



Country outlook United Arab Emirates





United Arab Emirates



Form of Government: Elective and presidential federal constitutional monarchy

Capital: Abu Dhabi

Official language: Arabic

Population: 9 million inhabitants (2019)

Currency: Emirati dirham (AED)

Exchange rate: 1 EUR = 4.09 AED (31/05/2020)
1 USD = 3.67 AED (31/05/2020)

GDP: \$405 billion (0.5% of world GDP)

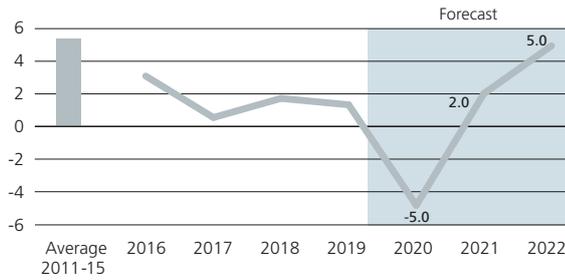
GDP per capita: \$37,750 (\$69,434 purchasing power parity)

Ease of doing business: 11th in the world out of 190 according to the World Bank (Doing Business)

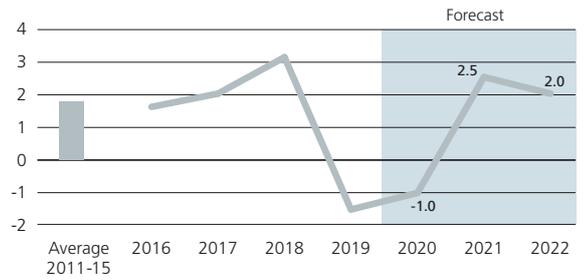
Religion: Sunni Islam: 85%

Economic forecast

GDP. Year-on-year change (%)



CPI. Year-on-year change (%)

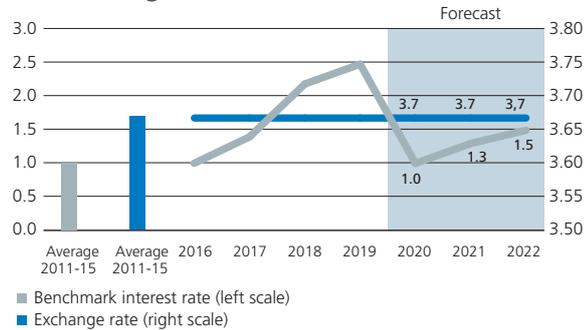


• The economy of the United Arab Emirates (UAE) is facing a difficult situation in 2020 due to the combined effects of a double shock: the COVID-19 crisis and the sharp drop in oil prices. The pandemic will have a significant negative economic and financial impact due to the UAE's strategic position as a hub in the Persian Gulf (through key sectors such as international trade, tourism and financial services) and the postponement of Expo 2020. In turn, the oil industry activities and exports will decrease notably due to the drop in global demand against the backdrop of falling oil prices. Looking ahead to 2021-2022, we expect an acceleration in GDP growth, linked to the gradual improvement of the world economy.

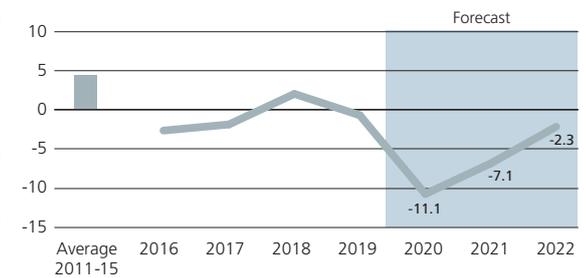
• After the CPI drop by nearly 2% in 2019, we expect the deflationary pressures to continue in 2020 due to the decline in economic activity, the fall in oil prices and the weakness of private demand. Furthermore, this trend should be reversed gradually from 2021 thanks to the cumulative effect of the expansive economic policies adopted to combat COVID-19 and the Expo being held in autumn 2021.

Economic policy

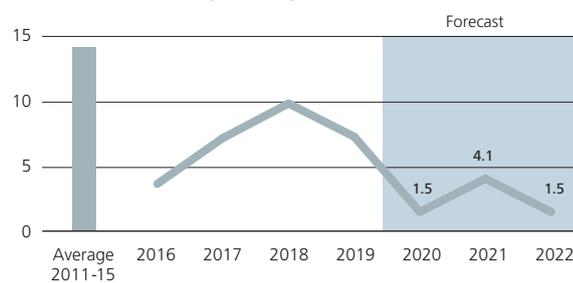
Benchmark interest rate (%) and exchange rate (AED/USD)



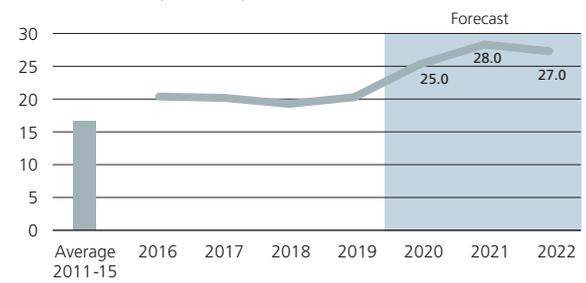
Fiscal balance (% GDP)



Current account (% GDP)



Public debt (% GDP)

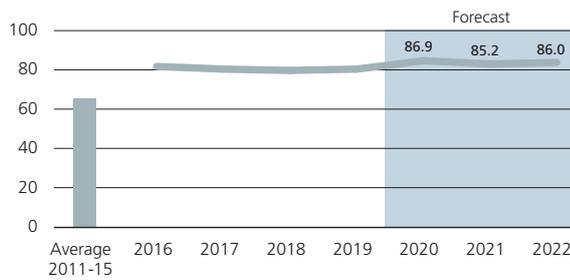


• The Central Bank has also adapted to the current economic situation and, following in the steps of the Fed, it has relaxed its monetary policy by cutting interest rates and increasing monetary stimulus. We expect this loose monetary policy to continue until at least 2021. As regards the dirham's peg with the dollar, we expect it to remain stable, despite any specific threats to this that may arise in the current circumstances.

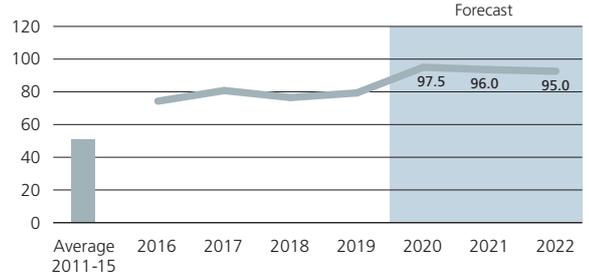
• The government has adopted fiscal measures to combat some of the effects of the economic crisis, valued at 2% of GDP. The UAE's fiscal position before the pandemic was reasonably comfortable, with an acceptable level of public debt. Despite this, the government has opted for a less aggressive fiscal approach than other countries in the area. When it has overcome the current economic downturn, we expect the government to resume fiscal consolidation and domestic accounts will benefit from the increased revenue from energy exports.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



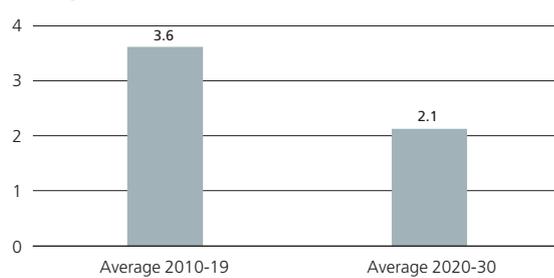
- Despite starting from a reasonably positive position, in the current situation the banking sector may face an increase in non-performing loans in the coming quarters due to rising financing costs in the private sector and the increased indebtedness of the sectors worst hit by the crisis. Additionally, the debts of quasi-public companies (Government Related Enterprises or GRE), equivalent to 50% of GDP, could be seen as something that will pose a greater risk than prior to the shocks because: i) the UAE’s fiscal buffers will not be as large as before the crisis (although most of this debt is not subject to the Dubai Government guarantee) and ii) due to the growing pressure on the profit margins of banks under the current circumstances.
- The level of external debt will remain relatively high (and above the normal averages for emerging economies) due to the funding needs that have arisen as a result of the current crisis and it will reach levels above the average of the last 10 years. However, it is worth remembering that the dirham’s peg with the dollar, which it should be possible to maintain without too much difficulty, as mentioned above, helps to mitigate the risk derived from somewhat high external debt.

Political situation

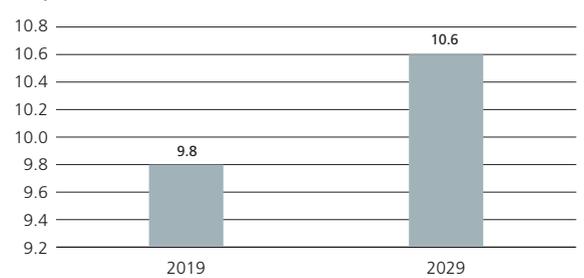
- It is one of the most politically stable countries in the region. However, there are geopolitical tensions, such as the diplomatic crisis in the Persian Gulf involving disputes between several Arab countries (including the UAE) and Qatar, and the complex situation in Iran.
- The strength of the Al Islah political movement (equivalent to the Muslim Brotherhood of Egypt) is very limited. Therefore, the Islamist pressures taking place in other countries in the region will not occur.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)

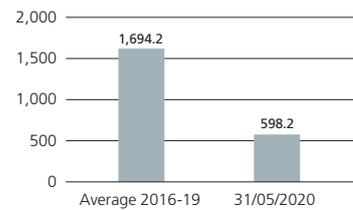


- The country’s dependency on oil is forcing it to diversify to other productive sectors. The UAE want to be a hub for trade, transport and tourism, taking advantage of their geographical location through projects such as the Mall of the World, Mohammed bin Rashid City and Expo 2020.
- The position of the UAE as a regional *hub* and the projects that are underway will lead to a significant influx of immigrants, ensuring an annual increase of 3.3% in the working population in the coming years.

Country risk

	Rating	Last changed	Outlook
Moody's	Aa2	25/05/17	Stable

CDS* 5 years (basis points)



OECD credit risk rating (from 0 to 7, with 0 being the best)



■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

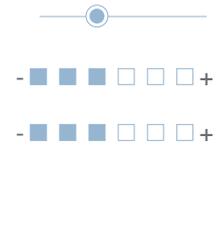
SHORT-TERM

- Commodity prices lower than forecast
- Greater than expected global impact of the pandemic
- Increased tightening up of international financing
- Geopolitical instability



LONG-TERM

- Sustainability of the production model
- Excessive weight of the construction industry (Dubai)



Business environment

STRENGTHS

- Political stability.
- Regional business hub.
- Low tax burden and ease of doing business.
- Infrastructure.
- Macroeconomic environment.

WEAKNESSES

- Small market.
- Limited innovation.
- Excess supply in construction.
- Transparency.

Main sectors

EXPORTS

- Commodities, mineral fuels, metals and precious stones, machinery and vehicles.

IMPORTS

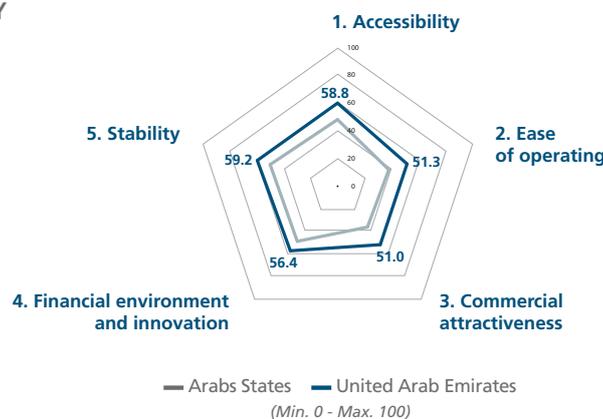
- Commodities, metals and precious stones, machinery, electronics and vehicles.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
- Infrastructures
 - Easiness of operating a business
 - Purchasing Power
- Bottom**
- Investment relations with Spain
 - Distance, communications, and agreements with Spain
 - Similar tastes to Spain

Taxation

The taxation system of the UAE is complex, with some peculiarities; in fact, each of the seven Emirates has its own tax legislation.

However, this is a country with a small tax burden; there is no corporate tax or personal income tax.

There is a tax on earnings, but it has a limited application to companies, affecting oil firms

and the branches of foreign banks. Furthermore, VAT was introduced in January 2018, at a rate of 5%. Basic necessities are exempt from VAT as are financial services and residential real estate, with certain exceptions.

Establishment

LOCAL COMPANY

For a firm that wants to establish itself in the UAE, the first decision is whether to set up in a free trade zone. Setting up in such a zone is a simpler process as all the official procedures are carried out via a centralised authority in the free trade zone itself, whereas setting up a company outside a free trade zone is a more complex, slower and complicated process due to the larger number of procedures and bodies involved. This second option also means that the company must have a local shareholder providing at least 51% of the capital, except when a representative office or branch is being set up.

Outside free trade zones, the types of companies in the country are as follows:

- Limited Liability Company (similar to a Spanish Sociedad Limitada).
- Private Joint Stock Company.

- Public Joint Stock Company.
- Joint Participation Venture (or Private Unlimited Company).
- Limited Partnerships (partners can only be UAE nationals).
- Partnership Limited with Shares (or Share Commandite Company).
- General Partnership or Joint Liability Company (partners can only be UAE nationals).

The most common type for a foreign firm opting to set up outside a free trade zone is the Limited Liability Company, which has no restriction in terms of shareholder nationality and does not require any minimum capital, although there is the abovementioned limitation of having a local shareholder that provides at least 51% of the share capital.

BRANCH

According to the Companies Law, branches do not have to comply with the above ownership ratio (49/51) requiring that a local shareholder must own the majority of the capital, but they do need a local sponsor or service agent, which, via a national agency agreement, is defined as a natural or legal person, 100%

national, that is responsible for handling procedures with the administration.

This form does not have its own legal personality; consequently, the parent company is always liable in the case of insolvency problems.

REPRESENTATIVE OFFICE

Representative offices share characteristics with branches, established by the Companies Law, and 100% of the established company can be foreign owned, with the requirement of having a service agent via a national agency agreement. The activities that can be carried out by a representative office are restricted to mediation,

looking for markets, supervising commercial representatives, following up public tenders, marketing and administrative activities, not being able to enter into contracts or issue invoices.

Alliances strategic

FREE TRADE ZONE

The free trade zones in the UAE hold more than 17,000 companies with a total investment estimated at more than 21 trillion dollars. There are currently 38 free trade zones operating in the UAE, while others are in development. These free trade zones form a vital part of the local economy and serve as

important centres to re-export to the Persian Gulf region. The largest of the country's free trade zones by far is the Jebel Ali Free Zone (JAFZA), located 20 kilometres south of Dubai, next to the port of Jebel Ali. More than 6,000 companies from 80 countries are established in this zone.

JOINT VENTURE

Personal relationships are very important when doing business in the Middle East. Having a local presence offers advantages as local businesspeople and civil servants prefer to deal with someone they know and trust.

The Companies Law defines a joint venture as an association between at least two parties that will share the profits or losses of a commercial business. A joint venture agreement or establishment contract regulates the respective obligations and rights of each

partner. In a joint venture, the earnings and distribution of losses can be arranged as preferred, although the majority owner must be an Emirati company. The mandatory maximum ratio (51%/49%) is the main limitation on this kind of company (having a local shareholder with at least 51% of the share capital). Nonetheless, certain clauses can be included in the articles of association in order to protect the interests of the minority shareholder.

Customs conditions

FREE TRADE AGREEMENTS

The Gulf Cooperation Council (GCC) was set up in 1981, comprising the United Arab Emirates, Saudi Arabia, Oman, Qatar and Kuwait. These countries have formed a customs union since 2003, jointly implementing measures related to the economy, tourism, trade, customs, legislation and administration. The United Arab Emirates has also been a member of GAFTA (Arab free

trade zone) since 1994. The members of GAFTA are: the members of the GCC plus Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Somalia, Sudan, Syria, Tunisia and Yemen.

It is currently in negotiation with the European Union, Japan, United States, India, Turkey, China and MERCOSUR, among others.

FREE TRADE ZONE

In the free trade zones, the main attraction is that foreign businesspeople can hold up to 100% of a firm's assets. Moreover, all free trade zones offer a 100% exemption from import and export taxes, 100% exemption from commercial

taxes, 100% repatriation of capital and earnings, lease contracts that run for several years, easy access to the sea and airports, energy connections (often at subsidised prices) and assistance with recruiting labour.

GENERALISED SYSTEM OF PREFERENCES (GSP)

The United Arab Emirates benefits from the EU General Scheme of Preferences, and its products therefore enter the EU market under preferential conditions.

Negotiations and protocol

BUSINESS CULTURE

Businesspeople in the UAE are skilled negotiators and the appeal its market has produced very demanding buyers. In terms of ethnic groups, businesspeople tend to be local, although there are also Hindu and Iranian businesspeople, as well as Westerners. Local negotiation practices have a lot in common with Western practices, although there are also

some particular features that need to be taken into account by foreigners, such as: providing a fast reply as this shows interest; lack of punctuality; being patient, a highly valued attitude due to companies normally being family owned; and assuming that the head of the family has the final say. Trust and personal relations are also very important in business.

Top fairs

- Gulfood.
- Arab Health.
- Big 5.
- Beaty Middle East.
- Steelfab.
- Sial Middle East.

Websites of interest

- National Investment Authority: <http://www.eia.gov.ae/>
- Dubai Chamber of Commerce: www.dubaichamber.com
- Abu Dhabi Chamber of Commerce: www.abudhabichamber.ae
- Public bids and tenders: <http://www.emiratestenders.com/>
- National Customs Service: www.fca.gov.ae

Payment and charging methods

MEANS OF COLLECTION

Documentary credit is widely used in the UAE and in the region. Other options in this market are documentary remittances (cash against documents) and transfers, the latter being the least secure means of payment in which an

important relationship with the importer is required to offer sufficient guarantees. Default is not particularly common in the UAE as this is a developed country that is highly competitive in the business world.

MEANS OF PAYMENT

The most widespread and secure payment method is documentary credit. As trust in the company in question increases, other less secure

but more profitable methods can be used, such as import remittances, transfers and confirming services.

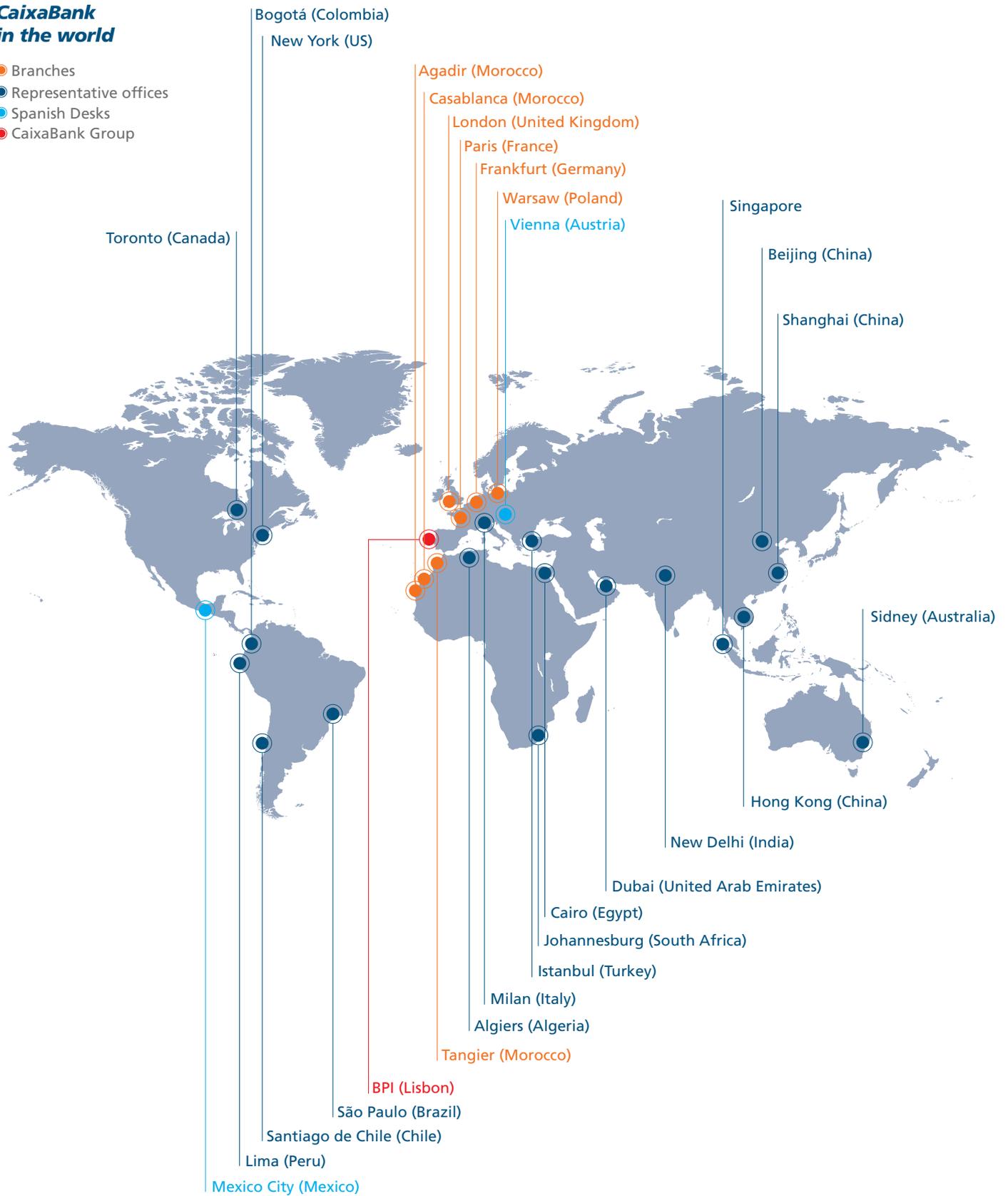
CaixaBank in the country

The mission of the UAE representative office, opened in 2010, is based around three main focuses: the relationship with financial institutions in the region for guarantee and

payment operations and accompanying Spanish companies that are present or wish to open in the market, as well as companies from these countries with interests in investing in Spain.

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