United Arab Emirates

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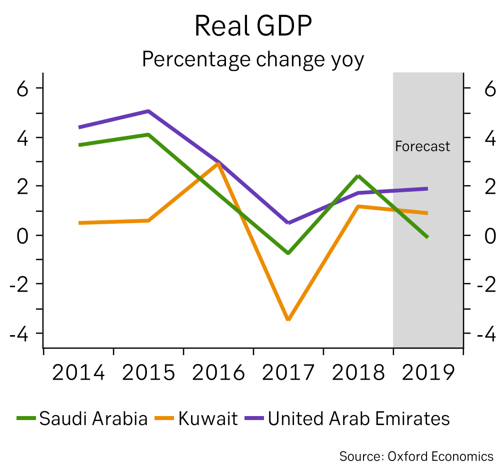
Growth in the UAE economy has stabilized and is set for a gradual recovery despite a rise in regional geopolitical tensions. Abu Dhabi's financial strength and assumed support for the federation provides the main country credit support while the lack of data and policy transparency continues to weigh on country risk.

Country Risk Analysis

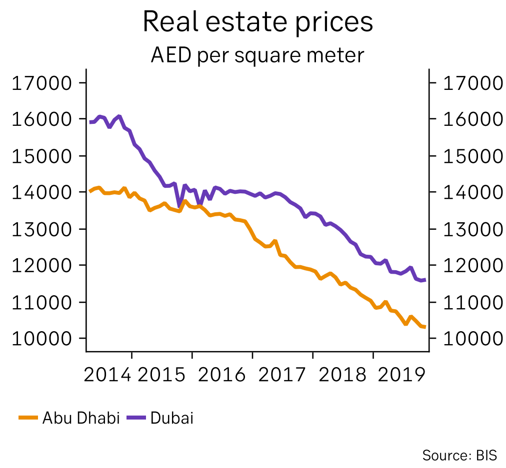
Recent economic developments

Economic activity sees some stabilisation. Following a long period of declining growth rates, non-oil real GDP, the best measure of private sector activity in the UAE, is expected to have performed slightly better in 2019. Together with largely unchanged, meagre growth rates in the oil sector this is likely to have pushed overall GDP growth to 1.9% (1.7% in 2018). Still, this is far below average growth rates of the period before the oil price crash in 2015. While it is difficult to disentangle cyclical from structural reasons for the relatively low growth, it is clear that the global cyclical slowdown and factors such as a lower number of tourist arrivals have been important. As regards the oil sector, the OPEC agreement to extend production limits held back the pace of expansion and is likely to do so in the coming year too.



Inflation negative on weak real estate market. Consumer prices have been falling in 2019 at an average of nearly 2%. Deflation was driven by weak real estate markets in Abu Dhabi and Dubai as housing supply has been growing at a rapid pace. Prices are expected to stabilize in 2020.

Strong external balances. Lower oil prices last year is expected to have contributed to a slight decline in the current account surplus to 7.2% of GDP. The surplus should edge down further in 2020. Meanwhile, the relaxation of foreign investment restriction and new economic incentives is expected to have contributed to a rise in foreign direct investment (FDI), mainly in Dubai. The UAE is the main destination of FDI in the region and in 2018 they amounted to close to 3% of GDP.



Official reserves rose from already high levels. The healthy current account surplus has contributed to keeping FX reserve buffers at high levels. The UAE's official foreign exchange reserves increased slightly, reaching about USD 107 bn towards the end of 2019. Add to this Abu Dhabi's sovereign wealth fund (ADIA, see further below) yields a solid reserves cushion.

Economic policies

Fiscal policy to support the economic recovery. Lower oil prices and fiscal stimulus generated some rise in the consolidated government's net financing need in 2019 as this was only partially mitigated by higher than expected VAT income. In 2020, both Abu Dhabi and Dubai are planning further fiscal stimulus. The latter announced its largest ever budget for 2020, including allocating additional funds to finalize Expo 2020. Although this has raised growth expectations among observers, it should also result in some worsening of the consolidated budget balances. This is manageable given the UAE's large financial buffers. We would note that reports and forecasts regarding the consolidated budget balance vary widely among analysts, partly due to the lack of data. We rely on IMF estimates.

Government debt remains manageable. The consolidated general government debt, mostly attributable to Dubai, is expected to have remained broadly stable in 2019, despite worsening numbers in Dubai. At about 20% of GDP, according to the IMF, UAE debt remains manageable and low compared to peers. The majority of the debt is held by domestic investors. New financing comes mostly from non-bank and external sources, according to the IIF.

Debt in government related entities is substantial but risks are moderate. The low level of debt does not include debt incurred by government related entities (GRE). Most estimates put total debt among the GRE's in Abu Dhabi and Dubai to roughly 50% of UAE GDP. In principle it would be prudent to assume that all GRE debt could ultimately end up on the consolidated government balance sheet. However, the risk that this materializes should have declined in the past few years. Supervision of the GREs has reportedly been strengthened and disclosure is gradually improving, although the IMF still points out that there remain several shortcomings in companies' accounts. In addition, there has reportedly been improvements in GREs debt structures as well as successful mergers that have raised companies' efficiency.

Significant buffers. Our assessment of the UAE's debt affordability and of its country risk builds on the assumption that Abu Dhabi with its superior financial strength and oil wealth would stand behind the other emirates. There is no legal requirement for them to do so but there is a track record of support. Although there are several sovereign wealth funds across the emirates supporting financial strength, the Abu Dhabi Investment Authority, ADIA, is by far the largest fund. Data is not published but estimates on its total assets vary between USD 550-700 bn. Total liquid assets under management by the UAE's sovereign wealth funds are usually assumed to amount to around 150% of GDP.

Limited data availability raises country risk. Although some improvements have been made in recent years, the availability of economic data is limited compared to risk class peers. For example, disclosures relating to the government's external assets are very limited, external debt data is lacking, and consolidated fiscal accounts for the UAE are published with a significant lag. Moreover, the IMF notes that production of quarterly GDP remains "work in progress". This weighs on country risk.

Higher resilience than most regional peers. Institutions in the UAE are generally stronger than other countries in the region. Most of the World Bank's governance indicators and business climate indicators are also stronger than peers in a similar risk class. An exception is the voice and accountability indicator which is far below peers and has been weakening recently. UAE's ranking in other governance areas have been broadly stable over the past two years. Meanwhile, GDP per capita is one of the highest in the world.

Bank sector posing limited risk. Banks are considered well-regulated, profitable and supervised at the federal level. Aggregate capital buffers have risen in the past year from comfortable levels, well above regulatory minimum. At the same time, the share of non-performing loans has increased from modest levels.

Stable but opaque domestic political environment. The UAE is a loose federation of seven emirates which, since its creation, has enjoyed a high degree of political stability. The country does not have formally elected bodies. Instead, political decision making is largely made by the ruling families of the individual emirates, limiting policy transparency. Abu Dhabi dominates the political structure of the UAE with its ruler being the president of the federation.

Outlook

Broadly stable growth ahead. Our growth trajectory for the near-term is slightly less upbeat than we have previously had in our forecasts. Overall GDP growth should remain broadly stable at about 2% over the next couple of years, helped by expansionary fiscal policy and investments related to Expo 2020. Growth should mainly be driven by the non-oil sector, partly due to our expectation that UAE oil production will be capped by an extension of the current OPEC agreement through-out 2020. Our forecasts are based on oil prices staying in the USD 60-65 range over the coming two years. Most analysts put the country's fiscal break-even price at about USD 65 per barrel. Risks to this near-term growth scenario are mainly on the downside.

Regional geopolitical risk is high. Risks to our main scenario are mainly external. Escalated tensions between the US and Iran have contributed to raising geopolitical risk in the region. The UAE's military engagement in Yemen also exposes it to geopolitical and event risk. Although pipelines mitigate the risk of UAE oil exports suffering directly from a possible blockade of the Strait of Hormuz, key activities in the economy such as tourism, trade and FDI are all vulnerable to the mere perception that the risk of conflict has risen. This poses a risk to economic growth. Another key risk relates to lower than expected oil prices which could lead to higher than expected fiscal deficits and to a gradual rise in government debt.

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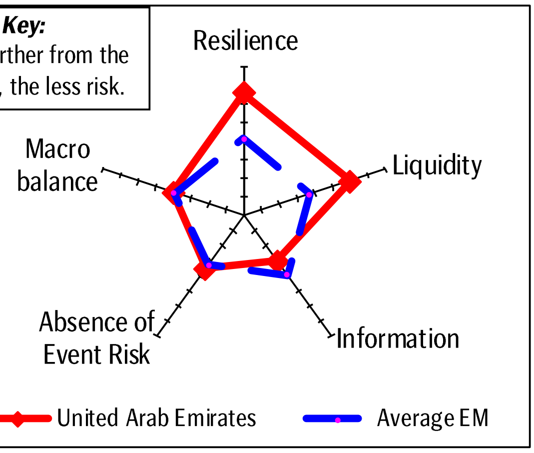
Key ratios	2020
Population (million)	9,8
GDP per capita (USD)	42 329
Real GDP growth (%)	2,3
CPI inflation (%)	0,7
Current account (% of GDP)	5,8
Reserves (months of imports)	20
Budget balance (% of GDP)	-2,8
Government debt (% of GDP)	20

Chart Key:
The farther from the centre, the less risk.



External Ratings
Moody's: Aa2 / Stable
S&P:
Abu Dhabi: AA / Stable
Ras Al Khaimah: A / Stable
Fitch:
Abu Dhabi: AA / Stable
Ras Al Khaimah: A / Stable

Peers:
Poland
Kuwait
Qatar

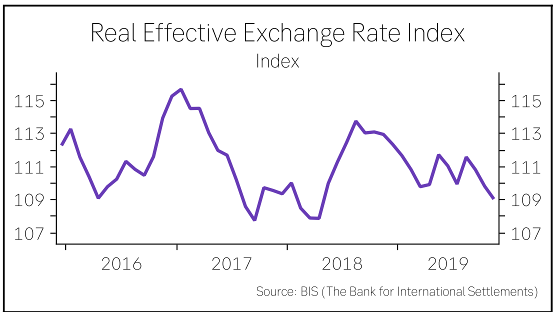
Graph: UAE's risk profile is significantly stronger than the emerging-market average on resilience and slightly worse on event risk and information, due the lack of economic and political transparency. The liquidity score includes 50% of estimated foreign assets of Abu Dhabi's sovereign wealth fund.

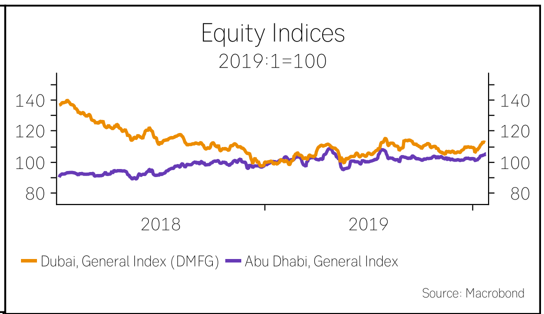
United Arab Emirates: Economic Indicators

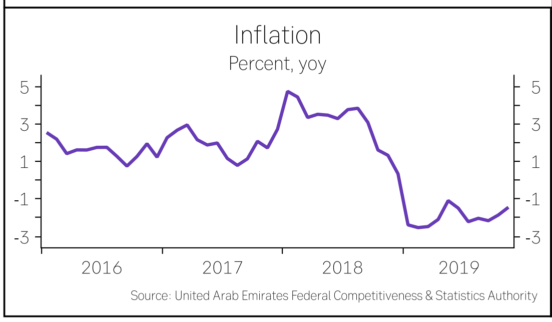
Macroeconomic	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
GDP real (chg)	5,1%	3,1%	0,5%	1,7%	1,9%	2,3%	2,2%	2,2%
GDP (USD bn)	403,1	357,0	377,7	414,1	404,9	418,6	435,1	452,4
GDP/capita (USD)	44 905	38 025	39 695	42 960	41 463	42 329	43 612	44 951
Investments/GDP	19%	24%	21%	19%	20%	20%	19%	19%
Trade/GDP	155%	181%	176%	159%	166%	165%	165%	165%
Oil production, bpd ('000)	29889	30883	29665	30083	31000	31000	31000	31000
Money & Prices								
CPI inflation	-14,4%	5,8%	2,0%	3,1%	-1,9%	0,7%	1,7%	1,7%
Interest rates	0,8%	1,2%	1,5%	2,4%	2,7%	2,0%	2,0%	1,9%
Exchange Rate (USD)	3,7	3,7	3,7	3,7	3,7	3,7	3,7	3,7
Oil price (Brent)	$52	$44	$54	$71	$64	$65	$64	$62
Government Finances								
Budget balance/GDP	-3,4%	-2,0%	-1,7%	-1,8%	-1,6%	-2,8%	-3,0%	-2,6%
Consolidated govt debt/GDP	16%	19%	21%	20%	20%	20%	20%	20%
Balance of Payments (USD bn)								
Current account	54,5	13,2	27,5	37,8	29,3	24,2	22,9	25,0
(% of GDP)	13,5	3,7	7,3	9,1	7,2	5,8	5,3	5,5
Exports of goods	350,9	373,5	384,2	387,4	394,1	405,0	418,6	433,5
Imports of goods	273,9	273,3	281,4	272,4	277,5	287,2	300,5	313,4
Other current acct flows	-22,6	-87,0	-75,3	-77,2	-87,3	-93,6	-95,1	-95,1
Net FDI	-7,9	-4,0	-3,7	-3,1	-3,3	-3,6	-4,0	-4,3
Net other capital flows	15,0	51,8	18,2	13,0	20,3	26,9	29,2	27,2
External Debt & Liquidity (USD bn)								
Reserves (average)	77,2	84,4	94,4	98,4	102,6	106,8	111,2	115,7
Gross external debt (% of GDP)	44%	69%	69%	64%	70%	67%	64%	62%
Gross External Debt	176,5	246,0	258,9	263,0	282,5	281,0	279,0	280,0
o/w short term debt	66,6	86,1	100,3	107,3	114,8	122,9	122,9	122,9

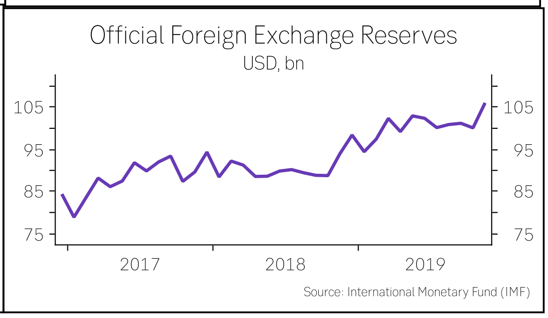
Type of government:	Federation, no political parties
Next elections	-
Other:	
Latest PC deal	None
Recent IMF programs	None

Sources: Oxford Economics, IMF, IIF, Moody's and SEB estimates









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