Executive Summary

The recent interest rate cuts in the UAE, in line with the US Federal Reserve, are expected to have broad implications across the economy. Lower borrowing costs will stimulate credit growth, improve consumer affordability, and support corporate investment. However, they may also compress banking margins and create overheating risks in real estate and consumer credit.

Key Sectoral Takeaways:

- **Real Estate & Construction** will be one of the biggest beneficiaries, as lower mortgage rates drive housing demand, refinancing activity, and developers' access to cheaper financing.
- **Consumer & Retail sectors** are expected to see a boost in discretionary spending, particularly in autos, durables, and luxury goods, supported by cheaper consumer credit.
- **Corporate & Industrial sectors** (excluding oil) stand to benefit from reduced financing costs, supporting SME expansion and capex plans.
- **Banking & Financials** face a mixed outlook: stronger loan growth but compressed net interest margins, shifting focus to fee-based income.
- **Capital Markets** are likely to see greater equity inflows as investors move away from low-yield bonds, making dividend-yielding stocks more attractive.
- **Oil & Energy** will have limited direct benefit, as project financing costs fall but global oil prices remain the main determinant of sector health.
- **Tourism & Hospitality** will gain from stronger domestic demand, higher consumer confidence, and easier financing for expansion projects.

While the policy shift is broadly supportive of growth, the main risk lies in inflationary pressures and potential asset bubbles, particularly in real estate and consumer credit. Policymakers will need to balance growth support with financial stability considerations.

Introduction & Context

The UAE's monetary policy is closely linked to that of the United States due to the dirham's peg to the U.S. dollar, which necessitates that domestic interest rates align with the Federal Reserve's rates to maintain currency stability. In its July 2025 meeting, the Fed held the federal funds rate steady at 4.25%-4.50%, marking the fifth consecutive meeting without a change amid ongoing global economic uncertainties. Following this decision, the Central Bank of the UAE (CBUAE) mirrored the Fed's stance by keeping its Overnight Deposit Facility (ODF) rate unchanged at 4.40%. Looking ahead, the September 2025 Federal Open Market Committee (FOMC) meeting is anticipated to mark the first 25 bps rate cut of the year, bringing the federal funds rate to 4.00%–4.25%, with expectations of an additional cut in December and the possibility of up to three reductions over 2025. These anticipated adjustments are driven by a combination of factors, including a slowing global economy, moderating inflation, and signs of softening in the labor market. The Fed, however, remains data-dependent, with any further policy actions contingent on incoming economic indicators and evolving financial conditions.

Macroeconomic Impact

Lower interest rates stimulate borrowing and spending by households and businesses, which supports higher consumption, investment, and overall economic activity, boosting the GDP growth in the UAE. On the other hand, cheaper financing improves the investment outlook, as companies can fund expansions, new projects, and working capital at lower costs. This encourages higher private sector capital expenditure, supports entrepreneurship, and boosts FDI inflows into growth sectors. Moreover, rate cuts might lead to an increase in inflation, since lower borrowing costs fuel demand and raise spending power. If supply keeps pace, inflation may remain contained; but if demand outruns supply, it can lead to rising prices.

Sectoral Impact Analysis

Banking sector – Mixed to Negative

Lower lending rates lead to higher credit demand, as both retail and corporates are encouraged to borrow more due to cheaper financing costs. NIM faces compression risk as lending rates decline faster than the cost of deposits when interest rates are reduced. While loan demand is expected to rise, lower NIMs directly pressure profitability. The bank's profitability is pressured due to lower NIMs after the rate cut. Most banks are making efforts to boost their non-core income to support profitability and offset margin pressures. Additionally, deposits may shift from time deposits toward lower-cost current and savings accounts as customers seek higher returns elsewhere, slightly easing funding costs for banks.

A decline in interest rates supports loan growth, as cheaper financing increases demand across retail and corporate segments, leading to higher volumes. At the same time, lower borrowing costs improve debt-servicing capacity for existing borrowers, reducing stress on repayments and supporting asset quality. As a result, banks often witness an improvement in asset quality in a declining rate environment.

As a result, the Banking sector in the UAE is expected to experience **a mixed to negative** impact.

The table below outlines loan growth across UAE banks in 2024, along with the revisions in guidance between the 2024 report and the updated 1H25 report.

Loans	2024 Growth	25' Guidance in 2024	Updated Guidance in 1H25
ADCB	16.0%	16.0%-17.0%	NA
ADIB	22.0%	>10%	18.0%-20.0%
CBD	12.0%	4.0%-9.0%	4.0%-9.0%
DIB	10.1%	15.0%	15.0%
ENBD	10.0%	7.0%-9.0%	11.0%-13.0%

NIMs	2024	25' Guidance in 2024	Updated Guidance in 1H25
ADCB	2.58%	2.55%	NA
ADIB	4.35%	>4.0%	4.0%-4.25%
CBD	3.06%	2.8%-2.9%	3.0%-3.1%
DIB	3.0%	2.8%-3.0%	2.8%-3.0%
ENBD	3.64%	3.3%-3.5%	3.3%-3.5%

Real Estate & Construction – Positive

An interest rate cut increases mortgage affordability by lowering borrowing costs, making it easier for buyers to finance property purchases, resulting in stronger housing demand. Lower interest rates encourage increased refinancing activity, as existing homeowners and companies seek to refinance loans at more favourable terms. Additionally, it also lowers developers' cost of financing, reducing expenses on project loans and working capital facilities, allowing developers to accelerate construction timelines and launch new projects. However, lower interest rates support property demand, but carry the risk of overheating in real estate markets. Cheaper credit can fuel speculative buying, drive rapid price increases, and inflate valuations beyond their fundamental value. Hence, interest rate cuts are anticipated to benefit the Real Estate sector positively.

Consumer, Retail & Hospitality (Transportation) – Neutral to Slightly Positive

Lower interest rates in the UAE are expected to ease household financial pressures in 2025, creating a supportive backdrop for consumer spending and discretionary demand. The decline in interest rates and reduced finance charges on loans leaves consumers with more disposable income, encouraging higher discretionary spending in areas such as luxury retail, leisure activities, and tourism. This also extends to the transportation sector, where lower household costs and improved sentiment can translate into stronger demand for travel and related services. However, the overall impact of rate cuts is expected to be limited, as consumer and transportation demand in the UAE is already driven by structural factors, including robust population growth, rising tourism inflows, and government-led initiatives, rather than financing conditions alone. Consequently, while lower interest rates act as a supportive factor, the sectoral outlook remains neutral, with incremental rather than transformational benefits.

Corporate & Industrial Sector/Basic Materials – Positive

The industrial and basic materials sector in the UAE is expected to benefit significantly from a lower interest rate environment, as reduced financing costs directly alleviate debt servicing pressures and enhance the financial viability of large-scale projects. This creates room for companies to accelerate capital expenditure, undertake capacity expansions, and pursue new growth initiatives with greater confidence. At the same time, lower rates support refinancing opportunities, enabling corporates to restructure existing debt on more favourable terms and strengthen their balance sheets. Combined with easier access to credit and ongoing government support for industrial diversification, companies are positioned with greater financial flexibility to expand production and invest in advanced technologies. Collectively, these dynamics reinforce a positive sector outlook, as corporates are better placed to capture growth opportunities in a more cost-efficient funding environment.

Telecom – Positive

Telecom operators in the UAE are well-positioned to benefit from a lower interest rate environment, as the sector is highly leveraged and relies heavily on ongoing investment in infrastructure and technology. Lower borrowing costs reduce the expense of financing large-scale projects, such as 5G network deployment, fibre expansion, and digital platform upgrades, making capital expenditure more affordable and improving project returns. Additionally, the lower interest expenses are also expected to strengthen free cash flows, supporting the sector's ability to sustain high dividend payouts. Beyond these financial advantages, lower interest rates also provide telecom operators with greater flexibility to accelerate investments in emerging technologies, including data centres, cloud services, and AI-driven connectivity solutions. Overall, the combination of leverage, lower financing costs, and stronger cash flows makes interest rate cuts a positive view for the sector.

Financials (Investment, insurance) – Mixed

An interest rate cut reduces fixed-income yields, making bonds and traditional savings products less attractive to investors. This drives a portfolio shift toward equities and other higher-yielding assets as investors seek better returns, prompting greater reliance on equities and alternative assets to sustain returns and meet policyholder obligations. Similarly, in a lower interest rate environment, dividend-yielding stocks become more attractive as they offer higher income compared to declining returns on bonds and deposits. Investors seeking stable cash flows increasingly allocate toward equities with strong dividend track records, boosting demand for blue-chip and defensive sectors. Thus, the Financials sector is expected to experience a mixed impact of rate cuts.

Energy Sector – Mixed to Positive

Lower interest rates provide a supportive environment for the energy sector by reducing the cost of capital required for large-scale projects, encompassing both traditional oil and gas developments and renewable energy initiatives, such as solar and wind. While these rate cuts have a limited direct impact on overall energy demand, which continues to be driven primarily by global oil prices and international market dynamics, they enhance the financial viability of capital-intensive investments. Additionally, by boosting liquidity and stimulating economic activity within the UAE, lower rates indirectly support domestic energy demand, particularly for power generation, refined products, and the expansion of renewable energy capacity. As a result, the energy sector in the UAE, spanning both traditional hydrocarbons and renewables, is expected to experience a mixed to positive impact.

Utilities – Positive

Utilities are among the clearest beneficiaries of lower interest rates, as their reliance on debt financing means reduced interest expenses directly improve cash flows and profitability. At the same time, cheaper borrowing costs make it easier to fund capital-intensive projects such as power generation, water desalination, and transmission upgrades, enabling faster expansion and modernization of essential infrastructure. As a result, the Utilities sector in the UAE is expected to experience a positive impact.

Healthcare – Neutral

Healthcare demand remains largely inelastic, with patients requiring medical services regardless of borrowing costs or broader economic cycles. While hospitals, clinics, and pharmaceutical companies may gain from reduced financing expenses when funding expansions, and easier access to capital could support research, innovation, and advanced treatment facilities, these benefits are secondary to the sector’s defensive nature. The healthcare sector is expected to see a neutral impact from interest rate cuts.

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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