MONTHLY ECONOMIC NEWSLETTER

July 2026

Key Highlights

- The S&P Global UAE PMI rose to 52.6 in May 2026 from 52.1 in the previous month. However, regional conflict continued to weigh on business activity, as evidenced by weaker export orders, supply chain disruptions, higher shipping costs, and subdued demand.
- On 17 June 2026, the U.S. Fed maintained the federal funds rate at 3.5%–3.75%, as inflation remained above its 2% target. The CBUAE aligned its policy decision with the U.S. Federal Reserve by keeping its base rate unchanged at 3.65%.
- On 27 June, indirect negotiations between the U.S. and Iran resumed in Doha. Iran declined to meet directly with U.S. officials and chose to mediate through Qatar.
- On 12 June 2026, the UAE and Sri Lanka announced progress towards a CEPA to deepen bilateral trade and investment ties, support Sri Lanka's economic recovery and leverage the UAE's role as a global trade hub.
- In June 2026, the UAE launched preparatory talks to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), aiming to broaden market access and deepen trade and investment ties with the Asia-Pacific region and the Americas, pending member consensus and formal accession.
- The prevailing geopolitical and macroeconomic environment has led market participants to anticipate an interest rate hike in 2026.
- Higher interest rates are expected to support the net interest margin of UAE banks but could weigh on credit growth.

Key Economic Indicators

Monthly economic indicators	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	2026F
Interest rates (UAE Policy rate)	4.4%	4.4%	4.4%	4.15%	3.9%	3.9%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.9%
Credit growth, y/y	11.1%	12.6%	14.4%	14.7%	15.7%	17.1%	17.9%	18.8%	19.3%	20.3%	20.4%	-	-	-
Deposit growth, y/y	13.1%	12.6%	14.2%	15.4%	14.3%	15.4%	16.2%	17.5%	18.4%	17.4%	17.0%	-	-	-
IHS Markit, PMI Composite	53.5	52.9	53.3	54.2	53.8	54.8	54.2	54.9	55.0	52.9	52.1	52.6	-	-
Dubai inflation, y/y change	2.37%	2.88%	2.43%	2.88%	3.36%	2.73%	2.99%	-	-	-	-	-	-	-
Abu Dhabi inflation, y/y change	-0.7%	0.1%	-0.5%	0.2%	1.5%	0.9%	1.5%	1.6%	1.1%	-	-	-	-	-
Dubai General Index (DFMGI)	4.1%	7.9%	-1.6%	-3.7%	3.8%	-3.7%	3.6%	6.4%	1.1%	-16.4%	6.1%	-0.1%	1.1%	-
FTSE ADX General Index	2.8%	4.1%	-2.7%	-0.8%	0.9%	-3.5%	2.5%	2.9%	1.7%	-8.9%	2.7%	-0.8%	3.4%	-

Source: LSEG Workspace, Abu Dhabi Statistics Centre, CBUAE, Dubai Statistics Centre, FOMC March 2026 Projections, S&P Global. Note: F- End of Year Forecast.

- The S&P Global UAE PMI rose to 52.6 in May 2026 from 52.1 in April, reversing its downtrend observed in April 2026. Economic momentum remained subdued as regional conflict led to a decline in export orders, delivery delays, and a rise in shipping costs. Despite higher input
- On 17 June 2026, the U.S. Federal Reserve maintained the federal

funds rate at 3.5%–3.75% for the fourth consecutive meeting, as inflation remained above its 2% target despite improving labour market conditions and easing oil prices. The CBUAE aligned its policy decision with the U.S. Fed by keeping its base rate unchanged at 3.65%.

- On 12 June 2026, Moody's Ratings affirmed the UAE's sovereign credit rating at Aa2 with a stable outlook, despite forecasting a 7% contraction in real GDP for 2026. The affirmation reflects the country's strong fiscal buffers, high per capita income, and resilient external position.
- The Federal Tax Authority (FTA) announced UAE tax reforms introducing a decentralized e-invoicing (CTC) system with defined legal, technical, reporting, implementation, and accreditation frameworks, expected to take effect from 1 July 2026. The FTA also launched an initiative to expand the scope of expenses eligible for VAT refunds for UAE nationals constructing new residences.
- The value of real estate transactions in Dubai declined by 56.7% y/y to AED 28.9 billion (USD 7.9 billion) amid ongoing geopolitical uncertainty, as per DXB Interact. The week-long Eid Al Adha break at the end of May further compounded this decline.
- On 3 June 2026, Abu Dhabi Real Estate Centre (ADREC) announced a temporary freeze on rent increases for all residential, commercial, and industrial properties in Abu Dhabi. This reduced Abu Dhabi's annual rental increase cap from 5% to 0% until further notice, according to a report by Khaleej Times.
- On 17 June 2026, the CBUAE completed Project Aperta, a BIS-led (Bank for International Settlements) initiative enabling secure, interoperable cross-border open finance.
- Binance has launched a fully regulated AED fiat on- and off-ramp solution in the UAE, enabling users to seamlessly convert between fiat and cryptocurrencies with greater simplicity, cost efficiency, and security.

U.S-Iran Geopolitical Developments

- Despite diplomatic efforts by the U.S. and Iran in late May, intermittent military exchanges persisted until mid-June.
- On 13 June, U.S President Trump announced that an initial peace agreement would be signed, while Pakistan confirmed mediation efforts.
- On 17 June, the U.S. and Iran reached a 14-point MoU establishing a framework for reopening the Strait of Hormuz, initiating nuclear negotiations, and launching broader regional security talks.
- The deal established a 60-day negotiation framework for a final agreement, covering issues such as sanctions relief, nuclear programme terms, reconstruction support, while enabling sanctions easing, asset releases, and economic recovery pathways for Iran.
- On 19 June, U.S. envoy Steve Witkoff traveled to Switzerland for the first round of post-MoU talks. President Trump warned that further military action remained possible if diplomacy failed.
- On 26 June, Iran launched a drone attack on a commercial vessel in the Strait of Hormuz. The U.S. responded with strikes on Iranian missile, drone, and coastal radar facilities. Iran retaliated by targeting U.S. military assets in the GCC region, with both parties violating the terms of the ceasefire.
- On 27 June, the U.S. conducted additional strikes after accusing Iran of violating the ceasefire through attacks on commercial shipping. Later the same day, both countries agreed to pause hostilities and resume indirect negotiations in Qatar, as reported by Axios.
- Indirect negotiations between the U.S. and Iran resumed in Doha at the end of June. Iran declined to meet directly with U.S. officials and chose to mediate through Qatar.
- Shipping through the Strait of Hormuz has partially resumed, with dozens of vessels transiting on some days, although levels remain well below pre-war levels.

UAE Economic Cooperation

- **UAE-Ukraine CEPA comes into effect:** The UAE-Ukraine CEPA, in effect from July 1st, 2026, aids in eliminating or reducing tariffs, and is expected to improve bilateral trade and strengthen investment flows. This is likely to contribute USD 369 million to UAE GDP and USD 874 million to Ukraine's GDP by 2031.
- **UAE pushes for free trade with major Pacific bloc:** In June 2026, the UAE initiated preparatory talks to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), marking a strategic push to expand market access and deepen trade ties with Asia-Pacific and the Americas, subject to member consensus and accession processes.
- **UAE-Sri Lanka CEPA in works:** On June 12, 2026, UAE and Sri Lanka announced progress towards a CEPA, following the signing of the Investment Promotion and Protection Act (IPPA) in 2025, to deepen bilateral trade and investment ties, support Sri Lanka's economic recovery and leverage the UAE's role as a global trade hub.
- **UAE–Kenya defence ties expand under CEPA:** On 17th June 2026, the UAE and Kenya held talks aimed at enhancing military capabilities, technology transfer and institutional transformation.
- **UAE–Panama Trade and CEPA Prospects:** In the end of June 2026, UAE and Panama discussed enhancing bilateral trade, investment, and supply chain resilience, strengthening private-sector collaboration and leveraging their global trade hub position, along with potential plan toward a CEPA.
- **UAE-Vietnam retail expansion boosted by CEPA:** UAE retail giant, LuLu, is exploring investment opportunities in central Vietnam, reflecting strengthening bilateral trade and investment ties following the UAE-Vietnam CEPA, which has boosted sectoral collaboration prospects.
- **ECI and EFA Strengthen UAE–Australia Trade:** On 10th June 2026, Etihad Credit Insurance (ECI) and Export Finance Australia (EFA) signed an MoU to strengthen bilateral trade and investment ties by enhancing cooperation, co-financing and knowledge exchange across priority sectors such as energy, infrastructure and digital economy. This aligns with the objectives of the UAE-Australia CEPA.
- **UAE–Serbia ties strengthened under CEPA:** In June 2026, UAE and Serbia discussed strengthening bilateral relations, investment, and sectoral cooperation, while reaffirming that the CEPA is a key driver for boosting non-oil trade, investments, private-sector engagement, and collaboration across sectors. An MoU was also signed aimed at strengthening parliamentary cooperation and institutional coordination between the two nations.

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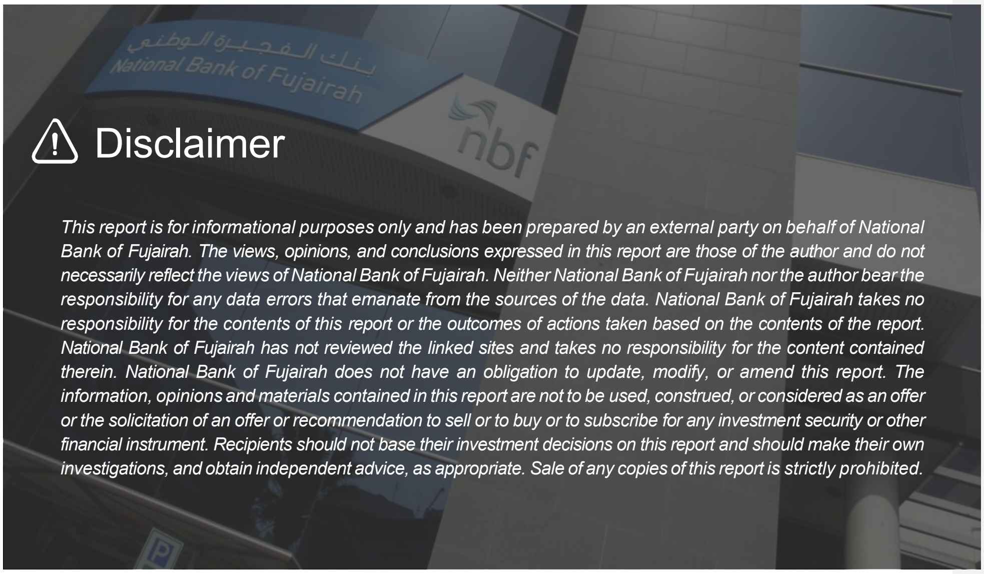
Spotlight: U.S Fed's course reversal from interest rate cuts to hikes

- Earlier in the year, the U.S Fed was expected to ease interest rates, with traders and economists anticipating at least one interest rate cut by year-end, supported by easing inflation and stable labour market conditions.
- However, higher oil prices following the outbreak of the U.S./Israel–Iran conflict, coupled with the impact of revised global tariffs, has intensified inflationary pressures across the global economy.
- U.S Fed's June FOMC meeting witnessed new Chairman Kevin Warsh lead the Fed and kept the funds rate at 3.5%–3.75%, unchanged for the fourth consecutive time.
- Prior expectations of rate cuts were reversed as U.S inflation accelerated to a three-year high in May, at 4% and double Fed's target of 2%. Elevated energy costs continue to pose inflationary risks. This underpinned the Fed's decision to hold rates steady and could lead the central bank to consider additional tightening if the inflation rates remain elevated.
- Fed's outlook has shifted towards a hawkish stance, with around 50% of members now signaling a potential rate hike, compared to none in March.
- This uncertainty is also affecting market expectations, with some traders pricing in rate hikes, while some asset managers expect the Fed to hold or eventually cut rates as inflationary pressures ease, alongside softer labour market conditions.
- The UAE's interest rates closely track the U.S. Fed due to the dirham's dollar peg, with the CBUAE aligning its base rate to maintain currency stability and support domestic monetary conditions.
- In the short-term, UAE banks could benefit from the rate hike through wider net interest margins as loan yields reprice faster than deposit costs.
- However, higher borrowing costs could dampen demand for mortgages, personal loans, and corporate borrowing, slowing loan book expansion.
- Overall, UAE banks with diversified income streams, strong capitalization and prudent risk management are better positioned to sustain their profitability. Subdued credit growth and asset quality pressures may offset some of the initial profitability gains.

Source: Reuters, CNBC, Think.ING, S&P Global



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