

# Country Insight Snapshot United Arab Emirates

June 2019





## 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:** Stable

## 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 around 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

Security risks are on the rise following the sabotage of four oil tankers in the UAE's territorial waters, as well as escalating tensions between the US and Iran.

## CREDIT ENVIRONMENT OUTLOOK

A

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a positive impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK

A

**Trend:** Deteriorating

Key Development has had a positive impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK

A

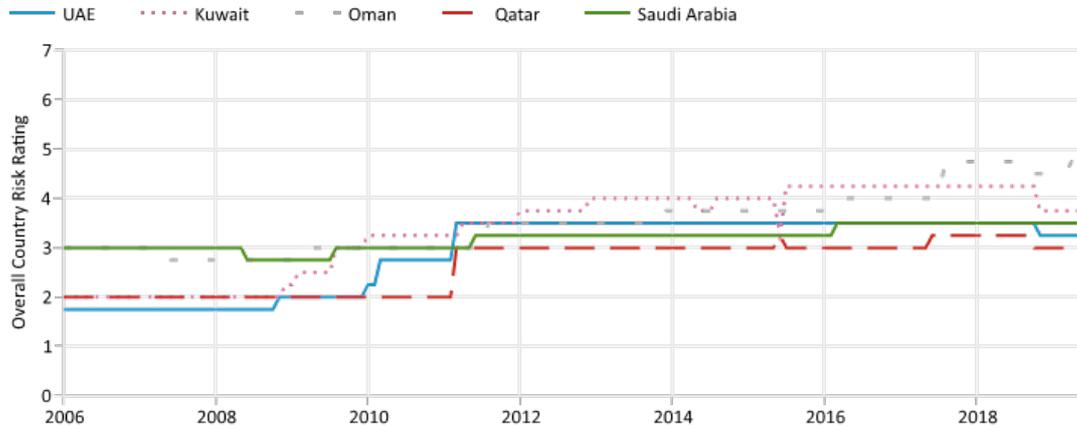
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

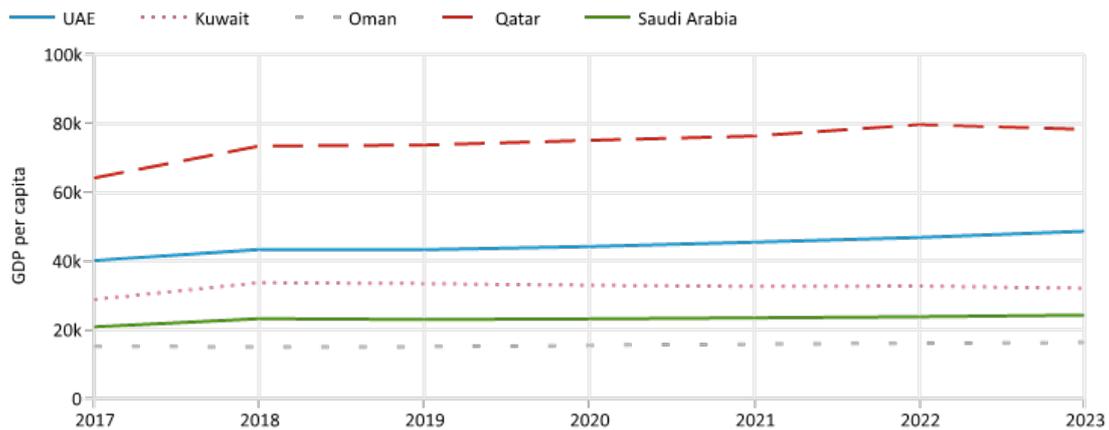
### Rating History and Comparison



Source: Dun & Bradstreet

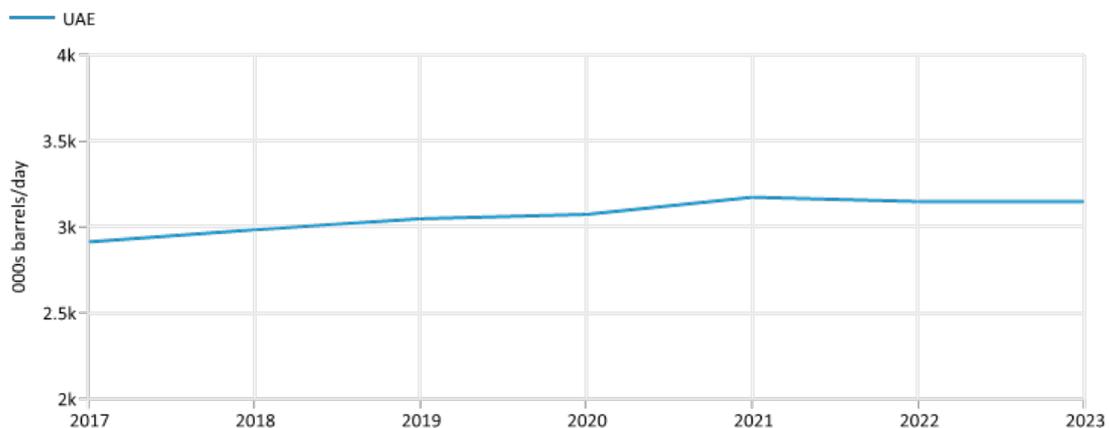
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Crude Oil Production



Source: Dun & Bradstreet



## Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	3.7	7.3	9.1	8.5	6.9	6.3	5.4	5.9
Govt balance, % GDP	-1.3	-0.2	1.8	1.6	1.2	-0.5	1.3	1.6
Inflation, annual avge %	1.6	2.0	3.1	-0.8	1.2	1.6	1.3	1.9
Oil Price, USD/b	44.0	54.4	71.1	68.3	62.3	58.0	55.0	51.0
Real GDP Growth, %	3.0	0.8	1.4	2.1	2.3	2.6	3.0	3.2

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The forward-looking Emirates NBD UAE Purchasing Managers' Index (PMI) data highlights that growth in the non-oil private sector grew for a second consecutive month in April, recording 57.6 (up from 55.7 in the previous month). The reading, which signals a sharp improvement in business conditions and the best since December 2017, shows that the non-oil private sector continues to strengthen, as the index was above the 50-point level that marks the division between contraction and expansion. The improvement in the index was driven by a sharp acceleration in new orders, both domestically and externally, with the latter driven by orders from Saudi Arabia and Oman in particular. However, new orders are still being gained through discounting, as output prices fell for a seventh consecutive month, while input costs increased marginally. This is putting pressure on margins. Nevertheless, firms remain confident that economic conditions will improve to support further expansion in activity.

## 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

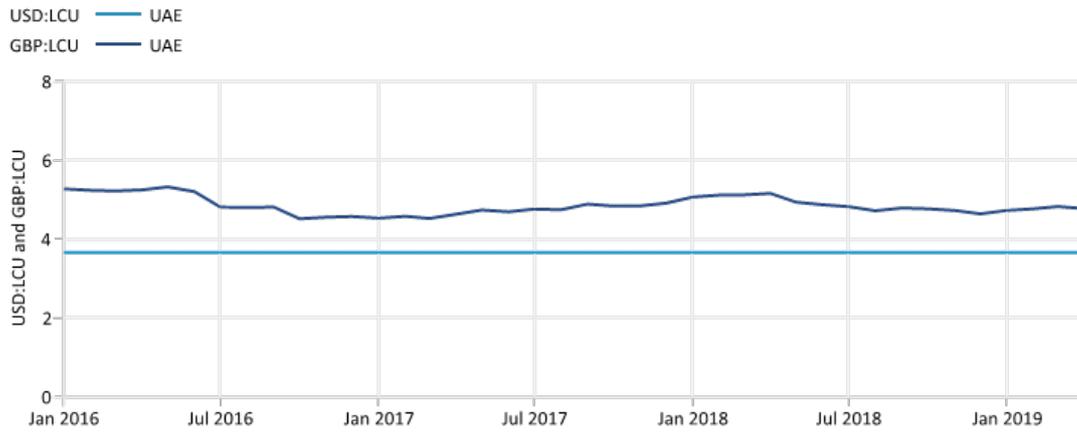
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*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.*



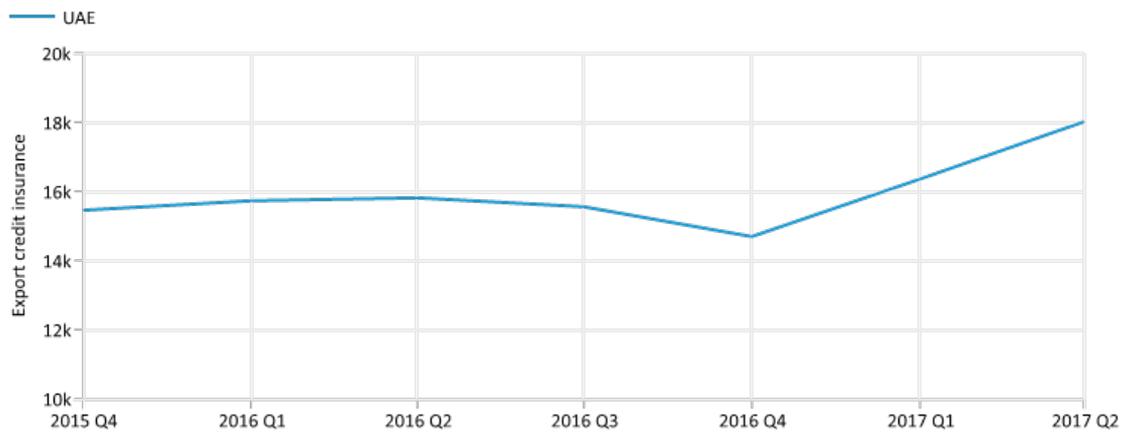
## Exchange Rate



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

### Political/Insecurity Risk

#### *Security risks on the rise*

On 12 May, four commercial oil-tankers, two belonging to Saudi Arabia, one to Norway and the other to the UAE, were attacked within UAE territorial waters off the coast of Fujairah. An investigation by the UAE authorities, which was reported to a closed session of the UN in early June, blamed the attack on 'state actors', but did not specifically name the state suspected. However, US officials, such as the US National Security Advisor John Bolton, a well-known anti-Iranian hawk, have already accused Iran of the sabotage. The attack came at a time of rapidly-escalating tensions in the Persian Gulf, with Washington sending an aircraft carrier and more troops to the area in a move aimed at Tehran in response to allegations of a possible Iranian attack in the region. Iran was already arming its vessels in the Gulf with missiles.

The events have raised concerns about the possibility of war between the US, supported by Saudi Arabia, the UAE and Israel, and Iran, which would threaten the flow of oil through the strategically important Straits of Hormuz. Although this is not our core scenario at present, we expect tension to remain high over the next six months at least (despite a dampening of the rhetoric by Washington in early June), thereby increasing security risks for the UAE. Against this background, the UAE has announced a new defence agreement with the US, which came into force on 29 May. The Defence Cooperation Agreement (DCA) is reported to enhance military cooperation between the two sides.

### Long-Term Economic Potential

#### *Chinese investment promised*

In late May, a Chinese conglomerate signed a memorandum of understanding to explore an industrial investment of USD10bn in the UAE. The investment would be part of China's Belt and Road Initiative (BRI), which aims to boost Chinese trade with Europe and Africa. The move would help the UAE with its ambition to diversify its economy away from its dependence on hydrocarbon earnings; a policy which it has been more successful than its GCC counterparts. The investment would focus on a three-phase, 15-year development at the port in the Khalifa Industrial Zone in the largest emirate, Abu Dhabi. The announcement follows a BRI agreement worth USD3-4bn announced in April in Beijing, which includes a food processing plant and a re-export zone at Jebel Ali port in Dubai, the second-largest emirate.

Chinese-UAE trading relations are already strong, with an estimated 200,00 Chinese nationals residing in the Federation. Furthermore, China is the UAE's second largest bilateral trade partner, with over USD53bn worth of trade in 2018; the authorities in the UAE hope to expand this to USD70bn by 2020. The BRI investments, if forthcoming, will be able to take advantage of the high-quality infrastructure available in the UAE, while further reducing the country's hydrocarbon dependency and boosting its long-term economic potential.



## 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)	9.5
GDP (USD billions)	414.1
GDP per capita (USD)	43,402
Life expectancy (years)	77.2
Literacy (% of adult pop.)	93.0
Surface area (sq km)	83,600

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	4.3	5.1	3.1	0.5	1.7
Nominal GDP in USDbn	403	358	357	378	414
Nominal GDP in local currency (bn)	1,481	1,315	1,311	1,387	1,521
GDP per Capita in USD	44,437	39,117	38,513	40,175	43,402
Population (year-end, m)	9.1	9.2	9.3	9.4	9.5
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	54.5	17.5	13.2	27.5	37.8
Current Account (% of GDP)	13.5	4.9	3.7	7.3	9.1
FX reserves (year-end, USDbn)	78.4	93.7	85.1	95.1	99.2
Import Cover (months)	4.0	5.0	4.3	4.6	5.1
Inflation (annual avge, %)	2.3	4.1	1.6	2.0	3.1
Govt Balance (% GDP)	-2.4	-6.4	-1.3	-0.2	1.8

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	2.1	2.3	2.6	3.0	3.2
Nominal GDP in USDbn	420	435	453	472	496
Nominal GDP in local currency (bn)	1,541	1,595	1,662	1,733	1,822
GDP per Capita in USD	43,363	44,282	45,564	46,936	48,726
Population (year-end, m)	9.7	9.8	9.9	10.1	10.2
Exchange rate (yr avge, USD-LCU)	3.7	3.7	3.7	3.7	3.7
Current Account in USDbn	35.6	30.2	28.4	25.6	29.1
Current Account (% of GDP)	8.5	6.9	6.3	5.4	5.9
FX reserves (year-end, USDbn)	105.1	110.4	113.7	120.5	132.6
Import Cover (months)	5.5	6.3	5.9	5.6	6.0
Inflation (annual avge, %)	-0.8	1.2	1.6	1.3	1.9
Govt Balance (% GDP)	1.6	1.2	-0.5	1.3	1.6

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	UAE	Kuwait	Oman	Qatar	S. Arabia
Income per Capita (USD)	43,363	33,500	15,171	73,770	23,080
Country Population (m)	9.7	4.2	5.0	2.7	34.1
Internet users (% of population)	90.6	78.4	69.8	94.3	73.8
Real GDP Growth (% p.a., 2019 - 2028)	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



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