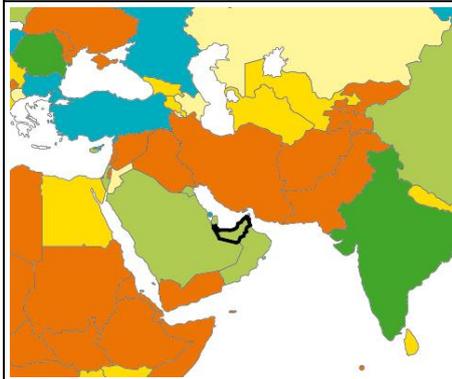


United Arab Emirates



COUNTRY RISK CATEGORY

2/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS: SEK 456 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS: SEK 456 MILLION

DATE

25/5/2015

Growth in spite of oil price decline

The United Arab Emirates (UAE) have emerged as a political safe haven in the wake of the Arab Spring. The Emirate of Abu Dhabi has also strengthened its position within the UAE following the financial bailouts during Dubai's property crisis. The oil price decline is creating a budget deficit and putting the balance of payments in a slightly worse condition, albeit still a manageable condition in consideration of the country's strong financial starting position. The economy continues to exhibit solid growth in spite of the low oil price. The main macroeconomic risks for the UAE are the dependence on Abu Dhabi's oil-based economy, the uncertainty associated with Dubai's ability to pay its debts and new asset bubbles in the property sector. The country's outlook is bright, and there are few threats to political and economic stability.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Political stability in a turbulent region
- Abu Dhabi's strong public finances and oil reserves
- Abu Dhabi is expected to support the federation and the other emirates

Weaknesses

- High debt of state-owned companies
- Oil dependence increasing economic vulnerability
- Lack of protection for investors and lenders

Country risk category 2

EKN categorises the UAE in country risk category 2 out of 7 – an assessment made in collaboration with the OECD. The policy for the provision of guarantees for risks in Dubai was made more restrictive in connection with Dubai's property crisis. Public counterparties must be systematically important and exposure to the construction and property sector must be taken into account for bank and corporate risks. The risk assessment is to be based on the counterparty's own credit rating and not on the assumption of government support.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- Economic diversification and reduced oil dependence.
- Improved protection for investors and lenders.

The policy may be made more restrictive in the event of

- Refinancing problems for companies closely associated with the government in Dubai.
- Speculation and increased debt in the property sector.
- A prolonged low oil price negatively impacting the balance of payments and public finances.

EKN'S EXPOSURE AND EXPERIENCE

Extensive and positive experience

In the period between 2010 and 2014, EKN has issued guarantees for 108 transactions totalling SEK 2.6 billion for Swedish companies exporting to the UAE. EKN's experience is generally positive. Temporary payment delays have occurred, but they are generally paid sooner or later. Indemnifications have been kept to a minimum as a result.

COUNTRY ANALYST



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DISCLAIMER

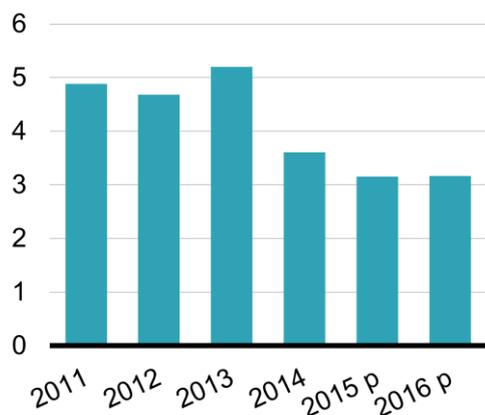
The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

Temporary oil price decline manageable

The heavy handed crackdown on Islamists and the Muslim Brotherhood's setback in North Africa have eliminated the greatest threat to political stability in the UAE. Abu Dhabi has used its financial support for Dubai to strengthen its political control over the smaller emirate. This increased influence is seen in security and foreign policy issues, such as cooler relations with Iran. Administration and the judiciary have been increasingly centralised within the federation, which has limited Dubai's autonomy. Sheikh Khalifa, Emir of Abu Dhabi and president of the UAE, has health problems and is expected to be succeeded by his brother, Sheikh Mohammed, which will ensure continuity.

The UAE has withstood the oil price decline of the past year thanks to a relatively diversified economy, a more open and better regulated banking system, political stability and sizeable

GDP GROWTH (% PER YEAR)



Lower oil price slowing down growth in the coming years. Data: IMF

foreign assets. Growth has fallen slightly due to weaker growth in the oil sector, but will remain over 3% of GDP per year. Public investments in the oil and gas sector are driving growth in Abu Dhabi, although the private sector share of the economy is growing. Growth in Dubai and the northern emirates is being driven by sectors outside of oil and gas, mainly in the property sector. Major infrastructure projects and preparations for World Expo 2020 are expected to contribute to higher GDP growth in Dubai.

The public finances are resting on a stable foundation thanks to the country's extensive financial resources. The fiscal stimulus introduced in 2009 has been scaled back slowly. The oil price

needed to balance the national budget is around USD 78 per barrel. As a result, the current low oil prices will lead to a budget deficit starting this year. Temporary budget deficits are fully manageable in consideration of the government's low debt and solid access to domestic and foreign financing.

The country's external balance of payments is strong, with a current account surplus and low debt. The country's international reserves are not too large, but there are also very large assets in oil funds accumulated over decades of current account surpluses. Abu Dhabi's largest oil fund is valued at over USD 400 billion, while total net assets are around 190% of GDP. The UAE has gained capital inflows from other Middle Eastern countries following the political turbulence in the region since 2011. Foreign direct investment has increased more than twofold and portfolio investments have increased many times over from 2011 to 2014. The country's currency, the Emirate dirham, has been pegged to the US dollar since 1980. There are no restrictions on payments and transfers for international transactions. The Emirate dirham can be assessed by EKN in transactions financed in local currency.

Dubai's property market is once again firing on all cylinders. New large-scale projects have been announced since Dubai was selected to host World Expo 2020. The risk of a new property bubble has decreased following the drop in property prices since mid-2014. Stricter

mortgage regulations have slowed down domestic demand and the oil price decrease and the strengthening of the US dollar (which the dirham is pegged to) has a similar effect for buyers in many other countries. Dubai's high debt of 135% of GDP is a risk factor, even though the refinancing risk of Dubai's largest state-owned companies has decreased following several cases of debt restructuring. The financially stronger Abu Dhabi will likely continue to support Dubai.

BUSINESS ENVIRONMENT

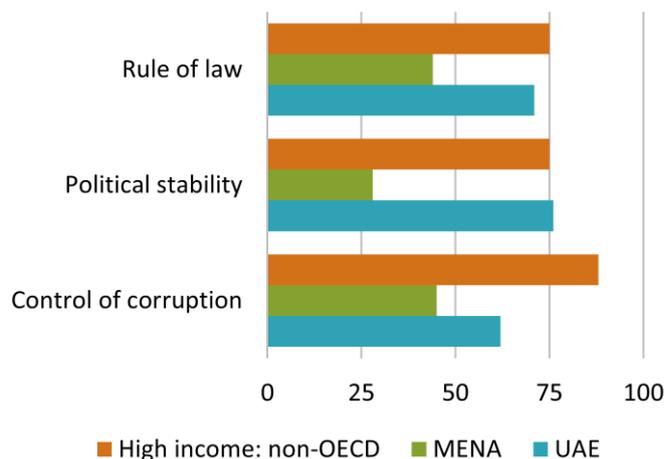
Stable banks and generally favourable business environment

The banking system has been strengthened in recent years. The banks are well-capitalised and profitable. The major banks in Abu Dhabi distinguish themselves in this respect. The main risks for the banking sector, in the form of new property bubbles and prolonged low oil prices, are counteracted by improved liquidity, high provisions for non-performing loans and stricter banking regulation in recent years.

The country's business climate is ranked high by the World Bank. However, some areas, such as investor protection and the ability to enforce rights under contracts, are lagging behind. The UAE's legal system is not politically independent and it exhibits deficiencies in terms of efficiency. Recovery proceedings are costly and take a long time, in comparison with the region as well. A new companies law, more in line with international standards, was adopted in 2013. The law features improvements in areas such as corporate governance, accounting and listing. However, the review of the rule preventing foreigners from having a majority holding in a company has been postponed.

BUSINESS ENVIRONMENT

Ranking from 0 (worst) to 100 (best)



The United Arab Emirates are ranked above average in the Middle East and North Africa. Source: World Bank