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UAE ECONOMIC REPORT

JANUARY 2025

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CONTACTS

Dr. Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Michèle Khoury Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Stephanie Bou Sleiman
(961-1) 952397
stephanie.bousleiman@bankaudi.com.lb

Elias G. Missi
(961-1) 959747
elias.missi@bankaudi.com.lb

STRONG ECONOMIC CONDITIONS, SUPPORTED BY DOMESTIC NON-HYDROCARBON ACTIVITY, AMID CONTINUED REFORMS

Continuing buoyant economic activity in the Emirates
UAE's economic conditions remain strong, supported by domestic non-hydrocarbon activity, continued reforms and related public spending, and a rapid expansion in hydrocarbon production. The United Arab Emirates (UAE) maintains its status as a key regional hub for trade, finance, and tourism, supported by significant progress in economic diversification and reduced reliance on hydrocarbon revenues. Within this environment, overall GDP is projected to grow by 3.7% in 2024 according to the IMF. Fiscal and external surpluses remain high on the back of relatively high oil prices.

UAE's external sector standing improves amid general economic flourishing
The United Arab Emirates' external sector in 2024 has noted improvement in the majority of metrics as the sector has come to reflect the general economic environment of the country. The strong domestic activity, which has driven economic growth in the UAE in 2024, has also had a positive effect on external sector indices such as foreign trade while improved government finances have contributed to improvements in Debt/GDP levels and Net International Reserves at the Central Bank of the UAE (CBUAE). Additionally, the UAE continues to position itself as a haven for foreign investors leading to a significant improvement in Net Foreign Direct Investment (FDI).

Widening fiscal surplus in 2024 amid sustained fiscal prudence and reforms
The UAE's public finance was at the mirror image of a strong economic growth, tax policy reforms and prudent fiscal policy this year, which compensated for lower oil revenues amid protracted production cuts. In fact, the fiscal surplus expanded significantly in the first nine months of 2024, while the country is planning to introduce new tax on large multinational enterprises in the country as part of changes to its corporate tax law. The overall UAE government net lending/borrowing surplus expanded by 57.5% year-on-year, moving from AED 61.1 billion (or US$ 16.6 billion) in the first nine months of 2023 to AED 96.3 billion (or US$ 26.2 billion) in the first nine months of 2024, mainly supported by tax policy reforms, as the expansion of non-oil revenues and the broadening of the tax base, driven by the introduction of a federal corporate tax, played a central role.

Contained inflationary pressures coupled with further growth in international reserves in 2024
The year 2024 was marked by a shift to monetary easing in the UAE, in tandem with the US Federal Reserve's interest rate cuts since September, while inflationary pressures remained relatively contained, and gross international reserves expanded further amid strong capital inflows. Latest monthly CPI figures released by the UAE Federal Competitiveness and Statistics Authority showed that consumer prices rose by 1.7% year-on-year in August 2024, after moderating sharply from 4.8% in 2022 to 1.6% on average in 2023.

Continued signs of resilience in UAE's banking sector
The UAE banking sector showed continuing signs of resilience. Measured by total assets of banks operating in the Emirates, banking activity grew by 7.5% in the first eleven months of 2024 to reach US$ 1,192 billion. Deposits rose by 8.7% year-to-year to reach US$ 746 billion, while loans grew by 6.9% over the period to reach US$ 361 billion.

Mixed price movements in equity markets, bond prices mostly up amid global monetary easing
Activity on the UAE equity markets remained mixed over the first eleven months of 2024 as market players weighed the remarkable growth in the realty sector and a solid growth in the non-oil economy against global oil demand growth concerns. Concurrently, activity in the UAE fixed income markets was mostly tilted to the upside, amid global monetary easing.

Favorable outlook ahead for UAE's economy looking forward
The outlook of the UAE economy remains quite favorable. According to the World Bank, real GDP growth is expected to accelerate in the short- to medium-term, with overall GDP projected to grow by 4.1% in 2025 and 2026, supported by the recovery in oil production and stable external conditions. According to the IMF, real GDP growth is forecasted at 5.1% in 2025 and 4.5% in the medium-term. The outlook is subject to uncertainty and external risks, but large sovereign buffers help mitigate vulnerabilities.

Bank Audi sal - Group Research Department - Bank Audi Plaza - Bab Idriss - PO Box 11-2560 - Lebanon - Tel: 961 1 994 000 - email: research@bankaudi.com.lb

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UAE's economic conditions remain strong, supported by domestic non-hydrocarbon activity, continued reforms and related public spending, and a rapid expansion in hydrocarbon production. The United Arab Emirates (UAE) maintains its status as a key regional hub for trade, finance, and tourism, supported by significant progress in economic diversification and reduced reliance on hydrocarbon revenues. Within this environment, overall GDP is projected to grow by 3.7% in 2024 according to the IMF. Fiscal and external surpluses remain high on the back of relatively high oil prices.

The UAE has continued to experience strong capital inflows, reflecting commodity revenue, safe haven flows, and investment drawn by social and business-friendly reforms. This has boosted central bank foreign reserves and surplus domestic liquidity. It has also supported notable growth in real estate prices, particularly in high-end segments in Dubai, though increasingly in some other segments.

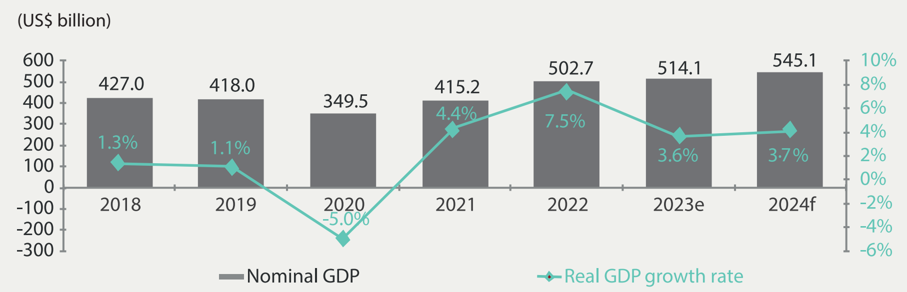
UAE's macroeconomic conditions are shaped by a robust non-oil sector, supported by prudent fiscal and monetary policies. Despite the recent contraction in oil production and the anticipated subdued output in 2024, the OPEC+ agreement to raise the UAE's quota signals a gradual shift, with voluntary production cuts being reversed over time. Hydrocarbon revenues continue to underpin the fiscal framework, while ongoing structural reforms—including the introduction of Corporate Income Tax and the gradual phase-out of the business fee regime—are enhancing fiscal resilience and broadening the economic base. These reforms, alongside strong non-oil sector performance, provide a stable foundation for continued economic strength.

At the banking sector level, the banking system remains resilient to shocks. Bank balance sheets have strengthened further. However, the broader rise in real estate prices and rents and uncertainty related to climate risks underscore the importance of continued strengthening of the macroprudential framework and financial stability monitoring, including for the insurance sector. The Standards for Bank Real Estate Exposure should be finalized with a lower threshold and the implementation of higher capital requirements for large exposures. Consideration of a countercyclical capital buffer would further enhance banks' resilience as per IMF.

Dubai and Abu Dhabi's stock market performances were uneven. Abu Dhabi stock market recorded a contraction in its share price index of 3.6% in the first 11 months of 2024, with its market capitalization reaching US$ 759 billion, amid a stabilization in turnover ratio at 9.1%. Paradoxically, Dubai stock market recorded a rise in its share price index of 19.4% over the same period, with its market capitalization reaching US$ 218 billion, amid a decline in turnover ratio from 14.7% to 12.2%. 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 2023 to 41 bps in November 2024, while Dubai's CDS spread declined from 63 bps to 61 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.

EVOLUTION OF ECONOMIC PERFORMANCE



Sources: IMF, Bank Audi's Group Research Department

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1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Hydrocarbons Sector

Bullish expectations for the UAE's hydrocarbon sector amid increasing production and favorable price stabilization

The United Arab Emirates (UAE)'s hydrocarbons sector has noted a generally improving trend so far in 2024 amid increased production and exports as well as an increase in the Brent crude oil price per barrel on the back of global geopolitical instabilities. However, upstream oil production remains heavily constrained under the OPEC+ production cut deal though OPEC+ is set to begin unwinding their cuts in January 2025.

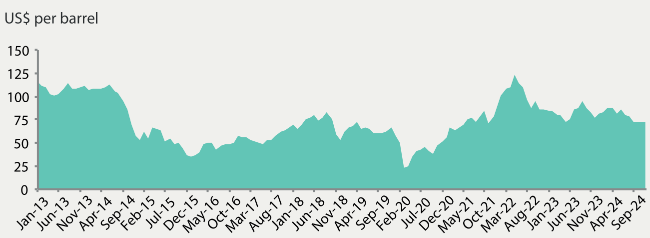
Looking at oil GDP in the UAE during the first half (H1) of 2024, it recorded AED 223.8 billion (US$ 61.0 billion) showing a decrease of 3.7% year-on-year against AED 232.3 billion (US$ 63.3 billion) in H1 2023. However, this trend is set to reverse by the end of 2024 where oil GDP is set to increase by 0.7% year-on-year against 2023. This reversal comes based on historical performance, the hydrocarbon sector is expected to grow by 0.7% on the back of a 3.3% growth in gas and non-oil hydrocarbons and partially offset by a decline of 0.6% in oil production. This increase follows a decline in oil GDP between 2022 and 2023 by 3.1%. Additionally, looking forward, oil GDP between 2024 and 2025 is set to record a significant increase of 7.7% year-on-year, as per data from the Central Bank of the UAE (CBUAE).

Looking at the evolution of oil exports in the UAE, oil exports recorded AED 839.2 billion (US$ 228.7 billion) in H1 2024, up by 12.2% from AED 748.2 billion (US$ 203.9 billion) in H1 2023. In turn, oil exports accounted for 60.4% of total exports in H1 2024 marking an increase in its contribution by 0.5 percentage points from 59.9% in H1 2023.

At the level of hydrocarbon production in the UAE, the production of Crude, NGPL & other liquid products is set to reach 4.2 million barrels per day (mbpd) in 2024, up by 0.8% from the year prior. Additionally, between 2024 and 2025, production is set to increase by a further 4.3% to reach 4.3 mbpd. Looking forward, between 2026 and 2028, the production of Crude, NGPL & other liquid products is expected to remain on an upwards trend averaging a 6.5% growth year-on-year per annum reaching 5.2 mbpd in 2028, as per FitchSolutions.

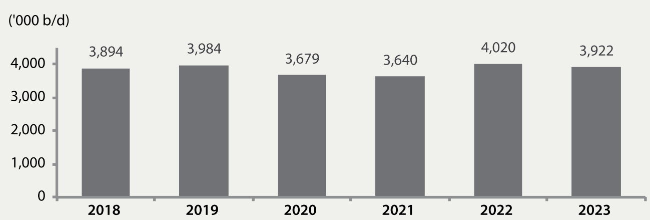
The production of refined products is also set to record a year-on-year increase of 2.0% between 2023 and 2024 reaching 1.0 mbpd in the latter. This increase is set to continue in 2025 with a year-on-year increase of 5.0% in production to reach circa 1.1 mbpd. Looking forward, between 2026 and 2028, the production of refined products is expected to remain on an upwards trend averaging a 4.7% growth year-on-year per annum reaching 1.2 mbpd in 2028. However, compared to the consumption of refined products in the

CRUDE OIL PRICES



Sources: Bloomberg, Bank Audi's Group Research Department

OIL PRODUCTION



Sources: Energy Institute, Bank Audi's Group Research Department country, we note a disparity in 2024 and 2025 of 18.9 thousand bpd and 14.8 thousand bpd respectively. This disparity is set to clear up starting in 2026 with an initial surplus of 26.6 thousand bpd expected during the year and reaching 33.5 thousand bpd in 2028.

The production of Dry Natural Gas (DNG) is expected to record a year-on-year increase of 2.0% between 2023 and 2024 reaching 57.2 billion cubic meters (bcm) in the latter. This increase is set to continue in 2025 with a year-on-year increase of 5.1% in production to reach circa 60.1 bcm. Looking forward, between 2026 and 2028, the production of DNG is expected to remain on an upwards trend averaging a 6.0% growth year-on-year per annum reaching 71.6 bcm in 2028. However, compared to the consumption of refined products in the country, we note a disparity throughout the study period of 14.5 bcm in 2024, which will follow a tightening trend between 2025 and 2028 averaging a decrease of 18.3% per annum to record an estimated 6.0 bcm disparity in the latter, as per FitchSolutions.

At the level of the price of oil, the price of Brent reached an average of US$ 77.1/barrel during 2024 as of mid-December. This figure denotes a year-on-year increase of 1.7% from US$ 75.8/barrel in the year prior. This came on the back of various geopolitical instabilities of which the Gaza-Israel war, Lebanon-Israel war, Syrian Civil War as well as various tit-for-tat attacks between Israel and Iran and its proxies in Yemen and Iraq. This has positively affected the sector as the harsh readjustment in oil prices starting in 2023 has been slightly softened with the change in prices looking forward expected to continue stabilizing while remaining relatively favorable.

Looking forward, the UAE's hydrocarbon sector is set to remain on a strong upward path as the country's government is looking to unlock its large gas resource base, energy subsidies are being partially rolled off, with the government partially liberalizing the price of fuel, both upstream and downstream production and trade continue to grow, opening opportunities in the construction & services sector as well as strong international interest in recent licensing rounds is reviving exploration activity. These factors made the growth in the country's hydrocarbon sector more sustainable and robust. However, downside risks remain as regional tensions have been rising and deeper decarbonization strategies increase risks to long run global demand for oil and gas.

1.1.2. Construction

UAE's construction sector expansion set to slow down in 2025 following rapid growth

The construction sector in the UAE is set to note a decelerating growth in 2025 following a year of robust and rapid growth in 2024. Growth in the sector is set to remain positive as the country offers an attractive investment environment and as the government plans for decarbonization.

In details, during the first half (H1) of 2024,the GDP contribution of the construction and real estate sectors in the UAE reached AED 127.8 billion (US$ 34.8 billion) noting a year-on-year growth of 8.2% from AED 118.1 billion (US$ 32.2 billion) in H1 2023. Additionally, looking at the contribution of these sectors to overall GDP, they accounted for 13.8% of the total in H1 2024, up by 0.6 percentage points from 13.2% in H1 2023.

At the level of Household (HH) spending in the UAE, total HH spending in 2024 is set to reach AED 682.6 billion (US$ 186.0 billion) noting a year-on-year increase of 6.2% up from AED 642.9 billion (US$ 175.2 billion) in 2023. In 2025, another increase in total HH spending is forecast to reach AED 724.0 billion (US$ 197.3 billion) showing an increase of 6.1% year-on-year against the year prior. This upward trend is expected to continue between 2026 and 2028 with average increases of 4.9% in HH spending per annum. In parallel, between 2023 and 2024, the percentage of non-essential spending by HH from the total increased by 0.3 percentage points to reach 28.7% in the latter. Another increase of 0.3 percentage points was noted between 2024 and 2025. This figure is set to continue increasing, as the outlook for the purchasing power of HHs in the UAE is bullish looking forward, to reach 29.2% of total spending by HHs in 2028, as per data from FitchSolutions.

According to CBUAE, in H1 2024, residential real estate transactions in Abu Dhabi saw a 2.3% year-on-year increase. The trends varied significantly by property type: apartment sales experienced a robust

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growth of 39% year-on-year, while villa sales dropped by 34.8%. The growth was primarily driven by sales of ready units, which increased by 32.7% year-on-year, contrasting with a decline of 9.4% year-on-year in off-plan sales. The apartment sales index in Abu Dhabi in the second quarter (Q2) 2024 increased by 6.2% year-on-year, compared to a 3.9% year-on-year growth in the villa segment. The number of residential rent transactions in Abu Dhabi in H1 2024 increased by 2.9% year-on-year. Transactions in the apartment rent segment increased by 3.1% year-on-year, while villa rent transactions experienced a 1.9% year-on-year growth over the same period. The Abu Dhabi apartment rent index increased by 6.6% year-on-year in Q2 2024. The villa rent index in Abu Dhabi in the same period increased by 2.5% year-on-year. In Dubai, residential sales transactions in H1 2024 increased substantially, recording a 34.8% year-on-year growth. The number of apartment sales rose by 40.3% year-on-year, outpacing the 8% year-on-year growth in villa transactions. Off-plan residential sales outperformed the sales of existing residential properties, growing by 53.4% year-on-year, compared to a 10.6% year-on-year increase in the latter. The apartment sales price index in Dubai in Q2 2024 was 14.3% higher compared to Q2 2023, while villa sales price index demonstrated a 25.3% year-on-year growth. The Dubai apartment rent index increased by 10.1% year-on-year in Q2 2024. Additionally, the villa rent index in the same period rose by 9.7% year-on-year.

Looking at office rental rates in Abu Dhabi, the average cost of rent recorded US$ 34.1/square meter (sqm) in 2024, showing a year-on-year increase of 11.2% against rental rates in 2023. These rates are set to increase by a further 4.4% in 2025 reaching US$ 35.6/sqm. In Dubai, average office rental rates are also set to increase both in 2024 and 2025 by 9.7% and 5.7% respectively to reach US$ 42.6/sqm in the latter. Sharjah's office rental rates are also expected to increase in both 2024 and 2025 by 9.8% and 3.8% respectively reaching US$ 22.3/sqm in the latter. The rental yield of office spaces within all three cities are set to remain constant between 2023 and 2025 recording 5-8% for Abu Dhabi, 5-7% for Dubai and 6-8% for Sharjah.

Looking at retail rental rates in Abu Dhabi, the average cost of rent recorded US$ 59.4/sqm in 2024, showing a year-on-year increase of 2.2% against rental rates in 2023. These rates are set to increase by a further 2.1% in 2025 reaching US$ 60.6/sqm. In Dubai, average retail rental rates are also set to increase both in 2024 and 2025 by 3.1% and 3.3% respectively to reach US$ 48.6/sqm in the latter. Sharjah's retail rental rates are also expected to increase in both 2024 and 2025 by 1.0% and 1.8% respectively reaching US$ 30.8/sqm in the latter. The rental yield of retail spaces within all three cities are set to remain constant between 2023 and 2025 recording 4.2-6.2% for Abu Dhabi, 3.2-5.2% for Dubai and 5.2-7.2% for Sharjah.

Looking at industrial rental rates in Abu Dhabi, the average cost of rent recorded US$ 14.9/sqm in 2024, showing a year-on-year increase of 2.9% against rental rates in 2023. These rates are set to increase by a further 1.8% in 2025 reaching US$ 15.1/sqm. In Dubai, average industrial rental rates are also set to increase both in 2024 and 2025 by 3.3% and 4.0% respectively to reach US$ 15.8/sqm in the latter. Sharjah's industrial rental rates are also expected to increase in both 2024 and 2025 by 2.5% and 1.6% respectively reaching US$ 8.9/sqm in the latter. The rental yield of industrial spaces within all three cities are set to remain constant between 2023 and 2025 recording 6-7% for Abu Dhabi, 6-8% for Dubai and 5-7% for Sharjah.

These developments came mostly due to the UAE's highly developed and modern commercial real estate market. Additionally, openness to foreign investment as well as policies to attract international businesspeople and high-net worth individuals mean that premium property is particularly in demand, in all segments of the commercial real estate market.

Additionally, the Emirati government has been pushing forward a series of policy reforms in order to support prices in the real estate market. New government initiatives include visas for expatriate retirees and the expansion of the 10-year golden visa scheme to attract foreign professionals to settle in the UAE. The UAE also reformed its commercial company's law and removed the requirement for onshore companies to have an Emirati shareholder, which should boost foreign direct investment. Dubai recently issued a new law governing unfinished and cancelled property projects in the emirate, and this is expected to enhance investor confidence in the market. Concurrently, the industrial sub-sector is seeing rising demand from ecommerce and third-party logistics operators for prime, bespoke stock. These factors offer upside-risk going forward for the sector. However, protracted global trade tension and external macroeconomic pressures are weakening investor demand for relatively risky assets, such as real estate, dragging on demand for commercial property stock. Additionally, inflation has remained elevated for longer than expected, reducing some but not all of the real gains to disposable incomes in the medium term. These factors have partially offset the bullish outlook for the future and are expected to lead to a relative slowdown in the growth trend the sector is experiencing.

1.1.3. Transport

UAE's transport sector maintains growth momentum

The transport infrastructure sector in the UAE maintained a growth momentum in 2024, mainly driven by high urbanization rates and efforts to boost tourism, as well as internal and external logistical connectivity, as per Fitch Solutions.

The UAE's primary growth driver for rail infrastructure remains the Etihad Rail Project, valued at US$ 11 billion, and stretching 1,200 km as a national freight and passenger rail network. The railway line runs from the Saudi border across the UAE to Fujairah on the Indian Ocean coast. Etihad Rail is part of a broader plan to knit together the UAE's seven Emirates with an alternative mode of transport, while promoting sustainable development as the country looks to reduce its reliance on oil.

In details, as of September 2024, Etihad Rail invited contractors to submit prequalification forms for the design and construction of civil works on the Abu Dhabi-Dubai rail line, UAE. This rail line would be the second high-speed network in the Gulf Cooperation Council (GCC), following Saudi Arabia's Haramain high-speed rail (HSR).

At the regional level, the railway infrastructure, which was completed in February 2023, would become a vital part of the US$ 100 billion GCC rail program. The GCC railway network connects the UAE with Saudi Arabia, Qatar, Kuwait, Bahrain and Oman. The project had an original completion date of 2018, which has been postponed until 2030.

Concurrently, Hafeet Rail has started preparatory work for the transformative railway link between Oman and the UAE in 2024. It is worth highlighting that the project is the first rail network of its kind to connect two Gulf States. The project includes constructing 60 bridges, towering up to 34 m and tunnels stretching 2.5 km. The improved connectivity provided by the joint rail network would benefit local producers and manufacturers in both countries by giving them better access to larger markets, both domestically and internationally.

The joint rail network is an important addition to the regional logistics sector and would play a role in stimulating various industrial sectors and economic activities, by providing increased commercial and investment opportunities, supporting the integration of port activities and connecting them to regional and international markets, in addition to contributing to attract national and foreign investment. Hafeet Rail would also provide key benefits that would help to reduce costs, improve the efficiency and effectiveness of transportation and ensure that logistics services meet the needs of end users.

In parallel, the proposed Hyperloop, which would shorten journey times between Dubai and Abu Dhabi to nearly 12 minutes, is projected to be operational and in use by the public by 2030. The Hyperloop is indicative of new technology, which would improve facilities for tourism, as well as act as a tourist attraction. In Dubai, the currently car-reliant city would also see further investment in road development, as the Emirate increases its capacity for smart technology in managing traffic.

As for the development of ports in the country, the UAE continues to invest in port infrastructure to bolster its role as a shipping and logistics hub, which is a central component of the country's plan to diversify its economy from oil revenue in the long-term. The UAE's two major ports at Khalifa and Jebel Ali have benefited enormously from the country's location along major shipping corridors between Europe and Asia, as well as proximity to energy producers in the Middle East.

Looking forward, growth in the UAE's 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.

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1.1.4. Tourism

UAE's tourism sector continues its expansionary path in 2024

The tourism sector in the UAE continued its expansionary path throughout 2024, as Abu Dhabi has been increasingly focusing its tourism strategy on meetings, incentives, conferences and tourism exhibitions and cultural tourism, whereas the Dubai Tourism Board continues to focus on developing attractions for families through theme parks, shopping and luxury hotels with extensive leisure facilities.

Data from the Dubai Department of Economy and Tourism showed that the total number of international visitors in Dubai recorded a 7.2% year-on-year increase in the first nine months of 2024, when compared to the previous year. The top three source markets for Dubai were Western Europe, South Asia and the GCC, accounting for half of the 13.3 million international visitors.

Overall, increased tourism levels had a positive impact on hotel Key Performance Indicators (KPIs). Dubai's hospitality market saw an expansion of 2.5% in Average Daily Rate (ADR) and 0.2% rise in occupancy, leading to a 2.7% uptick in RevPAR over the first nine months, as per JLL.

Dubai's hospitality market is expected to adapt to changing market dynamics. Given the more tepid global economic backdrop and geopolitical conditions, hotel performance is expected to oscillate, particularly in the luxury segment, as operators continue to adjust rates in line with demand trends. As a result, the market would likely see an increase in competition on rates, pushing operators to continue to focus on enhancing as guest experiences, F&B and product offerings in order to underpin demand, as per JLL.

In parallel, Abu Dhabi's hospitality market continued to show robust visitation levels. According to the Department of Culture and Tourism, a total of 2.4 million hotel visitors were registered in the first five months of the year. Destinations, including the likes of Yas Island and Saadiyat Island, continue to capture a significant portion of international visitors, given their leading position as leisure and entertainment destinations.

These strong visitation figures are driving growth in the KPIs. Abu Dhabi's hospitality market witnessed an increase in occupancy rate of 7.1% in 9M 2024 when compared to 9M 2023. This was coupled by a rise in the Average Daily Rate (ADR) of 12.2% reaching US$ 143 in 9M 2024. Consequently, RevPAR went up by 23.6% standing at US$ 111 in 9M 2024, as per JLL.

Abu Dhabi continues to solidify its positioning as a major leisure and cultural destination within the region, particularly given its exceptional offering to families. This has been driven by the government's ongoing efforts, such as the recently announced Abu Dhabi Tourism Strategy 2030, to boost the contribution of the tourism industry to the overall economy and further improve visitation levels.

In a forward look, the UAE's international tourism receipts are forecasted to grow by 9.0% y-o-y in 2025 to US$ 53.4 billion, from an annual estimated amount of US$ 49.0 billion in 2024, as per Fitch Solutions. Furthermore, Abu Dhabi and Dubai, the two main tourist and business travel hubs of the market, are emphasizing investment in the development and diversification of their tourist markets in order to attract more visitors. In addition to new theme parks, museums and exhibition centers to be built in the two Emirates, there would be a wider variety of budget accommodations to attract more short-term travelers, many of which use the cities as transit hubs for long-haul travel. The UAE is also 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.

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1.2. EXTERNAL SECTOR

UAE's external sector standing improves amid general economic momentum

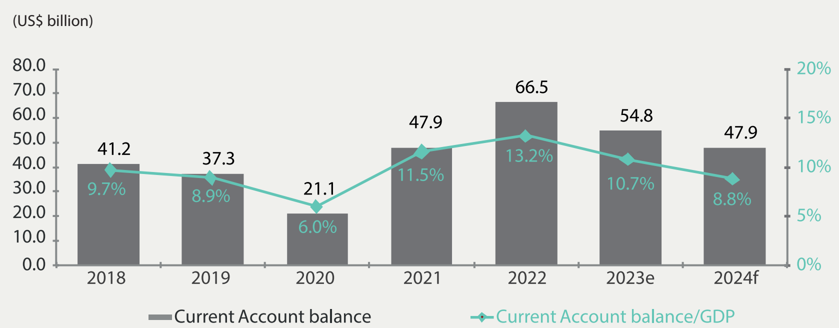
The United Arab Emirates (UAE)'s external sector in 2024 has noted improvement in the majority of metrics as the sector has come to reflect the general economic environment of the country. The strong domestic activity, which has driven economic growth in the UAE in 2024, has also had a positive effect on external sector indices such as foreign trade while improved government finances have contributed to improvements in Debt/GDP levels and Net International Reserves at the Central Bank of the UAE (CBUAE). Additionally, the UAE continues to position itself as a haven for foreign investors leading to a significant improvement in Net Foreign Direct Investment (FDI).

In details, at the level of foreign trade, total exports reached AED 1.4 trillion (US$ 378.8 billion) in the first half (H1) of 2024, showing an 11.2% increase year-on-year up from AED 1.3 billion (US$ 340.6 billion) in H1 2023. Non-oil exports recorded an increase of 24.9% year-on-year during the period to reach AED 249.2 billion (US$ 67.9 billion) in H1 2024 and comprising 17.9% of total exports in H1 2024, up from 16.0% in H1 2023. Oil exports also recorded an increase of 12.2% year-on-year during the period to reach AED 839.2 billion (US$ 228.7 billion) in H1 2024 and comprising 60.4% of total exports in H1 2024, up from 59.9% in H1 2023. Re-exports recorded a minor decrease of 0.2% year-on-year during the period to reach AED 301.6 billion (US$ 82.2 billion) in H1 2024 and comprising 21.7% of total exports in H1 2024, down from 24.2% in H1 2023. Additionally, imports recorded a year-on-year increase of 15.4% to reach AED 764.0 billion (US$ 208.2 billion) in H1 2024, up from AED 662.3 billion (US$ 180.5 billion) in H1 2023. The increase in imports has partially offset the increase in exports in the Balance of Trade. As a result, the Balance of Trade in the UAE recorded a year-on-year increase of 6.5% between H1 2023 and H1 2024 reaching AED 626.0 billion (US$ 170.6 billion) in the latter.

Looking at the UAE's Trade Openness Index for H1 2024, the index reached 233.0%, increasing by 19.5 percentage points from 213.5% in H1 2023. This shows that the country continues cementing its place as a global trade hub and shows an increased integration in the global economy as well as an increased reliance on international trade within the economy, which could potentially pose downside risks in the event of an international economic shock.

On the other hand, as per the International Monetary Fund (IMF), the UAE's Current Account is set to record a surplus of AED 175.8 billion (US$ 47.9 billion), noting a tightening in the surplus by 12.6% year-on-year from AED 201.1 billion (US$ 54.8 billion) in 2023. Looking forward, on the short term, the Current Account surplus is set to tighten further by 2.1% in 2025 to reach AED 172.1 billion (US$ 46.9 billion). On the medium term, between 2026 and 2029, the UAE's Current Account surplus is set to fluctuate between tightening and widening to end up reaching AED 167.0 billion (US$ 45.5 billion) in 2029.

CURRENT ACCOUNT BALANCE



Sources: IMF, Bank Audi's Group Research Department

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At the level of foreign investment, FDI inflow into the UAE recorded US$ 30.7 billion in 2023, up by 37.7% from US$ 22.3 billion in 2022. Additionally, FDI outflow from the UAE reached US$ 22.7 billion in 2023, down by 6.6% from US$ 24.3 billion in 2022. In turn, net FDI inflow into the UAE recorded a surplus of US$ 8.4 billion in 2023 showing a major improvement from a net FDI inflow deficit of US$ 1.6 billion in 2022. This shows the growing status of the UAE as an investment haven for foreigners on the back of favorable and investor-friendly laws as well as a positive economic outlook, as per the latest available data from the United Nations Conference on Trade and Development (UNCTAD).

Looking at Net International Reserves at CBUAE, as at end-August 2024, reserves recorded AED 796.9 billion (US$ 217.1 billion), noting an increase of 18.3% against AED 673.4 billion (US$ 183.5 billion) recorded at end-2023.

Looking forward, as the UAE continues to cement itself as a global trade hub and a safe haven in the region for foreign investors, the country is set to remain on an improving trend in its external positioning. Additionally, the overall positive outlook for the country's economy looking forward, favors its external sector as the country is becoming more and more integrated as a major part of the world economy. However, the country's heavy reliance on international trade leaves it potentially vulnerable to external shocks and economic imbalances.

1.3. PUBLIC SECTOR

Widening fiscal surplus in 2024 amid sustained fiscal prudence and adjustment reforms

The UAE's public finance was at the mirror image of a strong economic growth, tax policy reforms and prudent fiscal policy this year, which compensated for lower oil revenues amid protracted production cuts. In fact, the fiscal surplus expanded significantly in the first nine months of 2024, while the country is planning to introduce new tax on large multinational enterprises in the country as part of changes to its corporate tax law.

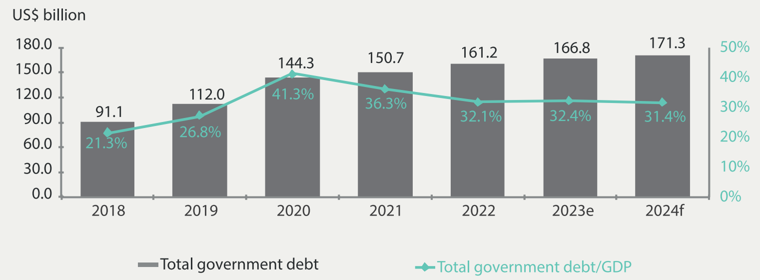
Government revenues expanded by 9.4% year-on-year, moving from AED 370.3 billion (the equivalent of US$ 100.8 billion) in the first nine months of 2023 to AED 404.9 billion (the equivalent of US$ 110.3 billion) in the first nine months of 2024, as per the latest figures released by the Ministry of Finance. This is mainly explained by tax and fees collection. In fact, tax revenues increased by 22.1% year-on-year, moving from AED 223.4 billion in the first nine months of 2023 to AED 272.7 billion in the first nine months of 2024,

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	2022	2023	9M-23	9M-24	9M/9M
Public revenues	166.4	148.8	100.8	110.3	9.4%
Public revenues/GDP	33.1%	28.9%	26.1%	27.0%	0.8%
Public expenditures	105.7	109.6	79.3	78.4	-1.1%
Public expenditures/GDP	21.0%	21.3%	20.6%	19.2%	-1.4%
Fiscal balance	50.1	30.4	16.6	26.2	57.5%
Fiscal balance/GDP	10.0%	5.9%	4.3%	6.4%	2.1%

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

PUBLIC DEBT AND INDEBTEDNESS RATIO



Sources: IMF, Bank Audi's Group Research Department

mainly reflecting robust domestic activity and the introduction of the 9% corporate income tax rate in June 2023. In contrast, other revenues contracted by 11.5% y-o-y, moving from AED 135.2 billion in the first nine months of 2023 to AED 119.7 billion in the first nine months of 2024, mainly reflecting UAE voluntary oil production cuts. Within this context, the IMF expects general government revenues to reach 28.3% of GDP in 2024, compared to 28.2% of GDP in 2023.

On the spending front, government expenditures registered a year-on-year decrease of 1.1%, moving from AED 291.2 billion (or US$ 79.3 billion) over the first nine months of 2023 to AED 287.9 billion (or US$ 78.4 billion) over the same period of 2024. Other expenses contracted significantly by 58.2% year-on-year, moving from AED 27.7 billion in the first nine months of 2023 to AED 11.6 billion in the first nine months of 2024. Subsidies fell by 17.8% year-on-year, moving from AED 27.0 billion in the first nine months of 2023 to AED 22.2 billion in the first nine months of 2024. In contrast, social benefits rose by 12.1% y-o-y, moving from AED 48.3 billion in the first nine months of 2023 to AED 54.2 billion in the first nine months of 2024. Interests increased by 14.6% y-o-y, moving from AED 9.4 billion in the first nine months of 2023 to AED 10.7 billion in the same period of 2024.

That being said, the overall UAE government net lending/borrowing surplus expanded significantly by 57.5% year-on-year, moving from AED 61.1 billion (or US$ 16.6 billion) in the first nine months of 2023 to AED 96.3 billion (or US$ 26.2 billion) in the first nine months of 2024, mainly supported by tax policy reforms, as the expansion of non-oil revenues and the broadening of the tax base, driven by the introduction of a federal corporate tax, played a central role.

Further tax reforms are currently in the pipeline as the UAE plans to implement a Domestic Minimum Top-up Tax (DMTT) starting from January 1, 2025, in alignment with the OECD's Two-Pillar Solution, ensuring large multinational enterprises (MNEs) pay a minimum effective tax rate of 15% on profits globally.

That being said, the IMF sees that the recent efforts to contain current expenditure, reinforced by further advancing tax policy reforms, the gradual removal of subsidies, and measures to enhance spending efficiency would support consolidation efforts and further declines in public debt, which remains sustainable.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

Contained inflationary pressures coupled with further growth in international reserves in 2024

The year 2024 in the UAE was marked by a shift to monetary easing, in tandem with the US Federal Reserve's interest rate cuts since September, while inflationary pressures remained relatively contained, and gross international reserves expanded further amid strong capital inflows.

Latest monthly CPI figures released by the UAE Federal Competitiveness and Statistics Authority showed that consumer prices rose by 1.7% year-on-year in August 2024, after moderating sharply from 4.8% in 2022 to 1.6% on average in 2023. A breakdown by sector for the Consumer Price Index showed that the "insurance and financial services" sector registered the largest yearly price expansion of 5.4% in August 2024, followed by the textiles, clothing and footwear sector (+3.3%), the housing, water, electricity & gas sector (+3.1%) mainly reflecting rapid population growth linked to recent visa reforms, the miscellaneous goods and services sector (+2.9%), the food and beverages sector (+2.8%), the education sector (+2.5%), the recreation and culture sector (+2.3%), the restaurants and hotels sector (+0.2%) and the medical care sector (+0.2%). In contrast, the tobacco sector registered yearly price contraction in August 2024 of 2.0%, followed by the transportation sector (-1.9%), the furniture and household goods sector (-1.1%) and the communications sector (-1.0%). Within this context, the IMF expects inflation to remain relatively contained at 2.2% on average in 2024, due to earlier interest rate hikes over the year 2023 and base effects, and projected it to moderate to 2.0% in 2025.

Monetary aggregates in the UAE remained in an expansionary mode over the first eight months of 2024. The narrowest measure of money supply (M1), which consists of currency in circulation outside banks plus monetary

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deposits in local currency with banks, expanded by 7.1% during the first eight months of 2024, moving from US$ 225.8 billion at end-2023 to US$ 241.8 billion at end-August 2024. This followed a 12.4% expansion in M1 in 2023. The broader money supply (M2), which consists of Money Supply (M1) plus quasi-monetary deposits, grew by 9.3%, moving up from US$ 550.8 billion at end-2023 to US$ 602.1 billion at end-August 2024. The counterparts of money supply show that net international reserves expanded by US$ 43.5 billion over the first eight months of 2024 amid a US$ 35.6 billion rise in gross international reserves at the Central Bank against a US$ 2.0 billion increase in foreign liabilities at the CBUAE, in addition to a US$ 9.9 billion increase in net foreign assets at banks, while net domestic assets expanded by US$ 7.7 billion over the first eight months of 2024.

Given a decades-long UAE dirham peg to the US dollar at AED 3.6725, the base rate applicable to overnight deposit facility, which provides an effective interest rate floor for overnight money market rate in the UAE, was cut three times over the September-December 2024 period, by a total of 100 basis points to reach a current level of 4.40%, following the lead taken by the US Federal Reserve in easing monetary policy, as the US economic activity has continued to expand at a solid pace, labour market conditions have generally eased, and the US inflation has made progress toward the FOMC's 2% objective but remains somewhat elevated. 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.

As the UAE has continued to experience strong capital inflows, reflecting commodity revenue, safe haven flows, and investment drawn by social and business-friendly reforms, the Central Bank's gross international reserves expanded further by 18.8% over the first eight months of 2024 or the equivalent of US$ 35.6 billion, moving from US$ 189.5 billion at end-December 2023 to US$ 225.1 billion at end-August 2024. This came within the context of a 29.7% increase in "current account balances & deposits with banks abroad" or the equivalent of US$ 35.9 billion, to reach US$ 156.6 billion at end-August 2024. When excluding foreign liabilities, the Central Bank's net international reserves reached US$ 217.0 billion at end-August 2024, up by 18.3% relative to end-2023. Accordingly, the Central Bank's net international reserves coverage ratio to money supply (M1) and Dirham deposits reached 48.5% at end-August 2024, up from 45.1% at end-December 2023.

Concurrently, the Central Bank of the UAE (CBUAE) introduced in June 2024 a new liquidity management facility called the "Monetary Bills Buy-Back Program", which aims to provide liquidity to eligible counterparties via the direct and outright repurchase of M-Bills. Within this context, the IMF said that implementing the M-bill buyback program and remaining fine tuning facilities would help develop the M-Bills market and tighten the transmission of policy rate changes. In the coming period, a phased increase in oil output in 2025 would help reinforcing external buffers and sustaining fiscal stability.

UAE MONETARY FLOWS

Flows in US$ million	2022	2023	8M-24
Net international reserves	**65,372**	**77,503**	**43,547**
Central Bank (net)	**2,920**	**53,512**	**33,614**
Gross international reserves	7,310	51,048	35,635
Foreign Liabilities	4,390	-2,463	2,021
Banks (net)	**62,452**	**23,992**	**9,933**
Foreign Assets	70,196	33,345	25,159
Foreign Liabilities	7,744	9,354	15,226
Net Domestic Assets	**-27,113**	**9,425**	**7,723**
Claims on private sector	13,006	20,346	23,590
Net claims on public sector	-32,973	-2,099	-10,537
Claims on financial institutions	-255	1,279	-1,239
Capital & Reserves	-2,952	-20,491	-7,816
Other Items (net)	-3,938	10,391	3,724
Broad Money (M2)	**38,259**	**86,928**	**51,270**
Money Supply (M1)	9,712	24,967	16,020
Quasi-Money	28,547	61,961	35,250

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

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1.4.2. Banking Activity

Continued signs of resilience in UAE's banking sector

The UAE banking sector showed continuing signs of resilience. Measured by total assets of banks operating in the Emirates, banking activity grew by 7.5% in the first eleven months of 2024 to reach US$ 1,192 billion. Deposits rose by 8.7% year-to-year to reach US$ 746 billion, while loans grew by 6.9% over the period to reach US$ 361 billion.

According to Moody's, high interest rates continued to bolster the banks' funded earnings. High interest rates and a supportive operating environment drove net interest income up 7.7% year over year in the half of 2024. Interest income continued to comfortably outpace interest expense as low-cost current and savings accounts remained a strength of the banks' funding base. Net interest margin (NIM) was stable at 2.4%.

Non-interest income improved, driven by robust growth in net fees and commissions. The four banks' combined noninterest income grew 9.5% year over year, reflecting doubledigit growth in fee-based activities, combined with higher revenue from trading portfolios.

Operating efficiency remained broadly stable despite rising costs. While combined operating expenses increased 13% year over year because of ongoing investments in human capital and new technologies, the cost-to-income ratio remained broadly stable, edging slightly higher to 28% from 27% a year earlier, as higher earnings effectively compensated for the rise in costs.

This was coupled with easing provisioning charges. The Moody's examined banks' combined loan loss provisioning charges decreased significantly, by 76% year over year, reflecting favorable economic conditions and strong recoveries. As a result of this decrease, the banks' aggregate cost of risk fell to 0.1% of gross loans in H1 2024 from 0.6% during the same period last year.

A solid bottom-line profitability took place on the back of higher interest and noninterest earnings. Despite the increase in operating costs and the implementation of a new corporate tax, large UAE banks reported a 10% rise in their combined net profit, supported by high single-digit growth in both interest and noninterest income. Return on assets remained stable at 2.0% compared with a year earlier.

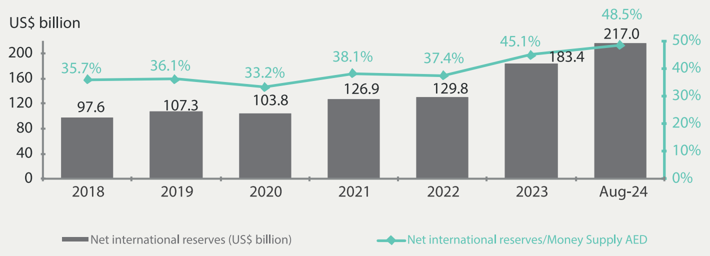
Stable core capital buffers were supported by higher profits. The banks maintained strong capital buffers with a tangible common equity ratio of about 15.1% as of June 2024. Strong earnings' generation and retention more than offset risk-weighted assets' (RWA) growth as per Moody's.

1.4.3. Equity and Bond Markets

Mixed price movements in equity markets, bond prices mostly up amid global monetary easing

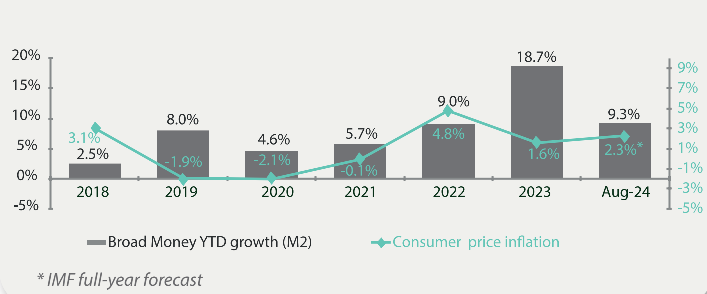
Activity on the UAE equity markets remained mixed over the first eleven months of 2024 as market players weighed the remarkable growth in the realty sector and a solid growth in the non-oil economy against

EXCHANGE MARKET INDICATORS



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

BROAD MONEY AND INFLATION



Sources: Federal Competitiveness & Statistics Centre, IMF, Bank Audi's Group Research Department

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global oil demand growth concerns. Concurrently, activity in the UAE fixed income markets was mostly tilted to the upside, amid global monetary easing.

The Abu Dhabi Securities Exchange saw further price contractions in 2024, mainly weighed by global oil demand concerns following disappointing economic data from China. In contrast, the Dubai Financial Market registered extended price rally this year mainly helped by the following:

1. Continuous expansion in the non-oil economy at a solid 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 solidly above the 50.0 neutral mark in November 2024 (54.2). Strong demand conditions and competitive client pricing supported a faster increase in new business, which in turn drove another robust uplift in business activity.

2. Strong capital inflows into the UAE. This has supported notable growth in real estate prices, particularly in high-end segments in Dubai, though increasingly in some other segments.

The Abu Dhabi Securities Exchange was marked by reduced activity over the first eleven months of 2024, and registered further year-to-date price contractions. FTSE ADX general index fell by 3.6% over the first eleven months of 2024, moving from 9,577.85 at end-2023 to 9,234.8 at end-November 2024. The breakdown of the FTSE ADX general index by sector during the first eleven months of 2024 shows that the healthcare sector registered the largest price drop of 35.6%, followed by the consumer discretionary sector with -34.7%, the industrial sector (-17.4%), the utilities sector (-16.7%), the telecommunications sector (–16.6%) and the basic materials sector (-5.0%). In contrast, the real estate sector recorded the highest price surge of 33.9%, followed by the consumer staples sector with +27.2% and the energy sector (+9.9%), while the financials sector reported a nil change in prices over the first eleven months of 2024.

The Abu Dhabi Securities Exchange saw new listings over the first eleven months of 2024, with the number of listed companies moving from 88 companies at end-2023 to 95 companies at end-November 2024. Agility Global was the heaviest newly listed firm on the Abu Dhabi Securities Exchange over the first eleven months of 2024, and is currently ranking 22nd by market capitalization, followed by Alef Education Holding (28th) and ADNH Catering (46th) in addition to the listing of ETFs. On the backdrop of price contractions and new listings, the market capitalization on the Abu Dhabi Securities Exchange contracted by 0.6% over a twelve-month period, moving from US$ 763.0 billion at end-November 2023 to US$ 758.8 billion at end-November 2024.

EVOLUTION OF BANKING AGGREGATES

US$ billion	2020	2021	2022	2023	Aug-24
Total assets	868.0	904.4	998.6	1,108.5	1,192.0
% YTD growth in assets	3.4%	4.2%	10.4%	11.0%	7.5%
Total deposits	513.1	543.6	605.1	686.7	746.2
% YTD growth in deposits	0.8%	6.0%	11.3%	13.5%	8.7%
Total bank loans to the private sector	301.7	305.2	319.4	337.7	360.9
% YTD growth in bank loans to the private sector	-2.3%	1.1%	4.7%	5.7%	6.9%

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

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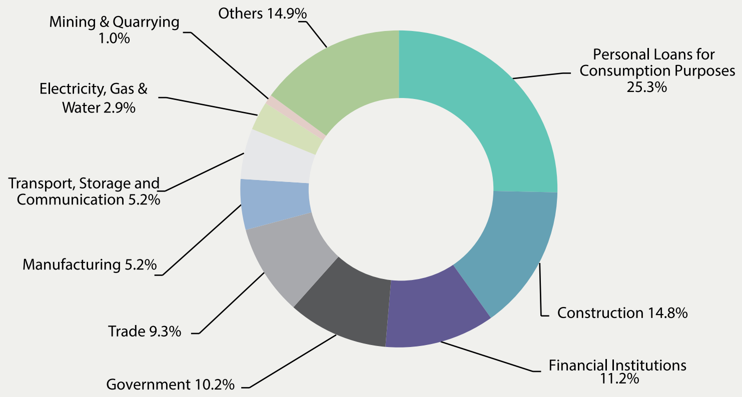
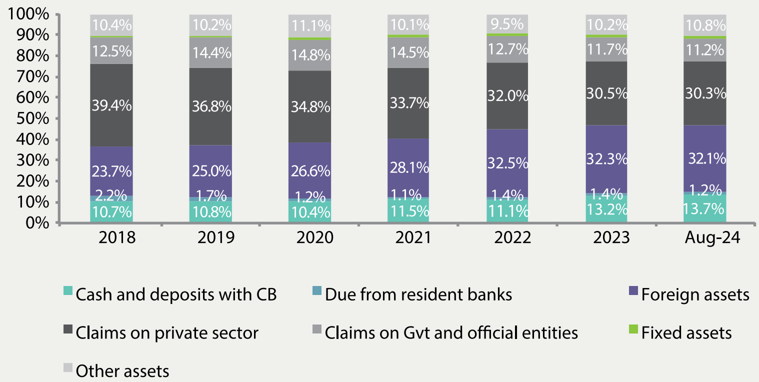
BANK CREDIT TO RESIDENTS BREAKDOWN BY ECONOMIC ACTIVITY



June 2024 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

The total trading value contracted by 3.1% during the first eleven months of 2024 when compared to the same period of 2023 to reach US$ 63.2 billion. The total number of traded shares reached 59.2 billion shares over the first eleven months of 2024 against 43.6 billion shares during the same period of 2023 (up by 36.0%). The total number of trades expanded by 39.1% year-on-year, moving from 2,794,918 during the first eleven months of 2023 to 3,888,402 during the first eleven months of 2024. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, reached 9.1% during the first eleven months of 2024 as compared to 9.3% over the corresponding period of 2023.

In contrast, the Dubai Financial Market saw extended price rally and reduced activity over the first eleven months of 2024.The DFM General Index jumped by 19.4% during the first eleven months of 2024, moving from 4,059.80 at end-2023 to 4,847.34 at end-November 2024.

The breakdown of the DFM General Index by sector during the first eleven months of 2024 shows that the communication services sector registered the highest index surge of 45.5%, followed by the real estate sector with +32.2%, the materials sector with +28.3%, the financial sector with +19.8%, the industrial sector with +14.7%, the utilities sector with +4.6% and the consumer discretionary sector with +1.5%. In contrast, the consumer staples sector registered an index drop of 9.7%.

The Dubai Financial Market was marked by reduced activity over the first eleven months of 2024, as shown

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by a yearly contraction in the total turnover of 6.1% to reach US$ 24.3 billion, noting that the "financials sector" and the "real estate sector" captured 67.6% of the total. The total number of traded shares reached 43.9 billion shares over the first eleven months of 2024 against 49.9 billion shares during the same period of 2023, down by 12.0%. The total number of trades was quoted at 2,237,419 during the first eleven months of 2024 versus 1,796,565 during the same period of 2023, up by 24.5%. The market capitalization on the Dubai Financial Market rose from US$ 184.2 billion at end-November 2023 to US$ 217.5 billion at end-November 2024, up by 18.1%. Within this context, the turnover ratio, measured by the annualized trading value to market capitalization, fell from 15.4% over the first eleven months of 2023 to 12.2% over the corresponding period of 2024.

Concomitantly, the UAE fixed income markets closed the first eleven months of 2024 on a positive note, as the UAE continued to experience strong capital inflows reflecting safe-haven flows, while the US Federal Reserve embarked starting September into interest rate cuts, for the first trim since pandemic, amid signs of moderating US inflation and weakening US labour market.

In the Dubai credit space, sovereigns maturing in 2028 posted price rises of 0.86 pt over the first eleven months of 2024, while DUGB'29 was down by 0.41 pt. Emaar'26 traded up by 1.91 pt. Prices of Emirates Airline'28 expanded by 1.77 pt. Majid Al Futtaim'29 saw price gains of 1.00 pt. DP World'30 closed up by 0.37 pt. As to papers issued by financial institutions, Emirates NBD papers Perpetual (offering a coupon of 6.125%) registered price increases of 0.23 pt. As to the cost of insuring debt, Dubai's five-year CDS spreads reached 61 bps end-November 2024 compared to 63 bps at end-2023.

In the Abu Dhabi credit space, sovereigns maturing in 2026 and 2027 posted price gains of 1.29 pt and 0.25 pt respectively over the first eleven months of 2024, while sovereigns maturing in 2031 were down by 0.41 pt. Mubadala papers maturing in 2026 and 2027 registered price rises of 2.08 pts and 1.42 pt respectively. Taqa'28 traded up by 1.09 pt. First Abu Dhabi Bank'28 saw price expansions of 0.50 pt. Prices of Etisalat'28 rose by 3.82 pts. As to the cost of insuring debt, Abu Dhabi's five-year CDS spreads reached 40 bps at end-November 2024 as compared to 41 bps at end-2023, remaining the lowest in the MENA region along with Qatar's 5-year CDS spread.

ABU DHABI STOCK MARKET INDICATORS

	2020	2021	2022	2023	Nov-24
Market capitalization (in US$ billion)	198.3	425.9	693.8	782.1	758.8
Trading value (in US$ billion)	17.5	88.9	95.4	70.6	63.2
Turnover ratio	8.8%	20.9%	13.7%	9.0%	9.1%
Trading volume (in millions)	18,395	51,938	58,942	47,415	59,219
Number of transactions	501,904	1,260,695	2,547,904	3,030,688	3,888,402
General share price index	5,045	8,488	10,211	9,578	9,235
% Change in share price index	-0.6%	68.2%	20.3%	-6.2%	-3.6%
5-Year CDS spreads (bps)	38	43	44	41	40

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

DUBAI STOCK MARKET INDICATORS

	2020	2021	2022	2023	Nov-24
Market capitalization (in US$ billion)	83.7	109.7	158.5	187.2	217.5
Trading value (in US$ billion)	16.5	17.9	24.5	27.5	24.3
Turnover ratio	19.8%	16.3%	15.5%	14.7%	12.2%
Trading volume (in millions)	58,155	45,051	38,531	52,547	43,939
Number of transactions	874,406	796,023	1,443,852	1,916,437	2,237,419
General share price index	2,492	3,196	3,336	4,060	4,847
% Change in share price index	-9.9%	28.2%	4.4%	21.7%	19.4%
5-Year CDS spreads (bps)	112	94	84	63	61

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

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Regarding new bond issues, Abu Dhabi raised in April 2024 US$ 5 billion from the sale of a triple-tranche bond, which was 4.8 times oversubscribed. The issuance included a US$ 1.75 billion tranche maturing in five years at a coupon rate of 4.875%, a US$ 1.5 billion tranche maturing in 10 years with a coupon rate of 5.00%, and a US$ 1.75 billion tranche maturing in 30 years with a coupon rate of 5.50%. Also, the UAE Ministry of Finance raised in July 2024 US$ 1.5 billion from the sale of a 10-year bond at a coupon of 4.857%, which represents a spread of 60 basis points over US Treasuries, in its first bond issuance since September 2023. The bond sale attracted more than US$ 5.75 billion in orders.

As to credit ratings, Fitch Ratings affirmed in June 2024 the UAE's long-term foreign currency Issuer Default Rating at "AA-" with a "stable" outlook. The "AA-" rating reflects, according to 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 (122% of UAE GDP in 2023), 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 leverage of government-related entities (GREs).

In the coming period, the UAE's debt capital markets are expected to experience a decent growth, driven by a balanced mix of Sukuk and bond issuances, high investment-grade ratings, and strategic market positioning in the Sukuk market both globally and regionally. The IMF sees that efforts to develop domestic capital markets and the creation of green and Islamic finance products would also support domestic liquidity management and enhance climate resilience.

CONCLUSION

The outlook of the UAE economy remains quite favorable. According to the World Bank, real GDP growth is expected to accelerate in the short- to medium-term, with overall GDP projected to grow by 4.1% in 2025 and 2026, supported by the recovery in oil production and stable external conditions.

According to the IMF, real GDP growth is forecasted at 5.0% in 2025 and 4.5% in the medium-term. The outlook is subject to uncertainty and external risks, but large sovereign buffers help mitigate vulnerabilities. Intensification of geopolitical tensions and geoeconomic fragmentation, or an abrupt global slowdown, sharp correction in global asset prices, or commodity price volatility could lead to a reduction in the flow of goods, capital, and tourism. Accelerated public investment, including higher hydrocarbon production, or structural reforms efforts pose upside risks to medium-term growth. Accelerated climate reforms will help the UAE meet the long-term challenges from global decarbonization efforts.

At the public sector level, the fiscal surplus, while still supported by oil revenues and robust non-oil economic growth, is projected to continue its declining trajectory to 4.7% of GDP in 2025. The expansion of non-oil revenues and the broadening of the tax base, driven by the introduction of a federal corporate tax, continue to play a central role. The ongoing implementation of fiscal revenue reforms, along with the maintenance of prudent and well coordinated fiscal policies tailored to individual emirates, is expected to continue to support overall fiscal sustainability.

At the external sector level, the current account surplus, is expected to decline further to 7.4% and 7.3% in 2025 and 2026 respectively, indicating a deterioration, despite continued efforts to diversify the external sector. Expansion into non-oil sectors and emerging markets in South Asia and East Africa is, however, expected to strengthen non-oil export revenues. However, export performance remains subject to fluctuations in the oil production level and price and is dependent on the re-establishment of secure trade corridors.

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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.

Finally, in its recently released Article Consultation Mission report for 2024, the IMF recommends careful prioritization of reform initiatives and strategies will support medium-term potential growth and climate resilience. Reforms to leverage trade and FDI, harness digitalization and AI, and achieve net zero emissions can be further integrated. Underpinning this agenda with robust governance frameworks and additional efforts to strengthen institutions, modernize labor markets, and close gender gaps will enhance outcomes. Avoiding crowding out of the private sector amid large public investment needs is crucial, and should be supported by further improving SMEs' access to credit.