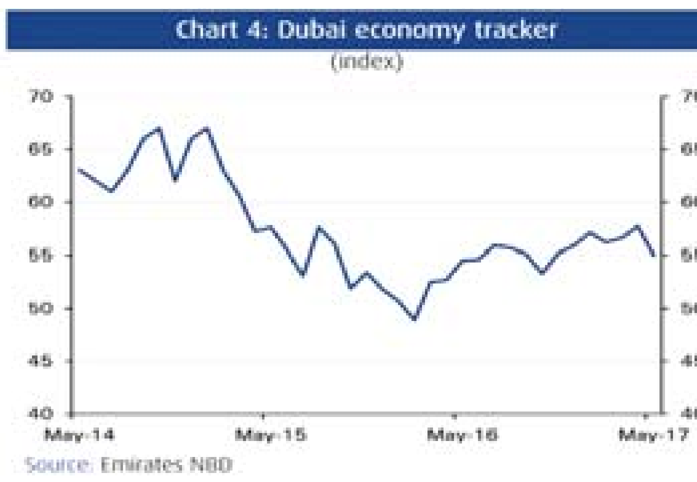


UAE: Growth to moderate slightly in 2017 amid crude oil reductions

NBK ECONOMIC UPDATE

KUWAIT: Real GDP in the UAE is expected to moderate in 2017 as crude production is lowered, in compliance with the agreement among OPEC members to cut crude supply. Whilst the oil sector is projected to act as a laggard on overall growth, the non-oil sector is set to continue to propel forward and offset a contracting oil sector. Subsequently, we foresee real GDP moderating from an estimated 2.4% in 2016 to 2.2% in 2017.

Growth in the oil economy is expected to be limited in the medium-to-long term on the back of planned production cuts. In May, OPEC and a group of non-OPEC nations agreed to extend a six-month output cut that was scheduled to end in June, to at least the end of the first quarter of 2018, in a bid to prop up oil prices. As a result, real oil GDP is expected to decline by around 1% in 2017, before rising by 2.6% in 2018 as production is gradually restored to its pre-production cut levels.

The non-oil economy is forecast to gain some ground in 2017 and maintain that strong momentum in 2018, as the construction and tourism sectors (some of the biggest contributors to non-oil GDP growth) remain buoyant. The construction sector will be supported by easing fiscal consolidation as well as higher Dubai Expo 2020 related infrastructure investments. The non-oil economy is also set to be supported by the residential real estate sector, which after witnessing almost two years of slowing growth is showings signs of stabilization. We anticipate a jump in real non-oil growth from around 2.6% in 2016 to 3.6% and 4.5% in 2017 and 2018, respectively.

The latest data on the UAE's Market Purchasing Managers' Index (PMI), a good gauge of non-oil sector growth, also show that non-oil sector activity is set to remain solid in the near-to-medium term (Chart 3). The headline PMI slipped in May, but still remained fairly solid at 54.3, as stable local economic conditions helped offset some of the softness in global demand.

Overall non-oil economy propped up

Much of the non-oil economy's momentum continued to be fuelled by Dubai's hospitality and construction sectors. The number of passengers passing through Dubai International Airport remains near record highs. In April, this number stood at7.6 million passengers, up a healthy 9.2% year-on-year (y/y). Despite an ongoing decline in average daily room rates at hotels in Dubai over the past year, demand for hotel rooms remains solid as reflected in the average occupancy rate. According to Ernst & Young's latest MENA Hotel Benchmark Survey, occupancy rates among hotels in Dubai averaged 88% in April (the highest in the MENA region).

Dubai's construction sector is also a major contributor to non-oil growth. Construction activity is expected to hold strong, especially as Dubai prepares for the Expo 2020 event. Projects include the construction of buildings, metro expansions, roads and bridges. The construction sector is also set to benefit from plans to foster the UAE's Vision 2021 and long-term strategy to establish a post-oil "knowledge economy" via the "UAE Strategy for the Future" blueprint. The strategy aims to bolster the nation's non-oil economy and enhance its economic diversification. The resilience in Dubai's non-oil economy is reflected in the Emirates NBD Dubai Economy Tracker Index (DET) (Chart 4). The DET is a forward-looking index similar to the PMI which tracks non-oil activity in Dubai. It has gradually been regaining its momentum amid improvements in the travel & tourism and wholesale & retail trade segments.

Table 1: Key economic indicators

		2015	2016e	2017f	2018f
Nominal GDP	USD bn	370	360	391	425
Real GDP	% y/y	3.8	2.4	2.2	3.9
- Oil	% y/y	5.0	1.9	-1.0	2.6
- Non-oil	% y/y	3.2	2.6	3.6	4.5
Inflation	% y/y	4.1	1.6	2.5	3.0
Budget balance	% of GDP	-2.3	-3.6	-1.8	0.6

Source: Official sources, NBK estimates

Dubai residential property price growth stabilizing

Dubai's residential property prices continued to stabilize, following almost two years of decline amid tighter regulations, higher housing supply and risk aversion. According to Asteco's quarterly indexes, prices of apartments and villas in 1Q17 appeared steady, though they are down by 3.0% y/y and 1.3% y/y, respectively. We expect the stabilization period to continue at least until the end of 2017, after which we may see residential price growth pick up on the back of stronger demand. The value of real estate transactions continues to trend lower (Chart 6),while growth in the number of transactions accelerated somewhat recently, which may be indicative of signs of strength in the "more affordable" housing segment.

Inflation face some upward pressure

Inflation in the consumer price index (CPI) softened recently, after retreating from 3.0% y/y in March to 2.2% y/y in April, as housing inflation (which weighs more heavily in the index) continued to trend lower and as food costs declined. We expect CPI inflation to gradually edge higher in the second half of 2017 and average around 2.5% for the year, as a recovery in oil prices pushes inflation in the transport segment up, as housing inflation gathers pace and amid tax hikes planned for selected consumer goods in 4Q17.

Fiscal deficit forecast to narrow in 2017

We expect the fiscal deficit to narrow in 2017 thanks to more prudent public spending and higher revenues. We estimate the fiscal deficit widened to 3.6% of GDP in 2016 after having slipped into a deficit for the first time in six years in 2015on the drop in oil prices. But with global oil markets recovering and a more prudent fiscal policy in place, the deficit is seen narrowing to 1.8% in 2017 and returning to a slight surplus of 0.6% in 2018.

Thanks to the UAE government's abundant financial reserves that hover above 200% of GDP, fiscal deficits have been manageable. In effect, this has helped both Dubai and Abu Dhabi maintain high levels of public spending, particularly on infrastructure projects. In Dubai, infrastructure spending is set to accelerate in the run-up to the Expo 2020 event. Nonetheless, the major emirates have embarked on some fiscal adjustment and reform, including the establishment of the Federal Tax Authority (FTA), subsidy cuts and the introduction of fees and taxes on selected goods and services. According to official reports, Abu Dhabi has cut back or delayed spending on a number of projects designated as low-priority. Efforts have also been made to rely more heavily on the private sector for implementation of some projects.

The newly established FTA recently announced that it would impose a 100% tax on tobacco and energy drinks and a 50% levy on carbonated drinks from 4Q17. Furthermore, it increasingly looks likethe UAE will be one of the first GCC nations to implement a value-added tax (VAT).The first phase of implementation, scheduled for the beginning of 2018, will include UAE companies with annual revenues greater than $1 million (Dh3.75 million). At 5%, the VAT is expected to generate around $3.3 billion (Dh12billion) in tax revenues or around 1% of GDP.

In an attempt to preserve foreign assets, the UAE has also tapped into international debt markets to plug its budget gap. In April 2016, Abu Dhabi issued$5 billion in sovereign bonds, the first issuance since 2009. Moody's recently affirmed the UAE's Aa2 credit rating and upgraded its outlook from negative to stable, citing an effective public policy response to the lower oil price environment and improved economic growth prospects. The main credit default swaps (CDS), which are deemed to be good bellwethers of a sovereign's level of risk, fell to new lows following Moody's announcement. As of mid-June, the CDS on five-year Dubai and Abu Dhabi government debt stood at 130 and 52 basis points, respectively. With investors globally in search for yield amid a low global rate environment, the recent credit affirmation and outlook upgrade should be a further boon to the UAE bond market.

Current account surplus to expand

The surplus in the current account balance is projected to expand for the first time in four years in 2017, as oil export earnings recover and non-oil export growth gathers pace. We foresee the current account surplus rising from a six-year low of around 4.8% of GDP in 2016 to a projected 5.1% in 2017.

Non-oil export growth may continue to be affected by a stronger dirham. The stronger dollar has led to an appreciation in the dirham's trade-weighted index, increasing the cost of exports and making it a more expensive place to visit and invest in. Trade with Asian markets has been most affected by the stronger dirham, as their currencies weakened against a stronger US dollar. Tourism, however, has been less affected, given that a majority of tourists are from the GCC, and so has investment in real estate, which depends far more on UAE nationals. As a result, the gains in the tourism and real estate sectors are expected to more than offset the costs of a stronger dollar. This should help keep non-oil export growth ebullient.

Banking liquidity recovers on stronger oil revenues

Following almost two years of moderation, lending activity appears to have plateaued in early 2Q17 on the back of improvements in the real estate and construction sectors. In April, lending growth came in at a modest 5.3% y/y. Growth in bank deposits continues to trend upward. At the end of 2016, it surpassed lending growth for the first time in almost two years, thanks to higher oil export receipts, which have helped replenish government deposits. After deposit growth logged in a healthy pace of 7.1% y/y in April, the loan-to-deposit ratio subsequently eased further to 99.4% during the same period.

Silicon Valley taking heat over sexual harassment

NEW YORK: Sexism in Silicon Valley may be coming in for a reckoning, prompted by women coming forward with stories of sexual harassment by industry big shots. Apologies, resignations and self-reflection have followed, although it's too soon to tell if they will produce meaningful change.

Dave McClure, a prominent venture investor, said on Saturday that he is sorry for making "inappropriate advances" toward several women in workplace situations, and is no longer leading the venture capital fund he co-founded, 500 Startups. He remains a general partner at the firm. McClure's apology - titled "I'm a Creep. I'm Sorry" - follows a New York Times report on sexual harassment in the tech industry that described offensive behavior by McClure and other prominent venture investors, as related by female entrepreneurs.

Reports of sexism in the industry are not new, but more women are speaking out on the record and naming their harassers. That's even though women have faced ostracism for calling out such behavior, with companies playing down or outright ignoring complaints. Those issues can be particularly acute for women leading startups, as their companies are dependent on clubby venture capitalists for funding. there are signs that this might be changing as more women come forward.

In June, several female entrepreneurs told the trade publication The Information of harassment by a partner at the VC firm Binary Capital; he and another partner resigned a week ago. The accused partner, Justin Caldbeck, issued an apology, but that itself drew criticism from others in the tech industry, including Google product manager Brenden Mulligan.

"It feels like you're trying to nudge us to feel sorry for you that you need to leave your precious firm behind. YOU CAUSED THIS," Mulligan wrote in a post on Medium. One of Caldbeck's accusers, Niniane Wang, wrote that she "laughed out loud" reading the apology post.

What is sparking the shift? It might be a woman named Susan Fowler. Earlier this year, the former Uber engineer also outlined a culture of harassment at the company. Uber's CEO has since resigned and the company has promised to institute broad changes to prevent such things from happening again. Still, it's too soon to tell whether the incidents will lead to meaningful change. LinkedIn co-founder and former CEO Reid Hoffman lamented a "lack of outrage and commentary" following the revelations.

"This is important, because the question for women entrepreneurs is whether people just don't care," Hoffman wrote in a post on LinkedIn. "Here's why writing quickly is important: YES, MANY OF US DO CARE. This is entirely immoral and outrageous behavior." He called the attention on Silicon Valley's gender problems this year "very good criticism." He urged venture capitalists to establish human resources policies - just as companies and other institutions do - "so that venture capitalists who engage in such behavior face the same sort of consequences that they would if their overtures were directed at an employee." — AP

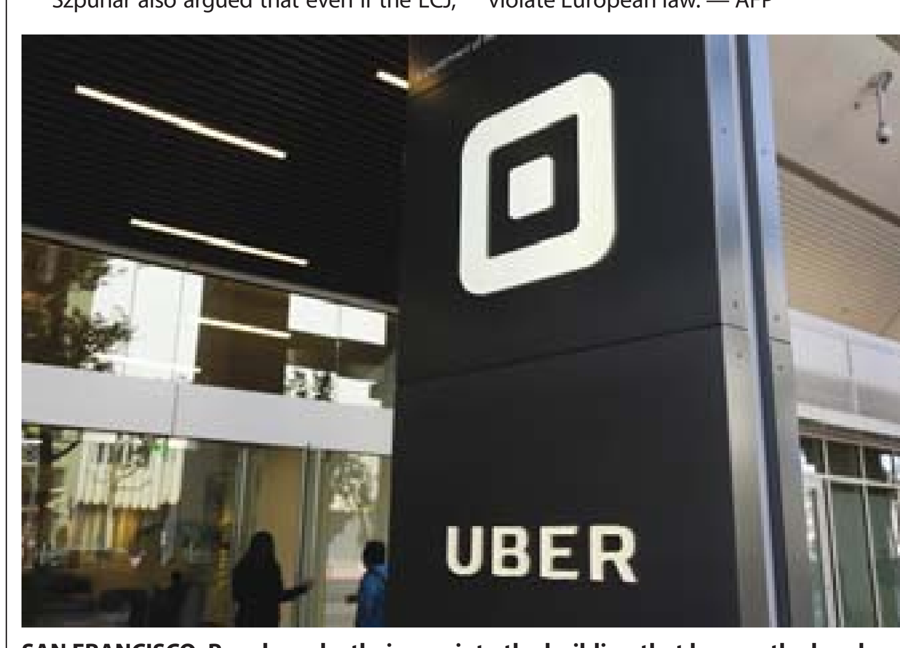
EU states have right to ban Uber: Top lawyer

LUXEMBOURG: EU member states can ban ride-hailing pioneer Uber without informing the European Commission because at heart it is an ordinary transport company under their jurisdiction, a top EU lawyer said yesterday. San Francisco-based Uber insists it is a service, not a transport provider, connecting riders with freelance drivers directly and much more cheaply than traditional cab companies. But critics and competitors say this allows it to dodge costly regulation and several countries, led by France, have banned its low-cost UberPop service as a result. Uber France challenged the ban, saying it amounted to regulation of an information company which Paris should have first lodged with the Commission, the European Union's administrative arm.

However, Maciej Szpunar, an advocate general with the Luxembourg-based European Court of Justice, said Uber was in fact an ordinary transport company and so member states could go ahead and regulate its activities without notifying the Commission in advance. He recalled that in a May 11 opinion on a related case concerning Uber Spain, he had concluded that UberPop "does not constitute an information society service."

Szpunar also argued that even if the ECJ, the EU's highest court, should at some stage determine UberPop was indeed an information service provider, a ban in response to "the illegal exercise of a transport activity does not constitute a technical regulation within the meaning of the directive." "Notification of the draft law to the Commission would not be necessary in that situation either," he said. He argued that member states only had a duty to notify the Commission if they took a specific, targeted action against information service providers.

"Rules which affect those services only in an implicit or incidental manner are excluded from the notification obligation," he said. Uber said in response that it believed Szpunar's opinion was moot because it had changed its business model in France. "We have seen today's statement and await the final ruling later this year," an Uber spokesperson said. The ECJ's advocate generals-its top lawyers-are regularly called on to provide initial guidance to the court which in most instances follows their advice in its final rulings. The French authorities banned Uber after violent protests by traditional taxi drivers. Uber in turn filed complaint with the EU against France and other states, arguing that national policies hostile to its operations violate European law. — AFP



SAN FRANCISCO: People make their way into the building that houses the headquarters of Uber. — AP

EXCHANGE RATES

Al-Muzaini Exchange Co.

ASIAN COUNTRIES	
Japanese Yen	2.727
Indian Rupees	4.729
Pkistani Rupees	2.900
Srilankan Rupees	1.985
Nepali Rupees	2.955
Singapore Dollar	220.650
Hongkong Dollar	39.043
Bangladesh Taka	3.765
Philippine Peso	6.084
Thai Baht	8.990
GCC COUNTRIES	
Saudi Riyal	81.254
Qatari Riyal	83.688
Omani Riyal	791.320
Bahraini Dinar	809.090
UAE Dirham	82.959
ARAB COUNTRIES	
Egyptian Pound - Cash	20.350
Egyptian Pound - Transfer	16.760
Yemen Riyal/for 1000	1.223
Tunisian Dinar	125.050
Jordanian Dinar	429.540
Lebanese Lira/for 1000	2.030
Syrian Lira	2.171
Morocco Dirham	31.719
EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.500
Euro	341.340
Sterling Pound	389.760
Canadian dollar	231.210
Turkish lira	87.250
Swiss Franc	313.920
Australian Dollar	233.090
US Dollar Buying	303.300
GOLD	
20 Gram	254.110
10 Gram	129.970
5 Gram	65.830

Dollarco Exchange Co. Ltd

Rate for Transfr	Selling Rate
US Dollar	304.150
Canadian Dolla	230.815
Sterling Pound	389.365
Euro	340.715
Swiss Frank	298.260
Bahrain Dinar	806.705
UAE Dirhams	83.205
Qatari Riyals	84.425
Saudi Riyals	82.000
Jordanian Dinar	428.895
Egyptian Pound	16.937
Sri Lankan Rupees	1.986
Indian Rupees	4.720
Pakistani Rupees	2.900
Bangladesh Taka	3.771
Philippines Pesso	6.077
Cyprus pound	167.850
Japanese Yen	3.720
Syrian Pound	2.420
Nepalese Rupees	3.953
Malaysian Ringgit	71.970
Chinese Yuan Renminbi	44.975
Thai Bhat	9.945
Turkish Lira	86.795

Bahrain Exchange Company WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.389793	0.399793
Czech Korune	0.005277	0.017277
Danish Krone	0.042663	0.047663
Euro	0. 342319	0.351319
Norwegian Krone	0.032365	0.037585
Romanian Leu	0.084208	0.084208
Slovakia	0.009074	0.019074
Swedish Krona	0.032023	0.037023
Swiss Franc	0.311103	0.322103
Turkish Lira	0.081312	0.091612
Australasia		
Australian Dollar	0.228305	0.240305
New Zealand Dollar	0.216967	0.226467
America		
Canadian Dollar	0.229183	0.238183
Georgina Lari	0.137234	0.137234
US Dollars	0.299750	0.304170
US Dollars Mint	0.300250	0.304170
Asia		
Bangladesh Taka	0.003426	0.004010
Chinese Yuan	0.043378	0.046878
Hong Kong Dollar	0.037066	0.039816
Indian Rupee	0.004208	0.004896
Indonesian Rupiah	0.000018	0.000024
Japanese Yen	0.002634	0.002814
Kenyan Shilling	0.002988	0.002988
Korean Won	0.000256	0.000271
Malaysian Ringgit	0.067329	0.073329
Nepalese Rupee	0.002972	0.003142
Pakistan Rupee	0.002711	0.003001
Philippine Peso	0.005984	0.006284
Sierra Leone	0.000067	0.000073
Singapore Dollar	0.215633	0.225633
South African Rand	0.017391	0.025891
Sri Lankan Rupee	0.001605	0.002185
Taiwan	0.009727	0.009907
Thai Baht	0.008634	0.009184
Arab		
Bahraini Dinar	0.798548	0.807046
Egyptian Pound	0.015184	0.021092
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000189	0.000249
Jordanian Dinar	0.423957	0.432957
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000156	0.000256
Moroccan Dirhams	0.019743	0.043743
Nigerian Naira	0.001255	0.001890
Omani Riyal	0.782800	0.788480
Qatar Riyal	0.079170	0.084110
Saudi Riyal	0.079940	0.081240
Syrian Pound	0.001288	0.001508
Tunisian Dinar	0.122374	0.130374
Turkish Lira	0.081312	0.091612
UAE Dirhams	0.081302	0.083002
Yemeni Riyal	0.000988	0.001068