

Country Insight Snapshot United Arab Emirates

February 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3b

Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

- + The UAE continues to strengthen its position as a regional safe haven and business hub.
- + Access to global markets from Dubai will be among the best in the world.
- Regional tensions concerning Iran are set to disrupt supply chains and investment flows into the medium term.
- Government policy favours local firms and can change arbitrarily and without warning.

KEY DEVELOPMENT

Oil prices slump as demand falls due to the effects of the coronavirus outbreak, further undermining the UAE's already-weak short-term growth prospects.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

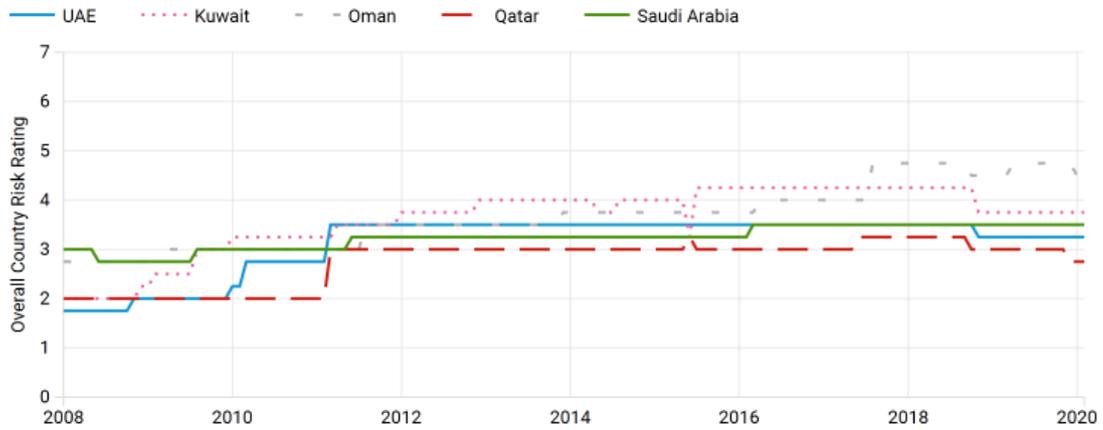
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

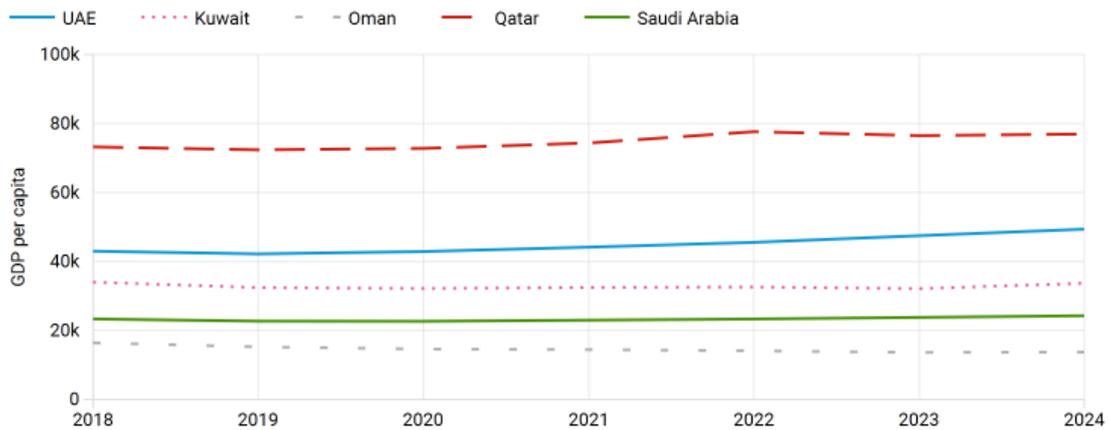
Rating History and Comparison



Source: Dun & Bradstreet

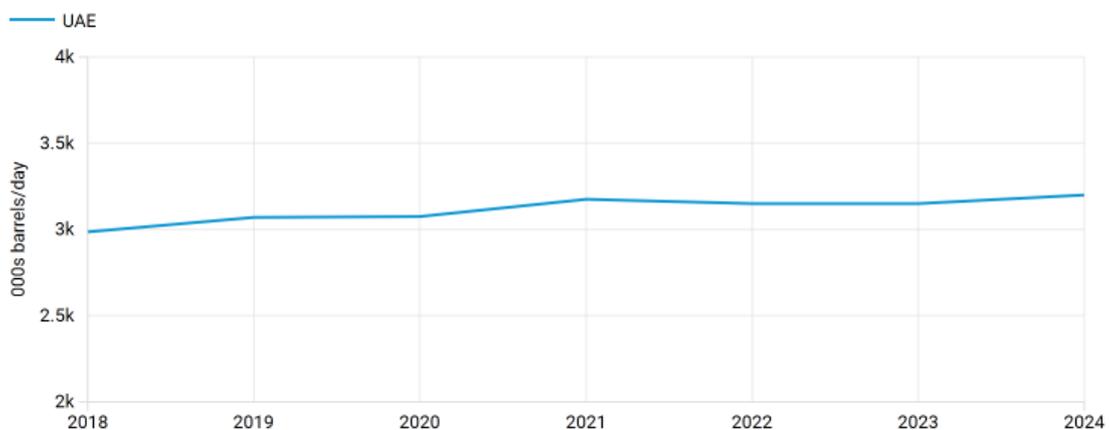
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Crude Oil Production



Source: Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	7.3	9.1	8.6	7.1	6.4	5.6	6.0	5.7
Govt balance, % GDP	-0.2	2.2	1.6	1.2	-0.5	1.3	1.6	1.8
Inflation, annual avge %	2.0	3.1	-1.9	0.5	1.6	1.3	1.9	1.8
Oil Price, USD/b	54.4	71.1	64.0	61.1	58.0	55.0	51.0	53.0
Real GDP Growth, %	0.5	1.7	1.7	2.1	2.4	2.8	3.2	3.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Data from the forward-looking Emirates NBD UAE Purchasing Managers' Index (PMI) highlights that in January activity in the non-oil private sector contracted for the first time in over ten years, with a score of 49.3, down from 50.2, a significant decline from the high of 59.4 experienced as recently as May 2019. The 50-point level marks the division between contraction and expansion. Input prices rose, while output prices fell again as firms attempted to maintain market share at the expense of margins. This led companies to reduce employment at one of the fastest rates on record, in an effort to contain costs. Falling output prices have been a feature of the index over the past 16 months, putting pressure on company cash flows and ultimately on viability. Nevertheless, business optimism remains relatively buoyant for the year ahead based on the forthcoming Expo 2020 to be held in Dubai from October to April 2021, as well signs of an uptick in international orders.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 months

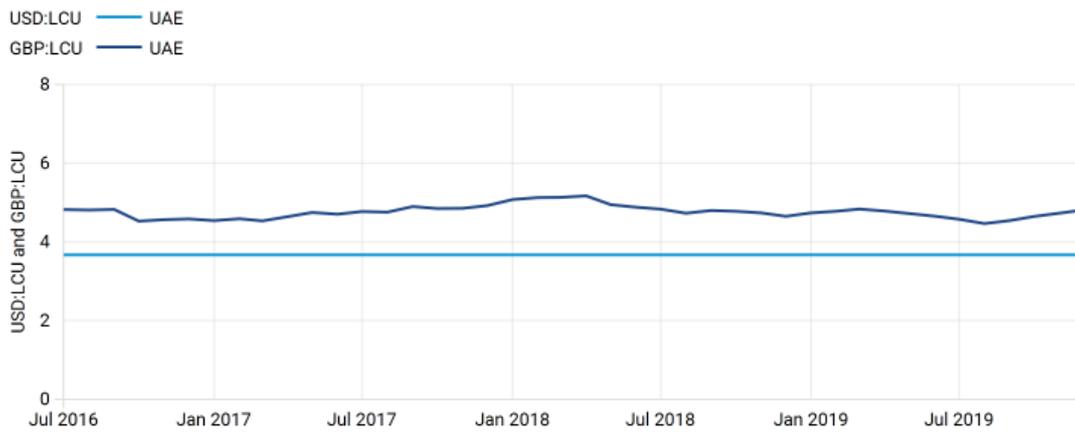
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



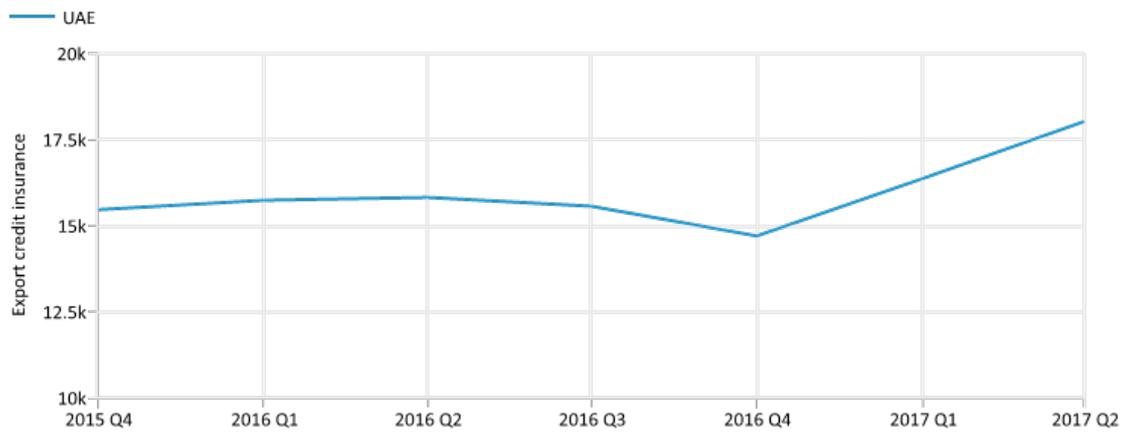
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = United Arab Emirates dirham

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Oil price slumps

The coronavirus outbreak has resulted in a collapse in the global price of oil; our benchmark Brent spot price has fallen by around 17% from over USD65 per barrel (/b) at end of 20 January to just over USD54/b at close of 4 February. The downward pressure on prices because of curtailed demand will put further pressure on the UAE's already weak growth prospects. The price fall's impact on oil revenues is being exacerbated the recent OPEC+ group of countries' agreement to implement further cuts to their oil production quotas. In the case of the UAE, this reduced its output by a further 60,000 barrels per day (b/d). The UAE was already committed to cutting 96,000 b/d against its October 2018 benchmark of 3.168m b/d. The latest cut would bring its output level down to 3.012m b/d.

If the impact of the coronavirus extends beyond the very short term, the OPEC+ group will have to implement a further cut in production quotas when the present agreement expires at the end of March if they wish to keep oil prices above the USD60/b mark. However, a further cut will be politically difficult to negotiate. At present we are maintaining our growth forecast for the UAE at 2.1% for 2020; however, downside risks are high and are dependent on the trajectory of the coronavirus.

Furthermore, the continued fall in house prices and rental costs (in Dubai they are down by over 40% from 2014 highs) is having a number of adverse impacts on the short- and long-term economic outlooks. The slump in the property market is putting pressure on developers, particularly those whose projects commenced before the fall in prices started in 2015. In turn, this is feeding through into payment delays for contractors. In addition, banks, which are heavily exposed to the construction sector, are reporting a rise in loan restructuring in the real estate and associated sectors. Although we do not anticipate a systemic crash in the financial sector, its overexposure to the real estate segment could create problems if a major borrower defaults. Nevertheless, the banking sector is facing rising non-performing loans (6.4% of total loans at end-Q3 2019, up from 4.9% three years previously), undermining their balance sheets and leading to tighter lending conditions, thus slowing investment. Finally, weakening house prices undermine householder confidence, dampening consumer demand and weakening short-term growth prospects.

Political/Insecurity Risk

Regional tensions ease, but...

Regional tensions have eased, having previously increased dramatically in early January after the US's targeted killing of Iran's military commander Qasem Soleimani. Although the inflammatory rhetoric between Iran and the US has de-escalated, we remain concerned that this is merely a pause in the confrontation, and the tensions could yet lead to some form of military confrontation. We believe that the UAE, which is closely aligned with Washington, despite strong commercial links with Iran, could be the target of attacks by Iranian-linked groups or proxies. These could target Western commercial assets or the UAE hydrocarbon sector and other government assets, while the Iranian capacity for cyber-attacks should not be under-estimated.



COUNTRY PROFILE AND STATISTICS

Overview

A federation of seven emirates, the United Arab Emirates lies at the southern end of the Persian Gulf on the Arabian Peninsula, bordering Saudi Arabia and Oman. It gained independence in 1971 and is a member of the Gulf Co-operation Council.

The economy is heavily dependent on hydrocarbon earnings, which account for around 30% of GDP and over 20% of exports. However, each emirate has an autonomous economic policy, with Abu Dhabi and Dubai accounting for almost 90% of GDP. Dubai, with its lesser oil reserves, has led the way in diversifying its economy away from oil dependency (although this has been at the cost of raising levels of government debt). Abu Dhabi is also now following a policy of diversification. Both emirates have a significant portfolio of foreign assets.

The royal families of the emirates have recycled the oil wealth to significantly improve the living standards of local people; consequently, no political opposition has developed to their continued benign authoritarian rule.

Key Facts

Key Fact	Detail
Head of state	President KHALIFA bin Zayid al-Nahyan
Capital	Abu Dhabi
Timezone	GMT +04-00
Official language	Arabic
Population (millions)	9.8
GDP (USD billions)	412.3
GDP per capita (USD)	42,203
Life expectancy (years)	77.6
Literacy (% of adult pop.)	93.0
Surface area (sq km)	83,600

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	5.1	3.1	0.5	1.7	1.7
Nominal GDP in USDbn	358	357	378	414	412
Nominal GDP in local currency (bn)	1,315	1,311	1,387	1,521	1,517
GDP per Capita in USD	38,658	38,137	39,806	42,999	42,203
Population (year-end, m)	9.3	9.4	9.5	9.6	9.8
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	17.5	13.2	27.5	37.8	35.6
Current Account (% of GDP)	4.9	3.7	7.3	9.1	8.6
FX reserves (year-end, USDbn)	93.7	85.1	95.1	99.2	107.3
Import Cover (months)	5.0	4.3	4.6	5.1	5.6
Inflation (annual avge, %)	4.1	1.6	2.0	3.1	-1.9
Govt Balance (% GDP)	-6.4	-1.3	-0.2	2.2	1.6

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	2.1	2.4	2.8	3.2	3.0
Nominal GDP in USDbn	424	441	459	483	506
Nominal GDP in local currency (bn)	1,557	1,619	1,686	1,772	1,857
GDP per Capita in USD	42,892	44,158	45,555	47,486	49,377
Population (year-end, m)	9.9	10.0	10.1	10.2	10.2
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	30.2	28.4	25.6	29.1	28.6
Current Account (% of GDP)	7.1	6.4	5.6	6.0	5.7
FX reserves (year-end, USDbn)	112.6	116.0	123.0	135.3	146.1
Import Cover (months)	6.4	6.1	5.7	6.1	6.0
Inflation (annual avge, %)	0.5	1.6	1.3	1.9	1.8
Govt Balance (% GDP)	1.2	-0.5	1.3	1.6	1.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UAE	Kuwait	Oman	Qatar	S. Arabia
Income per Capita (USD)	42,892	32,175	14,607	72,801	22,656
Country Population (m)	9.9	4.3	5.1	2.7	34.8
Internet users (% of population)	90.6	78.4	69.8	94.3	73.8
Real GDP Growth (% p.a., 2020 - 2029)	3.5 - 5.5	3.0 - 5.5	2.5 - 4.5	4.0 - 6.5	3.0 - 4.5

Source: Various sources/Dun & Bradstreet



LINKS

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