

GCC is chugging along amid continuing global trade uncertainty

Weekly Insights 11 Apr 2025

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- *A case of contrasts: UAE announces CEPA negotiations with the EU as Trump pauses reciprocal tariffs*
- *UAE deposit growth eases in early 2025; credit growth trails in comparison*
- *Domestic credit growth in the UAE grew by 6.4% in Jan 2025*
- *Industrial production in Saudi Arabia declined by 0.2% yoy in Feb, following seven months of gains*

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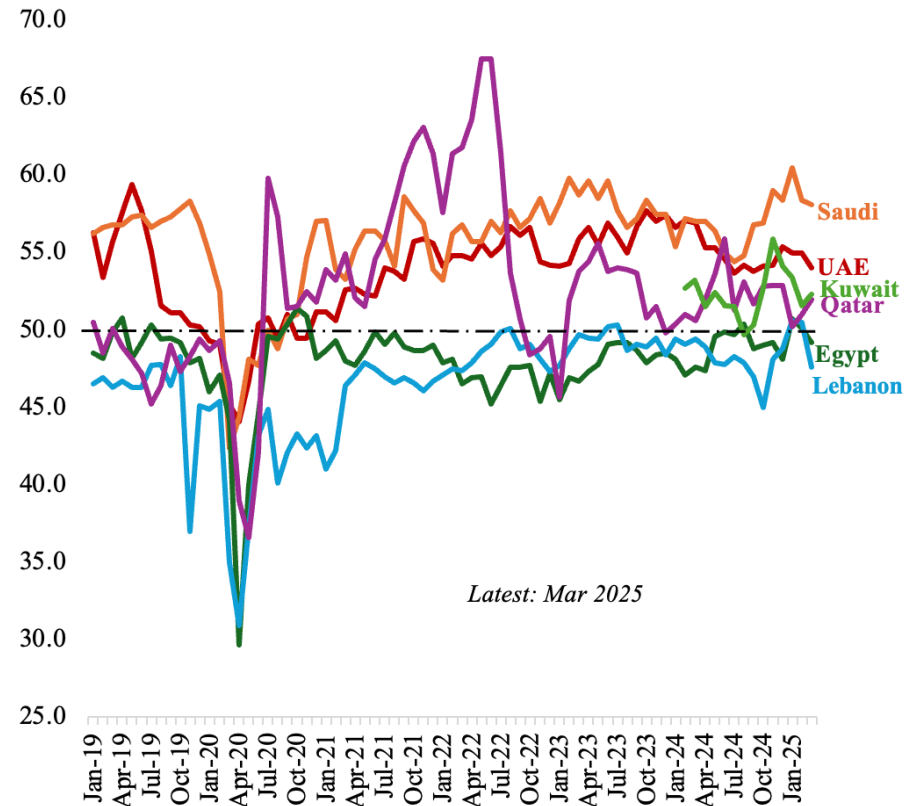
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PMIs in the Middle East are back to a divergent story in end-Q1

Back to divergence in Mar: while GCC PMI readings stayed above the neutral 50-mark in Mar, both Lebanon and Egypt dipped to contractionary territory after two consecutive months of expansion.

- **Saudi Arabia PMI was the highest in GCC in Mar:** it remained higher than its historical series indicating strong demand. It has still eased from Feb's high, with new orders and foreign sales growing at a slower pace. Employment growth was close to Feb's 16-month high, while in UAE, **growth in hiring was the weakest in 3 years.**
- **In contrast to Saudi and UAE's slight moderation, both Qatar and Kuwait PMIs gained.** Employment growth increased in Qatar & Kuwait, while the latter also saw new export orders rising at the fastest pace this year. Qatar's construction sector was a drag on overall activity, amid gains across other sectors (including manufacturing and retail).
- **Lebanon's fall in PMI reflects the continued instability** in the country (despite the ceasefire) and region (spillovers from Syria). Output and new orders declined though expectations of growth are relatively high. While the government is in place and a new central bank governor, only the actual passage of reform and its implementation – precursors to receiving funding from the IMF and/or other donors - will lead to higher, sustained business and consumer confidence.
- **Egypt showed signs of weakness in both domestic and international demand,** though construction was a lone bright star (with a rise in new orders and output)
- **Cost pressures varied.** Input price inflation in Egypt eased to the slowest in nearly 5 years (partly thanks to a stable EGP), and it slowed in Saudi (to the lowest in just over 4 years). While firms in Kuwait mentioned discounting to increase business activity, selling prices in the UAE rose for the third month in a row: the pace of increase was the quickest in seven years.

Middle East PMIs in Mar show divergence again as Lebanon & Egypt PMIs fall to below-50 readings at end-Q1 2025



Source: LSEG Workspace. Chart by Nasser Saidi & Associates

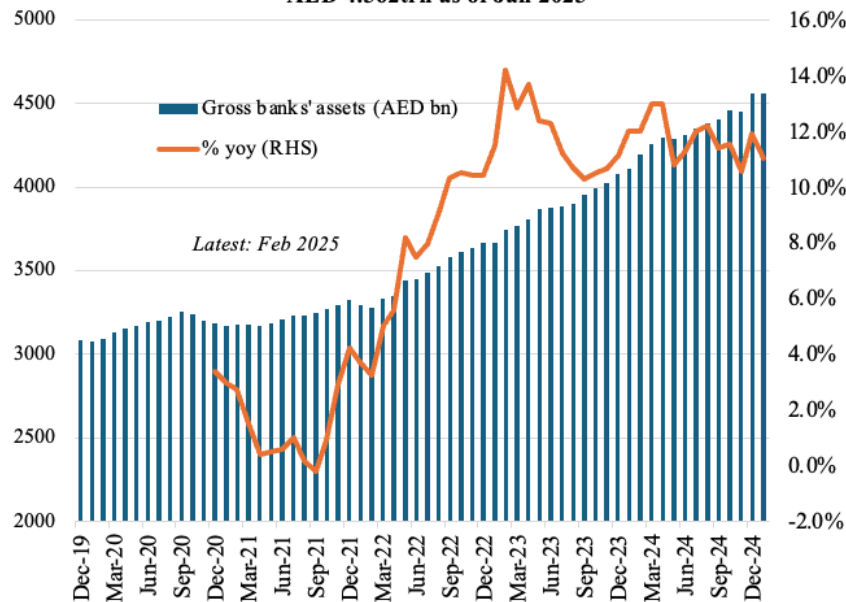
A case of contrasts: UAE announces CEPA negotiations with the EU as Trump pauses reciprocal tariffs for 90-days (EU holds off on its previously announced retaliatory rates)

- **Almost a week after the announcement of “reciprocal tariffs”**, Trump announced a 90-day pause: leading to a short-term cheer in the markets, before the fog of uncertainty descended again.
- **The 10% baseline tariff imposed on many GCC/ MENA countries** is likely to have only a marginal impact on oil producers in the region (but the tariffs on aluminium and steel products should be carefully monitored). Impact on global supply chains & related investment flows will affect the **performance of logistics and transport sectors** in the region.
- **Indirect impact of the trade wars on GCC/ MENA will be on**
 - (a) oil prices (+ive for importing nations but negatively affecting revenue and trade balances in oil exporters); IMF estimates breakeven oil price ranging between \$44.7 for Qatar to \$50 for UAE & \$90.9 for Saudi (Brent dipped below \$60 on Thurs)
 - (b) the dollar: increased pressure leading to higher costs of imports; and
 - (c) capital markets: potential delays in IPOs among others.
- **UAE’s start of CEPA negotiations with the EU is a timely one:** in the economic and financial interest of the UAE / GCC to expand and deepen relations with the EU, given the latter’s growing confrontation with US.
- EU is the UAE’s second-largest trading partner (after China), with non-oil trade reaching nearly USD 68bn in 2024.
- Given UAE's role as a leading regional trading, transport and logistics hub, a CEPA would enable access for the EU to the rest of the GCC and the wider Arab world.
- **Beyond the remit of trade in goods, the CEPA with the UAE will allow EU countries to increase trade in services. What could be the benefits?**
 - ✓ In addition to tourism, areas such as AI, renewable energy, climate tech and climate finance, financial services and capital markets will benefit.
 - ✓ UAE, with its ease of setting up business and regional connectivity, would offer EU companies (including high-skilled/ knowledge-based startups) a stepping stone into the region and beyond.
 - ✓ Existing EU-Middle East air travel routes could be strengthened further with a fully deregulated open skies policy in a bid to increase both passenger & cargo movements.
 - ✓ Could be an opportunity for integrating UAE-EU transport & logistics networks.
 - ✓ At a time of rising economic uncertainty relating to trade, the UAE and EU could also explore options to sign swap agreements between the ECB and the UAE CB, strengthen payment networks and complete trade transactions in euros and/or via digital currency.
- The bottom line is that a **policy of continued openness and liberalisation by the UAE will be beneficial** at a time when other countries are moving towards more trade barriers and increased protectionism.

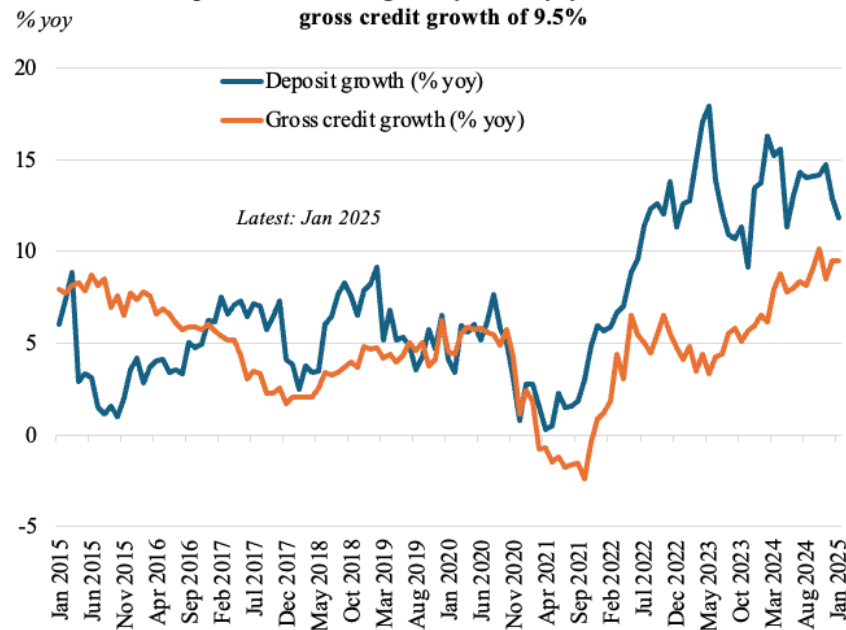
UAE deposit growth eases in early 2025; credit growth trails in comparison

- UAE's gross bank assets grew by 0.1% mom and 11.0% yoy to a record AED 4.5623trn in Jan 2025. The central bank's total assets surged by 1.5% mom to a new record-high AED 909.023bn in Jan. The central bank's net international reserves jumped 2.4% mom to AED 869.0bn.
- UAE banks' deposits grew by 11.9% yoy in the first month of 2025, thanks to a 11.2% yoy rise in resident deposits (to AED 2.6trn) and 8.1% growth in non-resident deposits (share of 8.3% of total deposits). In monthly terms, overall deposits inched lower (-0.2% mom) as residents deposits was flat.
- Private sector deposits (at AED 1.887trn) accounted for two-thirds of total deposits and 72.5% of total resident deposits; grew by 1.2% mom and 14.6% yoy. Government & GREs, accounted for 23.4% of total deposits, with the latter up 11.4% yoy while former fell by 2.1% yoy.
- Meanwhile, gross credit growth lagged, up by 9.5% in Jan 2025.

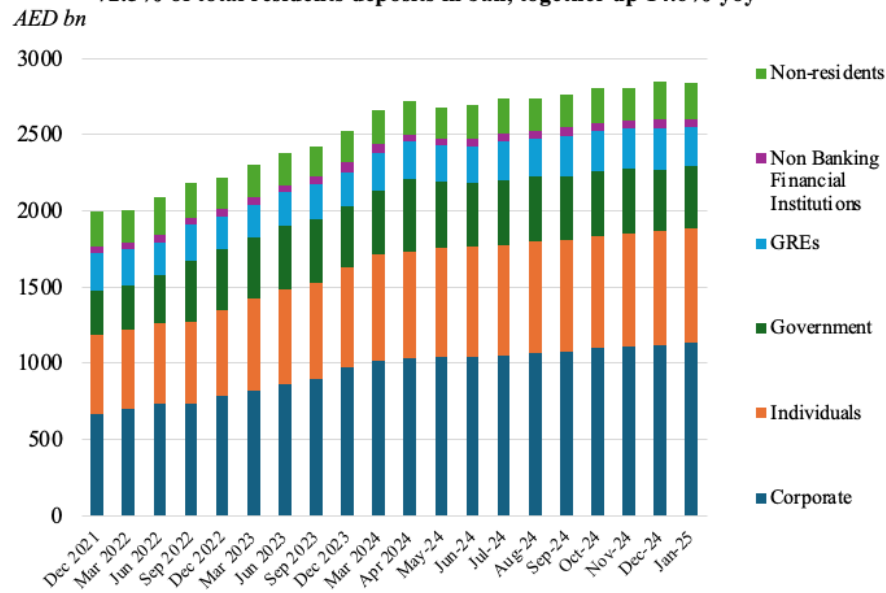
UAE banks' gross assets increased by 11% yoy and 0.5% mom to AED 4.562trn as of Jan 2025



Bank deposits in the UAE grew by 11.9% yoy in Jan 2025 versus gross credit growth of 9.5%



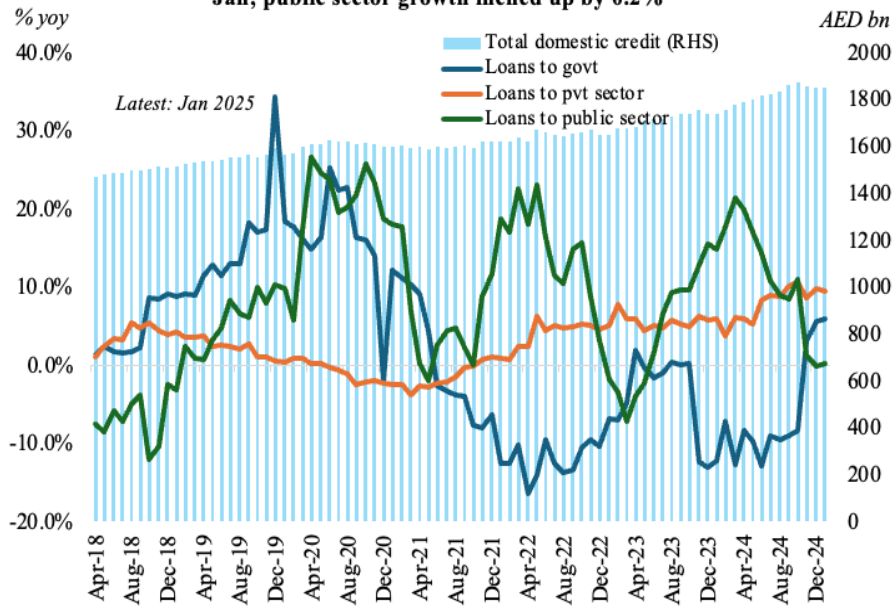
Deposits from corporates & individuals in UAE accounted for 72.5% of total residents deposits in Jan, together up 14.6% yoy



Domestic credit growth in the UAE grew by 6.4% in Jan 2025

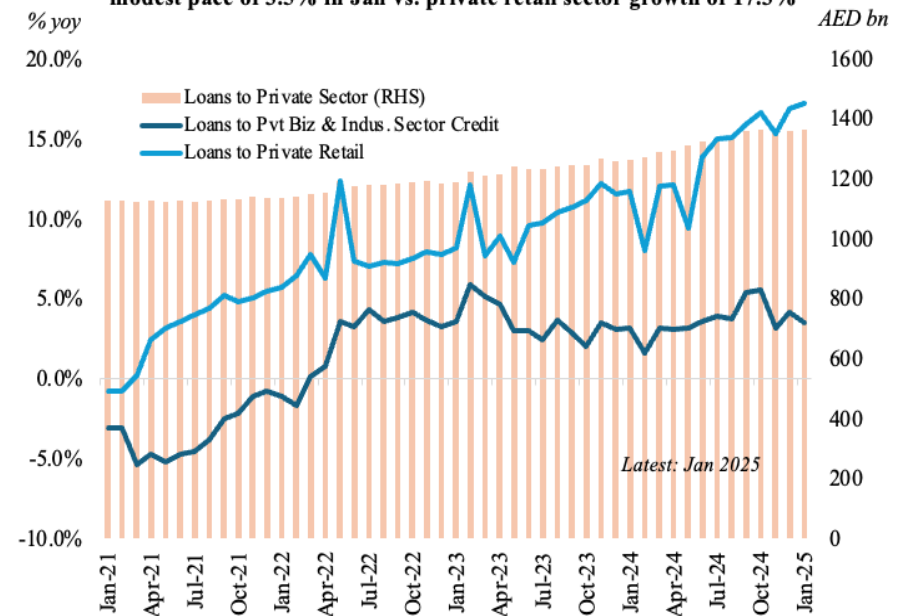
- **Gross credit in the UAE grew by 0.2% mom and 9.5% yoy** to AED 2.1863trn in Jan. This was **driven by growth in domestic credit** (6.4% yoy to AED 1.848trn in Jan, and flat in mom terms) **and foreign credit** (1.7% mom and 30.7% yoy to AED 337.9bn). **Foreign credit** also includes loans and advances to non-residents, which grew by 26.7% yoy to AED 24.7bn.
- Within domestic credit, **the share of loans to the private sector** stood at 73.0% in Jan. **Loans to the government** increased by 5.9% yoy to AED 194.8bn while growth of **loans to GREs** ticked up by 0.2% to AED 289.2bn.
- **Loans disbursed to business and industrial sector** (at AED 853.9bn) **accounted for almost 2/3-rds of credit to the private sector**. Credit disbursed to the private business and industrial sector grew by 3.5% in Jan 2025 while the private sector credit to individuals (or retail) grew at a much faster 17.3%.

Domestic credit disbursed by UAE banks' grew by 6.4% in Jan 2025. Loans to private & govt sectors grew by 9.4% & 5.9% respectively in Jan; public sector growth inched up by 0.2%



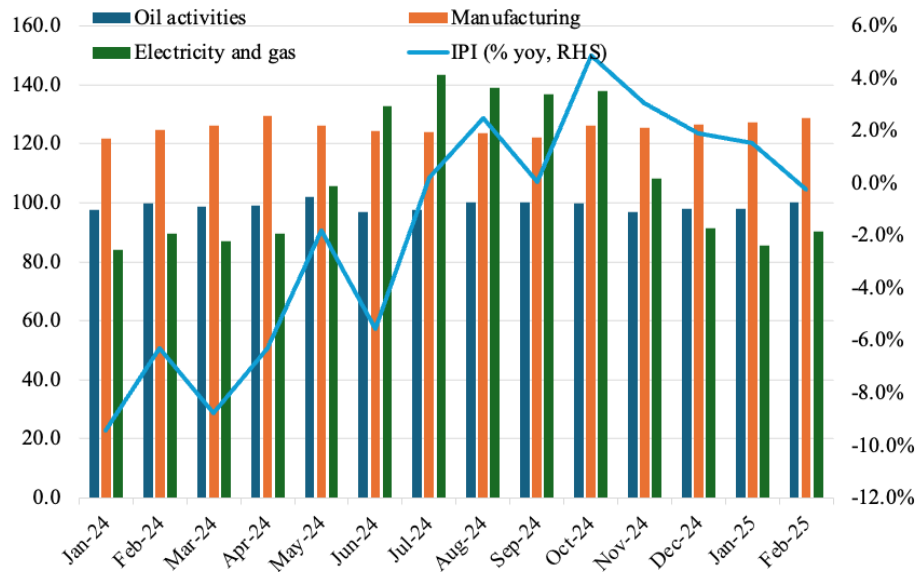
Source: UAE Central Bank. Charts by Nasser Saidi & Associates

Domestic credit to UAE's Business & Industrial Sector, which accounted for 63% of loans disbursed to the private sector, grew at a modest pace of 3.5% in Jan vs. private retail sector growth of 17.3%



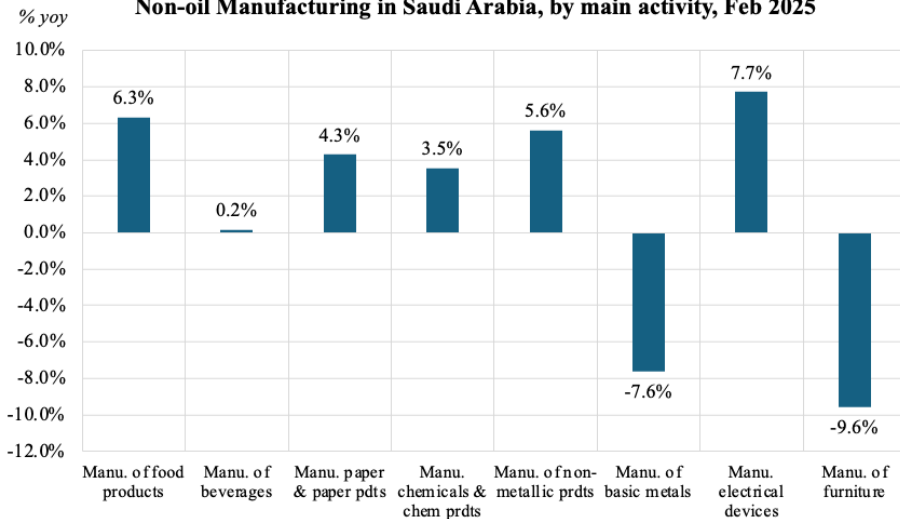
Industrial production in Saudi Arabia declined by 0.2% yoy in Feb, following seven months of gains, as oil production stalled, and manufacturing growth eased

Industrial Production (IP) in Saudi Arabia fell by 0.2% yoy but ticked 0.7% mom in Feb. Manufacturing grew by 3.2% yoy and 1.2% mom



- **Industrial production in Saudi Arabia fell by 0.2% yoy in Feb (Jan: 1.5%) following seven consecutive months of increases:** oil activities stayed flat (Jan: 0.4%) while manufacturing gains eased (3.2% in Feb vs. 4.3% in Jan). In month-on-month terms, IP grew by 0.7%, largely due to substantial gains in utilities (5.8%) as manufacturing and oil production ticked up by 1.2% and 1.9% respectively.
- **Non-oil activities grew by 1.5% mom and 3.2% yoy in Feb 2025.** Within manufacturing, the manufacture of electrical devices and food products grew the fastest growing (7.7% and 6.3% respectively) alongside manufacture of non-metallic products (5.6%) and manufacture of paper & paper products (4.3%).
- **The consistent increase in industrial licenses are proxy for future increase in industrial/ mining activity.** The Saudi Ministry of Industry & Mineral Resources disclosed that 103 new factories were opened in Jan (attracting an investment of SAR 900mn and creating 1504 jobs) and 63 new industrial licenses were issued.

Non-oil Manufacturing in Saudi Arabia, by main activity, Feb 2025



Manufacturing in Saudi Arabia by main activity (2024 vs Feb 2025)



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