UNITED ARAB EMIRATES

Table 1	2020
Population, million	9.9
GDP, current US$ billion	345.8
GDP per capita, current US$	34961.8
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).

COVID-19 and its economic fallout entailed a major shock to the UAE's open economy. Low oil prices and OPEC+ production cuts hobbled the hydrocarbon sector, the backbone of the economy, while the service-oriented non-hydrocarbon economy was severely affected by disruptions in global trade and travel. The UAE's near-term economic prospects depend critically on being positioned to benefit from the recovery of the global economy. The country's long-run priority is to further diversify the economy and create jobs in the private sector.

Key conditions and challenges

Rich in hydrocarbon wealth, the United Arab Emirates (UAE) is the second largest economy in the Middle East after Saudi Arabia. Over the past years, the authorities have intensified efforts to diversify the economy away from hydrocarbon, successfully positioning the UAE as the region's global trade, financial and travel hub. While the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon as the engine of growth and the main source of government revenue, and thus remains vulnerable to volatility of global oil prices.

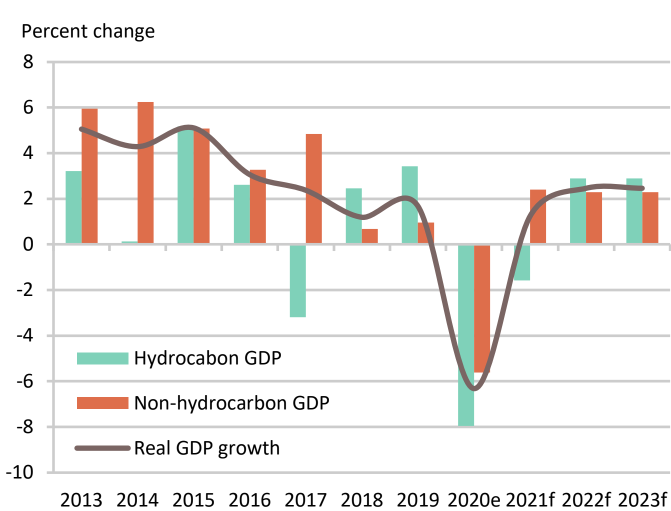
In 2020, the UAE's economy suffered a major blow from COVID-19. The hydrocarbon sector was severely affected by plummeting global oil prices and the OPEC+ production cuts, which led to a sharp contraction of hydrocarbon exports and government revenue, constraining performance of oil-liquidity dependent sectors, especially real estate and construction. Sectors catering to the trade and travel industries were also hard-hit by the global economic contraction and strict containment measures. The brunt of job and income losses due to COVID-19 has likely been borne disproportionally by foreign workers.

While the authorities' major monetary, financial, and fiscal mitigation measures have cushioned the impact of the pandemic on the economy, the UAE's near-term economic prospects depend on the recovery in global demand for oil and their proactive COVID-19 management strategy, including the national-scale rapid testing and ongoing swift roll-out of vaccines. Continued diversification efforts will remain a key priority to maintain the UAE's dynamic comparative advantage in global innovator services and labor-intensive tradable services.

Recent developments

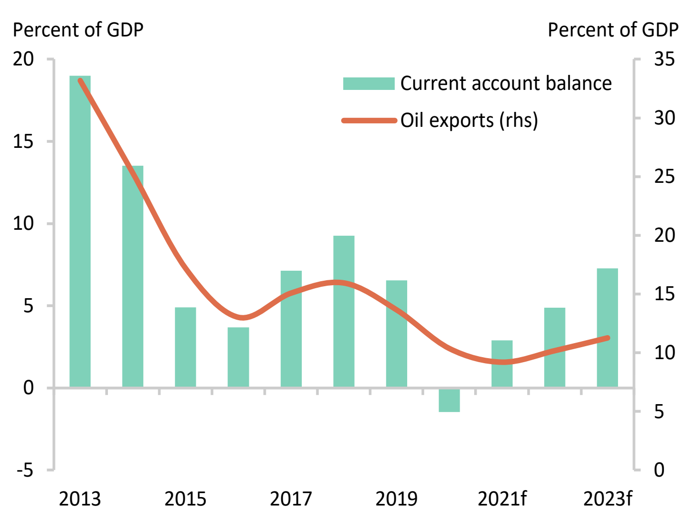
COVID-19 and its economic fallout exerted a heavy toll on the UAE's open economy, leading to a contraction of 4 percent in the first half of 2020 year on year (y/y). The volume of oil production declined by 4.4 percent (y/y) in the second quarter of 2020, in line with the OPEC+ production cuts agreement. The non-hydrocarbon sector contracted by 6 percent for the first half of 2020, as strict lockdown, travel bans, and supply chain disruptions constrained tourism, construction and trade activities. Non-hydrocarbon activity began to show signs of recovery in the third quarter of 2020, with the resumption of international travel, relaxation of lockdowns, and large-scale monetary and fiscal measures. However, the nascent recovery was soon put on hold in late 2020, as a spike in new COVID infections in the UAE and across the globe prompted the authorities to reimpose tight movement restrictions and close travel corridors (in some cases, corridors were closed at the other end). The hydrocarbon sector remained severely depressed due to restrained oil production in line with the

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

FIGURE 2 United Arab Emirates / External account



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

OPEC+ production quota. The overall economy has likely contracted by around 6 percent in 2020. Government finances are under significant strain. The fiscal outturn in the first half of 2020 was a deficit of 2.3 percent of GDP, compared with a surplus of 3.4 percent a year earlier, due to reduced hydrocarbon revenue and the fiscal mitigation measures introduced at both the federal and emirate levels. The mitigation packages, totaling AED 26.5 billion (US$7.2 billion), included a suspension of work permit fees, reduction of labor and other charges to lower the cost of doing businesses and support small and medium enterprises, as well as financial assistance to activities particularly affected by COVID. Financing needs were mostly met by international debt issuances at the emirate level, but a recently released new federal public debt strategy for 2021-23 also points to growing reliance on the local-currency bond market.

The deflationary trend has persisted throughout the year, with the CPI falling by 2 percent in December 2020 (y/y), driven by price declines of non-tradable goods and services (such as rents, transport and recreation) that reflected subdued domestic and external demands. The recession has further depressed real estate prices in the UAE, which had been on the fall due to oversupply of residential properties, undermining banking sector profitability.

The Central Bank of the UAE (CBUAE) has maintained an accommodative monetary policy stance, closely tracking US monetary policy to maintain its currency peg. Early in the pandemic crisis, the CBUAE launched an AED 256 billion (US$70 billion) monetary stimulus, relaxing a number of regulatory requirements for banks to ease repayment pressures for the private sector and boost domestic credit growth. Yet credit to the private sector, particularly lending to business and industries, continued to contract in 2020, and the share of non-performing loans in total lending is on the rise, reaching 7.7 percent in September 2020.

The current account position has likely slipped into deficit in 2020, for the first time on record, due to the significant underperformance of both hydrocarbon and non-hydrocarbon exports. However, the UAE's external position remains strong, with official reserves equivalent to more than 5 months of imports as of September 2020, and assets of various sovereign wealth and development funds are vast.

Outlook

The economy is expected to rebound in tandem with the recovery of the global economy.

The hydrocarbon sector would regain strength with rising global oil prices, helping to restore the fiscal and external positions, and boosting confidence on the overall economy. This, coupled with a sustained recovery of global trade and travel, would allow the non-hydrocarbon sector to rebound. The normalization of relations with Israel and Qatar could expand economic opportunities. But the pandemic could have a lingering impact on global travel, hampering a speedy recovery of the UAE's large tourism industry. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster growth of the non-hydrocarbon sector and create jobs in the private sector. The introduction of a new Commercial Companies Law in December 2020, which among other things permits foreign nationals 100 percent ownership in most industries, marks a further extension of the free zone investment environment to the "on-shore" economy. Combined with the measures on business costs and the earlier introduction of VAT, there has been a sizable gain in competitiveness, and thus significant upside risks to the outlook.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.7	-6.3	1.2	2.5	2.5
Private Consumption	6.1	13.4	-4.9	2.3	2.2	2.2
Government Consumption	-5.0	14.3	3.2	2.1	2.3	2.3
Gross Fixed Capital Investment	3.6	0.0	-4.5	2.5	2.1	2.1
Exports, Goods and Services	11.5	-2.9	-7.3	3.6	3.9	3.9
Imports, Goods and Services	10.9	3.6	-4.5	2.5	4.2	4.2
Real GDP growth, at constant factor prices	1.2	1.7	-6.3	1.2	2.5	2.5
Agriculture	5.4	2.7	-5.0	3.4	2.1	2.1
Industry	1.8	2.1	-7.2	0.3	2.6	2.6
Services	0.6	1.2	-5.5	2.1	2.3	2.3
Inflation (Consumer Price Index)	3.1	-1.9	-1.6	1.2	2.0	2.0
Current Account Balance (% of GDP)	9.3	6.5	-1.5	2.9	4.9	7.3
Fiscal Balance (% of GDP)	1.2	-1.0	-8.0	-0.5	1.7	-2.7

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