

# Dubai Government Debt Update Note

## Executive Summary

- The government of Dubai's outstanding direct debt has risen to an estimated \$31.5 billion, equivalent to 38 percent of the Emirate's GDP. Over half of this is debt taken out to finance the Dubai Financial Support Fund (DFSF) which has used the money to support struggling government related enterprises (GREs), specifically Dubai World and Nakheel.
- The level of debt appears manageable with respect to traditional indicators of debt to GDP. However, the repayment burden is large given the government's limited fiscal revenues of around \$8 billion a year and that fact that the budget is in deficit. Debt interest payments alone rose to \$2.4 billion in 2010.
- It is thus critical that Dubai continues to have access to capital markets at reasonable rates and takes measures to strengthen its fiscal accounts. Improvements in GRE finances will also be vital to the long term financial health of the emirate. Their timely repayment of the DFSF is necessary to avoid an unaffordable spike in government debt repayments in 2014 which otherwise will have to be rolled over.
- The high level of Dubai GRE debt, estimated at \$77 billion, remains a risk as the government may be pushed into absorbing further liabilities. The IMF suggests that most GREs operating in the real estate sector should be seen as sources of sovereign risk.
- While risks clearly remain, confidence is on the rise as the economy has started to rebound driven by Dubai's traditional non-oil sectors. Markets remain willing to finance the government which recently successfully issued another \$500 million bond. However, with total Dubai Inc repayments exceeding \$30 billion in 2011-12, restructuring, refinancing and new borrowing is unlikely to be sufficient and considerable amounts will still need to be raised through asset sales.

**Office of the Chief Economist**  
Economics Department  
Samba Financial Group  
P.O. Box 833, Riyadh 11241  
Saudi Arabia

ChiefEconomist@samba.com  
+9661-477-4770; Ext. 1820 (Riyadh)  
+4420-7659-8200 (London)

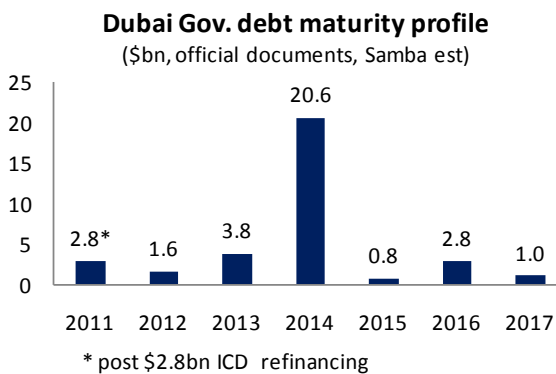
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Government of Dubai outstanding direct debt		
Public notes	\$ billion	maturity
Euro medium term note	1.8	2013
Dubai DOF sukuk	1.9	2014
Euro medium term note	0.5	2015
Euro medium term note	0.8	2020
Dubai DOF Wakala sukuk	0.6	2016
<b>Bilateral/syndicated facilities</b>		
Ijarah Facility	0.3	2011/15
Term loan facility	0.2	2014
Gov Dubai DOF China construction bank facility	1.0	2017
Investment Corporation of Dubai	6.0	2011/13
<b>Related party debt ( DFSF - \$20bn)</b>		
Gov Dubai \$10 bn notes	10.0	2014
DOF Abu Dhabi \$10 bn	8.5	2014
<b>Total direct debt</b>	<b>31.4</b>	
% GDP	38.3%	
<b>Guarantees &amp; contingent liabilities</b>		
	7.6	
<b>Total inc. guarantees &amp; contingent</b>	<b>39.0</b>	
% GDP	47.6%	

Source: Dubai gov. MTNP prospectus

Dubai Government Finances					
\$ billion	2007	2008	2009	2010	2011b
Revenue	7.0	8.9	7.7	8.1	8.1
Oil & gas	1.8	2.4	1.3	1.4	0.7
Enterprise profits	0.4	0.5	0.2	0.5	0.5
customs	1.6	1.7	1.6	1.6	1.6
Expenditure	7.2	10.4	11.3	9.8	9.2
Balance	-0.2	-1.5	-3.5	-1.6	-1.0
% of GDP	-0.3	-1.6	-4.4	-2.0	-1.2

Source: DOF, b = budget



## Government of Dubai's outstanding direct debt

The government of Dubai's outstanding direct debt is currently put at \$31.4 billion equivalent to 38% of the Emirates GDP. Over half of this (\$18.5 billion) is debt taken on to finance the Dubai Financial Support Fund (DFSF) which has used the money to provide finance to Dubai's struggling government enterprises (GREs), specifically Dubai World & Nakheel. In theory these GRE's have until 2014 to repay the DFSF through asset sales and their own revenues. This should allow the government to meet the \$20 billion spike in debt repayments in 2014 when its borrowings to fund the DFSF mature.

Another \$6 billion of the outstanding total represents holding company level debt of the Investment Corporation of Dubai (ICD) (i.e. this excludes borrowings by any of ICD's subsidiaries or other group companies currently estimated at around \$12 billion). Of the \$6 billion owed by the government, \$4 billion was due this year. However, agreement has just been reached to refinance \$2.8 billion over 5 years, with ICD repaying the remaining \$1.2 billion. The original loan was taken out in the summer of 2008 and had been earmarked for acquisitions, but instead has been drawn down to provide emergency liquidity to the government as the financial crisis struck.

The government of Dubai also has direct contingent liabilities estimated at \$7.6 billion related to guarantees for DEWA (\$3.6 billion) and RTA (\$1.8 billion), as well as \$2.2 billion under a shortfall guarantee relating to the restructuring of DW. Including these guarantees, Dubai government debt is higher at \$39 billion equivalent to more than 47 percent of GDP, although the expectation is that the government will not need to cover these contingencies.

The government's current debt level appears manageable with respect to traditional indicators of debt to GDP, and the sovereign should be a solid credit risk (albeit still unrated). However, the debt repayment burden is large given the government's limited fiscal revenues of around \$8 billion a year, and that the budget is running a deficit of \$1-1.6 billion a year (see table). Interest payments have risen from zero in 2007 to \$2.4 billion in 2010 according to IMF data.

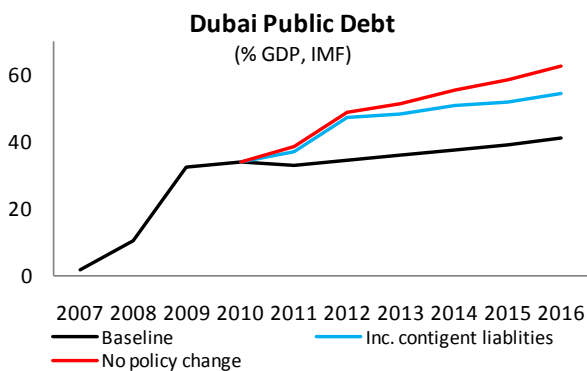
It is thus critical that the government continues to have access to capital markets at reasonable rates and takes measures to strengthen its fiscal accounts. In addition, improvements in GRE finances will be key to the long term financial health of the emirate, and their repayment of the DFSF as planned is necessary to avoid the otherwise unaffordable spike in government repayments in 2014. However, it seems more likely that the government will extend repayments due and seek to

Dubai Revenues	2010 \$bn	% total
Fees	4.3	53.5
Customs	1.6	20.0
Oil & gas	1.4	16.9
Enterprise profits	0.5	6.3
Tax on foreign banks	0.3	3.7
Total	8.1	100.0

Source: DOF

UAE Gross public & publicly held debt \$ billion				
Maturing in	2011	2012	beyond	Total
<b>Dubai</b>	<b>16.0</b>	<b>15.2</b>	<b>81.7</b>	<b>113.0</b>
Government	5.6	1.6	28.9	36.0
GREs	10.4	13.6	52.9	76.9
<b>Abu Dhabi</b>	<b>17.1</b>	<b>10.6</b>	<b>76.4</b>	<b>104.0</b>
Government	0.4	1.3	9.9	11.6
GREs	16.6	9.3	66.4	92.4
<b>Other Emirates</b>	<b>0.9</b>	<b>0.3</b>	<b>4.0</b>	<b>5.2</b>
<b>Federal government</b>				<b>19.1</b>
<b>Total UAE</b>	<b>33.1</b>	<b>25.8</b>	<b>158.1</b>	<b>236</b>

Source: IMF 2011 Article IV Report



roll over the \$10 billion notes held by the central bank, and possibly the financing from Abu Dhabi via its banks.

### Fiscal revenue raising options are limited

The Dubai government has limited revenue raising options. The bulk of its revenues come from a range of fees, revenues from oil and gas operations, and income from investments made by the Dubai government. Tax revenues are almost entirely from customs charges as Dubai does not levy any income tax on individuals or businesses, except a 20 percent tax on profits earned by foreign banks operating in Dubai.

With no new taxes expected, Dubai will be limited to raising various fees it charges, although to-date it has been reluctant to do so. The main fee revenues come from land transfer and mortgage registration fees, immigration and visa related fees, tourism related fees (including hotel taxes), aviation related fees and other transport related fees.

### GREs remain a risk

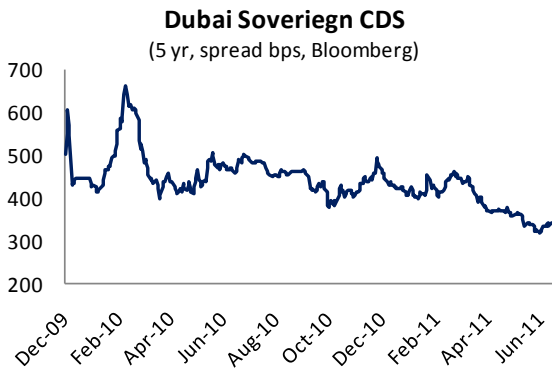
While debt restructuring has been completed for DW, other GREs have also entered into restructuring negotiations and there remains a risk that the Dubai government will be pushed into absorbing further contingent liabilities. While noting that GRE debts are not its direct obligations, the government has indicated that it “may at its sole discretion decide to extend such support as it may deem suitable, and based on such terms as it may deem suitable, to any such entities to allow them to meet their debt obligations.”

The government does not publish any official estimates of outstanding GRE indebtedness, making assessments of default/restructuring risk difficult, although GRE large exposure to the weak real estate market is not encouraging. In fact, the IMF suggests that most GREs operating in the real estate sector should be seen as sources of sovereign risk. The IMF also estimates that Dubai’s GRE’s need to make repayments of \$24 billion during 2011-12, out of a daunting total of \$31.2 billion for Dubai Inc. as a whole (see table). Total Dubai Inc. debt is estimated at \$113 billion, equivalent to over 130 percent of Dubai’s GDP. Of this, GREs account for around \$77 billion (90 percent of GDP).

Given the imperative of maintaining capital market access the risk of further government bailouts seems material, as the Dubai government would wish to avoid a sharp deterioration in market perceptions which could follow any GRE default. In its latest UAE Article IV report the IMF has provided some analysis which

Dubai Real GDP % Change					% of
	2007	2008	2009	2010	GDP
Trade & repair	8.9	1.3	-0.9	4.5	30.3
Trans, storage & comms.	33.1	-0.9	7.4	9.2	14.1
Real est. & bus. Services	30.9	1.1	-19.8	-2.6	13.7
Manufacturing	5.8	10.1	6.2	10.1	13.2
Finance	29.4	7.5	3.6	-1.3	11.3
Construction	23.1	18.2	-19.5	-14.7	9.4
Gov. Services	22	14.1	49.5	5.8	5.5
Restaurant & hotels	4.5	0.6	4.6	6.3	3.7
Oil and gas	-24.0	0.0	-0.9	-4.0	1.8
<b>Total Real GDP</b>	<b>18.1</b>	<b>3.2</b>	<b>-2.4</b>	<b>2.4</b>	<b>100</b>

Source: Dubai Statistics Centre



assumes that \$11 billion of GRE debt will need to be absorbed by the Dubai government by end-2016, with more than 70 percent coming due in 2011-12. This would raise the total debt to GDP ratio to 47.4 percent in 2012 and, unless the authorities take measures to improve their fiscal accounts, the ratio will exceed 60 percent by 2016 (see chart).

### Outlook

Confidence is improving in Dubai as its traditional non-oil sectors have begun to pick up steam, while restructuring and refinancing agreements are providing the Emirate with more time to sort out its finances. Real GDP data through 2010 show that trade, transport, communications, hotels and restaurants all performed well, and available data show this trend continuing into 2011. Real GDP grew by 2.4 percent in 2010 and is likely to hit around 3.5 percent this year.

In addition, the struggling real estate sector has recently received a boost from the UAE federal government’s decision to extend visas for real estate investors from six months to three years. Long term residency visas will improve the attractiveness of second home purchases in Dubai and should help raise demand, including from those looking for a safe haven from recent regional unrest. While this development may help stabilise the market, prices are still likely to remain weak as a large amount of new supply is scheduled to be delivered over the next 24 months.

At the same time markets appear willing to provide finance to Dubai as evidenced by the latest successful \$500 million government bond issue (10 year with a 5 year put option at 5.59 percent) under its expanded Euro MTNP, the proceeds of which are earmarked for construction spending and budget finance. Dubai sovereign CDS spreads and bond yields have been falling in recent months, suggesting that investors are confident that the government will have the means and willingness to make repayment of its direct debts a priority.

Despite the improving economic climate in Dubai and increasing oil revenues in Abu Dhabi, Dubai Inc’s debt overhang remains large, and risks are skewed to the downside. The total repayment burden in 2011 and 2012 is equivalent to around 20 percent of GDP in each year. Meeting these obligations will continue to require a mix of restructuring, refinancing, asset sales, new funding and an improvement in GRE revenues.

**Keith Savard**

Director Economic Research  
Keith.Savard@samba.com

**James Reeve**

Senior Economist  
James.Reeve@samba.com

**Andrew Gilmour**

Senior Economist  
Andrew.Gilmour@samba.com

**Touheed Ahmed**

Management Associate  
Touheed.Ahmed@samba.com

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Samba Financial Group  
P.O. Box 833, Riyadh 11421 Saudi Arabia