

UNITED ARAB EMIRATES

Table 1	2022
Population, million	9.5
GDP, current US\$ billion	485.9
GDP per capita, current US\$	51149.2
School enrollment, primary (% gross) ^a	115.4
Life expectancy at birth, years ^a	78.9
Total GHG emissions (mtCO ₂ e)	268.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

The UAE's post-pandemic rebound continued strongly in 2022 supported by domestic and global oil demand. Growth is projected to slow in 2023 to reflect global economic downturn and cautious production schedule of OPEC+ alliance. The twin-balances surplus is projected to persist in the medium term while inflation moderates. Key risks to the outlook include a breakout of new COVID-19 variants, tighter global financial conditions, volatile oil prices, and external uncertainties.

Key conditions and challenges

UAE continues to be the region's trade, financial, and travel hub due to the progress made in economic diversification and reducing hydrocarbon dependency. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar, as these countries adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030.

Hydrocarbon activity continues to be the main source of government revenue. Steps towards diversifying public revenues are in progress with the introduction of VAT, and most recently, corporate income tax (CIT) and gradually phasing out of the business fee structure. The economic growth outlook of the non-oil sector is strong while elevated energy prices will continue to strengthen external and fiscal positions.

The main impact of extended Russia's invasion of Ukraine on UAE's economy will be through oil price volatility, global inflation, and shocks to the tourism sector. Domestic monetary policy is set to tighten further in line with the US Federal Reserve policy, which might dampen economic recovery and job creation. The main risks to UAE's economic growth are global uncertainty, evolution of the war in Ukraine, potential global economic slowdown, and disagreement among

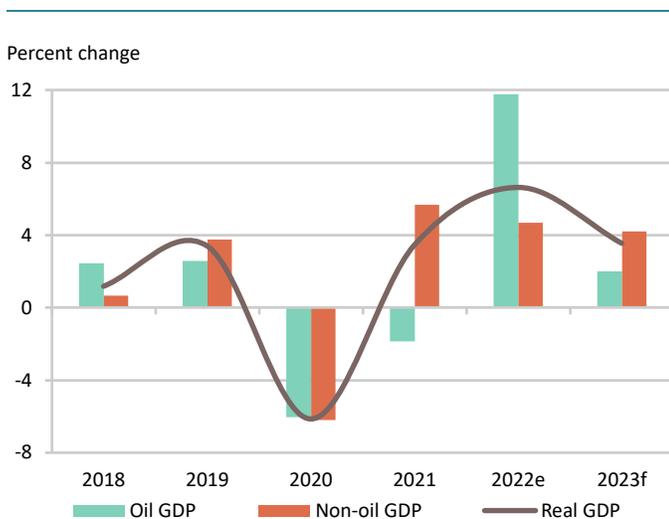
OPEC+ members on production quotas. In addition, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

UAE's economic performance was strong in 2022, estimated at 6.6 percent, driven by an increase in oil production and improvement in the non-oil sectors. Higher oil prices and loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022. Meanwhile, non-oil GDP continued recovery in 2022, estimated at 4.7 percent, driven by strong growth in the construction and tourism sectors. Private consumption is expected to further support non-oil sectors with the launch of mandatory unemployment benefits for local and foreign workers. Business sentiment remains positive, although the global economic slowdown, rising interest rates, and inflation moderated the Purchasers Managers Index (PMI) slightly to 54.2 in February 2023. Headline inflation is estimated at 4.8 percent in 2022 to reflect strong consumption and investments.

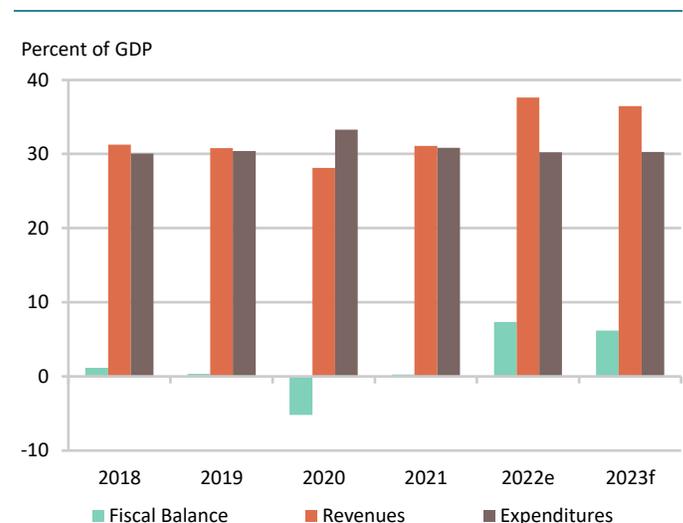
Following the Fed's tightening monetary policy, while maintaining the pegged exchange rate anchor, the Central Bank of UAE (CBUAE) increased the policy interest rates six times in 2022. Despite higher rates, the non-performing loans to gross total loans ratio continued its downward trajectory to reflect a strong economic recovery.

FIGURE 1 United Arab Emirates / Annual real GDP growth



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

FIGURE 2 United Arab Emirates / Public finances



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

The spike in oil prices and removal of fiscal measures related to the private sector support during COVID-19 contributed to further widen the fiscal surplus, which is estimated to reach 7.4 percent of GDP in 2022. Furthermore, higher oil receipts and non-oil exports strengthened the current account balance. Signing of free-trade agreements with large Asian and African markets will further strengthen non-oil exports and widen external balance surplus further.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. The labor force participation rate is expected to reach 82.7 percent in 2023 (ILO), slightly above its 2019 level. Employment rebounded in 2022 to pre-pandemic levels and is expected to continue to increase in 2023. The unemployment rate is projected to be 2.7 percent for 2023, a decrease from the height of the pandemic but still not back to 2019 rates. Unemployment rates remain substantially higher among young adults ages

15-24 than among adults ages 25 and over. The gap is especially wide among women, with projected rates of 18.6 percent and 5.5 percent respectively for 2023.

Outlook

Economic growth in 2023 is expected to slow compared to 2022 due to a decline in global economic activity, stagnant oil production, and tightening financial conditions. Real GDP is projected to grow by 3.6 percent in 2023 before moderating slightly over the forecast period. The non-oil sector is anticipated to grow by 4.2 percent in 2023 supported by strong domestic demand; particularly in the tourism, real estate, construction, transportation, and manufacturing sectors. Growth will be further strengthened by the implementation of government's reform agenda and CBUAE's efforts to promote stability, efficiency, and resilience of the financial system. Following tighter OPEC+ production

quotas, oil GDP is projected to grow by 2 percent in 2023 before rising to 2.8 and 3 percent in 2024 and 2025, respectively.

Stronger US dollar, tighter monetary policy, and falling global commodity prices will keep inflation rates subdued—hovering around 3.4 percent in 2023.

High oil revenues, supported by strong performance of non-oil sectors, will maintain the large fiscal balance surplus, which is expected to reach 6.2 percent of GDP in 2023. Implementation of fiscal revenue reforms, e.g., introduction of CIT, and maintaining prudent and well-coordinated emirate-specific fiscal anchors and rules should improve fiscal buffers and overall fiscal sustainability.

Bilateral free trade agreements with trading partners will open major markets, raising non-oil exports and offsetting the global headwinds. Therefore, it is expected that the current account balance will stand at 11.7 and 10.8 percent of GDP in 2023 and 2024, respectively, keeping the external account in a comfortable position as oil prices moderate.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.1	3.5	6.6	3.6	3.4	3.4
Private Consumption	-12.5	5.0	5.5	4.7	3.8	3.6
Government Consumption	0.7	1.4	3.4	3.3	3.2	3.2
Gross Fixed Capital Investment	5.8	5.4	5.8	3.7	3.5	3.4
Exports, Goods and Services	-7.0	6.7	8.4	4.3	4.4	4.4
Imports, Goods and Services	-6.4	8.8	7.4	4.9	4.8	4.7
Real GDP growth, at constant factor prices	-6.1	3.5	6.6	3.6	3.4	3.4
Agriculture	6.9	3.8	3.4	3.7	3.9	4.0
Industry	-5.5	1.3	8.8	3.4	3.5	3.6
Services	-6.9	5.6	4.7	3.7	3.2	3.2
Inflation (Consumer Price Index)	-2.1	0.2	5.1	3.4	2.1	2.1
Current Account Balance (% of GDP)	5.9	10.5	13.7	11.7	10.8	10.7
Fiscal Balance (% of GDP)^a	-5.2	0.3	7.4	6.2	5.6	4.1
Revenues (% of GDP)	28.1	31.1	37.6	36.5	35.4	33.2
GHG emissions growth (mtCO₂e)	-4.1	7.2	7.0	-0.5	1.0	2.2
Energy related GHG emissions (% of total)	72.6	73.6	74.9	74.6	74.4	74.4

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

Notes: e = estimate, f = forecast.

a/ Consolidated fiscal balance.