Euler Hermes Economic Research

Country Report

United Arab Emirates

Staying afloat in the waves

General Information

GDP	USD370.3bn (World ranking 30, World Bank 2015)
Population	9.16mn (World ranking 92, World Bank 2015)
Form of state	Federation
Head of government	HH Sheikh Khalifa bin Zayed bin Sultan Al Nahyan
Next elections	October 2019, legislative

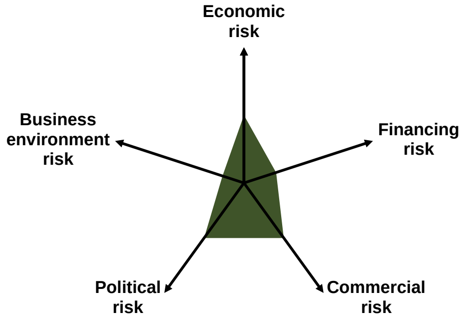
Strengths

- Regional co-operation through the GCC
- Political and social stability, with established method of succession
- Abundance of natural resources (hydrocarbons)
- Large asset holdings and investments held overseas; net creditor status
- Strong financial hub thanks to the Abu Dhabi sovereign wealth fund
- Actively diversifying economy
- Relatively liberal business and trading environment
- Solid fiscal and current accounts, despite some short-term effects from currently weaker oil prices

Weaknesses

- Despite diversification (including further developments in the transport and travel sectors), the economy remains subject to the vagaries of international oil and gas markets
- High dependence on global and regional markets and events
- Fixed exchange rate peg to the USD prevents independence of monetary policy
- Speculative flows (stock market, real estate etc.) provide some concern of asset bubbles
- Data provision is poor for a high income economy

Country Rating **BB1**



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Iran (Islamic Republic of)	11%	1	16%	China
Japan	10%	2	13%	India
India	9%	3	10%	United States
Oman	8%	4	7%	Germany
China, Taiwan Province of	6%	5	4%	United Kingdom

By product (% of total)

Exports		Rank		Imports
Petroleum & products thereof	33%	1	8%	Telecommunication apparatus etc.
Gold, non-monetary	7%	2	7%	Road vehicles
Non metallic mineral manufactures	6%	3	6%	Gold, non-monetary
Gas, natural and manufactured	6%	4	6%	Other transport equipment
Telecommunication apparatus etc.	6%	5	5%	Non metallic mineral manufactures

Source: UNCTAD (2015)

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Economic Overview

GDP growth hardly back on track

The UAE has proven resilient despite the strong decline in oil prices in 2014-2015. Economic diversification has lowered oil-dependency (today oil accounts for only one third of total exports) and promoted non-oil growth, mainly in the financial and tourism sectors. Still, the overall economic cycle closely follows the oil price (Figure 2).

In 2016, real GDP growth fell to +2.3%, well below the +4.7% average rate achieved in 2012-2015. The slowdown is expected to continue this year (+2%) before a modest recovery to +3% in 2018 is forecast. Downward pressures on the economy include the extension of the OPEC deal to limit oil production until March 2018, announced in May 2017.

Upside opportunities involve the expected recovery in oil prices in 2017 which will improve liquidity and bolster business sentiment in the medium term. Expo 2020 investments and an increase in the global trade momentum will also contribute to the growth acceleration starting 2018.

Fiscal measures reach their limits

To limit the economic downturn triggered by the oil price crisis, the UAE implemented a fiscal adjustment scheme. The fiscal account was in surplus until 2014 before dropping to still managable negative territory (Figure 3). The fiscal deficit bottomed out at -3.6% in 2016 (compared to -20% in Oman and -16% in Saudi Arabia). However, public debt is expected to rise from 46% of GDP in 2015 to 51% in 2017, limiting potential fiscal stimulus going forward.

A stable management of currency issues

The currency peg to the US dollar is forecast to be maintained, meaning that the Central Bank of the UAE will continue following the Fed's monetary policy tightening, which could hamper exports through reduced competitiveness. Higher energy prices, subsidy cuts and the VAT introduction in 2018 will contribute to a rise in inflation from 1.2% at end-2016 to 3.1% in 2017 and 5% 2018.

Current account balance stabilizes

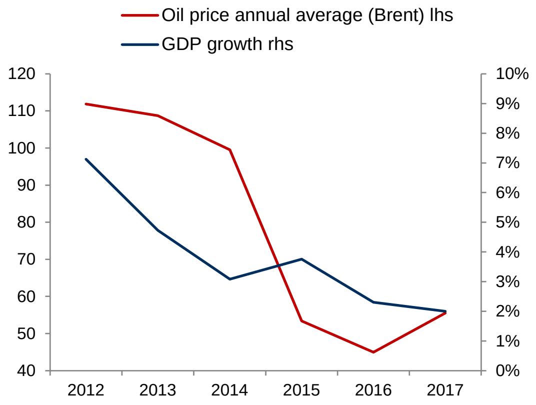
The oil price crisis led to a sharp drop in the current account surplus from +10% in 2014 to +3.3% in 2015 and +2.4% in 2016. The recovery of oil prices should enable the surplus to improve gradually in the next years (Figure 3). The same dynamic will occur for external debt which peaked at 73% of GDP in 2016 but should slowly fall to 70% or so by 2018. In any case, huge foreign exchange reserves held by the Central Bank (USD84bn) and several sovereign wealth funds (USD1,300bn) provide the UAE with a large liquidity cushion and a net creditor position.

Figure 1: Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3.8	2.3	2.0	3.0
Inflation (%, end-year)	3.6	1.2	3.1	5.0
Fiscal balance (% of GDP)	-2.1	-3.6	-2.5	-1.0
Public debt (% of GDP)	45.6	50.0	51.0	52.0
Current account (% of GDP)	3.3	2.4	3.0	3.5
External debt (% of GDP)	66.1	73.0	71.0	70.0

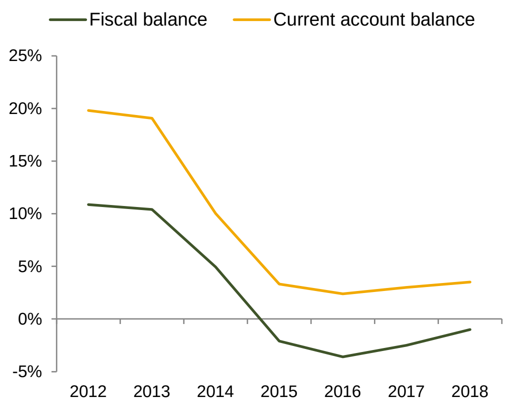
Sources: National statistics, IHS, Euler Hermes

Figure 2: Oil price (USD/bbl) and GDP growth (%)



Sources: National statistics, IHS, Euler Hermes

Figure 3: Fiscal balance and current account balance (% of GDP)



Sources: National statistics, IHS, Euler Hermes

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Last review: 2017-06-09
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