

Market Insights & Strategy Global Markets

Abu Dhabi – additional steps towards diversification

Abu Dhabi authorities have recently announced some additional levies that, based on our calculations, are likely to generate material incremental revenues for the Government and hence will go some way towards plugging the budgetary deficit that has arisen largely from the decline in oil prices. In this note we provide some very simple calculations and analysis that help to put the potential impact of these levies into context.

Ultimately, based on these and other recent developments we believe the following:

- it is very clear that the Abu Dhabi authorities are cognisant of the budgetary issues and are taking tangible measures to ‘plug the gap’ in a timely manner;
- based on the type of additional levies being implemented, it is evident that the government is looking for recurring and sustainable revenue streams that will continue to increase steadily over time (based on parameters such as tourism numbers, residential rentals in the real estate sector, etc);
- it seems likely that more such measures will be implemented, across various aspects of the economy, which in aggregate will deliver – in our opinion – not just meaningful but substantial incremental and diversified revenues for the Government;

Also worth noting is the fact that such reforms aren’t just happening in Abu Dhabi or indeed the UAE. Other GCC countries are actively looking at implementing levies and fees that will help to diversify their revenue streams and supplement the income from hydrocarbons. Bottom line, there’s more to come...

Municipality Tax of 3%

A new levy of 3% on every expatriate’s annual rent and taken in monthly installments via the tenant’s electricity and water bill, was just announced in the latest government gazette, although it is not clear yet as to when this fee will begin to be applied. However, by the end of 2016, Abu Dhabi is estimated to have 255,000 residential units available. Assuming the occupancy rate is around 80%, and estimating a conservative average rental of 100,000 AED annually, this means around AED 612m (US\$166.6m) of additional government revenue will be generated.

| AD Municipality Tax Economic Impact | 2016 |
|---------------------------------------|-------------|
| Number of Residential Units | 255,000 |
| Occupancy Rate | 80% |
| Average Rent | 100,000 |
| Municipality Tax | 3% |
| Municipality Tax Revenue in AED - (A) | 612,000,000 |
| Municipality Tax Revenue in USD | 166,643,975 |

13 April 2016

Chavan Bhogaita
Head of Market Insights & Strategy

Glenn Wepener
Executive Director
Markets & Geopolitical Analysis

Alp Eke
Senior Economist

Rakesh Sahu
Analyst

New Tourism Fees

The government has also just announced the immediate implementation of a 4% municipality tax as well as a separate AED 15 charge per night on each guest's hotel bill. These fees will be collected by Abu Dhabi's Tourism and Culture Authority.

According to official data, Abu Dhabi hoteliers received 3.94 million guests last year and their average length of stay was 2.9 nights. Based on this total the number of guest-nights in 2015 was 11.4 million. Now using the assumption that visitor numbers to Abu Dhabi are likely to increase by approximately 15% this year, that translates into 14 million potential guest nights. So multiplying 14 million by 15 AED per night, the additional amount of revenue generated by this new tax would be AED 210m.

In 2015, Abu Dhabi hotel establishments also generated circa AED 6.62bio of revenues, and current market expectations are that this revenue will rise by 10% in 2016 to reach AED 7.3 bio. So if we now consider the 4% municipality tax, the potential additional revenue generated for the government's coffers from this could be approximately AED 290m.

Thus in conclusion the Abu Dhabi government could raise up to AED 1.1bio (US\$302m) of additional revenue this year with these new fees, and what is more important is the fact that this will be of a recurring nature.

| AD Tourism Tax Economic Impact | 2016 |
|--|----------------------|
| Number of Guests | 4,500,000 |
| Guest Nights | 14,000,000 |
| Total Revenue | 7,200,000,000 |
| Revenue Generated 15AED per night | 210,000,000 |
| Revenue Generated by add 4% | 288,000,000 |
| Tourism Tax Revenue in AED - (B) | 498,000,000 |
| Tourism Tax Revenue in USD | 135,602,451 |
| Total Revenue Municipality & Tourism in AED - (A+B) | 1,110,000,000 |
| Total Revenue Municipality & Tourism (USD) | 302,246,426 |

Market Insights & Strategy

Global Markets

National Bank of Abu Dhabi

MarketInsights&Strategy@nbad.com

Tel: +971 2 6110 127

Disclaimer:

To the fullest extent allowed by applicable laws and regulations, National Bank of Abu Dhabi PJSC (the "Bank") and any other affiliate or subsidiary of the Bank, expressly disclaim all warranties and representations in respect of this communication. The content is confidential and is provided for your information purposes only on an "as is" and "as available" basis and no liability is accepted for or representation is made by the Bank in respect of the quality, completeness or accuracy of the information and the Bank has undertaken no independent verification in relation thereto nor is it under any duty to do so whether prepared in part or in full by the Bank or any third party. Furthermore, the Bank shall be under no obligation to provide you with any change or update in relation to said content. It is not intended for distribution to private investors or private clients and is not intended to be relied upon as advice; whether financial, legal, tax or otherwise. To the extent that you deem necessary to obtain such advice, you should consult with your independent advisors. Any content has been prepared by personnel of the Global Markets division at the Bank and does not reflect the views of the Bank as a whole or other personnel of the Bank.