

## **Country Risk Report – UAE**

### **Country Rating; A3**

The United Arab Emirates (UAE) is a federation of seven states formed in 1971 by the then Trucial States after independence from Britain. Since then, it has grown from a quiet backwater to one of the Middle East's most important economic centres. Although each state - Abu Dhabi, Dubai, Ajman, Fujairah, Ras al Khaimah, Sharjah and Umm al Qaiwain - maintains a large degree of independence, the UAE is governed by a Supreme Council of Rulers made up of the seven emirs, who appoint the prime minister and the cabinet.

Before oil was discovered in the 1950s the UAE's economy was dependent on fishing and a declining pearl industry. But since 1962, when Abu Dhabi became the first of the emirates to begin exporting oil, the country's society and economy have been transformed. The oil industry has attracted a large influx of foreign workers who, together with expatriates, now make up more than three quarters of the population. But the UAE's authorities also tried to reduce its dependency on oil exports by diversifying the economy, creating booming business, tourism and construction sectors.

During the credit boom, Dubai sought to turn itself into the financial gateway and cosmopolitan hub of the Middle East. It also began attracting vast amounts of foreign investment for ever more ambitious construction projects, most famously the Burj Khalifa skyscraper - the world's current tallest man-made structure - and futuristic land reclamation projects, such as the palm-shaped artificial Palm Islands.

#### **Facts:**

- **Full name:** United Arab Emirates
- **Population:** 8.1 million (UN, 2012)
- **Capital:** Abu Dhabi
- **Largest city:** Dubai
- **Area:** 77,700 sq km (30,000 sq miles)
- **Major language:** Arabic
- **Major religion:** Islam
- **Life expectancy:** 76 years (men), 78 years (women) (UN)
- **Monetary unit:** 1 Dirham = 100 fils
- **Main exports:** Oil, gas
- **GNI per capita:** US \$40,760 (World Bank, 2011)

## Economic indicators

	2010	2005	2000
GDP: Gross domestic product (million current US\$)	297648	180617	104337
GDP per capita (current US\$)	39625	44385	34395
Employment in industrial sector (% of employed)	24	40	33
Employment in agricultural sector (% of employed)	4	5	8
Internet users (per 100 inhabitants)	78	40	24

## Strengths

- Weight of Abu Dhabi, holding 95% of the United Arab Emirates' huge oil and gas reserves
- Dubai's importance in services (regional business centre, world's seventh largest port)
- Diversification begun
- Financial strength, with Abu Dhabi's sovereign fund holding the world's largest portfolio of assets
- Political stability in the Federation presided over by Sheikh Khalifa ben Zayed of Abu Dhabi

## Weakness

- Heterogeneous economies still very dependent on Abu Dhabi's hydrocarbon revenues
- High external debt of Dubai companies
- Opacity of parapublic entities and private firms
- Regional geopolitical uncertainties

## RISK ASSESSMENT

### Modest growth rate with a persisting disparity between Abu Dhabi and the other emirates

Growth will increase only slowly in 2013 because of a gloomy global economic environment. The dominant hydrocarbon sector will remain the main economic driver due to still high oil prices and production up slightly. The development of alternative energy sources has, however, begun with planning for four nuclear reactors. In the immediate future, the disparity between Abu Dhabi, with its hydrocarbon wealth, and the other emirates, will persist. Non-hydrocarbon activity is also expected to grow, thanks, chiefly, to diversification programmes offering development prospects, such as the Khalifa industrial zone and the Masdar City ecotown project in Abu Dhabi.

## **Continued financial consolidation in Dubai**

Dubai authorities are expanding the emirate's role as a regional business centre - considered crucial to its economic growth - by re-focussing on trade, logistics and tourism at the expense of real estate. At the same time, the emirate is seeking to repay its debts and cut public spending. The moratorium requested by Dubai World (DW) in late 2009 on debt totalling \$25bn highlighted the uncertain quality of the near-sovereign debt of Government Related Entities. Since late 2010, strict observation of the restructuring terms governing the debt of DW and of other related entities (including Dubai Group and Limitless in 2012) has reassured the markets but the indebtedness of Dubai's state enterprises remains high (close to the emirate's GDP) with large loans expiring in 2013 and beyond. Moreover, the lack of transparency in these entities and their governance problems persist.

## **Sound fundamentals and federal financial solidarity**

High hydrocarbon prices and the growth of non-oil exports together with UAE's diversification programmes will make it possible to maintain significant fiscal and current account surpluses in 2013 at the level of the Federation, despite the UAE's heterogeneity.

The burden of public and external debt is expected to continue to fall after having risen until 2010, mainly due to borrowing by Dubai's Government Related Entities. There is, in any case, an implicit solidarity within the Federation, even though any financial support from Abu Dhabi to the other emirates remains conditional. Moreover the UAE as a whole is still a net external creditor thanks to (mainly Abu Dhabi) sovereign and investment funds, with foreign currency assets expected to exceed \$600bn in 2013.

## **Banking system still convalescing**

The banking system remains heavily exposed to a stricken real estate sector and very indebted Government related entities, particularly in Dubai. This has led to deterioration in the quality of its assets and has damaged its profitability. The systemic risk remains contained, however, because of high bank capitalisation, improved liquidity and higher reserves and provisions. Moreover, the banking sector has the support of the federal authorities if necessary.

## **Aloof from the uprisings in the Arab world**

Considered as a refuge following the political upsets in the region since early 2011, the UAE is trying to remain aloof from the protest movements affecting a number of other Arab countries, however at the price of extremely strict political control and repression of Islamist opposition trends (Muslim Brotherhood, Islah Community, whose members have been deprived of their nationality). In addition, demographic balance remains an issue in these tribal societies, with foreigners making up the large majority of the population. But the programme to 'emiratise' employment with recruitment based on nationality rather than skills is hardly likely to improve efficiency. Moreover, though the business environment is considered as one of the region's most favorable, the DW crisis has highlighted the opacity affecting the public accounts, the status of public entities, the banks and businesses, as well as deficiencies in governance likely to hamper the smooth conduct of business.