



# UNITED ARAB EMIRATES

## 2013 ARTICLE IV CONSULTATION

July 2013

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 2013 Article IV consultation with United Arab Emirates, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 15, 2013, with the officials of 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 27, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Press Release** (PR) summarizing the views of the Executive Board.
- The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

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**International Monetary Fund**  
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# UNITED ARAB EMIRATES

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

June 27, 2013

### KEY ISSUES

**Economic context.** The non-oil economy has been gathering strength amid favorable oil prices and capital inflows. The real estate market has started to recover from the 2009 crisis, in some segments rapidly, and there have been a number of announcements of new megaprojects in real estate and tourism. Growth in oil production will likely slow in the context of an amply supplied global oil market.

**Policy Focus.** In this environment, economic and financial policies should focus on measures that will help prevent a renewed cycle of exuberant risk-taking and strengthen the fiscal position, while completing the agenda of dealing with the legacy of the 2009 crisis by continuing the deleveraging and restructuring of government-related entities (GRE).

**Macroeconomic policy mix.** The UAE plans for continued fiscal consolidation this year at an appropriate pace, helping to further unwind the fiscal stimulus of recent years without undermining the economic recovery. Medium-term fiscal plans point to further consolidation. Monetary policy is expected to stay accommodative under the U.S. dollar peg.

**GREs.** Building on progress in restructuring the debt of GREs, Dubai should continue to focus on strengthening the GRE sector. This should include proactive management of upcoming debt maturities and improving the GREs' transparency and governance. The new megaprojects should be executed at a measured pace, and new risk-taking by GREs should be avoided.

**Financial stability.** The banking system maintains significant capital and liquidity buffers. To preempt the build-up of new vulnerabilities, swift implementation of the planned new prudential regulations for mortgage lending and loan concentration will be important. This will mitigate the risk of rapid credit expansion and undue concentration of loans to the real estate and GRE sectors in the future. Mortgage lending rules could be complemented by targeted increases in real estate-related fees, should housing price increases continue unabated.

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

Discussions were held in Abu Dhabi during April 30–May 15, 2013. The staff team comprised Harald Finger (head), Zsofia Arvai, Ozgur Demirkol, Alberto Behar (all MCD) and Asmaa El-Ganainy (FAD). The team met with H. E. Governor of the Central Bank of United Arab Emirates Sultan Bin Nasser Al Suwaidi, H. E. Under Secretary, Ministry of Finance, Younis Alkhoori, the heads of economy and finance departments of the emirates, as well as other senior officials and representatives from the business and financial community. Mr. Geadah, Alternate Executive Director, joined for part of the mission.

## CONTENTS

<b>BACKGROUND</b>	<b>4</b>
<b>RECENT DEVELOPMENTS</b>	<b>4</b>
<b>OUTLOOK AND RISKS</b>	<b>7</b>
<b>POLICY DISCUSSIONS</b>	<b>12</b>
A. Correcting Imbalances while Supporting the Economy	12
B. Managing Old and New Risks Stemming from GREs	15
C. Financial Sector Soundness and Financial Spillovers	17
D. Structural and Statistical Issues	19
<b>STAFF APPRAISAL</b>	<b>21</b>
<b>BOXES</b>	
1. Real Estate Market Developments	5
2. Hydrocarbon Sector Outlook	9
3. Quantifying the External Risks to the UAE Outlook	11
4. Dubai's Debt Sustainability	14
<b>FIGURE</b>	
1. Monetary and Financial Developments	23
<b>TABLES</b>	
1. Selected Macroeconomic Indicators, 2008–18	24
2. Balance of Payments, 2008–18	25
3. Consolidated Government Finances, 2008–14	26
3a. Abu Dhabi Government Finances, 2008–14	27
3b. Dubai Government Finances, 2008–14	28
4. Monetary Survey, 2008–14	29

**APPENDICES**

I. Dubai and Abu Dhabi Debt	30
II. Exchange Rate Assessment	32

**APPENDIX TABLES**

1. Dubai: Maturing Bonds and Syndicated Loans	30
2. Abu Dhabi: Maturing Bonds, Syndicated and Bilateral Loans	31

## BACKGROUND

**1. The UAE has profited from its safe-haven status amid the political and social unrest that has been sweeping through the MENA region.** Against a backdrop of political stability, confidence has further increased, tourism has been firm, demand from expatriates from the broader region has increased, and capital inflows have strengthened amid high global liquidity. The real estate sector, which had been impaired since the 2009 crisis, has stabilized in Abu Dhabi and started to recover in Dubai.

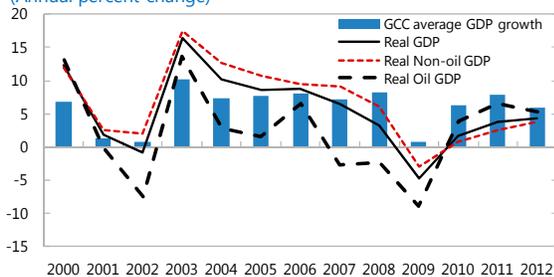
**2. The economic diversification drive is gathering further steam.** Dubai aims to build on its early achievements in becoming a hub for retail and wholesale trade, as well as a major tourism and real estate investment destination for the wider region, and recently announced plans for several new megaprojects in real estate and tourism. Dubai is a candidate city for the World Expo 2020, and if it succeeds in its bid, the implementation of many of these plans will likely accelerate. While Abu Dhabi continues to expand its hydrocarbon production capacity, the emirate is actively pursuing an economic diversification strategy that relies primarily on petrochemicals, financial services, aviation, renewable energy, and cultural tourism.

## RECENT DEVELOPMENTS

**3. The economic recovery continued in 2012, supported by favorable oil prices.** Economic growth is estimated to have reached 4.3 percent in 2012. Oil production expanded by 5.2 percent, and non-oil growth, driven primarily by growth in the services sectors, continued to accelerate to 3.8 percent. The real estate market, which had been a drag on growth since the 2009 crisis, began an uneven recovery (Box 1). Inflation remained subdued at 0.7 percent on average, in light of a still-declining rent component and limited pass-through of international food prices.

**Real GDP Growth, 2000–12**

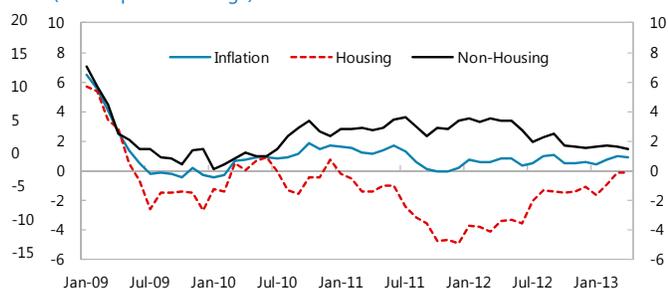
(Annual percent change)



Sources: Country authorities; and IMF staff estimates.

**CPI Inflation, 2009–April 2013**

(Annual percent change)



Sources: Haver; and IMF staff estimates.

**4. The external position strengthened further.** Backed by high oil prices and production, and by buoyant nonhydrocarbon exports, the external current account surplus reached almost 17 percent of GDP in 2012. Dubai's non-hydrocarbon exports, in particular, recorded high growth rates, despite a significant decline in bilateral trade with Iran (down by 31 percent in 2012). Capital

inflows also strengthened, with corporates and banks having been active in issuing conventional debt and sukuk throughout the year, taking advantage of falling risk premia, particularly for Dubai. Gross foreign inflows to the banking sector also remained steady, reflecting the UAE’s perceived safe-haven status and a modest interest rate differential with international rates. As a consequence, central bank reserves increased markedly and reached \$47 billion in 2012, covering 3.3 months of imports (net of re-exports), just over half of short-term debt, or 20 percent of M2. While substantially below the range suggested by the Fund’s new reserve adequacy metric<sup>1</sup> (\$82-123 billion), central bank reserves are small relative to foreign assets in sovereign wealth funds, which are mandated to make resources available in case of need and have a sufficiently liquid portfolio to do so. As a result, external buffers appear adequate.

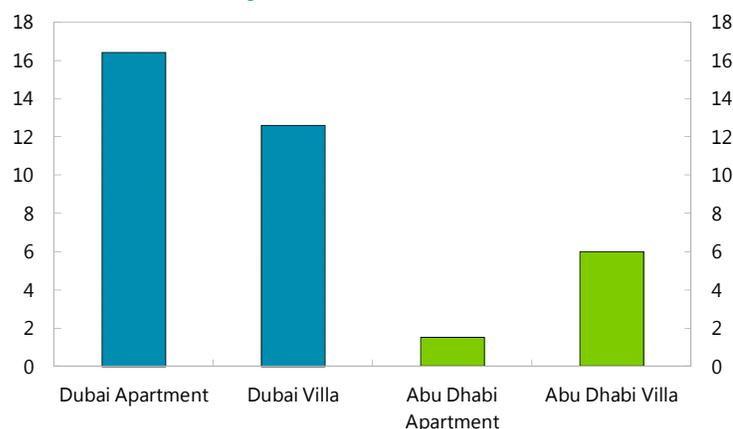
**Box 1. Real Estate Market Developments**

**The UAE real estate market is in a phase of uneven recovery.** Residential real estate prices in Dubai have been rising substantially, while other market segments, especially office space, are recovering at a slower pace. The recovery in the Abu Dhabi real estate market has been lagging.

**The recovery in Dubai is largely concentrated in high-quality residential properties,** helped by robust non-oil GDP growth, increasing numbers of expatriates, and Dubai’s relative stability as an investment destination. Residential real estate prices rose on average 16 percent year-on-year in April 2013. Supply growth was modest in 2012 but is expected to increase in 2013. Hotel occupancies and room prices have increased significantly because of a substantial rise in tourism. Despite a large increase in the supply of office space, a recovery in rentals started in late 2012.

**The recovery of the real estate market in Abu Dhabi has been lagging.** Price increases in the residential market have been modest (4 percent year-on-year in April 2013). New supply of office space has remained substantial, with constant high-quality rental rates since mid-2012, while lower-quality office leases are still facing downward pressure. Retail supply could grow significantly in 2013, which could place downward pressure on rentals, which have been flat in nominal terms since 2009. Demand for hotel rooms has not kept up with supply in 2012, and significant further capacity is expected to come on stream this year.

**Residential Sales Prices, April 2013**  
(Annual Percent Change)



Source: Reidin.com UAE Residential Property Price Indices

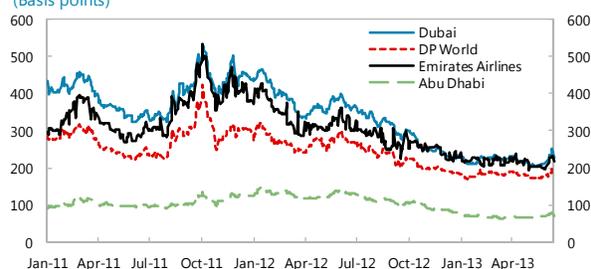
**New Real Estate Supply, 2012–13**

(Percentage of existing stock)

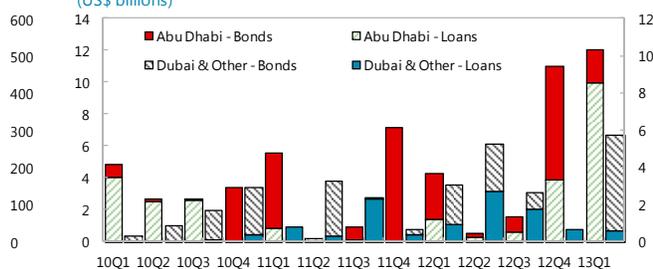
		Office	Residential	Retail	Hotel
<b>Abu Dhabi</b>	2012	14	6	6	12
	2013	9	8	20	16
<b>Dubai</b>	2012	17	4	2	6
	2013	16	9	2	9

Sources: Jones Lang Lasalle; and IMF staff calculations.

<sup>1</sup>As developed in "Assessing Reserve Adequacy", SM/11/31.

**UAE – Government and Selected GRE CDS Spreads, 2011–13**  
 (Basis points)


Source: Markit.

**U.A.E. Debt Issuances, 2010–13**  
 (US\$ billions)


Source: Dealogic.

## 5. In line with Fund advice, the UAE started to unwind the fiscal stimulus of recent years.

The fiscal stance, as measured by the non-hydrocarbon primary deficit, improved by 3 percentage points to 35 percent of nonhydrocarbon GDP in 2012.<sup>2</sup> A salary increase for

federal employees and an increase in Abu Dhabi's subsidies and transfers, driven by a one-off rise in grants and payments to state companies, were more than offset by reductions in other outlays, including capital expenditure in Abu Dhabi and Dubai. This improvement in the primary balance, coupled with strong hydrocarbon revenues, brought the

**United Arab Emirates: Summary of Government Finances (GFSM 1986)**  
 Percent of GDP (unless otherwise noted)

	2009	2010	2011	Est. 2012	Proj. 2013
<b>Total revenue</b>	<b>27.1</b>	<b>29.6</b>	<b>34.3</b>	<b>35.7</b>	<b>34.4</b>
Hydrocarbon	18.4	22.1	28.2	28.6	26.9
Nonhydrocarbon	8.7	7.5	6.1	7.1	7.5
<b>Total expenditure and grants</b>	<b>40.2</b>	<b>31.4</b>	<b>30.3</b>	<b>26.9</b>	<b>26.3</b>
Current expenditure	22.4	21.4	19.8	19.8	19.8
Wages and salaries	3.6	2.9	2.5	2.5	2.8
Abu Dhabi "federal services"	6.0	6.9	6.3	5.8	6.8
Subsidies and transfers	4.9	3.9	4.3	5.5	3.5
Development expenditure	4.9	3.4	3.0	2.2	3.3
Loans and equity (net)	12.6	6.5	7.0	4.8	2.8
Foreign grants	0.4	0.2	0.4	0.1	0.4
<b>Overall balance</b>	<b>-13.1</b>	<b>-1.8</b>	<b>4.1</b>	<b>8.8</b>	<b>8.1</b>
<b>Non-hydrocarbon primary balance (in percent of nonhydrocarbon GDP)*</b>	<b>-38.6</b>	<b>-34.7</b>	<b>-38.1</b>	<b>-34.9</b>	<b>-32.9</b>

\*Excluding DFSF and 2011 ALDAR bailout and investment income.

overall fiscal surplus to close to 9 percent of GDP, more than double the year before. As a result, the fiscal break-even oil price, a measure of fiscal vulnerability to oil price shocks, improved to \$74 last year, from \$84 in 2011.<sup>3</sup>

<sup>2</sup> The fiscal stance is defined as the consolidated non-hydrocarbon 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) Abu Dhabi government's support for the real estate company Aldar in 2011, and (iii) the investment income from the sovereign wealth funds. The fiscal stance is expressed as a percentage of nonhydrocarbon GDP.

<sup>3</sup> The fiscal break-even oil price is the hypothetical oil price at which the fiscal accounts would be in balance.

**6. The banking system is sound, but nonperforming loans (NPLs) remain high and lending to the private sector continues to be sluggish.** While NPLs have begun declining from their high of December 2012, to 8.3 percent (12.6 percent in Dubai) in March 2013, there is still some divergence among banks in the recognition of NPLs on restructured loans and provisioning practices. UAE banks started to repay the relatively expensive Tier 2 capital placed by the government at the height of the financial crisis, and have been raising new capital. Despite accommodative monetary conditions and ample liquidity in the banking system, private-sector credit growth has not picked up and remains significantly below that of other GCC countries, as the debt overhang limits lending opportunities and the banking sector remains cautious in light of the high level of NPLs.

**Bank Financial Soundness Indicators<sup>1</sup>**  
(Percent)

	2008	2009	2010	2011	2012
Capital adequacy ratio	13.0	19.9	20.7	20.0	20.6
Return on assets	1.4	1.4	1.3	1.5	1.5
Return on equity	13.0	10.9	10.4	11.4	9.6
Nonperforming loans to total loans	2.3	4.3	5.6	7.2	8.7
Provisions to nonperforming loans <sup>2</sup>	78	85	89	90	85

Source: Country authorities.

<sup>1</sup> National banks.

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

**Gross Nonperforming Loans, Dec 2008–Mar 2013**

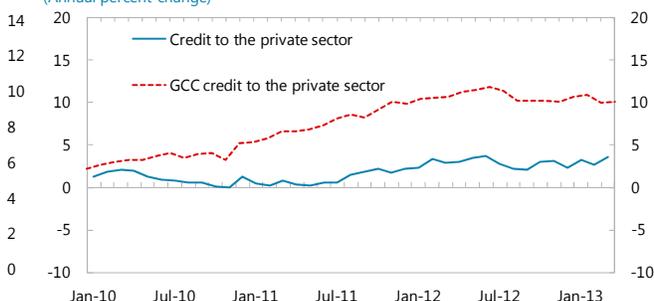
(Percent of total gross loans)



Source: Country authorities.

**Banking System Credit Growth, 2010–Jan 2013**

(Annual percent change)



Source: EDSS.

## OUTLOOK AND RISKS

**7. Non-oil growth is expected to strengthen further in 2013.** A broadening recovery in construction and real estate, and ongoing growth in tourism-oriented sectors are likely to underpin non-oil growth, which could reach 4.3 percent this year. Growth in oil production will likely slow to around 2 percent in 2013 after two years of substantial expansion, as growth in global oil demand remains weak amid expanding global supply (Box 2). Inflation could pick up somewhat this year to around 2 percent as the housing market continues its recovery. The external current account surplus is projected to remain high at around 15 percent, supported by high oil prices and strong nonhydrocarbon exports and re-exports.

**8. Medium-term growth and diversification prospects are promising.** Based on Dubai's further expansion plans in its core services sectors and Abu Dhabi's intensified diversification efforts, non-hydrocarbon growth is expected to remain strong at above 4 percent in the medium term.

**9. Downside risks to this outlook have declined over the past year but remain substantial** (see risk assessment matrix and Box 3). Domestically, a key medium-term risk is related to a possible renewed building up of a boom-and-bust cycle in light of the recovering real estate market and the announcement of new megaprojects. On the external side, a major downside risk is the possibility of an abrupt reversal of capital inflows, which could be triggered, for example, by monetary policy tightening in the United States or a re-emergence of global financial stress. This could affect rollovers or raise borrowing costs for banks (though these maintain large liquidity buffers), GREs, private borrowers, and government. Another downside risk is a deeper than expected economic slowdown in emerging markets, particularly in Asia, reflecting the UAE's close links with international financial markets and emerging Asian economies. If adverse external developments trigger a large and prolonged decline in hydrocarbon prices, it would ultimately result in reduced fiscal spending and non-hydrocarbon GDP growth and could expose weaknesses in the balance sheets of GREs and other companies. That said, the UAE's substantial foreign assets and improving fiscal position provide insulation against moderate or short-lived shocks.

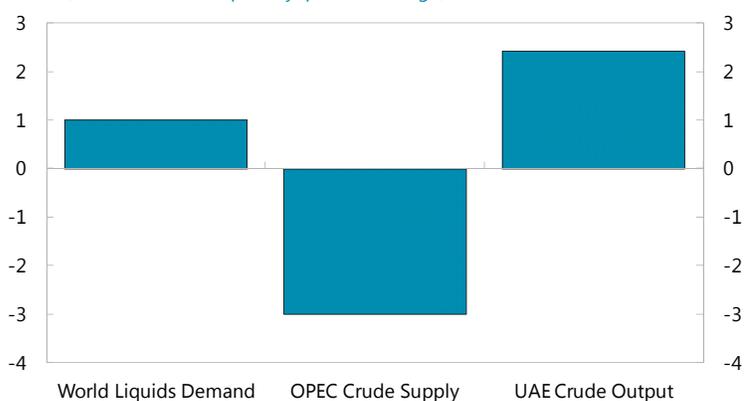
**10. There are also a number of upside risks to the outlook.** A faster recovery in the advanced economies would have a positive effect on global growth and oil prices. More generally, higher oil prices would further support fiscal revenues and the external current account, as long as oil exports are not disrupted and confidence is maintained. Adequate macroeconomic policies and borrowing restraint by GREs in the currently favorable economic conditions can support high and sustainable economic growth without incurring undue macroeconomic risks.

## Box 2. Hydrocarbon Sector Outlook

**Global oil demand is expected to remain sluggish over the next few years amid ample global oil supply.** Global oil consumption grew by about 1 percent in 2012 and is projected by major energy agencies to increase at a similar rate this year, in light of weak economic activity and decreasing oil demand in the advanced economies, and slightly lower growth in emerging markets. Global demand is projected to rise by less than 5 percent until 2016. At the same time, there is a significant expansion of supply from non-OPEC sources, and OPEC members have already cut back supply. Over the medium term, the global supply expansion is expected to continue, largely due to growth in supply from North America. Projections on average indicate a rise of 6½ percent in non-OPEC output until 2016, leaving a decreasing role for OPEC crude output, to which Iraq is forecast to contribute an increasing share.

### Oil Developments, Q1 2012–Q1 2013

(Millions of barrels per day, percent change)



Sources: EIA Short Term Energy Outlook, OPEC Oil Market Report and IEA Oil Market Report (May 2013).

**In this environment, the UAE's oil production capacity is expected to rise substantially in the medium term.** The UAE's oil output grew by 2½ percent year-on-year in Q1 2013, and output growth for 2013 is expected to continue at a similar pace (2 percent). Regarding the medium term, the UAE is second to Iraq among Gulf oil producers regarding plans for extending production capacity, which could reach 3½ mbd by 2018 according to the authorities' plans (the upcoming renewal of legacy concession contracts could pose risks to this timeline). In light of the well-supplied global oil market, staff's projections of UAE hydrocarbon GDP growth allow for a slight fall in capacity utilization.

## UAE: Risk Assessment Matrix

Likelihood / Nature of Risks	Expected Impact on Economy if Risk is Realized	Policy Responses to Reduce Vulnerabilities
<p><b>Staff Assessment: Medium</b></p> <p><b>Insufficient domestic policy reform to mitigate the risk of boom-bust cycles</b></p>	<p><b>Staff assessment: High</b></p> <p>Renewed optimism, fueled by rising real estate prices and loose global liquidity conditions could prompt a new cycle of imprudent risk-taking and re-leveraging by GREs and private companies, which could also affect banks' balance sheets in light of their strong interconnectedness with GREs. In the absence of prudent policies, this could fuel short-term growth at the expense of medium-term stability.</p>	<p>Develop adequate mechanisms for prioritizing and sequencing major projects, and for assessing the quality of planned spending. Contain GRE risk-taking, improve their risk management, reporting, and governance framework. Implement the pending financial regulations and strengthen the macroprudential framework. Consider targeted increases in real estate-related fees if price increases in some market segments continue unabated.</p>
<p><b>Staff Assessment: Medium</b></p> <p><b>Deeper than expected slowdown in EMs</b> (synchronized growth shock triggered by financial sector stresses or setbacks in fiscal and structural reforms)</p>	<p><b>Staff assessment: Medium</b></p> <p>Emerging Asia, especially India, accounts for a large and growing share of exports, and robust external demand from Asia has helped limit the impact on the UAE of the weaknesses of European economies and of the sanctions on Iran. A slowdown in emerging Asia would lead to lower oil prices, weaken an important driver of non-oil goods export growth, and reduce tourism and foreign real-estate demand.</p>	<p>Adopt a cautious attitude towards further ambitious tourism and real estate development in an uncertain global environment. Continue with fiscal consolidation, particularly in Dubai, in order to rebuild fiscal buffers. Maintain focus on diversifying sources of demand for goods and services exports.</p>
<p><b>Staff Assessment: Medium</b></p> <p><b>Stalled or incomplete delivery of euro area policy commitments</b> (financial stress re-emerges and bank-sovereign links re-intensify)</p>	<p><b>Staff assessment: Medium</b></p> <p>Would make it difficult to roll over some of the GREs' maturing debt, and would raise the overall cost of their borrowing from international markets, thus further straining their balance sheets. GREs' financial problems would likely spill over to the domestic banking system given their strong interconnectedness.</p>	<p>Continue managing upcoming maturities proactively. Maintain the focus on deleveraging and strengthening of GRE balance sheets and improving their transparency. Safeguard banks from undue exposure to ailing GREs. Continue to diversify sources of international finance, and press ahead with domestic debt market development to reduce reliance on external funding.</p>
<p><b>Staff Assessment: Low</b></p> <p><b>A large and prolonged decline in hydrocarbon revenues triggered by a renewed global recession or increasing global oil supply</b></p>	<p><b>Staff assessment: High</b></p> <p>Lower oil prices would reduce export earnings and fiscal revenues. The UAE's substantial foreign assets and improving fiscal position provide insulation against moderate or short-lived shocks. However, a large and prolonged fall in oil prices would reverse the accumulation of savings and ultimately result in lower fiscal spending, which could further expose vulnerabilities in GREs' and private companies' balance sheets.</p>	<p>Continue with fiscal consolidation. In addition, mitigate Dubai's fiscal vulnerabilities by reducing contingent liabilities through deleveraging and reforming GREs. Continue to diversify the economy and explore options to increase the revenue base.</p>

### Box 3. Quantifying the External Risks to the UAE Outlook

*While it is inherently difficult to quantify the external risks to the UAE's outlook, scenario analysis can shed light on the potential magnitude of effects on the UAE of key external risk factors.*

**A deeper than expected slowdown in emerging markets.** If investment by the BRICS (Brazil, Russia, India, China, and South Africa) slows significantly, accompanied by tighter financial conditions, their output loss could exceed 4 percent in the first year. The slowdown could reduce global output by about 1 percent and oil prices by about \$20 in the first year, keeping Brent below \$90 until at least 2017.<sup>1</sup> The associated GCC output loss is estimated at  $\frac{3}{4}$  percent in the first year (higher if expenditure is cut on account of lower oil revenues) and could persist for many years.<sup>2</sup> BRICS account for a quarter of the UAE's non-oil exports, a share dominated by sales to India, and the UAE would be materially affected. The UAE's fiscal surplus would reach a low of 2½ percent in 2014 (on unchanged policies). In addition, a slowdown of capital flows to emerging markets would affect prospects for debt refinancing.

**A global re-emergence of financial stress associated with slow progress on euro area policy commitments.** Such a scenario could result in a fall in energy prices (\$4 in 2014) and global GDP (by less than  $\frac{1}{4}$  percent in the first year).<sup>1</sup> IMF estimates imply that the impact on GCC GDP would be of a similar magnitude,<sup>2</sup> though possibly higher in the UAE because of its financial exposures. Higher interest rates and/or retrenched global financing would make it harder and more costly to roll over maturing debt. Foreign claims by global banks on the UAE, two-thirds of which are of European origin, are US\$142 billion according to BIS data. The banking system would have enough liquidity to withstand substantial withdrawals, though a few banks that rely on foreign wholesale funding might face liquidity pressures. GREs, private borrowers, and the government could face higher borrowing costs, and some weaker entities may find it difficult to roll over their maturing debt.

**Fall in oil revenues due to a large and prolonged global slowdown or expanding global supply.** Pricing in the uncertainties related to global oil demand and supply, options markets imply a one standard deviation risk (about one-in-six chance) that oil prices will be \$21 below the baseline in mid-2014 and \$30 below the baseline by mid-2015. Hydrocarbons account for over half of UAE goods exports (excluding re-exports) and 80 percent of government revenue. Were oil prices to fall \$30 below baseline for a prolonged period, fiscal surpluses would erode, with a deficit of 3 percent of GDP by 2018 on unchanged policies, higher if countercyclical policies are implemented. In addition, if hydrocarbon production were to fall in response to a potentially lower call on OPEC supply, this would further reduce hydrocarbon revenues.

<sup>1</sup> See April 2013 World Economic Outlook.

<sup>2</sup> Based on calibration of Global Vector Autoregression Model discussed in Cashin, P., K. Mohaddes, and M. Raissi (2012). "The Global Impact of the Systemic Economies and MENA Business Cycles". IMF Working Paper No. 12/255.

## POLICY DISCUSSIONS

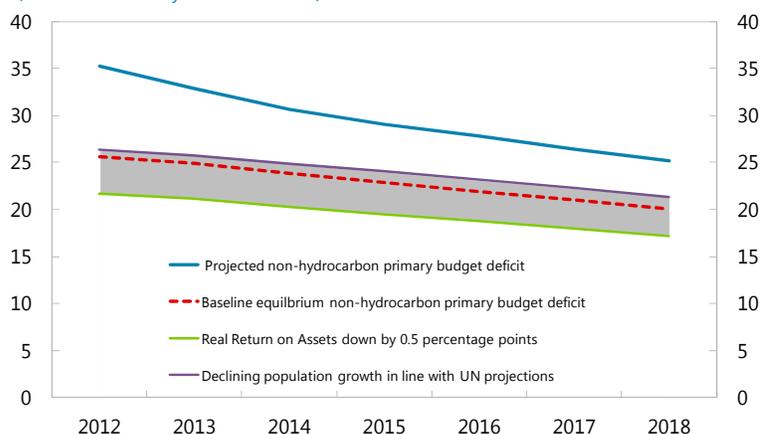
*In the context of a strengthening economic recovery, quickly rising real estate prices in some market segments, and newly announced megaprojects in real estate and tourism, discussions focused on policies to strengthen fiscal and external buffers, bolster the GRE and financial sectors, and minimize the risk of entering a renewed boom/bust cycle, while continuing to focus on managing the legacy of the 2009 crisis by continuing the deleveraging and restructuring of GREs.*

### A. Correcting Imbalances while Supporting the Economy

**11. The authorities plan for continued fiscal consolidation in 2013.** The combined budgets of the federal and emirate governments indicate a consolidation of the fiscal stance by around 2 percent of nonhydrocarbon GDP, driven by continued consolidation in Abu Dhabi and Dubai. The fiscal consolidation is expected to be achieved by a rationalization of capital spending and subsidies and transfers, while spending on goods and services, defense and security, and the wage bill are expected to increase. A notable increase in development spending is a large affordable housing program in Abu Dhabi which will be offset by cuts in other capital spending including loans and equity. Dubai scaled down its development spending last year after completing a series of important infrastructure projects and intends to cut overall spending in 2013, except for an increase in wages and salaries.

**12. The pace of continued fiscal correction remains appropriate.** Staff's fiscal sustainability analysis based on the permanent income hypothesis indicates that the UAE's fiscal deficit exceeds levels consistent with intergenerational equity.<sup>4</sup> The large fiscal stimulus in the wake of the 2009 crisis brought public spending to levels higher than sustainable for future generations, such that the fiscal consolidation that started last year is welcome in making inroads toward correcting that long-term structural imbalance. Moreover, the continued plans for consolidation would further improve the implied break-even oil price to \$71 this year, reducing fiscal vulnerabilities

**Fiscal Sustainability Analysis, 2012–18**  
(Percent of non-hydrocarbon GDP)



Source: IMF staff calculations.

<sup>4</sup> Long-term sustainability here assumes intergenerational equity by calculating a constant real per capita government spending path (and related non-oil deficit) that delivers a constant real per capita annuity to finance government spending after hydrocarbon revenues are exhausted. Results are highly sensitive to assumptions, particularly the interest rate and inflation.

to a marked decline in oil prices. At the same time, the recovery in the non-oil economy has gained momentum and is unlikely to be undermined by the planned pace of withdrawal of fiscal stimulus.

**13. Medium-term fiscal plans point to further consolidation.** Both Abu Dhabi and Dubai target continued gradual consolidation in their non-oil balances through 2017, further correcting for the UAE's long-term intergenerational fiscal imbalances, reducing oil-price related risks, and, in the case of Dubai, addressing debt-related concerns. Fiscal consolidation will be driven by restraint in capital expenditure in the context of solid economic growth. It should also be supported by reductions in energy subsidies, which would create fiscal space while improving energy efficiency. Moreover, limiting further wage bill increases would support the objectives of maintaining flexibility of the budget and making private sector employment more attractive for nationals. Over the medium- to long-term, efforts should focus on returning the fiscal stance to levels consistent with intergenerational equity. At the emirate level, a faster pace of consolidation in Dubai would be desirable to address the emirate's continued debt-related risks, as indicated by the debt sustainability analysis (Box 4). In Abu Dhabi, planned cuts in subsidies and transfers in 2013 should be sustained in the period ahead.

**14. Ensuring the long-term sustainability of Dubai's public finances would require efforts to secure a stable and buoyant revenue base.** Dubai's non-hydrocarbon revenues amounted to a mere 5½ percent of GDP in 2012. Currently, the government of Dubai has no plans to implement income or corporate taxes, and the timing of the GCC-wide initiative of introducing a VAT is uncertain. Targeted increases in real estate-related fees from the current level of 2 percent could be considered, particularly if risks of overheating in the real estate market rise, which would help mitigate risks of a renewed real estate bubble while generating revenue in support of the emirate's ongoing fiscal consolidation.<sup>5</sup> The government of Dubai indicated that fee increases (or the introduction of new fees) could affect the emirate's competitiveness, and would thus likely only be considered in coordination with other emirates and the federal government.

**15. The introduction of a medium-term fiscal framework (MTFF) can help secure effective implementation of the UAE's fiscal policy objectives and enhance fiscal coordination.**

A medium-term planning horizon is particularly important to prevent volatile oil revenues from translating into expenditure fluctuations that can destabilize the economy and reduce the quality of government spending. The federal government, Dubai, and Abu Dhabi have all made progress in developing MTFFs. The federal government adopted a medium-term budget in line with the federal strategy to set future budget priorities. Abu Dhabi has been making progress in developing analytical capacity for MTFF to inform policy decision making, while Dubai implements a three-year budget framework to guide the budgeting process. Based on these achievements, the authorities should continue to refine their MTFFs, and, in the case of Abu Dhabi, increasingly integrate its MTFF into the budget formulation process.

<sup>5</sup> By way of comparison, in the context of a sharp run-up in real estate prices, Hong Kong SAR has increasingly tightened its policies, and recently raised fees for properties resold within six months from 15 to 20 percent and introduced a 5 percent fee for properties resold within two to three years. A 15 percent fee was introduced for buyers who are not permanent residents.

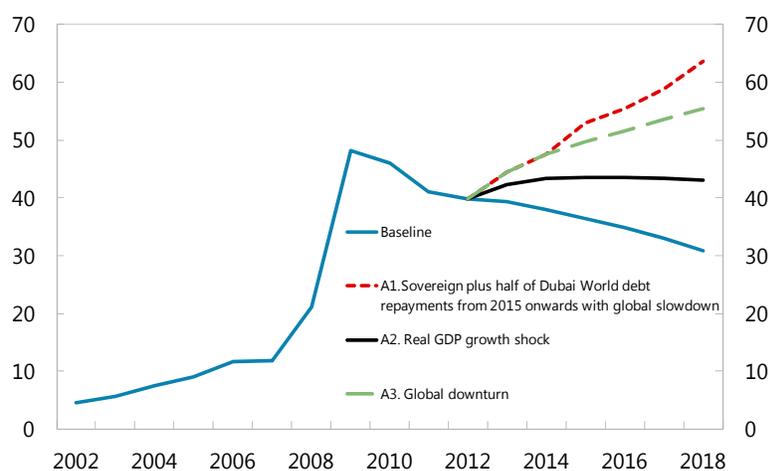
### Box 4. Dubai's Debt Sustainability

**The sustainability of Dubai government debt has improved with strengthening growth and progress in fiscal consolidation.** The government debt-to-GDP ratio has declined from its peak of 48 percent in 2009. The baseline scenario assumes steady medium-term growth and a continuation of Dubai's gradual fiscal consolidation, with an almost balanced budget in 2014 in line with the authorities' plans. This scenario shows a steady decline in the debt-to-GDP ratio over the projection period.

**Scenario analysis indicates that sever shocks can undermine debt sustainability.** An initial sharp decline in economic activity and a tepid recovery would raise the debt-to-GDP ratio by about 12 percentage points compared to the baseline in

2018. Likewise, under a severe global downturn scenario which would involve impaired growth after an initial shock and deterioration in the real interest rate and the primary balance over the projection period, Dubai's government debt-to-GDP ratio would continue to increase to 55 percent by the end of 2018. Under an illustrative scenario where, in the context of a severe global downturn, it is assumed that the Dubai government takes over half of the upcoming repayments related to restructured debt of Dubai World and Nakheel (see Appendix 1), the debt-to-GDP ratio would more than double compared to the baseline and rise to 64 percent by 2018.

**Dubai – Government Debt Sustainability Analysis, 2002–18**  
(Percent of Dubai GDP)



Sources: Country authorities; and IMF staff projections.

**Dubai Government Debt Sustainability, 2007–18**  
(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
Government debt <sup>1</sup>	11.9	21.1	48.2	46.0	41.1	39.9	39.3	38.0	36.5	34.9	33.0	30.9	
Alternative scenarios													
A1. Sovereign plus half of Dubai World debt repayments from 2015 onwards with global downturn							44.5	47.6	53.0	55.4	58.9	63.7	2.9
A2. Real GDP growth shock <sup>2</sup>							42.4	43.5	43.5	43.5	43.4	43.1	1.4
A3. Global downturn scenario <sup>3</sup>							44.5	47.6	49.7	51.6	53.6	55.4	2.5
Memorandum items													
Real GDP growth baseline							4.2	4.3	4.3	4.2	4.2	4.3	
Real GDP growth path in the global downturn scenario							-2.4	-0.1	2.1	2.0	2.0	2.1	

Sources: Country authorities and IMF staff estimates and projections.

<sup>1</sup> Dubai government and government guaranteed debt.

<sup>2</sup> Real GDP growth is at baseline minus  $\frac{3}{4}$  standard deviation in 2013,  $\frac{1}{2}$  standard deviation in 2014 and  $\frac{1}{4}$  standard deviation thereafter.

<sup>3</sup> Combination of real GDP growth shock scenario and  $\frac{1}{4}$  standard deviation shocks to the baseline for real interest rate  $\frac{1}{2}$  standard deviation shocks to primary balance in 2013–18.

**16. Monetary policy continues to support the U.S. dollar peg, which has served the UAE well.** The policy rate has been at 1 percent with a stable spread over the Fed funds rate since 2008 (Figure 1), and there are few near-term inflationary risks despite an expected pick-up in the housing component of inflation. The real effective exchange rate (REER) depreciated slightly in 2012, continuing a trend since 2009. Different methodologies yield mixed results for the exchange rate assessment (Appendix 2). The projected current account balance of 7.4 percent for 2018 is close to the estimate for the norm implied by the macrobalance approach (7 percent). The external sustainability approach, which considers the level of imports consistent with intergenerational equity, implies a need to accumulate further savings of about 9 percent of GDP in 2018. Since the adjustment needs are centered on government rather than the private sector (see above), adjustment should occur through fiscal consolidation rather than exchange rate devaluation. By contrast, the equilibrium exchange rate approach indicates that the currency has not matched the increase in oil prices since 2009, which implies moderate undervaluation under this model.

## B. Managing Old and New Risks Stemming from GREs

**17. With GREs at the core of the 2009 crisis, ongoing focus on dealing with legacy issues and on preventing new exuberant risk-taking is warranted.**<sup>6</sup> Dubai's total debt continues to be

substantial at around \$142 billion (102 percent of GDP).<sup>7</sup> Dubai's GREs increased their debt over the past year to an estimated \$93 billion,<sup>8</sup> up from \$84 billion in March 2012, of which about \$60 billion falls due between 2013 and 2017. This includes GREs which are operating on a commercial basis and borrow on their own credit strength. While GRE debt restructurings related to the 2009 crisis are nearing completion, several major maturities are now drawing closer: \$20 billion Dubai

government debt to Abu Dhabi and the CBU related to the Dubai Financial Support Fund is falling due in 2014, and restructured debt related to Dubai World and Nakheel will begin to mature in 2015/16. Timely communication about these key maturities will be important to support market confidence.

### Maturity Profile of Dubai Inc. Debt, 2013–18

(Billions of U.S. dollars)



Sources: Dealogic; Bloomberg; country authorities; and IMF staff estimates.

<sup>1</sup> Preliminary estimates based on public information about Dubai Holding and other GRE ongoing debt restructurings, as well as Dubai World's completed restructuring; including debt guaranteed by the Dubai government.

<sup>6</sup> See Appendix 1.

<sup>7</sup> Estimated 2012 GDP of Dubai and the Northern Emirates.

<sup>8</sup> This includes \$11.7 billion bond issuance and syndicated borrowing by Dubai banks.

**18. Dubai's ambitious expansion plans warrant measured execution amid strengthening access to external financing.**

Dubai's megaprojects will be executed to a large extent through GREs. Although further investment in the development of Dubai's economy is welcome, the authorities should ensure that execution will be gradual and structured in a way that strictly limits risk-taking by the still highly indebted GRE sector. This will help contain fiscal risks and reduce the likelihood of another boom-bust cycle. Managing these risks thus calls for prioritizing and sequencing major projects, assessing the quality of planned spending, and for improving the framework to manage scrutiny, selection, delivery, and funding of major projects.

**19. Ongoing focus on improving the transparency of Dubai's GREs will be important to strengthen their resilience.**

Abu Dhabi has made notable progress in monitoring and disseminating GRE debt and other financial data through its debt management office. Data availability on financial conditions, debt stocks and maturity profiles of Dubai's GREs, however, continues to be inadequate for an assessment of the sector's financial health and associated macroeconomic risks. The Dubai government has created a dedicated team for government debt and guarantee issuance. Building on this, Dubai should establish a full debt management office, which would be tasked with implementing a proper risk management framework entailing effective identification, assessment, monitoring, and reporting of contingent liabilities arising from GREs.

**20. Further strengthening the Dubai GREs' corporate governance is also key.**

The Dubai government has replaced many GRE boards of directors since the 2009 crisis, with representation of key government officials on these boards, and introduced a requirement for approval by the Supreme Fiscal Committee of any new GRE borrowing. Building on these improvements, key steps for further strengthening the GRE's corporate governance include (i) delineating clearly their commercial and noncommercial operations; (ii) expanding the coverage of the 2009 corporate governance code to public companies; (iii) strengthening the role and independence of company boards to allow for more effective decision making; and (iv) improving risk management practices.

**21. The Dubai government emphasized that important lessons have been learnt from the 2009 crisis.**

While acknowledging that certain segments of the Dubai real estate market have been recovering fast and that Dubai GREs have been regaining access to foreign funding, the Dubai government stressed that the exuberance of the pre-crisis period that led to the previous boom-bust cycle is unlikely to return as the planned megaprojects will be executed in a gradual manner over the medium- and long-term. Regarding Dubai's debt, the Dubai authorities noted that, as in the case of their January 2013 bond issuance, which pre-funded the 2013 government bond maturities, they would continue to be proactive in debt refinancing, aiming to diversify funding sources and to extend maturities by taking advantage of the low interest rate environment.

## C. Financial Sector Soundness and Financial Spillovers

**22. The banking system maintains significant capital and liquidity buffers.** While the level of NPLs may have peaked, a potential further restructuring of GRE debt, including possibly on already restructured debt, could still raise this level. Joint CBU/IMF staff stress tests show that the domestic banking system could absorb even a significant increase in NPLs, with only a few banks falling somewhat below the mandated minimum capital adequacy requirement in the event of an extreme shock. Nonetheless, stricter recognition of NPLs and higher provisioning, particularly for restructured loans, would further strengthen confidence in the banking system. Stress tests on non-resident liquidity withdrawal from the system further show that it would take a very large shock to generate even a moderate systemic liquidity need, concentrated in a few banks, and still well within banks' holdings of CDs and reserves at the CBU.

<b>Credit Risk Stress Testing for UAE Banks</b>				
	(Percent)			
	UAE Local Banks		Dubai Banks	
	Regulatory capital	Tier 1 capital	Regulatory capital	Tier 1 capital
CAR (Feb 2013)	20.8	16.8	19.8	14.9
NPL ratio (Feb 2013)	8.3	8.3	12.6	12.6
<b>Baseline scenario</b>				
NPL ratio <sup>1</sup>	11.3	11.3	15.6	15.6
CAR	19.7	15.5	17.8	13.1
<b>Stress scenario</b> (50 percent increase in NPLs from baseline)				
NPL ratio	17.0	17.0	23.4	23.4
CAR	16.6	12.3	13.5	8.2
Number of banks falling below the regulatory minimum in the stress scenario	2	4	...	...
Memorandum items				
Minimum regulatory capital	12.0	8.0	12.0	8.0
Source: IMF staff estimates and calculations.				
<sup>1</sup> Takes into account potential NPLs pertaining to a scenario whereby Dubai World's restructured loans maturing in 2015 need to be restructured again at maturity.				

**23. Shielding the banking system from concentration risk to the GRE and real estate sectors is key.** The UAE's banks are strongly interconnected with GREs through ownership and financial linkages. The interconnectedness, coupled with non-transparent corporate governance structures and practices, makes managing the evolution of interconnected leverage challenging, and could give rise to systemic risks. While GRE activities remain an integral part of the UAE economy and their regular financial operations are key to supporting balanced growth, it remains essential that rapid credit expansion and undue loan concentration to this sector be avoided to lessen the risk of a renewed boom-bust cycle and to safeguard financial stability.

**24. Implementing the planned mortgage lending regulation and loan concentration limits on GREs and emirate governments will help bolster financial stability.** Following the consultation with banks, these regulations should be implemented as soon as possible. Gradual

transition paths should be agreed with any banks that might initially exceed the planned concentration limits. In addition, imposing higher capital charges and introducing forward provisioning on exposures to risky GREs could be considered to further mitigate risks to the banking system. Regulation related to mortgage lending, including caps on loan-to-value and debt-service-to-income ratios, will help mitigate real estate related risks, though the immediate effect on the residential real estate market, currently largely a cash market, will be limited. Looking ahead, the CBU should carefully monitor the interaction of mortgage lending and the real estate sector, and tighten the mortgage regulation or introduce new measures as needed. It will also be important to implement the forthcoming liquidity regulation in preparation for Basel III.

### Non-Resident Liquidity Withdrawal Scenario<sup>1</sup>

(Billions of U.S. dollars)			
	National Banks	Foreign Banks	All Banks
<b>Total non-resident liabilities</b>	57.8	19.7	77.6
<b>Total liquid non-resident assets</b>	34.5	7.3	41.8
Non-resident liquidity gap (liquid assets minus liquid liabilities) <sup>2</sup>			
<i>Scenario 1</i>	9.1	(1.7)	7.5
<i>Scenario 2</i>	6.0	(1.9)	4.1
<i>Scenario 3</i>	(0.3)	(2.5)	(2.8)
Number of banks failing in Scenario 3			3
<i>Memorandum items:</i>			
Available domestic liquid assets	22.3	13.8	36.1
Central Bank Foreign Currency Assets (Feb 2013)			49.7

Sources : CBU; and IMF staff calculations.

<sup>1</sup> Based on position at end-February 2013.

<sup>2</sup> Scenarios assume the withdrawal of the following liabilities:

Scenario 1: Non-resident interbank liabilities + 25% of the increase in non-resident deposits since December 2008 + capital market funding maturing within 3 months

Scenario 2: Non-resident interbank liabilities + 50% of the increase in non-resident deposits since December 2008 + capital market funding maturing within 3 months

Scenario 3: Non-resident interbank liabilities + 100% of the increase in non-resident deposits since December 2008 + capital market funding maturing within 3 months

All scenarios assume that only 75% of non-resident interbank assets is available when calculating the liquidity gap.

## 25. Strengthening the macroprudential framework, including through an enhanced mandate for financial stability for the CBU, could help mitigate systemic risks.<sup>9</sup>

Macroprudential policy can play an important role in the UAE, particularly against a backdrop of reliance on volatile hydrocarbon revenues, limited monetary policy independence in light of the peg to the US dollar, the risk of procyclical fiscal policy, and an open capital account. The CBU's publication of its inaugural Financial Stability Review in 2012 was an important step highlighting the importance of macroprudential policy. In addition, development of a more formal and transparent macroprudential institutional and policy framework would be desirable: it should entail assigning the mandate for financial stability, and defining a coordination framework, objectives, analytical

<sup>9</sup> See Selected Issues Paper on "Macroprudential Policy in the United Arab Emirates".

methods, and the policy toolkit. The adoption of the draft Financial Services Law would provide an opportunity to establish the legal base for an improved macroprudential policy framework.

**26. The planned financial sector assessment will be a welcome opportunity to review the sector's strengths and weaknesses.** The mission believes that an assessment under the Financial Sector Assessment Program (FSAP), now planned for late 2014, could play an important role in further strengthening the CBU as banking system regulator and supervisor, while facilitating further financial sector development.

**27. Gross foreign inflows to the banking sector remain steady and would deserve closer monitoring.** Non-resident deposits have increased by more than 15 percent in 2012 and account for 12 percent of total deposits. In the context of mounting international efforts against money laundering and tax crimes, the authorities are encouraged to continue improving their understanding of the origin of financial inflows and of the beneficial owners of deposits and loans in the UAE. This would assist in effectively mitigating potential financial sector risks. In light of the 2008 anti-money laundering and combating the financing of terrorism (AML/CFT) mutual evaluation report and follow-up reports, as well as of the revised Financial Action Task Force (FATF) standard, the authorities are encouraged to continue their efforts in bolstering the soundness of the financial sector which could benefit from measures designed to improve compliance with the standard, including those related to customer due diligence, cross-border cash couriers, and hawaladars. In addition, staff invites the authorities to undergo an AML/CFT assessment in the context of the planned FSAP.

**28. The CBU agreed that the banking system should be shielded from excessive exposure to the real estate and GRE sectors.** The CBU highlighted its efforts to ensure that the banking system continues to have adequate buffers in the coming years, when a significant amount of restructured debt is coming due. To this end, it imposed increasing general provisioning requirements over time, and also stated its intention to continue with its policy of restricting dividend distributions as needed. It stressed that the planned mortgage lending and loan concentration caps, which were calibrated following consultation with the banking sector, will limit excessive exposure while allowing for continued lending to these important sectors. The CBU underscored recent measures it has taken to strengthen its macroprudential framework and analysis, including increased resources for the Financial Stability Unit and expanding the analytical toolkit. The authorities also noted that the current draft of the Financial Services Law explicitly provides a legal base for an improved financial stability framework. They also stressed their strong efforts in the area of AML/CFT, including domestic regulation and international cooperation.

## D. Structural and Statistical Issues

**29. Effective intergovernmental coordination of fiscal policy will reinforce effective demand management and fiscal sustainability.** Given the federal structure, fiscal coordination between the federal and emirate governments is important for strengthening near- and medium-term fiscal planning. Notable progress has been made in sharing information on fiscal outcomes among governments, facilitated by the Fiscal Policy Coordination Council. Staff encouraged the

authorities to further strengthen fiscal coordination by continuing to improve the quality and scope of shared information, leveraging the information for macrofiscal analysis to inform policy-making, enhancing expenditure policy coordination, and jointly discussing budgets and medium-term fiscal plans. The authorities agreed on the importance of sustained efforts in this area, in collaboration with the IMF through technical assistance.

**30. Developing the local currency debt market should be given greater urgency.** Domestic debt market development would help reduce UAE firms' reliance on foreign funding and provide an alternative to borrowing from the domestic banking sector, especially for long-term funds. As a first step, the government securities market should be developed, providing a benchmark yield curve and facilitating liquidity management with a view to the forthcoming Basel III liquidity norms for banks. The federal and Abu Dhabi governments are both considering the issuance of domestic debt to meet these objectives.

**31. The UAE has been working for several years on a set of laws in a push to modernize its legislative system.**<sup>10</sup> Swiftly passing these laws, in particular the Insolvency Law, the Financial Services Law, and the Public Debt Law, would be crucial to improving the effectiveness of the debt restructuring process and financial sector regulation and supervision, as well as to developing the domestic debt market.

**32. Steering nationals towards private-sector jobs has become a priority.** Only a fraction of nationals currently work in the private sector, and emiratization efforts have primarily been based on training and placement programs and partnership initiatives with the private sector. The authorities are considering additional measures to attract Emiratis to the private sector, recognizing that effective labor market reform is a long-term policy agenda, with a wide range of measures including reforms to the sponsorship system, internal labor market mobility, improved social protection schemes, and, possibly, subsidies for employing nationals in the private sector.

**33. Further improving the UAE's statistical capacity remains key.** The authorities have made laudable progress in preparing consolidated government finance statistics, as evidenced by the UAE's submission of its fiscal accounts to the *GFS Yearbook* for the first time in 2012. Moreover, the planned introduction of an international transactions reporting system at the CBU will be an important step toward strengthening the quality of balance of payments statistics. It will be important to maintain the momentum of strengthening economic statistics by providing adequate resources for improving the quality of the national accounts and for producing demographic and labor markets statistics, while continuing to strengthen balance of payments statistics. The authorities indicated interest in beginning to develop statistics on the International Investment Position, which will be essential to close an important statistical gap.

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<sup>10</sup> These laws include the Commercial Companies Law, Auditors Law, Arbitration Law, Foreign Investment Law, Industry Law, Insolvency Law, Small and Medium Enterprises Law, Financial Services Law, and Public Debt Law.

## STAFF APPRAISAL

**34. Short- and medium-term growth prospects are positive, and external downside risks, while still substantial, have declined.** The non-oil economy is projected to expand by over 4 percent per annum in the coming years on the back of Dubai's strong core services sectors and Abu Dhabi's diversification efforts. The still-uncertain global economic and financial environment could pose external risks to this favorable outlook, although the UAE's sizeable foreign assets and improving fiscal position provide significant buffers.

**35. In this environment, it will be key to enact policies to strengthen the economy's resilience and mitigate the risk of entering a renewed boom-bust cycle.** The pace of recovery in some segments of the real estate market and a number of announcements since late 2012 of new megaprojects in real estate and tourism warrant a cautious approach to policymaking. This approach should entail implementing further fiscal consolidation, limiting new risk-taking by the large and still highly indebted GRE sector, and devising prudent financial sector regulation. At the same time, there is a need for continued focus on dealing with the legacy of the 2009 crisis.

**36. Fiscal policy is appropriately aimed at consolidation.** The strengthening economy allows for further withdrawal of the large fiscal stimulus implemented in the context of the 2009 crisis, bringing spending again closer to levels consistent with intergenerational equity, and further reducing break-even oil prices. Fiscal consolidation will also help contain fiscal vulnerabilities stemming from Dubai in the face of potentially large contingent liabilities. Should the rise in real estate prices in some sectors continue unabated, the authorities should consider implementing targeted increases in real estate-related fees, which could help mitigate speculative price pressures while generating revenue in support of fiscal consolidation. Building on recent progress in developing MTFFs, such frameworks should continue to be refined, and, in the case of Abu Dhabi, increasingly integrated into the budget formulation process.

**37. Building on progress in restructuring the debt of GREs, Dubai should continue to focus on strengthening the GRE sector.** The total debt of the Dubai government and GREs continues to be large, and GREs are likely to continue facing financial challenges in light of large outstanding debt and significant maturities, including on restructured debt, falling due between 2014 and 2018. Many of Dubai's GREs continue to be nontransparent, making an assessment of the sector's financial health and associated macroeconomic risks difficult. Improving the transparency and governance of GREs, as well as timely communication about key maturing debt will be important to support market confidence.

**38. Close oversight of the GREs will be essential to prevent a renewed cycle of risk-taking.** Dubai's GREs and banks are increasingly regaining access to external financing in an environment of high global liquidity and search for yield. Renewed large-scale external and domestic borrowing to finance ambitious real estate and tourism projects should be preempted to avoid setting off a new boom-bust cycle. Continued close oversight of GREs by the Dubai Supreme Fiscal Committee will be

essential, and should be strengthened by developing adequate mechanisms for prioritizing and sequencing major projects, and for assessing the quality of planned spending.

**39. The implementation of planned prudential regulations will help mitigate the risk of a build-up of banking sector vulnerabilities.** With significant capital and liquidity buffers, banks show substantial resilience to shocks. Building on this strength, it will be important to preempt the build-up of new vulnerabilities. Swift implementation of the planned new prudential regulations for mortgage lending and loan concentration would mitigate the risk of rapid credit expansion and undue loan concentration to the real estate and GRE sectors in the future. These policies should be complemented by developing a more formal and transparent macroprudential institutional and policy framework. The proposed new Financial Services Law provides an opportunity to establish the legal base for such a framework. Developing the domestic fixed income market would support banks' liquidity management as they prepare for the introduction of the Basel III liquidity norms, and would help the diversification of funding sources for corporates. The planned assessment under the FSAP will be a welcome opportunity to review the financial sector's strengths and weaknesses. This assessment would also be a suitable occasion to conduct a review of the UAE's AML/CFT policies.

**40. Staff welcomes the notable progress made in fiscal coordination among the federal and emirate governments.** Building on this achievement, coordination can be further strengthened by improving the quality and availability of fiscal information and macrofiscal analysis, jointly discussing budgets and MTFs, and enhancing expenditure policy coordination.

**41. 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 providing adequate resources for improving the quality of the national accounts and for producing demographic and labor markets statistics, while continuing to strengthen balance of payments statistics. Developing statistics on the International Investment Position will be essential to close an important gap.

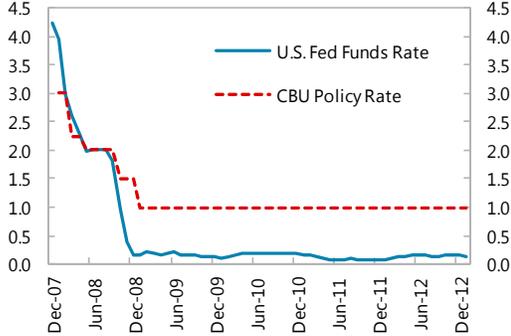
**42. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

**Figure 1. United Arab Emirates: Monetary and Financial Developments**

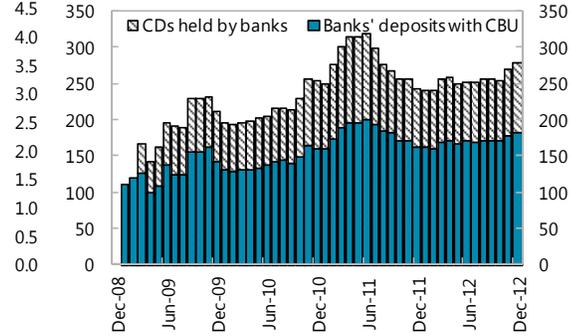
Monetary conditions remain accommodative, with a stable spread to the U.S. policy rate.

Banking sector liquidity continues to be comfortable.

**Policy Rates, 2007–12**  
(Percent)



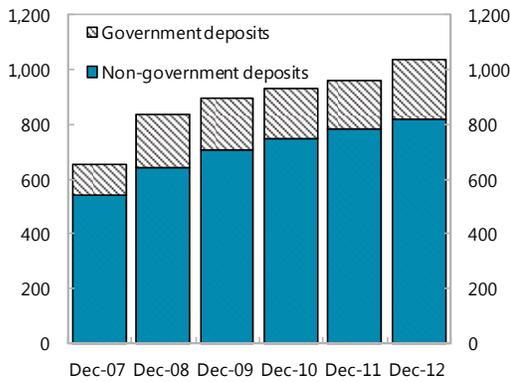
**Bank Liquidity, 2008–12**  
(Billions of Dirham)



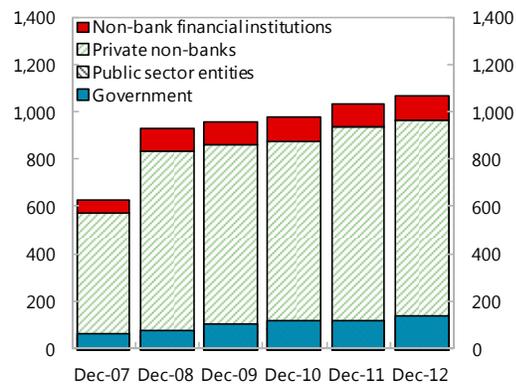
Government deposits drove deposit growth in 2012...

...while lending to the private sector remained sluggish.

**Bank Deposits, 2007–12**  
(Billions of Dirham)



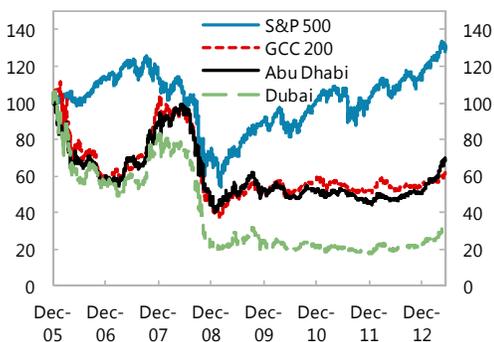
**Bank Credit, 2007–12**  
(Billions of Dirham)



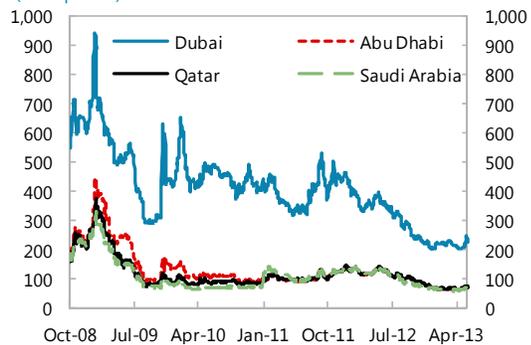
UAE equity markets remain subdued in 2012.

Dubai's CDS spread fell substantially amid high global liquidity.

**Stock Market Indices, 2005–13 (June)**  
(Index, Dec. 31, 2005=100)



**GCC: CDS Spreads, 2008–13 (May)**  
(Basis points)



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

**Table 1. United Arab Emirates: Selected Macroeconomic Indicators, 2008–18**

(Quota: SDR 752.5 million)  
(Population: 8.3 million, nationals: 1 million)  
(Per capita GDP-2011: \$41,379; poverty rate: n.a.; unemployment rate: 4.2% (2009))

	2008	2009	2010	2011	Est. 2012	Proj. 2013	Proj. 2014	Proj. 2015	Proj. 2016	Proj. 2017	Proj. 2018
<b>Hydrocarbon sector</b>											
Exports of oil, oil products, and gas (in billions of U.S. dollars)	103.0	68.1	74.6	111.6	118.1	115.5	116.0	112.8	110.6	109.7	109.9
Average crude oil export price (in U.S. dollar per barrel)	96.3	62.8	77.0	109.6	112.0	108.1	101.5	97.3	94.1	92.0	90.9
Crude oil production (in millions of barrels per day)	2.6	2.3	2.3	2.6	2.6	2.7	2.8	2.8	2.9	2.9	3.0
(Annual percent change, unless otherwise indicated)											
<b>Output and prices</b>											
Nominal GDP (in billions of UAE dirhams)	1,156	936	1,056	1,280	1,385	1,420	1,462	1,519	1,582	1,654	1,742
Nominal GDP (in billions of U.S. dollars)	315	255	287	349	377	387	398	414	431	450	474
Real GDP	3.2	-4.8	1.7	3.9	4.3	3.6	3.7	3.8	3.5	3.4	3.5
Real hydrocarbon GDP	-2.4	-8.9	3.8	6.6	5.2	2.1	2.6	3.1	2.1	1.8	1.8
Real nonhydrocarbon GDP	6.0	-2.9	0.7	2.6	3.8	4.3	4.2	4.2	4.2	4.2	4.2
CPI inflation (average)	12.3	1.6	0.9	0.9	0.7	2.0	2.4	2.5	2.7	2.9	3.0
(Percent of GDP, unless otherwise indicated)											
<b>Investment and saving</b>											
Gross domestic investment	22.5	19.2	22.6	16.2	14.2	15.6	17.0	18.6	20.4	22.0	23.5
Total fixed capital formation	21.2	17.5	21.1	16.2	14.2	15.6	17.0	18.6	20.4	22.0	23.5
Public	7.4	9.6	8.9	10.0	7.0	6.1	6.1	6.1	6.1	6.1	6.0
Private	13.8	14.0	15.7	6.2	7.2	9.5	10.8	12.6	14.3	16.0	17.4
Gross national saving	30.1	22.7	25.9	31.6	32.6	31.7	32.3	31.6	32.0	32.0	32.1
Public	24.5	4.7	8.3	14.5	15.9	14.6	13.6	12.8	12.5	12.0	11.6
Private	5.6	17.9	17.7	17.1	16.7	17.1	18.6	18.8	19.5	20.0	20.6
<b>Public finances</b>											
Revenue	39.0	27.1	29.6	34.3	35.7	34.4	32.9	31.9	31.3	30.5	29.7
Hydrocarbon	31.2	18.4	22.1	28.2	28.6	26.9	25.1	23.7	22.4	21.4	20.5
Nonhydrocarbon	7.9	8.7	7.5	6.1	7.1	7.5	7.8	8.2	8.9	9.1	9.2
Expenditure and net lending	22.1	40.2	31.4	30.3	26.9	26.3	25.8	25.5	25.3	25.0	24.5
Current	14.5	22.4	21.4	19.8	19.8	19.8	19.3	19.1	18.9	18.5	18.1
Capital	7.2	17.5	9.8	10.0	7.0	6.1	6.1	6.1	6.1	6.1	6.0
Overall balance	17.0	-13.1	-1.8	4.1	8.8	8.1	7.1	6.4	6.0	5.5	5.1
<b>Non-hydrocarbon primary balance (excluding investment income) 1/</b>											
Adjusted non-hydrocarbon primary balance 1/ 2/	-26.3	-38.6	-34.7	-38.1	-34.9	-32.9	-30.6	-29.1	-27.8	-26.4	-25.2
Central government debt to banking system 3/	12.5	23.9	22.1	17.4	16.8	16.8	17.0	17.2	17.3	17.2	16.9
(Annual percent change, unless otherwise indicated)											
<b>Monetary sector</b>											
Net foreign assets	-79.4	42.0	67.7	17.7	74.0	15.6	18.0	22.7	25.2	19.5	16.0
Net domestic assets	58.2	8.2	2.0	3.6	-4.3	5.6	3.9	2.8	1.7	3.4	4.6
Credit to private sector	49.3	0.7	1.2	2.3	2.3	5.2	7.3	7.2	7.3	7.3	7.3
Broad money	19.2	9.8	6.2	5.0	4.4	7.3	6.7	7.2	7.7	8.2	8.4
(Billions of U.S. dollars, unless otherwise indicated)											
<b>External sector</b>											
Exports and re-exports of goods, of which:	240	192	212	299	347	367	393	420	453	493	542
Hydrocarbon	103	68	75	112	118	115	116	113	111	110	110
Nonhydrocarbon, excluding re-exports	43	44	51	71	96	109	120	134	151	170	193
Imports of goods	176	150	161	191	217	241	264	294	329	369	415
Current account balance	15.3	1.8	4.9	48.1	63.4	56.0	55.2	48.9	45.0	39.4	35.3
Current account balance (in percent of GDP)	4.8	0.7	1.7	13.8	16.8	14.5	13.9	11.8	10.4	8.8	7.4
External debt (in percent of GDP) 4/	43.2	51.3	48.2	39.6	37.7	37.8	37.9	37.5	37.1	36.6	35.7
Gross official reserves 5/	30.9	25.5	32.8	37.2	47.1	52.3	59.7	71.3	87.8	103.5	118.8
In months of next year's imports, net of re-exports	3.2	2.5	2.9	2.9	3.3	3.4	3.5	3.7	4.1	4.3	4.3
<b>Memorandum items:</b>											
Local currency per U.S. dollar (period average)	3.67	3.67	3.67	3.67	3.67	..	..	..	..	..	..
Nominal effective exchange rate (2005 = 100)	92.9	97.5	96.6	93.7	98.1	..	..	..	..	..	..
Real effective exchange rate (2005 = 100)	110.4	115.0	110.2	102.4	102.9	..	..	..	..	..	..

Sources: UAE authorities; and IMF staff estimates.

1/ In percent of nonhydrocarbon GDP.

2/ Excludes DFSF related transactions for Dubai, and 2011 ALDAR support and investment income for Abu Dhabi

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

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

5/ Excludes foreign assets of sovereign wealth funds.

**Table 2. United Arab Emirates: Balance of Payments, 2008–18**

(Billions of U.S. dollars)

	<u>Est.</u> 2008	<u>Est.</u> 2009	<u>Est.</u> 2010	<u>Est.</u> 2011	<u>Prel.</u> 2012	<u>Proj.</u> 2013	<u>Proj.</u> 2014	<u>Proj.</u> 2015	<u>Proj.</u> 2016	<u>Proj.</u> 2017	<u>Proj.</u> 2018
<b>Current account balance</b>	15.3	1.8	4.9	48.1	63.4	56.0	55.2	48.9	45.0	39.4	35.3
(in percent of GDP)	4.8	0.7	1.7	13.8	16.8	14.5	13.9	11.8	10.4	8.8	7.4
Trade balance	54.3	35.2	46.2	102.9	124.2	120.1	122.6	120.2	119.2	119.0	121.0
Exports	240.1	192.2	211.9	299.2	347.0	366.9	392.6	419.6	452.8	493.2	542.1
Hydrocarbon	91.4	59.6	66.8	99.6	103.6	101.3	102.5	99.6	97.7	96.8	97.0
Natural gas	11.5	8.6	7.9	12.0	14.5	14.2	13.5	13.2	12.9	12.8	12.9
Nonhydrocarbon	43.0	44.0	51.0	70.9	96.3	108.9	120.3	134.2	150.5	169.7	192.6
Re-exports 1/	94.2	80.1	86.2	116.7	132.6	142.5	156.3	172.6	191.6	213.8	239.6
Imports (f.o.b.)	-185.8	-157.0	-165.6	-196.3	-222.8	-246.8	-270.0	-299.3	-333.6	-374.1	-421.2
Imports by emirates	-125.4	-108.7	-118.1	-145.0	-164.9	-181.3	-197.7	-218.7	-243.1	-272.1	-305.4
Free zones	-60.4	-48.3	-47.5	-51.3	-57.9	-65.4	-72.3	-80.7	-90.5	-102.0	-115.7
Income, net	5.4	4.2	-0.1	0.1	0.3	0.8	1.8	3.0	5.9	7.0	8.4
Banking system (net)	1.3	0.6	-1.3	-1.4	-1.4	-1.5	-1.5	-1.4	-0.9	0.3	2.3
Private non-banks (net)	-0.7	-0.5	-1.6	-1.7	-1.5	-1.2	-1.0	-1.1	-1.3	-1.6	-2.1
Government	9.7	6.0	6.0	6.8	7.4	7.4	8.3	9.4	12.1	12.6	13.0
Official debt service (interest)	0.0	0.0	-0.9	-1.1	-1.1	-0.7	-0.8	-0.8	-1.0	-1.3	-1.8
Foreign partners - oil	-4.2	-1.5	-2.0	-2.2	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4
Foreign partners - gas	-0.8	-0.3	-0.2	-0.4	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Services, net	-33.8	-27.4	-29.9	-42.9	-47.9	-51.1	-54.5	-58.7	-63.4	-68.8	-75.0
Credits	9.6	10.2	11.7	12.8	15.1	17.0	18.8	21.1	23.7	26.8	30.4
Debits	-43.4	-37.6	-41.7	-55.7	-63.0	-68.1	-73.3	-79.8	-87.1	-95.6	-105.3
Transfers, net	-10.6	-10.2	-11.3	-12.0	-13.1	-13.8	-14.7	-15.7	-16.7	-17.8	-19.1
Private (incl. remittances)	-10.0	-9.5	-10.6	-11.2	-12.3	-12.9	-13.8	-14.7	-15.7	-16.8	-18.1
Official	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0	-1.1
Capital account balance	0.0	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>	-19.9	9.0	3.5	-29.7	-40.0	-50.8	-47.8	-37.2	-28.5	-23.7	-20.1
Private capital	9.6	-4.4	5.2	0.8	-8.6	1.5	6.5	6.9	7.1	7.3	7.9
Direct investment, net	-2.1	1.3	3.5	5.5	6.7	6.9	7.1	7.4	7.7	8.1	8.8
Portfolio flows, net	2.2	2.5	1.0	0.7	1.0	1.0	1.0	1.1	1.1	1.2	1.2
Commercial banks	-12.2	-9.9	-1.3	0.7	-8.7	-1.6	-1.7	-1.9	-2.0	-2.2	-2.3
Private non-banks and other 2/	21.7	1.8	2.0	-6.2	-7.6	-4.8	0.0	0.3	0.3	0.2	0.2
Official capital 3/	-29.5	13.4	-1.7	-30.5	-31.3	-52.3	-54.3	-44.1	-35.6	-31.0	-27.9
Errors and omissions	-42.2	-16.8	-1.1	-13.7	-13.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-46.8	-6.0	7.3	4.7	9.9	5.2	7.4	11.7	16.5	15.7	15.2
Change in central bank reserves	46.8	6.0	-7.3	-4.7	-9.9	-5.2	-7.4	-11.7	-16.5	-15.7	-15.2
<b>Memorandum items:</b>											
GDP (billions of U.S. dollars)	314.8	254.8	287.4	348.6	377.0	386.8	398.1	413.7	430.6	450.3	474.2
Gross reserves of central bank (billions of U.S. dollars)	30.9	25.5	32.8	37.2	47.1	52.3	59.7	71.3	87.8	103.5	118.8
in months of next year's imports, net of re-exports	3.2	2.5	2.9	2.9	3.3	3.4	3.5	3.7	4.1	4.3	4.3

Sources: UAE authorities; and IMF staff estimates.

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

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

3/ Including estimated changes in SWF net external assets.

**Table 3. United Arab Emirates: Consolidated Government Finances, 2008–14 1/**

	2008	2009	2010	2011	Est. 2012	Proj. 2013	Proj. 2014
	(Billions of UAE dirhams)						
Total revenue	449.4	252.9	312.5	439.6	494.4	488.1	480.6
Hydrocarbon 2/	360.5	172.3	233.6	361.7	395.9	382.8	366.6
Nonhydrocarbon	88.9	80.6	78.8	77.9	98.5	105.3	114.0
Expense	174.4	214.2	232.5	259.3	276.5	286.6	287.6
of which: foreign grants 3/	3.6	3.3	2.6	5.6	2.0	5.0	5.3
Gross operating balance	274.9	38.7	79.9	180.3	217.9	201.5	193.1
Net acquisition of nonfinancial assets	29.5	45.0	35.1	39.0	29.8	46.5	49.4
Net lending(+)/borrowing(-)	245.5	-6.3	44.8	141.4	188.1	155.0	143.7
Net acquisition of financial assets	255.6	167.5	135.1	173.0	182.1	155.7	154.6
of which: Dubai Financial Support Fund	...	48.9	14.7	7.0	2.9	...	...
Net incurrence of liabilities	10.1	173.7	90.3	31.7	-5.9	0.7	10.9
	(Percent of GDP)						
Total revenue	38.9	27.0	29.6	34.3	35.7	34.4	32.9
of which: hydrocarbon revenues	31.2	18.4	22.1	28.2	28.6	26.9	25.1
Expense	15.1	22.9	22.0	20.3	20.0	20.2	19.7
Gross operating balance	23.8	4.1	7.6	14.1	15.7	14.2	13.2
Net acquisition of nonfinancial assets	2.5	4.8	3.3	3.0	2.2	3.3	3.4
Net lending(+)/borrowing(-)	21.2	-0.7	4.2	11.0	13.6	10.9	9.8
	(Percent of nonhydrocarbon GDP)						
Total revenue	61.5	37.0	43.2	56.6	58.6	55.0	50.7
of which: nonhydrocarbon revenues	12.2	11.8	10.9	10.0	11.7	11.9	12.0
Expense	23.9	31.3	32.1	33.4	32.8	32.3	30.3
Net acquisition of nonfinancial assets	4.0	6.6	4.8	5.0	3.5	5.2	5.2
Memorandum items:	(Percent of nonhydrocarbon GDP, unless otherwise indicated)						
Nonhydrocarbon primary balance incl loans and equity; excl. investment income	-26.3	-45.7	-36.8	-41.1	-35.2	-32.9	-30.6
Adjusted non-hydrocarbon primary balance 4/	-26.3	-38.6	-34.7	-38.1	-34.9	-32.9	-30.6
Overall balance (in billions of UAE dirhams)	196.4	-122.4	-18.9	52.0	121.8	115.3	103.7
(In percent of GDP)	16.9	-13.1	-1.8	4.1	8.8	8.1	7.1
Net loans and equity (in billions of UAE dirhams)	51.8	117.9	68.2	89.4	66.3	39.7	40.0
(In percent of GDP)	4.5	12.6	6.5	7.0	4.8	2.8	2.7
Hydrocarbon share of revenue (in percent)	80.2	68.1	74.8	82.3	80.1	78.4	76.3

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/ Intragovernmental grants are netted out in the consolidated fiscal accounts.

4/ Excludes DFSF related transactions for Dubai, and 2011 ALDAR support and investment income for Abu Dhabi.

**Table 3a. United Arab Emirates: Abu Dhabi Government Finances, 2008–14 1/**

	2008	2009	2010	2011	Est. 2012	Proi. 2013	Proi. 2014
	(Billions of UAE dirhams)						
Total revenue	305.7	147.1	192.2	281.4	324.1	317.7	310.1
Hydrocarbon	269.6	121.8	169.1	261.5	288.7	279.3	267.9
Nonhydrocarbon	36.1	25.3	23.0	19.9	35.4	38.3	42.2
Expense	124.4	156.4	173.1	201.4	213.5	218.9	216.1
of which: grants	19.0	17.4	14.1	17.5	16.6	19.5	20.2
Gross operating balance	181.3	-9.3	19.0	80.0	110.7	98.8	94.0
Net acquisition of nonfinancial assets	13.2	27.6	23.8	29.0	20.1	37.5	40.1
Net lending(+)/borrowing(-)	168.1	-36.9	-4.7	51.0	90.5	61.3	53.9
	(Percent of Abu Dhabi GDP)						
Total revenue	43.3	27.5	31.0	34.9	37.3	36.1	35.0
Hydrocarbon	38.2	22.7	27.3	32.4	33.2	31.7	30.2
Nonhydrocarbon	5.1	4.7	3.7	2.5	4.1	4.4	4.8
Expense	17.6	29.2	27.9	25.0	24.6	24.9	24.4
Grants	2.7	3.2	2.3	2.2	1.9	2.2	2.3
Gross operating balance	25.7	-1.7	3.1	9.9	12.7	11.2	10.6
Net acquisition of nonfinancial assets	1.9	5.2	3.8	3.6	2.3	4.3	4.5
Net lending(+)/borrowing(-)	23.8	-6.9	-0.8	6.3	10.4	7.0	6.1
Memorandum items:	(Percent of Abu Dhabi GDP, unless otherwise indicated)						
Overall balance 2/	16.8	-21.8	-11.0	-4.6	3.3	2.6	1.7
Loans and equity net (billions of UAE dirhams) 2/	49.7	79.8	63.3	87.9	62.3	38.7	39.0
Loans and equity net 2/	7.0	14.9	10.2	10.9	7.2	4.4	4.4
Non-hydrocarbon primary balance (excl. investment income) in percent of UAE nonhydrocarbon GDP 2/	-24.6	-37.7	-34.8	-39.9	-33.8	-31.9	-29.8
Adjusted non-hydrocarbon primary balance in percent of UAE nonhydrocarbon GDP 2/ 3/	-24.6	-35.9	-33.3	-36.4	-33.8	-31.9	-29.8

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

1/ GFSM 2001 classification.

2/ GFSM 1986 classification.

3/ Excludes DFSF related transactions for Dubai, and 2011 ALDAR support and investment income for Abu Dhabi.

**Table 3b. United Arab Emirates: Dubai Government Finances, 2008–14 1/**

	2008	2009	2010	2011	Est. 2012	Proj. 2013	Proj. 2014
	(Billions of UAE dirhams)						
Total revenue	32.6	28.4	29.9	32.7	34.3	32.6	34.5
Nontax revenue	25.0	21.3	22.8	24.7	26.0	25.0	26.3
Tax revenue	7.6	7.1	7.1	8.0	8.4	7.6	8.3
Expense	23.8	27.9	25.6	27.9	29.4	28.5	29.5
Gross operating balance	8.8	0.6	4.3	4.8	4.9	4.1	5.1
Net acquisition of nonfinancial assets	14.3	13.5	8.9	7.1	5.7	5.6	5.7
Net lending(+)/borrowing(-)	-5.5	-12.9	-4.6	-2.4	-0.8	-1.5	-0.6
	(Percent of Dubai and Northern Emirates GDP)						
Total revenue	7.2	7.1	6.9	6.9	6.7	6.0	6.0
Expense	5.3	7.0	5.9	5.9	5.7	5.3	5.1
Gross operating balance	1.9	0.1	1.0	1.0	1.0	0.8	0.9
Net acquisition of nonfinancial assets	3.2	3.4	2.0	1.5	1.1	1.0	1.0
Net lending(+)/borrowing(-)	-1.2	-3.2	-1.0	-0.5	-0.2	-0.3	-0.1
Memorandum items:	(Billions of UAE dirhams, unless otherwise indicated)						
Loans and equity, net (Dubai Financial Support Fund)	0.0	48.9	14.7	7.0	2.9	0.0	0.0
Loans and equity, net, Dubai Financial Support Fund (in percent of Dubai and Northern Emirates GDP)	0.0	12.2	3.4	1.5	0.6	0.0	0.0
Non-hydrocarbon primary balance (excl. investment income) in percent of UAE nonhydrocarbon GDP 2/	-1.9	-7.8	-1.7	-0.5	-0.9	-0.4	-0.2
Adjusted non-hydrocarbon primary balance in percent of UAE nonhydrocarbon GDP 2/ 3/	-1.9	-2.4	-1.2	-0.8	-0.6	-0.4	-0.2
Sources: Dubai Department of Finance, and IMF staff estimates and projections.							
1/ GFSM 2001 classification.							
2/ GFSM 1986 classification.							
3/ Excludes DFSF related transactions for Dubai, and 2011 ALDAR support and investment income for Abu Dhabi.							

Table 4. United Arab Emirates: Monetary Survey, 2008–14

	2008	2009	2010	2011	Est 2012	Proj. 2013	Proj. 2014
(Billions of UAE dirhams)							
Net foreign assets	33	47	78	92	161	186	219
Foreign assets	317	302	354	385	479	514	557
Central Bank	114	94	121	137	173	192	219
Commercial banks	203	208	234	249	307	322	338
Foreign liabilities	284	255	276	293	319	328	338
Central bank	1	4	4	3	3	3	3
Commercial banks	283	251	272	290	315	325	335
Net domestic assets	641	694	708	733	702	740	769
Claims on government (net)	-85	10	30	45	12	-4	-13
Claims	140	219	228	220	232	237	247
Deposits	225	208	198	175	220	240	260
Claims on public sector enterprises	56	77	88	120	133	142	153
Claims on private sector	875	881	892	912	933	981	1,053
Real estate mortgage loans							
Other items (net)	-205	-275	-301	-343	-376	-380	-424
Capital and reserves (-)	-167	-246	-275	-298	-317	-342	-363
Other assets (net)	-38	-29	-26	-45	-59	-38	-61
Central Bank	-108	-141	-167	-172	-194	-212	-239
Commercial banks	70	112	141	126	135	173	179
Of which: certificates of deposits	47	71	94	80	95	105	106
Broad money (M2)	674	741	786	826	862	926	988
Money	208	223	233	264	299	315	336
Currency outside banks	37	37	39	42	46	48	51
Dirham demand deposits	171	186	194	223	254	267	285
Quasi-money	466	517	553	562	563	611	652
Foreign currency deposits	119	122	129	142	137	148	158
Dirham time and savings deposits	348	396	425	419	426	463	494
<i>Memorandum items:</i>							
Dh-denominated liquidity	556	619	658	683	726	777	830
Reserve money	37	37	39	42	46	48	51
Foreign currency deposits / total deposits (in percent)	18.6	17.3	17.2	18.2	16.8	16.9	16.9
NFA/ M2 (in percent)	4.9	6.3	10.0	11.2	18.6	20.1	22.2
CBU foreign assets/reserve money (in percent)	93.3	82.3	107.2	103.6	120.7	127.6	137.5
NFA of Central Bank	112.2	89.7	116.7	133.3	169.5	188.8	215.8
NFA of commercial banks	-79.2	-42.9	-38.2	-40.9	-8.8	-3.0	3.4
M2 velocity (nonhydrocarbon GDP)	1.1	0.9	0.9	0.9	1.0	1.0	1.0
(Changes in percent; unless otherwise indicated)							
Claims on private sector	49.3	0.7	1.2	2.3	2.3	5.2	7.3
Broad money (M2)	19.2	9.8	6.2	5.0	4.4	7.3	6.7
Money	14.6	7.4	4.2	13.4	13.3	5.1	6.7
Quasi Money	21.4	10.9	7.0	1.5	0.3	8.5	6.7
Velocity (non-oil GDP/M2)	1.1	0.9	0.9	0.9	0.9	1.0	1.0
Base money	32.2	-6.5	-1.3	17.4	8.6	5.1	5.9
Money multiplier (M2/base money)	5.5	6.5	7.0	6.3	6.0	6.1	6.2
Sources: Central Bank of the UAE, and IMF staff estimates and projections.							
1/ Including nonbank financial institutions.							

## Appendix I: Dubai and Abu Dhabi Debt

**Table 1. Dubai: Maturing Bonds and Syndicated Loans 1/ 2/**

(In millions of U.S. dollars)

As of April, 2013	Debt Type	2013	2014	2015	2016	2017	Beyond	Unallocated	Total
<b>Government of Dubai 3/</b>									
	Bonds	0	21,931	500	1,000	600	1,900		25,931
	Loans	100	103	56	293	1,250	32		1,834
	Total	100	22,034	556	1,293	1,850	1,932		27,765
<b>Dubai, other sovereign 4/</b>									
	Loans domestic							21,464	21,464
	Total							21,464	21,464
<b>Investment Corporation of Dubai and subsidiaries</b>									
	Bonds	1,327	608	164	3,717	1,573	4,217		11,607
	Loans	1,497	93	510	2,862	150	5,649		10,761
	Total	2,824	701	674	6,579	1,723	9,867		22,368
<b>Dubai World and subsidiaries, Nakheel</b>									
	Bonds	0	350	3,200	0	1,500	3,522		8,572
	Loans	1,046	350	6,516	1,614	3,698	11,808		25,031
	Total	1,046	700	9,716	1,614	5,198	15,329		33,603
<b>Dubai Holding and subsidiaries</b>									
	Bonds	93	973	0	0	984	0		2,050
	Loans	44	3,600	0	5,955	0	0		9,599
	Total	136	4,573	0	5,955	984	0		11,648
<b>Other Dubai Inc. 5/</b>									
	Bonds	871	200	1,325	500	0	1,500		4,396
	Loans	1,528	1,800	0	855	2,816	2,782		9,781
	Total	2,399	2,000	1,325	1,355	2,816	4,282		14,177
<b>Total Dubai Inc.</b>		6,405	7,974	11,715	15,503	10,722	29,478		81,796
<b>Total Dubai Debt</b>		6,505	30,008	12,271	16,796	12,572	31,410	21,464	131,026
<b>Dubai Inc. (less than 50% government ownership) 6/</b>									
	Bonds	599	0	500	500	800	1,720		4,119
	Loans	699	450	0	3,642	0	2,550		7,340
	Total	1,298	450	500	4,142	800	4,270		11,460
<b>Total, including GREs with minority ownership</b>		7,804	30,458	12,771	20,938	13,372	35,680	21,464	142,486
<b>In percent of Dubai and NE 2012 GDP</b>		5.6	21.7	9.1	14.9	9.5	25.4	15.3	101.5
Memorandum items:									
	Restructured debt	0	5,400	9,450	5,100	0	10,000		29,950
	Government guaranteed 7/	1,366	581	606	642	955	2,606		6,756
	Total Government of Dubai including guarantees	1,466	22,615	1,162	1,935	2,805	4,538		34,521
	Of total debt: bonds and loans by banks	1,427	608	614	2,500	3,715	2,805		11,668

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

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

7/ Mainly ICD holding level and DEWA debt, in addition to the government's.

**Table 2. Abu Dhabi: Maturing Bonds, Syndicated and Bilateral Loans**

(In millions of U.S. dollars)

As of June 30, 2012	Debt Type	2013	2014	2015	2016	Beyond	Total
<b>Government of Abu Dhabi</b>							
	Bonds	0	1,500	0	0	1,500	3,000
	Loans	396	385	388	390	1,838	3,397
	Guarantees	150	150	150	150	600	1,200
	<b>Total</b>	<b>546</b>	<b>2,035</b>	<b>538</b>	<b>540</b>	<b>3,938</b>	<b>7,597</b>
<b>Abu Dhabi Investment Council 1/</b>							
	Bonds	365	1,933	1,303	1,225	1,702	6,528
	Loans	2,046	0	0	881	0	2,927
	<b>Total</b>	<b>2,411</b>	<b>1,933</b>	<b>1,303</b>	<b>2,106</b>	<b>1,702</b>	<b>9,455</b>
<b>Abu Dhabi Water &amp; Electricity Authority 2/</b>							
	Bonds	1,950	1,200	0	1,000	4,117	8,267
	Loans	1,169	1,106	1,081	1,171	10,046	14,573
	<b>Total</b>	<b>3,119</b>	<b>2,306</b>	<b>1,081</b>	<b>2,171</b>	<b>14,163</b>	<b>22,840</b>
<b>Etihad</b>							
	Bonds	0	0	0	0	0	0
	Loans	314	325	337	349	1,991	3,316
	<b>Total</b>	<b>314</b>	<b>325</b>	<b>337</b>	<b>349</b>	<b>1,991</b>	<b>3,316</b>
<b>International Petroleum Investment Company</b>							
	Bonds	400	0	1,000	3,512	8,392	13,304
	Loans	9,429	4,578	2,834	925	1,596	19,362
	<b>Total</b>	<b>9,829</b>	<b>4,578</b>	<b>3,834</b>	<b>4,437</b>	<b>9,988</b>	<b>32,666</b>
<b>Mubadala Development Company 3/</b>							
	Bonds	0	1,243	0	743	1,528	3,514
	Loans	1,325	488	1,033	370	3,517	6,733
	<b>Total</b>	<b>1,325</b>	<b>1,731</b>	<b>1,033</b>	<b>1,113</b>	<b>5,045</b>	<b>10,247</b>
<b>Tourism and Development Investment Company</b>							
	Bonds	0	2,000	0	0	0	2,000
	Loans	600	80	0	0	0	680
	<b>Total</b>	<b>600</b>	<b>2,080</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,680</b>
<b>Other Abu Dhabi Inc. 4/</b>							
	Bonds	0	0	0	0	0	0
	Loans	1,935	945	481	467	673	4,501
	<b>Total</b>	<b>1,935</b>	<b>945</b>	<b>481</b>	<b>467</b>	<b>673</b>	<b>4,501</b>
<b>Total Abu Dhabi Inc.</b>		<b>19,533</b>	<b>13,898</b>	<b>8,069</b>	<b>10,643</b>	<b>33,562</b>	<b>85,705</b>
<b>Total Abu Dhabi debt</b>		<b>20,079</b>	<b>15,933</b>	<b>8,607</b>	<b>11,183</b>	<b>37,500</b>	<b>93,302</b>
<b>Abu Dhabi Inc. (less than 50% government ownership) 5/</b>							
	Bonds	1,021	1,250	0	1,357	500	4,128
	Loans	0	3,394	2,261	1,228	383	7,267
	<b>Total</b>	<b>1,021</b>	<b>4,644</b>	<b>2,261</b>	<b>2,585</b>	<b>883</b>	<b>11,394</b>
<b>Total, including GREs with minority ownership</b>		<b>21,100</b>	<b>20,577</b>	<b>10,868</b>	<b>13,768</b>	<b>38,383</b>	<b>104,696</b>
<b>In percent of Abu Dhabi 2012 GDP</b>		<b>8.6</b>	<b>8.4</b>	<b>4.5</b>	<b>5.6</b>	<b>15.7</b>	<b>42.9</b>
Memorandum items:							
Of total debt: bonds and loans by banks		2,412	1,933	1,302	2,106	1,702	9,455

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

1/ Includes ADCB, NBAD, UNB

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

3/ Includes Dolphin, EMAL

4/ Includes ADPC, GHC, ADNEC

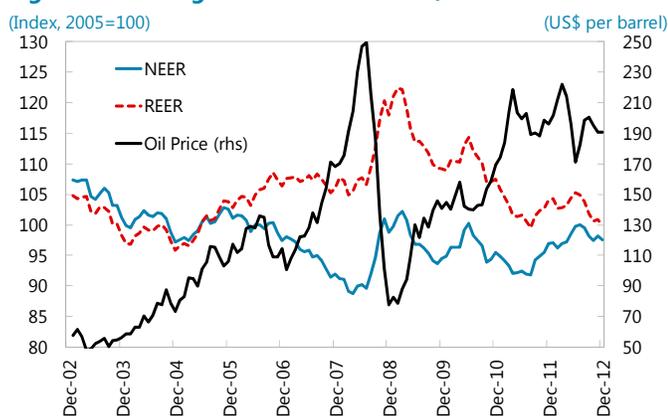
5/ Below 50 percent government-owned entities; includes Aldar, FGB, NCCC, Sorouh, ADIB

## Appendix II. Exchange Rate Assessment

Estimates from the standard methodologies for exchange rate assessment indicate mixed results for the UAE dirham.

**1. The real exchange rate has continued depreciating.** Following its peak in 2008, the trade-weighted real effective exchange rate (REER) has been depreciating, with the index falling by 4 percent year-on-year in December 2012. The nominal effective exchange rate (NEER) has appreciated slightly over the same period, in line with the U.S. dollar (Figure 1).

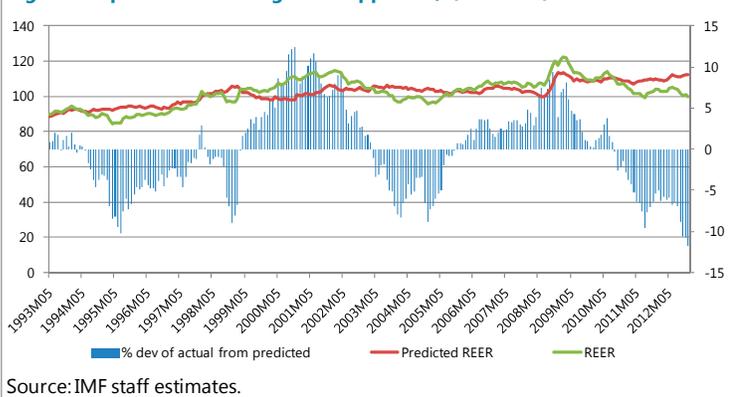
**Figure 1: Exchange Rates and Oil Price, 2003–12**



Source: IMF staff estimates.

**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 estimated undervaluation is around 12 percent in December 2012 (Figure 2, Table 1).

**Figure 2: Equilibrium Exchange Rate Approach, 5/1993–12/2012**



Source: IMF staff estimates.

**3. The macroeconomic balance approach indicates that the currency is broadly 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

**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 (2018 proj.)	7.4	7.4	...
Current account norm	7.0	16.6	...
Deviation from norm	0.4	-9.2	...
ER over/undervaluation (percent) <sup>4</sup>	-0.8	17.7	-11.8

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.

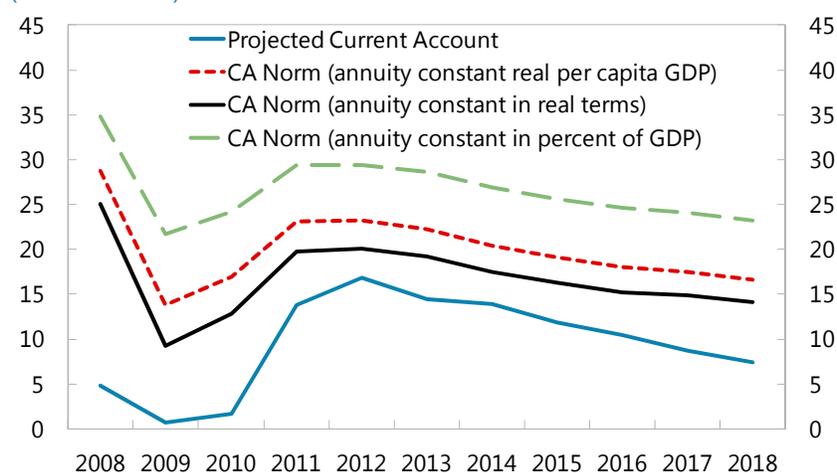
<sup>3</sup> Equilibrium exchange rate approach.

<sup>4</sup> Using elasticities of 0.92 (imports) and -0.71 (exports), adjusting for hydrocarbons and re-exports.

non-oil fiscal balance, hydrocarbon wealth, and estimates of accumulated foreign assets. It yields a current account norm of 7 percent of GDP in 2018, compared to a projected current account surplus of 7.4 percent, indicating that the current account is appropriate given projected fiscal balances and other fundamentals (Table 1).

**4. The external sustainability approach indicates a need for long-term external adjustment.** 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 non-oil exports. The current account norm represents the level of the current account which would support intergenerational equity, given exhaustible oil reserves, through appropriately paced accumulation of foreign assets. This approach indicates that current account surpluses are too low (Figure 3). As this imbalance stems largely from the government rather than the private sector (as indicated by a misalignment in fiscal balances relative to levels consistent with the permanent income hypothesis, see main text), adjustment should occur through fiscal consolidation rather than exchange rate devaluation.

**Figure 3: Current Account Norms vs. Projection, 2008–18**  
(Percent of GDP)



Source: IMF staff calculations and projections.



# UNITED ARAB EMIRATES

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 27, 2013

Prepared By

Middle East and Central Asia Department

### CONTENTS

<b>FUND RELATIONS</b>	<b>2</b>
<b>RELATIONS WITH THE WORLD BANK GROUP</b>	<b>4</b>
<b>STATISTICAL ISSUES</b>	<b>5</b>

## FUND RELATIONS

(As of May 31, 2013)

**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	502.46	66.77
Reserve tranche position	250.62	33.30

### SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	568.41	100.00
Holdings	542.13	95.38

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

### Projected Payments to Fund

	2013	2014	Forthcoming		
			2015	2016	2017
Principal					
Charges/interest	0.01	0.02	0.02	0.02	0.02
<b>Total</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</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 February 28-March 14, 2012. The Article IV consultation was concluded on May 14, 2012. The staff report was published on May 18, 2012, and is available at <http://www.imf.org/external/pubs/cat/longres.aspx?sk=25930.0> (Country Report No. 12/116).

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

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

#### **Technical Assistance:**

FAD	Public Expenditure Management Follow up	May 2003
STA	Multi-sector	December 2003
MFD	Anti-Money Laundering/Combating Terrorist Financing	March 2004
STA	Coordinated Portfolio Investment Survey	April 2004
FAD	Revenue Diversification and VAT Feasibility	November 2005
FAD	Public Financial Management	November 2005
FAD	Gulf Cooperation Council: Options for Indirect and Taxation	March 2006
FAD	UAE: Options for New Indirect Taxation and Intergovernmental Fiscal Relations	March 2006
STA	Compilation of a High-Frequency CPI Index	March 2007
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

**Resident Representative:** None

## RELATIONS WITH THE WORLD BANK GROUP

(As of May 2013)

Technical cooperation between the United Arab Emirates (UAE) and the Bank started in 1980 on a case-by-case-basis. By 1994, the relationship developed to the extent that a Framework Agreement for technical cooperation was signed to facilitate an ongoing program of advisory services.

At the federal level, the Bank provided assistance to the Ministry of Finance in the area of debt market development: a bond market development strategy was completed in May 2008, and the Bank later assisted with certain aspects of its implementation. In 2010, the Ministry of Labor requested technical assistance in labor market development, including Emiratization policies and Labor Market Information System development; the project was completed in 2011. Currently, the Bank is helping develop a national health insurance scheme and is preparing a public expenditure review in the health and higher education sectors.

The Bank has also delivered technical assistance to individual Emirates. In Ras Al Khaimah (RAK), technical cooperation included assistance in promoting a better investment climate and in mobilizing private investment. Following such assistance, an investors' conference (May 2005) attracted major strategic, financial and individual investors from around the world. More recently, the Bank provided advice to the Government of RAK on a multi-jurisdictional student loan program design.

In Abu Dhabi, the Bank provided assistance to Abu Dhabi Food Control Authority on a food security program for the Emirate of Abu Dhabi; at present, the Bank is providing assistance to Abu Dhabi Judicial Department on a court reform process and is in dialogue with Abu Dhabi Council to support private sector development efforts.

In Dubai, the Bank assisted in the analysis of retirement planning options for expatriate workers; follow-up technical assistance is under discussion. Currently, the Bank is analyzing the impact of utilizing the Bank's framework to enhance the quality of education in private schools.

## STATISTICAL ISSUES

(As of May 2013)

<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 accounts of government-related corporations. 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> Following technical assistance from the IMF Statistics Department, the Ministry of Economy started publishing a monthly CPI since January 2008. However, price indexes and GDP deflators need further harmonization at the federal level.</p>
<p><b>Government finance statistics:</b> In 2008, six of the seven emirates and the federal government have received technical support in the compilation of fiscal data on a consolidated basis, using the GFSM 2001 format and 2008 as a base year. 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 plans to introduce an international transactions reporting system to strengthen the quality of balance of payments statistics. The authorities indicated interest in beginning to develop statistics on the International Investment Position, which will be essential to 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 June 5, 2013)

	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	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	03/13	05/13	M	M	M
Reserve/Base Money	03/13	05/13	M	M	M
Broad Money	03/13	05/13	M	M	M
Central Bank Balance Sheet	03/13	05/13	M	M	M
Consolidated Balance Sheet of the Banking System	03/13	05/13	M	M	M
Interest Rates <sup>2</sup>	Real time	Real time	D	D	D
Consumer Price Index	04/13	05/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	12/12	05/13	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt <sup>4</sup>	12/12	05/13	A	A	A
External Current Account Balance	2012	05/13	A	A	A
Exports and Imports of Goods and Services	2012	05/13	A	A	A
GDP/GNP	2012	05/13	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. 13/283  
FOR IMMEDIATE RELEASE  
July 30, 2013

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Concludes 2013 Article IV Consultation with United Arab Emirates**

On July 15, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with [United Arab Emirates](#) and considered and endorsed the staff appraisal without a meeting.<sup>1</sup>

The economic recovery continued in 2012 supported by favorable oil prices, capital inflows and the UAE's safe-haven status amid the regional political and social unrest. Overall GDP growth is projected to have reached 4.3 percent in 2012 as hydrocarbon production expanded by around 5.2 percent, and non-oil growth accelerated to 3.8 percent. The external current account surplus rose to almost 17 percent of GDP supported also by buoyant non-hydrocarbon exports. A broadening recovery in construction and real estate, and ongoing growth in tourism-oriented sectors are expected to underpin a further acceleration in non-oil growth to 4.3 percent this year. At the same time, growth in oil production will likely slow in the context of ample global supply. Non-hydrocarbon growth is expected to remain strong at above 4 percent in the medium term, though subject to substantial external risks. Inflation remained subdued at 0.7 percent in 2012, and is expected to pick up only moderately in 2013.

Aiming to build on its achievements in becoming a regional services and tourism hub, Dubai recently announced plans for several new megaprojects in real estate and tourism that will be executed to a large extent through its Government-Related Entities (GRE). Dubai's GREs are increasingly regaining access to external financing in an environment of ample global liquidity, while their debt continues to be high. While GRE debt restructurings related to the 2009 crisis are nearing completion, several large maturities are now drawing closer, including on restructured debt, between 2014 and 2018.

The banking system maintains significant capital and liquidity buffers, and non-performing loans may finally have peaked at 8.7 percent in December 2012. Nonetheless, further restructuring of GRE debt, including possibly on already restructured debt, could still add materially to this level. Despite the accommodative monetary stance under the peg to the U.S. dollar, lending to the private sector has remained sluggish.

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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.

## **Executive Board Assessment**

In concluding the 2013 Article IV consultation with the United Arab Emirates, Executive Directors endorsed staff's appraisal, as follows:

Short- and medium-term growth prospects are positive, and external downside risks, while still substantial, have declined. The non-oil economy is projected to expand by over 4 percent per annum in the coming years on the back of Dubai's strong core services sectors and Abu Dhabi's diversification efforts. The still-uncertain global economic and financial environment could pose external risks to this favorable outlook, although the UAE's sizeable foreign assets and improving fiscal position provide significant buffers.

In this environment, it will be key to enact policies to strengthen the economy's resilience and mitigate the risk of entering a renewed boom-bust cycle. The pace of recovery in some segments of the real estate market and a number of announcements since late 2012 of new megaprojects in real estate and tourism warrant a cautious approach to policymaking. This approach should entail implementing further fiscal consolidation, limiting new risk-taking by the large and still highly indebted GRE sector, and devising prudent financial sector regulation. At the same time, there is a need for continued focus on dealing with the legacy of the 2009 crisis.

Fiscal policy is appropriately aimed at consolidation. The strengthening economy allows for further withdrawal of the large fiscal stimulus implemented in the context of the 2009 crisis, bringing spending again closer to levels consistent with intergenerational equity, and further reducing break-even oil prices. Fiscal consolidation will also help contain fiscal vulnerabilities stemming from Dubai in the face of potentially large contingent liabilities. Should the rise in real estate prices in some sectors continue unabated, the authorities should consider implementing targeted increases in real estate-related fees, which could help mitigate speculative price pressures while generating revenue in support of fiscal consolidation. Building on recent progress in developing Medium Term Fiscal Frameworks (MTFFs), such frameworks should continue to be refined, and, in the case of Abu Dhabi, increasingly integrated into the budget formulation process.

Building on progress in restructuring the debt of GREs, Dubai should continue to focus on strengthening the GRE sector. The total debt of the Dubai government and GREs continues to be large, and GREs are likely to continue facing financial challenges in light of large outstanding debt and significant maturities, including on restructured debt, falling due between 2014 and 2018. Many of Dubai's GREs continue to be nontransparent, making an assessment of the sector's financial health and associated macroeconomic risks difficult. Improving the transparency and governance of GREs, as well as timely communication about key maturing debt will be important to support market confidence.

Close oversight of the GREs will be essential to prevent a renewed cycle of risk-taking. Dubai's GREs and banks are increasingly regaining access to external financing in an environment of high global liquidity and search for yield. Renewed large-scale external and

domestic borrowing to finance ambitious real estate and tourism projects should be preempted to avoid setting off a new boom-bust cycle. Continued close oversight of GREs by the Dubai Supreme Fiscal Committee will be essential, and should be strengthened by developing adequate mechanisms for prioritizing and sequencing major projects, and for assessing the quality of planned spending.

The implementation of planned prudential regulations will help mitigate the risk of a build-up of banking sector vulnerabilities. With significant capital and liquidity buffers, banks show substantial resilience to shocks. Building on this strength, it will be important to preempt the build-up of new vulnerabilities. Swift implementation of the planned new prudential regulations for mortgage lending and loan concentration would mitigate the risk of rapid credit expansion and undue loan concentration to the real estate and GRE sectors in the future. These policies should be complemented by developing a more formal and transparent macroprudential institutional and policy framework. The proposed new Financial Services Law provides an opportunity to establish the legal base for such a framework. Developing the domestic fixed income market would support banks' liquidity management as they prepare for the introduction of the Basel III liquidity norms, and would help the diversification of funding sources for corporates. The planned assessment under the Financial Sector Assessment Program (FSAP) will be a welcome opportunity to review the financial sector's strengths and weaknesses. This assessment would also be a suitable occasion to conduct a review of the UAE's Anti-Money Laundering/Combating the Financing of Terrorism policies.

Staff welcomes the notable progress made in fiscal coordination among the federal and emirate governments. Building on this achievement, coordination can be further strengthened by improving the quality and availability of fiscal information and macrofiscal analysis, jointly discussing budgets and MTFs, and enhancing expenditure policy coordination.

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 providing adequate resources for improving the quality of the national accounts and for producing demographic and labor markets statistics, while continuing to strengthen balance of payments statistics. Developing statistics on the International Investment Position will be essential to close an important gap.

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**United Arab Emirates: Selected Macroeconomic Indicators, 2009–13**


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	2009	2010	2011	<u>Prel.</u> 2012	<u>Proj.</u> 2013
	(Annual percent change, unless otherwise indicated)				
<b>Output and prices</b>					
Nominal GDP (billions of UAE dirhams)	936	1,056	1,280	1,385	1,420
Nominal GDP (billions of U.S. dollars)	255	287	349	377	387
Real GDP (at factor cost)	-4.8	1.7	3.9	4.3	3.6
Real hydrocarbon GDP	-8.9	3.8	6.6	5.2	2.1
Real non-hydrocarbon GDP	-2.9	0.7	2.6	3.8	4.3
CPI inflation (average)	1.6	0.9	0.9	0.7	2.0
<b>Public finances</b>					
Revenue	27.1	29.6	34.3	35.7	34.4
Hydrocarbon	18.4	22.1	28.2	28.6	26.9
Non-hydrocarbon	8.7	7.5	6.1	7.1	7.5
Expenditure and net lending	40.2	31.4	30.3	26.9	26.3
Budget balance	-13.1	-1.8	4.1	8.8	8.1
Non-hydrocarbon balance <sup>1</sup>	-43.1	-34.9	-39.9	-32.5	-30.1
	(Annual percent change)				
<b>Monetary sector</b>					
Credit to private sector	0.7	1.2	2.3	2.3	5.2
Broad money	9.8	6.2	5.0	4.4	7.3
	(Billions of U.S. dollars, unless otherwise indicated)				
<b>External sector</b>					
Exports of goods	192	212	299	347	367
Oil and gas	68	75	112	118	115
Imports of goods	-150	-161	-191	-217	-241
Current account balance	1.8	4.9	48.1	63.4	56.0
Current account balance (percent of GDP)	0.7	1.7	13.8	16.8	14.5
Gross official reserves	25.5	32.8	37.2	47.1	52.3
In months of next year imports, net of re-exports	2.5	2.9	2.9	3.3	3.4
Real effective exchange rate (2000=100)	115.0	110.2	102.4	102.9	..

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Sources: UAE authorities; and IMF staff estimates.

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