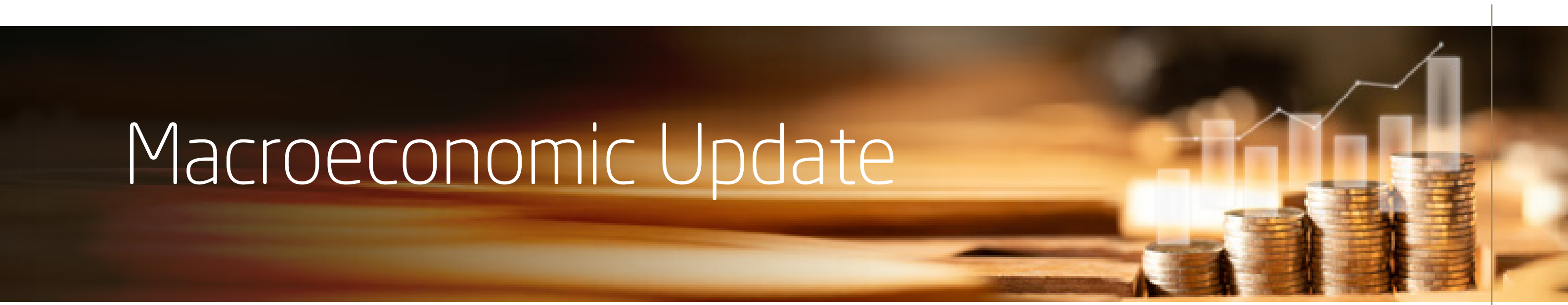
بنك دبي الإسلامي
Dubai Islamic Bank

ECONOMIC BITES

Monthly Updates from DIB
March 2025

Macroeconomic Update



"March saw economic growth momentum continue in both the UAE and Saudi Arabia. Foreign Direct Investment inflows into Dubai remained strong at AED49bn in 2024, adding 57 thousand jobs across various sectors like hotels & tourism, real estate, building materials among others. Meanwhile, S&P Global upgraded Saudi Arabia's credit rating to A+, at par with Japan & China. This will further enhance investor confidence, making it easier to attract capital into the Kingdom. Globally, the US inflation reading was contained but US trade tariffs and counter tariffs are adding to macroeconomic uncertainties. Street expectations are of fewer rate cuts in 2025 by the Federal Reserve than previously anticipated. A slower rate cut would still result in lower benchmark rates in the GCC in 2025. This, along with government investment towards economic diversification will be supportive of higher economic activity in the UAE and wider region."

I. PMI Readings:
Non-Oil economic activity in Focus

UAE PMI: Non-oil activity remained strong on output and new orders in February. UAE PMI was unchanged at 55.0, signaling sustained economic expansion above the long-term average. This reading was bolstered by new orders that drove higher output. Order book growth was supported by improved market conditions and advertising, though competition, both domestic and international, remained strong. Modest increase in selling price was largely on account of firms passing on input prices to buyers. Key insights are:

Business confidence remained subdued due to delays in invoice payments. This likely restricted hiring activity (even as new orders rose) leading to higher backlog of work.

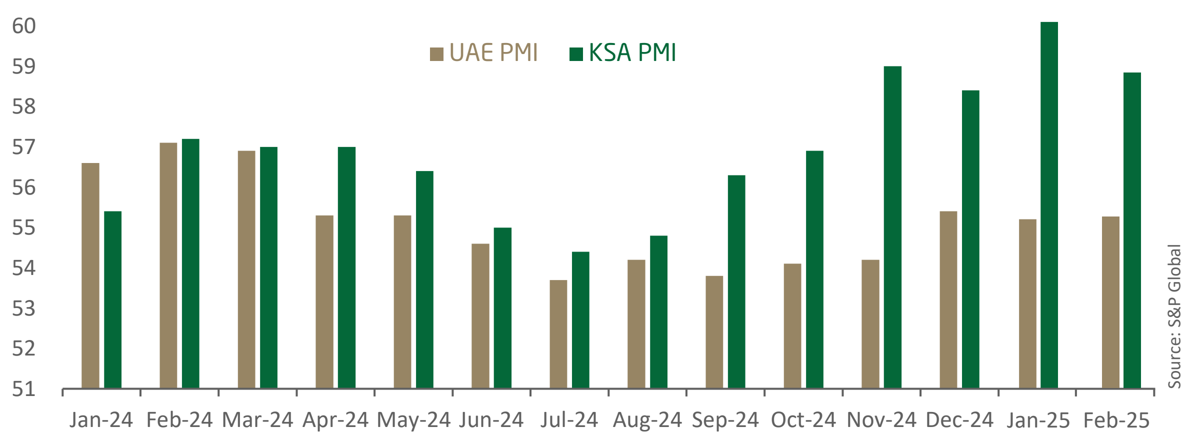
Pricing power has been muted with firms passing only higher input costs to the consumers, due to greater competition in the market.

KSA PMI: Non-oil private sector continued to expand strongly in February, with the PMI at 58.4, vs. January's decade-high of 60.5. While new business growth eased from record levels, demand remained robust, driven by tourism, marketing efforts, and solid client acquisitions. Output growth, though slightly slower, remained quickest since mid-2023. New orders saw a sharp rise, with 35% of firms detailing higher sales, bolstered by strong export demand and price promotions. Despite the slight dip in growth momentum, business confidence bettered, signaling likely expansion in activity and hiring in the months ahead. Key Insights are:

Economic activity is the KSA continues to be driven by private consumption as well as government investment into key infrastructure products.

Inflation management will likely be the only challenge for policy makers in the Kingdom. On a positive note, a stronger US Dollar will likely help contain import inflation.

Fig.1: UAE & KSA non-oil private PMI remains robust in February 2025



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.

II. KSA: Credit data highlights robust economic environment

In January 2025, domestic credit rose to SAR3712bn from SAR3650bn in December 2024. All three components of domestic credit - private, govt and non financial public sector enterprises - recorded a sustained increase highlighting strong consumer and business confidence and robust economic environment. For the comparison periods January 2025 vs. January 2024, the sectors that saw lower allocation of bank credit were: a) personal loans (~46% vs. ~48%); b) manufacturing (6.3% vs. 6.5); and c) construction (4.1% vs. 4.7%). For the same comparison period, the sectors that saw a higher allocation of bank credit were: a) real estate (11% vs. 10%); b) electricity, gas & water (6.2% vs. 5.6%); c) financial & insurance activities (4.5% vs. 3.9%). Bank credit disbursed to retail & wholesale trade as a proportion of total credit was unchanged at 7%. Key takeaways:

Consumers' Reduced Dependence on Credit: a vibrant labor market is fueling consumer confidence in the Kingdom, leading to higher wages and consequently less reliance on personal loans. PMI data also indicates an uptick in hiring activity in the KSA implying higher disposable income and wage growth.

Shift in Consumer Priorities: As momentum in diversification efforts continue, consumers are likely prioritizing investments (such as insurance activities, home ownership) over consumption (which often drives personal loans).

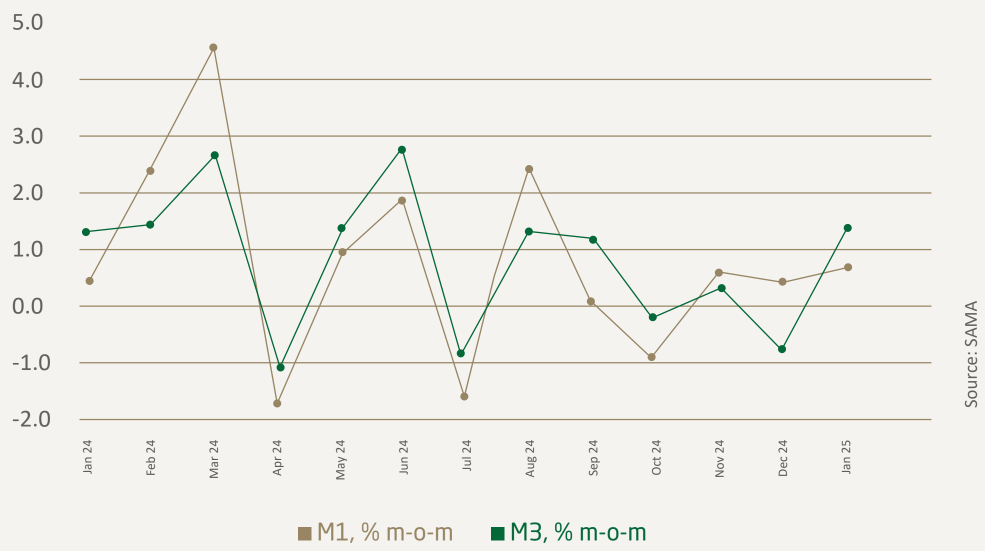
Other monetary indicators underline preference for domestic vs. foreign investment

In a departure from recent trend, **net foreign assets rose marginally** to SAR1532bn in January 2025 vs. SAR1520bn December 2024. Up until 2024, a rising domestic credit was accompanied by falling foreign assets - likely reflecting a preference for more lucrative domestic investment opportunities (business expansion, infrastructure projects, etc.) vis. a vis. foreign opportunities. We will be closely watching this space to identify any new trends.

Preference for SAR deposits over Foreign Currency deposits: In January 2025, M3 - a broader & less liquid measure of money supply - rose 1.5% m-o-m (vs. -0.8% m-o-m in December). Residents' increased their time & savings deposits in SAR while decreasing foreign currency deposits. Money supply data, along with the January PMI data indicate an improvement in consumer and business confidence that may have led to higher saving and time deposits.

Government deposits continued to decline in January 2025 to SAR 414bn vs. SAR 422bn in December 2024 as government drew down funds to finance key infrastructure projects & social programs in the Kingdom.

Fig.2: KSA: Improving confidence in the economy spurs deposit growth



KSA: Credit rating upgrade to A+ by S&P

S&P Global upgraded **Saudi Arabia's credit rating to A+** for both local and foreign currency, with a stable outlook. The rating upgrade follows a series of similar upgrades by other global rating agencies in recent years, reflecting **successful structural reforms** and **economic diversification efforts**. S&P noted that the Kingdom is strategically managing rising external sovereign debt, using it to support the goals of Saudi Vision 2030 while maintaining debt servicing costs.

S&P expects Saudi Arabia's fiscal deficit to average 4.2% of GDP during the same period due to transformational spending for economic diversification. Key implications:

The **stable outlook** reflects Saudi Arabia's resilient fiscal position and effective management of rising debt, with a focus on long-term economic goals.

The positive credit rating reflects the country's improved institutional strength and successful structural reforms, which are central to its economic transformation.

The rating upgrade **enhances investor confidence**, helping the Kingdom attract capital and foster further economic diversification. The new rating places the Kingdom at par with China and Japan in terms of credit worthiness.

Fig.3: S&P Rating Scale

Investment Grade	**AAA**	Extremely strong capacity to meet financial commitments
	AA	Very strong capacity to meet financial commitments
	A	Strong capacity to meet financial commitments but somewhat susceptible to economic conditions
	BBB	Adequate capacity to meet financial commitments
	BBB-	
Speculative Grade	**BB+**	Less vulnerable in near term but faces major uncertainties
	BB-	
	B	More vulnerable to business, economic & financial conditions
	CCC	Currently vulnerable and dependent on favorable business
	CC	Highly vulnerable; default has not yet occurred but expected to be a virtual certainty
	C	Highly vulnerable to non payment & recovery is expected to be lower than that of higher rated ones
	D	Payment default on a financial commitment or breach of an imputed promise

Source: S&P Global

IV. Dubai: FDI inflow at AED49.3bn in 2024 vs. AED36.2bn in 2023

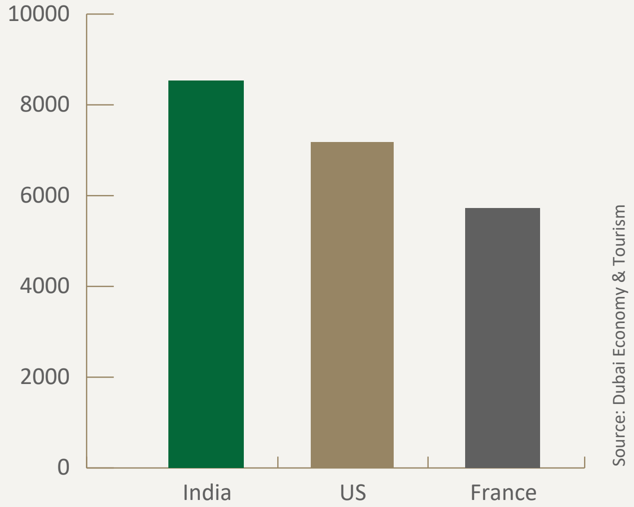
In 2024, a total FDI inflow was recorded at AED49.3bn over 1823 projects, creating more than 57K jobs in the economy. This was higher than 2023, when FDI inflows stood at AED36.2bn generating over 44K jobs. Dubai's strategic initiatives have transformed it into a leading global hub for Foreign Direct Investment (FDI). The city's attractive business environment, favorable regulations, advanced infrastructure, and strategic location have made it a preferred destination for investors. Key highlights include:

In terms of number of projects, High & medium tech dominance reduced to 53% in 2024 vs. 58% in 2023

In terms of FDI capital, **hotels & tourism** (AED7.3bn), **software & IT** services (AED4.8bn), building materials (AED4.5bn) were the top sectors creating over 13K jobs in 2024.

Most FDI inflows came from **India** (AED8.5bn), **US** (AED7.2bn), & **France** (AED 5.7bn) in 2024. India's contribution to FDI inflow accounted for 21.5%, followed by the United States (13.7%), France (11%), United Kingdom (10%), and Switzerland (6.9%).

Fig.4: 2024: India, US & France were the top three sources of FDI inflows (AED mn)



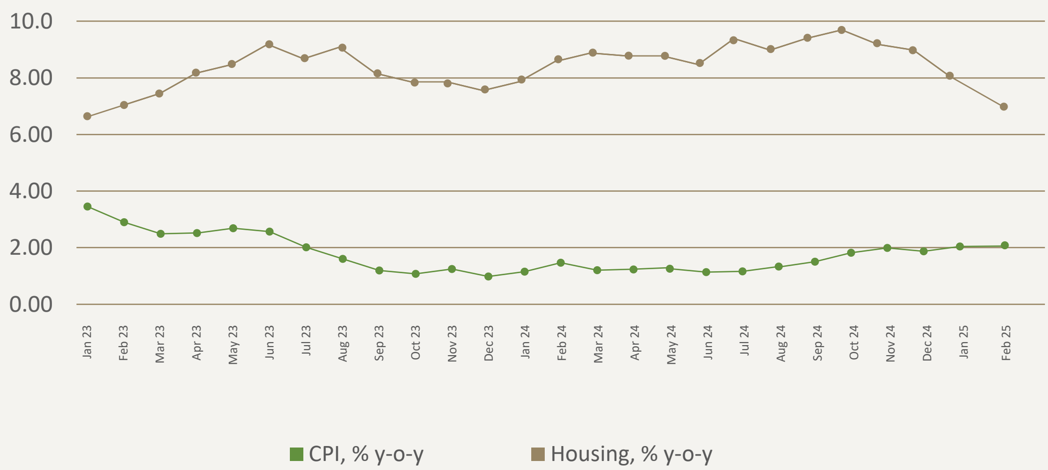
V. KSA: February CPI inflation unchanged at 2%y-o-y

In Saudi Arabia, CPI inflation remained unchanged at 2% y-o-y in February. Rise in prices of housing (7.1% y-o-y), and personal goods & services (3.9% y-o-y) were off set by fall in prices of furnishing (-2.5%y-o-y), clothing (1% y-o-y) transport (-1.5%y-o-y)

> Prices have remained relatively stable in the Kingdom in 2M2025, benefiting from lower import inflation and less than expected expansionary monetary policy. However, PMI data points towards a high growth momentum that will likely come with higher inflation. Inflation management will be a key policy objective in the coming quarters.

Stable inflation readings and a rating upgrade to A+ by S&P would help the Kingdom to issue international bonds and sukuks at lower rates. The budget documents released earlier had indicated that the Kingdom planned to raise SAR139 billion in 2025.

Fig.5: KSA: February CPI stable at 2% y-o-y



Source: General Authority for Statistics, KSA

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