UNITED ARAB EMIRATES

Non-oil growth is estimated to remain resilient in 2017 while OPEC-mandated oil production cuts limit oil growth. However, in the medium term firmer oil prices, a rebound in global trade and easing of fiscal consolidation are expected to strengthen economic activity, especially as investments ramp up ahead of Dubai's Expo 2020. This rebound is faced with several downside risks including lower oil prices and tighter global financial conditions.

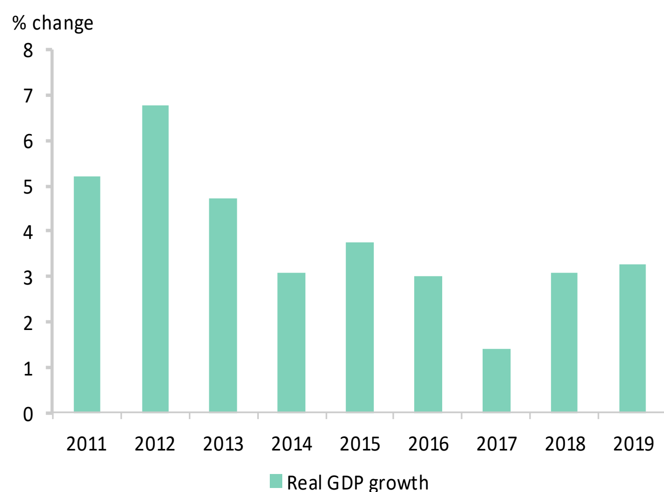
Recent developments

Overall real GDP growth is estimated to further moderate to 1.4 percent in 2017, down from 3 percent in 2016. Hydrocarbon GDP growth is estimated to contract by 2.9 percent in 2017 from 3.8 percent in 2016 in compliance with the OPEC agreement to cut supply. The non-oil sector is estimated to grow by 3.3 percent in 2017 reflecting higher public investment and a pickup in global trade. The average rate of inflation increased slightly to 2.2 percent in 2017 from 1.6 percent in 2016 partly reflecting utility and gasoline price adjustments, and higher imported inflation, in addition to an uptick in activity. The current account surplus is expected to improve to 2.6 percent of GDP this year mainly owing to rising nonoil exports.

Fiscal consolidation efforts in the emirates began in 2015 and continued at a slower pace in 2016. Electricity and water tariffs were increased, fuel subsidies were removed, and capital transfers to Government Related Entities (GREs) were reduced. Despite these measures, the decline in hydrocarbon revenues has pushed the consolidated fiscal balance down from a comfortable surplus of 10.4 percent of GDP in 2013 to 4.3 percent deficit in 2016.The deficit was financed through withdrawals from the sovereign wealth funds, bank borrowing and, increasingly, by foreign capital raising. More recently the scaling back of capital transfers to GREs bore the brunt of spending cuts. The decline in hydrocarbon revenues was partially offset by increased dividends from GREs and higher fees. For example, Dubai increased parking fees and introduced fees for hotels and airport passengers. Abu Dhabi introduced a 4 percent municipality fee on hotel bills and a 3 percent municipality fee on the annual value of expatriates' rental contracts. This is expected to improve the fiscal deficit slightly to 3.2 percent of GDP in 2017. The current account surplus also fell from 19.1 percent of GDP in 2013 to an estimated 2.6 percent of GDP in 2017 owing to rising nonoil exports.

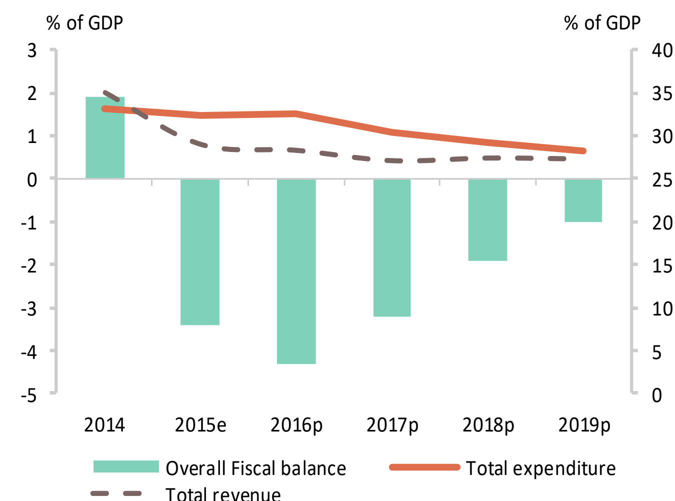
Monetary policy continues to track the US and growth in bank deposits is trending upwards. The Central Bank continues to maintain the peg to the US Dollar, and thus mirrored the US Federal Reserve movements—the interest rate on certificates of deposit were raised three times since December, by 75 basis points in total to 2 percent. Growth in bank deposits continues to trend upward, logging a growth rate of 7.1 percent y/y in April, surpassing lending growth for the first time in two years. Growth in broad money supply (M2) gradually improved—from 4.4 percent y/y in March to an over-two-year high of 5.9 percent y/y in April. After a sharp decline in 2015 amid tighter regulations, higher housing supply and risk aversion, Dubai's residential property prices have begun to stabilize. In another positive development, Moody's upgraded its outlook for UAE from negative to stable in May 2017 citing an effective policy response to the low oil prices and improved economic performance.

FIGURE 1 United Arab Emirates / Annual GDP growth rate (percent per annum)



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

FIGURE 2 United Arab Emirates / General government operations (in percent of GDP)



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

Each Emirate has an independent statistics agency, and while the federal-level statistical bureau was established in 2009, the harmonization of statistical agendas for a country-level welfare measurement is yet to be accomplished.

Outlook

Beyond 2017, overall GDP growth is expected to recover to above 3 percent in the medium term. Non-oil growth is projected to rebound (i) as the expected improvement in oil prices and its positive effects on confidence and financial conditions dampen the effects of fiscal consolidation; and (ii) as megaproject implementation ramps up ahead of Dubai's hosting of Expo 2020—expected to draw in many visitors, boosting private consumption and services exports. Real oil GDP growth is projected to recover in 2018 and continue to improve over the medium term. The VAT is not expected to adversely affect growth significantly, but will increase revenues by 1 percent of GDP (according to the Minister of Economy). The real estate market is reported to expect headwinds because of rising supply, government's fiscal restraint, higher interest rates, and a stronger exchange rate. Inflation is projected to rise to 2.9 percent in 2018 due to the VAT but is projected to moderate thereafter. Rent inflation is expected to remain low if supply continues to increase and demand remains subdued. The current account is projected to improve to 3.8 percent by 2022, as oil revenues rise with increased oil production, complemented by nonoil exports and tourism.

The diplomatic rift with Qatar is not expected to affect the economic outlook for the UAE significantly. The direct impact on the UAE economy through airline traffic, tourism, real estate investment, and the financial sector is expected to be limited as trade with Qatar accounts for less than 1 percent of the UAE's total trade.

Risks and challenges

The outlook is expected to improve over the medium term, but risks are skewed towards the downside.

Further declines in oil prices, for instance, due to a faster recovery of the US shale production or reduced compliance with OPECs oil production cuts, could reduce fiscal revenues, and consequently investment, and confidence. Negative spillovers from other oil exporters could impact tourism, weaken trade and asset prices, while increased issuance by others to finance deficits could raise costs of funding. A faster rise in U.S. interest rates or higher financial market volatility could increase borrowing costs for banks and GREs, potentially affecting liquidity in the domestic banking system. Contingent liabilities continue to be a risk and if megaprojects are not managed prudently, risks for GREs, banks, and sovereigns would rise. The Expo 2020 also presents risks related to overcapacity, property prices and debt.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	3.1	3.8	3.0	1.4	3.1	3.3
Private Consumption	25.3	-12.0	2.1	1.0	3.2	3.5
Government Consumption	5.8	16.6	-0.9	-0.5	2.5	2.5
Gross Fixed Capital Investment	8.3	10.6	3.0	2.8	7.9	10.3
Exports, Goods and Services	0.2	3.4	1.3	2.5	4.0	4.0
Imports, Goods and Services	12.3	-1.2	1.7	3.0	3.2	3.2
Real GDP growth, at constant factor prices	3.1	3.8	3.0	1.4	3.1	3.3
Agriculture	1.9	3.1	3.0	2.0	3.0	3.2
Industry	1.6	4.6	2.3	2.1	2.3	3.0
Services	4.8	2.8	3.8	0.6	4.0	3.6
Inflation (Consumer Price Index)	2.4	4.1	1.6	2.2	2.9	2.5
Current Account Balance (% of GDP)	13.3	4.7	2.4	2.6	2.7	2.9
Fiscal Balance (% of GDP)	1.9	-3.4	-4.3	-3.2	-1.9	-1.0

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: e = estimate, f = forecast.