



UNITED ARABIAN EMIRATES

Trade Credit Risk
Insight

Marco Arrighini
Lugano, November 20th

WHAT WE DO

We give companies worldwide the confidence to trade and be paid.

You gain:


Competitiveness

Know how

Cash flow security

A company of **Allianz** 



 EULER HERMES

CONTENTS

01

COUNTRY RISK
At a glance

02

DOING BUSINESS WITH
Being prepared to...

03

TAKE AWAY
Good to know

01

COUNTRY RISK

At a glance

Resilient thanks to sovereign wealth funds (SWFs).



Resilient thanks to SWFs

BB1 LOW RISK
for enterprise



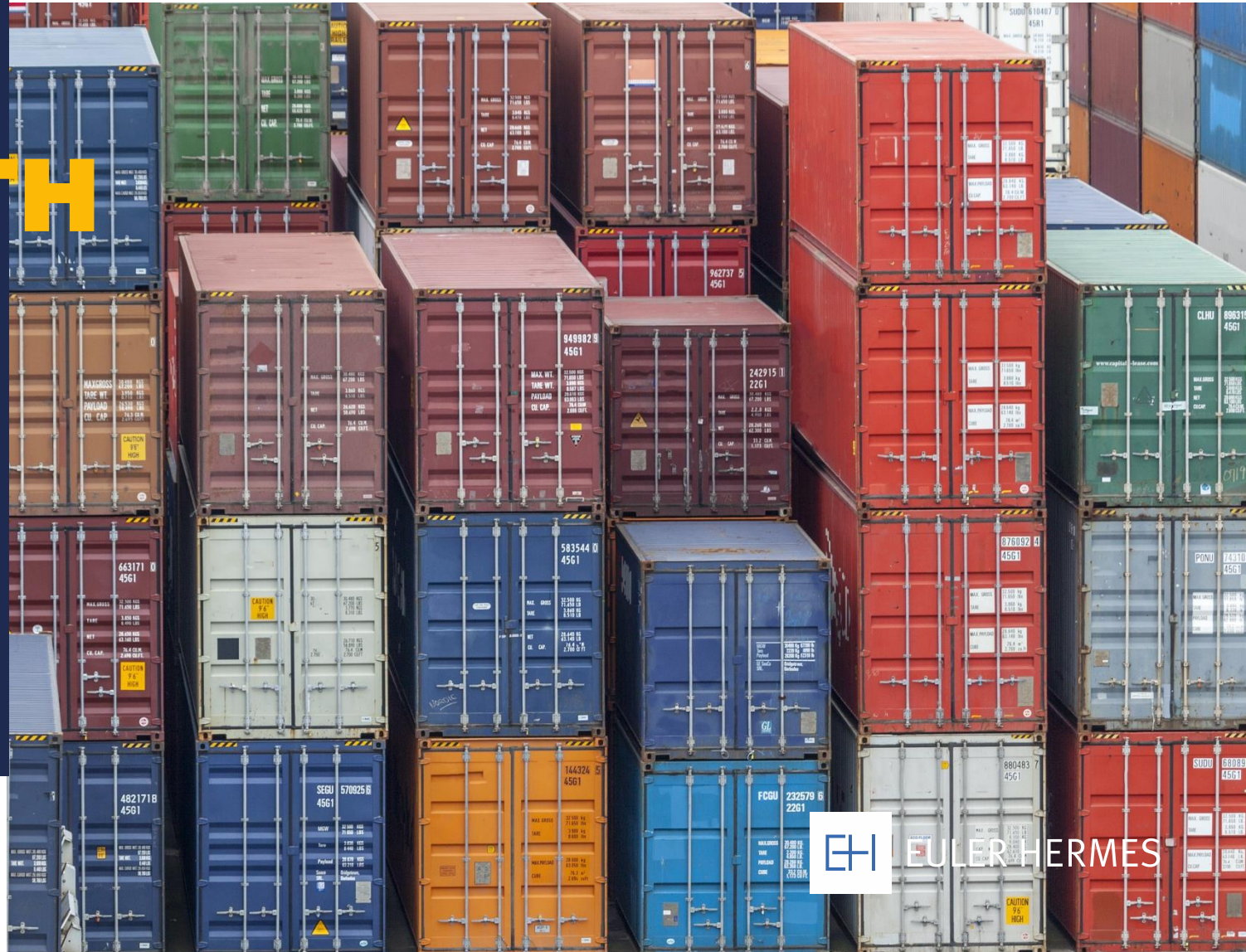
Growth is gradually recovering despite the strong decline in oil prices in 2014-2016. Economic diversification has lowered oil-dependency (today oil accounts for only one third of total exports) and promoted non-oil growth, mainly in the financial and tourism sectors.

UAE announced massive fiscal stimulus packages, as well as cost-cutting measures for key industries for 2019. Combined with ongoing investment related to the Expo 2020 in Dubai and gradually easing monetary policy, **annual growth is forecast to pick up gradually to +2% in 2019 and +2.3% in 2020**. Downside risks to these forecasts include the uncertain global economic outlook and increased geopolitical risks in the Middle East region.

02

DOING BUSINESS WITH

Being prepared to...



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TRADE STRUCTURE



Trade structure by destination/origin

(% of total)

Exports	Rank	Imports
India 9% 	1	13% China 
Japan 8% 	2	12% India 
Iran 8% 	3	10% United States 
Switzerland 8% 	4	7% Germany 
Oman 5% 	5	4% Japan 

TRADE STRUCTURE



Trade structure by product

(% of total)

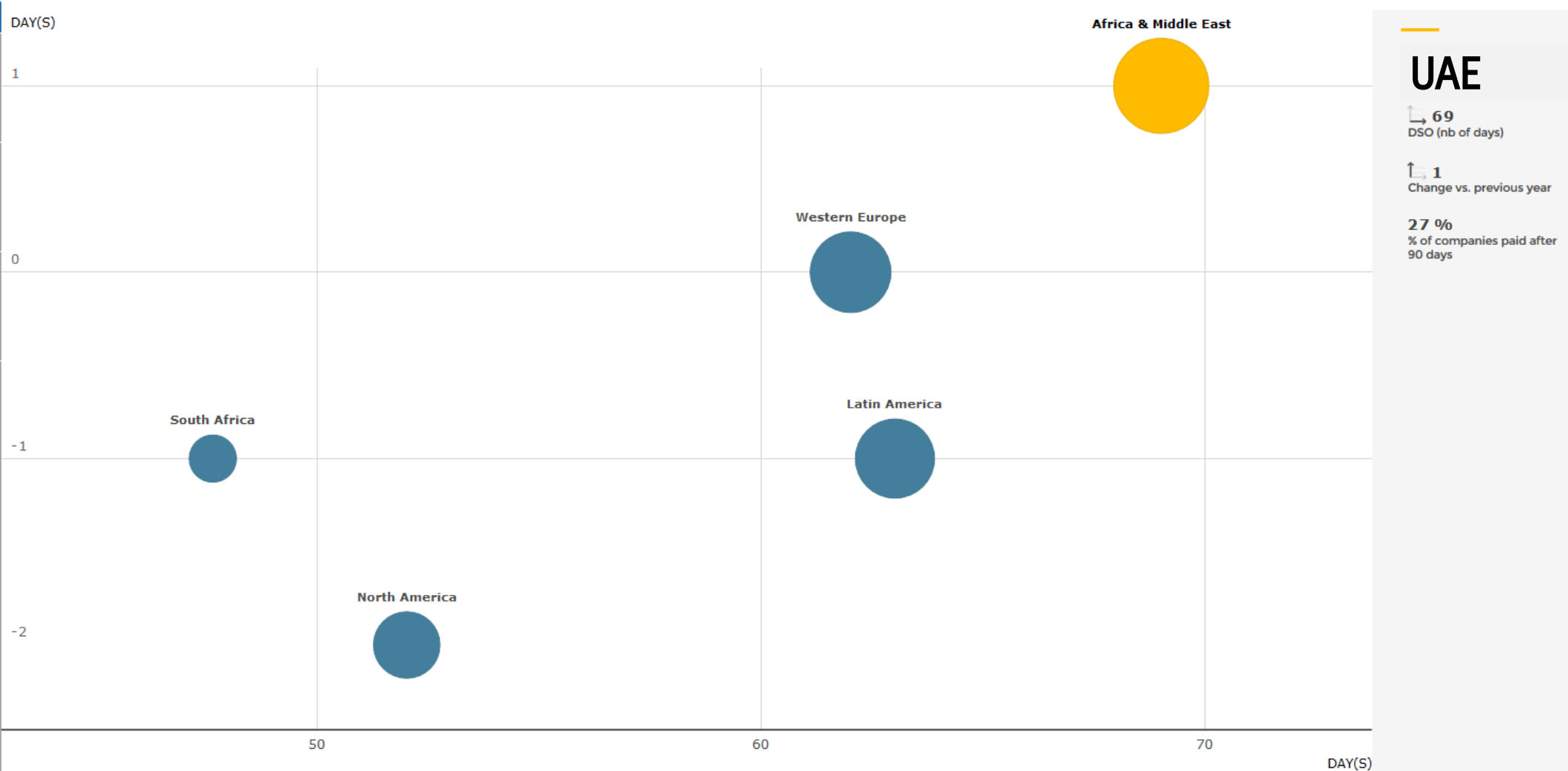
Exports	Rank	Imports
Petroleum, petroleum products and related materials 31%	1	9% Gold, non-monetary (excluding gold ores and concentrates)
Gold, non-monetary (excluding gold ores and concentrates) 12%	2	8% Miscellaneous manufactured articles, n.e.s.
Non metallic mineral manufactures, n.e.s. 7%	3	8% Road vehicles
Telecommunication and sound recording apparatus 5%	4	8% Telecommunication and sound recording apparatus
Miscellaneous manufactured articles, n.e.s. 5%	5	6% Non metallic mineral manufactures, n.e.s.

The UAE has a fixed exchange rate system, with the dirham (AED) pegged to the U.S. dollar. Despite some pressures on the currency during the low oil price period in 2015-2017, the peg held, thanks to the ample foreign exchange reserves.

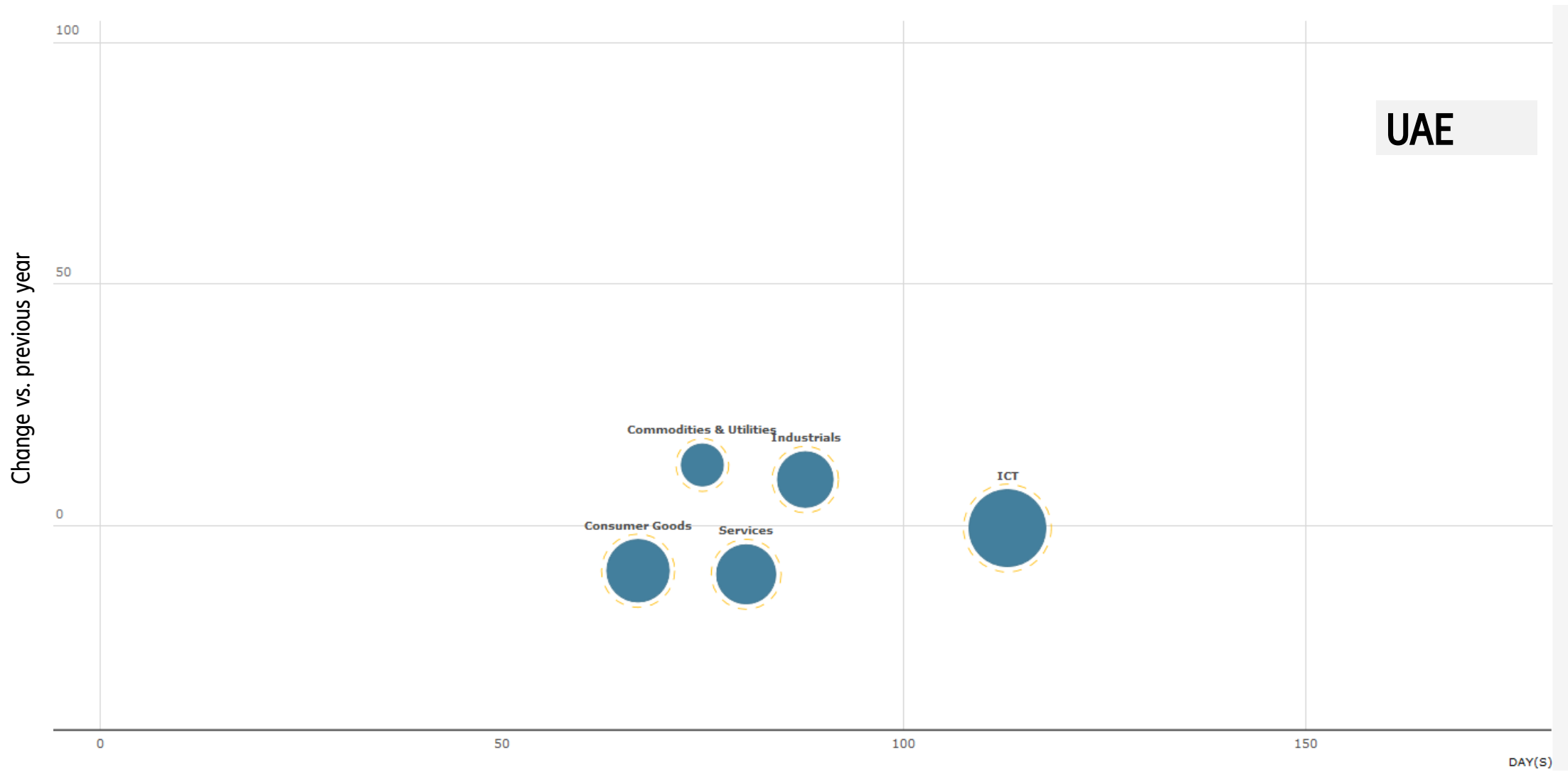
Since the start of 2019, the country has experienced deflation (-2% y/y on average in H1) as a result of falling housing prices and the fading effects of the VAT introduction in 2018 (5%). On 2019y we expect these trends to continue and forecast average full-year deflation of -1.4%, followed by a return to modest inflation of about +1.5% in 2020.

DAYS SALES OUTSTANDING 2018 (DSO)

Average DSO and % of companies paid after 90 days by regions

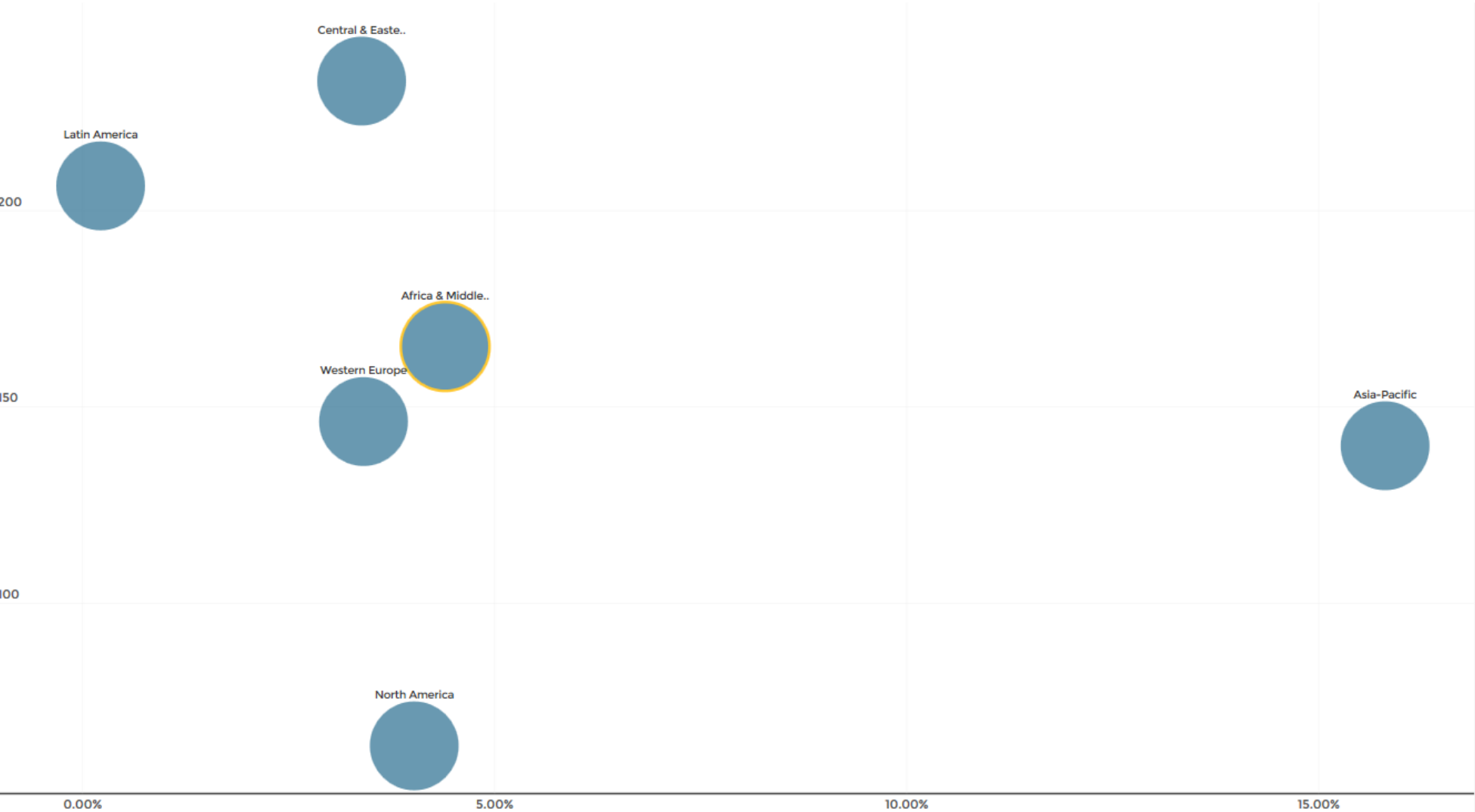


DSO BY SECTOR 2018



INSOLVENCIES INDEX F2020

Index calculated as 100 in the year 2000

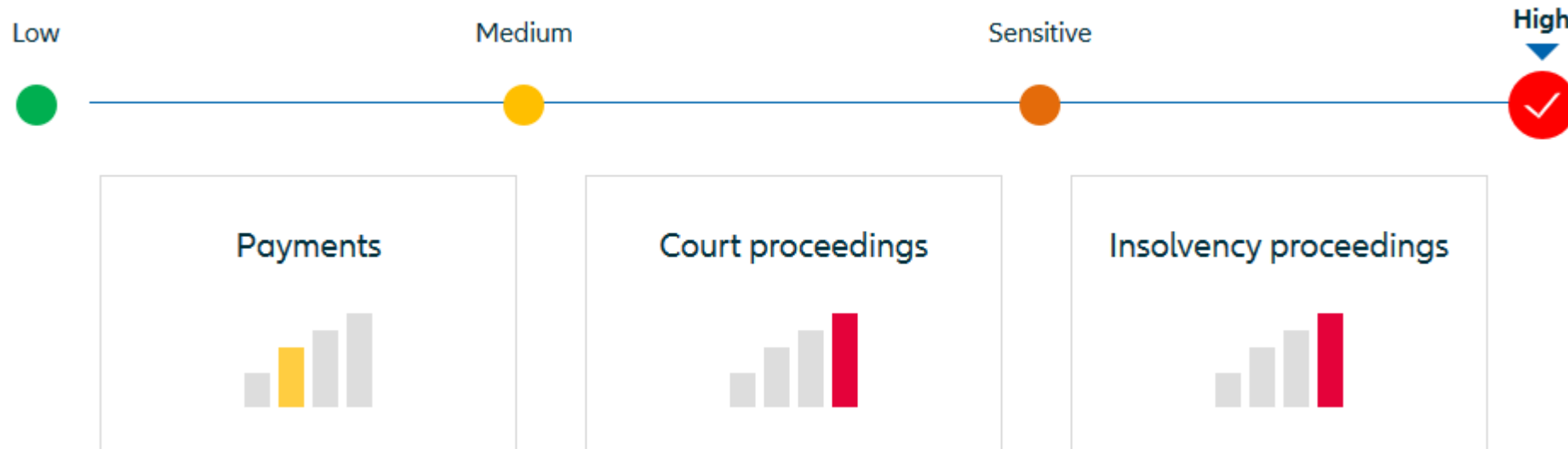


UAE

↗ 4,40%
Change_vs_previous_year

↗ 165
Index

COLLECTION COMPLEXITY



While the **payment behavior of large domestic companies is generally good**, dealing with **small and medium size businesses may represent a significant risk of non-payment**. Since insolvent debtors may be sentenced to a prison term, their tendency to disappear when things go wrong is significant.

The **legal framework is complex and the courts tend to lack independence and reliability**, while procedural delays and costs may be prohibitive.

Insolvency law does not provide much support when it comes to debt recovery: a debt renegotiation mechanism has been put in place, though in practice it remains largely untested allowing liquidation to prevail, thus **leaving no chance of recovery for the creditors**.

COLLECTION COMPLEXITY

Availability of financial information

Access to reliable financial information is a challenge that is faced across the GCC (Gulf Corporation Council) region as a whole and obtaining such data in the UAE is very difficult as there is no legal requirement for companies to publish financials. An exception to this would be for publicly listed companies, while documents provided by unofficial sources may not be completely reliable.

Regulatory environment

The UAE has a legal system based on Civil Law and Shari'ah Law. Complexity of the legal framework and the lack of independence and reliability of the courts has a negative impact on the reliability of the whole enforcing system for B2B business. There are no specialist courts, which mean that all commercial disputes are heard by non-specialized judges. It is important to distinguish local courts competent for all civil matters raised by companies registered in the UAE, from Freezones' Authorities (such as the Dubai International Financial Center) which apply different (Common Law based) rules and are competent for cases filed by companies registered in these Free-zones only.

Debt collection costs

Collection costs are not charged to the debtor.

Legal Action

If the amicable negotiation phase fails, the Civil Procedure Code considers a summary judgment procedure, provided that the debt is for a specific or liquidated sum and that it is certain and undisputed (i.e. confirmed in writing through a commercial document). In this case, the debtor is served and must pay (or bring a defense) within 15 days. If a defense is filed, the dispute must be resolved through an ordinary lawsuit. Insolvency law does not provide much support when it comes to debt recovery: a debt renegotiation mechanism has been put in place, though in practice it remains largely untested allowing liquidation to prevail, thus leaving no chance of recovery for the creditors.

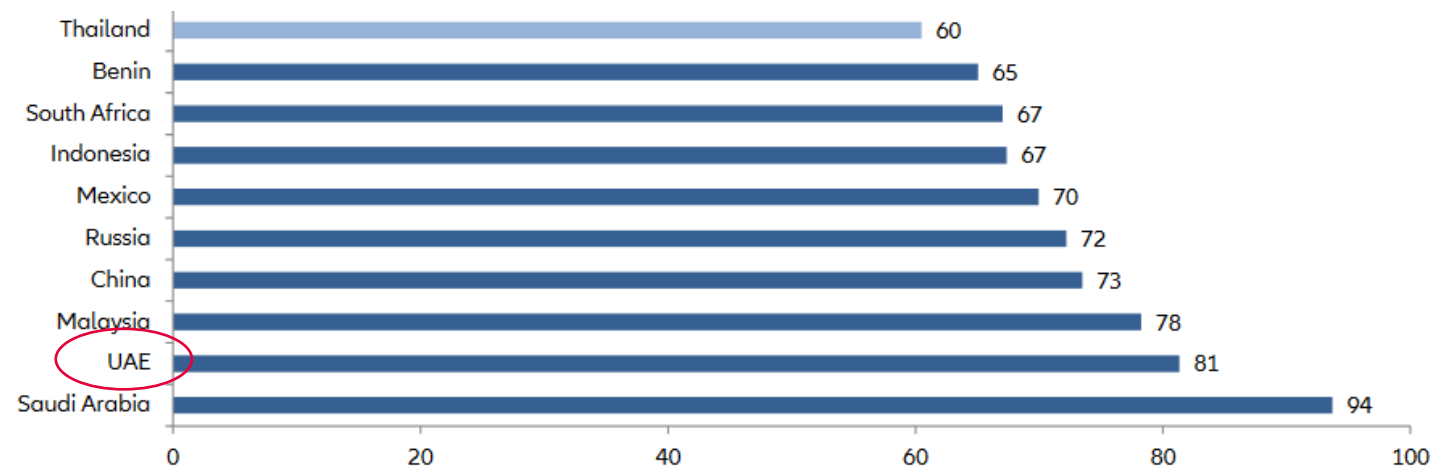
COLLECTION COMPLEXITY

Globally, collection complexity stands at 51 on our 0-100 scale.

Euler Hermes' "Collection Complexity Score and Rating" aims at measuring the level of complexity relating to international debt collection procedures within each of the **50 countries taken into consideration**.

Three main factors were analyzed:
local payment practices, local court proceedings and local insolvency proceedings.

Saudi Arabia and the **United Arab Emirates ranking as the most complex countries when it comes to debt collection**.
With a score of 94, international debt collection is almost three times more complex in UAE than in Sweden.



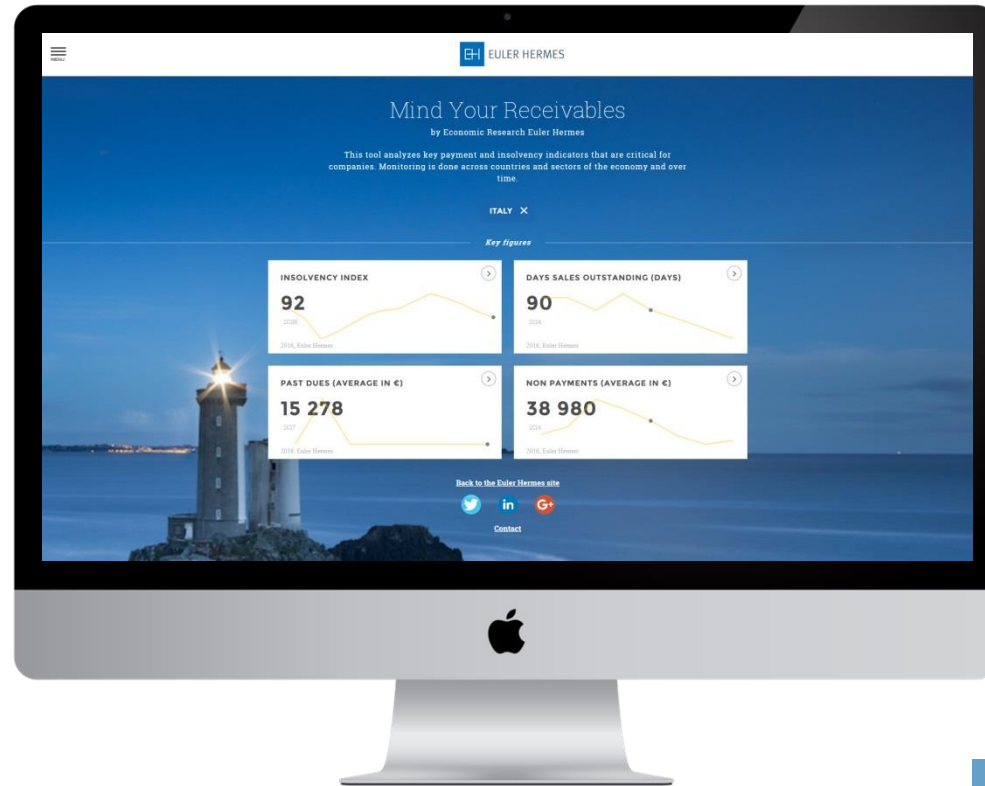
03

TAKE AWAY

Good to know



TAKE AWAY



MIND YOUR RECEIVABLES

by Economic Research Euler Hermes

This tool analyzes key payment and insolvency indicators that are critical for companies. Monitoring is done across countries and sectors of the economy and over time.

Check our web app:

mindyourreceivables.eulerhermes.com

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