Bank Audi

UAE ECONOMIC REPORT

JANUARY 2023

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SIGNIFICANT IMPROVEMENT IN PRIVATE SECTOR ECONOMY, ON THE BACK OF DUBAI WORLD EXPO AND POSITIVE SPILLOVERS FROM SURGING HYDROCARBON ACTIVITY

Robust growth in private sector economy in 2022

Economic growth has been robust over the past year, led by a strong rebound in tourism, construction, and activity related to the Dubai World Expo, as well as higher oil production in line with the OPEC+ production agreements. Real GDP growth is projected to reach above 5% in 2022 as per IMF, improving from 3.8% in 2021. PMI figures show the UAE non-oil private sector saw a further pick-up in business activity growth this year, as firms reported a strengthening of demand conditions and a boost to new orders from lower selling charges. PMI actually continued to trend higher, reaching a 38-month high of 56.7 in August to signal a robust improvement in business conditions in the UAE non-oil economy.

Higher oil exports push UAE's current account surplus beyond pre-pandemic levels

The UAE's external sector was at the mirror image of the robust domestic economic growth in 2022, with the non-oil foreign trade hitting unprecedented high levels over the first half of the year, registering high single-digit to double-digit growth across all areas of trade, including exports, imports and re-exports. In details, the UAE's non-oil foreign trade volume topped for the first time the AED 1 trillion level (US$ 288 million) over the first half of 2022, which marks a 17% growth compared to the same period of 2021, as per government's officials. 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 various initiatives undertaken by the UAE to develop and diversify its exports.

UAE's fiscal surplus quadrupling in first half of 2022, owing to higher oil receipts and tax collection

The improving trend in UAE's public finance has intensified during the first half of 2022 on the heels of higher oil prices and production, while steps to underpin revenue diversification are underway with the recent introduction of a corporate income tax effective in 2023. In this context, the IMF expects the UAE to record fiscal surpluses of 7.7% in 2022, mainly due to higher oil revenues amid higher oil prices and production, and because of Dubai's economic performance and inflow of new businesses and expats.

Rising inflationary pressures in the UAE, coupled by aggressive tightening of monetary conditions

The year 2022 in the UAE saw rising inflationary pressures amid soaring global oil and commodity prices after the Russian invasion of Ukraine, and a tightening of monetary conditions in line with the US Federal Reserve's aggressive interest rate hikes since March 2022, given the UAE Dirham peg to the US dollar. Inflation in the UAE averaged 5.5% year-on-year during the first nine months of 2022. The broader money supply (M2), which consists of Money Supply (M1) plus quasi-monetary deposits, grew by 5.3%, moving up from US$ 425.6 billion at end-2021 to US$ 448.1 billion at end-September 2022.

Healthy banking activity growth amid rising interest margins fueling better returns

The UAE banking sector fared well the changing global conditions of this year, reporting healthy activity growth amid rising interest margins fueling better returns along with slightly improving asset quality. Measured by the aggregation of assets of all banks operating in the UAE, banking activity grew by 7.9% in the first nine months of 2022 (against a growth of 4.2% in full-year 2021). Total deposits increased by 9.5% over the same period (its highest growth over the past five years), to reach US$ 596 billion. In parallel, bank lending rose by 4.7% within an improving operating environment, as loans to the private sector reached US$ 320 billion at end-September 2022. UAE banks remain well capitalized, with a capital adequacy ratio of 16.9% and a Common equity Tier One ratio capital ratio of 14.0% as at June 2022.

Economic outlook to remain positive, though subject to downside risks

Looking ahead, the UAE economic outlook remains positive, supported by domestic activity. The IMF expects non-hydrocarbon growth to be around 4% in 2023 and to accelerate over the medium-term with the implementation of ongoing reforms. Inflationary pressures are projected to moderate gradually, including from the impact of tightening financial conditions. Further development of domestic capital markets, including through the issuance of local currency debt by the federal government will also support growth. Nevertheless, the outlook is subject to significant external uncertainties, including the impacts of global economic and financial headwinds, geopolitical developments, and the recently announced OPEC+ production cuts.

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Economic growth has been robust this year, led by a strong rebound in tourism, construction, and activity related to the Dubai World Expo, as well as higher oil production in line with the OPEC+ production agreements. Real GDP growth is projected to reach above 5% in 2022 as per IMF, improving from 3.8% in 2021. PMI figures show the UAE non-oil private sector saw a further pick-up in business activity growth this year, as firms reported a strengthening of demand conditions and a boost to new orders from lower selling charges. PMI actually continued to trend higher, reaching a 38-month high of 56.7 in August to signal a robust improvement in business conditions in the UAE non-oil economy.

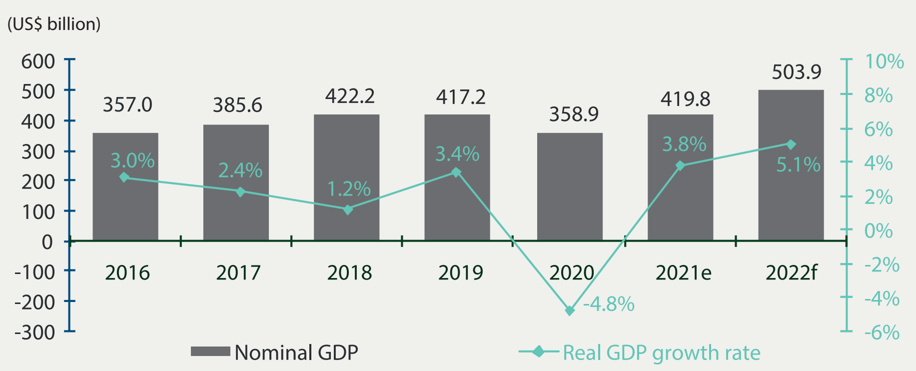
At the monetary level, this year has witnessed a noticeable expansion in Money Supply along with significantly rising inflation. Broad Money supply grew by 5.3% in the first nine months of 2022, rising by US$ 22.5 billion. Net international reserves maintained a comfortable US$ 116 billion level, the equivalent of 34.4% of domestic currency Money Supply. Inflation has risen with global trends and is expected to average just over 5% this year, its highest level in more than six years, mainly driven by the Transport sector inflation which rose by circa 27% this year. As a result of rising inflation, the Emirati population started to cut back on spending on some items, such as clothes and petrol, while the UAE government has intervened to assist low-income Emirati families with their cost of living.

Fiscal and external surpluses have increased further, benefiting from the higher oil prices as well as the removal of the temporary COVID-crisis related fiscal support to businesses and households as the pandemic has gradually waned. The IMF expects the UAE to post a fiscal surplus of 7.7% of GDP in 2022, after 2.1% in 2021. High oil revenues and tax and fees collection more than offset higher outlay towards foreign aid, subsidies and other domestic spending. In parallel, the current account surplus has risen to one of its highest levels ever, set at 14.7% of GDP as per IMF estimates for 2022 (against 5.9% in 2020 and 11.4% in 2021).

At the banking level, the UAE banking sector fared well the changing global conditions of this year, reporting healthy activity growth amid rising interest margins fueling better returns along with slightly improving asset quality. Measured by the aggregation of assets of all banks operating in the UAE, banking activity grew by 7.9% in the first nine months of 2022 (against a growth of 4.2% in full-year 2021). Total deposits increased by 9.5% over the same period (its highest growth over the past five years), to reach US$ 596 billion. In parallel, bank lending rose by 4.7% within an improving operating environment, as loans to the private sector reached US$ 320 billion at end-September 2022. Banks have adequate capital overall and abundant liquidity, and asset quality has improved modestly from pandemic-era peaks. The IMF welcomed continued efforts by the Central Bank of the United Arab Emirates to strengthen the macro-prudential framework and promote the effective management of non-performing loans.

With respect to capital markets, they have been throughout the year 2022 at the mirror image of an improving economy. Over the first 11 months of the year, the change in share index reported 24.3% in Abu Dhabi and 4.0% in Dubai. In parallel, while Abu Dhabi's 5-year CDS spread slightly rose from 43 basis points at end-2021

EVOLUTION OF ECONOMIC PERFORMANCE



Sources: IMF, Bank Audi's Group Research Department

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to 47 basis points at end-November 2022, Dubai's 5-year CDS spread increased from 94 basis points at end-2021 to 102 basis points at end-November 2022.

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

UAE's hydrocarbons sector strongly benefiting from OPEC+ production cut

The hydrocarbon sector of the United Arab Emirates remains critical for its economy as 30% of GDP is directly based on the oil and gas industry and 13% of the country's exports are tied to it, as per the International Trade Administration's UAE country commercial guide.

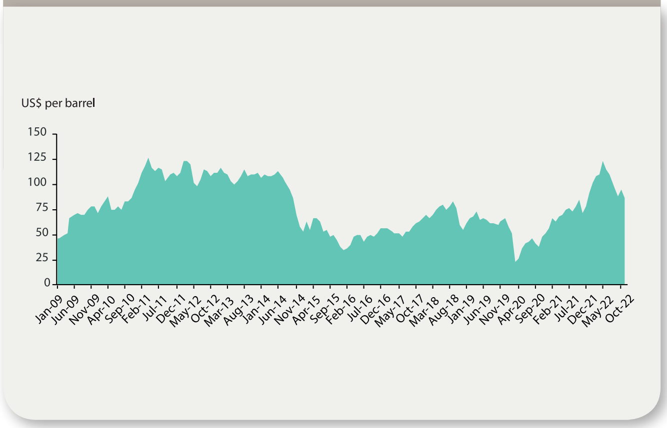
The UAE hydrocarbons sector is set to see a substantial real oil GDP growth in 2022 following 2021's minimal real oil GDP contraction. This mainly due to the OPEC+ oil output cut which saw the decrease of oil output at about 2% of global supply. In turn, as of October 2022, statista estimates the yearly average price of OPEC crude oil at US$ 103.0/barrel showing a 47.7% increase from 2021's US$ 69.7/barrel. The hike in oil prices as well as the continued post-COVID economic recovery has accounted for a positive impact on the sector.

The Central Bank of the UAE (CBUAE) has recently released its quarterly economic review for Q2 2022 in which it was forecasted that annual real oil GDP growth for 2022 will reach 11.5%. This forecast marks an increase from the previously forecasted 8% growth from the economic review for Q1 2022. Average oil production per day for Q2 reached 3 million bpd which falls in line with OPEC+ agreements. Moreover, this robust growth for the hydrocarbon sector follows a minimal contraction seen in 2021 of -0.7% as reported by the Central Bank of the UAE.

As per FitchSolutions' UAE Oil & Gas report for Q4 2022, Crude, NGPL & other liquids production for 2022 is forecasted to average 4.3 mbpd. Comparing this with estimates for 2021, can be noticed a 12.8% increase, up from 3.8 mbpd. Furthermore, a 14.9% increase in daily average production is noted between the years 2022 and 2020.

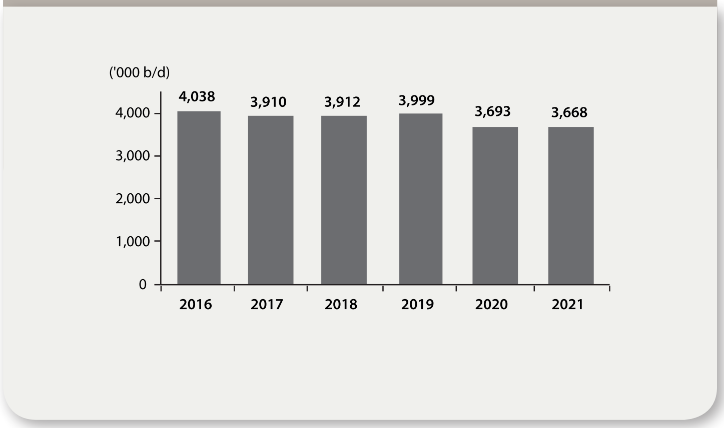
The UAE's Crude & other liquids net export is projected to increase by 14.4% year-on-year as per FitchSolutions'

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

OIL PRODUCTION



Sources: British Petroleum, Bank Audi's Group Research Department

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UAE Oil & Gas report for Q4 2022. Crude & other liquids net exports are forecasted to reach 3.3 mbpd in 2022, up from 2.9 mbpd in 2021. A 15% increase in the export of crude and other liquids is also forecasted between 2020 and 2022.

It is worth highlighting that according to the OPEC Annual Statistical Bulletin 2022, the United Arab Emirates held the 5th largest proven crude oil reserves among OPEC countries. The UAE's proven crude oil reserves reached 111 billion barrels or about 8.9% of global reserves as at end-2021.

Dry natural gas production in the UAE is forecasted to reach 56.5 billion cubic meters (bcm) in 2022. This forecast notes an increase of 3.1% from 2021's estimated production of 54.8 bcm. An increase of 4.1% in the production of dry natural gas is also forecasted between 2020 and 2022.

Moreover, the United Arab Emirates currently possesses the fourth largest natural gas reserves of the MENA region, as per FitchSolutions' UAE Oil & Gas report for Q4 2022.

Net exports of dry natural gas in the country is forecasted this year at -14 bcm or a year-on-year decline of 12.5% from 2021's -16 bcm. Furthermore, the year-on-year decline of net exports of dry natural gas in the UAE between 2020 and 2022 is of 13.6%, according to FitchSolutions' UAE Oil & Gas report for Q4 2022.

The UAE's energy market long-term production prospects looking forward remain bullish as upstream and downstream production as well as trade continue to grow. On the medium-term, growth of crude and condensates production is strongly dependent on brownfield expansion projects. However, with the restarting of exploration activity in the country, Greenfield could potentially show growth in the second half of the 2020's. As the start of the decade brought on constraints to production and delays to project start-ups, production growth would substantially depress from expectation. Moreover, the existing projects pipeline are incapable of accommodating the wanted capacity of 5 mbpd until the early-to-mid 2020s. Nonetheless, rising capital investment, a highly attractive investment climate as well as a growing resource base could make the target achievable. Increasing production capacity is expected to become more feasible at the middle of the decade. This possibility is due to the increasing size of the resource base and the number of pending upgrade and expansion projects. Nevertheless, threats remain on the sector as the long-run global demand for oil and gas is at risk following the growing global decarbonisation strategies. Growing regional tensions also have the potential of affecting the country's economy as a whole.

1.1.2. Construction

Continued growth for UAE's construction and real estate sectors

As a way to diversify the UAE's economy, efforts were undertaken by the government to strengthen the realty and construction sectors. These efforts are seen through policy reforms pushed forward to support prices in the real estate market. The country is also forecasted to continue benefiting from strong tourism growth at the end of 2022 and well into 2023 paired with an expected increase in household spending heading into 2023. The aforementioned factors as well as the resuming construction of delayed projects have led to a projected real growth of 3.2% year-on-year for the construction industry's value in 2022. This however marks a slowdown from 2021's estimated 5.9% year-on-year growth of the industry's value. Moreover, activity in commercial, industrial and residential construction projects are expected to be key growth drivers in the overall growth of the market, as per Fitch Solution's UAE Infrastructure Report for Q4 2022.

Real estate economic activities account for 8.2% of the non-oil GDP in the UAE and is therefore the fourth most important non-hydrocarbon sector. As growth continues in the real estate sector, a rise in prices of sales and rental is noticed. In Abu Dhabi, the average price per square meter (sqm) increased by 2.7% in the second quarter of 2022 as compared to the same period of 2021. Also, rental prices increased by a minimal amount of 0.2% year-on-year which led to a stable rental yield of 6.5% for the second quarter of 2022. Moreover, Dubai saw an increase on average of 25.4% year-on-year for the price of residential property sale in the second quarter of 2022. A 3.6% rise in rental prices has also been noticed in the second quarter of 2022 leading to a rental yield of 5.3%, as per the Central Bank of the UAE.

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It is worth noting that Gross Leasable Area (GLA) for retail projects in Dubai is expected to reach 4.8 million sqm and 3.1 million sqm in Abu Dhabi at Q4 2022. GLA for office real estate is expected to reach 9.2 million sqm in Dubai and 3.9 million in Abu Dhabi at Q4 2022. Furthermore, residential projects have an expected GLA at Q4 2022 of 692,000 sqm in Dubai and 280,000 sqm in Abu Dhabi, as per Jones Lang LaSalle (JLL)'s UAE Real Estate Market research for Q3 2022.

COVID restrictions in the UAE have loosened during 2022 and economic activity returned almost to normalcy prompting an increase in household spending. These factors led to activity in the residential building sub-sector to reaccelerate with new projects being put in place. Notably, Bloom launched the second phase of an Abu Dhabi based residential project called "Toledo" which will span over 2.2 million sqm. The subject project will feature 4,000 homes divided between townhouses and villas scheduled for completion in the first half of 2025. Also, Aldar Properties has launched a residential project in Abu Dhabi called "Yas Park Gate" with an estimated project valuation of AED 1.2 billion (US$ 313.1 million). Yas Park Gate will be built on 255,000 sqm and will feature around 500 homes with the project due to start construction in the first quarter of 2023. Furthermore, Jubail Island Investment Company broke ground on a project called "Souk Al Jubail" on Jubail Island. The project aims at constructing a residential community of 150 townhouses. The construction of the project will be in cooperation with China State Construction Engineering which has signed an AED 220 million (US$59.9 million) agreement to take up that position. The project is expected to be completed by the end of the first quarter of 2024, as per FitchSolution's UAE Infrastructure Report for Q4 2022.

Business confidence is set to increase in the United Arab Emirates as forecasted growth exceeds historical trends. Increased private consumption, investment activity and above-trend tourism sector output will also contribute in bringing positivity to businesses' sentiment. An increase in the confidence of businesses will in turn positively affect the office real estate sub-sector. Abu Dhabi's office market is primarily reliant on government-related entities and Small and Medium Enterprises (SMEs). Demand for space in the city's Abu Dhabi Global Market is expected to be sustained. Rental rates in Abu Dhabi are now seeing an increase as demand increases and supply remains moderate. In Dubai, the office market is experiencing growth due to demand being bigger than supply. The growing demand is especially towards larger office areas leading to a forecasted 5.1% rise in average rental rates for 2023. Meanwhile, in Sharjah rental rates for office property has become stable due to moderate supply and demand. As the city has a relatively small market size, only limited activity is seen. Activity in Sharjah is mainly comprised of SMEs and the city expects no new significant market supply in the near term. Moreover, the retail real estate market is also expected to go through growth as household spending increases and consumer sentiment in the country remains robust. The market is also expected to be supported by the forecasted growth in arrivals of international tourists. However, the rise in e-commerce presents a growing risk on the retail market as companies are trying to increase their online presence. This in turn prompts retailers to divert investment towards warehousing and logistics supply chains instead of physical stores, as per FitchSolutions.

The construction and infrastructure industry is forecasted to reach a valuation of AED 147.1 billion (US$ 40.1 billion) in 2022 noting an increase of 3.2% from 2021's valuation of AED 143.1 billion (US$ 39 billion). This comes as a result of the government's goal to diversify its economy leading to increased investments in industrial construction as well as infrastructure projects.

The year 2022 saw the signing of multiple agreements and the beginning of multiple projects in the construction of manufacturing complexes notably "Borouge 4". The creation of new warehousing areas was noticed as well with the example of "Jafza Logistics Park". The facility will cover 46,000 sqm of total leasable area 87% of which will be allocated to warehousing. Furthermore, as the UAE's non-hydro renewables capacity grows, a continued need for grid infrastructure investment is ensured. The UAE also stands as the most attractive market in the MENA region for green hydrogen industry development which shows a promising future for the construction sector. This growth comes as the government works on reforms and incentives to attract foreign investments. New commercial laws and Visa schemes for entrepreneurs are being put in place with the aim of making it easier for foreign investors to invest in the UAE.

As growth and diversification of the economy continues, there exists room for the creation of additional Real Estate Investment Trusts (REITs) which offers an opportunity for the real estate sector. These trusts are attractive hedges against the international inflationary pressures experienced currently and are relatively low-risk due to their diversification of investment and professional management. The creation of REITs has the possibility of creating higher potential for foreign and local investment in the realty sector.

In conclusion, as the UAE aims to make its economy more sustainable and not as dependent on the unpredictable hydrocarbon revenues, the construction and real estate sectors are noticing robust growth. This growth is expected to continue in the long-term as the country's geopolitical situation stabilizes and investments in its major cities becomes more attractive to foreign investors. Moreover, continued effort by the government to develop the UAE's grid and logistics infrastructure will contribute to the development of the construction sector. Challenges still remain though as investor demand towards relatively risky assets, which includes real estate, is declining. Also, work-from-home strategies adopted during COVID present a risk on the office real estate market as it reduces demand for office space. The rise in the usage of online shopping is also expected to pose a threat to the future growth of the retail real estate market. Having said that, the rising popularity of online shopping aids the construction sector's growth through the construction of warehouses and investment in logistics-related infrastructure.

1.1.3. Transport

UAE's transport sector on track for significant growth post-pandemic

The increasing urbanization rate in the UAE and the government's aim to bolster tourism and broaden internal and external logistical connectivity remain the main drivers for transport development in the country after pandemic.

Railway projects take over a share of 33% of the UAE's transport infrastructure project pipeline, as per Fitch solutions. Abu Dhabi and Dubai emirates account for the bulk of metro line developments with substantial plans for expansion and upgrades of both systems, as per the same source.

The UAE's primary growth driver for rail infrastructure remains the US$ 11 billion Etihad Rail Project, which is a 1200 km railway project that has started in 2020 and is expected to be completed in 2024. Besides, the railway freight terminal connection between Industrial City of Abu Dhabi (ICAD) and the UAE National Rail Network's main line was completed in September 2022. ICAD would facilitate the transportation and distribution of goods across the UAE and would be able to handle more than 20 million tons of cargo each year, within an area spanning 2.7 million square feet and consisting of more than 20 buildings and structures to support operations, as per Fitch Solutions.

Furthermore, Etihad Rail (the developer and operator of the UAE's National Rail network) and Dubai Industrial City agreed this year to develop a new rail freight terminal with 5 million tons of capacity in Dubai. The terminal would contribute to cementing the UAE's position as an international trade hub and boost Dubai's global competitiveness in manufacturing, logistics, transport, trade, and investment.

Etihad Rail also reached an agreement with the UAE leading petrochemical company Borouge, to transport 1.3 million tons of polyolefins annually from its petrochemical complex in Al Ruways Industrial City via rail for export. This strategic partnership comes in line with Etihad Rail's efforts to provide logistics solutions to some of the country's largest companies, where they can transport goods through the rail network at reduced costs and time. Etihad Rail also contributes to reducing carbon emissions, in line with the objectives of the UAE.

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.

As for the development of ports in the country, the country's investment in port infrastructure is expected to continue to emphasize its role as a shipping and logistics hub. The UAE's two major ports at Khalifa and

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Jebel Ali benefited from the country's location along major shipping corridors between Europe and Asia, as well as proximity to energy producers in the Middle East.

In conclusion, the UAE's transport infrastructure outlook remains promising. 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 reports a sustained growth

The tourism sector in the UAE reported a sustained growth in 2022, and the county's arrivals are set to have fully recovered in 2022, even rising above pre-pandemic levels. This is driven by several supportive underlying factors, mainly the successful rollout of vaccines and the lifting of Covid-19 travel restrictions.

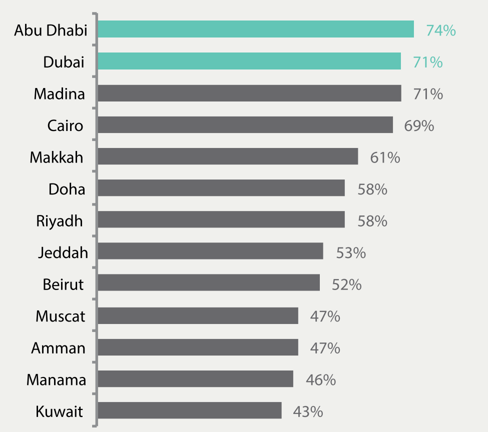
The UAE's tourism revenues surpassed AED 18 billion in the first half of 2022, with a stronger performance expected during the Football World Cup 2022, as per the Central Bank of UAE. Concurrently, Abu Dhabi and Dubai, the two main tourist and business travel hubs of the country, continue to encourage tourism investment in various related sectors, creating new investment opportunities and attracting more visitors. Dubai eyes developing attractions for families through theme parks, shopping and luxury hotels with extensive leisure facilities. Concomitantly, Abu Dhabi is increasing its touristic focus on Meetings, Incentives, Conferences and Exhibitions (MICE) and cultural tourism.

Dubai International Airport persisted to be among the top positions of world's busiest airports by the number of international passengers. In fact, the airport welcomed 27.8 million passengers in the first half of 2022, up more than 160% from the same period in 2021, with the average daily traffic reaching 214,000 travelers, as revealed by the Central Bank of the UAE. International tourism receipts are forecasted to have reported an annual growth of 58.5% in 2022 to stand at AED 37.10 billion, as per Fitch Solutions.

On the other hand, as the country is cementing its position as a tourist destination attracting millions of visitors every year, the UAE hospitality sector continued to grow in 2022. The hospitality market across four and five star hotels in Dubai registered gains across all the KPIs in the first eight months of 2022. In Dubai, occupancy rates expanded by 13.6% during the first eight months of 2022 when compared to the same period last year, coupled with an average room rate rise by 34.8% from US$ 229 during the first 8M 2021 to US$ 309 in 8M 2022, as per Ernst & Young. Accordingly, RevPAR went up by 66.8% from US$ 131 in 8M 2021 to US$ 218 in 8M 2022.

Dubai Expo 2020, along with Asia Cup 2022 , the 25th edition of Dubai Summer Surprises (DSS) 2022, the

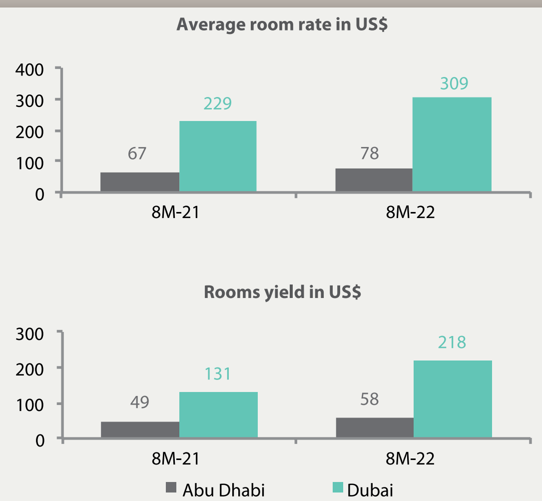
COMPARATIVE HOTEL OCCUPANCY RATES*



* 8 Months 2020

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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annual shopping festival, and the Dubai Destinations campaign's latest phase promoting Dubai's unique summer destinations, have been a big draw for tourists in 2022 and strengthened Dubai's hospitality sector.

In parallel, Abu Dhabi's hospitality market witnessed a slight rise in occupancy rate of 0.3% in 8M 2022 when compared to 8M 2021, coupled with an increase in the average room rate of 16.8% from US$ 67 in 8M 2021 to US$ 78 in 8M 2022, as per Ernst & Young. Consequently, RevPAR went up by 17.3% from US$ 49 in 8M 2021 to US$ 58 in 8M 2022.

In conclusion, the tourism sector in the UAE remains one of the pillars of the country's diversification strategy. In a forward look, the county's arrivals are forecasted to remain positive in 2023 with a strong growth, as economic activity increases amid a recovery from the negative impact of the Covid-19 pandemic, as stated by Fitch Solutions.

1.2. EXTERNAL SECTOR

Higher oil exports push UAE's current account surplus beyond pre-pandemic levels

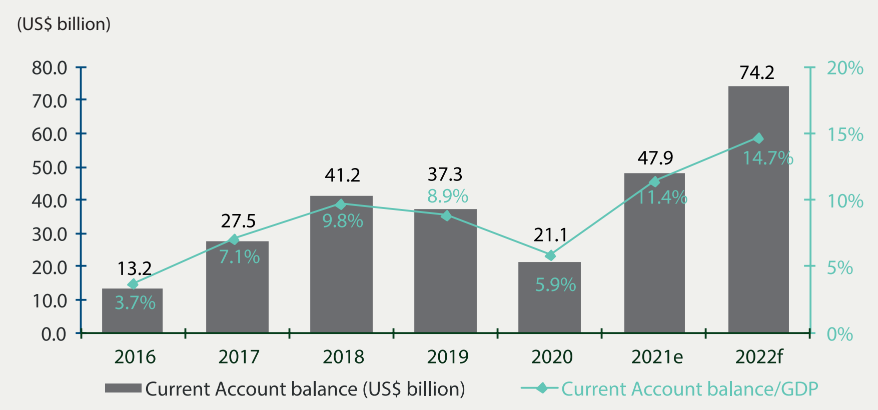
The UAE's external sector was at the mirror image of the robust domestic economic growth in 2022, with the non-oil foreign trade hitting unprecedented high levels over the first half of the year, registering high single-digit to double-digit growth across all areas of trade, including exports, imports and re-exports.

In details, the UAE's non-oil foreign trade volume topped for the first time the AED 1 trillion level (US$ 288 million) over the first half of 2022, which marks a 17% growth compared to the same period of 2021, as per government's officials. 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 various initiatives undertaken by the UAE to develop and diversify its exports.

In details, the UAE's non-oil exports, which account for 17% of non-oil trade, touched a record high level of circa AED 180 billion during the first half of 2022, up by 8% relative to the same period of 2021 and 50% when compared to pre-pandemic levels in the first half of 2019. Concurrently, UAE's re-exports neared AED 300 billion during the first half of 2022, which marks a 20% expansion relative to the same period of 2021 and a 16% growth when compared to pre-pandemic levels in the first half of 2019.

In parallel, the UAE's imports, which represent 55% of non-oil foreign trade, grew by 19% year-on-year during the first half of 2022 to reach circa AED 580 billion. This marks a 24% expansion compared to pre-pandemic levels in the first half of 2019. That being said, the much quicker growth in imports against exports widened the non-oil trade deficit in the UAE this year.

CURRENT ACCOUNT BALANCE



Sources: IMF, Bank Audi's Group Research Department

A closer look at Abu Dhabi in particular shows that the Emirate's non-oil foreign trade reached about AED 124 billion over the first half of 2022, compared to AED 110 billion during the same period of 2021, marking a 12% growth.

Non-oil exports in Abu Dhabi surged by 26% year-on-year during the first half of 2022, reaching AED 50 billion, while re-exports grew by a yearly 6% to reach AED 23 billion. In parallel, non-oil imports in Abu Dhabi rose by 4% year-on-year to reach circa AED 52 billion over the first half of 2022.

The breakdown of non-oil foreign trade in Abu Dhabi by country shows that Saudi Arabia accounted for the largest share of activity over the first half of 2022 (AED 29 billion, up by 3% year-on-year), followed by Switzerland (AED 10 billion, up by 260%), USA (AED 9 billion, up by 21%), China (AED 6 billion, up by 9%) and Kuwait (AED 6 billion, up by 13%).

Looking forward, proactive government policies to enhance the country's commercial attractiveness, and diversify and expand its trade partnerships with global markets, and new business-friendly reforms would continue to provide support to the UAE's non-oil foreign trade. The country's current account surplus is estimated to reach an eight-year high of 14.7% of GDP in 2022 and 12.5% of GDP in 2023, as per the IMF, mainly benefiting from higher oil prices and strong oil exports, recent bilateral free trade agreements with Asian partners, as well as the removal of the temporary COVID-crisis related fiscal support to businesses and households as the pandemic has gradually waned.

1.3. PUBLIC SECTOR

UAE's fiscal surplus quadrupling in first half of 2022, owing to higher oil receipts and tax collection

The improving trend in UAE's public finance has intensified during the first half of 2022 on the heels of higher oil prices and production, while steps to underpin revenue diversification are underway with the recent introduction of a corporate income tax effective in 2023.

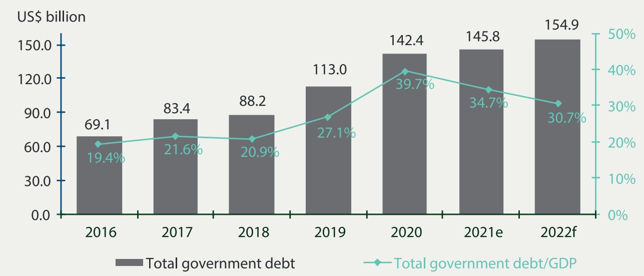
Going further into details, government revenues registered a significant increase of 46.7% year-on-year, moving from AED 208.3 billion (the equivalent of US$ 56.7 billion) in the first half of 2021 to AED 305.6 billion (the equivalent of US$ 83.2 billion) in the first half of 2022, as per the latest figures released by the Ministry of Finance. This is mainly explained by high oil revenues and tax and fees collection. In fact, tax

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2020	2021	H1-21	H1-22	H1/H1
Public revenues	100.2	126.3	56.7	83.2	46.7%
Public revenues/GDP	27.9%	30.1%	27.0%	33.0%	6.0%
Public expenditures	96.1	104.1	46.2	49.0	6.1%
Public expenditures/GDP	26.8%	24.8%	22.0%	19.5%	-2.6%
Fiscal balance	-8.6	16.7	8.0	32.1	300.3%
Fiscal balance/GDP	-2.4%	4.0%	3.8%	12.8%	8.9%

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

PUBLIC DEBT



Sources: IMF, Bank Audi's Group Research Department

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revenues almost doubled year-on-year, moving from AED 84.5 billion in the first half of 2021 to AED 167.9 billion in the first half of 2022, mainly reflecting increased business activity. As such, annualized general government revenues are set to reach 33.0% of GDP in 2022, up from 27.0% of GDP in 2021.

On the spending front, government expenditures registered a year-on-year increase of 6.1%, moving from AED 169.7 billion (or US$ 46.2 billion) over the first half of 2021 to AED 180.1 billion (or US$ 49.0 billion) over the same period of 2022. The "use of goods and services" grew by 12.7% year-on-year, moving from AED 55.3 billion in the first half of 2021 to AED 62.4 billion in the first half of 2022, with its growth accounting for more than two-thirds of the rise in spending. Compensation of employees increased by a yearly 1.4% to reach AED 57.5 billion in the first half of 2022. 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 18.3% year-on-year to reach AED 7.4 billion in the first half of 2022.

As government revenues are rising at a faster pace than government expenditures, the overall UAE government net lending/borrowing surplus almost quadrupled year-on-year, moving from AED 29.5 billion (or US$ 8.0 billion) in the first half of 2021 to AED 118.0 billion (or US$ 32.1 billion).

In parallel, preliminary figures released by the Ministry of Finance for the third quarter of 2022 showed that government revenues expanded by 17% year-on-year, reaching AED 148.1 billion as compared to AED 126.3 billion during the corresponding period of 2021. Government expenditures increased by 5% year-on-year to reach AED 96.5 billion. In this context, the IMF expects the UAE to record fiscal surpluses of 7.7% in 2022, mainly due to higher oil revenues amid higher oil prices and production, and because of Dubai's economic performance and inflow of new businesses and expats.

In 2023, the fiscal surplus is projected to ease to 4.9% of GDP, as per the IMF, mainly due to oil production cuts, as OPEC+ decided early-December 2022 to stick to its policy of reducing oil production by 2 million barrels per day from November 2022 until the end of 2023. As part of fiscal reforms, the UAE issued on December 9, 2022 the federal corporate tax law that would levy a headline 9% on taxable income exceeding AED 375,000, noting that businesses would become subject to the said tax from the beginning of their first financial year that starts on or after 1 June 2023. The IMF welcomes the planned fiscal reforms in the UAE, including the expected introduction of a corporate income tax and gradual phasing out of business fee structures. These should be further advanced to underpin a gradual growth friendly fiscal consolidation in the context of a strong medium-term fiscal framework to maintain fiscal sustainability, as per the Fund.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Rising inflationary pressures in the UAE, coupled by aggressive tightening of monetary conditions

The year 2022 in the UAE saw rising inflationary pressures amid soaring global oil and commodity prices after the Russian invasion of Ukraine, and a tightening of monetary conditions in line with the US Federal Reserve's aggressive interest rate hikes since March 2022, given the UAE Dirham peg to the US dollar.

Inflation in the UAE averaged 5.5% year-on-year during the first nine months of 2022, and is forecasted to reach 5.6% on average for the whole year, according to the Ministry of Economy. Consumer prices in the UAE remained below the global average inflation of 8.8% projected by the IMF for the year 2022. This is mainly helped by inflation subsidies provided by the UAE government to low-income families to cope with the worldwide rise in fuel, food, electricity and water prices, in addition to rent controls in the country.

Latest quarterly CPI figures released by the UAE Federal Competitiveness and Statistics Authority showed that consumer prices surged by 6.8% year-on-year during the second quarter of 2022, up from 3.4% y-o-y in the first quarter of the year. A breakdown by category for the Consumer Price Index showed that the "transportation" category, which has a weight of 12.7%, registered the largest yearly price increases of 31.2% in the second

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quarter of 2022, following a 22.6% y-o-y expansion in the first quarter of the year. This is mainly explained by soaring oil prices following the Russia-Ukraine war, as Brent prices surged by 57% on average year-on-year during the first half of 2022. Also, the "food and beverages" category, which has a weight of 12.0% in the CPI, has risen with global trends, posting yearly price rises of 9.0% in the second quarter of 2022, following a 5.7% y-o-y rise in the first quarter of the year. In contrast, the "housing, water, electricity, gas" category was the only category that has registered a yearly price contraction of 0.4% in the second quarter of 2022, following a 2.0% y-o-y decline in the first quarter of 2022, which is mainly explained by rent controls in the UAE.

Monetary aggregates in the UAE remained in an expansionary mode over the first nine months of 2022. 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 3.0% during the first nine months of 2022, moving from US$ 191.1 billion at end-2021 to US$ 196.8 billion at end-September 2022. This followed a 17.0% expansion in M1 in 2021. The broader money supply (M2), which consists of Money Supply (M1) plus quasi-monetary deposits, grew by 5.3%, moving up from US$ 425.6 billion at end-2021 to US$ 448.1 billion at end-September 2022, with net foreign assets at banks more than doubling, moving from US$ 42.1 billion at end-2021 to US$ 96.8 billion at end-September 2022. This followed a 5.7% expansion in (M2) in 2021.

Given the UAE dirham/US dollar peg 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 seven times over the year 2022 starting March, by a total of 425 basis points to reach a current level of 4.40%, following the lead taken by the US Federal Reserve to aggressively tighten its monetary policy to tame decades-high US inflation. Concomitantly, the CBUAE maintained the rate applicable to borrowing short-term liquidity from the CBUAE through all standing credit facilities at 50 basis points above the base rate.

Last but not least, the Central Bank's gross international reserves contracted by 9.0% over the first nine months of 2022 or the equivalent of US$ 11.8 billion, moving from US$ 131.1 billion at end-December 2021 to US$ 119.3 billion at end-September 2022. This is mainly driven by a 14.0% contraction in "current account balances & deposits with banks abroad" or the equivalent of US$ 10.7 billion to reach US$ 65.7 billion at end-September 2022, and given an 11.9% fall in foreign securities or the equivalent of US$ 4.4 billion to reach US$ 32.6 billion at end-September 2022. When excluding foreign liabilities, the Central Bank's net international reserves reached US$ 115.6 billion at end-September 2022, down by 8.9% relative to end-2021. Accordingly, the Central Bank's net international reserves coverage ratio to money supply (M1) and Dirham deposits reached 34.4% at end-September 2022, down from 38.1% at end-December 2021.

Looking forward, the IMF expects Inflationary pressures to moderate gradually to average 3.6% in 2023 after

UAE MONETARY FLOWS

Flows in US$ million	**2020**	**2021**	**9M-22**
Net international reserves	**7,947**	**28,954**	**43,359**
Central Bank (net)	**-3,587**	**23,171**	**-11,333**
Gross international reserves	-1,659	24,417	-11,821
Foreign Liabilities	1,928	1,246	-488
Banks (net)	**11,534**	**5,783**	**54,691**
Foreign Assets	21,235	22,898	57,482
Foreign Liabilities	9,701	17,115	2,790
Net Domestic Assets	**9,872**	**-5,967**	**-20,891**
Claims on private sector	-8,353	4,734	13,071
Net claims on public sector	20,102	1,741	-33,112
Claims on financial institutions	636	-435	-333
Capital & Reserves	-420	-2,496	802
Other Items (net)	-2,093	-9,511	-1,319
Broad Money (M2)	**17,819**	**22,987**	**22,468**
Money Supply (M1)	23,145	27,718	5,736
Quasi-Money	-5,326	-4,731	16,732

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

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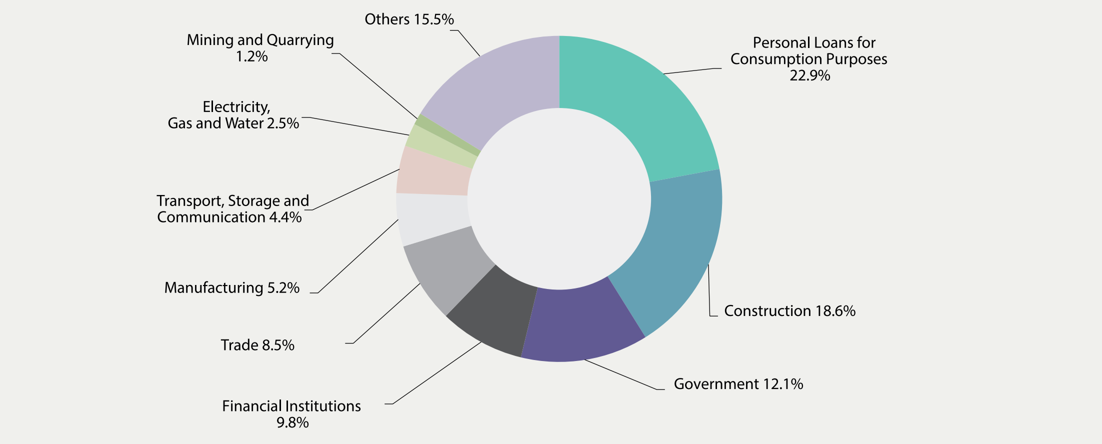
hitting 14-year highs in 2022, including from the impact of tightening financial conditions. This came along recession jitters and lingering uncertainties about the global oil demand outlook. Concurrently, key interest rates are set to continue to follow the lead taken by the US Federal Reserve in tightening its monetary policy during the first half of 2023, given the UAE Dirham peg to the US dollar.

1.4.2. Banking Activity

Healthy activity growth amid rising interest margins fueling better returns

The UAE banking sector fared well the changing global conditions of this year, reporting healthy activity growth amid rising interest margins fueling better returns along with slightly improving asset quality. Measured by the aggregation of assets of all banks operating in the UAE, banking activity grew by 7.9% in the first nine months of 2022 (against a growth of 4.2% in full-year 2021). Total deposits increased by 9.5% over the same period (its highest growth over the past five years), to reach US$ 596 billion. In parallel, bank lending rose by 4.7% within an improving operating environment, as loans to the private sector reached US$ 320 billion at end-September 2022. UAE banks remain well capitalized, with a capital adequacy ratio

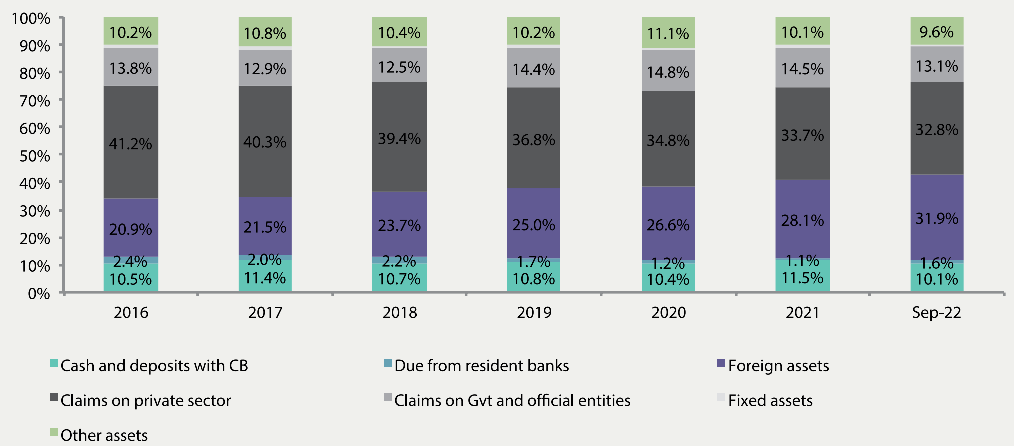
BANK CREDIT TO RESIDENTS BREAKDOWN BY ECONOMIC ACTIVITY



* September 2022 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

of 16.9% and a Common equity Tier One ratio capital ratio of 14.0% as at June 2022.

Going further in details, the UAE banking system remains quite fragmented, and counts 59 banks with a total banking system assets at US$ 959 billion as of August 2022, and with the four largest banks controlling around 76% of assets. At the funding level, UAE banks rely on stable sources of funding (mainly deposits and equity), combined with deep capital market access for the largest banks. Moody's expects banks to remain mostly deposit-funded (72% of non-equity funding) and moderately reliant on market funding. However, high depositor concentrations from GREs and corporates, as well as term structure challenges given the short-term nature of banks' deposits, moderate these funding strengths. Government deposits accounted for 30% of total deposits as of August 2022, broadly unchanged from December 2019.

With respect to asset quality, the ratio of non-performing loans to gross loans continued its contraction this year, to record 6.9% at end-June 2022, against 7.3% at end-2021 and 7.6% at end-2020. Several factors yet still pose a risk to the quality of lending of UAE banks, including their large stock of renegotiated and restructured corporate debt and concentrated loan books with sizable exposure to the inherently volatile construction and real estate sectors. The sizeable portion of renegotiated and restructured debt from government-related enterprises (GREs) and large corporates notably increases the potential for future delinquencies. UAE banks' stock of renegotiated and restructured debt includes large distressed restructurings from the 2008 global financial crisis, including restructured debt from investment companies Dubai World and Dubai Holding, as well as a sizeable amount of debt renegotiated and restructured post-crisis.

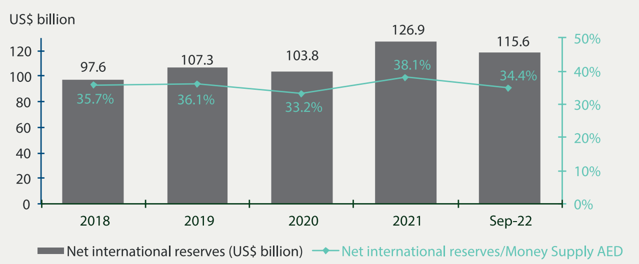
UAE banks' large direct and indirect exposure to the construction and real estate sectors poses a sizeable risk to their asset quality as well, given these sectors' higher-than-average delinquency levels. Direct lending to the construction and real estate sectors is high, representing 18% of the sector wide loan book as of

EVOLUTION OF BANKING AGGREGATES

US$ billion	2018	2019	2020	2021	Sep-22
Total assets	781.1	839.5	868.1	904.4	975.6
% YTD growth in assets	6.5%	7.5%	3.4%	4.2%	7.9%
Total deposits	478.1	509.2	513.2	543.6	595.5
% YTD growth in deposits	7.9%	6.5%	0.8%	5.9%	9.5%
Total bank loans to the private sector	307.7	308.9	301.8	305.2	319.6
% YTD growth in bank loans to the private sector	4.0%	0.4%	-2.3%	1.1%	4.7%

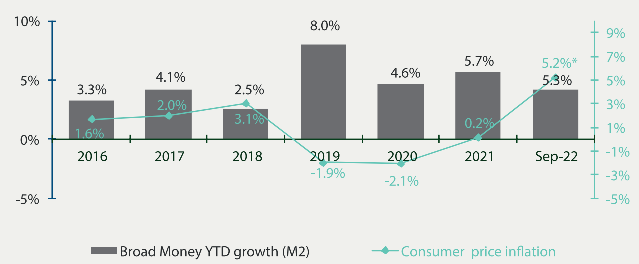
Sources: Central Bank of UAE, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



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

BROAD MONEY AND INFLATION



* *IMF full-year forecast*

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

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June 2022 according to Moody's. However, tighter regulation of real estate exposures since the financial crisis and improved underwriting practices mitigate these risks. Structural exposure to government-related entities (GREs) is also a risk. A limited number of large government-owned companies and bodies and family-owned conglomerates dominate the economy, and UAE banks have made large concentrations of loans to them. This generates significant risk, particularly given the large debt appetite of government and related entities in Dubai. However, stricter central bank rules on borrower concentrations since the financial crisis moderate this risk.

At the profitability level, banks' net interest income grew significantly this year, driven by higher margins in a rising interest rate environment. Pressures on net interest margins have reversed, driven by the change in the interest rate cycle. As a result, and combined with the banks' funding profile, higher interest income outweighed funding costs and drove an increase in the net interest margin (NIM) amid a slight growth in non-interest income. Operating expenses increased as well, but growth in income drove stable efficiency levels. As a result, return on assets recovered and stood at 1.4% for the second quarter of the year, up from 1.0% in the same period in 2021 but still below the 1.6% reported at the end of 2019. Likewise, return on equity approached the vicinity of 10.0%, its highest level since end-2019. As pandemic-related provisioning charges end, a reversal in benchmark interest rates and restored business activity, reflected in operating income, are likely to support UAE banks' profitability at large.

1.4.3. Equity and Bond Markets

Strong equity price gains on IPO boom and higher oil prices, bond markets plunge deeper into red amid aggressive global monetary tightening

The UAE equity markets continued to register strong price gains in 2022, bucking a global sell-off mood stoked by mounting global recession fears and restrictive global monetary policies. This was mainly supported by a spike in initial public offering listings in the UAE, an oil price rally, continuous economic diversification and improved business activity on the overall. In contrast, the UAE fixed income markets dipped further into the red in 2022 amidst a global monetary tightening environment, as global major Central Banks delivered aggressive interest rate hikes to tame soaring inflation stoked by post-pandemic recovery and the Russian invasion of Ukraine.

The UAE equity markets continued to register a strong price rally and an increase in activity over the first eleven months of 2022. This is mainly driven by:

1. New listings of leading government-related and private companies on the Dubai Financial Market and the Abu Dhabi Securities Exchange amid a strategic plan to reinvigorate the UAE's capital markets and deepen the liquidity pool.

2. Strong oil price gains after the Russian invasion of Ukraine, as Brent prices averaged US$ 92 per barrel over the first eleven months of 2022 as compared to US$ 64 per barrel on average in 2021.

3. Flourishing UAE's real estate market in 2022, due to economic business reforms and government initiatives such as the Golden Visa, a rebound in global travel after the COVID-19 pandemic, increased tourism and retail activity from FIFA World Cup Qatar 2022.

4. Continuous growth in the non-oil private sector at a robust pace. The seasonally adjusted S&P Global UAE Purchasing Managers' Index stayed well above the 50.0 neutral mark in October 2022 (56.6), which signals a sharp improvement in the health of the non-oil economy.

5. A shift to Saturday-Sunday weekend since the start of 2022 in line with global markets.

In details, the Dubai Financial Market embarked into a flurry of public share offerings amid Dubai's plan to deepen its capital markets, attract foreign investment and accelerate new listings that unlock value and growth in vital sectors. The Dubai Financial Market saw six new heavy listings this year. State-owned DEWA,

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which was listed in April 2022, is currently the largest company on the exchange by market capitalization, followed by SALIK, Empower, TECOM, Union Coop and Taaleem. Under these conditions, the DFM General Index rose by 4.0% during the first eleven months of 2022, moving from 3,195.91 at end-2021 to 3,323.96 at end-November 2022.

The breakdown of the DFM General Index by sector during the first eleven months of 2022 shows that the consumer staples and discretionary sector registered the highest index surge of 216.4% (the DFM consumer staples index has a light weight of 0.71% in the general index) , followed by the transportation sector with +19.2%, the real estate sector with +17.6% (the DFM real estate index has the second largest weight in the general index of 30.7%), the industrial sector with +12.5%, and the banking sector with +4.0% (noting that the DFM banks index has the largest weight in the DFM general index of 44.5%). In contrast, the telecommunications sector registered the highest index drop of 14.4%, followed by the financial and investment services sector (-10.5%), the insurance sector (-10.0%), the services sector (-2.3%).

The Dubai Financial Market was marked by increased activity over the first eleven months of 2022, as shown by a yearly expansion in the total turnover of 43.9% to reach US$ 22.8 billion, noting that the "financials sector" and the "real estate sector" captured 76.3% of the total. The total number of traded shares reached 35.3 billion shares over the first eleven months of 2022 against 40.3 billion shares during the same period of 2021, down by 12.4%. The total number of trades was quoted at 1,330,966 during the first eleven months of 2022 versus 698,614 during the same period of 2021, up by 90.5%. On the back of new heavy listings and due to equity price gains, the market capitalization on the Dubai Financial Market surged from US$ 105.8 billion at end-November 2021 to US$ 158.6 billion at end-November 2022, up by 49.9%. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, fell from 16.3% over the first eleven months of 2021 to 15.7% over the corresponding period of 2022.

Also, the Abu Dhabi Securities Exchange registered robust price gains and a rise in activity over the first eleven months of 2022 amid an IPO boom and higher oil prices after Ukraine war. It is worth mentioning

ABU DHABI STOCK MARKET INDICATORS

	2018	2019	2020	2021	Nov-22
Market capitalization (in US$ billion)	135.1	142.0	198.3	425.9	704.0
Trading value (in US$ billion)	9.4	11.7	17.5	88.9	88.9
Turnover ratio	7.0%	8.3%	8.8%	20.9%	13.8%
Trading volume (in millions)	12,382	11,603	18,395	51,938	54,826
Number of transactions	266,298	380,249	501,904	1,260,695	2,305,236
General share price index	4,915	5,076	5,045	8,488	10,552
% Change in share price index	11.7%	3.3%	-0.6%	68.2%	24.3%
5-Year CDS spreads (bps)	67	36	38	43	47

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

DUBAI STOCK MARKET INDICATORS

	2018	2019	2020	2021	Nov-22
Market capitalization (in US$ billion)	83.7	93.5	83.7	109.7	158.6
Trading value (in US$ billion)	15.0	13.3	16.5	17.9	22.8
Turnover ratio	17.9%	14.2%	19.8%	16.3%	15.7%
Trading volume (in millions)	39,634	34,919	58,155	45,051	35,259
Number of transactions	578,988	562,252	874,406	796,023	1,330,966
General share price index	2,530	2,765	2,492	3,196	3,324
% Change in share price index	-24.9%	9.3%	-9.9%	28.2%	4.0%
5-Year CDS spreads (bps)	129	91	112	94	102

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

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that ADX has partnered with FTSE Russell early-January 2022 to co-brand and co-develop indices for the ADX market. Accordingly, FTSE ADX general index replaced ADX General Index, and FTSE ADX sector indices replaced existing sector indexes, while introducing four new sector indices (the healthcare index, the consumer discretionary index, the utilities index and the basic materials index). Regarding new listings, the Abu Dhabi Securities Exchange saw in 2022 the listing of Borouge's stock, which is currently the fifth heaviest stock by market capitalisation, followed by Abu Dhabi Ports, Burjeel Holdings, Bayanat, Invictus investment company, and Chimera FTSE ADX 15 ETF.

FTSE ADX general index surged by 24.3% over the first eleven months of 2022, moving from 8,488.36 at end-2021 to 10,552.37 at end-November 2022. The breakdown of the FTSE ADX general index by sector during the first eleven months of 2022 shows that the utilities sector recorded the highest price surge of 179.3%, followed by the financials sector (+49.3%), the basic materials sector (+27.2%), the real estate sector (+16.7%), the consumer discretionary sector (+12.1%), and the industrial index (+9.2%). In contrast, the healthcare sector registered the largest price drop of 28.1%, followed by the telecommunications sector (-18.3%), the consumer staples sector (-16.5%), the energy sector registered price declines of 1.0%.

The total trading value rose by 12.2% during the first eleven months of 2022 when compared to the same period of 2021 to reach US$ 88.9 billion. The total number of traded shares reached 54.8 billion shares over the first eleven months of 2022 against 46.4 billion shares during the same period of 2021 (up by 18.1%), and the total number of trades more than doubled year-on-year, moving from 1,096,872 during the first eleven months of 2021 to 2,305,236 during the first eleven months of 2022. The number of listed companies rose from 85 companies at end-2021 to 100 companies at end-November 2022. The market capitalization jumped from US$ 426.6 billion at end-November 2021 to US$ 704.0 billion at end-November 2022, up by 65.0%, mainly supported by strong equity price gains and additional listings. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, reached 13.8% during the first eleven months of 2022 as compared to 20.2% over the corresponding period of 2021.

In contrast, the UAE fixed income markets plunged deeper into the red over the first eleven months of 2022, mainly tracking US Treasuries move after the US Federal Reserve embarked into aggressive monetary tightening since March 2022 to quell scorching inflation. Yet, bond prices started recovering slightly in December 2022 amid a flight to safety, as the US Fed hawkish for longer comments in its December FOMC meeting fueled global recession concerns.

In the Abu Dhabi credit space, sovereigns maturing in 2026 and 2031 posted large price contractions of 10.00 pts and 13.75 pts respectively over the first eleven months of 2022. Mubadala papers maturing in 2026 registered price falls of 9.99 pts. ADNOC'29 plunged by 16.67 pts. Etisalat'24 registered price drops of 7.75 pts. Taqa'26 were down by 11.38 pts. Amongst financials, ADIB Perpetual (offering a coupon of 7.125%) recorded price falls of 6.09 pts. Prices of Al Hilal Bank'23 declined by 6.28 pts. ADCB'23 posted price decreases of 3.69 pts. First Abu Dhabi Bank'24 saw price contractions of 7.52 pts. As to the cost of insuring debt, Abu Dhabi's five-year CDS spreads reached 47 bps at end-November 2022 as compared to 43 bps at end-2021, which is the lowest in the MENA region.

In the Dubai credit space, sovereigns maturing in 2029 registered large price falls of 14.45 pts during the first eleven months of 2022. Majid Al Futtaim'29 saw price drops of 15.80 pts. DP World'30 closed down by 14.84 pts. Emaar'26 traded down by 9.87 pts. Prices of Emirates Airline'28 contracted by 6.61 pts. As to papers issued by financial institutions, Emirates NBD papers Perpetual (offering a coupon of 6.125%) registered price decreases of 7.43 pts. As to the cost of insuring debt, Dubai's five-year CDS spreads increased from 94 bps at end-2021 to 102 bps end-November 2022.

Regarding new bond issues, the Federal government of the UAE returned to international bond markets in June 2022 following its debut sale of US$ 4 billion in October 2021, taking advantage of demand for high-quality debt amid mounting concerns over a global recession. The UAE raised US$ 3 billion from the sale of a dual-tranche bond as part of its multi-currency GMTN program: US$ 1.75 billion 10-year tranche at 100 bps over US Treasuries as compared to an initial price guidance of 125 basis points over UST, and US$ 1.25 billion 30-year Formosa tranche at 175 bps over US Treasuries versus an initial price guidance of 200 bps over UST. The dual-tranche bond attracted more than US$ 15 billion in orders.

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Also, the UAE federal government launched in 2022 dirham Treasury bonds with a benchmark auction size of AED 1.5 billion, in a move aimed to building a local currency bond market, diversifying financing resources, boosting the local financial and banking sector, and providing safe investment alternatives for local and foreign investors. In details, the UAE federal government launched in May 2022 two-year AED 1.75 billion bonds at a coupon of 3.01% and three-year AED 1.75 billion bonds at a coupon of 3.24%. Also, the UAE issued in September 2022 AED 1.5 billion bonds at a coupon of 3.65%. Accordingly, the UAE has reached in 2022 its AED 9 billion target for domestic local currency issuances intended to develop the domestic bond market.

As to credit ratings, Fitch Ratings affirmed in October 2022 the UAE's long-term foreign currency Issuer Default Rating at "AA-" with a "stable" outlook. The "AA-" rating reflects the UAE's moderate consolidated public debt level, strong net external asset position and high GDP per capita. The "AA-" rating applies to the federal government of the UAE. Fitch evaluates the creditworthiness of the UAE FG based on the consolidated fiscal and external position of all the Emirates as is standard practice for federal entities, as well as the FG's standalone fiscal position and institutional set up, as per the international rating agency.

In the coming period, Fitch sees that the most significant effects of the federal government's local-currency debt issuance would materialise if the government succeeds in its stated goal of stimulating local financial-market development by creating a reference yield curve in dirham, adding that if the federal government's issuance does help to develop a local-currency debt capital market, the greater diversity of funding options could make borrowing easier and cheaper for private companies and individual emirates within the UAE. At the level of the equity market, the IPO boom is expected to extend into 2023, noting that over 11 companies have been either advised or in final stages for application approval for the listing on Abu Dhabi stock market, according to Abu Dhabi Department of Economic Development. Also, the government of Dubai is keen to pursue its privatisation program in 2023. This falls under the UAE's plans to deepen its capital markets and attract foreign investments.

CONCLUSION

Looking ahead, the UAE economic outlook remains positive, supported by domestic activity. The IMF expects non-hydrocarbon growth to be around 4% in 2023 and to accelerate over the medium-term with the implementation of ongoing reforms. Inflationary pressures are projected to moderate gradually, including from the impact of tightening financial conditions. Further development of domestic capital markets, including through the issuance of local currency debt by the federal government will also support growth.

Nevertheless, the outlook is subject to significant external uncertainties, including the impacts of global economic and financial headwinds, geopolitical developments, and the recently announced OPEC+ production cuts. PMI forecasts suggest the outlook for future activity turned increasingly uncertain recently, amid concerns over a likely downturn in the global economy. Expectations dropped to their lowest since March 2021.

Having said that, higher oil prices and healthy fiscal buffers help mitigate risks, while enhancing reform efforts would pose upside risks to medium-term growth. Given the macroeconomic outlook, near-term policies should focus on ensuring sustainable growth and maintaining financial stability, while guarding against inflationary outcomes. In this connection, the IMF welcomes the targeting of temporary fiscal support to the most vulnerable to alleviate the impact from higher inflation but note the importance of maintaining a prudent overall fiscal stance, supporting efforts to mitigate inflation, and enhancing buffers to ensure medium-term sustainability.

Within the fiscal context, Fitch projects fiscal surpluses to decline to 4.4% of GDP in 2023 and 0.9% in 2024 as oil prices fall to US$ 85 and US$ 65 per barrel, respectively. They project the UAE fiscal breakeven oil price will average USD63 per barrel in 2023-24. The Emirates of Dubai and Sharjah will progressively reduce their budget deficits while Abu Dhabi will continue to register surpluses as rising oil production from 2024 will

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partly offset lower oil prices. They expect fiscal policy to remain pro-cyclical, driven by Abu Dhabi, but to a lower extent than pre-pandemic. They forecast consolidated UAE government debt to rise from 29.2% of GDP in 2022 to about 34.3% of GDP by 2024 due to the moderation of oil prices affecting nominal GDP, and continued fund raising by some Emirates.

Looking to the medium-term, the IMF welcomes the planned fiscal reforms, including the expected introduction of a corporate income tax and gradual phasing out of business fee structures. These should be further advanced to underpin a gradual, growth friendly fiscal consolidation in the context of a strong medium-term fiscal framework to maintain fiscal sustainability. Enhancement and careful coordination of emirate-specific fiscal anchors and rules would ensure a unified national fiscal stance.

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, the relatively competitive and diverse economy, despite the vast hydrocarbon endowment, the history of domestic political stability coupled with strong international relations, and the very strong consolidated balance sheet and large net creditor position. Among challenges, we mention the exposure to longer term carbon transition risks, the persistent regional geopolitical tensions and the limited institutional transparency and data disclosure. While challenges are material, we believe opportunities outpace threats at the horizon.

Finally, reforms under the UAE 2050 Strategy are welcome by the IMF and should be sustained, with a focus on diversification of the economy, to ensure a balanced energy transition and strong long-term economic growth. Ongoing structural reforms, such as those to support private sector employment and female labor force participation, increase trade and foreign investment, and harness the benefits of technology and education will help deliver sustainable and inclusive growth at large.

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