United Arab Emirates

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecast 2021	Forecast 2022
GDP growth (%)	4.5	5.1	3.1	2.4	1.2	1.7	-6.1	2.8	3.6
CPI Inflation (%)*	1.2	4.1	1.6	2.0	3.1	-1.9	-2.1	1.1	1.2
Fiscal balance (% of GDP)	5.0	-3.4	-2.8	-1.7	1.9	0.6	-7.4	-1.3	-1.1
Public debt (% of GDP)	18.5	16.7	19.4	21.6	20.9	26.8	38.3	37.1	39.2
Reference rate (%)*	1.0	1.0	1.0	1.4	2.2	2.5	1.0	1.3	2.3
Exchange range (AED/USD)*	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Current balance (% of GDP)	13.7	4.9	3.7	7.1	9.6	8.4	3.1	7.1	6.3
External debt (% of GDP)	46.8	69.9	74.2	82.6	78.7	88.3	100.2	93.4	91.9

Note: * Annual average.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **In 2020, the GDP of the United Arab Emirates (UAE) fell 6.1%, due to the combined shock of the pandemic and the drop in oil prices.** Growth prospects are moderately favourable, linked to the recovery in global activity and demand for crude oil, as well as domestic demand, all within a context of reasonably solid economic fundamentals and an adequate financial reserve margin. It is also expected that part of the better performance of the economy will be supported by the good pace of the vaccination programme (the UAE government expects to inoculate around 90% of the population, with at least one dose, by the beginning of Q3) and progress with the digital transformation of the non-oil sector.

- **Real shock of COVID-19.** In sanitary terms, the impact of COVID-19 was relatively mild thanks to the youthfulness of the UAE population and the measures adopted for its containment. However, at an economic level, the pandemic directly affected growth through the collapse of hydrocarbon prices and the collapse of activity in key sectors, such as international trade, tourism and construction. For 2021, we foresee a scenario of sustained, albeit moderate, growth, supported mainly by the increase in net exports and the revitalisation of domestic demand. The recovery of activity in the hydrocarbon sector will arise in a context of a gradual lifting of the restrictions on supply agreed upon within OPEC and an increase in global oil demand due to the global recovery. We also consider that the Government's efforts to boost the non-oil sector and encourage foreign investment will have a greater impact as global demand recovers, apart from tourism, the recovery of which will be delayed until the end of 2021, coinciding with the Expo 2020 in October of this year.

- **Economic policy response**

  - **Fiscal policy.** In 2020, the UAE authorities expanded fiscal measures to alleviate the effects of the pandemic on those strategic sectors most affected by the health crisis, such as tourism, trade and distribution, while the fiscal deficit increased to 7.3% of GDP, the highest level in more than a decade. We anticipate that in 2021 fiscal policy will remain relatively expansionary, supported by fiscal buffers (albeit not as high as before the crisis) and the partial recovery of fiscal revenue with the recovery of oil prices. Additionally, the return of Abu Dhabi and Dubai to international sovereign markets with new issuances should alleviate part of the fiscal deficit and public expenditure needs, and at the same time free up resources from UAE commercial banks to create new credit for the private sector.

Closing date of this edition: 8 July 2021

Outlook (continuation)

- **Monetary policy.** Since the start of the health crisis, the UAE central bank has adopted an expansionary monetary policy, with interest rate cuts and increased monetary stimuli (such as reducing the bank's cash reserve ratio, lowering credit provisions and increasing the exposure limits of banks to the real estate sector). One of the bank's main objectives is to boost credit to the private sector, which slowed during the pandemic. For this it will extend part of the facilities until June 2022. The possibility of the central bank delaying the withdrawal of stimuli despite the recovery of the economy cannot be ruled out, benefiting the solvency of some public enterprises.

- **Evolution of the exchange rate.** We expect the *peg* of the dirham to the dollar to remain stable over the next few years, despite specific threats to it that may arise in the current scenario. The commitment and confidence of the UAE authorities in this exchange rate regime is supported by the wide variety of foreign assets available to protect it if, in case of an unexpected spike in volatility, this were necessary.

Main risks

The risk balance is trending downward, although there are certain strengths that could bring positive surprises:

- **Macroeconomic risk.** UAE is the second country in the GCC, behind Qatar, with the highest dependence on foreign labour (approximately 80% of the labour force). The pandemic has caused an exodus of foreign workers (skilled and unskilled) from UAE, something that could lead to, firstly, a decline in production capacity and, secondly, a slowdown in foreign private investment and domestic consumption. To date, the authorities have relaxed some aspects of the residence visas for foreign workers and have started to encourage demand for national labour in the private sector.

- **Banking sector risk.** The central bank aid to the sector has allowed banking to remain sustainable during the pandemic. However, in an environment of low interest rates and reduced profit margins, due to the withdrawal of stimuli, there could be a rise in the NPL ratio and a deterioration in the quality of assets.

- **Digital transformation and production diversification.** During the pandemic, the UAE has made significant progress in digitising its economy and is now among the top 10 countries in the world in adopting and developing a digital legal framework. This transformation has favoured the rapid rise of e-commerce and has opened the doors to increase productivity. In our opinion, digitisation and the implementation of structural reforms could be key aspects in the process of diversifying growth in the non-oil sector in the coming years.

	Rating	Last changed	Outlook	Last changed
STANDARD &POOR'S	AA	02/07/17	Stable	02/07/17
Moody's	Aa2	25/05/17	Stable	25/05/17
FitchRatings	AA-	11/11/20	Stable	11/11/20

■ Indicates that the country is rated as "investment grade".
□ Indicates that the country is not rated as "investment grade".