# UNITED ARAB EMIRATES
# COUNTRY REPORT

*Economic Research*
*March 2019*

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# 1- SWOT - UAE

### Strengths

- High standard living conditions of nationals.
- Most liberal trade regimes
- Low domestic political risk.
- Actively diversifying economy.
- Liberal trade regime.
- Regional co-operation through the GCC.
- Well-placed commercial banks are benefitting from the development of the global financial system.

### Weaknesses

- Decline in oil prices such as those seen over October and November 2018
- More aggressive rhetoric by Iran, could weigh on investor confidence in the UAE
- Dependence on the oil weigh on fiscal revenues.
- The UAE's currency is pegged to the dollar, giving the country minimal control over monetary policy
- US concerns about regional militant groups and Iranian nuclear ambitions could affect investor perceptions
- Migrant workers poor living condition will increase the crime rates.

### Opportunities

- The tourism and banking sector have good medium-term growth outlook.
- Improving relations with Iran.
- Growth in construction sector mainly in Dubai.
- Recent developments in defence forces would create additional opportunities in defence and cyber security sectors.
- UAE cooperates closely with the other GCC states for the security and economic policy issues.
- The UAE is typically a 'dove' within OPEC, sympathetic to the needs of consumer states, which is good for its relations with the West.

### Threats

- Regional uncertainties.
- Fiscal balance deterioration will lead to increase in tax rates in the coming period.
- Dispute with Qatar will affect bilateral relations.
- Due to its relationship with U.S. and a booming tourism industry, the UAE is a potentially attractive terrorist target.
- A further decline in oil prices would worsen the fiscal outlook considerably

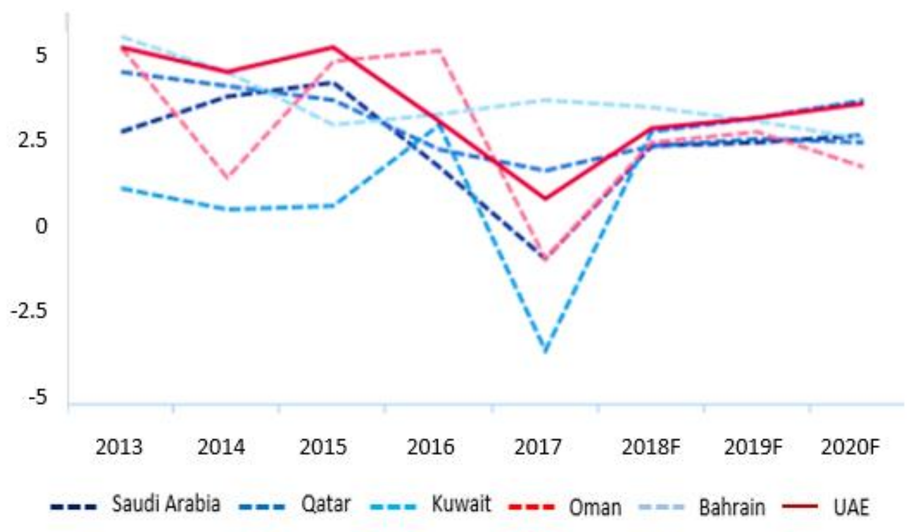
## 2- ECONOMIC OUTLOOK

| Main Economic Indicators | | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018f | 2019f | 2020f |
| **Nominal GDP, USD bn** | 358,1 | 357,0 | 382,8 | 407,5 | 428,6 | 456,3 |
| **Real GDP growth, % y-o-y** | 5,1 | 3,0 | 0,8 | 2,8 | 3,1 | 3,5 |
| **Consumer price inflation, % y-o-y, ave** | 3,6 | 1,2 | 2,7 | 3,0 | 1,6 | 2,7 |
| **Current account balance, % of GDP** | 4,9 | 3,7 | 6,9 | 8,1 | 8,5 | 8,4 |
| **Budget balance, % of GDP** | -3,4 | -2,4 | -0,9 | 2,9 | 2,4 | 2,9 |

Source: BMI, f: forecast

**A&T Bank View:** *Although the economy remains relatively sensitive to oil market fluctuations, prospects appear promising this year. We expect UAE economy to pick up in 2019 primarily by rising oil production and new fiscal stimulus spending in Abu Dhabi. The growth performance of the country is expected to be around %3,1 this year, higher than the 2,8% forecast for 2018 and 0,8% growth achieved in 2017. This would represent one of the highest rates in the Gulf Cooperation Council, next to Kuwait. In our view, infrastructure and construction sectors together with services such as tourism and real estate will become the major growth driver in the medium term.*

**UAE Still Among Top GCC Performers Despite Oil Cuts (GCC - Real GDP Growth, %)**



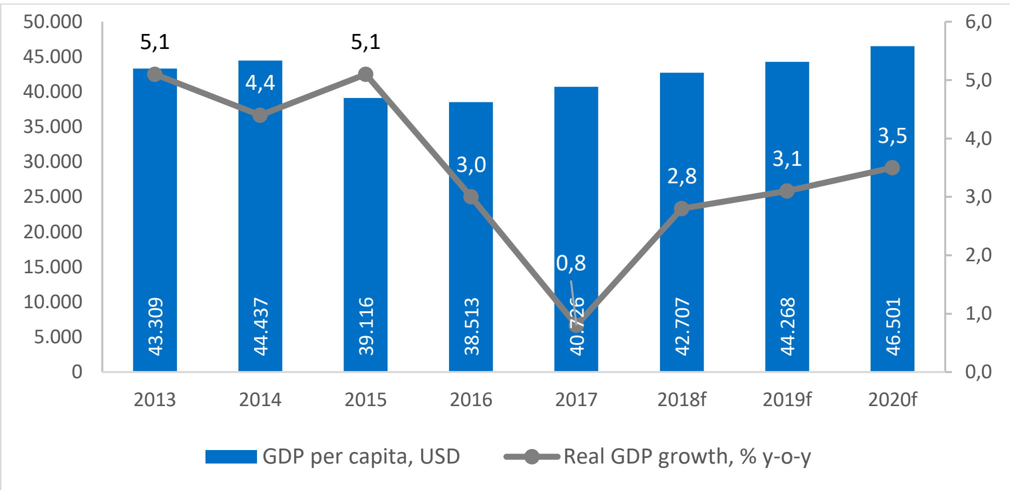

The UAE's economy, the Arab world's second largest economy which grew 0.8% in 2017, mainly due to oil output and falling prices, is set to accelerate next year thanks to a slew of government measures aimed at propelling the non-oil sector, which contributes to over 70% of the country's GDP.

Abu Dhabi has launched a multi-bn dollar development plan that will boost real estate, renewable energy, and infrastructure projects in the UAE capital. 'Tomorrow 2021' program allocates AED50bn over the next three years, with a significant chunk (AED20bn) set to be spent in 2019 alone. The stimulus package includes promising initiatives for both businesses and consumers, and as such, we believe both private consumption and fixed investment will benefit.

Large-scale infrastructure projects not directly related to Tomorrow 2021 already seem to be picking up speed as well. We believe the economic outlook for both of the UAE's key emirates will strengthen in 2020, supporting a more positive headline figure.

In Dubai, the start of Expo 2020 is likely to attract large tourist flows, boosting services exports while also offering secondary effects on the local economy through higher job creation along with rising inflows of FDI. Meanwhile, looser oil output restrictions should relieve some pressure on Abu Dhabi's hydrocarbons sector. Overall, we believe this will bring real GDP growth up to 3.5% in 2020.

**UAE Growth Performance**




Source: BMI

***Main Dynamics for the UAE Economy***

- ✓ Abu Dhabi will rapidly ramp up oil production in 2019, carrying output growth at 6.0%, up from 2.6% in 2018 and a contraction of 4.5% in 2017. The ramp up in production will drive economic growth, with hydrocarbons accounting for nearly a third of national real GDP. Moreover, Abu Dhabi's stimulus package over 2019-2021 will have a positive impact on business sentiment and consumer confidence and these developments underpin our 3,5% growth performance for Abu Dhabi in 2019, bringing the headline growth in the UAE to 3,1%.

- ✓ On the back of the World Expo, increased tourist inflows during the World Expo should help boost the all-important retail sector, which accounts for over a quarter of Dubai's real GDP, generating 4.0% real GDP growth in Dubai in 2020, rising from 3.3% forecast growth in 2019.

- Qatar's economic outlook should be brighter in 2018 as the impact of its rift with Saudi Arabia, the UAE, Bahrain and Egypt diminishes in severity. While both sides have yet to find common ground, the blockade has not materially affected Qatar's hydrocarbon sector. Qatar aims to devote USD200 bn in capital spending during the next few years. Although most of the projects are linked to the 2022 FIFA World Cup, the government will also invest in transport, infrastructure, health, and education.

- We expect oil and gas sector exports display modest growth in the coming period. However, oil production will continue to make progress. Import growth will continue in the coming period with state-led economic activities and private sector consumption activities.

- While the UAE government does not disclose its net international investment position (NIIP), the country has traditionally been a net creditor to the rest of the world. The IMF estimates the UAE's NIIP at 167% of GDP. As of August 2018, the central bank had USD89bn worth of foreign assets. More importantly, the Abu Dhabi Investment Authority (ADIA) – the country's largest sovereign wealth fund – is managing assets estimated at USD683bn (equivalent to roughly 172% of GDP). Most of ADIA's assets are invested overseas. These account for the vast majority of the country's overall investment outflows.

- The UAE's current account position will continue to be heavily influenced by movements in oil prices. Under the assumption for oil prices to remain on a slow upward trend over the coming decade, we expect hydrocarbon exports to pick up over the coming years. Combined with positive non-hydrocarbon export growth, given the country's relative diversification compared with its neighbours, this supports our view for current account surpluses to increase in 201, and to remain in 8-8,5% of GDP range over the next five years.

- The fiscal deficit is expected to gradually narrow to 0.7% of GDP in 2019 from an estimated 1.2% of GDP in 2018, on mainly higher non-oil revenues, in-line with an improvement in the business climate.

- Annual inflation will drop in the UAE in 2019 as the base effects of VAT wear off. Non-VAT-related inflationary pressures will also remain weak as energy price gains moderate and real estate prices continue to decline. Rising demand-pull inflation will only partially mitigate these factors. Overall, we forecast inflation to average 1.6% y-o-y in 2019, down from 3.0% in 2018.

- The Central Bank of the UAE (CBUAE) will continue hiking rates to support the dirham's peg to the dollar.

- Credit growth is expected to gradually recover as lending to the business sector continues to gain traction.

- Further falls in oil prices represent the greatest risk to the outlook, in terms of lower government revenues, which could possibly force the government to scale back spending, and in terms of business confidence and banking sector liquidity. Oil prices are central to the outlook. Government spending and hence non-oil activity is largely determined by it. Oil also has knock-on effects in terms of banking sector liquidity and broader consumer confidence. Moreover, with the US Fed expected to tighten interest rates further in 2019, borrowing costs are rising, potentially dampening business activity. However, Dubai's Expo 2020 expansive public investment program and the UAE's broader economic reforms should prove to be positive for economic growth.

- To support of foreign direct investment (FDI), the UAE president issued a new law to establish a Foreign Direct Investment Unit in the Ministry of Economy. The unit will be responsible for promoting initiatives that help create a more attractive investment environment. According to the finance minister, FDI is expected to increase by almost 6% y/y in 2018 to reach $11-11.5bn, which is by far the largest in the region. The authorities are eyeing a further 15-20% increase by end-2020.

## 3- SECTORAL DEVELOPMENTS

### a) Construction Sector - SWOT

**Strengths**

- An active real estate market and government-supported infrastructure spending in transport and utilities will continue to provide good market growth.
- Comparatively clear regulatory environment and the governing of private investments in infrastructure create a favorable investment climate.
- State-owned utilities are willing to take on majority equity stakes in projects and provide government guarantees in a bid to attract investors.

**Weaknesses**

- Project finance operations are onerous, while the credit markets remain wary of the UAE, particularly Dubai.
- Many projects, especially megaprojects are announced, but relatively few ever come to full realization.
- Reliance on migrant labor - skilled and unskilled - increases costs.

**Opportunities**

- Dubai has been awarded the 2020 World Expo, which itself will spawn opportunities and also catalyze activity in other areas.
- The UAE is becoming a hub for renewables and green technologies, with Masdar spearheading new ventures.
- The real estate markets in Dubai and now Abu Dhabi have returned to positive growth.
- The UAE is one of the best-insulated markets when it comes to government-financed infrastructure in a lower oil price environment.
- Dubai's public-private partnership law passed in 2015 should stimulate greater private sector involvement in its construction market.
- The opening of Iran's economy will provide opportunities for Dubai port operators to tap into its significant consumption base.

**Threats**

- An increasingly assertive foreign policy could make the UAE a target for the increasingly prevalent Islamic State group.
- The GCC is experiencing rapid growth, increasing prices for building materials and labor.

**A&T Bank View:** *The UAE currently has 11,334 projects valued at USD272.7 under construction in the UAE as of December end 2018. Dubai has 4,792 projects under construction valued at USD123.9 bn, Abu Dhabi has 1,653 projects under construction valued at USD114 bn while all the other emirates have 4,888 projects under construction valued at USD34.8 bn. Construction sector would likely to be the main triggers of the economic activity in the medium term. World Expo 2020 is expected to keep growth in construction sector and we expect this construction boom to continue with several new projects. Dubai will extend its metro network, will create new hub airport.* ***We expect an approximately 6.5% growth in construction sector for UAE in 2019, and 4.5% on an annualized basis over the next five years.***

***Several Key Projects in the Works and Boosting the Construction Industry:***

- ✓ Abu Dhabi Executive Council has approved development projects valued at AED235mn (USD64mn) as part of plans to improve infrastructure in the city, according to WAM, cited by TradeArabia. The projects include a AED109mn (USD30mn) contract to construct Sheikh Zayed bin Sultan Road, from the Falah intersection to the Qasr Al Bahr intersection.

- ✓ In October 2018, Arabtec Construction has secured a AED311mn (USD84.6mn) construction contract to build the public concourses and arrivals plazas at Expo 2020 in Dubai, UAE. The project’s scope of work involves construction of 268,000sq m of public concourses including public entrance plazas along with landscape structures.

- ✓ Sharjah-based Arada - a joint venture between Basma Group and KBW Investments - has agreed to build the largest-ever mixed-use, master-planned project in the emirate that will eventually house approximately 70,000 people at a cost of USD6.5bn.

- ✓ Fujairah will seek to construct 8,000 new homes and 1,500 hotel rooms over the next five years, as well expand the capacity of its seaport.

- ✓ Salini Impregilo won a USD435mn contract from Meydan Group to build the Meydan One Mall in Dubai, UAE, reports the National. The contract includes building the mall as well as substructures.

- ✓ Emirates District Cooling (Emicool) has won a contract to provide district cooling services at the AED3bn (USD816mn) mixed-use Mirdif Hills project in Dubai, UAE. The project, covering 362.32sq m, will feature studio, one-, two-, three-bedroom apartments and duplex units, a four-star hotel, together with 128 serviced apartments and a 230-bed hospital.

- ✓ Dubai Holding has entered a memorandum of understanding (MoU) with Dubai Municipality to develop a 1.43sq km public park in Dubailand. The new facility will have 30km of pedestrian pathways, 20km of jogging track, more than 14km of cycle tracks and more than 7km of nature trails.

- ✓ Al-Futtaim has started building a mall project in Jebel Ali, Dubai. The 78,500sq m mall will comprise nearly 55,000sq m of space and is part of the Jebel Ali Development. The project will feature an IKEA store of 30,000sq m area, 100 retail stores, food court and cafe-style dining, hypermarket and Al-Futtaim ACE hardware store, all slated for completion in Q119.

- ✓ Work on a 12km section of a Tripoli Road in Dubai, UAE is to start soon, according to World Highways. The project, which is being managed by Dubai's Roads and Transport Authority, is estimated to cost more than USD136mn.

## b) Oil Sector -SWOT

### Strengths

- The UAE is both politically and economically stable and boasts an open business environment.
- The country has vast conventional oil and gas reserves - the seventh largest globally.
- Oil lifting costs are low by global standards offering a measure of relief in a lower oil price environment.

### Weaknesses

- Oil production is heavily reliant on maturing assets and enhanced oil recovery.
- Gas output is substantial, but marketable production is limited by the large volume of reinjection.
- The bulk of gas reserves are highly sour, raising the costs of exploration and development.
- Energy subsidization depresses domestic energy prices, eroding the value of prospective gas developments.

### Opportunities

- The government is looking to unlock its large unconventional resource base.
- Energy subsidies are being partially rolled off, with the government partially liberalised the price of fuel.
- Both upstream and downstream production and trade continue to grow, opening opportunities in the construction and services sector.
- Additional refining capacity will turn the UAE into a net exporter of refined products.

### Threats

- Weak oil prices may render the more advanced EOR techniques uneconomic.
- Regional instability has been rising, although with little direct impact on the UAE to-date.

**A&T Bank View:** *The unwinding of the OPEC+ production cut deal and a number of upgrade and expansion projects will boost oil supplies over the second half of 2019 and into the 2020s. Renewed exploration efforts are a positive sign for greenfield projects and could unlock substantial further resources over the coming years. In addition, companies continue to test new technologies and extraction techniques to raise recovery rates and extend project life cycles. The refining sector is also set for growth, which will restrict crude exports but bolster sales of higher value-added products. Energy-switching, efficiency gains and subsidy reduction will help slow the pace of gas demand growth. However, we see domestic demand continuing to outpace consumption in the UAE, driving continued growth in LNG imports over the forecast period*.

***Latest Updates and Key Forecasts***

*•The current oil projects pipeline is focused on brownfield expansion and EOR and this will contribute the bulk of growth, across our 10-year forecast period.*

*•The prospects for greenfield growth are also improving, with NOCs in Abu Dhabi, Ras Al Khaimah and Sharjah pushing to renew exploration activities.*

*•The government is putting increasing focus on developing the country's domestic gas resource. The bulk of the resources are sour, with major projects in the pipeline including the Shah field expansion, development of Bab field and the North West Area project.*

*•The downstream sector continues to expand and ADNOC plans to further raise capacity by an additional 600,000b/d at the Al-Ruwais refinery.*

*•Oil and gas demand will continue to rise, extending the country's dependence on imported fuels, pipeline gas and LNG. That said, the pace of demand growth will slow, due to a mix of fuel switching, efficiency gains and subsidy reform.*

As of 2018, the UAE's reserves stood at 96.6bn bbl of oil and 6tcm of natural gas. The bulk of reserves are located in Abu Dhabi, at more than 90% of the total, followed by Dubai, Sharjah and Ras al-Khaimah. The reserves are large on a global scale, with the UAE holding the seventh largest proved oil and gas reserves, according to data from the US Energy Information Administration. In terms of oil, most of the UAE's reserves are medium-light to light, with an API gravity in the range of 32-44.

The country's two main export grades are Murban and Dubai, which are light and medium respectively, and both relatively sour. The UAE's non-associated gas reserves also contain a high proportion of sulphur and the sourness of the gas has posed significant challenges to development.

In the long term, the country's significant unconventional potential pose an upside risk to reserves. However, the pace of exploration is slow, with foreign participation limited by the high cost of exploration and the low state-set gas prices, among other factors. In November 2018, the unconventional sector received a significant boost as French major Total signed a concession agreement for the unconventional Diyab play. Under terms of the agreement, Total will assume operatorship with a 40.0% stake, with ADNOC hold the remaining 60.0%. The contract duration is 47 years, including a seven-year exploration and appraisal phase.

**_*Main Projects*_ in Oil Sector;**

- Zakum Development Company (ZADCO): a joint venture between ADNOC (60%), ExxonMobil (28%) and Japan Oil Development Company (12%).
  - ZADCO is pursuing higher output from Upper Zakum, increasing production capacity to 750,000b/d, from 640,000b/d currently. First oil is expected in 2019.
  - In 2017, the partners committed to raise production to 1mn b/d by 2024.
- Abu Dhabi Marine Operating Company (ADMA-OPCO): ADMA has been split into three concessions - Lower Zakum, Umm Shaif & Nasr and Satah Al Razboot (SARB) & Umm Lulu. The concessions are being renewed for a further 40 years, as of 2018.
  - In Q318, production began from the SARB and Umm Lulu fields. Output was projected to rise to 129,000b/d by end-2018 before ramping up to peak plateau production of 215,000b/d by 2023. ADNOC holds 60% of the concession, through its subsidiary ADMA-OPCO. Cepsa (20%) and OMV (20%) hold the remainder.
  - The Umm Shaif and Nasr concessions is held by ADNOC, through its subsidiary ADNOC Offshore (60%), Total (20%), Eni (10%) and CNPC's PetroChina (10%)
  - The target production for Umm Shaif and Nasr is 460,000b/d: 395,000b/d from Umm Shaif and 65,000b/d from Nasr. The Nasr Phase 2 development is underway and should raise output to target by 2019, up from 22,000b/d currently.

- The Lower Zakum concession is made up of ADNOC's subsidiary ADNOC Offshore (60%), an ONGC Videsh-led consortium (10%), an Inpex-led consortium, Total (5%), Eni (5%), PetroChina (5%). The remaining 5% has yet to be awarded.

- Lower Zakum is targeting production capacity of 450,000b/d by 2025, an increase of around 90,000b/d from current production levels.

➢ ADNOC has renewed the ADNOC has renewed the Abu Dhabi Company for Onshore Operations (ADCO) concession, which produces from 15 oilfields, including Bu Hasa, Asab, Sahil, Shah, Bab, Al Dabb'iya, Rumaitha, Shanayel, Huwaila, Qusahwira and Bida Al-Qemzan fields.

- The concession has been extended by a further 40 years, backdated to 2015. ADNOC, through ADCO, holds a 60% stake, with the remainder split between Total (10%), BP (10%), CNPC (8%), Inpex (5%), CEFC (4%) and GS Energy (3%).

- It accounts for around half of the emirate's production and the concession holders will look to sustain output at current levels.

- ADNOC plans to invest AED5.1bn (USD1.4bn) to upgrade and expand the Bu Hasa field. Production capacity will be increased from 550,000b/d, to 650,000b/d by end-2020.

➢ Others:

- The Hail oilfield offshore Abu Dhabi - owned by Cosmo Abu Dhabi E&P (64.4%), JX Nippon (32.2%), Kansai Electric Power (1.7%) and Chubu Electric Power (1.7%) - began production in November 2017, targeting a peak production rate of 21,000b/d by Q119. Full field development activities are ongoing, to increase recovery rates and extend production.

- ADNOC subsidiary Al Yasat Company For Petroleum Operations in a JV with CNPC has awarded an engineering, procurement, construction and commissioning contract to double the output at the offshore Bu Haseer field, from 8,000b/d to 16,000b/d by 2020.

- Total - through its subsidiary Total ABK - has been piloting technologies to boost production from the Abu Al Bukhoosh field. The field is mainly gas (around 100,000boe/d), but also produces around 10,000b/d of oil. The field's overall recovery rate is 45%, with rates of 55% to 70% on some reservoirs. This is due to the application of EOR techniques, including chemical EOR. The company is looking to apply these techniques to other reservoirs in the UAE.

- Development of the Ghasha ultra-sour gas concession is slated to add 120,000b/d of oil and condensate once the fields are fully operational. First production is targeted for the mid-2020s, although the project remains in the pre-development phase.

## 4- BANKING SECTOR

USD/AED: 3,6730 (average)

## SWOT

### Strengths

- Local banks are well capitalized, while the country's business environment and infrastructure are favorable.
- The UAE is clearly open for business to foreign banks - especially and not exclusively in the Dubai International Financial Centre.
- The commercial banks are well placed to benefit from the development of insurance and other aspects of the global financial system.

### Weaknesses

- Heavy exposure to the real estate market means that loan loss provisioning will remain elevated for the foreseeable future.
- Procurement of suitably trained staff remains a challenge.
- For all the excitement, it is not clear that the UAE is emerging as the dominant center for regional lending. Loans booked by UAE banks to non-bank clients outside the country have been growing much more slowly than overall lending.
- The housing market in Dubai looks like it is close to overheating.

### Opportunities

- Lending to the government, a segment that has largely been closed to the foreign banks, is large. It should continue to grow, if at a more measured pace.
- At some stage, the privatization of former state-owned enterprises should resume. This should provide opportunities for both commercial banks and investment banking affiliates.

### Threats

- None of the UAE banks is large in international terms - and so the banks are less able to take advantage of economies of scale.
- Given the aims of Abu Dhabi to become a major financial center, we could see some competition between the two emirates.
- Weaker oil prices will restrain growth in the banking sector over the coming years.

**A&T Bank View:** *The loan growth in the banking sector will increase gradually in the coming period helped by the rising oil prices and improving economic activity. While the reduced government spending and the higher interest rates are the main risks for the banking sector, we expect government to continue to follow investments in infrastructure and housing sector that have been the main sources of the lending and the profitability for the banking sector.*

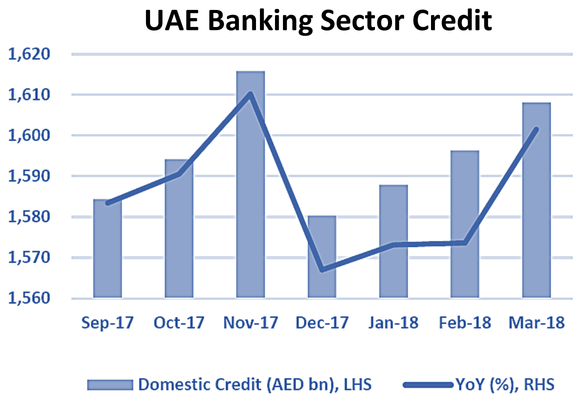
The 22 national banks have decreased the number of branches to 751 at the end of 2018 Q3 compared to 755 at the end of 2018 Q2. The number of foreign banks and their branches has remained unchanged at 27 and 81, respectively during 2018 Q3. The total number of employees of all banks has increased by 346 in the third quarter of 2018 to 35,791. Despite these numbers, the UAE banking sector is dominated by the top five domestic banks that control about half of the loan and deposit share.

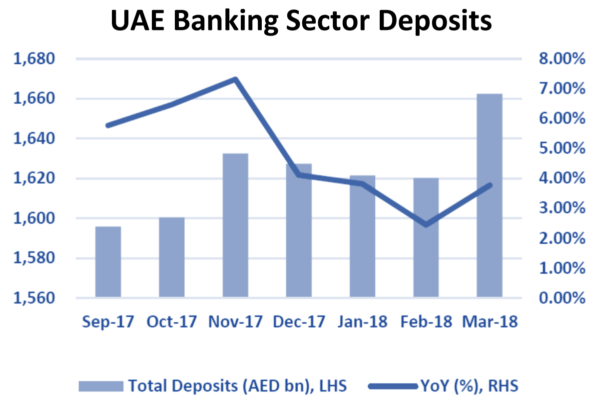
Total assets of the banks operating in UAE grew by 6% in the first 11 months of the 2018 and reached to USD780bn at end-November.

The UAE banking sector developments in the third quarter of 2018 showed continued growth in deposits, mainly boosted by the increase in Government deposits, in tandem with sufficient liquidity and resilient non-oil activity. This allowed banks to extend credit, particularly to the private sector in line with the improvements in the non-oil activities, thereby boosting private sector credit growth. Deposits of the banks in the UAE actually reached to USD473.5bn at end-November 2018 proved to be a major contributor to total sector activity growth during the year. At the end of 2018 Q3, 88.3% of the total deposits are held in National banks and 11.7% are in Foreign banks.

On the credit side, total loans managed to increase to USD460.2bn at end November which corresponded to a growth of a 3.7% Y-o-Y. For the underlying domestic credit, there was a rise in all sectors Y-o-Y, except for GREs. Lending to the Government increased by 2.3%, Private sector by 4.8%, with lending to Private corporates and individuals growing by 6.5% and 1%, respectively. The GREs sector experienced a decline in credit by 3.8% Y-o-Y.

The sector's capital adequacy ratio is standing at 18.2% at end September 2018. Banks liquidity conditions in the UAE have improved during the year 2018. On the other hand, non-performing loans to total loans ratio increased from 6.4% at end 2017 to 6.8% at end September 2018 mainly due to a couple of years of slow economic activity.




Source: CBUAE, U Capital Research

| UAE Commercial Banking Sector | | | | | | | |
|---|---|---|---|---|---|---|---|
| Indicator Name | 2014 | 2015 | 2016 | 2017 | 2018e | 2019f | 2020f |
| Total assets, AEDmn | 2.304.900 | 2.474.422 | 2.610.834 | 2.746.597,4 | 2.911.393,2 | 3.091.899,6 | 3.271.229,8 |
| Total assets, USDmn | 627.525 | 673.679 | 711.399 | 748.392 | 790.295 | 842.479 | 891.343 |
| Total assets, % of GDP | 156,1 | 182,0 | 184,8 | 186,0 | 187,0 | 188,2 | 187,6 |
| Total assets, % y-o-y | 13,8 | 7,4 | 5,5 | 5,2 | 6,0 | 6,2 | 5,8 |
| Client loans, AEDmn | 1.378.100 | 1.485.500 | 1.574.000 | 1.684.180 | 1.740.809 | 1.935.426 | 2.059.293 |
| Client loans, USDmn | 375.197 | 404.438 | 428.883 | 458.905 | 472.864 | 527.364 | 561.115 |
| Client loans, % y-o-y | 17,06 | 7,79 | 5,96 | 7,00 | 7,40 | 7,00 | 6,40 |
| Client loans, % of GDP | 93,4 | 109,2 | 111,4 | 114,1 | 116,2 | 117,8 | 118,1 |
| Client deposits, AEDmn | 1.421.300 | 1.471.600 | 1.562.900 | 1.622.290 | 1.695.182 | 1.754.669 | 1.824.856 |
| Client deposits, USDmn | 386.959 | 400.653 | 425.858 | 442.041 | 459.723 | 478.111 | 497.236 |
| Client deposits, % y-o-y | 11,1 | 3,5 | 6,2 | 3,8 | 4,0 | 4,0 | 4,0 |
| Client deposits, % of GDP | 96,3 | 108,2 | 110,6 | 109,9 | 108,4 | 106,8 | 104,7 |
| Loan/deposit ratio | 97,0 | 100,9 | 100,7 | 103,8 | 107,2 | 110,3 | 112,9 |
| Loan/asset ratio | 59,8 | 60,0 | 60,3 | 61,3 | 62,1 | 62,6 | 63,0 |

Source: CBUAE, BMI

***Positive Developments in UAE Banking Sector:***

- ✓ UAE banks will benefit from the increasing trade between the Iran and UAE.
- ✓ The increasing investments in infrastructure industry and preparations for the World Expo 2020 could increase the lending and profitability of the banking sector.
- ✓ According to BMI latest report, the UAE government has introduced regulations limiting lending to government-related entities - a sector that used to comprise the bulk of the banking sector's profits. This has pushed banks such as Dubai Islamic Bank, Mashraq and Emirates NBD to pursue acquisitions abroad, with Egypt attracting the largest share of recent investment.
- ✓ According to the CBUAE, engagement with Emirati banks for full compliance of Basel III has already commenced, with full implementation expected to be reached by the end of 2018.
- ✓ Merger process between FGB and NBAD is the important step for the banking sector as the new bank combines FGB's strong consumer banking franchise, especially in credit cards and home loan program for the Abu Dhabi government, with NBAD's leading role in the UAE as a wholesale banking and capital markets advisory.

***Islamic Banking in UAE:***

Islamic banks have a share of 20.4% in the assets and 22.6% in the gross financing of the total banking system. Total Islamic banking assets in the UAE have increased to about AED520bn (USD141.5bn), about 7% of the global total in 2016 and the Islamic banking assets accounted around 20% of AED2.6trn of the total assets of the UAE's banking sector, according to the national sources. Islamic banking deposits increased by 42% over the past three years, compared to an 18% growth rate in conventional banking institutions, and that lending by Islamic banks increased by 54% in the same period.

Saif Hadef Al Shamsi, assistant governor for Monetary Policy and Financial Stability at the UAE Central Bank announced that Dubai launched an updated strategy for 2017-2021 to establish the emirate as the capital of the Islamic economy in January. The Dubai Islamic Economy Development Centre (DIEDC) said the refreshed strategy focuses on ensuring long-term impact, with its main objective to lead the growth of the Islamic economy sectors on a local, regional and international scale. At the heart of the strategy are three key pillars – Islamic finance, Halal sector, and Islamic lifestyle that includes culture, art, fashion and family tourism, a statement said.

***New Regulations in UAE's Banking Sector:***

- ✓ The bankruptcy law that was announced last year. This will serve as an instrument of stability and risk mitigation and provide for the creation of a pre-emptive settlement regime under which creditors will actively work with their customers in restructuring debts.

- ✓ The new debt restructuring guidelines introduced in 2016 specifically for SMEs. Under these measures, banks in the UAE agreed to suspend legal action against defaulting SMEs while the UAE Banks Federation worked with the struggling enterprises to restructure their dues. Since March 2016, loans worth approximately USD1.9bn have been restructured or are under restructuring, including USD1.23bn in SME loans and USD680m in loans to large corporations.

- ✓ The new Emiratisation strategy adopts a point-based system under which banks are rated and rewarded based on their performance across key parameters such as creation of job opportunities for UAE nationals, training and development as well as their success in moving Emirati employees to senior-level positions.

## List of Banks in UAE

1-Emirates NBD Bank
2-National Bank of Abu Dhabi
3-Abu Dhabi Commercial Bank
4-Union National Bank
5-Commercial Bank of Dubai
6-Dubai Islamic Bank
7-Emirates Islamic Bank
8-Mashreq bank
9-Sharjah Islamic Bank
10-Bank of Sharjah
11-United Arab Bank
12-Investbank
13-The National Bank of Ras al-Khaimah
14-Commercial Bank International
15National Bank of Fujairah
16-First Gulf Bank
17-Abu Dhabi Islamic Bank
18-National Bank of Umm al-Qaiwain
19-Emirates Investment Bank
20-Al-Hilal Bank
21-Noor Islamic Bank
22-Credit Agricole Corporate and Investment Bank
23-Ajman Bank
24-Arab Bank For Investment and Foreign Trade
25-Arab Bank
26-Banque Misr
27-Bank of Tokyo
28-BNP Paribas
29-HSBC Bank Middle East
30-Arab African International Bank
31-Al-Khaliji (France)
32-Al-Ahli Bank of Kuwait
33-Habib Bank Ltd
34-Habib Bank AG Zurich
35-Standard Chartered Bank
36-Citibank
37-Bank Saderat Iran
38-Bank Melli Iran
39-BLOM Bank France
40-Royal Bank of Scotland
41-Doha Bank
42-National Bank of Kuwait
43-National Bank of Oman
44-United Bank
45-Bank of Baroda
46-Barclays Bank
47-ICBC
48-Deutsche Bank
49-Samba Financial Group

*Source: UAEBF*

## 5- FOREIGN TRADE

The United Arab Emirates is among the world's most dynamic markets in terms of foreign trade, with trade accounting for 172.8% of the GDP according to latest available data from World Bank. It is one of the world's top 20 largest exporters and importers of commodities. Oil products are by far the largest item of exports, followed by gold, diamond and jewellery. Gold and diamond are also among major items of import, along with machinery, transport equipment and foodstuffs.

In 2017, the United Arab Emirates exported USD142 bn and imported USD175 bn, resulting in a negative trade balance of USD34 bn.

UAE export basket and export partners are well-diversified reflecting diversified economic activity. The major export partners were India (15.4%) with USD22 bn, Japan (13.2%) with USD18.8 bn, China (8,1%) with USD11.4 bn, Oman (7.1%) with USD10.1 bn and Switzerland (7%) with USD10 bn, whereas the three major import partners were EU (22.6%), China (16.3%) India (16.1%), United Kingdom (6,1%) and Turkey (5.3%). We expect increasing trade relations between China and UAE. While China mainly imports hydrocarbon from the UAE, China and UAE could also develop their relationship in the construction, tourism and renewable energy sector. Opening up of Iran's economy will show great opportunities for UAE. According to IMF, UAE is well positioned to benefit from an opening of the Iran market by serving as a transshipment point for renewed trade activity.

UAE mainly exports mineral fuels, mineral oils and products of their distillation (52.6% share in UAE's total exported products), followed by natural or cultured pearls, precious or semi-precious stones (16.6% share) and plastics (3.8%). Meanwhile, the country imports mainly natural or cultured pearls, precious or semi-precious stones (15.6% share), electrical machinery and equipment (13.3%) and mechanical appliances and nuclear reactors (11.9%) from the world.

According to latest release from the UAE Federal Customs Authority, UAE non-oil foreign trade volume recorded AED1.2trn in 2017, compared to AED1.17trn in 2016. The non-oil trade activity reflects an improvement in UAE trade balance with many world countries, and assure trader and investor confidence in the UAE economy. Asia, Australia and the Pacific region was the biggest non-oil trading partner with a share of AED470.4 bn, followed by Europe (AED244.3 bn) and the Middle East and North Africa (AED217 bn). UAE non-oil trade with the GCC countries constituted 11 percent of the total non-oil trade with the world, amounting to AED127 bn, with Saudi Arabia topping the list with AED58 bn.

Gold and semi-processed gold was ranked first for imported goods in 2017, recording AED98 bn, followed by mobile phones with a value of AED66 bn, and motor vehicles with AED37.5 bn.

Our core view sees increasing demand for imports in terms of both capital, raw material and consumer goods, due to increasing pace of infrastructure and construction investment. However, oil market volatility will continue to pressure export revenues in the coming period. We expect modest growth in oil and oil products export in the medium term, however, nonhydrocarbon sector export will grow steadily.

## 6- TURKEY & UAE RELATIONS

In the context of the Turkey-UAE trade relationship, Turkey export to UAE decreased by 66% to USD3.2bn in 2018 and import edged down 32% to USD3.8bn. The trade volume of Turkey to UAE is standing at USD7bn in 2018, lower than trade volume of 2017, which amounted as USD14.7bn.

**UAE-Turkey Foreign Trade Relationship**

| Years | Export (USDmn) | Import (USDmn) | Trade Balance | Trade Volume |
|---|---|---|---|---|
| 2010 | 3.332 | 698 | 2.634 | 4.030 |
| 2011 | 3.706 | 1.649 | 2.057 | 5.355 |
| 2012 | 8.174 | 3.596 | 4.578 | 11.770 |
| 2013 | 4.965 | 5.384 | -418 | 10.350 |
| 2014 | 4.656 | 3.253 | 1.403 | 7.909 |
| 2015 | 4.681 | 2.009 | 2.673 | 6.690 |
| 2016 | 5.408 | 3.701 | 1.706 | 9.109 |
| 2017 | 9.184 | 5.546 | 3.638 | 14.730 |
| 2018 | 3.136 | 3.780 | -644 | 6.916 |

Source: Turkstat, Foreign Trade Statistics

UAE imports mainly jewellery, steel, chemical materials and products and electronic and electrical materials from Turkey. Turkey mainly imports pearls, precious stones, metals, aluminium articles and plastics from the UAE. Trade balance is in favour of Turkey. UAE is the one of them most important trade partner of Turkey.

***<u>Turkish Firms in UAE Contracting Sector</u>***

UAE is one of the important markets for Turkish contractor ship services. Turkish firms entered the UAE contracting sector with GAMA Insaat at 1984. Turkish firms had taken the 106 projects amounted as USD9.6bn since 1984, according to Foreign Economic Relations Board (DEIK). As a result, UAE has become the fourth country in the Middle East that Turkish contracting firms were undertaken the projects.

Turkish contracting companies were mainly worked in;

- ✓ Infrastructure projects; such as urban infrastructure and water treatment projects.
- ✓ Building projects; administrative buildings, business centers, housing, social-cultural facilities and tourism resort projects.
- ✓ Various irrigation projects.
- ✓ Various power plant projects under the industrial plant works.
- ✓ Transportation projects; such as railway, airport, port, road, bridge and tunnel projects.

**_The Main Turkish Firms in UAE_**

- AKFEN Construction Tourism and Trade Inc.
- AYDINER Construction Co.
- BAYTUR Construction Contracting Co.
- DORÇE Prefabricated Building and Construction Industry Trade Inc.
- GAMA Industrial Plants Manufacturing and Erection Inc.
- GAP Building Investment and Foreign Trade Co.
- GURIS Holding
- KAYI Construction Industry and Trade Inc.
- KULAK Construction Trade and Industry Inc.
- MAPA Construction Co.
- MNG Holding Co.
- NUROL Construction and Trading Co.
- SEMBOL International Investment Agriculture Landscape Construction, Tourism Industry and Trading Co.
- STFA Construction Group
- TAŞYAPI Construction Industry and Trade Inc.
- TAV Tepe Akfen Investment Construction and Operation Inc.
- TEKFEN Construction and Installation Co.
- YAPI MERKEZİ Construction and Industry Inc.
- YÜKSEL Construction Inc.

**_Direct Investments from UAE to Turkey_**

- ✓ According to Central Bank of Turkey latest statistics, UAE's direct investments to Turkey amounted as USD4.16bn in the 2005-2016 period.
- ✓ The Arab Banking Cooperation has opened the representative Office in Istanbul. Kuwait Ministry of Finance, Treasury Secretary of Libya and Abu Dhabi Investment Authority have owned the 75% of shares of the cooperation. The cooperation is seeking new opportunities in Turkish banking sector.
- ✓ Orion Holding Overseas (Dubai) has purchased the İktisat Yatırım.
- ✓ Dubai Multi Commodities Centre (DMCC) has activities in Turkish gold and tea market.
- ✓ In 2005, Turk Telekom's 55% share has taken by the UAE-based holding company Oger Telecom. The purchase price has amounted as USD7.1bn.
- ✓ In 2005, the UAE based Dubai Ports Authority has purchased the half of the portion of the Yarimca land which has belonged to Erdemir. The purchase price amounted as USD105mn.