 27% by the IEA amid economic frictions



Oil Markets: In a recent move, International Energy Agency (IEA) slashed oil demand to 730,000 barrels per day from previously predicted 1 million barrels per day for 2025. The IEA cited escalating trade tensions for negatively impacting the economic outlook of oil markets and causing uncertainties in forecasts. This negatively impacts the oil exporting economies. However, the UAE's diversified trade relationships, free trade agreements, and status as a logistics hub provide some insulation.

Opportunity for GCC Businesses Amidst Global Noise
Modern trade is deeply interconnected. Many products require multiple cross-border steps, and tariffs can disrupt internal supply chains of multinational corporations. Outsourcing within the same company across multiple countries is common, making switching suppliers a less effective strategy in many cases. Global political polarization has created distorted narratives around trade and inflation.

For the UAE and wider GCC, this is an opportunity to position themselves as reliable and stable trade partners in a fragmented global environment.

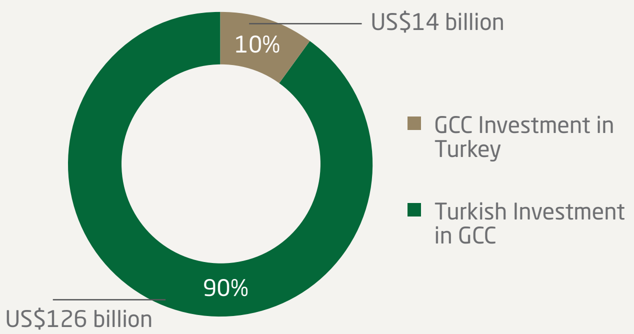
For Businesses, the 90-day tariff pause provides a window to reevaluate supplier contracts, renegotiate freight rates, and shift warehousing strategies. Businesses can also use the tariff narrative to improve margins judiciously without undermining consumer trust. Lastly, strengthening customer engagement and explaining pricing in transparent ways can turn potential frustration into brand loyalty. UAE and the GCC region are better positioned than ever to benefit from the US trade policy uncertainties as:

Consumer sentiment remains stable across many GCC countries, offering a favorable environment for brands that prioritize transparency and value

Retail and logistics players have proactively invested in warehousing and supply chain optimization with many startups setting base in the UAE during COVID-19; and

Regional economic diversification initiatives across the GCC (e.g., UAE industrial strategy, Saudi Vision 2030) have ensured that the Gulf economies are more resilient to economic uncertainties.

Fig.2: GCC plans to expand non-oil markets through cross-border investments with Turkey



Source: AGBI

On a sovereign level, the GCC and Turkey are planning to move towards free-trade agreements to diversify their economies and pivot towards non-oil sectors such as technology, transportation, tourism, and others.

By investing in Turkey, the Gulf countries can enable expansion of their Middle East markets internationally into the Turkish market. Till date, the GCC has invested around USD14 billion in Turkey, whereas Turkish companies have taken on 2,400 projects valued at USD126 billion in the Middle East. Such agreements will be crucial to develop other trade markets and allies.

II. UAE non-oil activity moderates to 54 in March

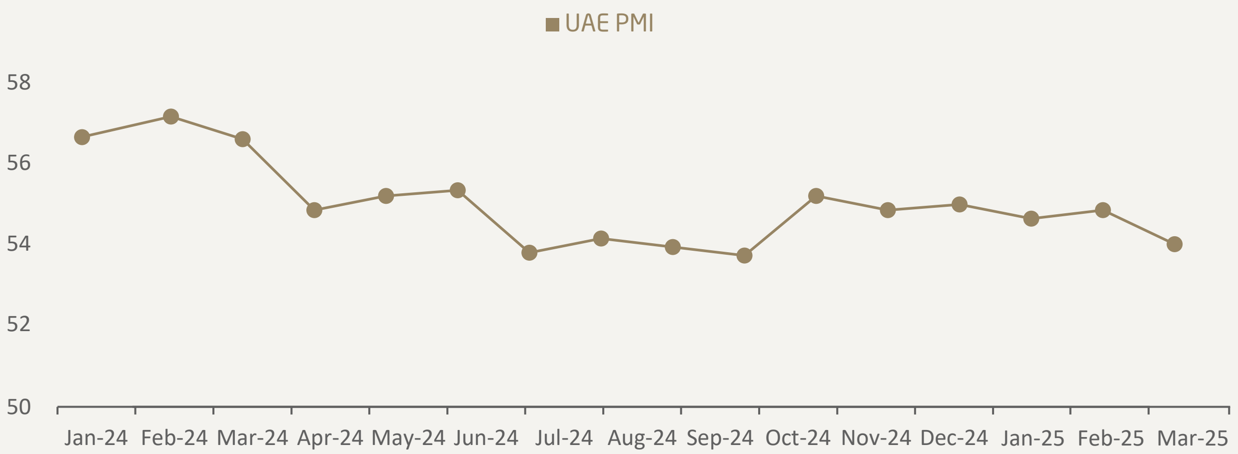
In March, the UAE's PMI was recorded at 54.0 (from 55.0 in February), marking its lowest since September 2024, as new order growth weakened for the third straight month and hiring slowed amid labor shortages. Despite this, firms ramped up input purchases to clear backlogs, while infl ationary pressures persisted due to higher material costs.

For the same period, Kuwait's PMI jumped to 52.3 (from 51.6), driven by stronger demand, competitive pricing, and a rebound in hiring. Export orders rose at the fastest pace this year, though staffing shortages led to increased backlogs. Meanwhile, Saudi Arabia (March: 58.1; February: 58.4) maintained regional leadership on robust demand conditions leading to improving hiring activity and expansion in output. Qatar accelerated to 52.0 (from 51.0), its highest in 2025, led by services and retail. Employment growth eased slightly but remained robust.

Key takeaway:

The GCC's divergence reflects varying domestic conditions – Kuwait's price discounts, Qatar's service-sector resilience, and the UAE's cautious but strong demand outlook. One common theme however is the underlying strength in domestic demand that has ensured expansion in GCC economic activity.

Fig.3: UAE & KSA non-oil private PMI remains robust in January 2025



Source: S&P Global

The PMI is a weighted average of these five indices : New Orders (30%), Output (25%), Employment (20%), Suppliers 'Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers 'Delivery Times Index is inverted so that it moves in a comparable direction to the other indices . A reading above 50 indicates expansion in economicactivity.

III. Moderate CPI inflation in the GCC bolsters economic expansion

Dubai's annual Consumer Price Index (CPI) inflation held steady at 3.15% year-on-year in February 2025, matching January's rate and marking the highest level since August 2024. On a monthly basis, prices rose by 0.54%, accelerating from a marginal 0.01% decline in the previous month.

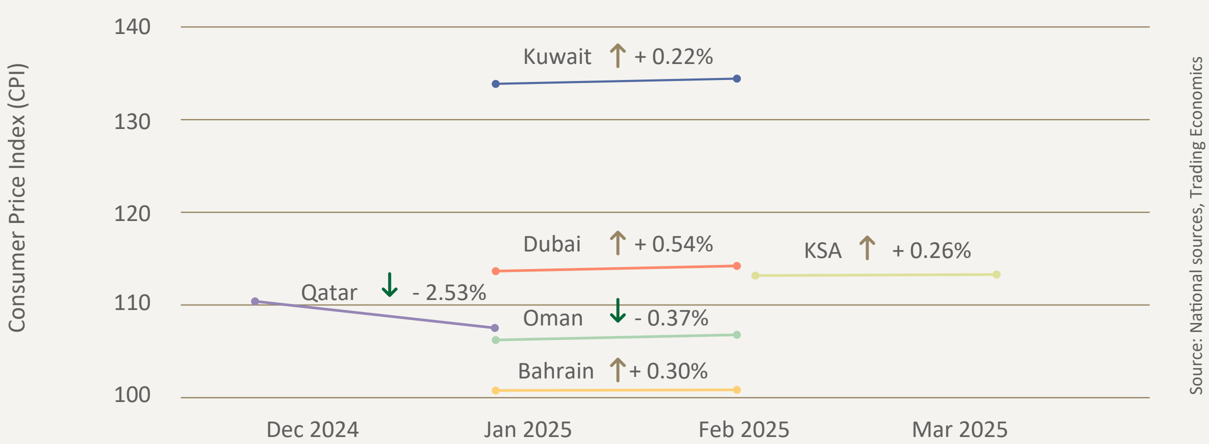
The headline inflation was driven primarily due to structural pressures in the housing market, where robust population growth and tourism continue to outpace new supply. The stabilization of transport costs and the absence of significant new deflationary forces in February explain why the headline rate did not fall further.

Kuwait's CPI inflation remained stable at 2.49% Y-o-Y in February, nearly unchanged from 2.5% in January and December. While headline inflation remained stable, persistent price pressures in food and personal services may warrant ongoing monitoring of food and service costs in the wake of global price uncertainties. In Oman, headline CPI inflation remained at a low 1% Y-o-Y in February but on a month-on-month basis, it declined 0.37% on lower food prices.

In Bahrain, headline inflation rate edged up to 0.1% in February 2025. On a monthly basis, consumer prices rose by 0.3% - second increase in five months primarily on recreation & culture, and hotel spending.

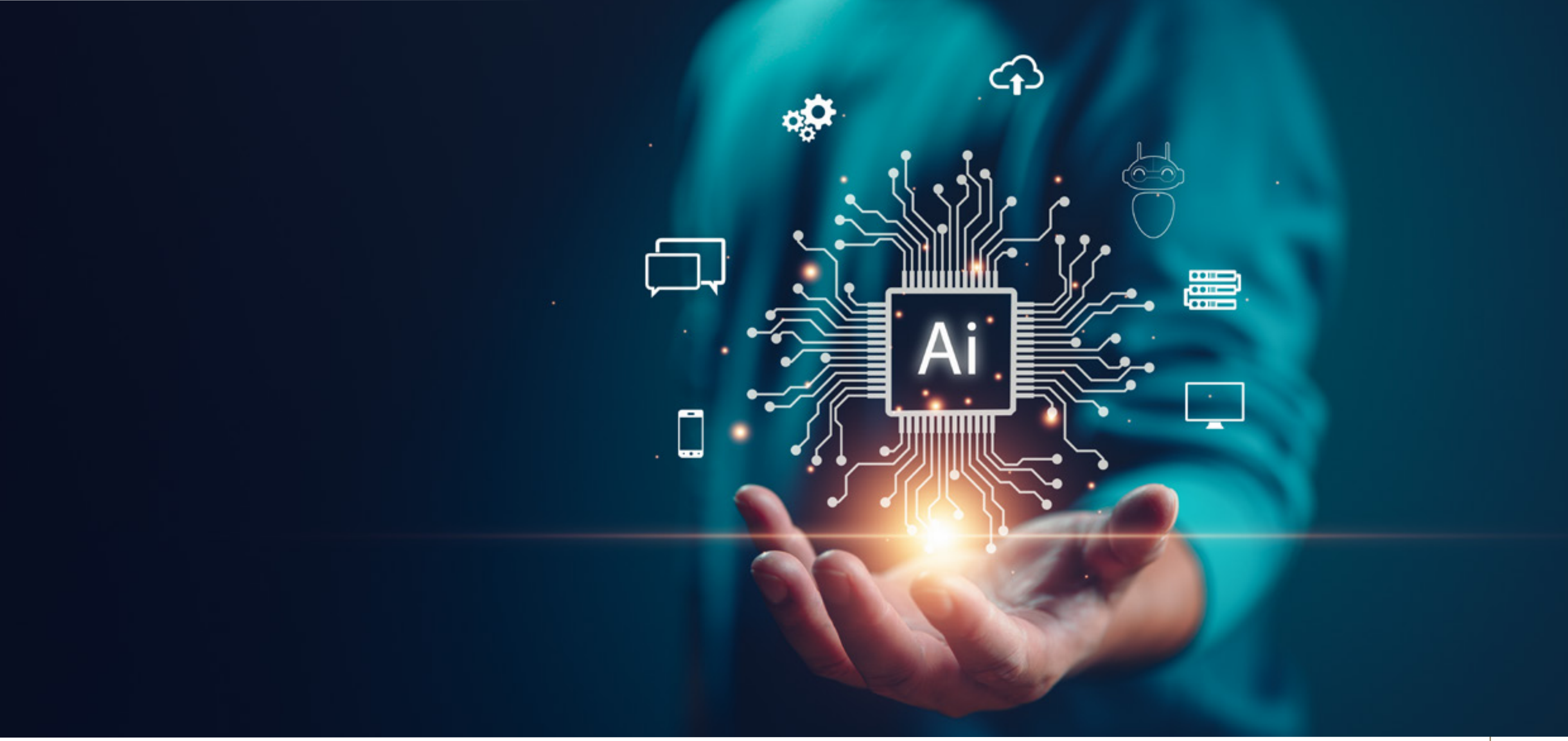
Saudi Arabia's headline CPI accelerated to 2.3% Y-o-Y in March 2025 vs. 2.0% in February, marking the highest level since July 2023. On a monthly basis, the index rose by 0.3% in March, compared to a 0.2% increase in February on rising prices in housing utilities and apartment rents, miscellaneous goods and services. KSA is working on a new law - White Land Tax - to boost housing supply and curb rental inflation. New landlord-tenant regulations will be introduced, and REGA will monitor property prices and lease agreements. To ease supply constraints, authorities have lifted restrictions on 81 million sqm of land in northern Riyadh. Additionally, eligible Saudi nationals will be provided with residential plots at a fixed price (.SR1,500/sq m) with a 10-year resale restriction.

Fig.4: Latest M-o-M changes in CPI Inflation for GCC remain fairly moderate in 2025



Key takeaways:

- Dubai's inflation in February 2025 was at a post-pandemic high, as rise in housing costs off set fall in transport and import prices. The current inflation profile suggests a gradual easing over 2025, but with housing prices to watch out for.
- KSA: We have been consistently pointing out that the Saudi economy is robust and policy only needs to address inflation concerns as and when they arise. This new law - White Land tax - is a step in the right direction as this will help address supply constraints in Riyadh but also improve.



IV. UAE Cabinet, approves launch of first integrated regulatory intelligence ecosystem in UAE Government

The UAE has announced a groundbreaking initiative to revolutionize its legislative process through the establishment of a Regulatory Intelligence Office, an AI-powered legislative ecosystem.

This system will:

1. Create a comprehensive, interconnected legal framework by linking federal and local laws with judicial rulings, executive procedures, and public services, all driven by advanced artificial intelligence and big data analytics.

2. Enhance legislative agility, speed, and precision, reducing the lawmaking cycle by up to 70%, and ensuring laws are aligned with international best practices while reflecting the UAE's rapid development trajectory.

3. Allow for real-time impact monitoring of laws will enable policymakers to make data-driven adjustments, reducing regulatory uncertainty and enhancing legal stability.

From a policy perspective, this move underscores the UAE's commitment to digital transformation and AI integration across government functions, reinforcing its status as a global hub for innovation. It also signals a proactive approach to regulatory reform, aiming to create a flexible legal environment that can adapt swiftly to economic and societal changes.

For businesses, this translates into a more transparent, responsive, and efficient regulatory landscape, ultimately supporting sustainable growth and competitiveness in the evolving global economy.

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