UNITED ARAB EMIRATES

Table 1	2019
Population, million	9.7
GDP, current US$ billion	421.1
GDP per capita, current US$	43510.0
School enrollment, primary (% gross)[a]	108.4
Life expectancy at birth, years[a]	77.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2017); Life expectancy (2018).

UAE's economy will contract in 2020 due to the disrupted engines of growth from COVID-19 pandemic containment efforts, OPEC+ oil production cuts, lower oil prices, reduced global oil demand, and disruption in global supply chains. The government continues to provide mitigation support in response to the pandemic as businesses strive to recover, worsening the consolidated fiscal deficit. The medium-term non-hydrocarbon outlook remains uncertain and hinges on a rebound in tourism and trade following a global recovery.

Recent developments

The UAE's non-hydrocarbon (non-HC) economy was already weakening prior to the pandemic as it faced persistently weak business sentiment and a prolonged real estate downturn. Overall GDP contracted by 0.3 percent in Q1-2020, with non-HC GDP contracting by 1.9 percent y-o-y. The purchasing managers' index (PMI) had slipped to 49.1 in February (below 50 indicates negative growth) for the first time since the crisis in 2009. On the other hand, HC GDP increased by 3.3 percent as OPEC+ cuts ended.

In the wake of COVID-19, authorities aggressively implemented a containment strategy with strict lockdowns, postponed major events such as World Expo2020, imposed social distancing, and large-scale testing. These measures hit tourism, with international hotel guests in Abu Dhabi falling by 47 percent y-o-y in March. DP World, the state-owned ports operator, recorded a fall of 6.8 percent in freight at Jebel Ali. As a global logistics hub, disruptions in supply chains weighed heavily on UAE's non-oil sector. The PMI declined rapidly to an all-time low of 44.1 in April 2020, increased to 50.8 in July as the economy re-opened but fell again below 50 in August, indicating a fragile recovery.

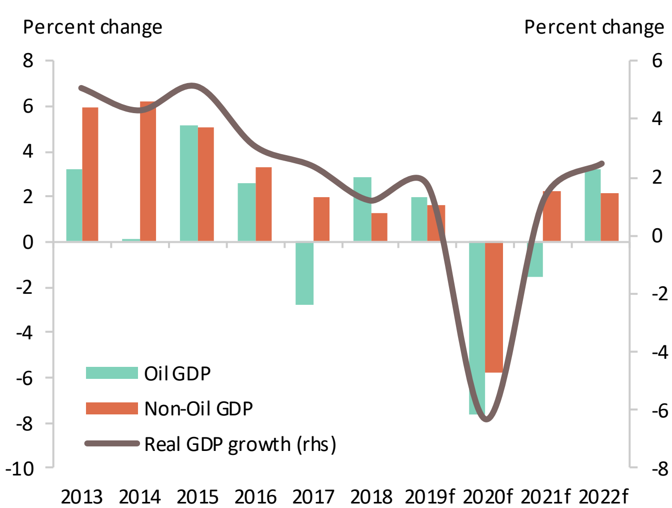
The authorities announced AED 26.5 billion (US$7.2 billion or 1.8 percent of GDP) in combined fiscal measures. The federal government approved measures worth AED 16 billion (US$4.4 billion), Dubai launched an AED 1.5 billion (US$0.4 billion) stimulus package to support businesses by reducing costs and simplifying procedures, targeting tourism, retail, trade and logistics and Abu Dhabi approved an AED 9 billion package. The Central Bank (CBUAE) announced a AED 256 billion (US$70 billion) package to maintain bank liquidity.

The overall fiscal balance is estimated to have turned into deficit at 1.1 percent of GDP in 2019 as revenue growth is estimated to be modest with low oil prices compounded by fee reductions. Market access remains ample as Abu Dhabi sold US$7 billion in bonds in April 2020, and then reopened the issue to add US$3 billion in May plus another US$5 billion in August. Sharjah borrowed US$1 billion sukuk in July and Dubai borrowed US$2 billion in September despite high government-related enterprise (GRE) debt.

CBUAE cut its policy rate twice in March 2020, by a total of 125 basis points amid concerns over the coronavirus. While domestic liquidity growth was muted in 2019 deposits increased in Q1-2020 y-o-y by 5.9 percent, driven by GREs and private sector. Credit growth increased by 5.6 percent, supported by GRE lending. Inflation continues to be negative with Q2-2020 CPI at -2.3 percent, as tradables, non-tradables and housing prices declined.

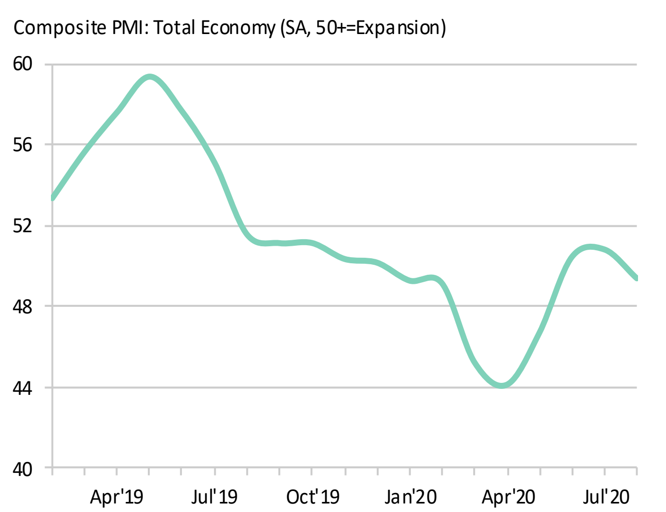
Information from representative household and labor surveys is sparse. Job and income losses due to COVID-19 have disproportionately affected foreign workers, some of whom have left the country, whereas Emiratis were more likely to receive support through public employment and other benefits. According to the CBU-

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

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



Sources: IHS MARKIT PURCHASING MANAGERS SURVEY.

AE, private sector employment grew 2 percent in Q1-2020 y-o-y, driven by a 7.1 percent increase in employment in real estate and business services (which represent 7 percent of total private employment). During Q1-2020, the construction and services sectors represented more than half of all private employment (at 31.9 and 21.6 percent, respectively), and while services grew 1.2 percent y-o-y, employment in construction decreased by 3.2 percent. However, the effects of the pandemic will be captured staring Q2.

Outlook

Growth in 2020 is projected to contract by 6.3 percent due to the fallout from COVID-19 and lower oil production following the revitalization of the OPEC+ agreement. Over the medium term, and dependent on the speed of global recovery, growth is expected to reach to 2.5 percent by 2022; supported by the government's mitigation and recovery plans, higher oil prices and production capacity, improved business sentiment and a boost from Dubai Expo2021. The UAE-Israel normalization deal could expand opportunities as it also involves trade/technology cooperation. Modest inflation will return as growth rebounds.

The consolidated fiscal deficit is expected to widen in 2020 as revenues take a hit from the oil price slump and as other revenues decline due to weak economic activity; various emirates have announced fee cuts to support the private sector, which is one of the few discretionary quasi-tax instruments available. Spending will increase to mitigate the pandemic's impact. The deficit will be financed through international debt, domestic financing and sovereign wealth withdrawals.

While the consolidated fiscal deficit is expected to slowly improve as oil prices rebound and the effects of the pandemic abate, balance sheet pressures in the broader public sector continue. An intensified focus on sustainability of GRE debt and strengthening GRE contribution to diversification has led to steps towards corporate consolidation. Notable sectors with streamlining and strengthening around core competitiveness areas include ports (e.g., delisting of DP World from Nasdaq Dubai and combination of major Abu Dhabi entities into the ADQ holding company), property (e.g., Nakheel), and the financial sector (reflecting scope for efficiencies among the largest banks).

The current account will swing to deficit in 2020 due to lower oil prices, global trade slowdown, and tourism receipts and then modestly rebound, reflecting the narrow upside for oil prices and the high import content of spending.

Risks and challenges

Reinvigorating key sectors that were hit hard by the pandemic while maintaining commitment to infrastructure spending is the UAE's immediate challenge. While fiscal policy priority is to support growth in the short term, progress needs to be made in strengthening fiscal policy frameworks and coordination across the emirates, avoiding procyclical spending and improve fiscal risk management, as well as structural reform to boost labor productivity.

A key risk to the outlook is the resurgence of COVID-19 cases and the return of containment measures, in addition to the risk of further volatility in oil prices. Dubai GREs were already facing debt service burden prior to Covid-19 and this is now comingled with the adverse shocks to its dynamic comparative advantage in trade logistics, aviation, and tourism. Regional geopolitical uncertainty is evolving with UAE-Israel normalization, but for now, the pandemic effects will dominate the outlook, explaining the focus on large-scale testing and vaccine development (in cooperation with China).

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.4	1.2	1.7	-6.3	1.2	2.5
Private Consumption	9.4	6.1	13.4	-4.9	2.3	2.2
Government Consumption	11.7	-5.0	14.3	3.2	2.1	2.3
Gross Fixed Capital Investment	-17.3	3.6	0.0	-4.5	2.5	2.1
Exports, Goods and Services	-2.5	11.5	-2.9	-7.3	3.6	3.9
Imports, Goods and Services	3.0	10.9	3.6	-4.5	2.5	4.2
Real GDP growth, at constant factor prices	2.4	1.2	1.7	-6.3	1.2	2.5
Agriculture	3.3	5.4	2.7	-5.0	3.4	2.1
Industry	-0.2	1.8	2.1	-7.2	0.3	2.6
Services	5.0	0.6	1.2	-5.5	2.1	2.3
Inflation (Consumer Price Index)	2.0	3.1	-1.9	-1.6	1.2	2.0
Current Account Balance (% of GDP)	7.1	9.3	6.5	-1.5	2.9	4.9
Fiscal Balance (% of GDP)	-1.6	1.2	-1.0	-8.0	-0.5	1.7

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