UNITED ARAB EMIRATES

IN A SOLID POSITION

The outlook remains positive despite international turmoil. The United Arab Emirates (UAE), which is relatively unaffected by the tightening of US trade policy, has room to manoeuvre to cope with lower oil prices and the slowdown in global trade. Its economy is more diversified than that of other Gulf countries. It is also driven by its strong attractiveness to foreign investment and the support of the government. In the longer term, the UAE could also benefit from a potential reconfiguration of trade flows and leverage its assets to maintain its strategic relationship with the United States.

GLOBAL TURMOIL: INDIRECT CHANNELS

Like other Gulf countries, the UAE has been largely spared by Trump's trade policy, with a minimum tariff of 10%. The effective average rate is higher, at 11.7%, if we take into account the latest announcements of a 50% increase in tariffs on aluminium and steel imports. However, the amounts are marginal, accounting for less than 1% of total UAE exports, and the measure affects sectors in which the United Arab Emirates is highly competitive. On the other hand, with exports of goods and services exceeding 110% of GDP, the UAE economy is by far the most sensitive in the region to the slowdown in global trade. Despite being relatively diversified compared to other Gulf countries, it also remains vulnerable to fluctuations in global oil prices. Brent Crude was expected to average USD65 in 2025-2026, compared to USD80 in 2024 before the renewed tensions in the Middle East. The risk is now on the upside. However, the impact on Brent prices has remained moderate so far and the fundamentals of the global oil market remain fragile. The volatility of the dollar and the direction of US monetary policy are other factors that could affect the UAE. Overall, however, the economy is well positioned to weather these headwinds.

GROWTH OUTLOOK REMAINS STRONG

The UAE is the most dynamic economy in the region. Despite OPEC+'s restrictive policy in 2023-2024, growth remained solid at 3.7%, 3 points above the average for other Gulf countries. Over the same period, non-hydrocarbon GDP growth reached 5.5%, a substantial difference not only compared to the rest of the region but also compared to the UAE's pre-pandemic performance (see Chart 1). Yet, there are no signs of a major shift in this trend at this stage.

Most short-term indicators remain positive: the number of tourist arrivals in Dubai is up (+7% year-on-year over the first four months of the year) and the S&P PMI index for the UAE's non-oil private sector remains above 50 (53.3 in May), the value separating the zone of activity expansion from contraction. In fact, there are multiple solid drivers of growth, starting with Dubai's strong attractiveness to foreign investors, particularly in times of global turmoil. The resulting influx of expatriates is a key factor in the development of the residential real estate sector, where construction continues apace., Abu Dhabi, which is committed to a massive economic diversification plan is also driving the UAE's growth upward. This emirate accounts for 60% of the federation's GDP and derives most of its wealth from the exploitation of its subsoil. For the past four years, non-hydrocarbon growth has been extremely strong, averaging close to 8%, supported by the construction, transport and finance sectors. Many of these projects are driven by the public sector and are therefore vulnerable to falling oil revenues. However, the authorities have sufficient room for manoeuvre to cushion the shock without having to adjust their investment policy.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	7.5	3.6	3.7	4.0	4.6
Inflation, CPI, year average, %	4.8	1.6	1.6	1.8	2.0
Gen. Gov. balance / GDP, %	10.0	5.0	4.8	3.0	1.9
Gen. Gov. debt / GDP, %	32	32	32	33	32
Current account balance / GDP, %	13.2	10.6	8.2	6.3	5.7
External debt / GDP, %	82	86	87	87	86
Forex reserves, USD bn	134	185	223	234	240
Forex reserves, in months of imports	4.1	5.0	5.6	5.6	5.4

TABLE 1 e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

UNITED ARAB EMIRATES: NON-HYDROCARBON GDP GROWTH

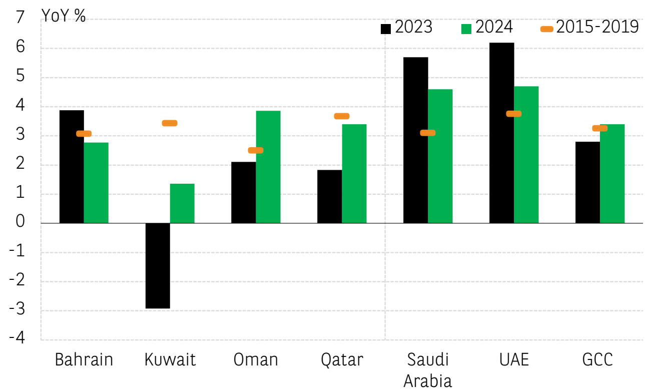

CHART 1 SOURCE: IMF, NATIONAL STATISTICAL OFFICES, BNP PARIBAS

In this context, non-hydrocarbon growth is expected to remain robust, at around 4.5% in 2025-2026. While global turmoil will undoubtedly weigh on key sectors (logistics and transportation), strong domestic demand and the UAE's status as a safe haven will limit the impact. The economy will also benefit from increased oil production, although the extent of this remains uncertain. Several OPEC+ alliance countries (including the UAE), which had initially committed to a gradual policy of reducing voluntary production cuts, have decided to accelerate the movement since April, in particular to regain global market share.

As this strategy is risky, we are still forecasting moderate oil GDP growth in 2025 (+2.5%) before a more pronounced rebound in 2026 (+5%). This would bring overall economic growth in the UAE to 4% this year and 4.6% in 2026. However, the momentum could be stronger.

INFLATION CONTAINED BUT VULNERABLE TO EXTERNAL FACTORS

Maintaining a restrictive monetary environment should not weigh too heavily on economic activity. Despite inflation remaining below 2% in 2024, the Central Bank of the UAE must keep its key interest rate high in line with the decisions of the US Federal Reserve, whose currency serves as an anchor for the Emirati dirham. Although the real interest rate began to fall in September 2024, it is still around 3%. At the same time, bank lending growth has remained strong, particularly for the private sector (+8.3% in February 2025), and is expected to remain so, given the solid outlook for non-hydrocarbon growth. Ultimately, the main economic threat, induced by US economic policy, could be the inflationary impact of a depreciation of the dollar. However, the risk also appears limited. On the one hand, overall inflation in the UAE masks divergent dynamics between emirates, which could be exacerbated in the event of higher import prices. In particular, Dubai is facing latent tensions due to sharp rises in rental prices. On the other hand, as the UAE is the only Gulf country where petrol prices are determined by market conditions, the turnaround in oil prices (even after the recent peak of tensions) is helping to limit price pressures. Furthermore, a significant weakening of the dollar would not only have negative consequences for an economy seeking to diversify, and whose nominal effective exchange rate has appreciated by more than 50% since 2010.

BUDGET AND EXTERNAL SURPLUSES MAINTAINED

The strength of public and external finances is also reassuring. The price of oil would have to fall below USD 50 per barrel (USD/b) for the public finances of the Emirates as a whole to slip into the red. In the current scenario, budget surpluses will therefore remain comfortable (between 2% and 3% of GDP), largely due to the relatively high weight of non-hydrocarbon revenues: 48% in the UAE in 2024, compared to an average of 72% for other Gulf countries. The consolidation of Dubai's public finances also contributes to the overall strength. From 78% of GDP in 2020, the emirate's government debt fell to 34% in 2024 thanks to the acummulation of budget surpluses and the monetisation of its public assets. For the United Arab Emirates as a whole, the debt reduction trend is less pronounced due to its desire to develop the capital market. Consolidated debt remains moderate (32% of GDP) and its dynamics are under control. In addition, the contingent debt of public enterprises no longer represents a systemic risk, even though it remains high (36% of Dubai's GDP and 20% of Abu Dhabi's GDP).

With oil prices at only USD 34 per barrel in order to balance its current account and robust capital flows (mainly foreign direct investment), the UAE's external position is even more comfortable. Despite the reduction in oil exports, foreign exchange reserves should therefore continue to grow.

UNITED ARAB EMIRATES: FISCAL AND EXTERNAL BREAKEVEN OIL PRICES

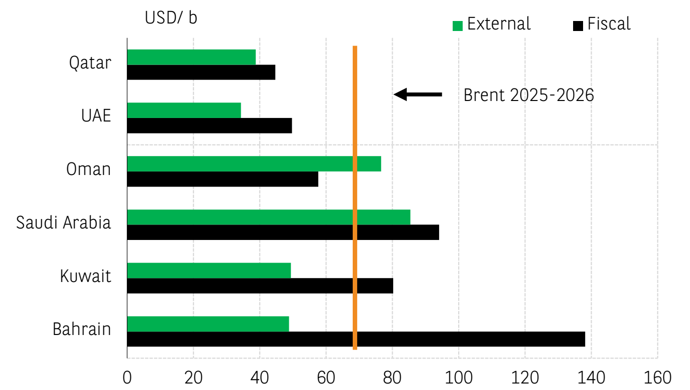

CHART 2

SOURCE: IMF, BNP PARIBAS

Above all, the UAE will be able to maintain its strategy of acquiring assets abroad and, thus, consolidate an already very solid position (sovereign wealth fund assets exceed 200% of GDP, compared with external debt of 87% of GDP).

REORGANISATION OF TRADE FLOWS: AN OPPORTUNITY TO MAXIMISE

Beyond the short-term consequences, the change in economic policy in the United States is likely to cause profound upheaval in international trade. The UAE is well positioned to take advantage of this.

Since 2022, the UAE has been signing a series of economic partnership agreements to strengthen its position as a trading hub and to attract foreign investment in order to accelerate the transition to an economy less dependent on oil. While the results so far have been promising, they need to be confirmed over time. The announcement of the launch of negotiations with the European Union could take the UAE, whose exports remain mainly focussed on Asia, to another level. Discussions are also under way with Japan. These could be concluded by the end of the year, following those already concluded with India (the first signatory country in 2022) and Australia and New Zealand. Finally, Trump's recent visit to the Gulf confirmed that the UAE also maintains a strong relationship with the United States. At first glance, the commitments appear to favour the US economy. However, joint investment projects in the UAE in the AI sector meet strategic needs whose development was hampered by the context of mistrust towards China until recently.

By projecting their financial power abroad and multiplying economic partnerships, the UAE therefore seems to be protecting itself against the risk of geo-economic fragmentation. It could also seize opportunities, particularly if relations between Europe and India are strengthened.

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