UNITED ARAB EMIRATES

Table 1	2017
Population, million	9.4
GDP, current US$ billion	378.4
GDP per capita, current US$	40266
School enrollment, primary (% gross)[a]	116.3
Life expectancy at birth, years[a]	77.5

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

(a) Most recent WDI value (2015)

Non-hydrocarbon growth is estimated to have remained resilient in 2017 while OPEC-mandated oil production cuts limited hydrocarbon growth. Economic performance is likely to improve in 2018 with firming oil prices, an improvement in global trade, and the expected easing pace of fiscal adjustment, especially as investments ramp up ahead of Dubai's Expo 2020. However, this rebound is faced with several downside risks including lower oil prices and tighter global financial conditions.

Recent developments

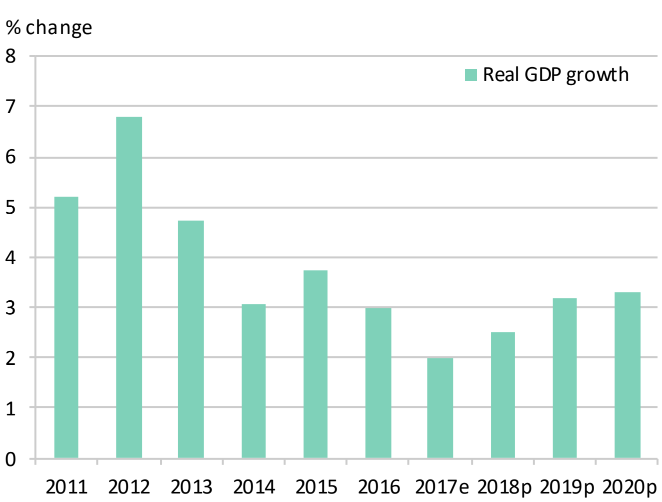
Although the non-oil economy is showing signs of recovery, OPEC+ oil production cuts continued to restrain the UAE's overall economic growth in 2017 which is estimated to have moderated to 2 percent in 2017 down from 3 percent in 2016. Hydrocarbon GDP growth is estimated to have contracted by 3 percent in 2017 from 5.4 percent growth in 2016. The non-hydrocarbon sector is estimated to have driven growth in 2017 reflecting higher public investment and a pickup in tourism and global trade. According to the PMI, private sector activity increased in late 2017 reaching the highest level since 2015. Consumers and firms brought forward planned consumption before the introduction of the VAT in 2018. Inflation increased by only 0.3 percentage points in 2017 reflecting a significant decline in rents, which has mitigated higher import and gasoline prices. The current account surplus is expected to deteriorate only slightly to 2 percent of GDP in 2017 owing to subdued oil exports.

Fiscal consolidation efforts that began in 2015 with subsidy reform (fuel, electricity and water) continue, but at a slower pace. The decline in oil prices in 2014 had pushed the consolidated fiscal balance down from a surplus of 10.4 percent of GDP in 2013 to a 4.3 percent deficit in 2016. However, in 2017, despite higher capital spending, the recovery of oil prices and some revenue measures are expected to improve the fiscal deficit to 3.1 percent of GDP. The Federal Tax Authority introduced excises on tobacco and sugary drinks, Abu Dhabi increased municipality fees and Dubai increased hotel, airport and parking fees. The fiscal deficit was financed through withdrawals from the sovereign wealth funds (total assets estimated at US$1.3 trillion), bank borrowing and, increasingly, by foreign capital raising. Abu Dhabi raised US$10 billion in October from a series of bond offerings, with maturities ranging up to 30 years. A further issuance is expected in Q1 2018, as yields remain very attractive given the strong liquidity profile of UAE entities.

The Central Bank has mirrored the US Federal Reserve movements to maintain the peg—interest rates were raised four times by a total of 75 basis points. The consolidated growth in credit slowed to 1.7 percent in December (y-oy), due to weak demand for credit in Abu Dhabi. Annual growth in deposits remained stable at 4.1 percent in December.

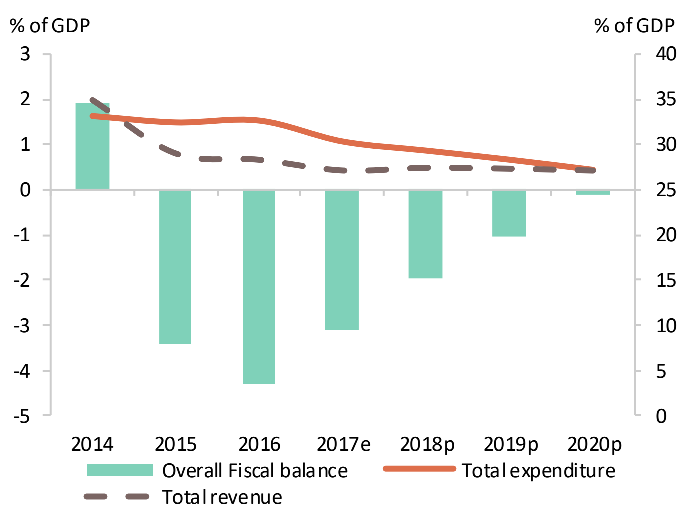
The 2014 oil price shock and its impact on government finances and regional liquidity prompted substantial reconsideration of UAE's policy direction – but the recent upward trend in oil prices may reduce reform momentum. Excise duties on drinks and tobacco were introduced and VAT became effective this year, albeit at a low rate of 5 percent and with several exemptions. The VAT is being used to develop a system of intergovernmental fiscal transfers through a revenue sharing formula across emirates, which was previously ad hoc. Abu Dhabi has initiated oil sector and financial management reforms. Focus on diversification continues as the

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



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

FIGURE 2 **United Arab Emirates** / Government Operations (as share of GDP)



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

government targets an 80 percent contribution to UAE GDP from non-oil sectors by 2021 (currently 70 percent). The authorities are seeking to boost private-sector engagement, including through equity participation in some GREs. Dubai will also focus on improving financial, real estate and internet regulations and infrastructure, to boost its appeal to foreign investors. The UAE is stepping up efforts to pioneer the use of modern technologies; with plans to develop smart cities, use blockchain technology for government transactions, and undertake financial technology projects.

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. Poverty is not seen as a serious issue among the national population. Information on living standards is infrequent, lagged and of unknown quality. 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. However, the authorities recognize the potential for economic dissatisfaction in the middle class and have increased social allocations to improve welfare, housing affordability, education and healthcare provision for nationals. Moreover, the government plans to allocate 70 percent of VAT revenue to local services, as officials seek to build public support for the tax.

Outlook

Beyond 2017, overall GDP growth is expected to recover to above 3 percent in the medium term. Oil production capacity is expected to increase and the strength of the non-oil economy will boost prospects particularly later in the forecast period as megaproject implementation ramps up ahead of Dubai's hosting of Expo 2020—expected to draw in 25 million visitors, boosting private consumption and services exports. Export earnings will pick up gradually, with non-oil goods trade and services outpacing oil export growth, although the current account will remain in modest surplus. The 2018 budgets presented by different emirates and the federal government over the last few months are expansionary, with Dubai's budget containing a notable uptick in infrastructure spending. However, on the back of higher oil prices, improved oil production capacity and higher non-oil revenues, the fiscal deficit is projected to reverse by 2020. Inflation is projected to rise to 2.9 percent in 2018 due to the VAT but is projected to moderate thereafter.

Risks and challenges

Risks to the outlook are skewed towards the downside. The remission in oil price volatility may not last, for instance, due to a faster recovery of the US shale production or reduced compliance with OPECs oil production cuts, which could reduce fiscal revenues, and consequently investment, and confidence. A faster rise in US interest rates or higher financial market volatility could increase borrowing costs, potentially affecting liquidity in the domestic banking system. Contingent liabilities continue to be a risk and if megaprojects, including for Expo 2020, are mismanaged, risks for GREs, banks, and sovereigns would rise. More difficult to quantify are risks related to the UAE's protracted role in conflict countries in the region, notably Yemen and Libya. Upside risks include increased international economic engagement with Iran, for which the UAE functions as the key offshore hub.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	3.8	3.0	2.0	2.5	3.2	3.3
Private Consumption	-12.0	2.1	1.0	3.2	3.5	3.7
Government Consumption	16.6	-0.9	-0.5	2.0	2.2	2.3
Gross Fixed Capital Investment	10.6	3.0	2.8	6.0	5.9	5.8
Exports, Goods and Services	3.4	1.3	2.5	3.5	3.8	3.8
Imports, Goods and Services	-1.2	2.5	2.1	3.1	3.3	3.7
Real GDP growth, at constant factor prices	3.8	3.0	2.0	2.5	3.2	3.3
Agriculture	3.1	3.0	2.0	3.0	3.2	3.2
Industry	4.6	2.3	2.1	2.3	3.0	5.2
Services	2.8	3.8	1.9	2.7	3.4	1.2
Inflation (Consumer Price Index)	4.1	1.6	2.0	2.9	2.3	2.4
Current Account Balance (% of GDP)	4.7	2.4	2.0	2.1	2.5	2.7
Fiscal Balance (% of GDP)	-3.4	-4.3	-3.1	-2.0	-1.0	-0.3

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