

Strong asset base, growth in non-hydrocarbon sectors



General Information

GDP	USD360.245bn (World ranking 32, World Bank 2012)
Population	9.21 million (World ranking 92, World Bank 2012)
Form of state	Federation
Head of government	KHALIFA bin Zayid Al-Nuhayyan
Next elections	2015, legislative



Strengths

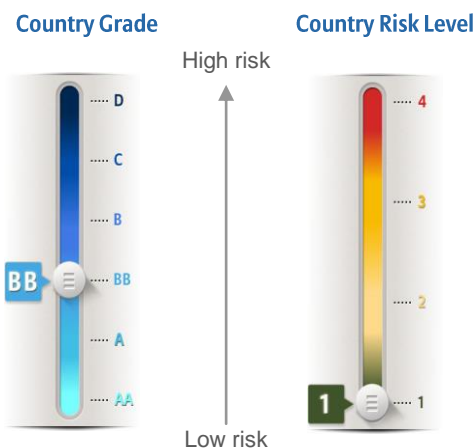
- Stable society, with established method of succession.
- Abundance of natural resources (hydrocarbons).
- Large asset holdings and investments held overseas. Net creditor status.
- Actively diversifying economy.
- Relatively liberal business and trading environment.
- Healthy fiscal and current accounts.
- Regional co-operation through the GCC.

Weaknesses

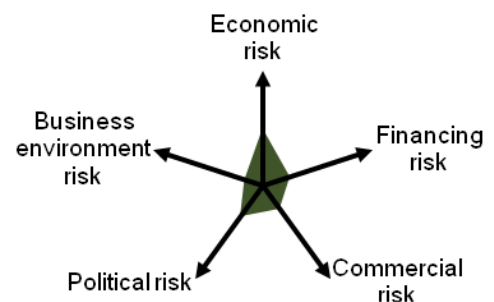
- Individual emirates have extensive independence, with potential for problems with federal policy implementation.
- High dependence on global and regional markets and events.
- Despite diversification, economy is dependent on the vagaries of international oil markets.
- Fixed exchange rate peg to the USD limits independence of monetary policy.
- Speculative flows (stock market, real estate etc.) provide some concerns of asset bubbles.
- Regional uncertainties.
- Data provision is poor for a high income economy.

Country Rating

BB1

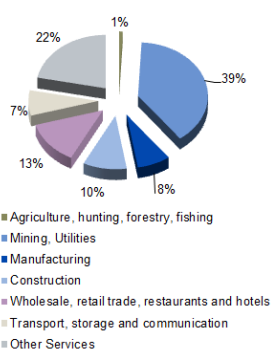


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports	Rank	Imports
Japan	17%	1 19%
India	15%	2 13%
Iran (Islamic Republic of)	11%	3 8%
China, Taiwan Province of	8%	4 5%
Korea, Republic of	6%	5 4%

By product

Exports	Rank	Imports
Petroleum, petroleum products and related	53%	1 9%
Non-metallic mineral manufactures, n.e.s.	7%	2 8%
Gas, natural and manufactured	4%	4 6%
Non-ferrous metals	3%	5 5%

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	-4.8	1.7	3.9	4.4	4.0	4.0
Inflation (% end-year)	-0.3	1.7	0.2	0.6	2.0	2.6
Fiscal balance (% of GDP)	-0.5	4.7	6.4	5.8	5.0	3.6
Public debt (% of GDP)	23.9	22.1	17.4	17.6	19.3	21.6
Current account (% of GDP)	3.1	2.5	14.6	17.3	12.6	7.7
External debt (% of GDP)	59.2	52.1	42.9	40.8	40.6	39.4

Sources: IHS Global Insight, National sources, Euler Hermes

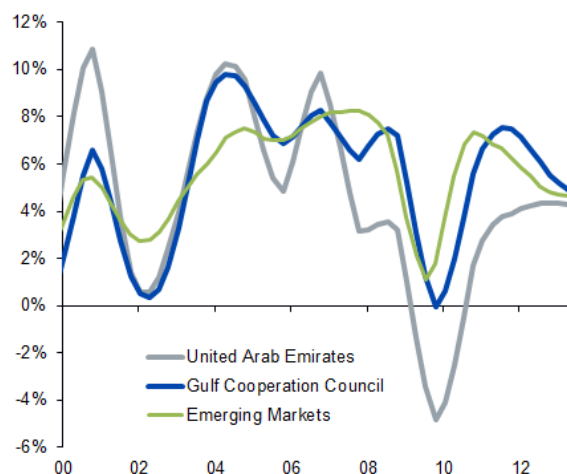
Economic Growth

GDP relatively strong

GDP growth in 2012 is estimated at +4.4% (+3.9% in 2011), with both the oil and non-oil sectors contributing positively. Abu Dhabi's oil output was boosted (averaging 2.65 million barrels/day) to make up for the absence of Iranian supplies because of sanctions. However, overall growth was below potential because of regional tensions and weakness in some key markets (including the eurozone). Government spending (including social support packages and increased subsidy provision) and investment were also strong and somewhat compensated for weaker external demand.

The outlook for growth in 2014 is for relative stability compared with 2013, with potential for weakness in the oil sector, reflecting reduced output and declining revenues through lower prices, offset by growth in non-oil sectors. The latter will be spurred by continuing high state expenditures. Oil prices are expected to weaken, but not collapse, reflecting weak demand in some areas and further production of energy supplies from North American shale reserves. The global outlook for 2014 is for a gradual and probably subdued recovery, with the UAE benefiting from increased world trade. EH expects GDP growth of +4% in 2013 and +4% in 2014.

GDP growth (y/y, 4 qtrs cumulated %)



Sources: IHS Global Insight, Euler Hermes

Economic Policies

As elsewhere in the region, there is concern relating to unemployment and under-employment, particularly among the young. Accordingly, the government adopted a policy of "Emiratisation", whereby the job market will favour nationals rather than expatriate workers.

Price pressures emerging but inflation overall is subdued

Inflationary pressures remain low, partly resulting from a relatively weak, although improving, housing market. Indices of house prices in Dubai in early 2013 show that the rate of housing deflation slowed in that period. Although food price inflation was weak in early 2013, consumer prices are likely to rise through the course of this year and end 2013 at around 2% and 2.6% at end-2014.

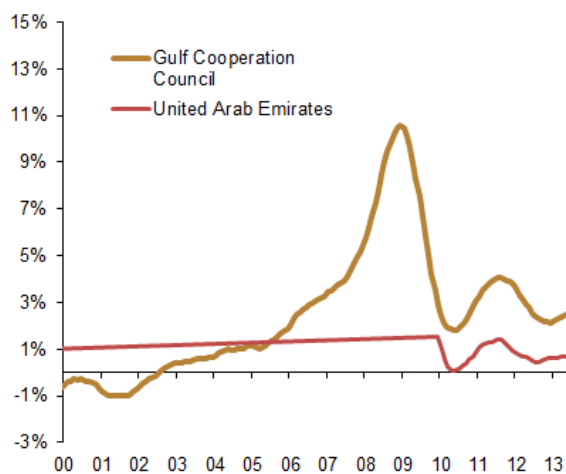
EH does not expect the exchange rate regime to change in the forecast period to end-2014, with the fixed peg of AED3.67 = USD1 throughout. Indeed, UAE authorities continue to re-iterate their commitment to the dirham's peg, despite ongoing speculation (in markets and general commentaries) of a fundamental change to the system. Progress towards a full Gulf monetary union has been limited and EH does not envisage the introduction of an effective GCC single currency in this period. In May 2009, the UAE opted out of the monetary union but this policy may be revisited when the GCC moves forward with its planned integration.

Fiscal surpluses

Recording and reporting of fiscal accounts is generally weak for a high income country and is complicated by the existence of individual emirate accounts in addition to the federal budget. The smaller emirates usually depend on transfer payments from the federal budget, which is underpinned by Abu Dhabi and Dubai. Moreover, budgets are typically based on conservative projections of oil prices and associated revenues and budgetary outcomes are usually stronger than initial targets.

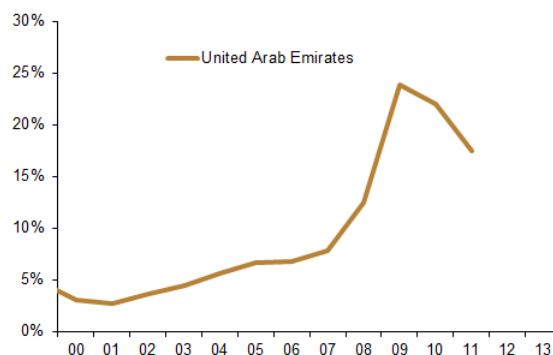
Annual federal fiscal surpluses averaged over +10% of GDP in 2000-08 but some variance was recorded as revenue inflows depend substantially on international oil prices. With relatively high oil prices in 2011-12, fiscal surpluses of +6.4% and +5.8% of GDP in 2011 and 2012, respectively. EH expects smaller surpluses in 2013 (+5%) and in 2014 (+3.6%) reflecting weaker revenue generation at a time of buoyant state spending, partly to appease potential social discontent through extension of support measures and incremental public sector employment benefits. In the 2013 federal budget, more than half of overall spending is projected for social services, particularly education, health care, and social assistance. In addition, state spending is targeting infrastructure, with 12% of the 2013 budget earmarked for improvements to water and electricity supply in the northern emirates.

Inflation rate (%)



Sources: IHS Global Insight, Euler Hermes

General government gross debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Strong external accounts

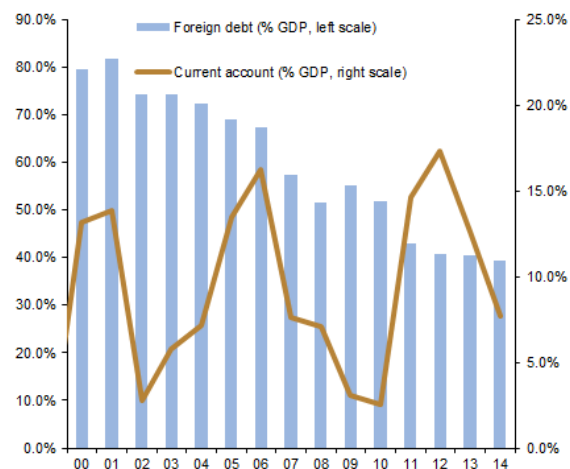
Although the UAE's economy is relatively diversified compared with other GCC states, the strength of the external accounts continues to depend on internationally-determined oil prices and the country's associated revenue generating capacity. Crude oil and related products account for over 50% of the UAE's export receipts. Strong current account surpluses were recorded in 2011-12, when oil prices were high (indicative average benchmark prices of USD111/barrel and USD112/b in 2011 and 2012, respectively, after USD80/b in 2010). EH estimates the current account surpluses at +12.6% of GDP in 2013 and +7.7% in 2014. Global oil prices are forecast to weaken in 2013-14, although they currently remain above USD100/b, and the UAE's external accounts are likely to deteriorate. However, the country is one of only a few that has the ability to alter its oil output in an attempt to support international oil prices and the UAE's policy is likely to be aligned closely with that of neighbouring Saudi Arabia. The current account will remain in surplus over the forecast period.

Hard currency foreign exchange reserves are around USD60 billion but the UAE's policy is to keep FX low and store accumulated wealth in other areas, including several sovereign wealth funds (currently estimated at over USD820 billion) and in other assets. Accordingly, a strict interpretation of import cover (below two months) is not an accurate measure of external liquidity. Using an alternative definition, EH calculates import cover is comfortably in double figures.

External debt levels and servicing of obligations are comfortable

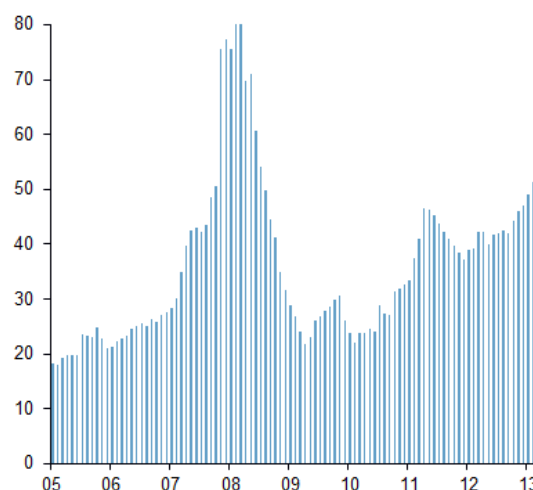
External debt ratios are relatively low, with total foreign debt stock at around 40% of GDP and 43% of export earnings and the debt service ratio on existing obligations is under 4% of total export receipts. As a result, external payments of debt obligations (and, by association, settlement of trade payments) will not be problematic.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, EulerHermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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