UNITED ARAB EMIRATES

Table 1	2021
Population, million	9.6
GDP, current US$ billion	466.0
GDP per capita, current US$	48743.6
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.1
Total GHG emissions (mtCO2e)	261.2

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

The UAE's recovery from the pandemic-induced recession is aided by supportive economic policies, a strong vaccination program, and an easing of global travel restrictions. However, the booming oil sector will ultimately drive GDP growth in 2022, while a healthy non-oil sector will add further impetus to the recovery. Growth will be moderated by rising international commodity prices and higher competition from regional peers. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

Over the past decade, authorities made progress to diversify the economy away from hydrocarbons, successfully positioning the UAE as the region's trade, financial, and travel hub. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar as they adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030. While the non-hydrocarbon sector accounts for two-thirds of UAE's GDP, their economy continues to rely on hydrocarbon activity as the main source of government revenue and engine for growth. Steps towards diversifying public revenues are underway with the recent introduction of a corporate income tax (CIT) effective in 2023, representing a major shift for the country noted for historically low taxation rates on businesses.

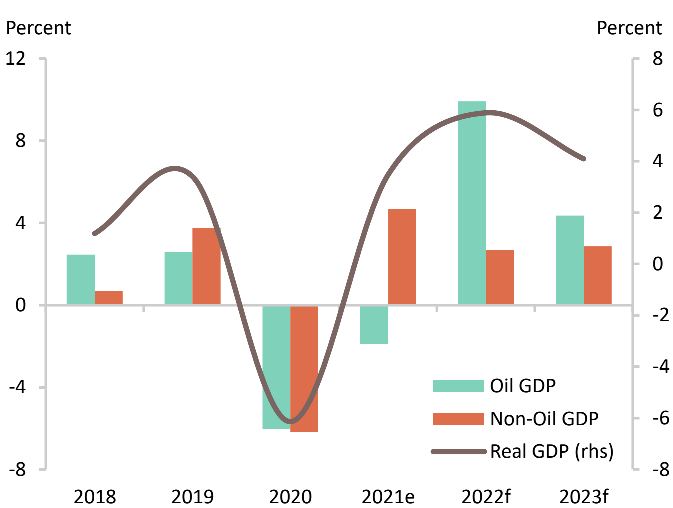
While UAE's economic outlook is encouraging, challenges remain. Direct spillovers of a prolonged war in Ukraine on UAE's economy are limited due to weak trade and investment flows with Ukraine and Russia. However, the main impact of a dragging war will be through oil price volatility and shocks to the tourism sector. Despite revival in tourism sector in late 2021 and early 2022 on the back of Dubai Expo and easing of COVID-19 restrictions, tourist numbers remain well below pre-pandemic levels. On the upside, higher energy prices and output would further strengthen external and fiscal positions, providing financial buffers for a protracted non-oil recovery.

Risks to the non-oil sector recovery also remain. Especially, those originating from an outbreak of new COVID-19 variants that are vaccine-resistant which would risk movement restrictions and delay recovery. Furthermore, domestic monetary policy is set to tighten further in line with the FED's policy, which might dampen recovery and job creation. Finally, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

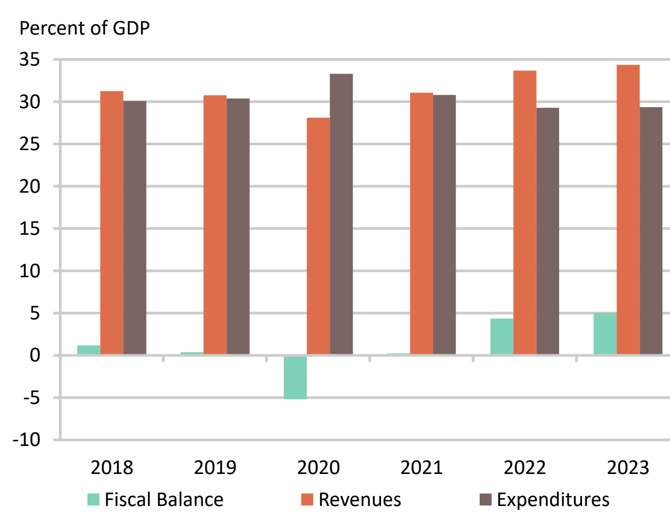
Following the pandemic-induced recession, the UAE's counter-cyclical economic policies and a highly advanced vaccination program continue to push the economy toward recovery. The Central Bank of UAE reported growth during the first quarter of 2022 at 8.2 percent year-on-year, driven by a sharp increase in oil production and an improvement in non-oil GDP. Higher oil prices and a loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022, representing an increase of 14.3 percent (y/y). Recent official data on non-oil sector estimate growth at 6.1 percent (y/y) during the first quarter of 2022. High-frequency data confirm that the non-oil sector continues growing at a

FIGURE 1 United Arab Emirates / Annual GDP growth rate



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

FIGURE 2 United Arab Emirates / Public finances



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

faster pace with the Purchasers Managers Index (PMI) reaching above its historical long-term average as businesses recover from COVID-related restrictions and benefit from higher oil liquidity spillovers.

Official data estimate inflation at 3.4 percent during the first quarter of 2022, generally in line with global rates. However, more timely data for Dubai show inflation reaching 7.1 percent in July, mainly driven by higher transport costs as well as housing and utilities. Moving in line with the Fed's tighter monetary policy, the Central Bank of UAE has been hiking interest rates, bringing it up to 2.9 percent in July to maintain the currency peg with the US dollar.

The spike in oil prices will bolster fiscal revenue, offsetting the negative effects of rising inflation and monetary tightening has on economic activity. The government's fiscal balance largely follows oil market developments, as the authorities continue to rely heavily on hydrocarbon revenue to push economic reform agenda forward. Hydrocarbon revenue rose strongly in 2022, thereby pushing the fiscal balance to comfortable positions. Higher oil and non-oil exports continue to position the current account balance firmly in surplus as the signing of recent free-trade agreements strengthens non-oil activity and re-exports to large Asian markets.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the Central Bank of UAE, employment in March 2021 remained at the same level of December 2020, while salaries paid in Q1 2021 were higher than at the end of 2020 and higher than in February 2020 (the last precrisis month), as per the Central Bank's Wage Protection System.

Outlook

Higher oil export volumes coupled with a revival in non-oil demand will support strong economic growth in 2022. This is further supported by a favorable business environment and world-class infrastructure. Real GDP is expected to grow by 5.9 percent in 2022 before moderating to 4.1 percent in 2023 as slower global demand dampens growth due to tightening financial conditions.

Oil GDP is projected to grow by 9.9 percent and 4.4 percent in 2022 and 2023, respectively; depending largely on the evolution of the war in Ukraine and its impact on global oil markets. Due to sanctions on Russia, exports from OPEC+ members will likely accelerate, although many members already have limited spare production capacity. In this context, UAE is one of the few countries within this group that could increase oil production and fill some of this gap. As for the non-oil sector, slower global demand will dampen growth, as we expect the non-oil economy to grow by 3.6 and 3.7 percent in 2022 and 2023, respectively.

Higher oil receipts supplemented with a gradual non-oil recovery will bolster fiscal revenue. Fiscal surplus, which is estimated to hover around 4.4 percent of GDP in 2022 and 5.0 in 2023, may be lower than previously anticipated as the UAE aims to mitigate the impacts of higher inflation by doubling support to low-income households. With a pegged exchange rate, monetary policy will continue to track US Federal Reserve's tighter policy by raising future interest rates. Headline inflation is expected to reach 4.0 percent in 2022 before trending downwards to 2.8 percent in 2023 as oil prices decline and monetary tightening effects channel into the economy.

Recent bilateral free trade agreements with Asian partners will open major markets, e.g. India, boosting non-oil exports and acting as a counterbalance to global headwinds and tightening financial conditions. This will help place the current account balance at 11.2 and 11.9 percent of GDP in 2022 and 2023; 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)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.4	-6.1	3.5	5.9	4.1	2.3
Private Consumption	10.0	-12.5	5.0	4.9	3.8	3.1
Government Consumption	10.0	0.7	1.4	2.9	3.3	2.0
Gross Fixed Capital Investment	0.0	5.8	5.4	5.1	3.7	3.6
Exports, Goods and Services	-1.3	-7.0	6.7	6.8	5.1	4.0
Imports, Goods and Services	-5.5	-6.4	8.8	6.2	4.6	3.9
Real GDP growth, at constant factor prices	3.4	-6.1	3.5	5.9	4.1	2.3
Agriculture	3.8	6.9	3.8	3.4	4.0	4.8
Industry	2.6	-5.5	1.3	8.4	4.2	2.9
Services	4.2	-6.9	5.6	3.6	4.1	1.6
Inflation (Consumer Price Index)	-1.9	-2.1	0.2	4.0	2.8	2.0
Current Account Balance (% of GDP)	8.9	5.9	10.5	11.2	11.9	12.5
Fiscal Balance (% of GDP)[a]	0.4	-5.2	0.3	4.4	5.0	2.7
GHG emissions growth (mtCO2e)	6.2	-2.5	10.0	6.6	1.6	2.0
Energy related GHG emissions (% of total)	73.6	72.9	74.6	75.8	76.0	76.0

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.