



## UAE: dollar peg not at risk

- **Reports that the UAE is seeking a currency swap line from the US have sparked concerns about the damage to country's external position from the war. Lower energy exports, disruption to travel and tourism as well as the likelihood of capital flight are likely to have strained the UAE's balance of payments. But the UAE's enormous foreign currency savings mean that there is little concern that the dollar peg will come under serious pressure any time soon, even if the war were to be protracted.**
- *The Wall Street Journal* reported that the UAE has opened talks with the US about opening a currency swap line. At this stage, the details are sketchy and Emirati officials have reportedly not made a formal request with the proposal described as "preliminary and precautionary". Nonetheless, the report has raised questions about the impact of the war on the UAE's balance of payments position.
- **To be clear, the UAE is suffering a significant blow to its energy exports.** It has, admittedly, been (partly) able to bypass the Strait of Hormuz and increase flows of crude oil via its pipeline to the port of Fujairah on the Gulf of Oman. And the UAE is currently receiving a higher price for the crude oil that it has been able to export, with Brent currently at \$95pb compared to around \$70pb prior to the war.
- That said, capacity constraints mean that this has not been sufficient to offset the loss of energy flows that would normally transit the Strait. Export volumes were still down by nearly 50% in March. (See Chart 1.) **Overall, we estimate that the UAE's oil export revenues are currently running at ~\$125bn (22.5% of GDP) on an annualised basis, compared to ~\$155bn (28% of GDP) last year.**
- **Service export receipts are also suffering due to the disruption to travel and tourism.** Shipping is severely affected by the closure of the Strait and, while the UAE's airspace is open, the number of flights is still down by more than 50% relative to pre-war levels. Meanwhile, hotel occupancy rates in Dubai are currently around 20%, down from a typical 70-80%.
- Figures from 2024 show that the UAE's exports of transport and travel (which are recorded as services exports in the balance of payments) amounted to roughly \$140bn (25% of GDP). **A 50% decline in these exports would be equivalent to \$70bn, or 12.5% of GDP – larger than our estimate of the damage to the country's energy exports.** The UAE's non-oil goods exports are also likely to be disrupted. These (including re-exports) totalled around \$300bn (55% of GDP) in 2024.
- **That said, the blow to the UAE's current account is being offset by a sharp drop in imports amid weak domestic demand.** The detailed breakdown of China's trade data, published earlier today, showed that its exports to the UAE were down by 65% y/y in March. Similar-sized falls in exports to the UAE have been recorded from other parts of Asia.
- The result is that, on balance, the hit to the UAE's current account position may actually be quite minor. And it's worth noting that, prior to the war, the country was running a sizeable current account surplus in the region of 13% of GDP last year. **If anything, then, the bigger concern is that the war may have spurred large-scale capital flight.** While we don't have any timely data on this, it's worth noting that, when Qatar was blockaded in 2017, non-resident deposits in its banking sector (equal to 25% of total deposits at the time), fell by close to 30%. In the UAE, non-resident deposits in the banking system were equal to AED300bn (\$82bn, or 9% of total deposits) in February.
- **Crucially, though, the UAE's large savings put it in a strong position to weather the storm.** Foreign currency assets – held at the central bank and within the country's numerous sovereign wealth funds – are equal to more than \$2.5trn (or more than 450% of GDP). (See Chart 2.) **Disruptions due to the war and capital flight would need to escalate and last many years before the dollar peg was seriously threatened.** There are few signs in currency forward markets that investors are worried. (See Chart 3.)
- **Against this backdrop, reports that the UAE is seeking a currency swap line are somewhat surprising.** One possible explanation is that policymakers believe that securing a currency swap line would bolster investor confidence in the UAE's financial position if the war were to drag on. If anything, though, the reports appear to have sparked more questions about the UAE's external position.

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- **Alternatively, a currency swap line may be viewed as a more preferable way to manage demand for dollars than drawing down assets.** The central bank has reduced its holdings of deposits in banks abroad by around \$86bn since late-2024, at the same time as increasing its foreign investments by \$158bn. (See Chart 4.) In other words, the central bank's FX assets are now less liquid than they were just over a year ago. The assets of sovereign wealth funds are, potentially, even more illiquid. The fear would be that, if forced to sell large quantities of existing assets, this could potentially mean accepting lower prices for them.

Chart 1: UAE Oil Exports (mn bpd)

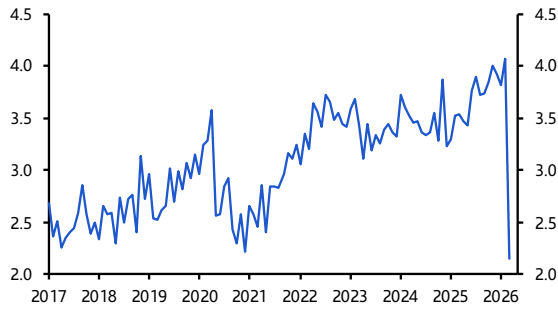


Chart 2: Sovereign Wealth Fund Assets and Official Foreign Exchange Reserves

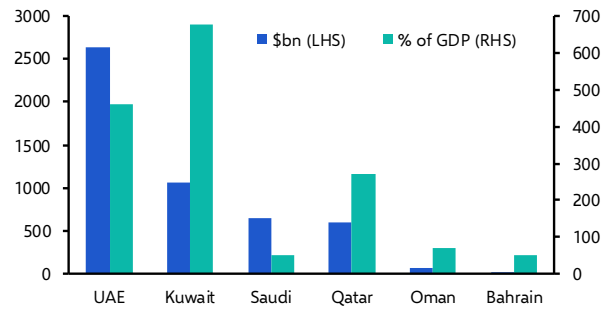


Chart 3: UAE Dirham (vs. \$, Inverted)

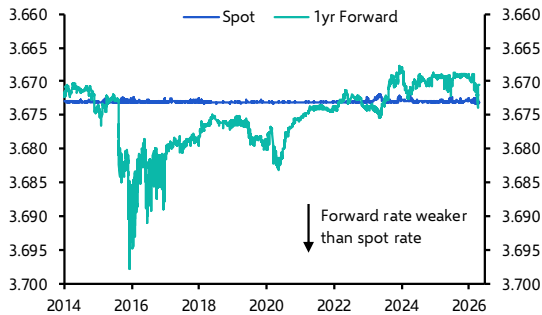
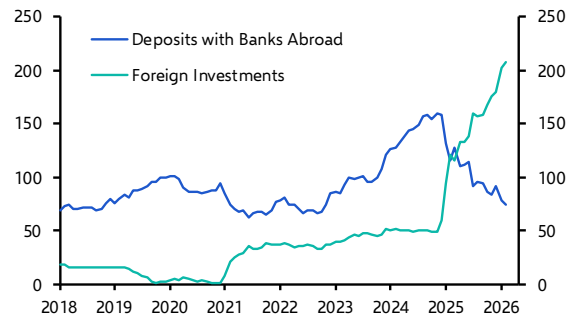


Chart 4: Central Bank of the UAE Foreign Exchange Reserves (\$bn)



Sources: CEIC, LSEG, Bloomberg, Capital Economics



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