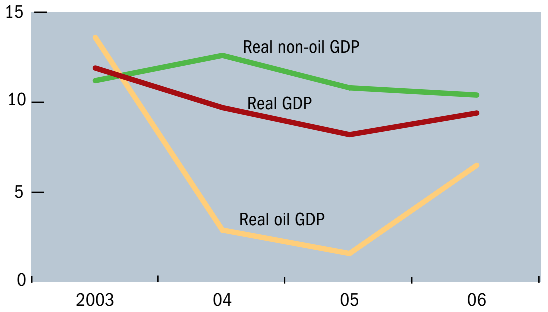
COUNTRY **FOCUS**

United Arab Emirates

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.

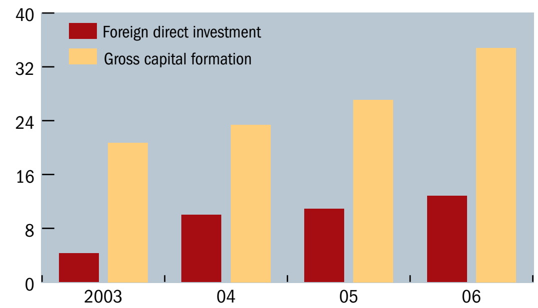
Over the past four years, the U.A.E.'s strong economic growth has been driven by high oil prices and a rapidly expanding non-oil sector.

(percent)



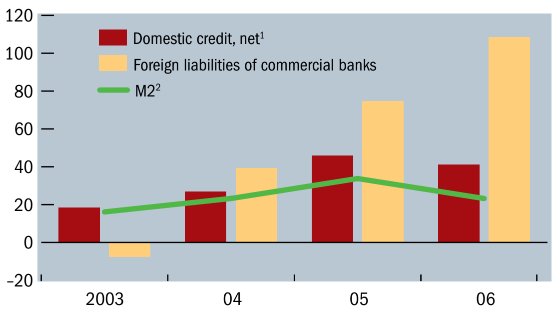
Domestic and foreign-financed investments have shot up, as the U.A.E. has become more service oriented, with competitive tourism and other sectors.

(billion dollars)



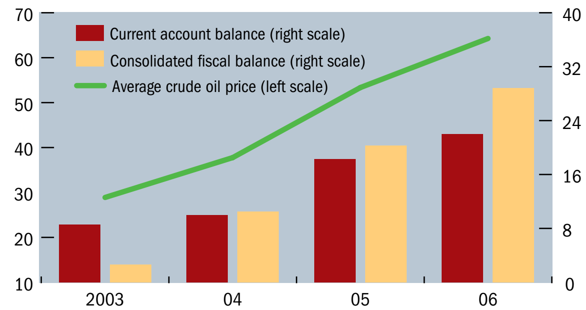
Private sector credit has also expanded rapidly, financed from domestic resources and foreign borrowing.

(percent change)



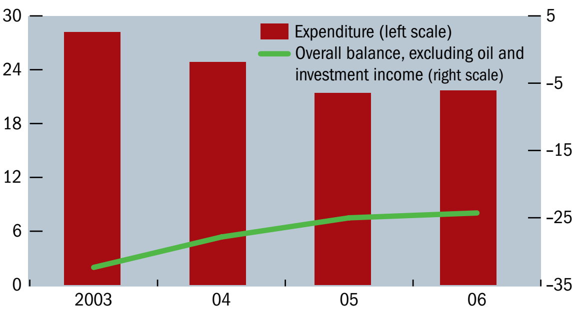
Record-high oil prices have generated increasing current account and fiscal surpluses and facilitated the buildup in official foreign assets . . .

(dollars per barrel) (percent of GDP)



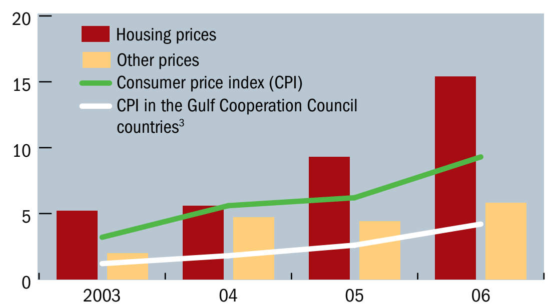
. . . but fiscal policy has remained prudent, as evidenced by the decline in expenditures to GDP and the non-oil fiscal deficit to GDP.

(percent of GDP) (percent of non-oil 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.

(percent change)



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

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

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

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