In recent years, the U.A.E. has enjoyed rapid economic growth—impressive by any global standard. Its challenge now is to address the housing constraint that is pushing up inflation while sustaining growth and ensuring macroeconomic and financial stability.

Over the past four years, the U.A.E.’s strong economic growth has been driven by high oil prices and a rapidly expanding non-oil sector.

Domestic and foreign-financed investments have shot up, as the U.A.E. has become more service oriented, with competitive tourism and other sectors.

Private sector credit has also expanded rapidly, financed from domestic resources and foreign borrowing.

Record-high oil prices have generated increasing current account and fiscal surpluses and facilitated the buildup in official foreign assets . . .

. . . but fiscal policy has remained prudent, as evidenced by the decline in expenditures to GDP and the non-oil fiscal deficit to GDP.

However, strong demand growth and housing shortages have contributed to rising inflation, which is higher than in most other oil producers in the region.

Sources: U.A.E. authorities; and IMF staff estimates.

1Includes claims on government (net), claims on public sector enterprises, and claims on the private sector.

2Includes currency outside banks, dirham demand and time deposits, and foreign currency deposits.

3Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the U.A.E.