Research Update:

Ras Al Khaimah Upgraded To 'A/A-1' On Stronger Growth Prospects And Resilient Fiscal Performance; Outlook Stable

November 22, 2024

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Overview

- We project Ras Al Khaimah's (RAK's) real GDP growth will average about 4% over 2024-2027 on ongoing tourism and infrastructure projects.
- Despite high infrastructure expenditure, we expect RAK's government to run fiscal surpluses supporting its net asset position of around 18% of GDP.
- We therefore raised our sovereign credit ratings on RAK to 'A/A-1' from 'A-/A-2'. The outlook is stable.

Rating Action

On Nov. 22, 2024, S&P Global Ratings raised to 'A/A-1' from 'A-/A-2' its long- and short-term foreign and local currency sovereign credit ratings on RAK. The outlook is stable.

Outlook

The stable outlook reflects our expectation that RAK's economic growth and fiscal position will remain strong over our forecast period.

Upside scenario

We could raise the ratings over the next two years if RAK's GDP per capita income strengthens beyond our expectations, while the government continues to maintain its net asset position underpinned by strong fiscal performance.

Downside scenario

We could lower the rating on RAK if the government's fiscal position materially deteriorates. This could happen, for example, if the government faces significant cost overruns for ongoing development projects or if these projects underperform our expectations. Downward pressure on the rating could also stem from interest costs rising as a proportion of revenue, if revenue streams underperform.

Rationale

The upgrade reflects our view that the solid pipeline of tourism-related development projects in RAK will support the emirate's improving growth momentum. We also expect that RAK's mining sector--along with economic free zones, real estate, and ports--will benefit from strong non-oil growth and infrastructure spending in the United Arab Emirates (UAE), Gulf Cooperation Council (GCC), and the Indian subcontinent.

Our base-case scenario reflects our expectation that RAK's government will maintain conservative fiscal management and run headline fiscal surpluses in the next few years, underpinning its net asset position of about 18% of GDP.

Our ratings on RAK are additionally supported by its contained balance-of-payments risks, stemming from its UAE membership, as well as the likelihood of financial support for RAK from the UAE federal government in a hypothetical scenario of financial stress. These strengths are partly offset, in our view, by limited monetary flexibility given the UAE dirham's peg to the U.S. dollar, as well as the underdeveloped local currency domestic bond markets.

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

- S&P Global Ratings projects RAK's economy will expand by 4.2% on average until 2027 on strong tourism, real estate, manufacturing, and mining performance.
- RAK's economy does not directly depend on hydrocarbons and is more diversified than those of most peers in region.
- We expect no significant government policy changes and continued domestic political stability over the forecast period.

We view RAK's economy as more diversified than most peers' in the GCC region. There is no single economic sector that primarily drives RAK's economic activity, with manufacturing, wholesale and retail trade, and construction or real estate activities together contributing about 55% of GDP. Although oil prices still spur economic cycles through fluctuations in demand from RAK's oil-dependent trade partners, this is generally less pronounced than for sovereigns directly dependent on oil.

We forecast real GDP to expand by more than 4% annually in 2025-2027 and GDP per capita levels to strengthen to about $32,800 by 2027, compared with an estimated $30,000 in 2024. We expect upcoming tourism projects and related infrastructure spending to help strengthen RAK's mining sector as well as its economic free zones, airport, and real estate sector. The hospitality sector contributes 4.0% of GDP and the real estate for 7.0%, but these proportions will likely increase with new projects ramping up.

By far the largest of the tourism sector projects is the Wynn Al Marjan Island (WAMI) integrated resort, with an overall cost of about 40% of GDP. The Wynn project is a joint venture between Wynn Resorts (40%) and two RAK state-owned enterprises (SOEs)--RAK Hospitality Holding LLC and Marjan LLC together contributing 60%. It is expected to open in early 2027 and has also been recently awarded the commercial gaming operator's license--the first to be granted in the UAE. There are also plans to open about 20 new hotels in the next two-to-three years, resulting in a projected 75% increase in hotel room capacity. 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, which has already recorded significant growth in primary residential sale prices in the past two years.

RAK's mining sector, which contributes about 25% of the emirate's exports, continues to benefit from infrastructure projects within the UAE and the region. Stevin Rock, one of the world's largest limestone quarrying companies and 100% owned by the RAK government, supplies rock to large construction and reclamation projects within and outside the UAE, including local projects in RAK and property development in Abu Dhabi and Dubai. We understand that this year, export volumes could face some headwinds due to political uncertainty in Bangladesh. However, demand from other export markets--such as India and Kuwait--along with local sales, continue to increase. The strong mining sales also reflect in sustained trading volumes at the Saqr Port. We understand that, so far, the newly operational Dibba port in nearby emirate Fujairah has not materially affected volumes from RAK ports.

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 SOEs; or if new competition from other emirates or the wider region dilutes RAK's tourism offering.

We do not expect the government to 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's 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 comprises the rulers of the seven constituent emirates. 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 compilation of national accounts data by RAKSC and continued formalization of financial policies and data analytics at the Investment and Development Office, including ongoing efforts to improve macrofiscal forecasting, digitalization, and legislation benchmarking with other emirates. However, there are still shortcomings in the dissemination and timeliness of economic data.

Flexibility and performance profile: We expect RAK's fiscal performance to remain strong despite higher infrastructure spending in the next two to three years

- We anticipate that the government will operate a headline fiscal surplus averaging about 1.9% of GDP over 2024-2027.
- The government's net asset position provides some buffer against possible fiscal pressures

and contingent liabilities arising from development projects.

- The Central Bank of the UAE (CBUAE) determines the federation-wide monetary policy with RAK only having a limited influence, in our view.

RAK has historically maintained a conservative fiscal policy characterized by recurrent surpluses and the government's net asset position. Following a fiscal surplus of 2.8% of GDP in 2023, the government recorded a surplus of United Arab Emirates dirham (AED) 1.5 billion (about 3% of GDP) in the first half of 2024. The strong performance was driven by the high dividend payout from SOEs such as RAK Ports and Marjan, listed investments' strong financial performances, and robust revenue collection by municipalities along with lower than planned capital expenditure.

We understand that Marjan has recorded a significant amount of land sale receipts in its revenue following the transfer of title deeds to the end customers. We expect this to continue over the next three to four years. Consequently, we expect a high dividend payout from Marjan to benefit the government's fiscal performance in 2024-2027. In addition, we project some upside from corporate tax and hospitality-related revenues from 2026-2027. As a result, we forecast revenue as a share of GDP to average 11.8% of GDP over 2024-2027, compared with about 10.0% in 2023. At the same time, we project that spending levels will likely remain higher than in the past, given the significant infrastructure requirements. Therefore, we think the fiscal surplus will moderate over the next three years, averaging 1.4% of GDP from an estimated surplus of 3.3% of GDP in 2024.

We understand the Wynn project will be funded through a mix of equity (54%) and debt (46%). The total debt of $2.4 billion will be raised at the WAMI project level, for which the government will provide a direct financial guarantee (after the project completes) of $144 million (about 1% of 2024 GDP). We include this guarantee along with rest of the non-guaranteed debt, that is, project-related debt raised via SOEs of $1.3 billion (about 11% of GDP) in our estimate of contingent liabilities. The total stock of contingent liabilities amounts to about 17% of GDP in 2024 and also includes debt of other SOEs, with the majority guaranteed by the government. We believe the government will fulfil its equity contribution to Wynn via budgetary headroom and land sales.

The risk of contingent liabilities crystallizing is partly mitigated by the government's strong net asset position, in our view. The RAK government's gross debt is a low 8% of GDP in 2024, and includes a $1 billion sukuk maturing in 2025. We expect the government will refinance this with another conventional loan or sukuk 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.

RAK's general government revenue (about 10%-11% of GDP) is among the lowest of rated sovereigns. In our view, government revenue depends on favorable economic activity to generate fees as well as fines, 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 tax--could negatively differentiate RAK from the rest of the UAE.

In our view, RAK's limited revenue flexibility 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. 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 RAK's fiscal costs.

There is limited data available on RAK's external trade, balance of payments, and international investment position. We therefore base our assessment of the emirate's external position on that of the UAE, which we define as its "host country." Data gaps, even at the UAE level, restrict our visibility on external risks. Nevertheless, we view the UAE's external position as a credit strength. Sizable assets accumulated within Abu Dhabi's sovereign wealth fund, Abu Dhabi Investment Authority, will continue to support the UAE's strong aggregate external net asset position in 2024-2027. However, we estimate the UAE's gross external financing needs are relatively large (due to sizable banking system external debt), averaging about 130% of usable reserves and current account receipts.

Key Statistics

Table 1

Ras Al Khaimah--Selected indicators

Mil. AED	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. LC)	41	41	38	40	42	42	45	48	50	54
Nominal GDP (bil. $)	11	11	10	11	11	12	12	13	14	15
GDP per capita (000s $)	29.8	28.8	28.4	28.9	29.8	29.3	30.3	31.2	32.0	32.9
Real GDP growth	1.2	0.6	(4.4)	3.3	3.8	4.0	3.8	4.0	4.3	4.5
Real GDP per capita growth	(1.3)	(2.2)	0.7	0.7	1.3	1.5	1.3	1.2	0.9	1.2
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	17.3	13.3	13.3	11.6	11.4	11.2
Current account balance/CARs*	9.9	9.0	6.2	11.1	16.6	13.2	13.3	12.0	12.1	12.1
CARs/GDP*	97.9	99.0	97.2	104.1	104.5	100.5	99.7	96.7	94.7	92.7
Trade balance/GDP*	20.1	19.3	17.8	19.0	19.0	14.8	14.7	13.0	12.8	12.7
Net FDI/GDP*	(1.1)	(0.8)	0.3	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Net portfolio equity inflow/GDP*	(1.3)	(3.7)	(6.5)	(4.6)	(4.7)	(4.7)	(6.0)	(5.0)	(5.0)	(5.5)
Gross external financing needs/CARs plus usable reserves*	135.2	137.8	154.1	141.7	127.5	133.1	129.6	132.3	131.6	130.9
Narrow net external debt/CARs*	(135.9)	(142.5)	(178.1)	(159.4)	(162.1)	(188.0)	(203.4)	(220.7)	(233.2)	(244.2)

Table 1

Ras Al Khaimah--Selected indicators (cont.)

Mil. AED	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Narrow net external debt/CAPs*	(150.7)	(156.7)	(189.8)	(179.4)	(194.3)	(216.7)	(234.6)	(250.7)	(265.2)	(277.8)
Net external liabilities/CARs*	(197.0)	(212.3)	(273.3)	(241.3)	(234.8)	(267.8)	(285.9)	(304.2)	(315.6)	(327.4)
Net external liabilities/CAPs*	(218.6)	(233.4)	(291.3)	(271.5)	(281.4)	(308.6)	(329.8)	(345.5)	(358.9)	(372.5)
Short-term external debt by remaining maturity/CARs*	42.6	45.5	58.8	49.6	43.9	46.1	45.4	48.1	48.3	48.5
Usable reserves/CAPs (months)*	(0.2)	(0.1)	(0.1)	(0.3)	(0.0)	(0.0)	0.3	0.4	0.5	0.6
Usable reserves (mil. $)*	(3,887)	(3,170)	(9,690)	(680)	(1,034)	10,112	15,335	19,397	23,273	26,851
Fiscal indicators (general government; %)										
Balance/GDP	1.7	1.9	2.2	2.4	1.9	2.8	3.3	0.3	1.5	2.3
Change in net debt/GDP	(0.6)	(2.5)	0.2	(4.4)	(2.0)	(4.5)	(1.6)	(0.3)	(1.2)	(0.6)
Primary balance/GDP	2.1	2.3	2.6	2.7	2.1	3.1	3.5	0.6	1.8	2.5
Revenue/GDP	8.7	9.6	8.9	9.1	8.8	10.4	12.1	10.1	11.7	13.4
Expenditures/GDP	7.0	7.7	6.7	6.6	6.9	7.6	8.8	9.8	10.2	11.1
Interest/revenues	4.8	4.4	4.6	3.3	3.2	2.8	2.4	2.7	2.2	1.8
Debt/GDP	10.7	10.8	9.7	9.2	8.7	8.6	8.2	7.7	7.3	6.9
Debt/revenues	123.3	111.7	109.0	101.6	99.1	83.2	67.7	76.2	62.1	51.0
Net debt/GDP	(5.2)	(7.7)	(8.0)	(12.0)	(13.4)	(17.7)	(18.4)	(17.7)	(17.8)	(17.5)
Liquid assets/GDP	16.0	18.5	17.7	21.2	22.1	26.4	26.6	25.4	25.1	24.3
Monetary indicators (%)										
CPI growth	4.4	(1.9)	(0.7)	0.8	5.2	(0.3)	1.8	1.4	1.2	1.2
GDP deflator growth	1.9	(1.1)	(2.2)	1.3	1.7	-3	2.0	1.8	1.5	1.5
Exchange rate, year-end (LC/$)	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	8.0	8.0	8.0	7.0
Banks' claims on resident non-gov't sector/GDP*	82.8	86.0	103.5	89.6	77.3	81.2	84.9	88.6	91.3	93.3
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

Table 1

Ras Al Khaimah--Selected indicators (cont.)

Mil. AED	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
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.
bc--Base case. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. 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.

Ratings Score Snapshot

Table 2

Ras Al Khaimah--Ratings score snapshot

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 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.

Table 2

Ras Al Khaimah--Ratings score snapshot (cont.)

Key rating factors	Score	Explanation
Notches of supplemental adjustments and flexibility	1	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.
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 Score Snapshot, Nov. 7, 2024
- Sovereign Ratings History, Oct. 9, 2024
- Sovereign Ratings List, Oct. 9, 2024
- Sovereign Risk Indicators, Oct. 7, 2024. An interactive version is also available at www.spratings.com/sri.
- Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Upgraded

	To	**From**
Ras Al Khaimah (Emirate of)		
Sovereign Credit Rating	A/Stable/A-1	A-/Positive/A-2
RAK Capital		
Senior Unsecured	A	A-
Ratings Affirmed		
Ras Al Khaimah (Emirate of)		
Transfer & Convertibility Assessment	AA+	