

UNITED ARAB EMIRATES

Key conditions and challenges

Table 1	2020
Population, million	9.9
GDP, current US\$ billion	358.9
GDP per capita, current US\$	36252.5
School enrollment, primary (% gross) ^a	108.4
Life expectancy at birth, years ^a	78.0
Total GHG Emissions (mtCO ₂ e)	256.7

Source: WDI, Macro Poverty Outlook, and official data.
 (a) WDI for School enrollment (2017); Life expectancy (2019).

After a contraction of real GDP in 2020 due to pandemic related disruptions, the UAE's economy is showing signs of recovery in 2021 driven by a successful vaccination program and a reduction in OPEC+ oil production cuts. Over the medium term the recovery will be bolstered by trade and tourism as health concerns wane. The outlook is subject to risks from slower global recovery, renewed coronavirus outbreaks and oil sector volatility. The authorities continue to work towards UAE's long-run priority—diversification.

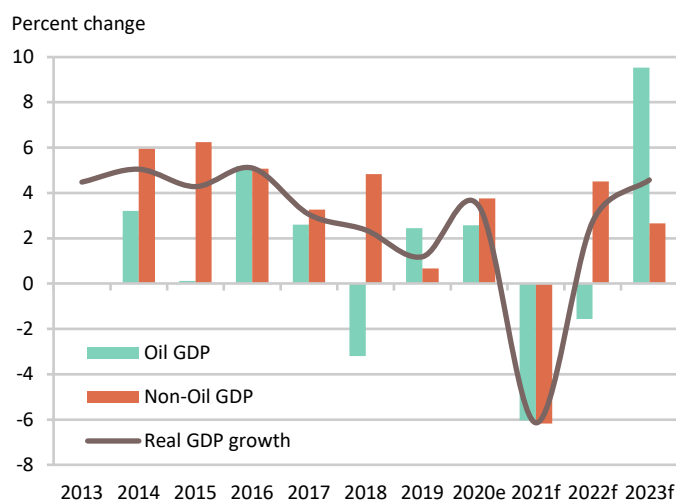
Economic transformation continues, but vulnerability remains. Over the past decade, the authorities have intensified efforts to diversify the economy away from hydrocarbons, successfully positioning the UAE as the region's global trade, financial and travel hub. While the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon activity as the engine of growth and the main source of government revenue, and thus the economy remains vulnerable to oil price volatility. Recent business regulation and investment reforms include the new Companies Law that allows 100 percent foreign ownership at the federal level in selected sectors, wide-ranging reductions in fees, consumer protections and improved bankruptcy provisions. However, economic departments at the emirate-level retain the power to approve business licenses. Short-term challenges related to the coronavirus pandemic compound concerns regarding UAE's government related entities (GRE's) and the protracted slump in the real estate sector. The ability of GRE's to meet their debt obligations is uncertain. Aggregate outstanding debt by Abu Dhabi's GRE's was U.S.\$41.8 billion in June 2019. Dubai's direct aggregate debt was US\$33.6 billion in June 2020 (29 percent of Dubai GDP) while the estimated GRE debt was US\$60.3 billion in 2018

(IMF). Almost US\$30 billion of debt will fall due in 2023, which is more than what matured during Dubai's debt crisis in 2009. Some of Dubai's contingent obligations include payment guarantee of US\$3 billion for the New Dubai World Facility, shortfall guarantees for obligations to contractors of US\$2.2 billion for Dubai Aviation City Corporation and US\$0.4 billion for Dubai Expo 2020. Meanwhile oversupply in the real estate and hospitality sectors has caused a protracted slump in Dubai's real estate—residential property prices have fallen for the past six years and are 30 percent below their 2014 peak. This structural problem of oversupply may be exacerbated following the Dubai Expo which is now expected to undershoot its original target of attracting 11 million visitors. While the authorities' mitigation measures have cushioned the impact of the pandemic on the economy, the UAE's near-term economic prospects depend on the recovery in global trade and global demand for oil as well as the risk of potential outbreaks of coronavirus variants. Continued diversification efforts will remain a key priority to maintain the UAE's dynamic comparative advantage in the face of competition from other GCC countries.

Recent developments

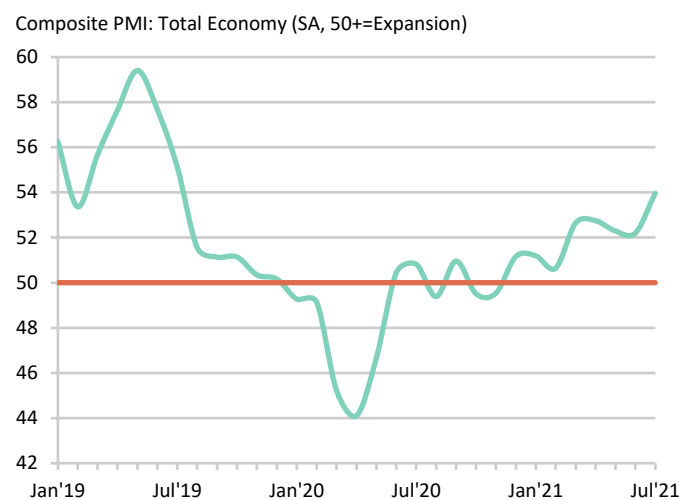
Economic recovery in 2021 appears underway. COVID-19 and its economic fallout led to a contraction of real GDP by 6.1 percent in 2020. Oil production declined by 9 percent in line with OPEC+

FIGURE 1 United Arab Emirates / Annual real GDP growth



Sources: UAE authorities and IMF and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Composite purchasing manager's index



Source: IHS Markit Purchasing Managers Survey.

production cuts. In 2021 a robust rebound in the non-hydrocarbon sector is evident. The Purchasing Manager's Index (PMI) registered positive growth in February 2021 and in July-August it averaged at the highest level in two years. The hydrocarbon sector also picked up pace as OPEC+ production quotas were eased; oil production went up by 6 percent in August compared to Q1-2021. The health situation is improving with daily new cases below 1,000 in September (on a 7-day rolling average basis) for the first time since 2020. The UAE is leading the world in the vaccine race and has begun offering booster shots. The successful vaccination drive, resumption of travel, relaxation of lockdowns, and large-scale monetary and fiscal measures have aided the recovery. The Central Bank extended some pandemic support measures, until 30 June 2022, including the collateralized AED50 billion Zero Cost Facility. Government finances continue to be strained. Fiscal outturns for the federal government in 2020 showed a deficit of 2.5 percent of GDP, compared with a surplus of 2.6 percent in 2019, due to reduced hydrocarbon revenue and fiscal mitigation measures. The consolidated deficit is estimated at 7.1 percent of GDP in 2020. Financing needs were mostly met

by international debt issuances at the emirate level, with total public debt estimated at 37 percent of GDP in 2021. Inflation in Q1-2021 continued its negative trend since 2019, albeit reduced, driven by lower prices for rents and energy compounded by the departure of expatriates (total population shrank by 2.3 percent in 2020). However, real estate prices that were depressed prior to 2020 due to oversupply of residential properties, are now showing an uptick in Abu Dhabi while in Dubai they continued to decline on average by 5.5 percent y/y. The current account balance dropped to 6 percent of GDP in 2020 from 8.5 percent in 2019 due to underperformance of both hydrocarbon and non-hydrocarbon exports mitigated by lower imports. However, a rebound is expected in 2021 and the UAE's external position remains strong, with official reserves equivalent to 5.9 months of imports (as of December 2020). Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the CBUAE, employment in March 2021 remained at the same level of December 2020, while salaries paid in Q1 2021 was higher than at the end of 2020 and higher than in February 2020

(the last pre-crisis month), as per CBUAE's Wage Protection System.

Outlook

The rapid roll-out of COVID-19 vaccines is expected to boost domestic spending and lead to a recovery in tourism. This coupled with a recovery in global trade, rising oil production and higher oil prices, will support recovery in the medium term (projected real GDP will average 3.4 percent in 2021-23). Authorities have taken steps to lure tourists to the country ahead of the World Expo, such as providing visas to fully vaccinated travelers, which is expected to provide a boost, albeit a milder one than previously projected, to the economy. As the OPEC+ oil production quotas are eased oil revenues will enable fiscal and external balances to recover to pre-pandemic levels by 2023. Accommodative monetary policy, fiscal stimulus and a rebound in domestic demand, will lead to a return of moderate inflation. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster non-hydrocarbon growth and create jobs in the private sector.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	3.4	-6.1	2.7	4.6	2.9
Private Consumption	6.1	10.0	-12.5	3.2	3.8	3.6
Government Consumption	-5.0	10.0	0.7	1.7	2.7	2.9
Gross Fixed Capital Investment	3.6	0.0	5.8	5.6	3.4	3.5
Exports, Goods and Services	11.5	-1.3	-7.0	7.5	5.9	4.8
Imports, Goods and Services	10.9	-5.5	-6.4	9.6	5.5	4.5
Real GDP growth, at constant factor prices	1.2	3.4	-6.1	2.7	4.6	2.9
Agriculture	5.4	3.8	6.9	3.8	4.6	4.9
Industry	1.8	2.6	-5.5	0.4	6.6	2.9
Services	0.6	4.2	-6.9	5.0	2.7	2.9
Inflation (Consumer Price Index)	3.1	-1.9	-2.1	-0.2	1.1	1.7
Current Account Balance (% of GDP)	9.3	8.5	6.0	6.5	7.7	9.1
Fiscal Balance (% of GDP)	1.2	-1.0	-7.1	-1.3	-1.0	0.5
GHG emissions growth (mtCO2e)	-2.4	3.3	-5.6	8.0	4.5	4.2
Energy related GHG emissions (% of total)	75.7	75.8	75.3	76.3	76.4	76.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.