Kingdom of United Arab Emirates' rating reaffirmed at 'CareEdge AA-/Stable'

Issuer rating (Long-Term Foreign Currency)	CareEdge AA-/Stable (Unsolicited)

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Kingdom of United Arab Emirates (UAE) at **'CareEdge AA-/Stable'** (Unsolicited).

Rationale

The rating reaffirmation is underpinned by the UAE's strong and continued efforts towards diversification of the economy, which continues to support medium-term growth prospects. The sovereign benefits from substantial fiscal buffers from financial assets (sovereign wealth funds of size 470% of GDP in May 2026), particularly through the sizeable assets of the Abu Dhabi Investment Authority (ADIA; 195% of GDP in May 2026), which provide a strong backstop to the public balance sheet. CareEdge Global expects these assets to be available to support the federation under severe stress.

The UAE also maintains a very strong external position, reflected in sustained current account surplus (average of 13.8% of GDP during 2021-25), large foreign exchange reserves (import cover of 5.7 months in 2025), and a robust net international investment position (NIIP; 190% of GDP in 2025). These strengths are supported by historically stable foreign direct investment (FDI) inflows and gradual diversification of exports, which continue to improve the economy's external resilience over time.

These strengths are balanced against elevated contingent liabilities (estimated at around 25% of GDP in 2022) associated with government-related entities, as well as continued reliance on hydrocarbon revenues, which still account for a significant share of fiscal income (around 44% in 2025). Structural constraints, including regional geopolitical risks and scope for further improvements in data transparency, also weigh on the credit profile.

The ongoing West Asia conflict is expected to temporarily weigh on economic activity through lower oil production and softer hydrocarbon exports, alongside spillovers to non-oil sectors in 2026. This is likely to be reflected in subdued investor sentiment, weaker tourism activity, and some moderation in capital inflows. However, the impact is mitigated by the UAE's strong fiscal and external buffers, which continue to anchor credit fundamentals and limit the risk of material deterioration.

The UAE's exit from OPEC is assessed as broadly neutral in the near to medium term, as any modest revenue gains from higher production are likely to be offset by the broader macroeconomic impact on consumption, investment inflows, tourism, and logistics arising from the regional conflict.

The availability of United States (US) dollar liquidity to maintain the USD peg is an important factor for the external position. Recent discussions with the US regarding a potential dollar liquidity backstop are viewed as precautionary and supportive of financial stability. However, we continue to closely monitor developments around the liquidity backstop.

The UAE is a federation of seven emirates established in 1971, with individual emirates retaining substantial political and fiscal autonomy. At the federation level, the size and responsibilities of the federal government are low. Despite this decentralised structure, we view institutional linkages across the federation as strong, reflecting a long track record of policy coordination and financial support, particularly from Abu Dhabi.

Going forward, sustained investor confidence, stability in capital flows, and continued resilience in external accounts will remain key monitorables over the near to medium term.

Outlook: Stable

The stable outlook reflects our expectation that the impact of the West Asia conflict is expected to remain manageable in the near to medium term, supported by the UAE's large fiscal buffers, exceptionally strong sovereign wealth fund assets and a robust net external asset position, However, heightened regional security risks could weigh on tourism, investment inflows, trade activity, and overall economic sentiment in the near term.

Upside scenario

The outlook could be revised to positive if stronger-than-expected economic growth, driven by continued diversification and sustained investment activity, results in further improvements in both fiscal and external balances. Structural enhancements in trade connectivity and energy infrastructure, particularly those reducing reliance on the Strait of Hormuz, could further strengthen resilience to regional disruptions. Improvements in transparency regarding the fiscal position and contingent liabilities of government-related entities and emirates would also be credit positive.

Downside scenario

The outlook could be revised to negative if geopolitical tensions intensify or persist, leading to a material decline in oil production and exports, weaker investment inflows, and a deterioration in medium-term economic prospects. Any sustained weakening of the external position, including erosion of current account surplus and potential drawdown of sovereign wealth assets could further weigh on credit profile. Additionally, a significant increase in public debt, driven by sovereign support for banks or government-related entities, or prolonged fiscal stimulus, along with rising interest burdens, would exert pressure on the credit profile.

Key rating drivers

Economic structure & resilience

The UAE is a moderately sized economy (nominal GDP of USD 614 billion in 2025) with a high GDP per capita (USD 71,196 in 2025). The economy benefits from a diversified economic structure, with the non-oil sector accounting for 82% of GDP in 2025, up from 65% in 2013, reflecting recent diversification efforts. Growth prospects are further supported by large hydrocarbon reserves with competitive production costs and a strong post-pandemic economic recovery. Abu Dhabi and Dubai account for approximately 95% of GDP in 2025, while the UAE's low-tax environment continues to attract expatriates, who represented around 75% of the population in 2024. The UAE's economic profile is further supported by strong investment activity, with gross capital formation standing at 25% of GDP in 2023 and expected to remain healthy. Ongoing infrastructure investments, including alternative pipeline routes to bypass the Strait of Hormuz, are expected to strengthen economic resilience and support medium-term growth prospects. Despite these strengths, the UAE remains exposed to oil price volatility given the continued importance of hydrocarbons to national income and wealth. Over the longer term, lower global hydrocarbon demand and energy transition could pose challenges.

Real GDP growth averaged 5.7% during 2021–24, outperforming the Gulf Cooperation Council (GCC) average of 4.7% during the same period. Growth remained robust at 6.2% in 2025. However, the West Asia crisis that began on February 28, 2026, has weighed on tourism, investor confidence, capital flows, exports, logistics, and real estate activity, which are expected to constrain growth in 2026. Nevertheless, we expect economic activity to recover thereafter (averaging 4.3% during 2026-30), supported by accelerated infrastructure spending, continued strength in the non-oil economy, and greater oil production autonomy following the UAE's exit from OPEC.

Residential real estate activity remained buoyant in 2025, with residential sales increasing by 54.6% y-o-y in Abu Dhabi and 30.7% in Dubai. Strong demand has been supported by population growth of around 5%, driven by the Golden Visa programme and the UAE's attractiveness as a low-tax jurisdiction. However, the market has moderated in the first half of 2026, reflecting heightened geopolitical uncertainty following the regional conflict, alongside a growing supply of new housing. Transaction volumes and prices have softened, particularly in Dubai, although activity remains above pre-boom levels.

We will continue to monitor regional security risks, economic growth performance, and progress on infrastructure projects aimed at reducing dependence on the Strait of Hormuz in the near-term and continued diversification of economy in the medium term.

Fiscal strength

The UAE maintains a strong fiscal position, supported by low gross general government debt (34.3% of GDP in 2025) and a modest interest burden (2.7% of total revenues in 2025). Including the liabilities of government-related entities (GREs), however, the debt-to-GDP ratio is estimated to rise to a moderate level. Contingent liability risks are mitigated by substantial fiscal buffers, including persistent fiscal surpluses (averaging 6.2% of GDP during 2021-25) and exceptionally large sovereign financial assets accumulated through sovereign wealth funds. These assets are estimated at around 470% of GDP as of May 2026, largely held by ADIA (USD 1.2 trillion i.e., 195% of GDP as of May 2026).

The federal government's fiscal profile is constrained by the relatively small size of the federal budget, which stands at around 4% of GDP in 2026, although this reflects its limited responsibilities within the federation. The federal budget is balanced in line with legal requirements, with revenues derived from grants from Abu Dhabi and Dubai, shares of taxes and dividends, and profits from state-owned enterprises.

At the emirate level, Abu Dhabi, Dubai, and Ras Al Khaimah are expected to maintain fiscal surpluses and moderate debt burdens. In contrast, Sharjah is estimated to record a fiscal deficit of around 4% of its GDP in 2025, with debt levels rising from the current estimated 54% of GDP. With an average debt maturity of around seven years (as of 2025), rollover risks appear contained.

The consolidated fiscal position remains a key credit strength. The general government recorded a budget surplus of 5.2% of GDP in 2025, and we expect fiscal balance to remain in surplus over the medium term (averaging 4.7% of GDP during 2026-30). Nevertheless, fiscal revenues remain exposed to oil price volatility, with hydrocarbons accounting for approximately 44% of total revenues in 2025.

While lower oil production due to the West Asia crisis may weigh on fiscal revenues, higher oil prices are expected to partly offset this impact in the near term. In response to the economic disruptions arising from the conflict, Dubai has also introduced a fiscal stimulus package of AED 1 billion aimed at supporting businesses, enhancing liquidity, and stabilising key sectors.

The impact of the West Asia crisis on oil production and fiscal revenues, as well as the government's ability to sustain fiscal surpluses over 2026 and the medium term will be evaluated closely.

External position & linkages

The UAE's external position is supported by persistent current account surpluses (averaging 13.8% of GDP during 2021-25), a strong NIIP, and substantial foreign exchange buffers (import cover of 5.7 months in 2025). The NIIP is primarily underpinned by large sovereign wealth fund assets invested in reserve currency-denominated instruments. The economy also benefits from a competitive business environment, ranking 16th globally on ease of doing business, which has supported strong foreign direct investment inflows, with net FDI reaching 5.6% of GDP in 2025.

The UAE's export sector benefits from its role as a regional trade and logistics hub, with re-exports accounting for a significant share of total exports. Nevertheless, external performance remains linked to hydrocarbons (25% of total exports in 2024) and is, therefore, exposed to oil price volatility. The country also carries a relatively large stock of external debt (93% of GDP in 2025), reflecting Dubai's position as an international financial center rather than elevated sovereign external vulnerabilities.

The external profile is expected to face near-term pressures from the West Asia conflict, with exports, imports, foreign exchange reserves, and the NIIP likely to come under strain. The current account surplus is projected to moderate to around 9% of GDP by 2030, reflecting higher import demand associated with large-scale investment projects under national development initiatives. Increased imports of intermediate and capital goods are expected to partially offset the benefits of continued export growth and external sector strength. Despite this, the UAE's external buffers remain substantial. The NIIP stood strong at 190% of GDP in 2025, while portfolio investment liabilities remained limited at less than 9.8% of GDP in 2024.

The UAE has also taken steps to strengthen the resilience of its external sector through infrastructure investments. The Abu Dhabi–Fujairah pipeline, which bypasses the Strait of Hormuz, currently has the capacity to transport around 50% of the country's oil production (around 1.7 mbpd in 2025). In addition, Abu Dhabi National Oil Company (ADNOC) has announced an additional USD 500 billion investment to enhance pipeline infrastructure. These investments are expected to improve the resilience of oil exports and support the security of critical imports, including food supplies, over the medium term.

The availability of US dollar liquidity to maintain the exchange rate peg and support the external liquidity position is important. In this context, discussions regarding a potential US dollar liquidity backstop appear precautionary rather than indicative of acute financial stress and will be monitored closely.

Key monitorables include developments in the current account balance, the trajectory of the NIIP, and the preservation of the external buffers that underpin the UAE's external strength.

Monetary & financial stability

The UAE operates a soft-peg exchange rate regime, with the UAE dirham pegged to the US dollar at AED 3.6725 per USD since 1967. While the fixed exchange rate constrains monetary policy flexibility, it provides exchange rate stability and remains supported by adequate foreign exchange reserves, with a comfortable reserve backing ratio of 120% in 2025. The central bank does not maintain an explicit inflation target but has historically managed inflation effectively. The authorities are also making sustained efforts to deepen domestic capital markets and develop a sovereign yield curve. Outstanding T-sukuk increased by around 45% y-o-y in 2025, reflecting continued development of domestic capital markets. Private sector credit stands at 101% of GDP in 2024, while stock market capitalisation is around 190% of GDP in 2024.

Inflation stood at 1.28% in 2025 and is expected to rise to 2.5% in 2026 due to the impact of the West Asia conflict on food imports. However, the pass-through of imported inflation remains relatively low, which should help moderate price pressures. Inflation is projected to average 2.1% during 2026–30.

Financial sector indicators remain supportive. Banking sector asset quality has improved significantly, with non-performing loans declining to 2.9% in 2025 from 4.1% in 2024. Banks have strengthened capital buffers and adopted a more prudent approach to lending. Exposure to the real estate sector has also declined to 18.3% of risk weighted assets (RWA) in Q2 2025 from around 21% of RWA in 2023, although the sector remains a potential source of risk in the event of a sharp market correction.

The banking system experienced a moderation in the monetary base following a decline in liquidity surplus in the banking system after the onset of the West Asia conflict, prompting the Central Bank of the UAE to introduce precautionary liquidity support measures. Nevertheless, available indicators do not point to material funding or systemic liquidity pressures.

We will continue to monitor liquidity conditions, banking sector resilience, and the effectiveness of policy measures in preserving financial stability amid heightened regional uncertainty.

Institutions & quality of governance

The UAE is a federation of seven emirates, each retaining substantial autonomy over economic and fiscal affairs. The federal government's responsibilities are largely limited to key areas such as education, healthcare, defence, and infrastructure. Institutional effectiveness is a key strength, with the UAE ranking strongly across most dimensions of the Worldwide Governance Indicators (WGI), including government effectiveness, rule of law, regulatory quality, and control of corruption. These indicators reflect a generally stable policy environment, effective institutions, and strong administrative capacity.

Governance is characterised by a centralised decision-making framework led by the ruling families of the constituent emirates. Sheikh Mohamed bin Zayed Al Nahyan, the ruler of Abu Dhabi, serves as the President of the UAE. Key decisions, including those related to the federal budget and leadership selection, are made through consensus among the ruling families, with Abu Dhabi and Dubai exercising greater influence given their economic significance.

Nevertheless, the UAE scores relatively low on the WGI measure of voice and accountability, ranking in the 15th percentile globally. The governance framework provides limited political participation and public accountability, while transparency remains constrained in certain areas. Data availability is relatively limited, particularly with respect to external debt and the balance sheets of government-related entities (GREs), reducing visibility into some aspects of the public sector's financial position.

The UAE also remains exposed to elevated geopolitical risks given its location in a volatile region. Recent escalations in the West Asia conflict have demonstrated the potential for security risks to the economy. The evolution of regional geopolitical risks, particularly developments surrounding a US–Iran peace agreement, will remain an important consideration in our assessment of the UAE’s credit profile.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD Billion	357	422	511	523	581	614	622	649
GDP per capita (constant-PPP)	USD	67,612	66,592	68,618	68,958	67,806	71,196	72,892	76,186
Real GDP growth	%	-8.7	4.6	7.5	4.3	6.6	6.2	3.1	5.3
GFCF/GDP	%	20.2	23.5	24.2	24.8	-	-	-	-
Gross domestic savings/GDP	%	39.8	45.5	46.1	42.9	-	-	-	-
Exports (G&S)/GDP	%	98.1	100.6	102.1	106.8	-	-	-	-
Working age (15-64) population (% share in total)	%	81.9	81.9	81.9	82.0	82.1	82.2	82.3	82.2
Old age (65+) population (% share in total)	%	1.6	1.6	1.6	1.7	1.8	1.8	1.8	1.9
Fiscal indicators – general government									
Fiscal balance/GDP	%	-2.4	4.0	9.8	5.8	6.4	5.2	4.9	4.8
Revenue/GDP	%	28.0	29.9	32.5	28.5	27.8	27.7	27.4	27.8
Expenditure/GDP	%	30.5	25.9	22.7	22.7	21.4	22.6	22.5	22.9
GG gross debt/GDP	%	30.1	35.7	31.5	31.9	34.9	34.3	31.4	30.1
Interest/revenue	%	1.0	1.0	1.6	2.2	2.2	2.7	-	-
External indicators									
Current account balance/GDP	%	5.9	11.4	13.0	14.1	15.4	15.3	11.4	11.4
FDI, net inflows/GDP	%	5.7	5.0	4.5	6.0	7.9	5.6	-	-
NIIP/GDP	%	177.2	162.4	145.9	169.6	178.2	190.5	-	-
Foreign exchange reserves	USD Billion	102.2	123.8	130.1	189.5	238.2	280.0	-	-
Import cover	Months	5.7	5.5	4.7	5.5	5.6	5.7	-	-
External debt/GDP	%	110.3	97.8	81.9	85.5	93.4	93.2	-	-
Monetary and financial indicators									
CPI inflation	%	-2.1	-0.1	4.8	1.6	1.7	1.3	2.5	2.0
Exchange rate (average)	LC per USD	3.6725	3.6725	3.6725	3.6725	3.6725	3.6725	3.6725	3.6725
Non-performing loans/total gross loans	%	8.1	7.9	7.3	5.9	4.1	2.9	-	-
Private debt, loans and debt securities/GDP	%	126.1	106.6	89.7	94.5	101.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, Haver Analytics, CareEdge Global

Note: F - forecast; PPP – purchasing power parity; GFCF – gross fixed capital formation; exports (G&S) – exports of goods and services; GG – general government; FDI – foreign direct investment; FII – foreign institutional investment; NIIP – net international investment position. Data refers to fiscal/calendar year and actual/estimate as reported by the source. Where general government data is unavailable, central government data is used. Latest available data for 2025

Solicitation status
The rating is unsolicited

Rating history

Instrument	Type	Rating	Date
Issuer rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	June 26, 2026
Issuer rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	June 27, 2025
Issuer rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-	October 03, 2024

Criteria applied
CareEdge Sovereign Rating Methodology

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