Abu Dhabi signals its intention to strengthen economic growth and improve business conditions

There was a collective sigh of relief in Abu Dhabi when the emirate's effective ruler, Crown Prince Mohammed bin Zayed, announced a $14 bn economic stimulus package in June 2018. Despite Abu Dhabi's extraordinary wealth, three years of low oil prices had resulted in a series of cancelled projects, job layoffs and falling rents.

The stimulus package was taken as a sign that the Abu Dhabi authorities will take a more active approach to economic management that would include some administrative and structural reforms to make the business environment in Abu Dhabi more dynamic and efficient over the long term. *Arab Banker's* Editor, Andrew Cunningham, considers the impact that the recently announced measures might have on Abu Dhabi.

The package announced by Mohammed bin Zayed on 6 June comprises Dh50 bn ($13.6 bn) of spending on ten initiatives that will be implemented over three years. Many of the details of those initiatives have been left up to the emirate's Executive Council to work out, although they will have three broad themes: to improve the 'ease of doing business' in Abu Dhabi, to create jobs, and to boost growth.

Some specific initiatives have already been announced. An Employment Opportunities Committee will be established to oversee the creation of 10,000 jobs over the next five years for local citizens in both the private and government sectors.

A housing plan that will double the availability of housing loans and reduce the time citizens wait for access to property has the broad objective of raising private home ownership among citizens to 70%. If achieved, that would be one of the highest home ownership rates in the world.

Licensing for office space will be relaxed, reducing the frequency with which licences need to be renewed, and licences issued to companies working in Abu Dhabi's free zones will be broadened to permit free zone companies to work in the local economy and to bid for government contracts.

Building regulations for commercial and residential sectors will be reviewed (presumably with the intention of making it easier to get planning permission for new projects), and the developmental requirements of various local communities will be examined. Interestingly, the announcement made explicit reference to 'other Abu Dhabi residential areas' including Al Ain. The authorities clearly recognise that Abu Dhabi can no longer be run as a city state, and that it has now developed a more mature economic geography.

The Executive Council will work with Abu Dhabi's Department of Finance to review overdue payments due from the government in various sectors including health, education and municipal affairs.

Inevitably, small- and medium-sized enterprises (SMEs) get a mention. Projects to improve the emirate's infrastructure and to execute industrial projects will include efforts to bring SMEs into mainstream economic activity.

Standard and Poor's (S&P) estimates that the proposed expenditure package is equivalent to 1.6% of Abu Dhabi's gross domestic product (GDP) over the three years.

In a note published two days after the package was announced, S&P also drew attention to the Dh165 bn ($45 bn) investment plan announced in May by the Abu Dhabi National Oil Company (ADNOC). The plan envisages an increase in crude oil production capacity to 3.5 mn barrels a day (b/d) from the current figure of 3 mn b/d by the end of this year, and a doubling of capacity at the emirate's Ruwais refining and petrochemicals complex by 2025, with the creation of 15,000 new jobs. S&P estimated that the

investment plan is equivalent to 3.3% of GDP annually over five years.

What emerges from both of these packages is the desire of the Abu Dhabi authorities to improve long-term economic conditions and not just give a short-term spending boost.

The reference to improving the 'ease of doing business' is interesting. The United Arab Emirates (UAE) was placed 21st in the World Bank's latest 'Ease of Doing Business' rankings, one place below Germany and one above Austria, and well ahead of other Arab countries: Bahrain was the second ranked Arab country at 66, followed by Morocco at 69 and Oman at 71. But the UAE's ranking obscures differences between the individual emirates and is more a reflection of the obsessively pro-business stance of Abu Dhabi's brash neighbour, Dubai, than of broader conditions throughout the UAE or of the friendliness of business regulations that are set at the federal level.

In putting 'ease of doing business' as one of the three broad themes of the stimulus package, the Abu Dhabi authorities are recognising the need to close the competitive disadvantage that they currently have against Dubai when attracting new investment and enabling existing businesses to grow.

Real estate prices remain under pressure

The focus on housing is also interesting. Both residential and commercial real estate has been suffering recently. Knight Frank estimates that residential property values fell by 10% in central Abu Dhabi during 2017, and CBRE has estimated that there was an even bigger fall in values across the emirate as a whole. Anecdotal evidence from local residents points to massive reductions in commercial rents as landlords try to retain existing clients.

The decline in prices and rents has been driven by a slowdown in economic activity, which itself is the result of lower oil prices and the consequent slowdown in government spending. But in the residential sector, it has also been driven by increased supply, as new residential neighbourhoods such as Saadiyat Island are built out.

It is strange to think that only a few years ago, expatriates working in central Abu Dhabi were complaining that high rents were forcing them to live far out of town, perhaps even on the outskirts of Dubai, and then face long commutes to their offices.

The housing initiatives in the stimulus package were aimed at local citizens, many of whom do not live in central Abu Dhabi, and do not want to, and some of whom may not have big salaries. Married citizens are already entitled to a ready-built house or, in some cases, a piece of land and an interest-free loan to fund the building of a house. The problem that the stimulus package is trying to solve is the long waiting times that married citizens face before they receive the house or get approval for the loan.

Improving access to free or subsidised housing will have an important social impact within the local community, but its effect on broader commercial and residential real estate, which is driven more by trends in expatriate employment and government spending, is likely to be minimal.

Responding to low oil prices

The recent era of low oil prices began in mid-2014 and followed several years when oil had been trading at historically high levels – around $100/barrel. By the end of 2014, prices had fallen to around $50/barrel and after a short and limited rally in early 2015, they sank to $28/barrel in early 2016, their lowest since 2003, and then remained at around $50/barrel for the next two years.

Despite Abu Dhabi's extraordinary wealth, the emirate's authorities responded to lower oil prices, and the resulting contraction in government cash flows, by cutting back on spending and delaying projects. There were also signs, well before the June 2018 stimulus package, that the authorities recognised institutional inefficiencies and administrative overlaps in areas of the economy that they controlled.

In mid-2016, the merger of National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) was announced. The Abu Dhabi Investment Council held 70% of NBAD, while government-related agencies and the ruling family held significant shares in FGB. With Abu Dhabi boasting six large domestic commercial banks, putting two of them together made sense, especially since there was little overlap in their overseas operations. The merger was completed during the first quarter of 2018.

Shortly after the NBAD-FGB merger was announced, the authorities announced plans to merge two state-controlled investment funds, International Petroleum Investment Corporation (IPIC) and Mubadala Development Company. IPIC had been created in 1984 and held Abu Dhabi's state

investments in oil and gas companies, while Mubadala had been created in 2002 with the aim of diversifying away from oil and gas through investments in other sectors. The merger was completed in early 2017 with the new entity, called Mubadala Investment Company, holding assets of about $125 bn. In early 2018, the Abu Dhabi Investment Council, which had been created in 2007, was merged into Mubadala, taking the value of its portfolio to around $200 bn.

Local gossip predicts that more mergers are in the pipeline. The most obvious candidates are banks and insurance companies. Future bank mergers would be a lot easier than the merger of NBAD and FGB, not least because the remaining banks are a lot smaller. Obvious configurations would be for Abu Dhabi Islamic Bank to merge with – in effect to acquire – the Islamic bank Al-Hilal, which is one third of its size and has little overseas presence; and for Abu Dhabi Commercial Bank to merge with/acquire Union National Bank, which is about two thirds of its size.

Rationalisation of the insurance sector is also a frequent topic of conversation. There are nearly 70 insurance companies operating in Abu Dhabi.

Huge financial reserves and high credit ratings

Despite the recent economic slowdown, Abu Dhabi remains an extraordinarily wealthy emirate. S&P estimates gross domestic product during 2018 will be $266 bn, resulting in a GDP per capita of about $83,500. Fitch, another rating agency, estimates that the assets of the Abu Dhabi Investment Authority were $629 bn in 2016. Those assets are separate from the $200 bn controlled by Mubadala.

Abu Dhabi has retained its AA ratings from all three rating agencies during the years of low oil prices. Kuwait is the only other Gulf state that now enjoys ratings at that level. Qatar has been downgraded by one notch to AA- by all three agencies as a result of the diplomatic dispute with some of its neighbours and the resulting economic embargo, and Saudi Arabia is rated in the single A range by all three agencies. Other emirates that are rated, such as Sharjah and Ras Al Khaimah, are ranked in the single A range. The emirate of Dubai is not rated.

Affirming its AA rating with a stable outlook in June, S&P said that it expected that, “Economic growth will gradually pick up ... although structural and institutional weaknesses will likely persist.” The agency is predicting economic growth

Shareholding structure of Abu Dhabi-based banks*

	Equity, end-2017 (Dh bn)**	Shareholding structure
Abu Dhabi Commercial Bank	32.4	Abu Dhabi Investment Council, 58.08*** Tasmeem Real Estate Co., 7.02 General Public, 34.90
Abu Dhabi Islamic Bank	16.6	Emirates International Investment Council Co., 40.66 Abu Dhabi Investment Council, 7.61 General Public, 51.73
Union National Bank	19.5	Abu Dhabi Investment Council, 50.01 Government Investment Corp. of Dubai, 10.00 General Public. 39.99
Al-Hilal Bank	5.5	Abu Dhabi Investment Council, 100

** Shareholding figures are taken from the website of the Central Bank of the United Arab Emirates, except where specified otherwise. ** Figures taken from bank's annual reports. *** The Abu Dhabi Securities Exchange puts this figure at 62.52 (accessed on 15 June 2018).*

to average 2.2% from 2018 to 2021, as a result both of higher oil prices (and so higher government revenues) and greater local investment.

Some uncertainty arises from the impact of new taxes. Value Added Tax (VAT) of 5% was introduced across the UAE on 1 January 2018. Economists predict that this will reduce consumption, but on the other hand it will also increase government revenues, so enlarging resources that can be used to invest in the local economy. Thirty per cent of VAT receipts are supposed to be retained by the federal government, with individual emirates receiving the other 70%, although it is not clear how the 70% will be distributed among the seven. Abu Dhabi accounts for about two thirds of the UAE's gross domestic product, which could in theory mean that it takes the lion's share of the 70%. In practice, Abu Dhabi's wealth relative to the other six emirates (including Dubai) has resulted in Abu Dhabi being a contributor rather than a recipient when it comes to the management of federal revenues and expenditures.

New taxes on tobacco and some energy drinks were also introduced at the federal level in late 2017. Again, the impact on consumption and on state revenues is still difficult to discern.

The Abu Dhabi authorities have signalled their intention to create a more business-friendly economy in which government offices work with greater efficiency and public policy is more focused on the needs of local citizens.

2019 will be an interesting year in Abu Dhabi. ■