

CareEdge Global assigns Long Term Foreign Currency Rating of AA- (Unsolicited) to Kingdom of United Arab Emirates

Credit Profile

United Arab Emirates (UAE), a federation of seven emirates, derives its credit profile primarily from its large sovereign wealth funds, mainly held by the Abu Dhabi Investment Authority, which provide a significant buffer to the country's fiscal and external profiles. Abu Dhabi, the largest and most creditworthy of the emirates, contributes about 65% and 96% to the total GDP and oil reserves of the UAE respectively. Furthermore, the UAE remains one of the top preferred destinations for expatriates in the world. Despite these positives, the economy faces challenges like high dependence on hydrocarbons, exposure to regional geo-political risks, and limited monetary flexibility due to its fixed exchange rate regime.

Strengths

- Presence of large sovereign wealth fund, with most of the investments in foreign assets
- Strong economic growth
- Moderate debt levels
- Healthy current account balance position

Weaknesses

- Limited data transparency on the debt levels of government enterprises and the country's external position
- Limited monetary policy flexibility due to fixed exchange rate
- Regional geopolitical risks

Key Monitorables

- Ability to diversify the economy away from hydrocarbons given the emerging imperative of energy transition

Key Rating Drivers

Economic Structure & Resilience

UAE is a moderately sized economy (with a nominal GDP of USD 504 billion in 2023), of which about 85% is contributed by the two key emirates of Abu Dhabi and Dubai. The economy benefits from its high GDP per capita (USD75302 constant PPP in 2023), a large stock of oil reserves together with competitive production costs, and a strong rebound in its economic growth post-pandemic averaging 5.2% between 2021-23 against Gulf Co-operation council (GCC)'s average of 3.8% in the same period. The growth is expected to be strong in the medium-term too, as the UAE has been able to diversify and establish itself as a tourism, real estate, and financial hub in the region. Owing to its lower tax regime, the UAE attracts a significant number of expatriates, accounting for about 88% of its population.

Even with these positives, the economy continues to rely on hydrocarbons for its wealth and income and therefore remains vulnerable to oil price movements. UAE faces challenges from adjusting to lower global hydrocarbon demand in the long-term future and transition to clean energy.

Fiscal Strength

The consolidated general government debt is low at 30.9% of GDP in 2023. However, including the liabilities of the government-related entities (GREs), the debt-to-GDP ratio is estimated to increase to a moderate level of about 55%. The contingent liabilities risks are somewhat mitigated by the large fiscal buffers. The individual emirates of UAE have accumulated significant sovereign financial assets estimated to be around 340% of the total GDP of UAE in 2023 (largest being Abu Dhabi's sovereign wealth fund - Abu Dhabi Investment Authority), providing the federation with a high degree of resilience to withstand shocks. The consolidated budget surplus was 4.5% in 2023 and is expected to remain in surplus over the medium term too. The fall in oil prices is expected to be mitigated by higher oil production levels. In an attempt to shift away from its reliance on oil for government revenues (currently 55%), the UAE introduced VAT and increased excise duties in 2018. UAE has also introduced corporate tax in 2023 to diversify its revenue pool further.

The size of the federal budget of UAE is smaller, at about 4% of GDP, limiting its flexibility, though reflecting its narrow responsibilities as well. The federal government maintains a balanced budget, consistent with the law. The federal government's revenue consists of grants from Abu Dhabi and Dubai, shares in taxes and dividends, and profits from shares of state-owned enterprises.

External Position & Linkages

UAE's current account surplus is significant, averaging 9.5% of GDP between 2019-2023. The net international position is also highly positive, estimated at 146% of GDP in 2022, primarily arising out of large sovereign wealth funds invested in reserve currency assets. Gross forex reserves at USD131 billion in 2023, equivalent to imports of 7.2 months, also act as a buffer.

The economy is competitive and ranks 16th on ease of doing business translating to strong FDI inflows (net inflows as a percent of GDP at 6.1% in 2023). The introduction of corporate income tax and its potential impact on FDI will be a key monitorable. Secondly, as the regional countries also open their economies to foreign investments, UAE may face competition from attracting flows.

Monetary & Financial Stability

A fixed exchange rate regime constrains monetary policy flexibility. UAE Dirham is pegged to USD which is backed by adequate reserves. The central bank does not have any explicit inflation target; however, it has managed the inflation well.

Non-performing loans in the banking sector are elevated at 5.9% of total loans in 2023, due to relatively relaxed lending standards. However, in the recent past, the banks have increased their capital buffers and enhanced focus on quality of lending. Banks' substantial exposure to real estate (~19% of outstanding credit) could pose a risk, in case of any downturn.

Institutions & Quality of Governance

UAE is a federal system of seven emirates. Each emirate maintains considerable autonomy in running its own economies, and the responsibility of the federal government is limited to a few key areas such as education, health, defense, and infrastructure. UAE ranks well in the Worldwide Governance Indicators (WGI) on most of the parameters like government effectiveness, rule of law, regulatory quality, control of corruption; implying strong governance standards and effective institutions.

However, the UAE ranks low on voice and accountability in WGI (15th percentile). Critical decisions on budget and choosing the President are taken through the consensus of the ruling families, though Abu Dhabi and Dubai have relatively greater influence. Since the decisions are taken by ruling families, transparency and accountability are relatively limited. Ease of data availability is constrained, particularly with respect to external debt and GRE balance sheets. The economy is also exposed to regional geopolitical tensions.

UAE – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	427	418	349	415	507	504	528	550
GDP Per Capita (Constant-PPP)	USD	69,819	69,576	67,704	68,616	73,407	75,302	77,339	79,953
Real GDP Growth	%	1.3	1.1	-5.0	4.4	7.9	3.4	3.5	4.2
GFCF/ GDP	%	17.1	20.2	18.3	20.4	-	-	-	-
Gross Domestic Savings/ GDP	%	50.4	48.6	45.4	-	-	-	-	-
Exports (G&S)/GDP	%	93.7	96.9	100.2	102.4	-	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	84.3	83.8	83.4	83.1	82.9	82.9	83.0	83.1
Old-Age (65+) Population (% Share in Total)	%	1.2	1.5	1.7	1.8	1.8	1.9	1.9	1.2
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	4.0	2.9	-2.2	4.3	10.4	4.5	5.2	4.7
Revenue/ GDP	%	30.5	31.0	28.7	30.4	32.8	32.2	31.2	30.7
Expenditure/ GDP	%	26.7	28.4	31.1	26.4	22.9	25.9	26.6	26.7
GG Gross Debt/ GDP	%	21.3	26.8	41.1	35.9	31.1	30.9	30.3	30.3
Interest/ Revenue	%	0.77	0.95	1.04	0.99	1.56	-	-	-
Fiscal Balance/ GDP	%	4.0	2.9	-2.2	4.3	10.4	4.5	5.2	4.7
External Indicators									
Current Account Balance/ GDP	%	9.7	8.9	6.0	11.5	11.6	9.3	7.8	6.9
FDI, Net Inflows/ GDP	%	2.4	4.3	5.7	4.9	4.5	6.1	-	-
Foreign Exchange Reserves	USD Billion	99.3	108.1	106.5	127.8	127.8	131	-	-
Import Cover	Months	6.5	8.7	7.3	7.2	7.2	7.2	7.2	7.2
External Debt/GDP	%	70	81	110	97	81	84	-	-
Current Account Balance/ GDP	%	9.7	8.9	6.0	11.5	11.6	9.3	7.8	6.9
FDI, Net Inflows/ GDP	%	2.4	4.3	5.7	4.9	4.5	6.1	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.1	-1.9	-2.1	-0.1	4.8	1.6	2.10	2.00
Exchange Rate (Average)	LC per USD	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
Non-Performing Loans/ Total Gross Loans	%	5.3	6.0	7.6	7.3	6.4	5.9	-	-
Private debt, loans and debt securities/ GDP	%	99.5	103.7	108.8	108.8	105.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	AA-	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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