

Country Insight Snapshot United Arab Emirates

February 2021





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3c

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 are among the best in the world.
- Regional tensions concerning Iran will disrupt supply chains and investment flows into the medium term.
- Government policy favours local firms and can change arbitrarily and without warning.

KEY DEVELOPMENT

Political and security risk should improve as the UAE responds to US pressure to adopt a less assertive foreign policy, but Iranian reaction could still raise risks.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

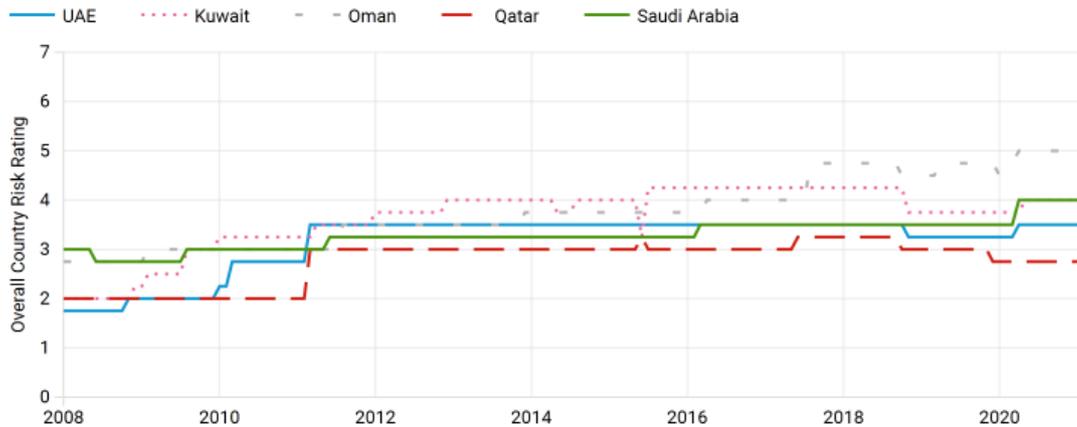
Trend: Deteriorating

Key Development has had a positive impact on the outlook.



KEY INDICATORS

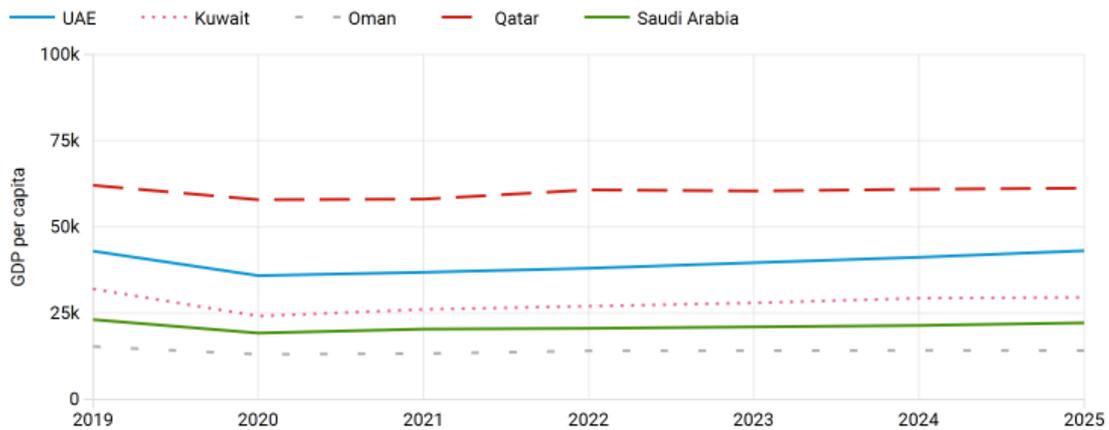
Rating History and Comparison



Source: Dun & Bradstreet

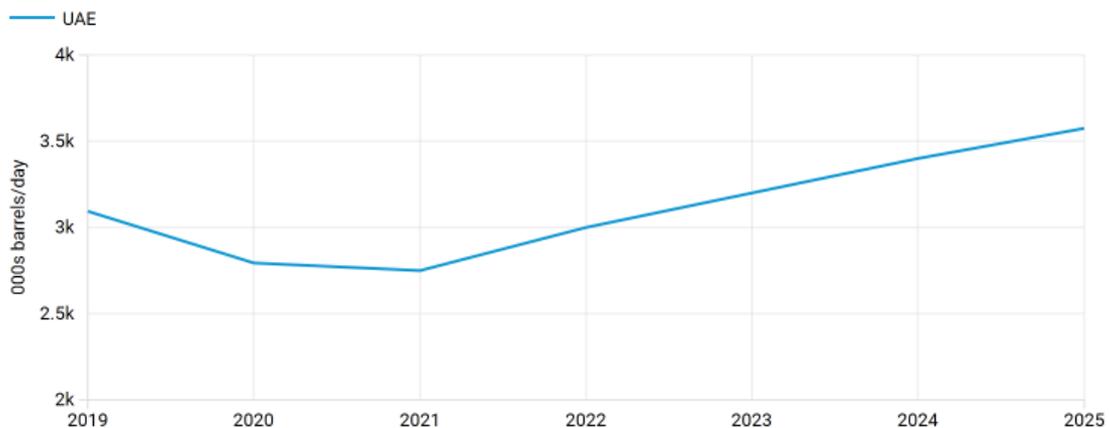
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Crude Oil Production



Source: Dun & Bradstreet



Economic Indicators

Indicator	2018	2019	2020e	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	9.6	7.0	0.7	0.4	3.5	4.4	6.0	6.9
Govt balance, % GDP	5.8	5.5	-8.5	-4.8	-2.5	1.6	1.8	2.4
Inflation, annual avge %	3.1	-1.9	-2.1	0.7	1.3	1.9	1.8	2.0
Oil Price, USD/b	71.1	64.0	42.3	49.0	50.0	51.0	53.0	52.0
Real GDP Growth, %	1.2	1.7	-5.7	2.0	2.8	3.2	3.0	3.4

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The forward-looking Emirates NBD UAE Purchasing Managers' Index (PMI) data highlights that in January business activity in the non-oil private sector improved for a second successive month. The headline index was 51.2 the same as in December, remaining above the 50-point threshold (which marks the division between contraction and expansion). However, the index indicates the rate of expansion was weak and is below the long-term average of 54.2. The expansion was driven by an increase in sales and a resumption in construction activity. The higher sales were driven in part by increased orders from the Gulf countries. Positively, there was a slight uplift reversing the year-long downward trend. However, despite the speed of the Covid-19 vaccine roll out, business sentiment for the next 12 months remains very weak at the third-lowest level since the index started in April 2012. Businesses were concerned that further lockdowns could yet be implemented.

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

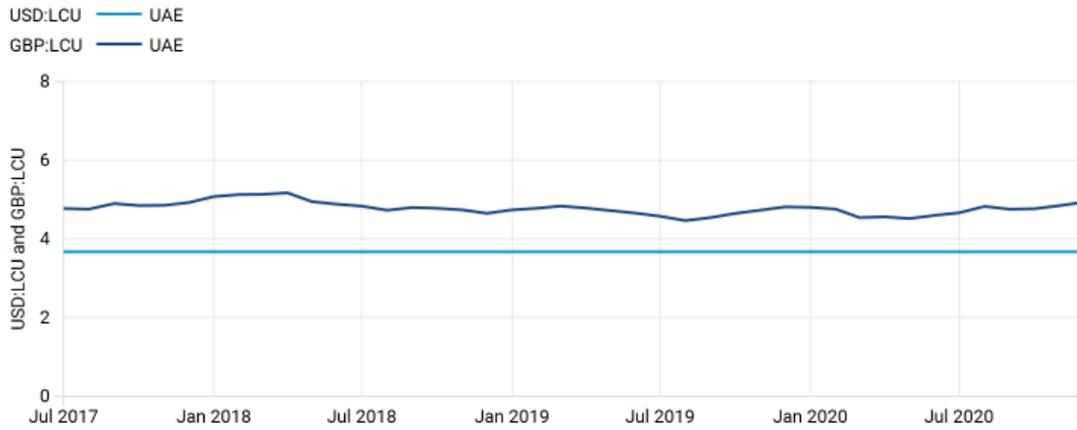
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



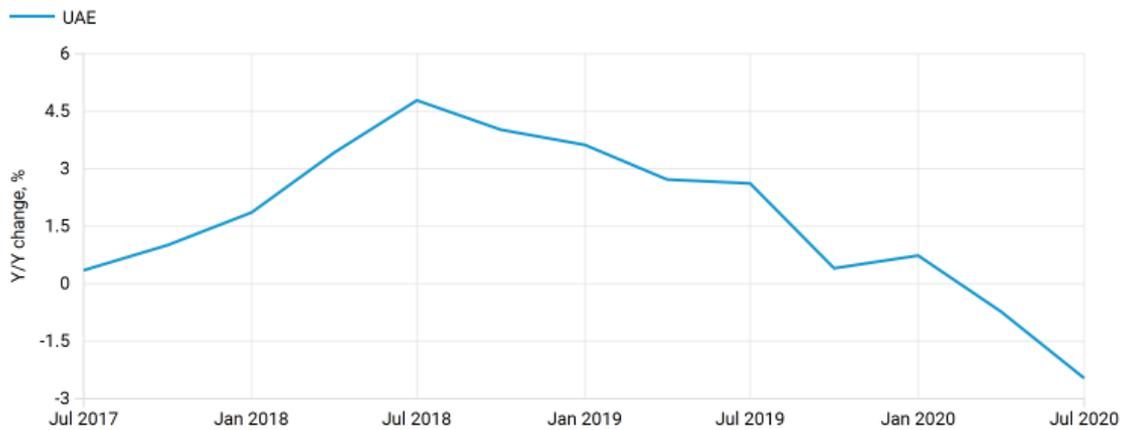
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = United Arab Emirates dirham

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Foreign policy to become more conciliatory?

The election of Joe Biden as US president is set to alter the Middle Eastern regional dynamic, which in turn will force the UAE to adopt a less assertive foreign policy. Already, the economic boycott of Qatar has ended, bringing stability back to the GCC; although the fundamental causes have not been resolved, raising the prospect that the boycott could yet re-surface. One of Biden's first foreign policy acts was to suspend US arms sales to the UAE (and its neighbour Saudi Arabia) signalling that he would be less supportive than his predecessor Donald Trump of UAE adventurism in the region. Thus, we expect the UAE will take a more conciliatory line to the wars in Yemen and Libya; thereby reducing security risks to a degree.

However, the key to regional stability and the UAE's political and security risk outlook will be the reaction of Iran to Biden's expected softer approach to Tehran. Against the background of the forthcoming presidential election in Iran, we remain concerned that hardline actors within Iran or its regional proxies could launch low-level physical and/or cyberattacks on Western company or UAE government assets in the short term. This possibility has been increased by the signing of the treaty between the UAE and Israel in August 2020, which has been criticised by Iran. In the circumstances, we recommend that Western companies involved in the UAE upgrade plans to protect their assets, including personnel, within the country.

Business Regulatory Environment

Citizenship rights granted

In January 2021, the government announced that it would grant citizenship to 'talented foreigners' including "investors, specialised talents, doctors, engineers and artists". The move is a recognition of the realities of the domestic labour market and represents a change of tack for the government which has previously pushed its 'Emiratization' policy; this involves replacing expatriates with locals. Emiratization has not been successful and has only tended to push up costs for businesses. However, we expect the policy to be continued for lower skill levels; although often Emiratis are reluctant to take on this type of work. The low tax environment should encourage a take up of the rights; however, we warn customers that we expect taxes to be broadened and depend into the medium term as the UAE attempts to reduce its oil dependency.

Market Potential

Supply chain financing supported

In January, Abu Dhabi launched a AED6bn (USD1.6bn) supply chain financing package to support SMEs initially to help them weather the impact of Covid-19 but support will also remain in place after the pandemic has been controlled. The healthcare sector will be the first to benefit. The scheme aims to facilitate quick payment of receivables, thus improving the cash flow of businesses. Customers should monitor further announcements and look for opportunities in the sectors selected. Payment performance in these sectors should be supported by the package in an environment where, in general, we are expecting a worsening of payment performance in 2021 against a background of government austerity.



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)	9.9
GDP (USD billions)	355.1
GDP per capita (USD)	35,905
Life expectancy (years)	77.7
Literacy (% of adult pop.)	93.2
Surface area (sq km)	83,600

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020e
Real GDP growth (%)	3.1	2.4	1.2	1.7	-5.7
Nominal GDP in USDbn	357	386	422	420	355
Nominal GDP in local currency (bn)	1,311	1,416	1,551	1,547	1,307
GDP per Capita in USD	38,137	40,639	43,833	43,015	35,905
Population (year-end, m)	9.4	9.5	9.6	9.8	9.9
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	13.2	27.5	40.5	29.6	2.5
Current Account (% of GDP)	3.7	7.1	9.6	7.0	0.7
FX reserves (year-end, USDbn)	85.1	95.1	99.2	107.3	96.0
Import Cover (months)	4.3	4.6	5.1	5.3	5.5
Inflation (annual avge, %)	1.6	2.0	3.1	-1.9	-2.1
Govt Balance (% GDP)	-1.3	-0.2	5.8	5.5	-8.5

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	2.0	2.8	3.2	3.0	3.4
Nominal GDP in USDbn	368	383	403	422	445
Nominal GDP in local currency (bn)	1,352	1,407	1,479	1,550	1,634
GDP per Capita in USD	36,869	38,035	39,647	41,227	43,121
Population (year-end, m)	10.0	10.1	10.2	10.2	10.3
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	1.3	13.4	17.8	25.3	30.6
Current Account (% of GDP)	0.4	3.5	4.4	6.0	6.9
FX reserves (year-end, USDbn)	97.0	102.8	113.1	122.1	134.3
Import Cover (months)	5.1	4.7	5.1	5.1	6.1
Inflation (annual avge, %)	0.7	1.3	1.9	1.8	2.0
Govt Balance (% GDP)	-4.8	-2.5	1.6	1.8	2.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UAE	Kuwait	Oman	Qatar	S. Arabia
Income per Capita (USD)	36,869	26,106	13,292	58,081	20,395
Country Population (m)	10.0	4.3	5.2	2.9	35.3
Internet users (% of population)	98.5	99.6	80.2	99.7	93.3
Real GDP Growth (% p.a., 2021 - 2030)	2.0 - 4.0	1.5 - 3.5	1.5 - 3.5	2.5 - 4.5	1.0 - 3.5

Source: Various sources/Dun & Bradstreet



LINKS

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