

TABLE OF CONTENTS

Executive Summary	1
Introduction	2
Economic Conditions	3
Real Sector	3
External Sector	8
Public Sector	10
Financial Sector	11
Concluding Remarks	17

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STRONG DOMESTIC ACTIVITY ON THE BACK OF BUSINESS-FRIENDLY REFORMS AND SAFE HAVEN STATUS

Real economy growing at around 3.5% over the past year

UAE's economy continues to grow, benefitting from strong domestic activity. Non-hydrocarbon GDP growth is expected to exceed 4% in 2023 and to remain at a similar pace in 2024. Social and business-friendly reforms and the UAE's safe haven status continue to attract foreign inflows of capital and labor, underpinning growth and contributing to elevated real estate prices, particularly in high-end segments. Following the OPEC+ production cuts, hydrocarbon GDP growth is set to slow in 2023, but to accelerate in 2024 with the UAE's 2024 OPEC+ production quota increase. Overall, real GDP is expected to grow around 3.5% in 2023.

UAE's non-oil foreign trade at all-time high in first half of 2023

The UAE's non-oil foreign trade hit an unprecedented high level over the first half of 2023, registering double-digit growth across all areas of trade, including exports, imports and re-exports. This came within the context of new partnership agreements aimed to enhance the role of international trade to double the size of the national economy by 2030, and as trade was placed "front and centre" of the UAE's national growth agenda. In details, the UAE's non-oil foreign trade volume hit an all-time-high of AED 1.239 trillion (US\$ 337 billion) over the first half of 2023, which marks a 14.4% growth compared to the same period of 2022, as per government's officials.

Fiscal surplus narrowing in first half of 2023 amid oil sector developments

The UAE's public finance was at the mirror image of relatively decelerated real GDP growth, and easing oil prices and production levels. In fact, the fiscal surplus contracted significantly in the first half of 2023, while the country pursued steps to diversify public revenues including the introduction of the Corporate Income Tax in June 2023. On the backdrop of falling government revenues and rising total government expenditures, the overall UAE government net lending/borrowing surplus contracted by 61.0% year-on-year, moving from AED 121.3 billion (or US\$ 33.0 billion) in the first half of 2022 to AED 47.4 billion (or US\$ 12.9 billion) in the first half of 2023. That being said, the IMF expects the UAE to record fiscal surplus of around 5% of GDP in 2023, down from 9.9% in 2022, while reiterating that the phased introduction of a corporate income tax that began in June 2023 would support higher non-oil revenue over the medium term.

Eased inflationary pressures on monetary policy tightening

The year 2023 in the UAE saw eased inflationary pressures amid tight monetary policy, cooling economic activity and falling global oil and food prices, while gross international reserves registered double-digit growth rates amid a return to international debt markets. Latest quarterly CPI figures released by the UAE Federal Competitiveness and Statistics Authority showed that consumer prices rose by 1.0% year-on-year during the second quarter of 2023, down from 3.6% y-o-y in the first quarter of the year.

A good year for the UAE banking sector

The year 2023 has been a good year for the UAE banking sector. Measured by the aggregation of total assets of banks operating in the Emirates, banking activity grew by 7.8% over the first nine months of 2023 to reach US\$ 1,076 billion at end-September (211% of GDP). Total deposits expanded by 8.9% over the period to reach US\$ 659 billion (130% of GDP). Likewise, loans to the private sector rose by 5.4% to US\$ 337 billion at end-September 2023 (66% of GDP).

Mixed price movements in UAE equity markets, bond prices mostly down amid global monetary tightening

Activity on the UAE equity markets was mixed over the first eleven months of 2023 as market players weighed booming realty sector and a continuous growth in the non-oil economy against falling oil prices. Concurrently, activity in the UAE fixed income markets was mostly tilted to the downside, mainly tracking US Treasuries move on prospects of higher for longer US interest rates.

Reform efforts posing upside risks to the outlook

Looking forward, the country's outlook remains subject to heightened global uncertainty. A decline in oil demand and reduced global trade and tourism from slower global growth, higher-for-longer interest rates, tighter financial conditions, or geopolitical developments would weigh on growth and pressure fiscal and external balances. However, higher oil prices and healthy fiscal buffers help mitigate risks, while reform efforts pose upside risks to growth.

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UAE's economy continues to grow, benefitting from strong domestic activity. Non-hydrocarbon GDP growth is expected to exceed 4% in 2023 and to remain at a similar pace in 2024. Social and business-friendly reforms and the UAE's safe haven status continue to attract foreign inflows of capital and labor, underpinning growth and contributing to elevated real estate prices, particularly in high-end segments. Following the OPEC+ production cuts, hydrocarbon GDP growth is set to slow in 2023, but to accelerate in 2024 with the UAE's 2024 OPEC+ production quota increase. Overall, real GDP is expected to grow around 3.5% in 2023. Average inflation will remain contained at around 3% in 2023, down from 4.8% in 2022.

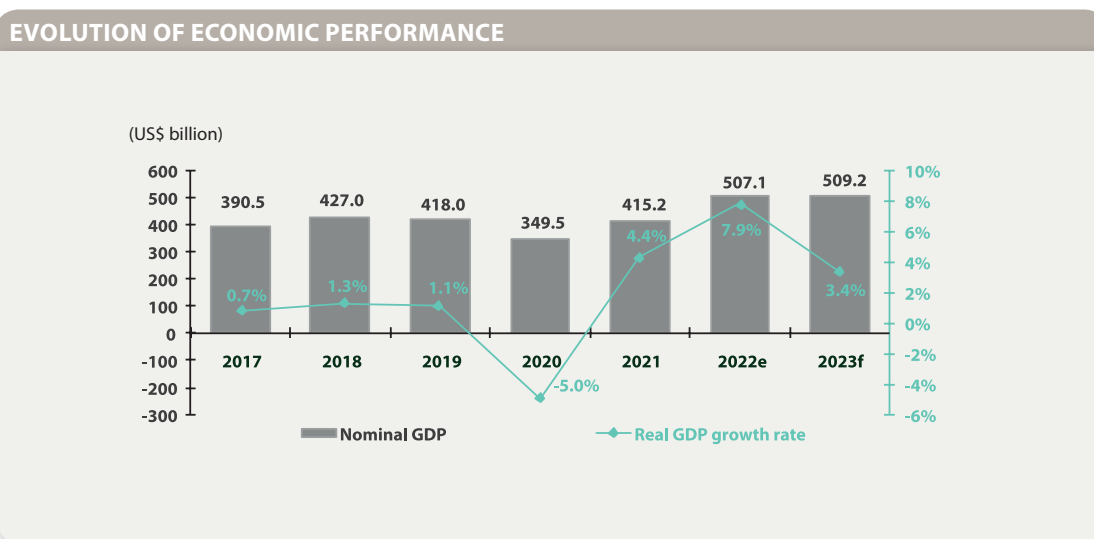
The growth in UAE's non-oil output is actually driven by the strong performance in tourism, real estate, construction, transportation, and manufacturing and a surge in capital expenditure. The introduction of mandatory unemployment benefits in 2023 further bolsters private consumption and support overall domestic demand.

At the external sector's level, the current account surplus is expected to be notably above the medium-term level in 2023 and 2024. According to the IMF World Economic Outlook issued in mid-October, the current account surplus is set to register US\$ 41.6 billion in 2023 (8.2% of GDP), down from US\$ 59.6 billion in 2022 (11.7% of GDP). The evolution in current account surplus is driven by the fluctuation in oil prices. The latter reported a decrease of 5.3% in 2023 relative to 2022, after having increased by 17.2% in 2022 relative to 2021. The current account is forecasted at US\$ 41.3 billion in 2024 (7.7% of GDP).

At the public sector level, fiscal surpluses remain high on the back of high oil prices. The fiscal balance is expected to be around 5% of GDP in 2023, driven by oil revenue and strong economic activity. The phased introduction of a corporate income tax that began in June 2023 supports higher non-oil revenue over the medium term. Public debt is set to continue to decline, falling firmly below 30% of GDP in 2023, including with the benefit of the Dubai Emirate reducing its public debt by 29 billion dirhams in line with its Public Debt Sustainability Strategy.

At the banking sector level, banks are adequately capitalized and liquid overall. Bank profitability has increased, with higher interest rates and overall credit continues to grow, although at a slower rate. However, rising real estate prices and tighter financial conditions underscore the importance of continued close monitoring of financial stability. Continued efforts to strengthen the macro-prudential and resolution and recovery frameworks, promote the effective management of non-performing loans, and advance the National AML/CFT Strategy and Action Plan are welcome as per IMF.

At the capital markets level, Dubai and Abu Dhabi's stock market performances were uneven. Abu Dhabi stock market recorded a contraction in its share price index of 6.4%, with its market capitalization reaching US\$ 763 billion, amid a drop in turnover ratio from 13.7% to 9.3%. Paradoxically, Dubai stock market recorded a rise in its share price index of 19.5%, with its market capitalization reaching US\$ 184 billion, amid a stabilization



Sources: IMF, Bank Audi's Group Research Department

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in turnover ratio at 15.4%. As to fixed income markets, both Abu Dhabi and Dubai reported contraction in CDS spreads, the market perception of sovereign risk. Abu Dhabi's CDS spreads contracted from 44 bps in December 2022 to 41 bps in November 2023, while Dubai's CDS spread declined from 84 bps to 64 bps over the same period.

The in-depth developments in the real sector, external sector, public sector and financial sector of the economy are detailed in the forthcoming sections. The concluding remarks are left to the outlook of the UAE economy looking ahead.

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

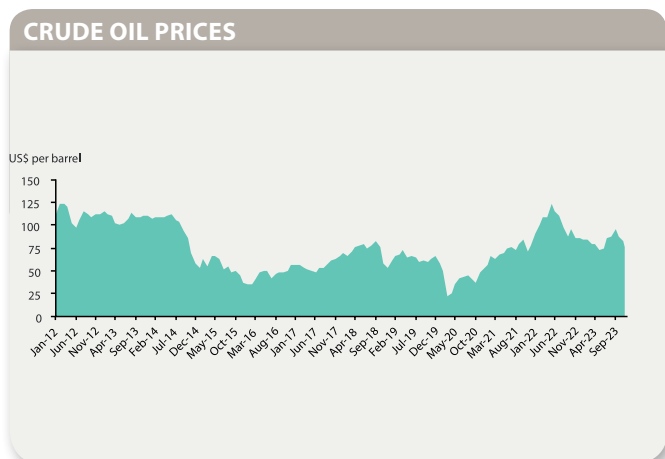
1.1.1. Hydrocarbons Sector

Bullish expectations for the UAE's hydrocarbon sector on the long-term following subdued performance due to OPEC+ production cut

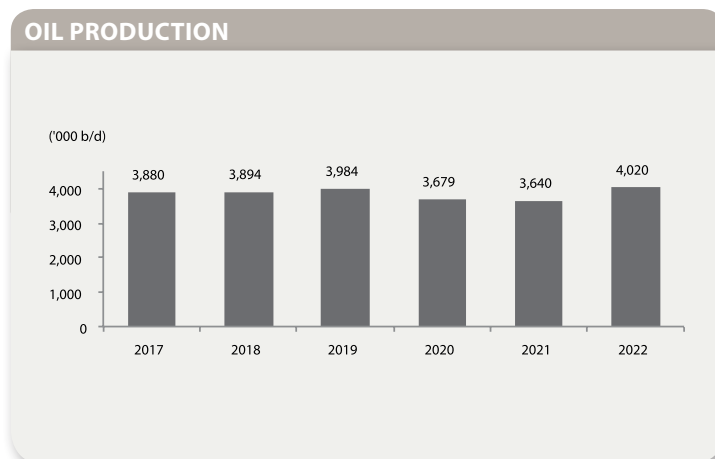
Oil Production within the United Arab Emirates (UAE) remained highly subdued towards the end of 2023 with the OPEC+ cuts remaining in full force. Two OPEC+ cuts remain in action with the total amount prorated to the UAE at 304,000 barrels/day (b/d). Abu Dhabi's National Oil Company (ADNOC) is expected to remain in compliance with the deal, curbing its growth capacity for 2023 and 2024 as a result. However, so far, expectations for voluntary oil cuts in the UAE for the first quarter of 2024 show a reduction of circa 34,000 b/d noting a start of a potential upwards production trend sans future oil market weakness. On the long-term, outlook remains highly positive as ADNOC has ramped up its five-year capex plan and aims to increase oil production levels to 5.0 million b/d by 2027. Prospects for natural gas remain bullish as well amid several major projects under development.

Crude, NGPL & other liquids production within the UAE are forecast at 4.0 million b/d in 2023, down by 2.8% against the year prior. This production is expected to increase slightly by 0.4% in 2024 before picking up by a forecasted average of 7.6% per annum between 2025 and 2027. This growth is then set to rationalize between 2028 and 2032 with a forecasted annual growth of 1.2% in Crude, NGPL & other liquids production, as per FitchSolutions.

In addition to lower production expectations for 2023, crude oil prices have also rationalized against prices noted in 2022. The average price for a barrel of crude oil in 2023 reached US\$ 82.3/barrel according to the latest data, down from US\$ 99.0/barrel in 2022 recording a 16.9% decrease year-on-year. However, prices have remained higher than those recorded in 2021. This rationalization of prices paired with production



Sources: Bloomberg, Bank Audi's Group Research Department



Sources: Energy Institute, Bank Audi's Group Research Department

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cuts have led to lower profitability in oil activities as well as lower government revenues weighing down on investment activity. Nevertheless, looking at 2024, oil prices and production levels are expected to regain momentum.

At the level of energy consumption, an upwards trend in the UAE's domestic demand can be noted with consumption reaching circa 5.1 Exajoules in 2022, up from 4.7 Exajoules in 2021. These figures show a 7.2% increase year-on-year and follow an increase of 11.6% year-on-year between 2021 and 2020. This shows a deceleration in energy consumption growth in the country. In parallel, per capita consumption within the UAE has reached 534.9 Gigajoules/person in 2022, up by 6.3% year-on-year from levels noted in 2021, as per the Energy Institute.

It is worth noting that the majority of energy consumption comes from natural gas produced energy (49.7% of total), followed by oil-produced energy (43.4% of total).

Amid higher production expectation and decelerating domestic consumption growth, crude & other liquids net exports are set to ameliorate starting 2024.

In details, net exports of crude & other liquids noted a 6.9% decrease year-on-year in 2023 against the year prior to reach 2.8 million b/d. This downwards trend is forecasted to continue in 2024 albeit at a decelerated rate registering a year-on-year decrease of 1.7%. However, in 2025, this trend is expected to reverse with an average growth of 4.4% year-on-year per annum in the long-term (between 2025 and 2032). The majority of this growth is set to happen in the medium term (between 2025 and 2027) before relatively stabilizing between 2028 and 2032, as per FitchSolutions.

Looking ahead, the UAE's hydrocarbons sector has vast conventional oil and gas reserves while the country is considered politically and economically stable with an open business environment. Opportunities arise from government plans to unlock its large resource base as well as the partial lifting of subsidies and the partial liberalization of fuel prices by the government which pose upwards risks to the sector.

On the other hand, the country's resource base is maturing. Additionally, the majority of the UAE's gas reserves are sour which makes exploration and development costs higher. Looking towards the future of the sector, a rise in downwards risks comes from deepening decarbonization efforts on the global stage leading to a gradual decrease in demand for oil and gas.

1.1.2. Construction

The UAE's construction sector expected to decelerate amid weakening residential market

The construction sector in the UAE is expected to witness decelerating growth looking forward amid weakening residential market performance. However, growth will remain positive as the country offers an attractive investment environment and as the government plans for decarbonization as well as the introduction of regional rail projects. The growth in value of the construction sector is forecast to reach 2.6% year-on-year in 2023, slowing down by 2.2 percentage points (pps) from the growth noted in 2022. On the medium-term (2024-2027), the average growth rate in the value of the sector is forecast at 2.1% per annum further slowing down on the long term (2028-2032) to average 1.5% per annum.

On the back of high urbanization rates and government efforts to boost tourism and logistical connectivity (both locally and with other countries), the transport infrastructure sub-sector is expected to grow looking forward. Additionally, government goals to diversify the UAE's energy mix and to tackle water security risks will lead to stable growth in energy and utility infrastructure. However, amid macroeconomic headwinds, high inflation and over-supply of residential buildings in the short-term, activity within the residential building sub-sector is expected to decrease, as per FitchSolutions.

It is worth noting that according to Kamco Invest, 32.3% of all projects awarded in the UAE were towards construction during Q3-2023 with a value of AED 16.9 billion (US\$ 4.6 billion), up from AED 16.2 billion (US\$ 4.4 billion) in Q3-2022.

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In details, transport infrastructure growth looking ahead is mainly driven by rail infrastructure projects in the UAE. The projects are expected to increase looking forward as part of the government's Self-Driving Transport Plan aiming to have 25% of all transportation trips to be smart and driverless by 2030. In parallel, the UAE is expected to continue investing in port infrastructure in order to enhance its role as a shipping and logistics hub.

At the level of the energy and infrastructure sub-sector, continued expansions are expected over the next decade. This comes amid an increase in electricity demand, the tackling of water scarcity issues (desalination plants) and efforts to diversify the economy away from oil. The UAE is set to invest circa AED 600.0 billion (US\$ 163.5 billion) until 2050 in order to meet growing energy demand and ensure the sustainable growth of the economy. The main focus of this expansion in energy production is expected to be clean coal, solar energy and potentially nuclear energy. The UAE is set to be an outperformer in the region when it comes to solar energy production. Additionally, the country has drafted a hydrogen policy and strategic regulatory framework in a bid to further develop its green hydrogen production to 1 million tons per annum by 2030, as per FitchSolutions.

Looking at residential and non-residential construction, concerns are mounting concerning the over-supply within Dubai's residential building sub-sector. This factor along with weak demand in the short-term, subdued private consumption and underpinned macroeconomic headwinds will compound the contribution to the sub-sector's moderating growth. The UAE's population on the short-term (until 2025) is forecasted to remain mostly of the age group of 20-39 years old (45.6%) albeit continuing its decreasing trend (down from 53.4% in 2020). This age group's spending behavior is mostly focused on entertainment, electronics, e-commerce, etc. On the other hand, the age group of individuals aged 40-64 years have been on a growing trend and forecast to reach 32.9% in 2025, up from 26.5% in 2020. This shows ageing signs to the country's population which also affects spending trends. Individuals aged 40-64 years in the UAE focus their spending on housing, personal insurance and premium offerings which gives positive signs looking forwards to demand for residential buildings over the medium and long term.

Concurrently, the commercial construction and industrial construction sub-sectors are gaining momentum amid investment attractiveness especially in the hospitality, petrochemical, hydrogen production and green steel sectors, as per FitchSolutions.

The UAE's real estate sector is witnessing growth in all its sub-sectors with the exception of the residential real estate sub-sector.

In details, average office rental rates in Dubai, Abu Dhabi and Sharjah are expected to increase amid growing demand. Recently, the country adopted steps to attract foreign investment and new residents (such as the increase in permitted levels of foreign ownership of companies among others). This move has had a positive effect on the market. The year-on-year growth of the average rent per m² in Abu Dhabi, Dubai and Sharjah are forecast to have increased by 8.3%, 6.0% and 14.4% respectively for the office rental market in 2023. This trend is expected to carry on into 2024 with further increases ranging between 7.0% and 11.1% year-on-year within the three cities.

Looking at rental rates for retail property, expectations set increases of between 3.5% and 1.9% year-on-year for the average rent per m² in Abu Dhabi, Dubai and Sharjah during 2023. This increase is expected to be followed by a slowdown in growth during 2024 to reach a relative stagnation as demand catches up with supply. The food & beverages sector is expected to continue as the main local driver of demand for retail space in the country on the short-term, as per FitchSolutions.

Following the COVID-19 pandemic, demand for digitalization and ecommerce has been accelerated leading to increases in demand for industrial facilities. Additionally, the UAE holds a strategic placement as a key place for air, land and sea connectivity. These factors have bolstered the growth of the industrial real estate sub-sector within the country. As demand rises and supply remains lacking in high quality modern space and large-scale industrial spaces, increases in the average price of rent per m² by 3.8%, 5.1% and 2.4% are forecast for Abu Dhabi, Dubai and Sharjah respectively in 2024.

To conclude, the construction and real estate sectors within the UAE stand among the main benefactors

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of the government's diversification efforts with increases mainly noted in infrastructure works and business-related real estate. This comes as the country becomes increasingly attractive to local, regional and international investors. However, various factors are negatively affecting the demand for residential real estate in turn lowering supply prospects. This deceleration is expected to only affect the short-term before noting an ameliorating trend on the medium and long term as population spending trends mature towards housing and away from entertainment.

1.1.3. Transport

UAE's transport sector on expansionary path

The transport infrastructure sector in the UAE remained in expansionary mode in 2023, mainly driven by high urbanization rates and efforts to boost tourism, as well as internal and external logistical connectivity.

The railway infrastructure project accounts for around 33% of the UAE's transport infrastructure project pipeline, only behind roads and bridges infrastructure, which accounts for 40% of the project pipeline. Dubai and Abu Dhabi account for the bulk of metro line developments with substantial plans for expansion and upgrades of both systems. Fitch expects such projects to continue in the next decade, as part of the Self-Driving Transport plan, which aims to have 25% of all transportation trips to be smart and driverless by 2030, with the metro lines being a strong contributor to this goal.

The main driving force behind the development of rail infrastructure in 2023 is the completion of the Etihad Rail Project, which is a national rail network for both freight and passenger transport that extends to about 900 km across the Emirates. The main line of the UAE National Rail Network extends from Ghuweifat on the border of Saudi Arabia, to Fujairah, forming an essential part of the global supply network.

In fact, the development project is one of the largest infrastructure projects in the region and aims to link the seven Emirates with a main railway network.

In details, the freight trains would run up to speeds of 120 kilometers/hour, connecting four major ports and 7 logistics centers across the country, namely Ruwais, Industrial City of Abu Dhabi (ICAD), Khalifa Port, Dubai Industrial City, Jebel Ali Port, Al Ghail and Fujairah Port. These locations are a major hub for local and regional distribution and logistics services, as it includes customs warehouses and on-site cargo inspection services.

Furthermore, the UAE National Railway Network would provide solutions for investors and customers, due to its ability to transport all types of goods, including petrochemicals, raw steel, limestone, cement, building materials, industrial and domestic waste, aluminum, food commodities and general cargo. Each goods transport's locomotive operates with a power of 4,500 horsepower, equivalent to 3,400 kilowatts. It is one of the most powerful freight train engines in the Middle East.

The national rail network would have an estimated economic impact of US\$ 55 billion (AED 200 billion) by 2050. It would also save an estimated US\$ 2.2 billion (AED 8 billion) in road maintenance costs and generate US\$ 6.3 billion (AED 23 billion) in tourism benefits.

On the regional level, the railway infrastructure would become a vital part of the US\$ 100 billion Gulf Cooperation Council (GCC) rail program. The GCC railway network would connect the UAE with Saudi Arabia, Qatar, Kuwait, Bahrain, and Oman and is expected to be finalized by 2030. It is worth noting that in September 2022, the UAE and Oman launched the Oman-Etihad Rail Company, to implement a 303 km railway network to connect the two countries, valued at US\$ 3 billion (AED 11 billion).

In parallel, the proposed Hyperloop, which would shorten journey times between Dubai and Abu Dhabi to nearly 12 minutes, is now closer to realization following a successful test run. This super-fast tube system consists of multiple passenger/cargo pods in a near-vacuum environment, and its speed can reach up to 1,000 km/h, which would be three times faster than what current high-speed rail systems offer. The Hyperloop, which has an estimation cost of US\$ 3 billion to US\$ 5 billion, aims to achieve safety certification by 2025, with commercial operations starting in 2030, as per Fitch Solutions.

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As for the development of ports in the country, the country continues to invest in port infrastructure to bolster its role as a shipping and logistics hub. The UAE's two major ports at Khalifa and Jebel Ali have benefitted from the country's location along major shipping corridors between Europe and Asia, as well as proximity to energy producers in the Middle East. Growth in the ports infrastructure segment over the next 10 years would come from expansion and upgrade plans aimed at increasing the capacity and improving the efficiency of the UAE's port facilities, as per Fitch Solutions.

In sum, the long-term view for the country's transport infrastructure remains positive. The country has a geographically strategic position, which allows it to remain an important link in the regional and global supply chains.

1.1.4. Tourism

UAE's tourism sector 2023 growth outperforming pre-pandemic levels

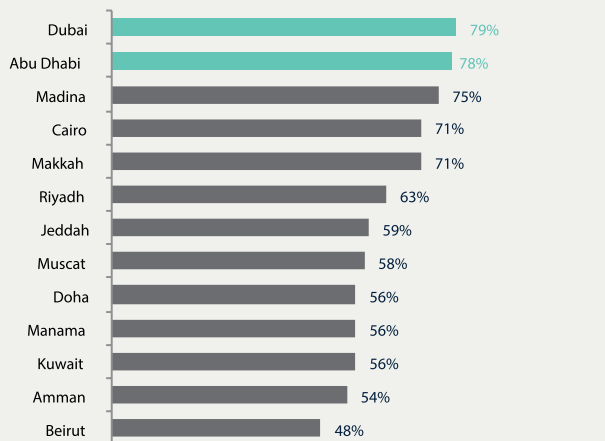
The tourism sector in the UAE has been an outperformer in 2023, with the number of international visitors surpassing pre-pandemic levels, as Abu Dhabi and Dubai, the two main tourist and business travel hubs of the country, continue to invest in the development and diversification of their tourist markets. Additionally, the UAE displays a strong and competitive hotel sector, while developing a strong marketing campaign to retain domestic tourists and attract more international tourists in a number of growing sectors, including healthcare tourism and retail tourism, as per Fitch Solutions.

The Dubai International Airport, which ranked as the world's busiest international airport in international passenger traffic by the Airports Council International (ACI) for the ninth consecutive year, served 41.6 million guests in H1 2023, 49% increase compared to the same period in 2022, fueled by a 43% y-o-y expansion in Q2 2023, as revealed by the Central Bank of the UAE. As for international visitors, Dubai welcomed a record 13.9 million visitors from January to October 2023, compared to 13.5 million during the corresponding period in 2019.

Concurrently, Dubai's hospitality market saw an expansion in occupancy rate of 8.2% during the first nine months of 2023 when compared to the same period last year, to attain 78.5%, as per EY. This was coupled with a 6.1% drop in the average room rate, moving from US\$ 295 during the first 9M 2022 to US\$ 277 in 9M 2023. Accordingly, RevPAR went up by 4.9%, from US\$ 207 in 9M 2022 to US\$ 218 in 9M 2023.

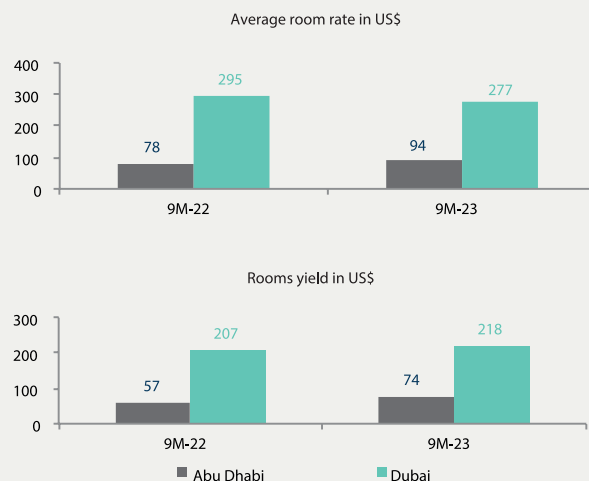
Events like the Forex Expo Dubai 2023, with an estimated arrival of over 10,000 visitors, 160+ exhibitors and 130+ speakers, along with the "DubaiDestinations" campaign, which primarily highlighted major attractions in the city and the 26th Dubai Summer Surprises (DSS) 2023, have backed Dubai's hospitality sector growth in 2023, according to EY.

COMPARATIVE HOTEL OCCUPANCY RATES*



Sources: Ernst & Young, Bank Audi's Group Research Department

AVERAGE ROOM RATE IN US\$



Sources: Ernst & Young, Bank Audi's Group Research Department

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In parallel, the Abu Dhabi International Airport recorded a sizeable traffic growth in the first half of 2023. The airport experienced a 67% increase in passenger traffic, serving over 10 million passengers compared to the 6 million in the same period of last year, as per the Central Bank of the UAE.

Abu Dhabi's hospitality market witnessed an increase in occupancy rate of 4.6% in 9M 2023 when compared to 9M 2022, to reach 78.1%. This was coupled with a rise in the average room rate of 21.2% from US\$ 78 in 9M 2022 to US\$ 94 in 9M 2023. Consequently, RevPAR went up by 28.8% from US\$ 57 in 9M 2022 to US\$ 74 in 9M 2023, as per EY.

Abu Dhabi's hospitality sector performance was attributed to events such as the 20th Abu Dhabi International Hunting and Equestrian Exhibition (ADIHEX) 2023 and the NBA Abu Dhabi Games featuring national teams from different countries. Furthermore, the Abu Dhabi Summer Shopping Season 2023, coupled with attractions such as the Yas Gaming Festival and various offerings at Yas Island, including SeaWorld Yas Island and Ferrari World Yas Island, have bolstered the sector growth in 2023.

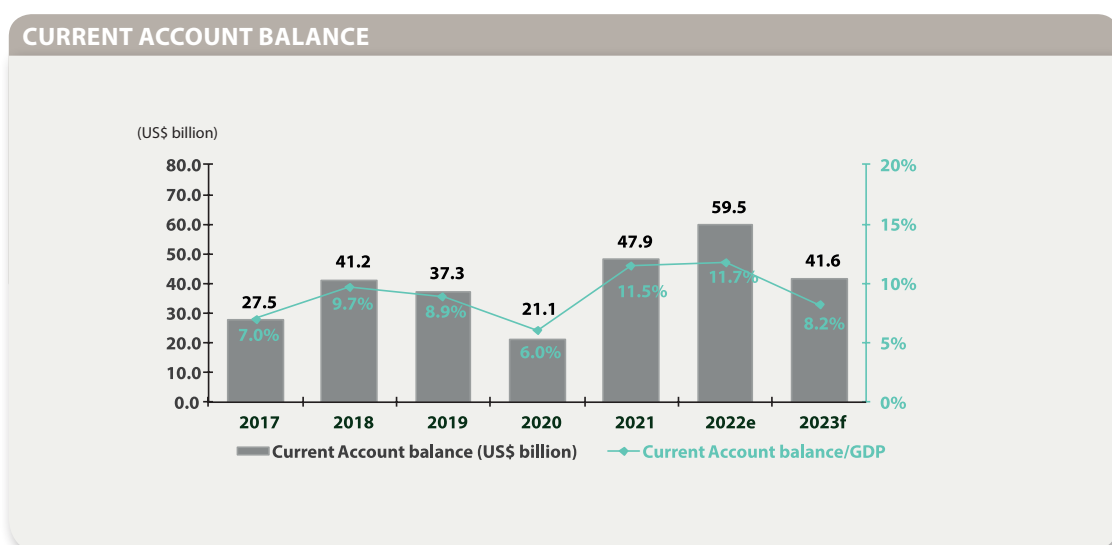
In a forward look, the UAE's international tourism receipts are forecasted to grow by 7.5% y-o-y in 2024 to US\$ 42.3 billion, from an annual estimated growth of US\$ 39.4 billion in 2023, as per Fitch Solutions. Furthermore, the promotional authorities and investors have taken note of the rising number of visitors from low-range and mid-range income segments which have promoted a growing interest in affordable properties in the quality segment, as per Fitch Solutions. The development of a bigger low-budget sector would continue in the coming years, catering to middle class tourists coming from Asia and Africa, as well as more people seeking to remain in Dubai for shorter stays to take advantage of the many theme parks and other attractions.

1.2. EXTERNAL SECTOR

UAE's non-oil foreign trade at all-time high in first half of 2023

The UAE's non-oil foreign trade hit an unprecedented high level over the first half of 2023, registering double-digit growth across all areas of trade, including exports, imports and re-exports. This came within the context of new partnership agreements aimed to enhance the role of international trade to double the size of the national economy by 2030, and as trade was placed "front and centre" of the UAE's national growth agenda.

The UAE's non-oil foreign trade volume hit an all-time-high of AED 1.239 trillion (US\$ 337 billion) over the first half of 2023, which marks a 14.4% growth compared to the same period of 2022, as per government's officials.



Sources: IMF, Bank Audi's Group Research Department

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The UAE's non-oil exports, which account for 16.6% of total foreign trade, reached a record high level of AED 205 billion during the first half of 2023, up by 11.9% relative to the first half of 2022 and 5.4% when compared to the second half of 2022. The country's non-oil exports to its top ten trading partners grew by 22.0%. Switzerland headed the top five non-oil export destinations, while Turkey made a significant leap to second. Saudi Arabia and India occupied the third and fourth positions, respectively, while North Macedonia joined the list for the first time, ranking fifth.

Concurrently, the UAE's re-exports reached AED 341 billion during the first half of 2023, which marks a 9.9% expansion relative to the first half of 2022 and a 2.2% growth when compared to the second half of 2022.

In parallel, the UAE's imports grew by 17.5% year-on-year during the first half of 2023 to reach circa AED 693 billion. This marks a 2.6% expansion compared to the second half of 2022. That being said, the much quicker growth in imports against exports widened the non-oil trade deficit in the UAE this year.

China has retained its position as the UAE's leading global trading partner, followed by India, the US and Saudi Arabia. Turkey, with whom the UAE signed a Comprehensive Economic Partnership Agreement (CEPA) in March 2023, came in the fifth place, with Iraq, Switzerland, Japan, Hong Kong, and Russia rounding off the top 10. Overall, the UAE's top ten trading partners witnessed a sizeable increase in non-oil trade, with a combined growth of 16.7%, while the rest of the markets accounted for 12.4% growth.

Gold, aluminium, oils, cigarettes, copper wires, jewellery, and aluminium topped the list of the UAE's most prominent exports. Ahead of oil and cigarettes, gold exports registered the highest growth in the first half of 2023, up by 40.7% to reach AED 218.3 billion. The contribution of gold exports to the UAE's non-oil foreign trade was 17.6%, compared to 14.3% in the corresponding period of 2022.

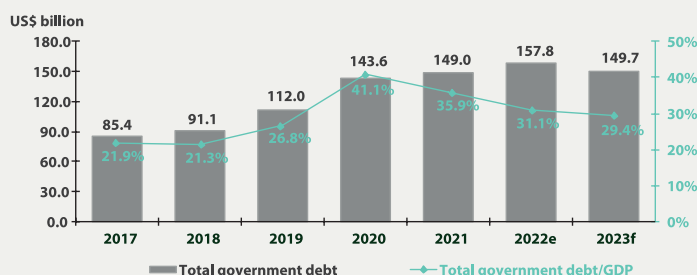
Looking forward, the IMF sees that a decline in oil demand and reduced global trade and tourism from slower global growth, higher-for-longer interest rates, tighter financial conditions, or geopolitical developments would weigh on growth and pressure external balance. The country's current account surplus is estimated to reach 8.2% of GDP in 2023 and 7.7% of GDP in 2024. This compared to a current account surplus of 11.7% in 2022.

SELECTED PUBLIC FINANCE INDICATORS

US\$ billion	2021	2022	H1-22	H1-23	H1/H1
Public revenues	126.3	166.4	83.2	67.2	-19.2%
Public revenues/GDP	30.4%	32.8%	32.8%	26.4%	-6.4%
Public expenditures	104.1	105.7	48.1	52.4	8.7%
Public expenditures/GDP	25.1%	20.8%	19.0%	20.6%	1.6%
Fiscal balance	16.7	50.1	33.0	12.9	-61.0%
Fiscal balance/GDP	4.0%	9.9%	13.0%	5.1%	-8.0%

Sources: Ministry of Finance, Bank Audi's Group Research Department

PUBLIC DEBT



Sources: IMF, Bank Audi's Group Research Department

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1.3. PUBLIC SECTOR

UAE's fiscal surplus narrowing in first half of 2023 amid oil sector developments

The UAE's public finance was at the mirror image of relatively decelerated real GDP growth, and easing oil prices and production levels. In fact, the fiscal surplus contracted significantly in the first half of 2023, while the country pursued steps to diversify public revenues including the introduction of the Corporate Income Tax in June 2023.

Government revenues registered a decrease of 19.2% year-on-year, moving from AED 305.6 billion (the equivalent of US\$ 83.2 billion) in the first half of 2022 to AED 246.9 billion (the equivalent of US\$ 67.2 billion) in the first half of 2023, as per the latest figures released by the Ministry of Finance. This is mainly explained by lower oil revenues and tax and fees collection. In fact, tax revenues were slashed by 12.6% year-on-year, moving from AED 167.9 billion in the first half of 2022 to AED 146.8 billion in the first half of 2023, mainly reflecting reduced business activity. Within this context, annualized general government revenues are set to reach 26.4% of GDP in 2023, down from 32.8% of GDP in 2022.

On the spending front, government expenditures registered a year-on-year increase of 8.7%, moving from AED 176.8 billion (or US\$ 48.1 billion) over the first half of 2022 to AED 192.3 billion (or US\$ 52.4 billion) over the same period of 2023. Subsidies expanded significantly by 70.8% year-on-year, moving from AED 10.5 billion in the first half of 2022 to AED 17.9 billion in the first half of 2023. Social benefits rose by 19.1% y-o-y, moving from AED 26.4 billion in the first half of 2022 to AED 31.4 billion in the first half of 2023. Other expenses grew by 63.2% y-o-y, moving from AED 11.0 billion in the first half of 2022 to AED 17.9 billion in the first half of 2023. In contrast, the "use of goods and services" contracted by 9.2% year-on-year, moving from AED 62.4 billion in the first half of 2022 to AED 56.7 billion in the first half of 2023.

On the other hand, government spending on non-financial assets, of which expenditures on fixed assets, inventories, valuables and non-produced assets, went down by 2.6% year-on-year to reach AED 7.2 billion in the first half of 2023.

On the backdrop of falling government revenues and rising total government expenditures, the overall UAE government net lending/borrowing surplus contracted by 61.0% year-on-year, moving from AED 121.3 billion (or US\$ 33.0 billion) in the first half of 2022 to AED 47.4 billion (or US\$ 12.9 billion) in the first half of 2023.

That being said, the IMF expects the UAE to record fiscal surplus of around 5% of GDP in 2023, down from 9.9% in 2022, while reiterating that the phased introduction of a corporate income tax that began in June 2023 would support higher non-oil revenue over the medium term. Concomitantly, the UAE government has approved a federal budget for 2024-2026 worth AED 192 billion (\$52.3 billion). The budget estimates expenditures of AED 64.1 billion in 2024, up 1.6% from estimates for 2023, and revenues of AED 65.7 billion next year, an increase of 3.3% from this year. Social development and benefits account for 42% of the federal budget in 2024, followed by government affairs at 39%.

Looking forward, the implementation of fiscal revenue reforms, like the introduction of Corporate Income Tax, and maintaining prudent and well-coordinated emirate specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability, as per the World Bank.

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1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Eased inflationary pressures on monetary policy tightening

The year 2023 in the UAE saw eased inflationary pressures amid tight monetary policy, cooling economic activity and falling global oil and food prices, while gross international reserves registered double-digit growth rates amid a return to international debt markets.

Latest quarterly CPI figures released by the UAE Federal Competitiveness and Statistics Authority showed that consumer prices rose by 1.0% year-on-year during the second quarter of 2023, down from 3.6% y-o-y in the first quarter of the year. A breakdown by category for the Consumer Price Index showed that the “housing, water, electricity, gas” category, which has a weight of 35.1%, expanded by 3.1% year-on-year over the second quarter 2023 following a 2.5% yearly expansion in the first quarter of 2023. This is mainly explained by flourishing UAE’s real estate market amid robust demand. Also, the “food and beverages” category, which has a weight of 12.0% in the CPI, posted yearly price rises of 4.6% in the second quarter of 2023, following a 5.7% y-o-y rise in the first quarter of the year. In contrast, the “transportation” category, which has a weight of 12.7%, contracted by 10.1% year-on-year in the second quarter of 2023 following a 3.0% yearly expansion in the first quarter of the year, as Brent oil prices contracted by 15.3% on average in the second quarter of 2023 compared to the second quarter of 2022. Also, the “recreation and culture” category, which has a weight of 3.1%, registered year-on-year price falls of 3.4% in the second quarter of 2023, following a 13.5% yearly expansion in the first quarter of the year. Within this context, the IMF forecasts average inflation to remain contained at around 3% in 2023, down from 4.8% in 2022.

Monetary aggregates in the UAE remained in an expansionary mode over the first nine months of 2023. The narrowest measure of money supply (M1), which consists of currency in circulation outside banks plus monetary deposits in local currency with banks, expanded by 7.9% during the first nine months of 2023, moving from US\$ 200.8 billion at end-2022 to US\$ 216.6 billion at end-September 2023. This followed a 5.1% expansion in M1 in 2022. The broader money supply (M2), which consists of Money Supply (M1) plus quasi-monetary deposits, grew by 12.0%, moving up from US\$ 463.9 billion at end-2022 to US\$ 519.6 billion at end-September 2023. The counterparts of money supply show that net international reserves expanded by US\$ 48.2 billion over the first nine months of 2023 amid a US\$ 24.5 billion rise in gross international reserves at the Central Bank and a US\$ 19.3 billion increase in net foreign assets at banks, while net domestic assets expanded by US\$ 7.4 billion over the first nine months of 2023.

UAE MONETARY FLOWS

Flows in US\$ million	2021	2022	9M-23
Net international reserves	28,954	65,385	48,219
Central Bank (net)	23,171	2,927	28,886
Gross international reserves	24,417	7,318	24,492
Foreign Liabilities	1,246	4,391	-4,394
Banks (net)	5,783	62,458	19,334
Foreign Assets	22,898	70,213	21,511
Foreign Liabilities	17,115	7,755	2,177
Net Domestic Assets	-5,967	-27,100	7,455
Claims on private sector	4,734	13,023	17,851
Net claims on public sector	1,741	-32,970	-1,266
Claims on financial institutions	-435	-255	-1,281
Capital & Reserves	-2,496	-2,958	-9,743
Other Items (net)	-9,511	-3,940	1,894
Broad Money (M2)	22,987	38,285	55,674
Money Supply (M1)	27,718	9,723	15,768
Quasi-Money	-4,731	28,561	39,906

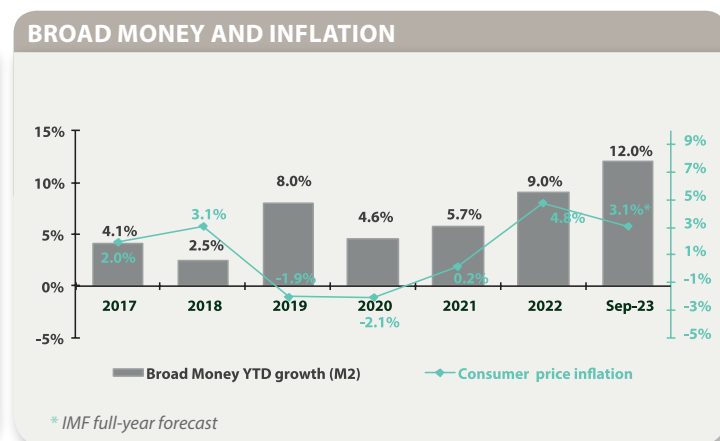
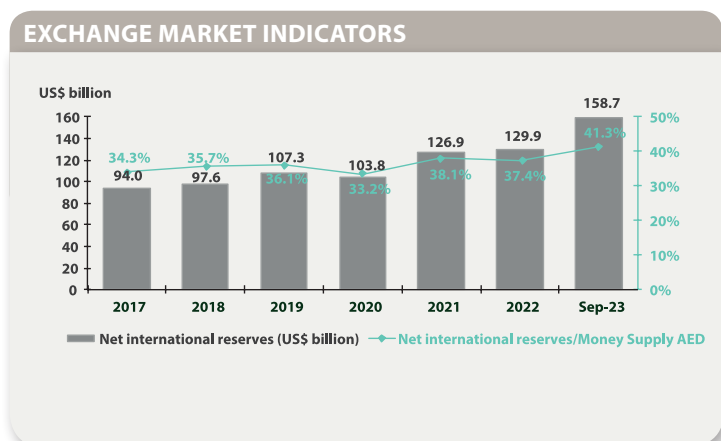
Sources: Central Bank of UAE, Bank Audi’s Group Research Department

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Given the decades-long UAE dirham peg to the US dollar at AED 3.6725, the base rate applicable to overnight deposit facility, which is the prevailing official monetary policy rate of the Central Bank of the UAE, was lifted four times over the year 2023, by a total of 100 basis points to reach a current level of 5.40%, tracking the US Federal Reserve’s monetary policy tightening aimed to tame inflation. This followed seven interest rate hikes in 2022. Concomitantly, the CBUAE maintained the interest rate applicable to borrowing short-term liquidity from the CBUAE at 50 basis points above the Base Rate for all standing credit facilities.

Last but not least, the Central Bank’s gross international reserves expanded by 17.7% over the first nine months of 2023 or the equivalent of US\$ 24.5 billion, moving from US\$ 138.4 billion at end-December 2022 to US\$ 162.9 billion at end-September 2023. This came within the context of a 25.8% increase in “foreign securities” or the equivalent of US\$ 9.4 billion to reach US\$ 46.1 billion at end-September 2023, in addition to an 11.3% rise in “current account balances & deposits with banks abroad” or the equivalent of US\$ 9.6 billion to reach US\$ 95.1 billion at end-September 2023. When excluding foreign liabilities, the Central Bank’s net international reserves reached US\$ 158.7 billion at end-September 2023, up by 22.2% relative to end-2022. Accordingly, the Central Bank’s net international reserves coverage ratio to money supply (M1) and Dirham deposits reached 41.3% at end-September 2023, up from 37.4% at end-December 2022.

Looking forward, inflation is expected to remain subdued in 2024, averaging 2.3% according to the IMF, mainly reflecting a slowdown in economic activity and a higher-for-longer interest rate environment, while the Central Bank of the UAE is expected to undertake multiple policy rate adjustments next year, pushing the base rate down, as three US Fed interest rate cuts are projected in 2024.



Sources: Central Bank of UAE, Bank Audi’s Group Research Department

Sources: Central Bank of UAE, Bank Audi’s Group Research Department

1.4.2. Banking Activity

A good year for the UAE banking sector

The year 2023 has been a good year for the UAE banking sector. Measured by the aggregation of total assets of banks operating in the Emirates, banking activity grew by 7.8% over the first nine months of 2023 to reach US\$ 1,076 billion at end-September (211% of GDP). Total deposits expanded by 8.9% over the period to reach US\$ 659 billion (130% of GDP). Likewise, loans to the private sector rose by 5.4% to US\$ 337 billion at end-September 2023 (66% of GDP).

According to UAE’s banking sector outlook for 2023, S&P expects the Emirates’s economic growth to slow modestly in 2023 due to OPEC- agreed oil production cuts and deceleration in the non-oil sector due to higher interest rates. Along with tighter monetary policy, this will lead to lower credit demand and growth. The rise in residential real estate prices will likely moderate in 2023 after a strong 2022. In this context, S&P thinks the deterioration in asset quality indicators will be marginal, and banks’ profitability will continue to improve on the back of higher rates. Banks will also continue to benefit from stable and strong capital buffers, good funding profiles, and expected government support.

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S&P expects problem loans to increase slightly in 2023 due to the economic slowdown. That, combined with higher interest rates, could see problem loans arise in sectors such as construction and trade, as well as for some small and midsize enterprises. That said, S&P believes that a still supportive domestic economic environment will help contain the generation of new nonperforming loans (NPLs). In addition, banks have proactively booked precautionary provisions over the last couple of years, which will help them to weather the challenges ahead.

The cost of risk will increase only slightly according to S&P. They expect tighter monetary policy and lower global growth will only marginally generate additional provisioning needs over the next couple of years. Banks have pragmatically not fully reflected the increase in interest rates into corporate exposures that would otherwise dip into nonperformance. For retail customers, stress tests applied by banks to mortgages at inception relative to an increase in interest rates, exposure granularity, and salary assignments will mitigate generation of NPLs. S&P anticipates that UAE banks will prudently increase their coverage ratio toward historical levels.

While banks will face higher funding cost pressures, higher policy rates are set to facilitate wider margins for UAE banks. S&P expects the cost of risk to increase only slightly, so they think UAE banks' profitability will keep improving, reaching pre-pandemic levels by 2023. They believe banks will continue establishing partnerships and making fintech acquisitions to capture access to financial innovation, which will reduce costs and make business operations more secure.

Strong capital buffers have supported the banking sector over the last few years. Banks are expected to continue strengthening their capital buffers due to strong internal capital generation. As profitability keeps improving, S&P thinks banks will start paying dividends at pre-pandemic levels. Most banks shied away from raising additional capital in the form of Tier 1 instruments in 2022 due to higher interest rates, a trend expected to continue in 2023.

Last but not least, UAE banks' funding structures benefit from strong core customer deposit bases and limited reliance on external funding. Receipts from higher oil prices led to stronger cash flow generation for the government, which translated into higher bank deposits over the previous year. The higher interest rate environment also meant a higher return on deposits, further accelerating deposit growth. S&P expects the government's oil revenues and interest rates to remain high, which will lead to modest deposit growth in 2023 as well. The cost of funding has increased as some deposits migrated to interest-bearing products from no-or low-interest-bearing products. That said, the overall impact of increasing interest rates is expected to be positive for the UAE banking system at large.

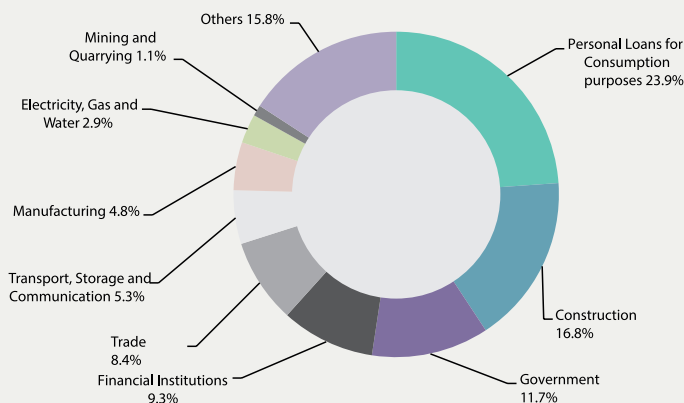
EVOLUTION OF BANKING AGGREGATES

US\$ billion	2019	2020	2021	2022	Sep-23
Total assets	839.5	868.1	904.4	998.7	1,076.1
% YTD growth in assets	7.5%	3.4%	4.2%	10.4%	7.8%
Total deposits	509.2	513.2	543.6	605.1	659.2
% YTD growth in deposits	6.5%	0.8%	5.9%	11.3%	8.9%
Total bank loans to the private sector	308.9	301.8	305.2	319.4	336.6
% YTD growth in bank loans to the private sector	0.4%	-2.3%	1.1%	4.7%	5.4%

Sources: Central Bank of UAE, Bank Audi's Group Research Department

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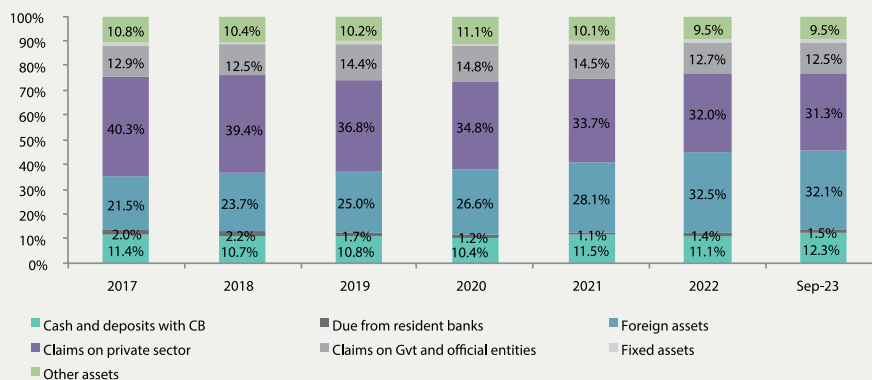
BANK CREDIT TO RESIDENTS BREAKDOWN BY ECONOMIC ACTIVITY



*September 2023 figures

Sources: Central Bank of UAE, Bank Audi's Group Research Department

ASSET COMPOSITION (% OF TOTAL ASSETS)



Sources: Central Bank of UAE, Bank Audi's Group Research Department

1.4.3. Equity and Bond Markets

Mixed price movements in UAE equity markets, bond prices mostly down amid global monetary tightening

Activity on the UAE equity markets was mixed over the first eleven months of 2023 as market players weighed booming realty sector and a continuous growth in the non-oil economy against falling oil prices. Concurrently, activity in the UAE fixed income markets was mostly tilted to the downside, mainly tracking US Treasuries move on prospects of higher for longer US interest rates.

The Abu Dhabi Securities Exchange slid into the red following two consecutive years of strong gains, mainly dragged by falling oil prices amid global growth concerns. In contrast, the Dubai Financial Market posted a strong price rally this year mainly helped the following:

1. Continuous growth in the non-oil private sector at a robust pace. The seasonally adjusted S&P Global UAE Purchasing Managers' Index– a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy – stayed well above the 50.0 neutral mark in November 2023 (57.0), after posting its highest reading in over four years in October 2023 (57.7). The index signalled a rapid improvement in the non-oil private sector operating conditions, mainly supported by strong trends for new business, output and inventories.

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2. Flourishing UAE's real estate market in 2023 as both Dubai and Abu Dhabi experienced strong demand and healthy sales transactions, and driven by booming tourism sector.

The Abu Dhabi Securities Exchange was underpinned by reduced activity over the first eleven months of 2023, and registered year-to-date price contractions. FTSE ADX general index declined by 6.4% over the first eleven months of 2023, moving from 10,211.09 at end-2022 to 9,559.57 at end-November 2023. The breakdown of the FTSE ADX general index by sector during the first eleven months of 2023 shows that the industrial sector registered the largest price drop of 18.2%, followed by the telecommunications sector with -15.0%, the basic materials sector (-12.0%) the financials sector (-7.5%), the utilities sector with -4.6% and the energy sector with -0.2%. In contrast, the consumer discretionary sector recorded the highest price surge of 42.2%, followed by the real estate sector with +29.0%, the consumer staples sector with +25.8%, the healthcare sector with +14.6%.

The Abu Dhabi Securities Exchange embarked into a flurry of public share offerings, as it saw seven new listings over the first eleven months of 2023, with the number of listed companies moving from 81 companies at end-2022 to 88 companies at end-November 2023. State-owned ADNOC Gas was the heaviest newly listed firm on the Abu Dhabi Securities Exchange over the first eleven months of 2023, and is currently ranking third by market capitalization, followed by fintech firm MBME, ADNOC Logistics, Presight AI Holding, and others. This resulted into a 10.0% expansion in the market capitalization on the Abu Dhabi Securities Exchange, moving from US\$ 693.8 billion at end-2022 to US\$ 763.0 billion at end-November 2023.

The total trading value contracted by 26.7% during the first eleven months of 2023 when compared to the same period of 2022 to reach US\$ 65.2 billion. The total number of traded shares reached 43.6 billion shares over the first eleven months of 2023 against 54.8 billion shares during the same period of 2022 (down by 20.6%). The total number of trades expanded by 21.2% year-on-year, moving from 2,305,236 during the first eleven months of 2022 to 2,794,918 during the first eleven months of 2023. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, reached 9.3% during the first eleven months of 2023 as compared to 13.8% over the corresponding period of 2022.

ABU DHABI STOCK MARKET INDICATORS

	2019	2020	2021	2022	Nov-23
Market capitalization (in US\$ billion)	142.0	198.3	425.9	693.8	763.0
Trading value (in US\$ billion)	11.7	17.5	88.9	95.4	65.2
Turnover ratio	8.3%	8.8%	20.9%	13.7%	9.3%
Trading volume (in millions)	11,603	18,395	51,938	58,942	43,555
Number of transactions	380,249	501,904	1,260,695	2,547,904	2,794,918
General share price index	5,076	5,045	8,488	10,211	9,560
% Change in share price index	3.3%	-0.6%	68.2%	20.3%	-6.4%
5-Year CDS spreads (bps)	36	38	43	44	41

Sources: Abu Dhabi Securities Exchange, Bank Audi's Group Research Department

DUBAI STOCK MARKET INDICATORS

	2019	2020	2021	2022	Nov-23
Market capitalization (in US\$ billion)	93.5	83.7	109.7	158.1	184.2
Trading value (in US\$ billion)	13.3	16.5	17.9	24.5	25.9
Turnover ratio	14.2%	19.8%	16.3%	15.5%	15.4%
Trading volume (in millions)	34,919	58,155	45,051	38,482	49,915
Number of transactions	562,252	874,406	796,023	1,443,256	1,796,565.00
General share price index	2,765	2,492	3,196	3,336	3,988
% Change in share price index	9.3%	-9.9%	28.2%	4.4%	19.5%
5-Year CDS spreads (bps)	91	112	94	84	64

Sources: Dubai Financial Market, Bank Audi's Group Research Department

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In contrast, the Dubai Financial Market saw extended price rally and increased activity over the first eleven months of 2023. The DFM General Index jumped by 19.6% during the first eleven months of 2023, moving from 3,336.07 at end-2022 to 3,992.36 at end-November 2023.

The breakdown of the DFM General Index by sector during the first eleven months of 2023 shows that the real estate sector registered the highest index surge of 33.6%, followed by the industrial sector with +21.8%, the financial sector with +18.6% and the utilities sector with +12.1%. In contrast, the consumer staples sector registered the highest index drop of 27.6%, followed by the communication services sector with -10.3%, and the materials sector with -8.0%.

The Dubai Financial Market was marked by increased activity over the first eleven months of 2023, as shown by a yearly expansion in the total turnover of 13.8% to reach US\$ 25.9 billion, noting that the “financials sector” and the “real estate sector” captured 70.7% of the total. The total number of traded shares reached 49.9 billion shares over the first eleven months of 2023 against 35.3 billion shares during the same period of 2022, up by 41.6%. The total number of trades was quoted at 1,796,565 during the first eleven months of 2023 versus 1,330,966 during the same period of 2022, up by 35.0%. On the back of strong equity price gains and the delisting of three companies, with the total number of companies falling from 56 at end-2022 to 53 at end-November 2023, the market capitalization on the Dubai Financial Market rose from US\$ 158.6 billion at end-November 2022 to US\$ 184.2 billion at end-November 2023, up by 16.1%. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, fell from 15.7% over the first eleven months of 2022 to 15.4% over the corresponding period of 2023.

Concomitantly, activity was mostly skewed to the downside on the UAE fixed income markets over the first eleven months of 2023, mainly tracking US Treasuries move as the US Federal Reserve’s focus shifted from how high to take rates to how long they should stay elevated.

In the Dubai credit space, sovereigns maturing in 2029 registered large price falls of 0.75 pt during the first eleven months of 2023. Majid Al Futtaim’29 saw price drops of 3.38 pts. DP World’30 closed down by 1.00 pt. Emaar’26 traded down by 1.13 pt. Prices of Emirates Airline’28 contracted by 0.75 pt. As to papers issued by financial institutions, Emirates NBD papers Perpetual (offering a coupon of 6.125%) registered price decreases of 0.75 pt. As to the cost of insuring debt, Dubai’s five-year CDS spreads contracted by 20 bps, moving from 84 bps at end-2022 to 64 bps end-November 2023.

In the Abu Dhabi credit space, sovereigns maturing in 2026 posted price gains of 0.25 pt over the first eleven months of 2022, while sovereigns maturing in 2031 were down by 0.63 pt. Mubadala papers maturing in 2026 registered price rises of 0.63 pt. Etisalat’24 closed up by 0.38 pt. First Abu Dhabi Bank’24 saw price expansions of 1.20 pt. In contrast, prices of ADNOC’29 declined by 1.75 pt. Taqa’26 traded down by 2.25 pts. As to the cost of insuring debt, Abu Dhabi’s five-year CDS spreads reached 41 bps at end-November 2023 as compared to 44 bps at end-2022, which is the lowest in the MENA region.

Regarding new bond issues, the UAE returned in September 2023 to international debt markets for the first time since July 2022 through the sale of a 10-year US\$ 1.5 billion bond priced at 60 bps over US Treasuries of similar maturity versus an initial price guidance of 85 bps over UST. The bond sale attracted more than US\$ 6.8 billion in orders. Within this context, it is worth mentioning that the UAE Federal Government issued US\$ 8.5 billion on international markets since October 2021.

As to credit ratings, Fitch Ratings affirmed in July 2023 the UAE’s long-term foreign currency Issuer Default Rating at “AA-” with a “stable” outlook. The “AA-” rating reflects, as per Fitch, the UAE’s moderate consolidated public debt level, strong net external asset position and high GDP per capita. This benefits from Abu Dhabi’s sovereign net foreign assets, which are among the highest of Fitch-rated sovereigns. These strengths are balanced by weak governance indicators relative to rating peers, the UAE’s high dependence on hydrocarbon income and the significant indebtedness of some of the Emirates and their government-related entities (GREs), as per the international rating agency.

In the coming period, the UAE Federal Government, which started issuing debt in local currency in 2022, aims to bring the outstanding amount to about AED 45 billion over the years, with the objective of building a domestic-currency yield curve rather than funding deficits or projects.

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CONCLUSION

Looking forward, the country's outlook remains subject to heightened global uncertainty. A decline in oil demand and reduced global trade and tourism from slower global growth, higher-for-longer interest rates, tighter financial conditions, or geopolitical developments would weigh on growth and pressure fiscal and external balances. However, higher oil prices and healthy fiscal buffers help mitigate risks, while reform efforts pose upside risks to growth.

Tight monetary policy, a strong US dollar, and a slowdown in economic activity will keep inflation rates subdued—hovering around 3.3% in 2023 and decreasing to 2.2% in 2024 as per the World Bank forecasts. Robust oil revenues, supported by strong performance of nonoil sectors, will maintain the fiscal balance surplus. Implementation of fiscal revenue reforms, e.g. introduction of CIT, and maintaining prudent and well-coordinated emirates specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability. Non-oil exports, aided by bilateral trade agreements and the opening of new markets, will grow as imports slow to 4.4% in 2024.

At the banking sector level, UAE banks are expected to maintain their access to domestic deposit funding and sufficient liquidity. Current oil prices would support access to funding because oil prices drive large bank depositors' revenue, while moderate credit growth would limit liquidity pressures. Several factors yet pose a risk to the asset quality of UAE banks, including their large stock of renegotiated and restructured corporate debt and concentrated loan books with sizeable exposure to the inherently volatile construction and real estate sectors. The sizeable portion of renegotiated and restructured debt from government-related entities (GREs) and large corporates increases the potential for future delinquencies.

When assessing the outlook of the UAE economy, it is important to address the key strengths and major weaknesses facing the economy. At the level of strengths, we mention the high GDP per capita and relatively large, the competitive and diverse economy, the very low federal government debt burden and limited fiscal risks and the effective institutions and policymaking that provide a buffer against shocks. Among challenges, we mention the persistent regional geopolitical tensions, the economic and financial exposure to longer-term carbon transition risks and the shortcomings in data disclosure and policy transparency relative to similarly rated peers. While challenges are material, we believe opportunities outpace threats at the horizon.

Rating agencies maintain a stable outlook for the United Arab Emirates. The stable outlook reflects rating agencies' expectation that continued efforts by the governments across the UAE to expand non-hydrocarbon revenue, promote the development of non-hydrocarbon sectors and attract foreign businesses and Talent may reduce the federal government's indirect exposure to oil price cycles and a potential acceleration in global carbon transition over the medium term, further strengthening its credit profile. However, uncertain global geopolitical developments and downside risks to global growth may slow the diversification momentum, while tangible impact of the government's initiatives and policies are likely to take time to materialise. Moreover, the scope for durable strengthening of the credit profile may be limited if not accompanied by enhancements to data and policy transparency and disclosure to levels comparable with higher rated peers.

Finally, according to the conclusion of the IMF staff visit to UAE recently published, the UAE's sustained reform efforts support medium-term growth and a smooth energy transition, but prioritization and sequencing remain key to ensure effective outcomes. Advancing a medium-term fiscal framework, underpinned by careful coordination of emirate-specific fiscal anchors and rules, would promote long-term sustainability, and help meet climate policy challenges. Ongoing efforts to boost private sector employment, further develop the domestic capital market, and leverage trade and investment in digital and green initiatives will further advance diversification and lift medium-term growth at large.