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United Arab Emirates Issues National Public Debt Law

On 14 October, the United Arab Emirates (UAE) issued Decree Law No (9) of 2018 (Public Debt Law or the Law), a long-awaited piece of legislation that may have a significant effect on the capital markets and state of the public finances in the UAE.

The Law permits the federal government of the UAE to issue sovereign debt for the first time through the sale of bonds or other debt instruments. Government sources have pointed to the potential of the law as a means of establishing a primary and secondary market for government securities in the UAE, and a framework for issuing long-term bonds thereby providing an alternative source of funding for federal government projects.

Government bonds have been issued at the Emirate level by Abu Dhabi, Dubai and Sharjah for more than 10 years. The Emirate of Abu Dhabi issued its first bond – a US$1 billion five-year conventional bond – in 2007, prior to the global financial crisis. Liquidity concerns prompted Dubai to do the same in the wake of the crisis with a US$20 billion bond issuance in early 2009, half of which was taken up by the UAE Central Bank in an effective bailout of the Emirate. The Emirate of Sharjah issued debt in excess of US$1 billion in the form of bonds and *sukuk* (Islamic bonds) earlier this year, pursuant to its newly established *sukuk* programme. Prior to the promulgation of the Public Debt Law, however, there was no legal framework for such issuances by the UAE federal government.

Implications and Objectives

The Law should allow the UAE federal government to issue debt on the basis of a national debt rating as opposed to the rating of individual Emirates and give the UAE Central Bank, a federal institution, greater control in managing local banking liquidity.

Among its stated objectives, the Law cites the goal of supporting and developing a highly efficient financial market in the UAE, as well as providing a federal mechanism for financing infrastructure and development projects in the country providing government guarantees and emergency funding.

Main Provisions

PDMOs

The Public Debt Law contemplates the formation of a federal Public Debt Management Office (PDMO) within the Ministry of Finance to be constituted and organised in accordance with a resolution to be issued by the Minister of Finance. Under the Law, the PDMO is tasked with:

- Proposing strategies and policies for public debt management in co-ordination with the Central Bank
- Implementing strategies and policies approved by the Cabinet, in co-ordination with the Central Bank
- Monitoring risks related to the issuance and trading of public debt
- Co-ordinating with the Central Bank the management, issuance and sale of federal government bonds, treasury bills and other government securities
- Co-ordinating with the government of each of the seven Emirates the development and support of primary and secondary markets for the issuance of public debt instruments by the state
- Generally providing advice and proposing policies to the Minister of Finance concerning the issuance and management of public debt
- Overseeing the borrowing and financing arrangements made by any federal government authorities and institutions and corporations that are wholly-owned by the government or by a wholly-owned government entity

The Law contemplates the establishment of local government agencies at the Emirate level with the same competencies as the PDMO. This role is already largely performed by the Debt Management Division of the Department of Finance in Dubai and within the Abu Dhabi Department of Finance. The Law imposes a requirement on the Emirates' local debt management offices to provide data, information and statistics of local debt issuance on an ongoing basis.

Restrictions

The type and offering terms of any public debt instrument must be approved by way of a Cabinet Resolution following recommendations from the Minister of Finance. Overall debt issuance is subject to certain restrictions, including that the amount of public debt outstanding must not exceed 250% of "Self-Generated Stable Government Revenues" (defined as revenues generated by the UAE federal government). For the purposes of this calculation, the revenues are subject to a ±10% cap on a three-year rolling average.

Further, the share of public debt allocated to infrastructure projects may not exceed 15% of the total public debt outstanding at any time. This restriction is likely to elicit comment from investors who look favourably on government debt being applied for infrastructure development. It remains unclear what projects would be classified as infrastructure projects for the purposes of the Law.

Sovereign Guarantees

The Public Debt Law specifically authorises the UAE federal government to issue guarantees on behalf of federal government authorities, institutions and corporations that are wholly-owned by the government or by a wholly-owned government entity. The terms of any such guarantee are to be specified in a Cabinet Resolution following a recommendation by the Minister of Finance.

Electronic Registry and Listing

The new Law stipulates that public debt instruments may be issued in electronic or paper form and contemplates the creation of an electronic registry for such instruments. It also contemplates that debt instruments may, in co-ordination with the Central Bank and the Emirates Securities and Commodities Authority, be admitted for trading, on one of the Dubai Financial Market, NASDAQ Dubai or the Abu Dhabi Securities Exchange. The Ministry of Finance is expected to promulgate executive bylaws and resolutions concerning the trading, clearing and settlement of public debt instruments and related matters within six months.

Conclusion

The advent of the Public Debt Law signals the UAE's willingness to use sovereign debt as a means of achieving its fiscal objectives. However, some of the urgency that existed when the law was first mooted has fallen away following the recent increase in oil price and its corresponding positive effect on the UAE's finances.

Even with an expected increase of around 3% year-on-year in consolidated government spending, the federal UAE deficit continues to narrow. According to the International Monetary Fund, it is estimated that the UAE will have a consolidated budget deficit of 1.6% of GDP in 2018 and will be down from 2.7% in 2017. If present trends persist, in 2019 the budget should show a surplus, making it unlikely that the UAE federal government will tap the public debt markets any time soon.

While the UAE federal government's need for funding may be less urgent, there will be opportunities for public debt issuance to be used as a means of managing existing liabilities in support of long-term development and social benefits programmes, including healthcare, public education and higher education programmes, all stated government priorities, and other special projects for the benefit of the UAE.

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