



# UNITED ARAB EMIRATES

July 2014

## 2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; 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 2014 Article IV consultation with the United Arab Emirates, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2014, following discussions that ended on May 8, 2014, 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 June 11, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 26, 2014 discussion of the staff report that concluded the Article IV consultation.
- A **Statement by the Executive Director** for the United Arab Emirates.

The following document has been or will be separately released.

Selected Issues Paper

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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# UNITED ARAB EMIRATES

## STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

### KEY ISSUES

June 11, 2014

**Economic context.** Economic growth has been solid, supported by tourism, hospitality, and a rebounding real estate sector. Rapid price increases in some segments of the real estate market have prompted concerns about possible excessive risk-taking. The pace of fiscal consolidation slowed in 2013. The economic recovery, combined with higher real estate prices and a liquid banking system, has further supported the rollover of the still-large debt maturities of government-related entities (GREs).

**Policy Focus.** Economic and financial policies should continue to aim at mitigating the risk of a renewed cycle of exuberance, and at strengthening the fiscal position. Efforts in deleveraging and restructuring GREs should continue.

**Macroeconomic policy mix.** Fiscal plans for this year and the medium term imply appropriate countercyclical fiscal policy amid economic strengthening. Monetary policy in coming years is expected to tighten under the U.S. dollar peg, helping the United Arab Emirates (UAE) mitigate the risk of potentially large private credit growth, and could be supported by macroprudential tightening should deposit and credit growth accelerate further.

**Real estate.** Further measures, such as setting higher fees for reselling properties within a short time, and restrictions on reselling off-plan properties, are warranted, particularly if rapid price increases continue. These measures could be supported by targeted macroprudential tightening in case real estate lending picks up further.

**GREs.** Strengthening the coordinating mechanisms for prioritizing and sequencing major projects will be important, as is continuing to avoid new large-scale risk-taking by highly indebted GREs. Building on recent progress, upcoming debt maturities should be managed proactively; this should include timely communication and improving GREs' transparency and governance.

**Financial stability.** The banking system maintains significant capital and liquidity buffers. Banking system soundness should be further strengthened by gradually reducing the exposure to emirate governments and GREs of those banks exceeding recently imposed loan concentration limits, by strengthening corporate governance in banks, and by continuing to enhance the financial integrity framework.

Approved By  
**Alfred Kammer;**  
**David Marston**

Discussions were held in Abu Dhabi and Dubai during April 23–May 8, 2014. The staff team comprised Harald Finger (head), Andre Santos, Bahrom Shukurov, Anna Unigovskaya (all MCD), Chadi El Khoury (LEG), and Tim Irwin (FAD). The team met with H. E. Governor of the Central Bank of United Arab Emirates Sultan Bin Nasser Al Suwaidi, H.E. Minister of State for Financial Affairs Obaid Humaid Al Tayer, H.E. Minister of Economy Sultan Bin Saeed Al Mansouri, the heads of economy and finance departments of the emirates, as well as other senior officials and representatives from the business and financial community.

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## BACKGROUND

1. **The UAE continues to benefit from its perceived safe-haven status amid regional instability.** Against a backdrop of political stability, confidence has further increased, tourism and hospitality have expanded, and capital inflows have continued. The real estate sector, which had been impaired since the 2008/9 crisis, has been recovering quickly, especially in the Dubai residential market.
2. **Economic diversification efforts are ongoing.** Dubai continues to expand its role as a hub for retail and wholesale trade, as well as a major tourism and real estate investment destination for the wider region. Dubai's successful bid for the World Expo 2020 is expected to further increase confidence and growth in the medium term Abu Dhabi, while continuing to expand its hydrocarbon production capacity, is pursuing an economic diversification strategy into areas such as petrochemicals, logistics, financial services, aviation, renewable energy, and cultural tourism. Meanwhile, consistent with IMF staff advice, the authorities have been implementing a number of reforms aimed at mitigating vulnerabilities and strengthening the macroeconomic policy framework, including bolstering the GRE and banking sectors and strengthening fiscal policy coordination and economic statistics.

### Status of Staff Recommendations Made during the 2013 Article IV Consultation

Recommendation	Current Status
Continue fiscal consolidation	The fiscal stance in 2013 tightened by around 1 percent of non-hydrocarbon GDP, about half of what had been expected. The consolidated 2014 budget implies significant consolidation.
Continue to focus on strengthening the GRE sector	All major debt restructurings from the 2008/9 crisis have been completed, and large intergovernmental maturities have been rolled over. GREs have made progress with selling assets and partially prepaying maturities. Further progress is needed in strengthening the transparency and coordination of GREs.
Consider targeted increases in real-estate-related fees	Dubai authorities raised the real estate registration fee from 2 percent to 4 percent in October 2013, and regulatory measures to assure orderly market conditions for new real estate development were introduced.
Introduce new prudential regulations for mortgage lending and loan concentration	The Central Bank introduced new maximum loan-to-value ratios for mortgage lending, debt-service-to-income limits, and loan concentration limits for GREs and local governments in early 2014.
Further strengthen fiscal policy coordination	The Ministry of Finance compiles consolidated fiscal data in the GFS 2001 format for the federal and emirate governments.
Further improve economic statistics	The authorities have improved GFS reporting, started a project to compile the international investment position, and have begun implementing an international transactions reporting system for the balance of payments.

Source: IMF staff.

## RECENT DEVELOPMENTS

3. **Economic growth has been solid, supported by tourism, hospitality, and a rebounding real estate sector.** While growth in oil production moderated in 2013, public projects in Abu Dhabi and robust growth in Dubai's service sectors continued to underpin growth, which reached 5.2 percent in 2013. The current account surplus declined to 16 percent of GDP (from 18½ percent in 2012), reflecting buoyant imports. The real estate sector has been recovering quickly in some segments, especially in the Dubai residential market. While the momentum of price increases appears to have slowed in recent months, sales prices nonetheless increased 27 percent year-over-year in May 2014 (Box 1).<sup>1</sup> With this increase only gradually feeding into higher average rents, headline inflation increased to 1.9 percent year-on-year in March 2014 (from 1 percent a year ago).
4. **Strong financial market performance also reflects improved confidence.** The Dubai Financial Market (DFM) stock index rose by 100 percent year-over-year in May 2014, in part supported by the UAE's inclusion in MSCI's emerging markets index.<sup>2</sup> Credit default swap spreads have further tightened. Foreign capital flows, particularly to domestic banks, have risen (Box 2).
5. **Fiscal consolidation slowed in 2013.** The fiscal stance tightened by around 1 percent of nonhydrocarbon GDP, about half of what had been expected.<sup>3</sup> While the Dubai government reduced its deficit slightly faster than planned, Abu Dhabi's consolidation was less than budgeted, driven by higher security, defense, and other current spending. The overall fiscal surplus is estimated to have declined, however, to 6.5 percent of GDP (from 8.9 percent of GDP in 2012), raising the estimated fiscal breakeven oil price to US\$84, from US\$78 in 2012.<sup>4</sup>
6. **Private sector credit has begun to recover.** Deposit growth has strengthened, boosting liquidity in the banking system. Following years of credit-less recovery, lending to the private sector has begun to rebound (8.2 percent year-over-year growth in 2013, and further accelerating in the first quarter of 2014). Banks continued to increase their exposure to government and public enterprises, by AED15 billion (equivalent to 6 percent of bank capital) during 2013, in some cases further increasing their already substantial loan concentration. Banks remain amply capitalized, and nonperforming loans (NPLs) have begun declining from their post-crisis peak, though they remain high, especially among Dubai banks.

<sup>1</sup> Source: Dubai Land Department.

<sup>2</sup> In mid-2013, MSCI announced the reclassification of the UAE from its Frontier Markets Index to its Emerging Markets Index as of June 2014, triggering increased demand by investors that track this index.

<sup>3</sup> The fiscal stance, measuring the fiscal impulse on aggregate demand, is defined as the consolidated nonhydrocarbon primary balance for the federal, Abu Dhabi, Dubai, and Sharjah budgets, including loans and equity but excluding (i) the operations of Dubai Financial Support Fund, (ii) the investment income from the sovereign wealth funds, and (iii) grants to foreign governments.

<sup>4</sup> The breakeven oil price is the oil price that would be needed to balance the consolidated budget of the federation and the emirates.

<b>Bank Financial Soundness Indicators<sup>1</sup></b>							
(percent)							
	2008	2009	2010	2011	2012	2013	Mar-14
Capital adequacy ratio	13.0	19.9	20.7	20.0	21.2	19.3	18.3
Return on assets	1.4	1.4	1.3	1.5	2.0	2.0	1.7
Return on equity	13.0	10.9	10.4	11.4	11.5	15.3	13.5
Nonperforming loans to total loans	2.3	4.3	5.6	7.2	8.4	7.3	7.1
Provisions to nonperforming loans <sup>2</sup>	78.0	85.0	89.0	90.0	85.1	93.4	102.1

Source: Country authorities.

<sup>1</sup> National banks.

<sup>2</sup> Specific and general provisions.

7. **Solid economic growth, combined with higher real estate prices and a liquid banking system, has helped indebted GREs.** With the debt restructuring of Dubai Group in January (\$10 billion), reportedly at a large net present value (NPV) haircut for creditors, the last major restructuring from the 2008/9 crisis has been completed. In addition, \$20 billion in Dubai government debt to the Central Bank of the UAE (CBU) and Abu Dhabi falling due this year was rolled over at reduced interest rates. Nakheel has begun to prepay bank debt falling due in 2015. Dubai World has stepped up asset sales (sometimes to other GREs) to raise cash and repay debt under its debt restructuring agreement, though markets continue to monitor Dubai World's capacity to make forthcoming repayments. Financially healthy GREs have stepped up debt issuance (Figure 3). Abu Dhabi kept its total government and GRE debt contained.

## OUTLOOK AND RISKS

8. **The macroeconomic outlook is positive.** Economic growth is expected to be about 4¾ percent in 2014 and 4½ percent in coming years. Driving economic growth, the nonhydrocarbon economy is expected to grow at about 5½ percent this year and beyond, supported by public investment projects and strength in services sectors such as tourism, logistics, finance, and real estate. An improving global economy and strengthening domestic confidence, associated with a rebounding real estate market, recently announced megaprojects, and the Expo 2020, also support nonhydrocarbon growth. By contrast, growth in hydrocarbon production will likely be limited in the context of an amply supplied global oil market. Inflation is expected to increase, driven by higher rents. The current account is set to further decrease, reflecting a projected moderate decline in hydrocarbon prices and continued import growth.

9. **Domestic and external conditions pose risks to the largely favorable medium-term outlook** (see risk assessment matrix).

- The strengthening real estate cycle, particularly in the Dubai residential market, could attract increased—and potentially destabilizing—speculative demand, creating the risk of unsustainable price dynamics and an eventual, potentially disruptive correction. An acceleration of the Dubai megaprojects, currently planned to be flexible and in line with projected demand, could exacerbate this risk. Moreover, the projects could weaken Dubai’s still substantially indebted GREs: Dubai’s total government and GRE debt is estimated at \$142 billion (141 percent of Dubai GDP) with \$92 billion falling due in 2014–19. With rent controls recently relaxed, rising real estate prices may also feed more strongly into inflation.
- External risks also remain important. A sustained decline in oil prices, which could be triggered by deceleration of global demand or coming-on-stream of new supply, would reduce export earnings and fiscal revenues. The UAE’s substantial foreign assets and fiscal surplus provide buffers against moderate or short-lived shocks. But a large and prolonged fall in oil prices would reverse the accumulation of savings and ultimately result in lower fiscal spending. Renewed global financial market volatility could increase interest costs for the Dubai government and its GREs. By contrast, heightened geopolitical risks surrounding Russia and Ukraine or the Middle East could raise global energy prices and support the UAE’s external position, though a deeper deterioration could disrupt global financial and trade flows. A permanent easing of international sanctions on Iran could benefit the UAE by allowing the resumption of closer economic and financial linkages.



<b>United Arab Emirates: Risk Assessment Matrix<sup>1</sup></b>		
<b>Nature of Risks/ (Likelihood)</b>	<b>Expected Impact on Economy if Risk is Realized/ (Low/Medium/High)</b>	<b>Policy Responses to Reduce Vulnerabilities</b>
<b>Sustained decline in commodity prices</b> triggered by deceleration of global demand (in advanced or emerging economies) and coming-on-stream of excess capacity (medium-term) <i>(Medium)</i>	Lower oil prices would reduce export earnings and fiscal revenues. The UAE's substantial foreign assets and improving fiscal position provide buffers against moderate or short-lived shocks. But a large and prolonged fall in oil prices would reverse the accumulation of savings and ultimately result in lower fiscal spending. <i>(High)</i>	Continue with fiscal consolidation. Mitigate Dubai's fiscal vulnerabilities by deleveraging and reforming GREs. Continue to diversify the economy and explore options to increase the revenue base.
<b>Insufficient domestic policy reform to mitigate the risk of real estate boom-bust cycles</b> <i>(Medium)</i>	Renewed optimism, fueled by capital inflows and rising real estate prices, could prompt increased speculative demand and a new cycle of risk-taking and re-leveraging by GREs and private companies, spurring a boom-and-bust cycle. <i>(High)</i>	Consider targeted increases in real estate-related fees. Continue strengthening the macroprudential framework. Develop adequate mechanisms for prioritizing and sequencing major projects, and for assessing the quality of planned spending. Contain GREs' risk-taking, improve their risk management, reporting, and governance.
<b>Protracted period of slower growth in emerging economies</b> due to earlier maturing of the cycle, misallocation of investment, and incomplete structural reforms. <i>(High)</i>	Emerging Asia, especially India and China, account for a large and growing share of UAE nonhydrocarbon exports. A slowdown in emerging economies would lead to lower oil prices, weaken an important driver of nonhydrocarbon goods export growth, and reduce tourism and foreign real estate demand. <i>(Medium)</i>	For a temporary shock, fiscal policy could be used to counter the impact of slower growth in emerging economies. For a long-lasting shock, the authorities should continue with fiscal consolidation, particularly in Dubai.
<b>Surges in global financial market volatility,</b> triggered by geopolitical tensions or revised market expectations on exit from unconventional monetary policies/emerging market fundamentals <i>(High)</i>	Renewed phases of financial market volatility could trigger a sustained reversal of capital flows, an increase in risk premiums, and tighter liquidity conditions for the Dubai government and its GREs. GREs' potential financial problems could spill over to the domestic banking system, given their strong interconnectedness. <i>(Medium)</i>	A moderate increase in interest rates would benefit the UAE as a countercyclical measure. In case of a strong reversal of capital flows, the CBU should stand ready to provide liquidity to banks. A transfer of ailing GREs' debt to domestic banks should be avoided.
<sup>1</sup> The Risk Assessment Matrix 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 of 30 percent or more).		

## POLICY DISCUSSIONS

*Against the backdrop of a strengthening economy and rising real estate prices, discussions focused on appropriate macroeconomic policies, including gradual fiscal consolidation, mitigating risks from real estate and GREs, and further strengthening the financial sector.*

### A. Pursuing Prudent Macroeconomic Policies

10. **Continuing on a path of fiscal consolidation in 2014 is adequate.** The combined federal and emirate budgets imply further fiscal consolidation this year. Staff agreed that continued fiscal consolidation is appropriate, because it would undo earlier stimulus that is no longer needed as the economic cycle strengthens and private credit growth picks up. It would also help reduce fiscal vulnerabilities (indicated by an increased breakeven oil price) and bring the fiscal stance closer to levels needed to bequeath future generations an equitable share of resources (Box 3). The federal budget is balanced and Dubai, appropriately, plans to continue gradual consolidation that will help further reduce its debt-related vulnerabilities. Abu Dhabi's budget implies a large fiscal tightening (estimated at nearly 6 percent of nonhydrocarbon GDP), including reductions in security, defense, and other current expenditures. Because budget amendments in Abu Dhabi in the course of the year are likely to result in higher spending than initially budgeted, staff projected a more moderate consolidation for 2014, which it felt would be appropriate under current cyclical circumstances. It recommended a cautious approach to midyear budget amendments, particularly if aggregate demand strengthens further.

11. **Dubai's government debt sustainability has improved.** Dubai's government debt (including extrabudgetary obligations) is expected to decline to 56 percent of Dubai GDP this year. Although Dubai's debt could still become unsustainable under severe shocks, the outlook has improved: continued fiscal consolidation and improving growth prospects have been strengthening Dubai's resilience to external shocks (Appendix 1). Overall UAE gross government debt (15 percent of GDP) is manageable, also considering the UAE's large net foreign asset position.

12. **Medium-term fiscal plans are appropriate, though not sufficiently binding to guide fiscal policy.** The federal government plans a balanced budget until 2016, and Dubai targets continued gradual consolidation. Abu Dhabi's informal medium-term fiscal framework also aims at consolidation, though the framework guides fiscal policy in the emirate only loosely. Staff recommended rebalancing the composition of expenditure. For example, reducing energy and water subsidies, while protecting those in need, would create fiscal space and improve energy efficiency. In addition, limiting further increases in the wage bill would help maintain budgetary flexibility and make private sector employment more attractive to nationals.

13. **The authorities are further strengthening intergovernmental fiscal coordination.** Spending is dominated by Abu Dhabi, with the federal government responsible for a smaller share of spending than in any other country. Each emirate has full autonomy over its fiscal policies, but the Fiscal Policy Coordination Council, supported by the Ministry of Finance, now prepares consolidated

backward-looking fiscal data for the UAE as a whole. Work on fiscal coordination is supported by a self-financed program of IMF technical assistance.

14. **Individual governments are also reforming their budgets.** The federal government has introduced a three-year budget cycle with a thorough evaluation of costs between cycles. Spending ceilings are set top-down and spending is presented on a program basis with associated performance indicators. Dubai has a medium-term fiscal framework setting budget targets through 2017, though targets are not published. Abu Dhabi produces a report on the medium-term fiscal outlook and has started work on performance-based budgeting. Staff recommended that Abu Dhabi strengthen its annual budget process, to avoid frequent mid-year budget amendments, and to adopt a formal medium-term fiscal framework to set more clearly the direction for fiscal policy for the emirate and the UAE as a whole. Improvements in budgeting could also further increase the efficiency of public spending (Box 4).

15. **The longstanding exchange rate peg has served the UAE well.** As a commodity-based open economy with open labor markets, the UAE would benefit little from expenditure switching under flexible rates. Staff estimates of the three alternative CGER-type models produce widely-dispersed exchange rate assessments (Appendix II). The projected current account balance is close to the norm implied by the macro-balance approach, but is significantly below the level implied by the external sustainability approach—pointing to the need to generate more savings and consistent with fiscal consolidation. By contrast, the equilibrium exchange rate approach points to moderate undervaluation. While short-term capital flows, such as through bond funds, have been more vulnerable to the change in US monetary policy since mid-2013, external buffers in the form of international reserves and sovereign wealth fund assets are ample, and higher interest rates have not prevented rises in stock and real estate prices. Higher interest rates as a result of a normalization of U.S. monetary policy, unless disruptive, would help the UAE mitigate the risk of potentially large private credit growth.

16. **The recent pickup in private credit growth amid ample liquidity in the banking system warrants close monitoring.** Staff and the authorities agreed that should credit growth accelerate significantly, tightening macroprudential regulations, such as the advances-to-stable-resources ratio, capital adequacy ratio, risk weights for lending, or reserve requirements on time deposits, could be appropriate to prevent excessive risk-taking and support the macroeconomic policy mix.

## B. Managing Risks in Real Estate, GREs, and the Financial System

17. **Further policy action is needed to address potential risks from the real estate market, particularly in case of continued rapid house price increases.** The situation in the real estate market is different from 2008 in that price increases still partially reflect a recovery from the post-crisis trough and demand (stemming to a large extent from foreign buyers) is significantly less bank-financed. Nonetheless, by some measures, nominal residential real estate prices in Dubai have already reached their 2008 peak. The rapid pace of price increases, if continued, could trigger an intensification of destabilizing speculative demand, and thus warrants close monitoring. With the majority of residential real estate purchases being cash-based, fee-based measures are likely to be

most effective in addressing speculation. The increase in Dubai's real estate registration fee from 2 percent to 4 percent last October, along with regulatory measures to assure orderly market conditions for new real estate development, was a welcome step. Staff and the authorities agreed that imposing additional fees and restrictions on reselling off-plan properties would further discourage speculative demand. In addition, staff recommended setting higher fees for reselling properties within a relatively short time.

18. **Recently imposed macroprudential regulations are supporting these efforts.** The new maximum loan-to-value ratios for mortgage lending and debt-service-to-income limits provide banks with a buffer against undue exposures, while also helping to limit speculation.<sup>5</sup> Staff recommended that the CBU should further tighten these rules if real estate price increases remain very high and if growth in real estate lending increases.

19. **GREs should closely coordinate and prioritize planned projects to avoid an exaggerated supply response.** Upcoming real estate and hospitality projects will be planned and executed, to a large extent, by GREs. Staff recommended that these projects should continue to be executed gradually and in line with expected demand, which will require close coordination and oversight. Care should also be taken to prevent GRE activities from crowding out private sector activity. Moreover, as some GREs are still highly indebted, it will be important to continue managing upcoming debt repayments proactively, including using timely communication to guide market expectations. Continued improvements in the availability of information on Dubai GRE debt, including on the terms of asset transfers among GREs, and in their risk management, reporting, and governance, will be important to facilitate a further strengthening of GRE balance sheets.

20. **The authorities agreed with the need for further policy actions in the real estate sector and stressed their intention to further strengthen the GREs.** They agreed that further measures, including higher, targeted fees, may be needed to address potential speculative real estate demand. While they felt that the recently introduced macroprudential regulations are sufficiently comprehensive in the current situation, they agreed with the need to review these if real estate prices continue to increase rapidly, and particularly if lending to the real estate sector should pick up more markedly. They pointed out their intention to execute the new megaprojects gradually, keeping their plans flexible and in line with demographic forecasts. With respect to servicing the GREs' debt, the authorities noted that GREs have been actively looking at refinancing options, prepaying debt before maturity, diversifying funding sources, and extending maturities, taking advantage of the low-interest-rate environment. They also stressed that most GREs are financially

<sup>5</sup> The new regulation limits first-time mortgage loans for expatriates to 75 per cent (65 per cent) of a property's value that is worth less than AED5 million (more than AED5 million). For Emiratis, the limit is kept at 80 per cent (70 per cent) of the property value if it is worth less than AED5 million (more than AED5 million). For subsequent property purchases, expatriates are eligible to take loans up to 60 per cent of a property's value while UAE nationals are allowed up to 65 per cent, regardless of the value of the property. For off-plan properties, all mortgages are restricted to 50 per cent. Monthly repayments cannot exceed 50 per cent of a borrower's monthly income, and the total loan amount cannot be larger than seven years' annual income in the case of an expatriate and eight years' annual income for a national.

healthy, and that they aim at strengthening the commercial viability of the remaining GREs. The authorities also pointed to improvements in transparency of the GREs, with those that are listed or that issue debt disclosing their financials.

21. **In the context of a strong cyclical position and accelerating deposit growth, a continued focus on the health of the banking system is warranted.** The CBU conducted stress tests to assess risks to the banking system. Liquidity stress tests implied that eight (mostly small) banks would fall below a 60 percent liquidity coverage ratio (LCR) under narrow application of the new Basel III standards; however, the CBU pointed out that the forthcoming customization of the rules to the UAE context (see below) will provide a more accurate assessment with fewer banks likely to be below the threshold.<sup>6</sup> Solvency

UAE: Liquidity Coverage Ratio (Percent)			
As of end-March 2014	UAE Local Banks	Dubai Banks	Abu Dhabi Banks
LCR ratio	65.0	95.2	53.7
Number of banks with LCR less than 60%	8	2	4
Number of banks with LCR less than 100%	18	5	6

Source: CBU estimates.

stress tests with increases in sectoral NPLs ranging from 50 percent to 130 percent resulted in only one bank with a Tier 1 capital ratio below 8 percent. The CBU recently introduced loan concentration limits for GREs and local governments, which will help contain risks to banks' balance sheets from planned megaprojects.<sup>7</sup> It will now be important to agree, as planned, on transition paths for banks that exceed the new limits, while avoiding any further build-up of exposures in these banks.

Credit Risk Stress Testing for UAE Banks (in Percent)						
At end-February 2014	UAE Local Banks		Abu Dhabi Banks		Dubai Banks	
	Regulatory capital	Tier 1 capital	Regulatory capital	Tier 1 capital	Regulatory capital	Tier 1 capital
CAR	19.3	17.1	19.1	17.2	18.7	15.8
NPL ratio	7.3		5.0		10.7	
<b>Stress scenario 1/ 2/</b>						
NPL ratio	9.6		7.0		13.8	
CAR	14.9	12.5	14.7	12.7	13.9	10.8
Number of banks below the minimum regulatory capital	4	1	2	0	2	1
<i>Memorandum items</i>						
Minimum regulatory capital	12.0	8.0	12.0	8.0	12.0	8.0

Source: CBU estimates.

1/Increases in sectoral NPLs range from 50 to 130 percent.

2/ The assumed increases in NPLs are provisioned using January 2014 total provision rates (except in the construction, real estate, and retail sectors, which use a 70 percent provision rate).

<sup>6</sup> LCR stress tests are highly sensitive to the liquidity and runoff assumptions assigned to assets and liabilities.

<sup>7</sup> The new regulation limits exposures to emirate governments and their noncommercial entities to 100 percent of bank capital, with a 25 percent individual exposure limit to noncommercial entities. Commercial entities of the Federal and Emirate governments also face a 100 percent aggregate and a 25 percent individual exposure limit. Overall, the exposure to a single borrower or a group of related borrowers is limited to 25 percent of bank capital. Banks exceeding the exposure limits were required to submit, to the central bank, plans for reducing their excess exposures by at least 20 percent annually, thus complying with the limits within five years.

22. **Amid ongoing monitoring of risks, strengthening the CBU’s supervisory toolkit would help bolster the stability of the financial system further.** Staff stressed the importance of ongoing monitoring and reporting of risks, including through the CBU’s financial stability reports. In this context, staff welcomed the CBU’s efforts to establish a financial stability stress index to identify risks and vulnerabilities. Staff recommended further strengthening the toolkit available for enforcing bank supervision through improvements to the sanction framework, and the authorities noted that this would be done in the context of the forthcoming Financial Services Law. More broadly, an assessment under the Financial Sector Assessment Program (FSAP) could play an important role in further strengthening the CBU as banking system regulator and supervisor, and other regulatory and supervisory agencies, while facilitating further financial sector development.
23. **The authorities have stepped up the implementation of Basel III.** They are planning to phase in Basel III capital and liquidity standards over 2015–19, and are consulting with banks about technical issues such as the definition of high-quality liquid assets, and about a simple liquidity rule for smaller banks. In light of the significant liquidity and capital in the banking system, the CBU felt that banks would be able to comply with the new standards.
24. **Staff stressed the importance of assuring the independence of banks’ decision making amid significant interconnectedness among bank, GRE, and private enterprise board members.** Adherence to best practices in corporate governance and risk management is needed to safeguard the independence of banks’ decision making. Staff recommended strict enforcement of existing corporate governance rules—and tightening rules where weaknesses are identified—for banks and GREs to address potential conflicts of interest (Box 5).
25. **Given the open nature of the economy and its geographic location, continued focus on measures to mitigate risks stemming from money laundering is warranted.** Increasing flows from abroad, channeled to the banking sector and financial, real estate, and gold markets, including through trade, create potential vulnerabilities related to possible illicit financial flows. Continuing to strengthen the regime for anti-money-laundering and combating the financing of terrorism (AML/CFT) is essential to mitigate these risks. Following the adoption of the 2002 AML law, the establishment of the AML suspicious cases unit in the CBU, and its increasing engagement in international cooperation, amended AML legislation will come into force shortly.
26. **Staff recommended areas for further improvement in the AML/CFT framework.** Once the legislative and regulatory framework is upgraded, efforts should focus on conducting a national risk assessment and strengthening the role of the supervisors of financial and nonfinancial businesses and professions, including real estate agents, to ensure that they adequately apply preventive measures including reporting of suspicious transactions commensurate with their risks. More broadly, staff encouraged the authorities to continue improving their understanding of the origins of financial flows and making further refinements to the identification of the beneficial owners of deposits and loans in the UAE. An AML/CFT assessment in the context of the FSAP would help define priority areas for further improvements. The authorities stressed their strong efforts in the area of AML/CFT, including domestic regulation and international cooperation.

## C. Structural and Statistical Issues

27. **Steering nationals towards private-sector jobs remains a priority.** The nonhydrocarbon private sector is expected to be the engine of growth and job creation in the medium term; yet only 12 percent of nationals currently work in the private sector. To increase the participation of nationals in the private sector, the government is developing training and placement programs and partnership initiatives with the private sector. It is also supporting internal labor mobility, providing financial incentives to companies that hire highly skilled nationals, and supporting small and medium-sized enterprises (SMEs), to which at least 10 percent of new government contracts are expected to be awarded starting 2014.

28. **Timely development of the local debt market would provide an alternative source of financing while supporting banks' liquidity management.** Developing the debt market would reduce the reliance of governments, GREs, and private companies on external funding and bank lending. It would also provide instruments for banks' liquidity management under forthcoming Basel III liquidity rules. Passage of the draft Public Debt Law, which is currently under consideration, would allow the federal government to issue debt, while requiring the establishment of debt management offices in the emirates. In addition, Abu Dhabi has made significant progress in technical preparations for potential regular debt issuance.

29. **Data provision has some shortcomings but is broadly adequate for surveillance.** Significant improvements in the UAE's statistical base are under way. The Ministry of Finance now produces government finance statistics for general government. With IMF technical assistance, the National Bureau of Statistics (NBS), in cooperation with the CBU, ministries, and other agencies, has started a project to compile the International Investment Position, which will close an important statistical gap, including for the reporting of foreign assets and debt. With the implementation of an international transactions reporting system, improvements are also under way in the area of balance of payments statistics. It will be important to ensure adequate staffing for balance of payments statistics to make this reform a success. The participation of the NBS in the recently inaugurated GCC-Stat is also an important step toward further improving the UAE's statistical systems. Some significant data gaps remain: for example, there is still only limited data on Dubai GRE debt and potential contingent liabilities to the government; demographic and labor market statistics also remain very limited.

## STAFF APPRAISAL

30. **Prospects for economic growth are broadly positive, though not without risks.** The nonhydrocarbon economy is expected to grow at around 5½ percent this year and beyond, supported by an improving global economic environment, the UAE's perceived safe-haven status, returning economic confidence, and public projects, including the Expo 2020. Domestic and external conditions pose risks to this largely favorable medium-term outlook, though the UAE's sizeable foreign assets provide significant buffers.

31. **With solid economic growth and a buoyant real estate sector, strengthening the economy's resilience and mitigating the risk of a renewed boom and bust are essential.** This entails further fiscal consolidation, considering additional measures to contain speculative demand in the real estate sector, limiting new risk-taking by GREs, and strengthening financial sector regulation.

32. **A continued focus on prudent fiscal policy will help manage aggregate demand and set a clear direction for public spending.** The strengthening economy suggests that a further withdrawal of fiscal stimulus is appropriate, reducing fiscal vulnerabilities and bringing spending closer to levels that would allow saving an equitable share of oil wealth for future generations. Strengthening the budget process in Abu Dhabi would support medium-term fiscal planning and clarify fiscal policy for the emirate and the UAE as a whole. Staff welcomes the progress made and ongoing efforts in fiscal coordination among the federal and emirate governments.

33. **The recent pickup in private credit growth, amid ample liquidity in the banking system, warrants close monitoring.** Facing strengthening domestic demand, monetary policy choices are limited in the context of an open capital account and a fixed exchange rate. Should credit growth accelerate significantly, tightening macroprudential regulations would be appropriate to limit excessive risk-taking.

34. **The rapid increase in real estate prices, if continued, warrants further policy action.** Rapid price increases could trigger an intensification of potentially destabilizing speculative demand. Setting higher fees for reselling properties within a relatively short time and imposing restrictions on reselling off-plan properties would help address these risks. Should real estate lending pick up more strongly, this should be complemented by tightening the recently imposed loan-to-value ratios and debt-service-to-income limits.

35. **Building on the recent progress in restructuring the debt of GREs, Dubai should continue to focus on strengthening the GRE sector.** Continued close oversight of GREs by the Dubai Supreme Fiscal Committee will be essential to ascertain that projects continue to be executed gradually and in line with expected demand, and to avoid new large-scale risk-taking by GREs that are still in a vulnerable financial position. Further improvements in the transparency and governance



of GREs, and a continuation of the proactive approach to upcoming debt maturities, will be essential to support market confidence.

36. **The strong cyclical position and accelerating deposit growth highlight the need for a continued focus on banking system soundness.** Ongoing monitoring and reporting of risks, including through the CBU's financial stability reports, will be important in this context. Following the introduction of loan concentration limits for GREs and local governments, it will now be important to ensure that banks that do not meet these limits gradually reduce their exposures. Adherence to best practices in corporate governance and risk management is needed to safeguard the independence of banks' decision making in light of the significant interconnectedness among board members. The planned assessment under the FSAP will also be a welcome opportunity to review the financial sector's strengths and weaknesses.

37. **Building on progress with developing the AML/CFT framework, a continued focus is needed to mitigate potential risks.** Following the adoption of legislation and establishment of AML infrastructure at the CBU, efforts should now focus on conducting a national risk assessment and strengthening the regulatory framework and the role of the supervisors.

38. **Staff encourages the authorities to build on recent progress in improving statistics.** It will be important to maintain the recent momentum of strengthening economic statistics by pressing ahead with their plan of compiling the International Investment Position and providing adequate resources for improving the quality of overall balance of payments statistics. It will also be essential to develop more comprehensive demographic and labor markets statistics, while disseminating complete data on Dubai GRE debt and potential contingent liabilities to the government.

39. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

### Box 1. Real Estate Market Developments

**The residential segment of the real estate market has recovered strongly in Dubai, and to a lesser degree in Abu Dhabi.** With the return of confidence in the real estate market, also helped by a successful bid for the Expo 2020, residential property prices in Dubai have been increasing quickly, though the momentum appears to have slowed in recent months. Some data sources suggest that Dubai's residential sale prices have already reached their previous peak in nominal terms. The recovery in Abu Dhabi's residential market has started much later than in Dubai and the price level is still well below its peak.

**Similar trends can be seen in residential rents.** In Dubai, residential rental growth has accelerated strongly, but rents are, so far, below their peak. The rental yield has been slowly declining. In Abu Dhabi, rents started rising only in the second half of 2013 and remain well below their peak, with a broadly stable rental yield. The recent removal of the 5 percent rent cap, together with the new requirement for public sector employees to reside in Abu Dhabi, is expected to put an upward pressure on rents.

**Price-income and price-rent ratios can provide some guidance on valuation in the real estate market.** Dubai's price-income ratio has been rising back to its 2008 peak, which could indicate a risk of overvaluation. Price-rent ratios also increased in Dubai and Abu Dhabi.

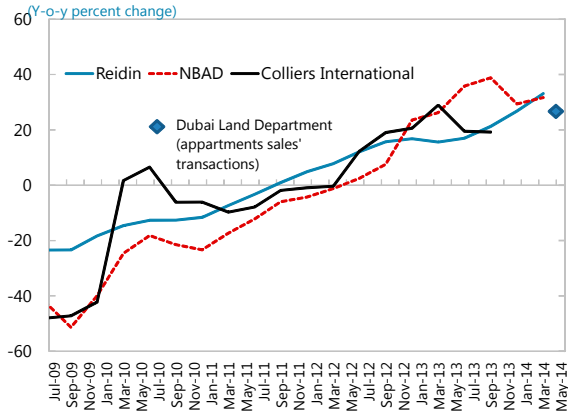
**Other segments of the real estate market have been recovering much slower.** Rent prices in Dubai's retail sector were broadly stable in 2013. Average daily hotel rates increased by 5 percent in 2013, supported by a 10 percent increase in tourists visiting Dubai. In the office segment, rental growth has been slow amid a high vacancy rate of 29 percent. In Abu Dhabi, rental growth in the commercial segments has also been sluggish, reflecting oversupply.

**International experience suggests that real estate fees in particular can be a successful tool for reducing price pressures in real estate markets.**<sup>1</sup> For the UAE, real estate fees are especially useful, given a largely cash-based market. Such fees could be raised substantially for properties re-sold within a short time (as was done, for example, in Hong Kong and Singapore). In addition, imposing differentiated fees for reselling off-plan properties, as is currently under consideration, could help further discourage speculative demand. These measures could be accompanied by further tightening of macroprudential measures, such as loan-to-value ratios and debt-service-to-income ratios, in case rapid price growth continues and real estate lending accelerates. International experience shows that countries that were faced with strengthening real estate cycles often repeatedly tightened fees and macroprudential measures, in some cases thereby effectively mitigating real estate-related risks to the economy.

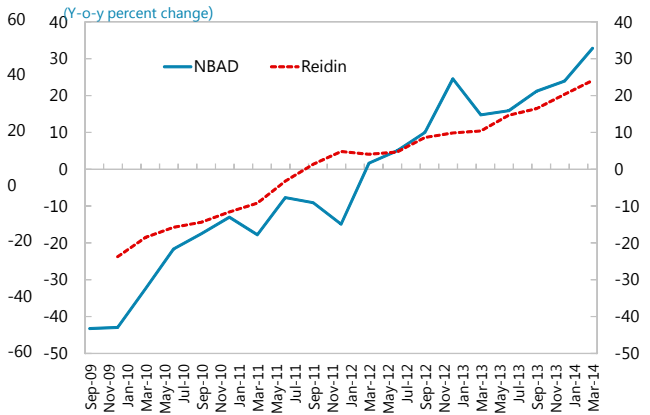
<sup>1</sup> See the accompanying Selected Issues Paper.

### Box 1. Real Estate Market Developments (Concluded) Rapid Increases in Dubai's House Prices Indicate Potential Risks

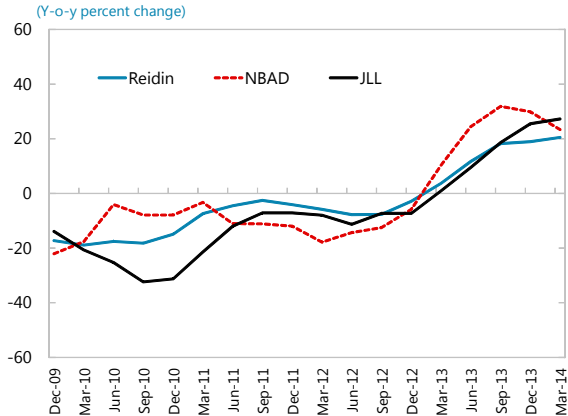
**Dubai Residential Real Estate Sales' Price Growth**



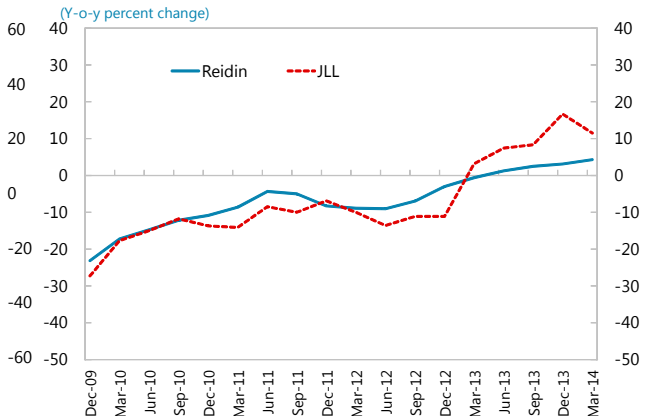
**Dubai Residential Real Estate Rents' Price Growth**



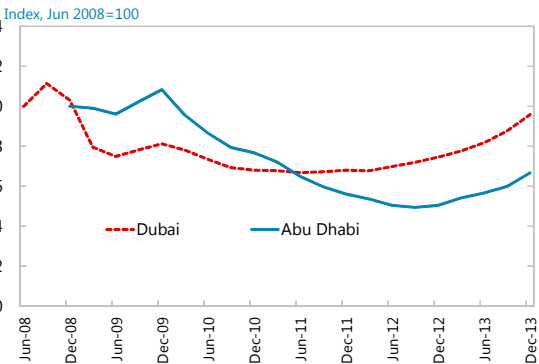
**Abu Dhabi Residential Real Estate Sales' Price Growth**



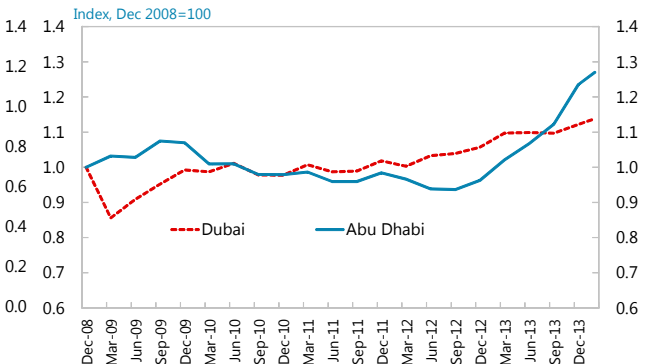
**Abu Dhabi Residential Real Estate Rents' Price Growth**



**Price-to-Income Ratios**



**Price-to-Rent Ratios**

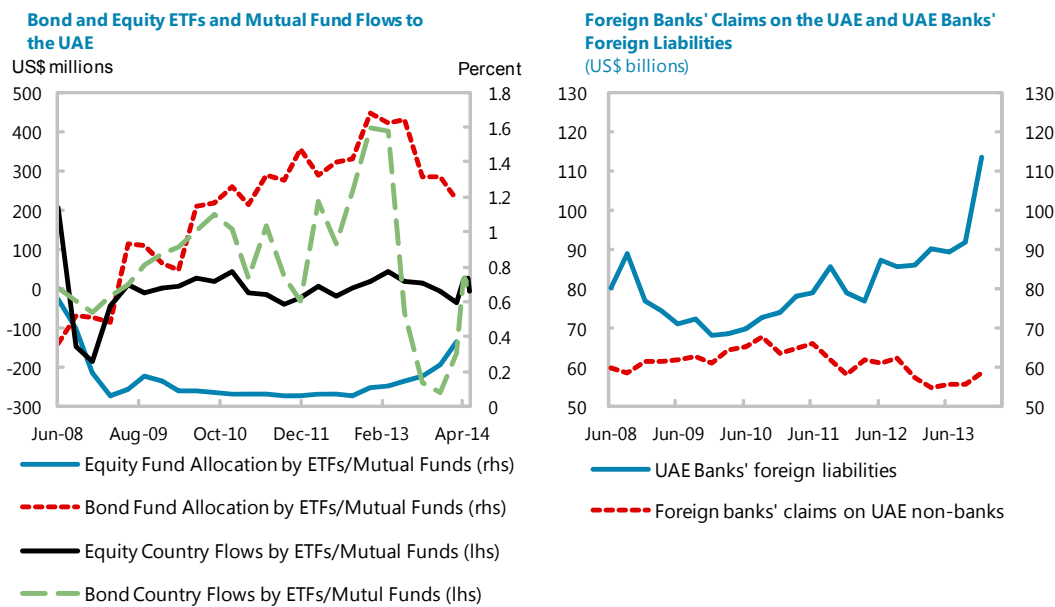


Sources: Colliers International; Jones Lang Lasalle; NBAD; National Bank of Abu Dhabi; Reidin, IMF staff calculations.

### Box 2. Capital Flows to the UAE

Capital inflows, alongside strong rises in real estate and stock market prices, reflect improved confidence in the economy. Portfolio flows from equity ETFs and mutual funds indicate an increased appetite by foreign investors for UAE securities. The equity allocations by ETFs and mutual funds to the UAE have increased four-fold since end-2012, according to EPFR Global. By contrast, bond allocations by ETFs and mutual funds have declined significantly within the same period, illustrating risks related to international capital flow volatility. Both bond and equity funds have been posting net inflows into the UAE since April 2014.

Capital flows to domestic banks are also on the rise. Their foreign liabilities rose 32 percent in 2013 (by \$28 billion). By contrast, foreign banks' claims on nonbank UAE sectors have been recovering gradually. This reflects an improvement in market access by GREs, especially through syndicated loans and bond issuances, allowing them to benefit from the low interest rate environment.

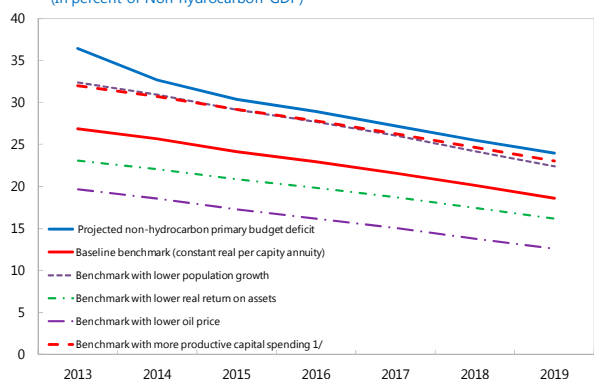


Sources: EPFR Global; Bank of International Settlements; and Central Bank of UAE.

### Box 3. Long-Term Fiscal Sustainability Analysis in UAE

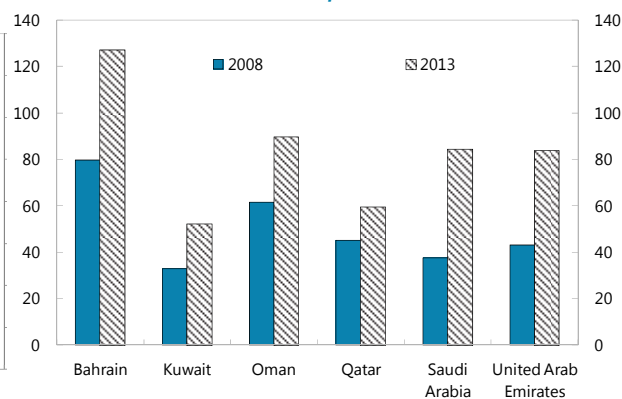
**Staff’s fiscal sustainability analysis based on the permanent income hypothesis suggests that the UAE’s fiscal stance is too expansionary to ensure intergenerational equity.**<sup>1</sup> Staff’s baseline fiscal consolidation path would reduce the gap between projected and sustainable nonhydrocarbon deficits from about 10 percent of nonhydrocarbon GDP in 2013 to 5 percent in 2019 under baseline assumptions. These estimates, however, are highly sensitive to assumptions (see chart). For example, with a slightly lower real return on assets or a lower oil price, the sustainable nonhydrocarbon deficit (benchmark) would be lower in 2019 by 2 percentage points and 6 percentage points, respectively. Lower population growth or a higher rate of return on domestic investments, by contrast, would add 4 percentage points and 4½ percentage points, respectively, to the baseline. Fiscal consolidation in staff’s baseline scenario would also reduce the fiscal breakeven oil price to about US\$82 in 2019, from US\$84 in 2013.

**Fiscal Sustainability Analysis, 2013–19**  
(In percent of Non-hydrocarbon GDP)



1/ Half of domestic capital spending is assumed to yield the same rate of return as investments abroad  
Source: IMF staff calculations.

**GCC Fiscal Breakeven Prices, 2008 and 2013**



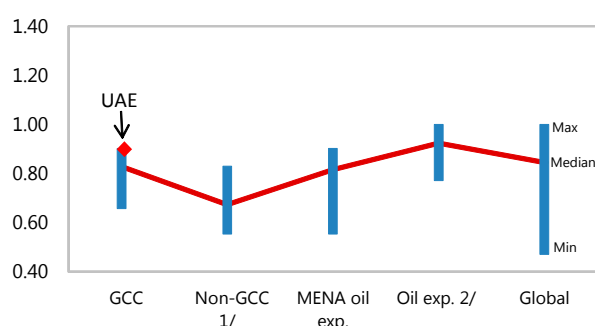
Source: IMF.

<sup>1</sup> Long-term sustainability assumes intergenerational equity by calculating a constant real per capita government spending path (and related nonhydrocarbon deficit) that delivers a constant real per capita annuity to finance government spending after hydrocarbon revenues are exhausted. The baseline calculations assume long-term values of the real rate of return of assets, inflation, and population growth of 4 percent, 2 percent, and 1.5 percent, respectively. Oil reserves are assumed to be depleted in 70 years and the oil price to be at US\$87 per barrel in 2019 and to remain constant in real terms thereafter. The alternative scenarios assume (i) lower population growth by 0.5 percentage point, (ii) lower real return on assets by 0.5 percentage point, (iii) lower oil price by one standard deviation (US\$26.5), and (iv) more productive capital spending (half of domestic public investment is assumed to yield the same rate of return as investments abroad).

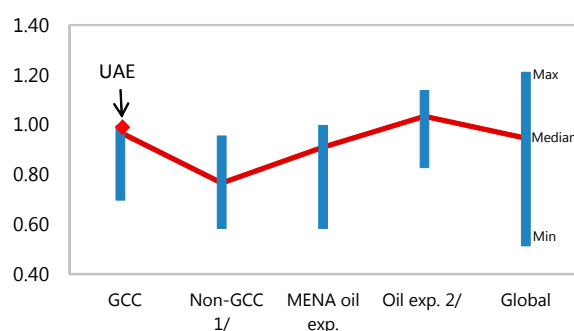
### Box 4. Public Spending Efficiency in UAE<sup>1</sup>

**The efficiency of public investment spending compares favorably to GCC peers but could be improved further.** The *Data Envelopment Analysis (DEA)* and *Partial Free Disposal Hull (PFDH)* techniques measure the effectiveness of countries in transforming inputs (resources) into outputs (infrastructure).<sup>2</sup> The quality of infrastructure was approximated using the infrastructure sub-component of the Global Competitiveness Indicators, while inputs were measured as the public capital stock. A higher estimated score implies the stronger efficiency. The UAE's scores are among the highest in the GCC, but are lower than those of some advanced economies with strong institutions, such as Canada, Chile, and Singapore.

#### DEA Scores



#### PFDH Scores



Source: IMF staff estimates.

1/ Non-GCC oil exporters in MENA.

2/ Oil-exporting countries with strong institutions as determined by high WGI indicators (90+).

**The federal government's new approach to budgeting offers the promise of improved spending efficiency.** Traditionally, budgeting had a one-year horizon and a focus on the control of inputs. Starting in 2011, the federal government adopted a top-down three-year budget in which spending is organized into programs and now also services, and in which indicators of financial and nonfinancial performance are tracked. Clarifying the objectives of spending, measuring performance, and setting relatively firm spending limits over the medium term are all likely to improve the efficiency of spending. While it is too soon to judge how successful the new approach is, experience from other countries suggests, for example, that the difficulties of measuring performance, and the consequent possibility of problems such as gaming, make it important not to rely exclusively on performance targets to generate good performance, and that organizational culture and the rigorous evaluation of spending programs outside the budget also matter. Further, most public spending in the UAE is carried out by Abu Dhabi and Dubai and, to a smaller extent, the other emirates. Greater efficiency gains might therefore be possible through further strengthening of the emirates' budget processes.

<sup>1</sup>See accompanying Selected Issues Paper.

<sup>2</sup>The main difference between these approaches is that the DEA compares each country against a fixed sample, whereas the PFDH uses repeated randomized subsamples, thus reducing sensitivity to outliers.

### Box 5. How Independent Are the Boards of Directors in UAE Banks?

**The board of directors plays an important role in the corporate governance of banks.** It has overall responsibility for banks, including the approval and oversight of the bank's objectives, risk tolerance and management, internal controls system, corporate governance, and compensation system.<sup>1</sup> It is also responsible for overseeing senior management. The board should exercise objective judgment independently of senior management, shareholders, and any other interest. A good practice is to appoint a large number of qualified, independent nonexecutive board members, which may also include board members representing minority shareholders. The revised draft 2006 CBU guidelines also promote the appointment of independent nonexecutive directors and contain indicative criteria for their selection.<sup>2</sup>

**Questions about the independence of the board of directors in UAE banks could arise in light of close inter-linkages** (see Text Figure). The 20 domestic UAE banks have a total of 162 board members, who are associated with 492 different job positions in other institutions, with an average of three positions per board member. 109 board members hold positions directly in the controlling shareholder institutions, 40 board members are also associated with institutions that might have an indirect interest in the controlling shareholder institutions, including public sector officials, while 13 board members only hold positions in their respective banks. In total, UAE banks have 18 controlling shareholder institutions that can appoint board members. As a result of these interlinkages, this large network of related institutions, shareholders, and board members could pose challenges to the objectivity and independence of board decisions in UAE banks.

**The OECD et al. (2009) also found similar results for a group of MENA banks (excluding UAE banks).**<sup>3</sup> They indicated that controlling shareholder institutions often appoint the entire board, which undermines the objectivity and independence of the board. They also reported that 54 percent of MENA banks do not have independent directors and that national guidelines require that at least half of the board of directors be nonexecutive directors.

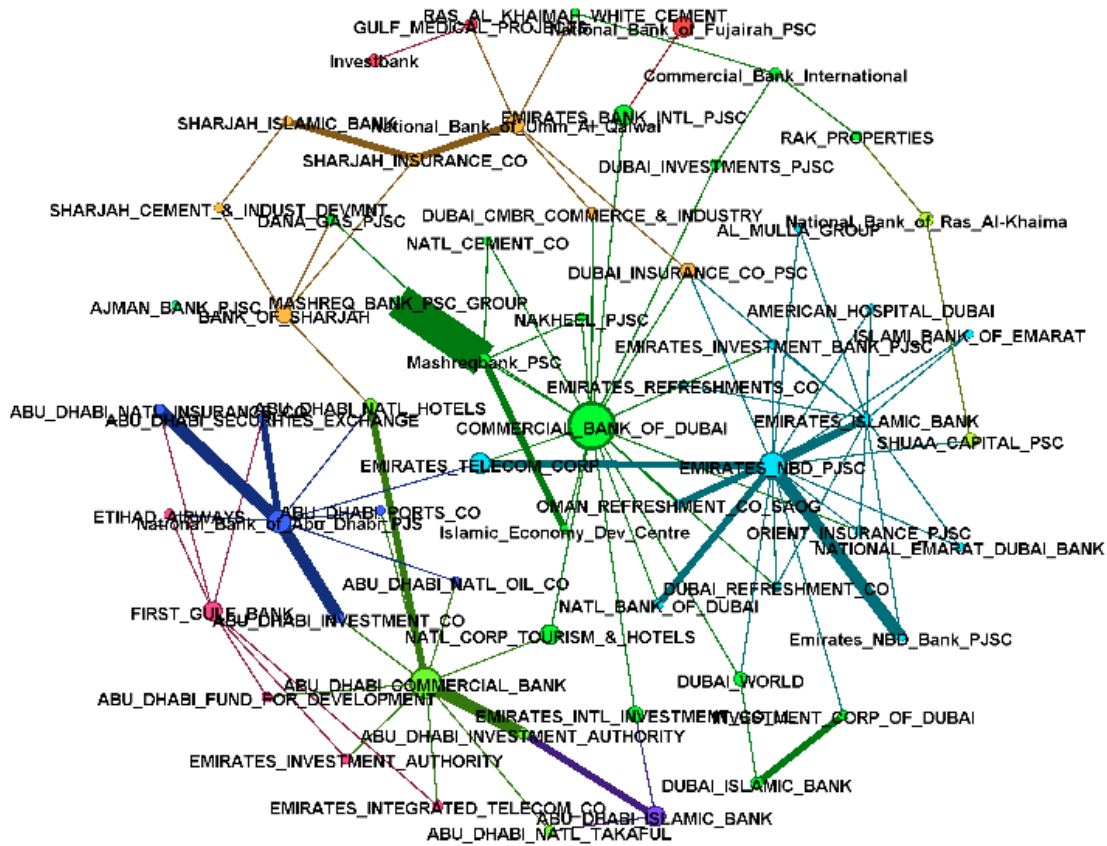
<sup>1</sup>Basel Committee on Banking Supervision, (2010). *Principles for Enhancing Corporate Governance*, (Basel: Bank of International Settlements).

<sup>2</sup>Central Bank of the UAE (2006), *Corporate Governance Guidelines for UAE Bank Directors* (Abu Dhabi: Central Bank of the UAE).

<sup>3</sup>OECD, Hawkamah, Global Corporate Governance Forum, and Union of Arab Banks, (2009). *Policy Brief on Improving Corporate Governance of Banks in the Middle East and North Africa* (Paris: Organization for Economic Cooperation and Development).

**Box 5. How Independent Are the Boards of Directors in UAE Banks? (Concluded)**

**Interconnectedness among Board Members<sup>4</sup>**



Source: Bloomberg; and IMF staff calculations.

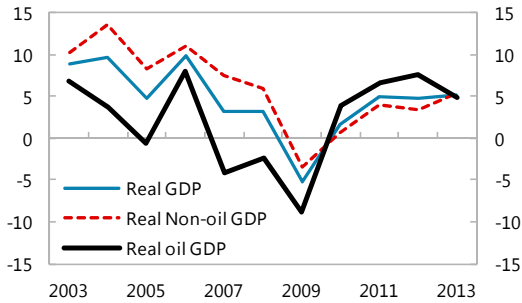
<sup>4</sup> Lines between nodes indicate common board members among banks, GRs, corporate, and public sector officials. Thicker lines indicate a larger number of common board members, executive directors, and officials.



**Figure 1. Real Sector Developments**

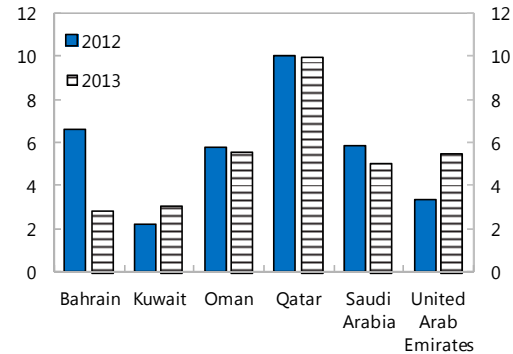
*The recovery in nonhydrocarbon growth is gaining strength...*

**Real GDP Growth, 2003–13**  
(Annual percent change)



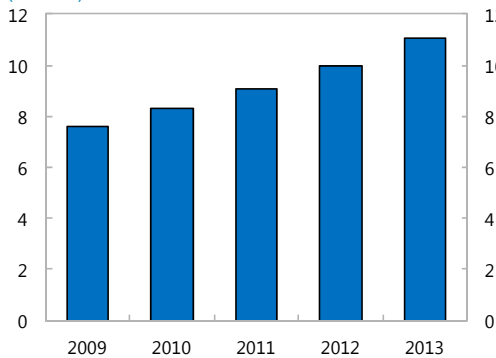
*...and the UAE compared favorably to most of its GCC peers in 2013.*

**GCC Non-oil GDP Growth**  
(Percent change)



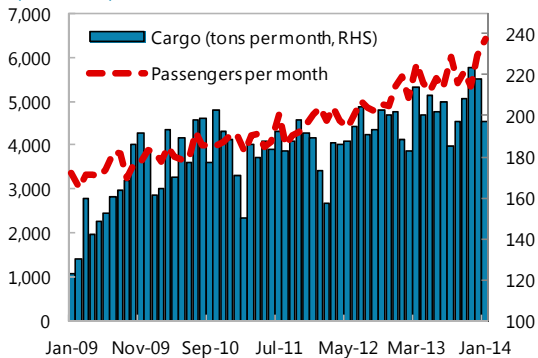
*The hospitality sector is one of the major drivers of Dubai's growth...*

**Dubai: Total Hotel Guests, 2008–2013**  
(Millions)



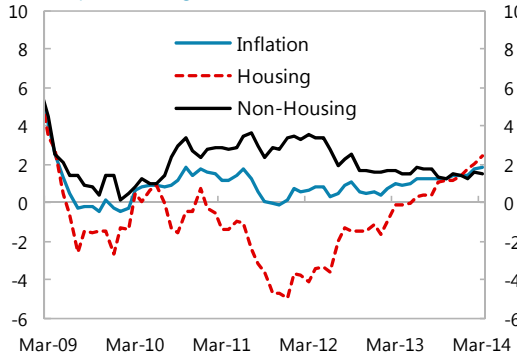
*...along with the transportation sector.*

**Traffic at Dubai International Airport, 2009–13**  
(Thousands)



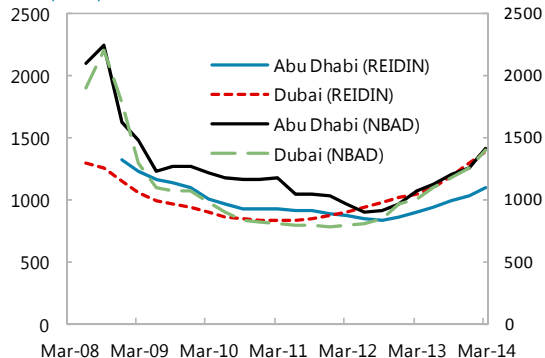
*Inflation has started to pick up moderately, driven by rising housing prices...*

**CPI Inflation, 2009–March 2014**  
(Annual percent change)



*...in both Abu Dhabi and Dubai.*

**Residential Real Estate Prices, 2008 – March 2014**  
(AED per sq foot)

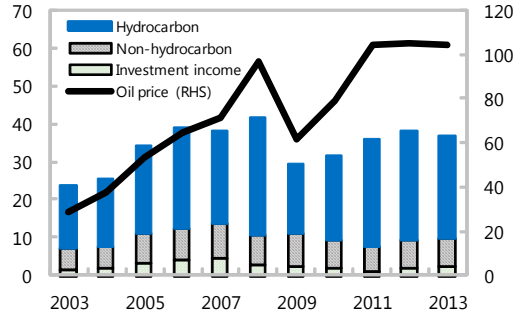


Sources: Country authorities; Haver; and IMF staff estimates.

**Figure 2. Fiscal Developments**

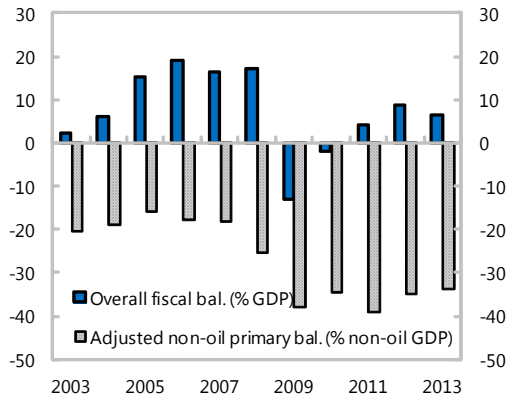
*Hydrocarbon-related revenues are the bulk of total budget revenues.*

**Consolidated Revenues**  
(Percent of GDP)



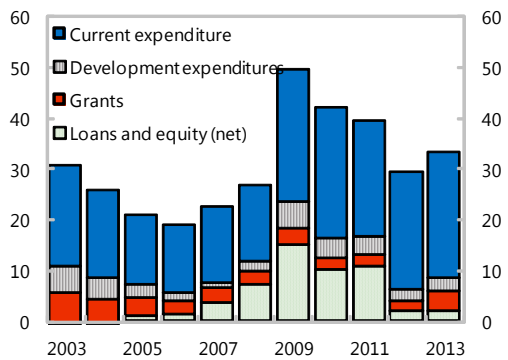
*The adjusted non-oil primary balance continued to improve, though more gradually, in 2013.*

**Fiscal Stance, 2003–13**



*With the economic recovery in the UAE, loans and equity in Abu Dhabi have dropped, but current spending remains high.*

**Abu Dhabi Government Expenditures**  
(Percent of Abu Dhabi GDP)

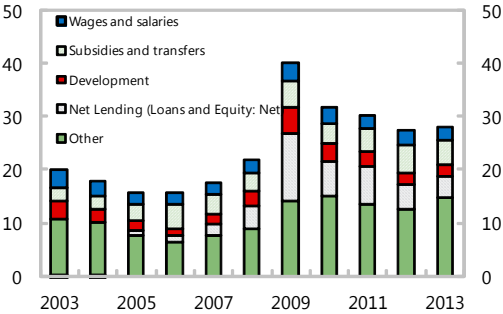


Sources: Country authorities; and IMF staff calculations.

1/Other includes federal services and contributions to Departments funded by the Abu Dhabi government.

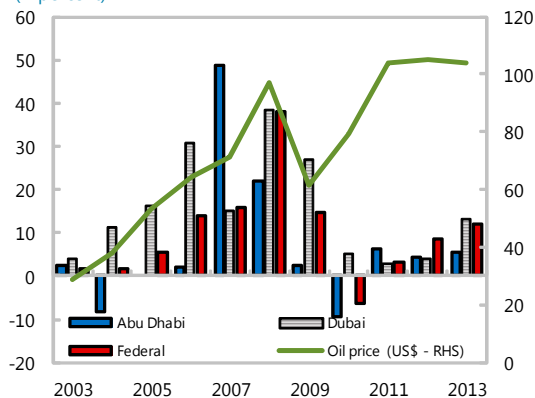
*Government spending relative to GDP has declined since the global crisis, but still remains elevated.*

**Consolidated Spending Components 1/**  
(Percent of GDP)



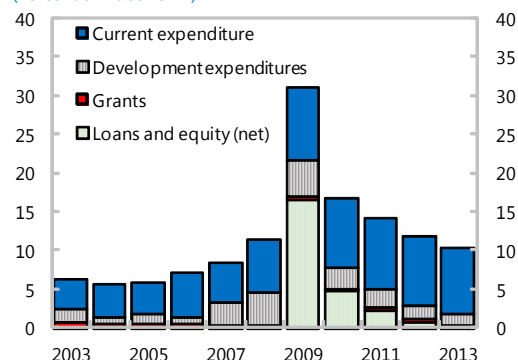
*Wage bill growth dropped during the crisis but has picked up again moderately.*

**Wage Bill Growth Rate and the Oil Price**  
(In percent)



*Similarly, government expenditure in Dubai has declined, driven by a phase-out of loans and equity.*

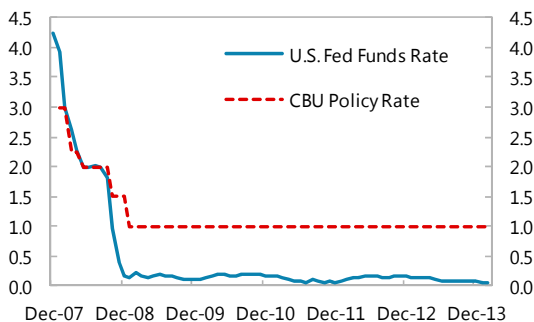
**Dubai Government Expenditures**  
(Percent of Dubai GDP)



**Figure 3. Monetary and Financial Developments**

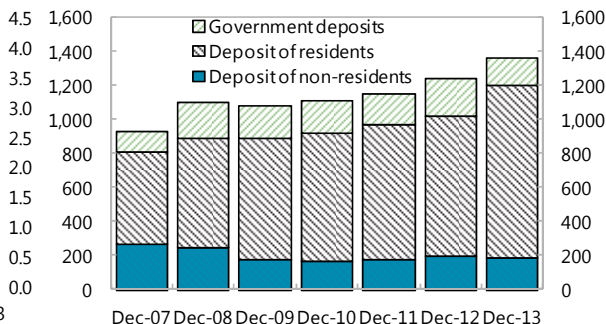
*Monetary conditions remain accommodative, with a stable spread to the U.S. policy rate.*

**Policy Rates, 2007–13**  
(Percent)



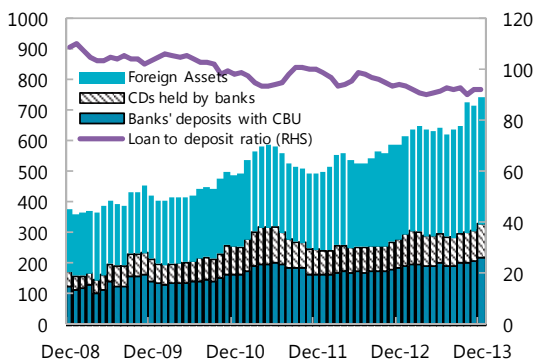
*Resident deposits drove deposit growth in 2013.*

**Bank Deposits, 2007–13**  
(Billions of Dirham)



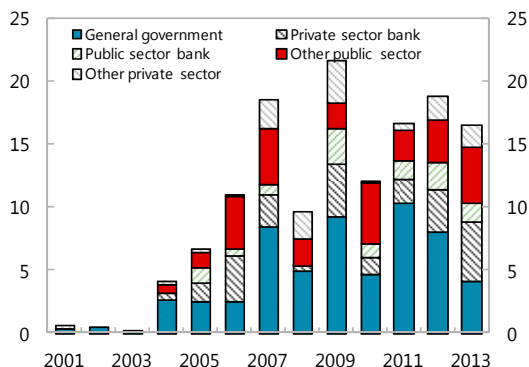
*Banking sector liquidity continues to be comfortable.*

**Bank Liquidity, 2008–13**  
(Billions of Dirham)



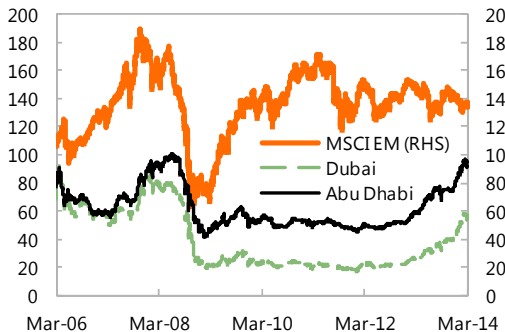
*Debt issuance has remained stable since 2011, with the private sector and GREs increasingly issuing debt.*

**Debt Issuance by Borrower Type, 2001–13**  
(US\$ billions)



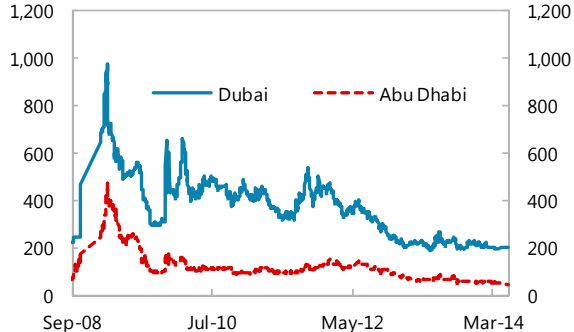
*UAE equity markets were among the best performers in 2013.*

**Stock Market Indices, 2006–14**  
(Index, Dec. 31, 2005=100)



*Dubai's CDS spread continued to fall in 2013 amid high global liquidity.*

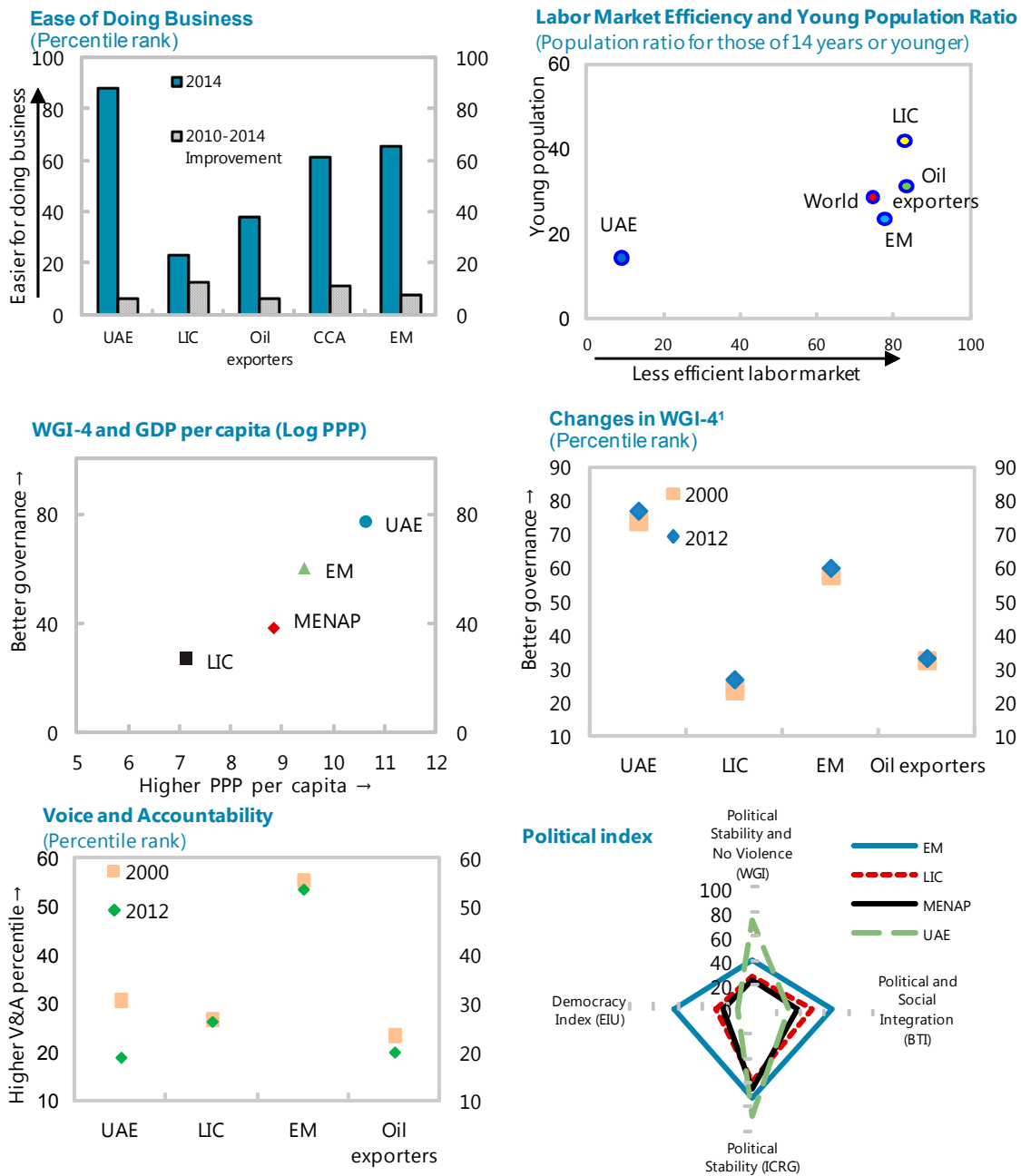
**GCC: CDS Spreads, 2008–May 2014**  
(Basis points)



Sources: Haver; Markit; Bloomberg; Dealogic; and country authorities.

<sup>1</sup>Loans are net of provisions.

**Figure 4. Business Environment and Governance**



Sources: Worldwide Governance Indicators (government effectiveness, regulatory quality, rule of law and control of corruption); *Global Competitiveness Report* (2013-14; pillar 7 without female participation and brain drain); World Development Indicators (2012); *World Bank Doing Business* (2014); EIU; BTI; ICRG; and IMF staff calculations.

<sup>1</sup>WGI-4 is a general governance indicator that reflects quality of governance and institutions in a given country.

**Table 1. United Arab Emirates: Selected Macroeconomic Indicators, 2010–19**

(Quota: SDR 752.5 million as of Feb. 2014)  
 (Population: 8.8 million, nationals: 1 million)  
 (Per capita GDP-2013: \$43,876; poverty rate: n.a.; unemployment rate: 4.2% (2009))

	2010	2011	2012	Prel. 2013	Proj. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019
<b>Hydrocarbon sector</b>										
Exports of oil, oil products, and gas (in billions of U.S. dollars)	74.6	111.6	120.0	123.0	122.5	120.0	116.5	114.6	114.1	114.3
Average crude oil export price (in U.S. dollar per barrel)	77.0	109.6	112.0	110.0	108.0	103.0	98.2	94.9	92.8	91.3
Crude oil production (in millions of barrels per day)	2.3	2.6	2.7	2.7	2.8	2.9	2.9	3.0	3.1	3.1
(Annual percent change, unless otherwise indicated)										
<b>Output and prices</b>										
Nominal GDP (in billions of UAE dirhams)	1,051	1,276	1,367	1,478	1,551	1,624	1,697	1,795	1,923	2,074
Nominal GDP (in billions of U.S. dollars)	286	347	372	402	422	442	462	489	523	565
Real GDP	1.6	4.9	4.7	5.2	4.7	4.5	4.4	4.4	4.6	4.6
Real hydrocarbon GDP	3.8	6.6	7.6	4.8	3.0	2.3	2.1	1.8	1.8	1.8
Real nonhydrocarbon GDP	0.7	4.1	3.3	5.4	5.5	5.5	5.5	5.6	5.7	5.7
CPI inflation (average)	0.9	0.9	0.7	1.1	2.5	2.8	3.5	4.0	4.5	5.0
(Percent of GDP, unless otherwise indicated)										
<b>Investment and saving</b>										
Gross domestic investment	25.7	22.7	20.3	20.2	21.3	22.0	23.2	24.4	25.4	26.7
Total fixed capital formation	24.5	21.7	19.5	19.5	20.7	21.4	22.6	23.8	24.9	26.2
Public	9.0	7.7	7.1	6.3	6.4	6.5	6.5	6.6	6.6	6.6
Private	15.5	14.1	12.5	13.2	14.3	14.9	16.1	17.2	18.3	19.6
Gross national saving	28.2	37.4	37.6	36.3	33.5	33.8	34.0	33.1	32.2	32.3
Public	8.2	14.7	16.1	14.2	14.2	13.2	12.3	11.0	9.9	8.9
Private	20.0	22.6	21.5	22.0	19.3	20.6	21.8	22.1	22.3	23.4
<b>Public finances</b>										
Revenue	29.9	34.6	36.2	34.6	33.9	32.6	31.5	29.9	28.3	26.9
Hydrocarbon	22.3	28.4	28.9	27.2	25.8	24.0	22.2	20.7	19.3	17.9
Nonhydrocarbon	7.6	6.2	7.3	7.4	8.1	8.6	9.3	9.2	9.1	9.0
Expenditure and net lending	31.7	30.4	27.3	28.1	26.7	26.3	26.2	25.9	25.5	25.0
Current	21.6	19.9	20.1	20.4	19.7	19.4	19.3	18.9	18.4	18.0
Capital	3.4	3.1	2.2	2.1	2.2	2.4	2.5	2.7	2.8	2.9
Net lending (loans and equity) 1/	6.5	7.0	4.8	4.2	4.2	4.1	4.0	3.9	3.8	3.7
Overall balance	-1.9	4.2	8.9	6.5	7.2	6.3	5.3	4.0	2.9	1.9
Non-hydrocarbon primary balance (excluding investment income) 1/	-37.0	-41.1	-35.8	-36.5	-32.7	-30.4	-28.9	-27.2	-25.5	-23.9
Adjusted non-hydrocarbon primary balance (excluding investment income) 2/										
3/	-34.6	-39.4	-35.2	-34.2	-31.6	-29.8	-28.3	-26.6	-24.9	-23.4
Central government debt to banking system 4/	22.2	17.6	17.1	11.7	11.3	11.3	11.3	11.2	10.8	10.4
(Annual percent change, unless otherwise indicated)										
<b>Monetary sector 5/</b>										
Net foreign assets	67.7	17.7	74.0	52.6	46.2	25.3	14.4	13.5	14.8	12.0
Net domestic assets	2.0	3.7	-4.3	15.6	16.5	13.9	10.4	7.6	6.8	8.1
Credit to private sector	1.2	2.3	2.3	10.3	15.3	15.3	14.1	11.1	10.7	10.2
Broad money	6.2	5.0	4.4	22.5	23.4	17.1	11.6	9.4	9.3	9.4
(Billions of U.S. dollars, unless otherwise indicated)										
<b>External sector</b>										
Exports and re-exports of goods, of which:	214	302	349	379	402	433	467	508	562	630
Hydrocarbon	75	112	120	123	123	120	116	115	114	114
Nonhydrocarbon, excluding re-exports	51	71	96	108	115	128	144	161	187	219
Imports of goods	165	195	217	242	274	301	336	377	430	492
Current account balance	7.2	50.9	69.0	64.7	51.3	52.0	50.0	42.7	35.5	31.7
Current account balance (in percent of GDP)	2.5	14.7	18.5	16.1	12.1	11.8	10.8	8.7	6.8	5.6
External debt (in percent of GDP) 6/	48.5	39.7	38.2	42.5	41.7	41.0	40.5	39.4	37.9	36.2
Gross official reserves 7/	32.8	37.2	47.1	68.1	79.8	94.5	114.2	136.0	162.6	187.8
In months of next year's imports of goods & services, net of re-exports	2.9	2.9	3.3	4.2	4.5	4.9	5.4	5.6	5.9	6.0
<b>Memorandum items:</b>										
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	3.67	..	..	..	..	..	..
Nominal effective exchange rate (2005 = 100)	95.5	96.9	97.6	105.4	..	..	..	..	..	..
Real effective exchange rate (2005 = 100)	107.8	104.4	100.3	104.6	..	..	..	..	..	..

Sources: UAE authorities; and IMF staff estimates.

1/ Includes loans for financing development projects.

2/ In percent of nonhydrocarbon GDP.

3/ Excludes DFSF related transactions for Dubai and grants to foreign governments.

4/ Banking system claims only. Excludes debt raised by federal and emirati governments in the international markets.

5/ As a result of changes in economic sector classifications in bank report forms during 2013, readings for annual percent changes for broad money and private sector credit for 2013 are inaccurate. The central bank estimates that private sector credit growth was around 8.2 percent in 2013.

6/ Foreign liabilities of the banking system only due to incomplete coverage of debt raised by non-banks in the international markets.

7/ Excludes foreign assets of sovereign wealth funds.

**Table 2. United Arab Emirates: Balance of Payments, 2010–19**  
(Billions of U.S. dollars)

	2010	2011	2012	<u>Est.</u> 2013	<u>Proj.</u> 2014	<u>Proj.</u> 2015	<u>Proj.</u> 2016	<u>Proj.</u> 2017	<u>Proj.</u> 2018	<u>Proj.</u> 2019
<b>Current account balance</b>	7.2	50.9	69.0	64.7	51.3	52.0	50.0	42.7	35.5	31.7
(in percent of GDP)	2.5	14.7	18.5	16.1	12.1	11.8	10.8	8.7	6.8	5.6
Trade balance	49.0	106.6	132.0	137.2	128.0	131.4	131.7	131.0	132.5	138.6
Exports	213.5	302.0	349.5	378.7	402.1	432.8	467.2	507.9	562.4	630.1
Oil and oil products	66.8	107.5	113.5	108.3	108.3	106.3	103.1	101.5	101.2	101.3
Natural gas	7.9	12.0	14.5	14.7	14.2	13.8	13.3	13.0	13.0	12.9
Nonhydrocarbon	51.0	70.9	96.4	107.9	114.8	128.3	143.6	161.1	187.3	218.9
Re-exports <sup>1/</sup>	87.9	119.6	133.1	147.7	164.8	184.5	207.2	232.2	261.0	296.9
Imports (f.o.b.)	-164.6	-195.4	-217.5	-241.5	-274.1	-301.5	-335.5	-376.9	-429.9	-491.5
Imports by emirates	-114.0	-137.9	-153.4	-172.7	-196.8	-214.6	-237.9	-266.8	-301.5	-343.4
Free zones	-54.8	-60.3	-68.1	-72.3	-77.3	-86.8	-97.7	-110.2	-128.4	-148.1
Income, net	-0.1	0.1	0.3	0.2	1.6	3.8	7.3	7.9	8.4	9.1
Banking system (net)	-1.3	-1.4	-1.4	-1.6	-2.0	-1.5	-0.2	1.6	3.8	5.4
Private non-banks (net)	-1.6	-1.7	-1.5	-1.1	-1.0	-1.1	-1.4	-1.7	-2.1	-2.2
Government	6.0	6.8	7.4	8.1	9.3	11.2	13.8	13.2	12.2	11.6
Official debt service (interest)	-0.9	-1.1	-1.1	-1.3	-0.7	-0.8	-1.2	-1.5	-1.8	-1.9
Foreign partners - oil	-2.3	-2.6	-3.0	-3.3	-3.3	-3.2	-3.1	-3.1	-3.1	-3.1
Foreign partners - gas	0.0	0.0	0.0	0.0	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Services, net	-30.4	-43.7	-48.1	-53.8	-58.9	-62.9	-68.0	-74.2	-82.3	-91.4
Credits	11.7	12.8	15.1	17.2	19.1	21.3	23.9	26.8	30.2	34.2
Debits	-42.1	-56.5	-63.1	-71.0	-78.0	-84.2	-91.8	-101.0	-112.5	-125.6
Transfers, net	-11.3	-12.0	-15.2	-18.9	-19.4	-20.3	-21.0	-21.9	-23.1	-24.5
Private (incl. remittances)	-10.6	-11.2	-14.4	-17.9	-18.4	-19.2	-19.9	-20.8	-21.9	-23.2
Official	-0.7	-0.8	-0.8	-1.0	-1.0	-1.0	-1.1	-1.2	-1.2	-1.3
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial account balance</b>	5.0	-29.7	-39.7	-44.6	-39.6	-37.3	-30.3	-20.9	-8.9	-6.6
Private capital	7.7	0.8	-8.4	-12.2	-10.6	-0.8	11.7	13.0	14.1	15.4
Direct investment, net	3.5	5.5	6.7	7.0	7.3	7.7	8.0	8.5	9.4	10.5
Portfolio flows, net	1.0	0.7	1.0	1.1	1.2	1.2	1.3	1.4	1.5	1.6
Commercial banks	-1.3	0.7	-8.7	-12.4	-19.2	-10.0	2.1	3.0	3.1	3.2
Private non-banks and other <sup>2/</sup>	4.6	-6.2	-7.4	-7.9	0.0	0.3	0.3	0.2	0.2	0.2
Official capital <sup>3/</sup>	-2.7	-30.5	-31.3	-32.4	-29.0	-36.5	-42.0	-33.9	-23.0	-22.0
Errors and omissions	-4.9	-16.7	-19.4	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	7.3	4.5	9.9	21.0	11.7	14.7	19.7	21.8	26.6	25.1
Change in central bank reserves	-7.3	-4.5	-9.9	-21.0	-11.7	-14.7	-19.7	-21.8	-26.6	-25.1
<b>Memorandum items:</b>										
GDP (billions of U.S. dollars)	286.0	347.5	372.3	402.3	422.2	442.3	462.0	488.7	523.5	564.9
Gross reserves of central bank of U.S. dollars	(billions) 32.8	37.2	47.1	68.1	79.8	94.5	114.2	136.0	162.6	187.8
in months of next year's imports, net of re-exports	2.9	2.9	3.3	4.2	4.5	4.9	5.4	5.6	5.9	6.0

Sources: UAE authorities; and IMF staff estimates.

<sup>1/</sup> Not separately compiled; estimated at 40 to 70 percent of emirates imports.

<sup>2/</sup> Estimate based on *UNCTAD World Investment Report*.

<sup>3/</sup> Including estimated changes in SWF net external assets.

**Table 3. United Arab Emirates: Consolidated Government Finances, 2010–15<sup>1</sup>**

	2010	2011	2012	Est. 2013	Proj. 2014	Proj. 2015
	(Billions of UAE dirhams)					
Total revenue	313.1	440.9	494.2	511.2	524.7	528.1
Hydrocarbon 2/	234.0	362.5	395.3	402.3	400.5	389.5
<i>Of which : Profit transfers from ADNOC to ADIA</i>	59.0	94.4	100.1	101.7	102.5	99.4
Nonhydrocarbon	79.1	78.4	98.9	108.9	124.1	138.6
Expense	233.4	260.6	278.3	324.1	317.0	322.5
Compensation of employees	31.1	32.1	34.8	39.0	42.4	45.8
Purchase of goods and services	36.6	40.6	42.3	42.5	47.8	51.7
Abu Dhabi "federal services"	72.7	80.4	79.7	100.5	96.8	97.4
Subsidies and transfers	41.0	55.5	73.1	67.1	68.9	70.8
Other 3/	45.7	42.9	43.1	48.4	44.6	44.7
Interest payments	3.6	3.5	3.2	5.8	6.0	6.0
Foreign grants 4/	2.6	5.6	2.0	20.8	10.5	6.0
Gross operating balance	79.7	180.3	215.9	187.1	207.6	205.6
Net acquisition of nonfinancial assets	35.1	38.5	29.8	30.8	33.1	37.8
Net lending(+)/borrowing(-)	44.6	141.8	186.1	156.3	174.6	167.8
	(Percent of GDP)					
Total revenue	29.8	34.5	36.1	34.6	33.8	32.5
of which: hydrocarbon revenues	22.3	28.4	28.9	27.2	25.8	24.0
Expense	22.2	20.4	20.4	21.9	20.4	19.9
Gross operating balance	7.6	14.1	15.8	12.7	13.4	12.7
Net acquisition of nonfinancial assets	3.3	3.0	2.2	2.1	2.1	2.3
Net lending(+)/borrowing(-)	4.2	11.1	13.6	10.6	11.3	10.3
	(Percent of nonhydrocarbon GDP)					
Total revenue	43.5	57.0	59.7	56.6	54.0	49.8
of which: nonhydrocarbon revenues	11.0	10.1	11.9	12.1	12.8	13.1
Expense	32.5	33.7	33.6	35.9	32.6	30.4
Net acquisition of nonfinancial assets	4.9	5.0	3.6	3.4	3.4	3.6
Memorandum items:	(Percent of nonhydrocarbon GDP, unless otherwise indicated)					
Nonhydrocarbon primary balance incl. net loans and equity; excl. investment income	-37.0	-41.1	-35.8	-36.5	-32.7	-30.4
Adjusted nonhydrocarbon primary balance, excl. investment income 5/	-34.6	-39.4	-35.2	-34.2	-31.6	-29.8
Overall balance incl. net loans and equity (in billions of UAE dirhams)	-19.7	53.9	121.3	96.1	111.2	102.3
(In percent of GDP)	-1.9	4.2	8.9	6.5	7.2	6.3
Net loans and equity (in billions of UAE dirhams)	68.2	89.4	66.3	61.4	64.5	66.7
(In percent of GDP)	6.5	7.0	4.8	4.2	4.2	4.1
Hydrocarbon share of revenue (in percent)	74.7	82.2	80.0	78.7	76.3	73.8
Sources: Federal government; Emirate finance departments; and IMF staff estimates.						
1/ Consolidated accounts of the federal government, Abu Dhabi, Dubai and Sharjah. GFSM 2001 classification.						
2/ Includes staff estimates of revenues from other government entities operating in the oil and gas sector.						
3/ Includes Abu Dhabi's contribution to Departments.						
4/ Intragovernmental grants are netted out in the consolidated fiscal accounts.						
5/ Excludes DFSF-related transactions for Dubai and grants to foreign governments.						

**Table 3a. United Arab Emirates: Abu Dhabi Government Finances, 2010–15<sup>1</sup>**

	2010	2011	2012	Est. 2013	Proj. 2014	Proj. 2015
	(Billions of UAE dirhams)					
Total revenue	192.4	281.6	324.5	332.1	335.6	335.7
Hydrocarbon	169.1	261.5	288.7	295.0	292.6	284.8
Nonhydrocarbon	23.3	20.1	35.8	37.1	43.0	50.9
Expense	174.0	201.4	214.4	254.1	241.3	241.4
Wages and salaries	5.4	5.8	6.1	6.4	6.9	7.5
Goods and services	14.7	21.6	18.9	16.8	18.0	19.7
Federal services outside the Federal budget	72.7	80.4	79.7	100.5	96.8	97.4
Subsidies and transfers	25.7	35.3	51.6	46.6	47.8	49.1
Interest payments	0.9	0.9	0.9	2.1	2.1	2.1
Other 2/	40.5	40.0	40.7	46.0	42.0	42.0
Grants	14.1	17.5	16.6	35.7	27.7	23.6
Gross operating balance	18.4	80.2	110.2	78.0	94.3	94.3
Net acquisition of nonfinancial assets	23.8	29.0	20.1	22.4	24.6	26.9
Net lending(+)/borrowing(-)	-5.4	51.2	90.0	55.6	69.7	67.4
	(Percent of Abu Dhabi GDP)					
Total revenue	31.0	34.9	35.7	34.8	33.8	32.9
Hydrocarbon	27.3	32.5	31.7	30.9	29.5	27.9
Nonhydrocarbon	3.8	2.5	3.9	3.9	4.3	5.0
Expense	28.1	25.0	23.6	26.7	24.3	23.7
Grants	2.3	2.2	1.8	3.7	2.8	2.3
Gross operating balance	3.0	10.0	12.1	8.2	9.5	9.2
Net acquisition of nonfinancial assets	3.8	3.6	2.2	2.4	2.5	2.6
Net lending(+)/borrowing(-)	-0.9	6.4	9.9	5.8	7.0	6.6
Memorandum items:	(Percent of Abu Dhabi GDP, unless otherwise indicated)					
Overall balance incl. net loans and equity	-11.1	-4.6	3.1	-0.5	0.6	0.1
Loans and equity net (billions of UAE dirhams)	63.3	87.9	62.3	60.4	63.5	65.9
Loans and equity net	10.2	10.9	6.8	6.3	6.4	6.5
Nonhydrocarbon primary balance (excl. investment income) in percent of UAE nonhydrocarbon GDP	-35.2	-40.1	-34.5	-36.2	-32.8	-30.4
Adjusted nonhydrocarbon primary balance (excl. investment income) in percent of UAE nonhydrocarbon GDP 3/	-34.9	-38.1	-34.2	-33.9	-31.8	-29.9

Sources: Abu Dhabi Department of Finance, and IMF staff estimates and projections.

1/ GFSM 2001 classification.

2/ Contributions to Departments.

3/ Excludes DFSF-related transactions for Dubai and grants to foreign governments.



**Table 3b. United Arab Emirates: Dubai Government Finances, 2010–15<sup>1</sup>**

	2010	2011	2012	Est. 2013	Proj. 2014	Proj. 2015
	(Billions of UAE dirhams)					
Total revenue	29.9	32.7	34.3	36.0	42.0	45.0
Nontax revenue	22.8	24.7	26.0	26.3	31.1	33.3
Tax revenue	7.1	8.0	8.4	9.7	10.9	11.7
Expense	27.0	29.2	30.3	31.4	33.8	35.1
Wages and salaries	10.9	11.2	11.7	13.2	14.0	14.8
Goods and services	6.6	7.2	7.9	7.5	8.0	8.3
Subsidies and transfers	5.4	5.7	6.4	5.0	5.6	5.7
Interest payments	2.7	2.6	2.3	3.7	3.9	3.9
Other	1.0	1.0	0.6	0.8	1.0	1.1
Grants	0.6	1.5	1.5	1.2	1.2	1.2
Gross operating balance	2.8	3.5	4.0	4.6	8.1	9.9
Net acquisition of nonfinancial assets	8.9	7.1	5.7	5.6	6.4	8.5
Net lending(+)/borrowing(-)	-6.0	-3.7	-1.7	-1.0	1.8	1.4
	(Percent of Dubai GDP)					
Total revenue	9.8	10.4	10.0	9.8	10.7	10.6
Expense	8.9	9.3	8.8	8.5	8.6	8.3
Gross operating balance	0.9	1.1	1.2	1.3	2.1	2.3
Net acquisition of nonfinancial assets	2.9	2.3	1.7	1.5	1.6	2.0
Net lending(+)/borrowing(-)	-2.0	-1.2	-0.5	-0.3	0.5	0.3
Memorandum items:	(Billions of UAE dirhams, unless otherwise indicated)					
Loans and equity, net (Dubai Financial Support Fund)	14.7	7.0	2.9	0.0	0.0	0.0
In percent of Dubai GDP	4.8	2.2	0.9	0.0	0.0	0.0
Nonhydrocarbon primary balance in percent of UAE nonhydrocarbon GDP	-1.7	-0.5	-1.0	-0.2	0.1	0.1
Adjusted nonhydrocarbon primary balance in percent of UAE nonhydrocarbon GDP 2/	-1.2	-0.8	-0.6	-0.2	0.1	0.1
Sources: Dubai Department of Finance; and IMF staff estimates and projections.						
1/ GFSM 2001 classification.						
2/ Excludes DFSF-related transactions.						

Table 4. United Arab Emirates: Monetary Survey, 2010–15

	2010	2011	2012	2013	Proj. 2014	Proj. 2015
(Billions of UAE dirhams)						
Net foreign assets	78	92	161	245	358	449
Foreign assets	354	385	479	664	790	894
Central Bank	121	137	173	250	293	347
Commercial banks	234	249	307	414	497	547
Foreign liabilities	276	293	319	419	432	445
Central bank	4	3	3	3	3	3
Commercial banks	272	290	315	416	428	441
Net domestic assets	708	733	702	812	946	1,077
Claims on government (net)	30	45	12	8	-10	-21
Claims	228	220	232	171	173	182
Deposits	198	175	220	163	183	203
Claims on public sector enterprises	88	120	133	175	216	253
Claims on private sector	892	912	933	1,029	1,186	1,368
Real estate mortgage loans						
Other items (net)	-301	-343	-376	-400	-446	-522
Capital and reserves (-)	-275	-298	-317	-299	-341	-390
Other assets (net)	-26	-45	-59	-101	-105	-132
Central Bank	-167	-172	-194	-228	-258	-301
Commercial banks	141	126	135	127	153	169
Of which: certificates of deposits	94	80	95	108	108	127
Broad money (M2)	786	826	862	1,057	1,304	1,527
Money	233	264	299	380	481	579
Currency outside banks	39	42	46	50	64	77
Dirham demand deposits	194	223	254	329	418	502
Quasi-money	553	562	563	677	823	948
Foreign currency deposits	129	142	137	194	236	271
Dirham time and savings deposits	425	419	426	483	587	676
<i>Memorandum items:</i>						
Dh-denominated liquidity	658	683	726	863	1,069	1,255
Reserve money	39	42	46	50	64	77
Foreign currency deposits / total deposits (in percent)	17.2	18.2	16.8	19.3	19.0	18.7
NFA/ M2 (in percent)	10.0	11.2	18.6	23.2	27.5	29.4
CBU foreign assets/reserve money (in percent)	107.2	103.6	120.7	143.8	136.5	138.0
NFA of Central Bank	116.7	133.3	169.5	246.8	289.6	343.6
NFA of commercial banks	-38.2	-40.9	-8.8	-1.6	68.8	105.7
M2 velocity (nonhydrocarbon GDP)	0.9	0.9	1.0	0.9	0.7	0.7
(Changes in percent; unless otherwise indicated)						
Claims on private sector 1/	1.2	2.3	2.3	10.3	15.3	15.3
Broad money (M2) 1/	6.2	5.0	4.4	22.5	23.4	17.1
Money	4.2	13.4	13.3	26.9	26.8	20.2
Quasi Money	7.0	1.5	0.3	20.2	21.5	15.2
Velocity (non-oil GDP/M2)	0.9	0.9	1.0	0.9	0.7	0.7
Base money	-1.3	17.4	8.6	21.4	23.4	17.1
Money multiplier (M2/base money)	7.0	6.3	6.0	6.1	6.1	6.1
Sources: Central Bank of the UAE, and IMF staff estimates and projections.						
1/ As a result of changes in economic sector classifications in bank report forms during 2013, readings for annual percent changes for broad money, private sector credit, and customer deposits for 2013 are inaccurate. The central bank estimates that private sector credit growth was around 8.2 percent in 2013.						

**Table 5. Dubai: Maturing Bonds and Syndicated Loans<sup>1 2</sup>**  
(In millions of U.S. dollars)

As of end-April 2014	Debt Type	2014	2015	2016	2017	2018	2019	Beyond	Unallocated	Total
<b>Government of Dubai 3/</b>										
	Bonds	1,931	500	900	600	20,000	0	3,400		27,331
	Loans	89	151	389	1,123	24	0	146		1,922
	Total	2,020	651	1,289	1,723	20,024	0	3,546		29,253
<b>Dubai, other sovereign 4/</b>										
	Loans domestic								26,079	26,079
	Total								26,079	26,079
<b>Investment Corporation of Dubai and subsidiaries 5/</b>										
	Bonds	1,981	315	2,406	1,596	832	0	3,060		10,191
	Loans	93	919	1,787	1,093	4,316	0	1,894		10,102
	Total	2,074	1,234	4,193	2,690	5,149	0	4,954		20,293
<b>Dubai World and subsidiaries</b>										
	Bonds	725	84	42	1,500	0	650	2,110		5,112
	Loans	63	4,574	1,475	2,698	12,973	0	2,698		24,482
	Total	789	4,658	1,517	4,198	12,973	650	4,808		29,593
<b>Nakheel</b>										
	Bonds	0	0	1,195	0	0	0	33		1,228
	Loans	0	1,212	150	0	150	0	0		1,511
	Total	0	1,212	1,345	0	150	0	33		2,739
<b>Dubai Holding and subsidiaries</b>										
	Bonds	0	0	0	984	0	0	0		984
	Loans	0	31	6,300	2,150	0	1,400	5,200		15,081
	Total	0	31	6,300	3,134	0	1,400	5,200		16,065
<b>Other Dubai Inc. 6/</b>										
	Bonds	200	1,325	500	0	1,000	0	1,500		4,525
	Loans	1,800	0	855	1,185	545	290	2,081		6,756
	Total	2,000	1,325	1,355	1,185	1,545	290	3,581		11,281
<b>Total Dubai Inc.</b>										
		4,862	8,460	14,710	11,207	19,817	2,340	18,576		79,971
<b>Total Dubai Debt</b>										
		6,882	9,111	15,999	12,930	39,841	2,340	22,122	26,079	135,303
<b>Dubai Inc. (less than 50% government ownership) 7/</b>										
	Bonds	0	0	500	800	0	500	1,212		3,012
	Loans	450	0	1,442	0	450	990	50		3,382
	Total	450	0	1,942	800	450	1,490	1,262		6,394
<b>Total, including GREs with minority ownership</b>										
		7,332	9,111	17,941	13,730	40,291	3,830	23,384	26,079	141,697
<b>In percent of Dubai 2013 GDP</b>										
		7.3	9.1	17.9	13.7	40.1	3.8	23.3	26.0	141.1
Memorandum items:										
	Restructured debt of Dubai Inc.	0	5,642	7,345	4,148	10,450	0	2,700		30,285
	Government guaranteed 8/	291	478	547	426	2,606	0	545		4,893
	Total Government of Dubai including guarantees	2,311	1,129	1,836	2,149	22,630	0	4,091		34,146
	Of total debt: bonds and loans by banks	1,706	315	2,239	2,396	832	0	2,622		10,111

Sources: Dealogic; Zawya; Bloomberg; Dubai authorities; and IMF staff estimates.

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

2/ Regardless of residency of debt holders.

3/ Includes syndicated and bilateral loans.

4/ Emirates National Bank of Dubai related party lending.

5/ Does not include financial leases.

6/ Includes DEWA, DIFC, DAE, Borse Dubai, ICD and others.

7/ Dubai GREs with government ownership below 50% (Emaar, DIB, CBD).

8/ Mainly RTA, Dubai World, Nakheel, and DIFC.

**Table 6. Abu Dhabi: Maturing Bonds, Syndicated and Bilateral Loans**

(In millions of U.S. dollars)

As of end-April 2014	Debt Type	2014	2015	2016	2017	2018	2019	Beyond	Total
<b>Government of Abu Dhabi</b>									
	Bonds	1,500	0	0	0	0	1,500	0	3,000
	Loans	380	380	363	349	177	177	205	2,031
	Guarantees	178	178	178	178	349	349	690	2,098
	<b>Total</b>	<b>2,057</b>	<b>557</b>	<b>541</b>	<b>527</b>	<b>526</b>	<b>2,026</b>	<b>895</b>	<b>7,129</b>
<b>Abu Dhabi Water &amp; Electricity Authority 1/</b>									
	Bonds	1,200	0	1,000	1,250	1,250	500	3,068	8,268
	Loans	908	1,958	1,191	1,230	1,120	966	7,259	14,632
	<b>Total</b>	<b>2,108</b>	<b>1,958</b>	<b>2,191</b>	<b>2,480</b>	<b>2,370</b>	<b>1,466</b>	<b>10,327</b>	<b>22,900</b>
<b>Etihad</b>									
	Bonds	0	0	0	0	0	0	0	0
	Loans	383	395	408	421	593	440	1,045	3,685
	<b>Total</b>	<b>383</b>	<b>395</b>	<b>408</b>	<b>421</b>	<b>593</b>	<b>440</b>	<b>1,045</b>	<b>3,685</b>
<b>International Petroleum Investment Company</b>									
	Bonds	0	1,750	3,601	1,760	1,041	513	10,816	19,480
	Loans	4,877	1,613	2,864	519	2,222	219	889	13,203
	<b>Total</b>	<b>4,877</b>	<b>3,363</b>	<b>6,465</b>	<b>2,279</b>	<b>3,263</b>	<b>731</b>	<b>11,705</b>	<b>32,684</b>
<b>Mubadala Development Company 2/</b>									
	Bonds	1,250	97	750	0	104	500	901	3,603
	Loans	675	995	536	509	498	1,802	1,465	6,480
	<b>Total</b>	<b>1,925</b>	<b>1,093</b>	<b>1,286</b>	<b>509</b>	<b>602</b>	<b>2,302</b>	<b>2,366</b>	<b>10,083</b>
<b>Tourism and Development Investment Company</b>									
	Bonds	2,001	0	0	0	0	0	0	2,001
	Loans	91	556	12	12	13	11	100	795
	<b>Total</b>	<b>2,092</b>	<b>556</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>11</b>	<b>100</b>	<b>2,797</b>
<b>Other Abu Dhabi Inc. 3/</b>									
	Bonds	0	0	0	0	0	0	0	0
	Loans	1,616	804	1,233	662	372	300	115	5,102
	<b>Total</b>	<b>1,616</b>	<b>804</b>	<b>1,233</b>	<b>662</b>	<b>372</b>	<b>300</b>	<b>115</b>	<b>5,102</b>
<b>Total Abu Dhabi Inc.</b>		<b>13,002</b>	<b>8,169</b>	<b>11,596</b>	<b>6,362</b>	<b>7,213</b>	<b>5,250</b>	<b>25,658</b>	<b>77,250</b>
<b>Total Abu Dhabi debt</b>		<b>15,059</b>	<b>8,726</b>	<b>12,137</b>	<b>6,889</b>	<b>7,739</b>	<b>7,276</b>	<b>26,553</b>	<b>84,379</b>
<b>ADCB, NBAD, and UNB</b>									
	Bonds	2,234	1,304	1,458	1,375	1,646	791	1,924	10,732
	Loans	0	350	100	0	0	0	0	450
	<b>Total</b>	<b>2,234</b>	<b>1,655</b>	<b>1,558</b>	<b>1,375</b>	<b>1,646</b>	<b>791</b>	<b>1,924</b>	<b>11,182</b>
<b>Total Abu Dhabi debt, including banks</b>		<b>17,293</b>	<b>10,381</b>	<b>13,694</b>	<b>8,264</b>	<b>9,385</b>	<b>8,068</b>	<b>28,477</b>	<b>95,562</b>
<b>Abu Dhabi Inc. (less than 50% government ownership) 4/</b>									
	Bonds	1,250	864	1,561	1,150	0	0	1,103	5,928
	Loans	914	2,261	0	340	0	0	70	3,586
	<b>Total</b>	<b>2,164</b>	<b>3,125</b>	<b>1,561</b>	<b>1,490</b>	<b>0</b>	<b>0</b>	<b>1,173</b>	<b>9,514</b>
<b>Total, including GREs with minority ownership</b>		<b>19,457</b>	<b>13,506</b>	<b>15,256</b>	<b>9,755</b>	<b>9,385</b>	<b>8,068</b>	<b>29,650</b>	<b>105,076</b>
<b>In percent of Abu Dhabi 2013 GDP</b>		<b>7.5</b>	<b>5.2</b>	<b>5.9</b>	<b>3.8</b>	<b>3.6</b>	<b>3.1</b>	<b>11.4</b>	<b>40.5</b>
Memorandum items:									
Of total debt: bonds and loans by banks		2,234	1,655	1,558	1,375	1,646	791	1,924	11,182

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

1/ Includes TAQA &amp; US\$6.6 billion non-recourse debt for IWPP.

2/ Includes Dolphin, EMAL.

3/ Includes ADPC, GHC, ADNEC.

4/ Below 50 percent government-owned entities; includes Aldar, FGB, NCCC, Sorouh, ADIB.

## Appendix I. Debt Sustainability Analysis

### United Arab Emirates Government Debt Sustainability Analysis (DSA) - Baseline Scenario (Percent of GDP Unless Otherwise Indicated)

#### Debt, Economic and Market Indicators

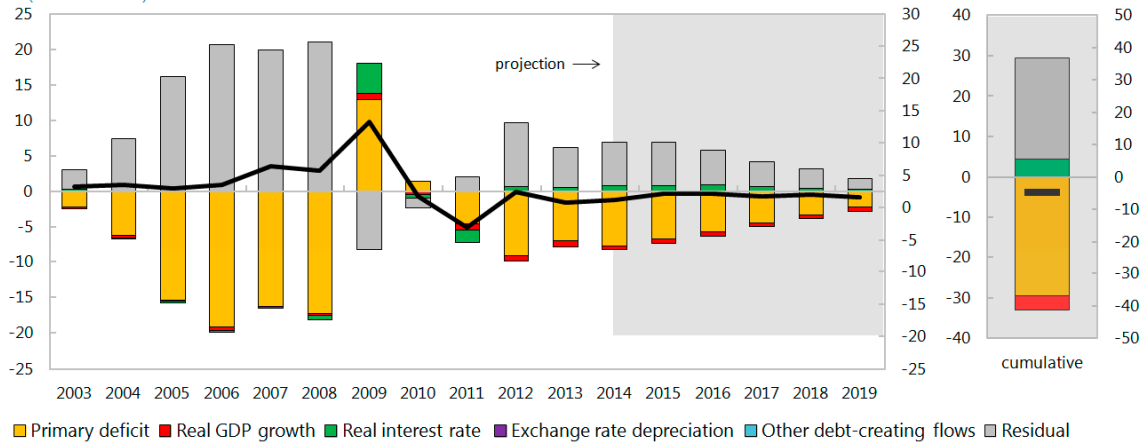
	Actual			Projections						As of March 04, 2014		
	2003-2011 <sup>1/</sup>	2012	2013	2014	2015	2016	2017	2018	2019	Sovereign Spreads		
Nominal gross government debt	11.6	16.8	15.3	14.1	13.8	13.4	12.8	12.3	11.5	EMBIG (bp) 2/ 51		
Government gross financing needs	-5.8	-7.5	-3.3	-5.1	-5.2	-4.1	-2.7	-0.2	-0.8	5Y CDS (bp) 55		
Real GDP growth (in percent)	4.5	4.7	5.2	4.7	4.5	4.4	4.4	4.6	4.6	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	7.5	2.4	2.7	0.3	0.3	0.0	1.3	2.5	3.2	Moody's	Aa2	Aa2
Nominal GDP growth (in percent)	14.5	7.2	8.1	4.9	4.8	4.4	5.8	7.1	7.9	S&Ps	AA	AA
Effective interest rate (in percent) <sup>3/</sup>	8.7	7.6	6.7	6.4	7.0	7.1	7.3	6.3	6.9	Fitch	AA	AA

#### Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance 8/
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019		
Change in gross government sector debt	1.5	-0.1	-1.5	-1.2	-0.3	-0.4	-0.6	-0.5	-0.8	-3.8	
Identified debt-creating flows	-7.4	-9.0	-7.1	-7.3	-6.4	-5.3	-4.1	-3.3	-2.3	-28.8	
Primary deficit	-7.3	-9.1	-6.9	-7.6	-6.7	-5.7	-4.3	-3.2	-2.2	-29.6	-0.1
Primary (noninterest) revenue and grants	30.7	36.2	34.6	33.9	32.6	31.5	29.9	28.3	26.9	183.1	
Primary (noninterest) expenditure	23.3	27.1	27.8	26.3	25.9	25.8	25.6	25.1	24.7	153.5	
Automatic debt dynamics <sup>4/</sup>	-0.1	0.1	-0.2	0.2	0.3	0.4	0.2	-0.1	-0.1	0.8	
Interest rate/growth differential <sup>5/</sup>	-0.1	0.1	-0.2	0.2	0.3	0.4	0.2	-0.1	-0.1	0.8	
Of which: real interest rate	0.1	0.8	0.6	0.9	0.9	0.9	0.8	0.4	0.4	4.3	
Of which: real GDP growth	-0.2	-0.7	-0.8	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-3.5	
Exchange rate depreciation <sup>6/</sup>	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 <sup>7/</sup>	9.0	9.0	5.6	6.1	6.1	5.0	3.5	2.8	1.5	24.9	

#### Debt-Creating Flows

(Percent of GDP)



Source: IMF staff.

1/ Based on available data.

2/ Abu Dhabi's Long-term bond spread over U.S. bonds. 5Y CDS is also related to the Emirate of Abu Dhabi.

3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

4/ Derived as  $[(r - \pi(1+g) - g + ae(1+r)] / (1+g+\pi+g\pi)$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

5/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  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.

Also indicates that public debt increases by more than the borrowing requirement.

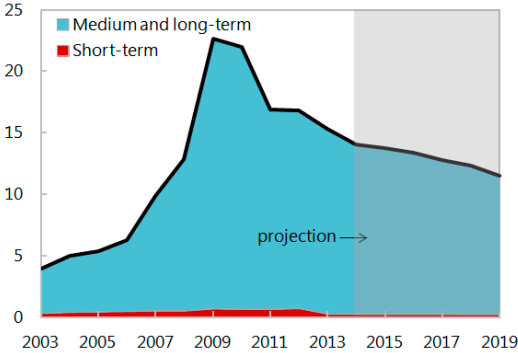
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## UAE Government DSA - Composition of Government Debt and Alternative Scenarios

### Composition of Government Debt

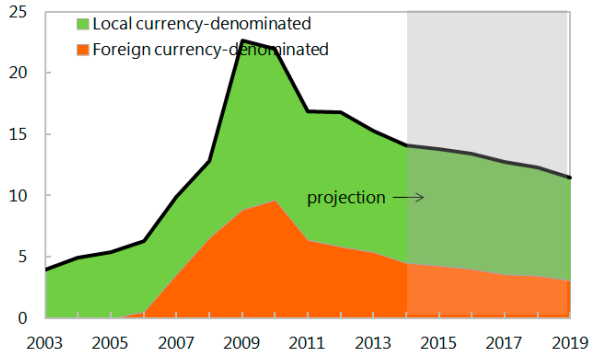
#### By Maturity

(Percent of GDP)



#### By Currency

(Percent of GDP)



### Alternative Scenarios

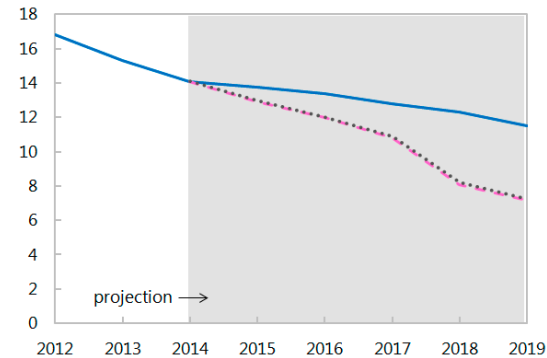
— Baseline

..... Historical

- - - Constant Primary Balance

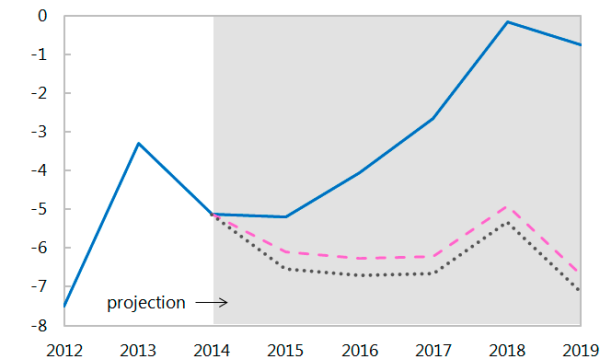
#### Gross Nominal Government Debt

(Percent of GDP)



#### Government Gross Financing Needs

(Percent of GDP)



### Underlying Assumptions

(Percent)

#### Baseline Scenario

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	6.7	5.7	4.3	3.2	2.2
Effective interest rate	6.4	7.0	7.1	7.3	6.3	6.9

#### Historical Scenario 1/

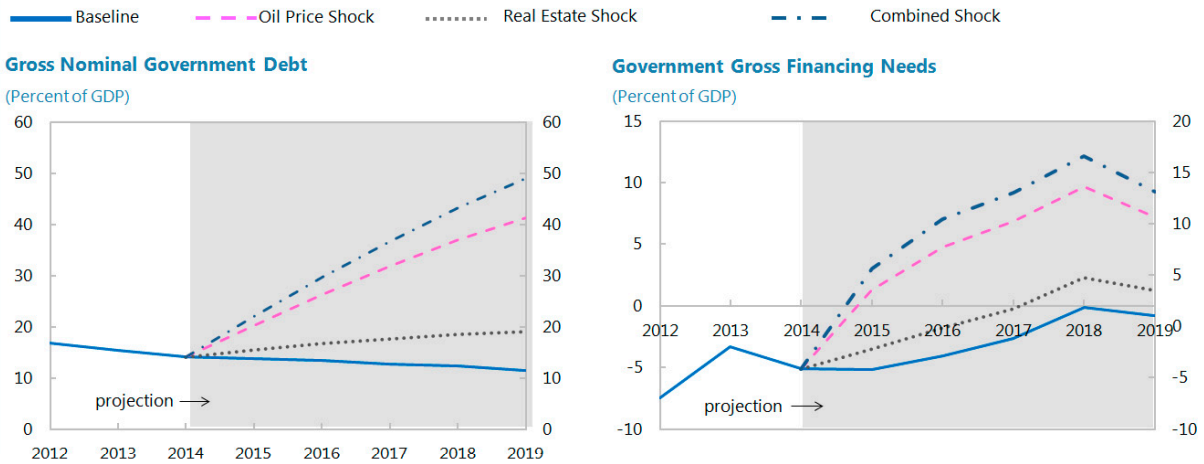
	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.2	4.2	4.2	4.2	4.2
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	8.0	8.0	8.0	8.0	8.0
Effective interest rate	6.4	7.0	7.2	7.5	6.3	6.7

#### Constant Primary Balance Scenario 1/

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	7.6	7.6	7.6	7.6	7.6
Effective interest rate	6.4	7.0	7.2	7.5	6.3	6.7

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

### United Arab Emirates Government DSA - Stress Test Scenarios



#### Underlying Assumptions (Percent)

**Baseline Scenario**

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	6.7	5.7	4.3	3.2	2.2
Effective interest rate	6.4	7.0	7.1	7.3	6.3	6.9

**Oil Price Scenario 1/**

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	0.2	-0.7	-1.7	-2.6	-3.3
Effective interest rate	6.4	7.0	6.7	6.6	6.3	7.0

**Real Estate (GRE Contingent Liability) Scenario 2/**

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	5.0	4.1	2.8	1.8	0.8
Effective interest rate	6.4	7.0	7.0	7.1	6.3	6.9

**Combined Scenario 3/**

	2014	2015	2016	2017	2018	2019
Real GDP growth	4.7	4.5	4.4	4.4	4.6	4.6
Inflation	0.3	0.3	0.0	1.3	2.5	3.2
Primary Balance	7.6	-1.5	-2.3	-3.3	-4.0	-4.7
Effective interest rate	6.4	7.0	6.6	6.6	6.3	7.0

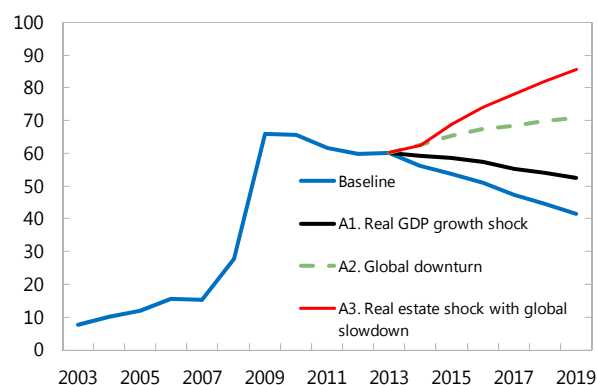
1/ Oil price is lower by one standard deviation in 2015-19.  
 2/ 20 percent of GREs, debt is gradually taken over by the government.  
 3/ This scenario combines the oil price and the real estate/GREs contingent liability scenarios.  
 Source: IMF staff.

## Dubai's Government Debt Sustainability Analysis

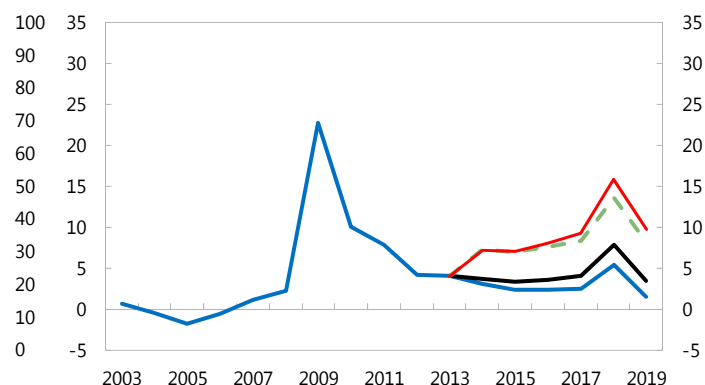
**Dubai's government debt sustainability has improved on account of better growth prospects and fiscal consolidation plans.** Having peaked at 66 percent of Dubai's GDP in 2009, the government debt declined to 60 percent in 2013. The baseline scenario assumes a steady recovery of growth, which is projected to accelerate in the medium term due to the upcoming Expo 2020 event, and a gradual fiscal consolidation in Dubai going forward.

### Dubai – Government Debt Sustainability Analysis

**Gross Nominal Government Debt, 2003–19**  
(Percent of Dubai GDP)



**Gross Government Financing Needs, 2003–19**  
(Percent of Dubai GDP)



Sources: Country authorities; and IMF staff projections.

**Dubai's debt could still become unsustainable under severe shocks.** A sharp decline in GDP growth in 2014 (by  $\frac{3}{4}$  of standard deviation from the baseline) and a gradual recovery in 2015–19 would raise the debt-to-GDP ratio by 11 percentage points in 2019 compared to the baseline. Under a severe global downturn scenario, which assumes a real GDP shock, lower real interest rates, and deterioration in the primary balance in the medium term, Dubai's government debt would increase to 71 percent of GDP in 2019. A scenario that combines a global downturn with a real estate shock, under which the government would take over 20 percent of the GREs' total debt in the medium term, would imply a substantial increase in the government debt-to-GDP ratio, to 86 percent, more than twice as large as under the baseline.

**Dubai Government Debt Sustainability, 2007–19**  
(In percent of GDP of Dubai and the Northern Emirates)

	Actual							Projections					Debt stabilizing primary balance	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		2019
Government debt 1/	15.4	27.9	65.9	65.7	61.8	60.0	60.2	56.3	53.7	51.0	47.4	44.6	41.6	1.4
Alternative scenarios														
A1. Real GDP growth shock 2/								59.1	58.6	57.4	55.2	53.9	52.4	-1.1
A2. Global downturn scenario 3/								62.6	65.4	67.4	68.3	69.8	70.9	-0.6
A3. Real estate shock with global downturn 4/								62.6	68.7	74.0	77.9	82.1	85.6	1.8
Memorandum items														
Real GDP growth baseline								5.2	5.3	5.4	5.6	5.9	6.0	
Real GDP growth path in the global downturn scenario								1.0	2.5	4.0	4.2	4.6	4.6	

Sources: UAE authorities and Fund staff estimates and projections.

1/ Dubai government and government guaranteed debt.

2/ Real GDP growth is at baseline minus  $\frac{3}{4}$  standard deviation in 2014,  $\frac{1}{2}$  standard deviation in 2015 and  $\frac{1}{4}$  standard deviation thereafter

3/ Combination of real GDP growth shock scenario and  $\frac{1}{4}$  standard deviation shocks to the baseline for real interest rate and  $\frac{1}{2}$  standard deviation shocks to primary balance in 2014–19

4/ Under the global downturn scenario, the government takes over 20 percent of total GREs debt in 2014–19.



**Table 1. UAE: External Debt Sustainability Framework, 2009–19**  
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -2.2
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
<b>Baseline: External debt</b>	51.6	48.5	39.7	38.2	42.5	<b>41.7</b>	<b>41.0</b>	<b>40.5</b>	<b>39.4</b>	<b>37.9</b>	<b>36.2</b>	
Change in external debt	8.5	-3.2	-8.7	-1.6	4.4	-0.8	-0.7	-0.6	-1.1	-1.5	-1.7	
Identified external debt-creating flows (4+8+9)	6.0	-10.0	-25.0	-23.2	-20.9	-16.1	-15.6	-14.6	-12.4	-10.5	-9.3	
Current account deficit, excluding interest payments	-5.2	-4.2	-16.1	-19.9	-17.5	-13.6	-13.3	-12.8	-11.1	-9.4	-8.3	
Deficit in balance of goods and services	-5.8	-6.5	-18.1	-22.5	-20.7	-16.4	-15.5	-13.8	-11.6	-9.6	-8.3	
Exports	79.7	78.8	90.6	97.9	98.4	99.8	102.7	106.3	109.4	113.2	117.6	
Imports	73.8	72.2	72.5	75.4	77.7	83.4	87.2	92.5	97.8	103.6	109.2	
Net non-debt creating capital inflows (negative)	-1.5	-1.6	-1.8	-2.1	-2.0	-2.0	-2.0	-2.0	-2.0	-2.1	-2.1	
Automatic debt dynamics 1/	12.6	-4.2	-7.2	-1.2	-1.4	-0.5	-0.2	0.2	0.6	1.0	1.1	
Contribution from nominal interest rate	2.1	1.7	1.4	1.4	1.5	1.4	1.6	2.0	2.3	2.7	2.7	
Contribution from real GDP growth	2.8	-0.7	-1.9	-1.7	-1.8	-1.9	-1.8	-1.7	-1.7	-1.7	-1.6	
Contribution from price and exchange rate changes 2/	7.7	-5.1	-6.6	-0.9	-1.0	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.6	6.8	16.3	21.7	25.3	15.3	14.9	14.0	11.4	9.0	7.6	
External debt-to-exports ratio (in percent)	64.8	61.5	43.9	39.0	43.2	41.8	40.0	38.1	36.0	33.5	30.7	
<b>Gross external financing need (in billions of US dollars) 4/</b>	67.9	65.7	26.3	8.0	14.6	44.1	46.2	51.2	61.5	71.8	78.8	
in percent of GDP	26.8	23.0	7.6	2.2	3.6	10.4	10.5	11.1	12.6	13.7	14.0	
<b>Scenario with key variables at their historical averages 5/</b>						<b>41.7</b>	<b>39.0</b>	<b>34.6</b>	<b>28.1</b>	<b>19.8</b>	<b>10.8</b>	<b>-3.0</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						<u>10-Year</u> Historical Average	<u>10-Year</u> Standard Deviation					
Real GDP growth (in percent)	-5.2	1.6	4.9	4.7	5.2	4.2	4.2	4.7	4.5	4.4	4.6	4.6
GDP deflator in US dollars (change in percent)	-15.2	11.0	15.8	2.4	2.7	7.5	9.3	0.3	0.3	0.0	1.3	2.5
Nominal external interest rate (in percent)	4.0	3.7	3.5	3.8	4.1	6.6	3.9	3.5	3.9	5.0	6.1	7.2
Growth of exports (US dollar terms, in percent)	-18.8	11.5	39.8	15.8	8.6	20.3	17.2	6.4	7.8	8.1	8.9	10.8
Growth of imports (US dollar terms, in percent)	-14.8	10.4	21.9	11.4	11.3	19.6	17.0	12.7	9.5	10.8	11.8	13.5
Current account balance, excluding interest payments	5.2	4.2	16.1	19.9	17.5	12.2	5.8	13.6	13.3	12.8	11.1	9.4
Net non-debt creating capital inflows	1.5	1.6	1.8	2.1	2.0	2.5	2.5	2.0	2.0	2.0	2.0	2.1

1/ Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = 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  $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

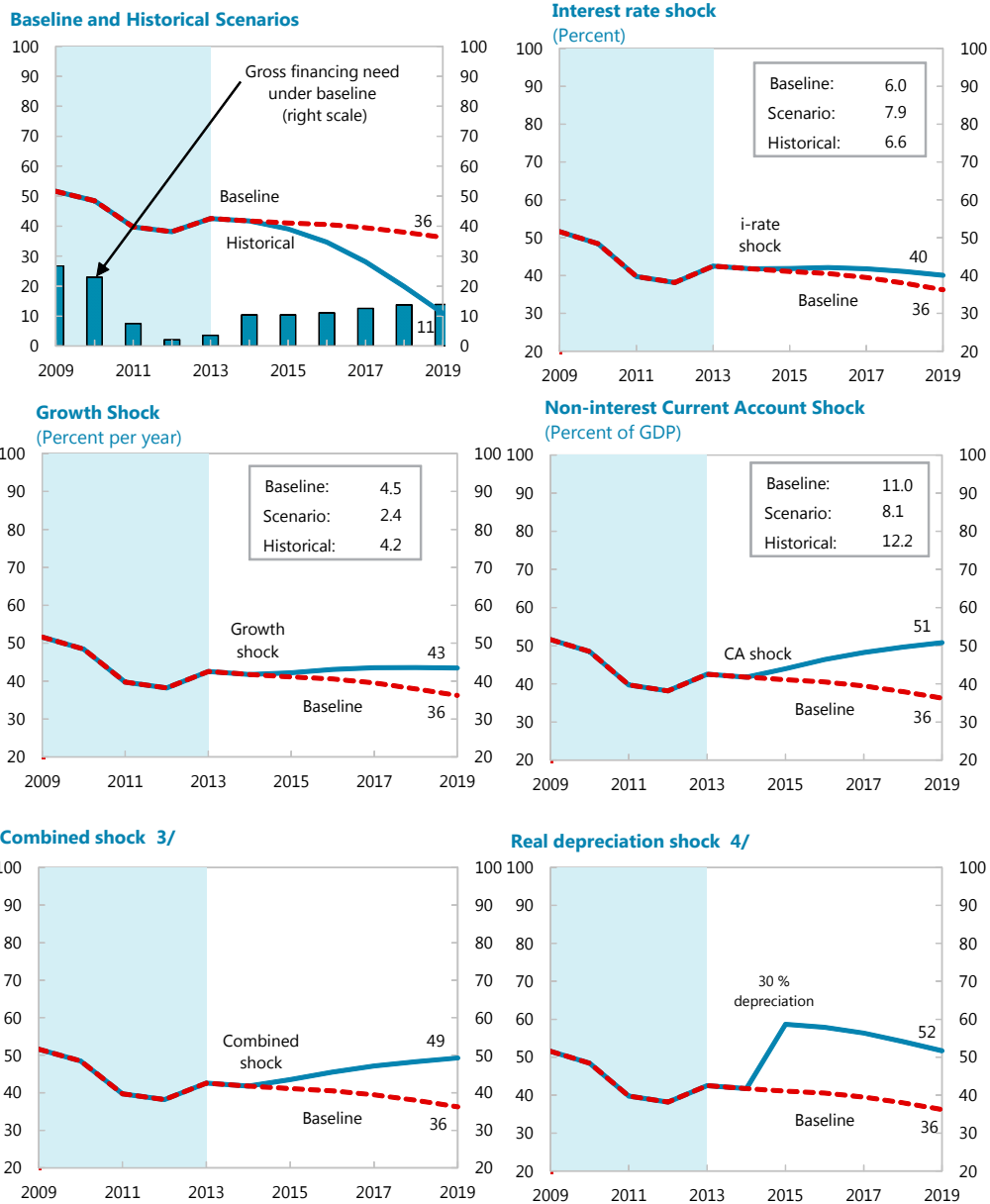
3/ For projection, line includes the impact of price and exchange rate changes.

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. UAE: External Debt Sustainability: Bound Tests** <sup>1/ 2/</sup>  
 (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.

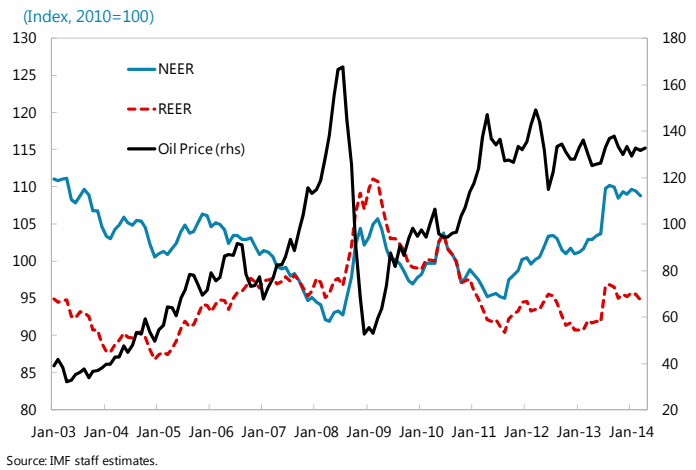
4/ One-time real depreciation of 30 percent occurs in 2015.

## Appendix II. Exchange Rate Assessment

Estimates from the standard methodologies for exchange rate assessment indicate mixed results. As a commodity-based, open economy with open labor markets, the UAE would benefit little from expenditure switching under flexible rates. The macroeconomic balance approach does not point to significant misalignment, while the equilibrium real exchange rate approach suggests moderate undervaluation. The projected medium-term current account, which is significantly below the norm of the external sustainability approach, suggests a need for increased public sector savings, consistent with the long-term fiscal sustainability analysis in Box 3.

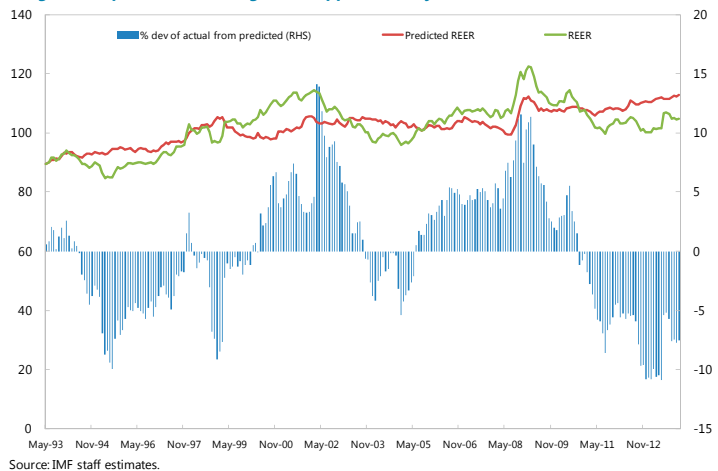
1. **The real exchange rate has been appreciating in line with the nominal effective exchange rate.** Following a period of depreciation since 2009, the trade-weighted real effective exchange rate (REER) index appreciated by 4.5 percent from December 2012 to March 2014. The nominal effective exchange rate (NEER) has appreciated by 8 percent over the same period, in line with the U.S. dollar (Figure 1). Most of the appreciation took place in 2013. Since December 2013, the rates have been broadly stable.

Figure 1. Exchange Rates and Oil Price, 2003–Apr. 2014



2. **The equilibrium exchange rate approach indicates a moderate undervaluation.** For many commodity exporters, commodity price fluctuations can explain exchange rate changes (Cashin, Céspedes, and Sahay, 2004). Compared to the increase in the oil price, in particular since 2009, the UAE’s REER has remained relatively constant, suggesting currency undervaluation. Based on a model of the long-run relationship between the REER and the real oil price, which is weaker for the UAE than for other GCC countries, the undervaluation is around 9 percent in March 2014 (Figure 2, Table 1). Given some appreciation of the REER and a near-constant oil price in 2013, the extent of undervaluation has decreased marginally relative to December 2012 (2013 Article IV).

Figure 2. Equilibrium Exchange Rate Approach, May 1993–Mar. 2014



3. **The macroeconomic balance approach indicates that the currency has remained in line with fundamentals.** In contrast to the equilibrium exchange rate approach, which directly compares the REER to its determinants, the macroeconomic balance (MB) compares the projected current account balance to a number of macroeconomic determinants of the current account, including the nonhydrocarbon fiscal balance, hydrocarbon wealth, and estimates of accumulated foreign assets. It yields a current account norm of 6.4 percent of GDP in 2019, compared to a projected current account surplus of 5.6 percent, indicating that the current account is broadly appropriate, given projected fiscal balances and other fundamentals (Table 1).

**Table 1: Results of CGER-type Analysis**

(Percent of GDP)

	MB <sup>1</sup>	ES <sup>2</sup>	ERER <sup>3</sup>
Current account balance (2019 proj.)	5.6	5.6	...
Current account norm	6.4	13.5	...
Deviation from norm	-0.7	-7.8	...
ER over/undervaluation (percent)	1.4	15.2	-8.8

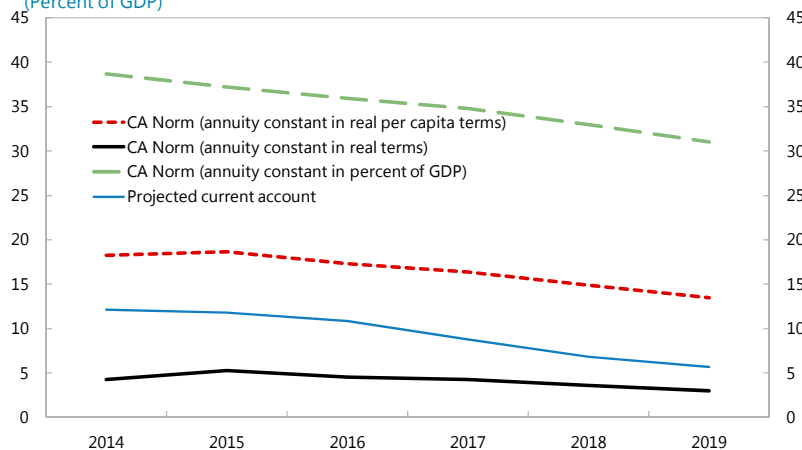
Source: IMF staff estimates and projections.

<sup>1</sup> Specification II in Beidas-Strom and Cashin (2011).<sup>2</sup> Follows a constant real per capita allocation rule.<sup>3</sup> Equilibrium exchange rate approach.

4. **The external sustainability approach indicates an overvaluation of the dirham.** The underpinning of this approach is that the sustainability of the current account trajectory requires that the net present value (NPV) of all future oil and financial or investment income (wealth) be equal to the NPV of imports of goods and services net of nonhydrocarbon exports. The current account norm is that which supports intergenerational equity, given volatile oil prices and exhaustible oil reserves, through an appropriate pace of accumulation of net foreign assets. This approach indicates that current account surpluses are too low (Figure 3). Using conventional elasticities (Faruqee and Isard, 1998), a devaluation of about 15 percent would be required, but some studies (Hakura and Billmeier, 2008) indicate there is limited scope for expenditure switching between imports and domestic goods in oil exporters, which means the current account is not responsive to the exchange rate. Moreover, as this imbalance stems largely from the government sector (as indicated by a misalignment in fiscal balances relative to levels consistent with the permanent income hypothesis, see Box 3), adjustment should occur through fiscal consolidation rather than exchange rate devaluation.

**Figure 3. Current Account Norms vs. Projection, 2014–19**

(Percent of GDP)



Source: IMF staff calculations and projections.



# UNITED ARAB EMIRATES

## STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 11, 2014

Prepared By

Middle East and Central Asia Department

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## FUND RELATIONS

(As of April 30, 2014)

**Membership Status:** Joined 9/22/72; accepted Article VIII status in February 1974

### General Resources Account

	SDR Million	Percent Quota
Quota	752.50	100.00
Fund holdings of currency	482.46	64.11
Reserve tranche position	270.62	35.96

### SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	568.41	100.00
Holdings	542.13	95.40

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

### Projected Payments to Fund

	2014	2015	Forthcoming		
			2016	2017	2018
Charges/interest	0.03	0.04	0.04	0.04	0.04
<b>Total</b>	<b>0.03</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>	<b>0.04</b>

### Implementation of HIPC Initiative:

Not Applicable

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

**Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable

### Exchange Arrangement

The U.A.E. 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 U.A.E. 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 U.A.E. is on the annual consultation cycle. The previous consultation discussions were held during April 30-May 15, 2013. The Article IV consultation was concluded on July 15, 2013. The staff report was published on July 30, 2013, and is available at <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40836.0> (Country Report No. 13/239).

**FSAP Participation, ROSCs, and OFC Assessments**

FSAP missions visited U.A.E. in 2003 and 2007.

**Technical Assistance:**

STA	Multi-sector	April 2008
STA	Balance of Payments	March-April 2009
MCM	Macroprudential Tools and Liquidity Management	January 2011
STA	National Accounts	September 2011
MCM	Payment Systems	November 2011
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

**Resident Representative:** None

## RELATIONS WITH THE WORLD BANK GROUP

(As of May 2014)

Technical cooperation between the United Arab Emirates (UAE) and the Bank began in 1980 and a framework agreement for annual technical cooperation was signed to cover a two-year period (1995-96) that featured two studies: a comprehensive national health assessment study and a government computer center restructuring study. Assistance was later requested in agriculture and water resource management, and in environmental impact assessment. Cooperation was modest until recently, and covered a few key areas including debt market development (2008) and labor market development (2011).

More recently, in 2013, the Ministry of Finance conducted an awareness program about Bank Group services to various audiences which helped increase the level of engagement with the Bank. The Bank recently helped prepare Public Expenditure Reviews (PER) in the health and higher education sectors, and is currently preparing PERs for the transport and for the education (schools) sectors. The Bank also helped formulate recommendations to enhance the new Universal Health Insurance and its financial sustainability, and is assisting the Ministry of Finance to set up a tax information exchange unit. Looking forward, the Bank hopes to provide assistance in improving the efficiency and effectiveness of service delivery, improving labor market management, and further enhancing the investment climate.

The Bank has also delivered technical assistance to individual Emirates:

- In Abu Dhabi, the Bank assisted the government better target food security programs, and is helping the Judicial Department to become one of the better performing judicial departments by enhancing institutional capacity and performance.
- In Dubai, the Bank provided assistance in the analysis of retirement planning options for expatriate workers. In addition, at the request of the Knowledge and Human Development Authority of Dubai – the regulator of private education, the Bank helped enhance governance and institutional capacity in this domain.
- In Ras Al Khaimah (RAK), the Bank assisted in promoting a better investment climate, mobilizing private investment, and devising a multi-jurisdictional student loan program.



# STATISTICAL ISSUES

(As of May 2014)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data provision is broadly adequate for surveillance, but 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 the statistics, but more progress is needed. The adoption of the Federal Statistics Law on May 18, 2009, and the establishment of an independent National Bureau of Statistics (NBS) are important steps in establishing a statistical system at the federal level. While the Law expressly requires all agencies and local statistical centers to provide data as required by the NBS, its success will depend on implementing arrangements, staffing, funding and training.</p>
<p><b>National Accounts:</b> The methodology broadly conforms to the 1968 SNA. GDP is compiled annually with a lag of around 5 months. Some progress has been made in improving the source data but further work is needed to improve updating procedures, and quarterly indicators are not available.</p> <p><b>Price statistics:</b> Consumer price indexes and GDP deflators need further harmonization at the federal level.</p>
<p><b>Government finance statistics:</b> In 2011, GFSM 2001 was introduced by the federal and several emirate governments, and the institutional arrangement to ensure adequate data provision was established. This consolidation should complement initiatives to establish debt management units at both the emirate and federal levels. The UAE submitted its fiscal accounts to the <i>GFS Yearbook</i> for the first time in 2012.</p>
<p><b>Monetary statistics:</b> The central bank has shifted the responsibility for compiling and disseminating monetary data to the Banking Supervision Department, in order to improve the timeliness of data to monthly frequency with less than a month lag. Although some monetary aggregates and FSIs are already published on a monthly basis, the Banking Supervision Department has not been trained in MFSM 2000 and the published data do not follow the recommended methodology.</p>
<p><b>Balance of Payments:</b> The information needed to compile the balance of payments is insufficient, especially for the financial account. Many components of the IIP also are missing or incomplete, as the data on government foreign assets and private holdings of foreign assets and liabilities are not published or lack appropriate surveys. The development of a comprehensive Balance of Payments and IIP is however within the reach of the UAE if the central bank, the NBS, and the Ministry of Economy strengthen their capacity and receive appropriate support at the high level. The CBU has introduced an international transactions reporting system to strengthen the quality of balance of payments statistics. The authorities started a project to compile the International Investment Position, which will close an important statistical gap.</p>
<b>II. Data Standards and Quality</b>
<p>Participant in the GDDS since July 31, 2008. The metadata were last updated in 2008 (Monetary and BOP), 2008 (National Accounts and Prices), and 2008 (Government Finance). No Data ROSC is available.</p>

**UAE: Table of Common Indicators Required for Surveillance**

(As of May 20, 2014)

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	Real time	Real time	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	12/13	03/14	M	M	M
Reserve/Base Money	12/13	03/14	M	M	M
Broad Money	12/13	03/14	M	M	M
Central Bank Balance Sheet	12/13	03/14	M	M	M
Consolidated Balance Sheet of the Banking System	12/13	03/14	M	M	M
Interest Rates <sup>2</sup>	Real time	Real time	D	D	D
Consumer Price Index	03/14	04/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> — Central Government	12/13	04/14	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt <sup>4</sup>	12/13	04/14	A	A	A
External Current Account Balance	2013	04/14	A	A	A
Exports and Imports of Goods and Services	2013	04/14	A	A	A
GDP/GNP	2013	04/14	A	A	A
Gross External Debt	...	...	NA	NA	NA
International Investment Position <sup>5</sup>	...	...	NA	NA	NA

<sup>1</sup> 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.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> Including currency and maturity composition.

<sup>5</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>6</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND



Press Release No. 14/327  
FOR IMMEDIATE RELEASE  
July 03, 2014

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2014 Article IV Consultation with the United Arab Emirates**

On June 26, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the United Arab Emirates.<sup>1</sup>

The United Arab Emirates has continued to benefit from its perceived safe-haven status amid regional instability. The economic recovery has been solid, supported by the tourism and hospitality sectors, and a rebounding real estate sector. While growth in oil production moderated, public projects in Abu Dhabi and buoyant growth in Dubai's service sectors continued to underpin growth, which reached 5.2 percent in 2013. The real estate sector has been recovering quickly in some segments, especially in the Dubai residential market. As a result, headline inflation started to increase moderately. The current account and fiscal surpluses continue to be sizable owing to high hydrocarbon prices.

The macroeconomic outlook is positive. Economic growth is expected at 4.8 percent in 2014 and about 4.5 percent in coming years, supported by a number of megaprojects announced over the past 18 months and the successful bid for the World Expo 2020. Inflation is projected to further increase, driven by higher rents. The strengthening real estate cycle, particularly in the Dubai residential market, could attract increased speculative demand, creating the risk of unsustainable price dynamics and an eventual, potentially disruptive correction.

Dubai has made significant progress managing financial obligations from the 2008/9 crisis. The major debt restructurings from that crisis have been completed, and US\$20 billion in Dubai government debt to the central bank and Abu Dhabi was rolled over at reduced interest rates. Nakheel has begun to prepay bank debt due in 2015. Dubai World has stepped up asset sales

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<sup>1</sup> 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.

(sometimes to other government-related entities) to raise cash and repay debt under its debt restructuring agreement, though markets continue to monitor Dubai World's capacity to make forthcoming repayments.

The banking system maintains significant liquidity and capital buffers, and nonperforming loans have begun declining from their post-crisis peak. Following years of credit-less recovery, lending to the private sector has begun to rebound amid accelerating deposit growth.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors welcomed the solid economic growth and favorable outlook. They noted, however, potential risks from rapidly rising residential real estate prices and, more broadly, from the economy's dependence on the global oil market, despite some recent progress in economic diversification. Directors took note of the UAE's sizeable buffers that could be used in case of a shock.

Directors regarded the continued focus on prudent fiscal policy as appropriate. They particularly welcomed the continued gradual consolidation plans and bringing spending closer to levels that would allow saving an equitable share of oil wealth for future generations. They also noted that strengthening the budget process in Abu Dhabi would support better fiscal planning. Directors commended the authorities' continued efforts to strengthen coordination of fiscal policies between the federal and emirate governments.

Directors agreed that the exchange rate peg has served the UAE well. In case of a pronounced acceleration in credit growth, Directors recommended tightening macroprudential regulations to limit excessive risk taking.

Directors emphasized the need for further policy action if real estate prices continue to increase rapidly. They welcomed the recent introduction of targeted macroprudential measures and the increase in Dubai's real estate registration fee, and encouraged additional fees for reselling properties within a relatively short time to discourage speculative demand. Directors felt that these measures could be complemented by further tightening the recently introduced macroprudential policies if real estate lending increased more strongly.

Directors welcomed the recent progress in restructuring the debt of Dubai's government-related entities (GREs), and stressed the need for continued strengthening of the GRE sector. They cautioned that continuous and close oversight of GREs will be essential to ascertain that projects

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<sup>2</sup> 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>.

are executed in line with expected demand, and to avoid further risk taking. In this context, Directors encouraged continued improvements in the transparency and governance of GREs and a continuation of the proactive management of upcoming debt repayments.

Directors took note of the ample liquidity and capital buffers in the banking sector, and encouraged the authorities to continue to focus on financial soundness on the back of a strong cyclical position and accelerating deposit growth. They welcomed the recently introduced loan concentration limits on GREs and emirate governments. Directors encouraged the development of domestic debt markets, which would support banks' liquidity management in preparation for the introduction of the Basel III liquidity framework. They also encouraged the authorities to build on progress with developing the AML/CFT framework to mitigate potential risks.

Directors encouraged the authorities to continue to improve statistics by pressing ahead with their plan to compile the International Investment Position, providing adequate resources for improving the quality of balance-of-payments estimates, improving demographic and labor statistics, and disseminating complete data on Dubai GRE debt and potential contingent liabilities to the government.

## United Arab Emirates: Selected Macroeconomic Indicators, 2010–15

	2010	2011	2012	Prel. 2013	Proj. 2014	Proj. 2015
(Annual percent change, unless otherwise indicated)						
<b>Output and prices</b>						
Nominal GDP (billions of UAE dirhams)	1,051	1,276	1,367	1,478	1,551	1,624
Nominal GDP (billions of U.S. dollars)	286	347	372	402	422	442
Real GDP (at factor cost)	1.6	4.9	4.7	5.2	4.7	4.5
Real hydrocarbon GDP	3.8	6.6	7.6	4.8	3.0	2.3
Real non-hydrocarbon GDP	0.7	4.1	3.3	5.4	5.5	5.5
CPI inflation (average)	0.9	0.9	0.7	1.1	2.5	2.8
(Percent of GDP, unless otherwise indicated)						
<b>Public finances</b>						
Revenue	29.9	34.6	36.2	34.6	33.9	32.6
Hydrocarbon	22.3	28.4	28.9	27.2	25.8	24.0
Non-hydrocarbon	7.6	6.2	7.3	7.4	8.1	8.6
Expenditure and net lending	31.7	30.4	27.3	28.1	26.7	26.3
Budget balance	-1.9	4.2	8.9	6.5	7.2	6.3
Non-hydrocarbon balance <sup>1</sup>	-35.3	-39.9	-33.1	-33.9	-29.8	-27.1
(Annual percent change)						
<b>Monetary sector <sup>2</sup></b>						
Credit to private sector	1.2	2.3	2.3	10.3	15.3	15.3
Broad money	6.2	5.0	4.4	22.5	23.4	17.1
(Billions of U.S. dollars, unless otherwise indicated)						
<b>External sector</b>						
Exports of goods	214	302	349	379	402	433
Oil and gas	75	112	120	123	123	120
Imports of goods	165	195	217	242	274	301
Current account balance	7.2	50.9	69.0	64.7	51.3	52.0
Current account balance (percent of GDP)	2.5	14.7	18.5	16.1	12.1	11.8
Gross official reserves	32.8	37.2	47.1	68.1	79.8	94.5
In months of next year imports of goods and services, net of re-exports	2.9	2.9	3.3	4.2	4.5	4.9
Real effective exchange rate (2000=100)	107.8	104.4	100.3	104.6	..	..

Sources: UAE authorities; and IMF staff estimates.

<sup>1</sup> In percent of non-hydrocarbon GDP.

<sup>2</sup> As a result of changes in economic sector classifications in bank report forms during 2013, readings for annual percent changes for broad money and private sector credit for 2013 are inaccurate. The central bank estimates that private sector credit growth was around 8.2 percent in 2013.

**Statement by Mr. Shaalan on United Arab Emirates  
June 26, 2014**

1. At the outset, I would like to thank staff for the constructive Article IV discussions with the United Arab Emirates authorities as well as their valuable policy recommendations.

***Recent Economic Developments and Outlook***

2. The United Arab Emirates continues to record a high economic growth rate in an environment of relative price stability. Growth was driven mainly by robust tourism activity, the trade and transport sectors and, more recently, a rebound in real estate activity. These developments reflect the country's diversification policy, which contributed to a marked expansion of the non-hydrocarbon sector and are expected to sustain strong growth going forward. Investments related to Expo 2020 as well as the expanding tourism and real estate sectors will further support the growth momentum.

3. While UAE's growth prospects are favorable, the authorities remain vigilant about macroeconomic risks, including those related to speculative real estate demand and a possible decline in oil and gas prices. However, these risks are cushioned by the country's substantial foreign assets and fiscal surplus which provide ample buffers and policy space to mitigate these potential risks.

***Fiscal Policy***

4. The fiscal position remains strong, and is characterized by budget surpluses, low gross debt, and sizeable reserves. Notwithstanding this strong position, the authorities are pursuing their fiscal consolidation plan to lower the budget's dependence on oil revenues.

5. Fiscal consolidation will continue at a stronger pace in 2014 at both the federal and emirates levels. The government of Abu Dhabi intends to eliminate spending overruns and to reduce current expenditures, while prioritizing health, education and capital spending. These measures are likely to increase the overall fiscal surplus. The authorities are also considering several initiatives to reduce the dependence of fiscal revenues on the hydrocarbon sector, including the introduction of a value-added tax in the context of a GCC-wide initiative.

6. Government Related Entities (GREs), which encountered severe financial difficulties during the financial crisis, have made considerable progress in restructuring and financing their debts. This was achieved through a combination of refinancing, assets sales, and early repayments of liabilities as domestic economic conditions improved and real estate prices increased. In addition, large intergovernmental debt was rolled over, such as the US\$ 20 billion in Dubai government debt which was extended to 2018 at reduced rates. The authorities are determined to strengthen the commercial viability of the remaining GREs, who have not yet completed their restructuring efforts, and to increase their transparency and disclosure policies.

### ***Financial Sector Policies***

7. The financial sector continued to perform strongly, and the banking sector remains highly capitalized and profitable. Following a number of years of sluggish growth, bank credit growth has picked up and non-performing loans have begun to decline for the first time since the crisis.

8. The Central Bank of the UAE's (CBU) regulatory and macroprudential policies are aimed at preserving the soundness of the financial sector. The CBU is reviewing and updating existing regulations to strengthen the prudential framework in line with the requirements of Basel III. It is currently in the process of finalizing new liquidity regulations, which are expected to be issued later this year. Moreover, staff's analysis and the CBU's stress testing point to the resiliency of the banking sector to severe shocks. The CBU is also working on establishing a financial stability stress index to identify possible vulnerabilities and monitor risks in the banking system.

9. The authorities will continue to closely monitor credit growth in the banking system and developments in the real estate markets as well as banks' exposure to these markets. They are confident that the recently introduced macroprudential measures are sufficient for the time-being, taking into consideration that real-estate prices are recovering from very low levels. These measures include regulations for mortgage lending and loan concentration limits for GREs and local governments. The cap introduced on banks' loan concentration to emirate governments and GREs will help contain bank exposures to mega projects as elaborated by staff. The new maximum loan-to-value ratios for mortgage lending as well as debt-service-to-income limits will help to control speculation. Moreover, the authorities stand ready to tighten macroprudential regulations to prevent excessive risk-taking if needed. These measures could include higher fees to limit speculative real estate demand.

### ***Other Reforms***

10. The federal government intends to further improve the business environment in order to attract foreign investment. Labor policy will continue to focus on increasing the employment of nationals in the private sector. In this regard, a number of initiatives have been taken to develop training and partnerships with the private sector.

11. The authorities have taken steps to improve the quality and dissemination of economic statistics. They have improved GFS reporting and started a project to compile the International Investment Position with IMF technical assistance. They have also begun implementing an international transactions reporting system for the balance of payments.