Ras Al Khaimah

Key Rating Drivers

Ratings Upgraded: The upgrade of Ras Al Khaimah's (RAK) Issuer Default Ratings (IDRs) reflects Fitch Ratings' expectation of improved credit metrics driven by stronger medium-term growth forecasts, a record of resilience to external shocks and prospects of stronger fiscal revenue and higher buffers that will further sustain prudent fiscal management. The ratings are supported by the benefits of RAK's membership in the United Arab Emirates (UAE; AA-/Stable), including the significant share of mandatory spending undertaken by the federal government.

Favourable Medium-Term Growth: Growth is expected to be fuelled by major investment projects that will also contribute to further economic diversification. The construction of the Middle East's first integrated resort on Al Marjan island, opening in 2027, is predicted to attract further investment and enhance economic resilience.

Two other master plans, RAK Central and Beach District, announced in January 2024 also contribute to a robust medium-term growth forecast of 6.2% in 2024 and 5% in 2025. This compares favourably with our 'A' and 'AA' median forecasts of 2.9% and 2.4% in 2024 and 2.4% and 2.1% in 2025, respectively.

Improving Revenue Forecasts: We expect the combination of investment projects and upcoming changes to tax legislation to support public revenue and help build additional fiscal buffers over the medium term. Large land sales will be driven by investments on Al Marjan island and beyond, RAK Central and Beach District. We forecast revenue to increase to 22.9% of GDP in 2024 and 21.8% in 2025 from 20% in 2022 and 21.5% in 2023.

In the longer term, dividends from the special-purpose vehicle (SPV) to the two state-owned enterprises (SOEs), which are incorporated in our general government consolidated perimeter, will support revenue collection. Non-SOE revenue is also expected to increase from 2026 with the introduction of the UAE-wide corporate income tax, and with the taxation of gaming revenue.

Improving Macroeconomic Management: RAK is enhancing governance of SOEs, data collection and macro-fiscal frameworks, leading to more efficient fiscal resource utilisation and stronger policymaking. RAK published new GDP data using international standards in 2022, though high-frequency data publications are still lacking.

Record of Fiscal Surpluses, Temporary Deficits: We anticipate RAK will continue its prudent fiscal approach, with a historical record of surpluses. We forecast consolidated public-sector deficits of 2.3% of GDP in 2024 and 2025, after a 3% surplus in 2023 and a record of 1%-3% surpluses in previous years, partly due to substantial equity contributions from Marjan and RAK Hospitality Holding SOEs to the SPV. We see these fiscal deficits as temporary, and they do not affect our assessment on RAK's commitment to fiscal prudence.

Low Debt: Public-sector debt is expected to remain at 10.9% of GDP in 2024, marginally rising to 11.3% in 2025. RAK is anticipated to refinance its USD1 billion sukuk maturing in 2025. Most SOE debt is included in the public-sector debt figure, half of which is sovereign guaranteed.

Comfortable Fiscal Buffers: RAK has good deposit levels, which will decrease to finance fiscal deficits, but remain at 10.5% of GDP in 2025. Net government debt has declined over the past decade, though a reversal is expected, with net debt reaching 0.9% of GDP in 2025. Liquid assets that are not cash or bonds are not included in net debt calculations. Listed equity investments represented 16.8% of GDP in 2023.

Strong UAE Support: RAK benefits significantly from UAE federation membership, sharing its monetary and exchange-rate system, and strong international reserves. UAE support, including federal spending of 6.9% of RAK's GDP in 2022, aids RAK's diversified economic development.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Country Ceiling	AA+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	BBB+
Qualitative Overlay (QO)	+3
Structural features	0
Macroeconomic	+1
Public finances	+1
External finances	+1
Long-Term Foreign-Currency IDR	A+

Source: Fitch Ratings

Data

	2023
GDP (USDm)	12,250
Population (m)	0.4

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceiling Criteria (July 2023)
Sukuk Rating Criteria (June 2022)

Related Research

Fitch Upgrades Ras Al Khaimah to 'A+' from 'A'; Outlook Stable (May 2024)
Global Economic Outlook (March 2024)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Ras Al Khaimah

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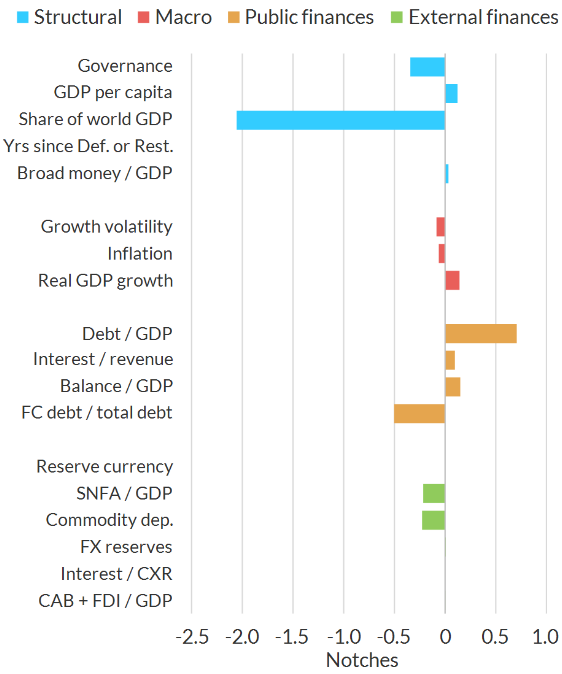
Rating Summary

Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR): A+

Sovereign Rating Model : BBB+

Contribution of variables, relative to A Median



Qualitative Overlay: +3

Adjustments relative to SRM data and output

Structural features: No adjustment.

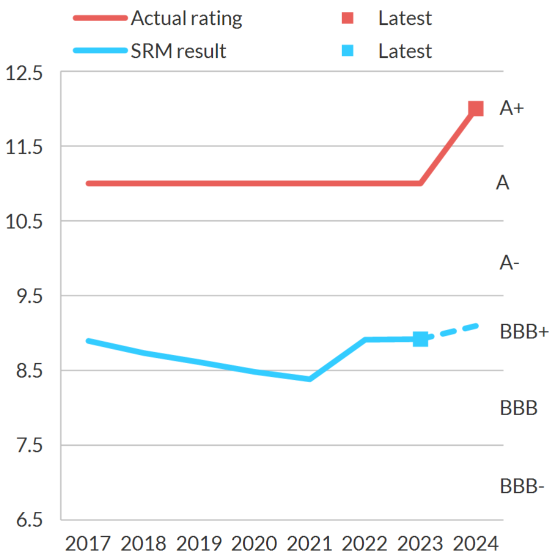
Macroeconomic outlook, policies and prospects: +1 notch, to reflect the expected strong medium-term real GDP growth that will enable RAK to further diversify its economy and revenue sources, as well as an improving macroeconomic framework that will strengthen the economy's resilience to shocks and the government's commitment to fiscal prudence.

Public finances: +1 notch, to reflect that a high share of FC debt, which detracts from RAK's score in the SRM, is not a constraint on RAK's fiscal financing flexibility given the low level of overall debt and the credibility of the peg, and to reflect RAK's proven prudent fiscal strategy that derives from its high level of spending flexibility.

External finances: +1 notch, to reflect the benefits of RAK's membership of the UAE federation, including integration within a larger economy and financial system, and the potential for extraordinary financial support.

Note: See *Peer Analysis table* for summary data, including rating category medians; see the *Full Rating Derivation table* for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

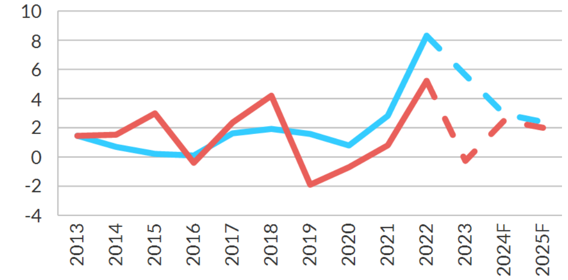
Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	A+	BBB+	0	+1	+1	+1
23 May 2023	A	BBB+	0	0	+1	+1
30 May 2022	A	BBB	0	+1	+1	+1
7 Jun 2021	A	BBB	0	+1	+1	+1
9 Jun 2020	A	BBB+	0	0	+1	+1
19 Aug 2019	A	BBB+	0	0	+1	+1
20 Aug 2018	A	BBB+	0	0	+1	+1
21 Aug 2017	A	BBB+	0	0	+1	+1
12 Dec 2016	A	BBB+	0	0	+1	+1

[a] The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024.
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

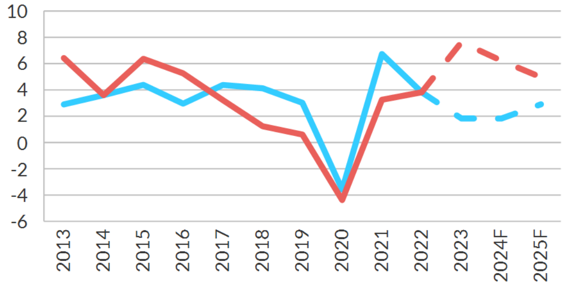
Peer Analysis

Ras Al Khaimah   A Median

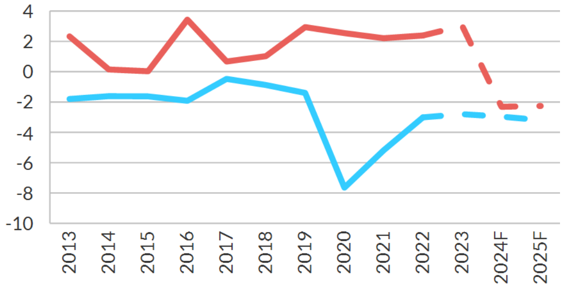
Consumer Price Inflation
(annual avg, %)



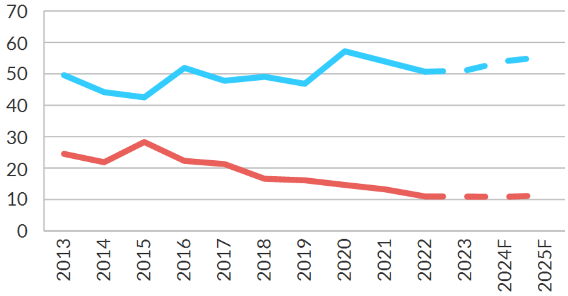
Real GDP Growth
(%)



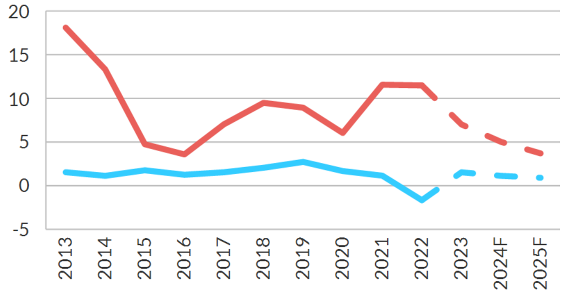
General Government Balance
(% GDP)



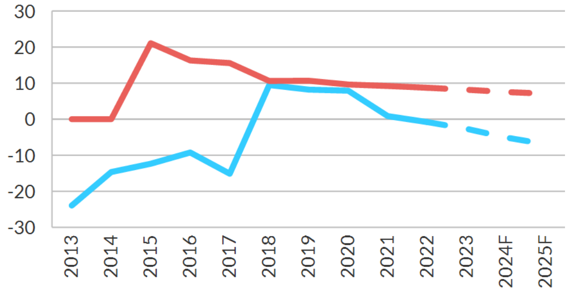
Gross General Government Debt
(% GDP)



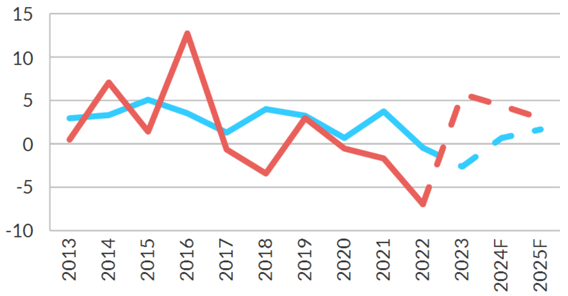
Current Account Balance
(% GDP)



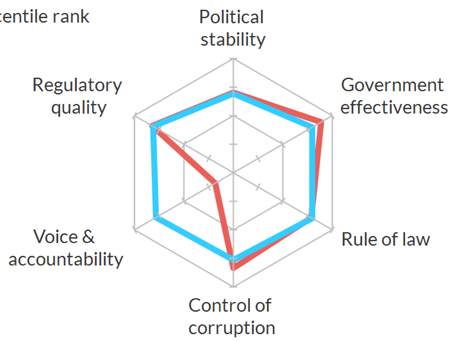
Net External Debt
(% GDP)



Real Private-Sector Credit Growth
(%)



Governance Indicators
Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2023[a]	Ras Al Khaimah	A median	AA median	BBB median
Structural features				
GDP per capita (USD) [SRM]	31,057	29,834	52,412	15,822
Share in world GDP (%) [SRM]	0.0	0.3	0.4	0.2
Composite governance indicator (percentile, latest) [SRM][b]	70.3	74.7	84.2	58.2
Human development index (percentile, latest)	91.6	82.4	89.4	67.6
Broad money (% GDP) [SRM]	109.6	88.9	98.4	60.8
Private credit (% GDP, 3-year average)	91.8	73.5	103.6	56.2
Dollarisation ratio (% bank deposits, latest)	31.9	10.6	12.5	16.1
Bank system capital ratio (% assets, latest)	17.9	15.9	16.5	15.8
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	5.9	3.7	2.2	3.2
Real GDP growth volatility (complex standard deviation) [SRM]	3.3	3.0	2.4	3.5
Consumer price inflation (%, 3-year average) [SRM]	2.5	2.3	2.1	3.2
Unemployment rate (%)	-	6.4	5.1	7.7
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	1.0	-2.4	-0.9	-2.6
Primary balance (% GDP, 3-year average)	1.5	-0.6	0.5	-0.6
Interest payments (% revenue, 3-year average) [SRM]	2.2	4.4	3.4	7.5
Gross debt (% revenue, 3-year average)	51.1	133.6	139.5	153.4
Gross debt (% GDP, 3-year average) [SRM]	10.9	42.1	40.5	37.3
Net debt (% GDP, 3-year average)	-2.8	36.6	33.7	31.5
FC debt (% gross debt, 3-year average) [SRM]	78.8	8.9	0.6	34.1
External finances[c]				
Current account balance (% GDP, 3-year average)	7.8	0.9	1.3	-1.7
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	5.9	2.3	0.7	0.6
Commodity dependence (% CXR) [SRM]	65.8	11.7	15.4	18.8
Gross external debt (% GDP, 3-year average)	8.1	65.9	119.9	55.0
Net external debt (% GDP, 3-year average)	8.1	-8.1	-2.3	11.9
Gross sovereign external debt (% GXD, 3-year average)	100.0	19.8	17.7	29.6
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	-8.1	11.9	8.7	2.0
External interest service (% CXR, 3-year average) [SRM]	2.4	2.3	4.1	4.1
Foreign-exchange reserves (months of CXP) [SRM]	3.5	4.4	2.9	4.9
Liquidity ratio	155.4	98.4	56.3	134.4

[a] Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See *Appendix 2: Data Notes and Conventions* for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI / MPI = bbb / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch Ratings' most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Conventional peg'.

Rating Factors

Strengths

- RAK benefits from the UAE's monetary and exchange-rate regime of a credible US dollar peg, absence of exchange controls and access to the UAE's FC reserves.
- Most public services and infrastructure are provided by the federal government, making RAK's spending more flexible than peers.
- RAK has a strong record of fiscal surpluses, even during shocks. Debt/GDP, debt/revenue and interest/revenue ratios are well below the 'A' category medians.
- Close integration within the UAE allows the emirate to focus on its development strategy and build a diversified economy for its size, dominated by manufacturing and services. Strong GDP growth outlook is supported by the construction of the integrated resort.

Weaknesses

- RAK's ability to monitor and manage the economy is still limited by data weaknesses and the lack of institutions typical of other 'A' rated sovereigns. The fiscal and macroeconomic framework lags 'A' rated peers, despite significant improvements in recent years.
- The composite World Bank governance score for the UAE is lower than peers, reflecting weaknesses on the Voice and Accountability metric.

Rating	Sovereign
AA-	Belgium
	Czech Republic
	France
	Hong Kong
	Korea
	Kuwait
	United Arab Emirates
	United Kingdom
A+	**Ras Al Khaimah**
	China
	Estonia
	Israel
	Malta
	Saudi Arabia
A	Iceland
	Japan
	Lithuania
	Slovenia

Source : Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** A weakening in public finances, for example, due to large, sustained increases in spending or lower SOE profits leading to prolonged budget deficits and a significant build-up of net public debt or contingent liabilities.
- **Macro:** Deterioration of the medium-term growth outlook, for example, due to sustained lower non-oil growth in the GCC.
- **Structural Features:** A further escalation of regional conflicts that negatively affects economic, social or political stability.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Structural Features:** Improvement in structural factors, such as World Bank Governance Indicators at the UAE level.
- **Macro/Public Finances:** Sustained and robust economic growth, beyond our forecasts that leads to higher GDP per capita, accompanied by other improvements to the policy framework, such as sustained accumulation of fiscal buffers.

Forecast Summary

	2020	2021	2022	2023	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-4.4	3.3	3.8	7.6	6.2	5.0
Unemployment (%)	-	-	-	-	-	-
Consumer price inflation (annual average % change)	-0.7	0.8	5.2	-0.3	2.5	2.0
Policy interest rate (annual average, %)	1.0	0.4	2.3	5.8	5.9	4.0
General government balance (% GDP)	2.5	2.2	2.4	3.0	-2.3	-2.3
Gross general government debt (% GDP)	14.7	13.3	11.0	10.9	10.9	11.3
AED per USD (annual average)	3.7	3.7	3.7	3.7	3.7	3.7
Real private credit growth (%)	-0.5	-1.7	-7.0	5.7	4.4	2.9
External finance						
Merchandise trade balance (USDm)	981.6	1,430.9	1,960.5	1,987.7	2,235.7	2,401.7
Current account balance (% GDP)	6.0	11.6	11.5	7.0	5.0	3.7
Gross external debt (% GDP)	9.6	9.2	8.7	8.2	7.5	7.1
Net external debt (% GDP)	9.6	9.2	8.7	8.2	7.5	7.1
External debt service (principal + interest, USDm)	148.5	136.8	125.3	169.5	160.7	139.7
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.5	2.1	1.5
China	2.2	8.4	3.0	5.2	4.5	4.5
Eurozone	-6.4	5.4	3.5	0.4	0.6	1.6
World	-2.8	6.3	2.7	2.9	2.4	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.1	80.0	70.0

Source: Fitch Ratings

Sources and Uses

Public Finances (General Government)

(AEDm)	2024	2025
Uses	**1,226.6**	**4,943.8**
Budget deficit	1,127.6	1,173.8
MLT amortisation	99.0	3,770.0
Domestic	99.0	98.0
External	0.0	3,672.0
Sources	**1,226.6**	**4,943.8**
Gross borrowing	475.0	4,367.0-
Domestic	475.0	695.0
External	0.0	3,672.0
Privatisation	0.0	0.0
Other	-475.0	-251.0
Change in deposits (- = increase)	1,226.6	325.8

Source: Fitch Ratings

Credit Developments

The Middle East's First Integrated Resort Under Construction

RAK has partnered with Wynn Resorts, an American company that runs six integrated resorts in Las Vegas (Nevada, USA), Everett (Massachusetts, USA) and Macau (special administrative region of China), to develop and operate the first announced integrated resort (a hotel that includes a gaming area), in the Middle East, on manmade Al Marjan island. Opening is planned for early 2027, for a total construction cost initially estimated at USD3.9 billion, or 32% of 2022 GDP. In an investor presentation in May 2024, Wynn Resorts slightly revised up the cost to USD4.0 billion (35% of 2022 GDP) in May 2024, likely to be financed by 50% of equity contributions and 50% of debt. Wynn announced its equity contribution will be about USD900 million.

Two SOEs, RAK Hospitality Holding LLC and Marjan LLC, have joined Wynn in a dedicated SPV that will own the resort. Under our assumptions, total development costs will be covered by land contribution (not included in the USD4 billion construction cost), equity injections in the SPV and by debt raised by the SPV. In its May 2024 investor presentation, Wynn announced the USD4 billion cost will be covered by 50% of equity from Wynn and the two RAK SOEs and 50% of debt, although the final leverage still has to be confirmed. The two SOEs will together have 60% of shares in the SPV.

Preliminary drilling phases started in 2023, and vertical construction began in early 2024. Some capital injections to the SPV have already occurred in 2022-2023, both from Wynn and from the SOEs, but we expect the bulk of equity contributions to be made in 2024-2026. RAK Hospitality Holding LLC and Marjan LLC are two non-listed SOEs that are encompassed into the consolidated perimeter. These injections are accounted as expenditures in our general government figures. Dividends that will be received by the two SOEs once the 1,500-room integrated resort opens will be accounted as revenue, given that these two SOEs are incorporated in our consolidated perimeter. Wynn expects an adjusted EBITDA of USD450 million-600 million.

Debt raised by the SPV is not accounted as public debt, but as a contingent liability of RAK as the SPV is beyond the consolidated perimeter.

In our view, operators in other emirates might open smaller scale gaming venues, facilitated by the establishment of the UAE General Commercial Gaming Regulatory Authority in September 2023, which will oversee all types of commercial gaming in the federation, issue operating licences and regulate the sector. Still, we do not consider this may affect RAK's Wynn resort profitability, and the resort would still support RAK's credit profile.

Construction and Opening of the Resort Expected to Catalyse Further Investment

The announcement of the upcoming opening of the integrated resort has already affected RAK's economy and revenue, with land sales significantly increasing in 2023 compared with 2022, both on Al Marjan island and beyond. On Al Marjan island, now fully sold out, the value of sales and purchase agreements (SPA) increased by 139% in 2023 compared with 2022. We anticipate a sustained increase in land sales, around the island and beyond, both for the hospitality, residential and commercial sectors, in the coming years.

In order to intensify RAK's development, the authorities have developed two master plans, presented in January 2024, representing about 35 million square feet of saleable land. These masterplans have already raised interest from investors, both domestic and foreign, in the residential and commercial sectors. The development of these two master plans is not expected to weigh on public expenditure, as the authorities do not plan to participate in the construction of properties. Instead, we estimate the land sales will significantly contribute to an increase in revenue in the short-to-medium term, which will reach 22.9% of GDP in 2024 and 21.8% in 2025 in our estimation, against our previous forecasts of 18.5% and 19.4%, respectively. The completion of these two master plans will, in our view, contribute to an increased activity, mainly in the services sector.

We estimate real GDP will grow by 6.2% in 2024 and 5.0% in 2025, driven by tourism, construction, mining and manufacturing.

The hospitality sector will continue its trend growth. In 2023, RAK welcomed a record 1.2 million arrivals (+7.8% vs 2022), representing 4.35 million guest nights (+23.2%). We expect this growth will continue in the near-to-medium term. In the longer term, the sector will be primarily affected by the Wynn resort. As an example, the number of international tourist arrivals in Singapore increased by 20% in 2010, the year of the opening of the Marina Bay Sands resort, compared with 2009. Between 2009 and 2013, this number increased by 61%, despite the global financial crisis and the appreciation of the Singapore dollar. Similar strong growths in international tourist arrivals have been seen in Macau and, to a lower extent, Las Vegas, following the opening of such resorts. New hotel properties in the pipeline, representing an increase in hotel keys of 57% between 2024 and 2030, will contribute to a sustained rise in activity in the hospitality sector, which represented 4% of 2022 GDP.

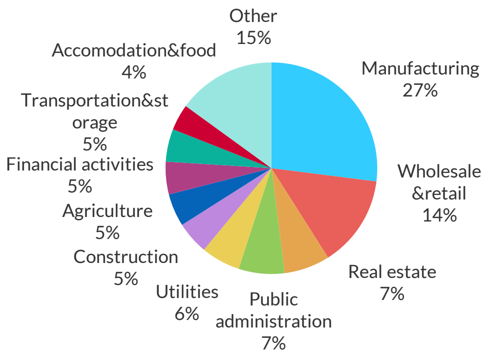
The mining sector recorded a 19% increase in sales volume in 2023 compared with 2022. This performance is, in part, due to base effects, with production in April and May 2022 compromised by a shortage in the availability of ammonium nitrate, but it is also driven by the strong growth of the engineering, procurement and construction sector in the UAE and the region. The profitability of the two SOEs in the sector, RAK Rock and Stevin Rock, has significantly improved with net profit jumping by 29% in 2023. The two SOEs have engaged since 2023 in an operational transformation to deliver efficiency gains, and we believe that the sector will continue to contribute to sustained growth and exports. The mining and quarrying sector is only 2% of GDP, but are about 25% of RAK's exports and 20% of RAK's public sector revenue.

About 22,000 companies operate in RAK economic zones, of which more than 4,000 are in free zones. Manufacturing is the largest contributor to RAK's GDP, at 30%. The planned expansion of RAK economic zones to meet rapid growth in registration demand and changes in global supply chains, in which the UAE has comparative advantages in terms of location and favorable tax, will contribute to increased activity, despite RAK's disadvantage in terms of energy costs compared with other emirates.

RAK has a record of trade surpluses. Trade surplus remained buoyant in 2023, at AED7.3 billion, from AED7.2 billion in 2022, reflecting a strong 24% increase in exports, driven by both manufacturing and quarries, and a 42% increase in imports that we see as temporary, fueled by the booming construction sector.

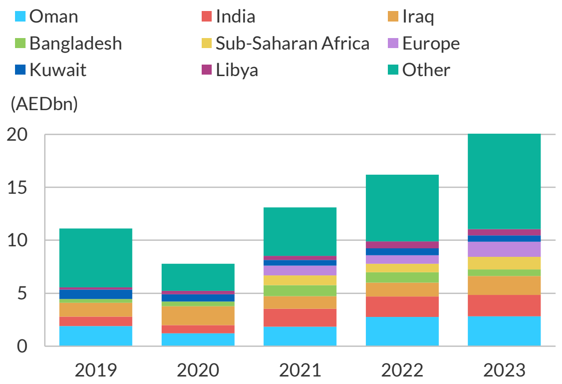
RAK Has a Diversified Economy

(%2022 nominal GDP)



Source: Fitch Ratings; RAK Statistics Center

RAK Has Diversified, Expanding Export Markets



Source: Fitch Ratings; IDO

Temporary Fiscal Deficits Driven by Investment in Wynn Resort

Equity injections for the Wynn resort are expected to contribute to RAK's first fiscal deficit since 2012, with fiscal balance reaching -2.3% of GDP in 2024 and -2.3% in 2025, after a 3% surplus in 2023. The fiscal deficit for 2024 and 2025 would still remain below the 'A' median, which Fitch forecasts to reach 3.0% and 3.2%, respectively, and be slightly above the 'AA' median (deficits of 2.2% in 2024 and 1.9% in 2025). Under our assumptions, equity injections will be 3% of GDP in 2024 and 2.1% in 2025.

We have modified our public sector expenditure calculation compared with previous reviews. We have removed net lending to and investments in non-consolidated entities from our total consolidated expenditure calculation, considering these transactions as below-the-line acquisitions and disposals of financial assets, as well as the change in working capital of consolidated SOEs. Equity injections from RAK Hospitality and Marjan into the SPV are still accounted as public expenditure, as we consider these injections as an integral part of RAK authorities' development strategy.

Strong Commitment to Fiscal Prudence; Improving Public Finance Management

In our view, the deterioration of RAK's fiscal balance will be temporary, and spending on the integrated resort will boost future revenue and contribute to an improvement in RAK's long-term structural fiscal balance. RAK has a record of fiscal surpluses since 2012, which Fitch views as structural, and has proven particularly resilient during the pandemic.

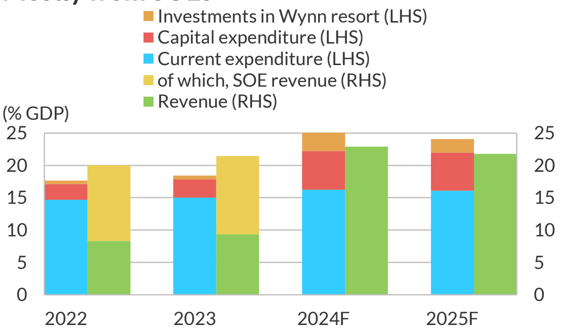
Fiscal buffers, already at comfortable levels, are being strengthened by the progressive replenishment of a liquid strategic reserve account up to a year's debt interest payments and three months of the Department of Finance- and Investment and Development Office (IDO)-financed operating expenditure. Public sector deposits have reached 15.5% of estimated GDP at end-2023, up from 13.7% at end-2022, on strong revenue collection that overperformed the target by 14% and expenditure that is 10% below the target, despite earlier redemptions of SOE debt. We anticipate the temporary fiscal deficits to be fully financed by deposit drawdowns, putting deposits on a declining path to 11.8% of GDP in 2024 and 10.5% in 2025, remaining at comfortable levels. In 2023, RAK also holds listed equity assets of 16.8% of GDP, which contribute to its comfortable fiscal buffers.

Public financial management is being strengthened, with progress on macro-fiscal planning to improve forecasting of government finances and borrowing needs, a functional budgeting framework to link expenditure to objectives that aims to translate into a future medium-term fiscal framework, and revenue optimisation to tackle loopholes.

RAK has a record of prudent fiscal projections. In 2023, the government overperformed the revenue target, by 14%, driven by a rebound in revenue from the quarries, still strong revenue in the oil and gas sector and a marked increase in revenue from the real estate sector. SOEs' revenue is still the majority of RAK's public sector revenue, at 58% in 2023. From 2026, non-SOE revenue is expected to increase with the proceeds of the UAE-wide corporate income tax (CIT) introduced in 2023 starting to be distributed to individual emirates. The impact of the CIT introduction on RAK's revenue is still hard to predict as discussions between the UAE's federal government and emirates on the sharing of the CIT revenue are ongoing. We anticipate the share of non-SOE revenue will increase again in 2027 with the likely taxation of revenue from the gaming industry, although the taxation framework has not been defined yet.

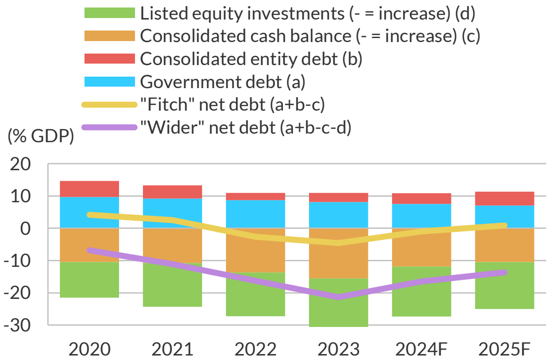
We forecast revenue as a percentage of GDP will increase to 22.9% in 2024, up from 21.5% in 2023, and moderately decline to 21.8% in 2025 mainly due to the expected strong increase in nominal GDP driven by the Wynn resort construction.

Capex and Wynn Drive Expenditure, Revenue Mostly from SOEs



F - Forecast
Source: Fitch Ratings; Investment & Development Office (IDO)

Net Debt to Increase on Deposit Drawdowns



F - Forecast
Source: Fitch Ratings; IDO

Gross Debt Stabilises; Net Asset Position Likely to Temporarily Return Negative

Consolidated public sector debt is estimated to have fallen to 10.9% of GDP in 2023 (AED4.9 billion) from 11% 2022 (AED4.6 billion). The debt-to-GDP has been on a steady decline since 2015, when it reached its peak at 28.3%. About 3% of GDP of total debt in 2023 relates to consolidated SOEs.

Since 2021, the USD1 billion (AED3,673 million) 3.094% sukuk issued on 31 March 2015 and maturing in 2025 constitutes the only government debt. Fitch estimates that RAK will fully refinance the sukuk at maturity, to maintain some deposit buffers, although the profit rate of the new instrument would likely be higher than previously. We estimate the US Government 10-year Treasury note yield will average 4% in 2025, against 1.94% on 27 March 2015.

Net public sector debt has become negative in 2022, at -2.7% of GDP, from 2.5% in 2021, and is estimated to have reached -4.6% of GDP in 2023. Assets that are not cash or bonds are not included in our net debt calculations. We anticipate RAK's net public sector debt to remain negative, at -1.0% of GDP in 2024, and return to positive territory in 2025, at 0.9% of GDP. We anticipate net debt will return negative in the coming years following the large equity contributions to the SPV with Wynn, on stronger revenue, nominal debt stabilisation and cash deposits build-up. Including RAK's listed equity investment holdings, net debt is expected to remain negative at -16.5% of GDP in 2024 and -13.7% in 2025, from -21.4% in 2023. The net asset position of Ras Al Khaimah is a rating strength of the emirate.

Public Debt Dynamics

Public debt-to-GDP is expected to remain buoyant in 2023 and 2024, before a moderate increase in 2025 driven by SOEs' borrowings and the refinancing of the USD1 billion sukuk maturing in March 2025. From 2026, we anticipate debt-to-GDP to resume to decline, on nominal debt stabilisation and robust real GDP growth. The main risk to the debt path is related to a fiscal balance shock, which Fitch views as highly unlikely, given the authorities' commitment to fiscal prudence and RAK's record of fiscal surpluses.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	13.3	11.0	10.9	10.9	11.4	10.5	9.8
Primary balance (% of GDP)	2.8	2.9	3.5	-1.8	-1.7	1.0	1.0
Real GDP growth (%)	3.3	3.8	7.6	6.2	5.0	5.0	4.0
Average nominal effective interest rate (%)	4.2	3.7	4.5	4.7	5.3	5.1	5.1
AED/USD (annual avg)	3.7	3.7	3.7	3.7	3.7	3.7	3.7
GDP deflator (%)	1.3	1.7	-0.8	2.0	1.5	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	3.7	-1.5	-1.1	0.4	0.3

Source: Fitch Ratings

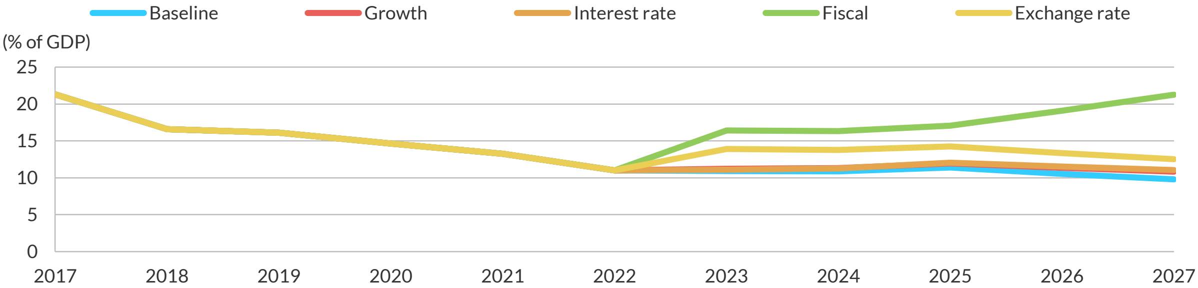
Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	Real GDP growth 2pp lower
Interest rate	Marginal interest rate 300bp higher
Fiscal	Stable primary balance deficit of 2% of GDP starting 2023
Exchange rate	30% devaluation at end-2019

Source: Fitch Ratings

Sensitivity Analysis

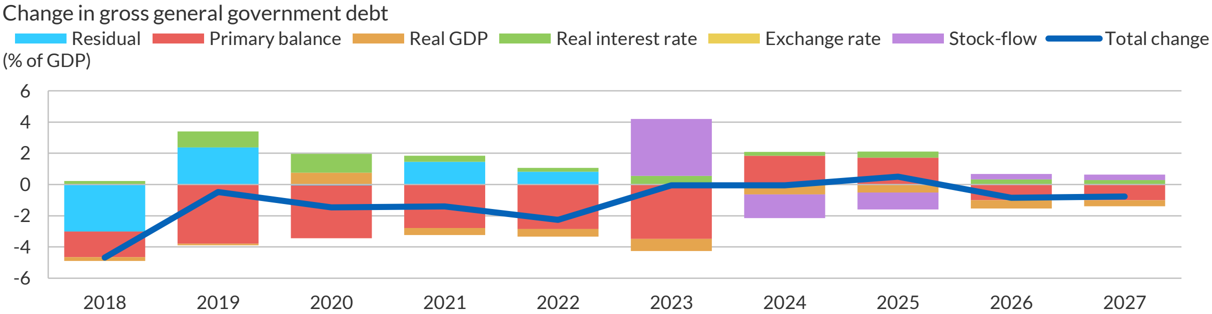
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows

Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Revenue	16.5	17.5	20.0	18.0	19.1	20.0	21.5	22.9	21.8
Expenditure	15.9	16.5	17.1	15.4	16.9	17.6	18.4	25.2	24.1
o/w interest payments	0.7	0.6	0.8	0.8	0.6	0.5	0.5	0.5	0.5
Interest payments (% revenue)	4.1	3.5	4.2	4.7	3.0	2.3	2.1	2.1	2.5
Primary balance	1.3	1.6	3.8	3.4	2.8	2.9	3.5	-1.8	-1.7
Overall balance	0.7	1.0	2.9	2.5	2.2	2.4	3.0	-2.3	-2.3
Gross government debt	21.3	16.6	16.1	14.7	13.3	11.0	10.9	10.9	11.3
% of government revenue	128.9	95.0	80.6	81.6	69.2	54.9	51.0	47.5	52.1
Issued in domestic market	2.5	3.0	2.8	2.6	2.0	0.8	2.8	3.3	4.3
Issued in foreign markets	18.8	13.6	13.3	12.0	11.3	10.2	8.2	7.5	7.1
Local currency	2.5	3.0	2.8	2.6	2.0	0.8	2.8	3.3	4.3
Foreign currency	18.8	13.6	13.3	12.0	11.3	10.2	8.2	7.5	7.1
Central government deposits	9.7	7.7	9.7	10.5	10.7	13.7	15.5	11.8	10.5
Net government debt	11.6	8.9	6.4	4.2	2.5	-2.7	-4.6	-1.0	0.9
Financing		-1.0	-2.9	-2.5	-2.2	-2.4	-3.0	2.3	2.3
Domestic borrowing		0.6	-0.2	-0.3	-0.6	-1.0	2.0	0.8	1.1
External borrowing		-4.6	-0.4	-2.3	-0.2	-0.5	-1.3	0.0	0.0
Other financing		3.0	-2.4	0.1	-1.5	-0.8	-3.7	1.5	1.1
Change in deposits (- = increase)		1.7	-1.9	-0.1	-0.7	-3.5	-2.7	2.5	0.6
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		1.3	-0.4	0.2	-0.7	2.7	-0.9	-1.0	0.5

Source: Fitch Ratings, Ministry of Finance

External Debt Service Schedule on Medium- and Long-Term Central Government Debt at end-April 2024

(USD million)	2021	2022	2023	2024	2025
Sovereign: Total debt service	30.9	30.9	30.9	30.9	1,015.5
Amortisation	0.0	0.0	0.0	0.0	1,000.0
Official bilateral	0.0	0.0	0.0	0.0	0.0
Multilateral	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	1,000.0
Interest	30.9	30.9	30.9	30.9	15.5

Source: Fitch Ratings, Ministry of Finance, central bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	A+

Sovereign Rating Model					Applied Rating[d]			BBB+
					Model Result and Predicted Rating			8.92 = BBB+
Input Indicator	Weight (%)	2022	2023	2024	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								**6.01**
Governance indicators (percentile)	21.4	n.a.	70.3	n.a.	-	70.3	0.077	5.44
GDP per capita (USD)	12.4	n.a.	31,057	n.a.	Percentile	67.8	0.038	2.60
Nominal GDP (% world GDP)	13.9	n.a.	0.01	n.a.	Natural log	-4.4	0.627	-2.77
Most recent default or restructuring	4.6	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-1.822	0
Broad money (% GDP)	1.2	n.a.	109.6	n.a.	Natural log	4.7	0.158	0.74
Macroeconomic performance, policies and prospects								**-0.71**
Real GDP growth volatility	4.6	n.a.	3.3	n.a.	Natural log	1.2	-0.728	-0.88
Consumer price inflation	3.4	5.2	-0.3	2.5	3-yr avg.[b]	3.2	-0.067	-0.22
Real GDP growth	2.0	3.8	7.6	6.2	3-yr avg.	5.9	0.065	0.38
Public finances								**-0.86**
Gross general govt debt (% GDP)	8.9	11.0	10.9	10.9	3-yr avg.	10.9	-0.023	-0.25
General govt interest (% revenue)	4.5	2.3	2.1	2.1	3-yr avg.	2.2	-0.044	-0.09
General govt fiscal balance (% GDP)	2.4	2.4	3.0	-2.3	3-yr avg.	1.0	0.044	0.05
FC debt (% of total general govt debt)	2.7	92.3	74.6	69.3	3-yr avg.	78.8	-0.007	-0.57
External finances								**-0.27**
Reserve currency (RC) flexibility	7.3	n.a.	0.0	n.a.	RC score 0 - 4.5[c]	0.0	0.509	0
SNFA (% of GDP)	7.4	-8.7	-8.2	-7.5	3-yr avg.	-8.1	0.011	-0.09
Commodity dependence	1.2	n.a.	65.8	n.a.	Latest	65.8	-0.004	-0.28
FX reserves (months of CXP)	1.5	n.a.	3.5	n.a.	n.a. if RC score> 0	3.5	0.029	0.10
External interest service (% CXR)	0.4	2.4	2.4	2.5	3-yr avg.	2.4	-0.007	-0.02
CAB + net FDI (% GDP)	0.1	6.4	6.6	4.7	3-yr avg.	5.9	0.001	0.00
Intercept Term (constant across all sovereigns)								**4.76**

[a] Inverse 0-1 scale, declining weight;
[b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change, which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (Notch Adjustment, Range +/-3)	+3
Structural features	0
Macroeconomic outlook, policies and prospects	+1
Public finances	+1
External finances	+1

Source : Fitch Ratings

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Ras al Khaimah's Local-Currency (LC) and FC IDRs are the same, as it is part of the UAE federation.

Country Ceiling

The Country Ceiling for Ras al Khaimah corresponds to that of the UAE.

The Country Ceiling for the UAE is 'AA+', two notches above its LT FC IDR. This reflects strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting LC into FC and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee applied a further+1 notch qualitative adjustment to this, under the Near-term Macro-Financial Stability Risks and Exchange Rate Risks pillar reflecting that the Country Ceiling Model dips to +1 due to the dollarisation of deposits passing 30%. The figure has been historically fairly volatile. It may be related to rising US dollar-denominated hydrocarbon export proceeds or the influx of new residents. External buffers are large and the creation of a UAE dirham yield curve may reduce dollarisation in future. These factors support keeping the Country Ceiling two notches above the IDR.

Overall Country Ceiling Uplift (CCM + QA, notches)				**+2**
Country Ceiling Model (CCM, notches)				**+1**
Pillar I = Balance of payments restrictions				**+2**
Current account restrictions (% of 40)	Latest	10.0	+3	
Capital account restrictions (% of 69)	Latest	36.2	+1	
Combined pillar II & III incentives score				**+1**
Pillar II = Long-term institutional characteristics				**+2**
Governance (WB WGI)	Latest	70.3	+3	
International trade			+1	
Trade openness	2019-23 avg	97.5	+3	
Volatility of change in CXR (across 10yrs)	2023	11.1	+1	
Export share to FTA partners	2019-23 avg	34.8	+1	
International financial integration[a]	2019-23 avg	98.9	+3	
Pillar III = Near-term risks				**+1**
Macro-financial stability risks			+1	
Composite inflation risk score			+2	
Volatility of CPI (across 10yrs)	2023	2.3	+2	
Recent CPI peak	2019-23 max	4.8	+3	
Cumulative broad money growth	2018-23 chg %	54.6	+2	
Volatility of change in REER (across 10yrs)	2023	4.9	+2	
Dollarisation	Most recent	31.9	+1	
Exchange rate risks			+2	
Net external debt (% of CXR)	2021-23 avg	-22.1	+3	
Exchange rate regime	Latest	Conventional peg	+1	
Qualitative Adjustment (QA, notches)				**+10**
Pillar I = Balance of payments restrictions				0
Pillar II = Long-term institutional characteristics				0
Pillar III = Near-term macro-financial stability risks				+1

[a] Data for international financial integration is the average of private external assets (% of GDP) & private external debt (% GDP).
Source: Fitch Ratings

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
20 May 2024	A+	F1+	Stable	A+	F1+	Stable	AA+
30 May 2022	A	F1+	Positive	A	F1+	Positive	AA+
24 May 2019	A	F1+	Stable	A	F1+	Stable	AA+
22 Jul 2016	A	F1	Stable	A	F1	Stable	AA+
14 Aug 2008	A	F1	Stable	A	-	Stable	AA+
23 Jan 2008	A	F1	Stable	A	-	Stable	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	3	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Ras al Khaimah has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and a key rating driver with a high weight. As the UAE has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Ras al Khaimah has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and are a key rating driver with a high weight. As the UAE has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Ras al Khaimah has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As the UAE has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Ras al Khaimah has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Ras al Khaimah, as for all sovereigns. As Ras al Khaimah has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM) and Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Ras Al Khaimah

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES