UNITED ARAB EMIRATES

Table 1	2018
Population, million	9.5
GDP, current US$ billion	414.9
GDP per capita, current US$	43493
School enrollment, primary (% gross)[a]	110.9
Life expectancy at birth, years[a]	77.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2016).

Growth recovered to 1.6 percent in 2018, driven by the end of the June 2018 OPEC+ Agreement. Non-oil growth remained subdued, however. Fiscal and current accounts continued to recover. Fiscal easing is now underway to facilitate the nonoil growth recovery. However this will be partially offset by the 2019 OPEC-mandated oil production cuts that will dampen oil-sector growth in the first half of the year. Over the medium-term the growth recovery will be driven by the government's commitment to structural reform and stimulus plans by the large emirates.

Recent developments

UAE's real GDP growth is estimated to have recovered from 0.8 percent in 2017 to 1.6 percent in 2018. Overall growth picked up in early 2018 driven by non-oil activity, the spike in oil production and improved market sentiment. In Q4 2018, however, economic momentum appears to have taken a hit due to the sharp deceleration in oil prices, and the spillover from recession in Iran has muted its trading links with Dubai. Hydrocarbon GDP recovered from a 3 percent contraction in 2017 to an estimated 2 percent growth in 2018. On the demand side, growth was driven by private consumption and exports.

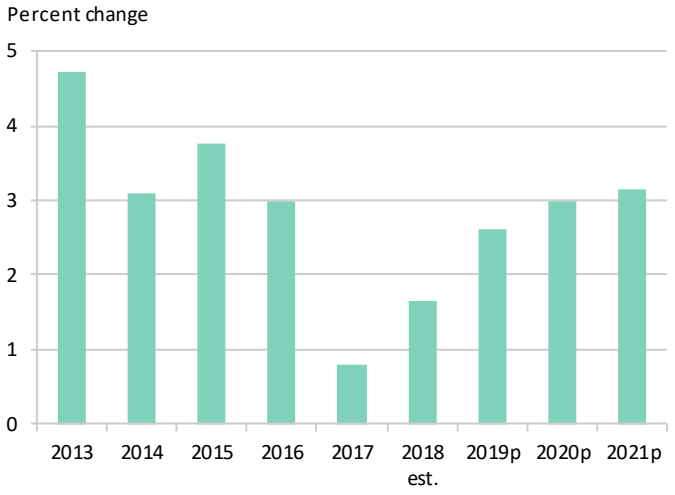
Fiscal and current accounts improved following the 2015-16 slowdown. The overall fiscal deficit fell from 2.0 percent of GDP in 2016 to 1.6 percent of GDP in 2017 as revenues from oil royalties increased and expenditures decreased. In 2018, the deficit is estimated to have remained steady at 1.6 percent of GDP. The deficit was recently financed through sovereign wealth fund and external debt issuances (US$5 billion in 2016, and US$10 billion in 2017). The current account surplus is estimated to have improved from 3.7 percent of GDP in 2016 to 7.2 percent in 2018, due to higher oil prices and stable imports.

Monetary policy tracks the US to maintain the dollar peg. The banking sector showed signs of recovery in 2018. The interest rate on certificates of deposit reached 2.5 percent following six consecutive hikes since 2016. Inflation increased slightly in 2018 to 3.1 percent due to the VAT. Growth in government deposits and private-sector credit picked up in Q3 2018. Stock market performance was mixed, Dubai's declined in 2018 amid concerns over US monetary policy, while Abu Dhabi's strengthened, helped by recovery of oil prices and lower Government Related Entities (GRE) debt.

The real-estate market continues to face headwinds. Dubai property prices fell by 7.4 percent in Q2 2018 due to oversupply, driven by a tapering expatriate population, government's fiscal restraint, higher interest rates, and stronger exchange rate.

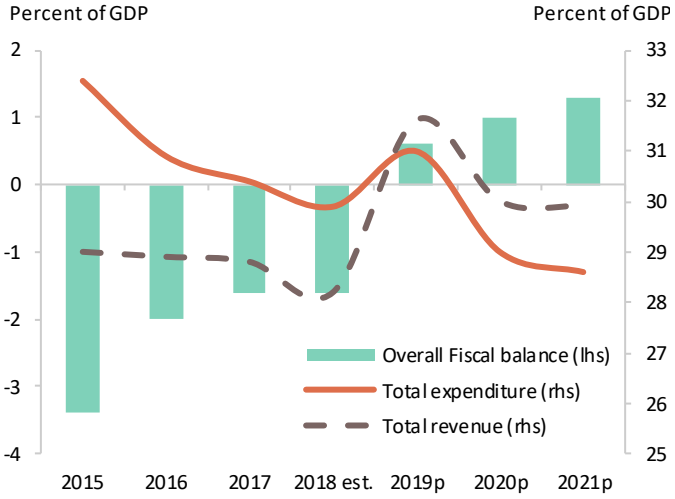
Unemployment is very low (2.5 percent in 2017, ILO) and 81 percent of the working-age population is employed. However, youth unemployment (ages 15-24) is higher, at 7.7 percent. Job growth slowed from 3.5 percent in 2017 to less than one percent in August 2018. The authorities have increased social allocations to improve welfare, housing affordability, education and healthcare provision for nationals. There is limited understanding of welfare/poverty statistics given the lack of a household survey that is representative of the entire population. However, a household survey was launched in 2019 covering both Emirati and non-Emirati populations. Previous surveys show little evidence that poverty for nationals is a concern. Results from the 2014-15 household survey show the average consumption for Emirati household in Dubai was US$1,477 per-capita per month (US$1,293 for non-Emirati households, US$734 for collective households and US$511 for labor camps). Family expenditure is lower in the northern Emirates.

FIGURE 1 United Arab Emirates / GDP growth rate



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

FIGURE 2 United Arab Emirates / General government operations



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

Outlook

Growth is expected to strengthen over the medium term. In 2019 however, the pace of recovery will be muted by OPEC oil production cuts in the first half of 2019. Economic growth is forecast to reach 3.2 percent by 2021 supported by the government's economic stimulus plans, impetus from hosting Dubai Expo 2020 and improved growth prospects in trading partners. Inflation is projected to moderate from 3.1 percent in 2018 to 2.1 percent by 2021 as the impact of the VAT rollout dissipates.

Budgets for 2019 signal spending increases. The Dh 60 billion federal budget for 2019, 17.3 percent higher than the 2018 budget, is the largest in the country's history. Although oil prices are expected to be lower in 2019 than previous projections, the VAT revenue in 2019 is expected to partially mitigate the loss in oil revenues.

Internal and external imbalances will progressively subside. The fiscal deficit is projected to gradually improve, registering a surplus of 1.3 percent by 2021 driven by higher oil prices, and non-oil revenues from excise duties and the VAT. The current account surplus is expected to continue to improve in 2019 but diminish slightly by 2021 resulting from lower oil prices and higher imports related to infrastructure development.

Sluggish growth since 2014 prompted reforms and stimulus packages to preserve the UAE's status as regional economic hub. One-hundred percent foreign ownership of companies is now allowed. Bank guarantees for labor were replaced with low-cost insurance policy, and visa requirements were overhauled to attract skilled professionals. Dubai and Abu Dhabi are exempting companies from administrative fines, and Dubai slashed aviation and municipality fees. Abu Dhabi and Dubai aim to establish themselves as a destination for large events and tourism. Dubai allocated US$7 billion for Expo 2020 related infrastructure, and Abu Dhabi completed the Louvre project to stake its claim as a tourist destination. UAE and Saudi Arabia signed a joint vision for economic, developmental and military integration, buttressing the prominence of their bilateral relationship within the GCC.

Risks and challenges

Key fiscal challenges include raising spending efficiency, revenue diversification, and improving policy coordination and management of fiscal risks across the Emirates. The main economic challenge relates to adapting the UAE's successful but complex diversification model to increasing competition among services hubs and technological shifts away from carbon as an energy source as North American shale transforms the oil sector. Further economic diversification will require deepening labor-market and education reforms to generate productivity gains and openness in sheltered sectors. Intergovernmental fiscal coordination and comprehensive fiscal/debt policy framework are needed to maintain macro-fiscal stability, achieve fiscal consolidation, and improve the effectiveness of government spending. The earlier consolidation of property companies in the wake of the 2009 slump is likely to be repeated in the financial sector and airlines, given overcapacity.

Key risks to the outlook include a global slowdown, trade protectionism and other trade/payment disruptions, financial volatility, disincentives to immigration with increased tax burden on foreigners, and regional instability. Hikes in U.S. interest rates or market volatility could increase borrowing costs. Expo 2020 is exposed to overcapacity, property prices and debt. Large investment projects, if not implemented prudently may create macro-financial risks.

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	3.0	0.8	1.6	2.6	3.0	3.2
Private Consumption	1.6	-1.3	2.5	3.0	3.1	3.3
Government Consumption	-1.1	3.4	2.0	2.5	2.6	2.8
Gross Fixed Capital Investment	8.8	0.6	1.0	4.0	3.8	4.2
Exports, Goods and Services	3.4	0.5	2.1	2.7	3.3	3.6
Imports, Goods and Services	2.7	-1.0	2.6	3.2	3.4	3.8
Real GDP growth, at constant factor prices	3.0	0.8	1.6	2.6	3.0	3.2
Agriculture	3.4	3.0	1.0	1.5	2.2	1.9
Industry	3.1	-1.7	3.5	3.5	3.5	3.5
Services	2.9	2.4	0.5	2.1	2.6	3.0
Inflation (Consumer Price Index)	1.6	2.0	3.1	1.9	2.2	2.1
Current Account Balance (% of GDP)	3.7	6.9	7.2	7.8	6.4	5.6
Fiscal Balance (% of GDP)	-2.0	-1.6	-1.6	0.6	1.0	1.3

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