

United Arab Emirates Business Forecast Report Q1 2015

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Abstracts

Core Views

Our baseline scenario sees relatively solid growth over the coming quarters, with real GDP forecast to expand 3.9% and 4.0% in 2014 and 2015 respectively.

We expect Dubai to outperform Abu Dhabi, with the former benefitting from increased activity in the trade and tourism sectors, in addition to our expectation that the all-important real estate industry is now set for sustained growth.

Credit growth to the private sector will remain relatively slow through 2015 as commercial banks continue to increase provisioning against potential loan losses due to the debt funding cliff.

Major Forecast Changes

On the back of weaker oil prices, we have lowered our forecast for the UAE's fiscal surplus from 4.7% to 3.4% in 2015.

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Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Index

Domestic Politics

Increasingly Assertive Policies To Continue

The UAE's decision to blacklist the Muslim Brotherhood, among others, is symptomatic of the government's increasing domestic and foreign assertiveness. Given the rise of Islamic State and other Islamist groups, we expect the government to continue forcefully clamping down on any perceived threats to its rule.

Table: Political Outlook

Long-Term Political Outlook

Three Challenges For The Coming Decade

The UAE is one of the more stable Gulf states over the long term, with a small, wealthy population, no history of terrorism and no sectarian tensions to speak of. That said, it is not without its challenges.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

UAE Economic Activity

Weaker Oil Prices Will Not Derail Growth

We maintain our bullish outlook on the UAE's economy even in an environment of weaker oil prices. The country has substantial fiscal buffers to shield growth from lower oil prices and construction projects will continue apace given their political expediency. Consumer and business sentiment remains positive, underlining our particularly upbeat views on household consumption and fixed investment over the coming quarters.

Table: Economic Activity

Table: GDP By Expenditure

Dubai Economic Activity

Plethora Of Reasons For Optimism

We hold a bullish outlook on Dubai's economy over the coming years. Accelerating economic activity is evident across a host of sectors as the emirate benefits from its 'safe-haven' status. Dubai will become an increasingly important growth driver in the UAE as it records the fastest GDP growth rates on the back of the tourism, real estate and retail sectors. We forecast real GDP growth of 4.4% in 2014 and 4.6% in 2015, following growth of 4.6% in 2013.

Table: Dubai – GDP Forecast

Abu Dhabi Economic Activity

Construction And Real Estate To Become Growth Drivers

Abu Dhabi will see a modest slowdown in economic growth over the coming years as gains in the dominant oil sector become harder to maintain. The non-oil sector will become the key growth driver in the coming years, with construction and real estate the outperformers. Even with the decline in oil prices, we do not expect spending to be curtailed, as the emirate has substantial fiscal buffers from lower oil prices. We forecast Abu Dhabi's real GDP growth to reach 3.5% in 2014 and 3.2% in 2015, following 5.2% in 2013.

Table: Abu Dhabi – Major Infrastructure Projects

Table: Abu Dhabi – GDP Forecast

Sharjah Economic Activity

Growth Pushing Higher, But Falling Behind Larger Neighbours

We hold a bullish outlook for the emirate of Sharjah, largely on the back of our positive forecast for Dubai. Sharjah will benefit from rising housing costs in neighbouring Dubai which should push up demand for the former's own housing sector. In addition, Sharjah's growing shipping and tourism reinforce our sanguine outlook for the emirate.

Table: Sharjah – Major Planned Infrastructure Projects

Islamic Finance Overview

New Markets To Emerge, But Impediments To Restrain Growth

We maintain our bullish outlook on the global Islamic Banking sector over the coming years. However, we believe that growth rates have peaked, and highlight numerous obstacles to the sector gaining global precedence.

Oil Exports Overview

Mixed Impact From Lower Oil Prices

Saudi Arabia, UAE and Kuwait are best placed to absorb a significant decline in oil prices over the coming quarters due to substantial fiscal buffers, enormous reserves and low budget breakeven prices. Elsewhere, Middle Eastern oil exporters will be hard hit by sustained weaknesses in oil prices. In Iran, lower oil prices will weaken President Rouhani's position and would lead to political gains for the conservatives. Over the longer term, oil prices around USD60/bbl pose an existential risk to the Islamic regime.

CHAPTER 3: 10-YEAR FORECAST

The UAE Economy To 2023

Greater Caution, Slower Growth

After its recent experience of boom and bust, we are forecasting a slower but more sustainable growth trajectory for the UAE over the next five to 10 years. Consumer spending will remain the key driver of GDP. However, investment and government spending are also significant, and this relative dependence on domestic demand puts it at some degree of risk.

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