UNITED ARAB EMIRATES

Table 1	2021
Population, million	10.0
GDP, current US$ billion	464.9
GDP per capita, current US$	46490.0
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.0
Total GHG Emissions (mtCO2e)	205.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The UAE led the world with a successful vaccination program, which, together with the gradual phasing out of OPEC+ oil production cuts and monetary and fiscal stimulus, led to a strong economic recovery in 2021. Over the medium term, the recovery will be bolstered by higher oil prices triggered by the economic consequences of the war in Ukraine. The authorities continue to make progress on fiscal and economic diversification. Risks include renewed coronavirus outbreaks, tightening global financial conditions, and oil sector volatility.

Key conditions and challenges

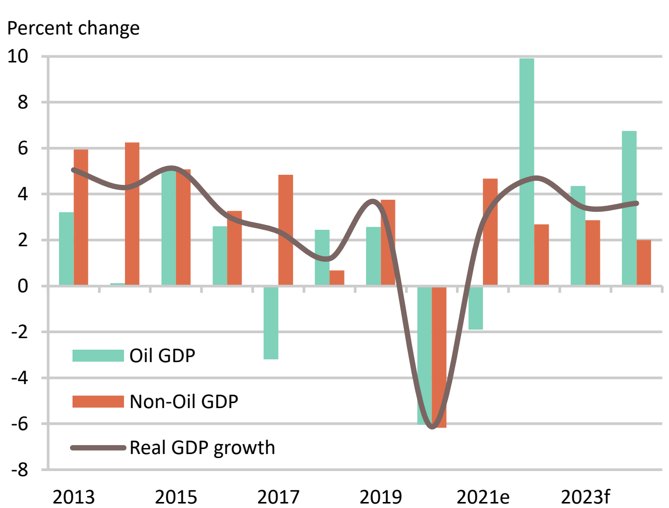
Over the past decade, the authorities have intensified efforts to diversify the economy, successfully positioning the UAE as the region's trade, financial and travel hub. Through economic visions and plans, the UAE aims to diversify the economy and build on its reputation as a business hub, while promoting environmental sustainability. However, the UAE will increasingly face greater competition for foreign investment, especially from Saudi Arabia and Qatar. Moreover, 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. Nevertheless, authorities continue to press forward to enhance its business environment through, for instance, improved bankruptcy provision and easier access to foreign investment and workers.

Steps towards diversifying public revenues are also underway with the recent introduction of a corporate income tax (CIT) effective in 2023—a major shift for a country historically known for low taxation. This may provide Dubai with greater resources if corporate debt problems resurface. The UAE's government related entities (GRE's) remain a significant source of vulnerability. The ability of GREs to meet their debt obligations is uncertain. Abu Dhabi's GRE debt increased by 30 percent from 2017 to US$64.2 billion in 2020, while Dubai's GRE debt was US$51 billion in 2020 (IMF). Despite changes in the composition of debt, i.e., a shift from loans to bonds and lengthened maturity profiles, Abu Dhabi and Dubai GREs face short-term rollover risks with a combined US$68.8 billion debt in 2021-23. GRE debt servicing capacity is low and GRE risks could be exacerbated by a prolonged pandemic and/or tightening global financial conditions. Contingent fiscal risks from GREs should be closely monitored and pre-emptively mitigated and GRE efficiency and productivity must be improved.

Recent developments

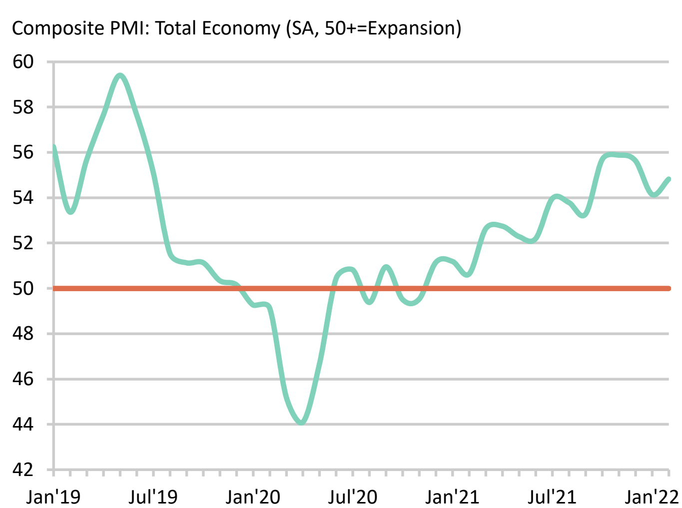
Real GDP growth is estimated at 2.8 percent in 2021 following a contraction of 6.1 percent in 2020. The recovery was aided by a successful vaccination program, and fiscal and monetary stimulus measures that helped the rebound of domestic consumption. Dubai quarterly GDP registered a growth of 6.3 percent Y-o-Y in Q3-2021. In Dubai hotel occupancy increased, owing mostly to the resumption of international travel. The Purchasing Manager's Index (PMI) for October 2021 registered its highest reading since June 2019, with a score of 55.7 supported by increased activity related to Expo 2020 and loosening of COVID-19 restrictions. The recovery is expected to strengthen in 2022 despite a short-term dampening of sentiment due to the Omicron variant as indicated by a

FIGURE 1 United Arab Emirates / Annual real GDP growth



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.

slight dip in January's PMI. The hydrocarbon sector also picked up pace as OPEC+ production quotas were eased; oil production went up by 8 percent in Q4-2021 compared to Q2-2021. The health situation is improving with daily new cases below 800 in February 2022 (on a 7-day rolling average basis) for the first time since 2020 and over 95 percent of the population is fully vaccinated.

Government finances improved in 2021; fiscal outturns for the federal government showed a return to a surplus (estimated at 2.4 percent of GDP) from a deficit of 2.5 percent of GDP in 2020. The consolidated deficit is estimated to have improved from 5.4 percent of GDP in 2020 to 0.5 percent in 2021. Financing needs were mostly met by international debt issuances at the emirate and federal levels.

Inflation returned in 2021 after two consecutive years of deflation, owing to rising global food and energy prices, higher local property prices, and a continuing recovery in domestic demand. Residential real estate market continues to improve, with prices in Abu Dhabi registering Y-o-Y gains for the third consecutive quarter in five years, while declining in Dubai at a marginal pace.

The current account balance improved to 6.8 percent of GDP in 2021 in tandem with improved performance of both hydrocarbon and non-hydrocarbon exports mitigated by higher imports.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to data from the UAE Central Bank, employment in Q3 2021 remained at the same level of the previous quarter and above pre-pandemic levels.

Outlook

The economic consequences of the war in Ukraine have triggered an oil price surge which will have positive implications for the UAE economy and its fiscal and external balances. However, tourism and the non-oil economy might face headwinds. Tourism and travel account for almost 20 percent of Dubai's GDP, and their revival is a policy priority. Russia became the third-largest source market for Dubai's travel and tourism sector in 2021, while Ukrainian tourists are among the top 20, which presents a downside risk for its non-oil recovery.

Recent efforts to deepen equity markets, encourage technology businesses and boost the industrial sector coupled with a recovery in global trade, rising oil production and higher oil prices, will support recovery in the medium term. Reforms to improve the business environment such as the new labor code will increase labor market flexibility and attract expats. As OPEC+ quotas are eased and with higher oil prices and the introduction of CIT, fiscal balances will receive a boost. A robust expansion of trade aided by a renewed push by the authorities to increase reexports to Asia and Africa will expand the current account surplus. Higher energy prices will increase inflation in 2022 but easing supply bottlenecks and gradual monetary policy tightening, in line with the US Fed's hike and continuing tightening cycle, should soften inflation over the medium term.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.4	-6.1	2.8	4.7	3.4	3.6
Private Consumption	10.0	-12.5	5.1	3.8	3.7	4.0
Government Consumption	10.0	0.7	1.7	2.7	2.9	2.9
Gross Fixed Capital Investment	0.0	5.8	3.9	3.4	3.9	4.0
Exports, Goods and Services	-1.3	-7.0	6.7	5.9	5.1	5.2
Imports, Goods and Services	-5.5	-6.4	8.8	5.4	4.5	4.5
Real GDP growth, at constant factor prices	3.4	-6.1	2.8	4.7	3.4	3.6
Agriculture	3.8	6.9	3.8	4.6	4.9	4.9
Industry	2.6	-5.5	0.4	6.6	3.5	2.9
Services	4.2	-6.9	5.1	2.8	3.1	4.2
Inflation (Consumer Price Index)	-1.9	-2.1	0.2	2.2	1.9	1.7
Current Account Balance (% of GDP)	8.5	6.0	6.8	13.7	11.8	11.3
Fiscal Balance (% of GDP)[a]	-1.0	-5.4	-0.5	4.4	5.0	2.7
GHG emissions growth (mtCO2e)	-2.1	-9.4	-1.6	0.6	0.1	0.4
Energy related GHG emissions (% of total)	71.7	69.9	69.2	68.6	67.7	67.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Consolidated fiscal balance.