

# United Arab Emirates Business Forecast Report Q4 2013

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## Abstracts

### Core Views

Our baseline scenario sees relatively solid growth over the coming quarters, with real GDP forecast to expand 3.2% and 3.8% in 2013 and 2014 respectively.

The outlook for Dubai has become slightly more promising relative to that for 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 on the road to recovery. Credit growth to the private sector will remain anaemic through 2013 as commercial banks continue to increase provisioning against potential loan losses ahead of the 2014 'funding cliff'.

### Major Forecast Changes

On the back of a stronger-than-expected recovery in Dubai's residential property sector, we have revised up our 2013 and 2014 average inflation forecasts, and now project the headline print coming in at 2.0% and 4.0% this year and next respectively.

### Key Risks To Outlook

Any attack by Islamist militants would result in a fundamental reappraisal of both the UAE, and the wider region's, risk profile. A further uptick in tensions between the West and Iran could result in a deterioration in the UAE's sovereign risk profile given the close proximity and deep trade ties between the two countries.

Downside risks to oil prices in 2013 are elevated, which could undermine the UAE's

already fragile macroeconomic recovery.

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Relations With Egypt Heading Towards A Nadir

Relations between the UAE and Egypt will continue to worsen following the arrest of 30 members, including Egyptians, of the Muslim Brotherhood in the Gulf state. Given the UAE's determination to suppress political groups in the country, particularly the Muslim Brotherhood, we see little potential for economic relations to improve. This will be to Egypt's detriment in the short term, and potentially UAE companies looking for new markets in the longer term.

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The UAE is not without its challenges. However, it 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.

### **CHAPTER 2: ECONOMIC OUTLOOK**

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We expect growth in the UAE to slow in H213 as net exports fall on the back of lower oil prices over the rest of the year. However, there are bright spots for the economy as property prices in Dubai appear to have bottomed, and fixed investment continues apace. Following real GDP growth of an estimated 4.1% in 2012, we are projecting the economy to expand by a more moderate 3.2% in 2013, before picking up to 3.8% in 2014.

Table: GDP BY EXPENDITURE

## Economic Activity II

### Abu Dhabi To Challenge Dubai's Financial Prowess

The move by Abu Dhabi to become a financial centre is, on the whole, negative for Dubai. Whilst we do not expect Dubai to lose its pre-eminence in the near future, it is likely that Abu Dhabi's move will mean the emirate competes, rather than complements, Dubai's standing. Outside of the UAE, we expect similar challenges from Qatar and Saudi Arabia to be less successful, but will have the overall effect to reducing Dubai's dominance.

### Fiscal Policy

#### Expenditures To Slow As Cliff Approaches

We expect the UAE's consolidated budget to remain in the black over the coming five years, with the surplus projected reach 1.4% of GDP in 2013, before averaging 1.3% between 2014-2017. That said, the headline figure masks diverging trends at the emirate level, with Abu Dhabi expected to see expenditures rise in tandem with large-scale infrastructure projects, while Dubai will most likely reduce spending as the funding cliff approaches.

Table: FISCAL POLICY

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#### Inflation Heading Higher In H213

The UAE will see higher inflation over the coming months as an improving macroeconomic picture and a nascent recovery in Dubai's housing market take hold. We expect inflation to reach 2.6% by the end of 2013. We expect significant divergence given the cost of housing between the two largest emirates, Abu Dhabi and Dubai, with CPI in Dubai likely to accelerate at a faster pace than in Abu Dhabi.

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We continue to hold a relatively cautious outlook for the commercial banking sector in the UAE as growth will be tempered by deleveraging ahead of the 2014 funding cliff. There is a significant divergence between the outlooks among the emirates with the housing market in Dubai looking more attractive than Abu Dhabi. Overall, we forecast loan growth to come in at 6.0% in 2013 and 9.0 % on 2014.

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