

Atradius Country Report

United Arab Emirates – May 2010



Overview

General information

Capital:	Abu Dhabi
Government type:	Federation of seven Emirates: Abu Dhabi, Ajman, Al Fujayrah, Dubai, Ra's al Khaymah, Umm al Qaywayn, Sharjah. Specified powers are delegated to the UAE federal government (foreign affairs, defence, currency, infrastructure, and healthcare), while other powers are reserved to member emirates (esp. economics).
Currency:	Emirati dirham (AED)
Population:	4.8 million
Status:	High income country (GDP/capita: US-\$ 56,526 in 2010)

Most important sectors (% of GDP, 2008)

Mining, including oil:	32 %
Services:	41 %
Construction:	15 %
Manufacturing:	12 %

Abu Dhabi's economy is highly dependent on oil, while Dubai is an important regional hub for trade and services (oil accounts for only 5 % of Dubai's GDP).

Main import sources (2008, % of total)

China:	12.9 %
India:	12.0 %
USA:	8.6 %
Germany:	6.4 %
Japan:	6.0 %

Main export markets (2008, % of total)

Japan:	26.5 %
South Korea:	10.9 %
India:	10.7 %
Iran:	7.5 %
Thailand:	6.1 %

Main expenses of foreign exchange

Consumer goods (53 % of total imports) and capital goods (36 % of total imports)

Main sources of foreign exchange

Oil and gas (45 % of total exports), re-exports (55 %)

Key indicators

	2007	2008	2009	2010*	2011*
GDP (US-\$ million)	206,378	254,359	224,918	251,112	286,986
Real GDP growth (%)	7.7	7.4	-3.5	2.5	4.2
GDP per capita (US-\$)	47,334	56,650	51,642	56,526	62,598
Inflation p.a. (%)	11.1	15.8	1.5	4.0	3.2
Fiscal balance (% of GDP)	10.3	13.6	-0.5	1.8	0.3
Total foreign debt (US-\$ million)	110,107	134,656	129,304	129,440	129,916
Foreign debt/GDP (%)	53	53	57	52	45
Foreign debt/XGS (%)	53	49	64	58	54
Short-term debt/inter. reserves (%)	48	137	74	71	69
Debt service ratio (%)	4	3	10	8	6
Current account balance	19,663	28,793	893	11,239	13,232
Current account/GDP (%)	9.5	11.3	0.4	4.5	4.6
Exchange rate to US-\$ (average)	3.67	3.67	3.67	3.67	3.67
International reserves (US-\$ million)	74,813	32,514	39,595	42,595	46,595
In months of merchandise imports	7.4	2.5	3.0	3.0	3.1

* forecast

Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Stable

Head of state:	President Sheikh Khalifa bin Zayed Al Nahyan (since November 2004), emir of Abu Dhabi
Head of government:	Vice president and prime minister Mohammed bin Rashid al-Maktoum (since December 2006), emir of Dubai
Form of government:	The Federal Supreme Council (FSC), composed of the seven emirate rulers, is the highest constitutional authority in the UAE. The president and vice president are elected from among the seven FSC members by the FSC for five-year terms. The FSC determines general policies and sanctions federal legislation. Both the Abu Dhabi and Dubai emirs have an effective veto.

Internal political situation

Domestic politics is strongly influenced by the ruling families and traditional tribal structures. Political parties or trade unions are not permitted and any opposition is virtually non-existent. The Federal National Council (FNC) as a legislative body has only an advisory role. That said, political liberalisation has seen some, albeit limited, progress, at least in comparison with other regional states. For the first time, half of the 40 members were elected by an electoral college in December 2006, while the other 20 members were still appointed by the rulers of the constituent states.

Only 19% of the total population of 4.8 million are UAE citizens: mainly Sunni Moslems. Most expatriates (90% of workforce) come from other Arabian countries and from South Asia.

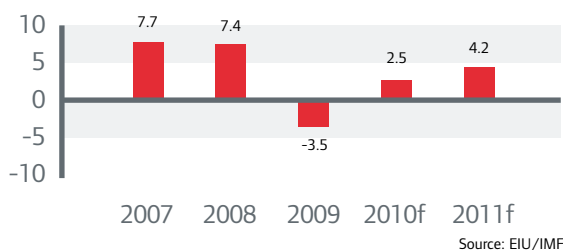
While there is always the danger that extreme Islamists could carry out isolated attacks, the security forces are considered competent and effective.

External political situation

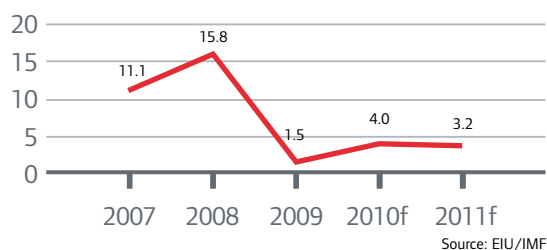
The UAE have a major interest in regional stability as a precondition for continued trade, foreign direct investment inflow and tourism. To achieve this objective, the UAE pursue a balanced foreign policy approach: political and economic relations with the US and Europe are close and the UAE support a regional US military presence, as Washington is perceived as the ultimate security guarantor. Additionally, France was allowed to open a military base in Abu Dhabi in 2009. However, the UAE have objected to certain key aspects of US policy in the Middle East (the Iraq invasion, the US's confrontational stance against Syria and Iran) and still maintain good relationships and close business ties with Teheran. The UAE traditionally focus on Arab solidarity (e.g. criticism of Israel, massive development aid).

Internal economic situation: Recovering after recession in 2009

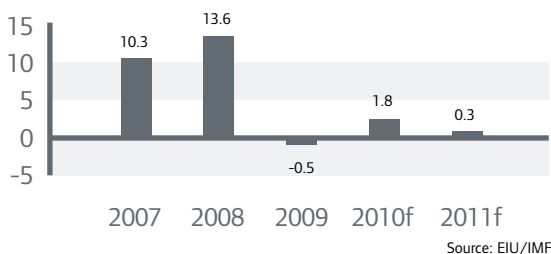
Real GDP growth (%)



Inflation p.a. (%)



Fiscal balance (% of GDP)



General situation

In 2009, the UAE's economic performance reached historically poor levels. Real GDP growth contracted by 3.5 %, because of decreased construction activities (Dubai), OPEC oil production cuts (Abu Dhabi), weak foreign direct investment inflows and lower domestic investment. After years of two-digit rates, inflation decreased to 1.5 % last year due to weaker domestic demand, oversupply in the housing market and lower food and commodity prices. Construction in Dubai has effectively come to a standstill, with new projects postponed and some half complete and mothballed. However, the Metro Project continues. Property values have decreased by 60 % over the past year.

Default of Dubai World

The global credit crisis battered Dubai's real estate market and left the emirate's companies unable to raise loans. On 25 November 2009 the emirate announced that Dubai World, one of three government-owned conglomerates, would be carrying out a restructuring exercise, under the auspices of Deloitte, which would take at least 6 months, and that debt repayments would be deferred until the study was complete. Total liabilities of Dubai World amounted to US-\$ 59 billion. The immediate effect was the postponement of a US-\$ 4.05 billion sukuk bond (Islamic bond)

repayment instalment by Nakheel, a property developer and subsidiary of Dubai World. At the same time, Dubai's finance minister informed creditors and lenders not to assume that quasi-government investment companies such as Dubai World, Dubai Holding, Investment Corporation of Dubai and others would be backed financially by the government of Dubai (Dubai World is a government investment company and not a public buyer where government support would be implicit). This news was compounded by the government of Abu Dhabi announcing that it would not bail out Dubai but may assist on a case by case basis.

Due to this lack of transparency and clear commitment, the Dubai stock market and international financial markets fell. Finally, on 14 December 2009, Abu Dhabi extended a US-\$ 10 billion bail-out to Dubai, enabling its fellow emirate to avoid an embarrassing slide into default. Dubai has used these funds to settle the Nakheel Islamic bond and for interest payments and working capital while Dubai World negotiates a debt restructuring.

At the end of March 2010, the government of Dubai revealed how it plans to restructure US-\$ 24.8 billion of Dubai World debt. It announced that it will provide US-\$ 8 billion to Nakheel and US-\$ 1.5 billion to the Dubai World holding company itself to relieve their financial situation. Of this fresh money, US-\$ 5.7 billion will come from loans that Abu Dhabi has already provided, while the remainder comes from Dubai's own resources. Additionally, the government announced that it would turn loans to Dubai World worth US-\$ 10.1 billion into equity. According to the rescheduling plan, Dubai World's debt to outside creditors, amounting to US-\$ 14.2 billion, will be paid with no write-offs in principal, but liabilities will be rolled over into two new loans of five and eight year maturities. Out of Nakheel's US-\$ 9.3 billion debt, holders of bonds due in 2010 and 2011 will be repaid as scheduled, while other creditors will be paid in full, though not on time.

Although it is expected that Dubai World's bank creditors will accept the proposal, negotiations are still ongoing as crucial details still have to be determined, such as the rate of interest offered to banks for agreeing to extended payment maturities. It is expected that a low interest rate will be proposed to the creditors, which could result in an indirect 'haircut'. That would hurt creditor banks and force them to make more provisions, which would in turn affect their results.

Economic policy

Overall, the structure of public finances is not transparent, including non-registered revenues from sovereign wealth funds (SWF). The monetary indicators are stable: since 1980, the dirham has been pegged to the US-\$, and this is set to continue. Despite Dubai World's default, the dirham to US-\$ peg is not at risk due to the strong SWF and net foreign assets. Domestic interest rates are slightly above US rates, and real interest rates are positive. In 2010 it is expected that monetary loosening will end.

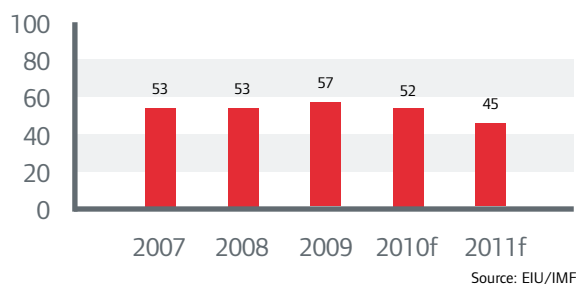
The banking sector is still in good health, with most institutions at least partly state-owned. Due to a high exposure to local and regional real estate/equity markets, there are concerns about maturity mismatch, asset quality and the rise of non-performing loans, as the quality of loans deteriorated during the domestic credit expansion boom in the last two years.

Energy situation

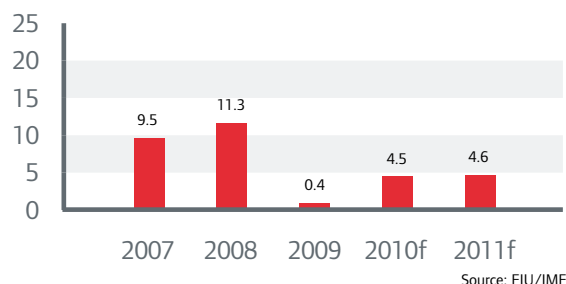
In 2010, oil production will be 2.35 million barrel a day (reduced OPEC quota applies to Abu Dhabi). Abu Dhabi owns 10% of oil and 4% of gas reserves worldwide, which accounts for more than 85 years of current production.

External economic situation: Very high private sector debt service

Foreign debt/GDP (%)



Current account/GDP (%)



Foreign debt

Level: The foreign debt level has more than trebled since 2004, to 52 % of GDP in 2010; concentrated at Dubai's quasi sovereign debt

Structure: In 2010, 23 % of debt is short term. Short term debt amounts to 71 % of international reserves. The net foreign assets (NFA) position is slightly positive. Overseas assets of Abu Dhabi Investment Authority decreased from estimated US-\$ 600 billion to US-\$ 400 billion

Debt service ratio: Low in 2010 (8 %), 21% including short-term debt

Remarks:

Solvency is improving, but is still rather poor (mainly short-term quasi government debt). Liquidity is at a minimum level, but there are still high overseas assets of UAE sovereign wealth funds.

Balance of payments

Trade balance: Structurally high surpluses in 2010 (US-\$ 41 billion)

Current account: A surplus of 4.5 % in 2010 which is modest for the UAE

Capital account: Deficit in 2008-2011

Total account: Negative in 2008, positive in 2009-2011

International reserves

In months of imports (cif): Declined to just 3 months of import cover in 2010 (US-\$ 43 billion). In comparison; US-\$ 75 billion in 2007

Prospects: Dependent on the global recovery of oil demand

Political situation

President Sheikh Khalifa bin Zayed Al Nahyan is unlikely to be challenged. His successor will probably be Khalifa's half-brother Mohammed bin Zayed. Within the UAE, Abu Dhabi will increase its political and economic influence at the expense of Dubai, as it is likely that there are strings attached to the massive financial support Abu Dhabi has provided to the Dubai World bailout. Abu Dhabi's increased muscle is clearly symbolised by the renaming of the highest building in the world, the Burj Dubai, to Burj Khalifa (after the president of the UAE and emir of Abu Dhabi) at the opening in January 2010.

Economic situation

In 2010 nearly all macroeconomic indicators will improve; real GDP is forecast to grow by 2.5 %, thanks to a return to previous levels of oil output and large projects coming on-stream, and this will support all components of demand. Credit growth will be restored and the public budget will show a 2 % of GDP surplus, despite fiscal loosening. The current account surplus will increase to 4.5 %, while inflation will be higher (4 %) due to rising domestic demand and higher commodity prices. Restoring business confidence and stimulating investments are high on the agenda.

It is still unclear if the UAE will rejoin the proposed Gulf Cooperation Council monetary union plan after it withdrew in May 2009 (the UAE opposed the decision to set-up the central bank in Riyadh/Saudi-Arabia instead of Abu Dhabi).