UNITED ARAB EMIRATES

Table 1	2017
Population, million	9.4
GDP, current US$ billion	382.6
GDP per capita, current US$	40711
School enrollment, primary (% gross)[a]	110.9
Life expectancy at birth, years[a]	77.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2016)

Economic growth in the UAE decelerated to 0.8 percent in 2017 due to the OPEC + oil production cuts. Nevertheless, the oil price recovery has helped a reduction in the consolidated fiscal deficit in 2017 and the current account improved as non-oil exports increased. Real GDP growth is projected to gradually increase to 3.2 percent by 2020 as the OPEC+ oil production restrictions unwind and as authorities spend more heavily on infrastructure and look for stimulus from structural reforms.

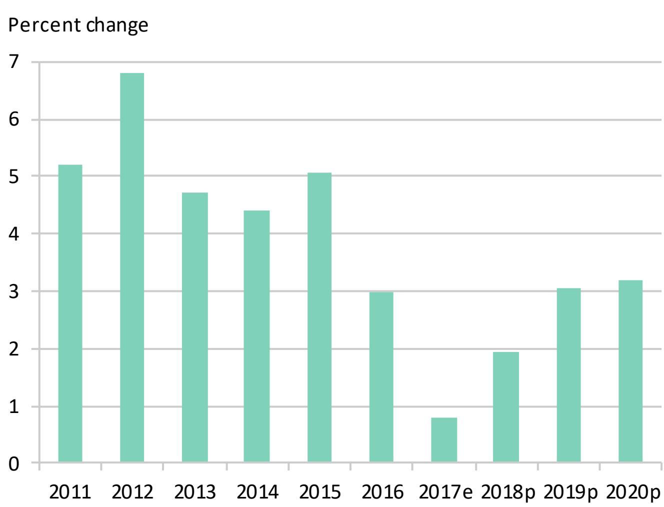
Recent developments

Real GDP growth in the UAE is estimated to have slowed considerably from 3.0 percent in 2016 to 0.8 percent in 2017. The 2.5 percent contraction in hydrocarbon GDP was offset by non-hydrocarbon GDP growth of 1.9 percent. Petroleum production fell by 3.5 percent, and real growth in services dropped by 0.5 pp (real estate growth fell by 4.2 percent). On the demand side, a contraction in private consumption and slowdown in gross fixed investment were offset by a marked rebound in government consumption compared to 2016. Inflation increased slightly in 2017 to 2.0 percent from 1.6 in 2016. Building on fiscal reforms that began in 2015 (fuel, electricity and water subsidy reform and the introduction of fees and excises on tobacco and sugary drinks), the consolidated fiscal deficit fell from 2.4 percent of GDP in 2016 to 1.8 percent of GDP in 2017 as oil prices rebounded increasing revenues by 0.5 percent of GDP. Spending declined only slightly (0.2 percent of GDP). At the outset of the oil shock, the deficit was domestically financed. However, starting 2016 Abu Dhabi turned to sovereign wealth fund transfers and debt issuance (US$5 billion in bonds issued in May 2016, and US$10 billion in October 2017). The current account surplus is estimated to have improved from 1.4 percent of GDP in 2016 to 4.6 percent of GDP in 2017 through increased non-oil exports, while imports remained relatively unchanged.

The Central Bank of the UAE continued to gradually tighten monetary policy in line with the US Fed interest rates hikes, with six consecutive hikes since December 2016. The banking sector continued to adjust to lower growth and high interest rates. Private sector credit growth fell, from 3.4 percent y/y in June to 3.2 percent in July and increased liquidity holding requirements for banks has limited the supply of liquidity. The NPL ratio has stopped declining since 2015, and rescheduled loans have increased. The real estate market continues to face headwinds due to oversupply especially given the tapering in expatriate population growth, government's fiscal restraint, higher interest rates, and stronger exchange rate via the dollar peg.

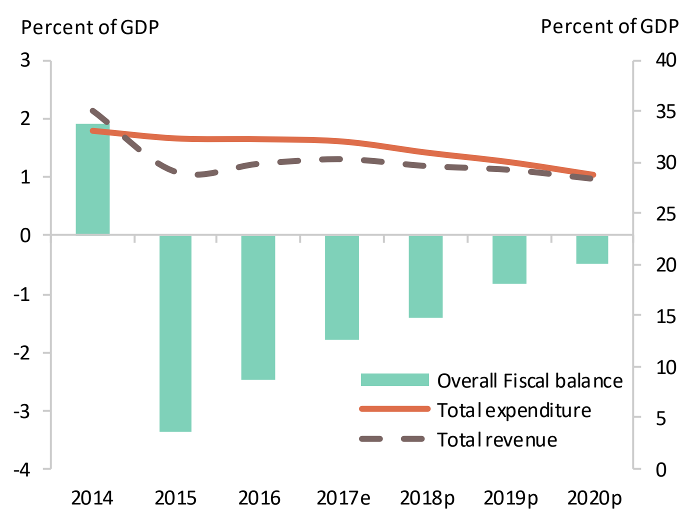
Poverty among nationals is not a serious concern. Harmonization of statistical agendas across the Emirates for country level welfare measurement is yet to be accomplished. Results from the 2014-15 household survey show the average consumption for Emirati household in Dubai was US$1,477 per-capita per month (US$1,293 for non-Emirati households, US$734 for collective households and US$511 for labor camps). Family expenditure is lower in the northern Emirates. According to the ILO unemployment is very low (2.5 percent in 2017) and 81 percent of the working-age population is employed. However, youth unemployment (ages 15-24) is higher, at 7.7 percent. The authorities recognize the potential for economic dissatisfaction in the middle class and have increased social allocations to improve welfare, housing affordability, education and healthcare provision for nationals.

FIGURE 1 United Arab Emirates / GDP growth rate



Sources: UAE authorities and IMF/World Bank Staff estimates.

FIGURE 2 United Arab Emirates / Government operations



Sources: UAE authorities and IMF/World Bank Staff estimates.

Outlook

Real GDP growth is projected to rise to 2 percent in 2018 driven by a revised OPEC+ deal resulting in increased oil production and by a boost in the non-oil sector. Economic growth is forecast to reach 3.2 percent by 2020 through the unwinding of the OPEC+ agreement and the government's economic stimulus plans as well as impetus from hosting Expo 2020. Inflation is projected to rise to 4.2 percent in 2018, before moderating to 2.5 percent by 2020 as the impact of the VAT dissipates.

The fiscal deficit is projected to gradually reduce from 1.4 percent of GDP in 2018 to 0.5 percent of GDP by 2020 driven by higher oil prices, the introduction of excise duties and the VAT. The current account surplus is expected to improve over the medium term, but elevated imports related to infrastructure development and the pattern of growth will limit the size of the current account surplus below what a classic model of financial saving of hydrocarbon rents would suggest.

The period of sluggish growth since 2014 has prompted various "stimulus" initiatives, especially focused on maintaining the UAE as a regional economic hub. The federal government announced its intention to allow non-GCC nationals 100 percent foreign ownership of companies, up from 49 percent. Efforts to reduce the cost of business include replacement of bank guarantees for private-sector labor with a low-cost insurance policy, and an overhaul of visa requirements to attract skilled professionals. Dubai also aims to incentivize SMEs and FDI by liberalizing regulations. Abu Dhabi and Dubai have launched initiatives to reinvigorate the event/ destination model; Dubai made a US$7 billion allocation for Expo 2020 related infrastructure, while Abu Dhabi completed the Louvre Abu Dhabi project to stake its claim as a tourist destination. A joint vision has been agreed upon between the UAE and Saudi Arabia, signaling the increasing prominence of this bilateral relationship within the GCC.

Risks and challenges

The main economic challenge confronting the UAE relates to the country's ability to adapt its successful diversification model to increasing competition among services hubs. Further economic diversification and private sector development will require deepening labor market and education reforms to generate productivity gains especially for nationals and in previously sheltered sectors. Manufacturing, trade, transport and tourism dynamics continue to be influenced by global and regional developments, which remain subject to uncertainty. Coping with these developments requires a combination of flexible markets/policies and fiscal buffers.

Key risks to the outlook pertain to the outbreaks of trade protectionism, headwinds to banking sector activities, disincentives to immigration from higher tax burden on foreigners, and regional instability, which could impact tourism, weaken trade and asset prices. These risks are particularly relevant for Dubai given its role as a major trade, financial, and logistics center. A faster rise in U.S. interest rates or higher financial market volatility could increase borrowing costs for banks and Government Related Entities (GREs) while the Expo 2020 also presents risks related to overcapacity, property prices and debt. Large investment projects, if not implemented prudently, may create additional macro-financial risks for GREs and banks, most of which are government-owned. Symptomatic of these risks is the recent downgrade by Standard and Poors of two Dubai GREs.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	5.1	3.0	0.8	2.0	3.0	3.2
Private Consumption	-19.1	1.6	-1.3	2.8	3.2	3.3
Government Consumption	-3.0	-1.1	3.4	3.6	3.7	3.6
Gross Fixed Capital Investment	4.3	8.8	0.6	3.8	4.0	4.2
Exports, Goods and Services	5.2	3.4	0.5	1.3	3.4	3.7
Imports, Goods and Services	-5.7	2.7	-1.0	1.4	3.2	3.6
Real GDP growth, at constant factor prices	5.1	3.0	0.8	-0.2	3.0	3.2
Agriculture	1.3	3.4	3.0	2.8	3.3	3.2
Industry	5.3	3.1	-1.7	1.8	3.6	3.8
Services	5.0	2.9	2.4	2.1	2.6	2.8
Inflation (Consumer Price Index)	4.1	1.6	2.0	4.2	2.5	2.5
Current Account Balance (% of GDP)	4.9	1.4	4.6	5.3	5.1	4.4
Fiscal Balance (% of GDP)	-3.5	-2.4	-1.8	-1.4	-0.8	-0.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.