S&P Global Ratings

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Ras Al Khaimah

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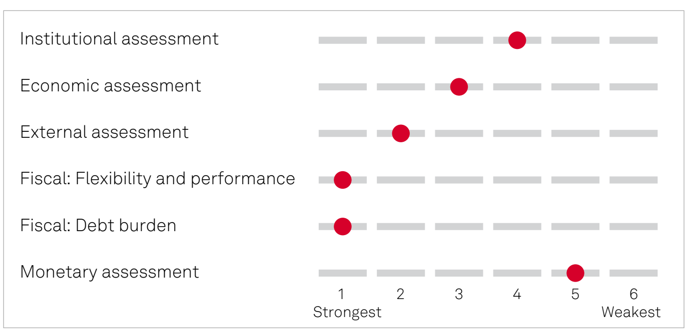
This report does not constitute a rating action.

Ratings Score Snapshot



Sovereign credit rating
Foreign currency
A-/Positive/A-2
Local currency
A-/Positive/A-2

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
We expect Ras Al Khaimah's (RAK's) economy to grow faster in 2024-2027 compared with pre-pandemic averages.	RAK's fiscal performance remains strong and external risks are contained, supported by its membership in the United Arab Emirates (UAE).
--S&P Global Ratings projects RAK's economy will expand 4% on average in this period, supported by continued strong performance of tourism, real estate, manufacturing, and mining.	-- We project the government to run a small fiscal deficit in 2024 on higher capital spending before switching to headline fiscal surpluses from 2025.
-- We expect no significant government policy changes and continued domestic political stability over the forecast period.	-- The UAE's expenditure within the emirate materially reduces the RAK government's spending needs.
	--The Central Bank of the UAE (CBUAE) determines the federation-wide monetary policy, with RAK only having a limited influence, in our view.

In our view, ongoing tourism and other infrastructure projects, including the $3.9 billion Wynn Al Marjan Island integrated resort, could strengthen RAK's growth prospects and income levels over the next two-to-three years. We anticipate the emirate's growth momentum will also be supported by strong economic activity in the UAE and broader Gulf Cooperation Council (GCC) on favorable oil prices.

Meanwhile, we forecast that RAK's government will maintain conservative fiscal management and run fiscal surpluses averaging 0.3% of GDP on average over 2024-2027. Stable revenue performance and limited debt levels will support the net general government asset position averaging 15% of GDP in the forecast period. Wynn project is a joint venture between Wynn Resorts and two RAK state-owned enterprises (RAK Hospitality Holding LLC and Marjan LLC), and therefore not within the general government perimeter. We also consider the advantages RAK derives from being part of the UAE, which alleviate RAK's funding needs. In addition, we think the UAE would provide extraordinary financial support to RAK if needed.

We believe these credit strengths of RAK are partly offset by its overall centralized governance and limited monetary flexibility, given the UAE dirham's (AED's) peg to the U.S. dollar and underdeveloped local currency domestic bond market. In our view, RAK has a limited say over UAE-wide monetary policy, which the CBUAE sets. Like other regional sovereigns, RAK's governance is characterized by centralized decision-making, the potential for succession risks, and institutions at a relatively early stage of development.

Outlook

The positive outlook reflects our view that RAK's economy could grow beyond our expectations on planned construction projects in the emirate and the spillover effects on RAK's mining sector from investment spending in the UAE, the rest of the GCC, and the Indian subcontinent.

Downside scenario

We could revise the outlook to stable if the government's fiscal position materially deteriorates. This could happen, for instance, if RAK incurred significant debt to fund capital projects. We currently expect these to be predominantly financed via budgetary headroom and land sales. We could also lower the ratings if debt-service costs significantly increase.

Upside scenario

We could raise the ratings over the next two years if RAK's economic prospects strengthen, underpinning higher GDP per capita income levels, while its fiscal performance remains strong.

Rationale

Institutional and economic profile: We expect RAK's economy to grow faster in 2024-2027 than pre-pandemic levels

We forecast real GDP growth to average close to 4.0% over 2024-2027 compared with 2.8% in 2012-2022. RAK's economy is more diversified than most peers in the GCC region and we anticipate the resilient performance of manufacturing, wholesale and retail trade, and construction and real estate will boost economic activity in the emirate supported by strong regional and local demand. RAK does not produce oil or gas, but the early stages of exploration are underway.

The hospitality sector only makes up 4.0% of GDP but this proportion will likely increase with new projects ramping up. There are plans to open about 23 new hotels in the next two-to-three years, resulting in a projected 70% increase in hotel room capacity. Along with several other tourism projects, we expect the Wynn resort (by far the largest project) to support growth through broad-based secondary effects for local companies supplying building materials as well as for the real estate sector, ports, airport, and economic free zones. The integrated resort is expected to open in early 2027 and could house the first gaming area in the Gulf region. The initial project cost estimate for the 5.6 million square foot development on Al Marjan Island is $3.9 billion, or about 30% of RAK's GDP. We also expect positive momentum in the emirate's real estate sector driven by tourism, industrial, and investment-related transactions, especially on the Marjan Island.

We also expect strong prospects for RAK's mining sector, which contributes about 25% of the emirate's exports. The acceleration of construction projects in the UAE, Kuwait, India, and Bangladesh will likely drive strong demand for mining products. Stevin Rock, one of the world's largest limestone quarrying companies and 100% owned by the RAK government, is supplying rock to large projects within the UAE. Key contracts include the building of artificial islands for Abu Dhabi National Oil Co.'s Ghasha gas project, a rail route from Stevin Rock's Al Ghail quarry in RAK to Abu Dhabi as a part of UAE National Rail Network construction, and property development at the Palm Jebel Ali in Dubai. More broadly, we understand that construction projects in the UAE and GCC are being accelerated, given the windfalls from relatively high hydrocarbon prices. The disruption from Red Sea traffic on RAK's mining has been contained as close to 50% of exports go to Asia and we expect geopolitical tensions to not affect this.

Risks to our growth outlook could arise if public investment spending is significantly delayed, for example due to the underexecution of government capital spending or funding shortfalls at key state-owned enterprises; or if new competition from other emirates or the wider region dilutes RAK's tourism offering. Trading volumes at the Saqr Port could be partly diverted to the new Dibba Port in Fujairah (another emirate of the UAE) as it became operational in late 2023.

We do not expect the government will significantly change its policy stance any time soon. The legislative and executive powers of RAK's government lie primarily with ruler Sheikh Saud bin Saqr Al Qasimi, supported by the crown prince, ruling family, and RAK Executive Council. The ruler also delegates powers and responsibilities to other arms of the government. The local population can participate in domestic affairs via regularly held public audiences (majlis). Despite centralized power within the emirate, the UAE federal system acts as a check and balance, and a potential constraint on policymaking. The Supreme Council is the highest authority in the federation and consists of the rulers of the seven constituent emirates. Each emirate has a single vote. Decisions on substantive matters need to be taken by a majority of five of the member emirates, provided this includes Abu Dhabi and Dubai. However, the lack of transparency around policy deliberations, either within or between emirates, is still a weakness in the institutional settings, in our view.

We observe some progress in the government's long-term commitment to establish stronger economic institutions such as the RAK Statistics Center (RAKSC). We also note the continued formalization of financial policies and data analytics at the Investment and Development Office, including ongoing efforts to improve macrofiscal forecasting, digitization and legislation benchmarking with other emirates. RAKSC has started compiling national accounts data for RAK instead of relying on the federal statistics and recently conducted a population census. But there are still shortcomings in the dissemination and timeliness of economic data.

Flexibility and performance profile: A track record of recurring fiscal surpluses underpins the government's net asset position

RAK has historically maintained a conservative fiscal policy characterized by recurrent surpluses and a net asset position. The government recorded a fiscal surplus of AED1.1 billion, or 2.6% of GDP, in 2023 compared with 1.9% of GDP in 2022. The stronger outcome was driven by higher operating revenue and dividends given government-related entities (GREs) and listed investments' strong financial performances in 2022.

This year, we forecast a small fiscal deficit of 0.5% of GDP on account of planned increases in capital expenditure (capex) related to the expansion of the Ras Al Khaimah Economic Zone (RAKEZ). As capital spending moderates from 2025, we expect the government’s fiscal balance will return to surplus from next year, although smaller than pre-2023 levels. Still, RAK’s prudent fiscal stance could be tested in the run-up to the Marjan Island development and the Wynn resort's opening, given the significant infrastructure requirements.

We expect a sizable part of the Wynn and Marjan developments will be funded through land sale receipts from Marjan Island, which will be reflected in revenue as title deeds are transferred over the next two-to-three years. We also expect economic expansion will keep propelling receipts from value-added tax (VAT) and excise taxes and dividends from GREs. Dividends from the government's listed investments should remain broadly stable over the forecast horizon, equivalent to 7.0% of gross fiscal revenue. There is also upside from the corporate income tax, which took effect June 2023. However, it is still unclear how the authorities will distribute the tax receipts between the federal government and emirates.

RAK's general government revenue (about 9% of GDP) is among the lowest of rated sovereigns. Because the emirate levies no income or business-related taxes (except on oil and gas companies and branches of foreign banks), its revenue depends on favorable economic activity to generate fees and fines, the UAE-wide VAT, and dividends from GREs. We also see structural impediments to raising revenue. A significant change to revenue policy--for example, increasing emirate-specific fees or fines--could negatively differentiate RAK from the rest of the UAE. In our view, these changes to fiscal policy would likely be done at the federal level, as with the introduction of corporate income tax in 2023 and 5% VAT across the UAE in 2018.

In our view, RAK's limited flexibility on the revenue side is counterbalanced by its ability to adjust expenditure if necessary. When the pandemic hit, for example, the government opted to maintain a prudent fiscal stance with government spending down almost 20% in 2020 from a year earlier. We expect the emirate to increase spending moderately over 2024-2027. In addition, federal authorities are responsible for foreign affairs, defense, postal services, telephony, federal roads, education, and public health, among other things, which significantly reduces fiscal costs for RAK. The emirate's expenditure is therefore mostly concentrated on operating costs and wages, but we expect the share of capex component to stay higher than in the past on account of project developments in RAK.

The RAK government's gross debt is low, at 8% of GDP in 2024, and includes a $1 billion sukuk maturing in 2025. We expect the government will refinance this with another loan next year. Government debt is more than offset by liquid assets at about 25% of GDP. RAK's liquid assets are predominately in cash and holdings of RAKBANK stock. Although the government increased its overall stake in RAKBANK and became a majority shareholder, we view this holding as opportunistic rather than strategic, and ultimately a timely source of funding for the government if needed. We forecast that the government's interest burden will remain under a low 5% of government revenue due to small debt stock. Debt held by GREs stood at 5.0% of GDP in 2023, with the majority guaranteed by the government. We expect GRE debt will increase moderately to finance planned expansion and development projects.

There is only limited external trade, balance-of-payments, and international investment position data available for RAK. We therefore base our assessment of its external position on that of the UAE, which we define as the "host country". Even at the UAE level, data gaps restrict visibility of external risks. Nevertheless, we view the UAE's external position as a credit strength, notwithstanding the relatively high gross external financing needs due to sizable banking system external debt. We project that the UAE's significant liquid external assets, which include our estimate of assets held by Abu Dhabi's sovereign wealth fund, will exceed external debt on average by about 260% of current account payments in 2024-2027.

Ras Al Khaimah--Selected Indicators

	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. LC)	41	41	38	40	42	45	47	50	54	58
Nominal GDP (bil. $)	11	11	10	11	11	12	13	14	15	16
GDP per capita (000s $)	29.8	28.8	28.4	28.9	29.8	30.9	32.0	33.2	34.4	36.0
Real GDP growth	1.2	0.6	(4.4)	3.3	3.8	4.3	3.8	4.0	4.2	4.5
Real GDP per capita growth	(1.3)	(2.2)	0.7	0.7	1.3	1.8	1.3	1.5	1.2	1.5
Real investment growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Savings/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exports/GDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real exports growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unemployment rate	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
External indicators (%)										
Current account balance/GDP*	9.7	8.9	6.0	11.6	17.1	13.0	12.9	12.2	12.0	11.5
Current account balance/CARs*	9.9	9.0	6.2	11.1	16.5	13.1	13.4	12.9	12.8	12.5
CARs/GDP*	97.9	99.0	97.2	104.1	103.6	99.6	96.1	94.6	93.4	92.0
Trade balance/GDP*	20.1	19.2	17.8	19.0	18.9	14.5	14.5	13.7	13.4	12.9
Net FDI/GDP*	(1.1)	(0.8)	0.3	(0.5)	(0.6)	(0.7)	(0.7)	(0.6)	(0.6)	(0.6)
Net portfolio equity inflow/GDP*	(1.3)	(3.7)	(6.5)	(4.5)	(4.7)	(4.7)	(6.0)	(5.0)	(5.0)	(6.0)
Gross external financing needs/CARs plus usable reserves*	135.2	137.8	154.1	141.7	127.6	134.1	129.8	134.6	134.8	135.6
Narrow net external debt/CARs*	(135.9)	(142.5)	(178.1)	(159.4)	(162.1)	(191.7)	(204.7)	(220.4)	(232.9)	(245.8)
Narrow net external debt/CAPs*	(150.7)	(156.7)	(189.8)	(179.4)	(194.0)	(220.6)	(236.5)	(253.0)	(267.1)	(280.9)
Net external liabilities/CARs*	(197.0)	(212.3)	(273.3)	(241.3)	(234.9)	(272.1)	(288.6)	(304.1)	(315.7)	(329.8)

Ras Al Khaimah--Selected Indicators

Net external liabilities/CAPs*	(218.5)	(233.4)	(291.3)	(271.5)	(281.2)	(313.1)	(333.4)	(349.0)	(362.1)	(376.8)
Short-term external debt by remaining maturity/CARs*	42.6	45.5	58.8	49.6	43.9	47.0	46.4	50.1	50.6	51.1
Usable reserves/CAPs (months)*	(0.2)	(0.1)	(0.1)	(0.3)	(0.0)	(0.0)	0.3	0.3	0.3	0.3
Usable reserves (mil. $)*	(3,887)	(3,170)	(9,690)	(680)	(1,034)	12,276	10,342	11,660	12,066	13,285
Fiscal indicators (general government; %)										
Balance/GDP	1.7	1.9	2.2	2.4	1.9	2.6	(0.5)	0.3	0.5	0.9
Change in net debt/GDP	(0.6)	(2.3)	0.0	(4.4)	(2.0)	(4.2)	(0.2)	0.1	(0.5)	(0.9)
Primary balance/GDP	2.1	2.3	2.6	2.7	2.1	2.9	(0.2)	0.7	0.9	1.3
Revenue/GDP	8.7	9.6	8.9	9.1	8.8	9.9	9.8	9.9	9.3	9.0
Expenditures/GDP	7.0	7.7	6.7	6.6	6.9	7.2	10.3	9.6	8.8	8.1
Interest/revenues	4.8	4.4	4.6	3.3	3.2	2.8	2.8	3.7	4.0	3.9
Debt/GDP	10.7	10.8	9.7	9.2	8.7	8.2	7.7	7.3	6.8	6.3
Debt/revenues	123.3	111.7	109.0	101.6	99.1	83.2	79.0	73.5	73.2	70.2
Net debt/GDP	(5.2)	(7.5)	(8.0)	(12.0)	(13.4)	(16.8)	(16.0)	(15.0)	(14.5)	(14.4)
Liquid assets/GDP	16.0	18.3	17.7	21.2	22.1	25.0	23.8	22.3	21.3	20.7
Monetary indicators (%)										
CPI growth	4.4	(1.9)	(0.7)	0.8	5.2	(0.3)	1.0	1.0	1.0	1.0
GDP deflator growth	1.9	(1.1)	(2.2)	1.3	1.7	2.0	2.0	2.3	2.5	3.1
Exchange rate, year-end (LC/$)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
Banks' claims on resident non-gov't sector growth*	3.1	1.7	0.6	2.9	4.4	7.5	6.0	6.0	6.0	6.0
Banks' claims on resident non-gov't sector/GDP*	82.8	86.0	103.5	89.6	76.6	81.9	82.2	84.8	86.5	88.1
Foreign currency share of claims by banks on residents*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits*	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Real effective exchange rate growth*	(0.1)	(2.0)	(5.1)	(6.4)	N/A	N/A	N/A	N/A	N/A	N/A

Sources: RAK Center for Statistics & Studies (economic indicators); Central Bank of UAE, IMF, Ministry of Finance, Bank for International Settlements (external indicators); Investment and Development Office of Ras Al Khaimah (fiscal indicators); IMF, Brugel, Central Bank of UAE (monetary indicators).

Adjustments: Usable reserves adjusted by subtracting monetary base from reported international reserves.

*Data from United Arab Emirates. Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. N.M.--Not meaningful. AED--UAE dirham. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. bc--Base case. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ras Al Khaimah--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	4	Reduced predictability of policy responses because of centralized decision-making concentrated in the ruling family, and potential for succession risks. Political institutions in Ras Al Khaimah (RAK) are

Ras Al Khaimah--Rating Component Scores

Key rating factors	Score	Explanation
		less developed than peers in the same rating category. Relatively weak transparency, with shortcomings in data dissemination in terms of availability and timeliness.
Economic assessment	3	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1.
External assessment	2	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1. We base our assessment on UAE federal-level data because RAK has very limited external data. Weak disclosure at the UAE federal level restricts our analysis of external data consistency.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1. The government has a more limited ability to increase revenues than governments in countries with a similar level of development. On the other hand, the government has a greater ability and willingness to reduce expenditures in the near term despite the economic, social, or political effects compared with economies with a comparable level of development.
Fiscal assessment: debt burden	1	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenue) as per Selected Indicators in Table 1.
Monetary assessment	5	We view RAK as part of a UAE-wide monetary union. The exchange rate is a conventional pegged arrangement with the U.S. dollar. The local currency domestic bond market is underdeveloped. Consumer price index are as per Selected Indicators in Table 1. RAK has less monetary flexibility than sovereigns with their own central banks.
Indicative rating	a-	As per Table1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	The UAE is likely to provide extraordinary support to RAK in a time of need, a factor not fully captured in the indicative rating level. This strength is offset by the relatively small size of the economy, which makes it more vulnerable to global and regional downturns relative to larger peers. Moreover, there could be additional risk to our fiscal assessment if the government ramps up spending significantly on upcoming development projects.
Final rating		
Foreign currency	A-	
Notches of uplift	0	Default risks do not apply differently to foreign and local currency debt.
Local currency	A-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, May 17, 2024
- Sovereign Ratings History, May 17, 2024
- Your Three Minutes In Banking: When Rates Drop, GCC Banks' Profitability Will Follow, May 14, 2024
- Sovereign Ratings Score Snapshot, May 7, 2024
- Islamic Finance 2024-2025: Resilient Growth Anticipated Despite Missed Opportunities, April 29, 2024
- A Wider Middle East Conflict Remains Outside Our Base Case Despite Iran’s Military Action, April 15, 2024
- Geopolitical Risks Rise On Iran-Israel Conflict Expansion Despite Immediate Reprieve, April 15, 2024
- Sovereign Risk Indicators, April 8, 2024. Interactive version available at http://www.spratings.com/sri
- 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024
- Unmet Expectations Could Heighten Risks, March 27, 2024
- S&P Global Ratings Revises Its WTI And Brent Price Assumptions For 2025 And Beyond On Anticipated Oversupply, March 11, 2024

Ratings Detail (as of May 27, 2024)*

Ras Al Khaimah (Emirate of)	
Sovereign Credit Rating	A-/Positive/A-2
Transfer & Convertibility Assessment	AA+
Sovereign Credit Ratings History	
13-Oct-2023	A-/Positive/A-2
23-Oct-2020	A-/Stable/A-2
24-Apr-2020	A/Negative/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.