INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/35

UNITED ARAB EMIRATES

January 2019

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED ARAB EMIRATES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with the United Arab Emirates, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 26, 2018 consideration of the staff report that concluded the Article IV consultation with the United Arab Emirates.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 26, 2018, following discussions that ended on September 30, 2018, with the officials of the United Arab Emirates on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 12, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United Arab Emirates.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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February 1, 2019

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Washington, D.C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with the United Arab Emirates

On November 26, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the United Arab Emirates.

The economy is starting to recover from the 2015–16 slowdown caused by a decline in oil prices. Growth momentum is expected to strengthen in the next few years with increased investment and private sector credit, improved prospects in trading partners, and a boost to tourism from Expo 2020. Non-oil growth is projected to rise to 3.9 percent in 2019 and 4.2 percent in 2020. The oil sector's prospects have also improved with higher oil prices and output. Overall real GDP growth is projected at around 3.7 percent for 2019–20. Inflation is expected to remain low, notwithstanding the introduction of the value-added tax (VAT) earlier in 2018. Although nonperforming loans rose during the slowdown, banks remain liquid and well capitalized.

Fiscal easing is underway to facilitate the recovery. In tandem with stepped-up structural reforms to boost medium-term prospects, the authorities announced plans for a fiscal stimulus over the next three years, augmenting the planned increase in investment ahead of Expo 2020. As private sector activity picks up and stimulus measures are phased out, fiscal consolidation is expected to resume, to ensure sufficient saving of oil wealth for future generations. The overall fiscal balance is projected to turn to a surplus next year on higher oil prices and remain positive over the medium term.

The external position has also improved. The current account surplus nearly doubled last year to 6.9 percent of GDP as imports remained flat and is expected to rise further to nearly 8 percent of GDP by 2019 owing to higher oil revenues. Over the medium term, however, the current account surplus is projected settle at a lower level as oil prices soften. Downside external risks have increased in recent months, driven by tightening global financial conditions, heightened volatility in emerging markets, geopolitical tensions, and rising protectionism.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted of the challenges the UAE economy has been facing, particularly a prolonged decline in oil prices, and commended the authorities for their strong policy response, including the introduction of the value-added tax, stepped up structural reforms, and the upgrading of the prudential framework. While noting the improved economic prospects, Directors stressed that the external downside risks to the outlook have risen and encouraged the authorities to continue their efforts to bolster economic growth and safeguard macro-financial stability. In this context, Directors stressed the importance of increasing supervisory vigilance and strengthening management of contingent liabilities from borrowing by government-related enterprises, government guarantees, and public-private partnerships.

Directors agreed that the main fiscal policy priority is to support economic growth in the short term and resume fiscal consolidation once the recovery takes hold, to ensure sufficient savings of exhaustible oil revenue for future generations and debt sustainability. Directors welcomed the authorities' efforts to strengthen their fiscal policy frameworks and coordination, noting the importance of continuing progress in this area to realize the authorities' socio-economic Vision 2021 agenda, avoid policy procyclicality, and improve risk management.

Directors agreed that creating a vibrant, diversified, and knowledge-based economy will require continued reforms to boost the role of the private sector and promote talent and inclusiveness. They welcomed the recently announced reforms, including the liberalization of foreign investment, and encouraged the authorities to swiftly implement them, while broadening and deepening policy initiatives to improve productivity and competitiveness.

Directors commended the authorities on their implementation of the Enhanced General Data Dissemination Systems and other steps to improve economic statistics. They emphasized the need for further progress, including improving labor, fiscal, national accounts, and international investment position statistics, to facilitate decision-making and enhance transparency.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

United Arab Emirates: Selected Macroeconomic Indicators, 2015–19

(Quota: SDR 2,311.2 million million as of June 2018)

(Population: 10.1 million, nationals: 1 million)
(Per capita GDP-2017: $37,879; poverty rate: n.a.; unemployment rate: 4.2% (2009))

	2015	2016	Est. 2017	Proj. 2018	Proj. 2019
Oil sector					
Exports of oil (incl. oil products and gas) (in billions of U.S. dollars)	61.5	46.5	58.1	75.4	84.9
Average crude oil export price (in U.S. dollar per barrel)	52.4	44.0	54.4	71.9	72.3
Crude oil production (in millions of barrels per day)	2.9	3.0	2.9	3.0	3.1
	(Annual percent change, unless otherwise indicated)				
Output and prices					
Nominal GDP (in billions of UAE dirhams)	1,315	1,311	1,405	1,589	1,673
Nominal GDP (in billions of U.S. dollars)	358	357	383	433	456
Real GDP	5.1	3.0	0.8	2.9	3.7
Real oil GDP	5.2	2.6	-3.0	2.9	3.1
Real nonoil GDP	5.0	3.2	2.5	2.9	3.9
CPI inflation (average)	4.1	1.6	2.0	3.5	1.9
	(Percent of GDP, unless otherwise indicated)				
Investment and saving					
Gross domestic investment	25.8	27.1	21.6	22.5	23.1
Total fixed capital formation	23.4	24.5	19.1	20.3	21.0
Public	11.1	11.4	8.2	8.5	8.7
Private	12.3	13.0	10.9	11.8	12.3
Gross national saving	30.7	30.8	28.5	29.6	31.0
Public	3.0	2.2	2.9	3.1	6.8
Private	27.6	28.7	25.6	26.5	24.2
Public finances					
Revenue	29.0	28.9	28.8	28.2	31.6
Taxes	12.5	8.9	11.9	13.3	16.8
Other revenue 1/	16.2	19.6	16.6	14.6	14.5
Expenditures	32.4	30.9	30.4	29.9	29.8
Expense 2/	29.7	27.9	27.8	27.1	26.7
Net acquisition of nonfinancial assets	2.7	3.0	2.6	2.7	3.1
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-3.4	-2.0	-1.6	-1.6	1.8

Adjusted nonoil primary balance 3/	-27.7	-21.9	-25.7	-30.0	-27.0
Gross general government debt	16.7	19.4	21.8	20.9	20.5
Net of government deposits in the banking system	3.7	4.6	6.8	5.1	3.4
	(Annual percent change)				
Monetary sector					
Net foreign assets	-12.8	5.0	26.8	32.3	18.5
Net domestic assets	11.7	2.7	-1.8	-6.3	1.5
Credit to private sector	8.4	5.8	0.7	5.4	4.6
Broad money	5.5	3.3	4.1	3.6	7.1
	(Billions of U.S. dollars, unless otherwise indicated)				
External sector					
Exports and re-exports of goods, of which:	300	295	309	329	343
Oil	61	46	58	75	85
Nonoil, excluding re-exports	104	103	104	105	106
Imports of goods	224	227	229	240	246
Current account balance	17.6	13.2	26.5	30.5	35.9
Current account balance (in percent of GDP)	4.9	3.7	6.9	7.1	7.9
External debt (in percent of GDP)	67.6	70.8	73.5	66.9	64.2
Gross official reserves 4/	94.0	85.4	95.4	111.2	129.5
In months of next year's imports of goods & services, net of re-exports	6.7	6.0	6.0	6.8	7.6
Memorandum items:					
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	..	..
Nominal effective exchange rate (2010 = 100)	122.1	125.2	125.7	..	..
Real effective exchange rate (2010 = 100)	108.9	111.1	110.9	..	..

Sources: Country authorities; and IMF staff estimates and projections.

1/ Includes staff estimates of profit transfers from the national oil company to SWF and SWF returns (investment income).

2/ Includes loans and equity to finance development projects.

3/ In percent of nonoil GDP. Excludes staff estimates of SWF investment income.

4/ Excludes staff estimates of foreign assets of sovereign wealth funds.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

November 12, 2018

KEY ISSUES

Context. The UAE has successfully weathered recent external shocks, thanks to its large financial buffers, diversified economy, and strong policy response. Continued fiscal and structural reforms to raise productivity while adequately saving oil revenues for future generations over the longer term will help ensure economic resilience and prosperity in the years to come.

Outlook and risks. The economy is starting to recover from the 2015–16 slowdown caused by a decline in oil prices. Growth momentum is expected to strengthen in the next few years, helped by higher oil output, increased public investment, and stepped-up structural reforms. Downside risks have risen, driven by global and regional factors.

Fiscal policy. Fiscal easing is underway to facilitate nonoil growth recovery, as appropriate. Gradual and growth-friendly fiscal consolidation should resume once the recovery gains momentum to ensure intergenerational equity. Key priorities are to raise spending efficiency, continue diversifying revenues, firmly anchor fiscal policy, and improve policy coordination and management of fiscal risks.

Financial sector. Increased risks warrant heightened supervisory vigilance. Commencing issuance of domestic debt securities, strengthening the central bank's liquidity management framework, and enhancing the effectiveness of the AML/CFT regime will promote financial market stability and development.

External sector. The external position has strengthened on higher oil prices. The exchange rate peg to the U.S. dollar continues to serve the UAE well.

Diversified, private sector-led growth. Realizing the government's Vision 2021 requires strong effort to foster productivity growth and increase the private sector's role in the economy. Reforms should focus on increasing competition, improving financial inclusion, reducing labor market fragmentation, and promoting talent.

Approved By
Aasim M. Husain and Kevin Fletcher

Discussions were held in Abu Dhabi and Dubai during September 18–30, 2018. The mission comprised Natalia Tamirisa (head), Tokhir Mirzoev, Aidyn Bibolov, and Ling Zhu (all MCD). Chady El Khoury and Kathleen Kao (both LEG) covered AML/CFT issues from Headquarters. Aasim Husain (MCD) joined the opening policy meetings. Mr. Hazem Beblawi, Executive Director for the UAE, and Mrs. Mira Merhi (OED) also participated in meetings. The mission met with Minister of Finance Al Tayer, Governor of the Central Bank Al Mansoori, other senior officials, and representatives of the business community. Diana Kargbo-Sical, Alexandra Panagiotakopoulou, Erik Roos, and Mansoor Almalik (MCD) contributed to the preparation of the report.

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ANNEXES

NAVIGATING A COMPLEX ENVIRONMENT

1. **The UAE's policy response to recent external shocks has been strong.** A prolonged decline in oil prices since mid-2014, geopolitical tensions, and tightening global financial conditions have tested the economy's mettle. In 2015–16, the authorities focused on adjusting public spending to a weaker medium-term outlook for oil prices, including through pioneering reforms of energy subsidies. In 2017–18, the authorities moved forward with the historical introduction of excises and VAT, to diversify revenues. They also stepped up structural reforms to boost medium-term prospects and competitiveness in the broader context of their Vision 2021 program. Significant steps were taken recently towards modernizing prudential frameworks and developing domestic debt markets. While implementing their multifaceted reform agenda, the authorities have followed many recommendations of the 2017 Article IV Consultation (Annex I).

2. **Looking ahead, the UAE will continue to face challenges.** Realizing the growth dividend from the recently announced fiscal and structural reforms will require time, careful design and effective implementation. Policy coordination, including in formulating fiscal plans and managing risks, is a challenge in the highly decentralized setting. Notwithstanding the UAE's already high rankings on business environment indicators, further reduction in the costs of starting, expanding, and closing a business—especially for SMEs—is needed to boost private sector development. Addressing these and other priority issues, as discussed in this report, will be important for the UAE's continued success in leveraging its oil wealth for prosperous and inclusive growth and macro-financial stability, amid heightened global and regional risks.

RECENT DEVELOPMENTS

3. **The economy has been recovering gradually from a slowdown caused by a decline in oil prices in 2014–15.** Continued corporate restructuring, slowdown in government investment, declining real estate prices, and tightening financial conditions[1] reduced nonoil GDP growth to 2.5 percent in 2017 and (expected) 2.9 percent in 2018 from a peak of 6.4 percent in 2014. Employment growth slowed from 3.5 percent in 2017 to less than one percent (y-o-y) in August 2018. Nonoil exports remained largely unchanged in 2017, despite continued global expansion, in part owing to a slowdown in external demand from several key trading partner countries (India, Saudi Arabia, Oman, and Iraq). Nonoil exports and growth appear to have been subdued so far in 2018.[2] By contrast, following last year's cuts, oil output has started to recover after the June 2018 OPEC+ Agreement. Weak demand and falling housing costs have kept inflation low, notwithstanding, as expected, a brief spike in January 2018 due to VAT introduction (Annex II).

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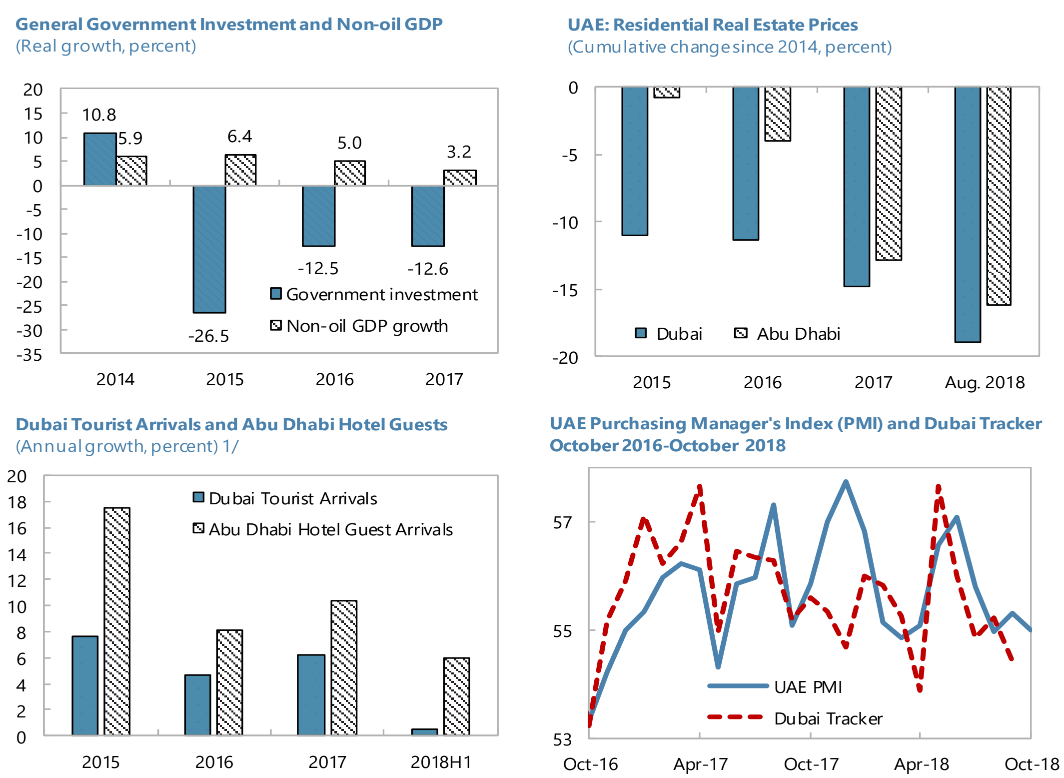
[1] These partly owed to rising U.S. interest rates, strengthening U.S. dollar, and declining real estate prices. Meanwhile, structural liquidity in the domestic banking sector has improved further with increased oil prices (Figure 3).

[2] Quarterly GDP data for the UAE are not available. In Abu Dhabi, real nonoil GDP grew by 1.8 percent in H1 2018. In Dubai, although the national accounts data for H1 2018 have not yet been released, tourist arrivals were largely flat during this period while cargo traffic at the Dubai International Airport, real estate prices, and the stock market registered a decline. The UAE Purchasing Managers' Index has been largely unchanged during 2018.

4. The fiscal stance has become more supportive of the recovery. The nonoil primary deficit widened by 3.8 percentage points (pp) of nonoil GDP in 2017 and is estimated to increase further by 4.3 pp of nonoil GDP to 30 percent of nonoil GDP in 2018, as increased oil concession revenues are partly used to increase spending. The impact of this easing on growth has been limited, however, because it was driven by lower dividends of government-related enterprises (GREs) and higher current spending while investment continued to decline. In May 2018, the authorities announced plans for raising investment. Abu Dhabi intends to invest AED 50 billion over three years ($13 billion or 3.5 percent of the 2017 UAE GDP), augmenting Dubai government's planned investment of $6 billion for Expo 2020 in 2018–20, mainly for airport and metro expansion and site development.

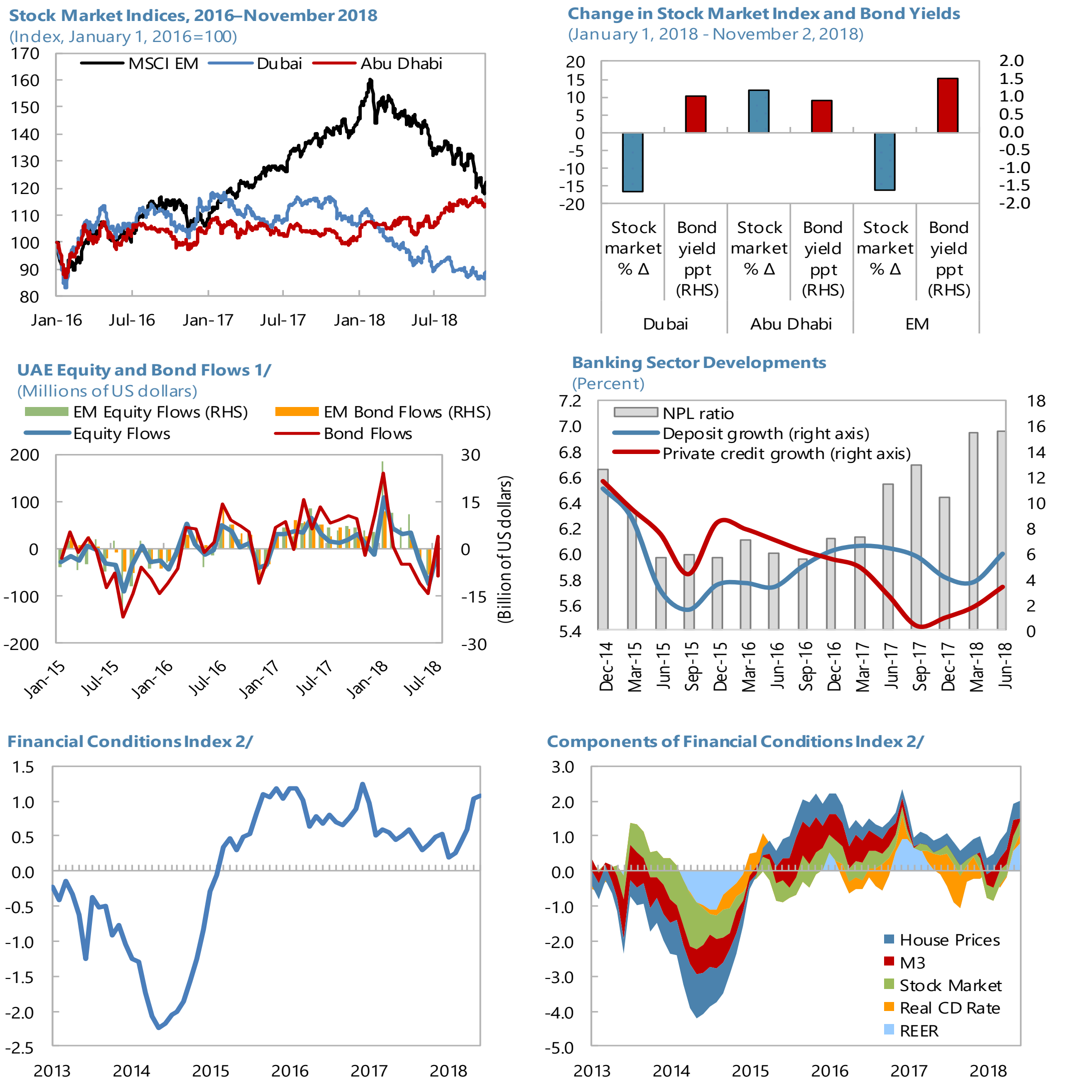
5. Bank credit to the private sector has started to recover while stock market performance has been mixed. As emerging markets came under pressure in H1 2018 amid concerns about implications from the continued normalization of US monetary policy, Dubai's stock market declined. By contrast, the stock market in oil-dependent Abu Dhabi has strengthened, helped by a recovery in oil prices since mid-2017 against the background of lower GRE debt. Higher oil revenues have also increased government deposits, further supporting the banking system's liquidity and private credit growth. While the nonoil output and credit gaps remain negative (Figures 1 and 3), credit growth has been recovering, especially to construction, trade, and manufacturing, since Q3 2017, supporting prospects for the recovery of nonoil growth.

Economic Developments Since 2014



Sources: Country authorities, REIDIN, WEO, Dubai Tourism Performance Report, and IMF staff estimates.
1/ In 2017, overnight hotel stays reached 15.8 million in Dubai and 4.8 million in Abu Dhabi.

Financial Developments



Sources: Country authorites; Bloomberg; Haver; REIDIN; and IMF staff calculations.
1/ Based on Emerging Portfolio Fund Research, Inc. data.
2/ FCI shows the tightness or looseness of the monetary and financial conditions by examining the interest rate and exchange rate levels, equity market, housing market and the money supply. The weighted sums are normalised with a mean of zero and standard deviation of one. Negative readings of the index indicate a relatively loose, whereas positive readings represent tighter financial and monetary conditions.

6. **Bank profitability, liquidity, and capital buffers remain strong, despite an uptick in non-performing loans (NPLs).** Bank profitability has improved, reflecting higher interest margins. The capital adequacy ratio has remained above 18 percent in Q2 2018. Wholesale funding, mostly at medium-term maturities, edged down to below 13 percent of total funding by Q2 2018, in part owing to rising US interest rates. Bank liquidity has improved further with increased oil prices (Figure 3). With the economy recovering only gradually, NPLs rose, reaching 7 percent of total loans in Q2 2018 (from 6.4 percent at end-2017). While SMEs and households led the NPL increases in 2017, the latest increase was mostly driven by GREs and other large corporates. Despite the increase, NPLs remain fully provisioned. Transition to IFRS9 has also prompted banks to increase provisioning, although it has not had an apparent impact on NPLs.

7. **The external position has improved on higher oil prices.** The current account surplus nearly doubled last year to 6.9 percent of GDP in 2017 as oil revenues rose and imports remained flat, and is expected to strengthen further to 7.1 percent of GDP in 2018 owing to higher oil prices. The financial account registered smaller net outflows than the current account surplus in 2017. As a result, gross international reserves rose by $10 billion to $95 billion as of end-2017 (6 months of prospective imports, excluding re-exports), and are expected to rise further in 2018. External buffers have remained adequate for external stability, especially in the context of the government's large stock of foreign assets held in sovereign wealth funds (SWFs). The real effective exchange rate (REER) was stable in 2017, but appreciated by 3.8 percent between September 2018 and December 2017, in line with the US dollar.

8. **To boost growth and competitiveness, the authorities announced a series of structural reforms in 2018 (Box 1).** These included lowering fees and easing business licensing and registration, liberalization of foreign business ownership in selected sectors,[3] and introduction of long-term residence visas for professionals and retirees. In addition, in September 2018, the UAE government announced a reduction in electricity tariffs for the industrial sector. Details for implementing many of these reforms, including coverage and eligibility criteria, as well as their timeline are yet to be released.

Box 1. Structural Policy Measures Announced in 2018

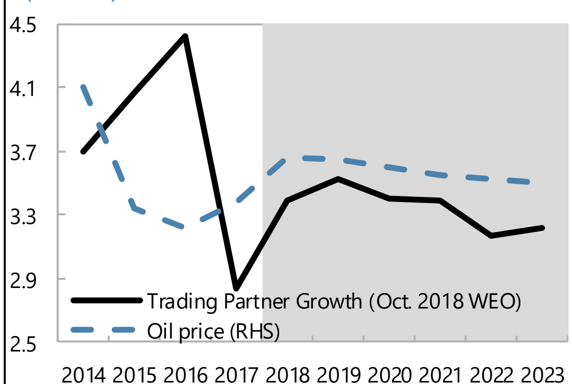
Government Fees	Business Licensing	Business Promotion	Foreign Investment and Resident Visas
Businesses with expired trade licenses (for more than 24 months) exempted from paying delayed and accumulated fees, provided they apply for license renewal, liquidation or cancellation **(Abu Dhabi)**	Instant licensing systems for most commercial activities to be implemented **(Abu Dhabi)** Companies operating in **Dubai** exempted from late license renewal fines till end-2018	A new Local Production and Procurement Support Program encourages public institutions and large companies to procure from local suppliers **(Dubai)**	10-year residency visas introduced for specialists in medical, scientific, research and technical fields, entrepreneurs and exceptional students; 5-year residency allowed for other students. Visa extensions eased for dependents and graduating students. 5-year renewable residency visas announced for retirees.
All government fees frozen for three years in **Dubai**. Private school fees frozen in 2018/19. **Dubai** municipality market fee halved to 2.5% and 19 fees in aviation industry eliminated	All new business licenses exempted from the requirement of having an registered office or a work space for two years and permanent home licenses allowed **(Abu Dhabi)**	New initiatives to facilitate eco-tourism to be developed **(Abu Dhabi)** Abu Dhabi Accelerators and Advanced Industries Council ("Ghadan") to be established to support high value-added investments **(Abu Dhabi)**	100% foreign ownership of UAE-based businesses allowed in selected sectors. Dual licenses allowed for companies operating in free zones, enable enabling on-shore operations and to participation in public procurement tenders
Selected companies to be exempted from fines and penalties accumulated as of end-2017 **(Dubai)**		A target of creating 10,000 jobs for nationals in the next five years announced	A review of all fines in the healthcare and education sectors initiated
Late payment fees on property registration waived (4 percent if not registered within 60 days) **(Dubai)**		Accelerated settlement of all delayed payments to private sector contractors announced **(Abu Dhabi)**	A review of real estate and infrastructure building regulations initiated with a view to easing compliance

[3] A new Law on Foreign Direct Investment, issued in November 2018, provides a framework for the UAE Cabinet to allow increased foreign ownership in selected sectors (yet to be identified) and sets out the process for applying for majority foreign ownership.

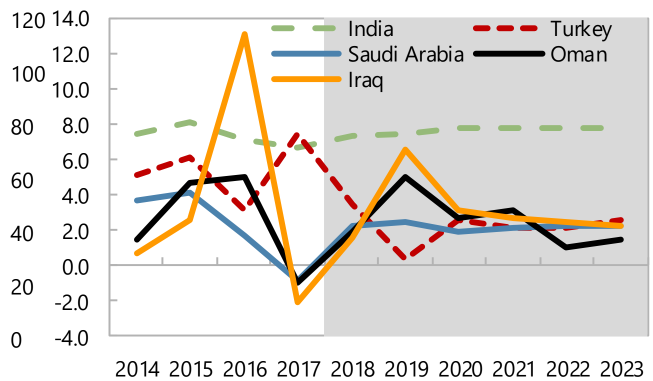
OUTLOOK AND RISKS

9. Growth momentum is expected to strengthen in the next few years. Nonoil growth is projected to rise to 3.9 percent in 2019 and 4.2 percent in 2020 with higher oil prices, increased investment, improved growth prospects in trading partners relative to 2017, and a boost to tourism from Expo 2020. After the fiscal stimulus is phased out and Expo 2020 ends, nonoil growth is expected to average 3.5 percent in 2021–23. The contribution from the private sector is projected to rise owing, among other things, to the recently announced reforms, continued recovery in private sector credit growth, and stronger consumption growth. In line with the June 2018 OPEC+ Agreement, oil output is projected to rise to 3.1 mbd in H2 2018 and reach 3.4 mbd over the medium term with expanding capacity.[4] While generally agreeing with staff, the authorities were somewhat more optimistic about the outlook, noting that favorable liquidity conditions boded well for further acceleration of lending to the private sector while the announced fiscal stimulus could have an earlier and stronger impact on growth.

Trading Partner Growth
(Percent)



Growth in the Top Five Trading Partners
(Percent, October 2018 WEO)



Source: WEO; Haver; and IMF staff calculations.
Note: Partner country real GDP growth rates weighted by the value of their non-oil exports, excluding re-exports.
Top five trading partners account for 40 percent of UAE's non-oil exports.

10. Increased public investment is expected to support the recovery. Staff expects the nonoil primary deficit to decline to 27 percent of nonoil GDP in 2019. Investment stimulus measures are likely to start next year. Nonetheless, the expected recording and distribution of the 2018 VAT revenue in 2019 will temporarily improve the nonoil primary deficit by 3.0 pp of nonoil GDP in 2019. Broadly in line with the authorities' intentions, fiscal consolidation is expected to resume after 2020, as private sector activity picks up and stimulus measures are phased out. The overall balance will turn to a surplus next year and is projected to remain positive over the medium term, at about 1 percent of GDP.

[4] ADNOC plans to invest up to $45 billion in expansion of its refining and petrochemical capacity over the next six years, including construction of the world's largest integrated refining and production facility.

11. External surpluses are expected to diminish over the medium term. Despite strengthening import growth, higher oil revenues will likely raise the current account surplus above 7.5 percent of GDP in 2019. The recent US tariff hikes may slow aluminum exports (accounting for $1.3 billion in 2017 or 1 percent of total nonoil exports), with limited impact on overall nonoil exports.[5] By 2023, the current account surplus is projected to decline to around 4 percent of GDP in line with oil prices, falling short of the benchmarks consistent with intergenerational equity (Annex III). Hence, the external position appears moderately weaker than the level that would be consistent with sufficient saving of nonrenewable resource revenues to maintain intergenerational equity (Annex IV). The gap would be closed if fiscal adjustment to the benchmarks were to be completed over the longer term (Annex III). The peg, supported by sizable buffers and external surpluses, remains sustainable.

12. Downside external risks have risen (see RAM). Given the UAE's role as a trade and financial hub, and its open capital account, the country could be vulnerable to global financial market volatility and trade disruptions. An inward global shift in policies, including towards protectionism, with lower global growth due to reduced trade, migration, and cross-border investment flows could slow nonoil growth in the UAE, especially as global oil demand and prices may decline. Rising geopolitical tensions could undermine investor confidence, weaken external surpluses, and/or prompt the authorities to increase spending on security and foreign assistance. An abrupt tightening of financial conditions could pose refinancing risks for some GREs.[6] Increased financial market volatility could also affect investor sentiment, cause disruptive portfolio adjustments, and, if accompanied by large depreciations in emerging market currencies, slow tourism, trade, and investment. On the other hand, the planned inclusion of the Gulf Cooperation Council (GCC) countries in the J.P. Morgan's Emerging Market Bond Index (EMBI) could lower borrowing costs and help improve portfolio inflows.

13. On the domestic front, risks are broadly balanced. A sharp deepening in the real estate downturn and weakening asset quality could constrain bank lending, which in turn could hold back the recovery. If not designed and implemented effectively, stimulus measures could have a lower-than-expected impact on nonoil growth. A more gradual scaling up of oil output than anticipated in the baseline would result in lower real oil GDP growth. On the other hand, a higher-than-projected increase in oil prices would further strengthen the fiscal and external positions, and nonoil growth. The recent structural reform measures could catalyze a stronger private sector response and improve the medium-term economic prospects. While broadly agreeing with staff's risk assessment, the authorities emphasized mutually offsetting risks to oil production and prices. They also highlighted the mitigating factors, particularly the resilience of the UAE's economy and strong policy implementation capacity.

[5] The impact of strained relations with Qatar and re-imposition of sanctions on Iran is expected to remain small. Qatar's share in the UAE's external trade was less than 2 percent in 2017. Iran's was more sizable (less than 10 percent), but mostly accounted by re-exports, which have a limited impact on the current account and growth.

[6] For example, S&P downgraded two large GREs in Dubai in September 2018.

Risk Assessment Matrix[1]

Nature/source of main risks	Likelihood/Time Horizon	Expected impact on the economy if risk is realized	Policy Response
Sizeable deviations from baseline energy prices, driven by recovery of oil production and slower growth of global demand.	**Medium/Short-to-medium-term**	**High** Besides worsening the fiscal position, a substantial decline in oil prices would have adverse confidence effects in the private sector amplifying the existing challenges and financial market volatility.	Making use of existing buffers to avoid a pro-cyclical fiscal contraction would be important. Fiscal/monetary policy coordination would be important to ensure adequate banking system liquidity. Stepped up monitoring of risks in the banking sector and availing CBU liquidity facilities to banks in distress would help minimize spillovers to the rest of the economy.
Rising protectionism and retreat from multilateralism.	**High/Short-to-medium-term**	**High** Sharp reduction in Iran's external trade due to sanctions and broader rise in protectionism would lower trade flows with a significant impact on Dubai as the regional hub. Broader effects on global growth could depress oil prices (see above) and cool other engines of growth (tourism, FDI). ML/TF risks could also rise.	As above, and ensuring the effectiveness of the AML/CFT framework.
Slippages in the reform agenda would reduce prospects for stronger growth and employment over the medium-term.	**Low/Medium-term**	**High** The failure to follow through on the structural reform agenda could deepen the slowdown in the non-oil sector and undermine confidence.	While increased public investment may boost growth in the short term, sustainable job creation must come from the private sector. Sustained structural reforms will be critical to ensure continued competitiveness and private sector productivity.
Excessive risk-taking by government-related enterprises (GREs).	**Medium/Medium-term**	**Medium** Materialization of quasi-fiscal risks could create a fiscal burden and lead to financial market disruptions with negative confidence effects.	Strengthen monitoring and control over quasi-fiscal liabilities and the overall framework for managing fiscal risks.
Policy and geopolitical uncertainties: intensification of the risks of fragmentation/security dislocation in parts of the Middle East, leading to socio-economic disruptions.	**High/Short-to-medium-term**	**Medium/Low** The positive effect of higher oil prices on public finances will likely be overshadowed by negative spillovers on growth from high uncertainty.	Needed policy response would depend on the nature of the shock. Fiscal policy response may be warranted, and the authorities would need to ensure stability of the financial system.
Sharp tightening of global financial conditions.	**High/Short -term**	**Medium/Low** Tighter global financial market conditions could affect refinancing of debt obligations in Dubai (both government and GREs).	Carefully calibrate the fiscal position and limit new debt accumulation; strengthen management of fiscal risks and oversight of GREs.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

POLICY DISCUSSIONS

A. Temporary Fiscal Easing with Firmer Fiscal Anchors

14. Staff supported the authorities' more accommodative short-term fiscal stance. Spare capacity, large buffers, and tightening financial conditions warrant a fiscal easing. In Abu Dhabi, finalizing and frontloading the stimulus plans while channeling expenditure into areas with high growth multipliers, selecting projects based on rigorous cost-benefit analysis to ensure efficiency of spending, and abstaining from competitiveness-reducing measures (such as wage hikes) will be important to accelerate the recovery and raise medium-term growth while ensuring intergenerational equity. Furthermore, staff pointed to the need for close coordination between fiscal and monetary authorities during the implementation (and eventual phasing out) of the stimulus to mitigate any potential risks to the financial sector and economic growth. The authorities intend to finalize the stimulus measures soon, focusing on improving competitiveness and fostering social development.[7] Given Dubai's large public-sector debt,[8] staff encouraged the authorities to be prudent when implementing recent revenue-reducing measures while containing current expenditure growth and executing the planned investment efficiently.

15. Resuming fiscal consolidation once the economic recovery gains momentum would support intergenerational equity and debt sustainability. Staff estimates that the nonoil primary deficit is some 7 pp of nonoil GDP above the benchmark needed to ensure sufficient saving for future generations. While this gap could be allowed to widen in the near term given the still weak cyclical position of the economy, staff recommended resuming fiscal consolidation once the recovery takes hold. Large financial buffers allow consolidation to proceed gradually: an average annual rate of 0.5 pp of GDP would allow the gap to be closed by 2029, while mitigating an adverse impact on growth. This would be broadly consistent with the authorities' goals of gradually increasing intergenerational savings by the Abu Dhabi government and achieving and maintaining a primary balance by the Dubai government.

16. There was an agreement that government spending needs to be prioritized towards realizing the Vision 2021 of developing a diversified, robust, knowledge-based economy. Over the past decades, the UAE's large and wide-ranging public investment has created a state-of-the-art infrastructure, attracted foreign talent, improved productivity, and made the country one of the premier destinations for foreign investment. As a sign of a maturing economy, marginal productivity of investment has declined along with trend nonoil growth,[9] raising the bar for future policies to deliver a sustained expansion of capacity through technological advancement and reallocation of

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[7] In September 2018, the Abu Dhabi government announced the Government Accelerators Program "Ghadan 21" aimed at enhancing competitiveness, focusing on four areas: business and investment, society, knowledge and innovation, and lifestyle. The first phase envisages AED 20 billion in development spending in 2019.

[8] Although Dubai's government debt, including guarantees, is relatively low, at 28 percent of GDP as of end-2017, total public debt (including GREs) exceeds 100 percent of Dubai's GDP. The authorities emphasized that most of the GRE debt is not explicitly guaranteed by the Dubai government.

[9] A persistent decline in oil prices since 2014 and a weakening of trading partners' medium-term growth prospects after the global financial crisis have also contributed to the trend decline in nonoil growth in the UAE.

resources to more productive sectors. Continued spending reviews and priority budgeting would help realize the Vision 2021 in a cost-effective manner. Staff welcomed the authorities' intention to contain the government wage bill and other current expenses as a share of nonoil GDP over the medium term, to strengthen the fiscal position while improving competitiveness. Building on progress achieved earlier, continued energy and water subsidy reforms would rationalize private consumption and reduce the burden on public finances. In this context, the authorities clarified that the purpose of the recently announced cuts in federal electricity tariffs is to encourage industries to set up new operations. Staff urged the authorities to ensure that these tariff cuts would preserve cost recovery and, if not, phase them out.

17. In tandem with efforts to diversify the economy, transforming fiscal revenue systems is important to strengthen the link between nonoil growth and fiscal revenues over time. In this context, staff commended the authorities for their successful introduction of VAT in 2018 (Annex II). To ensure its smooth functioning, staff recommended finalizing arrangements for timely distribution of VAT refunds and revenue. In the longer term, consideration could be given to gradually broadening the VAT base and to developing more efficient revenue systems over time. While the current system of numerous government fees may have served the UAE well in attracting FDI in the early development stages, it is regressive, and costly to administer.[10] It is also less conducive to SME development and diversification as fixed fees are more burdensome for smaller enterprises. The authorities have already initiated a comprehensive review of fees with a view to rationalizing them. Staff welcomed this step and recommended a complementary study assessing the extent of potential economic distortions from fees and exploring alternative revenue models, such as corporate income taxation, which would be more progressive, easier to administer, and more conducive to SME development.

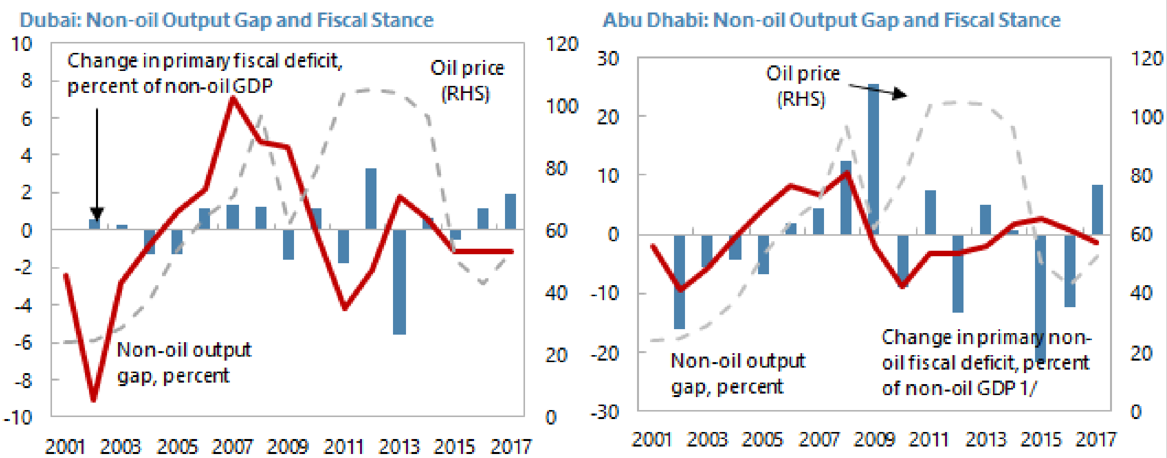
18. Firmer anchoring of fiscal policy would facilitate decisions on how much of government revenues to spend, and how much to save for future generations. The authorities have made notable progress in strengthening the fiscal framework over the past several years, including transitioning to GFSM-reporting and medium-term budgeting by the federal government and some emirates.[11] While welcoming the authorities' efforts, staff pointed to the need for further strengthening policy anchors to avoid procyclicality and to prevent expenditures drifting away from the long-term benchmarks for intergenerational equity and debt sustainability. Staff urged the authorities to remain steadfast in their efforts to bolster the fiscal policy framework, focusing on the following priority areas (see Annex V and the accompanying Selected Issues Paper):

- **Refining fiscal anchors** to balance short- and long-term objectives. In the long term, fiscal policy should target sufficient savings to preserve debt sustainability or—in the case of oil-exporting emirates—to ensure intergenerational equity. However, exclusive focus on

[10] Over 900 different fees were collected by ministries and departments in the UAE in 2014 (the latest year for which data are available). In Dubai, fees accounted for over half of government revenues in 2017.

[11] Since the last year's Article IV consultation, the authorities have also improved fiscal data sharing and cash management and have initiated a Fiscal Coordination Program in the health and education sectors.

long-term objectives could lead to excessive volatility in government spending and domestic demand, lowering medium-term nonoil growth. Therefore, it is also important that fiscal policy mitigates the impact of adverse shocks on the economy while fostering private sector growth.[12] Short- and long-term fiscal anchors can guide decisions about how much to invest now and how much to save for future generations, and what fiscal policy is appropriate under different macroeconomic scenarios.[13] Such anchors need to be formulated or strengthened in individual emirates and calibrated for the UAE.



Source: UAE authorities and IMF staff estimates.
1/ Excluding investment income from sovereign wealth funds.

- **Developing a consolidated fiscal framework for the UAE** that would define a near-term fiscal stance (stimulus or withdrawal) and medium-term fiscal path and align spending priorities with structural policies underpinning the Vision 2021. The framework would further facilitate cash management by fiscal entities and liquidity management by the CBU.

- **Strengthening fiscal risk management** by requiring formal reporting by all GREs, maintaining a database of their financial indicators, and constructing aggregate public-sector balance sheets for emirates and the UAE.[14] In addition, robust mechanisms need to be put in place to control

[12] For example, government spending should be reduced gradually (rather than abruptly), while preserving priority spending, in response to a persistent decline in oil prices, and kept stable or increased in response to a transitory oil price decline. Such stabilization can be financed out of financial buffers or through borrowing, as in 2015–16.

[13] Short-term anchors can be formulated as limits on nonoil structural primary balance (for example, as in Norway, Chile, and Mongolia). Long-term anchors can take the form of targeted savings of oil revenue in Abu Dhabi (for example, as in Kuwait and Norway) and limits on public sector debt in other emirates. Such approaches would help strengthen existing fiscal rules and anchors for individual emirates and the UAE as a whole (see the 2017 Selected Issues Paper and the accompanying Selected Issues Paper for this Article IV Consultation).

[14] Data limitations hinder estimation of contingent government liabilities. Bank data show continued reduction in GRE's domestic loans in 2017. Dealogic data also point to a reduction in GRE debt. However, balance sheet data by Orbis and staff's contingent claims analysis comparing estimates of expected losses based on stock prices and CDS spreads (using the methodology developed by Jobst and others, 2013) suggests that GRE liabilities have risen over the past several years, possibly mirroring a decline in medium-term oil prices. Differences in estimates of contingent liabilities might reflect variation in data coverage, substitution of foreign debt for domestic debt, and/or a rise in delayed payments.

contingent liabilities from GRE borrowing, government guarantees, and public-private partnerships (PPPs). Such fiscal risk management systems need to be strengthened in emirates and at the federal level.

- **Improving policy coordination among fiscal authorities (federal and emirates' governments, GREs, and SWFs)** *and the CBU* by creating a High-Level Financial Policy Coordination Council supported by a technical Secretariat with a mandate to oversee coordination of the medium-term fiscal framework, fiscal risk management, and other policies to attain the authorities' nonoil growth and diversification objectives.

The authorities plan to continue strengthening the fiscal framework and coordination between emirate and federal fiscal authorities, and between fiscal and monetary authorities. They intend to identify specific steps for improving policy coordination at the upcoming Annual Meetings of the UAE Government. To strengthen risk management, the authorities are considering launching a project to analyze fiscal risks and construct a UAE public-sector balance sheet, with technical assistance from the IMF.

B. Safeguarding External and Financial Stability

19. The longstanding exchange rate peg continues to serve the UAE well, most importantly by anchoring prices. The peg is supported by comfortable external financial buffers (including central bank reserves and SWFs) as well as open and flexible labor markets. The current account surplus is moderately below the level needed to ensure sufficient savings for future generations. The negative current account gap is expected to close as desirable policy settings are reached (as the fiscal balance improves to the levels consistent with intergenerational equity). There have not been any recent changes to the system of exchange controls. The authorities remain committed to maintaining the peg.

20. Increased risks warrant heightened supervisory vigilance. Staff welcomed supervisors' efforts to enforce prudential norms (including for single borrower and sectoral exposures) by requiring banks to strengthen provisioning and/or capital, and to limit dividend distribution, and the CBU plans to move to risk-based supervision in 2019. Collaboration between bank supervisors and the Financial Stability Department has also strengthened to enhance stress-testing and better identify pockets of vulnerability and emerging risks, including from GREs. Staff strongly supported these efforts and recommended designing sufficiently stringent stress-testing scenarios, including for GREs, and following up with banks on stress-testing results. Given the risk of spillovers from declining real estate prices, staff urged the CBU to resist calls for relaxing prudential limits on real estate lending.[15] The authorities are preparing to develop a new bank resolution regime; in the meantime, staff encouraged the CBU to discuss contingency plans for banks in case of an abrupt tightening of financial conditions or other adverse shocks.

[15] A 20 percent (of deposits) cap on real estate lending, differentiated loan-to-value and debt-to-income ratios, and requirements for minimum financing for developers limit risk from exposures of banks to the real estate sector.

21. **Staff welcomed the CBU's progress with modernizing the regulatory framework, in line with its medium-term agenda (Annex VI).** Operational, market, and interest rate risk regulations are awaiting publication. Work on the remaining Basel III capital standards is nearing finalization within the targeted timeframes. Strengthened consultations with banks are helping the CBU calibrate new regulations to UAE-specific conditions and issue clarifying guidance, as necessary, to help banks adjust to new rules. The central bank and banking law was approved in October 2018, envisaging increasing the CBU's capital, enhancing central bank independence, improving the prudential framework and strengthening the ability of supervisors to take action if necessary.

22. **Initiating issuance of domestic government securities in tandem with upgrading the CBU's liquidity management framework would help banks manage risks and promote financial market development.** Introducing new dirham-denominated government and CBU market securities would help banks manage liquidity, complementing Basel III liquidity requirements. Issuance of government bonds would also facilitate development of domestic capital markets and broaden financing options for corporates, including SMEs. With the recent approval of the federal debt law, the authorities plan to proceed with the necessary operational arrangements to reflect the CBU's role as the issuing agent of the government debt and modernizing the CBU's liquidity management framework. The authorities agreed that closer information exchange between the CBU and fiscal authorities would help the CBU forecast liquidity in the banking system while enabling fiscal authorities to calibrate their debt issuance plans to market conditions.

23. **Progress has been made in strengthening the anti-money laundering and combatting of terrorism financing (AML/CFT) regime.** Given the openness of the economy, the steady increase of nonresident deposits, and the UAE's geographic location, the UAE continues to focus on measures to mitigate risks stemming from money laundering (ML), terrorism finance (TF) and proliferation finance. The authorities upgraded the legislative and regulatory framework, including by introducing amendments to the AML/CFT Law in November 2018. They are also aiming to finalize a national risk assessment by early 2019, an important step to improve the understanding and mitigation of ML/TF risks. The CBU is enhancing AML/CFT supervision of banks, remittances, and foreign exchange offices, and is stepping-up its efforts to analyze suspicious transactions and respond to foreign requests of information.

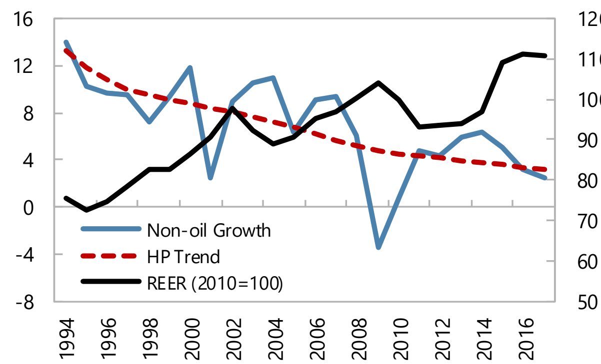
24. **Further enhancing the overall effectiveness of the regime would mitigate ML/TF risks.** Going forward, staff urged the authorities to continue improving their understanding of ML/TF risks including those related to nonresident financial flows, and to communicate the results of the national risk assessment to relevant public and private stakeholders. Enhancing the identification of the beneficial owners of banks' customer accounts and bolstering ongoing monitoring of and reporting of suspicious transactions will further mitigate ML/TF risks. Staff also encouraged the CBU to maintain close supervision of the high-risk remittance sector—in coordination with relevant agencies—to ensure that service providers implement the AML/CFT requirements, thereby minimizing migration of remittances to informal channels. The transparency of legal persons and arrangements (e.g., trusts) established in the UAE can be enhanced by ensuring that adequate and accurate beneficial ownership is available in a timely manner to the authorities.

25. To detect potential pressure on correspondent banking relationships, banks should continue to be closely monitored. Although no correspondent banking withdrawals have been recently detected, staff recommended continued monitoring of potential pressures and maintaining close communication between domestic and foreign banks and regulators.

C. Creating a Vibrant, Diversified, Knowledge-Based Economy

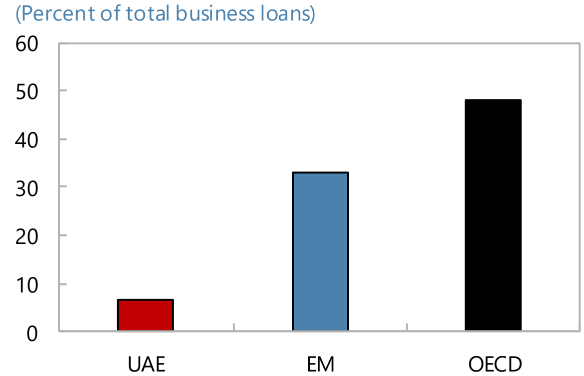
26. Realizing the authorities' Vision 2021 requires further reforms to boost the role of the private sector and improve competitiveness. While welcoming the recently announced policy initiatives, staff encouraged the authorities to clarify the specifics, and continue deepening and broadening reforms. Stronger and more diversified nonoil growth forms a base for sustainable fiscal revenues and long-term employment and entrepreneurship opportunities for the growing national population of the UAE, in addition to increasing returns to shareholders. Strengthening synergies between GREs from different emirates would improve efficiency by realizing economies of scale and scope. Integrating domestic financial markets would achieve similar benefits, while increasing market liquidity and expanding the investor base. Privatizing nonstrategic GREs and bringing them within the scope of competition laws and regulations would boost efficiency and productivity growth. Building on the recently adopted FDI Law, liberalizing foreign investment outside the free zones could bring in new capital and spur diversification and innovation. It would also increase liquidity in the stock markets, enabling local companies to raise capital more easily and facilitating GRE privatization.

Non-oil Real GDP Growth and REER
(Percent)



Source: National authorities; and IMF staff calculations.

Loans to Small and Medium-Enterprises
(Percent of total business loans)



Sources: OECD; SME Finance Forum; country authorities; and IMF staff calculations.

27. There was agreement that creating an "ecosystem" conducive to SME development would boost diversification, innovation, and job creation (see Annex VII and the accompanying Selected Issues Paper). The SME Council and the newly created high-level committee on SME financing are already moving in this direction, and close coordination among all stakeholders would be essential for success. Improved coverage by credit bureaus and collateral registries is also a welcome step towards improving currently low access of SMEs to bank finance. (Implementing the new bankruptcy law would support these efforts.) At the same time, relaxing risk weights on SME loans or other regulatory forbearance by the CBU could undermine financial stability. Beyond bank finance, fostering the development of domestic capital markets and a coordinated approach between on-shore and off-shore regulators in the fintech area would broaden SME sources of capital, while mitigating financial risks. Any direct government support for SMEs, including grants and guarantees, needs to be reflected in the budget.

28. Another priority is promoting talent and inclusiveness. Building on the recent introduction of long-term visas for highly-qualified expats, further steps to reduce fragmentation between national and expat labor markets, as discussed below, would support the authorities' Emiratization agenda while continuing to attract expat talent. Controlling the size of the civil service and bringing its wages and allowances more in line with those in the private sector would increase incentives for nationals to apply for private sector jobs or explore business opportunities, while supporting fiscal consolidation. In tandem, strengthening education and training in areas that are in demand in the private sector would be important. While the gender gap is the second lowest in the GCC, it is still far higher than in global comparators. Building on past success, continued efforts to increase female labor force participation would increase the pool of talent in the economy. Staff welcomed the adoption of the Equal Pay and Gender Equality Law in May 2018, which requires equal wage and nonwage benefits to be accorded to male and female employees in the national and expat labor force. Consideration could be given to introducing gender budgeting in the coming years.

D. Improving Economic Statistics

29. Continued improvement in statistics would facilitate decision-making, policy coordination, and risk management. Implementation of the Enhanced General Data Dissemination Systems (e-GDDS) in June 2018, with IMF TA support, and reconciliation of national and emirate-level GDP data were important recent achievements. Staff also welcomed the authorities' ongoing project to improve the balance-of-payments statistics using SWIFT transactions data and their intention to work towards joining the SDDS in the next few years. However, production of quarterly GDP remains in progress. Significant room also exists for improving fiscal, external, and labor statistics. With support from IMF TA, the authorities are striving to address these gaps. Close cooperation and information-sharing between federal and emirates' statistical agencies, development of consistent methodologies, and enhancement of statistical agencies' resources and capacity are essential for timely progress in improving statistics. The non-provision of data on gross external debt and the IIP to the Fund is due to capacity limitations. Staff encouraged the authorities to improve capacity while sharing available data on external public-sector assets and liabilities in the meantime.

STAFF APPRAISAL

30. The economy has been adapting well to the prolonged decline in oil prices since 2014, amid heightened risks. Continued corporate restructuring, decline in real estate prices, slowdown in government investment, and tightening global financial conditions have reduced nonoil GDP growth since 2014. Growth momentum is expected to strengthen in the next few years with increased investment, improved prospects in trading partners, and a boost to tourism from Expo 2020. The oil sector's prospects have also improved with higher oil prices and the OPEC+ agreement to raise output. However, downside risks to this outlook have risen, underpinned by increased volatility in emerging markets, escalating geopolitical tensions, and rising protectionism.

31. The main fiscal policy priority is to support the recovery in the short term and resume fiscal consolidation in the medium term. After a significant fiscal adjustment in 2015–16, the fiscal easing in 2017 should be sustained in the near term given spare capacity, large buffers, and tightening financial conditions. Resuming fiscal consolidation once the recovery takes hold will be important to ensure sufficient savings of exhaustible oil revenue for future generations and debt sustainability. The UAE's large financial buffers will allow consolidation to proceed gradually.

32. Continued strengthening of the policy framework and coordination would help realize the authorities' Vision 2021. Government spending, both at the emirates' and federal levels, needs to be prioritized towards developing a diversified, robust, knowledge-based economy. Over the longer term, transforming and diversifying fiscal revenue systems would help strengthen the link between nonoil growth and fiscal revenues. Refining fiscal anchors, developing a consolidated medium-term fiscal framework for the UAE, avoiding policy procyclicality, improving fiscal risk management, and strengthening policy coordination are key priorities.

33. Heightened supervisory vigilance is needed to support external and financial stability. The longstanding exchange rate peg continues to serve the UAE well. The ongoing initiatives to upgrade the regulatory framework should continue. Conducting stringent stress tests and following up with banks on their results would help maintain financial sector stability. Initiating issuance of domestic government securities in tandem with upgrading the CBU's liquidity management framework would enable banks to manage risks better and promote financial market development. Continued strengthening of the AML/CFT framework is important to safeguard stability and mitigate risks.

34. Creating a vibrant, diversified, and knowledge-based economy requires further reforms to boost the role of the private sector. The policy measures announced by the authorities earlier this year are welcome, and their specifics should be clarified soon. Strengthening synergies between GREs from different emirates, privatizing non-strategic GREs, and bringing them under the umbrella of the competition laws and regulations would boost efficiency and productivity growth. Sustained efforts to create an ecosystem conducive to SME development would be important to diversify the economy, foster innovation, and create jobs.

35. Promoting talent and inclusiveness is important for improving competitiveness. Building on the recent introduction of long-term visas for highly-qualified expats, further steps to reduce fragmentation between national and expat labor markets would support the authorities' Emiratization agenda while continuing to attract expat talent. Controlling the size of the civil service and bringing its wages and allowances more in line with those in the private sector would increase incentives for nationals to apply for private sector jobs or explore business opportunities, while supporting fiscal consolidation. Following the adoption of the Equal Pay and Gender Equality Law, consideration could be given to introducing gender budgeting in the coming years.

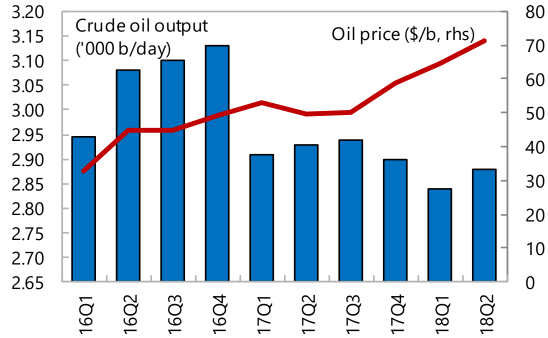
36. Continued improvement in economic statistics would facilitate decision-making and enhance credibility. Implementation of the Enhanced General Data Dissemination Systems (e-GDDS) and reconciliation of national and emirate-level national accounts data are welcome achievements. Further steps are needed to improve fiscal, external, and labor statistics and to produce quarterly GDP, IIP, and external debt statistics.

37. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Recent Economic Developments

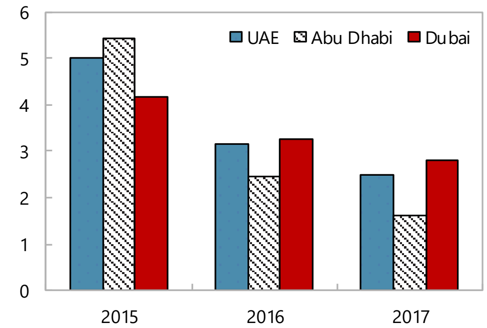
Oil output is beginning to recover amid rising oil prices…

Oil Sector Developments, 2016–2018Q2



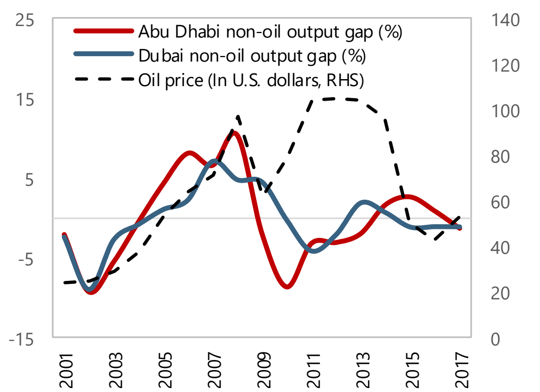
…nevertheless, non-oil growth has continued to slow,…

Real Non-oil GDP Growth, 2015–17
(Percent)



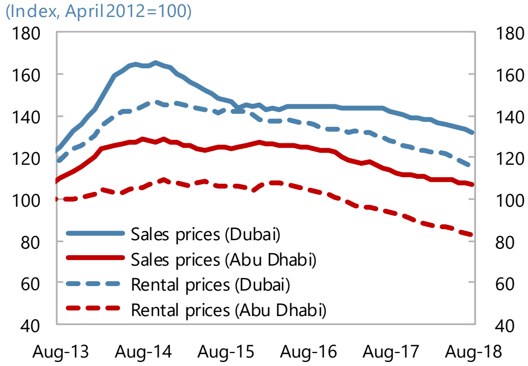
…opening non-oil output gaps.

Non-oil Output Gaps and the Oil Price, 2001–17



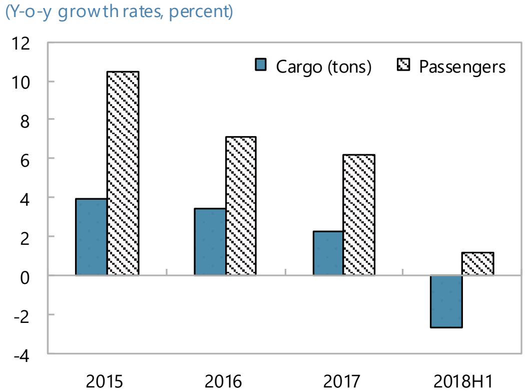
The slowdown has been driven by softer real estate markets,…

Residential Real Estate Sales and Rental Price Index, August 2013–August 2018
(Index, April 2012=100)



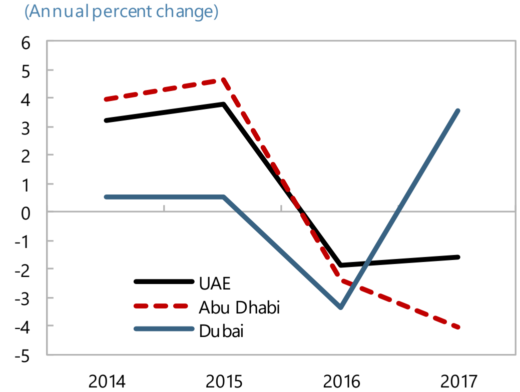
…slower growth in transport services…

Traffic at Dubai International Airport, 2015–18
(Y-o-y growth rates, percent)



…and construction activity.

Construction Sector Real Growth, 2014–17
(Annual percent change)

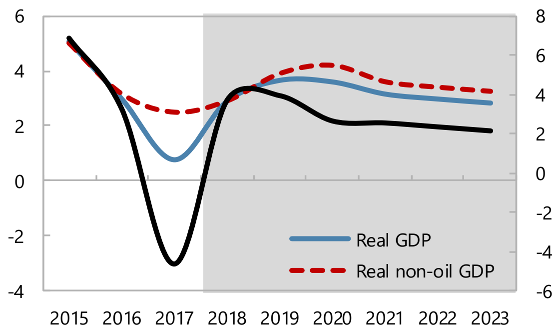


Sources: Country authorities; IEA; ENDB; Haver; Reidin; and IMF staff estimates.

Figure 2. Real and Fiscal Sector Developments and Outlook

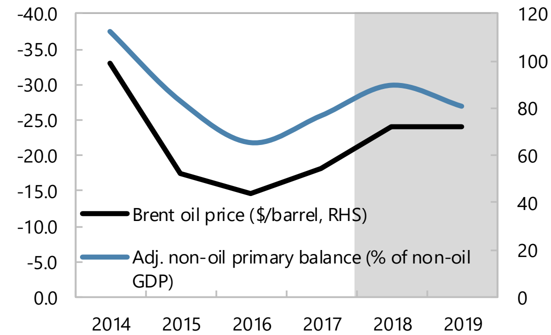
Growth is expected to recover in both oil and non-oil sectors…

Real GDP Growth, 2015–23
(Percent)



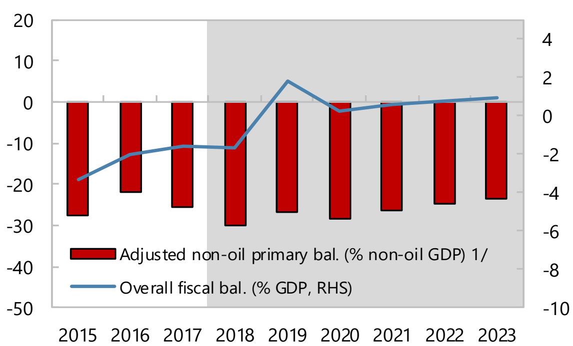
…helped by higher oil price and fiscal impulse

Fiscal Stance and the Oil Price, 2014–19



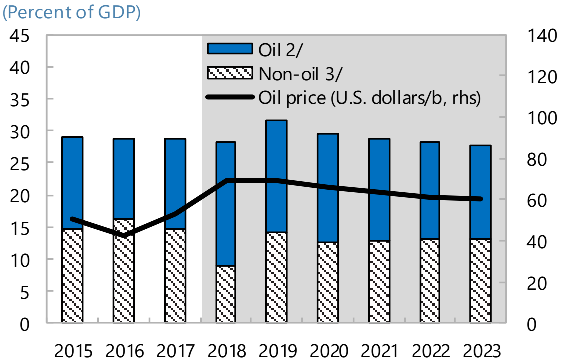
Nevertheless, the overall fiscal balance will turn positive in 2019…

Fiscal Stance, 2015–23



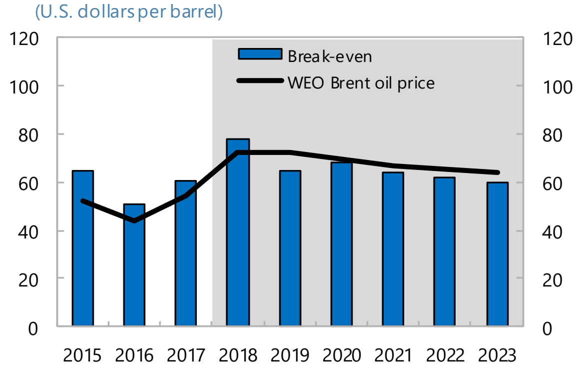
…helped by higher oil revenue.

General Government Revenue, 2015–23
(Percent of GDP)



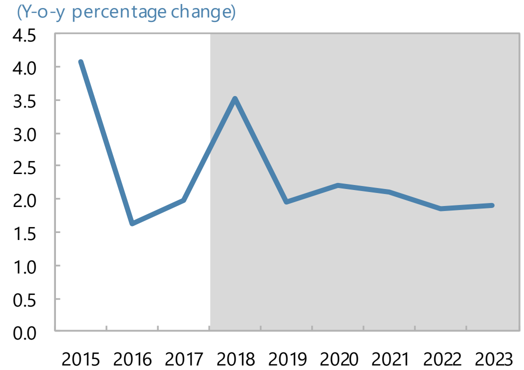
…as the gap between breakeven and actual oil prices closes.

Actual and Fiscal Breakeven Oil Price, 2015–23
(U.S. dollars per barrel)



Meanwhile, inflation is expected to decline after a brief increase in 2018 (due to VAT introduction).

Consumer Price Index, 2015–23
(Y-o-y percentage change)

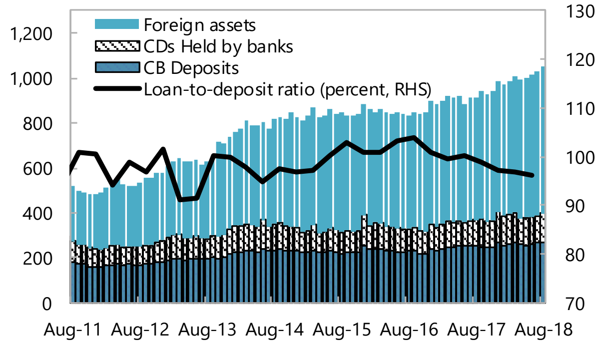


Sources: Country authorities; Haver; and IMF staff estimates.
1/ Excludes staff estimates of SWF returns (investment income).
2/ Includes staff estimates of profit transfers from the national oil company to SWF.
3/ Includes staff estimates of SWF returns (investment income).

Figure 3. Monetary and Financial Sector Developments

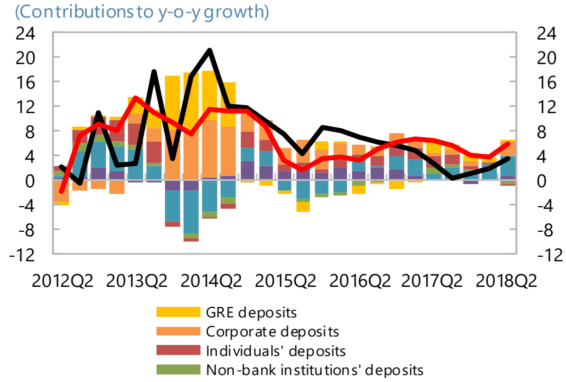
Banking sector liquidity continues to be comfortable…

Bank Liquidity, 2011–18
(Billions of Dirham)



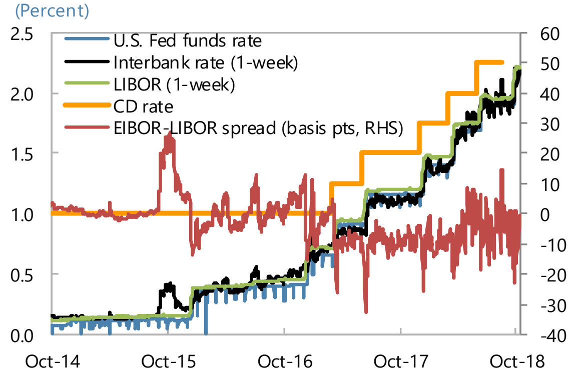
…with deposits and private sector growth on the rise.

Bank Deposits and Credit to the Priv. Sector, 2012Q2–2018Q2
(Contributions to y-o-y growth)



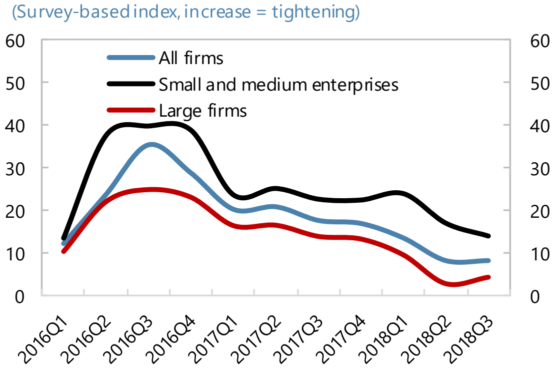
However, rising interest rates, …

Interest Rates, October 2014–October 2018
(Percent)



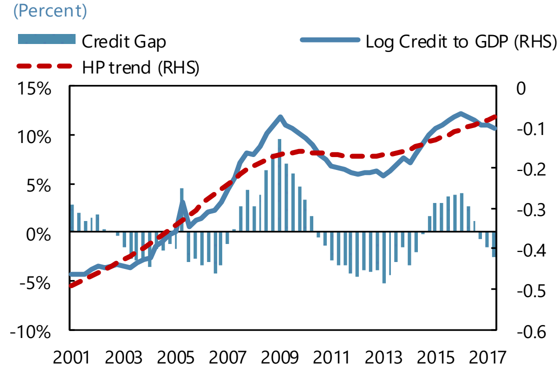
…despite some easing of credit standards,…

Change in Credit Standards, 2017
(Survey-based index, increase = tightening)



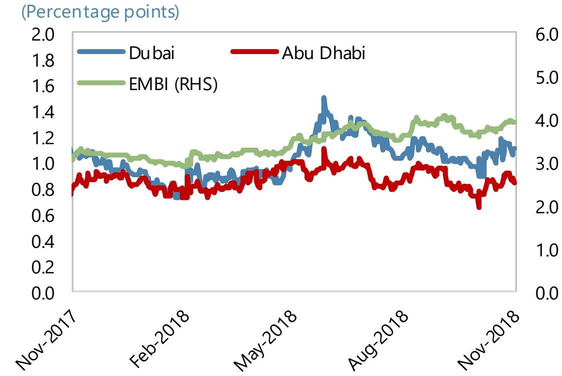
…keep credit below the trend,…

Credit to GDP Gap, 2001–17
(Percent)



…while Dubai sees higher spreads.

10-Year Bond Spreads over Corresponding U.S. T-Bonds
(Percentage points)

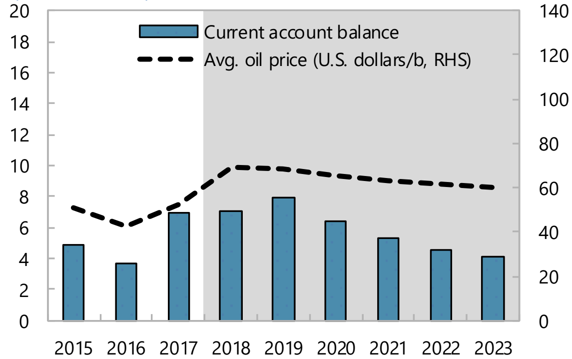


Sources: Country authorities; Haver; Markit; Bloomberg; and IMF staff calculations.

Figure 4. External Sector Developments

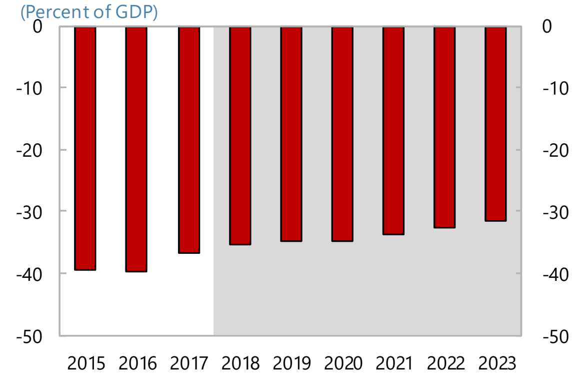
The current account is expected to remain in surplus, helped by a higher oil price...

Current Account Balance, 2015–23
(Percent of GDP)



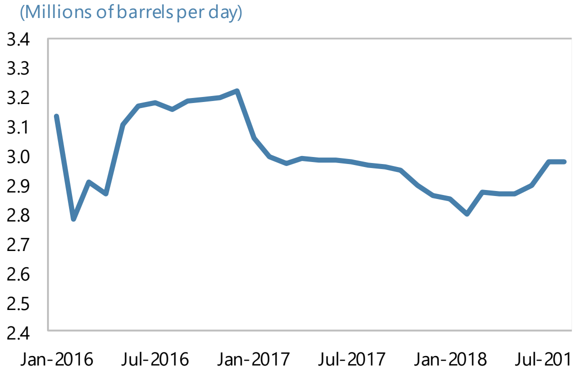
... while nonoil external deficits are projected to decrease.

Balance on Non-Oil Goods and Services, 2015–23
(Percent of GDP)



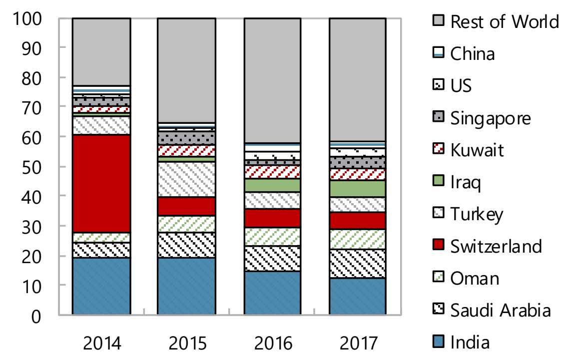
Oil exports were in line with the OPEC+ agreements.

Oil Production, January 2016–August 2018
(Millions of barrels per day)



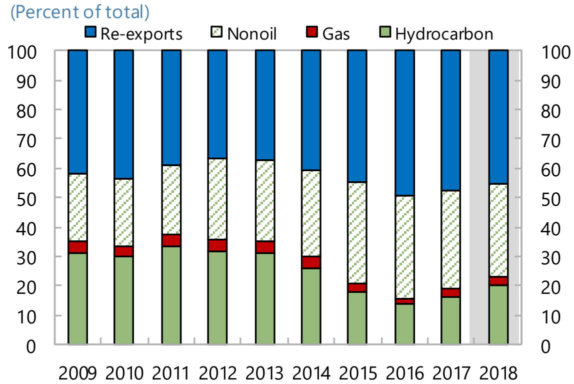
Non-oil export destinations are diversified.

Non-Oil Exports: Top 10 Partners, 2014–17
(Share of total nonoil exports, excluding re-exports)



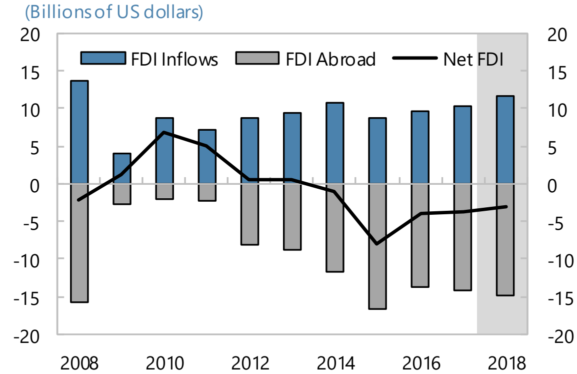
Re-exports remain large.

Exports Composition, 2009–18
(Percent of total)



Net foreign direct investment has been gradually recovering.

Foreign Direct Investment, 2008–18
(Billions of US dollars)

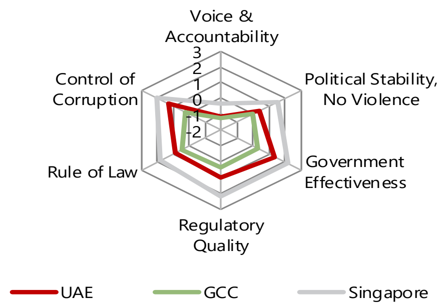


Sources: Country authorities; Haver; IEA; NBS; Energy Intelligence Group; and IMF staff estimates.

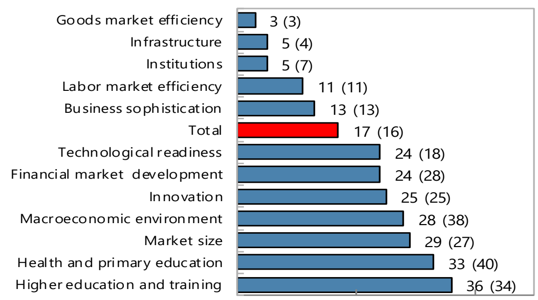
Figure 5. Business Environment and Governance Indicators

UAE ranks favorably on a number of governance and competitiveness indicators, yet there is scope for improvement.

World Governance Indicators, 2016
(Percentile rank)

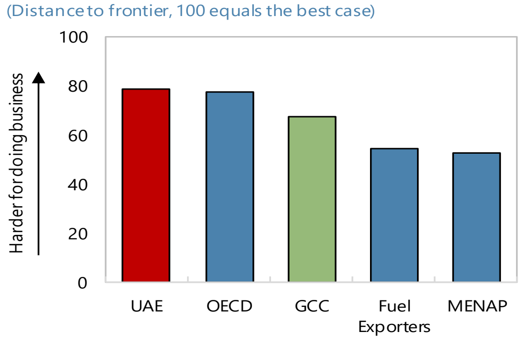


Global Competitiveness Index Ranks by Category, 2017–18
(Rank, previous rank in parentheses)

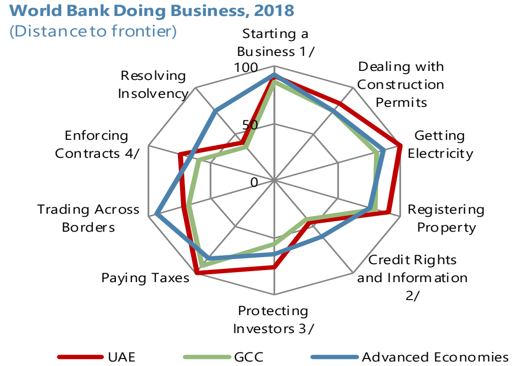


Improving insolvency resolution and credit rights and information would help UAE progress further.

World Bank Doing Business, 2018
(Distance to frontier, 100 equals the best case)

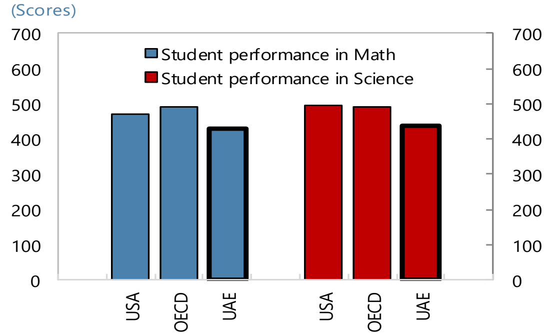


World Bank Doing Business, 2018
(Distance to frontier)

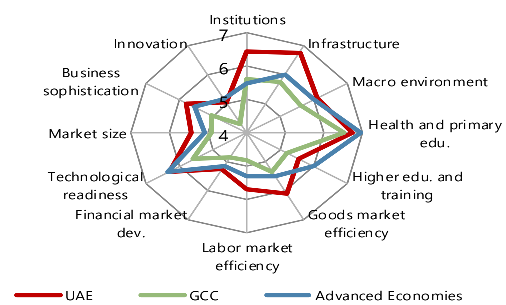


Education policies could be further improved.

PISA Student Performance Scores in Math and Science, 2015
(Scores)



Global Competitiveness Index, 2017–18
(Value, 1=minimum, 7=maximum)



Sources: Global Competitiveness Report (2017–18); World Bank Doing Business Report (2018), World Governance Indicators (2017 Update); PISA (2016), and IMF staff estimates.
Note: World Governance, Doing Business, and Global Competitivenes Index rely on survey-based indicators to reflect perceptions of business environment and governance.
1/ Starting a business encompasses the procedures, time, and cost (including minimum capital requirement) required for an entrepreneur to start and operate a business.
2/ Getting credit is a combination of (i) the legal rights of borrowers and lenders that facilitate lending; and (ii) the coverage, scope, and accessibility of credit information via public credit registries and private credit bureaus.
3/ Protecting investors measures the strength of minority shareholder protection against directors' misuse of corporate assets for personal gain.
4/ Enforcing contracts measures the procedures, time, and cost involved in resolving a standardized commercial lawsuit between domestic

Table 1. United Arab Emirates: Selected Macroeconomic Indicators, 2015–23

	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
Oil sector									
Exports of oil (incl. oil products and gas) (in billions of U.S. dollars)	61.5	46.5	58.1	75.4	84.9	83.3	82.0	81.5	81.7
Average crude oil export price (in U.S. dollar per barrel)	52.4	44.0	54.4	71.9	72.3	69.4	66.8	65.0	63.9
Crude oil production (in millions of barrels per day)	2.9	3.0	2.9	3.0	3.1	3.2	3.3	3.4	3.4
	(Annual percent change, unless otherwise indicated)								
Output and prices									
Nominal GDP (in billions of UAE dirhams)	1,315	1,311	1,405	1,589	1,673	1,744	1,812	1,882	1,959
Nominal GDP (in billions of U.S. dollars)	358	357	383	433	456	475	493	513	533
Real GDP	5.1	3.0	0.8	2.9	3.7	3.6	3.2	3.0	2.8
Real oil GDP	5.2	2.6	-3.0	2.9	3.1	2.2	2.1	1.9	1.8
Real nonoil GDP	5.0	3.2	2.5	2.9	3.9	4.2	3.6	3.4	3.3
CPI inflation (average)	4.1	1.6	2.0	3.5	1.9	2.2	2.1	1.9	1.9
	(Percent of GDP, unless otherwise indicated)								
Investment and saving									
Gross domestic investment	25.8	27.1	21.6	22.5	23.1	22.7	22.6	22.4	22.2
Total fixed capital formation	23.4	24.5	19.1	20.3	21.0	20.7	20.6	20.6	20.4
Public	11.1	11.4	8.2	8.5	8.7	8.5	8.0	7.8	7.7
Private	12.3	13.0	10.9	11.8	12.3	12.2	12.6	12.7	12.7
Gross national saving	30.7	30.8	28.5	29.6	31.0	29.1	27.9	27.0	26.3
Public	3.0	2.2	2.9	3.1	6.8	5.1	5.0	5.0	5.0
Private	27.6	28.7	25.6	26.5	24.2	24.0	22.9	22.0	21.2
Public finances									
Revenue	29.0	28.9	28.8	28.2	31.6	29.5	28.8	28.3	27.8
Taxes	12.5	8.9	11.9	13.3	16.8	14.7	14.1	13.6	13.2
Other revenue 1/	16.2	19.6	16.6	14.6	14.5	14.5	14.4	14.5	14.4
Expenditures	32.4	30.9	30.4	29.9	29.8	29.3	28.2	27.6	26.9
Expense 2/	29.7	27.9	27.8	27.1	26.7	26.3	25.7	25.2	24.6
Net acquisition of nonfinancial assets	2.7	3.0	2.6	2.7	3.1	3.0	2.5	2.4	2.3
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-3.4	-2.0	-1.6	-1.6	1.8	0.2	0.6	0.7	0.9
Adjusted nonoil primary balance 3/	-27.7	-21.9	-25.7	-30.0	-27.0	-28.4	-26.3	-24.7	-23.5
Gross general government debt	16.7	19.4	21.8	20.9	20.5	20.7	20.4	19.9	19.8
Net of government deposits in the banking system	3.7	4.6	6.8	5.1	3.4	3.1	2.1	1.2	0.6
	(Annual percent change)								
Monetary sector									
Net foreign assets	-12.8	5.0	26.8	32.3	18.5	13.8	9.6	6.3	4.4
Net domestic assets	11.7	2.7	-1.8	-6.3	1.5	2.3	5.2	6.6	5.6
Credit to private sector	8.4	5.8	0.7	5.4	5.4	6.0	5.4	5.1	4.9
Broad money	5.5	3.3	4.1	3.6	7.1	6.5	7.0	6.5	5.2
	(Billions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports and re-exports of goods, of which:	300	295	309	329	343	347	347	349	351
Oil	61	46	58	75	85	83	82	81	82
Nonoil, excluding re-exports	104	103	104	105	106	107	108	109	111
Imports of goods	224	227	229	240	246	253	254	255	256
Current account balance	17.6	13.2	26.5	30.5	35.9	30.3	26.2	23.4	21.9
Current account balance (in percent of GDP)	4.9	3.7	6.9	7.1	7.9	6.4	5.3	4.6	4.1
External debt (in percent of GDP)	67.7	70.8	72.6	66.3	63.8	62.5	60.9	59.2	57.8
Gross official reserves 4/	94.0	85.4	95.4	111.2	129.5	145.2	156.9	164.2	168.4
In months of next year's imports of goods & services, net of re-exports	6.7	6.0	6.0	6.8	7.6	8.4	8.9	9.1	9.1
Memorandum items:									
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	..	..	..	..	..	..
Nominal effective exchange rate (2010 = 100)	122.1	125.2	125.7	..	..	..	..	..	..
Real effective exchange rate (2010 = 100)	108.9	111.1	110.9	..	..	..	..	..	..

Sources: Country authorities; and IMF staff estimates and projections.

1/ Includes staff estimates of profit transfers from the national oil company to SWF and SWF returns (investment income).

2/ Includes loans and equity to finance development projects.

3/ In percent of nonoil GDP. Excludes staff estimates of SWF investment income.

4/ Excludes staff estimates of foreign assets of sovereign wealth funds.

Table 2. United Arab Emirates: Balance of Payments, 2015–23

	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
	(Billions of U.S. dollars, unless otherwise specified)								
Current account balance	17.6	13.2	26.5	30.5	35.9	30.3	26.2	23.4	21.9
(In percent of GDP)	4.9	3.7	6.9	7.1	7.9	6.4	5.3	4.6	4.1
Trade balance	76.6	68.5	79.3	88.8	97.3	94.1	93.3	93.7	95.2
Exports	300.5	295.0	308.5	329.0	342.9	346.8	347.3	348.7	350.9
Oil and oil products	53.8	40.4	50.6	65.7	74.9	73.6	72.5	72.1	72.3
Natural gas	7.7	6.0	7.5	9.7	10.0	9.7	9.5	9.4	9.4
Nonoil	104.2	103.5	103.8	104.6	105.6	106.7	107.7	109.0	110.6
Re-exports	134.8	145.1	146.6	149.0	152.4	156.7	157.6	158.2	158.6
Imports (f.o.b.)	-223.9	-226.6	-229.3	-240.2	-245.6	-252.7	-254.1	-255.0	-255.6
Imports by emirates	-144.7	-149.2	-140.3	-147.0	-153.2	-160.6	-161.9	-162.6	-163.0
Free zones	-75.1	-74.6	-85.9	-85.2	-84.0	-83.1	-82.6	-82.2	-81.8
Natural gas	-4.1	-2.8	-3.1	-7.9	-8.4	-9.0	-9.5	-10.2	-10.8
Income, net	1.7	2.1	2.8	2.3	3.4	4.8	5.7	6.3	7.1
Banking system (net)	-1.6	-1.9	-1.9	-1.0	0.8	2.1	2.2	2.2	2.6
Private non-banks (net)	-1.4	-1.3	-1.4	-2.2	-2.6	-2.8	-2.7	-2.6	-2.6
Government	8.2	8.5	9.4	9.8	10.2	10.6	11.0	11.4	11.9
Official debt service (interest)	-1.4	-1.4	-1.5	-1.8	-2.2	-2.3	-2.2	-2.1	-2.1
Foreign partners - oil	-2.0	-1.8	-1.9	-2.4	-2.7	-2.7	-2.6	-2.6	-2.6
Foreign partners - gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services, net	-21.1	-18.2	-14.4	-16.7	-18.3	-19.2	-20.4	-21.5	-22.4
Credits	60.8	65.6	70.5	73.9	76.0	79.6	81.5	83.4	85.4
Debits	-81.9	-83.8	-84.9	-90.6	-94.3	-98.7	-101.9	-104.9	-107.8
Transfers, net	-39.6	-39.1	-41.2	-43.9	-46.5	-49.5	-52.3	-55.1	-58.0
Private (incl. remittances)	-30.9	-33.1	-35.2	-37.5	-39.7	-42.3	-44.7	-47.1	-49.5
Official	-8.8	-6.0	-6.0	-6.4	-6.8	-7.2	-7.6	-8.0	-8.4
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-3.2	-19.3	-17.0	-14.7	-17.5	-14.5	-14.5	-16.2	-17.7
Private capital	11.3	-18.5	-16.2	-19.8	-10.6	-11.3	-12.1	-12.8	-13.5
Direct investment, net	-7.9	-4.0	-3.7	-3.1	-3.3	-3.6	-4.0	-4.3	-4.7
Outward	-16.7	-13.6	-14.1	-14.8	-15.6	-16.4	-17.3	-18.2	-19.2
Inward	8.8	9.6	10.3	11.7	12.3	12.8	13.3	13.9	14.4
Portfolio flows, net	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.7	1.8
Commercial banks	24.9	-10.8	-9.0	-13.1	-3.5	-3.6	-3.7	-3.8	-3.9
Private nonbanks and other 1/	-6.8	-4.9	-4.8	-5.1	-5.4	-5.7	-6.1	-6.4	-6.7
Official capital 2/	-14.6	-0.8	-0.8	5.1	-6.9	-3.2	-2.4	-3.4	-4.1
Errors and omissions	1.0	-1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	15.3	-7.1	9.9	15.8	18.3	15.7	11.7	7.3	4.3
Change in central bank reserves	-15.3	7.1	-9.9	-15.8	-18.3	-15.7	-11.7	-7.3	-4.3
Memorandum items:									
GDP (billions of U.S. dollars)	358.1	357.0	382.6	432.6	455.5	475.0	493.4	512.6	533.4
Gross reserves of central bank (billions of U.S. dollars)	94.0	85.4	95.4	111.2	129.5	145.2	156.9	164.2	168.4
in months of next year's imports, net of re-exports	6.7	6.0	6.0	6.8	7.6	8.4	8.9	9.1	9.1

Sources: Country authorities; and IMF staff estimates and projections.

1/ Estimate based on *UNCTAD World Investment Report.*

2/ Including estimated changes in SWF net external assets.

Table 3. United Arab Emirates: General Government Finances, 2015–23

	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
	(Billions of UAE dirhams, unless otherwise specified)								
Total revenue	381.4	378.5	404.4	448.5	528.8	515.1	521.9	533.7	545.3
Taxes	164.5	116.8	166.6	210.5	280.6	256.3	255.0	255.7	258.3
Social Contributions	4.3	4.4	4.6	5.3	5.4	5.6	5.7	5.7	5.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	212.6	257.3	233.2	232.6	242.8	253.3	261.2	272.4	281.4
Expenditures (a+b)	425.6	404.9	427.3	474.6	498.3	510.7	510.7	519.5	526.4
Expense (a)	390.5	365.8	390.8	431.3	447.0	459.0	465.2	474.3	481.1
Compensation of employees	63.0	64.1	78.8	85.7	89.6	92.3	95.7	97.7	98.9
Use of goods and services	59.8	47.3	94.0	95.0	98.5	102.6	106.5	110.1	114.0
Consumption of fixed capital	4.6	5.5	6.3	10.2	11.1	9.9	6.3	6.2	6.2
Interest	2.8	2.0	1.9	4.0	4.7	5.2	5.4	5.5	5.6
Subsidies	22.2	18.5	21.9	22.7	23.1	23.6	24.1	24.6	25.0
Grants	8.8	17.1	11.1	10.2	10.6	10.7	11.0	11.2	11.4
Social Benefits	42.6	53.2	37.7	42.1	43.1	44.2	45.3	46.3	47.3
Other expenses 2/	186.7	158.0	139.2	161.2	166.3	170.5	171.1	172.9	172.8
Net acquisition of nonfinancial assets (b)	35.1	39.1	36.5	43.3	51.3	51.7	45.5	45.1	45.3
Net operating balance (Revenue minus expense)	-9.2	12.7	13.6	17.2	81.8	56.1	56.7	59.4	64.1
Net lending(+)/borrowing(-) (Revenue minus expenditures)	-44.2	-26.5	-22.9	-26.1	30.5	4.4	11.2	14.2	18.8
Net acquisition of financial assets 1/ 3/	26.0	8.9	42.0	-2.5	50.6	29.5	23.7	32.1	37.2
Domestic	-66.8	9.5	36.1	16.1	25.1	17.4	14.5	19.3	21.5
Foreign	92.9	-0.6	5.9	-18.6	25.5	12.0	9.2	12.9	15.7
Net incurrence of liabilities	61.7	38.5	64.9	23.6	20.1	25.1	12.4	17.9	18.4
Domestic	62.4	17.3	11.1	5.5	10.9	11.3	9.3	9.8	10.4
Foreign	-3.8	21.2	53.8	18.1	9.2	13.7	3.1	8.1	8.0
Memorandum Items:									
Oil revenue	188.3	165.3	198.7	305.8	292.7	296.9	290.5	287.5	286.5
Profit transfers from the national oil company to SWF 4/	44.9	42.4	53.2	75.5	78.3	76.4	74.2	73.3	73.3
Nonoil revenue	193.0	213.2	205.8	142.7	236.2	218.2	231.4	246.2	258.7
Investment income (from SWF) 4/	55.5	41.9	60.7	20.5	75.3	85.5	90.7	92.9	98.3
Abu Dhabi capital transfers	49.1	16.1	26.8	31.8	32.4	33.1	33.8	34.4	35.1
Adjusted nonoil primary balance 5/	-285.3	-231.6	-280.3	-348.4	-332.7	-372.8	-364.6	-360.7	-360.4
In percent of nonoil GDP	-27.7	-21.9	-25.7	-30.0	-27.0	-28.4	-26.3	-24.7	-23.5
Fiscal breakeven oil price (US $ per barrel)	64.7	51.1	60.7	78.0	64.7	68.4	64.2	61.8	59.7
	(Percent of GDP)								
Total revenue	29.0	28.9	28.8	28.2	31.6	29.5	28.8	28.3	27.8
Taxes	12.5	8.9	11.9	13.3	16.8	14.7	14.1	13.6	13.2
Social Contributions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue 1/	16.2	19.6	16.6	14.6	14.5	14.5	14.4	14.5	14.4
Expenditures	32.4	30.9	30.4	29.9	29.8	29.3	28.2	27.6	26.9
Expense	29.7	27.9	27.8	27.1	26.7	26.3	25.7	25.2	24.5
Compensation of employees	4.8	4.9	5.6	5.4	5.4	5.3	5.3	5.2	5.0
Use of goods and services	4.5	3.6	6.7	6.0	5.9	5.9	5.9	5.8	5.8
Consumption of fixed capital	0.3	0.4	0.4	0.6	0.7	0.6	0.3	0.3	0.3
Interest	0.2	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Subsidies	1.7	1.4	1.6	1.4	1.4	1.4	1.3	1.3	1.3
Grants	0.7	1.3	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Social Benefits	3.2	4.1	2.7	2.7	2.6	2.5	2.5	2.5	2.4
Other expenses 2/	14.2	12.1	9.9	10.1	9.9	9.8	9.4	9.2	8.8
Net acquisition of nonfinancial assets	2.7	3.0	2.6	2.7	3.1	3.0	2.5	2.4	2.3
Net operating balance (Revenue minus Expense)	-0.7	1.0	1.0	1.1	4.9	3.2	3.1	3.2	3.3
Net lending(+)/borrowing(-)	-3.4	-2.0	-1.6	-1.6	1.8	0.3	0.6	0.8	1.0
Net acquisition of financial assets 1/ 3/	2.0	0.7	3.0	-0.2	3.0	1.7	1.3	1.7	1.9
Domestic	-5.1	0.7	2.6	1.0	1.5	1.0	0.8	1.0	1.1
Foreign	7.1	0.0	0.4	-1.2	1.5	0.7	0.5	0.7	0.8
Net incurrence of liabilities	4.7	2.9	4.6	1.5	1.2	1.4	0.7	1.0	0.9
Domestic	4.7	1.3	0.8	0.3	0.7	0.7	0.5	0.5	0.5
Foreign	-0.3	1.6	3.8	1.1	0.5	0.8	0.2	0.4	0.4
Memorandum Items:									
Oil revenue	14.3	12.6	14.1	19.2	17.5	17.0	16.0	15.3	14.6
Profit transfers from the national oil company to SWF 4/	3.4	3.2	3.8	4.8	4.7	4.4	4.1	3.9	3.7
Nonoil revenue	14.7	16.3	14.6	9.0	14.1	12.5	12.8	13.1	13.2
Investment income (from SWF) 4/	4.2	3.2	4.3	1.3	4.5	4.9	5.0	4.9	5.0
Abu Dhabi capital transfers	3.7	1.2	1.9	2.0	1.9	1.9	1.9	1.8	1.8

Sources: Country authorities and IMF staff estimates and projections.
1/ Includes staff estimates of profit transfers from the national oil company to SWF and SWF returns (investment income).
2/ Includes Abu Dhabi capital transfers (loans and equity to finance development projects).
3/ Excludes Abu Dhabi capital transfers (loans and equity to finance development projects).
4/ Staff estimates.
5/ Excludes staff estimates of SWF investment income.

Table 4. United Arab Emirates: Monetary Survey, 2015–23

	2015	2016	Est. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2023
				(Billions of UAE dirhams)					
Net foreign assets	246	259	328	434	515	586	642	683	713
Foreign assets	842	861	929	1,038	1,121	1,195	1,255	1,299	1,332
Central Bank	345	314	350	408	476	534	577	603	619
Commercial banks	496	547	579	630	646	662	678	695	713
Foreign liabilities	595	602	601	604	607	610	613	616	619
Central bank	9	5	5	5	5	5	5	5	5
Commercial banks	586	597	596	599	602	605	608	611	614
Net domestic assets	940	967	948	887	901	922	971	1,036	1,095
Claims on government (net)	-38	-61	-53	-63	-77	-84	-89	-98	-109
Claims	139	148	160	166	177	188	197	207	218
Deposits	177	209	213	229	254	272	286	305	327
Claims on other sovereign	107	117	117	117	117	117	117	117	117
Claims on public sector enterprises	205	225	212	220	224	229	234	238	243
Claims on private sector	1,040	1,100	1,108	1,168	1,222	1,287	1,356	1,425	1,495
Claims on other financial institutions	49	30	31	33	35	38	40	42	44
Other items (net)	-422	-444	-468	-588	-620	-665	-688	-689	-695
Capital and reserves (-)	-306	-329	-359	-370	-380	-397	-414	-432	-451
Other assets (net)	-116	-115	-109	-218	-240	-269	-274	-257	-245
Central Bank	-309	-261	-288	-344	-407	-461	-499	-520	-532
Commercial banks	193	146	180	126	167	193	225	263	287
Broad money (M2)	1,187	1,225	1,276	1,322	1,416	1,508	1,613	1,718	1,808
Money	457	475	493	510	547	582	623	664	698
Currency outside banks	58	62	68	71	76	81	86	92	97
Dirham demand deposits	399	412	425	440	471	502	537	572	602
Quasi-money	730	751	783	811	869	925	990	1,055	1,109
Foreign currency deposits	245	271	271	280	300	320	342	365	383
Dirham time and savings deposits	484	480	513	531	569	605	648	690	726
Memorandum items:									
Dirham denominated liquidity	942	955	1,005	1,041	1,115	1,188	1,271	1,354	1,424
Reserve money	365	338	377	391	419	446	477	508	535
Foreign currency deposits/total deposits (in percent)	21.7	23.3	22.4	22.4	22.4	22.4	22.4	22.4	22.4
NFA/M2 (in percent)	20.8	21.1	25.7	32.9	36.3	38.8	39.8	39.7	39.4
CBU foreign assets/reserve money (in percent)	94.5	92.8	92.8	104.4	113.6	119.6	120.9	118.7	115.8
NFA of Central Bank	336.2	308.9	345.1	403.2	470.6	528.5	571.5	598.4	614.2
NFA of commercial banks	-89.8	-50.1	-16.8	31.2	43.9	57.1	70.6	84.5	98.8
M2 velocity (in percent of nonoil GDP)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Private sector credit (in percent of oil GDP)	101.1	104.0	101.4	100.4	99.2	98.1	97.8	97.6	97.3
				(Changes in percent; unless otherwise indicated)					
Claims on private sector	8.4	5.8	0.7	5.4	4.6	5.3	5.4	5.1	4.9
Broad money (M2)	5.5	3.3	4.1	3.6	7.1	6.5	7.0	6.5	5.2
Money	4.8	3.8	3.9	3.6	7.1	6.5	7.0	6.5	5.2
Quasi Money	5.9	2.9	4.3	3.6	7.1	6.5	7.0	6.5	5.2
Velocity (nonoil GDP/M2)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Base money	18.1	-7.4	11.6	3.6	7.1	6.5	7.0	6.5	5.2
Money multiplier (M2/base money)	3.3	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4

Sources: Central Bank of the UAE, and IMF staff estimates and projections.

Table 5. United Arab Emirates: Maturing Bonds, Syndicated and Bilateral Loans in the Non-Financial Public Sector 1/ 2/

(In millions of U.S. dollars)

	Debt Type	2018	2019	2020	2021	2022	2023	2018-23	Beyond	Unallocated	Total
Abu Dhabi (as of end-2017)						**Government**					
Government	Bonds	0	1,500	0	2,500	3,000	0	7,000	9,500		16,500
	Loans	294	291	288	51	58	62	1,044	66		1,110
	Guarantees	246	239	262	113	113	95	1,068	1,231		2,300
	Total	540	2,030	550	2,664	3,171	157	9,112	10,797		19,909
In percent of Abu Dhabi 2017 GDP		0.2	0.9	0.2	1.2	1.4	0.1	4.0	4.8		8.8
						Government Related Enterprises (GREs)					
GREs with >50% government ownership, including subsidiaries debt guaranteed by parent GRE	Bonds	2,256	1,000	1,500	5,878	6,965	2,721	20,820	5,968		26,789
	Loans	3,337	3,168	4,768	1,438	2,816	654	19,688	2,147		21,835
	Total	5,593	4,168	6,268	7,316	9,781	3,376	40,508	8,115		48,624
Government plus GREs with >50% government ownership		6,132	6,198	6,818	9,980	12,952	3,533	49,620	18,913		68,533
In percent of Abu Dhabi 2017 GDP		2.7	2.7	3.0	4.4	5.7	1.6	21.9	8.3		30.2
Memorandum items:											
All Abu Dhabi GREs: bonds and loans		13,553	12,134	8,236	10,254	4,534	3,115	51,825	17,762		69,587
Government-owned banks: bonds and loans		3,120	3,330	2,347	1,204	1,226	1,260	12,488	2,128		14,616
Dubai (as of end-August 2018)						**Government**					
Government	Bonds	20,000	0	750	500	650	1,000	22,900	2,519		25,419
	Loans	20	40	76	128	903	207	1,374	1,128		2,502
	Guarantees	148	404	361	364	2,422	105	3,804	57		3,861
	Total	20,168	444	1,187	992	3,975	1,312	28,078	3,704		31,782
Other sovereign	Loans domestic									32,879	32,879
	Total									32,879	32,879
						Government Related Enterprises (GREs)					
GREs with >50% government ownership, including subsidiaries debt guaranteed by parent GRE	Bonds	1,000	0	2,700	550	535	1,200	5,985	5,862		11,847
	Loans	10,802	8,845	7,484	6,664	5,467	2,143	41,406	4,625		46,031
	Total	11,802	8,845	10,184	7,214	6,002	3,343	47,391	10,487		57,878
Government, other sovereign, and GREs with >50% government ownership		31,970	9,289	11,371	8,206	9,977	4,655	75,469	14,191	32,879	122,539
In percent of Dubai 2017 GDP		28.6	8.3	10.2	7.3	8.9	4.2	67.5	12.7	29.4	109.6
Memorandum items:											
All Dubai GREs: bonds and loans		12,304	9,246	10,585	7,615	6,002	3,343	49,096	11,237		60,333
Government guaranteed 3/		508	358	313	275	2,335		3,789	69		4,123
Restructured debt of Dubai Inc.		0	0	0	0	0		0	13,000		13,000
Government owned banks: bonds and loans		2,007	2,606	2,849	783	2,916	2,157	13,318	1,139		14,457
Federal government 4/											
GREs with >50% government ownership	Bonds	0	900	0	1,628	0	0	2,528	2,128		4,656
	Loans	2,127	527	383	14	14	14	3,078	153		3,231
	Total	2,127	1,427	383	1,642	14	14	5,606	2,281		7,887
Northern Emirates											
Ras Al Khaimah	All sovereign	500	0	0	0	0	0	500	1,000		1,500
Sharjah	All sovereign	56	56	56	874	56	0	1,100	1,000		2,100
GREs with >50% government ownership	Bonds & Loans	413	413	412	403	273	205	2,118	179		2,298

Sources: Dealogic; Zawya; Bloomberg; Fitch; Abu Dhabi authorities; and Fund staff estimates.

1/ Excluding bilateral bank loans and accounts payable, except for the sovereign.

2/ Regardless of residency of debt holders.

3/ RTA, Dubai World, and Dubai Airport.

4/ Emirates Investment Authority and companies in its holding.

Table 6. United Arab Emirates: Financial Soundness Indicators, 2015–18
(In percent)

	2014	2015	2016	2017	2018	
					Q1	Q2
Regulatory Capital to Risk-Weighted Assets	18.1	18.3	18.9	18.1	17.5	18.1
Regulatory Tier 1 Capital to Risk-Weighted Assets	16.2	16.5	17.3	16.6	16.0	16.6
Non-performing Loans to Total Gross Loans 1/	6.7	6.0	6.1	6.4	6.9	7.0
Return on Assets	1.9	1.6	1.5	1.5	1.5	1.7
Return on Equity	14.5	12.2	10.7	10.8	10.5	12.2
Interest Margin to Gross Income	68.2	69.6	68.9	66.5	69.6	70.6
Non-interest Expenses to Gross Income	36.4	38.0	38.0	39.1	36.2	37.7
Net Open Position in Foreign Exchange to Capital	9.4	20.7	9.4	14.5	20.1	21.2

Source: Central Bank of the United Arab Emirates.
1/ Total gross loans include interbank loans.

Annex I. Status of the 2017 Article IV Recommendations

Recommendation	Status
Fiscal	
Raise nonoil tax revenue through VAT and excises.	Excise taxes introduced in October 2017, VAT in January 2018.
Contain growth of public spending and improve its efficiency.	Spending growth was stable in 2017. Spending reviews initiated by Abu Dhabi's government.
Strengthen coordination among governments, GREs, SWFs, and the CBU to facilitate cash management and liquidity forecasting.	The authorities are taking steps to strengthen policy coordination, with inputs from IMF staff.
Continue to diversify the economy and increase the role of the private sector.	Wide-ranging policy measures to improve business environment announced in 2018.
Strengthen government financing and debt management.	IMF TA provided during 2017–18. A law allowing federal government borrowing has been approved. Abu Dhabi is considering issuing domestic debt.
Monetary	
Approval of the draft Central Bank and Banking Law consistent with best practices.	The law was approved in late October 2018.
Sustain progress in strengthening the AML/CFT regime.	A national risk assessment is underway. Further improvements are needed in implementation.
Structural	
Approve Foreign Companies Law allowing full foreign ownership of domestic companies	A new Law on Foreign Direct Investment, adopted in November 2018, put in place a framework for allowing majority foreign ownership in selected sectors.
Encourage synergies in investment among emirates, and foster competition, including for GREs.	Fiscal Policy Coordination Council has been coordinating government spending plans across emirates.
Statistics	
Further strengthen economic statistics.	The national e-GDDS page was launched in June 2018, with IMF assistance.

Annex II. VAT: Historic Milestone Toward Revenue Diversification

1. **In June 2016, the Gulf Cooperation Council (GCC) member states agreed to introduce a value-added tax in all countries at the rate of 5 percent.** Saudi Arabia and the UAE were the first to introduce VAT in January 2018. Other GCC states are expected to follow suit by end-2019. (Alongside, an Excise Tax Treaty formed a common framework for the introduction of excise taxed across all six Member States. The UAE introduced excises in October 2017.)

2. **VAT was rolled out successfully, with some exemptions, largely reflecting GCC-wide arrangements.** Specifically, most real estate and financial services, trade in free zones, local passenger transport and charitable organizations are exempt. In addition, a zero rate applies to certain transport, telecom, health and education services, as well as exports, medical equipment, oil/gas, and investments in precious metals (for example, gold). In May 2018 the government clarified that wholesale VAT does not apply to gold and diamond sales to VAT-registered businesses, if gold and diamonds are intended for resale.

3. **Given the relatively low threshold of AED 375,000 (about $100K), 296,534 firms were registered so far in 2018.** To reduce tax administration and IT costs, filing deadlines were staggered with large net payers (mostly government-related enterprises (GREs)) filing first and net refund claimants (mostly SMEs) filing last. Compliance has reportedly been high.

4. **The authorities agreed that 30 percent of collected VAT revenue will be allocated to the federal government and the rest to emirate governments.** Although revenue distribution has not taken place yet, and collection data has not been released, annual VAT revenues are projected to reach 2 percent of GDP, over the coming years.

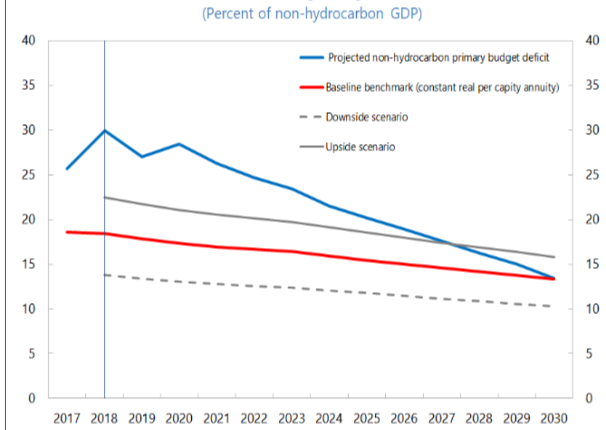
5. **Notwithstanding VAT's low rate and narrow base, many in the private sector have expressed concerns about its impact on growth and competitiveness** amid slow recovery of the nonoil sector in recent years. The impact of VAT introduction on inflation has been limited with a small increase in January largely dissipating by mid-year. VAT refunds for UAE tourists are expected to start in November.

Annex III. Fiscal and Debt Sustainability Assessments

Current saving of exhaustible oil revenue is 7 percent of nonoil GDP below the level needed to ensure intergenerational equity. Overall general government debt increased in 2017 but is expected to decline in percent of GDP owing to improved oil revenue.

A. Long-term Fiscal Sustainability

1. Government saving of exhaustible oil revenue remains below the benchmark implied by the permanent income hypothesis (PIH). The gap between the nonoil primary budget deficit and the benchmark consistent with a constant real per capita annuity widened to 7 percent of nonoil GDP in 2017.[1] On current policies, notably some short-term fiscal easing followed by gradual consolidation over the medium term, this gap is expected to peak at 11.5 percent of nonoil GDP in 2019 before declining to 6.5 percent of nonoil GDP in the medium term (see chart). More positive (negative) underlying assumptions/scenarios would imply a smaller (larger) gap.[2]



Source: IMF staff calculations.

B. Dubai's Debt Sustainability Assessment

2. Dubai's government debt declined in percent of GDP last year, but it is expected to rise in 2018–19. In the baseline scenario, additional borrowing ahead of Expo 2020 is likely to raise the ratio to just under 30 percent of GDP—the operational target followed by the authorities.[3] Under a scenario of a real GDP growth shock (a decline of growth by ¾ standard deviation from the baseline in 2018), Dubai's debt-to-GDP ratio would be set on a mildly upward trajectory, reaching 32.7 percent of GDP by 2023. A global downturn scenario (a real GDP shock combined with a larger deterioration in the primary balance and a real lower interest rate) would have a larger

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[1] However, the estimated gap is lower than in 2016 due to higher oil prices and production which raised the estimate of the permanent income.

[2] Baseline PIH benchmark is obtained by calculating a constant real per capita government spending path (and related non-oil deficit) that delivers a constant real per capita annuity to finance government spending after oil revenues are exhausted. Projections until 2023 are based on staff's macroeconomic framework, including WEO oil price assumptions. After 2023, the baseline assumes flat oil production, oil price growth and inflation of 2 percent, population growth of 1.5 percent, and real return on assets of 4 percent. Upside (downside) scenarios assume: permanently higher (lower) oil price by $5/barrel, lower (higher) population growth by 0.25 percent, and higher (lower) return on assets by 50 basis points.

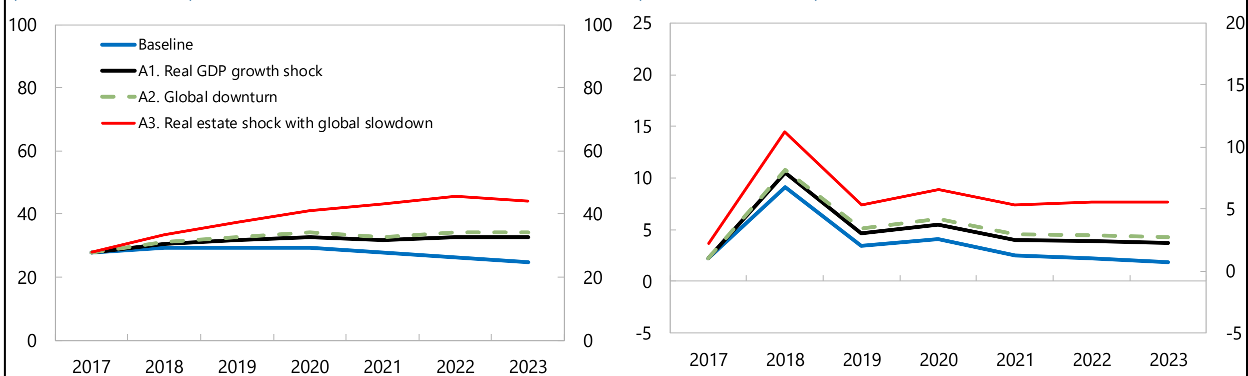
[3] Dubai borrowed $3.9 billion for airport expansion and $1.1 billion for metro expansion in 2017. Financing for the latter was increased to $2.4 billion in 2018.

impact—34.3 percent debt-to-GDP ratio in 2023.

3. Dubai's specific debt vulnerability stems from its large Government Related Enterprises (GREs), which carry a combined debt of about 70 percent of Dubai's GDP. A downturn scenario combining the above shocks and a real estate shock (which is assumed to force the government to assume 20 percent of GREs debt) would push Dubai's debt-to-GDP ratio to 44 percent by 2023.

Dubai Government Debt Sustainability Analysis

Gross Nominal Government Debt, 2017–23 (Percent of Dubai GDP) | **Gross Government Financing Needs, 2017–23** (Percent of Dubai GDP)



Sources: Country authorities; and IMF staff estimates.

Sources: Country authorities; and IMF staff estimates.

Dubai Government Debt Sustainability, 2016–23
(In percent of Dubai GDP)

	Actual		Projections						Debt stabilizing
	2016	2017	2018	2019	2020	2021	2022	2023	primary balance
Government debt 1/	29.0	27.9	29.5	29.4	29.2	27.8	26.4	24.9	-0.1
Alternative scenarios									
A1. Real GDP growth shock 2/	29.0	27.9	30.5	31.8	32.8	31.8	32.8	32.7	0.0
A2. Global downturn scenario 3/	29.0	27.9	31.1	32.6	34.1	32.6	34.1	34.3	4.8
A3. Real estate shock with global downturn 4/	29.0	27.9	33.4	37.3	40.9	43.3	45.7	44.1	8.9
Memorandum items									
Real GDP growth baseline	3.1	2.8	3.3	4.1	4.5	4.0	3.7	3.5	
Real GDP growth path in the global downturn scenario	3.1	2.8	2.8	3.6	4.0	3.5	3.2	3.0	

Sources: UAE authorities and Fund staff estimates and projections.

1/ Dubai government and government guaranteed debt.
2/ Real GDP growth is at baseline minus 3/4 standard deviation in 2017, 1/2 standard deviation in 2018 and 1/4 standard deviation thereafter.
3/ Combination of real GDP growth shock scenario and 1/4 standard deviation shocks to the baseline for real interest rate and 1/2 standard deviation shocks to primary balance in 2018–23
4/ Under the global downturn scenario, the government takes over 20 percent of total GREs debt in 2018-23.

C. UAE Debt Sustainability Assessment

4. With improved fiscal prospects, owing to higher oil output and prices, general government debt is nevertheless expected to remain stable in percent of GDP. Abu Dhabi is assumed to save a large part of its oil windfall while Dubai is assumed to increase borrowing in part in preparation for Expo 2020. This increased borrowing will be only partly offset by higher growth.

Figure 1. General Government Dept Sustainability Analysis (DSA) – Baseline Scenario
(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators

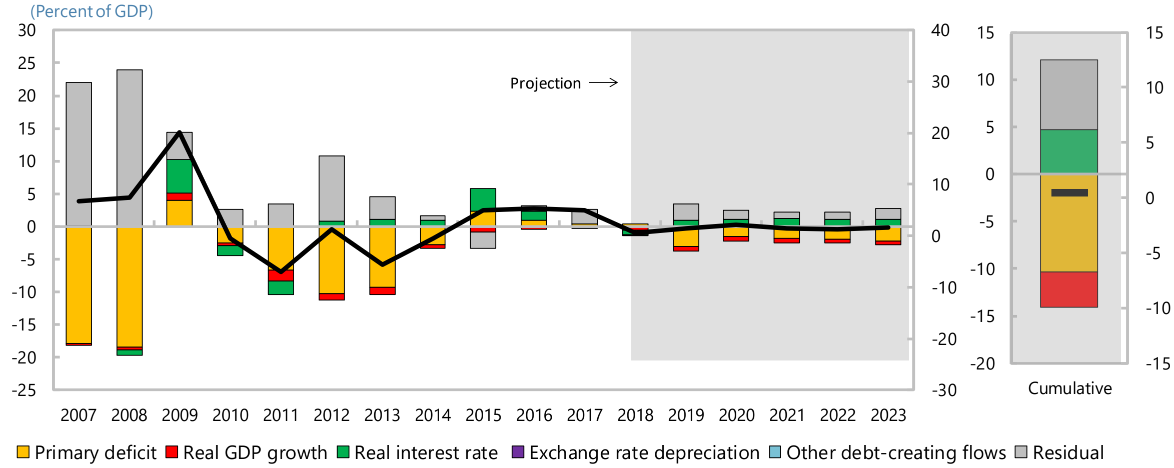
	Actual			Projections					
	2007-2015 1/	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross government debt	20.0	19.4	21.8	20.9	20.5	20.7	20.4	19.9	19.8
Government gross financing needs	-3.6	4.5	5.0	5.4	1.7	2.9	2.5	2.4	1.9
Real GDP growth (in percent)	3.2	3.0	0.8	2.9	3.7	3.6	3.2	3.0	2.8
Inflation (GDP deflator, in percent)	2.3	-3.2	6.3	9.8	1.6	0.6	0.6	0.8	1.2
Nominal GDP growth (in percent)	6.4	-0.3	7.2	13.1	5.3	4.3	3.9	3.9	4.1
Effective interest rate (in percent) 3/	7.0	4.8	5.7	6.0	6.3	6.4	6.4	6.4	6.5

As of December 31, 2017		
Sovereign Spreads		
EMBIG (bp) 2/		30
5Y CDS (bp)		114
Ratings	Foreign	Local
Moody's	Aa2	Aa2
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	Cumulative	Debt-stabilizing primary balance 8/
Change in gross government sector debt	0.9	2.7	2.4	-0.9	-0.4	0.2	-0.4	-0.4	-0.1	-2.0	
Identified debt-creating flows	-6.6	1.9	0.3	-0.9	-2.9	-1.1	-1.3	-1.4	-1.8	-9.5	
Primary deficit	-6.8	0.9	0.5	0.4	-3.1	-1.6	-1.9	-2.0	-2.3	-10.4	0.5
Primary (noninterest) revenue and grants	34.8	28.9	28.8	28.2	31.6	29.5	28.8	28.3	27.8	174.3	
Primary (noninterest) expenditure	28.0	29.8	29.2	28.7	28.5	27.9	26.9	26.4	25.6	164.0	
Automatic debt dynamics 4/	0.2	1.0	-0.2	-1.3	0.2	0.4	0.5	0.5	0.5	0.9	
Interest rate/growth differential 5/	0.2	1.0	-0.2	-1.3	0.2	0.4	0.5	0.5	0.5	0.9	
Of which: real interest rate	0.8	1.5	0.0	-0.8	0.9	1.2	1.2	1.1	1.0	4.7	
Of which: real GDP growth	-0.6	-0.5	-0.1	-0.6	-0.7	-0.7	-0.6	-0.6	-0.5	-3.8	
Exchange rate depreciation 6/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Prefunding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 7/	7.5	0.8	2.2	-0.1	2.5	1.3	1.0	1.0	1.7	7.5	

Debt-Creating Flows
(Percent of GDP)

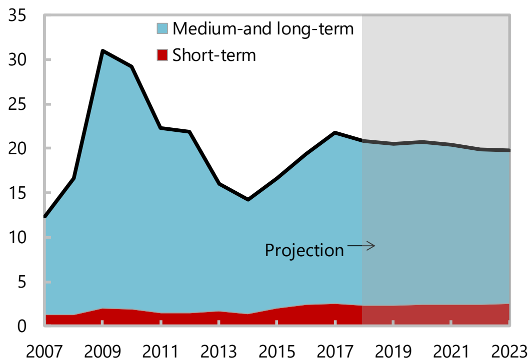


Source: IMF staff calculations.
1/ Based on available data.
2/ Abu Dhabi's Long-term bond spread over U.S. bonds.
3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
4/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured as an increase in the local currency value of U.S. dollar).
5/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
6/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
7/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

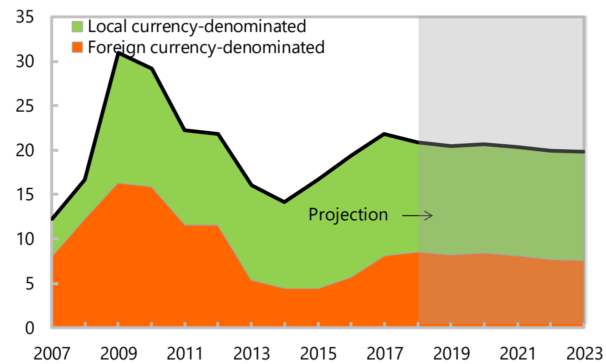
Figure 2. General Government DSA – Composition of Government Dept and Alternative Scenarios

Composition of Government Debt

By Maturity
(Percent of GDP)



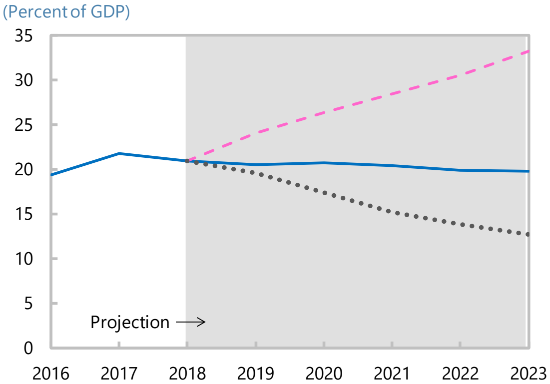
By Currency
(Percent of GDP)



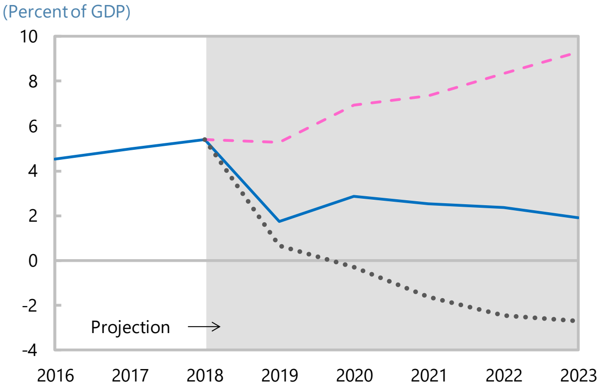
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Government Debt
(Percent of GDP)



Government Gross Financing Needs
(Percent of GDP)



Underlying Assumptions
(Percent)

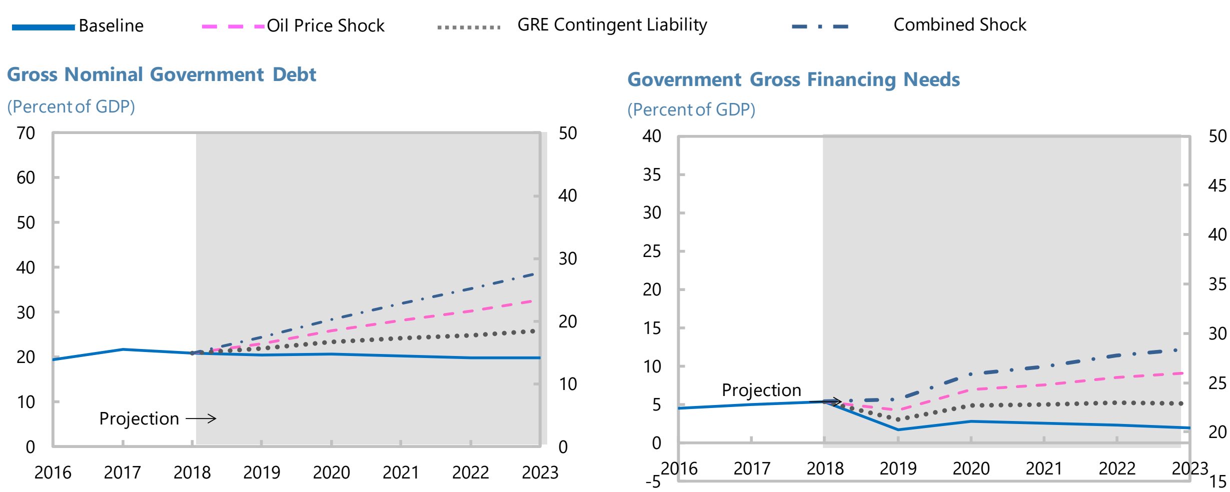
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	3.1	1.6	1.9	2.0	2.3
Effective interest rate	6.0	6.3	6.4	6.4	6.4	6.5
Constant Primary Balance Scenario 1/						
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	6.0	6.3	6.4	6.4	6.4	6.5

Historical Scenario 1/	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	2.9	2.9	2.9	2.9	2.9
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	4.2	4.2	4.2	4.2	4.2
Effective interest rate	6.0	6.0	6.5	6.6	6.6	6.8

1/ The scenario assumes that no new debt is issued if the gross financing needs are negative.
Source: IMF staff calculations.

5. **The risk analysis emphasizes lower oil prices and contingent liabilities from GREs as the main sources of vulnerability.** While the UAE's strong fiscal buffers are expected to be sufficient against these risks, the authorities would benefit from continued strengthening of risk monitoring and management. This involves collecting information for fiscal risk analysis—with formal reporting requirements for GREs—and enhancing mechanisms to improve control over contingent liabilities by requiring approval of GREs' annual borrowing/investment plans by finance authorities; setting up predictable dividend payout rules; establishing clear criteria (based on credit risk assessments) for issuance of guarantees; and putting in place guidelines for allocation of risks in private-public partnerships (PPPs).

General Government DSA - Stress Test Scenarios



Assumptions

(Percent)

Baseline Scenario

	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	3.1	1.6	1.9	2.0	2.3
Effective interest rate	6.0	6.3	6.4	6.4	6.4	6.5

Oil Price Scenario 1/

	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	0.6	-1.0	-0.6	-0.5	-0.2
Effective interest rate	6.0	6.3	6.4	6.4	6.4	6.5

GRE Contingent Liability Scenario 2/

	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	1.7	0.3	0.7	0.9	1.3
Effective interest rate	6.0	6.6	6.7	6.7	6.7	6.8

Combined Scenario 3/

	2018	2019	2020	2021	2022	2023
Real GDP growth	2.9	3.7	3.6	3.2	3.0	2.8
Inflation	9.8	1.6	0.6	0.6	0.8	1.2
Primary balance	-0.4	-0.8	-2.3	-1.8	-1.6	-1.2
Effective interest rate	6.0	6.6	6.7	6.7	6.7	6.8

1/ Oil price is lower by $10 in 2018-23.
2/ 20 percent of GRE debt is assumed to be taken over by the government in 2018-23.
3/ This scenario combines the oil price and the GRE contingent liability scenarios.

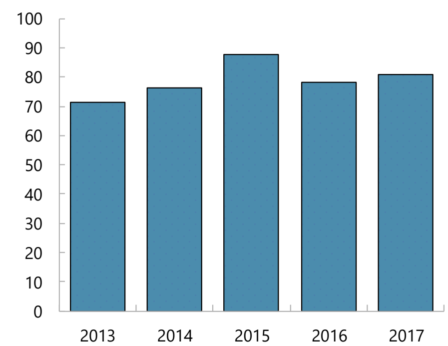
Source: IMF staff calculations.

Annex IV. External Sector Assessment

The UAE's external position strengthened in 2017, mostly thanks to recovery in oil prices. While overall external buffers remain strong, the current account surplus is moderately below the level needed to ensure sufficient savings for future generations. Consequently, staff assesses the external position to be moderately weaker than the level consistent with medium-term fundamentals and desirable policies.

1. **External buffers and stock variables remain comfortable.** Based on the latest available (albeit limited) information on the UAE's external assets and liabilities, staff estimates the UAE's net international investment position (NIIP) at 149 percent of GDP at end-2017 and projects it to be stable over the medium term. External assets are dominated by assets held by SWFs, which play a dual role of savings for precautionary purpose and savings for future generations. The CBU's international reserves are at ¼ of GDP at end-2017, equivalent to 6 months of prospective imports (excluding re-exports) and 81 percent of the IMF's Reserve Adequacy metric. External buffers remain adequate for external stability, especially in the context of the government's large stock of foreign assets held in SWFs. External liabilities are estimated at 61 percent of GDP at end-2017.

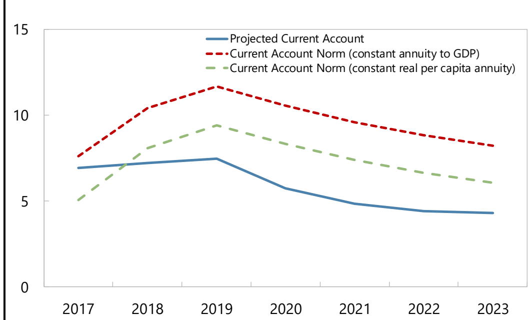
International Reserves, 2013–17
(In percent of IMF's Reserve Adequacy Metric)



2. **The current account balance appears to be moderately below the levels implied by medium-term fundamentals and desirable policies.**

- The preferred method for the assessment of the current account position in a major oil exporting country like the UAE is the external sustainabilty approach because it is based on the permanent income model and hence reflects the goal of achieving intergenerational equity in a country with nonrenewable resources.[1] Assuming the annuity is constant in real per capita terms, the current account norm is estimated at 5.4 percent of GDP in 2017, implying a positive current account gap of around 1.5 percent of GDP.[2] This positive gap can be attributed to low capital investment as expectations of oil prices were lower than now when the investment decisions were made. As capital investment picks up, the gap is

External Sustainability's Current Account Norms vs. Projection
(Percent of GDP)



Source: IMF staff estimates.

[1] Bems, R., and I. de Carvalho Filho, 2009, "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries," IMF Working Paper 09/281.

[2] The estimated norm is sensitive to the choice of model parameters, such as the GDP growth rate, interest rate, and population growth rate. The estimated norm rises between 2017 and 2019 before declining in 2020, reflecting the underlying oil price path.

expected to be negative over the medium term at around 2.5 percent of GDP and will require sustained fiscal consolidation to close over time (Annex III).

- A macroeconomic balance approach, which uses the IMF's multilaterally consistent External Balance Assessment-Lite framework (Current Account (CA) model) and estimates an equilibrium level of the current account consistent with a range of structural and policy factors, suggests that the current account was broadly in line with fundamentals in 2017. The model estimates the current account norm at 6.8 percent of GDP, implying a positive gap at 0.2 percent of GDP.

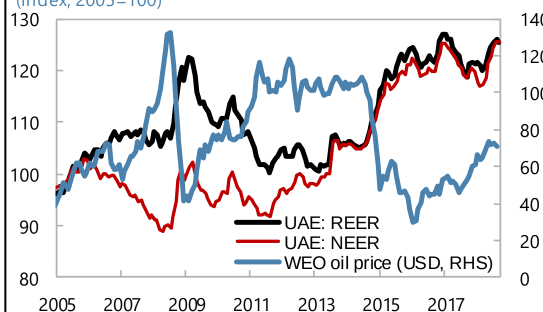
Macrobalance Approach, 2017

CA-Actual	6.9%	CA-Fitted	6.7%
CA-Norm	6.8%	Residual	0.2%
CA-Gap	0.2%	Policy gap	0.0%

Source: IMF staff estimates.

3. Since 2014, the real exchange rate appreciation was driven by the U.S. dollar. The dirham has been pegged to the dollar at a rate of 3.67 since November 1997. The real effective exchange rate (REER) mostly stayed the same in 2017 and was almost 20 percent stronger than 2014. The recent appreciation has been driven mostly by the U.S. dollar nominal appreciation vis-à-vis trading partners' exchange rates. The external sustainability approach suggests that the exchange rate is moderately overvalued, with the REER gap in a range of 0.1 percent to 8.4 percent, consistent with the negative current account gap over the medium term in the permanent income model. The macroeconomic balance approach suggests that the exchange rate is not misaligned (the REER gap estimated at -0.2 percent.) Like in other oil exporting countries, exchange rate movements have limited impact on the current account.

Real Effective Exchange Rate, 2005–September 2018
(Index; 2005=100)



Source: Country authorities; and IMF staff calculations.

4. Overall, staff assesses the external position to be moderately weaker than the level consistent with fundamentals and desirable policies. This assessment is based on the results above, giving the most weight to the permanent income model and the goal of intergenerational equity. Specifically, staff thus assesses the medium-term current account gap to be -1 to -2.5 percent of GDP and the medium-term REER gap to be 2 to 5 percent, taking into account also uncertainty.

5. The UAE is a net supplier of capital. Capital and financial accounts are open and domestic capital markets are the most developed in the Middle East and North Africa region. Capital inflows are dominated by stable FDI, inflows to the banking sector (mostly medium-term), and external debt issuance, while outflows are largely trade credits and portfolio investment. Risks of a reversal in bank inflows are mitigated by the UAE's long-standing safe-haven status. Reforms to attract further FDI inflows are underway.

Table 1. United Arab Emirates: External Debt Sustainability Framework 2013–2023

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	50.0	53.0	67.6	70.8	73.5			**66.9**	**64.3**	**62.9**	**61.1**	**60.1**	**59.5**	**2.1**
2 Change in external debt	-0.2	3.0	14.6	3.2	2.7			-6.5	-2.7	-1.4	-1.8	-1.0	-0.5	
3 Identified external debt-creating flows (4+8+9)	-21.5	-15.2	3.7	-2.7	-11.0			-8.6	-9.8	-8.2	-6.8	-5.9	-5.3	
4 Current account deficit, excluding interest payments	-20.7	-15.3	-7.3	-6.6	-10.2			-10.7	-12.0	-10.7	-9.3	-8.4	-7.9	
5 Deficit in balance of goods and services	-25.7	-20.4	-15.5	-14.1	-17.0			-16.7	-17.4	-15.8	-14.8	-14.3	-14.0	
6 Exports	100.6	99.6	100.9	101.0	99.1			93.2	92.0	89.8	87.0	85.2	83.6	
7 Imports	74.9	79.2	85.4	86.9	82.1			76.5	74.7	74.0	72.2	70.9	69.6	
8 Net non-debt creating capital inflows (negative)	-0.5	-0.1	1.9	0.8	0.6			0.4	0.4	0.4	0.5	0.5	0.6	
9 Automatic debt dynamics 1/	-0.3	0.1	9.0	3.1	-1.4			1.8	1.8	2.1	2.0	1.9	2.0	
10 Contribution from nominal interest rate	1.7	1.8	2.4	2.9	3.3			3.7	4.1	4.3	4.0	3.7	3.7	
11 Contribution from real GDP growth	-2.4	-2.1	-3.0	-2.0	-0.5			-1.9	-2.3	-2.2	-1.9	-1.8	-1.7	
12 Contribution from price and exchange rate changes 2/	0.4	0.5	9.7	2.2	-4.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	21.3	18.2	11.0	5.9	13.7			2.0	7.2	6.8	5.0	4.9	4.8	
External debt-to-exports ratio (in percent)	49.7	53.2	67.0	70.1	74.2			71.8	69.8	70.0	70.2	70.5	71.2	
Gross external financing need (in billions of US dollars) 4/	-45.9	-25.2	14.5	23.1	11.4			11.6	7.5	13.5	18.5	21.6	23.6	
in percent of GDP	-11.8	-6.3	4.0	6.5	3.0	10-Year	10-Year	2.7	1.6	2.9	3.8	4.2	4.5	
Scenario with key variables at their historical averages 5/								**66.9**	**59.8**	**51.8**	**42.3**	**32.7**	**23.4**	**-3.0**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	5.1	4.4	5.1	3.0	0.8	2.9	3.4	2.9	3.7	3.6	3.2	3.0	2.8	
GDP deflator in US dollars (change in percent)	-0.9	-1.0	-15.4	-3.2	6.3	1.5	11.0	9.8	1.6	0.6	0.6	0.0	0.0	
Nominal external interest rate (in percent)	3.5	3.6	4.0	4.2	5.0	4.1	0.8	5.7	6.5	7.0	6.5	6.3	6.3	
Growth of exports (US dollar terms, in percent)	4.5	2.3	-10.0	-0.2	5.1	8.6	17.1	6.3	4.0	1.8	0.6	0.8	1.0	
Growth of imports (US dollar terms, in percent)	5.4	9.3	-4.2	1.5	1.2	7.3	13.0	5.3	2.8	3.4	1.3	1.1	1.0	
Current account balance, excluding interest payments	20.7	15.3	7.3	6.6	10.2	11.8	5.9	10.7	12.0	10.7	9.3	8.4	7.9	
Net non-debt creating capital inflows	0.5	0.1	-1.9	-0.8	-0.6	0.3	1.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6	

1/ Derived as [r - g - rho(1+g) + ea(1+r)]/(1+g+rho+g*rho) times previous period debt stock, with r = nominal effective interest rate on external debt; rho = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-rho(1+g) + ea(1+r)]/(1+g+rho+g*rho) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

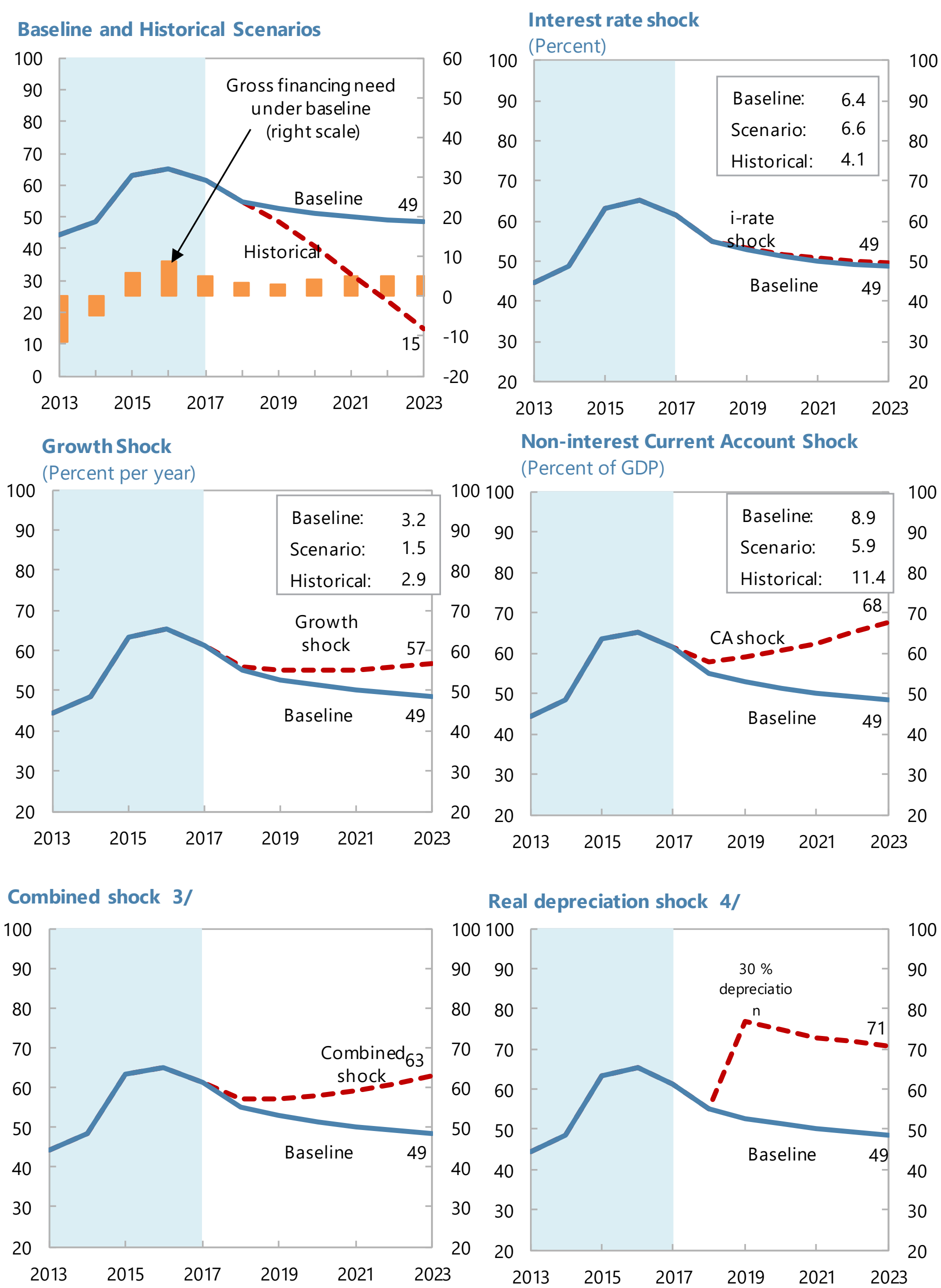
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)

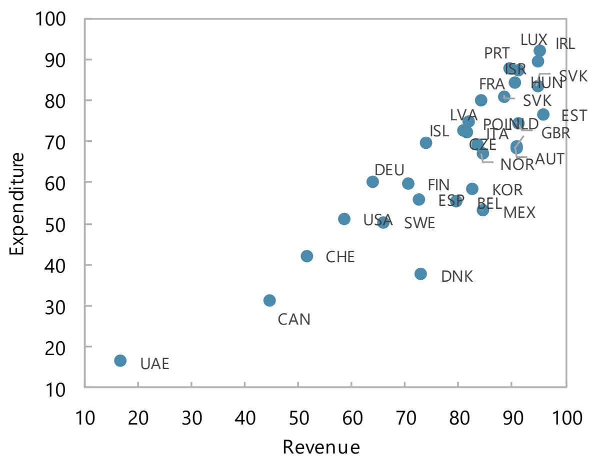


Sources: UAE desk data; and staff estimates and projections.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Annex V. Anchoring Fiscal Policy and Strengthening Coordination

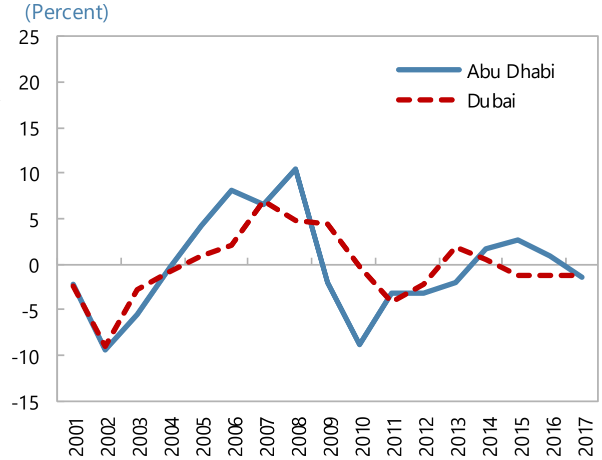
1. A strong policy framework and close coordination among fiscal and monetary authorities are critical for realizing the UAE's Vision 2021. Pursuing a multi-dimensional development agenda requires joint policy formulation involving different national and emirate stakeholders. The UAE's highly decentralized federation setting with a pegged exchange rate and large fiscal transfers among and within emirates put a special premium on policy coordination. It can help achieve policy synergies; take advantage of complementarities while avoiding duplication; mitigate risks and strengthen macroeconomic stability.

Size of Central Governments, 2015
(Percent of total general government expenditure/revenue)



Source: OECD fiscal decentralization database, UAE authorities, and staff calculations.

Non-oil Output Gaps in Dubai and Abu Dhabi 1/
(Percent)



Source: UAE authorities, WEO, and IMF staff estimates.
1/ Percent deviation of non-oil GDP from trend, estimated using the Hodrick-Prescott filter.

2. To be effective, coordination needs to cover all stages of policymaking. This would comprise the following elements: reaching an understanding on global and domestic economic prospects and risks; exchanging information about medium- and near-term plans; discussing consistency of these plans with each other and with broader socio-economic goals; periodic assessment of policy effectiveness and, if necessary, recalibration. At all stages, coordination can help design and implement policies that are realistic, complementary, and best placed to achieve the desired goals.

3. Improving the policy framework is also important. A common baseline is the starting point for policy formulation. It needs to be complemented with an assessment of risks, cyclical position of the economy, and a determination of whether the fiscal stance is consistent with the cyclical position and economic goals. Anchoring fiscal policy on long-term goals of debt sustainability and intergenerational equity as well as near-term objectives of macroeconomic stabilization would help guide policy design. Such anchors need to be calibrated for individual emirates and the UAE, and the Fund stands ready to provide further TA in this regard.

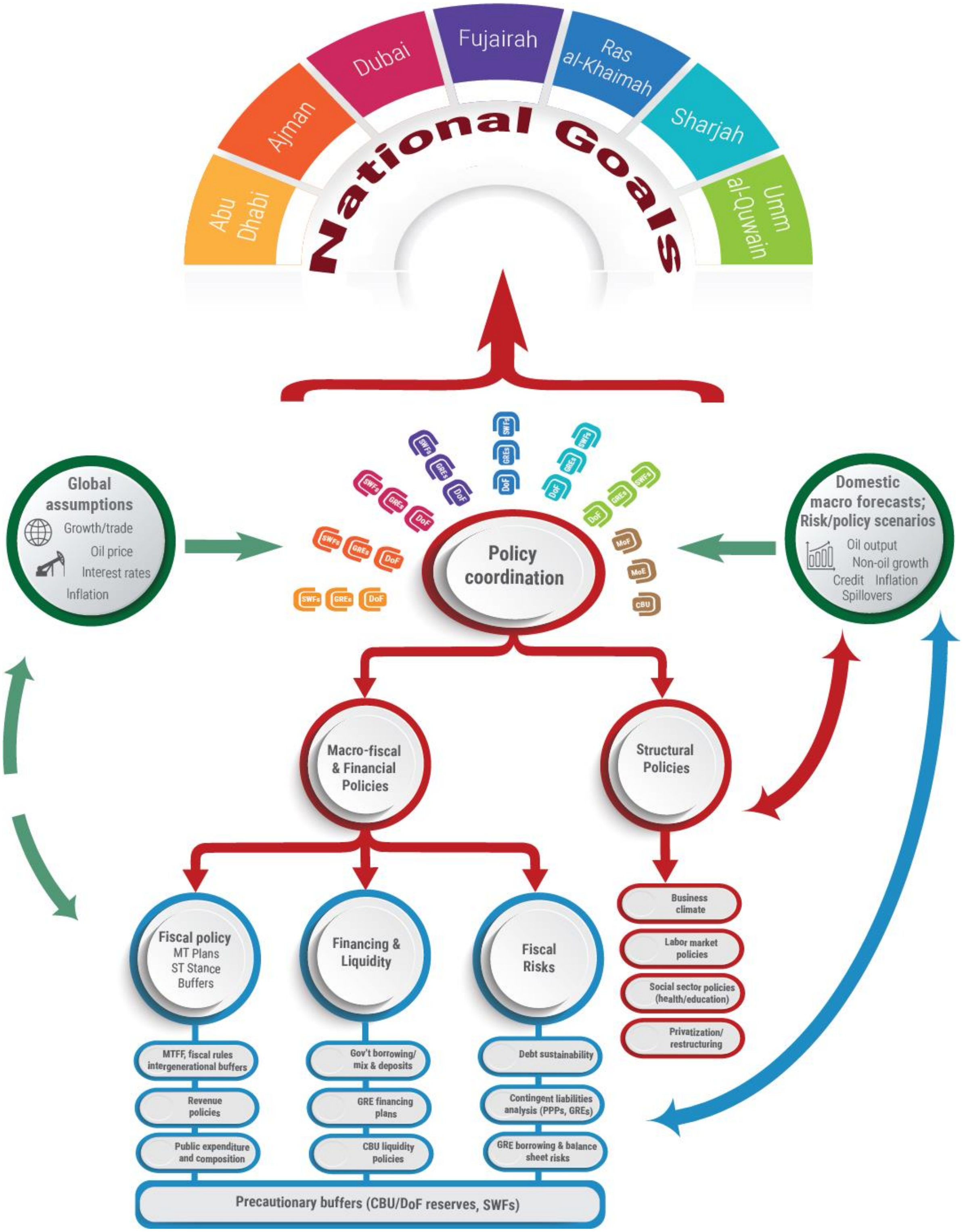
4. Trade-offs among various fiscal policy objectives have bearing on the design of policy anchors, as well as institutions, such as stabilization funds. The short-term stabilization goal requires a countercyclical fiscal policy to shield the economy from shocks. For example, when oil prices fall, higher government spending should offset the adverse impact on the nonoil sector. By contrast, when oil prices rise, fiscal policy should be more conservative and focus on savings to prevent the economy from overheating. Emirates need to balance this short-term stabilization objective with the long-term goals of intergenerational saving (in the case of Abu Dhabi) or debt sustainability (in the case of Dubai and other emirates).

5. The institutional structure for coordination needs to be agreed, covering top-level strategizing, high-level decision-making, operational coordination, and technical work. Alignment of emirates' and federal medium- and near-term fiscal planning processes and including steps for coordination in these processes is essential. Effective coordination also requires a robust framework for timely and comprehensive data collection and sharing, including with the CBU and various fiscal arms of each emirate and the federal government-departments of finance, GREs and SWFs.

6. Significant improvements can be made by focusing on "quick wins." While the full framework for coordination may take time to develop, quick progress in some areas can make a significant impact on policymaking. For example, improvements could start with the following:

- Augmenting the Financial Policy Coordination Council—to include heads of ministry of finance, central bank and departments of finance—and expanding its mandate to include assessment of the UAE's fiscal stance and recommending fiscal policy adjustments
- Launching a UAE-wide medium-term fiscal framework (MTFF) process with participation of all emirates' fiscal units.
- Agreeing on three-year fiscal targets for the UAE based on emirates' MTFFs
- Developing clear short- and long-term fiscal anchors for each emirate and the UAE
- Constructing a UAE-wide balance sheet to enable analysis of fiscal risks

Figure 1. Policy Coordination Framework



Annex VI. Update on Strengthening Regulatory and Supervisory Framework

1. The CBU made significant progress in upgrading its regulatory framework in 2018. The reform agenda is built around five pillars: (i) risk management, (ii) Basel III, (iii) controls/compliance, (iv) resolution and (v) market development, along with an overarching corporate governance framework.

- The pillar on risk management was completed in 2018 with the issuance of a new **risk management** framework for banks. It comprises five regulations covering overall risk management, operational risk, market risk, interest rate risk, and country and transfer risk.
- New regulatory standards supporting the Basel 2017 capital regulation (leverage ratio, CCR, OTC and CVA) will be published in 2018. This will complete the work on the **Basel III** pillar in line with international set timeframes (Basel III liquidity regulations were issued in 2015). All banks in the UAE currently comply with the Basel III regulatory requirements and the CBU expects that they will also comply with the new regulatory standards.
- The pillar on controls and compliance was largely completed in 2018. Regulations on **internal controls, compliance and internal** audit, which give significant responsibility to the heads of compliance and internal audit, as well as **financial reporting and external audit**, which require transparent financial reporting and high quality external audits in banks, were issued in 2018. The CBU also issued a new regulation on **dormant accounts**, establishing a general framework for the control of dormant accounts in banks and protection of customers' rights. In parallel, an update of the current **AML/CFT** regulatory framework for all financial institutions is nearing completion, in coordination with the future planned FATF Mutual Evaluation. This pillar will be fully completed in 2019 with the issuance of two further regulations for banks on **major acquisitions** and **significant ownership transfer**.
- Under the market development pillar, the CBU issued in 2018 a regulation for **nonbank financial institutions,** which sets out the new regulatory framework for finance companies operating in the UAE, including requirements for a specific business model, governance, risk management and controls/compliance. A regulation on **crowd-funding** is nearly completed and a strategy aimed to support the financing of the UAE's micro, small and medium-sized (**SME**) business (including regulations) in coordination with other UAE authorities was further developed in 2018. In 2019 the CBU plans to commence further work on regulations relating to **payments and fintech.**
- The new **corporate governance** framework for banks operating in the UAE is expected to be issued by end-2018. It introduces sector-wide polices in line with international best practices, such as the inclusion of independent directors in banks' boards and mandatory committees, the reinforcement of the fit-and-proper process for members of boards and senior management and the introduction of minimum disclosure requirements in banks' annual governance reports.

2. In 2019, the CBU plans to commence regulatory development work on the **resolution** pillar, which will cover recovery and resolution planning. Work will also progress in the **consumer protection** area and on a new regulatory framework on **Islamic finance** in the UAE.

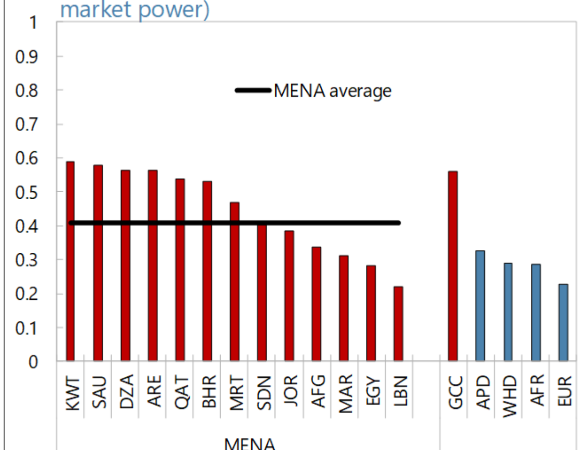
Annex VII. Promoting Small and Medium-Size Enterprises

1. SMEs can play an important role in creating jobs, diversifying the economy, and promoting innovation. The SME Law of 2014 set the ground for establishing the national SME program and led to the creation of an inter-agency SME Council headed by the Ministry of the Economy. The Council adopted a definition of an SME in 2016. A federal SME program and a high-level committee on SME financing were launched in 2018. SMEs' contribution to UAE nonoil GDP was estimated at 40 percent in 2016,[1] lower than the 60 percent average in advanced economies and the 70 percent contribution targeted in the Vision 2021.[2] Hence, further steps are needed to increase the role of SMEs in the economy.

2. SME access to finance in the UAE is lower than in its global peers. SMEs receive only 6.6 percent of business loans in the UAE compared to the 45 percent average in the OECD countries.[3] As in other countries, credit history of the UAE's SMEs is typically limited, the quality of their financial statements is poor, and they often do not have immovable collateral for loans. Servicing SME accounts is also costly for banks because of enhanced AML/CFT due diligence.

3. Weakness in the bankruptcy resolution framework discourages banks from lending to SMEs. The recovery rate on loans in default is only 30 cents per dollar in the UAE, far less than 70 cents in advanced economies (Figure 1). Many banks experienced large losses on their SME portfolios during the 2015–16 downturn as (expat) SME owners left the country to avoid criminal punishment for bounced checks used as collateral for loans. The 2017 Bankruptcy Law, while a step in the right direction, has not been tested in courts yet and does not offer protection for personal loans, which are often used to finance SMEs.

Bank Competition
(Lerner index - 0 to 1, 1 implies the greatest market power)



Source: World Bank Finstats Database, 2016, World Bank Global Financial Development dataset

4. High interest rate margins also dis-incentivize banks from lending to SMEs. According to a forthcoming IMF study on financial inclusion in the Middle East and Central Asia, the UAE has one of the lowest degrees of banking competition, as measured by interest rate margins, which are relatively high in the UAE. Large margins discourage banks from lending to riskier borrowers, such as SMEs, as banks are able to earn relatively high income just by lending to large, low-risk firms.

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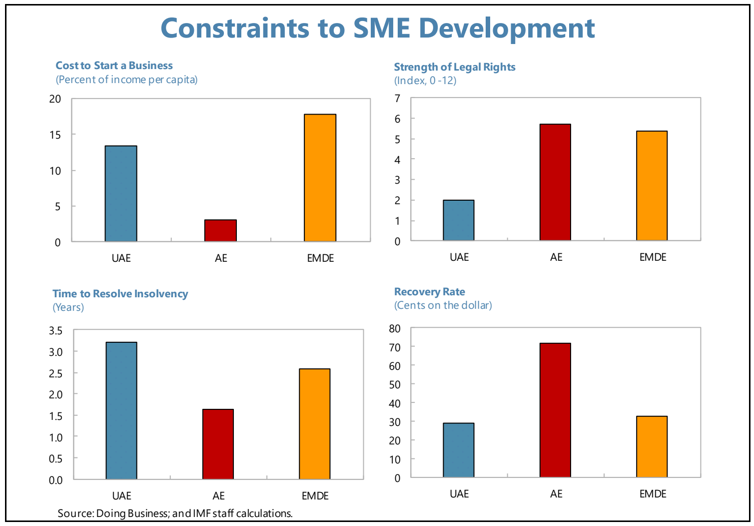
[1] AT Kearney, Not All SMEs Are Created Equal, 2016.

[2] According to a recent Dubai study on SMEs, their contribution to Dubai GDP was 47 percent in 2016 and their share in Dubai's workforce was 52.4 percent. See Press Release, 2018.

[3] OECD, Financing SMEs and Entrepreneurs: Scoreboard, 2015.

5. SMEs in the UAE also suffer from a relatively high cost of starting a business. While lower than in emerging markets, the cost of starting a business in the UAE is higher than in advanced economies, according to the 2018 World Bank Doing Business Guide. These costs reflect numerous fees and expensive licensing and rent.

6. The authorities are making progress in addressing the above impediments. In 2018, the SME Council developed a federal procurement program, which requires awarding at least 10 percent of federal government contracts to SMEs (owned by nationals). A high-level committee comprising ministries, the CBU, bank federation, and development institutions created a working group to boost SME financing. Al Etihad credit bureau is gradually increasing its coverage of SMEs. The creation of a single registry for movable collateral has been announced. The Securities and Commodities Authority (SCA) is developing crowdfunding regulations and platforms for venture capital financing.



7. Policymakers could consider further steps to promote bank and nonbank financing of SMEs. Simplifying SME registration and bank account opening for SMEs would lower the cost of starting a business and banking for SMEs. Providing courses to entrepreneurs in finance and accounting could improve the quality of financial statements. Making the new bankruptcy regime operational would facilitate loan restructuring. Issuing domestic government bonds would pave the way for the development of corporate bond markets, helping expand sources of financing for SMEs. Private equity and venture financing could also be viable options. Successful experience in developing alternative sources of SME financing in the United Kingdom shows that encouraging competition among SME lenders increases financing. Securitization of SME loans in China also has helped lenders to expand the volume of SME lending and reduce the cost of lending to SMEs.

8. Supporting SME lending through regulatory forbearance, for example, via lower risk weights, is not advisable because this could create risks for financial stability. Similarly, setting lending targets is unlikely to help increase new lending, but could raise credit risks. Using interest rate caps has been shown in other countries[4] to have a negative effect of lending due to lower credit supply and approval rates for small and risky borrowers. At the same time, there is merit in encouraging banks to create SME units so that they could better understand the nature of lending to smaller enterprises. Successful experiences in using credit guarantee schemes call for market discipline in credit allocation. To be successful, a credit guarantee scheme should be established as an independent entity with clearly defined objectives, adequate funding, sound governance structure, strong credit risk management practices, and with regular public disclosure of performance.

[4] Ferrari, A., Masetti, O. and Ren, J., Interest Rate Caps: The Theory and The Practice, World Bank Policy Research Working Paper 8398, 2018.

9. Fintech can play a catalytic role. The UAE has been successfully nurturing fintech companies in its free financial zones in Abu Dhabi and Dubai (ADGM and DIFC, respectively). The free zones developed targeted programs supporting SMEs and are hosting SME crowdfunding platforms (Beehive and Eureeca). The SCA is also developing regulations to promote crowdfunding onshore. Fintech companies have potential to boost SME lending by enriching credit information and enhancing competition in financial services. Improving conditions for SMEs, including by strengthening the legal framework and reducing the cost of doing business, would allow fintech companies to increase their presence onshore. Given the UAE's decentralized structure, a coordinated approach between on-shore and off-shore regulators in the fintech area could help to maximize its gains for SMEs without compromising safety and stability of the financial system.

INTERNATIONAL MONETARY FUND

UNITED ARAB EMIRATES

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 12, 2018

Prepared By | Middle East and Central Asia Department

CONTENTS

FUND RELATIONS

(As of October 15, 2018)

Membership Status: Joined on September 22, 1972; accepted Article VIII status in February 1974

General Resources Account	**SDR Million**	**Percent Quota**
Quota	2,311.20	100.00
Fund holdings of currency	1,968.43	85.17
Reserve tranche position	343.29	14.85

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	568.41	100.00
Holdings	152.24	26.78

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund

	Forthcoming				
	2018	**2019**	**2020**	**2021**	**2022**
Charges/interest	1.02	4.13	4.13	4.13	4.13
Total	**1.02**	**4.13**	**4.13**	**4.13**	**4.13**

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangement

The UAE dirham was officially pegged to the SDR at the rate of AED 4.76190 = SDR1 from November 1980 to February 2002—albeit de facto it was pegged to the dollar at a fixed parity. Since then, the de jure and de facto exchange rate regime has been a conventional peg to the U.S. dollar, with the mid-point between the official buying and selling rates fixed at AED 3.6725 = US$1.

The UAE has accepted the obligation of Article VIII, Sections 2, 3, and 4. There are no restrictions on the making of payments and transfer for current international transactions, except for those restrictions for security reasons that have been notified to the Fund, by the authorities, in accordance with Executive Board Decision No. 144 (52/51).

Article IV Consultation

The UAE is on the annual consultation cycle. The previous consultation discussions were held during April 30–May 14, 2017. The Article IV consultation was concluded on July 7, 2017. The staff report was published on July 14, 2017, and is available at

https://www.imf.org/~/media/Files/Publications/CR/2017/cr17218.ashx

FSAP Participation, ROSCs, and OFC Assessments

FSAPs were conducted in 2003 and 2007.

Technical Assistance:

STA	Balance of Payments Statistics	June 2012
FAD	Fiscal Coordination	June 2012
STA	Government Finance Statistics	April 2013
STA	National Accounts Statistics	May 2013
STA	International Investment Position	January 2014
FAD	Fiscal Coordination	January 2014
FAD	Fiscal Coordination	March 2014
STA	Fiscal Information and Coordination	May 2014
STA	Consumer Price Index	November 2014
STA	Government Finance Statistics	January 2015
FAD	Fiscal Coordination	January 2015
STA	Monetary and Financial Statistics	November 2015
STA	Balance of Payments Statistics	November 2015
STA	National Account Statistics	April 2016
MCM	Bank Liquidity Risk Management and Liquidity Forecasting	March 2017
STA	Business Conditions Survey	March 2017
STA	Monetary and Financial Statistics	April 2017
STA	National Accounts Statistics	October 2017
MCM	Development of Local Currency Domestic Bond Market	November 2017
FAD	Fiscal Risks and Gender Budgeting	February 2018
MCM	Developing Monetary Policy Operations and the Local Currency Government Bond Market	July 2018

Resident Representative: None

WORLD BANK RELATIONS

(As of October 2018)

Technical cooperation between the United Arab Emirates (UAE) and the World Bank began in 1980s with a comprehensive national health assessment study and a government computer center restructuring study. Later, the Government requested assistance in water resource management, debt market development, and labor market development.

In 2013, the Ministry of Finance conducted an awareness program about World Bank Group services to various audiences, which increased the level of engagement with the Bank. Since then, the World Bank helped compare the costs of various health insurance schemes, assessed an innovative governance approach to improve private education quality, supported upgrading public finance laws, and prepared Public Expenditure Reviews (PER) in health, education, higher education and public works. The authorities note that World Bank assistance has been informing policy dialogue among various stakeholders including the Federal National Council (Parliament) as well as informing policy formulation and implementation.

At the sub-national Emirate level, the World Bank has provided assistance to Abu Dhabi, Dubai, Sharjah and Ajman in various domains including the regulatory environment for private sector development, mobile savings and retirement options for expatriate workers, Doing Business, and institutional strengthening.

In 2016, the World Bank became a key partner of the annual World Government Summit. Support to this annual Summit includes various knowledge sharing activities in the broader governance domain and in arising global development priorities.

Moving forward, the World Bank is supporting the Ministry of Finance in fiscal coordination among the emirates, and will support efforts at the national and emirate levels in the domains of growth and diversification, education, citizen engagement to enhance service delivery, FDI promotion, business climate improvement, as well as planning and visioning exercises.

STATISTICAL ISSUES

(As of October 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. There are substantial shortcomings on the dissemination of accounts of government-related entities (GREs). In particular, there is limited data on GRE debt and contingent liabilities to the government. The federal and individual emirates' agencies have improved the availability and quality of their statistics, but more progress is needed.
National Accounts: The methodology broadly conforms to the 2008 SNA. GDP is compiled annually with a lag of around 5 months. National accounts compilation is undertaken by the Federal Competitiveness and Statistics Authority (FCSA) and regional (Emirati) statistical agencies of Abu Dhabi and Dubai. These regional statistical agencies are independent of the FCSA and function as the central agencies of the respective Emirates. They report directly to the Emirates governments. This creates problems of priorities and hinders the sharing of data by the regions to the FCSA. Although the FCSA is responsible for compiling the national estimates of GDP, it only compiles estimates for the Northern Emirates (that is, the UAE excluding Abu Dhabi and Dubai). These estimates are then added to the regional estimates for Abu Dhabi and Dubai that are compiled by the Statistics Center of Abu Dhabi (SCAD) and the Dubai Statistics Center (DSC) respectively, to derive a national estimate. The process of summing the gross value added (GVA) compiled by the three agencies to arrive at national GDP is not advisable and should be discontinued. The compilation process is not consistent across the three agencies as they use different data sources and compilation techniques to estimate GVA for the same activities. The base year for the GDP estimates is 2010.
Price statistics: Data are published with a delay of one month. Consumer price indexes need further harmonization at the federal level. The FCSA is receiving technical assistance from the IMF to compile a PPI, in line with a roadmap to subscribe to the SDDS.
Government finance statistics (GFS): In April 2017, for the first time since 2012, the UAE authorities have recommenced reporting high frequency data for budgetary central government. The UAE has submitted annual general government fiscal accounts for the *GFS Yearbook* since 2012, after the implementation of *GFSM 2001* in 2009 by the federal and several emirate governments. In July 2018, the UAE has launched a National Summary Data Page (NSDP), which includes dissemination of central and general government data. Further initiatives should be taken to compile and disseminate the balance sheet, including the debt data on the national level.
Monetary statistics: The central bank of the UAE (CBU) has started disseminating SRF based monetary data in September 2016, with monthly frequency and timeliness of less than one month. An STA mission visited the UAE in April 2017 to assist the CBU in developing the reporting framework for the other financial corporations (OFCs). Draft data covering insurance and OFCs supervised by the CBUAE are currently being developed.

Financial sector surveillance: The central bank reports quarterly FSIs to the Fund, which are disseminated on the IMF's FSI website (fsi.imf.org). The reported FSIs at this stage only include the 12 core FSIs for deposit takers. STA has recommended the CBU to also compile and report encouraged FSIs for deposit takers and other sectors.

External Sector Statistics: The central bank is scheduled to implement an international transactions reporting system called SWIFT Scope from January 1, 2019 to improve the source data for compilation of balance-of-payments statistics. The authorities continue a project to compile the IIP, which will close an important statistical gap. The information needed to compile the balance of payments has shortcomings, especially for the financial account. The current data gaps prevent the CBU from presenting and disseminating balance-of-payments (BOP) data according to the international standards and reporting to the IMF's Statistics Department. Also, many components of the international investment position (IIP) data are missing or incomplete, as the data on private holdings of foreign assets and liabilities and government foreign assets lack appropriate surveys or are not published. The development of a comprehensive BOP and IIP is feasible, if the CBU, the FCSA, and the Ministry of Economy strengthen their capacity, enhance coordination, and receive appropriate support at the highest level.

II. Data Standards and Quality

Participant in the GDDS/e-GDDS since July 31, 2008. In July 2018, the UAE has launched a National Summary Data Page (NSDP), becoming the first Gulf Cooperation Council (GCC) country to implement the recommendations of the enhanced General Data Dissemination System (e-GDDS).	No Data ROSC is available.

UAE: Table of Common Indicators Required for Surveillance
(As of October 15, 2018)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication[1]
Exchange Rates	Real time	Real time	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	08/2018	09/2018	M	M	M
Reserve/Base Money	07/2018	09/2018	M	M	M
Broad Money	07/2018	09/2018	M	M	M
Central Bank Balance Sheet	08/2018	09/2018	M	M	M
Consolidated Balance Sheet of the Banking System	08/2018	09/2018	M	M	M
Interest Rates[3]	Real time	Real time	D	D	D
Consumer Price Index	08/2018	10/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]– Central Government	12/2017	09/2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2016	04/2018	A	A	NA
External Current Account Balance	2017	05/2018	A	A	A
Exports and Imports of Goods and Services	2017	05/2018	A	A	A
GDP/GNP	2017	09/2018	A	A	A
Gross External Debt	...	...	NA	NA	NA
International Investment Position[6]	...	...	NA	NA	NA

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I): Not Available (NA).

[2] Any reserve assets that are pledge of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by means as well as the national values of derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Mr. Beblawi, Executive Director and Ms. Merhi, Advisor on the United Arab Emirates November 26, 2018

The United Arab Emirates (UAE) authorities thank staff for the constructive policy discussions in Abu Dhabi and Dubai during the Article IV mission. They look forward to continuing the close engagement and candid policy dialogue with the Fund.

Economic Outlook and Challenges

The UAE economy has been resilient to the oil price shock reflecting its reduced dependence on the hydrocarbon sector. Non-oil growth has averaged 3.5 percent during 2015-17 and is expected to remain robust in 2018 and to further strengthen in 2019 to around 3.9 percent, benefitting from fiscal stimulus and a step-up in preparations for the 2020 World Expo. The authorities remain committed to reducing the share of oil in GDP to less than 20 percent by 2021, as per the National Vision 2021. Implementation of this vision will help to sustain growth and to protect the economy from the volatility in international oil prices. There is a continued momentum to push forward with additional reforms to boost growth and to improve the competitiveness of the economy.

As pointed out by staff, the outlook is subject to downward external risks, mainly related to policy uncertainties that could increase trade disruptions and further tighten financial conditions globally. The UAE's substantial foreign assets and low level of debt provide ample financial buffers and policy space to mitigate any of the potential risks highlighted by staff. While the authorities broadly agree with staff's outlook, they are more optimistic about non-oil growth in the medium term, due to the announced fiscal stimulus as well as favorable liquidity conditions that could lead to a further acceleration of lending to the private sector. Moreover, the authorities have not seen evidence of tightening financial conditions in the UAE, as evidenced by a pick-up in private credit growth of around 4.8 percent in September 2018 (year on year), including 6.5 percent growth to the business and industrial sector.

Fiscal Policy

Following a significant fiscal adjustment in 2015-16, due to the decline in oil prices, fiscal policy became more supportive of growth. After narrowing by nearly 16 percentage points of GDP between 2014 and 2016, the adjusted non-oil primary deficit is projected to widen by 8 percentage points in GDP from 2016 to 2018. The authorities introduced in 2018 a value-added tax in the context of a GCC-wide initiative at a rate of 5 percent to diversify non-oil revenues and to reduce the dependence of fiscal revenues on the hydrocarbon sector. VAT revenues are projected to reach 2 percent of GDP over the coming years. In addition, the authorities froze fee increases for 3 years and have initiated a holistic review of federal and local government fees with a view of rationalizing them to promote economic efficiency and support economic activity. On the spending side, the authorities plan to continue to stabilize the wage bill and other current expenses as a share of non-oil GDP.

Fiscal policy will be expansionary in 2019. The overall fiscal balance will swing by 3.5 percent of GDP and turn positive in 2019, mainly on account of higher projected oil revenues and mobilizing non-energy revenues in additions to continued subsidy reforms. The government of Abu Dhabi approved in June 2018 an economic stimulus package of 50 billion AED (3.5 percent of GDP), aimed at increasing the non-oil economic growth over the next three years, as well as 10 economic initiatives to ease the cost of doing business, and the government of Dubai will step up its infrastructure investments for the Expo 2020[1].

The authorities have made substantial progress in fiscal coordination and reporting and have introduced a five-year fiscal framework at the federal level along the lines of the Fund advice, as highlighted in the staff's Selected Issues Report. The Fiscal Policy Coordination Council has been effective in coordinating government spending plans across the Emirates. The authorities plan to continue strengthening fiscal coordination between the Emirates and federal fiscal authorities, and between fiscal and monetary authorities. Progress has been made in strengthening the fiscal framework, including through transitioning to GFSM reporting and medium-term budgeting by the federal government and by some Emirates.

The overall general government debt is expected to remain stable at around 20 percent of GDP. The authorities would like to emphasize that Dubai's government debt, including guarantees, remains relatively low at 28 percent of GDP (below its operational target of 30 percent). While the report notes that the gross public debt of Dubai, including GREs, exceeds 100 percent of Dubai's GDP, the authorities have made it clear that GRE debt is not guaranteed by the Dubai government, unlike the situation preceding the 2009 crisis when it was not clear.

Monetary and Financial Sectors Developments

The Central Bank of the UAE (CBUAE) remains committed to preserving the soundness and stability of the financial system. The financial sector continues to perform strongly, and the banking sector remains highly capitalized and profitable, with a capital adequacy ratio at around 18.2 percent, well above the minimum requirement. The CBUAE will continue its close monitoring of the liquidity situation in the banking system, which has been robust. The authorities have seen no evidence of tightening financial conditions in the UAE, as evidenced by the credit growth to the private sector, which increased by 3.2 percent in the first nine months of the year, including 4.5 percent increase for the Business and Industrial sector.

[1] The extent of fiscal decentralization in the UAE is the highest in the world. As such, the Emirates government spending accounts for 88.5 percent of total government spending.

The CBUAE has made a remarkable progress in modernizing its regulatory framework. The authorities have issued the new central bank and banking law in October 2018, which aims at enhancing the Central Bank independence and governance, setting up a sound institutional framework for financial stability oversight, and strengthening the ability of supervisors to take action, if necessary. A new risk management regulation for banks was also issued. The CBUAE is reviewing and updating existing regulations to strengthen the prudential framework in line with the requirements of Basel III. These revisions are expected to be published by the end of the year. In addition, the CBUAE is preparing to develop a new bank resolution regime, as well as regulations related to payments and Fintech in the near future. The Sharia board was established to act as a critical enabler for competitive Islamic and sound Islamic finance environment in the UAE.

The newly approved Public Debt Law will enable the federal government to issue sovereign bonds and support the Central Bank's role in liquidity management. The authorities recognize that developing deep and liquid domestic debt markets can bring important benefits by benchmarking the yield curve in for dirham denominated debt, providing local governments and corporates, with new funding sources, deepening the financial sector, enhancing the monetary interest rate policy transmission mechanism, to the market and facilitating liquidity management.

The UAE authorities have continued to strengthen the AML/CFT framework and to address de-risking issues. The authorities have introduced amendments to the AML/CFT law and are aiming to finalize a national risk assessment by 2019. The Anti-Money Laundering and Suspicious Cases Unit at the Central Bank will continue to strengthen the effectiveness of the AML/CFT framework through capacity building and bolstering regional and international cooperation.

Structural and Regulatory Reforms to Boost Inclusive Growth

In line with Vision 2021, the UAE authorities have ambitious economic diversification goals. A wide range of policy measures to stimulate economic growth and to improve the business environment have been taken this year in this regard. The Abu Dhabi stimulus package covers economic initiatives related to infrastructure and legislative projects, as well as SMEs, and industrial and social projects. These include the Abu Dhabi Accelerated Development Program ("Ghadan 21" or 'Tomorrow' 21) to attract and to support value-added investments and technologies that will help increase the competitiveness of the economy[2]. Dubai government reduced municipalities fees by half and cancelled 19 fees related to the aviation industry, as part of initiatives aimed at lowering corporate and government charges to

[2] As part of the plan, the government plans to increase employment by creating 10,000 jobs for Emiratis in the private and public sectors over the next five years.

boost economic growth, creating jobs, and making it easier to do business. The federal government has also announced new measures of relaxing foreign ownership requirements and the introduction of ten-year visas[3] to stimulate the private sector and promote tourism.

Recognizing the significant role small and medium enterprises (SMEs) have played and is likely to continue to play, as a key growth driver towards further economic diversification, the authorities will continue to support SMEs, which employ most of the labor force in the UAE. The SME Council developed a federal procurement program, which requires awarding 10 percent of federal government contracts to SMEs (owned by nationals). A high-level committee was also recently created to boost SME financing. The authorities will continue to enhance the ecosystem in support of the sector and remove obstacles so that SMEs and start-ups get the support and financing needed to play their vital role in the economy. To that end, the CBUAE has developed draft regulations to encourage financial institutions to play their role in the development of this sector. The authorities appreciate staff's Selected Issues paper on the subject and will consider its proposals.

Over the past few years, the UAE has taken the lead in adopting digital solutions. A strategy for Artificial Intelligence has been launched to boost government performance at all levels and to achieve the objectives of the UAE Centennial 2071, and a minister of state for Artificial Intelligence has been appointed to accelerate progress on this level. The UAE is emerging as the start-up hub for the regional financial sector, as Dubai and Abu Dhabi are the most favored destinations for Fintech firms owing to the availability of an advanced technological infrastructure[4]. The Securities and Commodities Authority (SCA), the Insurance Authority, along with the Central Bank, are the three on-shore regulators for all banking and financial activities and work in tandem with financial free zones to provide oversight for the financial industry. The goal of financial regulators is to develop new regulations for Fintech entities, as well as to provide a platform for start-ups to develop their ideas and to obtain support that enables their growth and increases their contributions to non-energy growth and employment in line with the country's vision.

[3] The new visa system, which benefits all foreigners in the UAE, offers up to a 10- year visa for experts in medical, research, and technical fields. Foreign students will have the option to obtain a 10-year visa and up to 2 years training following the completion of their studies. Job seekers are also included in the new regulation and will be able to obtain 6-month visas.

[4] The Dubai International Financial Center (DIFC) and the Abu Dhabi Global Market (ADGM), along with the International Financial Centre in Abu Dhabi, have launched their accelerator programs.