UNITED ARAB EMIRATES

SEPTEMBER 2023

COUNTRY REPORT

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Al Fujayrah
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Dubai
Abu Dhabi
Al'Ayn
Ar Ruways
UNITED ARAB EMIRATES
Oman
Saudi Arabia

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Union 85%
FIVE-YEAR	Union 85%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	Moderate	A	A-	A
FIVE-YEAR	Low	A	A	A

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	1.9	0.8	44.36
2023(F)	3.3	3.0	39.60
2024-2028(F)	4.2	2.1	44.80

STABLE DOMESTIC CLIMATE

The domestic political climate remains stable, with a financial windfall from sharply higher global prices for oil and gas helping to smooth a political transition that saw Mohamed bin Zayed Al Nahyan (MBZ) installed as emir of Abu Dhabi and president of the UAE in May 2022, a process facilitated by the fact that the new ruler had served as *de facto* head of government for several years prior to the death of his brother, Khalifa bin Zayed Al Nahyan. A post-transition leadership reshuffle carried out in late March included some unexpected moves but does not figure to have a significant impact on the stability of the federation.

In a break with tradition, MBZ appointed his eldest son, Khaled bin Mohamed, as crown prince of Abu Dhabi, rather than naming one of his brothers as his designated successor as ruler of the powerful emirate and leader of the UAE. The move sets the stage for a generational transfer of power upon the departure of MBZ, which presumably is still some way off, as the emir is only 62 years old and reportedly in good health.

As a consolation prize, MBZ's half-brother, Mansour bin Zayed, has been named co-vice president of the UAE, a position previously held solely by the ruler of Dubai, currently Mohammed bin Rashid Al Maktoum (MBR), who also serves as prime minister of the UAE. The personnel moves are probably more properly seen as designed to strengthen the basis for long-term stability within Abu Dhabi than as a rebalancing of power among the leading emirates.

The regime's policy focus remains the implementation of a diversification strategy aimed at ensuring the federation's continued prosperity as climate-change concerns lead to reduced global demand for fossil fuels over the coming decades. A guiding principle of the overall effort to reduce the UAE's economic dependence on oil and gas is the promotion of the circular economy, which is the foundation of a green development agenda outlined in recently updated UAE Energy Strategy 2050.

The Ministry of Industry and Advanced Technology has launched several initiatives to attract investment in sustainable development, laying the ground for a green transition that focuses especially on promoting the expansion of four sectors: manufacturing, infrastructure, transportation, and food production. The effort is part of the broader Industry 4.0 strategy, which aims to establish the UAE as a leader in the use of digital technologies to boost productivity and improve the quality of the country's manufactured exports, with the aim of expanding the industrial sector's contribution to GDP from AED133 billion in 2020 to AED300 billion by the end of the current decade.

Other features of the green agenda include the expanded use of electric vehicles and the construction of sustainable, low-carbon urban communities. Overall, the federation is planning to invest more than $160 billion to achieve the goals of the UAE Energy Strategy 2050, and the effort is expected to get a big lift when Dubai hosts the COP28 climate-change conference in late November.

Real GDP growth will slow markedly from last year's pace of 7.9%, as production cuts mandated by OPEC+ result in a contraction in the oil sector. However, robust non-oil activity, boosted by the return of Dubai's tourism numbers to near pre-pandemic levels and double-digit growth in Abu Dhabi's construction industry, will underpin overall real expansion of 3.3% in 2023.

ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

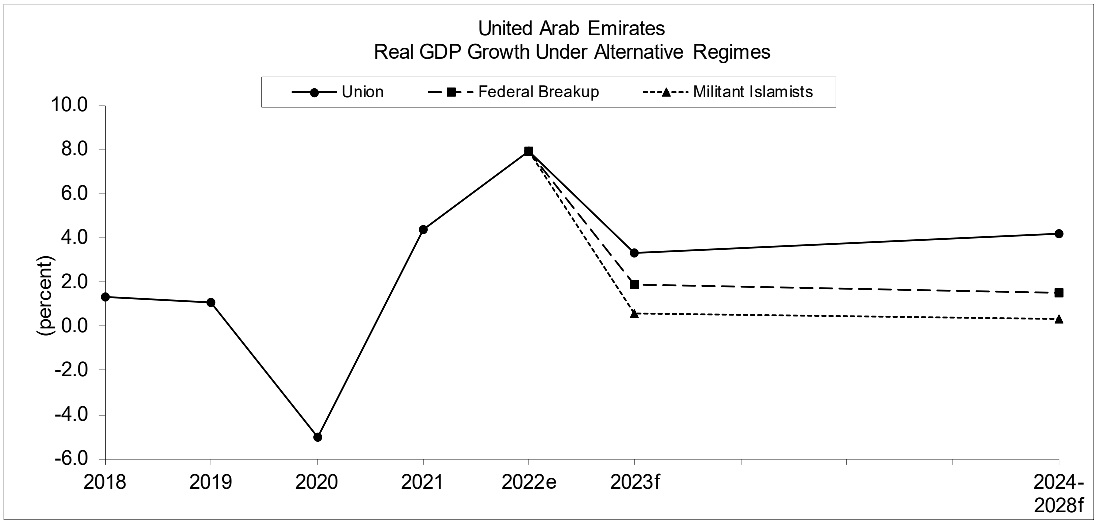
	Union			Federal Breakup			Militant Islamists		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	3.3	3.0	39.60	1.9	2.5	28.30	0.6	4.8	19.10
2024-2028	4.2	2.1	44.80	1.5	5.8	12.90	0.3	13.9	4.20

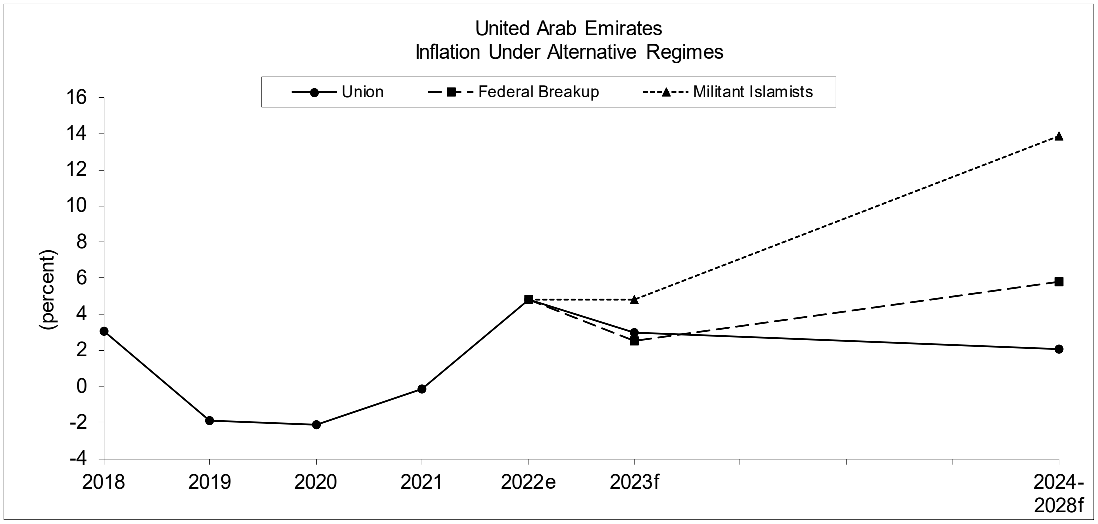
REGIME, BUSINESS & INVESTMENT FORECASTS

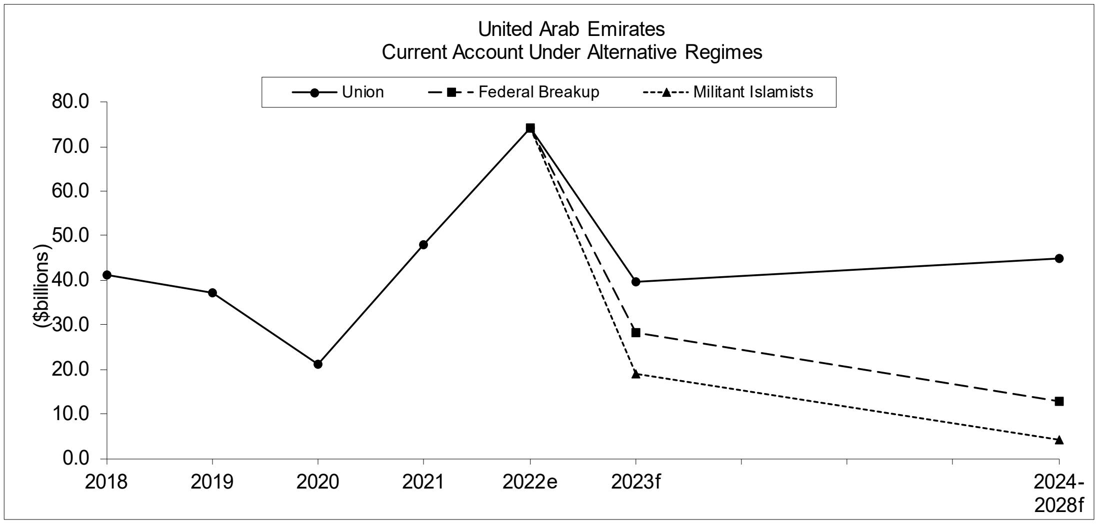
SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Union 85%	Federal Breakup 10%	Militant Islamists 5%
RISK FACTORS	**CURRENT**			
Turmoil	Moderate	Same	SLIGHTLY MORE	MUCH MORE
Investment				
Equity	High	Same	LESS	MORE
Operations	Low	Same	MORE	MUCH MORE
Taxation	Low	Same	Same	MORE
Repatriation	Low	Same	Same	MUCH MORE
Exchange	Low	Same	Same	MUCH MORE
Trade				
Tariffs	Low	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY MORE
Other Barriers	Moderate	SLIGHTLY LESS	LESS	MORE
Payment Delays	Low	Same	SLIGHTLY MORE	MORE
Economic Policy				
Expansion	Low	Same	SLIGHTLY MORE	MORE
Labor Costs	Moderate	Same	SLIGHTLY MORE	MORE
Foreign Debt	Moderate	Same	MORE	MUCH MORE

SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Union 85%	Federal Breakup 10%	Militant Islamists 5%
RISK FACTORS	**BASE**			
Turmoil	Low	Same	MORE	MUCH MORE
Restrictions				
Investment	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	MORE
Trade	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	MORE
Economic Problems				
Domestic	Moderate	LESS	MORE	MUCH MORE
International	Low	Same	MORE	MUCH MORE

* When present, indicates forecast of a new regime


United Arab Emirates
Real GDP Growth Under Alternative Regimes
Union
Federal Breakup
Militant Islamists
(percent)
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


United Arab Emirates
Inflation Under Alternative Regimes
Union
Federal Breakup
Militant Islamists
(percent)
16
14
12
10
8
6
4
2
0
-2
-4
2018
2019
2020
2021
2022e
2023f
2024-2028f


United Arab Emirates
Current Account Under Alternative Regimes
Union
Federal Breakup
Militant Islamists
($billions)
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

United Arab Emirates
Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	388.88	423.35	400.22	414.11	370.28	369.26	390.52
Per Capita GDP ($)	42394	43057	44420	45657	40468	39834	41589
Real GDP Growth Rate (%)	4.5	1.9	5.1	4.2	6.8	5.6	0.7
Inflation Rate (%)	2.2	0.8	1.1	2.3	4.1	1.6	2.0
Capital Investment ($bn)	86.26	81.87	87.65	91.93	86.65	90.47	74.59
Capital Investment/GDP (%)	22.2	19.3	21.9	22.2	23.4	24.5	19.1
Budget Revenues ($bn)	117.50	130.61	150.88	140.80	76.64	109.67	109.51
Budget Revenues/GDP (%)	30.0	30.7	37.7	34.0	20.7	29.7	28.0
Budget Expenditures ($bn)	116.76	113.48	118.47	133.76	100.72	121.12	109.74
Budget Expenditures/GDP (%)	30.0	27.1	29.6	32.3	27.2	32.8	28.1
Budget Balance ($bn)	0.74	17.13	32.41	7.04	-24.08	-11.45	-0.23
Budget Balance/GDP (%)	0.0	3.6	8.1	1.7	-6.5	-3.1	-0.1
Money Supply (M1, $bn)	121.92	165.59	103.35	118.74	124.40	129.05	134.06
Change in Real Wages (%)	2.8	1.3	3.8	2.3	2.2	2.8	2.9
Unemployment Rate (%)	2.2	2.7	2.6	2.2	1.9	1.6	2.5
International Economic Indicators							
Foreign Direct Investment ($bn)	10.00	9.94	10.48	10.80	8.82	9.61	10.31
Forex Reserves ($bn)	83.10	112.35	66.95	77.24	92.57	84.38	94.35
Gross Reserves (ex gold, $bn)	84.27	114.50	68.20	78.42	93.98	85.38	95.37
Gold Reserves ($bn)	0.17	2.40	0.00	0.00	0.26	0.28	0.31
Gross reserves (inc gold, $bn)	84.44	116.90	68.20	78.42	94.24	85.66	95.68
Total Foreign Debt ($bn)	227.87	363.06	172.26	194.31	242.01	252.96	277.83
Total Foreign Debt/GDP (%)	59.0	86.6	43.0	46.9	65.4	68.5	71.1
Debt Service ($bn)	16.09	20.54	18.02	15.90	14.04	14.77	17.71
Debt Service/XGS (%)	4.1	4.8	4.5	3.9	3.8	4.0	4.5
Current Account ($bn)	37.19	44.36	73.21	54.49	17.55	13.20	27.50
Current Account/GDP (%)	9.4	10.2	18.3	13.2	4.7	3.6	7.0
Current Account/XGS (%)	9.4	10.0	18.3	13.4	4.8	3.6	7.0
Exports ($bn)	324.61	325.59	370.98	343.02	300.44	295.03	313.60
Imports ($bn)	250.67	245.81	270.54	234.60	223.88	266.58	257.73
Trade Balance ($bn)	73.95	79.77	100.44	108.42	76.56	28.45	55.87
Exports of Services ($bn)	54.92	95.68	21.24	56.52	60.77	65.59	70.49
Income, credit ($bn)	8.48	9.47	8.14	8.20	8.17	8.52	9.39
Transfers, credit ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Exports G&S ($bn)	388.02	430.73	400.36	407.74	369.38	369.14	393.48
Liabilities ($bn)	0.83	1.73	0.05	1.35	1.64	0.52	0.59
Net Reserves ($bn)	83.61	115.18	68.15	77.07	92.60	85.14	95.09
Liquidity (months import cover)	4.0	5.6	3.0	3.9	5.0	3.8	4.4
Currency Exchange Rate	4.403	4.166	4.875	4.875	4.070	4.058	4.135
Currency Change (%)	3.0	1.5	-3.2	0.0	19.8	0.3	-1.9
Social Indicators							
Population (million)	9.18	9.82	9.01	9.07	9.15	9.27	9.39
Population Growth (%)	1.1	1.6	1.2	0.7	0.9	1.3	1.3
Infant Deaths/1000	11	5	11	11	11	10	10
Persons under Age 15 (%)	21	16	21	21	21	21	21
Urban Population (%)	85	87	84	85	86	86	86
Urban Growth (%)	1.5	1.0	1.2	1.8	2.1	1.3	1.3
Literacy % pop.	93	94	90	94	94	93	93
Agricultural Work Force (%)	7	4	7	7	7	7	7
Industry-Commerce Work Force (%)	15	23	15	15	15	15	15
Services Work Force (%)	78	73	78	78	78	78	78
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	4.50	4.86	4.16	4.23	4.63	4.71	4.76
Energy - consumption/head (10^{9} Btu)	0.49	0.50	0.46	0.47	0.51	0.51	0.51

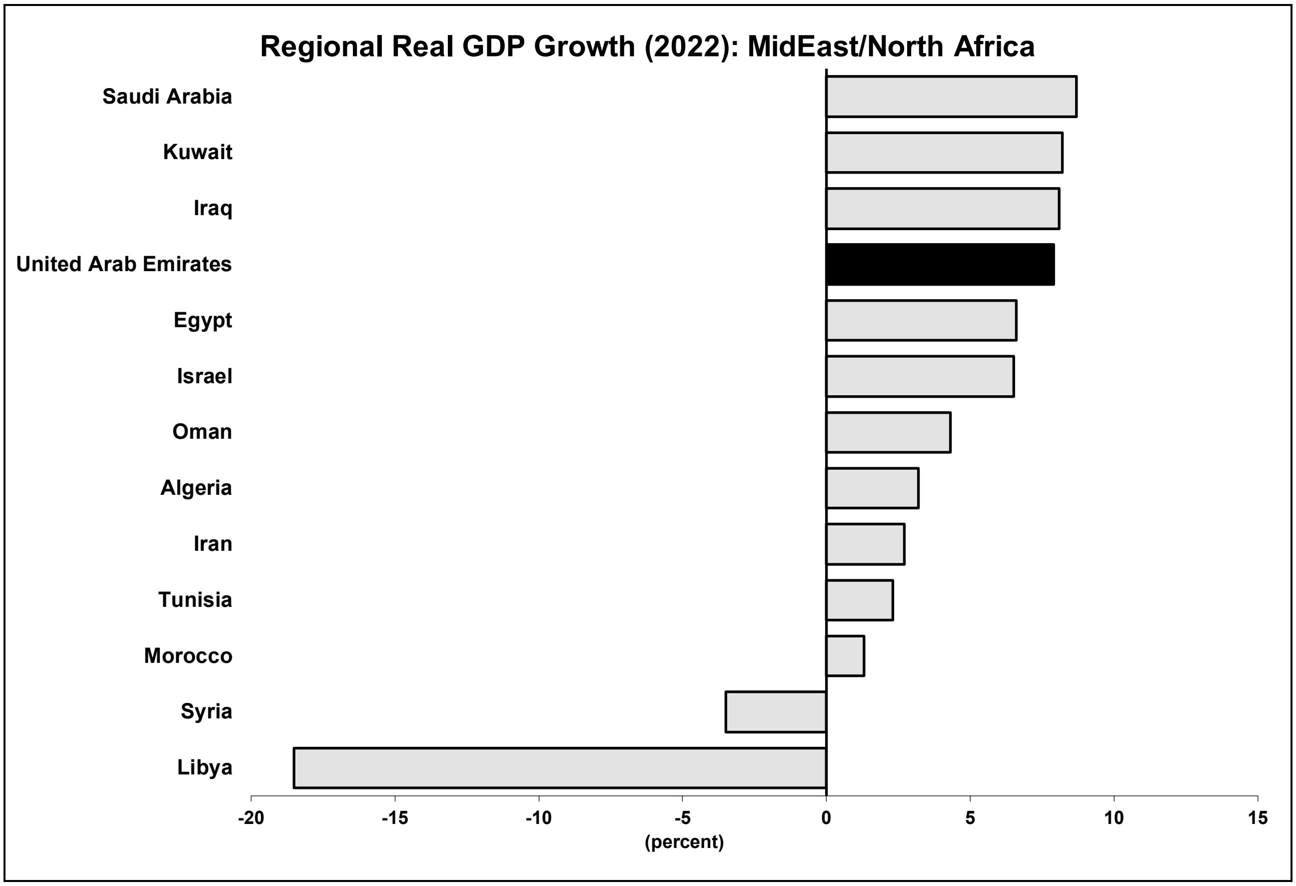
Note: *value of local currency measured against the euro

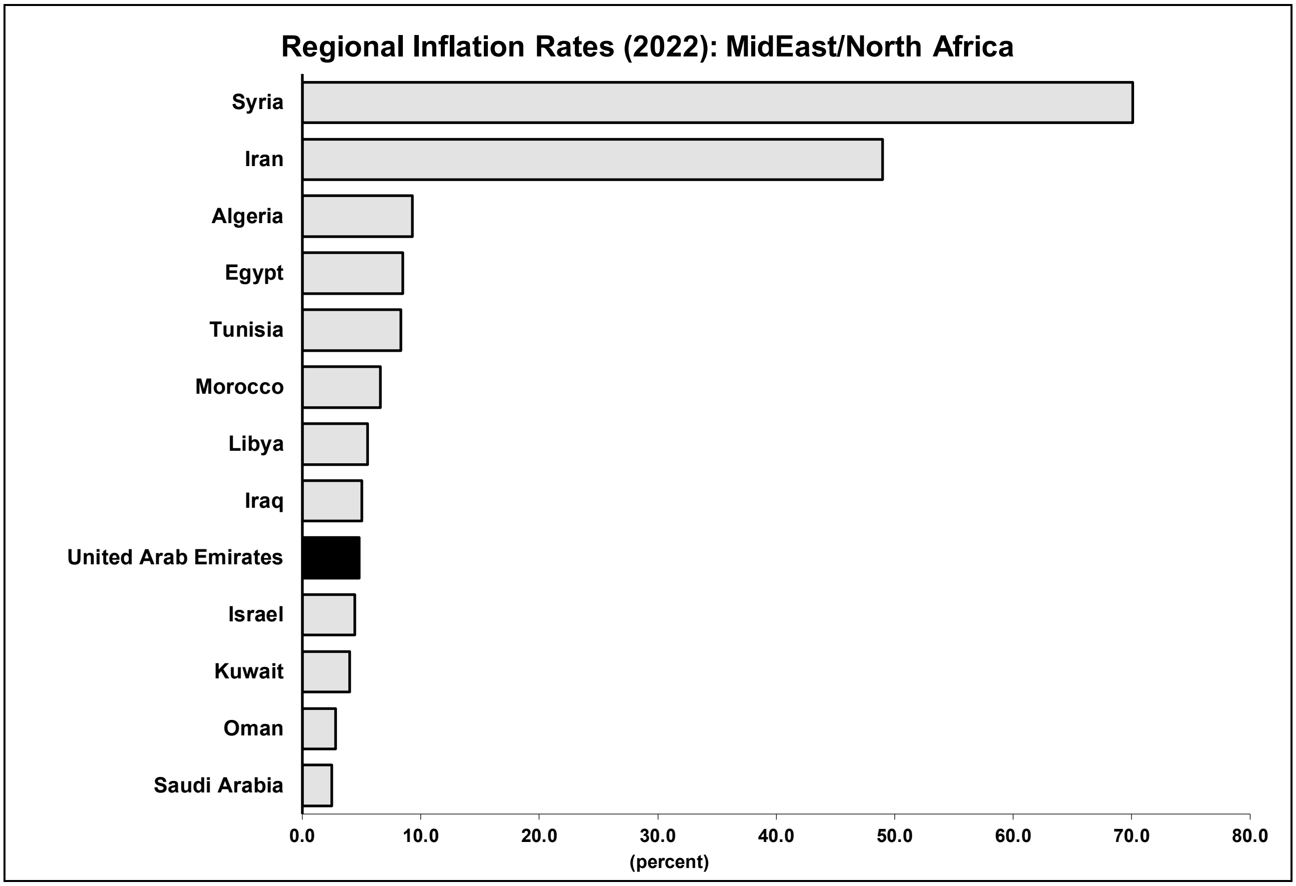
United Arab Emirates
Econometric Data

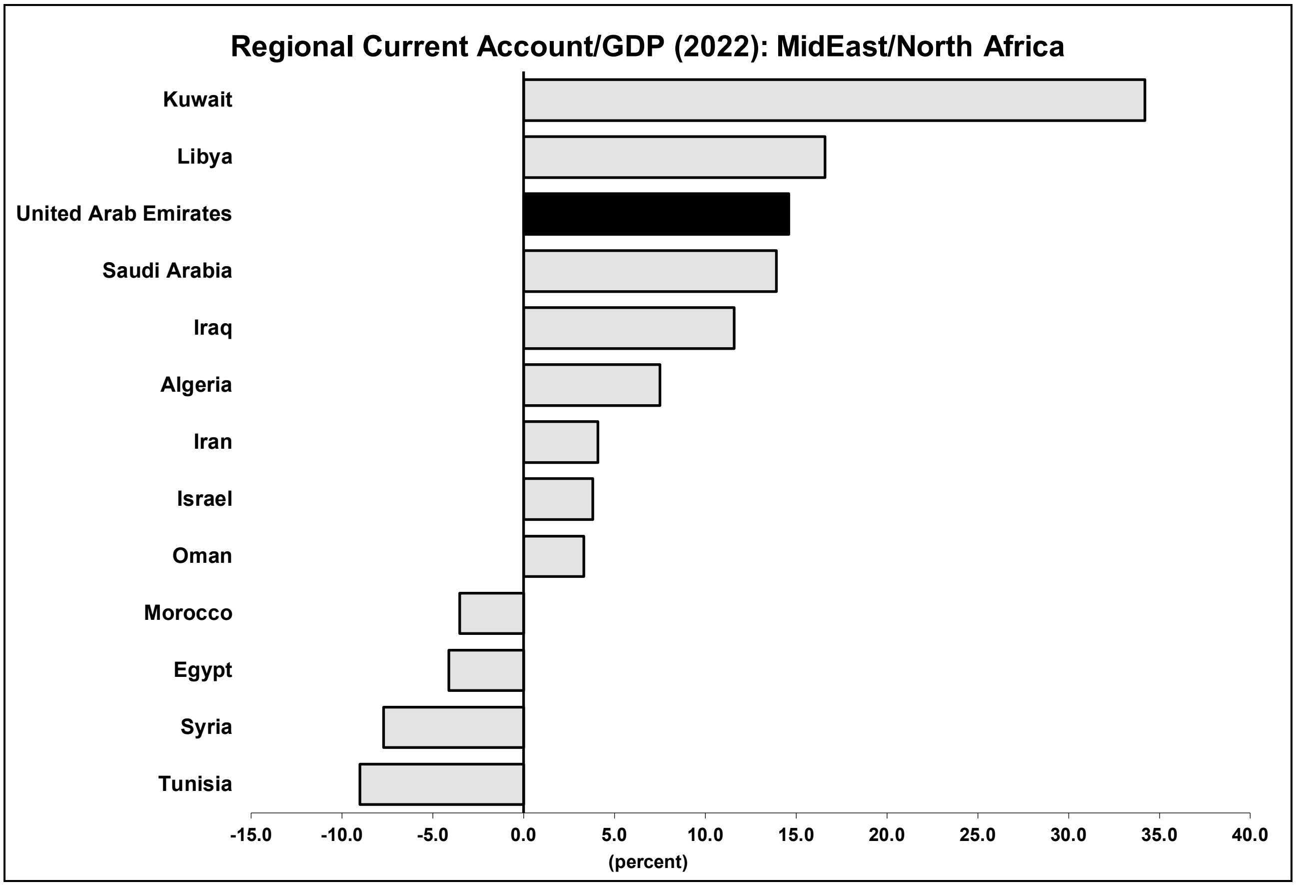
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	388.88	423.35	427.05	417.99	349.47	415.18	507.06
Per Capita GDP ($)	42394	43057	44905	43405	35880	41188	49907
Real GDP Growth Rate (%)	4.5	1.9	1.3	1.1	-5.0	4.4	7.9
Inflation Rate (%)	2.2	0.8	3.1	-1.9	-2.1	-0.1	4.8
Capital Investment ($bn)	86.26	81.87	73.03	76.91	70.59	83.87	104.96
Capital Investment/GDP (%)	22.2	19.3	17.1	18.4	20.2	20.2	20.7
Budget Revenues ($bn)	117.50	130.61	130.15	129.83	100.24	126.39	166.44
Budget Revenues/GDP (%)	30.0	30.7	30.5	31.1	28.7	30.4	32.8
Budget Expenditures ($bn)	116.76	113.48	114.06	118.71	108.69	109.64	116.30
Budget Expenditures/GDP (%)	30.0	27.1	26.7	28.4	31.1	26.4	22.9
Budget Balance ($bn)	0.74	17.13	16.09	11.12	-8.45	16.75	50.14
Budget Balance/GDP (%)	0.0	3.6	3.8	2.7	-2.4	4.0	9.9
Money Supply (M1, $bn)	121.92	165.59	132.21	140.16	163.43	191.24	200.92
Change in Real Wages (%)	2.8	1.3	2.0	2.5	2.8	0.1	-0.8
Unemployment Rate (%)	2.2	2.7	2.3	2.3	2.5	3.4	2.8
International Economic Indicators							
Foreign Direct Investment ($bn)	10.00	9.94	10.37	13.82	5.39	6.52	13.62
Forex Reserves ($bn)	83.10	112.35	98.41	106.38	102.16	123.76	131.04
Gross Reserves (ex gold, $bn)	84.27	114.50	99.19	107.26	103.20	127.87	135.00
Gold Reserves ($bn)	0.17	2.40	0.38	1.17	3.57	3.34	3.53
Gross reserves (inc gold, $bn)	84.44	116.90	99.57	108.43	106.77	131.21	138.53
Total Foreign Debt ($bn)	227.87	363.06	286.88	304.48	378.10	409.73	436.11
Total Foreign Debt/GDP (%)	59.0	86.6	67.2	72.8	108.2	98.7	86.0
Debt Service ($bn)	16.09	20.54	19.65	19.03	18.67	19.98	25.36
Debt Service/XGS (%)	4.1	4.8	4.7	4.6	5.2	4.6	4.8
Current Account ($bn)	37.19	44.36	41.24	37.32	21.10	47.95	74.18
Current Account/GDP (%)	9.4	10.2	9.7	8.9	6.0	11.6	14.6
Current Account/XGS (%)	9.4	10.0	9.9	9.0	5.9	11.0	14.0
Exports ($bn)	324.61	325.59	321.04	313.77	272.21	323.33	397.58
Imports ($bn)	250.67	245.81	235.38	233.31	211.79	244.30	304.29
Trade Balance ($bn)	73.95	79.77	85.66	80.46	60.42	79.03	93.29
Exports of Services ($bn)	54.92	95.68	87.48	90.32	78.13	101.77	120.69
Income, credit ($bn)	8.48	9.47	9.61	9.70	8.61	9.29	10.12
Transfers, credit ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Exports G&S ($bn)	388.02	430.73	418.13	413.79	358.95	434.39	528.39
Liabilities ($bn)	0.83	1.73	1.11	0.23	2.13	0.29	4.87
Net Reserves ($bn)	83.61	115.18	98.46	108.20	104.64	130.92	133.66
Liquidity (months import cover)	4.0	5.6	5.0	5.6	5.9	6.4	5.3
Currency Exchange Rate	4.403	4.166	4.325	4.108	4.188	4.340	3.869
Currency Change (%)	3.0	1.5	-4.4	5.3	-1.9	-3.5	12.2
Social Indicators							
Population (million)	9.18	9.82	9.51	9.63	9.74	10.08	10.16
Population Growth (%)	1.1	1.6	1.3	1.3	1.1	3.5	0.8
Infant Deaths/1000	11	5	6	5	6	5	5
Persons under Age 15 (%)	21	16	14	15	16	17	17
Urban Population (%)	85	87	87	87	87	86	87
Urban Growth (%)	1.5	1.0	2.4	1.3	1.1	-0.7	1.1
Literacy % pop.	93	94	94	94	94	94	94
Agricultural Work Force (%)	7	4	4	4	4	4	4
Industry-Commerce Work Force (%)	15	23	23	23	23	23	23
Services Work Force (%)	78	73	73	73	73	73	73
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	4.50	4.86	4.72	4.76	4.68	5.04	5.08
Energy - consumption/head (10^{9} Btu)	0.49	0.50	0.50	0.49	0.49	0.50	0.50

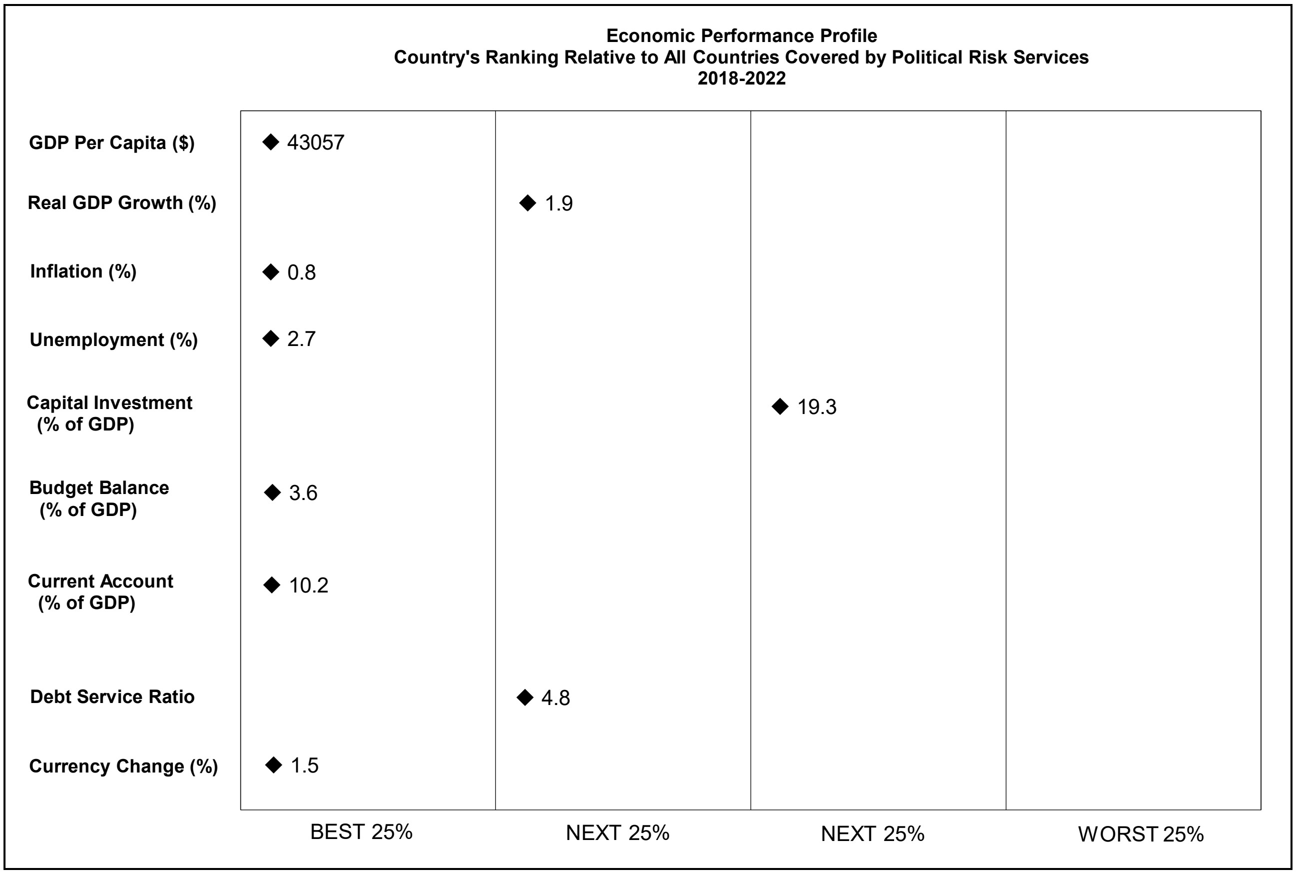
Note: *value of local currency measured against the euro

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): MidEast/North Africa
Kuwait
Libya
United Arab Emirates
Saudi Arabia
Iraq
Algeria
Iran
Israel
Oman
Morocco
Egypt
Syria
Tunisia
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
25.0
30.0
35.0
40.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
43057
Real GDP Growth (%)
1.9
Inflation (%)
0.8
Unemployment (%)
2.7
Capital Investment (% of GDP)
19.3
Budget Balance (% of GDP)
3.6
Current Account (% of GDP)
10.2
Debt Service Ratio
4.8
Currency Change (%)
1.5
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

STABLE DOMESTIC CONDITIONS

The domestic political climate remains stable, with a financial windfall from sharply higher global prices for oil and gas helping to smooth a political transition that saw Mohamed bin Zayed Al Nahyan (MBZ) installed as emir of Abu Dhabi and president of the UAE in May 2022, a process facilitated by the fact that the new ruler had served as de facto head of government for several years prior to the death of his brother, Khalifa bin Zayed Al Nahyan. A post-transition leadership reshuffle carried out in late March included some unexpected moves but does not figure to have a significant impact on the stability of the federation.

In a break with tradition, MBZ appointed his eldest son, Khaled bin Mohamed, as crown prince of Abu Dhabi, rather than naming one of his brothers as his designated successor as ruler of the powerful emirate and leader of the UAE. The move sets the stage for a generational transfer of power upon the departure of MBZ, which presumably is still some way off, as the emir is only 62 years old and reportedly in good health.

As a consolation prize, MBZ's half-brother, Mansour bin Zayed, has been named co-vice president of the UAE, a position previously held solely by the ruler of Dubai, currently Mohammed bin Rashid Al Maktoum (MBR), who also serves as prime minister of the UAE. Mansour bin Zayed also continues in his role as deputy prime minister of the UAE and has been assigned responsibility for Mubadala, a sovereign wealth fund with assets estimated at $17 billion.

The personnel decisions will have little substantive impact on the relative influence of Abu Dhabi and Dubai. The vice presidency is a mostly ceremonial post, and it is highly unlikely that Mansour bin Zayed's appointment occurred without the prior consent of MBR, who in addition to being a formidable force in his own right is also Mansour bin Zayed's father-in-law.

As such, the changes are probably more properly seen as designed to strengthen the basis for long-term stability within Abu Dhabi than as a rebalancing of power among the leading emirates. In a similar vein, MBR issued a decree in late April promoting his son, Maktoum bin Mohammed, the current finance minister of the UAE, as first deputy ruler of Dubai, a post that had been vacant since the death of the emir's younger brother Hamdan bin Rashid at the age of 33 in 2021. Another of MBR's sons, 40-year-old Hamdan bin Mohammed, has served as crown prince since 2008.

EXPANDING INTERNATIONAL TIES

As expected, the transfer of power has not been accompanied by any significant changes to the regime's policy focus, which remains the implementation of a diversification strategy aimed at ensuring the federation's continued prosperity as climate-change concerns lead to reduced global demand for fossil fuels over the coming decades. The diversification effort is guided by the Fifty Economy Plan (FEP) unveiled in late 2019, which sets ambitious goals for improving the climate for business, boosting inflows of foreign direct investment (FDI), promoting the expansion of small and medium-sized enterprises, supporting rapid growth of non-oil exports, and building a work force that possesses the skills required by a fully modern economy.

A key element of that strategy is strengthening the UAE's global economic position, an objective that has become more urgent against a backdrop of increased competition between the UAE and Saudi Arabia that has contributed to prickly relations between the leading members of the Gulf Cooperation Council (GCC), a regional political and economic union that also includes Kuwait, Oman, Qatar, and Bahrain. Toward that end the government is aggressively pursuing trade agreements, increasingly opting for bilateral comprehensive economic partnership agreements (CEPAs), rather than negotiating as a bloc with the GCC partners.

Since 2021, the UAE has concluded CEPAs with Indonesia, India, Israel, and Georgia, and sealed a deal with Turkey in May 2023, and negotiations are under way or set to begin with Pakistan, Cambodia, Thailand, and Malaysia. Minister of Economy Abdulla bin Touq Al Marri has stated that the federation hopes to have more than two dozen CEPAs in place by 2030.

The UAE is not the first GCC member to pursue bilateral deals, but its economic weight magnifies the negative impact of its independent streak on the bargaining power of the regional bloc. Even so, the largest potential trade partners—notably China, the UK, and South Korea—appear to prefer a GCC-wide deal to separate agreements with individual member states, and some are predicting that a GCC-China pact could be in place by next year.

EXTERNAL RISKS MUTED, FOR NOW

The unveiling of the FEP was accompanied by the UAE's abandonment of a diplomatic strategy that leaned heavily on the projection of the federation's military and economic power throughout the Middle East and North Africa in favor of one that is both broader in scope and emphasizes cooperation, mediation, and the pragmatic pursuit of shared interests. Notable features of the so-called "zero problem" diplomatic approach include the normalization of relations with Israel and a stepped-up effort to secure a negotiated end to the war in Yemen, moves that have enabled the UAE to remain on good terms with the US even as it has made diplomatic overtures to Iran and maintained a neutral posture on the war in Ukraine.

However, the diplomatic balancing act is becoming more difficult to maintain with the lack of progress in talks between the US and Iran to fully revive the 2015 nuclear agreement raising fresh concerns about the possibility of direct military conflict between Iran and Israel, and the policies of the far-right government in Israel fueling an escalation of violence between Palestinians and Jewish settlers in the West Bank. The US administration appears to have at least informally embraced a “less for less” compromise that entails a partial easing of sanctions in exchange for minor concessions by Tehran, but such a strategy does not address Israel’s security concerns related to Iran’s nuclear capability.

The rapprochement between the UAE and Iran notwithstanding, the federation’s military ties with the US (which presumably would endorse any Israeli offensive) would put it squarely in Iran’s crosshairs in the event of a regional conflict. Likewise, an explosion of violent conflict in the occupied territories could generate pressure on the regime, both at home and abroad, to reconsider the merits of normalized relations with Israel.

Otherwise on the diplomatic front, the federation will have significant freedom of movement to pursue its preferred policies without interference. In any case, the enticing economic opportunities available to foreign firms, which have been made all the more attractive as a result of a concerted effort to improve the overall climate for business, will limit the danger that political risks short of a devastating regional war might become a deterrent for foreign investors.

GREEN AGENDA GAINING MOMENTUM…

A guiding principle of the overall effort to reduce the UAE’s economic dependence on oil and gas is the promotion of the circular economy, which is the foundation of a green development agenda outlined in recently updated UAE Energy Strategy 2050. A centerpiece of the strategy is the Green Agenda, the headline goal of which is increasing the energy-mix contribution from renewable sources to 30% by 2031, to be achieved by more than tripling domestic renewable energy capacity to 14.2 gigawatts over the next eight years.

The Ministry of Industry and Advanced Technology has launched several initiatives to attract investment in sustainable development, laying the ground for a green transition that focuses especially on promoting the expansion of four sectors: manufacturing, infrastructure, transportation, and food production. The effort is part of the broader Industry 4.0 strategy, which aims to establish the UAE as a leader in the use of digital technologies to boost productivity and improve the quality of the country’s manufactured exports, with the aim of expanding the industrial sector’s contribution to GDP from AED133 billion in 2020 to AED300 billion by the end of the current decade.

Other features of the green agenda include the expanded use of electric vehicles and the construction of sustainable, low-carbon urban communities. Overall, the federation is planning to invest more than $160 billion to achieve the goals of the UAE Energy Strategy 2050, and the effort is expected to get a big lift when Dubai hosts the COP28 climate-change conference in late November.

...BUT OIL AND GAS STILL CRUCIAL IN THE NEAR TERM

At the same time, the Abu Dhabi National Oil Company (ADNOC) is moving forward with projects to increase hydrocarbons capacity. ADNOC's board has approved investment expenditures of more than $125 billion through 2026 for both upstream projects and the development of low-carbon fuels and clean-energy alternatives related to the UAE Energy Strategy 2050.

In November, ADNOC awarded three contracts worth a combined $4 billion, including one to its own drilling unit, to expand offshore activity, as part of an effort to increase capacity from about four million bpd at present to five million bpd by 2030. The drilling contracts followed fresh gas discoveries in Abu Dhabi's Offshore Block 2 concession held by Italy's Eni that increase the total estimated reserves in the field to 2.5 trillion-3.5 trillion standard cubic feet.

In February, ADNOC announced the signing of agreements worth $4.63 billion with nearly two dozen local and foreign firms as part of a program to promote the domestic manufacture of products in the company's procurement pipeline. In August, the oil giant awarded a $3.6 billion contract to expand its gas processing infrastructure to a joint venture the National Petroleum Construction Company, which is owned by Abu Dhabi-based investment fund ADQ, and Spain's Tecnicas Reunidas.

The latter project is part of an effort to boost ethane extraction by 35%-40% and maximize the value of existing feedstock. ADNOC estimates that 70%-80% of the value of the contracts will flow back into the local economy, consistent with the company's mandate to boost the in-country value (ICV) of its investments.

NON-OIL ACTIVITY WILL UNDERPIN GROWTH

Real GDP growth will slow markedly from last year's pace of 7.9%, as production cuts mandated by OPEC+ result in a contraction in the oil sector. However, robust non-oil activity, boosted by the return of Dubai's tourism numbers to near pre-pandemic levels and double-digit growth in Abu Dhabi's construction industry, will underpin overall real expansion of 3.3% in 2023.

Figures for the second quarter from Abu Dhabi's statistics agency showed manufacturing activity rising by 7% compared to April-June 2022, with wholesale and retail trade growing by 13.4% in the same period, the biggest increase in nearly a decade. The UAE-wide manufacturing purchasing managers' index (PMI) reached an all-time high of 56.9 in June. The figure dipped to 56.0 in July and 55.0 in August but remains comfortably above the 50.0 level dividing expansion from contraction.

Inflation hit a 13-year high of 6.77% (year-on-year) in mid-2022, as a surge in prices for staple goods following the outbreak of war in Europe contributed to double-digit food inflation. The dirham's peg to the US dollar has prompted the central bank to follow the lead of the Fed in setting interest rates, which have been hiked 11 times since April 2022. The government has otherwise taken steps to ensure adequate supplies of essential goods and has sought to limit increases in retail prices by requiring suppliers to submit evidence to the Ministry of Economy to justify price hikes for food products.

The various measures helped to pull inflation below 5% (year-on-year) by the start of 2023, and inflation has continued to ease, averaging slightly more than 3% over the first eight months of the year. The monthly figure jumped to 2.3% in August, from 1% in July, but a tight monetary policy will help to keep inflation risks in check in the near term.

The fiscal impact of volatility in oil income will be mitigated by the various measures implemented to diversify the revenue stream, including the 5% value-added tax (VAT) that was introduced in 2018, and income from services fees. Medium-term fiscal stability will be enhanced by a corporate income tax of 9% that took effect on June 2023, applicable to both domestic and foreign businesses, albeit with numerous exemptions for entities operating in strategic sectors.

The federal government has no foreign debt, and although the consolidated public-sector debt amounts to less than 40% of GDP, the debt burdens of the individual emirates vary widely, with Dubai's estimated at around 80% of its GDP. Total foreign debt increased to 99.9% of GDP last year, and the five-year projections for growth of nominal GDP suggest that the debt-to-GDP ratio will remain well above the 72.9% level recorded in 2019.

In any case, debt risks are mitigated by a comfortable supply of foreign exchange reserves. The massive assets held by Abu Dhabi in its sovereign wealth fund, estimated at roughly $850 billion, provide an additional backstop, although past experience suggests that the emirate's willingness to bail out debt-hobbled government-related entities (GREs) cannot be taken for granted.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
	Very Low Risk				
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
	Low Risk				
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141