UNITED ARAB EMIRATES

Table 1	2018
Population, million	9.5
GDP, current US$ billion	414.2
GDP per capita, current US$	43419
Life expectancy at birth, years[a]	77.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Growth recovered to 1.7 percent in 2018 boosted by higher oil production as the OPEC+ production cuts were eased. Fiscal easing is underway to facilitate nonoil growth recovery, putting pressure on public finances. Oil prices plunged in early 2019 which along with renewed OPEC oil production cuts are expected to dampen further growth recovery in 2019. The medium-term outlook will be influenced by the global economic slowdown and the UAE government's commitment to structural reforms that reinvigorate its diversification model.

Recent developments

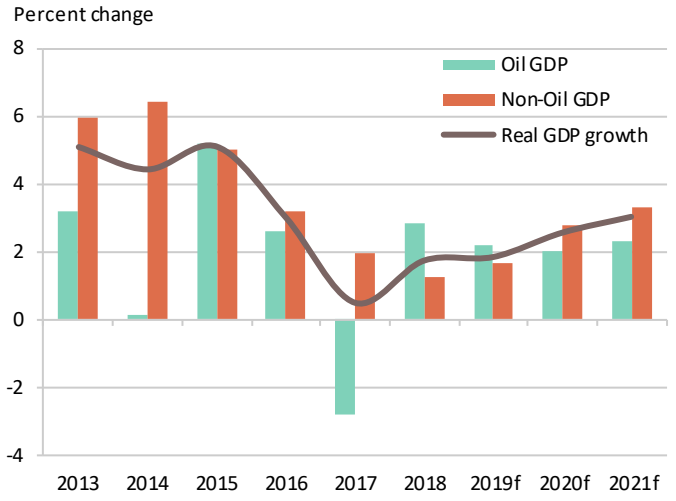
The economic growth recovery in 2018 was supported by a rise in net exports as the OPEC+ production cuts were eased and as imports decreased. Improvements in economic sentiment indicators such as the Purchasing Managers' Index (PMI) indicate a positive non-oil growth momentum early in Q1-2019. However, several indicators point to weakening growth in H1-2019. The hydrocarbon sector weakened due to a 7 percent decrease in oil production in line with the renewed OPEC+ agreement. The slowdown in the real estate sector continues due to oversupply— Q1-2019 property prices significantly declined in Dubai and Abu Dhabi by 9.1 percent and 7 percent respectively, from last year. Oil prices also declined early this year, which in addition to the continued dampening of the real estate sector form an overhang for the remainder of 2019. Another indicator of a weak 2019 is the fall in outward personal remittances by 35.1 percent in Q1. As such, prospects for further recovery in 2019 are dampened.

The overall fiscal deficit is estimated to have turned into a surplus of 1.2 percent of GDP in 2018 as revenues increased from higher oil prices and the newly introduced VAT. According to official announcements, VAT revenue amounted to US$7.4bn (1.7 percent of GDP) in 2018, of which 70 percent will to go to the emirates and 30 percent to the federal government. The recent deficits were partly financed through external debt issuances (US$5 billion in 2016, and US$10 billion in 2017) by some emirates. In 2018 a law allowing the federal government to issue sovereign debt was passed for the first time, enabling the northern emirates to benefit from higher sovereign credit rating and lower borrowing costs. The current account remains in surplus.

Monetary policy tracks the US to maintain the dollar peg; which led to higher interest rates. The banking sector showed signs of recovery in liquidity. In Q1-2019, deposits declined mildly while deposits of the private sector increased by 2.2 percent. Lending to the Government increased by 8.8 percent, while lending to the private sector grew by 3.6 percent. Inflation increased slightly due to the VAT to 3.1 percent in 2018 from 2 percent in 2017. But in 2019, deflation is likely reflecting the decline in the tradeable and non-tradable prices and fading effects of VAT implementation.

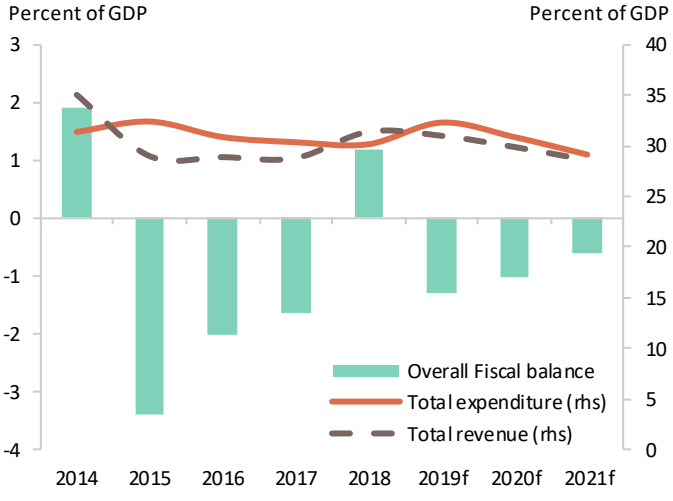
According to the International Labor Organization (ILO), the unemployment rate in UAE is low (2.2 percent in 2018), while 83 percent of the working-age population participated in the labor force in 2018. However, unemployment among the young population (aged 15-24) tends to be higher, at 6.9 percent, and disproportionately affects young women (aged 15-24), who face a 12.8 percent unemployment rate, more than twice the male unemployment rate (5.0 percent) for the same age group. Understanding of poverty and inequality in the UAE is limited due to limited access to information from representative household surveys. Previous

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

FIGURE 2 United Arab Emirates / General government operations



Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, IMF WEO April 2019.

surveys show little evidence that poverty for nationals is a concern. However, a recent household survey was launched in 2019 covering both Emirati and non-Emirati populations.

Outlook

Growth is expected to recover over the medium term. In 2019 however, the pace of recovery will be muted by OPEC+ oil production cuts that have been extended until March 2020. Growth is forecast to reach 3 percent by 2021 supported by the government's economic stimulus plans and impetus from hosting Dubai Expo 2020. However, trade, transport and tourism dynamics will continue to be influenced by the projected global economic slowdown.

The Abu Dhabi and federal budgets are expansionary in 2019, but less so in Dubai as most of the Expo-2020 infrastructure projects are complete. While 2019 revenue growth is expected to be modest with low oil prices compounded by fee reductions, the loss may be mitigated by VAT revenue. Overall, the fiscal balance is expected to return to deficit in 2019 but will gradually improve over the medium term. Abu Dhabi recently sold US$10 billion in bonds to finance the deficit, its first international offering since 2017.

Beyond 2019 the current account surplus is projected to average 6 percent supported by higher export volume from Abu Dhabi's oil capacity improvement, and projected growth in the services account from tourism related to mega-projects, mitigated by rising imports from higher consumption.

The UAE continues to implement significant structural reforms that began in 2014 to maintain its status as a regional economic hub. In 2019, the UAE opened up 122 economic activities to 100 percent foreign ownership outside free zones, excluding oil, gas and banking. Bank guarantees for labor were replaced with low-cost insurance policy and the new Permanent Residency Scheme aims to boost investment by allowing longer visas for skilled expats.

Risks and challenges

Compared to its GCC neighbors, the UAE economy is relatively diversified but still hinges on regional oil-driven liquidity and intermediation. Volatility in oil prices will dampen growth in the real estate sector which continues to face headwinds. Key fiscal challenges include raising spending efficiency and improving management of fiscal risks. Further economic diversification will require deepening labor-market and education reforms to enhance productivity.

Key risks to the outlook include a continued global slowdown, trade wars and other trade/payment disruptions, financial volatility, and disincentives to immigration with increased tax burden on foreigners. Increasing tensions in the region could deter new investments.

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

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	3.0	0.5	1.7	1.8	2.6	3.0
Private Consumption	1.6	0.9	-0.5	0.8	2.3	2.8
Government Consumption	-1.1	21.2	-1.6	1.1	2.6	2.8
Gross Fixed Capital Investment	8.8	-8.2	-0.4	0.5	2.8	3.9
Exports, Goods and Services	3.4	2.9	0.8	2.9	3.3	3.6
Imports, Goods and Services	2.7	3.0	-3.2	2.3	3.4	3.8
Real GDP growth, at constant factor prices	3.0	0.5	1.7	1.8	2.5	3.0
Agriculture	3.4	3.3	7.1	3.8	3.9	3.9
Industry	2.3	-1.1	2.0	2.0	2.5	2.7
Services	3.7	2.0	1.4	1.6	2.6	3.3
Inflation (Consumer Price Index)	1.6	2.0	3.1	-1.8	1.3	1.5
Current Account Balance (% of GDP)	3.7	7.3	9.1	7.4	6.2	5.7
Fiscal Balance (% of GDP)	-2.0	-1.6	1.2	-1.3	-1.0	-0.6

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